INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/267

KINGDOM OF LESOTHO

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Kingdom of Lesotho, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on June 17, 2025, with the officials of the Kingdom of Lesotho on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 21, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with the Kingdom of Lesotho

FOR IMMEDIATE RELEASE

- Against a backdrop of low growth and high unemployment, Lesotho's government-led growth model has struggled to deliver on the authorities' development goals. Now, an additional set of shocks has further clouded the outlook. GDP growth is expected to fall to 1.4 percent in FY25/26, from 2.2 percent a year earlier. Inflation has declined from a peak of 8.2 percent in early 2024 to 4.4 percent in May 2025, helped by the peg to the rand.
- Prudent spending in FY24/25, along with buoyant South African Customs Union (SACU) transfers and water royalties, delivered another sizable fiscal surplus. Looking forward, SACU transfers are expected to normalize, but increased water royalties from South Africa will help fill the gap and ensure continued strong revenue.
- The main challenge is to transform fiscal surpluses into sustainable and high-quality growth. Public funds should be saved wisely and spent strategically, with an emphasis on high-return investment projects. More effective use of public funds, alongside structural reforms, should support longer-term private sector-led growth.

Washington, DC – September 18, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Kingdom of Lesotho[1].

GDP growth picked up slightly in FY24 to 2.2 percent, inflation has eased, and fiscal and external balances remain strong. Construction of the Lesotho Highlands Water Project II has helped offset a decline in agricultural output, falling competitiveness in the apparel sector, and lower diamond prices. Easing price pressures and lower imported inflation from South Africa have brought headline inflation down from a peak of 8.2 percent in January 2024, to 4.4 percent in May 2025. On fiscal policy, Lesotho had a larger-than-expected fiscal surplus of 9 percent of GDP in FY24, supported by continued spending restraint, along with record SACU transfers and higher water royalties from South Africa. Gross public debt eased to 56.8 percent of GDP as of March 2025, with 80 percent owed to external creditors. The current account balance registered a surplus of 2.2 percent of GDP, the first surplus since FY07, with lower imports and higher SACU transfers and water sales more than offsetting lower exports.

Lesotho's outlook has worsened since the 2024 Article IV consultation, largely reflecting a less benign external environment. The uncertainty surrounding U.S. tariffs on Lesotho's textile exports has weakened a central pillar of the economy. At the same time, the disruption of U.S. official development assistance poses risks to key social services. As a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

result, GDP growth is expected to slow to 1.4 percent in FY25. Garment production for the U.S. market will likely fall (continuing an ongoing trend), but this will be partially offset by rising textile exports to South Africa, which have increased steadily in recent years. Going forward, delayed domestic reforms will likely keep growth subdued over the medium term, at about 1.5 percent—not enough to significantly improve per capita incomes.

Strong buffers will provide policy options. Supported by significant international reserves, the currency is credibly pegged to the rand, suggesting inflation trends in Lesotho will continue to mirror those in South Africa. Fiscal revenues are forecast to remain 8 to10 percentage points of GDP higher than a few years ago. SACU transfers will normalize over the near term to about 20 percent of GDP (long-term average), but renegotiated water royalties will increase to almost 13 percent of GDP in FY25 before settling permanently to about 10 percent of GDP over the medium term. The challenge is to transform these added resources into sustained, high-quality growth.

Executive Board Assessment[2]

In concluding the 2025 Article IV consultation with the Kingdom of Lesotho, Executive Directors endorsed staff's appraisal, as follows.

The authorities' management of windfall revenue has helped strengthen buffers and maintain stability. Amid sizable SACU transfers and additional water royalties, the government has contained the wage bill and cleared arrears. The resulting fiscal surplus has supported international reserves and stabilized public debt, strengthening the peg.

In FY24, Lesotho's external position was stronger than fundamentals and desirable policies (Annex VI). The EBA framework suggests that Lesotho's positive policy gap reflects its fiscal surplus and rapid reserve accumulation. But given long-standing competitiveness issues within the textile industry, exacerbated by the recent tariff shock, the medium-term external position continues to hinge on fiscal prudence and structural reforms.

Lesotho's main challenge is to translate its ongoing revenue windfalls into long-term development gains. With inefficient government spending already above regional peers, it is essential that this additional revenue be managed and spent prudently.

In the near term, capacity constraints on the government's ability to scale up public investment suggest that fiscal surpluses should be maintained and saved. The FY25 budget contains a dramatic increase in public investment that is neither realistic or advisable, as efforts to forcibly boost capital spending on this scale would only squander Lesotho's resources, with little impact on development goals. Instead, to ensure value for money, the authorities should accelerate the launch of a savings (stabilization) fund to boost resilience in the face of shocks, and to safeguard resources for future investment. For credibility and effectiveness, the fund should be underpinned by a legally binding fiscal-rules framework and supported by clear operational guidelines, strong PFM systems, and clear accountability channels.

Fiscal measures to help cushion the impact of the recent shocks on the most vulnerable are appropriate. Amid rising spending pressures, particularly in response to donor shortfalls, the

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

authorities should ensure that social spending is well targeted. Staff caution against expansion of the wage bill, except for essential hires. On revenues, passage of tax legislation and improved revenue administration can ensure a fairer and more efficient tax system.

Looking forward, improved public investment management is needed to increase the quality of capital spending and boost growth. In line with the authorities' emphasis on capital spending, an increased focus on cost effectiveness would allow for higher and better-quality public investment. As reforms take hold and spending becomes less constrained, a more effective fiscal-rules framework will become increasingly critical to anchor medium-term policy. The authorities should reestablish their medium-term fiscal objectives within a legally binding framework, aiming at a 50 percent-of-GDP debt level as a medium-term anchor, combined with a 3 percent-of-GDP structural deficit target.

But delayed passage of long-overdue reforms is undermining Lesotho's ability to realize its economic potential. PFM shortcomings have not only undermined Lesotho's ability to expand public investment, they have also weighed more generally on efficient service delivery and fiscal governance. Budget credibility and internal controls need to be strengthened, and the authorities should continue their efforts to ensure comprehensive analysis and management of fiscal risks, including from SOEs. Passage of key legislation is needed urgently, including laws on public financial management; debt management; tax reform; tax administration; and amendments to the constitution that would boost central-bank independence and strengthen anti-corruption efforts.

The monetary stance is appropriate, and consistent with maintaining the peg. If the South African Reserve Bank continues to loosen its policy stance, the CBL should broadly follow suit, and should eventually close the small remaining gap between policy rates to more clearly signal Lesotho's commitment to the peg. On financial stability, the authorities should continue efforts to improve risk-based supervision of the banking sector, while enhancing supervision and regulation in the NBFI sector.

Structural reforms are critical to unlocking private sector–led job-rich growth, and are needed even more urgently in the face of recent shocks. The authorities are strongly encouraged to continue efforts to address weaknesses in PFM, improve financial inclusion and access to finance, enhance the broader business environment, and tackle governance vulnerabilities.

Staff strongly encourage the authorities to continue their efforts to increase capacity, improve data quality, and coordinate on macroeconomic policies. High-quality data and improved information sharing are critical for policymaking, while close coordination between fiscal and monetary authorities is key to ensuring the consistency of macroeconomic policies with the exchange rate regime.

Table 1. Lesotho: Selected Economic Indicators, 2021/22–2030/31[1]

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
	(12-month percent change, unless otherwise indicated)									
National Account and Prices										
GDP at constant prices (including LHWP-II)	1.9	2.0	2.1	2.2	1.4	1.1	0.8	1.4	1.5	1.5
GDP at constant prices (excluding LHWP-II)	2.2	1.2	1.6	1.6	0.3	1.3	2.1	1.6	1.6	1.7
GDP at market prices (Maloti billions)	36.3	38.7	41.5	44.2	46.6	49.2	52.0	55.3	58.9	62.7
GDP at market prices (US$ billions)	2.4	2.3	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.9
Consumer prices (average)	6.5	8.2	6.5	5.2	4.6	5.0	5.1	5.1	5.0	5.0
Consumer prices (eop)	7.2	6.8	7.4	4.2	5.0	5.1	5.1	5.0	5.0	5.0
GDP deflator	4.1	4.4	5.2	4.3	3.8	4.5	4.8	4.9	4.8	4.9
External Sector										
Terms of trade ("–" = deterioration)	-1.6	-3.2	-5.9	-3.2	-0.1	-0.2	-0.6	0.2	-0.2	0.0
Average exchange rate										
(Local currency per US$)	14.9	17.0	18.7	19.3	...	...	...	...	...	...
Nominal effective exchange rate change (– depreciation) 2/	6.3	-3.0	-8.1	1.3	...	...	...	...	...	...
Real effective exchange rate (– depreciation) 2/	8.7	-1.8	-6.8	4.0	...	...	...	...	...	...
Current account balance (percent of GDP)	-9.1	-14.0	-0.8	2.3	-3.9	-2.4	-2.7	-3.6	-2.5	-1.2
(excluding LHWP-II imports, percent of GDP)	-6.8	-10.9	3.9	10.4	2.1	1.8	1.4	-1.3	-1.8	-0.9
Gross international reserves										
(Months of imports)	4.3	4.0	4.8	5.5	6.3	6.9	7.5	7.8	8.1	8.3
(excluding imports for LHWP-II, months of imports)	4.4	4.2	5.3	5.9	6.7	7.3	7.7	7.9	8.1	8.4
Money and Credit										
Net international reserves										
(US$ millions)	846	671	762	801	1,074	1,222	1,355	1,462	1,566	1,713
(Percent of M1 Plus)	127	111	114	120	159	179	196	207	218	228
(US$ millions, CBL calculation)	843	698	799	996	...	...	...	...	...	...
(Percent of M1 Plus, CBL calculation)	127	116	120	149	...	...	...	...	...	...
Domestic credit to the private sector	6.7	8.7	12.4	11.5	6.7	4.8	7.1	6.8	7.2	7.3
Reserve money	1.0	24.5	41.9	-16.2	-13.2	4.2	-0.3	4.3	0.6	-1.2
Broad money	0.0	8.7	15.2	9.4	2.2	3.4	4.2	4.8	4.6	4.6
Interest rate (percent) 3/	3.5	3.5	4.7	4.7	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Public Debt	58.0	64.4	61.5	56.8	57.0	57.1	57.6	57.7	57.7	57.7
External public debt	42.0	47.1	46.9	45.6	45.7	45.7	46.1	46.1	46.2	46.1
Domestic public debt	16.0	17.3	14.5	11.3	11.3	11.4	11.5	11.5	11.5	11.5
Central Government Fiscal Operations										
Revenue	48.8	44.4	56.7	62.5	59.6	58.8	58.8	57.1	57.4	56.6
Domestic revenue (excluding SACU transfers and grants)	*27.4*	*27.5*	*29.7*	*33.2*	*38.2*	*36.7*	*35.6*	*35.6*	*35.6*	*35.6*
SACU transfers	*16.5*	*14.0*	*24.5*	*26.1*	*19.7*	*20.4*	*21.5*	*19.8*	*20.0*	*19.1*
Grants	*4.9*	*3.0*	*2.5*	*3.3*	*1.6*	*1.6*	*1.6*	*1.7*	*1.7*	*1.8*
Recurrent expenditure	38.3	38.9	40.8	41.1	44.0	42.2	42.5	42.4	42.6	42.6
Of which: wages, including social contributions	16.9	17.6	17.0	17.0	17.6	18.0	18.2	18.2	18.2	18.2
Capital expenditure	15.4	12.0	8.6	12.4	12.7	12.9	12.9	12.9	13.0	13.1
Additional fiscal measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.9	-6.4	7.3	9.0	2.9	3.7	3.4	1.7	1.7	0.9
(excluding SACU transfers and grants)	*-26.4*	*-23.4*	*-19.6*	*-20.3*	*-18.4*	*-18.3*	*-19.8*	*-19.8*	*-20.0*	*-20.1*
Operating balance	-4.9	-6.4	7.3	9.0	2.9	3.7	3.4	1.7	1.7	0.9
Primary balance	-3.6	-4.6	9.3	11.0	4.7	5.7	5.5	3.9	4.0	3.2
(excluding SACU transfers and grants)	*-25.0*	*-21.5*	*-17.6*	*-18.4*	*-16.7*	*-16.3*	*-17.7*	*-17.6*	*-17.8*	*-17.8*
Statistical discrepancy	1.0	1.6	3.7	3.5	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Lesotho authorities, World Bank, and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ IMF Information Notice System trade-weighted; end of period.

3/ 12-month time deposits rate.

INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

August 21, 2025

KEY ISSUES

Context: Lesotho has long struggled with low growth, high unemployment, and widespread poverty. The country's government-led growth model has resulted in an economy heavily reliant on inefficient public spending, with a small and undiversified private sector that has been stifled by restrictive regulations and lack of access to finance. This has led to low private investment, declining competitiveness, and high informality. In office for almost three years, the government's fragile coalition has struggled to pass any meaningful reform through Parliament.

Outlook and Risks: Against this backdrop, Lesotho's outlook has deteriorated compared to the 2024 Article IV. Although fiscal and external balances have been buoyed significantly by windfall transfers from the Southern African Customs Union (SACU) and renegotiated water royalties, the rising risks from shifting U.S. trade policy threaten to harm a core section of the country's small-but-critical manufacturing base, while reduced aid flows threaten to undermine the health and welfare of the country's most vulnerable. Additional risks include a further potential slowdown of global trade, climate-related shocks, and political instability.

Focus of the Article IV Consultation: In the context of buoyant non-tax revenues and long-standing capacity constraints on productive spending, Lesotho will likely run fiscal surpluses into the medium term. These surpluses are appropriate, given the risks of ramping up public investment too quickly. But Lesotho's development needs are pressing, so the main policy challenge going forward will be to transform the surpluses into sustained, high-quality growth, while also addressing the county's immediate social demands. Key recommendations include swiftly establishing a well-governed savings framework (stabilization fund) to ensure that additional revenues are saved wisely, and urgent public investment reform to address capacity constraints and ensure that new capital spending delivers value for money. Efforts to step up social spending should focus on improved efficiency and targeting. Accelerating long-delayed fiscal reforms and advancing key legislation currently stalled in Parliament, particularly on the Public Financial Management Act, is also critical. Improving the business environment, addressing governance and corruption vulnerabilities, and sustaining reform commitment will be essential to build resilience and unlock more inclusive, private sector-led growth.

Approved By
Andrea Richter Hume (AFR) and Anna Ivanova (SPR)

Discussions were held in Maseru during June 4–17, 2025. The staff team comprised Andrew Tiffin (head), Athene Laws, Jack Ree, and Qianqian Zhang (all AFR), Mosito Ntema, and Mpati Mphatsoe (local office). Moeti Damane (OEDAE) participated in the discussions. The team met Minister of Finance and Development Planning Retšelisitsoe Matlanyane, Central Bank Governor Maluke Letete, and other officials. Ann-Alice Ticha (AFR) provided research assistance. Erick Trejo Guevara and Sandra Paulaviciene (both AFR) managed document production. The team thanks the Lesotho authorities for their collaboration and the candid and productive discussions.

CONTENTS

ANNEXES

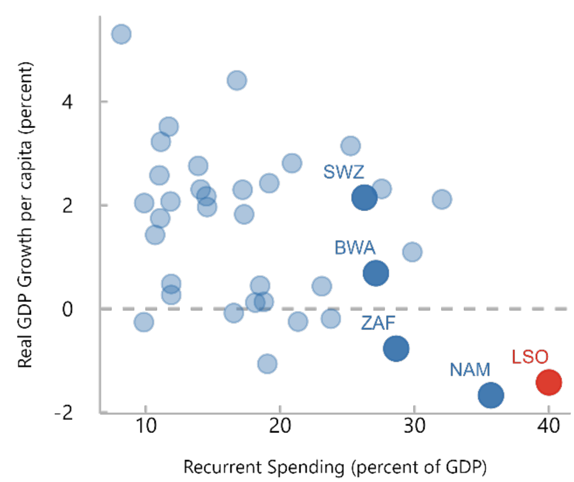
CONTEXT

Sluggish Growth, Falling Living Standards, and a Large Government Footprint

1. Lesotho's government-led growth model has long struggled to deliver on its development objectives. Real per capita income shrunk by 14 percent between 2016 and 2023, unemployment is elevated at 16 percent as of 2024 (youth unemployment is 25 percent), and poverty is high.[1] Underlying these disappointing outcomes is an economy driven by public spending with a small and undiversified private sector (textiles, mining). Moreover, Lesotho's small, landlocked economy is reliant on rain-based agriculture and so is exposed to climate shocks.

2. Historically, public spending has been distorted by large and volatile non-tax revenues, combined with weak public financial management (PFM). These have fostered high levels of inefficient public spending, along with boom-bust cycles marked by arrears and periodic financing gaps. Lesotho now has one of the largest public wage bills in the region, reaching almost 17 percent of GDP in FY24 and 72 percent of tax revenue.

Sub-Saharan Africa: Recurrent Spending vs Per Capita Growth, 2016–24
(Average, Oil Exporters Excluded)



Sources: IMF, WEO database, and IMF staff calculations.

3. The current government has been in place for almost three years, but the pace of reform has remained slow, particularly on key legislation. Policy continuity remains a concern, owing to the coalition's fragile majority and delayed implementation of fundamental political reforms.

RECENT DEVELOPMENTS

Continued Surpluses and Easing Inflation

4. GDP growth picked up slightly in FY24 to 2.2 percent. Construction of the Lesotho Highlands Water Project II (LHWP-II) has helped offset a drought-related decline in agricultural

[1] An estimated 37 percent of the population live below $2.15/day, projected using 2017 official statistics and GDP growth-to-poverty elasticities (World Bank, 2025). Unemployment figures are modelled estimates from ILO (weso-data.ilo.org).

output, falling competitiveness in the apparel sector, and the impact on mining exports of lower diamond prices.

5. **In support of Lesotho's peg to the Rand, the Central Bank of Lesotho (CBL) has reduced the policy rate gap with the South African Reserve Bank to 25 bps.** At 10.75 percent, the prime rate was about 6.4 percent in real terms in May 2025. Private sector credit growth was 9 percent in FY24, mainly due to construction. The nonperforming loans (NPL) ratio has eased to 4.3 percent as of 2024Q4.

6. **Inflation has dropped, reflecting easing price pressures and lower imported inflation from South Africa.** From a peak of 8.2 percent in January 2024, headline inflation fell to 4.4 percent in May 2025. Disinflation throughout 2024 was broad-based across energy, food and non-food categories.

7. **Lesotho had a larger than expected fiscal surplus of 9 percent of GDP in FY24, supported by record SACU transfers and higher water royalties from South Africa.**

- SACU transfers were 26 percent of GDP (up from the 10-year average of 19.5 percent), and renegotiated royalties boosted water receipts to 6.5 percent of GDP (more than double the 10-year average of 3 percent). Recurrent expenditure remained broadly unchanged at 41 percent of GDP, with the public wage bill unchanged at 17 percent of GDP owing to a hiring freeze. Capital expenditure reached 12.4 percent of GDP, about half the budgeted amount due to weak implementation capacity.

- The stock of domestic arrears was 0.3 percent of GDP at end-FY24, primarily comprising legacy obligations with insufficient supporting documentation. Contingent liabilities from contested commercial contracts and from Lesotho's state-owned enterprises (SOEs) remain significant.[2]

- Gross public debt eased to 56.8 percent of GDP, with 80 percent owed to external creditors.

8. **Lesotho's external position was stronger than fundamentals and desirable policies in FY24** (Annex IV). The current account balance registered 2.2 percent of GDP, the first surplus since FY07, with lower imports and higher SACU transfers and water sales more than offsetting lower exports. Within the External Balance Assessment (EBA) framework, Lesotho's positive policy gap reflects its high fiscal surplus and reserve accumulation. As SACU inflows ease, and as fiscal reforms allow increased public investment, the surplus and pace of reserve accumulation are expected to ease, narrowing the policy gap.[3]

[2] Arrears and contingent liabilities are included in the baseline and stress tests of the staff's debt sustainability analysis (DSA). Details of the contested contracts can be found in the DSA Annex, footnotes 7, 8, 9, and 10.

[3] Under the baseline scenario, trade uncertainty is expected to depress exports over the medium term—causing Lesotho's external balance to fall. External funding from capital transfers will continue, augmented by inward flows from the banking sector.

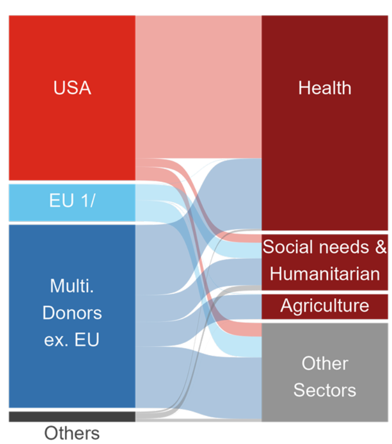
OUTLOOK AND RISKS

A Sudden Shock, a Gloomier Outlook, and Elevated Uncertainty

9. **Lesotho has been hit by significant external shocks, largely originating from the United States, one of its key trade and development partners.** The uncertainty surrounding US tariffs on Lesotho's textile exports has weakened a central pillar of the economy. At the same time, the disruption of U.S. official development assistance (ODA) poses risks to social outcomes, especially given the country's heavy reliance on donor support for HIV/AIDS health services.

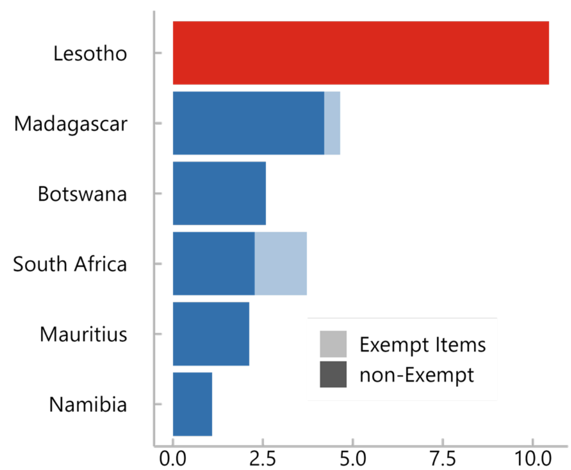
10. **Ongoing tariff uncertainty and disrupted aid inflows will slow GDP growth to 1.4 percent in FY25—about 1 ppt lower than forecast in the last Article IV.** [4] The LHWP-II project will remain near peak capacity in the near term; but as the project begins to wind down, it will exert a negative drag on GDP growth, which is projected to decline to 0.8 percent in FY27. Over the medium term, trend growth has been revised down to 1.5 percent from 2.1 percent, reflecting stalled progress on critical structural reforms and the withdrawal of the Millennium Challenge Corporation's (MCC) second compact, which had been forecast to boost investment in horticulture and develop a new export base.

ODA Flows, 2023
(Distribution by Donor and Sector)



Sources: OECD, and IMF staff calculations.
1/ European Union includes EU bilateral donors and via EU Institutions.

Sub-Saharan Africa: Exposure to US Tariffs, Top 6 Countries, 2023
(Exports to the United States, Percent of GDP)



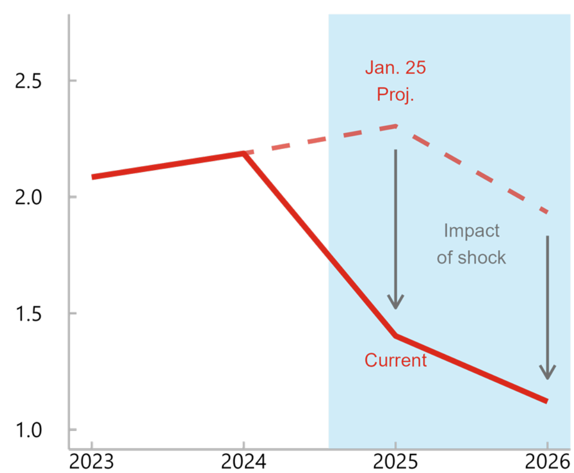
Sources: COMTRADE, whitehouse.gov, IMF WEO database, and IMF staff calculations.

[4] The baseline forecast incorporates the policies of key partners on a real-time current policy basis. On trade, this means that the latest 15 percent tariffs from the United States effective August 7 are assumed to continue; a sizable increase from last year. In addition, significant uncertainty remains regarding the final position of Lesotho vis-à-vis its competitors, including the ongoing threat of a 50-percent tariff that was initially announced in April. This uncertainty is expected to persist under the baseline through 2026. Going forward, orders are also unlikely to recover significantly even under a 15-percent framework, so projected exports to the United States will remain subdued. On ODA inflows, the baseline assumes a near-term disruption of health-related support, and cancellation of the MCC Compact.

11. Inflation is expected to rise modestly throughout FY25, reaching 5 percent over the medium term. Over 80 percent of Lesotho's total imports come from South Africa, including most consumer goods, and the exchange rate is pegged to the Rand, so inflation trends in Lesotho will continue to mirror those in South Africa.

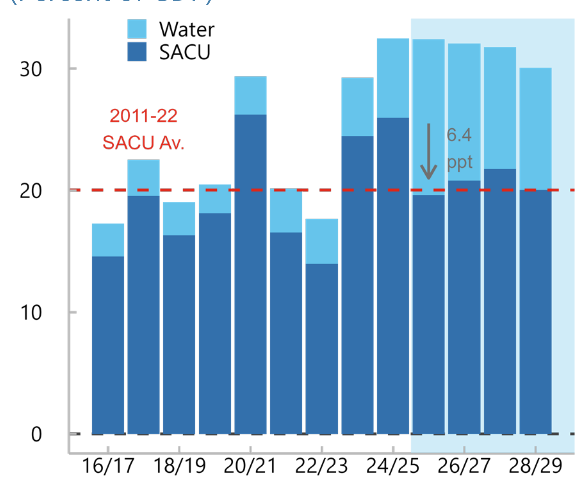
12. Lesotho will continue to incur fiscal surpluses through the medium term. Revenue is forecast to remain 8–10 ppt of GDP higher than a few years ago—SACU transfers will drop 6 ppts to about 20 percent of GDP (long-term average), but renegotiated water royalties will increase to almost 13 percent of GDP in FY25, then settle permanently to about 10 percent of GDP over the medium term. Despite ongoing restraint on public employment, recurrent expenditures will nonetheless rise temporarily in response to recent shocks. Capital spending is expected to remain below budgeted levels owing to ongoing capacity constraints. If these constraints remain, the net impact will be continued surpluses into the medium term.

Real GDP Growth, 2024–26
(Percent)



Source: IMF, WEO database.

SACU Revenues and Water Royalties, 2016–28
(Percent of GDP)

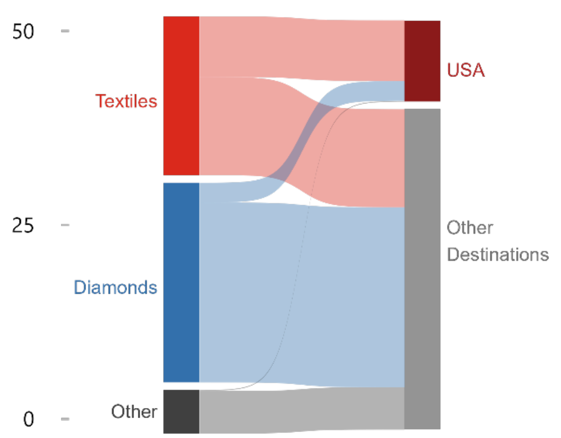


Source: National authorities.

13. The uncertainty associated with US tariff policy is expected to depress Lesotho's exports. Around 20 percent of Lesotho's exports (of which four-fifths are garments) go to the United States. Continued uncertainty on US tariffs is likely to further encourage the shift of garment production to regional competitors with lower tariff exposure, for instance, Tanzania and Kenya (Annex I). This will be partially offset by rising exports to South Africa, which have been increasing for several years. Diversification into other destinations (particularly the

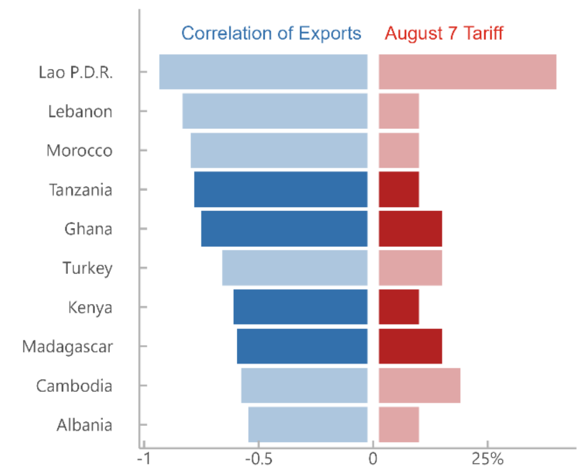
European Union (EU)) has been constrained by mismatches between Lesotho's (large-volume, low-cost) production model and the EU's demand for smaller-batch, high-value, quick-turnaround garments.

Merchandise Exports, 2023
(Distribution by Type and Destination, Percent of GDP)



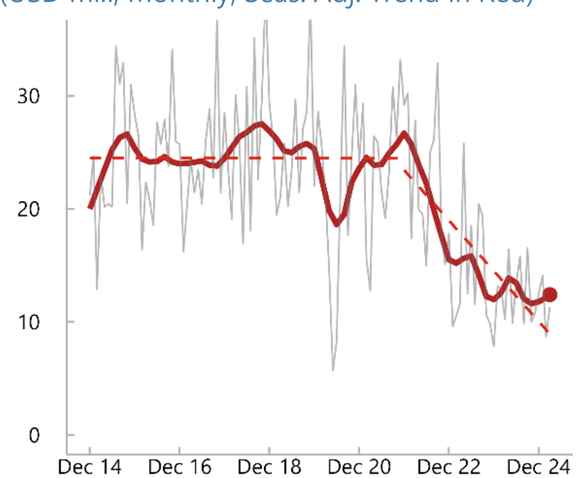
Sources: COMTRADE, and IMF staff calculations.

Top 10 Competitors for the US Market
(Degree of competition vs tariffs)



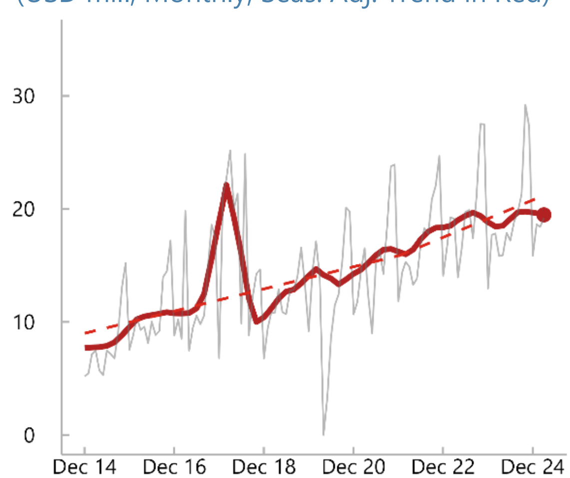
Sources: Haver, whitehouse.gov, and IMF staff calculations.

United States: Apparel from Lesotho
(USD mill, Monthly, Seas. Adj. Trend in Red)



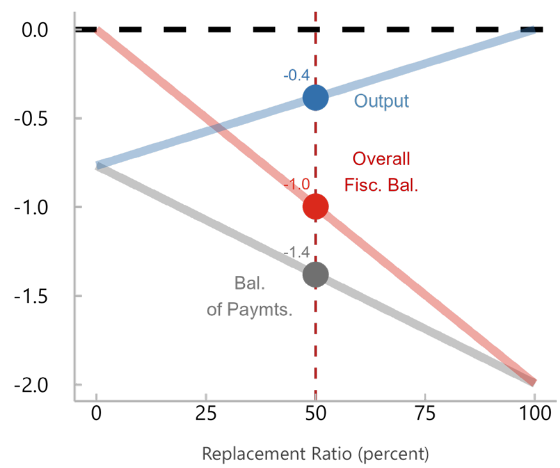
Sources: Haver Analytics, and IMF staff calculations.

South Africa: Textiles from Lesotho
(USD mill, Monthly, Seas. Adj. Trend in Red)



Sources: Haver Analytics, and IMF staff calculations.

Impact of a Complete Withdrawal of USAID Support, Sensitivity Analysis
(Percent GDP)



Sources: Foreignassistance.gov, and IMF staff calculations.

14. Risks are elevated and tilted to the downside. Additional ODA reductions (Annex II), or slower global growth (particularly in South Africa) would further depress growth. Other sources of risk include lower regional trade, or a possible regional reassessment of the SACU arrangement that could reduce transfers to Lesotho. Shocks to commodity prices, extreme weather, cyberattacks, and deepening geo-economic fragmentation are other external risks. Under the baseline uncertainty is expected to persist, and exports to the United States will remain subdued. But under an illustrative global scenario with *even greater* uncertainty worldwide and tighter global financial conditions (Annex III), growth in Lesotho could be an additional 0.9 ppt lower in 2025–26 before gradually improving. In this scenario, as under the baseline, the authorities would need to prioritize improved expenditure control and project management to facilitate well-targeted support for the vulnerable and growth-enhancing public investment. Mitigating factors include Lesotho's sizable reserve buffer, and an expected increase in the grant element of loans from the World Bank (see Debt Sustainability Analysis). Upside risks include a more benign trade environment, including a swifter resolution of uncertainty on US trade policy, re-instatement of the MCC project, or accelerated reforms that support private-sector growth and improve the efficiency of public investment (Annex IV).

Authorities' Views

15. The authorities broadly concurred with staff's economic and inflation outlook and assessment of risks. They are more optimistic than staff about construction as a source of growth as LHWP-II winds down from 2027. While they share staff's concerns about elevated external downside risks, they are cautiously optimistic regarding the MCC Compact, and intend to assume some key components of the compact even if it is cancelled.

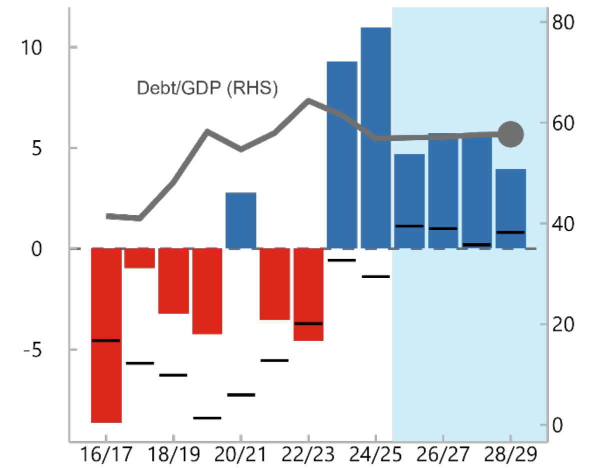
POLICY PRIORITIES

A. Fiscal Policy: Shifting the Emphasis to Effective Capital Spending

16. Lesotho's fiscal surpluses present a complicated challenge. The goal is to transform these added resources into sustained, high-quality growth. Increased non-tax revenues would usually provide authorities with a wider range of options, but as financial constraints have become less binding, other constraints have come to the fore. In particular, longstanding PFM shortcomings—particularly in the design and management of high-quality investment projects—have impeded the government's capacity to scale up spending.

17. The FY25 budget strategy entails an appropriate emphasis on capital spending, but actual execution will likely be constrained. For a country like Lesotho, greater public spending is no guarantee of higher living standards. For example, government spending in Lesotho is more than double the SACU average, but this has not been matched by improved economic performance. Instead, per capita income has actually fallen. Looking forward, the authorities are hoping to place the economy on a different path by shifting the *composition* of spending.

Primary Balance and Debt Dynamics, 2016–28
(Percent of GPD, dash = structural overall balance)



Sources: National authorities and IMF staff calculations.

- Importantly, this entails a **restrained approach to recurrent spending**—in present circumstances, this is appropriate, as a hasty increase in recurrent spending would be counterproductive, undermining efforts to encourage private-sector development.[5]

- Instead, the **emphasis has shifted toward public investment.** The FY24 budget allowed for an increase in capital expenditure of over 150 percent, from 8.6 percent of GDP to 21.9 percent of GDP. In the event, however, chronic capacity constraints meant that actual execution was only 12.4 percent of GDP. This year, the FY25 budget similarly allows capital spending to almost double to 23.7 percent of GDP. But structural fiscal reforms have stalled and Lesotho's capacity constraints have not changed, so execution will likely fall short once again.

18. Reflecting these constraints, staff project an overall fiscal surplus in FY25 of 2.8 percent of GDP—somewhat stronger than the 1.6 percent deficit budgeted by the authorities. Public investment is important. And Lesotho's development needs are clear. But without adequate capacity, efforts to forcibly scale up capital spending would only squander Lesotho's fiscal resources, with little impact on development goals—so the pace of capital

[5] The (multiplier) impact of fiscal restraint on output and prices is limited in Lesotho, in large part owing to the large share of imports in goods consumption. See International Monetary Fund (2023). "Modeling the Impact of External Shocks on Lesotho," Kingdom of Lesotho: Selected Issues. Country Report No. 2023/269. Washington, DC; and A. Alichi, I.Shibata, and K.Tanyeri (2019). "Fiscal Policy Multipliers in Small States," IMF Working Paper, International Monetary Fund.WP/19/072. Washington, DC.

spending should be guided by capacity. In this context, the principal differences between staff's recommendations and the budget are as follows:

- **Capital expenditure: 11 ppts of GDP lower.** Even allowing for accelerated public works aimed at creating jobs for Lesotho's youth, public investment is unlikely to increase as budgeted. The absence of a prioritized project pipeline and continued reform delays suggest that capital spending capacity will instead reach 12.7 percent of GDP in FY25, only slightly up from last year.

- **Revenue projections: 8 ppts of GDP lower.** Cuts in USAID health support and MCC activities have not yet been incorporated in the budget, so external grant inflows will be lower. In addition, tax revenues, especially income taxes, are projected to be softer than in the budget, owing to weaker activity in the textile and mining sectors. Improved compliance will help boost collections, but these gains will likely materialize more gradually than forecast by the authorities.

19. On recurrent spending, the authorities are struggling to strike a balance between continued restraint and the need to respond to recent shocks. Importantly, the broad moratorium on new hiring remains. These efforts should continue, as they represent a welcome break from the boom-bust cycle of previous years, in which SACU windfalls often resulted in an unsustainable increase in the wage bill. Total compensation, however, is still expected to increase modestly, reflecting essential hires of health workers and a postponed recruitment drive for the armed services.

- As a response to external shocks, the authorities have **expanded the budget's contingency fund**, providing some scope to support the most vulnerable. [6] To further mitigate the impact of the shocks, proactive coordination and contingency planning will be essential. For instance, the authorities should move swiftly to assess areas potentially affected by reductions in US assistance or trade policy and develop a coordinated strategy to maintain essential services.

- Lesotho's outlays on social support are already quite high (averaging 5 percent of GDP). So **emphasis should be on improved efficiency and better targeting of social spending,** including by enhancing existing cash transfer programs, reinstating the national digital system for social registry, and accelerating the deployment of new benefit delivery tools.

- The authorities have also recently announced a new focus on **youth unemployment.** Concrete plans are still being developed, but any new measures should be accommodated within the existing budget envelope. In this context, public employment programs have a

[6] The FY25 budget includes a LSL900 million contingency item, which includes LSL300 million in line with previous practice, an additional LSL300 for mitigating the potential shortfall of USAID and MCC, and a further LSL 300 allowance for a (predictable) one-off transfer to the Lesotho Electricity Company.

checkered history and cannot substitute for private-sector reforms. Nonetheless, if used as a temporary social support measure, such programs should: i) be underpinned by strong coordination across agencies; ii) ensure employment is time limited with concrete transition plans, iii) embed training and skills development, and iv) prioritize transparency, accountability and evaluation (see Selected Issues Paper, "Unleashing Private Sector Job Creation: Challenges and Opportunities for Lesotho.").

Comparison of FY24/25 and FY25/26 Projections and Outturns: Current, 2024 Article IV Consultation and the Authorities' Budgets

(Percent of GDP)

	FY24/25			FY25/26		
	Budget	2024 Art. IV	Current	Budget	2024 Art. IV	Current
	Proj.	Proj.	Est.	Proj.	Proj.	Proj.
Revenue	62.6	63.4	62.5	67.7	61.1	59.6
Revenue excluding SACU transfers, grants and water royalties	24.6	24.3	26.6	28.2	24.3	25.4
SACU transfers	26.1	25.6	26.1	20.6	19.3	19.7
Grants	8.3	6.9	3.3	7.8	5.2	1.6
Water royalties	3.6	6.6	6.5	11.1	12.3	12.9
Recurrent expenditure	43.1	42.0	41.1	45.6	40.9	44.0
Compensation of employees	17.8	16.8	17.0	18.3	16.7	17.6
Use of goods and services	7.4	7.1	6.7	10.1	6.4	8.7
Capital expenditure	21.9	16.3	12.4	23.7	14.3	12.7
Overall balance	-2.4	5.1	9.0	-1.6	5.9	2.9
(Excluding SACU transfers and grants)	-36.7	-27.4	-20.3	-30.0	-18.6	-18.4
Primary balance	-0.1	6.8	11.0	0.8	7.5	4.7
(Excluding SACU transfers and grants)	-34.5	-25.7	-18.4	-27.6	-17.0	-16.7

Sources: Lesotho authorities and IMF staff calculations.

Note: The Budget is based on the authorities' own GDP data and can diverge with staff projections.

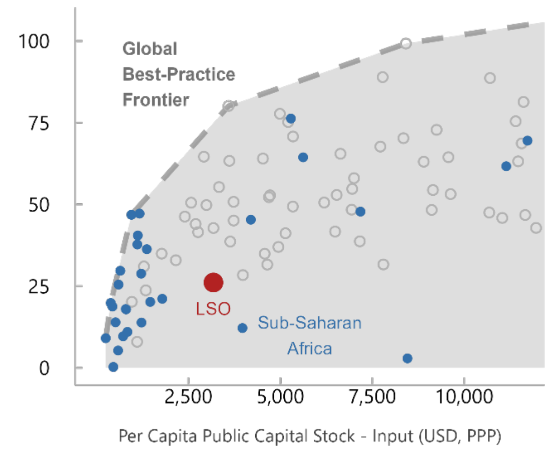
20. If capacity constraints on public investment remain unaddressed, fiscal prudence requires continued surpluses into the medium term—narrowing gradually to 0.9 percent of GDP. In light of the country's economic outlook this path is not ideal, as it would represent a missed opportunity to improve Lesotho's longer-term growth and development prospects. But to date, efforts to improve public investment management have largely stalled and the broader pace of reform remains slow. So this path, reflected in the *baseline*, is realistically the best option available, given the ongoing goal of holding back recurrent spending and the authorities' limited ability to effectively scale up capital spending. In this context, a prudent and realistic medium-term fiscal strategy should include:

- **Continued restraint on the wage bill,** including the moratorium on hiring, streamlining of the establishment list, and regular reviews of the compensation system. In this regard, the objective is not simply to reduce spending on wages. The key goal is a fair and performance-based employment system that rewards productivity and ensures better delivery of public services.

- **Improved tax policy design and tax administration.** Lesotho's Tax Policy Unit has been established and key staff are being hired. The authorities should strengthen the unit's capacity to accurately forecast revenue and improve tax-system design. On administration, the authorities are also implementing a phased reform strategy in line with the IMF's 2023 TADAT assessment. Prompt approval of the two tax-policy bills and tax administration bill could help address identified shortcomings.

21. As a better alternative, reforms aimed at easing these capacity constraints would allow for a more effective use of Lesotho's fiscal resources. Priority should be to enhance public investment. Due to weak project planning, poor prioritization, governance vulnerabilities, low implementation capacity, and donor coordination shortcomings, Lesotho's capital spending is more than double the SACU average but has nonetheless failed to deliver a corresponding increase in productive assets. The authorities should establish a centralized asset registry, develop a well-prioritized investment project pipeline, and strengthen project appraisal, selection, and execution. An IMF-supported Public Investment Management Assessment (PIMA) is currently underway and can accelerate progress in these areas.

Public Infrastructure vs Investment, 2019
(Hybrid Infrastructure Index – Output)

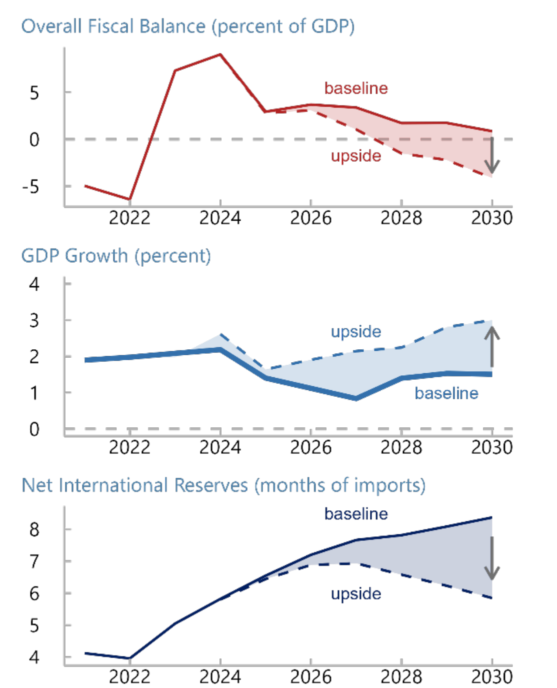


Note: The hybrid indicator combines physical and survey-based indicators into a synthetic index of the coverage and quality of infrastructure networks.
Source: IMF Template of Investment and Efficiency (2022).

22. Adoption of these measures would result in a less-constrained public investment path and higher growth. In Staff's upside scenario, swift adoption of recommended reforms would allow for a gradual pickup in growth-enhancing capital expenditure, while keeping the structural deficit below 3 percent of GDP (see below on Lesotho's medium-term fiscal anchor). In detail:

- **Fiscal reforms** strengthen capital project selection and execution, raising capital expenditure from 13 to 17 percent of GDP over the medium term;

Upside (Recommended) Scenario
(Dotted Lines Represent the Upside Scenario)



Sources: Lesotho authorities and IMF staff calculations.

- **Growth is buoyed by improved public investment** effectiveness and stronger investor confidence—raising growth to 3 percent (double the baseline);

- In this context, a more relaxed fiscal stance would not necessarily entail a higher debt path, but would instead result in a **slower pace of reserve accumulation,** while still allowing for a sufficiently comfortable reserve buffer (6 months of imports) to safeguard the peg.[7]

Scenario Comparison

(Percent of GDP)

Recommended with no reform (baseline)	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31
Revenue	59.6	58.8	58.8	57.1	57.4	56.6
Recurrent Expenditure	44.0	42.2	42.5	42.4	42.6	42.6
Capital Expenditure	12.7	12.9	12.9	12.9	13.0	13.1
Overall Balance	2.9	3.7	3.4	1.7	1.7	0.9
Structural Balance	2.7	3.1	1.6	1.6	1.4	1.4
Real GDP (y.o.y. growth)	1.4	1.1	0.8	1.4	1.5	1.5
Reserves (in months of imports)	6.3	6.9	7.5	7.8	8.1	8.3
Public Debt	57.0	57.1	57.6	57.7	57.7	57.7
Recommended with reform (upside)						
Revenue	59.4	58.7	57.8	55.7	55.5	54.3
Recurrent Expenditure	43.8	41.5	41.7	41.6	41.6	41.5
Capital Expenditure	12.8	14.1	15.1	15.6	16.2	16.9
Overall Balance	2.8	3.1	1.1	-1.5	-2.2	-4.1
Structural Balance	2.6	2.2	-0.5	-1.5	-2.0	-2.8
Real GDP (y.o.y. growth)	1.6	1.9	2.1	2.2	2.8	3.0
Reserves (in months of imports)	6.2	6.6	6.8	6.6	6.2	5.8
Public Debt	56.8	56.4	56.2	55.9	55.4	55.1

Source: Lesotho authorities and IMF staff calculations.

23. **In the interim, while the authorities improve their investment capacity, Lesotho's fiscal surpluses should be saved wisely.** As a first step, surpluses should be used to clear remaining domestic arrears and continue building international reserves. Once reserves are comfortable (over 6 months of imports), the benefits of additional reserves should be weighed against the opportunity cost of lowering public debt, starting first with the government's most expensive domestic and external liabilities. In this context, the authorities should swiftly establish a well-governed savings (stabilization) fund to not only ensure a considered approach to savings decisions, but also to provide a buffer against future shocks.

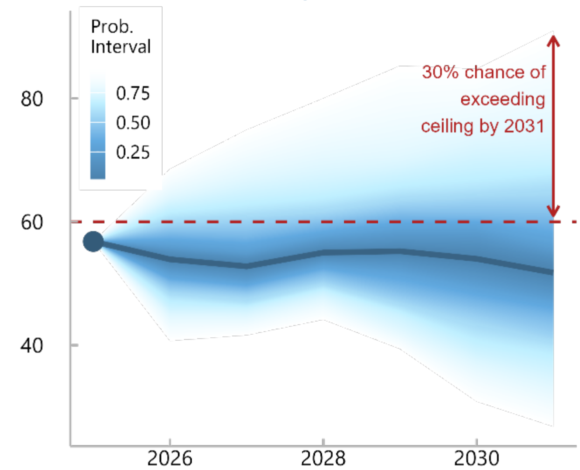
24. **In addition, as reforms take hold and spending becomes less constrained, a more effective fiscal-rules framework will become increasingly critical to anchor medium-term policy.** Currently, the authorities' medium-term objectives require that public debt remain below 60 percent of GDP and that the fiscal deficit not exceed 3 percent of GDP. But these requirements have generally been poorly enforced. Weaknesses in PFM, rigid expenditure, and limited capacity in formulating a credible medium-term fiscal framework (MTFF) have further undermined the link between objectives and outcomes. The authorities should reestablish their medium-term fiscal objectives within a legally binding framework.[8] The debt ceiling of

[7] See Selected Issues Paper "Setting Up Fiscal Rules in Lesotho."

[8] Legislation on the elements of Lesotho's fiscal rule is still pending. See paragraph 12.

60 percent of GDP is elevated by regional standards, but has long been politically acceptable. Nonetheless, there is a significant chance that this ceiling will be breached if debt remains at current levels (56.8 percent of GDP). The authorities should therefore target 50 percent of GDP debt as a medium-term anchor to provide a buffer against shocks. As a further anchor, they should aim for a 3 percent of GDP structural deficit (accounting for volatile SACU inflows and grants). These should be underpinned by clear operational rules, including ceilings on expenditure and the wage bill.[9]

Debt Simulations
(Percent of GDP, starting from current debt level)



Sources: Authorities' data and IMF staff calculations.

25. Critically, an effective fiscal rule will first require significant front-loaded improvements to Public Financial Management. Notable progress has been made in clearing the backlog of audited government financial statements and addressing long-standing discrepancies between cash accounts and bank statements. However, reforms to strengthen commitment controls, cash management, and expenditure execution have been limited. Stronger budget preparation and execution remain essential to improve governance and bolster fiscal credibility. The authorities' plans to follow up the 2025 Public Expenditure and Financial Accountability (PEFA) self-assessment with a comprehensive, strategically focused PFM agenda are timely. Priority areas should include:

- **Contingency fund reform.** The budget's contingency fund should be a buffer against unanticipated shocks, rather than a channel for *de facto* earmarked spending, or a substitute for robust contingency planning by Ministries, Departments and Agencies (MDAs). Reallocations must comply with legal provisions, including timely regularization through supplementary appropriations.[10]

- **Digital commitment and cash control.** Introducing digital signatures alongside a fully functional Treasury Single Account (TSA) would enhance budget oversight, even while key PFM legislation remains pending, as digital-only processes would automatically flag or block non-compliant transactions. Priorities include:

[9] See Selected Issues Paper "Setting Up Fiscal Rules in Lesotho."

[10] Section 114 of Constitution authorizes Finance Minister to make advances from the Contingencies Fund in the event of urgent and unforeseen spending needs (114(1)) but requires that a supplementary appropriation bill be introduced as soon as possible to replace the amount advanced (114(2)).

- Full implementation of digital signatures and the phasing out paper-based approvals, including for all Public Investment Unit (PIU)-managed transactions;
- Requiring the closure all commercial bank accounts held by MDAs (including PIUs) and the transfer of balances to ring-fenced TSA subaccounts at the CBL. No new accounts outside the TSA should be opened;
- Including the cost of the digital signature rollout into the IFMIS upgrade budget.

26. In support of these efforts, swift passage of key PFM legislation remains imperative. The Public Financial Management and Accountability Bill, the Public Debt Management Bill, and secondary legislation related to the 2023 Public Procurement Act remain pending. Together, this legislation will improve the efficiency and transparency of procurement, enhance fiscal responsibility, and strengthen reporting. Progress has been impeded in part by the protracted legislative process surrounding passage of the Omnibus Bill and the broader path of constitutional reform. Staff urge the authorities to capitalize on recent political momentum on the Omnibus Bill to promptly pass the outstanding PFM legislation.

27. Fiscal risk management must remain a priority. Most recently, financial distress at the Lesotho Electricity Company (LEC) has heightened fiscal risks. While measures to address governance concerns at LEC have been adopted, a broader reform strategy should be developed swiftly and reflected in a much-needed policy on state-owned enterprises (SOEs). The continued publication of an annual fiscal risk statement is critical and should transparently assess exposures from SOEs, public-private partnerships, arrears, and contingent liabilities.

28. Finally, improved coordination is essential. Persistent data inconsistencies among departments within the MoFDP, Revenue Services Lesotho (RSL), and the Bureau of Statistics (BoS) hamper accurate assessments of economic activity and financing needs. Resolving these discrepancies is critical to underpin robust and reliable medium-term fiscal frameworks.

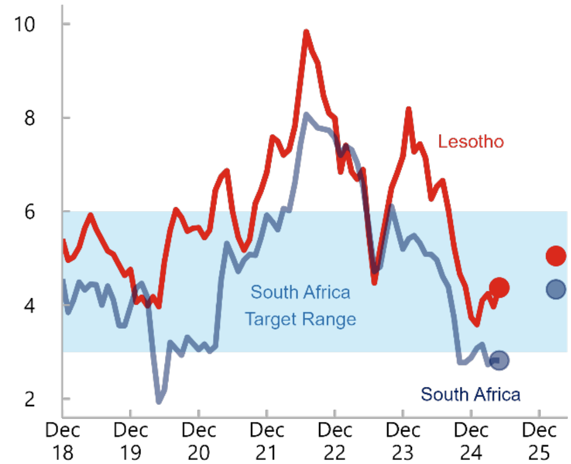
Authorities' Views

29. The authorities agreed that the prudent use of Lesotho's surpluses is critical, and with the urgency of PFM reforms. They broadly concurred with the need to use water royalty inflows strategically—by building reserves, paying down debt to reduce vulnerabilities, and channeling savings through a stabilization fund to support future growth-enhancing investment. On spending, they noted rising pressures to address youth unemployment, and were exploring options to address this within the existing budget envelope. At the same time, they agreed on the importance of protecting the most vulnerable in light of recent shocks. They were more optimistic than staff regarding the government's capacity to execute capital investment. On PFM, progress is being made on arrears clearance, and steady implementation is underway on implementing IMF capacity-development recommendations, including on digital signatures, bank reconciliation, and fiscal reporting. The authorities plan to follow up on the recent PEFA self-assessment with a comprehensive PFM reform plan. They also acknowledged the need for SOE reform, including through divestment, particularly as concerns over fiscal risks are rising.

B. Monetary and Financial Policies: Maintaining the Peg, Ensuring Stability

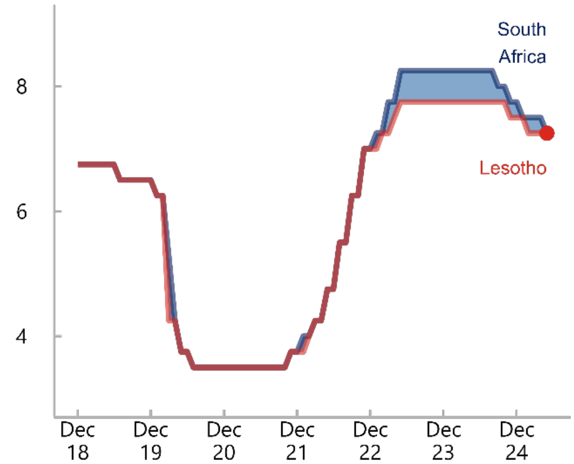
30. The peg to South African Rand has served Lesotho well. Inflation is moderate, well anchored, and tied to the credibility of the SARB (with expectations aligning well with those in South Africa). Additionally, the peg facilitates transactions with South Africa, Lesotho's predominant financial and trade partner. Reserves are at a comfortable 6 months of prospective imports and rising.

CPI Inflation, 2018–26
(Percent, End of Period)



Source: Haver Analytics, and IMF staff calculations.

Policy Rates, 2018–25
(Percent, Latest Observation = Feb 2025)



Source: Haver Analytics and IMF staff calculations.

31. The monetary stance is appropriate and consistent with maintaining the peg, but the authorities should close the small remaining policy rate gap with the SARB. Lesotho maintained a 50-basis point gap with the SARB policy rate between May 2023 and September 2024, but given Lesotho's weak transmission mechanism (see below) this gap had little impact on activity or the credibility of the peg—reserve buffers increased and deposit growth has remained robust. Following the start of the SARB's easing cycle in September 2024, the CBL reduced the differential to 25 bps. Staff recommend fully aligning the policy rate with the SARB to reinforce Lesotho's commitment to the peg. More broadly, inflationary pressures should be monitored carefully, and a coordinated response with fiscal policy may be needed if a persistent inflation gap with South Africa opens.

32. An enhanced policy framework will improve transmission and develop local markets. Monetary transmission remains weak due to shallow money markets, a limited monetary-operations toolkit, regulatory-driven demand for domestic assets, and significant excess liquidity. The CBL has proposed a revamped framework, including a (limited) Standing Deposit Facility (SDF) and regular liquidity-absorbing operations using CBL liabilities. The IMF is supporting efforts to modernize monetary operations, adjust prudential requirements, and develop a secondary market for public debt, all of which should help gradually strengthen monetary transmission. The CBL should continue to enhance liquidity analysis and forecasting, and to gradually address Lesotho's structural liquidity surplus. Over time, the CBL should rely less on regulatory measures to manage bank liquidity and shift towards a market-based liquidity management framework.

33. Improved central bank governance and coordination with the MoFDP will further strengthen the peg. Amendments to the CBL Act—aimed at enhancing autonomy and governance in line with the 2021 safeguards assessment—remain stalled, along with broader efforts to enshrine central bank independence in the Constitution. In parallel, regular technical exchanges between the CBL and MoFDP have ceased. The authorities should swiftly act to pass the CBL amendments and anchor the CBL's independence in the Constitution. Regular meetings and policy coordination activities between the MoFDP and CBL should be resumed.

34. While bank balance sheets remain sound, efforts to enhance financial sector oversight should continue. The banking sector—dominated by four institutions, including three South African subsidiaries—remained resilient in 2024. The NPL ratio increased slightly to 4.8 percent in March 2025, still well below the SACU average. Bank liquidity and regulatory capital likewise declined slightly over 2024, but remain well above minimum levels. Efforts are underway to strengthen risk-based supervision in line with a shift towards Basel III. Supported by the IMF, the CBL is developing an enhanced stress testing framework for banks, and a bank recovery-plan framework. Supervision and regulation for nonbank financial institutions (NBFIs) are still in the early stages but are gradually improving. A change in the classification of Common Monetary Area (CMA) cross-border payments in late-2024 led to higher transactions costs and delays, but recent interventions have improved performance. The CBL should continue to enhance risk-based supervision, and expand oversight of NBFIs.

35. Progress in improving the AML/CFT framework and in strengthening its effectiveness should continue. The authorities have strengthened the AML/CFT legal framework to address deficiencies identified in the 2023 Mutual Evaluation of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Regulatory updates have addressed key weaknesses—particularly around beneficial ownership—through revised licensing, supervision, and risk-based assessments of NBFIs. Implementation of the updated framework is underway, through training and capacity development. Efforts are also underway to improve the framework for sanctioning non-compliance with AML/CFT requirements to be more dissuasive, effective, and proportionate. The authorities should continue efforts to enhance the effectiveness of the AML/CFT system, particularly respecting supervision of financial institutions and designated non-financial businesses and professions, including through continued training and engagement with stakeholders.

Authorities' Views

36. The authorities broadly agreed with staff's recommendations and reiterated their commitment to safeguarding the peg and advancing financial sector reforms. The CBL will continue to monitor inflation dynamics and international reserves. With further reserve growth from the new water royalties, the CBL noted the need to coordinate with MoFDP on reserves management and domestic debt-market developments. The authorities are beginning a multi-year agenda to modernize monetary operations, which includes plans to issue CBL securities and develop a secondary debt market. The CBL acknowledged the need to continue enhancing bank and nonbank supervision and to address any remaining AML/CFT shortcomings highlighted by the ESAAMLG mutual evaluation. They also acknowledged the importance of financial intermediation and inclusion, with implementation of the Financial Sector Development Strategy II, National Financial Inclusion Strategy II, and National Payment Switch as key priorities.

C. Structural Reforms: Encouraging and Financing Private Sector Growth

37. Job-rich growth cannot be achieved without structural reforms. Translating higher water royalties into expanded job opportunities (including for youth) will require more than public investment.[11] With the renewal of AGOA unlikely, and with access to the U.S. market uncertain, firms within Lesotho will need to explore new markets and export opportunities, which will in turn require new investment and a stable and supportive business environment.

38. Fiscal reforms are essential to ensure value for money in public spending and to set the stage for private-sector development. With government spending at 53 percent of GDP, fiscal reforms—including even-handed procurement, arrears prevention, and efficient service delivery—are an essential first step in building an investment-friendly business climate. The authorities should expedite passage of the PFMA Act, implement forthcoming recommendations from the PIMA, and accelerate the broader fiscal reform agenda. Public procurement must be conducted transparently, competitively, and with strengthened governance and oversight. The prevention of domestic arrears and the timely payment of contracts are essential to support private-sector confidence and firm-level liquidity.

39. Financial intermediation and inclusion are essential. Access to finance is a key obstacle to private sector growth, especially for small-and-medium-sized enterprises (SMEs) seeking the working capital needed to expand operations and lift employment.[12] The new Financial Sector Development Strategy II (FSDS II) and National Financial Inclusion Strategy II (NFIS) are designed to address shortcomings in the current system, with a particular focus on financing private sector development. Swift implementation is needed, with priorities including

[11] International Monetary Fund (2023). "Handing the Reins of Growth to the Private Sector," Kingdom of Lesotho: Selected Issues. Country Report No. 2023/269. Washington, DC.

[12] See Selected Issues Paper, "Unleashing Private Sector Job Creation: Challenges and Opportunities for Lesotho."

strengthened credit infrastructure (for instance., expanded credit reporting to SMEs), a swift rollout of the National Payments Switch (including interoperability between cards and mobile money), and improved coordination between financial-sector stakeholders. The authorities should also consider rationalizing overlapping programs (such as the various partial credit guarantee schemes), ensuring that all initiatives are well targeted and focused on efficacy.

40. A stable, predictable, and well-regulated business environment is critical for private investment and growth. Persistent barriers—including regulatory red tape, visa restrictions for foreign workers, exchange controls, and policy uncertainty—continue to weigh on foreign direct investment and private sector activity. Lesotho's natural endowments hold the promise of plentiful clean energy in the future, but reliability and access to electricity remain a current barrier to industry. In addition, the scope of Lesotho's large SOE sector, along with the sector's chronic governance and efficiency shortcomings, represents a further impediment to competition and efficiency. In the context of recent shocks (textiles, mining) and untapped opportunities in tourism and horticulture, business-environment reforms are more urgent than ever. The authorities should accelerate efforts to streamline administrative processes, ease exchange controls and visa procedures, and undertake comprehensive electricity-sector reforms to reduce fiscal risks and enhance service delivery. A robust SOE policy framework will be critical to improve governance, foster competition, and crowd in private investment. Industry specific policies must be designed carefully, targeted at specific market failures, ensure cost effectiveness, and be mindful of potential governance concerns.

41. Mitigating corruption and strengthening the rule of law are essential for confidence, investment, and growth. Legislative reforms to enhance the independence of anti-corruption institutions and the creation of specialized anti-corruption courts need to be expedited. As with key PFM legislation, progress has been impeded in part by the protracted discussion of the Omnibus Bill. More broadly, strengthening key bodies such as the Office of the Auditor General and the Directorate on Corruption and Economic Offences (DCEO) would also send a strong signal of the government's resolve, and help incentivize private sector development.

Authorities' Views

42. The authorities acknowledge that the current government-led growth model has not generated durably higher living standards or quality employment for much of the population. They also agreed that longer-term growth prospects will remain subdued until structural reforms are implemented. They concurred that high government spending—both directly and through SOEs—had skewed incentives across the economy, and that entrenched governance weaknesses and lack of coordination had undermined opportunities for businesses to grow. The new Financial Sector Development Strategy II (FSDS-II) and National Financial Inclusion Strategy II (NFIS-II) should help boost access to finance and so provide added opportunities for small business. The authorities also pointed to the government's current role in incentivizing the private sector and in boosting employment for unemployed youths.

OTHER SURVEILLANCE ISSUES

43. **Capacity Development is critical for supporting the authorities' reform efforts** (Annex V). Priorities include: strengthening PFM and fiscal-risk assessment, tax policy and administration, improving national-accounts and government-financial statistics, and financial-sector supervision. Given the depth of Lesotho's CD needs, careful sequencing and prioritization is required, not least to ensure that recipients are capable of absorbing and implementing recommendations in a timely manner.

44. **The data provided to the Fund have some shortcomings that somewhat hamper surveillance.** These reflect capacity constraints. A more granular assessment is provided in Annex VII, but improvements are required in the areas of debt, government finance, inflation, national accounts, and trade.

45. **Removal of previously identified exchange restriction** (see Informational Annex). Lesotho previously maintained one restriction arising from a discretionary allowance of LSL1 million for residents above 18, and travel allowance limit of LSL200,000 for residents under 18. Transactions beyond these limits needed CBL approval. In line with staff's recommendations, on July 25, 2025, the CBL has issued circulars clarifying that requests above such limits will be subject to CBL verification and will be approved upon proof of the bona-fide nature of the request. With this clarification, the previous finding of exchange restriction is removed. Since the last Article IV consultation, there have been no changes in the foreign exchange system that would give rise to multiple currency practices (MCPs).

Authorities' Views

46. **The authorities agreed that improvements to data quality and timeliness are needed.** The rebasing of the national accounts continues to be a priority, with support from IMF CD and increased funding from the government. The MoFDP aims to expand government statistics coverage to include further extrabudgetary units, establish expenditure statistics by function of government (COFOG), and improve coordination within the MoFDP, as well as with the BOS, CBL, RSL, and other MDAs. The RSL agreed that addressing the systems issue in the data repository is a priority, as well as the resolution of inconsistencies in historical data.

STAFF APPRAISAL

47. **The authorities' management of windfall revenue has helped strengthen buffers and maintain stability.** Amid sizable SACU transfers and additional water royalties, the government has contained the wage bill and cleared arrears. The resulting fiscal surplus has supported international reserves and stabilized public debt, strengthening the peg.

48. **In FY24, Lesotho's external position was stronger than fundamentals and desirable policies** (Annex VI). The EBA framework suggests that Lesotho's positive policy gap reflects its fiscal surplus and rapid reserve accumulation. But given long-standing competitiveness issues

within the textile industry, exacerbated by the recent tariff shock, the medium-term external position continues to hinge on fiscal prudence and structural reforms.

49. Lesotho's main challenge is to translate its ongoing revenue windfalls into long-term development gains. With inefficient government spending already above regional peers, it is essential that this additional revenue be managed and spent prudently.

50. In the near term, capacity constraints on the government's ability to scale up public investment suggest that fiscal surpluses should be maintained and saved. The FY25 budget contains a dramatic increase in public investment that is neither realistic or advisable, as efforts to forcibly boost capital spending on this scale would only squander Lesotho's resources, with little impact on development goals. Instead, to ensure value for money, the authorities should accelerate the launch of a savings (stabilization) fund to boost resilience in the face of shocks, and to safeguard resources for future investment. For credibility and effectiveness, the fund should be underpinned by a legally binding fiscal-rules framework and supported by clear operational guidelines, strong PFM systems, and clear accountability channels.

51. Fiscal measures to help cushion the impact of the recent shocks on the most vulnerable are appropriate. Amid rising spending pressures, particularly in response to donor shortfalls, the authorities should ensure that social spending is well targeted. Staff caution against expansion of the wage bill, except for essential hires. On revenues, passage of tax legislation and improved revenue administration can ensure a fairer and more efficient tax system.

52. Looking forward, improved public investment management is needed to increase the quality of capital spending and boost growth. In line with the authorities' emphasis on capital spending, an increased focus on cost effectiveness would allow for higher and better-quality public investment. As reforms take hold and spending becomes less constrained, a more effective fiscal-rules framework will become increasingly critical to anchor medium-term policy. The authorities should reestablish their medium-term fiscal objectives within a legally binding framework, aiming at a 50 percent-of-GDP debt level as a medium-term anchor, combined with a 3 percent-of-GDP structural deficit target.

53. But delayed passage of long-overdue reforms is undermining Lesotho's ability to realize its economic potential. PFM shortcomings have not only undermined Lesotho's ability to expand public investment, they have also weighed more generally on efficient service delivery and fiscal governance. Budget credibility and internal controls need to be strengthened, and the authorities should continue their efforts to ensure comprehensive analysis and management of fiscal risks, including from SOEs. Passage of key legislation is needed urgently, including laws on public financial management; debt management; tax reform; tax administration; and amendments to the constitution that would boost central-bank independence and strengthen anti-corruption efforts.

54. The monetary stance is appropriate, and consistent with maintaining the peg. If the South African Reserve Bank continues to loosen its policy stance, the CBL should broadly follow suit, and should eventually close the small remaining gap between policy rates to more clearly signal Lesotho's commitment to the peg. On financial stability, the authorities should continue efforts to improve risk-based supervision of the banking sector, while enhancing supervision and regulation in the NBFI sector.

55. Structural reforms are critical to unlocking private sector–led job-rich growth, and are needed even more urgently in the face of recent shocks. The authorities are strongly encouraged to continue efforts to address weaknesses in PFM, improve financial inclusion and access to finance, enhance the broader business environment, and tackle governance vulnerabilities.

56. Staff strongly encourage the authorities to continue their efforts to increase capacity, improve data quality, and coordinate on macroeconomic policies. High-quality data and improved information sharing are critical for policymaking, while close coordination between fiscal and monetary authorities is key to ensuring the consistency of macroeconomic policies with the exchange rate regime.

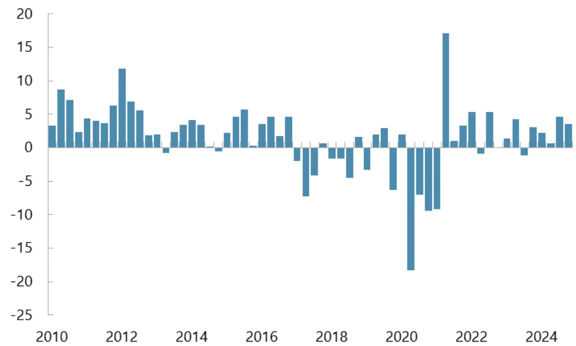
57. Staff recommends that the next Article IV consultation for Lesotho be held on the standard 12-month cycle.

Figure 1. Lesotho: High-Frequency Indicators

Real GDP growth has been sluggish in recent years…

Quarterly Real GDP Growth

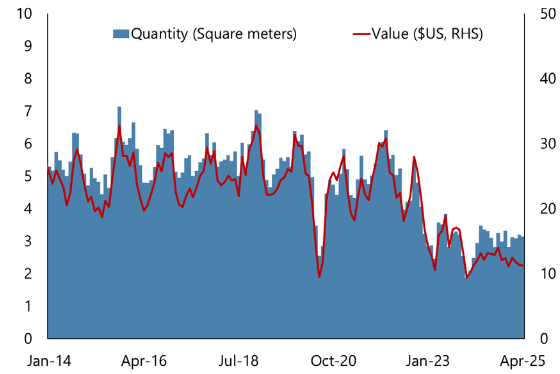
(Percent, year-on-year)



…alongside declining apparel exports to the US.

Apparel Exports to the US

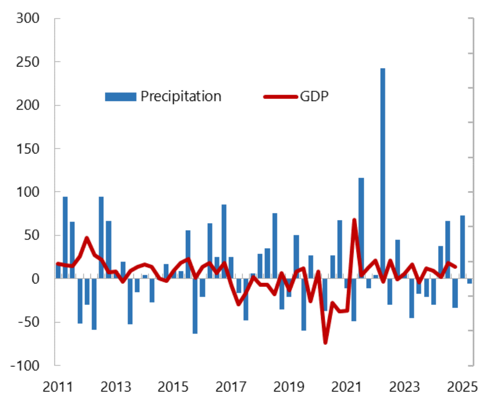
(Millions)



El Niño-induced drought in Southern Africa weighed negatively on Lesotho's rain-fed agriculture…

Precipitation in Lesotho

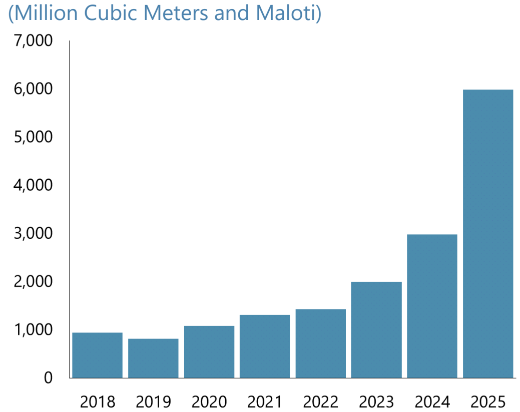
(Percent, year-on year)



…while renegotiated rates for water exports to South Africa have yielded higher water royalties.

Water Exports to South Africa

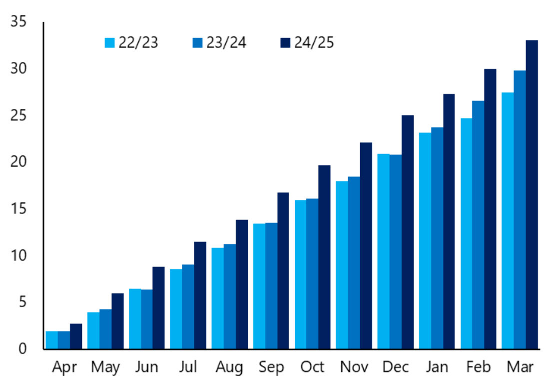
(Million Cubic Meters and Maloti)



Increase in domestic revenue was driven by higher water royalties.

Cumulative Domestic Revenue

(Percent of Annual GDP)

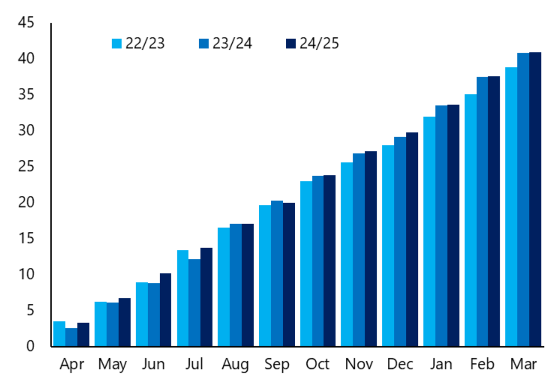


*FY24/25 Annual GDP is an estimate.

Recurrent expenditure held stable thanks to a restrained wage bill.

Cumulative Recurrent Expenditure

(Percent of Annual GDP)



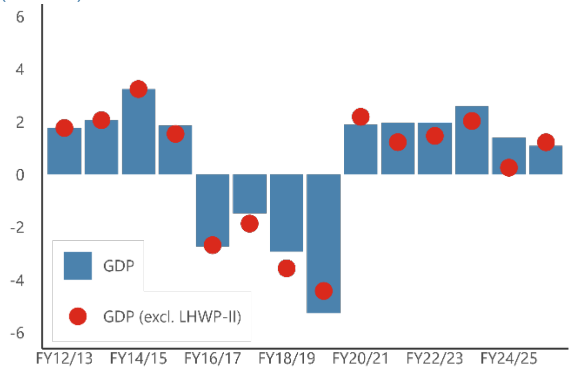
*FY24/25 Annual GDP is an estimate.

Sources: Bureau of Statistics; US International Trade Administration; Lesotho Highlands Development Authority; Food and Agriculture Organization; Ministry of Finance and Development Planning; and IMF staff calculations.

Figure 2. Lesotho: Real Sector Developments

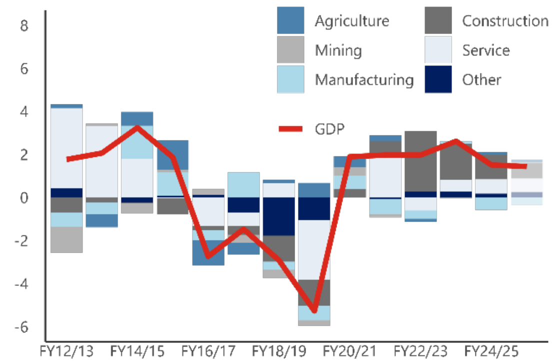
Growth reached a modest peak of 2.6 percent in FY24/25…

Real GDP Growth
(Percent)



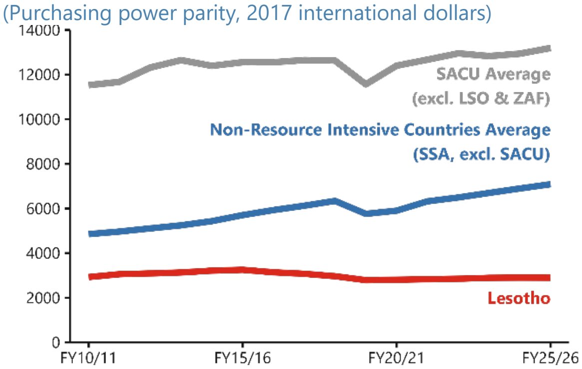
…supported by construction activity from the LHWP-II.

Sectoral Contributions to GDP Growth
(Percent)



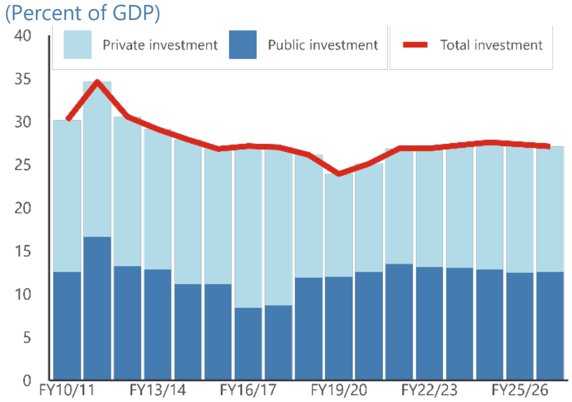
Cost of living adjusted per capita GDP shows no sign of convergence to SACU and SSA average…

Real GDP Per Capita
(Purchasing power parity, 2017 international dollars)



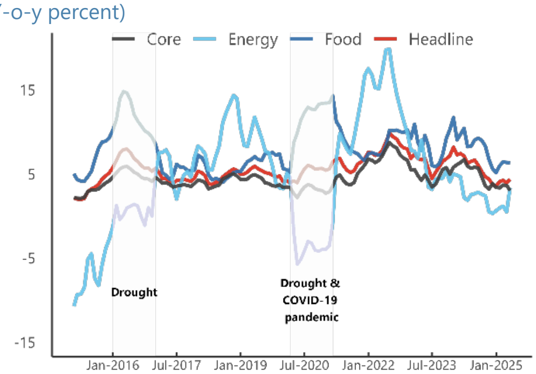
…and investment levels have plateaued, while struggling to translate into durable economic growth.

Evolution of Investment
(Percent of GDP)



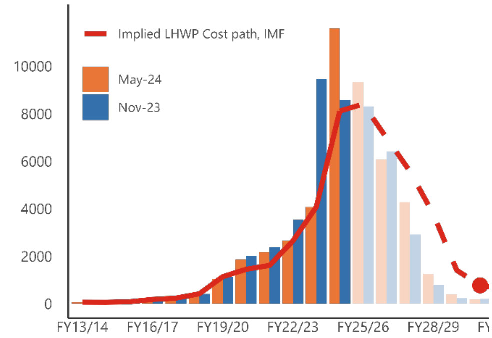
Inflation has abated over the past year as energy and food prices moderate.

Inflation
(Y-o-y percent)



The cash flows from the LHWP-II mega project are projected to exert negative drag on growth from 2027.

LHWP Projected Cash Flow and Cost Path
(Percent of GDP)



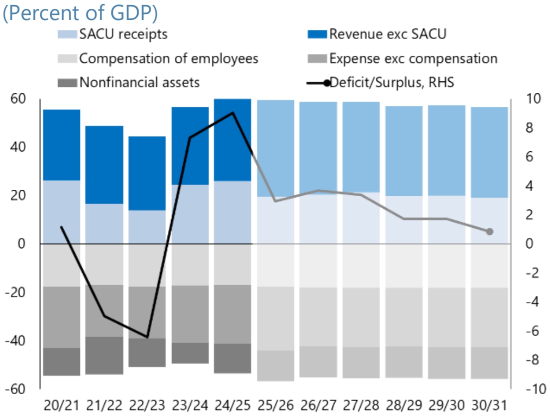
Sources: Bureau of Statistics; IMF, World Economic Outlook; Lesotho Highlands Development Authority; and IMF staff calculations.

Figure 3. Lesotho: Fiscal Developments

FY24/25 registered a substantial fiscal surplus, backed by strong SACU transfers and restrained expenditures.

Fiscal Balance

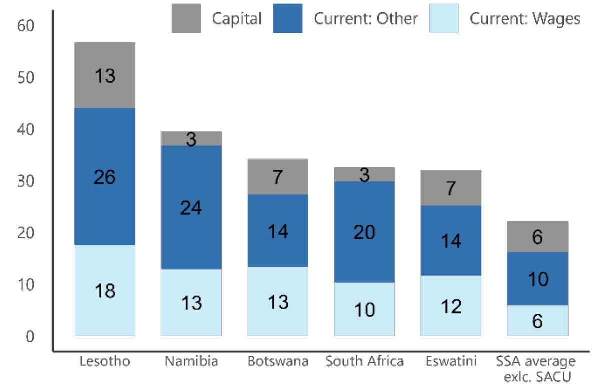
(Percent of GDP)



Lesotho's public wage bill remains the highest in the region.

Government Spending, 2024

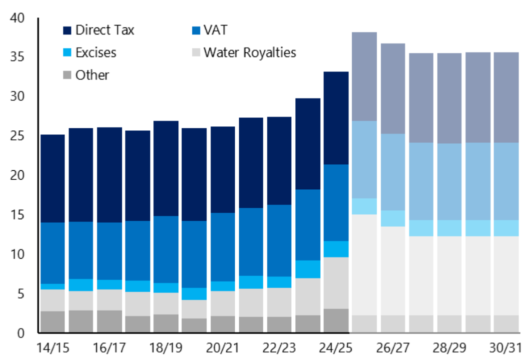
(Percent of GDP)



Water royalties will fill the gap of SACU transfer declines in the medium term…

Domestic Revenue

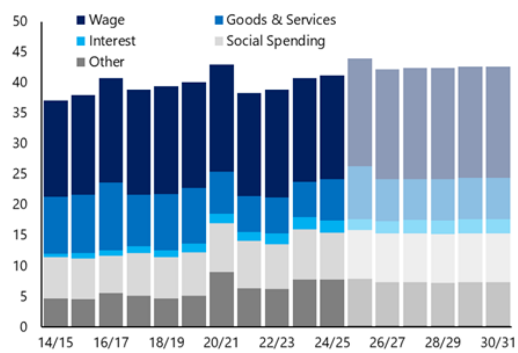
(Percent of GDP)



…while recurrent expenditures are expected to increase in response to the recent shocks.

Recurrent Expenditure

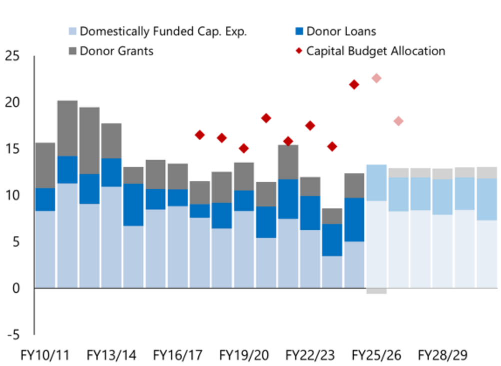
(Percent of GDP)



Capital expenditure has consistently been under-executed over the past decade.

Capital Expenditure

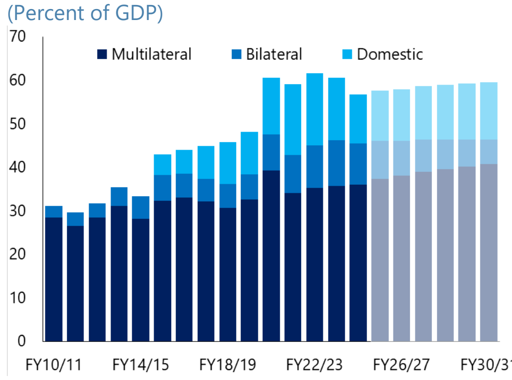
(Percent of GDP)



Public debt, largely consisting of external borrowing, is projected to stabilize below 60 percent of GDP.

Total Public Debt

(Percent of GDP)

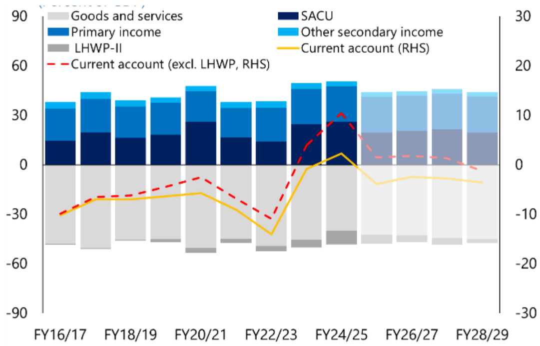


Sources: Ministry of Finance and Development Planning; IMF, World Economic Outlook, and IMF staff calculations. Note: SACU=Southern African Customs Union.

Figure 4. Lesotho: External Sector Developments

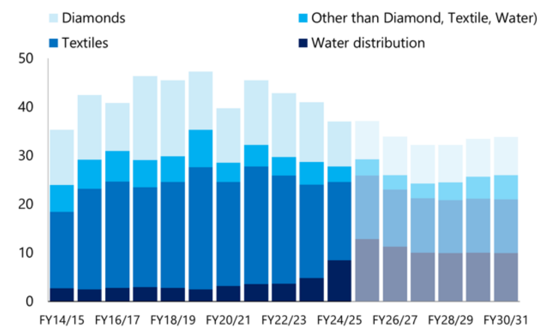
The current account turned to surplus in FY24/25, albeit temporarily...

Current Account
(Percent of GDP)



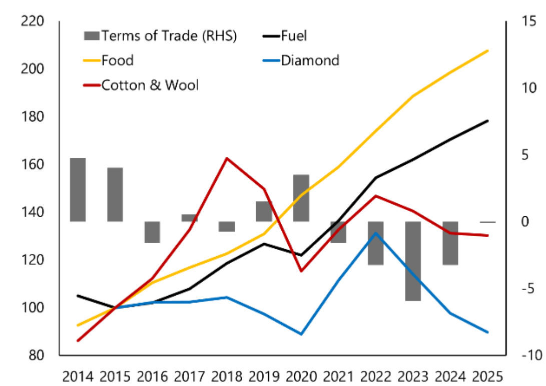
... with lower imports and higher SACU and water royalties offsetting lowers exports...

Composition of Exports
(Percent of GDP)



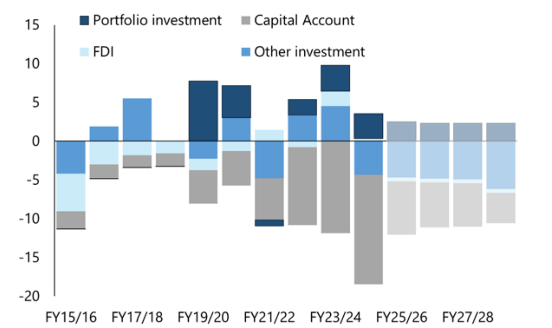
...despite broad-based deterioration in terms of trade.

Terms of Trade and Prices of Key Commodities
(LHS: Index, 2015=100; RHS: percent change)



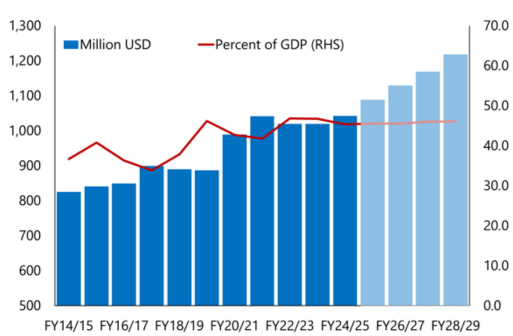
BOP financing continues to rely on capital transfers while other investment shifted from out- to inflows.

External Financing
(Percent of GDP)



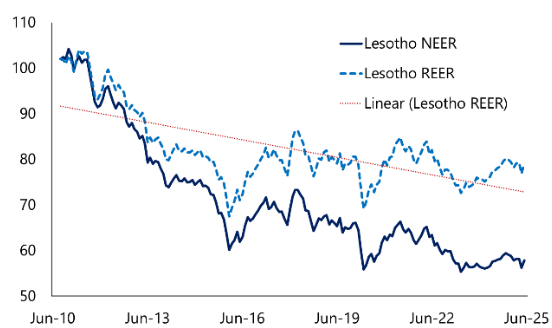
Debt levels would continue to be driven by the government's financing strategy.

External Debt



The NEER has been relatively stable for over 24 months although inflation differential has propped up REER.

Exchange Rates
(Index, 2010=100)

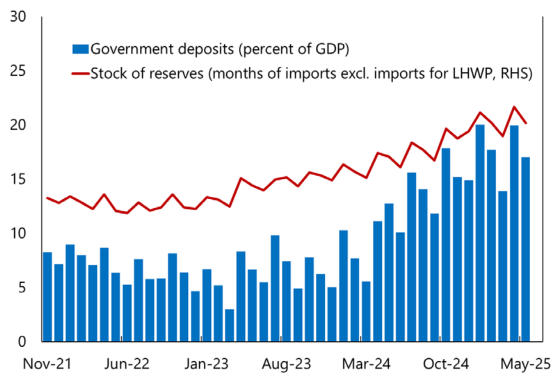


Sources: Central Bank of Lesotho; Ministry of Finance and Development Planning, and IMF staff calculations.
Notes: FDI=foreign direct investment; PV=present value; SACU=Southern African Customs Union.

Figure 5. Lesotho: Monetary and Financial Sector Developments

Reserves are bolstered by strong SACU transfers.

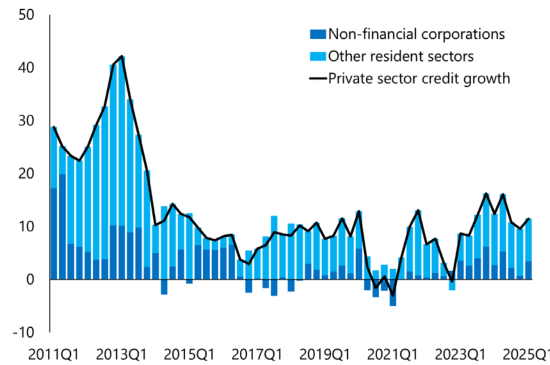
International Reserves and Government Deposits



Credit growth has moderated following its LHWP-II driven peak.

Private Sector Credit Growth

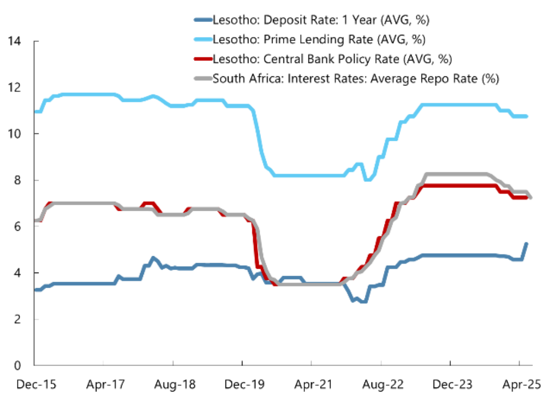
(Percent, y-o-y)



The policy rate has broadly followed the South African rate reductions, and the gap has narrowed to 25bps.

Policy Rate

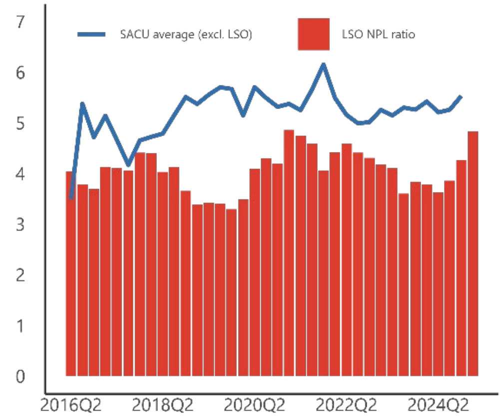
(Percent)



Nonperforming loans remain below the SACU average.

Nonperforming Loans to Gross Loans

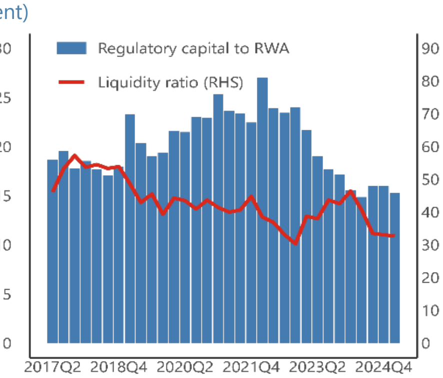
(Percent)



Banks remain liquid though capital coverage has declined.

Bank Capital Adequacy and Liquidity Ratio

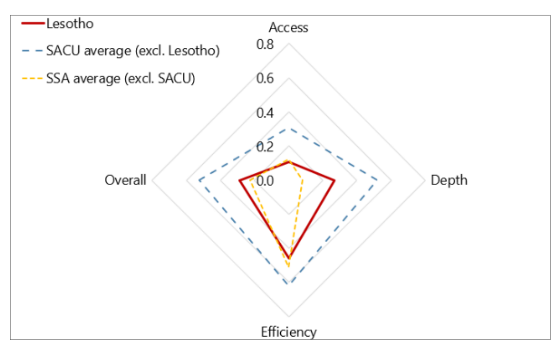
(Percent)



Financial development remains limited.

Financial Institution Development, 2021

(Index, higher = better)



Sources: Central Bank of Lesotho; IMF, Financial Development Index Database, and IMF staff calculations.

Table 1. Lesotho: Selected Economic Indicators, 2021/22–2030/31[1]

Population (thousands; 2023 est.):	2,330
GNI per capita (US$; 2023 est.):	1,160
Poverty rate at national poverty line (percent; 2017 est.):	50

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
	(12-month percent change, unless otherwise indicated)									
National Account and Prices										
GDP at constant prices (including LHWP-II)	1.9	2.0	2.1	2.2	1.4	1.1	0.8	1.4	1.5	1.5
GDP at constant prices (excluding LHWP-II)	2.2	1.2	1.6	1.6	0.3	1.3	2.1	1.6	1.6	1.7
GDP at market prices (Maloti billions)	36.3	38.7	41.5	44.2	46.6	49.2	52.0	55.3	58.9	62.7
GDP at market prices (US$ billions)	2.4	2.3	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.9
Consumer prices (average)	6.5	8.2	6.5	5.2	4.6	5.0	5.1	5.1	5.0	5.0
Consumer prices (eop)	7.2	6.8	7.4	4.2	5.0	5.1	5.1	5.0	5.0	5.0
GDP deflator	4.1	4.4	5.2	4.3	3.8	4.5	4.8	4.9	4.8	4.9
External Sector										
Terms of trade ("–" = deterioration)	-1.6	-3.2	-5.9	-3.2	-0.1	-0.2	-0.6	0.2	-0.2	0.0
Average exchange rate										
(Local currency per US$)	14.9	17.0	18.7	19.3	...	...	...	...	...	...
Nominal effective exchange rate change (– depreciation) 2/	6.3	-3.0	-8.1	1.3	...	...	...	...	...	...
Real effective exchange rate (– depreciation) 2/	8.7	-1.8	-6.8	4.0	...	...	...	...	...	...
Current account balance (percent of GDP)	-9.1	-14.0	-0.8	2.3	-3.9	-2.4	-2.7	-3.6	-2.5	-1.2
(excluding LHWP-II imports, percent of GDP)	-6.8	-10.9	3.9	10.4	2.1	1.8	1.4	-1.3	-1.8	-0.9
Gross international reserves										
(Months of imports)	4.3	4.0	4.8	5.5	6.3	6.9	7.5	7.8	8.1	8.3
(excluding imports for LHWP-II, months of imports)	4.4	4.2	5.3	5.9	6.7	7.3	7.7	7.9	8.1	8.4
Money and Credit										
Net international reserves										
(US$ millions)	846	671	762	801	1,074	1,222	1,355	1,462	1,566	1,713
(Percent of M1 Plus)	127	111	114	120	159	179	196	207	218	228
(US$ millions, CBL calculation)	843	698	799	996	...	...	...	...	...	...
(Percent of M1 Plus, CBL calculation)	127	116	120	149	...	...	...	...	...	...
Domestic credit to the private sector	6.7	8.7	12.4	11.5	6.7	4.8	7.1	6.8	7.2	7.3
Reserve money	1.0	24.5	41.9	-16.2	-13.2	4.2	-0.3	4.3	0.6	-1.2
Broad money	0.0	8.7	15.2	9.4	2.2	3.4	4.2	4.8	4.6	4.6
Interest rate (percent) 3/	3.5	3.5	4.7	4.7	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Public Debt	58.0	64.4	61.5	56.8	57.0	57.1	57.6	57.7	57.7	57.7
External public debt	42.0	47.1	46.9	45.6	45.7	45.7	46.1	46.1	46.2	46.1
Domestic public debt	16.0	17.3	14.5	11.3	11.3	11.4	11.5	11.5	11.5	11.5
Central Government Fiscal Operations										
Revenue	48.8	44.4	56.7	62.5	59.6	58.8	58.8	57.1	57.4	56.6
Domestic revenue (excluding SACU transfers and grants)	*27.4*	*27.5*	*29.7*	*33.2*	*38.2*	*36.7*	*35.6*	*35.6*	*35.6*	*35.6*
SACU transfers	*16.5*	*14.0*	*24.5*	*26.1*	*19.7*	*20.4*	*21.5*	*19.8*	*20.0*	*19.1*
Grants	*4.9*	*3.0*	*2.5*	*3.3*	*1.6*	*1.6*	*1.6*	*1.7*	*1.7*	*1.8*
Recurrent expenditure	38.3	38.9	40.8	41.1	44.0	42.2	42.5	42.4	42.6	42.6
Of which: wages, including social contributions	16.9	17.6	17.0	17.0	17.6	18.0	18.2	18.2	18.2	18.2
Capital expenditure	15.4	12.0	8.6	12.4	12.7	12.9	12.9	12.9	13.0	13.1
Additional fiscal measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.9	-6.4	7.3	9.0	2.9	3.7	3.4	1.7	1.7	0.9
(excluding SACU transfers and grants)	*-26.4*	*-23.4*	*-19.6*	*-20.3*	*-18.4*	*-18.3*	*-19.8*	*-19.8*	*-20.0*	*-20.1*
Operating balance	-4.9	-6.4	7.3	9.0	2.9	3.7	3.4	1.7	1.7	0.9
Primary balance	-3.6	-4.6	9.3	11.0	4.7	5.7	5.5	3.9	4.0	3.2
(excluding SACU transfers and grants)	*-25.0*	*-21.5*	*-17.6*	*-18.4*	*-16.7*	*-16.3*	*-17.7*	*-17.6*	*-17.8*	*-17.8*
Statistical discrepancy	1.0	1.6	3.7	3.5	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Lesotho authorities, World Bank, and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ IMF Information Notice System trade-weighted; end of period.

3/ 12-month time deposits rate.

Table 2a. Lesotho: Fiscal Operations of the Central Government, 2021/22–2030/31[1]

(LSL millions)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Act.	Est.	Projections					
Revenue	**19,044**	**17,728**	**17,179**	**23,518**	**27,665**	**27,749**	**28,924**	**30,568**	**31,568**	**33,785**	**35,445**
Tax revenue 2/	7,187	7,900	8,419	9,435	10,417	10,775	11,402	12,095	12,866	13,705	14,602
Taxes on income, profits, and capital gain	3,743	4,161	4,292	4,791	5,189	5,274	5,608	5,950	6,330	6,737	7,172
Taxes on goods and services	3,444	3,739	4,128	4,644	5,228	5,500	5,794	6,144	6,535	6,968	7,429
Of which: VAT	2,995	3,122	3,551	3,715	4,309	4,534	4,792	5,086	5,410	5,770	6,154
Grants	1,051	1,771	1,155	1,024	1,440	765	809	855	959	1,021	1,137
Budget support	149	429	363	332	280	295	311	329	350	373	397
Project grants	902	1,342	792	692	1,160	471	497	526	609	648	740
Of which: MCC	0	0	0	0	0	0	0	0	0	0	0
Non-tax revenue	1,825	2,048	2,205	2,910	4,259	7,028	6,674	6,413	6,807	7,258	7,707
Property Income	625	659	712	680	1,093	760	809	861	922	988	1,058
Sales of goods and services	1,199	1,389	1,493	2,198	3,110	6,210	5,804	5,487	5,816	6,197	6,571
Of which: Water royalties	1,074	1,303	1,423	1,988	2,898	5,987	5,567	5,237	5,550	5,914	6,270
Other non-tax revenue	1	0	0	31	55	58	61	64	69	73	78
SACU transfers	8,981	6,008	5,400	10,149	11,549	9,180	10,039	11,205	10,936	11,800	12,000
Recurrent Expenditure	**14,725**	**13,922**	**15,027**	**16,919**	**18,198**	**20,475**	**20,745**	**22,081**	**23,470**	**25,092**	**26,720**
Compensation of employees	6,028	6,130	6,810	7,075	7,509	8,200	8,858	9,462	10,055	10,701	11,393
Wages and salaries	5,500	5,584	6,204	6,443	6,737	7,438	8,052	8,611	9,159	9,748	10,378
Social contributions	528	546	606	632	771	762	806	852	896	953	1,015
Use of goods and services	2,331	2,153	2,278	2,381	2,978	4,036	3,368	3,513	3,738	4,020	4,272
Contingency fund						300					
Interest payments	544	505	710	821	858	818	995	1,119	1,228	1,323	1,457
Domestic	282	267	392	464	518	507	597	684	736	793	872
External	262	238	317	357	340	311	398	435	493	529	585
Subsidies	1,041	548	522	817	752	605	644	696	744	797	869
Grants	2,001	1,650	1,754	2,111	2,401	2,794	2,655	2,795	2,956	3,144	3,339
Social benefits	1,847	1,877	1,805	2,279	2,101	2,349	2,468	2,651	2,799	3,013	3,174
Of which: Poverty-reducing social spending	0.0	0.0	569	648	691	727	768	812	864	919	979
Other expenses	934	1,060	1,149	1,435	1,600	1,673	1,757	1,846	1,950	2,093	2,215
Of which: Tertiary education loan bursary scheme	891	950	1,030	1,109	1,300	1,367	1,445	1,528	1,625	1,730	1,841
Capital Expenditure	**3,914**	**5,603**	**4,629**	**3,563**	**5,467**	**5,903**	**6,361**	**6,726**	**7,141**	**7,665**	**8,182**
Domestically financed	1,862	2,717	2,421	1,433	2,230	3,621	4,077	4,359	4,387	4,969	4,589
Externally financed	2,052	2,885	2,208	2,130	3,237	2,281	2,284	2,367	2,755	2,696	3,593
Net Lending (+)/Borrowing (–) (Overall Fiscal Balance)	**405**	**-1,797**	**-2,477**	**3,036**	**4,000**	**1,372**	**1,819**	**1,760**	**956**	**1,028**	**544**
Transactions in Financial Assets and Liabilities	**284**	**-2,177**	**-3,093**	**1,516**	**2,435**	**1,372**	**1,819**	**1,760**	**956**	**1,028**	**544**
Financial assets	111	203	-1,383	1,607	3,116	2,669	3,191	3,173	2,634	2,667	3,080
Domestic	135	203	-1,383	1,607	3,115	2,669	3,191	3,173	2,634	2,667	3,079
Deposits	160	225	-1,371	1,635	2,787	2,638	3,128	3,107	2,567	2,597	3,079
Central bank	152	45	-1,466	851	3,526	2,637	3,127	3,107	2,567	2,597	3,078
Commercial banks	8	180	96	784	-739	0	0	0	0	0	0
Loans	-25	-22	-13	-28	328	31	63	66	67	69	0
Repayments to the IMF (net of CCRT)	-25	-22	-19	-28	-27	31	63	66	67	69	0
Financial liabilities	394	2,379	1,709	91	682	1,297	1,372	1,413	1,678	1,639	2,536
Domestic	-248	1,388	1,143	-472	-313	368	500	500	550	600	750
of which: banks (securities)	-211	707	168	-832	-212	-100	-100	0	-100	-100	-100
of which: banks (loans)	-7	-4	-4	-4	-4	0	0	0	0	0	0
of which: Change in domestic arrears	-279	-71	206	-119	-605	-132	0	0	0	0	0
Foreign	642	991	566	564	995	929	872	913	1,128	1,039	1,786
Disbursements	1,150	1,543	1,415	1,438	2,077	1,811	1,787	1,842	2,095	2,048	2,802
of which: G20 DSSI	88	0	0	0	0	0	0	0	0	0	0
of which: World Bank COVID-19 EPRP	148	0	0	0	0	0	0	0	0	0	0
Amortization	-507	-552	-850	-874	-1,082	-882	-915	-929	-968	-1,009	-1,017
CCRT	0.0	78	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	689	379	616	1,520	1,565	0	0	0	0	0	0
Memorandum Items:											
Domestic revenue (tax and nontax revenue)	9,012	9,948	10,625	12,345	14,675	17,804	18,076	18,508	19,673	20,964	22,308
Recurrent expenditure (excluding interest payments)	14,181	13,417	14,318	16,098	17,340	19,656	19,750	20,962	22,242	23,769	25,263
Social spending	2,738	2,827	2,835	3,388	3,401	3,717	3,914	4,179	4,424	4,742	5,015
Stock of arrears	721	650	856	737	132	0	0	0	0	0	0

Sources: Lesotho authorities and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ Other taxes are not shown in the table.

Table 2b. Lesotho: Fiscal Operations of the Central Government, 2021/22–2030/31[1]
(Percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Act.	Est.	Projections					
Revenue	**55.6**	**48.8**	**44.4**	**56.7**	**62.5**	**59.6**	**58.8**	**58.8**	**57.1**	**57.4**	**56.6**
Tax revenue 2/	21.0	21.8	21.8	22.7	23.5	23.1	23.2	23.3	23.3	23.3	23.3
Taxes on income, profits, and capital gain	10.9	11.5	11.1	11.5	11.7	11.3	11.4	11.4	11.4	11.4	11.4
Taxes on goods and services	10.1	10.3	10.7	11.2	11.8	11.8	11.8	11.8	11.8	11.8	11.9
Of which: VAT	8.7	8.6	9.2	9.0	9.7	9.7	9.7	9.8	9.8	9.8	9.8
Grants	3.1	4.9	3.0	2.5	3.3	1.6	1.6	1.6	1.7	1.7	1.8
Budget Support	0.4	1.2	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Project grants	2.6	3.7	2.0	1.7	2.6	1.0	1.0	1.0	1.1	1.1	1.2
Of which: MCC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	5.3	5.6	5.7	7.0	9.6	15.1	13.6	12.3	12.3	12.3	12.3
Property Income	1.8	1.8	1.8	1.6	2.5	1.6	1.6	1.7	1.7	1.7	1.7
Sales of goods and services	3.5	3.8	3.9	5.3	7.0	13.3	11.8	10.5	10.5	10.5	10.5
Of which: Water royalties	3.1	3.6	3.7	4.8	6.5	12.9	11.3	10.1	10.0	10.0	10.0
Other non-tax revenue	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
SACU transfers	26.2	16.5	14.0	24.5	26.1	19.7	20.4	21.5	19.8	20.0	19.1
Recurrent Expenditure	**43.0**	**38.3**	**38.9**	**40.8**	**41.1**	**44.0**	**42.2**	**42.5**	**42.4**	**42.6**	**42.6**
Compensation of employees	17.6	16.9	17.6	17.0	17.0	17.6	18.0	18.2	18.2	18.2	18.2
Wages and salaries	16.1	15.4	16.0	15.5	15.2	16.0	16.4	16.6	16.6	16.6	16.6
Social contributions	1.5	1.5	1.6	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Use of goods and services	6.8	5.9	5.9	5.7	6.7	8.7	6.8	6.8	6.8	6.8	6.8
Contingency fund						0.6					
Interest payments	1.6	1.4	1.8	2.0	1.9	1.8	2.0	2.2	2.2	2.2	2.3
Domestic	0.8	0.7	1.0	1.1	1.2	1.1	1.2	1.3	1.3	1.3	1.4
External	0.8	0.7	0.8	0.9	0.8	0.7	0.8	0.8	0.9	0.9	0.9
Subsidies	3.0	1.5	1.3	2.0	1.7	1.3	1.3	1.3	1.3	1.4	1.4
Grants	5.8	4.5	4.5	5.1	5.4	6.0	5.4	5.4	5.3	5.3	5.3
Social benefits	5.4	5.2	4.7	5.5	4.7	5.0	5.0	5.1	5.1	5.1	5.1
Of which, Poverty-reducing social spending	0.0	0.0	*1.5*	*1.6*	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other expenses	2.7	2.9	3.0	3.5	3.6	3.6	3.6	3.5	3.5	3.6	3.5
Of which: Tertiary education loan bursary scheme	2.6	2.6	2.7	2.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Capital Expenditure	**11.4**	**15.4**	**12.0**	**8.6**	**12.4**	**12.7**	**12.9**	**12.9**	**12.9**	**13.0**	**13.1**
Domestically financed	5.4	7.5	6.3	3.5	5.0	7.8	8.3	8.4	7.9	8.4	7.3
Externally financed	6.0	7.9	5.7	5.1	7.3	4.9	4.6	4.6	5.0	4.6	5.7
Net Lending (+)/Borrowing (-) (Overall Fiscal Balance	**1.2**	**-4.9**	**-6.4**	**7.3**	**9.0**	**2.9**	**3.7**	**3.4**	**1.7**	**1.7**	**0.9**
Transactions in Financial Assets and Liabilities	**0.8**	**-6.0**	**-8.0**	**3.7**	**5.5**	**2.9**	**3.7**	**3.4**	**1.7**	**1.7**	**0.9**
Financial assets	0.3	0.6	-3.6	3.9	7.0	5.7	6.5	6.1	4.8	4.5	4.9
Domestic	0.4	0.6	-3.6	3.9	7.0	5.7	6.5	6.1	4.8	4.5	4.9
Deposits	0.5	0.6	-3.5	3.9	6.3	5.7	6.4	6.0	4.6	4.4	4.9
Central bank	0.4	0.1	-3.8	2.1	8.0	5.7	6.4	6.0	4.6	4.4	4.9
Commercial banks	0.0	0.5	0.2	1.9	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.1	-0.1	0.0	-0.1	0.7	0.1	0.1	0.1	0.1	0.1	0.0
Repayment to IMF (net of CCRT)	-0.1	-0.1	-0.1	-0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.0
Financial liabilities	1.2	6.6	4.4	0.2	1.5	2.8	2.8	2.7	3.0	2.8	4.0
Domestic	-0.7	3.8	3.0	-1.1	-0.7	0.8	1.0	1.0	1.0	1.0	1.2
of which: banks (securities)	-0.6	1.9	0.4	-2.0	-0.5	-0.2	-0.2	0.0	-0.2	-0.2	-0.2
of which: banks (loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Change in domestic arrears	-0.8	-0.2	0.5	-0.3	-1.4	-0.3	0.0	0.0	0.0	0.0	0.0
Foreign	1.9	2.7	1.5	1.4	2.2	2.0	1.8	1.8	2.0	1.8	2.8
Disbursements	3.4	4.3	3.7	3.5	4.7	3.9	3.6	3.5	3.8	3.5	4.5
of which: G20 DSSI	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.5	-1.5	-2.2	-2.1	-2.4	-1.9	-1.9	-1.8	-1.7	-1.7	-1.6
CCRT	…	0.2	…	…	…	…	…	…	…	…	…
Statistical discrepancy	0.4	1.0	1.6	3.7	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Domestic revenue (tax and nontax revenue)	26.3	27.4	27.5	29.7	33.2	38.2	36.7	35.6	35.6	35.6	35.6
Recurrent expenditure (excluding interest payments)	41.4	37.0	37.0	38.8	39.2	42.2	40.1	40.3	40.2	40.4	40.3
Social spending	8.0	7.8	7.3	8.2	7.7	8.0	8.0	8.0	8.0	8.1	8.0
Stock of arrears	2.1	1.8	2.2	1.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Lesotho authorities and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ Other taxes are not shown in the table.

Table 3a. Lesotho: Monetary Accounts, 2021/22–2030/31[1]
(LSL millions, unless otherwise indicated)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
I. Monetary Survey										
Net foreign assets	16,582	17,773	21,628	24,873	27,518	30,845	34,158	37,019	39,934	43,136
Central bank	10,319	10,000	11,985	15,707	18,328	21,631	25,020	27,857	30,748	33,927
Commercial banks	6,263	7,773	9,643	9,166	9,190	9,214	9,138	9,162	9,186	9,210
Net domestic assets	-2,505	-939	-3,257	-5,481	-7,801	-10,459	-12,917	-14,764	-16,647	-18,768
Claims on central government (net)	-2,853	-1,414	-3,918	-6,919	-9,656	-12,884	-15,991	-18,658	-21,355	-24,534
Central bank	-3,602	-2,236	-3,125	-6,653	-9,290	-12,417	-15,525	-18,091	-20,688	-23,767
Commercial banks	749	822	-793	-266	-366	-467	-467	-567	-667	-767
Claims on private sector	7,961	8,656	9,727	10,844	11,574	12,135	12,995	13,879	14,873	15,963
Other items (net)	-7,827	-8,533	-9,419	-10,550	-10,922	-10,982	-11,265	-11,414	-11,687	-11,818
Broad money (M2)	14,077	15,307	17,637	19,292	19,716	20,386	21,241	22,255	23,286	24,369
Currency outside banks	1,207	1,480	1,607	1,431	1,462	1,512	1,575	1,651	1,727	1,807
Deposits	12,870	13,827	16,030	17,861	18,254	18,874	19,666	20,604	21,559	22,561
II. Central Bank										
Net foreign assets	10,319	10,000	11,985	15,707	18,328	21,631	25,020	27,857	30,748	33,927
Gross reserves	13,166	12,565	15,224	18,438	21,159	24,452	27,859	30,694	33,744	36,923
Net domestic assets	-8,294	-7,479	-8,406	-12,710	-15,728	-18,922	-22,318	-25,039	-27,912	-31,123
Claims on central government (net)	-3,602	-2,236	-3,125	-6,653	-9,290	-12,417	-15,525	-18,091	-20,688	-23,767
Claims on private sector	113	164	180	202	213	225	238	253	269	286
Other items (net) 2/	-6,510	-7,704	-7,964	-7,961	-6,650	-6,729	-7,031	-7,200	-7,492	-7,642
Reserve money	2,025	2,522	3,579	2,997	2,601	2,709	2,702	2,818	2,836	2,804
Currency in circulation	1,575	1,940	2,120	1,866	1,908	1,972	2,055	2,153	2,253	2,358
Commercial bank deposits	449	580	1,456	1,128	693	737	647	665	583	446
Liabilities to other sectors	2	2	3	3	0	0	0	0	0	0
Memorandum Items:	(12-month percent change, unless otherwise indicated)									
Reserve money	1.0	24.5	41.9	-16.2	-13.2	4.2	-0.3	4.3	0.6	-1.2
Broad money	0.0	8.7	15.2	9.4	2.2	3.4	4.2	4.8	4.6	4.6
Narrow money (M1, percentage change)	-3.2	-3.9	33.7	5.6	2.2	3.4	4.2	4.8	4.6	4.6
Narrow money (M1)	6,642	6,382	8,531	9,011	9,208	9,521	9,920	10,394	10,875	11,381
Credit to the private sector (percentage change)	6.7	8.7	12.4	11.5	6.7	4.8	7.1	6.8	7.2	7.3
Credit to the private sector (percent of GDP)	21.9	22.4	23.4	24.5	24.9	24.7	25.0	25.1	25.3	25.5
Velocity (GDP/broad money)	2.6	2.5	2.4	2.3	2.4	2.4	2.4	2.5	2.5	2.6
Net international reserves	12,330	11,933	14,493	15,421	20,904	24,261	27,733	30,636	33,756	36,934
(percent of domestic currency deposits)	50.7	44.7	41.8	…	…	…	…	…	…	…

Sources: Lesotho authorities and IMF staff calculations.
1/ The fiscal year runs from April 1 to March 31.
2/ Including valuation changes.

Table 3b. Lesotho: Monetary Accounts, 2021/22–2030/31[1]
(Percent of GDP, unless otherwise indicated)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
				I. Monetary Survey						
Net foreign assets	45.7	46.0	52.1	56.2	59.1	62.7	65.7	66.9	67.8	68.8
Central bank	28.4	25.9	28.9	35.5	39.4	44.0	48.1	50.4	52.2	54.1
Commercial banks	17.2	20.1	23.2	20.7	19.7	18.7	17.6	16.6	15.6	14.7
Net domestic assets	-6.9	-2.4	-7.8	-12.4	-16.8	-21.3	-24.8	-26.7	-28.3	-29.9
Claims on central government (net)	-7.9	-3.7	-9.4	-15.6	-20.7	-26.2	-30.7	-33.7	-36.3	-39.1
Central bank	-9.9	-5.8	-7.5	-15.0	-20.0	-25.2	-29.8	-32.7	-35.1	-37.9
Commercial banks	2.1	2.1	-1.9	-0.6	-0.8	-0.9	-0.9	-1.0	-1.1	-1.2
Claims on private sector	21.9	22.4	23.4	24.5	24.9	24.7	25.0	25.1	25.3	25.5
Other items (net)	-21.6	-22.1	-22.7	-23.8	-23.5	-22.3	-21.7	-20.6	-19.8	-18.9
Broad money (M2)	38.8	39.6	42.5	43.6	42.4	41.4	40.8	40.2	39.5	38.9
Currency outside banks	3.3	3.8	3.9	3.2	3.1	3.1	3.0	3.0	2.9	2.9
Deposits	35.4	35.8	38.6	40.4	39.2	38.4	38	37	37	36
				II. Central Bank						
Net foreign assets	28.4	25.9	28.9	35.5	39.4	44.0	48.1	50.4	52.2	54.1
Gross reserves	36.3	32.5	36.7	41.7	45.4	49.7	53.6	55.5	57.3	58.9
Net domestic assets	-22.8	-19.3	-20.3	-28.7	-33.8	-38.5	-42.9	-45.3	-47.4	-49.7
Claims on central government (net)	-9.9	-5.8	-7.5	-15.0	-20.0	-25.2	-29.8	-32.7	-35.1	-37.9
Claims on private sector	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other items (net) 2/	-17.9	-19.9	-19.2	-18.0	-14.3	-13.7	-13.5	-13.0	-12.7	-12.2
Reserve money	5.6	6.5	8.6	6.8	5.6	5.5	5.2	5.1	4.8	4.5
Currency in circulation	4.3	5.0	5.1	4.2	4.1	4.0	4.0	3.9	3.8	3.8
Commercial bank deposits	1.2	1.5	3.5	2.6	1.5	1.5	1.2	1.2	1.0	0.7
Liabilities to other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:		(12-month percent change, unless otherwise indicated)								
Reserve money	1.0	24.5	41.9	-16.2	-13.2	4.2	-0.3	4.3	0.6	-1.2
Broad money	0.0	8.7	15.2	9.4	2.2	3.4	4.2	4.8	4.6	4.6
Narrow money (M1, percentage change)	-3.2	-3.9	33.7	5.6	2.2	3.4	4.2	4.8	4.6	4.6
Narrow money (M1)	18.3	16.5	20.6	20.4	19.8	19.3	19.1	18.8	18.5	18.2
Credit to the private sector (percentage change)	6.7	8.7	12.4	11.5	6.7	4.8	7.1	6.8	7.2	7.3
Credit to the private sector	21.9	22.4	23.4	24.5	24.9	24.7	25.0	25.1	25.3	25.5
Velocity (GDP/broad money)	2.6	2.5	2.4	2.3	2.4	2.4	2.4	2.5	2.5	2.6
Net international reserves	34.0	30.9	34.9	34.9	44.9	49.3	53.3	55.4	57.3	58.9
(percent of domestic currency deposits)	50.7	44.7	...	...	...	...	...	...	...	...

Sources: Lesotho authorities and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ Including valuation changes.

Table 4a. Lesotho: Balance of Payments, 2021/22–2030/31[1]
(US$ millions, unless otherwise indicated)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
Current Account	**-222**	**-319**	**-19**	**52**	**-92**	**-60**	**-70**	**-95**	**-69**	**-35**
Current account (excluding LHWP-II)	**-167**	**-248**	**87**	**239**	**50**	**45**	**35**	**-34**	**-50**	**-27**
Trade balance	-750	-774	-724	-718	-747	-767	-833	-854	-845	-885
Exports, f.o.b.	1,111	975	907	854	892	845	823	854	917	988
Imports, f.o.b	1,861	1,749	1,632	1,572	1,639	1,612	1,656	1,708	1,762	1,873
Services (net)	-405	-418	-388	-389	-395	-398	-400	-402	-415	-424
Primary income (net)	434	468	472	495	512	530	546	567	577	614
Secondary income (net)	499	404	621	664	537	574	617	593	613	660
Official transfers	447	357	579	623	496	531	573	549	568	612
Of which: SACU transfers	405	318	542	600	471	506	548	522	547	557
Other transfers	52	46	42	41	42	43	44	45	46	48
Capital Account	**131**	**229**	**263**	**324**	**165**	**143**	**143**	**103**	**62**	**53**
Financial Account 2/	**-100**	**105**	**217**	**-18**	**-63**	**-74**	**-79**	**-114**	**-128**	**-125**
Foreign direct investment	36	-17	41	8	-12	-12	-13	-13	-23	-24
Portfolio investment	-19	46	75	73	61	58	59	62	59	63
Other investment	-117	77	101	-100	-112	-120	-126	-163	-164	-164
Of which:										
Public sector	-67	-33	-30	-52	-48	-44	-45	-54	-48	-83
Disbursements	104	83	77	108	93	90	90	100	95	130
Central government	99	83	77	108	93	90	90	100	95	130
Amortization	37	50	47	56	45	46	45	46	47	47
Errors and Omissions	**-42**	**167**	**27**	**-216**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**-33**	**-29**	**54**	**178**	**135**	**158**	**152**	**122**	**120**	**143**
Financing	**33**	**29**	**-54**	**-178**	**-135**	**-158**	**-152**	**-122**	**-120**	**-143**
Net official reserve movements (+ increase)	-38	-29	54	178	135	158	152	122	120	143
SDR allocation	94	0	0	0	0	0	0	0	0	0
Other reserves	-132	-29	54	178	135	158	152	122	120	143
Exceptional financing	5	0	0	0	0	0	0	0	0	0
IMF RCF/RFI	0	0	0	0	0	0	0	0	0	0
G20 DSSI	0	0	0	0	0	0	0	0	0	0
IMF CCRT	5	0	0	0	0	0	0	0	0	0
World Bank COVID-19 EPRP	0	0	0	0	0	0	0	0	0	0
Memorandum Items:										
Nominal GDP	2,445	2,275	2,215	2,298	2,391	2,478	2,542	2,640	2,731	2,908
Gross international reserves										
(US$ millions)	903	707	800	958	1,087	1,232	1,362	1,465	1,561	1,703
(excluding LHWP-II, months of imports)	4.4	4.2	5.3	5.9	6.7	7.3	7.7	7.9	8.1	8.4
Net international reserves										
(US$ millions)	846	671	762	801	1,074	1,222	1,355	1,462	1,566	1,713
(excluding LHWP-II, months of imports)	4.1	4.0	5.0	5.8	6.6	7.2	7.7	7.8	8.1	8.4
Remittances	489	503	461	454	469	486	501	520	528	562
Exports of goods and services (percentage change)	34.8	-12.4	-7.0	-5.9	4.4	-5.1	-2.6	3.8	7.4	7.6
Imports of goods and services (excluding LHWP-II, percentage change)	13.9	-5.4	-8.7	-7.3	7.4	-0.1	2.5	4.9	5.3	6.1

Sources: Lesotho authorities and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ Negative sign indicates net inflows.

Table 4b. Lesotho: Balance of Payments, 2021/22–2030/31[1]

(Percent of GDP, unless otherwise indicated)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Act.	Act.	Act.	Est.	Projections					
Current Account	-9.1	-14.0	-0.8	2.3	-3.9	-2.4	-2.7	-3.6	-2.5	-1.2
Current account (excluding LHWP-II)	-6.8	-10.9	3.9	10.4	2.1	1.8	1.4	-1.3	-1.8	-0.9
Trade balance	-30.7	-34.0	-32.7	-31.2	-31.2	-30.9	-32.8	-32.3	-30.9	-30.4
Exports, f.o.b.	45.5	42.9	41.0	37.2	37.3	34.1	32.4	32.4	33.6	34.0
Imports, f.o.b	76.1	76.9	73.7	68.4	68.6	65.0	65.2	64.7	64.5	64.4
Services (net)	-16.6	-18.4	-17.5	-16.9	-16.5	-16.0	-15.7	-15.2	-15.2	-14.6
Primary income (net)	17.8	20.6	21.3	21.5	21.4	21.4	21.5	21.5	21.1	21.1
Secondary income (net)	20.4	17.7	28.1	28.9	22.5	23.1	24.3	22.5	22.4	22.7
Official transfers	18.3	15.7	26.1	27.1	20.7	21.4	22.6	20.8	20.8	21.1
Of which: SACU transfers	16.5	14.0	24.5	26.1	19.7	20.4	21.5	19.8	20.0	19.1
Other transfers	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.6
Capital Account	**5.4**	**10.1**	**11.9**	**14.1**	**6.9**	**5.8**	**5.6**	**3.9**	**2.3**	**1.8**
Financial Account 2/	**-4.1**	**4.6**	**9.8**	**-0.8**	**-2.6**	**-3.0**	**-3.1**	**-4.3**	**-4.7**	**-4.3**
Foreign direct investment	1.5	-0.8	1.9	0.4	-0.5	-0.5	-0.5	-0.5	-0.8	-0.8
Portfolio investment	-0.8	2.0	3.4	3.2	2.5	2.3	2.3	2.3	2.2	2.2
Other investment	-4.8	3.4	4.5	-4.3	-4.7	-4.8	-4.9	-6.2	-6.0	-5.6
Of which:										
Public sector	-2.7	-2.2	-4.0	-4.1	-3.4	-1.9	-1.4	-2.4	-3.4	-4.5
Disbursements	4.2	4.3	6.1	6.6	5.3	3.8	3.2	4.2	5.2	6.2
Central government	4.2	4.3	6.1	6.6	5.3	3.8	3.2	4.2	5.2	6.2
Amortization	1.5	2.2	2.1	2.4	1.9	1.9	1.8	1.7	1.7	1.6
Errors and Omissions	**-1.7**	**7.3**	**1.2**	**-9.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-1.3**	**-1.3**	**2.4**	**7.7**	**5.7**	**6.4**	**6.0**	**4.6**	**4.4**	**4.9**
Financing	**1.3**	**1.3**	**-2.4**	**-7.7**	**-5.7**	**-6.4**	**-6.0**	**-4.6**	**-4.4**	**-4.9**
Net official reserve movements (+ increase)	-1.6	-1.3	2.4	7.7	5.7	6.4	6.0	4.6	4.4	4.9
SDR allocation	3.8	0.0	0.0	…	…	…	…	…	…	…
Other reserves	-5.4	-1.3	2.4	7.7	5.7	6.4	6.0	4.6	4.4	4.9
Exceptional financing	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF RCF/RFI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
G20 DSSI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF CCRT	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank COVID-19 EPRP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Nominal GDP (US$ millions)	2,445	2,275	2,215	2,298	2,391	2,478	2,542	2,640	2,731	2,908
Gross international reserves	36.9	31.1	36.1	41.7	45.4	49.7	53.6	55.5	57.1	58.6
Net international reserves	34.6	29.5	34.4	34.9	44.9	49.3	53.3	55.4	57.3	58.9
Remittances	20.0	22.1	20.8	19.8	19.6	19.6	19.7	19.7	19.3	19.3

Sources: Lesotho authorities and IMF staff calculations.

1/ The fiscal year runs from April 1 to March 31.

2/ Negative sign indicates net inflows.

Table 5. Lesotho: Financial Soundness Indicators, 2018–2025[1]

(Percent, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
Banking Indicators								
Capital Adequacy								
Capital to assets	10.3	10.4	11.3	10.9	12.5	9.5	11.2	11.1
Regulatory capital to risk-weighted assets	17.9	19.4	23.0	22.4	24.0	17.2	16.0	15.3
Regulatory tier I capital to risk-weighted assets	20.2	21.7	24.9	24.4	25.6	17.6	15.0	14.3
Nonperforming loans net of provisions to capital	7.5	6.4	5.4	6.8	6.0	6.6	5.9	7.1
Asset Quality								
Large exposure to capital	93.6	96.2	76.1	64.5	66.8	85.4	61.7	58.3
Nonperforming loans to total gross loans	3.7	3.3	4.2	4.1	4.3	3.8	4.3	4.8
Bank provisions to nonperforming loans	51.9	55.6	63.1	53.5	61.2	54.2	55.7	53.8
Earnings and Profitability								
Trading income to total income	3.8	3.9	4.3	4.4	5.0	4.2	3.1	2.2
Return on assets	3.8	4.2	2.3	2.5	2.5	3.4	3.2	2.7
Return on equity	23.6	23.4	12.3	12.7	12.5	19.0	18.8	15.6
Interest margin to gross income	60.4	58.5	56.1	54.1	56.3	56.3	56.6	53.2
Noninterest expenses to gross income	60.7	58.0	65.6	66.8	69.2	64.1	62.8	63.7
Personnel expenses to noninterest expenses	40.6	43.2	40.8	40.0	40.8	40.0	40.6	41.8
Liquidity								
Liquid assets to total assets	37.4	26.7	30.0	30.8	20.6	30.5	23.1	21.9
Liquid assets to short-term liabilities	53.9	39.4	43.7	44.8	30.3	42.6	33.1	32.7
Customer deposits to total (non-interbank) loans	166.1	145.0	170.5	167.9	153.9	170.0	164.6	166.2
Exposure to Foreign Exchange Risk								
Net open position in foreign exchange to capital	353.9	293.7	321.6	326.0	232.5	368.0	246.0	259.5
Foreign currency-denominated loans to total loans	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Foreign currency-denominated liabilities to total liabilities	41.6	40.8	32.3	23.6	38.3	31.2	27.1	136.3

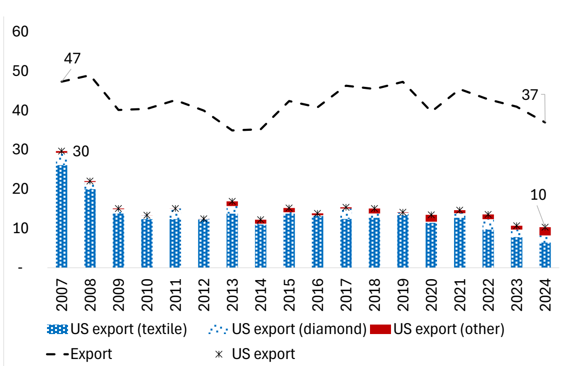
Sources: Lesotho authoritie and IMF staff calculations.

[1] This table is based on calendar years.

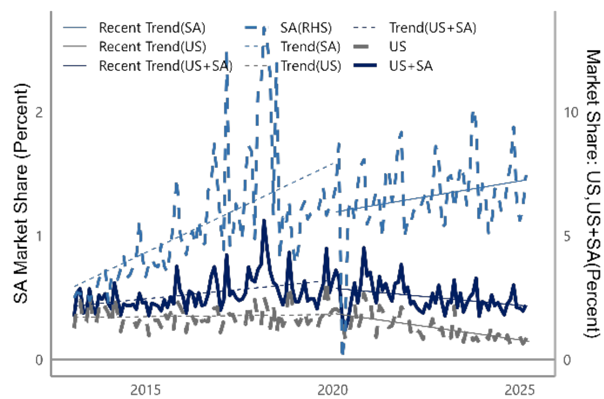
Annex I. U.S. Tariff Shock: Impact and Challenges Ahead

1. **Lesotho is facing a historic shock following the recent shift in US trade policy, given that exports to the US account for about 10 percent of GDP and are centered on the low-margin garment sector.** Staff's baseline projections take external policies on a real-time current-policy basis, so that the latest August 7 tariff increase to 15 percent is assumed to stay in place. In this regard, however, the direction of US tariff policy is still uncertain. New orders for the US market essentially halted with the proposed introduction of a prohibitive 50 percent tariff in April, and failed to resume even with interim rates of 10 percent during the negotiation phase. Under the baseline, the threat of the 50 percent tariff remains—the uncertainty associated with this threat is assumed to continue for another two years, and significant new orders are unlikely to resume until the uncertainty is lifted. Moreover, exports to the United States were already struggling under the zero-tariff framework of the African Growth and Opportunity Act (AGOA), so it is unclear that these exports will recover significantly even under a more settled 15–percent scenario, especially with a fixed exchange rate and the likely relocation of production to competing locations in the meantime. This suggests that the baseline outlook is still practically equivalent to a prohibitive-tariff scenario, in which high tariffs prompt a frontloaded, sizable, and ultimately permanent drop in garment exports to the United States.

US Exports, 2007–24
(Percent of GDP)



Lesotho's Textile Exports: Market Share 2013–25
(Percent Market Share)



Sources: Haver and IMF staff calculations.

Background

2. **Lesotho's exports have traditionally concentrated on the textile sector, with garment factories primarily focusing on low-cost apparel—for example denim jeans for US brands.** Duty- and quota-free market access to the US under AGOA, combined with low wages and an ample pool of English-speaking labor, has long attracted foreign investment aimed at quickly establishing production facilities. The prevailing business model has focused on fulfilling large-volume, standardized orders with long lead times.

3. Since the COVID-19 Pandemic, however, Lesotho's dependence on the US market has declined steadily due to (i) a reduction in Lesotho's US market share; and (ii) some degree of product diversification (e.g., into diamonds). Meanwhile, Lesotho's market share in South Africa has increased, although not sufficiently to offset losses in the US market.

Impact of a Threatened Prohibitive Tariff Shock

A 50 percent tariff would have a substantial impact:

- Even prior to the US announcements on April 2, Lesotho had been losing market share to competitors that have been able to either (i) overcome their AGOA disadvantage through scale efficiencies (Lao PDR, Cambodia) or product sophistication (Turkey); or (ii) enjoyed similar tariff preferences (Ghana and Kenya).

- The 50 percent tariff would leave Lesotho significantly disadvantaged—especially relative to regional peers (Ghana and Kenya).

- Given the footloose nature of low-cost, high-volume garment production, foreign investors are able to relocate quickly.

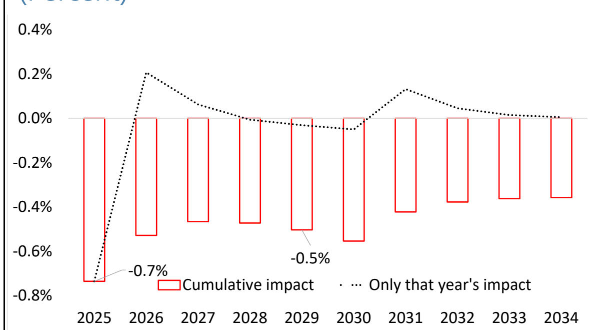
Staff analysis of a prohibitive (50-percent) tariff scenario suggests the following:

- **Exports:** Based on global elasticity estimates, Lesotho's exports to the US could decline by 50 percent within a year and 70 percent over the medium term. This is perhaps conservative, as the actual response may not be as smooth or as linear as suggested by standard models.

- **Growth:** This would result in a durable reduction of approximately 0.5 percentage point in real GDP growth, in the absence of a successful reorientation of exports to other markets, and the emergence of new export products.

GDP Effect of Export Shock (50 Percent Tariff Scenario)

(Percent)



Sources: Haver and IMF staff calculations.

1/ GDP impulse is estimated based on an optimal ARDL model using export, US GDP, SA GDP as independent variables.

Challenges Ahead

Mitigating the impact of the shock will require targeted and sustained policy responses:

- **Fiscal policy:** As discussed (¶39), structural fiscal reforms can support growth by improving budget execution of public investment, with particular payoffs from high quality, investment-catalyzing infrastructure.

- **Diversification strategy:** Lesotho should also leverage its duty-free access to the EU market under the 'Everything But Arms (EBA)' initiative. To date, the textile sector has struggled to penetrate the EU market, which favors suppliers able to deliver smaller batches of higher-value, niche products with shorter turnaround times. International evidence (Turkey, India) suggests that moving to such a model will require significant investment and new capacity. Accessing AfCFTA also requires similar efforts. Structural reforms will be essential to enable this transformation.

Annex II. Official Development Assistance: Sensitivity Analysis[1]

1. A simple analytical framework can help estimate the immediate impact of aid withdrawal on the external and fiscal balances of a country, as well as on GDP growth. For Lesotho, a key disruption has been the suspension of assistance from the United States Agency for International development (USAID). Many USAID programs have been curtailed and details on their possible resumption remain unclear. Other channels (for instance, through the Millennium Challenge Corporation) may also be affected, but these are less firm at this stage.

2. Main assumptions: USAID employs various aid delivery methods for different countries, including direct implementation through government, and indirect delivery via Non-Governmental Organizations (NGOs) or Multilateral Development Agencies (MDAs). To analyze the impact of a potential aid withdrawal, we make the following assumptions:

- "***A***" is the amount of aid withdrawn. From official US data, the amount foreign assistance to Lesotho funded or managed by USAID is about $45 million (2 percent of GDP).
- "***g***" is the share of the aid financing implemented directly through the government budget. According to US data, all USAID assistance to Lesotho is provided indirectly, off budget.
- "***i***" is the estimated share of imports induced by the aid flows, proxied by the ratio of imported goods and services to total absorption. In Lesotho, this is about 62 percent.
- "***h***" is the share of the support that the authorities intend to replace. This ratio will depend on the ability to scale up local capacity, to mobilize financial resources, and the cost of replacing impacted services (with less international overhead, replacement costs may be lower). As such, this ratio is relatively uncertain, and so is the key focus of staff's sensitivity analysis.

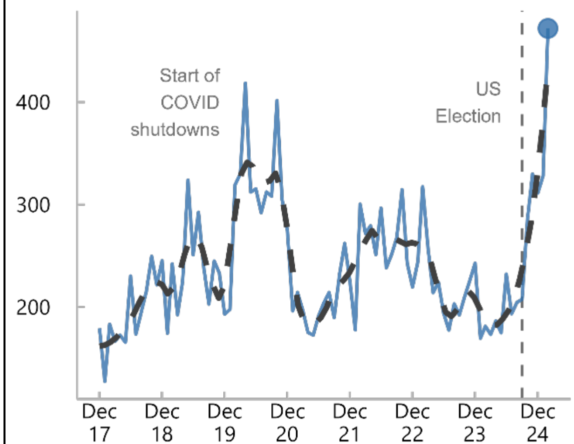
3. Sectoral impact of USAID withdrawal:

- **Fiscal Impact:** Aid withdrawals would reduce *both* total revenue (including grants) *and* foreign-financed capital spending by $g \times A$ (the part recorded in the budget), leaving the fiscal deficit unchanged. However, with the government replacing some USAID activities, domestically financed spending would increase by $h \times A$, leading to an equivalent increase in the fiscal deficit.
- **Balance of Payments (BoP) Impact:** Aid withdrawals would reduce secondary income by the total aid amount (A). Imports induced by the aid implemented by the government would change by $(-g+h) \times i \times A$, and by $-(1-g) \times i \times A$ from those implemented off budget by NGOs/MDAs. The combined impact on imports would be $(1-h) \times i \times A$, so that the total impact on the current account would be a deterioration of $[1-(1-h) \times i] \times A$
- **Impact on the Real Sector:** Aid withdrawals would reduce public and private consumption and investment by $(1-h) \times A$. Imports would decline by $(1-h) \times i \times A$. The combined negative effect on output would amount to $[(h-1)+(1-h) \times i] \times A = -(1-h) \times (1-i) \times A$.

[1] Based on analysis from the IMF's Strategy, Policy, and Review Department.

Annex III. Simulating the Impact of Increased Global Uncertainty

Global Economic Policy Uncertainty
(index, 1997-2015 = 100)



Sources: Baker, Scott R.; Bloom, Nick; Davis, Stephen J. via FRED®

1. **The upturn in global uncertainty has led to a spike in volatility for risky assets worldwide.** As a result, market participants are reassessing their strategies towards emerging and developing markets. An ongoing concern is that another unexpected shock may trigger a sudden flight to safety accompanied by a further tightening of global financial conditions, with important consequences for sub-Saharan Africa.

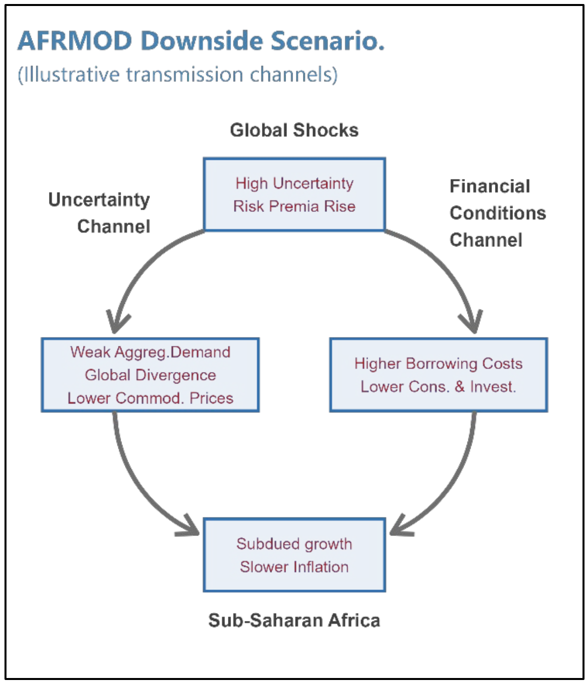
2. **The IMF's AFRMOD model—a module of the Flexible System of Global Models (Andrle and others 2015)—was used to quantify the impact on sub-Saharan Africa of a downside scenario that focuses in particular on a rise in uncertainty.** In the scenario, trade policy uncertainty deepens, divergence among the largest economies (China, Euro Area, United States) becomes more marked, and global financial conditions tighten. [1] From the tariffs/uncertainty channel, real investment drops in advanced economies, which leads to a decline in aggregate demand and commodity prices, with consequences for sub-Saharan Africa's export demand and terms of trade. **A second layer focuses on tighter financial conditions, including an increase in sovereign and corporate risk premiums**.[2] The tighter financial conditions last for two years. Elevated funding pressures are an especially significant risk for sub-Saharan Africa, as additional liquidity shortages and higher funding costs might potentially become solvency concerns, if they were to persist.

3. **Relative to the baseline, model simulations point to a substantial impact on regional activity, with larger effects for resource-intensive countries.** Over 2025–26, economic activity in sub-Saharan Africa would be lower by about 2 percent, owing to weaker external demand, investment uncertainty, and tighter financing conditions. Those negative effects would be larger and more persistent for oil exporters, for which economic activity could be weaker by up to 3 percentage points over the medium term. In tandem, however, lower growth and commodity prices would

[1] The shock to policy uncertainty is equivalent to a three-standard deviation increase in the global economic policy measure in Davis (2016), about 50 percent larger than the spike observed in 2018–19.

[2] This layer has an increase of 50 basis points in sovereign premiums for all emerging markets (excluding-China) and another 100 basis points increase for sub-Saharan African countries. For corporate risk premiums, the layer includes an increase of 25 basis points for advanced economies and China, and 100 basis points for all other countries. In addition, this layer includes a decline in global asset prices, which provides an additional negative impact on private consumption/investment.

reduce inflationary pressures—outweighing the impact of further depreciation on prices—and would prompt headline inflation to ease by about 2 percentage points by 2026.



4. For Lesotho, the impact of the scenario would be muted slightly, mirroring similar resilience in South Africa. Growth in Lesotho could be an additional 0.9 percentage point lower over 2025–26, implying a cumulative output loss of 1.7 percent by 2026 before gradually returning to the baseline path. Despite an initial nominal depreciation, inflationary pressures in both South Africa and Lesotho would be lower, prompting a drop in headline inflation of almost 2 percentage points by 2026, before recovering gradually.

Annex IV. Implementation of 2024 Article IV Recommendations

Recommendation	Status of Implementation
Build fiscal buffers	The authorities have recently advanced a rules-based fiscal framework outlined in a policy paper, which includes a debt rule and a structural balance rule. However, the legal underpinning for the framework, embedded in the Public Financial Management Act (PFMA) Bill, remains stalled in the legislative process. Efforts to operationalize a stabilization fund are at an early stage. As reserves continue to accumulate, a comprehensive reserve management strategy and a clear plan for the use of fiscal savings—such as reducing costly domestic debt—have yet to be finalized. The moratorium on public sector hiring has remained in effect, while transition to performance-based pay which will eliminate the automatic non-merit ("notch") increases is slowly progressing with the support of the World Bank. The capital budget continues to under-execute, and the authorities have completed a Public Expenditure and Financial Accountability (PEFA) assessment and will receive a Public Investment Management Assessment (PIMA) to identify reform priorities. The Tax Policy Unit was established, with essential staff recruited. The efficiency of social spending remains a key policy challenge, particularly in light of the recent adverse shock to the textile sector. The authorities have not yet advanced reforms to improve the targeting of social assistance, although the National Information System for Social Assistance (NISSA) holds potential to address existing inefficiencies in safety net programs and strengthen support for the most vulnerable.
Strengthen PFM	The authorities have made progress in clearing the backlog of audited government financial statements and continue to address long-standing discrepancies between the cashbook and bank statements. Arrear clearance is also progressing. However, major legislation is stalled, including the PFMA Bill, Debt Management Bill, secondary legislation to implement the Procurement Act, and several tax bills. The SOE policy is also encountering challenges. Expenditure-control weaknesses persist, and the application of digital signatures has been delayed. Coordination during the budgetary processes, information sharing across institutions, and the credibility of the medium-term fiscal framework remain to be further improved.
Improve monetary policy transmission and financial stability	The CBL has broadly followed the monetary policy loosening of the SARB while halving the policy rate differential from 50 bps to 25 bps. The CBL continues to enhance its risk-based supervision framework for banks, including reviewing and assessing bank recovery plans, and developing an early intervention framework. Systemic risk monitoring tools were further developed, including developing a multi-period stress testing framework and strengthening bank solvency stress testing procedures. The CBL intends to maintain the current liquidity management framework and continue developing domestic bond market without overburdening the government with interest payments. Scoping work on developing a local currency bond market underscored that such a development could help with excess liquidity management. As a flow on from this scoping work, a multi-year program to strengthen monetary policy transmission, supported by IMF TA, is in its early phases.

Recommendation	Status of Implementation
Foster private sector development	The first stage of the National Payment Switch was completed with the launch of ATM phase in October 2024. Further phases, including card and mobile money interoperability, are expected in 2025. The government footprint on the economy remains large, with a public stake in 20 SOEs, some of which are in competitive sectors such as manufacturing and accommodation services. The landscape for SME development remains fragmented across agencies, and the partial credit guarantee schemes remain under-utilized at present. The Millenium Corporation Challenge (MCC) had planned substantial investments in the business environment, including in irrigation infrastructure and SME development, but its April 2025 stoppage throws these in doubt. Pillar 2 of the forthcoming Financial Sector Development Strategy targets enhancing the supply of finance to SMEs through strengthening credit infrastructure (including the credit reporting system) and supporting credit market development. Implementation of the anti-corruption body is pending passage of the Omnibus Bill, which remains stalled in its legislative stages.

Annex V. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact if Realized	Policy Response
Conjunctural Risks – Global			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	**High.** Changes in trade policy, including higher tariffs or the non-renewal of AGOA, could negatively affect growth, investment and exports. The textile industry, currently employing approximately 30,000 workers, predominantly women, would be heavily affected with ensuing humanitarian impacts. Changes in tariff policies and revenues at the SACU level could negatively affect fiscal balances. Alternatively, the resolution of US tariff uncertainty to lower rates is an upside risk.	Limit the damage by diversifying export markets and products in the medium term. To mitigate the immediate humanitarian impact, targeted social spending towards the vulnerable affected populations.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	**Medium.** Spillovers through supply chains or commodity price could negatively affect growth, inflation, and balance of payment and financial system vulnerability. Deteriorating terms of trade could add to inflationary pressure and worsen the external position. Supply disruptions raise the costs imported goods.	Limit the damage by targeted support for vulnerable individuals and firms, including by increasing spending on health and social protection.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	**Medium.** Commodity price volatility could lead to bouts of price and real sector volatility, food insecurity, social unrest, acute food and energy crises, and short-run disruptions in the green transition,	Limit the damage by cushioning higher consumption expenditure for individuals and firms, including by increasing spending on social protection.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	Low	**Medium.** Growth acceleration in trading partners, most prominently South Africa (for example, through successful structural reforms), could boost external demand, remittances, trade, inward investment, productivity and fiscal balances.	Advance structural reforms to improve the business environment and build readiness to harness a global acceleration.
Conjunctural Risks – Country-specific			
Delays in mega projects. Growth-driving projects such as the Lesotho Highlands Water Project (LHWP) II face further delays and cost overruns.	High	**High.** Lesotho's mega-project driven growth model would come under strain with lower growth, higher fiscal deficits (due to cost overruns) and weaker external positions. Long term productivity could be lowered.	Enhance structural reforms to increase capital expenditure execution, project management efficiency and move towards a private sector led growth model.
Reduced official development assistance. Major donors reduce their support, most notably for programs targeting health (HIV/AIDs) and private sector development	High	**High**. Higher fiscal expenditure, lower growth, a weaker external position and significant humanitarian impacts could all result. In the long run, severe health consequences from HIV/AIDS would reduce life expectancy and productivity across the country.	Redirecting fiscal support to replace the most cost-effective and impactful programs, to mitigate the humanitarian costs.

1/ Aligned with the Global Risk Assessment Matrix (G-RAM) as of February 20, 2025.

Source of Risks	Likelihood	Impact if Realized	Policy Response
Structural Risks – Global			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**High.** Further, geo-economic fragmentation would negatively impact external demand and growth (via its impact on South Africa and other key markets).	Advance structural reforms to improve the business environment and foster a private sector-led growth; diversify economic activity, exports, and external links to increase resilience.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**High.** With the rapid increase in digitalization, cyberattacks could have significant effects on economic activity—notably the provision of e-government and financial services.	Strengthen cyber resilience while supporting digital financial inclusion; incorporate cyber risks into financial stability analysis; work toward building capacity in cyber security.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	**High.** More frequent natural disasters in Lesotho could cause severe economic damage, through damaged infrastructure, reduced agricultural output and disrupted populations. Severe events in larger economies reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Reallocate fiscal spending to finance recovery work and appeal to donors for post-disaster financing. Transition to a greener economy and provide adaptation opportunities, particularly in agriculture (e.g., irrigation for rain-fed produce).
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**Medium.** Social unrest could weaken political impetus for economic adjustment and reform and dent investor confidence, causing capital flight, growth slowdown, and inflation. Social pressures may also trigger populist policies that risk fiscal sustainability without ensuing social gains.	Engage with key stakeholders (including civil society) to build support for fiscal consolidation and efficient, targeted policies to support the vulnerable.
Structural Risks – Country-specific			
Structural reform agenda (stalled / accelerated). Key structural reforms to public financial management (including introducing fiscal rules and a stabilization fund), capital expenditure and procurement, tax law, state owned enterprises, debt management and private sector development stall. Alternatively, progress may be accelerated.	**High / Low**	**High / High.** A stalled structural reform agenda would suppress medium- and long-term growth. Fiscal balances and debt ratios may be adversely affected. In contrast, accelerated reforms have potential to boost growth and development, improve public financial management, and strengthen monetary policy and financial market development.	Prioritize passing the legislative bills. Build capacity to implement the new laws including improving capital expenditure and project management frameworks. Leverage development partners and other stakeholders to support key reforms.

Annex VI. External Sector Assessment

Overall Assessment: *The external position of Lesotho in FY24/25 is assessed to be stronger than medium term fundamentals and desirable polices mainly reflecting strongly positive fiscal and reserve policy gaps. But this should be interpreted with caution given the structural weaknesses of the economy, persistent competitiveness concerns, and Lesotho's large exposure to tariff shocks. Moreover, the presence of very large errors and omissions introduces substantial uncertainty and implies a wide confidence interval around model estimates. Our assessment continues to call for focusing on underlying fiscal and structural policy issues.*

Potential Policy Responses: *There is a significant gap between desirable policy in the near and the medium term, due to Lesotho's currently constrained capacity to spend revenue windfalls productively—making continued fiscal prudence and structural reforms imperative. With the exchange rate determined exogenously, improving public spending efficiency, embarking on first-generation structural reforms, and revisiting productivity and factor costs in the export sector can promote competitiveness. Likewise, continued efforts to address corruption, strengthen governance, and ease trade and non-trade barriers remain critical.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Lesotho has become a net creditor country, with its net international investment position (NIIP) as of 2025Q1, turning to 0.4 percent of GDP, from -15.4 percent of GDP as of end-FY23/24. The improved position reflects windfall SACU transfers and higher water royalties, resulting in a stronger asset position (higher official reserves, and an accumulation of bank and portfolio assets abroad). The NIIP is expected to decline over the medium term, as the current account deficit will likely increase in the face of US tariff shocks and normalization of SACU transfers, although it will be generally supported by the new water royalties. The government also plans to continue issuing external debt to finance its capital budget, relying mostly on donor project loans.

Assessment. While a significant share of Lesotho's gross assets is held in Rand, gross liabilities are largely in U.S. dollars or U.S. dollar-linked currencies. Given the NIIP improvement in FY24/25, risks from such currency mismatches have been partly mitigated. And risks from Lesotho's gross external liabilities are also mitigated by the country's favorable debt composition (80 percent of external debt is owed to multilateral creditors on concessional terms). However, Lesotho's external sustainability continues to be susceptible to changes in South Africa's risk premia and exchange rate valuation effects.

2025 Q1 (% of GDP)	NIIP: 0.4	Gross Assets: 83.9	Debt Assets: 42.4	Gross Liab: 83.5	Debt Liab: 49.2

Current Account

Background. The current account balance was 2.2 percent of GDP in FY24/25, the first surplus since FY07/08. Lower imports (-$53 million), higher SACU transfers, and increased water exports (by $89 million larger than in FY23/24 overall) have more than offset declining textile and diamond exports, which have dropped by 17 percent since FY22/23 amid declining US market share and falling diamond prices. Over the medium term, SACU transfers are projected to normalize, while the structurally higher water exports will continue to support external balances if fiscal restraint is sustained. While US tariff shocks are likely to depress exports in the short run, the impact may ease over time as uncertainties subside and helped by increased impetus for trade diversification.

EBA-lite Results, FY24/25
(In percent of GDP)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**2.2**	
Cyclical contributions (from model) (-)	0.0	
Additional temporary/statistical factors (-) 2/	6.3	
Natural disasters and conflicts (-)	0.0	
Adjustment for the LHWP-II project (-)	-6.6	
Adjusted CA	**2.5**	
CA Norm (from model) 3/	**-1.2**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-1.2**	
CA Gap	**3.7**	**0.0**
o/w Relative policy gap	3.4	
Elasticity	-0.4	
REER Gap (in percent)	**-8.4**	**0.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional temporary adjustment for the one-time correction to SACU receipts.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The external position is assessed to be stronger than fundamentals and medium-term desirable policies, where the qualitative assessment by the CA and REER models indicates a positive CA gap of 3.7 percent of GDP and 0 percent of GDP respectively. Adjustments have been applied to the cyclically adjusted CA balance to account for: (i) a one-off correction to SACU transfers (6.3 percentage point of GDP higher than the historical average); (ii) the impact of the LHWP-II project on the CA balance (the project is largely self-financed with capital grants from South Africa and the project's import content comprises a significant share of total imports. Project-related imports will peak in FY24/25 and FY25/26 before gradually declining). The positive CA gap is driven mostly by a positive policy gap (3.4 percentage points of GDP), which results from high fiscal surplus and reserve accumulation. The outcome should be interpreted with caution given the structural weakness of the economy, persistent competitiveness concerns (particularly in the textile industry), and Lesotho's large exposure to tariff shocks, which have yet to be captured by the CA model. There is also a significant gap between desirable policy in the near and the medium term, due to current structural constraints on fiscal policy's ability to direct revenue windfalls to growth-enhancing spending—which makes stepped up savings imperative in the near term while building up this capacity over time. Ensuring a balanced and sustainable medium-term external position continues to hinge on fiscal prudence and structural reforms aiming at improving spending efficiency and business environment.

Real Exchange Rate

Background. Lesotho's nominal and real effective exchange rates appreciated by 3.4 and 4.8 percent y-o-y in FY24/25, respectively. Lesotho's nominal effective exchange rate is mainly driven by the peg to the South African Rand, which has appreciated by 3.9 percent in the same period. Lesotho's real effective exchange rate

Real Exchange Rate
has appreciated significant more than the nominal exchange rate due to high relative inflation, reflecting the large share of food and energy prices in Lesotho's CPI basket. REER has continued an appreciating trend since May 2023, fueled by relatively high inflation and nominal appreciation. **Assessment.** The CA gap based on EBA-lite CA model implies a REER gap of -8.4 percent in 2024 (applying an estimated elasticity of 0.4). The REER model estimates the REER gap in 2024 to be 0.1 percent.
Capital and Financial Accounts: Flows and Policy Measures
Background. Lesotho continues to rely on capital transfers and public external borrowing in the form of donor project loans to finance its current account deficit. During LHWP-II implementation, capital grants from South Africa for the mega project will also remain a significant source of financing for the current account deficit. Capital transfers have recorded a historical high during FY24/25 at 13.3 percent of GDP. Financial account flows such as foreign direct investment and portfolio inflows remain modest. **Assessment.** The subdued private investment capital flows reflect longstanding challenges to the business environment. Reforms remain critical to create an environment more conducive to private sector development, and to mitigate risks from reliance on non-FDI flows for external financing, which tend to be more volatile.
FX Interventions and Reserves Level
Background. Lesotho has a fixed exchange rate regime with South Africa and interventions in the foreign exchange market are automatic. As of end-2024, the Central Bank of Lesotho has maintained net international reserves above its internal target of 120 percent of M1 plus callable deposits. Strong SACU windfalls and higher water exports have boosted gross reserve coverage from 4.8 to 5.5 months of prospective imports. **Assessment.** The reserves surpassed the appropriate level for Lesotho, assessed to be 4.5 months of prospective imports based on the ARA-CC model used for credit-constrained economies. The assessment takes into account the exchange rate regime, frequency of external shocks, development of financial markets, and other country specific factors.[1] Reserves will continue to be bolstered by the higher water royalties, assuming fiscal discipline, reaching above 6 months of prospective imports in FY25/26. The adequate level of reserves for Lesotho should then consider the opportunity costs where the marginal benefit by holding more reserves is exceeded by the marginal cost to maintain that level of reserves. Also, a large share of Lesotho's international reserves is denominated in Rand (ZAR), making these buffers sensitive to the ZAR exchange rate with US dollar. To mitigate adverse spillover risks from South Africa, given its political volatility, the share of ZAR holdings in the international reserves warrant close monitoring. A significant share of foreign-exchange reserves reflects commercial banks' transfer deposits and other deposits at CBL needed to meet its reserve requirements: reserves linked to these provisions may also need to be closely monitored, especially if they were to decline and become less freely available for other balance of payment purposes.
[1] See "Assessing Reserve Adequacy (ARA)" Board Papers (IMF 2011, 2013, 2014) and "Guidance Note: Assessing Reserve Adequacy in Credit-Constrained Economies" (IMF 2016).

Annex VII. Capacity Development Strategy

1. Lesotho has received extensive capacity development (CD) from the IMF and other donors, and priorities remain broadly unchanged. The authorities maintain a long list of CD requests, but progress in implementation remains limited. Given the depth of Lesotho's CD needs, careful sequencing and prioritization of reforms is required, also to ensure that recipient MDAs are capable of absorbing and implementing recommendations (Table 1). CD must be aligned with the main policy and surveillance priorities outlined above: (i) ensuring continued fiscal discipline and increasing public investment efficiency; (ii) strengthening PFM processes, financial sector supervision, and policy coordination to support credibility, investor confidence, and macroeconomic stabilization, and (iii) enhancing governance and advancing structural reforms to foster private sector development and financial inclusion.

2. Capacity constraints are relatively more acute in the MoFDP than in the CBL. The authorities actively participate in various training modules, both online and in person, which aim to supplement and reinforce CD recommendations. The Macroeconomic Policy and Management Department within MoFDP has received significant CD but absorption has been limited due to high turnover. Capacity is generally stronger at the CBL, but gaps persist.

3. Close coordination of CD across a broad spectrum of development partners is essential. Numerous development partners are currently actively engaged in related policy areas in support of IMF CD and past Article IV recommendations, including:

- AfDB Institutional Support Project for Debt and Expenditure Management providing financing for technical assistance on sustainable public debt management, support for the extension of the IFMIS connections (including to Overseas Missions), and support of digital signature project.

- EU support on PFM action plan as a follow up for 2024 Public Expenditure and Financial Accountability (PEFA) self-assessment and strengthening of AID coordination of the government.

- World Bank's Public Sector Foundations for Service Delivery Project to strengthen expenditure controls, including in the areas of asset and procurement management, and improve delivery of select digital public services; and the Competitiveness and Financial Inclusion Project to increase access to business support services and financial products targeted at MSMEs and entrepreneurs, especially women and youth. The Bank is also working closely with the authorities to help establish a fiscal rule framework accompanied by a stabilization fund to save the additional revenue from water royalties.

A. Fiscal Sector

4. PFM remains a key priority for CD in Lesotho. Weaknesses in the medium-term budgeting, expenditure controls, expenditure monitoring, financial reporting, and debt management hinder the efficient allocation and utilization of resources and hamper surveillance. In the short term, upgrading the IFMIS, strengthening internal controls, and enhancing digital trust through the adoption of digital signatures remain essential. Support for capital expenditure management—through ongoing PIMA—could help provide a robust assessment on spending efficiency and a technical roadmap for investment planning, appraisal, and execution, and monitoring. Asset management is particularly urgent to provide mechanisms for oversight, accountability, and enforcement, improve efficiency, and prevent waste. Continued engagement will be critical to follow up on SOE-related fiscal risk monitoring and to institutionalize a fiscal risk statement within the budget process, and on recommendations from the recent gender budgeting TA. In the medium term, the planned introduction of fiscal rules and establishment of a stabilization fund, in collaboration with the World Bank, can provide a credible framework for anchoring fiscal policy and enhancing discipline. The authorities have stressed the need for sustained support on PFM issues from different multilateral institutions.

5. **Domestic revenue mobilization is essential to help delink recurrent expenditure from volatile SACU transfers.** Staff welcome the establishment of a new tax policy unit, and will assist the authorities to expedite the process and build its capacity to support tax policy design, analysis, and forecasting. The RSL should strengthen its core functions and enforcement, identified as areas of weakness by the 2023 TADAT assessment. Additional CD can cover: (i) follow-up on applying revenue forecasting models and revenue analysis techniques to strengthen tax revenue monitoring and reporting; (ii) strengthen RSL's compliance risk management framework, including data analytics capability; (iii) tax incentives, review of current framework and potential areas of improvement based on international good practices (including on Special Economic Zones).

6. **Efforts to improve government financial statistics (GFS) should continue.** Urging the authorities to implement previous TA recommendations, including expenditure classification, arrears recording, and above- and below-the-line harmonization, future GFS follow-up missions could help the authorities expand the coverage to include extrabudgetary units (SOEs and parastatals). The authorities also expressed interest in getting assistance on transitioning from cash to accrual accounting and training on GFS Expenditure by Function of Government (COFOG) and International Public Sector Accounting Standards (IPSAS).

B. Monetary Policy and Financial Sector

7. **Workplans for financial supervision and systemic risk monitoring, as a follow-up of the findings in the 2021 FSSR, are progressing well.** On financial supervision, the CD roadmap continues to focus on advancing the risk-based supervision framework, reviewing and implementing the bank recovery planning schemes, and building an Early Warning System (EWS) with an early intervention framework for banks. On financial stability, the work agenda completed an enhanced risk dashboard, and is strengthening the stress test framework by building improved macro-financial models and multi-stage scenario analysis, and building capacity in systemic risk assessments. The Financial Sector Development Strategy II, drawing on the 2021 FSSR, is planned for release in the second half of 2025.

8. Monetary policy implementation and debt management are gaining more traction and remain a priority in the medium term. A joint IMF/WB mission developed a roadmap for reforms to develop local currency bond market and identified necessary capacity building in this area. Following on from this, a multi-year TA program on monetary policy operations design and implementation has launched. The program aims to build capacity and frameworks that improve monetary policy operations, enhance policy rate transmission, develop money markets, and move away from financial regulation and moral suasion as key monetary policy transmission tools. CBL has welcomed assistance in liquidity analysis and forecasting, and an overview of operational toolkits and instruments for managing the liquidity. In response, the CBL proposed an updated framework of initial steps towards more canonical monetary policy operations, including the introduction of a Standing Deposit Facility (SDF) for a capped amount and the regular conduct of liquidity absorbing operations via issuance of CBL liabilities.

9. The authorities are building cybersecurity and cyber risk capacity. CBL acknowledges the rising frequency of cyberattacks and emphasizes the need to enhance government digital system security. Capacity building is needed for the whole financial sector, and CBL welcomes the Fund's assistance on cyber regulation and supervision. CD in FY24/25 focused on developing the CBL's capacity to undertake onsite examinations on cybersecurity and technology risks.

C. National Statistics

10. National accounts and inflation indices remain critical area for CD. Mismeasurement of national accounts and inflation can undermine macroeconomic forecasting and policymaking. The Bureau of Statistics (BOS) received funding to rebase the GDP in FY24/25. The first phase of rebasing, a survey of establishments, was completed in December 2024 and the second phase is scheduled for July 2025. The authorities have requested more assistance in compiling producer price indices, essential for the rebasing. Continued assistance will be needed to improve both annual and quarterly GDP estimates, while progress has been made on CPI compilation methods. The IMF continues to support the BOS with an active program of CD, but capacity must be built and retained within the BOS. Improved coordination between the RSL and BOS, as well as a more timely and tailored usage of the value added tax data, should remain a priority.

Table 1. Lesotho: Capacity Development Priorities

Priorities	Objectives
Public Financial Management	Pass the PFMA Bill; strengthen budget processes; improve expenditure and procurement controls; enforcing the use of IFMIS and progressing TSA; financial reporting and accountability (including reconciliation of bank accounts); develop an arrears clearance strategy; carry out regular fiscal risks assessments; strengthen capital project appraisal and selection processes, enhance digitalization.
Macroeconomic Policy & Management	Improve financial programming and macro-fiscal capabilities to support (i) production of a medium-term fiscal framework, (ii) design and implementation of fiscal rules, and (iii) production of regular economic and fiscal bulletins.
Domestic Revenue Mobilization	Enhance tax policy capacity (e.g., revenue forecasting, assessing tax policy changes) by capacitating the tax policy unit; improve tax administration in line with TADAT recommendations (notably taxpayer registration, filing and payment compliance, management of tax arrears and VAT refund management); review mining tax regime to minimize opportunities for international tax avoidance.
Monetary Policy Framework and Debt Management	Amend the CBL Act and embed central bank independence in the constitution; monetary operations and policy rate transmission development; liquidity forecasting and management; develop domestic debt and money markets; improve coverage and reliability of public debt statistics; update MTDS and develop in-house DSA capacity; enhance payment systems supervision.
Macroprudential Toolkit, Financial Regulation, and Financial Sector Supervision	Enhance bank monitoring and stress testing; strengthen risk-based supervision (including on-site examinations, early intervention, and recovery planning); improve nonbank supervision and oversight of nonbank payment service providers; improve enforcement of AML/CFT standards for NBFIs; continue cybersecurity capacity building.
National Accounts and Prices	Complete the rebasing of the national account, develop expenditure-based annual national accounts; strengthen quarterly national accounts, develop producer price index (PPI).
Government Finance Statistics	Harmonize above- and below-the-line data; expand coverage to include extrabudgetary units (SOEs and parastatals); improve classification of data; properly record arrears.
Monetary and Financial Statistics	Expand coverage of MFS to include the largest nonbank financial institutions; improve classification of data to include a separation of loti and rand-denominated instruments.

Annex VIII. Data Issues

Table 1. Lesotho: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	A	C	B	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	A	C	B	B		
Granularity 3/	C		B	B	C		
			B		B		
Consistency			C	C		C	
Frequency and Timeliness	B	A	C	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The national accounts have been last rebased in 2012, introducing bias in all ratios. Delays in GDP estimation and substantial revisions stem from delayed, inaccurate, and incomplete data sharing between various agencies and the BOS. Longstanding fiscal data quality issues pertaining to discrepancies between transactions above and below the lines persist and classification issues remain for some revenue and expenditure items, which can create complications for setting up and implementing properly the fiscal rules. Broadening coverage and improving data accuracy remain critical for sound fiscal policy. With coverage limited to the budgetary central government, other government operations at the local level and in autonomous entities (state-owned enterprises or extrabudgetary units) are, therefore, largely unfactored in fiscal policy. The authorities have requested TA for expanding the coverage to include SOEs. Lack of accurate and timely data on arrears hampers the analysis of fiscal risks, especially the authorities are tracking backwards previously undocumented or partially documented arrears. Reliability and granularity of the public debt data, including contingent liabilities and guarantees, could be improved to achieve greater accuracy of debt service projections. Coverage of other financial corporations (OFC), including insurance companies (ICs) and pension funds (PFs), could enable full consolidation of the financial corporations survey. While the regulatory and accounting data for banks are broadly consistent with Basel I and IFRS9 frameworks, there exist data gaps for non-banking sector. Institutional coverage of financial soundness indicators (FSI) has now extended to insurance companies. Continued effort is needed to further enhance data quality and to improve coverage, methodological soundness, and consistency between the balance of payments and IIP. Granular data on values and volumes of products exported and imported could help assess sectoral performance. Such data should be supplemented with detailed publicly-available tariff schedules to help importers determine amounts owed upon importation. The very large errors and omissions—both in absolute terms and relative to international norms—underscore the urgent need to strengthen external sector statistics to enhance the reliability of the external position assessment.

Changes since the last Article IV consultation. The BOS completed phase one of the rebasing in December 2024 (a survey of establishments), with phase two scheduled for July 2025. IMF CD is assisting with compiling producer price indices, and improving annual and quarterly GDP estimates. Progress on misclassifications of some revenue and expenditure items, aligning above and below-the-line statistics, and recording of arrears is slow.

Corrective actions and capacity development priorities. IMF CD continues to support the BOS with the GDP rebasing phases and compiling Producer Price Indices. AFRITAC South will continue to work with the authorities on fiscal statistics, particularly resolving discrepancies between transactions above and below the lines, expanding the institutional coverage of GFS to include the largest extrabudgetary units, as well as reviewing changes to Public Sector Institutional Table and Chart of Accounts since last mission. Once the ongoing rebasing is finalized, the C rating could be upgraded. In cooperation with MEFMI, the authorities are working to improve the consistency of BOP and IIP data and efforts to improve data collection and analysis are underway. Additional assistance would be needed in the area of cross-border trade survey.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. N/A

Table 2. Lesotho: Data Standards Initiatives

Lesotho participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since April 2016.

Table 3. Lesotho: Table of Common Indicators Required for Surveillance

As of July 29, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Lesotho[8]	Expected Timeliness[6,7]	Lesotho[8]
Exchange Rates	Apr-25	Apr-25	M	M	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May-25	Jul-25	M	M	M	M	1M	1M
Reserve/Base Money	May-25	Jul-25	M	M	M	M	2M	6W
Broad Money	May-25	Jul-25	M	M	M	M	1Q	6W
Central Bank Balance Sheet	May-25	Jul-25	M	M	M	M	2M	6W
Consolidated Balance Sheet of the Banking System	May-25	Jul-25	M	M	M	M	1Q	6W
Interest Rates[2]	May-25	Jul-25	M	M	M	M	...	1M
Consumer Price Index	Mar-25	Apr-25	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	NA	NA	NA	NA	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb-25	Apr-25	M	Q	Q	M	1Q	2W
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-25	Apr-25	M	I	Q	M	2Q	2M
External Current Account Balance	Q1-25	Jun-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Q4-24	May-25	Q	Q	M	M	12W	1Q
GDP/GNP	Q4-24	May-25	Q	Q	Q	Q	1Q	1Q
Gross External Debt	Q1-25	Apr-25	Q	Q	Q	M	2Q	1M
International Investment Position	Q1-25	Jun-25	Q	Q	A	M	3Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 21, 2025

Prepared By

African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE IMF

(As of June 30, 2025)

Membership Status

Joined July 25, 1968; accepted the obligations of Article VIII, Sections 2, 3, and 4: March 5, 1997.

General Resources Account	**SDR Million**	**% Quota**
Quota	69.80	100.00
IMF holdings of currency (Exchange Rate)	56.98	81.63
Reserve Tranche Position	12.88	18.45

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	99.78	100.00
Holdings	100.06	100.28

Outstanding Purchases and Loans	**SDR Million**	**% Quota**
RCF loans	11.66	16.70

Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	06/02/2010	09/17/2013	50.61	50.61
ECF[1/]	03/09/2001	10/31/2004	24.50	24.50
Stand-By	09/23/1996	09/22/1997	7.17	0.0

1/ Formerly Poverty Reduction and Growth Facility (PRGF).

Outright Loans:

Type	**Date of Commitment**	**Date Drawn/Expired**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	07/29/2020	07/31/2020	11.66	11.66
RFI	07/29/2020	07/31/2020	23.24	23.24

Projected Payments to the IMF:

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2025	2026	2027	2028	2029
Principal		2.33	2.33	2.33	2.33
Charges/interest		0.00	0.00	0.00	0.00
Total		**2.33**	**2.33**	**2.33**	**2.33**

Implementation of Catastrophe Containment and Relief (CCR)[1]:

Date of Catastrophe	**Board Decision Date**	**Amount Committed (SDR million)**	**Amount Disbursed (SDR million)**
N/A	Oct 06, 2021	3.21	3.21
N/A	Dec 15, 2021	0.63	0.63

Safeguards Assessment

An update safeguards assessment, completed in May 2021, found that the CBL has made notable progress in strengthening its safeguards framework. All recommendations from the 2012 assessment have been implemented, including improvements in the Audit Committee oversight, internal audit mechanism and internal control systems. Notwithstanding these important developments, staff recommended amending the CBL Act to align it with leading practices in areas of central bank governance, autonomy, and transparency. Following the assessment, the Fund has provided technical assistance on drafting amendments to the CBL Act. Progress on passing these amendments have been delayed alongside other legislative priorities, and are tied to the passage of the Omnibus Bill.

Exchange Rate Arrangement

Lesotho is a member of the Common Monetary Area (CMA). The de facto and de jure exchange rate arrangement are classified as a conventional peg at par to the South African Rand, which is also legal tender in the country. Lesotho has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions[2]. As of July 2, 2025, the maloti rate per U.S. dollar was LSL17.60.

[1] As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed into the Catastrophe Containment and Relief (CCR) Trust.

[2] Lesotho previously maintained one exchange restriction arising from a single discretionary allowance of LSL1 million per individual per calendar year for residents above 18, and travel allowance limit of LSL200,000 per individual per calendar year for residents under 18. Foreign exchange transactions beyond these limits needed CBL approval. On July 25, 2025, the CBL issued circulars to update the Currency and Exchanges Manual for Authorized Dealers in line with staff recommendations and clarify that requests for foreign currency above such limits will be subject to

(continued)

Article IV Consultation

The 2024 Article IV consultation was concluded by the Executive Board on September 6, 2024. Lesotho is on the standard 12-month Article IV consultation cycle.

Capacity Development

The Fund has been providing Lesotho with technical assistance and training to help authorities strengthen their capacity to design and implement effective policies. Capacity Development covers wide range of areas in macroeconomic, fiscal, and monetary. Specific capacity development projects since 2019 include the following:

Fiscal Affairs Department	**Date of Delivery**	**Beneficiary Agency**
Revenue Reporting and Analysis	Apr-25	RSL
Gender Budgeting FY25	Mar-25	MoF
AFS Fiscal Risks – SOEs	Dec-24	MoF
Revenue Forecasting FY25	Dec-24	MoFDP
PFM Improved Budget Execution and Control	Dec-24	MoF
PFM Financial Risk Assessment and Analysis	Dec-24	MoFDP
PFM Budget Management	Dec-24	MoF
Tax Administration (FY18)	Dec-24	RSL
Revenue Administration	Dec-24	RSL
Tax Policy TPM (FY24)	Nov-24	MoF
Customs Administration (AFS, FY18)	Nov-24	RSL
PFM Fiscal Institutions and Frameworks	Nov-24	MoF
PFM Budget Preparation	Oct-24	MoF
PFM Improved Coverage and Quality of Fiscal Reporting	Feb-24	MoF
Revenue Administration (FY22)	Jan-24	RSL
Fiscal Risks Statement	Jan-24	MoFDP
Medium-Term Fiscal Framework (AFS)	Nov-23	MoF
Fiscal Risk Assessment	Aug-23	MoFDP
Integrated Financial Management Information System (IFMIS)	Jun-23	MoFDP
Revenue Administration	May-23	RSL
Fiscal Rules	Apr-23	MoFDP
TADAT Assessment	Apr-23	RSL
Fiscal Reporting (AFS)	Apr-23	MoFDP
PFM Hackathon	Jan-23	MoFDP
Medium-Term Fiscal Framework (AFS)	Jan-23	MoFDP
Tax Debt Management (AFS)	Dec-22	RSL
Customs Administration (AFS)	Sep-22	RSL
Authorized Economic Operator (AEO) and Customs Border	Aug-22	RSL
Excise (AFS)	Aug-22	RSL

CBL's verification and will be approved upon the submission of proof of the bona fide nature of the request. In light of the clarification, the previous finding of exchange restriction is removed.

Gender Responsive Budgeting (AFS)	Jul-22	MoF
GovTech: Improving Digital Payments, Bank Reconciliation	Jul-22	MoF
Macro Fiscal Forecasting (AFS)	Apr-22	MoF
Tax Debt Management (AFS)	Apr-22	RSL
Fiscal Risks Statement	Nov-21	MoF
Tax Policy Unit	May-21	MoF
Fiscal Risks Management	Apr-21	MoF
Fiscal Rules	Feb-21	MoF
Legal Department	**Date of Delivery**	**Beneficiary**
CBDC Exploration	Feb-24	MoFDP
Public Debt and Aid Management Bill	Jan-24	MoFDP
Public Debt and Aid Management Bill Review	Feb-23	MoFDP
Central Bank Act Amendments	Sep-21	CBL
Monetary and Capital Markets Department		
Monetary Policy Design, Implementation and Development	May-25	CBL
Risk-based Supervision Framework Enhancement	Mar-25	CBL
Systemic Risk Monitoring and Stress Testing (FSSR FY25)	Feb-25	CBL
Debt Management (CCF)	Dec-24	CBL
Banking Regulation and Supervision	Dec-24	CBL
Systemic Risk Monitoring and Stress Testing Follow-up	Dec-24	CBL
Monetary Policy Implementation and Operations	Dec-24	CBL
Cyber Risk Regulation and Supervision (CRS)	Aug-24	CBL
National Payments System Development	Jul-24	CBL
CBDC Exploration BDC	April-24	CBL
Risk-based Supervision Framework Enhancement	Nov-23	CBL
Risk-based Supervision Framework Enhancement	May-23	CBL
National Payment Systems Development	Apr-23	CBL
Financial Market Infrastructures Training	Apr-23	CBL
Risk-based Supervision Framework Enhancement -Risk Rating	Jul-22	CBL
Risk-based Supervision Framework Enhancement -Risk Rating	Feb-22	CBL
Basel II/III Reform Implementation - ICAAP assessment	Jul-21	CBL
Risk-based Supervision Framework Enhancement	Jun-21	CBL
FSSR Main Mission FY21-FY22	May-21	CBL
Basel II/III; DSIB Framework	Feb-21	CBL
Statistics Department	**Date of Delivery**	**Beneficiary**
Improving PPI	Dec-24	BOS
Real Sector: Prices (PPS. FY24)	Dec-24	BOS
Government Finance (SGF, FY25)	Dec-24	MOF
Real Sector: National Accounts	Dec-24	BOS

Real Sector: National Accounts (NA) - Rebasing Annual NA	Jun-24	BOS
Residential Property Price Index (RPPI)	Jun-24	BOS
Real Sector: Prices	Mar-24	BOS
Balance of Payments	Mar-24	CBL
Financial Institutions (FSI, FY23)	Mar-24	CBL
Government Finance: SOEs Fiscal Statistics	Oct-23	MOF
Residential Property Price Index (RPPI)	Sep-23	BOS
Real Sector: Improving CPI	Sep-23	BOS
Real Sector: National Accounts (NA) - Rebasing Annual NA and Improving Quarterly NA (AFS)	Sep-23	BOS
Financial Soundness Indicators	May-23	CBL
Real Sector: Review CPI Methods	Apr-23	BOS
Real Sector: National Accounts (NA) - Rebasing Annual NA	Feb-23	BOS
Real Sector: Updating CPI	Jan-23	BOS
Real Sector: National Accounts (NA) - Rebasing Annual NA	Sep-22	BOS
Real Sector: National Accounts (NA) - Accrued Budget	May-22	BOS
Monetary Financial Statistics	Jun-22	CBL
Government Finance Statistics	Apr 22	MOF
Real Sector: National Accounts (NA) - Rebasing Annual NA	Mar-22	BOS
Real Sector: National Accounts - GDP, Business Register	Feb-22	BOS
External Sector: Balance of Payments	May-21	BOS
Government Finance: SOEs Fiscal Statistics	May-21	MOF
Real Sector: Updating CPI	Aug-21	BOS
Real Sector: National Accounts (NA) - Rebasing Annual NA and Improving Quarterly NA	Nov-21	BOS
Real Sector: National Accounts (NA) - GDP/Source Data	Dec-21	BOS
Real Sector: National Accounts (NA) - GDP/Source Data	Dec-21	BOS

Notes: BOS = Bureau of Statistics; CBL = Central Bank of Lesotho; LRA = Lesotho Revenue Authority; MoF = Ministry of Finance; MoFDP = Ministry of Finance and Development Planning (formerly MoF); RSL = Revenue Services Lesotho (formerly LRA).

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/lesotho
- African Development Bank: https://www.afdb.org/en/countries/southern-africa/lesotho/
- Regional Technical Assistance Center for Southern Africa (AFRITAC South—AFS): http://www.southafritac.org/

INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

August 21, 2025

Approved By
Andrea Richter Hume (AFR), Anna Ivanova (SPR), Manuela Francisco and Hassan Zaman (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	***Moderate***
Overall risk of debt distress	***Moderate***
Granularity in the risk rating	***Limited space***
Application of judgment	***No***

Lesotho's risk of external and overall debt distress remains moderate, with a slight improvement in the debt path since the last DSA.[1] A lower total debt stock for end FY2024/25, reflecting arrears clearance and higher domestic debt redemption, and an increase in the grant element in future borrowing terms, have placed debt on a more favorable trajectory, lowering the debt-to-GDP ratios in present value terms. However, risks remain elevated, including from persistent contingent liabilities and growing global uncertainties. A reversal of current fiscal discipline could also put upward pressure on future debt levels. The uncertainty surrounding the of U.S. trade policies poses a new downside risk to growth and external sector performance, further weighing on the macroeconomic outlook. While the debt path remains below key thresholds under the baseline, external and public debt indicators continue to breach thresholds under the most extreme shock scenarios, including growth and exchange rate depreciation scenarios, respectively, for public debt and external debt. The DSA highlights the importance of continued fiscal prudence to stabilize debt levels, building buffers against future volatility while directing fiscal space toward targeted support for those most affected by shocks, and also using the revenue windfalls, including from higher water royalties, to retire costly debt. Improving public investment efficiency, addressing contingent liabilities, and maintaining a conservative debt management strategy remain essential for safeguarding debt sustainability and supporting growth.

[1] This DSA updates the previous Joint DSA from September 2024 (IMF Country Report No. 24/288). The DSA analysis reflects a debt carrying capacity of Medium considering Lesotho's Composite Indicator Index of 3.03, based on the IMF's April 2025 World Economic Outlook and the 2023 World Bank Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **Debt coverage remains the same as in the last DSA in 2024** (Text Table 1). It includes both external and domestic obligations[2] of the central government, central bank debt taken on behalf of the government, and government-guaranteed debt of state-owned enterprises (SOEs).[3] Debt also includes domestic arrears, estimated at 0.3 percent of GDP as of end-FY24/25.[4] Since FY22/23, the authorities have been publishing a quarterly Debt Transparency Report, though usually with a 3- to 6-month lag, in agreement with the World Bank under the Sustainable Development Financing Policy (SDFP). While total SOE debt is not yet available, publicly guaranteed debt of SOEs and private enterprises are available in the report.

2. **The DSA includes a contingent liability stress test to capture in the assessment extrabudgetary units, SOEs, and a financial market shock** (Text Table 2).[5] The contingent liability stress test incorporates the following shocks:

- The pension fund financing gap—estimated at 2.4 percent of GDP.[6]
- Liabilities associated with potential asset seizures—estimated at 3.2 percent of GDP.[7]

[2] Definition of external/domestic debt is based on currency principle as the data on residency basis is not available, and there are neither locally issued FX-denominated debt nor significant foreign holdings of local currency debt.

[3] The DSA does not include the central bank's net liability to the IMF SDR department in line with the Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations (July 28, 2021).

[4] Arrears to providers of goods and services to the government have been accumulating as Ministries, Departments, and Agencies (MDAs) continue to undertake spending outside of IFMIS. The government is not in arrears on any debt repayments.

[5] The contingent liability stress test involves a one-off increase in the debt-to-GDP ratio in the second year of the projection. The shock has two components: (i) a minimum starting value of 5 percent of GDP (representing the average cost to the government of a financial crisis in a LIC since 1980; see Laeven and Valencia (2013)); and (ii) a tailored value, reflecting additional potential shocks for portions of the public sector that are not included in the definition of public debt used in the DSA.

[6] The Public Officers Defined Contribution Pension Fund was established in 2008. According to the actuarial evaluation of pension liabilities, the funding gap stands at LSL3.1 billion as of March 31, 2021. As part of government's effort to support sustainability of the pension fund and reduce contingent liabilities, the authorities have committed to cover about two-thirds of this financing gap (LSL2 billion) with ten equal annual installments of LSL200 million. The other one-third of the gap is to be covered by the pension fund's operating income, which will be supported by increased contributions. Two installments were made in August 2023 and June 2024, and the authorities signed a memorandum in July 2024 to formalize the ten-year commitment. For the contingent liability stress test, LSL1.1 billion (the rest is incorporated as part of government outlays) is being included given that the pension fund's liabilities and associated fiscal risks still require close monitoring. As of June 2025, the pension fund faces two additional areas of contention related to the calculation of benefits for current versus former employees, and for defense force personnel. Both cases remain under judicial review, and the potential fiscal implications of any resulting financing gap are not yet known.

[7] In January 2024, the South African High Court ruled in favor of Frazer Solar GmbH, who was seeking to enforce damages related to a contract to supply solar power equipment to Lesotho. The ruling not only

(continued)

- Liabilities associated with potential payments for the termination of a PPP contract—estimated at 3.8 percent of GDP.[8]
- Liabilities associated with potential dispute for the termination of the contract—estimated at 0.4 percent of GDP.[9]
- Liabilities associated with potential disputed contractual payment obligations—estimated at 0.1 percent of GDP.[10]
- 5 percent of GDP for a financial market shock that exceeds the existing stock of banks' NPLs.
- 1.4 percent of GDP for SOE debt, which is not captured in the country's definition of public debt. Calibration includes LSL665 million as an estimate for non-guaranteed and on-lent debt of the SOEs.

Text Table 1. Lesotho: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

dismissed the case but also mandated the Government of Lesotho (GoL) to cover the legal costs incurred by Frazer Solar and the South African Ministry of Justice. The total value of the claim, including interest and costs, is estimated to be LSL1.5 billion. The GoL has appealed this decision, and the hearing by the South African High Court on May 20th, 2025 is currently waiting for adjudication.

[8] The High Court of Lesotho in March 2024 agreed to allow Netcare Hospital Group's suit against the government for a LSL1.6 billion PPP agreement that was unlawfully terminated. Netcare was part of the Tšepong Consortium, which entered the 18-year PPP arrangement with the GoL signed in 2008. This was for the design, building, and operation of the Queen 'Mamohato Memorial Hospital and a network of refurbished filter clinics. The government cancelled the agreement in August 2021. Against this backdrop, Netcare filed an application in the High Court, seeking permission to bring proceedings on behalf of Tšepong to pursue claims against the government. Estimated liabilities, including other costs, amount to LSL1.8 billion. The case is currently waiting for arbitration and future timelines have yet to be advised.

[9] The Lesotho Millenium Development Agency (LMDA) in May 2023 terminated its LSL519 million contract with Trencon, a construction company, to build 80 health centers around the country. The government assumed the liability in line with the Millenium Challenge Account - Lesotho Authority (Winding Up and Repeal) Act 2022, which provided that any obligations and liabilities incurred by LMDA shall be transferred to the government. Both parties (LMDA and Trencon) have sued each other in arbitration court, where the LMDA claimed LSL400 million plus costs breach of contract because Trencon had become insolvent, while Trenco claimed LSL209 million from LMDA for loss of business. The cross suits have not yet been adjudicated.

[10] Maseru Logistics has sued the GoL in the High Court, seeking LSL43 million in alleged unpaid contractual fees. The GoL previously suspended payments following internal disputes within the Maseru Logistics Joint Venture, including the breakdown of the relationship between partners and changes to designated payment accounts. The case is currently in court.

Text Table 2. Lesotho: Summary of Shocks Used for the Contingent Liabilities Stress Test

1	**The country's coverage of public debt**	The central government, central bank, government-guaranteed debt		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	9.9	Contingent liabilities representing the funding shortfall of the civil service pension fund, the lost case and ongoing appeal to the asset seizure by Frazer Solar GmbH, the disputes with Netcare Hospital Group and Trencon of the termination of contracts, and the dispute with Maseru Logistics.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	1.4	Contingent liabilities relating with on-lent debt to SOEs considered to pose fiscal risk.
4	PPP	35 percent of PPP stock	0.0	Estimated value of PPP capital stock
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		16.3	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

3. **Lesotho's public debt has declined since the last DSA** (Text Table 3).[11] The gross public debt-to-GDP ratio has decreased from 61.5 in FY23/24 to 56.8 percent of GDP in FY24/25, mainly driven by the repayment in full of the Rapid Financing Instrument (RFI) with the IMF (SDR 20.335 million), greater redemption of domestic bonds (more than LSL900 million), and clearance of arrears. The valuation effects of exchange rate movements on foreign currency-denominated debt are more favorable in FY24/25, as the end-of-period exchange rate depreciated by 1.2 percent, compared to a 7 percent depreciation in FY23/24. External debt continues to account for most of public debt (80 percent). Domestic debt at end-FY24/25 was 11.3 percent of GDP, down from a revised 14.5 percent of GDP at end-FY23/24.

4. **About three-quarters of Lesotho's external debt is owed to multilateral creditors on a concessional basis** (Text Table 3). The main creditor is the World Bank (International Development Association, IDA), followed by the African Development Fund (AfDF), the European Investment Bank (EIB), and the Arab Bank for Economic Development in Africa (BADEA). Debt owed to bilateral creditors has increased significantly since the pandemic, but new disbursements from bilateral creditors during FY24/25 were limited. The stock of such debt at end-FY24/25 was 9.4 percent of GDP. China accounts for more than 80 percent of this debt, with Export-Import Bank of China (EXIM Bank of China) taking 16.4 percent of Lesotho's total external public debt.

5. **The share of domestic public debt to total public debt at end-FY24/25 was 20 percent, a moderate drop from a year earlier.** Denominated in local currency, domestic debt has been issued through treasury bills and bonds at various maturities and is predominantly held by insurance companies, banks, other nonbank financial institutions, and individuals (see Text Figure 1). The average yield remained at 10 percent in FY24/25. The authorities plan to continue issuing domestic debt at a similar scale to develop the domestic bond market. While continued domestic debt issuance has helped the authorities deepen local currency markets, the government should monitor risks from the sovereign-bank nexus and growing links with the insurance companies, given their significant holdings of domestic debt. The authorities should also remain mindful of the high

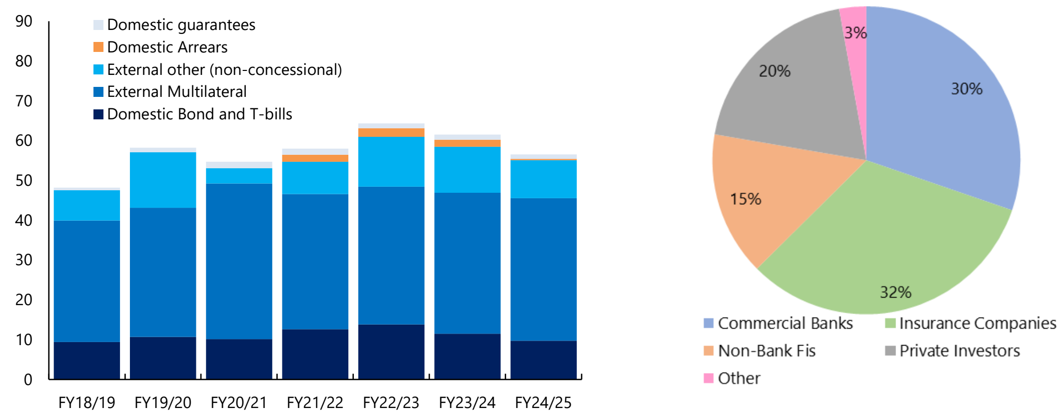
[11] The fiscal year runs from April 1 to March 31. All DSA figures are based on fiscal year (e.g. 2025 reflects FY25/26). The stock numbers reflect end-of-period (e.g. end-FY25/26 stock means stock by March 31, 2026).

cost of domestic borrowing, which raises future repayment obligations—particularly in the anticipation that future fiscal surpluses will likely decline.

Text Figure 1. Lesotho: Domestic Public Debt and Holder Profile

Public and Publicly Guaranteed Debt
(FY18/19 – FY24/25)

Domestic Debt Holder Profile
(As of March 2025)



Text Table 3. Lesotho: Decomposition of Public Debt and Debt Service by Creditor, 2024/25–2026/27[1]

	Debt Stock (end of period)			Debt Service					
	2024/25			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
	(US$ Millions)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	1,306.0	100.0	56.8	193.2	122.7	115.8	8.4%	5.3%	5.0%
External	1,046.8	80.2	45.6	91.0	62.0	63.7	4.0%	2.7%	2.8%
Multilateral creditors[2]	826.0	63.2	35.9	70.9	48.7	50.3	3.1%	2.1%	2.2%
IMF	15.3	1.2	0.7						
World Bank	479.8	36.7	20.9						
ADB/AfDB/IADB	142.7	10.9	6.2						
Other Multilaterals	188.3	14.4	8.2						
o/w: European Investment Bank	58.8	4.5	2.6						
o/w: Arab Bank for Econ Dev in Africa	39.6	3.0	1.7						
o/w: International Fund for Agr Dev	32.1	2.5	1.4						
Bilateral Creditors	216.5	16.6	9.4	18.8	13.3	13.3	0.8%	0.6%	0.6%
Paris Club	-	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
Non-Paris Club	216.5	16.6	9.4	18.8	13.3	13.3	0.8%	0.6%	0.6%
o/w: China	178.8	13.7	7.8						
o/w: Kuwait	15.4	1.2	0.7						
Bonds	-	0.0	0.0						
Commercial creditors	-	0.0	0.0						
Other international creditors	4.2	0.3	0.2						
Domestic[3]	259.2	19.8	11.3	102.2	60.7	52.1	4.4%	2.6%	2.3%
T-Bills	38.8	3.0	1.7						
Bonds	186.7	14.3	8.1						
Loans	-	0.0	0.0						
Memo items:									
Collateralized debt[4]	-	0.0	0.0						
o/w: Related	-	0.0	0.0						
o/w: Unrelated	-	0.0	0.0						
Contingent liabilities	31.4	2.4	1.4						
Nominal GDP	2,298.0								

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/ The sub-components do not add up to the total because domestic debt also includes arrears and public guarantees such as for the SOEs.
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

ASSUMPTIONS

6. The updated macroeconomic framework entails some changes from the 2024 DSA (Text Table 4). The baseline assumptions in the DSA are consistent with the macroeconomic framework outlined in the staff report.

- **Real GDP growth[12]:** The assumption for growth in the medium term continues to hinge on the Lesotho Highland Water Project (LHWP-II). Towards the end of the medium term, growth is projected to be around 1.5 percent, lower than in the previous DSA by 0.6 percentage point. This downgrade primarily reflects the expected decline in exports due to the recent trade policy uncertainty, weakening construction activity from LHWP-II delays, and a lack of progress on structural reforms—most notably delays to public financial management reforms that could improve capital investment execution. Previous assumptions on the spillover effects from the Millenium Challenge Corporation (MCC) Compact II have been removed given the program's suspension. The authorities intend to replace some key components should the program eventually be cancelled, but the growth enhancing effects will be smaller and delayed

- **Inflation:** Projected CPI inflation has been revised down to 5.2 percent for FY24/25 (from 6.7 percent in the last DSA), reflecting a faster-than-anticipated easing of food and energy price pressures. Headline inflation declined to 4.4 percent in May 2025 from a peak of 8.2 percent in January 2024, and core inflation has also eased. Inflation is projected to moderate to 4.6 percent in FY25/26 supported by the recent decline in fuel prices, before stabilizing around 5 percent in the medium term. Over the long-term, inflation is assumed to remain anchored by the peg to the Rand, which is in turn anchored by South Africa's inflation targeting monetary policy.

- **Fiscal deficit:** Relative to the last DSA, the medium-term primary fiscal balance projections remain the same while the profile has shifted: SACU transfers are projected to average 20 percent of GDP over FY25/26–FY30/31[13], slightly lower than the 21.4 percent average over the past five years, and remain vulnerable to external shocks and regional revenue uncertainties, including from a potential slowdown in South Africa. This shortfall is offset by significantly higher water royalties, projected to average 10.7 percent of GDP—three times the historical norm[14]. Grant projections have been revised downward to reflect the withdrawal of USAID health-related support and the suspension of the MCC Compact. On expenditures, a more conservative assumption on capital expenditure execution projects

[12] The historical national accounts data have been revised again back to 2020, after the 2024 DSA publication.

[13] In the 2024 DSA, SACU transfers were projected to average 19.3 percent of GDP over FY24/25-FY29/30.

[14] Lesotho has renegotiated the water royalty rates under the Treaty with South Africa on the LHWP-II, which now represents an additional and significant source of revenue. As of end-FY24/25, this has boosted water receipts to 6.5 percent of GDP (more than double the 10-year historical average of 3 percent of GDP). Staff estimates that renegotiated water royalties will increase to almost 13 percent of GDP in FY25/26, then settle permanently to about 10 percent of GDP over the medium term.

an average of 13 percent of GDP over the medium term, in line with persistent implementation constraints. Recurrent expenditures are assumed to grow broadly in line with nominal GDP but have incorporated several major developments: (i) the wage bill is projected to increase to 17.6 percent of GDP in FY25/26 with further rises expected over the medium term, reflecting essential hiring in the health sector—partly to absorb staff affected by the suspension of USAID aid—as well as recruitment in the armed forces; (ii) spending on goods and services is also set to rise in FY25/26, reflecting expanded allocations for a contingency fund aimed at offsetting the withdrawal of USAID and MCC support; (iii) subsidies are expected to decline to 1.3 percent of GDP, owing to the return of defense force personnel deployed abroad; (iv) grants will temporarily spike in FY25/26 due to a one-off transfer to the Lesotho Electricity Company due to its long-standing balance sheet problems. As a result, the primary fiscal balance is assumed to average 4.5 percent of GDP over the medium term. The long-term primary balance will also remain broadly similar to that in the 2024 DSA.

- **External Sector:** The medium-term current account balance has been revised upwards due to higher-than-expected 2024 outturn, despite adverse impact of recently imposed U.S. tariffs. Higher water royalties will provide a boost to exports, but vulnerabilities in the diamond and textile sectors are expected nonetheless to weigh on the external position. The current account will remain sensitive to fluctuations in SACU transfers, changes in the fiscal balance, remittances (shaped by growth prospects in South Africa), and LHWP-II imports which are assumed to peak in FY24/25. As a result, the medium-to-long-term current account balance is expected to remain in deficit, albeit narrowing gradually as short-term import pressures ease. The baseline assumptions are subject to downside risks especially from US trade policy uncertainties.

Text Table 4. Lesotho: Macroeconomic Assumptions

	2023 DSA 2023–28	2024 DSA 2024-29	2025 DSA 2025-30	2023 DSA 2029–43	2024 DSA 2030-44	2025 DSA 2031-45
Real GDP Growth (Percent)	2.1	2.2	1.3	1.5	2.1	1.5
Inflation (Percent)	5.3	5.3	4.6	4.9	5.0	5.2
Primary Deficit (Percent of GDP) 1/	0.4	-4.5	-4.5	0.4	1.0	1.2
USD Export Growth (Percent)	2.5	6.7	2.6	6.6	7.2	6.3
USD Import Growth (Percent)	2.3	4.3	2.7	6.5	7.1	6.4
Non-interest Current Account Balance (Percent of GDP) 2/	-4.6	-1.6	-2.0	-3.6	-2.0	0.4
Net FDI (negative = inflow)	-0.7	-0.4	-0.6	-0.8	-0.9	-0.9
Grant element of new public sector borrowing (in percent)	24.9	24.8	32.7	23.8	23.8	33.5
External Debt (Percent of GDP)	44.5	46.3	46.0	40.5	42.2	44.0
Public Sector Debt (Percent of GDP)	61.1	59.7	57.4	61.5	59.7	57.9

Sources: IMF Country Report and IMF staff calculations.
Note: All values are based on averages. E.g. 2023–28 is the average of FY23/24–FY28/29.
1/ Positive indicates a deficit, negative indicates a surplus.
2/ Estimates for 2023 DSA were based on pre-revised BOP data so projections have a structural break.

- **Concessional borrowing:** External loan disbursements incorporate the authorities' most recent projections and reflect commitments from donors. Concessional external borrowing is assumed to remain central for financing large investment projects. Effective July 1, 2025, Lesotho was reclassified to the IDA-only lending terms[15], following three consecutive years of gross national income (GNI) per capita falling below the operational cut-off. The grant element of new borrowing will increase and the profile for concessionality are then assumed to reflect the latest changes of Lesotho's IDA eligibility criteria. Still, the country's multilateral concessional borrowing accounts for the bulk of new borrowing followed by official bilateral loans.

- **Domestic borrowing:** In line with the authorities' medium-term goals, the development of the domestic debt market is assumed to continue. The baseline assumes that the share of domestic debt in total debt will be in line with financial sector growth. The profile for medium-term domestic borrowing and the mix of instruments are assumed to stay broadly in line with the authorities' current borrowing terms, and to gradually move to a moderately developed domestic debt market in the long term that relies more on longer-term maturities, following the LIC-DSF guidelines.

7. The realism of the macroeconomic framework is confirmed by standard measures. However, high uncertainty over the outlook and ongoing revisions to historical data call for caution for interpretating these results (Figures 3 and 4).

- **Public debt:** The trajectory of public debt over the medium term improved slightly compared to the 2024 DSA due to that the starting point is lower. According to the realism tool, based on a comparison of debt-creating flows over the past five years with the future five-year projected change, the projected improvement in the primary fiscal balance has a greater effect on the breakdown of debt-creating flows. This effect, however, will be almost offset by a greater impact from the authorities' further accumulation of reserves. Also, looking at the contribution of unexpected changes from past five years' projections, the unexplained change in public debt is lower than the LIC median and the lower bound of the interquartile range, which has been largely explained by a much higher fiscal balance and lower real interest rate, offsetting the impacts from greater pace of Rand depreciation, weaker-than-expected growth during the COVID-19 pandemic, and stronger accumulation of international reserves that turns up in the residual. The realism tool also shows that the projected three-year adjustment in the primary balance is towards the bottom quartiles because of a projected decline in primary balances, as grant receipts are projected to decline, reflecting the withdrawal of USAID health-related support and the discontinuation of MCC financing, while fiscal response to the shock will also ramp up (as discussed in the fiscal policy assumptions). The estimated impact of lower fiscal surpluses projected for FY25/26 and FY26/27 on growth are smaller than those implied by the default fiscal multipliers. This is because the baseline growth path incorporates the adverse effects of recent US tariff increases, and that the narrowing of medium-term fiscal surpluses primarily

[15] Lesotho was reclassified by the World Bank from Gap to IDA-only country, and the reclassification changes the country's IDA eligibility criteria, increasing Lesotho's access to concessional resources under IDA21. In FY26, Lesotho is eligible for the Global and Regional Opportunities Window (GROW), Crisis Response Window (CRW), regular Scale-Up Window (SUW), Shorter Maturity Loans provided through SUW (SUW-SMLs), and Private Sector Window (PSW).

stems from smaller revenue intake and higher recurrent spending, rather than an expansion in growth-enhancing capital expenditure, which remains subdued. Differences in public and private investment from the previous DSA are due to historical data revisions.

- **External debt:** The external debt trajectory is broadly similar to the 2024 DSA, although the downward revision to long-term growth assumptions exerts upward pressure on debt ratios over the forecast horizon. The current account deficit—historically the main driver of external debt accumulation—is projected to remain a key contributor over the next five years. While water royalties are expected to strengthen export performance, the positive impact will be offset by weaker textile and diamond exports following the imposition of U.S. tariffs. The previous large residuals to external debt accumulation are attributable to capital transfers from South Africa used to finance the LHWP-II, which will gradually subside as imports from LHWP-II wind down. Future slower rand depreciation, lower inflation, and real GDP growth underpinned by infrastructure projects will help reduce debt. The unexpected changes in external debt in the past five years, are similar to those for overall public debt—lower than the LIC medium and the lower bound of the interquartile range, and mainly explained by stronger-than-expected SACU transfers and additional water royalties, which more than offset the effects of reserve accumulation, currency depreciation, and lower growth.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. **Lesotho has a medium debt carrying capacity** (Text Table 5). Debt carrying capacity is determined by a composite indicator (CI) that includes the World Bank's Country Policy and Institutional Assessment score, global economic growth, Lesotho's real growth rate, import coverage of reserves, and remittances. The composite indicator for the April 2025 WEO data and the World Bank's 2023 CPIA score yields a medium CI rating 3.03, higher than the previous vintage of 2.94.

9. **Lesotho does not trigger other tailored stress tests.** Apart from the contingent liability tailored shock described above, Lesotho's economic characteristics do not trigger any of the tailored stress tests on natural disasters, commodity prices, and/or market financing risk module.

Text Table 5. Lesotho: Debt Carrying Capacity

Country	Lesotho
Country Code	666
Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium	Medium	Medium
	3.03	2.94	2.90

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.320	1.28	42%
Real growth rate (in percent)	2.719	0.853	0.02	1%
Import coverage of reserves (in percent)	4.052	44.458	1.80	59%
Import coverage of reserves^2 (in percent)	-3.990	19.765	-0.79	-26%
Remittances (in percent)	2.022	15.494	0.31	10%
World economic growth (in percent)	13.520	2.967	0.40	13%
CI Score			3.03	100%
CI rating			Medium	

New framework	Cut-off values			
Weak	CI <	2.69		
Medium	2.69	≤ CI ≤		3.05
Strong	CI >	3.05		

Reference: Thresholds by Classiciation

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of	35	55	70

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

10. **Under the baseline scenario, the PV of external debt-to-GDP ratio remains below, but close to, its corresponding thresholds** (Tables 1 and 2, and Figure 1). The present value (PV) of PPG external debt-to-GDP is expected to remain stable in the coming years. Even amid higher water royalties and fiscal surpluses, the authorities have not yet made substantial changes to their medium-term borrowing strategy, which continues to be supported by new loans for capital projects and disbursements from old loans. The medium-term external debt-to-GDP ratio will stay similar to the previous DSA (Text Table 4), but has improved in PV terms because more favorable grant elements of future borrowing has more than offset the weaker GDP growth projections, alleviating the burden of future debt service, even as nominal debt dynamics remain broadly unchanged. All baseline indicators of external debt sustainability remain below their thresholds.

11. **Stress tests show that Lesotho's external debt is most vulnerable to the exchange rate, followed by combined contingent liabilities shocks, exports, and current transfers-to-GDP**[16] (Tables 2, and Figure 1). For these shocks, the PV of PPG external debt-to-GDP would breach the 40 percent threshold in FY27/28 under the most extreme shock of depreciation, and remain above the threshold during the entire forecast horizon. The rest of the debt indicators remain below their respective thresholds under the stress tests. The breach of PV of debt-to-GDP ratio in the historical scenario is due to the revision of historical national-account and current-account data. Given the large revisions and the new medium-term outlook for the external balance, the historical scenario should be interpreted with caution, as it fully discounts the impact of the recent water-royalty

[16] Under the standardized stress tests this is captured in other flows shock.

agreement and effects of tariffs on future exports, while assuming instead that key macroeconomic variables in the baseline projection will be permanently replaced by their 10-year historical averages.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

12. Under the baseline, the PV of total public debt-to-GDP remains below its corresponding threshold (Table 3 and 4, and Figure 2). The present value (PV) of total public debt-to-GDP is expected to stabilize in the medium term, and on average is lower than the 2024 DSA due to the lower base from FY24/25 especially the domestic debt stock and the change in the IDA concessionality. The PV of the debt-to-revenue ratio remains broadly similar to the previous DSA, while debt service-to-revenue ratio improved, reflecting a smaller share of expensive domestic debt in the financing mix in the short term and a lower overall repayment burden. In the near term, domestic debt stock benefits from a low base from last year due to the larger redemption, while the authorities still intend to issue similar amount every year to develop the domestic debt market. Over the medium term, Lesotho plans to gradually retire part of the expensive domestic debt and continue to rely on borrowing in concessional terms to finance its capital projects.

13. Stress tests show that Lesotho's public debt is most vulnerable to shocks from real GDP growth and contingent liabilities in the standardized tests (Table 4 and Figure 2). The PV of PPG debt-to-GDP ratio would breach the 55 percent threshold in FY30/31 under the most extreme shock of GDP growth, and remain above the threshold during the entire forecast horizon. Like external debt, historical scenarios for public debt are also affected by data revisions.

14. Domestic debt indicators are projected to remain below the median for low-income countries (LICs) over the medium term (Figure 5). The temporary breach of the median domestic debt-to-GDP threshold in FY22/23 reflects both increased domestic borrowing to finance the fiscal deficit amid weak SACU receipts and the retrospective recording of previously undocumented domestic arrears. Net domestic debt issuance is projected to rise over the medium term, reflecting rising financing needs as future fiscal balances decline, and the pace of domestic debt market development keeping in line with financial sector growth; however, indicators are expected to remain largely in negative territory, suggesting projected primary surpluses and continued reliance on external financing.

RISK RATING AND VULNERABILITIES

15. The risk ratings of both Lesotho's external and overall public debt remain at "moderate" with limited space to absorb shocks. The moderate risk rating of external debt distress comes from the PV of PPG external debt-to-GDP breaching its threshold under the stress tests, while the moderate overall risk rating of public debt distress comes from the moderate risk of external debt distress and from the PV of public debt-to-GDP breaching its benchmark under the stress tests. All external and public debt indicators remain below their thresholds under the baseline. The granularity of risk rating—assessing available space the country has to absorb shocks without being downgraded to a high-risk category—remains limited (Figure 6).

16. Risks to debt sustainability are tilted to the downside. The key risks are the realization of contingent liabilities, reversal of fiscal discipline, and further arrears. Both external and total PV of debt-to-GDP ratios are close to the thresholds for high-risk, leaving limited space to absorb further shocks. Weak public financial management (PFM), inefficient capital investment, and poor liquidity management—resulting in growing domestic arrears—can quickly reduce the fiscal space available to absorb further shocks. Larger contingent liabilities also put debt sustainability at significant risk, for example, the civil service pension funding gap, weak SOE balance sheets, and asset seizures (from the disputes with Frazer Solar GmbH, Netcare Hospital Group, and Trencon). The authorities have successfully reined in the wage bill and contained spending for a second consecutive year in FY24/25, and continued fiscal prudence is strongly recommended. On the external side, despite the positive impact of additional water royalties on the external balance, uncertainty around the U.S. trade policies on exports pose new risks. A potential slowdown in South Africa and the likely non-renewal of the African Growth and Opportunity Act (AGOA) will weigh on external demand, further affecting the debt outlook. Exchange rate valuation effects amid volatile global financial conditions are also a material risk for external debt. However, the grant-financed megaprojects, such as the LHWP-II, remain supportive to the growth and debt outlook.

17. Fiscal prudence, complemented by targeted support to the most vulnerable in face of shocks and reforms to strengthen governance and spending efficiency, remains critical for debt sustainability. The DSA highlights the need for continued fiscal discipline—via controlling recurrent expenditure, improving the efficiency of capital spending, and addressing PFM weaknesses to reduce arrears and contingent liability risks—supported by structural reforms to promote higher and sustainable private sector-led growth, especially in light of recent external shocks from tariffs and cuts in external development assistance. The DSA also calls for a conservative debt management strategy focused on concessional sources wherever possible while developing the local debt market. Finally, efforts are needed to further increase debt transparency including the coverage, quality, and relatability of debt statistics, in line with the World Bank SDFP Performance and Policy Actions.

18. Enhancing economic resilience would also benefit from a gradual reduction in public liabilities, supported by the adoption and implementation of well-designed fiscal rules. Additional revenues from the water royalties present a unique and valuable opportunity to rebuild Lesotho's external buffers and prepare the country for a more shock-prone world. Beyond accumulating reserve buffers to maintain the exchange rate peg and directing fiscal space toward targeted support for those most affected by shocks, Lesotho's improved fiscal situation could allow the authorities to scale back new borrowing, and build increased resilience against future shocks such as retiring existing debt more rapidly. The authorities should also caution and prevent the accumulation of new domestic arrears to safeguard debt sustainability.

Authorities' Views

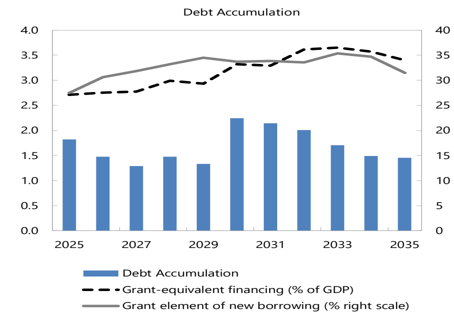
19. The authorities agreed with staff's assessment of debt sustainability, and the need for managing contingent liability risks and pursuing prudent debt management to mitigate medium-term debt vulnerabilities. They acknowledged the key risks stemming from potential realization of contingent liabilities, especially from weak SOE balance sheets, and reaffirmed their commitment to arrears clearance. They broadly agree that a prudent debt management strategy is warranted to strengthen resilience in a shock-prone environment, underpinned by the Public Debt Management Bill. In the medium term, they noted that paying down costly debt using current windfall non-tax revenues could help bring extra room for the country to absorb shocks, and gradually bring debt down to the desirable level set by the fiscal rules. They also underscored the need to continue developing the local currency bond markets, and the importance of close coordination between the MoFDP and CBL in determining the optimal debt mix.

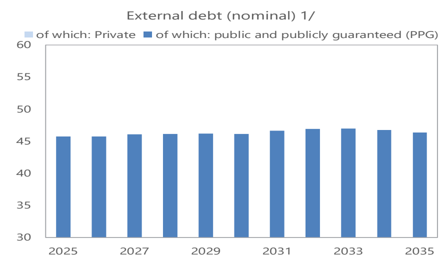
Table 1. Lesotho: External Debt Sustainability Framework, Baseline Scenario, 2022–45

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	47.1	46.9	45.6	45.7	45.7	46.1	46.1	46.2	46.1	46.4	37.9	42.0	46.3
of which: public and publicly guaranteed (PPG)	47.1	46.9	45.6	45.7	45.7	46.1	46.1	46.2	46.1	46.4	37.9	42.0	46.3
Change in external debt	5.1	-0.1	-1.4	0.2	0.0	0.3	0.1	0.0	-0.1	-0.4	-1.3		
Identified net debt-creating flows	16.4	4.0	-3.6	2.8	1.4	1.9	2.5	1.0	-0.3	-1.4	-1.4	5.8	0.7
Non-interest current account deficit	13.2	0.2	-2.9	3.2	1.7	2.0	2.9	1.8	0.5	-0.6	-0.5	5.8	1.2
Deficit in balance of goods and services	52.4	50.2	48.2	47.8	47.0	48.5	47.5	46.1	45.0	47.3	52.3	49.0	47.1
Exports	43.6	41.7	37.8	37.9	34.7	33.0	33.0	34.2	34.6	36.4	39.3		
Imports	96.0	91.9	86.0	85.7	81.7	81.5	80.5	80.3	79.6	83.7	91.6		
Net current transfers (negative = inflow)	-17.7	-28.1	-28.9	-22.5	-23.1	-24.3	-22.5	-22.4	-22.7	-24.0	-26.8	-23.4	-23.2
of which: official	-15.7	-26.1	-27.1	-20.7	-21.4	-22.6	-20.8	-20.8	-21.1	-22.3	-24.9		
Other current account flows (negative = net inflow)	-21.4	-21.9	-22.2	-22.1	-22.1	-22.2	-22.2	-21.9	-21.8	-23.9	-26.0	-19.9	-22.7
Net FDI (negative = inflow)	-0.8	1.9	0.4	-0.5	-0.5	-0.5	-0.5	-0.8	-0.8	-0.9	-1.0	-1.1	-0.7
Endogenous debt dynamics 2/	4.0	1.9	-1.1	0.0	0.2	0.3	0.1	0.0	0.1	0.1	0.0		
Contribution from nominal interest rate	0.8	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.6		
Contribution from real GDP growth	-0.9	-1.0	-1.0	-0.6	-0.5	-0.4	-0.6	-0.7	-0.7	-0.7	-0.6		
Contribution from price and exchange rate changes	4.0	2.3	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	-11.3	-4.1	2.2	-2.6	-1.4	-1.5	-2.4	-1.0	0.2	1.0	0.2	-4.9	-0.6
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	32.3	32.8	33.1	33.5	33.7	33.9	33.9	33.5	26.3		
PV of PPG external debt-to-exports ratio	...	...	85.5	86.5	95.3	101.6	102.2	98.9	98.0	92.0	66.8		
PPG debt service-to-exports ratio	7.4	7.5	10.8	6.9	7.7	8.4	8.3	7.7	7.1	8.1	6.9		
PPG debt service-to-revenue ratio	7.7	5.8	6.9	4.5	4.7	4.8	4.9	4.7	4.5	6.2	5.8		
Gross external financing need (Million of U.S. dollars)	356.1	115.9	35.5	127.4	97.2	109.3	134.8	98.2	61.5	54.3	78.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.0	2.1	2.2	1.4	1.1	0.8	1.4	1.5	1.5	1.5	1.5	0.1	1.4
GDP deflator in US dollar terms (change in percent)	-8.7	-4.6	1.5	2.6	2.5	1.7	2.4	1.9	4.9	3.8	3.8	-0.4	2.9
Effective interest rate (percent) 4/	1.8	1.2	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.6	1.7	1.6
Growth of exports of G&S (US dollar terms, in percent)	-12.4	-7.0	-5.9	4.4	-5.1	-2.6	3.8	7.4	7.6	6.7	6.4	0.9	3.8
Growth of imports of G&S (US dollar terms, in percent)	-4.6	-6.8	-2.9	3.7	-1.2	2.3	2.6	3.2	5.5	6.3	6.4	-0.5	4.0
Grant element of new public sector borrowing (in percent)	...	...	...	27.5	30.7	33.2	34.5	33.7	33.9	34.7	35.1	...	33.0
Government revenues (excluding grants, in percent of GDP)	41.5	54.2	59.3	58.0	57.1	57.1	55.3	55.6	54.7	47.4	46.7	47.2	52.6
Aid flows (in Million of US dollars) 5/	793.9	789.6	815.1	85.2	84.5	71.3	72.0	55.6	67.0	81.0	129.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	2.8	2.8	3.0	2.9	3.3	3.4	3.0	...	3.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	49.0	52.3	53.5	54.2	56.3	52.9	55.4	63.1	...	54.5
Nominal GDP (Million of US dollars)	2,275	2,215	2,298	2,391	2,478	2,542	2,640	2,731	2,908	3,782	6,399		
Nominal dollar GDP growth	-6.9	-2.7	3.8	4.0	3.7	2.6	3.9	3.5	6.4	5.4	5.4	-0.4	4.4
Memorandum items:													
PV of external debt 7/	...	...	32.3	32.8	33.1	33.5	33.7	33.9	33.9	33.5	26.3		
In percent of exports	...	...	85.5	86.5	95.3	101.6	102.2	98.9	98.0	92.0	66.8		
Total external debt service-to-exports ratio	7.4	7.5	10.8	6.9	7.7	8.4	8.3	7.7	7.1	8.1	6.9		
PV of PPG external debt (in Million of US dollars)			743.0	784.9	820.2	852.1	889.6	924.7	986.1	1268.1	1679.9		
(PVt-PVt-1)/GDPt-1 (in percent)				1.8	1.5	1.3	1.5	1.3	2.2	1.5	0.3		
Non-interest current account deficit that stabilizes debt ratio	8.1	0.4	-1.5	3.0	1.7	1.7	2.8	1.8	0.6	-0.2	0.7		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Lesotho: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–35

(In percent of GDP)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to GDP ratio											
Baseline	33	33	33	34	34	34	34	34	34	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	33	37	**41**	**44**	**48**	**55**	**61**	**68**	**74**	**81**	**88**
B. Bound Tests											
B1. Real GDP growth	33	33	35	36	36	36	36	36	36	36	35
B2. Primary balance	33	33	37	37	38	38	38	38	38	38	37
B3. Exports	33	33	**44**	**44**	**44**	**44**	**44**	**44**	**44**	**43**	**43**
B4. Other flows 3/	33	33	**42**	**42**	**43**	**42**	**43**	**43**	**42**	**41**	**40**
B5. Depreciation	33	33	**43**	**44**	**45**	**47**	**49**	**51**	**52**	**53**	**53**
B6. Combination of B1-B5	33	33	34	34	34	34	34	35	35	35	34
C. Tailored Tests											
C1. Combined contingent liabilities	33	33	**43**	**44**	**45**	**45**	**45**	**45**	**45**	**45**	**44**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	86	95	101	102	98	97	98	97	96	94	91
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	86	107	124	134	142	158	176	**193**	**209**	**225**	**242**
B. Bound Tests											
B1. Real GDP growth	86	95	101	102	98	97	98	97	96	94	91
B2. Primary balance	86	95	112	113	110	109	110	109	107	105	102
B3. Exports	86	95	152	152	147	146	146	144	142	138	134
B4. Other flows 3/	86	95	128	128	124	123	123	121	118	114	111
B5. Depreciation	86	95	131	135	133	137	141	144	147	147	147
B6. Combination of B1-B5	86	95	92	111	108	107	108	107	106	104	102
C. Tailored Tests											
C1. Combined contingent liabilities	86	95	131	133	130	130	130	129	127	124	121
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7	8	8	8	8	7	7	7	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	7	8	9	10	10	10	11	12	14	**15**	**17**
B. Bound Tests											
B1. Real GDP growth	7	8	8	8	8	7	7	7	8	8	8
B2. Primary balance	7	8	8	9	8	7	7	8	9	9	9
B3. Exports	7	8	11	11	10	10	10	10	11	12	12
B4. Other flows 3/	7	8	9	9	8	8	8	8	9	10	10
B5. Depreciation	7	8	8	9	9	8	8	9	9	11	11
B6. Combination of B1-B5	7	8	10	10	9	8	8	9	9	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	9	9	8	8	8	8	9	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	5	5	5	5	5	4	5	5	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	5	5	5	6	6	6	8	9	10	12	13
B. Bound Tests											
B1. Real GDP growth	5	5	5	5	5	5	5	6	6	6	7
B2. Primary balance	5	5	5	5	5	5	5	6	6	7	7
B3. Exports	5	5	5	6	6	5	6	6	7	8	8
B4. Other flows 3/	5	5	5	5	5	5	6	6	7	8	8
B5. Depreciation	5	5	5	5	5	5	6	6	7	8	9
B6. Combination of B1-B5	5	5	5	5	5	5	6	6	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	5	5	5	6	6	6	7	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

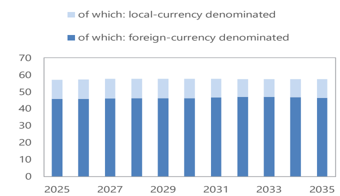
Table 3. Lesotho: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–45

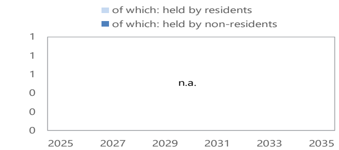
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	64.4	61.5	56.8	57.0	57.1	57.6	57.7	57.7	57.6	57.4	59.6	**53.0**	**57.5**
of which: external debt	47.1	46.9	45.6	45.7	45.7	46.1	46.1	46.2	46.1	46.4	37.9	**42.0**	**46.3**
Change in public sector debt	6.4	-2.9	-4.6	0.2	0.1	0.5	0.1	0.0	-0.1	0.0	0.5		
Identified debt-creating flows	11.6	-8.9	-12.6	-5.6	-6.2	-5.7	-4.4	-4.5	-3.7	0.7	1.1	**1.1**	**-2.4**
Primary deficit	4.6	-9.3	-11.0	-4.7	-5.7	-5.5	-3.9	-4.0	-3.2	1.2	1.2	**0.3**	**-1.9**
Revenue and grants	44.4	56.7	62.5	59.6	58.8	58.8	57.1	57.4	56.6	49.6	48.7	**50.7**	**54.3**
of which: grants	3.0	2.5	3.3	1.6	1.6	1.6	1.7	1.7	1.8	2.1	2.0		
Primary (noninterest) expenditure	49.0	47.4	51.5	54.9	53.1	53.2	53.1	53.4	53.4	50.8	49.9	**51.0**	**52.4**
Automatic debt dynamics	7.0	0.4	-1.6	-0.9	-0.5	-0.2	-0.5	-0.5	-0.5	-0.6	-0.2		
Contribution from interest rate/growth differential	-2.8	-2.0	-1.3	-0.9	-0.5	-0.2	-0.5	-0.5	-0.5	-0.6	-0.2		
of which: contribution from average real interest rate	-1.7	-0.7	0.0	-0.1	0.1	0.3	0.3	0.3	0.4	0.3	0.7		
of which: contribution from real GDP growth	-1.1	-1.3	-1.3	-0.8	-0.6	-0.5	-0.8	-0.9	-0.9	-0.9	-0.9		
Contribution from real exchange rate depreciation	9.8	2.5	-0.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-5.2	6.0	8.0	5.8	6.3	6.2	4.5	4.5	3.6	-0.7	-0.6	**0.4**	**2.5**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.6	44.1	44.5	45.0	45.2	45.3	45.4	45.2	49.5		
PV of public debt-to-revenue and grants ratio	...	...	69.7	74.1	75.7	76.6	79.2	79.0	80.2	91.3	101.7		
Debt service-to-revenue and grants ratio 3/	17.1	11.9	13.6	8.7	8.5	8.5	8.6	8.9	9.0	10.3	13.5		
Gross financing need 4/	12.2	-2.6	-2.5	0.5	-0.7	-0.5	1.0	1.1	1.9	6.3	7.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.0	2.1	2.2	1.4	1.1	0.8	1.4	1.5	1.5	1.5	1.5	**0.1**	**1.4**
Average nominal interest rate on external debt (in percent)	1.8	1.3	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.8	1.7	**1.7**	**1.7**
Average real interest rate on domestic debt (in percent)	2.5	1.9	3.0	3.9	3.5	3.7	3.7	3.9	4.0	3.0	3.9	**1.8**	**3.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	25.1	5.5	-0.7	...	...	...	...	...	...	...	...	**3.5**	**...**
Inflation rate (GDP deflator, in percent)	4.4	5.2	4.3	3.8	4.5	4.8	4.9	4.8	4.9	5.2	5.2	**4.9**	**4.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	-4.6	-1.3	11.2	8.0	-2.3	1.2	1.2	2.0	1.5	1.3	1.3	**0.6**	**1.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.8	-6.4	-6.3	-4.9	-5.8	-6.0	-4.0	-4.0	-3.1	1.3	0.7	**-4.9**	**-1.9**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Lesotho: Sensitivity Analysis for Key Indicators of Public Debt, 2025–35

(In percent of GDP)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
					PV of Debt-to-GDP Ratio						
Baseline	44	44	45	45	45	45	45	45	45	45	45
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	44	44	50	54	**58**	**61**	**61**	**61**	**61**	**61**	**61**
B. Bound Tests											
B1. Real GDP growth	44	44	49	51	53	**55**	**57**	**58**	**59**	**61**	**62**
B2. Primary balance	44	44	50	50	50	50	50	49	49	49	49
B3. Exports	44	44	50	50	50	50	50	50	50	50	49
B4. Other flows 3/	44	44	54	54	54	54	54	54	53	53	52
B5. Depreciation	44	44	**57**	**55**	53	53	52	50	49	48	47
B6. Combination of B1-B5	44	44	49	47	47	47	47	47	47	47	47
C. Tailored Tests											
C1. Combined contingent liabilities	44	44	55	**55**	**56**	**56**	**56**	**56**	**56**	**56**	**56**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	74	76	76	79	79	80	90	90	90	90	91
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	74	76	84	94	101	108	122	122	121	121	122
B. Bound Tests											
B1. Real GDP growth	74	76	83	90	93	97	113	116	119	122	126
B2. Primary balance	74	76	84	87	87	88	99	99	99	99	99
B3. Exports	74	76	85	88	88	89	100	100	100	100	100
B4. Other flows 3/	74	76	91	94	94	95	108	107	107	106	105
B5. Depreciation	74	76	97	97	93	93	103	101	99	97	95
B6. Combination of B1-B5	74	76	83	83	82	84	94	94	94	94	94
C. Tailored Tests											
C1. Combined contingent liabilities	74	76	71	74	76	77	89	90	92	93	95
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	9	9	9	9	9	9	9	10	10	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	9	9	9	10	11	11	12	13	13	13	13
B. Bound Tests											
B1. Real GDP growth	9	9	9	9	10	10	11	12	13	13	13
B2. Primary balance	9	9	9	10	10	10	10	11	11	11	11
B3. Exports	9	9	9	9	9	9	9	10	10	11	11
B4. Other flows 3/	9	9	9	9	9	9	9	11	11	12	12
B5. Depreciation	9	8	8	9	9	9	9	10	10	11	10
B6. Combination of B1-B5	9	9	9	9	9	10	9	11	11	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	11	11	11	11	10	11	11	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

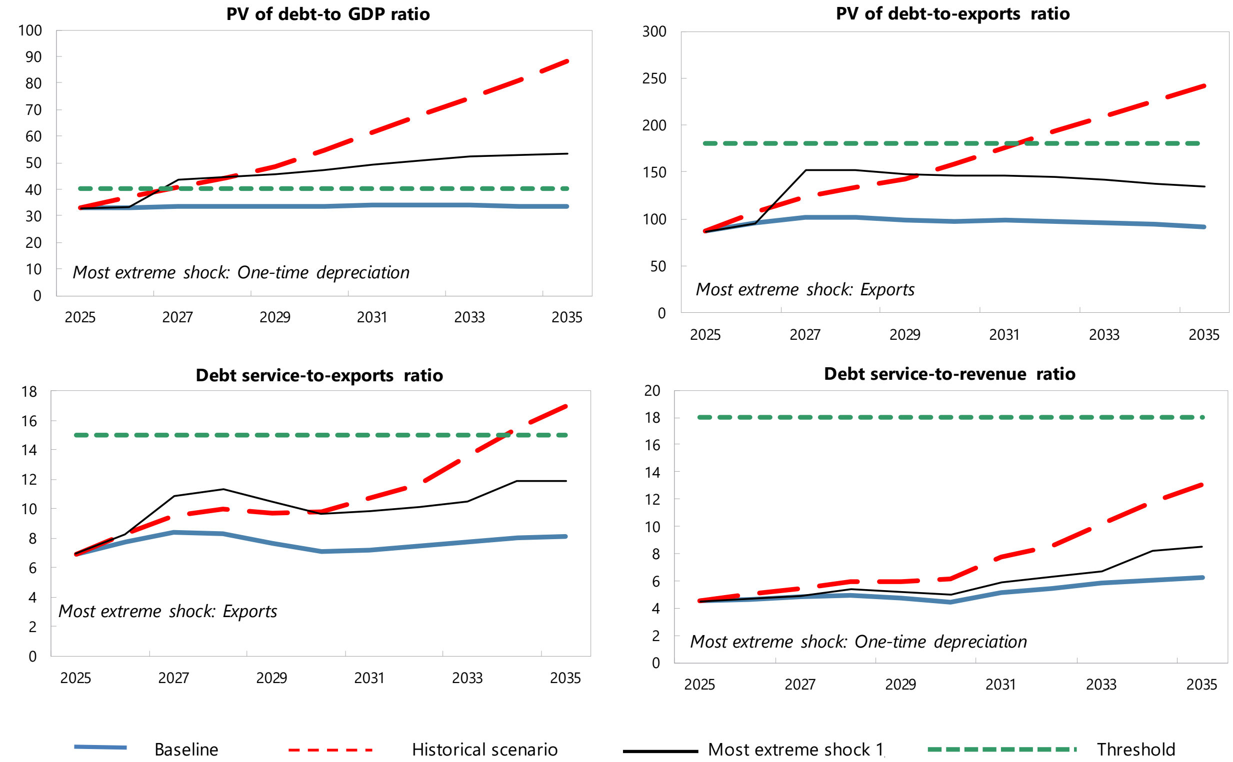
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Lesotho: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2025–35



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	6	6

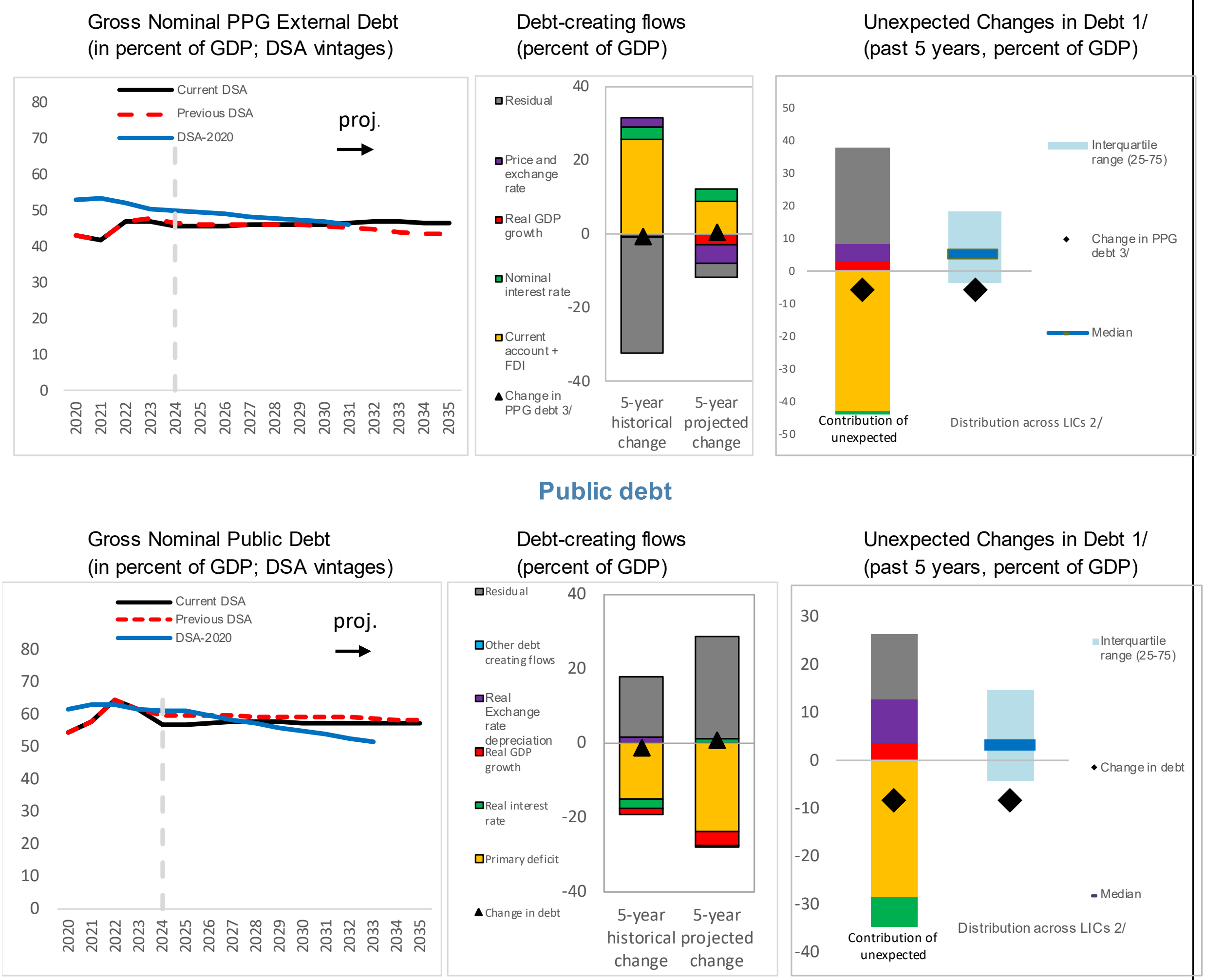
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 3. Lesotho: Drivers of Debt Dynamics – Baseline Scenario External Debt



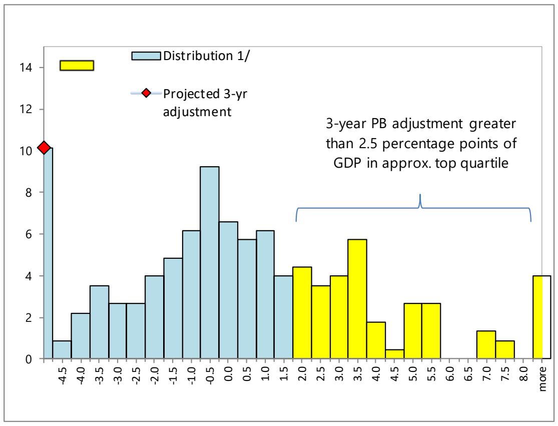
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

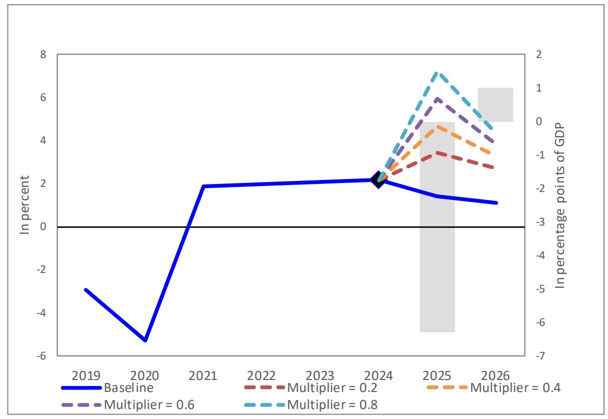
Figure 4. Lesotho: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

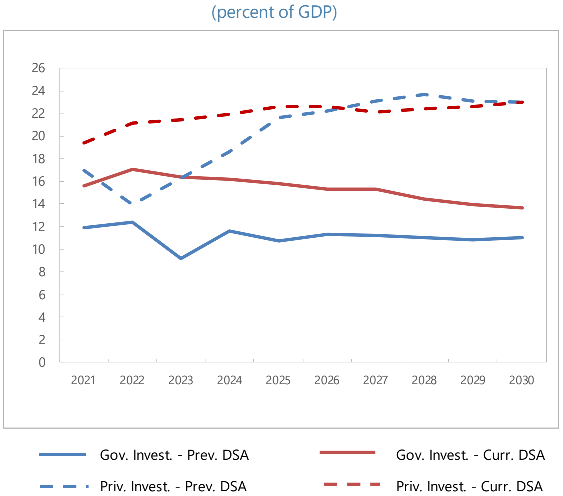
Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates

(percent of GDP)



Contribution to Real GDP growth

(percent, 5-year average)

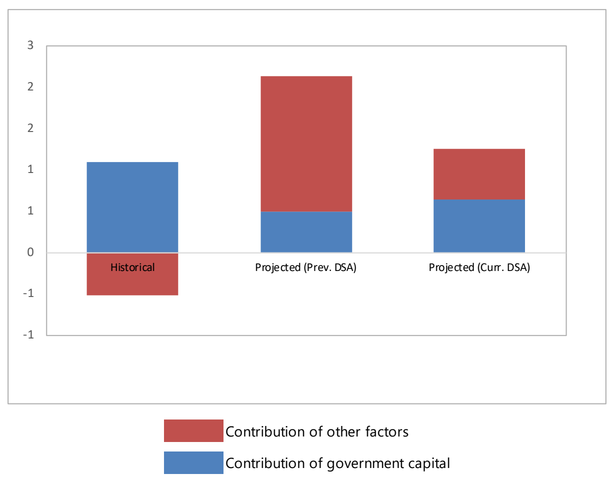
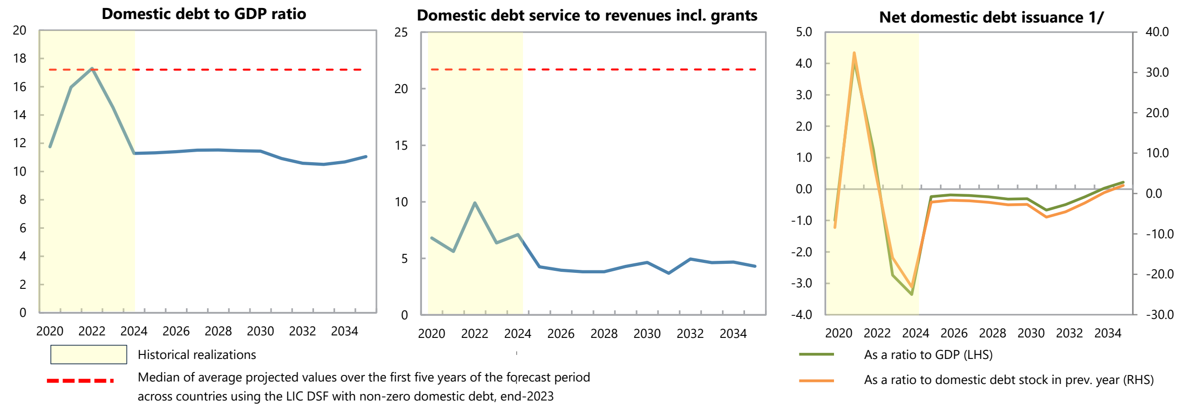


Figure 5. Lesotho: Indicators of Domestic Public Debt, 2020-2035
(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	100%
Short-term	0%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.7%
Avg. maturity (incl. grace period)	5
Avg. grace period	4
Domestic short-term debt	
Avg. real interest rate	1.9%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 6. Lesotho: Qualification of the Moderate Category, 2025–2035[1]

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.