INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL MONETARY FUND

KINGDOM OF LESOTHO

Joint World Bank-IMF Debt Sustainability Analysis

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Prepared Jointly by the staffs of the International Development Association (IDA)

and the International Monetary Fund (IMF)

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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*

This DSA[1] assesses Lesotho's risk of external and overall debt distress at moderate despite the impact of the COVID shock, but risks to debt sustainability have risen since the last DSA.[2] The overall risk of debt distress is also assessed to be moderate. The moderate risk tool suggests limited space to absorb shocks. The results of the DSA highlight the rapid increase in debt levels over the past 3 years, particularly on the domestic side, as well as the impact of the large depreciation of the exchange rate against the US dollar in early 2020 and additional financing needed for COVID mitigation measures. The results also point to the importance of addressing financing shortfalls of the pension fund, building buffers to mitigate external shocks, and maintaining a conservative approach to debt contraction. Recent undersubscription of domestic debt auctions underscores the limited absorption capacity of domestic markets. Controlling current expenditure will be essential to reduce pressure to expand domestic issuance, restore external balances, and mitigate vulnerabilities. Finally, the authorities are encouraged to carefully vet new investment projects to ensure that new borrowing is productive.

[1] This DSA updates the previous Joint DSA from April 2019 (IMF Country Report No. 19/113). This DSA follows the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries (December 26, 2017).

[2] Lesotho's debt carrying capacity is assessed to be medium based on the composite indicator of 3.02 as described in this DSA.

PUBLIC DEBT COVERAGE

1. **Lesotho's public debt data covers the central government, the central bank, and government-guaranteed debts.** Debt coverage is similar to the previous DSA (Text Table A.1.1). While coverage does not include extrabudgetary units such as the Road Fund, the contingent liability of the pension fund, estimated between 10 and 20 percent of GDP, is included in the contingent liability stress test. Increasing participant contributions would gradually reduce the unfunded liabilities. Guaranteed SOE debt is covered by debt data and preliminary estimates on non-guaranteed SOE debt are also included in the analysis. Guaranteed debt related to COVID stimulus measures are also included. Since those estimates are not comprehensive, another 2 percent of GDP is added to the contingent liability stress test. The contingent liability stress test also includes 5 percent of GDP for a financial market shock and 35 percent of the PPP capital stock, which is estimated to be 3.2 percent of GDP (Text Table A.1.2). External debt is defined based on currency-criterion as there is no foreign holdings of local-currency debt. The authorities will begin publishing outstanding debt, including guarantees, of SOEs on the website of the Ministry of Finance in agreement with the World Bank under the Sustainable Development Financing Policy (SDFP).

Text Table A.1.1. Lesotho: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

	Subsectors of the public sector	Sub-sectors covered
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	

Text Table A.1.2. Lesotho: Summary of Shocks Used for the Contingent Liabilities Stress Test

		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	20.7	Contingent liabilities representing the funding shortfall of the civil service pension fund.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	1.1	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)			28.8	

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

2. Lesotho's total public debt exceeded 50 percent of GDP in FY 2019/20 from 48 percent the previous year (Text Table A.1.3).[3] The increase was driven by new external and domestic borrowing, a sharp weakening of the rand to which the maloti is pegged, and revisions to national accounts data. Higher levels of domestic borrowing also reflect efforts by the authorities to finance larger deficits in recent years. External debt accounts for more than three-quarters of total debt and is largely owned to multilateral creditors on a concessional basis. The main creditor is the International Development Association (IDA) followed by the African Development Fund (ADF), the European Investment Bank (EIB), and the IMF. On the bilateral front, the main creditors are China and Kuwait.

Text Table A.1.3. Lesotho: Stock of Outstanding Debt, 2014/15–2019/20

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			(in million USD)			
Domestic Debt	104	99	115	181	239	201
External Debt	825	841	849	899	894	891
Multilateral	692	709	727	780	758	757
IDA	273	292	295	331	344	364
ADF	167	167	159	165	166	166
EIB	102	95	127	135	108	101
IMF	68	70	65	61	49	34
Other	83	85	82	91	94	96
Bilateral	129	132	123	124	137	134
China EXIM Bank	57	54	50	49	63	62
Kuwait Fund	29	29	27	26	24	22
Saudi Fund	23	23	23	22	15	20
Abu Dhabi Fund	10	16	15	17	15	13
India EXIM Bank	7	6	6	5	5	4
Other	4	3	3	6	15	14
Commercial	5	0	0	0	0	0
Total	**930**	**941**	**965**	**1,080**	**1,133**	**1,092**
			(in percent of GDP)			
Domestic Debt	4.5	4.8	4.8	6.7	10.2	10.0
External Debt	36.0	40.4	35.3	33.2	38.1	44.4
Multilateral	30.2	34.1	30.2	28.8	32.3	37.7
IDA	11.9	14.0	12.3	12.2	14.7	18.1
ADF	7.3	8.0	6.6	6.1	7.1	8.3
EIB	4.4	4.6	5.3	5.0	4.6	5.0
IMF	3.0	3.4	2.7	2.3	2.1	1.7
Other	3.6	4.1	3.4	3.4	4.0	4.8
Bilateral	5.6	6.3	5.1	4.6	5.8	6.7
China EXIM Bank	2.5	2.6	2.1	1.8	2.7	3.1
Kuwait Fund	1.3	1.4	1.1	0.9	1.0	1.1
Saudi Fund	1.0	1.1	0.9	0.8	0.6	1.0
Abu Dhabi Fund	0.4	0.7	0.6	0.6	0.6	0.7
India EXIM Bank	0.3	0.3	0.2	0.2	0.2	0.2
Other	0.2	0.2	0.1	0.2	0.6	0.7
Commercial	0.2	0.0	0.0	0.0	0.0	0.0
Total	**40.6**	**45.2**	**40.1**	**39.9**	**48.3**	**54.4**

Source: Country authorities and staff estimates.

Note: Domestic Debt includes arrears and guarantees.

[3] The fiscal year runs from April 1 to March 31.

Assumptions

3. **The macroeconomic framework reflects the worsened outlook since the previous DSA** (Text Table A.1.4). The framework underlying this DSA is the same as that included in the staff report of the 2020 RCF and RFI request which reflects recent global developments. The current macroeconomic framework reflects currently available information. However, updates with respect to economic impact and policy response to the COVID-19 crisis are rapidly evolving and risks are tilted to the downside. Despite the continued expansionary fiscal stance, real GDP growth for the medium term and long has fallen with respect to the previous DSA, due to the COVID-19 crisis and weakened prospects for the main industrial sectors (mining and textile). Inflation projections are slightly lower in line with monetary policy developments in South Africa. A primary fiscal deficit of about 2 percent on average is expected for the medium term as lower SACU revenues and wage pressures prevent additional consolidation, contributing to the increase in public debt. Over the long run, the primary fiscal deficit is unchanged from the previous DSA. On the external sector, the LHWP-II project and lingering weakness in the export sectors from the COVID crisis lead to a current account deficit of around 13 percent of GDP in the medium term. The increase in debt levels with respect to the previous DSA reflects significant financing needs related to the COVID crisis, the higher levels of domestic issuances, and weaker exchange rate dynamics.

Text Table A.1.4. Lesotho: Macroeconomic Assumptions

	2019 DSA 2018-23	2020 DSA 2019-24	2019 DSA 2024-38	2020 DSA 2025-39
Real GDP Growth (Percent)	2.5	1.8	2.9	3.7
Inflation (Percent)	5.5	4.8	5.5	4.9
Primary Deficit (Percent of GDP)	0.8	1.9	0.4	0.5
USD Export Growth (Percent)	6.5	4.5	6.3	6.8
USD Import Growth (Percent)	5.3	3.9	5.2	5.7
Non-interest Current Account Balance (Percent of GDP)	-9.6	-12.8	-2.7	-1.6
Net FDI (negative = outflow)	-1.6	-0.9	-1.7	-0.9
Grant element of new public sector borrowing (in percent)	26.9	32.1	20.8	21.1
External Debt (Percent of GDP)	35.7	51.4	34.5	45.6
Public Sector Debt (Percent of GDP)	50.2	61.9	51.0	52.0

Sources: IMF Country Report No. 19/113 and staffs estimates and projections.

4. **External borrowing at concessional terms is expected to decline moderately, while remaining significant.** As Lesotho grows and graduates from some concessional borrowing sources and the domestic market develops, concessionality is expected to decline gradually over the long term. However, concessional external borrowing will remain critical for financing large investment projects. In line with the authorities' medium-term goals, the development of the domestic debt market is assumed to continue.

5. **The realism of the macroeconomic framework is supported by several checks, although the unprecedented nature of the current crisis calls for caution in interpretation of these results** (Figures A.1.3 and A.1.4). The path for external debt accumulation is steeper with respect to the previous DSA. The current account deficits and a methodological change to the compilation of remittances have

been the main driver of unexpected changes in external debt over the past 5 years.[4] Over the medium term, the current account deficit is expected to be financed with the support of South African capital transfers, in particular those financing the LHWP-II. More inflows are also anticipated on the back of green energy and other infrastructure projects. Unexpected changes in debt have not been significant over the past five years. GDP growth is expected to be boosted by LHWP-II-related construction. As LHWP-II is not accounted as government capital spending, however, the contribution of government capital to real GDP growth is expected to remain low.[5]

Country Classification and Determination of Scenario Stress Tests

6. Lesotho has a medium debt carrying capacity (Text Table A.1.5)**.** 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 October 2019 WEO and the World Bank's CPIA 2018 CPIA score yields a medium CI rating (3.02), as in the previous vintage.

7. 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 A.1.5. Lesotho: Debt Carrying Capacity

Debt Carrying Capacity and Thresholds

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 3.02	Medium 2.99	Medium 2.94

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

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	3.327	1.28	42%
Real growth rate (in percent)	2.719	2.296	0.06	2%
Import coverage of reserves (in percent)	4.052	33.406	1.35	45%
Import coverage of reserves^2 (in percent)	-3.990	11.159	-0.45	-15%
Remittances (in percent)	2.022	14.489	0.29	10%
World economic growth (in percent)	13.520	3.499	0.47	16%
CI Score			3.018	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 GDP	35	55	70

[4] The authorities recently updated compensation of employee inflows in the primary income account. The revision increased inflows by roughly M2.5 billion per year (about 8 percent of GDP).

[5] The LHWP-II-related capital transfers also account for much of the large residuals in the external debt table (Table A.1.2) in the medium term.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

8. All external debt sustainability indicators remain below their corresponding thresholds in the baseline scenario (Tables A.1.1 and A.1.2, and Figure A.1.1). The present value (PV) of PPG external debt-to-GDP is expected to reach close to the 40 percent threshold in FY 2020/21, about 10 percentage points higher than the 2019 DSA. Afterwards, it is expected to slowly decline as domestic borrowing expands and financing needs decline. The higher levels of external borrowing mainly reflect additional financing needs to address the COVID crisis, as well as the recent exchange rate depreciation. For example, the World Bank is discussing a Development Policy Operation in addition to a COVID health project. Lesotho is also participating in the debt services suspension initiative (DSSI) supported by the G-20 and Paris Club, which will save roughly $6 million in debt service this year.[6] This debt suspension is reflected in the macro framework and the DSA. All other indicators of external debt sustainability remain well below the thresholds.

9. Stress tests show that Lesotho's external debt vulnerabilities could emerge in the event of a realization of an export or contingent liabilities shock (Tables A.1.3 and A.1.4, and Figure A.1.1). The PV threshold of PPG external debt-to-GDP would be breached if an export shock was realized and financed with external debt. In this scenario, servicing the current account deficit would increase the PV of debt-to-GDP by close to 20 percentage points with respect to the baseline by 2030. The threshold would also be breached in the event of growth shock, primary balance shock, and contingent liabilities shock. The PV of debt-to-exports and debt service to exports breach the indicative threshold under the export shock scenario as well. All other stress scenarios remain under the thresholds for these indictors.

Overall Risk of Public Debt Distress

10. All public debt sustainability indicators remain below their corresponding thresholds in the baseline scenario (Table A.1.2 and Figure A.1.2). The PV of public debt-to-GDP is expected to reach close to 50 percent in FY 2021/22, below the 55 percent threshold, before falling below 40 percent in the long run.

11. Lesotho's public debt is vulnerable to a potential growth shock. (Table A.1.4 and Figure A.1.2). The PV threshold of public debt-to-GDP will breach in the event of a shock to growth, whereby real GDP growth is set to its historical average minus one standard deviation for the second and third year after the projections begin. Under this stress test, the PV of debt-to-GDP would rise to around 80 percent by 2030. The historical scenario, whereby real GDP growth, primary balance-to-GDP ratio, GDP deflator, non-interest current account, and net FDI flows are set to their historical averages, would also breach the indicative threshold. The 55 percent threshold would also be breached under the contingent liability and export shock scenarios.

[6] The initiative provides a time-bound suspension of official bilateral debt service payments to IDA-eligible and least developed countries.

12. **The mechanical signal for the overall risk of public debt distress is moderate.** The moderate signal comes from three of the external debt indicators and the public debt indicator breaching the threshold under the stress scenario.

Risk Rating and Vulnerabilities

13. **Lesotho's risk of external and public debt distress remains moderate, with limited space to absorb shocks** (Figure A.1.5). Notwithstanding the crisis, external and public debt and debt service indicators for the baseline remain below their respective thresholds, but shocks to contingent liabilities, growth, and exports lead to breaches. Moreover, given that the debt burden has risen significantly in recent years, the DSA results highlight the importance of a conservative debt management strategy focused on concessional sources wherever possible. Domestic debt issuance should be expanded cautiously and in line with the market's absorption capacity. The government will also need to address the pension fund's financing gap to ensure the sustainability of public sector financing. Ensuring sustainability in the post-COVID world will require strong efforts to control recurrent expenditure, particularly on the wage bill.

Authorities' Views

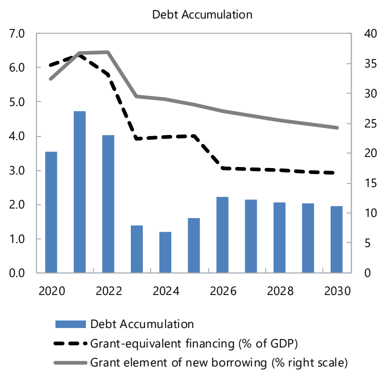
The authorities concurred with the DSA and the "moderate" risk rating, with limited space to borrow. In the context of additional financing needs amidst the COVID crisis, they acknowledged the need for additional external borrowing in the short term. However, they also noted that prudent debt management must continue in the medium term, in particular by pursuing financing with a significant grant element and that stronger capacity in the Cash Management Unit would support the forecasting of financing needs. Steps to curb the wage bill and other recurrent expenditures will also be needed to ensure debt sustainability. Finally, the authorities highlighted upcoming improvements to debt transparency in accordance with their participation in the World Bank's SDFP.

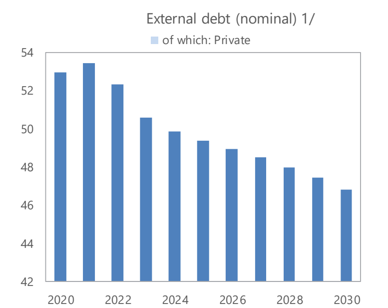
Table A.1.1. Lesotho: External Debt Sustainability Framework, Baseline Scenario, 2019–2040

(In percent of GDP, unless otherwise indicated)

	Actual	Projections											Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040	Historical	Projections
External debt (nominal) 1/	**44.4**	**53.0**	**53.4**	**52.3**	**50.6**	**49.8**	**49.4**	**49.0**	**48.5**	**48.0**	**47.4**	**46.8**	**43.1**	**35.6**	**49.8**
of which: public and publicly guaranteed (PPG)	**44.4**	**53.0**	**53.4**	**52.3**	**50.6**	**49.8**	**49.4**	**49.0**	**48.5**	**48.0**	**47.4**	**46.8**	**43.1**	**35.6**	**49.8**
Change in external debt	6.3	8.6	0.5	-1.1	-1.7	-0.7	-0.5	-0.4	-0.5	-0.5	-0.5	-0.6	-0.3		
Identified net debt-creating flows	**7.5**	**15.5**	**9.0**	**18.1**	**17.5**	**9.1**	**2.8**	**0.6**	**-0.3**	**-0.4**	**-0.1**	**-0.1**	**1.2**	**3.6**	**6.5**
Non-interest current account deficit	**7.7**	**12.5**	**11.0**	**20.1**	**19.4**	**9.9**	**3.8**	**2.4**	**1.5**	**1.4**	**1.6**	**1.6**	**2.5**	**6.0**	**7.7**
Deficit in balance of goods and services	49.5	55.3	51.7	58.0	63.2	56.5	49.7	45.0	44.0	43.5	42.5	41.8	39.6	**52.9**	**50.1**
Exports	47.7	42.1	47.7	46.9	45.3	46.8	47.2	49.9	48.9	49.4	50.0	50.6	52.0		
Imports	97.2	97.4	99.5	104.9	108.5	103.4	96.9	94.9	92.9	92.9	92.5	92.4	91.6		
Net current transfers (negative = inflow)	-22.4	-30.6	-21.7	-19.1	-23.2	-24.1	-24.1	-22.7	-24.1	-24.1	-24.1	-24.1	-23.5	**-27.6**	**-23.8**
of which: official	-18.4	-26.3	-18.0	-14.6	-18.0	-18.6	-18.6	-18.6	-18.6	-18.7	-18.7	-18.7	-18.3		
Other current account flows (negative = net inflow)	-19.4	-12.2	-19.1	-18.7	-20.6	-22.5	-21.8	-19.9	-18.5	-18.0	-16.8	-16.1	-13.6	**-19.4**	**-18.6**
Net FDI (negative = inflow)	**-1.5**	**-0.5**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-2.4**	**-0.9**
Endogenous debt dynamics 2/	**1.3**	**3.6**	**-1.0**	**-1.1**	**-0.9**	**0.1**	**-0.1**	**-0.9**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.4**		
Contribution from nominal interest rate	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	1.1		
Contribution from real GDP growth	-0.4	2.7	-1.8	-2.0	-1.8	-0.8	-1.0	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5		
Contribution from price and exchange rate changes	1.1	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**-1.3**	**-6.9**	**-8.6**	**-19.2**	**-19.3**	**-9.8**	**-3.2**	**-1.0**	**-0.2**	**-0.1**	**-0.4**	**-0.5**	**-1.4**	**-2.3**	**-6.3**
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	0.0	0.0		
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	**27.3**	**39.3**	**39.5**	**37.8**	**36.1**	**35.8**	**35.7**	**35.8**	**35.7**	**35.6**	**35.5**	**35.3**	**35.1**		
PV of PPG external debt-to-exports ratio	**57.3**	**93.4**	**82.8**	**80.6**	**79.6**	**76.4**	**75.7**	**71.7**	**73.1**	**72.1**	**71.0**	**69.8**	**67.5**		
PPG debt service-to-exports ratio	**5.8**	**8.2**	**6.8**	**6.4**	**6.1**	**6.6**	**6.4**	**5.4**	**5.8**	**5.9**	**5.9**	**5.9**	**6.5**		
PPG debt service-to-revenue ratio	**6.5**	**7.4**	**7.8**	**7.7**	**6.4**	**7.0**	**6.7**	**6.5**	**6.8**	**7.1**	**7.1**	**7.2**	**8.1**		
Gross external financing need (Million of U.S. dollars)	217.6	293.2	281.2	543.4	563.2	335.7	172.4	127.9	111.0	116.8	133.6	142.5	348.4		
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.0	-4.8	3.9	4.3	3.7	1.7	2.1	3.7	3.7	3.7	3.7	3.7	3.7	**3.2**	**2.7**
GDP deflator in US dollar terms (change in percent)	-2.7	-17.6	7.4	10.3	4.8	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3	**-0.6**	**1.9**
Effective interest rate (percent) 4/	1.7	1.5	1.9	1.9	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.7	**1.5**	**1.8**
Growth of exports of G&S (US dollar terms, in percent)	0.2	-30.7	26.3	13.2	4.9	7.7	5.5	12.2	4.0	7.3	7.3	7.4	6.3	**4.3**	**5.9**
Growth of imports of G&S (US dollar terms, in percent)	2.9	-21.3	13.8	21.4	12.3	-0.7	-1.9	3.9	3.9	6.1	5.6	5.9	5.9	**1.3**	**4.5**
Grant element of new public sector borrowing (in percent)	...	32.3	36.7	36.9	29.4	29.1	28.0	27.0	26.2	25.5	24.8	24.2	13.5	**...**	**29.1**
Government revenues (excluding grants, in percent of GDP)	42.8	46.8	41.3	39.1	43.4	44.5	45.5	41.5	41.5	41.5	41.5	41.5	41.5	**45.6**	**42.6**
Aid flows (in Million of US dollars) 5/	746.3	161.2	163.3	166.4	120.7	128.2	131.0	105.4	109.0	112.8	116.8	121.1	134.0		
Grant-equivalent financing (in percent of GDP) 6/	...	6.1	6.4	5.8	3.9	4.0	4.0	3.0	3.0	3.0	3.0	2.9	2.5	**...**	**4.1**
Grant-equivalent financing (in percent of external financing) 6/	...	49.5	52.7	54.9	63.1	61.1	58.8	49.5	48.8	48.4	48.1	47.9	39.4	**...**	**53.0**
Nominal GDP (Million of US dollars)	2,428	1,906	2,125	2,445	2,656	2,769	2,898	3,075	3,263	3,462	3,673	3,898	7,051		
Nominal dollar GDP growth	-1.8	-21.5	11.5	15.0	8.7	4.3	4.6	6.1	6.1	6.1	6.1	6.1	6.1	**2.5**	**4.8**
Memorandum items:															
PV of external debt 7/	27.3	39.3	39.5	37.8	36.1	35.8	35.7	35.8	35.7	35.6	35.5	35.3	35.1		
In percent of exports	57.3	93.4	82.8	80.6	79.6	76.4	75.7	71.7	73.1	72.1	71.0	69.8	67.5		
Total external debt service-to-exports ratio	5.8	8.2	6.8	6.4	6.1	6.6	6.4	5.4	5.8	5.9	5.9	5.9	6.5		
PV of PPG external debt (in Million of US dollars)	663.6	749.5	839.8	925.3	959.2	991.1	1035.5	1100.0	1166.2	1233.7	1304.4	1376.3	2478.0		
(PVt-PVt-1)/GDPt-1 (in percent)		3.5	4.7	4.0	1.4	1.2	1.6	2.2	2.2	2.1	2.0	2.0	2.3		
Non-interest current account deficit that stabilizes debt ratio	1.4	3.9	10.5	21.3	21.1	10.7	4.3	2.8	1.9	1.9	2.2	2.2	2.8		

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 A.1.2. Lesotho: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	39	40	38	36	36	36	36	36	36	36	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	39	38	29	18	13	14	16	20	25	30	35
B. Bound Tests											
B1. Real GDP growth	39	**41**	**42**	**40**	40	40	40	40	40	39	39
B2. Primary balance	39	**42**	**43**	**41**	**41**	**41**	**41**	**42**	**42**	**41**	**41**
B3. Exports	39	**51**	**64**	**62**	**61**	**61**	**60**	**58**	**57**	**55**	**54**
B4. Other flows 3/	39	**44**	**47**	**45**	**45**	**45**	**44**	**44**	**43**	**42**	**42**
B5. Depreciation	39	**49**	35	33	33	33	33	34	34	35	36
B6. Combination of B1-B5	39	**55**	**52**	**50**	**50**	**49**	**49**	**48**	**47**	**47**	**46**
C. Tailored Tests											
C1. Combined contingent liabilities	39	**55**	**52**	**50**	**50**	**50**	**52**	**53**	**53**	**52**	**52**
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	93	83	81	80	76	76	72	73	72	71	70
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	93	79	61	39	28	29	33	42	51	60	68
B. Bound Tests											
B1. Real GDP growth	93	83	81	80	76	76	72	73	72	71	70
B2. Primary balance	93	88	91	91	87	87	83	85	84	83	81
B3. Exports	93	143	**223**	**220**	**212**	**210**	**196**	**194**	**187**	179	172
B4. Other flows 3/	93	93	101	99	96	95	89	89	87	85	82
B5. Depreciation	93	83	60	59	56	56	53	56	56	56	56
B6. Combination of B1-B5	93	138	99	147	141	139	130	131	127	124	121
C. Tailored Tests											
C1. Combined contingent liabilities	93	114	111	110	107	106	103	108	107	105	103
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	8	7	6	6	7	6	5	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	8	7	7	7	7	6	5	4	4	4	4
B. Bound Tests											
B1. Real GDP growth	8	7	6	6	7	6	5	6	6	6	6
B2. Primary balance	8	7	7	6	7	7	6	7	7	7	7
B3. Exports	8	9	12	13	14	13	13	**16**	**16**	**15**	**15**
B4. Other flows 3/	8	7	7	7	7	7	6	7	7	7	7
B5. Depreciation	8	7	6	5	6	6	5	4	4	5	5
B6. Combination of B1-B5	8	9	11	10	11	10	10	11	11	11	10
C. Tailored Tests											
C1. Combined contingent liabilities	8	7	7	7	7	7	6	7	7	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	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	7	8	8	6	7	7	6	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	9	9	7	7	7	6	5	4	4	5
B. Bound Tests											
B1. Real GDP growth	7	8	9	7	8	7	7	8	8	8	8
B2. Primary balance	7	8	8	7	7	7	7	8	8	8	8
B3. Exports	7	8	9	8	9	9	10	12	12	11	11
B4. Other flows 3/	7	8	8	7	8	7	8	9	9	9	9
B5. Depreciation	7	10	10	7	8	8	7	6	7	7	7
B6. Combination of B1-B5	7	8	10	8	8	8	9	9	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	9	7	8	8	7	8	8	8	8
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

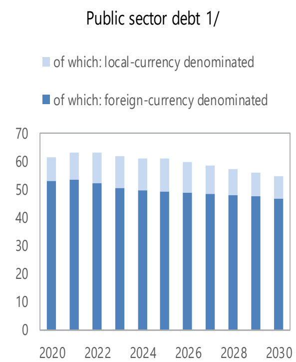
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

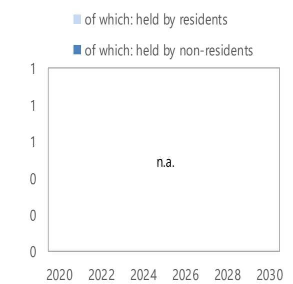
Table A.1.3. Lesotho: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2040

(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040	Historical	Projections
Public sector debt 1/	54.4	61.4	63.2	63.0	61.7	61.2	61.0	59.7	58.5	57.3	56.1	54.9	45.4	41.7	59.8
of which: external debt	44.4	53.0	53.4	52.3	50.6	49.8	49.4	49.0	48.5	48.0	47.4	46.8	43.1	35.6	49.8
	48.9	51.2	62.4	62.7	62.0	63.3	66.8	69.8	69.4	69.0	68.6	68.2	65.7		
Change in public sector debt	6.1	7.0	1.8	-0.2	-1.3	-0.5	-0.3	-1.2	-1.2	-1.2	-1.2	-1.2	-0.8		
Identified debt-creating flows	11.7	9.4	4.5	3.4	-3.3	-2.5	-3.2	-1.1	-1.1	-1.1	-1.0	-1.0	-0.7	4.5	0.3
Primary deficit	4.3	5.8	6.2	5.4	-1.6	-2.1	-2.5	0.5	0.5	0.5	0.5	0.5	0.5	3.7	1.2
Revenue and grants	46.3	50.0	44.4	42.1	46.3	47.4	48.4	43.4	43.4	43.4	43.4	43.4	43.4	48.7	45.1
of which: grants	3.5	3.1	3.1	3.0	3.0	2.9	2.9	1.9	1.9	1.9	1.9	1.9	1.9		
Primary (noninterest) expenditure	50.6	55.8	50.6	47.6	44.7	45.3	45.8	43.9	43.9	43.9	43.9	43.9	43.9	52.4	46.3
Automatic debt dynamics	7.4	3.6	-1.6	-2.0	-1.7	-0.4	-0.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.2		
Contribution from interest rate/growth differential	-0.2	3.6	-1.6	-2.0	-1.7	-0.4	-0.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.2		
of which: contribution from average real interest rate	0.3	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5		
of which: contribution from real GDP growth	-0.5	2.7	-2.3	-2.6	-2.2	-1.0	-1.3	-2.2	-2.2	-2.1	-2.1	-2.0	-1.7		
Contribution from real exchange rate depreciation	7.6	...	...	...	...	...	...	...	...	...	...	...	...		
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	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	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	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	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	0.0	0.0		
Residual	-5.5	-2.4	-2.7	-3.6	2.0	2.1	2.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-2.6	-0.2
Sustainability indicators															
PV of public debt-to-GDP ratio 2/	43.1	47.5	48.5	48.2	47.7	47.6	47.7	46.9	46.2	45.4	44.6	43.8	37.9		
PV of public debt-to-revenue and grants ratio	92.9	95.1	109.3	114.4	102.9	100.4	98.7	108.2	106.4	104.5	102.7	101.0	87.3		
Debt service-to-revenue and grants ratio 3/	7.5	17.1	13.8	11.6	9.4	11.3	11.4	10.8	13.5	13.6	12.5	11.3	9.4		
Gross financing need 4/	7.7	14.4	12.3	10.4	2.7	3.2	3.0	5.2	6.4	6.4	5.9	5.4	4.6		
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	-4.8	3.9	4.3	3.7	1.7	2.1	3.7	3.7	3.7	3.7	3.7	3.7	3.2	2.7
Average nominal interest rate on external debt (in percent)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.7	1.5	1.9
Average real interest rate on domestic debt (in percent)	2.6	2.8	5.8	6.3	6.0	5.7	5.6	5.8	5.9	5.4	5.3	5.3	5.5	1.4	5.4
Real exchange rate depreciation (in percent, + indicates depreciation)	20.1	...	...	...	...	...	...	...	...	...	...	...	...	6.0	...
Inflation rate (GDP deflator, in percent)	4.6	3.3	4.8	5.0	5.2	5.1	5.1	4.9	4.9	4.9	4.9	4.9	4.9	5.6	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	1.7	4.9	-5.9	-1.8	-2.5	3.0	3.3	-0.6	3.7	3.7	3.7	3.7	3.7	1.3	1.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.9	-1.2	4.4	5.7	-0.3	-1.6	-2.2	1.7	1.7	1.7	1.7	1.7	1.3	-2.1	1.2
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	0.0	0.0		

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/ 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.

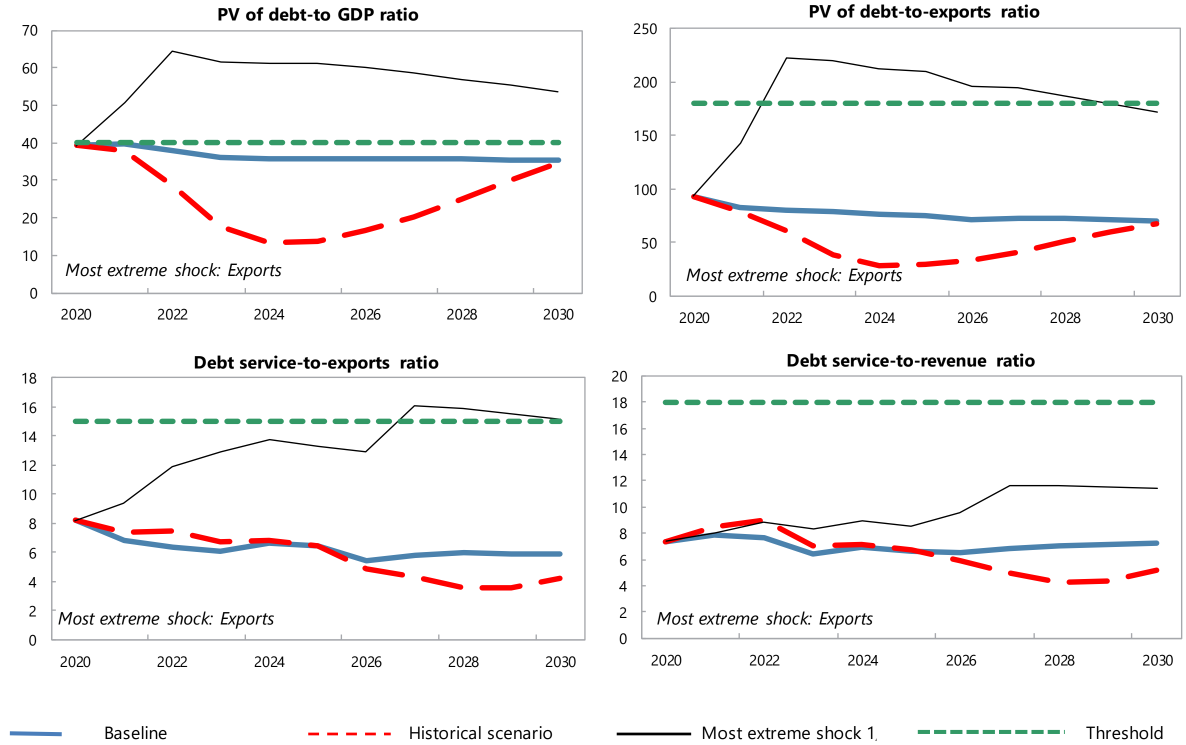
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table A.1.4. Lesotho: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

	Projections 1/										
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
	PV of Debt-to-GDP Ratio										
Baseline	48	49	48	48	48	48	47	46	45	45	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	48	46	45	49	53	**57**	**59**	**61**	**62**	**63**	**65**
B. Bound Tests											
B1. Real GDP growth	48	53	**59**	**62**	**66**	**70**	**73**	**75**	**78**	**80**	**82**
B2. Primary balance	48	53	**56**	**56**	**56**	**56**	55	54	53	52	51
B3. Exports	48	**58**	**71**	**70**	**70**	**70**	**69**	**66**	**64**	**62**	**60**
B4. Other flows 3/	48	53	**57**	**57**	**57**	**57**	**56**	54	53	51	50
B5. Depreciation	48	**57**	52	49	46	44	40	37	34	31	29
B6. Combination of B1-B5	48	50	51	48	48	48	48	47	46	45	44
C. Tailored Tests											
C1. Combined contingent liabilities	48	**72**	**70**	**70**	**70**	**70**	**68**	**67**	**66**	**64**	**63**
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	95	109	114	103	100	99	108	106	104	103	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	95	105	107	106	111	118	136	140	143	146	149
B. Bound Tests											
B1. Real GDP growth	95	118	138	133	138	145	167	173	178	184	189
B2. Primary balance	95	118	133	120	117	115	126	124	121	119	117
B3. Exports	95	131	169	152	148	145	158	153	147	142	137
B4. Other flows 3/	95	120	136	123	120	117	128	125	122	118	115
B5. Depreciation	95	130	125	106	98	91	93	86	79	73	66
B6. Combination of B1-B5	95	113	120	105	102	100	110	108	105	103	101
C. Tailored Tests											
C1. Combined contingent liabilities	95	163	167	150	147	144	157	154	151	149	146
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	17	14	12	9	11	11	11	14	14	13	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	17	14	11	9	11	12	11	14	16	17	17
B. Bound Tests											
B1. Real GDP growth	17	14	13	11	14	14	15	19	21	20	20
B2. Primary balance	17	14	12	10	12	12	13	17	16	14	13
B3. Exports	17	14	12	11	13	13	13	18	17	16	15
B4. Other flows 3/	17	14	12	10	12	12	12	15	15	14	13
B5. Depreciation	17	14	14	11	13	13	12	14	13	12	11
B6. Combination of B1-B5	17	13	12	10	11	11	11	14	14	13	11
C. Tailored Tests											
C1. Combined contingent liabilities	17	14	15	12	14	14	20	22	16	15	13
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 A.1.1. Lesotho: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2020–2030 1/



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	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	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	4	4

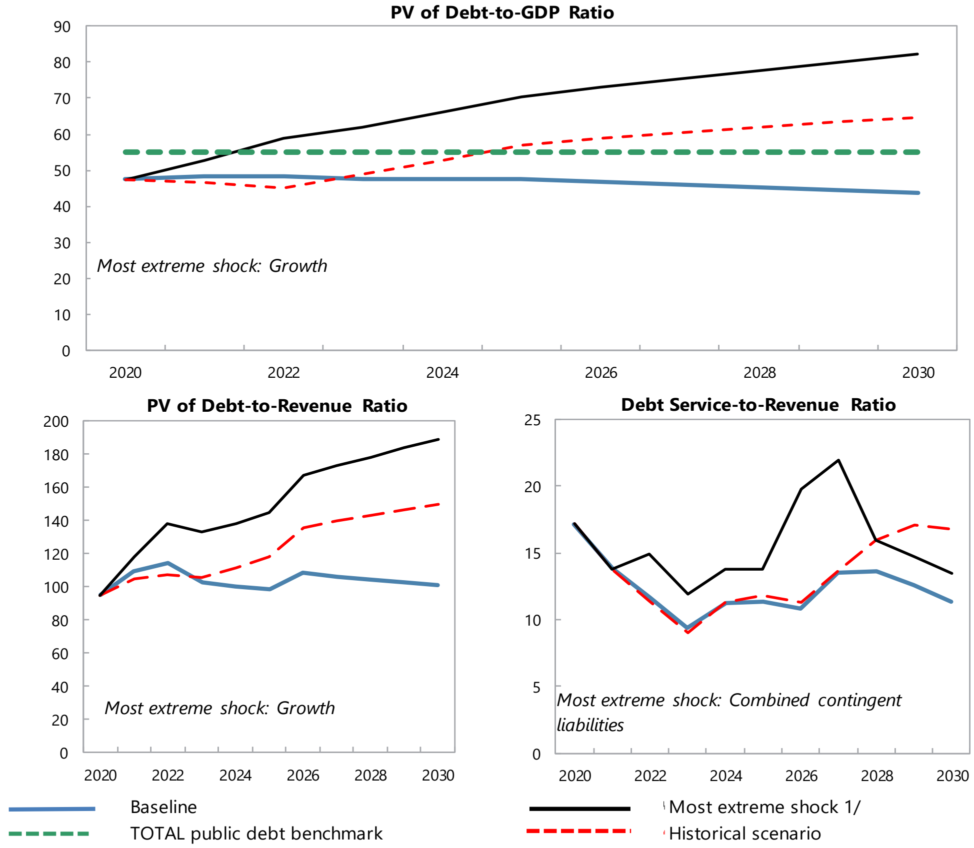
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. 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 A.1.2. Lesotho: Indicators of Public Debt under Alternative Scenarios, 2020–2030



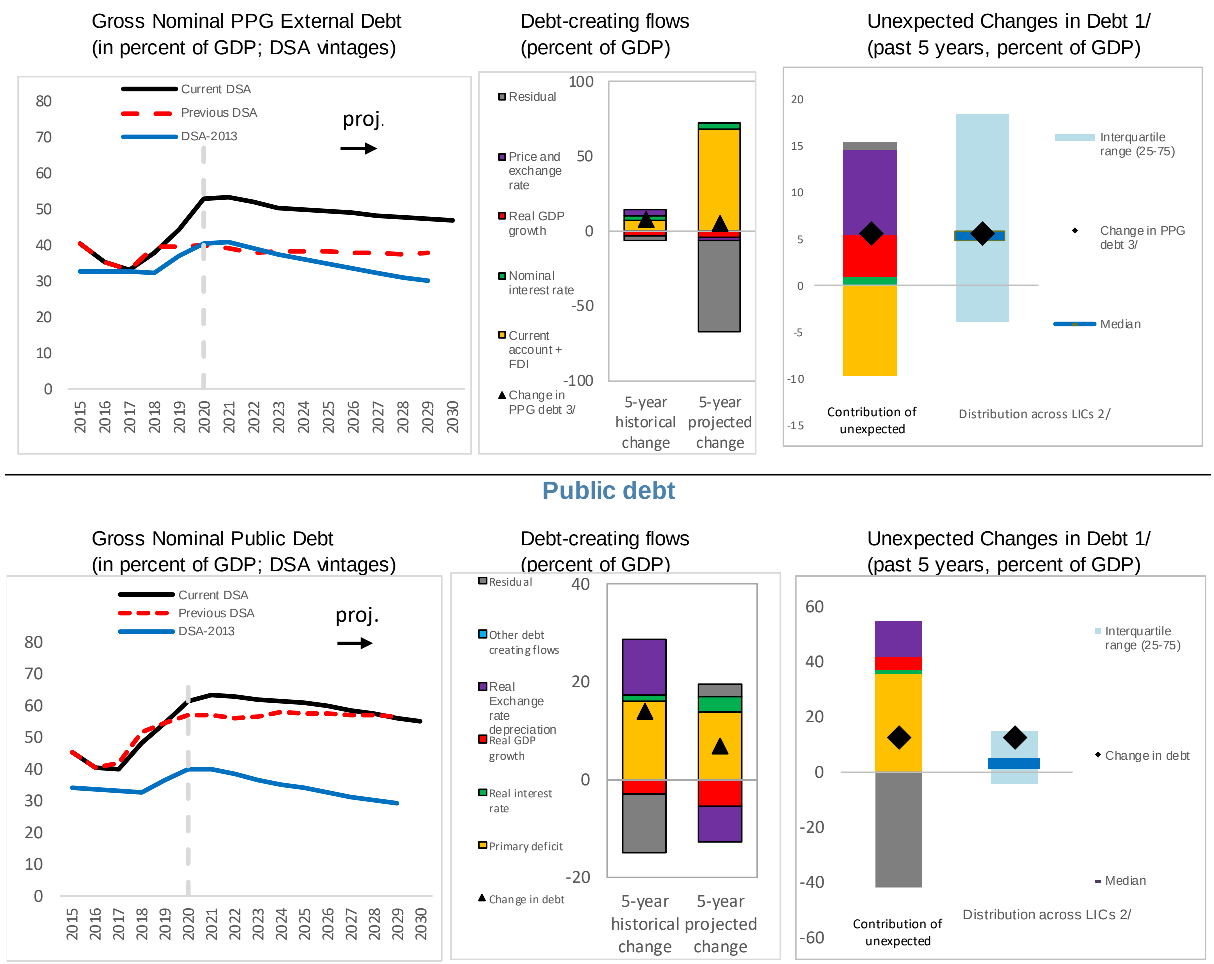
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	71%	71%
Domestic medium and long-term	29%	29%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	24	24
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.5%	5.5%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	3.2%	3.2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public 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 2030. 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.

Figure A.1.3. Lesotho: Drivers of Debt Dynamics – Baseline Scenario



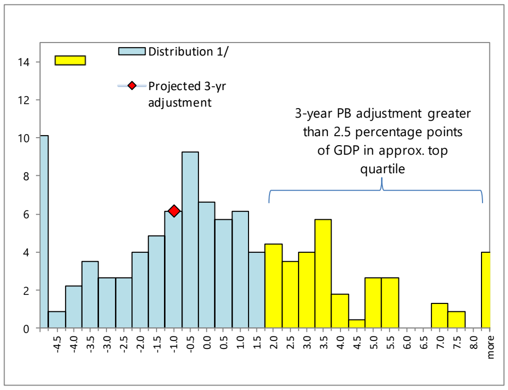
1/ Difference between anticipated and actual contributions on debt ratios.

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.

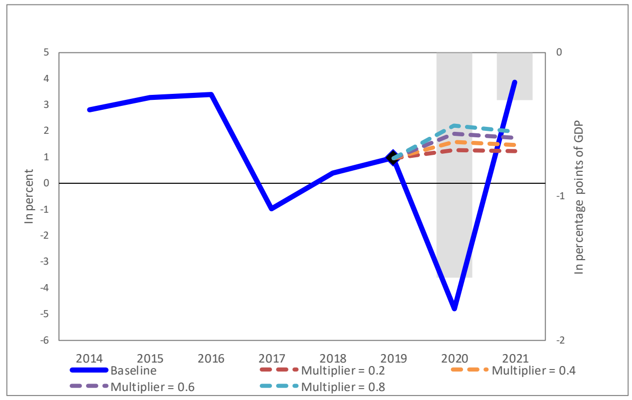
Figure A.1.4. Lesotho: Realism Tools

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



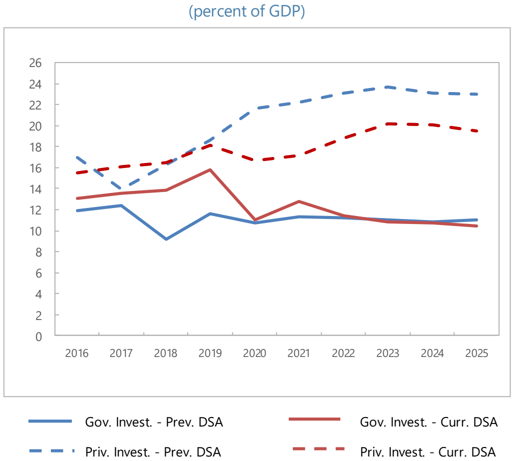
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

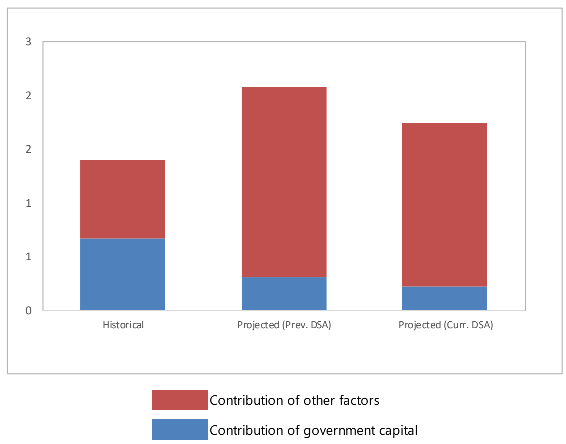


Figure A.1.5. Lesotho: Qualification of the Moderate Category, 2020-2030 1/

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.