



KINGDOM OF LESOTHO

ANNUAL PUBLIC DEBT MANAGEMENT REPORT FOR FY 2021/22

29th JUNE 2022

EXECUTIVE SUMMARY

The Public Debt and Aid Management Department (PDAMD) is required to produce an **Annual Debt Management Report** at the end of every fiscal year to evaluate the performance of debt management operations against the **Medium-Term Debt Strategy (MTDS)** and the set **Annual Borrowing Plan** for the next financial year. Regular reporting through the publication of brief debt reports such quarterly Debt Bulletin is equally a requirement. This report is built on the quarterly debt transparency statistics reports published during the Financial Year (FY) 2021/22 as well as the Debt Sustainability Analysis (DSA) report published in June 2022. DSA framework basically assesses the country's risk of debt distress in order to avoid risk of falling into a debt trap.

The Public Debt Management is governed by the Loans and Guarantees Act of 1967, as amended in 1975 and 1976. The Public Debt bill is now in draft ready to be submitted to Parliamentary Counsel.

This report also underscores the Ministry of Finance commitment to ensuring that the necessary financing requirements are always met at the lowest cost and prudent level of risk, subject to the relevant laws, to enhance growth in investment as well as socio-economic development while maintaining the sustainable levels of government debt obligations. Therefore, the publication of this report will help the implementation of this FY 2022/23 budget to ensure that the financing of development plans of the Government of Lesotho is achieved in the medium term.

Table of Contents

EXECUTIVE SUMMARY	2
Abbreviations and Acronyms	5
SECTION 1: Report Overview	6
1.1 Outline of the report	6
1.2 Debt Management Objectives	6
1.3 Debt Management functions	6
SECTION 2: Macroeconomic Developments	8
2.1 Macroeconomic Developments	8
SECTION 3: External Debt Structure and Portfolio trend/analysis	9
3.1 External Debt Portfolio	9
3.2 Concessionality vs Non-concessionality of the External Debt	10
3.3 Debt Outstanding by Creditor and Creditor Category	11
3.4 Debt Outstanding by Economic Sector	13
3.5 Debt Outstanding to GDP	13
3.6 Currency composition of public and external debt portfolio	14
3.7 External Debt Movement	15
3.8 External Disbursements and Debt Service	16
SECTION 4: Domestic Debt Portfolio Review	17
4.1 Trends in Domestic Debt	17
4.2 Domestic Debt by creditor type	17
4.3 Net borrowing of T-Bonds	18
4.4 Domestic Debt Service	19
4.5 Redemption Profile	19
SECTION 5: Sovereign Guarantees Status	21
Section 6: Public Debt Outlook	21
6.1 Domestic Debt Outlook	21
6.2 External Debt Outlook	22
SECTION 7: Cost and Risk Indicators for Existing Debt	24
7.1 Cost-risk Analysis of Existing debt	24
7.2 DSA Assessment Results	25
ANNEXES	26

Annex 1: New Loans Contracted in 2021/22	26
Annex 2: New Grants Secured in 2021/22	26
Annex 3: External Debt Disbursed Outstanding Debt and Debt Service by Creditor Category (Million Maloti)	27
Annex 4: External Debt by Creditor, Creditor Category, Disbursements and Debt Service (Million Maloti)	28

Abbreviations and Acronyms

ADF	African Development Fund (ADB lending window)
CNY	Chinese Renminbi (Yuan)
CHINA EXIMBANK	Export-Import Bank of China
DSA	Debt Sustainability Analysis
EUR	Euro currency
IDA	International Development Association (World Bank lending window)
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LSL	Lesotho loti
MTDS	Medium-term debt management strategy
OFID	Organization of Petroleum-Exporting Countries Fund for International Development
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SACU	Southern African Customs Union
SDF	Saudi Fund for Development
USD	United States dollar
XDR	Special Drawing Rights
ZAR	South African Rand

SECTION 1: Report Overview

1.1 Outline of the report

The report is divided into five main sections as follows: **Section 1- Overview** – provides a synopsis of the debt management objectives, debt management strategy, and macroeconomic performance in 2019; **Section 2- Macroeconomic Developments** – gives an overview of key macroeconomic developments and outlook of the economy; **Section 3 - External Debt Structure and Portfolio trend/analysis** – gives in-depth portfolio analysis of external debt. **Section 4 – Domestic Debt Portfolio Review** – captures domestic debt and developments in the domestic debt market front. **Section 5 – Sovereign Guarantee status**– provides a brief summary table displaying the stock of guarantees to SOEs as well as the enterprises. **Section 6- Public Debt Outlook** – discusses the outlook and performance both domestic and external debt. **Section 7- Cost and Risk Indicators for Existing Debt** -discusses risks associated with Lesotho’s public debt portfolio at the end of 2021/22. The annexes are also included at the end of the report.

1.2 Debt Management Objectives

- To ensure that the government’s financing needs, and payment obligations are met at the lowest possible cost over the medium to long-term, within the framework of an acceptable level of risk.
- To support the development and deepening of the government securities market in Lesotho and its efficient functioning
- To guide the borrowing decisions of the Government of Lesotho on all public borrowings both external and domestic including contingent liabilities derived from PPP’s, Unsolicited proposals and direct guarantees to the private sector and individuals

1.3 Debt Management functions

The department of public debt performs the following functions on daily basis:

- Negotiate and conclude loan Financing Agreements
- Execute debt service payments

- Finance fiscal deficit
- Issue and redeem government securities
- provide on lent loans to statutory bodies, parastatals and Local Government Authorities
- Receive and manage grants tied to the loans
- Conduct debt management analysis
- Make payment of subscriptions to international organizations

Over and above the above mentioned functions, it is important to underscore that management of public debt bears significant implications in ensuring that each financial year, the Government's financing needs, and payment obligations are met at the lowest possible cost over the medium to long-term, within the framework of an acceptable level of risk. It is also aimed at supporting the development of the government securities market and its efficient functioning. Lastly, prudent debt management also serves to guide the borrowing decisions of the Government on all public borrowings both external and domestic including contingent liabilities derived from PPP's, Unsolicited proposals and direct guarantees to the private sector and individuals.

This public debt report provides status of sovereign debt to the general public and ensures Government's commitment to transparency and accountability. Public debt report contains detailed statistics on;

- Developments in total public debt and government guarantees portfolio;
- Debt service payments;
- Composition and structure of debt;
- The domestic debt market developments of fiscal year that has just ended;
- and key debt risk indicators;

The report covers central government debt, central bank debt and government-guaranteed debt. Debt coverage includes both external and domestic obligations. Debt is defined using the currency criterion. This means that all foreign currency-denominated debt is considered as external debt, while debt denominated in Maloti is considered as domestic. Progress is being made towards expanding the reporting and coverage of public debt by including guaranteed debt. Government also plans to publish outstanding debt of SOEs, including guarantees, on the website of the Ministry of Finance from FY22/23 following the proper reconciliation of the balances and their performance.

SECTION 2: Macroeconomic Developments

2.1 Macroeconomic Developments

Economic growth rebounded in 2021 as the pandemic abated and external demand recovered. This is after economic activity in 2020 contracted by about 4.5 percent due to the Covid-19 pandemic. Taken together with the persistent economic contraction since 2017, Lesotho's real economy has shrunk by 2.8 percent on average between 2017 and 2020. It was driven by manufacturing (particularly textiles), mining, construction, and services which are all estimated to have contracted due to; the adverse effects of the pandemic, weak external demand, and supply chain disruptions. This was buttressed by increased economic activity in the primary sector. Real GDP growth was estimated at 2.5 percent, bolstered by investments in government backed projects and reopening of the economy.

Lesotho's monetary policy remained guided by the need to maintain the parity of the loti with the South African rand. Inflation fell between 2017 and 2019 to 5.1 percent on average, compared to 6.2 percent in 2016. This reflected higher fuel and food prices, which resulted from the agricultural shortages that followed the combination of very dry and extremely wet climatic condition over the review period. In December 2020, a spike in food price inflation peaking at 13.4 percent¹ has raised concerns about food insecurity. Since then, food price inflation and overall CPI inflation have moderated due to easing of restrictions including border closures. Inflation in 2020 was estimated at 5.0 percent following inflation developments in South Africa.

Lesotho's external position has deteriorated on account of the pandemic shock. In 2020, exports and remittances fell by 17.8 and 2.3 percent respectively, and the trade deficit widened from 49 percent of GDP in 2019 to 57 percent in 2020. However, the 2020 current account deficit remained at around 2.1 percent of GDP supported by higher than expected SACU revenue (44.2 percent year on year). Export growth remained strong in 2021 embraced by external demand and global output growth.

¹ Bureau of Statistics, Statistical Report No. 1:2021

SECTION 3: External Debt Structure and Portfolio trend/analysis

3.1 External Debt Portfolio

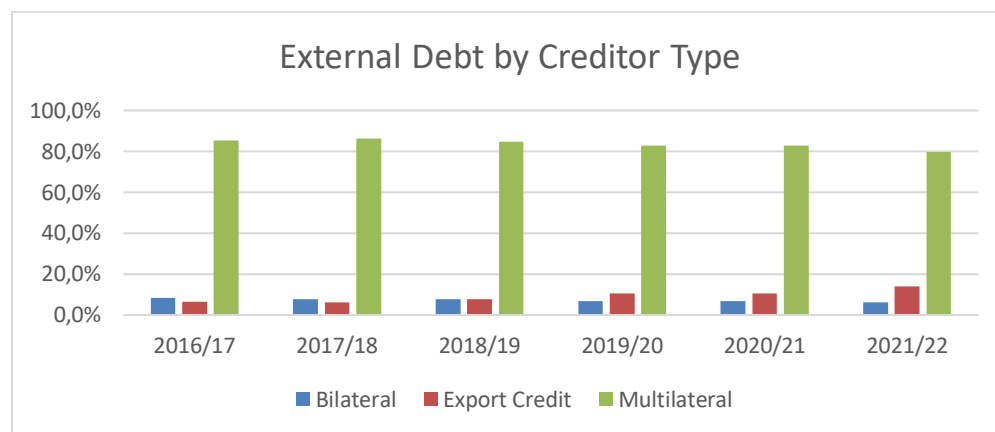
Projects financed by Export-Import Bank of China in the financial years Lesotho's external debt portfolio for the period under review is made up of three (3) main creditor categories namely, bilateral, multilateral and export credit. In terms of ranking as shown in the table below, a greater portion of external debt is composed of debt from multilateral institutions such as International Development Association, African Development Fund, The OPEC Fund For International Development, Arab Bank For Economic Development in Africa, European Investment Bank, International Fund For Agricultural Development and International Monetary Fund. During the past four consecutive financial years beginning from 2017/19 to 2021/22, the stock of multilateral debt has been reducing slightly by 6.5% from 2017/18 until 2021/22. However, the stock of export credit debt has grown from the 7.6% in the Financial year 2017/18 to 13.9% in the financial year 2021/22 driven mainly by credits from the Export Import Bank of China (EXIM BANK CHINA). The driver of multilateral debt was the contracting of loans for development projects for infrastructure and social projects though there has been a gradual fall in the amount of multilateral debt. Bilateral external creditors consist of the Kuwait fund, Natexis SA, the Saudi and the Abu Dhabi Funds, the People's Republic of China. The stock of bilateral debt on the other sides declined from 8.2% in the financial year 2017/18 to a further 6.3% in the financial year of 2021/22 due the retiring of the old loans contracted.

Part of external loans is from export credit agencies such as the Export Import Bank of India (EXIM BANK INDIA). From the financial year 2018/19 up to the financial year 2021/22, the stock has increased from the 7.6% to 13.9% of the total external debt stock. The increment is driven by the contracting of the two infrastructure 2018/19 and 2019/20 respectively, namely, Mpiti Sehlabathebe Road from Qacha to Sehlabathebe and the Ha Ramarothole Solar Power Generation Farm.

Chart 1 below, indicates that Lesotho's external debt portfolio has been dominated by the multilateral debt averaging 80 percent of the external debt, with most of the disbursed outstanding debt coming from the International Development Association at 51% and the African Development Fund at 19% together accounting for 70% of the total multilateral debt . From fiscal

years 2017/28 to 2021/22 export credits showed a steady increase to reach around 14%. While bilateral debt remained steadily below 10% of the disbursed outstanding debt.

Chart 1: Debt Stock by Creditor Category



Source: Ministry of Finance, Public Debt

3.2 Concessionality vs Non-concessionality of the External Debt

The stock of external debt is largely concessional standing at 82% on average in the three fiscal years and semi-concessional instruments at 18% though relatively stable when classified in terms of concessionality. As can be drawn from the table 1 below, the share of concessional external debt from the financial year 2020/21 to June 2022 remain largely stable with a negligible fall. This may be explained by the fact that, Lesotho has graduated from lower income to low middle income country since 2015 which has led to revision of its lending terms by World Bank to IDA Gap/blend category thus qualifying for relatively higher loan terms coupled with exchange rate fluctuations. Apparently, the second largest creditor in the portfolio, ADF adopted similar terms. Thus, the non-concessional debt has also been gradually increasing as shown in table following the new categorization with the associated lending terms.

Table 1: Share of External Debt by Concessionality and non concessionality

YEAR	2020/21		2021/22		2022/23	
		% of Total		% of Total		% of Total
Concessional						
Disbursed Outstanding Debt	12 201,3	82,2%	12 379,4	81,3%	13 133,7	81,7%
Non-concessional						
Disbursed Outstanding Debt	2 647,4	17,8%	2 840,9	18,7%	2 948,1	18,3%
Total	14 848,7		15 220,3		16081,8	

Source: Ministry of Finance, Public Debt

The stock of domestic debt has also been increasing as government continued to issue domestic debt securities to finance budgetary needs in the medium to long-term. Both Treasury bills (T-bills) and fiscal Treasury bonds (T-bonds) have increasingly been used to secure more financing for Government operations. From the table below, the stock for government papers has grown from the financial year 2019/20 to 2021/22 extending to the current financial 2022/23. Table 2 below, shows the total debt stock of the Government composed of both external debt and domestic debt growing from M18.5 billion in fiscal year 2019/20 and reaching M18.9 billion by the end of March 2022. The increase in external debt was driven by both movements in currency exchange rates and disbursements by projects under implementation, while domestic debt increased from M2.8 billion to reach M3.7 billion by end of March, 2022.

Table 2: Public debt stock break down into concessional, non-concessional and Domestic Debt

YEAR	2019/20	2020/21	2021/22	2022/23
Disbursed Outstanding Debt	18 464,3	17 441,7	18 938,4	19 949,0
External Debt	15 651,7	14 848,8	15 220,3	16 081,8
Concessional	13 637,5	12 201,3	12 379,4	13 133,7
Non-concessional	2 014,2	2 647,4	2 840,9	2 948,1
Domestic Debt	2812,6	2592,9	3718,1	3867,2
T bonds	2 382,6	2 592,9	3 133,3	3 267,2
T-Bills (fiscal)	430,0	000,0	584,8	600,0
T-bills (monetary policy)	882,2	881,2	876,6	

Source: Ministry of Finance, Public Debt

3.3 Debt Outstanding by Creditor and Creditor Category

A larger portion of the government debt portfolio is absorbed by the external debt at 82% while the remaining share of 18% goes to the domestic debt regardless of the effort by government to advance the domestic market. Most of the Government loan financing is geared towards supporting development expenditure and the magnitude of such financing is too bulky to be absorbed by the relatively shallow local market. Regarding the share per creditor, Lesotho's two most dominant creditors are the IDA (51%) and ADF (19%) together constituting 70% of the multilateral

creditors. The influence of export credits has gradually increased from 6.4% in 2019/20 to 12% in 2021/22. China EXIM Bank accounts for more than 90% of all export credits, and the recent increase is attributed to accelerated disbursements towards Mpiti – Sehlabathebe road and the Ha Ramarothole Solar Power Generation Farm. The external debt from bilateral creditors has generally been declining, but it is expected to rebound going forward owing to newly signed pipeline projects, particularly the Lesotho Lowlands Water Development Project in Botha-Bothe Zone1 for supplying water to newly development industrial park and the surrounding villages.

Table 3: External Debt Outstanding by Creditor category as a share of annual total public debt

Year	2019/20		2020/21		2021/22	
		%DOD		%DOD		%DOD
EXTERNAL DEBT	15651,8	84,8%	14848,8	85,1%	15220,1	87,2%
Bilateral	1223,4	6,6%	989,2	5,4%	956,6	5,5%
Abu Dhabi Fund For Economic Development	238,6	1,3%	168,1	0,9%	153,6	0,9%
Kuwait Fund for Arab Economic Dev.	393,5	2,1%	322,6	1,7%	316,4	1,8%
People's Republic Of China	177,8	1,0%	159,3	0,9%	159,8	0,9%
The Saudi Fund For Development	344,7	1,9%	286,3	1,6%	280,0	1,6%
Other Bilaterals	68,8	0,4%	52,9	0,3%	46,8	0,3%
Export Credit (China and India)	1176,8	6,4%	1574,4	8,5%	2121,8	12,2%
Multilateral	13 251,6	71,8%	12 285,2	66,5%	12 141,7	69,6%
African Development Fund	2 896,5	15,7%	2 483,6	13,5%	2 343,5	13,4%
Arab Bank For Economic Dev in Africa	710,9	3,9%	570,4	3,1%	534,7	3,1%
European Investment Bank	1 533,9	8,3%	1 443,9	7,8%	1 366,0	7,8%
International Development Association	6 629,2	35,9%	5 921,8	32,1%	6 196,6	35,5%
International Monetary Fund	603,8	3,3%	1110,8	6,0%	977,2	5,6%
Other Multilaterals	877,3	4,8%	754,7	4,1%	723,7	4,1%
DOMESTIC DEBT	2812,6	15,2%	2599,8	14,9%	3718,1	19,6%
Commercial Banks	1410,0	7,6%	1117,3	6,4%	1805,3	9,5%
Non Bank Financial Institution	525,4	2,8%	513,4	2,9%	539,8	2,9%
Private (Ind, Organisations and Societies)	877,2	4,8%	969,0	5,6%	1373,0	7,2%
T-Bills (Monetary Policy)	876,8		875,7		876,6	
Total Disbursed Outstanding Debt	18 464,4	100,0%	17 448,6	100,0%	18 938,2	100,0%

Source: Ministry of Finance, Public Debt

3.4 Debt Outstanding by Economic Sector

Despite the gradual decrease of external funds allocated towards the budget support from previous years (2018/19, 2019/20) the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) loans were signed from the IMF to assist the economy with balance of payments, the whole XDR34.9 million loan amount was disbursed in 2020/21 which made a significant increase to programmes with budget support. A large portion of Government debt went to water supply projects followed by roads construction, other economic sectors, education and training as well as health sector. Water supply debt which previously accounted for more than a quarter of all loans has been declining in recent years due to Metolong Dam loans which have been retired.

Table 4: Debt Stock by Economic Sector

Economic Sector	2020/21		2021/22		2022/23	
	DOD	% of DOD	DOD	% of DOD	DOD	% of DOD
BOP and Budget Support	1522,0	8,6%	1359,0	8,9%	1445,0	9,0%
Education & Training	1324,0	10,3%	1270,0	8,3%	1344,0	8,4%
Electricity	811,0	2,4%	1171,0	7,7%	1243,0	7,7%
Environment	658,0	5,2%	594,0	3,9%	629,0	3,9%
Roads Cons & civil works	2263,0	15,8%	2398,0	15,8%	2546,0	15,8%
Health	1124,0	8,3%	1342,0	8,8%	1428,0	8,9%
Housing & Urban Develop.	206,0	1,6%	199,0	1,3%	210,0	1,3%
Industrial Development	275,0	2,5%	236,0	1,6%	248,0	1,5%
Private Sector Development	284,0	1,6%	296,0	1,9%	314,0	2,0%
Rural Development	618,0	3,8%	565,0	3,7%	602,0	3,7%
Telecommunications	581,0	5,0%	549,0	3,6%	580,0	3,6%
Water Supply	3222,0	25,8%	3099,0	20,4%	3197,0	19,9%
Other	1960,0	9,2%	2144,0	14,1%	2294,0	14,3%
Total	14848,0		15222,0		16080,0	

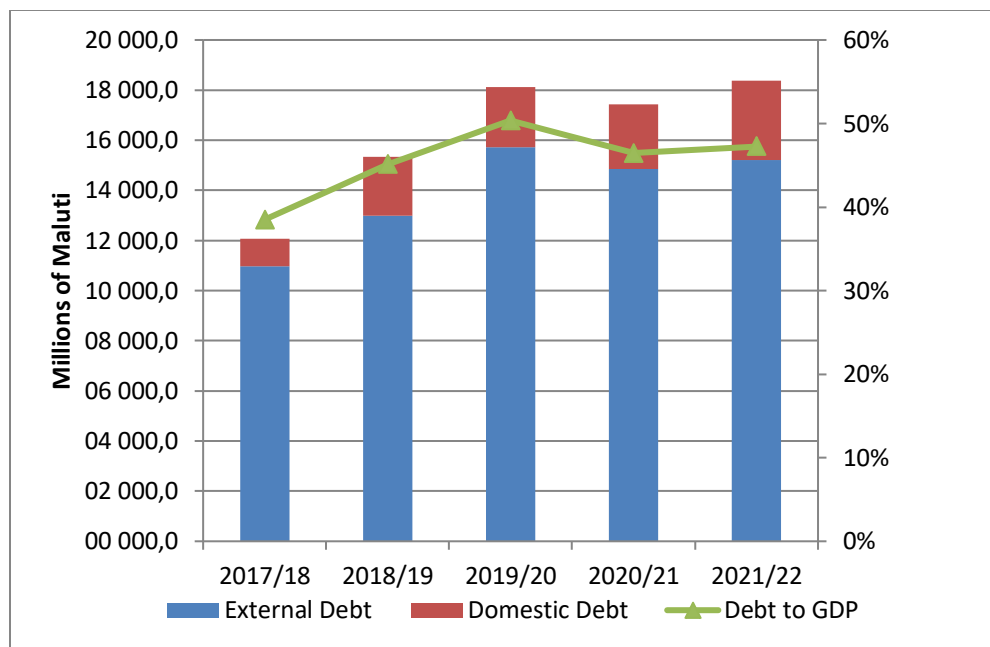
Source: *Ministry of Finance, Public Debt*

3.5 Debt Outstanding to GDP

The total public debt is comprised of external debt and domestic debt. The stock of total public debt increased from M17.4 billion in March 2021 to M18.9 billion in March 2022, of which external debt was estimated to be M15.2 billion and domestic debt was M3.5 billion. As a share of GDP, total public debt increased from 46.4% in March 2021 to 47.3% in March 2022. Total debt in 2019/20 was pushed towards upper boundaries due to depreciating exchange rates as well as declining GDP owing to Covid-19 pandemic. In 2021/22, GDP was recovering and exchange rate

have since normalised, which stabilised debt-to-GDP ratio despite the observed increase in stock of debt.

Figure 1: Debt stock as a share of GDP

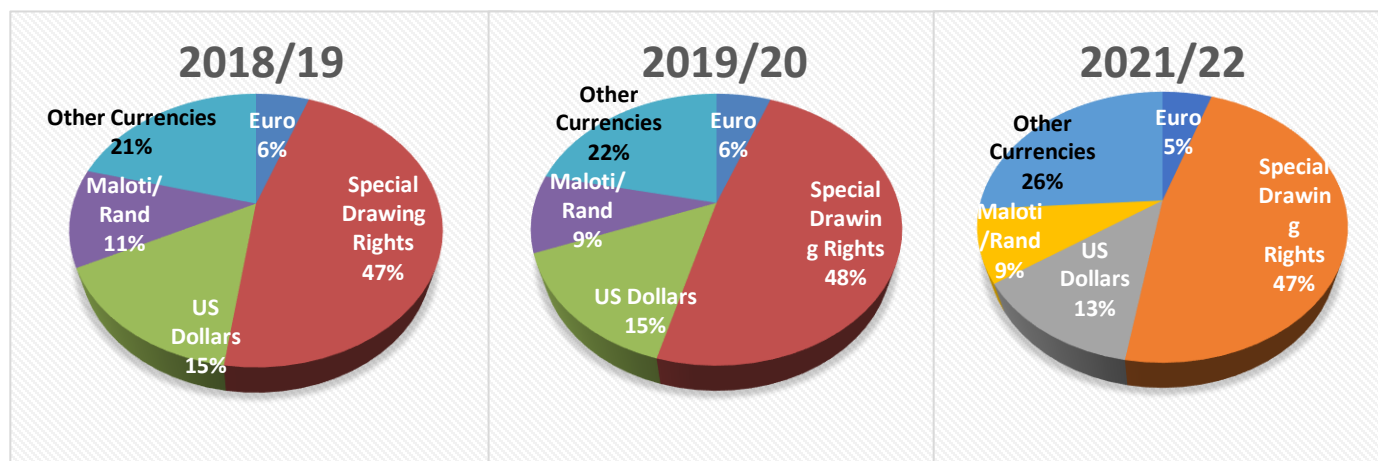


Source: *Ministry of Finance, Public Debt*

3.6 Currency composition of public and external debt portfolio

The currency composition of external debt remained almost constant throughout the observation years with minor shifts coming from exchange rate fluctuation. Special drawing rights (XDR) account for almost half of the portfolio, followed by US Dollars and other currencies such as the Kuwaiti Dinars, Saudi Riyals, UAE Dirhams, etc.

Figure 2. Total Debt by Currency Composition



Source: Ministry of Finance, Public Debt

3.7 External Debt Movement

External debt has widened by a net of M371.5 million in 2021/22 driven mainly by borrowing, disbursements and major currency exchange rates. Gross borrowing for the year was M1,542.9 million across all currencies in the portfolio. There was an overall appreciation of M527.4 million of Rand/Loti against all those currencies except Chinese Yuan (CNY) which gained M60.1 million. The exchange rate gains combined with principal redemptions assisted to offset debt increase by M1,171.5 million.

Table 5: Opening Stock vs Closing Stock

Foreign Currency	Opening Stock (2021/04/01)		Gross Borrowing	Redemptions	Parity Change	Closing Stock (2022/03/31)	
		% stock					% stock
XDR	7 267,8	48,9	651,8	291,8	-404,2	7 223,6	47,5
CNY	1 688,5	11,4	542,8	45,9	60,1	2 245,5	14,8
USD	1 956,7	13,2	168,5	131,4	-58,4	1 935,4	12,7
ZAR	1 375,8	9,3	0,0	65,0	0,0	1310,7	8,6
EUR	772,7	5,2	65,1	25,5	-60,4	751,8	4,9
Others	1 787,3	12,0	114,8	84,4	-64,4	1 753,3	11,5
Total	14 848,8		1 542,9	644,1	-527,4	15 220,3	

Source: Ministry of Finance, Public Debt

3.8 External Disbursements and Debt Service

In 2021/22, total disbursed funds amounted to M1543.0 million while debt service was M882.2 million made up of M644.1 million redemptions and M238.1 million interest payments. Compared to the previous year disbursements and debt service declined. After intensified borrowing in 2020/21 to fight COVID 19, disbursements cooled off the following year while debt service was eased by exchange rate gains experienced at the same period as well as Debt Service Suspension Initiative (DSSI) to a smaller extent. There have been no external disbursements received from bilateral creditors over the review period.

Table 6: Debt service and disbursements creditor category (External Debt) from 2019/20 to 2021/22

	2019/20	2020/21	2021/22
Bilateral			
Disbursements	0	0	0
Principal Repayments	74,7	55,8	50,3
Interest Payments	22	14	14
Commercial Bank (DBSA)			
Disbursements	0	0	0
Principal Repayments	0,4	0	0
Interest Payments	0	0	0
Export Credit (China & India)			
Disbursements	85,6	646,7	542,8
Principal Repayments	74	77,4	53,7
Interest Payments	22	31,8	40,8
Multilateral			
Disbursements	771,7	1413,4	1000,2
Principal Repayments	615,8	610,5	540,1
Interest Payments	195,7	218,6	183,7
TOTAL			
Disbursements	857,2	2 060,10	1,543,00
Principal Repayments	764,9	743,6	644,1
Interest Payments	240	264,4	238,1
Total Debt Service	1,004,80	1,008,00	882,2

Source: *Ministry of Finance, Public Debt*

SECTION 4: Domestic Debt Portfolio Review

4.1 Trends in Domestic Debt

The stock of Domestic debt at the end of March 2022 was recorded at M3.7 billion, it includes short term debt of M584.8 million and medium to long term debt of M3.1 billion. Domestic debt increased by M1.1 billion year on year to finance budget gap. There has been a gradual increase of medium to longterm debt since 2018/19. However, observed fluctuations in the stock is typically a reflection of short term debt movements year on year. From 2018/19 to 2021/22 commercial banks have been the biggest creditors to Government followed by insurance companies.

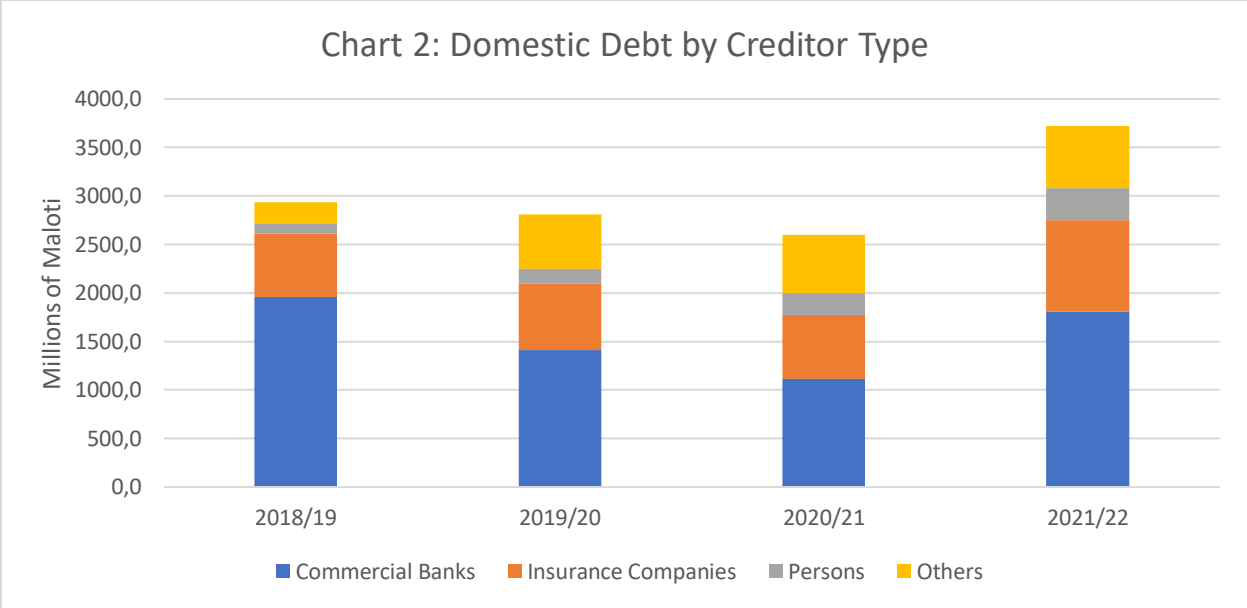
Table 7: Evolution of domestic stock by Creditor Type

	2018/19	2019/20	2020/21	2021/22
Commercial Banks	1960,4	1410,0	1117,3	1805,3
CBL	0,6	0,5	6,9	2,5
Insurance Companies	649,3	685,3	655,0	945,3
Non-Bank FIs	0,0	525,4	513,4	539,8
Parastatals, Private Orgs & Society	211,8	40,0	79,5	94,4
Persons	110,1	151,3	227,6	330,9
Total Treasury Bills & Bonds	2932,2	2812,6	2599,8	3718,1

Source: *Ministry of Finance, Public Debt*

4.2 Domestic Debt by creditor type

Commercial Banks remain the most important creditor by size, they also remain the single most holders of short-term debt. Since the Banks ownership of fiscal T-bills is always above 95%, their ownership share of government paper falls and increases with the size of issued bills at any given time. In 2020/21, the stock of debt was lowest, reflecting absence of short-term debt, also the commercial banks held a relatively small share. General public is increasingly becoming aware of the opportunity to invest in sovereign debt reflected in the ever-growing share of ownership.

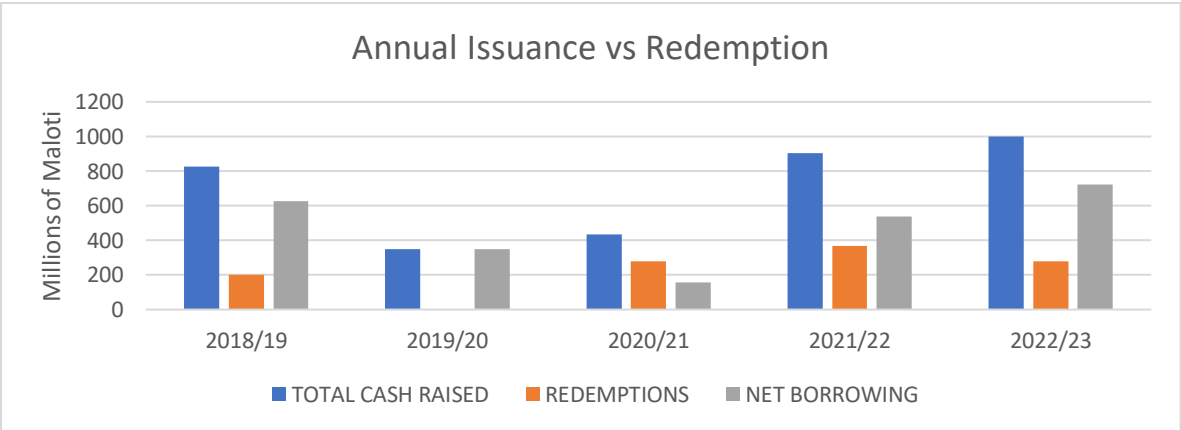


Source: Ministry of Finance, Public Debt

4.3 Net borrowing of T-Bonds

Throughout the observation period government’s medium to long-term debt has been increasing at a decreasing rate till 2020/21 when the rate accelerated and is expected to remain high till 2022/23. In 2021/22 fiscal operations were still intensified to accelerate economic recovery from the pandemic, while the revenue side was still subdued. Thus Government resorted to more borrowing to meet its widening financing gap. There were no redemption of bonds in 2019/20.

Chart 3: Annual Issuance vs redemption



Source: Ministry of Finance, Public Debt

4.4 Domestic Debt Service

Domestic debt service declined by M327.5 million in 2021/22 due to absence of short-term obligations in that year but there was a 10yr bond reaching maturity. Settlement of short-term debt has been relatively higher than all other debt service obligations.

Table 8: Domestic debt service

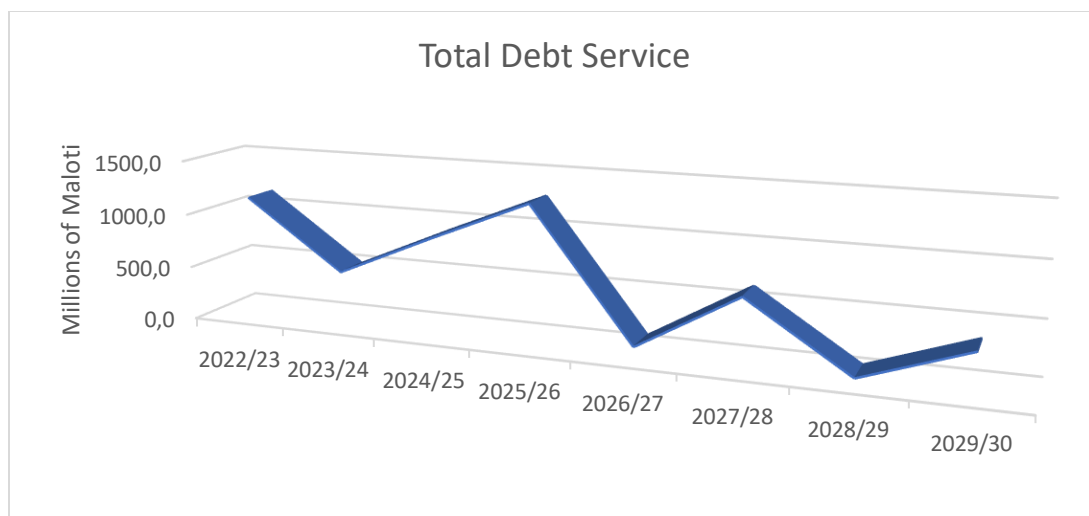
	2019/20	2020/21	2021/22
<i>Principal Payment</i>			
T-Bills (fiscal policy)	556,2	402,0	0
T-Bonds (≤3yrs)	0	0	0
T-Bonds (5yrs)	0	0	0
T-Bonds (7yrs)	0	277,0	0
T-Bonds (10yrs)	0	0	366,6
<i>Interest Payment</i>			
T-Bills (fiscal & monetary policy)*	104,5	82,2	31,6
T-Bonds (≤3yrs)	0	0	13,5
T-Bonds (5yrs)	12,4	54,3	82,4
T-Bonds (7yrs)	40,0	29,9	51,0
T-Bonds (10yrs)	108,7	115,6	88,5
DOMESTIC DEBT SERVICE	821,7	961,0	633,5

*Government of Lesotho services monetary policy interest payments

Source: *Ministry of Finance, Public Debt*

4.5 Redemption Profile

The debt service profile of the current stock of debt is expected to be intensive in the near period before peaking in 2025/26 then easing towards 2029/30. The existing stock of debt due for retirement within the coming four years is M2,830.2 million (76%). This prompts the government to intensify contracting long term dated instruments to reduce prevailing level of refinancing risk.



Source: Ministry of Finance, Public Debt

Table 9: Domestic debt by Instrument, yields & Redemption profile

	Coupon Rate	Outstanding Debt	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
T-Bills (fiscal)		584,8	584,8							
T-Bonds (≤3yrs)	6%	250,0		250,0						
T-Bonds (5yrs)	8%-9.25%	1 311,1			661,1	650,0				
T-Bonds (7yrs)	8%-9.5%	627,0	277,0							350,0
T-Bonds (10yrs)	9%-11%	945,1				407,2		537,9		
Total		3718,1	861,8	250,0	661,1	1057,2	0,0	537,9	0,0	350,0

Interest payments of Existing debt (excluding monetary policy interest)

	Coupon Rate	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
T-Bonds (≤3yrs)	6%	15,0	15,0						
T-Bonds (5yrs)	8%-9.25%	111,3	111,3	111,3	94,6				
T-Bonds (7yrs)	8%-9.5%	55,4	33,3	33,3	33,3	33,3	33,3	33,3	16,6
T-Bonds (10yrs)	9%-11%	95,8	95,8	95,8	95,8	59,2	59,2		
Total		277,5	255,3	240,3	223,6	92,4	92,4	33,3	16,6

NB: These figures are subject to change if there are re-openings of existing bonds as well as new issuances in the coming years

Source: Ministry of Finance, Public Debt

SECTION 5: Sovereign Guarantees Status

The stock of publicly guaranteed debt to SOEs and Private Enterprises as the 31st March of 2022 is presented in table 10 below. It is important to note that all guarantees indicated are still performing well as there is none called in 2021/22.

Table 10: Publicly guaranteed debt to SOEs and Private Enterprises for FY2021/22

Beneficiary	Outstanding Debt (millions of Maloti)
SOEs	
WASCO	0.02
Lesotho Housing	27.7
Other	
Members of 10th Parliament	12.8
Statutory Loans	1.5
Private Enterprises	
Maseru E Textiles	8.6
Total	50.6

Source: *Ministry of Finance, Public Debt*

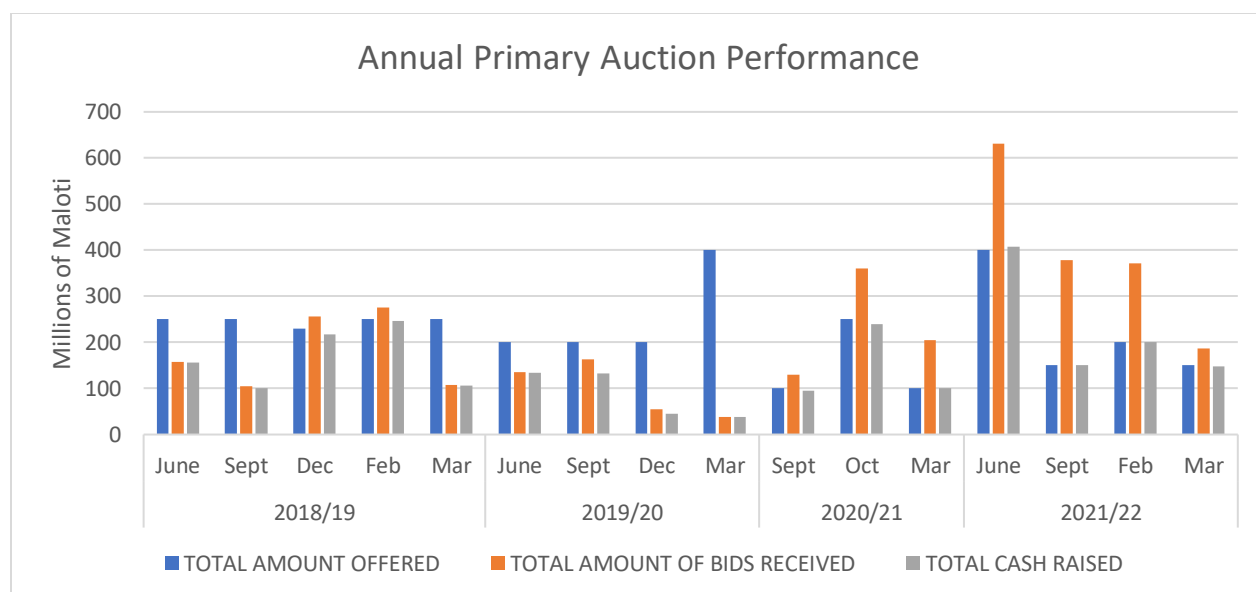
Section 6: Public Debt Outlook

6.1 Domestic Debt Outlook

Performance of sovereign debt auctions has matched the offered amount for the first time in 2021/22. The observed desired performance began the previous year, when number of bids received consistently oversubscribed the offered amounts even though pricing of some was still too steep and thus rejected.

The confidence of the government to finance budget deficits is growing as more and more participants enter the market. The 2022/23 auction calendar is biased towards long term instruments, short term instruments are included to ease liquidity needs.

Chart 4: Annual Primary auction performance



Source: Ministry of Finance, Public Debt

6.2 External Debt Outlook

Borrowings by the government can also be sourced from external sources in the form of marketable and non-marketable debt. Non-marketable debt will be limited to external loans provided by multilateral and bilateral creditors including export credit agencies; and advances sourced from the Central Bank of Lesotho (central bank). A key objective in external borrowings is to maximise the utilisation of grants and concessional loans. However, the Lesotho’s assumption of the status of a middle-income country in 2015 has led to shrinking of the grant resources from the multilateral creditor windows as the country began to be classified as IDA blend. Given the current status, the focus should be to use concessional and semi-concessional financing to fund sustainable projects, well appraised and evaluated by Public Sector Investment Committee (PSIC) to ensure that they will generate much needed growth and employment whilst contributing to poverty reduction. Where possible, Lesotho’s foreign aid flows should be mobilised in accordance with the Lesotho Partnership Policy (2013) developed by the Ministry of Development Planning in order to create fiscal space to absorb shocks in kinds. In this FY 2022/23, in accordance with table 10 below, the Government will finance the following project pipeline externally.

Table 11: Projects on the pipeline for 2022/23

Project	Millions of USD	Creditor	% of Total
Pathways to Sustainable Livelihoods Projects	26.5	IDA	10.4%
Regeneration of Landscape and Livelihoods Project	19	OFID	7.4%
Lesotho Lowlands Water Development Project	14.5	ADF	5.7%
Debt and Public Investment Management Support Project	2	ADF	0.8%
Wool and Mohair II	20	IFAD	7.8%
Wool and Mohair II	20	OFID	7.8%
Ramarothole Solar Power Generation Phase II	79	CHINA EXIMBANK	30.9%
Maseru Smart city	30	CHINA EXIMBANK	11.7%
Lesotho Competitiveness and Financial Inclusion	45	IDA	17.6%

Source: Ministry of Finance, Public Debt

Going forward, in terms of proportions, it is expected that China Exim bank will provide the biggest portion of loan disbursements of 42.6%, followed by IDA at 27.9%. Critical to note is that the Regeneration of Landscape and Livelihoods project financed by OFID has already been negotiated and signed while the IDA credits have already been negotiated and yet to be signed. The rest of the projects are expected to be negotiated and signed this financial year (2022/23). Table 11 below presents the lending terms for the envisaged new financing.

Table 12: Lending Terms of Creditors

	Bilateral	Multilateral			
	China Exim Bank	IDA	ADF	IFAD	OFID
Maturity Period	20 Years	20 Years	20 Years	20 Years	20 Years
Grace Period	5 Years	5 Years	5 Years	5 Years	5 Years
Interest rate	2%	1.25%	1.25%	2%	2%
Service Charge	-	0.75%	0.75%	-	-
Commitment fee	0.5%	0.5%	0.5%	0.15%	-

Source: Ministry of Finance, Public Debt

SECTION 7: Cost and Risk Indicators for Existing Debt

7.1 Cost-risk Analysis of Existing debt

Total debt increased significantly from 2020/21 to 2021/22, at the same time GDP made an even bigger recovery resulting in overall improvement in the ratio of PV of debt as a percent of GDP year on year. The cost of total public debt also declined from 6.5 to 5.9 percent of GDP. Average Time to Maturity of the portfolio remained almost the same, but refinancing risk declined year on year as smaller share of debt will be maturing in one year (5.3% instead of 6.8% of total debt). Interest rate risk remains subdued, the entire portfolio has fixed rate of debt. The amount of debt exposed to foreign exchange remains high, exposure declined by only 3.3% to 80.8%. Foreign currency bills due in immediate future are fewer than the previous year.

Table 13: Cost and Risk Indicator Matrix for existing debt

		2020/21			2021/22		
Risk Indicators		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
PV as percent of GDP ¹		69,3	8,4	77,7	62,8	9,8	72,6
Cost of debt ²	Interest payment as percent of GDP ³	5,9	0,6	6,5	5,3	0,5	5,9
	Weighted Av. IR (percent)	13,4	6,9	12,3	12,9	5,3	11,5
Refinancing risk ²	ATM (years)	11,3	3,1	10,1	11,7	3,2	10,2
	Debt maturing in 1yr (% of total)	3,4	26,2	6,8	3,6	13,0	5,3
	Debt maturing in 1yr (% of GDP)	1,6	2,2	3,8	1,6	1,3	2,9
Interest rate risk ²	ATR (years)	11,3	3,1	10,1	11,7	3,1	10,2
	Debt refixing in 1yr (% of total)	3,6	26,2	6,9	3,6	25,1	7,5
	Fixed rate debt incl T-bills (% of total)	97,1	100,0	99,8	100,0	100,0	100,0
	T-bills (percent of total)	0,0	13,4	2,0	0,0	17,9	3,2
FX risk	FX debt (percent of total debt)			84,1			80,8
	Short Term FX debt (% of reserves)			3,4			2,9

Source: *Ministry of Finance, Public Debt*

Notes:

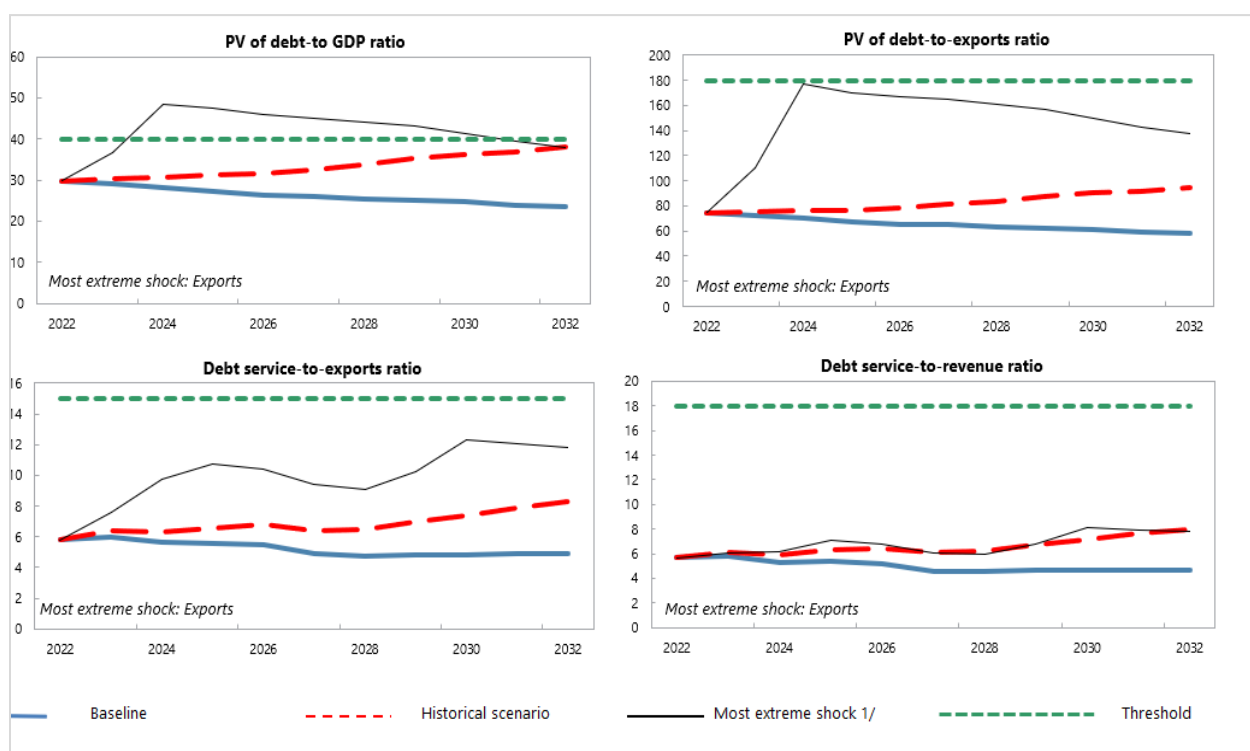
¹PV as percent of GDP is calculated based on projected debt service payments where discount rate of 5% is applied to those instruments on concessional or semi-concessional terms.

² Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.

³Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt at 2021 to 2021 GDP.

7.2 DSA Assessment Results

The assessment results of the newly conducted Debt Sustainability Analysis suggest that Lesotho's public debt is assessed to be at moderate risk of debt distress with some space to absorb shocks. This rating implies that only a sizable shock would take the country's debt portfolio towards high risk of debt distress. There are, however, emerging vulnerabilities of the debt stock from other elements of public debt not included in the public debt stock. These elements relate to accumulation of domestic arrears and contingent liabilities. The amount of these elements of debt not included in the debt stock is estimated at 17.3% of GDP. Although the contingent liability stress test conducted to assess their impact did not yield substantial threat to debt sustainability outlook, there is need for closer monitoring of these so-called hidden deficits to mitigate their potential impact on the country's debt sustainability outlook. The chart below presents the key debt indicators for both liquidity and solvency which need closer monitoring in the medium term.



ANNEXES

Annex 1: New Loans Contracted in 2021/22

NEW LOANS			
<i>AGREEMENT DATE</i>	<i>PROJECT NAME</i>	<i>CREDITOR</i>	<i>AMOUNT</i>
2021,05,19	Water Supply Development in Botha Bothe Region Project	BADEA	USD 20,000,000.00
2021,06,11	Additional Financing for The Lesotho COVID-19 Emergency Preparedness and Response Project	IDA	XDR 15,400,000.00
2021,07,19	Lesotho Nutrition and Health System Strengthening Project	IDA	XDR 15,400,000.00
2021,06,30	Lesotho Lowlands Water Development Project Phase III- Botha-Bothe Region	KUWAIT	KWD 3,800,000.00
2021,07,21	Additional Financing Lesotho Tax Modernization Project	ADF	XDR 3,000,000.00
2021,08,24	Water Supply for Five Towns	SDF	SAR 42,000,000.00
2021,11,10	Water Supply System Development Project in The Botha Bothe	ABU DHABI	AED 73,460,000.00
2021,01,01	Regeneration of Landscapes and Livelihoods Project	IFAD	EUR 3,140,000.00
2021,11,18	Regeneration of Landscapes and Livelihoods Project	IFAD	EUR 6,360,000.00

Source: *Ministry of Finance, Public Debt*

Annex 2: New Grants Secured in 2021/22

GRANTS			
<i>AGREEMENT DATE</i>	<i>PROJECT NAME</i>	<i>CREDITOR</i>	<i>AMOUNT</i>
2021,01,18	WAMP Rural Poor Stimulus Facility	IFAD	USD332,983.00
2021,06,11	Additional Financing for the Lesotho COVID-19 Emergency Prepared	IDA	USD3,500,000.00
2021,01,01	Lesotho Nutrition and Health System Strengthening Project	IDA	USD4,400,000.00
2022,02,28	Lesotho Basic Education Strengthening Project	IDA	USD7,100,000.00

Source: *Ministry of Finance, Public Debt*

Annex 3: External Debt Disbursed Outstanding Debt and Debt Service by Creditor Category (Millions of Maloti)

CS-DRMS Report 724				
	2019/20	2020/21	2021/22	2022/23
Bilateral				
Disbursed Outstanding Debt	1,223.4	989.2	956.7	978.3
Principal Repayments	74.7	55.8	50.3	1.3
Interest Payments	22.2	13.8	13.6	0
Total Debt Service	96.9	69.6	63.9	1.3
Export Credit				
Disbursed Outstanding Debt	1,176.7	1,574.4	2,121.8	2,236.2
Principal Repayments	74.1	77.4	53.7	3.4
Interest Payments	22.1	31.8	40.8	0.1
Total Debt Service	96.1	109.2	94.5	3.5
Multilateral				
Disbursed Outstanding Debt	13,251.5	12,285.2	12,141.8	12,867.4
Principal Repayments	615.7	609.7	540.1	21.0
Interest Payments	195.6	216.1	183.7	3.6
Total Debt Service	811.4	825.8	723.8	24.6
TOTAL				
Disbursed Outstanding Debt	15,651.7	14,848.8	15,220.3	16,081.8
Principal Repayments	764.9	742.9	644.1	25.6
Interest Payments	240.0	261.8	238.1	3.7
Total Debt Service	1,004.8	1,004.6	882.2	29.3
Principal Arrears in DOD	-17.0	78.9	212.6	267.7

Source: *Ministry of Finance, Public Debt*

**Annex 4: External Debt by Creditor, Creditor Category, Disbursements and Debt Service
(Million Maloti)**

DEBT SERVICE PAYMENTS TO CREDITORS				
CS-DRMS Report 728				
	2020/21	2021/22	2022/23	2022/23
<u>Bilateral</u>				
Abu Dhabi Fund For Economic Development				
Disbursed Outstanding Debt	168.1	153.6	166.1	124.5
Disbursements	0	0	0	0
Principal Repayments	30.3	14.3	0	27.7
Interest Payments	8.8	3.7	0	6.0
Total Debt Service	39.1	18.0	0	33.7
Kuwait Fund for Arab Economic Dev.				
Disbursed Outstanding Debt	322.6	316.4	316.4	284.0
Disbursements	0	0	0	0
Principal Repayments	16.7	23.4	0	23.5
Interest Payments	4.8	6.7	0	6.1
Total Debt Service	21.5	30.1	0	29.6
Natexis S.A.				
Disbursed Outstanding Debt	52.9	46.8	47.2	35.8
Disbursements	0	0	0	0
Principal Repayments	8.8	2.3	1.3	2.8
Interest Payments	0.2	0	0	0.1
Total Debt Service	9.0	2.3	1.3	2.9
Peoples Republic Of China				
Disbursed Outstanding Debt	159.3	159.8	168.6	151.7
Disbursements	0	0	0	0
Principal Repayments	0	0	0	16.9
Interest Payments	0	0	0	0
Total Debt Service	0	0	0	16.9
The Saudi Fund For Development				
Disbursed Outstanding Debt	286.3	280.0	280.0	261.4
Disbursements	0	0	0	0
Principal Repayments	0	10.3	0	18.7
Interest Payments	0	3.2	0	3.0
Total Debt Service	0	13.5	0	21.6
<u>Export Credit</u>				
Export Import Bank of China				
Disbursed Outstanding Debt	1,529.2	2,085.7	2,200.1	2,092.3
Disbursements	646.7	542.8	0	0
Principal Repayments	64.6	45.9	0	91.3
Interest Payments	30.6	40.5	0	43.4
Total Debt Service	95.2	86.4	0	134.8
Import Export Bank of India				
Disbursed Outstanding Debt	45.2	36.1	36.1	28.3
Disbursements	0	0	0	0
Principal Repayments	12.8	7.8	3.4	4.2
Interest Payments	1.2	0.3	0.1	0.2
Total Debt Service	14.1	8.1	3.5	4.5

	2020/21	2021/22	2022/23	2022/23
<u>Multilateral</u>				
African Development Fund				
Disbursed Outstanding Debt	2,483.6	2,343.5	2,488.2	2,378.3
Disbursements	60.5	114.8	2.7	0
Principal Repayments	98.4	97.4	0	107.0
Interest Payments	22.9	21.4	0	20.7
Total Debt Service	121.3	118.7	0	127.7
Arab Bank For Economic Dev in Africa				
Disbursed Outstanding Debt	570.4	534.7	586.7	557.0
Disbursements	0	6.1	0	0
Principal Repayments	20.8	24.7	0	27.8
Interest Payments	6.6	8.2	0	8.5
Total Debt Service	27.4	33.0	0	36.3
European Investment Bank				
Disbursed Outstanding Debt	1,443.9	1,366.0	1,364.8	1,267.0
Disbursements	0	0	0	0
Principal Repayments	80.8	76.2	0.4	88.9
Interest Payments	102.1	70.4	0	91.7
Total Debt Service	182.9	146.6	0.4	180.6
International Bank For Recons and Dev.				
Disbursed Outstanding Debt	1.8	1.7	1.8	1.8
Disbursements	0	0	0	0
Principal Repayments	0	0	0	0
Interest Payments	2.1	1.8	0	0
Total Debt Service	2.1	1.8	0	0
International Development Association				
Disbursed Outstanding Debt	5,921.8	6,196.6	6,620.7	6,390.6
Disbursements	455.4	827.2	37.8	0
Principal Repayments	184.4	216.9	13.0	225.3
Interest Payments	69.2	71.7	2.0	77.4
Total Debt Service	253.6	288.6	15.1	302.6
International Fund For Agricultural Dev				
Disbursed Outstanding Debt	540.5	507.4	539.0	517.3
Disbursements	20.9	15.8	0	0
Principal Repayments	20.5	20.3	0	20.0
Interest Payments	4.5	4.0	0	3.8
Total Debt Service	24.9	24.3	0	23.9
International Monetary Fund				
Disbursed Outstanding Debt	1,110.8	977.2	1,038.6	779.3
Disbursements	847.9	0	0	0
Principal Repayments	178.2	76.7	0	72.6
Interest Payments	2.7	0	0	0
Total Debt Service	180.9	76.7	0	72.6
The Opec Fund For International Dev.				
Disbursed Outstanding Debt	212.4	214.6	227.6	195.2
Disbursements	34.5	36.3	0	0
Principal Repayments	26.6	27.9	7.5	22.8
Interest Payments	6.0	6.2	1.6	4.2
Total Debt Service	32.6	34.1	9.1	27.0

	2020/21	2021/22	2022/23	2022/23
<u>TOTAL</u>				
Disbursed Outstanding Debt	14,848.8	15,220.3	16,081.8	15,064.7
Disbursements	2,065.9	1,542.9	40.5	0
Principal Repayments	742.9	644.1	25.6	749.4
Interest Payments	261.8	238.1	3.7	265.3
Total Debt Service	1,004.6	882.2	29.3	1,014.7

Source: *Ministry of Finance, Public Debt*

