

Managing the Impact of Macroeconomic Shocks Lesotho's Experience

Outline

Lesotho's Fiscal Performance

- Pre-Crisis
- Recovery - Managing the Crisis
- Post-Crisis

Lessons Learnt

LESOTHO'S FISCAL PERFORMANCE

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2005/06 to 2009/10

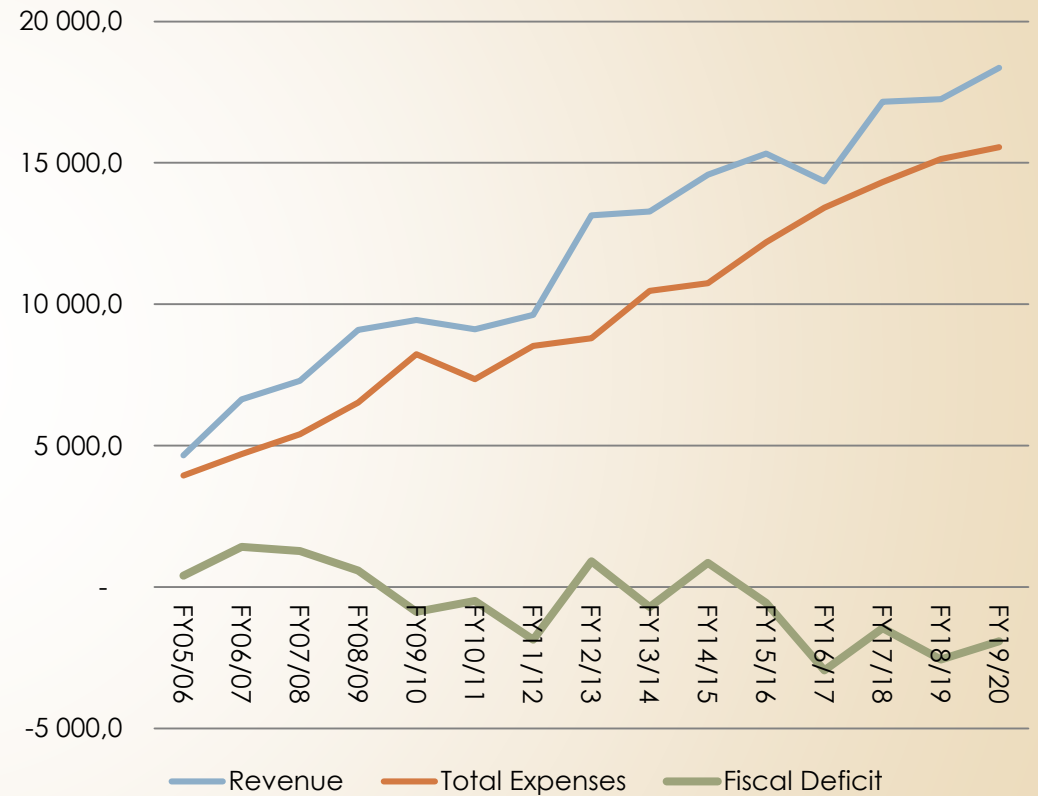
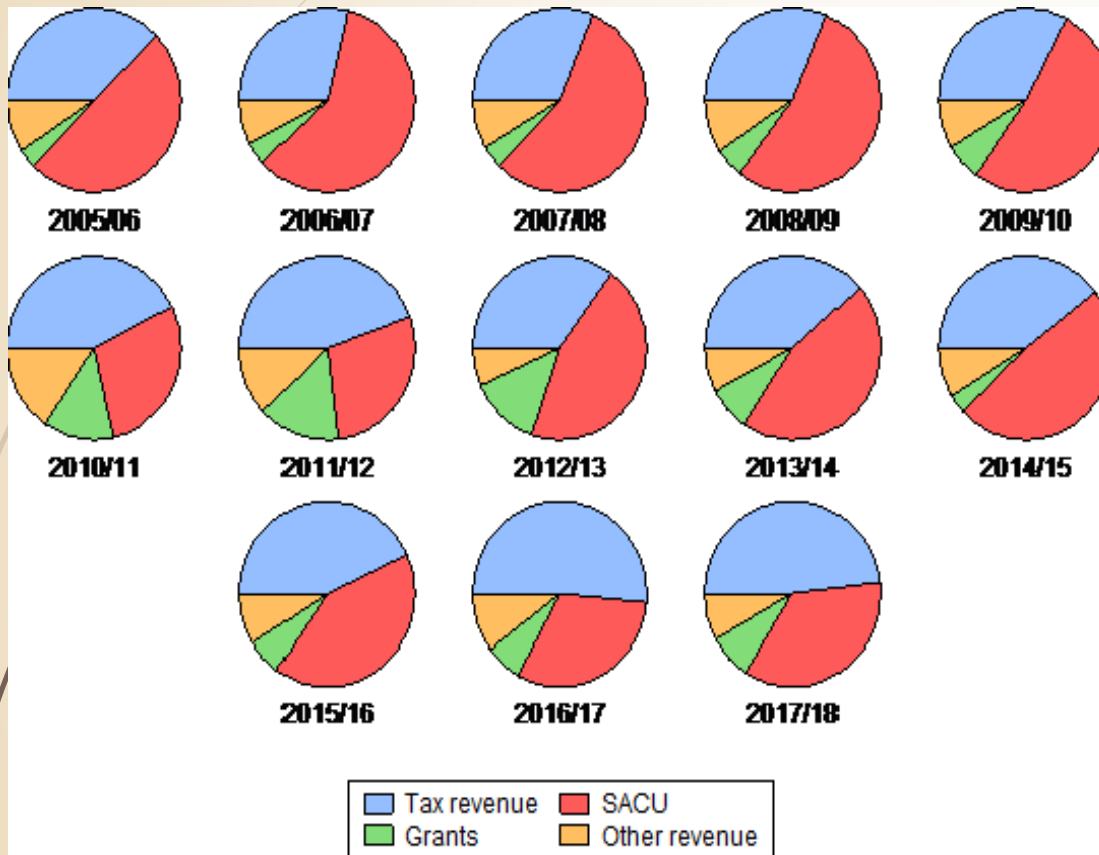
- ▶ 30% average annual increase in SACU Revenue Shares;
- ▶ High dependence on SACU Revenue Shares (More than 50% of total revenue);
- ▶ SACU revenue accounted for more than 60% of Government spending;
- ▶ Annual increase in recurrent expenditure (Average 19%);
- ▶ Recorded annual fiscal surpluses
- ▶ Growth in government deposits (NIR Average of 5.8 months of import cover)

2010/11 to 2011/12

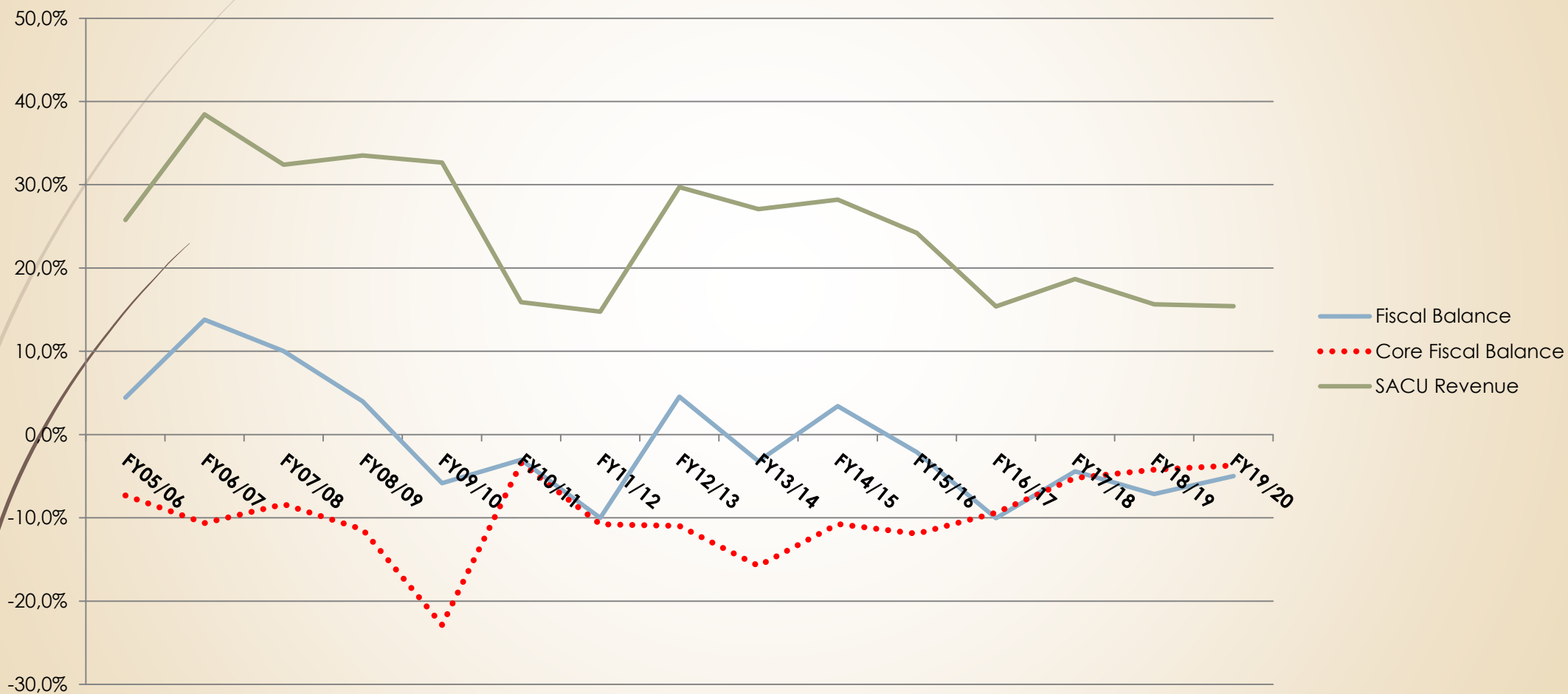
- ▶ Sharp decline in SACU Revenue Shares by more than 50%
- ▶ Decline in recurrent expenditure (-7%)
- ▶ Deterioration of the fiscal balance (-3.1% and -10.2%)
- ▶ Depletion of government deposits (Months of import cover of 4.4 and 4.0, respectively)

FISCAL PERFORMANCE (Cont'd)

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FISCAL PERFORMANCE (Cont'd)



THE RECOVERY – Managing the Crisis

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Objectives:

- ▶ A three-Year Fiscal Reform Program supported by the International Monetary Fund (IMF)
- ▶ To Restore macroeconomic stability and help reduce balance of payments risks;
- ▶ Fiscal consolidation and external sustainability;
- ▶ Achieve broad-based economic growth, which includes social protection for the poor and vulnerable; and
- ▶ Strengthen the financial Sector to particularly improve access to credit by the private sector for investment.

THE RECOVERY – Managing the Crisis (Cont'd)

Outcomes

- ▶ Fiscal consolidation
 - ▶ Reduce effect of cyclicalities of SACU on Budget - Definition of 'Core Fiscal Balance'
 - ▶ Improvement in overall fiscal balance (Fiscal surplus 4.5% in 2012/13);
 - ▶ Build-up of reserves (Improvement to 4.9 months of import cover in 2012/13);
- ▶ Structural Reforms

LESSONS LEARNT

- ▶ In times of boom, government should limit the growth of recurrent expenditure, especially the wage bill;
- ▶ Revenue windfalls should be utilized to build reserves and to finance activities promote growth - not fuel recurrent expenditure;
- ▶ Structural reforms should focus on enhancing domestic revenue mobilization to reduce over-dependence of budget financing on revenue sources that are susceptible to external shocks;
- ▶ Reform is a continuous process

THANK YOU

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