

LESOTHO

Table 1 2021

Population, million	2.2
GDP, current US\$ billion	2.3
GDP per capita, current US\$	1084.9
International poverty rate (\$2.15) ^a	32.4
Lower middle-income poverty rate (\$3.65) ^a	54.6
Upper middle-income poverty rate (\$6.85) ^a	81.0
Gini index ^a	44.9
School enrollment, primary (% gross) ^b	120.9
Life expectancy at birth, years ^b	54.8
Total GHG emissions (mtCO2e)	2.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

Following a prolonged recession during 2019-2020 and low growth in 2021, Lesotho's economy is expected to recover and grow by 2.6 percent in 2022. The outlook is subject to downside risks stemming from political instability, inflationary pressures exacerbated by the Ukraine war, notably for food and fuel, new COVID-19 variants, and climate shocks. Poverty is expected to remain around 35 percent, using the international poverty line. Unemployment levels remain elevated.

Key conditions and challenges

Lesotho's economy is struggling. Real GDP contracted by an average 0.7 percent annually between 2017 and 2019 before the sharp contraction of 8.4 percent in 2020 due to the COVID-19 pandemic. Despite some recovery to 1.3 percent growth in 2021, uncertainties surrounding political stability, fiscal outlook and the future of the COVID-19 pandemic continue to pose downside risks to growth.

Recent governments have been unstable, characterized by weak coalitions and frequent cabinet reshuffles. This has delayed reform implementation. National elections are scheduled for October 7, 2022. SACU revenues, which accounted for about half of government revenues and grants in 2020, are declining, while government expenditures are rising. Consequently, the fiscal deficit in 2022 should further widen from the 4.5 percent of GDP registered in 2021. As at September 8 2022, 45.2 percent of the population had been fully vaccinated against COVID-19, and this is one of the highest vaccination rates in the region. High food and fuel prices due to the war in Ukraine, combined with weak consumer demand, have been slowing recovery from the pandemic. Elevated inflationary pressures are expected to entail more aggressive monetary policy responses, which negatively affect economic growth. Even before the pandemic, Lesotho grappled with high poverty and unemployment.

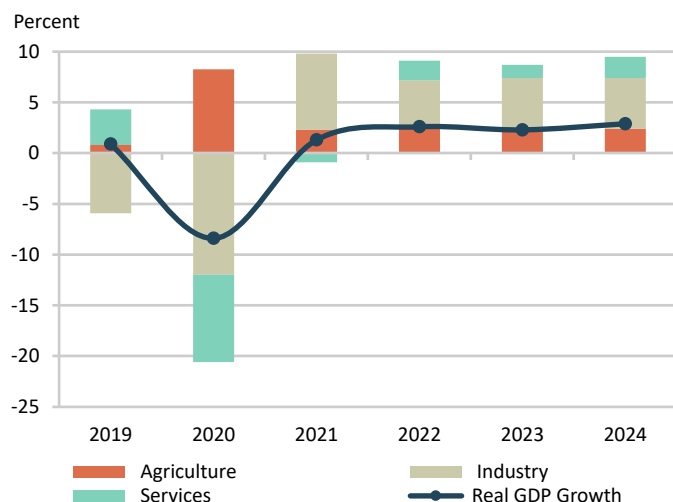
The unemployment rate was 22.5 percent (strict definition), and 38.3 percent in 2019 (expanded definition – including discouraged job seekers). About 36 percent of the population lives on less than US\$2.15/person/day (using the new 2017 PPP) and inequality is high by global standards with the gini coefficient at 44.9 (2017 data). Food insecurity is rising – 521,000 people are affected in 2022/23 compared with 470,000 in 2021/22 – due to increased food prices, decreased income from livestock products, and job losses. Remittances from migrant workers (about 22 percent of GDP in 2019) – a crucial safety net in Lesotho – is yet to recover to pre-pandemic levels, exacerbating the food insecurity and poverty situation.

Recent developments

Economic recovery is expected to pick up momentum, underpinned by the recovery in sectors like construction, mining, manufacturing, business services, and public administration, which recorded double-digit growth rates in the fourth quarter of 2021. Exports of diamonds and textiles have recovered attributable to global economic recovery. GDP is projected to grow by 2.6 percent in 2022. The fiscal stance is expected to deteriorate with the deficit rising to 7.7 percent of GDP in 2022 as government expenditure remains elevated.

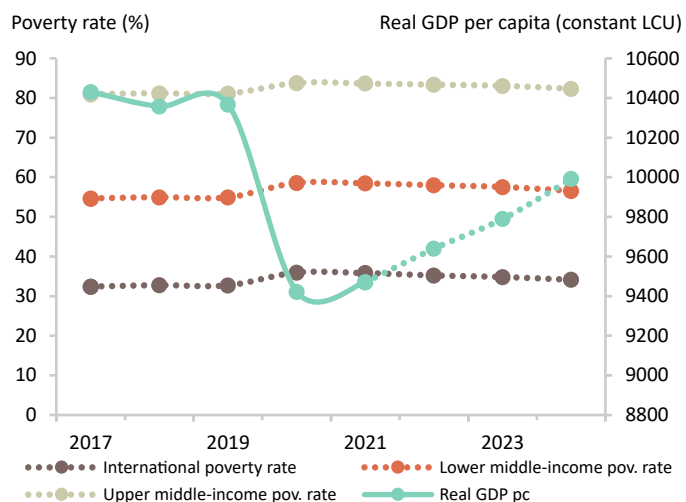
The annual inflation rate, which averaged 6.0 percent in 2021, has accelerated to 9.8 percent in July 2022, driven by higher food

FIGURE 1 Lesotho / Real GDP growth at factor costs and contributions to real GDP growth



Sources: WDI and staff estimates.

FIGURE 2 Lesotho / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

and energy prices. To contain inflationary pressures, the Central Bank of Lesotho (CBL) increased the policy rate five times (between November 2021 and July 2022) from 3.50 to 5.50 percent (cumulative 200 basis points) per annum. The current account deficit is expected to double in 2022 to 7.4 percent of GDP, primarily due to higher prices and volumes of imports of goods and services, relative to exports.

Given the limited recovery, poverty levels are estimated to have remained at 36 percent in 2021. Other factors – such as rising food and energy, prices and slow labor market recovery from COVID-19-related lockdown measures – limit poverty reduction. The government has introduced a M30 million (approximately US\$2 million) monthly fuel subsidy from July to December 2022 to cushion motorists and commuters from the high costs of energy prices. The fuel subsidy has reduced and fixed the prices of petroleum products until December 2022. Recurring climatic hazards that adversely affect Lesotho's agricultural

sector's performance exacerbate the challenge, increasing food insecurity, particularly among the rural population. Government is also supporting the sector in the form of 80 percent and 70 percent government subsidies on seeds and fertilizers respectively.

Outlook

Real GDP is projected to grow by 2.3 percent in 2023, with an acceleration to 2.9 percent by 2024 as activity in the Lesotho Highlands Water Phase-II Project peaks. The services sector is also expected to drive growth, and this will benefit from positive spillovers from the construction sub-sector. Agriculture is expected to continue to register positive growth on account of envisaged good harvests for crops. The diamond industry is also expected to recover in a context of higher international prices.

The annual inflation rate is expected to remain elevated, as it is projected to average 7.0 percent in the medium-term. The fiscal position is projected to improve over the medium term as the deficit is expected to fall to 4.8 percent and 3.1 percent in 2023 and 2024 respectively. Tax revenues are expected to improve, boosted by the recently introduced revenue-mobilization measures, including the enactment of tobacco and alcohol products levy. The public debt-to-GDP ratio is expected to decline from 62.0 percent of GDP in 2021 and stabilize at 56.4 percent of GDP in the medium-term largely attributed to higher nominal GDP.

Poverty rates are expected to trend downwards over the medium term, but remain higher than in 2019 as increases on food and energy prices as well as a fragile economic environment constrain budgets and livelihoods of lower income households. The US\$2.15/person/day (in 2017 PPP terms) poverty rate is projected to fall slightly to 35.2 percent in 2022 and reach 34.1 percent by 2024.

TABLE 2 Lesotho / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.9	-8.4	1.3	2.6	2.3	2.9
Private Consumption	2.6	4.8	-2.0	3.6	3.6	3.6
Government Consumption	7.8	19.7	-5.3	-0.5	-1.1	-1.5
Gross Fixed Capital Investment	-16.2	-49.2	-4.0	41.3	50.1	39.6
Exports, Goods and Services	-13.3	-17.5	38.1	1.6	2.2	2.2
Imports, Goods and Services	-1.4	-0.5	15.0	6.8	10.3	10.3
Real GDP growth, at constant factor prices	0.9	-8.4	1.3	2.6	2.3	2.9
Agriculture	0.8	8.3	2.3	2.4	2.4	2.4
Industry	-5.9	-12.0	7.5	4.8	5.0	5.0
Services	3.5	-8.6	-0.9	1.9	1.3	2.1
Inflation (Consumer Price Index)	5.2	5.0	6.0	7.5	7.0	6.5
Current Account Balance (% of GDP)	-2.9	-1.4	-3.7	-7.4	-4.3	-6.9
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.3	1.1	1.1	1.2	1.3
Fiscal Balance (% of GDP)	-8.8	-0.8	-4.5	-7.7	-4.8	-3.1
Debt (% of GDP)	48.2	50.7	62.0	57.1	56.0	56.0
Primary Balance (% of GDP)	-7.7	0.1	-3.5	-6.8	-4.0	-2.4
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	32.7	36.0	35.8	35.2	34.8	34.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	54.9	58.6	58.5	58.0	57.6	56.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	81.1	83.8	83.7	83.4	83.1	82.3
GHG emissions growth (mtCO₂e)	0.0	-2.6	0.8	1.6	1.6	1.6
Energy related GHG emissions (% of total)	30.5	28.4	27.7	27.6	27.7	27.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2017-CMSHS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.