LESOTHO

Table 1	2023
Population, million	2.3
GDP, current US$ billion	2.3
GDP per capita, current US$	972.0
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]	110.0
Life expectancy at birth, years[b]	53.1
Total GHG emissions (mtCO2e)	4.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2021).

Growth increased to 2 percent in 2023 and will remain at around this rate over 2024-26. The outlook is subject to downside risks from delays in the Lesotho Highlands Water Project (LHWP), and the implementation of reforms to control public spending, raise efficiency, as well as public investment effectiveness. Further delays in implementing reforms to bolster private sector development and human capital will also stall growth. Weaker global and regional growth, rising geopolitical tensions, and climate shocks could adversely affect the growth trajectory.

Key conditions and challenges

Growth rate has averaged only 1.2 percent since 2010, indicating that the consumption-driven growth model anchored on a large public sector has not been sustainable. Weaknesses in fiscal policy and management has undermined public spending inefficiencies. The large public sector has also crowded out the private sector, curtailing business investment and the development of new private sector activities. Domestic entrepreneurs face difficulties in accessing credit. Gaps in the regulatory competition and investment frameworks, including for foreign direct investment, raise uncertainty and costs of doing business. Large infrastructure gaps, including in information and communications technology, dampen private investment and the country's integration in global value chains.

Fiscal imbalances have been persistent overtime, as spending was not compensated by higher revenue, leading to higher public debt. Volatile Southern African Customs Union (SACU) receipts, poor cash management, and deficiencies in public procurement processes have led to the accumulation of arrears, which threaten macroeconomic stability.

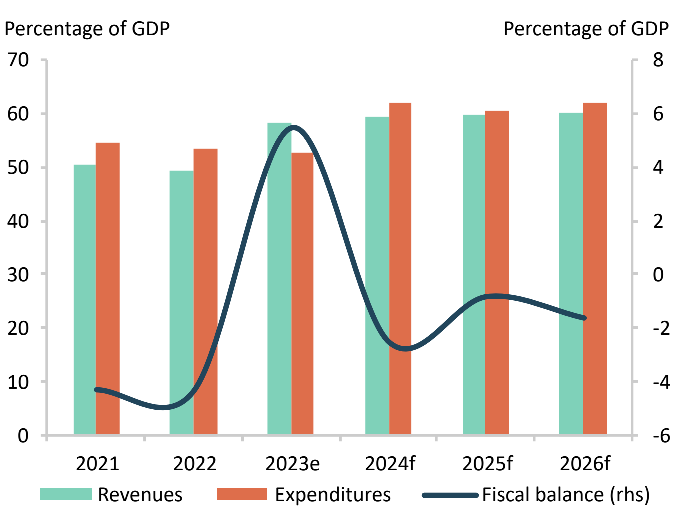
Weak regional and global demand are undermining exports, which remain heavily concentrated to apparel and textile, and natural resources. Policy measures are needed to unlock private investment and diversify the economy. The future of the textile sector hinges on the renewal of the United States' African Growth and Opportunities Act (AGOA) beyond 2025 and measures to relaunch the competitiveness of the sector. South Africa's weak economy affects growth prospects through trade and lower remittances.

Limited private sector activity and skills mismatches contribute to high unemployment, estimated at 22.5 percent in 2019 (reaching 38.3 percent when discouraged job seekers are included), and high poverty rates. Over one-third of the population was estimated to live on less than US$2.15 per day (2017 PPP) in 2022. Lesotho is in the top quintile of countries with the most unequal income distribution.

Recent developments

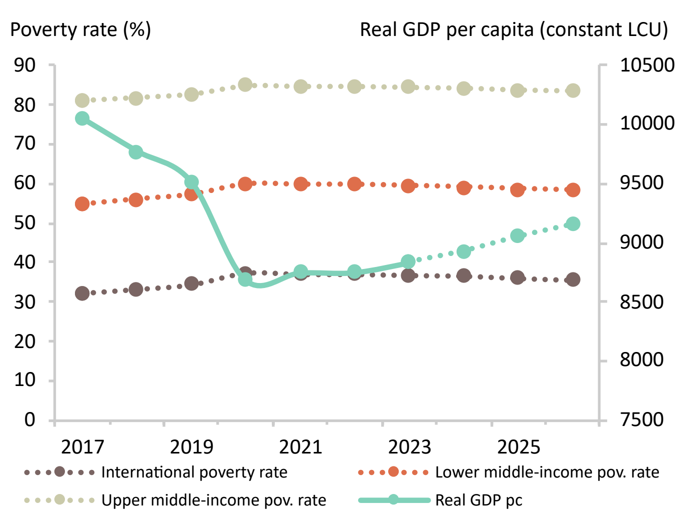
The economy expanded by an estimated 2 percent in 2023, mainly driven by the public sector, especially the LHWP-II megaproject and its spillover effects on transportation, logistics, and financial services. The project experienced some delays in early 2024 owing to strikes, but activity has since resumed. On the downside, weaknesses in public investment management and efforts to control spending are delaying the implementation of capital projects. On the supply side, the industrial sector grew by about 5 percent, while the expansion of the agricultural sector, while still positive, decelerated significantly.

FIGURE 1 Lesotho / Fiscal dynamics



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Headline inflation decreased from its peak of 9.8 percent in July 2022 to 7.2 percent in December 2023, owing primarily to the moderation in fuel and food prices, but pressures are emerging again. the central bank revised upwards the net international reserves target floor to US$750 million in January 2024 and increased the policy rate to 7.75 percent in July 2023, which stands below the South African policy rate.

The fiscal balance improved dramatically, from a deficit of 4.3 percent of GDP in 2022 to a surplus of 5.5 percent of GDP in 2023, owing to the more than doubling of SACU revenue. The government has spent more than half of SACU windfall in FY 2023/24, to increase public investment and recurrent spending by 2 percentage points of GDP each. Recurrent spending increases were driven by transfers to other public sector bodies, social benefits, and subsidies. The public sector wage bill growth kept constant as a share of GDP, even though it increased above inflation. Limited progress has been made on arrears' clearance, which have emerged owing to recurrent fiscal deficits in the past, and weaknesses in public financial management and in public procurement.

Outlook

Growth is projected to remain subdued, at around 2-2.5 percent over the next three years. This rate will be insufficient to return the economy to its pre-pandemic level by 2026 and significantly reduce poverty and inequality rates. The implementation of the LHWP-II project should continue to drive growth, but private activities are expected to expand modestly as longstanding structural constraints remain unaddressed. Consequently, the US$2.15 per day poverty rate is projected to fall only slightly from 37.0 percent in 2022 to 36.1 percent in 2025.

Inflation is expected to gradually moderate to 5.0 percent in line with declining energy and food prices, but to remain relatively high owing to the rand depreciation. The current account deficit is projected to widen due to higher imports associated with the LHWP-II, and weaker demand for exports, driven by uncertainties surrounding the renewal of AGOA, and a deceleration in the US economy.

After the large fiscal surplus registered in 2023, the government's accounts are expected to return to deficits, even though SACU transfers are projected to remain elevated, risking undermining macroeconomic stability. Although the projected deficits will be driven by public investment, and there are substantial gaps in productive, social, and resilient infrastructure, public investment prioritization and management have been weak, raising concerns about the country's absorptive capacity and resource misallocation. Using the SACU windfall to implement reforms that stimulate private sector investment and bring down recurrent spending would strengthen growth.

Domestic and external risks are tilted to the downside. Weaker global and regional growth, and the intensification of geopolitical conflicts, would impact negatively on diamond exports and remittances. This and failure to renew AGOA would widen the current account deficit, while further delays in the LHWP-II would lower growth. On the positive side, devising a plan to clear arrears and delivering on it would strengthen the macroeconomic policy framework and public spending. Climate shocks could weaken the outlook and endanger gains in poverty alleviation, underscoring the need to strengthen climate risk management and resilience.

TABLE 2 Lesotho / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.9	1.1	2.0	2.2	2.5	2.3
Private consumption	-6.7	9.1	3.6	3.5	3.2	3.2
Government consumption	-5.3	2.4	2.2	17.9	11.5	12.3
Gross fixed capital investment	6.5	10.8	54.7	9.3	26.7	18.3
Exports, goods and services	5.1	36.7	2.2	2.2	2.2	2.0
Imports, goods and services	-0.4	22.5	10.3	10.8	11.3	10.5
Real GDP growth, at constant factor prices	1.9	1.1	2.0	2.2	2.5	2.3
Agriculture	-16.0	12.5	2.4	2.4	2.4	2.4
Industry	4.7	5.0	5.0	5.3	5.0	5.0
Services	2.3	-0.8	1.0	1.1	1.6	1.3
Inflation (consumer price index)	6.0	8.3	6.4	5.3	5.0	5.0
Current account balance (% of GDP)	-4.1	-6.2	-5.5	-6.2	-6.6	-6.4
Net foreign direct investment inflow (% of GDP)	1.2	1.2	1.4	1.9	1.4	1.2
Fiscal balance (% of GDP)	-4.3	-4.3	5.5	-2.5	-0.8	-1.5
Revenues (% of GDP)	50.2	49.1	57.6	58.9	59.1	59.6
Debt (% of GDP)	60.4	60.6	57.5	54.9	51.2	47.7
Primary balance (% of GDP)	-3.3	-3.4	6.4	-1.6	0.0	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	37.0	37.0	36.8	36.6	36.1	35.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	59.7	59.7	59.4	59.0	58.6	58.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.8	84.8	84.5	84.3	83.8	83.6
GHG emissions growth (mtCO2e)	1.3	2.3	2.6	2.8	2.9	2.1
Energy related GHG emissions (% of total)	57.9	58.1	58.2	58.4	58.6	58.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.