

# LESOTHO

## Key conditions and challenges

**Table 1** 2020

Population, million	2.1
GDP, current US\$ billion	2.1
GDP per capita, current US\$	958.1
International poverty rate (\$ 19) <sup>a</sup>	27.2
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	49.9
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	73.2
Gini index <sup>a</sup>	44.9
School enrollment, primary (% gross) <sup>b</sup>	120.9
Life expectancy at birth, years <sup>b</sup>	53.7

Source: WDI, Macro Poverty Outlook, and official data.  
Notes:

(a) Most recent value (2017), 2011 PPPs.

(b) WDI for school enrollment (2017); life expectancy (2018).

*Economic growth continues to remain subdued driven by the negative effects of the COVID-19 pandemic and floods in early 2021. The economy is expected to rebound and grow by 2.9 percent in 2021 mainly due to the recovery in construction, mining and manufacturing. Poverty is estimated to have increased to 31.2 percent in 2020, up from 28.5 percent in 2019, using the international poverty line. Rural population with food insecurity increased from 18 percent to 30 percent.*

Lesotho has been experiencing slow growth and persistent inequality which have been exacerbated overtime by environmental-related shocks, political instability and decelerated economic growth. Inevitable spillovers from the South African economy, especially due to high prevalence of COVID-19 and unsolved structural impediments to growth in South Africa such as electricity shortages, continue to pose challenges to Lesotho. The pandemic has worsened the already dire economic performance in South Africa, and this is expected to spillover to Lesotho through the lower SACU receipts and remittances. The public debt levels have also been on an increase largely due to higher borrowing associated with the policy responses due to COVID-19.

The pandemic is unfolding in a context of high poverty and unemployment. About a third of the population still lives on less than US\$1.90/person/day (in 2011 PPP terms). Poverty is concentrated in rural regions which tend to have poorer access to basic infrastructure and services. Further, rural communities are more vulnerable to climatic shocks which contribute to erratic and generally low productivity in agriculture, a sector that is a source of livelihoods for most of the rural population. The pandemic has worsened economic vulnerability and food insecurity in the country. Unemployment rate has been

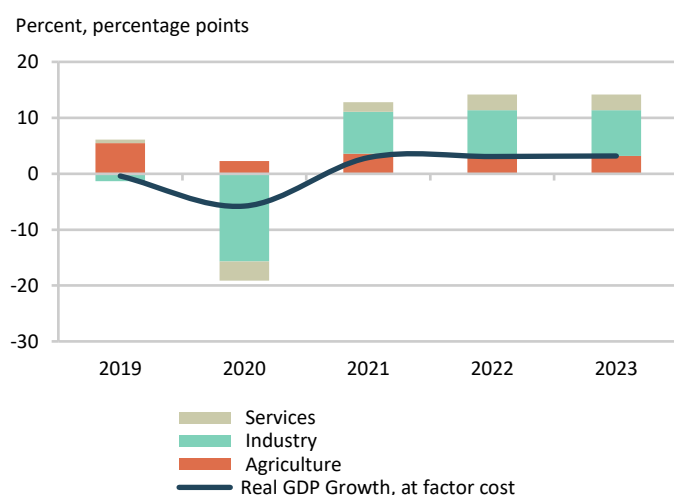
high even before COVID-19 at 22.5 percent in 2019 (strict definition), rising to 38.3 percent (when the expanded definition is used).

## Recent developments

The economy was already in recession even before the advent of COVID-19. Real GDP contracted by 1.2 percent and 0.4 percent in 2018 and 2019, respectively. It further contracted by 1.8 percent in the first quarter of 2020 before any COVID-19 case was reported in the country. The first positive COVID-19 case was reported in May 2020 and economic growth contracted by 15.7 percent in the second quarter of 2020, consequent to nationwide lockdown implemented in late March that brought the economy to a halt. All economic sectors, except for agriculture, information and communication, real estate, education and health contracted in the second quarter of 2020. Mining contracted by 44 percent and manufacturing by 29 percent mainly due to weak global demand. While hospitality sector and, wholesale and retail contracted by 51 percent and 38 percent, respectively, in the second quarter of 2020.

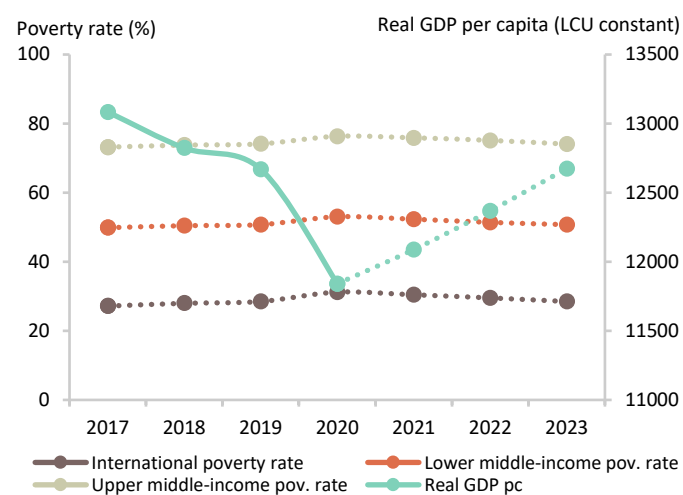
On average, annual inflation rate registered 5.0 percent in 2020 compared with 5.2 percent in 2019 largely due to higher food and energy prices, amidst supply-demand challenges imposed by closure of borders and domestic lockdown measures during 2020. The year-on-year inflation rate has accelerated to 5.4

**FIGURE 1 Lesotho / Growth of real GDP at factor cost 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.

percent in January 2021. The current account deficit narrowed from 4.1 percent of GDP in 2019 to 3.6 percent in 2020 as exports of goods and services declined faster than imports of goods and services, as well as higher SACU revenue inflows since April 2020 and it is expected to widen further in the medium-term. The Central Bank of Lesotho (CBL) eased the monetary policy stance by reducing the policy rate by a cumulative 275 basis points from March to July 2020 to react to the COVID-19 shock. The fiscal deficit is expected to narrow to 3.7 percent of GDP in 2020 largely due to higher SACU inflows and widen in the medium-term. Health and social-related expenditure are expected to rise in line with COVID-19 mitigation measures, while capital expenditure is expected to decline due to reallocation.

The poverty rate is estimated to have increased from 28.5 percent in 2019 to 31.2 percent in 2020, using the US\$1.90/person/day (in 2011 PPP terms) international poverty line. COVID-19-related lockdown measures have had a negative shock to the labor market, resulting in job and income losses with the effects concentrated in urban areas. Rural population with food insecurity increased from 18 percent in 2018 to 30 percent in 2020, while urban population with food insecurity increased

from 9.2 percent to 13.3 percent. Remittances have also fallen due to the global economic slowdown, especially in South Africa. Food insecurity is high: the findings from the COVID-19 Socio-Economic Impact on Household Survey conducted by the Bureau of Statistics (BOS) estimate 21.1 percent of the population to have been affected by severe food insecurity in June 2020, and this stagnated at 20.9 percent in September 2020.

## Outlook

Economic growth is expected to rebound to 2.9 percent in 2021 and gradually recover to 3.1 percent in 2022. Agriculture is expected to grow moderately in the medium term as agricultural subsidies and good rains are expected to contribute to crop production. Furthermore, medicinal cannabis farming as well as horticulture farming projects are also expected to provide impetus to grow. The projected recovery in the medium-term is set to be led by a rebound in the manufacturing, construction and mining activities. The construction activities associated with the second phase of Lesotho Highlands Water Project (LHWP-II) have already started in the first half of 2021, and these

are expected to have a positive impact on growth. Services are also expected to add impetus to the growth momentum over the medium-term.

Inflation is expected to follow developments in the regional food and energy prices due to supply-demand challenges imposed by restricted movements and closure of borders and will accelerate steadily to 5.5 percent by 2023. Uncertainties surrounding the efficacy, affordability and timeliness of COVID-19 vaccines continue to pose a huge risk to macroeconomic outlook. The recovery of exports and overall economic growth largely depends on external demand conditions as well as the re-opening of the global economy. The recession in the neighboring South African economy is expected to dampen Lesotho's growth outlook through various channels, such as reduced SACU receipts and lower remittances.

Economic recovery will be accompanied by declining poverty rate but will remain higher than in 2019. The US\$1.90/person/day (in 2011 PPP terms) poverty rate is projected to fall slightly to 30.5 percent in 2021 and further to 29.6 percent in 2022.

The scaling up of government social assistance programs is expected to cushion the adverse impacts of COVID-19 pandemic.

**TABLE 2 Lesotho / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
<b>Real GDP growth, at constant market prices</b>	-1.2	-0.4	-5.8	2.9	3.1	3.2
Private Consumption	-18.4	-2.5	1.1	1.3	1.2	1.8
Government Consumption	-1.9	7.8	-10.3	7.5	0.7	4.0
Gross Fixed Capital Investment	-24.1	0.4	-4.1	-2.4	25.8	17.2
Exports, Goods and Services	-2.3	-10.8	-9.2	6.3	3.6	3.2
Imports, Goods and Services	-13.1	-1.4	-2.8	3.3	5.4	5.8
<b>Real GDP growth, at constant factor prices</b>	-1.2	-0.4	-5.8	2.9	3.1	3.2
Agriculture	-12.0	5.5	2.3	3.6	3.2	3.2
Industry	3.7	-1.3	-15.7	7.5	8.2	8.2
Services	-1.2	-0.4	-5.8	2.9	3.1	3.2
<b>Inflation (Consumer Price Index)</b>	4.0	5.2	5.0	5.2	5.4	5.5
<b>Current Account Balance (% of GDP)</b>	-2.3	-4.1	-3.6	-8.1	-10.5	-11.7
<b>Net Foreign Direct Investment (% of GDP)</b>	1.4	1.3	1.3	1.4	1.3	1.3
<b>Fiscal Balance (% of GDP)</b>	-0.1	-6.7	-3.7	-10.8	-9.6	-9.7
<b>Debt (% of GDP)</b>	44.5	47.9	65.4	69.1	74.3	72.9
<b>Primary Balance (% of GDP)</b>	0.9	-6.0	-3.5	-10.4	-9.4	-9.4
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>	28.0	28.5	31.2	30.5	29.6	28.5
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	50.5	50.8	53.1	52.4	51.4	50.8
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	73.8	74.1	76.3	75.9	75.1	74.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-CM SHBS. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

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