

# LESOTHO

## Key conditions and challenges

Table 1	2019
Population, million	2.3
GDP, current US\$ billion	3.0
GDP per capita, current US\$	1305.1
International poverty rate (\$ 19) <sup>a</sup>	27.8
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	50.3
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	73.7
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 is expected to contract by 5.3 percent driven by the effects of the COVID-19 pandemic in 2020. This recession is largely caused by the slowdown in mining and manufacturing, on account of weakened external demand facing export-oriented industries such as textiles and apparel, and mining. The slowdown in construction and wholesale/retail will also weigh down growth and contribute to the increase in poverty.

First, Lesotho's public sector wage bill is one of the highest in the world at 23 percent of GDP and the government sector is the second largest employer after manufacturing. The high public sector wage bill limits fiscal space for social assistance and productive investment, thus leaving elevated poverty and inequality unaddressed. Some efforts have been made to control high public wages; however, political environment has complicated civil service reform.

Second, government spending is highly correlated with SACU revenues. With SACU revenue below historical averages and government expenditure persistently high, the government is facing fiscal challenges. Government domestic arrears estimated at M1.2 billion (approximately 3.3 percent of GDP) emerged as at January 2020. While the arrears have been cleared, the potential for reoccurrence still exists given higher COVID-19 related spending and a lack of proper procurement and expenditure control systems in place.

Third, the pandemic is unfolding in a context of high poverty and unemployment. About 30 percent of the population still lives below the international poverty lines (US\$1.90/person/day in 2011 PPP terms). Rural communities, which accounts for about three-quarters of the population, are mostly affected partly due to poorer access to electricity, healthcare, and other

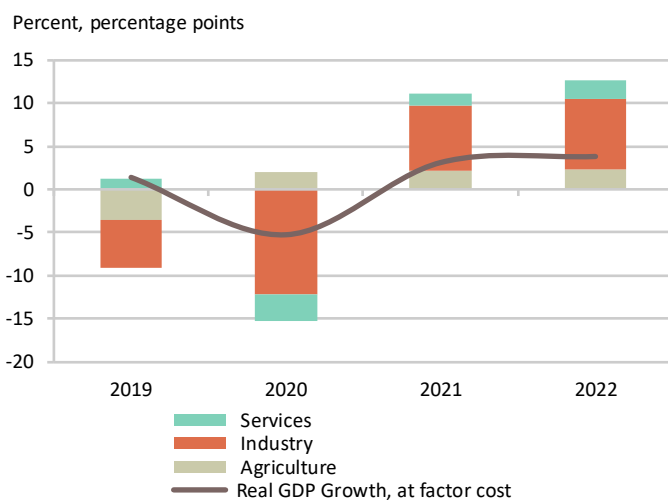
public goods. The economic vulnerability and food insecurity amongst the poor will be worsened by the pandemic. Job opportunities are scarce, as the private sector faces a challenging business environment. The unemployment rate at 23.9 percent in 2018 (with youth unemployment at 43 percent), is already high and will be negatively impacted by the pandemic.

## Recent developments

The economy was already in recession even before the COVID-19 crisis hit. Real GDP contracted by 1.2 percent in 2019, and by 1.8 percent in the first quarter of 2020 before any COVID-19 cases were reported. The nationwide lockdown implemented in late March brought the economy to a standstill as businesses were closed and the movement of people was restricted. All economic sectors, with the exception of agriculture contracted in the first quarter of 2020. For example, mining and manufacturing contracted by 18–21 percent mainly due to weak global demand. On the other hand, the significant rainfalls observed in December 2019–February 2020 contributed to agriculture growth by 1.8 percent.

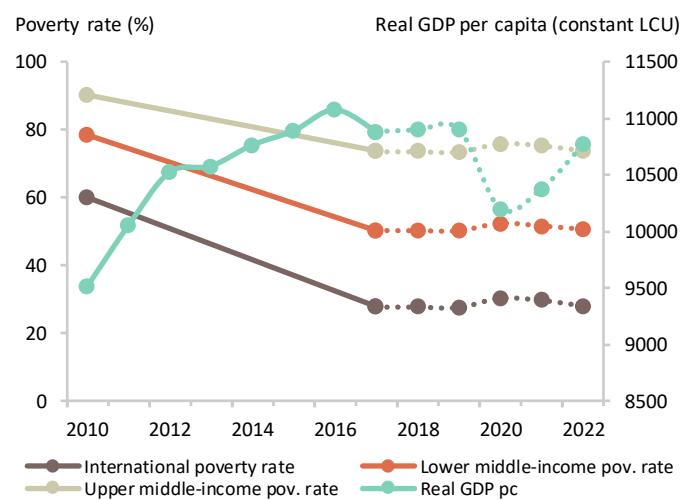
The year-on-year inflation rate increased gradually from 4.1 percent in January to 4.9 percent in June 2020 due to higher food prices, amidst supply-demand challenges imposed by closure of borders and country lockdown. The current account deficit narrowed from 3.9 percent of GDP in the fourth quarter of 2019 to 0.8 percent

**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.

in the first quarter of 2020 due to lower imports of goods and services. The Central Bank of Lesotho (CBL) eased the monetary policy stance by reducing the policy rate from 6.25 percent in March to 3.50 percent in July 2020 to react to the COVID-19 shock.

The poverty rates are estimated to have increased from 27.7 percent in 2019 to 30.5 percent in 2020 (the US\$ 1.90, in 2011 PPP terms). 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. Remittances have also fallen due to the global economic slowdown, especially in South Africa.

## Outlook

Uncertainties surrounding the COVID-19 pandemic pose a huge risk to macroeconomic outlook. The recovery of exports and overall economic growth depend on external demand conditions as well as the re-opening of the global economy – both of which remain uncertain. The recession in the neighboring and closely-linked South African economy – which has already contracted by a record 51 percent in the second quarter of 2020 – is expected to

dampen Lesotho's growth outlook through various channels, including declining incomes and remittances through migrant job losses.

Economic growth is expected to contract by 5.3 percent in 2020 and recover to 3.1 and 3.8 percent in 2021 and 2022, respectively. Agriculture is expected to grow moderately in the medium term as agricultural subsidies are expected to contribute to crop production. Medicinal cannabis farming is also expected to grow. Mining is also expected to rebound as operations resume in one of Lesotho's biggest mines (Liqhobong diamond mine) which contributes about 50 percent of the sector's output, as well as a recovery in export demand. The construction activities associated with government projects (e.g. the LHWP-II project) are expected to start in the first half of 2021, which will have a positive impact on growth. Manufacturing and services are also expected to recover over the medium term. Despite the improvement in economic activity in the medium term, the output level is expected to remain below the pre-pandemic level.

Inflation is expected to follow developments in the regional food prices due to supply-demand challenges imposed by restricted movements and closure of borders and will accelerate steadily to

5.2 percent by 2022. The fiscal deficit is expected to widen in 2020 and 2021 due to the combination of tax revenues decline and the government's tax deferral program. Health and social-related expenditure are expected to rise in line with mitigation measures. The current account deficit is expected to widen in 2020 as imports of goods and services resume at a faster pace than exports.

Economic recovery will be accompanied by declining poverty rate but will remain higher than in 2019. The poverty rate is at 29.8 percent (US\$ 1.90 in 2011 PPP terms) in 2021 and 28.1 percent in 2022. The government is scaling up social assistance programs to limit the adverse impacts of COVID-19.

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

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
<b>Real GDP growth, at constant market prices</b>	-0.4	1.5	1.4	-5.3	3.1	3.8
Private Consumption	1.1	0.8	5.2	-4.0	3.5	4.2
Government Consumption	0.1	-1.9	7.8	19.7	4.8	1.3
Gross Fixed Capital Investment	-0.6	2.6	34.7	-11.2	9.6	9.1
Exports, Goods and Services	8.2	16.7	-8.5	-15.0	10.0	8.9
Imports, Goods and Services	13.5	3.4	1.4	-1.2	9.0	8.5
<b>Real GDP growth, at constant factor prices</b>	-2.5	-0.2	-1.0	-5.3	3.1	3.8
Agriculture	3.1	-20.0	-3.6	2.0	2.2	2.3
Industry	-3.7	5.2	-5.5	-12.2	7.5	8.2
Services	-2.7	-0.2	1.2	-3.0	1.5	2.2
<b>Inflation (Consumer Price Index)</b>	5.3	4.0	5.2	4.2	4.7	5.2
<b>Current Account Balance (% of GDP)</b>	-4.8	-0.8	-5.1	-11.8	-10.2	-11.1
<b>Net Foreign Direct Investment (% of GDP)</b>	1.7	1.5	1.4	1.1	1.4	1.2
<b>Fiscal Balance (% of GDP)</b>	-0.9	0.1	-1.2	-7.3	-8.9	-7.8
<b>Debt (% of GDP)</b>	36.6	42.5	46.0	60.1	60.8	63.1
<b>Primary Balance (% of GDP)</b>	-0.1	1.1	-0.6	-7.2	-8.4	-7.5
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>	27.8	27.8	27.7	30.5	29.8	28.1
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	50.3	50.3	50.3	52.4	51.6	50.7
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	73.7	73.6	73.5	75.9	75.4	73.9

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: 2018-2019. Forecast are from 2020 to 2022.

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