

# LESOTHO

**Table 1**

	<b>2016</b>
Population, million	2.2
GDP, current US\$ billion	2.2
GDP per capita, current US\$	984
International poverty rate (\$19) <sup>a</sup>	59.6
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	78.1
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	89.9
Gini coefficient <sup>a</sup>	54.2
School enrollment, primary (% gross) <sup>b</sup>	107.1
Life expectancy at birth, years <sup>b</sup>	49.7

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

Notes:

(a) Most recent value (2010), 2011 PPPs.

(b) Most recent WDI value (2014)

*Growth has slowed down since 2015 from 5.6 to 2.3 percent due to modest growth in the services sector. Higher growth rates are projected for 2017-18, boosted by an increase in construction and mining despite the narrowing fiscal space.*

## Recent developments

From an average growth rate of 4.5 percent from CY11-15, growth is estimated to have decelerated to 2.3 percent in CY16, which is much lower than the 5 percent growth target set in the National Strategic Development Plan (NSDP) to reduce poverty and inequality.

Despite the drought agricultural production grew by 7 percent in CY16, mostly due to strong growth in horticulture. While mining shrank by 2.4 percent, industry growth remained strong overall, boosted by growth in textiles. In contrast, growth in services remained modest at 1.2 percent.

The fiscal deficit widened in FY16 (April 2016-March 2017) to an estimated 6.9 percent of GDP. This deterioration was mainly due to the drop in SACU revenues which declined from 25 percent of GDP in FY14 to about 13.6 percent in FY16.

The fiscal deficit was mostly financed through a drawdown of reserves due to limited domestic borrowing opportunities. Thus, the reserves coverage went down from 5.4 months of imports in FY15 to 4.2 in FY16. The current account deficit increased from 7.2 percent of GDP in CY15 to 11.1 percent of GDP in CY16.

With a total debt to GDP ratio a 47.3 percent in FY16, Lesotho's risks of external debt distress are considered moderate.

With the drought, CPI inflation accelerated to 5.7 percent at the end of CY16 as food inflation rose to 9.4 percent, despite

the extension of subsidies to distributors to contain prices.

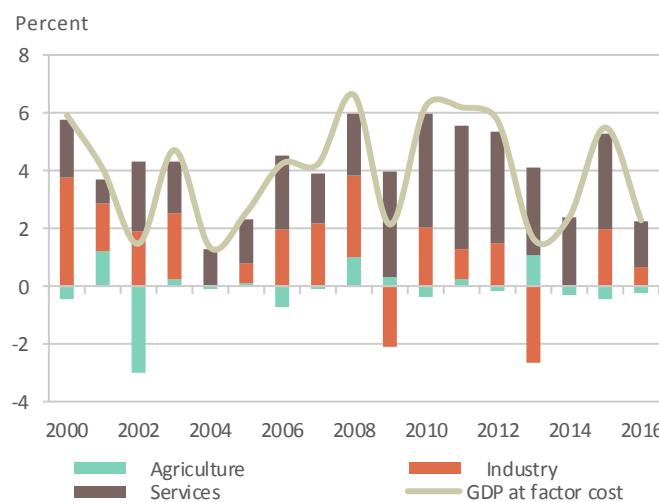
A new household survey is being conducted in CY17. In its absence, estimates point to a slow reduction in the headcount poverty rate (\$1.9/day PPP) from 59.7 percent in CY11 to 57.8 percent of the population in CY16. This slow poverty reduction is estimated to have been accompanied with stagnation of inequality between CY11 and CY16, with high Gini coefficient measured at 0.54.

## Outlook

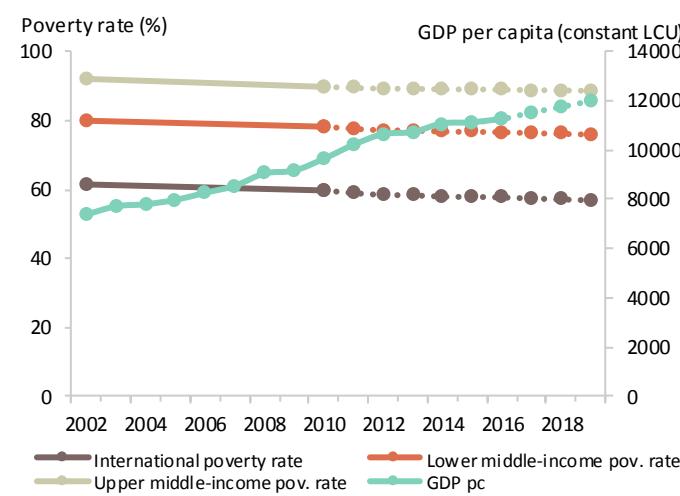
Growth is expected to pick up from an estimated 2.3 percent in CY16 to 4 percent and 4.2 percent in CY17 and CY18, respectively due to the construction phase of the second phase of the Lesotho highlands water project and an increase in diamond mining. Private consumption is expected to grow modestly, in line with the public wage growth which will be contained in FY17. Public investment, and the water project will significantly contribute to the rebound in total investment from CY17.

The FY17 budget is encouraging in terms of containing expenditure growth. It includes measures on limiting wage bill growth and the use of goods of services, and increasing the recovery on tertiary student loans. Nonetheless, additional reforms are required to ensure fiscal sustainability, in light of projected lower SACU revenues in the medium-term.

**FIGURE 1 Lesotho / GDP growth and contribution to GDP growth by sectors**



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



Sources: BOS and WB staff calculations.

Sources: World Bank. Notes: see table 2.

Fiscal deficits are respectively projected at 4.3 and 3.7 percent of GDP in FY17 and FY18. This would imply continuously lower reserves coverage below 4 months of imports in FY17 and FY18. Under this scenario, Lesotho would nonetheless remain at moderate risk of debt distress during that period.

Poverty is expected to continue declining slowly. Given retained growth projections, the poverty rate (at US\$1.9/day PPP) is anticipated to fall from 57.8 percent in CY16 to 57.3 percent in CY18.

## Risks and challenges

The key risks to outlook is a possible delay in fiscal consolidation due to heightened political uncertainty and lower regional growth.

Although the budget has made a commitment to contain expenditures, further reforms are needed to improve the efficiency of public spending. Delays in this process can risk macroeconomic stability.

Increasing the private sector development and employment creation can lead to faster and inclusive growth. Delivery of poverty targeted labor market programs can lead to faster poverty reduction and reduce inequality.

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

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
<b>Real GDP growth, at constant market prices</b>	2.3	5.6	2.3	4.0	4.0	4.2
Private Consumption	-1.1	1.1	1.1	2.0	2.1	2.1
Government Consumption	11.9	-0.4	-1.9	5.9	-0.4	-0.5
Gross Fixed Capital Investment	3.9	4.4	-3.3	10.6	19.4	19.8
Exports, Goods and Services	13.2	15.0	2.0	2.1	2.2	2.3
Imports, Goods and Services	7.7	8.2	-4.1	3.0	4.0	5.0
<b>Real GDP growth, at constant factor prices</b>	2.4	5.5	2.3	4.0	4.0	4.2
Agriculture	-4.8	-7.2	7.0	3.0	1.9	1.9
Industry	0.3	7.9	3.9	4.0	6.0	6.0
Services	4.1	5.7	1.2	4.1	3.3	3.5
<b>Inflation (Consumer Price Index)</b>	5.3	3.2	5.7	5.0	5.0	5.0
<b>Current Account Balance (% of GDP)</b>	-7.3	-7.2	-11.1	-9.5	-9.7	-12.2
<b>Financial and Capital Account (% of GDP)</b>	8.5	7.9	10.3	6.6	5.2	7.5
Net Foreign Direct Investment (% of GDP)	3.7	3.6	1.1	0.9	0.7	0.7
<b>Fiscal Balance (% of GDP)</b>	3.1	-1.4	-6.9	-4.3	-3.7	-2.8
<b>Debt (% of GDP)</b>	44.0	48.4	47.3	46.3	45.1	43.6
<b>Primary Balance (% of GDP)</b>	3.8	-0.5	-6.1	-3.2	-2.6	-1.6
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>	58.0	57.9	57.8	57.5	57.3	57.0
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	76.9	76.8	76.7	76.5	76.3	76.2
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	89.1	89.1	89.0	88.9	88.8	88.7

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.

Notes: f = forecast.

(a) Calculations based on 2001HBS, 2011HBS and 2010-CM SHBS. Nowcast: 2014 - 2016. Forecast are from 2017 to 2019.

(b) Projection using point-to-point elasticity (2010-2014) with pass-through = 0.5 based on GDP per capita in constant LCU.