

# LESOTHO

**Table 1** **2016**

Population, million	2.2
GDP, current US\$ billion	2.2
GDP per capita, current US\$	1020
Poverty rate (\$1.9/day 2011PPP terms) <sup>a</sup>	59.6
Poverty rate (\$3.1/day 2011PPP terms) <sup>a</sup>	77.3
Gini Coefficient <sup>a</sup>	54.2
School enrollment, primary (% gross) <sup>b</sup>	108.0
Life Expectancy at birth, years <sup>b</sup>	49.3

Sources: World Bank WDI and Macro Poverty Outlook.

Notes:

(a) Most recent value (2010)

(b) Most recent WDI value (2014)

The decline in growth since 2014 has persisted through 2016 due to drought and weak regional and global prospects. Lower SACU revenues and delayed fiscal consolidation are causing increased fiscal pressures. Although the mining sector is expected to contribute to growth in the near term, narrowing fiscal space will limit the contribution of the public sector to growth. Sluggish and non-inclusive growth is expected to lead to only slow poverty reduction.

## Recent developments

Growth is estimated to have registered 2.5 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.<sup>1</sup> Following average growth of 4.8 percent from CY11 to CY14, GDP growth declined to 2.5 percent in CY16.<sup>2</sup> The main factors constraining growth include shrinking agricultural production due to El-Nino and limited contribution of government spending due to fiscal constraints. The services sector has been the most resilient in CY16 with estimated growth of 3.1 percent.

The fiscal deficit increased to 7.7 percent of GDP due to a decline in the Southern African Customs Union (SACU) revenues in FY16/17. SACU revenues declined from 25 percent of GDP in FY14/15 to 13.6 percent in FY16/17. The fiscal deficit was largely financed through a drawdown of reserves due to limited domestic borrowing opportunities. Subsequently this resulted in reduction of import coverage from 5.6 months in FY15/16 to 4.4 months in FY16/17. The current account deficit

1/ Lesotho has rebased its GDP which led to a change in both the level and growth rate of GDP (figures have changed in comparison to the previous MPO). The expenditure side GDP estimate is not currently available. 2016 growth figures are estimates.

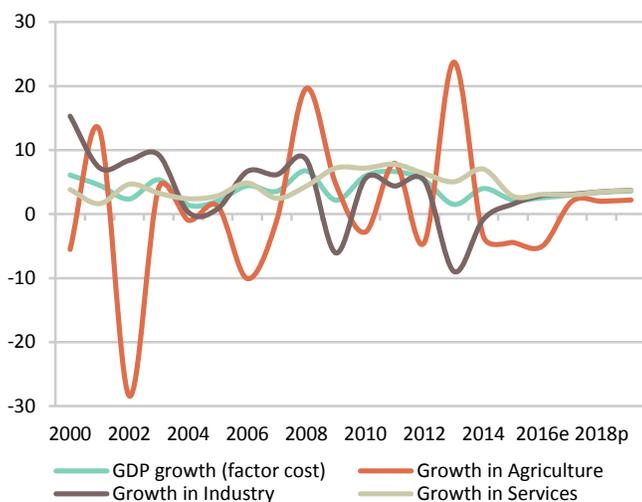
2/ Fiscal year runs from April 1st to March 31st, e.g. FY16/17 refers to fiscal year that runs from April 1st, 2016 to March 31st, 2017. CY16 refers to calendar year 2016.

increased from 8.4 percent of GDP in CY15 to 11.1 in CY16. In FY16/17, the debt to GDP ratio was revised downward to 48 percent (from 59% previously) with the rebasing of GDP, and risks of external debt distress continue to be assessed as moderate.

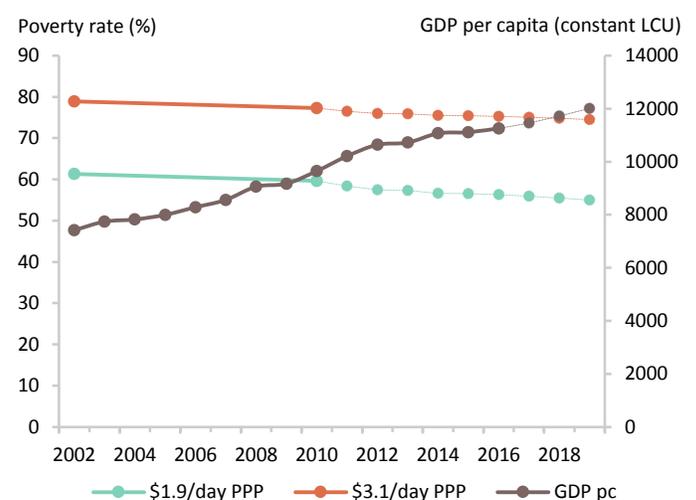
Inflation has picked up due to sharp increases in food prices; CPI inflation increased to 6.7 percent in CY16. Food inflation registered 10 percent in November 2016 on a year-on-year basis due to the drought- and despite food subsidies provided by the government.

The headcount poverty rate (\$1.9/day PPP) fell from 61.3 percent in CY02 to 59.7 percent in CY11. Estimates suggest that 56.3 percent of the population in 2016 is still trapped in extreme poverty. The slow poverty reduction was accompanied by high inequality measured at 0.54 by the Gini coefficient. Higher remittances in the past enabled migrant workers from Lesotho to South Africa to reduce dependence on agriculture. Yet, a steady fall in remittances in recent years has had a negative effect on low income groups. Unemployment remains high at estimated levels between 24 and 28 percent. Inclusiveness of growth is also constrained by high HIV prevalence (23 percent of the population). Climate change and droughts exacerbated low agricultural productivity. These factors, combined with low SACU revenues led to sluggish poverty reduction and widening income disparities.

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**FIGURE 1 Lesotho / GDP growth by sector**


Sources: WDI and staff estimates.

**FIGURE 2 Lesotho / Poverty projections for GDP per capita**


Sources: World Bank (see table 2).

expenditure side GDP estimate is not currently available. 2016 growth figures are estimates.

Fiscal year runs from April 1st to March 31st, e.g. FY16/17 refers to fiscal year that runs from April 1st, 2016 to March 31st, 2017. CY16 refers to calendar year 2016.

## Outlook

Industry (mining) is expected to be the main driver of growth in the near term. The GDP growth rate is expected to increase in FY17/18 to 3 percent due to two mines ramping up production. Growth rate is expected to further increase to 3.4 percent in CY18 due to construction activities that will take place during the second phase of the Lesotho highlands water project (LHWP2). However, growth could be limited by expected fiscal consolidation efforts that should be undertaken by the government starting from FY17/18. Indeed, the macro-fiscal outlook remains uncertain as the budget bill has not been tabled in the Parliament as of March, 2017.<sup>3</sup>

3/ The current coalition government has faced a no-confidence vote and Lesotho is expected to hold snap elections on June 3, 2017.

A gradual and moderate expected fiscal consolidation has been incorporated in the forecast with projected deficits viewed at 4.8 percent for FY17/18 and 3.2 percent in FY18/19. However, extra fiscal pressures may arise due to the cost of elections that is yet to be budgeted. If fiscal balances are maintained at projected levels, the reserve balance is expected to be slightly below 4 months of imports in FY18/19 which will put some additional pressure on the peg.

Inflation is expected to range near 6 percent in CY17 and to decrease to 5 percent in the medium term. Private consumption is expected to grow modestly in CY17 assuming wage increases are limited to inflation adjustment. Investment is expected to increase due to LHWP2 in CY18.

A slow trajectory of poverty reduction is expected in Lesotho in the coming years. The triple punch of droughts, fiscal consolidation and shrinking remittances creates risks for the achievement of the target goals in reducing extreme poverty outlined in the current PRSP program. Given current growth projections, poverty rates are still expected to decline, albeit at a slower pace. The \$1.9 a day poverty rate is expected to fall from 56.3 percent in CY16 to 55.5 percent in CY18.

## Risks and challenges

The key risk to the outlook is a possible delay in fiscal consolidation due to political uncertainty. A delayed or lower fiscal consolidation than the amount assumed in these projections will put the exchange rate peg under greater pressure. Other risks to the outlook are weaker-than-anticipated global and regional recovery which can further restrain the pace of growth. Increasing the focus on rapid private sector development and employment creation can lead to faster poverty reduction. Although Lesotho spends a large proportion of its budget on social spending, social outcomes have not improved. Delivery of poverty-targeted labor market programs and increasing the efficiency and effectiveness of government spending will 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>	4.5	1.6	2.5	3.0	3.4	3.6
<b>Real GDP growth, at constant factor prices</b>	4.0	2.2	2.5	3.0	3.4	3.6
Agriculture	-3.5	-4.4	-5.0	2.0	2.0	2.2
Industry	-0.8	1.6	2.9	3.1	3.5	3.7
Services	7.0	3.1	3.1	3.0	3.5	3.7
<b>Inflation (Consumer Price Index)</b>	5.3	3.2	6.7	6.0	5.0	5.0
<b>Current Account Balance (% of GDP)</b>	-8.8	-8.4	-11.1	-12.1	-13.1	-16.0
<b>Financial and Capital Account (% of GDP)</b>	8.4	8.1	10.8	11.7	12.8	15.7
Net Foreign Direct Investment (% of GDP)	3.7	3.7	3.0	3.0	3.0	3.0
<b>Fiscal Balance (% of GDP)</b>	0.5	0.5	-7.7	-4.8	-3.2	-1.6
<b>Debt (% of GDP)</b>	43.3	49.2	47.9	46.5	44.7	43.6
<b>Primary Balance (% of GDP)</b>	1.4	1.5	-6.8	-3.9	-2.2	-1.2
<b>Poverty rate (\$1.9/day PPP terms)<sup>a,b,c</sup></b>	56.6	56.6	56.3	55.9	55.5	55.0
<b>Poverty rate (\$3.1/day PPP terms)<sup>a,b,c</sup></b>	75.5	75.4	75.3	75.0	74.8	74.5

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

Notes: e = estimate, f = forecast.

(a) Calculations based on 2001- and 2010-CM SHBS.

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

(c) Actual data: 2010. Nowcast: 2011-2016. Forecast are from 2017 to 2019