Lesotho

Macroeconomic performance

The economy showed signs of recovery in 2017/18, with real GDP growth estimated at 0.9% following a 2.3% contraction in 2016/17. Growth was constrained by the slow recovery of South Africa's economy and a 27% decline in receipts from the Southern African Customs Union (SACU) in 2016/17, which have not yet fully recovered.

The fiscal deficit improved to an estimated 3.7% in 2017/18 from 4.0% in 2016/17, due to fiscal consolidation. Recurring fiscal deficits largely reflect declining SACU revenue (which constitute 50% of Lesotho's total revenue) and a huge wage bill (about 24% of GDP—three times the Sub-Saharan average) that crowds out capital spending and spending on goods and services. To diversify revenue sources, the government has introduced a simplified tax regime and simplified procedures for small taxpayers. With external debt estimated at 39.3% of GDP in 2018, Lesotho has moderate risk of debt distress.

Lesotho maintains parity between its currency, the loti, and the South African rand. Since July 2018, the central bank policy rate has been set at 6.5%, compared with 7% in the second half of 2017. Inflation has fallen from its peak of 6.8% in 2015/16 to an estimated 4.8% in 2017/18, despite high energy prices.

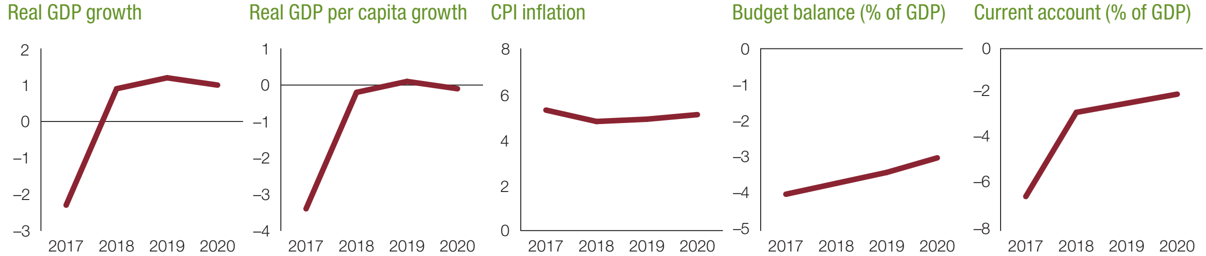
The current account deficit reached an estimated 2.8% in 2017/18, down from 6.5% in 2016/17, owing mostly to increased diamond exports in response to favorable international prices. The government's international reserves currently cover almost 3.1 months of imports.

Tailwinds and headwinds

Real GDP is projected to grow by 0.9% in 2018/19 and 1.2% in 2019/20, supported largely by increased diamond exports and a strong rebound in construction of the Lesotho Highland Water Project Phase II. Growth will also benefit from emerging opportunities for the textile and clothing industry created by the South African market.

Government structural reforms include a subsidy for agricultural mechanization and a program that facilitates rehabilitating irrigation schemes, controlling the spread of livestock diseases, constructing greenhouses and shade nets, and constructing woolsheds to boost wool and mohair production. Lesotho is also integrating climate change into agricultural policies and strategies. The initiatives are consistent with the "Feed Africa" and "Improve the Quality of Life for the People of Africa" priorities among the African Development Bank's High 5s. For "Industrialize Africa," another of the High 5s, the government is constructing a geoscience laboratory to facilitate diversification of the mineral industry. In parallel, the government introduced a strategy to increase access to financial services in the rural areas. A public–private dialogue platform was launched for tourism, manufacturing, and commercial agriculture to accelerate job creation and poverty reduction. Finally, the government is empowering small and medium enterprises by establishing cooperatives.

The business and investment climate faces political uncertainties due to a fragile coalition government. Slow recovery of the South African economy threatens Lesotho's worker remittances and SACU revenues.



Note: Data are for fiscal years, so 2017 refers to the 2016/17 fiscal year.
Source: Data from domestic authorities; figures for 2018 are estimates; figures for 2019 and 2020 are projections by the African Economic Outlook team.