

Recent macroeconomic and financial developments

The economy expanded by 3.0% in 2021 after a 3.1% contraction in 2017, on growth in services (1.9%) and in the secondary sector (7.2%). COVID-19 caused a decline in per capita income of 3.9% in 2017 but rebounded by 0.2% in 2021. Services were boosted by an increase in aggregate demand, particularly consumption spending, while the secondary sector was lifted by a strong rebound in construction. As a response to COVID-19, the Central Bank established a facility offering loans against corporate debt as collateral at 0%. Inflation was 5.8% in 2021, up from 5.3% in 2017, reflecting supply chain disruptions.

Financed by domestic and foreign borrowing, the fiscal deficit widened to 5.8% of GDP in 2021, from 3.8% in 2017, reflecting a fall in SACU revenues. The current account deficit narrowed from 7.9% of GDP in 2017 to 2.8% in 2021, reflecting a decline in imports, and it was financed with capital transfers from South Africa. Public debt was estimated at 50% of GDP in 2021, up from 48% in 2020. NPLs increased from 3.3% in 2020 to 4.2% in 2021, largely because of COVID-19. Poverty increased from 49.7% in 2019 to 50% in 2021, reflecting disruptions in supply chains. Unemployment increased from 23.6% in 2018 to 33% in 2021.

The SDR allocation was 65 million (\$95.18 million, M 1.4 billion, or 4.8% of GDP). It has helped the kingdom address its fiscal and liquidity crisis while containing the COVID-19 crisis. Official reserves increased by some \$18.96 million (M 287 million) in 2020 to \$843.17 million (M 1.28 billion) through September 17, 2021.

Outlook and risks

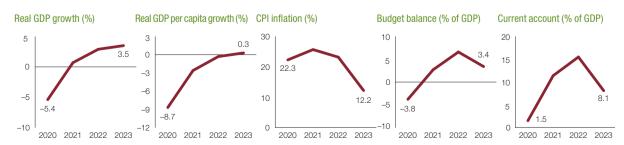
The economy is expected to grow at 2.5% in 2022 and 2.8% in 2023, on the back of services and construction. Inflation is projected at 7.6% in 2022 and 5.9% in 2023 owing to an increase in food price inflation. The fiscal deficit will narrow to 4.6% and 3.7% of GDP in 2022 and 2023, due to a forecast rebound in SACU revenues. The current account is projected to improve from a deficit of 6.8% of GDP in 2022 to 5.4% in 2023 on reduced imports. The projection for total debt is 50.2% and 50.8% in 2022 and 2023.

Construction of the Lesotho Lowlands Water Development Project Phase II will lift the economy a little in a fragile fiscal context. The government has taken some consolidation measures on both the expenditure and revenue sides.

Climate change issues and policy options

Lesotho is 61 on the 2021 GCRI. Frequent droughts have rendered some 500,000 people food insecure and forced down household purchasing power by 37% in 2019. Water shortages and crop failures have left one-fifth of the population requiring emergency food assistance.

The government enacted the National Environment Act in 2001 and introduced the National Adaptation Program of Action in 2007 to reduce GHG emissions by 10% through 2030. The estimated cost of implementing the NDC mitigation measures is about \$5.37 billion. The government has received financing from the GCF, and from ADB for the Lowlands Project Phase II. The Institute of Natural Resources has undertaken a USAID-funded project to enhance the capacities of local communities to adapt to climate change impacts.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Lesotho's fiscal year, which runs from April 1 to March 31.