

LESOTHO

Table 1	2015
Population, million	2.1
GDP, current US\$ billion	2.0
GDP per capita, current US\$	936
Poverty rate (\$1.9/day 2011PPP terms) ^a	59.6
Poverty rate (\$3.1/day 2011PPP terms) ^a	77.3
Gini Coefficient ^a	54.2
School enrollment, primary (% gross) ^b	111.0
Life Expectancy at birth, years ^b	48.8

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:
(a) Most recent value (2010)
(b) Most recent WDI value (2013)

The decline in growth since 2013 is expected to continue through 2016 due to persistent drought effects and weak regional conditions leading to a decline in SACU revenues and associated fiscal pressures. Accompanying the resumption of moderate economic growth, the poverty rate (\$1.9 PPP a day) is projected to fall by 1.1 percentage points to 55.3 percent by 2018.

Recent developments

Following an average growth rate of 4.7 percent in 2012 and 2013, real GDP growth declined to 3.6 percent in 2014, and is estimated to have further declined to 2.7 percent in 2015. The main drivers include shrinking agricultural production due to adverse weather conditions, and industry declines due to uncertainty of AGOA extension and the halt in the Kao mine production. Services remain a relative bright spot, growing at 3.9 percent in 2015.

On the demand side, net exports declined in 2015 due to supply reductions and weak demand from trade partners. Investment contracted both due to the under-execution of the government's capital budget, AGOA uncertainty and the completion of the Metelong Dam. Government consumption remained high due to the increased wage bill (22 percent of GDP in 2015). The overall budget execution was at 67.3 percent of the approved budget as of December 2015 mostly due to the under-execution of the capital budget.

Fiscal balances will deteriorate over the next years due to lower SACU revenues which equaled 30 percent of GDP in 2014/15 (the fiscal year starts April 1). The overall fiscal balance is estimated to be 0.1 percent of GDP. The non-SACU fiscal deficit is estimated to be 24.6 percent of GDP in 2015/16, improving from 28.6 in 2014/15. The current account deficit in 2015 is estimated to be 10.4 percent of GDP. Lesotho's public debt has increased

to 60 percent of GDP in 2015 due to the recent depreciation.

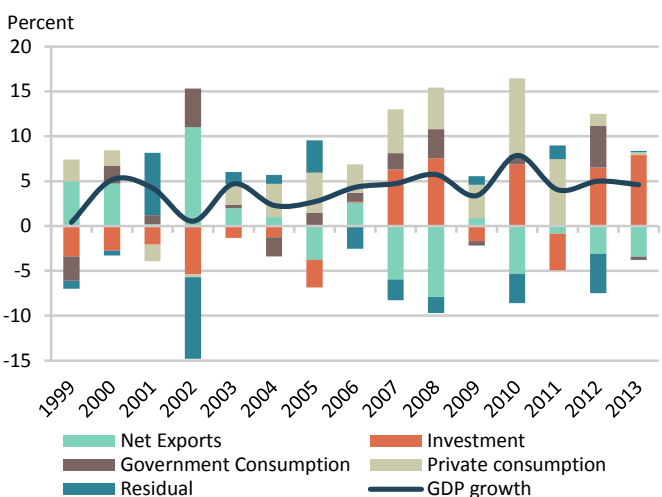
Although falling fuel prices helped drive CPI inflation down, increasing food prices has mostly offset this decline in 2015. CPI inflation is estimated to be 4.1 percent in 2015 and is expected to rise to 5 percent in the medium term. International reserves are estimated to be 6.1 months of imports in 2015 similar to last year driven mostly by the under-execution of the budget.

Between 2002 and 2010 Lesotho made virtually no progress in reducing extreme poverty. The headcount poverty rate was 57.1 percent in 2010 (national poverty line), accompanied by high inequality, measured at 54.2 percent by the Gini coefficient, itself an obstacle to poverty reduction. Lesotho's economic structure and poorly targeted social protection policies are at the heart of high and stagnant poverty and inequality. Low-productivity agriculture remains the main source of income for over 1 in 3 households. The benefits of a well-paid public sector mainly flow to the most affluent households. Most of the social protection transfers do not target the poor.

Outlook

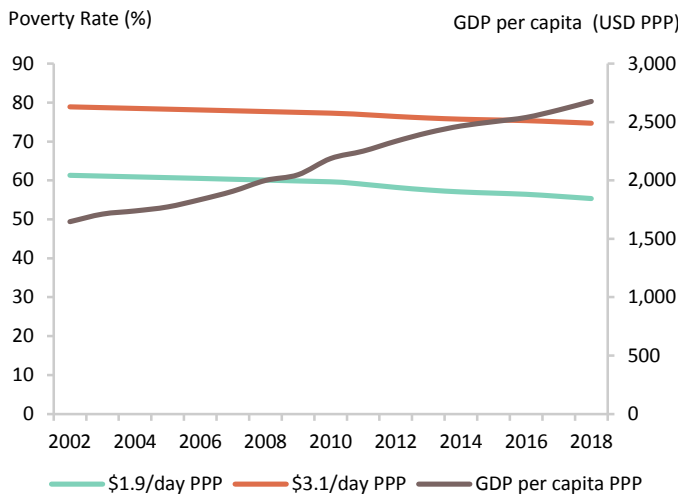
Growth is expected to decline slightly to 2.6 percent in 2016, reflecting a downward revision from the last forecast (2.8 percent). Lower growth prospects in South Africa, and the uncertainty due to the sustainability of the peg are the main reasons for downward revision. Over the medium

FIGURE 1 Lesotho / Contributions to annual GDP growth



Sources: Lesotho Bureau of Statistics.

FIGURE 2 Lesotho / Actual and projected poverty rates and GDP per capita (PPP)



Sources: World Bank (see notes to table 2).

term growth is expected to slowly pick up to 3.7 percent in 2017 driven by the commencement of Lihobong mine during the 4th quarter of 2016 and further accelerate to 4.0 percent in 2018 supported by the Second Phase of the Highlands Water project due to construction activities.

Fiscal balances will deteriorate over the next few years due to lower SACU revenues. SACU revenues are projected to fall to 16.4 percent of GDP in 2016/17, driven by a slowdown in the South African economy, and are expected to remain low. As of end march 2016 the budget was not yet finalized and additional cuts were expected. Based on current information, the deficit is expected to be at 8.1 percent for 2016/17, 7.0 percent in 2017/18, and 5.3 percent in 2018/19. Lesotho is expected to finance this deficit by drawing down reserves. The gross international reserves are estimated to be 5.2, 4.0 and 3.5 months of imports in 2016, 2017, and 2018 placing a significant pressure on the sustainability of the peg. The current account deficit it is projected to deteriorate to 18.5 percent of GDP in 2016 due to the decline in SACU revenues.

Inflation is projected to decline to 5 percent over the medium term. Private consumption is expected to grow modestly in 2016 due lower wage increases.

Investment has dropped considerably due to the completion of the Metelong Dam and AGOA uncertainty. Following this excessive drop investment is expected to grow in 2016 due commencement of the mine and is expected to remain high in 2017 and 2018 due to the second phase of the Lesotho Highlands Water Project.

Accompanying the resumption of moderate economic growth, the poverty rate (\$1.9 PPP a day) is projected to fall by 1.1 percentage points from 56.4 to 55.3 percent between 2016 and 2018. This is attributable to the sectoral composition of growth. Agriculture is still a low-productivity sector and high-quality land is limited. Poor weather conditions led to lower production in agriculture in 2015. Mining is expanding fast, yet is capital intensive, and will not generate much employment growth. Public sector wages are the main driver of growth, however public sector largely benefits affluent segments of the population.

global recovery, lower growth prospects in South Africa, fiscal sustainability and the competition Lesotho is facing due to the Transpacific Partnership agreement. In the medium term commitment to fiscal adjustments is crucial for macroeconomic stability. The current level of spending places a strong pressure on the sustainability of the public debt and the peg. The government has shown some commitment to consolidation by keeping wage rate increases in 2016 in line with inflation, however proposed measures in the budget fall short of the necessary adjustment. In the medium to long term Lesotho needs to move to a model that can deliver broad-based employment growth to promote shared prosperity and eradicate extreme poverty. In addition to the fiscal adjustment ambitious structural reforms are needed to raise potential output. Improvements in human capital through lower HIV/AIDS prevalence rates and better education outcomes, in investment climate constraints, and in key infrastructures are necessary.

Risks and challenges

Risks to the outlook are the decline in SACU revenues, political instability, slow

TABLE 2 Lesotho / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	4.5	3.6	2.7	2.6	3.7	4.0
Private Consumption	0.2	7.0	2.1	3.0	3.7	4.1
Government Consumption	-0.9	3.5	6.6	6.3	-2.7	1.6
Gross Fixed Capital Investment	17.4	-1.7	10.2	-22.9	38.2	31.6
Exports, Goods and Services	-5.2	13.1	0.8	3.0	5.0	6.0
Imports, Goods and Services	1.4	7.0	4.7	-3.8	10.9	12.7
Real GDP growth, at constant factor prices	4.4	3.1	3.1	2.6	3.7	3.9
Agriculture	13.2	4.8	-3.5	-4.0	2.0	2.0
Industry	-1.5	0.6	3.0	3.1	3.7	3.7
Services	6.8	4.2	3.9	3.1	3.9	4.1
Inflation (Consumer Price Index)	4.9	5.3	4.1	5.5	5.0	5.0
Current Account Balance (% of GDP)	-11.0	-6.3	-10.4	-18.5	-16.1	-14.8
Financial and Capital Account (% of GDP)	9.0	11.2	3.4	14.2	5.9	2.5
Net Foreign Direct Investment (% of GDP)	1.2	1.2	1.1	1.2	1.2	1.2
Fiscal Balance (% of GDP)	-2.3	0.6	0.1	-8.1	-7.0	-5.3
Debt (% of GDP)	43.4	49.5	60.0	61.4	58.5	55.5
Primary Balance (% of GDP)	-1.4	1.6	1.3	-7.1	-6.0	-4.6
Poverty rate (\$1.9/day PPP terms)^{a,b,c}	57.5	57.0	56.7	56.4	55.9	55.3
Poverty rate (\$3.1/day PPP terms)^{a,b,c}	76.0	75.7	75.5	75.4	75.0	74.7

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

Notes: f = forecast.

(a) Calculations based on 2010-CMSHS.

(b) Projection using annualized elasticity at regional level with pass-through = 0.5 based on GDP per capita constant PPP.