

COUNTRY PROFILE

Quarterly update

July 2016



United Nations
Economic Commission for Africa

LESOTHO

Introduction

The main objective of this document is to provide an update to the 2015 Lesotho Country Profile, with a particular focus on the recently released annual data for 2015.

Recent developments: Key highlights

- Lesotho's economy continues to suffer from the impacts of the unprecedented El Niño phenomenon, with the country facing an acute drought crisis. At the end of December 2015 the Government of Lesotho declared a state of emergency and requested international support.
- As a result, real gross domestic product (GDP) growth for Lesotho decelerated to 2.9 per cent in 2015, in comparison with 3.6 per cent the year before (Central Bank of Lesotho, 2016a). This subdued outcome resulted mainly from declines in manufacturing (10.9 per cent¹) and construction (10.0 per cent). On the other hand, services registered a low positive growth and mining and quarrying increased by 15.5 per cent (Ministry of Finance, 2016).
- Growth is expected to rebound to 3.1 per cent in 2016, driven by mining, quarrying and services (Central Bank of Lesotho, 2016a). However, the first quarter of 2016 will be strongly

undermined by the agricultural sector due to the acute drought, which is also going to impact next year's harvests.

- Lesotho is expected to register a negative fiscal balance in the fiscal year 2015/2016. The deficit widened to 1.6 per cent of GDP at the end of March 2016, compared to 0.1 per cent at the end of 2015 (Central Bank of Lesotho, 2016a). The projected revenue outturn will fall short of the target by 9 per cent. Taxes should bring in 5,793.2 million maloti, over 700 million maloti less than expected.² This comes as a result of weak controls in revenue collection, although these are set to be bolstered in 2016/2017 (Ministry of Finance, 2016). On the expenditure side, preliminary figures indicate that the budgeted amount will be lower than projected initially. The civil service wage bill will eat up the largest proportion of the budget, at 47 per cent.
- The combined effect of a poor performance in the agricultural sector and a weaker exchange rate resulted in a significant increase in food prices in 2016, putting pressure on the annual inflation rate, which stood at 8 per cent in May 2016 (Central Bank of Lesotho, 2016b). Food inflation reached 14.7 per cent and has been the major contributor to the upward inflationary pressure in early 2016, which is expected to continue over the course of the year.
- Due to the peg regime of the loti to the South African rand, the Central Bank has not increased its reference interest rate of 7 per cent

¹ Sectoral figures based on the fiscal year 2014/2015, as reported in the budget speech.

² As per the previous budget speech from May 2015.

(as of May 2016); however, the lending rates of commercial banks have gone up, which can have a detrimental effect on the pace of economic growth and access to credit. As a result of lower demand and a decline in bank deposits, money supply M2 contracted by 3.0 per cent over the first quarter of 2016 (Central Bank of Lesotho, 2016b).

- In 2015 the current account deficit reached 2,489 million maloti, spurred by a large, albeit decreasing, trade deficit of 10,744 million maloti, slightly mitigated by rising remittances from abroad (Central Bank of Lesotho, 2016b). The first quarter of 2016 saw a narrowing of the current account deficit (11.4 per cent of GDP), down from 15.7 per cent in the previous quarter, reflecting a lower trade deficit, improvement in the income account and an increase in current transfers (Central Bank of Lesotho, 2016a).
- In 2014/2015, the lion's share of all imports continued to originate from Southern African Customs Union (SACU) countries, mainly South Africa, and the value has been gradually increasing since 2012. Growing food imports in 2016 might further increase the figure. As for exports, however, European and North American countries overtook SACU as major destinations in 2015. Crude materials and manufactured articles were the main export products (Central Bank of Lesotho, 2016b).
- The capital and financial account balance remained positive and increased moderately to 4,012.7 million maloti in 2015, up from 3,324.1 million maloti in 2014 (Central Bank of Lesotho, 2016b). This increase was largely attributed to the capital account, which rose from 178.4 to 739.0 million maloti over the year. The financial account balance registered an increase of only 4.1 per cent. Furthermore, the expected auction of treasury bonds was cancelled in June 2016.
- Gross official reserves rose by 7.0 per cent in the first quarter of 2016 as compared to 4.0 per cent in the previous trimester (Central Bank of Lesotho, 2016a). This represented an increase to 6.1 months of import cover, up from 5.5 months in the quarter ending December 2015. In May 2016, the Central Bank increased the target floor of net international

reserves from US\$ 600 to US\$ 690 million for the third quarter of 2016 in line with the rand stabilization policy.

- The recent HIV and nutrition survey conducted in five provinces showed that the drought impacted on the health status of the population and also increased food insecurity (United Nations Development Programme Lesotho, 2016). Out of all the children under the age of five screened in January and February 2016, 2.2 per cent were moderately malnourished and 0.6 per cent had acute malnourishment. The same survey found that the malnourishment rate of pregnant and breastfeeding mothers was 8.2 per cent, a 37 per cent increase in comparison with the 2014 results. On the other hand, it was also revealed that there was a drop in the number of HIV patients receiving antiretroviral therapy (ART), particularly in the Maseru province.

Economic performance

Macroeconomic and sectoral performance

	Value	Year
GDP, constant prices (million maloti)	12474.2	2014
GDP, current prices (million maloti)	23997.0	2014
Real GDP growth rate (%)	2.9	2015
Inflation rate (%)	3.2	2015
Current account balance (million maloti)	-2488.6	2015

Source: Central Bank of Lesotho.

Fiscal policy

	Value	Year
Overall deficit (% GDP)	-1.6	FY 2015/2016
Total revenue and grants (million maloti)	15629.9	FY 2015/2016
Tax revenue (million maloti)	6499.4	FY 2015/2016
Non-tax revenue (million maloti)	9130.5	FY 2015/2016
of which: Grants (million maloti)	1295.4	FY 2015/2016
of which: SACU revenues (million maloti)	6398.6	FY 2015/2016
Expenditure and net lending (million maloti)	12051.1	FY 2015/2016
Recurrent expenditure (million maloti)	11158.1	FY 2015/2016
of which: wages and salaries (million maloti)	5528.9	FY 2015/2016
of which: interest payments (million maloti)	290.7	FY 2015/2016
Development expenditure (million maloti)	893.0	FY 2015/2016
Fiscal balance (cash basis) (million maloti)	-34.9	FY 2015/2016

Source: Central Bank of Lesotho.

Monetary policy

(%)	Value	Year
Inflation rate	8.0	2016 (May)
Interest rate		
Central Bank	7.0	2016 (May)
Maximum lending	30.8	2016 (May)
Deposit (avg., 88 days)	1.12	2016 (May)

Source: Central Bank of Lesotho.

Current account

	Value	Year
Total imports (million maloti)	21594.2	2015
Total exports (million maloti)	10850.5	2015
Trade balance (million maloti)	-10743.8	2015
Current account (million maloti)	-2488.6	2015

Source: Central Bank of Lesotho.

Capital and financial accounts

	Value	Year
Financial account (million maloti)	3273.6	2015
Capital account (million maloti)	739.0	2015

Source: Central Bank of Lesotho.

References

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Office of the Resident Coordinator Situation Update 03.