

# Kingdom of Lesotho

1H2023/24

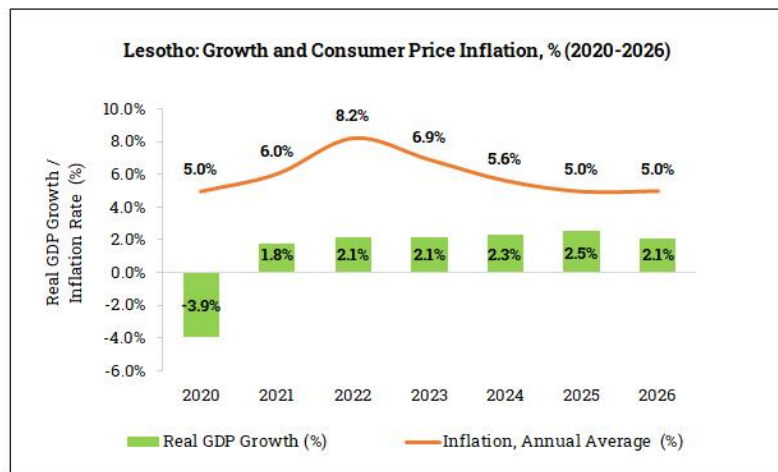
Accurate and balanced analysis of the political economy in Lesotho

by Siya Biniza and Charl Swart



Lesotho’s economy has had a mixed recovery from the global shocks caused by the COVID-19 pandemic in 2020 and the Russia-Ukraine conflict in 2022. Real GDP growth is projected to remain flat at 2.1% in 2023 due to moderating commodity prices, particularly diamonds, reduced output from textiles, and lower regional demand after recovering from -3.9% in 2020 to 2.1% in 2022. Inflation is projected to decrease to 6.9% in 2023, after rising to an annual average of 6.4% for 2020 to 2022. The higher inflation was largely driven by depreciation of the Lesotho Loti (LSL) since 2021 and the higher cost of crucial imports such as food, fertilisers, and fuel in the aftermath of the Russia-Ukraine conflict in 2022. In 2023, inflation is projected to moderate due to import compression.

Figure 1: Lesotho Growth and Consumer Price Inflation, % (2020-2026)

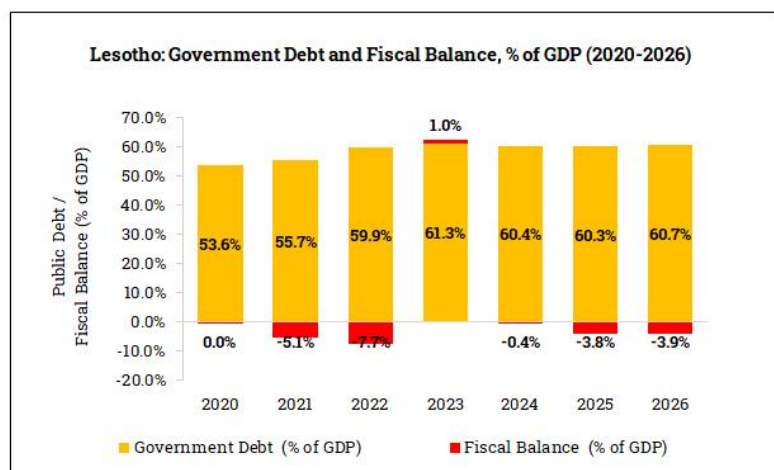


Source: IMF 2023, *World Economic Outlook Database: October 2023*. Note: Figures from 2022 onwards are projections from the IMF, 2023.

The Central Bank of Lesotho (CBL) does not have an explicit inflation target and utilises an exchange rate targeting monetary policy framework by maintaining foreign exchange reserves to defend the LSL peg to the ZAR. The CBL also conducts open market operations to influence short-term interest rates and maintains key interest rates to influence demand in response to inflationary pressures. However, the CBL’s monetary policy transmission mechanism is significantly influenced by the monetary policy stance within the Common Monetary Area (CMA). This means that the CBL rates need to track the CMA rates to avoid capital outflows. The monetary policy stance within the CMA is largely determined by the South African Reserve Bank (SARB)

which has been in a tightening stance in response to inflationary pressure against its target range of 3-6%. Given the current and projected levels of inflation, the SARB is likely going to end its tightening monetary policy stance unless advanced economy central banks continue raising their interest rates. In the medium-term period from 2024 to 2026, real GDP growth is projected to remain flat at an annual average of 2.3%. Meanwhile, inflation is projected to moderate to an average of 5.2% over the medium-term.

Figure 2: Lesotho Government Debt and Fiscal Balance, % of GDP (2020-2026)



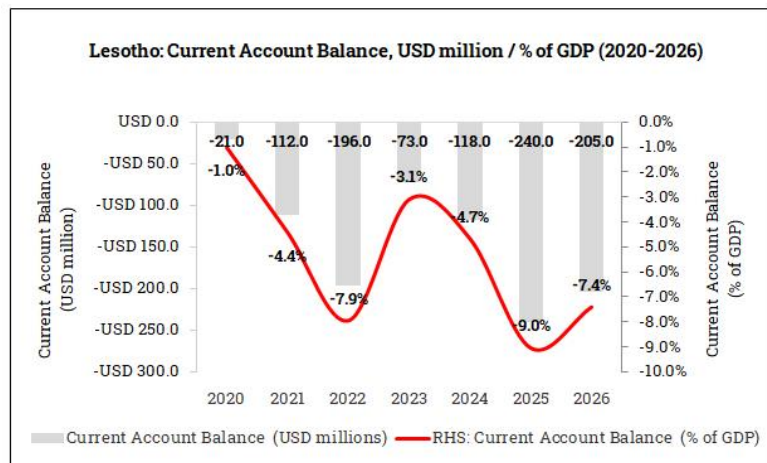
Source: IMF 2023, *World Economic Outlook Database: October 2023*. Note: Figures from 2023 onwards are projections from the IMF, 2023.

The Government of Lesotho has followed procyclical fiscal policy by reducing government spending during economic downturn and increasing public spending during economic recovery. This has led to public debt increasing from 53.6% of GDP in 2020 to 59.9% of GDP 2022. In 2023, public debt is projected to increase slightly to 61.3% of GDP as the government reduces its borrowing and spending along with the slower economic growth. Hence, the Government of Lesotho is expected to tighten its budget controls resulting a narrower deficit before returning to its structural deficit as the economy recovers in the medium-term. The fiscal balance is projected to improve to a surplus of 1.0% of GDP in 2023. In the medium-term period from 2024 to 2026, the fiscal balance is projected to progressively deteriorate to an annual average deficit of -2.7% of GDP. Public debt is projected to increase slightly from 60.4% of GDP in 2024 to 60.7% of GDP in 2026.

Lesotho's external sector has not recovered from the global shock caused by the COVID-19 pandemic in 2020 and has not benefited from the higher commodity prices in the aftermath of the Russia-Ukraine conflict in 2022. The increased export earnings associated with the higher global commodity prices, particularly diamonds, have been offset by the higher cost of crucial imports such as food, fertiliser, and fuels. The current account deficit has deteriorated from -USD 21.0 million (approx. -1.0% of GDP) in 2020 to -USD 196.0 million (approx. -7.9% of GDP) in 2022. In 2023, the current account deficit is projected to narrow -USD 73.0 million (approx. 6.3% of GDP) due to moderating global commodity prices, recovery in in Southern African Custom Union revenues,

import compression following the slower growth and fiscal austerity. In the medium-term period from 2024 to 2026, the current account deficit is projected to remain volatile but generally widen to an annual average of -USD 187.7 million (approx. -7.0% of GDP).

Figure 3: Lesotho Current Account Balance, USD billion / % of GDP (2020-2026)



Source: IMF 2023, *World Economic Outlook Database: October 2023*. Note: Current account nominal figures from 2023 onwards and current account relative figures from 2022 onwards are projections from the IMF, 2023.

Lesotho held its most recent national elections in October 2022. Incumbent Prime Minister H.E. Sam Matekane was elected for a first term using his business-centric, anti-corruption, and economic prosperity rhetoric. The ruling party, Revolution for Prosperity (RP), won with 38.9% of the total votes from a 37.8% voter turnout (2017: All Basotho Congress won 40.5% of the votes; 46.9% turnout). This earned the RP 57 out of the 120 seats in the national assembly followed by the biggest opposition party, the Democratic Congress (DC), which won 24.8% of the votes and earned 29 seats in the national assembly. The RP does not have a majority in the senate nor the national assembly, which hinders its ability solely pass legislation and continue with its reform agenda. Moreover, the RP will not be able to pass any major legislative changes that require a two-thirds majority without the support of DC and other opposition parties in the national assembly. If the RP lose popularity, there is a small likelihood of political change in the upcoming elections in 2027.

Lesotho is grappling with ongoing political instability, fuelled by long-standing divisions within the ruling RP. Despite attempts at dialogue and reconciliation, these divisions persisted, leading to a series of political manoeuvres and power struggles. Meanwhile, the government faced criticism for its handling of economic challenges and social unrest. The political outlook for Lesotho in 2H2023/24 remains fragile and uncertain. While the government has expressed a commitment to resolving its differences and working towards economic development, significant challenges remain. The success of the national dialogue and the government's ability to implement its economic plan will be crucial for achieving long-term stability and prosperity.

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## PESA Editorial

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### Note:

In this publication, “USD” refers to US Dollars, “LSL” refers to Lesotho Loti, and “ZAR” refers to South African Rands. Unless otherwise indicated, all percentage comparisons are year-on-year.

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