

LESOTHO

WORLD RANK: REGIONAL RANK:

136

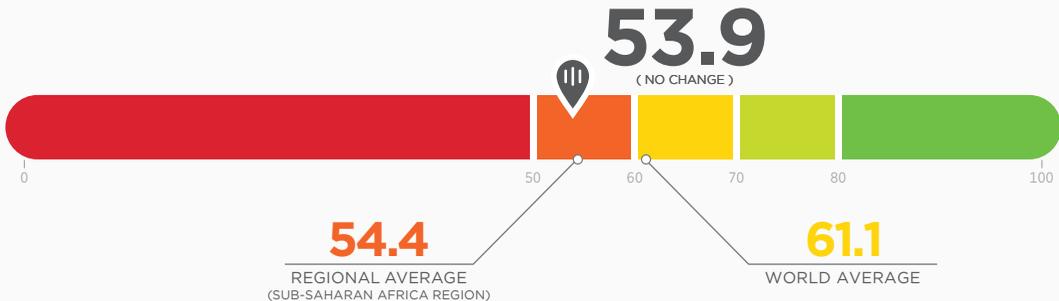
25

ECONOMIC FREEDOM STATUS:
MOSTLY UNFREE

Lesotho's economic freedom score is 53.9, making its economy the 136th freest in the 2018 *Index*. Its overall score has not changed, with significant improvements in scores for the **government spending**, **investment freedom**, and **judicial effectiveness** indicators matched by a steep decline in **trade freedom** and lower scores for **tax burden** and **government integrity**. Lesotho is ranked 25th among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages.

Economic policy in Lesotho has been overshadowed by political instability and the prospect of international sanctions. Political fragmentation has delayed planned infrastructure improvements that would have encouraged needed economic diversification. It also has constrained investment inflows. High levels of government spending prevent the emergence of entrepreneurial dynamism. A burdensome regulatory environment, significant corruption, and poor protection of property rights also add to the cost of doing business.

ECONOMIC FREEDOM SCORE

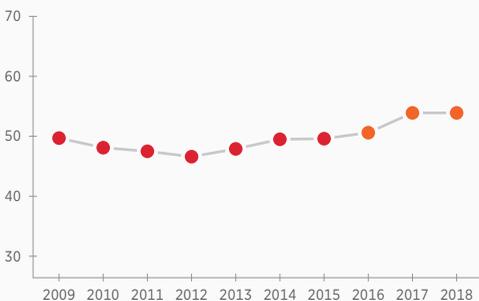


NOTABLE SUCCESSSES:
Monetary Stability

CONCERNS:
Rule of Law, Government Spending,
and Tax Burden

**OVERALL SCORE CHANGE
SINCE 2014:**
-6.2

FREEDOM TREND



QUICK FACTS

POPULATION:
1.9 million

GDP (PPP):
\$7.0 billion
2.9% growth in 2016
5-year compound
annual growth 3.5%
\$3,601 per capita

UNEMPLOYMENT:
27.4%

INFLATION (CPI):
7.0%

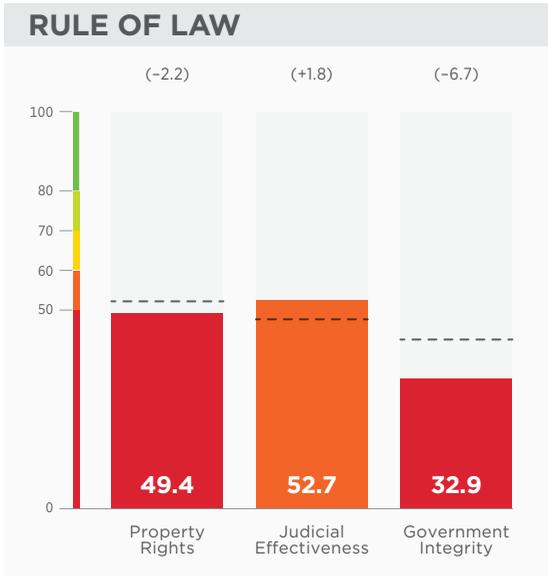
FDI INFLOW:
\$132.2 million

PUBLIC DEBT:
47.8% of GDP

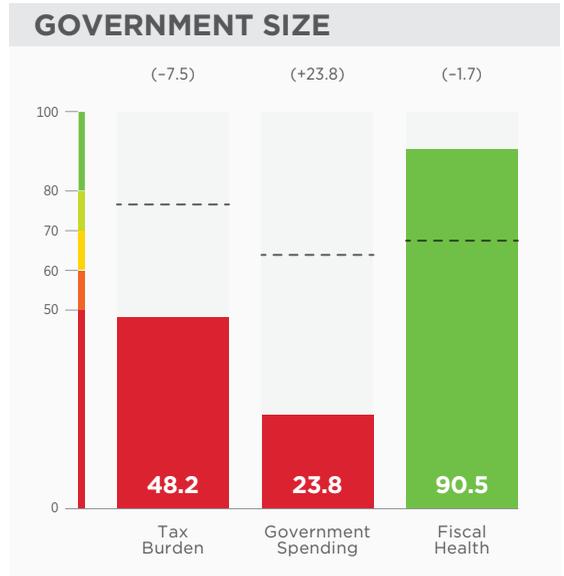
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Landlocked within a mountainous area of South Africa, Basutoland was renamed the Kingdom of Lesotho upon independence from the U.K. in 1966 and is a parliamentary constitutional monarchy, currently headed by King Letsie III. Political power has alternated between former Prime Minister Pakalitha Mosisili and current Prime Minister Thomas Thabane, whose All Basotho Convention party won a parliamentary plurality in June 2017. Lesotho's narrow economic base consists of textile manufacturing, agriculture, diamond mining, remittances from Lesothans working in South Africa, and regional customs revenue. About three-fourths of the people are engaged in animal herding and subsistence agriculture. A large dam and tunnel infrastructure project will divert water to South Africa and provide money and hydropower to Lesotho.

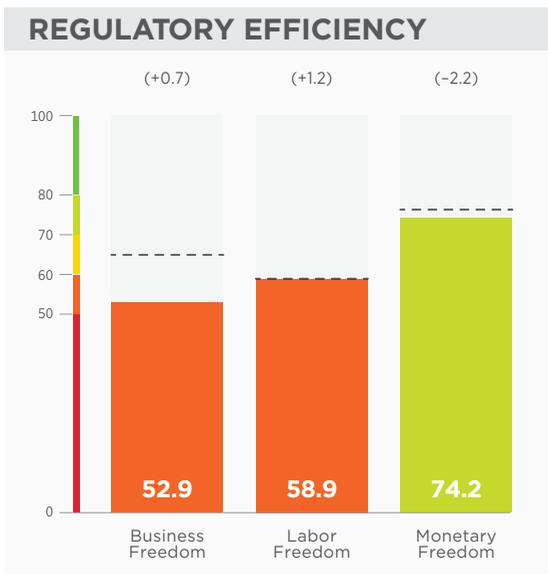
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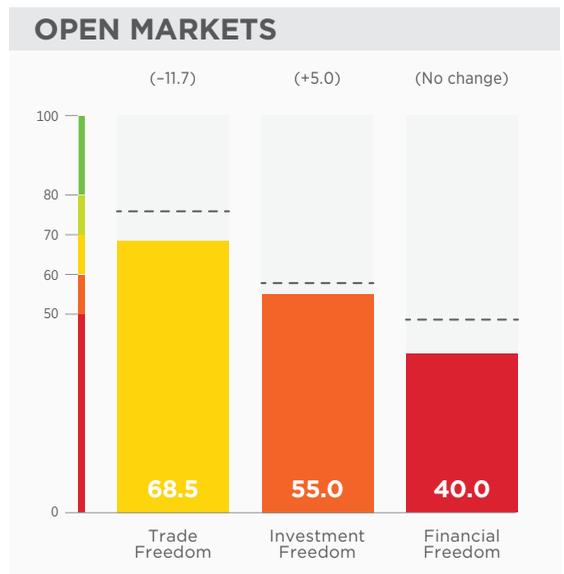
The right to private property is protected under the law, but protection of private property rights is ineffective, although expropriation is unlikely. Legal structures to protect intellectual property rights are comparatively strong. The judiciary is relatively independent but politicized and chronically underfunded. Corruption exists in all sectors of government and public services. Management of public finances lacks transparency.



The top personal income tax rate is 35 percent, and the top corporate tax rate is 25 percent. The overall tax burden equals 59.6 percent of total domestic income. Over the past three years, government spending has amounted to 50.4 percent of total output (GDP), and budget deficits have averaged 1.8 percent of GDP. Public debt is equivalent to 47.8 percent of GDP.



In 2016, Lesotho improved access to credit information by expanding the coverage of its credit bureau. The labor market remains rigid and not fully developed, driving much of the labor force into the informal economy. In 2017, the government passed significant price increases for gasoline, diesel, and paraffin on to consumers in response to price increases in South Africa.



Trade is extremely important to Lesotho's economy; the combined value of exports and imports equals 127 percent of GDP. The average applied tariff rate is 8.2 percent. Nontariff barriers impede trade. Government openness to foreign investment is below average. Much of the population lacks adequate access to banking services. The high cost of credit hinders entrepreneurial activity and private-sector development.