

LESOTHO

WORLD RANK: REGIONAL RANK:

142

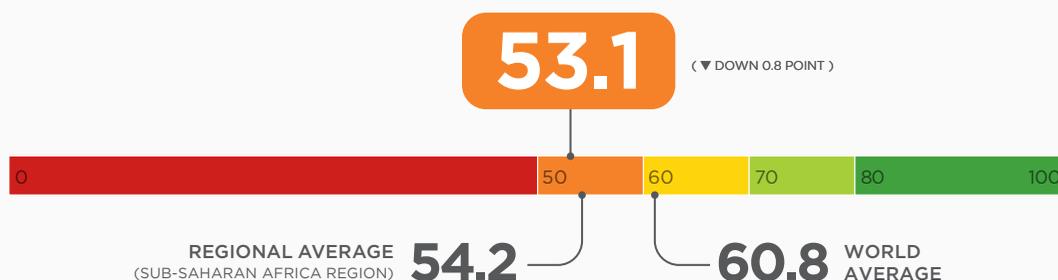
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ECONOMIC FREEDOM STATUS:
MOSTLY UNFREE

Lesotho's economic freedom score is 53.1, making its economy the 142nd freest in the 2019 *Index*. Its overall score has decreased by 0.8 point, with sharp drops in **fiscal health**, **judicial effectiveness**, and **property rights** outweighing improvements in **trade freedom** and the **tax burden**. Lesotho is ranked 28th among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages.

Multiple risks to political stability and possible international sanctions have overshadowed economic policy in Lesotho. Infrastructure projects to facilitate economic diversification have been stymied by political fragmentation, and investment inflows have been constrained. A plan to reduce economic dependence on South Africa by improving the business environment and boosting investment is probably overly ambitious. 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

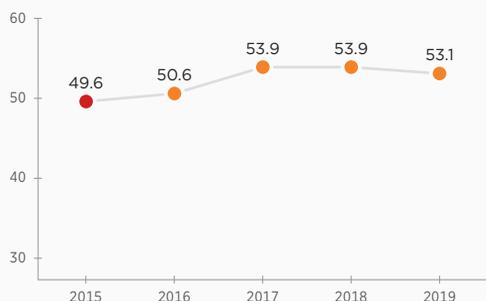


RELATIVE STRENGTHS:
Trade Freedom and Monetary Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 1996):
+6.1

CONCERNS:
Government Integrity and Government Spending

FREEDOM TREND



QUICK FACTS

POPULATION:
1.9 million

GDP (PPP):
\$7.0 billion
3.1% growth in 2017
5-year compound annual growth 2.8%
\$3,581 per capita

UNEMPLOYMENT:
27.3%

INFLATION (CPI):
5.6%

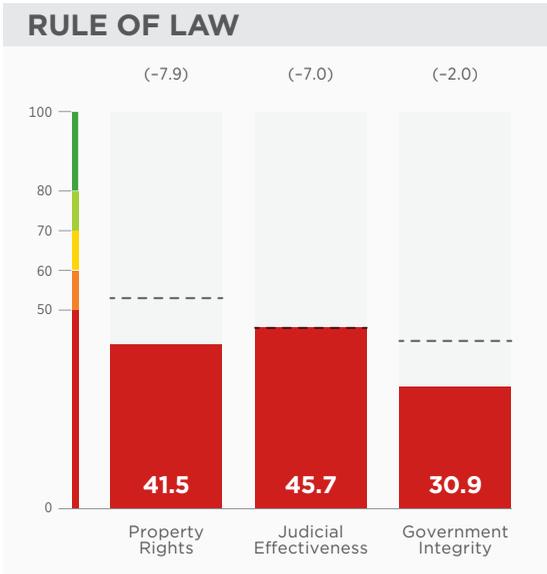
FDI INFLOW:
\$135.0 million

PUBLIC DEBT:
34.7% of GDP

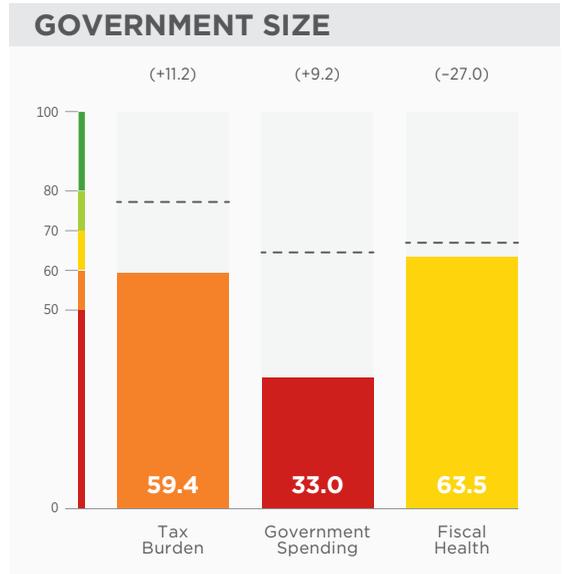
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Landlocked within a mountainous area of South Africa, Basutoland was renamed the Kingdom of Lesotho upon independence from the United Kingdom 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 won a parliamentary plurality in 2017. Lesotho's narrow economic base consists of textile manufacturing, agriculture, diamond mining, remittances from Basothos 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.

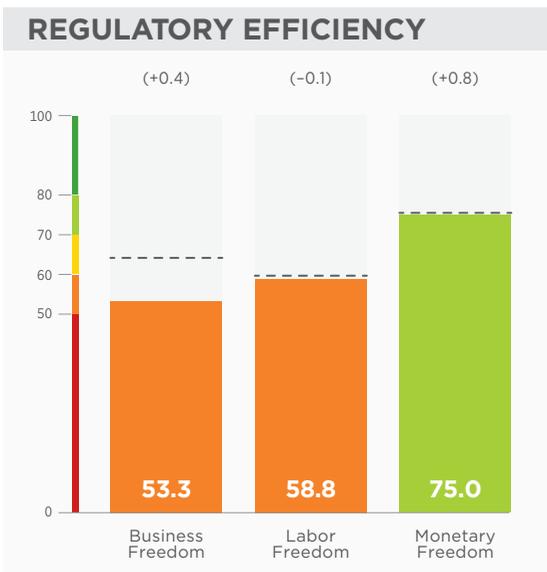
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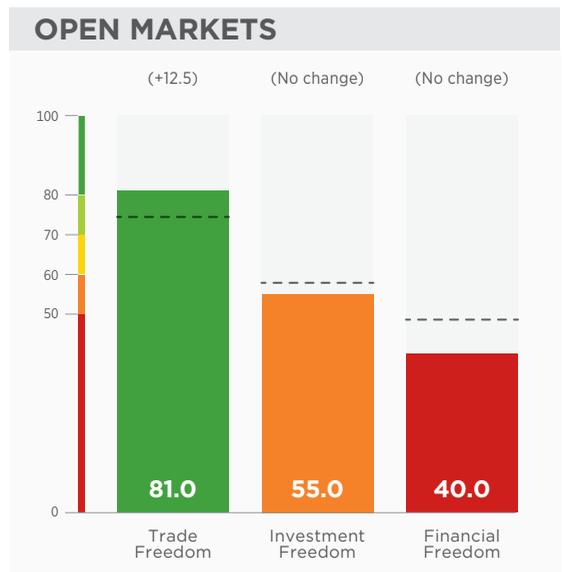
The courts enforce laws to protect the sanctity of contracts as well as real and intellectual private property rights effectively, and expropriation is unlikely. The judiciary is relatively independent but politicized, inefficient, slow, and chronically underfunded. Corruption remains a problem in all sectors of government and public services. Anticorruption laws are poorly enforced, leaving citizens with little recourse.



The top personal income tax rate is 35 percent, and the top corporate tax rate is 25 percent. The overall tax burden equals 47.0 percent of total domestic income. Over the past three years, government spending has amounted to 47.3 percent of the country's output (GDP), and budget deficits have averaged 4.6 percent of GDP. Public debt is equivalent to 34.7 percent of GDP.



Red tape and outmoded commercial laws continue to limit the overall efficiency of the regulatory system. The labor market remains rigid and underdeveloped, driving a large share of the labor force into the informal economy. Monetary stability has been affected by the volatility of the South African rand, and the government maintains food subsidies and influences other prices through state-owned enterprises.



The combined value of exports and imports is equal to 125.4 percent of GDP. The average applied tariff rate is 2.0 percent, and customs procedures are gradually improving. Private-sector investment remains limited. The high cost of credit hinders entrepreneurial activity and the development of a vibrant private sector. About 48 percent of adult Basothos have access to an account with a formal banking institution.