Lesotho’s economic freedom score is 51.6, making its economy the 141st freest in the 2023 Index. Its score is 3.5 points higher than last year. Lesotho is ranked 33rd out of 47 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages.

Lesotho lags far behind many other developing countries in terms of economic development, largely because of its failure to institute much-needed institutional reforms. The economy performs poorly in many of the four pillars of economic freedom. In particular, the rule of law is not strong enough to sustain meaningful economic progress.

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**BACKGROUND:** Basutoland was renamed the Kingdom of Lesotho upon independence from the United Kingdom in 1966. Lesotho is a parliamentary constitutional monarchy that is currently headed by King Letsie III. Diamond magnate Samuel Matekane was sworn in as prime minister in October 2022. 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 population is 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.

**POPULATION:** 2.2 million

**GDP (PPP):** $5.9 billion

2.1% growth in 2021

5-year compound annual growth –1.7%

$2,803 per capita

**UNEMPLOYMENT:** 22.4%

**INFLATION (CPI):** 6.0%

**FDI INFLOW:** $26.6 million

**PUBLIC DEBT:** 53.5% of GDP
Lesotho has weak rule of law. Property rights, judicial effectiveness, and government integrity scores are all below the world average.

The top individual and corporate tax rates are 35% and 25%, respectively. The tax burden is 20.6% of GDP. Three-year government spending and budget balance averages are 54.4% and -3.9% of GDP. Public debt is 53.5% of GDP.

The regulatory system’s efficiency is limited. Labor market rigidity drives much of the labor force into the informal economy. Inflation has moderated, but the government influences prices through state-owned enterprises. The most recent available inflation rate is 6.0%.

The trade-weighted average tariff rate is 11.9%, and nontariff barriers increase the cost of trade. Political fragmentation has stymied efforts to facilitate economic diversification, and investment inflows remain constrained. The high cost of credit discourages the development of a vibrant private sector.