

COUNTRY PROFILE: KINGDOM OF LESOTHO

IES/02: ATTACHMENT A

DATED: JANUARY 2008**CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2C	No Restrictions

Recent Political Highlights

- ❑ The government of Lesotho claims it has uncovered a plot by political opposition parties to assassinate some government ministers and business people during the planned stayaway from work beginning in February. The last stayaway from work was called by the five main opposition political parties in December last year. These parties are known as the big five and are made up of the All Basotho Convention, the Alliance of Congress Parties, the Basotho National Party, the Marematlou Freedom Party and the National Independent Party.
- ❑ Anti-Chinese sentiment is on the rise in Lesotho, making it the latest site for such ethnic hostilities in Africa. A growing number of Basotho blame Chinese immigrants for the ongoing poverty in the small landlocked country. For more than a decade immigrants from Asia helped fuel Lesotho's economy as apparel manufacturers. Today these textile factories are the country's biggest employers, providing more than 40,000 jobs. As long as widespread poverty persists in the country, some of their new compatriots will see the Chinese as competitors.

Recent Economic Highlights

- ❑ Lesotho's economy is based on water and electricity sold to South Africa, manufacturing, earnings from the Southern African Customs Union (SACU), agriculture, livestock and earnings from labourers employed in South Africa. Lesotho also exports diamonds, wool and mohair.
- ❑ Its investment regime is fairly liberalised and embraces foreign direct investment, virtually in all sectors of the economy, through the provision of attractive incentives and stable political environment.
- ❑ The agricultural sector has been experiencing declining productivity and poor value-added performance. However the agricultural policy framework has been shaped to encourage farmers and small scale producers to take up a stronger market orientation and make use of new opportunities arising out of developing trade liberalisation as enshrined in trade agreements to which Lesotho subscribes.
- ❑ The Ministry of Trade and Industry, Cooperatives and Marketing, has reported a devastating decline in sheep's wool and goat mohair in Lesotho. A downturn in production was being caused by prevailing animal theft and lack of animal maintenance skills among local farmers. The number of sheep is also reported to have declined from about 3 million some years ago to 1.2 million to date; only 849,000 goats were available in the country. Britain is the major buyer of Lesotho's wool and the country is struggling to produce the quality of wool (strength, length and whiteness) in demand.
- ❑ Economic policy will focus on improving the business environment to encourage private sector growth, with modest progress expected. Real GDP growth is expected to rise to 5.9% in 2008 and 5.5% in 2009 as recovery in agriculture from a devastating drought and strong mining growth boost overall economic activity.
- ❑ The EIU expects average annual inflation to fall from a drought-fuelled increase of 8% in 2007 to 7.5% in 2008 and 6% in 2009.
- ❑ The current account deficit is forecast to increase from 2.2% of GDP in 2008 to 3.4% of GDP in 2009, reflecting a decline in current transfers from SACU.

Latest Trade Developments

- ❑ Main exports: manufactures (clothing, footwear, road vehicles), wool and mohair, food and live animals.
- ❑ Main imports: foodstuffs, building materials, vehicles, machinery, medicines and petroleum products.
- ❑ Major trade partners: South Africa, US, Belgium, Canada, Hong Kong, China and Germany.

Sindiso Valerie Mpofo-Economic Researcher