Lesotho
CENTRAL BANK OF LESOTHO
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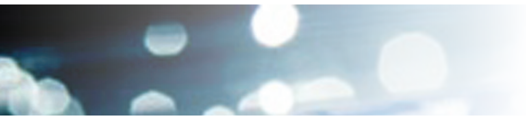
Economic Outlook 2019 - 2021

Project-led Rebound amid Policy Uncertainty



Executive Summary

Despite the synchronised global growth upswing that spanned almost two years, growth is expected to deteriorate over the medium term amid a confluence of factors affecting major economies according to the April 2019 WEO. A year ago, global economy was projected to grow at the rate of 3.9 per cent in both 2018 and 2019. However, global growth is now revised downwards to moderate at 3.6 per cent in 2018 and is expected to moderate to 3.3 per cent in 2019 and then return to 3.6 per cent in 2020 according to World Economic Outlook (WEO). This is reflective of the slowdown in activity in the second half of 2018 and the first half of 2019. Beyond 2020, global growth is projected to plateau at about 3.6 per cent. The global growth forecast reflects a combination of dissipating cyclical drivers and a return to modest potential growth path in advanced economies, a recovery in emerging market and developing economies, driven largely by economies currently experiencing macroeconomic distress. With the expected growth decline in advanced countries, the projected pick-up in global growth in 2020 is entirely based on the projected improvement for the emerging market and developing economy category.

The domestic growth is set to pick up unevenly over the medium-term supported mainly by projects in the construction sector. The annual growth rate is expected to average 2.8 per cent in the medium term. Growth is expected to be driven by the Lesotho Highlands Water Project (LHWP) Phase II and Lesotho Lowlands Water Development Project (LLWDP). The LHWP Phase II is expected to sustain growth over the medium-term. Excluding LHWP Phase II, growth is projected to average below 2.0 per cent over the forecast horizon. The domestic demand-driven sub-sectors remain under pressure on the backdrop of spillovers from the still weak South Africa's economy and low consumer demand. Mining and textiles industries continue to benefit from somewhat benign external demand conditions; however, they remain vulnerable to global trade shocks with risks getting elevated.

Contents

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In the medium-term, the overall fiscal balance is expected to register modest deficit as SACU revenue recovers....

Despite an uptrend in inflation in 2019, in response to the volatile food and oil prices, inflation is expected to remain contained over the medium-term. From bottoming out at 3.8 per cent in May 2018, annual inflation has been increasing reaching 5.9 per cent in May 2019. During this period, inflation has averaged 4.9 per cent. This increase was mainly driven by a surge in food prices from the low of 4.0 per cent in August 2018 to 7.1 per cent in May 2019. Fuel prices have also contributed to the steady increase in inflation. The food prices are expected to stabilize in the third quarter of 2019. The observed increase in food prices is well above food inflation outcomes in South Africa, which had a much lower starting point. The annual inflation rate is expected to average 5.2 per cent in 2019, then decelerate to 5.0 per cent and 4.8 per cent in 2020 and 2021, respectively. The factors driving these projections are high starting point for food prices in 2019 and fuel prices.

In the medium-term, the overall fiscal balance is expected to register a modest deficit as SACU revenue recovers. The overall fiscal balance is expected to register a 3.1 per cent deficit in 2019, and then improve to a modest deficit over 2020-2021. SACU revenue is projected to increase by 11% in 2020 in line with the expected recovery in the SA economy. Tax revenue is also expected to increase supplementing recovery in SACU revenue. The projected increase in tax revenue is attributable to the expected pick-up in economic activity and improved tax collection efficiency by LRA, reflective of their tax compliance efforts.

The current account deficit is estimated to widen to 1.3 per cent of GDP through to 2021 relative to 0.3 per cent of GDP in 2018. This would be reflective of the widening trade account deficit and the shortfall in the services account. The economy is projected to continue to receive more income and current transfers from abroad. On official reserves, while a build-up is expected for 2019, a slight depletion is expected in the outer years. Official reserves are set to average 3.7 months, above the 3-months threshold, over the medium term.

Money supply is estimated to grow by 7.0 per cent over the forecast horizon in line with the increase in nominal GDP growth. The increase in money supply will continue to be allocated towards local and foreign assets, with foreign assets continuing to take a larger share. Credit to the private sector is expected to grow, rising by 7.6 per cent over the period 2019-2021. More credit will continue to be extended to households than to businesses. Credit extended to businesses will benefit from the projects-related economic activity, mining, manufacturing and wholesale and retail sectors.

Global Economic Outlook[1]

Despite the synchronised global growth upswing that spanned almost two years, growth is expected to deteriorate over the medium term amid a confluence of factors affecting major economies according to April 2019 WEO. A year ago, global growth was projected to grow at the rate of 3.9 per cent in both 2018 and 2019. However, growth in both 2018 and 2019 has since been revised downwards. Global growth is expected to moderate from 3.6 per cent in 2018 to 3.3 per cent in 2019 and then return to 3.6 per cent in 2020 and this is reflective of the slowdown in activity in the latter half of 2018 and the first half of 2019. Beyond 2020, global growth is projected to plateau at about 3.6 per cent over the medium term. The global growth forecast reflects a combination of dissipating cyclical drivers and a return to modest potential growth path in advanced economies, a recovery in emerging market and developing economies, driven largely by economies currently experiencing macroeconomic distress. With declining growth in advanced countries, the projected pick-up in global growth in 2020 is entirely based on the projected improvement for the emerging market and developing economies category.

Growth in advanced economies is expected to deteriorate amid trade tensions and disruptions to the auto industry in Europe. Growth in the advanced countries is projected to slow from 2.2 per cent in 2018 to 1.8 per cent in 2019 and 1.7 per cent in 2020 largely reflective of the US-China trade tensions and disruptions in manufacturing in Europe. The projections for 2018 and 2019 are largely reflective of downward revisions in the euro area. The projected slowdown in advanced economies in 2019 accounts for over two-thirds of the expected deceleration in global growth relative to 2018. With output gaps estimated as being closed for most economies, the cyclical upsurge is set to retreat toward more modest potential rates of growth.

Global growth is set to moderate after weak economic activity in the second half 2018....

Growth in the Euro Area has been revised downwards dragged down, largely by the deterioration in the Germany economy since the second half of 2018. Growth in the euro area is set to moderate from 1.8 per cent in 2018 to 1.3 per cent in 2019 and pick up to 1.5 per cent in 2020. Although growth is expected to recover in the first half of 2019 as some of the temporary factors that held activity back dissipate, the carryover from the weakness in the second half of 2018 is expected to drive growth down. German growth has been revised down due to soft private consumption, weak industrial production following the introduction of revised auto emission standards and subdued foreign demand. In the UK, growth is projected at about 2.0 per cent and 1.4 per cent in 2019-2020 and largely reflects the negative effect of prolonged uncertainty about Brexit outcome.

[1] This section benefited from the APRIL 2019 IMF WEO and the Regional Econ. Outlook for sub-Saharan Africa.

The emerging market and developing economies are expected to drive the global growth....

Growth in the US is expected to slow down largely on the back of the US-China trade tensions and unwinding of the fiscal stimulus while growth in Japan is expected to be marginal. In the US, growth is expected to decline to 2.3 per cent in 2019 and soften further to 1.9 per cent in 2020 with the unwinding of fiscal stimulus. The downward revision of 2019 growth reflects the impact of government shutdown and somewhat lower fiscal spending than previously anticipated while the modest upward revision for 2020 reflects a more accommodative stance of monetary policy. Japan's economy is set to grow by 1.0 per cent in 2019. The revision reflects additional fiscal support including measures to mitigate the effects of planned consumption tax rate increase in October 2019. Growth is expected to moderate to 0.5 per cent in 2020.

Despite a slowdown in 2019, the emerging market and developing economy group is expected to drive global growth over the medium-term. Global growth in 2019 is also weighed down by the emerging market and developing economy group where growth is expected to tick down to 4.4 per cent in 2019. The decline in growth relative to 2018 reflects a slowdown in China and the recession in Turkey. Conditions are expected to improve as stimulus measures sustain activity in China and recession strains gradually ease in economies such as Argentina and Turkey. In 2020, growth is projected to rise to 4.8 per cent driven almost exclusively by an expected strengthening of activity in these economies on the back of policy adjustment and some easing of strains in countries affected by conflict and geopolitical tensions.

Growth in emerging Asia is anticipated to slow down in both 2019 and 2020. Growth in emerging and developing Asia is expected to dip to 6.3 per cent in both 2019 and 2020. Economic growth in China is projected to slow in 2019 and 2020 which reflects underlying growth in the second half of 2018 and the impact of trade tensions with the US. The projection for 2019 is slightly stronger reflecting revised assumption on US tariffs on China's exports. In India, growth is projected to pick up to 7.3 per cent in 2019 and 7.5 per cent in 2020 supported by the continued recovery of investment and robust consumption amid a more expansionary stance of monetary policy and some expected impetus from fiscal policy.

In Sub-Saharan African countries, Growth is expected to remain uneven between the resource rich and non-resource dependent economies. Growth is expected to pick up to 3.5 per cent in 2019 and 3.7 per cent in 2020. Growth performance remains uneven in the region. In about 21 countries, mostly diversified economies are expected to sustain growth of 5.0 per cent or more. However, in the non-resource rich countries, growth looks set to remain weak in the near-term. Growth in South Africa is expected to improve marginally from 0.8 per cent in 2018 to 1.2 per cent in 2019 and 1.5 per cent in 2020. The projected recovery reflects modestly reduced but continuing policy uncertainty in South Africa.

Growth in South Africa is expected to improve marginally from 0.8 per cent in 2018 to 1.2 per cent in 2019 and 1.5 per cent in 2020...

Table 1: The World Economic Outlook (Annual percentage changes in real GDP)

Region	Actuals				Projections	
	2015	2016	2017	2018+	2019*	2020*
World Output	3.5	3.3	3.7	3.6	3.3	3.6
Advanced Economies	2.3	1.7	2.3	2.2	1.8	1.7
United States	2.9	1.6	2.2	2.9	2.3	1.9
Euro Area	2.1	1.9	2.4	1.8	1.3	1.5
Germany	1.5	2.2	2.5	1.5	0.8	1.4
Japan	1.4	1	1.7	0.8	1	0.5
United Kingdom	2.3	2.4	1.3	1.4	1.2	1.4
Emerging and Developing Economies	4.3	4.4	4.7	4.5	4.4	4.8
Russia	-2.5	-0.2	1.5	2.3	1.6	1.7
Emerging and Developing Asia	6.8	6.5	6.5	6.5	6.3	6.3
China	6.9	6.7	6.9	6.6	6.3	6.1
Sub-Saharan Africa	3.3	1.4	2.7	3.0	3.5	3.7
South Africa	1.3	0.6	1.3	0.8	1.2	1.5

Source: IMF World Economic Outlook, April 2019; * Projections, + Estimates

Domestic Economic Outlook

Overview of the Current Forecasts

Following the 0.9 per cent contraction in 2017, as revised by the Bureau of Statistics (BoS) in the recently released national accounts, economic activity picked up in 2018. The pick-up in the first half of 2018 reflected upside surprises, notably in textiles manufacturing and mining industry. The third quarter experienced a decline; however, economic activity rebounded in the fourth quarter of 2018. The output gap was estimated at -0.3 per cent from -2.5 per cent in the third quarter. Textiles exports were buoyant throughout 2018 at the backdrop of supportive external demand. Mining industry experienced a robust performance in the first half of 2018 before dissipating somewhat in the second half into 2019. The strong performance was due to favourable demand and prices coupled with once off high carat stone recoveries.

The upside surprises in 2018 were however, not widespread as the construction sub-sector contracted by more than expected on the back of the delays in implementation of the LHWP Phase II. Negative spillovers from South Africa and slow budget execution by government continued to take a toll on the services sector well into the first quarter of 2019. These factors significantly moderated the gains from the upside surprises in other sectors. Prospects remain less favourable across sectors in the short-term with the exception of construction projects led recovery, which underlies the overall recovery projected in the medium-term. However, the pessimism, in part, emanates from the uncertainty surrounding the implementation of some revenue raising measures and fiscal consolidation efforts proposed in the 2019/20 budget speech.

The economy's prospects have not changed much relative to the December 2018 Outlook....

The economy's prospects have not changed much relative to December 2018 Economic Outlook. This is in line with afore discussed developments coupled with the recent National Accounts publication. The 2018 growth is estimated at 1.2 per cent by the BoS. Growth is projected to pick up to 2.7 per cent in 2019 before decelerating to 1.7 per cent in 2020. Relative to December 2018, growth for 2018 shows a 0.1 percentage point mark-up as the upside surprises slightly outweighed the downward pressures. Growth forecast for 2019 remains unchanged while 2020 growth was revised up by 0.7 percentage points reflective of expected broad-based uptick with the exception of Construction. Construction activities are expected to dip with the completion of the advance infrastructure associated with the LHWP Phase II in 2020. The construction sub-sector is expected to rebound in 2021 with commencement of the dam construction and transfer tunnel urging growth to peak at 4.1 per cent. Table 2 below shows the revisions to the current forecasts relative to December 2018.

Table 2: Overview of Domestic Economic Outlook

	Actual	Estimate	June 2019 projections			Differences from Dec 2018 projections		
	2017	2018+	2019*	2020*	2021*	2018*	2019*	2020*
Economic growth	***-0.9***	***1.2***	***2.7***	***1.7***	***4.1***	***0.1***	***0.0***	***0.7***
Primary Sector	***2.1***	***8.1***	***-0.4***	***3.0***	***2.6***	***4.4***	***-0.3***	***2.4***
Agriculture	*-19.1*	*1.6*	*-0.6*	*2.8*	*2.9*	*2.5*	*1.9*	*3.3*
Mining & Quarrying	*39.3*	*15.7*	*-0.2*	*3.1*	*2.3*	*3.8*	*-3.9*	*0.8*
Secondary Sector	***-4.8***	***2.7***	***8.0***	***-0.5***	***9.3***	***2.4***	***-1.2***	***-0.9***
Manufacturing	*-6.8*	*14.8*	*2.7*	*4.7*	*4.9*	*12.3*	*-0.8*	*1.2*
Textiles & Clothing	*-2.8*	*14.6*	*2.8*	*5.1*	*5.3*	*12.1*	*-1.0*	*1.3*
Building & Construction	*-4.7*	*-21.4*	*31.5*	*-16.0*	*29.1*	*-17.5*	*2.6*	*-9.8*
Services Sector	***-0.9***	***0.1***	***1.1***	***2.3***	***2.4***	***-1.3***	***0.2***	***1.0***
Inflation rate (%)	***5.2***	***4.7***	***5.2***	***5.0***	***4.8***	***0.0***	***-0.4***	***-0.5***

Source: Central Bank of Lesotho. +estimates by the Bureau of Statistics, * CBL projections

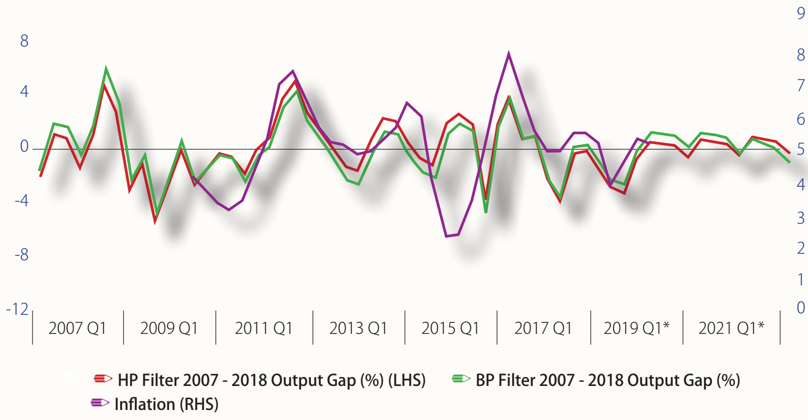
Inflation is expected to remain subdued reflective of the favourable inflation outlook in South Africa and the still fragile domestic demand in Lesotho. The South African Reserve Bank (SARB) has revised down inflation but still expected to remain within the target range. It expects some near-term surprises influenced by higher energy, food and fuel prices. Domestic food prices surged through May 2019 but are expected to steady around 6.0 per cent going into the fourth quarter. The forecasts were revised down by 0.4 percentage point and 0.5 percentage point for 2019 and 2020, respectively. Food inflation surprises and volatility in oil prices are probable upside risks to the forecasts.

The inflation forecasts have been revised down, with upside risks to the outlook....

Box 1: Lesotho's Output Gap Analysis

The output gap, also referred to as capacity utilisation, captures resource utilisation in the economy. It is defined as the difference between what the economy produces (actual output) and what the economy can produce (potential output). Output gap provides information on whether the economy is operating at an efficient rate or not. A positive output gap implies that aggregate demand exceeds productive capacity of an economy; as such, firms and workers have to operate at an inefficient level to meet excess demand. A negative output gap implies that an economy operates below its productive capacity because of weaker demand. Both negative and positive output gaps imply inefficiency – resources are being underutilised or over-utilised, respectively. Output gap therefore offers information on relative demand and supply of goods and services in an economy, hence price movements. Output gap has implications for inflation in an economy and can inform policy that can be employed to ensure efficiency and stable prices. This analysis therefore aims to cast light on the output gap movements in Lesotho using various measures of output gap. Specifically, it aims to determine where on the business cycle the economy is currently.

Figure 1 Output Gap Estimates (2007 – 2018)



Source: Central Bank of Lesotho, * forecasts

Box 1: Lesotho's Output Gap Analysis (continued)

Capacity utilisation, measured using HP[2] and BP[3] filters, was on a downward trend from the second quarter of 2008, hitting a trough in the second quarter of 2009 when actual output deviated from potential output by 4.5 per cent in Figure 1 above. This was reflective of the global economic recession that came as result of the 2007/8 financial crisis. Domestically, the industry that significantly succumbed to weak demand is manufacturing contributing to the widening GDP gap. Albeit improving, capacity utilisation remained below normal level[4] until second quarter of 2011. There was a turnaround with productivity increasing from third quarter of 2011 as most economies recovered from the slowdown. Notably, productivity increase in the services sector, mining and construction sub-sectors was the main factor behind the closing output gap. Capacity utilisation increased above normal level reaching a peak in the first quarter of 2012 with output gap estimated at 4.2 per cent. In the subsequent quarters of 2012, output reverted to potential level as the GDP gap closed. However, shocks in mining industry and construction sub-sector in the first half of 2013 saw actual output deviating from potential output by -1.7 per cent. Capacity utilisation increased to above normal level from the second half of 2013. High demand for services urged output above potential level, augmented by rebounds in resource utilisation in mining and manufacturing and Information Technology sub-sectors. The economy performed below its capacity in the fourth quarter of 2015 and second quarter of 2017, in line with drought in the region and technical recession that hit South Africa, respectively. This was explained by weak final demand during these periods compared with potential output, such that output gap deteriorated.

Capacity utilisation is estimated to have increased at close to normal level by end of 2017 as the economy recovered. Other signs also pointed to increased capacity utilisation, particularly the increase in manufacturing employment. However, in 2018 capacity utilisation declined to below normal level as negative output gap was estimated. Other indicators, including employment and productivity also suggest a declining capacity utilisation over the same period, particularly in services sectors and construction sector. A number of firms have also reported low economic activity across a number of sectors. A few businesses have reportedly temporarily laid off employees while others report that they have adjusted working hours. This reflects weak domestic demand. Only mining industry and manufacturing (textiles) sub-sector reported increasing productivity, which are export oriented. Using the recent preliminary NA accounts

[2] HP filter is a smoothing technique used to remove a cyclical component of the series and thereby leave out the long-term trends in the series. Lambda=1600.
[3] The BP filters eliminate trend and high frequency irregular components of the series that may distort estimated cycles. Lambda= 1600.
[4] Level of output where output gap is zero.

Box 1: Lesotho's Output Gap Analysis (continued)

data for quarter four 2018, capacity utilisation is estimated to have picked up at just below normal level with actual output estimated to be below potential output by 0.3 per cent. The pick-up is mainly driven by external demand shocks while domestic demand remains weak.

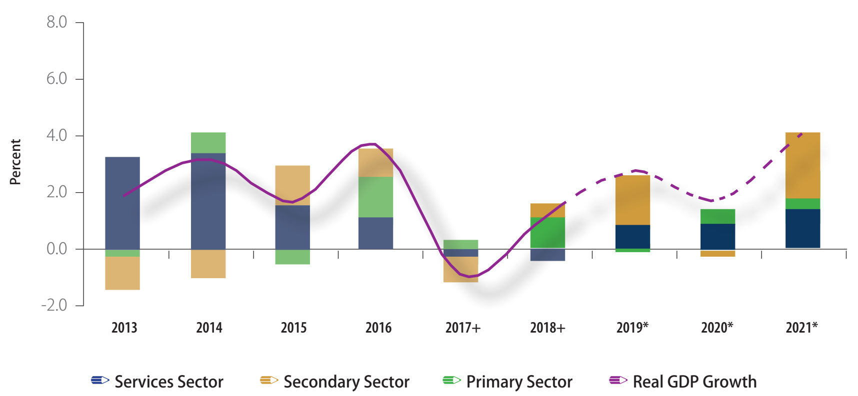
Overall inflation is seen to be responsive to output gap, in periods of a positive output gap, there seems to be upward inflationary pressures. There also seems to be downward inflationary pressures in periods of a negative output gap. However, there are notable periods (2010 Q3, 2015 Q1 and Q2) where inflation did not pick up with closing output gap. Prices tended to be stick downwards. In 2015, there was a significant disinflation in Electricity, gas & other fuels category that kept overall inflation low.

This analysis reports that capacity utilisation is currently below normal level albeit increasing. That is, the economy is operating below potential. Unemployment remains high, and wage growth is stagnant. It is important to note that potential output and output gap are unobservable. The output gap in this report is based on the analysis of output using both the HP filter and BP filter, augmented with overall assessment of some indicators. While employment data would be a more useful indicator in the analysis, it is not comprehensive covering only manufacturing sub-sector on quarterly basis. To limit the end sample bias that is a shortcoming of the HP and BP filters, forecasts were included for 2019-2012 to get a more reliable estimate for 2018.

Real Sector Outlook

The domestic growth outlook is set to pick up unevenly over the medium-term supported mainly by projects in the construction sector. Growth is expected to be propelled by implementation of the LWHP Phase II and Lesotho Lowlands Water Development Project (LLWDP). The annual growth rate is expected to average 2.8 per cent in the medium term. Excluding LHWP Phase II from the assumptions, growth is projected to average below 2.0 per cent over the forecast horizon. The domestic demand driven sub-sectors remain under pressure on the backdrop of headwinds from the still weak South Africa's economy and lower real disposable incomes. Mining industry and textiles continue to benefit from somewhat benign external demand conditions; however, they remain vulnerable to global trade shocks with risks getting elevated.

Figure 2 Domestic Economic Outlook - Real GDP growth



Source: CBL; * Projections, + Estimates

The robust performance in the mining industry in 2018 inspired a strong growth in the primary sector despite the decline in crops production. The primary sector is estimated to have accelerated to 8.1 per cent growth in 2018. The mining industry grew at an estimated 15.7 per cent contributing about 90.0 per cent to the sectoral growth. The industry benefited from favourable demand and prices coupled with some large stone finds. However, growing of crops offset this growth as it contracted by 9.7 per cent. Unfavourable weather conditions and late planting plagued crop production. While most of the factors that affect the crop production are exogenous, farmers ought to take steps to mitigate the risks and uncertainties associated with these external shocks. This also calls for education on basic risk management strategies to farmers.

Domestic growth outlook is set to pick up supported mainly by projects in the construction sector....

The primary sector is expected to contract in the short-term, with a rebound projected in the medium-term. The growth in the primary sector is anticipated to experience a soft decline of 0.4 per cent in 2019, before rebounding to average 2.8 per cent over 2020 and 2021. The decline in 2019 is attributable to growth contractions in both the mining industry and the agricultural sub-sector. Following the peak performance in the mining industry in 2018, output is anticipated to fall as production reverts to average level. However, this base effect is expected to be offset by Mothae Mine that has gone fully commercial since January 2019. Thus, the mining industry is expected to only marginally decline by 0.2 per cent in 2019 and rebound to average 2.7 per cent in 2020-2021. The downside risks to the mining industry projections in the medium term include oversupply, heighted global trade risks and uncertainties surrounding lease renewals, which could hamper long-term investment plans. Crop production is expected to fall further in 2019 due to late rains for summer crops, exacerbated by water logging and shortage of seeds for winter crops. The shortage of seeds was a result of poor harvest in the previous production year. Crops production is expected to recover to 3.1 per cent in 2021.

A rebound in the manufacturing sector stimulated a recovery in the secondary sector in 2018. The sector is estimated to have expanded by 2.7 per cent in 2018 following a decline in the previous year. The recovery was supported by the manufacturing sub-sector, particularly the strong performance in textiles exports. The textiles exports were driven by favourable external demand and improved productivity. The sector's recovery was however, undermined by the sharp decline in construction sector. The construction sector is estimated to have declined by 21.4 per cent in 2018 due to postponement of construction works initially planned for 2018.

Performance in the mining and agric industries is set remain subdued , while for construction it will rebound due to LHWP II....

In the medium-term, the projected growth in the secondary sector is expected to be broad-based led by construction projects. The sector is expected to register 8.0 per cent growth in 2019 before a decline of 0.5 per cent in 2020. Sectoral growth is anticipated to pick up to 9.3 per cent in 2021. While manufacturing and electricity and water sub-sectors are expected to contribute positively to sectoral performance over the forecasting horizon, construction sub-sector is anticipated to set the pace. The growth in 2019 is projected to be driven by a strong rebound in the construction sub-sector. The construction activities are expected to be boosted by the ongoing advance infrastructure for LHWP Phase II registering 31.5 per cent in 2019. In 2020 the construction activities are expected to dip with the completion of advance infrastructure, thus the construction sub-sector is expected to decline by 16.0 per cent offsetting gains from manufacturing and electricity and water sub-sectors. Construction sub-sector is expected to rebound in 2021 to register 29.1 per cent as the construction of the dam under the LHWP Phase II commences. Electricity and water sub-sector is expected to average 2.6 per cent growth in the medium term. Electricity is expected to get a boost from the green energy projects while water is anticipated to be bolstered by the LLWDP by the end of the forecast period.

Additional boost to the construction activity is expected to come from other pipeline projects as they gain momentum in the medium-term. The government road construction projects, viz. Monontša and Sehlabathebe projects, are expected to augment the LHWP Phase II in the medium term. The potential unscheduled production halts that are common in government projects have been factored into the forecasts. The outlook also incorporates the effect of the LLWDP in the outer year. The LLWDP is expected to have further knock-on effects on firms' production and investment, thus job creation in the Hlotse and Maputsoe area.

The textiles industry is expected to maintain a modest momentum in the medium-term. The industry is projected to average 4.4 per cent growth over the forecast horizon. However, going into the medium term risks could be elevated, as the sub-sector remains vulnerable to external shocks. These include volatile global trade, external demand and exchange rate shocks. Materialisation of these risks, particularly demand shocks, could significantly affect new orders thus production. With textiles facing these challenges, cannabis products are anticipated to provide a reprieve to the manufacturing activity. The full effect of the cannabis industry is expected to be incorporated into the National Accounts post 2020.

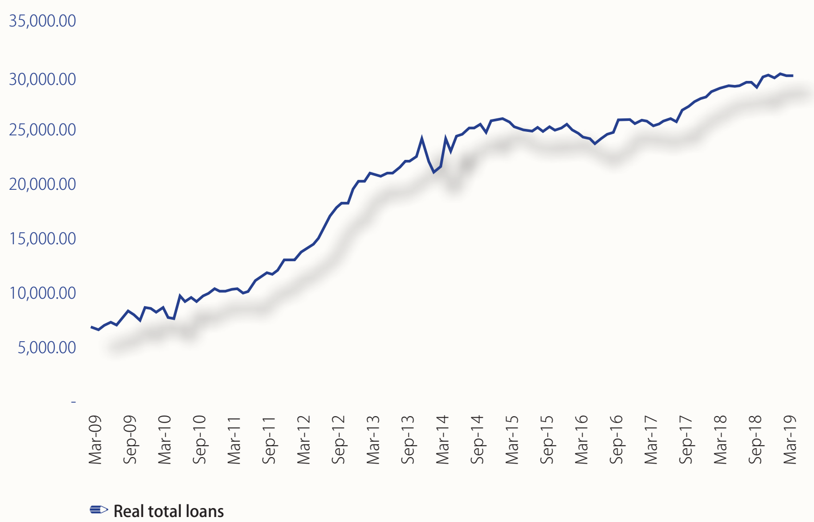
The tertiary sector is projected to remain below potential in the medium-term. The sector is estimated to have only marginally recovered by 0.1 per cent in 2018 following the decline in the previous year. This is reflective of spillover from the still weak South African economy and low consumer demand domestically given the pressures on real disposable income. In the medium term, the tertiary sector is expected to average 2.0 per cent growth. This moderate recovery is anticipated to be underpinned by Financial Services and government activities. Financial services sub-sector is projected to average 3.6 per cent over the forecast horizon. The sub-sector is expected to be bolstered by ongoing and planned construction projects as some of them may require funding for services provision along the value chain. The other sub-sectors including wholesale & trade, transportation, accommodation, information & communication and real estate activities are anticipated to remain under pressure in the near term given the muted consumer demand. A broad-based uptick is anticipated in the outer year in the tertiary sector as economic activity picks up.

A broad-based uptick is anticipated in the outer year in the tertiary sector as economic activity picks up....

Box 2: A Brief Analysis of Household Debt: Implication on Lesotho

Household debt-defined here as a ratio of household debt to GDP-has been steadily increasing in the recent past in Lesotho contrary to a declining overall household debt to GDP trends in other countries within the region including South Africa. The observed increase in household debt in Lesotho, could be explained by a plethora of factors such as the deepening of the financial sector, surge in middle class, an improvement in labour market conditions or an increase in inflation and hence a fall in real interest rate; or a combination of all these factors. Notwithstanding, excessive household debt can result in financial distress, defaults and even bankruptcy for households and potentially crowd-out private consumption. For economies under stress, household indebtedness could negatively affect household demand and therefore forestalling a speedy rebound in the economy. This can also put financial stability at risk especially for countries with shallow financial systems as non-performing loans and bad debts start showing in the financial institutions' balance sheets. This article aims to discuss dynamics of household indebtedness in Lesotho and its implications on the economy.

Figure 3 Household Debt Trends in Lesotho



Source: Central Bank of Lesotho

Since 2007, credit to households as a percentage of gross domestic product has more than doubled from 4.5 percent in 2007 to 11.0 percent in 2017. In addition, real total loans by households increased from M 7, 009, 000 in March 2009 to M30, 074, 590 in March 2019 as seen in figure 3 above. These figures do not include loans by household from non-bank financial institutions. This increase can be viewed as a result of financial

Box 2: A Brief Analysis of Household Debt: Implication on Lesotho (continued)

system's improvement and potential surge of middle class over the years in Lesotho. However, coupled with this increase in credit extension, is an observed fall in households' consumption growth. This fall in consumption growth implies that consumption is growing albeit at a decreasing rate. A possible explanation for this trend is the need for households to service their debt; hence putting a squeeze on funds available to spend. Since, Lesotho economy is largely driven by consumption, with household final consumption as high as 80 percent of the GDP, factors that affect the consumption have substantial bearing on the economic stability. Indeed, some studies have noted that increase in debt-to-GDP ratio tends to decrease consumption across countries by three lags. Noteworthy is that similar studies have found that debt-to-GDP ratios in excess of 60 percent and 80 percent have long run negative impacts on consumption and GDP growth respectively. These thresholds however seem to vary across countries and depend on institutional and legal framework of individual countries.

According to IMF's Selected Issues Paper (SIP) released in 2018, more than 20 percent of the civil servants in Lesotho take home less than 50 percent of their pay, with the remainder being used to service their debt. This is coupled with increased mortgage lending in the face of booming property market and prices. While it remains to be definitively inferred with availability of more comprehensive data for households employed in other industries, one will do well to remember that public sector is the second largest employer in Lesotho. That said, we can safely conclude that these levels of indebtedness by civil servants is an indication of dynamics in the household sector in Lesotho. This phenomenon is potentially responsible for falling consumption growth by households in the economy as earlier suggested. The importance of household consumption cannot be understated. If household indebtedness becomes unsustainable, consumption will decline on the back of rising debt levels, the private sector will suffer as a result of a fall in demand for goods and services. This will further curb both spending by government (as tax revenues fall) and private expenditure will further decline (as employment shrinks and therefore income), investment by firms will decline, banks' profitability will be eroded and confidence in financial markets dampen. The ripple effects will continue if the current trends persist.

Conclusion

The aim of this article was to provide a brief analysis of household debt and its implications on consumption growth and subsequently its implications on Lesotho's economy. Our analysis shows that rising debt levels - as measured by household debt to GDP ratio - are associated with falling levels of household consumption growth. This is an indication that households' need to service their debt is potentially crowding out

Box 2: A Brief Analysis of Household Debt: Implication on Lesotho (continued)

consumption. Further investigation into the extent to which households in Lesotho are burdened by debt and applicable threshold for sustainable debt-to-GDP ratio still needs to be investigated, however, the current trends in household debt suggest that households in Lesotho are becoming more indebted. The result of which is a fall in household consumption growth. This upwards trend in debt levels threaten to undermine gains in financial sector development and investment by firms. It further exerts pressure on fiscal policy and threatens monetary policy as government deposits are depleted. It is therefore imperative that policies aimed containing spill-overs from excessive indebtedness are developed. That entails enhancing the effectiveness of fiscal adjustment in order to stabilise the financial sector.

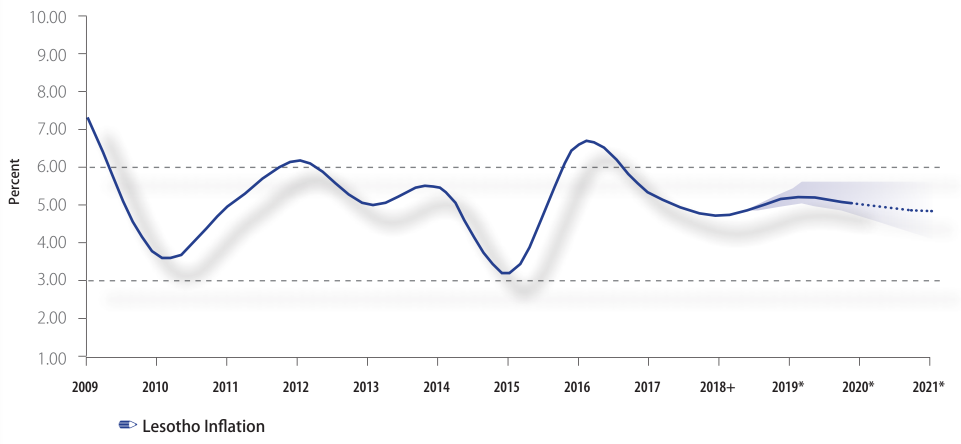
Inflation Outlook

it is anticipated that the annual inflation will average 5.0% and 4.8% in 2020 and 2021, reflective of food price movements....

Despite an upturn in inflation in 2019, in response to the volatile food and oil prices, inflation is expected to remain contained over the medium-term. From bottoming out at 3.8 per cent in May 2018, annual inflation has been increasing reaching 5.9 per cent in May 2019. During this period, inflation has averaged 4.9 per cent. This increase was mainly driven by a surge in food prices from the low of 4.0 in August 2018 to 7.1 per cent in May 2019. Fuel prices have also contributed to the steady increase in inflation. The food prices are expected to stabilize in the third quarter of 2019. The observed increase in food prices is well above food inflation outcomes in SA, which had a much lower starting point.

The annual inflation is expected to average 5.2 per cent in 2019, then decelerate to 5.0 per cent and 4.8 per cent in 2020 and 2021, respectively. The factors driving these projections are high starting point for food prices in 2019 and fuel prices. Food price outcomes came low in 2018, thus are anticipated to return to trend in 2019 pushing inflation higher. Food prices account for the largest weight in the CPI basket, such that any shocks to food prices dictate the direction of overall inflation. Upward pressures to inflation are also anticipated to come from oil prices that are expected to remain high in the near-term. Administered prices, specifically utilities and transport services, which could be reviewed in the medium-term also present an upside risk to the outlook.

Figure 4 Lesotho Inflation Forecast

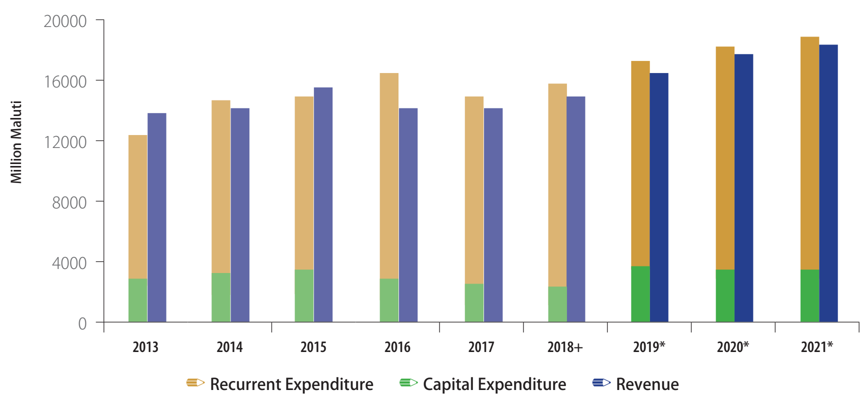


Source: CBL, *Projections, +Estimates

Government Budgetary Operations Outlook

The overall fiscal balance remained in deficit in 2018 as government struggled to rein in expenditure. The fiscal deficit moderated slightly to 1.9 per cent in 2018 from 2.2 per cent in 2017. Amidst falling SACU revenue, government efforts to rein in spending did not yield results. The focus to curtail spending was directed to low impact components. The slight moderation in fiscal deficit was due to a recovery in tax revenue. The recovery was wide-ranging as LRA improved tax compliance measures, coupled with the April 2018 VAT increase to 15.0 per cent.

Figure 5 Government Revenue and Expenditures

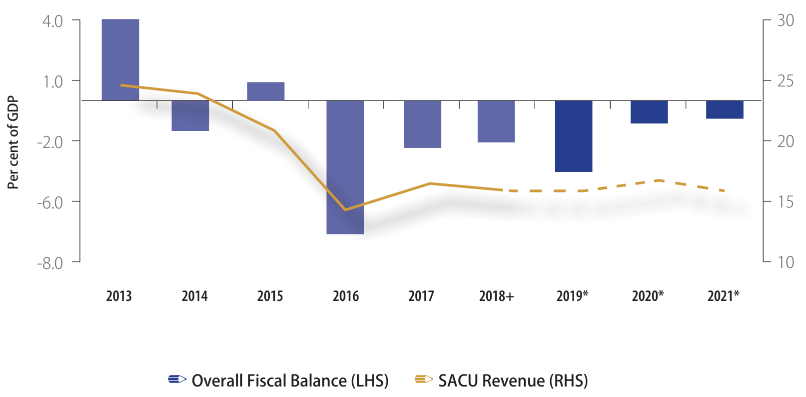


Source: CBL; * Projections, + Estimates

The fiscal deficit is expected to improve as the tax and SACU revenues recover....

In the medium term, the overall fiscal balance is expected to register modest deficits as SACU revenue recovers. The overall fiscal balance is expected to register a 3.1 per cent deficit in 2019, and then improve somewhat over 2020-2021. SACU revenue is projected to increase by 11% in 2020 in line with the expected recovery in the SA economy. Tax revenue is also expected to increase supplementing recovery in SACU revenue. The projected increase in tax revenue is attributable to the expected pick-up in economic activity and improved tax collection by LRA following their concerted effort to streamline tax compliance.

Figure 6 Total Revenue vs Total Expenditure



Source: CBL; * Projections, + Estimates

The fiscal deficit will be financed through a mix of external and domestic borrowing in 2019.Government will look to raise more financing domestically with government's securities issuance set to increase by 22.0 per cent. This level of domestic borrowing combined with the external debt will be enough to fill the financing gap. Thus, pressure on government deposits will ease and result in slight accumulation in 2019. Government budgetary operations are expected to improve over 2020-2021 as revenue is expected to outpace expenditure. This will lead to a further accumulation of government deposits with the Central Bank by 1.7 per cent of GDP.

Box 3: Options Within Lesotho's Fiscal Policy: Is there Space to Manoeuvre?

Fiscal sustainability in Lesotho has been under intensive discussion in the recent past. This is because fiscal challenges facing Lesotho have elevated dramatically since 2015. These challenges emanate from high public spending and heavy dependency on volatile SACU revenues[4]. Consequently, efforts have been tabled to consolidate fiscal policy by reducing spending and mobilising extra revenue sources. This article therefore aims to assess the extent to which the government can increase revenues, reduce spending, and contract additional debt or a combination of all these options.

As earlier discussed, a sizeable chunk of government revenue in Lesotho comes from the SACU revenue pool. This pool has been shrinking recently due to poor economic performance by SACU region countries, particularly South Africa. This phenomenon calls for countries in the region, particularly Lesotho, to diversify their revenue sources; thus, look no further than home for alternative revenue sources. Primarily, the government would need to increase taxes and widen the tax base in order to increase domestic revenue. However, challenges remain in this regard. Lesotho is already regarded as one of the countries in the region burdened by taxes; tax revenue as a percentage of GDP is as high as 35 percent. This high burdensome tax rate is already seen as unfavourable for a conducive investment climate. Furthermore, taxes have a negative effect on households' disposable income. Increasing taxes therefore becomes even more of an undesirable option while also potentially unpopular and likely to meet resistance.

The second option at the disposal of government is cutting on public spending. Lesotho has one of the highest public wage bills in the world; the wage bill is estimated to be around 24 percent of GDP which is almost 3 times the Sub-Saharan Africa average. There have been considerable efforts to reduce the wage bill and other expenditure items as stated in the 2019/20 fiscal budget. The government has implemented zero percent increases for civil servants' wages and salaries, and further announced measures to reduce travelling and fleet costs. Beyond these measures that are at best marginally effective, there seems to be very limited space for further cuts. Moreover, previous measures aimed at cutting expenditure have proven difficult to implement.

The third option is that the government has to contract debt from either domestic or external or a combination of both. It however goes without saying that there are constraints to government's ability to contract fiscal debt, primary among them being level of already existing debt and the government's ability to honour its obligation to repay. Table 3 below summarises main debt statistics for 2017/18 and how such statistics compare to other countries in the region.

[4] SACU revenues accounted for 41% of government revenue or 17% of GDP in 2018.

Box 3: Options Within Lesotho's Fiscal Policy: Is there Space to Manoeuvre? (continued)

Table 3: 2017/2018 Debt Statistics for SACU Economies

	Fiscal Deficit (% of GDP)	Public Debt (% of GDP)
Lesotho	3.7	41.6
South Africa	4.0	53
Namibia	8.1	42
Botswana	1.0	20.4
eSwatini	7.4	20.8

Sources: African Development Bank World Bank

As seen from table 3 above, Lesotho seems to be faring moderately relative to other SACU neighbours in terms of both public debt burden to GDP ratio and fiscal deficit to GDP ratio. The 2019 IMF Article IV mission has in fact noted that Lesotho's risk of debt distress is moderate and there is some space to absorb shocks. However, there are challenges facing government's ability to procure debt from domestic markets. Recent issuance of government paper for fiscal purposes was undersubscribed, because commercial banks in the country have low appetite for long-term debt instruments. On the other hand, nonbank financial institutions that are the best suited candidates to hold long term government debt such as pension funds are investing funds in South African subsidiaries. Even though a proposed new bill requiring pension funds to hold a certain proportion of their assets domestically is expected to improve subscription for government paper, there is still potential competition from alternative investment avenues such as private equity. The market's perception about government's ability to honour their debt obligation also determines availability of loanable funds. Recent failures by the government to pay contractors on time have undermined confidence in public finance management. Thus, creating a negative perception about government's ability to repay and also making borrowing expensive on the back of rising interest rates in the region. Underdeveloped financial capital markets further exacerbate shortages of loanable funds.

The aim of this article was to cast light on the options that the government has within fiscal policy framework to finance its operations. While the government has presented its ambitious efforts to increase taxes and cut on spending, there is little space to manoeuvre; effective tax rate is already high in the country, previous policies aimed at cutting spending have proven to be difficult to implement, and there is seemingly no appetite nor conducive platform to trade the fiscal paper issued by the government. These factors underpin the little space that the government has within fiscal policy as it stands. They also illuminate the importance of reforming public finance management, and the importance of devising policies aimed at improving private sector in order to increase tax revenue and ease pressure on the government as an ultimate employer in the economy.

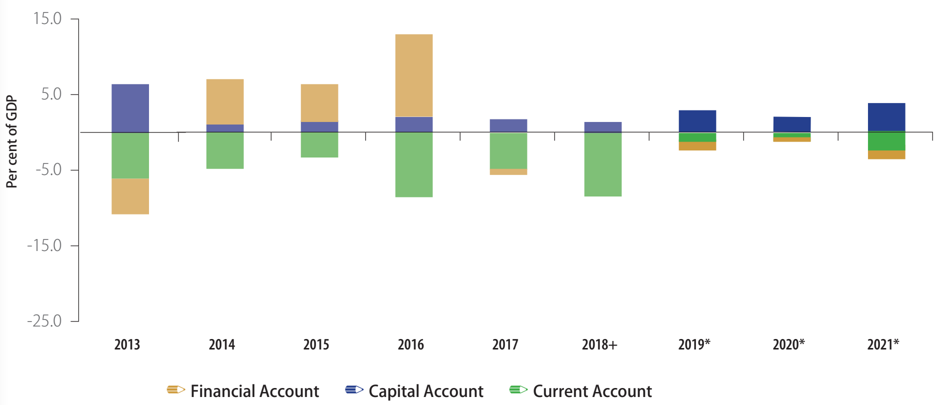
External Sector Outlook

The external sector position recorded a surplus of 3.7 per cent of GDP in 2018 following a deficit of 5.9 per cent of GDP in 2017. This was attributed to the improved performance of the current and financial accounts. The current account deficit recorded 0.3 per cent of GDP in 2018 relative to 4.5 per cent of GDP in 2017. The reduction in the current account deficit was brought about by buoyant performance of the textile and diamond exports. On the financial account, the surplus showed an accumulation of official reserves and increased placements of assets by commercial banks abroad.

The current account deficit will widen to 2.5% in 2021 as the economy continues to import more than it exports....

In terms of the forecasts, the current account deficit is estimated to widen to 2.5 per cent in 2021 relative to 0.3 per cent of GDP in 2018. This would be reflective of the widening trade account deficit and the shortfall in the services account. The economy is projected to continue to receive more income and current transfers from abroad.

Figure 7 Outlook for Balance of Payments



Source: CBL; * Projections, + Estimates

The trade account is forecasted to remain in deficit over the forecast horizon, as imports grow at a faster pace than exports. Merchandise exports are projected to increase by an average of 2.8 per cent in the medium term lower than 18.2 per cent in 2018. Textile exports will be supported by the fragile external demand. Diamond exports are set to decline by 0.7 per cent during the period 2019-2021. The performance of diamond exports will be weighed down by the low recovery of exceptional diamonds and the low prices in the unpolished diamonds markets due to over-supply. However, it is expected that the demand for high quality diamonds will still be strong while demand for small diamonds will remain weak. This weak performance could be counterbalanced by the increased production as the number of players in the mining sector rises. Moreover, the emerging medical cannabis industry will also contribute positively to the trade account, as it is envisaged that the commercial export of the cannabis products to international markets will start off in the second half of 2019. In terms of direction of trade, more exports are likely to be destined to the US, SA and Europe.

Following a 4.4 per cent increase in imports in 2018, merchandise imports are estimated to grow by an average 5.0 per cent over the forecast horizon. The increase is largely to support consumption and investment in the economy. Construction activities related to the mining sector, LHWP II and other projects will exert an upward pressure on the imports in the medium term.

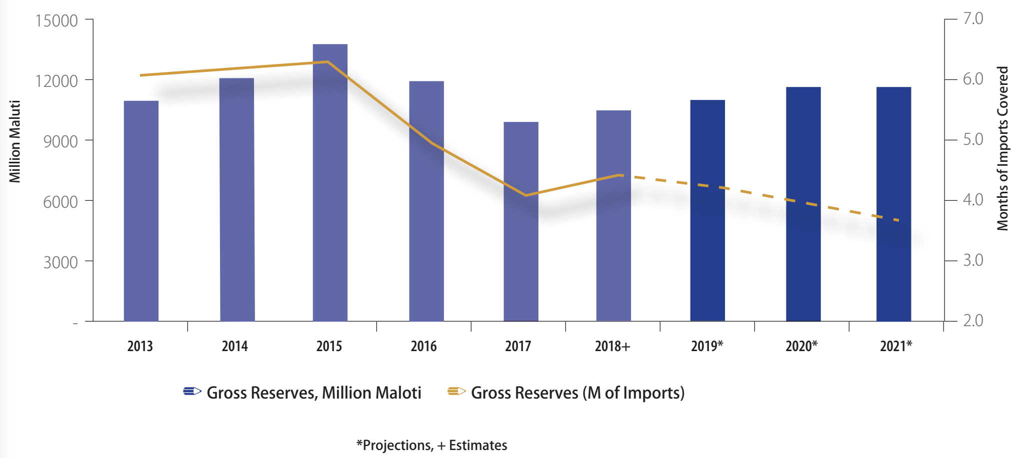
Official reserves will average 3.7 months in the medium term....

Projections indicate that the income and current account transfers account will remain in surplus during the period 2019-2021. The income account surplus will mostly reflect a rise in compensation of employees largely from SA. On current transfers, more remittances are expected, growing by an average of 6.0 per cent while SACU revenue will also recover and register 16.8 per cent of GDP over the forecast horizon. The recovery in SACU revenue is in line with the expected recovery the SA economy in 2020/21.

It is anticipated that the economy will continue to receive capital grants in relation to government developmental projects and the LHWP II. Foreign support for government developmental projects is expected to increase modestly in the medium-term. On LHWP II, construction of advance infrastructure (access roads, shelter, power lines and diversion tunnels, etc) which commenced in early 2019 will be completed in mid-2020, while the construction of the dam and water transfer tunnel will only commence in 2021.

The financial account will remain in surplus, recording a surplus of M283.7 million and M254.7 million for 2019 and 2020, respectively. The surplus reflects increased commercial banks net foreign assets abroad for trade and investment purposes. More foreign investment is also expected in the review period, associated with the expansion works within the mining, construction and medical cannabis industries. On official reserves, while a build-up is expected for 2019, a slight depletion is expected in the outer years. Official reserves are set to average 3.7 months, above the 3-months threshold, over the medium term. Relative to GDP, the financial account will account for 1.2 per cent over the medium term.

Figure 8 Outlook for Official Reserves Position



Source: CBL; * Projections, + Estimates

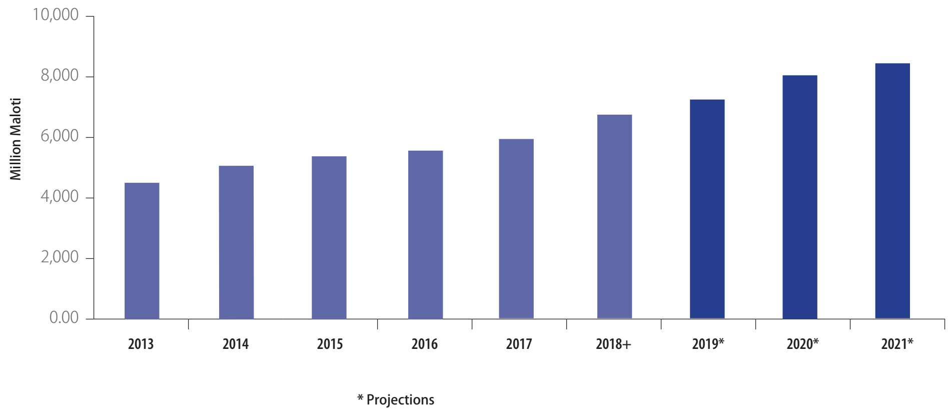
Monetary Sector Outlook

Money supply rose by 10.7 per cent in 2018 after a 25.5 per cent increase in 2017. The significant increase reflected buoyant mining exports in 2018. This culminated an increase in the overall banking sector foreign assets as well as an increase in domestic assets. In terms of components of money supply, narrow money declined by 0.04 per cent while quasi money increased by 21.8 per cent.

In terms of the outlook, money supply is estimated to grow by 7.0 per cent over the forecast horizon in line with growth in nominal GDP. The growth will continue to be split between foreign assets and domestic assets. With regard to components of money supply, both narrow money and other deposits are expected to increase in the medium-term. The central bank NFA is expected to rise in 2019 and 2020, but slightly decline in 2021. This performance is consistent with government budgetary operations. Commercial banks' NFA will increase for the projection period, as banks' deposit base continues to grow and thus placements abroad. The deposit base will increase in accordance with robust growth within the textiles and mining industries.

NFA is expected to rise in 2019 and 2020, but slightly decline in 2021....

Figure 8 Private Sector Credit



Source: CBL; * Projections

Domestic claims are estimated to grow by 14.2 per cent in 2019, then decline by 0.9 per cent in 2020 before rising again by 4.2 per cent in 2021. On the one hand, the larger increase in 2019 largely reflects rising net claims on government due to the issuance of treasury bills to support government budgetary operations. For 2020-2021, net claims on government will reflect the issuance of treasury bonds, moderated by the projected accumulation of government deposits. On the other hand, claims on the private sector are also expected to grow, rising by 7.6 per cent over the period 2019-2021. It is anticipated that more credit will continue to be extended to households than to businesses. Credit extended to businesses will benefit from the projects-related economic activity, mining, manufacturing and wholesale and retail sectors. The agricultural sector will also gain momentum as the emerging medical cannabis industry continues to grow.

Risks to Domestic Growth Prospects

Both domestic and external risks to the outlook remain elevated and are tilted to the downside....

Despite the expected rebound in growth over the medium-term, risks have intensified since the release of the December 2018 projections. As argued in the December 2018 macroeconomic outlook release, the growth outlook is heavily dependent on the two critical developments – the global economic outlook and the SA economic outlook. Both global and South African have deteriorated further since the second half of 2018. Within the global economy, the majority of economies with economic ties with Lesotho have slowed down, mainly the US, Europe and China posing a huge risk to growth prospects over the medium-term. In the majority of commodity exporting countries, the effect was felt through lower prices of commodities and weakened import demand. Thus, the weaker growth outlook poses risk on Lesotho's export demand which presently has been driving growth. Therefore, intensification of trade tensions could further weaken growth in Lesotho.

The still fragile South Africa's economy is also expected weigh down on economic prospects in Lesotho over the medium-term. The South African economy posted a broad-based negative growth during the first quarter of 2019 and is expected to remain weak over near and the medium-term. South Africa affects Lesotho's economy through several channels including SACU and remittances channels, which have dropped significantly since the inception of economic malaise in South Africa. The recovery SACU receipts, is dependent on the recovery of the SA economy which further reduces prospects of a sustained recovery in Lesotho.

On the domestic side, the major risks include; political and policy uncertainty. Both policy and political uncertainty have intensified since the release of December economic outlook. The uncertainty negatively impacts business and consumer confidence. A decline in business confidence will negatively affect investment and, therefore, negatively impacting the economy.

Domestically both policy and political uncertainty have intensified...

Conclusion Conclusion

The domestic growth outlook is set to pick up unevenly over the medium-term supported mainly by projects in the construction sector. The annual growth rate is expected to average 2.8 per cent in the medium term. Growth is expected to be driven by the Lesotho Highlands Water Project (LHWP) Phase II and Lesotho Lowlands Water Development Project (LLWDP). The LHWP Phase II is expected to sustain growth over the medium-term. Excluding LHWP Phase II, growth is projected to average below 2.0 per cent over the forecast horizon. The domestic demand driven sub-sectors remain under pressure on the backdrop of headwinds from the still weak South Africa's economy and low consumer demand. Mining industry and textiles continue to benefit from somewhat benign external demand conditions; however, they remain vulnerable to global trade shocks with risks getting elevated.

The domestic growth outlook is set to pickup, with downside risks elevated....

Despite the expected rebound in growth over the medium-term, risks have intensified since the release of the December 2018 projections. The growth outlook is heavily dependent on the evolution of the global economic and the SA economic outlook. Both global and South African economies have deteriorated further since the second half of 2018. Within the global economy, the majority of economies with economic ties with Lesotho have slowed down, mainly the US, Europe and China posing a huge risk to growth prospects over the medium-term. In the majority of commodity exporting countries, the effect was felt through lower prices of commodities and weakened import demand. Thus, the weaker growth outlook poses risk on Lesotho's export demand that presently has been driving growth. Therefore, intensification of trade tensions could further weaken growth in Lesotho. The still fragile South Africa's economy is also expected to weigh down on economic prospects in Lesotho over the medium-term through various channels. The South African economy posted a broad-based negative growth during the first quarter of 2019 and is expected to remain weak over near and the medium-term.

Appendix I: Selected Macroeconomic Indicators

				Projections		
	2016	2017	2018+	2019*	2020*	2021*
Output - Constant prices						
Gross Domestic Product (% p.a.)	3.57	-0.89	1.21	2.65	1.72	4.06
Per capita GDP (% p.a.)	-0.49	-1.35	0.73	2.17	1.72	4.06
Gross National Income (% p.a.)	7.68	-0.61	1.00	2.46	1.52	3.55
Per capita GNI (% p.a.)	3.46	-1.08	0.53	1.98	1.52	3.55
Gross Domestic Product (M Million)	24312.09	24095.95	24387.32	25034.68	25465.21	26499.66
Per Capita GDP	12102.79	11938.81	12026.39	12287.60	12498.92	13006.65
Gross National Income (M Million)	27592.84	27425.00	27700.34	28381.23	28813.39	26499.66
Per Capita GNI	13735.98	13588.26	13660.17	13930.17	14142.28	14644.24
Output - Current prices						
Nominal GDP (% p.a.)	7.82	1.34	1.43	7.15	5.96	7.94
Nominal GNI (% p.a.)	14.02	2.24	1.88	6.85	5.77	7.43
Nominal GDP (M Million)	33903.96	34359.31	34851.58	37344.12	39570.10	42711.53
Nominal GNI (M Million)	40434.20	41339.92	42117.15	45002.94	47598.03	51135.96
Sectoral Growth rates (% p.a.)						
Primary Sector	16.08	2.13	8.06	-0.40	2.97	2.59
Crops	151.77	-3.99	-9.73	-3.07	1.81	3.09
Mining and Quarrying	0.01	39.31	15.73	-0.23	3.09	2.34
Secondary Sector	2.92	-4.80	2.65	8.02	-0.49	9.33
Manufacturing	18.06	-6.79	14.78	2.67	4.71	4.85
Construction	-13.88	-4.66	-21.38	31.52	-15.95	29.06
Tertiary Sector	1.90	-0.86	0.14	1.15	2.34	2.40
Wholesale and retail trade,repairs	1.62	-3.47	-7.05	-0.13	1.91	1.99
Financial and insurance activities	-4.39	-0.79	8.60	3.91	3.41	3.53
Real estate activities	1.66	1.73	-0.47	1.29	1.27	1.27
Public Admin, Education & Health	1.85	2.35	6.56	0.93	2.30	2.11
Savings and Investment - Per cent of GNI						
National Savings	25.77	24.23	16.87	16.11	16.70	16.21
Of which Government Savings	-0.19	2.61	2.76	4.96	5.61	5.55
Of which Private Sector Savings	25.97	21.62	14.11	11.15	11.09	10.66
Investment	31.17	27.92	17.07	17.30	17.44	18.27
Of which Government Investment	9.02	8.56	7.20	10.38	8.87	0.00
Of which Private Sector Investment	22.15	19.36	9.88	6.92	8.56	18.27
Resource Balance	-5.40	-3.69	-0.20	-1.19	-0.74	-2.07

+ Estimate, * Projection

Appendix I: Selected Macroeconomic Indicators (continued)

				Projections		
	2016	2017	2018+	2019*	2020*	2021*
Savings and Investment - Per cent of GDP						
National Savings	30.74	29.15	20.39	19.42	20.08	19.41
Of which Government Savings	-0.23	3.14	3.34	5.98	6.74	6.65
Of which Private Sector Savings	30.97	26.01	17.05	13.44	13.34	12.76
Investment	37.18	33.60	20.63	20.85	20.97	21.88
Of which Government Investment	10.76	10.30	8.70	12.51	10.67	10.20
Of which Private Sector Investment	26.42	23.29	11.94	8.34	10.30	11.68
Resource Balance	-6.44	-4.45	-0.25	-1.44	-0.89	-2.47
Inflation rate % (CPI)	6.60	5.23	4.71	5.20	5.03	4.84
External Sector - Per cent of GDP						
Current Account	-6.44	-4.45	-0.25	-1.44	-0.89	-2.47
Imports of Goods	69.90	70.87	72.95	71.72	71.39	69.79
Exports of Goods	38.15	39.88	46.15	43.77	43.30	41.12
Capital Flows (+ means an inflow)	2.11	1.53	1.41	2.50	1.61	3.07
Financial Account	8.55	-0.15	-8.23	-1.06	-0.72	-0.60
Official Reserves (Months of Imports)	4.84	3.88	4.22	4.05	3.71	3.36
Government Finance - Per cent of GDP						
Revenue (excluding grants)	39.41	40.42	42.79	43.07	43.49	42.74
Recurrent Expenditure	-39.26	-36.45	-38.09	-36.99	-36.74	-36.10
Transaction in non-financial assets	-8.62	-7.08	-6.96	-10.01	-8.54	-8.16
Budget Balance (+ means a surplus)	-6.36	-2.20	-1.92	-3.09	-0.86	-0.53
Monetary Aggregates - Nominal growth						
Money supply (M2)	-4.84	25.53	10.72	7.15	5.96	7.94
Private Sector Credit	2.96	8.53	10.77	9.01	6.29	7.41

+ Estimate, * Projection

Appendix II: Real GDP Growth Rates

	2016	2017	2018+	2019*	2020*	2021*
Primary Sector	**16.08**	**2.13**	**8.06**	**-0.40**	**2.97**	**2.59**
Agriculture, forestry and fishing	27.80	-19.07	1.58	-0.58	2.85	2.88
Growing of crops; market gardening; horticulture	151.77	-3.99	-9.73	-3.07	1.81	3.09
Farming of animals (incl. fishing)	18.43	-28.58	7.40	-0.34	3.51	2.96
Agricultural and animal husbandry service activities	-0.34	-0.71	1.29	1.65	1.50	1.41
Forestry	-19.74	-13.23	4.09	2.68	2.68	2.68
Fishing and aquaculture	-40.77	42.01	2.00	4.00	3.00	4.00
Mining and quarrying	0.01	39.31	15.73	-0.23	3.09	2.34
Secondary sector	**2.92**	**-4.80**	**2.65**	**8.02**	**-0.49**	**9.33**
Manufacturing	18.06	-6.79	14.78	2.67	4.71	4.85
Food products and beverages	8.50	-21.43	18.85	1.52	2.05	1.96
Textiles, clothing, footwear and leather	20.84	-2.75	14.62	2.76	5.10	5.28
Other manufacturing	9.33	-21.34	13.46	2.81	3.57	3.48
Electricity and water	-6.67	0.33	0.68	1.65	2.93	3.28
Electricity supply	-6.25	5.57	0.14	1.33	5.84	1.78
Water and sewearge; waste collection	-6.86	-2.02	0.94	1.81	1.54	4.02
Construction	-13.88	-4.66	-21.38	31.52	-15.95	29.06
Tertiary sector	**1.90**	**-0.86**	**0.14**	**1.15**	**2.34**	**2.40**
Wholesale and retail trade; repair of motorvehicles	1.62	-3.47	-7.05	-0.13	1.91	1.99
Transportation and storage	1.49	-1.93	-4.99	1.54	3.10	2.89
Accommodation and food service activities	4.66	5.03	-11.82	1.67	1.18	0.88
Information and communication	13.12	-11.34	-7.39	0.87	2.64	4.00
Financial and insurance activities	-4.39	-0.79	8.60	3.91	3.41	3.53
Financial service activities, except insurance	-7.68	-1.59	9.62	3.61	2.83	3.02
Insurance and pension funding	15.82	2.34	5.69	4.63	5.75	5.56
Activities auxiliary to financial services	6.77	3.41	1.16	6.63	6.25	6.03
Real estate activities	1.66	1.73	-0.47	1.29	1.27	1.27
Professional, scientific and technical activities	-2.24	-1.62	-3.82	3.16	3.11	2.97
Administrative and support service activities	-1.23	-4.33	-14.67	1.30	3.36	4.24
Public administration and defense; compulsory social security	1.52	3.57	-0.97	1.65	1.64	1.63
Education	0.40	-0.55	16.62	0.30	2.89	3.74
Human health and social work activities	6.17	4.35	11.49	0.15	3.04	0.08
Other service activities	8.35	1.08	-4.37	-1.18	1.91	1.92
GDP at factor cost (Unadjusted)	**3.66**	**-1.42**	**1.69**	**2.51**	**1.74**	**4.06**
Financial services indirectly measured	0.47	-12.36	5.31	3.91	3.41	3.53
GDP at factor cost (Unadjusted)	**3.70**	**-1.30**	**1.65**	2.50	1.72	4.06
Financial services indirectly measured	0.16	2.02	0.20	4.16	1.72	4.06
Taxes on products	2.40	2.76	-2.58	4.03	1.72	4.06
GDP at market prices	**3.57**	**-0.89**	**1.21**	**2.65**	**1.72**	**4.06**

+ Estimate, * Projection

Appendix III: GDP by sector 2012 prices (In Million Maloti)

	2016	2017	2018+	2019*	2020*	2021*
Primary Sector	**2650.47**	**2706.95**	**2925.20**	**2913.57**	**3000.21**	**3078.06**
Agriculture, forestry and fishing	1687.96	1366.12	1387.73	1379.63	1418.90	1459.80
Growing of crops; market gardening; horticulture	429.13	412.03	371.92	360.49	367.03	378.37
Farming of animals (incl fishing)	1004.00	717.07	770.13	767.49	794.40	817.89
Agricultural and animal husbandry service activities	80.70	80.13	81.17	82.51	83.74	84.93
Forestry	163.62	141.97	147.78	151.73	155.80	159.97
Fishing and aquaculture	10.51	14.92	16.74	17.41	17.93	18.65
Mining and quarrying	962.51	1340.83	1537.47	1533.94	1581.31	1618.25
Secondary sector	**5176.33**	**4927.69**	**5058.48**	**5464.26**	**5437.38**	**5944.69**
Manufacturing	2821.96	2630.44	3019.28	3100.03	3246.12	3403.56
Food products and beverages	234.14	183.97	218.65	221.97	226.51	230.95
Textiles, clothing, footwear and leather	2210.78	2149.90	2464.13	2532.09	2661.27	2801.80
Other manufacturing	377.04	296.58	336.50	345.97	358.34	370.81
Electricity and water	1053.03	1056.56	1063.74	1081.30	1113.00	1149.50
Electricity supply	326.24	344.43	344.91	349.49	369.89	376.49
Water and sewearge; waste collection	726.79	712.13	718.83	731.81	743.11	773.01
Construction	1301.34	1240.69	975.46	1282.94	1078.26	1391.63
Tertiary sector	**14266.71**	**14144.26**	**14163.46**	**14326.15**	**14660.82**	**15012.68**
Wholesale and retail trade; repair of motorvehicles	2833.42	2735.21	2542.28	2539.03	2587.41	2638.93
Transportation and storage	611.21	599.39	569.47	578.25	596.20	613.40
Accommodation and food service activities	314.02	329.83	290.85	295.71	299.19	301.82
Information and communication	1197.59	1061.84	983.38	991.92	1018.14	1058.87
Financial and insurance activities	1431.34	1420.00	1542.17	1602.46	1657.04	1715.58
Financial sector activities (except insurance)	1163.00	1144.54	1254.69	1300.03	1336.77	1377.08
Insurance and pension funding	190.39	194.85	205.93	215.47	227.87	240.53
Acivities auxiliary to financial services	77.96	80.61	81.55	86.96	92.39	97.96
Real estate activities	1343.36	1366.60	1360.22	1377.70	1395.23	1412.94
Professional, scientific and technical activities	248.48	244.46	235.11	242.54	250.08	257.50
Administrative and support service activities	671.84	642.73	548.45	555.55	574.24	598.56
Public administration and defense; compulsory social security	2778.13	2877.34	2849.42	2896.38	2943.87	2991.98
Education	1738.82	1729.29	2016.77	2022.87	2081.35	2159.21
Human health and social work activities	830.86	867.04	966.63	968.07	997.54	998.37
Other service activities	267.64	270.54	258.71	255.66	260.54	265.53
GDP at factor cost (Unadjusted)	**22093.52**	**21778.90**	**22147.14**	**22703.99**	**23098.41**	**24035.43**
Financial services indirectly measured	-245.66	-215.29	-226.73	-235.59	-243.61	-252.22
GDP at factor cost	**21847.86**	**21563.61**	**21920.42**	**22468.40**	**22854.80**	**23783.20**
of which: Government activities	4954.65	5054.93	5065.04	5275.67	5366.40	5584.39
Taxes on products, net of subsides	2464.23	2532.33	2466.91	2566.28	2610.41	2716.45
GDP at market prices	**24312.09**	**24095.95**	**24387.32**	**25034.68**	**25465.21**	**26499.66**

* Projections

Appendix IV: GDP at current prices (In Million Maloti)

				Projections		
	2016	2017	2018+	2019*	2020*	2021*
Primary Sector	**4466.16**	**4760.86**	**4783.76**	**4770.67**	**5008.68**	**5136.40**
Agriculture, forestry and fishing	2090.99	1777.91	1886.21	1973.39	2131.91	2299.35
Growing of Crops	478.21	456.97	484.78	494.30	528.59	571.29
Farming of Animals(incl fishing)	1283.89	1005.98	1061.74	1113.11	1210.10	1306.17
Agricultural and animal husbandry service activities	107.45	109.90	116.91	125.02	133.28	141.71
Forestry	207.54	185.77	200.11	216.15	233.11	250.93
Fishing and aquaculture	13.90	19.29	22.67	24.80	26.83	29.25
Mining and Quarrying	2375.17	2982.95	2897.55	2797.28	2876.77	2837.05
Secondary sector	**8386.38**	**7705.74**	**7847.12**	**8668.42**	**9003.38**	**9973.88**
Manufacturing	5340.12	4615.67	5035.56	5300.53	5683.76	5996.91
Food products and beverages	327.02	261.95	274.76	293.43	314.50	336.18
Textiles, clothing, footwear and leather	4499.19	3942.06	4320.68	4531.08	4851.41	5098.92
Other manufacturing	513.90	411.66	440.12	476.03	517.85	561.81
Electricity and water	1579.55	1657.57	1663.77	1779.82	1917.76	2080.15
Electricity	335.22	403.17	406.36	433.16	481.51	513.82
Water	1244.33	1254.40	1257.41	1346.65	1436.25	1566.33
Building and Construction	1466.71	1432.49	1147.79	1588.07	1401.86	1896.82
Tertiary sector	**17962.91**	**18659.12**	**18917.21**	**20289.51**	**21704.11**	**23394.63**
Wholesale and retail trade, repairs	3559.10	3642.46	3502.63	3680.01	3938.81	4211.61
Transport and storage	726.23	720.21	751.35	802.59	869.13	937.48
Accommodation and food service activities	342.65	366.94	331.81	354.90	377.13	398.85
Information and communication	1128.61	991.94	892.61	947.17	1021.13	1113.36
Financial and insurance activities	2485.35	2682.92	3057.00	3343.28	3636.24	3951.83
Financial sector activities (except insurance)	1839.96	2048.64	2334.28	2544.37	2747.92	2967.75
Insurance and pension funding	530.39	492.41	561.06	617.58	685.96	759.13
Acivities auxiliary to financial services	114.99	141.87	161.65	181.33	202.37	224.94
Real estate activities	1373.76	1390.34	1368.61	1458.26	1551.11	1646.81
Professional and support service activities	278.73	279.27	274.60	298.01	322.73	348.38
Administrative and support service activities	747.57	729.73	640.57	682.60	741.06	809.82
Public administration and defense; compulsory social security	3615.50	3958.00	3804.15	4198.62	4358.70	4723.13
Education	2391.39	2494.18	2703.20	2852.32	3082.43	3352.47
Human health and social work activities	1020.62	1099.74	1295.63	1365.02	1477.34	1550.11
Other service activities	293.40	303.39	295.05	306.72	328.31	350.79
GDP at factor cost (Unadjusted)	**30815.45**	**31125.72**	**31548.08**	**33728.59**	**35716.17**	**38504.91**
Financial services indirectly measured	-376.28	-407.00	-417.88	-457.01	-497.05	-540.19
GDP at factor cost	**30439.17**	**30718.72**	**31130.21**	**33271.58**	**35219.11**	**37964.71**
of which: Government activities	5200.01	5435.63	5603.43	6139.87	6559.67	7156.44
Taxes on products, net of subsides	3464.79	3640.59	3721.38	4072.53	4350.99	4746.82
GDP at market prices	**33903.96**	**34359.31**	**34851.58**	**37344.12**	**39570.10**	**42711.53**

* Projections

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