Lesotho

CENTRAL BANK OF LESOTHO

Economic Outlook 2015 - 2017

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Positive growth prospects albeit heightened uncertainties

GLOBAL ECONOMIC growth recovery is expected to continue in the medium term. The world economic growth is projected to increase by 3.3 per cent and 3.8 per cent in 2015 and 2016 respectively. Growth prospects are expected to remain uneven across major economies as well as regions. The United States (US) economic recovery remain solid, the Euro Area is showing some signs of improvement while China is slowing down. There are some downside risks to global growth prospects. The boost from lower oil prices may not be sustained and the potential for disruptive asset price shifts may persists, as does the threat of stagnation and low inflation in advanced economies. In emerging market economies, growth is under pressure from lower commodity prices, tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors.

On the domestic economy front, indications are that there are positive growth prospects albeit heightened uncertainties in manufacturing and agricultural sub sectors. Real GDP is expected to accelerate steadily throughout the projection period, supported by the mining and quarrying sub sector as well as services sector. The development of advance infrastructure associated with the second phase of the Lesotho Highlands Water Project (LHWP) is also set to boost economic growth starting from 2016. The textile and clothing industry is projected to decline due to continuous loss of the country's competitiveness in the US market. Whether the SA-based value chain can offset these challenges is yet to be seen. Furthermore, the recent signing of the Trans-Pacific Partnership (TPP) agreement between several pacific countries and the US poses a threat to Lesotho's manufacturing exports.

Lesotho's inflation rate is set to rebound and accelerate in the medium term as inflationary pressures from food prices builds up. The drought conditions in Southern Africa coupled with the weakening domestic currency, against major countries, threaten the inflation outlook. With the eminent interest rate hike cycle in the US, the domestic exchange rate is expected to weaken further. Monetary and financial sector continues to be supportive of positive growth performance. Private sector credit is expected to grow in line with domestic economic prospects, particularly growth anticipated in household consumption and business investment spending. Financial sector reforms including the establishment of national identification card system and launching of a credit bureau are likely to give thrust to domestic credit.

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With the imminent fall in SACU revenue, the overall fiscal operations are expected to dip into a deficit well below an average of 4.3 per cent of GDP in the medium term. With net external and domestic borrowing estimated at an average of 2.4 per cent of GDP a year, the government would ultimately draw-down on its deposits in the CBL. Consequently, official international reserves are projected to decline to about 4 months of imports cover over the medium term.

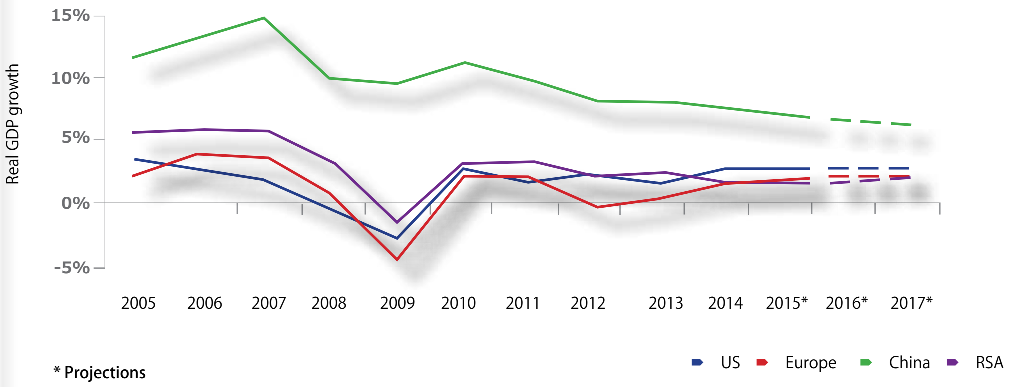
Global economy Global economy

Solid recovery in the US and Euro Area but not clear how China will unfold. South African growth prospects overshadowed by electricity shortage.

The global economy is characterised by divergence between the advanced economies and emerging market economies. The US and Euro area economies have maintained a solid economic recovery while China's economy continues to slow down. Global growth is projected at 3.1 per cent in 2015 and is expected strengthen to 3.6 per cent in 2016.

In advanced economies, the underlying drivers for the expected gradual acceleration in economic activity are accommodative monetary policy, lower oil prices, currency depreciation in some cases, and improving labour market conditions. However, lower investment and weak productivity growth weigh against global growth prospects.

Figure 1: Global Economic Outlook



* Projections

Source: IMF World Economic Outlook (October 2015), South African Reserve Bank Monetary Policy Committee Statement (September 2015)

In emerging market economies, the growth slowdown is driven by the secular slowing down of the Chinese economy, as well as lower commodity prices. These developments have been accompanied by capital outflows from these economies towards advanced economies, causing currency depreciation relative to the US dollar. With the likely policy interest rate increase in the US and the expected continued weak demand from China, emerging market economies are expected to continue on a downward trajectory in 2015, with some recovery projected in 2016.

Risks to the global economic outlook are tilted to the downside, especially for developing and emerging market economies. Recent financial market volatility increases the likelihood for disruptive asset price shifts to occur, particularly during the coming interest rate tightening cycle. Commodity prices are likely to remain low. Oil supply is expected to benefit from additional production in Iran. Geopolitical risks remain, as does the risk of stagnation and low inflation in advanced economies.

The South African economic growth is expected to remain subdue, overshadowed by electricity shortages, falling commodity prices and hence terms of trade due weak foreign demand, and low credit expansion consequent upon falling business confidence.

Domestic economic outlook Domestic economic outlook

Real sector outlook

Following an average growth rate of 4.7 per cent in 2012 and 2013, domestic real economic growth decelerated to 3.6 per cent in 2014. The slowdown largely reflects a decline in building and construction activities, following the completion of major construction activities associated with Metolong dam project. Crop production, manufacturing of food and beverages and services provided by education sub sector also decline during the review period, exerting downward pressure on domestic growth.

Following a slow down in 2015, growth is set to rebound in the medium term but there are some uncertainties.

In the medium term, the economy is expected to grow at an average growth rate of 3.9 per cent. Specifically, growth is set to subside to 3.1 per cent in 2015 due to a fall in mining and crops production. Manufacturing output, particularly textiles and clothing, is also set to decline in 2015, dragging down domestic economy. However, in 2016 throughout 2017, economic growth is set to rebound and accelerate at an average rate of 4.3 per cent mainly supported by strong growth anticipated in the mining industry.

The primary sector is projected to drop marginal by 0.7 per cent in 2015 due to a decline in mining and crops production. Mining production was humped by expansion work programme at Kao mine during the first half of the year while crops production was negatively affected by poor distribution of rainfall during 2014/15 agriculture season and prolonged dry spell observed early 2015. However, in 2016 through to 2017 the sector is expected to recover strongly and grow at an average growth rate of 9.3 per cent per annum mainly supported by robust performance anticipated in the mining industry. The mining industry is anticipated to benefit from the engagement of full production capacity at Liqhobong Diamond mine. The Lemphane and Mothae mining projects are also expected to commence production in the medium term. In the agriculture sub sector, unfavourable weather conditions, including current drought conditions, are expected to weigh heavily on crop production.

The secondary sector is projected to grow at an average growth rate of 0.3 per cent per annum over the medium term. The manufacturing sub sector, particularly the textiles and clothing industry, is set to remain under stress in the medium term. The textile and clothing industry, which has historically

Textiles and clothing industry set to remain under stress in the medium term.

been one of the main drivers of economic growth in Lesotho, is projected to decline due to continuous erosion of the country's competitiveness in the US market. Whether the SA-based value chain can offset these challenges is yet to be seen. Furthermore, the recent signing of the Trans-Pacific Partnership (TPP) agreement between several pacific countries and the US poses a threat to Lesotho's manufacturing exports.

Table 1: Domestic Economic Outlook

	Actuals			Projections		
	2012	2013	2014	2015*	2016*	2017*
Economic growth	***5***	***4.5***	***3.6***	***3.1***	***4***	***4.5***
Primary Sector	***0.5***	***2.4***	***9.3***	***-0.7***	***5.9***	***12.6***
Agriculture	-13.8	13.2	4.7	1.4	1	2.5
Mining & Quarrying	22.6	-9.2	15.5	-3.2	12.2	24.2
Secondary Sector	***4.7***	***0.4***	***-2.6***	***0.4***	***0.7***	***-0.3***
Manufacturing	-3.4	-12.9	1.8	-4.1	-2.4	-1.5
Textiles & Clothing	-5.6	-17.4	6.8	-8.4	-6.2	-5.1
Building and Construction	24.6	21.7	-10	5	1.7	-0.9
Tertiary Sector	***5.9***	***6.6***	***4.4***	***5.1***	***4.8***	***4.5***
Wholesale & retail	12.5	10.9	10.1	5.7	6.1	6.5
Transport & Communication	5.5	6.1	6.7	8.3	8.1	8
Financial intermediation	7.1	15.7	3.6	9.3	6.7	6.8
Real Estate and business services	4.4	5.5	6.5	3.5	3.5	3.6

Metolong Dam

Building and construction sub sector is set to remain subdue in the medium term following the completion of Metolong Dam in 2014. However, commencement of advance infrastructure development associated with the second phase of the LHWP in 2016, in expected to boost construction activities in the medium term. Electricity and water sub sector is projected to register impressive growth in the medium term. The sub sector is expected to benefit from an increase in domestic water supply following the completion of Metolong Dam and the associated Water Treatment Plant project. In addition, the launch of Lesotho Energy Policy, which also paves way for the domestic production of electricity by private sector, is set to have a positive impact on the energy industry.

Following a wn in 2015, growth is set to rebound in the medium term but there are some uncertainties...

The tertiary sector, which accounts for the largest share of GDP, is expected to continue to sustain steady and strong growth in the medium term. The sector is projected to grow at an average growth of 4.8 per cent, mainly supported by strong growth anticipated in wholesale and retail trade, transport and communications as well as financial and insurance services. A rebound in domestic demand, particularly in 2016 throughout 2017, is expected to provide impetus to consumer spending, boosting wholesale and retail trade services. In addition to low oil prices, transport services are set to benefit from the prospects in the mining and construction industries. Telecommunication is projected to continue to benefits from the introduction new telecommunication products in the markets, particularly by mobile operator.

The establishment of credit bureau is expected to give further impetus to financial intermediation. The on-going implementation of the Land Act of 2010 is expected to improve security of tenure and hence ability to use land as collateral to access credit. In the process, real estate and business services are set to benefit. Government efforts to expand service delivery with new line ministries are expected to continue to support the services sector, especially public administration.

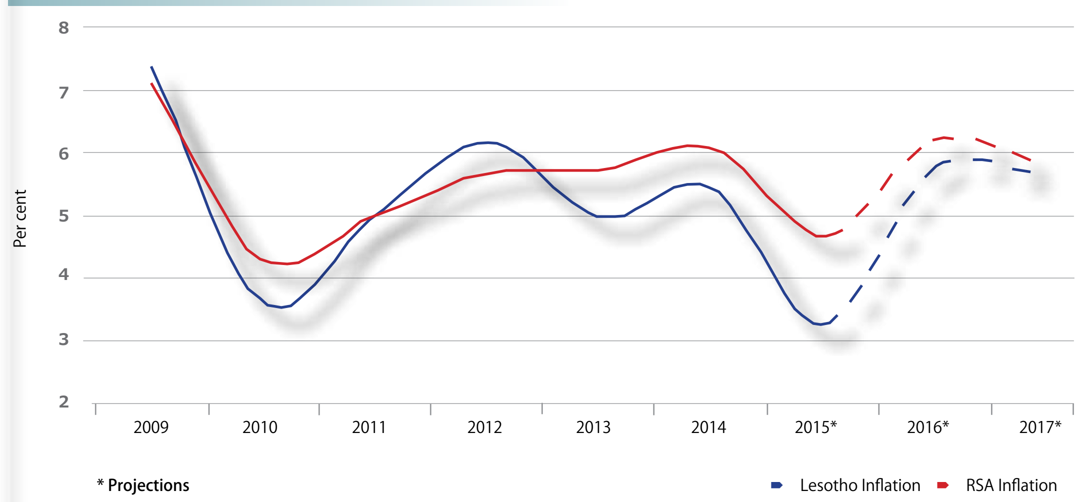
Inflation Outlook

Following a deceleration in 2015, Lesotho's inflation rate is set to rebound and accelerate in the medium term as inflationary pressures from food prices builds up. Specifically, domestic inflation is expected to accelerate from 3.3 per cent estimated for 2015 to an average of 5.7 per cent in 2016 and 2017; 5.8 per cent in 2016 and 5.6 per cent in 2017. Due to economic ties between Lesotho and SA, domestic inflation rate is expected to move broadly in line with its SA counterpart; the trajectory of which is largely shaped by the prospects in the international food, crude oil and exchange rates markets.

Some inflationary pressures building up, but inflation expected to remain below 6 per cent.

The SA inflation rate is set to average 4.7 per cent in 2015 compared to 6.1 per cent registered in 2014 due to a fall in oil prices and subdue food prices including weak economic developments in SA. In 2016, SA inflation rate is projected to accelerate to 6.2 per cent, marginally above the upper end of the SA inflation target band, largely due to base effects from lower starting point for petrol prices including the effect of higher food prices which are becomes more apparent.

Figure 2: Inflation Outlook



Rand (and hence loti) is set to depreciate further in the medium term in response to SA's weak external sector position (including gloomy economic outlook) and global developments, particularly the extent of monetary policy normalisation in the US. While international food prices are set to stabilise, in the region weather-related risks to crops production have heightened with scorching drought conditions expected to exert upward pressure on domestic food prices. After reaching a new low level of US$45 per barrel in recent months, price of crude oil is set to stabile and increase marginally in the medium term. Futures markets also points to a modest increase in oil prices in the short term.

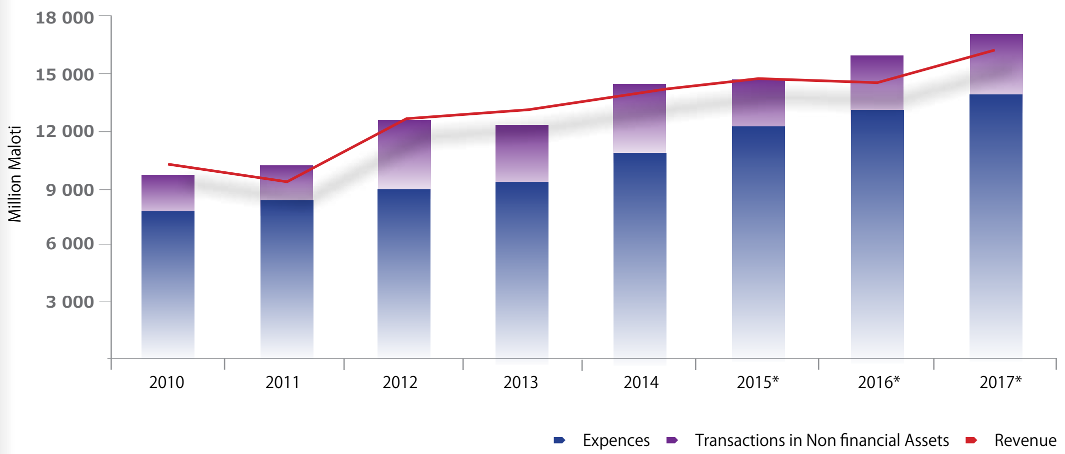
Fiscal Outlook

Fiscal operations to deteriorate in the medium term.

Government budgetary operations are expected to improve marginally in 2015 before dipping into deficit equivalent to 4.3 per cent of GDP in the medium term. In 2015, fiscal operations are set to improve and register a marginal deficit equivalent to 0.1 per cent of GDP. This is mainly facilitated by a higher increase in government revenue, particularly tax revenue, relative to total government expenditures. With slow implementation of 2015/16 budget, particularly capital projects, overall government expenditures are set to increase moderately in 2015.

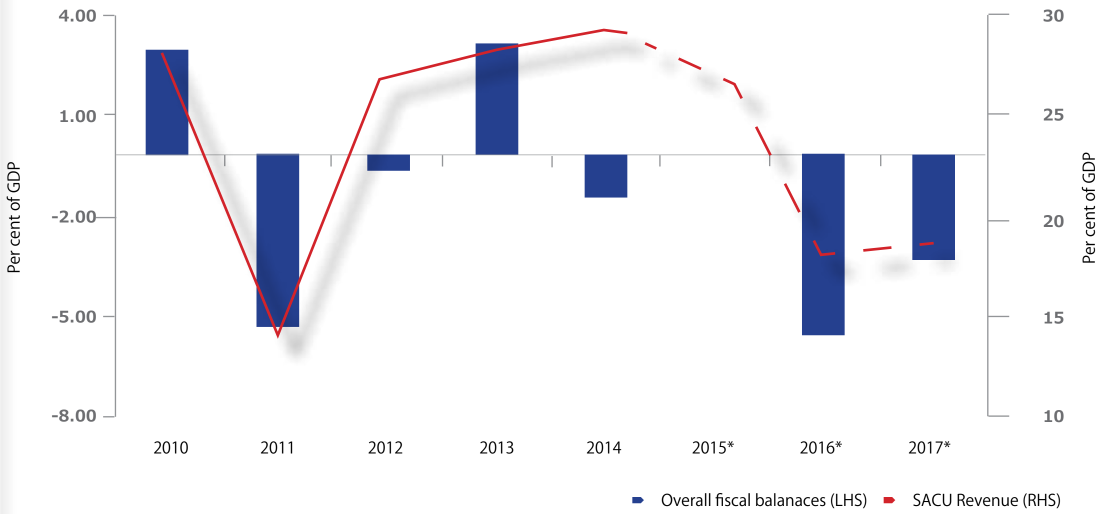
Looking further into the future, fiscal operations are expected to deteriorate and register deficit equivalent to an average of 4.3 per cent of GDP; 5.4 per cent and 3.2 per cent of GDP in 2016 and 2017, respectively. The deterioration in fiscal position is attributable to lower increase in revenue against a higher growth in total expenditures projected in the medium term. On the one hand, while tax revenue is expected to increase 2016, a substantial drop of 22 per cent in SACU revenue (due to poor economic prospects in the region, particularly in SA) is set to exert downward pressure on total revenue. With total government expenditures, particularly recurrent spending, expected to remain fairly elevated over the period 2016 - 2017, the overall fiscal operations are set to deteriorate and register deficits equivalent to 5.4 per cent of GDP in 2016 before narrowing to 3.2 per cent of GDP in 2017.

Figure 3: Government revenue and expenditures



With net external and domestic borrowing estimated at an average of 2.4 per cent of GDP a year, the government would ultimately draw-down on its deposits in the CBL to meet financing needs of the fiscus with negative implications for official international reserves.

Figure 4: SACU Revenue and Overall Fiscal Balance



External Sector Outlook

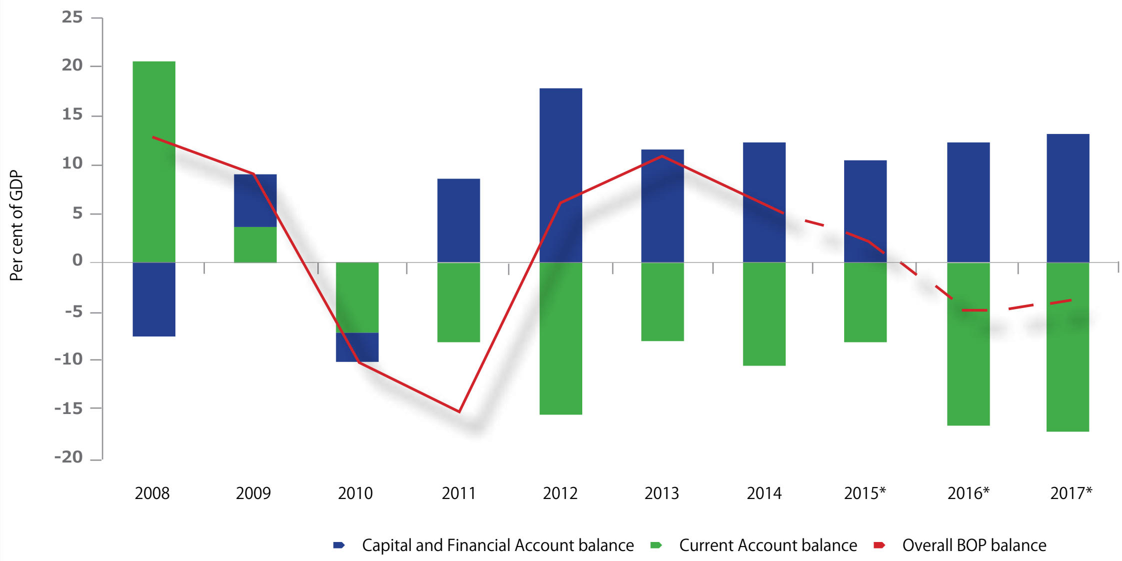
The external sector is projected to deteriorate from a surplus equivalent to 2.3 per cent of GDP in 2015 to deficits of 4.4 per cent of GDP and 3.7 per cent of GDP in 2016 and 2017, respectively. This is primarily due to the large expected decrease in SACU revenue in 2016 and 2017. Gloomy economic prospects in SA, overshadowed by current electricity crisis and weak global demand, are expected to have negative effect on SACU revenue pool.

Merchandise exports are expected to grow at an average rate of 6.2 per cent per annum over the medium term. While textile and clothing exports are set to remain on a downward trend, as the industry continue to remains under pressure, diamond mining exports are expected rebound strongly in the medium term. With subdue economic activities, and weak domestic demand, imports of goods and services are expected to increase by 3.1% in 2015. However, as domestic demand rebound boosting consumption and investment, total imports of goods and services are expected to accelerate to an average growth rate of 7.0 per cent per annum in 2016 and 2017.

The external sector position is expected to deteriorate, due in large part to the decline in SACU revenue.

Net receipts of income from abroad are also expected to decline as the number of Basotho migrant mineworkers decline gradual over the medium term.

Figure 5: Outlook for Balance of Payments of Lesotho

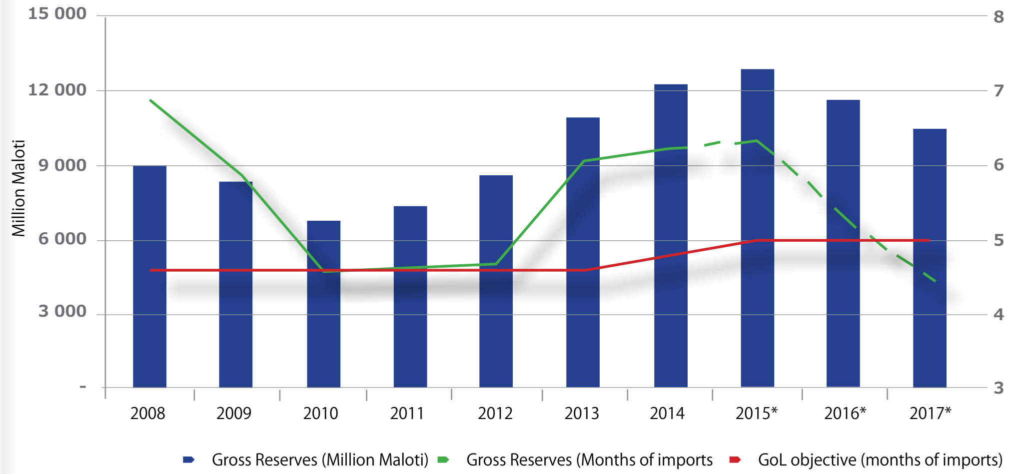


Net receipts of income and current transfers from abroad (categories that are permanently in surplus) are expected to fall in the medium term. In line with the expected decline in SACU revenue, consequent upon poor SA economic outlook, net receipts of current transfers are set to decline through 2017. Net receipts of income from abroad are also expected to decline as the number of Basotho migrant mineworkers decline gradual over the medium term.

With deteriorating external sector position, gross official reserves (in months of import cover) are expected to decline to approximately 4.5 months in 2017.

The gap in the current account balance is expected to be financed mainly by net capital and financial inflows equivalent to an average of 12.1 per cent of GDP over the period 2015 – 2017. This will be complemented by a drawn down in Central Bank's foreign reserves, particularly in 2016 – 2017, when net capital and financial inflows falls short of the financing needs of current account balance. Consequently, official reserves are set to increase marginal in 2015 to 6.3 months of imports. However, in 2016 and 2017, gross official reserves (in months of import cover) are expected to decline to approximately 4.5 months in 2017; well below 5 months benchmark to provide for a fiscal cushion in addition to fulfilling Lesotho's commitments under the Common Monetary Area (CMA) arrangement. The experience in 2010 and 2011, when SACU revenue dipped, suggests that it is inevitable for the country to have sufficient buffers of foreign reserves. This is in light of the government's heavy dependence on volatile SACU revenues for both fiscal and external financing source. Had the government not build sufficient buffers prior to 2010, a dip in SACU revenue following global downturn, could have caused major turmoil within the economy; threatening the country's ability to preserve currency peg between the loti and SA rand.

Figure 6: Gross Official Reserves



However, the experience during the implementation of Phase I of the LHWP suggests that this downward trend is likely to reverse beyond 2017, with large capital inflows expected in order to finance the implementation of Phase II of this project. This would help avoid the risks to macroeconomic stability.

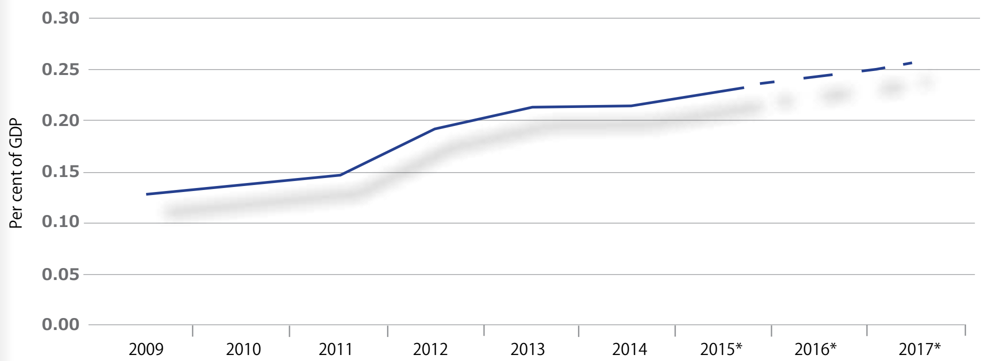
Monetary and Financial Sector Outlook

The monetary and financial sector is expected to continue to support economic growth. Money supply is projected to grow at an average growth rate of 7.1 per cent in the medium term. Private sector credit is set to remain the main driving force behind the increase in money supply. It is projected to continue to register strong grow albeit lower rate compared to those observed over the period 2009 – 2013. In Particular, credit extension is set to increase at an average annual growth of 15.4 per cent in the medium term. This reflects general economic growth anticipated in the medium term, particularly the expected growth in household and business investment spending.

Private sector growth underpin the increase in money supply.

The expected growth in wholesale and retail trade, transport and communication, as well as real estate and business services are expected to give a thrust to credit growth. In addition, building and construction activities are expected to provide a boost to credit extension. Reforms aimed at addressing obstacles to credit, in accordance with the Financial Sector Development Strategy (FSDS), including the establishment of credit reference bureau are also expected to have a positive effect on credit growth.

Figure 7: Private Sector Credit Relative to GDP



Conclusion Conclusion

Despite positive growth prospects, Lesotho's economy still faces a number of challenges going forward. Government continues to play dominant role in the domestic economy. In particular, domestic economic activities continue to rely heavily on government consumption and investment spending, largely financed by volatile SACU revenues. However, with the current trajectory of SACU revenue, the government may be forced to make substantial fiscal adjustment. Given the dominant role of government on domestic economic activities, this may have dire consequences on Lesotho's economy. To this end, economic re-restructuring from public sector-led to private sector-led economy is inevitable.

There is an urgent need to enable the private sector to become the engine for growth and job creation. Deeper investment climate reforms (structural and institutional reforms) that enhance competitiveness and make Lesotho an attractive investment destination by creating an enabling environment for trade, industrial and commercial development conducive for job growth and development are crucial.

The expected deterioration of fiscal position and corresponding decline in official reserves represent risk to Lesotho's macroeconomic stability. Therefore, it is crucial for the government to contain fiscal deficits within sustainable levels which warrant macroeconomic stability. Furthermore, there is a need to consider the optimum mix of deficit financing with minimal impact on official reserves while containing the growth on government expenditures, particularly recurrent expenditure, in the light of subdue revenues

Appendix I: Selected Macroeconomic Indicators

				Projections		
	2012	2013	2014	2015*	2016*	2017*
Output - Constant prices						
Gross Domestic Product (% p.a.)	4.99	4.46	3.64	3.13	4.02	4.54
Per capita GDP (% p.a.)	4.67	4.10	3.25	2.71	3.57	4.05
Gross National Income (% p.a.)	2.56	3.31	1.10	4.58	2.94	3.33
Per capita GNI (% p.a.)	2.25	2.95	0.71	4.15	2.49	2.85
Gross Domestic Product (M Million)	11,522	12,036	12,474	12,865	13,382	13,990
Per Capita GDP	6,056	6,304	6,509	6,685	6,924	7,204
Gross National Income (M Million)	13,622	14,074	14,228	14,879	15,316	15,827
Per Capita GNI	7,159	7,371	7,424	7,732	7,924	8,150
Output - Current prices						
Nominal GDP (% p.a.)	6.82	9.48	9.81	7.41	9.27	9.36
Nominal GNI (% p.a.)	4.35	8.27	7.12	8.92	8.12	8.09
Nominal GDP (M Million)	19,573	21,428	23,531	25,275	27,616	30,202
Nominal GNI (M Million)	23,140	25,055	26,839	29,232	31,607	34,166
Sectoral Growth rates (% p.a.)						
Primary Sector	0.54	2.41	9.32	-0.67	5.92	12.60
Crops	-23.89	-1.82	-6.54	-5.00	-10.00	-1.58
Mining and Quarrying	22.58	-9.23	15.48	-3.15	12.18	24.22
Secondary Sector	4.70	0.37	-2.64	0.36	0.73	-0.25
Manufacturing	-3.43	-12.87	1.78	-4.13	-2.39	-1.48
Construction	24.55	21.66	-10.00	4.99	1.66	-0.87
Tertiary Sector	5.87	6.60	4.36	5.11	4.81	4.50
Wholesale and retail trade,repairs	12.46	10.92	10.05	5.68	6.12	6.48
Financial intermediation	7.10	15.71	3.58	9.29	6.72	6.81
Savings and Investment - Per cent of GNI						
National Savings	15.80	20.59	19.45	16.42	9.94	11.17
Of which Government Savings	9.78	11.53	10.76	6.42	1.66	4.17
Of which Private Sector Savings	6.02	9.06	8.69	10.00	8.28	7.00
Investment	28.82	27.31	28.82	23.53	24.53	26.33
Of which Government Investment	14.65	11.10	12.39	8.10	8.29	8.79
Of which Private Sector Investment	14.17	16.21	16.44	15.43	16.23	17.55
Resource Balance	-13.03	-6.72	-9.37	-7.11	-14.59	-15.16

Appendix I: Selected Macroeconomic Indicators (continued)

			Projections			
	2012	2013	2014	2015*	2016*	2017*
Savings and Investment - Per cent of GDP						
National Savings	18.68	24.08	22.19	18.99	11.37	12.63
Of which Government Savings	11.56	13.48	12.28	7.43	1.90	4.72
Of which Private Sector Savings	7.11	10.60	9.91	11.57	9.48	7.91
Investment	34.08	31.93	32.88	27.21	28.07	29.79
Of which Government Investment	17.32	12.98	14.13	9.36	9.49	9.94
Of which Private Sector Investment	16.76	18.95	18.75	17.85	18.58	19.85
Resource Balance	-15.40	-7.86	-10.69	-8.22	-16.70	-17.15
Inflation rate % (CPI)	6.18	5.00	5.44	3.27	5.75	5.66
Loti/US Dollar exchange rate (Annual averages)	8.21	9.65	10.85	12.75	13.72	13.00
External Sector - Per cent of GDP						
Current Account	-15.40	-7.86	-10.69	-8.22	-16.70	-17.15
Imports of Goods	-94.30	-84.57	-85.70	-81.37	-80.20	-79.00
Exports of Goods	40.87	38.18	38.09	37.83	36.49	35.53
Capital Flows (+ means an inflow)	7.23	4.55	1.73	2.90	4.18	5.44
Of which Government	8.41	5.30	2.49	3.63	4.89	6.13
Of which Private Sector	-1.18	-0.75	-0.76	-0.73	-0.71	-0.68
Exports of goods f.o.b (M Million)	7,999	8,181	8,963	9,562	10,078	10,731
Imports of goods f.o.b (M Million)	(18,456)	(18,121)	(20,165)	(20,565)	(22,149)	(23,861)
Government Finance - Per cent of GDP						
Revenue (excluding grants)	55.47	55.58	57.92	55.35	49.43	50.73
Tax Revenue	23.66	22.60	23.60	24.51	25.18	25.84
Recurrent Expenditure	40.58	39.58	41.80	44.33	43.23	41.81
Of which compensation of employees	19.52	19.56	20.96	22.90	23.19	23.22
Transaction in non-financial assets	24.04	18.07	19.90	14.02	14.69	15.07
Budget Balance (+ means a surplus)	-0.47	3.24	-1.30	-0.06	-5.42	-3.20
Monetary Aggregates - Nominal growth						
Money supply (M2)	7.34	21.16	3.95	7.56	4.28	9.37
Private Sector Credit	40.61	20.59	12.41	13.79	16.12	16.36

Appendix II: Real GDP growth rates

				Projections		
	2012	2013	2014	2015*	2016*	2017*
Primary Sector	**0.54**	**2.41**	**9.32**	**-0.67**	**5.92**	**12.60**
Agriculture, forestry and fishing	-13.84	13.22	4.73	1.37	1.01	2.48
Growing of Crops	-23.89	-1.82	-6.54	-5.00	-10.00	-1.58
Farming of Animals	1.92	-1.41	0.25	1.50	1.79	1.18
Services	-6.54	31.88	4.75	3.53	3.07	0.11
Forestry	-46.86	126.75	28.30	5.59	6.76	7.83
Mining and Quarrying	22.58	-9.23	15.48	-3.15	12.18	24.22
Secondary sector	**4.70**	**0.37**	**-2.64**	**0.36**	**0.73**	**-0.25**
Manufacturing	-3.43	-12.87	1.78	-4.13	-2.39	-1.48
Food products and beverages	0.74	-9.29	-3.61	3.31	3.31	3.31
Textiles, clothing, footwear and leather	-5.59	-17.40	6.81	-8.42	-6.20	-5.09
Other manufacturing	1.34	3.79	-10.47	4.77	4.77	4.77
Electricity and water	2.05	3.17	1.47	3.49	6.66	3.66
Electricity	7.51	4.27	4.78	4.08	3.96	4.50
Water	-0.57	1.18	1.14	3.17	8.17	3.22
Building and Construction	24.55	21.66	-10.00	4.99	1.66	-0.87
Tertiary sector	**5.87**	**6.60**	**4.36**	**5.11**	**4.81**	**4.50**
Wholesale and retail trade, repairs	12.46	10.92	10.05	5.68	6.12	6.48
Restaurants and hotels	3.46	5.35	2.66	2.77	2.77	2.77
Transport and Communication	5.52	6.10	6.68	8.25	8.08	8.01
Transport and storage	4.04	7.53	8.99	5.38	5.70	5.92
Post and Telecommunications	6.31	5.36	5.46	9.81	9.33	9.06
Financial intermediation	7.10	15.71	3.58	9.29	6.72	6.81
Real Estate and business services	4.39	5.49	6.46	3.48	3.51	3.55
Real estate	2.93	-0.91	4.41	2.00	2.00	2.00
Business services; renting	8.07	20.81	7.75	6.21	6.21	6.21
Public Administration	2.24	-2.64	3.29	3.53	3.07	0.11
Education	-0.88	0.75	-1.89	1.51	1.44	1.37
Health and Social Work	28.18	23.79	-4.07	4.33	4.45	4.83
Community, social and personal services	2.27	5.00	2.41	2.68	3.08	3.09
GDP at factor cost (Unadjusted)	4.82	4.39	3.24	3.17	4.01	4.53
Financial services indirectly measured	2.71	2.86	3.58	9.29	6.72	6.81
GDP at factor cost	4.86	4.43	3.12	3.03	3.94	4.48
Taxes on products	5.50	4.44	6.67	3.03	3.94	4.48
Subsidies on products	-0.26	1.18	-5.76	-8.42	-6.20	-5.09
GDP at market prices	**4.99**	**4.46**	**3.64**	**3.13**	**4.02**	**4.54**

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Appendix III: GDP by sector 2004 prices (In Million Maloti)

				Projections		
	2012	2013	2014	2015*	2016*	2017*
Primary Sector	**1395.69**	**1429.27**	**1562.43**	**1551.98**	**1643.84**	**1850.93**
Agriculture, forestry and fishing	723.67	819.32	858.03	869.81	878.56	900.33
Growing of Crops	182.03	178.71	167.02	158.66	142.80	140.54
Farming of Animals	430.01	423.96	425.01	431.36	439.09	444.25
Services	38.45	50.71	53.12	55.00	56.69	56.75
Forestry	73.18	165.93	212.88	224.77	239.98	258.77
Mining and Quarrying	672.01	609.96	704.39	682.17	765.28	950.60
Secondary sector	**2753.52**	**2763.64**	**2690.63**	**2700.22**	**2719.97**	**2713.08**
Manufacturing	1451.64	1264.77	1287.25	1234.06	1204.61	1186.83
Food products and beverages	308.68	280.00	269.88	278.83	288.07	297.62
Textiles, clothing, footwear and leather	950.98	785.50	838.96	768.31	720.70	684.03
Other manufacturing	191.99	199.27	178.40	186.92	195.84	205.18
Electricity and water	459.85	474.43	481.41	498.23	531.40	550.88
Electricity	156.94	163.64	171.45	178.45	185.51	193.85
Water	302.91	306.48	309.96	319.78	345.90	357.02
Building and Construction	842.04	1024.43	921.97	967.94	983.96	975.38
Tertiary sector	**6286.69**	**6701.47**	**6993.90**	**7351.04**	**7704.53**	**8051.22**
Wholesale and retail trade, repairs	861.29	955.32	1051.35	1111.09	1179.13	1255.52
Restaurants and hotels	128.70	135.58	139.20	143.05	147.02	151.09
Transport and Communication	935.17	992.23	1058.47	1145.83	1238.47	1337.65
Transport and storage	317.81	341.75	372.48	392.52	414.89	439.47
Post and Telecommunications	617.36	650.47	685.98	753.31	823.58	898.19
Financial intermediation	755.72	874.42	905.75	989.88	1056.40	1128.33
Real Estate and business services	1381.96	1457.76	1551.97	1605.91	1662.34	1721.42
Real estate	974.83	965.91	1008.54	1028.71	1049.28	1070.27
Business services; renting	407.13	491.85	543.44	577.20	613.06	651.15
Public Administration	1040.73	1013.21	1046.54	1083.52	1116.82	1118.04
Education	741.72	747.26	733.11	744.17	754.88	765.25
Health and Social Work	331.12	409.90	393.23	410.24	428.51	449.23
Community, social and personal services	110.27	115.79	114.28	117.34	120.96	124.69
GDP at factor cost (Unadjusted)	10435.90	10894.38	11246.96	11603.24	12068.35	12615.23
Financial services indirectly measured	-219.40	-225.68	-245.74	-268.56	-286.61	-306.12
GDP at factor cost	10216.50	10668.69	11001.22	11334.68	11781.74	12309.11
Taxes on products	1420.28	1483.37	1582.24	1630.20	1694.49	1770.34
Subsidies on products	-114.61	-115.97	-109.29	-100.09	-93.89	-89.11
GDP at market prices	**11522.17**	**12036.09**	**12474.17**	**12864.78**	**13382.35**	**13990.35**

Appendix IV: GDP at current prices (In Million Maloti)						
				Projections		
	2012	2013	2014	2015*	2016*	2017*
Primary Sector	**2591.56**	**3003.61**	**3469.57**	**2591.56**	**3003.61**	**3469.57**
Agriculture, forestry and fishing	1300.49	1514.15	1643.10	1300.49	1514.15	1643.10
Growing of Crops	390.23	406.90	414.76	390.23	406.90	414.76
Farming of Animals	717.37	763.63	814.14	717.37	763.63	814.14
Services	72.44	86.36	99.00	72.44	86.36	99.00
Forestry	120.45	257.26	315.20	120.45	257.26	315.20
Mining and Quarrying	1291.07	1489.46	1826.47	1291.07	1489.46	1826.47
Secondary sector	**4174.19**	**4548.40**	**4521.09**	**4174.19**	**4548.40**	**4521.09**
Manufacturing	1980.93	1972.19	1996.38	1980.93	1972.19	1996.38
Food products and beverages	517.14	491.83	502.92	517.14	491.83	502.92
Textiles, clothing, footwear and leather	1158.73	1146.46	1175.46	1158.73	1146.46	1175.46
Other manufacturing	305.05	333.90	318.00	305.05	333.90	318.00
Electricity and water	841.14	824.03	861.69	841.14	824.03	861.69
Electricity	116.11	113.59	125.49	116.11	113.59	125.49
Water	725.03	710.44	736.20	725.03	710.44	736.20
Building and Construction	1352.12	1752.17	1663.02	1352.12	1752.17	1663.02
Tertiary sector	**10794.65**	**11699.76**	**12802.24**	**10794.65**	**11699.76**	**12802.24**
Wholesale and retail trade, repairs	1614.01	1869.33	2140.98	1614.01	1869.33	2140.98
Restaurants and hotels	216.22	224.93	200.62	216.22	224.93	200.62
Transport and Communication	1193.93	1266.48	1512.45	1193.93	1266.48	1512.45
Transport and storage	534.27	602.64	828.28	534.27	602.64	828.28
Post and Telecommunications	659.65	663.85	684.17	659.65	663.85	684.17
Financial intermediation	1120.31	1287.75	1453.31	1120.31	1287.75	1453.31
Real Estate and business services	2190.07	2411.94	2645.49	2190.07	2411.94	2645.49
Real estate	1569.03	1613.96	1778.68	1569.03	1613.96	1778.68
Business services; renting	621.04	797.98	866.81	621.04	797.98	866.81
Public Administration	1999.46	1929.24	2063.21	1999.46	1929.24	2063.21
Education	1713.94	1841.95	1903.68	1713.94	1841.95	1903.68
Health and Social Work	569.07	675.82	683.69	569.07	675.82	683.69
Community, social and personal services	177.65	192.31	198.82	177.65	192.31	198.82
GDP at factor cost (Unadjusted)	17560.40	19251.77	20792.90	17560.40	19251.77	20792.90
Financial services indirectly measured	-293.12	-316.97	-324.19	-293.12	-316.97	-324.19
GDP at factor cost	17267.28	18934.80	20468.71	17267.28	18934.80	20468.71
Taxes on products	2305.55	2493.03	3061.85	2305.55	2493.03	3061.85
Subsidies on products	0.00	0.00	0.00	0.00	0.00	0.00
GDP at market prices	**19572.83**	**21427.84**	**23530.56**	**19572.83**	**21427.84**	**23530.56**

Education

Lesotho

CENTRAL BANK OF LESOTHO

Economic Outlook 2015 - 2017

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Positive growth prospects albeit heightened uncertainties

GLOBAL ECONOMIC growth recovery is expected to continue in the medium term. The world economic growth is projected to increase by 3.3 per cent and 3.8 per cent in 2015 and 2016 respectively. Growth prospects are expected to remain uneven across major economies as well as regions. The United States (US) economic recovery remain solid, the Euro Area is showing some signs of improvement while China is slowing down. There are some downside risks to global growth prospects. The boost from lower oil prices may not be sustained and the potential for disruptive asset price shifts may persists, as does the threat of stagnation and low inflation in advanced economies. In emerging market economies, growth is under pressure from lower commodity prices, tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors.

On the domestic economy front, indications are that there are positive growth prospects albeit heightened uncertainties in manufacturing and agricultural sub sectors. Real GDP is expected to accelerate steadily throughout the projection period, supported by the mining and quarrying sub sector as well as services sector. The development of advance infrastructure associated with the second phase of the Lesotho Highlands Water Project (LHWP) is also set to boost economic growth starting from 2016. The textile and clothing industry is projected to decline due to continuous loss of the country's competitiveness in the US market. Whether the SA-based value chain can offset these challenges is yet to be seen. Furthermore, the recent signing of the Trans-Pacific Partnership (TPP) agreement between several pacific countries and the US poses a threat to Lesotho's manufacturing exports.

Lesotho's inflation rate is set to rebound and accelerate in the medium term as inflationary pressures from food prices builds up. The drought conditions in Southern Africa coupled with the weakening domestic currency, against major countries, threaten the inflation outlook. With the eminent interest rate hike cycle in the US, the domestic exchange rate is expected to weaken further. Monetary and financial sector continues to be supportive of positive growth performance. Private sector credit is expected to grow in line with domestic economic prospects, particularly growth anticipated in household consumption and business investment spending. Financial sector reforms including the establishment of national identification card system and launching of a credit bureau are likely to give thrust to domestic credit.

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