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OF LESOTHO

# Lesotho Economic Outlook

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2023-2025

## *A Tepid Recovery Anchored by Construction Activity*

### *Executive Summary*

**The past three years of shocks, particularly the COVID-19 pandemic and Russia's invasion of Ukraine, have caused a great deal of uncertainty in the global economy.** Global output growth is forecasted to be sluggish, with an estimated 2.8 percent growth in 2023 and 3.0 percent in 2024. This outlook is far below the projections made before the series of shocks began in early 2022. Emerging market and developing economies are expected to see some growth, while advanced economies are likely to remain under pressure. Furthermore, the January 2022 WEO Update predicted a 1.0 percentage point lower global growth rate for 2023 than what is estimated now.

**The domestic economy is on a tepid recovery path, held back by the recent crises in addition to pre-existing structural challenges.** Domestic growth is forecast to pick up to 2.0 per cent in 2023 driven by the construction and services industries. The projected growth is undermined by underperformance in manufacturing industry and agricultural sub-sector. Domestic growth is expected to increase to 2.7 per cent in 2024 and slow down to 1.7 per cent in 2025. The medium-term growth is expected to be headlined by the LHWP II with the project reaching its peak in 2024/2025. The annual inflation rate is expected to average 6.7 per cent in 2023 and gradually moderate to 5.4 per cent and 5.0 per cent in 2024 and 2025, respectively. The supply and demand imbalances that drove food and fuel prices to record highs in 2022 are expected to continue to diminish.

**The fiscal position is forecast to improve and register a marginal deficit in 2023 relative to the previous period, reflective of an expected growth in revenues.** The deficit will be financed through domestic and foreign borrowing. Nevertheless, the fiscal balance is projected to move into the positive territory registering surpluses equivalent to 3.3 per cent of GDP and 2.2 per cent of GDP in 2024 and 2025, respectively. The projected surpluses will be driven by substantial SACU receipts bolstering revenues while expenditures are expected to grow modestly. Consequently, there will be a build-up of government savings equivalent to 4.5 per cent of GDP in 2024-2025.

## Contents

- 1 ● *Executive Summary*
- 3 ● *Global Economic Outlook*
- 6 ● *Domestic Economic Outlook*
  - 6 ● *Overview of the Current Forecasts*
  - 7 ● *Real Sector Outlook*
  - 10 ● *Inflation Outlook*
  - 11 ● *Government Budgetary Operations Outlook*
  - 13 ● *External Sector Outlook*
  - 17 ● *Monetary Sector Outlook*
  - 18 ● *Conclusion*
  - 19 ● *Appendices*

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Official reserves in months of import cover, are estimated to increase from 4.2 months in 2022 to 4.6 months in 2023 and average 5.1 months for 2024-2025...

**The external sector is expected to become stronger particularly in 2023, due to an increase in SACU revenue and exports receipts<sup>1</sup>.** The current account deficit is expected to narrow in 2023, but widen in the following years. The deficit is expected to be 5.5 per cent of GDP in 2023, 7.1 per cent in 2024 and 9.1 per cent in 2025. The developments in the current account largely mirrors the movement in the trade account. Growth in imports is expected to outperform that of exports during the forecast horizon. Exports are set to benefit from weaker loti, while imports are expected to increase in line with the expected strong activity in the construction sector. Official reserves in months of import cover, are estimated to increase from 4.2 months in 2022 to 4.6 months in 2023 and average 5.1 months for 2024-2025.

**Money supply is expected to grow in line with the projected growth in nominal GDP.** Private sector credit extension is forecast to increase by an average of 3.5 per cent, benefitting mostly from the services, mining and construction sectors. Bank credit to the private sector is held back by the underperforming economy and financing of the economy from alternative sources.

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<sup>1</sup> The increase in export largely reflects the positive effect of the exchange rate depreciation on export earnings.



# Global Economic Outlook

## Global Growth

**The global economy outlook faces increased uncertainty impacted by the cumulative effects of the past three years of adverse shocks— particularly, the COVID-19 pandemic and Russia’s invasion of Ukraine.** Global output growth is estimated at 2.8 per cent in 2023 following a 3.4 per cent growth rate in 2022. It is estimated to rise modestly to 3.0 per cent in 2024. However, should global financial conditions remain strong, an even less optimistic global economic outlook is anticipated. This forecast is well below expectations prior to the onset of a series of shocks since early 2022. Compared with the January 2022 WEO Update forecast, global growth in 2023 is 1.0 percentage point lower and it is relatively weak by historical standards. The growth is spurred by the emerging market and developing economies category while the advanced economies category is expected to remain under pressure.

### Advanced Economies

**The Advanced Economies category is expected to decelerate on the back of the impact of a series of shocks that hit the global economy over the past 3 years and more recently the tightening global financial conditions.** For advanced economies, growth is projected to decline by half in 2023 to 1.3 per cent, before rising to 1.4 per cent in 2024. Although the forecast for 2023 is modestly higher (by 0.1 percentage point) than in the January 2023 WEO Update, it is well below the 2.6 per cent forecast of January 2022. Most of the advanced economies are projected to register a decline in growth in 2023. With the sharp slowdown, advanced economies are expected to see higher unemployment: a rise of 0.5 percentage point on average from 2022 to 2024. The slowdown is concentrated in the euro area and the United Kingdom. In the United Kingdom, growth is expected to register -0.3 per cent in 2023 before increasing to 1.0 per cent in 2024. In the euro area, growth is anticipated to be 0.8 per cent in 2023 and to be 1.4 per cent in 2024. In the US, growth is expected to be 1.6 per cent in 2023 and register 1.1 per cent in 2024.

The slowdown is concentrated in the euro area and the United Kingdom...

### Emerging and Developing Economies

**The Emerging and Developing economies category is expected to outperform the advanced economy category.** Emerging market and developing economies growth prospects are expected to be stronger than the advanced economies category although varying across regions. Growth is expected to be 3.9 per cent in 2023 and to rise to 4.2 per cent in 2024. The forecast for 2023 is lower (by 0.1 percentage point) than in the January 2023 WEO Update. For emerging market and developing economies, economic prospects are on average stronger than for advanced economies, but these prospects vary more widely across regions. In low-income developing countries, GDP is expected to grow by 5.1 per cent, on average, over 2023–24, but projected

Given this challenging environment, the region's growth will decline to 3.6 per cent in 2023 from 3.9 per cent in 2022 following the strong rebound of 2021...

per capita income growth averages only 2.8 per cent during 2023–24, below the average for and so below the path needed for standards of living to converge with those in middle-income economies.

#### *Sub-Saharan Africa*

**Growth is expected to decline in sub-Saharan African over the medium-term due to the slowdown in the global economy.** Given this challenging environment, the region's growth will decline to 3.6 per cent in 2023 from 3.9 per cent in 2022 following the strong rebound of 2021. This subdued outlook in sub-Saharan Africa marks a growth slowdown, the second year in a row. Some common factors explaining the growth underperformance, include the rise in central bank rates to fight inflation and the war in Ukraine dampening global economic activity and thus, export demand for the region. Nonetheless there are large variations across the region. Niger, the Democratic Republic of the Congo, and Senegal are on the higher end of the region's growth distribution, with this year's coming online of oil and gas in those countries expected to contribute significantly to higher GDP growth. On the opposite end, the significant economic contraction in Equatorial Guinea is a result of a decline in oil production. Meanwhile, South Africa's growth is projected to decelerate sharply to 0.1 per cent in 2023, weighed down by an intensification of power outages, a weaker external environment, and a negative carryover effect from the growth slowdown at the end of 2022.

Sub-Saharan Africa is poised to grow at 4.2 per cent in 2024 from 3.6 per cent in 2023. Most of the countries are projected to register a growth pickup in 2024, driven by higher private consumption and investment. Importantly, the recovery for sub-Saharan Africa is linked intricately to global developments that are conditional on the realization of three key global factors: global economic activity is assumed to continue to recover, global inflation is projected to recede further in 2024, and crude oil prices are expected to continue to fall.



### South Africa

**South Africa growth outlook remains weak, largely constrained by long-standing structural factors including the recent intensification of power outages.** Although South Africa's economy grew by an estimated 2.5 per cent in 2022, the medium-term growth outlook has deteriorated. Real GDP growth is projected to average 0.1 per cent in 2023 and increase to 1.8 per cent in 2024. Inadequate electricity supply remains the most immediate and significant constraint to production, investment, and employment. This is compounded by disruptions to and underinvestment in freight and logistics networks, which erode competitiveness. Rising inflation has constrained household spending and raised the cost of living. Central banks are countering the effects of high inflation through increased interest rates and, while headline inflation seems to have peaked in many countries, it remains high.

Real GDP growth is projected to average 0.1 per cent in 2023 and increase to 1.8 per cent in 2024...

Table 1: The World Economic Outlook (Annual percentage changes in real GDP)						
Regions	Actuals				Projections	
	2019	2020	2021	2022	2023*	2024*
World Output	3.6	2.8	-3.1	3.4	2.8	3.0
Advanced Economies	2.3	1.7	-4.5	2.7	1.3	1.4
United States	3.0	2.3	-3.4	2.1	1.6	1.1
Euro Area	1.9	1.5	-6.3	3.5	0.8	1.4
Germany	1.3	1.1	-4.6	1.8	-0.1	1.1
Japan	0.6	0.0	-4.6	1.1	1.3	1.0
United Kingdom	1.3	1.4	-9.8	4.0	-0.3	1.0
Emerging and Developing Economies	4.5	3.7	-2.1	4.0	3.9	4.2
Russia	2.8	2.0	-3.0	-2.1	0.7	1.3
Emerging and Developing Asia	6.4	5.4	-0.8	4.4	5.3	5.1
China	6.7	5.8	2.3	3.0	5.2	4.5
Sub-Saharan Africa	3.2	3.2	-1.9	3.9	3.6	4.2
South Africa	0.8	0.2	-7.0	2.0	0.1	1.8

Source: IMF World Economic Outlook, April 2022; \* Projections, + Estimates

## Domestic Economic Outlook

### Overview of the Current Forecasts

Looking into the medium-term, the expected drought during the 2023 summer cropping season is anticipated to worsen prospects for the agricultural sub-sector output...

**Lesotho's economic growth prospects are expected to worsen in the near-term, albeit expected to improve in 2024.** Since March 2023 forecasts update, the 2023 first quarter growth outcomes came out worse-than-expected — particularly in the textiles and clothing industry. Meanwhile delays to the commencement of the main works of the second phase of the Lesotho Highlands Water Project (LHWP II) delayed the expected robust construction activity for 2023. Looking into the medium-term, the expected drought during the 2023 summer cropping season is anticipated to worsen prospects for the agricultural sub-sector output. Consequently, the economy is now projected to grow by 2.0 per cent in 2023 – 0.6 percentage points lower- and average around 2.2 per cent growth over 2024-2025. The 2024-2025 growth is lower by 0.7 percentage points relative to March 2023 LEO Update. Table 2 below shows the revisions to the forecasts relative to March 2023 forecasts update.

**Notwithstanding upward revisions in inflation rate forecasts, the overall price level is expected to moderate over the medium-term.** Inflation for both 2023 and 2024 is projected higher by a percentage point while 2025 remains unchanged. The upward revisions are due to seemingly stickier inflation, especially food prices as weather forecasts point to higher drought risks in 2023. Despite the slight upward revisions, overall, the projections still show moderating inflation in the medium-term; from the high levels seen in 2022.





	Actual	Estimate	June 2023 projections			Differences from March 2023 projections		
	2021	2022+	2023*	2024*	2025*	2023*	2024*	2025*
<b>Economic growth</b>	1.6	1.4	2.0	2.7	1.7	-0.6	-0.2	-1.1
<b>Primary Sector</b>	-2.2	1.2	4.6	-0.5	3.7	0.0	-3.5	1.5
Agriculture	-16.0	1.2	1.5	-4.6	5.3	0.0	-6.5	3.0
Mining & Quarrying	22.8	1.2	8.4	4.2	2.1	0.0	0.0	0.0
<b>Secondary Sector</b>	2.1	0.9	0.9	7.0	2.5	-3.3	-0.2	-4.9
Manufacturing	7.7	-6.4	-2.1	1.3	0.9	-3.3	0.4	0.4
Textiles & Clothing	11.4	-7.5	-2.8	1.2	1.1	-3.8	0.4	0.4
Building & Construction	9.8	24.5	12.4	27.6	6.4	-3.8	-2.4	-20.6
<b>Services Sector</b>	1.9	1.9	2.0	1.8	1.2	0.3	0.3	-0.1
<b>Inflation rate (%)</b>	6.1	8.3	6.7	5.4	5.0	0.1	0.1	0.0

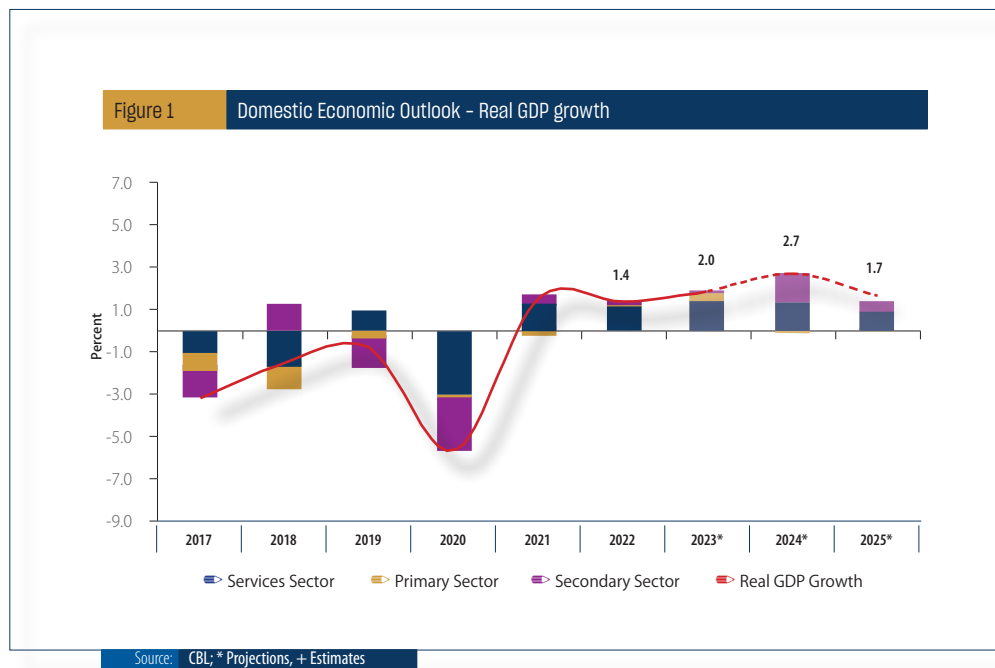
Source: Central Bank of Lesotho. +estimate, \*projections

## Real Sector Outlook

**The domestic economy is expected to continue on a tepid recovery path from the overlapping shocks in the past three years.** Growth is projected at 2.0 per cent in 2023; supported by activity within the construction industry and the positive spillovers to the services industry collectively contributing over two-thirds to the projected growth. The remainder of growth is explained by positive contributions from mining industry and modest growth from agricultural sub-sector. However, manufacturing industry is expected to be a major drag to growth in the near-term, contributing negatively as the industry continues to underperform.

**In the medium-term, the domestic economic growth is expected to pick up to 2.7 per cent in 2024, before slowing down to 1.7 per cent in 2025.** The key driver of the projected growth is the ongoing major construction projects, particularly the LHWP II which is expected to reach its peak in 2024-2025. The mega projects are also expected to have significant knock-on effects onto services industries hence the services industry is also expected to be a key driver of growth in the medium-term. As such, the growth trajectory is expected to mimic the activity within the LHWP II without which the economy faces bleak growth prospects. The mining industry is projected to contribute positively to growth in the medium-term as the industry recovers from the current softer demand. Meanwhile, towards the end of the forecast horizon the agricultural industry could benefit from the planned promotion of climate smart agriculture and implementation of the irrigation master plan to overcome the erratic weather shocks.

The key driver of the projected growth is the ongoing major construction activities...



**The primary sector growth is projected at 4.6 per cent in 2023, driven by solid growth in the mining industry.** The mining industry is expected to be boosted by resumption of production at Liqhobong mine following extended care and maintenance period. The prices for Lesotho diamonds have remained somewhat resilient recovering in the first quarter of 2023; despite softer demand and decline in global diamond prices from the last quarter of 2022. The prices, especially in the small diamonds segment are supported by cutting and polishing partnerships which attract higher price per carat. In addition, the reopening of China as the second largest diamond market bodes for diamond price recovery in 2023. The agricultural sub-sector is expected to grow by 1.5 per cent in 2023 as a decline in production of crops weighs down positive contributions from livestock farming. Despite timely onset of rains, crops production is projected to decline by 2.1 per cent due to a high cost of inputs amidst supply chain disruptions.

The government's interventions and commitment to continue to subsidise agricultural inputs are expected to positively impact the industry's performance in the medium-term...

**In the medium-term, the primary sector is expected to contract by 0.5 per cent in 2024 and rebound by 3.7 per cent in 2025.** In 2023, the projected contraction would be on account of subdued agricultural sub-sector performance due to anticipated onset of El Niño. Drier conditions that are projected for 2023/24 planting season are expected to weigh down potential crop harvest and result in unfavourable conditions for livestock. However, the contraction in agricultural sub-sector is partly offset by 4.2 per cent growth in the mining industry; supported by favourable diamond prices in the context of declining global supply. In 2025, agricultural sub-sector is projected to recover by 5.3 per cent while mining industry is anticipated to slow down to 2.1 per cent. The government's interventions and commitment to continue to subsidise agricultural inputs are expected to positively impact the industry's performance in the medium-term.





**The secondary sector is expected to grow marginally and register 0.9 per cent in 2023 due to delays to the LHWP II project and a contraction in manufacturing industry.** The LHWP II was initially expected to reach its peak in 2023 following commencement of the main works, however the project is now anticipated to reach its peak in 2024/25. Thus, construction industry—further boosted by government key construction projects—is projected to register 12.4 per cent growth in 2023. Meanwhile, manufacturing sub-sector is expected to contract by 2.1 per cent in 2023 constrained by under-performance in the textiles and clothing industry. The textiles and clothing industry faces headwinds stemming from rising supply chain costs associated with the overseas markets. The overseas markets are shifting towards nearshoring in order to reduce freight costs and enjoy faster time-to-market given the recent supply chain disruptions.

**In the medium-term, the secondary sector is expected to register a robust growth driven by increased construction activity.** LHWP II is expected to gain momentum during 2024 -2025; driving the construction industry growth to an average of around 17.0 per cent. The textile and clothing industry is expected to recover marginally averaging 1.0 per cent in the medium-term. The industry continues to dwindle largely due to persistent structural bottlenecks seeing Lesotho receive declining orders from the US market. The electricity and water sub-sector is set to receive a boost from recently completed of 30MWp *Ramarothole Power Plant*. Thus, the sub-sector is projected to average 2.8 per cent growth in the medium-term.

The textile and clothing industry is expected to recover marginally averaging 1.0 per cent in the medium-term...

**The tertiary sector is expected to reach the pre-COVID-19 levels in 2023, boosted by knock-on effects from the mega construction projects.** With both the Polihali dam and the transfer tunnel starting in the second half of 2023, the services industry is expected to benefit from the positive spillovers. However, the higher cost of borrowing and persistent inflation that is keeping real incomes lower, are expected to keep consumer spending weak in 2023. The wholesale and trade sub-sector is projected to grow by 2.3 per cent in 2023 while the information and communication sub-sector is expected to grow by 2.7 per cent. The finance and insurance industry is expected to support the activities within the construction industry and is therefore projected to grow by 2.3 per cent in 2023. Public administration is expected to grow by 2.1 per cent in line with the anticipated increase in government spending.

**The tertiary sector is projected to grow by an average growth of 1.5 per cent during 2024-2025.** The LHWP II is expected to reach its peak activity in the medium-term, thus continuing to support the service industries. Additional boost is anticipated to come from expected recovery in consumer spending supported by the improvement in real incomes as inflation recedes. Therefore, wholesale and trade industry is expected to average 2.2 per cent growth in the medium-term while finance and insurance industry is projected to grow by 2.8 per cent. Public administration is projected to grow modestly over the

<sup>2</sup> El Niño refers to the above-average sea-surface temperatures that periodically develop across the east-central equatorial Pacific. It represents the warm phase of the ENSO cycle.

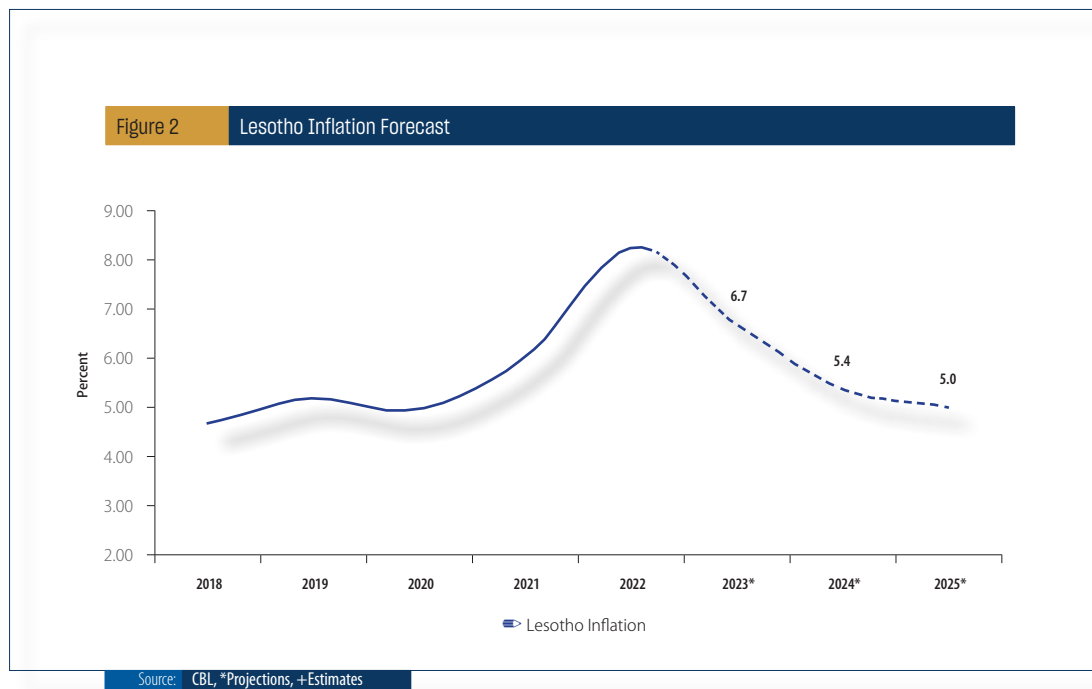
<sup>3</sup> When companies transfer part of their production to countries close to their markets and with similar time zones, in order to minimize the effects of disruptions in supply chains.

medium-term. Health sub-sector is projected to average 1.5 per cent growth in the medium-term, supported by health systems strengthening project under the Millennium Challenge Corporation (MCC) Compact II.

### *Inflation Outlook*

Occurrence of *El Nino* is likely to result in poor crop harvests and consequently leading to higher food prices...

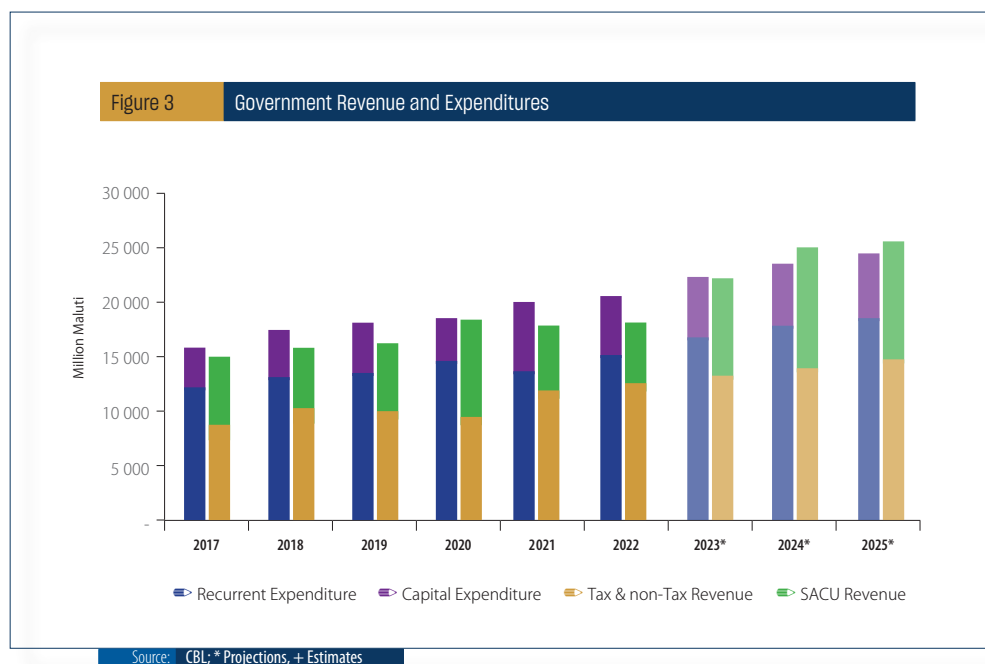
**The annual inflation rate is expected to moderate but remain relatively high averaging 6.7 per cent in 2023.** The supply and demand imbalances that persisted in 2022 are expected to slightly diminish helping ease upward pressures on food and energy prices. Nonetheless, food prices will remain the key driver of inflation in 2023 especially given the risk of an onset of *El Nino* in Southern Africa. Occurrence of *El Nino* is likely to result in poor crop harvests and consequently leading to higher food prices. Administered prices which are due for review in the near-term also present upward risks to the projected inflation. In the medium-term, the inflation rate is expected to moderate gradually to average 5.4 per cent in 2024 and 5.0 per cent in 2025 as supply chain disruptions unwind.



### Government Budgetary Operations Outlook

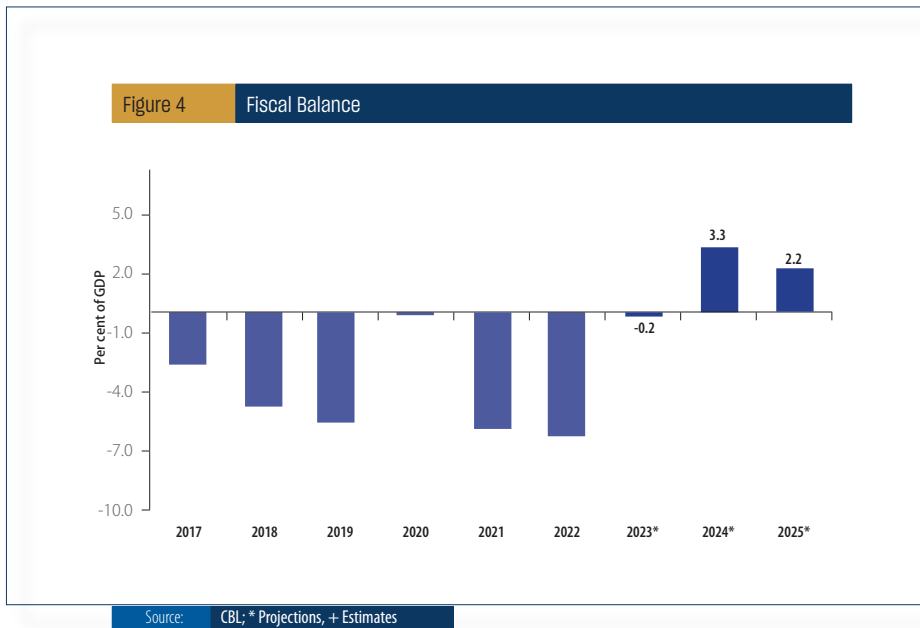
**The near-term fiscal outlook is expected to improve mainly due to the high receipt of SACU revenue.** The increase in SACU revenues is expected to drive fiscal deficit to narrow down to 0.2 per cent of GDP in 2023, which shows a 3 percentage points upward revision relative to March 2023 LEO update. The upward revision in the fiscal balance is driven by downward revisions in purchases of goods and services and anticipated slower execution of the capital budget. Tax revenue and non-tax revenue are estimated to increase by 6.5 per cent and 19.6 per cent, respectively. SACU revenue is set to increase by 61.4 per cent due to higher trade flows and growth in import prices. Total expenditure is projected to increase by 8.2 per cent reflecting higher spending on wages and salaries, purchases of goods and services, social benefits and infrastructure upgrading. Regarding infrastructure, the government plans to rehabilitate and upgrade roads and bridges and to repair infrastructure destroyed by recent floods.

SACU revenue is set to increase by 61.4 per cent due to higher trade flows and growth in import prices...



The fiscal position is projected to register surpluses at 3.3 per cent and 2.2 per cent of GDP in 2024 and 2025, respectively...

**In the medium-term, the fiscal position is forecast to improve and register surpluses.** The revenues are expected to outpace spending in 2024 - 2025. Thus, the fiscal position is projected to register surpluses at 3.3 per cent and 2.2 per cent of GDP in 2024 and 2025, respectively. The surpluses reflect increased revenue driven by higher SACU receipts against modest increases in spending. The increase in SACU revenue is due to high collections of customs duties, improved economic activity within the region and sustained growth in trade flows. In line with growth in nominal GDP, tax and non-tax revenue are projected to increase by an average of 8.0 per cent and 6.1 per cent, respectively. A further boost in tax collection will come from improved tax compliance and administration. Government spending is estimated to increase, with spending oriented towards current consumption than infrastructure investment. Recurrent spending is projected to be driven by the public service wage bill, purchases of goods and services, social transfers to households as well as interest payments.



**The government financing needs are expected to decline over the medium-term.** The Government remains committed to developing the domestic securities market through the issuance of securities for infrastructure development over the forecast horizon. With budget surpluses projected in 2024 and 2025, foreign loans are expected to decrease over time, while government savings with the banking sector are bound to increase.

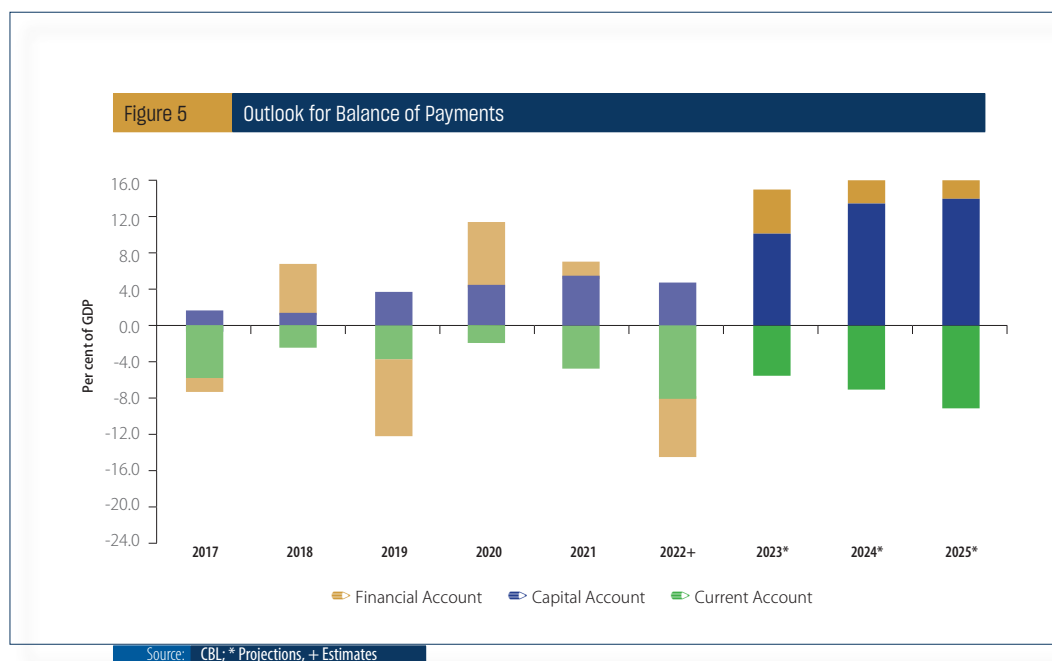
### External Sector Outlook

**The external sector position is expected to improve during the period 2023-2025, benefiting from higher SACU revenue, exports receipts as well as the expected global economic recovery.** The current account deficit is expected to narrow in 2023, but then widen in the following years. The deficit is expected to be 5.5 per cent of GDP in 2023, 7.1 per cent in 2024 and 9.1 per cent in 2025. The developments in the current account are largely influenced by movements in the trade account. Growth in imports is projected to outpace that of exports during the forecast period. Exports are set to benefit from weaker loti, while imports are expected to increase in line with the expected heightened activity in the construction sector.

Exports are set to benefit from weaker loti, while imports are expected to increase in line with the expected heightened activity in the construction sector...

**The trade account is projected to remain in deficit during the forecast horizon.** In 2023, the trade account is forecast to register a deficit equivalent to 35.2 per cent of GDP and average 39.5 per cent for 2024-2025. Earnings from exports are projected to grow by 12.3 per cent in 2023 and moderate to 2.0 per cent and 4.6 per cent in 2024 and 2025, respectively. The rand (loti) is expected to weaken by 9.4 per cent against the dollar in 2023 and this is expected to contribute positively for exports. The diamond exports are expected to realise a robust growth of 24.0 per cent in 2023, before

easing to 2.3 per cent in 2024 and 8.1 per cent in 2025. The favourable prices and recovery in diamond demand, especially the reopening of the Chinese economy is expected to have a major boost to Lesotho’s diamond exports in the medium-term. With regards to textiles exports, it is expected that their growth will remain modest during the forecast period, supported by resilient demand from South Africa.



**It is anticipated that merchandise imports will increase to support construction activities, especially those related to the main works of the LHWP II.** Following the official launch of the main works of the main works (Polihali Dam, Transfer Tunnel and the Senqu Bridge) of the LHWP II, construction activities are expected to pick up leading to an increase of 15.4 per cent in merchandise imports in 2023 and by an average of 7.1 per cent for 2024-2025. Other government construction projects such as the ongoing construction of the Maseru district hospital and road infrastructure upgrades are also set to contribute to growth in imports. In a similar manner as the merchandise imports, imports of services are expected to increase, driven by heightened construction activities. The services imports are projected to grow by 2.6 per cent in 2023, and increase further by 8.7 per cent in 2024, and register a growth of 3.1 per cent in 2025.

**The primary and secondary income accounts are expected to be in surplus from 2023 to 2025.** The primary income account surplus is expected to narrow slightly to 17.8 per cent of GDP in 2023, from 20.1 per cent of GDP in 2022. The surplus is expected to be maintained for 2024-2025, and record an average of 17.3 per cent of GDP. The compensation of Basotho workers in South Africa is expected to decline in both the mining and other sectors,



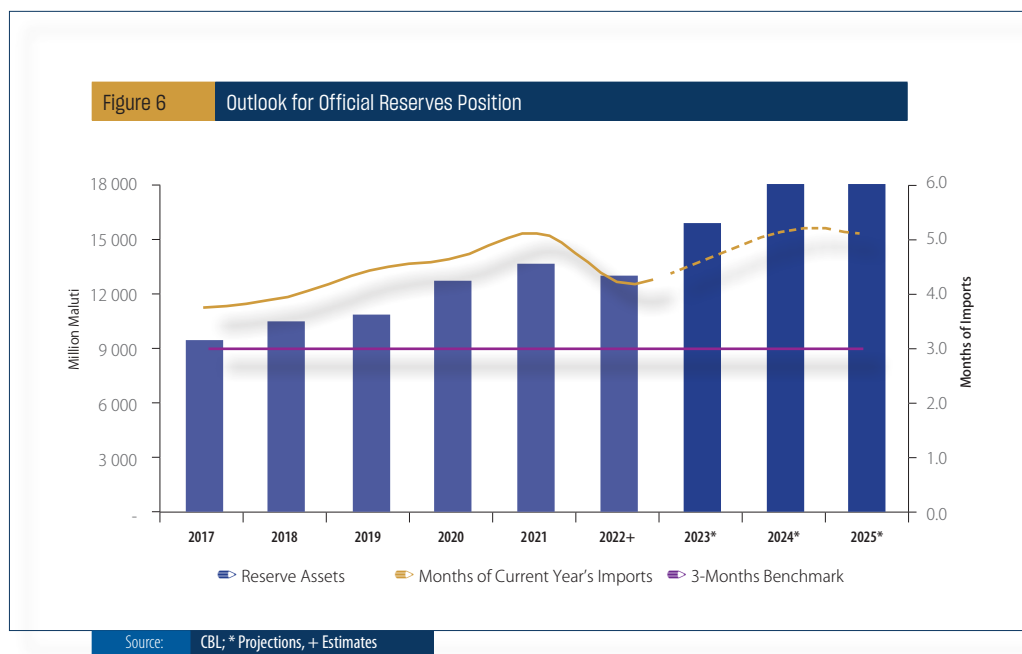


primarily due to the prolonged energy challenges in South Africa. The secondary income account is expected to receive a windfall from increased SACU receipts. These receipts are projected to increase significantly during the forecast horizon, which will provide a much-needed boost to help finance government spending and promote economic growth. The increase in SACU revenue reflects, amongst others an increase in regional trade volumes and pickup in economic activity. Remittances are expected to remain relatively stable during the forecast period.

**The bulk of financing needs in the current account will be met through the capital account.** Substantial inflows into the capital account are expected during the forecast period, mainly to finance major construction activities of the LHWP II, as the project is set to pick up momentum from the second half of 2023. External inflows to support other government infrastructure projects including the Maseru district hospital and the LLWDP-II are also expected.

**Additional current account deficit financing needs are envisaged to come from financial account flows.** Direct investment flows are expected to be weak in the coming years, as investors remain cautious about the global economic outlook. Investor confidence remains low due to domestic economic uncertainties. The lack of foreign direct investment will necessitate the government to fund some infrastructure projects through borrowing from foreign lenders. Commercial banks are expected to increase their investments in foreign assets in search of higher yield, thus putting some pressure on official reserves. The official reserves measured in months of imports, are projected to increase from 4.2 months in 2022 to 4.6 months in 2023 and average 5.1 months for 2024-2025.

Direct investment flows are expected to be weak in the coming years, as investors remain cautious about the global economic outlook...



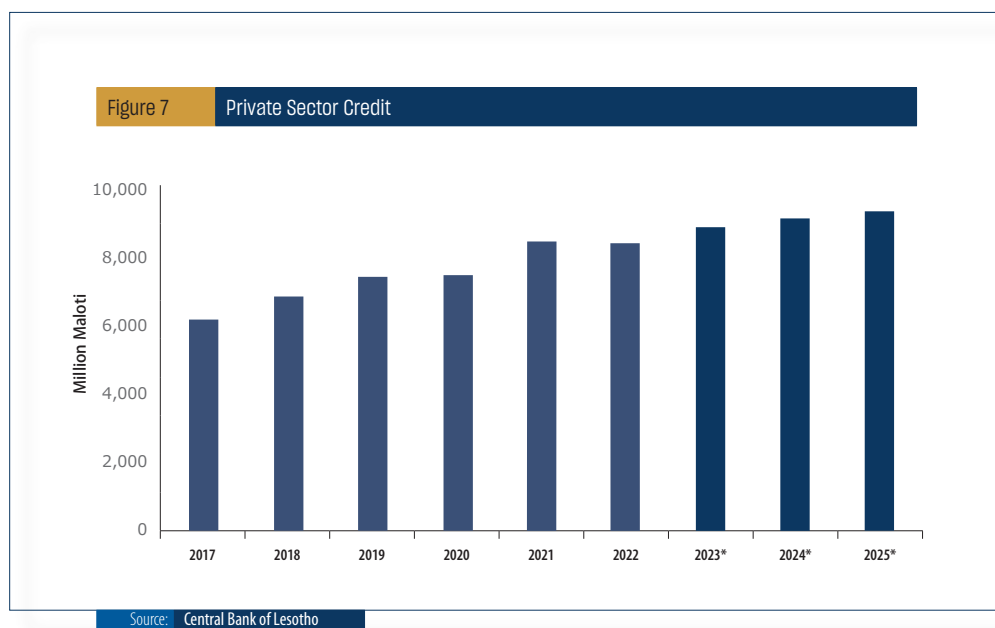
### Monetary Sector Outlook

**Money supply is projected to grow by 6.5 per cent in 2023, with notable increases in banking sectors net foreign assets and growth in credit extension.**

The banking sector's net foreign assets are projected to increase by 26.3 per cent driven by high SACU receipts and placements for trade and investment. Credit extended to the private sector is projected to grow by 5.2 per cent in line with economic activity within the construction and service industries.

**In the medium-term, growth in money supply is expected to average 5.6 per cent, in line with growth in nominal GDP.**

Economic activity is expected pick in the medium-term as the LHWP II reaches its peak. The pick-up in momentum with the construction industry and the knock-on effects on other sectors will boost credit, thus the credit extended to private sectors is projected to grow by an average of 2.8 per cent. Net foreign assets are projected to increase by 11.5 per cent over 2024-2025, mainly driven by SACU receipts that are expected to remain high in the medium-term.





*Risks to Domestic Growth Outlook*

**The domestic growth outlook is prone to a number of risks as the prospects have proven to be highly sensitive to new shocks.** On the upside, a faster pick up in momentum in mega projects and better growth outcomes regionally — from reduced loading shedding in South Africa— could lead to higher growth outcomes domestically. On the other hand, high import prices and headline inflation as a result of exchange rate depreciation and/or escalation of the war in Ukraine present downside risks. Further downside risks could emanate from tighter global financial conditions and weaker global economic growth as a result of further episodes of financial stress. Continued monetary policy tightening would discourage inward investment and increase borrowing costs while weaker global growth would imply decreased demand for exports and low capital inflows.

High import prices and headline inflation as a result of exchange rate depreciation and/or escalation of the war in Ukraine present downside risks...

## *Conclusion*

The domestic economy is expected to be on a tepid recovery path, held back by the recent crises in addition to pre-existing structural challenges. Domestic growth is forecast to pick up to 2.0 per cent in 2023 driven by the construction and services industries. The projected growth is undermined by underperformance in manufacturing industry and agricultural sub-sector. In 2024 domestic growth is expected to increase to 2.7 per cent and slow down to 1.7 per cent in 2025. The medium-term growth is expected to be headlined by the LHWP II with the project reaching its peak in 2024/2025. The annual inflation rate is expected to average 6.7 per cent in 2023 and gradually moderate to 5.4 per cent and 5.0 per cent in 2024 and 2025, respectively. The supply and demand imbalances that drove food and fuel prices to record highs in 2022 are expected to gradually diminish.



Appendix I: Selected Macroeconomic Indicators						
	2020	2021+	2022*	Projections		
				2023*	2024*	2025*
<b>Output - Constant prices</b>						
Gross Domestic Product (% p.a.)	-5.62	1.56	1.42	1.98	2.75	1.71
Per capita GDP (% p.a.)	-6.06	1.08	0.94	1.50	2.27	1.23
Gross National Income (% p.a.)	-5.49	-0.05	3.40	0.56	2.54	1.20
Per capita GNI (% p.a.)	-5.94	-0.52	2.91	0.08	2.06	0.72
<b>Output - Current prices</b>						
Gross Domestic Product (M Million)	20116.91	20430.27	20719.44	21130.13	21710.79	22081.44
Per Capita GDP	9827.44	9933.62	10026.87	10177.56	10408.09	10536.02
Gross National Income (M Million)	22905.04	22893.25	23671.53	23803.29	24408.51	24700.93
Per Capita GNI	11189.49	11131.17	11455.49	11465.11	11701.37	11785.90
<b>Sectoral Growth rates (% p.a.)</b>						
Primary Sector	-1.74	-2.23	1.19	4.59	-0.52	3.72
Crops	22.56	9.08	-4.11	-2.14	-22.32	20.47
Mining and Quarrying	-16.35	22.85	1.22	8.41	4.23	2.08
Secondary Sector	-11.60	2.07	0.87	0.88	6.97	2.47
Manufacturing	-9.09	7.66	-6.36	-2.12	1.33	0.92
Construction	-39.17	9.84	24.48	12.42	27.59	6.35
Tertiary Sector	-4.17	1.88	1.87	2.00	1.80	1.17
Wholesale and retail trade, repairs	-26.21	-1.28	1.92	2.28	2.90	1.40
Financial and insurance activities	6.29	-3.14	1.16	2.27	2.61	2.92
Real estate activities	-4.38	1.18	0.41	0.34	0.25	0.14
Public Admin, Education & Health	3.93	7.48	2.32	1.93	1.17	0.06
<b>Savings and Investment - Per cent of GNI</b>						
National Savings	28.02	15.20	10.92	18.44	21.50	19.78
Of which Government Savings	9.41	10.50	6.82	11.33	13.89	12.84
Of which Private Sector Savings	18.61	4.69	4.10	7.11	7.61	6.94
Investment	29.67	19.32	17.79	23.11	27.48	27.61
Of which Government Investment	10.53	10.61	8.01	7.69	7.58	7.46
Of which Private Sector Investment	19.14	8.71	9.78	15.42	19.90	20.15
Resource Balance	-1.65	-4.12	-6.87	-4.66	-5.98	-7.82
+ Estimate, * Projection						



Appendix I: Selected Macroeconomic Indicators (continued)						
	Projections					
	2020	2021+	2022*	2023*	2024*	2025*
<b>Savings and Investment - Per cent of GDP</b>						
National Savings	33.26	17.79	13.11	21.72	25.31	23.12
Of which Government Savings	11.17	12.30	8.18	13.34	16.35	15.00
Of which Private Sector Savings	22.08	5.50	4.92	8.37	8.96	8.12
Investment	35.22	22.61	21.36	27.21	32.35	32.26
Of which Government Investment	12.49	12.41	9.62	9.06	8.92	8.71
Of which Private Sector Investment	22.72	10.20	11.74	18.15	23.43	23.55
Resource Balance	-1.96	-4.82	-8.25	-5.49	-7.04	-9.14
Inflation rate % (CPI)	4.98	6.05	8.27	6.72	5.39	5.03
<b>External Sector - Per cent of GDP</b>						
Current Account	-1.96	-4.82	-8.25	-5.49	-7.04	-9.14
Imports of Goods	74.89	76.40	76.88	81.76	84.69	82.86
Exports of Goods	41.23	44.73	45.01	46.53	44.69	43.93
Capital Flows	4.35	5.46	4.82	10.18	13.45	14.09
Financial Account	7.12	1.57	-6.45	4.69	6.40	4.95
Official Reserves (Months of Imports)	4.66	5.10	4.22	4.61	5.18	5.07
<b>Government Finance - Per cent of GDP</b>						
Revenue (excluding grants)	50.45	45.08	42.60	49.83	54.21	51.88
Tax Revenue	19.45	22.11	22.59	22.17	22.82	22.88
Recurrent Expenditure	41.97	38.91	39.85	40.57	40.63	39.60
Of which compensation of employees	17.29	17.48	17.59	17.66	17.09	16.53
Transaction in non-financial assets	11.23	18.17	14.08	13.26	13.06	12.75
Budget Balance (+ means a surplus)	-0.16	-5.93	-6.26	-0.18	3.29	2.25
<b>Monetary Aggregates - Nominal growth</b>						
Money supply (M2)	16.87	4.14	-3.40	6.53	4.77	6.39
Private Sector Credit	0.68	13.11	-0.37	5.25	3.33	2.18
+ Estimate, * Projection						





Appendix II: Real GDP Growth Rates						
				Projections		
	2020	2021	2022+	2023*	2024*	2025*
<b>Primary Sector</b>	<b>-1.74</b>	<b>-2.23</b>	<b>1.19</b>	<b>4.59</b>	<b>-0.52</b>	<b>3.72</b>
Agriculture, forestry and fishing	8.72	-16.05	1.16	1.51	-4.61	5.28
Growing of crops; market gardening; horticulture	22.56	9.08	-4.11	-2.14	-22.32	20.47
Farming of animals (incl. fishing)	7.75	-22.86	3.16	2.87	0.46	2.18
Forestry	-2.10	-0.74	-1.29	-1.47	-1.17	-1.29
Fishing and aquaculture	-51.95	-49.16	5.40	9.50	6.30	6.50
Mining and quarrying	-16.35	22.85	1.22	8.41	4.23	2.08
<b>Secondary sector</b>	<b>-11.60</b>	<b>2.07</b>	<b>0.87</b>	<b>0.88</b>	<b>6.97</b>	<b>2.47</b>
Manufacturing	-9.09	7.66	-6.36	-2.12	1.33	0.92
Food products and beverages	-8.83	-20.21	1.86	2.26	2.03	1.83
Textiles, clothing, footwear and leather	-6.87	11.39	-7.53	-2.77	1.21	1.05
Other manufacturing	-28.49	-4.76	1.78	1.73	2.04	-1.47
Electricity and water	6.99	-15.80	7.12	-0.24	3.36	2.18
Electricity supply	9.12	8.32	6.14	1.10	4.34	4.05
Water and sewerage; waste collection	5.89	-28.67	7.92	-1.31	2.56	0.63
Construction	-39.17	9.84	24.48	12.42	27.59	6.35
<b>Tertiary sector</b>	<b>-4.17</b>	<b>1.88</b>	<b>1.87</b>	<b>2.00</b>	<b>1.80</b>	<b>1.17</b>
Wholesale and retail trade; repair of motorvehicles	-26.21	-1.28	1.92	2.28	2.90	1.40
Transportation and storage	-13.22	-1.32	1.82	2.24	2.09	1.84
Accommodation and food service activities	-42.63	9.78	6.06	4.26	2.50	1.80
Information and communication	-1.28	1.60	3.30	2.65	2.09	1.57
Financial and insurance activities	6.29	-3.14	1.16	2.27	2.61	2.92
Financial service activities, except insurance	9.28	-4.30	1.14	2.14	2.48	2.83
Insurance and pension funding	-22.64	9.43	1.72	2.30	3.00	2.80
Activities auxiliary to financial services	-5.83	8.84	0.70	5.72	5.49	5.34
Real estate activities	-4.38	1.18	0.41	0.34	0.25	0.14
Professional, scientific and technical activities	-2.61	-0.99	1.43	3.60	3.22	1.43
Administrative and support service activities	-17.53	1.35	0.92	1.32	1.13	0.13
Public administration and defense; compulsory social security	4.45	7.71	3.84	2.15	1.13	-0.09
Education	0.57	-0.36	-3.30	-0.08	0.72	0.85
Human health and social work activities	0.93	8.31	-8.48	0.53	1.76	1.23
Other service activities	-1.50	-1.50	1.84	1.94	2.03	2.14
<b>GDP at factor cost (Unadjusted)</b>	<b>-5.76</b>	<b>1.54</b>	<b>1.58</b>	<b>1.98</b>	<b>2.75</b>	<b>1.71</b>
Financial services indirectly measured	0.00	1.00	0.00	0.00	0.00	0.00
<b>GDP at factor cost</b>	<b>-5.76</b>	<b>1.54</b>	<b>1.58</b>	<b>1.98</b>	<b>2.75</b>	<b>1.71</b>
Taxes on products	-4.54	1.73	0.17	1.98	2.75	1.71
<b>GDP at market prices</b>	<b>-5.62</b>	<b>1.56</b>	<b>1.42</b>	<b>1.98</b>	<b>2.75</b>	<b>1.71</b>
+ Estimate, * Projection						



Appendix III: GDP by Sector 2012 Prices (In Million Maloti)						
	Projections					
	2020	2021	2022+	2023*	2024*	2025*
<b>Primary Sector</b>	<b>1687.05</b>	<b>1649.41</b>	<b>1669.02</b>	<b>1745.60</b>	<b>1736.53</b>	<b>1801.21</b>
Agriculture, forestry and fishing	1087.75	913.19	923.80	937.75	894.53	941.74
Growing of crops; market gardening; horticulture	201.21	219.49	210.47	205.97	159.99	192.75
Farming of animals (incl fishing)	825.87	637.09	657.19	676.03	679.11	693.92
Forestry	53.23	52.84	52.16	51.39	50.79	50.14
Fishing and aquaculture	7.43	3.78	3.98	4.36	4.64	4.94
Mining and quarrying	599.31	736.22	745.22	807.85	842.00	859.47
<b>Secondary sector</b>	<b>4066.48</b>	<b>4150.64</b>	<b>4186.73</b>	<b>4223.42</b>	<b>4517.73</b>	<b>4629.11</b>
Manufacturing	2502.34	2694.13	2522.78	2469.32	2502.15	2525.05
Food products and beverages	199.28	159.01	161.98	165.64	168.99	172.09
Textiles, clothing, footwear and leather	2115.54	2356.53	2179.03	2118.76	2144.46	2167.05
Other manufacturing	187.52	178.59	181.78	184.92	188.69	185.92
Electricity and water	1020.14	858.98	920.17	917.94	948.75	969.46
Electricity supply	355.12	384.65	408.28	412.76	430.66	448.10
Water and sewerage; waste collection	665.02	474.33	511.89	505.18	518.09	521.37
Construction	544.00	597.53	743.78	836.16	1066.83	1134.60
<b>Tertiary sector</b>	<b>12066.73</b>	<b>12293.88</b>	<b>12523.45</b>	<b>12774.47</b>	<b>13004.31</b>	<b>13157.02</b>
Wholesale and retail trade; repair of motorvehicles	1470.56	1451.71	1479.65	1513.39	1557.33	1579.18
Transportation and storage	395.76	390.53	397.64	406.55	415.03	422.67
Accommodation and food service activities	128.99	141.60	150.18	156.58	160.49	163.38
Information and communication	1121.12	1139.09	1176.70	1207.88	1233.07	1252.47
Financial and insurance activities	2900.34	2809.39	2842.04	2906.51	2982.47	3069.48
Financial sector activities (except insurance)	2650.19	2536.16	2565.05	2619.93	2684.82	2760.83
Insurance and pension funding	164.47	179.98	183.08	187.29	192.92	198.33
Activities auxiliary to financial services	85.68	93.26	93.91	99.28	104.73	110.32
Real estate activities	1189.71	1203.76	1208.67	1212.80	1215.88	1217.60
Professional, scientific and technical activities	198.86	196.90	199.73	206.92	213.58	216.63
Administrative and support service activities	423.82	429.55	433.52	439.26	444.22	444.82
Public administration and defense; compulsory social security	3423.99	3688.07	3829.80	3912.00	3956.05	3952.53
Education	144.82	144.31	139.54	139.43	140.44	141.64
Human health and social work activities	410.29	444.39	406.71	408.87	416.09	421.21
Other service activities	258.45	254.57	259.27	264.29	269.66	275.42
<b>GDP at factor cost (Unadjusted)</b>	<b>17820.26</b>	<b>18093.93</b>	<b>18379.19</b>	<b>18743.49</b>	<b>19258.56</b>	<b>19587.35</b>
Financial services indirectly measured						
<b>GDP at factor cost</b>	<b>17820.26</b>	<b>18093.93</b>	<b>18379.19</b>	<b>18743.49</b>	<b>19258.56</b>	<b>19587.35</b>
Taxes on products, net of subsidies	2296.65	2336.34	2340.25	2386.64	2452.22	2494.09
<b>GDP at market prices</b>	<b>20116.91</b>	<b>20430.27</b>	<b>20719.44</b>	<b>21130.13</b>	<b>21710.79</b>	<b>22081.44</b>
* Projections						



<b>Appendix IV: GDP at Current Prices (In Million Maloti)</b>						
	<b>Projections</b>					
	<b>2020</b>	<b>2021</b>	<b>2022+</b>	<b>2023*</b>	<b>2024*</b>	<b>2025*</b>
<b>Primary Sector</b>	<b>4712.79</b>	<b>3270.07</b>	<b>3711.80</b>	<b>4350.50</b>	<b>4424.68</b>	<b>4826.33</b>
Agriculture, forestry and fishing	1752.85	1481.55	1624.77	1761.91	1775.58	1961.45
Growing of Crops	297.14	342.03	355.10	370.84	303.59	384.13
Farming of Animals	1376.83	1068.27	1193.08	1309.71	1386.60	1488.04
Forestry	67.04	65.08	69.56	73.14	76.18	78.98
Fishing and aquaculture	11.84	6.16	7.03	8.22	9.21	10.30
Mining and Quarrying	2959.95	1788.52	2087.03	2588.60	2649.10	2864.89
<b>Secondary sector</b>	<b>7868.12</b>	<b>8199.26</b>	<b>8776.87</b>	<b>9541.86</b>	<b>10234.15</b>	<b>10977.71</b>
Manufacturing	5528.19	5820.44	5873.00	6325.65	6433.51	6844.29
Food products and beverages	302.99	253.42	279.48	304.99	327.95	350.73
Textiles, clothing, footwear and leather	4993.44	5358.82	5364.08	5771.57	5837.70	6216.36
Other manufacturing	231.76	208.21	229.44	249.09	267.87	277.20
Electricity and water	1688.17	1640.50	1908.87	2022.50	2195.53	2340.55
Electricity	520.98	410.28	471.49	508.68	559.35	611.25
Water	1167.19	1230.22	1437.39	1513.82	1636.18	1729.30
Building and Construction	651.75	738.32	994.99	1193.71	1605.11	1792.87
<b>Tertiary sector</b>	<b>18286.65</b>	<b>19324.38</b>	<b>21048.10</b>	<b>22492.11</b>	<b>23922.07</b>	<b>25218.87</b>
Wholesale and retail trade, repairs	2336.52	2494.33	2752.49	3004.34	3258.21	3469.99
Transport and storage	542.44	565.58	623.49	680.28	731.90	782.83
Accommodation and food service activities	133.59	149.98	172.22	191.61	206.99	221.31
Information and communication	970.99	968.65	1083.35	1186.76	1276.80	1362.08
Financial and insurance activities	4406.80	4326.41	4739.36	5176.06	5602.00	6057.98
Financial sector activities (except insurance)	3746.78	3630.16	3975.03	4332.78	4679.40	5053.76
Insurance and pension funding	468.10	474.05	522.08	569.98	618.75	668.07
Activities auxiliary to financial services	191.93	222.19	242.25	273.30	303.85	336.16
Real estate activities	1184.84	1191.75	1295.54	1387.27	1465.76	1541.62
Professional and support service activities	241.13	243.60	267.52	295.77	321.75	342.75
Administrative and support service activities	521.38	546.72	597.39	645.94	688.45	724.03
Public administration and defense; compulsory social security	6958.14	7807.16	8447.88	8774.17	9139.15	9404.94
Education	249.79	260.79	273.02	291.13	309.04	327.34
Human health and social work activities	442.55	469.96	465.66	499.59	535.80	569.66
Other service activities	298.48	299.44	330.18	359.18	386.23	414.32
<b>GDP at factor cost (Unadjusted)</b>	<b>30867.56</b>	<b>30793.71</b>	<b>33536.77</b>	<b>36384.47</b>	<b>38580.90</b>	<b>41022.91</b>
Financial services indirectly measured						
<b>GDP at factor cost</b>	<b>30867.49</b>	<b>30793.70</b>	<b>33536.89</b>	<b>36384.58</b>	<b>38580.93</b>	<b>41022.92</b>
Taxes on products, net of subsidies	3988.49	4282.24	4644.01	5054.17	5472.95	5846.19
<b>GDP at market prices</b>	<b>34855.97177</b>	<b>35075.9463</b>	<b>38180.8966</b>	<b>41438.74833</b>	<b>44053.88305</b>	<b>46869.11208</b>
* Projections						



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