Lesotho

CENTRAL BANK
OF LESOTHO

Economic Outlook 2018 - 2020

December 2018 • www.centralbank.org.ls

Subdued Medium Term Outlook Amid Heightened Uncertainty

Executive Summary

The global growth momentum underway since 2016 continues and global growth for 2018/19 is projected at its 2017 level with increased downside risks. However, the expansion remains unbalanced across countries and may also have peaked in some major economies since the release of the April 2018 economic outlook. In the United States, growth is expected to remain strong supported by pro-cyclical fiscal policy and loose financial conditions. However, growth has been revised downward for the Euro Area and the United Kingdom driven by weaker-than-expected performance in the first half of the 2018. Among the emerging and developing economies, growth in China is projected to moderate from 6.9 per cent in 2017 to 6.6 per cent in 2018 and 6.2 per cent in 2019, reflecting slowing external demand growth and necessary financial regulatory tightening. Having dipped into a technical recession in the first half of 2018, the South African economic growth rate is projected to fall to 0.8 per cent in 2018 from 1.3 per cent in 2017, before recovering to 1.8 per cent in the medium term.

The domestic growth outlook remains subdued due to heightened policy uncertainty at the global, regional and domestic level. The annual growth rate is expected to average 1.6 per cent in the medium term relative to 1.1 per cent projected six months ago largely reflective of base effects following the revision of the National Accounts estimates by BOS. The Lesotho Highlands Water Project (LHWP) is expected to provide boost to performance of construction sector over the forecast horizon and beyond. However, the outlook remains susceptible to the frequently changing schedule of the LHWP Phase II. For instance, the delays in the commencement of the auxiliary works have changed the medium-term outlook. Additional factors underpinning the subdued growth include low aggregate demand and a general slowdown in the secondary and tertiary sectors. Within the primary sector, the mining sector remains the only outlier. Mining activity remains strong underpinned by favourable demand prospects within the advanced and emerging market economies. However, the poor performance in the agricultural sub-sector continues to undermine the primary sector's overall performance.

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Although inflation remains low reflective of, amongst others, weak domestic demand, it is expected to accelerate in the medium term partly due to a rebound in crude oil prices and the volatile rand exchange rate. Average annual inflation rate is expected to register 4.7 per cent in 2018, before accelerating to 5.6 and 5.5 per cent in 2019 and 2020, respectively. Food prices which account for the bulk of the CPI basket are expected to pick up due to imported inflation given the expected weaker rand exchange rate path. Domestic production is projected to continue on a downward trend, albeit without any significant anticipated effect on inflation due to the subsistence nature of Lesotho's food production. The international oil prices are also anticipated to exert upward pressures on inflation in the medium-term.

Fiscal policy is expected to contract over the period 2018-2020 in line with the inevitable fiscal consolidation and diminishing financing options. The fiscal deficit is expected to decline from a 5.6 per cent in 2017 to 2.2 per cent of GDP in 2020. Forecasts point to a moderate increase in tax revenues as the economy recovers from the 2017 contraction. This will be supplemented by the Lesotho Revenue Authority tax compliance measures . SACU revenue is projected to fall in 2018-2019 before picking up by 13.4 per cent in 2020 in line with the expected recovery in the SA economy. Expenditures are also expected to grow albeit at a slower pace relative to 2017.

The international oil prices are also anticipated to exert upward pressures on inflation in the medium-term....

On the external sector, the current account is expected to remain in deficit over the period 2018-2020. The current account deficit is projected to register 4.1 per cent in 2018, 7.4 per cent in 2019 before narrowing to 4.3 per cent of GDP in 2020. The current account deficit will largely reflect the deficits in the trade and services accounts. However, the income accounts will remain in surplus over the projection period. The surplus in the capital account will continue to be influenced mainly by capital transfers related to the LHWP II and the government developmental projects over the entire forecast horizon.

Money supply is projected to rise by an average of 5.7 per cent in the medium term in line with nominal GDP growth. The growth in money supply is expected to lead to an increase net foreign assets and net domestic credit. However, given low appetite for long-term lending to government, banks are expected to continue to extent credit to the private sector. Thus, private sector credit will grow by an average of 10.4 per cent during the period 2018-2020, following an 8.5 per cent increase in 2017.

Global Economic Outlook

The global growth momentum underway since 2016 continues and global growth for 2018/19 is projected at 3.7 per cent. At the same time, the expansion remains unbalanced across countries and may also have peaked in some major economies since the release of the April 2018 outlook. Nonetheless, downside risks to global growth have risen in the past six months and the potential for upside surprises has diminished. Global growth is anticipated at 3.7 per cent for 2018-19, 0.2 percentage point lower for both years than the forecast in April.

In the US, growth remains strong fuelled by expansionary fiscal policy. However, the forecast for 2019 has been revised downwards due to current trade policy stance of imposition of tariffs on the US imports from China. Growth in the United States is expected to peak at 2.9 per cent in 2018, supported by the pro-cyclical fiscal stimulus after eight consecutive years of expansion and still-loose financial conditions. Growth is expected to soften to 2.5 per cent in 2019 (a downward revision of 0.2 percentage point relative to the April 2018 World Economic Outlook (WEO) due to the recently introduced trade measures) and to drop to 1.8 per cent in 2020 as the fiscal stimulus begins to unwind. Strong domestic demand is projected to push the economy above full employment and increase imports and widen the current account deficit. Medium-term growth is forecasted to temporarily decline below potential at 1.4 per cent as the positive output gap is gradually closed.

Global growth is anticipated at 3.7 per cent for 2018-19, 0.2 percentage point lower for both years than the forecast in April....

Growth is projected to remain strong in the Euro Area, but has been revised down by 0.4 percentage points to 2.0 per cent for 2018, reflecting weaker-than-expected performance in the first half of the year. Growth is forecast to gradually slowdown to 1.9 per cent in 2019, 0.1 percentage point lower than the April forecast. Healthy consumer spending and job creation on the back of supportive monetary policy are expected to continue to provide strong aggregate demand, though at a moderating pace. Country-specific growth rates continue to differ. In France, growth is expected to moderate to 1.6 per cent in 2018 and 2019, 0.5 and 0.4 percentage points weaker than in the April 2018 WEO for 2018 and 2019 respectively, reflecting softer external demand, lower outturns as well as low high-frequency indicators in 2018. In Germany, growth was revised down to 1.9 per cent in 2018 and 2019 because of a slowdown in exports and industrial production. Italy's growth forecast is also lower than in the April 2018 WEO, estimated at 1.2 per cent for 2018 and 1.0 per cent in 2019.

Growth projections for the Euro Area and UK have been marked down following surprises that suppressed activity in early 2018, because of the underlying deterioration in external and domestic demand and uncertainty about the new government's policy agenda. In Spain, growth is expected to be 2.7 per cent in 2018 and 2.2 per cent in 2019, which is a 0.1 percentage points lower relative to the April forecast for 2018, and no change for 2019. Medium-term growth in the Euro Area, projected at about 1.4 per cent, is expected to be constrained by low productivity growth and unfavourable demographics.

In the United Kingdom, growth is projected to slow to 1.4 per cent in 2018 and 1.5 per cent in 2019 (from 1.7 per cent in 2017). This forecast represents a downward revision of 0.2 percentage points for 2018 relative to the April 2018 WEO, driven by weak growth in the first quarter of the year, partly due to weather-related factors. The medium-term growth forecast remains at 1.6 per cent, weighed down by the anticipated higher barriers to trade following Brexit.

Japan's growth is projected to moderate to 1.1 per cent in 2018, before softening to 0.9 per cent in 2019....

In China, growth is projected to moderate from 6.9 per cent in 2017 to 6.6 per cent in 2018 and 6.2 per cent in 2019, reflecting slowing external demand growth and financial regulatory tightening. The 0.2 percentage points' downgrade to the 2019 growth forecast is attributable to the negative effect of recent tariff actions, assumed to be partially offset by policy stimulus. Over the medium term, growth is expected to gradually slow to 5.6 per cent as the economy continues to make the transition to a more sustainable growth path with continued financial de-risking and environmental controls.

Japan's growth is projected to moderate to 1.1 per cent in 2018, before softening to 0.9 per cent in 2019. The downward revision of 0.1 percentage points for 2018 relative to the April 2018 WEO is largely due to the contraction observed in the first quarter of 2018. Given the uptick in growth and domestic demand in the second quarter of 2018, this is likely to represent a temporary dip rather than the beginning of a turn in the cycle. Japan's medium-term prospects are impeded by unfavourable demographics and a trend decline in the labor force.

The South African economy remains weak on the back of policy uncertainty and low investment. The South African economy unexpectedly dipped into a technical recession in the second half of 2018 and it is the first recession since 2009. Meanwhile, prospects remain modest amid uncertainty in the run-up to the 2019 general elections, with growth projected to fall to 0.8 per cent in 2018 from 1.3 per cent in 2017, before recovering to 1.8 per cent in the medium term. The pace of structural reform implementation and the level of policy credibility will underpin the extent of economic recovery.

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

Region	Actuals				Projections	
	2014	2015	2016	2017+	2018*	2019*
World Output	3.6	3.5	3.3	3.7	3.7	3.7
Advanced Economies	2.1	2.3	1.7	2.3	2.4	2.1
United States	2.5	2.9	1.6	2.2	2.9	2.5
Euro Area	1.4	2.1	1.9	2.4	2.0	1.9
Germany	2.2	1.5	2.2	2.5	1.9	1.9
Japan	0.4	1.4	1.0	1.7	1.1	0.9
United Kingdom	3.2	2.3	2.4	1.3	1.3	1.3
Emerging and Developing Economies						
Russia	0.7	-2.5	-0.2	1.5	1.7	1.8
Emerging and Developing Asia	6.8	6.8	6.5	6.5	6.5	6.3
China	7.3	6.90	6.7	6.9	6.6	6.2
Sub-Saharan Africa	5.1	3.3	1.4	2.7	3.1	3.8
South Africa	1.8	1.3	0.6	1.3	0.8	1.4

Source: IMF World Economic Outlook, October 2018; * Projections, + Estimates

The South African economy unexpectedly dipped into a technical recession in the second half of 2018 and it is the first recession since 2009...

Domestic Economic Outlook

Overview of the Current Forecasts

The domestic economy is expected to remain subdued over the forecast horizon with diminished prospects of upside surprises given heightened policy uncertainty. Relative to June projections, growth has been revised down by 0.1 percentage points for 2018, whereas it has been marked up by 1.6 and 0.3 percentage points for 2019 and 2020, respectively. The current growth numbers largely mirror the constantly changing schedule of the implementation of the LHWP Phase II. Growth, excluding the LHWP Phase II, gives a somewhat restrained outlook relative to the June 2018 Bank's forecasts (with the exception for the outer year). Table 2 below shows the revisions to the current forecasts relative to the June 2018 outlook.

Major revisions to growth forecasts in part reflect base effects following the recent publication of the national accounts estimates for 2017. Additionally, the revisions reflect the Bank's re-assessment of the economy's prospects across sectors in line with developments since June 2018. The downward revision for 2018 growth outlook mainly reflects the contraction expected in the construction sector. Since the June 2018 forecasts, there has been major delays in the construction works associated to the LHWP Phase II as the contracts for implementation of advance infrastructure component were only awarded in the last quarter of the 2018. The contraction in construction sub-sector was nonetheless moderated by mining production which beat expectations for a couple of diamond mines in the third quarter hence upward production revisions. The growth projection for 2019 was revised up by 1.6 per cent reflecting a substantial upward revision in the construction sector in line with the revised implementation schedule for the LHWP Phase II.

Table 2: Overview of Domestic Economic Outlook

	Actual	Estimate	December 2018 Projections			Differences from June 2018 Projections		
	2016	2017+	2018*	2019*	2020*	2018*	2019*	2020*
Economic growth	3.2	-2.3	1.1	2.7	1.0	-0.1	1.6	0.3
Primary Sector	11.4	0.8	3.7	-0.1	0.6	1.2	-2.9	-1.1
Agriculture	22.4	3.1	-0.9	-2.5	-0.5	0.4	-4.6	-1.0
Mining & Quarrying	-3.1	-3.0	11.9	3.7	2.3	4.1	0.1	-0.8
Secondary Sector	4.2	-3.8	0.3	9.2	0.4	-2.3	7.6	-0.6
Manufacturing	18.8	-6.3	2.5	3.5	3.5	1.7	2.3	2.3
Textiles & Clothing	22.8	-6.2	2.5	3.8	3.8	2.3	3.1	3.1
Building & Construction	-13.9	-1.2	-3.9	28.6	-6.2	-13.1	26.5	-6.1
Services Sector	1.6	-2.7	1.4	0.9	1.3	0.9	0.3	0.7
Inflation rate (%)	6.6	5.2	4.7	5.6	5.5	-0.3	0.3	0.2

Source: Central Bank of Lesotho. * refers to upward revisions made by the Bureau of Statistics, Lesotho.

In the primary sector, downward revisions in the agricultural sub-sector have masked the upward revision in the mining industry leading to the overall primary sector downward revision. Growing of crops was changed from an average growth of 0.5 per cent to -7.6 per cent growth over 2018-2020. This was due to the expected weather conditions as the rainfall throughout the 2018/19 planting season is expected to be below average. The mining industry was revised upwards from 7.8 per cent to 11.9 per cent in 2018 with some mines expected to beat production expectations given the buoyant third quarter production. Robust mining performance is consistent with the growth momentum within the advanced countries. The revisions to the secondary sector growth mainly hinge on the revised implementation schedule for construction of the Polihali Dam. The initial assumptions did not hold as the auxiliary construction works initially planned for 2018 did not commence, thus pushing forward the bulk of the works into 2019. The services sector remains broadly unchanged relative to June projections with the exception of Finance and Insurance which shows better prospects in the near term.

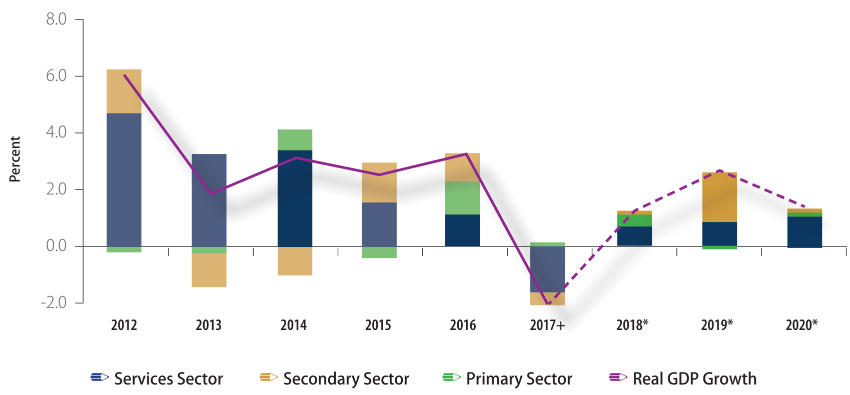
Inflation surprised on the downside remaining below 5.0 per cent throughout the second and third quarter of 2018. Accordingly, the inflation forecasts have been revised downwards by 0.3 percentage points for 2018. This was mainly due to lower food prices and a muted pass-through of April 2018 VAT hike. However, there was an upward change of 0.3 and 0.2 percentage points for 2019 and 2020, respectively. The upward revisions in the outer years of the forecast period are in part due to expected spikes in the international oil prices and Rand depreciation. These factors have already started exerting upward pressure as inflation started to accelerate by end of third quarter of 2018. The adjustments are synchronous with revisions to the South Africa (SA) inflation outlook, given the close trade relationship between Lesotho and SA. The SARB expects inflation to be over 5.0 per cent through 2019 and 2020 owing to both external and domestic factors. What matters more for Lesotho is the food price trajectory. The food prices seem to have reached the turning point at 4.0 per cent in August 2018, as such food inflation is expected to accelerate in 2019 due to higher import prices given the weaker Rand/Loti expectation.

Accordingly, the inflation forecasts have been revised downwards by 0.3 percentage points for 2018....

Real Sector Outlook

The domestic growth outlook remains under pressure albeit expected to slightly recover from the 2017 GDP growth contraction. The annual growth rate is expected to average 1.6 per cent in the medium term. This growth trajectory remains highly sensitive to the implementation of the LHWP Phase II in light of the constantly changing project schedule. The LHWP is expected to provide a boost to the construction sector and resuscitate the economy to 2.7 per cent growth in 2019. However, there have been delays in the commencement of the auxiliary works posing a downside risk to the outlook. Exclusion of the LHWP Phase II from the assumptions gives roughly similar subdued growth rates as reported in the June 2018 Outlook, with slight recovery only expected at the end of the forecast period. The underlying factors behind the subdued growth are the low aggregate demand and a slowdown in the secondary and tertiary sectors. Mining industry growth remains strong with favourable demand prospects and production numbers. However, the poor performance in the agricultural sub-sector continues to undermine the primary sector's overall performance.

Figure 1 Domestic Economic Outlook - Real GDP Growth



Source: CBL; * Projections, + Estimates

The pick-up in the primary sector is expected to be driven by strong growth in the mining industry as demand and prices for large quality stones remain firm....

The revisions to mining industry and agricultural sub-sector growth suggest a marginal growth in the primary sector in 2017. The primary sector is estimated to have expanded by a soft 0.8 per cent in 2017 owing to the revised 3.1 per cent expansion in agricultural sector. The revised 3.0 per cent decline in mining undermined the sector's performance. Growing of crops performed dismally due to late planting and unfavourable weather conditions.

The primary sector is expected to pick up in the medium term supported by strong growth in the mining industry. The sector's growth is expected to average 1.4 per cent in the medium term. The pick-up in the primary sector is expected to be driven by strong growth in the mining industry as demand and prices for large quality stones remain firm. The favourable demand and price prospects for high value stones offsets the pricing pressures for lower-value run-of-mine (RoM) stones. Such pricing pressures can lead to uneven growth in the industry since the RoM stones account for a larger production proportion for other mines. The mining industry is expected to register 11.9 per cent growth in 2018, then decelerate to 3.7 per cent and 2.3 per cent in 2019 and 2020, respectively. The agricultural sector is expected to remain muted with crop production only expected to slightly recover in the outer years. Unfavourable weather conditions and untimely planting continue to plague the agricultural sector.

The secondary sector experienced a broad based contraction in 2017. Following a 4.2 per cent growth in 2016, the sector is estimated to have contracted by 3.8 per cent in 2017. The poor performance in the secondary sector is mainly attributable to a fall in construction sector and manufacturing. The main factors included completion of construction works at Liqhobong mining Plant for construction sub-sector; whilst manufacturing suffered from tight external competition and low productivity.

In the medium-term, the secondary sector is expected to be volatile given the uncertainty surrounding the construction sector. The sector's growth is projected to be muted in 2018, registering a marginal 0.4 per cent growth as the construction sub-sector was hampered by delays in the implementation of the LHWP Phase II. The decline in growth in the construction sub-sector is expected to offset the anticipated recovery in manufacturing sub-sector in 2018. Construction sub-sector is only expected to strongly rebound by 28.9 per cent in 2019 when the auxiliary works associated with LHWP Phase II take force. The strong expected growth in construction will complement the continued recovery in the manufacturing sub-sector urging the secondary sector's growth to 9.2 per cent in 2019. However, the secondary sector is expected to decelerate to 0.4 per cent in 2020 as construction activities are anticipated to dip in 2020 with the completion of the advance infrastructure for LHWP Phase II. The electricity and water sub-sector is expected to get a boost from the planned green energy projects due for completion by the end of the forecasting horizon.

The textile industry is expected to slightly recover from 2017 growth decline despite domestic risks materializing in 2018. The wage talks that led to a temporary production halt in textile factories added to challenges faced by the industry. It is however, expected that the industry will register a positive growth averaging 3.4 per cent in the medium term. The first three quarters in 2018 saw higher exports offsetting the local inflationary pressures. In particular, the third quarter registered a strong export performance despite the factory workers labour union strikes that materialized.

The wage talks that led to a temporary production halt in textile factories added to challenges faced by the industry....

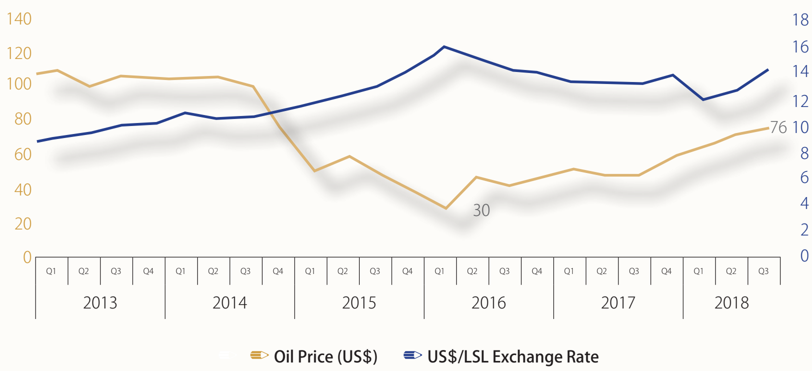
The tertiary sector is set to remain subdued in the medium term following a decade of being the main anchor of growth. The sector's growth which averaged 5.2 per cent in the decade to 2016, is estimated to have declined by 6.0 per cent in 2017. This decline reflects a general slowdown in economic activity. In particular, the poor performance in services is incited by low aggregate demand and high consumer indebtedness. The aforementioned factors are exacerbated by the negative spillover effects from the suppressed growth of South African economy. In the medium-term, the tertiary sector is expected to slightly recover averaging 1.2 per cent annual growth rate. The mild recovery in the tertiary sector will be underpinned by finance and insurance activities. The lacklustre growth in "education and health", 'transport and storage", and "information and communication" offsets the recovery in financial services. The uneven growth in the tertiary sector is largely attributable to expected low government activity and continuing subdued aggregate demand.

The increase in oil prices amplified by the depreciation of the rand has a significant impact on the Lesotho economy....

Box 1: The Depreciating Rand and a Surge in Oil Prices: Impact on Lesotho

Lesotho faces a double whammy – a surge in oil prices and a concurrent depreciation of the rand against other currencies - triggering a fast increase in domestic price of petroleum products. The increase in oil prices amplified by the depreciation of the rand has a significant impact on the Lesotho economy. Following years of low oil prices (since the July 2014 oil price collapse) the price of crude oil has rebounded since June 2017 largely propelled by a synchronized global growth momentum. The parallel depreciation of the rand (loti) against the US dollar has further increased the price of crude in local currency terms and eroding the purchasing power of households already eroded disposable incomes. This double impact has also increased the cost of doing business in an environment of weak consumer demand. While the depreciation of the rand may boost performance of export sector, it also has far dire consequences for oil-importing countries such as Lesotho.

Figure 2 Oil Price vs US$/LSL Exchange Rate



Oil Prices Developments – 2014 to 2018

Between January 2011 and June 2014, the price of Brent crude oil was roughly US$110.0 per barrel. However, oil prices have been falling since then and reaching a low of US$ 29 in January 2016.

Although supply and demand played a role in the high oil price of 2014, global supply growth was the predominant force. The growth of US shale oil production and the decision by Organization for the Petroleum Exporting Countries (OPEC) to maintain output played a role in the initial decline in oil prices. The weak global economic growth at the time also exerted a downward pressure on oil prices.

Prices of crude oil have been increasing since 2017. Oil prices increased to more than US$76 a barrel in June, attaining their highest level since November 2014.

Since July, however, oil prices have stabilized as OPEC and non-OPEC oil exporters (including Russia) agreed to boost production.

Baseline assumptions for the IMF's average petroleum spot prices, based on futures prices, suggest average annual prices of US$69.3 a barrel in 2018—an increase of 31 per cent from the 2017 average—and US$68.8 a barrel in 2019. On the one hand global economic growth is expected to be relatively strong, albeit with regional differences, supporting underlying oil demand. On the other hand, the US Energy Information Administration expects US crude production to reach 10.7 million barrels per day (mbd) in 2018 and 11.7 mbd in 2019, putting downward pressure on oil prices in the medium term.

Implications for Lesotho

The increase in the price of crude oil has an impact on oil-importing countries such as Lesotho, through the following channels:

- the higher price of oil erodes household's disposable incomes
- high oil price will lead to higher import bill, reduce trade balance and national savings, worsen the current account balances.
- higher prices increases transportation cost and therefore raising the cost of doing business in Lesotho. This does not bode well given the current fragile economic conditions in Lesotho. Most of the business have taken a squeeze in profits as a result of low demand and the increase in prices of crude oil further squeezes their profit margins
- higher oil prices have already started to exert an upward pressure on inflation.

Conclusion

There has been increase in prices of crude oil since June 2017 following years of moderate prices. The increase was largely underpinned by strong demand given the current synchronized growth momentum. The depreciation of the rand triggered a further increase in the price of crude oil. The increase in the price of crude oil, has negative consequences on the Lesotho economy. It affects households negatively through an increase in prices of petroleum prices and adversely impacts on business through an increase in operating costs.

Inflation Outlook

Inflation outcomes surprised on the downside remaining below 5.0 per cent throughout the second and the third quarter of 2018. Inflation came in lower than expected with annual inflation rate up to October 2018 averaging just 4.5 per cent. The factors behind the unexpectedly low inflation are the low food prices and muted VAT increase pass-through. Food prices only reached a trough at 4.0 per cent in August 2018 from the 2016 El Niño induced record peaks. The VAT effects that were anticipated to nudge domestic prices higher have been muted as VAT-affected-categories remained stable. Preliminary analysis indicates that retailers and manufacturers alike absorbed the VAT increase by taking a squeeze in profit margins, given the weak consumer demand. The imported inflation from SA also came in lower than expected hence lower domestic inflation.

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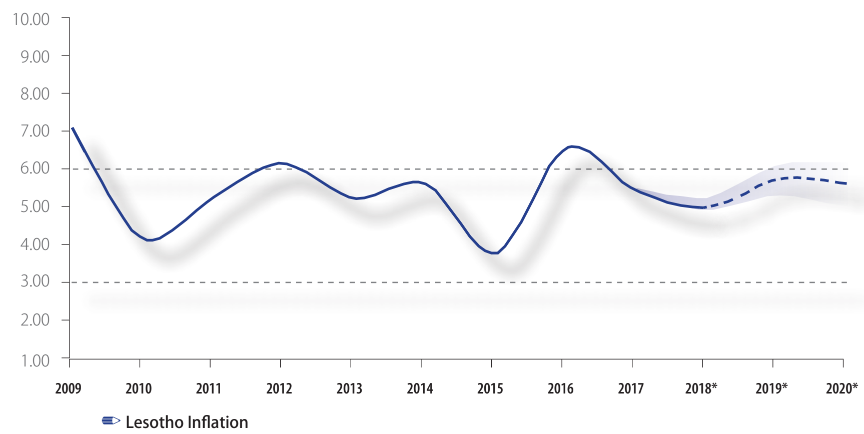
The annual inflation is expected to accelerate from the currently low levels in the medium term. Average annual inflation rate is expected to register 4.7 per cent in 2018, then accelerate to 5.6 and 5.5 per cent in 2019 and 2020, respectively. Food prices which account for the largest weight in the CPI basket, are expected to pick up due to imported inflation given the expected weaker exchange rate path. Domestic production is projected to continue on a downward trend, albeit without any significant anticipated effect on inflation due to the subsistence nature of Lesotho's food production. The international oil prices are also anticipated to exert upward pressures on inflation in the medium-term. However, the effects of the April 2017 VAT increase are expected to drop off the base in 2019 providing some reprieve to inflation acceleration.

Figure 3 Lesotho Inflation Forecast

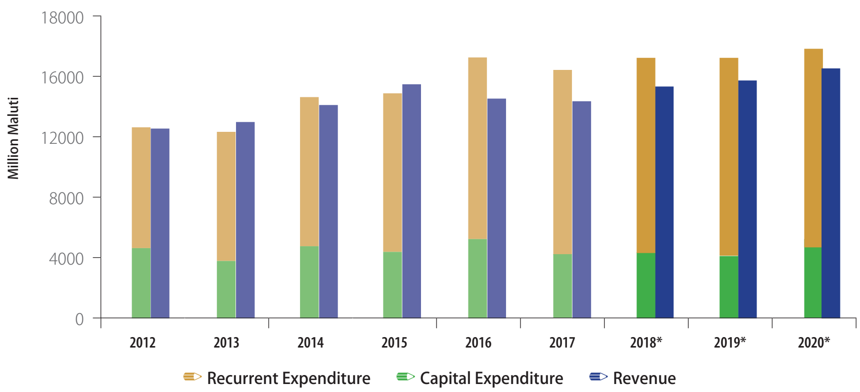


Source: South Africn Reserve Bank and Central Bank of Lesotho

Government Budgetary Operations Outlook

The first half of 2018 saw government budgetary operations registering a surplus reflective of a delayed execution of the 2018/19 budget. The surplus was primarily driven by lower spending (mirroring a vigilant implementation of the 2018/19 budget) relative to collected revenue. This resulted in the accumulation of government savings with the Central Bank of Lesotho. Higher revenue collections were influenced by tax compliance and an increase in the VAT rate to 15.0 per cent. In terms of government spending, a larger proportion went to recurrent outlays, mainly for social and human development, education and as well as health.

Figure 4 Government Revenue and Expenditures



Source: CBL; * Projections, + Estimates

The fiscal deficit is expected to narrow over the period 2018-2020 in line with the inevitable fiscal consolidation and diminishing financing options. The fiscal deficit is set to decline from a deficit of 5.6 per cent in 2017 to 2.2 per cent of GDP in 2020. Forecasts point to a moderate increase in tax revenues as the economy recovers from the 2017 contraction. This will be supplemented by the Lesotho Revenue Authority tax compliance measures. SACU revenue is projected to fall in 2018 -2019 before picking up by 13.4 per cent in 2020 in line with the expected recovery in the SA economy. Expenditures are also expected to grow albeit at a slower pace relative to 2017.

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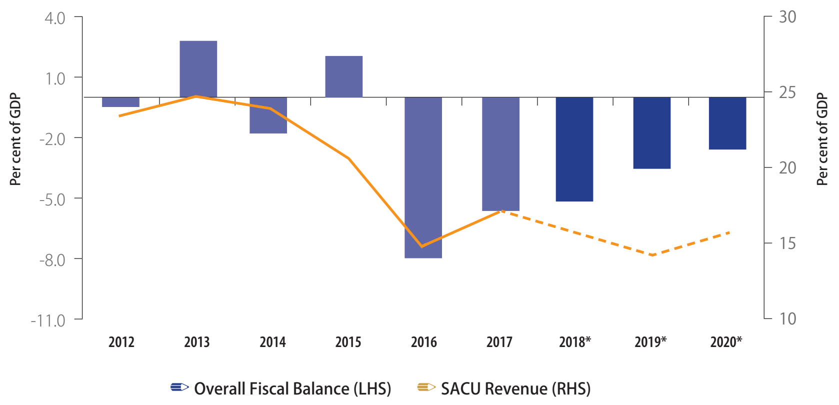
Figure 5 Total Revenue vs Total Expenditure



Source: CBL; * Projections, + Estimates

The fiscal deficit will be financed through a combination of external and domestic borrowing in the medium-term. With the current underperformance of domestic bonds, government is expected to continue filling-up the residual financing gap through contraction of foreign debt to complement domestic borrowing. Therefore, this will lift pressure off government deposits and hence an accumulation of deposits going into 2019 and 2020.

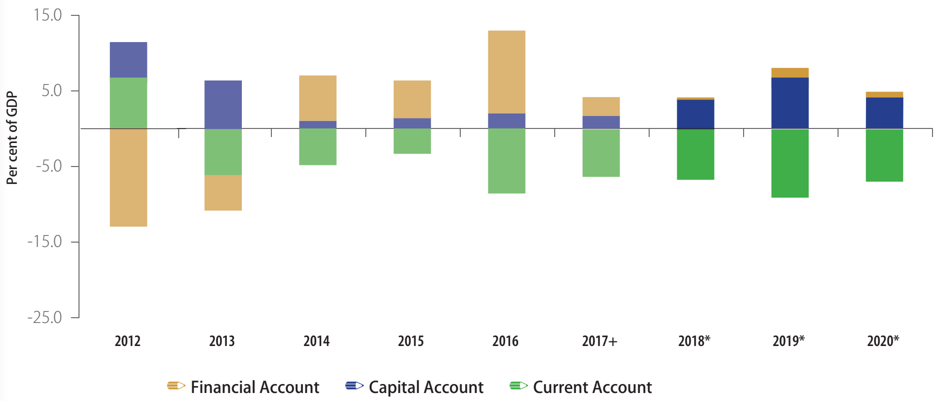
External Sector Outlook

Textile exports were supported by robust demand from the US, and discovery of more high value diamonds during the first half of 2018....

During the first half of 2018, the current account balance improved on the back of the strong performance of the diamonds and textile exports. Textile exports were supported by robust demand from the US, and discovery of more high value diamonds during the first half of 2018. The income accounts registered surpluses due to inflows of interest income, remittances and SACU receipts. The financial account balance also improved on account of a higher accumulation of foreign assets.

The current account is expected to remain in deficit over the period 2018-2020. The current account deficit is projected to register 4.1 per cent in 2018, 7.4 per cent in 2019 before declining to 4.3 per cent of GDP in 2020. The current account deficit will largely reflect the deficits in the trade and services accounts. However, the income accounts will remain in surplus for the projection period.

Figure 6 Outlook for Balance of Payments



Source: CBL; * Projections, + Estimates

Forecasts indicate the narrowing of the trade account deficit in 2018 before widening in 2019. Textile exports are expected to grow by 9.0 per cent in the medium term, driven largely by robust demand from the US and South Africa. However, the textile industry remains susceptible to challenges including, strong competition from the Asian and African counterparts; domestic labour market rigidities and some inefficiencies in services delivery and protectionist policies currently pursued by the big economies. Diamond exports are also expected to grow by an average growth rate of 7.8 per cent over the forecast horizon supported mainly by relatively high diamond prices and discoveries of high valued diamonds. It is projected that the growth in imports will be in line with the nominal GDP growth. More upward pressure on imports will come from construction activities related to mining and implementation of the LHWP II.

It is envisaged that the income accounts will continue to register surpluses as the economy receives income and transfers from abroad. On the one hand, the movement in the primary income account largely reflects the increase in compensation of employees working abroad. On the other hand, the anticipated surplus in the secondary income account is due to SACU revenue and to lesser extent remittances. SACU revenue will fall by average of 1.8 per cent for 2018 to 2019 and then pick up in 2020 by 13.7 per cent. The upward revision in SACU revenue was informed by the upward revision of SA growth outlook as it implements the growth enhancing reforms in the medium term.

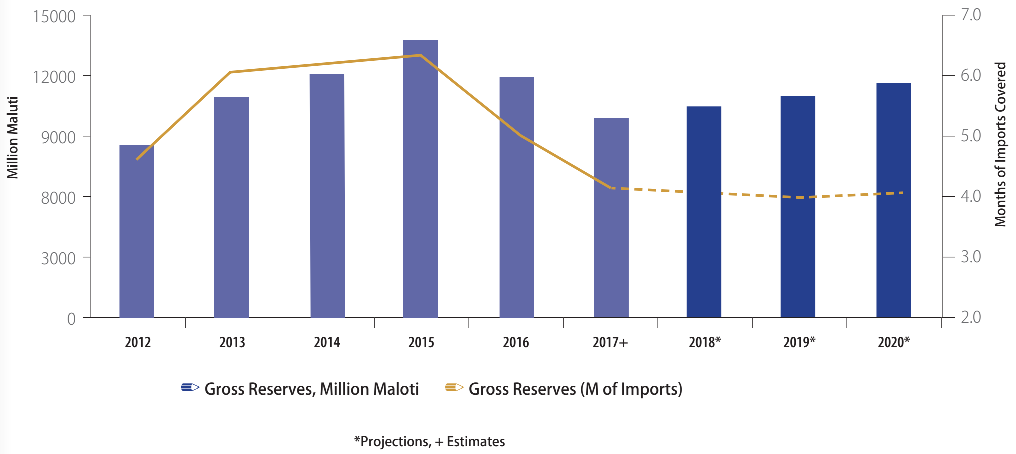
The upward revision in SACU revenue was informed by the upward revision of SA growth outlook as it implements the growth enhancing reforms in the medium term....

The capital account is expected to register an average of 4.7 per cent of GDP relative to 1.8 per cent in 2017....

The capital account surplus will continue to be influenced mainly by capital transfers related to the LHWP II and the government developmental projects over the entire forecast horizon. The capital account is expected to register an average of 4.7 per cent of GDP relative to 1.8 per cent in 2017. In preparation for the construction of Polihali dam, construction of advance infrastructure commenced in November 2018 and will be completed by early 2020. It is envisaged that the construction of the water transfer tunnel and the dam will only commence in 2021. Foreign support for government developmental projects is expected to increase modestly in the medium-term.

Financial flows mainly relating to direct investment are projected to increase moderately in the medium term. After registering 2.5 per cent of GDP in 2017, financial flows are estimated to average 0.7 per cent in the medium term. The financial flows will primarily come from the medical cannabis and mining industries as well as some energy projects. On other investment, commercial banks are expected to increase both their assets and liabilities abroad for trade and investment purposes. The forecasts suggest that both the capital and financial flows will be sufficient to cover the financing needs in the current account. Thus, a build-up in official reserve assets is expected such that the import coverage will average 4.0 months of imports, consistent with the government budgetary operations.

Figure 7 Outlook for Official Reserves Position



Source: CBL; * Projections, + Estimates

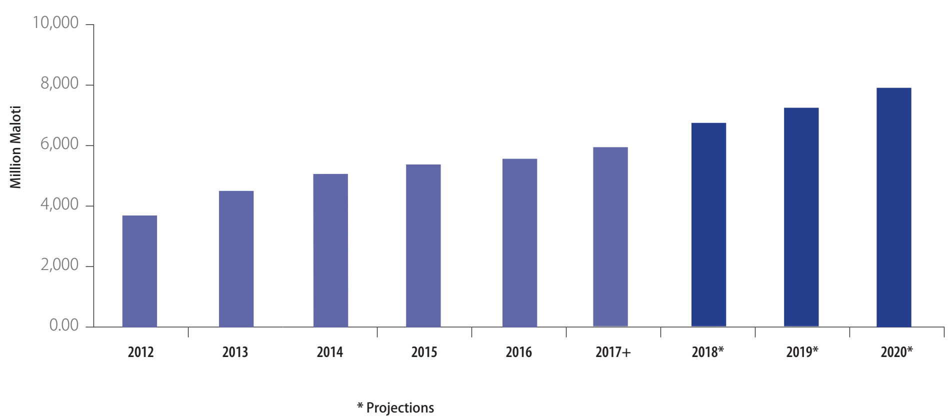
Monetary Sector Outlook

In the first half of 2018, money supply rose by 13.9 per cent leading to an increase in net foreign assets (NFA), moderated by a fall in domestic claims. On an annual basis, money supply rose by 13.9 per cent relative to 1.1 per cent in the first half of 2017. The growth in NFA of commercial banks was attributed to increase in deposits mainly from private sector while for the Central Bank the increase in NFA was due to cautious government spending. Private sector credit also grew by 10.2 per cent reflecting an improvement in both credit extended to business enterprises and credit extended to households. In terms of the components of money supply, both narrow money and quasi money rose by about 17.7 per cent and 10.3 per cent in the first half of 2018, respectively.

Money supply is projected to rise by an average of 5.7 per cent in the medium term in line with nominal GDP. The growth in money supply is expected to lead to an increase in both net foreign assets and net domestic credit. It is expected that foreign assets will increase for the overall banking system, with the CBL NFA increasing by 8.5 per cent and 6.9 per cent for commercial banks, over the forecast horizon. In terms of the domestic claims, a build-up in government savings with the central bank is expected for 2019 and 2020, consistent with government budgetary operations. It is also projected that the commercial banks NFA will continue to be influenced by an improvement in the deposit base and higher returns on their investments abroad. The deposit base will increase in accordance with robust growth within the textiles and mining industries.

The deposit base will increase in accordance with robust growth within the textiles and mining industries....

Figure 8 Private Sector Credit



Source: CBL; * Projections

Given the low appetite for lending to government, banks continue to extent credit to the private sector. Private sector credit is expected to grow by an average of 10.4 per cent during the period 2018-2020 following an 8.5 per cent increase in 2017. This increase will be supported by the robust growth in manufacturing and mining industries and a modest recovery in the services industry. In terms of credit extension, it is anticipated that more than 60 per cent of credit will be extended to households and the remainder to business enterprises more so for mining, real estate and the medical cannabis industry.

Risks to Domestic Growth Prospects

The SA economy entered a recession in June 2018 and is expected to only recover by 2020....

Risks to domestic growth outlook have intensified since the release of the June 2018 projections. The trajectory of Lesotho's economy hinges primarily on two factors – the global macroeconomic outlook and SA economic outlook - both of which have deteriorated since the release of June 2018 macroeconomic outlook. At the time of the release of June 2018 forecasts, the SA economy was showing signs of recovery on the back of a rebound in business and consumer confidence subsequent to the change in political leadership. However, that optimism has since waned given the pro-longed policy and political uncertainty in the run-up to elections in April 2019. The SA economy entered a recession in June 2018 and is expected to only recover by 2020. This reduces the probability of any rebound in the medium term and could protract the economic malaise in Lesotho. The recovery in SACU receipts, which account for over 40 per cent of government revenue and finances as much as 30% of government expenses, is dependent on the recovery of the SA economy. The recovery of SA economy remains uncertain with negative consequences for the Lesotho economy. Additionally, the fragile SA economy will continue to affect Lesotho through other important channels such as remittances into Lesotho.

The risk of tighter global financial conditions has begun to materialize which poses a risk of capital outflows from emerging market economies like South Africa to high-yield economies. This weakens the rand-dollar exchange rate posing risks of imported inflation. If South Africa responds to the tightening global financial conditions, it will increase the cost of borrowing in the face of weak domestic economic conditions, weakening the economy further.

The policy uncertainty within the emerging market economies such Turkey, Argentina and Brazil also poses an additional risk of further pressures on the rand-dollar exchange rate. The currency crisis in Turkey has so far had contagious effects on the emerging market economies currencies including the rand. Mirrored by monetary policy normalization and further interest rate hikes suggest higher interest rates and a stronger US dollar going forward. Higher interest rates reduce financial inflows (and capital reversals) into emerging market economies triggering possible rand depreciation and reversal of recent gains in disinflation.

A range of other noneconomic factors continue to cloud the outlook, inter alia, an assessment of business risk within Lesotho and general policy uncertainty. Investors still deem Lesotho to be a risk country to do business and this further intensified by the current uncertain policy direction. These factors continue to amplify negative growth consequences.

Lesotho faces still faces a challenge of inevitable fiscal consolidation which will have knock-on effects on the Lesotho economy. Fiscal adjustments will weaken growth prospects in the short-term. This will worsen the already sluggish domestic demand on the back of weakened household indebtedness and additional channels emanating from the weak South African economy.

Fiscal adjustments will weaken growth prospects in the short-term....

Conclusion Conclusion

The weakening rand-dollar exchange rate poses risks of imported inflation....

The domestic growth outlook remains subdued due to heightened policy uncertainty at the global, regional and domestic level. The annual growth rate is expected to average 1.6 per cent in the medium term relative to 1.1 per cent projected six months ago largely reflective of base effects following the revision of the National Accounts estimates by BOS. The LHWP is expected to provide boost to performance of construction sector over the forecast horizon and beyond. However, the outlook remains susceptible to the frequently changing schedule of the LHWP Phase II. For instance, the delays in the commencement of the auxiliary works have changed the medium-term outlook. Additional factors underpinning the subdued growth include low aggregate demand and a general slowdown in the secondary and tertiary sectors. Within the primary sector, the mining sector remains the only outlier. Mining activity remains strong underpinned by favourable demand prospects within the advanced and emerging market economies. However, the poor performance in the agricultural sub-sector continues to undermine the primary sector's overall performance.

Risks to domestic growth outlook have intensified since the release of the June 2018 projections. These risks stem primarily from two factors – the global macroeconomic outlook and SA economic outlook - both of which have deteriorated since the release of June 2018 macroeconomic outlook. The SA economy entered a recession in June 2018 and is expected to only recover by 2020 and this reduces the probability of any rebound in the medium term and could protract the economic malaise in Lesotho. The risk of tighter global financial conditions, has begun to materialize which poses a risk of capital outflows from emerging market economies like South Africa to high-yield economies. The weakening rand-dollar exchange rate poses risks of imported inflation. A range of other factors including, business risk within the country, policy uncertainty and challenges of fiscal consolation continue to amplify negative growth consequences for Lesotho.

Appendix I: Selected Macroeconomic Indicators

				Projections		
	2015	2016	2017+	2018*	2019*	2020*
Output - Constant prices						
Gross Domestic Product (% p.a.)	2.72	3.22	-2.28	1.13	2.70	0.99
Per capita GDP (% p.a.)	2.30	-0.82	-2.74	0.66	2.22	0.99
Gross National Income (% p.a.)	3.33	3.22	-2.19	1.48	2.59	1.06
Per capita GNI (% p.a.)	2.91	-0.82	-2.65	1.01	2.10	1.06
Gross Domestic Product (M Million)	23722.42	24485.93	23928.33	24199.72	24852.88	25098.79
Per Capita GDP	12290.56	12189.33	11855.76	11933.88	12198.38	12319.07
Gross National Income (M Million)	25873.10	26705.98	26120.20	26507.69	27193.28	27482.25
Per Capita GNI	13404.83	13294.49	12941.77	13072.03	13347.10	13488.93
Output - Current prices						
Nominal GDP (% p.a.)	12.87	6.30	0.97	5.58	6.52	4.80
Nominal GNI (% p.a.)	13.26	6.69	1.32	6.15	6.61	5.11
Nominal GDP (M Million)	32026.27	34043.93	34375.72	36292.93	38659.57	40515.16
Nominal GNI (M Million)	36042.83	38453.81	38962.61	41358.11	44092.74	46347.86
Sectoral Growth rates (% p.a.)						
Primary Sector	-3.40	11.39	0.82	3.72	-0.09	0.64
Crops	-31.23	161.12	-10.16	-10.15	-13.18	0.46
Mining and Quarrying	1.65	-3.11	-3.00	11.86	3.74	2.27
Secondary Sector	6.71	4.16	-3.80	0.35	9.21	0.37
Manufacturing	12.25	18.81	-6.29	2.50	3.52	3.50
Construction	5.98	-13.90	-1.15	-3.85	28.58	-6.23
Tertiary Sector	3.77	1.58	-2.67	1.39	0.91	1.33
Wholesale and retail trade,repairs	-4.18	1.47	-6.01	-0.58	-0.51	-0.22
Financial and insurance activities	11.42	-7.86	5.51	6.13	3.40	2.83
Real estate activities	2.03	1.63	1.38	1.29	1.31	1.32
Public Admin, Education & Health	3.88	2.28	-1.60	1.75	0.96	1.01
Savings and Investment - Per cent of GNI						
National Savings	26.77	20.91	17.66	15.37	13.95	15.60
Of which Government Savings	9.74	1.24	1.04	1.44	2.08	3.47
Of which Private Sector Savings	17.03	19.67	16.62	13.93	11.87	12.13
Investment	29.52	28.48	23.43	18.98	20.94	19.72
Of which Government Investment	9.14	9.52	7.30	5.71	5.52	5.60
Of which Private Sector Investment	20.38	18.97	16.13	13.27	15.42	14.12
Resource Balance	-2.75	-7.57	-5.77	-3.61	-6.99	-4.12

+ Estimate, * Projection

Appendix I: Selected Macroeconomic Indicators (continued)						
				Projections		
	2015	2016	2017+	2018*	2019*	2020*
Savings and Investment - Per cent of GDP						
National Savings	30.13	23.62	20.02	17.52	15.91	17.85
Of which Government Savings	10.96	1.40	1.18	1.64	2.37	3.97
Of which Private Sector Savings	19.17	22.22	18.83	15.87	13.54	13.87
Investment	33.22	32.17	26.56	21.63	23.88	22.56
Of which Government Investment	10.29	10.75	8.28	6.51	6.30	6.41
Of which Private Sector Investment	22.93	21.42	18.28	15.12	17.59	16.15
Resource Balance	-3.09	-8.55	-6.54	-4.11	-7.97	-4.71
Inflation rate % (CPI)	3.20	6.60	5.23	4.72	5.57	5.46
External Sector - Per cent of GDP						
Current Account	-3.09	-8.55	-6.54	-4.11	-7.97	-4.71
Imports of Goods	68.98	69.61	70.83	70.72	71.33	70.53
Exports of Goods	37.22	38.00	39.86	42.54	40.52	41.45
Capital Flows (+ means an inflow)	1.53	2.10	1.84	3.79	6.92	3.88
Of which Government	1.53	2.10	1.84	3.79	6.92	3.88
Of which Private Sector	0.00	0.00	0.00	0.00	0.00	0.00
Financial Account	4.52	10.56	2.53	0.32	1.05	0.84
	0.00	0.00	0.00	0.00	0.00	0.00
Official Reserves (Months of Imports)	6.31	5.08	4.11	4.05	4.01	4.06
Government Finance - Per cent of GDP						
Revenue (excluding grants)	45.77	40.09	39.62	40.23	39.13	39.28
Tax Revenue	20.65	20.29	19.36	20.62	20.89	20.03
Recurrent Expenditure	-32.44	-35.12	-35.25	-35.09	-33.64	-32.32
Of which compensation of employees	16.66	17.55	18.29	19.09	18.28	17.45
Transaction in non-financial assets	-13.96	-15.59	-12.40	-11.86	-10.92	-10.91
Budget Balance (+ means a surplus)	2.05	-7.99	-5.85	-4.79	-3.60	-2.21
Monetary Aggregates - Nominal growth						
Money supply (M2)	12.56	-4.84	25.53	7.07	6.52	4.80
Private Sector Credit	7.43	2.96	8.53	11.96	9.05	10.16

+ Estimate, * Projection

Appendix II: Real GDP growth rates (In Million Maloti)

	2015	2016	2017+	2018*	2019*	2020*
Primary Sector	`	11.39	0.82	**3.72**	**-0.09**	**0.64**
Agriculture, forestry and fishing	-6.89	22.36	3.12	-0.86	-2.52	-0.46
Growing of crops; market gardening; horticulture	-31.23	161.12	-10.16	-10.15	-13.18	0.46
Farming of animals (incl. fishing)	4.03	1.33	8.73	2.18	-0.69	-2.33
Agricultural and animal husbandry service activities	-5.37	20.26	12.95	0.19	5.90	5.99
Forestry	-18.08	-4.46	5.26	2.68	2.68	2.68
Fishing and aquaculture	-17.57	6.48	-13.75	2.00	2.00	3.00
Mining and quarrying	1.65	-3.11	-3.00	11.86	3.74	2.27
Secondary sector	6.71	4.16	-3.80	**0.35**	**9.21**	**0.37**
Manufacturing	12.25	18.81	-6.29	2.50	3.52	3.50
Food products and beverages	-3.94	28.36	-8.67	1.61	1.52	1.46
Textiles, clothing, footwear and leather	14.12	22.76	-6.23	2.48	3.83	3.83
Other manufacturing	14.50	-8.26	-4.63	3.39	3.10	2.92
Electricity and water	-2.36	-2.51	-0.56	0.06	1.72	1.80
Electricity supply	-2.66	-6.25	0.23	-0.13	1.21	1.92
Water and sewearge; waste collection	-2.23	-0.91	-0.89	0.14	1.93	1.75
Construction	5.98	-13.90	-1.15	-3.85	28.58	-6.23
Tertiary sector	3.77	1.58	-2.67	**1.39**	**0.91**	**1.33**
Wholesale and retail trade; repair of motorvehicles	-4.18	1.47	-6.01	-0.58	-0.51	-0.22
Transportation and storage	-3.02	1.50	-3.27	0.75	0.78	1.34
Accommodation and food service activities	-12.00	4.67	4.46	1.34	1.30	1.56
Information and communication	15.23	13.16	-12.85	0.36	0.18	2.30
Financial and insurance activities	11.42	-7.86	5.51	6.13	3.40	2.83
Financial service activities, except insurance	15.19	-9.68	5.23	6.67	3.25	2.41
Insurance and pension funding	-10.07	1.71	6.51	3.16	2.87	4.16
Activities auxiliary to financial services	2.12	5.46	7.79	3.88	7.02	6.78
Real estate activities	2.03	1.63	1.38	1.29	1.31	1.32
Professional, scientific and technical activities	-1.59	0.32	-7.45	2.03	3.24	3.21
Administrative and support service activities	35.51	-2.21	-5.41	-1.60	0.00	3.79
Public administration and defense; compulsory social security	6.93	1.67	3.97	2.09	1.85	1.97
Education	-0.44	1.50	-7.04	0.95	-0.58	-0.67
Human health and social work activities	4.03	6.18	-8.11	2.24	1.04	1.04
Other service activities	-3.56	8.50	-5.22	-2.11	-1.44	1.73
GDP at factor cost (Unadjusted)	3.61	3.24	-2.53	**1.42**	**2.71**	**1.01**
Financial services indirectly measured	9.45	0.53	-0.32	6.13	3.40	2.83
GDP at factor cost	3.55	3.27	-2.55	1.37	2.70	0.99
of which: Government activities	2.36	0.62	-1.86	3.31	2.70	0.99
Taxes on products	-4.15	2.75	0.20	-0.92	2.70	0.99
GDP at market prices	2.72	3.22	-2.28	**1.13**	**2.70**	**0.99**

+ Estimate, * Projection

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

	2015	2016	2017+	2018*	2019*	2020*
Primary Sector	2,316.80	2,580.74	2,602.02	**2,698.95**	**2,696.52**	**2,713.85**
Agriculture, forestry and fishing	1,318.80	1,613.74	1,664.02	1,649.68	1,608.05	1,600.63
Growing of crops; market gardening; horticulture	170.94	446.35	401.00	360.30	312.83	314.28
Farming of animals (incl fishing)	847.76	859.00	934.00	954.38	947.79	925.71
Agricultural and animal husbandry service activities	80.98	97.39	110.00	110.21	116.71	123.70
Forestry	203.87	194.77	205.02	210.51	216.15	221.94
Fishing and aquaculture	15.24	16.23	14.00	14.28	14.57	15.00
Mining and quarrying	998.00	967.00	938.00	1,049.27	1,088.47	1,113.22
Secondary sector	5,062.65	5,273.19	5,073.00	**5,090.56**	**5,559.52**	**5,580.08**
Manufacturing	2,391.09	2,840.82	2,662.00	2,728.45	2,824.60	2,923.53
Food products and beverages	217.53	279.22	255.00	259.10	263.03	266.86
Textiles, clothing, footwear and leather	1,829.57	2,246.00	2,106.00	2,158.16	2,240.72	2,326.44
Other manufacturing	344.00	315.60	301.00	311.19	320.85	330.23
Electricity and water	1,160.55	1,131.37	1,125.00	1,125.68	1,145.09	1,165.70
Electricity supply	347.98	326.24	327.00	326.58	330.54	336.89
Water and sewearge; waste collection	812.57	805.13	798.00	799.10	814.55	828.81
Construction	1,511.00	1,301.00	1,286.00	1,236.43	1,589.84	1,490.84
Tertiary sector	14,189.48	14,413.79	14,029.31	**14,224.01**	**14,353.46**	**14,544.24**
Wholesale and retail trade; repair of motorvehicles	2,788.00	2,829.00	2,659.00	2,643.57	2,630.21	2,624.52
Transportation and storage	602.00	611.00	591.00	595.44	600.11	608.15
Accommodation and food service activities	300.00	314.00	328.00	332.40	336.70	341.95
Information and communication	1,058.69	1,198.00	1,044.00	1,047.78	1,049.71	1,073.90
Financial and insurance activities	1,632.36	1,504.00	1,586.81	1,684.14	1,741.47	1,790.78
Financial sector activities (except insurance)	1,396.14	1,261.00	1,327.00	1,415.51	1,461.55	1,496.79
Insurance and pension funding	163.21	166.00	176.81	182.40	187.64	195.45
Acivities auxiliary to financial services	73.02	77.00	83.00	86.22	92.28	98.54
Real estate activities	1,321.00	1,342.53	1,361.00	1,378.58	1,396.57	1,415.01
Professional, scientific and technical activities	254.18	255.00	236.00	240.79	248.59	256.56
Administrative and support service activities	680.00	665.00	629.00	618.95	618.95	642.38
Public administration and defense; compulsory social security	2,716.75	2,762.24	2,872.00	2,932.01	2,986.13	3,044.96
Education	1,806.96	1,834.14	1,705.00	1,721.16	1,711.24	1,699.79
Human health and social work activities	782.55	830.88	763.50	780.57	788.72	796.95
Other service activities	247.00	268.00	254.00	248.63	245.05	249.28
GDP at factor cost (Unadjusted)	21,568.93	22,267.72	21,704.33	**22,013.52**	**22,609.50**	**22,838.16**
Financial services indirectly measured	(244.50)	(245.79)	(245.00)	(260.03)	(268.88)	(276.49)
GDP at factor cost	21,324.43	22,021.93	21,459.33	**21,753.49**	**22,340.63**	**22,561.67**
of which: Government activities	4,998.56	5,029.37	4,935.57	5,099.13	5,236.76	5,288.57
Taxes on products, net of subsides	2,397.99	2,464.00	2,469.00	2,446.23	2,512.26	2,537.12
GDP at market prices	23,722.42	24,485.93	23,928.33	**24,199.72**	**24,852.88**	**25,098.79**

* Projections

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

				Projections		
	2015	2016	2017+	2018*	2019*	2020*
Primary Sector	**4192.55**	**4781.64**	**4972.00**	**5069.59**	**4943.25**	**4849.96**
Agriculture, forestry and fishing	1591.55	2005.64	2103.00	2176.65	2238.07	2356.03
Growing of Crops	193.00	560.00	550.00	517.48	474.31	502.52
Farming of Animals(incl fishing)	1030.26	1066.00	1080.00	1155.60	1211.51	1247.86
Agricultural and animal husbandry service activities	101.47	158.00	185.00	194.09	216.99	242.53
Forestry	247.72	201.49	263.00	282.78	306.51	331.89
Fishing and aquaculture	19.11	20.15	25.00	26.70	28.75	31.23
Mining and Quarrying	2601.00	2776.00	2869.00	2892.94	2705.19	2493.93
Secondary sector	**7924.58**	**8371.26**	**8115.00**	**8577.49**	**9746.34**	**10397.45**
Manufacturing	4674.90	5246.78	4721.00	5084.84	5552.38	6074.62
Food products and beverages	269.12	332.09	326.00	346.86	371.72	397.72
Textiles, clothing, footwear and leather	3969.55	4403.85	3890.00	4191.26	4585.60	5031.02
Other manufacturing	436.23	510.84	505.00	546.72	595.06	645.88
Electricity and water	1590.68	1657.47	1842.00	1930.11	2072.96	2225.37
Electricity	394.96	335.22	502.00	525.00	560.94	602.91
Water	1195.73	1322.25	1340.00	1405.12	1512.02	1622.45
Building and Construction	1659.00	1467.00	1552.00	1562.54	2121.00	2097.46
Tertiary sector	**16940.19**	**17802.24**	**18054.72**	**19319.80**	**20367.38**	**21441.14**
Wholesale and retail trade, repairs	3218.00	3554.00	3544.00	3689.58	3875.28	4077.90
Transport and storage	708.00	726.00	711.00	750.13	798.09	852.92
Accommodation and food service activities	323.00	343.00	367.00	389.46	416.46	446.04
Information and communication	1010.50	1129.00	973.00	1022.57	1081.48	1166.78
Financial and insurance activities	2507.68	2356.49	2597.00	2880.87	3144.79	3414.07
Financial sector activities (except insurance)	2094.85	1858.64	2022.00	2258.57	2461.85	2658.79
Insurance and pension funding	311.76	382.85	425.00	459.12	498.59	547.68
Acivities auxiliary to financial services	101.08	114.99	150.00	163.17	184.36	207.60
Real estate activities	1348.63	1372.94	1389.72	1474.05	1576.41	1684.38
Professional and support service activities	277.87	278.73	314.00	335.47	365.63	397.94
Administrative and support service activities	735.66	733.53	671.00	691.42	729.91	798.87
Public administration and defense; compulsory social security	3378.84	3594.25	3750.00	4132.74	4217.03	4217.03
Education	2246.74	2400.67	2608.00	2756.86	2893.55	3031.03
Human health and social work activities	917.28	1020.64	843.00	902.48	962.67	1025.80
Other service activities	268.00	293.00	287.00	294.18	306.08	328.36
GDP at factor cost (Unadjusted)	**29057.32**	**30955.14**	**31141.72**	**32966.88**	**35056.97**	**36688.55**
Financial services indirectly measured	-354.56	-376.00	-407.00	-451.49	-492.85	-535.05
GDP at factor cost	**28702.76**	**30579.14**	**30734.72**	**32515.40**	**34564.12**	**36153.50**
of which: Government activities	4980.02	5179.90	5225.29	5653.01	6128.76	6527.16
Taxes on products, net of subsides	3323.51	3464.79	3641.00	3777.53	4095.44	4361.67
GDP at market prices	**32026.27**	**34043.93**	**34375.72**	**36292.93**	**38659.57**	**40515.16**

* Projections

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Subdued Medium Term Outlook Amid Heightened Uncertainty

Executive Summary

The global growth momentum underway since 2016 continues and global growth for 2018/19 is projected at its 2017 level with increased downside risks. However, the expansion remains unbalanced across countries and may also have peaked in some major economies since the release of the April 2018 economic outlook. In the United States, growth is expected to remain strong supported by pro-cyclical fiscal policy and loose financial conditions. However, growth has been revised downward for the Euro Area and the United Kingdom driven by weaker-than-expected performance in the first half of the 2018. Among the emerging and developing economies, growth in China is projected to moderate from 6.9 per cent in 2017 to 6.6 per cent in 2018 and 6.2 per cent in 2019, reflecting slowing external demand growth and necessary financial regulatory tightening. Having dipped into a technical recession in the first half of 2018, the South African economic growth rate is projected to fall to 0.8 per cent in 2018 from 1.3 per cent in 2017, before recovering to 1.8 per cent in the medium term.

The domestic growth outlook remains subdued due to heightened policy uncertainty at the global, regional and domestic level. The annual growth rate is expected to average 1.6 per cent in the medium term relative to 1.1 per cent projected six months ago largely reflective of base effects following the revision of the National Accounts estimates by BOS. The Lesotho Highlands Water Project (LHWP) is expected to provide boost to performance of construction sector over the forecast horizon and beyond. However, the outlook remains susceptible to the frequently changing schedule of the LHWP Phase II. For instance, the delays in the commencement of the auxiliary works have changed the medium-term outlook. Additional factors underpinning the subdued growth include low aggregate demand and a general slowdown in the secondary and tertiary sectors. Within the primary sector, the mining sector remains the only outlier. Mining activity remains strong underpinned by favourable demand prospects within the advanced and emerging market economies. However, the poor performance in the agricultural sub-sector continues to undermine the primary sector's overall performance.

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