Lesotho

CENTRAL BANK
OF LESOTHO

Economic Outlook 2021 - 2023

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Moderate Recovery Amid Uncertainty

Executive Summary

Following a descend in 2020, the IMF projects a stronger global economic recovery in 2021 despite divergences across countries underpinned by the varying pace of vaccination and domestic economic policy responses. After a 3.3 per cent contraction in 2020, global economic growth is expected to register 6.0 per cent in 2021 and 4.4 per cent in 2022. Nonetheless, the outlook presents challenges due to divergences in the speed of recovery across and within countries and the potential for persistent economic underperformance. Global recoveries are reflective of differences in the pace of vaccinations and the extent of domestic economic policy support. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased. The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. GDP levels are expected to remain below the pre-COVID levels through to 2024 for most economies.

The domestic economy is expected to recover and grow at the rate of 3.7 per cent in 2021 after a 6.0 per cent descent in 2020. Although growth is expected to remain uneven across sectors, the key sectors expected to drive growth in 2021 and beyond include: textile manufacturing, mining, construction and the services industries. However, since all of these sub-sectors involve close human contact, the anticipated recovery is predicated on containment of the pandemic. The inflation rate is expected to pick-up in tandem with the growth recovery and current heightened global food prices. The fiscal position is projected to deteriorate in 2021, reflecting elevated expenditures against declining revenues. The overall fiscal deficit is projected to widen to 10.8 per cent of GDP in 2021 driven by a combination of a fall in revenues and an increase in expenditures. Revenues are projected to fall by 2.6 per cent in 2021 mainly owing to 18.6 per cent projected fall in SACU revenue while tax revenues are only expected to fall marginally. Government

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recurrent expenditure is projected to increase by 22.5 per cent in 2021. Government expenditure is expected to be driven by increased spending on COVID-19 vaccines, social benefits, salaries and capital projects.

The current account balance is expected to deteriorate while private sector credit is expected to improve over the medium-term. Projections point to a deterioration in the current account for the forecast horizon, from a deficit 7.1 per cent in 2021 to 10.1 per cent of GDP in 2023. The deterioration faster increase in imports of goods and services than exports. Current transfers and incomes are also expected to grow in to the medium-term. Notwithstanding elevated credit risk, private sector credit is expected to increase over the medium-term consistent with domestic economy growth. Private sector credit is expected to increase in response to a pick-up in economic activity and a conducive interest rate environment. It is expected to flow to the following sectors: mining, construction and manufacturing industries. Notwithstanding, should Government resort to borrowing aggressively from the domestic banking, the additional borrowing by Government could constrain credit availability to the private sector.

Global Economic Outlook[1]

Global Growth

Following a descend in 2020, the IMF projects a stronger global economic recovery in 2021 despite divergences across countries underpinned by the varying pace of vaccination and domestic economic policy responses. After a 3.3 per cent contraction in 2020, global economic growth is expected to register 6.0 per cent in 2021 and 4.4 per cent in 2022. Nonetheless, the outlook presents challenges on the back of divergences in the speed of recovery across and within countries and the potential for persistent economic underperformance. Global recoveries are reflective of differences in the pace of vaccinations and the extent of domestic economic policy support. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased. The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. GDP levels are expected to remain below the pre-COVID levels through to 2024 for most economies.

While all the advanced economies are expected to rebound in 2021, growth is expected to vary across the advanced economies. The advanced economies category is expected to register 5.1 per cent in 2021 and 3.6 per cent in 2022 following 4.7 per cent contraction in 2020. The US economy is expected to register 6.4 per cent, Europe 4.4, Japan 3.3 per cent. Amongst the advanced economies, the US is expected to exceed its pre-COVID GDP level in 2021 while many will return to their pre-COVID levels only in 2022. The strong growth in the US and Japan is expected to be propelled by the additional fiscal support legislated in both countries at the end of 2020. Additionally, the USD 1.9 trillion rescue package is expected to boost GDP over 2021-22. Although the growth projections for Europe have been revised downwards, the revision is expected to be offset by the strong growth in the US and Japan reflective of the additional fiscal support legislated in both countries at the end of 2020. In the euro area and the United Kingdom, activity is expected to remain below end-of-2019 levels into 2022. The gaps mainly reflective of differences in behavioral and public health responses to infections, flexibility and adaptability of economic activity to low mobility. While the advanced countries have secured sufficient vaccines to attain collective immunity, an emerging key downside risk facing the advanced economies is the slower labour supply due to aging population and climate change.

The US economy is expected to register 6.4 per cent, Europe 4.4, Japan 3.3 per cent....

[1] This section benefited from the International Monetary fund (IMF) April 2020 World Economic Outlook (WEO), the IMF sub-Saharan Africa Economic Outlook and the South African Reserve Bank growth projections.

Following a sharp drop in 2020, only a mild and multispeed recovery is expected in Latin America and the Caribbean in 2021....

The emerging market economies category is projected to grow by 6.7 per cent relative to a 2.2 per cent contraction in 2020. China, which is the largest economy within this category, is expected to grow by a robust 8.4 per cent following a 2.3 per cent expansion in the previous year. Among the emerging market economies, China has already returned to its pre-COVID level in 2020 while others are expected to return to their pre-COVID levels only in 2023. The effective containment measures, a strong public investment response, and central bank liquidity support play an important role in the recovery in China growth trajectory during the pandemic. India is expected to recover by 5.0 per cent after declining by a whopping 19.0 per cent in 2020.

For the Middle East and Central Asia, projections for 2021 have remained broadly unchanged but reflect significant differences among countries, depending on the path of the pandemic, vaccine rollouts, tourism dependence, oil price developments, and policy space and actions. On average, countries that started vaccinations early face relatively better prospects, while fragile and conflict-affected states, which may have to rely on the more limited supply provide COVAX, have seen their outlook worsen. Following a sharp drop in 2020, only a mild and multispeed recovery is expected in Latin America and the Caribbean in 2021. Due to the global manufacturing rebound in the second half of 2020, growth exceeded expectations in some large exporting countries in the region such as Argentina, Brazil, and Peru bringing the 2021 forecast to 4.6 per cent. The longer-term outlook continues to depend on the path of the pandemic. Moreover, 2021 projections for the tourism-dependent Caribbean economies have been revised down by 1.5 percentage points to 2.4 per cent

There is an expectation of a wide divergence in income levels between developing countries and others relative to the pre-COVID era. Preliminary estimates indicate that that lockdowns and containment measures may still persist due to the low pace of vaccination within this category.

An uneven global economic recovery is anticipated for sub-Saharan Africa reflective of the uncertainty concerning the path of the pandemic. The pandemic continues to exact a large toll on sub-Saharan Africa especially in Ghana, Kenya, Nigeria, and South Africa. Following the 1.9 per cent contraction in the region in 2020, growth is expected to rebound to 3.4 per cent in 2021, significantly lower than the trend anticipated before the pandemic. SSA is expected to register the slowest recovery relative to other regions. Growth is expected to be underpinned by improved exports and commodity prices along with a recovery in private consumption and investment. As in October, the current outlook is still subject to greater-than-usual uncertainty, and risks remain dominated by the global pandemic. SSA is still expected to face repeated pandemic episodes before vaccines become widely available.

Despite a plethora of macroeconomic challenges, the South African economy is expected to rebound in in the medium-term. The South African economy is expected to grow at 3.1 per cent in 2021 after declining by 7.0 per cent in 2020. A better-than-expected fourth quarter performance prompted an upward revision in 2021. Looking ahead, authorities have embarked on an ambitious vaccination program, which could limit the risk of additional waves if implemented swiftly. However, rising inequality, chronic electricity shortages, and product and labour market rigidities will likely weigh on growth over the medium-term, limiting the economy's ability to take advantage of an improving global environment.

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

Region	Actuals				Projections	
	2017	2018	2019	2020+	2021*	2022*
World Output	3.8	3.6	2.8	-3.3	6.0	4.4
Advanced Economies	2.5	2.3	1.6	-4.7	5.1	3.6
United States	2.3	3.0	2.2	-3.5	6.4	2.6
Euro Area	2.0	1.9	1.3	-6.6	4.4	3.8
Germany	2.6	1.3	0.6	-4.9	3.6	3.4
Japan	1.7	0.6	0.3	-4.8	3.3	2.5
United Kingdom	1.7	1.3	1.4	-9.9	5.3	5.1
Emerging and Developing Economies	4.7	4.5	4.4	-2.2	6.7	4.8
Russia	1.8	2.8	2.0	-3.1	3.8	3.8
Emerging and Developing Asia	6.6	6.4	5.3	-1.0	8.6	6.0
China	6.9	6.7	5.8	2.3	8.4	5.6
Sub-Saharan Africa	3.1	3.2	3.2	-1.9	3.4	4.0
South Africa	1.4	0.8	0.2	-7.0	3.1	2.0

Source: IMF World Economic Outlook, June 2020; * Projections, + Estimates

Domestic Economic Outlook

Overview of the Current Forecasts

The Bank's current Lesotho Economic Outlook (LEO) paints a less optimistic recovery in the medium-term relative to the March 2021 LEO Update. Relative to the March 2021 LEO Update, the growth forecast has been revised down by 0.6 percentage points for 2021 and 1.0 percentage points for 2022. The growth forecast for 2023 has been revised down by 0.9 percentage points. The domestic economy is now projected to recover by 3.7 per cent in 2021. The recovery is expected to continue into the medium-term and register 4.3 per cent and 4.2 per cent in 2022 and 2023, respectively. Table 2 below shows the revisions to the forecasts relative to the March 2021 forecasts update.

The growth for the construction sub-sector has been marked down by 1.3 percentage points due to the anticipated slow execution of government capital spending....

The revisions to the forecasts are reflective of the Bank's assessment of the recent economic developments, particularly economic outcomes, prospects to date and the pace of COVID-19 vaccination. The downward revision for the 2021 growth forecast mainly reflects less favourable prospects in the secondary sector. Specifically, the growth projection for the textiles sub-sector has been revised down by 5.7 percentage points, in part reflecting the wage strikes that started in May 2021. The growth for the construction sub-sector has been marked down by 1.3 percentage points due to the anticipated slow execution of government capital spending. The mining industry growth was also revised downwards by 5.6 percentage points due to a prolonged placement of some mines on care and maintenance. Meanwhile, the growth forecast for the agricultural sub-sector has been revised upwards by 1.6 percentage points reflecting indications of above average crop harvest in 2021. In the medium-term, the recovery has been revised down by 1.0 percentage points over 2022-23, emanating from the downward revisions in the primary sector and the secondary sector.

The inflation rate forecast has been revised up by 0.2 percentage points for 2021, and revised down by 0.1 and 0.3 for 2022 and 2023, respectively. The upward revision for 2021 reflects an uptick in food prices in the first half of 2021 following supply disruptions and higher imported prices. The downward revision in 2022-2023 represents expected stabilization of food prices in the medium-term.

Table 2: Overview of Domestic Economic Outlook

	Actual	Estimate	June 2021 projections			Differences from March 2021 projections		
	2019	2020+	2021*	2022*	2023*	2021*	2022*	2023*
Economic growth	**-0.4**	**-5.5**	**3.7**	**4.3**	**4.2**	**-0.6**	**-1.0**	**-0.9**
Primary Sector	**3.1**	**-9.5**	**7.0**	**4.5**	**2.6**	**-1.0**	**-2.0**	**-2.6**
Agriculture	6.1	2.3	5.2	2.8	2.3	1.6	-0.4	-0.9
Mining & Quarrying	-0.7	-25.3	10.4	7.5	3.0	-5.6	-4.2	-5.3
Secondary Sector	**-1.4**	**-7.5**	**7.0**	**7.9**	**9.0**	**-2.9**	**-3.4**	**-2.5**
Manufacturing	0.7	-2.0	2.3	2.7	1.8	-4.0	0.8	0.1
Textiles & Clothing	-3.0	-3.2	2.0	2.7	1.7	-5.7	1.0	0.2
Building & Construction	-3.7	-24.9	26.6	26.1	29.7	-1.3	-16.8	-5.9
Services Sector	**0.6**	**-4.2**	**1.9**	**2.8**	**2.4**	**0.1**	**0.0**	**0.1**
Inflation rate (%)	**5.2**	**5.0**	**5.4**	**5.3**	**5.3**	**0.2**	**-0.1**	**-0.3**

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

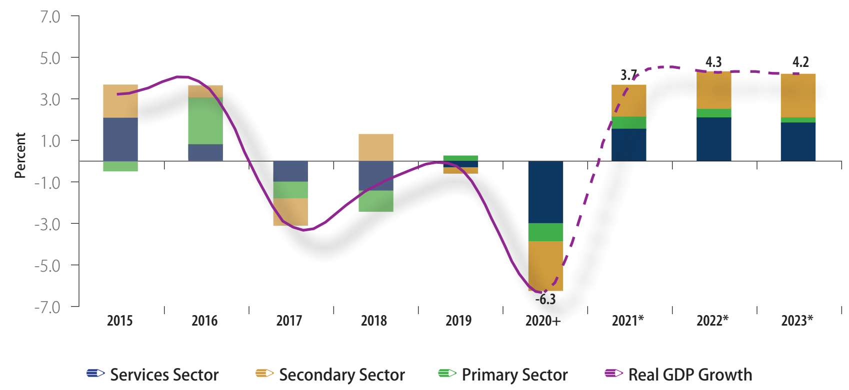
Real Sector Outlook

The domestic economy is expected to recover in 2021, albeit the level of output will remain below pre-pandemic level. The domestic economy is projected to recover by 3.7 per cent in 2021. The recovery is expected to be driven by the services sector and the secondary sector, collectively contributing over two-thirds to the projected growth. The services sector is anticipated to be boosted by increase in aggregate demand, particularly consumption spending, in line with general economic recovery as the economy adapts to operating under the pandemic environment. The secondary sector is expected to be boosted by a strong rebound in construction activity. Agriculture, mining and manufacturing are also expected to contribute positively to the recovery.

In the medium-term, the domestic economy is projected to be on a gradually recovery although it will be below the pre-COVID-19 levels. The economy is projected to grow by 4.3 per cent in 2022, as the pace of recovery gains momentum in most sub-sectors. The projected recovery is set to be driven by increased activity in the construction sub-sector and a further pick-up in momentum by the services sector. Moreover, the recovery will be bolstered by manufacturing and mining activity on the back of improved business and consumer confidence. The recovery is projected to continue into 2023 with the economy registering 4.2 per cent growth. The 2023 growth will be driven by increased construction activity associated with the advanced stages of the second phase of the Lesotho Highlands Water Project (LHWP II) and supportive external demand conditions. The services sector is projected to near pre-pandemic average in the outer year, adding impetus to recovery.

The economy is projected to grow by 4.3 per cent in 2022, as the pace of recovery gains momentum in most sub-sectors.....

Figure 1 Domestic Economic Outlook - Real GDP growth



Source: CBL; * Projections, + Estimates

The mining industry is projected to rebound by 10.5 per cent in 2021, reflecting continuing improvement in market conditions, particularly in the large diamonds market segment....

The primary sector is expected to rebound by 7.0 per cent in 2021 on the back of recoveries in mining industry and crops production. The mining industry is projected to rebound by 10.5 per cent in 2021, reflecting continuing improvement in market conditions, particularly in the large diamonds market segment. The projected rebound in the mining industry also incorporates the anticipated impact of the 45 per cent production capacity expansion at Mothae mine. The mine ramped up production to the new capacity in the second quarter of 2021, thus it is expected to boost diamond recoveries for the remainder of the year. Nonetheless, the continued placement of Liqhobong mine on care and maintenance partially offset the projected rebound. Crop production is expected to rebound by 15.8 per cent in 2021, a turnaround from consecutive contractions in the last four years. The harvest for the main cereal crops is expected to be near average level in 2021, supported by the good seasonal rainfall which was spatially well distributed. Even though the heavy rainfall received in January 2021 caused damage to crops in the southern part of the country, offsetting the expected output, the heavy rains are expected to have boosted the yield across the country. Livestock farming is also expected to benefit from the good rainfall which resulted in good pastures and no disease outbreaks.

In the medium-term, the primary sector is expected to maintain the recovery and register 4.5 per cent in 2022 and 2.6 per cent in 2023. The medium-term recovery is expected to be supported by growth in the mining industry and modest growth in the agricultural sub-sector. In particular, the mining industry is projected to register 7.5 per cent and 3.0 per cent growth in 2022 and 2023, respectively. The growth in the mining industry will be driven by the anticipated return to full scale by all mines and improved diamond market conditions in line with global market prospects. Crop production is expected to grow by an average 2.4 per cent over 2022-2023 supported by favourable weather conditions and government support to farmers.

The secondary sector is expected to rebound by 7.2 per cent in 2021, mainly driven by the expected increase in construction activity. The construction activities are expected to pick up in 2021, with the sub-sector projected to rebound by 26.6 per cent following major delays in the previous year. Specifically, the rebound in the construction sub-sector will be supported by LHWP II as most of advance infrastructure projects will be completed by the end of 2021. Additional boost is expected to come from government construction projects including roads construction, Maseru district hospital, construction of 30 MWp Mafeteng Solar power plant and construction works associated with Lesotho Lowlands Development Project Phase II (LLWDP II)[2]. However, slow implementation remains a major drag on government projects. In the textiles and clothing industry, growth is projected at 2.0 per cent in 2021. While external market conditions are expected to improve and support the textiles exports, the local workers wage strikes are anticipated to slightly weigh down the industry's output. Water and electricity sub-sector is projected to further support the secondary sector's recovery and register 3.8 per cent in 2021, in line with the pick-up in activities in manufacturing and mining industries and the projected general economic recovery.

The construction activities are expected to pick up in 2021, with the sub-sector projected to rebound by 26.6 per cent following major delays in the previous year....

In the medium-term, the secondary sector is projected to gather momentum and grow by 8.1 per cent and 9.2 per cent in 2022 and 2023, respectively. The medium-term recovery will be supported by strong growth in construction sub-sector, modest growth in manufacturing and water and electricity sub-sectors. Specifically, the construction sub-sector is projected to grow by 26.2 per cent in 2022 and 29.7 per cent in 2023. The strong projected growth in construction activities will be driven by commencement of the construction of the transfer tunnel and dam under the LHWP II as the project reaches the advanced stages. The textiles and clothing industry is projected to grow by 2.2 per cent over 2022-23 adding moderate boost to the sector's growth. The industry will be supported by expected global market conditions, especially in South Africa and the US. The electricity and water sub-sector is projected to average 3.3 per cent in 2022-23 as the sub-sector benefits from recoveries in other sectors. The anticipated completion of the first phase of green energy projects, especially the 30 MWp Mafeteng Solar power plant, is expected to boost electricity output in the outer year.

[2] LLWDP II entails construction and rehabilitation of distribution water mains and networks in the Hlotse-Maputsoe area (zones 2 & 3) and in the Mohale's Hoek- Mafeteng area (zones 6 & 7).

The wholesale and trade sub-sector is projected to recover by 3.4 per cent in 2021 reflective of an improvement in consumer spending....

The tertiary sector is projected to recover by 1.9 per cent in 2021 as consumer demand picks up moderately. The improvement in consumer demand is expected to boost output in the services industries including wholesale & trade sub-sector, information and communication, transport and storage and financial services. The wholesale and trade sub-sector is projected to recover by 3.4 per cent in 2021 reflective of an improvement in consumer spending. The improvement in consumer spending is set to be driven by a recovery in household incomes[3] and improved remittances inflows from SA. In the financial sub-sector, finance and insurance activities are projected to recover by 3.5 per cent in 2021 in line with the increase in the general economic activity as both consumer and business confidence improve. The information and communication sub-sector is projected to grow by 4.3 per cent in 2021 due to the increase in demand for telecommunication services as economic activity improves. Hospitality and food services industry is expected to recover by 9.6 per cent in 2021 as the industry faces less restrictions and travel is permitted. The health sub-sector is projected to decline by 6.9 per cent following large spending[4] on COVID-19 in the previous year. Meanwhile, education and public administration are only expected to expand marginally in 2021.

In the medium-term, the tertiary sector is projected to maintain the growth recovery and register an average growth of 2.6 per cent over 2022-2023. A broad-based uneven growth is expected in the tertiary sector, led by the wholesale and trade industry at 4.0 per cent growth and finance and insurance activities at 5.0 per cent growth over 2022-23. The projected growth in these sub-sectors mirrors the anticipated positive spillovers from the primary and secondary sectors as well as remittances inflows from abroad. At least 60 percent of the population – a threshold scientifically considered adequate to attain collective immunity - is expected by end of 2022 hence both consumer and business confidence are expected to improve and therefore boost the tertiary sector. The other sub-sectors which remain at restricted capacity, including hospitality and food, are expected to get some reprieve in 2022 adding to the sectors output.

[3] Household incomes are expected to improve as businesses adjust to operating within the COVID-19-induced impediments.
[4] The large spending on health was made possible by budget reallocation from the capital budget.

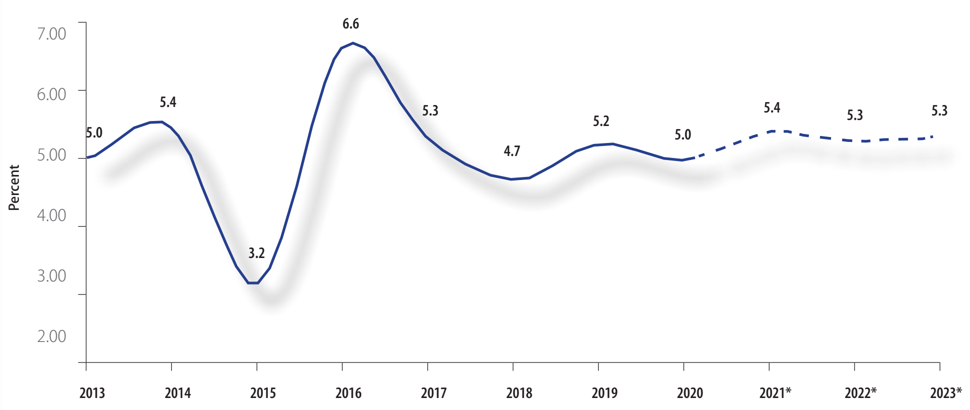
Inflation Outlook

The annual inflation rate is projected to average 5.4 per cent in 2021, reflecting supply chain disruptions in the first quarter. The first quarter of the 2021 saw food prices trending above average amid some supply disruptions with tighter cross border restrictions implemented in January 2021. Food prices reached a high of 14.3 per cent in March 2021. However, food prices are expected to stabilize post-harvest season, driven by expected good grain harvest in both SA and Lesotho. Additional inflationary pressures are expected to come from clothing & footwear and housing, electricity, gas & other fuels.

Food prices reached a high of 14.3 per cent in March 2021....

In the medium-term, the inflation rate is projected to register 5.3 per cent in both 2022 and 2023. The inflation rate in SA is expected to increase from the currently moderate levels hence higher imported food inflation for Lesotho. Therefore, key inflationary pressures will emanate from food prices in the medium-term given their dominant weight in the CPI basket. Further upward pressures are expected to come from administered prices which could be reviewed in the medium-term. The risks to the medium-term inflation outlook appear to be tilted to the downside. Currently elevated food prices could have reached a turning point in second quarter of 2021 due to good crop production. Stabilization of supply chains and associated normal delivery of consumption goods should also offset any inflationary pressures. Nonetheless, oil prices which have increased sharply in 2021, are susceptible to upside risks.

Figure 2 Lesotho Inflation Forecast



Source: CBL, *Projections, +Estimates

Box 1: How Should Lesotho Respond to the COVID-19 Driven Economic Crisis?

Background

It's more than a year into crisis, the war seems far from over especially for the developing world as they grapple with vaccinating their populations. As at end of April 2021, in the majority of advanced economies at least 40 per cent of their populations had received one dose of the vaccine while less than 2.0 per cent of people in the developing economies had received at least one dose. Although at the beginning of the pandemic there were divergent views regarding the choice of policies, there is now global consensus that ending the health crisis is a precondition to ending the global economic crisis. While the majority economies are expected to rebound from 2021 going forward, that rebound is surrounded by a lot of uncertainty given low vaccination rates and a possible resurgence of the pandemic in the developing countries. Lesotho is no exception, the pandemic story is still unfolding and the war is far from being won. Although Lesotho's growth is expected to rebound in 2021 consistent with the global economic recovery, the macroeconomic policy calibration to sustain the recovery beyond 2021 and attain pre-COVID levels will be a daunting challenge given limited policy space at the present, and an extremely low pace of vaccination. The objective of the article is to take a step back and assess how Lesotho has responded to the crisis thus far and how it should calibrate its macroeconomic policy going forward. Lessons from other countries that have successfully tackled the crisis thus will be discussed and recommendations for Lesotho will be based on those lessons.

Lesotho's Responses to the Pandemic Thus Far

How has Lesotho responded to the crisis so far? Lesotho has responded to the crisis through a combination of fiscal, monetary and financial policies. Table 1 below shows some of the policies that Lesotho adopted at the early stages of the crisis. As far as monetary policy is concerned, Lesotho has adjusted its policy rate by 350 basis points. With respect to fiscal policy, Lesotho has allocated funds towards the health, provided support to the textile industry and offered tax deferment policies. Notwithstanding these interventions, the economy estimated to have plummeted by 6.0 per cent in 2020, above the Sub Saharan African 1.9 per cent contraction. What is evident is that the interventions were small relative to shock to the economy. As will be discussed in the next section, countries that have attained positive growth in 2021 and those that that estimated to return to their pre-COVID19 levels at least in 2022 have undertaken unprecedented policy responses relative to the unprecedented nature of the crisis. The other strategy that they have adopted is to prioritize and allocate more resources to the health crisis as the health crisis is a precondition for addressing the economic crisis.

Box 1: How Should Lesotho Respond to the COVID-19 Driven Economic Crisis? (continued)

Table 1: COVID-19 Interventions by Government of Lesotho

Nature of Macroeconomic Policy	Interventions
Fiscal Policy	• Industrial Wage subsidy • COVID-19 Relief fund worth LSL698 million • Partial Credit Guarantee Scheme • Tax relief measures • LNDC rental holiday to businesses • LSL 100 million allocated towards agriculture
Monetary and Financial Policy	• Policy rate cuts • Postponement of Implementation of Financial Regulations requiring higher capital requirements by commercial banks • Bank Loan and insurance payments deferment

Lessons from other countries

The current crisis is predicted to be the most severe crisis in history much more than the financial crisis. A few countries that have been able to weather the storm have had to come up with unprecedented policy responses in order to counter the adverse effects of the crisis. Policy has to be calibrated well to avert slippages into an even deeper crisis. The majority of countries that have successfully handled the COVID-19 driven economic crisis so far have used a combination of fiscal and monetary policy to counter the adverse effect of the pandemic. For instance, China which has already returned to its pre-COVID19 levels used a combination of effective containment measures, an aggressive public investment response and central bank liquidity support. In Japan, Government provide massive highly concessional loans to large, medium and smalls businesses. On the monetary policy side, they established a new one-year facility that would offer loans against corporate debt as collateral at a 0% interest rate. They also doubled the target for net purchases of exchange traded funds. Due to lack of independent monetary policy, Lesotho has a recourse to fiscal policy within its macroeconomic policy toolkit. Nonetheless, there is limited fiscal policy pace given the already high debt levels and limited avenues to raise additional tax revenues. In the US, President Biden signed into law the American Rescue Plan, which provides another round of coronavirus relief with an estimated cost of USD 1,844 billion (about 8.8 per cent of 2020 GDP). The plan focuses on investing in the public health response and providing time-bound assistance to families, communities and businesses. With respect to monetary policy the Federal funds rate was lowered by 150bp in March to 0-0.25bp.

Policy Recommendations

Although Lesotho made some policy interventions, they were small to mitigate the 6.0 percent contraction in GDP seen 2020. To sustain the

Box 1: How Should Lesotho Respond to the COVID-19 Driven Economic Crisis? (continued)

current recovery, Government needs to calibrate macroeconomic policy well in order to speed up a return to pre-COVID level and also avoid a further widening of incomes within the economy. The following policy proposals are made:

- priority should be given to spending on health care and specifically acquisition of vaccines to speed up the pace herd immunity. So far, Lesotho has only benefited under the COVAX initiative and less than 2 per cent has been vaccinated. Fast-tracking vaccination will ensure that future episodes of lockdowns are averted and therefore allow maximum supply.

- While there is limited space in terms of raising additional revenues, improving efficiencies on the expenditure side will help government realize some savings.

- Accelerating implementation of donor-funded programs like MCC Compact 2 will address the intra country income divergences inflicted by the pandemic.

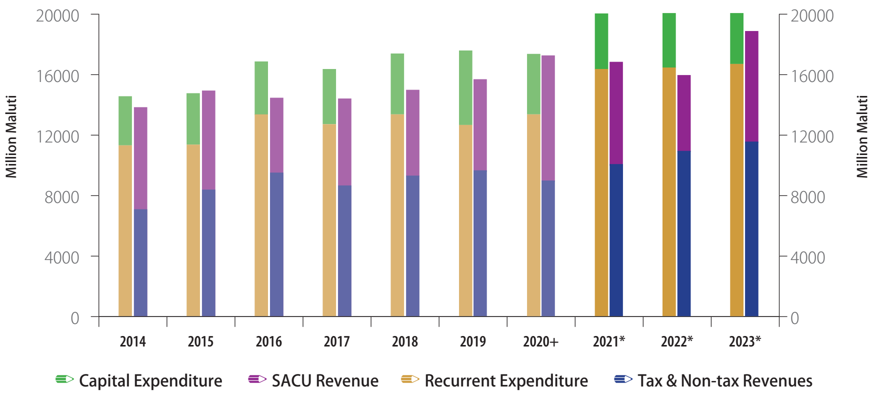
- Seeking assistance from the international donor to reschedule some of the debt obligations falling due during the crisis period.

- Government should only borrow long-term through issuance bonds as short-term borrowing poses a risk of debt distress given already elevated Debt/GDP levels.

Government Budgetary Operations Outlook

The fiscal position is projected to deteriorate in 2021, reflecting elevated expenditures against declining revenues. The overall fiscal deficit is projected to widen to 10.8 per cent of GDP in 2021. The widening of the fiscal deficit is expected to be driven by a combination of a fall in revenues and an increase in expenditures. On one hand, the revenues are projected to fall by 2.6 per cent in 2021 mainly owing to 18.6 per cent projected fall in SACU revenue while tax revenues are only expected to fall marginally. Meanwhile, grants and non-tax revenue are estimated to increase partly moderating the decline in SACU revenue. On the other hand, government recurrent expenditure is projected to increase by 22.5 per cent in 2021. Government expenditure is expected to be driven by spending on COVID-19 vaccines and social benefits to continue the fight against COVID-19 and counter the losses imposed by COVID-19, respectively. By the same token, government wage bill is expected to increase by 8.0 per cent.; while capital spending is expected to increase by 12.2 per cent as most capital projects that were put on hold in 2020 during the strict national lockdown resume.

Figure 3 Government Revenue and Expenditures

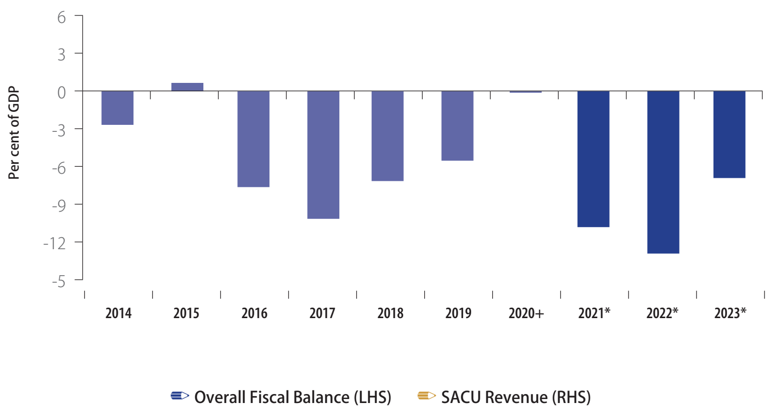


Source: CBL; * Projections, + Estimates

In 2022, the fiscal deficit is projected to widen further to 12.9 per cent of GDP and narrow moderately to 6.9 per cent of GDP in 2023. The widening deficit in 2022 is due to decreasing government revenues amid marginal increase in government expenditure. In particular, government revenues are expected to fall by 5.2 per cent in 2022 due to a sharp fall of 26.3 per cent in SACU revenue. The fall in SACU revenue, despite the recovery in economic activity in the SACU region, is explained by a rebate adjustment for 2020 SACU revenue due to over estimation of imports into the region for 2020. Meanwhile, both tax and non-tax revenues are expected to increase by 8.1 per cent and 11.6 per cent in 2022, respectively, as the domestic economy continues on the recovery path. The projected narrowing of the fiscal deficit in 2023 mainly reflects a significant 46.6 per cent rebound in SACU revenue and modest increase in tax and non-tax revenue. The broad-based increase in revenue is against a moderate increase of 3.6 per cent in total government expenditure.

The widening deficit in 2022 is due to decreasing government revenues amid marginal increase in government expenditure....

Figure 4 Overall Fiscal Balance



Source: CBL; * Projections, + Estimates

For 2021, it is projected that the government will have to identify additional financing equivalent to 1.0 per cent of GDP in 2021....

The projected fiscal deficits are set to be financed through a mix of drawdown of government savings with the banking sector, as well as domestic and foreign borrowing. However, over 2022-2023, these sources will be inadequate to fill the projected fiscal financing gap when planned foreign borrowing is exhausted given the limited capacity of the domestic financial market and insufficient government savings in the banking sector. For 2021, it is projected that the government will have to identify additional financing equivalent to 1.0 per cent of GDP in 2021. The residual financing gap is projected to widen further to 7.8 per cent of GDP in 2022 before narrowing to 4.0 per cent of GDP in 2023 as fiscal operations improve. The projected fiscal path requires the government to implement growth-supportive fiscal adjustment in order to narrow the widening fiscal deficit, limit the accumulation of foreign debt and avoid possible accumulation of arrears. This measure would ensure both fiscal sustainability and general macroeconomic stability.

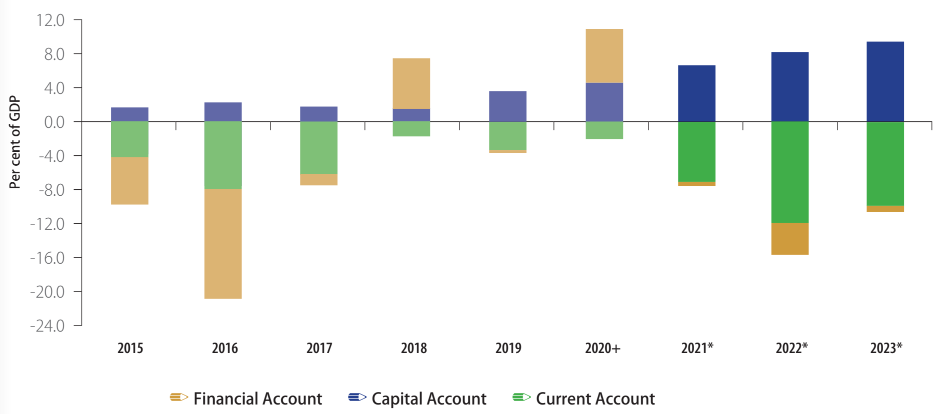
External Sector Outlook

The COVID-19 pandemic has had an adverse impact on the external sector through cross-border trade, labour market dynamics and foreign investment decisions. The current account deficit narrowed to 2.1 per cent in 2020 relative to 3.4 per cent of GDP in 2019. The smaller deficit reflected a decline in trade flows, falling commodity prices and low demand. These weaknesses in trade came as a result of the COVID-19 effects and the associated mitigation measures implemented. Despite the COVID-19 challenges, the migrant workers incomes and remittances proved to be resilient in 2020. The resilience partly showed a shift to formal channels of transferring money due to limited cross-border travel. Projections point to a deterioration in the current account for the forecast horizon, from a deficit 7.1 per cent in 2021 to 10.1 per cent of GDP in 2023. The deterioration reflects a recovery in the trade flows, more so for the imports of goods and services. Current transfers and incomes are also expected to grow in to the medium-term.

Despite the COVID-19 challenges, the migrant workers incomes and remittances proved to be resilient in 2020....

Medium-term projections suggest an increase in export earnings as the global economy recovers from the COVID-19 recession. In 2021, diamond exports are set to rise by 12.0 per cent, reflecting improved market sentiment as well as robust rough diamond demand and prices. On domestic factors, diamond exports are set to benefit from the discovery of high-value diamonds; higher overall output due to increased production capacity and favourable market conditions in the large diamonds market segment. On a similar note, earnings from textile exports are estimated to rise marginally by 0.7 per cent in 2021, reflecting a recovery in consumer demand especially regionally and in the US economy. However, the projected growth will be the dampened by the effect of the factory workers' strike concerning the minimum wage negotiations. Beyond 2021, both diamonds and textiles exports are expected to gain momentum and increase by an average of 3.4 per cent, in line with global economic growth.

Figure 5 Outlook for Balance of Payments



Source: CBL; * Projections, + Estimates

Imports are forecast to increase by 6.4 per cent in 2021....

With the expected rebound in domestic demand and economic activity, imports are also projected to increase for both consumption and investment purposes. Imports are forecast to increase by 6.4 per cent in 2021. Imports related to the LHWP II are set to be the main driver of the increase in imports in 2021. As the economy continues to battle with COVID-19, import payments related to COVID-19 vaccines are also bound to increase. The same trend is expected to continue in 2022 and 2023, in which imports will rise by an average of 7.8 per cent. The economy is projected to continue to be the net-importer of services for the forecast horizon. It anticipated that COVID-19 would have lingering effects on cross-border services more so for travel, transport and tourism sectors.

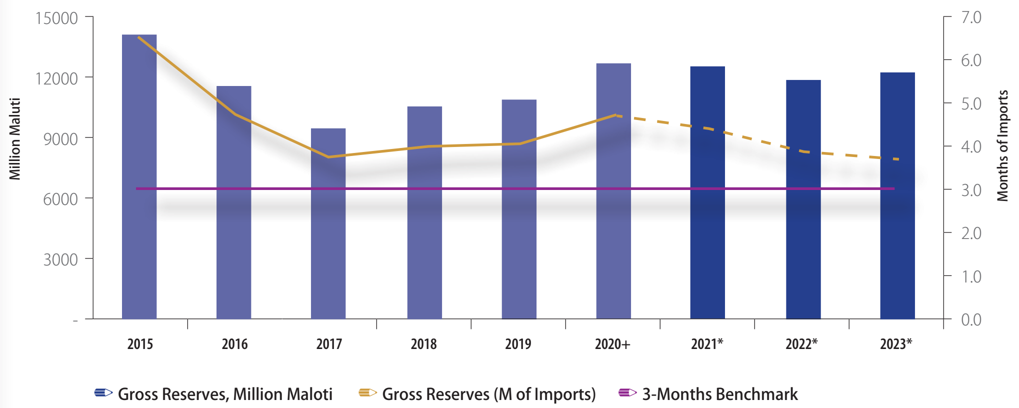
It is anticipated that Inflows of income and current transfers will weather the effects of the pandemic and increase in the medium-term. With the global and regional growth expected to rebound further in 2021, migrant workers incomes and remittances are set to increase by 6.3 per cent and 5.8 per cent, respectively. SACU revenue is estimated to decline by 18.6 per cent due to subdued regional economic growth. The modest economic recovery expected in SA is set to bode well for the incomes of Basotho working in SA. Thus, in 2021 and 2022, the number of Basotho migrant workers is set to increase gradually, mostly in the informal sector and to a lesser extent in the mining sector. However, forecast estimates of SACU revenue indicate a further decline of 26.8 per cent in 2022, reflecting modest regional economic growth as well as the expected downward adjustment, due to lower than anticipated imports into the SACU region. An improvement is expected in 2023 as the growth outlook in SA improves, and hence improved collection of duties.

More capital inflows for the LHWP II and other government infrastructure projects are expected over the period 2021-2023. The floods that were experienced in January 2021 caused minimal damage on the LHWP II, with temporary interruptions only on the construction of diversion tunnels. Thus, it is envisaged that the construction of advance infrastructure will be completed in 2022, while the construction of the dam and tunnel will only commence early during the same year. Foreign support for other government developmental projects is expected to increase modestly in the medium-term.

Foreign investment inflows are expected to remain weak due to low vaccination rates in order to stimulate investment. Direct investment flows are projected to rebound gradually, though with great uncertainty due to the evolution of COVID-19 which also affects the decisions by investors in committing to new projects. Direct investment flows could be seen in medical cannabis, mining and fishing industries. Commercial banks assets abroad are set rise in the medium-term for trade and investment purposes. Foreign debt levels are also estimated to increase in line with government budgetary operations. Official reserves, measured in months of imports, are expected to decline from 4.4 months in 2021 to 3.7 months in 2023.

Commercial banks assets abroad are set rise in the medium-term for trade and investment purposes....

Figure 6 Outlook for Official Reserves Position



Source: CBL; * Projections, + Estimates

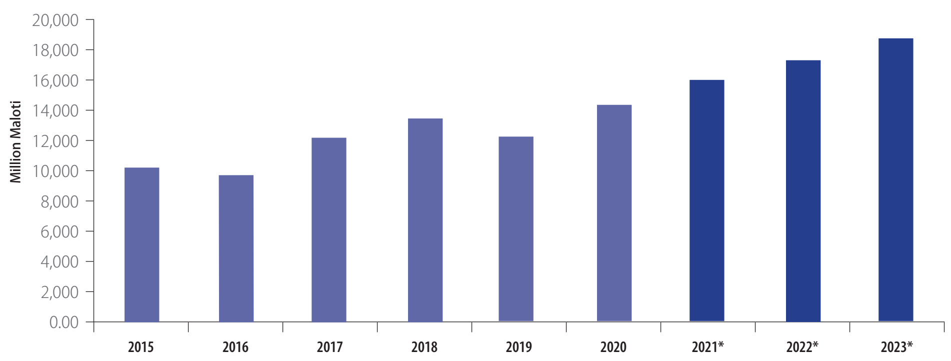
Monetary Sector Outlook

Money supply is projected to grow by 12.1 per cent in 2021, following a 17.1 per cent rise in 2020. The growth in money supply reflects increases in both foreign and domestic assets. On the one hand, commercial banks' net foreign assets are set to increase for investment and to facilitate trade over the forecast horizon. On the other hand, central bank net foreign assets are forecast to decline in 2021 and 2022 to finance the gap in the balance of payments due to increased imports and a shortfall in SACU revenue. The year 2023 will see an increase in the overall banking sector net foreign assets as the economy rebounds further.

Private sector credit will increase by an average of 7.3 per cent in 2022 and 2023....

With regard to domestic assets, credit extended to the private sector is projected to rebound and grow by 7.4 per cent in 2021 consistent with the expected broad based economic recovery. It is expected that the low interest rate environment will continue to boost lending, amid heightened credit risk. Over the period 2022-23, credit demand will strengthen further as the economic activity returns to normalcy and households and businesses recover from the effects of the pandemic. Private sector credit will increase by an average of 7.3 per cent in 2022 and 2023. Credit extended to businesses will largely benefit from the growth momentum in the mining, construction and manufacturing industries.

Figure 7 Money Supply



Source: CBL; * Projections

Risks to Domestic Growth Outlook

Notwithstanding the expected global and domestic economic recovery, the risks to Lesotho's macroeconomic outlook remain tilted to the downside primarily due to the uncertainty related to the path of the pandemic. First, repeated episodes of the pandemic and probable mutations in the virus are anticipated. These two factors alone would necessitate imposition of additional lockdowns which will derail the pace of domestic economic recovery. Second, the low pace of vaccination in both Lesotho and South Africa will continue to negatively impact Lesotho's growth story going forward. There is anecdotal evidence that a return to pre-COVID GDP levels and attainment of a sustained growth recovery is dependent on containing the virus as seen in major economies such as China and the US. So far, Lesotho and South Africa have vaccinated a small proportion of their populations and are not likely to attain collective immunity over the next 12 months.

The effectiveness of the vaccines against new strains of the virus remains another important threat to both global and Lesotho's economic recovery. Uncertainty remains regarding the effectiveness of some of the approved vaccines against new strains and this could lead to more restrictions in the future and new strains remain potential headwinds for economic activity. Additionally, the current uneven access to the vaccine by the developed vis-à-vis the developing countries exposes the latter to a possibility of frequent eruption of new strains.

Uncertainty remains regarding the effectiveness of some of the approved vaccines against new strains ....

The fragile fiscal situation and policy uncertainty are expected to compound the downside risks. The other major downside risk to Lesotho's growth outlook is the current government's fragile fiscal position which will constrain the ability to respond to the crisis. Government of Lesotho entered the crisis in an already precarious fiscal position, the pandemic made the situation worse by adversely impacting tax revenue and SACU receipts – the major source of government revenue. Given the relatively high expenditure level, the fiscal gap remains huge – more than 10% of GDP - and it is unclear how it will be financed given limited government buffers and limited domestic borrowing capacity.

[3] LIMF policy conditionality can be in the form of: actions that a country agrees to take before the IMF approves financing or completes a review; or measurable conditions for IMF lending that always relate to macroeconomic variables under the control of the authorities; or reform measures that are critical for achieving program goals.

Conclusion

The economy is expected to recover and grow at the rate of 3.7 per cent in 2021 after a 6.0 per cent descent in 2020. Although growth is expected to remain uneven across sectors, the key sectors that expected to drive growth include: textile manufacturing, mining, construction and the services industry. However, all of these sub-sectors involve close human interaction, the anticipated recovery is predicated on few episodes of the pandemic. The inflation rate is expected to pick-up in tandem with the growth recovery story and current heightened global food prices. The fiscal position is expected to deteriorate reflective of the impact of the pandemic on both the SACU – the largest source of government revenue – and the relatively high persistent expenditure level. Credit is expected to grow in line with anticipated economic recovery. Notwithstanding, should Government resort to borrowing aggressively from the domestic banking, the additional borrowing by Government could constrain credit availability to the private sector. The current account balance is expected to deteriorate in both 2021 and 2022 reflective of lower SACU receipts and imports that continue to outpace exports

Appendix I: Selected Macroeconomic Indicators

				Projections		
	2018	2019	2020+	2021*	2022*	2023*
Output - Constant prices						
Gross Domestic Product (% p.a.)	-1.22	-0.38	-6.29	3.68	4.30	4.19
Per capita GDP (% p.a.)	-1.69	-0.85	-6.73	3.19	3.81	3.70
Gross National Income (% p.a.)	-0.93	-0.60	-0.86	3.62	4.22	3.57
Per capita GNI (% p.a.)	-1.39	-1.07	-1.33	3.14	3.73	3.08
Gross Domestic Product (% p.a.)	21530.58	21448.45	20099.70	20838.94	21735.90	22646.82
Per capita GDP (% p.a.)	10617.61	10527.40	9819.03	10132.32	10518.77	10908.08
Gross National Income (% p.a.)	24533.86	24386.96	24177.41	25053.75	26110.61	27041.72
Per capita GNI (% p.a.)	12098.65	11969.69	11811.07	12181.64	12635.85	13024.93
Output - Current prices						
Nominal GDP (% p.a.)	8.28	2.33	-3.09	12.08	7.91	8.30
Nominal GNI (% p.a.)	8.47	2.14	2.46	11.30	7.96	7.74
Nominal GDP (M Million)	33271.97	34046.45	32995.77	36980.36	39905.33	43218.37
Nominal GNI (M Million)	37918.26	38730.32	39681.61	44163.66	47678.95	51368.71
Sectoral Growth rates (% p.a.)						
Primary Sector	-11.58	3.09	-9.50	7.04	4.49	2.57
Crops	-46.94	-21.45	-2.84	15.84	2.49	2.40
Mining and Quarrying	-9.40	-0.69	-25.31	10.45	7.47	2.99
Secondary Sector	6.12	-1.40	-10.70	7.18	8.09	9.25
Manufacturing	14.23	0.73	-7.65	2.30	2.65	1.84
Construction	-3.68	-3.72	-24.95	26.58	26.17	29.68
Tertiary Sector	-2.15	0.63	-4.22	1.93	2.82	2.40
Wholesale and retail trade,repairs	-9.23	-3.75	-9.96	3.43	4.04	3.98
Financial and insurance activities	-1.93	7.95	-4.52	3.48	6.19	3.84
Real estate activities	-0.13	0.59	-0.22	0.74	0.75	0.79
Public Admin, Education & Health	0.80	0.59	2.35	-0.68	0.53	0.54
Savings and Investment - Per cent of GNI						
National Savings	13.74	14.55	27.22	19.89	18.92	24.17
Of which Government Savings	3.40	7.11	9.41	-1.65	-3.89	1.50
Of which Private Sector Savings	10.34	7.44	17.81	21.54	22.81	22.67
Investment	15.33	17.51	28.95	25.84	28.92	32.61
Of which Government Investment	10.24	12.18	9.72	9.80	9.41	9.66
Of which Private Sector Investment	5.09	5.33	19.22	16.04	19.51	22.94
Resource Balance	-1.60	-2.96	-1.73	-5.95	-9.99	-8.44

+ Estimate, * Projection

Appendix I: Selected Macroeconomic Indicators (continued)						
				Projections		
	2018	2019	2020+	2021*	2022*	2023*
Savings and Investment - Per cent of GDP						
National Savings	15.66	16.55	32.73	23.75	22.61	28.73
Of which Government Savings	3.87	8.09	11.31	-1.97	-4.64	1.78
Of which Private Sector Savings	11.78	8.46	21.42	25.72	27.25	26.95
Investment	17.48	19.92	34.81	30.86	34.55	38.76
Of which Government Investment	11.67	13.86	11.69	11.70	11.25	11.49
Of which Private Sector Investment	5.81	6.06	23.12	19.16	23.31	27.27
Resource Balance	-1.82	-3.37	-2.08	-7.11	-11.94	-10.03
Inflation rate % (CPI)	4.71	5.20	4.98	5.38	5.25	5.31
External Sector - Per cent of GDP						
Current Account	-1.82	-3.37	-2.08	-7.11	-11.94	-10.03
Imports of Goods	76.41	75.68	79.11	75.62	75.61	75.17
Exports of Goods	48.34	45.20	43.55	40.60	41.11	38.36
Capital Flows (+ means an inflow)	1.48	3.68	4.60	6.57	8.21	9.41
Financial Account	5.97	-0.29	6.28	-0.53	-3.73	-0.62
Official Reserves (Months of Imports)	3.96	4.03	4.68	4.35	3.83	3.69
Government Finance - Per cent of GDP						
Revenue (excluding grants)	44.62	45.78	51.52	42.17	36.59	40.56
Tax Revenue	22.01	23.24	21.41	19.07	19.11	18.67
Recurrent Expenditure	-40.05	-37.23	-40.34	-44.09	-41.14	-38.61
Of which compensation of employees	-19.41	-18.62	-19.81	-19.10	-18.15	-17.13
Transaction in non-financial assets	-12.02	-14.28	-12.05	-12.06	-11.59	-11.83
Budget Balance (+ means a surplus)	-7.10	-5.46	-0.14	-10.75	-12.85	-6.92
Monetary Aggregates - Nominal growth						
Money supply (M2)	10.69	-8.99	17.12	12.08	7.91	8.30
Private Sector Credit	10.77	8.15	0.67	7.37	6.02	8.66

+ Estimate, * Projection

Appendix II: Real GDP Growth Rates

	2018	2019	2020+	2021*	2022*	2023*
Primary Sector	**-11.58**	**3.09**	**-9.50**	**7.04**	**4.49**	**2.57**
Agriculture, forestry and fishing	-13.24	6.10	2.27	5.19	2.80	2.32
Growing of crops; market gardening; horticulture	-46.94	-21.45	-2.84	15.84	2.49	2.40
Farming of animals (incl. fishing)	4.51	15.21	3.43	3.49	2.99	2.37
Forestry	-0.03	-2.96	0.29	0.29	0.29	0.29
Fishing and aquaculture	36.23	1.08	3.00	4.00	4.00	4.50
Mining and quarrying	-9.40	-0.69	-25.31	10.45	7.47	2.99
Secondary sector	**6.12**	**-1.40**	**-10.70**	**7.18**	**8.09**	**9.25**
Manufacturing	14.23	0.73	-7.65	2.30	2.65	1.84
Food products and beverages	37.44	20.09	0.81	2.58	2.63	2.67
Textiles, clothing, footwear and leather	15.02	-3.03	-10.48	2.02	2.75	1.66
Other manufacturing	-8.39	11.19	3.25	3.77	2.02	1.98
Electricity and water	-1.97	-4.69	-3.55	3.82	3.75	2.84
Electricity supply	1.79	-9.27	-1.84	2.86	3.33	1.33
Water and sewearge; waste collection	-3.94	-2.13	-4.43	4.33	3.97	3.63
Construction	-3.68	-3.72	-24.95	26.58	26.17	29.68
Tertiary sector	**-2.15**	**0.63**	**-4.22**	**1.93**	**2.82**	**2.40**
Wholesale and retail trade; repair of motorvehicles	-9.23	-3.75	-9.96	3.43	4.04	3.98
Transportation and storage	-5.84	-0.11	-15.38	7.56	4.76	5.04
Accommodation and food service activities	-6.41	-4.31	-31.90	9.57	9.69	6.74
Information and communication	7.56	4.70	-7.15	4.26	3.88	3.58
Financial and insurance activities	-1.93	7.95	-4.52	3.48	6.19	3.84
Financial service activities, except insurance	-5.31	8.11	-5.19	3.43	6.41	3.50
Insurance and pension funding	22.14	7.42	-1.34	4.49	6.14	5.27
Activities auxiliary to financial services	15.34	6.39	-0.55	1.83	2.51	6.14
Real estate activities	-0.13	0.59	-0.22	0.74	0.75	0.79
Professional, scientific and technical activities	-1.35	-2.84	-1.81	2.07	2.15	2.01
Administrative and support service activities	-7.69	-8.33	-8.29	1.05	1.98	1.54
Public administration and defense; compulsory social security	0.34	0.33	0.18	0.19	0.19	0.20
Education	3.27	0.37	0.22	0.36	0.66	0.89
Human health and social work activities	3.95	2.81	20.80	-6.88	2.95	2.85
Other service activities	2.47	3.28	1.44	1.66	1.83	1.98
GDP at factor cost (Unadjusted)	**-1.16**	**0.33**	**-6.38**	**3.68**	**4.30**	**4.19**
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	2.00
GDP at factor cost	**-1.16**	**0.33**	**-6.38**	3.68	4.30	4.19
Taxes on products	-1.72	-5.71	-5.60	3.68	4.30	4.19
GDP at market prices	**-1.22**	**-0.38**	**-6.29**	**3.68**	**4.30**	**4.19**

+ Estimate, * Projection

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

	2018	2019	2020+	2021*	2022*	2023*
Primary Sector	**1791.16**	**1846.50**	**1671.16**	**1788.88**	**1869.24**	**1917.28**
Agriculture, forestry and fishing	997.96	1058.79	1082.82	1139.05	1170.90	1198.08
Growing of crops; market gardening; horticulture	212.71	167.09	162.34	188.06	192.74	197.37
Farming of animals (incl fishing)	709.23	817.12	845.13	874.65	900.78	922.16
Forestry	55.87	54.22	54.37	54.53	54.69	54.84
Fishing and aquaculture	20.15	20.37	20.98	21.82	22.69	23.71
Mining and quarrying	793.19	787.71	588.34	649.82	698.33	719.20
Secondary sector	**4899.96**	**4831.25**	**4314.28**	**4624.24**	**4998.49**	**5460.62**
Manufacturing	2773.73	2793.87	2580.18	2639.47	2709.31	2759.07
Food products and beverages	290.24	348.54	351.36	360.41	369.88	379.77
Textiles, clothing, footwear and leather	2223.21	2155.91	1930.00	1968.96	2023.05	2056.66
Other manufacturing	260.28	289.42	298.83	310.10	316.38	322.64
Electricity and water	1004.81	957.71	923.76	959.07	995.02	1023.29
Electricity supply	359.62	326.27	320.27	329.44	340.41	344.93
Water and sewearge; waste collection	645.19	631.44	603.49	629.63	654.61	678.36
Construction	1121.41	1079.67	810.34	1025.70	1294.16	1678.26
Tertiary sector	**12288.81**	**12365.75**	**11844.00**	**12072.08**	**12413.11**	**12710.96**
Wholesale and retail trade; repair of motorvehicles	2427.30	2336.37	2103.55	2175.81	2263.64	2353.66
Transportation and storage	502.93	502.40	425.15	457.29	479.07	503.21
Accommodation and food service activities	288.43	276.00	187.97	205.95	225.91	241.14
Information and communication	1099.51	1151.16	1068.84	1114.37	1157.65	1199.13
Financial and insurance activities	1800.44	1943.50	1855.59	1920.11	2038.89	2117.15
Financial sector activities (except insurance)	1506.16	1628.30	1543.86	1596.89	1699.28	1758.79
Insurance and pension funding	205.50	220.76	217.81	227.58	241.55	254.29
Acivities auxiliary to financial services	88.77	94.44	93.93	95.65	98.05	104.07
Real estate activities	1275.27	1282.82	1280.04	1289.48	1299.14	1309.42
Professional, scientific and technical activities	217.18	211.00	207.17	211.46	216.02	220.35
Administrative and support service activities	554.37	508.22	466.10	470.98	480.29	487.69
Public administration and defense; compulsory social security	3344.86	3355.87	3361.82	3368.18	3374.72	3381.36
Education	130.26	130.73	131.02	131.49	132.36	133.54
Human health and social work activities	399.27	410.50	495.87	461.73	475.36	488.91
Other service activities	249.01	257.18	260.88	265.22	270.06	275.42
GDP at factor cost (Unadjusted)	**18979.92**	**19043.50**	**17829.45**	**18485.19**	**19280.84**	**20088.87**
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	0.00
GDP at factor cost	**18979.92**	**19043.50**	**17829.45**	**18485.19**	**19280.84**	**20088.87**
Taxes on products, net of subsides	2550.65	2404.95	2270.25	2353.75	2455.06	2557.95
GDP at market prices	**21530.58**	**21448.45**	**20099.70**	**20838.94**	**21735.90**	**22646.82**

* Projections

Appendix IV: GDP at Current Prices (In Million Maloti)

				Projections		
	2018	2019	2020+	2021*	2022*	2023*
Primary Sector	**3433.24**	**3548.92**	**3313.19**	**3688.68**	**4197.97**	**4696.06**
Agriculture, forestry and fishing	1437.87	1617.50	1738.74	1924.64	2082.99	2244.96
Growing of Crops	266.74	230.29	234.88	286.73	309.30	333.54
Farming of Animals(incl fishing)	1076.40	1288.60	1399.15	1525.93	1654.05	1783.26
Forestry	66.79	67.42	70.98	75.01	79.18	83.62
Fishing and aquaculture	27.95	31.19	33.73	36.97	40.46	44.53
Mining and Quarrying	1995.38	1931.42	1574.45	1764.04	2114.98	2451.11
Secondary sector	**8536.14**	**8639.91**	**7690.55**	**8636.34**	**9362.79**	**10374.77**
Manufacturing	5623.67	5630.31	4940.00	5378.66	5481.97	5653.85
Food products and beverages	413.50	506.94	536.48	579.91	626.41	677.31
Textiles, clothing, footwear and leather	4849.37	4725.03	3971.74	4326.58	4348.53	4432.00
Other manufacturing	360.80	398.35	431.78	472.18	507.03	544.54
Electricity and water	1614.87	1711.07	1727.42	1892.95	2068.48	2245.85
Electricity	474.23	392.13	404.08	438.02	476.37	508.33
Water	1140.65	1318.94	1323.33	1454.94	1592.10	1737.51
Building and Construction	1297.60	1298.53	1023.13	1364.73	1812.34	2475.08
Tertiary sector	**17185.33**	**17773.69**	**17944.85**	**20233.55**	**21490.27**	**22821.13**
Wholesale and retail trade, repairs	3367.77	3453.36	3264.07	3557.84	3895.83	4265.93
Transport and storage	653.37	701.94	623.58	706.81	779.36	862.12
Accommodation and food service activities	330.49	316.00	225.93	260.86	301.17	338.55
Information and communication	995.96	1021.76	995.94	1094.22	1196.41	1305.11
Financial and insurance activities	2665.69	3018.00	3037.41	3315.08	3703.29	4057.04
Financial sector activities (except insurance)	1935.01	2224.52	2214.19	2413.47	2703.09	2946.37
Insurance and pension funding	589.04	628.80	651.29	717.11	801.13	888.15
Acivities auxiliary to financial services	141.64	164.67	171.93	184.50	199.07	222.51
Real estate activities	1284.00	1285.97	1347.09	1430.03	1516.40	1609.58
Professional and support service activities	250.59	252.52	260.29	279.97	301.02	323.37
Administrative and support service activities	642.84	609.24	586.58	624.60	670.40	716.88
Public administration and defense; compulsory social security	6088.61	6172.94	6519.27	7852.96	7932.59	8058.41
Education	231.99	233.24	245.39	259.52	274.96	292.14
Human health and social work activities	397.61	416.12	527.69	517.80	561.07	607.72
Other service activities	276.41	292.62	311.62	333.84	357.79	384.27
GDP at factor cost (Unadjusted)	***29154.72***	***29962.52***	***28948.59***	***32558.57***	***35051.03***	***37891.96***
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	0.00
GDP at factor cost	**29154.72**	**29962.52**	**28948.59**	**32558.57**	**35051.03**	**37891.96**
Taxes on products, net of subsides	4117.25	4083.93	4047.18	4421.79	4854.30	5326.41
GDP at market prices	**33271.97**	**34046.45**	**32995.77**	**36980.36**	**39905.33**	**43218.37**

* Projections

Lesotho

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Economic Outlook 2021 - 2023

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Moderate Recovery Amid Uncertainty

Executive Summary

Following a descend in 2020, the IMF projects a stronger global economic recovery in 2021 despite divergences across countries underpinned by the varying pace of vaccination and domestic economic policy responses. After a 3.3 per cent contraction in 2020, global economic growth is expected to register 6.0 per cent in 2021 and 4.4 per cent in 2022. Nonetheless, the outlook presents challenges due to divergences in the speed of recovery across and within countries and the potential for persistent economic underperformance. Global recoveries are reflective of differences in the pace of vaccinations and the extent of domestic economic policy support. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased. The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. GDP levels are expected to remain below the pre-COVID levels through to 2024 for most economies.

The domestic economy is expected to recover and grow at the rate of 3.7 per cent in 2021 after a 6.0 per cent descent in 2020. Although growth is expected to remain uneven across sectors, the key sectors expected to drive growth in 2021 and beyond include: textile manufacturing, mining, construction and the services industries. However, since all of these sub-sectors involve close human contact, the anticipated recovery is predicated on containment of the pandemic. The inflation rate is expected to pick-up in tandem with the growth recovery and current heightened global food prices. The fiscal position is projected to deteriorate in 2021, reflecting elevated expenditures against declining revenues. The overall fiscal deficit is projected to widen to 10.8 per cent of GDP in 2021 driven by a combination of a fall in revenues and an increase in expenditures. Revenues are projected to fall by 2.6 per cent in 2021 mainly owing to 18.6 per cent projected fall in SACU revenue while tax revenues are only expected to fall marginally. Government

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