Lesotho Economic Outlook 2024 - 2026
An Update

Mar 2024 · www.centralbank.org.ls

Modest Growth Anchored by Mega-projects

Overview

Lesotho's economy is on a modest growth path, powered by the ongoing major projects. *Without these projects, underlying growth is muted, especially in the context of slower global growth. The domestic economy is estimated to have picked up to 1.4 per cent growth in 2023, from 1.1 per cent in 2022. In 2024, growth is expected to tick up to 3.0 per cent in 2025 then slow down to 2.0 per cent in 2026. This growth is expected to be driven by LHWP II and its associated knock-on effects on services. Further boost is expected to come from interventions within the MCC II project, especially within the services industry. The annual inflation rate is projected to average 6.4 per cent and thereafter moderate to end the forecast horizon at 4.9 per cent in 2026. The moderation in inflation is expected to be driven by declining food and energy prices.*

The fiscal position is projected to be in surplus in the medium-term driven by increases in revenues. *Following restrained spending in 2023, fiscal operations registered a 2.5 per cent surplus in 2023. Over the 2024 – 2026 the fiscal surplus is projected to average 3.6 per cent. These surpluses reflect increases in SACU revenue and upward revision of water royalties. Consequently, government deposits are expected to accumulate due to the surplus.*

The current account is expected to improve and register a surplus equivalent to 1.4 per cent of GDP in 2024, before averaging a deficit of 1.6 per cent of GDP in 2025-2026. *The projected surpluses are explained by increases in income accounts which offset the deficit in the trade balance. The capital and financial accounts are expected to continue to receive inflows to support the heightened construction activities within the LHWP II project. Respectively, the capital and the financial accounts are projected to register surpluses equivalent to 13.5 per cent of GDP and 14.9 per cent of GDP in 2024.*

Money supply is expected to grow in line with the projected growth in nominal GDP. *With higher SACU receipts and projects related flows over the medium-term, both the net foreign assets and net domestic assets are expected to rise. Private sector credit is forecast to grow by 4.5 per cent in 2024 and 2025, supported by construction, transport and services sectors.*

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1. Real Sector Outlook

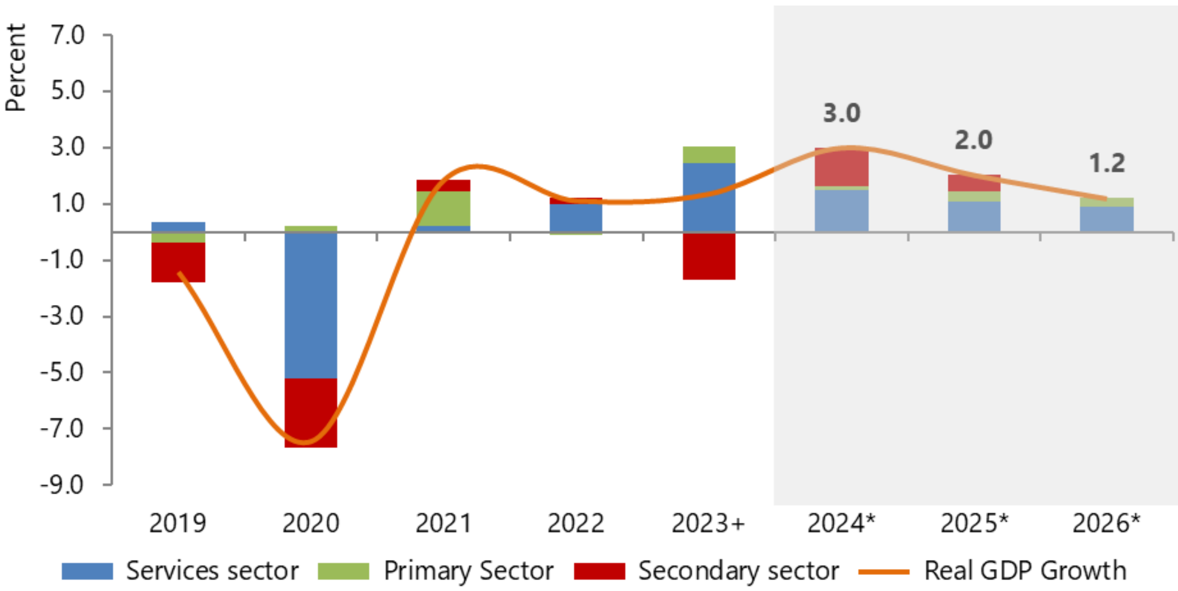
The domestic economy is estimated to have expanded by a revised 1.4 per cent in 2023, from 1.1 per cent in 2022. The projected growth is driven by services sector and construction industry. The estimate for 2023 is 0.4 percentage points lower than projected in December 2023 Lesotho Economic Outlook (LEO). The projection downgrade reflects significantly lower textile and clothing output with continued drop in orders from the US market. Additionally, the construction industry was revised down by 2.4 percentage points following an implementation schedule update. These downward revisions outweighed the upward revision in the mining industry.

The primary sector is estimated to have recovered by 6.1 per cent in 2023 from a contraction of 0.9 per cent in 2022. The recovery was supported by unexpectedly strong growth in mining industry and a rebound in crops production. Despite the global downturn in the diamond mining industry in 2023, mining output is estimated to have increased by 11.1 per cent. The higher-than-expected growth was due to mining companies adhering to production targets, resulting in large stocks of unsold diamonds. Additionally, the reopening of the Liqhobong Mine boosted mining industry output. Agricultural production is estimated to have grown by 3.4 per cent in 2023, supported by the timely onset of rains for 2023 cropping season. However, the high cost of farming inputs undermined crops production.

Meanwhile, the secondary sector is estimated to have contracted by 8.2 per cent in 2023 due to poor performance in the textile and clothing sub-sector, which experienced low orders from the US market. The tertiary sector, the main contributor to growth in 2023, is estimated to have grown by 2.5 per cent. This growth was supported by public administration and support services related to ongoing construction projects.

The projected growth is driven by services and construction industries...

Figure 1: Domestic Economic Outlook



*Source: CBL, + Estimates, * Projections*

In terms of the outlook, the domestic economy is projected to grow by an unchanged 3.0 per cent in 2024 and slow down to 2.0 per cent and 1.2 per cent in 2025 and 2026, respectively. The projected growth is driven by services sector and the construction activity as the LHWP II reaches its peak in 2024 to 2025. The service sector is expected to benefit from knock-on effects as it supports the ongoing and construction projects and later receive a boost from MCC Compact II implementation activities. The agricultural industry is expected to pick up in 2025, following underperformance in 2023 due to the onset of El Nino. In the outer year, growth slowdown is explained by winding down of activities within the LHWP II as the project enters the final stages.

Diamond prices are expected to stabilise in the global diamond market...

In the primary sector, growth is projected to record 1.3 per cent in 2024 and then pick up, averaging 3.4 per cent in 2025-2026. The sector's growth in 2024 is expected to be supported by mining industry with an anticipated recovery in global rough diamond prices. Diamond prices are expected to be boosted by delayed effects of the 2023 mid-stream supply controls, compounded by additional sanctions on Russian diamonds. Consequently, the mining industry is projected to grow by 4.5 per cent in 2024. Meanwhile, agricultural production is projected to decline in 2024 due to poor harvest following dry weather conditions. However, in 2024 and 2025, both the mining industry and agricultural production are expected to support growth in the primary sector. Diamond prices are expected to stabilise in the global diamond market, while weather conditions for agricultural production are expected to move past the El Nino phase.

In the secondary sector, growth is projected to peak at 7.3 per cent in 2024, gradually decelerating to 3.0 per cent in 2025, and a marginal decline of -0.1 per cent in 2026. This trajectory is heavily influenced by the progression of the LHWP II project within the construction industry. The LHWP II project is expected to gain momentum in the medium-term. From 2026, activity is anticipated to taper off as the project enter final stages. Furthermore, the launch of the MCC Compact II project at the end of the first quarter of 2025 is poised to provide additional stimulus particularly through irrigation infrastructure works. Consequently, the construction industry is projected to grow by a strong 29.2 per cent in 2024 and 8.3 per cent in 2025, before contracting by 4.9 per cent in 2026. The textiles and clothing manufacturing industry is expected to recover modestly with the decreasing uncertainty over AGOA renewal. Nonetheless, the industry continues to face headwinds with the US market prioritising supply chain agility and speed amidst geopolitical tensions that frequently threaten supply chains. The electricity and water sub-sector is projected to grow by 2.0 per cent in 2024 and 1.5 per cent in 2025-2026 supported by completion of Ramarothole Power Plant.

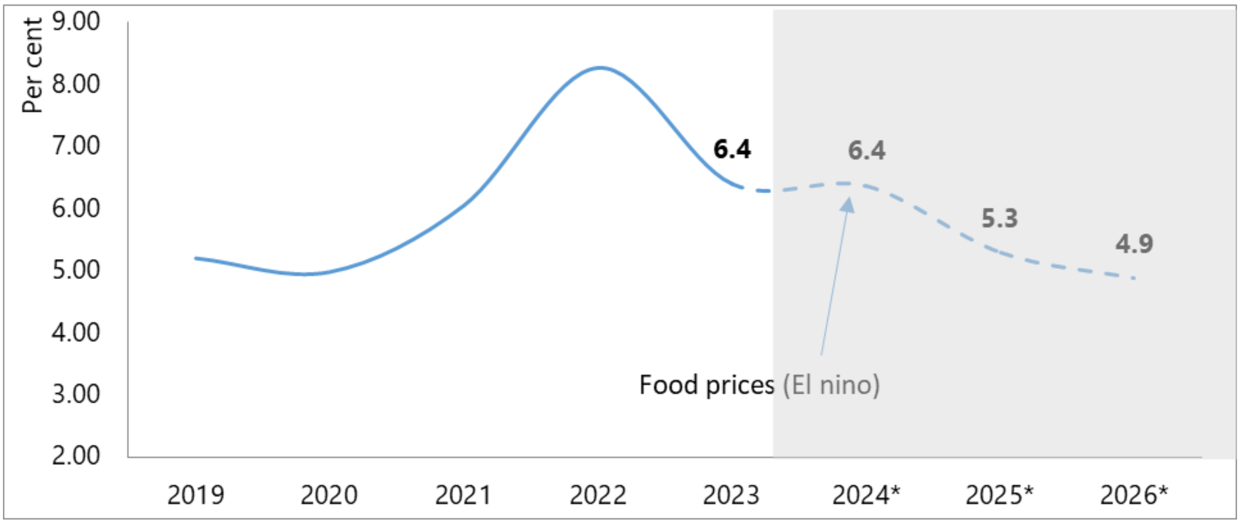
The services sector is expected to benefit from spillovers from the LHWP II and interventions within the MCC Compact II project...

The services sector is projected to grow by 1.9 per cent in 2024 and average 1.4 per cent over 2025 - 2026. The services sector is expected to benefit from spillovers from the LHWP II and interventions within the MCC Compact II project. Support services to construction will particularly receive a boost as the LHWP II reaches peak activity in 2024 – 2025. Furthermore, interventions in Health sub-sector under Compact II are expected to offset the effect of declining health budget maintaining output relatively stable in the medium-term. However, persistent inflationary pressures in 2024 may hinder growth, with a projected moderation expected only from 2025 onwards, offering some relief to real incomes. The Finance and Insurance industry is projected to grow by 2.6 per cent in 2024 and average 2.9 per cent in 2025 - 2026. Similarly, the Wholesale and trade industry is projected to grow by 2.5 per cent in 2024 and average growth rate of 2.8 per cent in 2025 – 2026. Public administration is projected to grow by 1.6 per cent in 2024 and decline by an average of 0.1 per cent in 2025 – 2026.

The annual inflation rate is forecast to remain elevated remaining at 6.4 per cent in 2024; with moderation now expected from 2024 with inflation averaging 5.3 per cent in 2025 and 4.9 per cent in 2026. The 2024 inflation forecast is revised up by 0.9 percentage points in 2024 relative to December 2023 projections. The upward revision reflects steeper increases in food and fuel prices. Food prices are driven higher by poor harvests due to El Nino while fuel prices are driven a combination of supply disruptions and Rand depreciation

The annual inflation rate to remain elevated...

Figure 2: Inflation Outlook



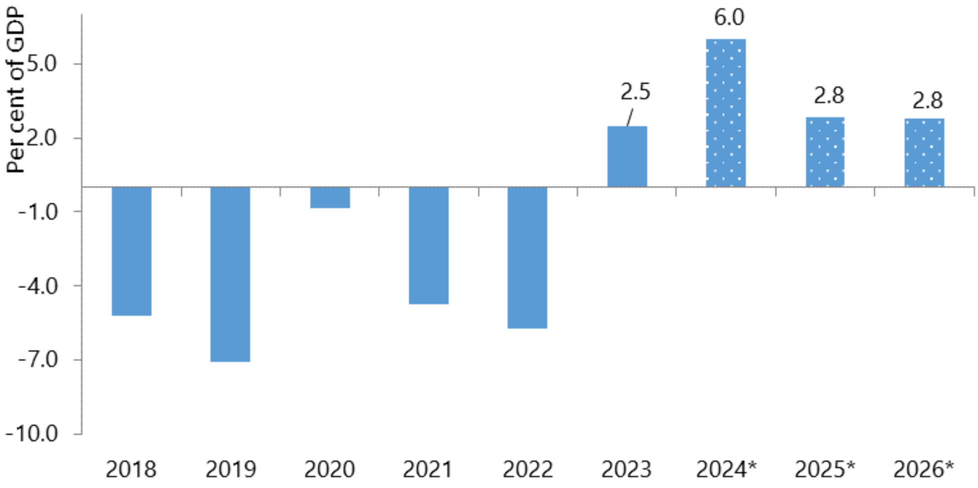
*Source: CBL, + Estimates, * Projections*

2. Public Sector Outlook

The overall fiscal balance improved to a surplus of 2.5 per cent of GDP of GDP in 2023, from a deficit of 5.8 per cent of GDP in 2022. The improvement in the fiscal balance reflected developments in both revenue and expenditure. Regarding revenue, the improvement reflected by higher SACU revenue and a modest increase in tax revenues. SACU revenue increased by 61.4 per cent driven by higher trade volumes in the region while tax revenues increased by 5.1 per cent in 2023. On the expenditure front, the improvement in fiscal balance reflected restrained government spending government which was curtailed by Procurement Act of 2023. Use of good and services decreased by 13.9 per cent moderating the increases in other expenditure components.

Fiscal position is expected to improve and register surpluses...

Figure 3: Fiscal Balance Outlook



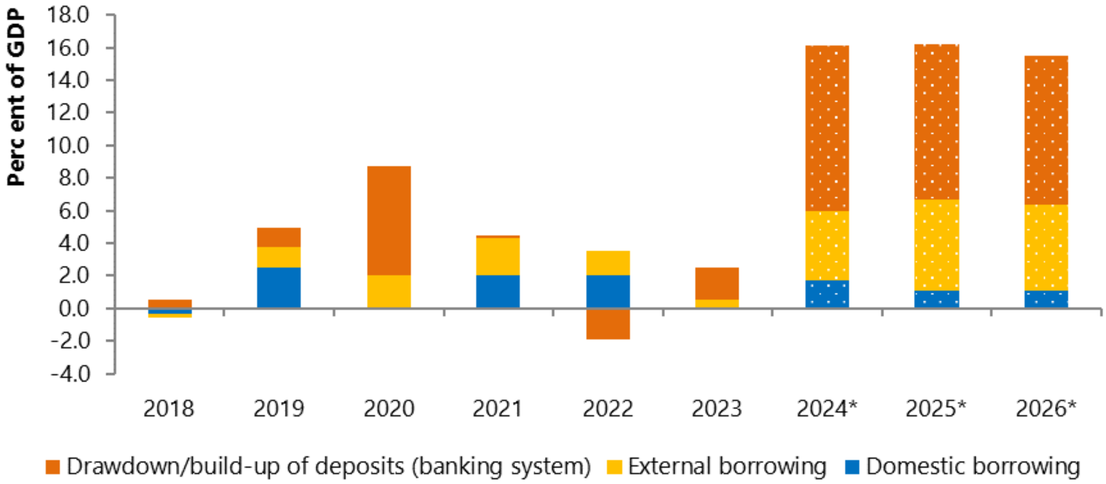
*Source: CBL, + Estimates, * Projections*

The fiscal performance is expected to improve further remaining in the surplus territory in the medium-term. In 2024, the fiscal balance is projected to register a fiscal surplus of 6.0 per cent of GDP driven by higher SACU revenue and newly revised water royalties. The SACU revenue is projected to sustain the increases and grow by 25.0 per cent in 2024 as import prices and volumes are expected to remain relatively high in 2024, boosting custom duties collections. Tax revenues are projected to increase by 9.8 per cent in 2024 in line with anticipated modest improvement in corporate profitability. Meanwhile, expenditures are projected to increase by 27.3 per cent in 2024 with increases in both recurrent and capital expenditures. Recurrent expenditures are expected to increase by 10.4 per cent as the government appreciates the use of the new procurement system, while capital expenditure is expected to grow by two-fold driven by increased grant-funded projects.

The fiscal balance is expected to narrow settling at a surplus of 2.8 per cent of GDP in both 2025 and 2026. The narrowing of the fiscal surplus is reflective of the fall in SACU revenue, especially in 2025 as customs duties decrease following two robust years. Despite this reduction, these fiscal surpluses are expected to lead to accumulation of government deposits equivalent to 9.6 per cent of GDP between 2024 and 2026.

Fiscal surpluses are expected to lead to accumulation of government deposits...

Figure 3A: Fiscal Financing

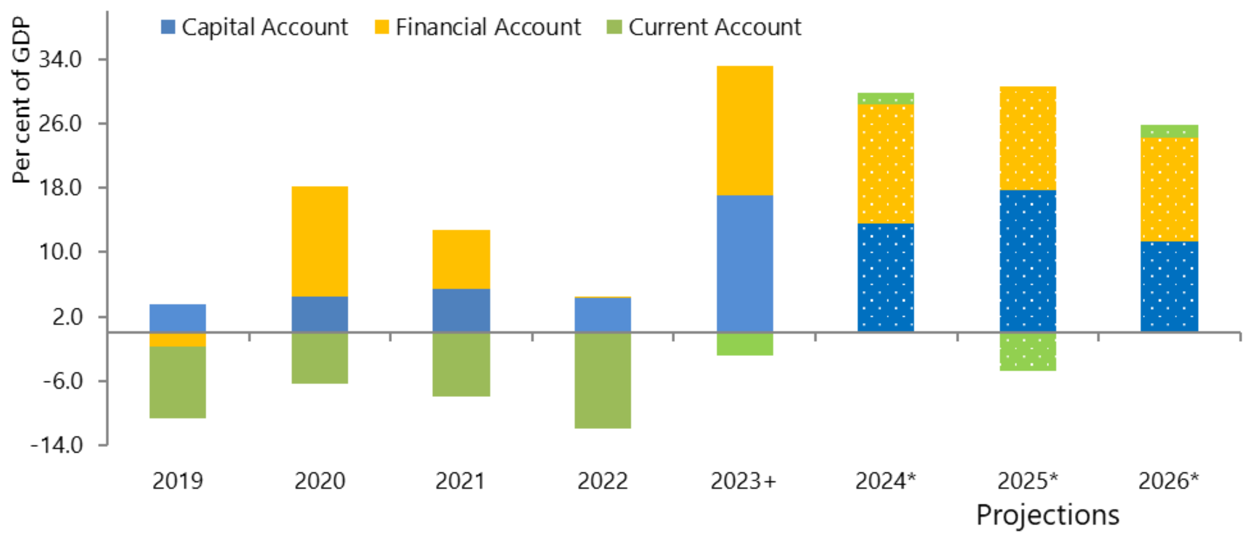


*Source: CBL, + Estimates, * Projections*

3. External Sector

The overall external sector position is estimated to have recorded a deficit equivalent to 0.3 per cent of GDP in 2023, compared with a deficit of 4.3 per cent in 2022. The lower deficit was attributed to an improved performance in the current, capital, and financial accounts. The current account balance recorded a deficit of 2.9 per cent of GDP in 2023, down from a deficit of 11.9 per cent in the previous year. This improvement was mainly due to improvements in the primary and secondary income accounts which offset the widening trade deficit. On the one hand, the primary income account improved as a result of higher returns from commercial banks and the central bank. On the other hand, the secondary income account benefited from much higher SACU revenue. The trade deficit widened primarily due to an increase in imports needed for construction activities in the LHWP II project main works. The current account deficit was mainly financed through capital account inflows. The stock of reserves, measured in months of imports, closed the year 2023 at 4.4 months of imports, down from 4.6 months in 2022.

Figure 4: The External Sector



*Source: CBL, + Estimates, * Projections*

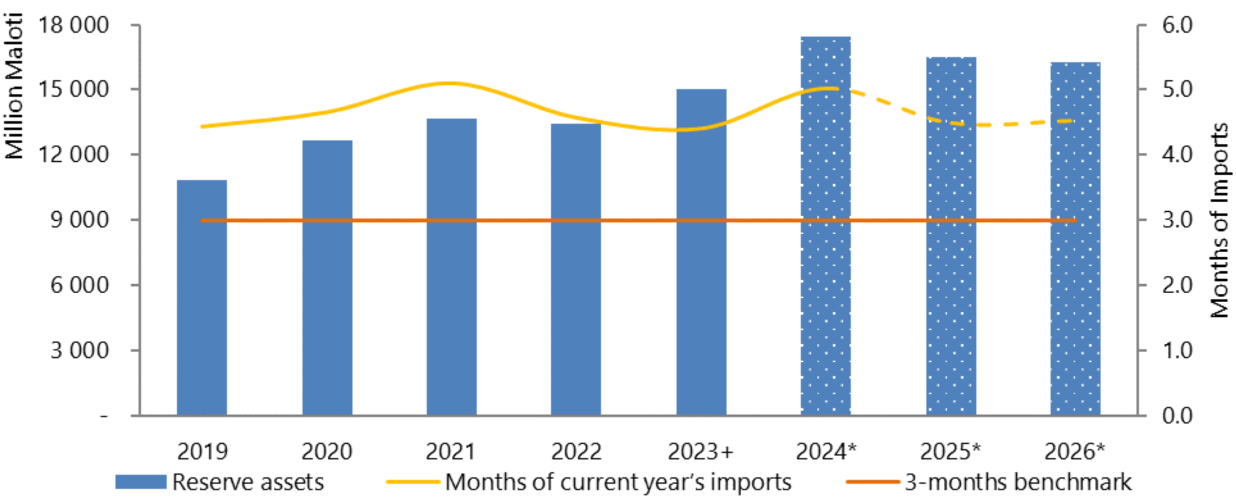
The current projections suggest that the overall external sector position will register a surplus equivalent to 7.6 per cent of GDP in 2024, which is 0.9 percentage points higher than the December 2023 forecasts. The improved outlook compared to the previous projections is primarily due to revisions in the current account forecast. The current account is expected to improve and register a surplus equivalent to 1.4 per cent of GDP in 2024. Although the current account is projected to be in surplus, the trade account will remain in deficit for the projection period, reflecting the domestic economy's reliance on imports and its low export base. However, the upwardly revised water royalties will help reduce the deficit in the trade account to 34.4 per cent of GDP, down from the 36.2 per cent of GDP projected in the December LEO. In the primary income account, higher interest income from foreign investments by commercial banks and the central bank is expected to boost the primary income account balance in the near term. However, the secondary income account is expected to benefit from higher SACU revenue. The capital and financial accounts are projected to continue to receive inflows to support the heightened construction activities of the LHWP II project. Specifically, the capital and financial accounts are expected to have surpluses equivalent to 13.5 per cent of GDP and 14.9 per cent of GDP, respectively, in 2024.

The current account is expected to improve and register a surplus equivalent to 1.4 per cent of GDP in

On average, the overall external sector position is expected to be in deficit during 2025-2026. Specifically, in 2025, the net position of the external sector is projected to reflect a deficit equivalent to 2.1 per cent of GDP. However, in 2026, it is expected to be in surplus equivalent to 1.1 per cent of GDP. As for the current account, it is forecasted to exhibit a deficit of 4.8 per cent of GDP in 2025, before improving to a surplus of 1.6 per cent of GDP in 2026. The projected deficit for 2025 primarily stems from the anticipated high demand for inputs in construction activities related to the main works of the LHWP II project, as the project is expected to reach its peak during this period. Furthermore, the slight decline in SACU revenue in 2025 will also contribute to the projected deficit for that year. The inflows in the primary income remain uncertain and will depend on the performance of the regional economy, particularly the South African economy. In terms of the secondary income account, moderate inflows are expected in the medium term, due to lower projected SACU receipts for 2025-2026. Within the capital account, significant net inflows will continue to be observed to finance the LHWP II construction activities.

The official reserve assets are expected to remain healthy in the medium-term, bolstered by substantial SACU receipts and water royalties. In terms of import cover, official reserves are projected to reach 5.0 months in 2024, decrease to 4.5 months in 2025, and then recover to 4.7 months in 2026. These projected changes in reserve assets reflect fluctuations in SACU revenue. Furthermore, the anticipated increase in construction activity related to the LHWP II and other government infrastructure projects will also influence reserve levels in the medium-term.

Figure 5: Official Reserves Outlook

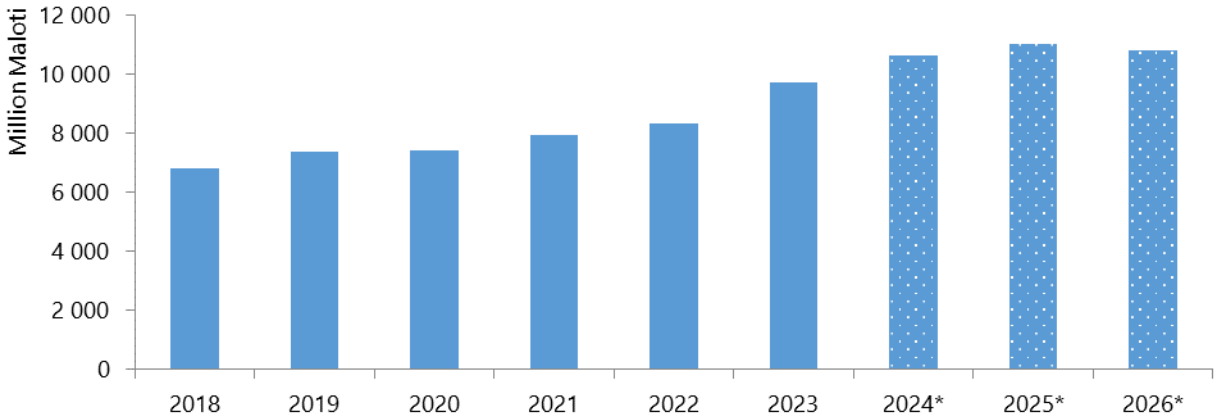


*Source: CBL, + Estimates, * Projections*

4. Money & Credit

Money supply rose by 19.8 per cent in 2023 in contrast to a 3.4 fall realised in 2022. The rise was primarily due to substantial growth in net foreign assets (NFA) which outweighed the fall in net domestic assets. NFA was primarily driven by foreign currency inflows associated with the LHWP II as the main works commenced in 2023. A further boost came from higher SACU receipts. In line with the activity with the LHWP II, credit extended to the private sector increased by 15.9 per cent in 2023.

Figure 6: Private sector credit growth



*Source: CBL, + Estimates, * Projections*

Credit is expected to be supported by ongoing mega-projects...

In the medium-term, money supply is projected to grow by an average of 4.9 per cent, in line with growth in nominal GDP. The growth in money supply reflects growth in banking sector NFA and maintained modest growth in credit extended to the private sector. In line with the projected improvement in the fiscus, government deposits are set to increase during in the medium-term, moderating the increase in the money supply. Credit extension is forecast to increase by an average of 3.6 per cent, supported by the ongoing mega-projects. The relatively modest projected credit growth reflects existence of alternative financing options outside the commercial banking industry.

5. Risks to the Outlook

The domestic growth outlook is subject to downside risks, which could lead to lower growth and higher inflation. The downside risks include:

Geopolitical tensions: escalation and emergence of potential geopolitical tensions remain a threat to the global supply chains, especially for commodities. Food, farming inputs and energy prices could remain elevated for longer, which means higher inflationary pressures and possible severe food insecurity.

Weaker global economic growth: whilst the global economy has been resilient, any materialization of downside risks leading to weaker global growth would transmit to the domestic economy. Weaker global growth would lead to lower demand for exports and low inward capital flows.

Adverse weather conditions: the above-normal rainfall and drier conditions due to climate change negatively affect agricultural production and infrastructure continue to pose significant risks to agricultural production.

Weaker investor Confidence: Potential weaking of investor confidence in the mining industry could affect output and profitability in the industry. This would filter through to the fiscus negatively affecting tax revenues.

6. Conclusion

The domestic economy is expected to maintain a moderate growth path reflecting the progress of major ongoing projects. Growth is estimated at 1.4 per cent in 2023 supported by services and construction industries. Despite an overall downturn, the mining industry is also expected to provide a positive contribution. Meanwhile, manufacturing is expected to be a drag on growth as the textiles and clothing industry faces headwinds coming from weaker external demand. In 2024, domestic growth is projected to pick up to 3.0 per cent before slowing down to 2.0 per cent in 2025. Services industry and construction activity are expected to continue to be key drivers of growth into the medium-term. The annual inflation rate is expected to average 6.4 per cent in 2024 and gradually moderate to 5.3 per cent and 4.9 per cent in 2024 and 2026, respectively. Easing supply and demand imbalances are behind the projected fall in inflation. Nonetheless, inflation faces upside risks from potential oil price shocks and ongoing geopolitical tensions in oil markets.

Appendix A: Overview of Revisions to Forecasts

	Actual	Estimate	March 2024 projections			Differences from Dec 2023 projections		
	2022	2023+	2024*	2025*	2026*	2023*	2024*	2025*
Economic growth	**1.1**	**1.4**	**3.0**	**2.0**	**1.2**	**-0.3**	**0.0**	**0.0**
Primary Sector	**-0.9**	**6.1**	**1.3**	**3.7**	**3.1**	**2.8**	**-0.5**	**-1.0**
Agriculture	2.2	3.4	-0.6	4.2	2.8	0.0	-0.5	-1.3
Mining & Quarrying	-6.4	11.1	4.5	2.9	3.7	8.2	-0.9	-0.3
Secondary Sector	**1.0**	**-8.2**	**7.3**	**3.0**	**-0.1**	**-2.8**	**0.4**	**1.1**
Manufacturing	-3.6	-16.5	1.3	1.5	1.3	-3.8	0.2	0.1
Textiles & Clothing	-2.4	-18.9	1.2	1.5	1.8	-4.2	0.3	0.1
Building & Construction	23.7	10.8	29.0	8.3	-5.0	-2.4	1.9	4.5
Services Sector	**0.8**	**2.5**	**1.9**	**1.4**	**1.3**	**0.0**	**-0.1**	**-0.1**
Inflation rate (%)	**8.3**	**6.4**	**6.4**	**5.3**	**4.9**	**-0.2**	**0.9**	**0.4**

Appendix B: Selected Macroeconomic Indicators

Table 1. Selected Macroeconomic Indicators						Projections		
	2019	2020	2021	2022	2023+	2024*	2025*	2026*
Output - Constant prices								
Gross Domestic Product (% p.a.)	-1.42	-7.46	1.85	1.11	1.40	2.95	1.99	1.17
Per capita GDP (% p.a.)	-2.07	-8.07	1.20	0.64	0.93	2.47	1.52	0.70
Gross National Income (% p.a.)	-1.18	-8.03	-0.06	4.35	3.02	2.51	1.18	1.50
Per capita GNI (% p.a.)	-1.83	-8.63	-0.70	3.86	2.54	2.03	0.71	1.02
Gross Domestic Product (M Million)	21 174	19 595	19 958	20 180	20 464	21 068	21 488	21 741
Per Capita GDP	10 327	9 494	9 608	9 669	9 759	10 000	10 151	10 222
Gross National Income (M Million)	25 266	23 237	23 224	24 235	24 968	25 593	25 896	26 285
Per Capita GNI	12 322	11 258	11 180	11 612	11 906	12 148	12 234	12 359
Output - Current prices								
Nominal GDP (% p.a.)	2.11	(2.16)	5.25	5.18	6.17	7.66	6.30	5.29
Nominal GNI (% p.a.)	1.20	(1.18)	3.70	8.31	8.16	7.24	5.47	5.71
Nominal GDP (M Million)	34 542	33 796	35 569	37 413	39 723	42 764	45 458	47 863
Nominal GNI (M Million)	40 617	40 138	41 624	45 083	48 763	52 294	55 153	58 305
Sectoral Growth rates (% p.a.)								
Primary Sector	-4.55	2.38	13.58	-0.95	6.07	1.26	3.72	3.11
Crops	-23.04	71.62	-6.08	-13.49	3.39	-15.43	11.80	5.08
Mining and Quarrying	-9.68	-15.28	19.28	-6.45	11.08	4.50	2.93	3.71
Secondary Sector	-6.11	-11.34	1.95	0.99	-8.17	7.33	2.99	-0.15
Manufacturing	-0.75	-9.12	7.53	-3.65	-16.45	1.28	1.48	1.26
Construction	-20.26	-39.17	9.65	23.74	10.80	29.04	8.35	-4.98
Tertiary Sector	3.53	-5.76	-0.97	0.76	2.45	1.86	1.37	1.28
Wholesale and retail trade,repairs	-17.89	-26.21	-1.36	1.22	3.69	2.39	3.06	2.50
Financial and insurance activities	52.22	6.30	-3.43	9.89	4.27	2.64	2.73	3.02
Real estate activities	-2.41	-4.42	1.46	1.57	0.40	0.34	0.24	0.17
Public Admin, Education & Health	2.35	0.49	0.37	-4.04	0.61	1.19	-0.34	-0.43
Savings and Investment - Per cent of GNI								
National Savings	15.91	17.96	18.19	14.71	23.28	27.75	23.92	23.46
Of which Government Savings	8.10	9.30	8.30	5.24	10.64	19.33	16.04	14.72
Of which Private Sector Savings	7.81	8.66	9.89	9.48	12.65	8.42	7.88	8.74
Investment	23.47	23.29	24.99	24.63	25.64	26.63	27.82	22.22
Of which Government Investment	10.72	10.85	10.46	10.55	8.61	16.22	15.54	14.06
Of which Private Sector Investment	12.75	12.44	14.53	14.08	17.04	10.42	12.28	8.16
Resource Balance	-7.56	-5.33	-6.81	-9.91	-2.36	1.12	-3.90	1.24
Savings and Investment - Per cent of GDP								
National Savings	18.70	21.33	21.28	17.73	28.58	33.93	29.02	28.58
Of which Government Savings	9.52	11.04	9.71	6.31	13.06	23.64	19.47	17.93
Of which Private Sector Savings	9.18	10.29	11.57	11.42	15.53	10.29	9.55	10.64
Investment	27.60	27.67	29.25	29.67	31.48	32.57	33.76	28.58
Of which Government Investment	12.61	12.89	12.24	12.71	10.56	19.83	18.85	17.13
Of which Private Sector Investment	14.99	14.78	17.01	16.96	20.92	12.74	14.90	11.45
Resource Balance	-8.89	-6.33	-7.97	-11.94	-2.90	1.37	-4.74	0.00

Table 1. Selected Macroeconomic Indicators, continued						Projections		
	2019	*2020*	*2021*	*2022*	*2023+*	*2024**	*2025**	*2026**
Inflation rate % (CPI)	5.20	4.98	6.05	8.27	6.40	6.36	5.28	4.87
External Sector - Per cent of GDP								
Current Account	-8.89	-6.33	-7.97	-11.94	-2.90	1.37	-4.74	1.50
Imports of Goods	74.59	77.24	75.34	78.46	76.41	79.54	79.49	72.65
Exports of Goods	44.55	42.52	44.11	45.93	42.89	45.17	44.08	43.94
Capital Flows (+ means an inflow)	3.62	4.49	5.39	4.28	17.01	13.52	17.65	11.33
Financial Account	-1.70	13.75	7.38	0.16	16.17	14.89	12.92	12.83
Official Reserves (Months of Imports)	4.4	4.7	5.1	4.6	4.4	5.0	4.5	4.8
Government Finance - Per cent of GDP								
Revenue (excluding grants)	43.98	49.05	45.91	43.13	50.42	58.82	55.64	54.46
Tax Revenue	22.14	19.97	21.17	22.60	22.37	22.81	23.09	23.17
Recurrent Expenditure	38.60	41.47	40.26	40.89	41.24	42.29	42.19	41.61
Of which compensation of employees	17.43	17.39	17.22	17.61	17.63	17.92	17.51	17.06
Transaction in non-financial assets	15.54	11.28	13.84	11.23	9.33	17.52	16.66	15.13
Budget Balance (+ means a surplus)	-7.09	-0.85	-4.77	-5.75	2.49	5.98	2.81	0.00
Monetary Aggregates - Nominal growth								
Money supply (M2)	-9.35	17.32	4.14	-3.41	19.84	3.19	6.30	0.00
Private Sector Credit	8.20	0.63	7.23	5.10	16.28	4.14	3.65	2.79

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