Lesotho

CENTRAL BANK OF LESOTHO

Economic Outlook 2020 - 2022

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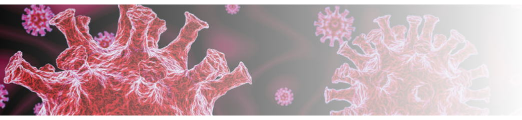
Uncertain Climb from A Steep Downturn



Executive Summary

The global economy is projected to be in a less severe recession in 2020 due to a stronger than anticipated performance amongst the advanced economies in the second quarter of 2020. Growth in the advanced economy group is projected to contract by 5.8 per cent in 2020 and partially recover to 3.9 per cent in 2021. Relative to the June 2020 forecasts, this represents a much better performance. Growth in the emerging market and developing economies category is forecast to contract though by a slightly bigger percentage than previously anticipated. Sub-Saharan Africa is projected to contract by 3.0 per cent in 2020. The largest impact of the crisis on growth has been felt by tourism-dependent economies and the commodity-exporting countries. Within Sub-Saharan Africa, South Africa remains one of the countries badly affected by the pandemic on account of the adverse effect of the containment measures on both the supply and demand side of the economy. However, output will recover modestly during 2021, growing by 3.0 per cent, and will maintain momentum thereafter as business confidence responds to growth-enhancing reforms.

The domestic growth outlook has been revised downwards for 2020 and a more protracted recovery in the medium-term is anticipated. The decline in economic growth in 2020 will be driven by the contraction in both the secondary and tertiary sectors. The primary sector is also anticipated to shrink though by a lesser margin. The domestic economy is projected to recover gradually with the level of output barely reaching the pre-pandemic level in 2022, as the pace of recovery in most sectors gains momentum. The projected recovery is set to be led by a rebound in the construction and mining industries, as well as the anticipated improvement in business and consumer confidence. The annual inflation rate is estimated to register 5.0 per cent in 2020 before increasing to 5.2 per cent and 5.4 per cent in 2021 and 2022, respectively.

The fiscal position is expected to deteriorate in the medium-term, with the overall fiscal deficit registering 4.6 per cent of GDP in 2020 before widening to 10.7 per cent of GDP in 2022. The deterioration in the fiscal position in 2020 largely reflects an increase in government spending on

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health care and relief measures aimed at aiding the fight against the spread of the COVID-19. Over the period 2021-22, the fiscal position is set to be affected by a decline in revenues due to the anticipated fall in SACU revenue, amid elevated recurrent expenditure. The projected fiscal deficits are set to be financed by a mix of a drawdown in government savings within the banking sector along with domestic and foreign borrowing.

The external position is expected to deteriorate to an overall deficit of 6.1 per cent of GDP in 2022 following a surplus of 3.7 per cent of GDP in 2020. This is a reflection of the widening trade account deficit and the estimated fall in SACU revenue for 2021 and 2022. Incomes and remittances from Basotho working abroad are expected to decline in 2020 but gradually increase in the outer years. The economy is expected to receive more foreign support for government developmental projects, while capital inflows related to Phase II of the Lesotho Highlands Water Project (LHWP II) are projected to increase. Official reserves are projected to drop from 4.7 months in 2020 to 3.2 months of imports in 2022.

Money supply is expected to fall in 2020 and rebound in 2021-2022, in line with the expected economic recovery. When viewed from balance sheet lens, the fall in 2020 largely reflects a decline in domestic assets. However, it is moderated by an increase in the banking sector net foreign assets. Banks are expected to continue to tighten their credit conditions, which will see a fall in domestic credit, while government deposits will benefit from higher SACU receipts in 2020. However, a recovery in money supply in 2021-22 is expected, in line with the broad-based economic recovery.

Global Economic Outlook[1]

Global Growth

The global economy is expected to register a less severe recession in 2020 as the advanced economies, which constitute the largest proportion of global output, recorded a relatively stronger-than anticipated performance in the second quarter of 2020. The global growth is projected to contract by 4.4 per cent in 2020, a less severe contraction than forecast in the June 2020 World Economic Outlook (WEO) Update. The revision reflects better-than anticipated second quarter GDP outcomes, mostly in advanced economies, where activity began to improve sooner than expected after lockdowns were lifted in May and June 2020. Wide output gaps and elevated unemployment rates are projected this year across emerging and advanced economies alike. Notwithstanding a stronger performance than previously anticipated, the pandemic is far from over as evidenced by a cautious reopening of economies globally and imposition of partial lockdowns by some countries with a view to insulating their populations from the pandemic. Global growth is projected at 5.2 per cent in 2021, slightly below the June 2020 WEO Update, reflecting the more moderate downturn projected for 2020. The global economy rebound to the pre-pandemic levels is still improbable over the medium-term. The global economy is projected to recover gradually and register an average growth rate of 3.5 per cent over the medium-term.

Global economy to register a less severe recession in 2020 than forecast in the June 2020 WEO Update....

Growth in advanced economies is anticipated to be stronger than earlier projected in June 2020 over the medium-term. Growth in the advanced economy group is projected to contract by 5.8 per cent in 2020, 2.3 percentage points stronger than in the June 2020 WEO Update. The upward revision reflects, in particular, the better-than anticipated US and euro area GDP outcomes in the second quarter of 2020. In 2021 the advanced economy growth rate is projected to strengthen to 3.9 per cent. The United States (US) economy is projected to contract by 4.3 per cent, before growing at 3.1 per cent in 2021. A deeper contraction of 8.3 per cent is projected for the euro area in 2020, reflecting a sharper downturn than in the US in the first half of the year. The growth rebound of 5.2 per cent projected for 2021 reflects a lower base. Asian advanced economies are projected to have somewhat more moderate downturns than those of Europe, in light of the more contained pandemic, also reflected in smaller GDP declines during the first half of 2020.

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

Growth in the emerging market and developing economies category is forecast to contract though by a slightly bigger percentage than previously anticipated. Among the emerging market and developing economies, growth is forecast to contract by 3.3 per cent in 2020, 0.2 percentage points weaker than in the June 2020 WEO Update. It is anticipated to strengthen to 6.0 per cent in 2021. Prospects for China are much stronger than for most other countries in this group. The Chinese economy is projected to expand by 1.9 per cent in 2020 and by a staggering 8.2 per cent in 2021. Activity normalized faster than expected after most of the countries reopened in early April, and second quarter GDP registered a positive surprise on the back of strong policy support and resilient exports. For many emerging market and developing economies excluding China, prospects continue to remain uncertain reflective of a combination of factors. This includes amongst others: the continuing spread of the pandemic and overwhelmed health care systems; the greater importance of severely affected sectors, such as tourism; and the greater dependence on external finance, including remittances. Most emerging market and developing economy regions are expected to contract this year, including notably emerging Asia, such as India and Indonesia. Revisions to the forecast are particularly large for India, where GDP contracted much more severely than expected in the second quarter. As a result, the Indian economy is projected to contract by 10.3 per cent in 2020, before rebounding by 8.8 per cent in 2021. Regional differences remain stark, with many countries in Latin America severely affected by the pandemic facing very deep downturns, and large output declines expected for many countries in the Middle East and Central Asia region. Oil-exporting countries in sub-Saharan Africa are expected to continue to be affected by low oil prices, civil strife, or economic crises. Growth for emerging market and developing economies excluding China is projected to contract by 5.7 per cent for 2020. In 2021 it is expected to rebound by 5.0 per cent. Growth among low-income developing countries is projected to decline by 1.2 per cent in 2020, and improve to 4.9 per cent in 2021.

Growth in emerging and developing economies to contract in 2020 but rebound in 2021....

Weaker growth prospects are expected for Sub-Saharan Africa reflective of the adverse impact of COVID-19. Overall, the region is projected to contract by 3.0 per cent in 2020. The largest impact of the crisis on growth has been felt by tourism-dependent economies. Commodity-exporting countries have also been hit hard given weakened global demand and elevated uncertainty. Growth in more diversified economies is expected to slow significantly, but in many cases will remain positive in 2020. Therefore, regional growth is forecast at 3.1 per cent in 2021. This is a smaller expansion relative to the rest of the world, partly reflecting sub-Saharan Africa's relatively limited policy space. Key drivers of next year's growth will include an improvement in exports and commodity prices as the world economy recovers, along with a recovery in both private consumption and investment.

The South African economy is anticipated to remain weak over the medium-term on account of the adverse effect of the containment measures on aggregate demand. Within sub Saharan Africa, South Africa remains one of the countries badly affected by the pandemic. In South Africa, growth is expected to contract by 8.0 per cent in 2020, driven mainly by the impact of containment measures. Despite the lifting of restrictions since May, the economy continues to underperform. Investment, exports, and private consumption are set to decline significantly in 2020. Output will recover modestly during 2021, growing by 3.0 per cent, and will maintain momentum thereafter as business confidence responds to growth-enhancing reforms.

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

Region	Actuals				Projections	
	2016	2017	2018	2019+	2020*	2021*
World Output	3.3	3.7	3.6	2.8	-4.4	5.2
Advanced Economies	1.7	2.3	2.2	1.7	-5.8	3.9
United States	1.6	2.2	2.9	2.2	-4.3	3.1
Euro Area	1.9	2.4	1.8	1.3	-8.3	5.2
Germany	2.2	2.5	1.5	0.6	-6.0	4.2
Japan	1.0	1.7	0.8	0.7	-5.3	2.3
United Kingdom	2.4	1.3	1.4	1.5	-6.4	3.7
Emerging and Developing Economies	4.4	4.7	4.5	3.7	-3.3	6.0
Russia	-0.2	1.5	2.3	1.3	-4.1	2.8
Emerging and Developing Asia	6.5	6.5	6.5	5.5	-1.7	8.0
China	6.7	6.9	6.6	6.1	1.9	8.2
Sub-Saharan Africa	1.4	2.7	3.0	3.1	-3.0	3.1
South Africa	0.6	1.4	0.2	0.2	-8.0	3.0

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

Domestic Economic Outlook

Overview of the Current Forecasts

The current Bank's Economic Outlook has deteriorated somewhat in the near-term and paints a more protracted recovery in the medium-term since the release of the June2020 Economic Outlook. Relative to the June 2020 Economic Outlook, the growth forecast has been revised down by 0.9 percentage points and 1.6 percentage points for 2020 and 2021, respectively. The growth forecast for 2022 has been marked up by 1.5 percentage points. The domestic economy is now projected to contract by 6.6 per cent in 2020. In the medium-term, the economy is projected to recover partially and grow by 4.6 per cent and 5.5 per cent in 2021 and 2022, respectively. Table 2 below shows the revisions to the forecasts relative to June 2020 forecasts.

Domestic growth forecasts revised downwards, reflecting the prolonged low economic activity....

The revisions to the growth forecasts reflect the Bank's re-assessment of the economy's prospects in line with recent ddevelopments, since the release of the June 2020 Economic Outlook, as the impact of the COVID-19 shock unfolds. The downward revision of the 2020 growth forecast reflects the prolonged low economic activity, particularly in the services sector as the economy remains partially open. Additionally, the 2020 growth revision in part reflects the base effect following an upward revision of the 2019 growth estimate from -0.8 to -0.4 per cent. In the primary sector, the growth forecast for mining has been revised up by 3.0 percentage points in 2020, largely reflecting a resilient market for large diamond stones in the international market. In the secondary sector, the growth forecast for clothing and textiles manufacturing has been revised up by 7.4 percentage points, reflecting a more than expected pick-up in production since May 2020. Meanwhile, the growth forecast for the construction sector has been revised down by 4.4 percentage points in 2020 due to a further delay in government construction activities expected in 2020. The growth forecast for the services sector has been revised down by 1.6 percentage points in 2020. In the medium-term, the economy is projected to recover gradually and register an average growth rate of 5.1 per cent over the period 2021 - 2022.

The inflation rate forecast has been revised up due to the higher than expected increase in food prices and the pass-through to the overall inflation. In particular, the inflation rate forecast for 2020 has been revised up by 0.8 percentage points relative to the June 2020 forecast. The forecasts for 2021 and 2022 have also been revised up by 0.5 and 0.2 percentage points, respectively.

Table 2: Overview of Domestic Economic Outlook								
	Actual	Estimate	June 2020 projections			Differences from June 2020 projections		
	2018	2019+	2020*	2021*	2022*	2020*	2021*	2022*
Economic growth	***-1.2***	***-0.4***	***-6.6***	***4.6***	***5.5***	***-0.9***	***-1.6***	***1.5***
Primary Sector	***-11.6***	***3.1***	***-9.2***	***9.3***	***5.8***	***2.1***	***-3.8***	***2.7***
Agriculture	*-13.2*	*6.1*	*2.3*	*3.6*	*3.2*	*0.0*	*1.4*	*0.5*
Mining & Quarrying	*-9.4*	*-0.7*	*-24.6*	*19.5*	*9.9*	*3.0*	*-12.1*	*6.3*
Secondary Sector	***6.1***	***-1.4***	***-14.3***	***11.4***	***12.5***	***2.6***	***-4.0***	***0.8***
Manufacturing	*14.2*	*0.7*	*-13.5*	*7.3*	*2.2*	*6.1*	*-7.7*	*0.4*
Textiles & Clothing	*15.0*	*-3.0*	*-18.0*	*9.1*	*2.1*	*7.4*	*-10.7*	*0.4*
Building & Construction	*-3.7*	*-3.7*	*-25.3*	*32.3*	*45.2*	*-4.4*	*3.4*	*3.8*
Services Sector	***-2.1***	***0.6***	***-3.4***	***1.6***	***2.8***	***-1.6***	***-1.3***	***1.1***
Inflation rate (%)	***4.7***	***5.2***	***5.0***	***5.2***	***5.4***	***0.8***	***0.5***	***0.2***

Source: Central Bank of Lesotho. +estimates by the Bureau of Statistics, * CBL projections

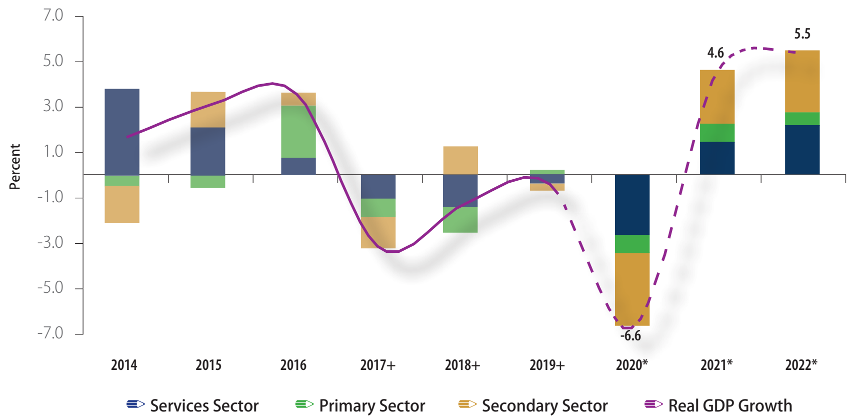
Real Sector Outlook

The domestic economy continues to remain under pressure from the repercussions of the economic fallout of COVID-19 pandemic. The domestic economy is projected to contract by 6.6 per cent in 2020. The growth decline is anticipated to be led by the contraction in the secondary sector; explaining about a half of the decline. This is followed by a decline in the tertiary sector and, to a limited extent, a decline in the primary sector. The export oriented mining industry and textiles & clothing industry are expected to be hit the hardest by a mix of domestic supply and external shocks. This reflects domestic lockdown measures in the second quarter of 2020 and weak external demand and low commodity prices due to the global economic fallout of the pandemic.

The domestic economy to contract in 2020 but pick up in 2021-22 as recovery in construction and mining industries gains momentum.....

The domestic economy is projected to recover gradually with the level of output barely reaching the pre-pandemic level in 2022. The economy is projected to grow by 4.6 per cent in 2021, as the pace of recovery in most sectors gains momentum somewhat. The projected recovery is set to be led by a rebound in the construction sub-sector and a faster recovery in the mining sub-sector. An additional boost is expected to ensue from the anticipated improvements in business and consumer confidence. The recovery is expected to continue into 2022 with the economy registering a 5.5 per cent growth on the backdrop of increased construction activity associated with the second phase of Lesotho Highlands Water Project (LHWP II) and anticipated favourable external demand conditions. The services sector is also expected to add impetus to the growth momentum.

Figure 1 Domestic Economic Outlook - Real GDP growth



Source: CBL; * Projections, + Estimates

Mining industry performance affected by lockdown measures and unfavourable conditions in the international markets....

The primary sector is expected to contract by 9.2 per cent in 2020, led by a 24.6 per cent contraction in the mining industry. The mining industry has registered a decline in the first half of 2020 amidst COVID-19 shock-induced disruptions in the mining value chain. All mining companies were placed under care and maintenance in the second quarter of 2020, especially in April, due to the imposition of the national lockdown. Despite the lifting of the national lockdown to permit mining companies to operate, some mining companies in the small diamonds market segment proceeded on extended production halts in the face of both international travel restrictions and unfavourable market. However, the market for large diamonds remained resilient, somewhat boosting the otherwise weaker industry's performance. Crop production is expected to decrease by 2.8 per cent in 2020, driven by poor summer cropping on account of severe drought from October to November 2019. Winter cropping that coincided with the national lockdown was negatively affected by reduced access to farm inputs and machinery repair parts that are usually sourced from South Africa. Cross-border movement restrictions reduced access to animal vaccines in SA affecting productivity. However, good rains were received from December 2019 which led to improved rangelands and reduced disease outbreaks between February and September 2020. Thus, farming of animals is expected to recover by 3.4 per cent in 2020.

In the medium-term, the primary sector is expected to recover strongly and register 9.3 per cent growth in 2021 and 5.8 per cent in 2022. The recovery is expected to be supported by a 19.5 per cent and 9.9 per cent growth in the mining industry in 2021 and 2022, respectively, as the industry returns to full production capacity. The recovery in the industry will benefit from anticipated improvements in the global diamond market consistent with global economic recovery and potential production expansions by some mining companies in the medium-term. Crop production is expected to recover and register an average growth rate of 4.0 per cent over 2021-22. In 2021, crop production will be bolstered by above average rainfall forecasted between October 2020 and January 2021. This will benefit the main summer crops, which make the bulk of cereal output. Additional boost will come from government support to farmers in the form of crop production subsidies. The government has announced a 60.0 per cent subsidy on farming inputs in 2020.

In 2020, the textiles and clothing industry is affected by a mix of supply and external demand shocks while the construction industry experienced delays in major projects....

The secondary sector is expected to experience a broad-based decline and register -14.3 per cent in 2020. The decline is led by sharp fall in textiles and clothing manufacturing and construction activities observed in the second quarter of 2020. The textiles and clothing industry is projected to decline by 18.0 per cent in 2020. A mix of both domestic supply and external shocks saw the textiles and clothing exports to both the US and South Africa fell by up to 60.0 per cent between March and June 2020. The sharp fall in textiles and clothing exports was realized in April 2020, when textiles and clothing exports to South Africa were reduced to zero. The third quarter of 2020 saw a substantial recovery in the textiles and clothing industry, reflecting gradual lifting of domestic lockdown measures and re-opening of the global economy, which has boosted business confidence somewhat. In the construction sector, growth is projected at -25.3 per cent in 2020. The construction industry experienced delays on major construction projects due to national lockdown measures instituted in the second quarter of 2020. Non-essential travel restrictions continue to impact procurement of imported construction materials and imported skilled labour for large infrastructure projects. Meanwhile, the electricity and water sub-sector is expected to further weigh down on the sector's output and contract by 4.2 per cent in 2020, in line with a decline in economic activities in the manufacturing and mining industries and slow economic activities in general.

In the medium-term, the secondary sector is projected to recover strongly and grow by 11.4 per cent and 12.5 per cent in 2021 and 2022, respectively. The strong recovery in the secondary sector is driven mainly by a strong rebound in the construction industry and partial recovery in the manufacturing and utilities industries. In particular, the construction industry is projected to rebound by 32.3 per cent and 45.2 per cent in 2021 and 2022, respectively. The recovery in the construction sector will be largely supported by the ramp up of activity associated with LHWP II as the project reaches the advanced stages. In addition, other major government construction projects including construction of 30 MWp Mafeteng Solar power plant, construction work associated with the second phase of Lesotho Lowlands Water Development Project (LLWDP II) and other roads construction projects.[2] The textiles and clothing industry is expected to recover by an average growth of 5.6 per cent and provide an additional boost to the sectoral performance over the

[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).

period 2020-21. The anticipated improvement in global economic prospects, particularly in the US and SA, is expected to underline the textile industry's recovery. The electricity and water sub-sector is also expected to recover gradually and register 3.8 per cent growth over the period 2021-22, in line with the wider recovery in the economy. An additional boost to electricity and water sub-sector is likely to come from the completion of the green energy projects, especially the 30 MWp Mafeteng Solar power plant, in later 2022 going forward.

Services sector is expected to contract in 2020 due to weak consumer spending and supply disruptions ....

The tertiary sector is projected to contract by 3.4 per cent in 2020 due to weakened consumer demand and domestic supply chain disruptions consequent upon the national lockdown measures. This reflects declines in wholesale and trade sub-sector, transport and storage sub-sector, accommodation and food services sub-sector, as well as a decline in financial and insurance sub-sector. The wholesale and trade sub-sector is expected to contract by 10.1 per cent in 2020, reflective of a fall in consumer spending and temporary closure of non-essential services/businesses, especially in the second quarter of 2020. The fall in consumer spending is largely due to the expected loss of income by households as a result of the economic fallout of the COVID-19 shock and the subsequent loss of jobs and a fall in remittances inflows from the neighbouring SA. In the financial sector, the finance and insurance activity is projected to decline by 4.5 per cent in 2020. In the banking industry, this reflects tighter financial conditions, low interest rates as well as regulatory intervention for the banks to grant hard-hit clients with debt repayment holidays. The economic consequences of the COVID-19 shock are expected to lead to an increase in credit risk as some of the household and business borrowers struggle to meet their debt service obligations. Consequently, banks are expected to remain cautious on their lending activities. The insurance industry is also expected to register a contraction as some of clients struggle to meet monthly premium payments due to economic consequences of the COVID-19 shock. The regulatory intervention for the insurance companies to grant hard-hit clients with premium payment holidays are also expected to take a toll on the industry.

The information and communication sub-sector is projected to decline by 4.6 per cent due to a decline in demand for telecommunication services, especially voice traffic, due to weak economic activity and the resulting income losses by households and businesses. Demand by corporate clients is also set to have been negatively affected by business closures during the national lockdown. This is despite the efforts by other businesses to engage in teleworking. Hospitality and food services industry is expected to be hit the hardest and contract by 31.9 per cent as one of the few industries that continue to face tighter COVID-19 restrictions delaying any potential recovery. The health sub-sector is projected to grow by 20.7 per cent in 2020 largely supported by government's efforts to boost the health care system in an attempt to aid the fight against the pandemic. Meanwhile, public administration is expected to expand by 2.4 per cent while education services are projected to grow marginally in 2020.

In the medium-term, the tertiary sector is expected to recover gradually and register 1.7 per cent growth in 2021 and 2.8 per cent growth in 2022. With the exception of government services, most sub-sectors within the tertiary sector are expected to recover gradually in the medium-term. The recovery in the tertiary sector will be led by the expected pick-up in the wholesale and trade sub-sector, financial and insurance sub-sector, information and communication sub-sector, as well as other services sub-sectors. The expected pick-up in these sub-sectors largely reflects gradual recovery in the wider economic activity, particularly the anticipated positive spillovers from the secondary sector as well as primary sector and the gradual recovery in remittances from abroad. The re-opening of the economy that started in the second half of 2020 is expected to improve business and consumer confidence in the medium-term, to the benefit of the tertiary sector. The gradual withdrawal of travel restrictions, globally, is expected to boost the hotel and food service industry in the medium-term. However, voluntary social distancing is expected to undermine the recovery of the hotel and food service industry whilst the world awaits positive news on the development and rollout of a COVID-19 vaccine in 2021.

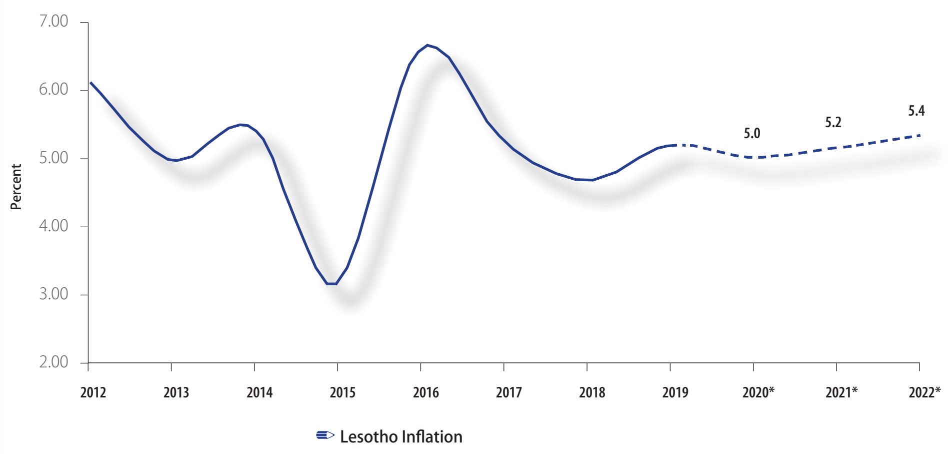
Inflation Outlook

Inflationary pressures are expected to mount in 2020, largely reflecting the increase in food prices. The annual inflation rate is expected to register 5.0 per cent in 2020. Inflation outcomes averaged 4.8 per cent through the first three quarters of 2020 driven by accelerating food prices between March and August 2020. Food prices were the key inflationary drivers reaching 12.9 per cent in August from 5.2 per cent in March 2020. Additional pressures came from clothing and footwear. In September 2020 inflation slightly decelerated to 5.9 per cent from 6.0 per cent observed in August 2020, seemingly reaching a turning point before decelerating further to 5.6 per cent in October 2020. For the remaining months of the year, inflation is expected to remain elevated due to high food prices and supply chain disruptions.

In the medium-term, the inflation rate is expected to register 5.2 per cent in 2021 and then accelerate slightly to 5.4 per cent in 2022. Food prices will continue to shape the medium-term inflation path due to the importance of food prices in the overall CPI basket. Upside risks to the inflation outlook emanate from administered prices, especially utilities and transport, which are likely to be reviewed in the medium-term. On the downside risks, a relatively weak aggregate demand and stabilization of supply chains and associated normal delivery of consumption goods anticipated in the medium-term could counter the inflationary pressures in the medium-term. Thus, the risks to the inflation outlook appear somewhat balanced.

Food prices continue to shape the medium-term inflation path....

Figure 2 Lesotho Inflation Forecast



Source: CBL, *Projections, +Estimates

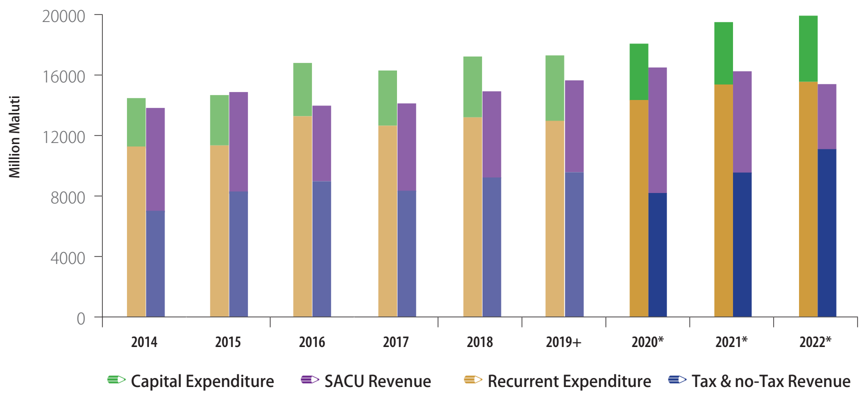
Government Budgetary Operations Outlook

Government revenue is set to increase in 2020 while expenditures remain subdued....

The fiscal position is expected to deteriorate in the medium-term. Following an estimated fiscal deficit of 4.8 per cent of GDP in 2019, the overall fiscal deficit is set to narrow slightly to 4.6 per cent of GDP in 2020. The slight improvement in the fiscal position is largely driven by an increase in government revenue, especially a substantial increase of 36.0 per cent in SACU revenue. Meanwhile tax and non-tax revenues are set to decline by an average of 13.0 per cent due to the economic fallout of the COVID-19 shock. Both corporate tax and tax on goods and services are expected to drop in 2020 due to a fall in domestic production and weak consumer demand. Non-tax revenues are also expected to decline, largely driven by a decline in dividends receipts and diamond royalties. Most state-owned entities are expected to suspend dividends payments to the government in an attempt to bolster their cash-flow position in anticipation of the negative impact of COVID-19 shock. Receipts of diamond royalties are expected to decline in line with the expected fall in diamond exports.

The increase in government revenue is against a backdrop of a moderate increase in government spending. On the one hand, government recurrent spending is expected to increase by an average of 10.5 per cent in 2020. The high recurrent spending is largely driven by an increase in government spending on health care system and on relief measures aimed at aiding the fight against the spread of the COVID-19 and mitigating its impact on the economy, respectively. At the same time, the government wage bill is also set to remain elevated in 2020. On the other hand, capital spending is expected to decline by approximately 13.5 per cent. The decline in capital spending is largely attributed to the re-allocation of part of capital budget to finance government measures aimed at mitigating the impact of COVID-19 pandemic on the domestic economy. The delays in the implementation of capital projects due the national lockdowns and mobility restrictions observed in the second quarter of 2020 also contributed in part to a fall in capital spending.

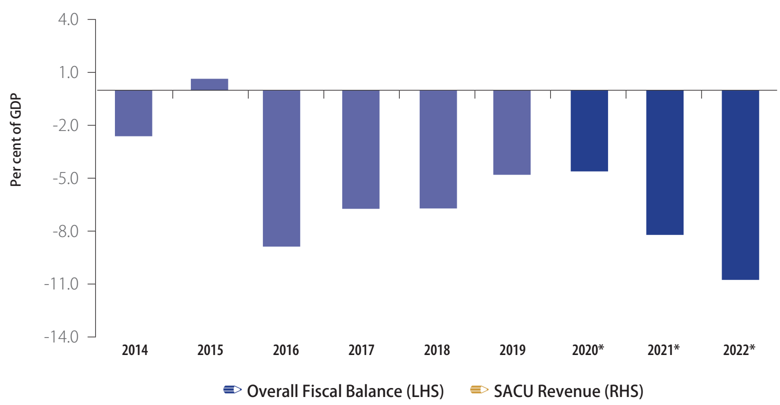
Figure 3 Government Revenue and Expenditures



Source: CBL; * Projections, + Estimates

Over the period 2021 – 2022, the fiscal position is expected to deteriorate and register an average deficit of 9.5 per cent of GDP. While government expenditures are set to remain elevated in the medium-term, largely driven by recurrent spending, government revenues are expected to decline and therefore resulting in a wider fiscal gap. In particular, government revenues are expected to decline by an average of 3.0 per cent over the period 2021 – 2022. The decline in overall government revenues is largely driven by an expected sizeable decline in SACU revenue. In particular, SACU revenue is projected to decline by an average of 27.6 per cent per year over the period 2021 – 2022. The decline in SACU revenue largely reflects weak economic prospects within the SACU region, especially in SA. Meanwhile, both tax and non-tax revenues are expected to recover in the medium-term and increase by an average of 12.2 per cent, as the domestic economy recovers gradually from the fallout of the COVID-19 shock, partially offsetting the negative impact of SACU revenue on total government revenues.

Figure 4 Overall Fiscal Balance



Source: CBL; * Projections, + Estimates

Over the period 2021 – 2022 much of the fiscal financing gap is expected to be met by foreign borrowing ....

The projected fiscal deficits are set to be financed by a mix of a drawdown in government savings within the banking sector, domestic and foreign borrowings. However, over the period 2021 – 2022 much of fiscal financing gap is expected to be met by foreign borrowing given the limited capacity of the domestic financial market and inadequate government savings with the banking sector. To this end, it is important for the government to undertake growth-friendly fiscal adjustment to curb widening fiscal deficit and the associated accumulation of foreign debt, which may threaten debt sustainability and macroeconomic stability in general.

Box 1: Spearheading Economic Recovery During The Pandemic: Potential Fiscal Policy Options

The economic fallout of the COVID-19 pandemic and the related containment measures have taken a severe toll on domestic economy, leaving long lasting scars across many sectors of the economy. Given an unprecedented scale of the crisis, many countries including Lesotho implemented extra-ordinary fiscal policy measures aimed at protecting human lives and providing lifelines to the most vulnerable households and businesses. As the crisis abates, policy-makers should now focus their concerted efforts towards policies that facilitate economic recovery. This note highlights some potential fiscal policy measures that should be deployed in the process of facilitating a speedy economic recovery.

The first priority of fiscal policy should be to continue to accommodate additional spending on health care system to enhance its capacity and functionality, as the fight against the pandemic is not yet over. This requires more spending on health care facilities (e.g., emergency

Box 1: Spearheading Economic Recovery During The Pandemic: Potential Fiscal Policy Options (continued)

rooms, intensive care units, isolation wards, ventilators, etc.), ensuring timely supply of medical supplies and adequate access to personal protective equipments, and ensuring that the health sector is adequately equipped with requisite human resource (doctors and nurses). These measures, together with well-targeted social distancing measures, will boost confidence in the economy about the country's ability to contain health risks. Specifically, the ability to contain the virus and defend people's health will facilitate a safe re-opening of the economy, which is a necessary condition for economy recovery. There can be no recovery until the spread of the virus and future health risks are contained. Furthermore, enhancing the health care system will go a long way in building the country's resilience to future health crises.

Given the extent of scarring of the fiscus and limited financing, an ideal policy mix to support economic recovery could also include a careful fiscal adjustment that accommodates fiscal measures aimed at supporting economic recovery. In the immediate term, fiscal authority should consider reprioritizing and reallocating spending from low-priority to high-priority areas in light of the pandemic, and strengthening public spending efficiency. Part of the policy measures could also entail removing wasteful spending and poorly targeted subsidies as well as curbing the increase in the public wage bill. While some of these expenditures are important for the economy, it is imperative for the fiscal authority to identify efficiency gains and learn to do better/more with less resources. Additional measures should also include clearing of domestic arrears and accelerating the payment of invoices. While this enhances public cash-flow management, it also provides hard-pressed businesses with much needed liquidity and this helps reduce cash flow problem in the private sector during the crisis. On the revenue side, restoring taxpayers' compliance to pre-COVID-19 levels will also be key in generating additional revenues for the government to finance high-priority expenditures. While acknowledging the difficulties of instituting new revenue measures during the crisis, the fiscal authority could also explore avenues to raise additional revenues in the near term.

In the medium term, the fiscal authority should consider measures to enhance domestic revenue mobilization and diversify resource envelop. This entails enhancing tax compliance and expanding tax base to include informal sector by taking advantage of digitalization (e-transactions and e-invoicing), and engaging in reforms to modernize business taxation. Measures aimed at reducing tax evasion and avoidance will also help boost government revenues. The authority could also consider introducing wealth tax (property tax) and even making income tax more progressive by reducing income tax rates for low-income earners but increasing that for high-income earners. Income tax cuts for low-income earners can boost consumption spending since marginal propensity to consume for the low-income earners is normally higher than that for high-income earners. The authority could also consider reducing fuel subsidies gradually (through subsidy reforms), taking advantage of lower oil price in the global market. This measure will largely affect the rich and therefore considered progressive. These measures will help diversify

Box 1: Spearheading Economic Recovery During The Pandemic: Potential Fiscal Policy Options (continued)

government revenues and reduce heavy reliance on volatile SACU revenues. Needless to say, it is also important for the authority to complement the revenue mobilization measures with measures aimed to enhance government cash-flow management. To this end, the authority should also consider establishing treasury single account.

As health crisis subsides and more businesses resume operations, the fiscal authority could consider a progressive and a gradual unwinding of some of the fiscal measures introduced to mitigate the economic impact of the COVID-19 pandemic. The exit from the relief measures should proceed gradually to avoid precipitating sudden income losses and bankruptcies, especially at the time the economy is beginning to regain its footing. The sequence in which the relief measures are unwound should take into account priority sectors within the economy in terms of growth and employment contribution as well as the distribution of businesses across sectors experiencing difficulties to recover. This should also be done with a careful consideration and clear evidence that the pandemic is retreating.

In addition, progress towards economic recovery requires public investment. Where fiscal space permits, government could consider accelerating spending on public investment, including on physical and digital infrastructure. This could also be done through re-prioritization or reallocation of government spending away from lower priority areas towards public investment. More spending on public investment, especially on maintenance and job-intensive capital projects such as public works, will stimulate economic activity, crowd-in private investment and thus accelerate the recovery. Public works, especially maintenance works, have advantage over other public investment especially in this uncertain time of health concerns. They are less disrupted by social distancing measures. Maintenance of existing infrastructure can proceed with minimal disruptions as the use of public infrastructure is reduced with slow economic activities. In terms of economic benefits, routine maintenance reduces replacement and rehabilitation costs of an existing infrastructure in the long term and helps preserve the quality of the infrastructure.

In the immediate term, the focus should be on relatively small and less complex infrastructure projects that can be delivered within a relatively short time period with minimal impact on the government budget. Going forward, the authority should scale up public investment taking into account new priorities stemming from the pandemic (safe buildings, water and sanitation, electricity, schools, transport, digital infrastructure, etc.) and climate change (potential threat to development going forward).

In conclusion, Lesotho faces huge fiscal challenges; some of which are old while others reflect the impact of the COVID-19 pandemic. Indeed, promoting economic recovery against a backdrop of limited financing will have its own challenges that almost look insurmountable. But these challenges must and can be overcomed. To do this, it requires strong commitment and political will from the government to make necessary sacrifices today which will lay a strong foundation for economic recovery.

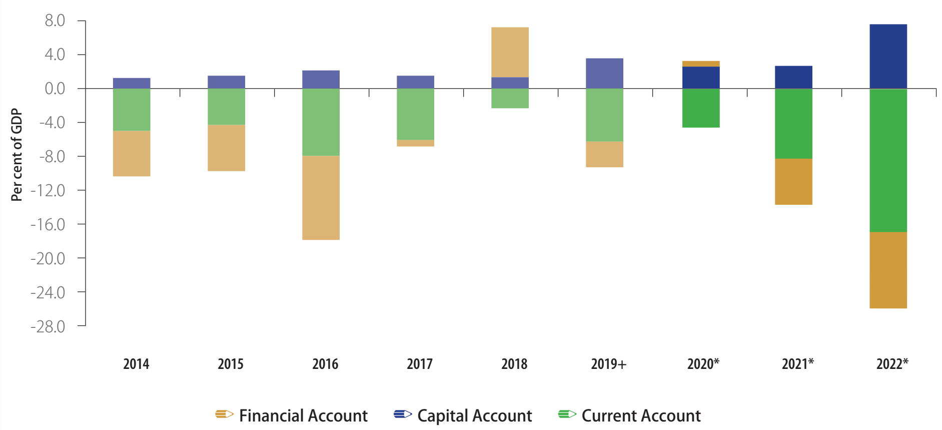
External Sector Outlook

The external sector position is expected to improve in 2020, registering a surplus of 3.7 per cent. The surplus reflects a better than expected outturn for the first half of 2020. There were larger inflows in the financial account and a downward revision of the current account deficit. The effect of the COVID-19 pandemic was felt in the second quarter of 2020, where exports fell at a faster pace than imports while the receipts of income from abroad also declined. Meanwhile, capital inflows of capital transfers slowed down as most construction projects were put on a temporary halt due to the national lockdown measures that were imposed. The financial account recorded outflows underpinned by commercial banks transfers abroad and a build-up of international reserves. Measured in months of imports, reserves are set to increase to 4.7 months at the end of 2020.

The external sector position is set to deteriorate in the medium-term reflecting the widening current account deficit....

In terms of the outlook, the external position is expected to deteriorate in the medium-term, with the overall deficit registering 0.8 per cent and 6.1 per cent of GDP in 2021 and 2022. This compares with the June 2020 forecasts of the overall deficits of 2.9 and 2.7 per cent of GDP for 2021 and 2022, respectively. It is anticipated that the current account will remain in deficit for the projection period. The current account deficit is set to widen from 3.6 per cent in 2020 to 15.8 per cent of GDP in 2022, reflecting the widening trade account deficit. The surpluses in the incomes and capital transfers accounts are projected to moderate the deficit in the trade account. The economy is expected to continue to attract more capital and financial flows in the medium-term.

Figure 5 Outlook for Balance of Payments



Source: CBL; * Projections, + Estimates

Textiles and diamond exports are projected to dip in 2020 due weak external demand and lockdown measures, but rebound in 2021-22....

Both merchandise exports and imports are projected to decline in 2020 due to a mix of domestic supply disruptions and weak external demand consequent upon the impact of COVID-19 containment measures. Export earnings are projected to decline by 14.0 per cent in 2020, 4.2 percentage points stronger than in the June 2020 forecasts. This reflects a better than anticipated outturn in exports in the second quarter of 2020. Textile exports are set to dip in 2020 due to relatively low external demand and temporary closure of some of the manufacturing companies. On a similar note, diamond exports are forecast to fall by 18.9 per cent in 2020, 2.3 percentage points lower than in the June 2020 forecasts. The diamond industry is mostly affected by restrictions on travel, weak demand and a temporary halt in operations in some mines. However, there are already signs of a recovery in the diamond markets, as demand is growing and large diamonds continue to attract high prices. For 2020, imports are largely affected by low domestic demand and lockdown measures that restricted trade and economic activity. A rise in the imports related to the response of the pandemic, is set to partially offset the overall decline in imports in 2020.

Merchandise exports and imports are set to recover over the period 2021-2022 as economic activity normalises. As external demand conditions improve, textile exports will rebound and grow by an average of 4.6 per cent in 2021 and 2022. It is anticipated that the medium-term would see rough diamonds inventory levels in the international markets declining, while demand conditions and prices will continue to improve. Thus, diamond exports are estimated to grow by an average of 25.9 per cent in 2021 and 2022, assuming that all mines will be producing at close to full capacity. Factors that include economic activity normalisation, strengthening domestic demand and advances in COVID-19 vaccine and therapies are set to boost imports in 2021-22. It is expected that imports associated with construction activity, that includes LHWP II, LLWDP II and the solar project, will be main driver of the increase in imports in the medium-term.

Capital inflows associated with the LHWP II and government infrastructure projects are set to increase in the medium-term. Delays in the execution of the LHWP II are anticipated, which could see the economy receiving those transfers later than was envisaged. It is assumed that construction of advance infrastructure will be completed by June 2021, while the major construction works of the dam and tunnel will commence in the second half of 2021. Foreign support for government developmental projects is expected to increase modestly in the medium-term.

The services account is projected to register a deficit in the medium term. The COVID-19 shock has brought about services supply disruptions, which have adversely affected both trade and economic activity. Restrictions on international travel, social distancing measures and consumers' fear of contagion continue to supress the tourism, travel and transport sectors. The pandemic has underscored the importance of services that can be offered online, such as telecommunications, computer and financial services. A turnaround is expected in 2021 and 2022, which will enable trade in all services- even those that do not require proximity between suppliers and consumers.

Incomes and current transfers from migrant workers are set to drop in 2020 due to the negative effects of the COVID-19 pandemic. Many Basotho migrant workers, especially those working in South African mines and informal sector, experienced loss of income for some months while others lost their jobs. Incomes from migrant workers is estimated to fall by 14.1 per cent, while remittance inflows are also projected to decline by 14.4 per cent in 2020. On the positive side of the story, SACU receipts are set to increase substantially by 37.5 per cent in 2020, thereby increasing the overall current transfers.

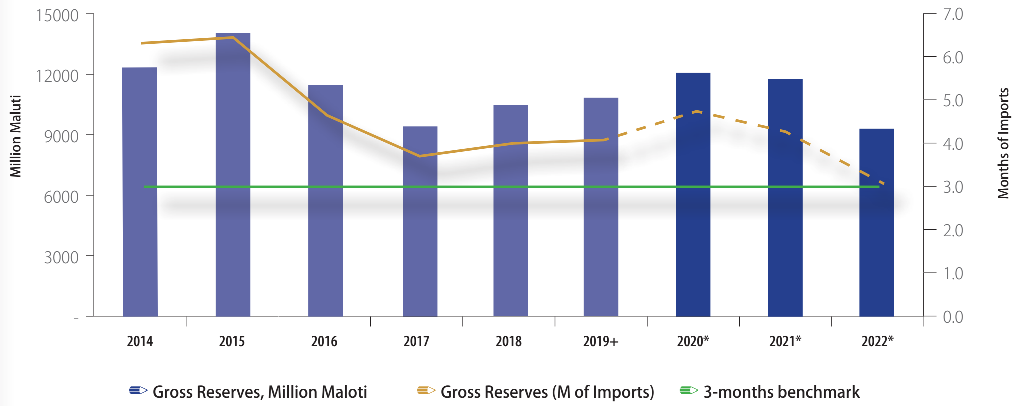
Beyond 2020, migrant workers' incomes and current transfers are projected to increase in line with the expected modest economic recovery in SA. Assuming improving economic and labour market conditions abroad, projections suggest a 5.1 per cent increase migrant workers' incomes and a 5.8 per cent increase in remittances over the period 2021-22. On the negative side of the story, SACU receipts are projected to drop substantially by 49.1 per cent over the period 2020 - 2022. The steep fall mainly reflects the modest regional economic growth as well as the expected downward adjustment due to lower than anticipated imports into the SACU region.

Capital transfers and financial flows are expected to finance the deficit in the current account in 2020. Indications are that the economy will continue to attract capital transfers associated with government infrastructure projects and the LHWP II. Though delays were experienced in some projects, it is expected that there will be a ramp-up of construction activities in the second half of 2020. Direct investment inflows still remain uncertain and are projected in decline in 2020 but pick up in the outer years as business and consumer sentiment improve. On other investment, commercial banks' transfers abroad are projected to increase, as banks adjust their portfolios in favour of safe and liquid assets in SA during 2020. A build-up in foreign reserves is expected in 2020, underpinned by emergency funding from the IMF under the Rapid Credit Facility and Rapid Financing Instrument, to the tune of US$49.1 million. Measured in months of imports, foreign reserves are estimated at 4.7 months in 2020.

Indications are that the economy will continue to attract capital transfers associated with government infrastructure projects and the LHWP II....

The economy is expected to receive more capital transfers and foreign investment over the medium-term. Foreign support for government developmental projects and the LWHP II main works is expected to increase in 2021 and 2022. Foreign investment flows are also set to increase in the mining, construction and agriculture industries. On other investment flows, commercial banks' transfers abroad are estimated to rise further, taking into account the expected economic turnaround. Foreign debt levels are set to rise to cover both external and budgeting financing needs, offsetting the estimated fall in SACU receipts in 2021-22. Measured in months of imports, foreign reserves are projected to decline to 4.3 months in 2021 and 3.2 months in 2022.

Figure 6 Outlook for Official Reserves Position



Source: CBL; * Projections, + Estimates

Box 2: Lesotho Receives IMF Support to Address the Impact Of COVID-19

The COVID-19 pandemic has led to unprecedented economic fallout globally. Given the extent of scarring on the global economy, the IMF responded swiftly by increasing its lending capacity to provide emergency financial assistance and debt service relief to member countries. This is done in an effort to contain and mitigate the impact of this external shock. This note highlights the rationale behind the IMF emergency financial assistance to Lesotho.

The COVID-19 pandemic continues to spread globally and countries are facing the worst economic recession. Lesotho has not been spared the effects of this pandemic. The first positive case was registered in May 2020, while the first death related to COVID-19 complications was registered in July 2020. As at November 26, 2020, there were 831 active cases and 44 registered deaths, with a recovery rate of about 60 per cent. A state of emergency was declared on March 29, 2020 followed by a national lockdown which was imposed on March 30, 2020, in an attempt to curb the spread of the disease. During this time, only essential businesses (including pharmacies, grocery shops, financial services, health facilities and fuel stations) were allowed to operate. However, the lockdown measures have been gradually lifted to rekindle economic activity.

The pandemic is likely to exacerbate the economic challenges that the economy was already facing. Lesotho has been experiencing sluggish growth amid existing structural bottlenecks. The medium-term outlook shows the devastating effects COVID-19 has on economic activity. While the lockdown measures, imposed to contain the spread of the virus, depressed economic activity and consumer demand, cross-border trade was also adversely affected by travel restrictions. This led to, among others, low domestic tax collections;

Box 2: Lesotho Receives IMF Support to Address the Impact Of COVID-19 (continued)

decline in exports and remittances as well as a fall in current and capital transfers. Moreover, the economic relief packages and other spending related to COVID-19 is likely to worsen the fiscal position of the economy.

The unfolding health and economic crisis is negatively affecting the country's balance of payments position (BOP), hence the ability to finance international payments. Data from the first half of 2020 shows a decline in remittances, exports and incomes from Basotho working abroad. Despite the lower import bill due to depressed consumer demand, and an increase in SACU receipts, the economy continues to register current account deficit. However, the Inflows associated with capital transfers geared toward government developmental projects dropped, as some projects experienced delays due to the lockdown measures. At the same time, direct investment tumbled due tighter global financial conditions, consequent upon the global economic fallout of the COVID-19 pandemic. These developments imply a deterioration in the external sector position, exerting downward pressure on the country's foreign reserves needed to finance international transactions. This, in turn, undermines the country's ability to maintain adequate level of international reserves necessary to preserve the Loti-Rand currency peg. Specifically, the impact of the COVID-19 pandemic on the external sector created an urgent external financing need.

These eminent BOP needs urged the Lesotho government to request financial assistance from the International Monetary Fund (IMF). Consequently, the IMF Executive Board approved US$49.1 million emergency support, equivalent to US$16.5 million under the Rapid Credit Facility (RCF) and US$32.6 million under the Rapid Financing Instrument (RFI). This kind of emergency financial support is available on short notice and does not come with traditional IMF conditions[3]. The assisted country has to repay the funds and commit to undertake necessary macroeconomic adjustment to address the underlying macroeconomic challenges or problems. With this support, Lesotho will be able to meet the BOP needs and create room for pandemic-related spending. This will also ensure that the international reserves are maintained at level sufficient to defend the Loti-Rand peg and to maintain macroeconomic stability. It is worth noting that IMF loans usually provide only a small portion of the resources needed to finance a country's BOP, especially during a crisis. Since IMF loans also signal that a country's economic policies are on the right track, they reassure investors and the official community, helping countries find additional financing from other sources. Thus, the government of Lesotho remains committed to fiscal consolidation and strengthening macroeconomic stability, while seeking additional support from international donors for other financing needs.

As part of its mandate, the IMF provides financial assistance to member countries to meet international financial obligations (BOP needs) in crises periods as well as precautionary financing as an insurance against potential BOP crises. According to Article I of the IMF's Articles of Agreement, the purpose of lending by the IMF is "...to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international

[3] IMF 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.

Box 2: Lesotho Receives IMF Support to Address the Impact Of COVID-19 (continued)

prosperity." Put differently, the IMF lending aims to assist countries to continue to meet international financial obligations (BOP needs). This creates a breathing space for a country to undertake necessary macroeconomic policies to restore economic stability. Without the IMF financial support, a country would be forced to undertake painful/ undesirable macroeconomic adjustment to restore economic stability, especially if access to foreign financial assistance becomes difficult.

The IMF financial support is tailored to various BOP needs and countries' circumstances. Emergency financial support is normally granted for urgent BOP needs (to address the BOP shocks that are short-lived or temporary in nature). As mentioned above, this kind of the financial support is available on short notice and does not come with traditional IMF conditions. On the contrary, medium-term financial support is normally tailored for countries facing protracted BOP challenges. This kind of The IMF financial support comes with policy conditionality that governments are required to commit to in order to receive the funding. All IMF member countries are eligible to borrow from the general resource account (GSA) on non-concessional terms, while low-income countries can borrow at a concessional rate, currently at zero per cent until June 2021. In particular, high-income countries access IMF financial assistance on non-concessional terms through GSA while low-income countries access IMF financial assistance largely through Poverty Reduction and Growth Trust on concessional terms. Lesotho as a low middle income country qualifies for blended borrowing: from both concessional and non-concessional facilities.

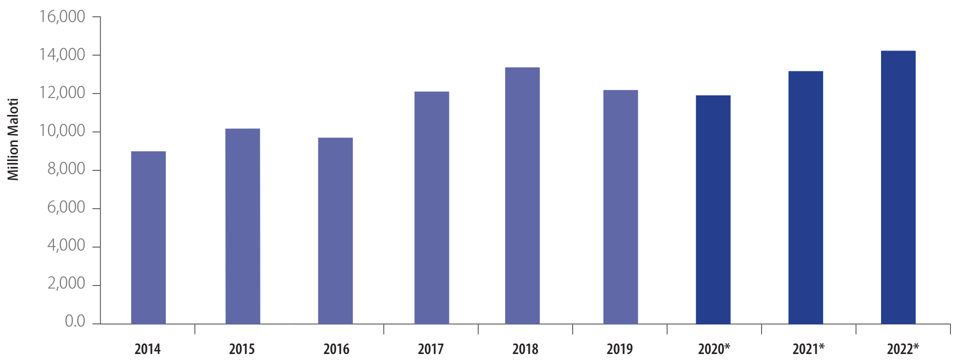
Monetary Sector Outlook

Money supply is projected to decline consistent with the contraction in nominal GDP. Money supply is estimated to drop by 2.1 per cent in 2020, relative to a 9.0 per cent increase in 2019. From a balance sheet perspective, the fall reflects a drop in domestic assets, moderated by an increase in the banking sector net foreign assets. On domestic assets, credit extended to the private sector is set to decrease due to low economic activity attributed to the containment measures imposed to curb the spread of COVID-19, while government deposits are set to increase due to higher SACU revenue received from second quarter of 2020. In terms of the components of money supply, the fall in money supply is attributed to a decrease in transferable deposits held by private businesses and state-owned enterprises.

Money supply set to pick-up and grow by an average of 9.5 per cent over the period 2021 - 2022....

In the medium term, money supply is projected to pick up in line with the growth in nominal GDP. Consistent with projected recovery in economic activity in 2021-22, money supply will rebound and grow by an average of 9.5 per cent during the same period. The expected growth in money supply in 2021-22 also reflects an increase in credit extended to the private sector and a rise in commercial banks' net foreign assets for trade and investment purposes. Credit extended to businesses will benefit from the growth pick-up in the mining, manufacturing, construction and the services sectors. Government deposits are set to decline as the government finances its budgetary operations.

Figure 7 Money Supply



Source: CBL; * Projections

Risks to Domestic Growth Outlook

Despite a better-than anticipated economic performance in the second of half of 2020 globally, the risks are still tilted to the downside given uncertainty concerning the path of the pandemic. The fight against the pandemic is still far from over as evidenced by a rise in infections and an imposition of partial lockdowns by most economies. Additionally, notwithstanding the positive news of the efficacy of about three COVID-19 vaccines, there is uncertainty concerning affordability and timely accessibility of the vaccine by the developing countries including Lesotho. All these factors have a bearing on the pace of economic recovery.

Another major risk facing the Lesotho economy that will delay a speedy recovery is the inevitable spillovers from the SA economy due the high prevalence of the pandemic and structural constraints. Prior to the advent of the pandemic, the SA economy was already experiencing a prolonged economic malaise due to policy uncertainty and unsolved structural impediments to growth. The pandemic only worsened an already dire economic performance with negative spillovers for economies with strong economic ties with South Africa. The dire economic performance is expected to adversely affect Lesotho through the SACU and remittances channels, both of which are expected to have implications for public and private consumption.

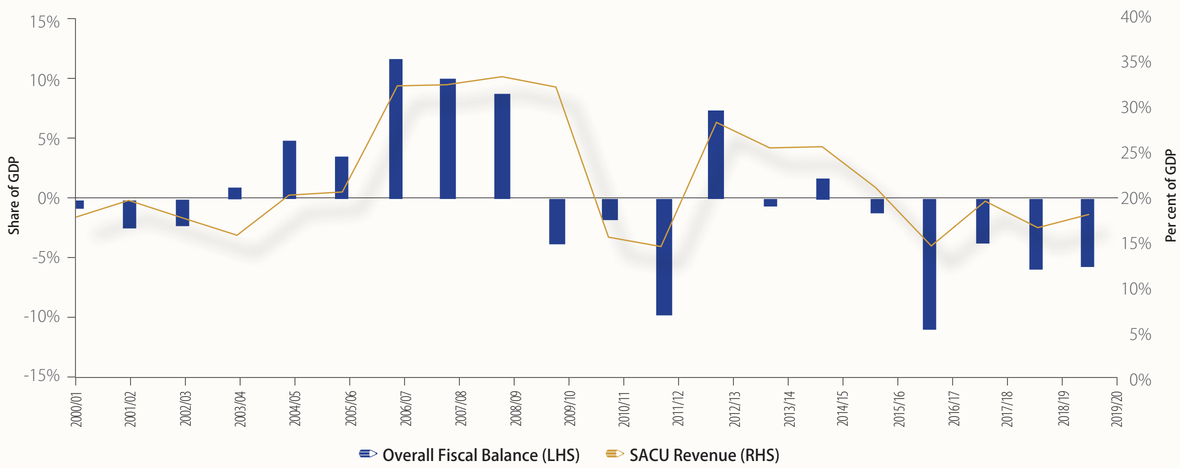
The limited fiscal space is expected to further delay recovery in the face of dwindling revenues and domestic borrowing constraints. Since the decline of SACU receipts in 2015 consistent with poor SA economic performance, Lesotho fiscal space has been deteriorating. COVID-19 further impacted government finances in the face of challenges with domestic borrowing and an unfavourable exchange rate that deters foreign borrowing.

Box 3: Mitigating Vulnerability of Lesotho's fiscal policy to fluctuations in SACU revenue

In the recent past, Lesotho has encountered significant volatility in its fiscal policy stance because of volatile SACU revenues. This is because a significant portion of government revenue comes from SACU revenue pool; averaging 40.0 per cent of the total revenue in the past decade. This note discusses the pro-cyclical nature of Lesotho's fiscal policy with respect to fluctuations in SACU revenue, its implications and policy recommendations.

In Lesotho's case, fiscal policy is highly sensitive to changes in SACU revenue. An increase in SACU revenues leads to an improvement in the overall fiscal balance and vice versa. Figure 1 below shows the relationship between SACU revenues and the overall fiscal balance. During periods of a boom in SACU revenue, government often increases its spending owing to availability of resources. Undesirably, some of these increases in government spending end up being permanent in nature. For instance, when SACU revenues fall, it becomes difficult if not improbable for the government to adjust its spending in line with the fall in the revenues. As a result, an overall fiscal balance (or position) improves during a boom in SACU revenue and deteriorates when SACU revenue declines. That is, the fiscal position is pro-cyclical with respect to fluctuations in SACU revenue.

Figure 8 Overall Fiscal Balance and SACU Revenue trends



Source: CBL; * Projections, + Estimates

The pro-cyclicality of fiscal policy with respect to volatile SACU revenues have negative implications for macroeconomic stability. A sharp decline in SACU revenue and a resultant fiscal deterioration (increase in fiscal deficit) threatens fiscal and debt sustainability and promotes fiscal pro-cyclicality . In this case, the government has two potential options: accept the resulting increase in fiscal deficit or undertake fiscal adjustment. On the one hand, accepting high fiscal deficit implies more government borrowing (most of which is likely to be met through foreign borrowing given the underdeveloped nature of the domestic financial market), especially in a situation where the government does not have sufficient fiscal buffers (savings). The increase in government borrowing creates risks of debt distress with negative implications for an overall macroeconomic stability. On the other hand, undertaking fiscal adjustment could typically leads to a contraction in domestic absorption, which in turn weakens short-term economic growth. If SACU revenue declines in economic downturn (a likely scenario), fiscal adjustment could exacerbate the downturn inducing macroeconomic instability (output volatility) with negative implications for long-term economic growth. This also implies a limited scope for the government to conduct counter-cyclical fiscal policy aimed at promoting macroeconomic stability.

Box 3: Mitigating Vulnerability of Lesotho's fiscal policy to fluctuations in SACU revenue (continued)

A classic example is the country's experience in period that follows the 2008/09 global financial crisis. In the aftermath of the global financial crisis, SACU revenue declined from an average 32.0 per cent of GDP in 2009/10 to 14.0 per cent in 2011/12. The period saw fiscal position deteriorating sharply and the country experiencing substantial deterioration in the external sector, thereby threatening macroeconomic stability. The COVID-19 pandemic, which is expected to plunge the global economy into a severe recession in 2020, is also expected to have negative implications for SACU revenue and further complicates the conduct of fiscal policy in Lesotho. In light of these developments, SACU revenues in subsequent years are expected to decline sharply. This expected decline in SACU revenues will lead to a deterioration in the fiscal position and a slowdown in domestic absorption, which in turn will lead to weak economic growth. The risk of fiscal unsustainability becomes increasingly probable in light of mounting government debt as government endeavours to close the widening fiscal financing gap in the near term. These developments (past and current) underline the importance of revisiting the design and implementation of fiscal policy in Lesotho.

To address the above-mentioned challenges associated with the pro-cyclicality of fiscal policy with respect to fluctuations in SACU revenue a number of policy options can be considered. One possible option for the government is the introduction of fiscal rules . The literature suggests four types of fiscal rules: debt rules, balanced budget rules, expenditure rules and revenue rules. While each of these rules is used for different purposes, they are however generally used to mitigate distortions in government budget and maintain sound fiscal policy conduct. In the current context, the fiscal authority could consider a revenue rule and complement it with an expenditure rule. In terms of a revenue rule, the authority could set a numerical threshold as a ratio of GDP (say at 20% based on historical average) for the amount of SACU revenue available to finance the current fiscal operations. During a boom in SACU revenue, any excess amount (over the threshold) would be saved into a stabilisation fund (add to fiscal buffers). In bad times when SACU revenue falls below the threshold, then the authority would met the shortfall through a drawdown in fiscal buffers (stabilisation fund) build in good time. This will help mitigate the pro-cyclicality of fiscal balance with respect to fluctuations in SACU revenue and goes a long way in promoting fiscal and overall macroeconomic stability. To support countercyclical fiscal policy, the authority could complement the revenue rule (outlined above) with a set of expenditure rules. Expenditure rules, on the contrary, set a numerical limit (ceiling) on the growth of government spending or its ratio to GDP[3].

A combination of these rules is recommended to ensure sustainable fiscal policy in Lesotho. Given that SACU receipts are the most volatile and biggest component of fiscal policy in Lesotho, fiscal rules aimed at the optimal allocation for SACU revenues overtime and limiting government spending could be considered. Revenue rules will ensure that in good times of SACU revenue windfall, excess revenue above the threshold is not spend but rather used to build fiscal buffers (stabilisation fund). The accumulated buffers can then be used to counteract the impact of a fall in SACU revenue on the overall fiscal operations in bad times. Furthermore, the imposition of limits on public spending (expenditure rule) would help avert spending inertia particularly in good times of SACU revenue windfall. This will help avoid persistent budget deficit in light of borrowing constraints the country often faces during times of economic downturn. In the nutshell, the implementation of these rules will mitigate the pro-cyclicality of fiscal policy with respect to SACU revenue. This will ensure that domestic fiscal policy effectively functions as an instrument of macroeconomic stabilisation and as such result in a longer-term economic growth gains despite the economic fallout of COVID-19 pandemic in Lesotho.

In addition to fiscal rules, the fiscal authority should also explore additional avenues to diversify fiscal resource envelope and reduce heavy reliance on SACU revenues. In this regard, the authority could consider measures aimed at increase tax base through private sector development.

[4] For example, Namibia has expenditure rule that sets public expenditure ceiling at 30 per cent of GDP.

Conclusion

The impact of the COVID-19 pandemic and ensuing lockdowns are expected to have devastating effects on the domestic economy. In the real sector, the pandemic and the related containment measures are expected to trigger a sharp drop in domestic economic activity. On the supply side, a number of businesses are expected to register revenue losses, forcing them to temporarily or even permanently close their operations. This shock on the supply side, in turn, gives rise to demand side challenges. A significant share of households, especially informal and low-skilled workers as well as those working in exposed occupations (such as tourism, entertainment, hotels and food industries, etc.), are expected to lose their jobs and incomes. This, together with widespread uncertainty, will prompt spending cutbacks within the economy. In the medium to long-term, the pandemic will leave lasting scars through multiple channels, including lower consumption and investment, a fall in physical and human capital due to widespread business closures and loss of schooling and jobs. These will have negative impact on long-term growth and development.

In the public sector, the COVID-19 pandemic and the related containment measures are expected to have a severe impact on fiscal operations, reflective of both discretionary fiscal policy interventions and non-discretionary factors “automatic stabilizers”. Sizable discretionary fiscal measures along with declining revenues, due to a sharp output contraction, are expected to lead to an increase in fiscal deficits and mounting public debt. Going forward, this implies that a more cautious fiscal stance will be needed to balance the need to promote economic recovery while at the same time preserving fiscal and debt sustainability as the crisis unfolds. In the external sector, the fall in global incomes is expected to weaken external demand, leading to a fall in domestic exports. At the same time, remittances, which serve as a lifeline for many households, are expected to tumble as global incomes, especially in SA, fall. In addition, tighter global financial conditions are expected to have a negative impact on foreign financial inflows including foreign direct investments. As a result, the external sector position is expected deteriorate in the medium-term, creating external financing needs.

Appendix I: Selected Macroeconomic Indicators

				Projections		
	2017	2018	2019+	2020*	2021*	2022*
Output - Constant prices						
Gross Domestic Product (% p.a.)	-3.18	-1.22	-0.38	-6.62	4.64	5.48
Per capita GDP (% p.a.)	-3.64	-1.69	-0.85	-6.62	4.64	5.48
Gross National Income (% p.a.)	-2.34	-0.93	-0.60	4.08	3.51	4.52
Per capita GNI (% p.a.)	-2.80	-1.39	-1.07	4.08	3.51	4.52
Gross Domestic Product (M Million)	21797.18	21530.58	21448.45	20029.49	20959.37	22108.90
Per Capita GDP	10799.85	10617.61	10527.40	9830.94	10287.35	10851.56
Gross National Income (M Million)	24763.49	24533.86	24386.96	25381.47	26272.85	27460.88
Per Capita GNI	12269.56	12098.65	11969.69	12457.82	12895.33	13478.44
Output - Current prices						
Nominal GDP (% p.a.)	-2.00	8.28	2.33	-2.19	10.46	9.12
Nominal GNI (% p.a.)	-1.35	8.47	2.14	-0.53	9.75	8.66
Nominal GDP (M Million)	30727.16	33271.97	34046.45	33300.16	36783.68	40136.83
Nominal GNI (M Million)	34956.23	37918.26	38730.32	38524.89	42280.28	45942.23
Sectoral Growth rates (% p.a.)						
Primary Sector	-8.29	-11.58	3.09	-9.21	9.26	5.80
Crops	-6.00	-46.94	-21.45	-2.84	5.50	2.50
Mining and Quarrying	14.11	-9.40	-0.69	-24.64	19.50	9.87
Secondary Sector	-6.14	6.12	-1.40	-14.27	11.41	12.45
Manufacturing	-9.79	14.23	0.73	-13.46	7.31	2.18
Construction	-3.34	-3.68	-3.72	-25.30	32.31	45.20
Tertiary Sector	-2.25	-2.15	0.63	-3.37	1.65	2.79
Wholesale and retail trade,repairs	-3.46	-9.23	-3.75	-10.08	4.10	3.97
Financial and insurance activities	-3.93	-1.93	7.95	-4.52	3.60	6.10
Real estate activities	2.09	-0.13	0.59	-0.51	0.73	0.74
Public Admin, Education & Health	0.15	0.80	0.59	4.30	-1.30	-0.70
Savings and Investment - Per cent of GNI						
National Savings	9.51	13.74	14.55	21.27	17.31	14.12
Of which Government Savings	2.57	2.98	6.21	4.93	0.19	-2.25
Of which Private Sector Savings	6.94	10.75	8.34	16.34	17.12	16.36
Investment	14.97	15.78	18.13	24.41	24.15	27.90
Of which Government Investment	10.13	8.92	4.23	3.67	3.74	3.59
Of which Private Sector Investment	4.84	6.86	13.90	20.74	20.41	24.31
Resource Balance	-5.46	-2.04	-3.58	-3.14	-6.84	-13.78

+ Estimate, * Projection

Appendix I: Selected Macroeconomic Indicators (continued)

				Projections		
	2017	2018	2019+	2020*	2021*	2022*
Savings and Investment - Per cent of GDP						
National Savings	10.82	15.66	16.55	24.61	19.90	16.16
Of which Government Savings	2.92	3.40	7.07	5.70	0.22	-2.57
Of which Private Sector Savings	7.90	12.26	9.48	18.91	19.68	18.73
Investment	17.03	17.99	20.62	28.24	27.76	31.94
Of which Government Investment	11.52	10.17	4.81	4.25	4.29	4.11
Of which Private Sector Investment	5.51	7.82	15.81	23.99	23.47	27.83
Resource Balance	-6.21	-2.33	-4.07	-3.63	-7.86	-15.78
Inflation rate % (CPI)	5.23	4.71	5.20	5.04	5.23	5.36
External Sector - Per cent of GDP						
Current Account	-6.21	-2.33	-4.07	-3.63	-7.86	-15.78
Imports of Goods	79.25	76.41	75.68	75.86	75.09	74.05
Exports of Goods	44.59	48.34	45.20	39.73	41.09	40.12
Capital Flows (+ means an inflow)	1.71	1.48	3.68	3.92	4.77	7.73
Of which Government	1.71	1.48	3.68	3.92	4.77	7.73
Of which Private Sector	0.00	0.00	0.00	0.00	0.00	0.00
Financial Account	-1.07	5.35	-3.60	2.79	-3.09	-8.05
Official Reserves (Months of Imports)	3.72	4.00	4.09	4.74	4.27	3.16
Government Finance - Per cent of GDP						
Revenue (excluding grants)	45.04	44.62	45.78	49.21	42.16	35.94
Tax Revenue	21.63	22.01	23.24	19.99	19.33	20.37
Recurrent Expenditure	-41.19	-39.79	-38.20	-43.14	-41.57	-38.20
Of which compensation of employees	-19.14	-19.48	-18.73	-20.01	-19.87	-19.01
Transaction in non-financial assets	-11.87	-12.02	-12.63	-11.17	-11.28	-10.79
Budget Balance (+ means a surplus)	-7.01	-6.85	-4.83	-4.61	-8.58	-10.62
Monetary Aggregates - Nominal growth						
Money supply (M2)	25.53	10.69	-8.99	-2.19	10.46	9.12
Private Sector Credit	8.53	10.77	8.15	-0.84	10.93	9.51

+ Estimate, * Projection

Appendix II: Real GDP Growth Rates

	2017	2018	2019+	2020*	2021*	2022*
Primary Sector	**-8.29**	**-11.58**	**3.09**	**-9.21**	**9.26**	**5.80**
Agriculture, forestry and fishing	-20.21	-13.24	6.10	2.27	3.64	3.22
Growing of crops; market gardening; horticulture	-6.00	-46.94	-21.45	-2.84	5.50	2.50
Farming of animals (incl. fishing)	-28.31	4.51	15.21	3.43	3.49	3.53
Forestry	-3.70	-0.03	-2.96	0.29	0.29	0.29
Fishing and aquaculture	41.64	36.23	1.08	3.00	4.00	4.00
Mining and quarrying	14.11	-9.40	-0.69	-24.64	19.50	9.87
Secondary sector	**-6.14**	**6.12**	**-1.40**	**-14.27**	**11.41**	**12.45**
Manufacturing	-9.79	14.23	0.73	-13.46	7.31	2.18
Food products and beverages	-16.01	37.44	20.09	0.81	2.58	2.63
Textiles, clothing, footwear and leather	-7.28	15.02	-3.03	-18.01	9.14	2.12
Other manufacturing	-20.15	-8.39	11.19	3.25	2.09	1.99
Electricity and water	0.16	-1.97	-4.69	-4.22	3.83	3.75
Electricity supply	6.91	1.79	-9.27	-3.82	2.86	3.33
Water and sewearge; waste collection	-3.06	-3.94	-2.13	-4.43	4.33	3.97
Construction	-3.34	-3.68	-3.72	-25.30	32.31	45.20
Tertiary sector	**-2.25**	**-2.15**	**0.63**	**-3.37**	**1.65**	**2.79**
Wholesale and retail trade; repair of motorvehicles	-3.46	-9.23	-3.75	-10.08	4.10	3.97
Transportation and storage	-3.63	-5.84	-0.11	-14.16	7.56	15.37
Accommodation and food service activities	5.41	-6.41	-4.31	-31.90	10.42	18.19
Information and communication	-10.29	7.56	4.70	-4.60	2.00	2.30
Financial and insurance activities	-3.93	-1.93	7.95	-4.52	3.60	6.10
Financial service activities, except insurance	-3.98	-5.31	8.11	-5.19	3.58	6.30
Insurance and pension funding	-5.08	22.14	7.42	-1.34	4.49	6.14
Activities auxiliary to financial services	-0.11	15.34	6.39	-0.55	1.83	2.51
Real estate activities	2.09	-0.13	0.59	-0.51	0.73	0.74
Professional, scientific and technical activities	-1.26	-1.35	-2.84	-1.81	2.07	2.15
Administrative and support service activities	-3.99	-7.69	-8.33	-8.29	1.05	1.98
Public administration and defense; compulsory social security	-0.06	0.34	0.33	2.44	-0.82	-1.05
Education	1.49	3.27	0.37	0.59	1.08	2.10
Human health and social work activities	1.54	3.95	2.81	20.73	-5.30	1.03
Other service activities	-0.17	2.47	3.28	1.44	1.66	1.83
GDP at factor cost (Unadjusted)	**-3.88**	**-1.16**	**0.33**	**-6.70**	**4.64**	**5.48**
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	0.00
GDP at factor cost	**-3.88**	**-1.16**	**0.33**	-6.70	4.64	5.48
Taxes on products	2.27	-1.72	-5.71	-5.93	4.64	5.48
GDP at market prices	**-3.18**	**-1.22**	**-0.38**	**-6.62**	**4.64**	**5.48**

+ Estimate, * Projection

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

	2017	2018	2019+	2020*	2021*	2022*
Primary Sector	**2025.71**	**1791.16**	**1846.50**	**1676.45**	**1831.68**	**1937.91**
Agriculture, forestry and fishing	1150.23	997.96	1058.79	1082.82	1122.27	1158.44
Growing of crops; market gardening; horticulture	400.93	212.71	167.09	162.34	171.27	175.56
Farming of animals (incl fishing)	678.62	709.23	817.12	845.13	874.65	905.51
Forestry	55.89	55.87	54.22	54.37	54.53	54.69
Fishing and aquaculture	14.79	20.15	20.37	20.98	21.82	22.69
Mining and quarrying	875.49	793.19	787.71	593.63	709.41	779.47
Secondary sector	**4617.44**	**4899.96**	**4831.25**	**4141.63**	**4614.19**	**5188.72**
Manufacturing	2428.26	2773.73	2793.87	2417.81	2594.63	2651.08
Food products and beverages	211.18	290.24	348.54	351.36	360.41	369.88
Textiles, clothing, footwear and leather	1932.95	2223.21	2155.91	1767.63	1929.16	1970.08
Other manufacturing	284.13	260.28	289.42	298.83	305.06	311.12
Electricity and water	1024.98	1004.81	957.71	917.29	952.42	988.16
Electricity supply	353.31	359.62	326.27	313.81	322.79	333.54
Water and sewearge; waste collection	671.67	645.19	631.44	603.49	629.63	654.61
Construction	1164.20	1121.41	1079.67	806.53	1067.14	1549.49
Tertiary sector	**12558.68**	**12288.81**	**12365.75**	**11949.08**	**12146.16**	**12485.08**
Wholesale and retail trade; repair of motorvehicles	2673.98	2427.30	2336.37	2100.94	2187.13	2274.03
Transportation and storage	534.14	502.93	502.40	431.29	463.89	535.19
Accommodation and food service activities	308.18	288.43	276.00	187.97	207.55	245.31
Information and communication	1022.26	1099.51	1151.16	1098.15	1120.11	1145.88
Financial and insurance activities	1835.90	1800.44	1943.50	1855.59	1922.42	2039.61
Financial sector activities (except insurance)	1590.68	1506.16	1628.30	1543.86	1599.20	1700.00
Insurance and pension funding	168.25	205.50	220.76	217.81	227.58	241.55
Acivities auxiliary to financial services	76.97	88.77	94.44	93.93	95.65	98.05
Real estate activities	1276.89	1275.27	1282.82	1276.27	1285.60	1295.07
Professional, scientific and technical activities	220.14	217.18	211.00	207.17	211.46	216.02
Administrative and support service activities	600.54	554.37	508.22	466.10	470.98	480.29
Public administration and defense; compulsory social security	3333.39	3344.86	3355.87	3437.63	3409.56	3373.76
Education	126.13	130.26	130.73	131.50	132.92	135.71
Human health and social work activities	384.10	399.27	410.50	495.58	469.31	474.15
Other service activities	243.01	249.01	257.18	260.88	265.22	270.06
GDP at factor cost (Unadjusted)	**19201.83**	**18979.92**	**19043.50**	**17767.17**	**18592.02**	**19611.71**
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	0.00
GDP at factor cost	**19201.83**	**18979.92**	**19043.50**	**17767.17**	**18592.02**	**19611.71**
Taxes on products, net of subsides	2595.36	2550.65	2404.95	2262.32	2367.35	2497.19
GDP at market prices	**21797.18**	**21530.58**	**21448.45**	**20029.49**	**20959.37**	**22108.90**

* Projections

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

				Projections		
	2017	2018	2019+	2020*	2021*	2022*
Primary Sector	**2685.94**	**3433.24**	**3548.92**	**3305.40**	**3995.38**	**4534.85**
Agriculture, forestry and fishing	1525.55	1437.87	1617.50	1739.75	1897.40	2064.41
Growing of Crops	444.69	266.74	230.29	235.02	260.91	281.77
Farming of Animals	993.88	1076.40	1288.60	1399.96	1524.61	1662.98
Forestry	67.84	66.79	67.42	71.02	74.95	79.19
Fishing and aquaculture	19.13	27.95	31.19	33.75	36.94	40.47
Mining and Quarrying	1160.39	1995.38	1931.42	1565.65	2097.98	2470.44
Secondary sector	**7621.38**	**8536.14**	**8639.91**	**7679.74**	**8671.20**	**9703.15**
Manufacturing	4682.90	5623.67	5630.31	4940.56	5370.08	5473.72
Food products and beverages	298.04	413.50	506.94	536.79	579.41	626.50
Textiles, clothing, footwear and leather	3984.38	4849.37	4725.03	3971.74	4326.58	4348.53
Other manufacturing	400.47	360.80	398.35	432.03	464.10	498.69
Electricity and water	1618.45	1614.87	1711.07	1720.26	1882.49	2059.19
Electricity	415.12	474.23	392.13	396.16	428.81	466.83
Water	1203.33	1140.65	1318.94	1324.10	1453.68	1592.35
Building and Construction	1320.03	1297.60	1298.53	1018.91	1418.63	2170.24
Tertiary sector	**16747.18**	**17185.33**	**17773.69**	**18279.64**	**19673.60**	**20960.46**
Wholesale and retail trade, repairs	3566.91	3367.77	3453.36	3261.91	3573.26	3914.32
Transport and storage	628.45	653.37	701.94	632.96	716.40	870.79
Accommodation and food service activities	341.76	330.49	316.00	226.06	262.66	327.07
Information and communication	942.42	995.96	1021.76	1023.84	1098.91	1184.43
Financial and insurance activities	2589.35	2665.69	3018.00	3039.17	3315.70	3705.01
Financial sector activities (except insurance)	2041.44	1935.01	2224.52	2215.48	2414.87	2704.65
Insurance and pension funding	423.14	589.04	628.80	651.66	716.49	801.26
Acivities auxiliary to financial services	124.77	141.64	164.67	172.03	184.34	199.10
Real estate activities	1294.96	1284.00	1285.97	1343.90	1424.49	1511.89
Professional and support service activities	248.56	250.59	252.52	260.44	279.73	301.07
Administrative and support service activities	679.67	642.84	609.24	586.91	624.06	670.50
Public administration and defense; compulsory social security	5592.50	6088.61	6172.94	6818.53	7256.87	7275.82
Education	217.78	231.99	233.24	246.43	262.10	281.95
Human health and social work activities	378.11	397.61	416.12	527.69	525.85	559.74
Other service activities	266.71	276.41	292.62	311.80	333.56	357.85
GDP at factor cost (Unadjusted)	***27054.51***	***29154.72***	***29962.52***	***29264.78***	***32340.18***	***35198.46***
Financial services indirectly measured	0.00	0.00	0.00	0.00	0.00	0.00
GDP at factor cost	**27054.51**	**29154.72**	**29962.52**	**29264.78**	**32340.18**	**35198.46**
Taxes on products, net of subsides	3672.65	4117.25	4083.93	4035.38	4443.50	4938.38
GDP at market prices	**30727.16**	**33271.97**	**34046.45**	**33300.16**	**36783.68**	**40136.83**

* Projections

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Economic Outlook 2020 - 2022

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Uncertain Climb from A Steep Downturn

Executive Summary

The global economy is projected to be in a less severe recession in 2020 due to a stronger than anticipated performance amongst the advanced economies in the second quarter of 2020. Growth in the advanced economy group is projected to contract by 5.8 per cent in 2020 and partially recover to 3.9 per cent in 2021. Relative to the June 2020 forecasts, this represents a much better performance. Growth in the emerging market and developing economies category is forecast to contract though by a slightly bigger percentage than previously anticipated. Sub-Saharan Africa is projected to contract by 3.0 per cent in 2020. The largest impact of the crisis on growth has been felt by tourism-dependent economies and the commodity-exporting countries. Within Sub-Saharan Africa, South Africa remains one of the countries badly affected by the pandemic on account of the adverse effect of the containment measures on both the supply and demand side of the economy. However, output will recover modestly during 2021, growing by 3.0 per cent, and will maintain momentum thereafter as business confidence responds to growth-enhancing reforms.

The domestic growth outlook has been revised downwards for 2020 and a more protracted recovery in the medium-term is anticipated. The decline in economic growth in 2020 will be driven by the contraction in both the secondary and tertiary sectors. The primary sector is also anticipated to shrink though by a lesser margin. The domestic economy is projected to recover gradually with the level of output barely reaching the pre-pandemic level in 2022, as the pace of recovery in most sectors gains momentum. The projected recovery is set to be led by a rebound in the construction and mining industries, as well as the anticipated improvement in business and consumer confidence. The annual inflation rate is estimated to register 5.0 per cent in 2020 before increasing to 5.2 per cent and 5.4 per cent in 2021 and 2022, respectively.

The fiscal position is expected to deteriorate in the medium-term, with the overall fiscal deficit registering 4.6 per cent of GDP in 2020 before widening to 10.7 per cent of GDP in 2022. The deterioration in the fiscal position in 2020 largely reflects an increase in government spending on

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