



CENTRAL BANK
OF LESOTHO

Lesotho Economic Outlook

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2024-2026

Modest Growth Anchored by Mega-projects

Executive Summary

Global economic growth is expected to slow compared to previous years, primarily due to persistent inflation, tighter monetary policies, and geopolitical uncertainties. The global economy is projected to grow by 3.2 percent in 2024, down from higher levels seen in the early recovery phase post-pandemic. Inflation remains a concern worldwide, although it is expected to moderate somewhat as central banks continue their efforts to control rising prices. Interest rates are likely to stay elevated in many regions.

The domestic economy is projected to grow modestly in the medium-term anchored by ongoing mega-projects, mainly the Lesotho Highlands Water Project (LHWP II) and the Millennium Challenge Corporation (MCC) Compact II. These projects are also providing a boost to the services sector through positive spillovers. However, in the context of weaker trading partners growth, export-oriented industries are facing headwinds and therefore this is likely to undermine growth in the near-term. Growth is forecasted to reach 2.8 per cent in 2024 and 2.0 per cent in 2025 following the pick-up in the implementation of both LHWP and MCC projects. The annual inflation rate is expected to average 6.7 per cent in 2024, easing to 5.5 per cent and 5.0 per cent in 2025 and 2026, respectively.

The fiscal position is forecast to register surplus over the forecast period, reflecting higher Southern African Customs Union (SACU) revenues and increased water royalties. This is expected to be driven by the substantial increase in revenue relative to modest increases in recurrent expenditures. As a result, the surplus in 2024 is projected to be equivalent to 7.9 per cent of GDP, increasing slightly to 8.7 per cent of GDP in 2025-2026. Consequently, government savings with the banking sector are expected to accumulate over the same period.

The external sector position is expected to strengthen during the 2024-2026 forecast period, while credit to the private sector will largely be underpinned by construction and resilient credit demand by households. The current account balance is projected to register a surplus, amounting to 2.1 per cent of GDP by the end of 2024. In the subsequent years, a surplus of 2.2 per cent of GDP is expected in 2025, followed by a bigger surplus

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The current account balance is projected to register a surplus, amounting to 2.1 percent of GDP by the end of 2024...

of 6.5 per cent of GDP in 2026. Money supply is expected to grow in line with the projected growth in nominal GDP. With the increases in SACU and water royalties, combined with capital inflows into the banking sector, net foreign assets are expected to increase by 14.3 per cent over the forecast horizon. Private sector credit extension is forecast to increase by an average of 6.6 per cent, benefitting mostly from the households, services, mining and construction industries.



Global Economic Outlook¹

Global Growth

Global economic growth is expected to slow compared to previous years, primarily due to persistent inflation, tighter monetary policies, and geopolitical uncertainties. The global economy is projected to grow by around 3.2 per cent in 2024, down from higher levels seen in the early recovery phase post-pandemic. Inflation remains a concern worldwide, although it is expected to moderate somewhat as central banks continue their efforts to control rising prices. Interest rates are likely to stay elevated in many regions.

Advanced Economies

United States and Canada

The U.S. economy is experiencing slower growth as the Federal Reserve's interest rate hikes aimed at controlling inflation dampen consumer spending and business investment. The labor market remains tight, but wage pressures are contributing to inflation. Growth is projected to be modest, with potential downside risks from higher interest rates. Similar to the U.S., Canada is facing slower growth, with inflationary pressures and high interest rates impacting consumer spending and housing markets. The energy sector remains a key driver of growth, though global energy price volatility could pose risks.

The UK economy is also facing sluggish growth amid inflation and rising interest rates...

Europe

Europe is expected to see weak growth due to persistent inflation, energy price volatility, and the lingering effects of the Ukraine war. Growth is estimated at 0.9 per cent in 2024. The European Central Bank's (ECB) tight monetary policies are constraining growth, particularly in countries like Germany and France, which are heavily industrialized. Inflation has begun to ease, but high energy costs remain a significant challenge. The UK economy is also facing sluggish growth amid inflation and rising interest rates. The Bank of England's efforts to curb inflation have led to higher borrowing costs, affecting both consumers and businesses.

Japan

Japan's economy is projected to grow modestly, supported by strong exports and government spending. However, inflation remains relatively low compared to other advanced economies, and the Bank of Japan continues its accommodative monetary policy stance. An aging population and sluggish domestic demand remain long-term challenges.

¹ This section benefited from the International Monetary fund (IMF) July 2024 World Economic Outlook (WEO).

Emerging Markets and Developing Economies

Asia

China's economic growth is slowing down due to a combination of domestic challenges, including a weakening property sector, lower consumer demand, and ongoing trade tensions with the U.S. While the government is implementing stimulus measures, growth is expected to be below previous levels. India remains one of the fastest-growing major economies, driven by strong domestic demand and investments in infrastructure. However, inflation and global uncertainties could impact its growth trajectory. Countries like Indonesia, Vietnam, and the Philippines are expected to grow steadily, supported by strong manufacturing and services sectors. However, external risks such as global trade disruptions and rising interest rates could affect these economies.

Latin America and the Caribbean

Brazil's economy is facing moderate growth, with inflation stabilizing but still high. Political uncertainties and structural challenges are weighing on growth prospects. Mexico is benefiting from strong U.S. demand but faces challenges from inflation and high interest rates. Countries like Argentina and Venezuela continue to struggle with severe economic crises, characterized by hyperinflation, currency devaluation, and political instability. Meanwhile, smaller economies in the region are seeing moderate growth, driven by commodity exports.

Africa

Growth in Sub-Saharan Africa is expected to remain modest, with a regional average of around 4.0 per cent. Key economies like Nigeria and South Africa are facing significant challenges, including high inflation, weak governance, and energy shortages. Commodity-dependent countries are vulnerable to fluctuations in global prices. Countries like Kenya and Tanzania are seeing stronger growth, driven by infrastructure development and a growing services sector. However, debt sustainability and food security remain concerns. Egypt and Morocco are expected to see moderate growth, supported by tourism and remittances. However, high inflation and food prices are weighing on household incomes and consumption.

Key economies like Nigeria and South Africa are facing significant challenges, including high inflation, weak governance, and energy shortages...



Middle East and Central Asia

Gulf Cooperation Council (GCC) countries like Saudi Arabia and the UAE are benefiting from high oil prices, which are boosting fiscal surpluses and enabling significant public investment. However, these economies are also focusing on diversification efforts to reduce dependence on oil. Non-oil economies in the region, such as Jordan and Lebanon, are facing significant economic challenges, including high inflation, unemployment, and political instability. Central Asian countries are experiencing moderate growth, driven by energy exports and closer economic ties with China.

Emerging Europe and Central Asia

The Russian economy continues to be impacted by Western sanctions due to its ongoing war with Ukraine. Growth is expected to remain weak, with significant risks tied to geopolitical tensions and energy exports. Many Eastern European economies are feeling the strain of the conflict in Ukraine, with disruptions to trade, energy supplies, and investment flows. Countries like Poland and Romania, however, are seeing some growth driven by EU funding and investments in infrastructure.

Many Eastern European economies are feeling the strain of the conflict in Ukraine...

Regions	Actuals				Projections	
	2020	2021	2022	2023+	2024	2025
World Output	-3.1	6.1	3.6	3.5	3.2	3.3
Advanced Economies	-4.5	5.2	3.3	2.4	1.7	1.8
United States	-3.4	5.7	3.7	2.3	2.6	1.9
Euro Area	-6.3	5.3	2.8	2.3	0.9	1.5
Germany	-4.6	2.8	2.1	2.7	0.2	1.3
Japan	-4.6	1.6	2.4	2.3	0.7	1.0
United Kingdom	-9.8	7.4	3.7	2.1	0.7	1.5
Emerging and Developing Economies	-2.1	6.8	3.8	4.4	4.3	4.3
Russia	-3.0	4.7	-8.5	-2.3	3.2	1.5
Emerging and Developing Asia	-0.8	7.3	5.4	5.6	5.4	5.1
China	2.3	8.1	4.4	5.1	5.0	4.5
Sub-Saharan Africa	-1.9	4.5	3.8	4.0	3.7	4.1
South Africa	-7.0	4.9	1.9	1.4	0.9	1.2

Source: IMF World Economic Outlook, July 2024; * Projections, + Estimates

Domestic Economic Outlook

Overview of the Current Forecasts

Lesotho's economy's near-term growth prospects have weakened slightly while the medium-term outlook remains largely unchanged. The first half of 2024 has seen weaker-than-expected performance in the export-oriented industries. The textile and clothing manufacturing industry — particularly exports destined to South Africa — has underperformed, while the diamond prices have failed to recover. In addition, food inflation has remained relatively high and volatile negatively impacting household spending. As a result, the growth forecast for 2024 has been downgraded by 0.2 percentage points relative to March 2024 LEO update. The domestic economy is now forecast to grow by 2.8 per cent in 2024. Looking ahead to 2025, prospects remain relatively unchanged with growth still projected at 2.0 per cent. For 2026, growth has been revised upwards by 0.1 percentage points, reflecting improved prospects for the services industry, bringing the forecasted growth to 1.3 per cent. Table 2 below shows the revisions to the forecasts relative to March 2024 forecasts update.

The assessment of risks for the projected inflation path remains tilted to the upside, with near-term risks building up...

Inflation moderated at a slower pace than anticipated, as food inflation remained high in the first half 2024. Inflation averaged 7.1 per cent between January and June 2024, with food inflation contributing 3.2 percentage points to the 7.1 per cent half-year average. Consequently, inflation forecasts have been revised upward, as gains from declining food prices in South Africa remain limited. The inflation forecast for 2024 has been revised up by 0.3 percentage points to 6.7 per cent, while the 2025 forecast is revised up by 0.2 percentage points to 5.5 per cent. In 2026, inflation is expected to moderate to an average of 5.0 per cent, which shows a 0.1 percentage points upward revision. The assessment of risks for the projected inflation path remains tilted to the upside, with near-term risks building up.



Table 2: Overview of Domestic Economic Outlook

	Actual	Estimate	June 2024 projections			Differences from Mar 2024 projections		
	2022	2023+	2024*	2025*	2026*	2024*	2025*	2026*
Economic growth	1.1	1.4	2.8	2.0	1.3	-0.2	0.0	0.1
Primary Sector	-0.9	6.2	1.0	4.0	3.1	-0.3	0.3	0.0
Agriculture	2.2	3.4	-0.6	4.2	2.8	0.0	0.0	0.0
Mining & Quarrying	-6.4	11.4	3.8	3.6	3.8	-0.7	0.7	0.1
Secondary Sector	1.0	-8.2	6.3	2.7	-0.3	-1.0	-0.3	-0.2
Manufacturing	-3.6	-16.5	0.3	1.4	1.2	-1.0	-0.1	-0.1
Textiles & Clothing	-2.4	-18.9	0.0	1.5	1.7	-1.2	0.0	-0.1
Building & Construction	23.7	10.8	28.6	8.1	-5.1	-0.4	-0.2	-0.1
Services Sector	0.8	2.5	2.0	1.4	1.5	0.1	0.0	0.2
Inflation rate (%)	8.3	6.4	6.7	5.5	5.0	0.3	0.2	0.1

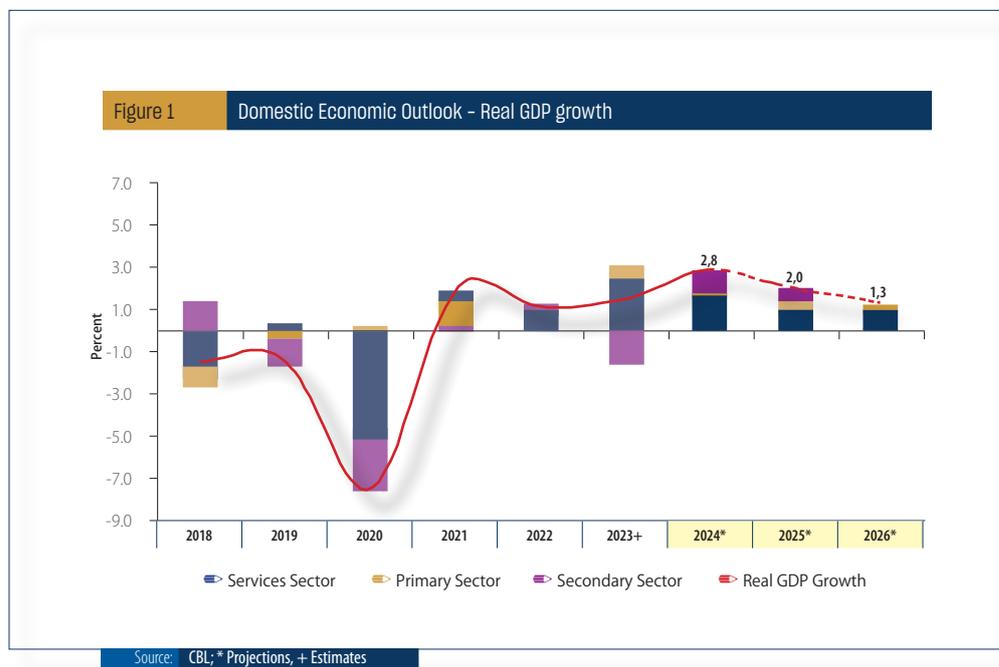
Source: Central Bank of Lesotho. +estimate, *projections

Real Sector Outlook

The domestic economy is projected to grow by 2.8 per cent in 2024, driven by ongoing mega-projects and growth in the services sector. The ongoing projects include government construction projects and the second phase of the Lesotho Highlands Water Project (LHWP II) with the main activities gaining momentum. The services sector is expected to be spurred by positive spillovers from the ongoing projects, with industries such as finance & insurance, wholesale & trade and transport seeing notable gains. Nonetheless, in the primary sector, growth is expected to be muted in 2024, held back by drought-induced poor harvest in the agricultural sub-sector and low diamond prices in the global mining industry. Additionally, the manufacturing industry, particularly the textile and clothing sub-sector is likely to act as a further drag on growth due to ongoing demand challenges.

In the medium-term, the domestic economy is projected to slow down to 2.0 per cent in 2025 and further decelerate to 1.3 per cent in 2026. The projected growth trajectory is influenced by the expected activity in the ongoing major projects, particularly the LHWP II which is expected to peak in 2024-2025 and begin to wind down in the outer year. Meanwhile, the MCC Compact II project implementation is expected to gain momentum in 2025, providing support to growth. The medium-term growth is also expected to be driven by recoveries in agricultural and mining industries, bolstered by favourable weather conditions and stronger demand, respectively. Textiles and clothing manufacturing industry is also expected to pick up modestly as interventions aimed at resuscitating the industry start to bear fruit.

The medium-term growth is also expected to be driven by recoveries in agricultural and mining industries...



The primary sector growth is expected to be muted in 2024, projected to register 1.0 per cent. The sectoral growth is expected to be held back by poor harvest in the agricultural sector. This is due to a combination of severe storms which caused damage to crops towards the end of 2023; and extreme temperatures experienced in the first quarter of 2024 that hindered crop development and resulted in disease outbreaks among livestock. As a result, the agricultural sub-sector is projected to decline by 0.6 per cent. In the mining industry, growth is expected to be weak as diamond prices fail to recover from the 2023 diamond price slump. While diamond mines in the large diamond market segment were relatively protected in the first half of 2024, the small diamond market segment experienced price declines, affecting the industry’s exports. Thus, the mining industry is projected to grow by 3.8 per cent in 2024 with potential build-up of unsold diamonds posing additional risks.

Growth in the agricultural sector is expected to be supported by expected improved weather conditions...

In the medium-term, growth in the primary sector is projected to improve, supported by higher output in both agricultural and mining industries. Growth in the agricultural sector is expected to be supported by expected improved weather conditions. The more favourable weather conditions are expected to boost both crops and livestock farming. As a result, the agricultural industry is projected to grow by 4.2 per cent in 2025 and 2.8 per cent in 2026. Mining industry performance is expected to pick up modestly with the anticipated recovery in demand and diamond prices which should support mining output. Mining industry is forecast to grow by 3.7 per cent over 2025-2026.



The growth in the secondary sector is expected to be strong in 2024, supported by heightened construction activity. The sectoral growth is projected to register 6.3 per cent in 2024 as the LHWP II project gains momentum and government construction continues. However, muted growth in manufacturing due to weak textiles and clothing demand could weigh down the sectoral output. Growth in the electricity and water sub-sector is also expected to be muted amidst the planned maintenance of the Muela Hydropower Station that will see electricity generation halted for the last quarter of 2024.

In the medium-term, the secondary sector is projected to grow by 2.7 per cent in 2025, then contract by 0.3 per cent in 2026. The 2025 growth is expected to be supported by construction activity and a recovery in textiles and clothing orders in the manufacturing industry. The ongoing construction projects are expected to continue into 2025, with the construction industry projected to grow by 8.1 per cent. Interventions in the textiles and clothing manufacturing industry are expected to bear fruit from 2025 starting the recovery phase of the industry. The textile and clothing industry is projected to grow by 1.5 per cent in 2025 and 1.7 per cent in 2026. As the 'Muela Hydropower Station maintenance continues into the first quarter of 2025, electricity generation is expected to be low, limiting electricity and water sub-sector's contribution to growth. However, the sub-sector is expected to recover in 2026 and grow by 2.0 per cent, supported by the completion of the maintenance work and operationalisation of the Ramarothole Solar Plant.

The 2025 growth is expected to be supported by construction activity and a recovery in textiles and clothing orders in the manufacturing industry...

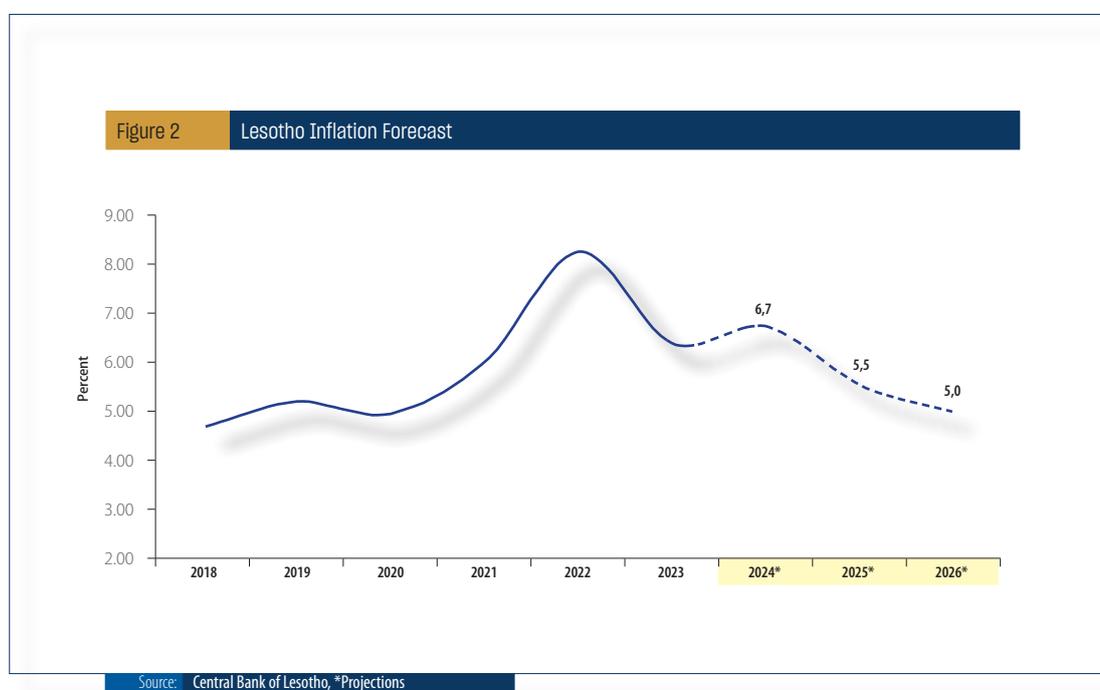
The services sector is expected to be the main driver of growth, explaining around half of the projected growth in 2024. The services sector is forecast to grow by 2.0 per cent with the main source of growth being the positive spillovers from the ongoing major projects. The finance & insurance industry — which is forecast to grow by 3.2 per cent in 2024 — is expected to benefit from the mega-projects as it provides financial support. Other key beneficiaries include the wholesale and trade and transport industries. However, the slower pace of disinflation is likely to hold back consumer spending potentially weighing on the services sector growth.

In 2025-2026, the services sector is expected to grow at an average growth rate of 1.4 per cent whilst remaining the main contributor to growth. The projected growth is expected to be driven by spillovers from construction activity and Compact II implementation, especially in 2025. Expected moderation in inflation is also expected to support household spending through improvement in real incomes. As the LHWP II winds down from 2026, MCC Compact II is expected to pick up some of the slag. The finance & insurance industry is expected to grow by 2.7 per cent in 2025-2026 while wholesale and trade is forecast to register a 2.6 per cent growth rate over the period. Government activity is forecast to grow by a marginal 0.1 per cent over 2025-2026.

Inflation Outlook

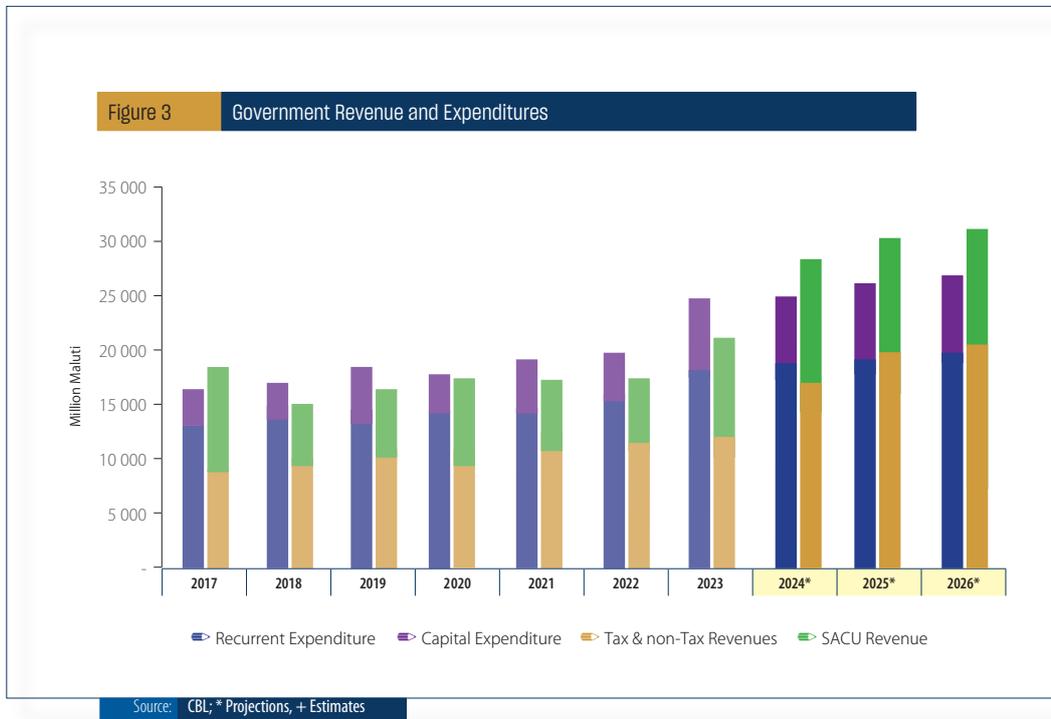
In the medium-term, inflation rate is forecast to moderate to average 5.5 per cent in 2025 and 5.0 per cent in 2026...

The annual inflation rate is projected to increase to 6.7 per cent in 2024 as domestic food prices remain volatile. Despite decreasing food inflation in South Africa, domestic food prices have been volatile keeping the inflation differential between Lesotho and South Africa wide in 2024. Inflation averaged 7.1 per cent in the first half of 2024 with food inflation averaging 9.6 per cent. Additional inflationary pressures came in from transport and elevated oil prices from production cuts by Organization of the Petroleum Exporting Countries and other oil producers. In the medium-term, inflation rate is forecast to moderate to average 5.5 per cent in 2025 and 5.0 per cent in 2026.



Government Budgetary Operations Outlook

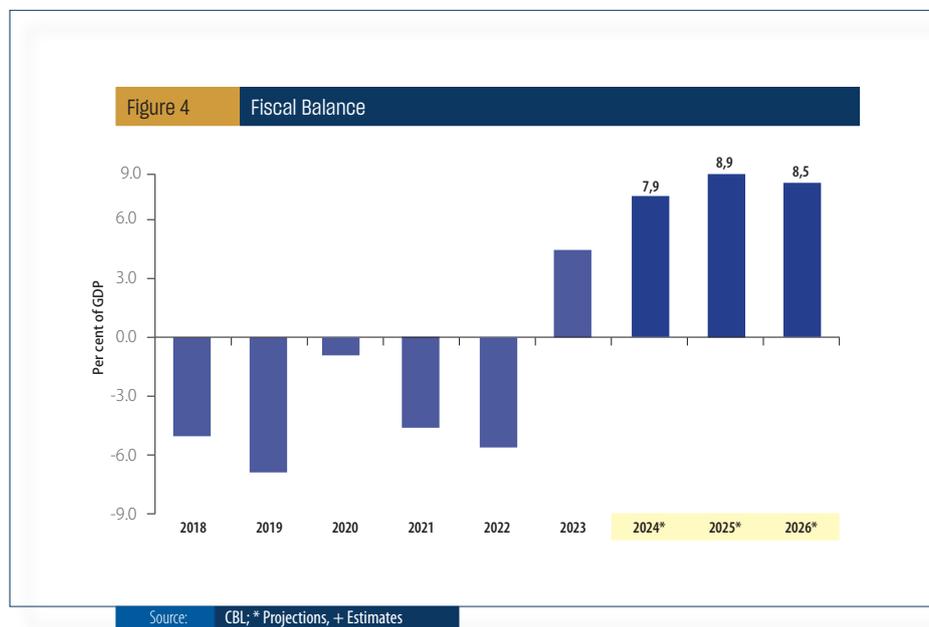
The fiscal position is projected to achieve a surplus of 7.9 percent of GDP in 2024, driven by increased SACU revenues and water royalties. SACU revenue is expected to rise by 25.0 per cent, reaching 26.3 per cent of GDP, marking the highest share of SACU revenues relative to GDP in a decade. This increase is supported by higher customs duty collections due to elevated import prices and volumes. Water royalties are anticipated to more than double in 2024, following a revision in the agreement governing their payment. Total expenditure is projected to increase by 29.5 per cent in 2024, as capital expenditure increases supported by increased capital grants.



In the medium-term, the fiscal position is forecast to remain in surplus registering 8.9 per cent of GDP in 2025 and 8.5 per cent of GDP in 2026. The revenues are expected to remain higher than expenditures increasing by 4.6 per cent over 2025-2026 while expenditures increase by 3.8 per cent over the same period. The increase in revenue reflects increases in tax revenue and water royalties which is expected to outweigh the decrease in SACU revenue. Tax revenue is expected to increase in line with nominal GDP, while water royalties will rise due to increased water deliveries to South Africa following maintenance work at Muela. Government spending is projected to increase modestly as government reins in spending through the 2023 Public Procurement Act². Recurrent spending is projected to increase by 3.2 per cent in 2025-2026; while capital expenditure is forecast to increase by 5.9 per cent over the same period.

The revenues are expected to remain higher than expenditures increasing by 4.6 per cent over 2025-2026 ...

² The Act is meant to establish a public procurement authority, a body corporate, to regulate public procurement structures by providing procedures, processes and regulation of procurement of goods, works, services to optimize public procurement and obtain value for money for the government.



Government deposits are forecast to reach an equivalent of 14.9 per cent of GDP in 2024, and 15.2 per cent of GDP in 2025-2026...

With fiscal surpluses expected over the medium-term, government savings with the banking sector are expected to accumulate significantly. Government deposits are forecast to reach an equivalent of 14.9 per cent of GDP in 2024, and 15.2 per cent of GDP in 2025-2026. Despite these surpluses, the government will continue issuing securities for infrastructure development, underscoring its commitment to fostering the growth of the domestic securities market.

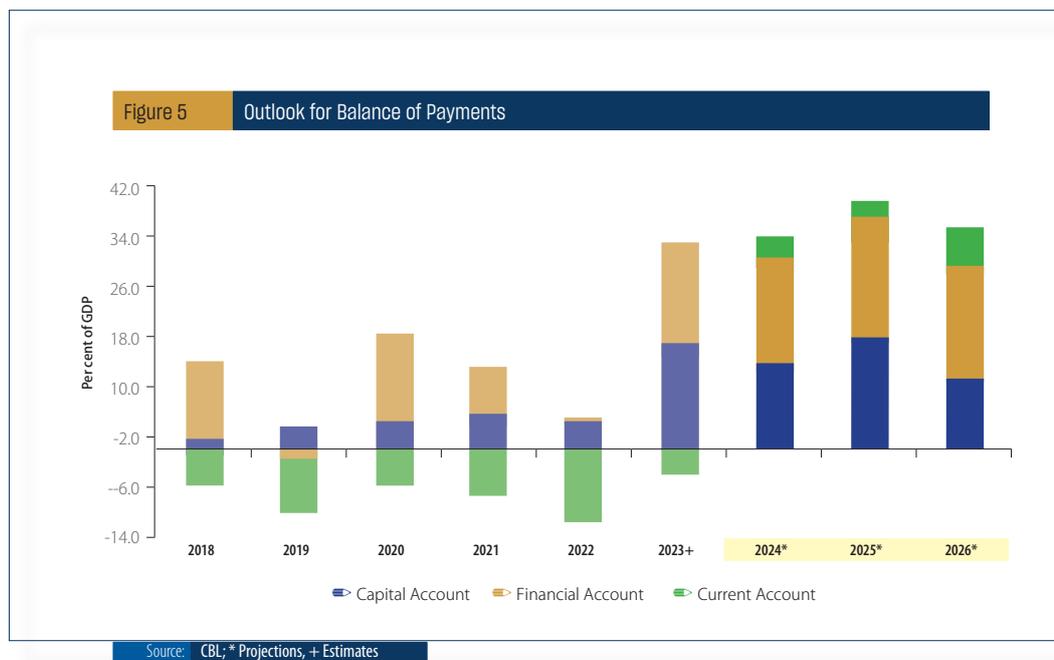
External Sector Outlook

The external sector position is expected to strengthen during the 2024-2026 forecast period, mainly due to a surge in SACU receipts and water royalties. As a result, the current account balance is projected to end 2024 with a surplus, accounting for 2.1 per cent of GDP. In the subsequent years, a surplus of 2.2 per cent of GDP is expected in 2025, followed by a bigger surplus of 6.5 per cent of GDP in 2026.



The trade account is projected to remain in deficit throughout the forecast period. Specifically, the goods account is forecast to show a deficit of 33.8 per cent of GDP in 2024 but is expected to improve to an average of 26.3 per cent of GDP in 2025-2026. Total export earnings are expected to grow by 14.8 per cent in 2024 and by 3.8 per cent on average throughout 2025-2026. These increases are primarily driven by higher water royalties, which are expected to more than double in 2024 and grow by 65.0 per cent in 2025, followed by a 7.0 per cent increase in 2026. However, textile export earnings are anticipated to only increase modestly by 0.7 per cent in 2024 and grow by an average of 4.9 per cent in 2025-2026. This modest performance is attributed to factors such as a loss of competitiveness and low demand. In the mining industry, export proceeds are expected to decline due to still-depressed rough diamond prices and increased competition from lab-grown diamonds.

Total export earnings are expected to grow by 14.8 per cent in 2024 and by 3.8 per cent on average throughout 2025-2026...



With construction activities for the main works of the LHWP II project in full swing, imports are expected to increase in the near-term.

Notable increase will come from imports of machinery and mineral products to support LHWP II activities. It is projected that merchandise imports will increase by 8.7 per cent in 2024 and by 6.9 per cent in 2025, before declining by 6.7 per cent in 2026. The main reason behind the increase in imports will be the construction activities of the LHWP II project, along with other government construction initiatives such as road infrastructure upgrades. As for services imports, growth is expected at 1.0 per cent in 2024, followed by an average increase of 3.5 per cent during 2025-2026. These increases will primarily be driven by the demand for travel, transport, and telecommunication services.

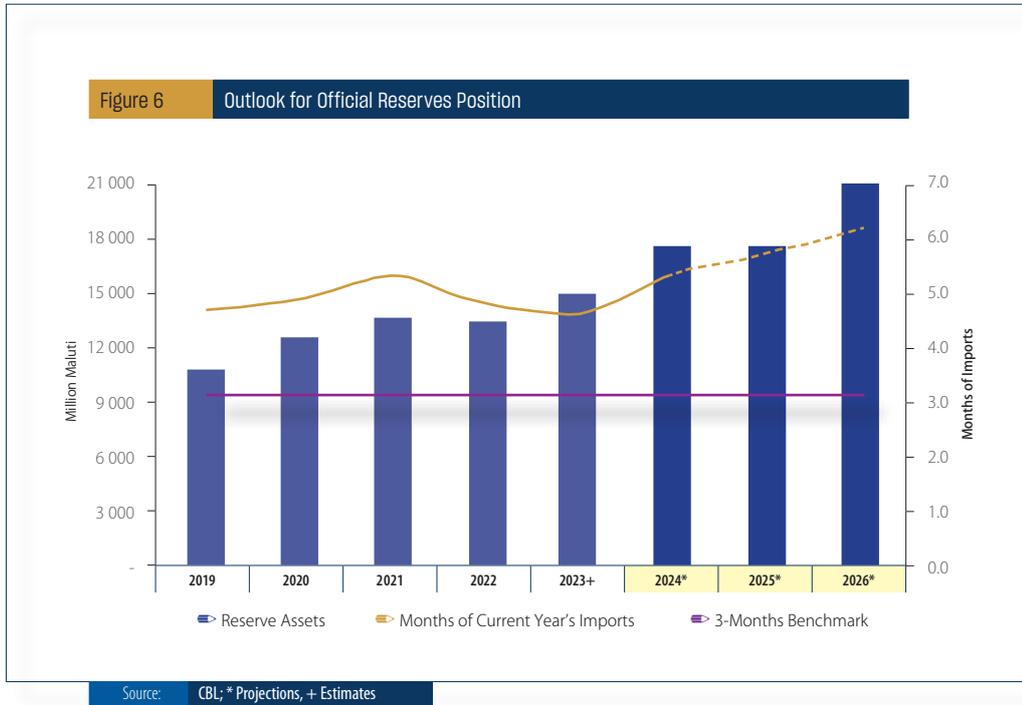
Compensation of Basotho workers abroad is expected to increase by 3.5 per cent in 2024, and on average by 5.6 per cent for the period 2025-2026...

In 2024, current transfers and incomes from migrant workers are projected to improve.

This reflects the increased economic activity in the countries where Basotho workers are employed, especially in South Africa. The suspension of power cuts in South Africa is also expected to have a positive impact on the economy potentially leading to greater job security and higher incomes for Basotho workers. Furthermore, the growing popularity of digital payment services is anticipated to simplify the process of sending money home for Basotho workers, which is likely have a positive impact on remittance inflows. Compensation of Basotho workers abroad is expected to increase by 3.5 per cent in 2024, and on average by 5.6 per cent for the period 2025-2026. Additionally, more transfers in the primary income account are anticipated for the maintenance of the Phase I Water Transfer and Delivery Tunnels. Conversely, SACU revenue is forecast to decline by 7.9 per cent in 2025, following an increase of 25.2 per cent in 2024. However, it is expected to rebound in 2026 with a growth of 0.4 per cent.

During the projection period, Lesotho's capital account is expected to receive significant capital transfers to finance the main works of the LHWP II project.

The capital account surplus is projected to be equivalent to 13.7 percent of GDP in 2024, increasing to 17.7 percent of GDP in 2025, before declining to 11.3 percent of GDP in 2026. These transfers align with the implementation schedule of the LHWP II project. Furthermore, anticipated inflows from foreign governments and international organizations will support other government infrastructure projects.

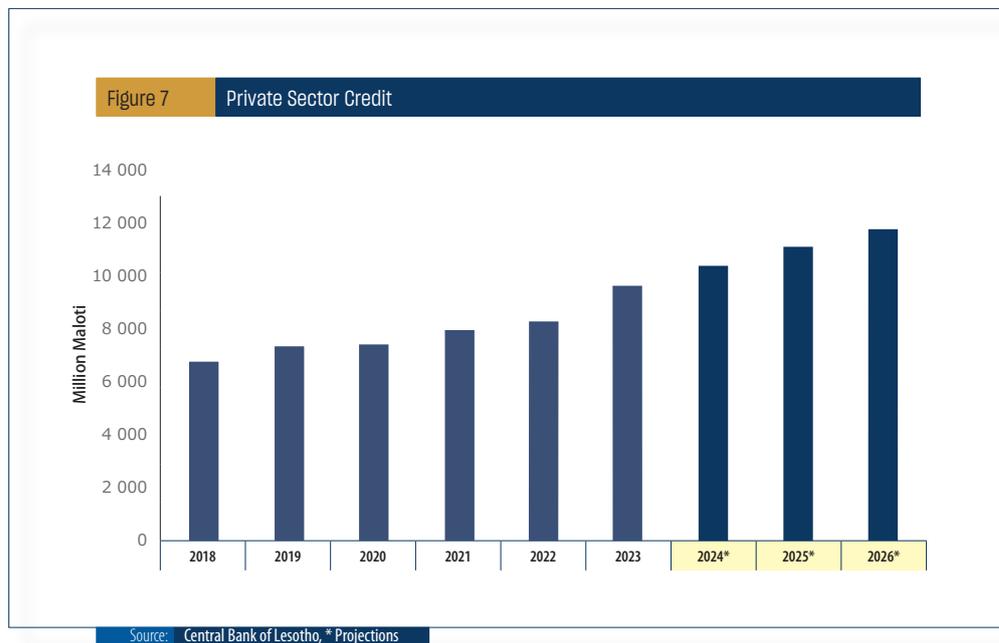


Monetary Sector Outlook

Money supply is projected to grow by 7.0 per cent in 2024, driven by notable increases in banking sectors net foreign assets and growth in credit extension. The banking sector’s net foreign assets are forecast to increase by 8.2 per cent in 2024, while credit extended to the private sector is expected to increase by 7.9 per cent. This growth in credit is expected to be supported by ongoing mega-projects.

In the medium-term, growth in money supply is projected to average 6.1 per cent in line with growth in nominal GDP. LHWP II is expected to continue into 2025 attracting inflows into the banking sector. Coupled with heightened construction activity, this is expected to boost credit. Consequently, credit is expected to grow by 5.7 per cent over 2025-2026. Net foreign assets are projected to grow by 14.8 per cent over the same period. Central Bank’s net foreign assets are expected to be supported by high water royalties, while commercial banks are expected to increase their holdings abroad as capital inflows flood the banking sector.

Net foreign assets are projected to grow by 14.8 per cent over the same period...



Risks to Domestic Growth Outlook

The slower disinflation process could delay the anticipated monetary policy easing having negative effects on growth...

The domestic economic outlook remains susceptible to downside risks. Some of the risks identified at the beginning of the year have started to materialise, reducing output and weakening growth prospects. These include, stickier inflation, rising geopolitical tensions and weaker growth outcomes in trading partner countries that have affected both diamonds and textiles & clothing exports. Other risks that remain and could weigh down on growth include more frequent and adverse weather conditions affecting agricultural output, putting pressure on food prices and inflation therefore sapping consumption. The slower disinflation process could delay the anticipated monetary policy easing having negative effects on growth. Downside risks still remain for the textiles and clothing manufacturing industry; especially with the renewal of AGOA still hanging in the context of upcoming US elections and potential economic policy changes.



Conclusion

The domestic economy is expected to follow a moderate growth path, largely influenced by ongoing major projects. Growth is forecast at 2.8 per cent in 2024 supported by services and construction industries. Mining and textiles & clothing manufacturing industries are facing headwinds coming from weaker external demand, as a result growth in these industries is expected to be muted. In 2025, domestic growth is projected to slow down to 2.0 per cent and further to 1.3 per cent in 2026 reflecting the trajectory of LHWP II activities. The services and construction sectors are expected to continue to be key drivers of growth in the medium-term. The annual inflation rate is expected to average 6.7 per cent in 2024 and gradually moderate to 5.5 per cent and 5.0 per cent in 2025 and 2026, respectively. Anticipated fall in domestic food prices explains the expected moderation in inflation in the medium-term. Nonetheless, inflation faces upside risks from exchange rate depreciations and oil price shocks, driven by prolonged dollar appreciation and ongoing geopolitical tensions. Renewed tensions geopolitical tensions could disrupt supply chains, potentially reversing the inflation gains and delaying global central bank policy easing.

Appendix I: 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	1.42	2.79	1.95	1.28
Per capita GDP (% p.a.)	-2.07	-8.07	1.20	0.64	0.94	2.31	1.48	0.80
Gross National Income (% p.a.)	-1.18	-8.03	-0.06	4.35	2.71	3.12	1.04	1.53
Per capita GNI (% p.a.)	-1.83	-8.63	-0.70	3.86	2.23	2.64	0.56	1.06
Output - Current prices								
Gross Domestic Product (M Million)	21174.25	19594.92	19957.95	20180.46	20466.35	21038.07	21449.35	21723.24
Per Capita GDP	10326.77	9493.79	9607.59	9669.05	9759.94	9985.43	10132.79	10213.94
Gross National Income (M Million)	25265.90	23237.20	23223.92	24235.23	24891.89	25669.28	25935.53	26333.33
Per Capita GNI	12322.28	11258.48	11179.80	11611.81	11870.38	12183.57	12252.08	12381.54
Output - Current prices								
Nominal GDP (% p.a.)	2.11	-2.16	5.25	5.18	6.17	7.04	6.77	5.50
Nominal GNI (% p.a.)	1.20	-1.18	3.70	8.29	7.81	7.49	5.68	5.82
Nominal GDP (M Million)	34541.88	33796.04	35569.03	37412.86	39723.02	42519.78	45400.00	47894.77
Nominal GNI (M Million)	40616.85	40138.39	41623.92	45074.35	48595.79	52236.84	55203.43	58417.75
Sectoral Growth rates (% p.a.)								
Primary Sector	-4.55	2.38	13.58	-0.95	6.19	1.01	3.96	3.13
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	11.43	3.80	3.57	3.78
Secondary Sector	-6.11	-11.34	1.95	0.99	-8.17	6.30	2.73	-0.32
Manufacturing	-0.75	-9.12	7.53	-3.65	-16.45	0.28	1.44	1.23
Construction	-20.26	-39.17	9.65	23.74	10.80	28.60	8.08	-5.08
Tertiary Sector	3.53	-5.76	-0.97	0.76	2.45	1.99	1.36	1.49
Wholesale and retail trade,repairs	-17.89	-26.21	-1.36	1.22	3.69	2.04	2.81	2.40
Financial and insurance activities	52.22	6.30	-3.43	9.89	4.27	3.17	2.50	2.93
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	1.38	-0.04	0.42
Savings and Investment - Per cent of GNI								
National Savings	15.91	17.96	18.19	14.70	22.84	27.56	23.93	23.76
Of which Government Savings	8.13	9.31	8.30	5.24	10.76	18.39	19.81	18.70
Of which Private Sector Savings	7.78	8.65	9.89	9.46	12.08	9.17	4.13	5.06
Investment	23.47	23.29	24.99	24.62	26.22	24.69	22.12	18.38
Of which Government Investment	10.72	10.85	10.46	10.55	6.50	13.29	14.12	13.29
Of which Private Sector Investment	12.75	12.44	14.53	14.07	19.72	11.40	8.01	5.09
Resource Balance	-7.56	-5.33	-6.81	-9.92	-3.38	2.87	1.81	5.39

+ Estimate, * Projection



Appendix I: Selected Macroeconomic Indicators (continued)								
					Projections			
	2019	2020	2021	2022	2023+	2024*	2025*	2026*
Savings and Investment - Per cent of GDP								
National Savings	18.70	21.33	21.28	17.71	27.95	33.85	29.10	28.99
Of which Government Savings	9.56	11.05	9.71	6.31	13.16	22.59	24.09	22.81
Of which Private Sector Savings	9.15	10.28	11.57	11.40	14.78	11.27	5.02	6.18
Investment	27.60	27.67	29.25	29.66	32.08	30.33	26.90	22.41
Of which Government Investment	12.61	12.89	12.24	12.71	7.95	16.32	17.16	16.20
Of which Private Sector Investment	14.99	14.78	17.01	16.95	24.13	14.01	9.73	6.21
Resource Balance	-8.89	-6.33	-7.97	-11.95	-4.13	3.52	2.20	6.57
Inflation rate % (CPI)								
	5.20	4.98	6.05	8.27	6.40	6.72	5.54	4.98
External Sector - Per cent of GDP								
Current Account	-8.89	-6.33	-7.97	-11.95	-4.13	3.52	2.20	6.57
Imports of Goods	74.59	77.24	75.34	78.46	77.23	77.40	75.86	71.11
Exports of Goods	44.55	42.52	44.11	45.93	42.79	43.58	47.12	47.27
Capital Flows	3.62	4.49	5.39	4.28	17.01	13.60	17.68	11.32
Financial Account	3.62	4.49	7.38	0.15	16.39	17.12	19.88	17.89
Official Reserves (Months of Imports)	4.44	4.66	5.10	4.58	4.38	5.20	5.63	6.19
Government Finance - Per cent of GDP								
Revenue (excluding grants)	43.98	49.05	45.91	43.13	50.70	59.80	60.49	59.29
Tax Revenue	22.14	19.97	21.17	22.60	22.37	23.55	23.77	23.62
Recurrent Expenditure	38.60	41.47	40.26	40.89	41.35	43.99	42.26	41.58
Of which compensation of employees	17.43	17.39	17.22	17.61	17.65	18.19	17.51	17.03
Transaction in non-financial assets	15.57	11.29	13.84	11.23	7.02	14.42	15.16	14.32
Budget Balance (+ means a surplus)								
	-7.09	-0.85	-4.77	-5.75	4.96	7.89	8.92	8.49
Monetary Aggregates - Nominal growth								
Money supply (M2)	-9.35	17.32	4.14	-3.41	19.84	7.04	6.77	5.50
Private Sector Credit	-7.09	-0.85	7.34	4.99	16.28	7.86	6.08	5.76

+ Estimate, * Projection



Appendix II: Real GDP Growth Rates								
	2019	2020	2021	2022	2023+	Projections		
						2024*	2025*	2026*
Primary Sector	-4.55	2.38	13.58	-0.95	6.19	1.01	3.96	3.13
Agriculture, forestry and fishing	-0.47	15.13	10.56	2.20	3.44	-0.57	4.18	2.76
Growing of crops; market gardening; horticulture	-23.04	71.62	-6.08	-13.49	3.39	-15.43	11.80	5.08
Farming of animals (incl. fishing)	7.10	5.54	17.70	6.70	3.67	2.78	3.01	2.42
Forestry	-2.41	-2.10	-0.74	0.39	-0.96	-0.84	-1.02	-0.56
Fishing and aquaculture	-23.70	-51.96	-49.96	0.13	9.50	6.30	6.50	7.50
Mining and quarrying	-9.68	-15.28	19.28	-6.45	11.43	3.80	3.57	3.78
Secondary sector	-6.11	-11.34	1.95	0.99	-8.17	6.30	2.73	-0.32
Manufacturing	-0.75	-9.12	7.53	-3.65	-16.45	0.28	1.44	1.23
Food products and beverages	-24.80	-10.00	-7.62	-13.38	3.59	2.57	2.13	-3.60
Textiles, clothing, footwear and leather	2.26	-6.82	10.01	-2.39	-18.94	0.00	1.46	1.74
Other manufacturing	0.36	-28.40	-4.66	-10.09	-0.85	1.30	0.42	0.40
Electricity and water	-5.11	8.36	-15.60	-0.31	0.40	0.32	-0.52	2.01
Electricity supply	-10.45	10.13	8.31	0.49	0.60	-2.15	0.44	1.57
Water and sewerage; waste collection	-2.13	7.45	-28.09	-0.93	0.23	2.30	-1.25	2.35
Construction	-20.26	-39.17	9.65	23.74	10.80	28.60	8.08	-5.08
Tertiary sector	3.53	-5.76	-0.97	0.76	2.45	1.99	1.36	1.49
Wholesale and retail trade; repair of motorvehicles	-17.89	-26.21	-1.36	1.22	3.69	2.04	2.81	2.40
Transportation and storage	-9.56	-14.61	-0.63	5.17	7.82	4.20	4.26	5.45
Accommodation and food service activities	-22.02	-43.29	9.76	42.43	5.52	2.46	1.97	0.94
Information and communication	3.38	-7.33	-3.17	-3.49	2.20	1.50	0.85	0.57
Financial and insurance activities	52.22	6.30	-3.43	9.89	4.27	3.17	2.50	2.93
Financial service activities, except insurance	61.88	8.96	-4.37	10.17	4.32	3.07	2.33	2.87
Insurance and pension funding	2.95	-19.14	5.57	9.87	2.74	3.48	3.46	2.66
Activities auxiliary to financial services	2.68	-5.53	7.46	2.17	5.81	5.49	5.41	4.88
Real estate activities	-2.41	-4.42	1.46	1.57	0.40	0.34	0.24	0.17
Professional, scientific and technical activities	-6.01	-2.25	-1.99	-3.37	3.50	3.14	0.96	0.39
Administrative and support service activities	-7.35	-17.23	0.84	-21.56	0.94	1.03	0.70	-2.33
Public administration and defense; compulsory social security	2.35	0.49	0.07	-5.55	1.11	1.85	0.01	0.49
Education	1.53	0.79	4.31	3.03	-0.79	-1.09	0.02	0.55
Human health and social work activities	2.61	0.35	1.53	5.67	-2.51	-1.35	-0.45	-0.11
Other service activities	-1.57	-1.51	-1.55	-4.17	1.54	2.07	1.87	1.74
GDP at factor cost (Unadjusted)	0.27	-6.38	1.13	0.62	0.39	2.79	1.95	1.28
Financial services indirectly measured								
GDP at factor cost	0.27	-6.38	1.13	0.62	0.39	2.79	1.95	1.28
Taxes on products	-13.97	-16.81	8.87	5.55	10.25	2.79	1.95	1.28
GDP at market prices	-1.42	-7.46	1.85	1.11	1.42	2.79	1.95	1.28
+ Estimate, * Projection								



Appendix III: GDP by Sector 2012 Prices (In Million Maloti)								
	Projections							
	2019	2020	2021	2022	2023+	2024*	2025*	2026*
Primary Sector	1709.45	1750.15	1987.88	1969.05	2090.94	2112.03	2195.59	2264.36
Agriculture, forestry and fishing	993.01	1143.22	1263.95	1291.80	1336.29	1328.73	1384.33	1422.48
Growing of crops; market gardening; horticulture	163.71	280.97	263.89	228.30	236.05	199.63	223.19	234.53
Farming of animals (incl fishing)	759.59	801.64	943.54	1006.76	1043.67	1072.71	1105.01	1131.75
Forestry	54.37	53.23	52.84	53.04	52.53	52.09	51.56	51.27
Fishing and aquaculture	15.33	7.37	3.69	3.69	4.04	4.30	4.57	4.92
Mining and quarrying	716.44	606.94	723.93	677.26	754.65	783.30	811.25	841.88
Secondary sector	4598.49	4077.09	4156.61	4197.55	3854.60	4097.49	4209.17	4195.84
Manufacturing	2750.75	2499.92	2688.07	2590.07	2163.98	2170.14	2201.34	2228.32
Food products and beverages	218.24	196.41	181.45	157.16	162.80	166.98	170.53	164.40
Textiles, clothing, footwear and leather	2271.29	2116.48	2328.31	2272.60	1842.24	1842.16	1869.13	1901.59
Other manufacturing	261.22	187.02	178.31	160.31	158.94	161.00	161.68	162.33
Electricity and water	953.50	1033.17	872.02	869.35	872.79	875.61	871.08	888.55
Electricity supply	322.06	354.68	384.14	386.01	388.32	379.99	381.65	387.63
Water and sewerage; waste collection	631.44	678.49	487.88	483.35	484.47	495.62	489.43	500.91
Construction	894.24	544.00	596.52	738.14	817.83	1051.74	1136.75	1078.98
Tertiary sector	12673.00	11943.08	11827.03	11917.18	12209.15	12452.31	12621.90	12809.41
Wholesale and retail trade; repair of motorvehicles	1992.96	1470.56	1450.52	1468.15	1522.31	1553.37	1596.94	1635.22
Transportation and storage	454.80	388.37	385.93	405.89	437.61	455.99	475.42	501.32
Accommodation and food service activities	224.96	127.58	140.03	199.45	210.45	215.63	219.86	221.92
Information and communication	1136.73	1053.36	1019.94	984.35	1006.05	1021.17	1029.88	1035.80
Financial and insurance activities	2741.72	2914.46	2814.43	3092.76	3224.70	3326.97	3410.17	3509.93
Financial sector activities (except insurance)	2438.24	2656.69	2540.68	2799.10	2920.11	3009.78	3079.95	3168.45
Insurance and pension funding	212.53	171.85	181.42	199.32	204.78	211.90	219.23	225.07
Activities auxiliary to financial services	90.95	85.92	92.33	94.34	99.81	105.30	111.00	116.41
Real estate activities	1244.57	1189.61	1207.03	1225.97	1230.85	1235.00	1237.97	1240.07
Professional, scientific and technical activities	204.13	199.53	195.57	188.97	195.59	201.72	203.66	204.46
Administrative and support service activities	513.63	425.11	428.66	336.24	339.39	342.90	345.31	337.27
Public administration and defense; compulsory social security	3351.29	3367.73	3369.93	3183.01	3218.27	3277.90	3278.20	3294.14
Education	136.67	137.75	143.69	148.04	146.88	145.28	145.31	146.11
Human health and social work activities	409.15	410.60	416.87	440.52	429.47	423.68	421.76	421.28
Other service activities	262.39	258.42	254.43	243.81	247.57	252.69	257.41	261.89
GDP at factor cost (Unadjusted)	18980.94	17770.32	17971.52	18083.79	18154.69	18661.83	19026.66	19269.61
Financial services indirectly measured								
GDP at factor cost	18980.94	17770.32	17971.52	18083.79	18154.69	18661.83	19026.66	19269.61
Taxes on products, net of subsidies	2193.31	1824.60	1986.43	2096.68	2311.67	2376.24	2422.70	2453.63
GDP at market prices	21174.25	19594.92	19957.95	20180.46	20466.35	21038.07	21449.40	21723.24
* Projections								



Appendix IV: GDP at Current Prices (In Million Maloti)								
	Projections							
	2019	2020	2021	2022	2023+	2024*	2025*	2026*
Primary Sector	3372.82	4409.83	5244.69	5105.87	5590.06	5608.56	6101.79	6549.18
Agriculture, forestry and fishing	1541.90	1794.30	2123.34	2282.35	2513.56	2679.59	2942.72	3173.75
Growing of Crops	225.30	385.50	391.93	351.66	386.87	349.18	412.00	454.52
Farming of Animals	1225.81	1330.02	1660.28	1857.71	2049.06	2247.67	2443.60	2627.46
Forestry	67.348	67.043	65.08	66.44	70.01	74.09	77.40	80.80
Fishing and aquaculture	23.420	11.750	6.03	6.54	7.62	8.65	9.72	10.97
Mining and Quarrying	1830.94	2615.60	3121.36	2823.52	3076.50	2928.97	3159.07	3375.43
Secondary sector	8719.42	7891.89	8305.88	8406.81	7964.20	8608.49	9146.36	9577.03
Manufacturing	5947.81	5525.56	5890.78	5758.73	5030.00	5105.30	5333.58	5623.16
Food products and beverages	321.31	299.05	285.98	259.19	285.67	312.70	337.04	341.11
Textiles, clothing, footwear and leather	5268.15	4995.23	5396.86	5297.45	4531.14	4562.13	4752.27	5024.58
Other manufacturing	358.36	231.28	207.94	202.09	213.19	230.47	244.27	257.46
Electricity and water	1704.28	1714.57	1678.18	1682.25	1795.61	1940.52	2030.23	2177.60
Electricity	388.16	520.24	409.72	392.23	419.83	438.44	464.75	495.56
Water	1316.12	1194.33	1268.46	1290.02	1375.78	1502.08	1565.48	1682.04
Building and Construction	1067.32	651.75	736.92	965.83	1138.59	1562.68	1782.55	1776.27
Tertiary sector	18170.27	17522.78	17715.06	18817.81	20207.68	21763.27	23115.22	24286.94
Wholesale and retail trade, repairs	2939.44	2336.52	2492.68	2747.92	3031.64	3301.46	3582.08	3850.74
Transport and storage	636.14	528.83	558.19	766.87	879.73	978.29	1076.48	1191.70
Accommodation and food service activities	254.70	131.56	147.64	219.80	246.76	269.83	290.37	307.70
Information and communication	1001.22	901.32	853.27	805.17	875.58	948.49	1009.57	1065.97
Financial and insurance activities	4100.77	4413.05	4283.01	4682.86	5195.46	5724.57	6199.11	6701.72
Financial sector activities (except insurance)	3337.86	3756.68	3641.03	4023.30	4465.87	4912.45	5305.45	5729.88
Insurance and pension funding	603.81	463.89	417.66	395.49	432.32	477.43	521.31	561.86
Activities auxiliary to financial services	159.10	192.48	224.33	264.06	297.28	334.69	372.35	409.98
Real estate activities	1244.49	1183.97	1194.08	1204.36	1286.53	1377.66	1457.47	1532.70
Professional and support service activities	243.61	241.78	241.43	242.87	267.47	294.40	313.69	330.61
Administrative and support service activities	614.07	522.60	544.73	458.50	492.41	530.95	564.31	578.63
Public administration and defense; compulsory social security	6187.63	6283.47	6395.66	6653.29	6839.99	7175.74	7391.68	7427.61
Education	232.91	244.73	248.37	267.46	282.34	298.05	314.63	332.13
Human health and social work activities	417.29	436.52	456.73	481.91	499.89	526.31	552.94	579.83
Other service activities	297.99	298.43	299.28	286.80	309.86	337.53	362.89	387.60
GDP at factor cost (Unadjusted)	30262.51	29824.49	31265.63	32330.49	33761.94	35980.32	38363.37	40413.16
Financial services indirectly measured								
GDP at factor cost	30262.50	29824.42	31265.62	32331.48	33762.05	35980.35	38363.40	40413.19
Taxes on products, net of subsidies	4279.38	3971.62	4303.40	5081.37	5960.97	6539.43	7036.60	7481.59
GDP at market prices	34541.88	33796.04	35569.03	37412.90	39723.01	42519.80	45400.00	47894.80
* Projections								





Lesotho Economic Outlook 2024-2026

Modest Growth Anchored by Mega-projects

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Executive Summary
Global economic growth is expected to slow compared to previous years, primarily due to persistent inflation, tighter monetary policies, and geopolitical uncertainties. The global economy is projected to grow by 3.2 percent in 2024, down from higher levels seen in the early recovery phase post-pandemic. Inflation remains a concern worldwide, although it is expected to moderate somewhat as central banks continue their efforts to control rising prices. Interest rates are likely to stay elevated in many regions.

The domestic economy is projected to grow modestly in the medium-term anchored by ongoing mega-projects, mainly the Lesotho Highlands Water Project (LHWP II) and the Millennium Challenge Corporation (MCC) Compact II. These projects are also providing a boost to the services sector through positive spillovers. However, in the context of weaker trading partners growth, export-oriented industries are facing headwinds and therefore this is likely to undermine growth in the near-term. Growth is forecasted to reach 2.8 per cent in 2024 and 2.0 per cent in 2025 following the pick-up in the implementation of both LHWP and MCC projects. The annual inflation rate is expected to average 6.7 per cent in 2024, easing to 5.5 per cent and 5.0 per cent in 2025 and 2026, respectively.

The fiscal position is forecast to register surplus over the forecast period, reflecting higher Southern African Customs Union (SACU) revenues and increased water royalties. This is expected to be driven by the substantial increase in revenue relative to modest increases in recurrent expenditures. As a result, the surplus in 2024 is projected to be equivalent to 7.9 per cent of GDP, increasing slightly to 8.7 per cent of GDP in 2025-2026. Consequently, government savings with the banking sector are expected to accumulate over the same period.

The external sector position is expected to strengthen during the 2024-2026 forecast period, while credit to the private sector will largely be underpinned by construction and resilient credit demand by households. The current account balance is projected to register a surplus, amounting to 2.1 per cent of GDP by the end of 2024. In the subsequent years, a surplus of 2.2 per cent of GDP is expected in 2025, followed by a bigger surplus

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