# Lesotho Economic Outlook Update 2024 - 2026

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# *Modest Growth Amid Rising Global Uncertainty and Vulnerabilities*

## Overview

***The domestic growth is projected at 2.1 per cent in 2025 and 1.9 per cent in 2026.*** *The growth is driven by the LHWP II project without which growth would experience stagnation. Structural bottlenecks and the presently heightened weak external environment constrain higher growth prospects. The forecast for 2025 remains relatively unchanged from the October 2024 Lesotho Economic Outlook report, as upward revisions in the services sector offset downward revisions in manufacturing, mining and agricultural industries. Domestic inflation is expected to moderate to 5.2 per cent in 2025 and 5.1 per cent in 2026, driven by declining food inflation. However, inflationary pressures could resurface due to heightened global uncertainty, which may drive up inflation. Risks to the growth outlook are tilted to the downside in the near-term, amidst an unfavourable global environment. In the medium-term, risks are more balanced, contingent on the effectiveness of fiscal policy in driving growth and the pace of structural reforms implementation.*

*The fiscal position is projected to maintain a surplus in the medium-term supported by relatively high water royalties and SACU revenues against lower expenditures due to limited absorption capacity. In the external sector, the current account balance is projected to be in a marginal deficit, averaging 0.7 per cent in 2025-2026, given the weaker export demand. Reserves remain strong, maintaining months of import cover hovering over 5 months signalling a healthy external position. Private sector credit growth is expected to be aligned with nominal GDP growth.*

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## 2. Key Emerging Trends and Drivers Shaping the Domestic Economic Outlook

**The medium-term outlook is overshadowed by trade policy uncertainty amidst materializing external risks.** While the medium-term growth is still projected to average 2.0 per cent over 2025 – 2026, geoeconomic risks that were identified earlier have started to materialize posing a downside risk to these projections. Following the great election year, the global trade policy is undergoing a significant shift. The US has imposed trade tariffs on key trading partners including China and Canada, triggering retaliatory tariffs. While it is not clear how long these will last, they are likely to result in high inflation in the US, which would potentially weaken Lesotho's rough diamonds exports as the US is one of the major buyers. In addition, high inflation in the US could prompt tighter monetary policy, leading to capital outflows from South Africa and depreciation of the South African rand. A one-percentage-point increase in inflation in South Africa could push Lesotho inflation rate approximately 0.8 percentage points higher than the current forecast of 5.2 per cent.

Potential changes to trade and development agreements have heightened uncertainty...

**Potential changes to trade and development agreements under review and public debate have heightened uncertainty in the medium-term.** Firstly**,** the temporary suspension of the Millenium Challenge Corporation (MCC) Compact II poses a risk to growth. The MCC compact II interventions are projected to contribute around 0.5 percentage points to growth in the medium-term, primarily through investments in both health and capital projects with positive spillovers in support services. A total or partial loss of the project without alternative sources of support would see weaker growth prospects. Secondly, the temporary suspension of funding in the health sector by the US is also likely to have adverse effects on both health outcomes and household incomes, further dampening economic activity. Additionally, the impending expiration of the African Growth and Opportunity Act (AGOA) in September 2025 adds to the uncertainty, particularly given the potential policy shifts under the new US administration. AGOA is projected to account for approximately 43.1 percent of Lesotho's textile exports in 2025–2026, making its renewal critical for sustaining growth in the sector.

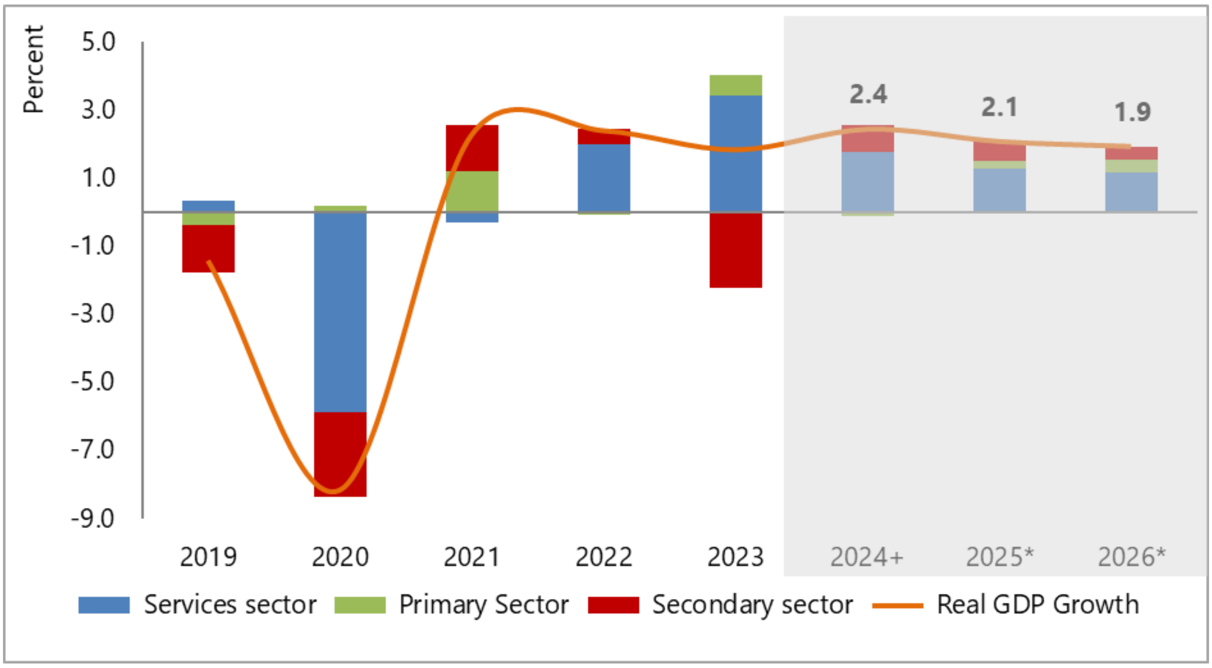
## 2. Medium-term Outlook

**Lesotho's economy ended 2024 on a strong note, with the growth estimated at 2.4 per cent in 2024.** This growth was driven by construction activity, particularly in LHWP II, LLWDP II and major government construction projects. These projects also generated positive spillover effects in the services industry, further supporting economic growth. Despite this momentum, export-oriented sectors such as the mining and textile & clothing industries underperformed. The mining industry is estimated to contract in 2024 as global demand and prices fail to recover from the 2023 downturn. Meanwhile, the textiles & clothing industry continues to face weaker demand from the US market, further compounded by declining demand in South Africa. Nonetheless, the robust performance of construction and services has more than offset these sectoral weaknesses, sustaining overall economic growth.

Domestic economic growth is expected to be flat at around 2.0 per cent...

**Domestic economic growth is expected to be flat, slowing down to around 2.0 per cent over 2025-2026.** The slowdown largely reflects deceleration in the construction industry. Following the jump in 2024, LHWP II activity is expected to taper off as it approaches completion. Some of the slack caused by LHWP II winding down is expected to be picked up by the MCC Compact II and recoveries in other sectors. Notable rebounds are expected in the primary sector, particularly in crop production, and manufacturing industry. Following drought-induced contraction in 2024, crops production is expected to recover in the medium-term supported by more favourable weather conditions and the rehabilitation of irrigation systems across the country. In the textiles & clothing manufacturing industry, a modest recovery is expected, driven by improved demand from South Africa, amid improved economic prospects. These sectoral recoveries are expected to cushion the overall slowdown, ensuring a degree of stability in the economic outlook.

**Figure 1: Domestic Economic Outlook**

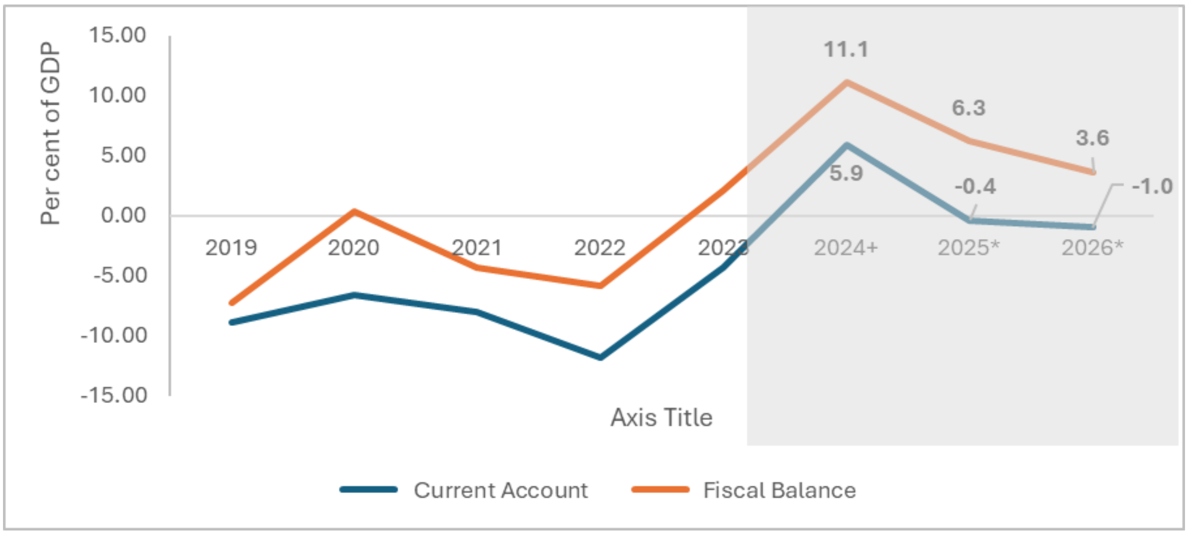



*Source: CBL, + Estimates, * Projections*

**The fiscal position is forecast to maintain moderate surpluses although on a declining trajectory in both 2025 and 2026.** The narrowing surplus is primarily driven by a gradual decline in SACU revenue, which is expected to revert toward the ten-year average of 19.7 per cent of GDP. With anticipated declines in trade volumes, customs duty collections are expected to be lower, leading to a decline in SACU revenues from 27.2 per cent of GDP in 2024 to 22.5 per cent of GDP in 2025 and further to 20.1 per cent of GDP in 2026. Domestically, revenue collections are expected to fall slightly to 22.6 per cent of GDP in 2025 relative to 24.8 percent of GDP in 2024. Meanwhile, expenditures are expected to increase to 58.0 per cent of GDP in the medium-term, from 55.0 per cent of GDP in 2024. A persistently low budget execution rate is expected to continue to hold back capital spending, albeit improving to just over 70 per cent in 2025 – 2026, from the estimated 65 per cent in 2024. This continued underperformance of the capital budget results in unplanned savings, contributing to larger-than-expected fiscal balances.

SACU revenues are expected to decline in 2025...

**Figure 2: Fiscal Balance and Current Account Balance Outlook**




*Source: CBL, + Estimates, * Projections*

**The external sector outlook remains positive, and it is broadly similar to the October 2024 LEO publication.** Strong inflows from water royalties and SACU receipts continue to underpin the overall surplus position. While diamond exports have shown unexpected resilience, textile exports are facing more significant headwinds than previously projected. These factors, coupled with adjustments to global growth projections, have led to a recalibration of the current account balance forecast. The current account is now projected to register a marginal deficit compared to previous estimates which projected modest surpluses. The current account surplus is estimated at 5.9 per cent of GDP in 2024, which is 0.2 percentage points lower than the October 2024 LEO forecast. In the outer years, the deficit is projected at 0.4 per cent and 1.0 per cent of GDP in 2025 and 2026, respectively. The LHWP-II project will continue to be a dominant influence, driving both import demand and capital inflows. Official reserves are expected to remain healthy during the projection period, with reserves projected to reach 5.8 months of imports in 2024, then fall to 5.4 months and 5.0 months in 2025 and 2026, respectively.

Export oriented industries are facing headwinds...

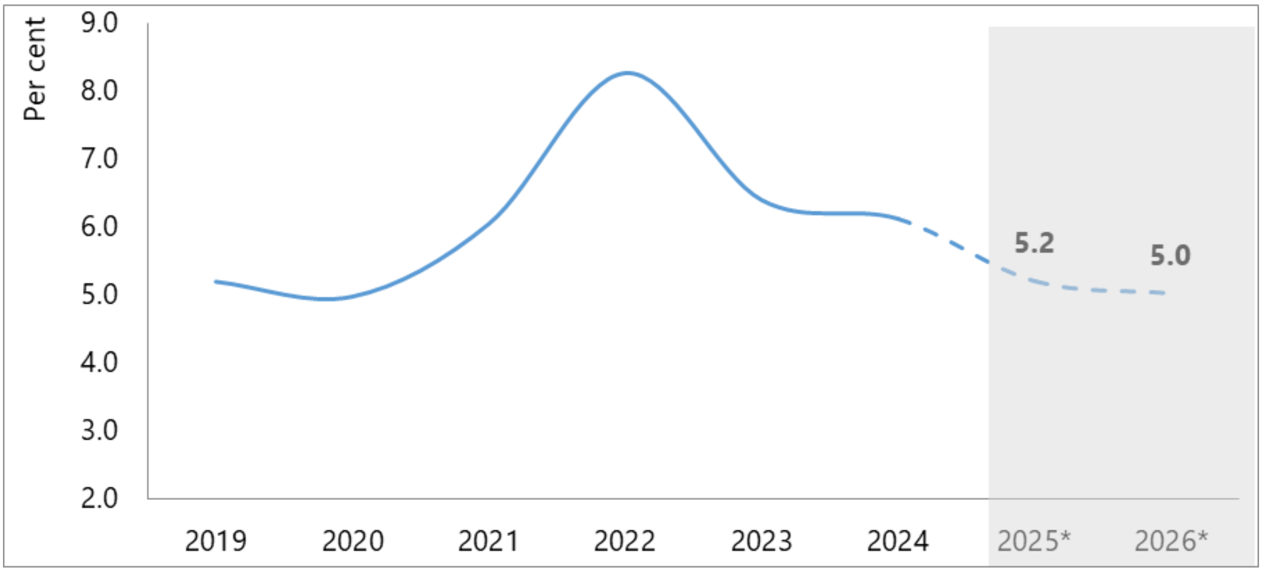
**In the medium-term, money supply is projected to rise by an average of 6.1 per cent, in line with growth in nominal GDP**. The increase will mainly reflect increases in Net foreign assets (NFA). NFA is projected to grow by an average of 4.5 per cent over 2025 – 2026. The Central Bank of Lesotho's NFA is expected to be supported by water royalties which are projected to remain high. In addition, the anticipated increase in capital flows and imports associated with ongoing projects is anticipated to lead to an increase in placements abroad, increasing commercial banks' NFA. The ongoing large projects, including MCC Compact II, which is anticipated to gain momentum, is expected to support credit demand in the medium-term. As a result, credit extended to the private sector is projected to rise by an average of 5.1 per cent over 2025 – 2026.

Credit extension is projected to rise in the medium-term...

**The annual inflation rate is expected to continue moderating, with downward revisions relative to October 2024.** Inflation rate was elevated in 2024 due to increasing food prices, however, a significant moderation was observed in the fourth quarter of 2024. Inflation is expected to remain moderate for the first half of 2025 as food price increases remain relatively low. Falling oil prices are also expected to bring down non-food inflation, shaping the moderation path in headline inflation in the medium-term. Therefore, inflation is projected to be 5.2 per cent in 2025 and 5.0 per cent in 2026. However, risks to the inflation outlook are tilted to the upside.

The annual inflation rate to moderate in the medium-term

**Figure 3: Inflation Outlook**




*Source: CBL, + Estimates, * Projections*

## 4. Risks to the Outlook

**The projected medium-term growth is surrounded by risks which are tilted to the downside.** Some of these risks have already started to materialize including policy-driven geoeconomic fragmentation with potential heightening trade tensions. If these risks fully materialize, they are likely to render projected economic growth lower. Weaker growth outcomes of key trading partners could have negative spillovers on the domestic economy. Additionally, the ongoing wave of introduction of tariffs could be inflationary, reversing the inflation gains from 2024. Uncertainty surrounding the projected growth in South Africa could affect textiles exports and remittances. The potential escalation of tensions between South Africa and the US also puts SACU pool performance at risk.

Risks are tilted to the downside...

**Further risks may come from worsening geopolitical tensions which pose challenges to global supply chains and commodity prices, leading to higher inflation.** Domestically, frequent, and adverse climate shocks, including dry weather spells and above normal rainfall affect harvests, putting additional pressure on food prices. Low investor confidence in both mining and textile & clothing industries, which have been struggling through 2024, continues to pose a challenge to the overall economic outlook.

## 5. Policy Considerations in the face of Uncertainty

With the growing uncertainty, Government should focus on addressing the near-term risks while building resilience. Development programs including MCC Compact II should be protected given their potential in boosting growth. In the event of external funding withdrawal, the government should consider funding the project. Similarly, essential health sector programs affected by aid suspensions require urgent attention. The government should also improve capital budget execution, as inefficiencies in this area continue to hinder economic growth. With the buildup in government deposits in 2024, and potential further surpluses in 2025 and 2026, the government should find a balance between investing in crucial infrastructure and building buffers. This will be supported by debt levels which remain on a sustainable path.

To mitigate the economic impact of a potential non-renewal of AGOA, the government must develop a contingency plan. Given the substantial number of jobs tied to the textile industry and its broader economic significance, failure to secure AGOA benefits could lead to widespread economic repercussions, including a decline in consumption and overall economic activity.

Monetary policy should continue to prioritize price stability through maintaining sufficient foreign reserves to preserve the exchange rate peg of loti to rand.

Beyond the immediate challenges, efforts should focus on unlocking growth opportunities in the medium-term through implementation of the pending structural reforms. These reforms should be aimed at growing the private sector, improving productive capacity and improving the investment climate. Additionally, the government should develop a comprehensive economic growth strategy to drive long-term development.

# Appendix A: Overview of Current Projections

| | Estimate | Jan 2025 projections | | | Differences from Oct 2024 projections | | |
|---|---|---|---|---|---|---|---|
| | 2023+ | 2024* | 2025* | 2026* | 2024* | 2025* | 2026* |
| **Economic growth** | **1.8** | **2.4** | **2.1** | **1.9** | **0.0** | **0.1** | **0.0** |
| **Primary Sector** | **6.3** | **-1.2** | **2.4** | **3.8** | **0.0** | **-1.3** | **1.0** |
| Agriculture | 7.7 | 0.7 | 3.5 | 4.3 | 0.0 | -0.8 | 1.9 |
| Mining & Quarrying | 0.9 | -5.0 | 0.0 | 2.7 | 0.1 | -2.2 | 0.7 |
| **Secondary Sector** | **-10.1** | **4.0** | **2.8** | **2.0** | **-0.2** | **0.0** | **-0.3** |
| Manufacturing | -14.2 | -1.7 | 0.9 | 1.1 | -0.4 | -0.1 | -0.1 |
| Textiles & Clothing | -16.0 | -2.3 | 0.8 | 1.1 | -0.5 | -0.1 | -0.1 |
| Building & Construction | 3.6 | 24.5 | 9.8 | 4.0 | 0.4 | 0.3 | 0.0 |
| **Services Sector** | **5.2** | **2.3** | **1.8** | **1.6** | **0.1** | **0.2** | **0.0** |
| **Inflation rate (%)** | **6.4** | **6.1** | **5.2** | **5.0** | **-0.4** | **-0.3** | **0.0** |

# Appendix B: Selected Macroeconomic Indicators

| Table 1: Selected Macroeconomic Indicators | | | | | | Projections | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024* | 2025* | 2026* |
| **Output - Constant prices** | | | | | | | | |
| Gross Domestic Product (% p.a.) | -1.42 | -8.16 | 2.27 | 2.39 | 1.83 | 2.43 | 2.07 | 1.93 |
| Per capita GDP (% p.a.) | -1.88 | -8.59 | 1.79 | 1.91 | 1.35 | 1.95 | 1.59 | 1.45 |
| Gross National Income (% p.a.) | -1.18 | -8.49 | 0.33 | 5.39 | 3.17 | 3.05 | 0.92 | 2.07 |
| Per capita GNI (% p.a.) | -1.64 | -8.92 | -0.14 | 4.89 | 2.68 | 2.56 | 0.44 | 1.59 |
| | | | | | | | | |
| Gross Domestic Product (M Million) | 21174.25 | 19447.29 | 19888.10 | 20362.98 | 20734.94 | 21 239.23 | 21 679.32 | 22 097.03 |
| Per Capita GDP | 10401.10 | 9507.89 | 9677.71 | 9862.22 | 9995.17 | 10 190.14 | 10 352.40 | 10 502.27 |
| Gross National Income (M Million) | 25265.90 | 23121.95 | 23197.61 | 24447.95 | 25222.07 | 25 990.27 | 26 229.08 | 26 772.46 |
| Per Capita GNI | 12410.98 | 11304.46 | 11288.15 | 11840.65 | 12158.17 | 12 469.59 | 12 525.02 | 12 724.41 |
| | | | | | | | | |
| **Output - Current prices** | | | | | | | | |
| Nominal GDP (% p.a.) | 2.11 | -2.14 | 5.46 | 8.05 | 1.45 | 4.82 | 6.18 | 6.01 |
| Nominal GNI (% p.a.) | 1.20 | -1.16 | 3.87 | 10.73 | 3.83 | 5.82 | 4.85 | 6.27 |
| Nominal GDP (M Million) | 34541.88 | 33801.98 | 35648.08 | 38518.71 | 39078.91 | 40 963.06 | 43 495.16 | 46 108.80 |
| Nominal GNI (M Million) | 40616.85 | 40144.34 | 41698.73 | 46171.07 | 47941.38 | 50 730.28 | 53 188.62 | 56 521.12 |
| | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Sectoral Growth rates (% p.a.)** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Primary Sector | -4.55 | 2.37 | 13.59 | -0.63 | 6.27 | -1.18 | 2.38 | 3.80 |
| Crops | -23.04 | 71.92 | -6.20 | -13.83 | 7.72 | -10.66 | 4.85 | 4.27 |
| Mining and Quarrying | -9.68 | -15.29 | 19.29 | -6.45 | 0.89 | -4.99 | 0.01 | 2.72 |
| Secondary Sector | -6.11 | -11.34 | 6.43 | 2.06 | -10.13 | 3.97 | 2.82 | 2.03 |
| Manufacturing | -0.75 | -9.12 | 7.36 | -2.28 | -14.16 | -1.72 | 0.89 | 1.13 |
| Construction | -20.26 | -39.17 | 9.65 | 23.74 | 3.56 | 24.51 | 9.83 | 3.99 |
| Tertiary Sector | 3.53 | -5.70 | -0.78 | 2.64 | 5.21 | 2.33 | 1.79 | 1.60 |
| Wholesale and retail trade,repairs | -17.89 | -26.21 | -1.36 | 1.21 | 2.39 | 2.61 | 3.13 | 2.35 |
| Financial and insurance activities | 52.22 | 6.57 | -2.70 | 10.06 | 13.02 | 4.60 | 2.86 | 2.96 |
| Real estate activities | -2.41 | -4.30 | 1.22 | 1.38 | -0.63 | 1.15 | 0.19 | 0.28 |
| Public Admin, Education & Health | 2.35 | 0.49 | 0.48 | 0.25 | -0.14 | 0.43 | 0.62 | 0.36 |
| | | | | | | | | |
| **Savings and Investment - Per cent of GNI** | | | | | | | | |
| National Savings | 15.91 | 18.16 | 18.88 | 14.59 | 18.31 | 27.42 | 21.90 | 20.42 |
| Of which Government Savings | 8.14 | 10.31 | 8.63 | 5.97 | 11.00 | 18.87 | 16.81 | 14.14 |
| Of which Private Sector Savings | 7.77 | 7.85 | 10.25 | 8.62 | 7.31 | 8.55 | 5.09 | 6.28 |
| Investment | 23.47 | 23.68 | 25.73 | 24.41 | 21.84 | 22.65 | 22.21 | 21.22 |
| Of which Government Investment | 8.71 | 8.11 | 8.69 | 8.95 | 9.15 | 9.87 | 12.33 | 11.81 |
| Of which Private Sector Investment | 14.76 | 15.57 | 17.04 | 15.47 | 12.69 | 12.79 | 9.88 | 9.41 |
| Resource Balance | -7.56 | -5.51 | -6.85 | -9.83 | -3.53 | 4.76 | -0.31 | -0.80 |
| | | | | | | | | |
| **Savings and Investment - Per cent of GDP** | | | | | | | | |
| National Savings | 18.70 | 21.57 | 22.08 | 17.49 | 22.47 | 33.96 | 26.78 | 25.03 |
| Of which Government Savings | 9.57 | 12.24 | 10.09 | 7.16 | 13.50 | 23.37 | 20.55 | 17.33 |
| Of which Private Sector Savings | 9.14 | 9.33 | 11.99 | 10.33 | 8.96 | 10.59 | 6.22 | 7.70 |
| Investment | 27.60 | 28.12 | 30.10 | 29.27 | 26.80 | 28.06 | 27.16 | 26.02 |
| Of which Government Investment | 10.24 | 9.63 | 10.17 | 10.72 | 11.23 | 12.22 | 15.08 | 14.48 |
| Of which Private Sector Investment | 17.36 | 18.49 | 19.93 | 18.54 | 15.57 | 15.84 | 12.08 | 11.54 |
| Resource Balance | -8.89 | -6.55 | -8.02 | -11.78 | -4.33 | 5.90 | -0.39 | -0.99 |

| Table 1: Selected Macroeconomic Indicators, cont'd | | | | | | Projections | | |
|---|---|---|---|---|---|---|---|---|
| | *2019* | *2020* | *2021* | *2022* | *2023* | *2024** | *2025** | *2026** |
| Inflation rate % (CPI) | 5.20 | 4.98 | 6.05 | 8.27 | 6.40 | 6.13 | 5.21 | 5.03 |
| **External Sector - Per cent of GDP** | | | | | | | | |
| Current Account | -8.89 | -6.55 | -8.02 | -11.78 | -4.33 | 5.90 | -0.39 | -0.99 |
| Imports of Goods | 74.59 | 77.23 | 75.18 | 76.20 | 78.51 | 75.95 | 76.77 | 75.22 |
| Exports of Goods | 44.55 | 42.52 | 44.01 | 44.61 | 43.50 | 42.86 | 45.41 | 45.16 |
| Capital Flows (+ means an inflow) | 3.62 | 4.49 | 5.38 | 4.16 | 17.30 | 12.64 | 18.06 | 12.26 |
| Of which Government | 3.62 | 4.49 | 5.38 | 4.16 | 17.30 | 12.64 | 18.06 | 12.26 |
| Of which Private Sector | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial Account | -1.70 | 13.75 | 7.36 | 0.15 | 16.66 | 18.54 | 17.68 | 11.28 |
| Official Reserves (Months of Imports) | 4.44 | 4.65 | 5.10 | 4.57 | 4.37 | 5.82 | 5.39 | 4.99 |
| **Government Finance - Per cent of GDP** | | | | | | | | |
| Revenue (excluding grants) | 43.99 | 50.23 | 46.21 | 41.95 | 51.49 | 62.86 | 59.52 | 57.08 |
| Tax Revenue | 22.15 | 21.16 | 21.52 | 22.01 | 22.66 | 24.80 | 22.61 | 22.66 |
| Recurrent Expenditure | 38.73 | 41.47 | 40.17 | 38.93 | 41.41 | 43.34 | 43.58 | 43.71 |
| Of which compensation of employees | 17.43 | 17.39 | 17.19 | 16.96 | 17.81 | 18.27 | 18.64 | 19.10 |
| Transaction in non-financial assets | 15.57 | 11.29 | 13.81 | 12.03 | 10.63 | 11.57 | 14.28 | 13.71 |
| Budget Balance (+ means a surplus) | -7.21 | 0.34 | -4.36 | -5.87 | 2.13 | 11.08 | 6.27 | 3.62 |
| **Monetary Aggregates - Nominal growth** | | | | | | | | |
| Money supply (M2) | -9.35 | 17.32 | 4.14 | -3.41 | 19.84 | 10.56 | 6.18 | 6.01 |
| Private Sector Credit | 8.20 | 0.63 | 7.34 | 4.99 | 16.28 | 9.61 | 4.80 | 6.25 |

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