



THE KINGDOM OF LESOTHO

**MINISTRY OF FINANCE AND
DEVELOPMENT PLANNING**

ECONOMIC GROWTH SECTOR BRIEF

2024-2025

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EXECUTIVE SUMMARY

The 2024/25 Economic Growth Sector Brief outlines Lesotho's fiscal strategy in alignment with the National Strategic Development Plan II (NSDP II), emphasizing inclusive, private sector-led growth, human capital development, infrastructure expansion, and governance reform.

Economic recovery is projected to be modest, with GDP growth at 2.0 percent and inflation easing to 5.5 percent, supported by mining, construction, and service sector expansion. However, structural challenges—including high unemployment (16.1 percent), trade deficits, and low industrial diversification—continue to constrain growth.

Despite a 35 percent increase in the sector budget to M2.304 billion, only 82 percent was executed, with capital projects underperforming due to procurement delays and weak implementation capacity. Recurrent expenditures, mainly salaries, consumed 89 percent of the budget, limiting investment in infrastructure and innovation.

Key ministries such as Natural Resources and Trade exceeded their approved budgets, raising concerns about fiscal discipline. Meanwhile, high-potential sectors like Communications and Tourism remain underfunded, despite their strategic importance for economic diversification and employment generation.

The sector remains heavily reliant on government financing, with limited private sector engagement. However, domestic revenue increased by 16 percent, reaching M27.712 billion, signalling improved fiscal capacity.

To unlock sustainable growth, Lesotho must:

- Strengthen budget planning and execution
- Rebalance spending toward capital investments
- Enforce fiscal discipline
- Invest in underfunded, high-impact sectors
- Build institutional capacity
- Mobilize private sector participation
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These reforms are essential to enhance budget credibility, improve resource allocation, and ensure long-term economic resilience.

INTRODUCTION

The 2024/25 Economic sector budget was formulated in alignment with the priorities of the Lesotho's second National Strategic Plan (NSDP) II. These priorities include enhancing inclusive and sustainable economic growth encouraging private sector-led job creation; strengthening human capital development; building enabling infrastructure and strengthening national governance and accountability.

The budget was prepared in context of a projected economic growth recovery, largely attributed to the resurgence in diamond mining activities. Additionally, robust growth in the construction sector particularly due to implementation of the Lesotho Highlands Water Project II (LHWP II), and the expansion across various service sectors contributed to positive outlook.

Against this backdrop, the domestic economy was projected to grow by 2.0 percent while inflationary pressures expected were to ease at 5.5 percent. Three key assumptions underpinned the budget: favorable global economic conditions, a stable domestic environment, and the successful implementation of planned reforms.

These assumptions were considered crucial to achieving the budget's objectives, which include stimulating economic growth, creating employment opportunities, and improving public service delivery.

The economic growth strategy emphasized resilience and targeted interventions to address global economic uncertainties. Key strategic measures included promoting construction activity, moderating inflation through sound fiscal and monetary policies, and implementing deregulation policies to stimulate private sector growth and reduce fiscal pressures.

Although global trade remained showed strength in the first quarter of 2025, likely due to advance purchases in anticipation of new tariffs, it was expected to grow at a slower pace than overall economic activity, according to the European Commission. This global context was taken into account in shaping Lesotho's economic strategy for the fiscal year.

Lesotho 2024 Economic Overview

Economic Indicators and Trends

Indicator	Value / Trend
GDP Growth Rate	2.0%
Inflation Rate	5.5%
Unemployment Rate	16.10%
Trade Balance	Exports: Around LSL 3.2 billion Imports: Roughly LSL 7.1 billion
Public Debt to GDP Ratio	60% of GDP
Agricultural Output	6.5% of GDP
Tourism Arrivals	+/-147,300 international visitors
Foreign Direct Investment	USD 12.6 million

In 2024, Lesotho recorded modest economic growth of 2.0 percent, driven by mining, construction, and services. Inflation stabilized at 5.5 percent, supporting consumer confidence and investment planning.

However, unemployment remained high at 16.10 percent, reflecting deep structural challenges including limited industrial diversification and youth joblessness.

The country faced a significant trade deficit, with exports at LSL 3.2 billion and imports at LSL 7.1 billion, highlighting dependence on imports and a narrow export base. Public debt reached 60 percent of GDP, indicating moderate fiscal pressure and the need for disciplined financial management.

Foreign Direct Investment was subdued at USD 12.6 million, constrained by regulatory inefficiencies and infrastructure gaps. The agriculture sector, despite employing most of the population, contributed only 6.5 percent to GDP, underscoring low productivity and the need for modernization.

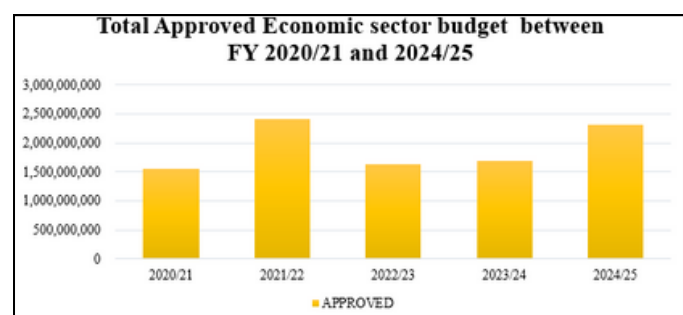
Tourism showed signs of recovery with 147,300 international arrivals, though still below pre-pandemic levels, pointing to untapped potential.

Overall, while macroeconomic conditions showed signs of stability, structural reforms remain critical to unlocking inclusive and sustainable growth.

BUDGET TRENDS

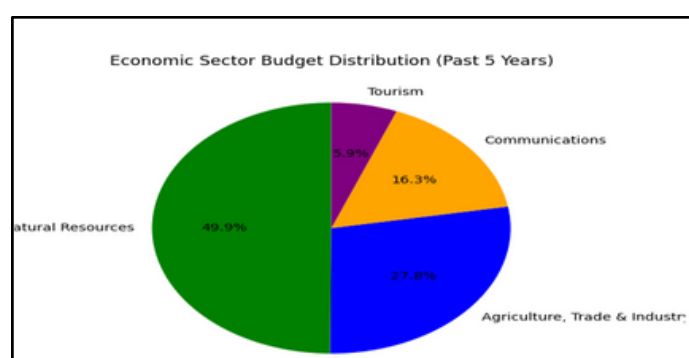
The budget allocations for the economic sector from fiscal years 2020/21 to 2024/25 demonstrated a notable upward trend, increasing from M1.552 billion in 2020/21 to M2.304 billion in 2024/25.

The exception was the 2021/22 fiscal year, which experienced a temporary decline largely attributable to the impacts of the COVID-19 pandemic and the subsequent recovery efforts. The 2024/25 budget of M2.304 billion reflects a 35 percent increase compared to the previous year and a continual budget increase from previous years. This growth underscores the government's continued commitment to fostering economic development, especially during a period when robust economic expansion is vital for national progress.



The government remains committed to developing water, mining, and energy sectors as strategic drivers of economic growth and employment creation, with the overarching goal of reducing poverty and improving livelihoods. Over the past five years, the largest portion of the economic sector budget has been allocated to natural resources, totaling M3.584 billion and accounting for 37 percent of the sector's total budget.

This was followed by allocations to Agriculture, Trade, and Industry, which also received substantial support. In contrast, Communications and Tourism received the smallest shares, with budgets of M1.172 billion and M426 billion, representing 12 percent and 4 percent of the total economic sector budget for the period, respectively.



This distribution underscores the prioritization of natural resources, followed by agriculture and trade, within the current economic planning framework. While these sectors remain central to development strategies, there is a clear indication of the need to strengthen investment in communications and tourism.

Enhancing funding in these areas could play a pivotal role in diversifying the economy, fostering innovation, and driving long-term, sustainable growth.

Strategic investment in underfunded development sectors may also unlock new opportunities for employment and regional , contributing to a more balanced and resilient economic landscape.



Over the period under review, the majority of resources were allocated to the recurrent budget, averaging approximately 89 percent of total economic sector spending. This allocation was primarily driven by salary expenditures, which remain the dominant component of recurrent costs.

In contrast, the capital budget accounted for an average of just 11 percent, highlighting a significant imbalance in resource distribution. This calls for a comprehensive review of current expenditure patterns to identify opportunities for streamlining and improving efficiency.

At the same time, a phased and strategic approach to capital investment should be adopted, with a focus on high-impact projects that can stimulate growth and development. Transparent and accountable financial management, supported by robust performance monitoring systems, will be essential to ensure the effective implementation of this strategic allocation framework.

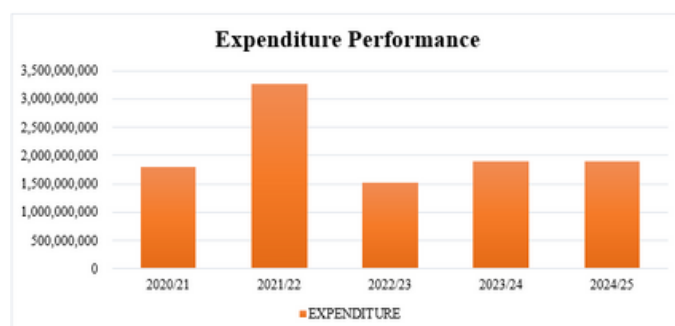
BUDGET EXECUTION AND CREDIBILITY

The trend in economic sector expenditure from FY 2020/21 through FY 2024/25 highlights key factors influencing budget performance, including the impact of supplementary allocations and the efficiency of overall budget management.

This period was characterized by notable volatility, largely reflecting the broader economic uncertainties caused by the COVID-19 pandemic and its lingering effects on fiscal performance.

Notably, the 2021/22 fiscal year recorded the highest expenditure, driven by urgent supplementary allocations and emergency response measures.

In the following year, expenditure declined, but began to show a steady upward trajectory, thereafter, indicating a gradual recovery and improved budget execution capacity.

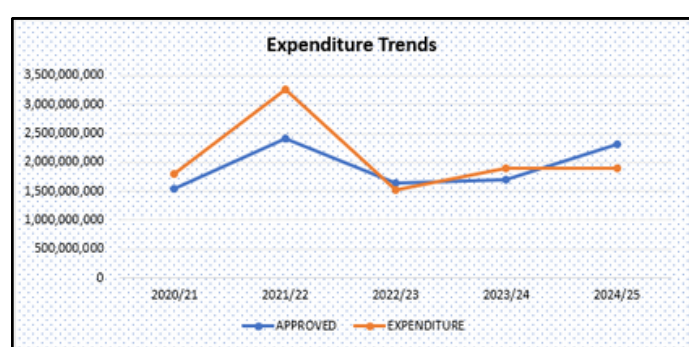


Expenditure Trends and Variability

These challenges underscored the need for more adaptable and responsive budgeting frameworks capable of managing unexpected shocks.

During the 2021/22 fiscal year, the economic sector experienced an over-expenditure of approximately 35 percent, driven by several factors including reallocations to the Intensive Cropping Programme (ICP) for subsidized agricultural inputs, a shortfall in salary provisions, software license fees for Microsoft products, and compensation payments to wool and mohair farmers who had not received their dues from the 2018/2019 financial year.

In a notable shift, the 2022/23 fiscal year recorded expenditure below the approved budget, primarily due to cutbacks in discretionary spending, delays in project implementation, supply chain disruptions, and cautious fiscal management amidst ongoing economic uncertainty.



In 2024/25, expenditure declined significantly, indicating a possible tightening of fiscal discipline, a reassessment of project priorities, or the lingering effects of external shocks.

The total expenditure for the economic sector in the fiscal year 2024/25 reached M1.899 billion, compared to an approved budget of M2.304 billion, resulting in an under-spending balance of M40 billion. This reflects an expenditure rate of 82 percent.

This decline suggests that the budgeted amounts may not have been fully released, and additionally, some of the released funds may not have been spent.

Such practices can undermine effective service delivery and hinder the achievement of development goals, highlighting ongoing challenges in budget execution and financial management.

Budget Performance Overview Class

The economic sector's recurrent budgets have generally performed better than capital budgets when viewed in aggregate. However, a notable exception occurred in the 2021/22 fiscal year, where capital expenditure exceeded the approved budget by M677 million—an unusual occurrence for capital spending.

This over-expenditure was primarily driven by payments for outstanding invoices related to the design and supervision of piggery and poultry houses, settlement of interim certificates for the Tikoe and Belo Industrial Infrastructure projects and covering shortfalls in the Rural Electrification Project.

Additional drivers included VAT payments for goods imported from China for the Ramarothole project, construction of a water supply system, upgrading of the gravel road to the Semonkong Visitors Centre waterfall, and financing components of the Maputsoe and Thaba-Bosiu Water Supply Augmentation Project and the Lesotho Lowlands Water Supply Scheme.

In the 2024/25 fiscal year, recurrent expenditure reached M1.457 billion, representing 122 percent of the allocated recurrent budget—highlighting a persistent pattern of overspending. In contrast, capital expenditure stood at M439 million, accounting for approximately 37 percent of the total budget.

This imbalance raises concerns about unsustainable financial practices and the limited allocation of funds for long-term investments and development, which could undermine the sector's fiscal sustainability.

Budget allocations within the economic sector reveal a strategic focus on the Ministry of Agriculture and Natural Resources and the Ministry of Communications, both of which received the largest shares of the sector's budget in 2024/25.

This prioritization reflects their critical roles in advancing national development objectives and economic growth. It also aligns with the overall high sector budgets for the year, underscoring a deliberate emphasis on sectors deemed vital for economic stability and resilience.

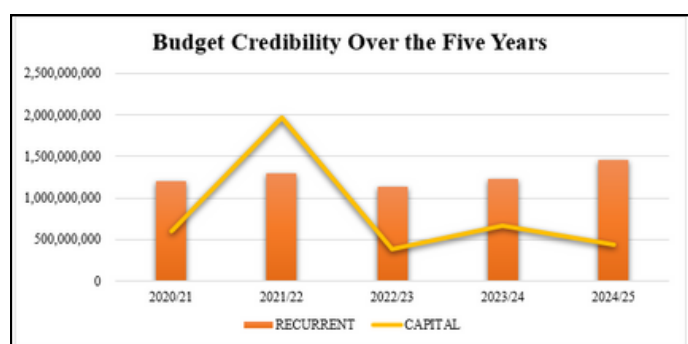
Despite strategic prioritization, the sector faces significant challenges in effectively utilizing allocated budgets. Chief among these is poor planning and budgeting practices across ministries, which often result in inefficiencies, misallocation of funds, and delays in project implementation.

These issues are compounded by the frequent issuance of supplementary budgets, indicating recurrent adjustments and reallocations that can undermine fiscal discipline and transparency.

The reliance on supplementary budgets raises questions about the robustness of initial planning processes and the accuracy of budget estimates. While such allocations may reflect unforeseen expenditures or shifting priorities, they also introduce uncertainty and strain financial management systems.

Strengthening planning, forecasting, and execution frameworks will be essential to ensure fiscal sustainability and improve the effectiveness of economic sector investments.

Budget Credibility



The economic sector recurrent budget has consistently maintained a high credibility rate, reflecting disciplined fiscal management and adherence to approved allocations.

Expenditures began surpassing the approved budget starting in fiscal year 2022/23 and continued into 2023/24. The sector spending was rightfully below the approved recurrent budgets in 2024/25 indicating cautious expenditure and efficient resource utilization.

Nonetheless, a discrepancy arose in the 2024/25 fiscal year, where recurrent expenditures exceeded the approved budget. This divergence was mainly due to emergency responses and rising operational expenses.

The sector needed to allocate extra funds to tackle urgent infrastructure repairs and the tunnel corrosion protection at Muela, rehabilitation of Mohale feeder roads, Oxbow Hydropower Phase II, and to resolve the Mafeteng water supply crisis.

Additional funds were necessary for a loan to LEC funding of Arts and Innovation Week which included the Morija Arts and Cultural Festival and the Basotho Music Mega Concert.

Further funds were needed for equipment repairs at LTDC and the installation of artificial turf at Setsoto Stadium. Funds were also necessary for pending supplier payments related to the 200 years celebration and assistance towards Maseru Agriculture Storage and Logistics Project (Ha Foso)etc.



In the stark contrast, the capital budget exhibits a fluctuating credibility rate, often falling short of expectations. The capital expenditures have been inconsistent, with some years experiencing significant under-spending due to delays in project implementation, funding bottlenecks, or shifting priorities within the sector.

For example, during the 2022/23 fiscal year, several key infrastructure projects faced delays owing to procurement challenges, leading to a considerable under-spending of the capital budget. Not denying the fact that the 2022/23 budget for the sector was notably low due to implications of COVID 19 hence the general expenditure followed the same traits.

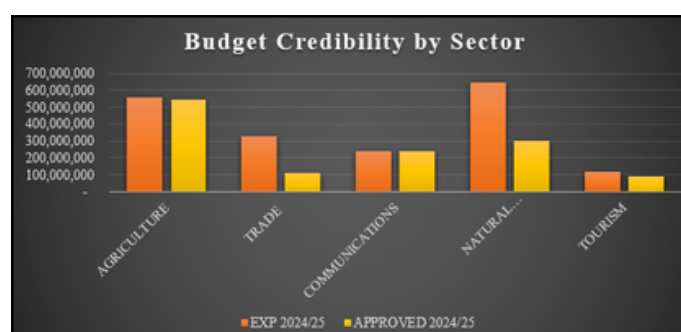
The divergence in credibility rates between recurrent and capital budgets underscores differing management challenges and operational dynamics. While recurrent expenditures benefit from predictable, ongoing costs that allow for tighter control, capital projects are often subject to external factors such as project planning, procurement processes, and external funding sources, which impact their execution.

Budget Credibility Sector

Overall, there is a significant lack of budget credibility within the economic sector, as evidenced by the consistent pattern of ministries exceeding their approved budgets.

Across the sector, most ministries tend to spend more than the allocated amounts, which raises concerns about fiscal discipline and financial management practices.

This persistent overspending not only undermines budget credibility but also poses challenges for effective resource planning and allocation. Addressing these issues is essential to ensure better budget discipline, improve financial accountability, and enhance the sector's overall fiscal health.



Overall, the economic sector exhibits a notable deficiency of budget credibility, as demonstrated by a consistent pattern of ministries exceeding their approved budgets.

Most ministries within the sector tend to spend beyond their allocated amounts, raising significant concerns about fiscal discipline and the effectiveness of financial management practices. This persistent overspending not only undermines the integrity of the budgeting process but also hampers effective resource planning and allocation.

Addressing these challenges is crucial to fostering better budget discipline, enhancing financial accountability, and strengthening the sector's overall fiscal stability.

The natural resources experienced the worse releases of M349 billion in excess of the approved budgets followed by the ministry of trade being above the approved budget by M220 billion and tourism becoming the third showing the over expenditure of M24.6 billion.

The ministry of Agriculture and communications both experienced reasonable over-releases of 2 percent and 1 percent respectively in 2024/25.

FINANCING THE ECONOMIC SECTOR

The government continues to be the primary source of financing for the economic sector, contributing 9 percent of the sector's total budget for 2024/25, an increase from 7 percent in the previous fiscal year, 2023/24. Government resources predominantly fund the recurrent budget, accounting for 99.9 percent of the total.

The nominal revenue estimate for 2024/25 is M27.712 billion, representing approximately a 16 percent increase from the M23.806 billion projected for 2023/24. While government financing largely supports budget support initiatives, external funding remains a critical contributor to capital financing within the sector.

Since the 2020/21 fiscal year, the government of Lesotho's resource budget has grown significantly, rising from M17.268 billion to an estimated M27.712 billion in 2024/25. This reflects a substantial increase of approximately 37 over the period, indicating a strong upward trajectory in government budget allocations to the sector.

CONCLUSIONS AND RECOMMENDATIONS

Lesotho's economic sector experienced a substantial budgetary increase of 35 percent, reaching M2.304 billion in 2024/25. This expansion reflects the government's commitment to economic recovery and development.

However, execution challenges persist, with only 82 percent of the budget utilized—largely due to procurement delays, weak implementation capacity, and underperformance in capital projects.

Key findings from the brief reveal:

- Recurrent expenditures dominated the budget, consuming 89 percent, primarily for salaries. This imbalance limits investment in infrastructure, innovation, and long-term growth.
- Budget credibility remains a concern. Ministries such as Natural Resources and Trade significantly exceeded their approved budgets, undermining fiscal discipline.
- High-potential sectors like Communications and Tourism remain underfunded, despite their capacity to diversify the economy and generate employment.
- Capital budget execution continues to lag due to procurement inefficiencies and planning gaps, weakening trust in development delivery.
- The sector is heavily reliant on government financing, with minimal private sector engagement and limited alternative funding mechanisms.
- On a positive note, domestic revenue increased by 16 percent, reaching M27.712 billion, indicating improved fiscal capacity and potential for strategic reinvestment.

Recommendations

To unlock sustainable and inclusive growth, the following strategic actions are recommended:

- Improve forecasting, procurement systems, and project management to enhance capital budget performance.
- Prioritize infrastructure, innovation, and productive sectors to stimulate long-term growth.
- Implement tighter controls on supplementary budgets and enhance accountability mechanisms.
- Increase allocations to Communications and Tourism to support diversification and job creation.
- Provide training, tools, and systems to improve planning, budgeting, and implementation.
- Create incentives, streamline regulations, and develop public-private partnerships to attract investment.

These measures are essential to enhance budget credibility, optimize resource allocation, and ensure Lesotho's economic sector contributes meaningfully to national development goals.



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