THE WAVERLEY SERIES

LESOTHO

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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LESOTHO — AT A GLANCE

Capital	Maseru
Real GDP growth	Slowed sharply to 1.4% in 2025 from 5.2% in 2024; projected to slow further to a range of roughly 0.5-1.5% in 2026 depending on the source, before recovering to around 1.8% in 2027
Inflation	Eased to 4.3% in 2025 from 6.1% in 2024; projected to rise to roughly 5.7-5.8% in 2026 on higher fuel and food prices
Unemployment	30.1% (2024); youth unemployment substantially higher at 38.9%, prompting the government to declare a two-year national state of disaster
Fiscal position	Surpluses projected at 2.1% of GDP in 2026 and 3.1% in 2027, supported by spending discipline, though Southern African Customs Union revenue volatility and lower external grants pose risks
Currency	Lesotho loti (LSL), pegged to the South African rand
Key sectors	Lesotho Highlands Water Project (water exports and royalties), textiles and garments (the country's largest private employer), diamond mining, and agriculture (10% of GDP, 40% of the labour force)
US trade relationship	The African Growth and Opportunity Act, which expired 30 September 2025 and was retroactively restored in February 2026, was further extended through 31 December 2028 by the US House on 1 September 2026 and signed into law days later
Governing framework	Constitutional monarchy under King Letsie III with a multi-party parliamentary democracy; removed from the SADC watch list in August 2025 after adopting a constitutional amendment strengthening parliamentary oversight of public expenditure, following the watch-list placement that resulted from South Africa's 2014 military intervention

Lesotho's economy has been buffeted this year by a genuine trade-policy rollercoaster: a 50% US tariff threat in April 2025, a 15% tariff that took effect that August, the expiration of the African Growth and Opportunity Act itself on 30 September 2025 triggering factory closures and a national disaster declaration, and finally a further extension through December 2028 passed by the US House on 1 September 2026 and signed into law days later. This resolution offers genuine relief for Lesotho's textile sector, the country's largest private employer, even as growth has slowed sharply to just 1.4% in 2025 and unemployment remains above 30%. Separately, Lesotho was removed from the SADC watch list in August 2025 after adopting a constitutional amendment strengthening parliamentary oversight, a notable governance improvement following the country's 2014 political crisis.

1. INVESTMENT & FDI

A new $209 million AfDB strategy introducing Lesotho's first-ever private-investment operations arrives just as the country's traditional export sectors face genuine structural strain.

The African Development Bank launched its 2025-2030 Country Strategy Paper for Lesotho in Maseru in March 2026, bringing together senior government officials, the diplomatic corps, civil society organisations and private-sector representatives. For the first time, the CSP introduces a programme of non-sovereign operations, signalling a renewed push to unlock private investment across several sectors, including tourism; AfDB Deputy Director General Moono Mupotola specifically highlighted Lesotho's highland landscapes, including the Afriski Mountain Resort, the continent's only ski resort, saying 'Lesotho has assets that few countries in the region can match' and describing them as 'genuine platforms for intensive employment growth.' Central Bank Governor Emmanuel Maluke Letete cautioned during the launch that Lesotho's fiscal position remains fragile despite the new strategy.

- **A genuinely novel private-investment financing channel:** the CSP's introduction of non-sovereign operations for the first time represents a structural shift in how the AfDB engages with Lesotho, moving beyond purely government-to-government financing toward direct private-sector support.
- **A distinctive, differentiated tourism asset:** the Afriski Mountain Resort's status as Africa's only ski resort, explicitly cited by AfDB leadership as a genuine competitive advantage, represents a concrete, differentiated investment opportunity relative to more generic regional tourism offerings.
- **Continued IFC textile-sector advisory engagement:** the IFC is working with Lesotho's Ministry of Trade, Industry and Business Development to complete a textile-sector strategy in 2026, positioning the sector, the country's largest private employer, for continued advisory support and possible future investment.
- **A cautionary fiscal note alongside the new strategy:** the central bank governor's direct warning about fiscal fragility, delivered at the same event announcing new investment opportunities, underscores that Lesotho's genuine investment potential remains set against real macroeconomic constraints.

2. TRADE & BUSINESS

A dramatic AGOA rollercoaster this year — tariff threats, expiration, restoration, and now extension to 2028 — has directly defined Lesotho's trade-policy environment.

Lesotho's trade relationship with the United States underwent extraordinary volatility over the past eighteen months: an initially announced 50% tariff in April 2025 was followed by a 15% tariff that took effect on 7 August 2025, and then by AGOA's own expiration on 30 September 2025, which triggered cancelled factory orders, slowed production and some facility closures, prompting the government to declare a national disaster. Congress retroactively restored AGOA on 3 February 2026, but only through 31 December 2026; a further extension passed the House by 370 votes to 48 on 1 September 2026, carrying the programme through 31 December 2028, with the signature reported in early September attached to a continuing resolution funding the US government. Whether the 15% tariff remains in force alongside restored duty-free AGOA treatment remains unresolved in current reporting. Separately, the textile sector, Lesotho's largest private employer, saw output fall 10% in 2025 even before this disruption, while the Letseng mine, the country's largest diamond producer, announced a 20% workforce reduction in September 2025 amid collapsing global diamond prices and rising competition from lab-grown stones.

- **A multi-year trade-policy resolution, with one key uncertainty remaining:** the AGOA extension through 2028 provides genuine, multi-year planning certainty for Lesotho's garment exporters, though the unresolved interaction with the existing 15% tariff means the practical trade terms exporters face are not yet fully clear.
- **Durable textile-sector weakness predating this year's disruption:** the sector's 10% output decline in 2025 indicates structural strain independent of the AGOA expiration itself, suggesting recovery may take longer than the trade-policy resolution alone would imply.

- **A significant diamond-sector contraction:** Letseng's 20% workforce reduction reflects a genuine, structural headwind facing Lesotho's diamond sector amid weak global demand and synthetic-stone competition, independent of the textile sector's separate challenges.
- **Structural transfer dependence as the core risk to monitor:** with customs receipts, remittances and water royalties dominating the economy, and the currency pegged to the rand, Lesotho's economic conditions are substantially determined by decisions made in Pretoria and Washington rather than Maseru, a dynamic this year's events have concretely illustrated.

3. MAJOR ECONOMIC DEVELOPMENTS

A genuine governance improvement, removal from the SADC watch list, unfolds alongside severe growth deceleration and a declared national unemployment disaster.

Lesotho was removed from the SADC watch list in August 2025 after adopting the tenth constitutional amendment, one of three recommended by the Southern African Development Community, which strengthens parliamentary oversight of public expenditure and reinforces the role of the Directorate on Corruption and Economic Offences; Lesotho had been placed on the watch list following South Africa's 2014 military intervention, and the remaining two recommended amendments, requiring a two-thirds majority, appear unlikely to pass before 2027. Economically, GDP growth slowed sharply to 1.4% in 2025 from 5.2% in 2024, as external shocks in the textile and diamond sectors outweighed gains from the Lesotho Highlands Water Project, with per-capita growth stalling to just 0.3%. Unemployment reached 30.1% in 2024, with youth unemployment at 38.9%, prompting the government to declare a two-year national state of disaster; the cancellation of the Millennium Challenge Corporation's Compact II further constrained growth by withdrawing a significant external support programme. Independent governance assessment also notes that journalists sometimes self-censor over fear of retribution from influential groups or security forces, that defamation laws have been used against media outlets, including a February 2024 lawsuit against a Public Eye journalist who had exposed financial mismanagement in a state department, and that lawsuits against the army for human rights violations have mounted since September 2023.

- **A genuine, verifiable governance improvement:** the SADC watch-list removal, achieved through actual constitutional reform rather than a symbolic gesture, represents concrete progress on the specific institutional weaknesses identified following the 2014 crisis.
- **Severe growth deceleration despite the Highlands Water Project's contribution:** the fall from 5.2% to 1.4% growth illustrates how significantly external sector-specific shocks can outweigh even a major, ongoing infrastructure project's positive contribution.
- **A declared national employment disaster:** the two-year state of disaster over unemployment reflects the government's own assessment of the severity of Lesotho's labour-market challenges, particularly for youth.
- **Continued, specific press-freedom and rule-of-law concerns:** documented instances of defamation suits against journalists and mounting litigation against the army for human rights violations represent ongoing, sourced governance concerns distinct from the genuine constitutional-reform progress described above.

4. MAJOR PROJECTS & INFRASTRUCTURE

The Lesotho Highlands Water Project Phase II remains the country's flagship infrastructure undertaking, continuing to drive construction activity and water-royalty revenue even amid broader economic headwinds.

- **Lesotho Highlands Water Project Phase II:** continuing to generate construction-related economic activity and support the services sector, with higher water royalties expected to strengthen Lesotho's fiscal position over the medium term as the project progresses.
- **A broad, active World Bank IDA project portfolio:** spanning smallholder agriculture, lowlands water development, renewable energy and energy access, nutrition and health system strengthening, transport infrastructure and connectivity, education improvement, sustainable livelihoods, and competitiveness and financial inclusion, this portfolio represents substantial, diversified multilateral development engagement across nearly every major economic sector.

5. CONFERENCES, FORUMS & EXHIBITIONS

The AfDB's Country Strategy Paper launch in Maseru brought together a broad cross-section of government, diplomatic, civil-society and private-sector stakeholders this year.

- **AfDB Country Strategy Paper launch:** held in Maseru in March 2026, this event convened senior government officials, the diplomatic corps, civil society organisations and private-sector representatives specifically to present Lesotho's 2025-2030 development programme and its new private-investment focus.

6. BUSINESS & INVESTMENT EVENTS

No additional major standalone business or investment events beyond the AfDB Country Strategy Paper launch described in Section 5 were identified for this period.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A dramatic year of US trade-policy volatility, now resolved through 2028, defines Lesotho's most consequential international economic relationship, alongside continued multilateral development engagement.

- **United States:** the AGOA extension through 31 December 2028, signed into law in early September 2026, represents the single most consequential recent development in Lesotho's international trade relationships, even as the interaction with the existing 15% tariff remains unresolved.
- **SADC:** Lesotho's watch-list removal in August 2025 marks a significant, formal improvement in its standing within the regional body following the 2014 crisis.
- **African Development Bank:** the $209 million 2025-2030 Country Strategy Paper, including first-ever non-sovereign private-investment operations, represents Lesotho's most substantial recent multilateral development-finance relationship.
- **World Bank and IFC:** the broad IDA project portfolio described in Section 4, combined with IFC's textile-sector advisory work, together constitute continued, active multilateral engagement across both public infrastructure and private-sector development.
- **IMF:** the 2024 Article IV consultation found Lesotho's fiscal and external outlook had improved owing to SACU windfall transfers and renegotiated water royalties, while cautioning that this revenue must be saved wisely and spent strategically given the country's sizable development needs.
- **South Africa:** as the source of the rand peg, Lesotho's SACU partnership, and the historical context behind the 2014 crisis, South Africa remains structurally the most significant relationship shaping Lesotho's economic conditions.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

New AfDB non-sovereign investment operations and IFC textile-sector advisory support define the clearest emerging private-sector development channels, even as the sector faces genuine near-term strain.

The AfDB's first-ever non-sovereign operations under its new Country Strategy Paper are explicitly aimed at unlocking private investment, including in tourism, while the IFC's ongoing dialogue with the Ministry of Trade, Industry and Business Development is set to produce a completed textile-sector strategy in 2026, positioning the sector for continued advisory engagement and possible future investment. This support arrives as the textile sector, Lesotho's largest private employer, contends with a structural weakening already evident in 2025's 10% output decline, independent of this year's AGOA-related disruption.

- **A new, dedicated private-investment financing channel:** the AfDB's non-sovereign operations represent a genuinely new mechanism for private-sector financing in Lesotho, distinct from the government-focused financing that has traditionally characterised multilateral engagement with the country.
- **Structural textile-sector weakness the AGOA resolution alone will not fully address:** the sector's already-evident 2025 output decline suggests that trade-policy resolution, while genuinely helpful, may not be sufficient on its own to restore the sector's prior output levels.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Tourism, textile-sector revitalisation, and continued water-project development define Lesotho's most concretely promoted new investment channels.

- **Tourism:** the Afriski Mountain Resort and Lesotho's broader highland landscapes, specifically identified by AfDB leadership as a differentiated regional asset, represent a genuine, near-term tourism-sector investment opportunity.
- **Textile-sector stabilisation:** the AGOA extension through 2028 reopens a multi-year window for renewed garment-sector investment and order stabilisation, pending clarification of the outstanding tariff-interaction question.
- **Continued Lesotho Highlands Water Project development:** ongoing construction and water-royalty-linked activity under LHWP II remains open across multiple contracting and investment categories.
- **World Bank multi-sector project engagement:** renewable energy, transport connectivity, and competitiveness and financial inclusion projects within the IDA portfolio each offer specific, active channels for project-level investor and contractor engagement.

SUMMARY ASSESSMENT

Lesotho's economy has been buffeted this year by a genuine trade-policy rollercoaster: a 50% US tariff threat, a 15% tariff that took effect, AGOA's own expiration triggering factory closures and a national disaster declaration, and finally an extension through December 2028 signed into law in early September 2026. This resolution offers genuine relief for Lesotho's textile sector, the country's largest private employer, even as growth slowed sharply to 1.4% in 2025, unemployment remains above 30%, and the diamond sector's largest mine has cut its workforce by a fifth amid collapsing global prices.

Set against this economic strain: Lesotho's removal from the SADC watch list in August 2025, following adoption of a constitutional amendment strengthening parliamentary oversight, represents a genuine, verifiable governance improvement, and the AfDB's new $209 million strategy introduces the country's first-ever non-sovereign private-investment operations, explicitly targeting genuine differentiated assets like the Afriski Mountain Resort.

Investors should watch closely whether the AGOA extension's interaction with the existing US tariff is resolved in exporters' favour, and whether the new AfDB private-investment window translates into measurable diversification beyond Lesotho's traditional, currently strained textile and diamond sectors.