



Monthly ECONOMIC REVIEW

DECEMBER 2025

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity sustained a relatively robust growth in December 2025, supported by an upswing in transport, construction, financial subsectors activity and firm domestic demand conditions. The positive impulses from these components were, however, partially offset by continued decline in manufacturing output. This indicated persistent supply side constraints and moderating industrial production dynamics.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) increased by 4.1 per cent in December 2025 from 0.3 per cent increase observed in the preceding month. This was largely supported by improved performance in the transport subsector, financial subsector, as well as construction subsector. Moreover, sustained strength in domestic demand also contributed positively to the overall performance. Notwithstanding these gains, the pace of expansion was moderated by subdued performance in the manufacturing subsector, reflecting weak external demand.

Domestic Demand Category

The Domestic Demand Index demonstrated a resilient performance in the last month of 2025, growing by 2.4 per cent, from 2.8 per cent observed in the previous month. This continued upward trajectory was primarily underpinned by a robust surge in private consumption, largely driven by heightened household spending. Furthermore, a significant increase in sales tax signalled improved business activity.

Manufacturing and Production

The Manufacturing and Production Index registered a further contraction of 2.5 per cent in December 2025, following a 3.5 per cent contraction in November 2025, underlining the continued weakening in manufacturing activity. This sustained decline was primarily driven by reduced textile exports to the United States, as manufacturing firms scaled down production in response to heightened uncertainty surrounding the proposed extension of the African Growth and Opportunity Act (AGOA).

The resulting cautious production stance reflected concerns over market access and export demand, which adversely affected capacity utilisation within the textile subsector.

Nevertheless, increased textile exports to South Africa provided some mitigation, partially offsetting the decline and helping to temper the overall contraction in the manufacturing sector.

¹ Composite Indicator of Economic Activity (CIEA) is constructed using seasonality adjusted data for variables with season patterns.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2025							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CIEA	127.5	130.5	130.7	126.4	122.2	118.5	118.8	123.9
Monthly changes	6.7	2.3	0.1	-3.3	-3.3	-3.1	0.3	4.1
Domestic Demand Category	123.3	121.5	114.9	111.6	108.9	105.1	108.1	110.7
Monthly changes	6.0	-1.5	-5.5	-2.8	-2.4	-3.4	2.8	2.4
Manufacturing & Production Category	111.9	116.4	111.8	107.8	102.9	105.9	102.7	99.5
Monthly changes	3.3	4.0	-4.0	-3.9	-4.3	3.0	-3.5	-2.5
Transport Category	90.3	99.9	106.6	108.0	103.0	101.9	100.6	109.3
Monthly Changes	6.7	10.6	6.7	1.2	-4.2	-1.0	-1.3	8.6
Financial Services	200.4	201.7	202.7	202.1	202.7	204.4	207.1	210.9
Monthly Changes	1.0	0.6	0.5	-0.3	0.3	0.8	1.3	1.8
Construction Category	117.2	117.3	138.1	113.6	117.2	98.4	106.1	107.7
Monthly Changes	39.6	0.0	17.8	-17.7	3.2	-16.0	7.8	1.8

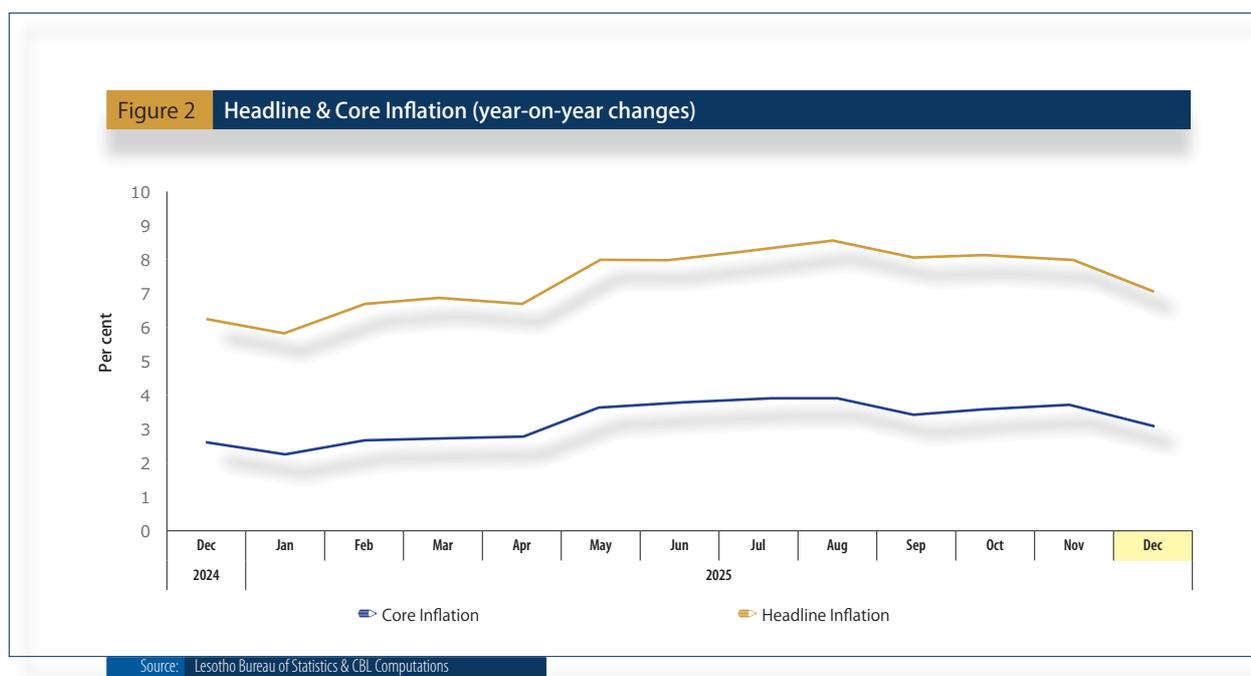
Source: CBL Calculations.

II. INFLATION AND PRICES

Headline Inflation

Headline inflation eased to 4.1 per cent in December 2025, down from 4.3 per cent in November 2025,

reflecting a 0.2 percentage point decline over the month.



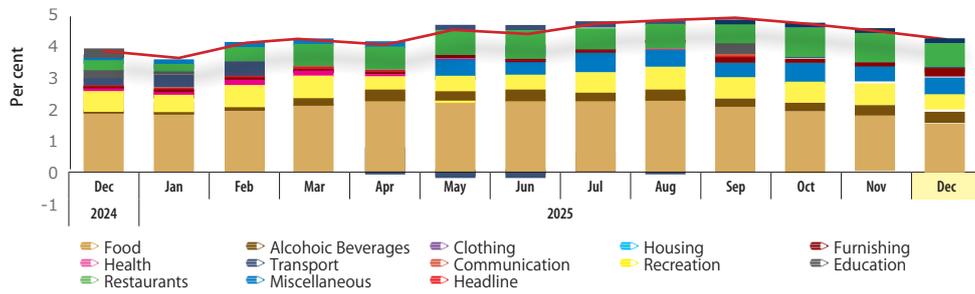
Contributions to Headline Inflation

The 4.1 per cent annual inflation rate was mainly driven by upward price pressures in Food and Non-Alcoholic Beverages; Clothing and Footwear; Housing, Water, Electricity and Gas; and Restaurants and Hotels.

Prices of Food and Non-Alcoholic Beverages increased by 4.6 per cent year-on-year, contributing 1.6 percentage points to headline inflation. The rise reflected higher prices for cereal, buoyed by renewed concerns over Black Sea wheat export flows. However, this was partly moderated by the easing prices of vegetable oils, meat, and dairy products.

Clothing and Footwear inflation accelerated to 7.6 per cent, contributing 0.6 percentage points, largely driven by seasonal demand factors. Meanwhile, Housing, Water, Electricity and Gas recorded a 4.1 per cent annual increase, also contributing 0.6 percentage points, reflecting sustained pressures from utilities and housing-related costs. Lastly, Inflation in Restaurants and Hotels remained elevated at 12.4 per cent, contributing 0.7 percentage points to the overall inflation rate.

Figure 3 Contributions to Headline (Year-on-Year Changes)²



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

Underlying inflationary pressures continued to ease during the review period, as reflected in the trimmed mean measure of core inflation. The indicator declined by 0.6 percentage points to 3.2 per cent in December 2025, pointing to a moderation in broad-based price pressures.

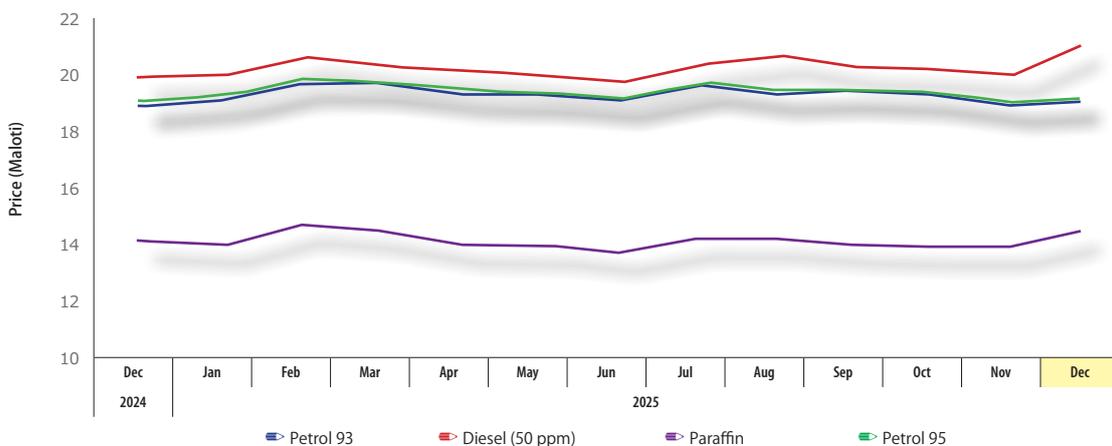
Domestic Fuel Prices

Domestic fuel prices increased across all categories during the review period. The pump price of Petrol₉₃

and Petrol₉₅ both increased by M0.45 per litre, resulting in a retail price of M18.90 and M19.20 per litre, respectively.

The pump price of diesel₅₀ increased by M1.00 per litre, resulting in a retail price of M21.00 per litre, and illuminating paraffin edged up by M0.70 per litre to M14.40 per litre. These increases were primarily attributed to developments in international oil prices, which were influenced by tariff-related trade tensions in global markets.

Figure 4 Domestic Fuel Prices



Source: Petroleum Fund

² Food = Food and Non-Alcoholic beverages, Alcoholic beverages = Alcoholic beverages and Tobacco, Clothing = Clothing and Footwear, Housing = Housing, Water, Electricity, Gas and Other fuels, Furnishing = Furnishing, Household Equipment and Routine maintenance of the house, Recreation = Recreation and Culture, Restaurants = Restaurants & Hotels, Miscellaneous = Miscellaneous Goods and Services.

III. MONETARY AND FINANCIAL INDICATORS

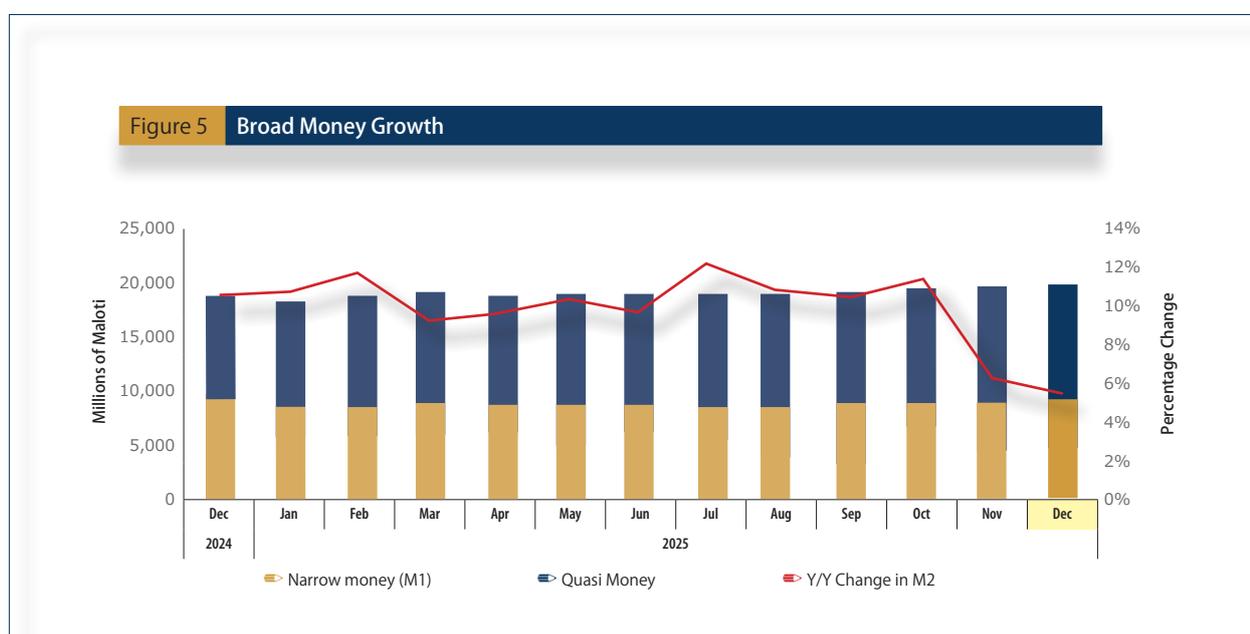
Broad Money (M2)

In December 2025, the growth of money supply (M2) strengthened to 1.7 per cent, following 0.5 per cent in November. The growth was driven by expansion in net domestic assets (NDA), despite a contraction of net foreign assets (NFA). NDA grew by 19.0 per cent, slowing from the 45.8 per cent growth in November. The expansion in NDA was primarily driven by a drawdown of government deposits, which reduced government liabilities within commercial banks. This was reinforced by increased holdings of government securities by commercial banks, higher credit extension to households, and additional investments by commercial banks in other financial corporations. On the contrary, NFA fell by 2.9 per cent, marking slower contraction compared to the 3.8 per cent fall contraction in

the previous. The contraction was explained by a decline in the commercial banks and central bank net claims on non-residents. On a year-on-year basis, M2 grew by 3.7 per cent.

Components of Money Supply

Broken into its components, the growth in M2 emanated from a rise in both narrow money (M1) and quasi money. M1 grew by 1.7 per cent, largely driven by the rise in deposits held by the private sector and other financial corporations. Likewise, the hike in quasi money was attributable to the increase in call deposits and fixed time deposits held by business enterprises and public non-financial corporations, as well as higher savings of residents' households.



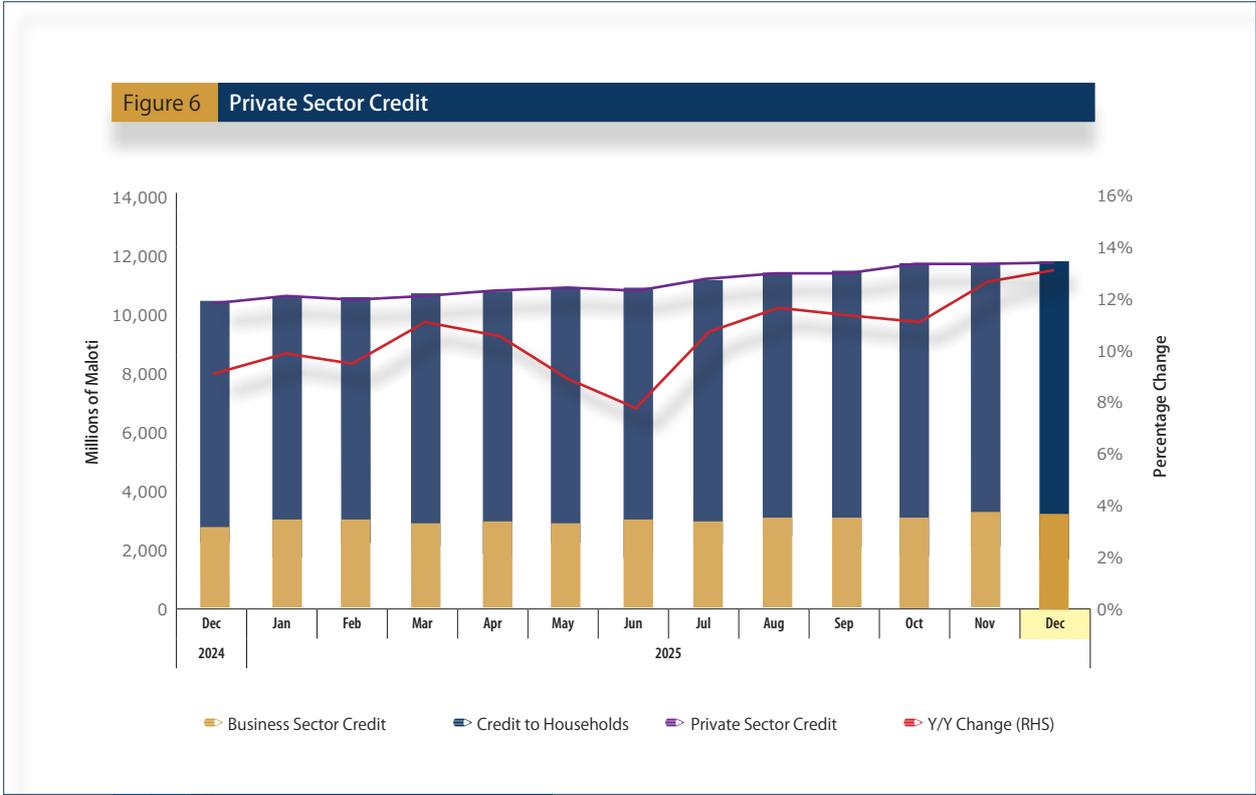
Private Sector Credit

Private sector credit expanded by 0.3 per cent, down from the 1.2 per cent growth in November. The increase was observed in credit extended to households, despite a decline in business credit.

Household credit grew by 1.8 per cent, compared to the 0.2 per cent growth in November. Both mortgages and personal loans benefited the observed growth in household credit extension. In contrast, business credit declined by 3.8 per cent. The fall in business credit was evident in mining and

quarrying, and electricity, gas and water subsectors. The wholesale and retail trade, restaurants & hotels sub-sector continued to command the highest share of credit extension, followed by the real estate

& business services sector, with construction industry completing the top three. Electricity, gas and water remained the smallest recipient of business credit.



Source: CBL

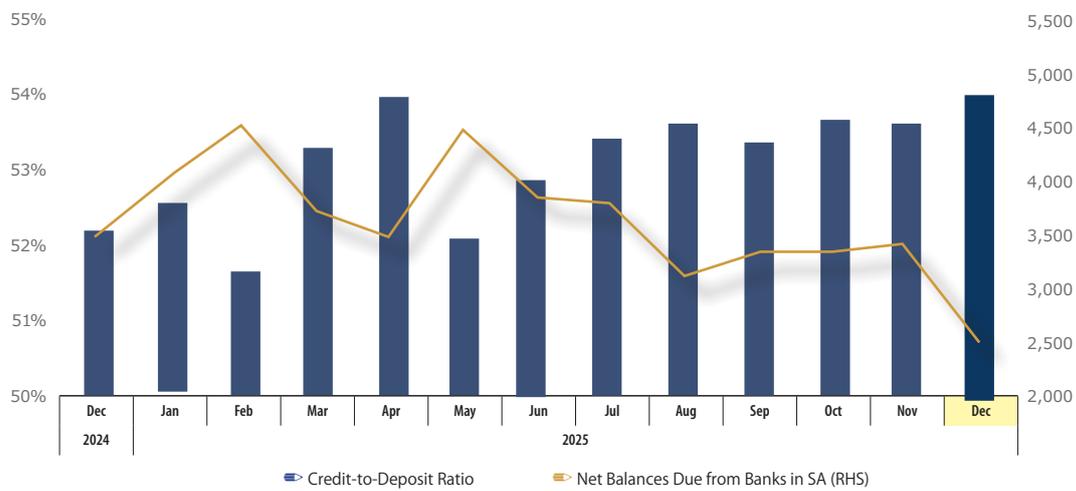
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans increased to 4.0 per cent in December from 3.9 per cent in November, driven by an increase in NPLs of businesses and households. Businesses experienced a larger increase in NPLs, with the ratio rising by 7.9 per cent, compared to a 2.0 per cent increase for households. The highest NPLs were observed in agriculture, hunting, forestry and fishing, and manufacturing sub-sectors.

Sources of Funds

The credit-to-deposit ratio rose to 54.0 per cent in the review month, as compared to 53.6 per cent that prevailed a month earlier. The increase was attributed to a significant decline in overall deposit liabilities, which surpassed the growth in private sector credit.

Figure 7 Credit to Deposit Ratio



Source: CBL

Interest Rates

In December, the central bank of Lesotho key policy rate remained unchanged at 6.50 per cent. Consequently, the prime lending rate and the 1-year deposit rate held steady at 10.00 and 4.80 per cent, respectively. Meanwhile, the 91-day treasury bill rate increased by 2 basis points to 6.94 per cent from 6.92 per cent in the previous month.

Foreign Exchange

The rand, hence, loti strengthened against its major global trading currencies, in December 2025. It appreciated by 2.1 per cent to an average of 16.84 against the dollar, 0.3 per cent to an average of 22.55 against the pound, and 0.9 per cent to an average of 19.73 against the euro. The performance of rand was driven by both international and domestic factors.

On the international side, there were several developments which constituted risks and uncertainties in the global financial markets and the global economy. Therefore, rand alongside other risk-sensitive currencies, benefitted from the weaker US dollar. The dollar's weakness was underpinned by expected rate cuts and developments surrounding fiscal policy issues. The rand also got support from rising prices of precious metals, which continued to bolster export earnings. Furthermore, South Africa was a net recipient of foreign investment, which was driven by wider interest rate differentials, that supported the value of the rand further.

Domestically, investor confidence improved due to government spending restructuring, which led to improved fiscal performance. Additionally, inflation remained low and supported the rand further.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government spending slowed in December 2025, recording a month-on-month contraction of 7.2 per cent. The execution rate fell to 58.6 per cent, driven primarily by reduced spending on old age pensions and capital projects. Consequently, recurrent expenditure execution dipped marginally to 76.6 per cent, while development spending saw a more pronounced drop to 21.6 per cent. In terms of sectoral allocation, funds were most prioritised for health and education sectors. Annually, total expenditure expanded by 3.5 per cent, a reversal from the 10.6 per cent contraction recorded in November.

Revenue³

Government Revenue performance, excluding SACU receipts, rebounded strongly in December 2025, growing by 26.7 per cent, in contrast to a 4.9 per cent fall in November. This improvement was largely attributable to higher collections from company tax. However, on a year-on-year basis, total revenue declined by 11.2 per cent.

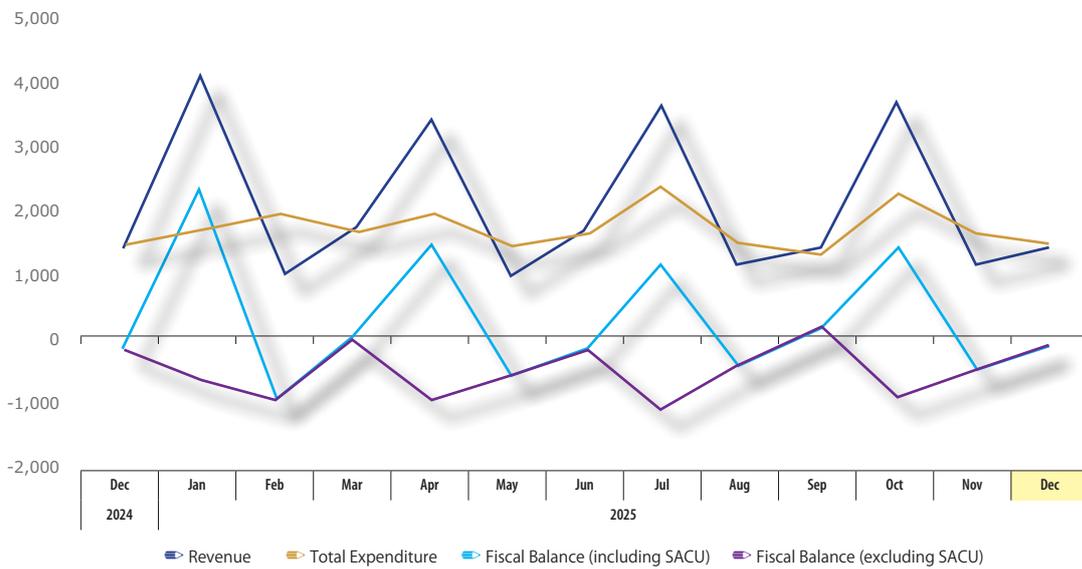
Fiscal Balance⁴

The fiscal position showed a marked improvement from November. The estimated deficit narrowed sharply to 0.4 per cent of GDP in December, down from 4.7 per cent recorded in the previous month. This contraction reflects the combined effect of December's strong revenue rebound and the concurrent contraction in total spending. The reduced shortfall was financed through a drawdown of government deposits, and incurrence of liabilities.

³ The monthly analysis of government revenue excludes SACU receipts, an outlier item.

⁴ All financing items are on net basis.

Figure 8 Government Fiscal Balance (Million Maloti)



Source: CBL and Ministry of Finance (MOF)

Table 2: 2025/26 Government Budget Execution Tracker (Million Maloti)

Category	Metric (Monthly)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total	Approved budget	2724.15	2725.07	2725.08	2725.08	2725.08	2725.08	2725.08	2725.08	2725.08
	<i>of which: Revisions</i>	0.00	0.92	0.01	0.00	0.00	0.00	0.00	0.00	0.00
	Outturn	1954.53	1457.65	1656.59	2401.77	1598.14	1347.75	2262.23	1720.75	1596.30
Recurrent	Approved budget	1834.15	1834.17	1834.18	1834.18	1834.18	1834.18	1834.18	1834.18	1834.18
	<i>of which: Revisions</i>	0.00	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.00
	Outturn	1703.68	1331.72	1382.57	2138.97	1380.71	1115.33	1887.51	1425.60	1404.12
Development	Approved budget	890.01	890.91	890.91	890.91	890.91	890.91	890.91	890.91	890.91
	<i>of which: Revisions</i>	0.00	0.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Outturn	250.86	125.93	274.02	262.80	217.43	232.42	374.72	295.14	192.18
Execution Trends										
	Total	71.7%	53.5%	60.8%	88.1%	58.6%	49.5%	83.0%	63.1%	58.6%
	Recurrent	92.9%	72.6%	75.4%	116.6%	75.3%	60.8%	102.9%	77.7%	76.6%
	Development	28.2%	14.1%	30.8%	29.5%	24.4%	26.1%	42.1%	33.1%	21.6%

Source: CBL and Ministry of Finance (MOF).

Table 3: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)

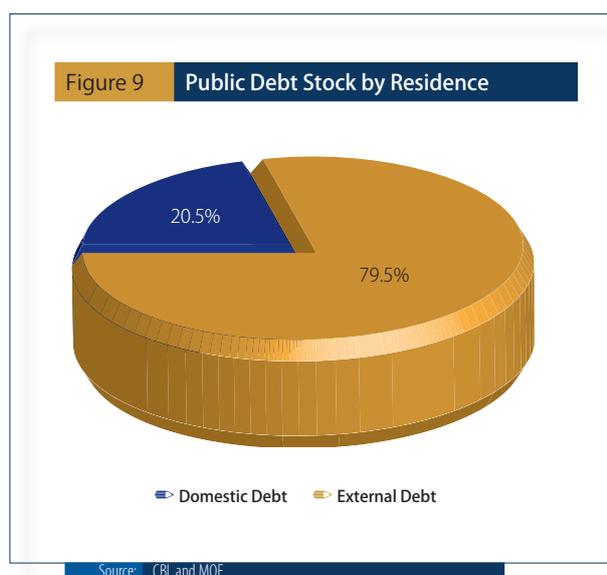
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		6.4%	13.8%	100.0%	0.0%	3.0%	11.1%	10.4%	4.9%	9.1%
Defence		8.4%	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	12.5%	6.4%
Public Order and Safety		18.7%	5.4%	0.0%	0.0%	0.5%	0.0%	0.0%	2.0%	10.1%
Economic Affairs		6.6%	21.4%	0.0%	0.0%	51.6%	0.0%	0.0%	35.5%	15.0%
Environmental Protection		0.9%	1.5%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.9%
Housing & Comm. Amenities		5.7%	3.7%	0.0%	0.0%	2.3%	0.0%	1.5%	43.0%	7.8%
Health		8.4%	45.0%	0.0%	0.0%	0.0%	5.3%	0.0%	0.3%	17.1%
Recreation, Culture, & Religion		1.1%	0.8%	0.0%	0.0%	0.0%	0.1%	0.2%	0.0%	0.8%
Education		33.5%	2.8%	0.0%	100.0%	30.4%	5.4%	87.0%	1.7%	22.0%
Social Protection		10.2%	0.5%	0.0%	0.0%	12.3%	78.0%	0.5%	0.0%	10.9%
Share per Economic Item		44.6%	28.8%	0.4%	0.0%	5.1%	7.1%	4.7%	9.3%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock was estimated to have declined by 2 per cent in nominal terms. This reduction occurred despite domestic bond issuance and was largely attributed to favourable exchange rate movements and scheduled debt repayments, which helped moderate the overall debt burden. The structure of the debt portfolio, nevertheless, remained heavily externally oriented, with external debt accounting for 79.5 per cent of total public debt. Within the external portfolio, the stock

continued to be predominantly concessional at 73.6 per cent of external debt. External debt service amounted to 13.7 per cent of government revenue, which was below the sustainability benchmark of 18 per cent, suggesting manageable external debt servicing pressures. These factors continued to render the overall debt portfolio sustainable, and thereby, providing winder for further debt acquisition to finance development projects.



Appendix: Key Economic Indicators										
		25-May	25-Jun	25-Jul	25-Aug	25-Sept	25-Oct	25-Nov	25-Dec	
Economic Activity (MIEA (% change, M/M))		6.7	2.3	0.1	-3.3	-3.3	-3.1	0.3	4.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.4	4.3	4.4	4.6	4.7	4.5	4.3	4.1	
	Core Inflation	3.7	3.8	4.0	4.0	3.5	3.7	3.8	3.2	
Exchange Rates (Monthly End Period)	EUR	20.2838	20.8169	20.7536	20.6834	20.2509	20.0185	19.8862	19.4934	
	GBP	24.1063	24.3705	23.9903	23.9264	23.1900	22.7540	22.6880	22.3515	
	USD	17.8902	17.7516	17.7498	17.7236	17.2607	17.3156	17.1666	16.6080	
Money Supply (Millions of Maloti)	M2	19,014.18	19,018.40	19,005.19	19,014.70	19,117.53	19,629.46	19,717.23	20,055.61	
	M1	8,758.55	8,990.85	8,594.76	8,497.18	8,677.26	8,942.49	9,078.33	9,232.60	
	Quasi Money	10,255.62	10,027.56	10,410.44	10,517.52	10,440.27	10,686.97	10,638.91	10,823.01	
Interest Rates	CBL Rate	7.25	7.00	7.00	6.75	6.75	6.75	6.50	6.50	
	91 day Treasury bill rate	6.86	6.87	6.88	6.89	6.93	6.89	6.92	6.94	
	Prime lending rate	10.75	10.50	10.50	10.25	10.25	10.25	10.00	10.00	
	1 year deposit rate	4.56	5.12	5.12	4.97	4.97	4.97	4.80	4.80	
Private sector Credit (Millions of Maloti)		11,107.46	11,033.36	11,403.82	11,581.93	11,633.99	11,902.54	12,048.96	12,089.08	
	Households	2,924.56	2,988.87	3,047.52	3,085.83	3,023.53	3,117.89	3,246.49	3,127.35	
	Non-profit Organisations	8,182.89	8,044.79	8,356.30	8,496.10	8,610.46	8,784.65	8,802.47	8,961.73	
Bank Deposit Liabilities (Millions of Maloti)		21,167.00	21,102.50	21,186.90	21,453.87	21,630.04	22,005.42	22,373.90	22,191.58	
Credit to Deposit Ratio (%)		52.1	52.9	53.4	53.6	53.4	53.7	53.6	54.0	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-377.32	15.72	1,194.95	-359.23	169.50	1,322.41	-494.32	-43.05	
	Total Revenue (with SACU receipts)	1,080.33	1,672.31	3,596.72	1,238.91	1,517.26	3,584.64	1,226.43	1,553.25	
	Total Expenditure	1,457.65	1,656.59	2,401.77	1,598.14	1,347.75	2,262.23	1,720.75	1,596.30	
	O/W Capital	125.93	274.02	262.80	217.43	232.42	374.72	295.14	192.18	
Total Public Debt (Millions of Maloti)		24,197.76	23,618.86	23,712.52	23,816.15	23,732.81	23,159.79	23,373.02	22,931.29	
	Total External Debt	19,172.06	19,114.63	19,217.90	19,134.26	18,560.27	18,875.79	18,433.86	17,881.43	
	External Debt	Concessional	14,235.79	14,169.55	14,210.47	14,162.88	13,783.57	14,026.71	13,639.41	13,163.93
		Non-concessional	4,936.26	4,945.08	5,007.43	4,971.38	4,776.70	4,849.08	4,794.46	4,717.50
	Domestic Debt	4,446.80	4,597.90	4,598.24	4,598.55	4,599.52	4,497.23	4,497.43	4,599.37	
Memo Item: Arrears (Millions of Maloti)		0.00	-15.35	-9.10	-23.66	-38.97	-6.46	-2.40	-7.51	

Source: Central Bank of Lesotho

Explanatory Box

Indicator of Economic Activity

The Indicator of Economic Activity is an index constructed from 14-time series variables. Key considerations in the choice of the variables were (1) the frequency with which the data is available and (2) the extent of their ripple effect to other sectors of the economy. The variables can be grouped into two important economic categories – the domestic demand category and the manufacturing & production category. This enables the determination of whether the economic activity is affected by the demand components, the production components or both sides of the activity.

Core Inflation

Lesotho's core inflation is the 30% trimmed mean of the headline inflation. This core inflation measure excludes the consumer price index (CPI) items with extreme price changes.

Government Budgetary Operations

As part of efforts to improve the compilation of Government expenditure in line with the Government Finance Statistics Manual 2014 (GFSM 2014) of the International Monetary Fund, spending data for March 2019 was disaggregated into due-for-payments and commitments.

- Due-for-payments refer to payment instructions issued through the Government's financial information system (IFMIS) to the Central Bank of Lesotho for actual processing.
- Commitments represent pending transactions for goods and services already delivered, which may or may not have surpassed their payment due dates, and may therefore be classified as arrears depending on timing and settlement status.

This disaggregation supports GFSM 2014's emphasis on accrual-based recording. However, interest payments on loans continue to be compiled on a cash basis, while all other components—such as use of goods and services, compensation of employees, and social benefits—are recorded on an accrual basis.

In addition to economic classification, the database on spending by function was rebuilt from April 2019 onward, with historical data gradually reconstructed. The Classification of the Functions of Government (COFOG) table had last been updated in 2008/09, just before the implementation of the revised IFMIS chart of accounts.

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