



# Monthly

# ECONOMIC REVIEW

FEBRUARY 2025

CENTRAL BANK OF LESOTHO

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## I. ECONOMIC ACTIVITY<sup>1</sup>

The domestic economy continued its downward trend in February 2025, largely driven by weak demand and declining activity in key subsectors, including manufacturing and transport. However, there were signs of resilience within the financial services and construction subsectors, which softened the overall decline. On the other hand, inflationary pressures rose slightly.

### Overall Performance Index

Economic activity weakened further in February 2025, with the Composite Indicator of Economic Activity (CIEA) decreasing by 2.1 per cent. This marked the second consecutive monthly contraction, following a sharper decline of 4.6 per cent in January. The downturn was driven by subdued domestic demand and weaker performance in the manufacturing and transport sectors. The slowdown was particularly observed in lower import volumes, textile exports, and decreased fuel consumption.

However, the financial services subsector provided a reprieve, with a relatively higher credit extended to the private sector, implying business optimism. This was in addition to positive performance observed in the construction subsector, with higher imports of construction materials. These bright spots helped to moderate the overall economic contraction.

### Domestic Demand Category

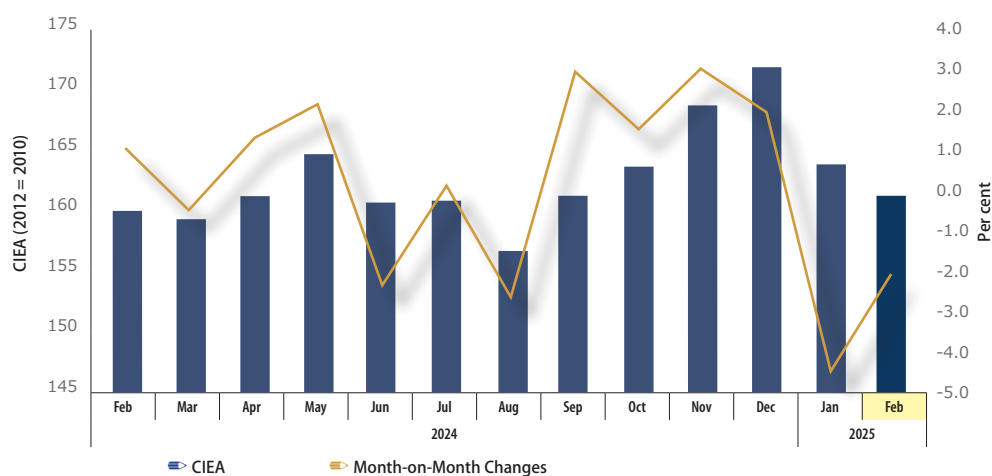
Domestic demand continued to decline, contracting by 2.0 per cent after an 8.5 per cent plunge in the previous month. The fall was primarily fuelled by weaker private sector consumption, illustrated by reduced import volumes of goods and services from South Africa, particularly for fuel, vegetables, and prepared foodstuffs. Conversely, increased public spending, reflected in higher government purchases of goods and services and compensation of employees, alongside improved sales tax and PAYE collections, mitigated the overall decline in demand.

### Manufacturing and Production Category

The manufacturing and production subsector experienced a continued decline, with activity contracting by 0.8 per cent in February, following a 1.4 per cent decline in the previous month. Key contributors to the downturn included reduced textile export volumes to the U.S. market, stemming from lower demand and uncertainty surrounding the renewal of AGOA. Nonetheless, higher textile export volumes to South Africa moderated the overall decline, underscoring the value of diversifying export markets.

<sup>1</sup> 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: Central Bank of Lesotho (CBL) Calculations

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

	2024						2025	
Indices	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>CIEA</b>	<b>160.8</b>	<b>156.6</b>	<b>161.2</b>	<b>163.6</b>	<b>168.5</b>	<b>171.9</b>	<b>164.1</b>	<b>160.1</b>
Monthly changes	1.0	-2.6	2.7	1.5	3.0	2.1	-4.6	-2.1
<b>Domestic Demand Category</b>	<b>137.2</b>	<b>132.2</b>	<b>138.6</b>	<b>147.3</b>	<b>155.2</b>	<b>159.7</b>	<b>145.7</b>	<b>142.8</b>
Monthly changes	-4.0	-3.7	4.9	6.6	5.0	2.5	-8.4	-2.0
<b>Manufacturing &amp; Production Category</b>	<b>122.8</b>	<b>118.8</b>	<b>113.8</b>	<b>114.9</b>	<b>122.3</b>	<b>124.8</b>	<b>123.1</b>	<b>122.1</b>
Monthly changes	-1.0	-3.2	-4.2	0.9	6.4	2.1	-1.4	-0.8

Source: CBL Calculations.

## II. INFLATION AND PRICES

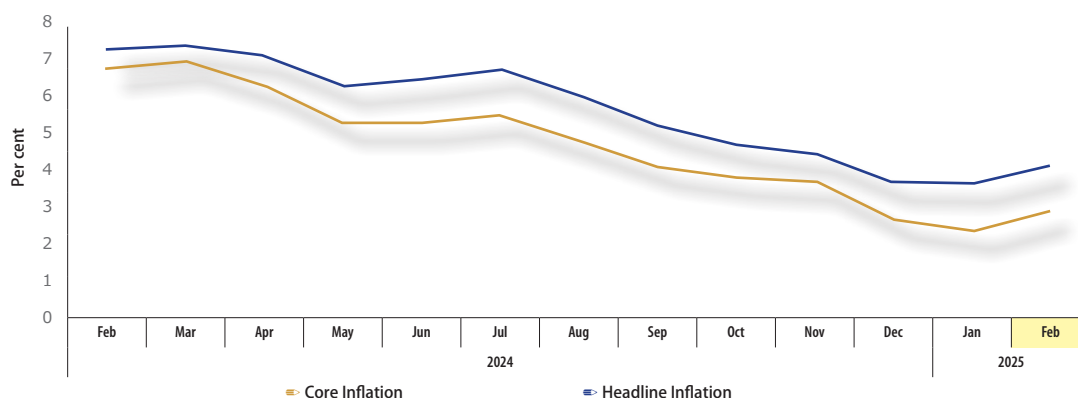
### Headline Inflation

February 2025 saw the consumer price index push headline inflation to 4.1 per cent, up from the 3.6 per cent recorded in January 2025. The 0.5 percentage point increase observed between January 2025 and February 2025 was on account of upward pressure

in the Food and Non-Alcoholic Beverages, Housing, Electricity, Gas and Other Fuels, and Transport categories.

This marked a change from a continuous seven-month downward trajectory in headline inflation.

Figure 2 Headline and Core Inflation (year-on-year changes)



Source: Lesotho Bureau of Statistics & CBL Computations

### Contributions to Headline Inflation

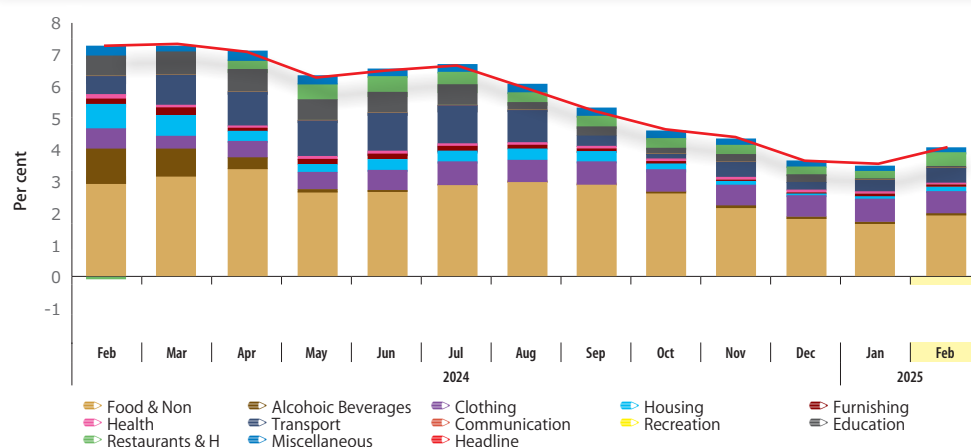
The major contributors to the 4.1 per cent headline inflation were Food and Non-Alcoholic beverages, Housing, Electricity, Gas and Other fuels, as well as the Transport Category.

Food and Non-alcoholic Beverages contributed 2.0 percentage points to the headline inflation, up from 1.7 percentage points observed in the previous month. The drivers behind the increase in Food and Non-Alcoholic beverages were the surge in prices of white maize, which was underpinned by a tight supply and heightened exports.

Housing, Electricity, Gas and Other fuels contributed 0.2 percentage points during the review period, up from 0.1 percentage points observed in the previous month, due to increases in prices of liquid fuels.

Transport category, on the other hand, contributed 0.5 percentage points in the month under review, up from 0.4 percentage points in the previous month. This increase was due to increases in lubricants and liquid fuel for transport machineries and equipment.

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



Source: Central Bank of Lesotho

## Core Inflation

Underlying inflationary pressures, as measured by core inflation, increased to 2.7 per cent in February 2025 from 2.4 per cent in January 2025.

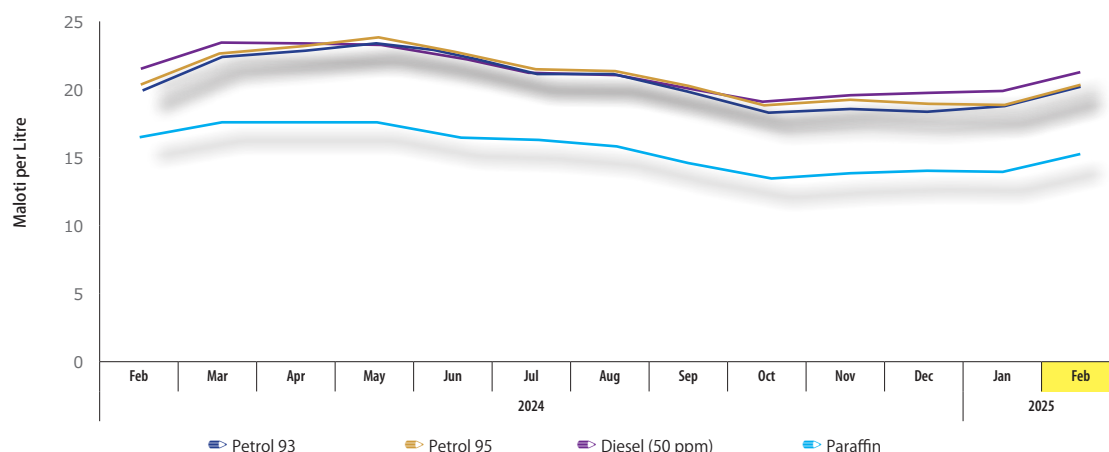
## Domestic Fuel Prices

The prices of all petroleum products increased in the review period. Both grades of petrol (*Petrol<sub>93</sub>*

and *Petrol<sub>95</sub>*) increased by M 1.05 and M 0.95, respectively, and were sold at M 19.95 per litre and M 20.15 per litre, respectively, at the pump.

The pump prices of *diesel<sub>50</sub>* and illuminating paraffin increased by M 1.25 and M 1.20, respectively, and were sold at M 21.20 per litre and M 15.20 per litre in the retail market, respectively.

**Figure 4 Domestic Fuel Prices**



Source: Petroleum Fund

<sup>2</sup> 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

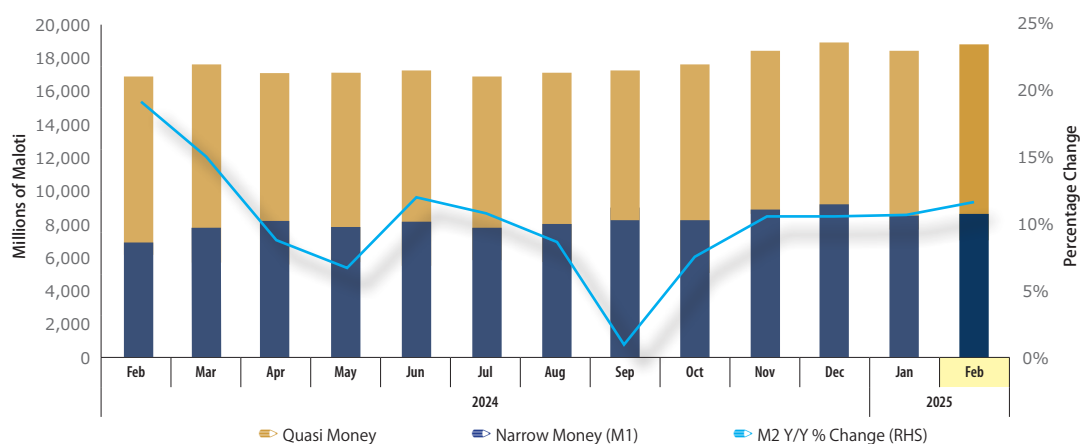
#### Broad Money (M2)

In February 2025, money supply (M2) grew by 1.9 per cent, contrary to the 2.5 per cent contraction observed in January 2025. The growth in M2 was driven by a rise in net domestic assets (NDA), despite contraction in net foreign assets (NFA). NDA grew by 45.3 per cent, in contrast to the 56.3 per cent decline observed in the preceding month. The overall growth in NDA was driven solely by a drawdown of government deposits within the banking system. On the contrary, NFA decreased by 1.9 per cent, in contrast with the 7.7 per cent growth a month earlier. This decline emanated mainly from the central bank's NFA, as the fall in claims on non-residents outweighed the fall in liabilities to non-residents. Year-on-year, M2 increased by 11.8 per cent.

#### Components of Money Supply

The expansion in M2, when broken down into its components, was driven largely by growth in quasi money and to a lesser extent an increase in narrow money (M1). Quasi money grew by 2.9 per cent, while M1 grew by 0.8 per cent. The surge in quasi money resulted from the growth in fixed time, call and savings deposits. The growth in fixed time deposits emanated largely from business enterprises. The rise in call deposits was observed among public non-financial corporations and nonprofit institutions, while growth in savings deposits was driven by business enterprises and resident households. The growth in M1 emanated from an increase in currency outside depository corporations.

Figure 5 Broad Money Growth



Source: CBL

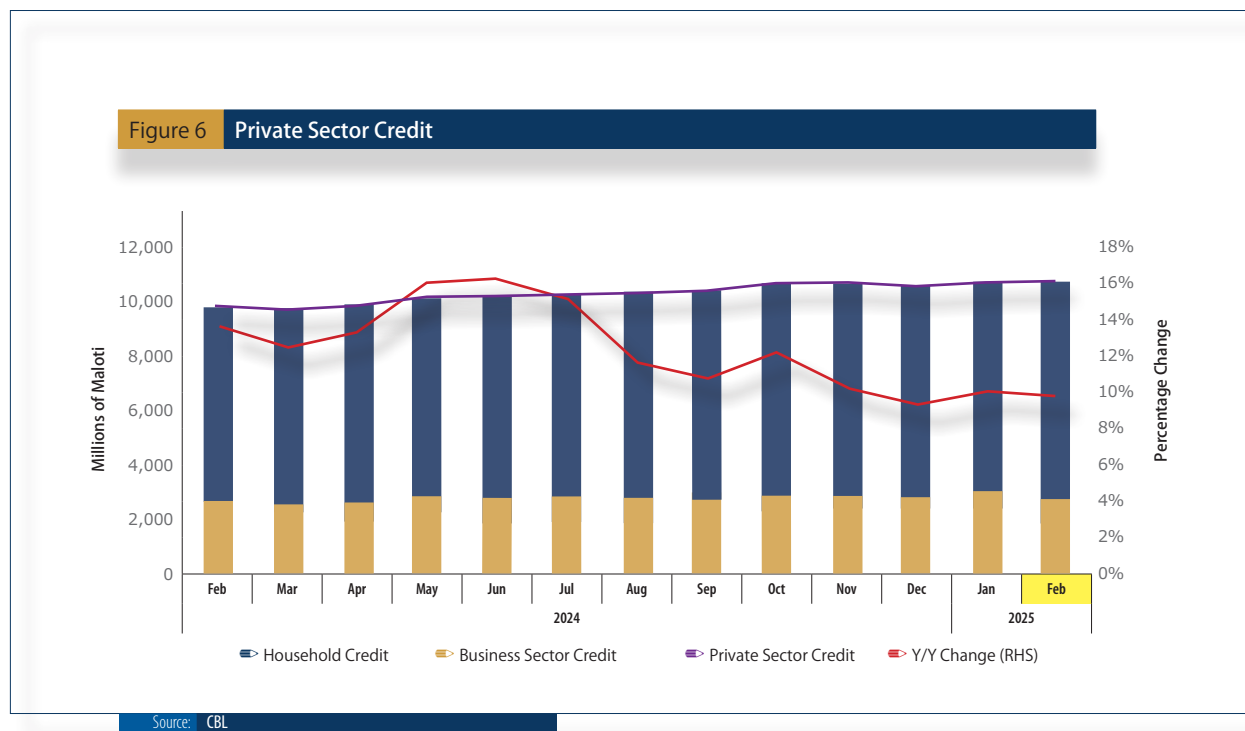
#### Private Sector Credit

Private sector credit marginally increased by 0.1 per cent, compared to the 1.2 per cent growth recorded in the previous month. This growth was driven by increased credit to the household sector, despite

a decrease in credit to business enterprises. Credit to households grew by 3.6 per cent, reversing the 2.4 per cent decline observed in the prior month. The growth in household credit was noticeable in personal loans, combined with a modest growth in mortgages.

Conversely, the decline in credit extended to business enterprises was largely explained by a reduction in credit extended to mining and quarrying; wholesale & retail trade, restaurants & hotels; and construction. Regarding the share of credit by business sectors, the wholesale & retail trade, restaurants & hotels commanded the highest

share of credit extension, followed by real estate & business services, while construction completed the top three. The community, social, & personal services remained the smallest recipient of credit extension. On an annual basis, private sector credit grew by 9.7 per cent.



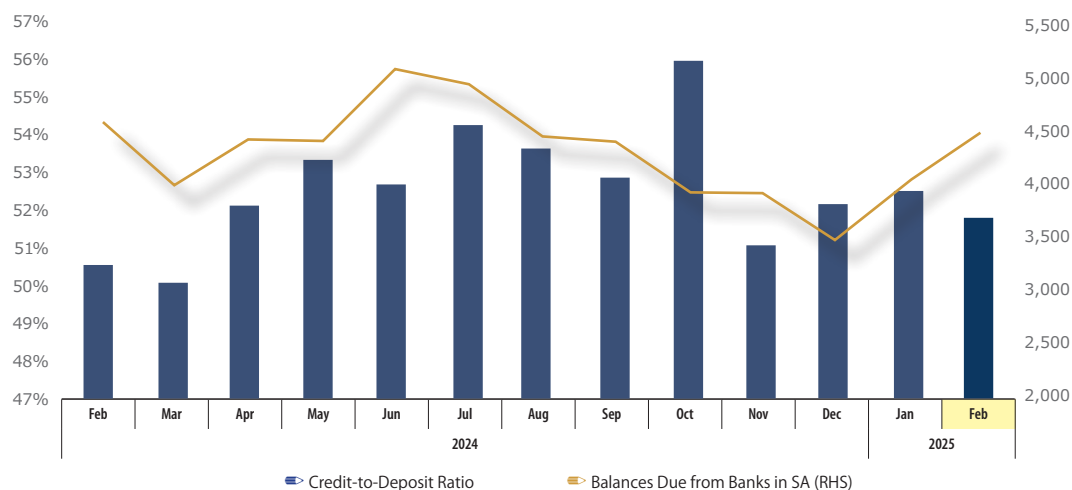
## Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans rose to 4.9 per cent from 4.6 per cent in the month earlier. This increase was driven by a rise in NPLs from both households and businesses. Within the household segment, personal loans NPLs were the main contributor to the overall growth. Among business enterprises, the highest share of NPLs were attributed to manufacturing; and wholesale, retail trade, restaurants & hotels subsectors.

## Sources of Funds

The credit-to-deposit ratio declined to 51.7 per cent from 52.6 per cent in the previous month. The decline was attributed to growth in deposit liabilities of commercial banks.

**Figure 7 Credit to Deposit Ratio**



Source: CBL

## Interest Rates

In February, the Central Bank of Lesotho policy rate declined to 7.25 per cent from 7.5 per cent a month earlier. Consequently, the prime lending rate fell from 11.00 per cent to 10.75 per cent. The 1-year deposit rate declined to 4.56 per cent from 4.68 per cent, while the 91-day Treasury bill rate decreased slightly to 6.88 per cent from 6.89 per cent.

## Foreign Exchange

The rand, hence, loti, indicated mixed performance against its major trading currencies in February 2025. The rand appreciated by 0.1 per cent and 0.3 per cent against the US dollar and euro, to record 18.50 and 19.25, respectively, while it depreciated by 0.5 per cent against the pound, to record 23.18. This was in comparison to a depreciation of 3.0 per cent, 0.5 per cent, and 1.8 per cent against the dollar, the pound, and the euro, respectively, in the previous month.

The rand's appreciation was supported by favourable commodity prices, particularly in gold and platinum, alongside the continued stability of the electricity at ESKOM during the review period. The currency further benefited from improved investor sentiment following an interest rate cut by the South African Reserve Bank. The rand's performance was moderated by concerns over domestic fiscal stability, driven by political discord within the Government following disagreement on the proposed VAT increases.

Internationally, the rand strengthened as the euro weakened in response to poor economic data from certain member states, including Germany and France, persistent inflationary pressures, and ongoing geopolitical risks. Meanwhile, the UK economy showed resilience, underpinned by a strong housing market ahead of the stamp duty increase, and a stable policy rate maintained by the Bank of England, which supported the pound, and hence, weakened the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

Government spending increased by 13.6 per cent in February 2025, following a significant rise of 28.9 per cent in the previous month. This growth was mainly driven by higher expenses, particularly in wages and salaries, and students grants within the education sector. Operating costs also saw notable increases, especially in economic and health sectors. However, the decline in development spending moderated the overall rise. On a year-on-year basis, government spending grew by 15.3 per cent as a result of current grants provided to extra-budgetary units.

### Revenue

Government revenue, excluding SACU receipts, rose by 2.7 per cent, primarily due to strong performance in tax collections, particularly VAT and excise taxes. On an annual basis, government revenue increased by 8.2 per cent, largely fueled by tax revenues.

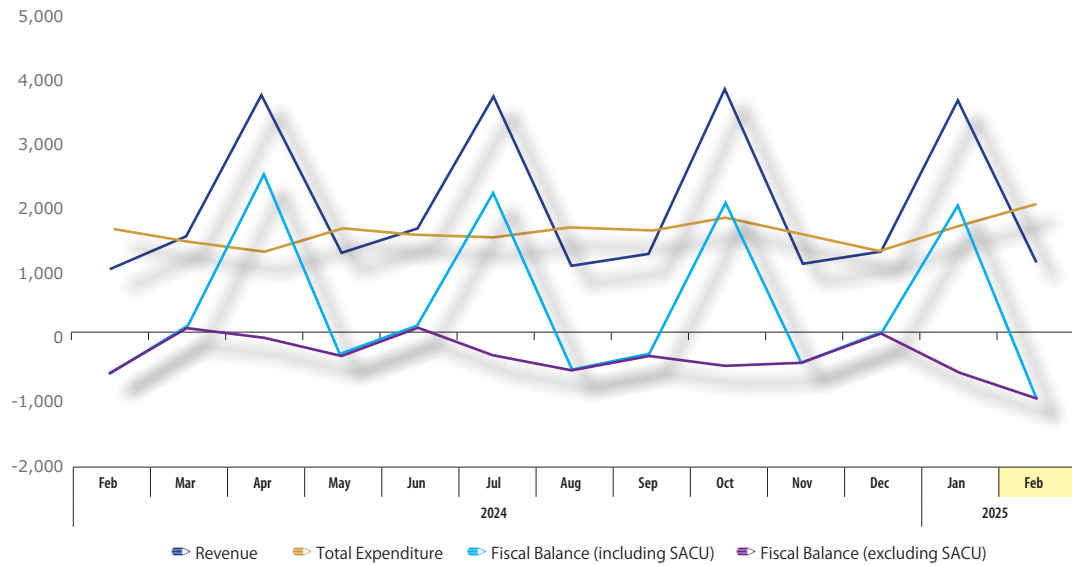
### Fiscal Balance<sup>3</sup>

Government finances weakened, resulting in a fiscal deficit equivalent to 8.7 per cent of GDP. This deficit was financed by, amongst others, drawing down government deposits, and issuing additional debt securities.

<sup>3</sup> All financing items are on net basis.



**Figure 8** Government Fiscal Balance (Million Maloti)



Source: CBL and Ministry of Finance (MOF)

**Table 2: Cross Classification of Expenditure by Function and Economic Item (Percentage Change)**

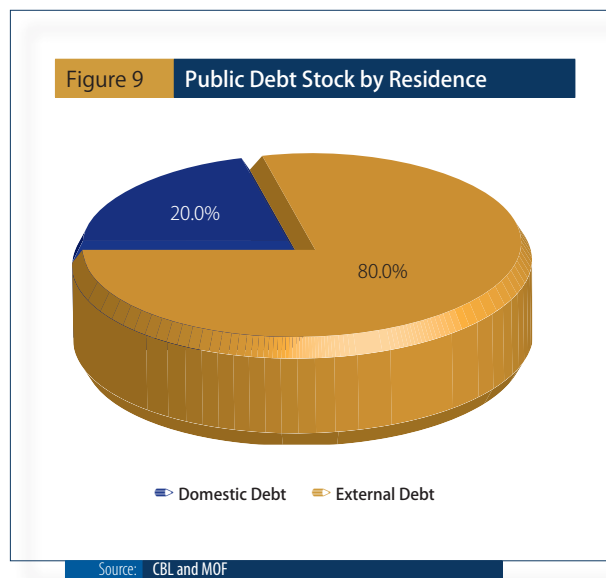
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		5.7%	11.6%	100.0%	0.0%	66.2%	1.6%	0.0%	16.9%	10.8%
Defense		7.4%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.3%	5.2%
Public Order and Safety		17.6%	9.4%	0.0%	0.0%	1.6%	0.0%	0.5%	4.0%	10.8%
Economic Affairs		6.3%	33.7%	0.0%	0.0%	5.6%	0.0%	0.0%	64.1%	19.7%
Environmental Protection		0.8%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Housing and Community Amenities		6.5%	5.3%	0.0%	0.0%	0.0%	0.3%	2.2%	6.3%	5.1%
Health		6.9%	28.6%	0.0%	0.0%	24.2%	0.9%	0.0%	0.5%	13.2%
Recreation, Culture, and Religion		1.0%	3.0%	0.0%	0.0%	2.2%	10.2%	1.1%	0.2%	2.5%
Education		31.1%	1.8%	0.0%	0.0%	0.0%	23.9%	95.6%	1.0%	18.6%
Social Protection		16.6%	0.7%	0.0%	0.0%	0.1%	63.1%	0.6%	1.7%	13.3%
Share per Economic Item		41.5%	33.4%	1.0%	0.0%	2.9%	9.6%	2.9%	8.8%	100.0%

Source: CBL and MOF

## V. PUBLIC DEBT

Public debt stock increased slightly by 0.2 per cent, reaching 54.5 per cent of GDP during the month under review, compared with 54.4 per cent in the previous month. This marginal growth followed

the issuance of domestic debt during the month. However, public debt stock remained sustainable, with both liquidity and solvency indicators far below the international thresholds.



## Appendix: Key Economic Indicators

		24-Jul	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	25-Jan	25-Feb
Economic Activity (MIEA (% change, M/M))		0.1	-2.6	2.7	1.5	3.0	2.1	-4.6	-2.1
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.7	6.0	5.2	4.7	4.4	3.6	3.6	4.1
	Core Inflation	5.5	4.8	3.8	4.1	3.7	2.4	2.4	2.7
Exchange Rates (Monthly End Period)	EUR	20.3242	20.3617	20.7950	20.5085	20.0677	19.3073	19.3073	19.2451
	GBP	23.6012	23.8757	24.3030	23.9695	23.4763	23.0593	23.0593	23.3029
	USD	18.6699	18.8456	19.1910	18.8596	18.7203	18.5173	18.5173	18.5100
Money Supply (Millions of Maloti)	M2	16,929.25	17,160.89	17,306.37	17,631.19	18,545.63	18,995.08	18,513.78	18,883.61
	M1	8,448.94	7,997.34	8,290.68	8,270.95	8,896.13	9,325.06	8,596.94	8,674.53
	Quasi Money	8,731.71	9,163.55	9,015.69	9,360.24	9,649.50	9,670.02	9,916.84	10,209.07
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.50	7.50	7.50	7.25
	91 day Treasury bill rate	7.12	6.74	6.83	6.86	6.88	6.88	6.89	6.88
	Prime lending rate	11.25	11.25	11.25	11.25	11.00	11.00	11.00	10.75
	1 year deposit rate	4.74	4.74	4.74	4.74	4.72	4.72	4.68	4.56
Private sector Credit (Millions of Maloti)		10,288.53	10,347.59	10,422.71	10,684.74	10,658.79	10,650.80	10,783.40	10,790.20
	Households	2,903.51	2,784.48	2,771.40	2,853.12	2,882.57	2,785.18	3,105.80	2,837.80
	Non-profit Organisations	7,385.01	7,563.11	7,651.31	7,831.62	7,776.22	7,865.61	7,677.60	7,952.40
Bank Deposit Liabilities (Millions of Maloti)		18,882.97	19,254.43	19,689.38	19,040.65	20,787.42	20,326.23	20,425.14	20,828.06
Credit to Deposit Ratio (%)		54.3	53.7	52.9	56.0	51.1	52.2	52.6	51.7
Fiscal Operations (Millions of Maloti)	Fiscal Balance	2,457.89	-688.37	-398.31	2,284.00	-538.28	-26.84	2,194.21	-919.68
	Total Revenue (with SACU receipts)	4,127.29	1,159.44	1,383.14	4,302.68	1,193.19	1,400.36	4,034.38	1,170.00
	Total Expenditure	1,669.39	1,847.81	1,781.45	2,018.69	1,731.46	1,427.20	1,840.17	2,089.69
	O/W Capital	188.95	352.68	430.66	296.13	201.53	183.47	375.01	371.89
Total Public Debt (Millions of Maloti)		22,449.28	22,220.11	21,915.54	22,134.67	22,394.79	23,267.95	23,124.56	23,164.67
	Total External Debt	17,974.71	17,661.83	17,356.84	17,678.01	17,927.18	18,700.34	18,557.56	18,522.38
External Debt	Concessional	11,079.07	10,867.77	10,798.09	11,031.86	11,213.00	11,779.72	11,663.67	11,679.20
	Non-concessional	6,895.64	6,794.06	6,558.74	6,646.14	6,714.18	6,920.62	6,893.90	6,843.18
Domestic Debt		4,474.57	4,558.27	4,558.71	4,456.66	4,467.61	4,567.61	4,567.00	4,642.30
Memo Item: Arrears (Millions of Maloti)		9.63	-1.66	-1.67	-135.08	-28.85	-13.33	-64.67	-102.45

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

In the process of improving compilation of Government expenditure using Government Finance Statistics Manual 2014 (GFSM 2014) of the International Monetary Fund, the Government spending for the month of March 2019 has been disaggregated into due-for-payments and commitments (normal payment delays or arrears).

The due-for-payments spending transactions refer to the payment instructions from the Government's financial information system (known as IFMIS) to the Central Bank of Lesotho for actual payment process. The commitments are described as pending spending transactions in respect of delivered goods and services, which have passed their due date for payments, and hence, the arrears. The data on these components (arrears and due-for-payments) fulfil the aim of GFSM 2014, which requires the Governments to compile the spending, among others, using accrual basis method of recording.

However, in terms of Lesotho's expenditure data, interest payments of loans are still being compiled using cash basis method of recording. All other expenditure components (including use of goods and services, compensation of employees, and social benefits) are in accrual basis.

Apart from spending by economic classification above, the database on the spending by functions was rebuilt starting from the April 2019 onwards while at the same time the historical data was compiled bit by bit. Thus, the table on the classification of outlays by functions of government (known as COFOG) was last updated by Ministry of Finance in 2008/09, just before the implementation of new IFMIS chart of accounts.

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