



# Monthly ECONOMIC REVIEW

JANUARY 2025

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY<sup>1</sup>

Domestic economic activity contracted sharply in January 2025, contrasting with positive gains observed in December. This primarily reflected subdued domestic demand, lower manufacturing production, and contractions in transport and construction related activities.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) declined by 4.6 per cent in January 2025, marking a significant reversal from the 1.9 per cent expansion recorded in December 2024. This contraction underscored a broad-based slowdown, with domestic demand weakening substantially, in addition to manufacturing output falling sharply. Moreover, the transport and construction subsectors also underperformed, as signalled by a notable decline in fuel consumption and reduced import volumes of construction materials. These indicated a cooling economy, with businesses and consumers scaling back on expenditure. However, a modest uptick in the financial services sector helped cushion the overall decline in economic activity.

### Domestic Demand Category

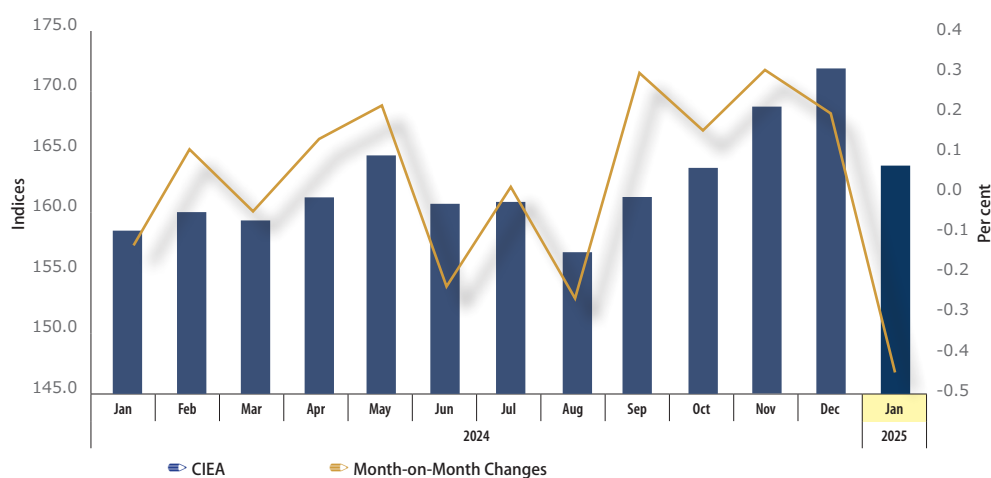
Domestic demand plummeted in January 2025, with the index contracting by 8.5 per cent, a stark contrast to the 2.0 per cent increase observed in the previous month. This downturn was fuelled by weaker public and private sector consumption, reflecting lower government expenditure on goods and services and a decline in imports from South Africa, particularly for prepared foodstuffs, fuel, and mineral products. Additionally, lower sales tax and Pay-As-You-Earn (PAYE) collections pointed to reduced business activity and lower real incomes.

### Manufacturing and Production Category

The manufacturing and production sector mirrored the downturn trend, with the index contracting by 1.4 per cent, reversing the 2.1 per cent growth seen in the previous month. This decline was largely driven by reduced textile exports to South Africa and a drop in raw material imports from the same market. However, this downturn was partially mitigated by an increase in textile exports to the U.S. market, providing some relief to the subsector. Despite this, the overall manufacturing landscape remained challenging, weighed down by external trade dynamics.

<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	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
<b>CIEA</b>	160.7	160.8	156.6	161.2	163.6	168.5	171.7	163.8
Monthly changes	-2.3	0.1	-2.6	2.9	1.5	3.0	1.9	-4.6
<b>Domestic Demand Category</b>	142.8	137.1	132.0	139.1	148.3	155.7	158.7	145.3
Monthly changes	-7.6	-4.0	-3.7	5.4	6.6	5.0	2.0	-8.5
<b>Manufacturing &amp; Production Category</b>	124.1	122.8	118.8	113.8	114.9	122.3	124.8	123.0
Monthly changes	3.5	-1.0	-3.2	-4.2	0.9	6.4	2.1	-1.4

Source: Central Bank of Lesotho (CBL) Calculations

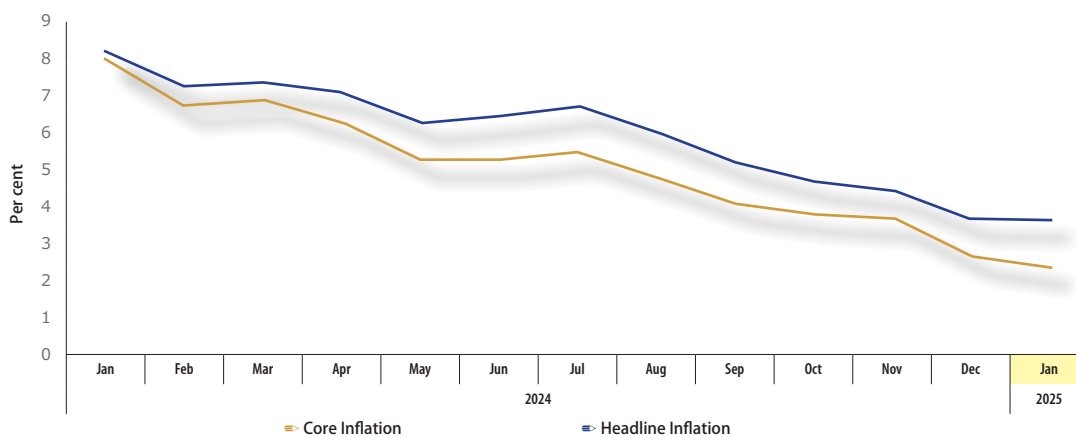
# II. INFLATION AND PRICES

## Headline Inflation

The consumer price index exhibited minimal fluctuation, with headline inflation registering a marginal decrease to 3.6 per cent in January 2025, down from 3.7 per cent in December 2024. The major contributors to the 0.1 percentage point decrease between the two periods were Food and

Non-Alcoholic beverages and Education categories. This represented a continuation of the downward trajectory in consumer price inflation observed since January 2024. The primary driver of this sustained deceleration has been the moderation of prices within the Food and Non-Alcoholic Beverages sector.

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 3.6 per cent headline inflation were Food and Non-Alcoholic beverages, Clothing and Footwear, and the Transport category. Food and Non-alcoholic Beverages contributed 1.7 percentage points to the headline inflation rate, down from 1.8 percentage points decrease observed in the previous month.

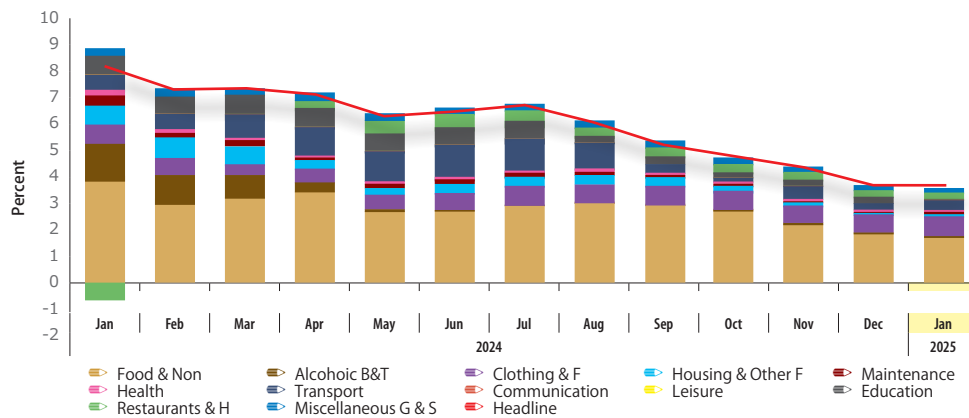
The drivers behind the fall in Food and Non-alcoholic beverages were the decline in international wholesale wheat prices, due to excess supply from wheat exporting countries.

Clothing and Footwear contributed 0.7 percentage points during the review period, due to increases in prices of shoes and footwear.

Despite the general downward pressure on consumer prices, the Transport category demonstrated inflationary tendencies, contributing 0.4 percentage points, up from 0.2 percentage points observed in December 2024.

This divergence was primarily attributable to the increasing costs associated with spare parts and accessories equipment for personal vehicles, which mitigated the overall decrease.

**Figure 3 Contributions to Headline (Year-on-Year Changes)<sup>2</sup>**



Source: Lesotho Bureau of Statistics & CBL Computations

## Core Inflation

Underlying inflationary pressures, as measured by core inflation, decreased to 2.4 per cent in January 2025 from 2.7 per cent in December 2024.

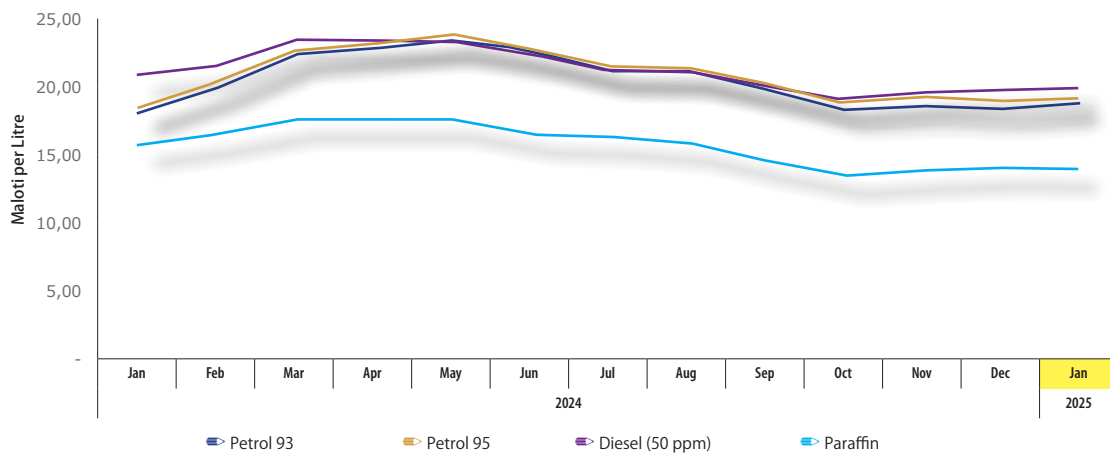
## Domestic Fuel Prices

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

*Petrol<sub>95</sub>*) increased by M 0.45 and M 0.25, respectively and were sold at M 18.90 per litre and M 19.20 per litre, respectively at the pump.

The pump prices of *diesel<sub>50</sub>* increased by M 0.20 while price of illuminating paraffin decreased by M 0.10. Both diesel and illuminating paraffin were sold at M 19.95 per litre and M14.00 per litre in the retail market, respectively.

**Figure 4 Domestic Fuel Prices**



Source: Petroleum Fund

<sup>2</sup> Food & Non = Food and Non-alcoholic beverages, Alcoholic B&T = Alcoholic beverages and Tobacco, Clothing & T = Clothing and Footwear, Housing & Other F = Housing Gas and Other fuels, Miscellaneous G & S = Miscellaneous Goods and Services.

### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

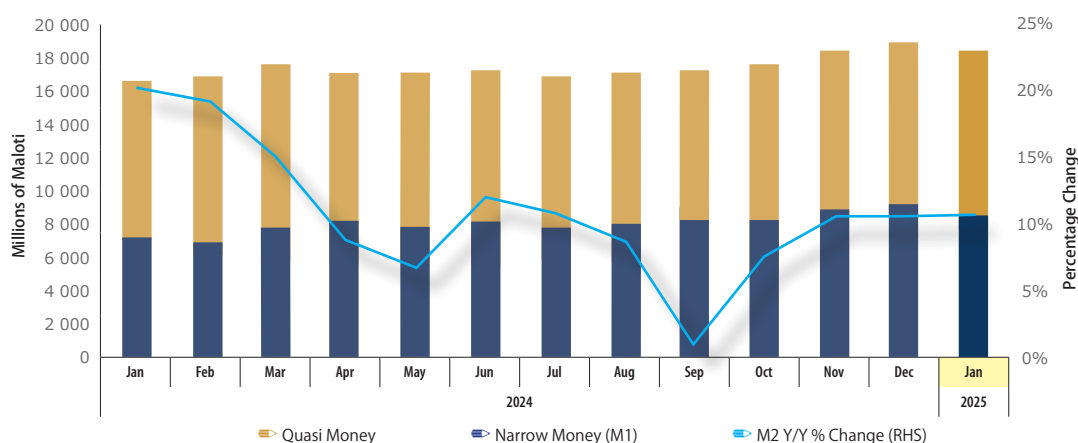
In January 2025, money supply (M2) contracted by 2.5 per cent, contrary to the 2.4 per cent growth observed in December 2024. The dip in M2 was driven by contraction in net domestic claims (NDA), despite growth in net foreign assets (NFA). In particular, NDA contracted by 56.3 per cent, in contrast to the 24.3 per cent growth observed in the preceding month. The overall decline in NDA was driven by an increase in government deposits with the central bank and the commercial banks. On the contrary, NFA increased by 5.9 per cent, in contrast with the 0.4 per cent decline a month earlier. This increase emanated mainly from the central bank's NFA, with a lesser contribution from an increase in

commercial banks' NFA. The increase in the central bank's NFA resulted from a build-up of government deposits due to SACU revenue during the month. Year-on-year, M2 increased by 10.7 per cent.

#### Components of Money Supply

The contraction in M2, when broken down into its components, was driven by a decline in narrow money (M1) despite an increase in quasi money. M1 contracted by 7.8 per cent due to a decrease in transferable deposits held by business enterprises, coupled with a decline in currency outside depository corporations. Conversely, the surge in quasi money emanated from growth in fixed time deposits of business enterprises.

Figure 5 Broad Money Growth



Source: Central Bank of Lesotho

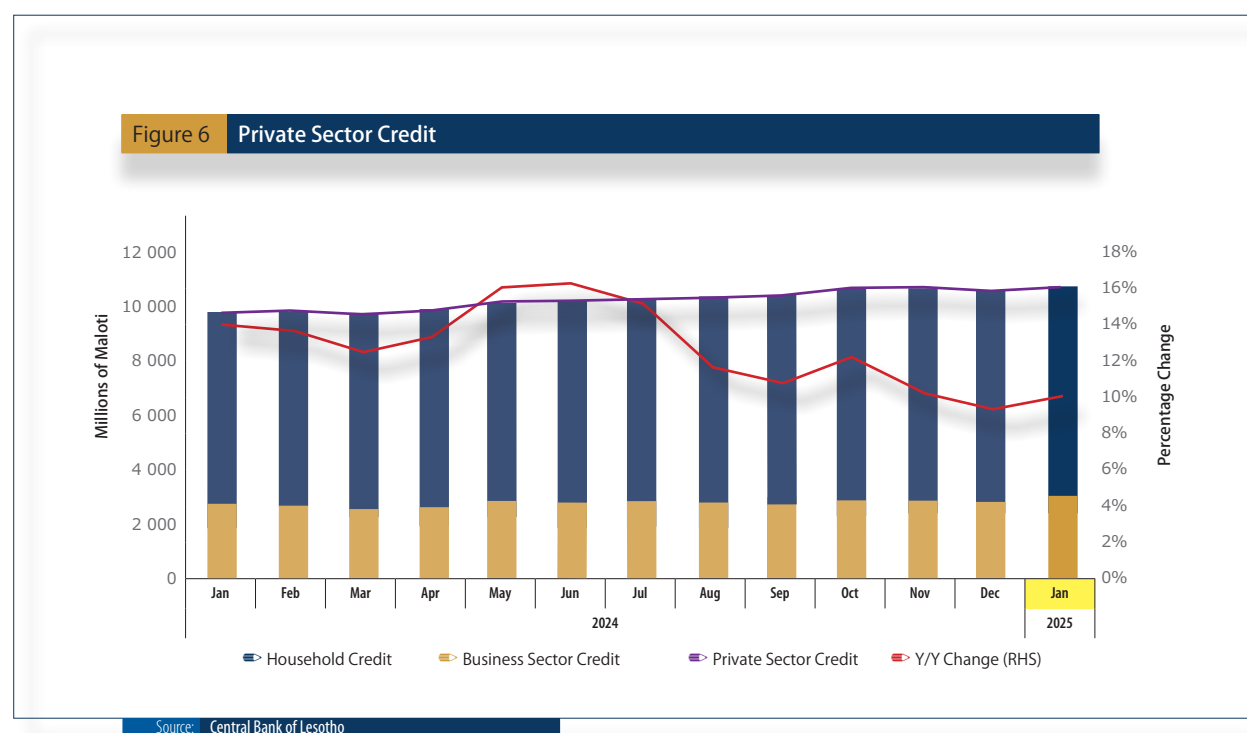
#### Private Sector Credit

Private sector credit increased by 1.2 per cent, in contrast to the 0.1 per cent decline recorded in the previous month. This growth was driven by increased credit to business enterprises, despite

a decline in household sector credit. In particular, credit to business enterprises grew by 11.5 per cent, reversing the 3.4 per cent decline observed in the prior month. The growth in business credit was largely noticeable in the mining & quarrying, real estate & business services, and wholesale & retail

trade, restaurants & hotels industries. Conversely, the decline in household sector credit was attributed to reduction in personal loans while mortgage lending continued its upward trajectory. As a share of credit to business sectors, the wholesale & retail trade, restaurants & hotels commanded the highest

share of credit extension, followed by real estate & business services, while mining and quarrying 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 10.1 per cent.



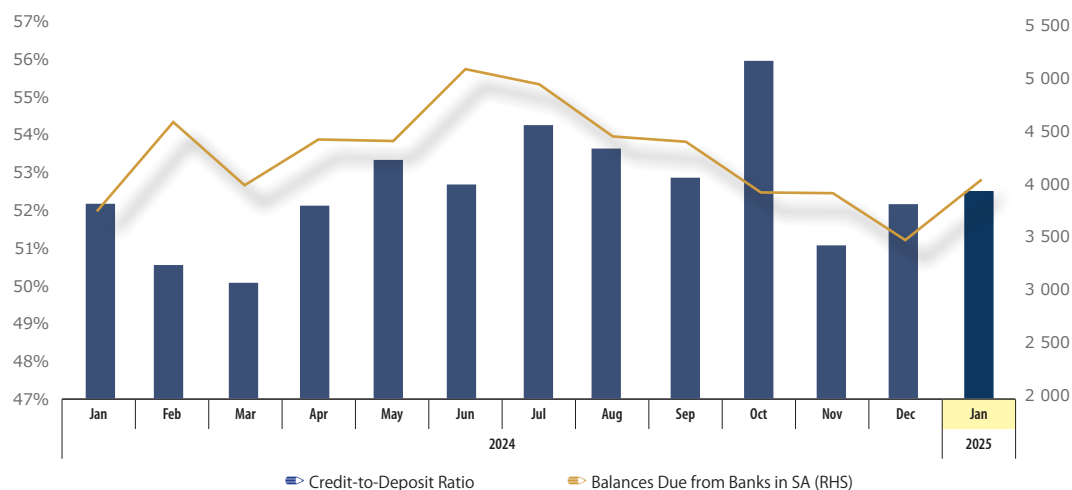
## Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans rose to 4.6 per cent from 4.3 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 shares of NPLs were attributed to the construction and wholesale, retail trade, restaurants & hotels subsectors.

## Sources of Funds

The credit-to-deposit ratio marginally rose to 52.6 per cent in the review month, as compared to the 52.2 per cent in the previous month. The increase was attributed to the expansion in credit extension outpacing the growth in deposit liabilities of commercial banks.

**Figure 7 Credit to Deposit Ratio**



Source: Central Bank of Lesotho

## Interest Rates

In January 2025, the Central Bank of Lesotho (CBL) policy rate remained unchanged at 7.50 per cent. Consequently, the prime lending rate remained steady at 11.00 per cent. Nonetheless, the 1-year deposit rate declined to 4.68 per cent from 4.72 per cent, while the 91-day Treasury bill rate increased slightly to 6.89 per cent from 6.88 per cent.

## Foreign Exchange

The rand, hence, loti, weakened against its major trading currencies in January 2025. The rand depreciated by 3.0 per cent, 0.5 per cent and 1.8 per cent against the US dollar, pound and euro, to record 18.72, 23.10 and 19.34, respectively. This compares with a depreciation of 1.3 per cent, and 0.5 per cent against the dollar, and the pound, respectively, and an appreciation of 0.1 per cent against the euro in the previous month.

The rand's performance continued to be shaped by both domestic and international factors. On the domestic side, the signing of the Expropriation Bill by the government sparked a split between the main parties in the Government of National Unity (GNU) which caused political uncertainty, thereby weakening the performance of the rand.

On the international front, the economic stability in the US, supported by the robust labour market, resilient services sector, and inflation that aligned with the market expectations, bolstered the dollar as a safe-haven currency, attracting capital flows away from the riskier emerging markets currencies including the rand. Additionally, the Fed's decision to hold interest rates steady at 4.25 - 4.50 per cent in January 2025, reinforced the appeal of the dollar, hence weakening of the rand.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

In January 2025, government spending surged by 28.7 per cent, rebounding from a 17.5 per cent decline in December. This increase was driven by subsidies to public non-financial corporations and payments of the old age pensions, alongside increased spending on government projects and grants to extra-budgetary units. The health and economic sectors received the largest budget allocations. Despite these increases, total expenditure, on an annual basis, fell by 6.1 per cent compared to the previous year.

### Revenue

Government revenue, excluding SACU receipts, experienced significant volatility, dropping by 18.3 per cent after a previous 17.4 per cent increase. This sharp decline stemmed mainly from reduced income tax and VAT collections. Despite this monthly drop, total revenue showed a 9.6 per cent year-on-year increase.

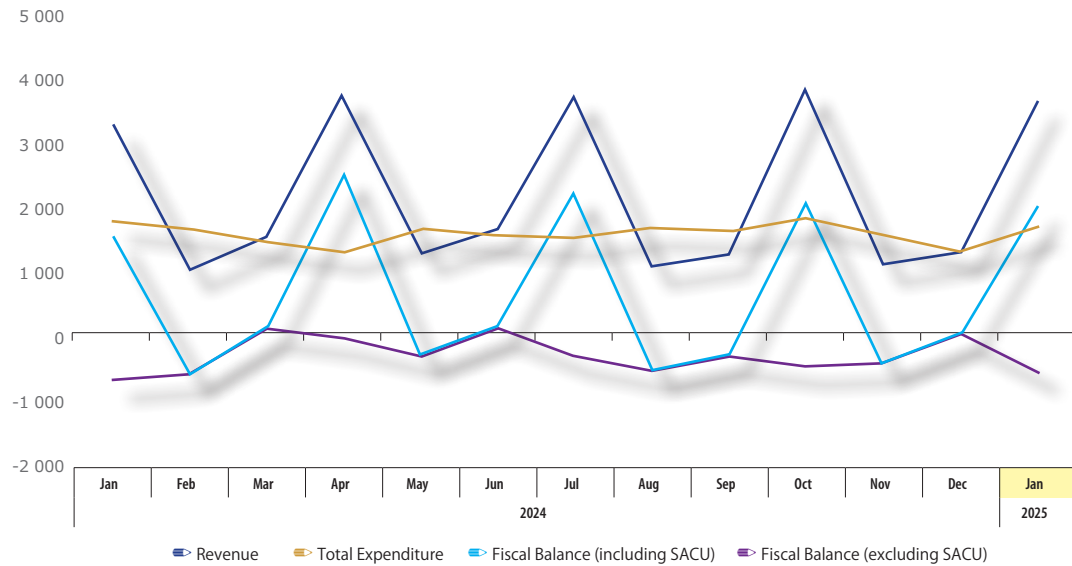
### Fiscal Balance<sup>3</sup>

The government's finances significantly improved, shifting from a deficit of 0.3 per cent of GDP in December 2024 to a surplus of 22.1 per cent of GDP in January 2025. Consequently, the surplus translated in increased financial position as assets growth outweighed a rise in liabilities.

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



Figure 8 Government Fiscal Balance (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance (MOF)

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

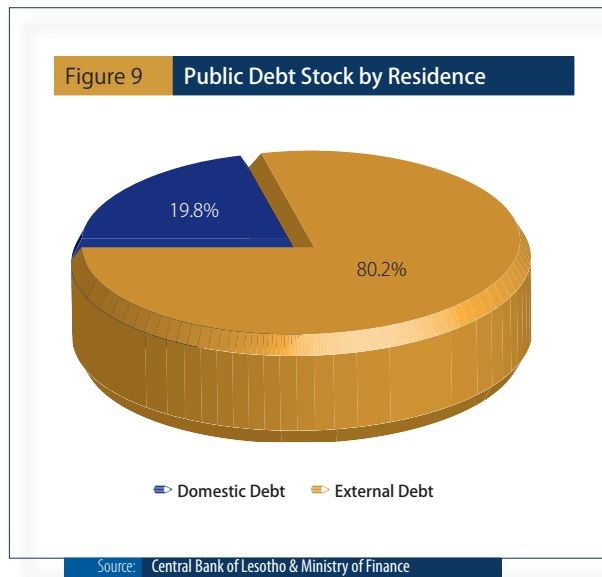
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		8.2%	7.0%	100.0%	0.0%	15.3%	1.6%	2.7%	4.9%	7.6%
Defense		10.4%	6.1%	0.0%	0.0%	0.0%	0.0%	1.0%	10.6%	5.4%
Public Order and Safety		23.6%	6.4%	0.0%	0.0%	3.3%	0.0%	1.4%	1.3%	7.5%
Economic Affairs		9.1%	20.9%	0.0%	0.0%	24.6%	0.0%	0.0%	55.0%	16.9%
Environmental Protection		1.2%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Housing and Community Amenities		11.5%	3.0%	0.0%	0.0%	1.3%	0.2%	1.6%	11.4%	5.0%
Health		20.4%	51.8%	0.0%	100.0%	53.2%	5.1%	0.0%	16.6%	38.4%
Recreation, Culture, and Religion		1.4%	2.6%	0.0%	0.0%	2.3%	5.5%	0.5%	0.2%	1.8%
Education		1.1%	0.5%	0.0%	0.0%	0.0%	0.0%	90.2%	0.0%	4.9%
Social Protection		13.1%	0.7%	0.0%	0.0%	0.0%	87.6%	2.6%	0.0%	11.9%
<b>Share per Economic Item</b>		<b>21.6%</b>	<b>29.7%</b>	<b>1.6%</b>	<b>12.1%</b>	<b>7.5%</b>	<b>10.0%</b>	<b>5.0%</b>	<b>12.5%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The public debt stock fell to 58.0 per cent of GDP, down from the revised 58.4 per cent of GDP the previous month. This 0.7 per cent monthly decrease

was mainly attributed to exchange rate fluctuations that affected the external debt. Annually, the total debt stock fell by 0.4 per cent.



## Appendix: Key Economic Indicators

		24-Jun	24-Jul	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	25-Jan
Economic Activity (MIEA (% change, M/M))		-2.3	0.1	-2.6	2.9	1.5	3.0	1.9	-4.6
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.8	6.7	6.0	5.2	4.7	4.4	3.7	3.6
	Core Inflation	6.4	5.5	4.8	3.8	4.1	3.7	2.7	2.4
Exchange Rates (Monthly End Period)	EUR	20.5233	20.5233	20.3424	20.3817	20.7950	20.5085	20.0677	19.5208
	GBP	23.7452	23.7452	23.6012	23.8757	24.3030	23.9695	23.4763	23.5495
	USD	18.7082	20.3424	18.6699	18.8456	19.1910	18.8596	18.7203	18.7611
Money Supply (Millions of Maloti)	M2	17,340.59	16,929.25	17,160.89	17,306.37	17,631.19	18,545.63	18,995.08	18,513.78
	M1	8,173.76	8,448.94	7,997.34	8,290.68	8,270.95	8,896.13	9,325.06	8,596.94
	Quasi Money	9,166.83	8,731.71	9,163.55	9,015.69	9,360.24	9,649.50	9,670.02	9,916.84
Interest Rates	CBL Rate	7.75	7.75	7.75	7.75	7.75	7.50	7.50	7.50
	91 day Treasury bill rate	7.12	7.12	6.74	6.83	6.86	6.88	6.88	6.89
	Prime lending rate	11.25	11.25	11.25	11.25	11.25	11.00	11.00	11.00
	1 year deposit rate	4.74	4.74	4.74	4.74	4.74	4.72	4.72	4.68
Private sector Credit (Millions of Maloti)		10,233.44	10,288.53	10,347.59	10,422.71	10,684.74	10,658.79	10,650.80	10,783.40
	Households	2,806.05	2,903.51	2,784.48	2,771.40	2,853.12	2,882.57	2,785.18	3,105.80
	Non-profit Organisations	7,427.40	7,385.01	7,563.11	7,651.31	7,831.62	7,776.22	7,865.61	7,677.60
Bank Deposit Liabilities (Millions of Maloti)		19,374.92	18,882.97	19,254.43	19,689.38	19,040.65	20,787.42	20,326.23	20,425.14
Credit to Deposit Ratio (%)		52.7	54.3	53.7	52.9	56.0	51.1	52.2	52.6
Fiscal Operations (Millions of Maloti)	Fiscal Balance	96.90	2,457.89	-687.42	-398.08	2,291.66	-540.08	-29.05	2,195.42
	Total Revenue (with SACU receipts)	1,790.38	4,127.29	1,159.44	1,383.14	4,302.68	1,193.19	1,400.36	4,035.58
	Total Expenditure	1,693.48	1,669.39	1,846.86	1,781.22	2,011.02	1,733.27	1,429.41	1,840.17
	O/W Capital	334.18	188.95	351.73	430.43	288.47	201.53	183.47	375.01
Total Public Debt (Millions of Maloti)		22,329.20	22,449.28	22,220.11	21,915.54	22,134.67	22,360.04	23,214.12	23,040.57
	Total External Debt	17,855.38	17,974.71	17,661.83	17,356.84	17,678.01	17,892.43	18,646.50	18,473.57
External Debt	Concessional	11,033.66	11,079.07	10,867.77	10,798.09	11,031.86	11,213.00	11,761.67	11,615.46
	Non-concessional	6,821.72	6,895.64	6,794.06	6,558.74	6,646.14	6,679.42	6,884.83	6,858.12
Domestic Debt		4,473.82	4,474.57	4,558.27	4,558.71	4,456.66	4,467.61	4,567.61	4,567.00
Memo Item: Arrears (Millions of Maloti)		-135.19	9.63	-1.66	-1.67	-135.08	-28.85	-13.33	-64.67

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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