



# Monthly ECONOMIC REVIEW

MARCH 2025

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

In March 2025, the domestic economy experienced continued contraction, largely attributed to subdued demand and diminished activity across supporting economic subsectors. Nonetheless, the manufacturing and financial services industries showed signs of recovery, providing a glimpse of optimism. Inflationary pressures rose modestly during the review period.

### Overall Performance Index

Economic performance deteriorated further, with the Composite Indicator of Economic Activity (CIEA) falling by 5.1 per cent, marking the third consecutive month of contraction. This followed a 2.1 per cent decline in February. The downturn was largely attributed to sluggish domestic demand and reduced activity in construction and transport subsectors, as evidenced by lower imports of goods, construction materials, and reduced fuel consumption, respectively.

Despite the overall decline, some industries showed improvement. The financial services industry saw a modest rise, as indicated by an increased credit to the private sector, and the manufacturing and production subsector strengthened, driven by increased textile exports to the U.S. These positive developments cushioned the overall economic decline.

### Domestic Demand Category

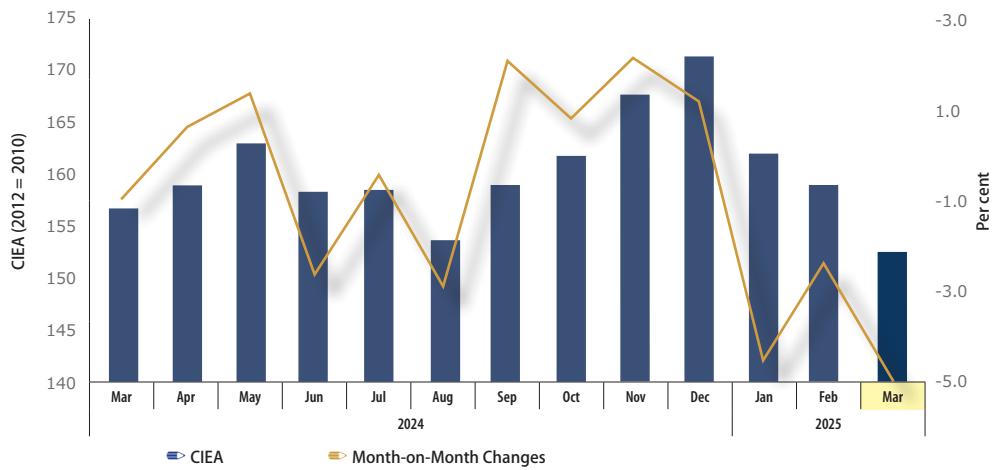
Domestic demand remained under pressure, contracting by 8.3 per cent, following a 9.0 per cent decline in the previous month. This persistent weakness was driven by lower consumption from both the private and public sectors. As evidenced by a notable drop in imports of consumer goods and machinery from South Africa, along with reduced government spending, respectively. This signalled a cautious spending environment. The decline in sales tax collections further underscored the subdued business activity.

### Manufacturing and Production Category

Despite facing various challenges, the manufacturing and production subsector exhibited signs of recovery, as the manufacturing index increased by 1.9 per cent, rebounding from a 1.7 per cent decline reported in the previous month. This improvement was supported by a surge in textile exports, particularly to the U.S. market.

<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

Indices	2024						2025		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
CIEA	156.6	161.2	163.6	168.5	171.9	164.1	160.1	160.2	
Monthly changes	-2.6	2.7	1.5	3.0	2.1	-4.5	-2.1	-5.1	
Domestic Demand Category	132.2	138.6	147.3	155.2	159.7	145.7	142.8	157.4	
Monthly changes	-3.7	4.9	6.6	5.0	2.5	-8.3	-2.0	-7.2	
Manufacturing & Production Category	118.8	113.8	114.9	122.3	124.8	123.1	122.1	119.4	
Monthly changes	-3.2	-4.2	0.9	6.4	2.1	-1.4	-1.7	1.9	

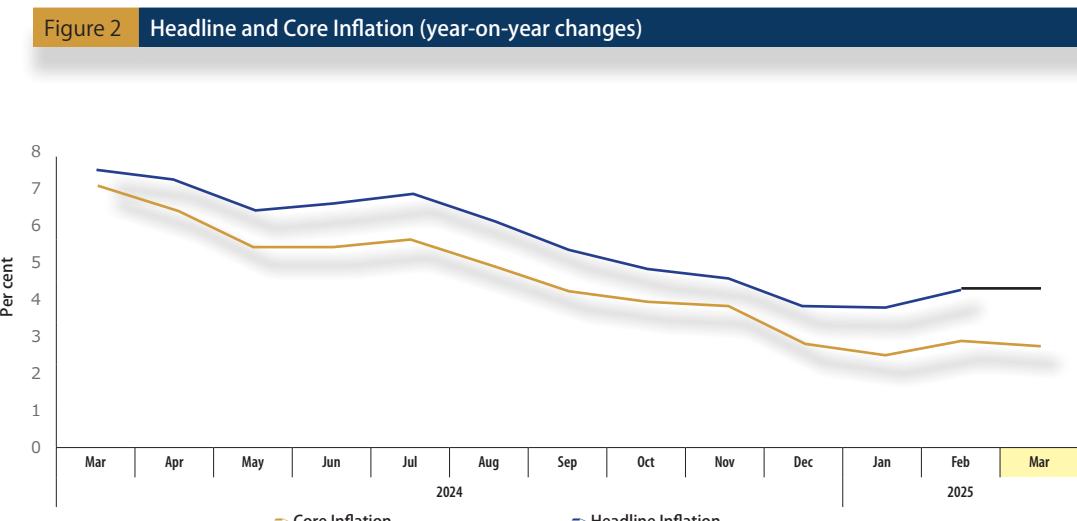
Source: CBL Calculations.

## II. INFLATION AND PRICES

### Headline Inflation

Headline inflation marginally increased to 4.2 per cent in March 2025 from 4.1 per cent in February

2025. The major contributors to the 0.1 percentage point increase between the two months were Food and Non-Alcoholic beverages, Alcoholic beverages and tobacco, as well as Restaurants and Hotels.



Source: Lesotho Bureau of Statistics & CBL Computations

### Contributions to Headline Inflation

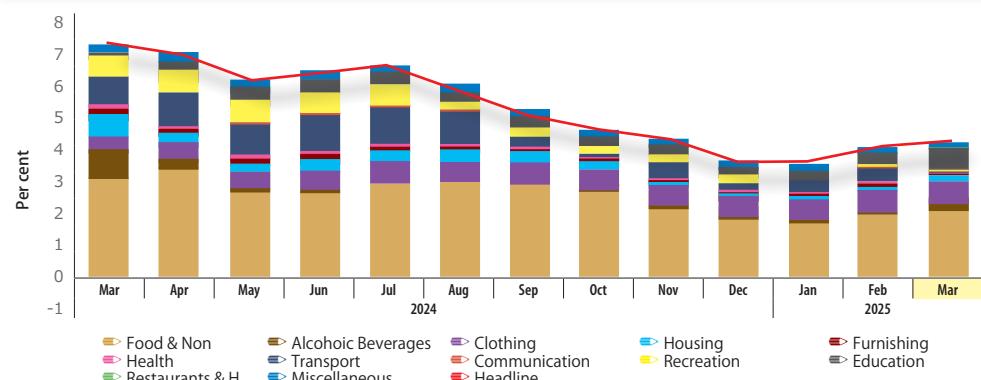
Food and Non-alcoholic Beverages increased by 6.4 per cent and contributed 2.2 percentage points to the total annual inflation rate of 4.2 per cent. The surge in Food and Non-Alcoholic prices was largely attributable to supply constraints, mainly poor harvest and wheat planting season that led to an increase in both maize and wheat prices.

Alcoholic Beverages and Tobacco increased by 3.5 per cent year-on-year and contributed 0.2 percentage points to the total annual Inflation rate.

The cost of Alcoholic beverages and Tobacco saw a pronounced rise, spearheaded by a 4.6 per cent increase in alcohol prices as implemented by the local brewing company. This measure was taken as part of a revised pricing model aimed at ensuring business sustainability.

Consequently, the Restaurant and Hotel category also saw prices climb, mirroring the increases observed in food and alcohol. Restaurants and Hotels increased by 10.7 per cent year-on-year and contributed 0.6 percentage points to the total annual inflation rate.

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 2.8 per cent in March 2025 from 2.7 per cent in February 2025.

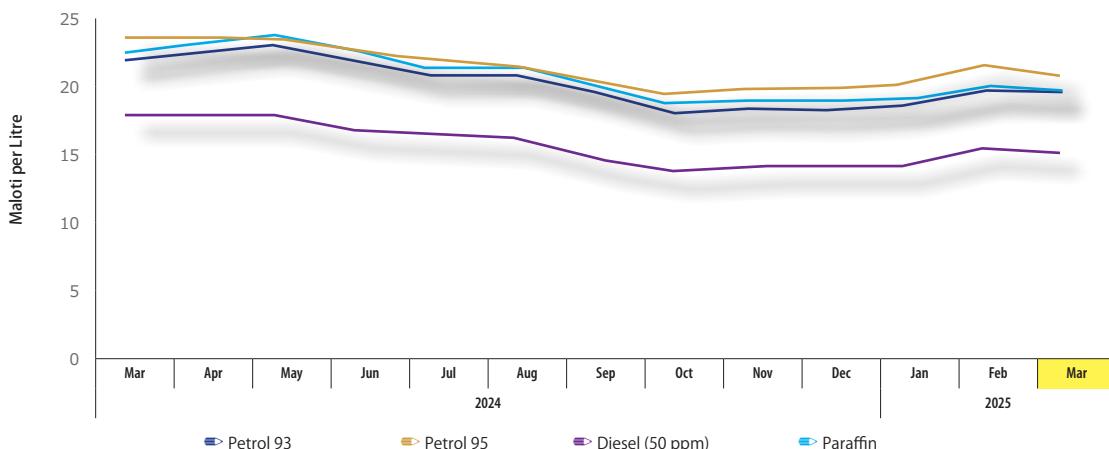
## Domestic Fuel Prices

During the review period, the prices of certain petroleum products saw a slight decrease. The price

of  $\text{Petrol}_{95}$  dropped by M 0.05, bringing it to M 19.95 per litre at the pump, while the price of  $\text{Petrol}_{93}$  remained unchanged at M 20.10 per litre.

The pump prices of  $\text{diesel}_{50}$  and illuminating paraffin decreased by M 0.60 and M 0.20, respectively, and were sold at M 20.60 per litre and M 15.00 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 March 2025, money supply (M2) increased by 2.2 per cent, following the 1.9 per cent growth observed in February 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 more than 100 per cent, following a 45.3 per cent increase observed in the preceding month. The overall growth in NDA was driven by concurrent drawdown of government deposits within the central bank and commercial banks, coupled with growth of claims on other sectors. On the contrary, NFA decreased by 7.0 per cent, following a 1.9 per cent fall a month earlier. The decline in NFA emanated from the fall in claims on non-residents and the increasing liabilities to non-residents for both the central bank and commercial banks. Year-on-year, M2 increased by 9.4 per cent.

#### Components of Money Supply

The expansion in M2, when broken down into its components, was driven largely by growth in narrow money (M1), and to a lesser extent, an increase in quasi money. Narrow money grew by 3.8 per cent, while quasi money grew by 0.7 per cent. The surge in narrow money resulted mainly from the growth in transferrable deposits. The growth of fixed time deposits for business enterprises, households, non-profit institutions and public non-financial corporations contributed to the observed modest increase in quasi money. The rise in call deposits was also observed among business enterprises and other non-financial corporations, while growth in savings deposits was driven by business enterprises and households.



Source: CBL

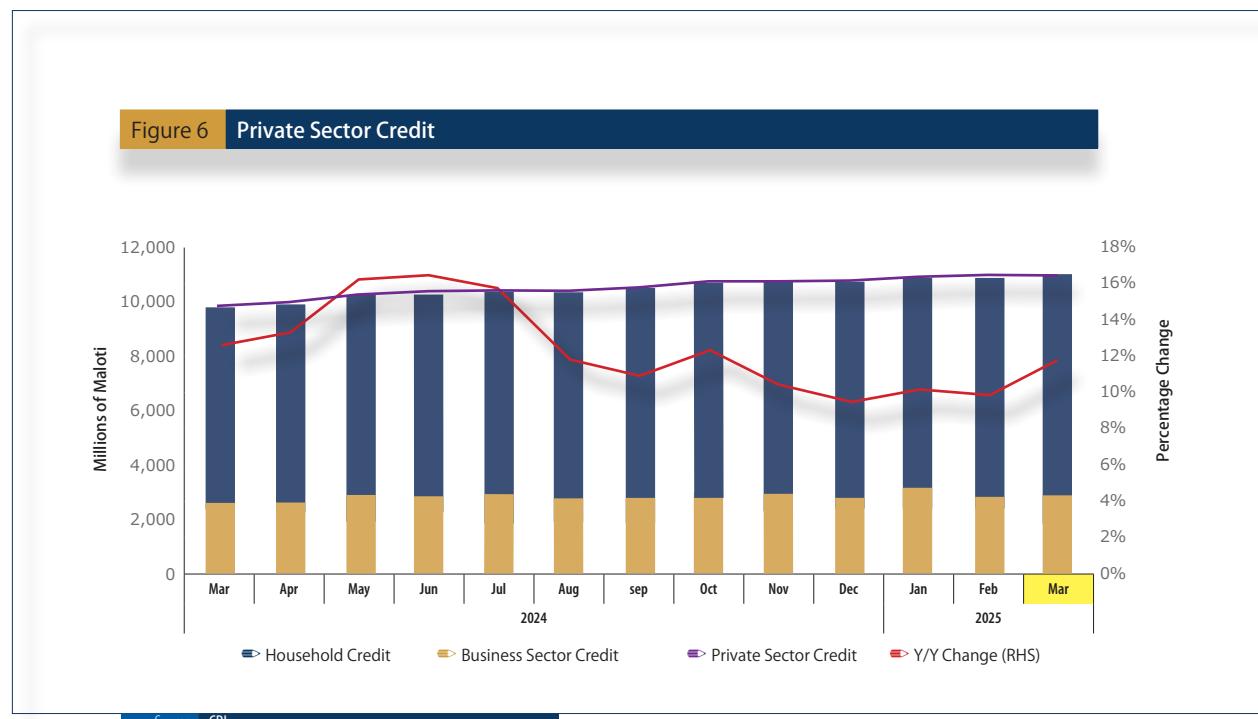
#### Private Sector Credit

Private sector credit increased by 0.5 per cent, compared to the 0.1 per cent growth recorded in

the previous month. This growth was driven by increased credit to business enterprises, despite a decrease in credit to household sector. In particular, credit to business enterprises grew by 2.6 per cent,

reversing the 8.6 per cent decline observed in the prior month. The growth in business credit was noticeable in loans extended to businesses operating in transport, storage and communications; mining and quarrying; and manufacturing industries. Conversely, the decline in credit extended to households was largely explained by a reduction in personal loans. Regarding the share of credit by

business enterprises, 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 11.4 per cent.



## Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined from 4.9 per cent to 4.8 per cent. This decline was driven by a fall in NPLs from businesses. Within the household segment, a decline in personal NPLs and slight increase in mortgage NPLs ensured that overall NPLs growth stayed constant. Among business enterprises, the highest shares of NPLs were attributed to wholesale, retail trade, restaurants & hotel and construction.

## Sources of Funds

The credit-to-deposit ratio increased from 51.7 per cent to 53.3 per cent in the preview month. The increase was attributed to a decline in deposit liabilities of commercial banks coupled with an increase in credit extension.

Figure 7 Credit to Deposit Ratio



Source: CBL

## Interest Rates

The Central Bank of Lesotho policy rate was unchanged at 7.25 per cent like a month earlier. Consequently, the prime lending rate remained steady at 10.75 per cent. The 1-year deposit rate and 91-day Treasury bill rate also remained unchanged at 4.56 per cent and 6.88 per cent, respectively.

## Foreign Exchange

In March 2025, the rand, hence loti, was relatively stable against its major trading currencies. It appreciated slightly against the dollar by 0.01 per cent to record 18.2695, in comparison to a 0.1 per cent appreciation in the previous month. However, it depreciated by 0.03 per cent and 0.02 per cent against the euro and the pound to record 19.8005 and 23.6893 respectively. This was in comparison to an appreciation of 0.1 per cent against the euro and a depreciation of 0.5 per cent against the pound in the previous month.

The slight strength of the rand against the dollar was explained by the weakened dollar at the back of increased uncertainty in the overall US economy, particularly regarding the new administration's stance on tariffs which indicated reciprocal tariffs would be announced in April 2025. Domestically, the rand was influenced by a rebound in retail sales during the month, as well as a modest recovery in economic growth.

The rand weakened against the euro as investor sentiment in the euro area improved, following Germany's announcement of boosting spending on infrastructure and defence, to boost growth in the continent. The pound benefited from improved retail sales in the country, as well as easing inflation during the period.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

Government expenditure declined by 18 per cent in March 2025, contrasting with a 15.1 per cent increase in February 2025. This downturn was predominantly attributed to recurrent spending decreases, marked by underspending across nearly all categories except interest payments and grants transfers. Development spending softened the overall decline as significant amounts were channelled into constructions, acquisition of machinery, and equipment upgrading. Functional spending patterns revealed notable resource allocations to economic affairs, education, and public order and safety sectors. On a year-over-year basis, total expenditure fell marginally by 0.2 per cent, primarily influenced by reductions in compensation of employees, operational costs under the use of goods and services, and student grant transfers.

### Revenue<sup>3</sup>

Government revenue increased significantly by 58.5 per cent, compared to a slight decline of 0.8 per cent in the previous month. This spike was largely driven by substantial collections from income tax, supplemented by a once off receipt of the rand monetary compensation during the reporting period. On an annual basis, revenue grew by 4.2 per cent, primarily due to higher collections of VAT, income tax, and excise tax.

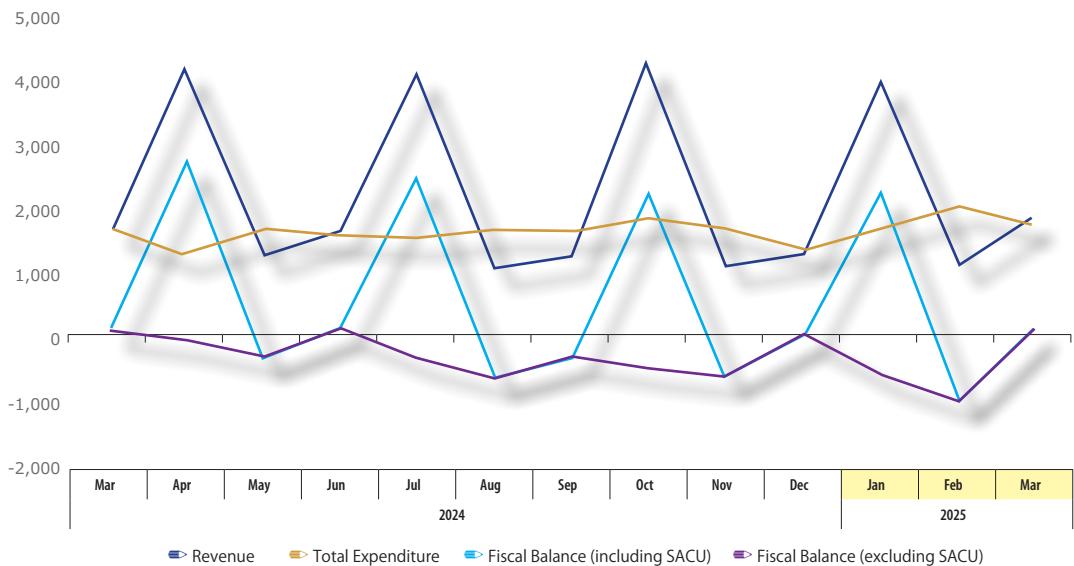
### Fiscal Balance<sup>4</sup>

Consequently, the fiscal operations resulted in a fiscal surplus equivalent to 0.8 per cent of GDP. This was eventually used towards redemption of maturing government securities, and settlement of suppliers' credit.

<sup>3</sup> The monthly analysis of government revenue excludes SACU receipts, an outlier item.

<sup>4</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)

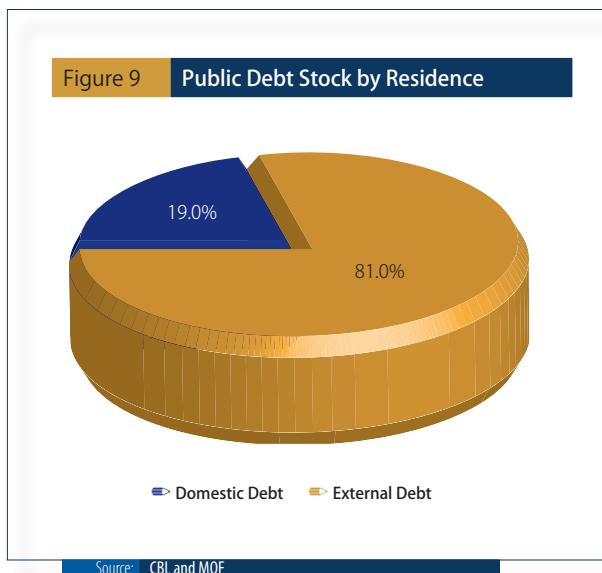
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		5.6%	14.2%	100.0%	0.0%	29.2%	1.2%	6.2%	9.9%	13.2%
Defense		7.0%	8.5%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	5.6%
Public Order and Safety		26.8%	10.8%	0.0%	0.0%	0.1%	0.0%	0.2%	2.0%	13.9%
Economic Affairs		5.8%	29.2%	0.0%	0.0%	5.8%	0.6%	0.0%	56.8%	21.0%
Environmental Protection		1.0%	2.1%	0.0%	100.0%	0.0%	0.0%	0.0%	0.1%	1.1%
Housing and Community Amenities		7.1%	10.1%	0.0%	0.0%	0.0%	1.3%	3.3%	13.5%	8.1%
Health		7.1%	19.1%	0.0%	0.0%	28.8%	0.1%	0.0%	12.4%	11.4%
Recreation, Culture, and Religion		1.0%	3.3%	0.0%	0.0%	0.0%	2.9%	3.5%	0.4%	1.5%
Education		29.6%	2.0%	0.0%	0.0%	0.0%	1.2%	86.7%	1.2%	14.2%
Social Protection		9.0%	0.7%	0.0%	0.0%	36.0%	92.7%	0.0%	0.3%	10.1%
<b>Share per Economic Item</b>		<b>40.9%</b>	<b>23.7%</b>	<b>3.9%</b>	<b>0.2%</b>	<b>5.2%</b>	<b>4.7%</b>	<b>1.5%</b>	<b>20.0%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

The ratio of public debt stock to GDP was estimated at 53.8 per cent in March 2025, equivalent to 1.8 per cent reduction from 54.6 per cent in the

previous month. This fall was mainly on account of redemption of part of domestic debt.



## Appendix: Key Economic Indicators

		24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	25-Jan	25-Feb	25-Mar	
Economic Activity (MIEA (% change, M/M)		-2.6	2.7	1.5	3.0	2.1	-4.5	-2.1	-5.1	
Consumer price Index (% change)	Headline Inflation (year-on-year)	6.0	5.2	4.7	4.4	3.6	3.6	4.1	4.2	
	Core Inflation	4.8	3.8	4.1	3.7	2.4	2.4	2.7	2.8	
Exchange Rates (Monthly End Period)	EUR	20.3617	20.7950	20.5085	20.0677	19.3073	19.3073	19.2451	19.8005	
	GBP	23.8757	24.3030	23.9695	23.4763	23.0593	23.0593	23.3029	23.6893	
	USD	18.8456	19.1910	18.8596	18.7203	18.5173	18.5173	18.5100	18.2695	
Money Supply (Millions of Maloti)	M2	17,160.89	17,306.37	17,631.19	18,545.63	18,995.08	18,513.78	18,883.61	19,291.53	
	M1	7,997.34	8,290.68	8,270.95	8,896.13	9,325.06	8,596.94	8,674.53	9,008.46	
	Quasi Money	9,163.55	9,015.69	9,360.24	9,649.50	9,670.02	9,916.84	10,209.07	10,283.08	
Interest Rates	CBL Rate	7.75	7.75	7.75	7.50	7.50	7.50	7.25	7.25	
	91 day Treasury bill rate	6.74	6.83	6.86	6.88	6.88	6.89	6.88	6.88	
	Prime lending rate	11.25	11.25	11.25	11.00	11.00	11.00	10.75	10.75	
	1 year deposit rate	4.74	4.74	4.74	4.72	4.72	4.68	4.56	4.56	
Private sector Credit (Millions of Maloti)		10,347.59	10,422.71	10,684.74	10,658.79	10,650.80	10,783.40	10,790.20	10,845.47	
		Households	2,784.48	2,771.40	2,853.12	2,882.57	2,785.18	3,105.80	2,837.80	2,910.99
		Non-profit Organisations	7,563.11	7,651.31	7,831.62	7,776.22	7,865.61	7,677.60	7,952.40	7,934.48
Bank Deposit Liabilities (Millions of Maloti)		19,254.43	19,689.38	19,040.65	20,787.42	20,326.23	20,425.14	20,828.06	20,195.76	
Credit to Deposit Ratio (%)		53.7	52.9	56.0	51.1	52.2	52.6	51.7	53.3	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-688.37	-481.21	2,282.50	-662.07	-117.84	2,231.77	-941.42	82.92	
	Total Revenue (with SACU receipts)	1,159.44	1,383.14	4,302.68	1,194.28	1,401.45	4,014.19	1,110.07	1,765.10	
	Total Expenditure	1,847.81	1,864.36	2,020.19	1,856.35	1,519.29	1,782.42	2,051.49	1,682.18	
	O/W Capital	352.68	430.66	296.13	320.77	275.56	463.23	333.70	500.54	
Total Public Debt (Millions of Maloti)		22,220.11	21,915.54	22,134.67	22,394.79	23,267.95	23,187.44	23,227.55	22,887.09	
		Total External Debt	17,661.83	17,356.84	17,678.01	17,927.18	18,700.34	18,620.44	18,585.26	18,546.37
External Debt	Concessional	12,171.97	12,060.71	12,312.57	12,534.03	13,139.97	13,023.70	13,024.15	13,091.31	
	Non-concessional	5,489.87	5,296.13	5,365.44	5,393.15	5,560.37	5,596.74	5,561.11	5,455.06	
Domestic Debt		4,558.27	4,558.71	4,456.66	4,467.61	4,567.61	4,567.00	4,642.30	4,340.72	
Memo Item: Arrears (Millions of Maloti)		-1.66	-1.67	-135.08	-28.85	-13.33	-64.67	-102.45	-77.66	

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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