



Monthly ECONOMIC REVIEW

OCTOBER 2025

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Economic activity exhibited a sustained contraction in October 2025, fortifying a downward trajectory for the third consecutive month. This negative growth was largely attributable to weaknesses across several key sectors of the economy. In particular, the decline was largely observed in subdued domestic demand, alongside poor performance in both the transport and the construction subsectors.

Conversely, the economic downturn was somewhat mitigated by the modest support provided by the recovery in the manufacturing and financial services subsectors. Furthermore, consumers experienced some welcome relief as inflationary pressures eased during the review period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) continued its downward trend in October 2025, recording a 3.1 per cent contraction. This decline was consistent with and reinforces the negative economic performance previously registered in September 2025, suggesting a sustained period of cooling in overall economic activity.

This downturn mainly reflected weakened domestic demand as reflected by declining VAT collections and government use of goods and services, coupled with poor performance in the transport and construction subsectors. However, the manufacturing subsector showed a rebound from the previous month

contraction, largely mirrored by increased exports of textile and apparel to South Africa. The financial services subsector also moderated the decline in overall output, as evidenced by increased credit to the private sector.

Domestic Demand Category

The domestic demand index declined by 3.4 per cent in October, extending the contraction from the 2.4 per cent decrease recorded in September 2025. This sustained downturn was largely observed in a reduction in import volumes, with notable declines in consumer goods and fuel imports from South Africa, pointing to continued weakness in private consumption. In addition, government expenditure on goods and services also decreased during the period, indicating a moderation in public consumption.

Together, these developments highlighted subdued domestic demand conditions, reflecting both constrained household spending and reduced government outlays.

Manufacturing and Production

The Manufacturing and Production Index recorded a stronger expansion, rising to 3.0 per cent, from 4.3 per cent in September. This improvement was largely attributed to a notable increase in textile exports to the South African market, which boosted overall manufacturing activity. Furthermore, higher levels of water consumption by industrial users, together with an increase in imports of raw materials, provided additional evidence of heightened production activity.

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							
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
CIEA	118.5	119.6	127.5	130.5	130.7	126.4	122.2	118.4
Monthly changes	-4.1	0.9	6.7	2.3	0.1	-3.3	-3.3	-3.1
Domestic Demand Category	111.6	116.3	123.3	121.5	114.9	111.6	108.9	105.2
Monthly changes	-3.9	4.2	6.0	-1.5	-5.5	-2.8	-2.4	-3.4
Manufacturing & Production Category	105.3	108.3	111.9	116.4	111.8	107.8	102.9	105.9
Monthly changes	1.5	2.8	3.3	4.0	-4.0	-3.9	-4.3	3.0
Transport Category	86.5	84.7	90.3	99.9	106.6	107.8	102.9	101.8
Monthly Changes	-9.5	-2.0	6.7	10.6	6.7	1.2	-4.6	-1.0
Financial Services	196.4	198.5	200.4	201.7	202.7	202.1	202.7	204.4
Monthly Changes	0.4	1.1	1.0	0.6	0.5	-0.3	0.3	0.8
Construction Category	78.7	84.0	117.2	117.3	138.1	113.6	117.2	98.4
Monthly Changes	-6.1	6.7	39.6	0.0	17.8	-17.7	3.2	-16.0

Source: CBL Calculations.

II. INFLATION AND PRICES

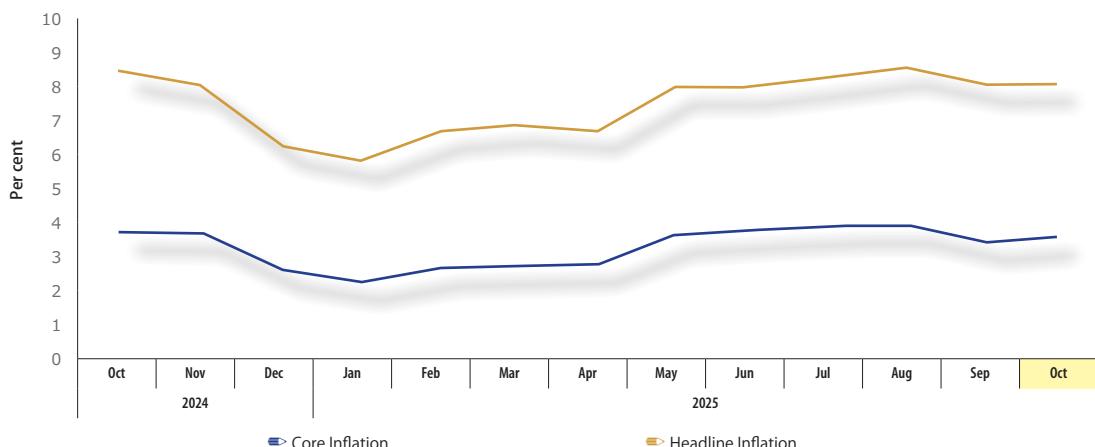
Headline Inflation

Headline inflation eased to 4.5 per cent in October 2025, down from 4.7 per cent in September 2025. The 0.2 percentage point reduction was largely

driven by a decline in food prices, reflecting an abundant supply of vegetables.

This surplus moderated price pressures across the food basket, contributing to the overall slowdown in inflation.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

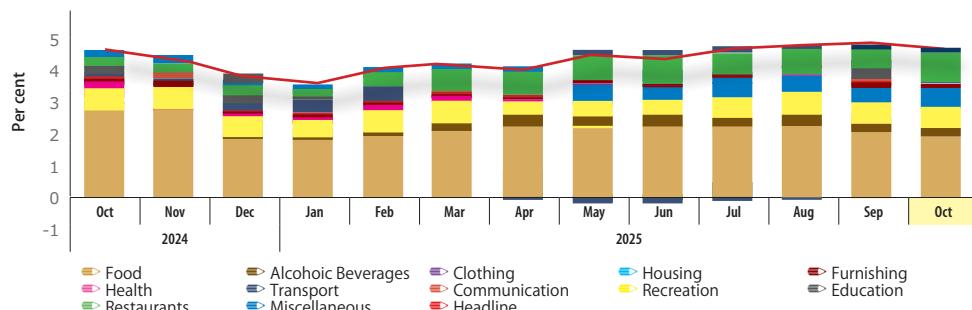
The main contributors to the 4.5 per cent headline inflation were Food and Non-Alcoholic beverages, Clothing and footwear, Housing, Water, Electricity, and Gas, as well as Restaurants and Hotels.

Food & Non-alcoholic Beverages increased by 5.8 per cent year-on-year and contributed 2.0 percentage points to the total annual inflation rate of 4.5 per cent.

Clothing and Footwear increased by 8.1 per cent and contributed 0.7 percentage points. The Housing, Water, Electricity, and Gas category recorded a year-on-year increase of 3.8 per cent, contributing 0.5 percentage points to the overall annual inflation rate.

Restaurants and Hotels increased by 12.3 per cent year-on-year, and contributed 0.7 percentage points to the total annual inflation rate.

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



Source: Lesotho Bureau of Statistics & CBL Computations

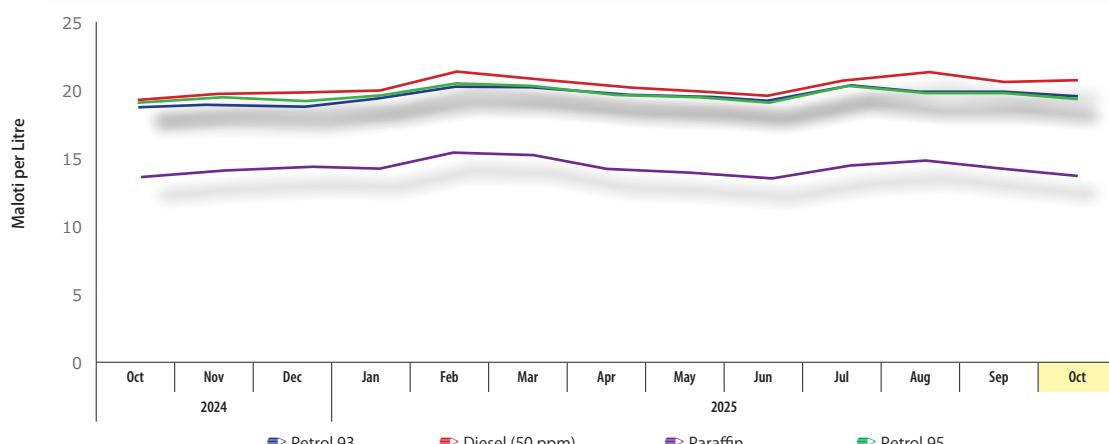
Core Inflation

In October 2025, underlying inflationary pressures continued to build, as reflected in the trimmed mean measure of core inflation. The indicator rose to 3.7 per cent, compared with 3.5 per cent in September 2025. Despite easing headline inflation, there were still persistent underlying price pressures across several categories.

Domestic Fuel Prices

The price of petroleum products decreased in the review period, with prices of both grades of petrol (Petrol₉₃ and Petrol₉₅) decreasing by M 0.35 and M 0.30, respectively. Both grades of petrol (Petrol₉₃ and Petrol₉₅) were sold at M 19.15 and M 19.35 per litre at the pump, respectively. The pump prices of diesel₅₀ and illuminating paraffin decreased by M 0.10 and M 0.20, respectively, and were sold at M 20.35 per litre and M 13.80 per litre in the retail market, respectively.

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)

Money supply (M2) grew, further, by 2.7 per cent, following a 0.5 per cent growth in September. Growth was driven by a recovery in net foreign assets (NFA) despite a fall in net domestic assets (NDA). NFA grew by 7.2 per cent, in contrast to the 0.5 per cent decline recorded a month earlier. The expansion was supported by the central bank's claims on non-residents following a receipt of SACU revenue. Conversely, NDA declined by 43.2 per cent, in contrast to the 17.6 per cent growth in the previous period. This decline emanated from the fall in net claims on central government by the central bank following a build-up of government deposits. Year-on-year, M2 grew by 11.3 per cent.

Components of Money Supply

Breaking money supply into its components, the overall growth in M2 was driven by a sustained increase in narrow money (M1), and a rebound in quasi money. M1 grew by 3.1 per cent compared with 2.1 per cent in the previous month. The rise in M1 was in line with an increase in transferable deposits held by business enterprises and resident households. Similarly, an increase in quasi money was due to higher fixed time deposits and call accounts held by business enterprises.



Source: CBL

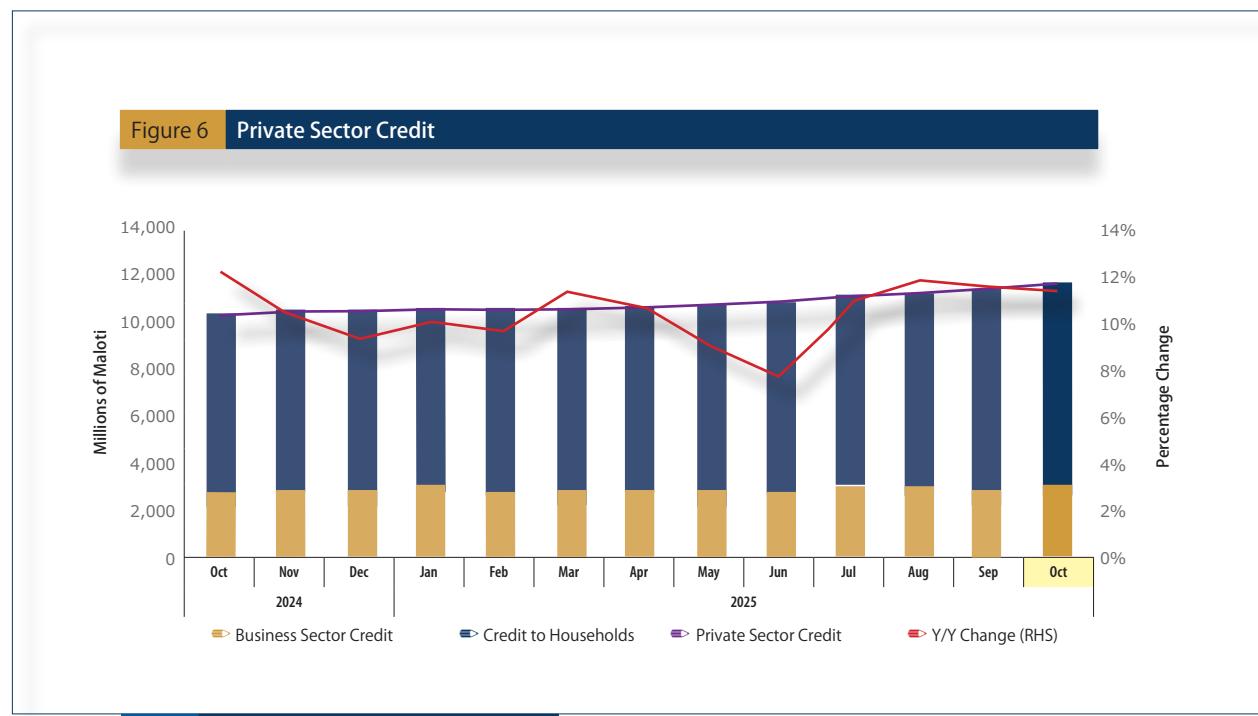
Private Sector Credit

Growth in private sector credit continued to grow in October, expanding by 2.3 per cent, following a 0.5 per cent increase in September. The growth was evident in both households and business enterprises credit. Household credit grew by 2.0 per cent,

following a 1.4 per cent expansion in September, while business credit recouped by 3.1 per cent, in contrast to the 2.0 per cent decline in the previous period. Regarding household credit, personal loans largely drove the observed growth, alongside moderate growth in mortgages. Growth in business credit was mainly evident in Wholesale and Retail

Trade, Restaurants and Hotels, construction, as well as, Transport, Storage and Communications. The Wholesale and Retail Trade, Restaurant and Hotels, commanded the highest share of credit extension, followed by Real Estate and Business Services, while

Construction completed the top three. Electricity, Gas and Water remained the smallest recipient of credit extension to the business sector. On an annual basis, private sector credit grew by 11.4 per cent.



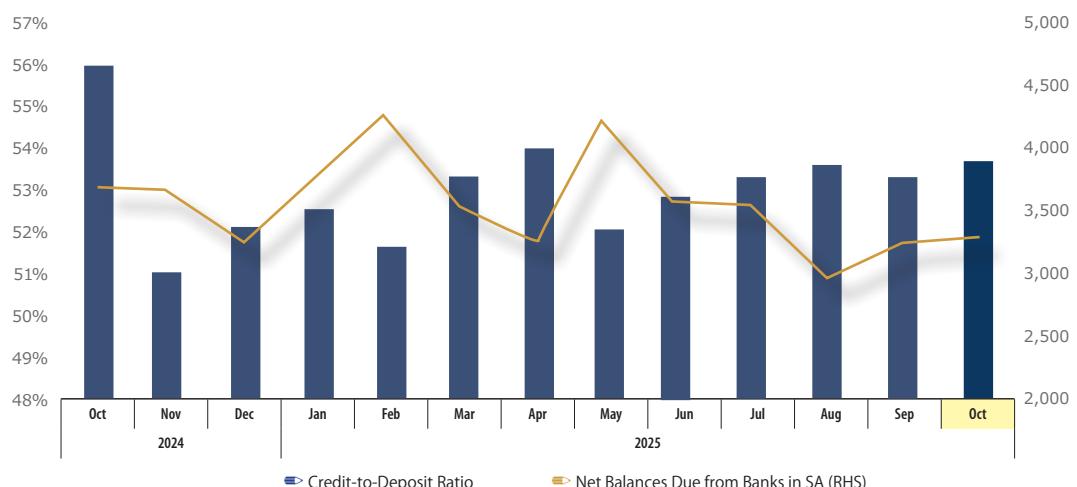
Non-Performing Loans

The ratio of non-performing loans (NPLs) remained at 3.8 per cent in October, unchanged from September, reflecting sustained loan performance over the two months. The Wholesale & Retail Trade, Restaurants & Hotels subsector (which received the largest share of business credit) recorded the highest NPLs, followed by Construction, and Real Estate and Business Services.

Sources of Funds

The credit-to-deposit ratio slightly improved to 53.7 per cent in October from 53.4 per cent in September. The increase was attributed to a rise in credit extension which outpaced growth in deposit base of commercial banks.

Figure 7 Credit to Deposit Ratio



Source: CBL

Interest Rates

The CBL policy rate remained unchanged at 6.75 per cent between September and October 2025. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 10.25 and 4.97 per cent, respectively. The 91-day Treasury bill rate, however, declined to 6.89 per cent, from 6.93 per cent in September.

Foreign Exchange

The rand, hence, loti strengthened against major trading currencies in October 2025. It appreciated by; 0.10 per cent against the US dollar to the

average of 17.32, 2.16 per cent to the average of 23.09 against the pound and by 1.86 per cent to the average of 20.12 against the euro. The rand was supported by the widening interest rates differential between South Africa and other advanced markets. The US was expected to embark on further rate cuts, which has driven the dollar down. The Moody's maintained South Africa's credit rating, but with a positive outlook, influenced by improved fiscal discipline. This, coupled with the positive economic data improved sentiment for the rand. There were increased portfolio inflows into South Africa, driven by among others a search for higher yields. The rand also gained at the back of rising precious metal prices, hence boosting exports earnings.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government spending execution was estimated at 76.3 per cent in October 2025, significantly higher than the 47.2 per cent recorded in September. The surge was primarily driven by increased operating costs, subsidies to non-financial public corporations, and grants to students and extra-budgetary units. A 13.1 per cent decline in wages and salaries helped moderate the overall increase in expenditure.

Similarly, development spending rose by 5.0 per cent, largely due to higher outlays on buildings and structures, which contributed to a 16.5 per cent allocation to the economic affairs sector.

On an annual basis, total spending increased by 3.0 per cent, reversing the 27.9 per cent contraction recorded in September, and was marked by elevated recurrent expenditure.

Revenue³

Government revenue, excluding SACU receipts, was estimated to have declined by 12.8 per cent in October 2025, in contrast to a 21.0 per cent increase in September. The downturn was attributed to lower collections of income tax and VAT.

Including SACU receipts, total revenue declined by 16.2 per cent on an annual basis, reflecting both weaker tax performance and reduced SACU inflows.

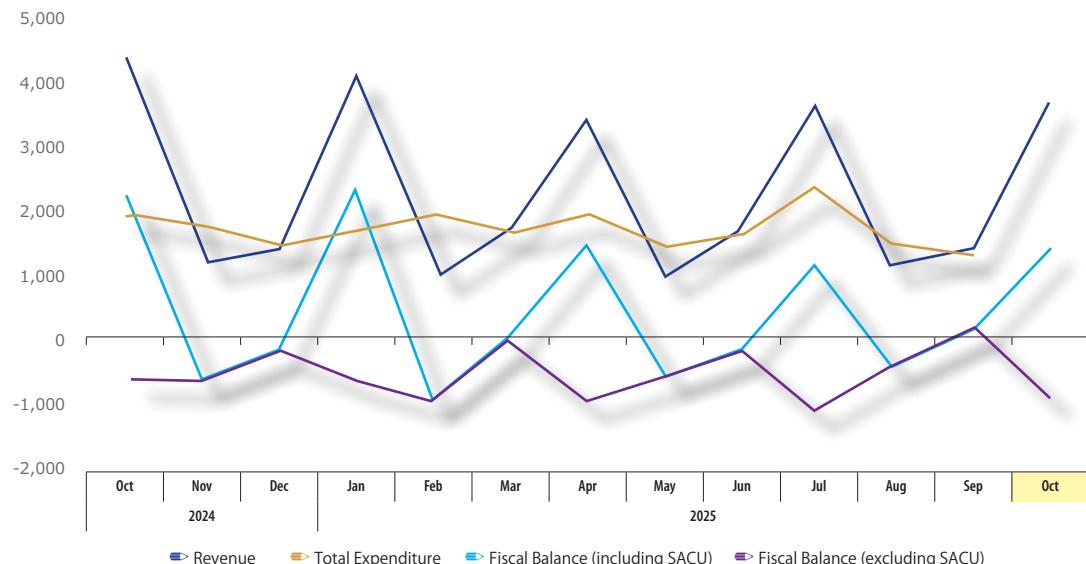
Fiscal Balance⁴

The fiscal balance was estimated to have registered a surplus of 14.3 per cent of GDP in October 2025, resulting in a build-up of Government banking deposits and a 15.5 per cent increase in financial assets. Liabilities also increased, primarily due to the incurrence of new external debt.

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
Total	Approved budget	2724.15	2725.07	2725.08	2725.08	2725.08	2725.08	2725.08
	of which: Revisions	0.00	0.92	0.01	0.00	0.00	0.00	0.00
	Outturn	1924.23	1436.99	1603.92	2356.26	1557.48	1284.85	2079.85
Recurrent	Approved budget	1834.15	1834.17	1834.18	1834.18	1834.18	1834.18	1834.18
	of which: Revisions	0.00	0.02	0.01	0.00	0.00	0.00	0.00
	Outturn	1681.51	1311.06	1329.90	2093.46	1339.94	1053.60	1836.97
Development	Approved budget	890.01	890.91	890.91	890.91	890.91	890.91	890.91
	of which: Revisions	0.00	0.90	0.00	0.00	0.00	0.00	0.00
	Outturn	242.71	125.93	274.02	262.80	217.55	231.24	242.88
Execution Trends								
Total		70.6%	52.7%	58.9%	86.5%	57.2%	47.1%	76.3%
Recurrent		91.7%	71.5%	72.5%	114.1%	73.1%	57.4%	100.2%
Development		27.3%	14.1%	30.8%	29.5%	24.4%	26.0%	27.3%

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		6.2%	12.9%	100.0%	0.0%	56.2%	1.8%	0.5%	5.0%	14.4%
Defence		8.0%	4.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	3.1%
Public Order and Safety		18.4%	10.0%	0.0%	0.0%	2.0%	0.0%	0.3%	0.5%	7.3%
Economic Affairs		6.6%	37.8%	0.0%	0.0%	22.2%	0.0%	0.0%	62.9%	16.5%
Environmental Protection		1.0%	0.8%	0.0%	1.6%	0.0%	0.0%	0.0%	0.0%	0.5%
Housing & Comm. Amenities		7.3%	4.6%	0.0%	0.0%	2.2%	0.1%	0.2%	29.4%	6.3%
Health		8.3%	24.5%	0.0%	97.1%	6.7%	2.8%	0.0%	0.0%	13.6%
Recreation, Culture, & Religion		1.2%	2.0%	0.0%	0.0%	0.6%	0.6%	0.0%	0.1%	0.8%
Education		32.9%	1.1%	0.0%	1.3%	1.3%	0.2%	98.6%	1.4%	24.6%
Social Protection		10.2%	1.8%	0.0%	0.0%	8.9%	94.4%	0.3%	0.1%	12.9%
Share per Economic Item		30.4%	13.2%	2.6%	6.9%	13.2%	8.8%	14.2%	10.5%	100.0%

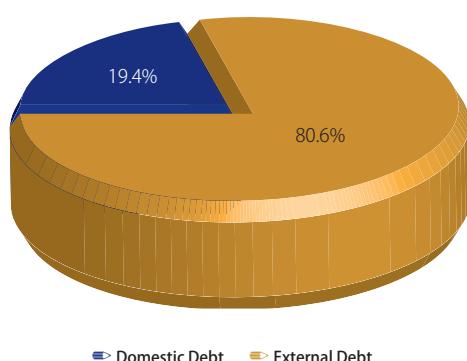
Source: CBL and MOF

V. PUBLIC DEBT

Public debt stock was estimated at 53.9 per cent of GDP in October 2025, continuing the downward trend observed since July 2025. The decline was largely driven by the redemption of domestic Treasury bonds, which reduced the share of domestic debt in total public debt by 0.5 percentage

points, bringing it to 19.4 per cent. External debt also declined marginally by 0.3 per cent, mainly reflecting exchange rate appreciation that lowered the local-currency value of foreign-denominated obligations.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: Key Economic Indicators

		25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sept	25-Oct
Economic Activity (MIEA (% change, M/M)		-4.1	0.9	6.7	2.3	0.1	-3.3	-3.3	-3.1
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.2	4.0	4.4	4.3	4.4	4.6	4.7	4.5
	Core Inflation	2.8	2.8	3.7	3.8	4.0	4.0	3.5	3.7
Exchange Rates (Monthly End Period)	EUR	19.8005	21.1993	20.2838	20.8169	20.7536	20.6834	20.2509	20.0185
	GBP	23.6893	24.8261	24.1063	24.3705	23.9903	23.9264	23.1900	22.7540
	USD	18.2695	18.9095	17.8902	17.7516	17.7498	17.7236	17.2607	17.3156
Money Supply (Millions of Maloti)	M2	19,291.53	18,874.09	19,014.18	19,018.40	19,005.19	19,014.70	19,117.53	19,629.46
	M1	9,008.46	8,905.18	8,758.55	8,990.85	8,594.76	8,497.18	8,677.26	8,942.49
	Quasi Money	10,283.08	9,968.92	10,255.62	10,027.56	10,410.44	10,517.52	10,440.27	10,686.97
Interest Rates	CBL Rate	7.25	7.25	7.25	7.00	7.00	6.75	6.75	6.75
	91 day Treasury bill rate	6.88	6.86	6.86	6.87	6.88	6.89	6.93	6.89
	Prime lending rate	10.75	10.75	10.75	10.50	10.50	10.25	10.25	10.25
	1 year deposit rate	4.56	4.56	4.56	5.12	5.12	4.97	4.97	4.97
Private sector Credit (Millions of Maloti)		10,845.47	10,929.68	11,107.46	11,033.36	11,403.82	11,581.93	11,633.99	11,902.54
	Households	2,910.99	2,930.98	2,924.56	2,988.87	3,047.52	3,085.83	3,023.53	3,117.89
	Non-profit Organisations	7,934.48	7,998.70	8,182.89	8,044.79	8,356.30	8,496.10	8,610.46	8,784.65
Bank Deposit Liabilities (Millions of Maloti)		20,195.76	20,100.00	21,167.00	21,102.50	21,186.90	21,453.87	21,630.04	22,005.42
Credit to Deposit Ratio (%)		53.3	54.0	52.1	52.9	53.4	53.6	53.4	53.7
Fiscal Operations (Millions of Maloti)	Fiscal Balance	80.02	1,387.85	-356.66	68.39	1,231.37	-319.17	214.21	1,522.98
	Total Revenue (with SACU receipts)	1,760.67	3,312.08	1,080.33	1,672.31	3,587.62	1,238.31	1,499.05	3,602.83
	Total Expenditure	1,680.65	1,924.23	1,436.99	1,603.92	2,356.26	1,557.48	1,284.85	2,079.85
	O/W Capital	562.64	242.71	125.93	274.02	262.80	217.55	231.24	242.88
Total Public Debt (Millions of Maloti)		23,229.68	24,187.86	23,609.20	23,704.07	23,779.42	23,696.08	23,122.35	22,930.70
	Total External Debt	18,888.96	19,746.70	19,162.40	19,106.18	19,181.18	19,097.53	18,522.83	18,474.04
	External Debt	12,660.15	13,357.23	12,903.68	12,850.13	12,883.99	12,839.93	12,548.71	12,520.00
Domestic Debt	Concessional	6,228.81	6,389.47	6,258.71	6,256.05	6,297.18	6,257.61	5,974.12	5,954.04
	Non-concessional	4,340.72	4,441.16	4,446.80	4,597.90	4,598.24	4,598.55	4,599.52	4,456.66
Memo Item: Arrears (Millions of Maloti)		-77.66	0.00	0.00	-15.35	-9.10	-23.66	-38.97	0.00

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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