



Monthly

ECONOMIC REVIEW

SEPTEMBER 2025

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Economic activity contracted for the second consecutive month in September 2025, signalling a continued weakening of the economy. The downturn was primarily driven by sustained softness in domestic demand, manufacturing, and transport sectors. Although construction and financial services offered limited support, persistent inflationary pressures continued to weigh heavily on real economic performance.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) recorded a decline of 3.3 per cent in September 2025, in line with the contraction seen in August. This sustained downturn reflected weaker household and public spending, coupled with lower industrial output. Domestic demand remained subdued, primarily due to reduced imports of goods and services. The manufacturing subsector extended its contraction, primarily due to weaker textile and apparel exports. The transport subsector, which had previously offset weakness in August, also softened amid lower freight volumes. The financial services remained broadly stable, while construction posted a mild recovery.

Domestic Demand Category

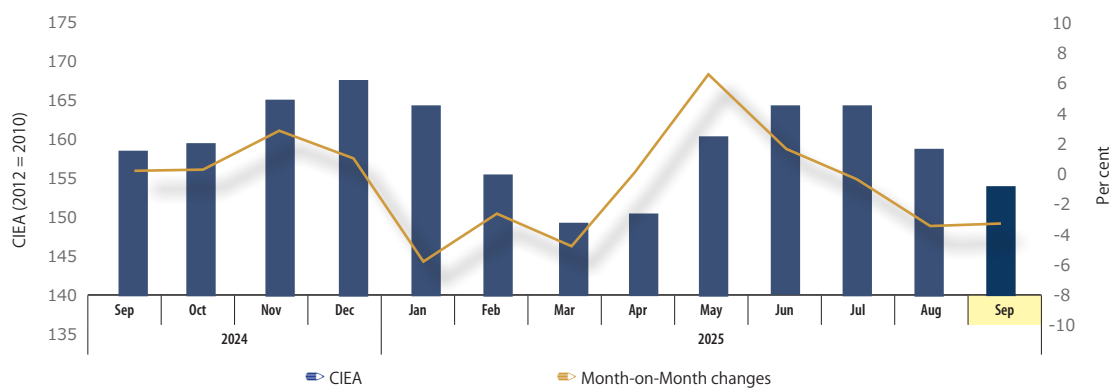
In September, the Domestic Demand Index contracted by 2.4 per cent, easing only marginally from August's 2.8 per cent decline. The downturn primarily reflected reduced import volumes, notably of consumer goods and fuel from South Africa, consistent with persistent softness in private consumption. Government spending on goods and services also declined, indicating weaker public-sector demand.

Manufacturing and Production

The Manufacturing and Production Index contracted by 4.3 per cent, accelerating from the 3.9 per cent decline recorded in August. The downturn primarily reflected a continued slump in textile exports to the United States and South Africa as reciprocal tariffs undermined competitiveness. Subdued industrial consumption of electricity and water, together with weaker imports of intermediate goods, further signalled a broad-based reduction in 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							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
CIEA	123.6	118.5	119.6	127.5	130.5	130.7	126.4	122.2
Monthly changes	-2.1	-4.1	0.9	6.7	2.3	0.1	-3.3	-3.3
Domestic Demand Category	116.2	111.6	116.3	123.3	121.5	114.9	111.6	108.9
Monthly changes	-2.1	-3.9	4.2	6.0	-1.5	-5.5	-2.8	-2.4
Manufacturing & Production Category	103.8	105.3	108.3	111.9	116.4	111.8	107.8	102.9
Monthly changes	-1.8	1.5	2.8	3.3	4.0	-4.0	-3.9	-4.3
Transport Category	95.6	86.5	84.7	90.3	99.9	106.6	107.8	102.9
Monthly Changes	-8.8	-9.5	-2.0	6.7	10.6	6.7	1.2	-4.6
Financial Services	195.7	196.4	198.5	200.4	201.7	202.7	202.1	202.7
Monthly Changes	0.4	0.4	1.1	1.0	0.6	0.5	-0.3	0.3
Construction Category	83.8	78.7	84.0	117.2	117.3	138.1	113.6	117.2
Monthly Changes	-0.9	-6.1	6.7	39.6	0.0	17.8	-17.7	3.2

Source: CBL Calculations.

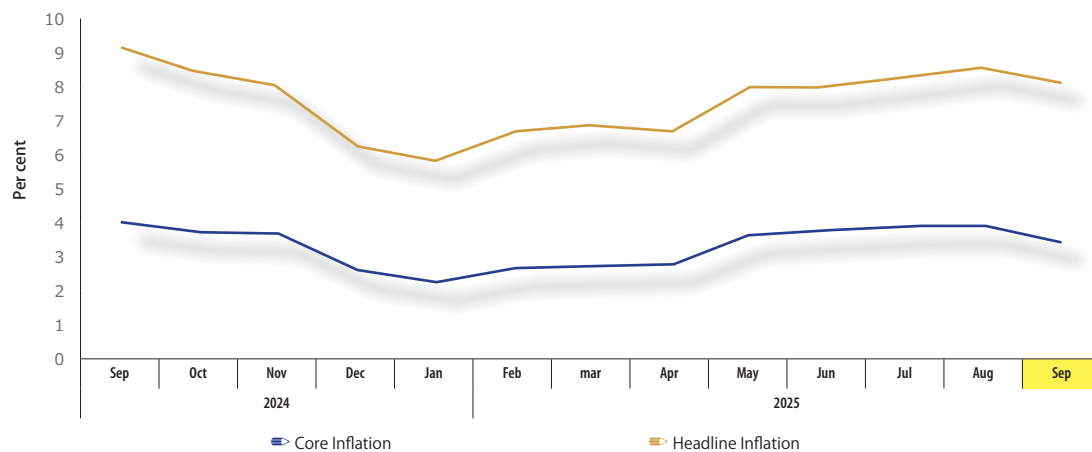
II. INFLATION AND PRICES

Headline Inflation

Consumer prices continued their gradual upward trajectory in September 2025, highlighting persistent inflationary pressures across the economy.

Headline consumer price inflation edged higher to 4.7 per cent year-on-year, from 4.6 per cent in August, underscoring the persistence of inflationary pressures across various sectors. The slight uptick was predominantly attributable to increased costs of petrol and brake fluid.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

The main drivers of the 4.7 per cent headline inflation were Food & Non-Alcoholic Beverages, Clothing & Footwear, and Housing, Water, Electricity & Gas.

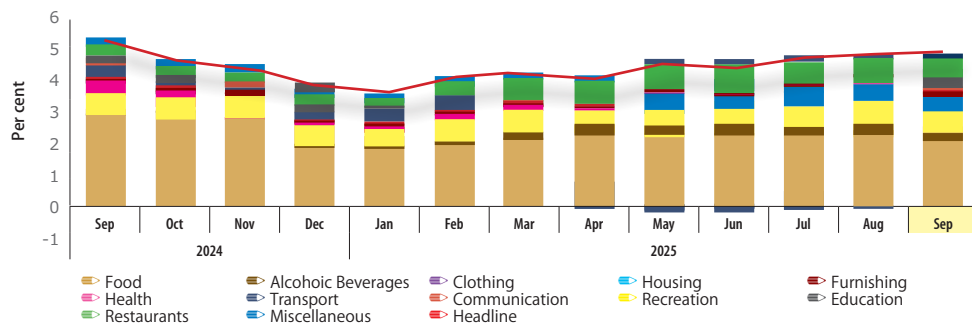
- Food & Non-Alcoholic Beverages rose 6.2 per cent year-on-year, contributing 2.1 percentage

points, which was the largest single driver, predominantly attributed to supply-side pressures in wheat prices.

- Clothing & Footwear increased 8.2 per cent, adding 0.7 percentage points.

Housing, Water, Electricity & Gas advanced 3.5 per cent, contributing 0.5 percentage points..

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



Source: Lesotho Bureau of Statistics & CBL Computations

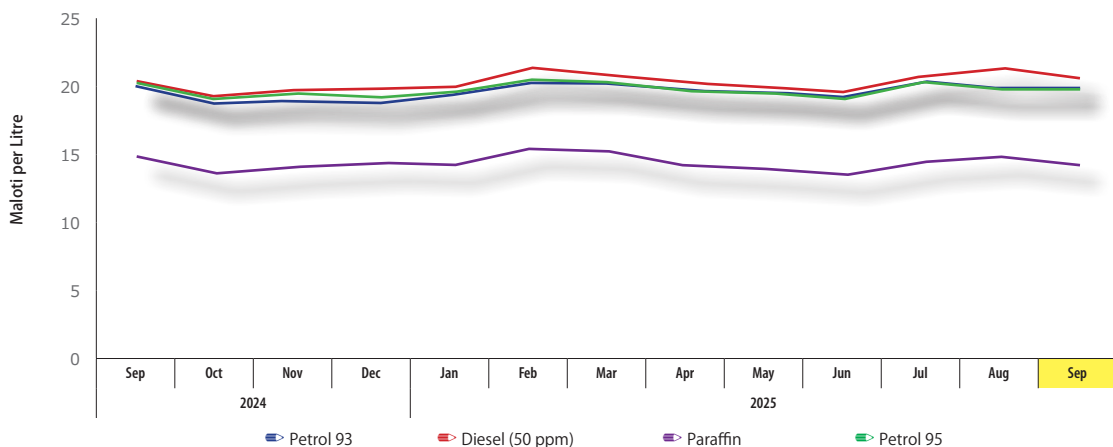
Core Inflation

In September 2025, the underlying inflationary pressures, as measured by the trimmed mean indicator of core inflation, declined noticeably to 3.5 per cent from 4.0 per cent in August, indicating a moderation in the broader inflationary trend during the review period.

Domestic Fuel Prices

Petroleum product prices showed mixed movements in September. Pump prices for both Petrol₉₃ and Petrol₉₅ rose by M 0.10 per litre to M 19.50 and M 19.65, respectively. In contrast, diesel (50 ppm) and illuminating paraffin prices fell by M 0.70 and M 0.50 per litre, respectively, reaching M 20.45 and M 14.00 per litre.

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)

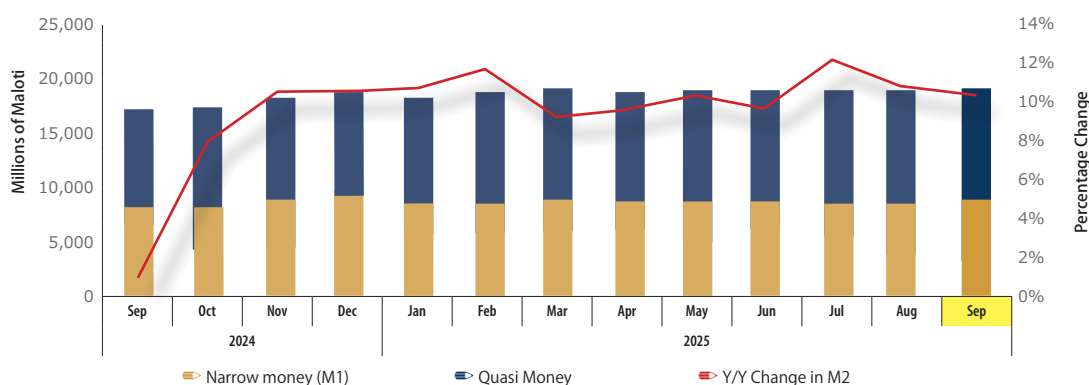
Money supply (M2) grew by 0.5 per cent in September, following a 0.1 per cent growth in August. The growth was supported by a further expansion in net domestic assets (NDA), despite a continued fall in net foreign assets (NFA). NDA grew by 17.6 per cent, albeit slower than the 40.3 per cent growth in the preceding month. The expansion in NDA was driven by the drawdown of government deposits with the central bank, coupled with growth of credit to households. Conversely, NFA fell by 0.5 per cent following a 5.1 per cent decline in the previous month. The decline in NFA was largely attributed to the reduction in the central bank's NFA, although the rise in commercial bank NFA partially

offset the overall decrease. Year-on-year, M2 grew by 10.5 per cent.

Components of Money Supply

Breaking down money supply into its components, the growth in M2 was driven by an increase in narrow money (M1), while quasi money declined. M1 grew by 2.1 per cent compared to the 1.1 per cent decline in the previous month. The rise in M1 was in line with an increase in transferable deposits held by business enterprises. In contrast, the decline in quasi money was largely due to a reduction of fixed time deposits held by business enterprises as well as the fall in call deposits held by households.

Figure 5 Broad Money Growth



Source: CBL

Private Sector Credit

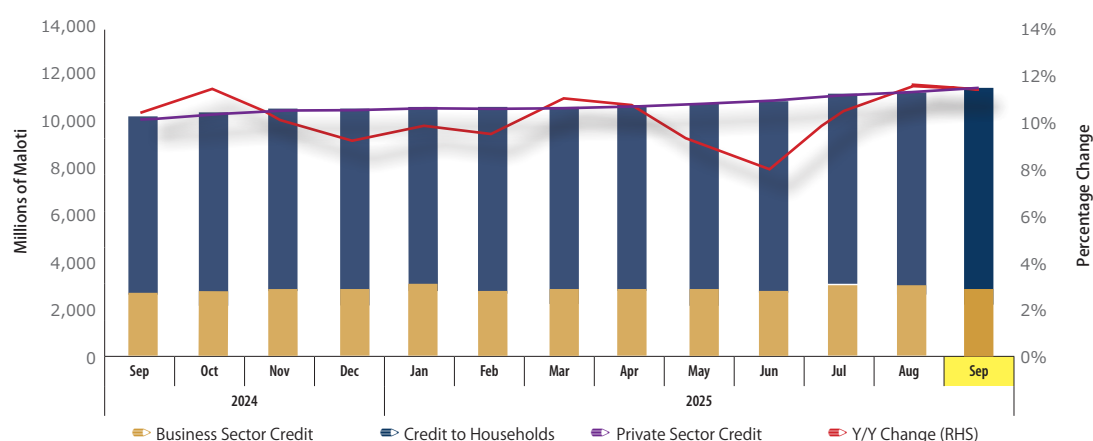
Growth in private sector credit continued in September, expanding by 0.5 per cent, following a 1.6 per cent increase in August. The overall growth was driven by an expansion in household credit, despite a decline in credit to business enterprises.

Household credit grew by 1.4 per cent, compared to a 1.7 per cent growth in August, while business credit declined by 2.0 per cent, reversing the 1.3 per cent increase in the previous month. Both personal loans and mortgages contributed to the observed growth in household credit extension, rising by 1.7 and 0.1 per cent, respectively.

The decline in business credit was evident in the mining industry. 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, although it recorded a marginal growth. On an annual basis, private sector credit grew by 11.6 per cent.

Figure 6 Private Sector Credit



Source: CBL

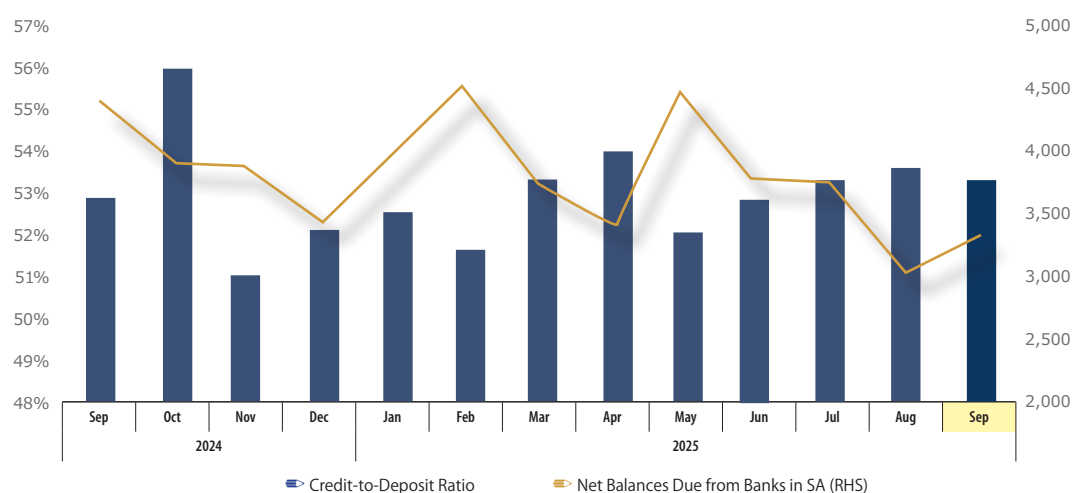
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined to 3.8 per cent in September from 3.9 per cent in August, reflecting a reduction in businesses sector NPLs. 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 declined to 53.4 per cent in September from 53.6 per cent in August. The increase was attributed to a rise in deposit base of commercial banks, despite an increase in credit extension.

Figure 7 Credit to Deposit Ratio



Source: CBL

Interest Rates

The CBL rate remained unchanged at 6.75 per cent between August and September 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 also remained unchanged at 6.93 per cent between August and September.

Foreign Exchange

The rand, and therefore the loti, strengthened further in September against major trading currencies. The rand appreciated by 0.4 per cent to average 20.52 against the euro and by 1.0 per cent against the US dollar to average 17.52. It also strengthened by 0.8 per cent to reach a record 23.62 against the pound. The rand's performance was supported by favourable domestic economic data, including stronger retail sales and an improved growth outlook. It also benefited from higher commodity prices. Internationally, the rand was bolstered by a weakening US dollar and wider interest rate differentials stemming from interest rate cuts in the US and expectations of further cuts in 2025.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government spending execution was estimated at 47.1 per cent in September 2025, lower than the 57.2 per cent recorded in August. The decline was primarily driven by reduced recurrent spending across all categories, with the exception of compensation of employees, which increased by 2.3 per cent.

In contrast, development spending rose by 6.3 per cent, mainly due to higher outlays on machinery and equipment, which boosted allocations within the economic affairs sector.

On an annual basis, total spending fell by 15.7 per cent, compared to a 15.7 per cent decrease in August, reflecting broad expenditure restraint across both recurrent and capital components.

Revenue³

Government revenue was estimated to have increased by 16.0 per cent in September 2025, reversing the 4.2 per cent decline recorded in August. The improvement was largely supported by strong collections from income tax and VAT, while excise taxes and other revenue categories partially moderated the overall increase.

On a year-on-year basis, revenue rose by 3.8 per cent, compared to a 6.7 per cent increase in August, indicating a slight deceleration in annual revenue growth.

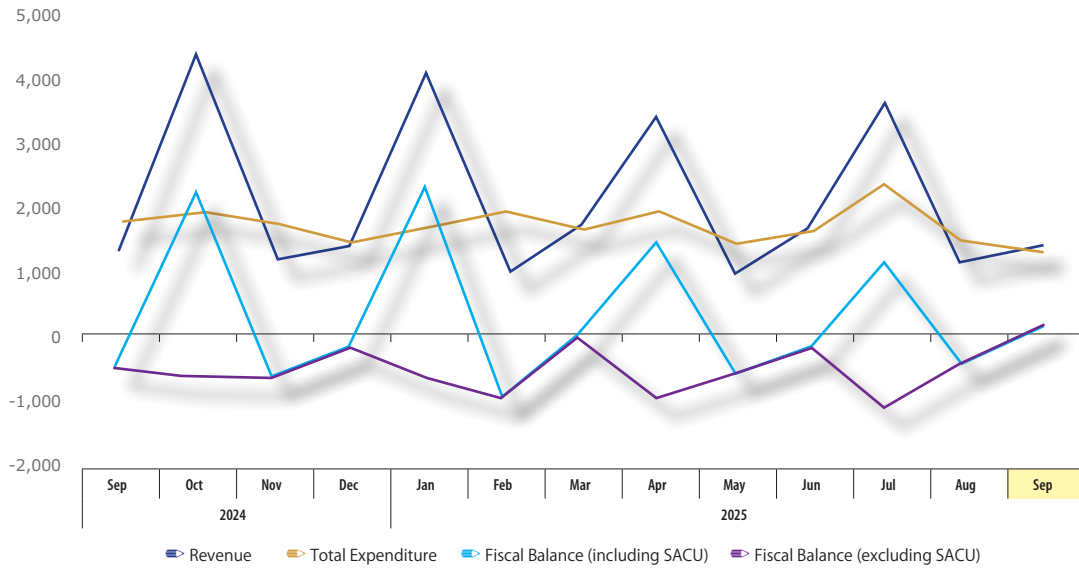
Fiscal Balance⁴

The fiscal balance was estimated to have registered a surplus of 1.4 per cent of GDP in September 2025, reflecting a positive financing stance. Part of this surplus was used to service external debt obligations and settle outstanding payments to suppliers. To supplement financing needs, Government also withdrew additional funds from its banking deposits, demonstrating its commitment to meeting liabilities without resorting to new borrowing.

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
Total	Approved budget	2724.15	2725.07	2725.08	2725.08	2725.08	2725.08
	of which: Revisions	0.00	0.92	0.01	0.00	0.00	0.00
	Outturn	1924.23	1436.99	1604.33	2356.26	1557.48	1284.85
Recurrent	Approved budget	1834.15	1834.17	1834.18	1834.18	1834.18	1834.18
	of which: Revisions	0.00	0.02	0.01	0.00	0.00	0.00
	Outturn	1681.51	1311.06	1330.31	2093.46	1339.94	1053.60
Development	Approved budget	890.01	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
	Outturn	242.71	125.93	274.02	262.80	217.55	231.25
Execution Trends							
	Total	70.6%	52.7%	58.9%	86.5%	57.2%	47.1%
	Recurrent	91.7%	71.5%	72.5%	114.1%	73.1%	57.4%
	Development	27.3%	14.1%	30.8%	29.5%	24.4%	26.0%

Source: CBL and Ministry of Finance (MOF).

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

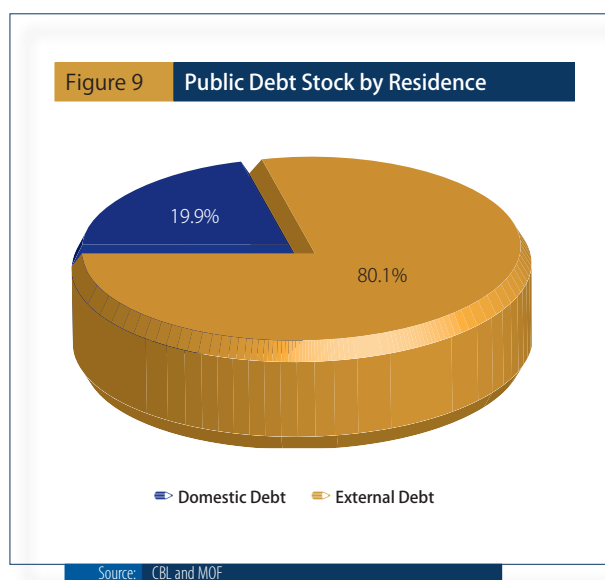
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		5.6%	11.0%	100.0%	0.0%	24.9%	2.8%	31.5%	22.4%	17.2%
Defence		7.2%	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	14.3%	5.9%
Public Order and Safety		16.7%	15.8%	0.0%	0.0%	2.4%	0.0%	2.4%	9.9%	12.6%
Economic Affairs		6.8%	36.5%	0.0%	0.0%	6.9%	0.0%	2.4%	34.9%	17.8%
Environmental Protection		0.9%	1.4%	0.0%	0.0%	0.0%	0.0%	3.7%	0.1%	0.8%
Housing & Comm. Amenities		14.7%	9.6%	0.0%	0.0%	0.0%	0.0%	40.4%	10.4%	10.1%
Health		7.4%	16.9%	0.0%	0.0%	0.0%	3.5%	0.0%	4.9%	8.9%
Recreation, Culture, & Religion		1.1%	0.9%	0.0%	0.0%	0.8%	1.1%	8.6%	0.1%	0.9%
Education		30.7%	1.5%	0.0%	0.0%	0.0%	20.6%	0.0%	2.6%	14.8%
Social Protection		9.0%	1.8%	0.0%	0.0%	64.9%	72.1%	10.9%	0.3%	11.0%
Share per Economic Item		39.8%	30.2%	8.5%	0.0%	1.0%	8.6%	0.3%	11.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

Public debt stock was estimated at 54.4 per cent of GDP in September 2025, down from 55.7 per cent of GDP in August. The decline was driven by exchange rate appreciation on foreign-denominated loans, particularly those held with multilateral creditors.

As a result, the share of external debt in total public debt fell to 80.1 per cent, down from 80.6 per cent in the previous month. Domestic debt remained unchanged.



⁵ According to the 2022 IMF World Debt Sustainability Analysis (DSA), the pension fund liability was estimated at 9.6 per cent of GDP and included in the contingent liability stress test alongside SOEs, PPPs, and financial market shocks.

Appendix: Key Economic Indicators

		25-Feb	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sept
Economic Activity (MIEA (% change, M/M))		-2.1	-4.1	0.9	6.7	2.3	0.1	-3.3	-3.3
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.1	4.2	4.0	4.4	4.3	4.4	4.6	4.7
	Core Inflation	2.7	2.8	2.8	3.7	3.8	4.0	4.0	3.5
Exchange Rates (Monthly End Period)	EUR	19.2451	19.8005	21.1993	20.2838	20.8169	20.7536	20.6834	20.2509
	GBP	23.3029	23.6893	24.8261	24.1063	24.3705	23.9903	23.9264	23.1900
	USD	18.5100	18.2695	18.9095	17.8902	17.7516	17.7498	17.7236	17.2607
Money Supply (Millions of Maloti)	M2	18,883.61	19,291.53	18,874.09	19,014.18	19,018.40	19,005.19	19,014.70	19,117.53
	M1	8,674.53	9,008.46	8,905.18	8,758.55	8,990.85	8,594.76	8,497.18	8,677.26
	Quasi Money	10,209.07	10,283.08	9,968.92	10,255.62	10,027.56	10,410.44	10,517.52	10,440.27
Interest Rates	CBL Rate	7.25	7.25	7.25	7.25	7.00	7.00	6.75	6.75
	91 day Treasury bill rate	6.88	6.88	6.86	6.86	6.87	6.88	6.89	6.93
	Prime lending rate	10.75	10.75	10.75	10.75	10.50	10.50	10.25	10.25
	1 year deposit rate	4.56	4.56	4.56	4.56	5.12	5.12	4.97	4.97
Private sector Credit (Millions of Maloti)		10,790.20	10,845.47	10,929.68	11,107.46	11,033.36	11,403.82	11,581.93	11,633.99
	Households	2,837.80	2,910.99	2,930.98	2,924.56	2,988.87	3,047.52	3,085.83	3,023.53
	Non-profit Organisations	7,952.40	7,934.48	7,998.70	8,182.89	8,044.79	8,356.30	8,496.10	8,610.46
Bank Deposit Liabilities (Millions of Maloti)		20,828.06	20,195.76	20,100.00	21,167.00	21,102.50	21,186.90	21,453.87	21,630.04
Credit to Deposit Ratio (%)		51.7	53.3	54.0	52.1	52.9	53.4	53.6	53.4
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-1,027.20	80.02	1,387.85	-356.66	68.39	1,231.37	-319.17	151.29
	Total Revenue (with SACU receipts)	1,105.68	1,760.67	3,312.08	1,080.33	1,672.31	3,587.62	1,238.31	1,436.14
	Total Expenditure	2,132.88	1,680.65	1,924.23	1,436.99	1,603.92	2,356.26	1,557.48	1,284.85
	O/W Capital	420.06	562.64	242.71	125.93	274.02	262.80	217.55	231.24
Total Public Debt (Millions of Maloti)		23,522.05	23,229.68	24,187.86	23,609.20	23,704.07	23,779.42	23,696.08	23,122.35
	Total External Debt	18,879.76	18,888.96	19,746.70	19,162.40	19,106.18	19,181.18	19,097.53	18,522.83
External Debt	Concessional	12,492.40	12,660.15	13,357.23	12,903.68	12,850.13	12,883.99	12,839.93	12,548.71
	Non-concessional	6,387.35	6,228.81	6,389.47	6,258.71	6,256.05	6,297.18	6,257.61	5,974.12
Domestic Debt		4,642.30	4,340.72	4,441.16	4,446.80	4,597.90	4,598.24	4,598.55	4,599.52
Memo Item: Arrears (Millions of Maloti)		-102.45	-77.66	0.00	0.00	-15.35	-9.10	-23.66	-38.97
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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