



Monthly

ECONOMIC REVIEW

JANUARY 2026

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity expanded in January 2026, driven by strong domestic demand and improved performance within the manufacturing and financial services subsectors. However, this momentum was partially offset by subdued activity in the transport and construction subsectors. Inflationary pressures continued to ease over the review period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) recorded a 1.5 per cent increase in January 2026, following a stronger 4.3 per cent expansion in the preceding month. The positive outturn was mainly supported by robust domestic demand, underpinned by higher private consumption. Growth was further reinforced by improved performance in the financial services and manufacturing subsectors, as reflected in increased private sector credit extension and higher volume of textile exports.

However, the overall pace of expansion was partly constrained by contractions in the construction and transport subsectors. These developments were evidenced by lower import volumes of construction materials and reduced fuel consumption, respectively.

Domestic Demand Category

The Domestic Demand Index exhibited a robust performance in January 2026, rising by 6.8 per cent, up from 2.6 per cent recorded in the preceding month. The continued expansion was largely supported by stronger private consumption, as evidenced by increased import volumes of consumer goods.

However, the overall growth in domestic demand was partly moderated by subdued public consumption and weaker tax revenue collections during the period.

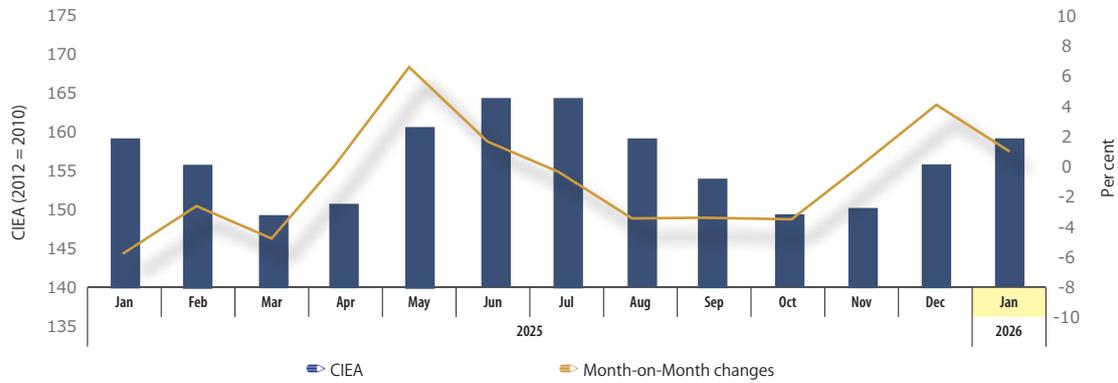
Manufacturing and Production

The Manufacturing and Production Index rebounded in the first month of 2026, registering a 3.2 per cent increase after a 2.3 per cent contraction in December 2025. This recovery was primarily driven by a surge in textile exports to the United States, as several manufacturing firms scaled up production in response to the one-year extension of the African Growth and Opportunity Act (AGOA), as well as positive developments surrounding proposed zero-tariff trade arrangements with China.

In addition, increased textile exports to South Africa provided further support, contributing to the overall improvement in manufacturing 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							2026
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
CIEA	130.5	131.0	126.6	122.6	118.8	119.4	124.5	126.3
Monthly changes	2.3	0.1	-3.3	-3.2	-3.1	0.5	4.3	1.5
Domestic Demand Category	121.3	114.7	111.5	108.8	105.1	108.9	111.8	119.3
Monthly changes	-1.4	-5.5	-2.8	-2.4	-3.4	3.6	2.6	6.8
Manufacturing & Production Category	115.8	111.3	107.0	102.7	105.7	101.5	99.2	102.3
Monthly changes	3.9	-3.9	-3.8	-4.1	2.9	-3.9	-2.3	3.2
Transport Category	100.2	106.8	108.0	103.1	102.0	100.8	109.4	101.3
Monthly Changes	10.5	6.6	1.2	-4.6	-1.0	-1.2	8.6	-7.4
Financial Services	201.7	202.7	202.1	202.7	204.4	207.1	210.9	212.1
Monthly Changes	0.6	0.5	-0.3	0.3	0.8	1.3	1.8	0.6
Construction Category	117.3	138.1	113.6	117.2	98.4	106.1	107.7	93.5
Monthly Changes	0.0	17.8	-17.7	3.2	-16.0	7.8	1.8	-13.2

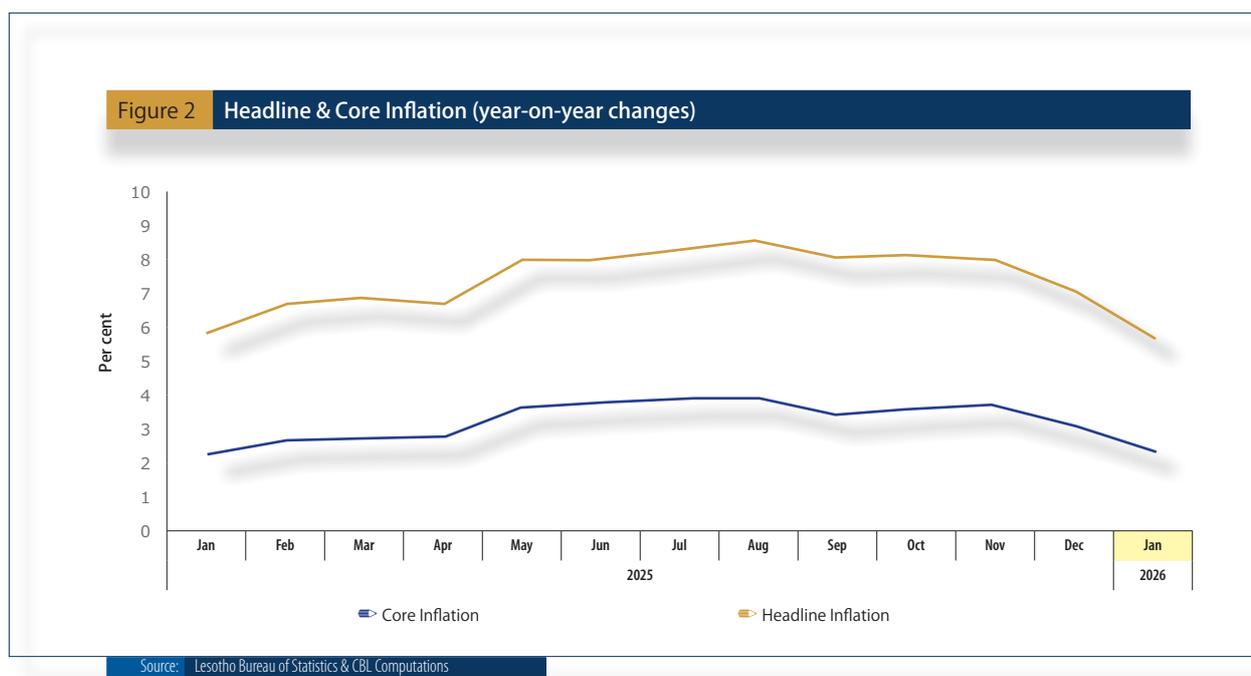
Source: CBL Calculations.

II. INFLATION AND PRICES

Headline Inflation

Headline inflation eased to 3.4 per cent in January 2026, down from 4.1 per cent in December 2025,

reflecting a 0.7 percentage point decline over the month. The main contributors to the moderation were transport and recreation, and culture categories.



Contributions to Headline Inflation

Despite the overall easing in price pressures, annual headline inflation of 3.4 per cent was primarily driven by upward price movements in Food and Non-Alcoholic Beverages, Clothing and Footwear, Housing, Water, Electricity and Gas, and Restaurants and Hotels.

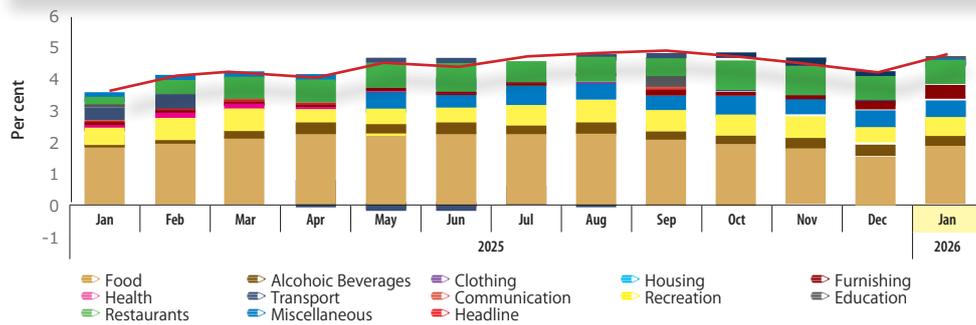
Prices of Food and Non-Alcoholic Beverages rose by 3.5 per cent year-on-year, contributing 1.2 percentage points to the overall inflation rate. The increase was largely driven by higher meat, oil, and fat prices.

Meat prices continued to reflect supply constraints associated with the foot-and-mouth disease outbreak, which restricted animal movement and

reduced slaughtering. Similarly, global tightness in the Black Sea region contributed to increased prices of oils and fats. These pressures were partially offset by declining cereal prices, which benefitted from improved grain harvests.

Meanwhile, inflation in Clothing and Footwear accelerated to 7.5 per cent, adding 0.6 percentage points to headline inflation, mainly due to seasonal demand for school uniforms and related footwear. The Housing, Water, Electricity and Gas category recorded a 4.1 per cent annual increase, contributing 0.6 percentage points. This outcome reflects persistent cost pressures associated with utilities and imputed rent for housing. Inflation in Restaurants and Hotels remained elevated at 11.3 per cent, contributing a further 0.6 percentage points, driven by higher catering and accommodation services.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

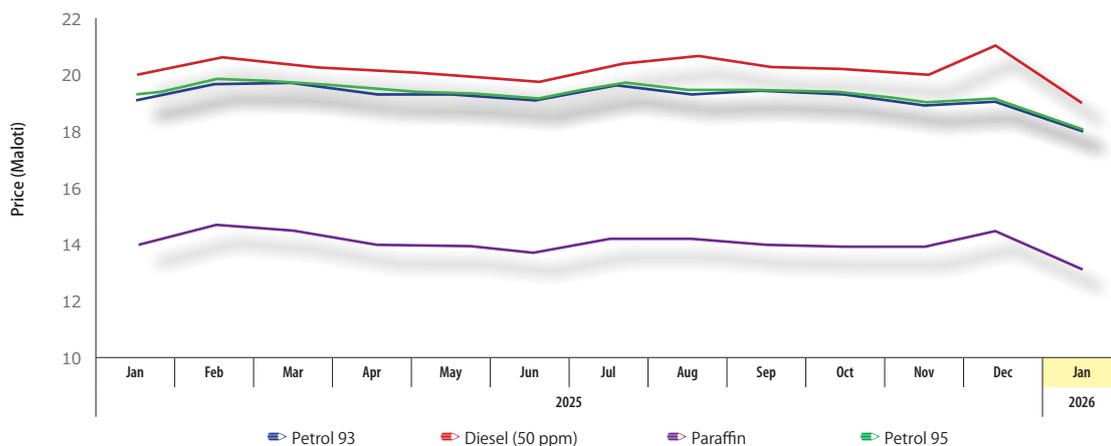
Underlying inflationary pressures continued to ease, as reflected by the decline in the trimmed mean measure of core inflation. Core inflation fell by 0.8 percentage points to 2.4 per cent in January 2026, indicating broad-based moderation in price pressures.

Domestic Fuel Prices

Domestic fuel prices decreased across all categories during the review period. The pump price of Petrol₉₃

and Petrol₉₅ decreased by M0.90 and M1.00 per litre, respectively, resulting in a retail price of M18.00 and M18.20 per litre, respectively. Likewise, the pump price of diesel₅₀ decreased by M2.00 per litre, resulting in a retail price of M19.00 per litre, and illuminating paraffin decreased by M1.30 per litre and was sold at M13.10 per litre. The reductions were largely due to apparent oversupply in major global oil storage hubs, which exerted downward pressure on international oil prices. Additionally, the strong performance of the rand contributed to lower costs of petroleum products.

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

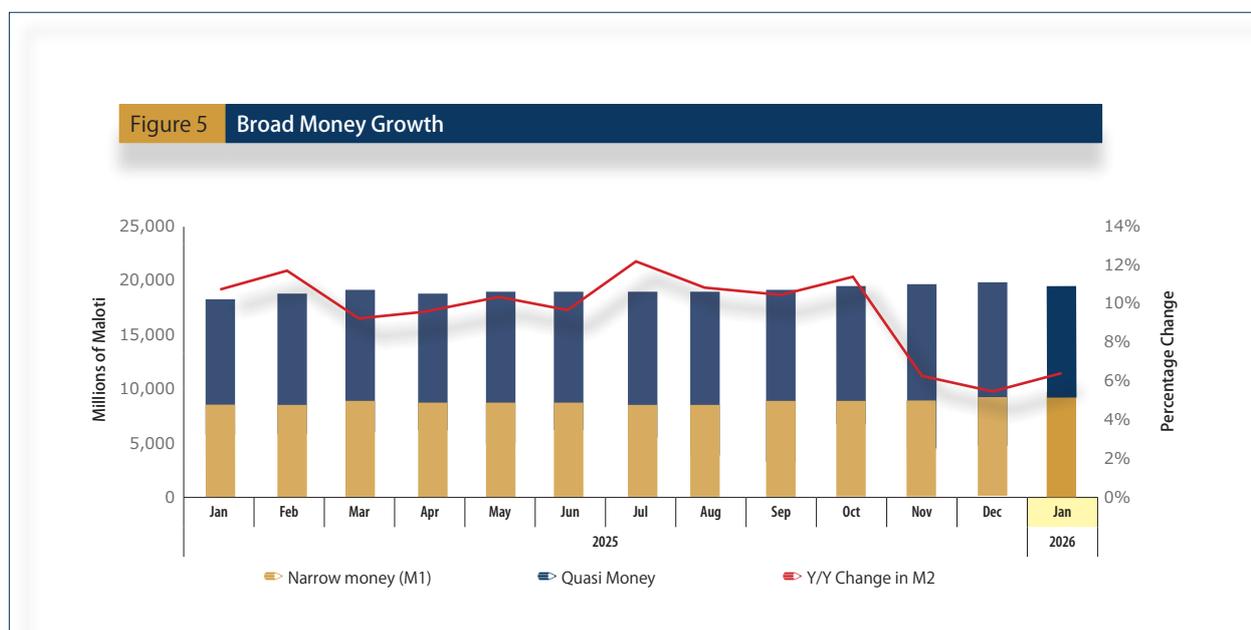
Broad Money (M2)

In January 2026, money supply (M2) contracted by 1.6 per cent, contrary to the 1.7 per cent growth observed in December 2025. The dip in M2 was driven by contraction in net domestic assets (NDA), despite growth in net foreign assets (NFA). NDA, contracted by 64.3 per cent, in contrast to the 19.0 per cent growth observed in December. The overall decline in NDA was driven by changes in government position within the banking system. Government deposits increased at the central bank and commercial banks, while commercial banks also recorded declines in claims on government. On the contrary, NFA increased by 4.6 per cent, in contrast to the 2.9 per cent a month earlier. This increase emanated mainly from the central bank NFA and, to a lesser extent, an increase in commercial banks’

NFA. The increase in central bank NFA resulted from a build-up in government deposits due to the receipt of SACU revenue during the month. On a year-on-year basis, M2 grew by 6.5 per cent.

Components of Money Supply

The contraction of M2, when broken down into its components, was driven by a decline in both the quasi money and narrow money. Quasi money contracted by 1.6 per cent, while narrow money recorded 1.5 per cent. The decline in quasi money was driven by a reduction in savings held by resident households. Meanwhile, the contraction in narrow money resulted from a fall in transferable deposits of business enterprises and other financial corporations.



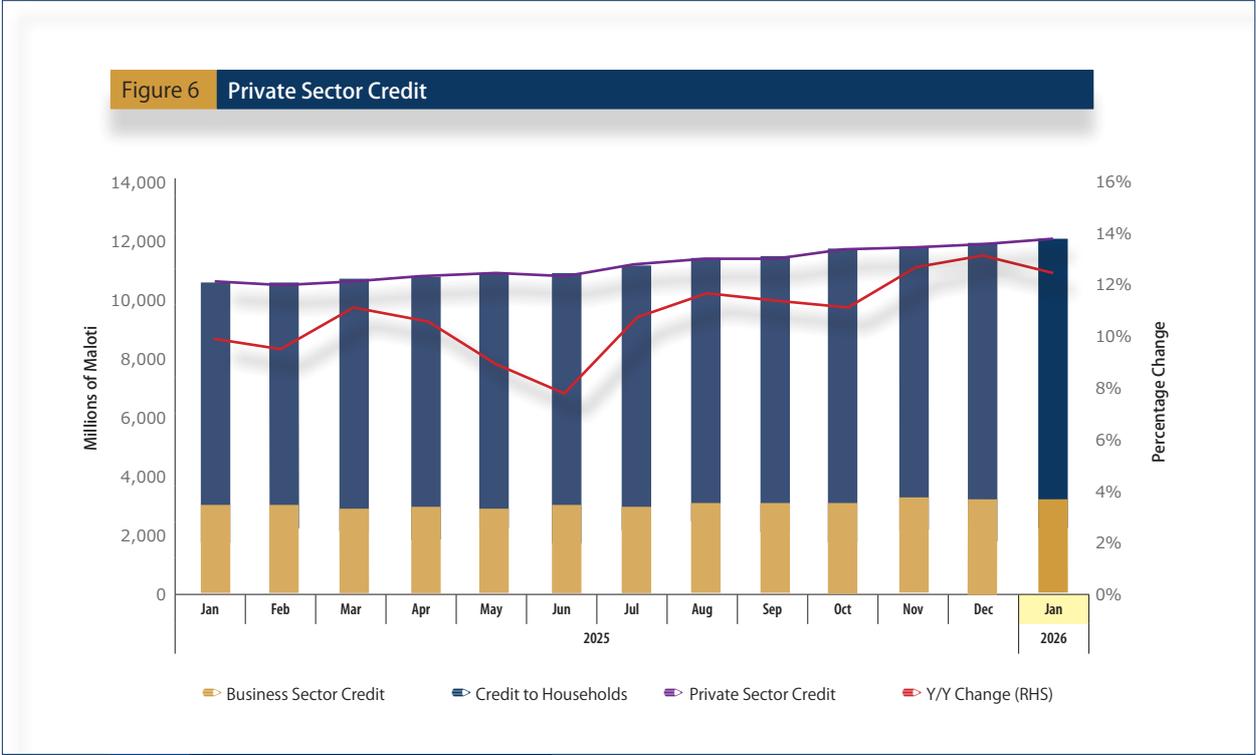
Private Sector Credit

The private sector credit expanded by 0.7 per cent, up from 0.3 per cent growth in December 2025. Growth in credit was observable in both households and business enterprises, which recorded growth rates

of 0.6 per cent and 0.9 per cent, respectively. In the review month, the growth in household credit, on the one hand, was driven by an increase in personal loans. In contrast, mortgage lending experienced a decline, which partially offset the expansion in household credit. On the other hand, growth in

business credit was mainly evident in Construction as well as Real Estate and Business Services. 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 business credit. On an annual basis, private sector credit expanded by 12.8 per cent.



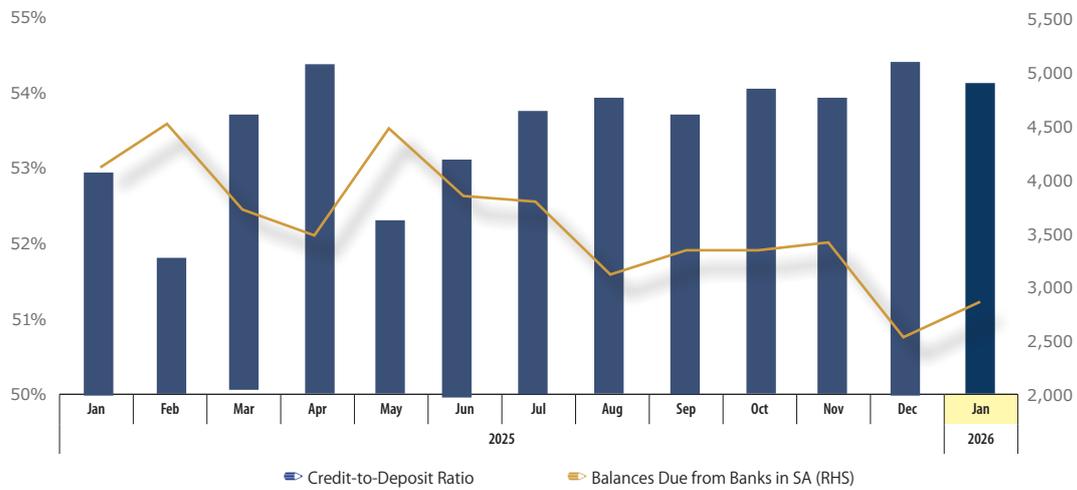
Non-Performing Loans

The overall ratio of non-performing loans (NPLs) remained steady at 4.0 per cent. Within this, households NPLs fell slightly by one percentage point from 4.2 per cent in December to 4.1 per cent, while NPLs for businesses increased by one percentage point from 3.4 per cent to 3.5 per cent. The rise in business NPLs was mainly observed in Agriculture and Manufacturing sub-sectors.

Sources of Funds

The credit-to-deposit ratio declined to 53.8 per cent in the review month, down from 54.0 per cent in the previous month. This decline was driven by faster growth in overall deposits compared to growth in commercial banks' liabilities.

Figure 7 Credit to Deposit Ratio



Source: CBL

Interest Rates

The Central Bank of Lesotho key policy rate remained unchanged at 6.50 per cent. Consequently, the prime lending rate and the 1-year deposit rate held steady at 10.00 and 4.80 per cent, respectively. Meanwhile, the 91-day treasury bill rate decreased by 1 basis point to 6.93 per cent from 6.94 per cent in the previous month.

Foreign Exchange

The rand, hence the loti strengthened against its major global trading currencies. It appreciated by 3.5 per cent to an average of 16.27 against the dollar, 2.4 per cent to an average of 22.01 against the pound, and 2.8 per cent to an average of 19.18 against the euro. The increase in the value of rand was driven by both international and domestic factors.

On the international side, the rand was driven mainly by broad-based US dollar weakness, and expectation of rate cuts. The Federal Reserve embarked on monetary policy easing to support growth and labour market conditions. The markets expected further rate cuts this year and this resulted in capital flight to emerging markets, including South Africa, in search for higher yields.

Domestically, a number of factors supported the rand. Significant increases in commodity prices, particularly, gold and platinum strengthened the rand through higher export earnings and improved trade balance. There was also some improvement in investor confidence due to fiscal reforms, including positive progress in stabilising debt. The government's drive to address structural bottlenecks in the economy, boosted market confidence. Furthermore, South Africa enjoyed an environment of low inflation, which reflected the SARB's credibility in maintaining stable prices.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government spending rebounded in January 2026, rising by 38.9 per cent, following the contraction of 4.8 per cent recorded in December. The increase was largely driven by grants to extra-budgetary units and student grants. As a result, the overall budget execution rate increased to 84.4 per cent.

Recurrent expenditure execution exceeded the planned level, reaching 111.5 per cent, reflecting higher-than-anticipated transfers and operational spending. In contrast, development expenditure execution remained relatively subdued at 28.6 per cent, indicating continued implementation delays in capital projects.

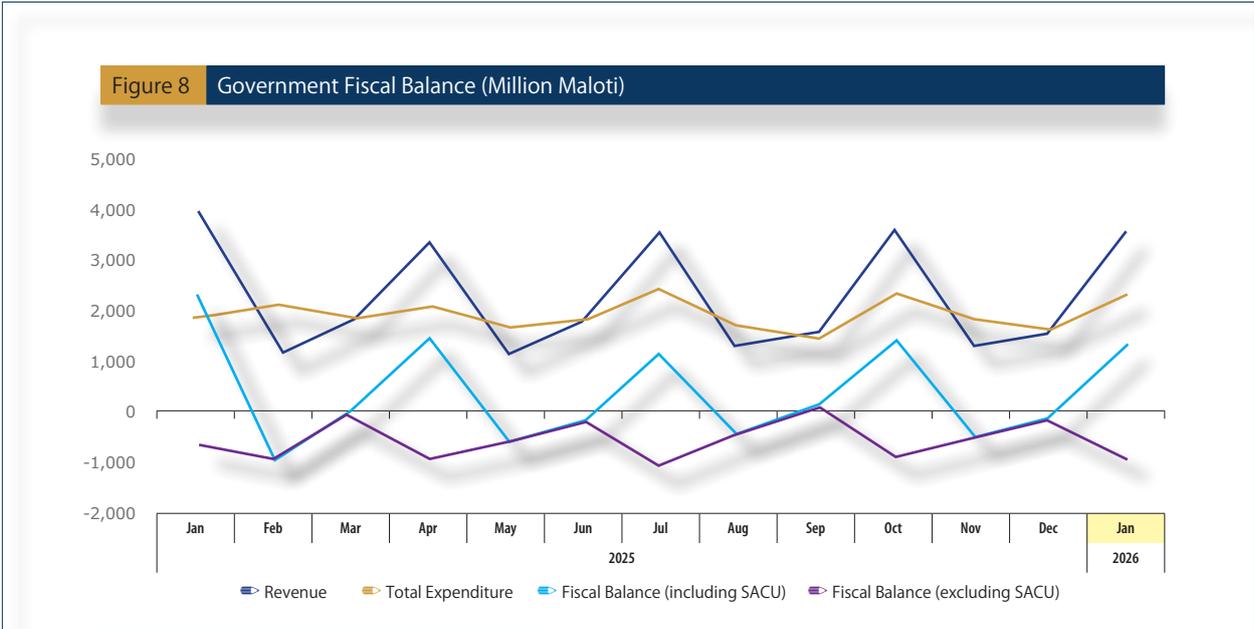
In terms of sectoral allocation, spending was primarily directed towards the education sector and general public services. On an annual basis, total expenditure expanded by 32.5 per cent, signalling a significant acceleration in fiscal outlays compared with the same period last year.

Revenue³

Government revenue performance excluding SACU receipts weakened in January 2026, declining by 12.5 per cent, mainly due to lower income tax collections, particularly company tax. However, including SACU transfers, total government revenue recorded a significant increase, reflecting the seasonal inflow of customs union receipts. On a year-on-year basis, overall revenue declined by 8.1 per cent.

Fiscal Balance⁴

The fiscal position improved markedly in January, with the fiscal balance registering a surplus of 4.7 per cent of GDP. This outcome was largely supported by the substantial inflow of SACU revenues during the month. Consequently, the government accumulated deposits, strengthening its liquidity position and providing additional fiscal buffers for future expenditure commitments.



Source: CBL and Ministry of Finance (MOF)

³ The monthly analysis of government revenue excludes SACU receipts, an outlier item.

⁴ All financing items are on net basis.

Table 2: 2025/26 Government Budget Execution Tracker (Million Maloti)

Category	Metric (Monthly)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Total	Approved budget	2724.15	2725.07	2725.08	2725.08	2725.08	2725.08	2725.08	2725.08	2725.08	2724.13
	<i>of which: Revisions</i>	0.00	0.92	0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.96
	Outturn	1954.53	1457.65	1656.59	2401.77	1595.00	1366.75	2264.01	1737.88	1655.25	2298.87
Recurrent	Approved budget	1834.15	1834.17	1834.18	1834.18	1834.18	1834.18	1834.18	1834.18	1834.18	1834.12
	<i>of which: Revisions</i>	0.00	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.06
	Outturn	1703.68	1331.72	1382.57	2138.97	1377.58	1115.55	1887.51	1423.97	1401.57	2044.54
Development	Approved budget	890.01	890.91	890.91	890.91	890.91	890.91	890.91	890.91	890.91	890.01
	<i>of which: Revisions</i>	0.00	0.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.90
	Outturn	250.86	125.93	274.02	262.80	217.43	251.19	376.50	313.91	253.67	254.33
Execution Trends											
	Total	71.7%	53.5%	60.8%	88.1%	58.5%	50.2%	83.1%	63.8%	60.7%	84.4%
	Recurrent	92.9%	72.6%	75.4%	116.6%	75.1%	60.8%	102.9%	77.6%	76.4%	111.5%
	Development	28.2%	14.1%	30.8%	29.5%	24.4%	28.2%	42.3%	35.2%	28.5%	28.6%

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		6.4%	16.0%	100.0%	0.0%	56.8%	2.1%	0.6%	8.5%	15.9%
Defence		8.5%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	3.7%
Public Order and Safety		18.4%	12.4%	0.0%	0.0%	1.5%	0.0%	0.0%	3.2%	8.7%
Economic Affairs		6.7%	24.6%	0.0%	0.0%	23.5%	0.4%	0.0%	53.8%	13.9%
Environmental Protection		0.8%	1.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.3%	0.5%
Housing & Comm. Amenities		7.6%	5.3%	0.0%	0.0%	1.3%	4.2%	-0.2%	25.9%	5.4%
Health		8.4%	32.6%	0.0%	100.6%	0.0%	3.5%	0.0%	4.3%	12.9%
Recreation, Culture, & Religion		1.1%	0.8%	0.0%	0.0%	1.3%	2.6%	0.1%	0.2%	0.9%
Education		32.7%	1.6%	0.0%	-0.6%	11.7%	0.3%	99.6%	3.2%	27.7%
Social Protection		9.3%	0.9%	0.0%	0.0%	3.9%	86.9%	0.0%	0.4%	10.4%
Share per Economic Item		31.9%	19.4%	0.7%	3.4%	16.4%	7.5%	14.9%	5.7%	100.0%

Source: CBL and MOF

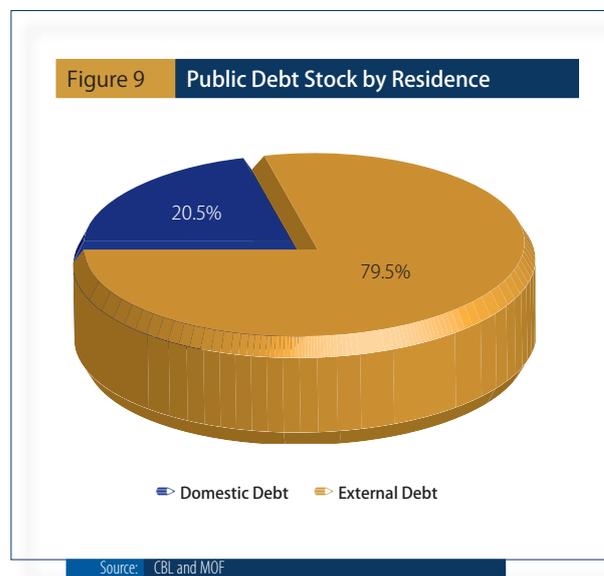
V. PUBLIC DEBT

The public debt stock increased by 9.2 per cent in nominal terms during review period. The rise was primarily driven by exchange rate depreciation, which raised the local currency value of external obligations.

As a result, the share of external debt in the total public debt portfolio increased, reinforcing the external orientation of the debt structure. Nevertheless, the quality of the external portfolio remained favourable, with concessional borrowing accounting for 76.9 per cent of external debt, reflecting continued reliance on relatively low-cost financing sources.

External debt service amounted to 7.05 per cent of government revenue, supported by the strong SACU inflows which expanded the revenue base.

Overall, the debt profile remains broadly sustainable, supported by the predominance of concessional financing and contained debt service obligations. These conditions continue to provide fiscal space for strategic borrowing to finance priority development projects, provided that debt accumulation remains aligned with medium-term fiscal consolidation objectives.



Appendix: Key Economic Indicators										
		25-Jun	25-Jul	25-Aug	25-Sept	25-Oct	25-Nov	25-Dec	26-Jan	
Economic Activity (MIEA (% change, M/M))		2.3	0.1	-3.3	-3.2	-3.1	0.5	4.3	1.5	
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.3	4.4	4.6	4.7	4.5	4.3	4.1	3.4	
	Core Inflation	3.8	4.0	4.0	3.5	3.7	3.8	3.2	2.4	
Exchange Rates (Monthly End Period)	EUR	20.8169	20.7536	20.6834	20.2509	20.0185	19.8862	19.4934	18.9712	
	GBP	24.3705	23.9903	23.9264	23.1900	22.7540	22.6880	22.3515	21.8862	
	USD	17.7516	17.7498	17.7236	17.2607	17.3156	17.1666	16.6080	15.9163	
Money Supply (Millions of Maloti)	M2	19,018.40	19,005.19	19,014.70	19,117.53	19,629.46	19,717.23	20,055.61	19,737.22	
	M1	8,990.85	8,594.76	8,497.18	8,677.26	8,942.49	9,078.33	9,232.60	9,091.94	
	Quasi Money	10,027.56	10,410.44	10,517.52	10,440.27	10,686.97	10,638.91	10,823.01	10,645.28	
Interest Rates	CBL Rate	7.00	7.00	6.75	6.75	6.75	6.50	6.50	6.50	
	91 day Treasury bill rate	6.87	6.88	6.89	6.93	6.89	6.92	6.94	6.93	
	Prime lending rate	10.50	10.50	10.25	10.25	10.25	10.00	10.00	10.00	
	1 year deposit rate	5.12	5.12	4.97	4.97	4.97	4.80	4.80	4.80	
Private sector Credit (Millions of Maloti)		11,033.36	11,403.82	11,581.93	11,633.99	11,902.54	12,048.96	12,089.08	12,167.47	
	Households	2,988.87	3,047.52	3,085.83	3,023.53	3,117.89	3,246.49	3,127.35	3,154.69	
	Non-profit Organisations	8,044.79	8,356.30	8,496.10	8,610.46	8,784.65	8,802.47	8,961.73	9,012.78	
Bank Deposit Liabilities (Millions of Maloti)		21,102.50	21,186.90	21,453.87	21,630.04	22,005.42	22,373.90	22,191.58	22,456.57	
Credit to Deposit Ratio (%)		52.9	53.4	53.6	53.4	53.7	53.6	54.0	53.8	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	15.72	1,194.95	-356.10	150.51	1,591.31	-511.45	-108.51	1,349.52	
	Total Revenue (with SACU receipts)	1,672.31	3,596.72	1,238.91	1,517.26	3,855.31	1,226.43	1,546.73	3,648.39	
	Total Expenditure	1,656.59	2,401.77	1,595.00	1,366.75	2,264.01	1,737.88	1,655.25	2,298.87	
	O/W Capital	274.02	262.80	217.43	251.19	376.50	313.91	253.67	254.33	
Total Public Debt (Millions of Maloti)		23,745.37	23,849.37	23,762.68	23,224.11	23,440.26	23,020.36	22,659.27	24,736.70	
	Total External Debt	19,147.48	19,251.13	19,164.13	18,624.59	18,943.03	18,522.93	18,059.90	20,138.23	
	External Debt	Concessional	14,202.39	14,243.70	14,192.75	13,847.89	14,093.95	13,704.13	13,318.61	15,494.70
		Non-concessional	4,945.08	5,007.43	4,971.38	4,776.70	4,849.08	4,818.80	4,741.29	4,643.53
	Domestic Debt	4,597.90	4,598.24	4,598.55	4,599.52	4,497.23	4,497.43	4,599.37	4,598.47	
Memo Item: Arrears (Millions of Maloti)		-15.35	-9.10	-23.66	-38.97	-6.46	-2.40	-7.51	-49.43	

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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