MARCH 2026

Monthly ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY[1]

In March 2026, the domestic economy contracted, largely reflecting subdued demand and weak activity in the transport subsector. Nevertheless, activity expanded in the construction and manufacturing subsectors, as well as in the financial services industry. Inflationary pressures also continued to ease over the same period.

Overall Performance Index

Economic performance weakened further in March 2026, with the Composite Indicator of Economic Activity (CIEA) declining by 0.3 per cent, following growth of 0.8 per cent in February 2026. The downturn largely reflected sluggish domestic demand and weaker activity in the transport subsector, as evidenced by lower fuel consumption.

Despite the overall decline, some industries recorded improvements. The financial services industry posted modest growth, as reflected in increased credit to the private sector, while the manufacturing and production subsector strengthened, supported by higher textile exports to the United States. These positive developments helped to cushion the broader economic slowdown.

Domestic Demand Category

Domestic demand remained under pressure in March 2026, contracting by 9.6 per cent, following a 1.8 per cent decline in the previous month. This persistent weakness was driven by lower consumption in both the private and public sectors, as reflected in a notable decline in imports of consumer goods and machinery from South Africa, as well as reduced government spending. Together, these developments signalled a cautious spending environment. The decline in sales tax collections further underscored subdued business activity during the review period.

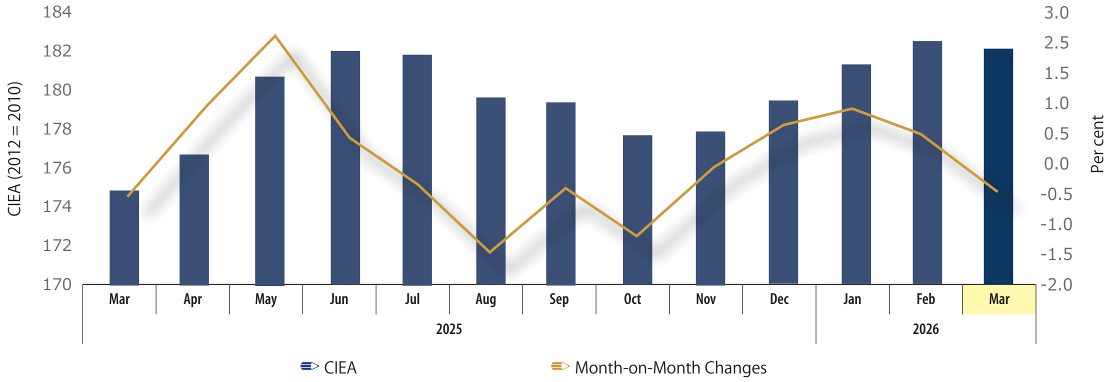
Manufacturing and Production

The manufacturing and production subsector continued to expand in March 2026, with the manufacturing index rising by 4.2 per cent, following growth of 5.4 per cent in the previous month. This improvement 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).

In addition, higher textile exports to South Africa provided further support, contributing to the overall improvement in manufacturing activity during the review period.

[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

	2025					2026		
Indices	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
CIEA	178.9	178.5	176.7	176.9	178.7	181.0	182.4	181.9
Monthly changes	-1.4	-0.2	-1.0	0.1	1.0	1.3	0.8	-0.3
Domestic Demand Category	136.3	132.9	128.9	128.8	136.0	142.0	139.5	126.1
Monthly changes	-1.4	-2.5	-3.0	-0.1	5.6	4.4	-1.8	-9.6
Manufacturing & Production Category	138.7	137.3	134.8	130.2	122.6	135.1	142.4	148.4
Monthly changes	-5.9	-1.0	-1.8	-3.4	-5.9	10.2	5.4	4.2
Transport Category	144.3	138.9	139.4	141.1	152.6	140.7	136.6	136.5
Monthly Changes	1.8	-3.7	0.4	1.2	8.2	-7.8	-2.9	-0.1
Financial Services	113.3	113.3	113.5	113.7	114.0	114.1	114.3	114.3
Monthly Changes	-0.1	0.0	0.2	0.2	0.3	0.0	0.2	0.1
Construction Category	412.6	450.1	362.3	368.7	374.2	363.2	394.9	412.5
Monthly Changes	-11.1	9.1	-19.5	1.8	1.5	-2.9	8.7	4.5

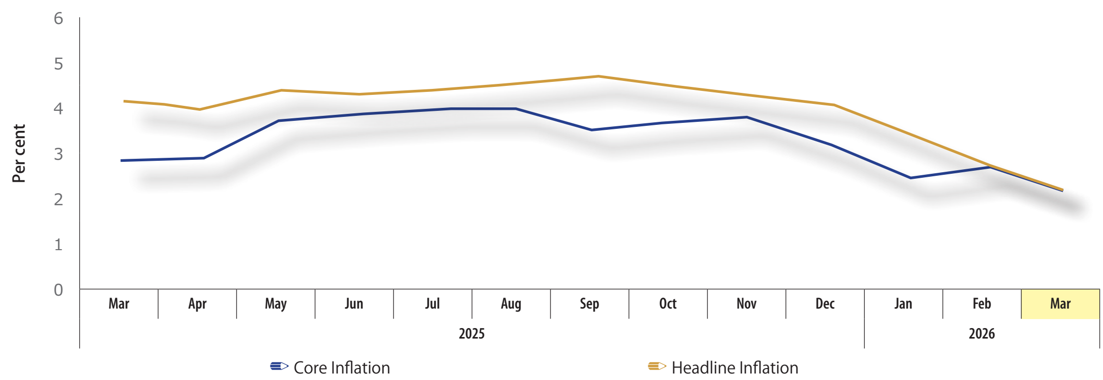
Source: CBL Calculations.

II. INFLATION AND PRICES

Headline Inflation

Headline inflation marginally decreased to 2.2 per cent in March 2026 from 2.7 per cent in February 2026. The major contributors to the 0.5 percentage point decrease were Food and Non-Alcoholic beverages, as well as transport.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

The major contributors to the 2.2 per cent headline inflation were Food and Non-Alcoholic beverages, clothing and footwear, housing, Water, Electricity, Gas, as well as Restaurants and Hotels.

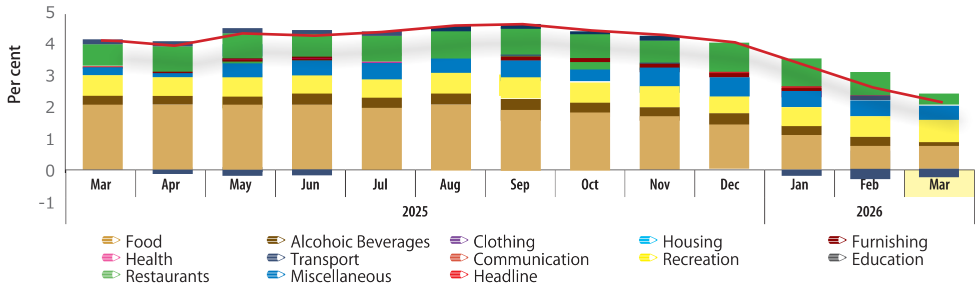
Food and Non-alcoholic Beverages increased by 2.3 per cent and contributed 0.8 percentage points to the total annual inflation rate of 2.2 per cent.

The main upward contribution continued to come from meat prices, which, although still elevated, showed signs of easing, particularly in beef products. In contrast, cereal prices exerted notable downward pressure, with declines in staple items, such as maize meal, rice, and bread products, supported by improved supply conditions. Additional downward pressure came from dairy products, and eggs, which remained in deflation, alongside lower prices for fruit and vegetables.

Clothing and footwear increased by 7.1 per cent year-on-year and contributed 0.6 percentage points to the total annual Inflation rate. This mainly reflected seasonal pricing dynamics, as retailers typically introduced new winter ranges around this period, consequently impacting on prices following earlier discounting cycles.

Housing, water, electricity, and gas increased by 3.3 per cent, contributing 0.5 percentage points to the total annual inflation. Lastly, restaurants and Hotels increased by 4.9 per cent year-on-year and contributed 0.3 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

Core inflation, which excludes volatile items, declined to 2.2 per cent in March 2026 from 2.7 per cent in the previous month. During the month under review, both headline and core inflation measures were 2.2 per cent, indicating that volatile components, such as food and energy had minimal net impact on overall inflation.

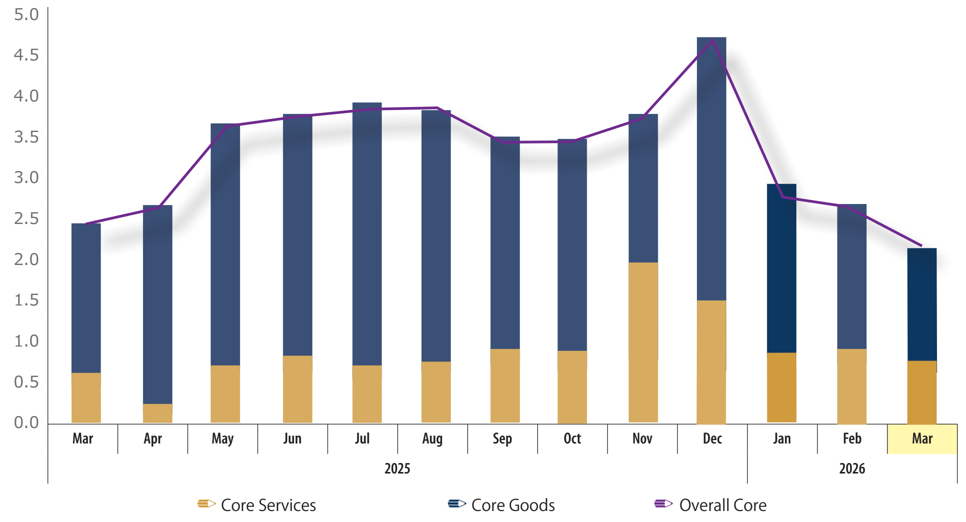
Contributions to Core Inflation

Core inflationary pressures largely emanated from the goods component, which accounted for 1.4 per cent of overall core inflation during the review period, down from 1.8 per cent in the previous period. This suggests that underlying inflationary pressures from goods continued to ease in the review period.

A similar trend was observed in services core inflation, which accounted for 0.8 per cent, down from 0.9 per cent in the previous month.

[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.

Figure 4 Contributions to Core Inflation (Year-on-Year Changes)



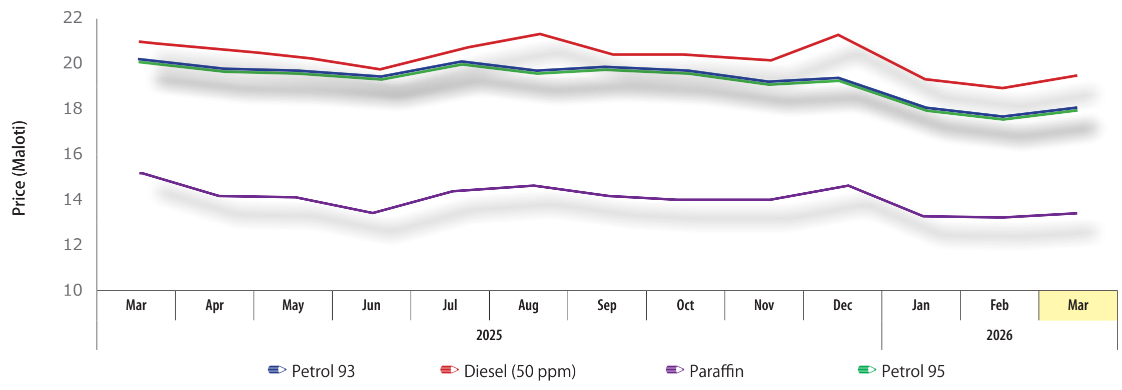
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Domestic fuel prices increased across all categories during the review period. The pump prices of $Petrol_{93}$ and $Petrol_{95}$ increased by M0.20 and M0.25 per litre, respectively, resulting in retail prices of M17.80 and M17.95 per litre, respectively.

Similarly, the pump price of $Diesel_{50}$ increased by M0.55 per litre, resulting in a retail price of M19.40 per litre, while illuminating Paraffin decreased by M0.30 per litre and was sold at M13.30 per litre. The observed increase was primarily attributable to heightened supply disruptions and later exacerbated by tensions in the Middle East.

Figure 5 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

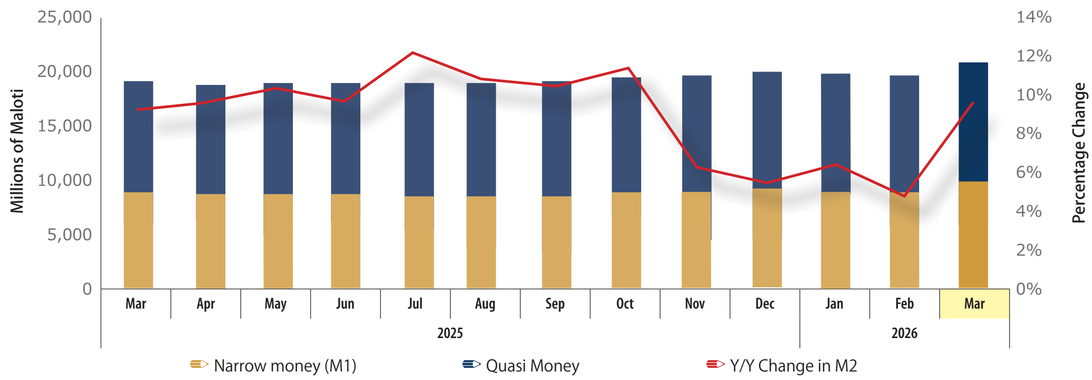
Broad Money (M2)

Money supply (M2) grew by 6.9 per cent, following the 0.4 per cent growth observed in February 2026. The increase in M2 was driven by a rise in net domestic assets (NDA), despite contraction in net foreign assets (NFA). In particular, NDA grew by more than 100 per cent following a 61.0 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 a modest growth of claims to other sectors. On the contrary, monthly NFA decreased by 2.5 per cent, following a 2.1 per cent fall a month earlier. The decline in NFA emanated from the decrease in claims to non-residents and the increasing liabilities to non-residents for both the central bank and commercial banks. Year-on-year, M2 expanded by 14.3 per cent.

Components of Money Supply

The surge in M2, when broken down into its components, was observed in both nar-row money (M1) and quasi money. Narrow money grew by 10.5 per cent, while quasi money increased by 3.8 per cent. The surge in narrow money was driven by growth in transferrable deposits held by business enterprises and resident households. Meanwhile, the increase in quasi money reflected growth in fixed time deposits from both business enterprises and resident households. Call deposits also recorded growth, particularly among business enterprises and other non-financial corporations, while the rise in savings deposits was largely supported by resident households.

Figure 6 Broad Money Growth



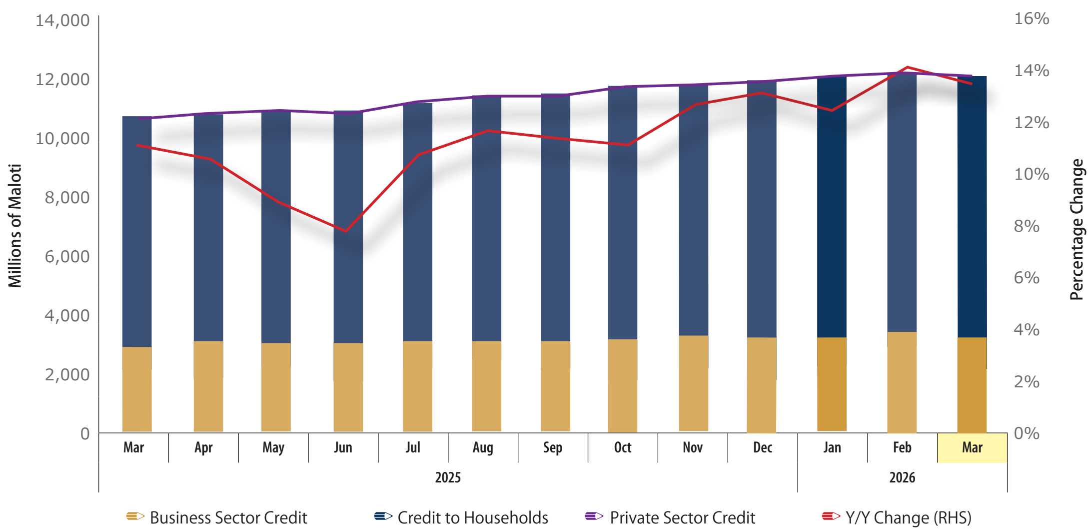
Source: CBL

Private Sector Credit

Private sector credit declined by 0.3 per cent, representing a 1.9 per cent reversal from 1.6 per cent growth recorded in February. This decline was driven by a reduction in credit extended to business enterprises, despite an increase in credit to the household sector. In particular, credit to businesses declined by 2.8 per cent, reversing the 4.8 per cent growth recorded in the previous month. The contraction in business credit was mainly evident in loans extended to enterprises operating in mining and quarrying, construction, real estate and business services sectors. Conversely, the increase in credit extended to households was driven by growth 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. Electricity, gas and water remained the smallest recipient of credit extension. On an annual basis, private sector credit grew by 14.3 per cent.

Figure 7 Private Sector Credit



Source: CBL

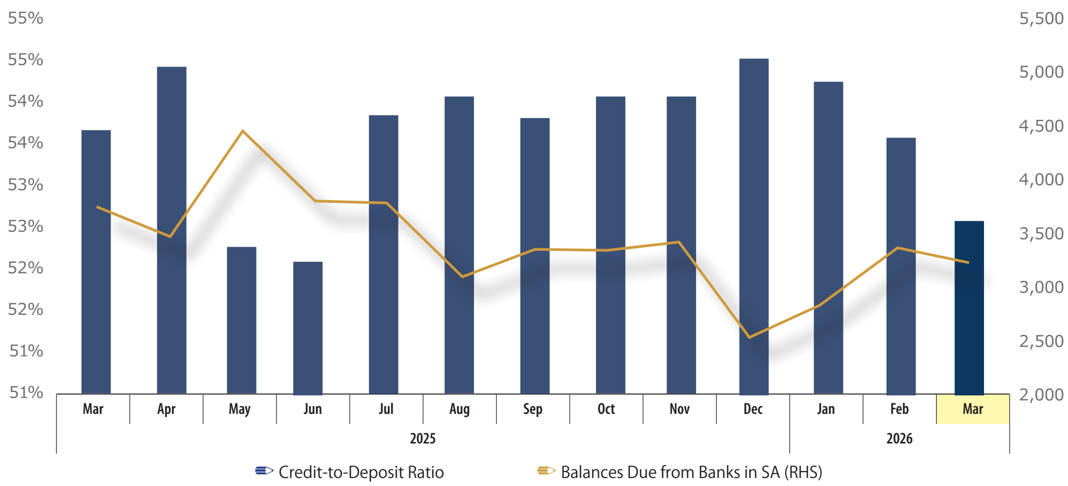
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans marginally declined from 4.0 to 3.9 per cent. This drop was driven by a fall in NPLs from both businesses and households. Within the business sector, transport, storage and communications contributed the largest decline in NPLs. Meanwhile, for the household segment, declines in personal and mortgage NPLs contributed to an overall decline in NPLs.

Sources of Funds

The credit-to-deposit ratio declined to 52.6 per cent in the review month, from 53.7 per cent in the previous month. This decline was driven by reduced credit extended to the private sector alongside an increase in commercial bank deposits during the month.

Figure 8 Credit to Deposit Ratio



Source: CBL

Interest Rates

The Central Bank of Lesotho's Policy Rate remained at 6.50 per cent, similar to a month earlier. Consequently, the prime lending rate and the 1-year deposit rate remained steady at 10.00 and 4.80 per cent respectively. Meanwhile, the 91-day Treasury bill rate increased by 6 basis points from 6.84 to 6.90 per cent.

Foreign Exchange

The rand, hence loti, weakened against its major currencies in March 2026. It depreciated by 4.59 per cent to the average of 16.74 against the US dollar, by 2.70 per cent to the average of 22.33 against the pound and by 2.22 per cent to the average of 19.35 against the euro. The performance of rand was driven by growing risk aversion in the global markets. The rising geopolitical tensions that escalated to war in the Middle East led to elevated risks and uncertainty. This led to investors fleeing to safe-haven assets.

The war in the Middle East sparked energy crisis, with serious implications for future inflation and interest path. The oil prices experienced a sharp increase due to production disruptions. Furthermore, the closure of an important trade route for oil was seen to keep the price of oil elevated for longer.

In South Africa, a surge in the oil prices shifted the inflation risk profile to the upside. This has a likelihood of keeping a tighter monetary policy for longer, stifling economic growth. There were also capital flow reversals from South Africa's bonds and equities, exerting pressure on the value of rand. The capital outflows reflected negative sentiment towards domestic assets in South Africa.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure declined by 6.5 per cent in March 2026, following a contraction of 12.1 per cent in February. The decline was mainly driven by a fall in domestic and international travel and transport, operating costs, and old age pensions. In contrast, capital spending increased by 10.0 per cent, partially offsetting the overall decline.

Total budget execution declined to 69.0 per cent, as recurrent spending fell behind, while development spending provided some cushion.

In terms of spending by functions, spending pressures were concentrated in general public services and housing sectors, which recorded the largest increases during the month. On an annual basis, total expenditure rose by 9.2 per cent.

Revenue[3]

Government revenue performance, excluding SACU receipts rebounded strongly in March 2026, registering an increase of 37.5 per cent, compared to a contraction of 9.7 per cent in February. The sharp turnaround was mainly driven by higher company tax collections and rand monetary compensation. On an annual basis, total revenue declined by 4.5 per cent, reflecting lower VAT and income tax receipts compared to March 2025.

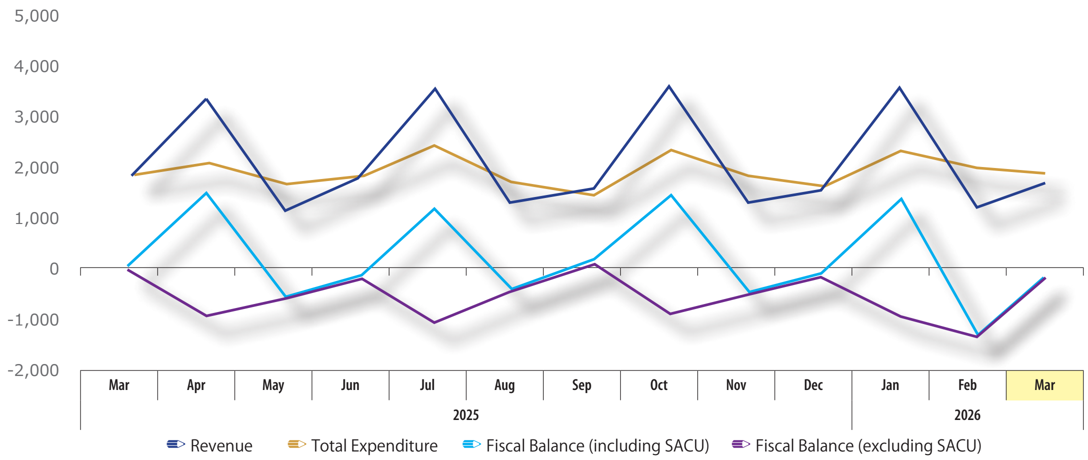
Fiscal Balance[4]

The fiscal balance registered a deficit of 2.0 per cent of GDP in March 2026. The deficit was financed primarily through a drawdown of government deposits. In addition, the government used available resources to reduce liabilities, paying off outstanding amounts to suppliers.

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

[4] All financing items are on net basis.

Figure 9 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	Nov	Dec	Jan	Feb	Mar	Annual
Total	Approved budget	2.72	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.72	2.73	2.73	32.70
	Outturn	1.95	1.46	1.66	2.40	1.60	1.37	2.26	1.74	1.66	2.30	2.65	1.89	22.93
Recurrent														
	Approved budget	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	22.01
	Outturn	1.70	1.33	1.38	2.14	1.38	1.12	1.89	1.42	1.40	2.04	2.42	1.32	19.56
Development														
	Approved budget	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.89	10.69
	Outturn	0.25	0.13	0.27	0.26	0.22	0.25	0.38	0.31	0.25	0.25	0.23	0.57	3.37
Execution Trends														
	Total	71.7%	53.5%	60.8%	88.1%	58.5%	50.2%	83.1%	63.8%	60.7%	84.4%	97.3%	69.4%	70.1%
	Recurrent	92.9%	72.6%	75.4%	116.6%	75.1%	60.8%	102.9%	77.6%	76.4%	111.5%	132.2%	72.1%	88.8%
	Development	28.2%	14.1%	30.8%	29.5%	24.4%	28.2%	42.3%	35.2%	28.5%	28.6%	25.3%	63.7%	31.6%

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	6.9%	26.0%	100.0%	0.0%	90.2%	6.3%	65.2%	1.9%	**6.9%**
Defence	9.0%	-0.6%	0.0%	0.0%	0.0%	0.0%	14.4%	1.1%	**9.0%**
Public Order and Safety	20.9%	8.3%	0.0%	0.0%	0.1%	0.0%	0.0%	1.0%	**20.9%**
Economic Affairs	7.5%	36.7%	0.0%	0.0%	3.7%	0.1%	0.0%	17.2%	**7.5%**
Environmental Protection	0.9%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.9%**
Housing & Comm. Amenities	6.5%	12.0%	0.0%	0.0%	2.8%	11.1%	5.3%	77.5%	**6.5%**
Health	0.0%	5.6%	0.0%	57.5%	0.0%	0.1%	0.0%	0.3%	**0.0%**
Recreation, Culture, & Religious	1.2%	3.9%	0.0%	0.0%	0.3%	2.8%	14.9%	0.0%	**1.2%**
Education	35.7%	2.6%	0.0%	42.5%	0.0%	-18.3%	0.0%	0.9%	**35.7%**
Social Protection	11.2%	3.3%	0.0%	0.0%	2.9%	97.9%	0.3%	0.0%	**11.2%**
Share per Economic Item	**35.3%**	**10.7%**	**5.2%**	**0.0%**	**21.3%**	**3.6%**	**0.5%**	**23.3%**	**100.0%**

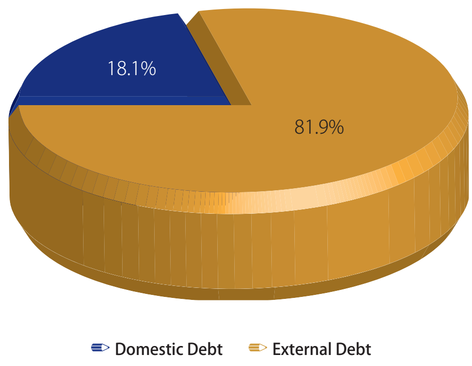
Source: CBL and MOF

V. PUBLIC DEBT

The public debt declined by 9.5 per cent in nominal terms, reflecting external principal repayments and domestic securities redemptions. The portfolio remained externally concentrated, with external debt accounting for 81.9 per cent of total debt, of which 74.2 per cent was concessional. And thereby, providing the necessary cushion to external obligations. External debt service stood at 9.6 per cent of revenue, indicating that servicing obligations remained manageable.

Liquidity pressures remained manageable despite the debt service-to-revenue ratio rising to 21.1 per cent in March from 14.2 per cent in February 2026, supported by contained interest costs, government deposits, and cash buffers. Portfolio risk remained moderate: while the high external and foreign-currency share continues to expose debt to exchange rate risk, refinancing risk was limited by long-dated concessional loans and stable domestic rollover conditions. This exposition underscored the need for continued prudence in borrowing and buffer management.

Figure 9 **Public Debt Stock by Residence**



Source: CBL and MOF

Appendix: Key Economic Indicators

		25-Aug	25-Sept	25-Oct	25-Nov	25-Dec	26-Jan	26-Feb	26-Mar
Economic Activity *(MIEA (% change, M/M)*		-1.4	-0.2	-1.0	0.1	1.0	1.3	0.8	-0.3
Consumer price Index *(% change)*	*Headline Inflation (year-on-year)*	4.6	4.7	4.5	4.3	4.1	3.4	2.7	2.2
	Core Inflation	4.0	3.5	3.7	3.8	3.2	2.4	2.7	2.2
Exchange Rates *(Monthly End Period)*	*EUR*	20.6834	20.2509	20.0185	19.8862	19.4934	18.9712	18.7722	19.6400
	GBP	23.9264	23.1900	22.7540	22.6880	22.3515	21.8862	21.4210	22.6200
	USD	17.7236	17.2607	17.3156	17.1666	16.6080	15.9163	15.9028	17.1300
Money Supply (Millions of Maloti)	*M2*	19,014.70	19,117.53	19,629.46	19,717.23	20,055.61	19,737.22	19,813.80	21,178.33
	M1	8,497.18	8,677.26	8,942.49	9,078.33	9,232.60	9091.94	9,071.16	10,027.06
	Quasi Money	10,517.52	10,440.27	10,686.97	10,638.91	10,823.01	10,645.28	10,742.64	11,151.27
Interest Rates	*CBL Rate*	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.50
	91 day Treasury bill rate	6.89	6.93	6.89	6.92	6.94	6.93	6.84	6.90
	Prime lending rate	10.25	10.25	10.25	10.00	10.00	10.00	10.00	10.00
	1 year deposit rate	4.97	4.97	4.97	4.80	4.80	4.80	4.80	4.80
Private sector Credit *(Millions of Maloti)*		11,581.93	11,633.99	11,902.54	12,048.96	12,089.08	12,167.47	12,361.73	12,322.00
	Households	3,085.83	3,023.53	3,117.89	3,246.49	3,127.35	3,154.69	3,305.27	3,212.58
	Business Enterprises	8,496.10	8,610.46	8,784.65	8,802.47	8,961.73	9,012.78	9,056.46	9,109.42
Bank Deposit Liabilities *(Millions of Maloti)*		21,453.87	21,630.04	22,005.42	22,373.90	22,191.58	22,456.57	22,983.01	23,412.97
Credit to Deposit Ratio (%)		53.6	53.4	53.7	53.6	54.0	53.8	53.4	52.6
Fiscal Operations *(Millions of Maloti)*	*Fiscal Balance*	-356.10	150.51	1,591.31	-511.45	-108.51	1,349.25	-1,427.94	-209.00
	Total Revenue (with SACU receipts)	1,238.91	1,517.26	3,855.31	1,226.43	1,546.73	3,648.39	1,222.71	1,681.01
	Total Expenditure	1,595.00	1,366.75	2,264.01	1,737.88	1,655.25	2,299.14	2,650.65	1,890.01
	O/W Capital	217.43	251.19	376.50	313.91	253.67	254.60	225.82	567.18
Total Public Debt *(Millions of Maloti)*		23,762.68	23,224.11	23,440.26	23,020.36	22,659.27	24,717.66	24,765.13	22,413.63
	Total External Debt	19,164.13	18,624.59	18,943.03	18,522.93	18,059.90	20,119.19	20,164.67	18,366.26
External Debt	*Concessional*	14,192.75	13,847.89	14,093.95	13,704.13	13,318.61	15,475.66	15,533.35	13,622.56
	Non-concessional	4,971.38	4,776.70	4,849.08	4,818.80	4,741.29	4,643.53	4,631.32	4,743.70
Domestic Debt		4,598.55	4,599.52	4,497.23	4,497.43	4,599.37	4,598.47	4,600.46	4,047.37
Memo Item: Arrears *(Millions of Maloti)*		-23.66	-38.97	-6.46	-2.40	-7.51	-49.43	-91.36	-37.45

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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