AUGUST 2026

Monthly
ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY[1]

Domestic economic activity expanded in August 2026, supported by stronger domestic demand and increased transport activity. However, weaker performance in manufacturing, construction and financial services partly offset the expansion. Inflationary pressures also eased, mainly due to lower food prices.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) expanded by 2.0 per cent in August 2026, slowing from growth of 3.0 per cent in July.

Growth was supported by stronger domestic demand and transport activity. However, weaker manufacturing, construction and financial services activity partly offset the expansion. The decline in construction and financial services' performance was reflected in lower imports of cement and metal products used in construction and reduced private sector credit, respectively.

Domestic Demand Category

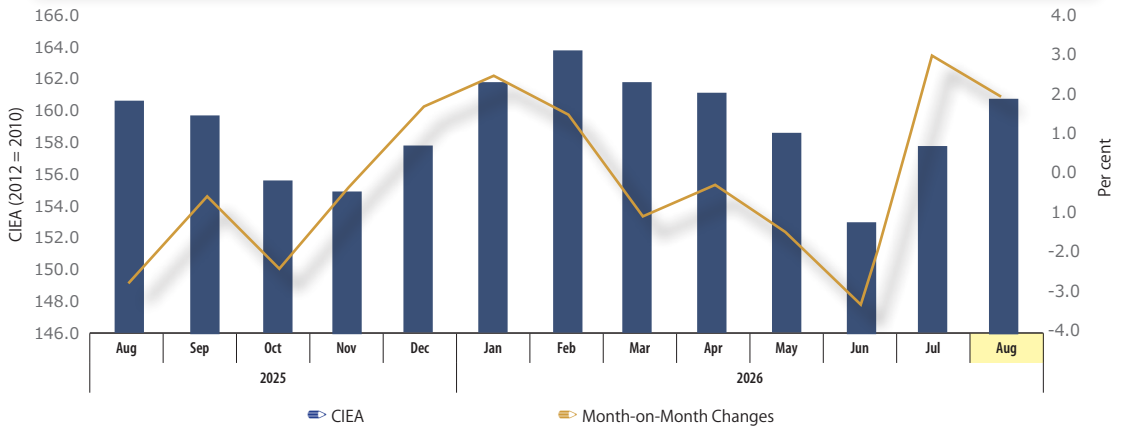
Domestic demand strengthened in August 2026, with the index expanding by 6.8 per cent, following a 4.9 per cent decline in July. This growth was mainly indicative of higher goods imports and VAT collections. However, lower government activity offset the expansion, as evidenced by a reduction in use of goods and services.

Manufacturing and Production

The manufacturing and production index fell by 1.6 per cent in August, reversing an 8.4 per cent increase in the previous month, mainly due to lower exports to South Africa, while exports to United State increased. However, high water and electricity consumption volumes partly offset the contraction in manufacturing and production.

[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**

	2026							
Indices	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
CIEA	**161.7**	**164.1**	**162.2**	**161.5**	**158.6**	**152.9**	**157.6**	**160.7**
Monthly changes	2.2	1.5	-1.2	-0.4	-1.8	-3.7	3.0	2.0
Domestic Demand Category	**140.8**	**139.7**	**126.9**	**128.4**	**123.2**	**120.7**	**114.8**	**122.7**
Monthly changes	4.6	-0.7	-9.2	1.2	-4.0	-2.3	-4.9	6.8
Manufacturing & Production Category	**135.9**	**143.1**	**149.1**	**142.7**	**137.9**	**135.7**	**147.2**	**144.9**
Monthly changes	10.0	5.3	4.2	-4.3	-3.3	-1.6	8.4	-1.6
Transport Category	**141.2**	**137.2**	**136.9**	**136.7**	**134.5**	**120.5**	**127.9**	**132.3**
Monthly Changes	-7.7	-2.8	-0.2	-0.2	-1.6	-10.4	6.2	3.4
Financial Services	**114.2**	**114.4**	**114.4**	**114.6**	**114.7**	**114.9**	**115.1**	**115.0**
Monthly Changes	0.0	0.2	0.1	0.1	0.1	0.1	0.2	-0.1
Construction Category	**363.6**	**395.4**	**413.1**	**441.2**	**519.0**	**472.3**	**555.1**	**509.4**
Monthly Changes	-3.0	8.8	4.5	6.8	17.6	-9.0	17.5	-8.2

Source: CBL Calculations.

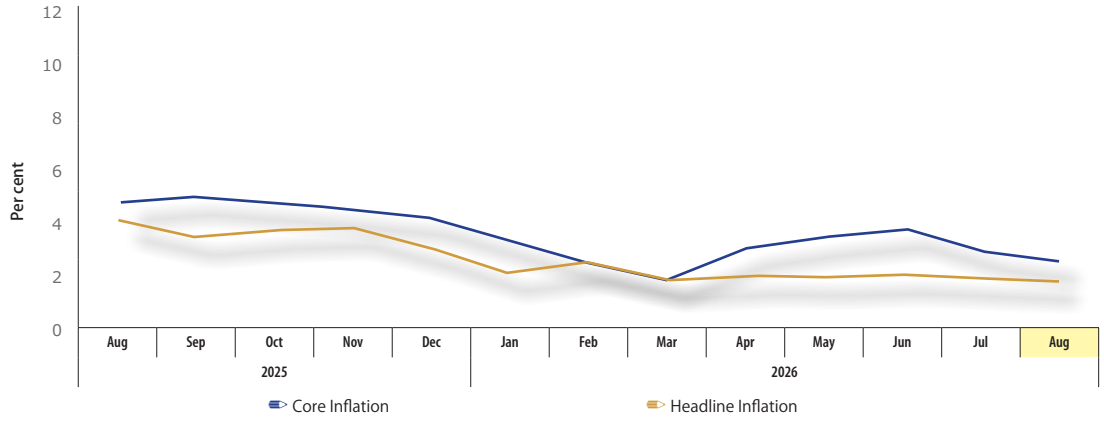
II. INFLATION AND PRICES

Headline Inflation

Headline inflation moderated by 0.3 percentage points, from 2.9 per cent in July 2026 to 2.6 per cent in August 2026, mainly due to lower prices of food and non-alcoholic beverages.

However, transport and housing utilities moderated the overall decline in the period under review.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

The main contributors to annual headline inflation of 2.6 per cent were alcoholic beverages and tobacco; clothing and footwear; housing, water, electricity and gas; and transport.

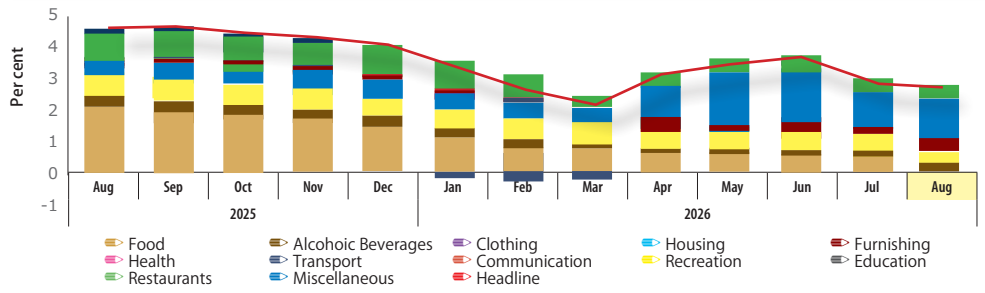
Among these categories, prices of alcoholic beverages and tobacco rose by 1.9 per cent year-on-year, contributing 0.1 percentage points to headline inflation.

While, Clothing and footwear made a larger contribution of 0.4 percentage points, with prices rising by 5.0 per cent year-on-year, mainly due to higher retail prices of imported clothing fabrics.

Transport on the other hand, contributed more than either category, adding 1.3 percentage points as prices increased by 12.2 per cent year-on-year. This elevated rate continued to reflect the influence of fuel and other transport-related costs on consumer prices.

However, Food and Non-Alcoholic Beverages, contributed negatively to the overall inflation with a negative contribution of -0.01 due to bountiful harvests from wheat and maize.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

Core inflation, measured using the trimmed mean approach, declined marginally to 1.8 per cent August 2026 from1.9 per cent in July 2026.

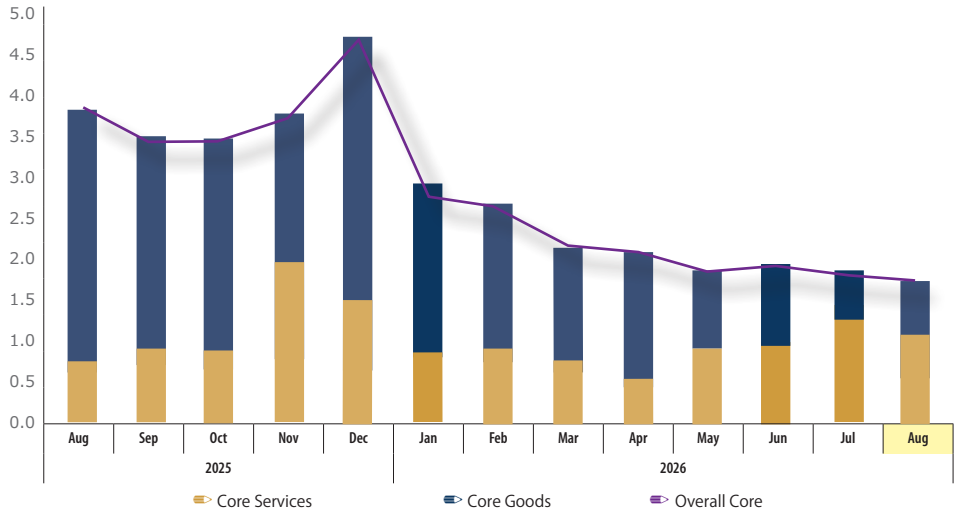
This slight moderation suggests that underlying price pressures eased modestly during the review period.

Contributions to Core Inflation

The moderation was largely driven by services core inflation, which contributed 1.1 percentage points to the overall core inflation rate, reflecting continued price pressures in service-related categories. Meanwhile, goods core inflation contributed 0.7 percentage points, underscoring the relatively subdued but still positive influence of goods prices on underlying inflation. Overall, the decline in core inflation suggests a modest easing in broad-based price pressures, although services continued to account for the largest share of core inflation during the 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

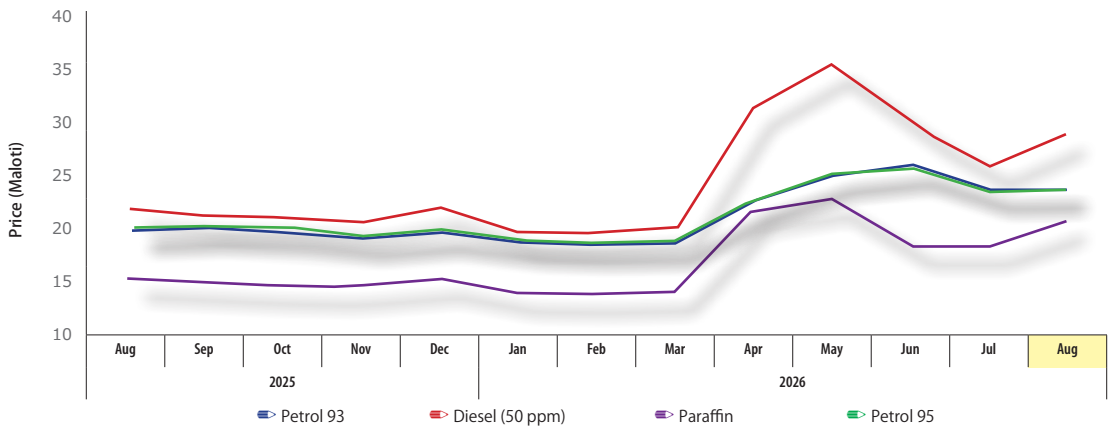
Domestic Fuel Prices

Domestic fuel prices increased in August 2026, amid continued supply-side pressures in the oil industry.

The prices of $Petrol_{93}$ and $Petrol_{95}$ rose by M0.20 per litre, to M23.85 and M24.05, respectively.

While $Diesel_{50}$ increased by M3.20 to M29.05 per litre and illuminating paraffin rose by M2.60 to M21.20 per litre.

Figure 5 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

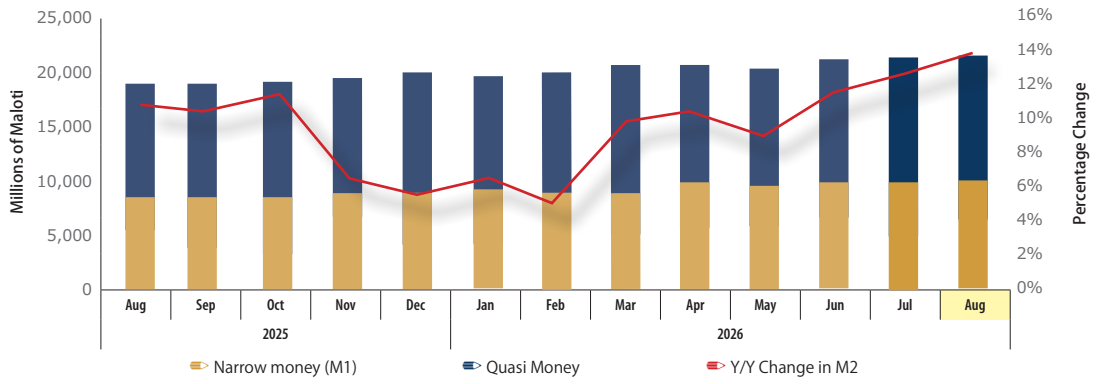
Broad Money (M2)

Money supply (M2) increased by 1.1 per cent during the review period, following growth of 1.0 per cent in July. The increase was supported by growth in net domestic assets (NDA), which more than offset a fall in net foreign assets (NFA). NDA increased by 19.6 per cent, following the decline of 34.8 per cent in the preceding month. This turnaround was driven by drawdown of government deposits held with the central bank and commercial banks, alongside an increase in claims on the private sector. In contrast, NFA declined by 2.7 per cent, compared with growth of 6.7 per cent in July, largely reflecting a reduction in the central bank's foreign assets. Year-on- year, M2 grew by 13.8 per cent.

Components of Money Supply

Breaking money supply into its components, the growth in M2 reflected increases in both narrow money (M1) and quasi money. M1 grew by 0.2 per cent, while the increase in quasi money was driven by higher call deposits held by business enterprises and public nonfinancial corporations, as well as an increase in time deposits held by the private sector.

Figure 6 Broad Money Growth

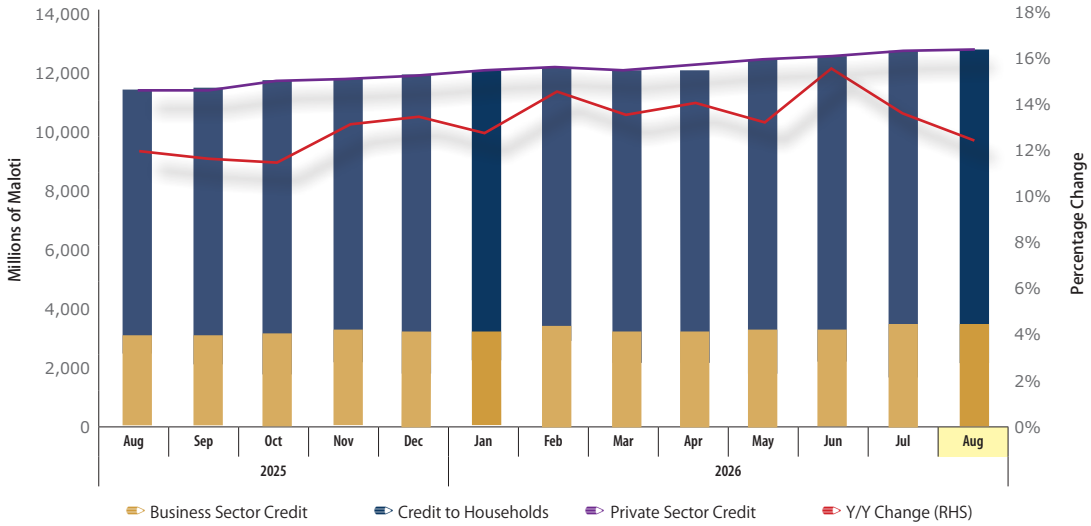


Source: CBL

Private Sector Credit

Growth in private sector credit decelerated to 0.6 per cent, compared with 1.5 per cent growth recorded in the preceding month. The growth was driven by an expansion of credit to households, despite a decline in businesses credit. Household credit increased by 1.0 per cent compared to 0.8 per cent in July. Both personal loans and mortgages benefitted from the growth in household credit extension. In contrast, business credit declined by 0.3 per cent. The fall in business credit was evident in construction, electricity, gas and water, as well as mining and quarrying. Regarding the share of credit by business enterprises, Wholesale & Retail trade, Restaurants commanded the highest share, followed by Real Estate and Business Services, with Construction industry completing the top three bracket. Community, Social and Personal Services remained the smallest recipient of credit extension. On an annual basis, private sector credit grew by 12.6 per cent.

Figure 7 Private Sector Credit



Source: CBL

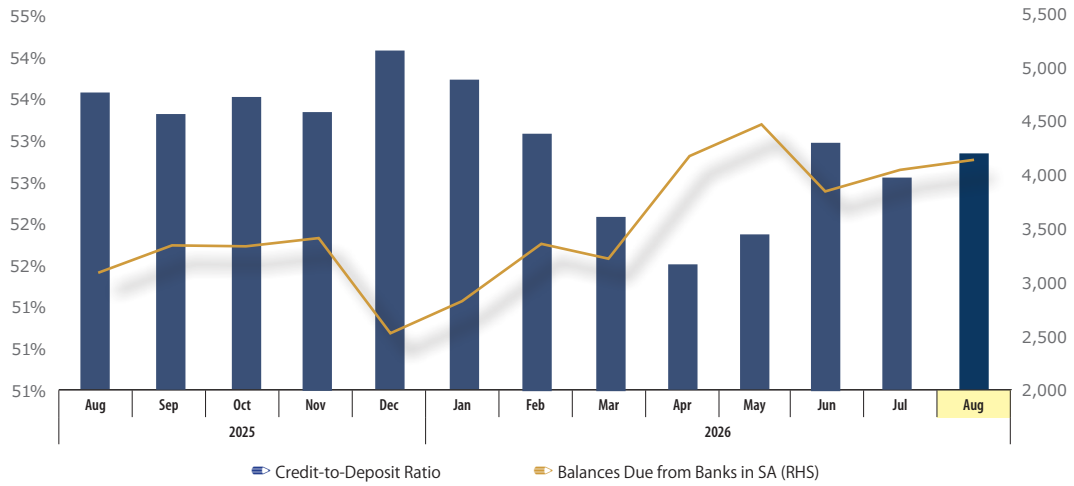
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined to 3.6 per cent in August from 3.8 per cent in July, reflecting a reduction in household NPLs. The Wholesale and Retail Trade, Restaurants and Hotels subsector, which received largest share of business credit recorded the highest NPLs, followed by Real Estate and Business services, and Manufacturing.

Sources of Funds

The credit-to-deposit ratio rose to 53.4 per cent, from 53.1 per cent in the previous month. The increase was attributed to a rise in credit to the private sector, which surpassed growth in deposits in commercial banks.

Figure 8 Credit to Deposit Ratio



Source: CBL

Interest Rates

The Central Bank of Lesotho's key policy rate remained unchanged at 6.75 per cent during the review period, maintaining the same level as in the previous month. Consequently, the prime lending rate remained steady at 10.25 per cent. Similarly, the 91-day Treasury bill rate and the 1-year deposit rate remained unchanged at 6.96 per cent and 4.96 per cent, respectively.

Foreign Exchange

The rand, hence loti, appreciated against all its major trading currencies in August 2026, compared to the previous month. It appreciated by 8.9 per cent to 16.17 against the US dollar, 8.7 per cent to 21.90 against the pound and 9.7 per cent to 18.74 against the euro, during the review period. Against the US dollar, the rand breached the 16.00 level on 24 August for the first time in almost six months and reached 15.93 on 26 August, its strongest level since February 2026. The performance of the rand was influenced by a number of factors, internationally and domestically.

On the international side, a broadly weaker US dollar played a major role. Weaker-than-expected US economic data, including a decline of 23,000 non-farm payrolls in July against expectations of a gain, and an easing of inflation, reduced the likelihood of a September rate hike by the US Federal Reserve. The dollar came under further pressure after the US Treasury announced that it would double its buybacks of long-dated debt, which revived concerns about the funding of the US national debt. This prompted investors to seek higher returns in emerging markets, benefiting the rand.

Against the pound, the rand's appreciation was underpinned by a supportive demand for emerging-market currencies fuelled by higher investor appetite. The larger appreciation against the euro reflected the Euro Area's vulnerability to higher oil prices, given its heavy reliance on imported energy.

Domestically, the rand was supported by a surge in precious metal prices, with gold rising by about 9.0 per cent to around USD4,450 per ounce, while platinum and silver also recorded strong gains, improving the outlook for South Africa's export earnings.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure contracted by 20.7 per cent in August 2026, following the 5.0 per cent increase recorded in July, while overall budget execution improved slightly. This reflected lower recurrent spending, particularly on compensation of employees, goods and services, grants, social benefits, student grants, and the purchase of health services, following elevated spending in July.

Development spending, however, rebounded significantly, driven by stronger implementation of grant-funded capital projects. By functional classification (COFOG), expenditure remained concentrated in health, general public services, and economic affairs. On an annual basis, total expenditure increased by 24.0 per cent, compared with 3.8 per cent in July.

Revenue[3]

Government revenue, excluding SACU receipts, declined by 9.8 per cent in August 2026, though the pace of contraction moderated from the 29.0 per cent decline recorded in July. The decrease was driven mainly by weaker tax revenue, which fell by 12.6 per cent, reflecting a sharp decline in income tax collections. This was partly offset by modest growth in value-added tax (VAT) receipts and a strong recovery in excise tax collections. On an annual basis, total revenue increased by 4.0 per cent, supported by continued growth in tax revenue, despite slower year-on-year growth compared to July.

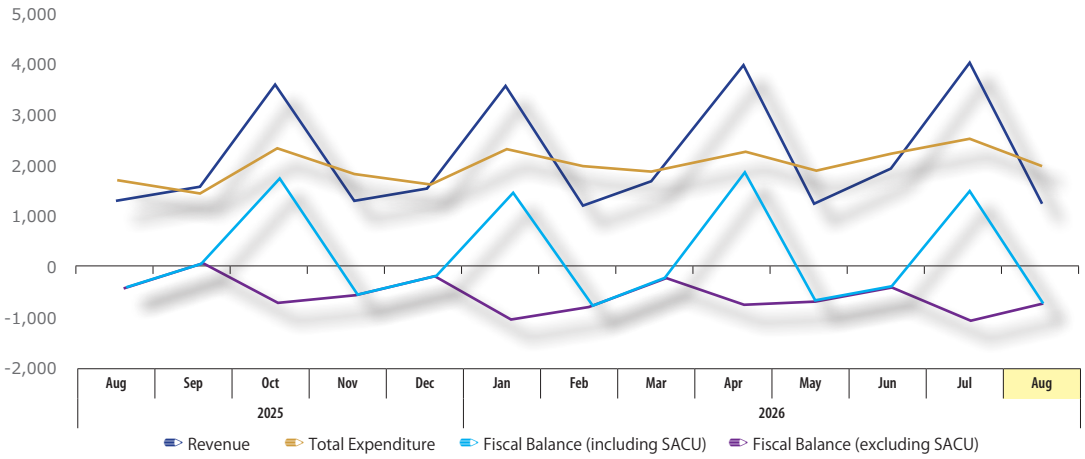
Fiscal Balance[4]

The fiscal balance deteriorated from a surplus of 12.6 per cent of GDP in July 2026 to a deficit of 5.7 per cent of GDP in August. The reversal reflected the combined effect of lower revenue and continued expenditure implementation. Although total expenditure contracted during the month, development spending increased significantly and partly offset the decline in recurrent expenditure.
The resulting deficit was largely financed through a drawdown of government deposits, while changes in other accounts receivable and payable also contributed to financing operations.

[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: **2026/27 Government Budget Execution Tracker** (Billion Maloti)

CATEGORY	APR	MAY	JUN	JUL	AUG
TOTAL					
Approved budget (monthly)	2.73	2.73	2.73	2.73	2.15
of which: Revisions	0.00	0.00	0.00	0.00	0.00
Outturn	2.24	1.94	2.37	2.49	1.98
RECURRENT					
Approved budget	1.98	1.98	1.98	1.98	1.98
of which: Revisions	0.00	0.00	0.00	0.00	0.00
Outturn	2.10	1.68	1.37	2.17	1.60
DEVELOPMENT					
Approved budget	0.75	0.75	0.75	0.75	0.16
of which: Revisions	0.00	0.00	0.00	0.00	0.00
Outturn	0.14	0.26	1.00	0.32	0.38

EXECUTION TRENDS

	APR	MAY	JUN	JUL	AUG
TOTAL	82.1%	71.0%	86.8%	91.2%	92.2%
RECURRENT	106.1%	84.9%	69.1%	109.6%	80.6%
DEVELOPMENT	18.6%	34.3%	133.5%	42.8%	230.8%

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

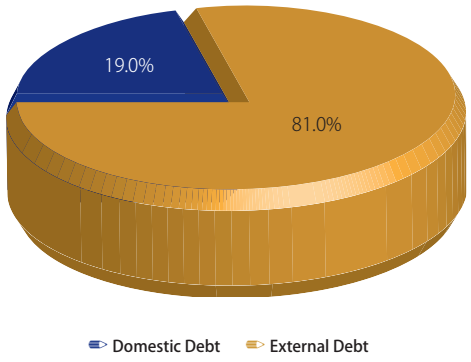
Function \ Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services	6.5%	13.0%	100.0%	99.1%	20.4%	1.6%	0.7%	-1.4%	**16.4%**
Defence	8.4%	7.2%	0.0%	0.0%	0.0%	0.0%	0.0%	-7.0%	**3.3%**
Public Order and Safety	18.2%	8.4%	0.0%	0.0%	0.8%	0.0%	0.5%	0.9%	**7.7%**
Economic Affairs	6.7%	35.2%	0.0%	0.0%	61.5%	0.0%	0.0%	95.7%	**16.4%**
Environmental Protection	0.9%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.5%**
Housing & Comm. Amenities	7.0%	13.0%	0.0%	0.0%	0.3%	0.0%	0.1%	10.9%	**4.8%**
Health	8.3%	17.6%	0.0%	0.0%	0.0%	2.4%	0.0%	0.0%	**5.2%**
Recreation, Culture, & Religious	1.1%	1.7%	0.0%	0.0%	0.0%	10.1%	0.0%	0.0%	**1.7%**
Education	33.0%	1.2%	0.0%	0.9%	6.9%	0.0%	98.2%	0.3%	**30.0%**
Social Protection	9.9%	1.1%	0.0%	0.0%	10.1%	85.9%	0.6%	0.5%	**13.9%**
Share per Economic Item	**36.2%**	**11.1%**	**7.0%**	**4.4%**	**4.8%**	**11.2%**	**17.8%**	**7.4%**	**100.0%**

Source: CBL and MOF

V. PUBLIC DEBT

The stock of public debt declined by 1.2 per cent in August 2026, following a 0.7 per cent increase in July. The reduction was mainly driven by a decline in external debt, which fell by 1.5 per cent. The drop in external debt reflected favourable exchange rate movements that reduced the domestic currency value of foreign-currency-denominated obligations. Domestic debt remained unchanged during the month. As a result, the share of external debt in total public debt eased slightly to 81.0 per cent from 81.2 per cent in July. The concessional share of external debt remained broadly stable at 73.3 per cent, indicating that the debt portfolio continues to be dominated by concessional financing. Consequently, the total public debt-to-GDP ratio declined to 48.3 per cent from 48.8 per cent in the previous month.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: **Key Economic Indicators**

		25-Jan	26-Feb	26-Mar	26-Apr	26-May	26-Jun	26-Jul	26- Aug
Economic Activity *(MIEA (% change, M/M)*		2.2	1.6	-1.2	-0.3	-1.7	-3.7	3.3	2.0
Consumer price Index *(% change)*	*Headline Inflation (year-on-year)*	3.4	2.7	2.2	3.1	3.5	3.7	2.9	2.6
	Core Inflation	2.4	2.7	2.2	2.1	1.9	2.0	1.9	1.8
Exchange Rates *(Monthly End Period)*	*EUR*	18.9712	18.7722	19.6400	19.7021	18.8909	18.7268	18.9916	18.7231
	GBP	21.8862	21.4210	22.6200	22.7451	21.806	21.7461	22.1807	21.8813
	USD	15.9163	15.9028	17.1300	16.8984	16.2262	16.4226	16.4900	16.1564
Money Supply (Millions of Maloti)	*M2*	19,737.22	19,813.80	21,178.33	20,819.53	20,680.54	21,188.53	21,401.54	21,636.57
	M1	9091.94	9,071.16	10,027.06	9,529.02	9,791.56	9,831.32	10,237.42	10,25713
	Quasi Money	10,645.28	10,742.64	11,151.27	11,290.51	10,888.98	11,356.91	11,164.12	11,379.44
Interest Rates	*CBL Rate*	6.50	6.50	6.50	6.50	6.75	6.75	6.75	6.75
	91 day Treasury bill rate	6.93	6.84	6.90	6.92	6.96	6.96	7.02	7.02
	Prime lending rate	10.00	10.00	10.00	10.00	10.25	10.25	10.25	10.25
	1 year deposit rate	4.80	4.80	4.80	4.80	4.86	4.96	4.96	4.96
Private sector Credit *(Millions of Maloti)*		12,167.47	12,361.73	12,322.00	12,469.18	12,581.76	12,766.67	12,956.50	13,039.72
	Business Enterprises	3,154.69	3,305.27	3,212.58	3,279.95	3,337.00	3,402.39	3,516.13	3,506.08
	Households	9,012.78	9,056.46	9,109.42	9,189.23	9,244.76	9,364.28	9,440.37	9,533.65
Bank Deposit Liabilities *(Millions of Maloti)*		22,456.57	22,983.01	23,412.97	23,935.36	23,891.31	23,882.28	24,407.19	24,431.01
Credit to Deposit Ratio (%)		53.8	53.4	52.6	51.7	52.3	53.4	52.7	53.0
Fiscal Operations *(Millions of Maloti)*	*Fiscal Balance*	1,381.92	-1,428.02	-178.91	1,752.47	-662.69	-342.78	1,470.14	-672.52
	Total Revenue	3,681.50	1,222.71	1,681.01	3,996.42	1,278.93	2,031.07	3,963.67	1,305.76
	Total Expenditure	2,299.57	2,650.73	1,859.93	2,243.95	1,941.63	2,373.85	2,493.53	1,978.28
	O/W Capital	255.03	225.82	549.29	139.88	258.21	1,003.52	321.26	380.46
Total Public Debt *(Millions of Maloti)*		25,155.85	25,218.52	22,368.77	22,377.38	21,896.29	22,691.19	22,856.46	22,582.73
	Total External Debt	20,557.38	20,618.06	18,321.40	18,330.01	17,848.92	18,393.82	18,559.09	18,285.36
External Debt	*Concessional*	15,821.65	15,892.49	13,792.73	13,842.69	13,436.01	13,533.74	13,624.71	13,410.51
	Non-concessional	4,735.74	4,725.57	4,528.67	4,487.32	4,412.91	4,860.08	4,934.39	4,874.85
Domestic Debt		4,598.47	4,600.46	4,047.37	4,047.37	4,047.37	4,297.37	4,297.37	4,297.37
Memo Item: Arrears *(Millions of Maloti)*		-49.43	-91.36	-37.45	0.00	-0.31	-203.68	-21.16	-93.10

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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