



Monthly

ECONOMIC REVIEW

JULY 2026

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity expanded in July 2026, supported by stronger performance in construction, manufacturing, transport and financial services. However, the growth was partly offset by weaker domestic demand. On the price front, inflationary pressures eased, largely reflecting lower fuel prices.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) rebounded in July 2026, increasing by 3.3 per cent after contracting by 3.7 per cent in June 2026. The recovery was driven by stronger activity in construction, manufacturing, transport and financial services.

The improvement in construction was reflected in higher imports of cement and metal products, while the gain in transport activity was observed in increased fuel consumption.

Nevertheless, the overall expansion was partly moderated by weaker domestic demand, as indicated by lower total import volumes and a decline in Pay As You Earn (PAYE) collections.

Domestic Demand Category

Domestic demand weakened further in July 2026, contracting by 3.9 per cent, following a 2.3 per cent decline in June 2026. The fall was mainly driven by lower goods imports and reduced PAYE collections. However, the decline was partly cushioned by higher real earnings, as reflected in increased compensation of employees.

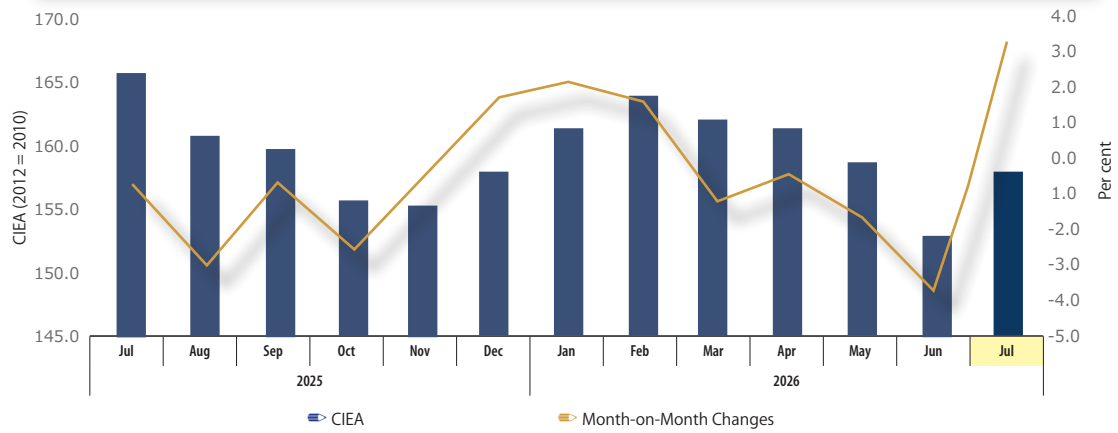
Manufacturing and Production

Manufacturing and production activity recovered in July 2026, with the index rising by 8.4 per cent after declining by 1.6 per cent in the previous month. The recuperation was mainly supported by increased consumption of electricity and water, indicating stronger production-related activity during the review period.

However, the overall improvement was partly moderated by weaker textile exports to South Africa and the United States, which contributed negatively to the index. This was further observed in reduced imports of raw materials also weighed on the sector's performance.

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	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CIEA	158.2	161.7	164.1	162.2	161.5	158.6	152.9	158.0
Monthly changes	1.7	2.2	1.6	-1.2	-0.3	-1.7	-3.7	3.3
Domestic Demand Category	134.6	140.8	139.7	126.9	128.4	123.2	120.7	116.0
Monthly changes	5.0	4.6	-0.7	-9.2	1.2	-4.0	-2.3	-3.9
Manufacturing & Production Category	123.6	135.9	143.1	149.1	142.7	137.9	135.7	147.2
Monthly changes	-5.9	10.0	5.3	4.2	-4.3	-3.3	-1.6	8.4
Transport Category	152.9	141.2	137.2	136.9	136.7	134.5	120.5	127.9
Monthly Changes	8.0	-7.7	-2.8	-0.2	-0.2	-1.6	-10.4	6.2
Financial Services	114.1	114.2	114.4	114.4	114.6	114.7	114.9	115.1
Monthly Changes	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.2
Construction Category	374.7	363.6	395.4	413.1	441.2	519.0	472.3	555.1
Monthly Changes	1.5	-3.0	8.8	4.5	6.8	17.6	-9.0	17.5

Source: CBL Calculations.

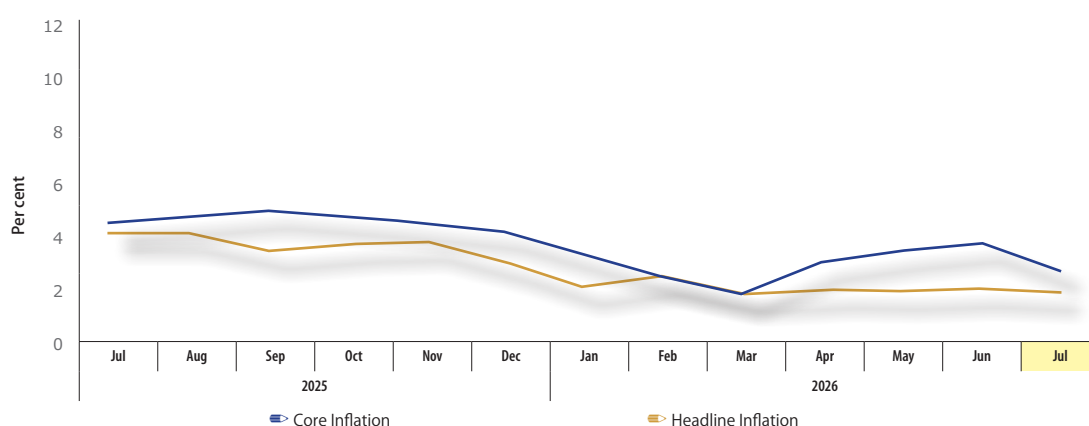
II. INFLATION AND PRICES

Headline Inflation

Headline inflation eased in July 2026, declining to 2.9 per cent from 3.7 per cent in June 2026. This represented a moderation of 0.8 percentage points during the review period.

This slowdown was mainly driven by lower prices in Food and Non-Alcoholic Beverages, Transport, and Housing, Water, Electricity, Gas and Other Fuels. However, price increases in Alcoholic Beverages and Tobacco, as well as Clothing and Footwear, partly offset the overall moderation between the two months.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

Transport remained a key source of upward pressure on headline inflation. The category recorded an annual inflation rate of 9.9 per cent and contributed 0.4 percentage points to the overall rate. This reflected the continued influence of fuel and other transport-related costs on consumer prices, reinforcing transport's role as an important driver of price movements during the review period.

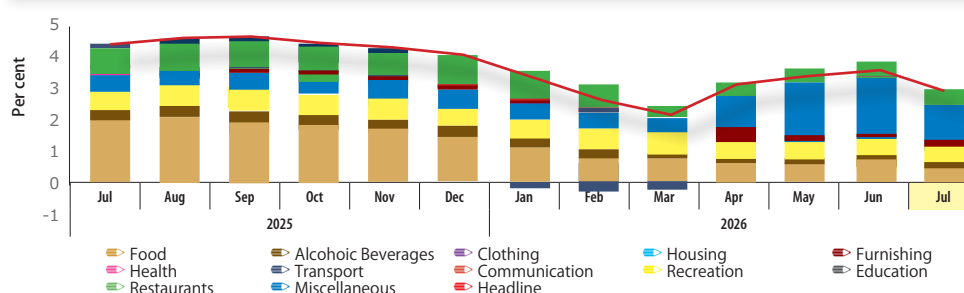
Food and Non-Alcoholic Beverages recorded annual inflation of 1.3 per cent and contributed 0.6 percentage points to headline inflation. The increase was mainly driven by higher prices for meat, vegetables and fruit. Meat prices continued

to reflect the effects of earlier supply shortages, while seasonal patterns influenced prices for fresh produce.

Clothing and Footwear inflation rose to 6.4 per cent in July 2026, contributing 0.5 percentage points to headline inflation. The increase was mainly driven by higher retail prices for imported clothing fabrics and casual shoes.

Alcoholic Beverages and Tobacco inflation rose to 1.7 per cent in July 2026, contributing 0.1 percentage points to headline inflation. Although its contribution was relatively modest, the increase added some upward pressure to the overall inflation rate during the review month.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

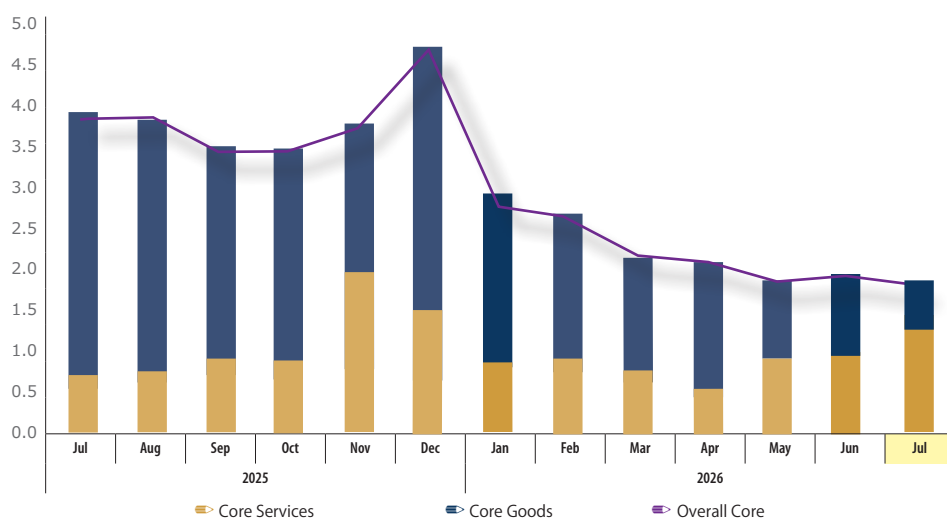
Core inflation, measured using the trimmed mean approach, eased slightly to 1.9 per cent in July 2026 from 2.0 per cent in the previous month. The marginal decline indicates a modest easing of underlying price pressures during the review period.

Contributions to Core Inflation

The moderation in core inflation was mainly driven by services core inflation, which contributed 1.3 percentage points to the overall core inflation rate. This indicates that service-related categories continued to exert the strongest underlying price pressures during the month. Goods core inflation contributed 0.7 percentage points, reflecting a more subdued, though still positive, influence from goods prices. Overall, the decline in core inflation reflected a modest easing in broad-based price pressures, with services remaining the largest contributor to core inflation.

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)



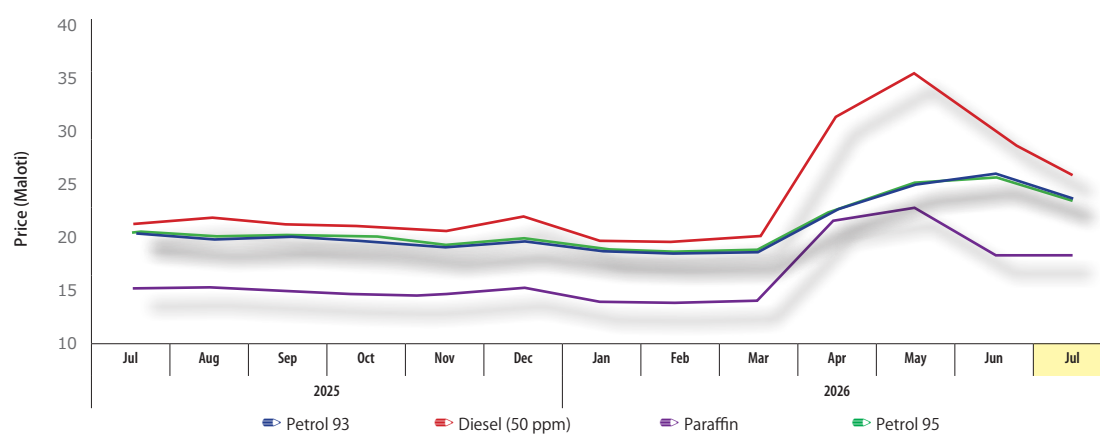
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Domestic fuel prices declined in July 2026, easing transport-related costs and reducing pressure on the domestic price environment. The decline followed a temporary ceasefire agreement between the United States of America and Iran. However, global trade tensions and geopolitical uncertainty continued to pose risks to energy markets, leaving open the possibility of a reversal in fuel price trends.

During the month, the pump prices of Petrol₉₃ and Petrol₉₅ decreased by M2.05 and M2.55 per litre, respectively, to M23.65 and M23.85 per litre. Diesel₅₀ also declined by M4.20 per litre to M25.85 per litre, while the price of illuminating paraffin remained unchanged at M18.60 per litre.

Figure 5 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Money supply (M2) grew by 1.0 per cent in July 2026, following a 2.5 per cent increase in the previous month. The expansion was supported by stronger net foreign assets (NFA), which offset a decline in net domestic assets (NDA).

NFA rose by 6.7 per cent, reversing the 10.9 per cent contraction recorded in June. The recovery reflected higher claims on non-residents by the Central Bank, as well as a rise in commercial banks' claims on non-residents and a decline in their liabilities to non-residents.

By contrast, NDA fell by 34.8 per cent, reversing the 37.3 per cent growth recorded in June. The decline was mainly driven by higher government deposits at the Central Bank, as well as increased government

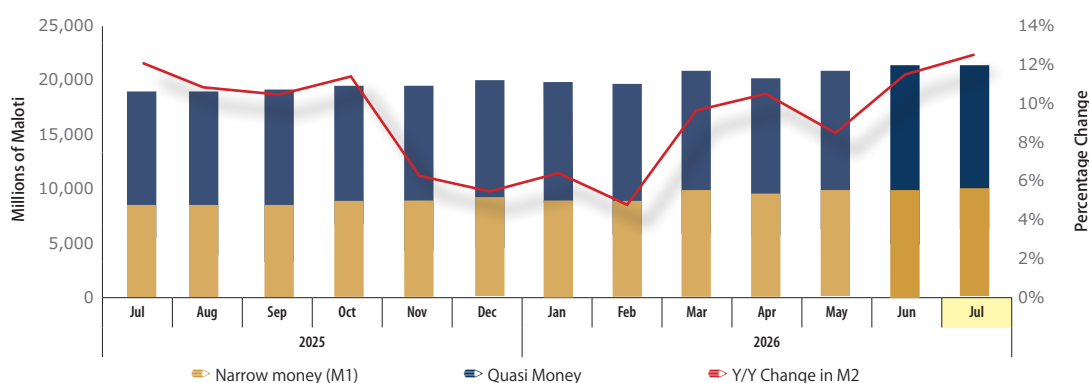
deposits and lower claims on government at other depository corporations. On an annual basis, M2 increased by 12.6 per cent.

Components of Money Supply

Broken down into its components, the growth in money supply was attributed to the expansion in narrow money (M1), which more than offset a decline in quasi money.

M1 grew further by 4.1 per cent, following the 0.4 per cent increase in the previous month. The rise in M1 was explained, mainly by an increase in transferable deposits held by business enterprises and resident households. While the fall in call deposits held by business enterprises caused the contraction in quasi money.

Figure 6 Broad Money Growth



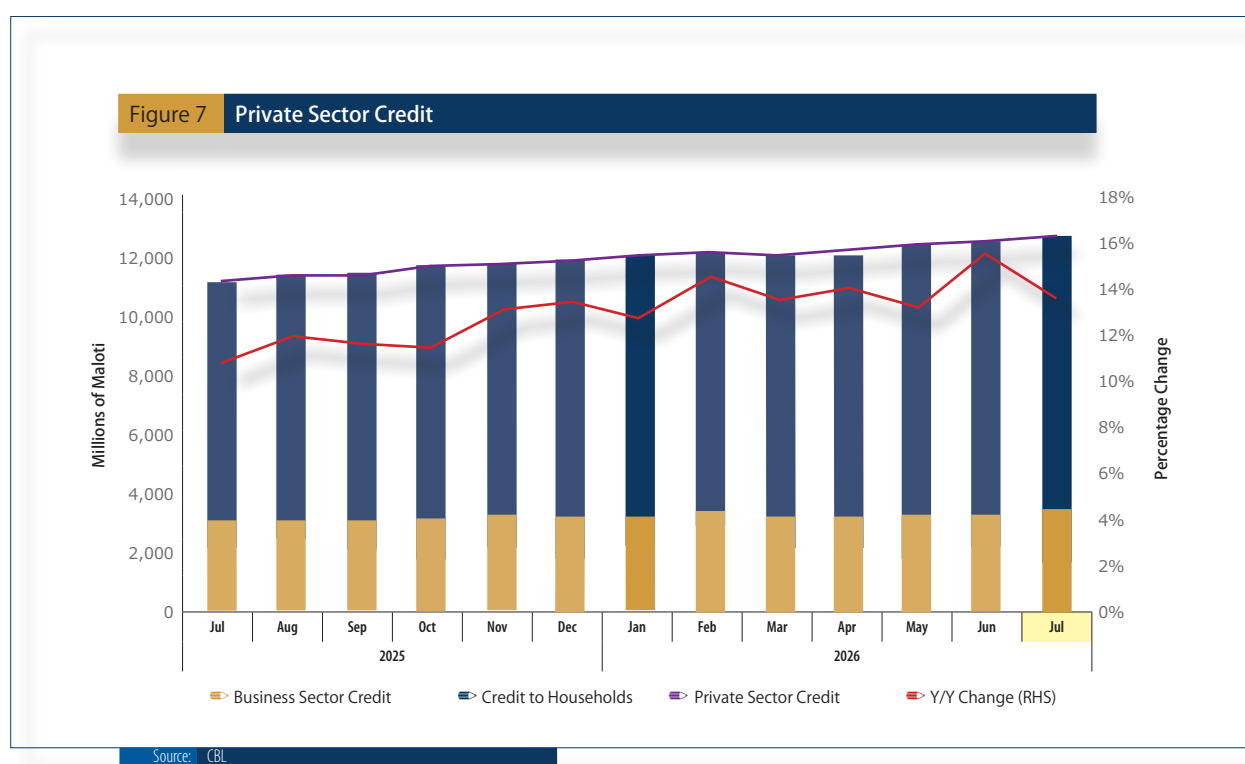
Source: CBL

Private Sector Credit

Private sector credit continued to grow in July, expanding by 1.5 per cent, the same rate of growth recorded in June 2026. Growth was observable in both credit extended to businesses and households. Households' credit, on the one hand, grew by 1.3 per cent, extending the 0.6 per cent growth recorded in June. Both personal loans and mortgages benefited from the observed growth in household credit extension. On the other hand, business credit grew by 3.3 per cent, extending the 2.0 per cent growth observed a month earlier. The growth in business

credit was supported mainly by a rise in credit to transport, storage and communication, real estate and business services, as well as construction.

Regarding the share of credit by business enterprises, wholesale, retail trade, restaurants and hotels commanded the highest share of credit extension, followed by real estate and business services industry, with construction completing the top three. Community, social and personal services remained the smallest recipient of credit extension. On annual basis, private sector credit grew by 13.6 per cent.



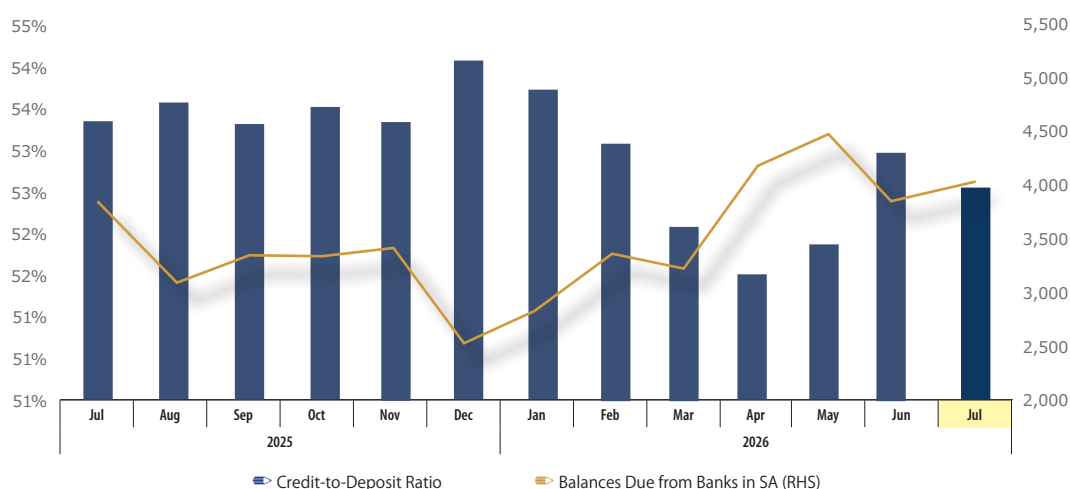
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans grew by 1.7 per cent between June and July 2026. This increase was driven by the households NPLs – particularly mortgages. The largest shares of NPLs to businesses loans were recorded in the transport, storage and communication, as well as agriculture, hunting, forestry and fishing subsectors.

Sources of Funds

The credit-to-deposit ratio declined from 53.4 in June 2026 to 52.7 in July. The decrease primarily reflected growth in commercial banks' deposit base, despite an increase in credit extension.

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 remained unchanged at 6.96 per cent. In contrast, the 1-year deposit rate edged up by 10 basis points to 4.96 per cent.

Foreign Exchange

The rand - and, by extension, the loti - recorded mixed movements against major trading currencies in July 2026. It weakened by 0.5 per cent against the US dollar to 16.46 and by 0.1 per cent against the pound to 22.02 but strengthened by 0.2 per cent against the euro to 18.80. Both international and domestic factors shaped its performance.

Internationally, renewed conflict in the Middle East placed the rand under pressure. Fresh attacks by the United States and Iran pushed oil prices higher and prompted a risk-off shift away from emerging-market assets. By contrast, the rand's appreciation against the euro reflected diverging monetary

policy expectations: easing inflation in the euro area strengthened prospects of lower interest rates, weighing on the euro.

From the international side, geopolitical tensions played a major role. The rand faced pressure from reescalation of conflicts in the Middle East. The US and Iran renewed their attacks, which led to increase in oil prices. This generally led to a risk-off sentiment for emerging-market assets, which weakened the rand. The appreciation against the euro reflected a divergent monetary policy path. The Euro Area experienced easing inflationary pressures, with implications for lower rates in the near future, which weighed negatively on the euro.

Domestically, the rand weakened sharply after the SARB kept the repo rate unchanged at its July meeting, contrary to market expectations of an increase amid rising inflation risks. The SARB also adopted a less hawkish tone, indicating that monetary policy remained sufficiently restrictive to return inflation to target and that an immediate rate increase was unnecessary. Concerns about weaker economic growth further reduced expected returns on South African assets.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure increased by 5.0 per cent in July 2026, although the pace of growth moderated from the 22.3 per cent recorded in June. Notwithstanding this moderation, overall budget execution improved from 86.8 per cent to 91.2 per cent, primarily reflecting stronger recurrent budget execution, which rose from 69.1 per cent to 109.6 per cent. In particular, recurrent expenditure increased by 58.5 per cent, owing to higher spending on goods and services, increased grants to extra-budgetary units, and the payment of two months' old-age pension benefits following the non-disbursement of the June payment. This increase more than offset weaker development spending, as development budget execution declined from 133.5 per cent to 42.8 per cent. Consistent with this decline, capital expenditure contracted by 68.0 per cent, reversing a substantial proportion of the increase in capital outlays recorded in June.

In terms of functional allocation, the Classification of the Functions of Government (COFOG) indicates that expenditure was concentrated in health, general public services and economic affairs. Overall, total expenditure was 3.8 per cent higher than in the corresponding period of the previous year.

Revenue³

Government revenue, excluding SACU receipts, declined by 29.0 per cent in July 2026. This performance was mainly attributed to relatively weaker VAT and income tax collections, resulting in lower revenue collections. However, including SACU receipts, total revenue rose significantly. On an annual basis, total revenue rose by 9.1 per cent.

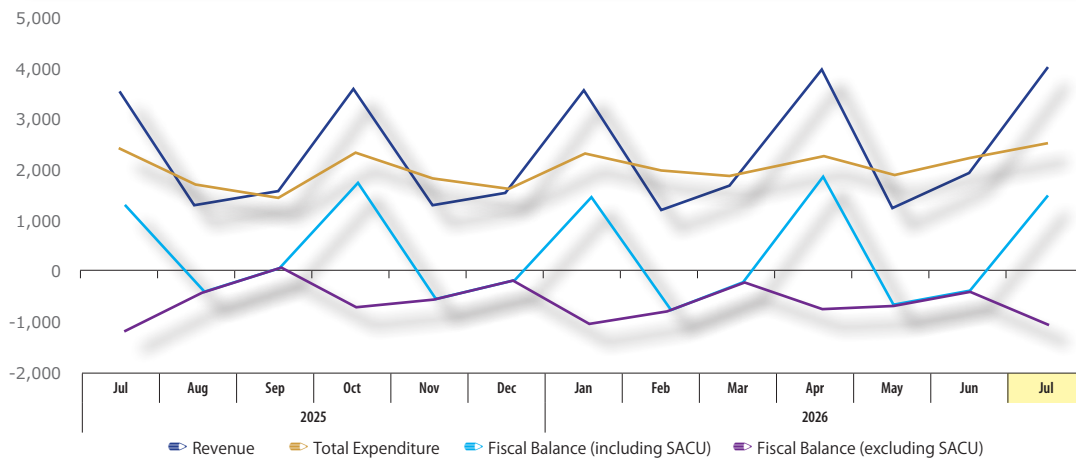
Fiscal Balance⁴

The fiscal balance transitioned to a surplus in July 2026, reversing the deficit recorded in June. The turnaround was driven largely by the receipt of SACU revenue, which outweighed the increase in expenditure. The surplus was used to build up government deposits.

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	EXECUTION TRENDS
TOTAL					
Approved budget (monthly)	2734.69	2734.69	2734.69	2733.84	
of which: Revisions	0.00	0.00	0.00	-0.85	
Outturn	2243.94	1941.63	2373.84	2493.54	
RECURRENT					
Approved budget	1982.90	1982.90	1982.90	1982.73	
of which: Revisions	0.00	0.00	0.00	-0.17	
Outturn	2104.06	1683.41	1370.32	2172.28	
DEVELOPMENT					
Approved budget	751.79	751.79	751.79	751.11	
of which: Revisions	0.00	0.00	0.00	-0.69	
Outturn	139.88	258.21	1003.52	321.26	

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

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

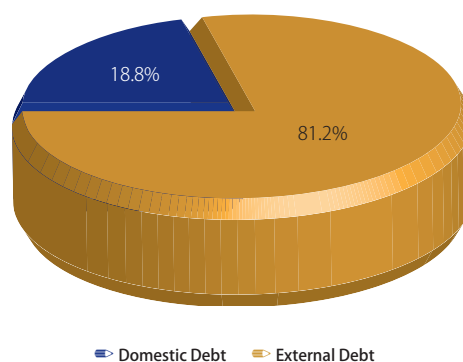
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		7.1%	9.4%	100.0%	0.0%	49.5%	0.9%	93.0%	14.7%	19.2%
Defence		8.4%	6.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%
Public Order and Safety		18.3%	10.5%	0.0%	0.0%	0.9%	0.0%	2.8%	4.5%	8.1%
Economic Affairs		6.5%	30.7%	0.0%	0.0%	20.8%	0.0%	0.0%	36.0%	15.9%
Environmental Protection		0.8%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Housing & Comm. Amenities		7.0%	4.2%	0.0%	0.0%	0.8%	0.0%	2.3%	44.1%	6.5%
Health		8.3%	36.1%	0.0%	99.5%	13.7%	2.0%	2.4%	0.0%	20.1%
Recreation, Culture, & Religious		1.1%	1.2%	0.0%	0.0%	1.5%	0.5%	0.4%	0.0%	1.0%
Education		32.8%	0.6%	0.0%	0.5%	9.3%	0.0%	0.0%	0.2%	11.8%
Social Protection		9.7%	0.4%	0.0%	0.0%	3.4%	96.5%	-1.0%	0.6%	13.3%
Share per Economic Item		28.9%	21.0%	1.9%	6.8%	23.1%	10.0%	0.6%	7.7%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock rose by 0.7 per cent in nominal terms in July, driven by an increase in external debt on account of exchange rate movements, while domestic debt remained unchanged. As a result, the share of external debt in total public debt edged by 2 basis points to 81.2 per cent, from 81.0 per cent in June, underscoring the portfolio's continued sensitivity to exchange rate movements. The concessional share of external debt remained broadly stable at 73.4 per cent, from 73.6 per cent in June. Debt service obligations remained manageable, with external debt service at 9.3 per cent of government revenue and domestic debt service at 0.2 per cent.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: Key Economic Indicators

		25-Dec	25-Jan	26-Feb	26-Mar	26-Apr	26-May	26-Jun	26-Jul
Economic Activity (MIEA (% change, M/M))		1.7	2.2	1.6	-1.2	-0.3	-1.7	-3.7	3.3
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.1	3.4	2.7	2.2	3.1	3.5	3.7	2.9
	Core Inflation	3.2	2.4	2.7	2.2	2.1	1.9	2.0	1.9
Exchange Rates (Monthly End Period)	EUR	19.4934	18.9712	18.7722	19.6400	19.7021	18.8909	18.7268	18.9916
	GBP	22.3515	21.8862	21.4210	22.6200	22.7451	21.806	21.7461	22.1807
	USD	16.6080	15.9163	15.9028	17.1300	16.8984	16.2262	16.4226	16.4900
Money Supply (Millions of Maloti)	M2	20,055.61	19,737.22	19,813.80	21,178.33	20,819.53	20,680.54	21,188.53	21,401.54
	M1	9,232.60	9,091.94	9,071.16	10,027.06	9,529.02	9,791.56	9,831.32	10,237.42
	Quasi Money	10,823.01	10,645.28	10,742.64	11,151.27	11,290.51	10,888.98	11,356.91	11,164.12
Interest Rates	CBL Rate	6.50	6.50	6.50	6.50	6.50	6.75	6.75	6.75
	91 day Treasury bill rate	6.94	6.93	6.84	6.90	6.92	6.96	6.96	7.02
	Prime lending rate	10.00	10.00	10.00	10.00	10.00	10.25	10.25	10.25
	1 year deposit rate	4.80	4.80	4.80	4.80	4.80	4.86	4.96	4.96
Private sector Credit (Millions of Maloti)		12,089.08	12,167.47	12,361.73	12,322.00	12,469.18	12,581.76	12,766.67	12,956.50
	Business Enterprises	3,127.35	3,154.69	3,305.27	3,212.58	3,279.95	3,337.00	3,402.39	3,516.13
	Households	8,961.73	9,012.78	9,056.46	9,109.42	9,189.23	9,244.76	9,364.28	9,440.37
Bank Deposit Liabilities (Millions of Maloti)		22,191.58	22,456.57	22,983.01	23,412.97	23,935.36	23,891.31	23,882.28	24,407.19
Credit to Deposit Ratio (%)		54.0	53.8	53.4	52.6	51.7	52.3	53.4	52.7
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-108.51	1,381.92	-1,428.02	-178.92	1,752.48	-662.69	-342.77	1,470.13
	Total Revenue	1,546.73	3,681.50	1,222.71	1,681.01	3,996.42	1,278.93	2,031.07	3,963.67
	Total Expenditure	1,655.25	2,299.57	2,650.73	1,859.93	2,243.94	1,941.63	2,373.84	2,493.54
	O/W Capital	253.67	255.03	225.82	549.29	139.88	258.21	1,003.52	321.26
Total Public Debt (Millions of Maloti)		22,659.27	25,116.14	25,178.81	22,325.92	22,334.67	21,860.04	22,672.08	22,834.47
	Total External Debt	18,059.90	20,517.67	20,578.34	18,278.55	18,287.30	17,812.67	18,374.71	18,537.10
External Debt	Concessional	13,318.61	15,781.93	15,852.78	13,749.89	13,799.98	13,399.76	13,514.63	13,602.71
	Non-concessional	4,741.29	4,735.74	4,725.57	4,528.67	4,487.32	4,412.91	4,860.08	4,934.39
Domestic Debt		4,599.37	4,598.47	4,600.46	4,047.37	4,047.37	4,047.37	4,297.37	4,297.37
Memo Item: Arrears (Millions of Maloti)		-7.51	-49.43	-91.36	-37.45	0.00	-0.31	-203.68	-21.16
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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