



Monthly ECONOMIC REVIEW

JUNE 2026

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity weakened further in June 2026, mainly reflecting weak domestic demand and subdued performance in the manufacturing, construction, and transport subsectors. The decline was, however, partly cushioned by improved activity in the financial services sector. On the price front, inflationary pressures continued to build, largely driven by higher fuel costs.

Overall Performance Index

Economic activity continued to weaken in June 2026, with the Composite Indicator of Economic Activity (CIEA) declining by 3.9 per cent, following a 1.8 per cent contraction in May. The continued slowdown was primarily driven by subdued domestic demand and weaker performance in the manufacturing, construction, and transport subsectors. These developments were reflected in lower imports of goods and services, reduced textile export volumes, declining imports of construction materials, and lower fuel consumption.

Despite the broad-based weakness, the financial services sector recorded modest growth during the period, supported by increased credit extended to both households and businesses. The sector's positive performance provided some offset the overall contraction in economic activity.

Domestic Demand Category

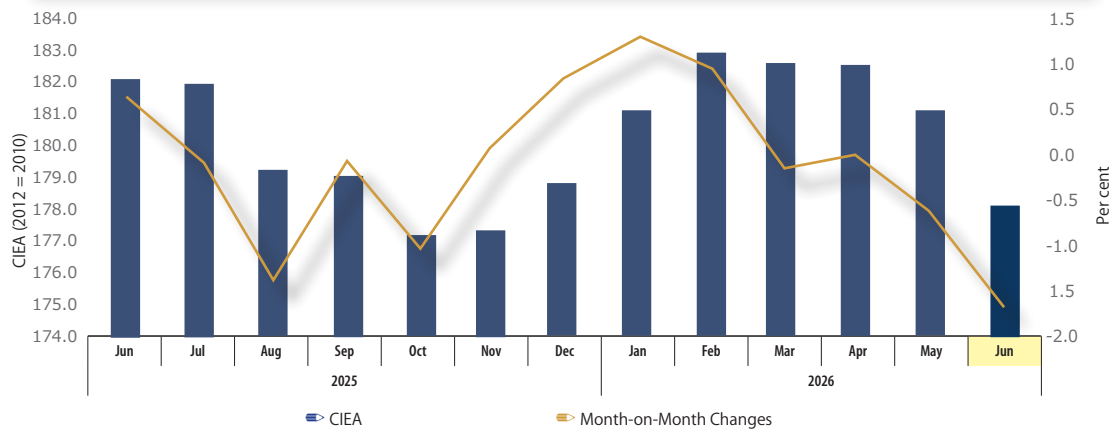
Domestic demand declined by 2.3 per cent during the review month, following a sharper contraction of 4.0 per cent in May 2026. The decline was mainly driven by weaker private and public consumption, as evidenced by low imports of consumer goods and machinery, alongside reduced government purchases of goods and services. However, the contraction was partly cushioned by an increase in real earnings, reflected in higher PAYE collections and compensation of employees.

Manufacturing and Production

Manufacturing and production activity weakened further in June 2026, with the manufacturing index declining by 1.6 per cent, following a 3.3 per cent contraction in the previous month. The continued downturn was primarily driven by a decline in textile exports to the United States. However, the contraction was partly mitigated by increased textile exports to South Africa, as well as higher imports of raw materials during the 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

Indices	2025		2026					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CIEA	155.6	158.2	161.7	164.1	162.2	161.5	158.6	152.5
Monthly changes	-0.3	1.7	2.2	1.5	-1.2	-0.4	-1.8	-3.9
Domestic Demand Category	128.1	134.6	140.8	139.7	126.9	128.4	123.2	120.4
Monthly changes	-0.4	5.0	4.6	-0.7	-9.2	1.2	-4.0	-2.3
Manufacturing & Production Category	131.3	123.6	135.9	143.1	149.1	142.7	137.9	135.8
Monthly changes	-3.3	-5.9	10.0	5.3	4.2	-4.3	-3.3	-1.6
Transport Category	141.6	152.9	141.2	137.2	136.9	136.7	134.5	120.5
Monthly Changes	1.2	8.0	-7.7	-2.8	-0.2	-0.2	-1.6	-10.4
Financial Services	113.8	114.1	114.2	114.4	114.4	114.6	114.7	114.9
Monthly Changes	0.2	0.3	0.0	0.2	0.1	0.1	0.1	0.1
Construction Category	369.1	374.7	363.6	395.4	413.1	441.2	519.0	472.3
Monthly Changes	1.8	1.5	-3.0	8.8	4.5	6.8	17.6	-9.0

Source: CBL Calculations.

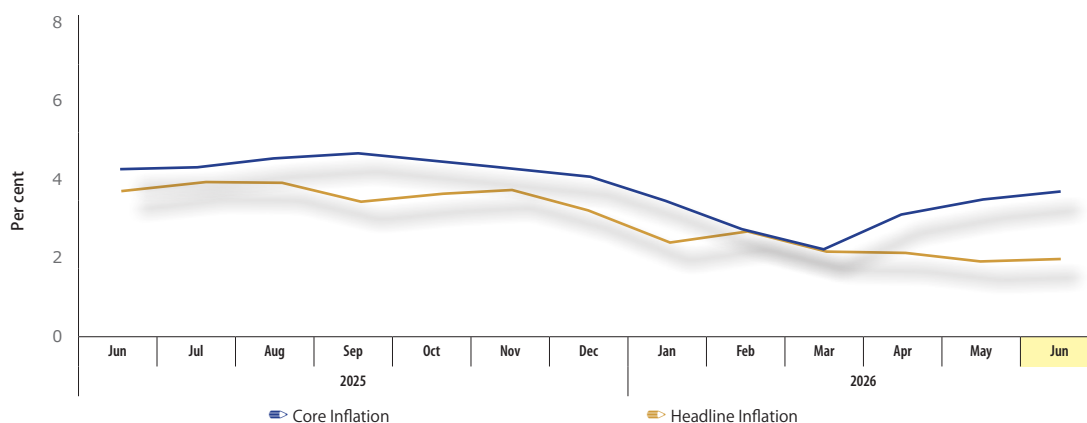
II. INFLATION AND PRICES

Headline Inflation

Headline inflation increased to 3.7 per cent in June 2026, from 3.5 per cent in May 2026, representing a 0.2 percentage point increase. The acceleration in inflation was primarily driven by higher prices

of Food and Non-Alcoholic Beverages, Clothing and Footwear, and Restaurants and Hotels, as well as higher Transport costs. Transport remained the largest contributor to inflationary pressure, reflecting higher domestic fuel prices and elevated international oil prices.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

The main contributors to the annual headline inflation rate of 3.7 per cent in June were Transport, Food and Non-Alcoholic Beverages, Clothing and Footwear, and Restaurants and Hotels. Collectively, these categories accounted for the bulk of the inflation pressures observed during the review month.

Transport remained the principal driver of headline inflation, recording an annual inflation rate of 16.5 per cent and contributing 1.7 percentage points to the overall inflation rate. The continued elevation in transport inflation exerted significant upward pressure on consumer prices, largely reflecting the pass-through from higher domestic fuel prices

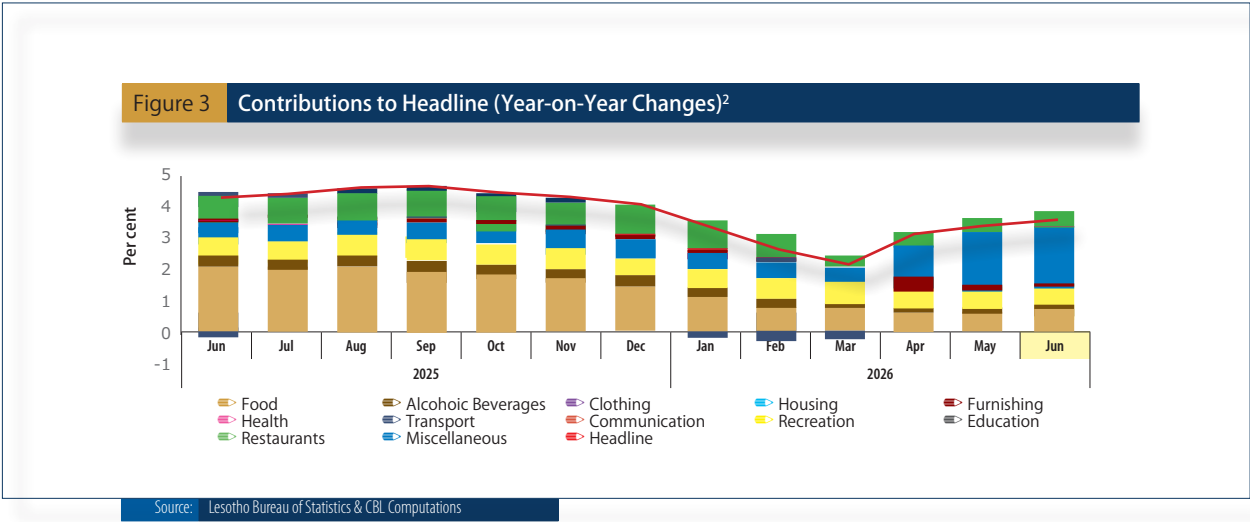
following increases in petrol, diesel, and paraffin prices during the month.

Food and Non-Alcoholic Beverages recorded an annual inflation rate of 1.8 per cent and contributed 0.6 percentage points to the headline inflation. The increases was primarily driven by higher prices for meat, vegetables and fruits. Meat prices continued to reflect base effects associated with earlier supply disruptions, while vegetable and fruit prices were influenced by seasonal supply conditions. These increases were partly offset by lower cereal prices, which moderated the overall rise in food inflation.

Clothing and Footwear inflation rose to 5.9 per cent year-on-year in June, contributing 0.5 percentage points to headline inflation. The increase was mainly

driven by higher retail prices of imported clothing and footwear. Similarly, inflation for Restaurants and Hotels increased to 5.5 per cent, contributing 0.3 percentage points to the overall inflation rate.

The remaining CPI divisions collectively contributed 0.6 percentage points to the annual headline inflation rate, indicating that inflationary pressures remained relatively broad-based across the consumer basket.



Core Inflation

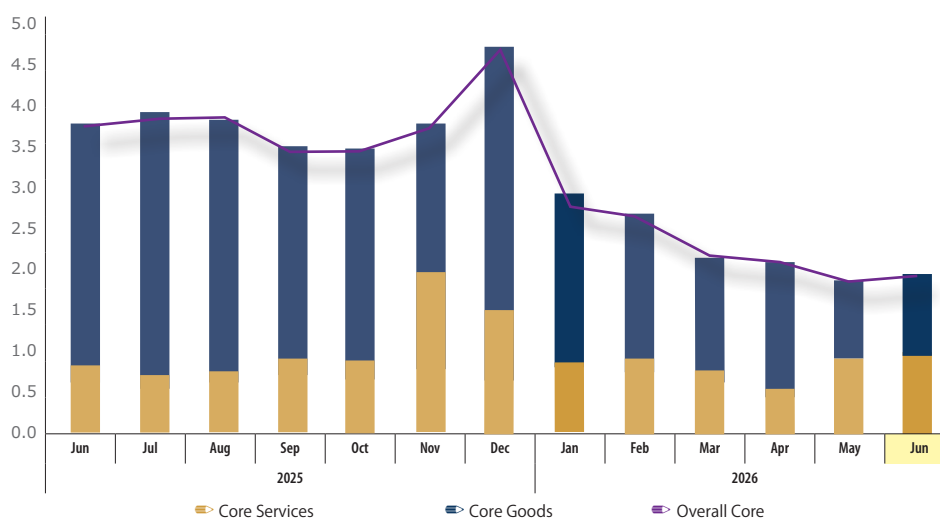
Core inflation, which excludes volatile items, increased marginally to 2.0 per cent in June 2026, from 1.9 per cent in the previous month.

Contributions to Core Inflation

The marginal increase in core inflation reflected broadly balanced contributions from both goods and services. Services inflation rose to 2.1 per cent, contributing 1.0 percentage point to core inflation, while goods inflation stood at 2.0 per cent and contributed 1.0 percentage point. This indicates that underlying inflationary pressures remained broadly evenly distributed across the goods and services components, with neither component exerting a disproportionate influence on 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)



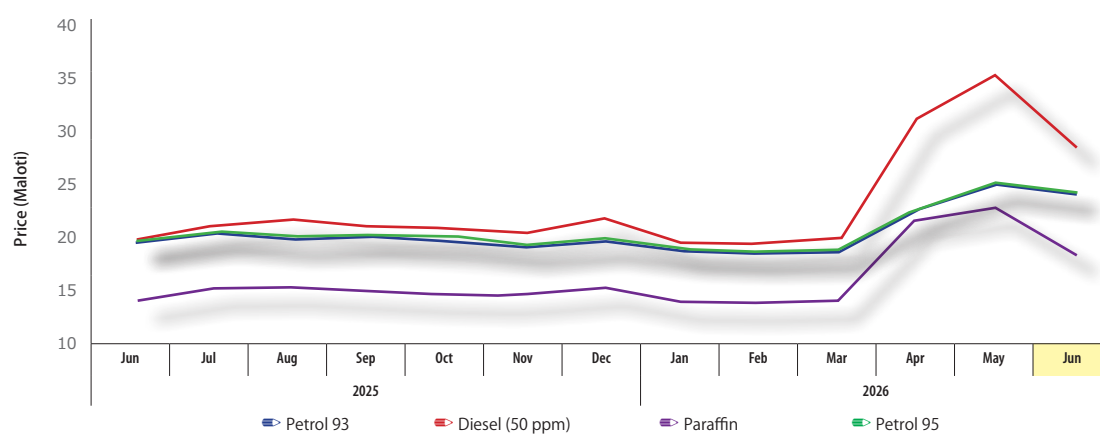
Source: Lesotho Bureau of Statistics & CBL Computations

Domestic Fuel Prices

Domestic fuel price adjustments were mixed during the review period. The pump prices of Petrol₉₃ and Petrol₉₅ each increased by M0.30 per litre, reaching M25.70 and M26.20 per litre, respectively. In contrast, the pump price of Diesel₅₀ declined by M4.70 per litre to M30.05 per litre, while illuminating paraffin decreased by M3.90 per litre to M18.60 per litre.

The increase in petrol prices reflected heightened uncertainty in global oil market, driven by the ongoing US-Iran conflict and concerns over a potential disruption to oil supply arising from the closure of the Strait of Hormuz. Conversely, the declines in diesel and illuminating paraffin prices reflected improved market expectations, partly supported by optimism surrounding a possible interim US-Iran agreement that could facilitate the reopening of the Strait of Hormuz.

Figure 5 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Money supply (M2) recovered by 2.5 per cent, reversing the 0.7 per cent decline in May. The recovery was supported by strong growth in net domestic assets (NDA), which more than offset the decline in net foreign assets (NFA). NDA grew by 37.2 per cent, accelerating from 25.0 per cent growth recorded in the previous month. The expansion in NDA was driven by increased claims by other depository corporations on central government, as alongside a drawdown of government deposits held with both the central bank and other depository corporations. This was further supported by an increase in claims on the private sector.

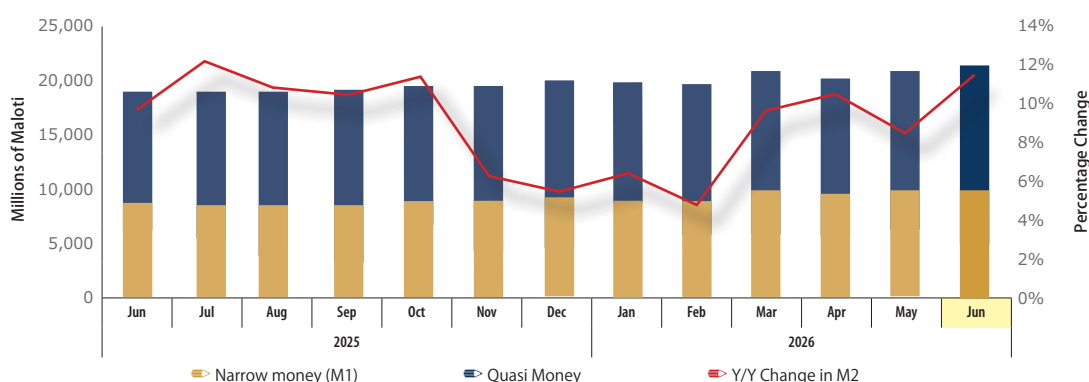
In contrast, NFA declined by 10.9 per cent following the 1.4 per cent reduction in May. The decline in NFA reflected reductions in foreign assets of other depository corporations and the central bank. On a year-on-year basis, M2 grew by 11.4 per cent,

indicating continued expansion in monetary liquidity despite the monthly decline in net foreign assets.

Components of Money Supply

Breaking down broad money into its components, the recovery in broad money was supported by growth in both narrow money (M1) and quasi money. M1 increased by 0.4 per cent, moderating from a stronger 2.8 per cent growth recorded in the previous month. Quasi money increased by 4.3 per cent, reversing the 3.6 per cent contraction recorded a month earlier. The increase in M1 was driven by growth in transferable deposits held by business enterprises and public non-financial corporations. Similarly, the expansion in quasi money was supported by higher call accounts held by public non-financial corporations, as well as savings and fixed time deposits held by the private sector.

Figure 6 Broad Money Growth



Source: CBL

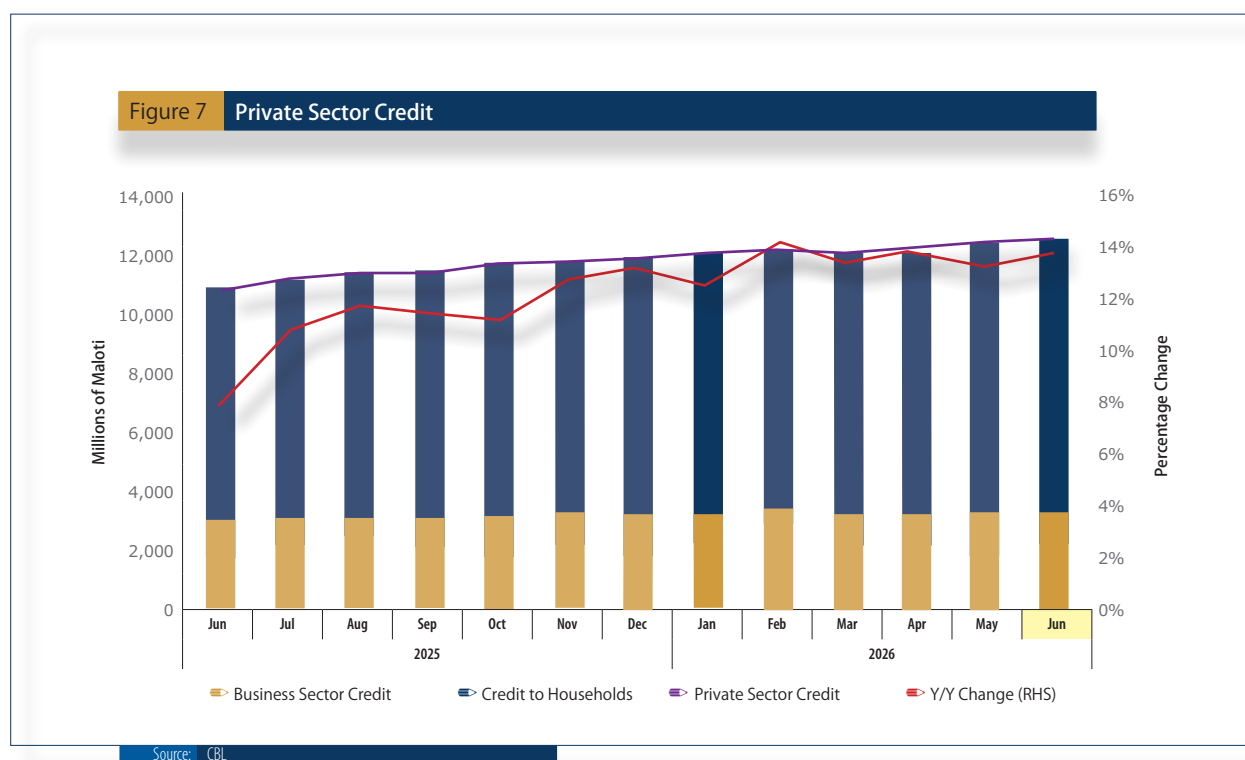
Private Sector Credit

Private sector credit increased further by 1.5 per cent during the review period, accelerating from a 0.9 per cent growth in the preceding month. The expansion was broad-based, with credit to both households and businesses recording increases. Household credit grew by 1.3 per cent, up from 0.6 per cent in May 2026, driven by increases in both personal loans and mortgage lending. Similarly, business credit expanded by 2.0 per cent, extending the 1.7 per cent growth recorded a month earlier. The increase in business credit was mainly supported by higher lending to the construction, electricity,

gas and water sectors, as well as the real estate and business services sectors.

In terms of the distribution of credit among business enterprises, the wholesale and retail trade, restaurants and hotels sector accounted for the largest share of credit extended, followed by real estate and business services. Construction ranked third among the major recipients of credit, while community, social and personal services remained the smallest recipient.

On a year-on-year basis, annual basis, private sector credit grew by 15.7 per cent.



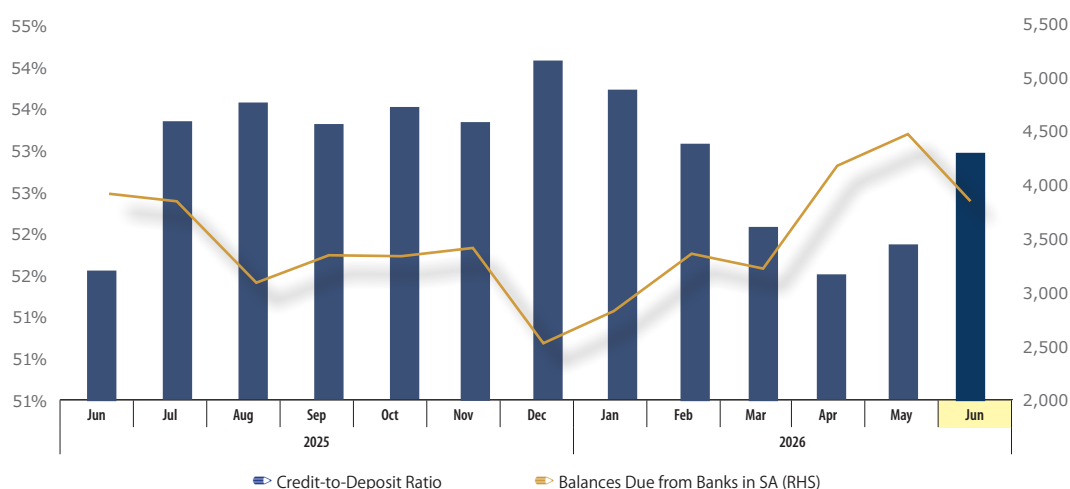
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans marginally declined to 3.7 per cent in June, from 3.8 per cent in May. The reduction in NPLs was observed in both households and business enterprises during the review period.

Sources of Funds

The credit-to-deposit ratio rose to 53.4 per cent during the review period, from 52.4 per cent in the previous month. The increase reflected continued growth in credit extended to the private sector, coupled with a decline in total deposits during the review period.

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 local currency, loti, continued to appreciate against major trading currencies in May 2026. It strengthened by 0.11 per cent to 16.51 against the US dollar, 0.01 per cent to The rand, and consequently loti, strengthened against its major trading currencies in June 2026. The rand appreciated by 0.7 per cent to 16.41 against the US dollar, 1.8 per cent to 21.86 against the pound and by 2.0 per cent to 18.89 against the euro. The rand's performance during the review period was influenced by a combination of international and domestic developments.

Internationally, the rand was supported by an improvement in global risk appetite, as expectations of further US interest rate hike diminished, and thereby contributing to weaker US dollar. In addition, weaker than expected US economic data place further downward pressure on the dollar, and increased investor appetite for emerging market currencies, including the rand. The rand also benefitted from easing geopolitical tensions in the Middle East following the US-Iran ceasefire agreement reached during the review period. The resulting decline in international oil prices improved prospects for energy stability in South Africa, further supporting the rand.

Domestically, the rand was supported by expectation of a potential interest rate hike, following acceleration in inflation recorded in May 2026. The currency also benefited from improved domestic economic conditions, particularly the sustained stability in electricity supply, which contributed to stronger business confidence. Improved sentiment among both domestic and foreign investors increased demand for South African assets, with stronger foreign capital inflows providing further support to the rand during the review period.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure increased by 20.5 per cent in June 2026, reversing the 14.9 per cent decline recorded in May. This increase was accompanied by a rise in budget execution from 69.8 per cent to 84.1 per cent, driven primarily by a sharp increase in development budget execution, which rose to over 100 per cent from 29.5 per cent. The significant improvement in development execution reflected a strong increase in capital outlays, particularly higher disbursements for loan-funded projects. In contrast, recurrent budget execution fell further to 71.6 per cent from 85.1 per cent, marking a second consecutive month of contraction in recurrent spending.

The decline in recurrent spending was mainly attributable to lower grants to extra-budgetary units and reduced social benefits payments, which more than offset increases in interest payments and subsidies. By functional classification (COFOG), capital outlays rose to 21.6 per cent of total outlays, up from 9.1 per cent in May, with the increase concentrated in economic affairs and housing and community amenities. Despite the shift toward development spending, overall government expenditure remained concentrated in general public services, economic affairs and education. On a year-on-year basis, total expenditure rose by 38.8 per cent.

Revenue³

Government revenue, excluding SACU receipts, rebounded strongly in June 2026, rising by 58.9 per cent, after a decline of 16.1 per cent in May, driven mainly by a sharp rise in income tax collections, while VAT receipts recorded modest growth amid subdued consumer demand. Other revenue also rose, supported by receipts of dividends from public financial corporations. On an annual basis, total revenue rose by 18.8 per cent, indicating an overall improvement in revenue performance compared with the corresponding period of the previous year.

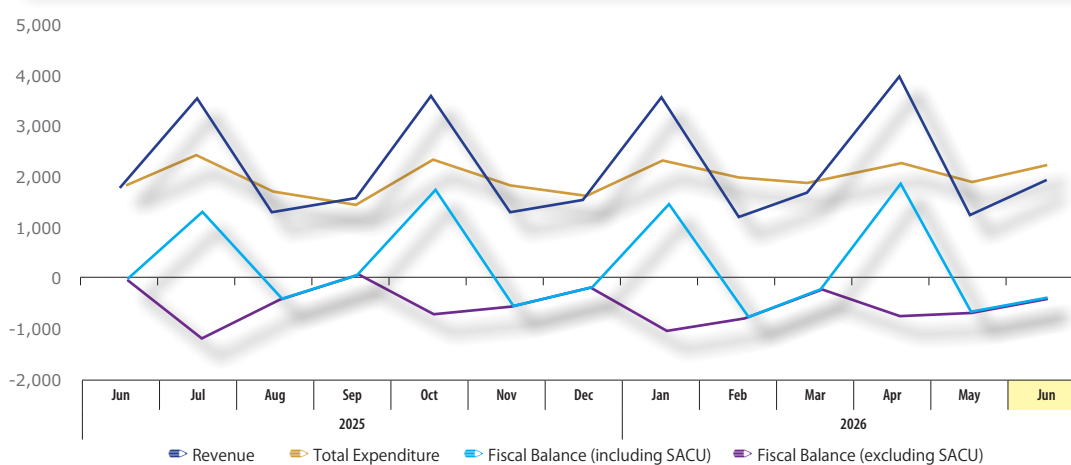
Fiscal Balance⁴

The fiscal balance improved in June 2026, with the deficit narrowing to an estimated 2.9 per cent of GDP, from 6.1 per cent of GDP in May. The improvement was primarily driven by a strong rebound in revenue, which more than offset the increase in total expenditure. The resulting fiscal deficit was financed through a drawdown of 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)



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

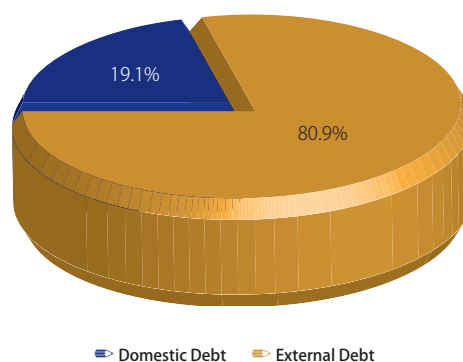
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		6.9%	11.9%	100.0%	99.0%	82.4%	1.4%	52.8%	3.8%	15.3%
Defence		8.3%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%
Public Order and Safety		18.3%	10.0%	0.0%	0.0%	1.7%	0.0%	19.3%	2.6%	10.2%
Economic Affairs		7.2%	29.7%	0.0%	0.0%	0.0%	5.4%	9.5%	74.5%	22.6%
Environmental Protection		0.8%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Housing & Comm. Amenities		6.4%	12.3%	0.0%	0.0%	0.3%	0.6%	12.6%	14.1%	7.9%
Health		8.3%	27.5%	0.0%	0.0%	7.2%	2.9%	0.0%	3.9%	11.1%
Recreation, Culture, & Religious		1.1%	1.3%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.8%
Education		33.1%	1.1%	0.0%	1.0%	0.0%	26.5%	0.0%	1.2%	16.3%
Social Protection		9.7%	0.9%	0.0%	0.0%	8.4%	62.8%	5.9%	0.0%	11.0%
Share per Economic Item		39.5%	23.5%	1.0%	3.5%	5.3%	10.4%	0.4%	16.3%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock rose by 3.3 per cent in nominal terms in June, reversing the 2.3 per cent decline recorded in May. The increase was driven by growth in both domestic and external debt. Domestic debt increased, as the issuance of a new M600 million bond more than offset the M350 million redemption of a maturing bond. Meanwhile, external debt rose modestly due to disbursements for existing projects. Despite the increase in external debt in nominal terms, its share of total public debt declined slightly to 80.9 per cent, from 81.4 per cent in May. Similarly, the concessional share of external debt fell to 73.4 per cent, from 75.1 per cent. Debt service indicators were mixed during the review period. External debt service fell to 6.5 per cent of revenue, from 9.3 per cent, supported by the strong rebound in government revenue. In contrast, domestic debt service rose to 4.2 per cent of revenue, from 0.5 per cent, largely reflecting the redemption of the maturing bond.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: Key Economic Indicators

		25-Nov	25-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May	26-Jun
Economic Activity (MIEA (% change, M/M))		-0.3	1.7	2.2	1.5	-1.2	-0.4	-1.8	-3.9
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.3	4.1	3.4	2.7	2.2	3.1	3.5	3.7
	Core Inflation	3.8	3.2	2.4	2.7	2.2	2.1	1.9	2.0
Exchange Rates (Monthly End Period)	EUR	19.8862	19.4934	18.9712	18.7722	19.6400	19.7021	18.8909	18.7268
	GBP	22.6880	22.3515	21.8862	21.4210	22.6200	22.7451	21.806	21.7461
	USD	17.1666	16.6080	15.9163	15.9028	17.1300	16.8984	16.2262	16.4226
Money Supply (Millions of Maloti)	M2	19,717.23	20,055.61	19,737.22	19,813.80	21,178.33	20,819.53	20,680.54	21,188.53
	M1	9,078.33	9,232.60	9,091.94	9,071.16	10,027.06	9,529.02	9,791.56	9,831.32
	Quasi Money	10,638.91	10,823.01	10,645.28	10,742.64	11,151.27	11,290.51	10,888.98	11,356.91
Interest Rates	CBL Rate	6.50	6.50	6.50	6.50	6.50	6.50	6.75	6.75
	91 day Treasury bill rate	6.92	6.94	6.93	6.84	6.90	6.92	6.96	6.96
	Prime lending rate	10.00	10.00	10.00	10.00	10.00	10.00	10.25	10.25
	1 year deposit rate	4.80	4.80	4.80	4.80	4.80	4.80	4.86	4.96
Private sector Credit (Millions of Maloti)		12,048.96	12,089.08	12,167.47	12,361.73	12,322.00	12,469.18	12,581.76	12,766.67
	Business Enterprises	3,246.49	3,127.35	3,154.69	3,305.27	3,212.58	3,279.95	3,337.00	3,402.39
	Households	8,802.47	8,961.73	9,012.78	9,056.46	9,109.42	9,189.23	9,244.76	9,364.28
Bank Deposit Liabilities (Millions of Maloti)		22,373.90	22,191.58	22,456.57	22,983.01	23,412.97	23,935.36	23,891.31	23,882.28
Credit to Deposit Ratio (%)		53.6	54.0	53.8	53.4	52.6	51.7	52.3	53.4
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-511.45	-108.51	1,382.36	-798.56	-179.02	1,753.94	-650.41	-312.98
	Total Revenue	1,226.43	1,546.73	3,681.50	1,222.71	1,681.01	3,996.42	1,258.24	1,987.06
	Total Expenditure	1,737.88	1,655.25	2,299.14	2,021.27	1,860.03	2,242.48	1,908.65	2,300.03
	O/W Capital	313.91	253.67	254.60	515.70	549.29	138.42	221.48	880.60
Total Public Debt (Millions of Maloti)		23,020.36	22,659.27	25,089.66	25,137.14	22,282.58	22,289.37	21,769.07	22,498.04
	Total External Debt	18,522.93	18,059.90	20,491.20	20,536.68	18,235.21	18,242.00	17,721.70	18,200.67
External Debt	Concessional	13,704.13	13,318.61	15,757.51	15,815.20	13,710.79	13,759.01	13,312.94	13,361.61
	Non-concessional	4,818.80	4,741.29	4,733.69	4,721.47	4,524.41	4,482.99	4,408.76	4,839.07
Domestic Debt		4,497.43	4,599.37	4,598.47	4,600.46	4,047.37	4,047.37	4,047.37	4,297.37
Memo Item: Arrears (Millions of Maloti)		-2.40	-7.51	-49.43	-37.29	-37.45	0.00	-0.31	-203.68
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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