



# Monthly ECONOMIC REVIEW

AUGUST 2025

CENTRAL BANK OF LESOTHO  
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## I. ECONOMIC ACTIVITY<sup>1</sup>

Domestic economic activity contracted in August 2025, primarily due to subdued domestic demand and reduced activity in the manufacturing and construction subsectors. However, increased activity in the transport subsector provided a buffer, mitigating the overall decline in output. Inflationary pressures remained heightened during the review period, adding further strain to economic performance.

### Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) declined by 3.3 per cent month-on-month in August, reversing the marginal 0.1 per cent growth recorded in July 2025. This decline was largely attributed to weakened domestic demand, evidenced by lower import volumes of consumer goods. Moreover, manufacturing activity slowed significantly, driven by reduced textile exports. Likewise, the construction and financial services subsectors also contracted, worsening the slowdown. The decline in construction was observed in lower imports of building materials, while the financial services subsector saw a slight dip, as indicated by a decline in private sector credit. Nevertheless, the transport subsector showed resilience, with increased activity that moderated the overall contraction.

### Domestic Demand Category

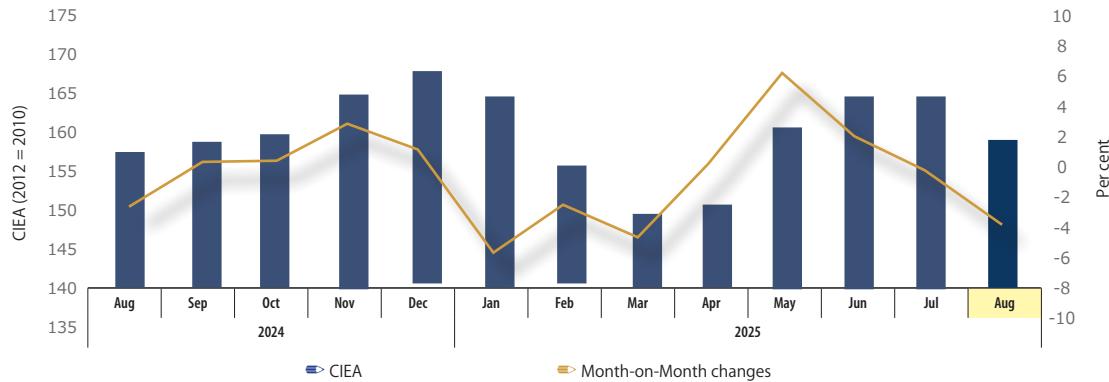
The Domestic Demand Index fell by 2.8 per cent in August 2025, following a revised 5.5 per cent decline in the previous month. The contraction was primarily driven by weak private consumption, as evidenced by reduced import volumes from South Africa—particularly imports of consumer goods and minerals. Additionally, lower government spending on goods and services and reduced sales tax collections signalled subdued public consumption and business activity, respectively. On a positive note, increased private income tax collections provided some support, partially offsetting the overall decline.

### Manufacturing and Production

Manufacturing and production activity continued to weaken, with the index declining by 3.9 per cent, following a revised 4.0 per cent drop in the previous month. The downturn was driven by a sharp fall in textile and apparel exports to the U.S. market, largely due to the implementation of reciprocal tariffs, which effectively nullified the preferential trade benefits previously enjoyed under the African Growth and Opportunity Act (AGOA). Likewise, exports to the South African market marginally declined. This was coupled with a reduction in industrial usage of electricity and water, as well as lower imports of raw materials.

<sup>1</sup> 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							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
CIEA	126.3	123.6	118.5	119.6	127.5	130.5	130.7	126.4
Monthly changes	-5.1	-2.1	-4.1	0.9	6.7	2.3	0.1	-3.3
Domestic Demand Category	118.7	116.2	111.6	116.3	123.3	121.5	114.9	111.6
Monthly changes	-4.7	-2.1	-3.9	4.2	6.0	-1.5	-5.5	-2.8
Manufacturing & Production Category	105.7	103.8	105.3	108.3	111.9	116.4	111.8	107.8
Monthly changes	-1.9	-1.8	1.5	2.8	3.3	4.0	-4.0	-3.9
Transport Category	104.8	95.6	86.5	84.7	90.3	99.9	106.6	107.8
Monthly Changes	-9.6	-8.8	-9.5	-2.0	6.7	10.6	6.7	1.2
Financial Services	194.8	195.7	196.4	198.5	200.4	201.7	202.7	202.1
Monthly Changes	-0.2	0.4	0.4	1.1	1.0	0.6	0.5	-0.3
Construction Category	84.6	83.8	78.7	84.0	117.2	117.3	138.1	113.6
Monthly Changes	-22.7	-0.9	-6.1	6.7	39.6	0.0	17.8	-17.7

Source: CBL Calculations.

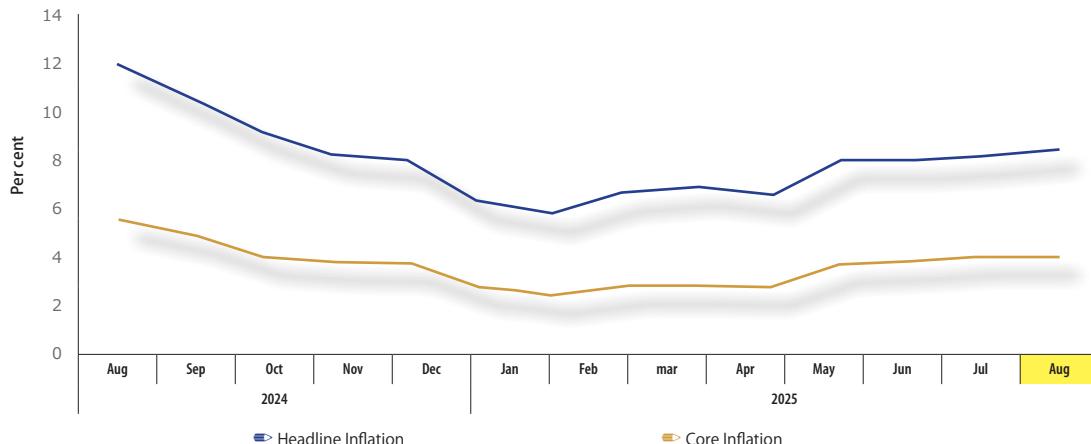
## II. INFLATION AND PRICES

### Headline Inflation

Consumer prices continued their steady upward trajectory in August 2025, reflecting ongoing inflationary pressures across various sectors of the economy. Headline inflation climbed to 4.6 per cent, marking a modest but notable increase from the 4.4 per cent recorded in July 2025.

This uptick suggests that inflationary pressures remained entrenched during the period, primarily fuelled by the continued increase in wholesale wheat prices, which have been on an upward trend since January. By August, wheat prices stood at 5.0 per cent higher year-on-year, exerting a significant influence on overall price growth and contributing to the sustained rise in headline inflation.

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



Source: Lesotho Bureau of Statistics & CBL Computations

### Contributions to Headline Inflation

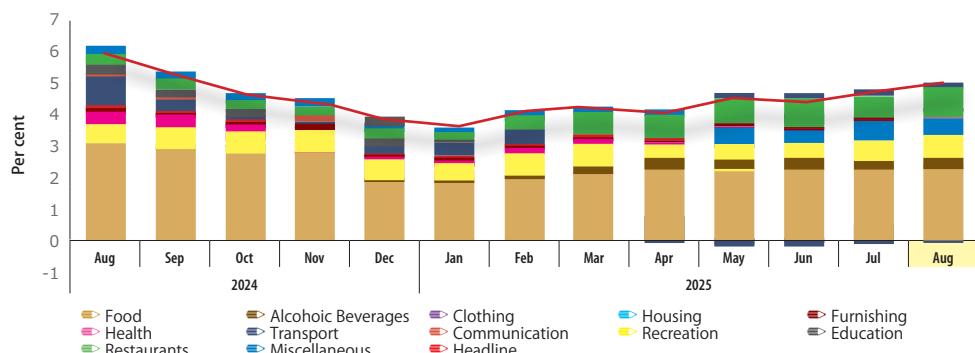
The contributors to the 4.6 per cent headline inflation were Food and Non-Alcoholic beverages, Clothing and footwear, as well as Housing, Water, Electricity, and Gas.

Food & Non-alcoholic Beverages increased by 6.5 per cent year-on-year and contributed 2.2 percentage points to the total annual inflation rate of 4.6 per

cent. Supply side pressures remained the principal driver behind the recent escalation in wheat prices. Clothing and Footwear increased by 8.9 per cent and contributed 0.7 percentage points to the total annual inflation rate.

The Housing, Water, Electricity, and Gas category recorded a year-on-year increase of 3.3 per cent, contributing 0.5 percentage points to the overall annual inflation rate.

Figure 3 Contributions to Headline (Year-on-Year Changes)<sup>2</sup>



Source: Lesotho Bureau of Statistics & CBL Computations

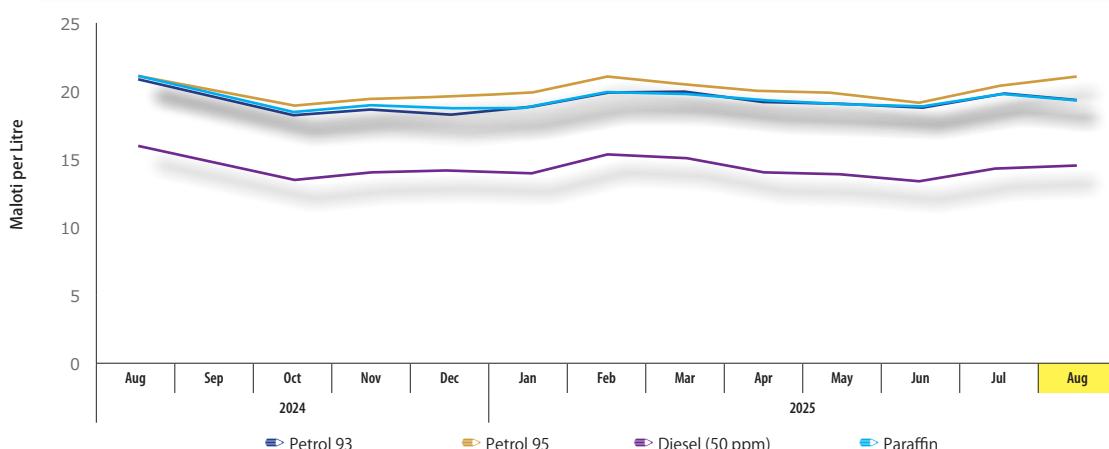
## Core Inflation

Underlying inflationary pressures, as reflected by the trimmed mean measure of core inflation, remained steady at 4.0 per cent between July and August 2025. The unchanged core inflation rate indicates that the underlying momentum of price growth within the economy remained relatively firm, highlighting the persistence of moderate but sustained inflationary conditions.

## Domestic Fuel Prices

The prices of petroleum products showed mixed performances in the review period, with prices of both grades of petrol (Petrol<sub>93</sub> and Petrol<sub>95</sub>) decreasing by M 0.50 and M 0.55 and were sold at M 19.40 and M 19.55 per litre at the pump, respectively. The pump prices of diesel<sub>50</sub> and illuminating paraffin increased by M 0.65 and M 0.20, respectively, and were sold at M 21.15 per litre and M 14.50 per litre in the retail market, respectively.

Figure 4 Domestic Fuel Prices



Source: Petroleum Fund

<sup>2</sup> Food = Food and Non-Alcoholic beverages, Alcoholic beverages = Alcoholic beverages and Tobacco, Clothing = Clothing and Footwear, Housing = Housing, Water, Electricity, Gas and Other fuels, Furnishing = Furnishing, Household Equipment and Routine maintenance of the house, Recreation = Recreation and Culture, Restaurants = Restaurants & Hotels, Miscellaneous = Miscellaneous Goods and Services.

### III. MONETARY AND FINANCIAL INDICATORS

#### Broad Money (M2)

Money supply (M2) recouped by 0.1 per cent, contrary to the 0.1 per cent decline in July. This was supported by growth in net domestic assets (NDA), despite a fall in net foreign assets (NFA). NDA grew by 36.7 per cent over the review period, in contrast to the 31.1 per cent decline recorded in the previous month. The growth in NDA was driven by drawdown of government deposits held with the central bank, alongside an increase in claims in the private sector. Conversely, NFA fell by 5.1 per cent compared to the 8.4 per cent growth in July. NFA declined due to a reduction in the central bank's foreign assets. Year-on-year, M2 grew by 10.8 per cent.

#### Components of Money Supply

Breaking down money supply into its components, the recovery resulted from the growth in quasi money, despite a contraction in narrow money (M1). Quasi money increased by 1.0 per cent, compared to a stronger 3.8 per cent growth a month earlier. The increase in quasi money, on the one hand, was driven by fixed time deposits held by business enterprises and saving deposits held by households. On the other hand, the contraction in narrow money was due to a fall in transferable deposits of business enterprises.



Source: CBL

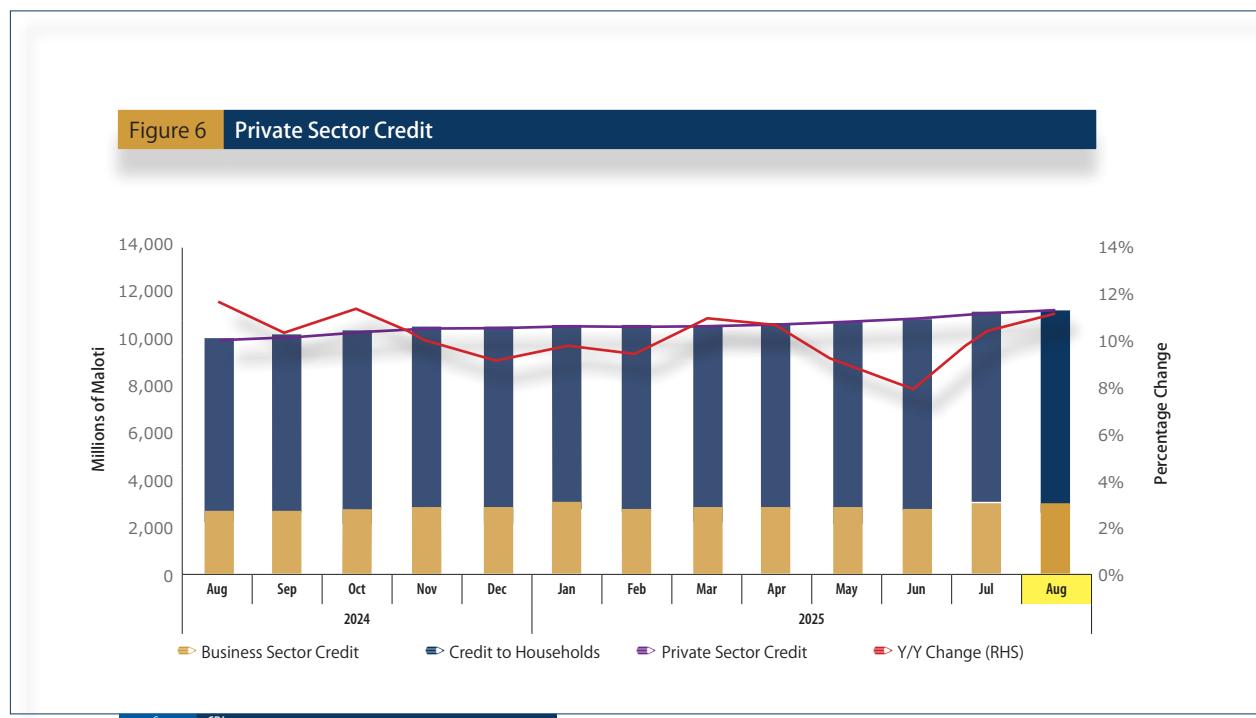
#### Private Sector Credit

Growth in private sector credit decelerated to 1.6 per cent, compared to 3.4 per cent growth recorded in the preceding month. The expansion was evident across both households and businesses. Household credit increased by 1.7 per cent, though at a slower

pace than the 3.2 per cent recorded in July. Within households, growth was broad based, with personal loans rising by 1.9 per cent and mortgage lending by 1.0 per cent. Similarly, business credit grew by 1.3 per cent, extending the 2.0 per cent increase recorded in the previous period. The growth in business credit was notably driven by Real Estate and business

enterprises, and Mining and Quarrying. Regarding the share of credit by business enterprises, the Real Estate and Business Services commanded the highest share, followed by Wholesale & Retail trade, Restaurants, with Construction industry completing

the top three bracket. Electricity, Gas and Water subsector remained the smallest recipient of credit extension. On an annual basis, private sector credit grew by 10.8 per cent.



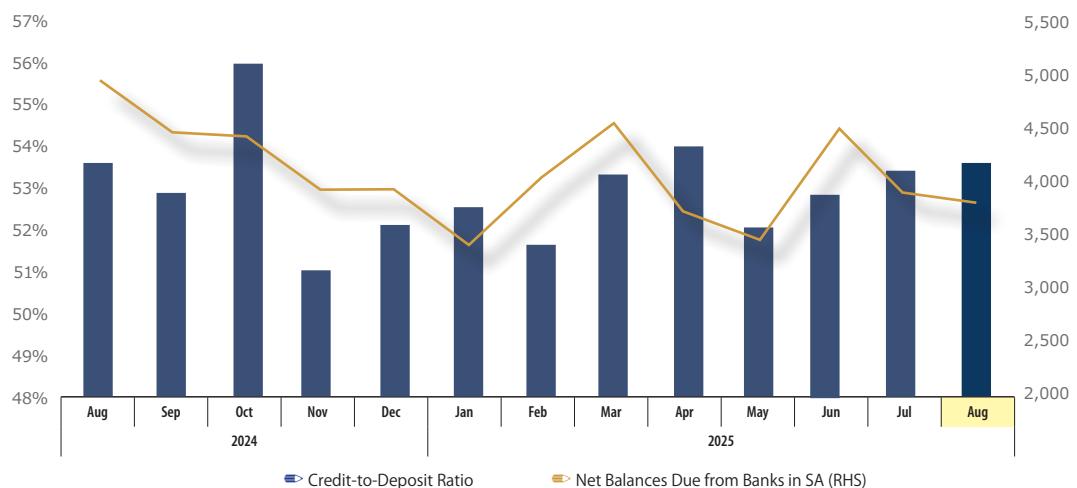
## Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined to 3.9 in August from 4.4 per cent in July, reflecting a reduction in households' NPLs. The Wholesale & Retail Trade, Restaurants & Hotels subsector, which received the second largest share of business credit recorded the highest NPLs, followed by Construction, and Transport, Storage and Communication.

## Sources of Funds

The credit-to-deposit ratio rose to 53.6 per cent, from 53.4 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 7 Credit to Deposit Ratio



Source: CBL

## Interest Rates

The CBL policy rate was reduced to 6.75 per cent, from 7.00 per cent in July 2025. Consequently, the prime lending rate declined by 25 basis points to 10.25, while the 1-year deposit rate fell to 4.97 per cent from 5.12 per cent. In contrast, the 91-day treasury bill rate increased by 1 basis point to 6.89 per cent.

## Foreign Exchange

The rand, hence, loti, generally strengthened against its major trading currencies in August 2025. It appreciated by 0.3 per cent against the US dollar to record an average of 17.70, 0.7 per cent to record

an average of 23.81 against the pound and 0.7 per cent to record an average of 20.61 against the euro. The performance of the rand was influenced by both domestic and international developments. Domestically, the rand strengthened following reports that South Africa was preparing packages to support companies affected by the US tariffs to mitigate its impact. Internationally, the rand was supported by the weakened US dollar due to weaker labour market conditions in the US. It was further supported by continuing trade negotiations between South Africa and US. However, the rand remained vulnerable to the imposition of tariffs, which resulted in job losses and a decline in business confidence which could negatively affect economic performance.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

Government spending was estimated to have contracted by 33.9 per cent in August 2025, reversing the 46.9 per cent surge recorded in July. This sharp monthly decline reflects a slowdown in both recurrent and development expenditures, particularly under operating costs, subsidies to public corporations, grants to extra-budgetary units, student grants, and capital outlays for buildings and structures. Despite the contraction, the year-to-date budget execution rate was estimated at 27.2 per cent, indicating that over a quarter of the annual budget had been absorbed by August.

This suggests that while monthly spending was volatile, cumulative progress remained broadly on track. Meanwhile, spending was reallocated towards economic affairs, education, and general public services. Year-on-year trends also reflected a decline in both recurrent and development spending, underscoring the need for sustained execution momentum in the second half of the fiscal year.

### Revenue<sup>3</sup>

Government revenue, excluding SACU receipts, declined by 5.9 per cent in August 2025, following a sharper 23.8 per cent fall in July. The contraction was broad-based, with reductions across most categories, including income tax and VAT. However, on a year-on-year basis, revenue rose by 2.8 per cent, driven by strong collections on water royalties.

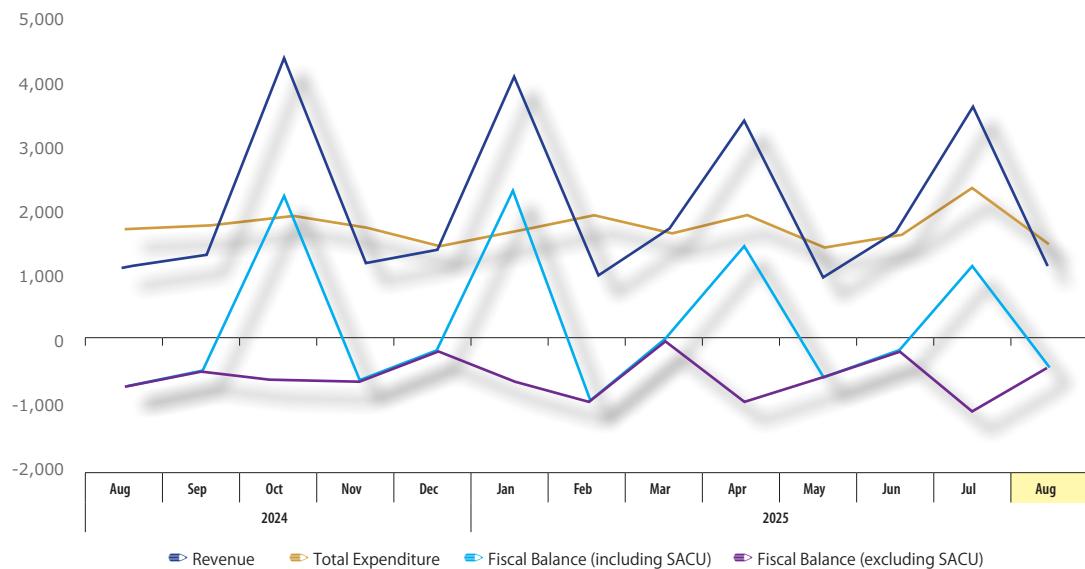
### Fiscal Balance<sup>4</sup>

The fiscal balance deteriorated markedly in August 2025. The Net Lending position shifted to a deficit of 3.4 per cent of GDP, down from a surplus of 11.4 per cent in July, reflecting a sharp reversal in Government's financing stance. Financing also declined, indicating net repayments—particularly on pension liabilities—rather than new borrowing. This shift was mirrored in a significant drawdown of cash buffers and reserve holdings.

<sup>3</sup> The monthly analysis of government revenue excludes SACU receipts, an outlier item.

<sup>4</sup> All financing items are on net basis.

**Figure 8** 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
Total	Approved budget	2724.15	2725.07	2725.08	2725.08	2725.08
	of which: Revisions	0.00	0.92	0.01	0.00	0.00
	Outturn	1924.23	1436.99	1604.33	2356.26	1557.48
Recurrent	Approved budget	1834.15	1834.17	1834.18	1834.18	1834.18
	of which: Revisions	0.00	0.02	0.01	0.00	0.00
	Outturn	1681.51	1311.06	1330.31	2093.46	1339.94
Development	Approved budget	890.01	890.91	890.91	890.91	890.91
	of which: Revisions	0.00	0.90	0.00	0.00	0.00
	Outturn	242.71	125.93	274.02	262.80	217.55
Execution Trends						
		70.6%	52.7%	58.9%	86.5%	57.2%
		91.7%	71.5%	72.5%	114.1%	73.1%
		27.3%	14.1%	30.8%	29.5%	24.4%

Source: CBL and Ministry of Finance (MOF).

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

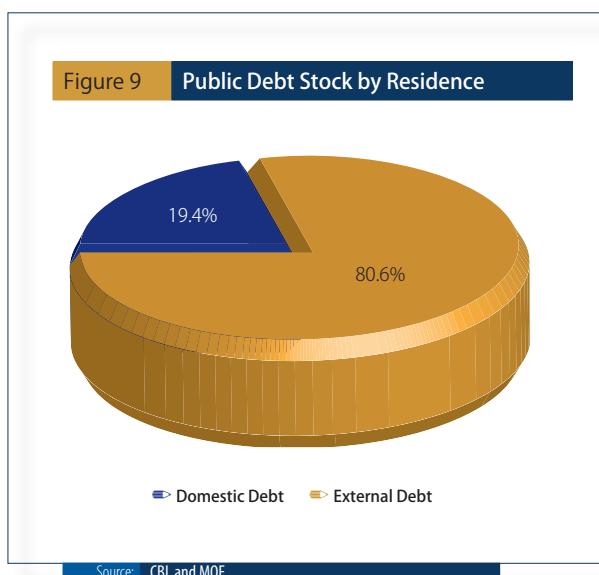
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		6.0%	10.0%	100.0%	0.0%	11.6%	2.7%	57.8%	13.9%	<b>14.9%</b>
Defence		7.5%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	<b>4.8%</b>
Public Order and Safety		17.7%	14.6%	0.0%	0.0%	0.9%	0.0%	7.8%	14.0%	<b>12.3%</b>
Economic Affairs		6.4%	38.9%	0.0%	0.0%	0.0%	0.9%	15.6%	47.6%	<b>18.1%</b>
Environmental Protection		0.9%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	<b>0.7%</b>
Housing & Comm. Amenities		12.0%	8.3%	0.0%	0.0%	2.5%	1.1%	15.5%	13.8%	<b>8.4%</b>
Health		7.9%	17.0%	0.0%	0.0%	39.2%	2.3%	0.0%	7.9%	<b>10.8%</b>
Recreation, Culture, & Religion		1.0%	1.4%	0.0%	0.0%	0.0%	6.2%	0.1%	0.1%	<b>1.5%</b>
Education		31.7%	1.4%	0.0%	100.0%	34.1%	15.2%	0.0%	1.9%	<b>15.9%</b>
Social Protection		8.9%	1.1%	0.0%	0.0%	11.9%	71.6%	3.2%	0.6%	<b>12.5%</b>
<b>Share per Economic Item</b>		<b>38.0%</b>	<b>31.4%</b>	<b>7.3%</b>	<b>0.0%</b>	<b>4.4%</b>	<b>11.5%</b>	<b>0.7%</b>	<b>6.7%</b>	<b>100.0%</b>

Source: CBL and MOF

## V. PUBLIC DEBT

Public debt stood at 55.7 per cent of GDP in August 2025, down slightly from 55.9 per cent in July. The decline reflects pension repayments and exchange rate effects, with Government continuing to unwind its liability to the Pension Fund<sup>5</sup>. External debt

valuations eased as currency movements reduced the local-currency value of foreign-denominated obligations. These developments support fiscal sustainability.



<sup>5</sup> According to the 2022 IMF World Debt Sustainability Analysis (DSA), the pension fund liability was estimated at 9.6 per cent of GDP and included in the contingent liability stress test alongside SOEs, PPPs, and financial market shocks.

## Appendix: Key Economic Indicators

		25-Jan	25-Feb	25-Mar	25-Apr	25-May	25-Jun	25-Jul	25-Aug	
Economic Activity (MIEA (% change, M/M)		-5.1	-2.1	-4.1	0.9	6.7	2.3	0.1	-3.3	
Consumer price Index (% change)	Headline Inflation (year-on-year)	3.6	4.1	4.2	4.0	4.4	4.3	4.4	4.6	
	Core Inflation	2.4	2.7	2.8	2.8	3.7	3.8	4.0	4.0	
Exchange Rates (Monthly End Period)	EUR	19.3073	19.2451	19.8005	21.1993	20.2838	20.8169	20.7536	20.6834	
	GBP	23.0593	23.3029	23.6893	24.8261	24.1063	24.3705	23.9903	23.9264	
	USD	18.5173	18.5100	18.2695	18.9095	17.8902	17.7516	17.7498	17.7236	
Money Supply (Millions of Maloti)	M2	18,513.78	18,883.61	19,291.53	18,874.09	19,014.18	19,018.40	19,005.19	19,014.70	
	M1	8,594.94	8,674.53	9,008.46	8,905.18	8,758.55	8,990.85	8,594.76	8,497.18	
	Quasi Money	9,916.84	10,209.07	10,283.08	9,968.92	10,255.62	10,027.56	10,410.44	10,517.52	
Interest Rates	CBL Rate	7.50	7.25	7.25	7.25	7.25	7.00	7.00	6.75	
	91 day Treasury bill rate	6.89	6.88	6.88	6.86	6.86	6.87	6.88	6.89	
	Prime lending rate	11.00	10.75	10.75	10.75	10.75	10.50	10.50	10.25	
	1 year deposit rate	4.68	4.56	4.56	4.56	4.56	5.12	5.12	4.97	
Private sector Credit (Millions of Maloti)		10,783.40	10,790.20	10,845.47	10,929.68	11,107.46	11,033.36	11,403.82	11,581.93	
		Households	3,105.80	2,837.80	2,910.99	2,930.98	2,924.56	2,988.87	3,047.52	3,085.83
		Non-profit Organisations	7,677.60	7,952.40	7,934.48	7,998.70	8,182.89	8,044.79	8,356.30	8,496.10
Bank Deposit Liabilities (Millions of Maloti)		20,425.14	20,828.06	20,195.76	20,100.00	21,167.00	21,102.50	21,186.90	21,453.87	
Credit to Deposit Ratio (%)		52.6	51.7	53.3	54.0	52.1	52.9	53.4	53.6	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	2,002.76	-1,027.73	79.96	1,387.28	-357.01	67.56	1,213.74	-357.14	
	Total Revenue (with SACU receipts)	3,968.46	1,105.15	1,760.20	3,311.51	1,079.98	1,671.89	3,569.99	1,200.34	
	Total Expenditure	1,965.70	2,132.88	1,680.24	1,924.23	1,436.99	1,604.33	2,356.26	1,557.48	
	O/W Capital	495.64	420.06	562.64	242.71	125.93	274.02	262.80	217.55	
Total Public Debt (Millions of Maloti)		23,478.29	23,522.05	23,229.68	24,187.86	23,609.20	23,704.07	23,779.42	23,696.08	
		Total External Debt	18,911.29	18,879.76	18,888.96	19,746.70	19,162.40	19,106.18	19,181.18	19,097.53
External Debt	Concessional	12,481.77	12,492.40	12,660.15	13,357.23	12,903.68	12,850.13	12,883.99	12,839.93	
	Non-concessional	6,429.52	6,387.35	6,228.81	6,389.47	6,258.71	6,256.05	6,297.18	6,257.61	
Domestic Debt		4,567.00	4,642.30	4,340.72	4,441.16	4,446.80	4,597.90	4,598.24	4,598.55	
Memo Item: Arrears (Millions of Maloti)		-64.67	-102.45	-77.66	0.00	0.00	-15.35	-9.10	-23.66	

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

In the process of improving compilation of Government expenditure using Government Finance Statistics Manual 2014 (GFSM 2014) of the International Monetary Fund, the Government spending for the month of March 2019 has been disaggregated into due-for-payments and commitments (normal payment delays or arrears).

The due-for-payments spending transactions refer to the payment instructions from the Government's financial information system (known as IFMIS) to the Central Bank of Lesotho for actual payment process. The commitments are described as pending spending transactions in respect of delivered goods and services, which have passed their due date for payments, and hence, the arrears. The data on these components (arrears and due-for-payments) fulfil the aim of GFSM 2014, which requires the Governments to compile the spending, among others, using accrual basis method of recording.

However, in terms of Lesotho's expenditure data, interest payments of loans are still being compiled using cash basis method of recording. All other expenditure components (including use of goods and services, compensation of employees, and social benefits) are in accrual basis.

Apart from spending by economic classification above, the database on the spending by functions was rebuilt starting from the April 2019 onwards while at the same time the historical data was compiled bit by bit. Thus, the table on the classification of outlays by functions of government (known as COFOG) was last updated by Ministry of Finance in 2008/09, just before the implementation of new IFMIS chart of accounts.

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