



JULY 2025

Monthly ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY¹

Domestic economic activity registered a marginal increase in July 2025, supported by stronger performance in the transport and construction industries. However, growth momentum remained constrained by subdued domestic demand and weaker activity in the manufacturing and financial services subsectors. Inflationary pressures continued to edge upward during the period.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) rose by 0.2 per cent, month-on-month in July, following a 2.2 per cent increase in June. The improvement was largely underpinned by robust activity in the transport and construction industries, reflected in higher fuel consumption and increased import volumes of construction materials, respectively. Nonetheless, the overall expansion was moderated by weakening domestic demand, as evidenced by a decline in private consumption, coupled with slower growth in the manufacturing and financial services subsectors.

Domestic Demand Category

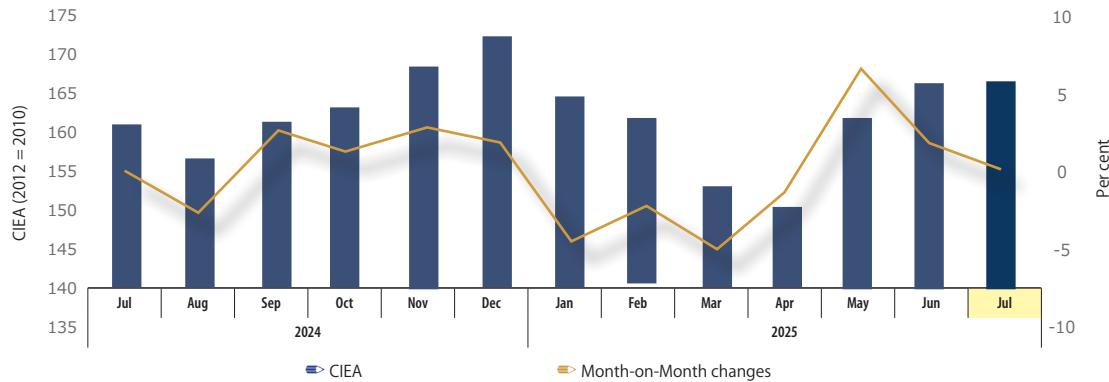
The domestic demand index contracted by 5.1 per cent, dropping from a 1.5 per cent decline in June. The downturn was mainly observed in reduced imports of food and essential household goods from South Africa, signalling weaker private consumption. In addition, lower private income tax collections further weighed on domestic demand conditions. On the other hand, the contraction was partly cushioned by stronger public consumption, supported by higher government spending on goods and services, alongside a modest rise in sales tax collections, which pointed to soft but resilient business activity.

Manufacturing and Production

The manufacturing and production subsector weakened notably, with the index declining by 4.2 per cent, reversing the 3.7 per cent gains recorded in the previous month. The downturn was driven by the anticipated implementation of the reciprocal tariff announced earlier this year, which significantly reduced clothing and textile exports to the U.S. market. This decline overshadowed the modest gains from increased textile exports to South Africa. Consistent with this trend, industrial demand for electricity and water, as well as imports of raw materials, also declined during the review period.

¹ Composite Indicator of Economic Activity (CIEA) is constructed using seasonality adjusted data for variables with season patterns.

Figure 1 | Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Composite Indicator of Economic Activity and its Sub-components

Indices	2024		2025					
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CIEA	133.8	127.8	125.1	118.8	116.8	126.3	129.0	129.3
Monthly changes	2.1	-4.5	-2.1	-5.1	-1.6	8.1	2.2	0.2
Domestic Demand Category	127.2	116.6	114.3	106.1	112.1	121.2	119.4	113.3
Monthly changes	2.5	-8.3	-2.0	-7.2	5.7	8.0	-1.5	-5.1
Manufacturing & Production Category	106.9	105.3	103.5	105.5	108.7	113.2	117.4	112.6
Monthly changes	2.1	-1.4	-1.7	1.9	3.0	4.1	3.7	-4.2
Transport Category	118.2	113.9	103.7	95.2	81.6	89.4	100.2	107.0
Monthly Changes	2.4	-3.7	-9.0	-8.2	-14.3	9.5	12.1	6.8
Financial Services	196.9	194.8	195.2	194.5	199.0	202.6	205.3	204.1
Monthly Changes	2.2	-1.1	0.2	-0.3	2.3	1.8	1.3	-0.6
Construction Category	97.1	83.1	83.3	79.1	83.9	113.0	103.7	119.8
Monthly Changes	2.0	-14.4	0.2	-4.9	6.0	34.7	-8.3	15.5

Source: CBL Calculations.

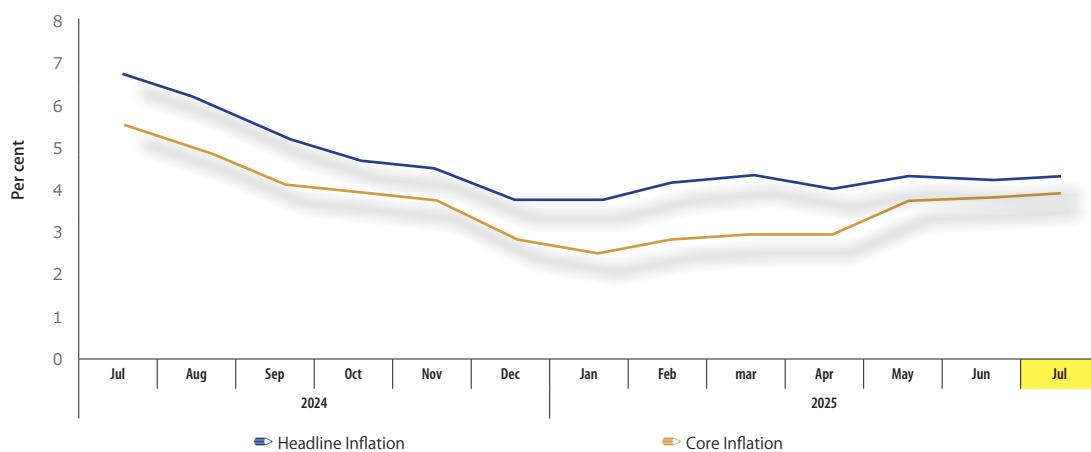
II. INFLATION AND PRICES

Headline Inflation

Consumer prices persisted in their upward trend, as headline inflation saw a modest increase, rising to 4.4 per cent in July 2025, compared to 4.3 per cent in June 2025.

This marked a continued pattern of rising prices, reflecting a slight acceleration in inflationary pressures over the course of the month.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Contributions to Headline Inflation

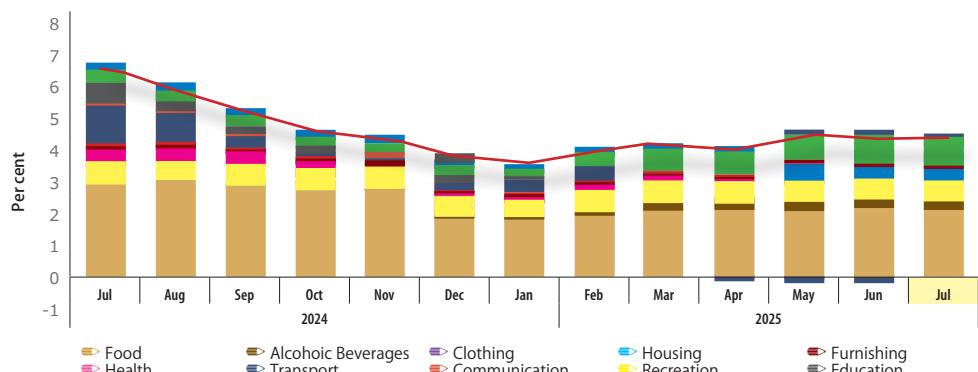
The contributors to the 4.4 per cent headline inflation were Food and Non-Alcoholic beverages, Alcoholic beverages and tobacco, Restaurants and Hotels, as well as the Transport Category.

Food & Non-alcoholic Beverages increased by 6.3 per cent year-on-year and contributed 2.2 percentage points to the total annual inflation rate of 4.4 per cent. Supply side pressures remain the principal driver behind the recent escalation in wheat prices. Alcoholic beverages and tobacco prices rose by 4.6 per cent year-on-year and contributed 0.3 percentage points to the increase.

Furthermore, Restaurants and Hotels category also continued the rise mirroring food and alcoholic beverages categories.

The transport category contributed 1.7 percentage point increase to the overall inflation rate. This increase was due to a rise in liquid fuel prices, specifically petrol, diesel, and engine oil, which was caused by a rise in international crude oil prices.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

Underlying inflationary pressures, as measured by core inflation, increased by 4.0 per cent in July from 3.8 per cent in June 2025.

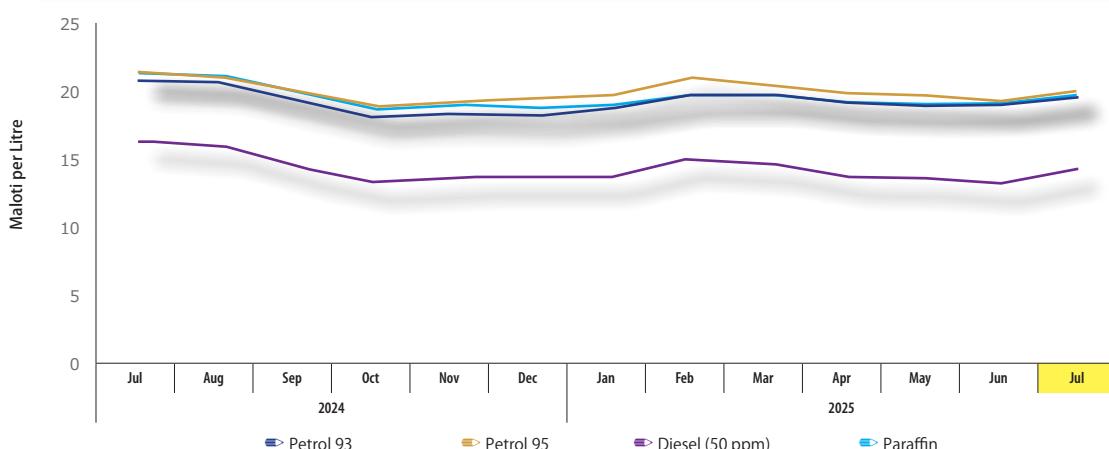
Domestic Fuel Prices

The prices of all petroleum products increased in

the review period, with prices of both grades of petrol (Petrol₉₃ and Petrol₉₅) increasing by M 0.95 and M1.00 and were sold at M 19.90 and M 20.10 per litre at the pump, respectively.

The pump prices of diesel₅₀ and illuminating paraffin increased by M 1.15 and M 1.00, respectively, and were sold at M 20.50 per litre and M 14.30 per litre, respectively.

Figure 4 Domestic Fuel Prices



Source: Petroleum Fund

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.

III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

Money supply (M2) recorded a marginal contraction of 0.1 per cent in July 2025, following zero growth in June. This contraction was driven by a decline in net domestic assets (NDA), partly offset by an increase in net foreign assets (NFA). NDA fell by 31.1 per cent, in contrast to the growth of 12.6 per cent observed in the preceding month. The contraction emanated from a reduction in net claims on the central government, driven by higher government deposits with the central bank. However, commercial banks' net claims registered a slight increase, partly cushioning the overall decline. On the contrary, NFA increased further by 8.4 per cent, following a

4.3 per cent growth, recorded in the prior month. This growth was driven by gains in the central bank NFA, bolstered by SACU receipts at the start of the month, as well as improved water royalties. On an annual basis, M2 grew by 12.3 per cent.

Components of Money Supply

Regarding the components of money supply, narrow money (M1) contracted by 4.4 per cent, owing to a decline in transferable deposits, while quasi money expanded by 3.8 per cent, driven by an increase in call deposits and fixed time deposits held by business enterprises. The growth in quasi money partly moderated the overall fall in money supply.



Source: CBL

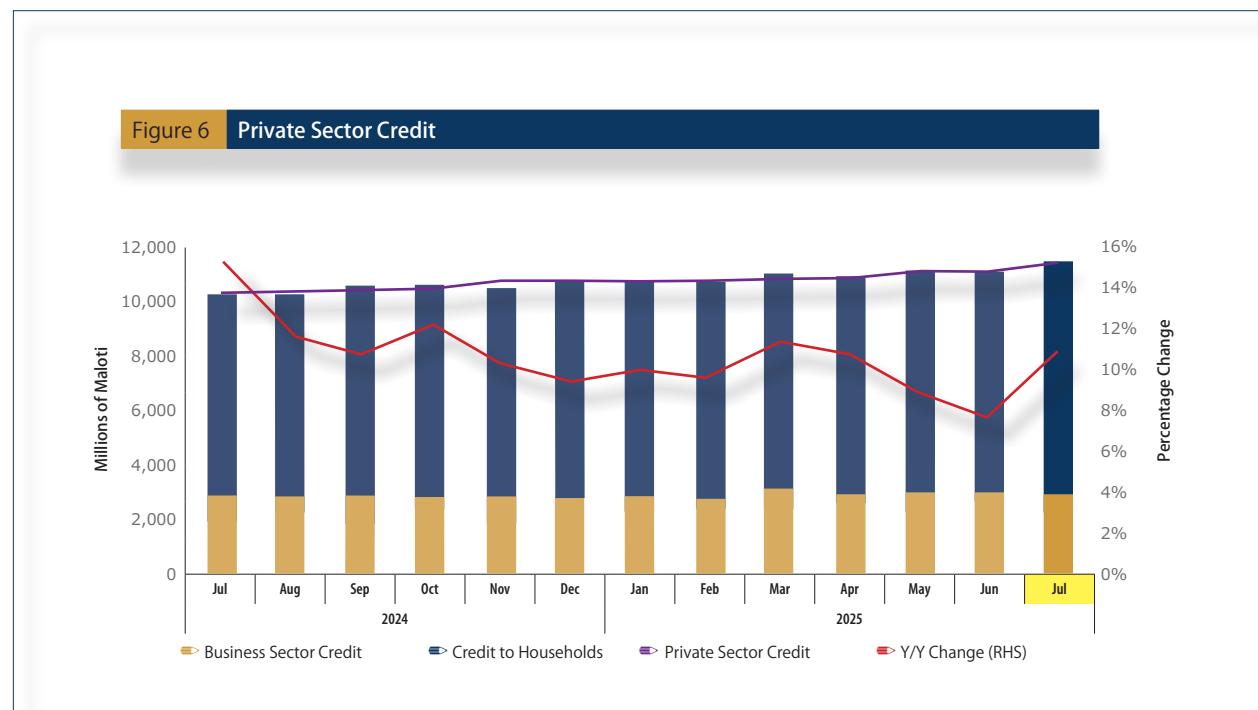
Private Sector Credit

Private sector credit grew by 3.4 per cent, reversing the 0.7 per cent contraction recorded in the preceding month. The expansion was driven, predominantly, by increased lending to households. Specifically, household credit rose by 3.2 per cent,

in contrast to the 1.1 per cent contraction in June. Growth was observed in both personal loans and mortgage lending, registering 4.0 per cent and 0.8 per cent, respectively. Similarly, business credit grew by 2.0 per cent, extending the 2.2 per cent growth recorded in the previous period. The growth in business credit was notably driven by credit to

Manufacturing, which expanded by more than 100 per cent, as well as the increase of 13.8 per cent in Real Estate and Business Services. Regarding the share of credit by business enterprises, the Wholesale & Retail trade, Restaurants & Hotels commanded the highest share of credit extension, followed by Real Estate

and Business Services, 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 5.0 per cent.



Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans increased to 4.4 in July from 4.3 per cent in June, driven by an increase in NPLs of the businesses. The Wholesale & Retail Trade, Restaurants & Hotels industries, which received the largest share of business credit, also recorded the highest NPLs, followed by Construction, Real Estate and Business Services industries.

Sources of Funds

The credit-to-deposit ratio rose to 53.4 per cent, from 52.9 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 rate was unchanged at 7.00 per cent between June and July 2025. Consequently, the prime lending rate and the 1-year deposit rate remained stable at 10.50 and 5.12 per cent, respectively. However, the 91-day treasury bill rate increased by 1 basis point to 6.88 per cent.

Foreign Exchange

The rand, hence, loti, showed mixed performance against its major trading currencies in July 2025. The rand strengthened by 0.5 per cent and 0.8 per cent against the dollar, and the pound respectively, while it depreciated by 1.0 per cent against the euro, to record 17.75, 23.99 and 20.75, respectively. This was in comparison to an appreciation of 1.6 per cent and 0.2 per cent against the dollar and the pound respectively, and a depreciation of 0.5 per cent against the euro in the previous period.

The rand's stronger performance was at the back of improved economic conditions in South Africa as mining production improved and also benefited from the rising commodities prices. This was coupled with a strong trade surplus, as well as political stability that boosted investor confidence, and, therefore, strengthened the rand. Moreover, the elevated uncertainty on the US fiscal and trade policy, in addition to the release of elevated inflation and weak employment data weakened the performance of the dollar. However, the South African Reserve Bank's dovish move to cut its policy rate together with the improved economic conditions in Europe, explained the depreciation of the rand against the euro.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government budget execution in July 2025 demonstrated a significant surge in government spending, with total expenditure rising sharply by 46.6 per cent, a substantial acceleration from the 11.6 per cent increase in June. This was primarily driven by higher grants to extrabudgetary units, student grants, and subsidies, with a notable concentration in the education and economic affairs sectors.

While the overall execution rate improved, progress was most evident under recurrent spending, which saw its monthly outturn led to a robust execution rate of 9.5 per cent. In contrast, development spending showed a slower pace, with its execution rate for July at 2.5 per cent, a slight decline from the 2.6 per cent recorded in June. This highlights that while recurrent expenditures are accelerating, challenges like procurement delays in the execution of development projects may persist.

Revenue³

Government revenue, excluding SACU receipts, declined by 23.8 per cent. This decrease was primarily a result of a fall in tax collections and the absence of dividend payments, which were recorded in the previous month. Including SACU receipts, total revenue declined by 13.5 per cent year-on-year, reflecting a sharp 20.5 per cent fall in SACU receipts, which are set in advance, directly influencing the flow of SACU revenue to member states.

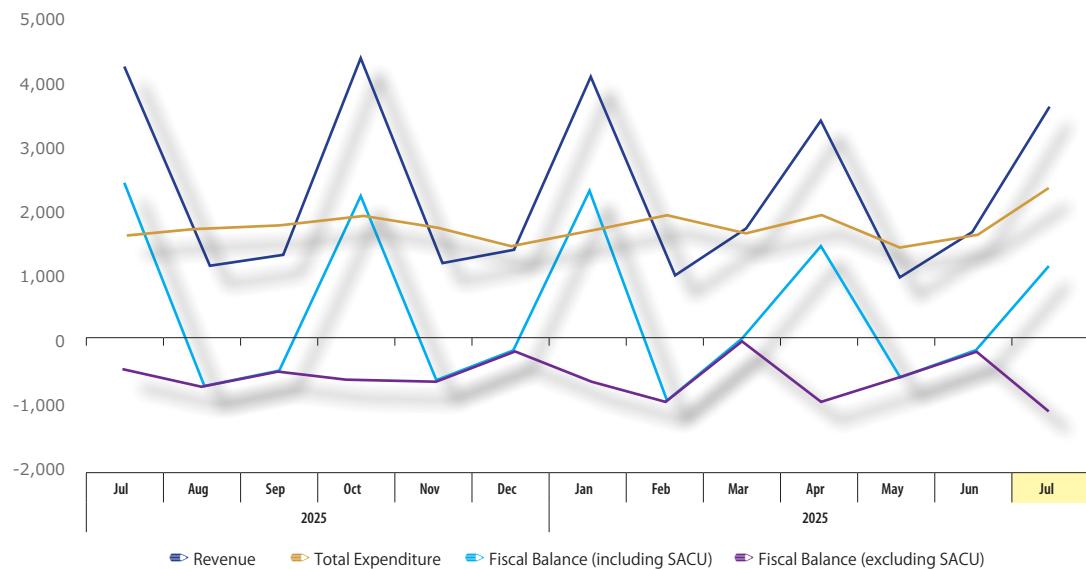
Fiscal Balance⁴

The fiscal balance improved markedly, shifting from a small surplus of 0.6 per cent of GDP in June to 11.4 per cent in July. This remarkable increase indicates that government revenues significantly outpaced expenditures for the period. This positive fiscal position resulted in accumulation of deposits with the banking sector, reflecting a strong financial standing.

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

⁴ 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	Apr	May	Jun	Jul	Cumulative
Total	Approved budget	32689.83	32700.87	32701.01	32701.01	32701.01
	o/w: Revisions	0.00	11.04	0.14	0.00	11.18
	Outturn	1925.61	1437.92	1604.30	2352.14	7319.98
	Execution rate (%)	5.89	4.40	4.91	7.19	22.38
Recurrent	Approved budget	22009.76	22010.00	22010.14	22010.14	22010.14
	o/w: Revisions	0.00	0.24	0.14	0.00	0.38
	Outturn	1681.76	1311.99	1331.39	2089.85	6414.99
	Execution rate (%)	7.64	5.96	6.05	9.49	29.15
Development	Approved budget	10680.06	10690.86	10690.86	10690.86	10690.86
	o/w: Revisions	0.00	10.80	0.00	0.00	10.80
	Outturn	243.85	125.93	272.91	262.29	904.99
	Execution rate (%)	2.28	1.18	2.55	2.45	8.47

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%	14.6%	100.0%	0.0%	38.0%	2.1%	1.0%	3.9%	12.7%
Defence		7.7%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	2.9%
Public Order and Safety		17.5%	13.5%	0.0%	0.0%	1.1%	0.0%	0.7%	10.1%	8.6%
Economic Affairs		6.4%	23.6%	0.0%	0.0%	44.3%	0.1%	0.0%	66.0%	18.7%
Environmental Protection		0.8%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%
Housing & Comm. Amenities		11.0%	6.0%	0.0%	0.0%	0.5%	0.3%	0.7%	14.2%	5.3%
Health		7.9%	33.8%	0.0%	97.8%	4.9%	3.0%	0.0%	0.3%	16.5%
Recreation, Culture, & Religion		1.0%	1.0%	0.0%	0.0%	1.0%	0.9%	0.0%	0.0%	0.8%
Education		32.0%	1.4%	0.0%	2.2%	6.0%	0.9%	97.6%	1.2%	22.1%
Social Protection		9.7%	1.5%	0.0%	0.0%	4.1%	92.7%	0.0%	1.8%	11.8%
Share per Economic Item		26.6%	22.3%	0.7%	5.9%	17.5%	8.7%	12.3%	6.1%	100.0%

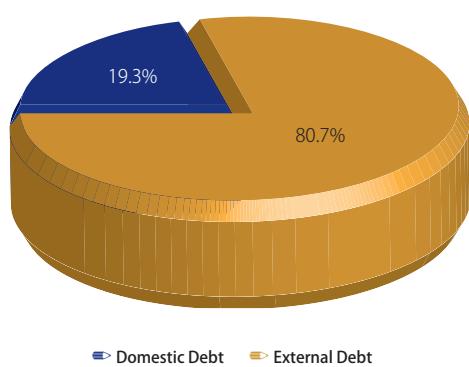
Source: CBL and MOF

V. PUBLIC DEBT

The public debt-to-GDP ratio was estimated at 56.0 per cent in July 2025, marking a slight increase of 0.3 per cent from the revised figure of 55.8 per cent

of GDP in June. This modest rise was attributed to an increase in project disbursements, as well as currency depreciation.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: Key Economic Indicators

		24-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May	25-Jun	25-Jul	
Economic Activity (MIEA (% change, M/M)		2.1	-4.5	-2.1	-5.1	-1.6	8.1	2.2	0.2	
Consumer price Index (% change)	Headline Inflation (year-on-year)	3.6	3.6	4.1	4.2	4.0	4.4	4.3	4.4	
	Core Inflation	2.4	2.4	2.7	2.8	2.8	3.7	3.8	4.0	
Exchange Rates (Monthly End Period)	EUR	19.3073	19.3073	19.2451	19.8005	21.1993	20.2838	20.8169	20.7536	
	GBP	23.0593	23.0593	23.3029	23.6893	24.8261	24.1063	24.3705	23.9903	
	USD	18.5173	18.5173	18.5100	18.2695	18.9095	17.8902	17.7516	17.7498	
Money Supply (Millions of Maloti)	M2	18,995.08	18,513.78	18,883.61	19,291.53	18,874.09	19,014.18	19,018.40	19,005.19	
	M1	9,325.06	8,594.94	8,674.53	9,008.46	8,905.18	8,758.55	8,990.85	8,594.76	
	Quasi Money	9,670.02	9,916.84	10,209.07	10,283.08	9,968.92	10,255.62	10,027.56	10,410.44	
Interest Rates	CBL Rate	7.50	7.50	7.25	7.25	7.25	7.25	7.00	7.00	
	91 day Treasury bill rate	6.88	6.89	6.88	6.88	6.86	6.86	6.87	6.88	
	Prime lending rate	11.00	11.00	10.75	10.75	10.75	10.75	10.50	10.50	
	1 year deposit rate	4.72	4.68	4.56	4.56	4.56	4.56	5.12	5.12	
Private sector Credit (Millions of Maloti)		10,650.80	10,783.40	10,790.20	10,845.47	10,929.68	11,107.46	11,033.36	11,403.82	
		Households	2,785.18	3,105.80	2,837.80	2,910.99	2,930.98	2,924.56	2,988.87	3,047.52
		Non-profit Organisations	7,865.61	7,677.60	7,952.40	7,934.48	7,998.70	8,182.89	8,044.79	8,356.30
Bank Deposit Liabilities (Millions of Maloti)		20,326.23	20,425.14	20,828.06	20,195.76	20,100.00	21,167.00	21,102.50	21,186.90	
Credit to Deposit Ratio (%)		52.2	52.6	51.7	53.3	54.0	52.1	52.9	53.4	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	-157.51	2,007.28	-1,022.42	85.75	1,390.79	-353.71	67.46	1,216.70	
	Total Revenue (with SACU receipts)	1,401.45	3,973.37	1,110.07	1,765.10	3,316.40	1,084.22	1,671.76	3,568.84	
	Total Expenditure	1,558.96	1,966.09	2,132.49	1,679.36	1,925.61	1,437.92	1,604.30	2,352.14	
	O/W Capital	315.22	495.64	420.06	562.64	243.85	125.93	272.91	262.29	
Total Public Debt (Millions of Maloti)		23,214.12	23,496.79	23,540.54	23,251.77	24,209.33	23,615.25	23,723.09	23,790.06	
		Total External Debt	18,646.50	18,929.79	18,898.24	18,911.05	19,768.17	19,168.44	19,125.19	19,191.81
External Debt	Concessional	11,761.67	12,500.27	12,510.89	12,682.24	13,378.70	12,925.45	12,869.14	12,894.61	
	Non-concessional	6,884.83	6,429.52	6,387.35	6,228.81	6,389.47	6,243.00	6,256.05	6,297.20	
Domestic Debt		4,567.61	4,567.00	4,642.30	4,340.72	4,441.16	4,446.80	4,597.90	4,598.24	
Memo Item: Arrears (Millions of Maloti)		-13.33	-64.67	-102.45	-77.66	0.00	0.00	-15.35	-9.10	

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

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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