



# Monthly

# ECONOMIC REVIEW

MAY 2025

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

Domestic economic activity rebounded in May 2025, following four consecutive months of contraction. The recovery was driven by improved performance in the manufacturing sector, as well as other key subsectors, that benefited from a pickup in domestic demand. However, inflationary pressures increased during the review period.

### Overall Performance Index

Domestic economic performance expanded in May 2025, with the Composite Indicator of Economic Activity (CIEA) registering an 8.4 per cent growth, reversing a 1.6 per cent contraction observed in the previous month. This recovery was largely driven by stronger domestic demand, and a notable pickup in manufacturing activity. Additional support came from other key sectors. The construction sector recorded growth, observed in a significant rise in imports of construction materials. The financial services sector also contributed positively, reflected in increased credit to the private sector. Similarly, the transport sector added to the upward momentum, as indicated by higher fuel consumption during the review period.

### Domestic Demand Category

The domestic demand index maintained its upward trajectory during the period under review, recording a growth rate of 8.0 per cent, up from 5.7 per cent in the previous month. This improvement was primarily driven by higher import volumes of food and essential goods from South Africa, reflecting increased private consumption.

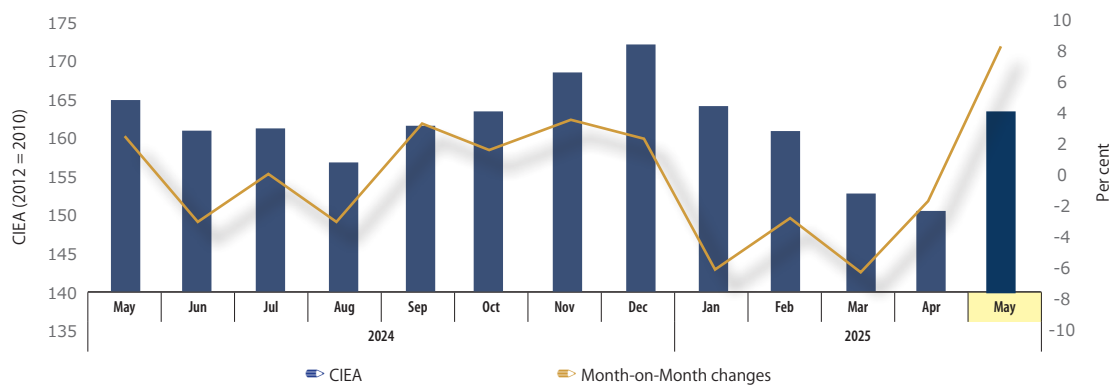
Additionally, stronger sales tax collections pointed to improved business activity. However, the overall growth was partially offset by a decline in Pay As You Earn (PAYE) collections and reduced government spending on goods and services.

### Manufacturing and Production Category

The manufacturing and production subsector continued its upward trajectory, with the manufacturing index rising by 5.3 per cent in May, up from 3.0 per cent in April. This growth was primarily driven by a significant increase in clothing and textile exports to South Africa, despite slight declines in exports to the United States. The rise in raw material imports and utility consumption further underscored heightened activity within the subsector. Nonetheless, the industry remains exposed to significant risks stemming from global trade dynamics and supply chain vulnerabilities, which continue to pose a major threat to its stability.

<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

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

	2024			2025				
Indices	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>CIEA</b>	163.7	168.7	172.2	164.5	161.0	152.8	150.3	162.9
Monthly changes	1.5	3.0	2.1	-4.5	-2.1	-5.1	-1.6	8.4
<b>Domestic Demand Category</b>	148.7	156.2	160.1	146.8	143.9	133.6	141.2	152.5
Monthly changes	6.7	5.1	2.5	-8.3	-2.0	-7.2	5.7	8.0
<b>Manufacturing &amp; Production Category</b>	115.0	122.4	125.0	123.2	121.1	23.4.4	127.1	133.9
Monthly changes	0.9	6.4	2.1	-1.4	-1.7	1.9	3.0	5.3
<b>Transport Category</b>	152.3	156.0	159.9	154.0	140.2	128.7	110.3	120.9
Monthly Changes	2.8	2.4	2.4	-3.7	9.0	-8.2	-14.3	9.6
<b>Financial Services</b>	189.7	192.7	196.9	194.8	195.2	194.5	199.0	202.6
Monthly Changes	1.7	1.6	2.2	-1.1	0.2	-0.3	2.3	1.8
<b>Construction Category</b>	98.6	95.2	97.1	83.1	83.3	79.1	83.9	90.0
Monthly Changes	-21.2	-3.4	1.9	-14.4	0.2	-4.9	6.0	7.3

Source: CBL Calculations.

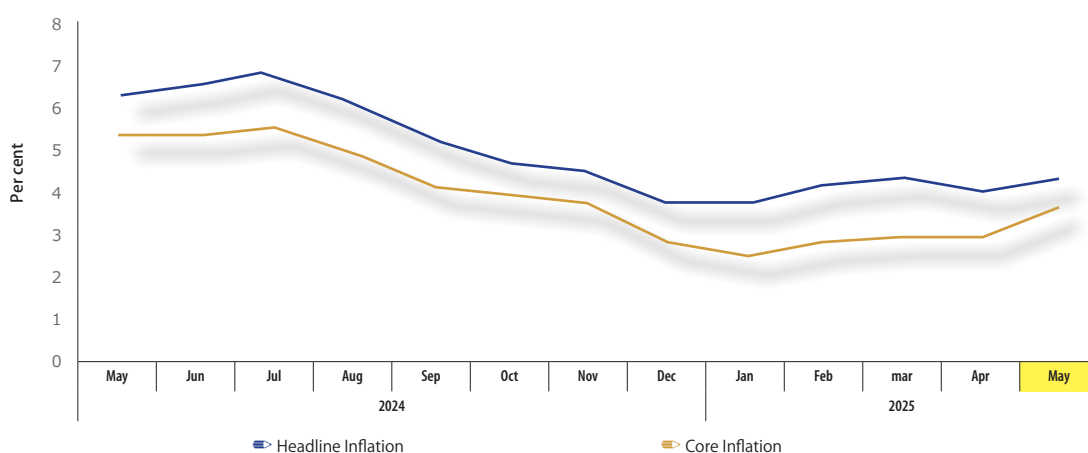
## II. INFLATION AND PRICES

### Headline Inflation

Headline inflation increased to 4.4 per cent in May 2025, from 4.0 per cent observed in the month of April 2025.

The major contributor to the 0.4 percentage point increase between May 2025 and April 2025 was Housing, Electricity, gas and other fuels.

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



Source: Lesotho Bureau of Statistics & CBL Computations

### Contributions to Headline Inflation

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

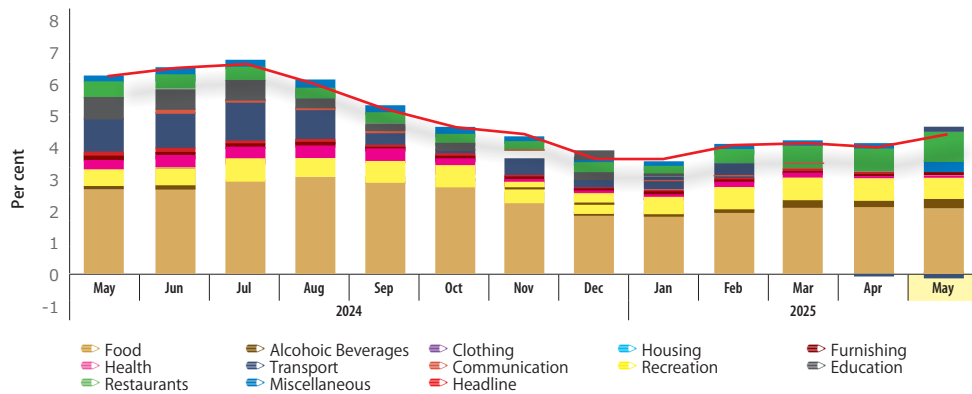
Food & Non-alcoholic Beverages increased by 6.3 per cent year-on-year and contributed 2.1 percentage points to the total annual inflation rate of 4.4 per cent. Supply constraints, due to poor harvests, continue to be the primary source of surge in vegetables and maize prices.

Alcoholic beverages and tobacco prices rose by 4.6 per cent year-on-year, primarily due to earlier price increases by the local brewing company aimed at ensuring business sustainability.

Furthermore, Restaurants and Hotels category also continued the rise mirroring Food category and Alcoholic beverages category.

Moreover, the 0.4 percentage point increase observed in the Housing, Electricity, Gas, and Other Fuels category from April to May 2025 resulted from a 9.6 per cent upward adjustment in tariffs by the Lesotho Electricity Company (LEC). This strategic measure aims to ensure the continued sustainability of electricity supply for all consumers.

**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 measured by core inflation, increased to 3.7 per cent in May 2025 from 2.8 per cent in April 2025.

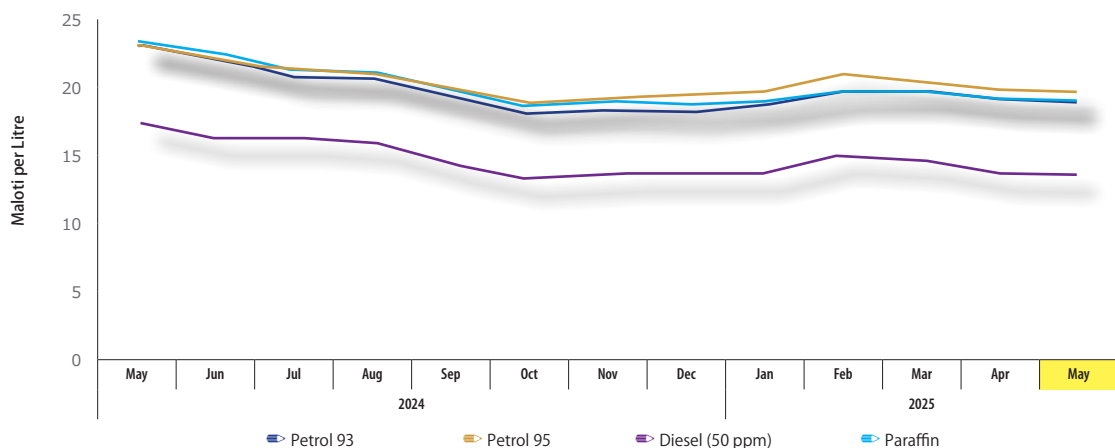
## Domestic Fuel Prices

The prices of all petroleum products decreased in the review period, with prices of both grades of

petrol (Petrol<sub>93</sub> and Petrol<sub>95</sub>) decreasing by M 0.20 and were sold at M 19.15 and M 19.30 per litre at the pump, respectively.

The pump prices of diesel<sub>50</sub> and illuminating paraffin decreased by M 0.45 and M 0.20, respectively, and were sold at M 19.85 per litre and M 13.80 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)

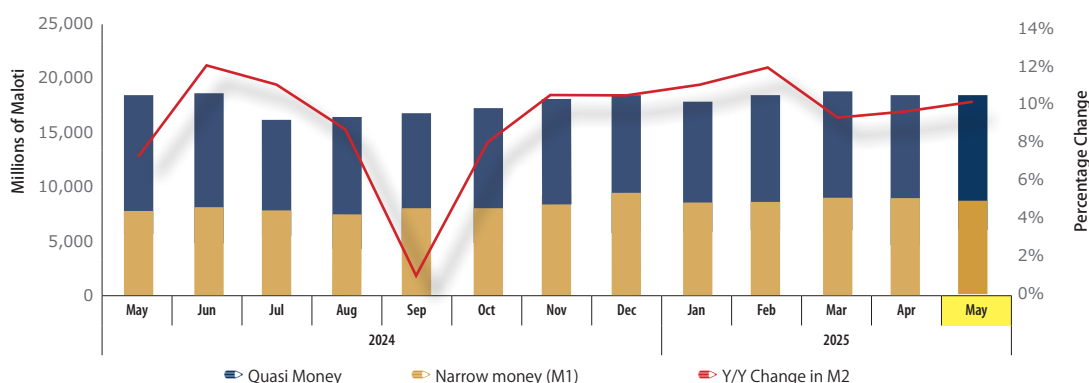
Money supply (M2) slightly grew by 0.7 per cent in May 2025, contrary to the 2.2 per cent decline in April. The growth resulted from a rise in net domestic assets (NDA) despite a fall in net foreign assets (NFA). NDA rose by 13.7 per cent, showing a partial rebound from the 53.0 per cent decline recorded in the preceding month. The expansion in NDA was driven by a drawdown of government deposits with the central bank, coupled with sustained credit extension to the private sector. On the contrary, NFA declined by 1.2 per cent, in contrast to the 9.0 per cent expansion recorded in the prior month. The contraction was driven by a 7.6 per cent decline in central bank's NFA, mainly due to a fall in claims on

non-residents. On an annual basis, M2 increased by 10.4 per cent.

#### Components of Money Supply

Breaking down the components of money supply developments, the increase emanated from an expansion in quasi money. Quasi money recorded a growth of 2.9 per cent, while M1 fell by 1.6 per cent. The increase in quasi money was driven mainly by a rise in call deposits of the private sector and other public non-financial corporations. On the other hand, the contraction in M1 resulted from a fall in transferable deposits held by business enterprises and households.

Figure 5 Broad Money Growth



Source: CBL

#### Private Sector Credit

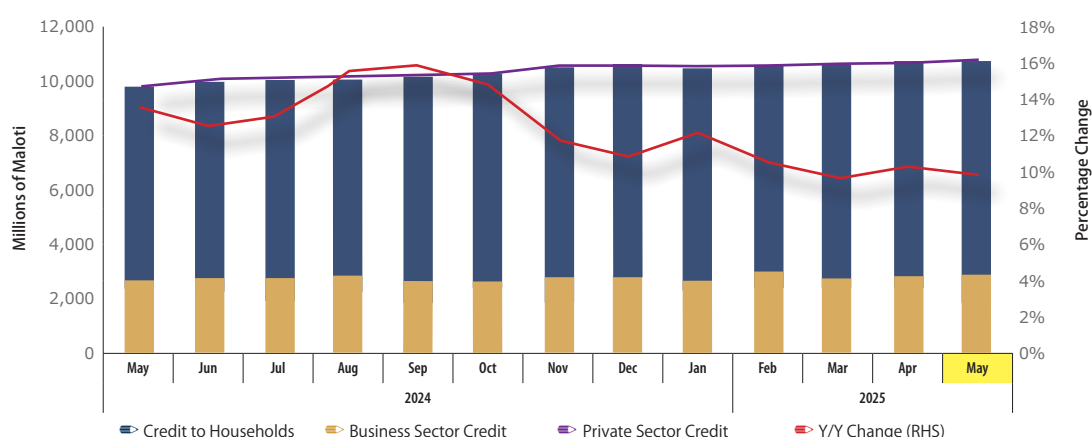
Private sector credit increased further by 1.6 per cent following a 0.8 per cent growth in the preceding month. Households' credit expanded by 2.3 per cent,

following the 0.8 per cent increase recorded in April. Both personal and mortgage loans contributed to the growth. On the contrary, business credit fell by 0.2 per cent, in contrast to the 0.7 per cent growth observed in the previous period. The contraction in

business credit was underpinned by a fall in credit to real estate & business services, and mining & quarrying subsectors. Regarding the share of credit by business enterprises, the wholesale & retail trade, restaurants & hotels commanded the highest share

of credit extension, followed by mining & quarrying, with construction industry completing the top three bracket. Electricity, gas and water subsector was the smallest recipient of credit extension. On an annual basis, private sector credit grew by 9.1 per cent.

**Figure 6 Private Sector Credit**



Source: CBL

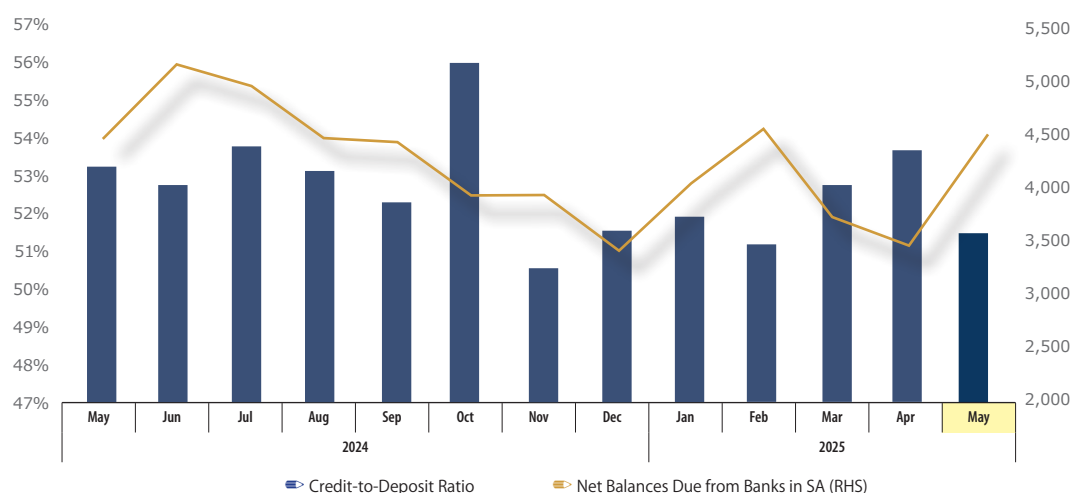
## Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined from 4.6 per cent to 4.2 per cent. This decline benefitted from a fall in NPLs from both households and businesses. Within the household segment, NPLs declined for both mortgage and personal, recording a fall of 8.2 and 1.9 per cent, respectively. Among business enterprises, the biggest fall pertained to NPLs attributed to mining & quarrying, and manufacturing industries.

## Sources of Funds

The credit-to-deposit ratio decline to 52.1 per cent from 54.0 per cent in the previous month. The decline was attributed to a growth in deposits of commercial banks which surpassed growth in credit extension.

**Figure 7 Credit to Deposit Ratio**



Source: CBL

## Interest Rates

The Central Bank of Lesotho (CBL) policy rate remained unchanged at 7.25 per cent during the review period. Consequently, the prime lending rate remained steady at 10.75 while the 1-year deposit rate climbed to 5.25 per cent from 4.56 per cent. The 91-day Treasury bill rate, however, remained constant at 6.86 per cent.

## Foreign Exchange

In May 2025, the rand, hence loti, strengthened against its major trading currencies. The rand appreciated by 4.13 per cent, 3.51 per cent and 2.39 per cent against the dollar, euro and pound respectively, to record 17.89, 20.28 and 24.10 on average, respectively. This was in comparison to a depreciation of 3.5 per cent against the dollar, 5.3 per cent against the euro, and 7.4 per cent against the pound in the previous month.

The stronger performance of the rand followed positive domestic and international developments. Domestically, the South African Reserve Bank maintained its policy rate, reinforcing its

commitment to fighting inflation, which helped anchor investor confidence. The Finance Minister's mid-year budget framework signalled improved fiscal discipline, while rising export revenues from gold, platinum-group metals, and iron ore boosted foreign exchange inflows.

Globally, the US dollar was under significant pressure, posting its steepest decline in the first half of the year since 1973. The downturn was driven by concerns over slowing US growth, rising fiscal deficits from the proposed multi-trillion-dollar spending bill, and growing expectations of Federal Reserve rate cuts. This weakened the dollar's safe-haven status and prompted investors to seek returns in higher-yielding emerging markets like South Africa.

The Bank of England initiated a rate-cutting cycle, while indicators such as stagnant house prices and slowing retail sales pointed to a loss of economic momentum and thus weakening the pound. In the Eurozone, business activity stalled, and the European Central Bank delivered its eighth rate cut in a year, which diminished the euro's appeal relative to high yielding emerging market currencies.

## IV. GOVERNMENT BUDGETARY OPERATIONS

### Expenditure

Government spending experienced a sharp 24.3 per cent decline in May 2025, marking a significant shift from the 10.4 per cent increase recorded in April. The drop was largely driven by reduced grants to extra-budgetary units, a fall in spending on loan-funded projects, and student grant payments following a disbursement in the previous month. Overall, the government's spending priorities were directed towards public services and social protection. Compared to the previous year, total expenditure in May 2025 was down by 19.8 per cent, primarily due to reduced spending on student grants and capital projects.

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

Government revenue, excluding SACU receipts, remained relatively stable, recording a marginal 0.2 per cent increase. This was supported by improved tax collections, which offset declines in administrative fees and mining royalties. However, on a year-over-year basis, total revenue fell by 29.1 per cent, mainly due to lower drop in dividends and water royalties.

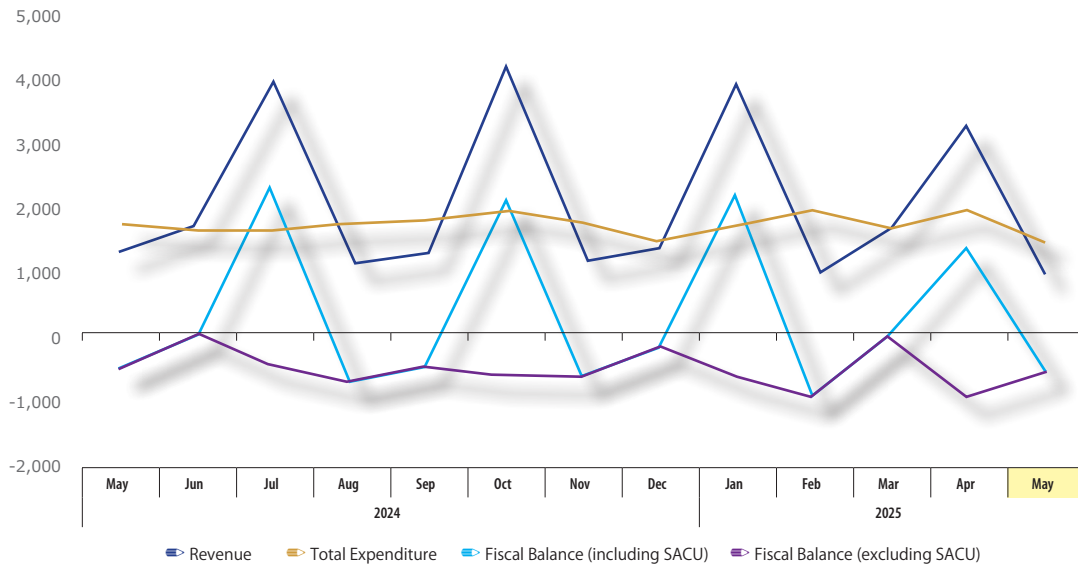
### Fiscal Balance<sup>4</sup>

As a result of weaker revenue performance, the fiscal balance deteriorated, registering a deficit of 4.4 per cent of GDP. This shortfall led to a withdrawal of government deposits from the banking sector and an increase in government liabilities due to the accumulation of unpaid supplier invoices.

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

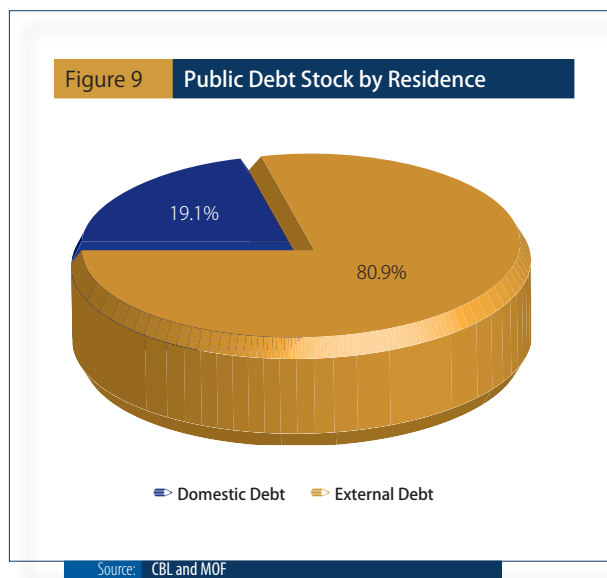
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		6.2%	9.8%	100.0%	1.4%	68.4%	0.8%	14.2%	2.3%	13.5%
Defence		8.1%	5.1%	0.0%	0.0%	0.0%	0.0%	84.4%	0.0%	6.8%
Public Order and Safety		19.0%	11.7%	0.0%	0.0%	0.6%	0.0%	0.7%	1.5%	10.1%
Economic Affairs		6.7%	12.0%	0.0%	0.0%	0.0%	0.8%	0.0%	80.6%	10.2%
Environmental Protection		0.9%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Housing & Comm. Amenities		6.7%	2.3%	0.0%	0.0%	2.4%	0.0%	0.0%	5.5%	3.6%
Health		8.1%	56.3%	0.0%	98.6%	12.7%	2.2%	0.7%	10.0%	22.5%
Recreation, Culture, & Religion		1.1%	0.9%	0.0%	0.0%	0.6%	4.8%	0.0%	0.0%	1.4%
Education		33.6%	0.7%	0.0%	0.0%	9.3%	11.7%	0.0%	0.0%	15.6%
Social Protection		9.7%	0.7%	0.0%	0.0%	6.1%	79.6%	0.0%	0.0%	16.0%
Share per Economic Item		37.9%	23.0%	1.2%	4.3%	10.1%	14.5%	3.0%	6.0%	100.0%

Source: CBL and MOF

## V. PUBLIC DEBT

The stock of public debt-to-GDP ratio was estimated at 54.8 per cent in May 2025, down from a revised 56.1 per cent in April. This 2.4 per cent month-

over-month decline contrasts with the 4.1 per cent increase recorded in April and was primarily influenced by favourable exchange rate movements.



## Appendix: Key Economic Indicators

		24-Oct	24-Nov	24-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May
Economic Activity (MIEA (% change, M/M))		1.5	3.0	2.1	-4.5	-2.1	-5.1	-1.6	8.4
Consumer price Index (% change)	Headline Inflation (year-on-year)	4.7	4.4	3.6	3.6	4.1	4.2	4.0	4.4
	Core Inflation	4.1	3.7	2.4	2.4	2.7	2.8	2.8	3.7
Exchange Rates (Monthly End Period)	EUR	20.5085	20.0677	19.3073	19.3073	19.2451	19.8005	21.1993	20.2838
	GBP	23.9695	23.4763	23.0593	23.0593	23.3029	23.6893	24.8261	24.1063
	USD	18.8596	18.7203	18.5173	18.5173	18.5100	18.2695	18.9095	17.8902
Money Supply (Millions of Maloti)	M2	17,631.19	18,545.63	18,995.08	18,513.78	18,883.61	19,291.53	18,874.09	19,014.18
	M1	8,270.95	8,896.13	9,325.06	8,596.94	8,674.53	9,008.46	8,905.18	8,758.55
	Quasi Money	9,360.24	9,649.50	9,670.02	9,916.84	10,209.07	10,283.08	9,968.92	10,255.62
Interest Rates	CBL Rate	7.75	7.50	7.50	7.50	7.25	7.25	7.25	7.25
	91 day Treasury bill rate	6.86	6.88	6.88	6.89	6.88	6.88	6.86	6.86
	Prime lending rate	11.25	11.00	11.00	11.00	10.75	10.75	10.75	10.75
	1 year deposit rate	4.74	4.72	4.72	4.68	4.56	4.56	4.56	4.56
Private sector Credit (Millions of Maloti)		10,684.74	10,658.79	10,650.80	10,783.40	10,790.20	10,845.47	10,929.68	11,107.46
	Households	2,853.12	2,882.57	2,785.18	3,105.80	2,837.80	2,910.99	2,930.98	2,924.56
	Non-profit Organisations	7,831.62	7,776.22	7,865.61	7,677.60	7,952.40	7,934.48	7,998.70	8,182.89
Bank Deposit Liabilities (Millions of Maloti)		19,040.65	20,787.42	20,326.23	20,425.14	20,828.06	20,195.76	20,100.00	21,167.00
Credit to Deposit Ratio (%)		56.0	51.1	52.2	52.6	51.7	53.3	54.0	52.1
Fiscal Operations (Millions of Maloti)	Fiscal Balance	2,282.50	-662.07	-117.84	2,226.48	-928.91	19.66	1,339.29	-466.54
	Total Revenue (with SACU receipts)	4,302.68	1,194.28	1,401.45	4,014.19	1,110.07	1,765.10	3,266.09	992.55
	Total Expenditure	2,020.19	1,856.35	1,519.29	1,787.71	2,038.98	1,745.44	1,926.80	1,459.09
	O/W Capital	296.13	320.77	275.56	463.23	333.70	563.04	243.87	143.15
Total Public Debt (Millions of Maloti)		22,134.67	22,394.79	23,267.95	23,161.56	23,205.40	22,917.27	23,866.92	23,299.69
	Total External Debt	17,678.01	17,927.18	18,700.34	18,594.56	18,563.10	18,576.56	19,425.77	18,852.89
External Debt	Concessional	12,312.57	12,534.03	13,139.97	13,730.03	13,725.60	13,868.51	14,580.73	14,121.59
	Non-concessional	5,365.44	5,393.15	5,560.37	4,864.53	4,837.51	4,708.05	4,845.04	4,731.30
Domestic Debt		4,456.66	4,467.61	4,567.61	4,567.00	4,642.30	4,340.72	4,441.16	4,446.80
Memo Item: Arrears (Millions of Maloti)		-135.08	-28.85	-13.33	-64.67	-102.45	-77.66	0.00	0.00

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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