MAY 2026

Monthly
ECONOMIC REVIEW

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY[1]

Domestic economic activity moderated further in May 2026, underpinned by weak domestic demand and subdued performance in the manufacturing and transport subsectors. The contraction was partially cushioned by stronger construction activity and modest expansion in financial services. At the same time, inflationary pressures intensified, compounding macroeconomic headwinds and weighing on household purchasing power and business operating conditions.

Overall Performance Index

Economic activity softened further in May 2026. The Composite Indicator of Economic Activity (CIEA) declined by 0.8 per cent, following a revised contraction of 0.2 per cent in April. The outturn was primarily attributable to weak domestic demand and lower activity in manufacturing and transport, as reflected in reduced imports of goods and services, lower textile export volumes, and weaker fuel consumption.

Notwithstanding the broad-based moderation in activity, the construction subsector strengthened during the review period, supported by increased imports of construction materials. Financial services also expanded modestly, driven by higher credit extended to households and business enterprises. These developments partially offset the overall slowdown in economic activity.

Domestic Demand Category

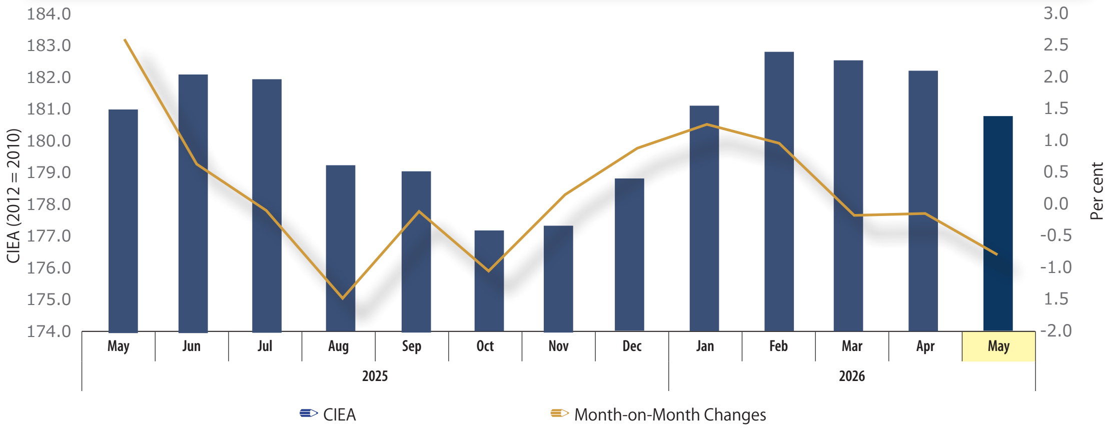
Domestic demand contracted by 4.6 per cent in May 2026, following a revised expansion of 0.4 per cent in April. The decline was mainly attributable to weaker private consumption, as evidenced by lower imports of consumer goods, reduced PAYE collections, and a decline in compensation of employees.

Manufacturing and Production

Manufacturing and production activity continued to weaken in May 2026. The manufacturing index declined by 3.4 per cent, following a contraction of 4.4 per cent in April. The downturn was largely driven by lower textile exports to the United States and South Africa, signalling subdued external demand for domestic clothing and textile products. However, the increase in raw material imports points to a potential recovery in future production orders.

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

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

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

	2025			2026				
Indices	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
CIEA	**178.5**	**176.7**	**176.9**	**178.7**	**181.0**	**182.4**	**181.8**	**181.6**
Monthly changes	-0.2	-1.0	0.1	1.0	1.3	0.8	-0.3	-0.2
Domestic Demand Category	**132.9**	**128.9**	**128.8**	**136.0**	**142.0**	**139.5**	**126.1**	**126.7**
Monthly changes	-2.5	-3.0	-0.1	5.6	4.4	-1.8	-9.6	0.5
Manufacturing & Production Category	**137.3**	**134.8**	**130.2**	**122.6**	**135.1**	**142.4**	**148.4**	**141.2**
Monthly changes	-1.0	-1.8	-3.4	-5.9	10.2	5.4	4.2	-5.0
Transport Category	**138.9**	**139.4**	**141.1**	**152.6**	**140.7**	**136.6**	**136.8**	**136.6**
Monthly Changes	-3.7	0.4	1.2	8.2	-7.8	-2.9	-0.1	-0.1
Financial Services	**113.3**	**113.5**	**113.7**	**114.0**	**114.1**	**114.3**	**114.3**	**114.5**
Monthly Changes	0.0	0.2	0.2	0.3	0.0	0.2	0.1	0.1
Construction Category	**450.1**	**362.3**	**368.7**	**374.2**	**363.2**	**394.9**	**412.5**	**440.5**
Monthly Changes	9.1	-19.5	1.8	1.5	-2.9	8.7	4.5	6.8

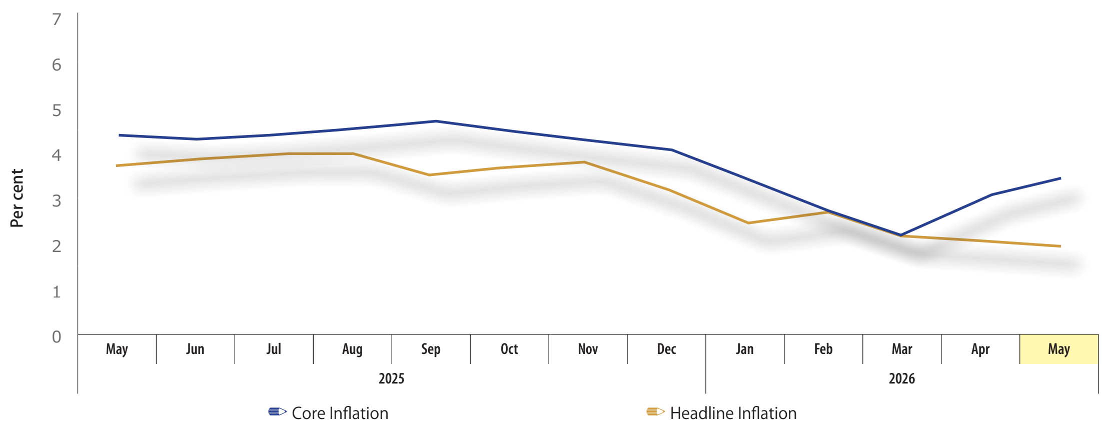
Source: CBL Calculations.

II. INFLATION AND PRICES

Headline Inflation

Headline inflation rose to 3.5 per cent in May 2026, from 3.1 per cent in April. The 0.4 percentage point increase was primarily driven by higher prices in Food and Non-Alcoholic Beverages; Clothing and Footwear; Housing, Water, Electricity, Gas and Other Fuels; and Transport.

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 3.5 per cent were Transport, Food and Non-Alcoholic Beverages, and Clothing and Footwear.

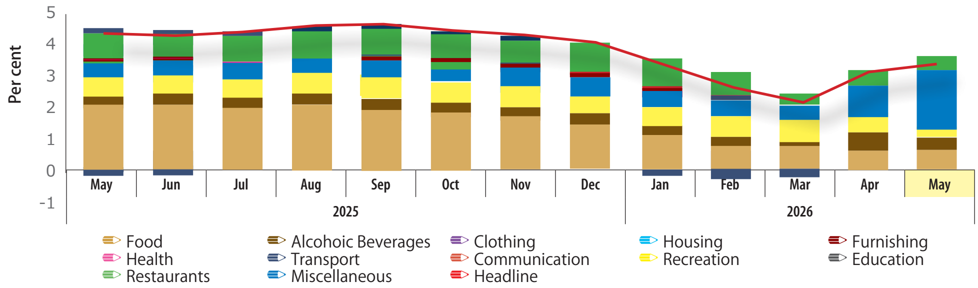
Transport remained the largest contributor to headline inflation. The division recorded annual inflation of 17.5 per cent and contributed 1.8 percentage points to the overall rate. The increase reflected the pass-through of higher domestic fuel prices, following a sharp rise in international crude oil prices. Global oil prices were elevated by heightened geopolitical tensions in the Middle East and disruptions to oil shipments through the Strait of Hormuz, which increased the cost of fuel imports. Food and Non-Alcoholic Beverages inflation stood at 1.7 per cent and contributed 0.6 percentage points to headline inflation. The increase was mainly driven by higher prices for meat, vegetables, and fruits. Meat inflation largely reflected base effects associated with the Foot-and-Mouth Disease outbreak.

Vegetable and fruit prices also increased, reflecting seasonal supply conditions. These upward pressures were partly offset by favourable agricultural conditions, which moderated price increases for cereals and edible fats and oils, thereby containing overall food inflation.

Clothing and Footwear inflation increased by 5.6 per cent year-on-year, contributing 0.5 percentage points to the overall inflation rate. The increase was mainly attributable to higher retail prices for imported clothing and footwear.

The remaining CPI divisions collectively contributed 0.6 percentage points to the annual inflation rate.

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



Source: Lesotho Bureau of Statistics & CBL Computations

Core Inflation

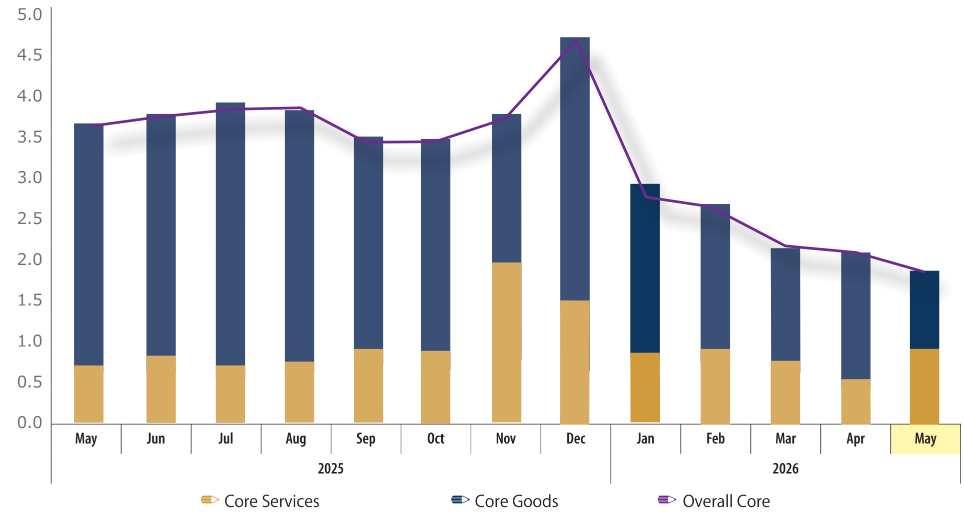
Core inflation, which excludes volatile items, moderated to 1.9 per cent in May 2026, from 2.1 per cent in the previous month.

Contributions to Core Inflation

Core inflationary pressures were mainly driven by goods components, which recorded annual inflation of 2.2 per cent and contributed 1.0 percentage point to core inflation. Services recorded annual inflation of 1.7 per cent and contributed 0.9 percentage points.

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

Figure 4 Contributions to Core Inflation (Year-on-Year Changes)



Source: Lesotho Bureau of Statistics & CBL Computations

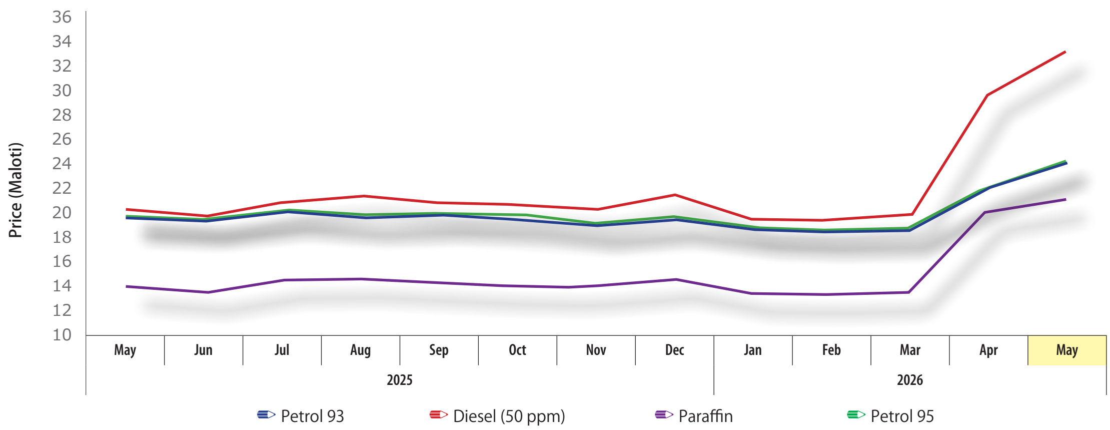
Domestic Fuel Prices

Domestic fuel prices increased across all categories during the review period. Pump prices for Petrol93 and Petrol95 rose by M2.90 and M2.60 per litre, respectively, resulting in retail prices of M25.40 and M25.90 per litre.

Similarly, the pump price of Diesel50 increased by M4.25 per litre, resulting in a retail price of M34.75 per litre, while illuminating Paraffin increased by M1.20 per litre and was sold at M22.80 per litre.

The increase reflected the pass-through of higher international oil prices, following significant disruptions to global crude oil supply. Escalating geopolitical tensions in the Middle East, including attacks on energy infrastructure and restrictions on tanker movements through the Strait of Hormuz, constrained global oil flows and tightened international petroleum markets.

Figure 5 Domestic Fuel Prices



Source: Petroleum Fund

III. MONETARY AND FINANCIAL INDICATORS

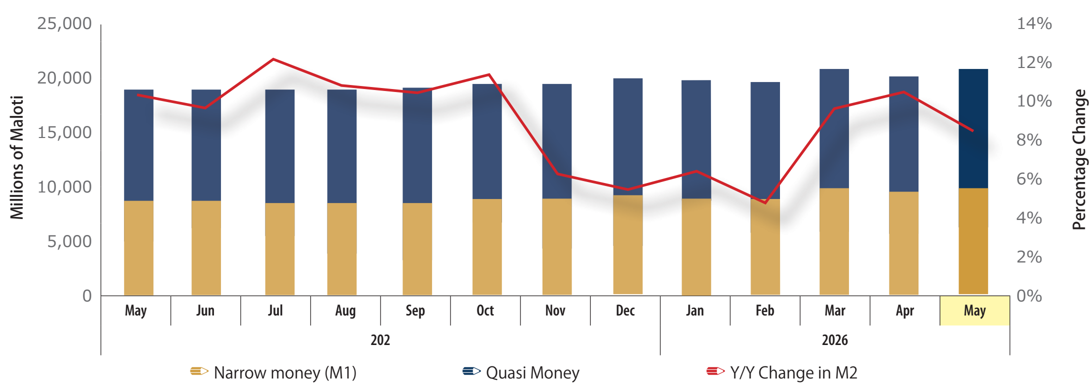
Broad Money (M2)

Money supply (M2) contracted by 0.7 per cent in May 2026, following a 1.7 per cent decline in April. The contraction was driven by a decline in net foreign assets (NFA), partly offset by an increase in net domestic assets (NDA). NFA declined by 1.5 per cent, reversing the 17.3 per cent increase recorded in the previous month, mainly on account of lower central bank claims on non-residents. Conversely, NDA increased by 23.4 per cent, in contrast to a 56.6 per cent decline in April, primarily reflecting lower central bank liabilities to central government. On an annual basis, M2 increased by 8.8 per cent.

Components of Money Supply

By component, the decline in broad money was driven by a contraction in quasi money, which outweighed the increase in narrow money (M1). Quasi money declined by 3.4 per cent, while M1 increased by 2.8 per cent. The decline in quasi money was mainly attributable to lower call deposits and fixed time deposits held by business enterprises. In contrast, the increase in M1 was driven by higher transferable deposits held by business enterprises.

Figure 6 Broad Money Growth

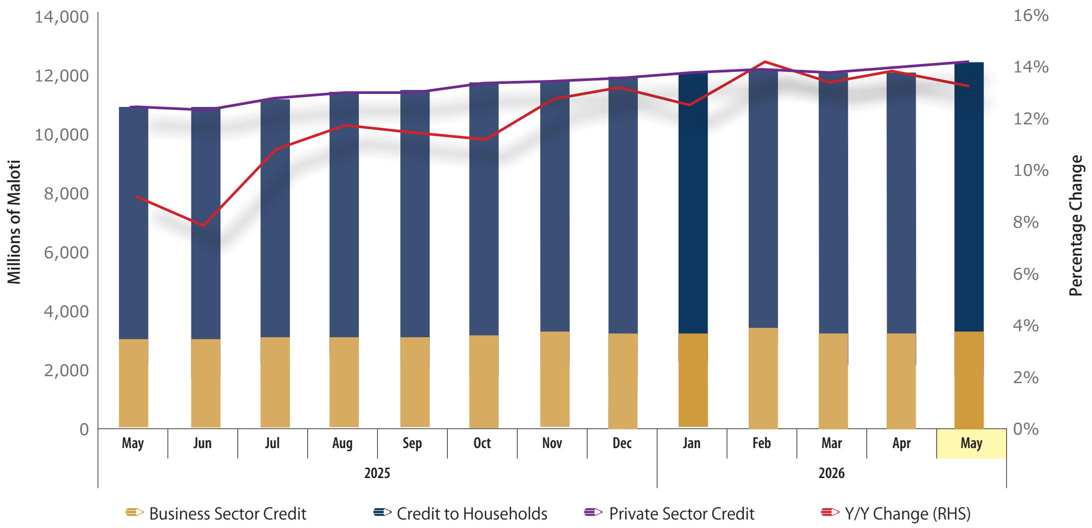


Source: CBL

Private Sector Credit

Private sector credit grew by 0.9 per cent in May, following a 1.2 per cent increase in April. Growth was recorded in both household and business credit. Household credit rose by 0.6 per cent, supported by increases in personal and mortgage loans. Credit to business enterprises expanded by 1.7 per cent, driven by higher lending to construction, manufacturing, and transport, storage and communications. Distribution of credit by sector, wholesale and retail trade, restaurants and hotels accounted for the largest share of business credit, followed by real estate and business services, and construction. Electricity, gas and water remained the smallest recipient of business credit. On an annual basis, private sector credit increased by 13.3 per cent.

Figure 7 Private Sector Credit



Source: CBL

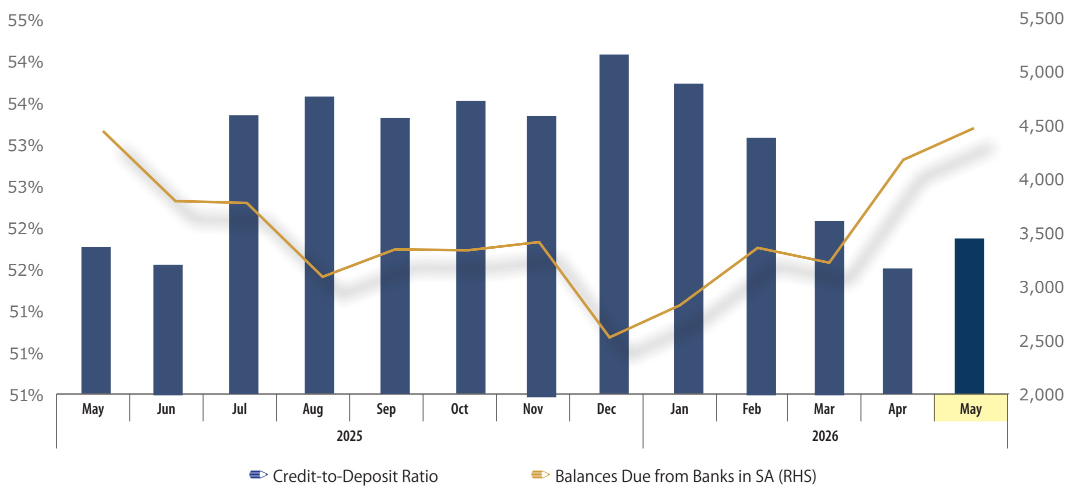
Non-Performing Loans

The ratio of non-performing loans (NPLs) to total loans declined marginally from 3.7 per cent to 3.6 per cent. The improvement reflected a reduction in NPLs among business enterprises, particularly in construction and wholesale and retail trade, restaurants and hotels.

Sources of Funds

The credit-to-deposit ratio increased to 52.3 per cent, from 51.7 per cent in the previous month. The increase reflected stronger credit extension, alongside a decline in commercial banks' deposit liabilities.

Figure 8 Credit to Deposit Ratio



Source: CBL

Interest Rates

The Central Bank of Lesotho (CBL) policy rate increased to 6.75 per cent in May, from 6.50 per cent in April. Consequently, the prime lending rate rose to 10.25 per cent from 10.00 per cent, while the one-year deposit rate increased to 4.86 per cent from 4.80 per cent. The 91-day Treasury bill rate also rose by 2 basis points to 6.96 per cent during the month.

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 22.26 against the pound, and 0.40 per cent to 19.28 against the euro. The rand's performance was supported by both domestic and external factors, although weaker economic data moderated the pace of appreciation relative to the previous month.

Externally, the rand benefited from improved market sentiment linked to ongoing negotiations between the United States and Iran, which were expected to ease bottlenecks in global crude oil markets. A weaker US dollar, reflected in the dollar index falling below the 100 mark, also supported rand strength. In addition, firm metal prices boosted export receipts and further supported the currency.

Domestically, expectations of a policy rate increase provided additional support to the rand. Improved fiscal discipline in South Africa, reflected in the authorities' commitment to containing public debt and expenditure, also contributed to positive investor sentiment.

IV. GOVERNMENT BUDGETARY OPERATIONS

Expenditure

Government expenditure declined by 13.5 per cent in May 2026, reversing the 18.4 per cent increase recorded in April. Budget execution fell to 88.9 per cent from 102.6 per cent, mainly due to weaker recurrent spending. Recurrent execution declined to 84.9 per cent from 105.1 per cent, while development execution increased sharply to 139.6 per cent from 76.0 per cent, supported by higher infrastructure spending. The recurrent outturn was mainly driven by grants to extra-budgetary units and student grants.

By functional classification (COFOG), expenditure remained concentrated in general public services, education, health and social protection. On an annual basis, total expenditure increased by 30.7 per cent.

Revenue[3]

Government revenue, excluding SACU receipts, declined by 17.6 per cent in May 2026, following a 12.4 per cent weakening in April. The contraction was mainly driven by weaker income tax, VAT, and excise tax collections. On an annual basis, however, revenue remained resilient, increasing by 16.6 per cent, largely supported by higher water royalties.

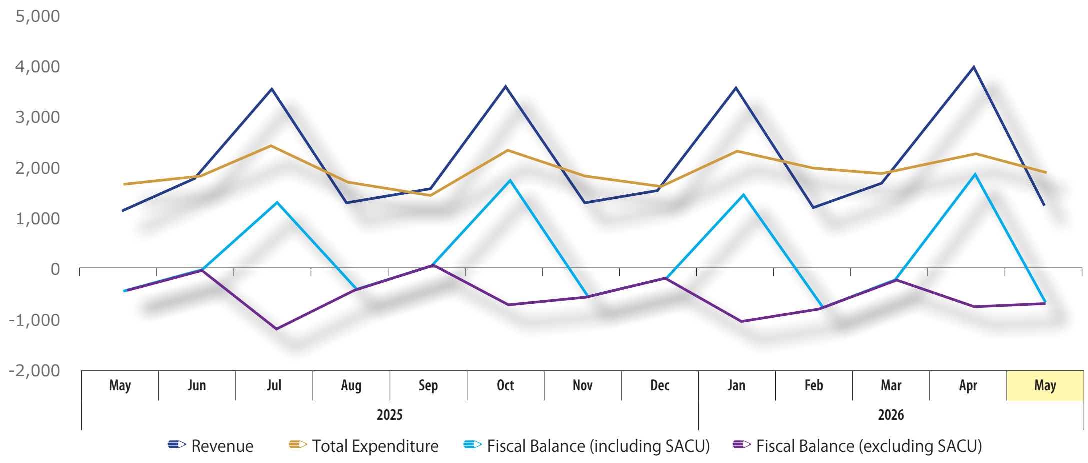
Fiscal Balance[4]

The fiscal position shifted to a deficit of 6.1 per cent of GDP in May 2026, reversing the surplus of 17.0 per cent of GDP recorded in April. The deterioration reflected a sharp decline in revenue, while expenditure remained above revenue despite the monthly contraction in spending. The deficit was financed through a drawdown of government deposits within the banking system, reducing the stock of financial assets.

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

[4] All financing items are on net basis.

Figure 9 Government Fiscal Balance (Million Maloti)



Source: CBL and Ministry of Finance (MOF)

Table 2: 2026/27 Government Budget Execution Tracker (Billion Maloti)

CATEGORY	APR	MAY
TOTAL		
Approved budget (monthly)	2145.85	2141.59
of which: Revisions	0.00	-4.26
Outturn	2201.66	1904.30
RECURRENT		
Approved budget	1962.38	1982.90
of which: Revisions	0.00	20.52
Outturn	2062.16	1682.82
DEVELOPMENT		
Approved budget	183.47	158.69
of which: Revisions	0.00	-24.78
Outturn	139.50	221.48

EXECUTION TRENDS

	APR	MAY
TOTAL	102.6%	88.9%
RECURRENT	105.1%	84.9%
DEVELOPMENT	76.0%	139.6%

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

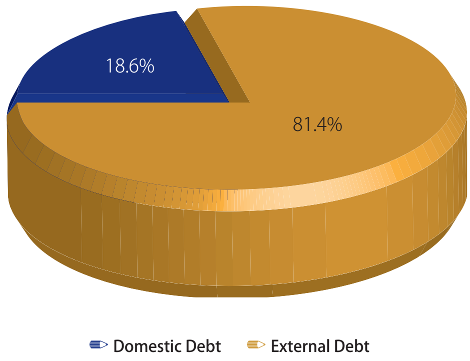
Function / Economic Item	Compensation of Employees	Use of Goods and Services	Interest Payments	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services	6.3%	7.4%	100.0%	29.1%	85.6%	2.2%	6.8%	14.5%	**20.3%**
Defence	8.5%	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**3.8%**
Public Order and Safety	19.1%	8.4%	0.0%	0.0%	0.3%	0.0%	2.0%	1.2%	**8.6%**
Economic Affairs	6.7%	12.0%	0.0%	0.0%	0.0%	0.8%	0.0%	62.4%	**10.0%**
Environmental Protection	0.8%	0.5%	0.0%	70.9%	0.0%	0.0%	0.0%	0.0%	**0.5%**
Housing & Comm. Amenities	5.2%	1.6%	0.0%	0.0%	1.4%	3.0%	0.0%	21.4%	**4.6%**
Health	8.5%	63.9%	0.0%	0.0%	0.0%	1.8%	0.0%	0.0%	**16.6%**
Recreation, Culture, & Religious	1.2%	0.9%	0.0%	0.0%	0.5%	6.7%	0.0%	0.0%	**1.8%**
Education	33.4%	0.9%	0.0%	0.0%	9.8%	9.9%	91.2%	0.3%	**17.3%**
Social Protection	10.4%	0.5%	0.0%	0.0%	2.4%	75.7%	0.0%	0.0%	**16.5%**
Share per Economic Item	**35.0%**	**20.8%**	**1.1%**	**0.2%**	**16.0%**	**16.3%**	**2.5%**	**8.1%**	**100.0%**

Source: CBL and MOF

V. PUBLIC DEBT

The public debt stock declined by 2.3 per cent in nominal terms, supported by exchange rate appreciation and scheduled debt repayments. Consequently, the share of external debt in the total public debt portfolio fell to 81.4 per cent, although the portfolio remained predominantly external. Debt service obligations remained contained, with domestic debt service equivalent to 0.5 per cent of government revenue, and external debt service equivalent to 9.3 per cent. Overall, the debt profile remained stable, supported by a lower debt stock and contained debt service costs. However, the continued dominance of external debt leaves the portfolio exposed to exchange rate movements.

Figure 9 Public Debt Stock by Residence



Source: CBL and MOF

Appendix: Key Economic Indicators

		25-Oct	25-Nov	25-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May
Economic Activity *(MIEA (% change, M/M)*		-1.0	0.1	1.0	1.3	0.8	-0.3	-0.2	-0.8
Consumer price Index *(% change)*	*Headline Inflation (year-on-year)*	4.5	4.3	4.1	3.4	2.7	2.2	3.1	3.5
	Core Inflation	3.7	3.8	3.2	2.4	2.7	2.2	2.1	1.9
Exchange Rates *(Monthly End Period)*	*EUR*	20.0185	19.8862	19.4934	18.9712	18.7722	19.6400	19.7021	18.8909
	GBP	22.7540	22.6880	22.3515	21.8862	21.4210	22.6200	22.7451	21.806
	USD	17.3156	17.1666	16.6080	15.9163	15.9028	17.1300	16.8984	16.2262
Money Supply (Millions of Maloti)	*M2*	19,629.46	19,717.23	20,055.61	19,737.22	19,813.80	21,178.33	20,819.53	20,680.54
	M1	8,942.49	9,078.33	9,232.60	9091.94	9,071.16	10,027.06	9,529.02	9,791.56
	Quasi Money	10,686.97	10,638.91	10,823.01	10,645.28	10,742.64	11,151.27	11,290.51	10,888.98
Interest Rates	*CBL Rate*	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.75
	91 day Treasury bill rate	6.89	6.92	6.94	6.93	6.84	6.90	6.92	6.96
	Prime lending rate	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.25
	1 year deposit rate	4.97	4.80	4.80	4.80	4.80	4.80	4.80	4.86
Private sector Credit *(Millions of Maloti)*		11,902.54	12,048.96	12,089.08	12,167.47	12,361.73	12,322.00	12,469.18	12,581.76
	Business Enterprises	3,117.89	3,246.49	3,127.35	3,154.69	3,305.27	3,212.58	3,279.95	3,337.00
	Households	8,784.65	8,802.47	8,961.73	9,012.78	9,056.46	9,109.42	9,189.23	9,244.76
Bank Deposit Liabilities *(Millions of Maloti)*		22,005.42	22,373.90	22,191.58	22,456.57	22,983.01	23,412.97	23,935.36	23,891.31
Credit to Deposit Ratio (%)		53.7	53.6	54.0	53.8	53.4	52.6	51.7	52.3
Fiscal Operations *(Millions of Maloti)*	*Fiscal Balance*	1,638.59	-511.45	-108.51	1,382.36	-798.56	-179.02	1,794.76	-646.06
	Total Revenue	3,902.60	1,226.43	1,546.73	3,681.50	1,222.71	1,681.01	3,996.42	1,258.24
	Total Expenditure	2,264.01	1,737.88	1,655.25	2,299.14	2,021.27	1,860.03	2,201.66	1,904.30
	O/W Capital	376.50	313.91	253.67	254.60	515.70	549.29	139.50	221.48
Total Public Debt *(Millions of Maloti)*		23,440.26	23,020.36	22,659.27	25,089.66	25,137.14	22,282.58	22,289.37	21,769.07
	Total External Debt	18,943.03	18,522.93	18,059.90	20,491.20	20,536.68	18,235.21	18,242.00	17,721.70
External Debt	*Concessional*	14,093.95	13,704.13	13,318.61	15,757.51	15,815.20	13,710.79	13,759.01	13,312.94
	Non-concessional	4,849.08	4,818.80	4,741.29	4,733.69	4,721.47	4,524.41	4,482.99	4,408.76
Domestic Debt		4,497.23	4,497.43	4,599.37	4,598.47	4,600.46	4,047.37	4,047.37	4,047.37
Memo Item: Arrears *(Millions of Maloti)*		-6.46	-2.40	-7.51	-49.43	-37.29	-37.45	0.00	-0.31

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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