



Central Bank of Lesotho

## Monetary Policy Committee Statement

**29<sup>th</sup> November 2016**

The Central Bank of Lesotho's Monetary Policy Committee (MPC) held its 62<sup>nd</sup> meeting on the 29<sup>th</sup> November 2016. Among the issues discussed, the Committee considered global and domestic economic conditions, financial markets, as well as the Net International Reserves (NIR) developments and outlook.

Global economic activity remained weak in the third quarter of 2016. However, growth in advanced economies such as Japan, the US and the UK accelerated during the quarter. In Emerging Markets Economies, economic activity continued to remain resilient as well. The monetary policy stance around the globe remained accommodative with a view to support growth. The UK cut its policy rate in the wake of negative sentiment and adverse growth expectations emanating from the Brexit vote outcome. However, the rate was kept unchanged in November following a recovery in economic activity.

Quarterly domestic economic activity, measured by the CBL's Economic Activity Indicator (EAI), is estimated to have improved in the third quarter of 2016. The upturn emanated from the secondary and tertiary sectors. Improvements were observed in the manufacturing, financial services as well as the government sub-sectors. The year-on-year consumer inflation rate decelerated from 7.5 per cent in June to 5.7 per cent in October. This was due to the decline in food prices both in the region and domestically.

The broad measure of money supply (M2) contracted by 5.4 per cent in September from 8.3 per cent in June due to a decrease in Net Foreign Assets (NFA). The decline was due to recall of funds by commercial banks and the central bank from abroad.

The current account deficit widened marginally to 12.6 per cent of GDP in the third quarter of 2016, compared with a revised deficit of 12.4 per cent in the previous quarter. This was driven by a slowdown in flows recorded in both primary and secondary income accounts.

Gross official reserves declined by 8.2 per cent in the third quarter. Measured in months of import cover, official reserves were recorded at 5.3 months in quarter ending in September compared to 5.5 months recorded in the previous quarter.

At the end of September 2016, government budget balance is estimated to have improved to a deficit of 4.6 per cent of GDP from that of 13.8 per cent in June largely due to good performance of non-tax revenue.

In summary, domestic economic performance during the third quarter had improved driven by secondary and tertiary sectors. Inflationary pressures are subsiding, mainly due to easing food prices and the appreciating Loti. However, the economy remains highly exposed to internal and external shocks. The Committee will continue to monitor the global and domestic economic developments closely and act accordingly.

Having considered the above developments, the MPC decided to:

- 1) Reduce the NIR target floor from US\$730.00 million to US\$680.00 million.
- 2) Keep the CBL Rate unchanged at 7.00 per cent.

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**GOVERNOR**

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