



Central Bank of Lesotho

Monetary Policy Committee Statement

30th May 2017

1. On the 30th May 2017, the Central Bank of Lesotho's Monetary Policy Committee (MPC) held its 65th meeting. The Committee considered international, regional and domestic economic and financial markets conditions, as well as the Net International Reserves (NIR) developments and outlook.
2. Global economic activity recovered moderately in the first quarter of 2017. The positive performance in advanced economies came mainly from Japan and United Kingdom, while the economic activity from the Euro Area and the United States (US) remained subdued. Growth from the Emerging Market Economies (EMEs) was spurred by positive economic developments in China. South Africa's economic performance is estimated to have deteriorated during the first quarter due to amongst others, the anticipated impact of the sovereign credit ratings downgrade that is expected to negatively weigh on investment, consumer and business sentiments. As a result, monetary policy stance in advanced and emerging market economies remained generally accommodative.
3. Domestic economic activity is estimated to have further declined during the period to March 2017. The contraction in quarterly economic activity emanated from both the secondary and tertiary sectors. In particular, contractions were observed in the manufacturing, construction, other services as well as the government sub-sectors. The year-on-year consumer inflation rate decelerated from 5.3 per cent in December 2016 to 4.0 per cent in April 2017. This was largely due to the moderation in prices of food and non-alcoholic beverages both in the region and domestically.
4. The broad measure of money supply (M2) expanded by 10.9 per cent in March 2017 compared with a decline of 4.2 per cent in December 2016. The increase

was attributable to a rise in domestic credit and a fall in central bank liabilities to central government.

5. The current account deficit narrowed to 6.5 per cent of GDP in the first quarter, from a revised deficit of 10.4 per cent in the previous quarter. This was driven by improvement in the income account balance.
6. Measured in months of import cover, official reserves are estimated at 4.9 months in the quarter ending in March 2017 compared to 5.3 months recorded in the previous quarter. In terms of gross official reserves this represents a decline of 8.9 per cent in the first quarter.
7. At the end of March 2017, government budget balance is estimated to have registered a deficit of 10.2 per cent of GDP compared to a revised deficit of 6.0 per cent in December 2016.
8. In summary, the economy remains exposed to internal and external shocks. The Committee will continue to monitor the global, regional and domestic economic developments closely and act accordingly.

Having considered the above developments, the MPC decided to:

- 1) Increase the NIR target floor from US\$600.00 million to US\$630.00 million.
- 2) Keep the CBL Rate unchanged at 7.00 per cent.

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