



## CENTRAL BANK OF LESOTHO

### STATEMENT OF MONETARY POLICY COMMITTEE

9 February 2010

#### **1. Introduction**

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held its 24<sup>th</sup> meeting on 9 February 2010. The Committee discussed international, regional and domestic economic developments with a view to assess likely impact on the inflation outlook.

#### **2. Inflation Developments**

Annual inflation rate registered 4.2 per cent in December 2009. The same rate was observed by the Committee at its last meeting for the month of October. In November 2009, the inflation rate reached a lowest point since December 2005 at 4.1 per cent. The low inflation in the recent months was driven by slowing food price inflation, which settled at 3.2 per cent in December from a high of 18.5 per cent in January 2008. Furthermore, inflation in non-food categories of the Consumer Price Index remained subdued, increasing by a weighted average of 4.8 per cent in December 2009. Items that experienced relatively high increases such as 'alcoholic beverages and tobacco' at 8.9 per cent were partially dampened by 'housing, water, electricity and other fuels' and education, which experienced a deflation of 6.4 per cent and an inflation of 2.0 per cent, respectively.

The low domestic inflation is in line with trends in the region, where Common Monetary Area member countries have seen generally falling inflation rates in the recent months. South Africa's inflation reached 6.3 per cent in December 2009, from

5.9 per cent in October the same year. The recent low inflation in the region is driven by improved food supply due to better climatic conditions in 2009; generally subdued demand for goods and services in line with the slowdown in economic activity; and strengthening of the rand currency.

### **3. Prospects for the Maintenance of Price Stability**

#### **a. Balance of Payments**

In the fourth quarter of 2009, the current account balance deteriorated to a deficit equivalent to 14.5 per cent of GDP following surpluses in the preceding three quarters of the year. However, official reserves improved to 6.8 months of import cover in the last quarter of 2009 cover from the 6.5 month of imports recorded in the third quarter of 2009. The growth was influenced by an increase in the capital and financial account.

#### **b. Fiscal Balance Outlook**

Government budgetary operations recorded a surplus equivalent to 9.9 per cent of GDP in the quarter ended December 2009. This indicated that the government financial position remained strong during the year 2009. The second and third quarters of the year also showed a combined surplus, implying that government expenditure remained below budget during the period. This outcome is favourable for the inflation outlook.

### **4. Monetary Policy Stance**

In December 2009, growth in money supply slowed to 9.7 per cent on an annual basis in December 2009, from an increase of over 30 per cent in September 2009. The deceleration in money supply was driven by a 5.6 per cent fall in net foreign assets and a smaller increase in domestic credit.

The Net International Reserves (NIR) of the Central Bank of Lesotho continued to perform well against the target minimum set by the Committee. It recorded USD1.2 billion on 14 January 2010 against the target of USD700 million. The Committee expressed satisfaction with the performance of NIR, and observed that the prevailing low inflation, strong currency and subdued growth of money supply augur well for a stable inflation outlook in the medium term. However, increases in the oil price pose a risk to the inflation outlook. The Committee maintained the prevailing NIR target.

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**GOVERNOR**

**9 February 2010**