



CENTRAL BANK OF LESOTHO

STATEMENT OF MONETARY POLICY COMMITTEE

6 April 2010

1. Introduction

On 6 April 2010, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) convened for its 25th meeting. The Committee discussed economic and financial developments in international, regional and domestic markets with a view to assess likely impact on domestic inflation outlook. The goal of MPC is to formulate and monitor the implementation of monetary policy of achieving price stability. This goal is consistent with the overall objective of the Bank as stipulated by the Central Bank Act (2000); which is to achieve and maintain price stability, and to support government policy of improving economic development.

2. Inflation Developments

The Committee observed that the rate of inflation was 4.3 per cent on annual basis in February 2010. The rate of inflation has remained steady around this level since October 2009, after it declined from 4.7 per cent in September. Major components of the consumer price index (CPI) remained subdued in the recent months. Annual food inflation recorded 3.5 per cent in February 2010, after reaching a low point of 3.2 per cent in December 2009. Bread and cereals, which accounts for 22 per cent in the CPI basket and 57.3 percent of the food component, registered less than one percent inflation in December 2009 and 1.2 per cent in February 2010. Other major components of the CPI, such as ‘clothing and footwear’ and household furnishings, equipment and routine maintenance, recorded an annual price increase of roughly 5 per cent in February 2010.

Latest figures show that Lesotho's inflation rate is the lowest in the Common Monetary Area (which includes Namibia, South Africa and Swaziland). South Africa's inflation stood at 5.7 per cent in February 2010, while Swaziland recorded 5.4 per cent annual inflation rate during the same month. Subdued food inflation and relatively steady fuel prices appear to be major contributors to the generally flat inflation trend in the recent months.

3. Prospects for the Maintenance of Price Stability

The balance of payments and government budgetary operations positions remained as observed by the Committee at its February 2010 meeting due to lack of new data.

a. Balance of Payments

The current account balance deteriorated to a deficit equivalent to 14.5 per cent of GDP during the fourth quarter of 2009, 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 from the 6.5 month of imports recorded in the third quarter of 2009. The growth was influenced by an improvement 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

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 USD1.0 billion on 18 March 2010 against the target of USD700 million. The Committee concluded that the monetary policy target of adequate foreign reserves continue to be achieved, and decided to keep the NIR target unchanged at USD650-700 million.

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GOVERNOR

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