



CENTRAL BANK OF LESOTHO

STATEMENT OF MONETARY POLICY COMMITTEE

05 April 2011

1. Introduction

At its 31st meeting held on 05 April 2010, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) reviewed recent economic developments and CBL's monetary policy operations, to ensure that the Bank continues to achieve its price stability mandate. The Bank achieves this objective by maintaining adequate Net International Reserves (NIR). Under the Extended Credit Facility (ECF), signed by the Government of Lesotho and the International Monetary Fund (IMF), the minimum stock of NIR to be maintained for the period April to June 2011 is USD692million.

This level of reserves is considered sufficient to support the exchange rate parity between the loti and the South African (SA) rand, and to meet Government's external obligations as and when they arise. The MPC monitors performance of open market operations (auction of treasury bills) in meeting the NIR target.

2. Inflation Developments

The level of inflation edged up slightly during the month of February, 2010. The annual rate of inflation, as measured by a change in the consumer price index (CPI), was recorded to have risen from 3.2 percent in January to 3.3 percent in February.

Lesotho's rate of inflation continued to be below that of South Africa by 0.4 percentage points. Inflationary pressures in Lesotho are likely to be exacerbated by the developments in the international oil markets and domestic agricultural performance. South Africa's headline CPI, which is targeted by the South African

Reserve Bank, is expected to remain within 3 and 6 per cent target range over the period to 2012.

3. Prospects on Maintenance of Price Stability

3.1 Balance of Payments

During the quarter ended December 2010, the overall balance of payments (BOP) position was recorded to have improved. This was supported by the reduction in the current account deficit. The import coverage of gross reserves increased from the 5.6 months realised in the previous quarter to about 6 months of imports at the end of December 2010.

3.2 Fiscal Balance Outlook

Fiscal operations for the quarter ending in December 2010 are estimated to have resulted in a non-cumulative surplus of approximately 4 per cent of GDP, following that of 7.0 per cent in the previous quarter. Fiscal performance for the review period was supported by a reduction in expenditure while that of the previous quarter resulted from the increase in total revenue emanating mainly from higher receipts of SACU revenue and dividends from CBL. However, with the recently approved budget, there is a need for Government to exercise extreme caution in its fiscal management.

4. Monetary Policy Stance

The NIR target for end of March 2011 was met. The MPC has set the target for June 2011 at USD692 in line with ECF program commitments. The MPC will continue to monitor domestic and international developments, and to undertake appropriate policy decisions to ensure that the NIR target for June is achieved.

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ACTING GOVERNOR

05 March, 2011