



## **CENTRAL BANK OF LESOTHO**

### **STATEMENT OF MONETARY POLICY COMMITTEE**

**28 August 2007**

#### **1. Introduction**

At its 11<sup>th</sup> meeting of the 28<sup>th</sup> August 2007, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) discussed the latest monetary policy operations and inflation-related developments to ensure that the price stability mandate of the Bank is being achieved and maintained.

The Committee maintained the Net International Reserves (NIR) target range that it deemed sufficient to underwrite the rand loti-peg while meeting the country's foreign currency obligations. The parity serves the price stability objective by allowing Lesotho to benefit from the low inflation environment imported from South Africa.

#### **2. Inflation Developments during the Second Quarter of 2007**

The Committee observed that inflationary pressures were building up in the economy. The inflation rate was recorded at 8.6 per cent in July 2007 compared with 5.9 per cent at the end of March 2007. The strong inflationary pressures were largely driven by increases in the food and non-alcoholic beverages category. The surge in food prices in Lesotho is due to food shortages driven by a number of factors. The country is currently experiencing the worst drought condition in many years coupled with the increased demand for biofuels which are produced from cereals. Furthermore, the price of crude oil is also continuing to increase thus exerting pressure on production costs. During the month of July the price of crude oil averaged US\$71.65 per barrel compared with US\$64.37 in May 2007.

The Committee noted that, given these factors and inflation developments in the neighbouring South Africa, the current surge in prices may prevail for sometime. Inflation rate in South Africa was recorded at 6.4 per cent in June 2007. At this rate, it is above the inflation target range of 3 - 6 per cent since April 2007. This development has led the South African Reserve Bank (SARB) Monetary Policy Committee to raise the repo rate from 9.50 per cent to 10.0 per cent.

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

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

The Committee noted that the foreign reserve position may be under pressure since the country is facing one of the worst droughts in 30 years with agricultural output likely to decline by 40 per cent in 2007, according to the World Food Programme (WFP) and the Food and Agricultural Organisation (FAO) Assessment Mission Report. The Government has in this regard declared a state of emergency.

The Committee also welcomed the grant worth US\$362 million to Lesotho over the next five years from the United States Government under the Millennium Challenge Corporation (MCC) and reiterated on the economic implications for Lesotho.

During the second quarter of 2007, the current account balance registered a lower surplus equivalent to M1.68 million compared with a surplus of M697.20 million in the previous quarter. This was mainly due to a decline in SACU revenue as a result of the windfall registered in the previous quarter.

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

Government budgetary operations are an important component of the cyclical factors affecting the balance of payments outlook. The favourable fiscal position that prevailed in the previous year is expected to continue in the 2007/08 fiscal year. The Government achieved an overall surplus estimated at 5.1 per cent of GDP for the quarter ended June 2007.

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

The Committee noted that the NIR position at the end of July 2007 was US\$839.94 million. At this level it was above the upper limit by US\$339.94 million. The Committee decided to keep the NIR target unchanged at US\$450- US\$500 million.

M.P. Senaoana (PHD)

**GOVERNOR**

**28 August 2007**