



**CENTRAL BANK OF LESOTHO**  
**STATEMENT OF MONETARY POLICY COMMITTEE**

**6 December 2010**

**1. Introduction**

At its 29<sup>th</sup> meeting held on 6 December 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 its 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 October to December 2010 is USD884 million.

This level of reserves is 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 rate of inflation, as measured by a change in the consumer price index (CPI), maintained a downward trend and fell to 3.1 per cent per annum in October, from 3.3 per cent in September. The reduction was influenced by a slowdown in both food and non-food inflation components. Food inflation rate declined from 3.8 per cent in September to 3.7 per cent in October, while its non-food counterpart fell from 3.5 per

cent to 3.3 per cent in the same period. All components of food inflation, which account for the largest share of the average consumer basket, slowed down. The only exception was the meat component, which increased marginally from 2.8 per cent to 2.9 per cent in October.

Lesotho's rate of inflation remained the lowest in the Common Monetary Area (CMA) during the month under review. In South Africa, the headline CPI, which is targeted by the South African Reserve Bank to remain between 3 and 6 per cent, rose by 3.4 per cent in October, against 3.2 per cent in September. However, this rate of inflation remains consistent with low inflation outlook in Lesotho in the year ahead, as most of inflation in Lesotho is imported from SA.

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

#### ***3.1 Balance of Payments***

The deficit in the overall balance of Lesotho's balance of payments (BOP) narrowed during the quarter ended September 2010. The reduction in the BOP deficit reflected an improvement in the current account balance. The latter improved from a deficit of 21.5 per cent of GDP, during the second quarter, to that of 18.7 per cent in the review period. This resulted mainly from a rise in current transfers, which was driven by non-duty receipts from the Southern African Customs Union (SACU), and labour income. In contrast, the trade deficit deteriorated, as growth in imports overshadowed that in exports. The Committee noted that there was a potential risk to the textiles sector emanating from the exchange rate appreciation. Gross reserves declined to 5.6 months of import cover from 5.9 months in the previous quarter.

#### ***3.2 Fiscal Balance Outlook***

Government budgetary operations registered a surplus equivalent to 7.0 per cent of GDP in the quarter to September 2010, compared to a deficit of 20.8 per cent that was recorded in the previous quarter. Total revenue increased by 60 per cent while expenditure and net lending decreased by 4.7 per cent on a quarterly basis. The

improvement in the fiscal position resulted mainly from receipt of SACU revenue and dividends from CBL.

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

The Committee expected the NIR to remain above the target at the end of December 2010. In the meantime, the MPC will continue to monitor domestic and international developments, to ensure that the NIR target is attained.

M.P. Senaoana (PhD)

**GOVERNOR**

**6 December 2010**