



CENTRAL BANK OF LESOTHO

STATEMENT OF MONETARY POLICY COMMITTEE

15 July 2008

1. Introduction

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) met for its 14th meeting on 15th July 2008. The Committee discussed the latest economic developments and assessed whether the performance of monetary policy operations achieved the price stability mandate of the Bank.

2. Inflation Developments

The Committee observed that annual inflation remained steady at 9.5 per cent in May and April. The effect of the slowdown in food inflation was dampened by rising fuel prices. Food inflation slowed to 13.8 per cent in May from 14.3 per cent in April, while the non-food component accelerated to 5.6 per cent in May from 5.3 per cent the preceding month. The main driver to non-food component was fuel prices. The international oil prices oscillated between US\$140 and US\$146 per barrel during May to July 2008. The attendant effect has an upward revision of domestic fuel prices during the same period. Transport inflation was recorded at 10.1 per cent in May, up from 8.6 observed in April 2008.

The Committee noted that inflation in South Africa surpassed domestic inflation, registering 10.4 per cent and 10.9 per cent in April and May respectively. Food inflation is particularly worrying and increased to 16.9 per cent in May from 15.9 per cent in April. Electricity tariff increases are also putting pressure on inflation. South Africa's inflation rate appears unlikely to fall to within the target range of 3 per cent

to 6 per cent band before 2010. The South Africa's producer price inflation (PPI) is an important leading indicator of inflation rate. It was recorded at 16.4 per cent in May from 12.4 per cent in April implying more problems for consumption economies such as Lesotho. This development has led the South African Reserve Bank (SARB) Monetary Policy Committee to raise the repo rate by a further 50 basis points to 12.0 per cent in June.

3. Prospects for the Maintenance of Price Stability

a. Balance of Payments

The balance of payment position continued to benefit from, among others, the strong Southern African Customs Union (SACU) non-duty receipts. All categories displayed positive developments, with miners' remittances gaining from high international commodity prices. The capital and financial account strengthened on account of improvements in commercial banks' foreign assets. However, the Committee noted the likely negative impact of global economic slowdown particularly in the US on the textile sector.

b. Fiscal Balance Outlook

Government budgetary operations are an important component of the cyclical factors affecting the inflation outlook. Government budgetary operations are estimated to continue to result in a surplus following the balanced budget realised in the first quarter of 2008. The surplus will mainly result from receipts of customs revenue coupled with less than expected capital expenditure. As a result, the government budgetary operations will not affect the inflation outlook in a negative manner.

4. Monetary Policy Stance

The strong foreign currency inflows from customs receipts and exports are contributing to the built up of the foreign exchange reserves. The NIR position is currently US\$1033.635 million, which is more than twice the current NIR target. The

Committee has, therefore, decided to keep the NIR target unchanged at US\$450- 500 million.

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GOVERNOR

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