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The Governor of Central Bank of Lesotho



Central Bank Of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE (MPC)

May 30, 2018

- 1. The Central Bank of Lesotho Monetary Policy Committee (MPC) held its 71st meeting on the 30th May 2018.** The Committee considered international, regional and domestic economic developments and financial markets' conditions, with a view to determine the adequacy of monetary targets to maintain macroeconomic stability.
- The global economic outlook for 2018 remains bright, despite a modest deceleration in economic activity among the advanced economies during the first quarter of 2018. Output growth slowed down in the US, the Euro Area, Japan and the UK during the review period. Preliminary estimates show that economic activity is expected to be mixed in the emerging market economies, with strong growth in China and India. Labour market conditions remain favourable, with low unemployment rates in all advanced economies and China. Inflationary pressures have remained low and, despite a modest tightening in the US and the UK in the first quarter of 2018. Monetary policy stance in all major advanced economies as well as in China and India has remained largely accommodative.
- The economic growth outlook in South Africa has improved moderately on the back of rising business and consumer confidence. The year-on-year headline inflation rose from 3.8 per cent in March 2018 to 4.5 per cent in April 2018. However, inflation is expected to remain within the target range, despite upward pressure from exchange rate movements and international oil prices. The repurchase (repo) rate in South Africa remained unchanged at 6.5 per cent per annum, with a note that the balance of risks to the inflation outlook have tilted to the upside.
- Lesotho's economic performance is estimated to remain sluggish during the first quarter of 2018 following a contraction in 2017. Labour market developments indicate a persistent downward trend in the number of Basotho employed in the South African mining industry. Employment levels in Government and LNDC assisted companies, on the other hand, have increased slightly during the first quarter of 2018.

5. The annual consumer inflation continued to decelerate during the first quarter of 2018. In April, 2018, the annual inflation rate declined to 3.8 per cent from 4.8 per cent in March. The deceleration was driven mainly by the food and non-alcoholic beverages component. The housing and energy inflation also slowed noticeably.

6. The growth rate of broad money supply remained unchanged at 3.7 per cent in March 2018 compared to December 2017. Private sector credit grew, by 3.2 percent, quarter-on-quarter, in March 2018 compared with 3.6 per cent in December 2017. Growth in private sector credit reflected persistent increase in credit to households. At the same time, a modest decline in credit to deposit ratio was recorded, indicating strong growth in the banks' deposit liabilities.

7. The external sector position improved during the review period. The current account balance switched to a surplus of 5.3 per cent of GDP during the first quarter of 2018, from a deficit of 6.2 per cent of GDP registered in December 2017. The surplus was a result of quarterly SACU transfers, rand compensation, and returns on portfolio investments abroad augmented by the strong diamond sales realised by the mining companies. Official reserves coverage improved marginally to 4.1 months of import cover for the quarter ending in March 2018 from 3.9 months of import cover registered in December 2017.

8. The non-cumulative deficit in Government budgetary operations rose sharply to 14.2 per cent of GDP in March 2018, which is the last quarter of the 2017/18 fiscal year. This compared with the deficit of 6.8 per cent in the quarter ending in December 2017. The overall deficit for 2017/18 fiscal year is estimated at 4.1 per cent of GDP against the projected 4.8 per cent that was approved by Parliament. 71st CBL MPC Statement – 30th May 2018

9. In summary, the Committee noted that despite positive global outlook, the domestic economy continued to face challenges that may hamper economic growth prospects in the medium-term. In this context, the MPC will continue to closely monitor developments that have a direct bearing on the NIR level.

Having considered the above developments, the MPC decided to:

1) Increase the NIR target floor from US\$830 million to US\$870 million.

2) Reduce the CBL rate from 6.75 per cent to 6.50 per cent per annum.

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