Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

29th May 2023

1. On the 29th May 2023, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho held its 101st meeting. The Committee considered global, regional, and domestic economic developments, as well as the financial markets developments.

2. The Committee noted that global economic prospects will remain weak in 2023. Global economic growth is projected to register 2.8 per cent in 2023 from the 2.9 per cent predicted in January the same year. However, global growth is expected to rebound to 3.0 per cent in 2024. The weak global growth mainly reflects tighter monetary policy stances across the globe, high debt levels, the continuing war in Ukraine, growing geo-economic fragmentation and recent financial sector problems.

3. Economic activity in selected advanced and emerging market economies depicted mixed outcomes in the first quarter of 2023. In the US, Japan and China economic activity improved, while the Euro Area, the UK and India experienced slowdowns. The South African economy is expected to have contracted in the first quarter of 2023 owing to decreased manufacturing utilisation capacity and declining mining output. The contraction is expected to continue on account of persistent energy crisis, binding infrastructure and logistics bottlenecks as well as declining commodity prices.

4. Labour market conditions were mixed in selected advanced and emerging market economies in the first quarter of 2023. Unemployment rates increased for Japan, UK and South Africa. But, the unemployment rate remained unchanged in the US, while it declined in the Euro Area and China.

5. Data up to April 2023 indicates that inflation has moderated for most countries except for the Euro Area and Japan. The moderation in inflation was due to falling food and energy prices. South Africa's inflation also declined at the back of falling fuel prices and, to a lesser extent, food prices. Despite falling international food prices, the weak rand remains an upside risk to inflation.

6. Short and long-term yields rose in advanced economies on the back of interest rate hikes, as central banks continue to fight persistently high inflation. China's yields, however, declined as traders priced in more monetary policy easing due to muted inflation and weak manufacturing. Yields in South Africa also rose due to interest rate hikes, worsening energy crisis and deteriorating growth prospects. Consequently, South Africa experienced a net outflow of funds, especially in the bond markets, leading to the depreciation of the rand.

7. Domestic economic activity remained weak in the first quarter of 2023. The textile and clothing manufacturing subsectors have stagnated as some firms closed. Poor performance was also notable in other industries such as transport and construction. The near-term outlook of the economy projects an improved performance, largely on account of construction activities related to LHWP Phase II.

8. Inflationary pressures in the domestic economy abated in April 2023 mainly driven by falling food and fuel prices. However, the implementation of alcohol and tobacco levy moderated the disinflation. Inflation fell to 6.7 per cent in April 2023, from 6.8 per cent in the previous month. Despite the declining global food prices, domestic prices of food remained elevated due to stubbornly high imported inflation at the back of the weaker rand.

9. Money supply increased by 17.4 per cent in March 2023 after rising by 1.7 per cent in February 2023. The rise was mainly due to increases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). This was at the back of significant increase in commercial bank's foreign assets, following the transfers related to the Polihali project and a drawdown in government deposits held at both CBL and commercial banks. Private sector credit rose due to increases in credit extended to both businesses and households.

10. The current account balance improved in the first quarter of 2023. The deficit on the current account narrowed to 12. 4 per cent of GDP, from 13.6 per cent of GDP in the fourth quarter of 2022. The relatively smaller deficit was attributed to higher surpluses on the primary and secondary income accounts. The stock of reserves, measured in months of imports, fell to 4.2 months in the first quarter of 2023 relative to 4.6 months recorded in the preceding quarter.

11. Government budget balance deteriorated in the last quarter of 2022/2023 fiscal year relative to a surplus recorded in the preceding quarter. The fiscal balance was estimated to have recorded a deficit equivalent to 13.3 per cent of GDP compared to a surplus of 3.0 per cent of GDP in the previous quarter. The stock of public debt is estimated to have declined to 53.5 per cent of GDP in the first quarter of 2023 from 54.4 per cent of GDP recorded in the previous quarter.

12. In summary, global economic prospects for 2023 have remained weak. The domestic economic activity has declined in the first quarter though projected to improve in the medium term on account of construction activities associated with the LHWP Phase II. Inflation has moderated but the risks remain heighted by the weak Loti.

13. Having considered the NIR developments and outlook, regional inflation and interest rates outlook, domestic economic conditions, and the global economic outlook, the MPC decided to:

i. ***To revise the NIR target floor to USD690 million. At this level, the NIR target will be sufficient to maintain a one-to-one exchange rate peg between Loti and the Rand.***

ii. ***Increase the CBL Rate by 25 basis points, from 7.50 per cent per annum to 7.75 per cent per annum.***

14. The Committee will continue to closely assess the global economic developments and their impact on the domestic economy especially the Net International Reserves (NIR) and respond accordingly.

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