Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

28th November 2023

1. On 28th November 2023, the Monetary Policy Committee of the Central Bank of Lesotho held its 104th meeting. The Committee deliberated on the latest global, regional, and domestic economic developments, as well as the developments in the financial markets.
2. The Committee noted that the global economy continued to recover from the effects of the pandemic, the prevailing geopolitical tensions and the cost-of-living crisis. However, growth is expected to slow down from 3.5 per cent in 2022 to 3.0 per cent in 2023. It is expected to further slowdown to 2.9 per cent in 2024.
3. Economic activity in selected advanced and emerging market economies generally slowed down in the third quarter of 2023, except for the US, where growth slightly increased mainly due to increased spending. The slowdown in growth in the selected economies was mainly driven by weak consumer demand and investment. South Africa's economic activity was expected to remain muted, as power crisis continued to cripple key sectors of the economy such as mining and manufacturing.
4. The labour markets for the selected economies showed mixed signals since the second quarter of 2023. Unemployment rates increased for the US, the euro area and Japan. They remained unchanged in the UK and declined in China and South Africa.
5. Inflation rates generally declined in the selected advanced and emerging market economies in October 2023 but largely remained above their target levels. This was mostly due to decreasing food and fuel prices. Nonetheless, South Africa's inflation rate rose during the same period. As a result, most central banks kept their policy rates unchanged in their latest policy decisions.
6. Short-term yields fell in most selected economies, except for China where they rose due to a recent liquidity squeeze. The decline in short-term yields in most selected countries was mainly due to a recent pause in interest rates hikes. Conversely, long-term yields generally rose in selected economies due to resilient growth in most countries.

7. Domestic economic activity rebounded in the third quarter of 2023. The rebound was due to a pickup in demand as well as improved performance in construction and services, particularly transport. Nonetheless, the persistently weak manufacturing sector moderated growth. The LHWP Phase II project and its knock-on effects on the services sector is expected to underpin growth in the medium term.

8. Domestic inflation increased to 6.5 per cent in October 2023 from 5.8 per cent in September 2023. Food and energy prices coupled with weak exchange rate were the main contributors to the rise in inflation. The continued weaker loti, volatile crude oil prices, administered prices as well as the risk of El Niño present upside risks to the medium-term inflation outlook.

9. Broad money supply increased in the third quarter of 2023. This growth was supported by the increase in net foreign assets and net domestic assets. The increase in both NFA and NDA was mainly driven by redemption of government securities and credit extension by commercial banks. The rise in private sector credit was observed in both credit to households and business enterprises.

10. Government operations registered a surplus equivalent to 2.5 per cent of GDP in the third quarter of 2023. During the same period, the stock of public debt declined to 59.9 per cent of GDP from 61.4 per cent, due to amortisation and redemption of treasury bills, moderated by new disbursements and treasury bond issuances.

11. The current account deficit narrowed to 1.4 per cent of GDP in the third quarter of 2023 from 2.3 per cent of GDP in the second quarter of 2023.This was mainly due to increased surpluses in both primary and secondary income accounts.

12. In summary, global economic prospects for 2023 remained resilient despite the slowdown from 2022. Nonetheless, risks to the downside may threaten further recovery. The domestic economic activity rebounded in the third quarter of 2023 and is projected to improve in the medium-term, despite the continued weaknesses in the manufacturing sector. Inflation rose and risks are tilted to the upside due to weak loti and prospects of adverse weather in the near-term.

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. ***Leave the NIR target floor unchanged at US$710 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. ***Leave the CBL rate unchanged at 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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