



MONETARY POLICY COMMITTEE STATEMENT

July 25th 2017

1. The 66th meeting of the Central Bank of Lesotho's Monetary Policy Committee (MPC) was held on the 25th July 2017. The Committee considered international, regional and domestic economic and financial markets conditions, as well as the Net International Reserves (NIR) developments and outlook.
2. Global economic activity continued to show signs of recovery during the period to July 2017. The positive performance in advanced economies emanated mainly from Japan and United Kingdom, while economic activity from the Euro Area and United States (US) remained subdued. Economic growth rates are still generally lower than those in the pre-financial crisis period, averaging around 2 per cent for advanced economies and 4.5 per cent for emerging market economies. The recent strong performance of the Chinese economy at 6.6 per cent contributed to the resilience in emerging markets activity. Closer to home, the South African economy registered two successive quarters of negative growth of 0.3 per cent and 0.7 per cent in December 2016 and March 2017, respectively. Outlook has deteriorated with growth projections having been revised downwards from 1.0 per cent to 0.5 per cent, and from 1.5 per cent to 1.2 for 2017 and 2018, respectively. The outlook is affected by heightened political and policy uncertainty, low consumer and investor confidence and the lurking possibility of further credit ratings downgrades. Given the deteriorated growth outlook and improved inflation outlook, the SARB reduced the repurchase rate by 25 basis points to 6.75 per cent per annum in a bid to support growth. Generally, the accommodative monetary policy stance remains in other emerging markets economies and in advanced economies.

3. Domestic economic activity contracted during the first quarter of 2017. The contraction in quarterly economic activity emanated from both the secondary and tertiary sectors. However, recovery in the primary sector, as a result of the relatively higher grain harvests plus activities in diamond mining mitigated the contraction to some extent.
4. The year-on-year consumer inflation rate increased to 5.0 per cent in June 2017 compared with 4.4 per cent recorded in March 2017. This was largely due to increases in prices of food and non-alcoholic beverages, following an end of government subsidy on locally produced maize meal in May 2017.
5. The overall money supply fell by 0.9 per cent in May 2017 in contrast to a 10.9 per cent increase registered in March 2017. The decrease was attributable to a fall in the banking system net foreign assets, which more than offset the rise in domestic claims. Private sector credit extension has increased by 3.4 per cent between April and May 2017. It increased by 2.7 per cent and 5.4 per cent for households and business enterprises, respectively.
6. The external sector position deteriorated during the review period. As a result, the official reserve coverage fell to 4.9 months of import cover at the end March 2017 from 5.3 months in December 2016.
7. Government budgetary operations were limited to essential and recurrent expenditure during the second quarter. The 2017/18 National Budget proposes a lower fiscal deficit equivalent to 4.8 per cent of GDP for the current fiscal year compared to the actual deficit of 7.8 per cent realised in 2016/17.

Having considered the above developments, the MPC decided to:

- 1) Increase the NIR target floor from US\$630.00 million to US\$635.00 million.
- 2) Reduce the CBL rate by 25 basis points to 6.75 per cent per annum.

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