Central Bank of Lesotho

Monetary Policy Committee Statement

September 26th 2017

1. The Central Bank of Lesotho Monetary Policy Committee (MPC) held its 67th meeting on the 26th September 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 be on a recovery path despite the recent geopolitical risks. The positive performance in advanced economies emanated mainly from the United States (US) and the Euro Area. Economic activity in Japan remained subdued while the growth in the United Kingdom (UK) has slowed amid Brexit prospects. Economic growth rates in the emerging markets remained strong with the Chinese economy growing at 6.9 per cent in the second quarter of 2017. The monetary policy stance in both advanced and emerging markets economies continued to remain generally accommodative.

3. The economic performance in our neighbouring country, South Africa, emerged from a technical recession in the second quarter of 2017. South Africa's economic growth was recorded at 2.5 per cent in June 2017 compared with a contraction of 0.7 per cent registered both in December 2016 and March 2017. The positive growth was driven largely by performance in the agriculture and mining sub-sectors. However, the growth prospects remained subdued due to low business confidence.

4. Lesotho's economic performance is estimated to recover over the period 2017 – 2019. The improvement is expected to emanate largely from the performance in the primary sector (particularly the mining sub-sector). The improvement is mainly due to increased production by two of the biggest diamond mines. The secondary sector is expected to contract in the medium-term due to completion of

construction activities in some mining plants. Nevertheless, the commencement of advanced infrastructure relating to Phase II of the Lesotho Highlands Water Project is expected to contribute positively to the sector.

5. The year-on-year consumer inflation rate registered 5.4 per cent both in July and August compared with 5.0 per cent recorded in June 2017.The acceleration in overall inflation is amid an increase in ‘food and non-alcoholic beverages’ category, despite falling food prices across the Southern African region.

6. The overall money supply increased by 0.6 per cent and 0.9 per cent in June and July, respectively, compared with a higher increase of 10.9 per cent registered in March 2017. The increase between June and July was attributable to a moderate rise in overall banking system net foreign assets and net domestic claims. Private sector credit extension growth decelerated between June and July 2017. It grew by 0.03 per cent in July compared with 1.59 per cent in June.

7. The external sector position improved during the review period. The current account deficit narrowed from 8.6 per cent of GDP registered in March to 8.2 per cent of GDP in June. This was due to a rise in returns on portfolio investments abroad, coupled with an increase in SACU receipts. Official reserves coverage fell to 4.4 months of import cover at the end June from 4.9 months in March, as a result of increased import bill.

8. Government budgetary operations registered a deficit equivalent to 1.4 per cent of GDP during the quarter ending in June 2017 compared to the deficit of 8.4 per cent in the quarter ending in March 2017. The 2017/18 National Budget proposes a lower fiscal deficit equivalent to 7.0 per cent of GDP for the current fiscal year, compared to the revised estimated deficit of 10.6 per cent realised in 2016/17.

9. In summary, there are mixed signals with regard to the performance of the domestic economy. The positive performance emanated from the primary and tertiary sectors, while the secondary sector registered negative growth. Downside risks remain on the level of reserves. As such, the Committee will continue to monitor developments in areas 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$635.00 million to US$700 million.
2) Maintain the CBL rate at 6.75 per cent per annum.

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