Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

November 28th 2017

1. The 68th meeting of the Central Bank of Lesotho's Monetary Policy Committee (MPC) was held on the 28th November 2017 to consider developments that may impact the macroeconomic environment. The Committee analysed global, regional, and domestic economic trends; and the financial markets conditions with a view to determining monetary targets adequate to ensure macroeconomic stability.

2. Global economic activity maintained upward trend observed during the previous MPC sitting. The United States (US), Japan and the Euro zone recorded positive growth during the third quarter of 2017. Similarly, emerging markets remained resilient in the quarter under review. While inflationary pressures eased in advanced economies, they were elevated in emerging market economies. As a result, the monetary policy stance remained largely accommodative.

3. The South African economy sustained recovery following the technical recession observed in the fourth quarter of 2016 and the first quarter of this year. However, the growth outlook remains subdued. Furthermore, the recent downgrade of the South African credit rating may negatively affect both the consumer and business confidence. While inflation is within the target band, there are pressures arising from the oil price and exchange rate.

4. Domestic economy displayed positive performance during the third quarter of 2017 due to increased output from the mining subsector. However, the secondary sector's performance showed mixed signals, with declines observed in manufacturing and water subsectors, while there were improvements within the

electricity and construction subsectors. Growth in the tertiary sector was estimated to have slowed down during the period.

5. In terms of the outlook, domestic economic growth is expected to recover over the period 2017 – 2019, largely supported by moderate growth expected in the services sector and a rebound in primary sector, with both the mining industry and construction expected to drive growth.

6. The year-on-year consumer inflation rate was registered at 5.4 per cent in October 2017. This compares favourably to 5.6 per cent recorded in September 2017. The deceleration in overall inflation follows the observed trend across the Southern African region.

7. Money supply increased by 8.5 per cent in September 2017, compared to an increase of 0.7 per cent realised in June 2017. The rise in money supply was due to a 13.3 per cent surge in domestic claims, coupled with a 4.2 per cent increase in net foreign assets. Credit to private sector grew by 3.8 per cent during the third quarter of 2017, compared with a lower 1.3 per cent recorded in the second quarter. This follows an improvement in credit extended to households that offset a fall in credit to business enterprises.

8. The external sector position improved during the review period. The current account deficit narrowed to 3.1 per cent of GDP in the third quarter, from a revised 7.9 per cent of GDP recorded in the second quarter. The improvement in the current account was largely on account of an increase in exports during the quarter. However, a slowdown in the primary and secondary income offset the smaller current account deficit, thereby slightly reducing the official reserves from 4.4 months of import cover realised in June, to 4.3 months in September 2017.

9. Government budgetary operations were estimated to have registered a deficit equivalent to 7.1 per cent of GDP in the third quarter of 2017, in contrast to a 1.6 per cent recorded in June. This was largely driven by payments of expenses related to general elections held in June, coupled with infrastructure related expenses, and domestic interest payments.

10. In conclusion, the Committee notes positive growth in developed and emerging markets economies, which are likely to consolidate strengthening of the

domestic economy. However, the Committee will continue to monitor developments that may impact on the NIR level.

Having considered the above developments, the MPC decided to:

1) Increase the NIR target floor from US$700 million to US$745 million.
2) Maintain the CBL rate at 6.75 per cent per annum.

M.P. Makhetha (PhD)
ACTING GOVERNOR

Contact Person:
Ephraim Moremoholo
+266 22232094
emoremoholo@centralbank.org.ls