



Central Bank Of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

May 28, 2019

1. The Central Bank of Lesotho Monetary Policy Committee (MPC) held its 77th meeting on the 28th May 2019. In pursuit of the Central Bank of Lesotho's (CBL) primary mandate of maintaining price stability, the Committee considered international, regional and domestic economic developments and financial markets' conditions, to determine appropriate monetary policy action.
2. The global economic outlook for 2019 has remained relatively moderate, in line with the slowdown in growth momentum in most of the advanced economies in the first quarter of 2019. Output growth increased moderately in all the advanced economies, except the Euro Area, where it remained unchanged from the previous quarter's level. Unemployment rates declined moderately in all the advanced economies except Japan, which experienced a small increase during the first quarter of 2019. The global economic outlook is subject to several downside risks, emanating from the changing global trade landscape characterised by tariff increases, continuing trade tensions between China and the United States, uncertainty surrounding the Brexit, geo-political tensions and other country-specific factors.
3. Inflation rates remained low in advanced economies, despite increasing in April 2019. The monetary policy stance remained accommodative across advanced and emerging market economies, with major economies keeping their policy rates unchanged from December 2018 to April 2019, except India, which reduced its policy rate in April 2019.

4. In South Africa, economic growth is anticipated to have decelerated in the first quarter of 2019. Electricity supply disruptions experienced during the quarter are expected to have impacted negatively on production in a number of sectors including the retail, mining and manufacturing sectors. Additional negative pressure on economic activity emanated from social and labour unrests. The annual rate of headline inflation, measured by changes in the consumer price index (CPI) for all urban areas, decelerated to 4.4 per cent in April 2019 from 4.5 per cent in December 2018. Risks to the inflation outlook were evenly balanced.
5. The domestic economic activity increased marginally in March 2019 relative to the previous month. The CBL measure of economic activity indicated that output grew by 1.2 per cent in March 2019, compared with an increase of 1.1 per cent in February 2019. Economic activity was mainly supported by domestic demand. Regarding labour market developments, employment by the LNDC-assisted firms declined further by 1.0 per cent on an annual basis, in the first quarter of 2019 compared with a fall of 2.2 per cent in the fourth quarter of 2018. In addition, the number of Basotho migrant workers in the South African mining industry continued to fall.
6. The inflation rate, measured by year-on-year percentage change in the consumer price index (CPI), accelerated to 5.6 per cent in April compared with 5.2 per cent in March 2019. The major contributors to the observed acceleration included *food and non-alcoholic beverages; clothing and footwear; housing, water, electricity and gas; and transport*.
7. Money supply, as measured by M2, fell by 2.0 per cent in the first quarter of 2019, in contrast to an increase of 2.2 per cent in the fourth quarter of 2018. The decrease was attributed to a decline in net foreign assets, which outweighed the growth in domestic claims. Private sector credit continued on an upward trend, despite decelerating in March 2019.
8. The external sector position improved in the first quarter, boosted by surpluses in both the current and the capital and financial accounts. Consequently, gross international reserves rose to 4.5 months of import cover from 4.2 months observed in the fourth quarter.

9. On the fiscal front, a deficit of 7.2 per cent of GDP was recorded in the first quarter of 2019, following a smaller surplus of 0.9 per cent of GDP in December 2018. The large deficit during the review period was consistent with the end-of-fiscal-year budget operations, with spending increases that are not matched by revenue collection. Lesotho's fixed exchange rate system under the Common Monetary Area of Southern Africa (CMA) requires a healthy fiscal position to support maintenance of the exchange rate parity.
10. In summary, the global economic activity was moderate and the growth momentum has slowed. Domestically, growth remains sluggish, while inflationary pressures, driven mainly by supply side factors, warrant close monitoring. Risks to the domestic outlook include exposure to global economic developments, subdued consumer demand and low production capacity.
11. Having considered the above developments, the MPC decided to:
- i. Reduce the net international reserves (NIR) target floor from US\$765 million to US\$755 million.
 - ii. Maintain the CBL rate at 6.75 per cent per annum.
12. The Committee will continue to monitor the global developments and their likely impact on domestic macroeconomic conditions, especially the CBL NIR, with the aim of taking corrective action when needed.

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