



Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

November 26, 2019

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held its 80th meeting on the 26th November 2019. During this meeting, the Committee considered international, regional and domestic economic developments and financial markets' conditions, to determine monetary policy action that is appropriate for executing the CBL's primary mandate of maintaining price stability.
2. The global economic activity exhibited a broad-based slowdown in the third quarter of 2019. Growth weakened in both advanced and emerging market economies on account of softer trade and investment, as well as, manufacturing output, despite resilient consumption and services sector output in advanced economies. However, downside risks to the global economic outlook remain elevated and generally emanate from trade and geo-political tensions and other country-specific factors.
3. While global inflation rates remained low, inflationary pressures were mixed in advanced economies. The US registered a slight increase in the rate of inflation although the Euro Area, Japan and the UK experienced decelerations. The monetary policy stance remained accommodative across advanced economies, with the US cutting its key policy rate twice in the third quarter while policy rates remained unchanged in the Euro area, Japan and UK.
4. In emerging market economies, economic activity indicators were mixed in the third quarter of 2019, but generally pointed to weakened growth. China's economic growth slowed to 6 per cent, following a 6.2 per cent growth in the second quarter.

In South Africa, low business confidence undermines growth prospects in the medium term while risks to long-term growth emanate largely from structural challenges. The annual rate of headline inflation, measured by changes in the consumer price index (CPI) for all urban areas, was recorded at 3.7 per cent in October 2019.

5. The domestic economic activity picked up slightly in the quarter ending September 2019. The CBL measure of economic activity indicated that output had increased at a rate of 0.3 per cent in the third quarter compared with a 1.0 per cent contraction in the preceding period. This was mainly at the back of improved consumer demand, while the supply side remained weak. In the labour market, employment by the LNDC-assisted firms declined further in the third quarter on account of lack of orders for some of the bigger firms.
6. The inflation rate, measured by year-on-year percentage change in consumer price index (CPI), declined from 5.1 per cent in September 2019 to 4.9 per cent in October 2019. The major contributors to this position were *Food and non-alcoholic beverages, Housing, electricity, gas and other fuels and Recreation and Culture*. However, risks to inflation outlook remain, emanating from the prevailing drought conditions.
7. Money supply, as measured by M2, increased by 7.3 per cent in the third quarter of 2019 following a decline of 2.1 per cent in the second quarter. This was as a result of an increase in both net foreign assets and net domestic claims. Private sector credit continued on an upward trend, increasing by 7.1 per cent in September 2019.
8. The external sector position worsened in the third quarter, on account of a widening trade account deficit despite an improvement in the primary and secondary income accounts. Consequently, gross international reserves fell to 4.2 months of import cover from 4.5 months in the second quarter.
9. Government operations culminated in a fiscal deficit of 3.4 per cent of GDP in September 2019, largely as a result of higher government spending that outstripped a marginal increase in government revenues. The deficit was financed by a drawdown of government deposits as well as issuance of government securities.

10. In summary, the global economic activity weakened, with heightened risks in the third quarter of 2019. Domestically, growth was weak, while consumer price inflation decelerated in October 2019. Risks to the domestic economic outlook include exposure to global economic developments, weak domestic economic activity on the back of structural rigidities and policy uncertainty.

11. Having considered the above developments, the MPC decided to:

- i. Increase the NIR target floor from US\$720 million to US\$790 million.
- ii. Maintain the CBL rate at 6.50 percent per annum.

12. The Committee will continue to monitor the global developments and their likely impact on domestic macroeconomic conditions, especially the CBL net international reserves (NIR), with the aim of taking corrective action when needed.

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