



Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

January 28, 2020

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held its 81st meeting on the 28th January 2020. 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. Global economic activity was expected to stabilise in the fourth quarter of 2019. Following a broad-based slowdown in the previous quarter, economic growth in the fourth quarter was stimulated in part by accommodative monetary policy and expansionary fiscal policy in the first half of 2019 in some countries, including China and the US. In addition, there are signs that factors responsible for weak manufacturing and trade have abated. In contrast, labour markets in advanced economies remained buoyant, with unemployment rates in some cases at historically low levels. However, downside risks to the global economic outlook remain prominent and emanate mainly from trade and geo-political tensions, and other country-specific factors.
3. Inflationary developments were mixed in advanced economies. In the US, the Euro Area and Japan, rates of inflation increased, while the UK experienced a decrease. The monetary policy stance remained accommodative across advanced economies, with the US cutting its key policy rate and other countries keeping rates on hold in the fourth quarter of 2019.

4. Economic activity in emerging market economies, including China and South Africa, has remained relatively low. China's economic growth increased by 6 per cent in the fourth quarter of 2019. In South Africa, low business confidence continues to undermine growth prospects in the medium term, while risks to long-term growth emanate largely from structural challenges. The annual rate of headline inflation in South Africa, measured by changes in the consumer price index (CPI) for all urban areas, was recorded at 4 per cent in December 2019, up from 3.6 per cent in November 2019.
5. Domestically, economic growth remained weak. According to the CBL measure of economic activity, the economy grew by 0.1 per cent in November, the same rate as recorded in October 2019. The sluggish economic performance was attributed to the generally weak supply side. In the labour market, employment by the LNDC-assisted firms declined further in the third quarter, consistent with lower demand for some of the large firms' products in the overseas markets.
6. The rate of inflation, measured by year-on-year percentage change in consumer price index (CPI), increased from 4.6 per cent in November 2019 to 4.8 per cent in December 2019. The major contributors to this position include *Food and non-alcoholic beverages, Clothing and footwear, Housing, electricity, gas and other fuels*.
7. Money supply, as measured by M2, increased by 0.3 per cent in the quarter ending December 2019, following an increase of 7.3 per cent in the previous quarter. The increase was driven by net foreign assets despite a decline in net domestic claims. Private sector credit decreased by 1.9 per cent in December 2019, compared to an increase of 7.1 per cent in September 2019.
8. The external sector position worsened in the third quarter, on account of a widening current 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 balanced budget for the month of December 2019.

10. In summary, the global economic activity is expected to stabilise. However, downside risks to global economic outlook continue to be prominent, including geo-political and trade tensions. Domestically, growth has remained subdued. Risks to the domestic economic outlook include exposure to international developments and domestic structural rigidities and policy uncertainty.

11. Having considered the above developments, the MPC decided to:
 - a) Decrease the NIR target floor from US\$790 million to US\$630 million.
 - b) Decrease the CBL rate from 6.50 percent per annum to 6.25 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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