



Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

May 24, 2021

1. The Central Bank of Lesotho's (CBL's) Monetary Policy Committee (MPC) is committed to conducting monetary policy with the sole purpose of maintenance of macroeconomic stability. The Committee held its 89th meeting on May 24, 2021 to determine the adequacy of monetary targets and decide on a suitable policy stance. In the meeting, the Committee considered international, regional and domestic economic developments as well as financial markets' conditions.
2. Since the 88th MPC meeting of March 21, 2021, the global economy has shown some signs of recovery. This has largely been underpinned by steady gains in vaccinations, sizeable fiscal stimulus packages and a general pickup in global demand. Despite the improvements, global growth prospects in the near-term remain highly uncertain and uneven across countries. Growth remains vulnerable to new mutations of the virus, vaccine availability and lack of uniformity in rates of country vaccinations. Further downside risks include global trade tensions, limited policy space and possible tightening of containment measures as infections rise.
3. The International Monetary Fund (IMF) World Economic Outlook report of April 2021 revised up the 2021 global gross domestic product (GDP) forecasts to 6 per cent, from the 5.5 per cent forecast in January 2021. Similarly, growth in the sub-Saharan Africa region is expected to accelerate by 3.4 per cent in 2021, an upward revision of 0.2 per cent from the January 2021 forecast. Global economic activity improved during the first quarter of 2021, although in a manner that was uneven across countries. US real GDP increased at the annual rate of 0.4 per cent in the first quarter of 2021, following a decline of 2.4 per cent in the quarter ending December 2020.

4. In the Euro Area, real GDP contracted by 1.8 per cent in the first quarter, after a decline of 4.9 per cent in quarter four of 2020. Japan's real GDP fell by 1.3 per cent in the first quarter of 2021, following growth of 2.8 percent in the previous quarter. The first quarter real GDP in the UK contracted by 6.1 per cent annually, a slight improvement from a decline of 7.3 per cent in the last quarter of 2020. In emerging market economies, China realized an annual real GDP growth of 18.3 per cent in the first quarter, compared to 6.5 per cent in the fourth quarter.
5. Global labour market developments largely improved during the first quarter of 2021 on account of looser lockdown restrictions, vaccination drives and attempts to return to normalcy. On price developments, inflation rates have generally picked up in the US, UK, Euro Area China, India and South Africa in the first quarter of 2021. The monetary policy stance across advanced economies remained accommodative, with policy rates in the US, the Euro Area and UK kept close to zero.
6. Global financial markets reflected mixed signs of volatility and easing market risk. Yields in emerging markets, especially South Africa, barely changed and remained subdued on the short and long end. However, investors were net buyers of South African assets, with positive risk sentiment outweighing concerns emanating from negative debt developments. The rand is expected to remain range bound, with high downside risks and volatility.
7. The CBL's Quarterly Indicator of Economic Activity (QIEA) reflects that domestic economic activity increased by 0.2 per cent in the first quarter of 2021, relative to a 2.2 per cent growth in the quarter ending December 2020. This was mainly a result of the reintroduction of COVID-19 induced restrictions in the review period. The domestic economic recovery remains largely conditional on developments related to potentially stronger and prolonged rise in virus infections, COVID-19 containment measures and the rollout of vaccines.
8. In the first quarter of 2021, domestic labour market conditions remained weak in all the three sectors that are monitored by the Bank. This was primarily on account of COVID-19 lockdown restrictions. The rate of inflation, as measured by the year-on-year percentage change in consumer price index (CPI), was 6.7 per cent in April 2021, compared to 6.5 per cent in March of the same year. The increase emanated from both food and non- food components of the CPI basket.
9. The broad measure of money supply (M2) declined by 1.3 per cent in the first quarter

of 2021, from an increase of 9.9 per cent in the previous quarter. The decrease was due to a 4 per cent growth in total banking sector net domestic assets, which was moderated by a 0.8 per cent rise in the sector's net foreign assets. Private sector credit extended by banks fell by 0.1 per cent in quarter one, after contracting by 0.5 per cent in the fourth quarter of 2020. Loans and advances extended to business enterprises increased by 1.1 per cent in quarter one, compared to a 3.1 per cent decline realized in the fourth quarter of 2020. Conversely, total credit granted to households fell by 0.5 per cent in quarter one, relative to an increase of 0.5 per cent in the quarter ending December 2020.

- 10.** The current account recorded a surplus equivalent to 1.1 per cent of GDP in the first quarter of 2021, from a deficit of 1.8 per cent of GDP in the preceding quarter. The improvement in the current account was driven mainly by the performance of the trade and income accounts. Consequently, the gross international reserves, as measured in months of import cover, rose to 4.5 months in the first quarter of 2021, compared to 4.3 months in the previous quarter.
- 11.** The Government budgetary operations recorded a fiscal deficit equivalent to 9 per cent of GDP during the first quarter of 2021, as opposed to a revised fiscal surplus of 12.9 per cent of GDP in the last quarter of 2020.
- 12.** In summary, although some signs of recovery are starting to emerge, global economic growth prospects remain uneven and clouded by the uncertainty surrounding possible resurgence of the virus and the roll-out of vaccines at the country level. Domestically, any prospects for growth have to be weighed against existing uncertainties. Risks to the domestic economic outlook include the possible spread of COVID-19 and the effectiveness of the infection control measures, exposure to international economic developments, domestic structural rigidities and policy uncertainty.
- 13.** Having considered the Net International Reserve (NIR) developments and outlook, regional inflation and interest rate outlook, domestic economic conditions and the global economic outlook, the MPC decided to:
 - i. Increase the NIR target floor from US\$720million to US\$800 million. The new NIR target will be consistent with the maintenance of the exchange rate peg between the loti and the South African rand.

- ii. Maintain the CBL rate at a rate of 3.50 percent per annum. The rate, set at this level, will ensure that the domestic cost of funds remains aligned with the rest of the region.

14. 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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