**Central Bank of Lesotho**

**STATEMENT OF THE MONETARY POLICY COMMITTEE**

**July 26, 2022**

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho held its 96th meeting on July 26, 2022. The meeting considered global, regional, domestic economic and financial markets developments.

2. The global economic performance was generally mixed in the first quarter of 2022. Some countries registered growth in GDP, while others recorded a decline. Growth in some economies was attributed to strong consumer and government spending in spite of rising inflation coupled with declining effects of COVID-19 pandemic on economic activity. On the contrary, some economies experienced contraction in economic activity on account of lower consumer spending amid heightened inflationary pressures and lower government spending following winding down of fiscal stimulus.

3. The unemployment rate in most countries improved in the quarter ending in March 2022 following further lifting of COVID-19 related restrictions, labour market related policy support as well as a rise in nominal wages in some economies. Except for Japan and China, most central banks, including the South African Reserve Bank, continued to hike key policy rates to contain rising inflation. In particular, the South African Reserve Bank increased its policy rate by 75 basis points to 5.50 percent in July 2022.

4. The monetary policy normalization in most countries thus resulted in a rise in global short-term yields in both advanced and emerging market economies. Similarly, long-term yields in advanced and emerging economies except China increased. As a result, in South Africa, foreign investors were net sellers of South African bonds and equity.

5. The domestic economic activity is estimated to have grown by 2.1 per cent in May 2022 compared to a growth rate of 1.4 per cent recorded in April 2022. Growth was supported by higher domestic demand while the supply side of the economy slowed. The domestic demand benefitted from improved government consumption during the review month. However, indications are that the production side of the economy slowed.

**6.** In relation to the domestic labour market conditions, there was a slight increase in government employment in March 2022, whereas the number of manufacturing and migrant mineworkers declined. Inflation continued to rise in June 2022. In particular, inflation accelerated from 7.8 per cent in May to 8.8 per cent in June 2022. The 1.0 percentage point increase in inflation was on account of both food and non-food components. The annual inflation rate is expected to remain elevated and record 7.1 per cent in 2022, on account of the ongoing war between Russia and Ukraine.

**7.** The broad measure of money supply (M2) registered a 1.4 per cent increase in May 2022, following a 0.5 per cent decline in April 2022. The total credit extended to private sector grew, albeit at a moderate pace. It grew by 1.4 per cent in April 2022. This followed a 4.5 per cent increase in credit extended to business enterprises coupled with a moderate 0.3 per cent growth in credit extended to the households.

**8.** The current account balance improved in the first quarter of 2022. As a ratio of GDP, it improved from a revised deficit of 4.9 per cent during the last quarter of 2021 to a deficit of 2.7 per cent during the quarter ending in March 2022. This improvement was on account of higher surpluses in both the primary and secondary income accounts. In June 2022, government operations were estimated to have recorded a fiscal deficit equivalent to 1.1 per cent of GDP. The public debt stock rose slightly from 51.2 per cent of GDP in May 2022 to 51.5 per cent of GDP in June 2022.

**9.** In summary, the global economic performance was mixed. Uncertainties in the global financial markets remain elevated. The domestic economy registered a modest growth in May 2022. Similar to the rest of the world, domestic inflationary pressures remain heightened.

**10.** 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. Revise downwards the current NIR target floor of US$810 million to US$720 million. At this level, the NIR target will continue to support broader macroeconomic stability and maintain the peg between the loti and the South African rand.

ii. Increase the CBL Rate by 75 basis points from 4.75 per cent per annum to 5.50 per cent per annum. The rate, set at this level, will ensure that the domestic cost of funds is aligned with the regional money market rates.

**11.** The Committee will continue to monitor closely the economic developments across the globe and how they affect the domestic economy particularly the net international reserves (NIR) and respond appropriately.

**Maluke Letete (PhD)**
**GOVERNOR**

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