Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

September 27, 2022

1. On the 27th September 2022, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho held its 97th meeting. During the meeting, the MPC considered global, regional, and domestic economic developments as well as financial markets developments.

2. On global economic developments, the Committee noted that economic activity in most economies slowed during the second quarter of 2022. This was mainly on account of lower aggregate demand following heightened inflationary pressures. On the contrary, Japan recorded higher GDP growth due to improved consumer and business spending amid relaxed COVID-19 restrictions. In India, higher government spending especially on infrastructure supported improved economic activity.

3. Labour market conditions improved during the second quarter of 2022, despite weaker growth in most economies. Employment was supported by relaxation of COVID-19 restrictions. Central banks continued to tighten monetary policy amid heightened inflationary pressures and there are indications that central banks will continue to hike policy rates to keep inflation under control. The US Federal Reserve and European Central Bank raised their policy rates by 75 basis points in July and September 2022.

4. Short term yields in major markets rose in response to rising inflation rates as well as key policy rate hikes especially by Bank of England and European Central Bank. Similarly, with the exception of China and South Africa, long-term rates also increased during the review period owing to low consumer demand amid high inflation rate.

5. In the foreign exchange market, the value of the rand (loti) was slightly stronger against its three major trading currencies – dollar, euro and the pound – between July and August 2022. The rand was supported by soaring inflation, which heightened prospects for further interest rate hikes. However, since mid-August the rand has come under pressure, partly, from fears of tighter global financial conditions.

6. In South Africa, economic growth slowed in the second quarter of 2022. Real GDP growth rate was recorded at 0.2 per cent following a revised growth of 2.7 per cent a quarter earlier. The slowdown in growth was due to floods in KwaZulu-Natal, which impacted negatively on productivity in agriculture and manufacturing. This was coupled with the high costs of inputs, such as fuel and fertilisers, which added downward pressure on productivity. In addition, the country continued to experience power supply shortages, which dragged productivity in the manufacturing and mining sectors lower.

7. Domestically, economic activity is estimated to have contracted by 2.6 per cent in July 2022 compared to a 3.5 per cent decline recorded in June 2022. This was at the back of poor performance by both the demand and production sides of the economy. Regarding the domestic labour market, both manufacturing and migrant mineworkers recorded job losses during the quarter ending in June 2022. Job losses in manufacturing were due to low external demand from major markets, which led to closure of some factories. The key driver for job losses of migrant mine workers was low production during the review period because of prolonged periods of load shedding in South Africa.

8. Domestic inflationary pressures remain heightened notwithstanding a moderate reprieve realised in August 2022. In particular, domestic inflation rate declined from 9.8 per cent in July to 9.4 per cent in August. Inflation rate is expected to remain high and average around 7.0 per cent in the medium term due to the on-going Russia-Ukraine war.

9. The broad measure of money supply (M2) rose by 4.0 per cent between June and July 2022. The total loans extended to private sector declined by 0.7 per cent in July 2022 compared to a slide improvement of 0.6 per cent in June 2022. This was against the backdrop of a drop in credit extended to both households and business enterprises.

10. Contrary to the first quarter, the domestic current account balance worsened in the second quarter of 2022. The current account recorded a deficit equivalent to 10.8 per cent of GDP during the quarter ending in June 2022 compared to a deficit of 2.7 per cent in the previous quarter. This follows the widening of the goods account deficit coupled with the contraction of the secondary income account. The stock of reserve assets declined by 6.7 per cent to M12.93 billion. As a result, gross official reserves expressed in months of imports cover fell from 5.3 to 5.1 months in the quarter ending in June 2022.

11. In August 2022, government operations registered a deficit equivalent to 7.4 per cent of GDP. The stock of public debt grew slightly from 53.2 per cent of GDP in July 2022 to 53.9 per cent of GDP.

12. In summary, global economic activity generally slowed down. Global financial markets continue to display uncertainties. Domestic economic activity declined, while inflationary pressures remain elevated.

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. ***Revise upwards the current NIR target floor of US$720 million to US$730 million. At this level, the NIR target will be sufficient to maintain the one-to-one exchange rate peg between loti and the South African rand.***

ii. ***Increase the CBL Rate from 5.50 per cent per annum to 6.25 per cent per annum. This will ensure that the domestic cost of funds is aligned with the money market rates in the region.***

14. The Committee will continue to closely monitor the global economic developments and their impact on the domestic economy especially the net international reserves (NIR) and respond accordingly.

E.M. Letete (PhD)
GOVERNOR

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