



# Central Bank Of Lesotho

## STATEMENT OF THE MONETARY POLICY COMMITTEE

April 01, 2019

1. The Central Bank of Lesotho (CBL) Monetary Policy Committee (MPC) held its 76<sup>th</sup> meeting on the 01<sup>st</sup> April 2019. In pursuit of CBL's primary mandate of maintaining price stability, the Committee considered international, regional and domestic economic developments and financial markets' conditions, to determine appropriate monetary policy action.
2. The global economy is expected to slow down in 2019. It is projected to grow by 3.5 per cent in 2019, compared with the estimated 3.7 per cent growth for 2018. This slowdown is expected to result from the carry over into 2019 of slow growth momentum in some of the advanced and emerging market economies experienced in the second half of 2018. Risks to the outlook are tilted to the downside and emanate from trade tensions and uncertainty surrounding ongoing trade negotiations between China and United States, increased volatility in global financial markets, and weaker outlook for some advanced economies, key emerging market and developing economies on account of country-specific factors.
3. Global inflationary pressures have moderated as a result of lower international crude oil prices. A decline in crude oil prices resulted from, among others, increased US oil production. Monetary policy remained broadly accommodative in line with low inflationary pressures.

4. Economic activity in South Africa has remained weak, with a deceleration registered in the fourth quarter of 2018. The main factors behind this sluggish performance included reduced investment spending in fixed capital and a decline in output in some of the major economic sectors including mining and construction. The annual rate of headline inflation, measured by changes in the consumer price index (CPI) for all urban areas, decelerated to 4.1 per cent in February 2019 from 4.5 per cent in December 2018.
5. On the domestic economy front, economic activity increased in January 2019 relative to the previous month. The CBL measure of economic activity indicated that output increased by 0.9 per cent in January 2019, compared with an increase of 0.7 per cent in December 2018. Economic activity was mainly supported by higher domestic demand, while production weakened. On the labour market front, employment by the LNDC-assisted firms declined by 2.2 per cent on an annual basis, in the fourth quarter of 2018. In addition, the number of Basotho migrant workers in the South African mining industry continued to fall.
6. The annual rate of inflation, measured by the change in the consumer price index (CPI) for all items, remained unchanged at 5.0 per cent between January and February 2019. Higher price increases in February than in January were observed in the “*food and non-alcoholic beverages*”, “*clothing and footwear*” and “*transport*” while the rest of the categories moderated. While the Loti displayed mixed performance against the major currencies during the review period, the exchange rate is expected to continue posing upside risks to the inflation outlook.
7. Money supply, as measured by M2, declined by 4.2 per cent in January 2019, in contrast to a 2.2 per cent growth in December 2018 as a result of a fall in both net domestic claims and net foreign assets. Private sector credit continued on an upward trend, although it continued to decelerate in January 2019.
8. The external sector position improved in the fourth quarter, boosted by surpluses in the capital and financial accounts that outweighed the effect of the widening current account deficit. Consequently, gross international reserves rose to 4.5 months of import cover from 4.2 months in the third quarter.
9. Government budgetary operations culminated in a surplus of 5.7 per cent of GDP in January 2019 following a smaller surplus of 0.9 per cent of GDP in December

2018, as revenue increased, boosted by SACU receipts. Lesotho's fixed exchange rate system under the Common Monetary Area (CMA) requires a healthy fiscal position to support maintenance of the exchange rate parity.

10. In summary, the global economic growth momentum is slowing down. Domestically, growth remains subdued, while inflation rate continues to be moderate. Risks to the outlook include exposure to global economic developments, subdued domestic consumer demand, and low production capacity.

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

- a. Increase the NIR target floor from US\$745 million to US\$765 million.
- b. Maintain the CBL rate at 6.75 per cent 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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