Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

30th January 2024

1. On 30th January 2024, the Monetary Policy Committee of the Central Bank of Lesotho held its 105th meeting. The Committee deliberated on the latest global, regional, and domestic economic developments, as well as the developments in the financial markets.

2. The committee noted that global economic projections by the IMF had not changed since October 2023 World Economic Outlook. The global economy continued to recover from the cost-of-living crisis and the effects of the war between Russia and Ukraine. Global growth was expected to slow down from 3.5 per cent in 2022 to 3.0 per cent in 2023 and 2.9 per cent in 2024. Despite this resilience, risks remained tilted to the downside emanating from China's real estate crisis, the possibility of volatile commodity prices because of renewed geopolitical tensions, stubbornly high inflation, and elevated debt levels.

3. Economic activity in selected advanced and emerging market economies was expected to improve in the fourth quarter of 2023. However, growth was expected to remain weak for the euro area and the United Kingdom (UK). Stronger investment and consumer demand were expected to support growth for most selected economies, while persistently high inflation rates and restrictive monetary policies undermined consumer spending in the UK and the euro area. In South Africa, economic activity was expected to be supported by recovery in the mining and manufacturing sectors, despite the country's infrastructure and logistical challenges.

4. Labour markets improved for most of the selected economies except China. This was mainly due to increased hiring activity during the holiday season, with solid employment growth in tourism and retail sectors in the fourth quarter of 2023. Employment in South Africa was boosted by a restoration of economic activity in sectors worst affected by COVID-19. However, declining activity in the mining and manufacturing sectors partly offset the employment gains. In China, the low absorption capacity was contributing to high unemployment.

5. Inflation rates increased in some of the selected advanced and emerging market economies but declined in others in December 2023. The rise in inflation rates was mainly attributed to the increased prices of food and alcoholic beverages and tobacco. In other countries, inflation rates declined mainly due to fuel prices. As a result, a number of major central banks kept their policy rates unchanged. Consequently, long-term and short-term yields fell.

6. Domestic economic activity was estimated to have contracted in November 2023, following a stronger growth in the preceding month. This was mainly due to subdued domestic demand and low activity in the transportation subsector. Nonetheless, growth in the financial sector moderated the overall economic contraction. Construction and services sectors are expected to support growth in the medium term.

7. Headline inflation increased to 7.2 per cent in December 2023 from 6.8 per cent in November 2023. Domestic contributors to the high inflation were food, energy and clothing prices, while the external drivers were the weak exchange rate and renewed geopolitical tensions. The continued weaker loti, volatile commodity prices and the climate-related events present risks to the medium-term inflation outlook.

8. Broad money supply increased in November 2023. This growth was supported by the increase in net domestic assets, largely underpinned by credit extended to households. In contrast, net foreign assets declined in the review period.

9. Government operations registered a deficit equivalent to 5.6 per cent of GDP in November 2023. During the same period, the stock of public debt stood at 59.6 per cent of GDP.

10. In summary, global economic growth slowed down in 2023. Continued risks may challenge growth prospects in the medium term. Despite the contraction in domestic economic activity in the fourth quarter of 2023, growth is projected to improve in the medium term. The rate of inflation increased in December 2023, while upside risks are expected to emanate from currency depreciation and adverse weather conditions in the near term.

11. Having considered the NIR developments and outlook, regional inflation and interest rates outlook, domestic economic conditions and the global economic outlook, the MPC decided to:

    i. ***Increase the NIR target to US$750 from US$710 million. At this level, the NIR target will be sufficient to maintain a one-to-one exchange rate peg between the loti and the rand.***

    ii. ***Maintain the CBL rate at 7.75 per cent per annum.***

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

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