Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

04th June 2024

1. On the 04th of June 2024, the Monetary Policy Committee of the Central Bank of Lesotho held its 107th 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 were updated in the IMF World Economic Outlook for April 2024. The global economy is forecast to grow by 3.2 per cent in both 2024 and 2025. This is expected to be driven mainly by a slight pick-up in growth in advanced economies, which is expected to be offset by a moderate slowdown in emerging markets and developing economies. Risks to growth are expected to emanate from increased volatility in commodity prices, as geopolitical tensions and weather shocks increase, interest rates and public debt levels remain elevated, and China’s real estate sector remains in crisis.

3. Economic activity generally improved among selected advanced and emerging market economies in the first quarter of 2024, except in Japan. The improvement was mainly due to increased consumer and government spending as well as strong services sector performance. Conversely, growth in Japan was negatively affected by the high inflation rate and adverse weather shocks. South Africa's economic performance is expected to have weakened due to an enduring energy crisis and logistical constraints that negatively affected both mining and manufacturing output in the first quarter of 2024.

4. Labour markets conditions in some of the selected economies worsened slightly. The UK unemployment rate rose on the back of long-term health concerns, while the skills mismatch in China raised unemployment rate during the first quarter of 2024.

5. Inflation rates fell in most of the selected economies in April 2024, except in China. The decline in inflation rates in advanced economies mainly reflected falling prices of food and energy, except crude oil. Moreover, weaker demand in the US dampened inflationary pressures, while higher inflation rate in China was driven by stronger domestic demand. In South Africa, declining inflation rate reflected a fall in food prices due to improved supplies and moderated prices of key commodities like meat, rice, and vegetable oils. Despite tapering off, global inflation rates remained persistently high; as a result, most central banks left their policy rates unchanged, except the Bank of Japan, which increased its policy rate.

6. Both long-term and short-term yields in all selected economies fell, reflecting abating inflationary pressures with no sign of policy rate cuts in the near future. The exception was China, where yields rose due to negative sentiments.

7. Domestic economic activity slowed down in the first quarter of 2024, from a stronger expansion in the preceding quarter. This mainly reflected weak consumer demand, coupled with the slowdown in the manufacturing and production sub-sector. Although the financial sector experienced moderate growth, overall growth was dampened by a contraction in construction activity. Lesotho's economy is expected to maintain a moderate growth path over the medium-term at an average of 2.0 per cent.

8. Domestic headline inflation fell to 7.1 per cent in April from 7.4 per cent in March 2024. This mainly reflected the winding down of the price effect of taxes on alcohol and tobacco, introduced in March 2023 and the decline in the cost of building materials. Nonetheless, the rising cost of food, energy, restaurants and hotels maintained upward pressure on inflation. Increased inflationary pressures emanated from adverse weather conditions in Southern Africa, which negatively affected food prices, weak exchange rate and strong global demand for oil.

9. Broad money supply increased in the first quarter of 2024. This mainly reflected increased net domestic assets, which was buoyed by the issuance of treasury bonds. In contrast, net foreign assets fell due to lower placement of assets abroad by commercial banks, which counteracted the effect of higher net domestic assets on money supply. Domestic private sector credit increased, reflecting higher credit extended to the households.

10. Government operations registered a surplus equivalent to 7.5 per cent of GDP in the first quarter of 2024, on account of rand monetary compensation, higher water royalties and increased income tax revenue. Meanwhile, the stock of public debt as a share of GDP declined to 57.4 per cent.

11. The external sector position improved in the first quarter of 2024, mainly as a result of higher water royalties. In turn, the level of foreign reserves increased from M15.04 billion in the fourth quarter of 2023 to M15.20 billion in the first quarter of 2024. The net international reserves (NIR) position is expected to remain robust, bolstered by high SACU receipts and increased water royalties.

12. In summary, global growth is expected to pick up in 2024, with risks to the outlook tilted to the downside. The domestic economy remains weak, while inflationary pressures are abating. Adverse weather shocks and weak exchange rate are expected to negatively affect the inflation outlook. However, the NIR position is expected to remain strong.

13. After evaluating global economic developments and outlook, regional inflation and interest rate trends, domestic economic conditions, and NIR developments, the MPC decided to:

i. ***Decrease the NIR target to US$760 million from US$770 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.***

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

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