Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

26th November 2024

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held its 110th meeting on the 26th of November 2024. The Committee assessed the recent developments in global, regional and domestic economies, as well as developments in financial markets, to guide its policy decisions.

2. Globally, economic performance was mixed in selected economies in the third quarter of 2024. The US, Japan and China slowed down largely due to weaker investment and external demand. In contrast, stronger exports and domestic demand underpinned improved growth in the euro area and the UK. India's growth was expected to expand due to stronger consumer spending. South Africa's growth was expected to be underpinned by stronger mining activity, new orders, and abating inflation pressures.

3. Global growth is forecast to be 3.2 per cent in 2025[1]. This reflects upward revisions for US growth, offset by downgrades in parts of Europe and commodity-exporting nations. Emerging economies, particularly China and India, are expected to bolster global growth through investments in artificial intelligence. However, risks to this outlook include persistent sectoral inflation, escalating geopolitical and trade tensions as well as financial market volatility amid elevated global interest rates.

4. Labour market conditions varied across selected economies in the third quarter of 2024. While the unemployment rate remained stable in the US, UK and China, it declined in the euro area and Japan, reflecting job growth in key sectors and seasonal employment.

5. Inflation rates generally increased in selected economies in October 2024 mainly due to rising energy, food and shelter prices. Nonetheless, the inflation rate declined in South Africa underpinned by lower fuel and food prices. A stronger exchange rate also added to disinflation in South Africa. Most economies across the globe have cut their policy rates during the review period. Both short-term and long-term yields rose for the selected economies. In the euro area, short-term yields fell due to interest cuts.

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[1] Projections from The IMF's World Economic Outlook of October 2024.

6. At the domestic level, the economy was estimated to have contracted by 1.5 per cent in the third quarter of 2024 following a 1.8 per cent expansion in the preceding quarter. This was reflected in the sharp contraction in domestic demand, coupled with the weaker manufacturing sector and construction sectors. Growth is expected to be steady but uneven in the medium term, projected to be 2.4 per cent in 2024 and 2.1 per cent in 2025.

7. The domestic inflation continued to ease in October 2024. This mainly reflected declining prices of fuel and food. The recent appreciation of the rand has also contributed to the decline in the inflation rate. However, relatively high and elevated food prices are expected to remain a risk to the inflation outlook in the near term.

8. The broad money supply declined moderately in the third quarter of 2024, underpinned by a fall in transferable deposits held by the business sector. On the other hand, private sector credit increased primarily driven by banks' lending to households, while credit to business enterprises declined.

9. Government budgetary operations recorded a surplus of 12.7 per cent of GDP in the third quarter of 2024. The surplus stemmed from revenue that, although declining, remained substantially higher than the rising expenditures. Meanwhile, the public debt stock as a percentage of GDP marginally decreased to 54.7 per cent from a revised 55.2 per cent in the previous quarter, attributed to the appreciation of the loti.

10. The external sector maintained a surplus in the third quarter of 2024, driven by increased SACU receipts and water royalties. In turn, the stock of foreign reserves increased, providing 4.7 months of import cover.

11. The CBL's Net International Reserves (NIR) increased by approximately US$110.14 million on the 14th of November 2024, from the position recorded on the 11th of September 2024. The level of reserves has primarily been driven by higher SACU receipts and water royalties in the 2024/25 fiscal year. The NIR position is projected to remain healthy in the near to medium term.

12. In summary, the global economy is expected to demonstrate resilience despite subdued near-term performance. While global inflation is projected to ease, inflation in the services sector remains elevated and persistent. Domestically, growth remains weak but is anticipated to gain momentum in the medium term although driven by one sector (construction) while others remain muted.

13. In light of the above developments, the MPC decided to:

i. ***Increase the NIR target floor to US$770 million from US$750 million, to ensure sufficient reserves for sustaining the one-to-one peg between the loti and the rand.***

ii. ***Lower the CBL rate by 25 basis points to 7.50 per cent per annum, to align with prevailing domestic economic conditions and the broader regional monetary policy environment.***

14. The Committee will continue to monitor global economic developments and their impact on the domestic economy, with a particular focus on the net international reserves and will respond as necessary.

E M Letete (Ph.D)
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Contact Person:
Ephraim Moremoholo
+266 22232094
emoremoholo@centralbank.org.ls