



Central Bank of Lesotho

Monetary Policy Committee Statement

04th April 2017

1. On the 04th April 2017, the Central Bank of Lesotho's Monetary Policy Committee (MPC) held its 64th meeting to determine the monetary policy stance. As it is a norm, the Committee considered international, regional and domestic economic conditions, financial markets conditions, as well as the Net International Reserves (NIR) developments and outlook.
2. Global economic activity experienced a moderate recovery for the quarter ending December 2016. In advanced economies, Japan and the Euro Area registered higher growth. However, performance in the United States (US) economy was slower due to lower government spending and declining exports on the back of a strong dollar. Growth from the Emerging Market Economies (EMEs) was supported by positive economic developments in India and China despite weak performance in South Africa (SA). Monetary policy in advanced and emerging market economies remained generally accommodative to stimulate economic growth during the review period.
3. Quarterly domestic economic activity, measured by the CBL's Economic Activity Indicator (EAI), is estimated to have slowed down in the fourth quarter of 2016. The downturn emanated from the secondary and tertiary sectors. Contractions were observed in the manufacturing, water, trade, other services as well as the government sub-sectors. Inflationary pressures appear to be on a downward trend with inflation falling below 6 per cent in the first two months of the year. The year-on-year consumer inflation rate registered 5.0 per cent and 5.2 per cent in January and February 2017, respectively. This was largely due to the moderation in prices of food and non-alcoholic beverages both in the region and domestically.
4. The broad measure of money supply (M2) expanded by 5.7 per cent in February 2017 compared with a decline of 0.6 per cent in January. The increase was

attributable to a rise in domestic credit as a result of an increase in claims on non-bank financial institutions. Furthermore, central bank liabilities to central government also fell.

5. The revised data on balance of payments indicate that the current account deficit widened to 10.7 per cent of GDP in the fourth quarter of 2016, compared with a revised deficit of 8.0 per cent in the previous quarter. This was driven by an increase in trade account deficit.
6. Gross official reserves in months of imports cover are estimated at 5.1 in the quarter ending in December compared to 5.4 recorded in the preceding quarter. Government budget balance is estimated to have registered a deficit of 6.3 per cent of GDP at the end of December from that of 5.6 per cent in September 2016.
7. In summary, the challenging global economic conditions continue to have a bearing on domestic developments. While the inflationary pressures have been subsiding in the latter part of 2016, inflation is forecast to rise going forward. This is expected to come from increases in administered prices as well as the effects of South Africa's sovereign downgrade. The Committee will continue to closely monitor the global, regional and domestic economic developments and respond accordingly.

Having considered the above developments, the MPC decided to:

- 1) Reduce the NIR target floor from US\$635.00 million to US\$600.00 million.
- 2) Keep the CBL Rate unchanged at 7.00 per cent.

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