



Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

July 23, 2019

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held its 78th meeting on the 23rd July 2019. During this meeting, the Committee considered international, regional and domestic economic developments and financial markets' conditions, to determine monetary policy action that is appropriate for executing the CBL's primary mandate of maintaining price stability.
2. The global economic activity was relatively strong in the first quarter of 2019, amid heightened downside risks and indications of weakening global trade. During the first quarter, output growth in the advanced economies remained relatively strong, mainly driven by robust economic activity in the US. In the second quarter of 2019, the unemployment rate declined moderately in all the advanced economies. Downside risks to the global economic outlook arise from the continuing trade and geo-political tensions and other country-specific factors.
3. Global inflation rates remained low. Inflationary pressures eased in advanced economies with US and the Euro Area registering decelerations while moderate increases were seen in Japan and the UK. The monetary policy stance remained accommodative across the advanced economies, with most countries keeping their policy rates unchanged from March 2019 to date.
4. In emerging market economies, economic growth rates declined in India and South Africa, and remained unchanged in China in the first quarter of 2019. In South Africa, economic growth is expected to rebound in the second quarter of

2019, boosted by the mining and manufacturing sectors. Low business confidence undermines growth prospects in the medium term while risks to long-term growth emanate largely from structural challenges. The annual rate of headline inflation, measured by changes in the consumer price index (CPI) for all urban areas, was recorded at 4.5 per cent in May 2019.

5. The domestic economic activity slowed down in April 2019. The CBL measure of economic activity indicated that output had increased at a lower rate of 1.0 per cent in April 2019 compared with an increase of 1.3 per cent in the preceding month. This was mainly at the back of weak activity in the manufacturing sector of the economy. In the labour market, employment by the LNDC-assisted firms declined further by 1.0 per cent on an annual basis, in the first quarter of 2019 following the decline of 2.2 per cent in the fourth quarter of 2018.
6. The inflation rate, measured by year-on-year percentage change in consumer price index (CPI), declined to 5.6 per cent in June 2019 compared with 5.9 per cent in May 2019. The major contributors to this deceleration were *Food and non-alcoholic beverages, Housing, electricity, gas and other fuels and Transport*.
7. Money supply, as measured by M2, declined by 1.1 per cent in May 2019 following an increase of 1.9 per cent in the previous month. This was as a result of a decline in net foreign assets that outweighed the growth in domestic claims. Private sector credit continued on an upward trend, increasing by 2.1 and 1.6 per cent in April and May 2019, respectively.
8. The external sector position improved in the first quarter, boosted by surpluses in both the current and the capital and financial accounts. Consequently, gross international reserves rose to 4.5 months of import cover from 4.2 months in the fourth quarter.
9. Government operations culminated in a fiscal surplus of 16.9 per cent of GDP in April 2019, largely as a result of SACU transfer received during the month coupled with muted spending that is characteristic of the beginning of the fiscal year. Operations are expected to normalise in the subsequent months with spending expected to pick up as budget implementation gets underway.

10. In summary, the global economic activity remained strong, despite heightened risks. Domestically, growth was weak, while consumer price inflation decelerated in June 2019. Risks to the domestic economic outlook include exposure to global economic developments, weak domestic economic activity on the back of structural rigidities and policy uncertainty.

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

- a) Reduce the NIR target floor from US\$755 million to US\$750 million
- b) Reduce the CBL rate from 6.75 per cent to 6.50 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.

A.R. Matlanyane (PhD)

GOVERNOR

Contact Person:

Ephraim Moremoholo

+266 22232094

emoremoholo@centralbank.org.ls