Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

November 29, 2022

1. On the 29th November 2022, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho held its 98th meeting. During the meeting, the MPC considered global, regional, and domestic economic developments as well as financial markets developments.

2. The Committee noted that global economic activity remains weak due to the lingering effects of COVID-19 and continuing Russia-Ukraine war. The latest World Economic Outlook (WEO), released by the IMF in October 2022, has further revised downwards the projected world output from 6.0 per cent in 2021 to 3.2 per cent in 2022 and a further slowdown to 2.7 per cent in 2023. In addition, the cost-of-living crisis has weakened prospects of economic recovery for most economies.

3. Economic activity slowed for most economies in the third quarter, amidst high inflationary pressures that weighed negatively on aggregate demand. On the contrary, GDP growth in China accelerated further following implementation of various government initiatives meant to support the ailing economy. These measures were meant to curb the effects of COVID-19 and property market crisis that continued to cripple economic activity. GDP growth is expected to slowdown in South Africa as the key sectors of the economy continue to suffer from prolonged load shedding in the country.

4. Even though global economic activity slowed during this period, labour market conditions were broadly stable in many countries. Most countries benefitted from reduced COVID-19 restrictions, while others implemented policies aimed at curbing the high unemployment rate and improving the labour force participation rate. For instance, China reduced unemployment benefits in a move to encourage labour force participation. In addition, increased wages in other countries encouraged more labour force participation.

5. On price developments, inflationary pressures continued to mount in most economies, pushing consumer prices to reach record levels. The high cost of imported goods, resulting from currency depreciation, also continued to exert pressure on consumer prices. With the exception of Japan and China, most Central banks continued to increase interest rates in a bid to curb elevated inflation rates. South Africa, in particular, raised its policy rate by 75 basis points to 7.00 per cent in November 2022.

6. Short-term yields generally rose in advanced and emerging market economies in response to elevated inflationary pressures coupled with tight monetary policy conditions. Long-term yields also rose sharply in major market economies due to, amongst others, the looming global recession. However, in emerging market economies, South Africa and China's long-term yields fell. In China, lower yields resulted from stimulus measures that led to demand for long-term bonds, whereas South Africa's yields closed lower on account of persistent power supply problems. During the third quarter, foreign investors were net buyers of South African equity and bonds.

7. On the domestic front, the indicator of economic activity pointed to a further decline in economic performance. Economic activity is estimated to have contracted by 3.9 per cent following a 0.9 per cent decline in quarter ending in June 2022. Elevated inflationary pressures and supply side bottlenecks continued to weigh down on overall economic activity.

8. The labour market conditions were relatively stable. Both manufacturing and government employment increased in the quarter ending in September, while the number of migrant mine workers declined in the same period. Manufacturing employment rose by 4.7 per cent compared to a 2.3 per cent decline in the preceding quarter, while government maintained a steady growth of 1.3 per cent between the second and the third quarter. Manufacturing, in particular, was supported by resilient exports destined to South Africa.

9. Domestic inflation remains elevated owing to the Russian-Ukraine war, which continues to exert pressure on food and energy prices. Inflationary pressures eased to 8.5 per cent in October from 9.2 per cent in September 2022. This was attributable to a mild contraction in energy and food inflation. Although the inflation rate has been declining in recent months, it is expected to remain high and average around 7.0 per cent in the medium-term.

10. Money supply rose by 5.5 per cent in the third quarter following a 1.9 per cent decline in the second quarter of 2022. The rise in money supply resulted from increased holding of government securities by commercial banks, coupled with an increase in private sector credit. Total credit to the private sector rose by 4.2 per cent in September 2022 following a 2.0 per cent growth in the preceding quarter, reflecting an increase in credit extended to both households and business enterprises.

11. The current account balance improved in the third quarter of 2022. It registered a deficit equivalent to 0.2 per cent of GDP compared to a deficit equivalent to 10.8 per cent in the quarter ending in June 2022. This improvement was largely driven by a contraction of the goods and services account deficit, as exports increased at a much faster pace than imports.

12. Government budgetary operations resulted in a deficit equivalent to 6.9 per cent of GDP in the third quarter of 2022 compared to 0.2 per cent in the previous quarter as government spending outpaced revenue. In the same period, the stock of public debt, rose to 58.2 per cent of GDP, from 54.3 per cent in the previous quarter.

13. In summary, economic activity generally slowed for most economies. The WEO has projected further weakening of the global economic activity as many economies remain weak due to the lingering effects of COVID-19 and continuing Russia-Ukraine war. High inflationary pressures continue to weigh negatively on aggregate demand. Uncertainties around the global financial markets remain elevated. The domestic economy remains weak as reflected by the decline in the indicator of economic activity. Heightened inflationary pressures continue to prevail.

14. Having considered the Net International Reserve (NIR) developments and outlook, regional inflation and interest rate outlook, domestic economic conditions and the global economic outlook, the MPC decided to:

i. ***Revise downwards the current NIR target floor of US$730 million to US$650 million. At this level, the NIR target will be sufficient to maintain a one-to-one exchange rate peg between Loti and the South African Rand.***

ii. ***Increase the CBL Rate from 6.25 per cent per annum to 7.00 per cent per annum.***

15. 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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