



Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

24th September 2024

1. The Monetary Policy Committee of the Central Bank of Lesotho held its 109th meeting on the 24th of September 2024. The Committee deliberated on the latest global, regional, and domestic economic developments, as well as the developments in the financial markets.
2. In the second quarter of 2024, economic activity improved in most advanced and emerging markets. The U.S., euro area, U.K., and India experienced growth driven by domestic demand and industrial output. In contrast, growth in China slowed down due to stringent lending policies and challenges in the real estate sector. South Africa also realised slower growth, primarily due to reduced industrial output. However, Japan's economy contracted due to weaker external demand. The global growth outlook is expected to align with IMF's July 2024 projections, with growth at 3.2 per cent in 2024 and 3.3 per cent in 2025. Risks to this growth include escalating political tensions, increased policy uncertainty, the expansion of trade restrictions and rising levels of public debt.
3. In August 2024, labour markets conditions displayed notable variation across regions. The rise in the unemployment rate in the U.S. was driven by temporary layoffs and an increase in the labour force participation rate. Unemployment rates also increased in Japan, China and South Africa. Conversely, the euro area and the UK recorded falling unemployment rates, primarily due to economic recovery efforts.
4. Inflation rates generally declined in selected economies in August 2024, mainly due to declining energy costs. Accordingly, central banks started cutting policy rates, between July and September 2024, which led to the decline in both long-term and short-term bond yields. In China, yields fell due to a stimulus package aimed at boosting the domestic economy.
5. The domestic economy grew modestly in July 2024, following a contraction in June 2024. This was driven by stronger economic activity in the construction, transport and services subsectors, despite weak demand and subdued manufacturing. In the near term, Lesotho's economic growth is projected to improve as several key projects gain momentum. These

include the Lowlands Water Development Project, the Lesotho Highlands Water Project (LHWP) and the horticulture initiatives under the Millennium Challenge Corporation (MCC) supported projects.

- 6.** Domestic headline inflation eased to 6.0 per cent in August 2024, from 6.7 per cent in July. This decline was mainly attributed to moderation in prices for education, transport, and clothing and footwear. However, food prices rose reflecting higher demand relative to constrained supply. Despite recent currency appreciation, the weak exchange rate continues to pose a risk to the inflation outlook. The inflation rate is projected to average 5.5 per cent in 2025 and 5.0 per cent in 2026.
- 7.** Money supply (M2) declined in July 2024 compared to a modest increase in the preceding month. This mainly reflected the decline in transferable and fixed-time deposits held by the business sector. Credit to the private sector grew marginally mainly benefiting business enterprises.
- 8.** Government budgetary operations resulted in a surplus equivalent to 24.4 per cent of GDP in July 2024. Meanwhile, the public debt stock as a percentage of GDP increased slightly to 55.2 per cent, from a revised 54.9 per cent in the previous month.
- 9.** The external sector continued to record a surplus in the second quarter of 2024, supported by increased receipts from the Southern African Customs Union (SACU) and water royalties. The stock of foreign reserves remained stable, providing 5.5 months of import cover, maintaining a strong buffer for external stability.
- 10.** The CBL's Net International Reserves (NIR) decreased by approximately US\$79.95 million to US\$952.42 million on the 11th of September 2024, from US\$1032.37 million on the 16th of July 2024. The decline was primarily driven by increases in the commercial banks' foreign investment holdings and the need to fulfil foreign payment obligations by Lesotho nationals.
- 11.** The global economy is expected to remain resilient in 2024, despite risks. While inflation is expected to ease globally, sticky services inflation remains an upside risk to the outlook. Domestically, growth was modest in July 2024, but it is expected to gain momentum in the coming months.

12. The Monetary Policy Committee (MPC) has concluded that global and domestic economic conditions have remained broadly stable since the last meeting in July. Moreover, developments in the money supply and exchange rate suggest that the current level of net international reserves is sufficient to sustain exchange rate parity. However, a moderate adjustment may be necessary over the medium term to ensure ongoing stability. Therefore, the MPC decided to:

- i. ***Lower the NIR target floor to US\$750 million from US\$760 million. This will ensure sufficient reserves to sustain the one-to-one peg between the Loti and the Rand.***
- ii. ***Maintain the CBL rate at 7.75 per cent per annum, in alignment with prevailing domestic economic conditions and the broader regional monetary policy environment.***

13. The Committee will continue to closely monitor global economic developments and their impact on the domestic economy, particularly the NIR and respond accordingly.

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