Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

April 14, 2020

1. The Monetary Policy Committee (MPC) of the Central Bank of Lesotho (CBL) held an extraordinary meeting on the 14th April 2020. During this meeting, the Committee considered developments since its last meeting held on March 23 2020.

2. Since the MPC's last meeting in March, the global spread of the coronavirus has continued to have devastating effects across the world, more especially on major and developing economies. According to the International Monetary Fund's (IMF's) April 2020 World Economic Outlook (WEO), global economic growth is expected to contract by 3 per cent in 2020, compared to an earlier projection of 3.3 per cent growth in January 2020. This expected decline in global growth will be much worse than the downturn experienced during the 2008-09 financial crisis. Similarly, growth in sub-Saharan Africa is expected to decline by 1.6 per cent in 2020.

3. Advanced economies, including the United States (US) and the European Union (EU), are expected to contract by 6.1 per cent in 2020. Specifically, the US and the EU are expected to decline by 5.9 per cent and 7.5 per cent in 2020, respectively. In China, economic growth is expected to register 1.2 per cent while growth in South Africa is expected to decline by 5.8 per cent in 2020.

4. Global financial markets have been characterised by high volatility and flight of capital to safety. Yields in emerging markets, especially South Africa have been rising on the long end and sliding on the short end. The expected result is further deprecation in the exchange rate.

5. In response to these developments, major central banks have taken measures aimed at providing market liquidity, supporting affected borrowers and offering regulatory relief. On the fiscal policy side, a number of governments have introduced stimulus packages to mitigate the impact of the shock on the affected households and businesses.

6. The domestic economy is set to suffer a major blow from the pandemic. Given measures put in place to stem the virus outbreak, economic activity is expected to contract by 3.1 per cent. The key sectors that are likely to be affected are mining with a decline of 13.4 per cent, construction with 10.2 per cent decline and textiles with a 14 per cent decline. These developments are expected to have a significant negative impact on employment. Inflation was recorded at 4.2 per cent in February 2020, in contrast to 4.1 per cent in January 2020. Upward pressures on inflation are likely to persist in the medium term given negative supply shocks and a depreciating local currency. Food prices are likely to increase as a result of supply side disruptions. A soft global demand could prolong the decline in global commodity prices like oil, this is despite a commitment by global oil producers to cut the global oil supply.

7. In the banking sector, the low business activity is likely to increase credit risk as borrowers struggle to meet loan repayment schedules, and result in high non-performing loans.

While this would ordinarily lead to tighter financing conditions, the CBL has taken steps to ease financing conditions.

8. In Q4 2019, the stock of foreign reserves registered 4.3 months of import cover, up from 4.2 months of import cover in September 2019. This was the result of a reduction in import bills during the period under review.

9. Against the backdrop of these developments, domestic economic outlook is expected to remain fragile in the short to medium term. Growth is expected to be lower than the Bank's forecast of -3.1 per cent and 4.7 per cent in 2020 and 2021, respectively. The fiscal position is expected to remain under pressure as government responds to the pandemic.

10. Having considered these developments, the MPC decided to:

    Maintain the NIR target at US$660 million.

    Reduce the CBL rate by 100 basis points from 5.25 per cent to 4.25 per cent per annum.

11. Given the highly uncertain global and economic outlook, the MPC shall continue to monitor the developments closely and respond accordingly.

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