



## **CENTRAL BANK OF LESOTHO**

### **STATEMENT OF THE MONETARY POLICY COMMITTEE**

27 March 2026

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho met to assess global and domestic economic developments and to determine the appropriate monetary policy stance consistent with maintaining price stability, safeguarding external reserves, and supporting sustainable economic growth.

The global economic environment remains highly uncertain, characterised by elevated geopolitical tensions, uneven growth prospects, and evolving financial conditions. Since the previous MPC meeting, the greatest new risk has been the conflict in the Middle East that triggered the closure of the Strait of Hormuz. This caused shipping traffic through the Strait to fall significantly, resulting in a major global supply shock. As a result, international crude oil prices rose by nearly 50 per cent since December 2025. These developments mark a shift in the global outlook from a disinflationary trajectory to rising stagflation risks.

Amid the heightened global uncertainty, major central banks, such as the US Federal Reserve and the European Central Bank, therefore adopted cautious stances by holding policy rates unchanged in March 2026. The IMF noted that an increase in oil prices, if persistent, would result in an upsurge in global headline inflation and a consequent fall in global output. Against this backdrop, the IMF projects global growth at 3.3 per cent in 2026, though significant downside risks may emanate from the conflict. Global markets faced heightened stress, marked by rising bond yields, elevated volatility, and a broad weakening of emerging market currencies, including the South African rand, against the US dollar.

In the Common Monetary Area (CMA), the South African Reserve Bank's (SARB's) growth projections for South Africa (SA) remained broadly unchanged at around 2.0 per cent in the near term. Nonetheless, the ongoing war presents downside risks to this outlook. SA's headline and core inflation rates were 3.0 per cent in February 2026. This was mainly supported by a strong rand against the US dollar and falling energy prices. However, higher energy prices because of the ongoing war are likely to raise inflation in the near term. Consequently, the SARB maintained its repo rate at 6.75 per cent per annum, reflecting a cautious approach amid global uncertainty.

On the domestic front, Lesotho's external position remains strong. Net International Reserves (NIR) stood at US\$1,125 million as of 18 March 2026, which is 30.9 per cent above the minimum threshold, with import cover of 4.3 months. Fiscal policy, which often exerts pressure on reserves and the external sector, has remained contained, contributing positively to the preservation of reserve buffers under Lesotho's fixed exchange rate regime. International reserves are expected to remain broadly stable, with the near-term NIR outlook pointing to reserves above target through September 2026. However, risks remain, including rand depreciation and US tariff threats to textile exports.

Domestic headline inflation moderated to 2.7 per cent in February 2026, down from 3.4 per cent in January, reflecting broad-based easing in food and transport prices. Food prices eased on improved cereal harvests, while transport inflation declined in line with lower international crude oil prices prior to the conflict. The medium-term inflation outlook has, however, been revised upwards, given risks from the oil price shock, potential El Niño conditions in 2027, and exchange rate volatility.

The Composite Indicator of Economic Activity (CIEA) showed modest growth of 1.5 per cent in January 2026, following a 4.3 per cent expansion in December 2025. The expansion was underpinned by strong domestic demand and improved financial services activity, but these gains were partially offset by contractions in the construction and transport subsectors. Over the medium term, growth remains subdued. Private sector credit expanded in January 2026, with annual growth of 12.8 per cent. However, credit growth is projected to decelerate to 4.6 per cent by 2028, reflecting lower investment demand as construction under Phase II of the Lesotho Highlands Water Project (LHWP II) winds down. Risks to growth may emanate from external spillovers and persistent structural constraints in the economy.

After carefully considering the balance between maintaining external stability and supporting domestic economic activity, the MPC noted the following:

- Strong reserve buffers, with NIR 30.9 per cent above the minimum threshold.
- External conditions, while increasingly uncertain, do not currently necessitate a defensive policy response.
- Inflation remains broadly contained; however, there are risks of higher-than-expected inflation arising from anticipated increases in global energy prices, which would raise fuel and transport costs and may feed into broader price pressures. Domestic economic conditions remain weak, with the economy operating below potential; therefore, caution is warranted against an overly restrictive policy stance.

Therefore, the MPC decided to **maintain the CBL policy rate at 6.50 per cent per annum.**

At this level, the Committee noted that it is appropriate to maintain a modest negative interest rate differential of between 0 and 50 basis points relative to the SARB repo rate of 6.75 per cent. This is intended to sustain the exchange rate peg and, consequently, support domestic economic activity.

The MPC will continue to closely monitor global developments, particularly the evolution of the Middle East conflict and its implications for energy prices, inflation, and capital flows, alongside domestic inflation dynamics and the evolution of the external position. Future policy decisions will remain data-dependent and guided by the need to safeguard reserves and preserve macroeconomic stability.

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