CENTRAL BANK OF LESOTHO

STATEMENT OF THE MONETARY POLICY COMMITTEE

24 September 2026

The Monetary Policy Committee (MPC) of the Central Bank of Lesotho met on 24 September 2026. The Committee assessed global and domestic economic developments to determine the appropriate policy stance consistent with maintaining price stability, safeguarding external reserves and supporting sustainable economic growth.

The global environment has become more uncertain since the last MPC meeting. The renewed escalation of the conflict in the Middle East, together with attacks on energy infrastructure in Russia, pushed crude oil prices back above US$100 per barrel, while shipping through the Strait of Hormuz remains severely disrupted.

Against this backdrop, global growth is projected to slow to 3.0 per cent in 2026 before recovering to 3.4 per cent in 2027. Downside risks to growth include further escalation of the conflict, trade fragmentation and a strong El Niño. Global headline inflation is projected to rise to 4.7 per cent in 2026 from 4.1 per cent in 2025 as higher energy, fertiliser and transport costs push up prices. Inflation is expected to ease in 2027.

Consequently, major central banks have turned more restrictive. The US Federal Reserve, the European Central Bank and the Bank of Japan raised their policy rates. Meanwhile, global financial conditions tightened as bond yields rose, and portfolio flows to South Africa were volatile.

In South Africa, economic activity contracted modestly in the second quarter of 2026, although a recovery is expected in the second half of the year. Growth is projected at 1.2 per cent in 2026 and medium-term growth at around 2.0 per cent. Headline inflation increased to 4.4 per cent in August 2026 from 4.3 per cent in the preceding month. Against this backdrop, the South African Reserve Bank raised its policy rate by 25 basis points to 7.25 per cent per annum.

Lesotho's external position remains adequate to support the exchange-rate peg. Net international reserves (NIR) stood at US$1,209 million on 18 September 2026, representing a buffer of US$139 million above the target floor of US$1,070 million. Import cover stood at 5.6 months in the second quarter of 2026. NIR is projected to remain above the target floor throughout the forecast horizon, reaching US$1,217 million in March 2027. The NIR outlook is subject to downside risks from elevated global energy prices, rand volatility, geopolitical and trade uncertainty, commercial-bank flows and higher government spending.

Domestic inflation eased to 2.6 per cent in August 2026, from 2.9 per cent in July 2026, reflecting a decline in food prices and slower price increases in clothing and restaurant services. Inflation is projected to rise to 4.7 per cent in 2027, mainly on account of higher food prices. Weather-related disruption to food supply, higher oil prices and fuel levies, and the pass-through of higher operating costs to consumer prices pose upside risks to the inflation outlook.

Domestic economic activity rebounded in July 2026, following a contraction in the preceding month. This was mainly underpinned by construction, manufacturing and transport. However, domestic demand remained weak. Real GDP growth is expected to remain modest in 2026 and gradually pick up over 2027–2028. The outlook remains vulnerable to labour-market weakness, subdued domestic demand, challenges in the mining sector and external uncertainty.

Private-sector credit increased by 1.5 per cent month-on-month in July 2026. Business credit grew faster than household credit. Despite this credit growth, the credit-to-deposit ratio declined to 52.7 per cent. These developments indicate adequate banking-sector liquidity, manageable credit conditions and limited evidence of broad-based demand pressures.

Overall, the external position remains adequate to support the exchange-rate peg. Inflation is contained and domestic demand remains weak. However, upside risks to inflation have increased, and regional and global financial conditions have tightened. The Committee therefore deemed it necessary to maintain a cautious and data-dependent policy stance. The Committee decided to:

- **Raise the CBL Rate by 25 basis points to 7.00 per cent per annum.**

The Committee considers this rate appropriate because it maintains a modest interest rate differential of 25 basis points relative to the South African Reserve Bank policy rate of 7.25 per cent per annum. The differential is considered sufficient to sustain the exchange-rate peg and support domestic economic activity.

The MPC will continue to monitor global, regional and domestic economic developments and stands ready to act decisively to defend the exchange-rate peg, safeguard reserves and preserve macroeconomic stability. Future policy decisions will remain data-dependent.

E. M. Letete (PhD)
Governor

Contact: Ephraim Moremoholo · +266 2223 2094 · emoremoholo@centralbank.org.ls