CENTRAL BANK OF LESOTHO

REFLECTIONS

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LESSONS FROM COVID-19 AND BEYOND:

A view from the Financial Sector

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Foreword

By Dr. Retšelisitsoe Matlanyane

Governor of the Central Bank of Lesotho

The outbreak and spread of COVID-19 has send shock waves across the globe. Its impact was witnessed from both the demand and supply sides as economic activities were grounded to a halt in an attempt to contain the spread of the contagion.

The Bank had to spring into action swiftly to protect its staff members. An advice was sought from World Health Organisation and the Ministry of Health on how people should conduct themselves in the face of the pandemic. It emerged that keeping social distancing and minimizing large gatherings was an unavoidable option to prevent or contain the spread. But, the Bank had to continue in its mandate to achieve and maintain price stability.

The need to continue with the execution of its mandate and basic functions, the Bank had to use alternative means of communication to meet the requirements of the new order, that is maintaining social distance and minimizing human contact. The Management gave a directive to minimize meetings and reduce staff complement working on-site, while the majority of employees had to work from home.

The new working arrangement compelled us to depend on virtual communication in execution of our duties nationally and internationally. It seems like this new communication order will endure for a longer time until vaccine for COVID-19 is available.

There were fears that the use of cash may spread the disease, but the Bank allayed the fears of the public based on the fact that there was no empirical evidence of such speculation. People are however, strongly encouraged to maintain good hygiene prior and after handling of cash. The containment measures against the spread of the virus heralded the downward trend in financial markets performance. This was as the result of highly restrictive measures particularly nationwide lockdowns which brought businesses to a complete halt in the face of the volatile working environment in most countries.

In this issue, the readers will find our recommendation for the Government of Lesotho to, among others, invest on human capital in order to enable collection of statistics that could help in preparing responses to future emergencies like COVID 19.

It goes without doubt that one of the initial options for most governments to respond to the outbreak of COVID 19 was to ease monetary policies and injection of liquidity in the financial markets. As both monetary and fiscal authorities intervened, markets began to recover and erase their previous losses.

The fixed income and commodities markets also suffered the impact of the pandemic. The price of brent crude oil plummeted as the result of low demand heralded by the lockdowns. This was exacerbated by a disagreement between oil producing countries regarding supply cuts. As the pandemic endures, it could be expected that countries will remain with higher debts as they grapple with the challenges of ensuring liquidity and solvency. One good lesson learned is that investors should always be ready to adapt to new challenges instead of sticking to the initial financial plans that do not necessarily address emergent challenges.

It is important for our reader to note the significant role commercial banks play to ensure a healthy economy. In the face of COVID-19 outbreak, many businesses and individuals may be unable to maintain loan repayments. The Central Bank of Lesotho has issued a directive for commercial banks to give payment holidays to the businesses and individuals who may not be able to continue with repayment. On the other side, the Banks have also been given an opportunity to access capital from the Central Bank at highly reduced rates. This is intended to spur desire for investments that drive economic growth.

The Central Bank has also delayed the implementation of BASEL II standards which would place a demand of the commercial banks to put aside higher capital. It is hoped that the commercial Banks would use this capital to issue loans in case the need arises.

As we grapple with the challenges heralded by the outbreak of COVID-19 pandemic, it is worth noting that partnerships between the government and the Civil Society Organisations can go a long way in helping to reduce its impact. Civil Society Organisations can enable in the identification of social related problems, mobilisation of resources, implementation of programmes to improve the societal well-being.

Although empirical assessments are yet to be made, it is obvious that COVID-19 will have both demand and supply shocks. Spread containment measures such as lockdowns will give rise to decline in Government revenue. This will likely be exacerbated by the decline in SACU revenues. In this volatile period, there would be a need to look at all measures that could enable in reduction of stress on Government revenue. Monetary, fiscal, and financial policies should aim to alleviate the impact of Covid-19 shock and to ensure a steady, sustainable recovery once the pandemic is under control ■

Lessons from covid-19 and beyond: a view from the financial sector

By Mr. Francis Mothibe

> **"Due to anticipated sessions of strain from COVID-19, the banking system is likely to experience higher defaults on loans and lower levels of liquidity are expected".**

Banks play a key role in any dynamic economy, and are crucial for financial stability. When unable to generate profits, they are less likely to provide loans and other financial services to households and firms, starving the economy of the much needed credit. As it is, Lesotho's economy is characterized by sluggish economic growth and high unemployment. However, in recent times, profitability of banks has largely not been a huge challenge.

Against this backdrop, and in a similar way that COVID-19 hits people with pre-existing health conditions more strongly, so is the pandemic triggered economic crisis exposing and worsening banking sector weaknesses and general hardship in Lesotho. Indeed, the seemingly extreme containment policies (lockdowns, etc.), that countries have taken to slow the disease's spread, are not extreme compared to the nightmare alternative of overwhelmed hospitals being unable to provide the care people need to survive the disease. These policies, however, have shut down banking halls and halted economic activity, including manufacturing facilities and the logistics needed to keep them functioning, causing seismic shock in the economy. Due to anticipated sessions of strain from COVID-19, the banking system is likely to experience higher defaults on loans and lower levels of liquidity are expected, which would weaken both the financial intermediation and the banks' liquidity and capital positions. In addition, banks may need the additional capital to absorb losses anticipated to emanate from defaults on loans, and additional liquidity to continue to extend credit to businesses and households.

Measures to mitigate Impact of COVID-19 in Lesotho

In an effort to mitigate the impact of the virus on the economy, countries have taken a myriad of policy decisions to alleviate the impact of the resultant measures employed to fight the disease, with a view to preserve sound banking systems and avoid economic hardship. In the same vein, Government of Lesotho (GOL) outlined measures in a policy statement titled Measures to Mitigate Impact of COVID 19. The measures encompassed fiscal measures, including tax and administrative relief measures as well as food security and emergency support. The measures also included comprehensive private sector support and monetary policy measures[2]. Other financial sector measures are geared towards insurance sector and mobile network companies.

With that in mind, commercial banks have been directed to grant three months' repayment holidays and reduce transaction fees and charges for transacting on electronic platforms (EFT and Internet and Mobile

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[1] GDP has been contracting since 2017 and the 5-yr average growth rate is 0.95 percent (2015-2019), Source: CBL.
[2] This resulted in reduction of the policy rate by 300 bps from 6.25 percent in March to 3.50 percent in July 2020.

Banking). Specifically, the Central Bank of Lesotho (CBL) henceforth the Commissioner issued a directive 31 March 2020 (Directive-Interventions amid Covid-19/Coronavirus), in terms of Financial Institutions (Banks) (Asset Classification) Regulations, 2016 detailing the loan repayment holiday while the reduction of fees and charges for digital channels was directed through the GOL policy statement. In this regard, the article explores the specific measures undertaken related to the banking sector, their implications to depositors and to the banks, and outlines the lessons that can be derived from the interventions.

Specific Measures Undertaken?

a) Loan Repayment Deferral Programme

We will consider three critical measures for the purpose of this article. On one hand, the Commissioner directed loan repayment deferral programmes to support borrowers affected by COVID-19, valid for a period of twelve (12) months, or until revoked in writing by the Commissioner. Regulation 24(1) of the Financial Institutions (Banks) (Asset Classification) Regulations, 2016 defines a restructured loan as a loan which has been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the borrowers' financial position or the non-payment of the debt as arranged and shall be subject to specified conditions. Based on this regulation, banks were directed to grant payment holidays to borrowers whose financial positions will be negatively affected, based on through assessment of the economic and financial conditions of the individual borrowers. Consequently, all facilities would maintain the same classification and provisioning throughout the holiday period. A key consideration is that the arrangements should not place the borrower in a worse-off position at the end of the holiday period. These measures aimed to alleviate the cash-flow pressure of distressed small and medium enterprise, corporate and individual borrowers.

b) Lowering Interest Rates

On the other hand, on 28 July 2020, Monetary Policy Committee (MPC) of the CBL reduced the CBL rate to 3.50 percent per annum with some analysts predicting one more rate cut by December 2020. The rate, set at this level, is intended to ensure that the domestic cost of borrowing and lending will be aligned with the cost of funds elsewhere in the region. The move is in addition to an undertaking to avail liquidity facilities when such need arises, and at a rate to be determined and lower than the Lombard rate[3].

c) Deferring of Basel II.5 Implementation

In addition, implementation of Basel II.5's domesticated international standards are deferred one-year to January 2021. In particular, the deferral emphasized the implementation of capital conservation buffers[4], which would have required banks to put aside additional capital above the minimum regulatory level of 8 percent. This move is meant to provide banks with relief so that the funds that were reserved for full compliance of the accord can be advanced as loans to customers if need arises.[5]

What are the implications of the measures and lessons from the interventions?

On loan repayment holiday, a major take away include that the Commissioner induced it. The scope of payment deferral programmes typically covers the suspension of both principal and interest payments for a pre-determined period and a prohibition on banks charging penalties and fees on loans to which the suspension applies. Normally, in many cases, loan maturities are extended to accommodate the repayment of the deferred payments. Other types of arrangements are also possible, such as keeping the maturity unchanged while distributing the deferred amount across the remaining installments or through a balloon payment at maturity. Payment holidays typically include a definition of eligible borrowers and the types of loans that qualify. The eligibility conditions depend on the pandemic's impact on the borrower's repayment capacity, including loss of employment for individuals and any decline in a firm's income and turnover. Another commonly used criterion seeks to exclude borrowers without a good credit standing prior to the outbreak. However, while features of repayment holidays are designed to provide immediate relief to affected borrowers, they may also increase longer-term insolvency of each bank and accentuate financial stability risks. The length of the grace period may be a relevant risk driver, particularly if both principal and interest payments are suspended. In this situation, loan balances will grow over time, owing to the negative amortization from the deferral of interest payments, increasing risks for borrowers and banks.

The Commissioner, therefore, instituted the payment holiday cognizant of the complex trade-offs involved, including that the deferred payments are not necessarily forgiven and must be repaid in the future, raising prospective risks to the banking system. Thus, they are designed to balance near-term economic relief benefits with longer-term financial stability considerations by encouraging banks, through various relief measures, to provide credit to solvent, but cash-strapped borrowers,

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[3]This is rate fixed at 400 basis points above the Treasury bill rate, used for overnight lending to commercial banks and loosely follows interest-rate movements in South Africa to prevent volatile capital flows.
[4]It was introduced to ensure that banks have an additional layer of usable capital that can be drawn down when losses are incurred.
[5]Lesotho, like most countries globally, has adopted the Basel Committee of Banking Supervision's (BCBS) international standards, known as Basel II but with some elements of Basel III, to promote the adoption of stronger risk management practices by the banking industry, and to develop more risk-sensitive capital requirements. Typical for non-BCBS members, Lesotho adopted a 'mix and match' approach, resulting in application of Basel III standards on definition, quality and quantity of capital, but adoption of Basel II for risk.

while keeping in mind the longer-term implications of these measures for the health of banks and stability of the banking system.

The Commissioner's consideration was critical given the following. First, a payment holiday would have a bearing on implementation of International Financial Reporting Standards (IFRS 9) given the likelihood of a resultant debt modification. An important dimension of debt modifications under IFRS 9 is, if the revised terms lead to a decline in the expected net proceeds from the loan (that is, if there is no interest on principal during payment holiday etc.), banks are required to record expected credit losses provisions for the difference. This is particularly so given a presumption under the standard that loans more than 30 days past due are assumed to have experienced significant credit risk (SICR) and should thus require lifetime expected losses. In general, banks are reluctant to modify debt that is (and for good reason), extending loan maturities, lowering interest payments etc., if applicable accounting standards require them to book losses on such modifications.

Therefore, although the payment holiday should not be regarded as 'distressed restructuring', the Commissioner did not direct that modified loans that are driven by regulatory action should not account for lifetime expected losses, but only that they should not be considered as restructured for regulatory purposes, since the former falls outside the Commissioner's regulatory sphere . For the banks, the measures may also pose credit risk management challenges amid possible loan losses even beyond the payment holiday period. What may be clear is that customers taking up these offers need to understand the impact of what they are signing up for since the primary benefit is the 'breather' in terms of cash flow but that the payment holiday may carry additional costs, particularly with term extension. In mitigation to consumers, the banks must heed a number of issues. On one hand, not only should the client be advised that they are entering into a new agreement with a purpose of giving them a holiday, but also that the financial implications brought about by different holiday options offered to clients should be disclosed to the client. This will mitigate the legal risk that might be brought about by the misunderstanding. It will also prevent an influx of complaints lodged with the Commissioner. On the other hand, for purposes of disclosure, and to avoid misrepresentation, it is important for a new payment schedule to be attached to the new contract.

Second, banks have to include some of the 'structural' challenges they face in the scenarios for stress tests that assist in capital adequacy calculations, that is, incorporate the potential impact of low interest rates in their decisions and risk assessments. Supervisory capital planning and stress testing should include "lower for longer" scenarios and the strength of business models in such an environment should be evaluated. With current low interest rate environment, risk aversion in the private sector may increase significantly and for a prolonged period, leading to more precautionary savings by households, and less investment by businesses. As one analyst puts it, ' just in case will replace in time' , with the private sector wanting to hold greater financial reserves in case of further shocks to globalized markets, triggering structural responses that will strengthen the forces of stagnation . COVID-19 is different from all previous crises. It feels like a combination of a much broader version of 9/11, when all flights were cancelled, and a much faster version of the 2008 financial collapse, when all the markets crashed. New risk measures are needed to control the current pandemic.

Measures that were appropriate for normal trading and gradual change are misleading, at best, under catastrophic conditions with sharp and sudden swings. Therefore, applying historical sensitivities and correlations to model the stresses of the coming days, weeks and months does not help. Lamentably, existing risk assessment techniques at the risk community's disposal such as sensitivity analysis, value-at-risk (VaR) and expected shortfall (ES) are all based on historical data. The only way to prepare for the unfolding of the current unprecedented shock is through analyzing multiple potential scenarios that consider not only the changing interrelations between macro-market drivers but also second- and third-order effects, diminished diversification of exposures, and hidden risk concentrations. In navigating these tensions, banks and supervisors face a daunting task as borrowers that may be granted payment holiday have varying risk profiles. Separating illiquid and insolvent borrowers, amidst an uncertain outlook, should help guide banks efforts to support viable borrowers, while preserving the integrity of their reported financial metrics.

Third, on the question of availing liquidity facilities, how will this unfold? In addition to continued easing of interest rates, the CBL has eased regulatory requirements on banks and has taken important steps to ensure adequate liquidity in domestic markets, the nature and extent

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[10]Negative amortization occurs whenever the loan repayment for any period is less than the interest charged over the same period so that the outstanding loan balance grows, rather than declines, over time.

FRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. It specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. It requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. (https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/).

[12]The Central Bank of Lesotho does not regulate accounting standards since that fall under the purview of accounting standards body, the Lesotho Institute of Accountants.

of which is still to be pronounced. These actions are intended to free up more capital for lending by financial institutions to households and firms . This is in line with emerging market economies, although our financial markets remain too shallow for direct comparison, that have instead launched local currency bond purchase programmes to address bond market dislocations, signaling that they are willing to take the role of a buyer of last resort. According to the BIS (2020), these measures did indeed help to stabilize bond markets when they were announced but the actual impact varied between countries. Market reactions do not suggest that the launch of the new measures gave rise to perceived risks of fiscal dominance or large scale monetary easing, which would have pushed bond yields up and exchange rates down, in contrast to actual developments. The absence of such effects probably reflects the clearly defined scope of the programmes, which explicitly aimed at restoring confidence in markets rather than at providing monetary stimulus, let alone the monetary financing of fiscal deficits. As a precedence and within appropriate context, South Africa's objective in this respect was to promote the smooth functioning of domestic financial markets. There is scope therefore to implement the liquidity framework in this jurisdiction, but to avoid uncertainty policymakers must iron out the nature of interventions, whether reduction of cash reserve or liquidity ratios or indeed local currency bond purchases in the secondary market as others have done.

Conclusion

In its intervention, it was crucial that the Commissioner finds a balance that safeguards financial stability and banks' soundness, while supporting economic activity. The greatest challenge was to decide how and when to exit from these regulatory relief measures. Acting too early may remove much needed credit to support economic growth, while waiting too long could undermine confidence in the post-crisis regulatory regime and heighten systemic risks. Making the right calls at the right time required judgment. The regulatory relief measures introduced provide banks with flexibility in supporting the real economy. But they also raise supervisory challenges that become more pronounced the longer the relief measures remain in place, particularly if credit risks continue to mount on bank balance sheets. In this regard, the Commissioner allowed three (3) more months from the initial period such that the repayment holiday would lapse by end of September 2020. Beyond that period, banks are obliged to use normal restructuring procedures.

The pandemic has inflicted supply side shock, which may not be offset by rate cuts, but will merely lessen the debt service costs. Demand depends on confidence, which in turn depends on the discovery of a vaccine or building of herd immunity . Consequently, various strategies to preserve and strengthen capital were considered, including restricting dividends payments (through a Directive to banks on dividend payments). The strategies are designed to act decisively to contain COVID-19's fall out and support the flow of credit to businesses and individuals. In addition, banks were encouraged to be more prudent and use all available liquidity management tools to address such risks. While very accommodative monetary policy is crucial to sustain economic growth during this period, providing support to bank profits is also essential, since extremely low interest rates have also compressed banks' net interest margins and a persistent period of low interest rates is likely to put further pressure on bank profitability in the coming years.

Despite China ending lockdowns in February 2020 and with factories now busy again, and the streets no longer empty, the result may be a 90 percent economy- better than a severe lockdown, but far from normal. Nevertheless, when normalcy returns, banks and their clients will likely have learnt a few lessons. These may also include how to best retain operational resilience when confronted with future pandemics, and possibly how to design new operating models such as alternative work arrangements. In this regard, COVID-19 may further accelerate migration to the so-called Fourth Industrial Revolution (4IR) particularly aspects such as cloud computing, which is set to enhance operations and in turn deliver better services to clients and all other stakeholders.

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[8]The Central Bank of Lesotho does not regulate accounting standards since that fall under the purview of accounting standards body, the Lesotho Institute of Accountants.
[9]Larry Summers, former US Treasury Secretary (https://www.ft.com/content)
[10]A situation where chronic excess of savings, relative to capital investment, may be developing in the global economy, forcing long-term interest rates down and threatening a persistent shortage of demand.

[11]While emerging markets economies had already introduced various unconventional balance sheet policy measures to provide to domestic markets after the
financial crisis and the 2013 taper tantrum, local currency bond purchases were generally not used on these occasions, hence the recent programmes has expanded the policy toolkit. These are different from advanced economies central banks in response to the pandemic, which involve large-scale purchases of corporate and government bonds.
[12]"Herd protection" of the unvaccinated occurs when a sufficient proportion of the group is immune
[13]That is the difference between interest earned on assets and interest paid on liabilities, e.g. deposits.

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Covid-19 and the markets

By Mrs. Ntšeliseng Qopane
Mr. Tjoetsane Nthontho

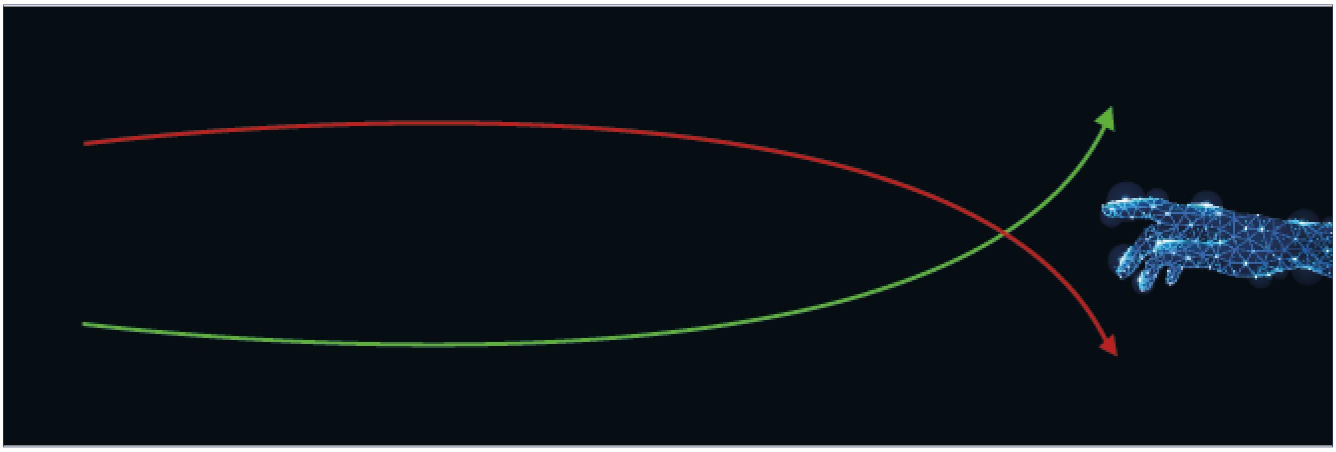
"COVID-19 has sent policymakers into a frenzy as they grapple to find effective ways to respond to the spread of the virus and its impact on the economy. Governments imposed restrictions on many activities".

In late December, a few cases of a pneumonia-related disease termed corona virus (Covid-19) were reported in Wuhan City, China. Twenty days later, more confirmed cases were reported in other three countries outside of China: Thailand, Japan and South Korea, with all cases having been exported from China. Several weeks later, cases mounted across the globe and countries found themselves in unchartered territory. By March 2020, the world Health Organisation declared the disease a global pandemic, this is when the real brunt of the disease was felt across the globe.

Apart from posing an austere public health threat, the COVID-19 pandemic has interrupted the economy and prompted a strong desire among investors for safe and keep liquid securities. It has also sent policymakers into a frenzy as they grapple to find effective ways to respond to the spread of the virus and its impact on the economy. Governments imposed restrictions on many activities, travels came down to a halt, gatherings of any type were cancelled, businesses were temporarily shut down and supply chains disrupted.

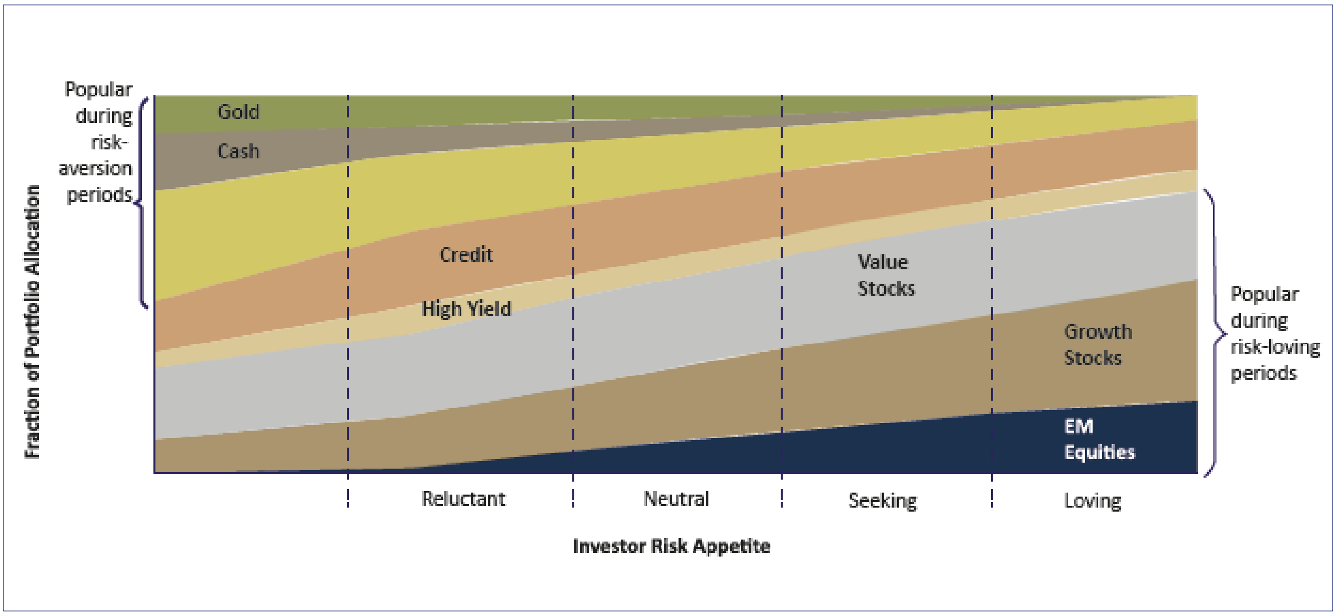
The stringent measures taken to slow the spread of the virus saw financial markets tumbling to their all-time lows since the 2008 global financial crisis, consequently dampening business and consumer confidence, with volatility reaching highest levels ever seen. Output in many economies declined, with many businesses becoming highly indebted and vulnerable to deteriorating economic and market conditions. Health pandemics and oil wars are not entirely new events, but the speed of virus transmission, the magnitude of oil price fall and governmenets' responses with economic wide lockdowns are what left the markets namby-pamby as investors sought to navigate what is next in a highly volatile environment. Mitigating shocks of this magnitude required a consolidated effort from policy makers across the globe by providing adequate liquidity in the financial system.

At that, the main objective of this note is to outline how economy and markets fared during the past few months of the corona virus pandemic and the policy responses from both governments and monetary authorities. It is divided into five sections, the first one being the above introductions, followed by section 2 which discusses the amount of variation in asset prices over the period as a result of fear and panic caused by the corona virus. The panic is quantified using Chicago Bond Options Exchange Volatility Index (CBOE VIX), usually known as volatility index. When fears run high, investors' willingness to invest in risky assets tend to fade. Meanwhile, section 3 looks at the performance of stock markets, commodities and fixed income assets in both developed and emerging markets, focusing on pre and at the height of Covid-19 pandemic. The policy mechanisms employed by both the fiscal and monetary policy authorities to contain the economic fallout from the virus are articulated in section 4. Last but not least, section 5 discusses the impact on the economy at large and conclude by lessons learned from this pandemic, especially from asset manager's point of view.



Volatility and Risk Appetite

During times of uncertainty, investors turn to panic and make decisions out of fear or greed. Most investors tend to dump their supposedly risky assets at the first sign of trouble, without necessarily having considered the fundamentals or completely forgetting their long term strategies. As depicted in the diagram below, investors hold a bigger weight of their portfolio in Equities and Corporate credit during risk loving period. In times of markets fallout (investors tend to be overweight government bonds and cash.



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The CBOE VIX from 01 January 2020 to 10 June 2020

Volatility remained fairly steady in the first two months of the year, although risk appetite was already falling steadily as the world economy was already in a benign state. The above graph shows the unprecedented impact covid19 had on stock markets. From as early as end of February, Governments across the globe started implementing monetary easing policies in an effort to inject liquidity in the markets. Investors began to panic; realising that the situation may be worse than they had initially anticipated. Around March, countries began implementing lockdowns, movements being restricted and supply chains disrupted. This sent volatility to its highest levels, peaking at 82.69, from a low of 12.1 seen in January in a period of just 3 weeks.

On that fateful day (when volatility was at its highest), US stocks plunged as a seemingly coordinated global monetary policy easing coincided with oil price wars and China's industrial production and retail data offering a glimpse of the economic devastation in the world's second largest economy as COVID-19 pandemic spread to the rest of the world. The Dow Jones Industrial Average plummeted by 8.3 percent intraday, with S&P500 and NASDAQ also slumping by 7.3 and 7.5 percent respectively. A few weeks later, the virus induced price swings seemed to subside, with economies reopening and investors gaining more understanding of the corona virus fallout. Although the volatility remains elevated, above pre-covid levels, it has fallen sharply to just twice its levels in January.

To quantify the appetite for risk in the markets, we used Standard Chartered Global Risk Appetite (SC RAI). A score below zero indicates investor's reluctance to buy into riskier assets and a score above zero is an indication of a risk seeking behaviour of investors. Meanwhile a score of zero demonstrates risk neutrality. Risk appetite dipped to the lowest of -0.9833 a few days after the volatility index reached its peak.. With Volatility calming down as investors gained more insight into the virus and understanding of the various stimulus packages across the globe, risk appetite also starting ticking up some time in April. Investors realised that policy makers are ready to use all tools available in mitigating the economic fallout. Sometimes, just having a backstop is enough to boost investor and consumer sentiment.

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Market Risk

While volatility measure is based only on option prices, Bank of America Merrill lynch Global Financial Stress Index (BofA GFSI) in the graph above gives a broader view of market risk. Basically, it measures three kinds of market stress – risk, hedging demand and investor appetite for risk and is arguably more accurate than other commonly used risk indicators. BofA GFSI reading reached a historic peak of 3.03 in the midst of the pandemic in mid-March while its lowest point over this period was recorded prior to declaration of COVID 19 as a pandemic earlier in March 2020. On average, the index was 0.70 from 1st March 2020 to 12th June 2020. GFSI levels greater than 0 indicate more financial stress than normal and levels less than zero show financial stress less than normal. The above graph depicts how the index fared over this period.

Credit Risk

Credit Default Swaps (CDS) spread is a relatively pure pricing of default risk of the underlying entity. In effect, CDS is analogous to an insurance contract, with the buyer of credit protection paying a periodic fee in return for receiving compensation should the specified reference entity experience a credit event during contract's life. They allow investors to isolate and transfer credit risk, with a protection buyer transferring credit exposure on a reference credit to a protection seller. Thus, studying CDS helps in understanding credit risk.

Growth in the credit derivative market means that the CDS has become crucial to corporates as they seek to understand the bond markets and monitor investor appetite for funding opportunities. CDS spreads reflect the market's perception of credit risk. In any efficient market, the return for taking a risk must equal the loss expected as a result of that risk.

South Africa, Emerging Markets, Europe, United States and 5 years Credit Default Swaps curves from 1 January to 10 June 2020.

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Unites States, Euro Zone, South Africa and Emerging Markets 5 year Credit Default Swaps from 1 January to 10 June 2020

Credit default swaps generally rise when the perceived risk of default increases. This was the case in March as businesses shut down, some increasing their leverage ratios in order to stay afloat. Credit rating agencies started reviewing hundreds of private institutions and governments at large. As shown on the graph above, the curves were mostly rising in March but generally started declining in April. Covid 19 crisis did not just affect the creditworthiness of emerging market but even the developed market was adversely affected, as depicted in the above graph. The above curves are from four regions namely, Europe, United States, Emerging Markets and South Africa depicts how CDS fared from 01 January to 10 June 2020.

(a) Major stock indexes

While March 2020 is not the worst month in the history of stock markets in terms of stock market performance, the entire month was an onslaught of information, market panic and uncertainty. Thus, September 1931 remains the worst month in the history of stock market while March 2020 will be recorded as the second worst in month in the history of stock

Nasdaq, Dow Jones Industrial Average, FTSE100, Hang Seng and JSE All share index from 1 January to 10 June 2020

market. US's Dow Jones Industrial Average and S&P 500 posted their worst first quarter in history as equities sold off. The extreme volatility and fast declines in equity prices as novel corona virus turned into a global pandemic, triggering both health and economic fears. In response, central banks and governments around the world adopted a 'whatever it takes' approach to mitigating the economic hit from the coronavirus pandemic which has ground many industries to a halt. As both monetary and fiscal authorities intervened, markets began to recover and erase their previous losses.

(b) Fixed Income and Commodities

The selloff and volatility caused by the novel corona virus did not spare fixed income and commodities markets. The price of brent crude oil plummeted when pressure on oil demand as a result of the pandemic, was exacerbated by a disagreement between oil producing countries regarding supply cuts. The two oil superpowers, Saudi Arabia and Russia launched a price war in the first week of March. Oil prices fell from around \$52 to \$35 a barrel in just a day, a drop of at least two-thirds compared to the beginning of the year. This, together with the imposition of a nationwide quarantine in Italy early March, led to a further dramatic market collapse. These oil price levels have not been seen since 1998.

Oil and Gold prices

Unites States, Euro Zone and United Kingdom 10 year yields from 1 January to 10 June 2020

South Africa, Brazil and Russia 10 year yields from 1 January to 10 June 2020

The global market of treasury securities is usually very deep and highly liquid. This means investors can easily buy and sell such securities. Market participants such as banks, insurance companies, pensions, asset managers, reserves managers and others demand securities that are easy to sell in order to meet demand for cash. The crisis and dysfunctionality in the fixed income markets reached their heights in March when investors sold off the securities and rushed into cash. This was because, unlike the global financial crisis of 2007/08, in which bond markets were clearly in the centre of the crisis which they initially triggered, currently they suffered from external shocks. The clear stress shown by the bond markets forced the central banks to implement the gigantic rescue measures never seen. Government yields across the globe fell sharply as investors readjust their expectations of the rate cuts. Investors saw rates moving from near zero levels to deeper into the negative territory, particularly in the Euro Zone that already had negative rates even before the pandemic.

The most declines were seen in early March when it became clear that Covid-19 crisis was not only a Chinese or Asian issue. The depth and liquidity of the bond market disappeared, prices became very volatile as sellers could not find buyers and vice versa. It became very difficult to execute even small sized transactions and transaction costs soared. The US government bonds across the entire curve had yields of less than one percent for first time in history. The yields, however, retreated as investors had already priced in the cuts as mid-February and started appreciating the backstops promised by the policy makers.

Emerging Markets did not escape the pain of the significant sell-off by of the bonds, especially by foreigners as investors rushed to safety as well as raising liquidity to cover other positons. South Africa was particularly hit as the pandemic coincided with the last investment credit rating being stripped of by Moody's and the country forced out of the world global index. The South Africa 10 year bond yield spike to above 12% at the height of this sell-off in risky markets, well above the average seen in the 2019 of just above 9%. Brazil saw increases on its 10 year bond yield from the low of close to 6.5% in February to peaking at 9.5%. As central banks put in measures to inject liquidity in the financial system, yields started falling steadily to levels lower than pre-covid crisis, especially South Africa and Russia as risk appetite of investors improved significantly.

Monetary and Fiscal Responses

Following the rapid outbreak of the virus across the globe, many governments and central banks were forced to be proactive in battling the impact of the virus and introduced unprecedented measures to stimulate the sinking economies. Central banks intervened by lowering policy rates and injected liquidity by extending bond buying programs. The central banks effectively shifted from lender of last resort for banks to a commercial banker of last resort for the broader economy. Countries increased their current debt levels significantly with central banks expanding their balance sheets by more than three times the initial book value.

In the US, the Federal Reserve Bank has announced two emergency rate cuts, bringing the bank borrowing rate back to near zero, between 0 -0.25% and has rolled out other emergency measures including relaunching large-scale asset purchases (quantitative easing). In order to cushion against the global financial safety net, the Fed also established new swap lines with central banks in several major advanced and

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> "The most declines were seen in early March when it became clear that Covid-19 crisis was not only a Chinese or Asian issue. The depth and liquidity of the bond market disappeared, prices became very volatile as sellers could not find buyers and vice versa."

emerging economies. The Fed has, from early March up to date, expanded its balance sheet from $4.1 trillion to $7.1 trillion. Some of the programs implemented by the Fed in supporting the flow of credit are a summarised in the below diagram, Fed Support during Covid19.

South Africa was also quick to take a cue from other countries in responding to the fallout of the economy as a result of stringent measures taken to curb the spread of the virus. The government committed to assisting companies facing distress through the Unemployment Insurance Fund (UIF) and special programmes from the Industrial Development Corporation (IDC). A solidarity fund was created, with business tycoons pledging billions towards the support of small and medium enterprises, tax reimbursements were sped up and tax liabilities differed.

In terms of the monetary policy, the South African Reserve Bank, SARB has cut interest rates by 250bps, and also implemented various measures that would essentially be interpreted as some form of quantitative easing. Some of the measures SARB implemented in providing liquidity support include the bank purchasing government securities in the secondary market, along the entire curve, with maturities of main refinancing instruments extended from three to twelve months. It has also reduced the upper and lower limits in their standing facility to lend at repo rate and banks to borrow at repo less 200bps. They further increased the number of their weekly financing operations. The level of reserves that commercial banks could hold were further reduced with capital ratio moving from 100 to 80 as way to mitigate financial system collapse.

Global Economic Impact and Outlook

At the risk of stating the obvious, five months into the pandemic, a lot has changed. Instead of growing by 2.5% globally, we now expect the world economy to shrink by just over 3% in 2020. Conventional wisdom suggests that most markets are consumer driven economies and any disruption in consumer spending is a threat to economic growth, or main cause of recession. Household consumption in the developed and many emerging markets, constitutes at least two thirds of the total GDP. With consumption adversely affected, economic recession was evident. As the GDP of global economies tumbled, the world economy experienced rapid rises in unemployment. The economic figures released in for the first quarter showed a decline in US economy of 5%, and UK was the most hit with a contraction of 20.4 %. As per the statistics release by Organisation of Economic and Development, the projected economic impact by Covid-19 on growth is depicted in the below graph.

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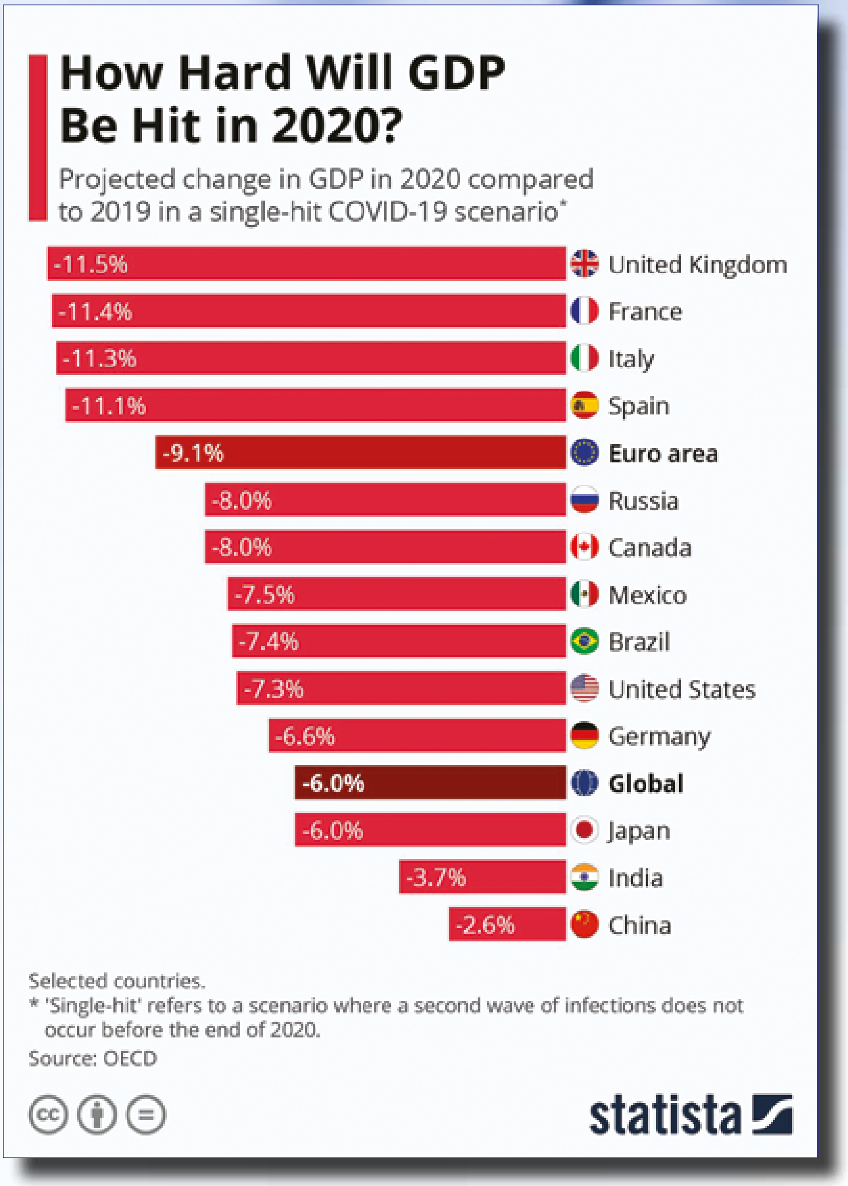

Most countries more than doubled the debt level and deficits as a percentage of GDP. For instance, the United States increased its deficit from four percent of GDP in 2019 to close to 12% in 2020. South Africa Treasury has also reported that its budget deficit is expected to hit 14% of GDP in 2020 with most economists having predicted at the deficit to be at most, 10%. South Africa deficit was already at crisis levels before the pandemic started and the pandemic is just going to accelerate the fiscal deterioration. The diagram below shows some of the deficits from both developed and emerging markets for 2019 and 2020.

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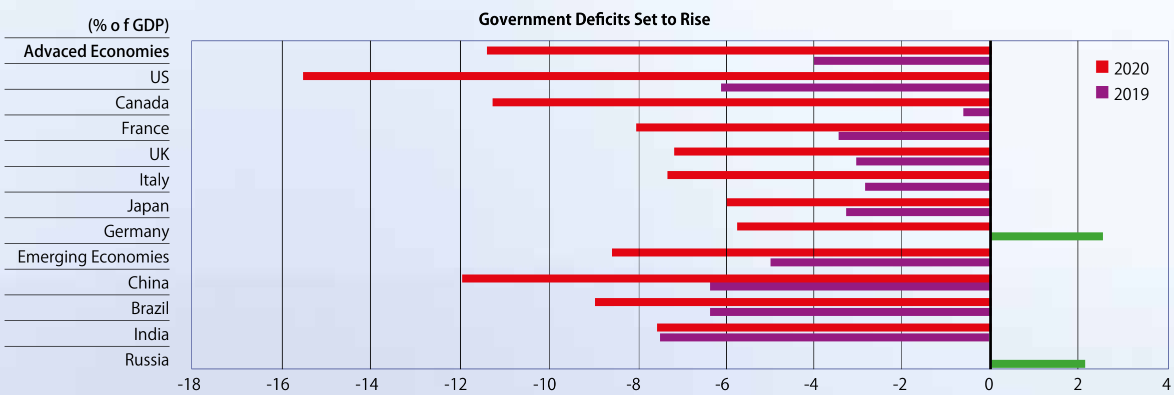
Figure 1. Value of global fiscal stimulus as percentage of GDP



Source: Data From ???

Lessons and Way Forward

We always learn valuable lessons from all market crashes and the Covid-19 crash is no different. In most cases than not, the lessons from such crises are really what as investors we already know. It is just unfortunate that investors always tend to ignore or forget them once the crisis is over. The most important lesson we have relearned from the corona virus pandemic is that 'highly unlikely does not mean impossible'. For instance, investors tend to ignore tail risk as depicted by their risk models. Covid-19 has taught us to never ignore such seemingly impossible risks and that we must always have a plan B should a such occur.

We have also learned that financial plans are not set in stone. This means that documents detailing on how assets would be allocated is not a set and forget scenario. Investors should be ready to alter and adapt should any major changes occur. It is also vital to note that going to alternative markets (such as investing in riskier assets like property) as a means of diversification did not necessarily prove to be much of a diversification during the Covid-19 pandemic.

Some strategies may appear like diversification until severe market weakness happens and the intended diversification disappears when one needs it the most. This is a lesson that investors learn every time a crisis occurs. For instance, investing in high yield bonds, real estate investment trust (REITS), are not exactly an alternative to safe bonds. This is especially true for real money investors like Central Bank in the reserves management whose key mandate is preservation of value. Another takeaway during a crisis like this is that some investors would look smart while others, not so much. It really is not easy to time markets in times of panic and the best lesson is always ride the wave and remember your long term strategy.

Since the start of the Covid-19 pandemic, we have also seen several significant shifts in the way fundamentals are expected in impacting/explaining the fair valuation of financial assets. Economists are in disagreement on the kind of recovery expected, with multinational institutions revising their forecasts and outlook more frequently than normal. Some have admitted that they are as good as making policy decisions in the dark. After all, analysts are not epidemiologists, and it would be difficult to make predictions on how fast the virus would spread, take views on monetary/fiscal policy, and quantify the impact of the responses on the economy, prospects of businesses as well as individual responses and other investors' action. This would be a mammoth task indeed.

Conclusion

March 2020, will probably be the most talked about in history of the financial markets crisis. While the 2008 global financial crisis was started by toxic lending in big global banks, this time around market turmoil is about an expected sharp drop in demand due to COVID-19 fears, pressure from the stringent measures put in place by policy makers on consumer hibernation. For many companies, the sharp drop in turnover will lead to losses and, for those that started the crisis highly indebted, there is high probability of a permanent loss of value. Some companies will face bankruptcy with certain industries such as airlines, hospitality and hotels experiencing the most devastating impact.

There remains uncertainty in the predictability of how this pandemic will last and the impact on the economic downturn but one thing for certain is that the pandemic will leave legacies that are likely to remain with us for years after the crisis is over. These include the increase in public debt and the expansion of central-bank balance sheets. If the pandemic lasts longer than anticipated, we are unlikely to see a sharp recovery in the asset prices, especially bond yields as they are expected to move sideways compared to equities that usually rebound rapidly. Further, improvement in credit markets will be a much needed support to stimulate consumer demand in order to support economic growth.

We have seen that in order to safeguard the financial stability, continuous actions between international fiscal and monetary policy needs to be assertive and well communicated, despite of the economic uncertainty. Central banks are expected to remain crucial to safeguarding the stability of global financial markets and maintaining the flow of credit to the economy. But this crisis is not simply about liquidity. It is primarily about solvency at a time when large segments of the global economy have come to a complete stop. As a result, fiscal policy has a vital role to play.

Fears of the second wave of the virus still remain, with China having experienced new cases even though the hard lock-downs, where many large countries closed down simultaneously are not expected. We believe the worst is over really in terms of the complete closure of economies and market free fall in prices ■

HR experience during covid-19 pandemic

'By: Human Resources Department

> "There is a great deal of discussions regarding the impact of covid-19, and its implications on the working practices and human resources management."

The outbreak of coronavirus 2019 (COVID-19) pandemic has resulted in a global health crisis causing panic and life-threatening situation to nations. In an effort to ease the impact of the novel COVID-19 outbreak, Central Banks typically act as the first line of defense by taking decisive actions to preserve economic stability during the crisis.

The measures include among others, cutting of interest rates, increasing loans to states and businesses and easing restrictions on commercial banks. In a time of crisis such as COVID-19 that the global business, including the Central Banks, Human Resources Departments play an integral part to assess and contribute to a broader response that embeds the corporate mission, values and societal impact with a focus on the wellbeing on staff, stakeholders, and the community. Strategies for business continuity are required to address how employees can stay psychologically resilient.

This is particularly important for mission-oriented organisations such as the Central Banks, where dedicated staff are the champions of the continuation of services to the financial and non-financial institutions as well as the community. There is a great deal of discussions regarding the impact of COVID-19, and its implications on the working practices and human resources management. Much of the content drawn from the deliberations appears to be general in nature with an attempt to direct and guide interventions that may define what "new normal" might be. Even though COVID- 19 is a global pandemic, its impact on working practices, wellbeing and Human Resources Management (HRM) requires to be understood in specific contexts; this is despite the fact that the implications may be found to be common across various work context.

> "In line with CBL values, communication and actions should be consistent with respect, integrity, accountability and transparency."

Against this backdrop, the Human Resources Department (HRD) articulates that it is key to promote the climate of calm, while also engaging leadership to respond with timely, accurate, assertive, clear and consistent communication from all levels of the Bank. In line with CBL values, communication and actions should be consistent with respect, integrity, accountability and transparency. This approach has guided the values of employees in achieving the mandate and strategic objective of the Bank at the same time the need to empathise and understand different impact situations that affect employees and other relevant stakeholders. Specific experience drawn by the HRD is relation to the COVID-19 and its impact in the CBL working context is, therefore, highlighted below:

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Human Resources (HR) being an active member of the Emergency Response team

HR being part of an Emergency Response team provided input in the guidelines to be implemented by gathering and sharing members of staff concerns during this period. The role of HRD is to further inform the team of new developments in line with the Public Health (COVOD-19) Regulations 2020 that stipulate among others, the movement of persons during a period in which the regulations applied (29th March to 21st April 2020). The Central Bank of Lesotho being part of the essential services was required to abide by the above-mentioned regulations, where HRD provided advice on the operating hours and arrangements for transportation for members of staff who had to work. In other words, HRD took care of people-related issues that included employee work-health arrangements, protective health measures within the Bank's premises, in-house medical facilities and health informational materials and personal protective equipment.

Communication

The HRD has worked with departments to provide updates on the reports for possible and suspected cases of COVID-19.. In this manner, confidentiality was maintained, and the Bank was proactive enough to answer the questions and concerns through a specific channel of communication that created consistency and follow-through. Moreover, strategies were provided to manage members of staff who are working from home as well as ensuring that HR-related risks relating to the crisis were managed. HRD realized the need to document the workplace and working from home guidelines with the purpose to guide members of staff and management on their conduct during this period. The guides also intended to ensure and maintain continuous safe and healthy working environment along the guidelines of the World Health Organisation Operational Planning Guidelines.

During this period, constant communication was made for members of staff who are working on Bank's premises on health and safety measures of COVID-19. The basic and essential hygiene and safety practices were communicated to mitigate members of staff concerns and anxiety by providing personal protective equipment as well as sharing basic precautions. Social distancing was further encouraged by requesting members of staff to not only limit travel and large group gathering, but also to avoid handshakes hugs, and other physical interactions.

Adoption of new ways of undertaking HR functions

The advent of the covid19 implies that the HR functions as we know them have to be redefined and reengineered to cater for the mammoth changes that are brought by this pandemic. Specifically, the integral part of HR which is recruitment and selection had to be undertaken even during this tough time as the Bank endeavor to fulfill its mandate. In this way, the HR Department introduced virtual interviews to minimize close contact with the applicants while also ensuring that the process is transparent and credible thus ensuring appointment of the right talent. In the same vain, the on-boarding of the new members of staff was also undertaken remotely. This implies that a degree of trust and integrity from the members of HR as well as other members of staff is paramount while working from home to ensure that the good standing of the Bank is kept intact.

General HRD concerns during COVID-19 period

HRD acknowledges the fact that COVID-19 is accelerating at a very high pace globally, and that organisations are faced with sudden changes that should be introduced to modernize the operations by embracing a move to work remotely and use technology to conduct meetings. Central Bank of Lesotho adopted two strategies in this regard; working from home and introduction of shifts across the bank. Even though there were challenges associated with working from home such as access to modems for communication and airtime for calls, generally, it has been a success and members of staff were able to work from home.

The fact is the business is not normal right now, and it will take time to adjust to the new ways of working. There is still much uncertainty, and the economic and social impacts of this pandemic will have long-lasting effects, as a result, human resources practices need to further consider appropriate strategies to ensure a smooth transition following the impact of this pandemic. Moreover, in monitoring the changes and updates of new employment legislation that may impact working life, the HRD endeavors to define and modify policies, controls and practices that address the emergencies and communicate those changes with respect, accountability, and transparency.

In a nutshell the HRD continues to encourage management, members of staff, relevant stakeholders and the nation to observe the following:

- keep safe and observe the safety precautions recommended by the Health organisations.
- Wash hands with soap and running water or hand sanitise every 20 seconds.
- Observe social distancing at all times.
- Please let's remember to wear masks all the time ■

Covid-19: Financial stability implications and policy measures

By: Moleboheng Hloele

> "The pandemic is likely to push the global economy into a recession of uncertain magnitude and duration. This exogenous shock has placed the financial system under strain. "

According to the International Monetary Fund (IMF), quantifying the economic impact of the current Covid-19 pandemic is complex, and this gives rise to the significant uncertainty about the economic outlook and some associated downside risks. Such an abrupt rise in uncertainty has put both economic growth and financial stability at risk.

The Covid-19 pandemic represents the biggest test of the post-crisis financial system to date. The pandemic is likely to push the global economy into a recession of uncertain magnitude and duration.

This exogenous shock has placed the financial system under strain. Downward revisions of expected economic activity and heightened risk aversion have led to a major re-pricing and re-positioning of global financial markets. The providers of funding have an increasing preference for short-term safe assets, while credit risks are increasing sharply. Therefore, the demands on the financial system's capital and liquidity have risen. Another source of vulnerability arises from heightened operational risks. In addition, the global financial system faces the dual challenge to sustain the flow of credit amidst declining growth and to manage heightened risks.

The aftermath of the 2008 global financial crisis has placed the global financial system in a better place of a more resilient and better place to sustain financing to the real economy. Nonetheless, given the unprecedented scale of the shock, key funding markets experienced acute stress, and authorities, especially central banks, needed to take a wide range of measures to sustain the supply of credit to the real economy and to support financial intermediation. Many central banks around the globe have already, as a first step, injected liquidity into the financial system. However, continued uncertainty about the scale and duration of the economic impact of the pandemic continue to pose strains on the financial system. It is, therefore, the central banks' priority to maintain a well-functioning and resilient financial system.

Global financial stability implications

Covid-19 has let to downward revisions of economic growth expectations together with heightened risks aversion, combined with high uncertainty about the future developments of the pandemic. It has also led to a major re-pricing and re-positioning of assets in global financial markets. All these have led to bouts of extreme volatility in equity and other markets for risky assets, capital outflows from emerging markets and developing economies (EMDE), and sharp moves in foreign exchange rates. Funding markets have been under strain amid extreme demand for cash and near-cash assets and there has been impaired activity and price discovery, including those markets with usually high liquidity. Since the end of the

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first quarter of 2020, some market's stress has subsided in response to the unprecedented fiscal policy measures and central bank action taken to support financial markets.

The pandemic constitutes the first-time global macro-economic shock of uncertain magnitude and duration. Activities in many sectors of the economy such as tourism, transportation, automobile, and services have been negatively affected. The depth of the downturn, timing, and shape of the recovery remains uncertain. The global recession seems imminent, with the potential to create lasting damage to global growth. The impact on firms will differ depending on their sector, size, leverage, funding sources, and credit quality. Other sectors of the real economy had faced reductions in their activity that cannot be recouped (those engaged in services or the production of non-durable goods) or may be permanent in mature. The pandemic and the containment measures are affecting both the supply and demand side in a highly interconnected global economy. All these increase uncertainties, affect investor confidence, contribute more to consumer frigidity, and may propagate the downturn given the importance and depth of the global macro-financial.

Pressure on the supply of credit to the real economy has become a major concern. Non-financial corporates continue to face increasing funding shortfalls as cash flows from operations diminish. Demand for bank credit, including through existing credit lines tapped by corporates, has increased materially and is likely to remain elevated in both short and medium-terms. Moreover, tightening credit supply, especially in the nonbank sector, could significantly add to funding strains in the corporate sector. Credit spreads have widened sharply for riskier borrowers, including those who borrow from leveraged loans and high-yield bonds markets and those operating in sectors particularly impacted by the pandemic.

The financial system is more resilient and better placed to sustain financing to the real economy even though financial intermediaries face growing challenges in lending and funding. The regulatory reforms of the aftermath of the 2008 financial crisis have contributed positively to the resilience of the financial system today. Large banks are better capitalized, less leveraged, and hold more liquidity and as such has remained resilient through this market stress. Non-bank financial intermediation (NBFI), which contributed to the 2008 financial crisis, is growing and diversifying sources of capital. Those factors from NBFI which include certain forms of structured finance have declined and now pose significantly lower financial stability risks.

However, lending and funding structures remain the challenge. Bank and non-bank financing providers have to cope with rising credit risks. Credit quality will deteriorate as the global economy enters into a recession. Credit rating agencies have started downgrading corporates, pushing some of them into the high-yield segment, and have revised their outlook for other firms to negative, with potential procyclical effects. At the same time, growing risk aversion and heightened demand for cash, have led to investors to shift towards cash and cash-like securities. Alongside this, a reduction in intermediation caused some markets to jump to illiquid, including those that are normally considered highly liquid. Emerging markets economies are faced with large capital outflows.

The case of Lesotho

Lesotho, being a small open economy, is not an exception in this case and will not be spared from the negative impact of the pandemic. The actual economic impact of the virus is not yet fully revealed but given the current state of Lesotho's economic growth in terms of gross domestic product (GDP), the deceleration in economic growth could be significant. The initial measures to contain the spread through quarantines and travel restrictions have resulted in a reduction in aggregate demand. Sectors such as tourism, hospitality, and some labor-intensive and supply chain based manufacturing sectors are mostly affected. The mining and construction sectors are negatively impacted as the diamonds are exported to those countries most affected by the virus. The level of revenue across sectors is likely to decline, putting more pressure on the already low fiscal position of the country. As a result companies might consider cost-cutting measures such as laying-off workers or closing shops, thereby causing an increase in unemployment. This may result in increased non-performing loans and less credit extension, and precipitate further into low economic activity, thus increasing the risk of insolvency for banks.

It is in the interest of central banks to closely monitor the resilience of the financial system, to manage liquidity risk, and to ensure that institutions channel funds to the rest of the economy, to ensure financial stability. The evolving counterparty risks are also of importance to be monitored and managed. Any weaknesses in these nodes, and their interaction, could lead to a more tightened financial condition and could impact the provision of financial services and potentially the stability of the financial system.

Covid-19 Pandemic Response Action Worldwide

To provide a rapid and coordinated response to support the real economy, maintain financial stability, and minimize the risk of market fragmentation, many central banks have put in place plan of action, using a set of the following general principles:

- Monitoring and sharing information on a timely basis to assess and address financial stability risks from Covid-19;

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- Using macroeconomic buffers to sustain the supply of financing to the real economy to support market functioning and to accommodate robust business continuity planning;

- Supervising and monitoring banks and working closely with them to ensure actions aimed at managing the virus outbreak such as the temporary restructuring of loan terms for most affected borrowers are both transparent and temporary; and

- Preserve banks' financial strength and overall transparency across the financial sector.

Covid-19 Pandemic Responses by SACU

Table 1 below summarizes policy actions taken by the Common Monetary Area (CMA) countries in response to the Covid-19 pandemic, in both fiscal and monetary policy space. Among other measures, the CMA countries have declared national state of emergency coupled with lockdowns, and other containment measures such as social distancing, travel restrictions, closure of borders.

Conclusion

The virus is spreading across the world at an alarming speed. This calls for unprecedented measures. Immediate and large fiscal measures, supported by targeted monetary easing, are required to contain the virus to ensure economic and financial stability.

Therefore, central banks will remain crucial to safeguarding the stability of the financial system and maintaining the flow of credit to the rest of the economy. This crisis does not only concern liquidity but also affect solvency. Moreover, fiscal policy also plays a vital role to curb the spread of the disease. Therefore, monetary, fiscal, and financial policies should aim to cushion the impact of Covid-19 shock and to ensure a steady, sustainable recovery once the pandemic is under control. Close and continuous monitoring is important to restore confidence and financial stability risks.

Further continuous sharing of information on vulnerabilities and on channels for risks to financial stability will be done. There will be further assessment and identification of areas that warrant close monitoring and further investigation of potential financial stability risks that may lie ahead as the impact of the pandemic unfolds. It is also important to do forward-looking models to realize the vulnerabilities well in time such as potential sources of procyclicality. The impact of Covid-19 on the nature of the financial stability risks also need to be assessed going forward.

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Table 1 ‣ Common Monetary Area Responses to COVID-19

Country	Fiscal policy	Monetary and macro-financial	Exchange rate and balance of payments
South Africa	• Use of the Unemployment Insurance Fund (UIF) for companies and workers facing distress. • Also, the use of special programs from the Industrial Development Corporation. • Tax subsidy for four months. • Temporary higher social grants amounts for six months. • Funds available to assist SMEs under stress, especially in the tourism, hospital and agricultural sectors • New loan guarantee sc.heme available for ceratin banks. • Revenue administration accelerating reimbursements and tax credits, allowing SMEs to defer certain tax liabilities. A four months skill development levy tax holiday was also implemented.	• Central Bank reduced the policy rate by: 1. 100bps to 5.25 percent 2. 100bps to 4.25 percent 3. 50bps to 3.75 percent • Measures taken to ease liquidity conditions were taken including: 1. Increasing the number of repo auctions to two to provide intraday liquidity support to clearing banks at the policy rate 2. Reducing the upper and lower limits of the standing facility to lend at repo-rate and borrow at repo-rate less 100bps 3. Raised the size of the main weekly refinancing operations as needed. • Launched a unified approach to enable banks to provide debt relief to borrowers • Further measures to ease liquidity strain in funding markets by purchasing government securities in the secondary market across the entire yield curve & extend the main refinancing instrument maturities from three to twelve months. • Temporary relief on bank capital requirements and reduced liquidity coverage ratio from 100 to 80 percent too provide additional liquidity and counter financial system risks. • SARB issued two guidelines on debt relief to bank customers and on dividend & cash bonuses distribution to ensure bank capital preservation.	No Measures were taken.
Namibia	• The government launched the Economic Stimulus & Relief package (4.25 percent of GDP) such as 1. expenditure measures for health, wag subsidies for affected sectors and income grants. 2. guarantees to support low-interest loans for small & agricultural businesses and individuals.	• The Central bank reduced the policy rate by 100bps to 4.25 percent twice since the state of emergency was declared (200bps) • Central banks made some changes in the financial sector together with its regulatory setting including: 1. Allowing banks to grand loan payment holiday ranging from six to twelve months. 2. Regulatory and policy relief changes such as relaxing the determination of liquidity risk management, reducing capital conservation buffer rate to zero percent for at least 24 months to support banking institutions to supply credit. 3. And postponing the effective date of implementation of the 25 percent single borrower limit and concentration risk limit.	No Measures were taken.
Eswatini	• There was a supplementary budget for the financial year ending March 2020 for additional public health (0.14 percent of GDP). • Additional expenditure policies are not yet finalised. • Revenue measure include: 1. Extension of returns filing deadlines by 3 months before penalties kick-in. 2. Payment arrangement for taxpayers facing cash flow problems. 3. Waiver of penalties & interest for older tax debts given principal is cleared by the end of September 2020. • Up to 0.13 percent of GDP in a tax refund for SMEs that have complied with tax obligations.	• The Central Bank has 1. Reduced the discount rate twice by a cumulative 200 basis points to 4.5 percent. Its further reduced the discount rate on the 22nd of May 2020 by 50bps to 4.0percent. 2. Reduced the reserve requirements to 5 percent (from 6 percent). 3. Reduced liquidity requirement to 20 percent (from 25 percent) for commercial banks and 18 percent (from 22 percent) for development banks 4. Encouraged use of electronic payments. 5. Encouraging banks to consider loan restructuring and payment holidays. • Banks have announced that those companies and individuals that need short-term financial support or relief can approach them and each application will be assessed on a risk-based approach.	No Measures were taken.
Lesotho	• The country has developed the National Covid-19 Response Integrated Plan 2020 in collaboration with development partners. Main two packages include: 1. 2 percent of GDP fund was set aside for national Covid-19 response plan 2020 2. Economic mitigation measures are also being implemented including 1.2 billion for emergency assistance and expanding social protection. • Top-up in social grants, public assistance will be expanded for 3 months. • Industrial worker subsidy to 45 thousand industrial workers, grants and stipends to tertiary students both domestically and abroad. • Food production subsidies by M100 million • The government intends to clear arrears to MSMEs and expanding credit guarantee facilities by M450 million. • Rent holidays for firms renting from LNDC and local/municipal governments. • Lesotho Revenues Authority will defer corporate income tax for the first two quarters of 2020 for all businesses and provide tax deferrals for PAYE, VAT and simplifies business taxes for non-essential service providers.	• The Central Bank of Lesotho increased the NIR tar floor by US$30 million from US$630 million. • CBL policy rate reduced twice (cumulative 200bps down) to a low of 4.25 percent. It further reduced the CBL policy rate by 50bps to 3.75percent. • Mobile network operators were negotiated to remove fees for transactions below M50 & temporarily raised mobile money transaction limit to encourage the use of non-cash payments. • Banks and insurance companies were also asked to suspend loan repayments for three months, and insurance companies suspend installment payments • -The implementation of Basel II.5 was postponed to free up funds that would otherwise go towards additional capital buffers.	No Measures were taken.

The role of civil society organisations in economic development

By: Retšelisitsoe Mabote

> **"The pandemic is likely to push the global economy into a recession of uncertain magnitude and duration. This exogenous shock has placed the financial system under strain. "**

Economic management is often considered a responsibility of Governments through various structures. This is to ensure coordinated efforts in planning and management of resources to ensure maximum impact, as well as, sustainability. However, economic development requires a concerted effort that involves participation of society at large. This includes planning, execution and management of created economic goods. To ensure mass representation in the process, civil society organisations (CSOs) in their respective formation play a vital role to ensure that all segments of society are represented in the designs and initiation of policies and developmental programmes.

To put this into perspective, this article defines economic development simplistically, to mean the process by which nations identify the needs, mobilise resources and execute plans to improve the economic, political, and social well-being of its people. This definition was further affirmed by Todaro M (2011) in the 11th edition of his book titled "Economic Development". The book addresses economic development within the context of a major set of problems, such as poverty, inequality, unemployment, population growth, environmental decay, and rural stagnation. The concept is broad-based and evolved from those who viewed it as "modernisation", "westernisation", and later "industrialisation".

This is basically the process of facilitating mobility and access of resources to enhance communal wellbeing. It is, therefore, clear from the foregoing that the task of economic development may not be exclusively undertaken by government without participation of other segments of society. However, it may not necessarily be possible for all members of society to par-take in economic development, but rather that is realised through representation of society through variety of organisations.

Contextualisation of civil society organisations (CSOs)

This section attempts to put the notion of CSOs into perspective, as the representative of diverse society in planning and implementation of programmes aimed at uplifting the societal wellbeing. Edwards (2000) describes civil society as a constantly shifting concept defining the social formation that is intermediate between "the family", "the state" and "the market". He further argues that it is "the arena in which people come together to advance the interests they hold in common, not for profit or political power, but because they care enough about something to take collective actions". In agreement with this assertion, the United Nations (UN) encourages government to involve civil society in all activities as that facilitates a wider representation, participation and ownership of programmes and initiatives which are ideals for sustainability. This is

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[1]Michael Paul Todaro is a pioneer in the field of development economic.

further supported by the Centre for Strategic and International Studies (CSIS) (2017), which conceives civil society as the arena created by individual and collective actions outside the family, the state, and the market, to pursue shared interests. It can, therefore, be deduced from this argument that society is considered the "third sector", along with government and business sector in shared responsibility for social advancements.

This impression is also shared by the African Union (AU), which encourages its member states and partners to work with civil society organisations to create and strengthen social integration system. The continental policy body sees this as means through which societal contributions can be mainstreamed through all aspects of policies and programs at local and national levels.

For that reason, it can be argued that CSOs are the second most important establishment of elected community representatives after "the legislators", since they play the oversight role on the ideals of their constituencies. The World Economic Forum also corroborated this by discerning that CSOs have the power to influence the actions of elected policymakers and businesses. It is argued that due to their proximity and accessibility, CSOs are bound to maintain relevance, and legitimacy despite changing patterns and appetites. They act as the intermediaries between governments and the primary beneficiaries as governments deliver on their mandates/manifestos. In view of that, they instil sense of accountability from governments at their various levels.

The role of CSOs in economic development

The above discussions present CSOs as key players in day-to-day activities, including a collective identification of challenges, design of programmes and their implementation. It is therefore, important to elucidate their role and importance in economic development. The Malaysian authorities recognise the civil society as a key player to identify business areas through which there are comparative advantages. Following interrogation of identified social problems or challenges, CSOs initiate standards and chart milestones for all stakeholders.

This is also established by Heng et al (2012) who claimed that the public is the most important source for sustainable solutions to domestic problems. They contend that CSOs provide platform for constant dialogue, interaction and negotiations to all stakeholders in the economy.

[2] Pak J Commer Soc Sci Pakistan Journal of Commerce and Social Sciences 2014, Vol. 8 (1), 201-227 Role of Civil Society in Economic Transformation in Malaysia

Therefore, civil society has a big role to play in economic development through selection of the right representatives or leaders. Their overall level of responsibilities can be summarised as:

- Identify and nominate their representatives at various levels of decision making;
- Sensitise their communities to play active role in economic management;
- Identify priority areas for improvement and or investments;
- Promote social coercions and minimise civil conflicts to protect institutions that promote economic development; and
- Creates an environment for youth to learn as a way to mould future leaders.

Therefore, CSOs are considered the important mediators for promoting good governance to ensure transparency, efficiency, equality, awareness, accountability and poverty eradication. The key roles of CSOs can be put into three main processes as follows:

a) Identification of Common Problems

Membership of CSOs is made up of representatives from their respective communities and social settings. As a result, they comprise people who are affected directly by challenges or difficulties that affect the rest of their communities. Consequently, they identify shared problems that disturb them all.

b) Design of Policies and Programmes

CSOs design home-grown policies or solutions that embrace appropriate technologies. Since they would have been part of people who identified their inherent problems, it is easy to design programmes that best respond to their needs. They are integral part of planning and mobilising resources.

c) Oversight during Implementation

CSOs facilitate development of Monitoring and Evaluation systems through identification of targets and milestones for project implementation. They determine realistic and measurable targets for each stakeholder and put in place monitoring and evaluation frameworks to reinforce compliance. Their key role on economic development may be summarised as below:

- Identify all key stakeholders and assign tasks to be performed by each;
- Ensure that each stakeholder performs the task assigned on a timely basis; and
- Provide the platform for collective execution and attainment of the goals.

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Therefore, they facilitate programme effectiveness, sustainability and endurance since conclusions about the following five main aspects of their intervention are drawn from evaluation:

- Relevance
- Effectiveness
- Efficiency
- Impact
- Sustainability

All the aforementioned tasks are coordinated under the principles of subsidiarity, accountability and transparency, inclusion, as well as, harmonisation of policies and systems, amongst others. Nepal provides practical example where CSOs best coordinated the challenging community project. The CSOs played imperative role in the design and implementation of the most cost effective Public-Private Partnership (PPP) projects that galvanised disadvantaged youth to take part in income generating activities. Therefore, the involvement of CSOs in service delivery often enhances efficiency and probity. It sometimes enables ordinary people, individually and collectively, to influence the implementation and (less often) the content of policies and projects as observed by Manor J. (2002).

The experience with CSOs in Lesotho

Lesotho, like many other African countries, has had gender imbalance both in public administration and representation. This might be claimed to have been influenced by the practices inherited from the colonial master. This practice excluded the majority of population in planning and execution of plans. According to demographic distributions, there are more females than males, the situation that is made worse by the migrant mineworkers. As a result, minority made rules that affected the majority. That is if the population distribution is broken into males, females, and youth. It was only in the aftermath of CSOs intervention that the status quo changed to cater for those that had always been compromised. Therefore, an example of the role played by the local CSOs is elaborated in the following two categories:

a) Equity and Equality in decision making

A number of NGOs were established to sensitise both the government and community at large to make provision for those who were excluded in decision making to be accommodated. This saw ascend of ladies into the highest positions in decision making as the systems began to appreciate potential role that ladies and youth could play. In response to sensitisation made by the CSOs, government made a provision in 2002 general elections for 30 per cent of constituencies, and subsequently, the Proportional Representation list of their respective parties to be reserved for female representatives. That was further translated into the Local Government elections that followed, with legislative provisions revised to enable property ownership. Consequently, the country experienced the first female Commissioner of Police, the first female Government Secretary, the first Female Chief Justice, and of course, the first Female Governor of the Central Bank. Their roles in reproductive health and health education in general cannot be overemphasised. Therefore, it can be concluded that the CSOs have played a facilitative role to ensure that all participate fully in economic development, through various sectors.

b) Natural resources management

Lesotho often faces harsh climatic conditions, with potential to fuel soil erosion, given the topography. The erratic rain falls, coupled with long periods of draught render the soil texture vulnerable. However, the assistance of CSOs have somehow moderated the effects, and improved soil productivity. They have played a humongous role in sensitising the public about the use of land, it being overgrazing or conventional methods applied in crop production. There are some CSOs that targeted some vulnerable regions such as the Senqu Valley, the Highlands areas, especially Mokhotlong and Thaba-Tseka for animal husbandry. It is through their intervention that Lesotho, unlike other developing countries, has a moderate rural-urban migration. The CSOs have also represented communities that were either displaced by construction of Highlands Water Project, to secure compensations.

This, therefore, provides evidence of the role that the NGOs have played to empower their respective communities and preserve their environments. The CSOs have also empowered the previously disadvantaged members of society to have their voices heard.

Conclusion

In order to ensure that all stakeholders play their roles, the implementation framework is usually evidence driven, with all decisions relating to prioritisation. Resources are allocated on the basis of impartiality to ensure convergence and acceptance by all stakeholders. Participation and inclusion of all key stakeholders led and coordinated by the Government is a critical success factor, which enhances awareness, ownership and strengthen collective commitments. This is further demonstrated by the apex policy bodies, the UN through establishment of the Economic and Social Council (ECOSOC), and the AU through the Economic, Social and Cultural Council (ECOSOCC) that was established in 2004.

[3]James Manor in his findings in "Partnerships between Governments and Civil Society for Service Delivery in Less Developed Countries: Cause for Concern" Institute of Development Studies University of Sussex

It must, however, be acknowledged that these roles and their impact may not immediately be seen in some context due to political polarity that exists in most developing countries. These are some of the concerns and challenges that have to be tackled by the National Umbrella bodies such as the Lesotho Council of NGOs in order to ensure impartiality at all times in their respective interventions.

Money lending

The law does not allow for consumers to be forced to surrender a passport, ID, Bank Card and a PIN in order to get a loan.

Consumers should use only legal and financial institutions licensed by the central Bank of Lesotho to request loans.

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Communicating in crisis: how the bank responded to covid-19 outbreak shock

By: Moroke Moroke

> "Astonishingly, one lesson learned was that personal protective equipment such as masks and gloves might not have been handled properly due to lack of knowledge of the health protocols. "

The outbreak of COVID-19 send shock waves across the world. Its immediate impact was on the way institutions communicate within the environment of fear of an unknown disease that had no cure. The Central Bank of Lesotho was not an exception.

In response to the outbreak , the Bank's communication was preceded by swift precautionary interventions led by the Management. The interventions were basically aimed at seeking understanding of the virus; how it behaves; how should people behave, and do things in order to avoid exposure and transmission. The Bank invited representatives of the World Health Organisation and the Ministry of Health to brief staff members under the facilitation of the Governor assisted by the Deputy Governors and members of the Executive Management.

Following the swift reaction from the Bank's Human Resources Department and the Emergency Response Team, the basic personal protective equipment was procured and distributed to all staff members to be used when attending briefing session. Astonishingly, one lesson learned was that personal protective equipment such as masks and gloves might not have been handled properly due to lack of knowledge of the health protocols. However, it was better reacting and acting accordingly with precaution than to leave the possibility for exposure doing nothing.

However, the anxiety among staff members endured because of the staff members who were suspected to have to have to been exposed to the virus during a workshop and placed on quarantine. Fortunately, and to our delight they completed the period and none of them tested positive.

News from the global scene where the virus was already prevalent compounded the anxiety and fear. It was always shocking to read statistics on the deaths of ordinary people, as well as celebrities and monarchs. Following the brief and advice from the World Health Organisation, and the Ministry of Health, staff members remained more cautious. To allay fears for staff members and the nation, the Governor went on national television to relate measures taken by the Bank to handle the suspected case.

Above all actions, the Bank implemented the Emergency Plan and the set protocols were followed. A call-center telephone number was given to staff members to report suspected cases of COVID 19. The Management reached a decision to reduce the number of staff members working on-site to meet Government stipulation. Only a minimum number of operational staff members remained in the Bank.

In this state, it became evident that the way of doing things has changed and means of communication could not remain the same. It was a time for the new order triggered by the need to maintain social distancing,

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which is a basic requirement to minimize chances of transmission; social media communication was transformed to become the key channel of linkage between staff members in running the business in continuation of the delivery on the basic mandate of the Bank.

The Bank also took two distinct key initiatives to address the situation. On the one side, it focused on protection of its human resources, while also communicating to maintain stability in the financial systems. The Bank also issued directives to the financial sector on key initiatives that enable alleviation of the COVID 19 outbreak impact on small and medium business. These were conveyed broadly through press releases, briefs and further pushed through social media which are have become an effective avenue for general public dialogue and formation of organizational identities.

The Bank further held Monetary Committee meetings after which the statements were widely publicized. During the MPC statement briefing sessions, it became lucid that in case the pandemic endures, the meetings would be conducted through the digital virtual platforms to avoid close contacts of individuals, which could result in the possibility of the spread of the pandemic. The key issue was readiness by all media houses to participate in such virtual sessions.

Given the risk of the pandemic, the need to keep social distancing and to minimize crowding, virtual communication is going to be a new order. It has become the basic premise for the organizational identity and brand equity. This posed the need for the Bank to set up appropriate infrastructure and technology and reshaping messages germane to the delivery of its mandate to fit the new context and to identify relevant complements (innovative blend of virtual communication with traditional tools to address the needs of specified publics) to promote efficiency until the pandemic can be manageable. It seems the new way of communicating will remain an order of doing business for a long time to come. As it were, there is likely to be no return to the old order. Key basic protocols for containment have ushered a new order of existence, wearing masks, sanitizing hands and maintaining social distance and predominantly communication through virtual tools.

Staff Association Committee President, Mr. Toka Sello, leads staff members on cleaning campaign.

Staff members in action during the cleaning campaign.

Events in pictures

Central Bank of Lesotho Executive Management during the handing-over ceremony of Personal Protective Equipment materials to Christian Health Association of Lesotho and garbage bins to Maseru City Council.

The Governor presenting the garbage bins to MCC.

Speedy adaptive response in countering the economic impact of covid-19

The outbreak and exponential spread of the corona virus/covid-19 gave rise to the need to develop containment measures.

Covid-19 heralded the unsurpassed disruptions on both advanced, emerging and growing economies globally.

The Central Bank of Lesotho made speedy assessment of the developments followed by the matching complex adaptive responses to reduce devastating impact for the benefit of all in the Kingdom.

Action	Action	Action
Assessment of the global macroeconomic developments and appropriate revision of the CBL policy rate.	Assessment of developments in the global financial markets and maintenance of adequate reserves to preserve the value of Loti as obseverd with the Rand.	Policy directive for commercial banks to negotiate with affected clients who qualify to be granted loans payment holidays.

Action	Action	Action
Policy directive to mobile money service providers to reduce charges and increase limits to enable easy transactions during the pandemic.	Policy directive for insurers to give extended period to clients whose premium payment ability may be affected covid-19.	Continue monitoring developments and work in partnership with major stakeholders for the benefit of all in the Kingdom.

2021 TREASURY BILLS AUCTION CALENDAR

Bids Close Date	Auction Date	Maturity Dates			
		91	182	273	364
2021-01-12	2021-01-13	2021-04-14	2021-07-14	2021-10-13	2022-01-12
2021-01-26	2021-01-27	2021-04-28	2021-07-28	2021-10-27	2022-01-26
2021-02-09	2021-02-10	2021-05-12	2021-08-11	2021-11-10	2022-02-09
2021-02-16	**2021-02-17**	**2021-05-19**	**2021-08-18**	**2021-11-17**	**2022-02-16**
2021-03-02	2021-03-03	2021-06-02	2021-09-01	2021-12-01	2022-03-02
2021-03-16	2021-03-17	2021-06-16	2021-09-15	2021-12-15	2022-03-16
2021-03-30	2021-03-31	2021-06-30	2021-09-29	2021-12-29	2022-03-30
2021-04-13	2021-04-14	2021-07-14	2021-10-13	2022-01-12	2022-04-13
2021-04-27	2021-04-28	2021-07-28	2021-10-27	2022-01-26	2022-04-27
2021-05-11	2021-05-12	2021-08-11	2021-11-10	2022-02-09	2022-05-11
2021-05-18	**2021-05-19**	**2021-08-18**	**2021-11-17**	**2022-02-16**	**2022-05-18**
2021-06-01	2021-06-02	2021-09-01	2021-12-01	2022-03-02	2022-06-01
2021-06-15	2021-06-16	2021-09-15	2021-12-15	2022-03-16	2022-06-15
2021-06-29	2021-06-30	2021-09-29	2021-12-29	2022-03-30	2022-06-29
2021-07-13	2021-07-14	2021-10-13	2022-01-12	2022-04-13	2022-07-13
2021-07-27	2021-07-28	2021-10-27	2022-01-26	2022-04-27	2022-07-27
2021-08-10	2021-08-11	2021-11-10	2022-02-09	2022-05-11	2022-08-10
2021-08-17	**2021-08-18**	**2021-11-17**	**2022-02-16**	**2022-05-18**	**2022-08-17**
2021-08-31	2021-09-01	2021-12-01	2022-03-02	2022-06-01	2022-08-31
2021-09-14	2021-09-15	2021-12-15	2022-03-16	2022-06-15	2022-09-14
2021-09-28	2021-09-29	2021-12-29	2022-03-30	2022-06-29	2022-09-28
2021-10-12	2021-10-13	2022-01-12	2022-04-13	2022-07-13	2022-10-12
2021-10-26	2021-10-27	2022-01-26	2022-04-27	2022-07-27	2022-10-26
2021-11-09	2021-11-10	2022-02-09	2022-05-11	2022-08-10	2022-11-09
2021-11-16	**2021-11-17**	**2022-02-16**	**2022-05-18**	**2022-08-17**	**2022-11-16**
2021-11-30	2021-12-01	2022-03-02	2022-06-01	2022-08-31	2022-11-30
2021-12-14	2021-12-15	2022-03-16	2022-06-15	2022-09-14	2022-12-14
2021-12-28	2021-12-29	2022-03-30	2022-06-29	2022-09-28	2022-12-28

Shaded auctions have a 1 week adjustment to accommodate maturing Treasury Bills.

MONEY LENDING

The law does not allow for anyone to be forced to surrender a passport, ID, Bank Card and a PIN in order to get a loan.

Use only financial Institutions licensed by the Central Bank of Lesotho for a loan.

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CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

COVID-19

IS A **DEVASTATING** REALITY
ECONOMICALLY
AND
OTHERWISE

BE SAFE

AVOID CROWDED PLACES
& ALWAYS WEAR A MASK