



**CENTRAL BANK OF LESOTHO**

**PRESS RELEASE ON THE GLOBAL FINANCIAL MARKET CRISIS  
SEMINAR**

**HELD ON WEDNESDAY THE 10TH DECEMBER 2008  
AT LEHAKOE CULTURAL AND  
RECREATIONAL CENTRE**

## **1. Introduction**

On the 10<sup>th</sup> December 2008, Central Bank of Lesotho (CBL) held a seminar on ***Global Financial Market Crisis*** at Lehakoe Cultural and Recreational Centre.

The main objectives of the seminar were to discuss:

- The evolution of the crisis;
- The implications of the financial crisis on the global economy and domestic economy;
- The world response to the crisis as well as Lesotho's response to the crisis.

The current global financial crisis is believed to be the largest economic crisis since the Great Depression of 1930's. Thus, national governments, news media, and other economic and socio-political formations have created avenues for debates to attempt to contextualize this crisis to their own settings, with a view to intelligently craft appropriate responses to it.

## **2. Opening Remarks by Honorable Minister of Finance and Development Planning**

The seminar was officially opened by the honorable Minister of Finance and Development Planning (MoFDP), Dr. T.T. Thahane. The Minister acknowledged the importance of the seminar and requested that such seminars be held frequently. He pointed out that it was through such that national issues would be discussed and recommendations advanced to advise the Cabinet on appropriate macroeconomic policy direction.

The Minister broadly indicated how the economy of Lesotho is linked with the global economy and mentioned that the crisis did not concern only the developed economies. He emphasised the need for Lesotho to "think globally and act locally" as did the other economies. He indicated that all stakeholders in Lesotho should be prepared for the challenges facing the country.

### **3. Keynote Address by the Governor of the Central Bank of Lesotho**

The Governor of the CBL, Dr. M. Senaoana, outlined the evolution of the crisis which he attributed to the collapse of the Sub-prime Mortgage Markets that culminated into a market panic, loss of confidence, credit crunch and liquidity shortages. He defined and outlined characteristics of the sub-prime mortgages and risky borrowers who access them. He mentioned that the initiative benefited the clients who would otherwise not have accessed the credit, due to pressure to avoid housing credit.

He indicated that the crisis spread to emerging markets including Africa through reversals of Foreign Direct Investments (FDIs) and portfolio capital flows as well as through the network of multinational banks and financial institutions. The Governor observed that globally, there is a risk of over-response to the crisis in the form of wide-ranging monetary policy relaxation and expansionary fiscal policy.

In his conclusion, the Governor indicated that the policy responses to capital flows will depend on the monetary and exchange rate regime of a particular country. He indicated that the Sub-Saharan policy-makers are currently faced with the challenge of implementing measures that would mitigate against shocks to their economies. These include:

- Sound macroeconomic management,
- Transparent capital account policy, and
- Financial sector reforms.

### **4. Presentation on implications of the crisis on South African economy, Mr. A. Casterleijn;**

Mr. A. Casterleijn (Senior Economist – South African Reserve Bank) indicated that, in comparison with other financial crises since 1986, the magnitude of the

current financial crisis is big in absolute terms but lower in percentage of GDP since the crisis is spread across many countries. He demonstrated that the current crisis is also unique in terms of the high level of volatility in equity prices and scale of job losses. He outlined the transmission of the crisis to emerging market economies (EME's).

Mr. A. Casterleijn pointed out that South Africa's (SA's) financial sector was relatively healthy, due to prudent regulation, and supervision (Credit Act and Basel II implementation) and therefore have not been as severely exposed to toxic loans as its international counterparts. However, he indicated that, since the crisis, the SA financial, foreign exchange markets including markets for commodity exports have been declining. In addition, risk premium increased as evidenced by an increase in bond yields. The stock market's overall index has been on the decline, but the fall was lower than the decrease in emerging markets index. The rand came under pressure in line with experiences in other resource-dependent emerging markets running current account deficits.

The impact of the Crisis on SA's real economy was outlined. SA's GDP growth performance up to the second quarter of 2008 was influenced mainly by domestic developments such as interest rates hikes and power shortages, as well as vigorous growth in commodity prices. However, the SA started to feel the impact during the third quarter of 2008 with the commodity price implosion and escalating risk aversion. Consequently, the economy weakened (due to a significant decline in manufacturing sector) and recorded the lowest growth rate in ten years. With regard to the outlook, domestic growth could moderate during 2009 before improving in 2010 – real economic growth of 3,7 per cent in 2008 and 3 per cent in 2009, recovering to around 4 per cent in 2010 and 4,3 per cent in 2011.

Moreover, Mr. Casterleijn indicated that the volatility and uncertainty in the financial markets environment will continue to complicate monetary policy

decision-making. However, the impact on economic growth could be less severe than in other emerging markets since domestic banking system has remained relatively unaffected.

## **5. Presentation by Deputy Governor of Central Bank of Lesotho**

The Deputy Governor of the Central Bank of Lesotho, Dr R. Matlanyane, indicated that the country was expecting a slowdown in economic growth. She underlined that the mechanism through which the financial crisis would affect the country included but not limited to the following;

- Slowdown in manufacturing sub-sector due to reduction in orders from US and reduction in access to credit in Asian financial markets (as the manufacturing sub-sector source funds from Asian financial markets).
- Lower growth rate of transport sector, affected manufacturing performance.
- Reduction in miners' remittances from SA's mining industry and loss of jobs by Basotho migrant mineworkers as a result of a decline in production of mining commodities (Gold, Diamond, Platinum etc) due to weak global markets.

However, inflation was expected to fall driven by recent declines in oil prices (due to crisis induced fall in demand) and possible slowdown in food inflation. It was demonstrated that strong SACU receipts continue to boost the balance of payments, with the current account and government budget operations in surplus. Credit to the private sector has not been affected by the increase in interest rates and continued to grow, especially credit to business enterprises. She indicated that the main challenge the country was facing was the low economic growth, rise in unemployment with declining Government revenue, particularly SACU revenue. She indicated that the policy options for the country to address those challenges would be encouragement of investment and private

sector lending since there was not much policy space as the country is operating under fixed exchange rate regime.