2022 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

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March 31, 20**23**

Hon. Retšelisitsoe Matlanyane, MP,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Honourable Minister,

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2022 which includes:

1. a review of economic developments during the year

2. pursuant to Section 53(1) of the Central Bank of Lesotho Act No.2 of 2000;

    a) The Bank's annual financial statements for the year ended December 31, 2022 certified by the auditors Moteane, Quashie & Associates and SNG Grant Thornton.

    b) A report on the operations and activities of the Bank during 2022.

Yours sincerely,

Emmanuel Maluke Letete (Dr.)
GOVERNOR

CENTRAL BANK OF LESOTHO
2022 ANNUAL REPORT

for the year ended December 31, 2022

The contents of this 2022 annual report are pursuant to Sections 46 and 53 of the
of the Central Bank of Lesotho Act No. 2 of 2000.

The *Annual Report* is available on the Bank of Lesotho's website at **www.centralbank.org.ls**.

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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

The Central Bank of Lesotho is a statutory organisation fully owned by the Government of Lesotho.

The Central Bank enjoys a fair amount of independence in formulating and implementing monetary policy. The Governor, who is also the chairman of the Board of Directors, together with the two Deputy Governors, are appointed by His Majesty The King on the advice of the Prime Minister. The Minister of Finance appoints the other Board Members.

Mission Statement

The Mission of the Central Bank of Lesotho is to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Objectives

The principal objective and mandate of the Central Bank of Lesotho, as stipulated in the Central Bank of Lesotho Act of 2000, is to achieve and maintain price stability.

Other statutory functions of the Bank are:

- To foster the liquidity, solvency and proper functioning of a stable market-based financial systems;
- To formulate, adopt and execute the monetary policy of Lesotho;
- To issue, manage and redeem the currency of Lesotho;
- To formulate, adopt and execute the foreign exchange policy of Lesotho;
- To license, register and supervise institutions pursuant to the Financial Institutions;
- To own, hold and manage its official international reserves;
- To act as a banker and advisor to, and as fiscal agent of the Government of Lesotho;
- To promote the efficient operations of the payments system;
- To promote the safe and sound development of the financial system; and
- To monitor and regulate the capital market.

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CONTENTS

	Board, Executive & Foreword by Governor	
	List of Acronyms	iii
	List of Tables and Figures	iv
	Board of Directors	vi
	Executive Management	vii
	Foreword by the Governor	ix

	The Economic Report	2
1.1	International Economic Developments	2
1.1.1	The World Economy	2
1.1.2	Selected Advanced Economies	3
1.1.3	Selected Emerging Market Economies	4
1.1.4	Commodities Price Developments	7
1.1.5	Currency Movements	8
1.2	Domestic Economic Developments	8
1.2.1	Real Sector Developments	8
1.2.2	Monetary and Financial Sector Developments	14
1.2.3	Government Finance Operations	20
1.2.4	Foreign Trade and Payments	26

	Report on the Activities of the Bank	31
2.1	Monetary and Financial Stability	31
2.2	Economic Research and Advisory Services	32
2.3	Regulatory and Legislative Developments	33
2.4	Financial Surveillance and Integrity	35
2.5	Financial Markets	35
2.6	Payments Systems Performance	37
2.7	Financial Consumer Protection and Market Conduct	41
2.8	International Cooperation	43
2.9	Corporate and Assurance Services	44

	Audited Financial Statements	52

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LIST OF ACRONYMS

AACB	Association of African Central Banks (AACB),
ADT	automated deposit terminal
AFI	Alliance for Financial Inclusion
AML	anti-money laundering
ATM	automated teller machine
BCM	Business Continuity Management
BIS	Bank for International Settlement
CBDCs	central bank issued digital currencies
CBL	Central Bank of Lesotho
CCBG	Committee of Central Bank Governors
CFT	combatting of financial terrorism
COVID-19	coronavirus disease of 2019
FCP	Financial Consumer Protection
GDP	gross domestic product
GNI	gross national income
GRC	governance, risk management and control
IAD	Internal Audit Department
ICT	Information Communication Technology Department
IMF	International Monetary Fund
ISO	International Organization for Standardization
KFS	key facts statements
LHWP	Lesotho Highlands Water Project
LSW	Lesotho wire (settlement system)
M1	narrow money
M2	broad money supply
MFDP	Ministry of Finance and Development Planning
MFIs	micro finance institutions
MSM	Maseru Securities Market
MSME	Micro, Small, and Medium Enterprise
NFA	net foreign assets
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TSS	Transactions Screening and Payments
UK	United Kingdom
US	United States

TABLES & FIGURES

6 ▶ Table 1: Selected Economic Indicators, 2018- 2022*
8 ▶ Table 2: Aggregate Economic Indicators
15 ▶ Table 3: Domestic Credit (Million Maloti: End Period)
15 ▶ Table 4: Banking System's Net Foreign Assets (Million Maloti: End Period)
16 ▶ Table 5: Trends of Credit to Business Enterprises (Million Maloti)
19 ▶ Table 6: Components of Liquidity (Million Maloti)
20 ▶ Table 7: Interest Rates
24 ▶ Table 8: Statement of Government Operations (Million Maloti)
26 ▶ Table 9: Public Sector Debt Stock (Million Maloti)
27 ▶ Table 10: Summary of Balance of Payments (As percentage of GDP)
32 ▶ Table 11: Financial Soundness Indicators (%)
39 ▶ Table 12: LSW Transactions between 2015 and 2022

9 ▶ Figure 1: Sectoral Real Growth Rate (Percentages)
10 ▶ Figure 2: Sectoral Shares in GDP at Factor Cost (Percentages)
11 ▶ Figure 3: Savings and Investment (As a percentage of GNI)
12 ▶ Figure 4: Employment Trends
13 ▶ Figure 5: Lesotho Consumer Price Index (Annualized Percentage Changes)
14 ▶ Figure 6: Real Money Supply Growth (Percentage Change)
17 ▶ Figure 7: Distribution of Credit (Percentage Shares)
18 ▶ Figure 8: Credit Extension to Household (Million Maloti)
21 ▶ Figure 9: Fiscal Balance (Million Maloti)
22 ▶ Figure 10: Revenue (Million Maloti)
22 ▶ Figure 11: Total Expense (Million Maloti)
23 ▶ Figure 12: Total Expenditure (Million Maloti)
23 ▶ Figure 13: Total Financing (Million Maloti)
25 ▶ Figure 14: Outstanding Public Sector Debt (Million Maloti)
27 ▶ Figure 15: Reserves in Months of Imports
37 ▶ Figure 16: New Banknotes Issued to Circulation
38 ▶ Figure 17: Overall mobile money trust account balance between 2016 and 2022
39 ▶ Figure 18: Overall mobile money trust account balance between 2016 and 2022
40 ▶ Figure 19: The Number of Complaints Handled in 2021-2022
42 ▶ Figure 20: Technical and business fitness status of mission critical systems
46 ▶ Figure 21: Planes of Cyber-risk Management
47 ▶ Figure 22: Organization's Risk Score

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Board of Directors & Executive Management

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BOARD OF DIRECTORS

Dr. Emmanuel Letete
Executive Chairman

Mr. Lehlomela Mohapi
Executive Director

Ms. Refiloe Tlali
Non-Executive Director

Mr. Retšelisitsoe Thamae
Non-Executive Director

Mr. Obed 'Nete
Non-Executive Director

Mr. Matooane Letsoela
Non-Executive Director

Adv. Kuena Thabane
Non-Executive Director

EXECUTIVE MANAGEMENT

Dr. Emmanuel Letete
Governor

Mr. Lehlomela Mohapi
First Deputy Governor

Dr. Tanka Tlelima
Director of Research Department

Mr. Matšabisa Thamae
Director of Financial Markets Department

Mr. Mokotjo Mphaka
Director of Other Financial Institutions Supervision Department

Mr. Fusi Morokole
Director of Operations Department

Mrs. Puseletso Tau
Director of Banking Supervision & Financial Stability

Mr. Mothetsi Sekoati
Acting Director of Payments & Settlements Department

Mrs. 'Mamakhaola Mohale
Director of Internal Audit Department

Mr. Napo Rantsane
Director of Corporate Affairs Department

Mrs. 'Mateboho Morojele
Director of Human Resources Department

Mrs. Mpono Mosaase
Director of Enterprise Risk Management Department

Mr. Thabiso Makula
Director of ICT Department

Mrs. Rebecca Ralebakeng
Director of Finance Department

"Despite significant shocks to the global financial markets, the Bank continued to preserve the value of official reserves, meeting liquidity requirements and generating returns."

Foreword by the Governor

FOREWORD BY THE GOVERNOR

THE YEAR 2022 WAS DOMINATED BY THE RUSSIA-UKRAINE WAR, rising inflation, and tightening monetary policy conditions. As global economy was recovering from the effects of coronavirus disease of 2019 (COVID-19) pandemic, the war broke between Russia and Ukraine leading to severe disruption to food and energy supply globally. These exacerbated the already built-up inflation pressures, which were induced by the COVID-19 supply-side disruptions and sizable unconventional monetary policy interventions in most economies. As a result, most central banks increased their key interest rates faster than expected to contain inflation and avert the cost-of-living crisis.

Global economic growth was estimated to slow down to 3.4 per cent in 2022 from 6.2 per cent in 2021. The slowdown was broad-based across regions and reflected the impact of rising interest rates to fight inflation and the prolonged lockdown and the zero-tolerance policy on COVID-19 by China. Growth in advanced economies was estimated at 2.7 per cent, compared to 5.4 per cent in 2021. Meanwhile, growth in emerging and developing economies was projected at 3.9 per cent following a 6.7 per cent growth in the previous year. While these economies were gradually recovering from COVID-19 induced weaknesses, growth was adversely affected by the war between Russia and Ukraine, which led to record high inflation rates and tighter monetary policy stances in most economies. These, in turn, have weighed negatively on consumers' purchasing power.

The economy of Lesotho, like the rest of the world, remained weak but economic growth was supported by the implementation of the second phase of the Lesotho Highlands Water Project (LHWP). Economic activity measured by real Gross Domestic Product (GDP) was estimated to have grown by 1.5 per cent in 2022 in comparison to the 1.6 per cent growth in the preceding year. Growth was mainly driven by the secondary sector through construction activity. This was mainly related to the LHWP phase II. Moreover, the primary and tertiary sectors also contributed to the observed growth, though at modest rates, with the latter benefiting from the spillovers from the heightened activity in the construction industry. The primary sector was boosted by the reopening of the three mines following their closure due to COVID-19.
Gross national savings as a percentage of gross national income (GNI) was estimated to have dropped to 14.4 per cent, from 15.5 per cent realised in the preceding year. However, the ratio of total investment to GNI was higher at 21.6 per cent, than the 19.2 per cent in 2021. The fall in national savings resulted from a drop in government savings. Both private sector savings and investment as ratios of GNI, however, grew in the review year. The savings-investment gap widened from 3.7 in the preceding year to 7.2 in the review year.

The labour market conditions showed some deterioration in 2022. Employment by the government, companies assisted by the Lesotho National Development Corporation (LNDC) and the Basotho migrant mineworkers in South Africa (SA) declined, albeit at a slower pace compared to 2021. This reflected the slow economic recovery.

The average annual inflation rate rose to 8.3 per cent in 2022 from 6.1 per cent in 2022. The rise in headline inflation was mainly driven by the non-food component. The non-food inflation rate was elevated mainly by higher international energy prices. This reflected the impact of the Russian-Ukraine war and increases in administered prices. Monetary policy conditions in the country tightened. The Central Bank of Lesotho (CBL) policy rate ended the year at 7.00 per cent, reflecting a 325 basis points rise from the rate in December 2021. The broad money supply (M2) declined by 3.4 per cent in 2022, in contrast to a 4.1 per cent growth realised in 2021.

The Government budgetary operations were estimated to have deteriorated, in line with the overall economic performance, in 2022. The budget deficit was estimated at 2.2 per cent of GDP, compared to a revised deficit of 2.0 per cent of GDP in 2021. The deficit was financed by domestic issuing of treasury securities, which led to a public debt stock increase to 59.9 per cent of GDP in 2022 from 57.6 per cent of GDP in 2021.

The external sector position for Lesotho deteriorated in 2022. The overall balance was estimated to be a deficit equivalent to 4.2 per cent of GDP, reverting from a surplus of 2.6 per cent of GDP in the preceding year. This was at the back of a wider current account deficit, coupled with lower capital inflows. It was further exacerbated by increased net financial inflows during the same period. Gross reserves expressed in terms of months of import cover declined to 4.3 in 2022 from 5.0 months in 2021, due to a sizeable increase in imports as well as increased government outlays on its foreign obligations. The Bank continued with supervision and regulation of the financial sector, national payments systems, capital and money market development, managing of foreign reserves and currency. The Banking system, which is the largest part of the financial system, remained resilient, as all solvency ratios were within acceptable ranges. However, the sector's liquidity position deteriorated compared to historical levels. The Bank continued with the transition to Basel II.5, which is expected to improve financial stability and boost stakeholder confidence in the banking sector. The commercial banks were operating on a parallel run, reporting on both Basel I and Basel II.5. The full transition was scheduled to be completed in 2024 once the relevant regulations were promulgated.

On anti-money laundering (AML) and combatting of financial terrorism (CFT), Lesotho participated in mutual evaluation to assess the adequacy of the AML/CFT regime. The mutual evaluation report was expected early in 2023. During the year, the Financial Consumer Protection Act of 2022 was enacted, empowering the CBL with the mandate to regulate market conduct in the financial sector. The implementing regulations were expected to be promulgated early in 2023. On payments systems, the CBL continued with the implementation of the national switch. The national switch will provide an interface for all payment platforms to consolidate and channel all electronic transactions to relevant processors for authorization and settlement. To date, the pilot of the mobile money stream has been completed. The Bank also made progress with the amendment of the Payments Systems Act of 2014.

Despite significant shocks to the global financial markets, the Bank continued to preserve the value of official reserves, meeting liquidity requirements and generating returns. In terms of money and capital market development, after several years without recording any trades, the Maseru Securities Market seemed to have gained momentum. Approximately thirty-five thousand shares were transacted at the end of the year.

During the year, the Bank gradually phased out remote working, which was initially implemented due to COVID-19 lockdown and social distancing measures. During the review period, all staff members were working on-site, and strict adherence to COVID-19 protocols was consistently promoted. The Bank also focused on enhancing its IT governance instruments, including the implementation of policies, strengthening Information Communication Technology (ICT) security, and expanding the ICT infrastructure. Measures to raise staff awareness regarding cyber threats were consistently implemented. Overall, the assurance and governance structures of the Bank remained strong and robust ❑

Emmanuel Maluke Letete (Dr.)
Governor

1

The global economic growth rate was projected to decline in 2022, falling to 3.4 per cent from 6.2 per cent in the previous year.

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The global economic growth rate was projected to decline in 2022, falling to 3.4 per cent from 6.2 per cent in the previous year. Advanced economies were estimated to grow at 2.7 percent, down from 5.4 per cent in 2021, while emerging and developing economies were forecasted to grow at 3.9 percent, following a 6.7 per cent growth in the previous year. Despite their gradual recovery from COVID-19-induced economic weaknesses, these economies faced negative impacts on their growth due to the war between Russia and Ukraine. This conflict resulted in record-high inflation rates and tighter monetary policies in most economies, leading to reduced purchasing power and subsequent declines in demand and spending.

The global trade volume was estimated to increase by 5.4 per cent in 2022, showing a decline from the previous year's growth of 10.4 per cent. Both exports and imports were anticipated to decelerate. The gradual reopening of the world economy after COVID-19-induced closures provided support for global trade. However, the trade sanctions imposed on Russian exports due to its invasion of Ukraine weakened the overall trade environment. Moreover, the high inflation in advanced economies adversely affected external demand.

The global labour markets demonstrated resilience in the face of economic challenges experienced by many economies in 2022. Several countries benefitted from implementing targeted policies, which were designed to support businesses and restore production to pre-pandemic levels. These measures subsequently led to increased hiring activities. In contrast, the labour market in China encountered persistent challenges due to a rise in COVID-19 cases, necessitating the re-introduction of stringent zero-COVID-19 policies to contain infections.

Consumer prices surged in 2022, reaching record-high levels in many economies, due to Russia's invasion of Ukraine. The conflict caused disruptions in the supply chain, impacting crude oil production (as Russia is the world's third-largest producer) as well as wheat and maize production (as Ukraine is a key producer). Consequently, food and fuel costs escalated in many countries. To counter the elevated inflation, central banks responded by tightening their monetary policies.

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The global economic growth rate was projected to decline in 2022, falling to 3.4 per cent from 6.2 per cent in the previous year.

1.1.2 Selected Advanced Economies

United States (US)

US economic activity was sluggish in 2022, with real GDP growth of 2.1 per cent, down from 5.9 per cent the previous year. The slower growth was due to declines in personal consumption expenditure, private investment, and government spending. High inflation dented consumers' purchasing power, reducing personal consumption expenditure. Private investment was slower due to a decline in residential housing activity. Government spending was affected by the expiration of federal programmes implemented during the intense COVID-19 period, such as social security benefits and school feeding programmes. However, there was an improvement in the labour market, with the unemployment rate dropping from 3.9 per cent in 2021 to 3.5 per cent in 2022, as businesses slowly recovered from COVID-19 layoffs.

Inflationary pressures moderated in 2022, with the annual inflation rate declining to 6.5 per cent from 7.0 per cent in the previous year. The deceleration in consumer price growth was attributed to reduced disruptions in the supply chain caused by COVID-19 infections. However, this was partly offset by an increase in fuel prices, in line with the rise in global oil prices due to the Russia-Ukraine conflict. To combat the high inflation rate, which remained significantly above the Federal Reserve's target of 2.0 per cent, the Federal Open Market Committee (FOMC) raised the Fed Funds rate from 0.00-0.25 per cent in the previous year to 4.25-4.50 per cent.

Euro Area

The Euro Area economy continued expanding in 2022, albeit at a slower pace than the previous year, with growth reaching 3.5 per cent compared to 5.3 per cent the year before. The region's growth was negatively impacted by the Russia-Ukraine war, leading to disruptions in gas supply and exerting additional pressure on business production processes, thus hampering growth. The unemployment rate dropped to 6.6 per cent from 7.0 per cent the previous year, due to policies that supported COVID-19-affected businesses in rehiring workers and restoring their operations to pre-pandemic levels. The services sector experienced substantial employment growth.

The consumer price index rose by 9.2 per cent, compared to 5.0 per cent in 2021. The surge in consumer prices resulted from higher energy prices caused by the region's energy crisis arising from the Russia-Ukraine war. The European Central Bank responded to the elevated inflation by raising its policy rates from 0.00 per cent to 2.50 per cent.

Japan

Economic growth in Japan slowed further in 2022 compared to the previous year. Real GDP grew by an estimated 1.1 per cent, down from 2.1 per cent in 2021. The economy was adversely affected by weak export growth, driven by sluggish demand from China, Japan's largest export market, due to increased COVID-19 infections that adversely impacted economic activity. Nonetheless, the unemployment rate decreased to 2.5 per cent from 2.7 per cent in the previous year, influenced by ongoing demographic aging that continued to lead older individuals out of the workforce.

The annual inflation rate surged to 4.0 per cent from 0.8 per cent in 2021 due to the prolonged weakness of the Japanese Yen, resulting in higher costs of imported raw materials. Producers passed on these higher costs to consumers. Additionally, the energy costs skyrocketed due to supply disruptions caused by the Russia-Ukraine war. Despite the record-high consumer prices, the Bank of Japan left its policy rate unchanged at -0.10 per cent, to support the struggling economy.

United Kingdom (UK)

The UK's economy experienced a slowdown and was projected to grow by 4.0 per cent in 2022, compared with 7.6 per cent in the previous year. Growth in the review period was largely supported by increased government spending. However, the economy remained vulnerable to the re-imposition of COVID-19 restrictions in the first half of 2022. This risk was amplified by record-high energy prices and rising living costs, both of which dampened business investment and consumer spending, thereby slowing economic growth. The UK's unemployment rate fell to 3.7 per cent, compared with 4.1 per cent in the previous quarter. The labour market was supported by improved working conditions, such as hybrid arrangements and flexible working hours, which attracted more people into the labour force.

The inflation rate surged to 10.5 per cent, up from 5.4 per cent a year earlier. Upward pressure on inflation emanated mainly from the war between Russia and Ukraine, which drove up energy and food costs. The most substantial increases were observed in transportation and the food sector in hotels and restaurants. To counter the inflationary spike, the Bank of England raised its policy rate from 0.25 per cent to 3.50 per cent.

1.1.3 Selected Emerging Market Economies

China

Economic growth in China decelerated in 2022. Real GDP grew by 2.9 per cent, compared with the 3.9 per cent growth rate recorded in 2021. The deceleration was primarily caused by restrictions associated with the resurgence of COVID-19 cases, as well as a deepening property sector crisis. COVID-19 restrictions disrupted supply chains, weighing negatively on economic growth, while the deepening property crisis resulted in declining property investment. The unemployment rate increased to 5.5 per cent, from 5.1 per cent in the preceding year, as the labour market battled with consequences of the prolonged COVID-19.

Consumer prices rose by 1.8 per cent, following a 1.5 per cent increase in the previous year. The increase in consumer prices largely emanated from supply chain bottlenecks caused by rising COVID-19 cases and higher costs of fuel, attributed to the ongoing Russia-Ukraine war. Despite rising inflation, the People's Bank of China cut its policy rate from 3.80 per cent to 3.65 per cent, to support economic activity.

Economic growth in China decelerated in 2022. Real GDP grew by 2.9 per cent, compared with the 3.9 per cent growth rate recorded in 2021.

India

The performance of India's economy remained robust in 2022, although growth slowed down compared to the previous year. Real GDP was expected to grow by 6.8 per cent, following an increase of 8.7 per cent in the preceding year. Growth was largely supported by improved domestic demand, following the lifting of COVID-19 restrictions. Furthermore, the government's initiatives, such as providing guaranteed loans to small and medium enterprises, boosted economic activity. However, the growth trajectory was moderated by subdued external demand from India's major trading partners, resulting in reduced exports.

The annual rate of inflation rose to 5.7 per cent in 2022, from 5.6 per cent in 2021. The slight uptick in inflation was attributed to higher costs of food and fuel, largely influenced by Russia's invasion of Ukraine. However, the government took measures to mitigate the impact on consumers by restructuring taxes on essential commodities and reducing excise duties on fuel, aimed at shielding the public from the burden of high costs of living. These measures partially offset the observed increase in consumer prices. On the other hand, the Indian Reserve Bank raised its policy rate to 6.25 per cent, from 4.00 per cent in the previous year, to dampen the increase in consumer prices.

South Africa (SA)

Economic activity in South Africa (SA) was anticipated to decelerate in 2022, with real GDP growing at 2.6 per cent, down from 4.9 per cent in 2021. The economy benefited from the phased reopening along with the gradual relaxation of COVID-19 restrictions. Nevertheless, growth was impeded by diminished external demand and a decline in manufacturing output, attributed to floods in KwaZulu-Natal. Additionally, ongoing electricity supply challenges undermined productivity in the mining and manufacturing sectors. Consequently, the unemployment rate was projected to rise consistent with the subdued economic activity in 2022.

The annual inflation rate rose to 7.2 per cent, from 5.9 per cent in 2021. The surge in consumer prices was primarily attributed to escalating transportation and food expenses, associated with the rising costs of fuel and cooking oil due to the conflict between Russia and Ukraine. In response to the intensifying inflationary pressures, the South African Reserve Bank raised its policy rate to 7.00 per cent by the end of the year, from 3.75 per cent in 2021, aiming to realign inflation with the Bank's target range of 3.00-6.00 per cent.

Table 1	Selected Economic Indicators, 2018- 2022*				
Indicators	**2018**	**2019**	**2020**	**2021**	**2022**
World Output	**3.6**	**2.8**	**-3.1**	**6.2**	**3.4***
Advanced Economies	2.2	1.6	-4.5	5.4	2.7*
Of which:					
United States	2.9	2.2	-3.4	5.9	2.1
Euro Area	1.9	1.3	-6.4	5.3	3.5
Japan	0.3	0.3	-4.5	2.1	1.1
United Kingdom	1.3	1.4	-9.4	7.6	4.0
Emerging and Developing Economies	4.5	3.6	-2.0	6.7	3.9*
Of which:					
Africa					
Sub Saharan Africa	3.2	3.2	-1.7	4.7	3.8*
South Africa	0.8	0.2	-6.4	4.9	2.6*
Emerging & Developing Asia	6.4	5.4	-0.9	7.4	4.3*
China	6.6	6.0	2.3	8.4	3.0
India	6.8	4.2	-7.3	8.7	6.8*
Consumer prices					
Advanced Economies	2.0	1.4	0.7	3.1	7.2
Of which:					
United States	1.9	2.3	1.4	7.0	6.5
Euro Area	1.6	1.4	-0.3	5.0	9.2
Japan	1.0	0.8	-1.2	0.8	4.0
United Kingdom	3.0	1.3	0.6	5.4	10.5
Emerging and Developing Economies	5.0	5.1	5.1	5.9	9.9
Of which: Africa					
Sub Saharan Africa	8.3	8.2	10.2	11.1	14.4
South Africa	5.3	4.5	3.1	5.9	7.2
Emerging & Developing Asia	2.6	3.3	3.1	2.2	4.1
China	2.1	4.5	0.2	1.5	1.8
India	3.4	7.4	4.6	5.6	5.7
World Trade Volume (Goods and Services)	3.6	1.0	-8.2	10.4	5.4
Exports					
Advanced Economies	3.6	1.2	-9.0	8.7	4.2
Emerging and Developing Countries	4.3	0.5	-4.8	11.8	3.3
Imports					
Advanced Economies	3.8	2.1	-8.4	9.5	6.0
Emerging and Developing Countries	5.2	-1.0	-7.8	11.8	2.4
Source	International Monetary Fund (IMF) World Economic Outlook, October 2021, IMF World Economic Outlook Update, January 2022, * IMF Projections, except consumer prices.				

Oil prices rose significantly in 2022, recording an increase of 28.9 per cent to US$91.45 on average, from US$70.46 a year earlier.

1.1.4 Commodities Price Developments

Gold

The average price of gold rose by 1.1 per cent to US$1807.44 an ounce, from US$1788.07 in 2021. Gold prices were primarily supported by inflationary pressures arising from the war between Russia and Ukraine. This prompted investors to hedge against inflation risks, resulting in high demand and therefore increase in the price of the safe haven metal. However, during the same year, the increase in gold prices was partly offset by the stronger dollar on account of interest rate hikes by the Federal Reserve. This resulted in a shift in investor sentiment towards the dollar and therefore moderated the increase in prices for gold.

Platinum

In 2022, the price of platinum declined by 8.2 per cent to US$956.68 per ounce, from US$1042.31 in the previous year. The decline resulted from weak demand from the metal's largest consumer China, as it battled with the resurgence of COVID-19 infections. A fall in the US car sales also led to a fall in demand in for platinum, a key input in automotive production. The fall in platinum prices was however dampened by the decline in supply from Russia, due to the imposition of sanctions on Russia following its invasion on Ukraine.

Oil

Oil prices rose significantly in 2022, recording an increase of 28.9 per cent to US$91.45 on average, from US$70.46 a year earlier. The surge in oil prices reflected supply side disruptions associated with the war between Russia and Ukraine, which called for sanctions on Russia's exports including crude oil. There was therefore a huge cut in oil production from the world's third largest crude oil producer, which resulted in an increase in oil prices to record-high levels in 2022. Additionally, supply distortions in Libya – another key producer of oil, also contributed to the increase in oil prices. Nonetheless, during the same year, there was an increase in US crude oil production, therefore moderating the increase in oil price.

Maize

Maize prices continued to increase in 2022. The price of white and yellow maize rose by 21.1 per cent and 17.0 per cent to US$268.93 and US$271.06 respectively, compared to an increase of 19.7 per cent and 29.9 per cent, respectively, a year earlier. The increase in the price of maize resulted from supply shortages associated with Russia's invasion of Ukraine and the resultant damage to maize production infrastructure in Ukraine. Maize supply was also adversely affected by unfavourable weather conditions in other key wheat producing countries.

Wheat

Wheat prices rose further in 2022, increasing by of 17.8 per cent to US$432.45, compared to an increase of 16.9 per cent in the preceding year. Wheat prices were influenced by supply side distortions arising from the war between two key producers Russia and Ukraine. Production in Ukraine was halted by attacks which disrupted the production process while Russia's production was affected by sanctions imposed on Russia's exports, which resulted in the decline in wheat supply.

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1.1.5 Currency Movements

The performance of the rand (loti) was mixed in 2022. The rand depreciated by 10.8 per cent against the dollar, while it appreciated by 0.6 per cent and 1.6 per cent against the pound and the euro, respectively. This followed a depreciation of 10.2 per cent, 3.7 per cent and 6.6 per cent against the dollar, the euro and the pound respectively in 2021. The weak performance of the rand against the dollar was primarily on account of the tighter monetary policy stance by the Federal Reserve, which attracted investment in dollar denominated assets. In addition, the prolonged power supply challenges, which adversely affected productivity and hurt investor sentiment, also weakened the rand. These were however moderated by the surge in commodity prices including gold and platinum, which are largely produced in the SA, and therefore provided support to the rand. Against the euro and pound, the rand was stronger as the euro weakened due to Russia-Ukraine war induced energy crisis, while the pound was negatively affected by political developments in the UK.

1.2 DOMESTIC ECONOMIC DEVELOPMENTS

1.2.1 Real Sector Developments

Trends in Output and Income

Real gross domestic product (GDP) was estimated to have expanded by 1.5 per cent in 2022, marginally lower than the 1.6 per cent growth of the previous year. This growth was mainly driven by the secondary sector, notably construction activities. The primary and tertiary sectors also contributed to the observed growth, though albeit at modest rates, with the latter benefiting from the spillover effects of the heightened construction activity.

Gross national income (GNI) was estimated to have increased by 1.9 per cent in 2022, rebounding from a 1.1 per cent decline in 2021. The growth was mainly attributable to an increase in compensation of employees from the SA, especially migrant mineworkers and, to a lesser degree, other migrant workers. The Central Bank of Lesotho's (CBL) interest earnings from foreign investments also contributed to the growth in GNI.

Table 2 **Aggregate Economic Indicators** (Percentage Change, 2012=100)

	2018	2019	2020	2021	2022+
GDP	-1.5	-0.8	-5.6	1.6	1.5
GNI	-1.3	-0.8	-5.2	-0.1	1.9
GDP Per Capita	-1.9	-1.2	-6.1	1.1	1.1
GNI Per Capita	-1.8	-1.2	-5.7	-0.5	1.4

Source Bureau of Statistics, +CBL Estimates

> Real gross domestic product (GDP) was estimated to have expanded by 1.5 per cent in 2022, marginally lower than the 1.6 per cent growth of the previous year.

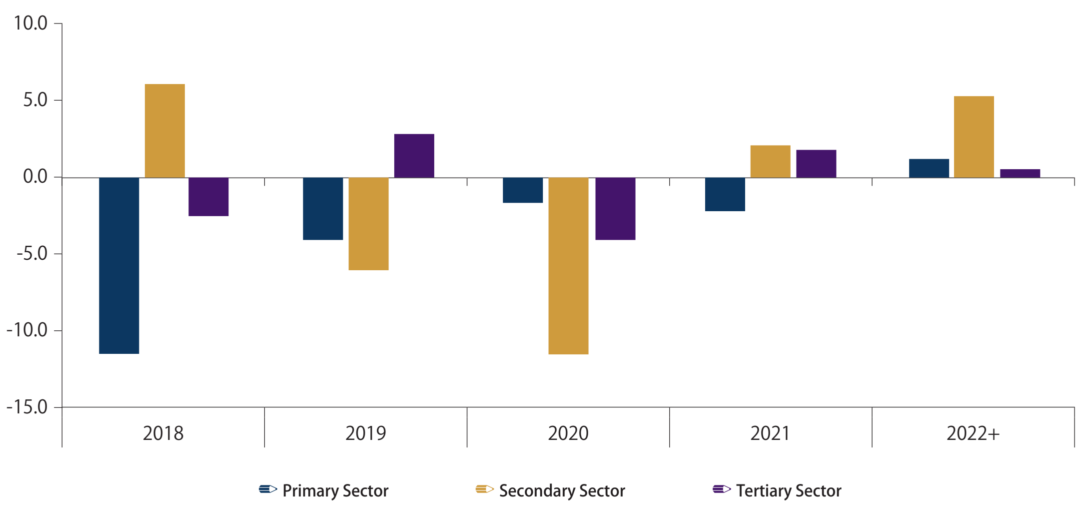
Sectoral Developments

a) Developments in the Primary Sector

The primary sector was forecast to recover, growing at 1.2 per cent in 2022, compared to a 2.2 per cent decline in the previous year. This modest recovery was primarily driven by improvements in mining and agricultural activities. However, growth in the mining industry moderated significantly to 1.2 per cent, down from 22.9 per cent in 2021. The industry faced challenges due to geopolitical tensions between Russia and Ukraine, alongside a decrease in diamond demand during 2022. These issues were compounded by volatile prices and a slowdown in global economic activity, particularly noticeable in the last quarter of the year.

The agricultural subsector, on the other hand, saw a growth of 1.2 per cent, a notable reversal from the 16.1 per cent decline experienced in the preceding year. This modest growth was largely attributed to the improved animal farming, which recorded a 3.2 per cent increase, in contrast to the 22.9 per cent decline in 2021. However, crop production decreased, primarily affected by heavy rainfall during January and February 2022.

Figure 1 **Sectoral Real Growth Rate** (Percentages)



Source: Bureau of Statistics

b) Developments in the Secondary Sector

Growth in the secondary sector was projected at 5.3 per cent in 2022, compared with 2.1 per cent in the previous year. The expansion was mainly supported by the construction subsector, which grew by 24.5 per cent, following a 9.8 per cent growth in the preceding year. The construction subsector was buoyed by activities associated with the Lesotho Highlands Water Project phase II.

On the other hand, the manufacturing subsector experienced a significantly slower growth rate, at 0.5 per cent, than the 7.7 per cent realised in the preceding year. Specifically, the textiles and clothing industry faced significant challenges in 2022, with high shipping costs and declining demand for Lesotho's textile products in the US market. Despite these challenges, textile and clothing exports to the South African market remained strong. Additionally, activity in the water and electricity subsector recovered, registering a 7.1 per cent growth, following a 15.8 per cent decline in 2021.

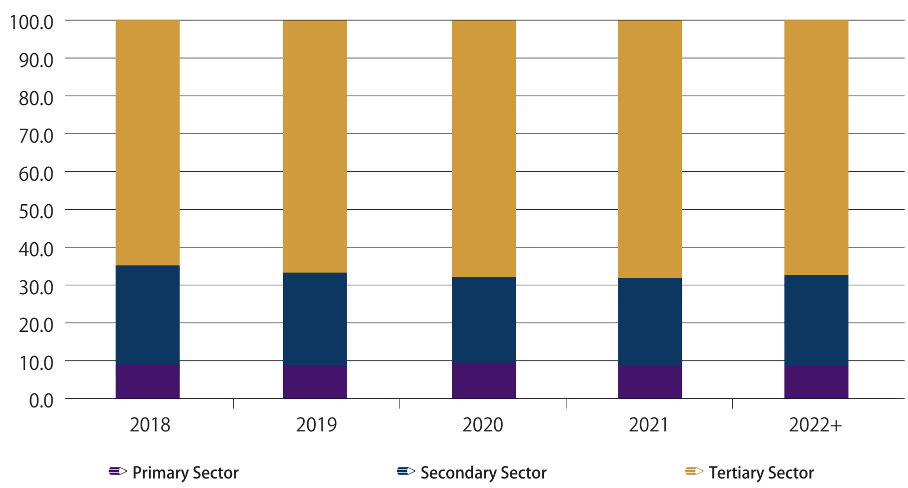
c) Developments in the Tertiary Sector

Activity in the tertiary sector was relatively subdued in the review year. It grew modestly at 0.6 per cent, compared to a 1.9 per cent growth in the previous period. Elevated inflationary pressures dampened demand, eroding purchasing power and offsetting any benefits from the spillovers of the Lesotho Highlands Water Project Phase II. Additionally, higher interest rates increased borrowing costs, adversely impacting credit availability and domestic demand.

Both the wholesale and retail trade, including repairs, as well as the financial and insurance activities, showed recovery after a contraction in the preceding period. These subsectors registered growth rates of 1.9 per cent and 0.4 per cent, respectively. However, growth in real estate activities remained limited, with the subsector expanding by only 0.4 per cent, a decrease from the 1.2 per cent growth in 2021.

Government activity also slowed, with the public administration, education, and health subsector contracting by 1.4 per cent. This marked a significant downturn from the 7.5 per cent growth observed in the previous year.

Figure 2 **Sectoral Shares in GDP at Factor Cost** (Percentages)



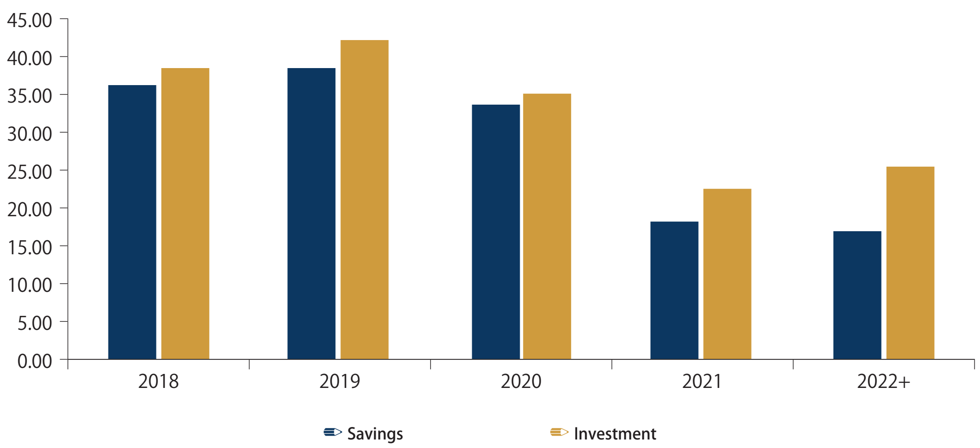
Source: Bureau of Statistics

Gross national savings, expressed as a percentage of Gross National Income (GNI), was estimated to have decreased to 14.4 per cent from 15.5 per cent in the previous year.

Savings and Investments

Gross national savings, expressed as a percentage of Gross National Income (GNI), was estimated to have decreased to 14.4 per cent from 15.5 per cent in the previous year. In contrast, the total investment-to-GNI ratio increased to 21.6 per cent, from 19.2 per cent in 2021. The decline in national savings was attributed primarily to a reduction in government savings. However, both private sector savings and investment, expressed as ratios of GNI, experienced growth during the review year. Consequently, the savings-investment gap widened, from 3.7 per cent in the preceding year to 7.2 per cent in the review year.

Figure 3 **Savings and Investment** (As a percentage of GNI)



Source: Bureau of Statistics

Employment, Wages and Prices

a) Employment Trends

The labour market developments, as monitored by the CBL, indicated a downward trend in 2022. Employment levels across various sectors, including government, LNDC-assisted companies, and Basotho migrant mineworkers in the SA, experienced a decline.

Specifically, government employment decreased by 0.2 per cent in 2022, in contrast with the 0.7 per cent increase recorded in the previous year. The reduction in government employment levels reflected declines of 0.3 per cent in the civil servants' category and a 1.0 per cent among teachers. Employment within LNDC-assisted companies declined, albeit at a slower pace than the job losses observed in 2021. This sector saw a 1.7 per cent decrease in employment, a notable improvement from the 18.5 per cent decline in the previous year. The reduction in employment primarily stemmed from

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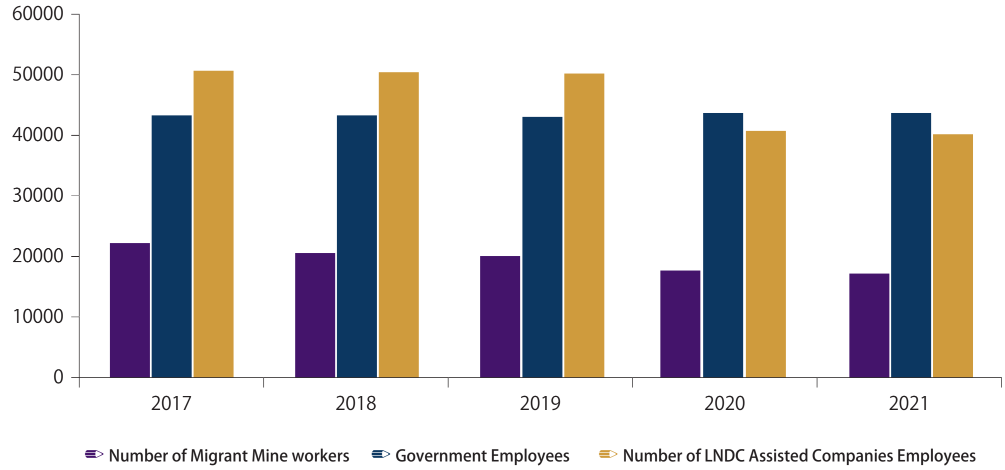
the economic slowdown in key trading partners, notably the SA and the US, compounded by the lingering effects of COVID-19, supply chain disruptions, and the shocks of rising energy and food prices on the manufacturing sector.

The employment of Basotho migrant mineworkers also declined but at a more moderate rate of 3.5 per cent than the 10.8 per cent reduction in 2021. The downturn in mineworkers' employment reflected challenges faced by the South African mining industry, including the energy crisis due to continuous load-shedding, hindering production. The mining sector also faced ongoing structural challenges, including a stringent regulatory environment, with the mining charter continuing to dampen investor sentiment.

Figure 4 Employment Trends



Source: The Employment Bureau of Africa (TEBA), Lesotho National Development Corporation, Ministry of Finance

b) Wages

Lesotho's Wage Advisory Board adjusted the general minimum wage to increase by 9.0 per cent for 2021/2022, with a notable 14.0 per cent rise in the manufacturing sector. This increase, implemented after a year with no wage adjustments, was designed to counteract inflation's impact on workers' purchasing power. In contrast, the Government of Lesotho maintained public sector wages and salaries at their previous levels in 2021/2022, following a 5.0 per cent increase in 2020/2021. This decision was part of a broader strategy to effectively manage the wage bill and restrain the growth of recurrent expenditure.

The employment of Basotho migrant mineworkers also declined but at a more moderate rate of 3.5 per cent than the 10.8 per cent reduction in 2021.

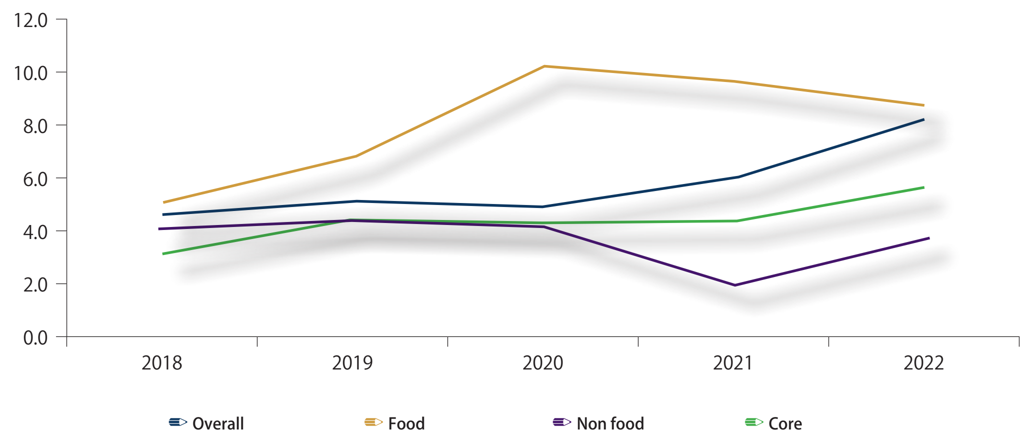
c) Price Developments

The average annual inflation rate in Lesotho increased to 8.3 per cent in 2022, from 6.1 per cent in the previous year. This escalation in headline inflation was primarily attributed to a rise in the non-food inflation component, while the increase in the food inflation component remained moderate.

Non-food inflation was largely driven by escalating energy prices. The costs of crude oil and natural gas surged in the first half of 2022, predominantly due to heightened geopolitical tensions in Europe and an increased demand for gas. Additionally, the Government of Lesotho raised electricity tariffs within the year.

The moderation in food inflation followed eleven consecutive months of declining international food prices. However, this decline was partially offset by a weak exchange rate, which tempered the decrease in food inflation. Core inflation, which measures underlying inflationary pressures in the economy, also rose, averaging 5.7 per cent in 2022 compared to 4.4 per cent in 2021. This increase was largely due to subdued domestic and external demand, with domestic inflation being particularly sensitive to global factors, especially the exchange rate.

Figure 5 **Lesotho Consumer Price Index** (Annualized Percentage Changes)



Source: Bureau of Statistics

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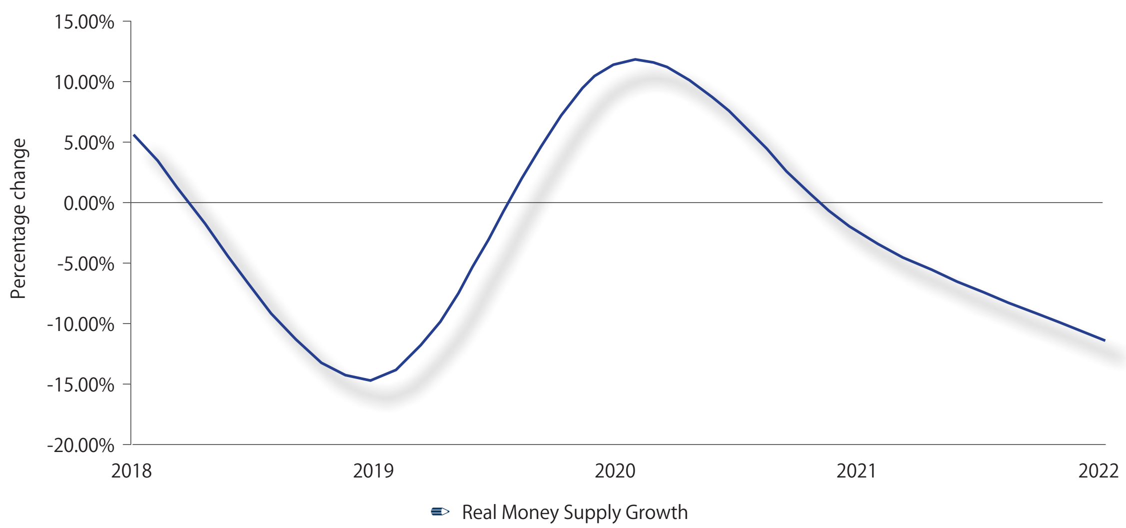
1.2.2 Monetary and Financial Sector Developments

Money Supply

Broad money supply (M2) declined by 3.4 per cent in 2022, in contrast to a 4.1 per cent growth realised in 2021. This was due to a fall in net foreign assets of the banking system, which outweighed an increase in the net domestic claims. Expressed in real terms, M2 fell by 11.4 per cent in 2022, compared to a decline of 2.7 per cent observed in 2021.

In terms of its components, the decline in M2 was evidenced by reductions in both narrow money (M1) and quasi money declined. M1 fell by 3.7 per cent, a reversal from a 2.5 per cent increase in 2021, while quasi money fell by 3.1 per cent, compared to growth of 5.7 per cent in 2021. The fall in M1 was due to a decline in transferable deposits held by households. On the other hand, the reduction in quasi money was attributed to a fall in call and fixed-time deposits held by business enterprises.

Figure 6 **Real Money Supply Growth** (Percentage Changes)



Source: Central Bank of Lesotho

Broad money supply (M2) declined by 3.4 per cent in 2022, in contrast to a 4.1 per cent growth realised in 2021.

Domestic Claims

Domestic claims rose by 18.1 per cent in 2022, following a 28.0 per cent surge in 2021. This growth was fuelled by an upsurge in private sector credit and claims on the central government. Private sector credit expansion reflected a 4.9 per cent rise in credit to households and a 6.6 per cent growth in credit to business enterprises. The elevation in claims on the government was primarily due to a decrease in government deposits at the Central Bank. This reflected a notable reduction in Southern African Customs Union (SACU) revenue and a drop in other tax collections during the fiscal year 2022/23.

Table 3 **Domestic Credit** (Million Maloti: End Of Period)

	2018	2019	2020	2021	2022
Claims on Government (Net)	-665.51	-2 776.88	-3 364.52	-2 955.72	-2 058.09
Claims on Central Government	*2 125.98*	*2 638.93*	*2 425.85*	*2 544.95*	*2 725.15*
Liabilities to Central Government	*2 791.49*	*5 415.81*	*5 790.37*	*5 500.67*	*4 783.24*
Claims on Public NFCs (Official entities)	0.00	38.20	87.00	60.21	58.05
Claims on Private Sector	6 809.67	7 366.15	7 416.44	7 960.08	8 384.09
Claims on Other Resident Sector (Households)	*4 712.07*	*5 193.81*	*5 400.99*	*5 887.46*	*6 174.17*
Claims on Other NFCs (Enterprise)	*2 097.60*	*2 172.34*	*2 015.45*	*2 072.61*	*2 209.92*
Domestic Claims	**6 401.46**	**4 861.59**	**4 404.86**	**5 636.75**	**6 658.18**
Source	Central Bank of Lesotho				

Net Foreign Assets

Total net foreign assets (NFA) contracted by 10.1 per cent in 2022, reversing the 1.9 per cent growth realised in 2021. This downturn was marked by decreases in the NFA of both the central bank and commercial banks, which fell by 3.3 per cent and 20.4 per cent, respectively. The decline in the central bank's NFA aligned with reduced SACU receipts. Meanwhile, the drop in commercial banks' NFA was largely due to the liquidation of foreign holdings, undertaken to finance rising domestic credit demand.

Table 4 **Banking System's Net Foreign Assets** (Million Maloti: End Period)

	2018	2019	2020	2021	2022
Commercial banks	5 200.68	4 603.91	6 374.23	6 965.49	5 545.60
Assets	*5 700.44*	*5 026.74*	*6 679.44*	*7 451.12*	*5 877.44*
Liabilities	*(499.76)*	*(422.83)*	*(305.20)*	*(485.62)*	*(331.84)*
Central Bank	9 135.20	9 704.69	10 939.86	10 671.12	10 315.37
Assets	*10 485.45*	*10 819.51*	*12 682.90*	*13 674.28*	*12 989.01*
Liabilities	*(1 350.25)*	*(1 114.83)*	*(1 743.04)*	*(3 003.16)*	*(2 673.64)*
Net Foreign Assets	**14 335.88**	**14 308.60**	**17 314.10**	**17 636.61**	**15 860.98**
Source	Central Bank of Lesotho				

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Credit Extension

Trends of Credit to Business Enterprises

The total credit extended to the business sector rose by 6.6 per cent in 2022, following a 2.8 per cent growth in 2021. The increase in business sector credit emanated from new term loans, utilisation of overdraft facilities and vehicle asset financing, as the private sector continued to recover from COVID-19 related disruptions and supply chain challenges experienced in 2021.

Table 5 Trends of Credit to Business Enterprises (Millions of Maloti)

	2018	2019	2020	2021	2022
Agriculture	30.31	29.23	47.22	90.83	76.94
Mining	379.73	419.93	359.16	284.68	405.54
Manufacturing	174.08	57.95	29.74	48.90	71.56
Electricity, gas and water	46.21	6.46	2.42	5.45	8.54
Construction	301.83	328.05	321.87	311.53	287.08
Transport, Storage and Communication	349.65	423.67	357.52	436.98	219.11
Wholesale, Retail, Hotel & Restaurant	261.68	387.47	354.36	412.37	568.99
NBFIs, Real Estate and Business Services	553.24	504.62	530.03	470.06	564.43
Community, Social & Personal Service	889.00	14.97	13.41	11.81	7.74
Total	**2 985.71**	**2 172.34**	**2 015.74**	**2 072.61**	**2 209.92**

Source Central Bank of Lesotho

Distribution of Credit Extended to Business Enterprises

In 2022, the sectoral distribution of credit extended to business enterprises in Lesotho was dominated by the Wholesale, Retail, Hotel & Restaurant sector, which received the largest share at 25.7 per cent. This was followed by the NBFIs, Real Estate & Business Services, and the Mining sectors, with shares of 25.5 per cent and 18.4 per cent, respectively. The Electricity, Gas & Water sector received the smallest portion of credit, accounting for just 0.3 per cent of the total.

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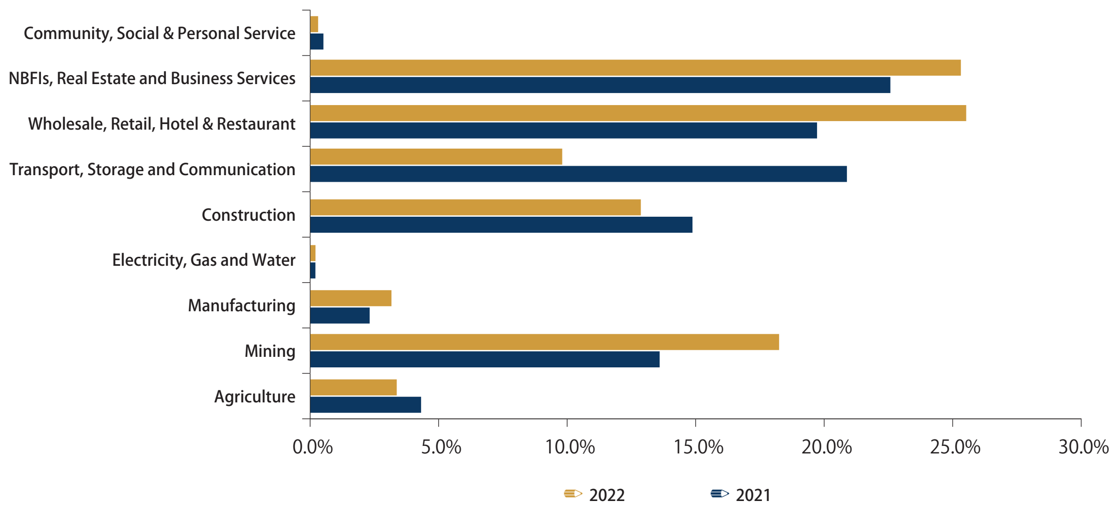
The total credit extended to the business sector rose by 6.6 per cent in 2022, following a 2.8 per cent growth in 2021.

Figure 7 Distribution of Credit (Percentage Shares)

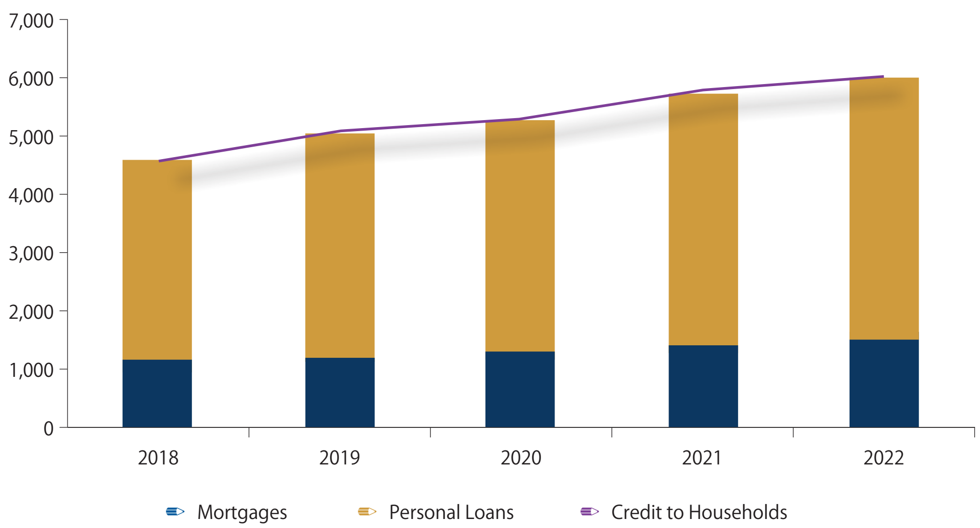


Source: Central Bank of Lesotho

Credit Extension to Households

Credit extended to the household sector grew by 4.5 per cent in 2022, a slowdown from the 9.1 per cent growth observed in the previous year. Personal loans rose by 3.3 per cent, while mortgage loans increased by 8.5 per cent. The bulk of household loans, approximately 75 per cent, was allocated to personal loans. The growth in personal loans was largely facilitated by the technological advancements in the credit market. Meanwhile, the increase in mortgage loans was attributed to new loans disbursed during the year.

Figure 8 **Credit Extension to Households** (Million Maloti)



Source: Central Bank of Lesotho

Liquidity of Commercial Banks

Components of liquidity

Total banking sector liquidity stood at 40.5 per cent during the review period, compared to 43.8 per cent recorded in December 2021. This mainly reflected the fall in commercial banks' placements with banks in the SA. The credit to deposit ratio rose to 54.5 per cent, from 50.9 per cent in 2021. This improvement was due to an increase in private sector credit coupled with a fall in total deposits.

Total banking sector liquidity stood at 40.5 per cent during the review period, compared to 43.8 per cent recorded in December 2021.

Table 6 Components of Liquidity (Millions of Maloti)

	2018	2019	2020	2021	2022
Credit to Deposit Ratio (%)	**54.50%**	**57.10%**	**49.60%**	**50.90%**	**54.50%**
Private Sector Credit	6 712.99	7 257.25	7 309.67	7 849.43	8 248.52
Total Deposits	12 316.54	12 708.95	14 728.78	15 421.30	15 143.55
Liquidity Ratio (%)	**55.78%**	**41.96%**	**42.40%**	**43.80%**	**40.50%**
Notes and Coins	741.60	726.47	707.97	734.29	916.06
Net Balances Due from Banks in Lesotho	11.71	(369.15)	(2.73)	(4.18)	(5.43)
Net Balances Due from Banks in SA	4 766.19	2 671.03	3 197.43	3 554.91	2 386.07
Surplus funds	(46.11)	140.93	204.32	71.27	163.07
Government Securities	1 396.23	2 162.87	2 132.91	2 405.61	2 675.85
Total	**6 869.62**	**5 332.15**	**6 239.91**	**6 761.90**	**6 135.63**

Source Central Bank of Lesotho

Money and Capital Market Developments

Money Market

Interest Rates

In December 2022, the CBL policy rate stood at 7.00 per cent, reflecting an increase of 325 basis points from December 2021. At the same time, the average prime lending rate increased from 8.44 per cent to 10.50 per cent, while the one-year deposit rate rose by 127 basis points to 4.47 per cent. The 91-day Treasury bill rate increased from 4.06 per cent to 6.36 per cent, remaining within the desired range of +/-200 basis points relative to the South African counterpart rate.

Table 7 Interest Rates	2018	2019	2020	2021	2022
Central Bank Rate	6.75	6.50	3.50	3.75	7.00
91-days TB Rate	6.69	6.26	3.20	4.06	6.36
Lombard Rate	10.69	10.26	7.20	8.06	10.36
Commercial Banks					
Call	1.12	1.09	0.99	1.05	2.09
Time					
31 days	0.35	0.70	0.67	0.67	1.33
88 days	1.39	1.65	1.88	1.64	2.33
6 months	2.25	2.90	3.00	3.18	3.75
1 year	4.19	4.24	3.79	3.20	4.47
Savings	0.70	1.36	0.70	0.70	1.48
Prime	11.25	11.19	8.19	8.44	10.50
South Africa					
Repo	6.75	6.50	3.50	3.75	7.00
T Bill Rate – 91 Days	7.29	7.18	3.87	3.85	6.56
Prime	10.25	10.00	7.00	7.25	10.50

Source Central Bank of Lesotho

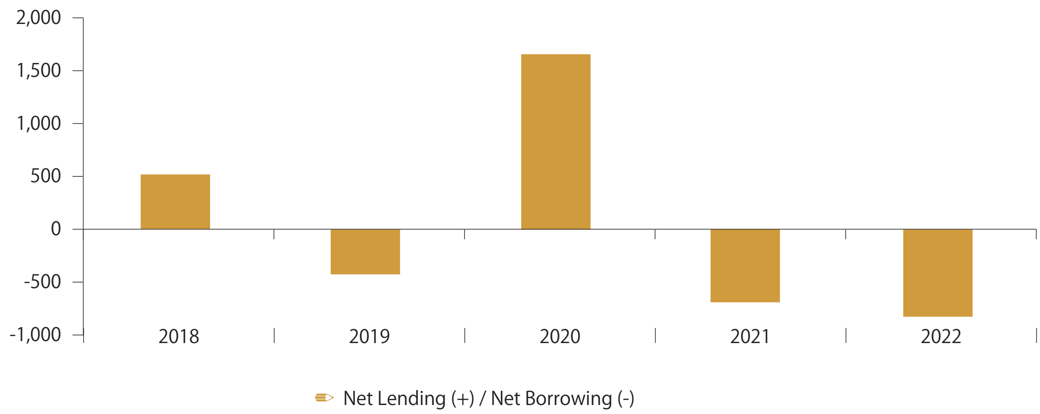
1.2.3 Government Finance Operations

Fiscal Performance in 2022

The fiscal performance deteriorated, in line with the overall economic performance. Government budgetary operations resulted in an estimated budget deficit equivalent to 2.2 per cent of GDP, following a revised deficit of 2.0 per cent of GDP in 2021. The budget deficit was financed by issuing treasury securities. In turn, the stock of public debt increased to 59.9 per cent of GDP in 2022 from 57.6 per cent of GDP in 2021.

Total revenue declined by 2.7 per cent in 2022 compared to a marginal decline of 0.5 per cent in 2021.

Figure 9 **Fiscal Balance** (Million Maloti)

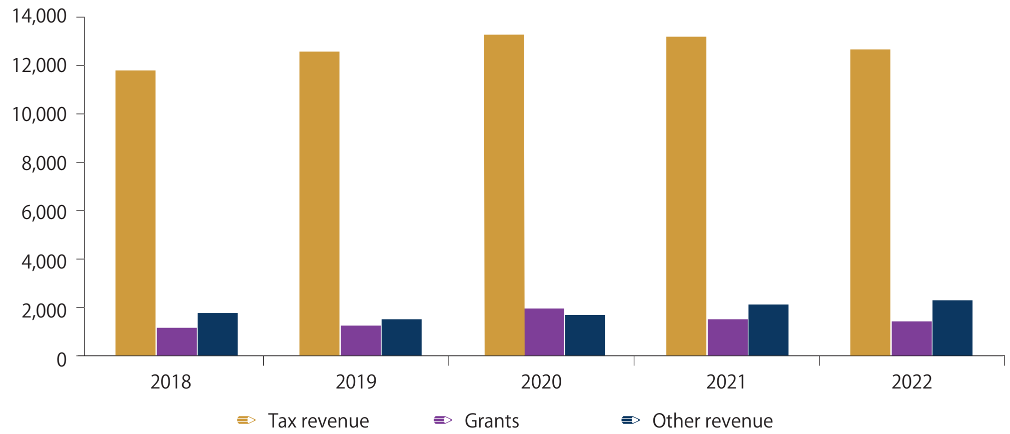


Source: CBL and Ministry of Finance and Development Planning (MFDP)

Total Revenue

Total revenue declined by 2.7 per cent in 2022 compared to a marginal decline of 0.5 per cent in 2021. This was mainly attributed to a significant reduction, 17.8 per cent, in SACU receipts. Tax revenue fell by 2.4 per cent, driven mainly by declines in excise tax and SACU revenue. Similarly, non-tax revenue declined by 3.5 per cent, reflecting a drop in the SACU development component, moderated by better collections of water and mining royalties. Total revenue as a percentage of GDP was projected to decline to 43.9 per cent in 2022 from 48.3 per cent in 2021.

Figure 10 **Revenue** (Million Maloti)

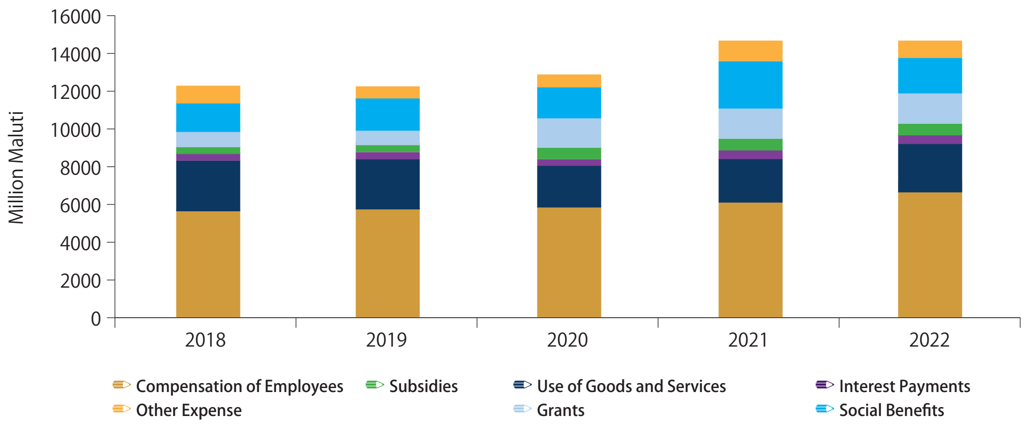


Source: CBL and MFDP

Total Expenditure

In 2022, government expenditure was estimated to have declined by 1.7 per cent, representing a notable shift from an increase of 14.4 per cent recorded in 2021. This decline was attributed to a fall in capital spending, mainly in the purchase of machinery and equipment. In contrast, the expense component increased, largely driven by spending on compensation of employees and operating costs. Total expenditure, expressed as a percentage of GDP, declined to 46.2 per cent in 2022 from a revised share of 50.3 per cent in 2021.

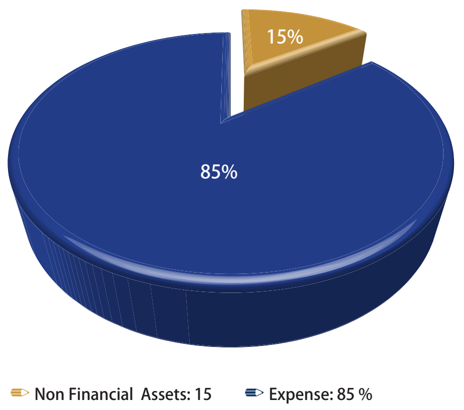
Figure 11 **Total Expense** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

In 2022, government expenditure was estimated to have declined by 1.7 per cent, representing a notable shift from an increase of 14.4 per cent recorded in 2021.

Figure 12 Total Expenditure (Million Maloti)

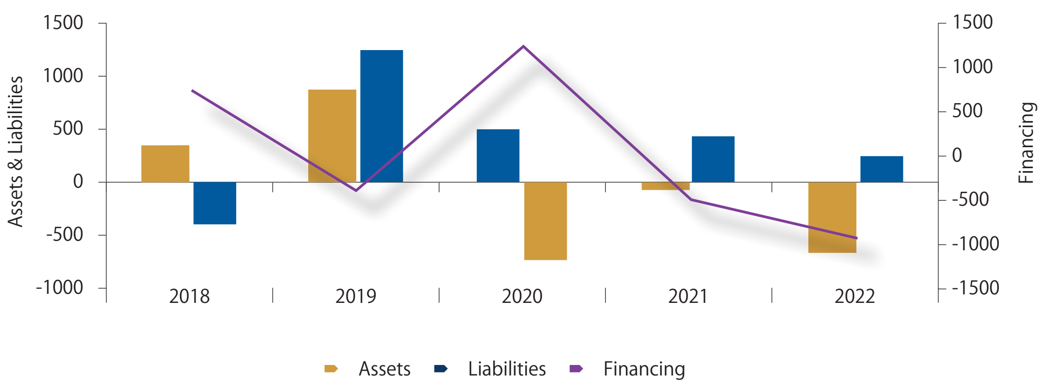


Source: MOF and CBL

Financial Assets and Liabilities[1]

The fiscal operations in 2022 led to an increase in both domestic and foreign liabilities, essential for financing the budget deficit. This deficit was predominantly financed through issuing government securities and disbursing external debt. Furthermore, financial assets, evident in the drawdown of government deposits within the banking system, played a key role in bridging the funding gap.

Figure 13 Total Financing (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

[1] All categories are on net terms.

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Table 8 Statement of Government Operations (Millions of Maloti)	2018	2019	2020	2021	2022
Revenue	**14 884.74**	**15 465.83**	**17 029.87**	**16 949.70**	**16 500.43**
Tax revenue	11 796.70	12 577.86	13 324.41	13 223.90	12 667.42
Social Contributions	0.00	0.00	0.00	0.00	0.00
Grants	1 239.55	1 332.65	1 968.93	1 568.39	1 448.37
Other revenue	1 848.50	1 555.33	1 736.53	2 157.42	2 384.64
Expense	**12 377.66**	**12 302.23**	**13 005.29**	**14 763.42**	**14 791.66**
Compensation of Employees	5 600.81	5 775.31	5 863.82	6 075.94	6 667.15
Purchases of goods and services	2 746.08	2 642.43	2 182.65	2 308.56	2 517.99
Interest Payments	303.46	392.15	338.54	494.24	438.70
Subsidies	363.38	338.12	646.92	634.74	655.23
Grants	820.28	826.01	1 508.75	1 599.43	1 618.70
Social benefits	1 519.09	1 668.62	1 742.22	2 446.88	1 879.38
Other expense	1 024.56	659.60	722.39	1 203.64	1 014.51
Gross Operating Balance	**2 507.09**	**3 163.60**	**4 024.57**	**2 186.28**	**1 708.77**
Nonfinancial Assets	**1 994.71**	**3 593.06**	**2 364.43**	**2 880.92**	**2 550.84**
Fixed Assets	**1 994.71**	**3 583.27**	**2 364.43**	**2 880.92**	**2 550.84**
Buildings and structures	819.42	1 689.62	937.78	1 018.11	1 365.93
Machinery and equipment	218.91	234.07	112.90	83.50	64.61
Unidentified	956.39	1 659.57	1 313.75	1 779.32	1 120.30
Non-Produced Assets	0.00	9.79	0.00	0.00	0.00
Net lending (+) / Net borrowing (-)	**512.38**	**-429.46**	**1 660.14**	**-694.64**	**-842.08**
Financing	**746.13**	**-384.66**	**1 241.29**	**-500.88**	**-922.83**
Financial assets	**350.02**	**872.83**	**501.72**	**-73.59**	**-678.83**
Domestic	350.02	872.83	501.72	-73.79	-678.83
Foreign	0.00	0.00	0.00	0.21	0.00
Liabilities	**-396.11**	**1 257.49**	**-739.57**	**427.29**	**244.00**
Domestic	-383.09	-52.72	-476.98	244.47	157.21
Foreign	-13.01	1 310.21	-262.59	182.82	86.79
Statistical Discrepancy	**-233.74**	**-44.80**	**418.85**	**-193.77**	**80.75**
Memo Items					
SACU receipts	5 695.23	6 055.22	8 291.95	6 750.95	5 551.59
Annual GDP (current prices)	9 441.43	9 762.86	8 894.81	9 473.90	9 495.09

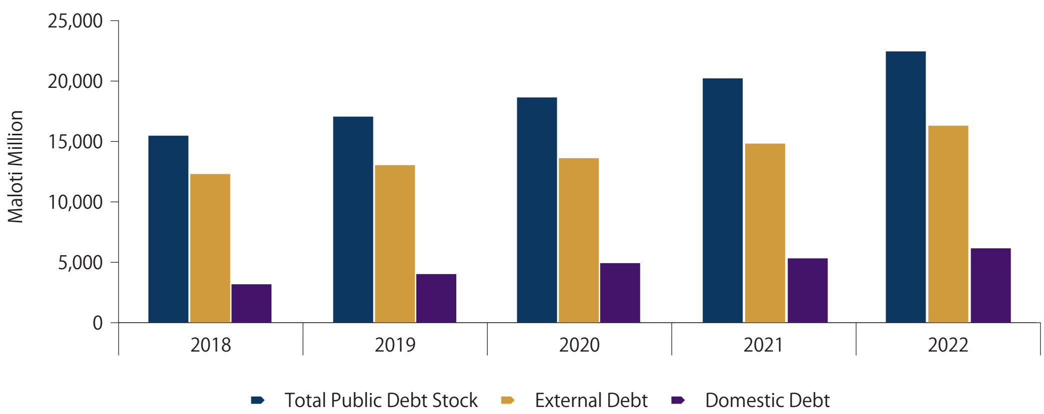
Source CBL and MFDP, *Figures in this column refer to projected outturn.

The outstanding public debt stock increased by 11.4 per cent in 2022, compared to a revised 8.5 per cent growth in the previous year.

Total Public Sector Debt[2]

The outstanding public debt stock increased by 11.4 per cent in 2022, compared to a revised 8.5 per cent growth in the previous year. The growth in public debt was attributed to increases in both external and domestic debt. External debt grew by 10.0 per cent, largely due to disbursements from active loans for development projects. On the other hand, domestic debt increased by 15.3 per cent, driven by the government's issuance of treasury securities to finance the budget deficit. The share of external to total debt declined to 72.7 per cent in 2022 from 73.6 per cent in the previous year.

Figure 14 **Outstanding Public Sector Debt** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

[2] All categories are on net terms.

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Table 9 Public Sector Debt Stock (Millions of Maloti)	2018	2019	2020	2021	2022
Total Public Debt Stock	**15 500.20**	**17 057.40**	**18 609.44**	**20 193.71**	**22 491.78**
External Debt	**12 328.61**	**13 013.53**	**13 631.19**	**14 858.80**	**16 341.31**
Bilateral Loans (concessional)	961.92	1 044.28	975.64	1 032.50	728.91
Multilateral Loans	**10 674.92**	**11 001.83**	**11 090.74**	**11 921.30**	**12 676.39**
Concessional	9 079.29	9 459.91	9 620.03	10 535.40	11 321.19
Non-concessional	1 595.63	1 541.92	1 470.71	1 385.90	1 355.21
Financial Institutions (non-concessional)	0.23	0.00	0.00	0.00	176.89
Suppliers' Credit (non-concessional)	691.54	967.42	1 564.81	1 905.00	2 759.11
Domestic Debt	**3 171.60**	**4 043.87**	**4 978.25**	**5 334.91**	**6 150.47**
Banks	2 120.69	2 658.36	3 215.15	3 470.75	3 689.16
Treasury Bonds	787.54	963.96	1 096.06	1 118.18	1 278.13
Treasury Bills	712.27	517.49	1 105.89	1 085.80	1 030.59
Central Bank (IMF-ECF)	620.88	1 176.91	1 013.21	1 266.77	1 380.44
Non-bank	1 050.90	1 385.51	1 763.09	1 864.15	2 461.31
Treasury Bonds	798.54	1 080.71	1 464.18	1 668.13	2 245.26
Treasury Bills	252.37	304.80	298.91	196.02	216.05
Total debt as % of GDP	45.82	48.46	53.39	57.57	59.86
External debt as % of GDP	36.44	36.97	39.11	42.36	43.49
Domestic debt as % of GDP	9.38	11.49	14.28	15.21	16.37
External debt as % of total	79.5	76.3	73.2	73.6	72.7
Domestic debt as % of total	20.5	23.7	26.8	26.4	27.3
Concessional as % of External debt	0.8	0.8	0.8	0.8	0.8
Source	Ministry of Finance (MoF) and Central Bank of Lesotho (CBL)				

1.2.4 Foreign Trade and Payment

Overall Balance of Payments Position

Lesotho's external sector position deteriorated in 2022. The overall balance reversed from a surplus of 2.6 per cent of GDP in the previous year to a deficit, estimated at 4.2 per cent in the review period. This change was primarily due to a larger current account deficit, coupled with lower capital inflows. The situation was further exacerbated by the worsened financial account balance.

Gross international reserves measured in import coverage declined to 4.3 months of imports in 2022, from 5.0 months in 2021. This decline was attributed to a sizeable increase in imports and increased government payments on foreign obligations.

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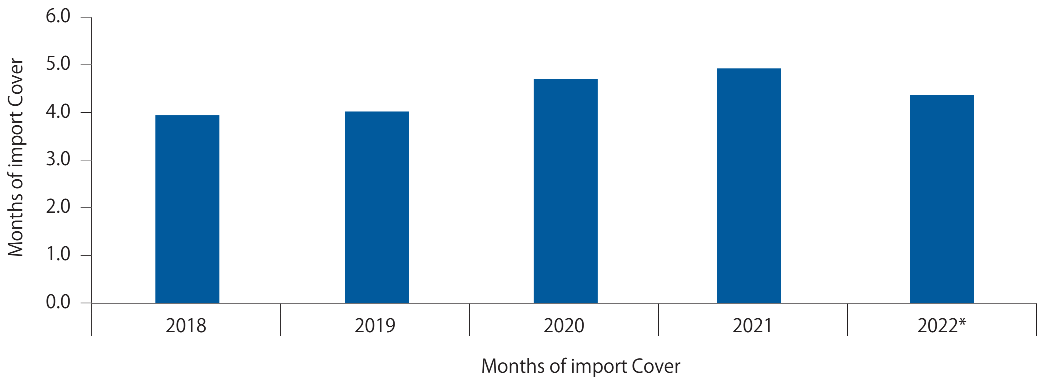
Gross international reserves measured in import coverage declined to 4.3 months of imports in 2022, from 5.0 months in 2021.

Figure 15 Reserves in Months of Imports



Source: Central Bank of Lesotho

Table 10 Summary of Balance of Payments (As percentage of GDP)

	2018	2019	2020	2021	2022*
Current Account	**-2.29**	**-3.41**	**-1.83**	**-3.83**	**-6.70**
Goods	-28.07	-29.33	-31,23	-28,14	-32.41
Services	-18,22	-17.53	-16.46	-16.88	-18.33
Primary Income	19.97	19.43	17.8	18.13	21.91
Secondary Income	24.01	24.01	28.07	23.05	21.77
Capital Account	**1.48**	**3.54**	**4.04**	**4.85**	**4.85**
Financial Account	**5.51**	**-1.93**	**8.82**	**4.56**	**-1.55**
Source	Central Bank of Lesotho				

Current Account

Lesotho's current account deficit widened to M2.54 billion, from M1.32 billion in 2021. The observed expansion was attributed mainly to increased deficits in both the goods and services accounts, along with a reduced surplus in the secondary income account. However, this expansion was moderated by an increased surplus in the primary income account. As a percentage of GDP, the current account deficit rose to 6.7 per cent in 2022, from 3.8 per cent recorded in the preceding year.

The goods account deficit increased by 9.5 per cent, reversing a 5.3 per cent decline in the previous year. This increase reflected a faster growth in merchandise imports relative to exports. Among the major export categories, significant increases were noted in textiles and clothing, diamonds, agriculture and water. In contrast, categories of other exports and re-exports experienced reductions. Exports benefited mostly from the uplifting of COVID-19 restrictions in many countries across the globe. As a share of GDP, the goods account deficit accounted for 32.4 per cent.

Merchandise imports grew by 9.5 per cent in 2022, following a 2.7 per cent increase in 2021. The largest increases were observed in imports of machinery and transport equipment, mineral fuels, lubricants and related materials, and food. Imports of machinery and transport equipment were mainly influenced by increased activities associated with the LHWP Phase II advance infrastructure development. Meanwhile, the value of imports of mineral fuels, lubricants and related materials, as well as food, increased due to the rising fuel and food prices, resulting from the war between Russia and Ukraine. Expressed as a share of GDP, merchandise imports increased to 77.3 per cent in 2022, from 67.9 per cent of GDP recorded in 2021.

The deficit in the services account widened by 4.4 per cent, easing from a 7.7 per cent increase in the preceding year. The growth in the deficit emanated mainly from a rise in payments for freight, telecommunications and official travel services acquired from abroad. The increase in payments for these services was attributed to the lifting of COVID-19 restrictions, which boosted cross-border travel and trade. As a proportion of GDP, the services account deficit was equivalent to 18.3 per cent in 2022, an increase from 16.9 per cent of GDP in the preceding year.

Primary Income Account

The primary income account surplus rose by 16.2 per cent to M8, 317.56 billion in 2022, following a 6.8 per cent growth observed in 2021. This growth was primarily due to higher compensation for migrant mine workers in the SA, attributed to salary increases that offset the impact of mine worker retrenchments. Further contributing to this growth were greater returns on international investments by the central bank, commercial banks, and other financial institutions, benefitting from higher interest rates in the SA and the US. Additionally, increased receipts from the operational and maintenance activities of LHWP Phase I played a significant role in the account's improvement. The surplus, in terms of GDP, climbed to 21.9 per cent in 2022, from 18.1 per cent recorded in 2021.

The primary income account surplus rose by 16.2 per cent to M8, 317.56 billion in 2022, following a 6.8 per cent growth observed in 2021.

Secondary Income Account

The surplus in Lesotho's secondary income account decreased by 9.2 per cent in 2022, continuing a downward trend from the 13.7 per cent contraction recorded in 2021. This reduction was primarily due to a substantial decrease in Lesotho's share of the SACU revenue. However, this downturn was partially offset by increased rand compensation and a notable reduction in subscriptions to international organisations. Relative to GDP, the secondary income account surplus represented 21.8 per cent, a slight decrease from the 23.1 per cent share observed in the previous year.

Capital Account

Capital account inflows fell by 4.0 per cent to M1, 839.17 in 2022, from an increase of 26.3 per cent realised in 2021. This downturn was largely due to a decline in receipts for advance infrastructure development under the LHWP Phase II, coinciding with a notable decrease in payments for awarded contracts in the review year. As a ratio of GDP, the capital account balance constituted 4.9 per cent in 2022.

Financial Account

In 2022, Lesotho's financial account balance shifted to a net inflow of M544.60 million, from the net outflow of M404.48 million in the previous year. The positive change was primarily driven by increases in other investment and portfolio investment inflows. The growth in other investment inflows stemmed from escalated foreign loan disbursements to the government and a decrease in commercial banks' foreign assets. Specifically, commercial banks drew down their foreign currency assets to finance domestic liquidity needs.

Portfolio investment inflows were predominantly due to the maturity of securities held abroad by other financial institutions. However, the surplus in the financial account was tempered by an increase in direct investment outflows, marked by a higher rate of loan repayments to non-resident shareholders compared to new loan disbursements. Additionally, reserve assets contracted due to commercial banks reducing their foreign asset holdings. As a percentage of GDP, the financial account balance represented 1.6 per cent ❑

2

In the review period the banking system, which forms the biggest part of the financial system, scored well in all solvency measures as shown by the following FSIs.

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REPORT ON THE ACTIVITIES OF THE BANK

2.1 MONETARY AND FINANCIAL STABILITY

2.1.1 Financial Stability

The purpose of financial stability surveillance is to identify risks and vulnerabilities in the financial system and assess its resilience to domestic and external shocks. This is tracked through the financial soundness indicators (FSIs). In the review period the banking system, which forms the biggest part of the financial system, scored well in all solvency measures as shown by the following FSIs. However, the liquidity position deteriorated relative to historical levels.

2.1.2 Financial Soundness Indicators

Capital adequacy

The banking sector's capital position remained robust. The ratio of total regulatory capital to risk-weighted assets stood at 24.0 per cent, 1.8 percentage points higher than the level observed in the same period in the previous year. Similarly, the ratio of tier-1 capital to risk-weighted assets increased slightly from 24.4 per cent in 2021 to 25.6 per cent in 2022. The banking industry continued to maintain core capital buffers higher than the prudential minimum requirements , which was an indication of strong ability by the banks to absorb both expected and unexpected shocks.

Earnings and profitability

The industry's profitability improved in 2022, showing the banks' recovery from the impact of the COVID-19 pandemic crisis. The return on assets (ROA) remained unchanged at 1.7 per cent, while the return on equity (ROE) declined by 0.4 percentage points to 13.4 per cent. In contrast, the ratio of net interest margin to gross income increased in 2022, recording 56.3 per cent relative to 52.0 per cent recorded in 2021. The ratio shows that more than half of the banks' income came from their core business of financial intermediation. Similarly, the ratio of non-interest expense to gross income increased from 68.5 per cent in 2021 to 69.2 per cent in 2022. The ratio indicates that more than half of the income generated during the year went into administrative expenses, as opposed to expenses on income-earning assets.

Asset quality

Credit risk remained moderate despite the slow economic recovery and elevated debt levels. Concentration risk in certain loan types and exposures to single or group of borrowers remained a concern. The ratio of non-performing loans (NPLs) to total loans increased from 4.1 per cent in December 2021 to 4.3 per cent in December 2022.

Liquidity

Banks liquidity positions deteriorated relative to historical levels during the review period. The ratio of liquid assets to total assets decreased by 10.4 percentage points from 29.7 per cent that was observed in 2021. Similarly, the ratio of liquid assets to short-term liabilities decreased from 43.2 per cent in 2021 to 29.1 per cent in 2022.

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[3] Minimum regulatory requirement for tier 1 and total regulatory capital to RWA are 4 and 8 per cent, respectively.

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Sensitivity to market risk

Banks' sensitivity to market risk, measured by the ratio of net open position in foreign exchange to capital, improved during the review period. The ratio of a net open position in foreign exchange to capital decreased from 38.4 per cent in 2021 to 19.3 per cent in 2022, showing a decrease in Banks' exposure to revaluation risk in an instance where the loti appreciates against foreign currencies. In addition, by maintaining a long position in foreign currency assets, because of an increase in foreign currency denominated assets, banks were in a better position to benefit when the loti depreciated.

Table 11 Financial Soundness Indicators (%)

		2018	2019	2020	2021	2022
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	17.9	19.2	23.0	22.4	24.0
	Regulatory Tier 1 capital to risk-weighted assets	20.2	21.5	24.9	24.4	25.6
	Nonperforming loans net of provisions to capital	5.8	4.7	4.6	5.7	5.2
Assets Quality	Nonperforming loans to total gross loans	3.7	3.3	4.2	4.1	4.3
	Large exposures to capital	82.1	83.0	69.2	58.4	61.6
Earnings & Profitability	Return on assets	3.4	3.1	2.0	1.7	1.7
	Return on equity	28.6	24.8	17.1	13.8	13.4
	Interest margin to gross income	60.4	58.5	56.1	52.0	56.3
	Noninterest expenses to gross income	60.7	41.5	65.6	68.5	69.2
Liquidity	Liquid assets to total assets	36.1	22.6	28.2	29.7	19.3
	Liquid assets to short-term liabilities	52.9	34.0	41.9	43.2	29.1
	Customer deposits to total (non-interbank) loans	179.8	170.7	195.1	192.8	177.4
Sensitivity to Market Risk	Net open position in foreign exchange to capital	23.6	28.3	42.2	38.4	19.6

Source Central Bank of Lesotho

2.2 ECONOMIC RESEARCH AND ADVISORY SERVICES

The Bank continued to play its role as an economic and financial adviser to the Government of Lesotho. However, faced with resource constraints, work in this area, in 2022, focused mainly on production of the Bank's flagship reports and advisory work.

2.2.1 Economic Reports

Production of the Bank's flagship reports continued in line with schedule. Four (4) bulletins of the Quarterly Economic Review, the monthly economic reviews and the 2021 Annual Report were produced. In addition, the Bank continued to produce the Macroeconomic Outlook reports on a quarterly basis. The reports were key in highlighting economic prospects for Lesotho, informing policy decisions by the government and planning by the private sector.

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Banks' sensitivity to market risk, measured by the ratio of net open position in foreign exchange to capital, improved during the review period.

2.2.2 Advisory Work

Advisory work in the review period included a policy brief for the Minister of Finance, which assessed implications of increasing the oil levy. The brief was important to assist the government in assessing the implications of the proposed levy, particularly given that the economy was still exposed to heightened inflationary pressures and risks stemming from rising geopolitical tensions and lingering effects of COVID-19. In addition, the Bank continued to provide advice to other national structures. Advisory service, assessing the state of the economy, was provided to the Minimum Wage Advisory Board, in preparation for its annual wage setting exercise. Furthermore, the Bank produced a policy brief for the Southern African Development Community's (SADC) Committee of Central Bank Governors (CCBG). The brief assessed the possible impact of financial technological development on monetary policy conduct and financial stability with particular focus on the emergence of the Central Bank issued Digital Currencies (CBDCs).

2.3 REGULATORY AND LEGISLATIVE DEVELOPMENTS

2.3.1 Regulatory Developments

Consumer Protection and Market Conduct Regulation

The enactment of Financial Consumer Protection (FCP) Act 2022, and its operation effective from June 2022, marked a paradigm shift in market conduct regulation in the financial sector since the establishment of the CBL. This ended an era of protecting financial consumers with legal and regulation provisions fragmented across laws and regulations of different types of financial institutions. Simultaneously, it ushered in a period of a single, overarching financial consumer protection law and an activity-, rather than institution-based, regulation philosophy and approach. This will not only simplify regulation and better protect the rights of consumers, but equally important, it will also help to mitigate regulatory arbitrage across different financial institutions offering similar products and services and enable fair competition.

The last far-reaching regulatory intervention implemented by the CBL was the "2022 Financial Institutions Pricing Directives", which became effective from 01 April 2022. This is one of the key policy measures, in response to sub-optimal performance of the banking industry in terms of financial inclusion and intermediation as depicted by 2015 Lesotho FinScope (Micro, Small, and Medium Enterprise (MSME)) Survey report and 2021 Lesotho FinScope (Consumer) Survey and CBL reports. In addition, the directives were prompted by public outcry and complaints over exorbitantly high interest rates on loans and fees. Regulatory impact assessment of the directives demonstrated that they were enhancing banking financial inclusion through better uptake of the enhanced low income savings account (known as LISA), improving financial consumer protection by capping, eliminating and cutting some fees and charges for retail customers and some MSMEs and improving financial literacy through implementation of comprehensive financial education campaigns by banks via different media channels, covering different personal finance themes and fraud and cybersecurity issues and precautions. The trade-offs associated with these directives, especially on financial stability and banking sector profitability and solvency, were closely monitored. Lastly, draft Financial Consumer Protection (Credit Information Disclosure (KFS)) Regulations 2022 were refined further and expected to be issued in 2023.

Progress towards Basel II.5 Migration

As part of Bank strategic objective to improve financial stability and boost stakeholder confidence, the implementation of Basel II.5 remained a priority. The banks continued to operate on a parallel run, reporting under both Basel I and II.5 accords. Basel I would be replaced by Basel II.5 once the implementing regulations had been gazetted, tentatively from 2024. The parallel run remained key to provide banks a smooth transition, by allowing them to build capital overtime in preparation for Basel II.5. It also provided the Bank an opportunity to address initial implementation problems.

Review of the payment systems legislation

Following the completion of drafting of the Payment Systems Bill in 2021, further instructions to the Bill were prepared in 2022. Furthermore, in 2022, the Bank completed the drafting of the Payment Systems (licensing Requirements for Payment Systems Operators and Payment Service Providers) Regulations. Consequently, the draft regulations were sent to the Ministry of Finance for onward transmission to the Office of Parliamentary Counsel in line with the legislative processes. The proposed legislative changes are mainly intended to ensure that all payment services are regulated under the same provision and accommodate the possibilities of new payment services in the country.

Insurance, Pension Funds and Collective Investment Schemes

During the review period, the Bank, as the regulator of non-bank financial institutions continued to prioritize registration and licensing of pension funds and service providers. The Bank commenced full enforcement of compliance with the law, including reporting obligations in accordance with Pension Funds (Financial Reporting) Regulations, 2020.

Furthermore, the Bank remained responsible for the oversight and regulation of collective investment schemes in Lesotho, as guided by the CBL (Collective Investment Schemes) Regulations of 2018. Implementation of the regulations during the review period revealed some regulatory gaps, necessitating draft amendments of the regulations, which were expected to be published in the next reporting period.

2.3.2 Legislative Developments

The Financial Consumer Protection Act, 2022 was published on 03 June 2022. The Act provides for the establishment of the rights of consumers of financial products and services and the manner of exercising these rights and their protection as well as related matters.

As part of Bank strategic objective to improve financial stability and boost stakeholder confidence, the implementation of Basel II.5 remained a priority.

2.4 FINANCIAL SURVEILLANCE AND INTEGRITY

2.4.1 Anti-money laundering and combatting of financial terrorism (AML/CFT)

During the year under review, the Bank prioritized the AML/CFT supervisory activities in preparation for Lesotho's mutual evaluation that started mid-2022. The AML/CFT framework was developed to ensure that supervision of accountable and reporting institutions under its purview was approached from a risk-based perspective. To this end, Risk Based Supervision (RBS) Framework and Risk Management Guidelines were developed to enhance supervision of non-bank financial institutions. In order to ensure broader participation and compliance, the Bank trained the sector and embarked on awareness and promotion campaigns dedicated to the AML/CFT for all licensed Non-Banks Financial Institutions across the country. Furthermore, an AML/CFT sectoral assessment to fully understand threats and vulnerabilities facing the pensions and securities sub-sectors was conducted and the same will be rolled out to other subsectors in the following year. The sectoral assessments will inform supervisory engagements to be undertaken in the coming year. To ensure proper supervision of the AML/CFT, the Bank also invested on training and capacity building of the AML/CFT for its supervisors.

2.5 FINANCIAL MARKETS

2.5.1 Reserves Management

The Bank continued to manage its foreign exchange reserves to uphold reserves management functions as stipulated in the Central Bank of Lesotho Act of 2000. Reserves management activities were challenged by high-risk investment climate across the globe, particularly because of the Russia-Ukraine war that let to record high prices of fuel, as well as sluggish growth and rising interest rates emanating from monetary policy responses by Central Banks in both developed and emerging markets. These major market shocks were met with significant efforts deployed to ensure that the Bank attains its mandate of preservation of value of reserves, preservation of liquidity for reserves to enable payment of the country's foreign obligations and generation of sufficient returns to sustain the Bank's operations.

Various initiatives were undertaken to improve reserves management processes and processes flows throughout the year. The Bank reviewed its Reserves Management Policy in light of rising risk climate to ensure that its eligible currencies and asset classes are in full compliance with prescribed reserves management principles set out by the IMF and World-Bank. The Bank also implemented a Society for Worldwide Interbank Financial Telecommunications (SWIFT) Transactions Screening and Payments (TSS) control solutions. TSS solution provides the Bank with real time detection, prevention, and management of sanctions by identifying individuals and organisations sanctioned by international and regional organisations to ensure that the Bank fully adheres to AML/CTF principles. The Payments control solution on the other hand provides the Bank with the tool to guard against cyber fraud over its payments processes.

Significant improvements were made by the Bank in its efforts to automate its reserves management processes and implement a system that will enable seamless flow of processes from end to end. This involves successfully automating its reserves management processes from risk management, trading, compliance, settlement and accounting.

In an effort to align with international best practices and emerging standards, the Bank embarked on the journey for adoption of the new International Organization for Standardization (ISO) 20022 messaging standard for cross boarder payments mandated for SWIFT community. The Bank successfully implemented the standard on its payments infrastructure and will be ready to send and receive ISO 20022 messages in the post go- live scheduled for March 2023 by the SWIFT community. All these efforts ensured that the Bank, through Financial Markets Department, achieved its mandates of managing reserves.

2.5.2 Domestic Capital Markets Operations

The Bank, acting as a fiscal agent of the Government of Lesotho, successfully conducted four auctions of Treasury bonds for fiscal purposes and bi-weekly auctions of Treasury bills for monetary policy purposes. Of the five auctions of Treasury bonds, three auctions were conducted through the re-opening of already existing bonds, while two new bonds were introduced. The new seven- and ten-year bonds were issued in February and June 2022 respectively. Issuance of the new bonds was highly successful as it added integral points on the long end of the yield curve, forming a basis for pricing of other instruments by potential private issuers. All auctions of Treasury bills for monetary policy and Treasury bonds for fiscal policy were oversubscribed safe for one auction of Treasury bonds. The total cash raised from all auctions of Treasury bonds made up 90.93% of the total amount issued due to growing participation of insurance companies, pension funds and retail investors. Vigorous investor educational campaigns carried throughout the year on various platforms such as radios, newspapers, Bank website and social medial platforms, produced positive and commendable results in attracting mostly new retail investors.

2.5.3 Maseru Securities Markets (MSM)

Following the successful listing of RNB Properties Ltd in December 2021, the MSM commenced the expected secondary market trading activities. From January 3, 2022 to December 30, 2022, the market continued to evolve from having no trades since the launch of the exchange to registering a total of 31 transactions in listed shares of RNB Properties Ltd. About thirty-five thousand shares were transacted to a total consideration of about six million.

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Following the successful listing of RNB Properties Ltd in December 2021, the MSM commenced the expected secondary market trading activities.

The total market capitalization for the listed shares stood at three hundred and forty million Maloti as at end of December 2022, while the market liquidity as measured by the ratio of total value of trades to market capitalisation was recorded at 1.75%. With having kick-started the trading activities on the trading platform, it is expected that the MSM will appeal to more and more corporations to list on the exchange and assist them on raising further funding for expansion while also improving on the indicators above.

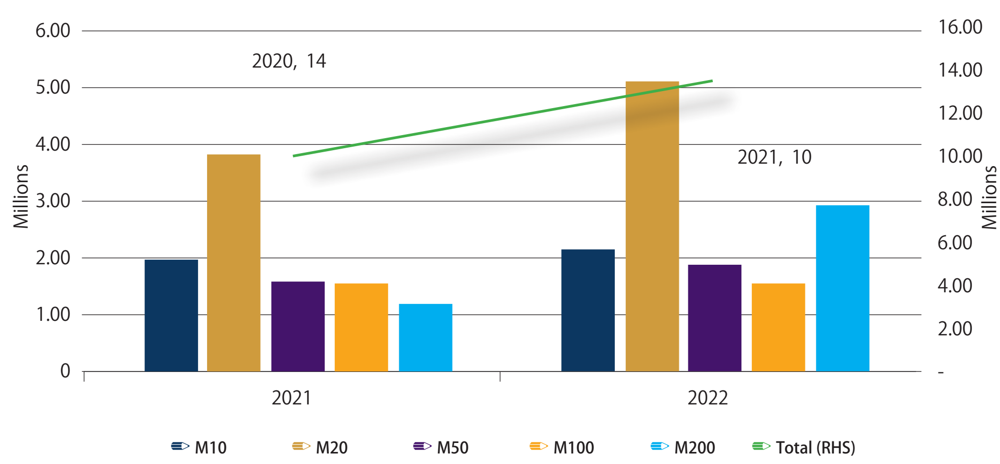
2.6 PAYMENTS SYSTEMS PERFORMANCE

2.6.1 Currency Management

New Banknotes issued to circulation

The total number of new banknotes of various denominations, ranging from M10 to M200, issued to circulation increased by 34.4 per cent from 10,145,000 in 2021 to 13,639,000 million in 2022. The increase in volumes resulted mainly from the rollout of the upgraded Maloti notes in October 2022. In addition, the installation of the new processing machine (M7) also contributed to higher issuance of new banknotes.

Figure 16 New Banknotes Issues to Circulation



Source: Bureau of Statistics

Maloti and rand repatriation

The value of Maloti and Rand banknotes repatriated increased by 5.6 per cent and 36.8 per cent, respectively, between 2021 and 2022. This reflected a recovery of trade between the SA and Lesotho as well as increased inflow of remittances after the removal of the COVID-19 restrictions.

2.6.2 Lesotho Wire (LSW)

The volume of payment transactions processed and settled by LSW in 2022 grew, while the total value of transactions declined. The volume of transactions increased by 13 per cent while their value declined by 3 per cent. Table 12 depicts transaction volumes and values processed and settled by LSW between 2015 and 2022. In terms of system availability, LSW maintained an uptime of 99 per cent in the period under review, which was above the tolerance level of 98 per cent. This provided a conducive environment for efficient circulation of funds, conduct of monetary policy, financial stability, as well as overall economic activity in the country.

Table 12 LSW Transactions between 2015 and 2022

Year	Volumes	Change (%)	Values	Change (%)
2015	25 683	29	28 058 854 748	-8,8
2016	23 917	-7	34 257 297 169	22,1
2017	29 968	25	43 046 062 473	25,7
2018	25 880	-14	51 466 286 357	19,6
2019	33 047	28	66 901 041 540	30,0
2020	32 474	-2	77 581 732 255	16,0
2021	38 450	18	77 794 364 791	0,3
2022	43 271	13	75 086 607 944	-3

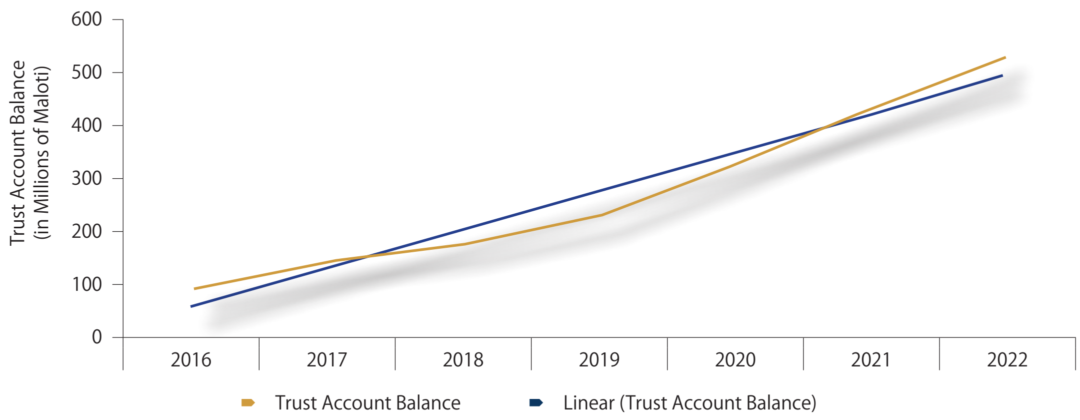
Source Central Bank of Lesotho

2.6.3 Mobile Money

Mobile money maintained an upward trajectory during 2022. This was evidenced by the growth of mobile money trust account, from M431.69 million in 2021 to M532.87 million, in 2022 representing a 23.4 per cent increase. Figure 18 provides a pictorial view of the total mobile money trust account balance from 2016 to 2022. The growth of the trust account balance signifies greater uptake of mobile money.

The volume of payment transactions processed and settled by LSW in 2022 grew, while the total value of transactions declined.

Figure 17 Overall mobile money trust account balance between 2016 and 2022

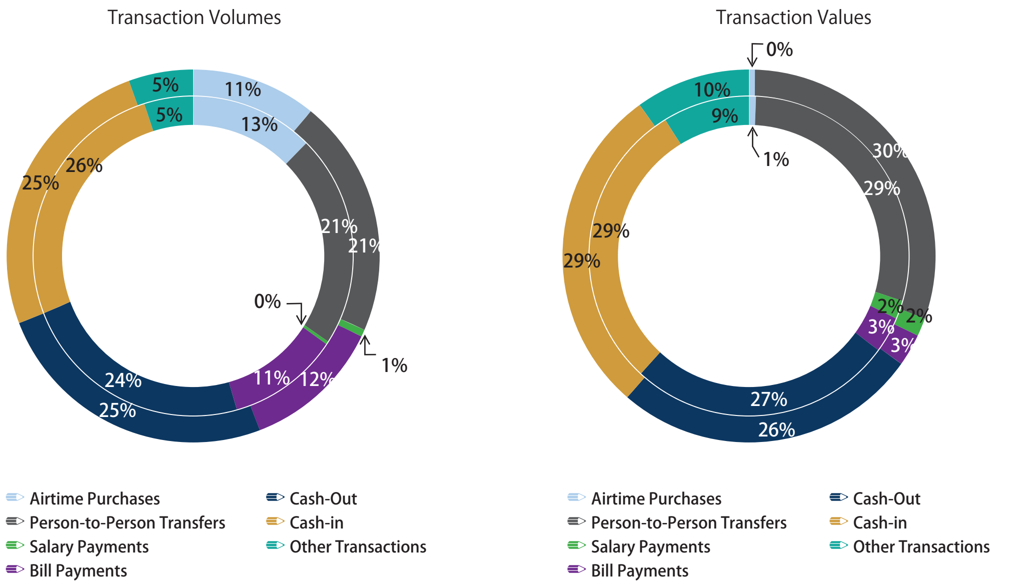


Source: Central Bank of Lesotho

In terms of usage trends, the volume of mobile money transactions indicated that mobile money was mainly used for cash-in and cash-out transactions, followed by person-to-person transfers and bill payments. Nonetheless, the transaction types that had the highest values were cash-in, person-to-person transfers, cash-out and other transactions[4]. Figure 18 presents the mix of mobile money transactions between 2021 and 2022.

[4] Other transactions denote the sum of merchant purchases, cross border transactions, bank-to-wallet, wallet-to- bank, nano loans and other services (sending money to unregistered customers).

Figure 18 Overall mobile money trust account balance between 2016 and 2022



Source: Central Bank of Lesotho
Note: The innermost and outermost doughnuts correspond to 2021 and 2022, respectively. Other transactions denote the sum of merchant purchases, cross border transactions, bank-to-wallet, wallet-to-bank, nano loans and other services (sending money to unregistered customers).

2.6.4 Payment Systems Initiatives

Implementation of the National Payment Switch

The implementation of the national payment switch project continued in 2022. It is important to note that a payment switch is a system that can interface with other payment platforms to consolidate and channel all electronic transactions to relevant payment processors for authorization and settlement. For instance, a switch can interface with a point-of-sale device to consolidate all payment transactions that occurred on that device and then channel those transactions to other payment processors such as Lesotho Wire for settlement. In Lesotho the payment switch will only focus on switching debit card and mobile money transactions only. Several milestones were achieved in the project chief among them was the pilot of the mobile money transaction stream. That is, in November 2022 the systems went live on a pilot basis for mobile money payments, thereby enabling the transfer of funds from one mobile money wallet to another. It is envisaged that the completion of the national payment switch project will lead to a reduction in card processing fees. For example, automated teller machine (ATM) transactions fees involving a foreign card will be reduced. Furthermore, by enabling interoperability between mobile money issuers the switch will increase financial service access points available to consumers, which will ultimately lead to an improvement in financial inclusion.

During the year under review, 206 complaints were handled by the CBL compared with 141 complaints handled in 2021.

2.7 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

2.7.1 Consumer Financial Empowerment

Market Conduct Supervision of regulated financial service providers, such as commercial banks, insurance companies, microfinance institutions (MFIs), pension funds, payments services providers, credit bureau, large financial cooperatives and the CBL's Maseru Securities Market (MSM), focuses on protection of consumers from unfair treatment. This is undertaken in pursuit of promoting and maintaining trust and confidence on the financial system. This function was carried out through complaints handling, off-site analysis and on-site examinations in 2022.

Complaints Handling and Redress

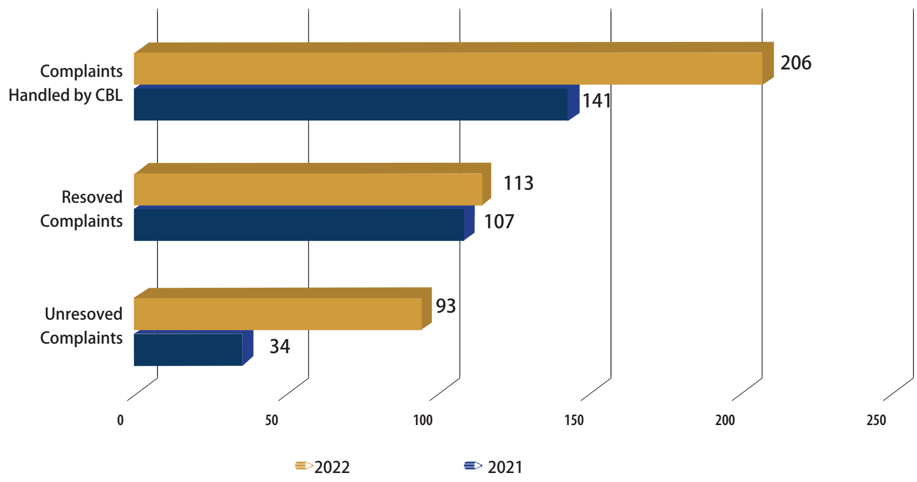
The CBL, through the FCP Division, investigates and facilitates the resolution of complaints escalated to it by consumers when the internal mechanisms of regulated financial service providers have been exhausted.

Complaints Brought by Consumers to CBL for Mediation

During the year under review, 206 complaints were handled by the CBL compared with 141 complaints handled in 2021. These were complaints received from consumers who were dissatisfied with the responses they had received from commercial banks, insurance companies, microfinance institutions-money issuing companies, credit bureau, large financial cooperative and others. Out of these complaints, 55 per cent of the complaints were resolved and closed, compared with 76 per cent in the previous year. This decline was attributed to rising volume of complaints and complexity of some of the cases handled. The unresolved complaints will be carried forward and handled in 2023 (see Figure 20).

Complaints against the commercial banks continued to lead, constituting 38 per cent of the mediated complaints. This is followed by complaints against MFIs and insurance companies, which accounted for about 33 per cent and 26 per cent of the total complaints, respectively. The remainder were complaints against other financial service providers, such as the Credit Bureau and E-money issuers, which contributed 4 per cent.

Figure 19 The Number of Complaints Handled in 2021-2022



Source: Central Bank of Lesotho

When looking at the nature of complaints received and mediated by the CBL, in the descending order of their frequency, complaints coming from customers of commercial banks and microfinance institutions who were highly over-indebted and in financial difficulties dominated. This was followed by complaints related to: lack of product transparency; repudiated insurance claims; poor and unreliable service; loan repayment deduction errors; unsatisfactory and lower than expected insurance and investment benefits; high fees and interest charged by MFIs; fraud and unknown and unauthorised debit transactions; ATM issues; deeply discounted vehicle and house collateral auction sale prices and unfair debt collection practices; identity documents, passports and Debit cards illegally taken as collateral by some MFIs; and consumer credit records integrity issues with the Credit Bureau.

On-site Examinations

Financial consumer protection on-site examinations of one commercial bank and its three branches were carried out in 2022. The bank's inherent financial consumer protection risk was considered moderate, while its risk management systems were rated acceptable, resulting in moderate composite financial consumer protection risk, but an increasing risk in the next 12-months. In particular, the examination identified the following issues: a) controls on fraud and data protection and privacy risks exhibited significant deficiencies; b) the complaints handling mechanism of the bank showed some weaknesses in terms of structure appropriateness and service availability and continuity; c) product information disclosure and transparency was inadequate with respect to the translation of product contracts and product information

Financial consumer protection on-site examinations of one commercial bank and its three branches were carried out in 2022.

into Sesotho, disclosure of loan early settlement fees in contracts, complaints handling process, and changes in deposit rates following changes in the CBL policy rate; d) loan affordability assessments were not adequately conducted before loans were approved, which elevated the risk of overloading vulnerable borrowers with debt; and lastly, the bank grappled with frequent and recurring automated deposit tellers (ADT) deposit and ATM withdrawal failures, which caused a lot of inconvenience to customers.

Consumer financial empowerment

Against a backdrop of a recovery of economic activities and a return to normality of the physical mode of human interaction after the COVID-19 infections have drastically declined and associated restrictions eased, the year 2022 witnessed unprecedented scale of financial education and awareness campaigns in terms of the number of participants and population reached, duration, geographic coverage, and modes of delivery, at least since the advent of Money Week/ Month campaigns in Lesotho. Throughout 2022, Financial Consumer Protection Division successfully carried out 40 financial education workshops, training 2489 participants from the national security sector and civil service across the ten districts. One Non-Governmental Organisation also benefited. The workshops focused on debt management and were part of a menu of interventions proposed by 2019 Thematic Research on Consumer Over-Indebtedness Report produced by the FCP Division and were informed by the findings of 2021 Lesotho FinScope (Consumer) Survey Report and the analysis of the CBL-mediated complaints from over-indebted borrowers as well. Financial consumer protection-related regulatory framework awareness was also carried out on several local radio stations and Lesotho National Broadcasting Service's Television following the issuance of 2022 Financial Institutions (Banks) (Pricing) Directives and the enactment and publication of Financial Consumer Protection Act 2022. Digital media platforms, such as the CBL's website and social media were also leveraged to reach a vast population of internet users, especially the youth and students. Advertisements through billboards and newspapers and aired on radio stations were also used to disseminate financial education messages. These campaigns were mainly aimed at inculcating better financial habits in order to mitigate the rising incidence of over-indebtedness and its adverse effects on the wellbeing of the borrowers and their households. Again, they were intended to educate consumers about their financial legal rights and obligations as enshrined in Financial Consumer Protection Act 2022 and opportunities and benefits coming with 2022 Financial Institutions (Banks) (Pricing) Directives. Lastly, the FCP Division also actively participated in the design and implementation of 2022 Central Bank of Lesotho Money Month Campaign programme.

2.8 INTERNATIONAL COOPERATION

The Bank continued to participate in meetings and conferences of various international organisations to which it is a member. These include the IMF, the World Bank Group, Bank for International Settlements, the SADC's CCBG, Common Monetary Area, the SACU, Association of African Central Banks (AACB), Alliance for Financial Inclusion (AFI), Financial Stability Board Regional Consultative Group for Sub-Saharan Africa and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa.

2.9 CORPORATE AND ASSURANCE SERVICES

2.9.1 Risk and Business Continuity Management

In 2022, the Bank continued to monitor the global and local risk landscape which could have an impact on the achievement of its strategic and operational objectives. These threats and opportunities were identified, prioritised, and mitigated through a robust enterprise risk management programme with reviews undertaken periodically, in consideration of evolving internal and external environment.

During the year, the management of the Bank placed a heightened focus on mitigating economic instability driven by the COVID-19 pandemic and high cost of living as a result of Russia-Ukraine war amongst others. Moreover, cyber-attacks, de-risking, systems instability, as well as ability to attract and retain talent were amongst the risks on the radar of the Bank. These and other key risks, together with associated key risk indicators were monitored by business units and progress reported to management and the Board. To strengthen the risk management foundations that encourage responsible risk taking, ethical conduct and a risk sensitive culture, the Bank continued with capacity building initiatives to support business units in implementing the risk management framework.

To ensure continuity of business in the case that disruptions may occur, critical systems and different business recovery area plans were tested using different scenarios. This provided assurance to the Bank and its stakeholders that the Bank's critical functions would not be compromised during disasters or disruptions. Inspections and maintenance of the disaster recovery sites was done to ensure that they stand ready to be used during business disruptions that may render the productions site unusable.

The Bank further ensured a conducive working environment for members of staff, and its visitors. This was done by periodic occupational health and safety inspections and ergonomics assessment amongst others. The Bank continued to address the findings that came out of the inspections and assessments.

Project Management

The Bank's 2022 portfolio was comprised of 16 projects at the beginning of the year. The year ended with seven active projects, while some were completed, and others put on hold in consideration of reasons such as reprioritization. The portfolio earned value remained favourable as overall percentage of progress stood at 65 per cent with the expenditure of 58 per cent by the end of the year. The Bank developed a project management policy to improve the overall management of its portfolio.

To ensure that the projects delivered the desired outputs and outcomes, the Bank applied benefit management for projects that had already been completed. This provided an opportunity for the Board to know the value addition of the projects.

In 2022, the Bank continued to monitor the global and local risk landscape which could have an impact on the achievement of its strategic and operational objectives.

2.9.2 GRC Assurance by Internal Audit

The Internal Audit Department (IAD) is an independent and objective assurance and consulting activity that is designed to add value and improve Bank's governance, risk management and control (GRC) processes. The IAD enhances and protects the Bank's value by following Risk-Based and Objective Assurance methodology in order to advice and provide value adding insight and foresight on the adequacy and effectiveness of the Bank's GRC environment to senior management and Board. The implementation of this Risk-Based Auditing approach aligns and conforms to the Institute of Internal Auditors' International Professional Practice Framework.

Audit Plan Coverage

The Internal Auditing Department continues to be a significant element of the Bank's overall internal control environment in terms of providing reasonable assurance on the adequacy and effectiveness of the control environment. Management is responsible for establishing internal controls to identify, manage and monitor risks. During the reporting period, The IAD performed all planned audit engagements, consulting services and independent annual self-assessments on selected IT and Business Continuity Management (BCM) Processes as well as the Bank's cybersecurity maturity assessment prescribed by the CCBG through IT and BCM Forums, respectively. In general material control gaps identified during the year were brought to the attention of management and corrective measures were devised. As a result, 2022 overall assessment of the Bank's operations indicated that the system of internal controls was generally adequate and effective with room for improvement.

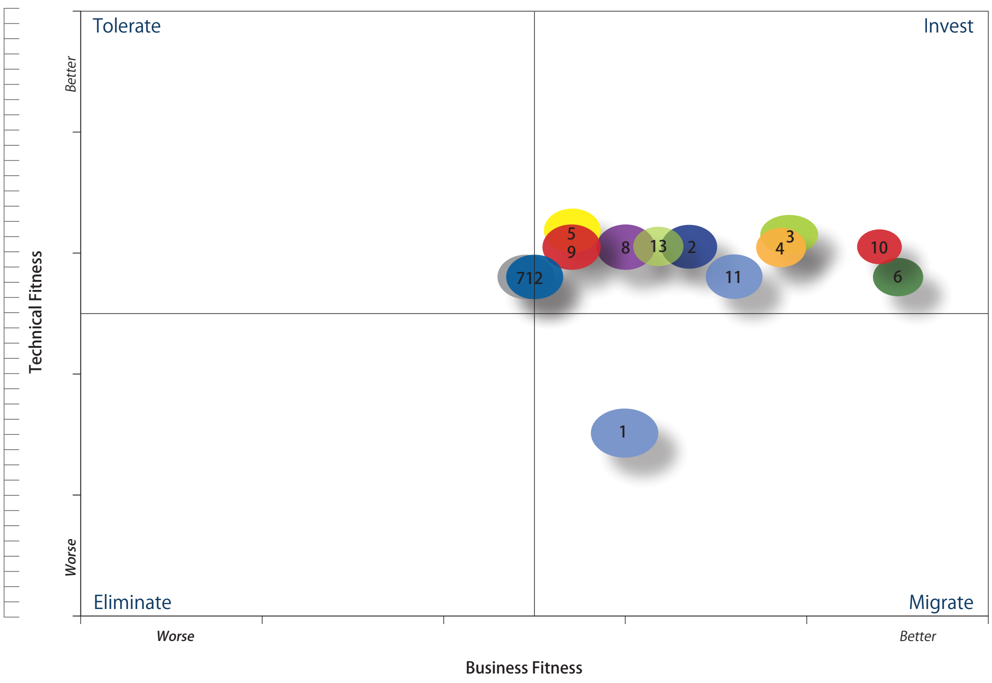
Combined Assurance Journey

The Bank has since adopted the Combined Assurance Model in line with the concepts in King IV to incorporate all assurance services and functions. The Bank's combined assurance approach to its risk management and control aims to integrate, coordinate and align its assurance processes and optimize the level of risk, governance and control oversight. The implementation of this Model is led by the Combined Assurance Forum which coordinates work undertaken by the respective assurance providers and is accountable to the Management and Audit Committee. The implementation of the combined assurance model within the Bank is improving though there is still more to be accomplished. Most of the planned activities for 2022 were successfully achieved.

2.9.3 A Cyber Resilient Digital Workplace

The ICT Department continually assesses value delivery to the business of the Bank from Bank's processes, IT services and systems, in line with the IT Governance framework. In assessment of systems' relevance and their value delivery, the Department employs a scientific tool adopted from Gartner, to assess business and technical fitness of various systems in the Bank's critical infrastructure. Most of the systems were found to be both technically sound and fit for business imperatives, being on the most favourable quadrant of 'invest', as depicted in Figure 21.

Figure 20 Technical and business fitness status of mission critical systems



Source: Central Bank of Lesotho; Central Bank of Lesotho, Larger bubble indicates worse cost profile

Maintenance support continued to be characterized by high average availability of mission critical systems.

Cyber security resilience

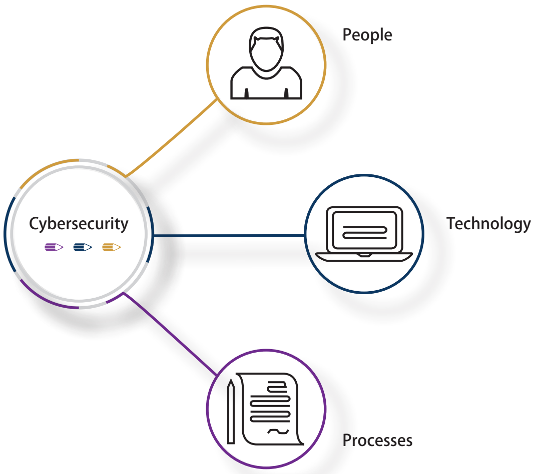
The Bank continued to manage cyber risks from various aspects including through awareness campaigns and vulnerability assessments on mission-critical ICT infrastructure, in alignment to the Bank's enterprise risk management profile and tolerance limits.

People Centric Security

The Bank has adopted a cyber-risk management framework that is underpinned by focus on people, technology and processes as depicted in Figure 22.

In the reporting period, 15 Departments, including the Executive Committee members, were enrolled in cyber risks and awareness campaigns.

Figure 21 Planes of Cyber-Risk Management



Source: Central Bank of Lesotho

In the reporting period, 15 Departments, including the Executive Committee members, were enrolled in cyber risks and awareness campaigns. The completion rate in the final quarter of the year improved from 69.5% to 77.07%. Four Departments achieved a 100 per cent completion rate.

Vulnerability assessments showed a significant improvement in security posture, following implementation of Private Key Infrastructure initiative. However, some vulnerabilities ranging from low to high by impact were uncovered and prioritized to be addressed.

Bank Risk Score

The Bank's overall risk score was 22 per cent, as shown in figure 23 below. While the CBL employees' cyber security awareness continued to improve, the reported risk score remained slightly higher than the ideal score of no more than 20 per cent. However, there was a significant improvement in terms of the Bank's average Phish-prone score, which declined from 8 per cent to 2 per cent. The Phish-prone score represents employees' tendency to open or click on suspicious links or attachments.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Figure 22 Organization's Risk Score

Source: Central Bank of Lesotho

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