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LABOUR MARKET DEVELOPMENTS IN LESOTHO

The Bureau of Statistics (BOS) has released preliminary results of the 2008 Integrated Labour Force Survey…

Introduction

High levels of unemployment could have devastating economic and social costs. High unemployment means that resources that should be engaged in production of goods and services are lying idle, hence it causes a waste of scarce resources and dampens the long run growth potential of an economy. It is also associated with low real income and spending as well as high levels of poverty and income inequality. That is why unemployment reduction is stated as a national priority for Lesotho in both the National Vision 2020 and the Poverty Reduction Strategy Paper for Lesotho.

This paper analyses labour market developments in Lesotho in an endeavour to assess whether Lesotho is moving towards its goal of reducing economic and social deprivation through creation of employment. This paper compares the results of the 2008 and 1999 Labour Force surveys. A more comprehensive analysis that includes developments in the labour market during the years between 1999 and 2008 is hampered by lack of data relating to that period as surveys are done every 10 years.

INSIDE

Labour Market Trends

In 2008, the number of economically active Basotho (the labour force) was estimated at 788 541, representing 42.0 per cent of the total de jure population[1]. This represents an increase of 4.1 per cent in the size of the labour force between 1999 and 2008. The last Labour Force Survey was carried out in 1999.

During the period between 1999 and 2008, the economy of Lesotho created 58 640 jobs, resulting in a 10.6 per cent increase in total employment in absolute terms. This precludes the notion of jobless growth from being applied to Lesotho. During the study period, the economy of Lesotho grew, in real terms, by an average of 2.2 per cent and it appears to have had a positive impact on employment. The total number of unemployed Basotho declined by 13.3 per cent, thus resulting in a lower unemployment rate of 22.7 per cent compared with 27.3 per cent in 1999.

The data in Table 1 below indicates that total employment increased by more than the increase in the size of the labour force, which implies that the economy created a significant number of jobs leading to the fall in the rate of unemployment.

[1] Estimated at 1 876 633 by the 2006 Population Census.

Table 1: Key Labour Market Indicators: 1999-2008

	1999	2008	% Change	Target Rate
Total Number of Basotho Eligible to Form Part of the Labour Force*	1 039 887	1 241 967	19.4	
Total Employed	550 511	609 152	10.7	
Total Unemployed	206 821	179 390	-13.3	
Labour Force	757 332	788 542	4.1	5.67
Economically Inactive	282 555	453 425	60.5	
Unemployment Rate	27.3%	22.7%	-4.6%	

Source: *Labour Force Survey 1999 and 2008 Integrated Labour Force Survey Preliminary Report*

This is substantiated further by using the 'employment target growth rate' borrowed from Bhorat[2] to assess the sufficiency of the increase in employment between 1999 and 2008 relative to the increase in the labour force.

The target rate is estimated as the change in the economically active population between period t-1 and t divided by the number of employed individuals in period t-1. It gives the rate at which employment ought to have grown for all new entrants into the labour force to have been placed into employment between the two periods.

The target rate suggests that a 5.67 per cent growth in employment over the 1999-2008 period would have been enough to create jobs for all new entrants into the labour force. Total employment increased at a higher rate of 10.6 per cent, which is sufficient to have created jobs for all new entrants and some of those who were jobless in 1999 with jobs. This is consistent with the observed decline in the rate of unemployment.

Employment by Sectors

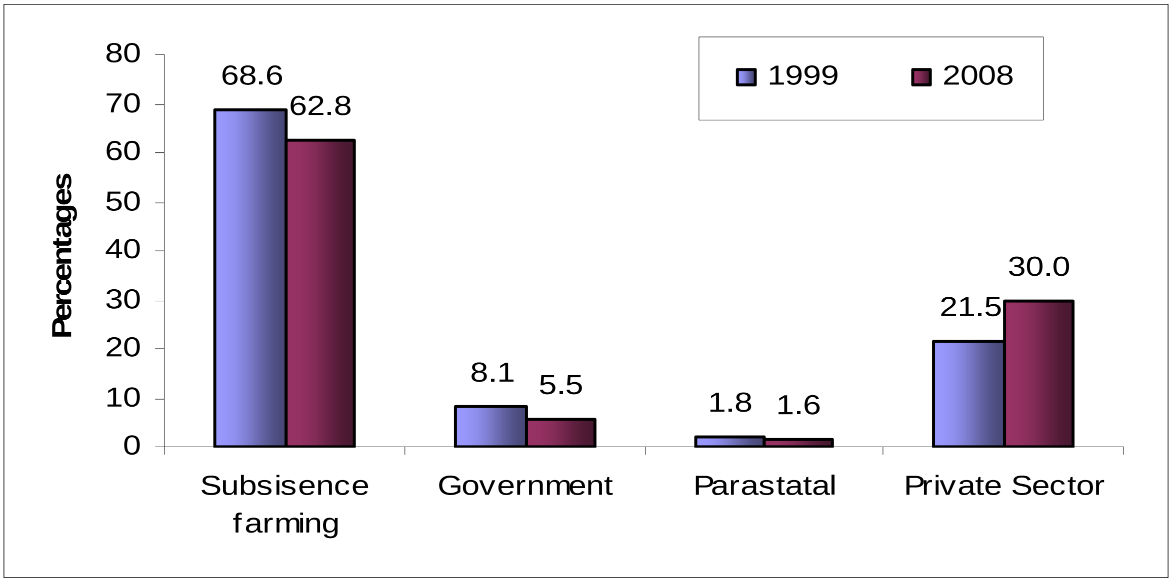
Subsistence farming continues to be the largest employer of the Basotho nation at 62.8 per cent in 2008 compared with 68.6 per cent in 1999. Nevertheless, there has been a shift over time and employment in subsistence farming has been gradually declining as industrialization increased and attracted some of the former employees of the agricultural sector into manufacturing. Therefore, employment in the private sector increased from 21.5 per cent in 1999 to 30.0 per cent in 2008. Nonetheless, commercialization of agriculture has been very sluggish and has as a consequence hampered private sector employment growth.

This classifies Lesotho in stage 3 (take off stage) of the Rostow's stages of development. According to Rostow, the take off stage is where an economy realizes an increase in industrialization and consequently, workers move out of the agricultural sector into the better paying manufacturing sector. In addition, in an economy in this stage, growth is concentrated in a few regions of the country and in one or two manufacturing industries.

Government employment as a percentage of total employment has declined to 5.5 in 2008 compared with 8.1 per cent in 1999. This could be a reflection of the increase in employment by the private sector, particularly in the manufacturing of textiles and clothing. Government ceased to be the biggest employer in the economy in the early 2000 when it was surpassed by the manufacturing sector. Nevertheless, employment by Government has increased by 18.7 per cent between the year 2000 and 2008.

[2] Bhorat, H. 2004. "Labour Market Challenges in the Post-Apartheid South Africa", South African Journal of Economics, 72:5

Figure 1: Employment by Sectors



The public sector plays a vital role in providing public goods such as public health, defense, police protection etc, which the private sector would not normally provide. In some cases, due to market imperfections, Governments produce goods and services that would normally be supplied by the private sector. Empirical research appears to be of the consensus that the relationship between the size of government and economic growth follows an inverted U-shape, indicating that the increase in government spending has a positive impact on growth which, however, declines as the size of government increases.

The increase in government employment, more often than not, translates into an increase in government's wage bill. According to the World Bank, public sector wage bill in excess of 25.0 per cent of total public spending should raise concerns as it risks reducing effectiveness by squeezing expenditure on goods and services, maintenance and capital expenditure.

In Lesotho the wage bill is currently at around 26.0 per cent of total expenditure and 35.0 per cent of recurrent expenditure. At this level, Lesotho is above the benchmark, which implies that any further increase in public sector employment will have a negative impact on effectiveness of the public sector. In addition, the Government of Lesotho is currently faced with a challenge of a decline in SACU revenue, which traditionally has been financing over 50.0 per cent of government operations. Thus Government may have to engage in expenditure cutting measures, including refraining from hiring for sometime.

Conclusion

It is important to put the positive picture painted by labour market data into perspective. Lesotho is a poverty stricken economy with an estimated 68.0 per cent of the population living below the national poverty line. The poverty situation in Lesotho does not seem to have improved anyhow over time. Poverty is most serious in households that do not have at least one member in wage employment, or households that lose wage employment prematurely as is the case with migrant mine workers.

The data shows that employment has increased, while unemployment has fallen. Looking at the sectoral break-down of employment, it can be seen that most of the employment is in subsistence farming. This sector has deteriorated significantly over the past 10 -15 years as a result of a number of factors including unfavourable weather conditions and lack of funds to purchase the necessary inputs, resulting in poor returns (agricultural produce) to those employed in this sector. Government and parastatal employment, as a share of total employment, have declined while private sector employment has increased moderately.

The decline in unemployment does not call for a celebration as yet. A lot still needs to be done to increase private sector employment so that people could move out of subsistence agriculture, which has proved unable to take Lesotho out of poverty.

2. The South African Rand Continues To Appreciate: Implications For The Economy Of Lesotho

The prolonged appreciation of South African Rand could undermine SA industries' competitiveness abroad and retard economic recovery and growth…

Background

One of the important macroeconomic variables in an economy of any country is currency exchange rate. An exchange rate is the price of one currency in terms of another or a basket of currencies. It is a very important macroeconomic indicator in economic management and policy due to its relationship with other macroeconomic variables such as inflation and interest rates.

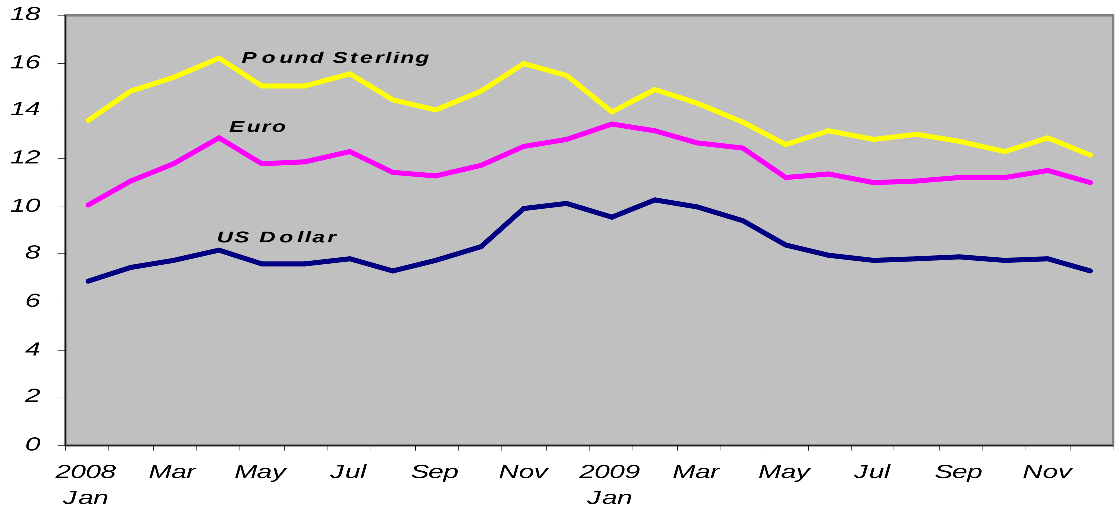
Unlike Lesotho which does not have independent monetary policy, South Africa has a relatively independent monetary policy and exchange rate policy. South Africa maintains floating exchange rate regime. The South African Rand (ZAR) has remained relatively strong against major trading currencies throughout the year 2009, following volatility and depreciation in the second half of 2008.

The purpose of this article is to analyse the exchange rate movement of the Rand in 2009. It highlights the major factors that led to the appreciation of Rand against the major currencies as well as the economic implications of the appreciation both in SA and Lesotho.

Recent ZAR Exchange Rates Developments

Recent appreciation of the rand against major currencies succeeds a depreciation that occurred in the first quarter of 2008 and the second half of the same year. In 2008, the ZAR depreciated by 5.3 per cent and 18.6 per cent against the dollar in September and November, respectively. It also depreciated by 6.9 per cent and 7.8 per cent against the euro and the British pound during the same period. It is noteworthy, however, that the depreciation was short-lived as it started appreciating against the currencies in January 2009. Figure 2 below shows the absolute movements of the Rand against the US Dollar, Euro and Pound Sterling. It can be observed that there is a downward movement of Rand vis-à-vis the major currencies from the beginning of 2009 to the end.

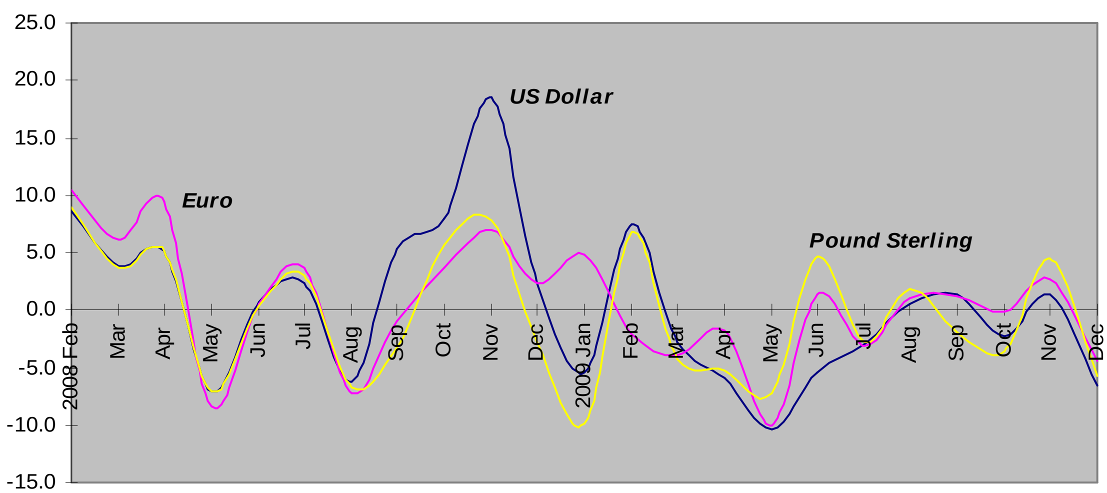
Figure 2: The Rand Exchange Rate Movement against Major Trading Currencies



Source: *Central Bank of Lesotho*

On the other hand, figure 3 below shows the actual depreciation and appreciation of the Rand. The negative territory of the graph shows the appreciation of Rand against the three major trading currencies while the positive plane depicts the deprecation. It can be observed that the rate of Rand depreciation intensified from September to November 2008 and continued through December albeit at a lower pace. The most notable change was observed in the Rand/US dollar exchange rate. The beginning of the year 2009 saw the value of Rand gaining against the trio and this strength was sustained throughout the year though there were still some months when the Rand depreciated.

Figure 3: Monthly changes in the Rand exchange rate



Source: *Central Bank of Lesotho*

The strength of the Rand can be explained by several international and domestic economic developments. At the domestic front, the first factor is the narrowing of the current account deficit in 2009, which was partly due to lower imports and largely due to an improvement in SA export volumes. SA exports edged higher in the third quarter of 2009 as massive global stimulus packages boosted international trade. On the other hand, lower imports were largely due to SA domestically strained consumption demand.

The narrowing down of the current account deficit helped the Rand to gain against major currencies during the course of the year. 2009.

The positive interest rate differential in SA has contributed to the appreciation of the Rand. That is, interest rates are relatively high in SA compared with interest rates in developed countries; in particular major trading partners of SA, such as the US, the Euro zone and other economies. This situation has encouraged borrowing from the low interest rate environment and investing in the high-yielding risky assets in emerging markets like SA. The demand for the SA currency due to the massive capital inflows from low-interest paying economies to SA has prompted the SA Rand to appreciate. The SARB policy rate closed the year 2009 at 7.0 per cent whereas in the US, the Federal funds rate was 0.25 per cent.

On the international arena, the strength of the Rand has been maintained by the weakness of the US Dollar. The US Dollar was weak mainly due to the market's expectation that the US interest rates would remain at the low levels for the foreseeable future. This also encouraged borrowing in US Dollars and investing in higher-yielding assets, mostly in emerging markets with relatively good risk profile.

Moreover, the continued strength of the Rand emanated from the relative prices of international commodities. SA is one of the biggest producers and exporters of metallic commodities (gold and platinum) both regionally and globally. The upward trend in international prices of gold, platinum and other export commodities have been responsible for the recent continued strength of the Rand. Gold and Platinum accounts for about 22.0 per cent of export revenue in SA and have recently gained more than 2.0 per cent.

For the SA economy, the appreciation of Rand has a number of implications. First, it has reduced SA's imported inflation and, in turn, given the SARB more scope to reduce interest rates. The reduction of interest rates could help the economy to grow by boosting credit for consumption and investment. In a low interest rates environment, it is cheaper for consumers to borrow for spending and it becomes cheaper for firms to obtain funds for investment purposes.

As investment grows, especially physical investment, demand for labour and capital also increases and, in turn, boosts employment. Second, when the currency appreciates, the imports of either consumables or inputs into the production process become cheaper. This helps reduce inflationary pressures, and such items like food become cheaper.

Consumers begin to see pressures on their budgets ease. On such items that need certain imported inputs in their production, the appreciation of Rand helps reduce the cost. On the other hand, the appreciation of Rand can add to the already protracted economic recovery of the SA economy due to the slump in international demand for exports as a result of the global financial crisis by impacting on the competitiveness of the export sectors negatively.

Implications for the economy of Lesotho

The Loti is pegged at par with SA rand in the CMA arrangement. In this arrangement, Lesotho maintains sufficient international reserves to underwrite the peg. The recent volatility of the Rand, hence the Loti vis-à-vis major currencies poses a number of challenges for Lesotho.

First, when the Loti appreciates it exacerbates the already dire situation in the export sector. The global financial crisis that originated in the US housing market and translated into global economic recession left the international trade seriously weakened. The international demand for exports declined, making it harder for the industrial sector and the export sector to survive the downturn.

Moreover, the appreciation of Rand poses a major challenge to employment creation in Lesotho, especially in the manufacturing sector where the largest number of Basotho is employed. Due to the negative impact of the depressed global demand for exports and appreciation of the Loti, the poverty reduction strategy of the Government of Lesotho is likely to be undermined.

It is noteworthy that appreciation of a currency may not necessarily make exports more expensive to the rest of the world. This is so when inputs are imported from the rest of the world. In that eventuality, strong local currency reduces import bill on inputs, other things equal, therefore reduces cost of production. Consequently, export prices can be reduced moderately without hurting profits.

Moreover, for a country which is a net importer of goods and services like Lesotho, currency appreciation reduces overall import bill. At an individual worker level, currency appreciation makes imports affordable and therefore reduces a need for high wage demands, the result of which would be high inflation.

3. Monetary Policy Operations Report for December 2009

During the review period, monetary policy operations undertaken by Central Bank of Lesotho (CBL) were successful in attaining desired objectives. The primary objective of monetary policy is to achieve and maintain price stability within the economy. As a result, the Bank employs Open Market Operations (OMO) to attain the stated objective. The initiative enables CBL to maintain the parity between the local currency, Loti, and the South African Rand which is important to price stability.

The report present economic and operational issues surrounding the monetary policy operations conducted during the review period to assess the success of the operations. Table 1 below shows that the entire amounts of treasury bills (M35.0, M25.0 and M26.5 million) announced during the auctions conducted in December 2, 16 and 30, 2009, respectively, were ultimately issued.

Competitiveness of the 91-day TBs auction (as measured by the number of bidders and bids received, over/under subscription of the auctions as well as the movements of discount rates) moderated during the review period. The number of bids received fell slightly from an average of 8 bids in November to that of 5 bids in December 2009. The number of bidders remained unchanged at an average of 5 participants from the previous month. In addition, oversubscription declined from an average of M26.0 million in November to that of M12.0 million.

The intermediate target, the 91-day TBs rate (discount rate) declined by 4 basis points from 6.70 per cent recorded at the end of November to 6.66 per cent at the end of December, 2009, as shown in figure 2 below. The SA 91-day TBs rate rose by 13 basis points, from 7.01 per cent in November 25, 2009 to 7.14 per cent at the end of December 2009. Therefore, the margin between the two rates (discount rates) widened to 0.48 per cent in December 30, 2009. This implies that there was a minimal incentive for undesirable cross border transfers of funds between the two countries.

Table 2: Treasury Bills Auctions

Type of Security	Auction Date	Maturity Date	Auction Amount (Million Maloti)	Amount Issued (Million Maloti)	Over/under subscription (million)	Discount Rate (%)	RSA Discount Rate (%)
91-day	***02-Dec-2009***	03-Mar-10	M10.5	M10.5	M16.0	6.66%	7.03%
182-day		02-June-10	M10.5	M10.5	M16.7	7.00%	7.23%
273-day		01-Sept-10	M7.0	M7.0	M12.0	7.79%	7.43%
364-day		01-Dec-10	M7.0	M7.0	M14.0	7.83%	7.18%
91-day	***16-Dec-2009***	17-Mar-10	M7.5	M7.5	M0.3	6.66%	7.02%
182-day		16-June-10	M7.5	M7.5	M0.2	6.99%	7.34%
273-day		15-Sept-10	M5.0	M5.0	M5.1	7.66%	7.46%
364-day		15-Dec-10	M5.0	M5.0	M14.0	7.70%	7.32%
91-day	***30-Dec-2009***	31-Mar-10	M9.0	M9.0	M18.5	6.66%	7.14%
182-day		16-June-10	M7.5	M7.5	M0.2	6.99%	7.34%
273-day		29-Sept-10	M5.0	M5.0	M5.1	7.65%	7.45%
364-day		29-Dec-10	M5.0	M5.0	M5.1	7.70%	7.50%
Total for reporting period			**M86.5**	**M86.5**	**M107.2**	-	**-**

In relation to the progress towards attaining Monetary Policy objectives, the minimum NIR limit set for the period under review was successfully met. The level of NIR at the end of December 2009 was US$1 064 million. At this level, it was above the upper limit of the target range of US$650 million to US$700 million set by the Monetary Policy Committee (MPC) by US$364.0 million. Therefore, the Monetary Policy operations undertaken during the review month were successful in attaining their desired objectives of financial stability by maintaining the target NIR level.

Figure 4: Measuring the Success of Monetary Policy Objectives: Performances of Lesotho 91-day T-bills vs RSA 91-day T-bills rate