Economic Review June 2009

THE AFRICA COMPETITIVENESS REPORT 2009

The Right Honourable the Prime Minister attended the World Economic Forum in Cape Town on the 15th June 2009 where the Africa Competitiveness Report 2009 was launched. The Report sheds some light on the major challenges faced by Lesotho to attain competitiveness……….

Introduction

The Africa Competiveness Report (ACR) is an annual publication produced jointly by the African Development Bank (ADB), Word Bank and World Economic Forum (WEF). It was first published in 1998 with the aim of highlighting the areas where urgent policy action and investment were needed to ensure that Africa achieve the required economic growth. The report presents policy challenges that African countries need to confront in order to achieve sustainable economic growth. The 2009 edition also continued to highlight the prospects for sustained economic growth in Africa and mentioned the obstacles to its competitiveness and economic development. In addition, the report provides ranking for 31 African countries on competitiveness.

The ACR 2009 was released at the opportune time for policy making in Africa and the developed countries. First, the global economy is experiencing a recession following the financial crisis that originated from the United States mortgage market. While most of African countries survived the first round effects of the crisis, it is increasingly clear that the second round effects may have severe effects for most African economies. This is mainly due to the export oriented nature of African economies. The International Monetary Fund has revised Africa growth forecast for 2009 from 2.0 per cent to 1.8 per cent largely due to the unfolding economic slowdown. Second, the increasing efforts by a number of regional bodies in Africa such as Southern African Economic Development Community (SADC),

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Common Market of Eastern and Southern Africa and East African Community(EAC) to achieve regional integration poses significant challenge for countries to address their competitiveness. Last, the report provides an opportunity for a country to assess the effectiveness of its policies. This is important both for attracting foreign direct investment and for securing the market for the products.

Competitiveness Index

The Global Competitiveness Index (GCI) is a relative measure. It provides and analyse the level of economic development in a country relative to international benchmarks. The assessment of the competitiveness is based on data and surveys involving the following 12 pillars of economic development;

- Institutional environment
- Infrastructure
- Macroeconomic stability,
- Health and primary education
- Higher education and training
- Goods market efficiency,
- Labour market efficiency
- Financial market sophistication
- Technological readiness,
- Market size,
- Business sophistication
- Innovation

Competitiveness of African Economies

As earlier mentioned, the ACR ranks African countries alone and compares them against the rest of the world. This is important since it shows how far the African countries have to move to be competitive. The African ranking has 31 countries compared to the global ranking with 134 countries. Table 1 below shows the first ten ranked African economies and their global ranking. Tunisia, which is ranked as the most competitive country in Africa is ranked at 36 in the global index. The next places are occupied by South Africa, Botswana, and Mauritius which are ranked 45, 56 and 57 in the global index, respectively.

Competitiveness Index in Lesotho

With its economic growth which is factor driven and competition based on factor endowments such as unskilled labour and natural resources, Lesotho is classified under the first stage on economic development. There are currently 23 African countries in the first stage in economic development. The country improved slightly in 2009. It was ranked 123 out of 134 countries compared with 124 out of 131 countries registered in 2008.

Lesotho is ranked low in most of the pillars except in macroeconomic stability. The good performance in macroeconomic stability was supported by the prudent fiscal policy which has resulted in successive budget surpluses over a number of years. Furthermore, the relatively stable monetary environment which has seen inflation rate remain in single digit and strong level of international reserves contributed to the exceptional performance. It is noteworthy, however, that under the macroeconomic stability pillar, Lesotho falls outside the best three performers which are Algeria, Libya and Botswana.

Investment Climate

The ACR 2009 also includes the investment climate profiles for 110 countries. The investment climate profiles are derived from the enterprise surveys conducted by the World Bank.

The surveys are designed to gather information on the perceptions and indicators of the business environment. Figure 1 below presents the ten most serious constraints to business in Lesotho. Most firms in Lesotho consider access to finance, crime and political instability as the key three constraints. As relates to access to finance, it is noteworthy that the Central Bank of Lesotho, Ministry of Home Affairs and the Millennium Challenge Account (MCA) are in the process of establishing the national identification cards which will be followed by the launch of the credit bureau. There are also efforts to provide assistance to the commercial court. These measures are expected to address the bottlenecks faced by the financial institutions when extending credit. The reforms in the land administration will also boost credit as people would be able to use their land as collateral.

Conclusion

It is clear that the Government of Lesotho should exert more effort towards addressing the bottlenecks that hamper the country's competitiveness. The results of the ACR 2009 are consistent with the World Bank Doing Business report which ranks Lesotho at 130 out of 183 countries. There are already measures that are being implemented that may improve competitiveness. These include the implementation of the World Bank funded Private Sector Competitiveness Project and the Private Sector Development Module under the MCA.

Figure 1: Top Ten Most Serious Constraints Perceived by Firms in Lesotho

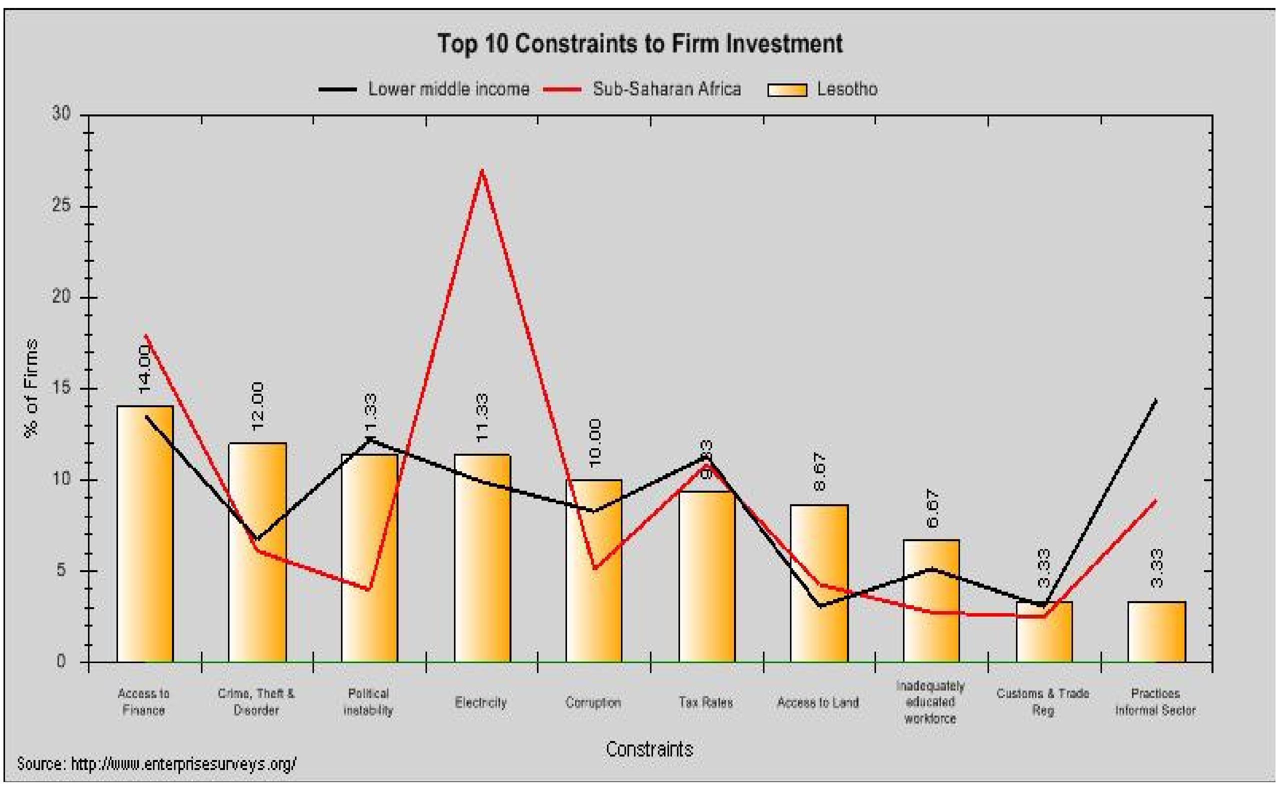


Table 1: Competitiveness of African Economies In 2008 - Top three African performers in each pillar of the GCI

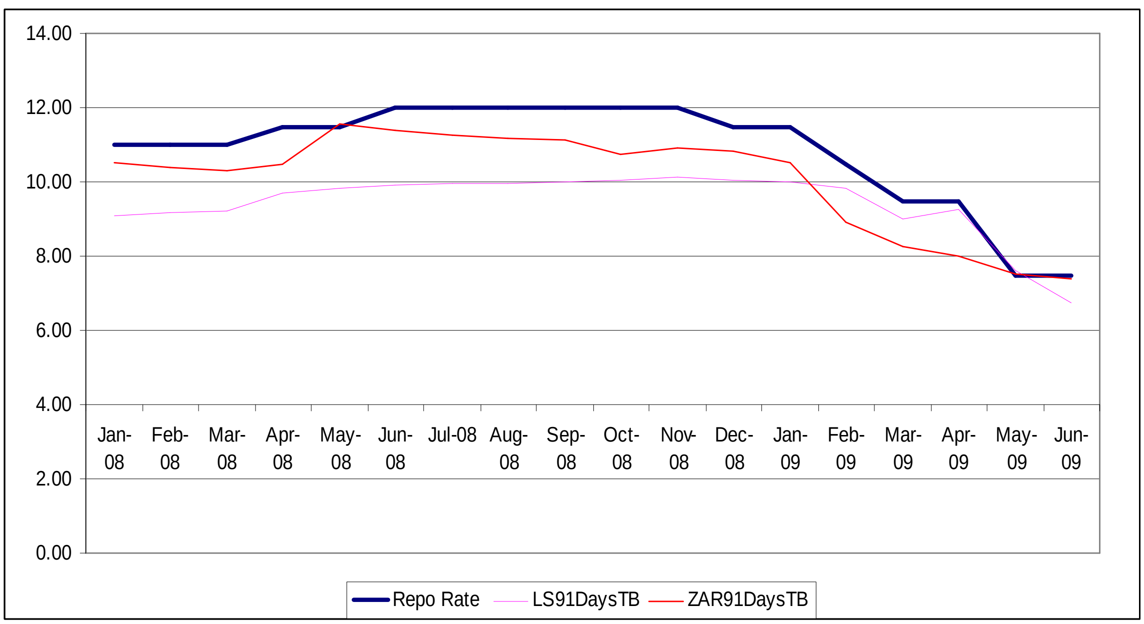
	Overall GCI rank	1. Institutions	2. Infrastruct	3. Macroeco	4. Health and	5. Higher Education	6. Goods market	7. Labor market	8. Financial	9. Technolog	10. Market size	11. Business	12. Innovation
Country	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Tunisia	36	**22**	**34**	75	**27**	**27**	**30**	103	77	**52**	62	**40**	**27**
South Africa	45	46	48	63	122	**57**	**31**	88	**24**	**49**	**23**	**33**	**37**
Botswana	56	**36**	52	**22**	112	87	93	52	**40**	89	101	106	83
Mauritius	57	39	**43**	117	**57**	**67**	**40**	65	**32**	**55**	110	**55**	80
Morocco	73	61	70	84	**71**	90	58	128	93	78	57	70	78
Namibia	80	42	**33**	27	118	110	94	50	53	85	122	94	111
Egypt	81	52	60	125	88	91	87	134	106	84	**27**	77	67
Gambia, The	87	**38**	62	99	119	105	68	**38**	87	91	132	74	81
Libya	91	65	112	**6**	103	75	121	133	131	98	77	101	100
Kenya	93	93	91	107	108	86	74	**40**	44	93	71	63	**42**
Nigeria	94	106	120	26	126	108	56	59	54	94	**39**	61	65
Senegal	96	83	83	103	109	92	60	120	111	81	105	65	59
Algeria	99	102	84	**5**	76	102	124	132	132	114	51	132	113
Ghana	102	63	82	121	115	111	97	108	69	115	86	98	114
Benin	106	85	106	95	110	114	107	118	99	113	123	103	95
Côte d'Ivoire	110	130	73	69	127	112	117	111	113	99	94	88	105
Zambia	112	67	116	102	128	118	78	102	55	106	112	93	92
Tanzania	113	76	118	108	117	132	111	73	94	117	80	109	101
Cameroon	114	116	117	34	125	121	108	114	124	110	89	108	108
Mali	117	79	107	94	130	122	95	94	120	105	119	111	79
Malawi	119	51	119	129	120	116	84	42	62	127	121	104	94
Ethiopia	121	77	103	119	123	126	116	74	127	132	76	122	109
Lesotho	123	114	125	39	129	106	102	84	118	125	128	126	97
Madagascar	125	94	114	127	104	119	85	72	128	111	109	102	87
Burkina Faso	127	75	104	120	131	124	83	80	108	120	117	96	89
Uganda	128	113	115	92	133	120	114	**25**	102	121	96	97	72
Mozambique	130	112	124	112	132	129	127	98	122	116	107	128	120
Mauritania	131	107	127	126	114	133	126	112	126	102	126	114	125
Burundi	132	124	129	124	124	130	128	95	134	131	131	127	123
Zimbabwe	133	126	88	134	113	107	133	127	90	129	133	124	119
Chad	134	133	134	97	134	134	134	119	133	134	113	129	130
Global Leader		*Singapore*	*Germany*	*Kuwait*	*Finland*	*Finland*	*Singapore*	*nited State*	*Hong Kong*	*Netherlands*	*nited State*	*Germany*	*nited States*

2. Interest rates in the region

A continued downward trend in interest rates may boost the weakening economy ……..

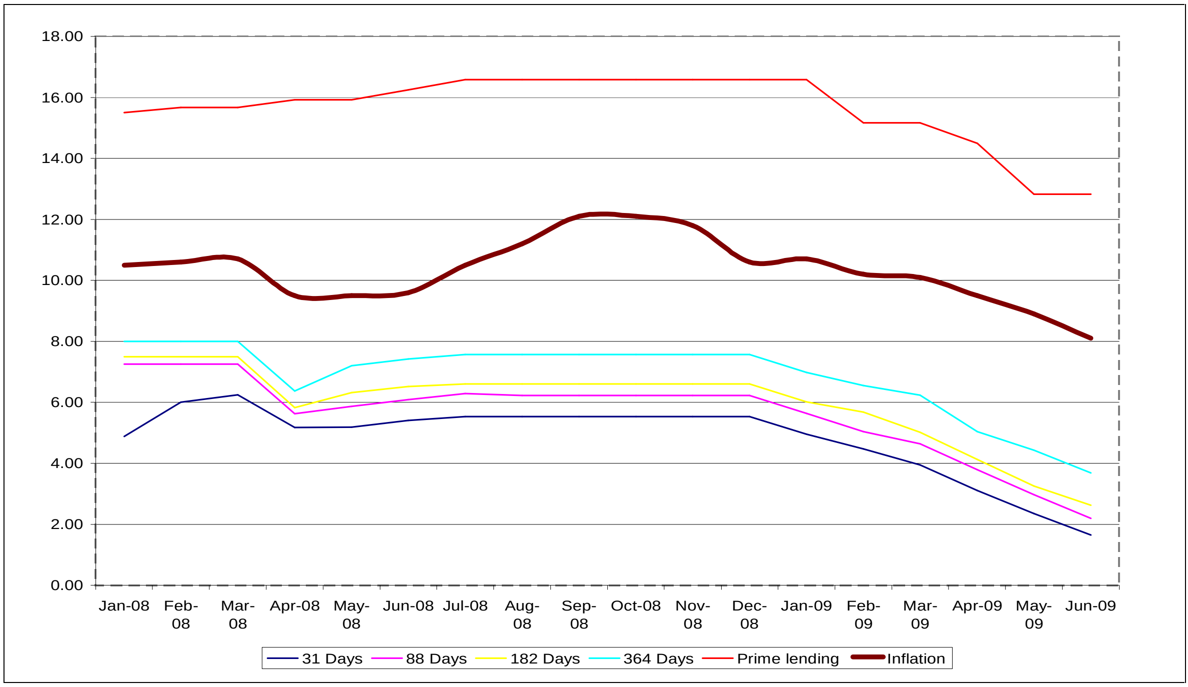
The South Africa Reserve Bank (SARB) kept the repurchase (repo) rate unchanged at 7.50 per cent in June following five consecutive cuts since December 2008. The repo rate is the rate at which commercial banks borrow money from the SARB in exchange for securities in order to finance their short-term liquidity needs. It is used by commercial banks and other economic agents as a benchmark for the cost of funds in the economy. The continuous reduction in the repo rate prompted major commercial banks in that country to lower their prime lending rates. The successive reductions were at the back of increasing pressure on monetary policy due to unfolding recessionary conditions in the country. The South African economy contracted by 6.4 per cent and 3.0 per cent in the first and second quarter of 2009 respectively. Unemployment also edged up to 23.6 per cent at the end of the second quarter from 23.5 per cent recorded at the end of the first quarter of 2009. The inflation outlook in South Africa has generally improved and inflation is expected to fall within the target in the second quarter of 2010.

Figure 2: Money Market Rates



Interest rates developments in South Africa have a direct bearing on the interest rates in the domestic economy for several reasons. First, Lesotho and South Africa are members of the Common Monetary Area and the arrangement allows for, amongst others, the free flow of funds between member countries. This influences interest rates in the Area to move in line with each other in order to avoid undesirable movements of funds as interest rate margins increase. However, interest rates continue to differ in magnitude across countries to reflect the scarcity of funds in each country. Secondly, the liberalisation of domestic interest rates in 1998 allowed local commercial banks to set their rates in line with developments in regional money markets. Figure 3 below shows the domestic commercial interest rates during the period January 2008 to June 2009. It can be seen that the deposit rates declined much faster than the prime lending rate. The prime lending rate declined by 3.75 percentage points to 12.83 per cent at the end of June 2009. This is compared to an average of 3.94 percentage points. It is expected that the prevailing low interest rates in the last six months will spur economic activity.

Figure 3: Commercial Banks Rates and Inflation



3. Monetary Policy Operations Report for June 2009

One of the main objectives of the Central Bank of Lesotho (CBL) is to maintain price stability, which is achieved through maintenance of adequate level of Net International Reserves (NIR). The adequate level of NIR ensures that the parity between the Loti and the Rand is maintained. The CBL's Monetary Policy Committee (MPC) set the NIR target of US$550.0 million during the quarter under review.

CBL uses Open Market Operations (OMO) to achieve stated objectives made by MPC. Table 3 below shows the amount auctioned and discount rates that prevailed for each of the auction during the review month, comparable with that of South Africa. The level of competitiveness in the treasury bills' market is estimated by the number of participants in an auction. Therefore, during the review month, the 91-day treasury bills auction saw a participation of 5 bidders who submitted 8 bids on the

3rd June and 8 bidders who submitted 14 bids on the 17th June. All bidders were partially successful. However, the number of successful bidders was higher than that of the previous month.

Table 2: Treasury Bills Auctions

Type of Security	Auction Date	Maturity Date	Action Amount (Million Maloti)	Amount Issued (Million Maloti)	Discount Rate (%)	RSA Discount Rate (%)
91-day	3-June-09	02- Sep-09	M9.0	M9.0	6.76%	7.06%
182-day		02-Dec-09	M9.0	M9.0	7.20%	7.01%
273-day		03-Mar-10	M6.0	M6.0	8.05%	6.86%
364-day		02-Jun-10	M6.0	M6.0	7.90%	6.59%
91-day	17-June-09	16-Sep-09	M12.0	M12.0	6.76%	7.30%
182-day		16-Dec-09	M12.0	M12.0	7.16%	7.10%
273-day		17-Mar-10	M8.0	M8.0	8.00%	7.03%
364-day		16-Jun-10	M8.0	M8.0	7.87%	6.91%
Total for reporting period			**M70.0**	**M70.0**	**-**	**-**

During the review month, the Lesotho 91-day treasury bills rate remained steadily below that of its SA counterpart while other Lesotho treasury bills rate remained above SA counterpart. Consequently, the discount rate margin between Lesotho and SA in 91-day treasury bill increased from 30 basis points on June 03 to 54 basis points on June 17 as depicted in figure 4 below. The Monetary Policy Operations undertaken in the review period were successful in attaining their desired objectives of financial stability and the target NIR level.

Figure 4: Measuring the Success of Monetary Policy Objectives: Performance of Lesotho 91-Day T-Bills vs RSA T-Bills

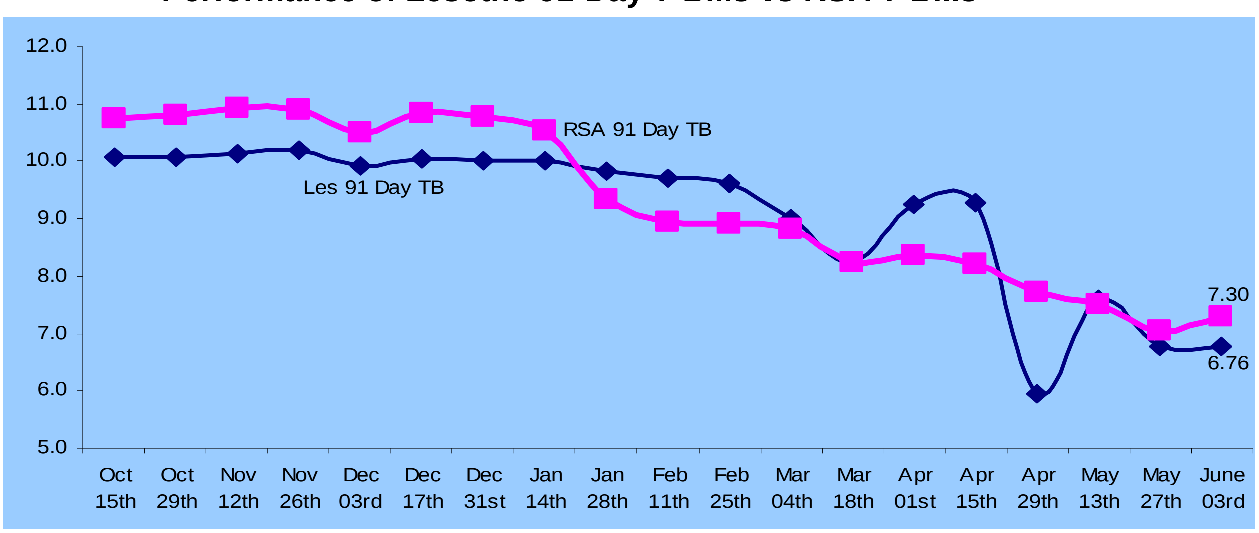


Table 3: Selected Monetary and Financial Indicators

	2009		
	March	*April*	*May*
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	*14.50*	*13.83*	*12.83*
1.2 Prime Lending rate in RSA	*13.00*	*13.00*	*11.00*
1.3 Savings Deposit Rate	*3.64*	*2.69*	*2.70*
1.4 Interest rate Margin(1.1 – 1.3)	*10.86*	*11.14*	*10.13*
1.5 Treasury Bill Yield (91-day)	*9.00*	*9.27*	*7.60*
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	*5629.10*	*5492.77*	*5568.95*
2.2 Net Claims on Government by the Banking System	*-3622.69*	*-4781.42*	*-4518.60*
2.3 Net Foreign Assets – Banking System	*11520.93*	*11982.90*	*11632.16*
2.4 CBL Net Foreign Assets	*8921.95*	*9484.41*	*9100.79*
2.5 Domestic Credit	*-2166.56*	*-3301.85*	*-2990.37*
2.6 Reserve Money	*749.96*	*664.22*	*681.37*
-3. Spot Loti/US$ Exchange Rate (Monthly Average)	*9.921*	*8.988*	*8.374*
4. Inflation Rate (Annual Percentage Changes)	*10.1*	*9.5*	*8.9*
5. External Sector (Million Maloti)	***2008***		***2009***
	QIII	***QIV***	***QI***
5.1 Current Account Balance	*269.04*	*330.59*	*322.98*
5.2 Capital and Financial Account Balance	*1079.61*	*-184.20*	*132.85*
5.3 Reserves Assets	*-704.65*	*-558.82*	*67.28*

+Preliminary Estimates.

**Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities*

Table 4: Selected Economic Indicators

	2005	***2006***	***2007***	***2008+***
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	*0.7*	*8.1*	*5.1*	*3.4*
1.2 Gross National Product – GNI	*-1.9*	*12.0*	*3.0*	*5.0*
1.3 Per capita –GNI	*-1.9*	*12.0*	*2.2*	*4.2*
2. Sectoral Growth Rates				
2.1 Agriculture	*-12.4*	*14.9*	*-8.6*	*1.8*
2.2 Manufacturing	*-10.2*	*6.0*	*9.9*	*-4.5*
2.3 Construction	*5.4*	*3.5*	*6.9*	*7.7*
2.4 Services	*2.8*	*6.5*	*3.1*	*2.4*
3. External Sector – Percent of GNI				
3.1 Imports of Goods	*83.5*	*77.6*	*82.0*	*86.8*
3.2 Current Account	*-5.8*	*3.4*	*9.8*	*9.5*
3.3 Capital and Financial Account	*3.7*	*0.7*	*5.5*	*5.1*
3.4 Official Reserves (Months of Imports)	*5.5*	*6.7*	*7.6*	*7.4*
4. Government Budget Balance (Percent of GDP)	*5.0*	*11.6*	*7.5*	*-1.0*

+Preliminary Estimates