



HUMAN DEVELOPMENT REPORT 2007

Lesotho is classified as Medium Human Development and ranked position 138th out of countries in the Human Development index 2007.....

Introduction

The United Nations Development Programme (UNDP) has been publishing the Human Development Report annually since 1990. Central to the report is the computation of the Human Development Index (HDI). The HDI seeks to provide a broader measure of countries' development as against the traditional measures which emphasised the income level of each country. The understanding behind HDI is that national economic wellbeing can be measured more comprehensively in terms of the quality of life of people. The index estimates a country's ability to meet basic needs of the majority of its population. It gives an indication of the extent to which people are free to make choices, in order to develop their full potential and lead productive and creative lives in accordance with their needs and interests. In addition to an assessment of the state of human development across the globe, each report provides a critical analysis of a specific theme. The 2007 report focused on what the world should do to fight climate change.

Human Development Index

The HDI is a relative measure. It gives a comparative analysis of the level of human development in a country relative to other countries. In order to achieve this, data from different countries is collected and compiled using harmonised definitions and collection methods to make it internationally comparable. The HDI measures quality of life on a scale of 0 to 1.

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Countries ranging at levels between 0.8 and 1.0 have high human development; 0.51 to 0.79 implies medium development while 0.0 to 0.50 indicates low human development.

The index covers three dimensions of development namely a long and healthy life; knowledge and a decent standard of living. Longevity is measured by life expectancy at birth, which is assigned a maximum goalpost of 85 years and a minimum of 25 years. Knowledge is estimated by a weighted average of adult literacy (two-thirds) and combined primary, secondary and tertiary school gross enrolment (one-third). Income is used to measure the standard of living, and it serves as a surrogate for all dimensions of human development not reflected in longevity and in knowledge. Income is measured by real GDP per capita adjusted for differences in price levels between countries. Income is estimated within a range of US \$100 and

\$40,000 because 'achieving a respectable level of human development does not require unlimited income'. The HDI is calculated as a simple average of the three dimensions, implying the dimensions are equally important to human development.

Human Development in Lesotho

With a HDI of 0.549 in 2005, Lesotho is ranked 138th in terms of the level of human development amongst a total of 177 countries. Iceland assumes first position at a level of 0.968 and Sierra Leone the last position with an index of 0.336. Lesotho's position is at the bottom half of medium development countries (with The Gambia as the last at 155th position), and the index is below the 0.698 average level for all countries at a medium level of human development. However, the country's level is higher than the 0.493 average level for Sub-Saharan Africa countries. Table 1 presents the HDI statistics for Southern African Development Community (SADC) member countries. Mauritius is the only SADC country ranked at a high human development in position 65 while South Africa (121), Botswana (124), Namibia (125), Lesotho (138), Madagascar (143) and Zimbabwe (151) are medium human development. The remaining members Tanzania (159), Angola (162), Malawi (164), Zambia (165), DRC (168) and Mozambique (172) are ranked low human development.

The level of education of Lesotho people is slightly higher than the average of all countries at medium level of human development, with adult literacy rate of 82.2% against a 78% average. However, the country is lacking on life expectancy and income. At 42.2 years, life expectancy is amongst the lowest in SADC countries and is below the average of all countries at medium level of human development of 67.5 years. Life expectancy in Lesotho is declining possibly as a result of HIV/AIDS pandemic. Lesotho's income measured by GDP per capita is Purchasing Power Parity (PPP) US\$3335. Compared to Sub-Saharan average of PPP US\$1996 Lesotho is above the average, however, Lesotho is still below the average of all countries at medium level of human development.

HDI ranks and levels are not comparable across different reports due to refinements

on methodology and additions of new countries over the years. However, the 2007 report presents a harmonised HDI which gives a picture of trends in human development. Lesotho was classified as a low human development country in 1975, with an index of 0.478. Quality of life in the country improved to a high of 0.574 in 1990, before deteriorating slightly to its present level. South Africa, Swaziland and Zimbabwe have maintained a medium level of human development since 1975.

Other Indicators

Measuring poverty levels in the same multiple dimensions of HDI (health, education and standard of living) can assess human development achievements. While HDI indicates average achievements, the Human Poverty Index for developing countries (HPI-1) measures the extent to which people are deprived in the three basic dimensions of HDI. Deprivation to a healthy life is measured by the probability at birth of surviving to age 40. Exclusion from education is indicated by adult illiteracy, while lack of access to overall economic provisioning is estimated by the percentage of population not using improved water sources and percentage of children under five who are underweight.

Among a total of 108 developing countries ranked for HPI-1, Lesotho is placed at position 71. In the SADC region, the country is behind of Mauritius (27), South Africa (55), Namibia (58) and Botswana (63). It should be noted that a higher HDI does not imply a high HPI-1. People in Lesotho stand a 47.8% chance at birth of living until age 40 and adult illiteracy rate is 17.8 %. About 21% of the population have no access to improved water sources and 20% of children under 5 are underweight.

In order to measure the degree of gender equality, HDI is adjusted for inequalities in achievements of men and women. The Gender-related Development Index (GDI) and HDI would be the same if gender equality existed. Lesotho is assigned a GDI of 0.541, which is almost the same as the HDI. The country's men and women enjoy almost the same level of life expectancy at birth with female (42.9) and male (42.1). There is a huge disparity in literacy across sexes; female literacy rate is 90.3% while

males is 73.7%. Furthermore, the females' gross enrolment ratio is higher at 67.0% compared to 65.0% for men. However, the estimated earned income for males is higher than females.

Climate Change

As already mentioned the report focused on climate change. Climate change is defined as the variation in the earth global climate over time. This variation can occur regionally. It should be noted that under normal circumstances climate change occurs naturally. However, there is scientific evidence that human activity has escalated the natural variability. The largest contributor to climate change is the increase in the carbon dioxide levels in the atmosphere due to emissions from fossil fuels combustion, aerosol and cement manufacture. This is due to rapid industrialisation that the world is currently undergoing. Other factors include land use and livestock.

The adverse effects of climate change are already being felt in the world and there are concerns that future generations may actually be in greater danger. The effects that are already visible include increased exposure to drought, more intense floods and storms. It is argued that climate change may hamper the global efforts to achieve millennium development goals (MDGs). Furthermore, the already achieved progress may be dissipated. A report from Lesotho Metrological Services (LMS) states that the

impact may be severe in economies like Lesotho where the majority of the populations depend on natural resources for survival.

The HDI report identify five transmission channels in which climate change may affect negatively impact on human development as

- Agricultural production and food security,
- Water stress and water insecurity,
- Rising sea levels and exposure to climate disasters,
- Ecosystem and biodiversity and
- Human health.

In conclusion, the report puts forth the following recommendations,

- To develop a multilateral framework for avoiding dangerous climate change under the post 2012 Kyoto Protocol,
- To put in place policies for sustainable carbon budgeting-agenda for mitigation,
- To strengthen the framework for international cooperation and
- To put climate change adaptation at the centre of the post 2012 Kyoto framework and international partnerships for poverty reduction.

Table 1. SADC Member countries

Rank	Country	HDI	Life index expectancy	Education index	GDP index
65	Mauritius	0.804	0.790	0.813	0.809
121	South Africa	0.674	0.430	0.806	0.786
124	Botswana	0.654	0.385	0.778	0.804
125	Namibia	0.650	0.444	0.783	0.723
138	Lesotho	0.549	0.293	0.768	0.585
141	Swaziland	0.547	0.265	0.730	0.647
143	Madagascar	0.533	0.557	0.670	0.371
151	Zimbabwe	0.513	0.265	0.770	0.503
159	Tanzania	0.467	0.434	0.631	0.335
162	Angola	0.446	0.279	0.535	0.526
164	Malawi	0.437	0.355	0.638	0.317
165	Zambia	0.434	0.259	0.655	0.388
168	Democratic Republic of Congo (DRC)	0.411	0.346	0.560	0.322
172	Mozambique	0.384	0.296	0.435	0.421

Source: Human Development Report 2007/2008

2. IMF World Economic Outlook October 2007: Globalisation and Inequality

Global economy remains robust but the financial strains may trigger a pronounced slowdown.....

The International Monetary Fund (IMF) released the World Economic Outlook in October 2007 titled 'globalisation and inequality'. The theme explores the relationship between globalisation and inequality. It is well accepted that globalisation is the major source behind the rising prosperity in the world. However, it is interesting to observe the evolution of inequality in the age of globalisation. There are concerns that the benefits accruing from the globalisation process are not being shared equitably. The report argues that a number of policy interventions may be considered to enhance equitable distribution of globalisation benefits.

During the first half of 2007, the global economy registered a growth rate above 5.0 per cent despite the negative developments in the United States (US). There are some indications that the Advanced economies

realised some modest economic slowdown. Growth in the US moderated on the back of the correction of the housing sub-sector. The US economy grew by 2.25 per cent during the first half of 2007. The Euro economy also showed some easing but generally remained strong in the first part of the year. The Japanese economy decelerated during the second quarter of 2007 reflecting the decline in investment and weaker consumption. The Emerging Asia continued to contribute significantly to the global growth. This was largely attributable to China and India. The Sub Saharan African (SSA) economies are also registering growth beyond their historic trends. This is partly due to the oil producing countries and export diversification in non oil producing countries.

The world economy is expected to moderate but continue to display some robust growth

in 2007 and 2008 (see table 2). Global GDP is projected to grow by 4.9 per cent in the two years. The slowdown is expected to emanate from the US housing sector which declined by 19 per cent in the second half of 2006. Real GDP in the US is expected to decelerate to 2.2 per cent in 2007. The Euro area is also expected to moderate but remain above potential in response to the monetary and fiscal policy tightening. The emerging economies are likely to continue to remain strong during the period mainly due to the higher performance of China and India. The outlook for Africa is also very positive.

The projected relatively strong global economic growth poses a number of significant implications for the economy of

Lesotho. First, the US economy has direct impact on Lesotho export performance. The bulk of Lesotho manufacturing products are destined to the US. The sub-sector employs about 48 000 Basotho. The winding down of the housing market seem to have minimal effects on the demand for Lesotho products. Second, the positive growth outlook for Sub-Saharan African economy poses an opportunity for Lesotho to explore the market. This may trigger intra Africa trade which would benefit Africa as a whole. Third, with the growing trade links between Africa and India and China, Lesotho may find a niche and consolidate its growth prospects. Last, the strong domestic demand in South Africa may have some positive spillovers into Lesotho economy.

Table 2: World Economic Outlook Projections (Annual Percent)

	2005	2006	2007	2008
World Output	4.8	5.4	5.2	4.8
Advanced Economies	2.5	2.9	2.5	2.2
United States	3.1	2.9	1.9	1.9
Euro Area	1.5	2.8	2.5	2.1
Other Emerging market and developing	7.5	8.1	8.1	7.4
Africa	5.6	5.6	5.7	6.5
Sub-Sahara	6.0	5.7	6.1	6.8
Central and Eastern Europe	5.6	6.3	5.8	5.2
Commonwealth of Independent States	6.6	7.7	7.8	7.0
Developing Asia	9.2	9.8	9.8	8.8
Middle East	5.4	5.6	5.9	5.9
Western Hemisphere	4.6	5.5	5.0	4.3
Consumer Prices				
Advanced Economies	2.3	2.3	2.1	2.0
Other Emerging market and developing	5.2	5.1	5.9	5.3
Imports				
Advanced Economies	6.1	7.4	4.3	5.0
Other Emerging market and developing	12.1	14.9	12.5	11.3
Exports				
Advanced Economies	5.8	8.2	5.4	5.3
Other Emerging market and developing	11.1	11.0	9.2	9.0

Source: IMF World Economic Outlook October 2007: *Globalization and Inequality*

Monetary Policy Operations for November 2007

Central Bank of Lesotho employs monetary policy as a vital instrument to achieve price stability using open market operations (OMO). This enables the Bank to maintain money market rates that are in line with the South African counterpart rates, and realise the ideal level of Net International Reserves (NIR) to defend the parity between the local currency, Loti, and the South African Rand.

During the auction in November, an amount of M160.0 million worth of securities was announced for auction in 91-day treasury bills. The amounts auctioned and discount rates that prevailed for each of the auctions are presented in Table 3 below. The level of competitiveness in the market is estimated by the number of participants in an auction. The auction saw a participation level of 6 bidders who submitted 22 bids for the auction and the number of bidders was below October figure of 7 bids. All bidders

became partially successful and 18 bids were successful against 15 bids that were

successful in the previous auction.

Table 3: Treasury Bill Auctions

Type of Security	Auction Date	Auction Amount (million)	Amount Issued(million)	Discount Rate
91-day TBs	04 Jul 2007	M170.0	M170.0	7.62%
182-day TBs	11 Jul 2007	M50.0	M32.0	8.20%
91-day TBs	01 Aug 2007	M170.0	M170.0	7.76%
91-day TBs	29 Aug 2007	M160.0	M160.0	8.12%
182-day TBs	05 Sep 2007	M20.0	M20.0	8.90%
91-day TBs	03 Oct 2007	M160.0	M160.0	8.32%
91-day TBs	31 Oct 2007	M160.0	M160.0	8.90%
182-day TBs	07 Nov 2007	M30.0	M30.0	8.72%

The success of monetary policy operation is judged amongst other things, by the margin of interest rates between Lesotho and South Africa (a neighbour and largest CMA member). A large treasury bill rate differential, say greater than 2 percentage points, would lead to undesirable transfers of funds which would bring unnecessary interest costs to Government if in favour of Lesotho, or a run-down of external reserves if against.

in November. The Lesotho 91-day treasury bill rate rose by 58 basis points to 8.90 percent. The counterpart SA rate also increased from its previous level of 9.43 per cent in October to 9.96 per cent in November. Consequently, the gap between the two rates narrowed from 111 basis points to 104 basis points at the end of the review period, as depicted in figure 1 below. The level of net international reserves remained above the CBL target of US\$450-500 million at US \$873.8 million.

The Lesotho 91-day treasury bill rate still remained below its SA counterpart rate despite the fact that it continued to increase

Figure 1. Measuring the Success of Monetary Policy Objectives



Oil prices, Inflation and Interest rates

The continued increase in price of crude oil in recent months has impacted significantly on the domestic macroeconomic environment. The price of crude rose by 46.3 per cent in November 2007 compared to the same period last year. On a monthly basis, it rose by 0.5 per cent. A number of factors have been cited for the observed increase in the price. The continued geopolitical tensions in major oil producing countries particularly in Iran and Iraq and the increasing demand for the commodity mainly from the economic expansion in India and China.

The price developments in the region have reflected to a large extent the movements in the price of crude oil. This is because oil is one of the major inputs in firms' production process. In the case of Lesotho, the bulk of inflation is imported from South Africa due to the regional institutional arrangements such as Southern African Customs Union (SACU) and Common Monetary Area (CMA). Inflation in South Africa measured by CPIX exceeded the South African Reserve Bank (SARB) target band of 3 – 6 per cent since April 2006. CPIX rose 7.9 per cent in November 2007 compared with 5.0 per cent in the same month last year. A similar pattern is observed in Lesotho, inflation

measured by CPI rose by 9.3 per cent in November 2007 compared with 5.0 per cent in November 2006.

Interest rates in the region have also been on the increase. The SARB monetary Policy Committee has increased the repo by 150 basis points in total in 2007 to 10.5 per cent at the end of November 2007. The key interest rate in Lesotho, the 91 days treasury bill rate rose to 8.74 per cent in November 2007 compared to 6.76 per cent at the beginning of the year. Commercial interest rates have also followed suit. The prime lending rate was 14.50 per cent at the end of October 2007. Deposit rates have also increased in the period. The one year deposit rate fell from 6.50 per cent at the end of 2006 to 5.58 per cent at the end of October 2007.

These macroeconomic developments pose a number of challenges for Lesotho economy. Households are faced with significant erosion of their purchasing power as the prices of basic commodities continue to increase. The situation is exacerbated by the current drought condition in the country. On the other hand, firms may be hesitant to invest as the cost of funds become expensive.

Figure 1: Inflation in Lesotho and South Africa, Repo rate and Oil Prices

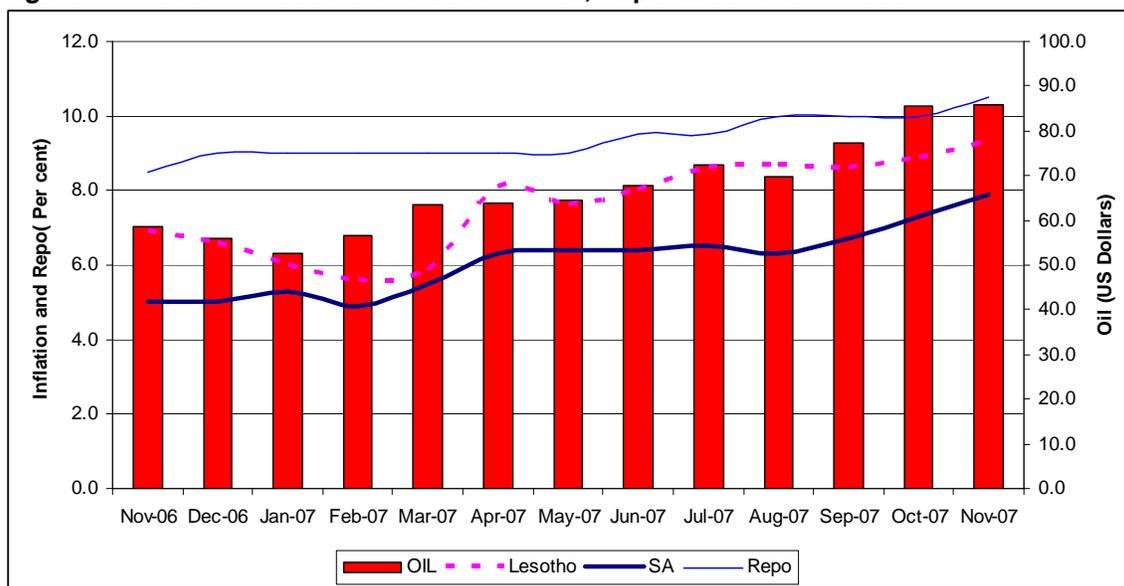


Table 4: Selected Monetary and Financial Indicators

	2007		
	August	September	October
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	14.75	14.17	14.50
1.2 Prime Lending rate in RSA	13.50	13.50	14.00
1.3 Savings Deposit Rate	4.05	4.05	4.08
1.4 Interest rate Margin(1.1 – 1.3)	10.70	10.12	10.42
1.5 Treasury Bill Yield (91-day)	7.76	8.12	8.32
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	3779.71	3766.12	3869.05
2.2 Net Claims on Government by the Banking System	-3301.77	-3100.09	-3873.83
2.3 Net Foreign Assets – Banking System	8136.10	7939.53	8702.39
2.4 CBL Net Foreign Assets	6276.99	6063.39	6725.60
2.5 Domestic Credit	-2135.25	-1909.39	-2676.81
2.6 Reserve Money	500.890	508.999	496.755
3. Spot Loti/US\$ Exchange Rate (Monthly Average)	7.2232	7.1083	6.7831
4. Inflation Rate (Annual Percentage Changes)	8.7	8.6	8.7
5. External Sector (Million Maloti)	2007		
	QI	QII	QIII
5.1 Current Account Balance	716.63	62.68	465.67
5.2 Capital and Financial Account Balance	278.94	390.49	245.40
5.3 Reserves Assets	-1023.89	143.38	-870.86

+ These indicators refer to the end of period. 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 5: Selected Economic Indicators

	2004	2005	2006	2007+
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	4.2	2.9	7.2	4.9
1.2 Gross National Product – GNI	7.9	5.5	3.1	3.6
1.3 Per capita –GNI	7.9	5.5	3.1	3.6
2. Sectoral Growth Rates				
2.1 Agriculture	-1.9	-1.7	1.7	-22.5
2.2 Manufacturing	2.1	-8.6	10.5	11.0
2.3 Construction	-4.4	-3.4	0.6	2.5
2.4 Services	2.1	4.1	6.6	6.3
3. External Sector – Percent of GNI				
3.1 Imports of Goods	86.3	83.1	80.1	86.5
3.2 Current Account	-4.7	-5.7	3.5	8.6
3.3 Capital and Financial Account	5.8	3.6	-1.2	5.9
3.4 Official Reserves (Months of Imports)	5.2	5.5	6.7	7.2
4. Government Budget Balance (Percent of GDP)	5.7	4.8	12.6	4.8

* Preliminary estimates

+CBL Projections