BUDGET STRATEGY PAPER

2024/2025 TO 2026/2027

MINISTRY OF FINANCE AND
DEVELOPMENT PLANNING

6/3/23

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EXECUTIVE SUMMARY

The Government will continue to pursue the key NSDP goals which are: promoting inclusive, export and private sector led and job creating economic growth; enhancing human capital, develop enabling infrastructure, strengthening governance, accountability and building effective institutions as well ensuring integration and development of targeted development programmes for youth, women and empowerment of marginalized and vulnerable groups as well as building resilience to climate shocks.

In support of these key NSDP goals and taking into account the current Economic and Political context, the Lesotho Budget Strategy Policy (BSP) 2024/25 – 2026/27 defines our updated medium-term policy priorities and specifies the required fiscal strategy.

KEY FEATURES OF THE CURRENT ECONOMIC AND POLITICAL CONTEXT

- Slow Global economic recovery from the impact of the COVID-19 pandemic and the war between Russia and Ukraine, resulted in increasing commodity and energy prices, trade disruptions and high inflation, which impacted on our economy. However, the Lesotho Economic activity rebounded in mining, manufacturing, and construction.
- While we still do not know the possible negative impact of the current local conflict in the Middle East, we expect again a disruption of the (global) economy, especially if the conflict may reach regional proportions.
- While, Lesotho's economy is on the path to recovery, with a projected growth rate of around 2 percent for 2023/24, driven by investments in agriculture and mining as well as construction through Poli-Hali dam building in particular
- Inflation rates and global supply dynamics are influenced by South Africa, and inflation is projected to be still high at above 5 per cent in 2024/25. Our Lesotho Monetary Authorities can play an accommodating role and are responding to the SA and regional economies and monetary policies.
- Though the revenue outturn is lower than expected in 2023/2024 due to a downward revision of alcohol and tobacco levies, and while other tax bills are still pending in parliament, we expect the SACU receipts to remain buoyant.
- Though the country’s rating on political rights and civil liberties improved, leading to the country being classified from being Partly Free to Free (Freedom house 2023) as a result of free and fair national elections of October 2022, political instability still persists. This is due to lack of implementation of the national reforms’ agenda, which include fundamental political and constitutional reforms.
- The key risks to attaining the growth potential are global economic downturn, Climate shocks, Limited economic diversification, regional energy supply disruptions, Grey listing by ESAAMLG after the anti-money laundering and terrorism financing risk assessment.

UPDATED MEDIUM-TERM POLICY PRIORITIES

The medium-term Budget Strategy Policy (2023/24 – 2026/27) aims to build a firm foundation for recovery and a sustainable fiscal path Government with a more vibrant private sector. Government has to identify key priority areas under each NSDP Goal and improve expenditure efficiency and effectiveness across the board. The focus for each strategic goal will be as follows:

- **Inclusive, export and private sector led job creating economic growth:** There is need to reduce Government footprint in the economy and promote pro-business policies. Restore macro-fiscal sustainability, improve competitiveness of the investment climate; increase productivity, diversification of products and markets in the key growth sectors, which are, Agriculture, Manufacturing, Tourism and creative industries, and Innovation and Technology plus promotion of sustainable Mining and beneficiation through building integrated value-chains.
- The key strategies will be to scale up successful pilot projects in agriculture, building standards and metrology infrastructure, completion of industrial infrastructure and reviving the manufacturing sector in

line with Lesotho's competitive advantages. The Government will implement facilities to enhance access to capital.

- **Develop enabling infrastructure** to support especially growth sectors. It means that limited resources are to be allocated to support private investment projects that will support economic recovery, whilst also creating viable public private partnerships to accelerate infrastructure development. It will also be important to recover and climate proof the dilapidated transport, energy, water and information, communication and technology (ICT) infrastructure. The country must exploit the energy production potential to serve domestic and regional markets. The Government will build on the digital economy agenda in particular make key investments for e-government to improve service delivery, facilitate cash less payments and reduce leakages.
- **Human Capital Development**: To consolidate and enhance complementarity of programmes for human development, it is essential to continue to strengthen health systems, implement successful nutrition programmes, improve access in hard-to-reach places, quality and the relevance of education.
- **Strengthening Governance, accountability and building effective institutions**: Regaining the momentum in the implementation of the national reforms' agenda is paramount for peace and stability; The focus is to enhance capabilities of key institutions that fight corruption and crime, including homicide, human-trafficking and gender-based violence. It will also be important to implement key programmes to promote the culture of excellence and strengthen service delivery.
- **Cross-cutting issues:** The country must build resilience through effective disaster risk management, especially to climate shocks, reduce land degradation through improved labour-based programmes; Investing on key solutions to keep Lesotho clean, beautiful and green, Revive communal institutions that promote revival of flora and fauna. It is also critical for development of youth, women and empowerment of marginalized and vulnerable groups.

MEDIUM-TERM FISCAL STRATEGY

To realise a sustainable economic growth and increase job creation, as well as build resilience, the country has to press ahead to maintain a sustainable fiscal path through further fiscal consolidation and adopt a counter-cyclical fiscal policy, which guides us to prudent use of our fiscal resources by building buffers in times of economic upturn and continue to stimulate economic recovery in times of economic downturn.

- Our fiscal strategy will also lay emphasis on diversifying revenue sources and improve the efficiency in revenue collection, containing the growth of recurrent expenditure, and maintain an acceptable debt threshold.
- Keep fiscal deficit below 3 per cent and implement and develop a counter-cyclical fiscal policy that results in better control of the fiscal gap and allow a build-up of buffers for use in times of economic down-turn.
- Increase the efficiency and effectiveness of our expenditure.
- Eliminate arrears are to be brought back through a cleansing audit inventory and by strictly enforcing the application of the improved Procurement Bill procedures.
- Contain our Recurrent expenditure, and in particular the wage bill will have a maximum target growth rate of 18.6% to 16%, while our capital budget share in the total Government budget is to grow from 13% to 15% in the medium term.
- Review our Capital budget to facilitate the wind down of unproductive spending and accommodate key pipeline projects that contribute to economic and private sector growth.
- The structure of the budget should reflect the move towards further decentralisation, and self-financing capabilities of autonomous institutions should be enhanced to reduce dependence on fiscal transfers.

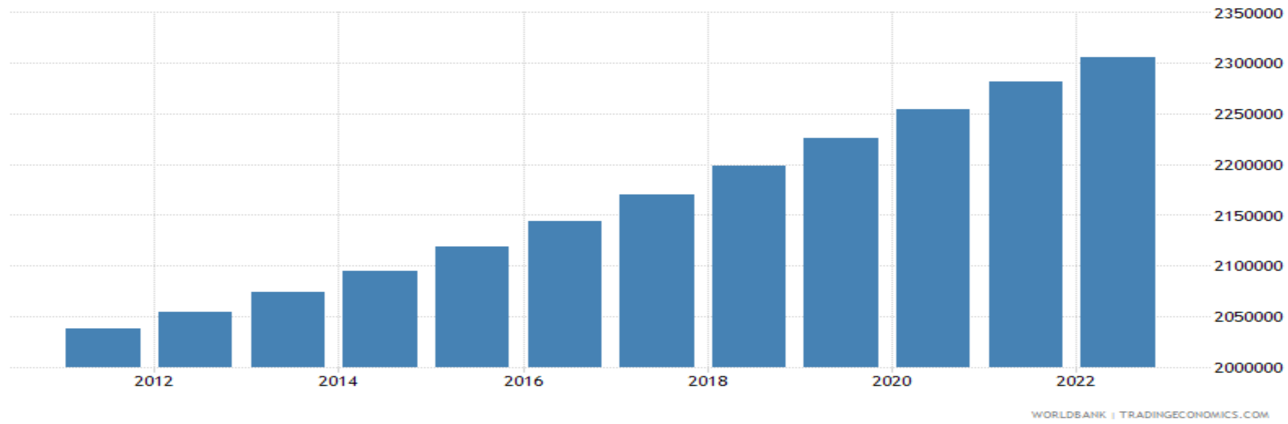
INTRODUCTION

In an ever-changing and complex financial world, nations strive for economic sustainability. This Budget Strategy Paper serves as a roadmap for long-term prosperity by focusing on the balance between growth, well-being, and the environment. It outlines policy priorities in the medium term to guide resource allocation initiatives and communicate policy direction of Government to development partners, private sector, civil society and the nation at large. It directs budget formulation, which emphasizes transparency, efficiency, equity, and sustainability.

DEVELOPMENT CONTEXT

Lesotho, with a population of 2,076,669, has grown by 0.68 percent since 2006. There is a gender split of 51.3 percent female and 48.7 percent male, with a youthful population (38.4 percent youth). The Lesotho Demographic Survey reports 54,036 people with disabilities, primarily visual impairment (28.8 percent).Despite 57 years of independence, poverty remains a challenge, affecting 49.7 percent of the population, with higher rates in rural areas (52.9 percent) and among female-headed households (43.8 percent). Extreme poverty impacts 24.1 percent of the population.

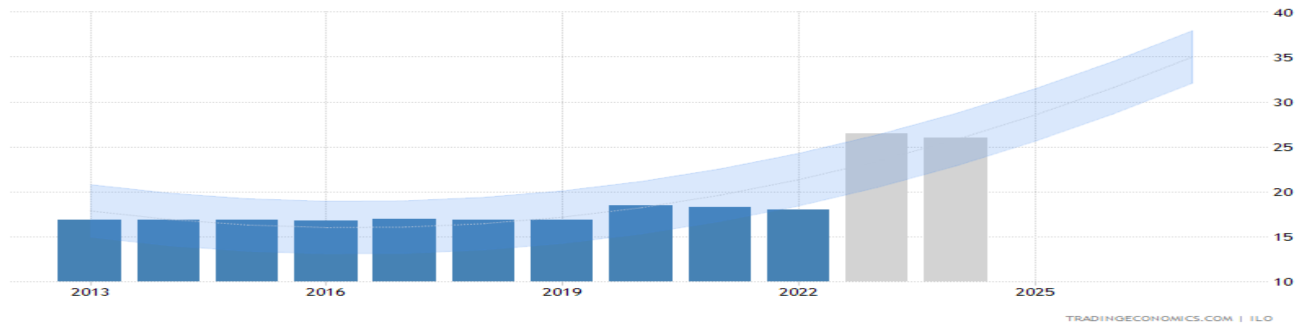
Lesotho Population



Population, total in Lesotho was reported at 2,305,825 in 2022, according to the World Bank collection of development indicators, compiled from officially recognized sources.

While inequality, measured by the Gini Coefficient, improved from 0.53 in 2011 to 0.48 in 2017, Lesotho remains among the top 20 percent most unequal countries. Unemployment is 22.2 percent, with youth unemployment at 32.8 percent. The private sector faces challenges like skills mismatch and the impact of COVID-19 on the manufacturing sector.

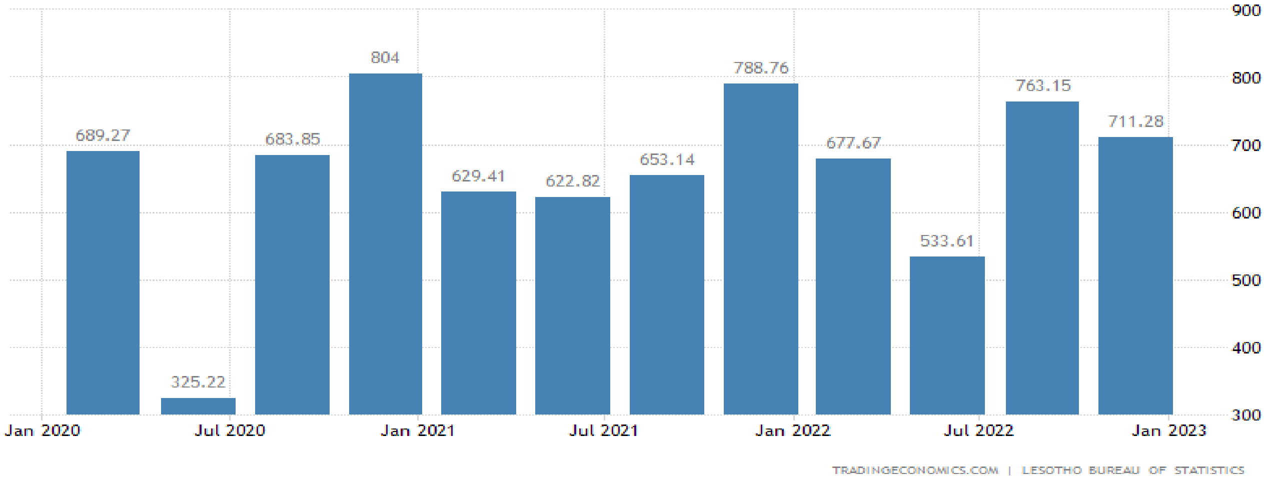
Lesotho Unemployment Rate



Unemployment Rate in Lesotho decreased to 18 percent in 2022 from 18.30 percent in 2021. Unemployment Rate in Lesotho is expected to reach 26.50 percent by the end of 2023, according to Trading Economics global macro models and analysts' expectations.

GDP from Manufacturing in Lesotho decreased to 711.28 LSL Million in the fourth quarter of 2022 from 763.15 LSL Million in the third quarter of 2022. GDP from Manufacturing in Lesotho averaged 621.54 LSL Million from 2007 until 2022, reaching an all-time high of 834.69 LSL Million in the fourth quarter of 2019 and a record low of 325.22 LSL Million in the second quarter of 2020.

Lesotho GDP from Manufacturing Side



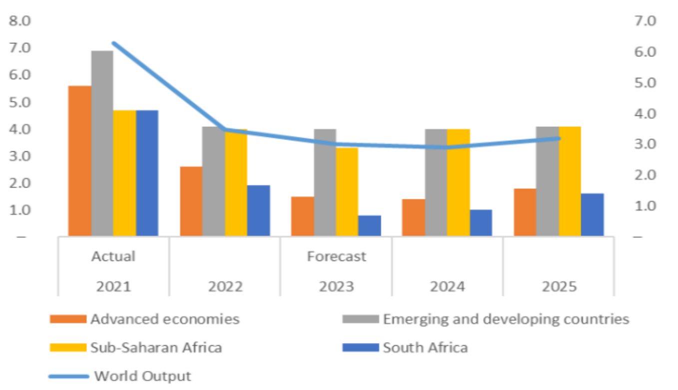
In human development, Lesotho ranks 160 out of 187 countries, categorized as low with a score of 0.50 Despite high education spending, education outcomes are poor, and access is inequitable. Healthcare spending (over 15 percent) does not match outcomes, and HIV/AIDS prevalence is at 21.7 percent.

The health system has regulatory gaps, and social protection progress lacks coordination. Infrastructure development is uneven, impacting job creation and economic opportunities. Governance and strong institutions are vital but face structural challenges including corruption, political instability, widespread inequality, inequitable justice access, poor service delivery, large informal sector and weak oversight.

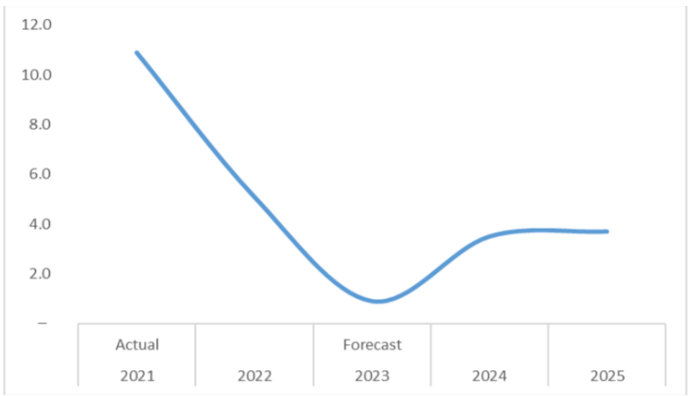
MACROECONOMIC PERFORMANCE AND OUTLOOK

The global economy is facing uncertainty due to recent adverse shocks, including the COVID-19 pandemic and Russia's invasion of Ukraine. These events have led to commodity and energy price positive shocks, trade disruptions, and financial market volatility .According to the World Economic Outlook (WEO) of July 2023, global growth is projected to be 3.0 percent in 2023 and 2024, down from the estimated 3.5 percent growth in 2022. Factors contributing to this include central banks raising rates to combat inflation, the impact of Ukraine war, and stricter lending standards in advanced economies. China's growth is expected to slow slightly in 2024 due to a downturn in real estate.

World Output



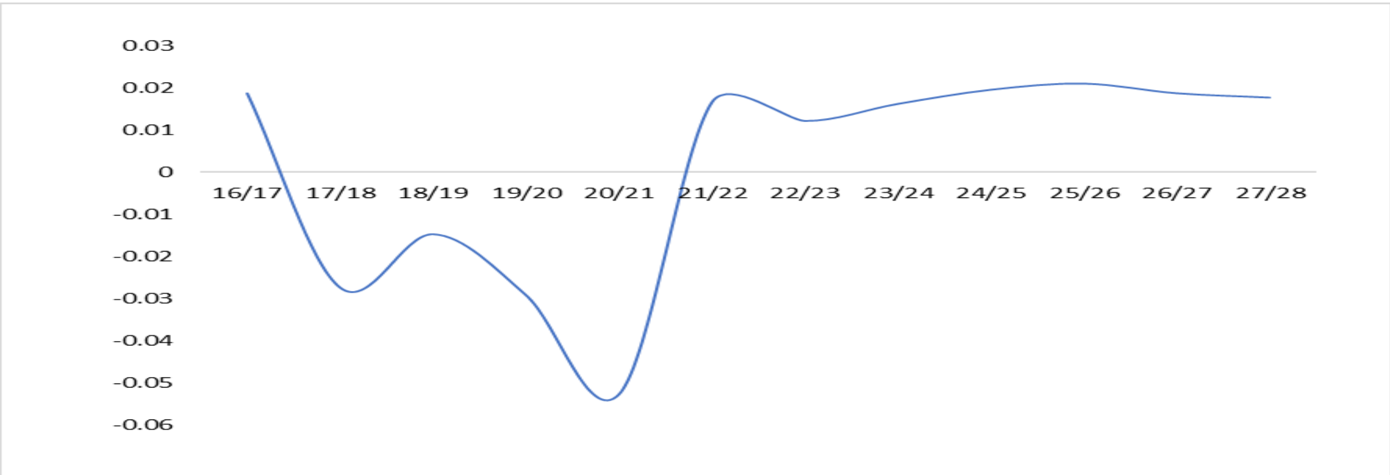
World Trade Volumes



World trade growth is also expected to slow in 2023 but rise to 3.7 percent in 2024 due to the lagged effects of US dollar depreciation and increasing trade barriers. In Sub-Saharan Africa, growth is forecasted to be 3.5 percent in 2023, with a slight uptick in 2024 due to measures taken in Nigeria to address oil sector security issues and South Africa's efforts to improve power supply.

The 2022 Annual National Accounts data released by the Bureau of Statistics show that overall real GDP growth in 2022 was 1.1 percent, and lower than the 1.9 percent projected for the year. The GDP growth performance partly reflected the weak macro-economic fundamentals in 2022 as well as external supply-chain disruptions.

Economic Growth



Quarterly GDP statistics point that real GDP has slowed once again in the first half of the year. Growth in quarter one and two recorded a contraction of 0.7 percent on average. This contraction was driven by deficient performance in the agricultural sector which contracted by 9.2 percent on average during the first and the second quarter, with manufacturing sector contracting by 5 percent on average. However, tourism sector recorded a considerable average growth of 22.1 percent between the first and the second quarters. For the remainder of the year, growth will average 1.8 percent in 2023/24 before expanding in the medium term driven by LHWP II mega project.

Inflation in Lesotho closely mirrors price developments in South Africa, with a sizeable portion of imports coming from South Africa.

Lesotho Inflation Rate

Inflation Rate in Lesotho increased to 5.20 percent in August from 4.50 percent in July of 2023. Inflation Rate in Lesotho averaged 7.12 percent from 2002 until 2023, reaching an all-time high of 35.14 percent in October of 2002 and a record low of 2.00 percent in March of 2015**.**

MONETARY SECTOR OUTLOOK

Money supply is expected to grow by 6.5 percent in 2023, driven by increased net foreign assets in the banking sector and expanded credit. Net foreign assets in the banking sector are forecasted to rise by 26.3 percent, propelled by SACU receipts and trade-related placements. Private sector credit extension is projected to increase by 5.2 percent, in line with growth in construction and the service industry. Over the medium-term, money supply growth is expected to average 5.6 percent, aligning with nominal GDP growth. As LHWP II activity intensifies, the construction sector will benefit, leading to increased credit growth. Private sector credit extension is projected to average 2.8 percent, while net foreign assets are anticipated to increase by 11.5 percent over 2024-2025, primarily due to sustained high SACU receipts.

FISCAL DEVELOPMENTS

Fiscal Deficit

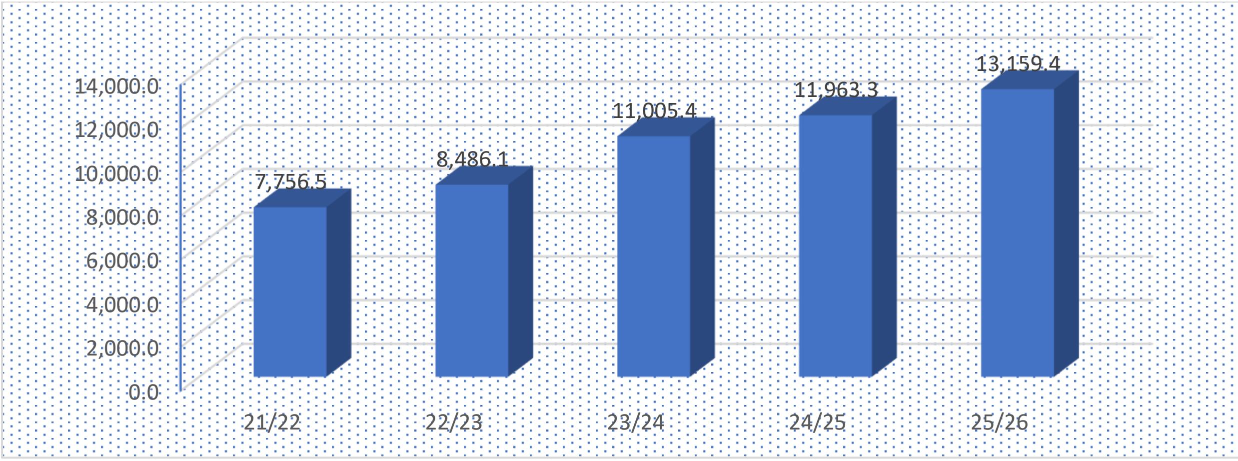
The vital role of SACU revenue in the fiscal framework necessitates proactive measures to mitigate the effects of its volatility on government revenue and the budget. Historically, fluctuations in SACU receipts have closely mirrored changes in the overall fiscal balance.

Following a fiscal deficit of 6.6 percent of GDP in 2021/22, the fiscal situation deteriorated in 2022/23 due to weak SACU revenue and high fixed expenses. The overall fiscal balance for 2022/23 posted a deficit of M2,050.9 million, equivalent to 5.7 percent of GDP. However, there is optimism for 2023/24, with a projected surplus of M1,016.3 million (2.5 percent of GDP), driven by significant SACU receipts and strong fiscal consolidation efforts. In 2024/25, a deficit of 1.7 percent of GDP is expected due to a decline in SACU revenue. Nonetheless, a slight improvement to a 0.7 percent of GDP deficit is foreseen in 2025/26, reflecting SACU revenue trends.

Revenue

Total revenue is mainly fuelled by taxes and SACU receipts. In FY22/23, including grants and SACU, total revenue grew by 8.9 percent, reaching M18,482.6 million from M16,968.1 million in FY21/22. This growth also represents a 20 percent increase compared to the pre-pandemic 5-year average of M15,373.4 million. Tax revenue for 2022/23 hit M8,486.1 million, a rise of M729.6 million from the previous year's M7,756.5 million. This increase is attributed to improved economic activity and better tax administration. The projection for 2023/24 foresees tax revenue collection of M11,005.4 million, driven by enhanced corporate income tax collection due to the incorporation of mining exports sales tax (M690 million) and introduction of alcohol and tobacco levies (M439 million) under excise taxes. However, gradual revenue recovery is expected in the medium term. The tax-to-GDP ratio is anticipated to be 28.2 percent in 2024/25, slightly increasing to 28.7 percent in 2025/26.

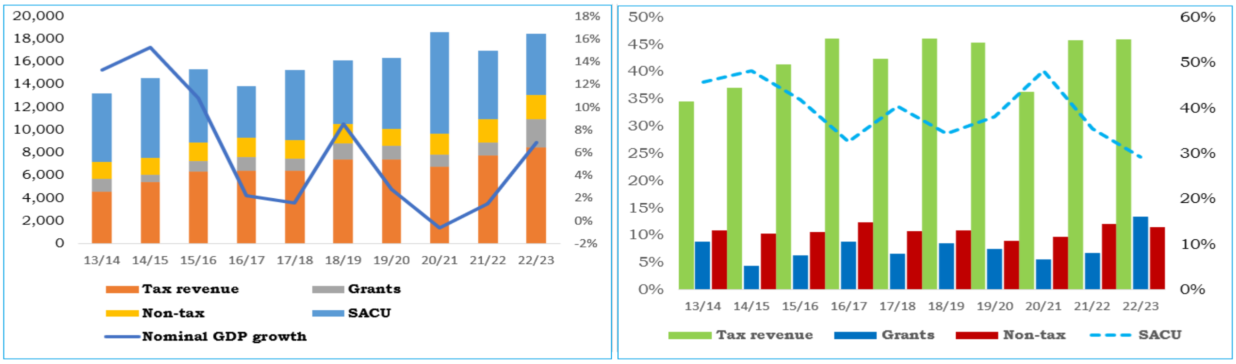
Tax Revenue 2021/22 – 2025/26



Source: Macroeconomic Policy and Management department; Ministry of Finance and Development Planning

SACU revenue is very volatile and has a major impact on the government budget. In 2022/23, it fell to M5,399.5 million from M6,008.0 million in 2021/22 due to global crises as well as a negative adjustment in SACU receipts, which led to the repayment by SACU Member States into the SACU Revenue Pool. This hit the budget hard as fiscal consolidation continued. However, SACU receipts are expected to peak at M10,148.4 million in 2023/24, then drop to M6,621.7 million in 2024/25. A recovery to M7,170.6 million is forecast for 2025/26, reflecting global trade improvements post-crisis.

Composition of Tax Revenue 2013/14 – 2022/23



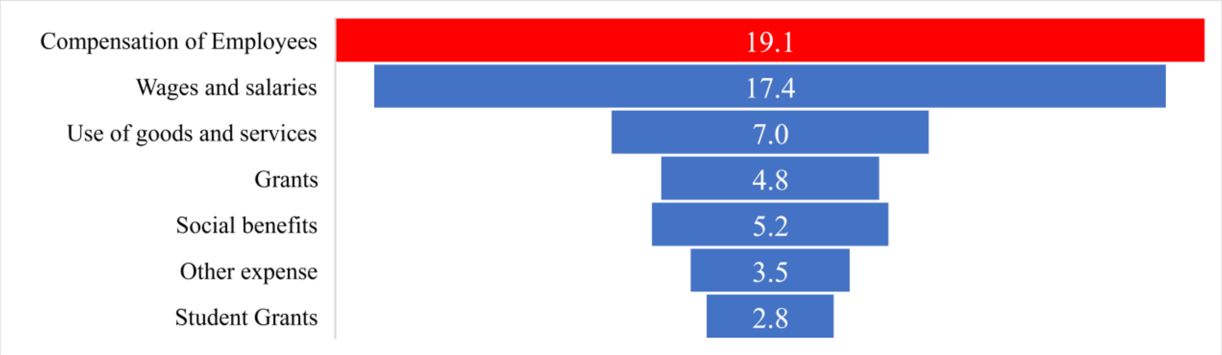
Source: Macroeconomic Policy and Management department; Ministry of Finance and Development Planning

Expenditure

Recurrent Expenditure

Public sector recurrent spending has shown inconsistency, averaging 41.1 percent of GDP annually from 2018/19 to 2022/23 due to political instability and the impact of COVID-19. Employee compensation and operating costs remain the major components. In 2022/23, employee compensation was 19.1 percent of GDP, goods and services usage was 7 percent of GDP, student grants stood at 2.8 percent of GDP, and social benefits were 5.2 percent of GDP (see Figure 8).

Composition of Recurrent Expenditure 2022/23



Source: Macroeconomic Policy and Management department; Ministry of Finance and Development Planning

In 2022/23, total recurrent budget outturn was approximately 41.2 percent of GDP, due to execution of expenditure control measures including one-month warrant release instead of quarterly. In 2023/24, recurrent spending is projected to rise to 44.2 percent of GDP, a 3.0 percent increase from 2022/23, due in part to local government elections. However, in 2024/25, it is expected to decrease to 40.9 percent of GDP, further declining to 39.2 percent in 2025/26, as government continues expenditure rationalisation efforts.

Capital Expenditure

Historically, investment spending has consistently received a smaller budget share due to fiscal constraints and limited absorptive capacity. This trend continued in 2022/23. Notably, recent government investments have prioritized road infrastructure and green energy projects.

NATIONAL PRIORITIES AND STRATEGIC OBJECTIVES FOR 2024/2025

KEY PRIORITY AREAS AND OBJECTIVES

The key priority areas and focus for the 2024/25-2026/27 budgets are as follows:

Growth and jobs

Promotion of pro-private sector development policies and enhance business environment for accelerated growth and job creation.

- Provide agricultural support to increase household food production and commercialisation.
- Revive the manufacturing sector in line with competitive advantages.
- Promote tourism related investment in niche markets, which include ecotourism, conferencing and cultural and high-altitude sports.
- Building standards and metrology infrastructure
- Promote green growth and jobs.

Infrastructure

- Rebuild and climate proof physical infrastructure, to increase internal accessibility and facilitate integration into global markets and connect tourism circuits.
- Enhance energy access and security.
- Increase water access and harvesting capacity.

Human Development

- Reduction of stunting and/or malnutrition
- Increase Health systems efficiency.
- Nutrition issue
- Build classrooms in critical areas and increase ICT literacy.
- Enhance Tertiary and TVET-Level Relevance through the reform the curriculum and programmes at the tertiary (higher education) and TVET (Technical and Vocational Education and Training) levels.
- Enhance relevance and consolidation of programmes in tertiary institutions.
- Advance a comprehensive and inclusive social protection framework.

Governance

- Implement national reforms agenda Deepen public financial management reforms and interface of different IT systems.
- Reduce the cost of doing business in and with Government through digitisation and business process reviews.
- Unlock bottlenecks for deeper decentralisation and enhanced community participation in development through scaling up of projects and efficient labour -based programmes.
- Enhance capabilities of key institutions that fight corruption and crime, including homicide, human-trafficking, gender-based violence.
- Implement targeted programmes economic, social and political participation of youth, women, people with disability and other vulnerable groups.
- Safeguard children's rights
- Develop media sector as a means for nation building.
- **Professionalization public service.**

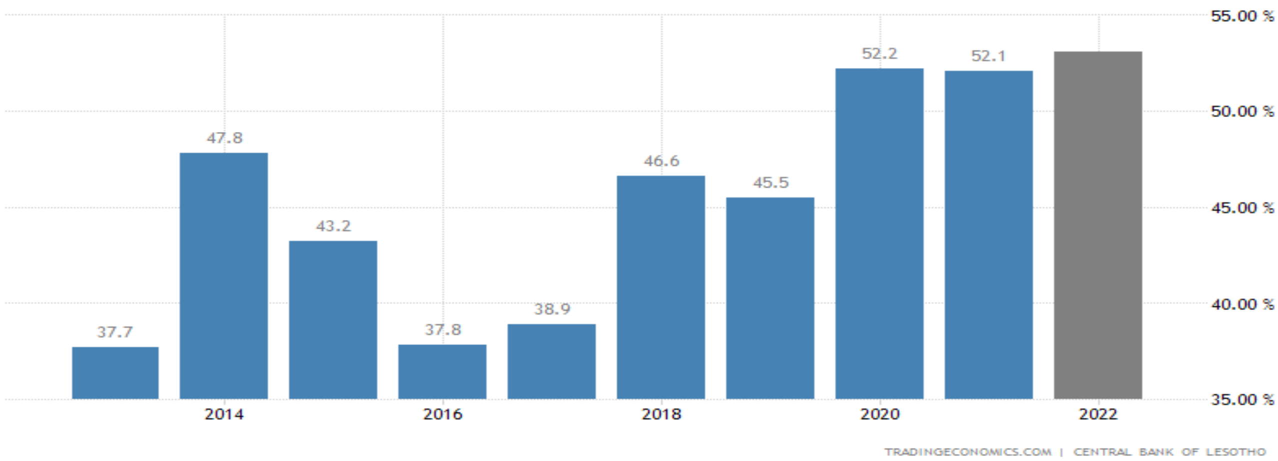
Environment and Climate Change

- Investing on key solutions to Keep Lesotho clean, beautiful and green.
  Revive communal institutions that promote revival of flora and flora.
- Enhance disaster risk management capacity.

PUBLIC DEBT DYNAMICS AND OUTLOOK

As of March 2023, Lesotho's total public debt reached M23,081.3 million, increasing by M3,904.8 million (20.4 percent) compared to the previous year. This debt is divided into M18,594.9 million in external debt and M4,486.4 million in domestic debt. Domestic debt rose by M738.3 million (20.7 percent) due to new borrowing, while external debt increased by M3,136.5 million (20.3 percent) driven by net borrowing of M505.3 million and currency depreciation worth M2,630.8 million. The total public debt as a percentage of GDP grew from just above 50 percent in 2019/20 to 60.2 percent by the end of March 2023.

Lesotho Government Debt to GDP



Lesotho recorded a Government Debt to GDP of 52.10 percent of the country's Gross Domestic Product in 2021. Government Debt to GDP in Lesotho is expected to reach 54.00 percent of GDP by the end of 2023, according to Trading Economics global macro models and analysts' expectations. In the long-term, the Lesotho Government Debt to GDP is projected to trend around 52.00 percent of GDP in 2024 and 50.00 percent of GDP in 2025, according to our econometric models.

The external debt stock remained stable between 2017/18 and 2019/20 but increased in 2020/21 and 2022/23 due to support from bilateral and multilateral sources (China and World Bank) for COVID-19 response. The external debt service initially rose steadily, reaching its peak in 2019/20 and 2020/21 due to Lesotho's participation in the Debt Service Suspension Initiative (DSSI). The DSSI extension led to a decrease in debt service over the last two years. However, an increase in debt service is anticipated in 2023/24 as fewer countries participate in the DSSI.

In contrast, domestic debt remained stable at around M1,000 million between March 2009 and March 2017. However, starting in March 2018, the government's significant fiscal deficits led to an increase in debt to the current M4,486.4 million by March 2023. To address this debt growth, the government plans to achieve a surplus for the 2023/24 fiscal year. Over a decade, domestic debt as a percentage of GDP has surged from 2 percent to 12 percent, highlighting the need for concurrent economic expansion to manage potential fiscal challenges.

RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Macroeconomic risks in Lesotho can have significant implications for the country's overall economic stability, growth, and development. Here are some key macroeconomic risks that Lesotho may face:

Box 1: Risks to the Macroeconomic Framework

Time Horizon	Source of Risk	Relative Likelihood	Impact if Realised	Implications for Fiscal management
Medium to Long Term	**Volatile SACU Revenue**	Moderate	**High** Lesotho heavily relies on SACU revenue to fund its budget and development projects.	Reduced government revenue could lead to budget deficits, necessitating austerity measures, reduced public services, and potential borrowing. Lesotho's fiscal position and ability to invest in development projects could be compromised.
Medium to Long Term	**Climate Change and Natural Disasters**	Moderate	**High** **Lesotho's vulnerability** to climate change can lead to severe weather events impacting agriculture, water supply, and infrastructure.	Severe weather events can damage infrastructure, agriculture, and water supply. Reduced agricultural productivity could affect food security, increase import dependence, and strain public resources for reconstruction.
Medium to Long Term	**External Debt Crisis**	Low to Moderate	**High** Rapid accumulation of external debt without effective management can lead to repayment difficulties.	An external debt crisis could lead to credit rating downgrades, higher borrowing costs, and limited access to financing. Government spending might need to be redirected to debt servicing, affecting public investments and services.
Short to Medium Term	**Global Economic Downturn**	Moderate to High	**Moderate to High** Lesotho's economy is export-oriented, and global economic downturns can lead to decreased demand for its exports.	Reduced demand for exports (textiles, diamonds) could impact growth and employment. Tourism and remittances might also be affected. Stimulus measures might be required to counter the downturn, potentially straining public finances.
Short to Medium Term	**Unemployment and Social Unrest**	Moderate to High	**Moderate** High unemployment rates can lead to social unrest and protests.	High unemployment and social unrest can hinder investor confidence, disrupt economic activities, and lead to demands for increased government spending on social safety nets.
Medium to Long Term	**Limited Economic Diversification**	Moderate	**Moderate** Overreliance on a few sectors makes the economy vulnerable to external shocks.	Dependence on a few sectors makes the economy vulnerable to external shocks. Efforts to diversify the economy and promote non-traditional sectors become imperative to ensure sustainable growth.
Short to Medium Term	**Accumulation of Arrears**	Moderate	**Moderate** Arrears occur when the government accumulates unpaid debts to various creditors, including suppliers, contractors, pensioners, and public sector employees.	Addressing arrears requires a concerted effort to improve fiscal discipline, financial management practices, and transparency in government operations. Effectively managing arrears is crucial for maintaining macroeconomic stability, investor confidence, and sustainable economic growth.
Medium to Long Term	**Political Instability**	Moderate to High	**High** Political instability can lead to uncertainties in budget formulation and execution. Frequent changes in government or policy direction may result in abrupt shifts in spending priorities and allocations.	Developing medium-term fiscal frameworks will help provide stability by setting out fiscal policy objectives, expenditure priorities, and revenue strategies over a multi-year period. Implementing fiscal rules and maintaining fiscal discipline can help stabilize budgetary policies, providing a framework that transcends short-term political cycles.
Medium to Long Term	**Energy Supply disruptions**		**High** Energy supply disruptions can lead to economic instability and hinder the functioning of critical infrastructures, impacting various sectors such as transportation, healthcare, communication, and manufacturing.	One effective mitigation measure is to diversify energy sources and invest in resilient and sustainable energy infrastructure. This involves reducing dependence on a single energy source.

To mitigate these risks, government needs to implement prudent fiscal management, enhance economic diversification, strengthen institutional governance, invest in human capital, and promote sustainable development practices. Continuous monitoring of these risks and timely policy interventions are crucial for maintaining macroeconomic stability and sustainable growth.

MEDIUM TERM FISCAL STRATEGY

The medium-term fiscal strategy for Lesotho encompasses several key elements aimed at enhancing the country's economic growth and macro-fiscal stability.

- Reducing Government footprint in the economy, in favour of the private sector-led economy
- Maintain debt: GDP of below 60 per cent.
- Keep fiscal deficit below 3 per cent.
- Fiscal consolidation through the increase of efficiency of expenditure and revenue enhancing measures.
- Implement pro-cyclical fiscal policy measures, including fiscal rules.
- Explore options for innovative financing.
- Eliminate arrears.
- Mitigate fiscal risks.

TRANSLATING POLICIES INTO RESOURCE ALLOCATION

The key imperatives for improved resource allocation are:

- Public investments should be directed at improving business environment and catalyse private sector investment, especially in selected growth sectors.
- Recurrent expenditure should be contained, especially wage bill and grow slower than capital budget.
- Capital budget should be reviewed and to facilitate the wind down of unproductive spending and accommodate key pipeline projects.
- The structure of the budget should reflect the move towards further decentralisation.
- Self-financing capabilities of institutions should be enhanced to reduce dependence on fiscal transfers.

CONCLUSION

Lesotho's economy is expected to recover and growth with positive GDP growth rates but declining beyond 2024/25 as the effects of COVID-19 are reducing albeit with systemic fear of recurrence of similarly pandemic. The 2024/25 budget strategy paper is being developed against challenges of subdued global economic performance, supply chains that remain partially disrupted due to global geo-political tensions such as Russia Ukraine conflict and high global inflationary benchmark. This medium-term economic prognosis remains challenged by widespread concerns of a probable recession and falling global demand in major economies. This strategy has sought to propel reform and transformation agenda by entrenching macro-economic stability as an essential prerequisite for socio economic development towards sustaining livelihoods. Furthermore, government of Lesotho will continue to implement measures seeking to attain fiscal sustainability and avert successive fiscal deficits in order to maintain macroeconomic stability necessary for economic growth and jobs creation.

ANNEX 1: MTFF

STATEMENT OF GOVERNMENT OPERATIONS (Maloti mn unless otherwise specified)	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Revenue	**16 322,5**	**18 635,1**	**16 968,1**	**18 569,5**	**22 765,0**	**23 403,2**	**24 802,0**	**26 293,2**
Revenue without SACU	**10 096,3**	**9 654,5**	**10 960,1**	**13 169,9**	**12 616,4**	**13 626,3**	**14 546,9**	**15 808,2**
Taxes	**7 410,6**	**6 778,6**	**7 756,5**	**8 486,1**	**9 218,1**	**9 988,9**	**10 785,0**	**11 772,1**
Taxes on income, profits and capital gains	4 052,1	3 722,1	4 087,9	4 305,9	4 465,2	4 680,9	4 921,5	5 225,4
Taxes on goods and services	3 358,5	3 056,4	3 668,5	4 180,2	4 752,9	5 308,1	5 863,5	6 546,6
Value added taxes	2 906,6	2 607,7	3 051,2	3 603,3	3 913,0	4 395,0	4 898,1	5 473,3
Excise taxes	433,1	420,1	596,7	550,9	686,4	751,8	796,7	897,2
Alcohol and tobacco					146,0	153,7	161,2	168,7
Taxes on specific services	7,1	8,4	20,5	26,0	7,5	7,5	7,5	7,5
Grants	**1 228,6**	**1 051,3**	**1 155,3**	**2 478,8**	**1 182,8**	**1 237,8**	**1 288,6**	**1 444,6**
Recurrent	197,3	146,7	414,4	361,2	157,2	160,8	164,6	168,6
Capital	1 031,3	904,7	740,9	2 117,6	1 025,7	1 077,0	1 124,0	1 276,0
Other revenue	**1 457,0**	**1 824,7**	**2 048,3**	**2 205,1**	**2 215,5**	**2 399,5**	**2 473,2**	**2 591,5**
Property income (primary income)	531,7	624,5	659,1	711,8	606,7	751,3	770,9	810,9
Interest	7,6	19,1	12,4	18,6	10,2	10,2	10,2	10,2
Dividends	175,8	117,8	78,7	202,4	67,4	63,3	66,4	69,5
From FPCs	155,1	0,0	71,1	49,8	52,6	55,3	58,0	60,7
From NFPCs	4,9	0,0	7,6	3,9	14,8	7,9	8,3	8,7
Other dividends	15,9	117,8	0,0	148,7	0,0	0,0	0,0	0,0
Rent	348,3	487,6	568,0	490,8	529,1	677,7	694,3	731,3
Rent on land	3,1	2,4	2,2	1,1	0,1	1,2	1,3	1,3
Rent from royalties	345,2	485,2	565,8	489,7	529,0	676,5	693,0	729,9
Sales of current goods and services (incl Telecom lic.)	924,0	1 199,4	1 388,9	1 493,2	1 545,8	1 648,3	1 702,3	1 780,6
Sales by market establishments	853,0	1 124,5	1 363,3	1 479,3	1 506,2	1 603,0	1 655,5	1 732,3
Electricity Muela	43,7	50,7	60,1	56,5	53,3	60,3	62,8	63,0
Water LHDA	809,3	1 073,7	1 303,2	1 422,8	1 452,9	1 542,7	1 592,8	1 669,3
Administrative fees	12,5	17,2	2,7	0,0	28,0	29,1	30,7	32,1
Incidental sales	58,5	57,8	22,8	14,0	11,6	16,1	16,1	16,1
Fines and penalties	1,3	0,7	0,4	0,0	0,0	0,0	0,0	0,0
Miscellaneous and identifited revenue (eg. work permits a	0,0	0,0	0,0	0,0	63,0	0,0	0,0	0,0
SACU	**6 226,2**	**8 980,5**	**6 008,0**	**5 399,5**	**10 148,5**	**9 776,9**	**10 255,2**	**10 484,9**
Expenditure	**18 481,7**	**18 640,4**	**18 908,6**	**20 637,7**	**22 412,2**	**24 006,3**	**25 322,6**	**26 782,7**
Expense	**13 756,1**	**14 726,5**	**13 922,2**	**15 599,9**	**17 238,6**	**18 284,1**	**19 306,7**	**20 382,2**
Compensation of employees	5 922,3	6 029,7	6 130,2	6 921,2	7 385,3	7 879,1	8 372,1	8 879,4
Wages and salaries	5 456,8	5 501,6	5 584,3	6 306,0	6 607,2	7 049,1	7 490,1	7 943,9
Social contributions	465,4	528,1	545,9	615,1	778,0	830,1	882,0	935,4
Funded	465,4	528,1	545,9	615,1	778,0	830,1	882,0	935,4
Use of goods and services	3 132,3	2 330,5	2 152,5	2 552,6	2 547,4	2 681,8	2 811,8	2 942,6
Travel and transport, domestic	306,9	275,9	317,1	364,3	318,9	335,7	352,0	368,4
Travel and transport, international	133,6	25,2	20,8	61,0	48,3	50,8	53,3	55,8
Operating costs (incl. special in 2008/09)	2 691,8	2 029,4	1 814,7	2 127,4	2 180,2	2 295,2	2 406,5	2 518,4
Interest	502,1	544,1	504,8	709,5	896,6	943,9	989,7	1 035,7
To non-residents	236,6	262,1	238,1	317,4	348,7	367,1	384,9	402,8
To residents	265,5	282,0	266,7	392,1	547,9	576,8	604,8	632,9
Subsidies (almost all to public NFC)	341,0	1 040,7	547,8	554,6	882,6	929,1	974,2	1 019,5
Grants to international organisations	34,4	43,1	47,4	75,2	84,8	84,8	84,8	84,8
Grants to other general government units	1 272,6	1 957,5	1 602,5	1 657,2	1 770,4	1 863,8	1 954,2	2 045,0
Social benefits	1 687,3	1 846,9	1 876,6	1 874,6	2 165,4	2 279,7	2 390,2	2 501,4
Other expense	864,1	934,0	1 060,4	1 254,9	1 506,1	1 621,9	1 729,7	1 873,8
Students	761,5	891,4	950,0	1 030,2	1 200,0	1 299,6	1 391,8	1 520,2
Other	102,5	42,6	110,4	224,7	306,1	322,2	337,9	353,6
TRANSACTIONS IN NONFINANCIAL ASSETS	**4 725,6**	**3 914,0**	**4 986,4**	**5 037,7**	**5 173,6**	**5 722,2**	**6 015,9**	**6 400,5**
Fixed Assets	**4 725,6**	**3 914,0**	**4 986,4**	**5 037,7**	**5 173,6**	**5 722,2**	**6 015,9**	**6 400,5**
Buildings and structures	4 626,4	3 844,6	4 913,2	5 005,9	5 161,1	5 708,9	6 002,4	6 386,6
Machinery and equipment	94,2	69,1	55,6	25,9	6,6	6,6	6,6	6,6
Unidentified	5,0	0,2	17,6	6,0	6,0	6,7	6,9	7,3
NET LENDING/BORROWING	**-2 159,2**	**-5,4**	**-1 940,5**	**-2 068,2**	**352,7**	**-603,1**	**-520,5**	**-489,5**

ANNEX 2: MTFF AS % OF GDP

OPERATIONS (Maloti mn unless otherwise specified)	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Revenue	**47,3%**	**54,1%**	**47,1%**	**49,0%**	**57,0%**	**55,3%**	**56,4%**	**57,9%**
Revenue without SACU	**29,2%**	**28,0%**	**30,4%**	**34,8%**	**31,6%**	**32,2%**	**33,1%**	**34,8%**
Taxes	**21,5%**	**19,7%**	**21,5%**	**22,4%**	**23,1%**	**23,6%**	**24,5%**	**25,9%**
Taxes on income, profits and capital gains	11,7%	10,8%	11,3%	11,4%	11,2%	11,1%	11,2%	11,5%
Taxes on goods and services	9,7%	8,9%	10,2%	11,0%	11,9%	12,5%	13,3%	14,4%
Value added taxes	8,4%	7,6%	8,5%	9,5%	9,8%	10,4%	11,1%	12,0%
Excise taxes	1,3%	1,2%	1,7%	1,5%	1,7%	1,8%	1,8%	2,0%
Taxes on specific services	0,0%	0,0%	0,1%	0,1%	0,0%	0,0%	0,0%	0,0%
Grants	**3,6%**	**3,1%**	**3,2%**	**6,5%**	**3,0%**	**2,9%**	**2,9%**	**3,2%**
Recurrent	0,6%	0,4%	1,2%	1,0%	0,4%	0,4%	0,4%	0,4%
Capital	3,0%	2,6%	2,1%	5,6%	2,6%	2,5%	2,6%	2,8%
Other revenue	**4,2%**	**5,3%**	**5,7%**	**5,8%**	**5,5%**	**5,7%**	**5,6%**	**5,7%**
Property income (primary income)	1,5%	1,8%	1,8%	1,9%	1,5%	1,8%	1,8%	1,8%
Interest	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Dividends	0,5%	0,3%	0,2%	0,5%	0,2%	0,1%	0,2%	0,2%
From FPCs	0,4%	0,0%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%
From NFPCs	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Other dividends	0,0%	0,3%	0,0%	0,4%	0,0%	0,0%	0,0%	0,0%
Rent	1,0%	1,4%	1,6%	1,3%	1,3%	1,6%	1,6%	1,6%
Rent on land	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Rent from royalties	1,0%	1,4%	1,6%	1,3%	1,3%	1,6%	1,6%	1,6%
Sales of current goods and services (incl Telecom	2,7%	3,5%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%
Sales by market establishments	2,5%	3,3%	3,8%	3,9%	3,8%	3,8%	3,8%	3,8%
Electricity Muela	0,1%	0,1%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%
Water LHDA	2,3%	3,1%	3,6%	3,8%	3,6%	3,6%	3,6%	3,7%
Administrative fees	0,0%	0,0%	0,0%	0,0%	0,1%	0,1%	0,1%	0,1%
Incidental sales	0,2%	0,2%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%
Fines and penalties	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Miscellaneous and identifited revenue (eg. work p	0,0%	0,0%	0,0%	0,0%	0,2%	0,0%	0,0%	0,0%
SACU	**18,0%**	**26,1%**	**16,7%**	**14,3%**	**25,4%**	**23,1%**	**23,3%**	**23,1%**
Expenditure	**53,5%**	**54,1%**	**52,5%**	**54,5%**	**56,1%**	**56,8%**	**57,6%**	**58,9%**
Expense	**39,8%**	**42,8%**	**38,6%**	**41,2%**	**43,2%**	**43,2%**	**43,9%**	**44,9%**
Compensation of employees	17,1%	17,5%	17,0%	18,3%	18,5%	18,6%	19,0%	19,5%
Wages and salaries	15,8%	16,0%	15,5%	16,6%	16,6%	16,7%	17,0%	17,5%
Social contributions	1,3%	1,5%	1,5%	1,6%	1,9%	2,0%	2,0%	2,1%
Funded	1,3%	1,5%	1,5%	1,6%	1,9%	2,0%	2,0%	2,1%
Unfunded	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Use of goods and services	9,1%	6,8%	6,0%	6,7%	6,4%	6,3%	6,4%	6,5%
Travel and transport, domestic	0,9%	0,8%	0,9%	1,0%	0,8%	0,8%	0,8%	0,8%
Travel and transport, international	0,4%	0,1%	0,1%	0,2%	0,1%	0,1%	0,1%	0,1%
Operating costs (incl. special in 2008/09)	7,8%	5,9%	5,0%	5,6%	5,5%	5,4%	5,5%	5,5%
Interest	1,5%	1,6%	1,4%	1,9%	2,2%	2,2%	2,2%	2,3%
To non-residents	0,7%	0,8%	0,7%	0,8%	0,9%	0,9%	0,9%	0,9%
To residents	0,8%	0,8%	0,7%	1,0%	1,4%	1,4%	1,4%	1,4%
Subsidies (almost all to public NFC)	1,0%	3,0%	1,5%	1,5%	2,2%	2,2%	2,2%	2,2%
Grants to international organisations	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%
Grants to other general government units	3,7%	5,7%	4,4%	4,4%	4,4%	4,4%	4,4%	4,5%
Social benefits	4,9%	5,4%	5,2%	4,9%	5,4%	5,4%	5,4%	5,5%
Other expense	2,5%	2,7%	2,9%	3,3%	3,8%	3,8%	3,9%	4,1%
Students	2,2%	2,6%	2,6%	2,7%	3,0%	3,1%	3,2%	3,3%
Other	0,3%	0,1%	0,3%	0,6%	0,8%	0,8%	0,8%	0,8%
TRANSACTIONS IN NONFINANCIAL ASSETS	**13,7%**	**11,4%**	**13,8%**	**13,3%**	**13,0%**	**13,5%**	**13,7%**	**14,1%**
Fixed Assets	13,7%	11,4%	13,8%	13,3%	13,0%	13,5%	13,7%	14,1%
Buildings and structures	13,4%	11,2%	13,6%	13,2%	12,9%	13,5%	13,6%	14,1%
Machinery and equipment	0,3%	0,2%	0,2%	0,1%	0,0%	0,0%	0,0%	0,0%
Unidentified	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
NET LENDING/BORROWING	**-6,3%**	**0,0%**	**-5,4%**	**-5,5%**	**0,9%**	**-1,4%**	**-1,2%**	**-1,1%**

ANNEX 3: INDICATIVE KEY INVESTMENTS

SECTOR	KEY INVESTMENTS	ASSUMPTIONS
Shared Growth and Jobs	Macroeconomic stability	
Agriculture and agro industry	Grain Block farms Scale up horticulture. Bio-trade Fisheries (LHWP) Agri-hub/Economic zone (Mafeteng, Leribe) Wool and mohair processing facility	Implement conditions precedent for Compact II Develop a framework for the engagement of private sector in extension services. Agricultural subsidy e-vouchers system to improve targeting
Manufacturing and Trade	Completion of Belo Building of Bureau of standards Revive the textiles industry – increase incubation capacity. Mining beneficiation – Auction platform	Infrastructure is developed
Tourism and creative industries		
Business Facilitation	Business Environment One stop business facilitation to increase the	
	PPP Law Procurement regulations	
Technology and Innovation	Innovation hub at NUL	Operationalisation of the innovation funds under MCA II and World bank CAFI
Infrastructure Development		
Maintain ace	Maintenance and Supporting Infrastructure Fund	
Transport	Katse – Thaba Tseka Sehlaba- Thebe Thaba-Tseka Moshoeshoe I international Airport	Completion of outstanding projects
	Collapsed Bridges	
ICT	E-Government E-payment gateway E-licensing IFMIS functionality and stability Stability and protection of e-Government platform Broadcasting studio	USF and AfDB e-literacy programmes Promote private sector participation in content development for broad casting

SECTOR	KEY INVESTMENTS	ASSUMPTIONS
Water	Lowlands Water Project implementation Hydrogen	LHWP II continues
Energy	Storage facility Connectivity of district growth centres and community centres	Maintain ace of ‘Muela
Human Development		
Health	Minimum infrastructure platform for referral and district hospitals	Fiscal decentralisation New hospital management model to improve standards
	Establish a world class Medical school	
	Upgrade equipment for military hospital	
Nutrition		
	Maternal and child health Sustain/Expand WASH	
Education		
	Building New Primary classrooms in hard-to-reach areas	Means testing of bursaries.
	Implement project to build schools for children with disability	
	NUL infrastructure upgrade PPP	
Governance	Capacitate DCEO Police training college Safe city project (reviewed)	
	Commercial court capacity development	
	Performance Management system operationalisation Full functionality of HRMIS Judicial system reforms	Review Pay structure for ICT cadre. Commonwealth support