2025/2026 BUDGET STRATEGY PAPER

"Building Strategies for Inclusive Growth: Ka Lebelo La Nts'oekhe"

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MINISTRY OF FINANCE AND DEVELOMENT PLANNING
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Executive Summary

The Budget Strategy Paper (BSP) presents a comprehensive Strategy and Management Framework to implement a sound Government Fiscal Policy, foster sustainable and inclusive economic growth, and address and mitigate Lesotho's key risks. It emphasizes strategic interventions across economic, environmental, health, governance, and infrastructure sectors that promote innovative and sustainable long-term development.

The BSP advocates for increased value-chain rewards and improved export products, including hydro-energy, to diversify export markets and reduce dependence on South Africa. At the national level, it aims to enhance economic resilience by investing in enabling institutional and physical infrastructure. This will support a transition from a government-led to a private-sector-driven economy and labor market. The strategy also encourages eco-friendly investments in emerging industries such as tourism, technology, renewable energy, and agriculture.

The strategy supports micro, small, and medium enterprises (MSMEs) through incentives and innovation programmes while addressing economic hardships with job creation and employment and skills development programmes. Key ongoing projects include the Wool and Mohair Value Chain Competitiveness Project, which enhances industry value chains; the Smallholder Agriculture Development Project II, aimed at increasing agricultural productivity and quality; the Millennium Challenge Account - II, which focuses on targeted and inclusive investments in irrigated horticulture, improving business environment and financial inclusion; the Lesotho Competitiveness and Financial Inclusion Project, designed to boost business competitiveness and financial inclusion; and the Standards and Quality Infrastructure Project, which aims to improve standards and infrastructure to support manufacturing. Together, these initiatives are expected to foster a favourable business environment and strengthen the agriculture and manufacturing sectors.

The BSP addresses climate change and environmental risks, and promotes climate adaptation programmes, including drought-resistant crops, water conservation, and reforestation efforts. Specific environmental projects, such as the Oxbow Hydropower Generation Project, aim to enhance sustainability and productivity. In the health sector, the BSP focuses on improving healthcare infrastructure, expanding primary healthcare services, and enhancing Counter GBV and HIV/AIDS prevention and treatment programmes. These efforts are crucial for better health outcomes and access to quality healthcare services.

The BSP underscores the importance of enhancing institutional reform and governance transparency and reducing socio-economic inequalities to mitigate political and social risks. Strengthening governance frameworks and implementing policies aimed at reducing social, gender and economic disparities are central to creating a stable and equitable society. The BSP includes risk management strategies such as establishing early warning systems for natural disasters and health emergencies and involving local communities in risk assessment and planning. Financial exposure is controlled through rigorous assessment and monitoring frameworks.

Significant risks are associated with State-Owned Enterprises (SOEs), which can impose substantial fiscal burdens on the government through inefficiencies and financial losses. Addressing these risks involves implementing comprehensive SOE reforms to improve governance, performance, and financial sustainability. Additionally, the BSP acknowledges the impact of the high wage bill, which places pressure on the budget and limits resources available for critical development initiatives. Efforts to manage and rationalize the wage bill are essential to ensure fiscal discipline and reallocate resources more effectively.

The accumulation of arrears is another critical issue that the BSP seeks to address. Developing strategies to manage and reduce arrears will be crucial for maintaining fiscal stability and ensuring timely and efficient service delivery.

The BSP aims to stimulate investments and foster a transition from a Government-led to a Private-sector-led economy and labor market by implementing key reforms. These include refining laws and acts to support private sector growth, improving safe work environment and labour protection, promoting gender equality ensuring the rule of law through effective legal enforcement, and promoting accountability and transparency through robust monitoring and governance practices. Additionally, the BSP will establish innovative private sector investment incubation centers to nurture new ventures and reinvigorate the role of the Lesotho National Development Corporation (LNDC) to enhance its support for a diverse private sector development.

The BSP also recognizes the need to upgrade our physical infrastructure as a top priority, being another enabler of private sector-led growth, with significant investments planned in transportation and energy sectors. Major projects include the Infrastructure Improvement and Expansion of Moshoeshoe I International Airport, the Lesotho Integrated Transport, Trade, and Logistics project, and the Katse and Oxbow Hydropower Generation Plants. The Construction of the Tri-Tower Office Complex is designed to enhance operational efficiency by housing multiple ministries in a modern complex. The Paper emphasises the need to implement all government infrastructure projects as scheduled, by MDAs, to ensure that forecasted economic growth is realised, and foundations for even faster and more inclusive future economic growth are laid as programmed. Public-private partnerships are highlighted as a key strategy for advancing infrastructure development.

Establishing a robust and integrated M&E framework is crucial for intended and effective resource utilization, maintaining the momentum in implementation, inclusive monitoring to detect disparity in outcomes realize required levels of transparency and accountability. The BSP highlights the need for continuous monitoring of budget implementation, real-time adjustments, and transparent reporting to foster public trust and accountability. The M&E system will ensure that budget allocations align with intended outcomes and support informed decision-making.

The BSP aims to rally all relevant stakeholders to support a comprehensive strategy that addresses Lesotho's key risks and challenges while promoting sustainable and inclusive growth. By focusing on economic diversification, environmental sustainability, gender and social integration, healthcare improvement, governance, and infrastructure development, the BSP aims to enhance productivity, connectivity, and economic advancement. Implementing these strategies will position Lesotho for sustainable growth and improved quality of life for its citizens.

Introduction

The Budget Strategy Paper (BSP) establishes a three-tier framework that covers:

1. **The Fiscal Policy and Resource Envelope Framework**, detailed in our Medium-Term Fiscal Framework (MTFF), includes reliable macroeconomic growth projections, fiscal space, and revenue forecasts alongside specific revenue-enhancing reforms. The key challenge for the MTFF is to foster an environment where private sector-led growth and tax revenue generation become the cornerstone of the resource envelope. The framework also highlights the risks posed by State-Owned Enterprises (SOEs), which can create significant fiscal pressure due to inefficiencies and financial instability, necessitating comprehensive reforms to improve their governance and financial performance. Additionally, addressing the high wage bill is critical to freeing up resources for development initiatives, as it currently consumes a large portion of the fiscal space.

2. **The Government Budget Framework**, outlined in the Medium-Term Budget Framework (MTBF), includes medium-term program budgets, their costs, and annual expenditure requirements, ensuring compliance with improved debt management and procurement rules. It aligns the national budget with the strategic goals of the National Strategic Development Plan (NSDP) and economic outlooks while supporting fiscally sustainable investments. The main pursuit for the MTBF are (i) transitioning from traditional incremental budgets to program budgets that align with the NSDP development strategy and (ii) establishing a Government of Lesotho (GoL) Stabilization Fund to better regulate the use of fiscal resources and enhance medium/long-term predictability through a counter-cyclical fiscal policy. The accumulation of arrears is also recognized as a major risk to fiscal stability, and the MTBF aims to develop strategies to manage and reduce these arrears to improve financial management and service delivery.

3. **The Government Expenditure and Accountability Framework**, outlined in our Medium-Term Expenditure Framework (MTEF), ensures timely reporting of actual expenditures and results to relevant authorities, promoting transparency and accountability in fiscal and resource utilization. It emphasizes value-for-money in outputs, outcomes, and impacts. The framework will be significantly enhanced through targeted digitalization upgrades, streamlining processes for more efficient management and reporting. Additionally, the accumulation of arrears is a critical issue that the MTEF aims to address through improved expenditure tracking and timely payments.

The budget formulation process in Lesotho is participatory and involves significant engagement with all relevant stakeholders. The government proactively solicits feedback from civil society, the private sector, and development partners via public consultations organized by the Ministry of Finance and Development Planning. This collaborative approach guarantees that the budget is inclusive, responsive and addresses a wide range of public needs, incorporating expert insights.

The strengthening of the three-tier BSP framework is actively supported by Development Partners (DP). The challenge is to streamline and better coordinate these interventions, eliminate duplications, and create synergies among the various DP activities. This will ensure effective reporting on the relevance and impact of DP investments.

The Public Financial Management and Accountability Act of 2011 governs the budget formulation process. The Ministry of Finance and Development Planning plays a pivotal role in this process, ensuring compliance with established legal standards. Following this, the budget is reviewed and approved by Parliament, with contributions from institutions including the Lesotho Revenue Authority, the Central Bank, and others.

The process of formulating the budget initiates with the issuance of budget circulars from the Ministry of Finance and Development Planning. Subsequently, various ministries submit their proposals, which are then consolidated and evaluated by the Ministry. Following approval from the Cabinet, the budget is presented to Parliament for discussion and final endorsement. This comprehensive process, spanning several months, guarantees that the budget is carefully examined and aligned with the nation's priorities.

The budget appropriation process allows for flexible management of public finances through annual estimates and supplementary budgets if needed. This ensures the government can address new expenditures or shortfalls, maintain essential services, and uphold transparency and accountability. This approach should be preserved in strategic amendments.

Medium-Term Fiscal Framework (MTFF)

The government's fiscal policy and resource envelope framework is built upon dependable forecasts of macroeconomic growth, fiscal capacity, and revenue projections, which encompass a variety of targeted revenue-enhancing reforms outlined in our Medium-Term Fiscal Framework (MTFF). A key challenge for the MTFF is to establish a setting in which growth driven by the private sector and tax revenue serve as the fundamental support for the resource envelope of the MTFF.

Additionally, the MTFF will address significant risks posed by State-Owned Enterprises (SOEs), whose financial inefficiencies and growing liabilities place pressure on public resources. Reforming SOEs to improve governance and financial performance is critical to maintaining fiscal sustainability. The high wage bill also presents a challenge, as it consumes a large portion of the government’s fiscal space, limiting resources available for development projects and service delivery. Controlling and reducing the wage bill will be a priority to create more fiscal flexibility.

Moreover, the accumulation of arrears remains a major risk to the fiscal framework. These arrears not only undermine service delivery but also affect the government's credibility with suppliers and development partners. Addressing this issue will require enhanced expenditure controls and timely payments to restore confidence and improve fiscal management.

Macroeconomic Framework

Global Economic Outlook

The global economy has proven to be remarkably resilient, with growth remaining stable as inflation reaches target levels. The journey has been turbulent, starting with supply-chain disruptions following the pandemic, a global energy and food crisis triggered by the war in Ukraine, and a substantial rise in inflation. Despite concerns of a recession, the world managed to steer clear of one, the banking system demonstrated resilience, and major emerging markets did not face abrupt halts. Furthermore, the inflation surge did not result in uncontrolled wage-price spirals.

After hitting a low of 2.3 percent in 2022 compared to the previous year, global growth rebounded, coinciding with a peak in median headline inflation at 9.4 percent. IMF forecasts indicate that growth will remain stable at approximately 3.2 percent for both 2024 and 2025, while median headline inflation is projected to decrease from 2.8 percent at the end of 2024 to 2.4 percent by the end of 2025.

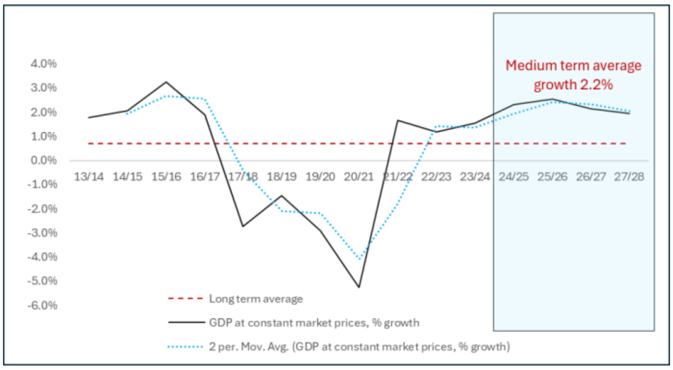
Growth in advanced economies is projected to rise from 1.6 percent in 2023 to 1.7 percent in 2024 and 1.8 percent in 2025. The forecast for 2024 has been revised upward by 0.2 percentage points compared to the January 2024 WEO Update projections, while the forecast for 2025 remains the same. The increase in 2024 is attributed to a revision in US growth, which counterbalances a similar downward revision in the euro area for 2025.

The growth outlook for emerging markets and developing economies indicates a consistent rate of 4.2 percent for the years 2024 and 2025. This is due to a moderation in emerging and developing Asia, which will be compensated by an increase in growth for economies in the Middle East and Central Asia, as well as sub-Saharan Africa. Low-Income Developing Countries are forecasted to witness a gradual growth trajectory, starting at 4.0 percent in 2023 and climbing to 4.7 percent in 2024 and 5.2 percent in 2025, as impediments to short-term growth are gradually removed.

Domestic Economic Outlook

Domestic economic outlook appears positive, with a projected growth rate of 2.3 percent in 2024/25 and 2.5 percent in 2025/26. This encouraging forecast is supported by the Lesotho Highlands Water Project-II and its spillover effects on transportation, logistics, and financial services. The ongoing recovery in mining sector from the challenges posed by the pandemic and natural disasters also are expected to support growth. In the near term, growth is expected to be offset by the textile industries which is expected to continue to be challenged by lower external demand and competitive pressure. However, the LHWP II mega projects is expected to support growth in service sector.

Figure 1: GDP Growth



Source: Ministry of Finance & Development Planning

Favourable Domestic economic outlook driven by LHWP II megaproject is projected in 2024/25 through the medium term. However, climate risk in agriculture remains a major challenge if no adaption and mitigation measure are not designed and implemented.

Sectoral Decomposition of GDP Growth

Figure 2: FY23/24 Sectoral GDP Growth

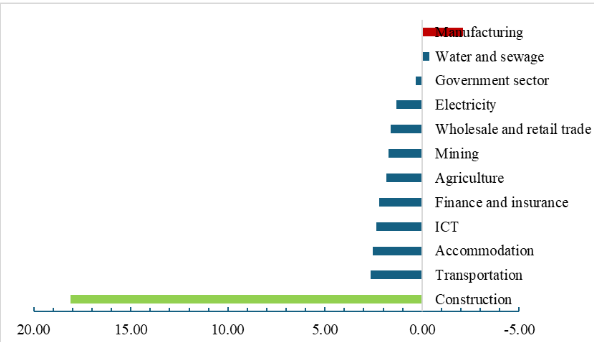
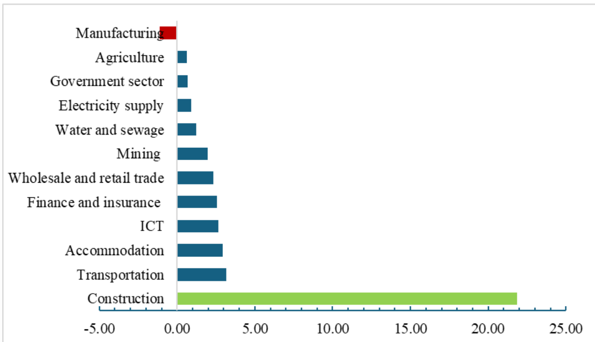


Figure 3: FY24/25 Sectoral GDP Growth



Source: Ministry of Finance & Development Planning

The Agriculture Sector

Precipitation levels have been mostly average to below average nationwide, and there were some areas in the southern parts of the country that had experienced cumulative rainfall deficits before late December. The rainfalls received in the third quarter of 2023/24 is thought to have provided some benefits for crop cultivation but were destroyed by relatively high temperatures in the fourth quarter. Even so, limited financial resources among farmers and increased costs of agricultural inputs may have resulted in decreased agricultural output and a subsequent reduction in labour opportunities**.**

The sector is expected slow to 0.6 percent in 2024/25 from 1.8 percent in 2023/24. The slowdown was largely credited to El-Nino impact on crops but partly offset by moderate growth in animal production of 2.9 percent though lower by 0.9 percentage point against last fiscal year, at the back of marked improvement in wool and mohair production. This improvement was driven by the establishment of a sheep start centre in the Quthing district, which boosted sheep and goat production for wool and mohair.

The Mining Sector

The mining industry is set to grow moderately from 1.7 percent in 2022/23 to 1.9 percent in 2023/24 despite lower global diamond prices and a weaker demand. However, Lesotho diamonds have generally managed to hold steady. Interestingly, certain mines have even experienced relatively favourable diamond prices, bucking the overall downward trend in global prices. The sector is expected to further expand by 2.3 percent in 2024/25 before accelerating to 3.0 percent on average over the next two years.

The Industrial Sector

The industrial sector is estimated to have expanded by 2.1 percent in 2023/24 after a sluggish growth of 1.1 percent realised in 2022/23. This growth was primarily supported construction sub-sector backed by LHWP II construction activities, while manufacturing contracted by 2.1 percent at the back of poor performance in textiles manufacturing which is continuously challenged by stiff competition from abroad. Internal issues such as limited access to financing, inadequate infrastructure, high transportation costs, and a shortage of skilled labour further impede the industry's progress. Looking into near term, the industrial sector is projected to expand by 4.2 percent in 2024/25 at the back strong growth of LHWP II backed construction, before slowing to 4.1 percent in 2025/26 as the project reaches its peak.

The Service Sector

Services sector is projecting a moderate growth of 1.8 percent in 2024/25 compared to 1.3 percent in 2023/24, before acceleration to 2.1 percent in 2025/26 and remaining at about the same rate on average over the medium term. The increase in sector growth is attributed to positive spillovers from LHWP II and partly to the recovery of information and communication sector activities following three years of stagnation since the relaxation of COVID-19 rules in 2020/21. Steady growth of accommodation and food services sector is projected in 2024/25 through the medium term. Additionally, other sub-sectors such as government service, wholesale and retail, Professional and support service activities are projected to drive growth under the services sector.

Inflation Rate

Following a peak of 7.4 percent in 2022/23, headline inflation has steadily declined to 6.2 percent in 2023/24, with further moderation anticipated to 5.4 percent in 2024/25. Projections for 2025/26 indicate a continued decrease to 4.9 percent; however, global influences such as geopolitical tensions and adverse weather conditions may impact these forecasts. Key contributors to inflation in 2025/26 and the medium term are expected to include food and non-alcoholic beverages, alcoholic beverages and tobacco, housing, water, electricity and gas, education, clothing and footwear, as well as transport.

Interest Rates

The Central Bank of Lesotho has maintained the policy rate at 7.8 percent since July 2023 in order to support economic recovery and control money supply to prevent inflation. Consequently, the prime lending rate and the 1-year deposit rate have stayed steady at 11.3

percent and 4.7 percent. These rates are anticipated to remain unchanged, possibly decreasing as inflationary pressures lessen.

Exchange Rates

Since the beginning of the year, exchange rates have experienced fluctuations of 1.6 percent on average per quarter, currently stabilizing at around 18.25 against the US Dollar, 19.72 against the Euro, and 23.40 against the British pound. The stability of the South African Rand, to which the Loti is pegged one-to-one, has been bolstered by S&P's confirmation of South Africa's stable credit rating and the seamless transition of power with the establishment of a new government, which has enhanced investor confidence. On a global scale, the US dollar has seen depreciation due to overvaluation and expected interest rate cuts, while the British pound is under pressure from potential dovish changes in the Bank of England's policies. Additionally, rising natural gas prices have put European companies and consumers at a competitive disadvantage, resulting in the euro falling below parity with the dollar during the summer months.

Risks

As the Lesotho's economy experiences recovery, persistent disruptions in global supply chains may pose a challenge to domestic growth. While inflation is projected ease below the South African Reserve Bank (SARB) target rate of 6 percent, concerns linger due to expected increases in global oil and commodity prices. The ongoing El Niño phenomenon may also trigger a supply shock, leading to a potential rebound in local food prices.

Fiscal Policy Framework

Fiscal Policy Objectives

The primary objective of the Medium-Term Fiscal Framework is to enable policy formulation based on accurate forecasts of revenues and expenditures. It takes into consideration different revenue sources, expenditure categories, historical trends, and emerging challenges. The framework also outlines the specific needs of the Government and its strategic priorities for the medium term, focusing on fiscal balance and primary balance. Additionally, it includes the estimated surplus/deficit level to project the overall fiscal balance. Total revenue is expected to slow to M27.2 billion which is equivalent to 61.8 percent of GDP in 2025/26, at the back of expected reduction in SACU revenues but with potential to maintain about the same share of GDP in the medium term.

The Government is committed to increasing revenues and rationalizing expenditures to manage fiscal deficits efficiently. With the introduction of the Procurement Act of 2023 and other austerity measures, non-essential spending has been reduced. The reform agenda set forth in the PFMA Act will continue to guide efforts aimed at enhancing governance and accountability in public expenditure. All Government entities are focused on performance-based budgeting, and steps are being taken to enhance the Treasury Single Account (also known as TSA) for effective accounting of public funds. Regular monitoring of budget execution is in place to address any deviations, with a focus on cash forecasting and management to ensure optimal utilization of available resources.

Fiscal Performance and Outlook

Revenue

Tax revenues are showing slow growth and are increasingly being supplemented by external revenue funds (SACU Revenue). There has been a 4.0 percent shortfall from the projected 27.8 percent of GDP in 2023/24, with only 23.3 percent being disbursed. This is a result of the revenue agency's failure to meet targets, mainly due to legislative inaction and economic uncertainties. As a result, the forecast remains constant at approximately 24.0 percent of GDP, giving foreign financing an advantage in funding government operations.

The SACU and Water royalties showed strong performance, overcoming deficit years and entering a surplus era. Nevertheless, the challenge of domestic revenue mobilization persists.

Revenue Performance Highlights

The revenue from taxes on income, profits, and capital gains experienced a shortfall of M1.1 billion due to the delay in implementing the proposed policy of M690.0 million (1.7 percent of GDP) on export diamond sales tax. The bill failed to pass through, resulting in the loss of expected revenue. Additionally, the Value Added Tax (VAT) fell short of its target by M714.0 million (1.8 percent of GDP). This shortfall was anticipated to be compensated by the spillover effects of construction activities related to LHWP II, which were expected to generate more VAT from both domestic and imported sources. However, these expectations were not met due to delays in implementing the major construction activities in 2023/24, resulting in the loss of anticipated VAT revenue associated with the project.

In 2024/25, total revenue including SACU and grants is projected at 68.8 percent of GDP which is 10.1 percentage points higher relative to last year. This strong revenue expectation is supported by strong SACU revenue which is estimated at 27.5 percent of GDP. In addition, tax revenue is expected to hold steady at 23.9 percent of GDP supported by taxes on goods and services.

As we look ahead into 2025/26 and 2026/27 fiscal years, the Government will continue its efforts to strengthen domestic revenue mobilization, with a focus on stable personal income tax revenues, VAT, and water royalties. The Government's goal is to diversify the tax base, enhance tax administration, and improve compliance to maximize resources in the face of declining external transfers. Measures such as the introduction of a plastic levy, the implementation of cashless tax collection systems, and the enhancement of transparency and audit processes are anticipated to play a crucial role.

The growth projection for tax revenue in all categories hinges on the anticipation of improved collection efficiency, taxpayer compliance, and alignment with GDP growth at current basic prices. The introduction of the new revenue authority strategy (Lesokoana) and increased use of data and modern technologies are expected to enhance efficiency. Nevertheless, total revenue is forecasted to decrease to M27.3 billion and decline by 7.0 percentage points of GDP in 2025/26, remaining relatively stable as a share of GDP in 2026/27. This forecast is based on the assumption that SACU revenue will return to historical levels in the medium term, putting pressure on total revenues.

Expenditure Performance Highlights

Throughout the fiscal year 2023/24, expenses persistently exerted a substantial influence on the economy, contributing 42.6 percent of the GDP. Among these expenses, the wage bill retained its position as the primary contributor to operating expenses, constituting 17.8 percent of the GDP. Nevertheless, this showcases a positive decline compared to the initially budgeted figure of 18.2 percent of the GDP, signifying the government's commendable efforts in managing the growth of the wage bill. Looking ahead, factoring in wage drift and the Cost-Of-Living Adjustment (COLA), it is projected that the wage bill will experience a 1 percent increase, ultimately reaching 18.7 percent of the GDP.

Figure 4: Evolution of Public Expenditure (Percent of GDP).

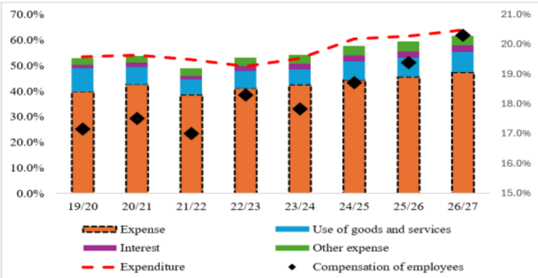
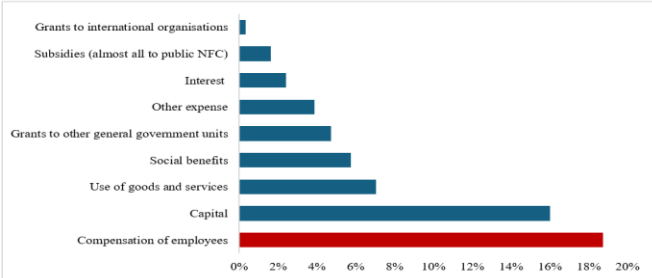


Figure 5: Contribution of Public Expenditure (Percent of Total)

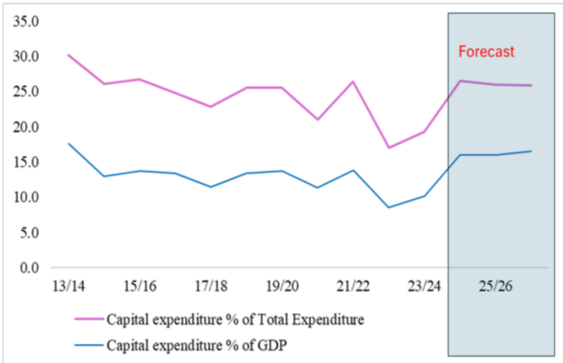


Source: Ministry of Finance & Dev. Planning estimates

Over the past decade, capital expenditure has experienced a consistent decline, both in relation to GDP and total expenditure. Starting from its peak in 2013/14 at 30.2 percent of GDP and approximately 17.6 percent of expenditure, it has gradually decreased to 10.2 percent of GDP and around 19.3 percent of expenditure by 2023/24. This decline in capital expenditure can be attributed to the decrease in overall revenues, compounded with rigid current expenditures. Additionally, the development of viable projects aligned with national priorities has been hindered by capacity issues within line ministries, leading to an inconsistent quality of project appraisal. Furthermore, concerns have been raised regarding the long-term costs associated with current expenditure for donor-financed capital projects.

In 2024/25 throughout to medium term, expenses are estimated to rise in line with the increasing prices of goods and services. The wage-bill is set to experience a 2.5 percent increment along with COLA in the baseline, while capital budget expenditures will mainly profit from new developments in government investment initiatives, particularly major projects like MCC, reaching a total of M1.0 billion.

Figure 6: Evolution of Capital Spending (Percent of GDP and Total Exp.).



Source: Ministry of Finance & Dev. Planning estimates

Policy Recommendation

It is essential for public investment to target areas with the greatest potential for growth impact, drawing in private sector investment and addressing poverty. Although the capital budget has led to a relatively high capital stock as a proportion of GDP, the quality of the capital lags that of other peers in the SADC Region.

Fiscal balance for the year 2023/2024 showed a significant surplus, with transfers from the SACU increasing by 11.3 percentage points of GDP compared to the previous fiscal year 2022/23. Despite the rise in revenue, recurrent spending as a percentage of GDP decreased due to a halt in public sector recruitment and the implementation of the new Public Procurement Act.

Figure 7: Net Lending/Borrowing Dependent on SACU Windfalls

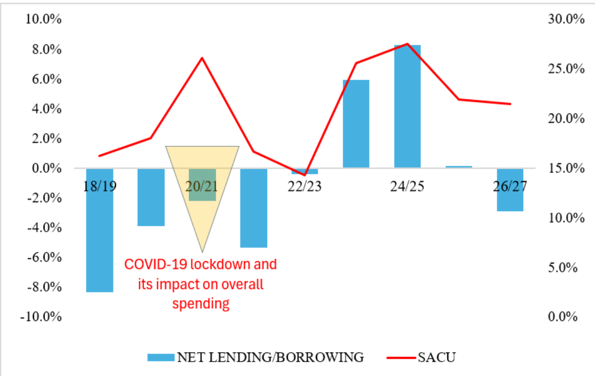
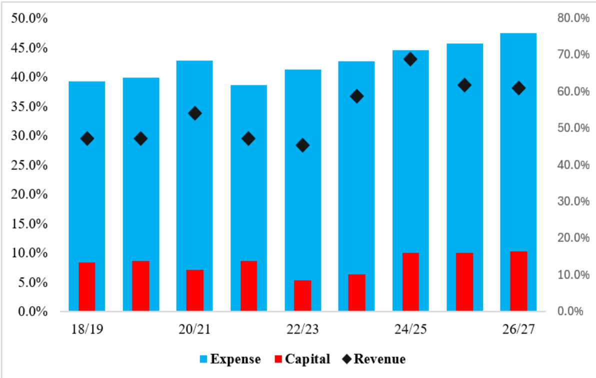


Figure 8: Government Spending against revenues (Percent of GDP)



Source: Ministry of Finance & Dev. Planning estimates

As we move forward into 2024/25 and 2025/26, the fiscal stance is anticipated to remain strong at 8.3 percent of GDP supported by substantial SACU revenue windfalls, before easing to 0.1 percent of GDP in 2025/26 and deteriorating to a deficit of 2.9 percent of GDP in 2026/27 as the benefits of SACU windfalls diminish.

Policy Recommendation

Apart from establishing reserves, there is a need to hasten the implementation of a well-governed revenue stabilization fund. The primary goal of this fund should be to gather savings to secure a stable government funding source moving forward. This would, in turn, ensure continuous and uninterrupted service delivery, even during periods of volatile SACU transfers. Additionally, the stabilization fund could be utilized to finance future development expenditures, such as infrastructure projects.

Table 1: Medium Term Fiscal Framework – Revenue (Million LSL)

	22/23 Act.	23/24 Act.	24/25 Est.	25/26 Proj.	26/27 Proj.
Revenue	**17 193.3**	**23 312.0**	**28 908.3**	**27 291.9**	**27 863.7**
Revenue without SACU	**11 793.7**	**13 163.5**	**17 360.3**	**17 624.0**	**18 067.5**
Taxes	**8 433.6**	**9 244.0**	**10 030.6**	**10 740.4**	**11 421.5**
Taxes on income, profits and capital gains	4 305.9	4 600.5	4 822.5	5 130.5	5 420.7
Taxes on goods and services	4 127.7	4 643.5	5 207.6	5 609.3	6 000.2
Value added taxes	3 550.8	3 715.1	4 009.3	4 343.8	4 685.1
Excise taxes	550.9	921.2	985.0	1 047.9	1 090.8
Alcohol and tobacco	*	194.2	184.5	193.4	199.1
Taxes on specific services	26.0	7.2	7.1	7.1	7.1
Grants	**1 155.1**	**1 023.7**	**3 659.9**	**3 179.8**	**2 895.8**
Recurrent	361.2	331.7	395.2	404.5	413.5
Capital	793.9	692.0	3 264.7	2 775.3	2 482.3
Other revenue	**2 205.1**	**2 895.8**	**3 669.8**	**3 703.8**	**3 750.1**
Property income (primary income)	711.8	672.7	683.6	697.5	739.5
Interest	18.6	16.1	18.9	21.0	18.9
Dividends	202.4	67.0	73.6	76.1	81.6
From FPCs	49.8	52.6	64.1	66.1	70.9
From NFPCs	3.9	14.5	9.5	10.0	10.7
Other dividends	148.7	0.0	0.0	0.0	0.0
Rent	490.8	589.7	591.1	600.5	639.0
Rent on land	1.1	3.9	8.8	10.2	11.7
Rent from royalties	489.7	585.7	582.3	590.3	627.3
Sales of current goods and services (incl Telecom lic.)	1 493.2	2 191.9	2 982.9	3 002.8	3 007.0
Sales by market establishments	1 479.3	2 042.0	2 816.6	2 853.2	2 853.2
Electricity Muela	56.5	54.3	36.6	73.2	73.2
Water LHDA	1 422.8	1 987.7	2 780.0	2 780.0	2 780.0
Administrative fees	0.0	33.0	72.3	55.6	59.8
Incidental sales	14.0	116.9	94.0	94.0	94.0
SACU	**5 399.5**	**10 148.5**	**11 548.0**	**9 667.9**	**9 796.2**

Table 2: Medium Term Fiscal Framework – Expenditure (Million LSL)

	22/23 Act.	23/24 Act.	24/25 Est.	25/26 Proj.	26/27 Proj.
Expenditure	**18 806.4**	**20 966.5**	**25 432.0**	**27 235.4**	**29 205.3**
Expense	**15 599.9**	**16 919.5**	**18 702.8**	**20 176.5**	**21 681.6**
Compensation of employees	6 921.2	7 075.0	7 878.8	8 594.5	9 334.3
Wages and salaries	6 306.0	6 443.5	7 085.3	7 728.9	8 394.1
Social contributions	615.1	631.5	793.6	865.6	940.1
Use of goods and services	2 552.6	2 381.8	2 965.6	3 273.8	3 605.1
Travel and transport, domestic	364.3	319.1	338.7	356.3	373.5
Travel and transport, international	61.0	49.4	52.0	54.7	57.4
Operating costs (incl. special in 2008/09)	2 127.4	2 013.3	2 574.9	2 862.9	3 174.2
Interest	709.5	821.0	1 006.8	1 104.3	1 211.6
To non-residents	317.4	357.3	469.0	512.7	560.8
To residents	392.1	463.6	537.8	591.6	650.7
Subsidies (almost all to public NFC)	554.6	817.1	676.2	710.9	722.9
Grants to international organisations	75.2	71.7	143.4	143.4	143.4
Grants to other general government units	1 657.2	2 039.4	1 989.2	2 120.4	2 252.3
Social benefits	1 874.6	2 278.8	2 418.4	2 544.2	2 666.9
Other expense	1 254.9	1 434.7	1 624.4	1 685.1	1 745.1
TRANSACTIONS IN NONFINANCIAL ASSETS	3 206.5	4 047.0	6 729.2	7 058.9	7 523.7
NET LENDING/BORROWING	-1 613.1	2 345.5	3 476.3	56.4	-1 341.6

Table 3: Medium Term Fiscal Framework – Financing (Million LSL)

	22/23 Act.	23/24 Act.	24/25 Est.	25/26 Proj.	26/27 Proj.
FINANCING	-157.0	2 345.5	3 476.3	56.4	-1 341.6
Net Acquisition of financial assets	-1 093.0	1 975.9	1 793.9	-1 707.7	-3 200.4
Domestic	-1 093.0	1 975.9	1 793.9	-1 707.7	-3 200.4
Currency and Deposits	-1 370.9	1 636.1	1 773.5	-1 728.1	-3 220.8
Central Bank	-1 466.5	852.4	0.0	0.0	0.0
Commercial Banks	95.6	783.7	0.0	0.0	0.0
Loans - onlending	26.3	-27.9	20.4	20.4	20.4
Accounts Receivable	251.6	367.7	0.0	0.0	0.0
Net Inccurance of Liabilities	936.0	272.1	-1 682.4	-1 764.1	-1 858.8
Domestic	595.5	151.5	-768.7	-774.2	-779.5
Securities other than shares	689.6	250.6	-413.5	-413.5	-413.5
Issue of Treasury Bills - Fiscal	1 531.4	423.6	0.0	0.0	0.0
Redemption of Treasury Bills - Fiscal	966.6	-135.2	0.0	0.0	0.0
Issue of Bonds	-188.2	-198.2	500.0		
Redemption of Bonds	0.0	0.0	-913.5	-1 004.9	-943.8
Loans	-94.1	-99.1	-105.2	-110.7	-116.0
Foreign	340.5	120.6	-913.7	-989.9	-1 079.3
Loans	340.5	120.6	-913.7	-989.9	-1 079.3
Disbursements	1 136.6	1 116.2	0.0	0.0	0.0
Amortisation	-796.1	-995.6	-913.7	-989.9	-1 079.3
Other accounts payable	0.0	0.0	0.0	0.0	0.0

Table 4: Medium Term Fiscal Framework – Revenue (percent of GDP)

	22/23 Act.	23/24 Act.	24/25 Est.	25/26 Proj.	26/27 Proj.
Revenue	**45.4**	**58.7**	**68.8**	**61.8**	**61.0**
Revenue without SACU	**31.2**	**33.2**	**41.3**	**39.9**	**39.6**
Taxes	**22.3**	**23.3**	**23.9**	**24.3**	**25.0**
Taxes on income, profits and capital gains	11.4	11.6	11.5	11.6	11.9
Taxes on goods and services	10.9	11.7	12.4	12.7	13.1
Value added taxes	9.4	9.4	9.5	9.8	10.3
Excise taxes	1.5	2.3	2.3	2.4	2.4
Grants	3.1	2.6	8.7	7.2	6.3
Recurrent	1.0	0.8	0.9	0.9	0.9
Capital	2.1	1.7	7.8	6.3	5.4
Other revenue	5.8	7.3	8.7	8.4	8.2
Property income (primary income)	1.9	1.7	1.6	1.6	1.6
Interest	0.0	0.0	0.0	0.0	0.0
Dividends	0.5	0.2	0.2	0.2	0.2
From FPCs	0.1	0.1	0.2	0.1	0.2
From NFPCs	0.0	0.0	0.0	0.0	0.0
Other dividends	0.4	0.0	0.0	0.0	0.0
Rent	1.3	1.5	1.4	1.4	1.4
Rent on land	0.0	0.0	0.0	0.0	0.0
Rent from royalties	1.3	1.5	1.4	1.3	1.4
Sales of current goods and services (incl Telecom lic.)	3.9	5.5	7.1	6.8	6.6
Sales by market establishments	3.9	5.1	6.7	6.5	6.2
Electricity Muela	0.1	0.1	0.1	0.2	0.2
Water LHDA	3.8	5.0	6.6	6.3	6.1
Administrative fees	0.0	0.1	0.2	0.1	0.1
Incidental sales	0.0	0.3	0.2	0.2	0.2
Fines and penalties	0.0	0.0	0.0	0.0	0.0
Miscellaneous and identifited revenue (eg. work permits	0.0	0.1	0.0	0.0	0.0
SACU	14.3	25.6	27.5	21.9	21.5

Table 5: Medium Term Fiscal Framework -Expenditure (Percent of GDP)

	22/23 Act.	23/24 Act.	24/25 Est.	25/26 Proj.	26/27 Proj.
Expenditure	**49.7**	**52.8**	**60.5**	**61.7**	**64.0**
Expense	**41.2**	**42.6**	**44.5**	**45.7**	**47.5**
Compensation of employees	18.3	17.8	18.8	19.5	20.4
Wages and salaries	16.7	16.2	16.9	17.5	18.4
Social contributions	1.6	1.6	1.9	2.0	2.1
Use of goods and services	6.7	6.0	7.1	7.4	7.9
Interest	1.9	2.1	2.4	2.5	2.7
To non-residents	0.8	0.9	1.1	1.2	1.2
To residents	1.0	1.2	1.3	1.3	1.4
Subsidies (almost all to public NFC)	1.5	2.1	1.6	1.6	1.6
Grants to international organisations	0.2	0.2	0.3	0.3	0.3
Grants to other general government units	4.4	5.1	4.7	4.8	4.9
Social benefits	5.0	5.7	5.8	5.8	5.8
Other expense	3.3	3.6	3.9	3.8	3.8
Students	2.7	2.8	2.8	2.8	2.8
Other	0.6	0.8	1.1	1.0	1.0
TRANSACTIONS IN NONFINANCIAL ASSETS	**8.5**	**10.2**	**16.0**	**16.0**	**16.5**
Fixed Assets	**8.5**	**10.2**	**16.0**	**16.0**	**16.5**
NET LENDING/BORROWING	**-4.3**	**5.9**	**8.3**	**0.1**	**-2.9**

Debt Management and Deficit Financing

In June 2024/25, the public debt stock decreased by 4.4 percentage points of GDP to M23.1 billion (55.1 percent of GDP) from M23.6 billion (59.5 percent of GDP) in 2023/24. The reduction was driven by domestic debt maturing more than being acquired, and favourable exchange rate movements benefiting external debt in the first quarter.

Figure 9: Composition of Stock of Debt as at end of June 2023/24 and 2024/25

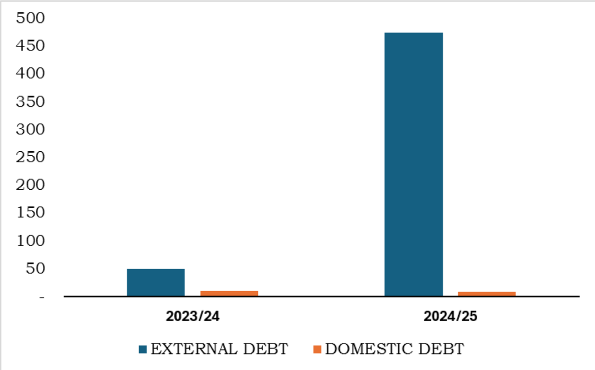
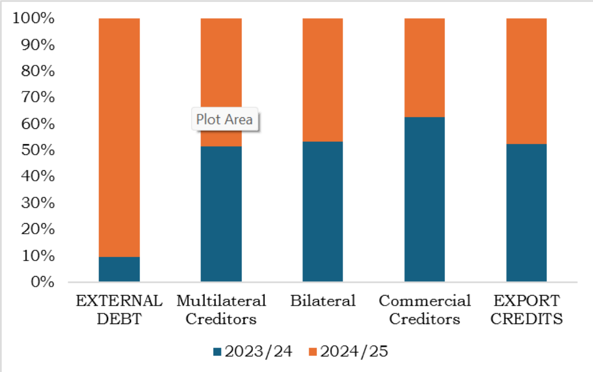


Figure 10: Composition of External Debt of end June 2023/24 and 2024/25



Source: Ministry of Finance & Dev. Planning estimates

By the end of June 2024, the domestic debt stock had decreased to M3.7 billion from M4.0 billion at the start of the year. A debt principal of M361.1 million was redeemed from a maturing 5-year bond, with only M102.9 million acquired to finance this year's fiscal obligations. It is expected that the domestic debt will decline to around M3,594.7 million by the end of the year, following planned annual acquisitions of M500 million and repayments of M910 million.

Table 6: Stock of Public Debt

Million LSL	2023/24	2024/25
TOTAL DEBT	**23 597.1**	**23 140.2**
EXTERNAL DEBT	**19 588.9**	**199 393.2**
Multilateral Creditors	**15 061.0**	**15 089.7**
International Monetary Fund	829.2	794.1
World Bank	8 648.6	8 857.6
African Development Fund	2 790.2	2 703.5
Other Multilaterals	2 793.0	2 734.6
o/w European Investment Bank	1 104.2	1 086.9
o/w Arab Bank For Econ Dev in Africa	715.0	685.9
o/w International Fund for Agr Dev	591.2	582.2
Bilateral	**974.0**	**903.9**
Paris Club	0.0	0.0
Non-Paris Club	974.0	903.9
o/w China	186.7	179.8
o/w Kuwait	321.7	302.2
Commercial Creditors	**59.9**	**37.8**
EXPORT CREDITS	**3 494.0**	**3 361.8**
o/w EXIM Bank China	3 463.7	3 336.5
DOMESTIC DEBT	**4 008.2**	**3 747.1**
T-Bills	0.0	0.0
Bonds	4 008.2	3 747.1
Loans	0.0	0.0

Table7: Stock of Public Debt as a percent of GDP

Percent of GDP	2023/24	2024/25
TOTAL DEBT	59.46	55.08
EXTERNAL DEBT	49.36	474.61
Multilateral Creditors	37.95	35.92
International Monetary Fund	2.09	1.89
World Bank	21.79	21.08
African Development Fund	7.03	6.44
Other Multilaterals	7.04	6.51
o/w European Investment Bank	2.78	2.59
o/w Arab Bank For Econ Dev in Africa	1.80	1.63
o/w International Fund for Agr Dev	1.49	1.39
Bilateral	2.45	2.15
Paris Club	-	0.00
Non-Paris Club	2.45	2.15
o/w China	0.47	0.43
o/w Kuwait	0.81	0.72
Commercial Creditors	0.15	0.09
EXPORT CREDITS	8.80	8.00
o/w EXIM Bank China	8.73	7.94
DOMESTIC DEBT	10.10	8.92
T-Bills	-	0.00
Bonds	10.10	8.92
Loans	-	0.00

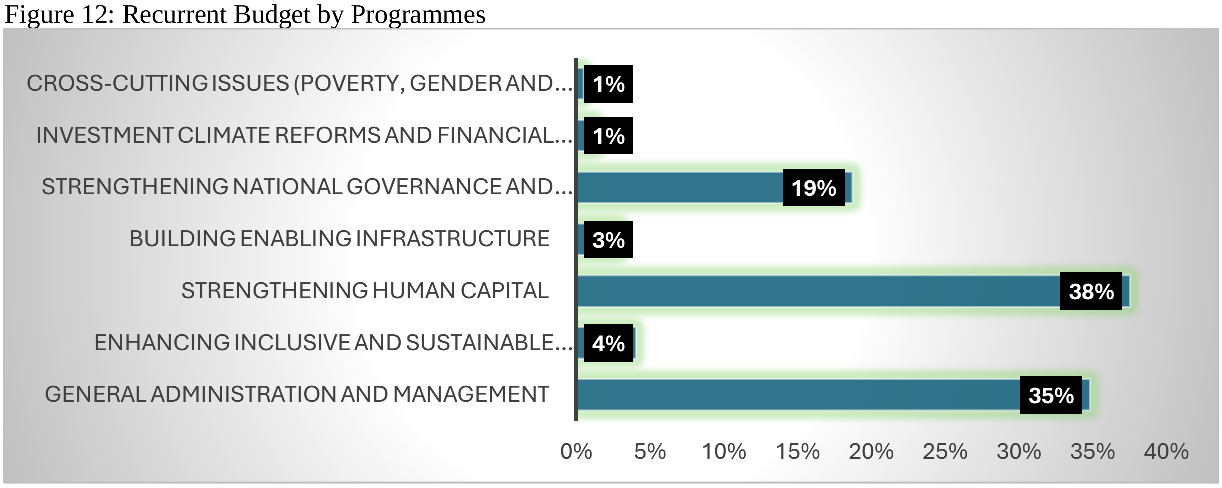
Medium-Term Budget Framework (MTBF)

The Government Budget Framework, as outlined in the Medium-Term Budget Framework (MTBF), includes all medium-term programme budgets along with their associated costs and annual spending requirements, ensuring adherence to improved debt management and procurement regulations. This framework is designed to align the national budget with the strategic objectives of the National Strategic Development Plan (NSDP) and prevailing economic forecasts, thereby facilitating investments that are fiscally sustainable. The primary challenges facing the MTBF include (1) the shift from conventional incremental budgeting to programme-based budgeting that corresponds with the NSDP development strategy, and (2) the creation of a Government of Lesotho Stabilisation Fund aimed at better managing fiscal resources and improving medium-to long-term predictability through a counter-cyclical fiscal approach.

Sectoral Policies and Priorities

The Extended National Strategic Development Plan (NSDP) II (2023/24- 2027/28) builds upon the foundation laid by the NSDP II (2017/18-2022/23). The Plan aims to maintain the relevance and effectiveness of Lesotho's economic policy direction in achieving economic growth and social transformation goals. It continues to prioritize key areas such as Growth Progression, Strengthening Human Capital, Building Enabling Infrastructure, and Promoting Good Governance and Accountability Systems, while promoting inclusivity, accelerating growth, and building resilience.

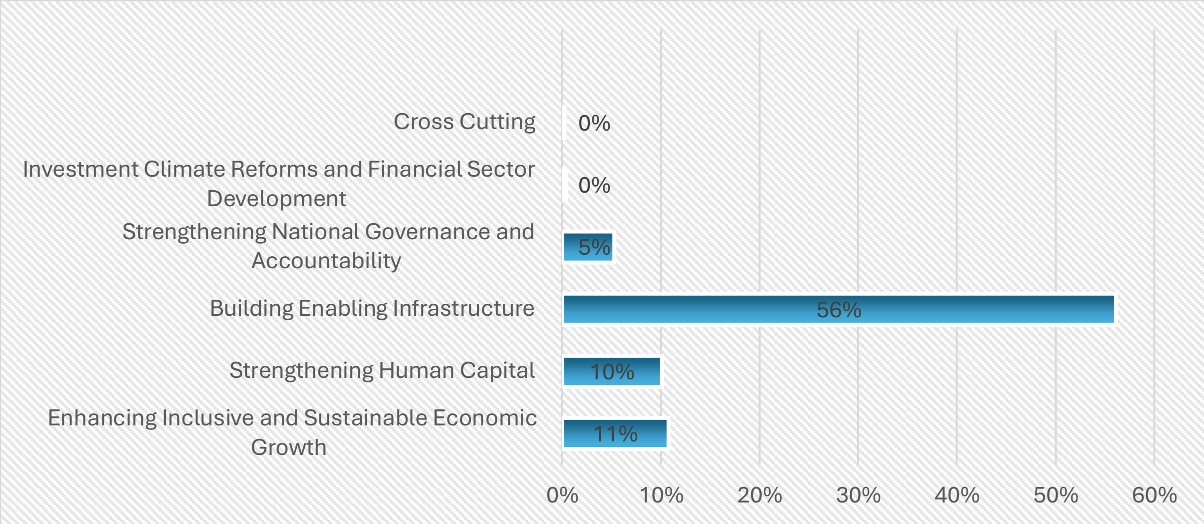
Figure 12: Recurrent Budget by Programmes



Source: Ministry of Finance & Dev. Planning estimates

The majority of the recurrent budget was allocated to enhancing human capital and general administration and management, with M7.6 billion (38 percent) and M7.0 billion (35 percent) of the total recurrent budget respectively. This distribution highlights the government's commitment to improving human development and ensuring efficient governance. In contrast, the smallest allocations were made for Investment Climate Reforms and Financial Sector Development, as well as Cross-cutting Issues like Poverty, Gender, and Climate, which received only one percent of the recurrent budget, totalling M258.4 million and M103.0 million respectively. This suggests a pressing need for greater investment in these vital areas to tackle specific challenges and promote holistic development in Lesotho.

Figure 11: Capital Budget by Programmes



Source: Ministry of Finance & Dev. Planning estimates

The capital budget designated M1.5 billion, representing 56 percent, for infrastructure projects intended to improve connectivity and bolster economic growth. This investment is essential for creating a conducive environment for business and development in Lesotho. In 2025/2026, the emphasis will be on ***"Building Strategies for Inclusive Growth: Ka Lebelo La Nts'oekhe"***, to boost economic growth, with other industries aiding in its advancement.

Growth Progression

With relevant strategies/interventions, Key Priority Area (KPA) I proposes objectives to be pursued in the period 2025/26 that promote inclusive and sustainable economic growth through private sector led decent employment creation. This is hoped to be achieved through structural transformation of the following productive sectors: Agriculture, Manufacturing, Tourism and Creative Arts and Mining.

To promote commercialisation and diversification within the agricultural sector, ensuring economic growth and uplifting livelihoods for all and to address poverty, malnutrition and lack of value chains and market access challenges, the agricultural sector will continue to: i) increase agricultural climate-resilient production and productivity, ii) improve nutrition-sensitive agriculture and iii) inclusive value chains in agri-food systems, standards and enhance agricultural markets access.

The manufacturing sector will continue to address the challenges related to standards, business development and licensing, dependency on textile industry while also leveraging on the market access through various agreements signed. The sector will pursue the following objectives i) improve business environment, ii) develop product and diversify the markets and iii) develop and improve trade and industrial related infrastructure.

The tourism sector will continue to accelerate the improvement of diversified product to attract investment and market participation in the industries. This sector will continue to redress the issues related to lack of civic education and public awareness, outdated laws and regulations governing tourism and creative industries. The following objectives will be pursued i) increase participation of local communities within tourism and creative value chains, ii) strengthen product development and marketing initiatives with relevant, reliable, and timely statistical information, iii) improve legal frameworks and finally iv) improved and diversified cultural and creative products.

For the mining sector to realize its mandate it must tackle the challenges that include insufficient geo-scientific data which hampers mineral resource understanding and strategic planning, inadequate laws and outdated policies which hinder governance, investment, and sectoral growth. The sector will pursue these objectives i) improve the discovery of minerals and access to information, ii) promote investment in the mining sector and iii) improve mineral resources management.

Strengthening Human Capital

Key Priority Area II seeks to support the priority sectors by enabling the improvement of the country's productivity and innovation capacity through strengthening human capital. Nurturing education and skills, fortifying social safety nets, embracing opportunities within migration, and strengthening healthcare systems are the priorities of this KPA. Investments geared towards the KPA II sectors will ensure availability of a healthy, capable, skilful and diverse workforce for the advancement of the priority sectors. Equally important, these investments will simultaneously fast-track the achievement and harnessing of demographic dividend. To achieve this KPA, the following objectives will be addressed.

There is an increasing need to provide accessible and high-quality healthcare services to Basotho. The health sector faces several challenges including inadequate infrastructure, limited health financing systems, limited and outdated regulatory frameworks etc. The sector will implement interventions that will enable i) strengthening of primary healthcare and ii) strengthening of healthcare systems.

For education, there needs to be an effective delivery of public education services that are governed by policies that reflect Lesotho's development. Misaligned skills development programmes, outdated infrastructure, and lack of educational inspections are some of the hurdles the education sector faces. Interventions aimed at i) Enhancing efficiency and effectiveness of education delivery at all levels, ii) ensuring equitable access of education service delivery and iii) delivery of relevant quality education and training will be implemented by this sector.

Managing migration, engaging the diaspora and recognising the potential of migration for human and economic development is essential. Issues relating to creation of synergies and accountability, weak integration of data sharing systems and inadequate infrastructure for migration purposes inhibit progress in the sector. The sector seeks to i) strengthen partnerships for improved migration governance, ii) labour migration governance and iii) diaspora engagement.

The aim of social protection is to enhance the wellbeing of individuals and communities by empowering them to meaningfully contribute to the economy. Weak coordination in the provision of social protection programmes, fragmented implementation systems and high burden among communities propagate the increasing need for social protection services. The sector seeks to i) provide comprehensive and inclusive social protection that reduces poverty, vulnerability, and inequality.

Building Enabling Infrastructure

Creating an enabling infrastructure is crucial for fostering innovation, improving quality of life, enhancing productivity, and promoting sustainable development. The aim of the government is to build, maintain and expand the existing infrastructure as a mechanism for private sector engagement and providing platform for productive sectors to thrive. This year, sizeable government's investments in sustainable infrastructure will be prioritized and sequenced to support economic development and to meet the evolving needs of Basotho. Sectors for building enabling infrastructure are energy, water, transport, built environment and solid waste management.

The energy sector is entrusted with the vital task of meeting the nation's requirements for petroleum, electrical, and thermal energies, while also enhancing the reliability, technological efficiency, and overall security of the energy supply. There is insufficient electricity infrastructure and inadequate rural electrification initiatives limiting access to electricity in many areas and limited understanding of renewable energy technologies among consumers and policymakers. To improve energy accessibility, the government will i) improve access to clean and safe energy and promote sustainable use and ii) improve energy production.

The water sector's primary focus is to enhance access to safe drinking water, promote hygiene practices, and combat waterborne diseases. Droughts and floods being effects of climate change had over the years threatened the water availability and infrastructure resilience, to safeguard water security, government will i) enhance water resources management, ii) improve access to water supply and promote sanitation and hygiene and iii) develop water resources.

The transport sector is responsible for the construction, maintenance, and management of road networks, ensuring connectivity between urban and rural areas, as well as neighbouring countries. Inadequate air transport infrastructure, aging and poorly maintained road networks, along with insufficient access routes, hinder efficient movement of goods and services, causing bottlenecks and transportation inefficiencies. For the government to resolve these challenges it will i) improve transport infrastructure for the movement of goods and services.

Built environment sector encompasses urban planning, architecture, and civil engineering, focusing on the planning, design, construction, and maintenance of buildings and infrastructure. Inability to provide affordable housing for low-income families leads to the establishment of informal settlements and failure to enforce climate-responsive building standards leading to infrastructure vulnerability and risks of damage from extreme weather events. As a solution, government seeks to i) improve land management, ii) improve management of government physical assets and iii) promote innovation and cost-effective technologies in built environment.

The solid waste management sector is pivotal in addressing indiscriminate dumping in public spaces and markets and advocating for proper waste management practices to safeguard human health and the environment. Insufficient infrastructure for effective solid waste management, insufficient engagement, and involvement of the public in waste management efforts and limited human resources incapacitate effective solid waste management at the grassroots level. To resolve these challenges, government seeks to i) improve integrated solid waste management.

Good Governance and Accountability Systems

Promoting good governance is essential for driving sustainable economic growth and social progress. To execute this budget effectively, the government will focus on restoring public trust and fostering a supportive environment for private investment by prioritizing good governance principles.

Addressing challenges such as corruption, high public debt, and limited public participation in budgetary processes, the government is committed to enhancing public financial management systems to improve transparency, efficiency, and effectiveness in public spending.

To strengthen the effectiveness of oversight bodies, the government will work on strengthening these agencies to ensure accountability and respect for human rights.

To improve public service delivery and address issues related to professionalism, performance management, and centralization, the government will enhance service delivery and decentralize public sector services.

In response to national security concerns, including transnational threats, rising criminal activities, and illegal firearms, the government is committed to supporting initiatives that will enhance security and promote peace.

To improve the efficiency of the judicial system, the government will focus on enhancing transparency, equity, and effectiveness, improving access to justice, and strengthening justice institutions.

To address labor market governance challenges, the government will work on increasing awareness among all workers and employers, promoting peace and stability in the workplace, and ensuring decent work and the protection of all workers' rights, with particular attention to gender equity and inclusivity.

To improve national planning and coordination, the government will strengthen data management, monitoring, and evaluation systems, ensuring that these processes are inclusive and consider the diverse needs of all communities, promoting equitable participation in decision-making.

Recognizing the need for enhanced diplomatic expertise, the government is committed to increasing regional and global integration and cooperation to effectively manage international negotiations and engagements.

Cross Cutting Themes

The cross-cutting themes are overarching, have multiplier effect and seek to promote inclusivity, build resilience, and accelerate growth across all sectors. Lesotho's commitment to achieving inclusive growth hinges upon the interconnectedness of social, economic, and environmental sustainability aspects.

Environment and Climate Change theme aims to safeguard the country's abundant natural resources and mitigate environmental degradation by conserving biodiversity, managing ecosystems, combating climate change, and promoting sustainable development practices. The pillar however faces several challenges such as the increasing environmental degradation, inadequate governance in terms of enforcement of existing regulations and limited harmonization of legal frameworks. The pillar will work towards i) conservation and regeneration of land resources for ecosystem sustainability, ii) institutionalization of environmental management and climate change , and iii) citizen involvement for adaptation and resilience.

Gender is a fundamental concept that highlights the important of understanding and addressing the disparate power relations and equality of opportunity between men, women, girls and boys. The gender and social integration approach focuses on addressing gender discrimination, exclusion, and adoption of strategies that expand rights for marginalized groups, enhance economic empowerment and welfare. The challenges faced by women, youth, people with disabilities and other vulnerable groups due to persistent inequalities and exclusion manifest through high incidence of gender-based violence (GBV), gendered health outcomes, high unemployment, poverty and are affected by social and gendered norms that act as barriers to women's and vulnerable groups full and equal participation in the economy and society. Measures to institutionalise gender and social integration, eliminate of all forms of discrimination and harmful practices as well as strengthening public sector technical capacity to mainstream gender and social consideration in public policy, programmes and budget will be undertaken.

Basotho youth are key in driving social, economic, and political progress. Issues of health, substance abuse, education and skills, economic empowerment and participation in leadership and democratic governance hinder full potential of youth in the country. High youth unemployment, entrepreneurship barriers and limited opportunities for education and skills development are some of the major challenges facing the youth. The government through employment of a youth inclusion strategies will strive to improve youth participation in development.

Vulnerable groups in Lesotho include children, people with disabilities and the elderly. Vulnerable people are faced with lack of access to basic social services, poverty, financial instability, limited protection and promotion of their rights. To address these challenges there will be strides to i) promote children development and protect their rights, ii) improve older persons wellbeing and their rights, and iii) improve socio economic conditions of people living with disabilities and protect their rights.

Disaster risk management entails measures that are designed to address vulnerability brought about by disasters, with focus on preparedness, mitigation, response, and recovery. Limited resources, both human and financial, limited awareness and advocacy and inadequate infrastructure for effective disaster risk management are the main challenges. The government will strive to build national resilience against the effects of disasters.

Lack of finance has been identified as one of the major deterrents to growth by all sectors. The finance sector's ability to provide financial services for private sector participation, promote financial inclusion, support infrastructure development, maintain financial stability and integrity of financial markets can determine the country's ability to induce growth amongst other things. This sector is challenged by inadequate technical capacity for development of innovative and tailored financial products and designing alternatives to secure financing. There is also limited competition due to presence of few commercial banks. The sector will strive to do reforms to enable setting up of impact investment funds for venture capital, enhance technical capacity for innovation in financial services as well as promote adoption of inclusive technologies to improve access to service, finance and investment.

Technology and innovation foster the acceleration of service delivery and opens new avenues for effective service delivery. The sector is however challenged by limited technical capacity, inadequate legal and regulatory frameworks, internet connectivity as well as low levels of research and development. Measures to be taken include improving ICT access and use; connectivity and enhancing institutional capacity for research and innovation.

The government is committed to enhancing transparency and accountability as key pillars of good governance. This involves implementing robust mechanisms for public access to information, ensuring that governmental operations are conducted openly and that public officials are held accountable for their actions. By fostering a culture of transparency, the government aims to reduce corruption, build public trust, and improve service delivery. Efforts include the establishment of regulatory frameworks, promoting citizen engagement, and leveraging technology to provide greater insight into governmental processes and decision-making.

Risk Analysis and Mitigation Strategies

Category	Key Risk	Likelihood	Mitigation Strategies
Economic Risks	Dependency on South African economy	High	- Promote sectors such as tourism, technology, and renewable energy.
	Limited diversification	High	- Introduce new product lines.
	Poverty and unemployment	High	- Implement employment and skills development programmes and job creation programmes.
Environmental Risks	Climate change	High	- Implement climate adaptation programmes (e.g., drought-resistant crops, water conservation techniques).
	Soil erosion	High	- Promote reforestation and soil conservation initiatives.
Health Risks	High incidences of communicable and non-communicable diseases.	High	- Strengthen primary healthcare.

Category	Key Risk	Likelihood	Mitigation Strategies
	Limited public health infrastructure	Medium	- Expand public health infrastructure.
Political and Social Risks	Political instability	Medium	- Improve capacity and transparency of political and governance institutions
	Social inequality	High	Implement policies to reduce social inequalities and promote equality and equity for inclusive growth.
Infrastructure Risks	Inadequate infrastructure	High	- Encourage public-private partnerships for infrastructure projects
Risk Management	Natural disasters	Medium	- Develop and implement early warning systems and disaster risk financing for disasters and pandemics.
			- Engage local communities in risk assessment and mitigation planning.
Contingent Liabilities and Guarantees	Financial exposure	Medium	- Develop and enforce rigorous assessment and monitoring frameworks for contingent liabilities and guarantees.
			- Establish clear guidelines and procedures for managing and reporting contingent liabilities.
			- Implement regular audits and stress tests to evaluate the potential impact on the national budget.
SOEs		High	Address the negative impact of SOEs on the fiscus through a pronounced policy recommendation to reform and manage SOEs effectively
Public Wage Bill		High	Highlight the need for a clear government commitment to addressing the public wage bill as a major fiscal challenge
Arrears		High	Acknowledge the potential impact of arrears on available resource envelopes and improve transparency regarding their extent and management strategies.

Medium-Term Expenditure Framework (MTEF)

The Medium-Term Expenditure Framework (MTEF) in Lesotho is a strategic tool designed to project and manage government expenditures effectively, ensuring transparency and accountability in the use of fiscal resources. The MTEF prioritizes investments in key economic sectors—agriculture, tourism, and manufacturing—to drive economic growth and enhance productivity. Supporting these primary investments, significant resources are allocated to infrastructure and human capital development, focusing on transportation, energy, education, healthcare, and skills training.

However, the MTEF must also navigate significant fiscal risks, including the financial burden posed by State-Owned Enterprises (SOEs), which often require government support due to inefficiencies and poor financial performance. Reforming SOEs to ensure they contribute positively to the economy is essential to maintaining fiscal discipline. The high wage bill remains another major challenge, diverting resources away from key investments and development programmes, which constrains the government's ability to invest in long-term growth sectors.

Additionally, the accumulation of arrears creates liquidity issues that threaten service delivery and undermine trust with vendors and development partners. Addressing these arrears through stronger expenditure controls and timely payments is vital to ensuring financial stability and improving confidence in the government's fiscal management.

Expenditure Projections

The framework emphasizes transparent resource allocation, and the value-for-money of outputs and outcomes achieved. By implementing targeted digitalization upgrades, the MTEF aims to streamline and enhance the efficiency of expenditure management processes. Good governance is central to the MTEF, with efforts to strengthen institutional capacities and ensure transparent public financial management. Additionally, the framework integrates cross-cutting themes such as gender equality, environmental sustainability, and youth empowerment, promoting inclusive and sustainable development outcomes across Lesotho.

Linking Policy, Planning, and Budgeting

Linking policy, planning, and budgeting with the Agile Project Management Framework will significantly enhance the efficiency and effectiveness of government projects. The upcoming budget will prioritize projects aligned with the extended NSDP II goals, funded through a mix of loans, grants, government funds, and domestic resources. To support these initiatives, the government is focusing on improving the capacity of Ministries, Departments, and Agencies (MDAs) in project design, appraisal, implementation and increasing capital project absorptive capacity through frequent site visits and progress monitoring. Additionally, a Public Investment Management tool will be developed for better project monitoring and reporting

A key component of this strategy is the creation of a sector-integrated projects budget to catalyse integrated planning across sectors. This integration will foster better coordination, enhance impact/outcomes and alignment of resources with development priorities.

The Agile Project Management Framework will complement these efforts by promoting flexibility and responsiveness in project design and execution. This approach ensures that projects can adapt to evolving needs and priorities, facilitating timely corrective actions and enhancing overall project outcomes. By integrating Agile principles into the "Advanced Infrastructure Development for Economic Growth and Job Creation" project and resuscitating Sector Working Groups, the strategy aims to boost private sector-led economic growth and ensure inclusive development

Ongoing Projects

Currently, there are 109 ongoing projects across various sectors, including but not limited to:

Agricultural Sector

Among the ongoing projects are the Wool and Mohair Value Chain Competitiveness Project, with a total budget of M1.2 billion, and the Smallholder Agriculture Development Project II, with a total budget of M1.0 billion, MCA Lesotho - II Market Driven Irrigated Horticulture Project M 2.0 billion. The latter and former aim to increase productivity, improve quality, establish a sustainable irrigation sector and enhance marketed output among beneficiaries in Lesotho's smallholder agriculture sector.

Manufacturing Sector

Notable projects include the Standards and Quality Infrastructure Project, with a total budget of M230.0 million, and the Lesotho Competitiveness and Financial Inclusion Project, with a total budget of M99.0 million. These projects are expected to create a conducive environment for manufacturing and improve the overall business climate in Lesotho.

Tourism Sector

The National Museum and Art Gallery project, with a budget of M72.0 million, aims to provide space for movable heritage collections of scientific, historical, and cultural value. It will also establish laboratories for the conservation and preservation of these collections.

Infrastructural Sector

The Infrastructure Improvement and Expansion of Moshoeshoe I International Airport project, with a total budget of M1.2 billion, aims to support the country's economic and social development. This project will increase the airport's handling capacity and enhance the quality of services provided at Moshoeshoe I International Airport.

Pipeline Projects

Agriculture

The Construction of the Tri-Tower Office Complex, with a budget of M497 million, involves building a modern office complex designed to house three ministries: the Department of Business Development of the Ministry of Trade, Industry and Business Development, Cooperatives and Marketing, and the Ministry of Environment and Forestry. Each ministry will occupy one of the three towers arranged in a triangular formation. This design aims to enhance efficiency by facilitating frequent interaction between the three ministries in their day-to-day operations.

Infrastructure Sector

There are 9 selected major infrastructural projects in the pipeline:

- Lesotho Integrated Transport, Trade, and Logistics (54 km) at M1.6 billion
- Upgrading of Thaba-Tseka - Taung - Mokhotlong Road at M1.2 billion
- Katse Hydropower Generation Plant at M1.8 billion
- Oxbow Hydropower Generation Project at M8.2 billion
- Mofoka to Sehlabathebe 132KV Overhead Line and Substation Project at M1.5 billion
- Construction of Tebellong Bridge: A new 140m bridge over the Senqu River at Thabana-Tšoana (LSL 511,230,000)
- Construction of Government Office Complex: (LSL 1,913,400,000)
- Construction of Tšoeneng Landfill: (LSL 1,162,650,000)
- Construction of Broadcasting Complex: (LSL 1,150,700,000).

These projects collectively aim to enhance infrastructure and connectivity in Lesotho, promoting economic growth and development. They focus on upgrading transport networks, increasing energy capacity, improving waste management, and enhancing government service delivery. Additionally, initiatives will provide electricity to rural areas and improve road safety and accessibility, ultimately fostering sustainable development and enhancing the quality of life for citizens.

Performance Monitoring and Evaluation

Establishing a robust monitoring and evaluation (M&E) framework is essential to enhance the efficiency and effectiveness of public resource utilization. By integrating a comprehensive M&E system, government will ensure that budget allocations are not only transparent but also aligned with intended outcomes. This system will provide a structured approach to track regular progress of budget implementation, allowing for real-time adjustments and interventions. Such an approach promotes greater accountability among government agencies and stakeholders, ensuring that resources are used effectively to achieve development goals.

Implementing an effective M&E framework will also foster public trust by making budgetary information accessible and understandable. Regular and transparent reporting of M&E findings will enable citizens and civil society organizations to engage more actively in the governance process, enhancing oversight and promoting a culture of accountability. Ultimately, this will lead to more informed decision-making, improved resource management, and better outcomes for Lesotho's development initiatives.

Conclusions

The BSP outlines a comprehensive strategy to address Lesotho's key risks and challenges while fostering sustainable and inclusive growth. To drive economic diversification and growth, the strategy recommends accelerating investment in promising sectors such as tourism, technology, and renewable energy. Supporting Micro, Small, and Medium Enterprises (MSMEs) through incentives and innovation programmes is crucial for stimulating economic activity and creating new opportunities.

Addressing social issues, the BSP emphasizes implementing employment and skills development programmes and job creation initiatives to mitigate the impacts of high poverty and unemployment rates. By enhancing these measures, Lesotho can better support its vulnerable populations and improve overall living standards.

Environmental sustainability is a priority, with the BSP advocating for scaling up climate adaptation measures and prioritizing soil conservation and reforestation projects. These actions are vital for preserving natural resources and combating climate change, ensuring long-term environmental health.

Significant improvements are needed in the health sector, particularly in strengthening healthcare infrastructure and enhancing primary healthcare services. These measures are essential for improving health outcomes and ensuring that all citizens have access to quality healthcare.

To address political and social instability, the BSP focuses on improving governance and promoting policies to reduce social inequalities. Strengthening governance frameworks and tackling social disparities are key to fostering a more stable and equitable society.

Infrastructure development is a top priority, with the BSP recommending substantial investments in transportation and energy infrastructure. Encouraging public-private partnerships will play a crucial role in advancing these infrastructure projects and driving economic development.

Effective risk management strategies, including the development of early warning systems and community engagement in risk mitigation, are essential for managing potential risks. Financial exposure related to contingent liabilities will be managed through rigorous frameworks, clear guidelines, and regular audits.

The Government Budget Framework, detailed in the Medium-Term Budget Framework (MTBF), includes all medium-term program budgets, their costs, and annual expenditure needs. It ensures compliance with improved debt management and procurement rules, aligning the national budget with the strategic goals of the NSDP and economic forecasts to support fiscally sustainable investments. A key challenge for the MTBF is transitioning from traditional incremental budgets to programme-based budgeting that aligns with the NSDP. Additionally, establishing a Government Stabilization Fund will help regulate fiscal resources and enhance medium- to long-term predictability through a counter-cyclical fiscal policy.

The fiscal policy and resource envelope framework, outlined in our Medium-Term Fiscal Framework (MTFF), relies on reliable projections of macroeconomic growth, fiscal capacity, and revenue forecasts, including targeted revenue-enhancing reforms. The challenge is to create an environment where private sector-led growth and tax revenue serve as the backbone of the MTFF's resource envelope.

The governmental structure ensures timely documentation of actual expenditures and results, promoting transparency and accountability. Emphasizing value-for-money in outputs and outcomes, these processes will be enhanced through targeted digitalization upgrades.

The MTEF supports transparent and effective integrated planning and budgeting, focusing on investments in key sectors and integrating cross-cutting themes to ensure inclusive development. Ongoing and pipeline projects are designed to boost productivity, enhance infrastructure, and support economic growth. Strengthening the M&E framework will improve resource utilization, enhance accountability, and support informed decision-making.

Way Forward

To drive inclusive growth and job creation, the government should focus on building an **economic growth-led pipeline of projects**. This initiative will facilitate sustainable development by identifying and investing in high-impact projects that prioritize sectors with the potential for employment generation, innovation, and productivity. By targeting industries such as agriculture, manufacturing, and digital services, the pipeline can create opportunities across various sectors, stimulating both local and national economies.

The pipeline of projects should be strategically aligned with the national development agenda to ensure that economic growth translates into inclusive benefits, particularly for marginalized communities. The implementation of this project pipeline will also involve collaboration between the public and private sectors, ensuring that investments are efficiently channelled toward infrastructure development, entrepreneurship, and skills training, thereby fostering a more resilient economy.

In addition to this pipeline, **public sector reform** remains critical. Developing detailed action implementation plans with clear timelines and responsibilities will drive these reforms. Enhancing **performance-based budgeting** ties budgets to measurable outcomes, optimizing resource allocation. **Aligning MDAs' budgets** with the Budget Strategy Paper (BSP) through the formation of sector working groups will improve coordination and eliminate duplications. Regular ministerial reviews will ensure accountability and performance tracking.

To mitigate fiscal risks, **SOE reform** is necessary to improve financial efficiency and reduce the government's reliance on these enterprises. Additionally, reforming the **wage bill** will help create fiscal space for development initiatives, restructuring public employment to better align with economic growth goals.

Expenditure control reforms, including the strengthening of **expenditure monitoring** and timely payments, will address the accumulation of arrears, restoring fiscal credibility and improving cash flow management. Capacity building will focus on **digitization, planning, and monitoring and evaluation (M&E)** across all sectors to boost efficiency and accountability.

Fiscal decentralization reforms will develop frameworks that promote localized financial management and decision-making, enabling targeted development efforts at the local level. Meanwhile, **private sector engagement reforms** will aim to reduce barriers to entry and foster **public-private partnerships** to stimulate growth. Utilizing the NUL Innovation Hub for collaborative research and development, along with finalizing a turnaround strategy for the textile sector, will further contribute to industry revitalization.

Through these comprehensive reforms and the establishment of an economic growth-led project pipeline, the government can create an environment that fosters **inclusive growth and sustainable job creation**.

Annexes

Stakeholder Consultation Summary[i]

Recommendations	Description
Introduction of Crops and Livestock Insurance	Establish insurance programmes for crops and livestock to mitigate risks for farmers, ensuring more stable and sustainable agricultural production.
Waste Management Policy	Introduce a policy allowing individuals to collect and sell waste to the government for recycling and reuse. This initiative will reduce waste and provide income opportunities. Future recommendations include constructing a recycling facility with advanced technologies and implementing a plastic levy.
Document and Market Tourist Attractions	Properly document, package, and market tourist attractions to promote cultural understanding, preserve traditions, support local communities, and boost tourism and economic growth.
Revision of Yellow Plant Operators' Terms of Employment	Review and revise the terms of employment for yellow plant operators to enhance service delivery and maintain machinery efficiency.
Enactment of the Decentralisation Bill	Enact the Decentralisation Bill to improve local governance and service delivery.
Water Conservation	Efficiently protect, conserve, and manage water resources to meet current and future demand, reduce water scarcity, and enhance availability for drinking and irrigation.
Road Construction and Maintenance	Construct and maintain road networks connecting communities, highlands, and lowlands to improve accessibility, reduce construction costs, enhance safety, and support socio-economic development.
Improving Security	Enhance security measures and law enforcement practices to ensure safety and justice, particularly in areas affected by rising stock theft. Establish defense force patrol and police posts in hard-to-reach communities.
Review Allowances for Chiefs and Local Councils	Align allowances for Chiefs and Local Councils with current living wage/allowance standards.
Establish Diamond Cutting and Polishing Institutions	Set up diamond cutting and polishing institutions within Lesotho to retain more value-added processes and economic benefits domestically.
Construction of District Hospitals and Healthcare Facilities	Construct district hospitals and healthcare facilities to improve healthcare access and services, especially in underserved areas.
Support Recovery of Informal Businesses Affected by COVID-19	Provide support to informal businesses impacted by the COVID-19 pandemic to aid in their recovery.
Enhance Accountability in Financial Management	Review legislation and frameworks to improve accountability in financial management and address misuse of government funds.
Maintain a Separate Budget for Higher Education	Allocate a separate budget for higher education to facilitate research and innovation.
Promote Programmes Focused on Green Jobs and Sustainable Development Goals	Support and promote programmes that focus on green jobs and achieving sustainable development goals.
Encourage Research Initiatives at Higher Education Institutions	Foster and support research initiatives at higher education institutions to drive innovation and development.
Implement Gender-Sensitive Budgeting Practices	Apply gender-sensitive budgeting practices to ensure greater equity and inclusiveness in financial planning and resource allocation.
Align Regulatory Frameworks with Budgeting	Ensure regulatory frameworks are aligned with budgeting processes for effective implementation and oversight.

[i] The complete report will be available on the ministry's website for accessibility: www.finance.gov.ls.