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UNICEF LESOTHO **2019/20**

**National Budget Brief**



*This budget brief is one of four that explores the extent to which the national budget addresses the needs of children under 18 years in the Kingdom of Lesotho. It analyses the size and composition of budget allocations for the fiscal year 2019/20, and offers insights into the efficiency, equity and adequacy of past expenditure at the national level. The main objectives of the brief are, firstly, to synthesize complex budget information so that all stakeholders can easily understand it and, secondly, to highlight key messages, which can inform decision-making on policy and budgeting.*

*Budget data used in this brief were provided by the Ministry of Finance. To adjust expenditures to inflation, the consumer price index was applied to 2010 data, the original baseline information. To obtain inflation-adjusted expenditures, the base year of the consumer price index was changed to that of 2014/15.*



## *Key messages*

- **In 2019/20, government expenditure is expected to decline in both nominal and real value by 6.1 per cent and 11.3 per cent respectively compared to the previous year.** Consequently, social-sector expenditures are also forecast to decrease. The water and sanitation sector will suffer the largest decline (37.5 per cent) followed by social development (2.0 per cent), health (1.9 per cent) and education (1.4 per cent).
- **Despite decreases in allocations compared to the previous year, education and health will continue to receive the largest share of the budget.** In the current year, education has received 13.8 per cent of the budget and health 12.3 per cent. However, these allocations are well below international targets.
- **The fiscal deficit is expected to decrease to 1.2 per cent of gross domestic product (GDP) in 2019/20.** Due to weak economic growth prospects the government is currently pursuing a contractionary fiscal policy that has affected performance of domestic tax revenue. Among other austerity measures, the government seeks to contain the large wage bill.
- **Consistent with its fiscal deficit target, the government expects a modest increase in South African Customs Union (SACU) revenue.** As a percentage of GDP, SACU revenue is expected to increase modestly from 15.2 per cent in 2018/19 to 15.8 per cent in 2019/20.
- **Spending in Lesotho is dominated by the recurrent budget, which accounts for more than 70 per cent of the national budget.** The majority of the recurrent budget is spent on salaries (52.3 per cent), followed by operational costs (16.0 per cent) and transfers (14.3 per cent).
- **Budget transparency and accountability in Lesotho is low, an issue that government is committed to address.** According to the latest Open Budget Survey (2017), Lesotho scored 0 out of 100 on the Open Budget Index. The government is, however, taking measures to improve this situation.

## 1

# Socio-economic context

## 1.1 Macroeconomy

Lesotho's economy is expected to grow by 2.6 per cent in the current fiscal year, compared to 2.1 per cent in 2018/19.<sup>1</sup> Accordingly, GDP is expected to rise to 26.0 billion maloti (M) from M25.3 billion in the past year (Table 1).<sup>2</sup> However, due to the combined effects of population growth and depreciation of the loti against the United States dollar, real GDP per capita is expected to decline from US\$895.9 in 2018/19 to US\$854.3 in 2019/20.

To meet with the aspirations of Lesotho's citizens, real GDP needs to expand faster. Figure 1 shows there has been no strong growth in recent fiscal years. Real GDP increased marginally from M23.6 billion in 2014/15 to M25.3 billion in 2018/19.<sup>4</sup> Between the two fiscal years, the volume of goods and services produced

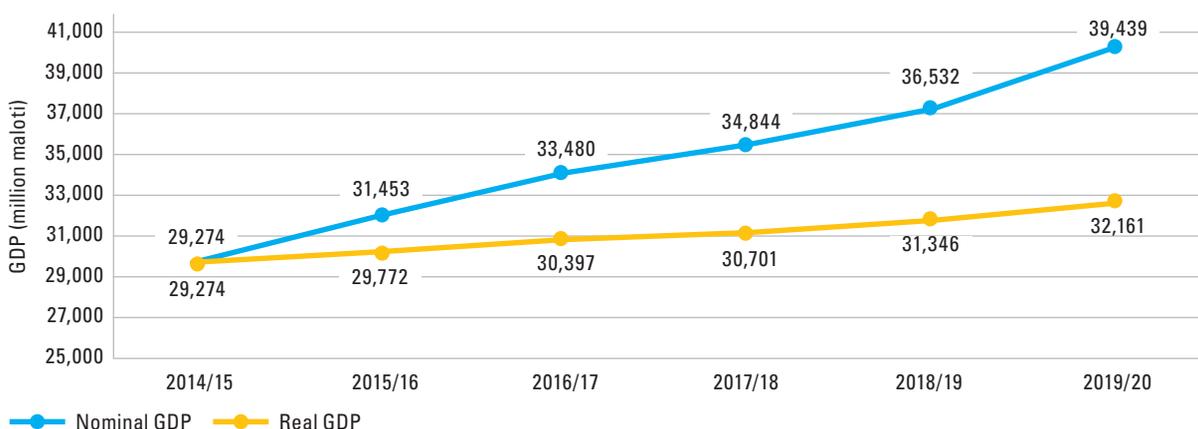
Table 1: Selected macro-fiscal indicators

Indicator	2018/19	2019/20
Nominal GDP (million maloti)	36,532.0	39,439.2
Real GDP (million maloti)	25,316.7	25,975.0
GDP growth rate (%)	2.1	2.6
Population (million)	2.04	2.06
Real GDP per capita (US\$)	895.9	854.3
Inflation rate (% change)	4.8	5.9
Remittances (million US\$)	412.1	357.2
Expenditure (% of GDP) <sup>3</sup>	49.2	47.2
Revenue (% of GDP)	42.6	46.0
Fiscal deficit (% of GDP)	-6.6	-1.2

Source: World Development Indicators online (2019); International Monetary Fund (IMF) Article IV of 30 April 2019; and Lesotho's 2019/20 budget speech.

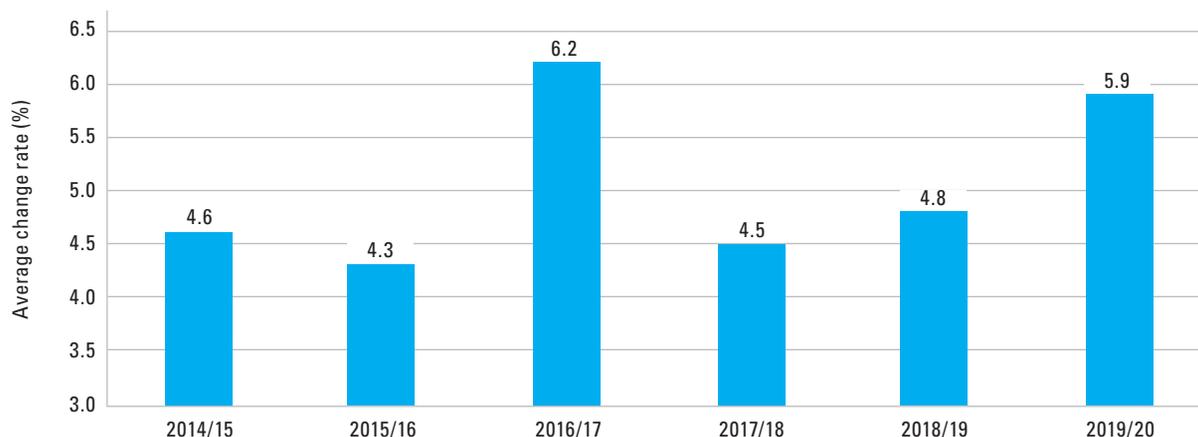
domestically increased by an average of 1.8 per cent per year. On the other hand, nominal GDP increased faster, from

Figure 1: Trends in real and nominal GDP



Source: Lesotho's budget speeches (2016/17 to 2019/20) and Bureau of Statistics of Lesotho (Statistical Report, 17: 2019).

Figure 2: Inflation trends



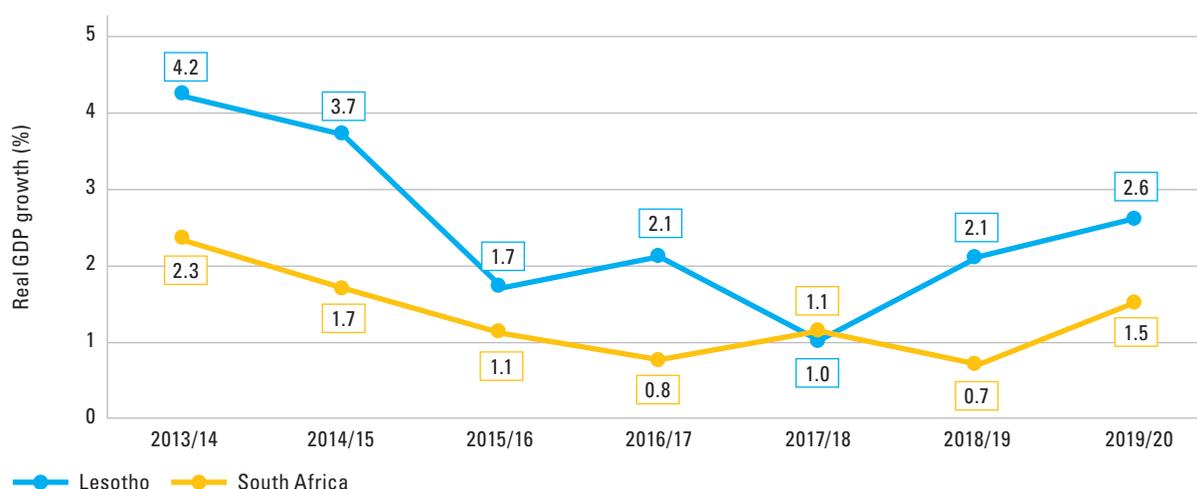
Source: Lesotho Bureau of Statistics reports (2014 to 2019).

M29.3 billion in 2014/15 to M36.5 billion in 2018/19. Between the two fiscal years, the value of goods and services produced domestically increased by 6.2 per cent per fiscal year, considerably more than the increase in volume. These results show that inflation drives Lesotho’s economic growth significantly more than investment, which underlies real production of goods and services for citizens.

**Inflationary pressures will remain relatively high in Lesotho.** Inflation is forecast to rise from 4.8 per cent in 2018/19

to 5.9 per cent in 2019/20, making goods and services more expensive for consumers (Figure 2). Given the country’s low real-GDP growth rates, inflation might remain relatively high in the medium term due to high demand for goods and services. High inflation seriously affects the buying capacity of poor households. To cope with inflation, poor households have resorted to reducing the frequency of food intake and/or have adopted other negative coping strategies, namely, engaging children in work, withdrawing them from school or reducing health spending.<sup>5</sup>

Figure 3: Lesotho’s growth positively correlates to South Africa’s growth



Source: World Development Indicators online (2019) and Lesotho’s budget speeches (2016/17 to 2019/20).

Table 2: Regional macroeconomic and fiscal performance

	Lesotho		Eswatini		South Africa		Namibia		Botswana	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
GDP growth rate (%)	2.1	2.6	-0.4	1.1	0.7	1.5	-0.5	1.0	4.5	4.2
Inflation rate (%)	4.8	5.9	4.8	5.9	4.7	4.3	5.0	5.0	3.8	3.9
Nominal GDP per capita (US\$)	1,293	1,297	4,134	4,108	6,407	6,653	5,876	5,699	8,303	8,436
Fiscal balance (% of GDP)	-6.6	-1.2	-5.6	-4.5	-4.3	-4.5	-4.4	-4.1	-3.5	-3.5

Sources: Eswatini's budget speech (2019/20); Eswatini's inflation forecasts, 2019–2021 (Central Bank of Eswatini, January 2019); South Africa's budget speech (2019/20); South Africa's Consumer Price Index (Statistical Release P0141, July 2019); Namibia's budget speech (2019/20); Botswana's budget speech (2019/20); Lesotho's budget speech (2019/20); and Lesotho's Bureau of Statistics (Statistical Report, July 2019).

### Lesotho's production of goods and services will continue to be determined by the economic situation in South Africa.

Based on data from 2013/14 to 2018/19, Lesotho's economic growth is positively correlated to South Africa's economic growth (Figure 3). With a high correlation coefficient of 0.81,<sup>6</sup> an increase of one percentage point in South Africa's growth rate is likely to translate into an increase of about 0.8 percentage points in Lesotho's growth rate. Thus, the achievement of Lesotho's forecasted growth rate of 2.6 per cent in 2019/20 will depend heavily on South Africa achieving its predicted growth rate of 1.5 per cent in 2019/20.

**Estimation of Lesotho's growth rate in 2019/20 attempts to factor in major risks emanating from weaker growth in South Africa.** This explains why the growth rate of 2.6 per cent in 2019/20 is only slightly above the growth rate of 2.1 per cent in 2018/19. Except for Botswana, other member countries of the SACU – also influenced by South Africa's economy – have forecasted far weaker growth rates than Lesotho in the current fiscal year (Table 2). One may question the robustness of Lesotho's growth rate forecast for 2019/20, unless it is underpinned by reforms aimed to attract

more investment in tourism, agro-industry, services and mining. Sustaining Lesotho's real growth objectives will ensure better living conditions for citizens whose income is eroded by the largest inflation rate in the SACU.

## 1.2 Socio-development

### Poverty and inequality are key structural problems in Lesotho.

Lesotho is one of the poorest countries in sub-Saharan Africa, with over a million people (half the population) living in poverty. Of the poor, about 22 per cent are extremely poor, living below the national food poverty line of M138 (about US\$10) per adult per month (Table 3). Inequality is also one of the highest in the world with a Gini coefficient of 0.445. Poverty is further exacerbated by very high prevalence of HIV (25 per cent among adults), high unemployment rates (28 per cent, with 32 per cent among youth) and food insecurity caused by the effects of climate change, including droughts and floods.<sup>7</sup>

### Children are the worst-affected victims of poverty and inequality.

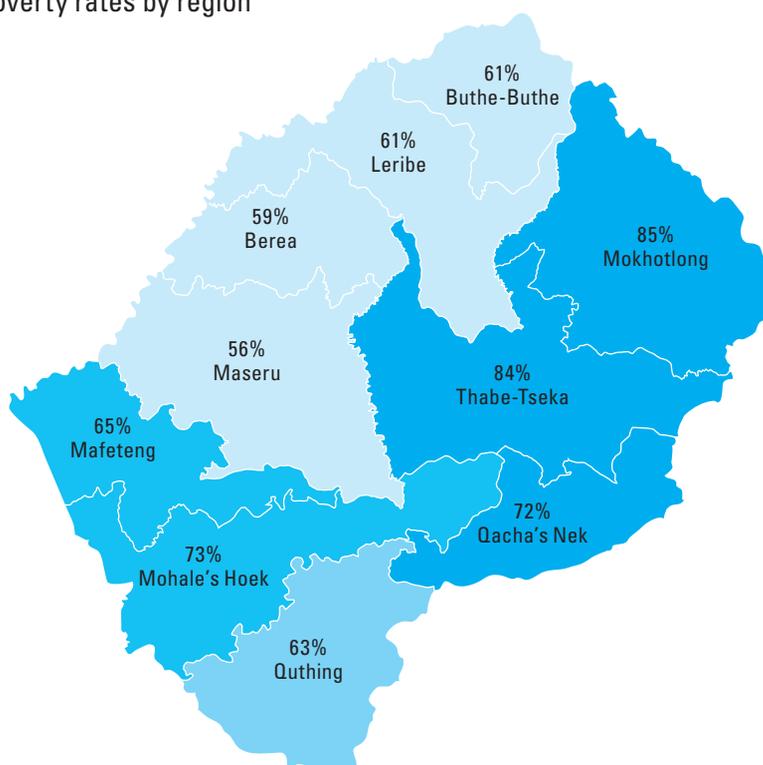
About 65 per cent of all children (aged 0–17 years) in Lesotho are simultaneously deprived in three or more (out of nine) dimensions

Table 3: Selected socio-economic indicators for Lesotho

Indicator	Value	Source	Indicator	Value	Source
Total population	2,007,201	[1]	Rank on Human Development Index	160/188	[3]
Population <18 years	765,614	[1]	Poverty rate (%)	49.7	[4]
Children (% of population)	38.1	[1]	Extreme poverty rate (%)	21.9	[4]
Demographic growth (%)	0.68	[1]	Child poverty rate (%)	65	[6]
Stunted children <5 years (%)	33	[2]	Gini Index	.445	[3]
Life expectancy (years)	56	[1]	Urban population (%)	33	[2]
Infant mortality rate per 1,000 live births	59	[2]	Unemployment rate (%)	28	[5]
Maternal mortality rate per 100,000 births	1,024	[2]	Under-five mortality rate per 1,000 children	76.2	[2]
Adult (>15 years) literacy rate, 2010 (%)	89.6	[1]	Access to water (%)	88.1	[1]
Primary school net attendance rate (%)	93.6	[2]	Open defecation rate (%)	42.4	[1]

Sources: [1] Lesotho 2016 Population and Housing Census; [2] Lesotho Demographic Health Survey (2014); [3] World Bank Poverty Assessment of Lesotho (2019); [4] World Bank (2017); [5] Q1 2014/15 Continuous Multipurpose Survey; and [6] Lesotho Child Poverty Report (2018).

Figure 4: Child poverty rates by region



Source: Child Poverty Study Report (2018).

of child well-being.<sup>8</sup> Deprivations, however, vary by different age groups and dimensions. For example, between 84 per cent and 88 per cent of all children

are deprived of housing, 17 per cent of primary education, 62 per cent of secondary education and between 29 per cent and 32 per cent of water; 64 per cent of children

aged 0–23 months and between 48 per cent and 54 per cent of those aged 2–17 years are deprived of sanitation; and 66 per cent of those aged 0–23 months are deprived of health services. The rate of overall deprivation is high among boys (66.5 per cent) in rural areas (72 per cent). The extent of deprivation also varies between districts, as shown in Figure 4.<sup>9</sup>

**Maternal and infant mortality rates are exceptionally high in Lesotho.** The maternal mortality rate is 1,024 per 100,000 live births, and infant and under-five mortality rates are 59 and 88.1 per 1,000 live births, respectively. Among children under five years of age, 10 per cent are underweight, and 33 per cent are stunted (Table 3).

**Population growth in Lesotho is low and the total fertility rate is below the minimum replacement rates.** The total population of the country is 2.01 million, with a ratio of 49 per cent males to 51 per cent females.<sup>10</sup> The population growth rate is only 0.68 per cent. The average fertility rate per woman is 3.3 children and this has declined over time to a degree where it is slightly below the population replacement threshold of 3.4. This can adversely affect growth, if not addressed.

**There is a window of opportunity for the country to reap the demographic**

**dividend.** The demographic structure of Lesotho shows that the working age population represents 62 per cent of the total population. This suggests that the country is in a demographic transition. If the demographic dividend is not realized through adequate investment in youths, Lesotho will lose the opportunity to emerge from the vicious cycle of poverty and inequality.

### 1.3 National policy

**Lesotho's National Vision 2020 outlines the government's development strategy, which is implemented through five-year national strategic development plans.**

The national vision for Lesotho states that Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and neighbours, with a healthy and well-developed human resource base, and a strong economy and technological base. To realize the vision, the government has prepared the second National Strategic Development Plan for the period 2019–2023, prioritizing four key areas: (i) enhancing inclusive and sustainable economic growth and private-sector-led job creation; (ii) strengthening human capital (health, nutrition, education, social protection and skills); (iii) building enabling infrastructure; and (iv) strengthening governance and accountability.

### Takeaways

- Depressed economic growth will negatively affect the fiscal space required to increase investment in children.
- Inflationary pressures are likely to worsen the situation of children from poor families.
- As children, youths and women are disproportionately affected by poverty and weak access to basic social services, government policy to increase social assistance programmes needs to be supported to improve targeting and level of transfers.

## 2

# Government spending

## 2.1 Spending trends

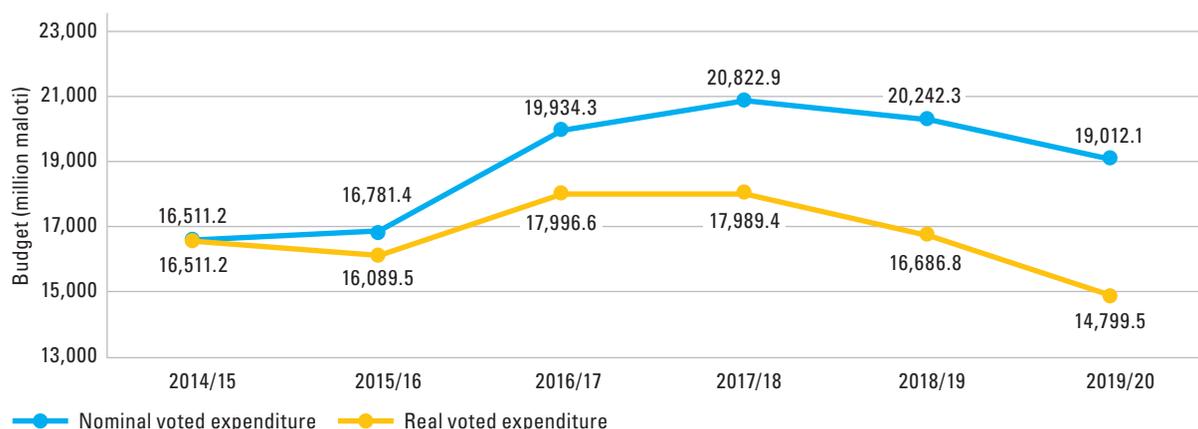
**Lesotho's public expenditure is expected to decline in the current fiscal year, in both nominal and real values.** The 2019/20 nominal budget (M19,012 million) represents a decline of 6.1 per cent compared to that of 2018/19 (Figure 5).<sup>11</sup> Accounting for inflation, the real budget is M14,800 million in 2019/20, which represents a decline of 11.3 per cent from 2018/19.

**The relative weight of public expenditure in Lesotho's production is expected to contract again this fiscal year.** As a share of nominal GDP, the nominal budget – as approved by Parliament – declined from 59.8 per cent in 2017/18 to 55.4 per cent in 2018/19, and is expected to decline further to 48.2 per cent in 2019/20 (Figure

6). To compensate for the contraction in the size of the nominal budget relative to the economy, the government intends to improve expenditure efficiency in the short to medium term.<sup>12</sup>

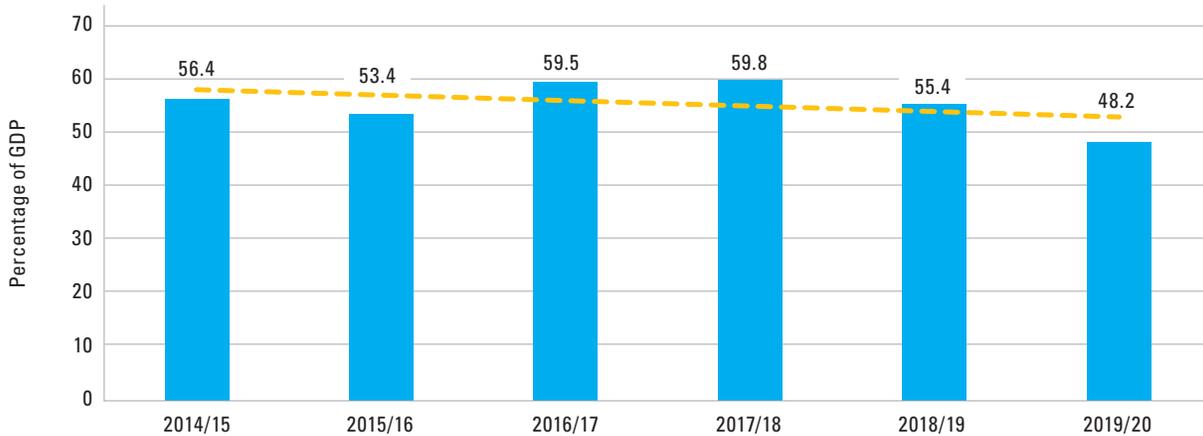
**Recurrent expenditure will continue to dominate the national budget.** From its low of 68.1 per cent in 2016/17, the share of (enacted) recurrent expenditure has continuously increased in subsequent fiscal years (Figure 7). This share is expected to represent 72.8 per cent of the national budget in 2019/20. The wage bill, which has increased from 29.7 per cent of the total national budget in 2016/17 to 38.1 per cent in 2019/20, accounts for this upward trend. This is despite the commitment of the government to rein in the wage bill through, for example, hiring and salary freezes.<sup>13</sup>

Figure 5: Size of government budget



Source: Author's calculations based on data from World Bank Group Boost (up to 2018/19) and Lesotho's budget estimates books (2018/19 and 2019/20).

Figure 6: Government (nominal voted) expenditure



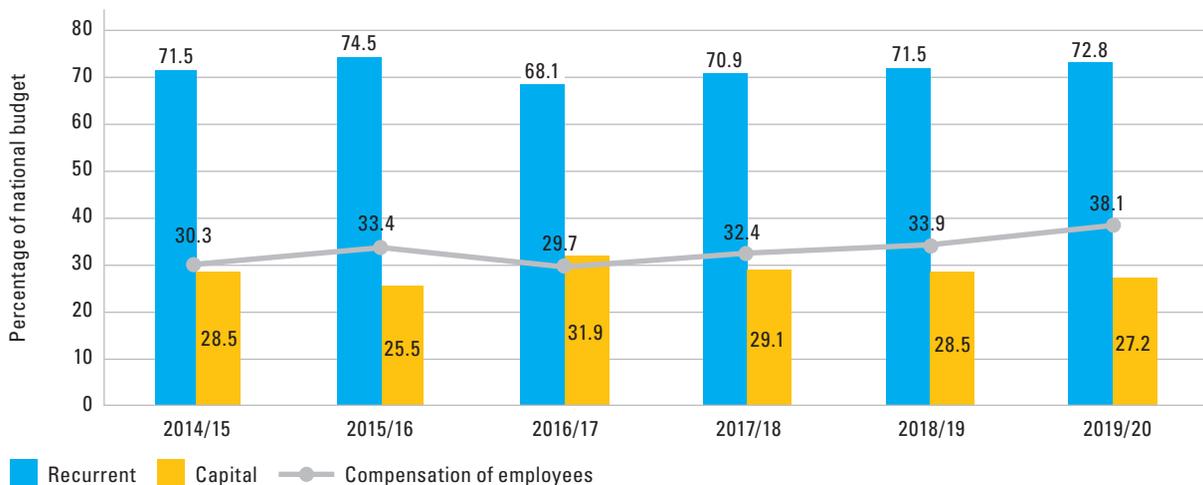
Source: Author's calculations based on data from World Bank Group Boost (up to 2018/19), Lesotho's budget speeches (2016/17 to 2019/20), and Lesotho's budget estimates books (2018/19 and 2019/20).

While the share of the wage bill has grown, the share of the capital budget is declining. The capital budget has declined from 29.1 per cent in 2017/18 to 27.2 per cent in 2019/20. Declining capital budget is never desirable, unless measures to improve efficiency are put in place. In this regard, the government may want to

enhance procurement in high-spending ministries, departments and agencies.

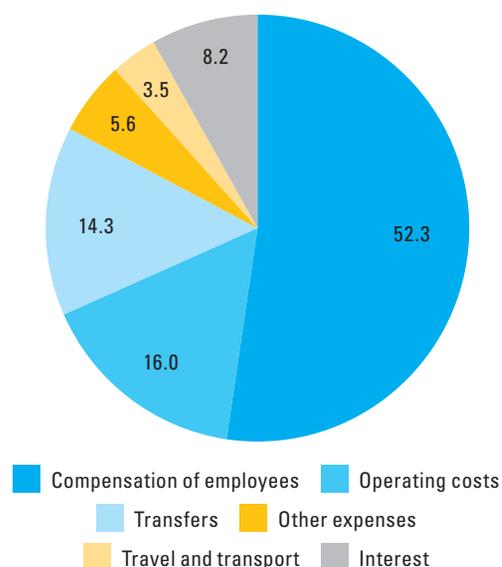
Wages and salaries dominate the recurrent budget. This dominance is expected to increase in 2019/20 from 2018/19. Based on their respective shares in the recurrent national expenditure budget

Figure 7: Trends in recurrent and capital expenditures



Source: Author's calculations based on data from World Bank Group Boost (up to 2018/19) and Lesotho's budget estimates books (2018/19 and 2019/20).

Figure 8: Composition (percentage) of recurrent expenditure budget, 2019/20



Source: Author's calculations based on Lesotho's budget estimates book (2019/20).

(Figure 8), other important components include operating costs (16.0 per cent), transfers (14.3 per cent) and payment of interest (8.2 per cent).

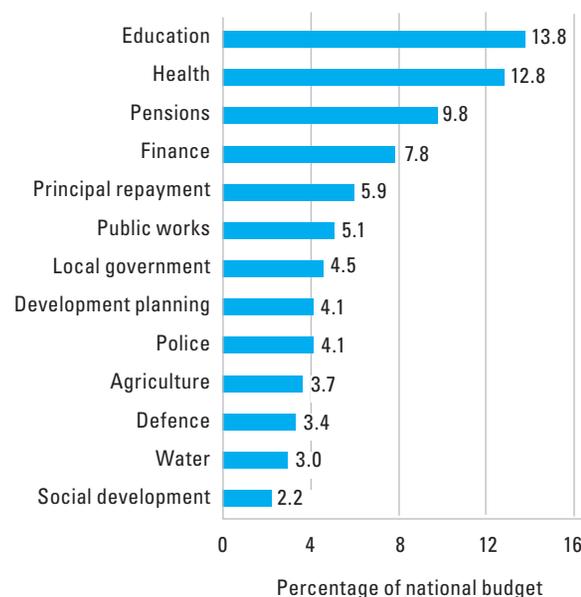
## 2.2 Spending priorities

The top two priority sectors of the government are education and health.

For 2019/20, the government has allocated 13.8 per cent and 12.8 per cent of the national budget to education and health, respectively (Figure 9). Compared to the previous year, there is an improvement of 0.7 percentage points for education and 0.5 percentage points for health. However, the respective budget allocations fall short of international and regional targets for spending in these sectors.<sup>14</sup>

The social development<sup>15</sup> and water sectors continue to be among the least funded, as a share of the total government budget. Social development and water received 2.2 per cent and 3.0 per

Figure 9: Composition of the national budget by sector, 2019/20

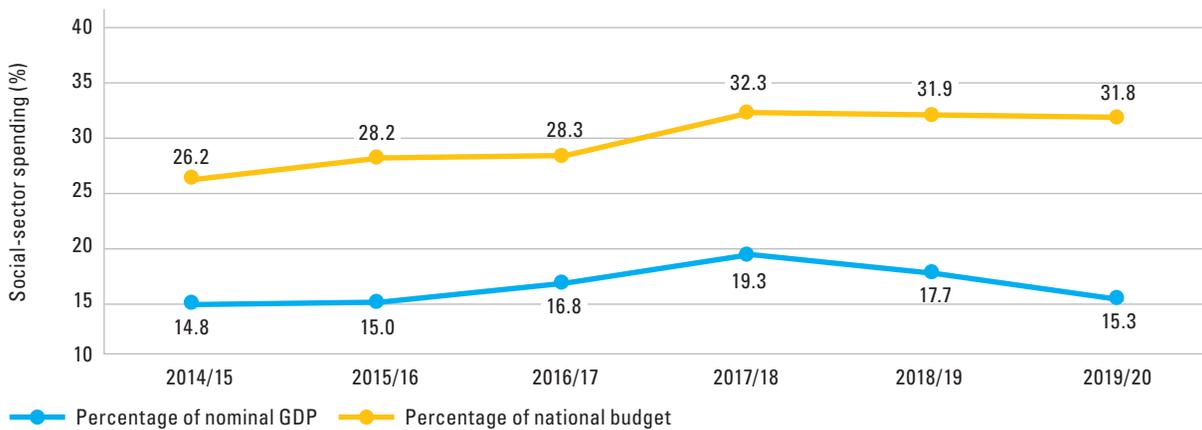


Source: Lesotho's budget estimates book (2019/20).

cent of the national budget, respectively, in 2019/20. Compared to the previous fiscal year, the national budget share for social development has increased modestly by 0.1 per cent while the national budget share for water has dropped by 1.5 per cent.

Altogether, social sectors (health, education, water and social welfare) have been allocated 31.8 per cent of the total national budget. However, the share of total budget allocated to these four sectors has declined slightly since 2018/19 (Figure 10).<sup>16</sup> Similarly, social sector budgets as a share of GDP also dropped, from 19.3 per cent in 2017/18 to 15.3 per cent in 2019/20. This trend is of great concern considering the need for increasing the level of services across all social sectors to reduce deprivations among women and children. Moreover, vulnerable households are increasingly exposed to income shocks related to climate change, such as El Niño events.

Figure 10: Trends in social-sector spending (percentage of total budget and GDP)



Source: Authors' calculations based on data from World Bank Boost database (up to 2018/19) and Lesotho's budget estimates books (2018/19 and 2019/20).

Note: Social sectors include health, education and training, water, and social development.

### Takeaways

- The growing wage bill, as a share of the total expenditure budget, requires containment if it is to remain aligned with regional standards.
- The proportion of expenditure allocated to social sectors has decreased slightly from 31.9 per cent in 2018/19 to 31.8 per cent in 2019/20, impairing the provision of basic social services in the country.
- Health and education receive the largest shares of the national budget to enhance Lesotho's human capital. To achieve planned results, beneficiaries must be allowed to periodically review performance with officials.



## 3

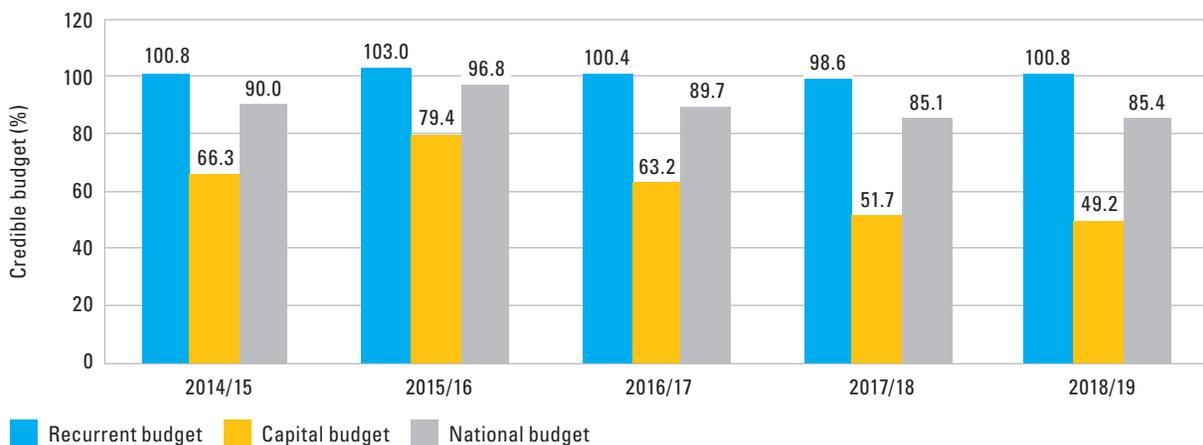
# Budget credibility and budget execution

## 3.1 Budget credibility

**Budget credibility challenges persist in capital expenditure.** From a high of 79.4 per cent in 2015/16, the share of released capital budget has steadily declined to 49.2 per cent in 2018/19 (Figure 11), reflecting budget credibility problems.<sup>17</sup> This evidence points to the

existence of bottlenecks that have plagued implementation of development budgets in ministries, departments and agencies, including procurement delays due to limited capacity of government in several areas, such as bidding documents, tender assessments and management of donor funds.<sup>18</sup>

Figure 11: National budget credibility based on originally enacted budgets

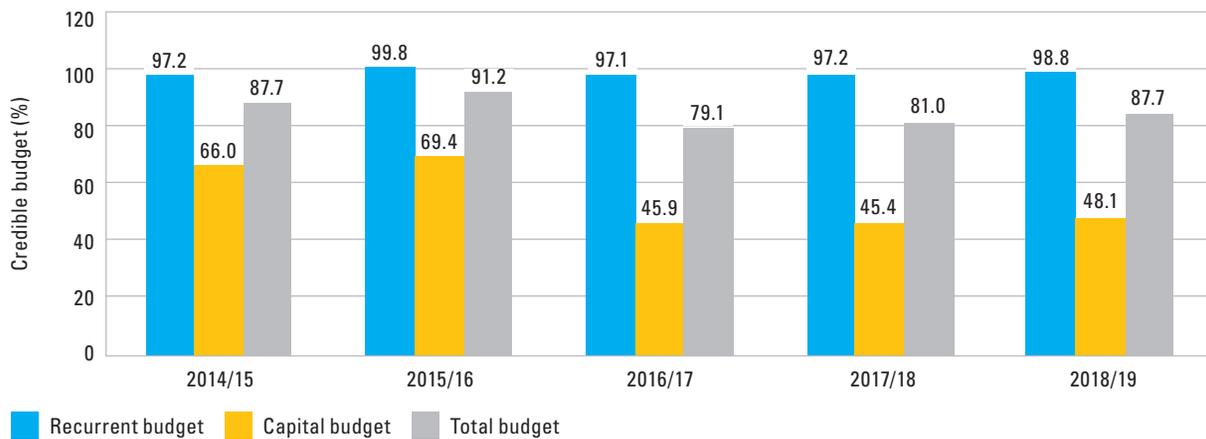


Source: Author's calculations based on data from World Bank Group Boost database (up to 2018/19) and Lesotho's budget estimates books (2018/19 and 2019/20).

**However, the recurrent budget is usually spent as planned, although there are cases of fiscal slippages.** For example, in 2015/16 (Figure 11), the released recurrent budget represented 103.0 per cent of the approved budget. When comparing the

released recurrent budget to the revised recurrent budget, there are almost no recurrent budget credibility issues (Figure 12).<sup>19</sup> For capital expenditure, budget credibility is a serious problem (Figures 11 and 12).

Figure 12: National budget credibility based on in-year revised budgets



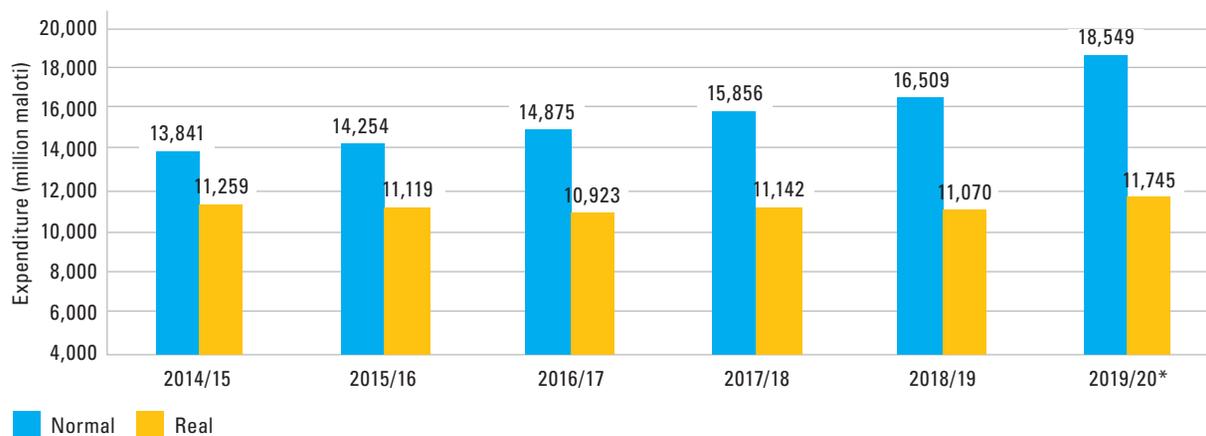
Source: Author’s calculations based on data from World Bank Group Boost database (up to 2018/19) and Lesotho’s budget estimates books (2018/19 and 2019/20).

### 3.2 Budget execution

**Total government expenditure has been increasing in nominal terms.** Total nominal government expenditure is forecast to reach M18,549 million in 2019/20 from M16,509 million in 2018/19 (Figure 13).<sup>20</sup> This is equivalent to a positive change of 12.4 per cent. Accounting for inflation,<sup>21</sup>

total real expenditure would increase by 6.1 per cent from M11,070 million in 2018/19 to M11,745 million in 2019/20. So, inflation is expected to erode about 50 per cent of the purchasing capacity of total nominal expenditure in this current fiscal year, with adverse consequences for real service delivery.

Figure 13: Trends in total government expenditure



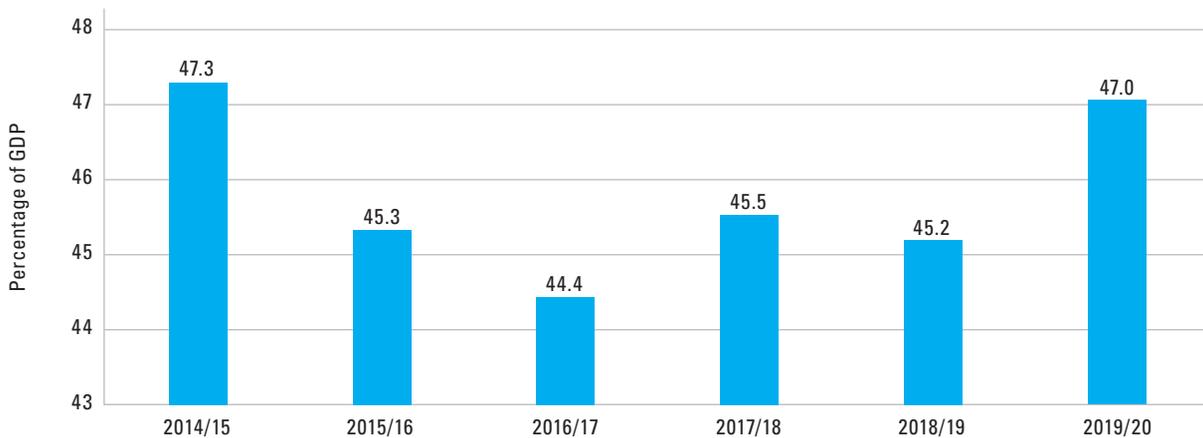
Source: Author’s calculations based on data from World Bank Group Boost database (up to 2018/19) and Lesotho’s budget estimates books (2018/19 and 2019/20).

Note: \* The nominal expenditure (actual spending) is drawn from IMF Article IV of 30 April 2019 (Table 2a, page 26).

**Total actual expenditure (out-turn) will improve this fiscal year.** Public goods and services supplied to Lesotho’s population will represent 47 per cent of nominal GDP in 2019/20, up from 45.2 per cent last fiscal year. In the period under review, this level of performance was achieved only in 2014/15

(Figure 14). However, the government is committed to improving budget credibility and budget execution, which should allow public spending ambitions to be met this year.<sup>22</sup> This would require, inter alia, more expenditure discipline (control and reporting) and avoidance of payment arrears.

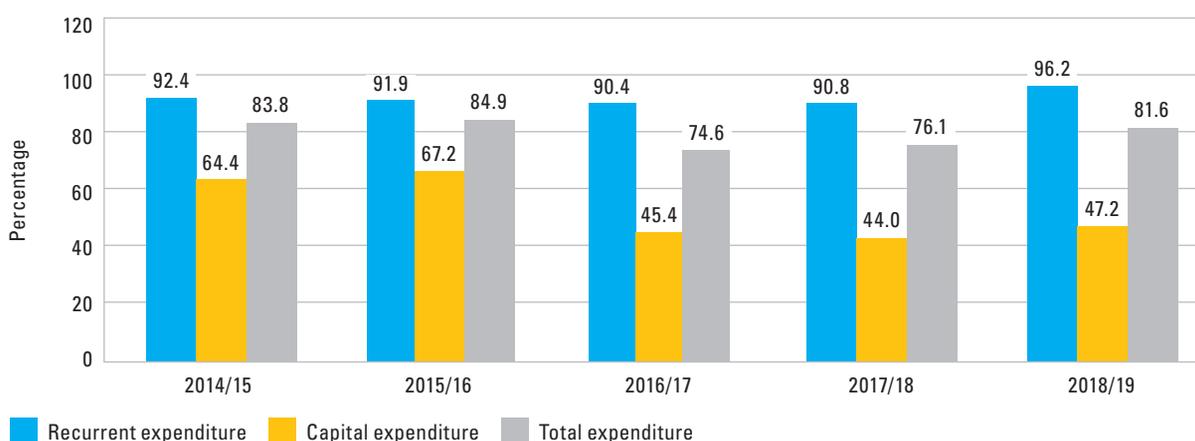
Figure 14: Trends in total government expenditure as a percentage of GDP



Source: Author’s calculations based on data from World Bank Group Boost (up to 2018/19) and Lesotho’s budget speeches (2016/17 to 2019/20).



Figure 15: Overall budget execution rates



Source: Author's calculations based on data from World Bank Group Boost database (up to 2018/19) and Lesotho's budget estimates book (2018/19).

### Budget execution rates are improving.

After having declined to a low of 74.6 per cent in 2016/17, the execution rate<sup>23</sup> of total government budget expenditure progressively increased to 76.1 per cent in 2017/18 and 81.6 per cent in 2018/19. Using joint estimates from International Monetary Fund (IMF) staff and Lesotho

authorities of total budget out-turn, the execution rate is forecast to be 97.6 per cent in 2019/20. This is mainly due to significant improvements in the performance of capital expenditure (89.5 per cent). The latter has been faring very poorly since its high of 67.2 per cent achieved in 2015/16 (Figure 15).

### Takeaways

- Budget credibility and execution challenges persist for capital projects, an issue that the government should address.
- Significant improvement is forecast in terms of the execution rate of the development budget in the current fiscal year. This should be accompanied by improved planning and control of procurement plans that allow better estimation and sequencing of release of warranted budgets.

## 4

# Budget transparency

**Lesotho's budget system is one of the least transparent in the world.** Lesotho scored zero on the 2017 Open Budget Survey. The survey revealed that Lesotho citizens do not have access to national budget information; and have limited opportunities to engage in the budget process. The Lesotho legislature and

supreme audit institution provide weak oversight on budget implementation. By providing more budget information to the public and creating meaningful opportunities for civil society to contribute to the budget cycle, the government could foster an environment of greater accountability to taxpayers and other stakeholders.



# 5

## Financing the national budget

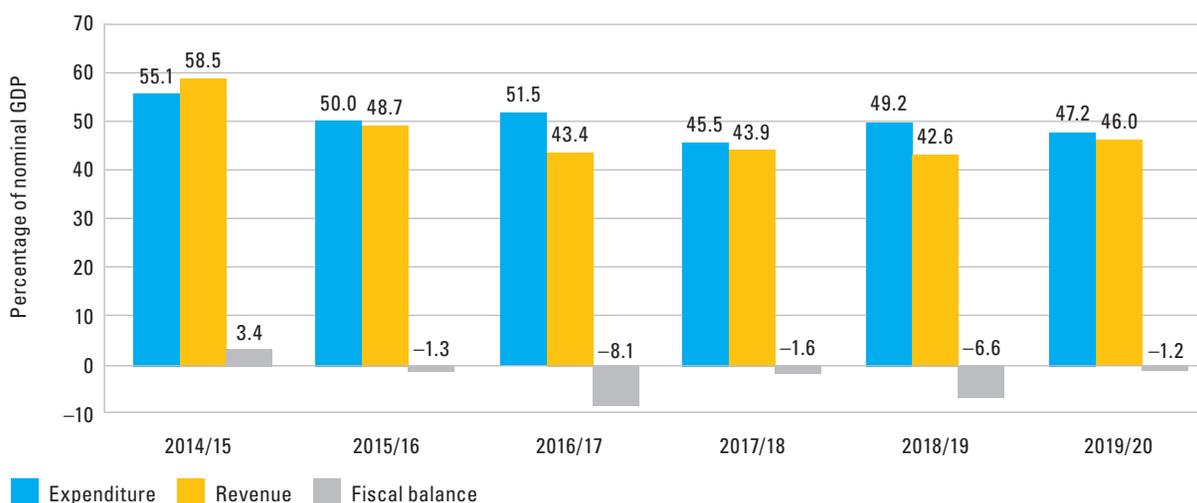
### 5.1 Total revenue and fiscal balance

**Revenue collection as a percentage of GDP has followed a downwards trend since 2014/15.** From a high of 58.5 per cent in 2014/15, the ratio of total revenue to nominal GDP dropped to 43.4 per cent in 2016/17 before increasing to 43.9 per cent in 2017/18 and declining to 42.6 per cent in 2018/19. This ratio is projected to improve to 46.0 per cent in 2019/20. Collected total revenue has been insufficient to cover total expenditure in the period under review, except in 2014/15 when total revenue exceeded total expenditure (Figure 16).<sup>24</sup> Against this revenue trend, the government’s commitment to control expenditure better and improve efficiency

is expected to improve the overall fiscal balance from a fiscal deficit of 6.6 per cent of GDP in 2018/19 to a fiscal deficit of 1.2 per cent of GDP in 2019/20.

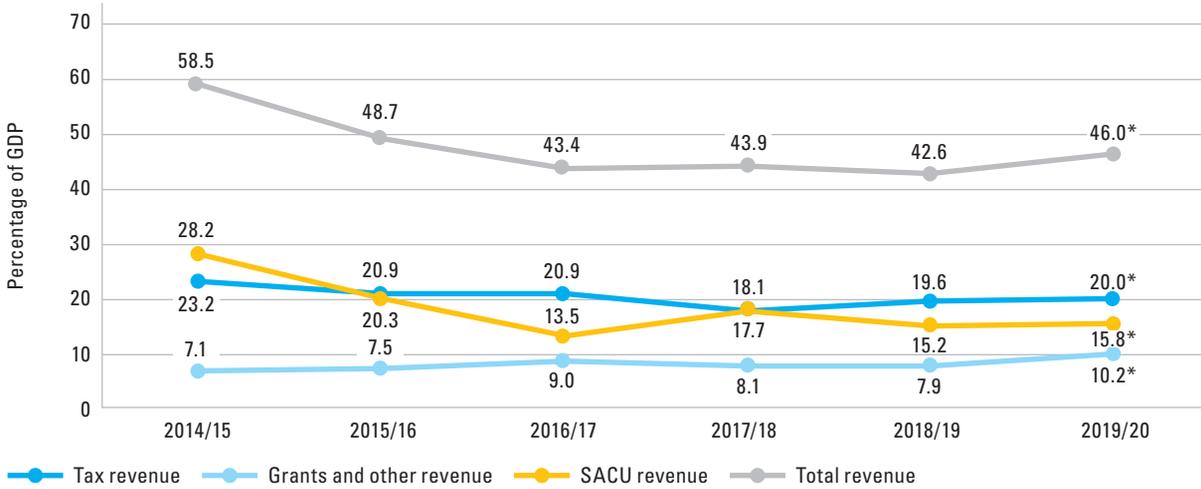
**Weak revenue performance is primarily a result of declining SACU revenue (Figure 17).** In 2018/19, total revenue collected amounted to M15,561.5 million against projections of M16,099.6 million. This suggests underperformance in total revenue collection of about M538 million. Total revenue collection is projected to reach M18,128.4 million in 2019/20. This will require, inter alia, that SACU revenue – the second largest component of overall revenues after tax revenue<sup>25</sup> – increases significantly to M6,226 million in 2019/20

Figure 16: Overall fiscal performance



Source: Author’s calculations based on data from World Bank Group Boost (up to 2018/19) and Lesotho’s budget speeches (2016/17 to 2019/20).

Figure 17: Composition of total revenue



Source: Lesotho’s budget speeches (2016/17 to 2019/20).

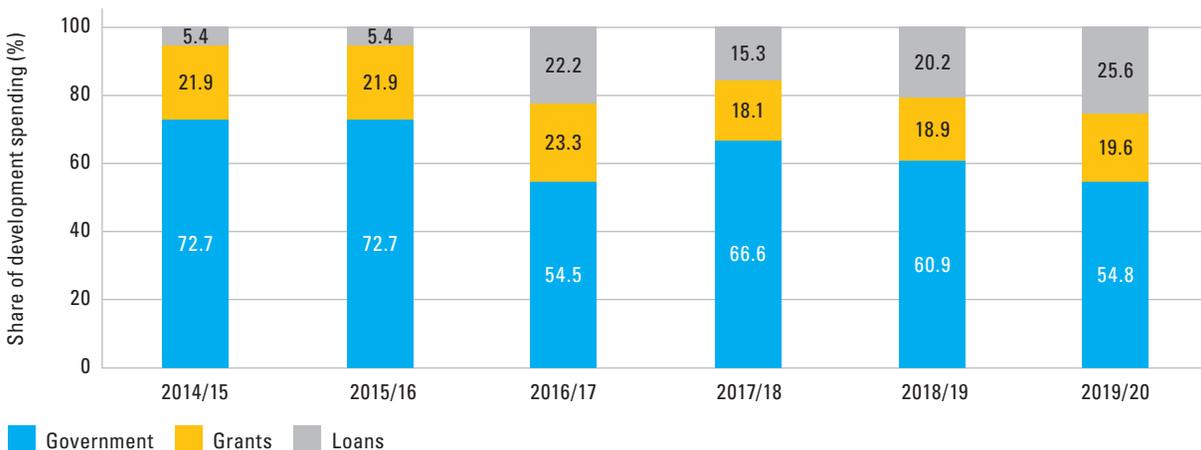
Note: \*Projections for 2019/20.

(Figure 17). However, SACU revenue is dependent on the performance of South Africa’s economy. According to the IMF,<sup>26</sup> if economic performance does not recover promptly in South Africa, this would continue to put pressure on international reserves and result in the build-up of government payment arrears, undermining Lesotho’s ongoing positive development in budget credibility and budget execution as of 2019/20.

The recurrent budget is fully financed by the government, whereas a significant portion of the development budget is financed by donors in the form of loans and grants.

The government contribution to the development budget has declined from 72.7 per cent in 2014/15 to 60.9 per cent in 2018/19 (Figure 18). This declining trend is projected to continue in 2019/20. Loans have substantially increased their

Figure 18: Financing the development budget



Source: Own calculations based on data from World Bank Group Boost database (up to 2018/19) and Lesotho’s budget estimates books (2018/19 and 2019/20).



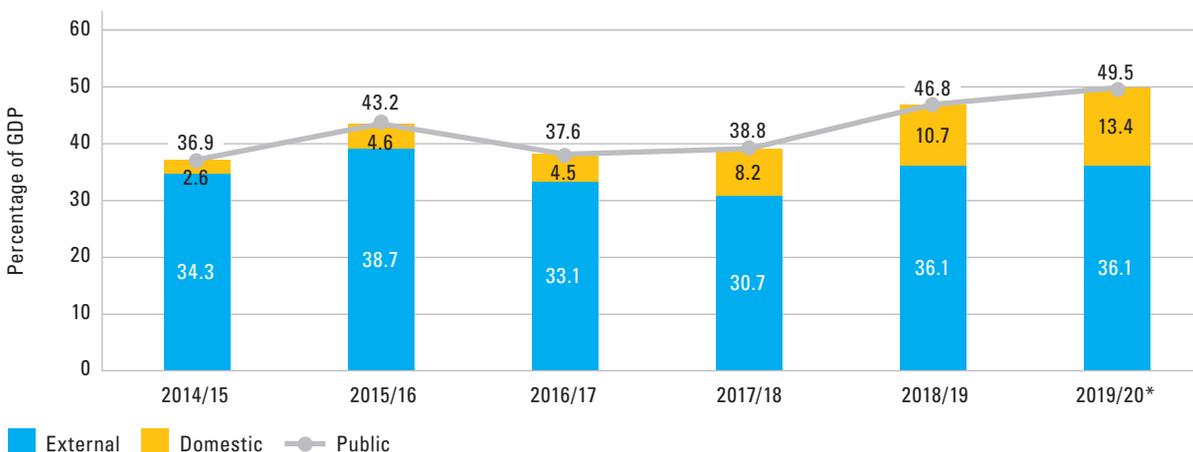
contribution from 5.4 per cent of the development budget in 2014/15 to 22.2 per cent in 2016/17 and 25.6 per cent in the current 2019/20. Grants are set to increase their contribution to the development budget slightly from 18.9 per cent in 2018/19 to 19.6 per cent in 2019/20.

## 5.2 Borrowing

**Public debt is expected to increase this fiscal year.** Joint estimations from government and the IMF show that public debt should reach M19.5 billion in 2019/20, up from M17.1 billion in the

previous fiscal year. As a percentage of GDP, public debt is expected to increase from 46.8 per cent to 49.5 per cent over the same period (Figure 19). As a result, interest payments will increase from M313 million in 2018/19 to M649 million in 2019/20. In 2019/20, the expected increase in public debt is mainly driven by domestic borrowing, as external public debt (as a percentage of GDP) remains stable compared to 2018/19. It seems the government is relying more on the domestic financial market to finance its deficit. The IMF considers Lesotho at moderate risk of debt distress.

Figure 19: Public debt



Source: IMF Article IV of 30 April 2019 and IMF Article IV of 31 January 2018.

Note: \* Projections for 2019/20.

## Takeaways

- Lesotho remains dependent on volatile and shrinking SACU revenues; if the situation is not addressed promptly, this will put pressure on international reserves and result in the build-up of government payment arrears.
- Debt is high, but remains at only moderate risk of destabilizing macroeconomic performance according to IMF assessments. Nonetheless, the debt ratio needs to be monitored carefully to ensure fiscal sustainability in the long term.
- Loans are replacing grants as a source of external finance in line with the country's lower-middle-income status, which calls for prudence in debt strategy and management.



# Annex 1: Budget calendar

Month	Key activities and outputs
April	Public Sector Investment Committee quarterly meetings
May	Budget Book published
June	Discussion and approval of physical and financial reports by Cabinet Budget Committee Baseline Medium-term Fiscal Framework prepared by the Ministry of Finance and the Ministry of Development Planning
Strategic and analytical phase	
July	Cabinet retreat (presentation of the key fiscal and budget policy, strategy and priorities)
August	Budget Framework Paper circular and ceilings are issued by the Ministry of Finance Line-ministry Budget Framework Papers prepared
September	Review of Budget Framework Paper requests Ministry Budget Framework Paper hearings
October	Updated Medium-term Fiscal Framework prepared Draft ceilings finalized Budget ceilings approved by Cabinet
Budget finalization phase	
November	Budget call circular and ceilings issued by the Ministry of Finance to line ministries Budget estimates prepared by all ministries
December	Review of estimate requests by the Ministry of Finance and the Ministry of Development Planning
January	Ministry budget hearings
February	Draft estimates compiled Draft budget approved by Cabinet Budget Committee Budget speech prepared Budget Day District consultations on the budget
March	Appropriation Bill approved by Parliament

Source: UNICEF

## Endnotes

- 1 Lesotho's budget speech for 2019/20; these estimates differ significantly from those of the World Bank (World Development Indicators online, 2019) and IMF Article IV of April 30 2019, even after transforming calendar-year data to Lesotho's fiscal-year data.
- 2 The estimate of real GDP uses the base year of 2012 to define the prices of output.
- 3 Expenditure used in the ratio for 2018/19 is spending out-turns at the end of the fiscal year. It captures off-budget spending in the capital budget from external financial sources, which is not fully captured in the Ministry of Finance's budget data for 2018/19 referred to above.
- 4 Using the Bureau of Statistics' quarterly national accounts, the real GDP series is estimated so that it reflects precisely official growth rates cited in Lesotho's budget speeches for 2019/20, 2017/18 and 2016/17.
- 5 Multi-stakeholder Rapid Drought Impact Assessment, 2016, Lesotho.
- 6 For positive correlation, the maximum coefficient level is +1. However, for negative correlation, the maximum coefficient level is -1.
- 7 United Nations Common Country Assessment 2017, United Nations Lesotho.
- 8 Government of Lesotho and UNICEF, 2018, 'Child Poverty in Lesotho: Understanding the extent of multiple overlapping deprivation', Government of Lesotho and UNICEF.
- 9 Government of Lesotho and UNICEF, 2018, 'Child Poverty in Lesotho: Challenges and responses', Government of Lesotho and UNICEF.
- 10 2016 Population Census, Lesotho.
- 11 Nominal budget refers to the national expenditure budget that is enacted by Parliament each fiscal year. In fiscal years where there was no budget revision, the originally voted or enacted national expenditure budget is used in the estimates. At times where such budget revision occurred, the revised national expenditure budget is used in the estimates.
- 12 Budget speech of Lesotho for 2019/20. The level of real (voted) expenditure is estimated using the consumer price index with a base fiscal year of 2010. The 'enacted national budget' is the expenditure budget voted by Parliament. Originally voted expenditure amounts are considered for fiscal years without budget revision (rare in Lesotho). Revised budgets are considered when such a procedure did happen.
- 13 IMF Article IV of 30 April 2019.
- 14 Targets are 20 per cent of the national budget for education (Education for All Initiative) and 15 per cent of the national budget for health (Abuja Declaration).
- 15 This refers to budget allocations to the Ministry of Social Development of Lesotho.
- 16 Health, education, water and social development.
- 17 Budget credibility is estimated by the ratio of released budget (at the warrant stage) to revised expenditure budget (released or revised budget). All released budget does not necessarily become effective spending.
- 18 See the absorption capacity study report on procurement processes in the Ministry of Health of Lesotho (November 2019).
- 19 Budget credibility is estimated by the ratio of released budget (at the warrant stage) to originally voted appropriation (released budget or voted appropriation). All released budget does not necessary become effective spending.
- 20 This is an estimate drawn from IMF Article IV of 30 April 2019. The estimate is made jointly between IMF staff and Lesotho authorities. This estimate may not be very accurate; total expenditure from Boost and the Ministry of Finance complementary databases do not properly capture capital expenditure at the execution stage of the expenditure chain.
- 21 The base year for inflation is 2010.
- 22 Total nominal expenditure presented in Figure 14 does not fully capture off-budget expenditure from capital expenditure financed by external partners.
- 23 The budget execution rate is calculated as the ratio of expenditure to revised expenditure budget (expenditure/revised budget).
- 24 Expenditure used in the estimation of the GDP ratio attempts to capture off-budget expenditure (at the execution level) from capital expenditure financed by external partners. This is why expenditure-to-GDP ratio in Figure 16 is superior to the expenditure-to-GDP ratio in Figure 14.
- 25 Tax revenues are composed of income tax, property tax and taxes on goods and services.
- 26 IMF Article IV of April 30, 2019.

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