

THE GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE

4TH QUARTER PERFORMANCE BUDGET AND FISCAL BULLETIN

2021/2022



Ministry of Finance
Government of Lesotho

BUDGET AND FISCAL BULLETIN
FOURTH QUARTER REPORT – 2021/2022

Vol. 7, Issue 4

**FOREWORD FROM PRINCIPAL SECRETARY
OF THE MINISTRY OF FINANCE**

In the face of a global recession ascribed to the effects of the COVID-19 pandemic, timely information-sharing, and up-to-date research became imperative in policymaking and policy adjustments. The Budget and Fiscal bulletin serves as one of the information-sharing tools delivered quarterly by the Ministry of Finance and I present to you the Seventh issue of the fourth quarter report which concludes the 2021/22 fiscal year (FY).

During the reported fiscal year, the government continued to actively manage the COVID-19 outbreak with the intention to return to normalcy. The economic recovery remained central to our forward-looking agenda. Our quest to recovery was depended on how well we contained the pandemic, the efficacy of our fiscal policy in mitigating the economic damage and on the global fiscal conditions.

In line with the global and domestic outlook, the key parameters as well as other macroeconomic projections driving the medium-term revenue and expenditure framework are indicative of the gradually recovering activities in our economy. The presented paper will elaborate more on the government's performance.

INTRODUCTION

This Budget and Fiscal Bulletin follows a three-sectional structure. Section one covers the macroeconomic outlook and issues that correspond with the submission of the 2021/22 budget to Parliament. Section two presents the budget and fiscal developments and is divided into the following sub-sections;

revenue analysis, execution of the Government's budgetary transactions (recurrent and capital expenditures) and the status of public debt.

In the 2021/22 fiscal year, the approved annual budget was M23,278.8 million, constituting the recurrent budget of M16,953.1 million, the capital budget of M5,725.7 million and the administration account of M600 million.

The Capital Budget is released per request and 90 percent of its revised budget was spent. On the other hand, the Recurrent Budget is released quarterly based on the cash availability. In the reported year, the recurrent expenditure was contained at 82 percent of the Revised Budget as Government worked towards managing liquidity and curtailing arrears.

**SECTION 1 – MACROECONOMIC
DEVELOPMENTS**

The budget estimates for the fiscal year (FY) 2021/22, were set under a very challenging period, where the economic state of the country was already faced with stagnant low growth rate, stationary to a declining revenue which seem to be struggling to recover. The uncertainty of the evolving pandemic coupled with high risk of external volatility given the prevailing geopolitical land scape.

However, the economy demonstrated a recovery and grew by 3 percent, after a contraction of around 5.4 percent in 2020/21. The recovery was seen in services sector (1.4 percent) which were boosted by an increase in consumption spending as well as a strong rebound in construction. Also, agriculture however small, registered positive growth (5.7 percent) due to favourable weather and government subsidies.



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The total revenue share to GDP has declined to 48 percent against the previous year where it recorded a 50 percent share to GDP. This has been realised in the tax-structure that has changed over the years, tax revenue share of GDP recorded a 21 percent, followed by SACU receipts which declined and recorded a 16 percent of GDP from a high of 24 percent of GDP in FY 2020/21. It is evident that there is a protracted slowdown in trade.

Table 1: Budgetary Operations – FY:2021/2022

Budgetary Operations: Fiscal year 2021/2022	
<i>Millions of Maloti</i>	
Revenue	17 557,50
Expenditure	17 272,20
<i>of which</i>	
Recurrent	14 666,90
Capital	2 605,30
Budget Balance	285,30

Note: The budget balance is estimated due to certain discrepancy in data reconciliation.

SECTION 2 – BUDGET AND FISCAL DEVELOPMENT

The total revenue collections improved slightly by 2 percent and recorded M17,557 million against the yearly target of around M17,253.8 million. The estimate was projected to decline by 6 percent against the previous year's outturn, given the COVID-19 pandemic situation which deepened the economic crisis. However, the 2 percent growth echoes a bouncing back of the economy.

Faced with tight resource envelope and also rising and rigid expenditures; the fiscal deficit widened to 5.8 percent of GDP, reflecting a fall in SACU revenues.

Over the last two years, fiscal policy has remained a significant tool for addressing the economic fallout

of the pandemic. Government also responded and adopted a calibrated fiscal policy approach to the pandemic like its counterparts; had to adapt to an evolving COVID-19 situation in order to support the vulnerable sectors of society/firms and enable a resilient recovery. However, in the current fiscal year, more emphasis was on the modalities to stimulate the economy.

SECTION 2.1 – THE ANNUAL REVENUE PERFORMANCE

The total annual revenue collections for the FY 2021/22 recorded a reduction of around 6 percent against the same period of last year. This is underpinned by a sharp fall in SACU revenues from 24 percent in 2020/21 to 16 percent of GDP in 2021/22. This is a 33 percent reduction compared to the previous year, reflecting slow trade and supply chain disruptions brought by the economic shock of COVID-19.

While on the other hand, total revenue has presented a slight growth of 2 percent against the yearly target. The increase was noticeable from the tax revenue with a 14 percent growth (Table 2).

Figure 1: Revenue Shares for FY 2021/22 (in Millions of Maloti)

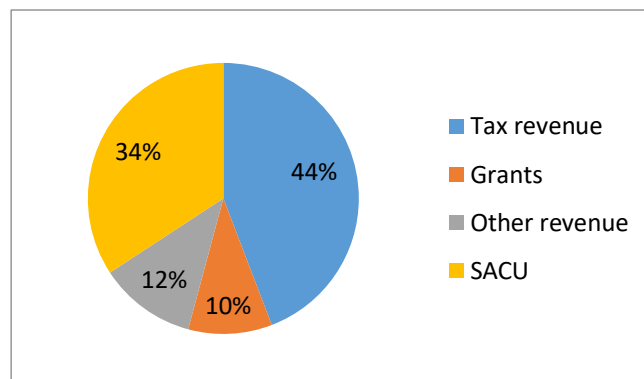


Figure 1, present a share of revenue types as a proportion to total revenue. The total revenue was mainly supported by tax revenue which contributed



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around 44 percent of the total revenue. This is followed by SACU receipts which recorded 34 percent while Other Revenue and Grants contributed 12 percent and 10 percent, respectively.

Table 2: Revenue Year on year Performance (in Millions of Maloti)

Revenue Items	2020/21 Annual	2021/22 Annual	Growth in Percent
Tax Revenue	6 778,6	7 757,0	14%
Grants	1 049,0	1 756,0	67%
Other Revenue	1 825,0	2 036,0	12%
SACU	9 818,0	6 008,0	-39%
Total	19 470,6	17 557,0	-10%

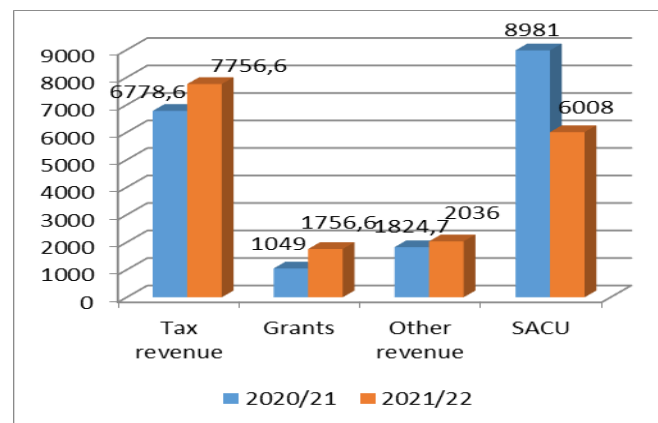
TAX REVENUE

Despite the sluggish economic landscape brought by COVID-19 pandemic and political instability, tax revenue has defied all odds to surpass the annual revenue target of M7,340million and reached the collections of M.7,757 million. This is 14 percent growth against the target and 13 percent growth compared to the same period of last year.

On the same note, the quarterly tax revenue has presented a growth of 11 percent compared to the same period of last year. This is mainly observed in corporate income tax (CIT) which presented a 52 percent growth. This growth is as a result of a low base from the previous year outturn where most of companies did not pay CIT. It has also surpassed the target by 26 percent. VAT collections, also grew by 17 percent against the same period of last year and grew by 2 percent against the yearly target.

On the contrary, year on year, PAYE declined by 9 percent, given the loss of jobs due to COVID-19 and low levels of investment.

Table 3: Revenue Performance (in millions of Maloti)



GRANTS

These are grants from development partners either for budget support or sector budgeted projects. During the fourth quarter, grants grew by 67 percent against the same period of last year. This is due to the delays in investment during the hard lockdowns of the COVID-19 years.

It is worth mentioning that grants and their performance are mostly dependent on the set terms and conditions for the funds to be disbursed and spent. Therefore, on annual basis they have contributed 12 percent of the total revenue and have presented a substantial increase of around 67 percent against the same period of last year.

OTHER REVENUE

Year on year, non-tax revenue recorded a 12 percent growth. This was mainly attributable to electricity, royalties both water and mining, which recorded 16 percent, 18 and 14 percent respectively. While other revenue items like dividends recorded high growth due to dividends which were not declared in the previous year.



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SACU

SACU revenues consists of the external trade and excise duties on imported goods as well as development component, derived from excise taxes (SACU, 2012). The SACU revenues for the fiscal year 2021/22 realised M 6,008 million from a high of M8,981 million. The fall in SACU revenue was amplified by declining trade and growth during the COVID-19 pandemic. SACU revenues have contributed 34 percent share of the total revenue which decreased by 33 percent from the previous year.

**SECTION 2:2 FOURTH QUARTER
RECURRENT BUDGET
PERFORMANCE**

The approved budget for the reported fiscal year is set at M16,953.1 million. At the end of the fourth quarter, the budget had accumulated to M17,850.2 as depicted under the Revised Budget column in Table 3. This revision is attributable to both advances made from the Contingencies Fund and the Centralized Items.

Table 3: 2021/22 Fourth Quarter Recurrent Budget Expenditure

EXPENDITURE CATEGORY	APPROVED BUDGET	REVISED BUDGET	WARRANT ALLOCATED	EXP. TO DATE	CASH BALANCE	BUDGET BALANCE	EXP % OF WARRANT RELEASED	EXP % OF REVISED BUDGET
41- Compensation of Employees	8 001,8	8 031,9	7 481,3	6 877,7	423,4	550,6	92%	86%
42- Travel and Transport	441,6	447,1	411,5	387,4	17,0	65,7	94%	87%
43- Operating Costs	1 943,2	2 278,0	2 114,7	1 807,9	258,0	163,2	85%	79%
46- Interests	810,8	810,8	659,1	480,7	178,4	151,8	73%	59%
47- Transfers	2 913,8	3 359,3	3 053,7	2 914,5	130,2	305,7	95%	87%
48- Other Expense	1 055,2	1 067,6	1 065,4	1 055,2	10,2	2,2	99%	99%
49- Losses	100,0	83,4	35,0	36,6	- 1,5	48,3	104%	44%
51- Acquisition of Financial Assets	13,7	22,2	22,2	11,7	10,5	1,6	53%	53%
52- Acquisition of Monetary Gold and Special Drawing Rights	2,8	2,8	2,8	-	2,8	-	0%	0%
53- Acquisition of Non Financial Assets	36,6	80,6	61,8	48,0	1,0	18,8	78%	60%
61 Domestic Repayments	716,2	719,1	419,5	369,5	50,0	299,6	88%	51%
62- External Repayments	917,3	917,3	900,7	697,8	202,9	16,7	77%	76%
Grand Total	16 953,1	17 820,1	16 227,6	14 686,9	1 282,8	1 624,1	91%	82%

Source: Ministry of Finance; Budget Department

The cumulative warrant allocations at the end of the financial year was M16,227.6 million and M14,686.9 million was spent. This expenditure

translates into 91 percent and 82 percent of the warrant allocation and the revised budget, respectively.

The under expenditure is subsequent to delays in capturing payments incurred outside the system. Such transactions are mostly untaken under the Ministry of Foreign Affairs and International Relations and the Ministry of Local Government and Chieftainship whose payment systems are recoded outside the IFMIS.

When classifying the recurrent performance into expenditure categories, **Compensation of Employees** budget was M8,001.8 million and was revised to M8,031.9 million. This increase was due to the additional funding from the advances from the Centralized Items to cater for shortfalls following the split of the Ministry of Defence and National Security Services.

Travel and Transport recorded an expenditure of M387.4 million at the end of the year and this translates to 81 percent of the revised budget. The revised budget recorded M477.1 million and this upsurge was primarily an outcome of advances from the Contingencies Fund which were released to cater for deployment of Lesotho Defence Force Mission in Mozambique.

Regarding **Operating Costs**, the approved budget was M1,943.2 million and was revised to M2,278.0 million. The warrant allocation recorded M2,114.7 million of which 85 percent was utilised. The curbing of expenditure under this category continued due to cash inflow challenges.

Under the **Transfers** category, the funds are mainly transferred to the Ministries of Health, Education and Training, Finance and of Social Development. The approved budget under this category was M2,913.8 million, which was then revised to M3,359.3 million during the course of the financial year.



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The growth was mainly a resultant of funds reallocated from Centralised Items and Contingencies Fund to the following Ministries, Departments and Agencies (MDAs);

- Disaster Management Authority for humanitarian assistance during heavy rains between October and January 2022.
- Independent Electoral Commission to finalise demarcations of electoral boundaries and re-registration of electors.
- Water to cater for insurance and maintenance of the 'Muela Hydropower Station.
- Gender and Youth, Sports and Recreation, for hosting of the African Union Sports Council Region 5 games.

The expenditure at the end of the year recorded M2,914.5 million which translates into 87 percent and 95 percent of the revised budget and warrant allocation, respectively. This is the reflection of Government's continued support towards Parastatals, Partners in Health, Institutions of Higher Learning, and the vulnerable groups during the pandemic.

Public Debt

	Q4 2020/21	Q3 2021/22	Q4 2021/22
OUTSTANDING DEBT	17 878,70	19 848,90	18 944,00
EXTERNAL DEBT	14 848,90	16 480,80	15 225,90
Disbursements	135,7	401,6	371,8
External Debt Service	265,1	176,5	291,5
Principal Repayments	172,2	140,6	192,1
Interest Payments	92,9	35,9	99,4
DOMESTIC DEBT	3029,8	3368,1	3718,1
T-Bonds	2599,8	2783,3	3133,3
T-Bills (Fiscal only)	430	584,8	584,8

Total public debt stock at the end of fourth quarter was recorded at M18,944.0 million, a decline of M904.9 million from the previous quarter but a year-on-year increase of M1,065.3 million. The

bulk of movements came from external debt while domestic debt maintained an upward trajectory of M350 million from third quarter and M690 million year on year. The exchange rate recovered in the period moving to the fourth quarter after a massive depreciations in the earlier quarters resulting in external debt recovery of M1,254.9 million to settle at M15,225.9 million external stock.

For the entire year, the external debt stock Gross borrowing was M1,542.9 million across all currencies in the portfolio. There was an overall appreciation of M527.4 million of Rand/Loti against all those currencies except Chinese Yuan (CNY) which gained M60.1 million. The exchange rate gains combined with principal redemptions assisted to offset debt increase to just M377 million.

On the Domestic side, net borrowing on long term securities resulted in overall increase of M533.5 million from the previous year and M350 million from third quarter. The stock of T-Bills amounting to M430 million was retired, and a new batch of M584.8 million was contracted in the third quarter and remained unchanged in the final quarter of 2021/22.

**SECTION 2:3 – THE FOURTH
QUARTER'S CAPITAL
EXPENDITURES**

The approved Capital Budget for the year 2021/22 was M5,725.7 million. The Government of Lesotho (GOL), Donor Grants and Donor Loans are the sources of funding with contributions of M2,128.9 million, M1,327.4 million and M2,269.5 million respectively.



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Table: 2021/22 Fourth Quarter Capital Budget Performance

FUNDING CATEGORY	APPROVED BUDGET	REVISED BUDGET	WARRANT ALLOCATED	EXP. TO DATE	BUDGET BALANCE	EXP % OF WARRANT RELEASED	EXP % OF REVISED BUDGET
GOL Funding	2128,9	2901,3	2695,3	2605,3	206	97%	90%
Donor Grants	1327,4	1327,4	0	0	1327,4	0%	0%
Donor Loans	2269,5	2269,5	0	0	2269,5	0%	0%
Grand Total	5 725,8	6 498,2	2 695,3	2 605,3	3 802,9	97%	40%

Source: Ministry of Finance; Budget Department

The aggregated overall capital performance recorded M2,605.3 million, which accounts for 40 percent utilization of the revised budget. The expenditures under development partner grants and loans depicts zero expenditure, and this is instigated by donor funded projects which spend outside the IFMIS system.

The revised budget under GOL funding was M2,901.5 million. The cumulative increase in revised budget was as a result of reallocations from Contingencies Funds and Supplementary Budget, between the first and the third quarter, to finance the following;

- payment of outstanding interim certificates for both Tikoe and Belo Industrial Infrastructure Projects.

- Finalization of the Agricultural census.
- Procurement of hardware for Human Resource Management Information System.
- Payment of a certificate towards Senate Chambers and Office Project.

Focusing on the fourth quarter, additional funding reallocated from Contingencies Fund were to cater for the shortfall on rural electrification project and to support the health services through the mandate of Lesotho Millennium Development Agency (LMDA).

The warrants released recorded M2,695.3 million of which M2,605.3 million, translating into 97 percent, was spent. The performance was satisfactory for most projects.

This Newsletter is published under the authority of the Principal Secretary responsible for Finance.
 Editor-in-Chief: Budget Controller, Ministry of Finance
 For more information contact Ms. Malipalesa Mei (Mannyali.malefane@gov.ls) and Ms. Nthabiseng Sello (nthabiseng.sello@gov.ls)

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**Published by;
Ministry of Finance
Finance House
Government Complex
KingsWay Road**

Tel:+266 22310964

Email:mof.budgetcontroller@gov.ls