

**BACKGROUND TO THE
2013/14 BUDGET**



LESOTHO

Ministry of Finance and Development Planning

Government of Lesotho

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Contents

1	Chapter 1: Introduction.....	5
1.1	Policies and Background to the 2013/14 Budget.....	5
1.2	National Economic Policy Goals.....	6
1.3	Fiscal Strategy	6
1.3.1	Revenue Reforms.....	6
1.3.2	Expenditure Reforms	7
1.3.3	Public Financial Management Reforms	8
2	Chapter 2: The Economic Setting.....	9
2.1	Key Macroeconomic Indicators	9
2.2	International and Regional Performance and Prospects.....	10
2.2.1	International Performance and Prospects.....	10
2.2.2	Regional Performance and Prospects.....	10
2.3	National Accounts	11
2.3.1	Primary Industry.....	11
2.3.2	Secondary Industries.....	12
2.3.3	Tertiary Industries.....	13
2.4	Balance of Payments.....	13
2.4.1	Current Account	13
2.4.2	Financial and Capital Account.....	15
2.5	Depository Corporation Survey.....	16
2.5.1	Money Supply	16
2.5.2	Net Foreign Assets	16
2.5.3	Net Domestic Credit.....	17
2.5.4	Reserve Position.....	17
3	Chapter 3: An Overview of Fiscal Position	18
3.1	Revenue	18

3.1.1	Tax Revenue	18
3.1.2	Grants.....	19
3.1.3	Non-Tax Revenue	19
3.1.4	SACU.....	19
3.2	Expenditure.....	21
3.2.1	Compensation of employees	21
3.3	Capital Budget: Expense and Acquisition of Non Financial Assets	24
3.4	Financing	25
4	Chapter 4: Composition of Public Debt	27
4.1	External Debt	27
4.1.1	Currency Composition of External Debt	27
4.1.2	The Concessionality of External Debt Portfolio	27
4.2	Domestic Debt.....	27
4.3	Debt Service	28
4.4	The debt sustainability Framework (DSF)	28
5	Chapter 5: Conclusion	30

List of Tables

TABLE 1: NATIONAL ACCOUNTS (Constant Prices).....	31
Table 2: National Accounts (Constant Prices).....	32
Table 3: National Accounts (Current Prices).....	33
Table 4: Balance of Payment.....	34
Table 5: Depository Corporation Survey.....	35
Table 6: Prices.....	36
Table 7: Fiscal Framework.....	37
Table 8: Total Revenue by Source.....	38
Table 9: Expenditure	39

Table 10: Compensation of Employees	40
Table 11: Use of Goods and Services	41
Table 12: Subsidies and Grants	42
Table 13: Nonfinancial Assets	43
Table 14: Financing	44
Table 15: Capital Expenditure	45
Table 16: Public Debt by Source	46
Table 17: Concessionality of External Debt Portfolio	47
Table 18: Outstanding Debt and Debt Service.....	48
Table 19: Domestic Debt by Instrument Holder	49
Table 20: IDA & IMF (Rating 2008) - Country Performance Assessment.....	49
Table 21: External Debt Burden Situation for Lesotho	50

1 Chapter 1: Introduction

1.1 Policies and Background to the 2013/14 Budget

The 2013/14 budget recognises the need for high and sustainable economic growth, which should be driven by developing and supporting the private sector. It also recognises that the growth should be inclusive, employment generating and must lead to poverty reduction so as to improve the quality of life for Basotho. Growth in the last ten years has averaged 4.3 percent which falls below the desirable optimal rate of between 6 and 7 percent. Weaknesses and uncertainties in the global economy remain challenging for Lesotho. Slow global and regional economic growth and worsening unemployment continue to affect overall demand and thus Lesotho's exports, especially diamonds and textiles, the major drivers of growth before the 2008 crisis.

In its attempt to redress the impact of the global financial and economic crisis on Lesotho, and to support and strengthen the country's resilience, the Government signed a Three-Year Extended Credit Facility (ECF) Program with the International Monetary Fund (IMF) in 2010. The response has been positive. The program was developed to help with the fiscal consolidation exercise by containing expenditures within affordable levels and managing the international reserves at levels adequate for preservation of fiscal sustainability and macroeconomic stability. The ECF program performance has remained strong throughout the three-year period. The program is due to expire at the end of March 2013.

In preparing the 2013/14 budget and the medium-term, the Government has directed more expenditure in sectors that will create jobs, provide income, promote economic growth and have a meaningful contribution towards poverty reduction. These policies have previously been defined in the National Vision 2020 and the Poverty Reduction Strategy (PRS), but these documents lacked clear strategies to attain the policy objectives. The National Strategic Development Plan (NSDP) was therefore, developed to among others, address these shortcomings and provide an aggressive and robust monitoring and evaluation programme that will keep development programme on track. It is in light of the implementation of the NSDP and its effective monitoring and evaluation that Government plans to augment the outcomes of the 2013/14 leading to improvements in the medium to long term.

1.2 National Economic Policy Goals

The following goals remain critical in the medium to long term to attain the above national priorities:

- Creating jobs to reduce unemployment and absorb the annual increment in the labour force;
- Improving the quality of and increasing access to education and training for all Basotho;
- Developing infrastructure so as to make economic opportunities accessible to all segments of the population and to provide the basis for rapid industrialization and job creation;
- Enhancing food security by improving agricultural productivity and introducing high value cash crops, better farm management practices, irrigation, water harvesting and afforestation;
- Integrating youth, children and gender issues in all Government policies and programs;
- Scaling up the fight against HIV/AIDS;
- Consolidating democracy, peace and stability by fighting crime, promoting safety and security and by enhancing the role of Parliament, accountability and transparency; and
- Promoting efficiency and effectiveness in the delivery of public services through enhanced public and financial management and audit of Government operations.

1.3 Fiscal Strategy

Based on the above national economic policy goals an optimal fiscal strategy proposed for adoption by Government involves the following actions. The actions will require an accelerated implementation and continuous fine tuning during 2013/14 fiscal year. These include:

1.3.1 Revenue Reforms

- Improve mobilization of domestic and concessional external resources for investment in productive activities. This will require critical exploration of new revenue sources, without increasing the burden of taxation on the poor. For instance, selected fees,

penalties and charges that have not been revised in the past several years will be increased;

- Undertake annual efficiency and effectiveness analyses for both tax and nontax revenues, and implementing corrective measures where necessary as well as identifying new sources of revenue.

1.3.2 Expenditure Reforms

- Increase investment to productive sectors where growth and jobs are created;
- Review the civil service structure to determine the appropriate staff complement for efficient and effective delivery of government development programmes;
- Continue the shift in the composition of resource allocation from recurrent to capital expenditures by keeping the level of recurrent budget constant in real terms or allowing only increases associated with new productive investments;
- Enhance efficiency and quality of spending through; i) a comprehensive review of the size of government's vehicle fleet with the view to reducing the fleet; ii) reducing cost of local subsistence for all ministries; iii) pursuing a year-round prioritization of international travel for all government ministries to minimize cost on international fares and subsistence; iv) restricting workshops and training to areas crucial for effective service delivery; and v) subjecting all capital projects to appraisal based on economic growth, job creation and income generation;
- Strengthen management and operationalisation of the revolving fund under the tertiary bursary scheme. Effective recovery of loan bursaries will provide additional resources for the scheme while releasing annual revenue collections for funding other development programmes;
- Improve management and maintenance of public assets. National assets have often suffered waste due to lack of maintenance and eventually become very expensive to rehabilitate or reconstruct;
- Develop a procurement policy to ensure standardization of special expenditure across all government Ministries Department and Agencies (MDA) and asset management. Type and frequency of procurement of office equipment and furniture should be based on the hierarchical level of officers and nature of work, as well as determination of realistic asset depreciation rates. This will help curb a seemingly pervasive discretion on procurement of these assets, which is proving to be costly to government; and
- Review selected areas of government to ascertain activities that can be brought together to be performed in a merged arrangement like the One-Stop Business Facilitation Centre (OBFC).

1.3.3 Public Financial Management Reforms

- Improve financial administration and supervision, accounting and auditing in order to eliminate fraud, corruption and resource leakages;
- Improve monitoring and evaluation of the annual budgets in order to readily determine when certain activities should fall out of the annual allocations.

2 Chapter 2: The Economic Setting

Lesotho is a landlocked country which is completely surrounded by the Republic of South Africa, with a population of about 1.90 million (2006 census) estimated to grow at an annual average rate of 0.25 percent. Its real GDP Per Capita in 2011/12 was estimated at M10 064.1 thousand. The country is a member of economic groupings such as, the Common Monetary Area (CMA), the Southern African Customs Union (SACU) and Southern African Development Community (SADC). SACU receipts have continued to constitute the biggest share of government's total revenue. They constituted over 50 percent of revenue until 2009/10 and fell drastically between 2010/11 and 2011/12 at around 30 percent of total revenue, an equivalent of around 15 percent of GDP, which was the lowest in history. This drop in SACU called for fiscal consolidation. Although they have recovered, the SACU receipts now constitute just over 40 percent of total revenue.

Lesotho is also a member of international organizations such as the World Bank (WB) and the International Monetary Fund (IMF).

2.1 Key Macroeconomic Indicators

The average growth rate of the Gross Domestic Product (GDP) for the past ten years has been 4.3 percent, with average per capita GDP of around M6 257.02. While inflation stabilized to around 3.6 percent in 2010/11, it registered 6 percent in 2011/12 a hike of 2.4 percent points. The cost of borrowing also soared to the levels of 10.4 percent in 2011/12 from 7.5 percent in 2010/11 while real interest rates shrank to 5.8 percent from 6.8 percent.

The SACU receipts dropped by almost 47 percent from M 4918.05 in 2009/10 to M2 627 million in 2010/11. There was a further fiscal stress in Lesotho's economy when SACU receipts declined by about M1 350 million in 2011/12. The fiscal balance in the government account has seen surpluses from 2003/04, due to a combination of windfall from SACU and under-spending, especially in the capital budget, which resulted in accumulation of huge reserves and an import cover reaching a peak of 6.8 months of imports in 2008/09. However, these reserves were depleted to finance budget deficits between 2009/10 and 2011/12.

The current account registered an average surplus of M890.3million from 2006/07 to 2008/09. However, due to stumpy SACU receipts and low economic activity which yielded an expansion in imports of goods and services during 2011/12, the current account balance experienced a massive deficit of M4,650 million. The distinct nature of Lesotho's economy is such that Gross National Income (GNI) and Gross National Disposable Income (GNDI) are seen as the appropriate measures of economic activity. This is due to the fact the country receives substantial amount of primary income from the rest of the world. These incomes include compensation of mine workers in South Africa, dividends accruing from investment income and subsidies. The number of mine workers went down by 0.2 percent but their average wages has swelled by 5.7 percent 2011/12.

The country also receives sizeable current transfers, which includes SACU receipts. There has been a 7.4 percent decline in these transfers owing to declining SACU revenues in 2011/12. Consequently, national savings declined significantly by 16.1 percent.

2.2 International and Regional Performance and Prospects

2.2.1 *International Performance and Prospects*

The economic recovery has been uncertain in 2011 with world economic growth portraying a slower growth of 3.7 percent, a decline 1.5 percentage points from 2010. This slow down was caused by amongst others, the large increase in financial and fiscal uncertainty in the Euro zone, catastrophic events in some of the huge economies, like Japan, and low domestic demand (USA). These external shocks had a negative impact on Lesotho's export sectors such as mining and manufacturing.

The preliminary indications are that world economy grew by 3.5 in 2012 and is projected to rise to 4.1 in 2013 reflecting some positive response and impact of policy interventions. While the European Union continues to pose a lengthened stagnation, the US is expected to increase its productivity.

World inflation was dominated by inflation in emerging and developing countries which recorded a rate of around 10 percent in 2008. In 2009, however, it declined to an average rate of 5.2 percent for emerging and developing economies compared with 0.1 percent in advanced economies as a result of a 36.3 percent decline in commodity prices especially oil prices. There was an average increase of 6.1 percent in emerging and developing economies' inflation in 2011 due to a hike in oil and non fuel price of 27.9 percent and 26.3 percent, respectively.

2.2.2 *Regional Performance and Prospects*

At the regional level, according to the IMF, output in most sub-Saharan African countries has recovered to the levels experienced prior to the financial crisis and the global recession. In 2011, regional economic performance expanded by more than 5 percent due to strong demand and increases in commodity prices. The challenge is to intensify macroeconomic policies to strengthen the resilience of the national economies against any possible exogenous shocks and another crisis. This implies that there are still risks to the regional economic activity, which include high oil and food prices, climate change, as well as the threats posed by the debt situation in Europe.

2.3 National Accounts

Real GDP grew at an average of 5.5 percent between 2008/09 and 2011/12. In 2009/10 and 2010/11 it grew by 4.7 percent and 6.8 percent, respectively. This was largely influenced by agriculture, manufacturing, construction, financial intermediation and mining, which subsequently fell in 2010/11. In 2011/12, growth was 5.4 percent due to significant recovery of 32 percent in mining and growth of health and social work as a result of opening of new Referral Hospital. However, that growth was affected by significant reduction in agricultural output, especially crops due to floods and a decline in productivity in the Textile Sector.

In 2012/13 through the medium term, Lesotho's macroeconomic prospects remain challenging, with growth expected at an average rate of 3.4 percent, lower than desired levels of 7 percent. Recent drought which led to 70 percent decline in domestic agricultural production in 2012/13 is expected to worsen food security situation. Exports of textiles are likely to be affected by the uncertain global economic outlook and expectation of the African Growth and Opportunity Act (AGOA) trade preferences being phased out in 2015/16. However, construction activities related to Metolong Dam, Millennium Challenge Compact (MCC) and Phase II of the Lesotho Highlands Water Project, coupled with other Government investment in infrastructure development is expected growth in real GDP in 2012/13 through the medium term.

2.3.1 Primary Industry

The Primary industry grew by an average of 8.5 percent between 2008/09 to 2011/12, with the agriculture and mining industries contributing an average of 7.7 percent and 7.5 percent share to GDP, respectively. Agriculture grew at an average of 10.3 percent between 2008/09 and 2010/11 as a result of significant growth of in crops, net growth in livestock, and services over the three years, despite slight decline of 0.8 percent in livestock experienced in 2010/11 resulting from theft and the outbreak of foot and mouth disease. In 2011/12, however, overall agricultural output suffered a drop of 5 percent as a result of a significant decline of 25.4 percent in crop production due to the floods.

Mining sector grew at an average of 13.0 percent from 2008/09 and 2011/12, despite a 0.2 percent fall in 2010/11 after closure of the Kao and Liqhobong mines that resulted from the global crisis. However, in 2011/12 there was a significant growth of 15.3 percent when both Kao and Liqhobong mines re-opened and Letšeng mine doubled its production capacity.

The Primary industry is expected to grow at an average of 10.5 percent from 2012/13 over the medium term despite a 14.7 percent decline in agriculture after a 70 percent drop suffered by crops due to drought in 2012/13. Production in agriculture is expected to recover and grow by 15.3 percent in 2013/14 due to the government support of M117 million invested in summer cropping and further grow by 11.9 percent and 4.5 percent in 2014/15 and 2015/16 as government continues to support the sector resulting in expansion in investment and efficiency in productivity.

Other developments in the primary sector over the medium term are investment into construction of the third plant by the Letšeng, which has been rescheduled to start operating in 2015/16 and expected to increase mining production by 25.9 percent, together with the establishment of the diamond cutting and polishing factory aimed at adding value to the diamond produce by the Letšeng Diamonds. There is further a planned expansion of the production capacities for Kao and Liphobong increasing from 32,399 and 127,012 carats in 2011/12 to 363,250 and 1,098,000 carats in 2015/16 for the two mines, respectively.

2.3.2 Secondary Industries

The secondary industry grew at an average of 4.2 percent from 2008/09 to 2011/12, the key contributors being construction and manufacturing. Construction grew at an average of 14.9 percent over the review period as a result of increased investment in the Millennium Challenge Account (MCA) projects in the health and water sectors, coupled with increases in government capital expenditure and private sector investment in construction of shopping malls and estates.

The manufacturing sector registered an average growth of 1.8 percent from 2008/09 to 2011/12 at the back of improvements in other manufacturing and food products and beverages. Other manufacturing registered an average growth rate of 4.2 percent from 2008/09 to 2011/12 as a result of growth in demand in the SACU market. The textile and garment industry suffered a sluggish growth at an average of 0.6 percent during the review period due to the elimination of the Duty Credit Certificates (DCC) in 2009/10, the global economic crisis and to uncertainty that surrounded extension of the Third Country Fabric Provision (TCFP) for textiles destined for the American market.

The secondary industry is expected to grow slowly at an average of 2.5 percent from 2012/13 to 2015/16. This is a result of the expected decline in the growth of Construction to 7.5 percent average, as a result of reduced capital investment as the MCA and Metolong projects come to an end in 2013/14. The construction activities to support infrastructure of the Lesotho Highlands Water Project (LHWP) phase II will ease the impact of the termination of the MCC projects. The manufacturing industry, on the other hand, is expected to recover and grow at an average rate of 4.6 percent from 2012/13 to 2014/15 after the TCFP extension in September 2012 and as a result of the intensity in the product and market diversification initiative by Lesotho National Development Corporation (LNDC) and some firms, as well as the continued development of the complementary infrastructure (Tikoe Industrial Estate) in an effort to attract further Foreign Direct Investment (FDI). However, manufacturing is expected to drop by 2.8 percent in 2015/16 as textiles are likely to decline significantly as the African Growth and Opportunity Act (AGOA) trade preferences which encompass the TCFP expire in 2015/16.

2.3.3 Tertiary Industries

The tertiary industry grew at an average of 5.2 percent between 2008/09 and 2011/12 due to significant developments in health and social work, transport and communication and financial intermediation. Health and social work registered an average growth of 17.8 percent as a result of opening of the new referral hospital in 2011/12 and construction of new health centres under the MCA. Financial intermediation grew at an average of 11.6 percent at the back of the improvements and reforms relating the financial sector and eligibility to acquire credit and the availability of financial services extending into the remote areas through the Post Bank. Transport and communication grew at an average rate of 10.2 percent attributed mainly to significant developments in the post and telecommunication sub-sector, which resulted in increased coverage of the telecommunications and mobile services, and infrastructure related to postal services.

The tertiary industry is expected to grow at an average of 2.4 percent from 2012/13 through the medium term. This sluggish growth is due to a moderation in health services and transport and Communication. The transport and communication grew slowly at an average of 3.4 percent over the medium term as it becomes more expensive to increase Post and Telecommunication in the rural and mountainous regions. The normalisation of growth in the Health services in 2012/13, after a large increase that was meant for the new referral hospital in 2011/12 also led to this sluggish growth in the tertiary sector.

2.4 Balance of Payments

2.4.1 Current Account

The Current account realised a surplus of 10.4 percent of GDP in 2008/09 compared with 5.5 percent in 2007/08. The major source was a substantial improvement in current transfers due to large SACU receipts followed by an increase in income account. From 2009/10 to 2011/12, the current account declined precipitously to the average deficit of 14.4 percent of GDP. The factors underpinning the deficit were a widened trade deficit in 2009/10, a significant drop in SACU receipts in 2010/11 and a large decline in income account coupled with narrow SACU receipts that persisted in 2011/12.

From 2012/13 to 2013/14 the current account deficit will continue to worsen, recording the average of 19.5 percent of GDP. This is mainly attributed to a broadened trade deficit driven by expected investment related to construction activities. Although exports are expected to grow massively by 24.9 percent, and current transfers are expected to grow significantly by 64.6 percent in 2012/13, the wide trade deficit, through growth in imports, will more than offset these developments hence the persisting deficit. The deficit will start to narrow down from 2014/15 to 2015/16 as most of the construction activities will be phasing out and hence a corresponding decline in imported materials.

2.4.1.1 Trade in Goods and Services

The trade balance registered the average deficit of 14.7 percent between 2007/08 through 2011/12 with the pick of 33 percent observed in 2009/10. This was the result of a massive increase in imports due to advanced infrastructure associated Metolong construction. The decline in exports due to low global demand also exacerbated the trade balance. The trade deficit will continue to increase between 2012/13 to 2015/16 with the peak realised in 2013/14 as a result of a massive increases in imports mainly attributed to the construction of Metolong dam and phase II of the Lesotho Highland Water project.

Merchandise exports grew by the average of 9.7 percent between 2007/08 through 2011/12. However, in 2009/10, the exports declined by of 20 percent broadly affecting all components of exports due to the global recession and low demand for exports products.

However, exports are expected to grow between 2012/13 to 2015/16 with the average of 14.2 percent. Diamonds will reach a dramatic growth of 60 percent in 2015/16 mainly as a result of Letšeng which will double its production capacity after investing in third plant while textile exports are expected to decline by 3.1 percent due to the phasing out of AGOA.

Imports grew by an average of 11.4 percent between 2007/08 and 2011/12. They are expected to increase massively between 2012/13 and 2013/14 by 27.4 and 12.4 percent, respectively, as a result of construction activities related to phase II of the Lesotho Highland Water project and the construction of the Metolong dam.

2.4.1.2 Income Account

The income account grew by the average of 11.6 between 2007/08 and 2009/10. It declined by 0.9 percent in 2010/11 and worsened to 40.5 percent in 2011/12. The substantial decline of 2011/12 was driven by a decline in compensation of miners in South Africa coupled with increased outflows of dividends from direct investment and further exacerbated by the abolishment of Duty Credit Certificates (DCCs).

Between 2012/13 and 2015/16, the income account is expected to register a negative growth of 6.0 percent underpinned by the outflows in investment income and a decline in subsidies.

2.4.1.3 Current Transfers

Current transfers grew by the average of 5.6 percent between 2007/08 and 2011/12. A significant decline of 22 percent was realised in 2010/11 as a result of a massive decline in SACU receipts by 47.4 percent due to the global recession.

The current transfers are expected to grow by 66.7 percent in 2012/13. The massive growth is the result of robust recovery in SACU receipts which are expected to grow by 123.8 percent. They are expected to decline by 0.9 percent between 2013/14 and 2015/16 as a result of expected moderate decline in SACU receipts.

2.4.2 Financial and Capital Account

Over the review period covering 2007/08 to 2011/12, the financial and capital account reflected a deficit of M528.1 to M734.6 for the first two review years, then recorded surplus of M240.7 and M2,113.5 from 2009/10 to 2011/12. The inflows are perfectly in sync with trends in the current account balance, meaning that the country was either borrowing abroad or drawing down its reserves to finance the current account deficit.

While the deterioration of the current account balance in 2013/14 and 2014/15 necessitates increased inflows in capital and financial account, there is an improvement towards the end of the mid-term forecast, which suggest narrowing of current account position. The capital and financial account is forecast to decline from a high of M5,294.6 million in 2013/14 to M3,143.9 million in 2015/16.

2.4.2.1 Capital Account

This comprise of government capital grants and migrant transfers, the former constituting bigger weight towards capital account and offsetting the outflow of transfers from expatriates providing technical assistance in the country. In 2007/08, capital account recorded M189.8 million and increased to M1,061.1 million in 2011/12. The increased inflow, specifically in 2010, was a donor fund from the European Investment Bank of about M1.1 billion. Government capital grants are expected to increase on average by 23 percent in the medium term despite a 51 percent significant drop in 2014/13 from M1,380.5 to M673.2 million attributed to facing out of Millennium Challenge Corporation Projects.

2.4.2.2 Financial Account

The financial account, comprising direct investment, portfolio investment and other investment, registered outflows of M 717.9 million in 2007/08 to M78.8 million in 2010/11. This was mainly attributed to currency deposits of other sectors net, mainly financial assets of mine workers due to participation into pension and medical funds and also net compensation of employees of resident workers in South Africa. Financial account, however, increased significantly by 18.6 percent in 2011/12 to M1 052.4 mostly from direct investment. A number of South African subsidiary companies opened businesses in the new malls, and this directly increased foreign direct investment in the country. Foreign Direct Investment is projected to increase by an average of 31 percent in the medium term. In 2013/14, it is expected to increase significantly to M3 743.9 million from M2 067.9 million, mainly due to Letseng mining investment for the third plant scheduled for full production in 2015/16. The decline towards the end of the projection period of 40.4 percent, is explaining by the end of the investment into the third plant by Lets'eng mining company.

2.5 Depository Corporation Survey

The key objective of monetary policy in Lesotho is achievement and maintenance of price stability. Under the fixed exchange arrangement between Lesotho and South Africa, this is achieved through targeting an adequate level of net international reserves (NIR). As at December 2012, the target was maintained at M10,020 million and continues to be consistent with both the Extended Credit Facility (ECF) program obligations and maintenance of loti-rand peg. The policy choice of pegging loti to the rand bodes well for Lesotho's economy, as South Africa is renowned for its sound macro-economic policy which has helped maintain a low inflation rate throughout the Common Monetary Area (CMA). The arrangement also facilitates transactions between the CMA member countries. However, the peg limits Lesotho's scope for an independent monetary policy.

In Lesotho, the preferred measure of money supply is M2, which is equal to narrow money (M1) and quasi-money. On the asset side M2 is defined as Net Foreign Assets (NFA) and Net Domestic Assets (NDA) less *Other Items Net (OIN)*.

2.5.1 Money Supply

Broad money supply (M2) constitutes currency in circulation (Maloti with public), demand deposit (including deposits of official entities) and time deposit with depository corporations. Money supply in Lesotho is understated by the amount of rands in circulation. This is because currently there is no plausible method of measuring the amount of rands in circulation. This measure is also understated by exclusion of deposits mobilized by other depository corporation such as credit co-operatives. Nevertheless, measurement of Maloti component is an important indicator of the development in the growth of M2.

At the end of 2011/12, broad money supply grew at a slightly faster rate of 5 percent compared to 2010/11 increase of 3 percent. The increase in money supply in 2011/12 was attributable to an increase in domestic credit and net foreign assets.

The growth of broad money supply can also be observed through the changes of the components of the money supply. Narrow money (M1) grew by 16 percent following a fall of 49 percent in the previous year. The growth of M1 was driven by the recovery of demand deposits from a decline of 55 percent in the previous year. Quasi money, on the other hand, fell by 2 percent, which was not enough to offset the overall growth of M2.

2.5.2 Net Foreign Assets

At the end of 2011/12 the Net Foreign Assets (NFA) of the entire banking system fell by 5 percent. That was a third fall observed in three consecutive years beginning in 2009/10 which saw NFA shrink by 7.0 percent and 13.0 percent in 2010/11. The fall of NFA in 2011/12 was owing to the 19.0 percent decline of the commercial banks NFA while CBL saw an increase of 3.0 percent.

The decline of commercial banks foreign assets reflected transfer of funds by commercial banks from South Africa to Lesotho to meet their liquidity needs as evidenced by an increase

in loan to deposit ratio. However, the growth of NFA of the Central Bank indicated a revaluation gain due to weakening of loti with respect to international currencies.

The NFA is expected to grow at an average of 6 percent as a result of a projected average growth of 11 percent in the CBL net foreign assets largely influenced by a recovery in SACU receipts.

2.5.3 Net Domestic Credit

In 2011/12 the overall Domestic credit excluding net credit to government grew by 25 percent. However, when net credit to government is included, domestic credit demonstrates a huge decline. This was owing to substantial withdrawals of government deposit to finance a record fiscal deficit of 10.8 percent of GDP. Credit to the private sector increased in line with favourable interest rate environment at the time and extension of loans to the SMMEs.

But as the government is looking to accumulate deposits over the next three years, government deposits are expected to increase from M2,782.0 million in 2011/12 to M5, 093.1 million in 2014/15.

The last main factor influencing net domestic credit is credit to private sector. This is mainly consumer loans, mortgages, advances and loans to firms from commercial banks. There have been large increases in private sector credit in recent years, averaging 22 percent growth over the last 4 years. However, for the forecast, it is expected that this growth will slow down to around 16.0 percent.

2.5.4 Reserve Position

Change in Reserve assets of the Central Bank is closely correlated with Government deposits at the CBL. Reserve assets increased during the same years as the government ran surpluses and started decreasing once the government started running deficits.

The Official International Reserves have been drawn down to M6,580.9 million in 2011/12 from the high of M8, 921.9 million in 2008/09. That is a decline from 6.8 months of import cover down to 3.9 due to a decline in SACU receipts and draw down of government deposits to finance budget deficit.

In 2012/13, the reserves are expected to recover to M8, 262.4 million, while the import cover is expected to improve to 4.7 months. The recovery in import cover will be as a result of increase in SACU receipts and government's policy of attaining balanced budget in the short term and surpluses in the medium term.

3 Chapter 3: An Overview of Fiscal Position

Since 2002/03 when the institutional arrangement for tax collections was given to Lesotho Revenue Authority (LRA), domestic tax collections increased, robust SACU receipts combined with low spending, government began to experience consistent surpluses. In 2007/08 and 2008/09, the Government operations recorded surpluses of 10.7 and 4.2 percent of GDP, respectively. Following the global crisis that started in 2008, the government introduced the stimulus package in 2009/10 which increased total expenditure that exceeded revenues, contributing to a deficit of 6.4 percent of GDP. The deficit continued to worsen to 10.1 percent of GDP in 2011/12 relative to revenue growth of 12.0 percent being outperformed by growth in government expenditures of 17 percent relating to local and general elections.

However, in 2012/13, government overall budget positions is expected to return to a surplus of 5.7 percent of GDP. While the recovery in the SACU receipts has improved the fiscal headroom, lower expenditures than appropriated will contribute to the expected fiscal surplus. SACU receipts have increased substantially by 117 percent to M5, 966.3 million from M 2,752.6 million in 2011/12. In 2013/14 through 2015/16, an average deficit of 0.2 percent of GDP is projected.

3.1 Revenue

The total revenue increased by an average of 13.0 percent from M7, 285.3 million in 2007/08 to M10, 634.1million in 2009/10. This significant increase in revenue was as a result of SACU, donor grants and domestic tax revenue, while in the following year, 2010/11, it declined due to a 47.0 percent fall in SACU receipts. In 2011/12 the total revenue recovered to M9, 615.9 million influenced by increases in grants and tax revenue. In 2012/13, the total revenue is projected to further improve to M13, 510.8 million, largely from a recovery in SACU receipts that doubled.

3.1.1 Tax Revenue

Tax revenue increased from M2, 271.8 million in 2007/08 to M4, 283.3 million in 2011/12. The major contributors to this increase were income tax and value added tax (VAT), which improved significantly. This significant improvement coincided with a downward revision of the standard corporate tax rate from 35 percent to 25 percent and a reduction of 5 percentage points for manufacturing firms exporting intra SACU in 2008/09. While close monitoring continues on the actual effects of these revisions, increases in tax revenue were realised in 2009/10 when corporate tax collections grew by 81 percent, confirming that low tax rates improves compliance and have a positive effect on tax collections.

In 2012/13 revenue is projected to increase to M13, 78.6 million. This is mainly due to a continuous increase in VAT since 2010/11. This was brought by a rapid increase in construction activity in the country including the building of the Pioneer Shopping Centre which led to more businesses opening in Lesotho and domestic shopping activity improved, thus leading to increases in VAT. It continued to increase as more shops opened in 2012/13.

Tax revenue is projected to grow by 19 percent in 2013/14 and by 6 percent in 2014/15 through 2015/16. Despite the slow growth income tax payable by individuals and *other income tax* are performing well. The increase in individual income tax is expected to result from expansion in the private sector. VAT is expected to grow at an average of 5.0 percent per annum through the medium-term due to improvement in economic activity.

3.1.2 Grants

Grants increased from M257.9 million in 2007/08 to M1, 436.8 million in 2011/12 resulting from major inflow of capital grants and budget support from development partners. On average, capital grants increased by M546.0 million per annum as Millennium Challenge Corporation (MCC) continued to support development activities in Lesotho. Budget support grants were also received from African Development Bank (ADB), International Development Association (IDA) and European Union (EU). In 2008/09, M68.2 million was received as budget support and in 2010/11, M372.1 million was a disbursement from ADB, IDA and EU.

Government is expected to receive grants to a tune of M1, 698.1 in 2012/13 of which M196.4 million is budget support disbursed from IMF and M1505.8 million is the capital component to MCA. The grants are projected to decline from M1, 087.3 million in 2013/14 to M579.3 million in 2015/16. In 2013/14, capital grants are estimated to decline by 41.0 percent as MCC project/activities are expected to phase-out. Nonetheless, only M121.0 million is expected to be received from IDA under recurrent and M458.3 million will be expected in 2015/16.

3.1.3 Non-Tax Revenue

Over the years, the main components of non-tax revenue have been *sales of goods and services* (in particular water royalties), which contribute about 37 percent to non-tax revenue and property income (mainly dividends), constituting about 57 percent of non-tax revenue. In 2007/08 and 2008/09, non-tax revenue increased by an average of 27 percent due to a once-off payments of dividends in arrears by the Central Bank. However, in 2009/10, it declined by 6.3 percent as a result of a drop in dividends due to outstanding payments from CBL. In 2010/11, there was a massive increase of 57.0 percent in non tax revenue due to double payment of dividends by CBL. Moreover, water royalties increased significantly by an average of 11.3 percent in the review period.

In 2012/13 non-tax revenue is expected to decline to M 946.2 million in line with the normalising levels of dividends¹. In the medium term it is projected to improve due to improvements in the collections of dividends as well as the expansion from the mining sector

3.1.4 SACU

Lesotho's fiscal strategy has, since the signing of the new SACU Revenue Sharing Agreement in 2001, been buffered by windfalls. In the past ten years until 2009/10, it constituted about 60 percent of the total government revenue. However, in recent years, SACU receipts have been vulnerable to developments in the global economy and have thus proved to be highly volatile, pushing Lesotho to pursue an aggressive fiscal consolidation and closely manage its expenditures while improving collection of domestic revenue. In 2010/11 and 2011/12 the receipts declined to around 30 percent of total revenue. While there has been a recovery in 2012/13, the receipts have not reverted to its historic contribution to total revenue. The receipts are now amounting to an average of 48.3 percent of total revenue per annum. It reached a peak of M4, 918.05 million in 2009/10 but declined by 46.6 percent to M2, 627.9 million in 2010/11, exerting pressure on the national budget. However, in 2012/13

through the medium term, the receipts have shown a recovery reaching M5, 966.3 million, at the back of improvement in imports into the region. The medium term is projected to maintain these robust levels of an annual average of M5.9 billion.

Box 1: Developments in the Southern African Customs Union

SACU plays an important role in Lesotho's budget. It is a customs union between five countries - Lesotho, SA, Botswana, Swaziland and Namibia, formed in the spirit of enhancing economic development, diversification, industrialization and competitiveness. The basis of the Customs Union is an agreement to abolish customs duties amongst member countries and jointly collect Customs and Excise Duties, which are then deposited in a Common Revenue Pool and finally distributed using a specific Revenue Sharing Formula (RSF).

The Revenue Sharing Formula has three components:

- The Customs Component which distributes the customs revenue according to the member states' share to intra-SACU trade.
- The Excise Component, which distributes excise duties collected in Member States in accordance to their share of GDP in the total SACU GDP.
- The Development Component, which consists of 15 percent of the excise component and is distributed in accordance to GDP per capita.

The shares are paid up front based on projected customs and excise revenues for a given year. If actual customs and excise collections are different from projected, an adjustment is made in a second year (t+2). This creates a situation where SACU member states need to pay back the excess to the SACU Revenue Pool if incomes were overestimated and will receive extra revenue if incomes were underestimated. Consequently, the SACU receipts have proven to be volatile and pro-cyclical due to their dependence on global economic activity. This has invited the following criticisms of the current RSF:

- SACU's Customs Revenue is itself volatile and performs exceptionally well in the times of economic prosperity and plummets in times of a recession.
- The pre-payment mechanism further aggravates the volatility because in times of recession when customs and excise revenue is low Members States have to pay back negative adjustments from previous years. In the past 4 years, the average forecasting error of these projections amounted to 2.7 billion or 3 percent of the total pool.
- Compensations for the 'cost-rising effect' and the 'loss of tariff revenue' are argued to be higher than the actual economic cost of these effects to BLNS and, therefore, represent a net transfer of resources from South Africa to BLNS. This then is assumed to violate 'the spirit of equality' between Members. It is, however, important to note that adequate quantification of these effects is very difficult and should not be underestimated. The SACU tariff structure contains several tariff peaks which are intended to protect some South African industries from international competition. These tariff peaks are particularly prevalent in agriculture, automotive and garment sectors. As a result, BLNS importers face higher prices in relation to world prices in those protected industries which can preclude these to industrialize and diversify the export base (the cost-rising effect).
- The Development Component of the RSF formula does not seem to support development objectives of the Custom Union.

These criticisms have called for the policy proposal to review the RSF and the development components of the RSF.

3.2 Expenditure

The Government contains the recurrent expenditures to keep sustainable levels of fiscal balance. The main items being: *compensation of employees*, *use of goods and services*, and *transfers* and *subsidies*, dominated by the former two. There are not many influencing factors on the behaviour of these expenditure items, although inflation adjustment and government policy interventions play a major role. From 2007/08 to 2011/12, spending showed an average growth rate of 13 percent per year. While the spending trend was increasing during the stated period, fiscal year 2010/11 reflected an overall slowdown as a result of government policy to prioritize spending and cut down on some expense items in response to global financial crisis, especially under *use of goods and services*. In the medium term, the Government policy of fiscal consolidation allows recurrent budget expenses to remain constant in real terms, and only allow for inflation adjustments. A detailed analysis of the recurrent budget expenses is done below.

3.2.1 Compensation of employees

The weight of *Compensation of employees* on total recurrent budget expenses had been on an average of 42 percent annually from 2007/08 to 2011/12. The implication being that the larger portion of recurrent budget expenses is the wage bill. Over the period stated above, absorption of funds allocated for *compensation of employees* had been in closely in line with appropriation, averaging 93 percent of the allocated budget annually. There had not been a case of over-spending on total *compensation of employees*. As a result of the past trends, and the creation of the new ministries under the new Government, 94 percent of the allocated budget for 2012/13 is estimated to be spent.

The budget for *wages and salaries* had been allowed to grow in line with inflation while holding it constant in real terms. A further 0.7 percent increase is factored in as wage drift. Outturn on *wages and salaries* had always been within allocated budget for the years 2007/08 through 2011/12, giving an annual average execution of 94 percent of the budget. An approximately similar performance is anticipated in 2012/13, as outturn on *wages and salaries* will be 91 percent of the budget (an increase of 7.4 percent from the past year's outturn).

Employer contributions are in two forms; government contribution into the pension fund on behalf of current employees (*social contributions*), and payment of civil pensions and gratuities (*unfunded social contributions*). With *social contributions*, the government established the Defined Contributory Pension Fund late in 2008/09 into which government contributes 11.2 percent of gross earnings of current employees (excluding senior officials from the level of Principal Secretaries and above) who are 45 years and below. In 2009/10 and 2010/11, *social contributions* were within allocated budget. However, in 2011/12 a slippage of 19 percent was realized in *social contributions*, as spending was M189.8 million against budgeted M160 million. This was a result of Government introducing the Specified Contributory Pension Fund, in the middle of the fiscal year, into which the Government contributes for senior officials from the level of Principal Secretaries and above. This called

for additional funds whereby M30 million was provided to supplement the M160 million original budget. *Social contributions'* budget was increased to M180 million in 2012/13. There was also M42 million provided as past service pension liability (meant to cover the contribution period from the time the senior officials assumed their duties until at the time of the introduction of their pension fund). As such, M220 million is estimated as outturn on social contributions in 2012/13. Regarding civil pensions and gratuities (*unfunded social contributions*), which cover pensions of people who retired before the introduction of the above pension funds, and gratuities of people who retire not part of these pension funds, Government paid out M1,184 million since 2007/08 through 2011/12 (86 percent of the total budget for those years collectively).

Medium term projections show an annual average increase of 15 percent on *compensation of employees* for the period 2013/14 through 2015/16, largely influenced by the policy of salary review to be effected in 2013/14. *Wages and salaries* are allowed to grow in nominal terms by inflation. However, the proposed salary review for civil servants will cause additional increase in *wages and salaries* in 2013/14, but inflationary adjustment will be applied from 2014/15 onward. There are also notch increases that influence a rise in *wages and salaries*. *Employer contributions* are also adjusted to grow in line with inflation, whereby *social contributions* are determined by nominal wages.

3.2.2 Use of goods and services

This item increased by an annual average of 6 percent from 2007/08 to 2011/12. However, in 2008/09 there was a significant increase of 41 percent that was influenced by an increase in domestic travel and transport due to additional government fleet. On the other hand, there was a considerable decline of 21 percent in 2010/11 as a result of Government policy to cut down on the recurrent budget and improve on the development budget. Many items under operating costs were cut, except health related items that were increased to maintain social protection. Significant deductions in 2010/11 were seen on purchases of materials which went down by M127 million. There was a 13 percent increase in outturn on *use of goods and services* in 2011/12 due to health care services. This happened as a result of closure of Queen II hospital whose services were then provided by the private operators of the new Queen 'Mamohato Memorial Hospital, where Government pays for the health care services. It is anticipated that outturn in 2012/13 will be 20 percent higher than 2011/12 as a result of high payments that government makes for health care services to NetCare (private operators of new hospital).

In the medium term, it is projected that increases in expenditure will be the factors of inflation. It is anticipated that in 2013/14 there will be growth in *domestic travel and transport* which is higher as a result of additional fleet requirements for the established ministries, which will be adjusted by inflation in outer years. Therefore, an annual average growth of 12 percent is projected on *use of goods and services* in the medium term.

3.2.3 Transfers and Subsidies

Lesotho transfers to other levels of Government in particular extra-budgetary institutions recorded a substantial increase in the fiscal year 2011/12 and 2012/13. This eludes to the recurrent budget being adjusted for once in lustrum National Assembly Elections held in May

2012 and, the Local Government elections as at October 2011. These events called for an alarming approximate 90 percent cost in 2011/12 moving from M301.5 million in 2010/11. The combined budget for implementation of Local government elections and preparations for the National elections recorded M253.3 million in 2011/12. Full expenditure for national elections required M51 million from 2012/13 budget, a transfer of M50 million from capital budget (which was misclassified) plus, additional M23 million from the contingency fund pool. The overall grant component which as a result saw a 49 percentile increase from M505.1 million to M753.3 million from 2010/11 to 2011/12 is projected to portray a significant behavior in the medium-term, maintaining and 6 percentage share in the total current budget.

Student grants are the largest item of transfers from the government (through the National Manpower Development Secretariat) in other expense category. The establishment of Limkokwing University resulted in a growth from 1 percent to 21 percent in 2010/11 and 2011/12, respectively. The current budget which owes to full utilisation is M694.7 million from M721.7 million in the previous fiscal year (a growth decline of 3.7 percent). The medium term outlay is expected to grow by an average of 3 percent. This performance will subsequently reflect in the overall other expense component.

The severity of floods in 2010/11 cost a supplementary budget of M9.5 million (in 2011/12) as a subsidy, to boost agricultural production. This led to total budget of M234.6 against the initial approved budget of M225.1 million on subsidies. The forecasts are to increase significantly with respect to Lesotho inflation of an annual average of 6 percent. In the last two financial years of the review period, other major subsidized entities, the non-financial public corporations continued to decline by average 15 percent. They are expected to record a cost of M610.7 million in the coming three financial years. Subsidies over the MTFP period are expected to average 1.4 percent per annum.

3.2.4 Social Benefits

In comparison with the last financial year, social benefits are expected to grow by 8 percent. With the school feeding program introduced in 2009/10, social benefits amounted to M541.6 million from M226.9 million, which translate into an increase of more than 100 percent. The school feeding program is projected to normalise with an inflation index in the next three financial years. The government continues also to expend pension funds on the Old Aged, War Veterans, and Lesotho Liberation Army. These benefits serve to guarantee social security by Lesotho government to the mentioned beneficiaries, and are increasing historically since 2009/10 to the present projection. The medium term expenditure on Old Age Pension (OAP) is constructed to maintain last financial year cost. The year 2013/14 proposals of increased social expenditure, especially OAP and public assistance, gives average annual growth of 7.5 percent going into the medium term.

The government commits also to controlling and combating HIV and AIDS in Lesotho. Therefore an average of 19 percent portion of social expenditures has been consistently allocated to facilitating implementation, monitoring and evaluation of programmes relating to government commitments from 2010/11. Spending on HIV/AIDS is projected to grow by inflation in the medium term.

3.3 Capital Budget: Expense and Acquisition of Non Financial Assets

Lesotho's capital budget is made up of government and donor resources (grants and loans) for the implementation of capital projects to enhance economic growth. Capital budget has been increasing during the review period. This resulted from the additional injection of grants particularly from Millennium Challenge Corporation (MCC) and loans which require government to increase its contribution to cater for counterpart funding. Budget allocation increased from M1, 924.2 million 2007/08 to M3, 450.4 million in 2009/10. It increased further to M4, 432.1 million in 2011/12.

Capital expenditure is categorised into compensation of employees, use of goods and services, grants and other expenses.

- **Compensation of employees**, on average contributed 15 percent to total expenditure between 2007/08 and 2011/12. In 2012/13, the estimated outlay for compensation of employees is M331.8 million. The projections for 2013/14, 2014/15 and 2015/16 are M251.0 million, M191.8 million and M203.7 million respectively.
- **Use of goods and services** outturn which constitutes a larger share of capital expenditure has on average been increasing over the period under the review. In 2007/08, use of goods and services registered an expenditure of M466.5 million and M470.4 million in 2008/09. Expenditure increased significantly to M742.0 million in 2009/10 and dropped to M469.1 in 2010/11 million. In 2011/12, use of goods and services expenditure recorded M543.5 million. Use of goods and services expenditure is estimated at M674.4 million in 2012/13 while it is projected to decrease at an average of M48.0 million from 2013/14 through 2015/16.
- **Grants** outturn which is the second largest expenditure category has also been increasing on average during the review period. Grants recorded a growth of M81.7 million on average between 2007/08 and 2009/10. In 2010/11, grants recorded M201.9 million while in 2011/12 they recorded M207.5 million. The estimated outturn is M158.4 million in 2012/13. Grants outlays are projected to increase to M195.2 million in 2013/14, while in 2014/15 are projected to decline to M186.6 million due to the completion of MCC grants. However, they are projected to increase to M196.7 million in 2015/16.
- **Other expenses** have been fluctuating over the years. They recorded M44.3 million in 2007/08. They dropped significantly to M8.7 million in 2008/09. They recovered and increased from M52.8 million in 2009/10 to M193.8 million in 2011/12. They are

estimated to drop significantly to M18.7 million in 2012/13. The projected outturn is M154.4 million on average over the medium-term.

Non-financial assets show expenditure on actual capital assets budgeted under capital. Government has been predominantly investing in health and education. This is shown by a construction of Queen Mamohato Memorial Hospital, new clinics and refurbished clinics and the construction of new secondary schools. Moreover, government continued to develop national road network linking the whole country by constructing various roads, particularly Roma-Ramabanta-Sekake road which required a substantial budget allocation to undertake.

Expenditure on non-financial assets increased to M518.2 million and to M1,097.1 million, in 2007/08 and 2008/09, respectively. This resulted from the construction of advance infrastructure comprising 32km access road, power supply and water and sanitation prior to the construction of the Metolong Dam and some activities relating to MCC projects. Non-financial assets outturn registered M1, 611.6 million and M1,889.1 million in 2009/10 and 2010/11, respectively. In 2011/12, a significant increase of M928.0 million was realised. In 2012/13, outturn is estimated at M3 264.9 million which is an increase of M447.9 million. In 2013/14, the projected outturn is M3 531.3 million. This increase is informed by the fact that some of the new projects provided for in National Strategic Development Plan (NSDP) will be implemented. In both 2014/15 and 2015/16, the outturn is projected to decline to M2,731.3.6 million and M2,310.6 million, respectively. This will be the result of expected decline in donor loans associated with implementation of Metolong Dam that phases out in 2014/15, and grants whose larger portion was from the MCC phasing out in 2013/14.

3.4 Financing

During 2010/11 and 2011/12, the government's deposits at the Central bank decreased by M777.1 and M860.1 million, respectively. These decreases were mainly a result of decline SACU receipts and financing of fiscal deficits. The reduction of government deposits has negative implications on the level of international reserves at the Central Bank.

The deposits are projected to recover by M1, 268 million in 2012/13, as the fiscal balance turns to surplus for the first time in three years. This follows the government policy to rebuild reserves to guard against future economic shocks. In the medium term, the deposits are expected to maintain upward trajectory with an annual average growth of M1, 390.3 million, following the projected recovery in SACU revenue and adherence to prudent fiscal policy management.

The financial liabilities increased by M530.0 million in 2011/12 following a decline of M30.2 million in 2010/11. Domestic loans dominated at M364.3 million of which M325.1 was for financing capital projects while M39.8 million worth were for monetary policy purposes. Foreign loans made up only M165.7 million. However, capital projects are expected to

increase due to NSDP, hence financial liabilities are also projected to increase by an average of M421.9 million in the medium-term, made up almost entirely by foreign loans.

4 Chapter 4: Composition of Public Debt

Lesotho debt portfolio comprises of both Domestic and External Debt. The Government of Lesotho's public and publicly guaranteed debt stood M6, 870 million, representing 61% of GDP at the end of 2011/12 fiscal year. 84 percent was external debt amounting to M5, 755.7 million while 16 percent amounting to M1, 114.3 million was Domestic debt. Trends in the stock have, through the years, been fluctuating following movements in exchange rates, combined with debt service. However, external debt is mostly impacted by exchange rates movements rather than disbursements. Between 2008/09 and 2010/11, the nominal total external debt stock decreased significantly from M6,283.0 million to M4,957.0 million, before increasing by 16.1 percent to reach M5,755.7 million at the end of 2011/12 due to loti depreciation (*see Annex 2 – Table 16*). The decrease between 2008/09 and 2010/11 was driven by the appreciation of Loti against major currencies such as the US Dollar and the Euro, and the basket of currencies such as the Special Drawing Rights of the International Development Association (IDA) and the International Monetary Fund (IMF), and the Unit of Account of the African Development Fund (ADF).

4.1 External Debt

The proportion of external debt in total public debt portfolio, however, declined from 90 percent in 2008/09 to 84 percent in 2011/12. The external debt is composed of bilateral, multilateral, export credits and commercial² debt. Among these, multilateral creditors have traditionally been an important source of credit accounting for 91 percent of external credit in 2008/09 and 88 percent in 2011/12. Within this category, IDA and ADF have taken a bigger share, making up 75 percent of the total external debt in 2008/09 and 71 percent in 2011/12.

4.1.1 Currency Composition of External Debt

The currency composition of Lesotho's external debt has historically been dominated by the Special Drawing Rights and the US Dollars with both currencies constituting an average of 68 percent of the total external during the period from 2008/09 to 2011/12. Since the euro was introduced in 1999, it remained the third major currency in the external debt currency composition averaging 9.5 percent from 2008/09 to 2011/12.

4.1.2 The Concessionalty of External Debt Portfolio

Lesotho's external debt has historically been concessional. The concessionalty of debt is determined mainly by the grant element of individual loans in the debt portfolio. The Grant element is in turn determined by the maturity structure, interest rate, and the grace period of the loan. Between 2008/09 and 2011/12, the concessionalty of the external debt portfolio has remained at an average of 95 percent.

4.2 Domestic Debt

Lesotho's domestic debt portfolio has traditionally been dominated by the banking sector as the biggest holder of Government paper (mainly Treasury bills) and it has been short-term in

² The only external commercial debt is with respect to European Investment Bank for bridging the financing gap of the Metolong Dam.

nature. From 2007/08 to 2009/10, the outstanding domestic debt was solely Treasury bills for monetary policy. However, during fiscal year 2010/11, the Government raised M250.3 million for budget deficit financing. These bonds were 3 and 5 year bonds which raised Government domestic debt to M820.2 million. Further Treasury bonds were issued during 2011/12 to the tune of M276 million increasing Treasury bonds to M526.3 million with the total outstanding domestic debt reaching M1114.3 million at the end of the same year.

4.3 Debt Service

From 2008/09 to 2010/11, total external debt service declined by 5 percent from M303.2 million and M253.3 million as a result of a significant drop in interest payments, including exchange rates and further steadily fell to reach M253.5 million at the end of 2010/11 (*see Annex 2 – Table 19*). However, at the end 2011/12, external debt sharply increased by 14 percent to attain M289.5 million and it is expected to steadily increase further in the next few years due to new interest payments from new loans, including the European Investment Bank loan for the Metolong Dam.

4.4 The debt sustainability Framework (DSF)

The Country Policy and Institutional Assessment (CPIA) is a measure of debt sustainability which relates a country's risk of debt crisis and grant eligibility to the quality of its policies and institutions. For Lesotho, the CPIA is currently 3.48, which classifies the country as a medium policy performer and moderately indebted, subject to the following benchmarks:

Solvency Indicators

- The Present Value (PV) of debt to GDP not exceeding 40 percent
- PV of debt to exports should not exceed 150 percent
- PV of debt to revenue should be up to a maximum of 250 percent

Liquidity Indicators

- Ratio of external debt service to exports not exceeding 20 percent
- Ratio of debt service to Government revenue not exceeding 30 percent

From 2008/09 to 2011/12, all thresholds were met, except for the Net Present Value (NPV) of Debt to GDP for 2010/11 which breached the threshold for all the years. This was due to additional external funding that was required to finance the shortfall of Metolong Dam Project. While this is a worrying factor, it is covered by the average concessionality of the overall total external debt which is 95 percent for the period under review.

The Debt Sustainability Framework (DSF)

The debt sustainability Framework (DSF) for Low income countries (LICs) is used in analyzing sustainability of Lesotho's public debt. The primary aim of the DSF is to guide borrowing decisions of low-income countries in a way that matches their need for funds with their current and prospective ability to service debt, tailored to their specific circumstances. The World Bank (IDA) and IMF use the tool to give guidance to creditors on appropriate terms of lending to low income countries. The forward-looking nature of the DSF serves as an early warning system of the potential risks of debt distress so that preventive action can be taken in time.

Consequently, the DSF relates a country's risk of debt crises and grant eligibility to the quality of its policies and institutions, measured by the country policy and institutional assessment (CPIA). It has been empirically proven that a country's chance of debt distress is determined by the quality of its policies and institutions and its susceptibility to shocks. The DSF, therefore, uses the CPIA, but also uses inbuilt customizable stress tests to determine the susceptibility of a country's debt. Table 5 above shows the specific thresholds for different CPIA ratings.

It is important to note that countries' debt burden indicators are essential for relying on debt financing. They are used to determine the country's debt situation, by assessing its debt stock in relation to its ability to generate financial resource to pay back its debt. The ability to meet current and future debt service obligations should happen without debt rescheduling, accumulation of debt arrears or compromising economic growth.

5 Chapter 5: Conclusion

The last three years have been a real test of how best the government could maneuver between striking a balance between the need to provide adequate budget allocations for service delivery and development, and the need to preserve and rebuild reserves for macroeconomic stability and fiscal sustainability. The preparation of the 2013/14 has equally not spared the government the need to exercise the ability to achieve that balancing act.

Room for more revenue continues to be a serious challenge for government in meeting financing requirements for growth which is both necessary and sufficient for economic and social development. Financing and effective implementation of the National Strategic Development Plan remain key to government's commitment to support and develop the private sector as a natural and meaningful driver for growth, employment creation and wealth generation in Lesotho. The hurdle remains the need to mobilize additional financial resources required to achieve a Minimum Infrastructure Platform as a complementary basis for a meaningful involvement of the private sector.

But efficient and effective use of the resources is critical if there is to be any meaningful dent on growth and positive budget outcomes. Government recognizes the need for expenditure reforms, including improvements in the public sector productivity. These are critical elements, as observed by the 2013/14 Budget Statement, requiring definitive actions by government and to implement them in earnest. The statement acknowledges that expenditure reforms are not only crucial for improving annual budget outcomes, but they are also very useful for preserving fiscal sustainability and achieving that when the financial situation still permits. It notes that not taking necessary actions while the environment remains favourable can turn out to be a '*time bomb*' that hits mercilessly "*when the chips are really down*". It is, therefore, extremely necessary to avoid this and ensure expeditious implementation of actions where there is consensus and decisions have been made.

To be able to turnaround Lesotho's poverty situation and protect the socially vulnerable persons, outcomes of the annual budget allocations should be consistent with the objectives of the policy priorities set out in the Budget Statement to generate high, sustainable and inclusive growth. This should be subjected to continuous and rigorous monitoring and evaluation programme that keeps implementation, especially of the development budget, on track.

Strengthening annual budget implementation in the short to medium term will go a long way in improving long term budget outcomes. This should be central to the oversight roles of the Ministries of Finance and Development Planning, with the support of the Cabinet Budget Committee.

6 ANNEX: Tables

6.1 TABLE 1: National Accounts- constant prices (% changes)

	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
	Actual	Estimate	Projection	Projection	Projection	Projection
Industry Constant Prices	17.9%	-5.0%	-14.7%	15.3%	11.9%	4.5%
Agriculture	28.7%	-25.4%	-70.0%	200.3%	60.3%	15.3%
Crops	17.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Livestock	-5.6%	4.2%	-0.1%	2.0%	0.3%	1.0%
Services	8.6%	15.8%	0.2%	0.2%	0.2%	0.2%
Forestry	-0.2%	15.3%	43.4%	10.8%	2.9%	25.9%
Mining and quarrying	11.2%	1.7%	7.2%	13.0%	7.5%	14.6%
Primary industries	8.6%	-1.0%	-5.5%	6.2%	4.3%	-2.8%
Manufacturing	8.4%	7.9%	4.6%	2.1%	3.6%	3.4%
Food products and beverages	9.2%	-0.7%	-11.1%	7.5%	3.0%	-7.6%
Textiles, clothing, footwear and lea	6.8%	-10.7%	6.4%	6.4%	10.0%	6.4%
Other manufacturing	-0.6%	1.8%	2.9%	2.6%	2.0%	2.9%
Electricity and water	2.9%	5.5%	7.2%	6.9%	4.7%	7.2%
Electricity	-2.3%	0.0%	0.7%	0.2%	0.4%	0.3%
Water	11.6%	7.6%	26.6%	6.7%	-2.0%	-1.1%
Construction	7.7%	1.5%	3.9%	5.8%	2.0%	-1.5%
Secondary industries	7.2%	6.8%	4.6%	2.1%	3.6%	3.4%
Wholesale and retail trade, repairs	1.8%	-0.4%	4.6%	2.1%	3.6%	3.4%
Hotels and restaurants	8.9%	8.1%	4.6%	2.1%	3.6%	3.4%
Transport, and communication	4.2%	3.5%	4.6%	2.1%	3.6%	3.4%
Transport and storage	11.6%	10.5%	4.6%	2.1%	3.6%	3.4%
Post and telecommunications	13.1%	9.8%	4.6%	2.1%	3.6%	3.4%
Financial intermediation	1.6%	4.3%	3.1%	2.0%	2.7%	2.6%
Real estate and business services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Owner-occupied dwellings	1.2%	7.6%	4.6%	2.1%	3.6%	3.4%
Other real estate and business serv	0.4%	0.1%	-0.1%	2.0%	0.3%	1.0%
Public administration	5.0%	2.6%	-0.1%	2.0%	0.3%	1.0%
Education	13.9%	47.1%	-0.1%	2.0%	0.3%	1.0%
Health and social work	1.2%	3.1%	4.6%	2.1%	3.6%	3.4%
Community, social and personal serv	5.2%	6.2%	2.7%	2.0%	2.3%	2.4%
Tertiary industries	16.4%	10.7%	4.6%	2.1%	3.6%	3.4%
Financial services indirectly measure	6.5%	4.1%	3.6%	4.6%	3.0%	3.2%
All industries at producers' prices	8.2%	6.6%	1.2%	4.6%	3.0%	3.2%
Net taxes on products	0.8%	-5.0%	-11.1%	7.5%	3.0%	-7.6%
Subsidies on products	6.8%	4.5%	3.4%	4.6%	3.0%	3.3%
GDP at purchasers' prices	7.1%	4.1%	1.5%	4.2%	3.0%	1.7%

TABLE 2: National Accounts - (Constant Prices)

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
Industry (constant prices)							
Agriculture	746.4	879.9	836.2	713.7	822.5	920.4	961.4
Crops	184.7	237.7	177.3	53.2	159.7	255.9	294.9
Livestock	439.4	515.4	516.6	517.9	519.2	520.5	521.8
Services	42.3	39.9	41.6	41.5	42.4	42.5	42.9
Forestry & Firewood	80.1	87.0	100.8	101.0	101.3	101.5	101.8
Mining and quarrying	437.5	436.7	503.4	721.9	799.8	822.8	1035.8
Primary industries	1183.9	1316.6	1339.6	1435.6	1622.3	1743.2	1997.2
Manufacturing	1547.8	1681.4	1665.0	1574.0	1670.9	1742.9	1693.4
Food products and beverages	266.1	288.5	311.2	325.4	332.2	344.0	355.6
Textiles, clothing, footwear and lea	1009.9	1102.6	1094.5	972.8	1045.3	1076.2	994.4
Other manufacturing	271.8	290.2	259.3	275.8	293.4	322.7	343.3
Electricity and water	434.4	431.6	439.4	452.2	463.8	473.0	486.8
Electricity	136.6	140.6	148.2	159.0	170.0	178.0	190.9
Water	297.8	291.1	291.2	293.2	293.9	295.0	295.9
WASA	57.6	54.0	51.6	53.3	54.6	55.8	56.9
LHDA	240.2	237.1	239.6	239.9	239.2	239.2	239.0
Construction	582.8	650.4	700.2	886.7	945.7	926.7	916.5
Secondary industries	2565.0	2763.4	2804.6	2912.9	3080.4	3142.6	3096.7
Wholesale and retail trade, repairs	678.5	727.4	777.2	812.8	829.6	859.1	888.2
Hotels and restaurants	117.7	119.9	119.4	124.8	127.4	131.9	136.4
Transport, and communication	771.9	840.3	908.0	949.5	969.2	1003.7	1037.7
Transport and storage	284.6	296.6	307.1	321.1	327.8	339.4	351.0
Post and telecommunications	487.3	543.7	600.9	628.4	641.4	664.2	686.8
Financial intermediation	560.3	633.5	695.4	727.2	742.3	768.6	794.7
Real estate and business services	1280.2	1301.2	1356.8	1398.7	1427.2	1465.3	1503.4
Owner-occupied dwellings	750.1	764.8	779.8	795.4	811.3	827.5	844.1
Business services and renting	530.1	536.4	577.0	603.3	615.9	637.8	659.4
Public administration	963.6	967.2	967.9	967.3	986.6	989.4	999.0
Education	705.7	740.7	759.6	759.1	774.3	776.5	784.0
Health and social work	170.9	194.7	286.3	286.2	291.9	292.7	295.5
Community, social and personal serv	104.1	105.4	108.7	113.6	116.0	120.1	124.2
Tertiary industries	5352.9	5630.2	5979.2	6139.1	6264.5	6407.3	6563.2
Financial services indirectly measure	-170.3	-198.2	-219.3	-229.3	-234.1	-242.4	-250.6
All industries at Basic prices	8931.5	9512.1	9904.1	10258.2	10733.1	11050.7	11406.5
Indirect taxes on products	1178.0	1274.9	1358.8	1374.9	1438.5	1481.1	1528.8
Subsidies on products	-118.6	-119.5	-113.5	-100.9	-108.4	-111.6	-103.1
GDP at purchasers' prices	9990.9	10667.5	11149.4	11532.2	12063.3	12420.2	12832.1

TABLE 3: National Accounts - (Current Prices)

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
Industry (current prices)							
Agriculture	1120.19	1412.71	1443.35	1288.39	1663.86	1857.94	1999.14
Crops	286.42	385.48	343.95	110.32	410.74	527.3	587.23
Livestock	651.88	834.74	881.7	944.94	1006.86	1068.98	1133.82
Services	68.73	68.15	70.77	75.58	78.47	83.46	89.23
Forestry & Firewood	113.16	124.34	146.94	157.55	167.8	178.2	188.86
Mining and quarrying	920.43	1122.48	2015.55	2677.69	3186.39	3496.16	4738.12
Primary industries	2040.62	2535.19	3458.9	3966.08	4850.26	5354.1	6737.26
Manufacturing	2070.88	1956.24	2053.53	2072.2	2306.24	2504.86	2588.68
Food products and beverages	388.28	423	488.87	543.71	582.7	628.81	681.76
Textiles, clothing, footwear and lea	1325.87	1139.94	1168.58	1078.13	1214.15	1302.14	1261.14
Other manufacturing	356.73	393.29	396.09	450.36	509.4	573.9	645.78
Electricity and water	562.8	681.56	790.19	922.8	992.28	1061.63	1139.06
Electricity	125.12	119.48	129.15	148.07	168.31	186.6	211.74
Water	437.68	562.07	661.04	774.73	823.97	875.02	927.31
WASA	84.53	87.96	86.51	95.52	104.1	112.59	121.46
LHDA	353.15	474.12	574.53	679.22	719.87	762.43	805.85
Construction	828	951.43	1076.6	1425.73	1504.89	1600.94	1854.53
Secondary industries	3461.68	3589.22	3920.32	4420.74	4803.41	5167.43	5582.26
Wholesale and retail trade, repairs	1048.04	1190.71	1385.15	1540.4	1650.92	1781.75	1931.93
Hotels and restaurants	162.71	184.54	193.21	214.87	230.26	248.46	269.48
Transport, and communication	884.07	1008.37	1114.44	1272.97	1422.6	1586.6	1767.36
Transport and storage	413.15	448.11	475.56	528.93	566.84	611.67	663.29
Post and telecommunications	470.92	560.26	638.88	744.04	855.76	974.93	1104.06
Financial intermediation	910.63	957.16	1010.32	1168.15	1321.69	1478.24	1667.05
Real estate and business services	1791.84	1889.45	2067.52	2273.3	2452.67	2648.34	2863.59
Owner-occupied dwellings	1061.2	1119.87	1199.11	1307.54	1417.66	1531.34	1652.42
Business services and renting	730.64	769.58	868.41	965.75	1035.01	1117	1211.17
Public administration	1750.61	1772.37	1792.9	1951.83	2036.63	2182.42	2354.61
Education	1368.22	1528.84	1761.34	1917.48	2000.65	2144.05	2313.24
Health and social work	280.17	324.45	469.11	510.7	532.9	571	616.05
Community, social and personal serv	148.25	157.16	164.05	182.41	195.5	210.95	228.78
Tertiary industries	8344.55	9013.05	9958.05	11032.11	11843.82	12851.79	14012.1
Financial services indirectly measure	-302.23	-298.82	-305.43	-353.12	-399.56	-446.89	-503.97
All industries at Basic Prices	13544.61	14838.64	17031.84	19065.81	21097.92	22926.43	25827.65
Indirect taxes on products	1694.86	1845.13	2055.96	2217.18	2444.6	2656.55	2929.81
Subsidies on products	-294.86	0	0				
GDP at purchasers' prices	14944.61	16683.77	19087.8	21282.99	23542.52	25582.98	28757.45

TABLE 4: Balance of Payments

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
I. CURRENT ACCOUNT	-556.4	-2504	-4650.9	-1368.1	-5076.8	-4031.3	-2212.7
GOODS and SERVICES, net	-10699.1	-11206.9	-11989.1	-12129.7	-15880.2	-14025.9	-11649.3
a) GOODS, net	-7439.2	-7643.7	-8088.3	-8407.7	-11917.3	-10127.4	-7602.6
Merchandise, exports	6088.8	6839.7	8170.8	8861.7	10127.1	11035.3	12662.5
Merchandise, imports	-13528	-14483.4	-16259.1	-17269.4	-22044.4	-21162.7	-20265.1
b) SERVICES, net	-3259.9	-3563.2	-3900.8	-3722	-3962.9	-3898.5	-4046.8
Transportation, net	-400.2	-481.5	-556.3	-419.9	-524	-512.1	-504.3
Travel, net	-2028.2	-2172.2	-1955.9	-2083.9	-2160.8	-2232.1	-2295.7
Communication, net	-31.5	-0.2	-13.9	-17.3	-18.8	-19.7	-24.3
Insurance services, net	-89.9	-101.1	-88.3	-94.2	-109.9	-100.8	-95.6
Financial services, net	-42.3	-44.4	-84.7	-96.9	-106.1	-115.1	-130.6
Computer and information services,	-7.3	-7.7	-14.6	-16.8	-18.3	-19.9	-22.6
Royalties and licence fees, net	-24.8	-26	-49.6	-56.7	-62.1	-67.4	-76.5
Business services, net	-250.8	-449.9	-694.3	-447.2	-437.3	-270.1	-282.2
Government services, net	-271.7	-161.1	-216.7	-229.7	-241.7	-253.4	-265.6
Other services, imports, net	-113.3	-118.9	-226.6	-259.3	-283.8	-308	-349.4
c) INCOME, net	4000.7	3964	2356.6	2562	2354.3	2191.5	1568.7
Compensation of employees, credit	5218.1	5470.5	4724.6	4938.6	5112.5	5274.8	5439.3
Investment income, net	-1754.9	-1910.9	-2519.7	-2536.6	-2927.5	-3261.2	-4056.9
Subsidies	537.5	404.4	151.8	160.1	169.3	177.9	186.3
d) CURRENT TRANSFERS	6142	4738.9	4981.6	8199.7	8449.1	7803.1	7868
Government, net	5012.2	3519.7	3670.9	6812.3	6989	6272.4	6264.8
Other sectors, net	1129.8	1219.2	1310.7	1387.4	1460	1530.7	1603.2
II. CAPITAL AND FINANCIAL ACCOUN	240.7	877.9	2113.5	3864.7	5294.6	4129.6	3143.9
e) CAPITAL ACCOUNT	704.2	956.7	1061.1	1336.1	1214.2	648.6	1562.8
Government: Grants in budget, cred	753.9	1146.5	1286.5	1524.4	1380.5	673.2	1588.5
Other sectors: migrants' transfers, d	-49.7	-189.8	-225.4	-188.2	-166.4	-24.6	-25.7
f) FINANCIAL ACCOUNT	-463.5	-78.8	1052.4	2528.5	4080.5	3480.9	1581.1
Direct investment in Lesotho, net	851.5	861.6	1021.5	2067.9	3743.9	3036.4	1809.4
Portfolio investment in Lesotho, net	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other assets	-1263.7	-1312.1	281.9	-422.4	-214.4	-207.2	-323.4
Other liabilities	-51	372.1	-250.7	883.3	551.4	652.1	95.4
III. ERRORS AND OMISSIONS	773.6	374.5	1859.2	-1116.2	1055.6	699.4	-257.8
IV. RESERVE ASSETS	792.8	1394.2	222	-1380.4	-1273.5	-797.7	-673.3
V. VALUATION ADJUSTMENT	-1250.7	-142.7	456.2				

TABLE 5: Depository Corporations Survey

(Millions of Maloti: (end of period)	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
Foreign Assets (net) (cc tbl3 # 10)	-10706.8	-9303.7	-8801.3	-10193.6	-11232.6	-11795.7	-12305.3
Net foreign assets-cbl (cc tbl3 # 6)	-7457.8	-5800.5	-5974.8	-7355.2	-8628.6	-9426.3	-10099.7
Foreign assets-cbl	-8129.2	-6524.9	-6580.9	-8262.4	-9639.5	-10476.2	-11200.3
Foreign liabilities (cc tbl3 # 5)	671.3	724.4	606.1	907.3	1010.9	1049.9	1100.6
Net foreign assets-comm bnks (cc tb	-3249	-3503.2	-2826.5	-2838.4	-2603.9	-2369.4	-2205.6
Domestic Credit	1771.1	393.8	-1161	-496.8	-590.6	-836.7	-1381.8
Claims on central govt. (net)	3637.5	2943.4	1749.8	2947.7	3437.2	3820.9	3990.9
Claims on central government-cbl (n	4024.4	3477.4	2567.7	3771.9	4184	4565.1	4735.1
Claims on central government-comm	-386.9	-533.9	-817.9	-824.1	-746.8	-744.2	-744.2
Claims on state & Local Government		0	0	0			
Claims on official entities	0	-2.5	-1.7	-0.1	-8.9	-2.6	-3.2
Claims on private sector	-1866.4	-2325.9	-2909.1	-3444.4	-4018.9	-4655	-5369.6
Claims on other banking insts.	0	-221.3	0	0	0	0	0
Money (M2)	6025.7	6181	6483.9	7091.9	7623.9	8106.1	8729.7
Money (M1)	4538.9	2322.7	2700.5	3049.9	3347.4	3614	4026
Currency outside bnk syst	435	529.2	643.3	750.5	882.3	1019.3	1222.9
Deposits of official entities-cbl	136.7						
Private sector demand deposits-cbl	2.5						
Demand deposits-comm bnks	3964.8	1793.5	2057.1	2299.4	2465.1	2594.7	2803.1
Quasi Money	1486.8	3858.3	3783.4	4042	4276.5	4492.1	4703.7
Time and savings deposits, comm Br	1486.8	3821.9	3749	4017.5	4252	4467.6	4679.2
Time and savings deposits, CBL		36.3	34.4	24.5	24.5	24.5	24.5
Capital Accounts	2471.2	2393.7	2992	3614.3	3975	4320.5	4685.8
Capital accounts-cbl	1801.3	1633.2	2110.1	2666.2	3091.6	3384	3696.2
Capital accounts-comm bnks	669.9	760.5	881.9	948.2	883.4	936.5	989.6
Other Items (net)	438.9	335.3	486.3	-15.8	224.2	205.8	271.6

TABLE 6: Prices

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16
Prices							
Cpi % change	5.7%	3.6%	6.0%	6.9%	6.3%	5.9%	5.8%
Interest rate (91 day bills)	8.5%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Exchange rate (M / US\$)	7.69	7.15	7.54	7.76	8.12	8.43	8.84

TABLE 7: FISCAL FRAMEWORK

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue	10643.2	8578.3	9616.1	13578.6	14572.8	13806.2	14309.0
1. Tax revenue	3063.6	3500.7	4283.4	4860.3	5810.8	6087.2	6561.4
2. Social Contributions							
3. Grants	635.4	1200.1	1436.8	1805.8	1631.1	553.2	579.3
4. Other revenue	796.5	1249.6	1143.2	946.2	1076.2	1300.1	1360.4
5. SACU	6147.6	2627.9	2752.6	5966.3	6054.6	5865.7	5807.8
Expense	-8338.1	-7448.3	-8680.7	-9224.4	-11031.9	-11175.3	-11800.1
1. Compensation of Employees	-3144.2	-3195.2	-3638.6	-3973.1	-5038.1	-5187.3	-5546.2
2. Use of goods and services	-2558.9	-1916.6	-2177.2	-2627.5	-3078.4	-3041.1	-3187.1
4. Interest Payments	-137.0	-96.0	-137.1	-165.9	-229.3	-231.3	-237.2
5. Subsidies	-273.6	-228.3	-237.2	-235.0	-234.0	-227.8	-235.7
6. Grants	-997.1	-707.0	-960.8	-862.9	-817.6	-840.4	-881.3
7. Social Benefits	-555.7	-599.7	-586.7	-624.0	-738.6	-758.4	-770.8
8. Other expense	-671.6	-705.5	-943.2	-736.1	-895.9	-889.0	-941.9
Net Worth and its Changes	-1892.1	-1155.6	-1482.1	-3531.4	-3540.9	-2630.9	-2508.9
1. Nonfinancial assets	-1728.4	-1923.0	-2851.7	-3292.4	-3623.7	-2823.4	-2402.5
2. Financial assets	177.7	797.6	839.6	-1263.5	-498.8	-388.1	-138.6
3. Liabilities	-341.4	-30.2	530.0	1024.5	581.5	580.6	32.2
Gross operating balance	2305.1	1129.9	935.4	4354.2	3540.9	2630.9	2508.9
Net lending/borrowing	576.6	-793.1	-1916.3	1061.7	-82.8	-192.5	106.4
Overall fiscal balance	576.6	-793.1	-1916.3	1061.7	-82.8	-192.5	106.4
Fiscal Deficit (GoL)	325.8	-1043.1	-1916.3	1029.0	-83.5	-192.8	106.2
Overall fiscal balance (financing side)	163.7	-767.4	-1369.6	239.0	-82.8	-192.5	106.4
MTFF fiscal balance (financing side)	-87.2	-1017.4	-1369.5	206.3	-83.5	-192.8	106.2
As a per cent of GDP:							
Overall fiscal balance	3.9%	-4.8%	-10.0%	5.0%	-0.4%	-0.8%	0.4%
Fiscal Deficit (GoL)	2.2%	-6.3%	-10.0%	4.8%	-0.4%	-0.8%	0.4%
Overall fiscal balance (financing side)	1.1%	-4.6%	-7.2%	1.1%	-0.4%	-0.8%	0.4%
MTFF fiscal balance (financing side)	1.1%	-4.6%	-7.2%	1.1%	-0.4%	-0.8%	0.4%

TABLE 8: TOTAL REVENUE BY SOURCE

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
1. Tax revenue	3063.6	3500.7	4283.4	4860.3	5800.0	6087.4	6561.6
1.1. Taxes on income, profits, and capital gains	1772.4	1957.1	2395.0	2637.8	3147.8	3327.9	3519.3
1.1.1. Income tax - payable by individuals	866.2	1164.0	1469.1	1550.8	1914.0	1938.9	2130.5
1.1.2. Income tax - payable by corporations and ot	694.0	467.5	555.8	640.2	716.7	778.1	751.9
1.1.3. Income tax - other	212.2	325.6	370.1	446.7	517.0	610.9	636.9
1.3. Taxes on property	95.7	105.5	125.1	149.8	191.2	210.5	250.7
1.4. Taxes on goods and services	1169.5	1416.1	1589.8	1870.1	2160.9	2220.4	2348.6
1.4.1.1. Value-added tax	1035.0	1276.4	1369.6	1666.8	1919.0	1970.0	2068.0
1.4.2. Excise taxes	116.9	112.5	200.6	185.3	223.2	230.2	259.8
1.4.4. Taxes on specific services	8.6	20.4	3.1	8.4	9.1	9.9	10.2
1.4.5. Taxes on the use of goods and on permissio	9.1	6.8	16.5	9.5	9.6	10.3	10.5
1.5. Taxes on international trade and transactions	20.5	18.2	151.4	202.0	293.0	321.5	435.7
1.6. Other taxes	5.6	3.8	22.1	0.6	7.2	7.1	7.4
3. Grants	635.4	1200.1	1436.8	1805.8	1631.1	553.2	579.3
4. Other revenue	796.5	1249.6	1143.2	946.2	1076.2	1300.1	1360.4
4.1. Property income	233.4	663.2	419.0	135.5	194.3	372.3	375.4
4.1.1. Interest	7.4	7.5	5.3	6.3	7.4	6.8	6.6
4.1.2. Dividends	117.5	569.6	342.9	115.7	130.3	298.4	309.9
4.1.5. Rent	108.5	86.1	70.8	13.5	56.6	67.1	58.8
4.2. Sales of goods and services	502.2	536.7	692.6	778.0	839.7	885.7	945.5
4.2.1.1. Electricity Muela	94.3	56.4	62.6	47.0	56.5	58.3	65.8
4.2.1.2. Water Royalties - LHDA	336.6	432.2	569.7	673.5	713.9	756.0	799.1
4.2.2. Administrative fees	27.5	14.1	19.2	12.3	14.8	15.2	17.2
4.2.3. Incidental sales by nonmarket establishmen	43.7	34.1	41.0	45.2	54.5	56.2	63.4
4.3. Fines & forfeits	6.5	1.2	0.4	0.3	0.3	0.3	0.4
4.5. Miscellaneous and unidentified revenue	54.5	48.4	31.3	32.4	41.8	41.7	39.1
5. SACU	6147.6	2627.9	2752.6	5966.3	6054.6	5865.7	5807.8
Total Domestic Revenue	10007.8	7378.2	8179.3	11772.8	12931.0	13253.2	13729.9
Revenue & Grants	10643.2	8578.3	9616.1	13578.6	14562.1	13806.4	14309.2

TABLE 9: EXPENDITURE

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Expense	-8338.1	-7448.3	-8680.7	-9224.4	-10983.5	-11175.3	-11800.1
Compensation of Employees	-3144.2	-3195.2	-3638.6	-3973.1	-5027.7	-5187.3	-5546.2
Wages and salaries	-2684.3	-2877.3	-3135.1	-3425.9	-4378.9	-4568.2	-4883.3
Employer contributions	-460	-317.9	-503.5	-547.2	-648.8	-619.1	-662.9
Use of goods and services	-2558.9	-1916.6	-2177.2	-2627.5	-3051.3	-3041.1	-3187.1
Interest Payments	-137	-96	-137.1	-165.9	-229.3	-231.3	-237.2
Nonresidents	-66.5	-52.8	-69.3	-81.3	-91.1	-101.9	-107.3
Residents other than general governme	-70.5	-43.2	-67.8	-84.6	-138.3	-129.4	-129.9
Subsidies	-273.6	-228.3	-237.2	-235	-233.4	-227.8	-235.7
Grants	-997.1	-707	-960.8	-862.9	-815.3	-840.4	-881.3
Foreign Governments	0	0	0	0	0	0	0
International organizations	-13	-13.4	-0.3	-14.1	0	0	0
Extra Budgetary Units	-363.7	-301.5	-579.9	-476.5	-407.4	-428	-448.1
Local Government	-230.2	-190.2	-173.1	-213.8	-215	-225.8	-236.5
Capital	-390.3	-201.9	-207.5	-158.4	-192.9	-186.6	-196.7
Social benefits	-555.7	-599.7	-586.7	-624	-737.9	-758.4	-770.8
Other expense	-671.6	-705.5	-943.2	-736.1	-888.4	-889	-941.9
Student Grants	-586.6	-594.3	-721.7	-694.7	-683.8	-724.2	-766.1
Household - other	0	0	0	0	0	0	0
Other expense	-85	-111.2	-221.5	-41.4	-204.6	-164.9	-175.8

TABLE 10: COMPENSATION OF EMPLOYEES

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Compensation of Employees	-3001	-3022.6	-3384.8	-3641.3	-4832.2	-4995.4	-5342.5
Wages and salaries	-2541	-2704.6	-2881.3	-3094	-4138.3	-4376.4	-4679.6
Wages and salaries in cash	-2539.6	-2680.3	-2848.7	-3091.4	-4093.2	-4376.4	-4679.6
Wages and salaries in kind	-1.5	-24.3	-32.6	-2.6	-45.1		
Employer contributions	-460	-317.9	-503.5	-547.2	-648.8	-619.1	-662.9
Social contributions	-146.6	-113.8	-189.8	-222	-294.8	-275.1	-293.8
Unfunded social contributions	-313.3	-204.1	-313.6	-325.2	-354	-343.9	-369.1

TABLE 11: USE OF GOODS AND SERVICES

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Food and Beverages	-95.9	-87.8	-78.3	-70.7	-83.1	-87.2	-91.4
Fuel and Lubricants	-82.9	-59.8	-78.3	-66.7	-101.2	-106.3	-111.4
Printing	-22.6	-11.9	-18.5	-15.4	-31.7	-33.3	-34.9
Stationery	-36.4	-30.4	-25.9	-29.3	-41.5	-43.5	-45.6
Books and Publications	-29.6	-8.2	-7.8	-8.2	-12.6	-13.2	-13.8
Health care materials	-151.6	-172.9	-176.3	-218.4	-244.1	-256.4	-268.5
Ammunition	-26	-10.1	-0.7	-5.2	-5.5	-5.8	-6
Purchases of Materials	-365.7	-238.2	-190.2	-221.4	-254.5	-267.3	-279.9
Vehicle Maintenance and Repairs	-158	-147.8	-151	-132.8	-154.2	-162	-169.6
Maintenance of Public Assets	-96.1	-62.6	-56.3	-51.5	-57.7	-60.6	-63.5
Minor Works	-36.1	-28.3	-18.1	-38.8	-31.8	-33.5	-35
Power	-62.7	-61.5	-57.7	-56.1	-69.4	-72.9	-76.3
Water and Sewerage	-12.5	-14.9	-18	-15.8	-22.6	-23.8	-24.9
Communications	-73.1	-68.4	-69.3	-58.8	-64.9	-68.2	-71.4
Fares Local	-5	-3.7	-1.7	-2.1	-5.6	-5.9	-6.2
Fares International	-63.6	-42.9	-48	-50.4	-63.2	-66.4	-69.6
Subsistence Local	-75.2	-55.7	-49.4	-67	-98.8	-103.8	-108.7
Subsistence International	-63.8	-40.1	-43.5	-51.9	-66.3	-69.7	-72.9
Freight Charges	-9.5	-9.5	-11.1	-12.7	-12.2	-12.9	-13.5
Short Term Hire of Vehicles	-18.1	-4	-4	-5.8	-9.2	-9.6	-10.1
Other transport costs	-1.7	-0.8	-0.6	-0.7	-1.4	-1.4	-1.5
Finance costs (bank charges)	26.3	-1.1	-1.1	-0.1	-1.4	-1.4	-1.5
Rent of buildings	-112.1	-96.6	-104	-123.4	-143.6	-150.8	-157.9
Business services & subscriptions	-21.1	-11.2	-26.5	-24.6	0	0	0
Training Costs	-45.2	-5.5	-6.2	-9.5	-21.2	-22.2	-23.3
Health care services	-125.7	-118.1	-338.3	-558.1	-651.4	-684.3	-716.5
Membership Subscriptions	-49.9	-46.2	-45.6	-46.2	-50.5	-53	-55.5
Official gifts and entertainment	-9	-9.1	-6.3	-9.7	-7.2	-7.5	-7.9
Miscellaneous	0	-0.4	-1	-1.9	-116.5	-117.4	-118.2
Total	-1823	-1447.5	-1633.7	-1953.1	-2423.3	-2540.4	-2655.4

TABLE 12: SUBSIDIES

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Subsidies	-267.3	-216.3	-229.9	-235	-220.3	-217.4	-224.7
To public corporations	-267.3	-206.3	-203.2	-217	-220.3	-217.4	-224.7
Non-financial public corporations	-257.5	-196.9	-185.4	-184.3	-210	-197.1	-203.6
Financial public corporations	-9.9	-9.4	-17.8	-32.7	-10.3	-20.3	-21.1
To private enterprise	0	0	0	0	0	0	0
Nonfinancial private enterprises	0	0	0	0			
On products	0	-10	-26.7	-18	0	0	0

TABLE 13: NON FINANCIAL ASSETS

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Nonfinancial assets	-116.9	-34	-34.6	-27.5	-92.3	-92.1	-91.9
Fixed Assets	-116.9	-34	-34.6	-27.5	-92.3	-92.1	-91.9
Buildings and structures	-3	-2.3	-1.4	-1	-1	-1	-1
Dwellings	0	0	0	0	0	0	0
Nonresidential buildings	-2.9	-2.3	-1.4	-1	-1	-1	-1
Other structures	-0.1	0	0	0			
Machinery and equipment	-114	-31.7	-33.2	-26.6	-91.4	-91.2	-91
Transport equipment	-28	-7.9	-9	-3.9	-20.3	-20.3	-20.2
Other machinery and equipment	-86	-23.8	-24.1	-22.6	-71	-70.9	-70.7
Non-produced assets	0	0	0	0			
Land	0	0	0	0			

TABLE 14: FINANCING

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Net Worth and its Changes	-1892.1	-1155.6	-1482.1	-3531.4	-3578.6	-2631.1	-2509.1
Nonfinancial assets	-1728.4	-1923	-2851.7	-3292.4	-3506.1	-2823.4	-2402.5
Financial assets	177.7	797.6	839.6	-1263.5	-488	-388.3	-138.8
Domestic	178.6	797.6	839.6	-1263.5	-487.3	-388	-138.6
Deposits	178.6	797.6	839.6	-1263.5	-487.3	-388	-138.6
Loans	0	0	0	0	0	0	0
Capital Subscriptions	-0.9	0	0.1	0	-0.7	-0.3	-0.2
Financial Liabilities	-341.4	-30.2	530	1024.5	415.6	580.6	32.2
Domestic	-360.9	-198.1	364.3	208.9	-67	-4.4	0
Securities	-138.5	150.2	324.5	-10.2	-128.9	-4.4	0
Loans	27.5	-98.3	39.8	251.8	61.9	0	0
Pension Liabilities	-250	-250	0	-32.7	0	0	0
Foreign	19.5	167.9	165.7	815.6	482.6	585	32.2
Loans	19.5	167.9	165.7	815.6	482.6	585	32.2
Disbursements	273.5	368.3	387.5	866.4	797	850.4	312.9
Repayments	-254	-200.4	-221.8	-50.9	-314.4	-265.4	-280.7

TABLE 15: CAPITAL EXPENDITURE

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Capital expenditure by source of funds	2954.2	2837.4	4038.1	4452.5	4676.6	3770.8	3413
Government of Lesotho	2045.4	1879.1	2532.5	2124.9	2548.5	2487.2	2642.8
o/w Road Fund Subvention	265.7	126.9	124.8	131.3	139.2	143.8	151.2
Foreign loans	273.5	130.3	358.8	821.8	797	850.4	311.9
Non-Metolong	268.3	92.8	165	194.9	112.5	294.7	311.9
Metolong	5.2	37.5	193.8	626.9	684.5	555.6	0
Foreign grants	635.4	828	1146.9	1505.8	1331.1	433.2	458.3
non-MCA	485	533.3	571.9	384.8	407.2	196.5	207.9
Millennium Challenge Account	150.5	294.7	575	1120.9	382.5		
Capital expenditure by type	-2954.2	-2837.2	-4038	-4453.7	-4676.6	-3770.8	-3413
Expense	-1342.7	-948.2	-1220.9	-1188.7	-1262.8	-1039.5	-1102.4
Compensation of Employees	-143.2	-172.6	-253.8	-331.8	-240.6	-191.8	-203.7
Use of goods and services	-735.9	-469.1	-543.5	-674.4	-628.1	-500.7	-531.7
Subsidies	-6.3	-12.1	-7.2	0	-13.1	-10.4	-11.1
Transfers	-390.3	-201.9	-207.5	-158.4	-192.9	-186.6	-196.7
Social benefits	-14.1	-8.8	-15.2	-5.3	-15.8	-12.6	-13.3
Other expense	-52.8	-83.7	-193.8	-18.7	-172.4	-137.4	-145.9
Nonfinancial assets	-1611.5	-1889.1	-2817.1	-3264.9	-3413.8	-2731.3	-2310.6

TABLE 16: PUBLIC DEBT BY SOURCE

CREDITOR	2008/09	2009/10	2010/11	2011/12
Total Public Debt	6959.1	5508.6	5777.2	6870.0
Domestic	676.1	515.5	820.2	1114.3
External	6283.0	4993.1	4957.0	5755.7
Multilateral	4464	4446.2	5091.3	6119.4
IDA	2786.2	2207.3	2271.8	2491
ADF	1918.4	1497.1	1421.9	1590.9
IMF	259.9	148.2	173.7	214.6
Others				
Bilateral	221.6	216.1	269.7	340.5
Export Credits	237	227.1	331.2	379.2
Commercial	70.6	67.5	63.5	62

TABLE 17: CONCESSIONALITY OF EXTERNAL DEBT PORTFOLIO

CONCESSIONALITY				
Year	2008/09	2009/10	2010/11	2011/12
DOD	6283	4993.1	4957	5755.7
Concessional	5,957.2	4,759.3	4,758.8	5,358.0
Non-concessional	325.8	233.8	198.2	397.7
% of DOD				
Concessional	94.8	95.3	96.0	93.1
Non-concessional	5.2	4.7	4.0	6.9

TABLE 18: OUTSTANDING DEBT AND DEBT SERVICE (EXTERNAL DEBT)

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Disbursed Outstanding Debt	6283.0	4993.1	4957.0	5755.7	7089.1	8051.1	8645.2	8830.4
Disbursements	414.7	286.2	370.6	488.9	520.0	550.0	600.0	498.2
Principal Repayments	237.9	226.0	200.7	222.1	237.3	260.5	236.6	313.1
Interest Payments	65.2	61.4	52.8	67.3	69.2	98.8	125.7	160.2
Total Debt Service	303.2	287.4	253.5	289.5	308.5	361.3	362.7	473.2

TABLE 19: DOMESTIC DEBT BY INSTRUMENT HOLDER

YEAR	2007/08	2008/09	2009/10	2010/11	2011/12
Total Debt Stock	6269.4	6959.1	5507.9	5777.2	6870.0
External Debt	5621.7	6283.0	4993.1	4957.0	5755.7
Domestic Debt	647.7	676.1	514.8	820.2	1114.3

Table 20: IDA & IMF (Rating 2008) - Country Performance Assessment and Debt Burden Indicators

Assessment of Institutional Strength and Quality of Policies			
Debt Burden Indicators	Weak	Medium	Strong
	CPIA \leq 3.25	3.25 < CPIA < 3.75	CPIA \geq 3.75
NPV of Debt/ GDP	30	40	50
NPV of Debt/ XGS	100	150	200
NPV of Debt/Revenue	200	250	300
Debt Service/XGS	15	20	25
Debt Service/Revenue	25	30	35

Lesotho : IDA & IMF (Rating 2008) – Country Performance Assessment (CPA)

Country	Policy & Institutional Assessment (CPIA)	Country Portfolio Performance Rating (CPPR)	Country Performance Assessment (CPA)
	3.47	4.0	3.48

TABLE 21: EXTERNAL DEBT BURDEN SITUATION FOR LESOTHO

Year	2008/09	2009/10	2010/11	2011/12	2012/13
Disbursed Outstanding Debt (DOD)	6283.0	4993.1	4957.0	5755.7	7089.1
NPV (External debt)	4236.8	5151.3	7859.5	8203.8	8752.0
Exports (Goods & Services)	7318.2	6750.8	7473.8	9120.8	9108.5
Total Debt Services	303.2	287.4	253.5	289.5	308.5
Revenue	9094	10634.1	8578.4	9615.9	13510.8
NPV/XGS	57.9	76.3	105.2	89.9	96.1
NPV/GDP	44.4	51.6	73.7	73.0	75.1
NPV/Revenue	46.6	51.6	91.6	73.0	64.8
TDS/XGS	4.1	4.3	3.4	3.2	3.4
TDS/Revenue	3.3	2.7	3.0	3.0	2.3