QUARTERLY FISCAL REPORT

April to June 2010

LESOTHO

Ministry of Finance and Development Planning

Government of Lesotho

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1 Overview of Fiscal Performance in April through June 2010

This section summarises the key findings with regard to the fiscal outturn of the first quarter of 2010/11. Revenue amounted to M1,772.7 million, composed of tax revenue of M718.0 million; grants (estimated) of M331.4 million; SACU receipts of M540.4 million and other revenue of M182.9 million. Total expenditure, on the other hand, amounted to M2,176.6 million. Of this, M1,281.3 was from the recurrent budget with *compensation of employees* being the largest component (about 55 percent of total expenses), followed by expenditure on *goods and services* (about 17 percent of total expenses) and social benefits (about 10 percent). Capital expenditure, on the other hand, amounted to M895.3 million from the capital budget. Expenses from the capital budget amounted to M339.0 million, which represents expenditure necessary to support capital projects).

Over the quarter, these revenues and expenditures have resulted in a deficit of M403.9 million. This, together with other below-the-line movements, led to a drop in the financial assets by M857.9 million. These are largely deposits held by the Government at the Central Bank of Lesotho. Liabilities, on the other hand, declined by M251.5 million, reflecting largely a payment of M250 million towards pensions liabilities. Over the course of the year, this trend is not expected to hold as the Government intends to issue new debt in the form of bonds which will increase liabilities. There is a total statistical discrepancy of M202.5 million, which includes both the error term from the estimated revenues and expenditures and the result of payments that were made during, which pertain to commitments in the previous year's budget. Such expenditures have been recorded under the 2009/10 fiscal year even though bank balances will have been reduced in April.

The rest of the discussion provides a detailed analysis of the fiscal performance in the first quarter. It also states assumptions made in the analysis and provides policy implications of the outcome.

2. Detailed Analysis of Fiscal Performance in April through June 2010

2.1 Monthly Changes in the Fiscal Position

Table 1 below indicates that a fiscal surplus was actually recorded in April as a result of SACU revenue being received during this month. May and June recorded a significant deficit, which led to a net deficit for the whole quarter.

Table 1: Summary of Monthly Fiscal Outturn – Q1, April to June 2010

	Apr	May	Jun	Q1 FY 2010/11
Revenue	**947.5**	**363.4**	**461.8**	**1,772.7**
1. Tax revenue	267.2	196.4	254.4	718.0
3. Grants	71.9	103.7	155.8	331.4
4. Other revenue	68.0	63.4	51.6	182.9
5. SACU	540.4	0.0	0.0	540.4
Expense (Current Budget)	**-483.7**	**-403.2**	**-394.3**	**-1,281.2**
1. Compensation of Employees	-224.8	-218.4	-255.3	-698.4
2. Use of goods and services	-27.6	-106.5	-78.9	-213.0
4. Interest Payments	-5.3	-5.4	-7.9	-18.6
5. Subsidies	-25.3	-16.5	-4.3	-46.1
6. Grants	-86.4	-4.6	-30.6	-121.7
7. Social benefits	-86.5	-32.3	-7.3	-126.2
8. Other expense	-27.8	-19.5	-10.1	-57.3
Expense (Capital Budget)	**-53.0**	**-90.8**	**-195.2**	**-339.0**
1. Compensation of Employees	-7.8	-14.0	-64.0	-85.8
2. Use of goods and services	-31.1	-68.0	-106.2	-205.3
5. Subsidies	0.0	0.0	0.0	0.0
6. Grants	-14.1	-8.8	-21.4	-44.3
7. Social benefits	0.0	0.0	-3.5	-3.5
8. Other expense	0.0	0.0	-0.1	-0.1
Net Worth and its Changes	**21.3**	**144.2**	**-115.7**	**49.9**
1 Nonfinancial assets	-38.1	-159.5	-358.9	-556.5
Capital Budget	-38.8	-159.2	-358.3	-556.3
Current Budget	0.7	-0.3	-0.6	-0.2
2. Financial assets	57.5	93.7	706.7	857.9
3. Liabilities	2.0	210.0	-463.5	-251.5
Overall fiscal balance	**372.7**	**-290.1**	**-486.5**	**-403.9**
Statistical Discrepancy	*432.1*	*13.6*	*-243.3*	*202.5*

2.2 Actual Fiscal Performance versus Budget

Table 2 below compares the actual cumulative outturn at end of June 2010 with the budget. Revenue is significantly lower than projected, amounting to about 86 percent of the projected amount for the first quarter.

Table 2: Actual revenue and expenditure versus Budget

	Est. Actuals	Budget*	Difference	Percentage Difference
Revenue	**1,772.7**	**2,070.9**	**-298.2**	**-14.4%**
1. Tax revenue	718.0	862.2	-144.2	-16.7%
3. Grants	331.4	452.3	-120.9	-26.7%
4. Other revenue	182.9	215.9	-33.0	-15.3%
5. SACU	540.4	540.5	-0.1	0.0%
Expense (Current Budget)	**-1,281.2**	**-1,670.8**	**-389.6**	**-23.3%**
1. Compensation of Employees	-698.4	-805.9	-107.5	-13.3%
2. Use of goods and services	-213.0	-407.5	-194.6	-47.7%
4. Interest Payments	-18.6	-38.5	-19.9	-51.8%
5. Subsidies	-46.1	-6.8	39.3	575.7%
6. Grants	-121.7	-101.0	20.7	20.5%
7. Social benefits	-126.2	-141.4	-15.3	-10.8%
8. Other expense	-57.3	-169.6	-112.3	-66.2%
Contingency**		-25.0		
Non-Financial Assets (Current Budget)	**-0.2**	**-6.0**	**-5.8**	**-97.1%**
Capital Budget	**-895.3**	**-992.4**	**-97.1**	**-9.8%**
Total Recurrent Budget	*-1,281.3*	*-1,701.8*	*-420.4*	*-24.7%*
Total Capital Budget	*-895.3*	*-992.4*	*-97.1*	*-9.8%*
Total	**-2,176.6**	**-2,694.2**	***-517.5***	**-19.2%**
Fiscal Balance	**-403.9**	**-623.3**	***-219.3***	**-35.2%**

** Equal to one quarter of the budget*

*** Expenditure from Contingency Fund captured in other categories*

Tax revenue has fallen short of budget by M144.2 million (17 percent) – this is discussed in greater detail below. Total grants were also 27 percent lower than the projected amount, due to the non-receipt of Budget Support coupled with an estimated high disbursement of project grants in line with past experience.

On the other hand, recurrent expenditure on the current budget was lower than the budgeted by 23 percent. Expenditure lines that form a significant portion of recurrent expenditure fell quite below the budget, and these are *compensation of employees (13 percent) use of goods and services (47.7 percent)*, *interest payments (51.8 percent)*, *social benefits (10.8 percent)* and *other expenses (66.2 percent)*. On the contrary, *Subsidies* were significantly above the budgeted amount, largely due to payments to Post Bank not having been budgeted for. Capital *Grants* were also above budget by 20 percent, basically reflecting deficient budgeting. Total expenditure from the capital budget was about 10 percent lower than budget. The result of the performance of revenue and expenditure, the actual first quarter deficit was 35 percent lower than the budgeted deficit.

2.3 Actual Fiscal Performance versus IMF Projections

Government has agreed an Extended Credit Facility supported programme with the IMF and the two parties necessarily agreed benchmarks for monitoring the programme. This necessitated adjustment of the quarterly targets of expenditure and revenue that were initially based on the budget presented to Parliament, to a more reasonable forecast of actual government revenue and expenditure throughout the fiscal year. The forecast has served as basis for the quantitative benchmarks of the programme, which include the domestic financing requirement of the Central Government. Table 3 below provides a comparison of IMF fiscal estimates and the estimated outturn.

Table 3: A Comparison of IMF Fiscals and Financing with Budget and Actuals

COMPARISON OF IMF FISCAL ESTIMATES AND ESTIMATED OUTTURN

	IMF	IMF excl. Metolong	Budget*	Est. Actuals	IMF vs Actual	IMF vs Actual (%)
Revenue incl. Grants	1,956.2	1,956.2	2,070.9	1,772.7	-183.5	-9.4%
Revenue excl. Grants	1,645.0	1,645.0	1,618.6	1,441.3	-203.7	-12.4%
Total Expenditure	**-2,385.0**	**-2,293.1**	**-2,694.2**	**-2,176.6**	**208.4**	**-8.7%**
Of which: Recurrent Budget	-1,531.7	-1,531.7	-1,701.8	-1,281.3	250.4	-16.3%
Of which: Capital Budget**	-853.3	-761.4	-992.4	-895.3	-42.0	4.9%
Fiscal Balance (QI)	**-428.9**	**-337.0**	**-623.3**	**-403.9**	**24.9**	**-5.8%**

** Equal to one quarter of the budget; ** Excludes M91.9 million of Metolong expenditure*

Financing (positive number=increase in bank deposits, negative=decrease)

	IMF	IMF excl. Metolong	Budget	Est. Actuals
Financing Requirement	-428.9	-337.0	-623.3	-403.9
Metolong Disbursements	1,370.9	0.0	0.0	2.4
Budget Support***	298.0	298.0	107.5	0.0
Capital Project Loans	40.4	40.4	225.4	23.2
Change in net domestic liabilities	1.0	1.0	0.0	1.8
Principal Repayment	-65.2	-65.2	-51.0	-26.4
Net Arrears Payments	-200.0	-200.0	0.0	-294.5
Pensions Payment	0.0	0.0	0.0	-250.0
Changes in Bank Balance	1,016.3	-262.8	-448.9	-947.5
Excluding Metolong Expenditure in Future F	*798.7*	*0.0*	*0.0*	*0.0*
Change in Bank Balance Excl. Metc	**217.5**	**-262.8**	**-448.9**	**-947.5**
Actual Adjustment (CBL)**				**-893.7**

**** Budgeted revenue already includes budget support*

***** Difference accounted for by timing delays in recording expenditure (actualy financing requirement may be higher than M403.9mil) and errors in revenue estimation.*

The IMF forecasts anticipated the first quarter revenue including grants to amount to M1,956.2 million. The actual total revenue was M1,772.7 million, which is 9.4 percent below the target. Total expenditure was also 8.7 percent below the forecasted M2,385.0 million. Excluding M91.9 million expected expenditure on Metolong, the IMF forecasted expenditure was M2,293.1 million and the outturn was M 2,174.2 million, which is just 5 percent below the IMF forecast.

As a result, the actual deficit in the first quarter amounted to 94 percent of the projected deficit. However, the net domestic financing requirement of the government far exceeded the IMF forecast. The IMF had projected a net accumulation of domestic resources of M217 million (M262.8 million, excluding Metolong), and the outturn was actually a net withdrawal of M893.7 million[1].

The IMF projection of net accumulation of domestic resources were based on expected increase of M1,370.9 million due to Metolong disbursements; M298 million due to budget support; M40.4 million of capital project loans; and a M1 million increase in net domestic liabilities. Counter effects to the increase would include M65.2 million worth of principal repayments; M200 million payment of accumulated arrears; and finally M798.7 million[2] of Metolong payments forecast to take place in future fiscal years.

From a first quarter deficit of M623.3 million, the budget estimates capital project loans of M225.4 million and principal repayments of M51 million (the M107.5 million of budget support is already captured in budgeted revenues and is not therefore used to adjust bank balances). Bank balances are reduced by M448.9 million. The actual deficit of M403.9 million reduces bank balances by this amount. A small Metolong disbursement of M2.4 million (also captured on the expenditure side under the capital budget expenditure); capital loans of M23.2 million; an increase in M1.8 million of net domestic liabilities serve to increase the bank balance. Principal repayments of M26.4 million; M294.5 million of payment of arrears (M176.1 million in terms of arrears and M118.4 million of cheques issued on 31st April but not cashed till the 2010/11 fiscal year); and a M250 million payment towards accumulated pension liabilities serve to further reduce bank balances. This results in a reduction of M947.5 million in bank balances from known sources.

The CBL reports that the actual bank account adjustment was M893.7 million. The difference is accounted for by timing delays in recording expenditure – the actual financing requirement is likely to be slightly higher than the M403.9 million reported – and errors in revenue estimation.

[1] Recall that Metolong only disbursed 2.4 million.

[2] It should be noted that the Metolong project increased bank balances by M1,370.9, of which M572.2 million would be spent during 2010/11 and the remaining M798.7 million in future years. Future years' expenditure is excluded from the calculations. However, of the M572.2 million to be spent in 2010/11, only M91.9 was expected to be paid in the first quarter. The second, third and fourth quarter payments amounting to M480.3 million remain in the bank account. Excluding the M480.3 million results in a decline of M262.8 million in bank balances, not M217 as the projection suggested.

3. Detailed Analysis of Revenue

3.1 First Quarter Performance

This section compares actual first quarter remittances to Government with the approved targets for VAT and taxes on income, profits and capital gains, which are significant components of tax revenue.

The total income tax recorded for the first quarter was M364.4 million, which represents a 32 percent shortfall in terms of the approved target. VAT, on the other hand, amounted to M292.7 million, which is higher than the quarterly target 27 percent.

3.1.1 Taxes on income, profits, and capital gains

This sub-section compares the actual revenue with the latest MoFDP estimates and approved targets for the first quarter of the 2010/11 fiscal year (April, May, June) [3]. In April, LRA targeted to remit M166.7 million to Government from income tax. Latest Ministry estimates suggest that remittances should have been around M168 million in April. The actual remittances from this source were, however, just M144.8 million – M21.9 million below the approved target. Income tax payable by corporations (company tax) was around M37 million lower than the latest MoFDP estimates.

Lower than estimated remittances continued into May with LRA remitting M91.9 million instead of its M137.4 million target and the latest MoFDP estimate of M110.6 million. In this month, income tax remitted to Government suffered a shortfall of around M19 million compared with the latest MoFDP estimates and M45.5 million lower compared with the approved target. In May company tax suffered a shortfall of around M30.5 million compared with the latest MoFDP estimates.

The LRA remitted M127.7 million in June 2010 compared with a MoFDP estimate of M163.5 million and an approved target of M230.8 million. This trend of remittances in the first quarter is presented in Figure 1 below.

[3] The LRA is given the approved targets for the complete fiscal year by the MoFDP at the beginning of each fiscal year. These are the values presented in the budget. The LRA then assigns collection targets on a month-by-month basis based on the previous year's revenue collection profile. The MoFDP regularly maintains and updates estimates for the current fiscal year (2010/11) upon which MoFDP monthly estimates are based.

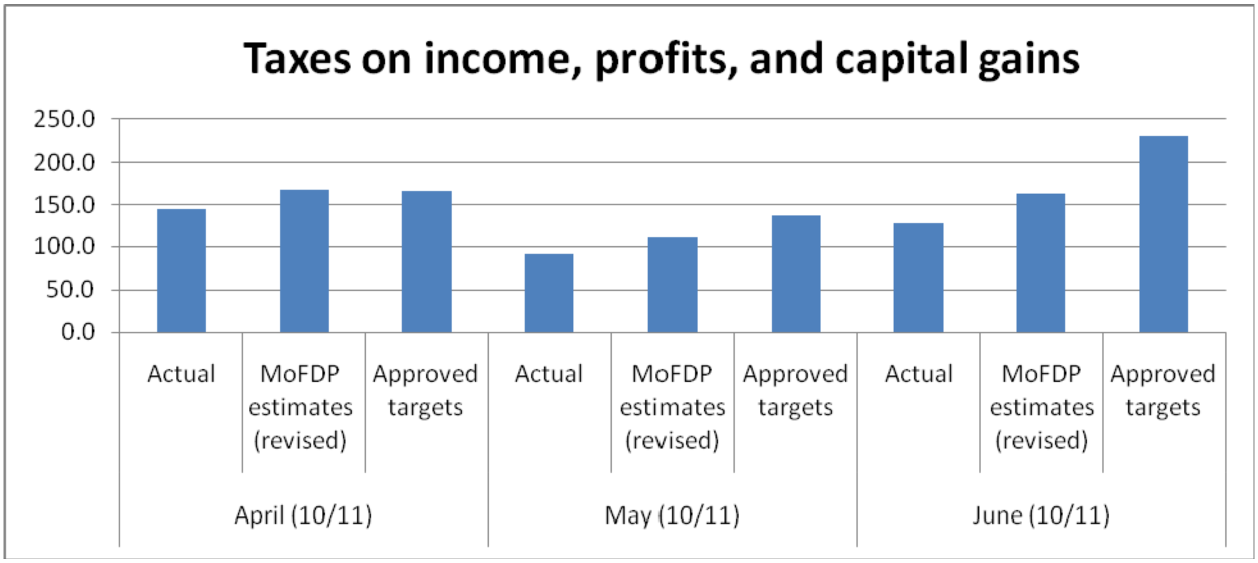

Figure 1: Taxes on Income, Profits and Capital Gains

Figure 2 below (details in Annex 1) compares actual remittances for April, May and June the past fiscal year (2009/10) with the current fiscal year (2010/11). In April the actual amount remitted stood at M144.8 million – M99.2 million below the remittances in the same month of the previous year. This huge difference between 2009/10 and 2010/11 resulted from a decline in company tax from M158.1 million to M34.8 million which is largely the result of a large one-off payment made in April 2009 by a mining company. LRA remitted M55.1 million to Government in May 2009/10 compared with M91.9 million in the same month of 2010/11. Income tax payable by individuals increased from M29.6 million in May 2009 to M73.6 million in May 2010 – an increase of around 60%. In June 2009 LRA remitted M94.7 million to Government as compared with M127.7 million in June 2010 – increases can be seen for each type of income tax.

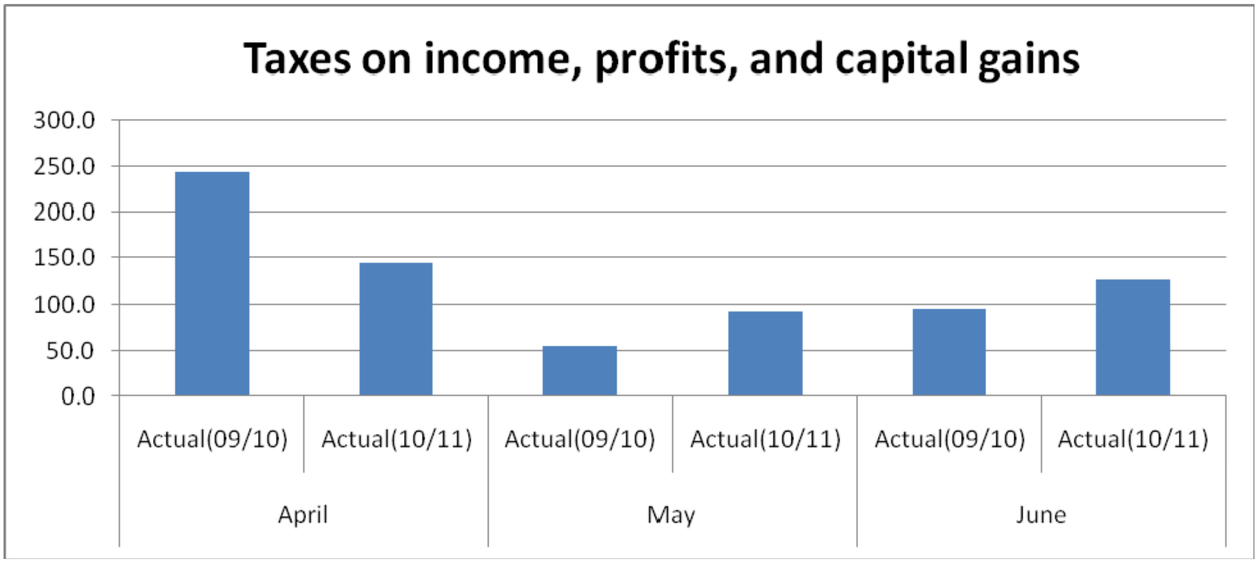

Figure 2: Comparing Income Taxes in 2009/10 and 2010/11

3.1.2 Value-Added Tax

Unlike the income tax, VAT performed relatively well in April, with the actual remittances exceeding the both latest MoFDP estimates and the approved target. Figure 3 shows that actual remittances amounted to M100.6 million for April compared with the approved target of M75.2 million and latest MoFDP estimate of M87.7 million. Actual remittances in May amounted to M90.3 million – slightly below the MoFDP estimate of M95.7 million but above the approved target of M77.4 million. At M101.8 million, June's remittances to Government from VAT significantly exceeded both the latest Ministry estimates of M68.9 million and the approved target of M77.3 million.

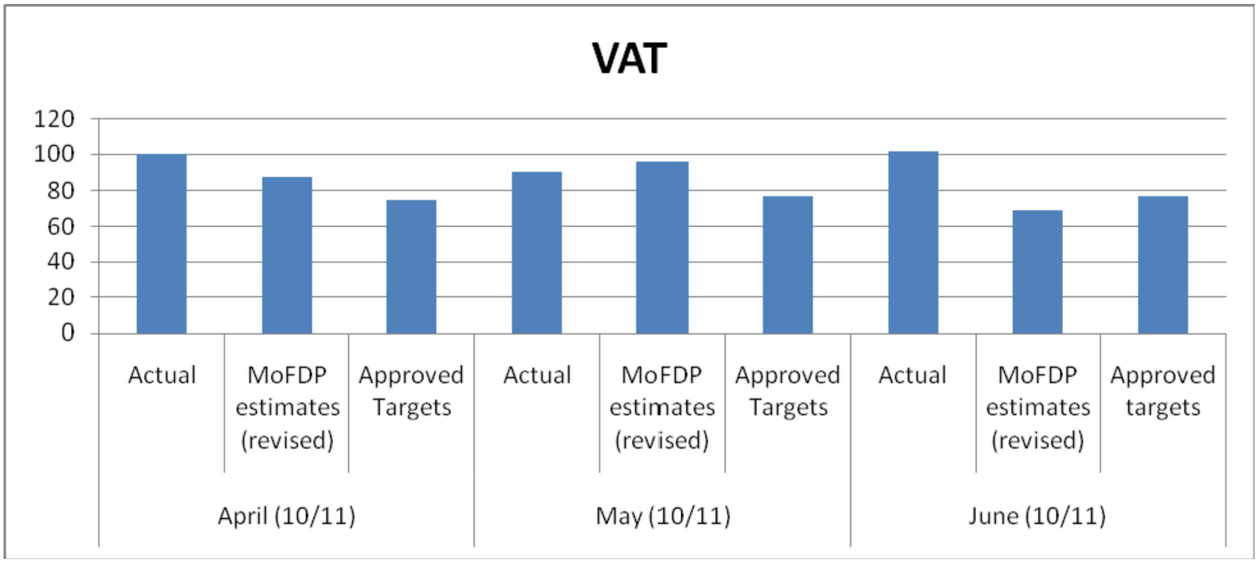

Figure 3: Value-Added Tax

In all three months of the first quarter of 2010/11 fiscal year, nominal VAT remittances to Government are higher than remittances the same months of 2009/10. M100.6 million was remitted in April 2010 compared to M84.0 million in April 2009 whilst during May M90.3 million was remitted compared with M80.0 million during May 2009. M101.8 million was recorded in June in 2009 compared with M91.4 million in June 2010.

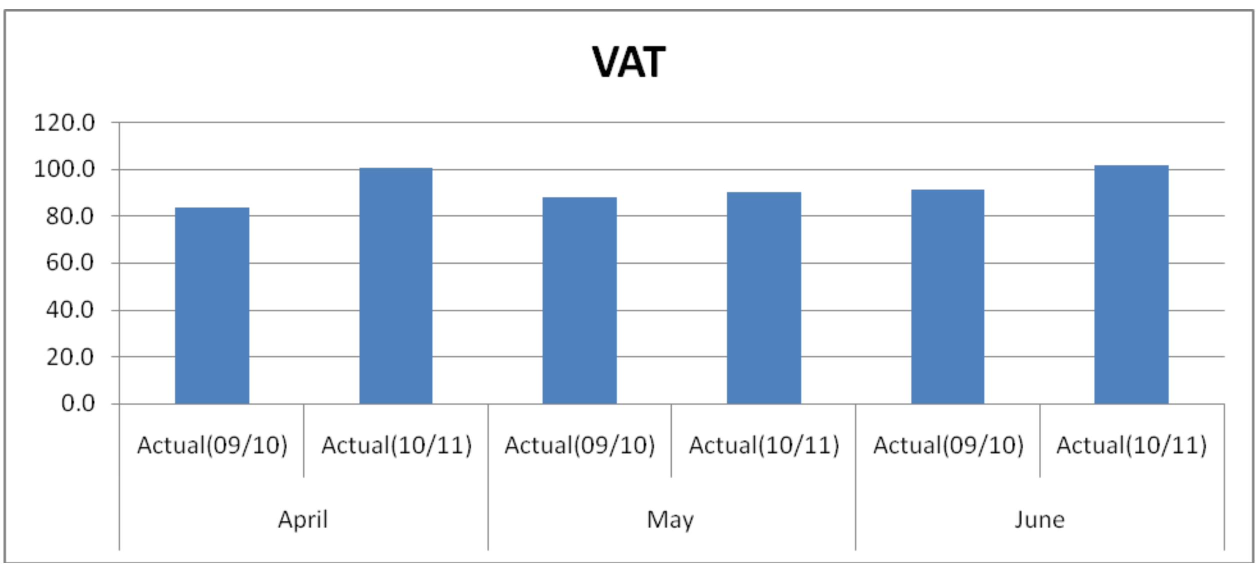

Figure 4: Comparing VAT in 2009/10 and 2010/11

3.2 Second Quarter Revenue Forecasts

This section presents the forecasts for tax collections during the second quarter of the 2010/11 fiscal year. These forecasts are based on the latest estimates for the complete 2010/11 fiscal year.

It should be noted that changes are likely to occur following discussions around the first quarter performance. For example, as noted in this report, income taxes have performed badly in the first quarter which will likely result in reduced estimations for the 2010/11 fiscal year. Similarly, good VAT performance may result in an upwards revision of estimated collections of this tax.

Table 4: MoFDP Revenue Forecasts, Q2 2010/11

MoFDP Forecasts, QII 2010/11	July (2010/11)	August (2010/11)	September (2010/11)	2010/11 Estimates
Taxes on income, profits, and capital gains	**201.7**	**119.4**	**125.1**	**1,788.2**
Income tax - payable by individuals	115.4	88.7	64.8	**988.1**
Income tax - payable by corporations and other enterprises	69.7	14.6	40.6	**562.3**
Income tax - other	16.6	16.1	19.7	**237.7**
VAT	**113.9**	**87.4**	**94.2**	**1,134.3**

In order to achieve the yearly income tax remittances of M1,788.2 million, remittances of around M201.7 million are expected in July 2010, M119.4 million in August 2010 and M125.1 million in September 2010. These forecasts are based on historical collection profiles. In total, second quarter forecasts for income tax total M446.2 million.

In July, VAT remittances of M113.9 million are forecasted. This falls to M87.4 million in August and then M94.2 million in September. A total of M295.5 million is anticipated in the second quarter of 2010/11. Given the strong performance in the first quarter however, this is likely to be revised upwards.

As for the first quarter, it is essential to monitor revenue performance and to adjust the annual estimations where revenues exceed or fall short of expectations. Discussion below in this report recommends maintaining the current VAT estimation and revising downwards by a small amount the current company tax estimation.

3.3 Discussion on Revenue Performance

One outstanding feature of tax remittances during the first quarter of the 2010/11 fiscal year is the fact that income tax – and in particular, company tax – have fallen so far below expectations, whether they be measured by the latest MoFDP estimations or by the approved targets. This suggests that many companies are choosing not to pay taxes in the present climate. One inference is that many companies are experiencing cash-flow problems, suggesting that the economy is not currently performing as well as hoped.

VAT remittances however, tell a slightly different story. These are high both compared with the same period in the previous year and compared with expectations – both MoFDP estimations and approved targets. Given that VAT can be seen as an indicator of general economic health, this suggests reasonable economic performance in the first quarter.

However, it should be noted that the figures presented in this report are the amounts remitted by the LRA to Government. Due to late payments, refunds and reserve-holding by the LRA in order to pay unexpected VAT refunds, VAT remittances do not always follow collections. These data cannot be released for confidentiality reasons. However, it can be reported that several sectors have seen significant increases in the amount of VAT collected by the LRA. These include construction, retail and wholesale sectors, wholesale (largely petrol). Retail however declined on the previous year, largely due to new shops in the mall off-setting payments against the cost of inputs used in setting-up.

Other main sources of VAT receipts are Import VAT Credit Facility (IVCF) and SARS. Companies which participate in the IVCF are allowed to import without paying VAT on importation at the border. Instead, they subsequently (within a maximum of a month) report and pay VAT (if applicable) on their imports. First quarter receipts from the IVCF have remained relatively steady compared with the same period last year. However, the number of companies on this scheme has decreased substantially from nearly 500 to around 300.

Receipts from SARS which comprise of private shoppers and businesses which declare VAT at the border however, have increased by around M20 million compared with the first quarter of 2009/10. This may seem surprising given that, with recent border issues and the new Pioneer Shopping Mall, fewer shopping activities would be expected across the border. It is expected that some of the 177 firms previously on the IVCF will now be declaring at the border resulting in an increase in receipts from SARS.

Despite buoyant VAT receipts in the first quarter compared with last year, it should be noted that actual LRA collections have seen a downward trend over the first three months of the year. Although, as previously stated, exact data cannot be released for confidentiality reasons, such a pattern militates in favour of not adjusting upwards the expected VAT outturn.

Turning back to company tax, a question remains as to whether the low collections seen in the first quarter are likely to continue into the rest of the year or whether expected payments from companies will catch up during the rest of the year. Given than 90% of company tax receipts come from just 20 companies, this depends largely on the performance of these. Discussions with the LRA suggest that it may be prudent to revise downwards slightly the company tax estimations. However, most companies are expected to compensate for low first quarter payments during the course of the rest of the fiscal year.

4. Expenditure

4.1 First Quarter Performance

4.1.1 Recurrent Budget Expenses

Total first quarter recurrent budget expenses totalled M1,283.2 million in 2009/10 compared with M1,281.2 million in the current fiscal year. This represents a small decline in both nominal and real terms. However, the two expenditures are not totally comparable. As previously mentioned, during the first quarter of 2010/11, payments pertaining to goods and services purchased under the previous year's budget have been recorded as 2009/10 payments. This did not occur in the past. As such, first quarter expenditures in 2009/10 are artificially high.

Table 5: Recurrent Budget Expenses

	2009/10			2010/11		
	Apr	May	Jun	Apr	May	Jun
Recurrent Budget Expenses	**-413.0**	**-411.7**	**-458.5**	**-483.7**	**-403.2**	**-394.3**
Compensation of Employees	-201.0	-206.8	-218.7	-224.8	-218.4	-255.3
Use of Goods and Services	-51.4	-67.7	-140.6	-27.6	-106.5	-78.9
Interest Payments	-16.6	-2.7	-6.6	-5.3	-5.4	-7.9
Subsidies	-0.9	-52.9	0.0	-25.3	-16.5	-4.3
Grants	-70.8	-35.3	-20.7	-86.4	-4.6	-30.6
Social Benefits	-57.6	-32.0	-33.0	-86.5	-32.3	-7.3
Other Expenses	-14.7	-14.4	-38.9	-27.8	-19.5	-10.1

Given this and the fact that the statistical discrepancy previously discussed suggests that most of these payments were made in the first month, *Figure 5* reveals a potentially surprising pattern; that of decreasing expenditures over the course of the first quarter in the current fiscal year, but increasing expenditures in the previous fiscal year.

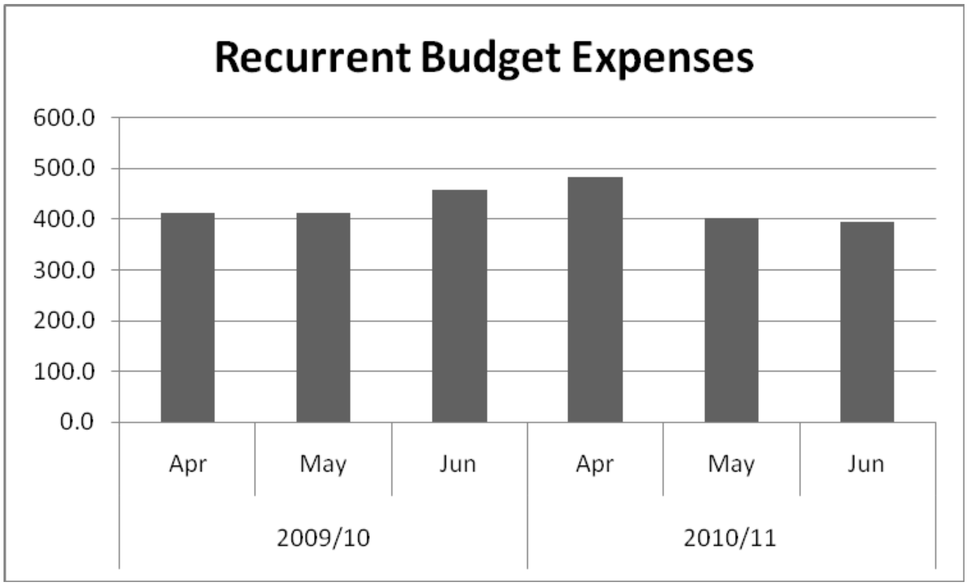

Figure 5: Monthly Recurrent Budget Expenses

Figure 6 shows expenses for each fiscal year by category. In both cases, compensation of employees represents the largest component of expenditures. This and social benefits (discussed in more detail on page 15) are the only two categories to have increased in nominal terms.

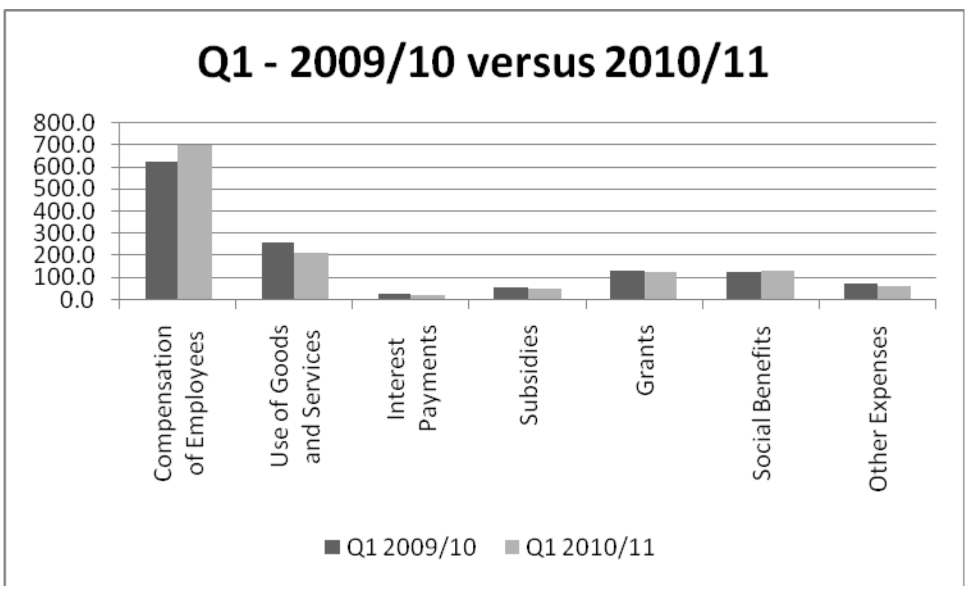

Figure 6: Recurrent Budget Expenses by Category – 2009/10 versus 2010/11

Figure 7 (details in annex 2) compare actual recurrent budget expenses with the previously estimated expenses. For each month, actual expenditures are lower than forecast. If revenue were in line with receipts, this would likely indicate a lower deficit than currently forecast. However, monthly forecasts are based on past expenditure patterns and, as noted above, booking back expenditure pertaining to the previous fiscal year is a new practice that is likely to reduce recorded first quarter expenditure. It would not, therefore, be sensible to alter annual expenses estimates based on the first quarter alone.

All expenditure categories are lower than forecast with two exceptions: *grants* and *subsidies*. In fact, *subsidies* – which are largely *subsidies to public corporations* are around M39 million above the quarterly estimate which is in line with the budget. It is believed that this reflects subsidies to Post Bank which were not budgeted for, but which have to be paid.

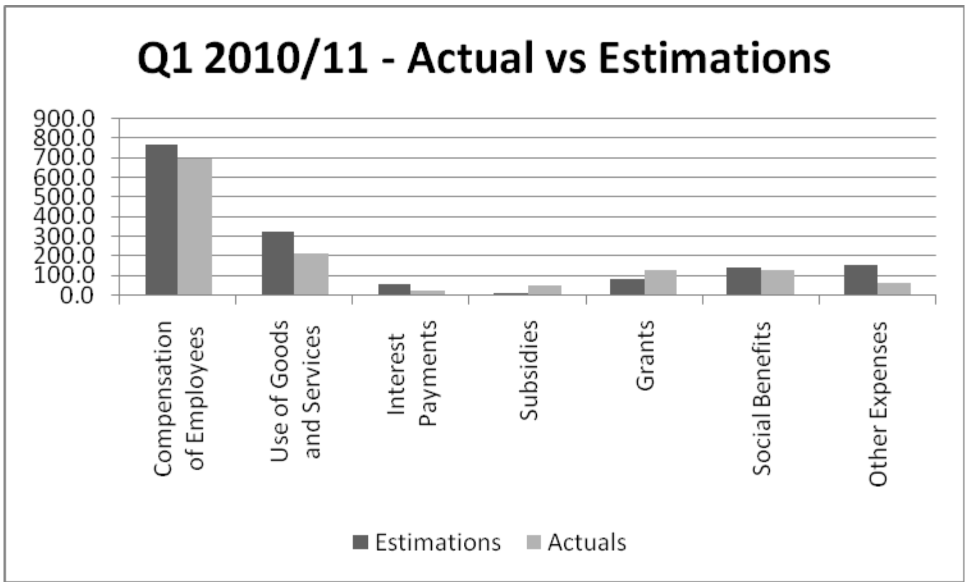

Figure 7: Recurrent Budget Expenses – Estimations vs Actuals

4.1.2 Social Expenditures

Social expenditures are recurrent in nature and are therefore discussed with recurrent expenses. Total social expenditure in the first quarter was M246.6 million. Of these, M126.2 million was spent on social benefits (mostly the old age and African Pioneer Corps pensions). A further M119.4 million was spent on *primary education*, of which M54.4 million was for the *school feeding programme*. Very little has been spent on HIV/AIDS, however, it should be noted that (a) this captures only GoL resources as donors are not currently using the Government systems and NGO expenditures are, in any case, not captured and (b) these expenditures tend to be lumpy and sufficient stocks may already exist.

Table 6: Social Expenditures

	Apr	May	Jun	Q1 FY 2010/11
Social Expenditures:-	**-146.1**	**-32.8**	**-67.7**	**-246.6**
Social Benefits	-86.5	-32.3	-7.3	-126.2
Primary Education	-59.4	-0.3	-59.7	-119.4
o/w School Feeding	*-54.5*	*0.0*	*0.0*	*-54.5*
HIV/AIDS	-0.1	-0.1	-0.7	-1.0
o/w Anti-Retroviral Therapies	*0.0*	*0.0*	*-0.1*	*-0.1*

4.1.3 Capital Budget Expenses

Figure 8 (details in annex 3) compares capital budget expenses in 2010/11 with those of the same period last year. These totalled M209.5 million during the first quarter of 2009/10 and M339.0 million during the current year. This increase is largely due to some significant spending on *goods and services* in June 2010.

In general, this reflects Government policy of increasing expenditure on developmental projects.

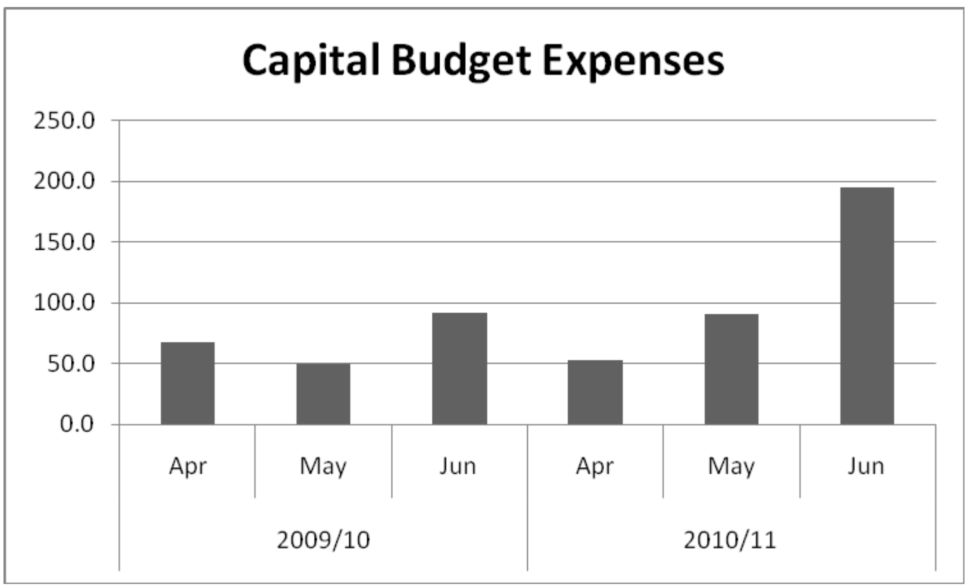

Figure 8: Capital Budget Expenses – 2009/10 vs 2010/11

Figure 9 shows capital budget expenses by category during the first quarter of 2009/10 and 2010/11. *Compensation of employees* has increased significantly, allbeit from a small base. This is due to a large payment made in June 2010. As previously noted, use of *goods and services* have also increased. Capital *grants* to other agencies have declined.

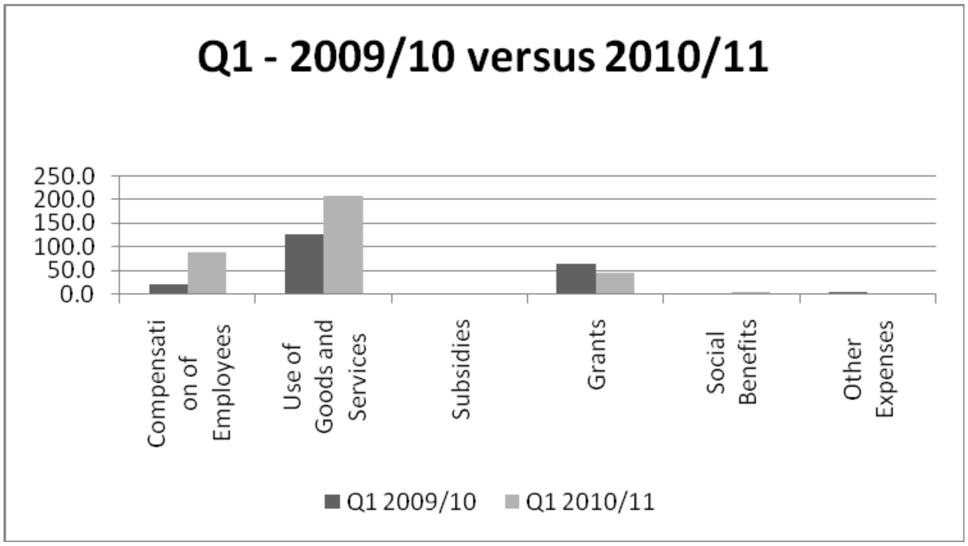

Figure 9: Capital Budget Expenses by Category – 2009/10 vs 2010/11

Figure 10 (details in Annex 3b) compares capital budget expenses with the estimates. Expenses in April and May were lower than previously estimated, however, the large payment made towards *compensation of employees* in June caused quarterly expenditure to rise to M339 million – slightly below the M359.3 million estimated.

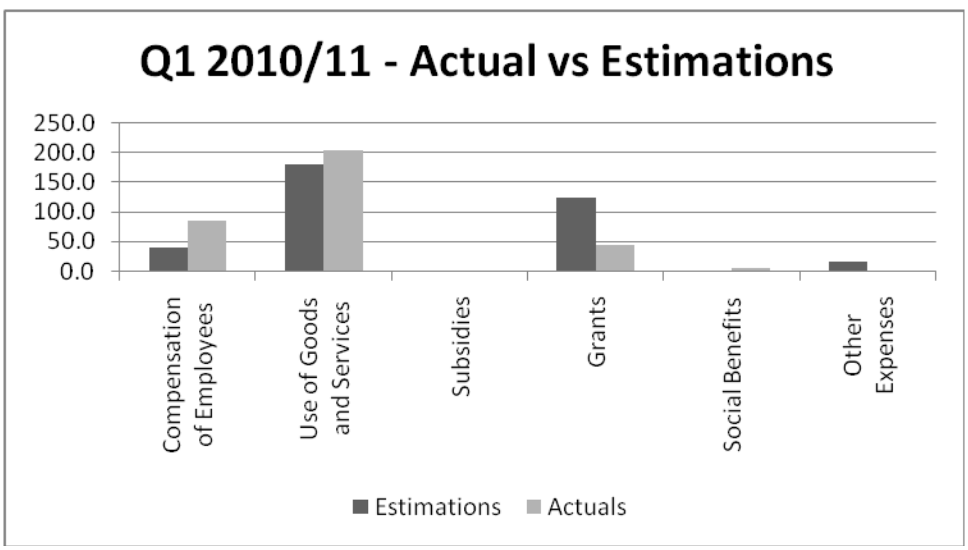

Figure 10: Q1 – Estimated vs Actual Capital Budget Expenses by Category

4.1.4 Non-Financial Assets

Table 7 and *Figure 11* compare expenditure on non-financial assets from both the capital and recurrent budgets between 2009/10 and 2010/11. As tends to be the case, most expenditure on non-financial assets occurs from the capital budget. It is Government policy to reduce such expenditure (generally entailing spending on office equipment, furniture, etc.) from the recurrent budget. This is reflected in the decline in spending on this category from the recurrent budget.

Table 7: Non-Financial Assets – 2009/10 vs 2010/11

	2009/10			2010/11		
	Apr	**May**	**Jun**	**Apr**	**May**	**Jun**
Non-Financial Assets (Capital Budget)	-48.9	-59.5	-62.8	-38.8	-159.2	-358.3
Non-Financial Assets (Recurrent Budget)	-3.2	-1.4	-5.3	0.7	-0.3	-0.6
Total	**-52.2**	**-61.0**	**-68.1**	**-38.1**	**-159.5**	**-358.9**

The Government also aims however to increase spending on developmental projects. As such, a large increase in spending on non-financial assets from the capital budget can be seen in during the quarter, compared with the same period of 2009/10.

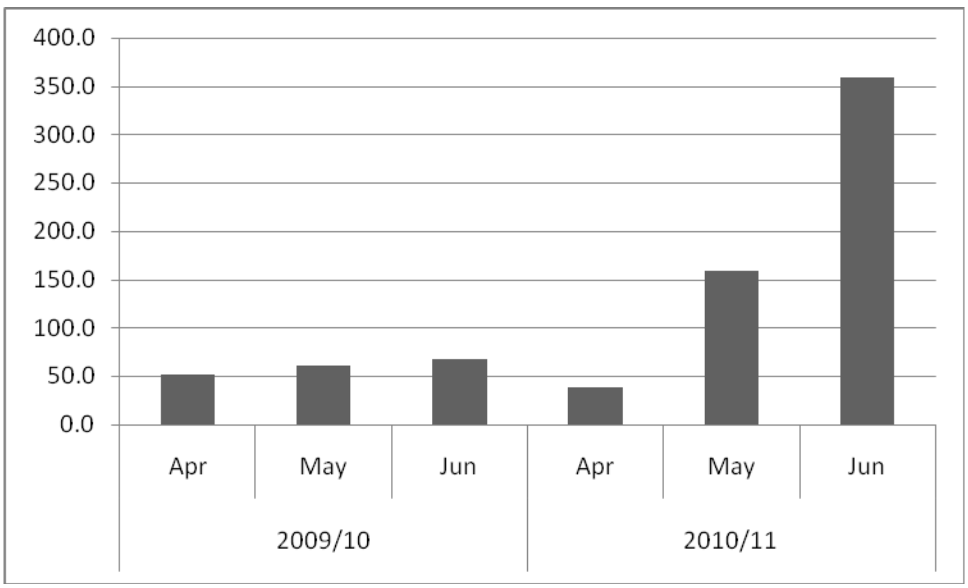

Figure 11: Non-Financial Assets – 2009/10 vs 2010/11

4.2 Second Quarter Expenditure Forecasts

Table 8 below presents expenditure forecasts for the second quarter of the 2010/11 fiscal year. These are based on the current estimated yearly outturn (given in the last column). These estimates are likely to change in the coming quarter based on information presented in this report. However, the next quarterly report will compare the outturn with the estimates presented in the table below.

Table 8: Q2 Forecasts

	Jul	Aug	Sep	FY 2010/11
Recurrent Budget Expenses	**-571.2**	**-560.4**	**-509.5**	**-6,834.9**
Compensation of Employees	-262.2	-270.4	-261.0	-3,223.7
Use of Goods and Services	-119.0	-145.8	-112.0	-1,730.2
Interest Payments	-23.5	-8.0	-14.6	-206.3
Subsidies	0.0	0.0	-6.8	-27.3
Grants	-43.3	-42.1	-15.0	-403.9
Social Benefits	-31.2	-57.4	-59.0	-565.7
Other Expenses	-92.1	-36.7	-41.0	-677.9
Capital Budget Expenses	**-115.5**	**-105.9**	**-187.3**	**-1,691.8**
Compensation of Employees	-12.2	-16.6	-17.3	-180.8
Use of Goods and Services	-56.3	-81.0	-82.4	-956.8
Subsidies	0.0	0.0	0.0	0.0
Grants	-44.2	0.0	-83.9	-511.1
Social Benefits	0.0	0.0	0.0	0.0
Other Expenses	-2.7	-8.3	-3.7	-43.1
Non-Financial Assets	**-89.1**	**-183.9**	**-118.4**	**-1,900.1**
Non-Financial Assets (Capital Budget)	-88.3	-181.8	-117.3	-1,876.1
Non-Financial Assets (Recurrent Budget)	-0.8	-2.1	-1.1	-24.0

5. Financing

Table 9 below reports the financing of the deficit accumulated during the quarter of 2010/11. Over the quarter, Government deposits (from all accounts) at the Central Bank have declined by M857.8 million and by M0.1 million from commercial banks. Financial assets have decline by M857.9 million.

Meanwhile, domestic liabilities have declined by M248.2 million over the quarter. This is partly a reflection of a M250 million payment of an accrued pension liability. Additional repayments appear to have been made to non-bank public. Additional investigation is required into these transactions.

Foreign liabilities were reduced by M3.2 million with loan repayments of M26.4 million, but disbursements of M23.2 million.

This trend is not expected to continue as additional domestic debt is taken on through the issue of bonds (likely to occur around December) and additional debt from donors including the IMF.

Table 9: Q1 2010/11 Financing

	Apr	May	Jun	Q1 FY 2010/11
3.2. Financial assets	**57.5**	**93.7**	**706.7**	**857.9**
3.2.1. Domestic	57.5	93.7	706.7	857.9
3.2.1.2. Deposits	57.5	93.7	706.7	857.9
3.2.1.2.1 Central Bank	57.1	93.9	706.7	857.8
3.2.1.2.2 Commercial Banks	0.4	-0.2	0.0	0.1
3.3. Liabilities	**2.0**	**210.0**	**-463.5**	**-251.5**
3.3.1. Domestic	*0.5*	*207.3*	*-456.0*	-248.2
3.3.1.3. Securities	-1.3	0.8	1.4	0.9
3.3.1.3.1 Central Bank	0.0	0.0	0.0	0.0
3.2.1.3.2 Commercial Banks	0.1	-0.8	0.3	-0.4
3.2.1.3.3 Non-Bank Public	-1.5	1.6	1.1	1.2
3.3.1.4. Loans	1.8	456.5	-457.4	0.9
3.3.1.4.1 Central Bank	-1.3	458.3	-452.6	4.5
3.2.1.4.2 Commercial Banks	3.1	-1.8	-4.8	-3.6
3.3.1.9. Pension Liabilities	0.0	-250.0	0.0	-250.0
3.3.2. Foreign	*1.5*	*2.7*	*-7.4*	-3.2
3.3.2.4. Loans	1.5	2.7	-7.4	-3.2
3.3.2.4.1 Disbursements	5.8	8.9	8.5	23.2
3.2.2.4.2 Repayments	-4.3	-6.2	-15.9	-26.4

6. Conclusions

Revenue fell considerably below expectations – whether this be in terms of the budget, the IMF forecasts, or the updated MoFDP forecasts. Company tax revenue performed particularly badly.

Expenditure is however, lower than budgeted, forecast and estimated by the IMF. This has resulted in a fiscal balance in line with that forecast by the IMF for the first quarter at just over M400 million.

The financing however, has differed considerably in the first quarter from estimations used by the IMF (in setting ECF targets) as well as from that which was budgeted. In particular, we did not receive large Metolong payments or budget support, both of which had been factored in.

In addition, a larger-than-expected amount of payments pertaining to previous fiscal years were made during the first quarter, and a payment of M250 million was made towards pensions liabilities.

These differences resulted in a far larger drawdown of reserves than forecast. As such, it is important to keep track of both these and above-the-line expenditures during the remainder of the fiscal year.

7. Assumptions

Several assumptions have been made in writing this report. These are noted below:

- Although most revenue is known, some parts remain estimated. This is due to changes in the recording system which has not yet been fully implemented under the new IFMIS. Although it does not make any difference to the 'bottom line' (since it is both revenue and expenditure), the major estimated revenue source is that of grants for development projects.
- Since they were not ready at the time of the production of the report, a small amount of the expenditure remains estimated. This represents under 1% of the total amount however.
- Any error in these estimations will be included in the statistical discrepancy.
- The MoFDP is working to ensure that missing data become increasingly rare for future reports in order to ensure accuracy.

8. Conclusions

Revenue fell considerably below expectations – whether this be in terms of the budget, the IMF forecasts, or the updated MoFDP forecasts. Company tax revenue performed particularly badly.

Expenditure is however, lower than budgeted, forecast and estimated by the IMF. This has resulted in a fiscal balance in line with that forecast by the IMF for the first quarter at just over M400 million.

With developments on both the revenue and expenditure sides, the deficit is expected to be more or less as projected in the next quarter ending September 2010.

The financing however, has differed considerably in the first quarter from estimations used by the IMF (in setting ECF targets) as well as from that which was budgeted. In particular, we did not receive large Metolong payments or budget support, both of which had been factored in.

In addition, a larger-than-expected amount of payments pertaining to previous fiscal years were made during the first quarter, and a payment of M250 million was made towards pensions liabilities.

These differences resulted in a far larger drawdown of reserves than forecast. As such, it is important to keep track of both these and above-the-line expenditures during the remainder of the fiscal year.

Annex 1: a) First Quarter Revenue

	Apr	May	Jun	Q1 FY 2010/11
Revenue	**947.5**	**363.4**	**461.8**	**1772.7**
1. Tax revenue	**267.2**	**196.4**	**254.4**	**718.0**
1.1. Taxes on income, profits, and capital gains	145.0	91.9	127.7	364.5
1.1.1. Income tax - payable by individuals	69.1	73.6	67.5	210.2
1.1.2. Income tax - payable by corporations and other enterprises	34.9	3.1	37.2	75.2
1.1.3. Income tax - unallocable	41.0	15.2	23.0	79.2
1.3. Taxes on property	0.0	0.0	0.0	0.0
1.3.2. Recurrent taxes on net wealth (rand monetary compensation)	0.0	0.0	0.0	0.0
1.4. Taxes on goods and services	116.9	102.6	123.1	342.5
1.4.1. Value-Added Tax	100.6	90.3	101.8	292.7
1.4.2. Excise taxes	15.8	11.9	20.8	48.5
1.4.4. Taxes on specific services	0.03	0.02	0.09	0.1
1.4.5. Taxes on the use of goods and on permission to use or perform activities	0.4	0.4	0.4	1.2
1.5. Taxes on international trade and transactions	5.0	1.3	3.2	9.5
1.6. Other taxes	0.4	0.5	0.5	1.4
3. Grants	**71.9**	**103.7**	**155.8**	**331.4**
3.1. From foreign govs & international orgs.	71.9	103.7	155.8	331.4
3.1.1. Recurrent	0.0	0.0	0.0	0.0
3.1.2. Capital	71.9	103.7	155.8	331.4
4. Other revenue	**68.0**	**63.4**	**51.6**	**182.9**
4.1. Property income	11.5	16.2	1.6	29.3
4.1.1. Interest	0.9	0.4	0.1	1.4
4.1.2. Dividends	9.7	15.6	1.1	26.5
4.1.5. Rent	0.9	0.2	0.3	1.4
4.2. Sales of goods and services	51.3	42.7	45.7	139.7
4.2.1. Sales by market establishments	41.1	33.7	33.0	107.7
4.2.1.1. Electricity Muela	13.1	5.0	3.9	21.9
4.2.1.2. Water Royalities - LHDA	28.0	28.7	29.1	85.8
4.2.2. Administrative fees	7.3	6.0	7.9	21.3
4.2.3. Incidental sales by nonmarket establishments	2.9	2.9	4.9	10.7
4.3. Fines & forfeits	0.9	1.0	1.1	2.9
4.5. Miscellaneous and unidentified revenue	4.3	3.5	3.2	11.0
5. SACU	**540.4**	**0.0**	**0.0**	**540.4**
Known Revenue	829.8	222.8	279.4	1331.9
Estimated Revenue	117.7	140.6	182.5	440.8
Total	947.5	363.4	461.8	1772.7
Known as % of Total	*87.6%*	*61.3%*	*60.5%*	75.1%

** Highlighted cells indicate estimated revenue.*

Annex 1: b) Actual Tax Remittances compared with MoDFP Forecasts and Approved LRA Targets

Actual Remittances	**April (2010/11)**	**May(2010/11)**	**June (2010/11)**	
Taxes on income, profits, and capital gains	**144.8**	**91.9**	**127.7**	**364.4**
Income tax - payable by individuals	69.0	73.6	67.5	210.1
Income tax - payable by corporations and other enterprises	34.8	3.1	37.2	75.1
Income tax - other	40.9	15.2	23.0	79.1
VAT	**100.6**	**90.3**	**101.8**	**292.7**

MoFDP Forecasts	**April (2010/11)**	**May(2010/11)**	**June (2010/11)**	
Taxes on income, profits, and capital gains	**167.6**	**110.6**	**163.5**	**441.7**
Income tax - payable by individuals	69.7	63.7	79.5	213.0
Income tax - payable by corporations and other enterprises	71.5	33.6	58.1	163.2
Income tax - other	26.4	13.2	25.9	65.5
VAT	**87.7**	**95.7**	**68.9**	**252.3**

Approved Targets	**April(10/11)**	**May(10/11)**	**June (10/11)**	
Taxes on income, profits, and capital gains	166.7	137.4	230.8	534.8
VAT	75.2	77.4	77.3	230.0

Actual Remittances as Percentage of MoFDP Forecasts	**April(10/11)**	**May(10/11)**	**June (10/11)**	
Taxes on income, profits, and capital gains	86.4%	83.1%	78.1%	82.5%
VAT	114.7%	94.3%	147.7%	116.0%

Actual Remittances as Percentage of Approved Targets	**April(10/11)**	**May(10/11)**	**June (10/11)**	
Taxes on income, profits, and capital gains	86.9%	66.9%	55.3%	68.1%
VAT	133.7%	116.6%	131.6%	127.2%

Annex 3: Capital Budget Expenses – 2009/10 vs 2010/11

	2009/10			2010/11		
	Apr	May	Jun	Apr	May	Jun
Capital Budget Expenses	**-67.7**	**-49.6**	**-92.2**	**-53.0**	**-90.8**	**-195.2**
Compensation of Employees	-6.8	-4.0	-8.4	-7.8	-14.0	-64.0
Use of Goods and Services	-30.9	-27.1	-66.7	-31.1	-68.0	-106.2
Subsidies	-0.1	-0.1	-0.1	0.0	0.0	0.0
Grants	-29.0	-17.6	-16.1	-14.1	-8.8	-21.4
Social Benefits	-0.2	-0.2	-0.2	0.0	0.0	-3.5
Other Expenses	-0.7	-0.7	-0.7	0.0	0.0	-0.1

Annex 3b: Capital Budget Expenses – Estimations vs Actuals

	Estimations			Actuals		
	Apr	May	Jun	Apr	May	Jun
Capital Budget Expenses	**-59.5**	**-162.9**	**-136.9**	**-53.0**	**-90.8**	**-195.2**
Compensation of Employees	-7.6	-13.8	-18.6	-7.8	-14.0	-64.0
Use of Goods and Services	-32.9	-55.7	-91.7	-31.1	-68.0	-106.2
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Grants	-15.4	-87.2	-21.4	-14.1	-8.8	-21.4
Social Benefits	0.0	0.0	0.0	0.0	0.0	-3.5
Other Expenses	-3.7	-6.2	-5.3	0.0	0.0	-0.1