GOVERNMENT OF LESOTHO

2018/2019 FIRST QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

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Government of Lesotho

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Foreword from PS Finance

In an effort to enhance the budget discourse, Ministry of Finance has been developing a quarterly "Budget and Fiscal Bulletin" since 2015/16 to discuss and deliberate budget ideas and experiences with particular focus on highlighting success stories, and challenges on impleneting budget.

2018/19 marks the fourth year where Ministry of Finance has been consistantly publishing quarterly budget and fiscal bulletins and it has now being rooted into the institutional arrangements of the Government of Lesotho macro-fiscal management.

This notwithstanding, more effort is required to make continuous improvement in their timely production and publication as they are become important tools for transparency and accountability.

As a measure of good governance, Government recognises the importance of informing its citizens on how it transmits its responsibility of public service delivery and the broader public policy implementation. The provision of information also extents to Lesotho's Development Partners who have continued to provide extremely useful support under very trying economic challenges.

As has been indicated in the previous bulletins, the macro-fiscal management in Lesotho remains to be challenging resulting to very unfavourable regional and global economic developments. However, the Government continues to be committed to addressing these challenges particularly under the on-going PFM reforms, supported by the various Development Partners, plans to address the current gaps in the systems and processes which will improve the PFM environment in the medium to long term. The other important project is the Public Sector Modernisation (PSM), which transcends PFM reforms and also looks into improving the broader public service delivery.

This Budget and Fiscal Bulletin, like the previous ones, presents the major revenue and expenditure activities that took place in the first quarter of 2018/2019. It also highlights developments in the global and domestic economy in the first quarter of 2018/2019. It reports key revenue and expenditures data and how these have changed over the period of a year since the end of the fourth quarter of 2017/18. The bulletin continues to support the efforts of good governance and the need for fiscal transparency.

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The bulletin is divided into two sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2018/19 budget to Parliament. Section 2 presents the budget and fiscal developments and is divided into three sub-sections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue collection.

Introduction

This bulletin continues to follow the objective of reporting and notifying various stakeholders about Government's revenues and expenditure performance. It provides guidance to the relevant authorities on how government Ministries, Departments and Agencies (MDAs) have performed in relation to budget execution of expenditures and revenues for the period from April to June 2018. In this regard, this bulletin would form a basis for corrective measures necessary to ensure that the MDAs' expenditures stay within the approved limits and also to enhance management of cash. The report is mainly based on the analytical review of the expenditure trend as well as variance analysis.

The 2018/19 fiscal year's total approved expenditure budget is M 19,830.1 million, of which the recurrent budget is M 13,920.0 million and the capital budget, is M 5,910.1 million. This compared with a total of M 18,709.3 million for fiscal year 2017/18 indicates an increase of about 6 percent. For the recurrent budget, the annual growth is 3 percent, which largely reflects the annual salary adjustment of 3 percent.

The revenue target for the current financial year is M 14,839.7 million which is a decrease of 1 percent over the 2017/18 approved target of M14,994.8 million. This is largely due to declining SACU receipts.

Section 1 – Macroeconomic Developments

The current macroeconomic situation calls for urgent control of the fiscal management in the face of fragile global and regional economic environment.

Public spending has been increasing over the past years while revenues are growing at a slow pace. In 2017/18 recurrent expenditure in particular reached 40 as a percentage of GDP as well as a share of total budget recording around 70 percent while capital expenditure is around 14.8 percent of GDP. Wages and salaries registered 18 percent of GDP which is amongst the highest in the world

The economic growth is expected to recover from a low of -2.8 percent to 0.8 percent this year. This depicts a low growth; however is a tick up from a low base. This improvement is supported by strong recovery in diamonds, agriculture and manufacturing.

Budgetary Operations: April - June 2018 **Millions of Maloti**	
Revenues	**3 775.0**
Expenditures	**3 278.7**
of which	
Recurrent	3 258.0
Capital	20.7
Budget Balance	**496.3**

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

The overall budget balance for the second quarter is estimated at M234.30 million.

Section 2 – Budget and Fiscal Developments

Revenue is a major source of financing government expenditures, other grants and loans. The revenue performance depend to a large extend on SACU performance as such it plays a major role in the spending patterns of government. Increases in revenues, especially SACU has an upward influence on the expenditures which poses fiscal risks since the expenditures do not contract in line with the decline in this revenue.

The total revenue collections for 2017/18 amounted to M15, 475.7 million, against the budgeted M16, 035 million. This was below the revised target by M559.3 million largely on account of shortfall in tax revenue categories.

While this year the revenue projection is expected to grow by 4 percent from the estimated outturn of M16, 035.0 million. This indicates a low collection from SACU receipts coupled with expected dormant to slow economic activity which also negatively affect domestic revenues.

The overall fiscal deficit is estimated at 5.2 percent which will be financed by a combination of borrowing domestically and externally.

However government is committed to put effort to consolidate its fiscas by implementing some revenue mobilisation measures and expenditure cutting measures beginning this fiscal year.

Section 2:1 – The First Quarter Revenue Collection

During the quarter under review, the total revenue collections recorded M3, 775 million which is around 23 percent of the yearly target, reflecting an increase of 11 percent in revenues as opposed to the corresponding period of the previous year. However it has marginally missed the quarterly target of M3, 947.1 million which is observed in tax revenue. The significant drop in tax revenue is a result of the under-performance in corporate income tax (CIT).

Figure 1: Revenue Shares (in Millions of Maloti)

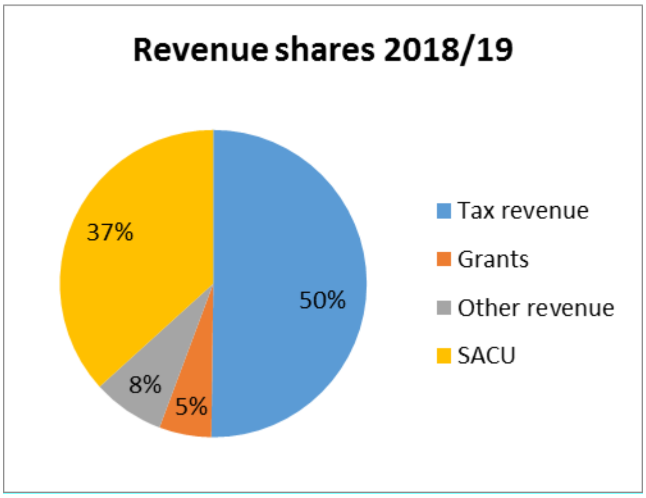


Figure 1 illustrates the total revenue shares for this quarter, revealing a shift in the revenue composition. The major contributors of government revenue are Tax revenue taking the lead followed by SACU, with 50 percent and 37 percent respectively. While other revenue contributes 8 percent and Grants share of 5 percent.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2017/18 Quarter 1	2018/19 Quarter 1	Growth in percent
Tax Revenue	1 405.50	1 895.30	35%
Grants	226.70	207.30	-9%
Other Revenue	257.50	286.70	11%
SACU	1 538.60	1 385.60	-10%
Total	3 397.80	3 775.00	11%

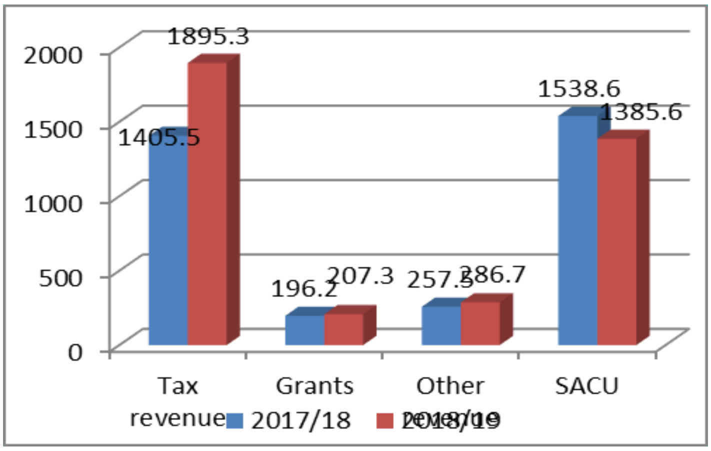
Tax Revenue

Tax revenue collections for the quarter were M 1,895.3 million against the estimated M2, 086.5 million. This was below the target by 9 percent; however it exceeded the actual relative to the quarter of the preceding year by 35 percent. The shortfall in the collections was observed in CIT recording M206.
It is worth noting that the annual estimate for CIT is projected to decline by 17 percent from the base. Nonetheless, collections remained sluggish, owing to lower provisional payments from mining sector which stemmed from con-tracting diamond prices coupled with the Loti depreciation.

Personal income tax increased firmly and ex-ceeded the quarterly target by 4 percent reaching M544 million. The higher collection was due substantial increase on Public administration, wholesale and Retail as well as Financial and In-surance.

VAT grew by 7 percent compared to the same period of last year recording M739.6 million and surpassed the target by M27.8 million.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Non tax revenue recorded a growth of 11percent compared to the same period of last year. It registered a total collection of M286.7 million. This was mainly brought by higher collections by Muela electricity.

SACU

In the past decade, SACU revenues contributed the highest share at around 50 percent of the to-tal revenues. However it's been volatile since 2010/11going forward. It is highly influenced by external conditions, mainly imports, which Le-sotho does not have policy leverage. This is an indication that for its fiscal sustainability, the government has to improve its ability to gener-ate her domestic revenues and be tactful in stra-tegic resource allocation that improve the in-vestment climate and promote growth.

In the current fiscal year, revenues are expected to decline by 10 percent as opposed to the previ-ous year which recorded M6, 154.2 million. While this quarter SACU receipts recorded M1, 385.6 million. The fall in receipts relative to the 2017/18 was attributed to the decline in excise component.

Section 2:2 – The First Quarter's Recurrent Expenditures

Table 4: 2018/19 First Quarter Recurrent Budget Performance

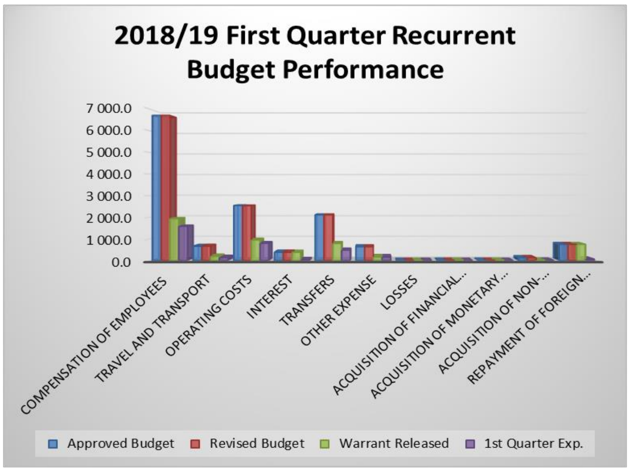
	Approved Budget	Revised Budget	Warrant Released	1st Quarter Exp.	EXP as % of Revised Budget	EXP as % of Warrant
Compensation of Employees	6 709.1	6 710.7	1 937.8	1 579.7	24%	82%
Travel and Transport	659.0	664.1	192.7	139.3	21%	72%
Operating Costs	2 545.1	2 535.5	953.2	792.9	31%	83%
Interest	382.2	382.2	381.6	29.8	8%	8%
Transfers	2 111.3	2 111.5	789.5	477.4	23%	60%
Other Expense	637.2	637.2	174.0	169.3	27%	97%
Losses	0.1	0.1		0.2	248%	0%
Acquisition of Financial Assets	4.0	4.0	4.0	-	4%	4%
Acquisition of Monetary Gold and Special Drawing Rights	2.3	2.3	2.3	-	0%	0%
Acquisition of Non-Financial Assets	121.4	124.1	12.9	6.5	5%	50%
Repayment of Foreign Liabilities	748.9	748.9	748.9	62.9	12%	12%
Grand Total	13 920.4	13 920.4	5 196.9	3 258.0	23%	63%

Source: Ministry of Finance; Budget Department

On aggregate, the approved Recurrent Budget for the year 2018/19 was around M13,920 million of which M6,709 million was attributable to Personal Emoluments while M7,211 million was budgeted for Operating Costs. As at 30th June, 2018, the to-tal of M5,197 million of the total approved Recur-rent Budget had been released for the first quarter. The total amount spent for the first quarter was about M3,258 million which accounts for 23 per-cent and 63 percent of the revised budget and war-rants released for the first quarter, respectively.

The total recurrent expenditure for the month of June 2018 amounts to M1,112 million which is about 8 percent of the revised budget for the fiscal year 2018/19. On the other hand, the said expendi-ture accounts for about 21 percent of the warrants released for the first quarter.

Figure 2: 2018/19 First Quarter Recurrent Budget Performance



Source: Ministry of Finance; Budget Department

The overall expenditure for the first quarter has been disintegrated in a number of categories or sub-heads to facilitate further detailed analysis. The first category to consider is **Compensation of Employees** where the expenditure for the first Quarter is M1,580 million *(which is about 24 percent and 82 percent of the revised budget and released warrants accordingly)*. This takes about 50 percent of the total spent funds for the quarter and is in line with the expected expenditure pattern and budget allocation. It is also important to highlight that about M6.9 million has been transferred from the Centralised Items for Compensation of Employees to the following Ministries of: 1). Labour and Employment, 2). Trade and Industry, 3). Police and Public Safety, 4). Water and Statutory Salaries and Allowances.

The other category is **Travel and Transport**, the total of M139.3 million had been spent out of the revised budget of M664.1 million. This represents about 21 percent and 72 percent of the revised budget and released warrants, respectively. It is worth noting that in the first quarter there has been a significant decline of virements to International Travels in line with the austerity measures laid down by the Hon. Minister of Finance. However, the expenditure in this category is expected to surge in the third quarter after the planned hiring of about 341 Basotho vehicles.

The total expenditure for **Operating Costs** amounted to M792.9 million which was attributable to 31 percent and 83 percent of the revised budget and released warrants, respectively. There have been low budget execution rates in other categories with an exception to Transfers and Other Expense where M477.4 million and M169.3 million have been spent, respectively. It should be noted that out of M748.5 million that had been released for the repayment of Domestic Debt and Foreign Liabilities, only M62.9 million was paid for Repayment of Foreign Liabilities and non for Domestic Debt.

There was a transfer of M14.6 million *(which is about 14.6 percent of the total approved budget for the Contingencies Fund)* from the Contingencies Fund to the Prime Minister`s Office for cancer conference and Judiciary for engagement of new judges.

Section 2:3 – The First Quarter's Capital Expenditures

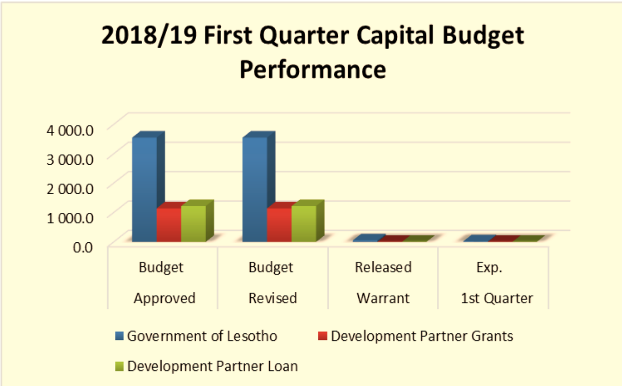
Table 5: 2018/19 First Quarter Capital Budget Performance

	Approved Budget	Revised Budget	Warrant Released	1st Quarter Exp.	EXP as % of Approved	EXP as % of Warrant
Government of Lesotho	3 550.4	3 550.4	53.6	20.7	1%	39%
Development Partner Grants	1 141.3	1 141.3	-	-	0%	0%
Development Partner Loan	1 218.5	1 218.5	-	-	0%	0%
Grand Total	5 910.1	5 910.1	53.6	20.7	1%	39%

Source: Ministry of Finance; Budget Department

The approved Capital Budget for the year 2018/19 is M5,910 million being M1,141 million, M1,218 million and M3,550 million for donor grants, donor loans and Government of Lesotho respectively. The total amount spent for the first quarter is M108.3 million. The total Capital Expenditure to date represent 5.2 percent and 90 percent of M5,910 million for approved budget and warrant released, respectively. The low execution rates on Capital Expenditures were primarily a result of delays in the release of capital funds due to technical (CBMS/IFMIS) problems.

Figure 3: 2018/19 First Quarter Capital Budget Performance



Source: Ministry of Finance; Budget Department

However, despite this general unsatisfactory performance, there are many ministries which performed better such as Judiciary and Public Works request for payment of outstanding cirtificates for work already done.

Some ministries in this instance had not requested any funds due fact that the approved budget was not entered into the IFMIS – Active Planner in time and that hinders on developmental performance.

The low performance is also as a result of continuous donor funded projects expenditure that is being managed outside the IFMIS system and faiture to reconcile and request funds for posting purposes.
It should also be noted that expenditure for Donor Grants and Loans continues not to be recorded in the system, hence the low performance. This is due to different systems that are used by the development partners and the fact that line ministries do not request funds for posting purposes. These challenges are being addressed under the ongoing PFM and PSM reforms.

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