



THE GOVERNMENT OF LESOTHO



2025-2026 FORTH QUARTER BUDGET PERFORMANCE BULLETIN

PREPARED BY

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EXECUTIVE SUMMARY

INTRODUCTION

The FY2025/26 fiscal outturn reflects a relatively resilient revenue performance and disciplined expenditure execution amid a challenging macroeconomic environment. Total revenue collections reached M24,437.90 million, representing 90.9 percent of the annual target, supported primarily by strengthened domestic revenue mobilisation. Growth in tax collections, particularly Company Income Tax, Personal Income Tax, and non-tax revenues, helped offset soft performance in VAT and mining-related revenues.

Recurrent expenditure remained well-contained within the fiscal framework, with strong execution across key cost drivers including Compensation of Employees, Transfers, and debt servicing. Capital expenditure showed mixed performance, with high absorption in infrastructure and governance programmes, while other sectors experienced implementation delays largely due to procurement and readiness constraints.

The fiscal position continues to face structural pressures, including rising debt servicing obligations, dependence on a narrow tax base, and volatility in SACU revenues. While short-term fiscal stability has been maintained, medium-term sustainability will depend on broadening the revenue base, strengthening project implementation capacity, and maintaining expenditure discipline.

This End-Year Expenditure Report presents a comprehensive assessment of fiscal performance for the Government of Lesotho for the financial year ending FY2025/26. The report evaluates revenue mobilisation, recurrent and development expenditure execution, and overall budget performance relative to approved and revised appropriations.

The analysis is undertaken within the context of prevailing macroeconomic conditions, characterised by moderate economic growth, external uncertainties, and structural fiscal constraints. The report aims to support fiscal transparency, strengthen accountability, and inform policy and budgeting decisions for the medium term.



REVENUE PERFORMANCE

Revenue Overview

Revenue performance during the fiscal year reflects a pivotal phase in Lesotho’s fiscal trajectory, characterised by intensified domestic revenue mobilisation amid prevailing macroeconomic and structural constraints.

The revenue outturn increasingly reflects a deliberate policy shift toward strengthening endogenous sources, signalling a strategic move toward fiscal self-reliance and reduced dependence on volatile external transfers, particularly SACU receipts. While this policy direction enhances long-term fiscal sustainability, it also increases the sensitivity of public finances to domestic economic conditions, administrative efficiency, and revenue compliance dynamics.

In the fourth quarter of the fiscal year, total revenue collections amounted to M6,343.25 million, contributing approximately 24 percent to the annual revenue target. This represents an increase of about 8 percent compared to M5,879.8 million collected in the corresponding period of the previous fiscal year, indicating moderate growth in revenue performance despite challenging economic conditions.

Cumulatively, total revenue collections reached M24,437.90 million, representing an overall performance of 90.9 percent against the approved annual target of M26,888.60 million. Although this reflects a strong outturn, the slight shortfall relative to the target suggests the persistence of structural and cyclical constraints affecting revenue generation during the year.

The composition of revenue remained broadly consistent, with the major sources comprising tax revenue, non-tax (other) revenue, SACU receipts, and proceeds from the disposal of financial and non-financial assets. This revenue mix continues to underscore the importance of both domestic resource mobilisation efforts and external revenue streams in supporting fiscal operations during the period under review.

Table 1: Fourth Quarter Revenue Collection

2025/26 FOURTH QUARTER REVENUE COLLECTION BY SOURCE				
Revenue Components	Targeted Revenue	Quarter 4 Collections	Total Collections	Percentage Collections
Taxes	11 290.4	2 583.25	10 328.55	91%
Other Revenue	6 377.42	1 457.41	4 902.02	77%
SACU Receipts	9 179.88	2 295.06	9 180.22	100%
Disposal of Financial Assets	40.69	7.52	26.94	66%
Disposal of Non-Financial Assets	0.21	0.01	0.17	83%
Grand Total	26 888.6	6 343.25	24 437.9	91%

Source: Ministry of Finance and Development Planning, Budget Department

As illustrated in Table 1, tax revenue performance in the fourth quarter recorded a notable improvement, with collections increasing from M2,094 million in FY2024/25 to M2,583 million in FY2025/26, representing growth of 23 percent. This expansion reflects a strengthened tax effort supported by intensified compliance enforcement, broader audit coverage, and improved arrears recovery mechanisms.

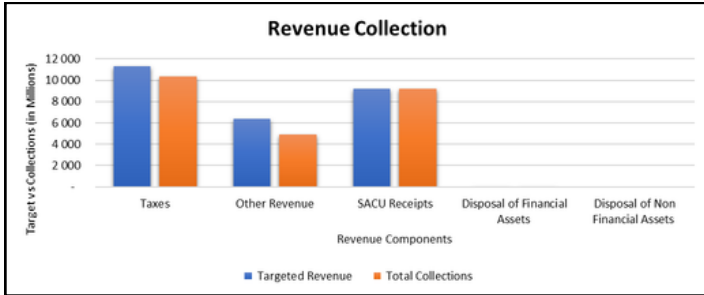
<p>Non-tax revenue</p>	<p>Non-tax revenue (Other Revenue) also assumed greater relative prominence during the period under review, indicative of improved collection discipline and administrative efficiency. Collections rose significantly from M891 million in FY2024/25 to M1,457 million in FY2025/26, representing a 64 percent increase in the fourth quarter. This outcome reflects a deliberate strategic shift toward enhanced non-tax revenue mobilisation, driven by strengthened cost recovery frameworks, stricter fee enforcement, and improved remittance compliance across public institutions.</p>
<p>Water royalties</p>	<p>Water royalties from the Lesotho Highlands Development Authority remained a key and stable revenue source, with collections amounting to M4,078 million, equivalent to 82 percent of the annual target. This performance is consistent with predictable treaty-based payment arrangements and established transfer schedules, reinforcing the reliability of this revenue stream.</p>
<p>Dividends from non-financial public corporations</p>	<p>Dividends from non-financial public corporations exceeded expectations, generating M26 million, 79 percent above the target. This outturn was largely attributable to improved financial performance of selected entities, coupled with delayed dividend declarations from the previous fiscal year.</p>

<p>Mining Royalties</p>	<p>mining royalties underperformed significantly, with actual collections amounting to M70.29 million, representing only 18 percent of the annual target. This shortfall was primarily driven by subdued operations in the diamond mining sector. At Letšeng Mine, reduced recoveries and weaker global diamond prices constrained sales values and, consequently, royalty payments. Furthermore, the placement of Mothae Mine under care and maintenance for most of the fiscal year eliminated a key contributory revenue stream. Adverse global market conditions also dampened production levels, further exacerbating the revenue shortfall.</p>
<p>Receipts from Rand Monetary Compensation</p>	<p>Receipts from Rand Monetary Compensation amounted to M254.05 million against a target of M404.72 million, equivalent to 63 percent performance, reflecting lower-than-anticipated inflows during the fiscal year.</p>
<p>Electricity revenue from the 'Muela Hydropower Station</p>	<p>Electricity revenue from the 'Muela Hydropower Station did not materialise against a budgeted amount of M69.84 million. This was primarily due to the prolonged shutdown of power generation during maintenance of the Lesotho Highlands Water Project (LHWP) tunnels. Post-maintenance recovery was gradual, as turbines were recommissioned in phases, delaying the resumption of revenue flows.</p>
<p>Rental income from government-owned commercial and industrial properties</p>	<p>Rental income from government-owned commercial and industrial properties also underperformed despite its traditionally stable nature. Collections amounted to M19 million, representing only 30 percent of the annual target. The shortfall reflects persistent structural challenges, including tenant arrears, property vacancies, and weak enforcement of lease agreements during the reporting period.</p>

<p>Southern African Customs Union (SACU) receipts</p>	<p>Southern African Customs Union (SACU) receipts remained a cornerstone of overall revenue performance in FY2025/26, with total inflows amounting to M9,180 million, achieving 100 percent of the approved estimate. However, on a comparative basis, SACU receipts declined from M2,887 million in FY2024/25 to M2,295 million in FY2025/26, representing a contraction of 21 percent in the fourth quarter.</p> <p>This decline reflects weaker regional trade activity, subdued import demand within the customs union, and inherent revenue-sharing dynamics within the SACU framework, which remain largely beyond domestic policy control. The continued volatility and downward trend in SACU revenues constrains fiscal space for countercyclical policy and underscores the need for prudent expenditure management, rebuilding of fiscal buffers, and sustained structural reforms to reduce reliance on externally determined revenue sources.</p>
<p>Proceeds from the disposal of financial assets</p>	<p>Proceeds from the disposal of financial assets remained unchanged at M8 million in both FY2024/25 and FY2025/26, indicating neither growth nor underperformance. This stability reflects a deliberate policy stance to avoid reliance on short-term asset sales as a financing mechanism. While this approach supports the preservation of public sector balance sheet integrity and long-term fiscal credibility, it simultaneously narrows the range of available options to address temporary revenue shortfalls, thereby placing increased pressure on expenditure rationalisation and domestic revenue mobilisation.</p>

Figure 1 below provides a graphical representation of revenue performance across major components relative to the FY2025/26 targets.

FIGURE 1. REVENUE PERFORMANCE FOR FY 2025/26



The continued performance of these tax heads reflects underlying consumption patterns, employment dynamics, and business activity across the economy.

Table 2 below presents the performance of these major tax categories against their respective targets for the fourth quarter, as well as their cumulative outturn for FY2025/26.

Major Tax Revenue

Tax revenues remain the dominant anchor of fiscal inflows, underscoring the central role of economic activity, labour market conditions, and corporate profitability in sustaining budget stability.

During the fourth quarter, tax collections increased from M2,094 million in FY2024/25 to M2,583 million in FY2025/26, representing growth of 23 percent. This expansion reflects a strengthened tax effort, driven by intensified compliance enforcement, expanded audit coverage, and improved arrears recovery. These administrative and policy measures have contributed to enhanced revenue performance despite prevailing economic pressures.

The composition of tax revenue remains broadly diversified, with the main contributors including Value Added Tax (VAT), Personal Income Tax (PIT), Company Income Tax (CIT), Withholding Tax, the Oil Levy, and the Tobacco and Alcohol Levy (TAL).

TABLE 2: TAX PERFORMANCE BY MAJOR TAX ITEMS

2025/26 FOURTH QUARTER REVENUE COLLECTION BY TAX ITEM				
Tax Items	Targeted Revenue	Quarter 4 Collections	Total Collections	Percentage Collection
Value Added Tax	5,350.30	879.7	4 093.3	77%
Personal Income Tax	3,113.20	800.2	3 345.1	107%
Company Tax	1,107.30	479	1 535.0	139%
Withholding Tax	973.8	226.4	671.7	69%
Oil Levy	444.6	106.1	393.6	89%
Tobacco and Alcohol Levy	178.4	57.6	193.9	109%

Source: Ministry of Finance and Development Planning, Budget Department

As depicted in Table 2, Value Added Tax (VAT) remains a central pillar of the revenue framework, closely reflecting domestic consumption dynamics and the efficiency of indirect tax administration. Total VAT collections moderated from M4,283.40 million in FY2024/25 to M4,093.25 million in FY2025/26, representing a contraction of 4.4 percent.

In the fourth quarter alone, VAT generated M879.67 million, an outcome influenced by subdued household demand amid persistent cost-of-living pressures, as well as timing effects related to refunds and sector-specific consumption adjustments.

Notwithstanding ongoing Government initiatives, including enhanced VAT digitisation and risk-based compliance monitoring by the Revenue Services Lesotho, the softness in fourth quarter performance largely reflects cyclical demand conditions rather than any deterioration in the structural integrity of the VAT system.

By contrast, Personal Income Tax (PIT) exhibited a clear expansionary trajectory, underscoring improvements in labour income capture and compliance. Collections increased from M2,922.16 million to M3,345.13 million between the two fiscal years, representing growth of 14.5 percent.

This performance reflects a combination of nominal wage growth, resilience in formal sector employment, and strengthened enforcement within the Pay-As-You-Earn (PAYE) system.

Fourth quarter collections amounted to M800.20 million, supported by year-end payroll reconciliations and continued Government efforts to enhance employer compliance and expand electronic filing. This reinforces the role of PIT as a stable anchor of domestic revenue mobilisation.

The most pronounced shift within the tax portfolio was observed in Company Income Tax (CIT), where collections increased significantly from M865.23 million in FY2024/25 to M1,535.03 million in FY2025/26, representing growth of 77.4 percent.

This strong performance reflects improved profitability in selected sectors, alongside enhanced tax administration, including strengthened assessment processes, audit activity, and arrears recovery. In the fourth quarter of FY2025/26, CIT generated M479.00 million, largely driven by final provisional payments and the settlement of outstanding liabilities.

While fiscally beneficial, the concentration of receipts toward the end of the fiscal year highlights the inherent volatility of corporate income taxation and warrants cautious interpretation for medium-term forecasting.

Withholding Tax also recorded notable growth, with collections rising from M492.23 million to M671.74 million, representing an increase of 36.5 percent. This improvement reflects stronger compliance controls and increased activity in contract-based services and cross-border transactions.

Fourth quarter collections amounted to M226.37 million. Although positive, performance was somewhat moderated by subdued service sector activity and persistent compliance challenges among smaller taxpayers. Ongoing Government initiatives to broaden the withholding tax base and strengthen taxpayer registration through the Revenue Services Lesotho are expected to support sustained improvement, reinforcing the role of withholding tax as a key safeguard against base erosion.

Revenue from the Oil Levy remained broadly stable, increasing marginally from M387.35 million in FY2024/25 to M393.63 million in FY2025/26, equivalent to growth of 1.6 percent.

This stability reflects the continued application of administered fuel pricing and consumption-smoothing mechanisms by the Government, which help insulate revenue flows from short-term price volatility but limit responsiveness to upward price movements. In the fourth quarter, Oil Levy collections amounted to M106.15 million, reflecting these policy dynamics that prioritise price stability and macroeconomic predictability over short-term revenue gains.

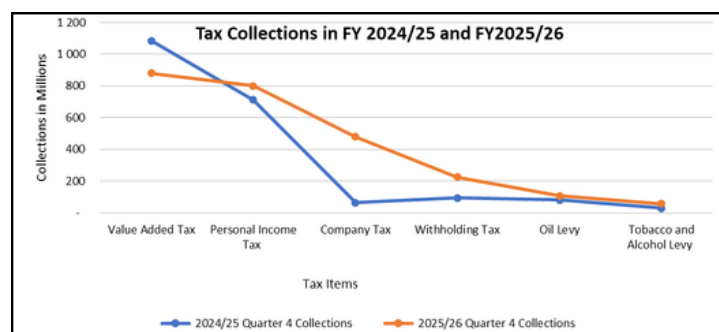
Tobacco and Alcohol Levy (TAL) collections strengthened significantly, increasing from M146.78 million in FY2024/25 to M193.94 million in FY2025/26, representing growth of 32.1 percent.

This expansion reflects the combined impact of recent excise rate adjustments and strengthened enforcement against illicit trade. In the fourth quarter, collections amounted to M57.61 million, supported by intensified border controls and improved coordination between customs and revenue authorities.

This underscores the effectiveness of excise taxation as both a revenue mobilisation instrument and a complementary tool for public health policy.

Figure 2 below presents a graphical comparison of tax revenue collections for FY2024/25 and FY2025/26 across the major tax categories.

FIGURE 2: PERFORMANCE OF TAX REVENUE FOR FY2024/25 COMPARED TO FY2025/26



Importantly, the observed revenue performance appears to be driven largely by nominal income effects and administrative improvements, rather than robust real economic growth or broad-based expansion of the tax base. At the cumulative level, this suggests an increasing concentration of the tax burden within a relatively narrow, formalised segment of the economy.

While these dynamic supports short-term fiscal stability and revenue predictability, it introduces notable medium-term risks, including the potential for tax fatigue, gradual erosion of compliance, and a reversion to informality, particularly in an environment of subdued economic growth.

These emerging vulnerabilities underscore the need for a more balanced and sustainable revenue strategy over the medium term, focused on broadening the tax base, strengthening economic growth, and reinforcing compliance without overburdening already compliant taxpayers.



Recurrent Expenditure Performance

Throughout the 2025/26 financial year, recurrent expenditure was executed within a stable and well-managed fiscal framework, reflecting strong expenditure discipline across key cost drivers. During the fourth quarter, expenditure remained robust and consistent, underpinned by sustained spending on Compensation of Employees, Transfers, Operating Costs, and debt servicing obligations.

Collectively, these expenditure components were aligned with service delivery imperatives and statutory commitments, ensuring the uninterrupted functioning of government operations while maintaining fiscal compliance and control at year-end.

The variance between the approved budget and the revised budget for the fourth quarter amounted to M621.2 million. This increase is primarily attributed to supplementary allocations sourced from the Contingencies Fund, as well as approved budget reallocations undertaken during the financial year to address emerging priorities and unavoidable expenditure pressures.

These adjustments were implemented in accordance with the prevailing Public Financial Management framework and were necessary to sustain the delivery of core government programmes and fulfil statutory obligations without disruption.

Quarter four actuals reflect the final expenditure outcomes for the fiscal year, while cumulative expenditure captures the full-year execution position. This dual presentation facilitates a comprehensive assessment of budget absorption, expenditure efficiency, and compliance with both approved and revised appropriations at sub-head level. It thereby strengthens fiscal oversight and supports evidence-based decision-making for the financial year under review.

The table below presents a detailed analysis of expenditure performance for FY2025/26, structured by approved and revised budget sub-heads, and reporting on actual expenditure incurred during the fourth quarter as well as cumulative expenditure to date. The disaggregation by sub-head enhances transparency and provides deeper insight into the allocation and utilisation of resources across expenditure categories, in line with the revised budget framework.

**Table 3: 2025/26 FOURTH QUARTER
RECURRENT EXPENDITURE BY SUB-HEAD**

2025/26 FOURTH QUARTER RECURRENT EXPENDITURE BY SUB-HEAD							
Sub-Head	Approved Budget	Revised Budget	Warrant Allocations	Quarter 4 Expenditure	Total Expenditure To Date	Expenditure as % of Warrant Allocations	Expenditure as % of Revised Budget
Compensation of Employees	9,075.60	9,111.16	8,727.43	2,063.68	8,352.45	96%	92%
Travel and Transport	567.8	682.74	657	193.38	601.57	92%	88%
Operating Costs	2,618.52	2,803.62	2,689.07	782.94	2,511.09	93%	90%
Interest	1,083.97	896.2	881.01	251.07	868.71	99%	97%
Transfers	4,155.40	4,684.48	4,559.22	1,336.50	4,559.10	100%	97%
Other Expense	1,318.03	1,325.07	1,317.32	322.98	1,315.45	100%	99%
Losses	75	59.99	44.31	26.83	39.57	89%	66%
Acquisition of Financial Assets	48	55.13	53.67	0	53.67	100%	97%
Acquisition of Monetary Gold and Special Drawing Rights	3.1	3.1	0	0	0	0%	0%
Acquisition of Non-Financial Assets	305.68	296.17	252.21	124.96	222.77	88%	75%
Contingencies Fund	955.68	139.05	0	0	0	0%	0%
Repayment of Domestic Liabilities	1,718.84	1,702.41	1,677.52	884.1	1,676.41	100%	98%
Repayments of Foreign Liabilities	1,040.21	1,827.91	1,710.68	723.82	1,576.91	92%	86%
Grand Total	22,965.83	23,587.03	22,569.43	6,710.26	21,777.69	96%	92%

Source: Ministry of Finance and Development Planning, Budget Department

COMPENSATION OF EMPLOYEES

Compensation of Employees recorded quarterly expenditure of M2,087.89 million in FY2024/25 compared to M2,063.68 million in FY2025/26, reflecting a marginal contraction of approximately 1 percent.

From a macro-fiscal and public expenditure management perspective, this moderation signals strengthened control over the wage bill and improved payroll governance during the fiscal year close-out period. Expenditure reached 92 percent of the Revised Budget, indicating strong budget credibility and effective alignment between personnel planning and fiscal constraints.

The high absorption rate was driven primarily by salaries for established posts, while the limited utilisation of vacant and new positions points to effective establishment control, with expenditure outcomes aligned to approved staffing levels rather than unplanned workforce expansion.

TRAVEL AND TRANSPORT

Travel and Transport expenditure declined from M204.11 million to M193.38 million, representing a 5 percent year-on-year reduction. This outcome reflects the sustained implementation of cost-containment measures and efficiency gains in administrative operations.

Spending remained concentrated in key areas such as local subsistence allowances, fuel and lubricants, and vehicle hire, suggesting continued prioritisation of essential operational mobility requirements while limiting discretionary expenditure.

OPERATING COSTS

Operating Costs increased from M741.19 million to M782.94 million, representing a 6 percent rise in quarterly expenditure. This growth is consistent with intensified service delivery efforts and the settlement of accrued obligations toward year-end.

Budget execution reached approximately 90 percent of the Revised Budget, indicating broadly strong implementation performance, albeit moderated by procurement and invoicing timing effects. High absorption was observed in expenditure categories such as purchases of materials, goods and services, maintenance of public assets, and utilities.

The residual under-execution largely reflects timing and phasing effects rather than any underlying weakness in spending capacity or fiscal discipline.

INTEREST

Interest expenditure rose markedly from M180.02 million in FY2024/25 to M251.07 million in FY2025/26, representing an increase of 39 percent. This escalation underscores rising debt servicing obligations associated with increased borrowing requirements and prevailing interest rate conditions.

Execution reached 97 percent of the Revised Budget, reflecting the largely non-discretionary nature of interest payments and their growing claim on fiscal resources. On a cumulative basis, interest expenditure also reached approximately 97 percent of the Revised Budget, driven by both domestic and multilateral interest payments executed in line with contractual schedules.

This performance confirms strong forecasting accuracy while highlighting the increasing rigidity imposed by debt servicing on fiscal space.

TRANSFERS

Transfers expanded significantly, increasing from M782.16 million in FY2024/25 to M1,336.50 million in FY2025/26, representing a 71 percent rise in quarterly disbursements. This substantial growth reflects an enhanced redistributive fiscal stance and increased support to public institutions and beneficiary programmes.

By year-end, this sub-head achieved approximately 97 percent of the Revised Budget, indicating strong execution of policy-driven commitments. High absorption was concentrated in key social programmes, including Old Age Pensions, Child Grants, and School Feeding Programmes, as well as transfers to extra-budgetary units and local authorities. This outcome demonstrates strong alignment between budget allocations and implementation priorities.

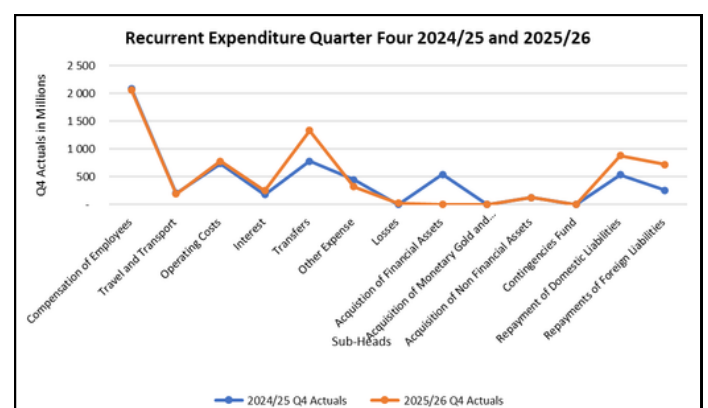
REPAYMENT OF DOMESTIC LIABILITIES

Repayment of Domestic Liabilities increased significantly from M538.15 million to M884.10 million, reflecting a 64 percent rise in quarterly payments. This outcome highlights a deliberate fiscal strategy focused on arrears clearance and improved liquidity management. Cumulative expenditure reached 98 percent of the Revised Budget, indicating strong execution discipline and effective cash management practices.

REPAYMENTS OF FOREIGN LIABILITIES

Repayments of Foreign Liabilities also rose sharply, with quarterly expenditure increasing from M256.12 million to M723.82 million, representing a 183 percent increase. This escalation reflects heightened external debt servicing obligations, alongside exposure to refinancing and exchange rate risks. Budget utilisation reached 86 percent of the Revised Budget, indicating strong execution capacity despite external financial market volatility.

Figure 3: COMPARATIVE QUARTER FOUR ACTUAL EXPENDITURE FOR 2024/25 AND 2025/26 SUMMARY



The comparative line graph above indicates that overall, fourth quarter expenditure patterns remained broadly consistent between the FY2024/25 and FY2025/26 financial years. Most expenditure sub-heads recorded only marginal fluctuations, pointing to stability in spending composition rather than structural shifts.

Notable increases were observed in selected categories such as Operating Costs, Transfers, and Repayment of Foreign Liabilities, reflecting elevated funding pressures in these areas during FY2025/26. Conversely, declines in sub-heads such as Other Expenses and Acquisition of Financial Assets suggest the continued implementation of expenditure containment measures.

Overall, the expenditure profile remained stable, with observed changes largely reflecting intra-year reprioritisation rather than significant expansion in aggregate spending.

This strategic reallocation enabled the Government to sustain momentum in achieving long-term developmental objectives, consolidate governance and institutional investments, and maintain fiscal discipline amid competing resource demands. Fourth quarter performance illustrates how this policy choices translated into final expenditure outcomes, as projects advanced toward key milestones and implementation cycles were concluded.



The FY2025/26 financial year reflects a deliberate recalibration of development (capital) expenditure, shaped by both policy priorities and implementation realities. Capital resources were progressively redirected toward infrastructure-intensive projects and programmes aimed at strengthening institutional capacity, while selected sectors experienced moderated expenditure in line with reprioritisation decisions undertaken during the course of the year.

Performance by Programme

The approved development budget for FY2025/26 was initially set at M4,288.6 million but was subsequently revised downward to M3,997.4 million by the end of the fourth quarter. Of the revised allocation, M2,324.6 million was assigned to implementing ministries, of which 98 percent was utilised by the close of the implementation period, indicating strong absorption at the executing agency level.

Cumulative development expenditure amounted to M2,268 million at year-end, representing approximately 62 percent of the revised budget. While implementation performance at the programme level was robust, the overall execution rate suggests the presence of constraints affecting full budget utilisation, including project readiness challenges, procurement delays, and capacity limitations in certain sectors.

Table 4 below presents a detailed breakdown of development expenditure by programme at the end of the reporting period, providing further insight into resource allocation and implementation performance across priority sectors.

Table 4: Development Expenditure by Programme

Program	Approved Budget	Revised Budget	Warrant Allocations	Quarter 4 Expenditure	Total Expenditure	Expenditure (% of Warrants)	Expenditure (% of Revised Budget)
General Administration and Management	134	134	96.6	10.1	96.3	100%	72%
Enhancing Inclusive and Sustainable Economic Growth	261.3	269.7	73.9	38	71.8	97%	27%
Strengthening Human Capital	292.2	179.9	88.2	31.1	80.6	91%	45%
Building Enabling Infrastructure	3,210.30	2,682.90	1,813.60	747.2	1,770.50	98%	66%
Strengthening National Governance and Accountability	363.1	362	219.9	101.1	216.5	98%	60%
Cross Cutting	2.4	2.4	2.4	0.7	2.4	100%	99%
Investment Climate Reforms and Financial Sector Development	25.2	36.4	29.9	16	29.9	100%	82%
Grand Total	4,288.60	3,667.40	2,324.60	944.1	2,268.00	98%	62%

Source: Budget Department, Ministry of Finance and Development Planning

Spending under the General Administration and Management programme tapered significantly in the fourth quarter, with capital outlays declining from M83.91 million in FY2024/25 to M10.13 million in FY2025/26, representing a contraction of 88 percent.

This outcome reflects a deliberate policy shift toward restraining administrative capital expenditure in favour of prioritising core service delivery functions. Within the programme, implementation performance was mixed.

The Senate Office project demonstrated strong execution, recording quarterly expenditure of M8.74 million and cumulative spending of M93.89 million, nearly exhausting the revised budget, owing to its advanced implementation stage and timely settlement of contractual obligations.

In contrast, the Construction of the Royal Palace recorded no expenditure due to unresolved implementation prerequisites, while the Maseru City Council Solid Waste Management project registered limited progress, with cumulative spending of M2.43 million (12 percent of the revised budget), largely constrained by procurement and execution challenges.

Expenditure under the **Enhancing Inclusive and Sustainable Economic Growth programme** moderated from M47.19 million to M37.96 million between the two financial years, representing a 20 percent decline.

This reduction reflects a realignment of project timelines and the deferment of selected growth-oriented initiatives, as priority shifted toward projects with greater implementation readiness. Performance across projects remained uneven. The Smallholder Agriculture Development Project Phase II performed strongly, with cumulative utilisation reaching 94 percent of the revised budget, supported by steady implementation.

The APPSA project also showed improved momentum, attaining 51 percent utilisation following accelerated quarterly spending. Conversely, the National Museum and Art Gallery and the Setsoto Stadium Refurbishment projects recorded no expenditure, reflecting delayed procurement processes and deferred implementation decisions.

Investment under the **Strengthening Human Capital programme** similarly moderated, with fourth quarter expenditure declining from M41.78 million in FY2024/25 to M31.11 million in FY2025/26, representing a 26 percent decrease.

This pattern suggests the completion of key capital investments in the previous fiscal year, followed by a consolidation phase in FY2025/26, with a focus on optimising existing infrastructure. Several projects showed steady progress, including the Free Primary Education classroom construction programme, which recorded M12.22 million in fourth quarter expenditure and achieved 71 percent of the revised budget.

The Construction of Secondary Schools project also demonstrated strong execution, reaching full utilisation of its revised allocation. However, the Construction of Health Facilities project recorded no expenditure, indicating stalled implementation due to planning and procurement delays.

The **Building Enabling Infrastructure programme** emerged as the primary driver of capital expenditure growth in the fourth quarter, with spending increasing from M495.19 million in FY2024/25 to M747.19 million in FY2025/26, representing a 51 percent rise.

This expansion reflects intensified project execution as major infrastructure investments progressed toward key completion milestones, absorbing a larger share of capital resources. The Pavement Strengthening project recorded M59.28 million in quarterly expenditure, with cumulative spending reaching M228.34 million (59 percent of the revised budget), indicating steady implementation progress.

The Urban Roads Upgrading project performed strongly, achieving full utilisation of the revised budget. However, projects such as the Taung-Sehlabathebe Road and Matlali-Mosenekeng-Lebakeng Road recorded no expenditure, largely due to delayed project initiation and unresolved implementation arrangements.

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Capital investment under the **Strengthening National Governance and Accountability programme** expanded significantly in the fourth quarter, rising from M71.47 million to M101.13 million, representing an increase of 42 percent.

This growth reflects a strategic prioritisation of governance-enhancing interventions, with resources directed toward strengthening institutional systems, oversight mechanisms, and accountability frameworks critical for long-term public sector effectiveness. Implementation outcomes highlight both progress and constraints.

The District Bus Terminals project exhibited strong performance, with quarterly expenditure of M49.90 million and cumulative utilisation of M109.47 million (99 percent of the revised budget), demonstrating effective contract management and near completion. In contrast, the Transforming Broadcasting Mode project remained constrained, with only M1.17 million in fourth quarter expenditure and cumulative utilisation of 3 percent, reflecting delayed procurement and phased implementation.

Cross-cutting programme registered modest growth, with expenditure increasing from M0.33 million in FY2024/25 to M0.66 million in FY2025/26. Although small in magnitude, this increase reflects continued investment in transversal initiatives that support multiple sectors and enhance overall policy coherence.

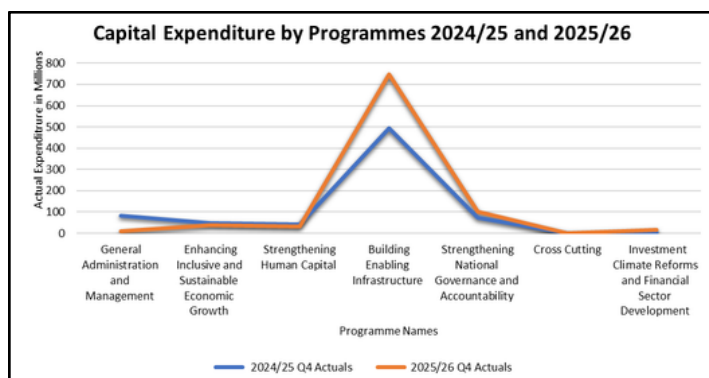
Implementation performance was generally strong. The Regeneration of Landscapes and Livelihoods project achieved 99 percent utilisation of its revised budget following effective execution of planned activities.

Similarly, the Hydrochlorofluorocarbons Phase-Out Management project recorded near full utilisation, supported by timely implementation of specialised interventions. Expenditure under Investment Climate Reforms and Financial Sector Development increased significantly, rising from M3.93 million in FY2024/25 to M15.96 million in FY2025/26. This marked expansion reflects renewed emphasis on catalytic investments aimed at strengthening the regulatory and financial ecosystem necessary to support broader economic transformation objectives.

Overall, fourth quarter project performance in FY2025/26 demonstrates a strong correlation between implementation readiness and expenditure outcomes. Projects that had progressed to advanced stages of procurement and construction recorded high levels of capital absorption and near-full utilisation of revised budget allocations. In contrast, underperforming projects were predominantly constrained by delayed initiation, procurement bottlenecks, and deferred implementation decisions.

These outcomes underscore the critical importance of early project preparation, streamlined procurement processes, and sustained implementation oversight in maximising the efficiency and impact of capital expenditure. Strengthening these areas will be essential to improving budget execution rates and ensuring that development investments translate effectively into tangible economic and social outcomes.

The figure below presents a comparative analysis of programme-level expenditure performance for the fourth quarter of FY2024/25 and FY2025/26.





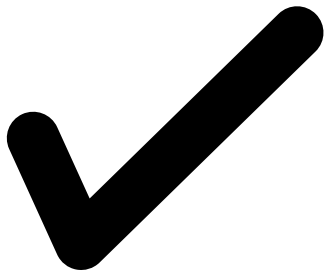
KEY POLICY ISSUES EMERGING

Looking ahead, the fiscal outlook is subject to several downside risks that could affect both revenue performance and expenditure sustainability. Continued volatility in Southern African Customs Union (SACU) receipts remains a significant external risk, given their importance to overall revenue. In addition, weak global market conditions, particularly in the diamond sector, may continue to suppress mining-related revenues, further constraining fiscal space. Rising interest rates and exchange rate fluctuations also present growing risks to debt servicing costs, increasing pressure on already constrained fiscal resources.

On the expenditure side, persistent implementation challenges, including procurement delays, limited project readiness, and capacity constraints, are likely to continue affecting the execution of development budgets. At the same time, structural expenditure obligations such as wages, transfers, and debt servicing are expected to maintain upward pressure on recurrent spending. These risks collectively highlight the need for proactive fiscal management, including strengthening domestic revenue mobilisation, enhancing expenditure efficiency, and rebuilding fiscal buffers to improve resilience against external shocks.

The fiscal outcomes for FY2025/26 highlight a number of structural challenges that warrant policy attention. Notably, there is an increasing reliance on domestic revenue sources without a corresponding broadening of the tax base, resulting in a growing concentration of the tax burden within a relatively narrow formal sector. At the same time, rising debt servicing obligations are reducing fiscal flexibility and limiting the government's capacity to undertake discretionary and growth-enhancing expenditure.

Development expenditure performance remains uneven, with persistent under-execution in several programmes largely attributable to procurement bottlenecks, delayed project initiation, and weak implementation readiness. Despite ongoing efforts toward fiscal self-reliance, continued dependence on SACU revenues exposes the fiscal framework to external volatility that remains beyond domestic policy control. Collectively, these dynamics underscore underlying structural weaknesses that could undermine fiscal sustainability if not addressed through targeted reforms.



RECOMMENDATIONS

In response to the identified fiscal challenges, a combination of policy and institutional reforms is required to strengthen medium-term fiscal sustainability. On the revenue side, efforts should be directed toward broadening the tax base through the formalisation of informal economic activity, while continuing to enhance compliance through digitisation and strengthened enforcement mechanisms.

Improving the efficiency of VAT administration and expanding non-tax revenue collection through better cost recovery and enforcement of remittances will also be critical.

On the expenditure side, maintaining strict control over the wage bill through continued establishment discipline remains essential. At the same time, expenditure efficiency should be strengthened through improved prioritisation, particularly within operating costs.

Enhancing development expenditure performance will require stronger project preparation frameworks, streamlined procurement processes, and more effective monitoring and evaluation systems to ensure timely implementation.

In addition, fiscal sustainability should be reinforced through the development of a credible medium-term debt management strategy to contain rising interest costs, alongside efforts to rebuild fiscal buffers.

Greater alignment between revenue trends and expenditure commitments will be necessary to ensure that fiscal policy remains both sustainable and responsive to economic conditions.

CONCLUSION

Overall, fiscal performance in FY2025/26 reflects a broadly stable and well-managed fiscal position, supported by improved domestic revenue mobilisation and disciplined expenditure execution. The Government has maintained control over key recurrent expenditure drivers while advancing priority capital investments, particularly in infrastructure and governance-related programmes.

However, the fiscal outlook is increasingly shaped by emerging structural pressures, including rising debt servicing obligations, uneven development expenditure absorption, and growing reliance on a narrow domestic revenue base.

While short-term fiscal stability has been preserved, sustaining this position over the medium term will require continued reforms aimed at strengthening revenue diversification, improving expenditure efficiency, and enhancing institutional capacity for implementation.

A balanced approach, combining fiscal discipline with targeted investments in growth-enhancing sectors, will be essential to support inclusive economic development and reinforce long-term fiscal resilience.



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