



THE KINGDOM OF LESOTHO

MINISTRY OF FINANCE AND
DEVELOPMENT PLANNING

NATIONAL BUDGET BRIEF

2025–2026

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EXECUTIVE SUMMARY

The 2025/26 Budget is presented against a backdrop of slowing economic growth, fiscal uncertainty, and persistent socioeconomic challenges. Economic growth is projected to decelerate to 1.3 percent despite strong fiscal performance in 2024/25, supported by exceptional SACU revenues and water royalties.

The Government has approved a national budget of M33.7 billion, comprising M23.0 billion for recurrent expenditure and M10.7 billion for capital investment, reflecting a continued commitment to infrastructure development, human capital, and public service delivery. Revenue collections reached 90 percent of the annual target, while expenditure performance remained mixed, with strong execution of recurrent expenditures and slower implementation of capital projects.

Continued Public Financial Management reforms are expected to strengthen fiscal discipline, improve budget credibility, and support sustainable and inclusive economic growth.

INTRODUCTION

The 2025/26 Budget Performance and Analysis Brief is prepared at a critical juncture in Lesotho's economic and fiscal trajectory. While the country recorded a stronger fiscal position during 2024/25, largely supported by exceptional Southern African Customs Union (SACU) receipts and increased water royalty inflows, the broader economic outlook remains constrained by slowing economic growth, persistent unemployment, structural poverty, and growing uncertainty in the global economic environment.

These challenges underscore the importance of effective public financial management, prudent fiscal policy, and efficient utilization of public resources to support sustainable and inclusive development.

The Government of Lesotho has approved a national budget of M33.7 billion for the 2025/26 Fiscal Year, comprising M23.0 billion for recurrent expenditure and M10.7 billion for capital expenditure. The budget seeks to balance the immediate need for the delivery of essential public services with long-term investments in infrastructure, human capital development, governance, and economic transformation.

In doing so, Government aims to advance the objectives of the National Strategic Development Plan II (NSDP II), Vision 2050, the Sustainable Development Goals (SDGs), and other regional and international development commitments.

Notwithstanding these challenges, the report provides an assessment of the Government's fiscal performance and budget implementation during the 2025/26 Fiscal Year. It examines macroeconomic developments, revenue performance, expenditure allocations and execution, , budget financing, budget credibility, capital investment, and Public Financial Management (PFM) reforms.

The report focuses closely on the relationship between approved budget allocations and actual expenditure outcomes, providing insights into resource utilization, budget credibility, and the effectiveness of public spending in advancing national development priorities.

The brief also assesses emerging fiscal and implementation risks, including Lesotho's continued dependence on volatile SACU revenues, exposure to external economic shocks, climate-related vulnerabilities, and challenges that affect the timely delivery of development projects. Furthermore, it assesses the extent to which budget allocations promote social inclusion, gender equality, environmental sustainability, and equitable development across districts and sectors.

The analysis is based on budget estimates, administrative expenditure records, Integrated Financial Management Information System (IFMIS) reports, and relevant fiscal and economic data available to Government.

Where applicable, the brief highlights limitations in the reporting of externally financed projects implemented outside Government financial systems. Consequently, actual expenditure and investment levels may exceed those recorded in Government's financial management.

This brief contributes to the Government's commitment to strengthening fiscal transparency and accountability in line with national legislation, Public Financial Management reforms, and international good practices, including those promoted through the International Monetary Fund (IMF), the Public Expenditure and Financial Accountability (PEFA) Framework, and the Open Budget Survey (OBS).

By providing evidence on budget performance and resource utilisation, the report is intended to support policymakers, Parliament, development partners, civil society organizations, and citizens in understanding public finances and identifying opportunities to improve the efficiency, effectiveness, and developmental impact of public expenditure.

MACROECONOMIC AND SOCIOECONOMIC TRENDS

Macroeconomic Developments in 2025/26

Lesotho’s macroeconomic landscape remains fragile and highly vulnerable to persistent external shocks. Real GDP expansion reached 4.2 percent in Fiscal Year 2024/25, driven largely by construction activity under the Lesotho Highlands Water Project Phase II (LHWP-II) and positive spillovers into the services sector.

These gains helped cushion the domestic economy against drought-induced agricultural contraction as well as subdued output in the textiles and mining industries. However, economic momentum is projected to decelerate sharply to 1.3 percent in 2025/26 Fiscal Year, remaining stagnant at approximately 1.0 percent over the medium term.

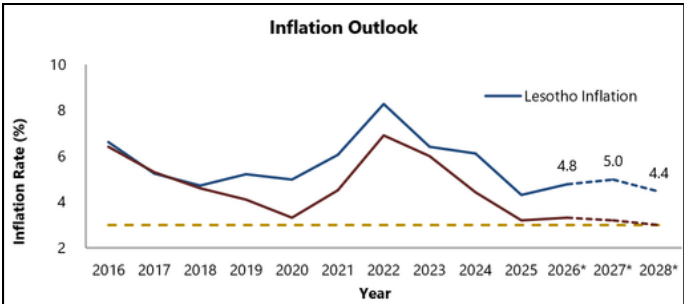
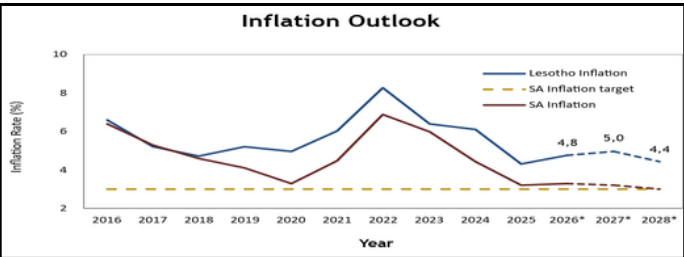
This sluggish trajectory is insufficient to yield meaningful gains in per-capita income across the population. The downturn stems from heightened global geopolitical frictions and trade policy ambiguities, which have eroded consumer confidence, impaired international supply chains, and constrained foreign direct investment inflows.

Consequently, persistent delays in structural reforms continue to stifle private-sector-led economic activity and undermine long-term macroeconomic stability.



Domestic inflationary pressures eased significantly, decelerating from a peak of 8.2 percent in early 2024 to a full-year average of 6.1 percent, before extending its downward trajectory to 4.4 percent in 2025. This disinflationary trend was primarily driven by declining food and international fuel prices in South Africa, Lesotho’s primary trading partner.

Under the Common Monetary Area agreement, the fixed exchange rate peg linking the Loti to the South African Rand has successfully anchored price stability, with inflation projected to hover between 4.7 and 5.2 percent for the remainder of 2026. However, while this currency arrangement effectively mitigates external price volatility, it inherently restricts domestic monetary policy flexibility to address asymmetrical macroeconomic shocks.



Lesotho’s fiscal position strengthened markedly in Fiscal Year 2024/25, achieving a substantial budget surplus of approximately 9 percent of GDP. This fiscal expansion was primarily propelled by unprecedented Southern African Customs Union (SACU) revenue transfers, which reached 26 percent of GDP, alongside elevated water royalties from South Africa accounting for 6.5 percent of GDP.

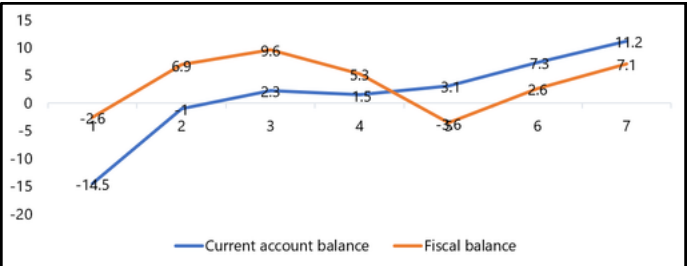
Consequently, public debt metrics improved as gross public debt fell to 53.0 percent of GDP, with external obligations comprising nearly 80 percent of total debt liabilities. While these revenue windfalls significantly replenished national fiscal buffers, long-term fiscal sustainability remains vulnerable. SACU inflows are projected to normalize toward their historic average of roughly 20 percent of GDP, while systemic implementation capacity constraints continue to hinder the efficient execution and absorption of capital expenditure.

The external balance recorded a notable current account surplus of 2.2 percent of GDP in Fiscal Year 2024/25, marking its first surplus since Fiscal Year 2007/08, driven by substantial SACU transfers and lower import volumes. However, this position is expected to weaken as construction activities under LHWP-II scale down and export volumes to the United States experience further contraction.

Gross international reserves remain at a comfortable level of approximately six months of import cover, providing robust backing for the Loti-Rand currency peg.

Despite these buffers, the external sector remains highly susceptible to regional macroeconomic shocks, international trade policy and tariff uncertainties, and declining foreign assistance flows.

Fiscal Balance and Current Account Balance Outlook



Socioeconomic Developments

Socioeconomic conditions in Lesotho remain severely constrained by persistent unemployment and structural poverty. The national unemployment rate stands at approximately 16 percent, with youth unemployment reaching 25 percent, highlighting the difficulties faced by young people in securing productive employment.

Poverty affects nearly one-third of the population and its effects are particularly pronounced among children, with approximately 46 percent experiencing multidimensional poverty.

Persistent stagnation in per-capita income, coupled with high levels of income inequality, underscores the critical necessity of strategically aligning fiscal policy and public financial management reforms to foster sustainable, inclusive economic growth.

Fiscal Risks and Fiscal Sustainability

Despite the significant improvement in fiscal performance during 2024/25, Lesotho's public finances remain exposed to several fiscal and macroeconomic risks that could affect future budget sustainability and economic stability.

The country's fiscal position continues to be heavily dependent on Southern African Customs Union (SACU) revenues, which account for a substantial share of total government income. Although SACU transfers provided considerable fiscal relief during the reporting period, their volatility and dependence on regional economic performance expose public finances to significant revenue uncertainty. A decline in SACU receipts could place pressure on budget financing and increase the need for borrowing or expenditure adjustments.

Additional fiscal risks stem from slowing economic growth, persistent unemployment, climate-related shocks, rising debt servicing costs, and the gradual completion of major infrastructure projects such as the Lesotho Highlands Water Project Phase II. Delays in project implementation and procurement processes also pose risks to the achievement of planned development outcomes and may lead to cost overruns.

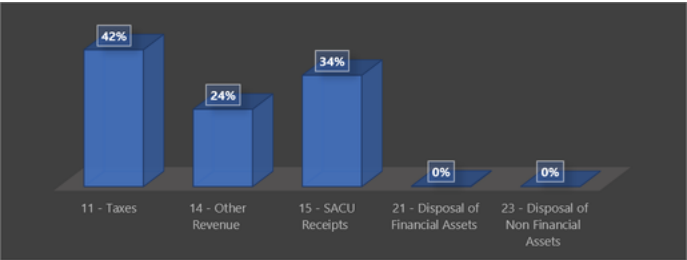
The Government remains committed to maintaining fiscal sustainability through prudent debt management, strengthening domestic revenue mobilization, improving budget execution, and building adequate fiscal buffers to withstand future economic shocks. Continued implementation of fiscal risk monitoring and reporting frameworks will be essential to supporting long-term macroeconomic stability and sustainable public finances.

BUDGET FINANCING

Revenue Performance

In the context of Lesotho's fiscal management, national budget execution relies on a blend of domestic tax mobilization, Southern African Customs Union (SACU) receipts, non-tax revenues, and minor asset disposals to fund public operations and development priorities.

The Government of Lesotho has set a revenue collection target of M26.8 billion for 2025/26 Fiscal Year, with tax revenue expected to contribute the largest share at M11.2 billion (42 percent), followed by SACU receipts at M9.1 billion (34 percent) and other revenue at M6.3 billion (24 percent). Revenues from the disposal of financial and non-financial assets are expected to contribute less than 1 percent of total collections.



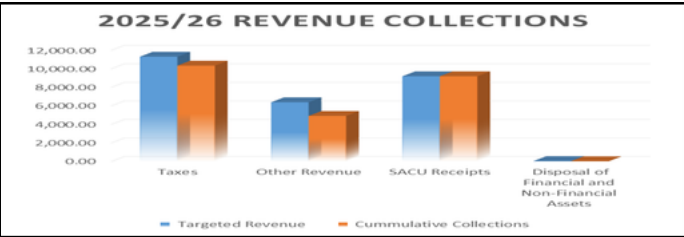
The 2025/26 revenue performance evaluation highlights the financial trajectory across these core revenue streams, illustrating key drivers of fiscal strength alongside areas of under-collection.

During the 2025/26 Fiscal Year, total cumulative revenue collection reached M24.4 billion against a targeted budget of M26.8 billion. This performance represents an overall budget realization rate of 90 percent, resulting in an aggregate revenue shortfall of M2.4 billion across all reporting categories. While external transfers performed in line with projections, broad under-collections across domestic tax and non-tax categories drove the net deficit.

Domestic tax revenue, serving as the single largest collection driver, was budgeted at M11.2 billion. Actual tax receipts totaled M10.3 billion, reflecting a performance rate of 91 percent and leaving a clear deficit of M964.9 million against expectations. In contrast, transfers under Southern African Customs Union (SACU) receipts performed fully in line with targets. SACU transfers recorded M9.1 billion against a projected M9.1 billion, achieving a 100 percent execution rate with a nominal surplus of M0.3 million.

The non-tax and capital asset categories experienced the most pronounced relative shortfalls during the period. Other Revenue recorded the largest absolute underperformance among major streams, collecting M4.9 billion against a target of M6.3 billion.

This translates to a realization rate of 76 percent and a shortfall of M1.4 billion. Meanwhile, the disposal of financial and non-financial assets, which constitutes the smallest share of total receipts, generated M27.1 million against an expected M40.9 million, yielding a performance rate of 66 percent and an under-collection of M13.8 million.



Public Debt

During the 2025/26 financial year, the country recorded a significant reduction in its total public debt stock of M667.2 million, declining from M23.4 billion to M22.7 billion. This improvement contributed to a decrease in the debt-to-GDP ratio from 54.3 percent to 50.0 percent, underscoring the Government's commitment to prudent fiscal and debt management.

In addition, the share of external debt in the total public debt portfolio declined from 84.6 percent to 83.1 percent. Notably, 88.4 percent of external debt remained on highly concessional terms despite the country's graduation from traditional IDA eligibility.

At the same time, the proportion of domestic debt increased moderately from 15.4 percent to 16.9 percent, reflecting ongoing efforts to strengthen the domestic securities market through the development of local currency Treasury bills and government bonds.

BUDGET ALLOCATION AND EXPENDITURE

Spending Allocations

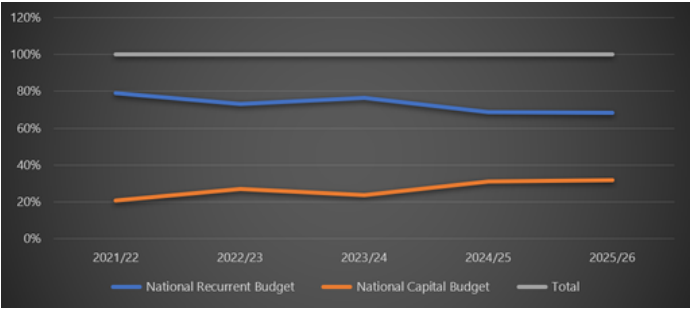
This Budget Brief provides an overview of the key policy directions, fiscal outlook, expenditure priorities, and strategic reforms underpinning the 2025/26 budget. It seeks to inform stakeholders and the public on how Government intends to utilize limited resources to advance national development objectives, strengthen resilience, and foster sustainable and inclusive economic growth over the medium term.

The proposed financial year, 2025/26 spending framework outlines the allocation of financial resources across the Ministries, Departments and Agencies' core functions and strategic initiatives. These allocations are based on identified operational requirements, performance targets, and available fiscal resources, with the objective of enhancing service delivery, strengthening accountability, and supporting long-term organizational outcomes.

Spending Trends 2021/22 – 2025/26

The total national budget increased from M27.3 billion in 2021/22 to M33.6 billion in 2025/26, representing growth of approximately 23 percent. Recurrent expenditure increased moderately from M21.6 billion to M22.9 billion, a growth of approximately 6 percent. Capital expenditure increased substantially from M5.7 billion to M10.6 billion, a growth of approximately 87 percent.

The sharp rise in capital spending from 2024/25 onward indicates an increased government focus on infrastructure and development projects. The highest total budget allocation was recorded in 2025/26 at M33.66 billion. Capital expenditure's share of the total budget increased from about 21 percent in 2021/22 to 32 percent in 2025/26, indicating a shift toward investment-oriented spending.



Recurrent Budget Allocation and Expenditure

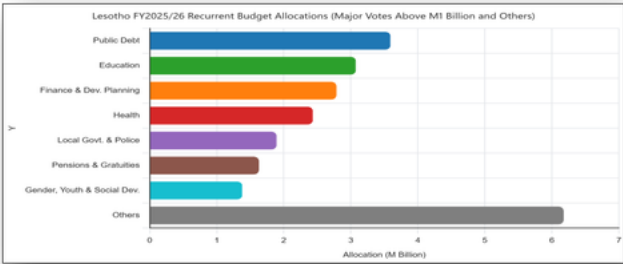
Recurrent Budget Allocation and Expenditure by Ministry

The Government of Lesotho's recurrent budget for 2025/26 Fiscal Year amounts to M22.9 billion, representing an increase of approximately 12 percent from the Fiscal Year 2024/25 allocation of M20.5 billion. The budget remains concentrated in a few major spending votes, with Public Debt receiving the largest allocation of M3.5 billion, accounting for approximately 16 percent of the total recurrent budget. This increase from M3.1 billion in Fiscal Year 2024/25 reflects growing debt servicing obligations.

The recurrent budget also demonstrates the Government's continued commitment to human capital development, with the social sectors of education and health receiving substantial allocations.

Education and Training received the second-largest allocation of M3.0 billion, representing about 13 percent of the total recurrent budget, while Health was allocated M2.4 billion, accounting for approximately 11 percent of the budget.

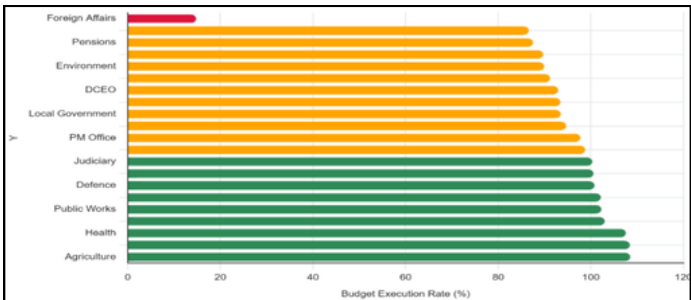
These allocations underscore the Government's sustained focus on improving education outcomes and strengthening healthcare delivery, including hospital services, pharmaceuticals, and public health programmes.



In terms of expenditure performance, most Ministries, Departments and Agencies (MDAs) utilize a substantial proportion between 85 percent and 110 percent of their approved budget allocations. Strong budget execution in key social sectors, particularly Health, Education and Training, and Agriculture, Food Security and Nutrition, underscores the Government's continued commitment to delivering essential public services and advancing national development priorities.

The relatively low expenditure reported under the Ministry of Foreign Affairs and International Relations is largely attributable to expenditure recording arrangements rather than actual spending performance. A significant portion of the Ministry's expenditure is initially processed outside the Integrated Financial Management Information System (IFMIS) and subsequently captured through reconciliation processes.

Recurrent Expenditure by Ministry



Recurrent Budget Allocation and Expenditure by Economic classification

The Government of Lesotho's 2025/26 Fiscal Year recurrent budget is primarily driven by compensation of employees, transfers, debt servicing, and operational expenditures. The distribution of expenditure across economic classifications highlights the Government's focus on maintaining public service delivery, meeting debt obligations, and supporting statutory institutions and social programmes.

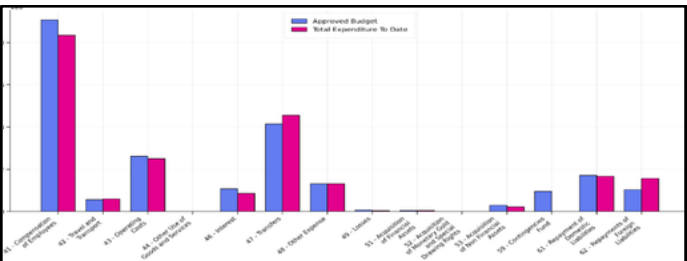
Compensation of Employees remains the largest expenditure category at M9.0 billion, a 40 percent, reflecting the Government's commitment to maintaining public service delivery through salaries, wages, and employee benefits. Transfers account for M4.1 billion (18 percent), supporting social programmes, public institutions, and statutory bodies, while Operating Costs amount to M2.6 billion, an 11 percent to finance day-to-day government operations.

Actual expenditure shows that the Compensation of employees remains in the largest expenditure category and constitutes more than one-third of total expenditure, M9.0 billion (39.5 percent) of total budget, reflecting the significant share of personnel costs within the overall budget.

Expenditure on Transfers and Repayments of Foreign Liabilities has exceeded the approved allocations, making these categories the primary contributors to current budgetary pressures at M1.5 billion (152 percent) and M4.5 billion (110 percent) respectively.

Operating Costs and Repayments of Domestic Liabilities are generally tracked in line with budgeted amounts, indicating effective expenditure management within these areas. Furthermore, expenditure on the Acquisition of Non-Financial Assets remains comparatively low relative to the approved budget, this may be due to delays in the implementation of capital projects, procurement processes, or other planned investment activities.

Recurrent Expenditure by Economic Classification

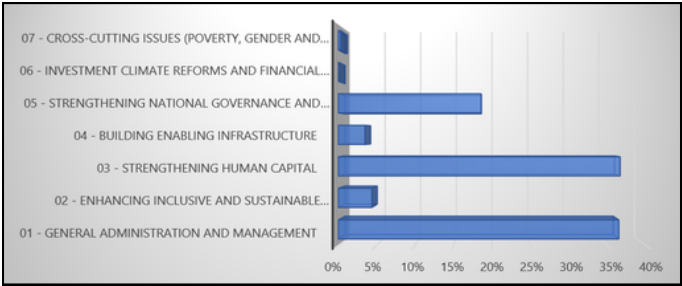


Recurrent Budget Allocation and Expenditure by Program

The allocation pattern reflects the Government's commitment to maintaining public service delivery while advancing national development priorities with strong emphasis on public administration, human development, and governance as key national priorities.

General Administration and Management and Strengthening Human Capital received the largest allocation of M8.3 billion and M8.4 billion respectively, accounting for approximately 36 and 37 percent of the total budget.

This allocation supports the overall functioning of government institutions, including public administration, policy coordination, and the management of government operations. In addition, Strengthening National Governance and Accountability received M4.2 billion (19 percent), highlighting the importance placed on governance, security, justice, and institutional effectiveness.



The overall expenditure pattern suggests that implementation has been strongest in the core operational and strengthening programs, while cross-cutting activities have experienced slower absorption of allocated resources.

The budget execution has been concentrated in a few key programs with General Administration and Strengthening human capital received the largest budget allocations and account for the highest levels of expenditure to date, representing about 89 percent.

Expenditure under Strengthening Human Capital reached approximately M8.6 billion against an approved allocation of M8.3 billion, resulting in a utilisation rate of about 104 percent, indicating expenditure slightly above the approved budget. Strengthening national governance also represents a significant share of spending, although expenditure of approximately M3.6 billion against an approved budget of M4.2 billion, representing about 86 percent utilisation.

Enhancing Inclusive and Sustainable Economic Growth achieved full budget execution, with expenditure matching the approved allocation of approximately M1.0 billion, equivalent to 100 percent utilization, in contrast, Cross-cutting Issues registered little expenditure during 2025/26 fiscal year.

Capital Budget Allocation and Expenditure

Capital budget allocations and expenditure by funding source

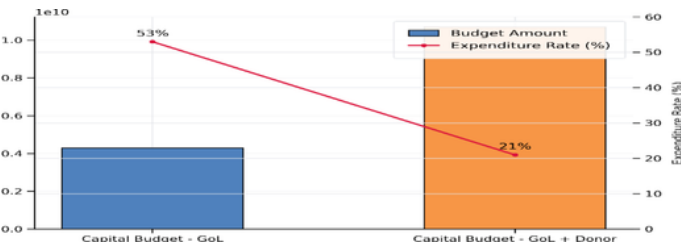
The 2025/26 Fiscal Year capital budget amounts to M10.6 billion and is financed through a combination of Government of Lesotho resources, development partner grants, and external borrowing. This diversified financing structure is intended to support the implementation of priority development programmes and strategic infrastructure investments.

The Government of Lesotho remains the largest contributor, providing M4.2 billion, equivalent to approximately 40 percent of the total capital budget, demonstrating its continued commitment to financing national development priorities.

Development partner financing continues to play a critical role in supporting capital investment. Donor loans contribute M3.3 billion (31 percent), while donor grants account for M3.0 billion (29 percent) of the total capital budget.

The funding composition reflects a balanced approach to financing development projects by leveraging both domestic resources and external support to accelerate infrastructure development and socio-economic transformation.

Actual expenditure amounted to M2.2 billion against the government’s M4.2 billion capital allocation, representing a utilization rate of approximately 53 percent. This expenditure accounts for 21 percent of the total approved capital budget of M10.6 billion. However, expenditure on donor-funded projects is largely executed outside the IFMIS and is therefore not fully captured in reported expenditure figures.



Capital budget allocations and expenditure by Ministries

During 2025/26 fiscal year, Public Works and Transport accounts for the largest share of the capital budget, with an allocation of M1.9 billion and expenditure of M739.5 million, reflecting a utilization rate of approximately 37 percent.

The relatively low spending rate may be due to delays in project implementation, procurement processes, contractor mobilization, or execution schedules.

Several sectors have demonstrated strong capital budget execution. Environment and Forestry recorded a utilization rate of approximately 99 percent, while the Senate achieved nearly 100 percent utilization.

Local Government, Chieftainship, Home Affairs and Police also performed strongly, spending approximately 96 percent of the approved allocation. Similarly, Natural Resources achieved a utilization rate of 83 percent, and Energy recorded 70 percent, indicating satisfactory implementation progress within these sectors.

Notably, Education and Training exceeded its approved capital allocation, recording expenditure of M18.8 million against a budget of M15.0 million, resulting in a utilization rate of approximately 125 percent.

Capital budget allocations by Program

The 2025/26 Capital Budget is strongly aligned with an infrastructure-led development strategy, with the Building Enabling Infrastructure program receiving M3.2 billion, accounting for 75 percent of the total capital budget.

The Strengthening National Governance and Accountability program receives the second largest allocation of M363.1 million, representing 8 percent of the total capital budget. Investment in human development and economic growth remains an important component of the capital program, although these sectors account for comparatively smaller shares of the overall budget.

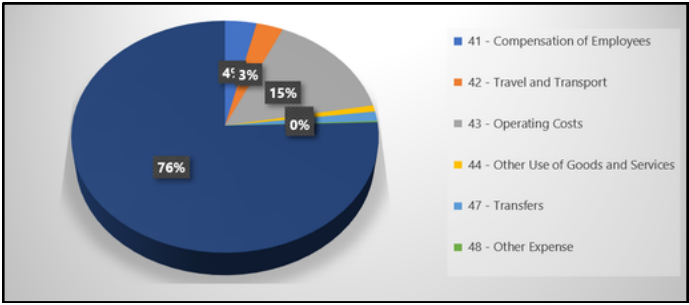
The Strengthening Human Capital program is allocated M292.2 million (7 percent), while Enhancing Inclusive and Sustainable Economic Growth receives M261.3 million (6 percent). This distribution of capital resources demonstrates the Government's prioritization of strategic infrastructure investments while maintaining support for governance reforms, human capital development, and inclusive economic growth objectives.

Capital budget allocations and expenditure by economic classification

The 2025/26 Capital Budget is predominantly directed towards the acquisition and development of public assets, with Acquisition of Non-Financial Assets accounting for M3.2 billion, representing 76 percent of the total capital budget.

The second largest allocation is for Operating Costs, which receive M659.8 million (15 percent). Allocations to Compensation of Employees and Travel and Transport amount to M156.3 million (4 percent) and M132.8 million (3 percent) respectively, while Transfers receive M57.1 million (1 percent).

Smaller allocations are provided for Other Use of Goods and Services at M38.0 million (0.9 percent) and Other Expenses at M7.5 million (0.2 percent). This budget is largely focused on infrastructure development and asset creation, reflecting the Government's commitment to investing in long-term productive assets and strengthening public infrastructure.

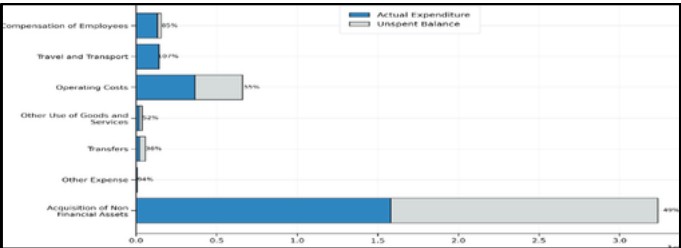


Over the period 2021/22 to 2025/26, the composition of the capital budget has remained strongly focused on Acquisition of Non-Financial Assets, whose share increased from 57 per cent to 76 per cent, after peaking at 84 per cent in 2023/24. In contrast, the share of Operating Costs declined from 25 percent in 2021/22 to 15 percent in 2025/26, despite remaining the second-largest expenditure category.

This suggests a gradual shift of resources towards direct capital investment rather than project support activities and administrative requirements. Allocations to Compensation of Employees and Travel and Transport fluctuated over the period, reaching their highest shares in 2024/25 before declining to 4 percent and 3 percent in 2025/26. This indicates a return to a more asset-focused capital expenditure structure following relatively higher implementation and personnel-related costs in the previous year.

Actual expenditure showed that Acquisition of Non-Financial Assets constitutes the largest component of the capital budget; however, expenditure to date represents only 49 percent of the approved allocation, amounting to M1.5 billion. Indicating that a significant portion of capital project implementation is still outstanding.

Expenditure on Travel and Transport exceeded the approved budget, reaching M142.4 million, 107 percent utilization, while Other Expense has recorded strong execution at M7.1 million (94 percent). In contrast, Operating Costs, Other Use of Goods and Services, and Transfers have utilization rates ranging between 36 percent and 55 percent, reflecting implementation of ongoing and planned activities.

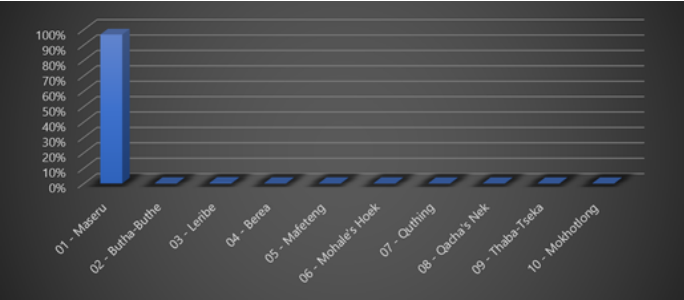


Capital budget allocations by location

The geographical distribution of the 2025/26 Capital Budget reveals a highly concentrated allocation pattern, with Maseru receiving M4.1 billion, 97 percent of the total capital budget.

The remaining 3 percent of the capital budget is distributed among the other nine districts, with allocations ranging between 0.3 percent and 0.5 percent of the total budget per district. Among these, Leribe receives the largest allocation outside Maseru at M22.4 million (0.5 percent), followed by Butha-Buthe with M16.4 million (0.4 percent) and Berea with M15.2 million (0.4 percent).

The districts of Mafeteng, Mohale’s Hoek, Quthing, Qacha’s Nek, Thaba-Tseka, and Mokhotlong each receive allocations of between M13 million and M15 million, representing approximately 0.3 percent of the total capital budget respectively.



BUDGET CREDIBILITY AND EXECUTION

Budget Credibility

The overall expenditure for the 2025/26 Fiscal Year amounted to M24.0 billion against an approved budget of M33.6 billion, representing an expenditure rate of 71 percent and leaving an unspent balance of M9.6 billion. When measured against the Government approved budget of M27.2 billion, expenditure performance stood at 88 percent.

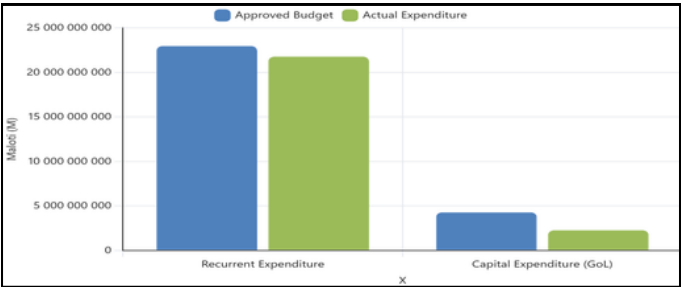
The lower expenditure was primarily attributable to subdued implementation of capital projects, which resulted in lower capital spending during the Fiscal Year.

In addition, expenditures related to donor funded projects are not captured in the Government's Financial Management Information System (FMIS), leading to an understatement of actual expenditure levels reported in the system. Consequently, reported expenditure performance does not fully reflect the total resources utilised during the period.

Budget Expenditure Composition

The composition of expenditure remained heavily weighted toward recurrent spending, which amounted to M21.7 billion and accounted for 95 percent of total recurrent approved budget which indicates satisfactory budget execution.

In contrast, capital expenditure totaled M2.2 billion, representing 53 percent of the Government approved capital budget and only 21 percent of the total approved capital budget. This outturn reflects slower than anticipated implementation of development projects and capital programmes during the Fiscal Year, which constrained the overall execution of the capital budget.



Performance and Results Orientation

While budget execution provides important information regarding the utilization of public resources, effective public financial management also requires an assessment of the results achieved through government spending. Increasing emphasis on performance-based budgeting and results-oriented management has become an important component of international public finance practices.

The 2025/26 Budget demonstrates significant investment in priority sectors; however, greater emphasis should be placed on measuring outputs, outcomes, and development impacts. Budget reporting should progressively move beyond expenditure tracking toward assessing whether allocated resources are achieving their intended objectives.

Future budget performance reports should include key performance indicators, service delivery targets, project completion milestones, beneficiary coverage, and programme outcomes. Examples may include school enrolment rates, health service coverage, kilometres of roads constructed, access to water and sanitation services, agricultural productivity improvements, and employment creation outcomes.

Strengthening the integration of planning, budgeting, monitoring, and evaluation systems will improve accountability, facilitate evidence-based decision-making, and ensure that public resources deliver measurable value for money and development results.

Expenditure Imbalances

During the 2025/26 Fiscal Year, actual expenditure exceeded approved budget allocations across most expenditure heads, reflecting emerging spending pressures. Expenditure performance indicates that several ministries have fully utilized or surpassed their approved budgets, resulting in expenditure imbalances that require close monitoring and effective financial management.

These spending pressures are primarily concentrated within key sectors responsible for service delivery, public debt servicing, disaster management, and economic development, highlighting the need for strengthened expenditure controls to ensure fiscal sustainability and adherence to approved appropriations.

The most significant expenditure imbalance is observed in Tourism, Sports, Arts, and Culture, where expenditure reached 116 percent of the approved budget, exceeding the allocation by approximately M15.2 million.

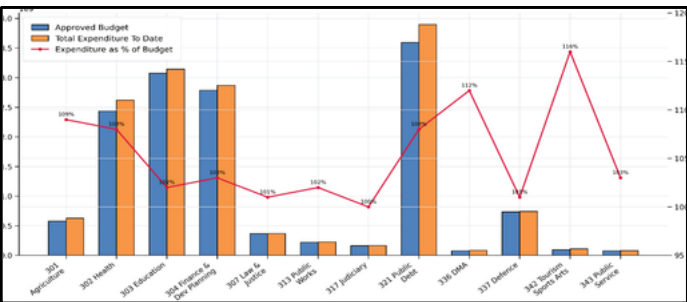
This is followed by the Disaster Management Authority, which recorded an expenditure of 112 percent of the budget, reflecting spending pressures that may have arisen from emergency response and disaster-related interventions.

The ministries of Agriculture, Food Security and Nutrition (109 percent), Health (108 percent), and Public Debt (108 percent) also recorded substantial overspending relative to their approved budgets.

Overspending within Health and Public Debt is particularly notable given the size of their allocations, with expenditure exceeding budget by approximately M185.4 million and M305.0 million, respectively. These deviations represent significant contributors to the overall expenditure imbalance.

Several sectors, including Finance and Development Planning (103 percent), Public Service (103 percent), Education and Training (102 percent), and Public Works and Transport (102 percent), recorded moderate overspending.

Law and Justice (101 percent) and Defence (101 percent) remained largely aligned with their approved budgets, while the Judiciary (100 percent) effectively spent in line with its approved allocation, demonstrating strong budget compliance.



CROSS-CUTTING BUDGET ANALYSIS

Alignment with National Development Priorities

The 2025/26 Budget is aligned with the objectives of Lesotho's National Strategic Development Plan II (NSDP II), Vision 2050, the African Union Agenda 2063, and the United Nations Sustainable Development Goals (SDGs). The allocation of public resources seeks to support inclusive economic growth, poverty reduction, infrastructure development, employment creation, human capital development, environmental sustainability, and institutional strengthening.

Significant allocations to education, health, public infrastructure, governance, and social protection programmes demonstrate Government's commitment to improving living standards and expanding access to essential public services. Capital investments in transport, energy, water, and other strategic infrastructure are intended to improve productivity, facilitate private sector development, and enhance economic competitiveness.

The budget also contributes to the achievement of several Sustainable Development Goals, particularly SDG 1 (No Poverty), SDG 3 (Good Health and Well-being), SDG 4 (Quality Education), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), and SDG 16 (Peace, Justice and Strong Institutions).

Through these investments, Government seeks to accelerate progress towards sustainable and inclusive development while strengthening national resilience to economic and environmental challenges.

Social Inclusion and Equity

The 2025/26 Budget seeks to advance social inclusion and equitable development by supporting programmes aimed at improving access to education, healthcare, social protection, agricultural support, employment opportunities, and public services. These investments are particularly important in addressing poverty, unemployment, and inequality, which continue to affect vulnerable households across the country.

Government remains committed to ensuring that public expenditure contributes to improved outcomes for women, youth, persons with disabilities, and rural communities. Budget allocations for education, healthcare, food security, and social assistance programmes play a critical role in improving human development indicators and reducing socio-economic disparities.

Going forward, greater integration of equity-focused budgeting approaches, supported by gender-disaggregated and socio-economic data, will enhance government's ability to assess the distributional impact of public expenditure and ensure that resources are targeted towards those most in need.

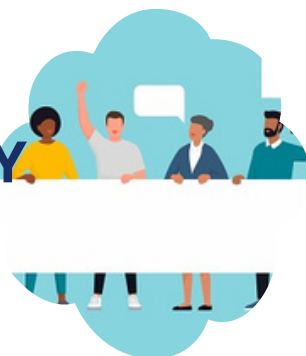
Climate Change and Environmental Resilience

Climate change remains one of the most significant long-term challenges facing Lesotho. Increasing frequency of droughts, floods, land degradation, and changing weather patterns continue to affect agricultural production, water resources, infrastructure, livelihoods, and food security.

The Government has continued to allocate resources toward environmental protection, natural resource management, water conservation, disaster risk reduction, and climate adaptation initiatives. Investments within the Environment and Forestry sector, together with broader infrastructure development programmes, contribute to strengthening resilience against climate-related shocks.

To further improve climate resilience, future budget processes should incorporate climate-responsive budgeting frameworks that systematically identify, monitor, and evaluate expenditures related to climate adaptation, mitigation, and environmental sustainability. Such an approach would improve transparency, support informed policy decisions, and strengthen the alignment of public spending with national climate objectives.

BUDGET TRANSPARENCY AND PUBLIC PARTICIPATION



Public participation is a fundamental component of democratic governance in Lesotho. In recent years, the country has undertaken governance and constitutional reforms aimed at strengthening citizen engagement and accountability.

A major development has been the Public Participation Bill, 2020, which seeks to establish a formal legal framework requiring government institutions to conduct public consultations, provide access to information, and create mechanisms that ensure citizens' views are considered in decision-making processes.

Public participation is facilitated through parliamentary hearings, local government consultations, civil society initiatives, media platforms, and pre-budget consultations conducted by the Government of Lesotho.

These pre-budget consultations provide citizens, community groups, the private sector, and civil society organizations with an opportunity to contribute to the formulation of national budget priorities before the budget is finalized. Such consultations are intended to improve transparency, responsiveness, and accountability by ensuring that public expenditure reflects the needs of Basotho.



However, participation is often constrained by limited public awareness, inadequate access to information, geographical barriers, and resource limitations, particularly in rural communities.

Despite ongoing efforts to promote inclusivity, the Open Budget Survey (OBS) 2023 shows that public participation in Lesotho's budget process remains weak. Lesotho scored 9 out of 100 for public participation, 35 out of 100 for budget transparency, and 22 out of 100 for budget oversight, indicating limited opportunities for citizens to influence budget decisions and monitor public spending.

These findings highlight the need to strengthen participation mechanisms, improve access to budget information, and fully implement the Public Participation Bill, 2020. Enhancing pre-budget consultations, civic education, transparency, and feedback systems would contribute significantly to building a more inclusive, accountable, and responsive governance system in Lesotho.

Furthermore, Government should strengthen mechanisms that enable citizens to participate throughout the entire budget cycle, including budget formulation, implementation, monitoring, and evaluation. Expanding access to simplified budget information through Citizens' Budgets, budget performance reports, public consultations, community monitoring initiatives, and digital feedback platforms would enhance transparency and strengthen accountability.

Improved engagement between government institutions, civil society organizations, the private sector, and local communities would contribute to more responsive and inclusive public financial management.

PUBLIC FINANCIAL MANAGEMENT (PFM) REFORMS 2025/26

During the 2025/26 Fiscal Year, the Government of Lesotho continued to implement Public Financial Management (PFM) reforms aimed at strengthening fiscal discipline, improving transparency and accountability, and enhancing the efficiency and effectiveness of public expenditure management. These reforms are designed to promote prudent management of public resources, improve budget credibility and execution, strengthen revenue and debt management, and enhance oversight of public finances.

■ Constitutional Reforms Supporting Fiscal Accountability

The Tenth Constitutional Amendment strengthened parliamentary oversight of public finances and introduced reforms aimed at improving fiscal accountability and governance.

■ Improved Budget Transparency and Public Participation

Continued efforts to enhance budget openness and citizen engagement through budget transparency initiatives and the Open Budget Survey framework.

Gender-Responsive Budgeting

Gender-Responsive budgeting in Lesotho has progressively been integrated into national development planning as part of the country's commitment to gender equality and women's empowerment. Guided by the Gender and Development Policy (2018-2030), Lesotho has worked to mainstream gender considerations in public policies and resource allocation, while increasing women's participation in governance and budget-related decision-making processes.

Recent reforms have included the incorporation of gender-responsive budgeting and gender-sensitive tax policies into the country's Integrated National Financing Framework, which aims to align public financing with national development priorities through inclusive and equitable budgeting.

These initiatives seek to strengthen gender analysis, improve planning and monitoring systems, and ensure that public expenditure responds to the different needs of women, men, girls, and boys.

However, challenges remain, including limited institutional capacity, insufficient gender-disaggregated data, and the need for stronger implementation and accountability mechanisms across government institutions.

Upgrade of the CBMS

The CBMS system is being upgraded to enhance its functionality, efficiency, and reliability in supporting budget management and financial operations. The upgraded system will strengthen the processing and monitoring of budget virements, enabling more efficient reallocation of funds, improved approval of workflows, enhanced reporting capabilities, and greater compliance with public financial management requirements.

Digitalization and Integrated Financial Management Systems

The Government continues to advance the digitalization of public financial management processes through improvements in financial management information systems, data integration, and electronic reporting platforms. These initiatives aim to improve the timeliness, accuracy, and comprehensiveness of fiscal information while strengthening financial controls and accountability.

Enhanced integration between budget preparation, budget execution, procurement, treasury management, debt management, and reporting systems is expected to improve the quality of fiscal decision-making and reduce operational inefficiencies. Continued modernization of digital infrastructure will support better expenditure tracking, stronger financial oversight, and more transparent management of public resources.

CONCLUSION AND POLICY RECOMMENDATIONS

The analysis of the 2025/26 Fiscal Year budget demonstrates that Lesotho's public finances benefited significantly from favourable external revenue developments, particularly strong SACU transfers and water royalty receipts, which contributed to a stronger fiscal position and improved debt indicators.

These gains provided Government with an opportunity to strengthen fiscal buffers, finance key public services, and support strategic development investments. However, the assessment also reveals that the country's fiscal position remains vulnerable to external shocks, revenue volatility, implementation bottlenecks, and structural economic weaknesses.

Although revenue performance reached approximately 90 percent of the approved target and recurrent expenditure execution remained relatively strong, overall budget credibility was undermined by the slow implementation of capital projects. Capital expenditure execution remained substantially below planned levels, delaying the realization of infrastructure investments and development outcomes intended to support economic growth, employment creation, and service delivery improvements.

The concentration of development expenditure within a limited number of sectors and locations further highlights the need to strengthen the equitable distribution of public investment across the country.

The report also demonstrates that Lesotho continues to face significant fiscal risks arising from its dependence on SACU revenues, moderate economic growth prospects, high unemployment levels, climate-related vulnerabilities, and increasing expenditure pressures associated with debt servicing and social sector demands.

These challenges reinforce the importance of maintaining prudent fiscal management while accelerating reforms that support economic diversification, private sector development, and domestic revenue mobilization.

The ongoing implementation of Public Financial Management reforms represents an important step toward strengthening fiscal governance and improving the efficiency of public expenditure. Progress in budget transparency, digitalization, gender-responsive budgeting, constitutional reforms, and financial management systems provides a foundation for further improvements in accountability, budget execution, and service delivery performance.

To enhance the effectiveness and sustainability of future budgets, the following policy recommendations are proposed:

- 1.Strengthen Domestic Revenue Mobilization by broadening the tax base, improving tax administration, reducing revenue leakages, and enhancing compliance to reduce excessive reliance on SACU receipts.
- 2.Improve Capital Budget Execution through strengthened project planning, procurement reforms, implementation monitoring, and enhanced coordination between implementing agencies and development partners.
- 3.Institutionalize Results-Based Budgeting by integrating performance indicators, service delivery targets, programme outcomes, and development impact measures into budget planning and reporting processes.
- 4.Enhance Fiscal Risk Management through regular fiscal risk assessments, scenario analysis, and the development of stronger fiscal buffers to mitigate the impact of external economic shocks and revenue fluctuations.
- 5.Strengthen Public Investment Management by prioritizing projects with high economic and social returns, improving project appraisal systems, and ensuring timely implementation of infrastructure programmes.
- 6.Promote Equity and Inclusive Development by expanding the use of gender-responsive and poverty-sensitive budgeting approaches and improving the targeting of expenditure toward vulnerable populations, including women, youth, persons with disabilities, and rural communities.
- 7.Increase Budget Transparency and Public Participation by publishing more accessible budget information, expanding pre-budget consultations, strengthening citizen engagement throughout the budget cycle, and regularly publishing budget performance reports.
- 8.Improve Geographic Reporting of Capital Investments by systematically reporting budget allocations and expenditure by district and project location to support transparency, accountability, and equitable resource distribution.
- 9.Advance Climate-Responsive Budgeting by identifying, tracking, and reporting climate-related expenditures to strengthen resilience against climate change and environmental risks.



9. Deepen Digitalization and PFM Reforms by further integrating budget preparation, execution, procurement, treasury, debt management, and performance reporting systems to improve efficiency and support evidence-based decision-making.

In conclusion, while the 2025/26 Budget reflects Government's commitment to macroeconomic stability, public service delivery, and long-term development, sustaining these objectives will require stronger implementation capacity, improved expenditure quality, enhanced fiscal resilience, and continued reform momentum. By addressing existing budget execution challenges and strengthening the link between public expenditure and development outcomes, Lesotho can improve the effectiveness of public spending and accelerate progress toward inclusive, sustainable, and resilient economic growth for all Basotho.

GLOSSARY OF KEY TERMS

Term	Definition
Budget Credibility	The extent to which actual revenues and expenditures correspond to the approved budget.
Budget Execution	The process of implementing approved budget allocations through revenue collection and expenditure management.
Climate-Responsive Budgeting	The integration of climate change mitigation and adaptation considerations into budget planning and expenditure decisions.
Current Account Balance	The difference between a country's exports, imports, income flows, and transfers with the rest of the world.
Debt Service	Payments made toward interest and principal repayment of government debt obligations.
Fiscal Balance	The difference between total government revenue and total government expenditure.
Fiscal Risk	Any factor that may negatively affect government revenues, expenditures, debt levels, or fiscal sustainability.
Fiscal Sustainability	The ability of government to maintain its current spending, taxation, and borrowing policies without compromising future fiscal stability.
Gender-Responsive Budgeting	A budgeting approach that considers the different needs and impacts of policies and expenditures on women, men, girls, and boys.
Gross Domestic Product (GDP)	The total value of goods and services produced within a country during a specific period.
IFMIS	Integrated Financial Management Information System used for budgeting, accounting, expenditure control, and financial reporting.

Macroeconomic Stability	A condition characterized by sustainable economic growth, stable inflation, manageable public debt, and balanced public finances.
NSDP II	National Strategic Development Plan II, Lesotho's medium-term development framework guiding national priorities and investments.
Operating Costs	Expenditure incurred in the day-to-day running of government operations, including utilities, supplies, maintenance, and administrative expenses.
PEFA	Public Expenditure and Financial Accountability Framework, an international standard used to assess public financial management performance.
Programme Budgeting	A budgeting approach that allocates resources according to specific policy objectives and programmes rather than organizational units alone.
Public Financial Management (PFM)	The systems, processes, and institutions used to manage public resources effectively, efficiently, transparently, and accountably.
Recurrent Budget	Budget allocated for the routine operation of government, including salaries, transfers, debt servicing, and operational costs.
SACU	Southern African Customs Union, a regional customs arrangement that distributes customs and excise revenues among member states.
Sustainable Development Goals (SDGs)	The 17 global goals adopted by the United Nations to promote sustainable, inclusive, and environmentally responsible development.
Transfers	Government payments made to individuals, households, institutions, or organizations without receiving goods or services directly in return.
Vision 2050	Lesotho's long-term national development vision aimed at achieving inclusive and sustainable prosperity by 2050.



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