PARLIAMENTARY BUDGET OFFICE (PBO)

# 2023 BUDGET ANALYSIS

## 1.0 MACROECONOMIC ENVIRONMENT

### 1.1 INTRODUCTION

This analytical policy brief has been prepared by the Parliamentary Budget Office (PBO) for *the Expanded Planning and Budgeting Committee for use* as reference material during the scrutiny of the 2023 national budget. Therefore, the brief unpacks the 2023 Annual Budget. The scrutiny of the 2023 budget is in line with Standing Order (SO) 157 (1) and (4) of the National Assembly Standing Orders, 2021, which provides for budget presentation and subsequent referral to the Expanded Planning and Budgeting Committee for scrutiny for fifteen days.

The 2023 Budget presentation comes after the conclusion of the implementation and subsequent audit of the 2021 national budget; and the implementation of the 2022 National Budget as at end of June, 2022. The Republic of Zambia Financial Report for the year ended 31st December, 2021, and the 2021 Annual Economic Report are key in giving the performance of the 2021 National Budget. The reports are useful tools during the comparative analysis of the performance of the previous and the current budget and also giving prospects for the 2023 National Budget. They highlight variances between set targets with the outturns. The extent to which the set targets have been realised point to *budget credibility* in the implementation of the budget.

The Report of the Planning and Budgeting Committee on the review of the first and second quarter budget performance of the 2022 national budget including the mid-year budget performance helps in forecasting, *ceteris paribus*, the estimates and revenues for the year 2023. The information will act as a baseline for ascertaining whether the targets in the 2023 estimates of revenue and expenditure are *realistic and* therefore *attainable.*

The Vision for Zambia of being a prosperous middle income by 2030 is underpinned by three (3) pillars: Economic growth and wealth creation; Social Investment and Human Development; and creating an enabling environment for Sustainable Social Economic Development (SSED). In aspiring to achieve the Vision, the Eighth National Development Plan (8NDP) is anchored on four (4) Strategic Development Areas (SDAs): Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability and Good Governance

Environment. Therefore, the analysis will ascertain whether measures in the 2023 national budget would positively contribute to the attainment of these four (4) pillars of the 8NDP.

In line with the *National Planning Budgeting Act No. 1 of 2020,* the 2023 National Budget is meant to operationalise the 8NDP within the framework of the Medium-Term Budget Plan (MTBP). The analysis, involved cross-referencing the 2023 National Budget and the Strategic Development Areas under the 8NDP including the 2030 Vision, 2030.

**1.2 GLOBAL DEVELOPMENTS**

Recently, the International Monetary Fund (IMF) revised global growth downwards by 0.4 and 0.7 percentage points for 2022 and 2023 to 3.2 percent and 2.9 percent, respectively (BOZ, 2022). This is slower than initially projected due mainly to the Russian Ukraine conflict which has led to humanitarian crisis in Europe; higher food and energy prices stemming from the Russia-Ukraine conflict; tighter global financial conditions following contractionary monetary policies by major central banks; stringent containment measures associated with new COVID-19 variants; the real estate crisis in China; and lower consumer spending.

Regarding international commodity prices; apart from copper prices which declined by 4.7 percent in the second quarter, crude oil prices rose by 12.5 percent on account of demand and supply imbalances induced by the Russia-Ukraine conflict. Prices for agricultural commodities also registered notable increases (Table 1). The price of copper on the international market averaged $8,000 per Mt during the first half of the year from around $10,000 per Mt at the beginning of the year. The observed downtrend has been influenced by fluctuations in demand for the commodity as a result of the lockdowns in China.

Table 1: Average Commodity Prices

| COMMODITY | Q2 (2021) | Q2 (2022) |
|---|---|---|
| Copper (US$ per tonne) | 9,706.10 | 9,521.00 |
| | | |
| Crude Oil (US$ per barrel | 66.40 | 108.90 |
| | | |
| Maize (US $ per tonne ) | 288.70 | 342.90 |
| | | |
| Wheat (US $ per tonne) | 271.90 | 415.20 |
| | | |
| Cotton (US$ per Kg | 2.00 | 3.50 |
| | | |
| Soya Beans (US$ per tonne) | 619.50 | 727.30 |
| | | |
| Sugar (US $ per kg) | 0.37 | 0.43 |

**Sector: BOZ**

### 1.3 DOMESTIC DEVELOPMENTS

Growth in 2022 is expected to slow down to 3.1% from growth rate of 3.6 recorded. This is mainly due to the reduced output from the agricultural sector. The domestic economy grew by 2.4 percent in Quarter 1 of 2022 compared to a growth of 1.8 percent recorded during the First Quarter of 2021. This was mainly influenced by the education and Information, Communication and Technologies (ICT) sectors. This positive momentum is expected to continue for the remainder of the year.

***Emerging Issues***

*With a resolution to the debt crisis, economic recovery is anticipated to continue in 2022 and inflation should continue falling. Key risks to the outlook include volatility in copper prices and production, climate shocks, spillovers from the war in Ukraine, and reform fatigue, especially in the face of a large fiscal adjustment.*

### 1.4 2023 MACROECONOMIC OBJECTIVES

The 2023 macroeconomic objectives were to:

(a) attain a real GDP growth rate of at least 4.0 percent;

(b) reduce inflation to within the target band of 6-8 percent by the end of the year;

(c) maintain international reserves above 3 months of import cover;

(d) mobilise domestic revenue to at least 20.9 percent of GDP; Achieve a fiscal deficit of not more than 7.7 percent of GDP; and

(e) limit domestic borrowing to not more than 3.0 percent of GDP

**Comparison of the Selected Macroeconomic indicators (2022 vs 2023 for the 8NDP, MTBP and the Budget).**

Table 2: Comparison of the selected Macroeconomic indicators (2022 vs 2023 for the 8NDP, MTBP and the Budget).

Table 2: Macroeconomic Indicators

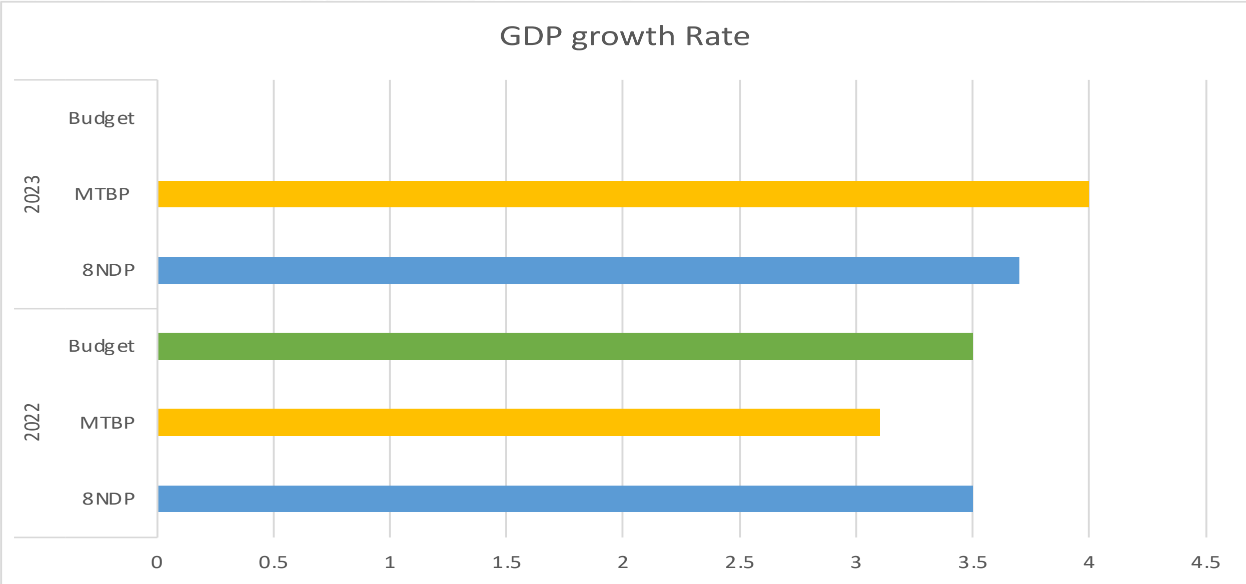
| | 2022 | | | 2023 | | |
|---|---|---|---|---|---|---|
| **Macroeconomic indicators** | **8NDP** | **MTBP** | **Budget** | **8NDP** | **MTBP** | **Budget** |
| *GDP at constant prices (ZMW millions)* | *147,197.00* | | | *152,506.50* | | |
| *GDP at Market prices (ZMW millions)* | *460,616.50* | *473,848.4* | *466,179.00* | *522,881.00* | *529,072.00* | *532,872* |
| *Real GDP Growth Rate (%)* | *3.5* | *3.1* | *3.5* | *3.7* | *3.7* | *4* |
| *CPI Inflation (annual average)* | *Less than 10* | *13.4* | *6 to 8 (Q2 was 10.2)* | *6 to 8* | *6 to 8* | *6 to 8* |
| *Domestic Revenue (% of GDP)* | *21.2* | *21.2* | *21* | *21.8* | *21.2* | *20.9* |
| *Overall fiscal deficit (% of GDP)* | *6.7* | *6.7* | *9.2* | *6.3* | *6.3* | *7.7* |
| *Gross Int. Res. (months of Imports cover)* | *Above 3 months* | | *At least 3 months* | *Above 3 months* | | *At least 3 months* |
| *CU prices (in USS per MT)* | | *9,595.0* | | | *9,327.9* | |
| *CU production (MT)* | | *833,480.0* | *833,480.0* | | *868,485.7* | |

*Extracted from the MTBP and PBO staff Computations*

## GDP Growth Rate

Real GDP growth is expected to remain positive in 2023. The economy is forecast to expand by 3.1 percent, 4.0 percent, and 4.1 percent in 2022, 2023 and 2024, respectively (Table 2). The projected growth rate of 3.1 per cent by end 2022 is slightly lower than the target set in the 2022 budget of 3.5 per cent (Table 3).

**Table 3. Comparison of the targets for the Budget and the 8NDP and the MTBP**




However, the projected growth rate of 3.7 per cent in the 2023 budget is within the rates projected in the 8NDP and the MTBP of 3.7 per cent and 4.0 per cent respectively. The projected outturn for 2022 which is not deviating too much from the Plan is a sign of credibility. It is expected that growth in 2023 including the Plan period is expected to come from the financial and insurance, information and communications, wholesale and retail trade, mining and quarrying, agriculture, as well as education sectors.

***Emerging Issues***

*Notwithstanding the above, the impact of the Russia-Ukraine conflict, resurgence of the COVID-19 pandemic, tighter domestic and global financial conditions, as well as slow recovery in trade partner countries remain key downside risks to the growth outlook.*

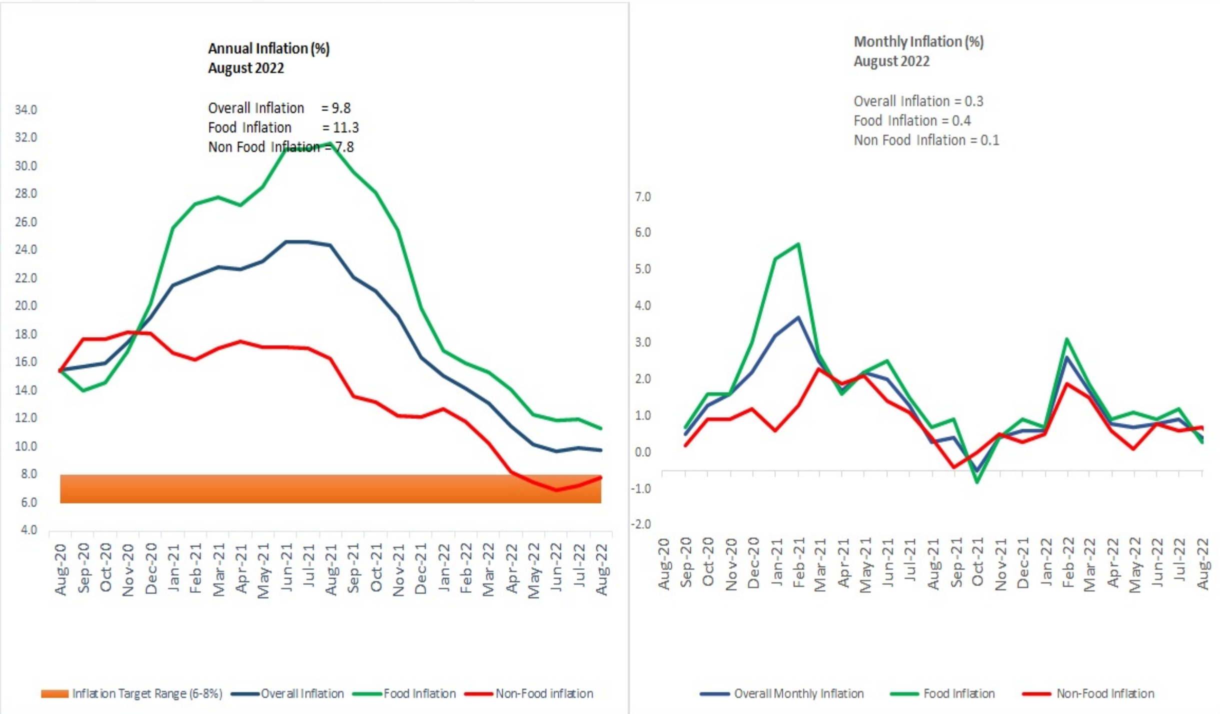
**Gross international Reserves**

Gross international reserves marginally increased to US$3.0 billion (3.7 months of import cover; US$9.8 billion of imports) at end-June 2022 from US$2.9 billion (3.6 months of import cover; US$9.4 billion of imports) at end-March. The primary sources of inflows were mining tax payments and receipt of project funds.

**Inflation Rate**

Inflation rate has been on the downward trajectory from end-2021 when annual inflation rate was recorded at 16.4 per cent. Inflation rate. Annual inflation in Q2 2022 averaged 10.5 percent from 14.1 percent recorded in Q1 of 2022. This was largely due to a continued slow down in both food and non-food inflation. Annual inflation closed the quarter at 9.7 percent in June 2022 (from a high of 24.6 percent in June 2021). It closed at 9.2 per cent in August 2022.

**Table 4: Inflation Rate**



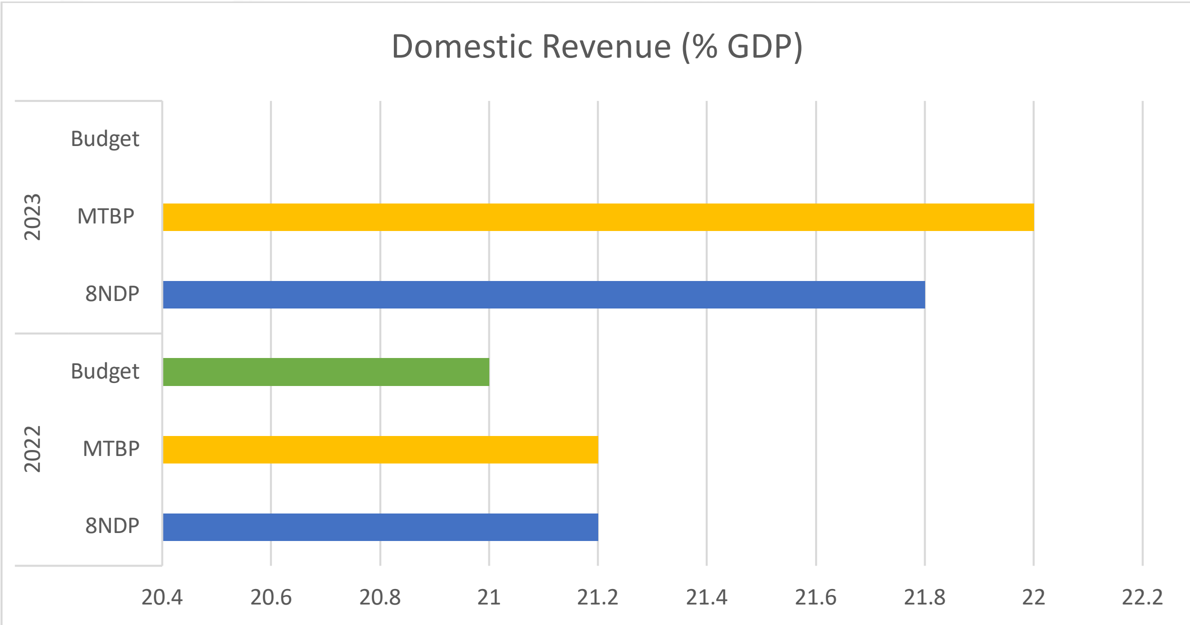
Source : Zambia Statistics Agency.

Inflation is projected to decline to averages of 11.4 percent and 8.4 percent in 2022 and 2023, respectively, from the outturn of 22.1 percent in 2021 (BOZ). The projection is underpinned mainly by sustained implementation of fiscal consolidation and structural reform measures as well as the benefits associated with securing an IMF Extended Credit Facility. This will in turn foster a stable macroeconomic environment, essential for sustainable growth.

***Emerging Issues***

*However, authorities should remain vigilante as there still remain some risks in this regard. For example, following the increase in fuel pump prices on June 30 and subsequent rise in transportation costs, annual overall inflation Picked up to 9.9 percent in July from 9.7 percent in June. The removal of the subsidies and the persistently elevated energy and food prices due* *to the prolonged Russia-Ukraine conflict. Others are higher domestic maize prices due to the short supply of this staple grain in some neighboring countries; spillovers from intensified COVID-19 pandemic containment measures in other countries; weakening global growth amid higher inflation; and tight global financial conditions.*

- **Domestic Revenue as percentage of GDP**




The revenue side of the budget suggests that Government will undertake reforms to expand the tax base and streamline the tax collection procedures in the medium term. Among the proposed reforms are: first, the adoption of a 25% corporate income tax . Secondly the MTBP proposes to reduce the VAT threshold to expand the revenue base.

**Current Account**

Preliminary data indicate a narrowing current account surplus to US$0.2 billion in the second quarter from US$0.5 billion in the preceding quarter. This was attributed to the decline in net exports of goods and widening deficit on the *services account*. Imports grew by 23.3 percent to US$2.1 billion, driven by a pick-up in economic activity and appreciation of the Kwacha against the US dollar. In contrast, exports declined by 2.2 percent to US$2.9 billion owing to the moderation in copper earnings due to the reduction in both volume and average realised prices. The *service account* deficit widened on account of higher transportation expenditures as imports recovered.

**Fiscal Deficit**

Zambia is dealing with large fiscal and external imbalances resulting from an overly ambitious public investment drive that did not yield significant boost to growth or revenues. A drought in 2019 and the COVID-19 pandemic exacerbated the acute economic and social challenges facing the country. As a result, Zambia is in debt distress, defaulting on its Eurobonds in November 2020 while also accumulating arrears to other creditors. The war in Ukraine has increased prices of fuel and fertilizer, amplifying pressures further.

Preliminary data indicate a lower cash fiscal deficit in the second quarter largely on account of reduced expenditure amid strong revenue performance. A standstill on external debt service, principally to non-multilateral creditors, and lower spending on capital projects underlie this outturn. In contrast, revenue exceeded the target due to relatively higher realised copper prices and improved tax payments by the non-mining sector.

***Emerging issues***

*However, significant fiscal risks remain, including the Russia-Ukraine conflict and subsequent unprecedented rise in energy and food prices, and unfavorable weather conditions. In addition, the projected MTBP budget debt financing stance represents another major risk to the implementation of the 2023 budget. Some basic analysis suggest that the budget deficits will remain elevated up to 7.7% of GDP with much of it will be externally financed. Although revenue mobilisation is key, the executive should also consider managing the expenditure side of the budget to bridge the deficits and accelerate the country's coming out of the debt crisis.*

**Public Debt**

Zambia requested a 38-month arrangement under the Extended Credit Facility Arrangement (ECF) in the amount of SDR 978.2 million (100 percent of Zambia's quota). The proposed ECF-supported program aims to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth. The program reflects the goals of the authorities' Eighth

National Development Plan and is tailored to addressing Zambia's most pressing macroeconomic challenges, namely:

(i) restoring sustainability through fiscal adjustment and debt restructuring;
(ii) creating fiscal space for social spending to cushion the burden of adjustment; and
(iii) strengthening governance and reducing corruption vulnerabilities, including by improving public financial management. The program will seek to ensure that monetary and exchange rate policies support the restoration of macroeconomic stability, international reserves return to adequate levels, and the financial sector remains stable.

***Emerging Issues***

*Fertilizer prices have trended at around US $887 per ton since March 2022 compared to less than US $450 per ton in 2021. In addition, COVID 19 with its devastating effects is still present with new cases recorded in China.*

*On a positive note, copper prices have remained high in the recent past, reaching an all-time high of US$10,725 per metric ton in April 2021. Prices averaged US$9,295 per metric ton in 2021 compared to US$ 6,174 in 2020. Prices are now around US$10, 400 per metric ton. The mining sector is expected to continue to anchor the external sector, promoting revenue collections and ensuring exchange rate stability. The global developments highlighted above, have corresponding effects on the domestic growth prospects, price stability and budget performance.*

**Conclusion**

Growth has been sluggish, fiscal deficits have been persistently high and debt is unsustainable. Inflation is in double digits; the exchange rate has been volatile and interest rates have remained high. These challenges when coupled with the persistent external shocks are adversely impacting on the citizenry livelihoods. The shocks from the Russia/Ukraine war could not have come at a worse time for sub-Saharan African countries that were starting to recover from the pandemic and where policymakers were beginning to address social and economic scarring from the COVID-19 pandemic. The war and higher commodity prices will add to macroeconomic imbalances, erode living standards and heighten food insecurity. The IMF Managing Director, Kristalina Georgieva warns that "Governments face difficult choices in this highly uncertain environment. They should focus on the most urgent spending needs and raise revenue to pay for them."

## 2.0 REVENUE ESTIMATES AND FINANCING

Table presents the revenue and financing estimates of the 2023 MTPB/ Budget and the trend from 2019. In the period 2019 to 2023, the projected percentage contribution of domestic revenue to the total revenue and financing is in the range 55 to 68 percent. Domestic revenue as share of the budget is supposed increase from 57 percent in 2022 to 66.7 percent in 2023. However, domestic revenue as a percentage of GDP is expected to reduce from 21.1 percent in 2022 to 20.9 percent in 2023 budget though (MTPB) projected it at 22%. Government expects to collect more domestic revenues and rely less on domestic and external borrowing.

***PBO Comment***

*Enhancing revenue collection requires robust revenue mobilisation measures such as proper tax administration, increase tax base and other reforms like e-payment for most payments.*

***2023 Budget***

*The domestic revenue in 2023 Budget is expected to contribute 66.7 percent of the Budget, the question of why do always meet the revenue targets but we still need to borrow answered.*

*MTPB revenue projections are not consistent with those in the 2023 Budget Estimates*

*Table 1 Revenue Estimates and Financing as Presented in Various Budgets – 2019 to 2023*

| | Amount (K' million) | | | | | | percent share of Budget | | | | | | percent share of GDP | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 (K'million) | 2020 (K'million) | 2021 (K'million) | 2022 (K'million) | 2023 MTBP | 2023 (K'million) | 2019 | 2020 | 2021 | 2022 | 2023 MTPB | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 MTPB | 2023 |
| I. Total Domestic Revenue | **56 086,81** | **71 927,02** | **65 982** | **98 859,16** | **117 351,40** | **111,643** | **64.6** | **67.9** | **55.2** | **57** | | **66.7** | **18.7** | **22** | **18** | **21.2** | **22** | **20.9** |
| ***o/w Tax Revenue*** | *46 956,57* | *53 768,68* | *53 273* | *77 852,30* | *95 507,68* | *93,556* | *54,1* | *50,7* | *44,5* | *45* | | *55,9* | *15.6* | *16,4* | *14,5* | *16,7* | *17,9* | *17,5* |
| ***o/w Non-Tax Revenue*** | *9 130,24* | *17 709,12* | *12 709* | *20 663,13* | *21 843,70* | *18,087* | *10,5* | *16,7* | *10,6* | *12* | | *10.8* | *3* | *5.4* | *3,5* | *4,4* | *4,1* | *3,4* |
| II. Domestic Financing | **4 164,21** | **3 456,87** | **17 709,50** | **24 459,00** | **15 575,90** | **15,576** | **4.8** | **3.3** | **14.6** | **14** | | **9.3** | **1.4** | **1.1** | **4.8** | **5.2** | **2.9** | |
| III. Foreign Financing and grants | **26 556,88** | **30 623,72** | **36 203,01** | **46 669,00** | **48 259,00** | **40,102** | **30.6** | **28.9** | **30.3** | **29** | | **23.9** | **8.8** | **9.4** | **9.9** | **10.7** | **9.4** | |
| Total Revenue Financing and grants | **86 807,89** | **106 007,61** | **119 616,01** | **172 987,08** | **182 892,44** | **167,322** | **100** | **100** | **100** | **100** | | **100** | **28.9** | **32.4** | **32.6** | **37.1** | **34.3** | **31.4** |

**Source:** Ministry of Finance Budget Estimates

## 2.1 TAX REVENUES

Figure 1, below shows tax revenues outturn by type as a percentage of GDP for the period 2018 to 2021 and projections for 2022 and 2023. It is evident from the graph that Excise duty reduced in 2022, this could be attributed to tax concessions because of SI number 2 and 3 of 2022 which suspended Customs and Excise Duty on Fuel ***but have since been lifted.*** Equally VAT under performed in 2022 mainly due to low payment compliance by Withholding VAT agents as most of them were requesting for offsets against liabilities owed to them. On the other hand, Tax on income was relatively stable mainly because PAYE is taxed at source (***the 2023 Budget intends to strengthen administration of PAYE by requiring employers to submit Tax Payers Identification Number TPIN in monthly returns),*** although tax on profits was trending upwards from 2018, it spiked in 2021, according the Annual Economic Report was due to the Bank of Zambia dividend paid to the budget reaching 5.4% of GDP.

Although according to the Mid-Year Budget and Economic performance presentation in August 2022, tax revenue was above target by 6.3 percent, above target of K39.4 billion amounting to K41.8 billion.

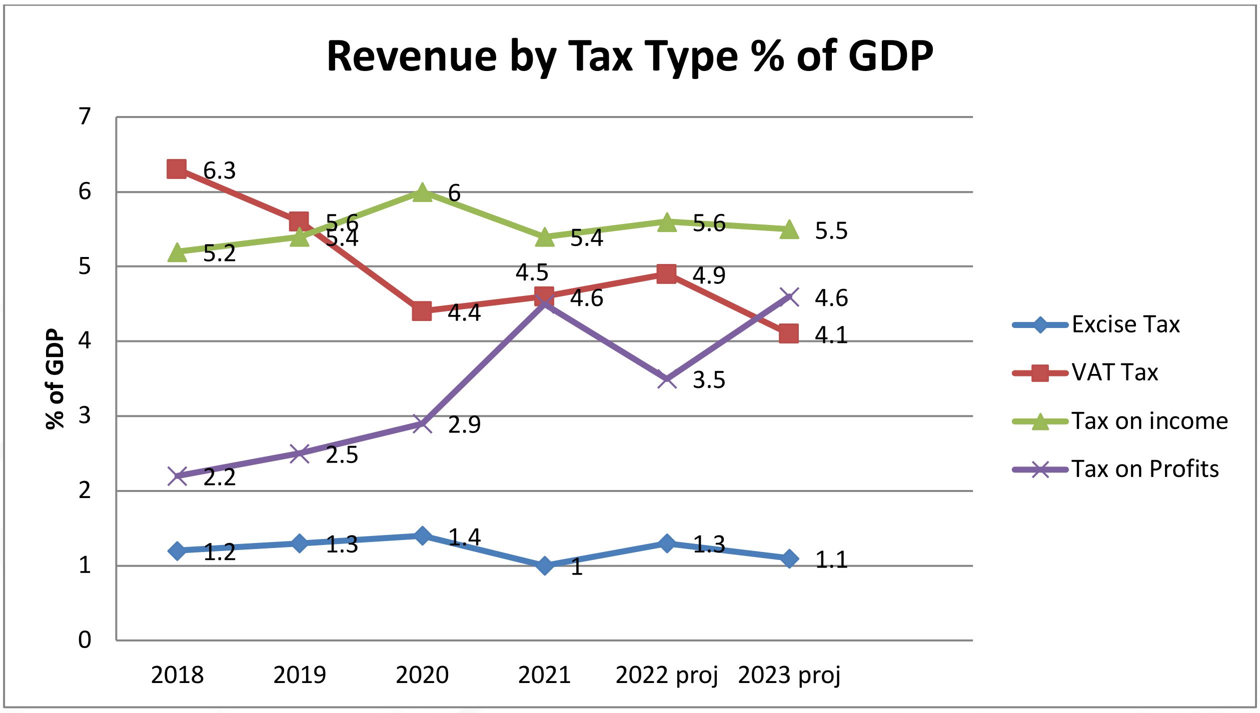
### *PBO Comment*

If the objective of boosting revenue mobilisation more should be realised, and to improve domestic revenue collection, there should be deliberate measures like: ***increasing the tax base by reducing incentives, and other measures as outlined in the Medium-Term Budget Plan 2023-2025 (MTBP). Allocating more resources in growth enablers like ICT may have a positive impact on revenue collection***.

### *2023 Budget*

*The budget has given several concessions to increase economic activities and to mitigate the cost of living. This will reduce revenue collection in the short term.*
*The Standard rating of petrol and diesel will increase production cost in short run but will help collect more revenue by the Treasury amounting to about K6.8 Billion*

Figure

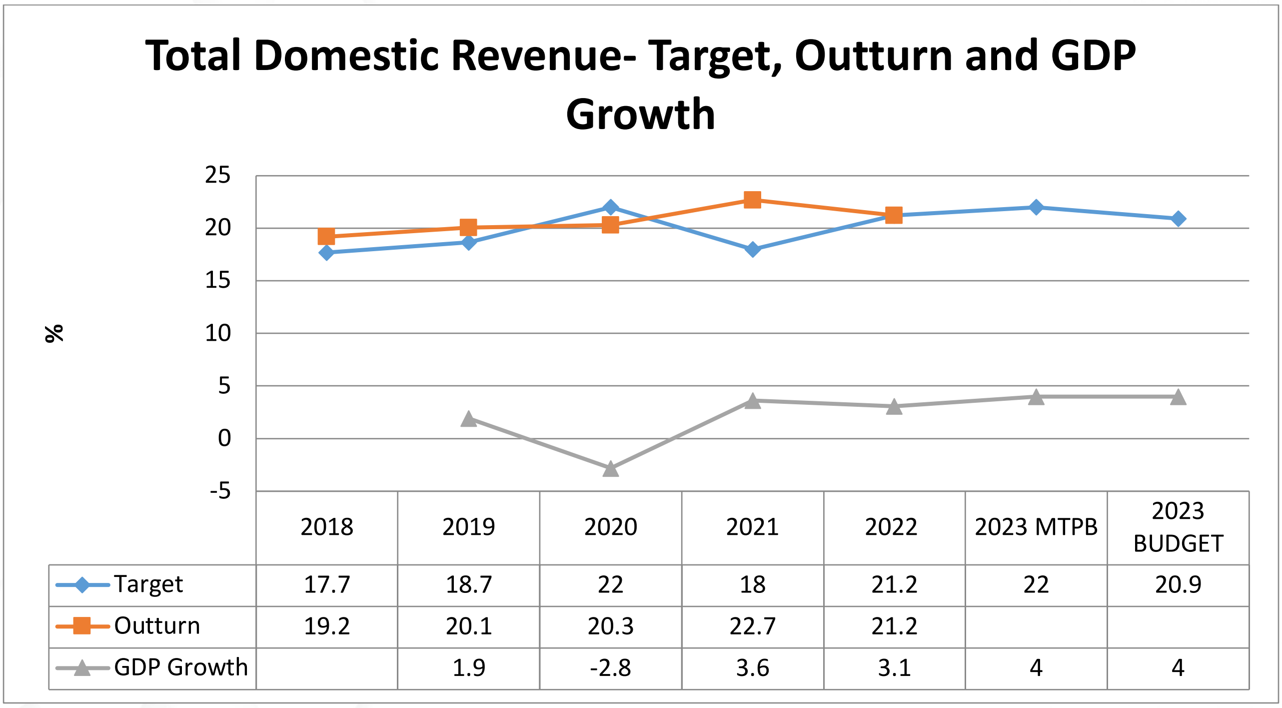



Source: IMF Document

The Figure below plots the trend of total domestic revenue (Target, Outturn (% of GDP) and GDP Growth). Macroeconomic stability is essential. Over the medium term, Government according to the MTPB will focus on stimulating the domestic economy through promotion of investment, expansion in agriculture and mining and tourism. The Government also wish to stimulate growth by among others enhance domestic resource mobilisation. From the Figure below, is it evident that when the economy slows down such as in 2020 when the economy contracted by 2.8%, revenue underperformed and was below the target. It can also be seen that when the economy posted positive growth in 2021, revenue was above target at 22.7% of GDP. In this regard, we should see the budget investing in key growth sectors to stimulate growth in 2021 and collect more revenues.

**PBO Comment**

*Its is important to grow the economy to collect more revenue*




| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 MTPB | 2023 BUDGET |
|---|---|---|---|---|---|---|---|
| Target | 17.7 | 18.7 | 22 | 18 | 21.2 | 22 | 20.9 |
| Outturn | 19.2 | 20.1 | 20.3 | 22.7 | 21.2 | | |
| GDP Growth | | 1.9 | -2.8 | 3.6 | 3.1 | 4 | 4 |

`Source: IMF Document

## 2.2 NON -TAX REVENUE

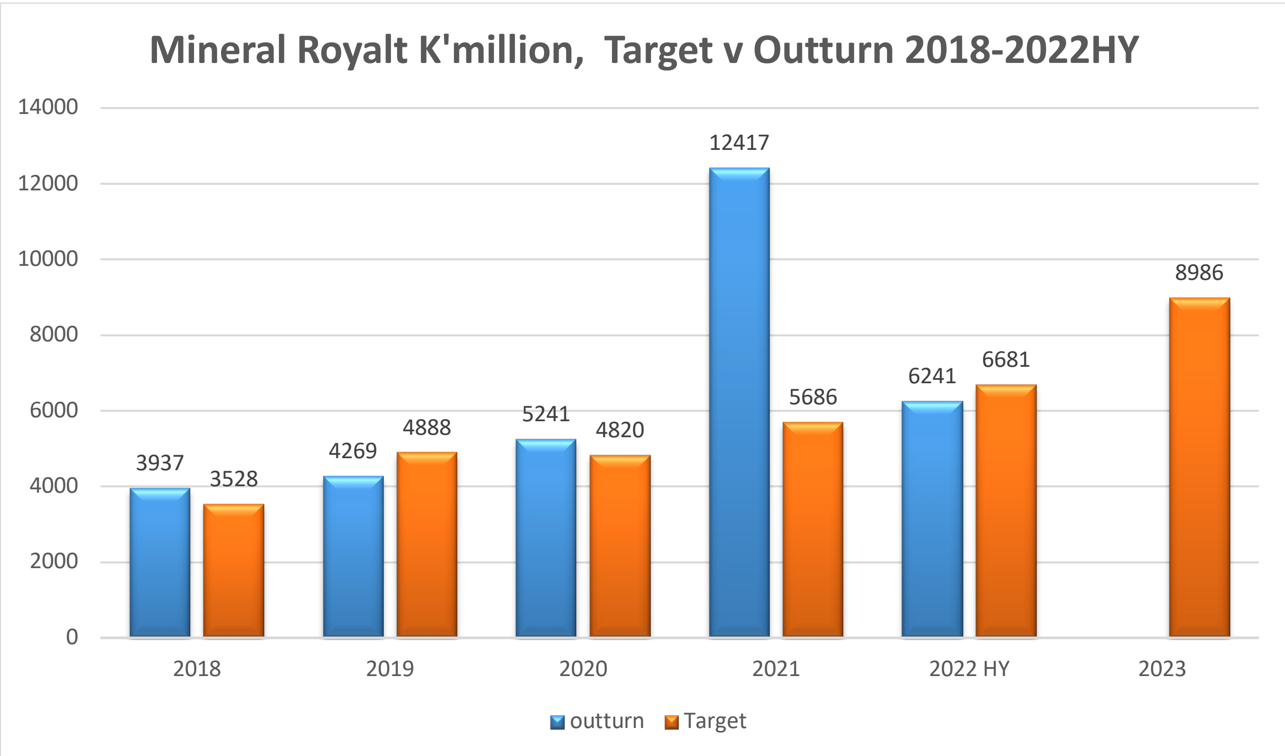
Non-Tax revenues has generally overperformed in the recent past. In 2020, Non-tax revenue overperformed by 19.8 percent at K13.54 billion against the target of K11.30 billion. Similarly, in 2021, non-tax revenue collections amounted to K25.3 billion against a target of K12.6 billion and were above target by over 100 percent. This performance has been attributed to dividend payments among others which are however usually one-off payments. However, the first half of 2022, non-tax revenues underperformed and were below target by 7.8% i.e. K10.7 billion was collected against a target of K11.6 billion mainly due to the underperformance of Mineral Royalty and Unser Fees by -6.6% and -9.4% respectively. On the other hand, Grants over performed by 139.4% in the first half of 2022 reaching K2.2 billion against a target of K911.0 million.

The figure below shows that Mineral Royalty in the first half of 2022 underperformed, although the 2023 budget has put it at a record high, the highest in the last four years. Mineral Royalty has remained deductable as per international best practice.

***2023 Budget***

*The budget gives more incentives to attract more investment in the quest of increasing production to over 800.000 metric tonnes by now applying the tax on the increment value in each band as opposed to the aggregate value when the price crosses the respective price threshold, and reducing the lowest marginal rate to 4.0 percent from 5.5 percent. It is only hoped that this will attract more investment to improve the performance of mineral royalty. As at June 2022, collection was below target..*

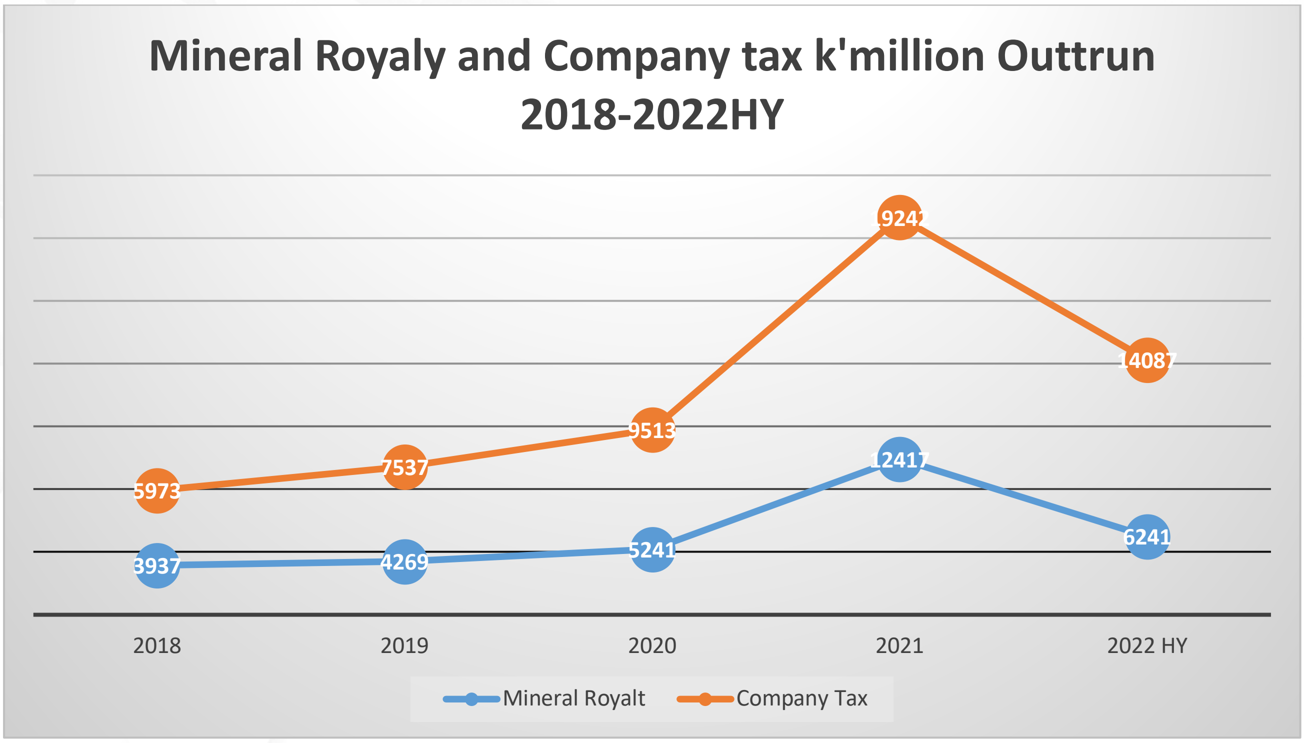
Figure



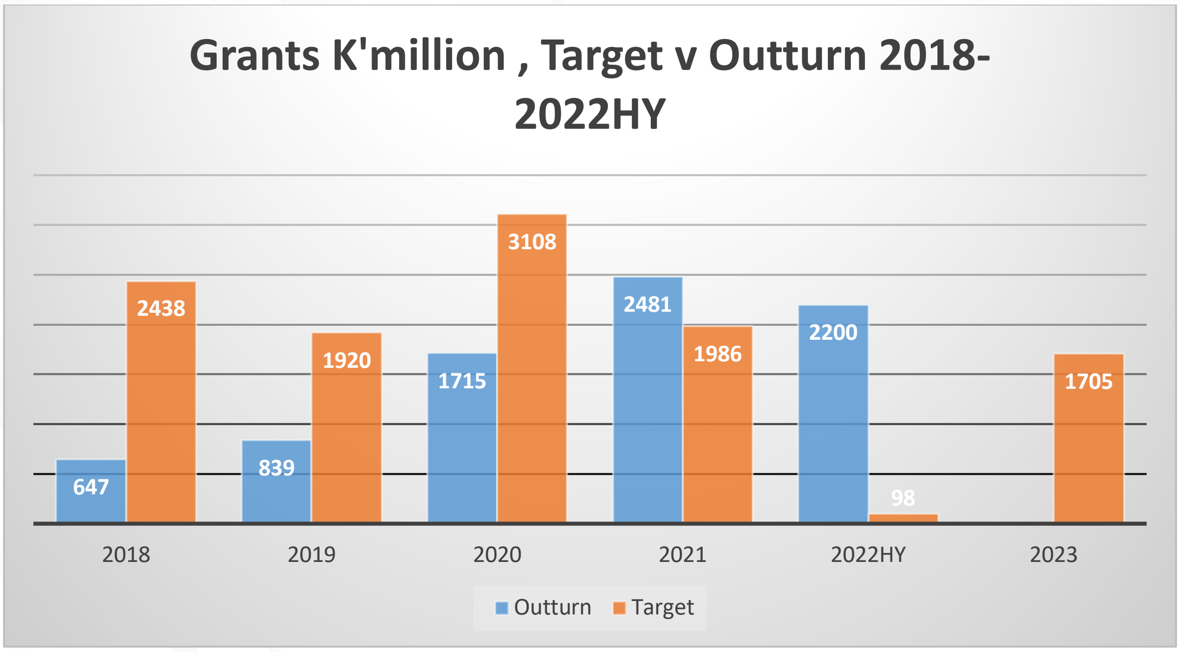

Source: Ministry of Finance Annual Economic Reports

The Figure below shows that Mineral Royalty and the Company tax has been on a downward trajectory from 2021, and one of the reasons could incentives given.

Figure




The Figure below shows that grants to support the Budget overperformed in the first half of 2022. This could possibly be lined to the goodwill shown by Cooperating Partners and multilateral agencies like the IMF.




## 3.0 EXPENDITURE

The sections below highlight allocations be functions and the effect of reduced debt payments on spending on some sectors.

## 3.1 EXPENDITURE BY FUNCTION

The proposed 2023 budget amounting to K167.3 billion is 3% smaller than the 2022 budget in absolute terms. As a percentage of GDP, the 2023 budget has reduced to 31.4% from 37.1% in 2022. The allocation towards General Public Services has reduced by 23% due to reduced external debt servicing from K51 billion in 2022 to K18 billion in 2023. This is on the backdrop of Zambia securing an Extended Credit Facility with the IMF and debt restructuring efforts. Resources have been redirected towards Social Protection, Health, and Education.

*Figure 1: 2023 budget: percentage change in allocations*

*Source: PBO construction using Budget speeches*

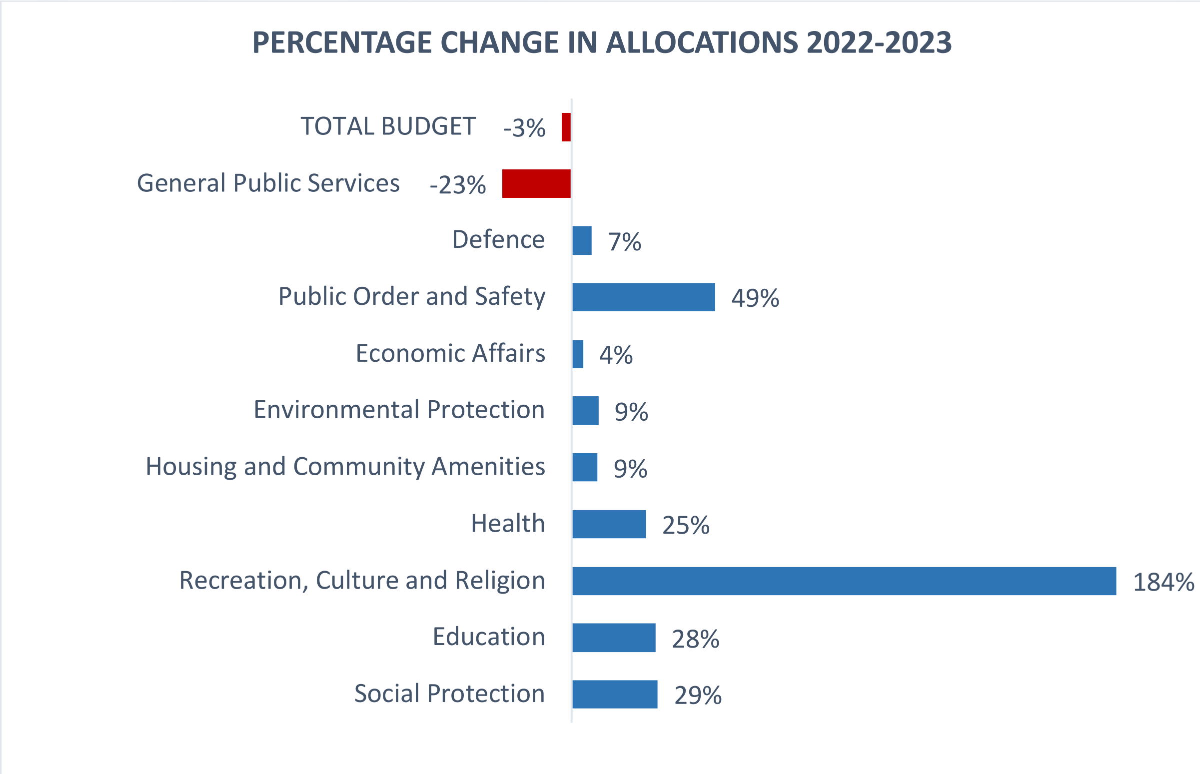
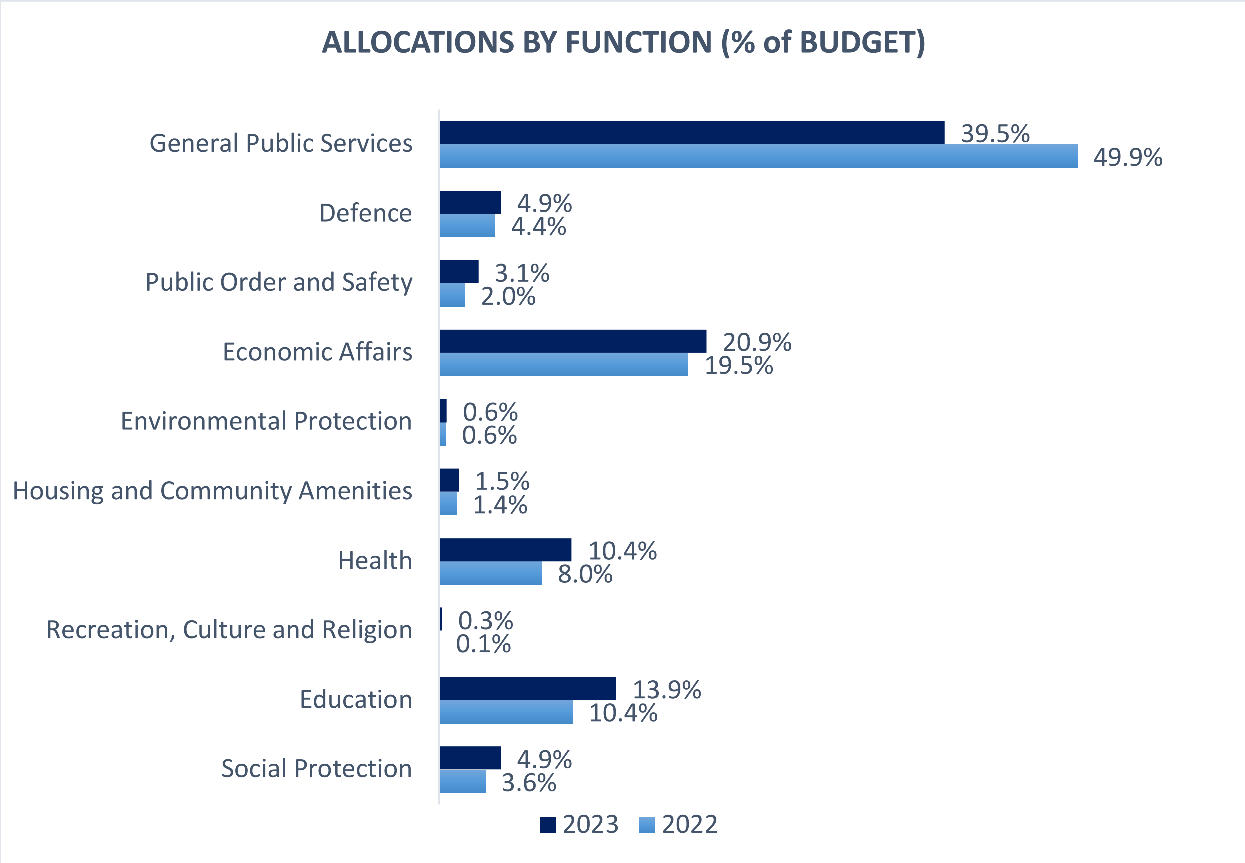


*Figure 2: Allocations by function*




*Source: PBO construction using Budget speeches*

**Education Sector**

The allocation towards education is 13.9% of the total budget and is driven by planned increased allocations towards school infrastructure and additional recruitment of 4,500 teachers. Despite the increased allocation, it still falls short of the Incheon Declaration of allocating 15% to 20% of public expenditure to education in the quest to attain Sustainable Development Goal 4 which aims to *ensure inclusive and equitable quality education and promote lifelong learning opportunities for all*.

**Health Sector**

The allocation towards health has increased to 10.4% in 2023 from 8% in 2022 due to increased allocations towards the procurement of drugs and medical supplies. The Government has also increased the allocation towards medical equipment and ambulances from K186.4 million in 2022 to K900 million in 2023, an increase of 383%. The total Health allocation, however, does not meet the Abuja declaration, of which Zambia is a signatory, of allocating at least 15% of the annual budget towards Health. The Abuja Declaration was meant to strengthen Africa's health systems and ensure their preparedness for disease outbreaks.

## Social Protection

In line with the aspirations of the Eighth National Development Plan (8NDP) and the International Monetary Fund (IMF) Agreement to reduce poverty and inequality through increased social spending, the Government has increased the allocation towards Social Protection from 3.6% in 2022 to 4.9% in 2023. In absolute terms, the allocation has increased from K6.3 billion to K8.1 billion. The Government has scaled up the Social Cash Transfer Program by increasing the number of beneficiaries and transfer value.

## Economic Affairs: Growth Stimulation

To stimulate growth, Government intends to spend K35 billion on Economic Affairs. However, this only represents a 3.9% increase from 2022. Hence, it is expected that economic growth will simultaneously be stimulated by the tax concessions offered to both citizens and businesses. Tax concessions are an important fiscal policy tool to mobilise resources for economic development. The tax concessions and rebates offered in the 2023 budget are aimed at promoting private saving and investment as well as private consumption. Alongside saving and investment, according to the Laffer Curve concept on which supply side economics is based, the reduction of marginal tax rates leads to a substantial increase in both direct and indirect tax revenue. This revenue is then allocated towards public investment and service provision.

Key drivers of growth are expected to be manufacturing, mining, agriculture and tourism.

The following are the key expenditure items aimed at stimulating growth:

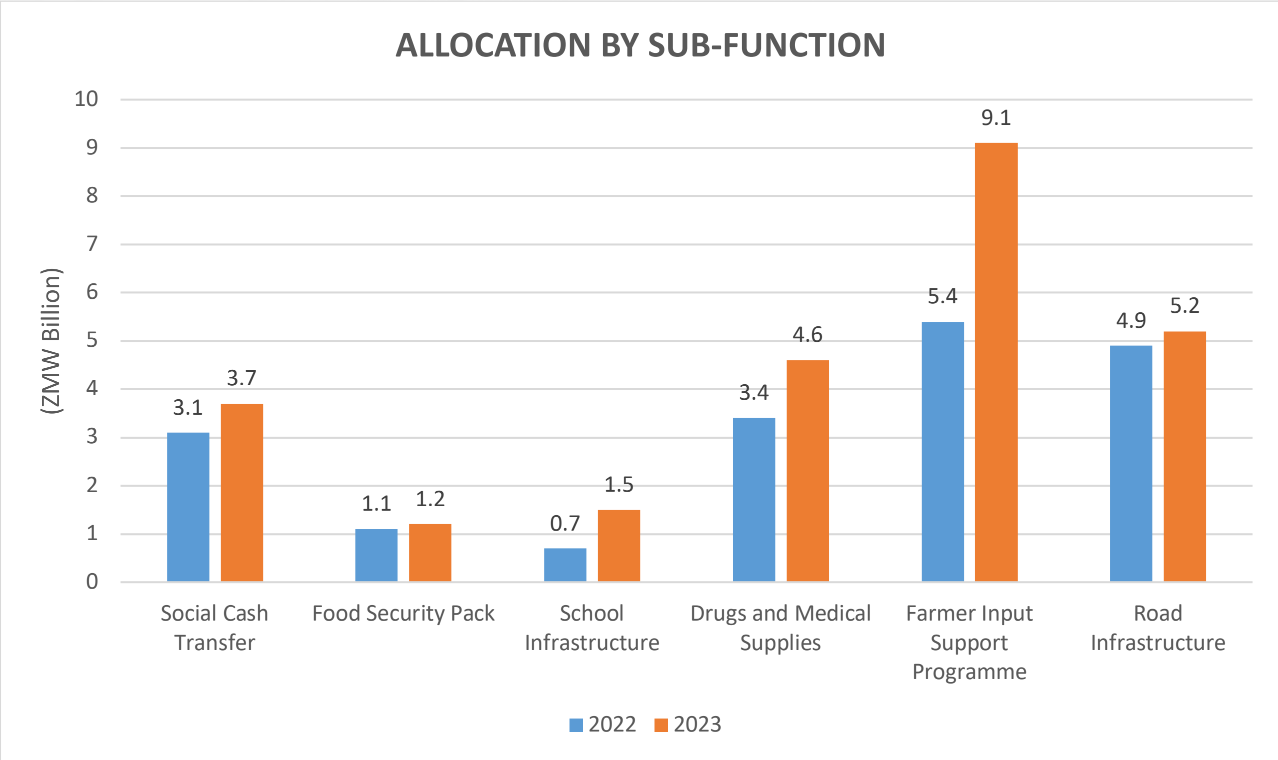
| Program | 2022 | 2023 | Variance | MTBP |
|---|---|---|---|---|
| Farmer Input Support Program | K5.4 billion | K9.1 billion | 69.7% | ✓ |
| Constituency Development Fund | K3.2 billion | K3.5 billion | 10% | ✓ |
| Rural Electrification Fund | K362.2 million | K743.6 million | 105% | ✓ |
| Road infrastructure | K4.9 billion | K5.2 billion | 5% | ✓ |
| Empowerment Funds for SMEs | K350 million | K397.4 million | 13.5% | ✓ |
| Tourism Marketing and Infrastructure | - | K366.3 million | - | ✓ |
| Farm Block Development and Irrigation | - | K426.6 million | - | ✓ |
| Extension Services | - | K789.5 million | - | ✓ |
| Support to Artisanal Mining and Small-Scale Mining | - | K50 million | - | ✓ |

*Source: PBO construction using Budget speeches*

### 3.2 EXPENDITURE BY SUB-FUNCTION

There are notable increases in some sub functions in 2023 compared with allocations in 2022 as detailed below.

*Figure 2: Expenditure by sub-function*




*Source: PBO construction using Budget speeches*

**Farmer Input Support Program**

The allocation to the Farmer Input Support Program (FISP) has been scaled up from K5.4 billion in 2022 to K9.1 billion in 2023. However, this is against the medium-term plan to reduce Government spending on the program by implementing a new cost-effective, better targeted, and equitable program.

**School Infrastructure**

The allocation to school infrastructure has increased by 117% to K1.5 billion from K0.7 billion in 2022. Following the introduction of free education and the recruitment of 30,469 teachers in 2022, the Government intends to strengthen these efforts by completing the construction of 56 Early Childhood Education Centres and 115 secondary schools.

Further, with support from the World Bank, the Government will commence construction of 120 new secondary schools. These efforts will augment the quest to achieve quality and universal access to education as espoused in the Vision 2030 and SDGs.

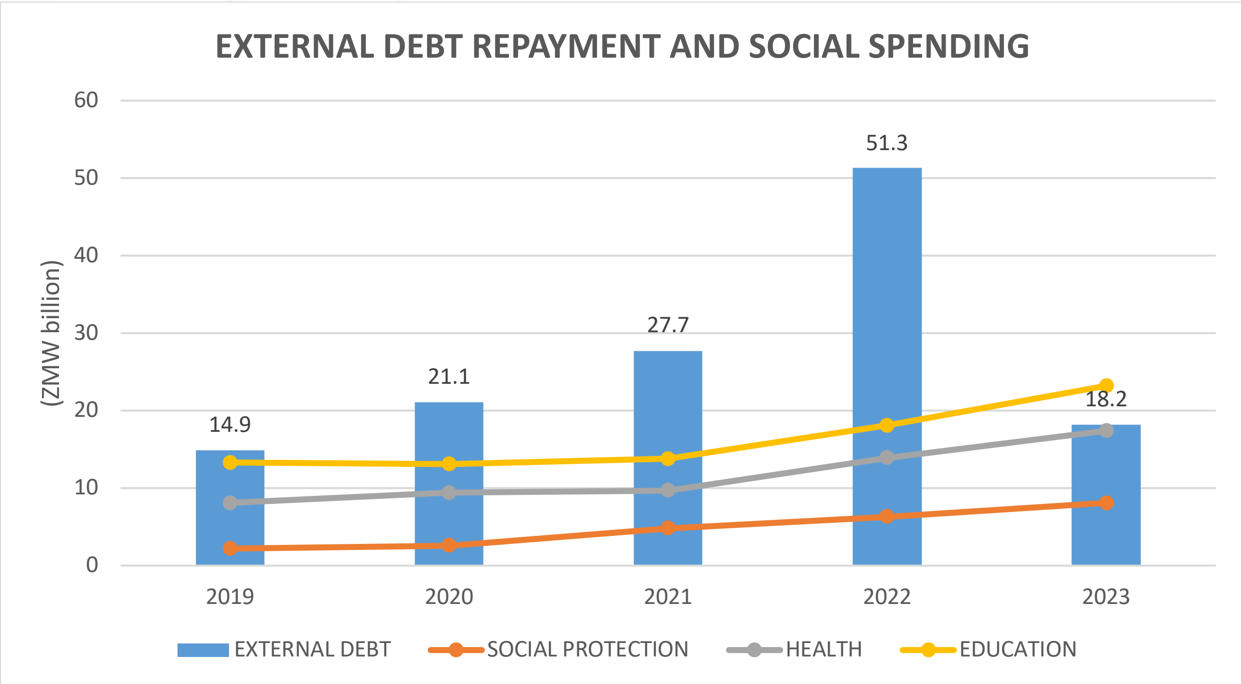
**Essential Drugs and Medical Supplies**

Government has allocated K4.6 billion towards essential drugs and medical supplies, a 36% increase from 2022. This is line with the 8NDP target of availability of essential drugs and medical supplies of at least 90 percent fill rates by 2026 from 40 percent in 2020.

### 3.3 DEBT

In 2022, expenditure towards external debt repayments are expected to reduce from K51.3 billion in 2022 to K18.3 billion in 2023. Subsequently, these resources have been redirected towards productive investment and social capital i.e., Education and Health. Notwithstanding, the proposed budget deficit of 7.7% of GDP which the Government intends to finance via domestic debt and concessional loans, may have a negative effect on economic growth. This is because debt financing tends to crowd out private sector investment as the Government competes for credit with private citizens.

*Figure 3: External debt vs social spending*




*Source: PBO construction using Budget speeches*