



BRIEF ON THE 2024 MID-YEAR BUDGET PERFORMANCE

Parliamentary Budget Office

July 2024

Table of Contents

1. INTRODUCTION AND OVERVIEW	1
2. MACROECONOMIC PERFORMANCE	1
2.1. Growth Rate	2
2.2. Inflation	3
2.3. Exchange Rate	4
2.4. Interest Rate	4
2.5. Financial Sector Development	4
2.6. External Sector Developments	5
3.1. Positive Performing Revenue Types	7
3.2. Negative Performing Revenue Types	7
4. FINANCING	8
5. PUBLIC DEBT	9
6. EXPENDITURE PERFORMANCE	10
6.1. Expenditure Analysis	11
6.2. Personal Emoluments	12
6.3. Use of Goods and Services	12
6.4. Social Benefits	13
6.5. Debt Management (Interest Payments and Amortisation)	13
6.6. Transfers and Subsidies	13
6.7. Transactions in Non-Financial Assets	15
6.8. Transactions in Financial Assets	17
7. CONCLUSION	18

1. INTRODUCTION AND OVERVIEW

The Mid-Year Budget Performance for the first half of 2024 has faced a number of challenges such as slow economic growth and on-going debt restructuring negotiations. Growth in 2024 is projected to slow down to 2.3 percent compared to 4.8 percent in 2023 on account of the drought experienced in the 2023-2024 farming season, as well as the low water levels at major power stations which has led to a contraction in production of agriculture and energy industries by 19.4 percent and 15 percent respectively¹. However, sectors such as Transportation and Storage, Information and Communication, Accommodation and Food Services as well as Manufacturing are expected to support growth.

The prevailing factors mentioned above are a threat in achieving the theme for the 2024 National Budget, which is “*Unlocking Economic Potential*” through enhanced Private Sector Investment, increase Production and Productivity, and improve Public Service Delivery². Notably, the 2024 Budget amounted to K177 billion compared to the 2023 Budget of K167 billion, an increase by 6.3 percent. This Brief highlights the performance of the Budget in the first half of 2024, in comparison to the same period in 2023. The Brief has been prepared for the Planning and Budgeting Committee.

2. MACROECONOMIC PERFORMANCE

Macroeconomic fundamentals in the first half of 2024 have weakened evidenced from the decline in agricultural output coupled with an energy crisis as a result of drought. The slowed economic activities have triggered a downward revision of the real Gross Domestic Product (GDP) growth target from the initial 4.8 percent to 2.3 percent for 2024.

Table 1: Comparison of Mid-Year Budget Performance for 2023 and 2024

¹ Mid-Year Budget Performance Report (2024), Ministry of Finance and National Planning.

² Budget Speech (2024), addressed by Minister of Finance and National Planning.

<i>Macroeconomic variables</i>	<i>Target</i>	<i>2023H1</i>	<i>2024H1</i>	<i>Proj 2024 Outturn</i>
<i>Real GDP Growth</i>	4.8	4.4 ³	2.2 ⁴	2.3
<i>Fiscal Deficit</i>	4.8	2.6	il ⁵	6.2
<i>Domestic Revenue</i>	22.0	10.9 ⁶	11.4 ⁷	21.6
<i>Inflation</i>	6 to 8	9.8	15.2	15.2

Source: PBO construction using data from the ZAMSTATS and 2024 Fiscal Table and MTBP Fiscal Table

Significantly, the 2024 Nominal GDP forecast has been increased from the initial K641.0 billion to K656.9 billion. This upward revision affects GDP-related targets, such as the projected fiscal deficit. Originally set at 4.8 percent of GDP in the National Budget, the fiscal deficit is now anticipated to reach 6.2 percent. This change is influenced by both the increased financing outlined in the Supplementary Estimates No.1 of 2024 and the revised GDP figure.

PBO COMMENT

Significantly, the fiscal deficit target for the first half of 2023 was not reported, making it impossible to perform an accurate half-year comparison between 2023 and 2024. Going forward, it is necessary for the Ministry of Finance and National Planning to consistently report on macroeconomic variables quarterly, where possible.

2.1. Growth Rate

The economy in Q1 of 2024 grew by 2.2 percent a significant drop compared to 4.4 percent in Q1 and 8.5 percent in Q4 of 2023. Notably, the mining sector recovered from a negative

³ Quarter 1 2023 GDP figure

⁴ Quarter 1 2024 GDP figure

⁵ Mid-Year fiscal deficit not reported

⁶ PBO computation using the GDP figure of K562.2 billion in the Annual Economic Report

⁷ PBO computation using the 2024 revised GDP figure of K656.9 billion

contribution of -0.9 percent to GDP growth in Q4 of 2023 to a positive contribution of 0.7 percent in Q1 of 2024.

Major Drivers of Growth – Q4 2023 Vs Q1 2024

Sector		Contribution to Growth (%)	
Q4 2023	Q1 2024	Q4 2023	Q1 2024
ICT	ICT	4.9	1.4
Construction	Construction	1.5	0.5
Wholesale & Trade	-	1.2	-0.1
Financial Services & Insurance	Financial Services & Insurance	0.7	0.5
Manufacturing	-	0.3	0.2
Transport and Storage	-	0.3	0.1
Accommodation and Food	Accommodation and Food	0.5	0.5
-	Mining and Quarrying	-0.9	0.7
-	Public Administration and Defence	0.2	0.4

The Stanbic Purchasing Manager’s Index (PMI) in the period January to June 2024 was consistently below the 50 percent mark. This indicates subdued economic activity in the first half of 2024.

PMI Zambia Jan-Jun 2024

Jan	Feb	Mar	Apr	May	Jun
49.2	47.3	48.8	47.7	49.4	47.9

2.2. Inflation

In the first half of 2024 annual inflation stood at 15.2 percent compared to 9.8 percent in the same period of 2023. Notably, the tight monetary policy interventions undertaken in the first half of 2024, had minimal impact on the inflation target. The higher than projected outturn of inflation was triggered by a rise in prices of both food and non-food items. Given the shortage in

supply of commodities compounded by the drought, inflation is expected to accelerate in the second half of the year due to higher import prices and elevated production and energy costs⁸ and inevitably diverge further away from the 6 to 8 percent projection.

2.3. Exchange Rate

In the first half of 2024, the Kwacha depreciated by 12.3 percent against the US Dollar, averaging K25.94 per US Dollar, compared to a 16.8 percent depreciation in the same period of 2023 when it averaged K23.1. This depreciation, like in 2023, was driven by excess demand for the Dollar and limited foreign currency supply from exports. The importation of electricity, maize, other food commodities, and petroleum is expected to increase demand for foreign currency, which will likely weaken the domestic currency.

2.4. Interest Rate

In the first half of 2024, interest rates rose to 26.6 percent, up from an average of 25.5 percent during the same period in 2023. The rise in interest rates to 26.6 percent in the first half of 2024 is indicative of a tightening monetary policy environment from aimed at controlling inflation leading to increased cost of borrowing money.

2.5. Financial Sector Development

On April 2, 2024, the Bank of Zambia took control of Investrust Bank Plc pursuant to Section 64 of the Banking and Financial Services Act, No. 7 of 2017, due to the bank's insolvency. To protect depositors and address the imbalance between Investrust's assets and liabilities, the Government provided support through recapitalization⁹. The central bank's guarantee that all depositors would access their full deposit balances was essential for safeguarding the integrity of the financial system.

In the first half of 2024, the Bank of Zambia significantly tightened monetary policy by raising the Monetary Policy Rate (MPR) by 250 basis points to 13.5 percent and increasing the Statutory Reserve Ratio by 900 basis points to 26 percent, up from 17 percent. This contrasts with the first half of 2023, when the MPR was only raised by 50 basis points to 9.50 percent in May. The

⁸ Response to the El Niño Induced Drought and Floods (SADC), May, 2024

⁹ Supplementary Estimates No. 1 of 2024

recent adjustments reflect a more aggressive approach to monetary tightening compared to the previous year. Overall, while the intent of such measures is to stabilise the economy and control inflation, they can exacerbate challenges for fragile growth by slowing down economic activity and increasing financial pressures.

2.6. External Sector Developments

Below is a summary of developments in the external sector in the first half of 2024.

2.6.1. Trade Performance

In the first quarter of 2024, the value of exports of goods rose by 13.8 percent to K60.6 billion from K53.0 billion in the corresponding quarter of 2023. This was mainly on account of an increase in export earnings of Intermediate goods (mainly copper anodes).

Similarly, value of imports of goods in the first quarter of 2024 increased by 22.7 percent to K59.4 billion from K48.4 billion recorded in the first quarter of 2023. This was mainly as a result of an increase in intermediate goods. The economy however recorded a quarterly trade surplus of K1.1 billion from the trade deficit of K1.3 billion recorded in the fourth quarter of 2023.

Further, the country recorded a trade Surplus of K3.0 billion in May 2024 compared to a Surplus of K2.4 billion in April 2024. Exports mainly comprising domestically produced goods, increased by 19.9 percent to K27.1 billion in May 2024 from K22.6 billion in April 2024. This was mainly on account of notable 20.9 percent increase in export earnings from Intermediate goods (mainly Copper anodes).

Imports increased by 19.5 percent to K24.2 billion in May 2024 from K20.2 billion in April 2024. This was mainly as a result of a 30.3 and 29.1 percent increases in import bills of Intermediate goods (Cobalt oxides and hydroxides) and Capital goods.

2.6.2. Copper Prices and Production

Copper prices in the first half of 2024 shows steady increase. For instance, In the first quarter of 2024, copper prices averaged US\$ 8,443 per Mt compared to Copper Prices during the first quarter of 2023 which averaged US\$ 8,832.16 per Mt. But as at end May 2024, copper prices stood at US\$ 10,129.1 per Mt, giving a five months average of 8988.44 per Mt.

Although in comparison to the corresponding quarter of 2023, copper production increased by 14.9 percent from 144,453 Mt, production in the first quarter reduced by 4.7 percent to 165,984 Mt from 174,131 Mt in the fourth quarter of 2023¹⁰. Cumulative volume of refined copper exported from January to May 2024 was 315.9 thousand mt while that of 2023 for the same period was 318.0 thousand mt representing a 0.7 percent decrease¹¹.

2.6.3. International Reserves

Gross international reserves show a positive trajectory both in the medium and long term, surpassing the 8NDP target of at least 3 months of import cover. Despite market support by the Bank, gross international reserves (GIR) increased to US\$3.6 billion (equivalent to 3.9 months of import cover) at end-March 2024 from US\$3.3 billion (equivalent to 3.7 months of import cover) at end-December 2023. This was mainly due to net statutory reserve deposits¹². The position of Gross International Reserves is likely to improve further on account of support from cooperating partners in response to the effects of the drought.

3. REVENUE PERFORMANCE

In the first half of 2024, total revenue and grants were 1.4 percent below target, amounting to K74.8 billion against a target of K75.8 billion. In the same period in 2023, total revenue and grants amounted to K57.3 billion. Of the K74.8 billion, tax revenue was K55.8 billion, non-tax revenue was K17.4 billion, and grants were K1.5 billion.

¹⁰ MoFNP, Quarterly Report -2024Q1

¹¹ ZAMSTATS, Monthly Bulletin-June 2024

¹² BoZ, Monetary Policy Report -May 2024

Table 2: Overall Tax Performance

REVENUE TYPE	% AGAINST MID-YEAR TARGET	COMMENT
TOTAL REVENUE AND GRANTS	-1.4%	Within acceptable range, on course
TOTAL REVENUE	-1.3%	Within acceptable range, on course
Tax Revenue	-4.7%	Within acceptable range, on course
Non-Tax Revenue	11.6%	Within acceptable range, on course
GRANTS	-5.8%	Within acceptable range, on course

Source: PBO construction using MoFNP 2024 Mid-Year Budget Report

3.1. Positive Performing Revenue Types

Table 3 below illustrates the revenue types that performed favorably in the first half of 2024. Notably, mineral royalty was above target by 2.8 percent compared to a negative outturn of 23.2 percent in the same period in 2023. This was due to higher declarations by selected mines as a result of improved copper prices on the international market. Import VAT also continued to perform positively due to increased imports of petroleum products and other goods subject to import VAT.

Table 3: Best Performing Revenue Types

REVENUE TYPE	% AGAINST MID-YEAR TARGET	COMMENT
Insurance Premium	66.1%	On course but indicating a high degree of under forecasting
Export Duties	57.0%	On course but indicating a high degree of under forecasting
Import VAT	27.8%	On course but indicating a high degree of under forecasting
Other Income tax - Withholding Tax	15.6%	Within acceptable range, on course
VAT	11.7%	Within acceptable range, on course
Excise Duties	5.9%	Within acceptable range, on course
Mineral Royalty	2.8%	Within acceptable range, on course
Pay As You Earn (PAYE)	1.8%	Within acceptable range, on course

Source: PBO construction using MoFNP 2024 Mid-Year Budget Report

3.2. Negative Performing Revenue Types

Table 4 below shows the revenue types that recorded negative outturns¹³ in the first half of 2024. Tax revenue was below target by 4.7 percent due to the negative outturn of both mining and non-mining company tax, which were below target by 60.3 percent and 14.2 percent, respectively. The negative outturn of mining company tax was due to low profitability by most mining

¹³ Negative in the sense that the outturn was below target.

companies resulting from a reduction in the grade of copper ore at some mines and increased operational costs due to inadequate energy supply.

Despite non-mining company tax recording a positive outturn of 8.1 percent in the first half of 2023, it recorded a negative outturn of 14.2 percent in the first half of 2024 due to unfavorable payment compliance by major contributors to this tax type. Similarly, grants recorded a negative performance of 5.8 percent in the first half of 2024 compared to a positive outturn of 49.9 percent in the same period in 2023. The negative performance in 2024 has been attributed to reduced remittances from cooperating partners.

These negative outturns in revenue types will potentially strain the National Budget, necessitating adjustments in spending and potentially leading to cuts in public services or development projects. Further, underperformance in revenue collection especially from the mining sector may result in increased projected fiscal deficit, thereby necessitating for more debt financing.

Table 4: Negative Performing Revenue Types

REVENUE TYPE	% AGAINST MID-YEAR TARGET	COMMENT
Mining CIT	-60.3%	High chance of being off track
Company Tax	-39.0%	High chance of being off track
Domestic VAT	-18.3%	High chance of being off track
Income Taxes	-14.4%	Within acceptable range, on course
Non-Mining CIT	-14.2%	Within acceptable range, on course
Customs Duty	-8.0%	Within acceptable range, on course
Customs and Excise Duties	-1.2%	Within acceptable range, on course

Source: PBO construction using MoFNP 2024 Mid-Year Budget Report

4. FINANCING

In the first half of 2024, total financing amounted to K10.8 billion against the target of K14.0 billion, representing an underperformance of 22.8 percent. Of the total financing, K6.6 billion was domestic financing, which is 9.4 percent above the target of K6 billion. External financing was K4.2 billion, 47 percent below the target of K7.97 billion. Regarding external financing,

both programme and project financing were below target by 25.9 percent and 57.7 percent, respectively. The negative financing outturn has the potential to affect budget implementation.

Despite the positive outcome on domestic financing, the subscription of Government Bonds averaged 89.81 percent, while that of Treasury Bills was 54.56 percent. This was attributed to tight liquidity conditions resulting from monetary tightening by the Bank of Zambia in a bid to contain inflation. The shortfall in subscription of securities was met through a selective bond auction to commercial banks in June 2024.

In the same period, general revenues were utilised to refinance maturities on domestic debt due to the underperformance of government securities auctions. Should the underperformance persist, the continued utilisation of general revenues to refinance maturities will negatively affect budget implementation and interest cost servicing.

5. PUBLIC DEBT

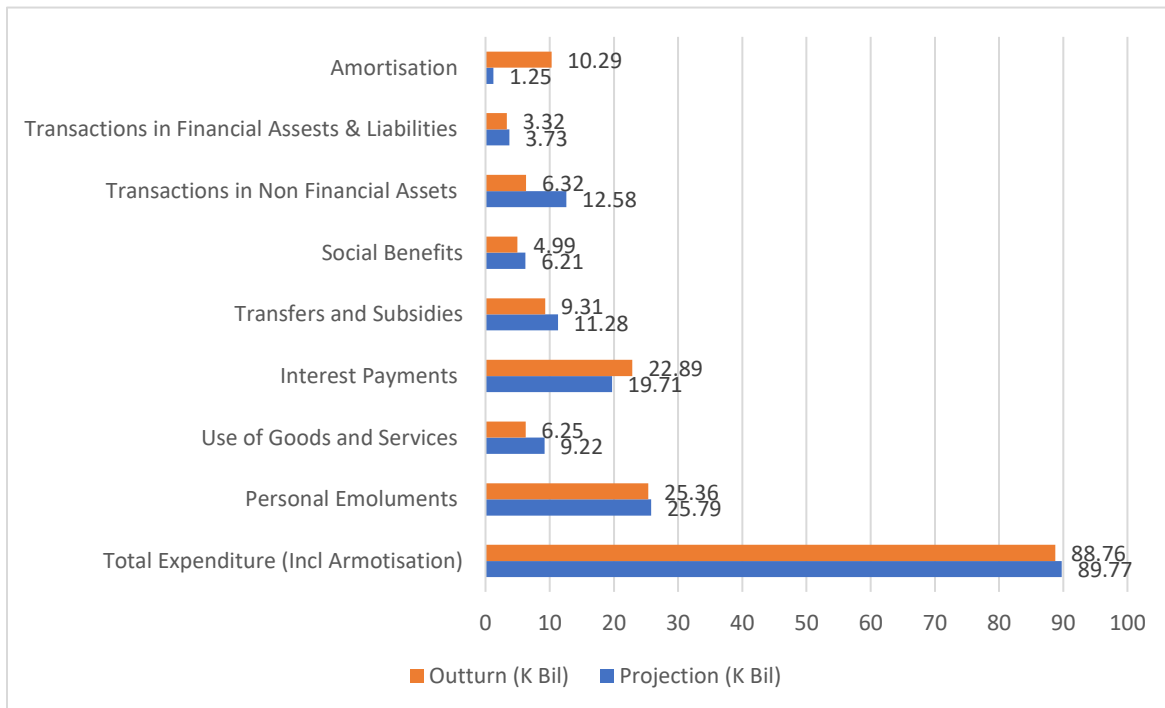
The total stock of domestic debt stood at K225.50 billion at the end of June 2024, while the external debt stock was USD 14.7 billion at the end of March 2024, up from USD 14.6 billion at the end of December 2023, representing a 0.6 percent increase. The total stock of domestic arrears stood at K88.65 billion as at end-March 2024.

It is stated that the Arrears Dismantling Strategy has been revised. The recent protests at the University of Zambia against unpaid retirement benefits and gratuities suggest inadequate engagement with stakeholders to manage expectations. Despite the partial release of dues, the staff vowed to continue protesting.

6. EXPENDITURE PERFORMANCE

Expenditure on goods and services, including debt obligations, was projected to be K89.77 billion for the first half of 2024. Preliminary results show that K88.76 billion, or 98.87 percent of the projected amount, has been disbursed. This is an increase in the disbursement rate compared to the same period in 2023, where 92.59 percent was disbursed.

Figure 1: 2024 Budget Performance



Source: 2024 Mid-year Budget Report

Figure 1 illustrates that although the expenditure rate was high at 98.87 percent, there were significant variations in some expenditure categories. The most notable variation was in debt payments, including amortisation, which overperformed due to the resumption of debt service following the successful completion of debt restructuring. Under the expenditure component of the 2024 Mid-Year Budget Performance, the following have been observed.

Table 5: Overall Expenditure Against Mid-Year Target

	% Against Mid-Year Target	Comment
Expenditures	-1.1	Within acceptable range, on course

Source: Constructed by PBO using data extracted from the 2024 Mid-Year Budget Performance Review.

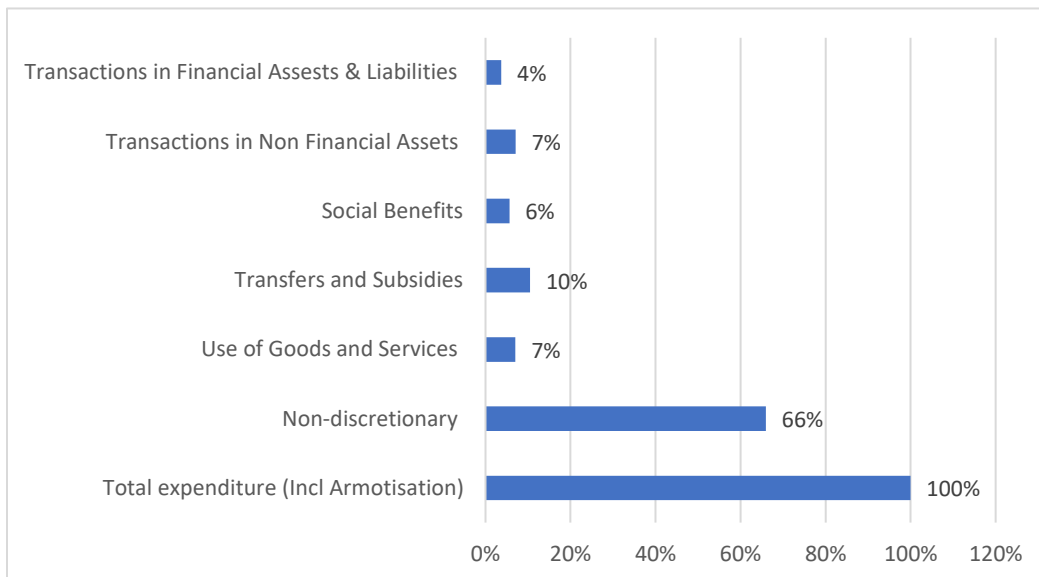
Table 6: Mid-Year Expenditure by Economic Classification

Expenditure Components	% Against Mid-Year Target	Comment
PEs	-1.7	Within acceptable range, on course
Goods and Services	-32.1	High chance of being of being off-track
Debt Service	56.8	On course but indicating a high degree of under forecasting
Transfers and Subsidies	-17.4	High chance of being off-track
Social Benefits	-8.3	Within acceptable range, on course
Non-Financial Assets	-49.4	High chance of being off-track
Financial Assets and Liabilities	-10.9	Within acceptable range, on course

Source: Constructed by PBO using data extracted from the 2024 Mid-Year Budget Performance Review

6.1. Expenditure Analysis

Figure 2: Expenditure Disbursements 2024



Source: Mid-year Budget Performance Report

Figure 2 depicts the expenditure distribution for 2024. A substantial portion, 66 percent, was allocated to non-discretionary expenditure (wage bill and debt), leaving only 34 percent for investment in productive sectors and social sector expenditure. This is concerning, as non-discretionary spending limits the fiscal space available for the government to undertake developmental projects and fund social sectors.

Figure 3: 2023 vs 2024 H1 Performance (K Bil)

	2023 H1 Proj	2023 H1 Outturn	2024 H1 Proj	2024 H1 Outturn
Total Expenditure (Incl Amortisation)	83.35	76.25	89.77	88.76
Personal Emoluments	23.13	21.36	25.79	25.36
Use of Goods and Services	7.31	6.77	9.22	6.25
Interest Payments	16.51	16.3	19.71	22.9
Transfers and Subsidies	12.54	10.7	11.28	9.31
Social Benefits	3.92	3.59	6.21	5
Transactions in Non Financial Assets	8.81	5.88	12.58	6.32
Transactions in Financial Assests & Liabilities	4.73	6.42	3.73	3.32
Amortisation	5.41	1.11	1.25	10.29

Source: Mid-year Budget Performance Report

6.2. Personal Emoluments

In the first half of 2024, Government allocated K25.4 billion for expenses related to the Public Service wage bill and overseas allowances. This expenditure was 1.7 percent lower than the projected K25.8 billion, primarily due to delays in recruitment. This represents an increase in disbursement as compared to the same period in 2023 in which allocations were 8 percent lower.

6.3. Use of Goods and Services

Government released a total of K6.77 billion or 68 percent of the projected release of K9.22 billion. Compared to 2023, this shows a significant drop in allocation, as 93 percent of the projected expenditure was disbursed in 2023. The lower than projected outturn was mainly due to higher debt servicing in the first half of the year, which required cutting back on other expenditures. Notable allocations within this category included K972.6 million for procuring drugs and medical supplies, K280.0 million for the Compensation and Awards Vote, and K38.6 million for the Elections/Continuous Voter Registration Exercise. However, there is need to find

out which of the expenditure lines had cutbacks as these could have an effect on public service delivery.

6.4. Social Benefits

Releases in this classification totalled K5.0 billion, which is 8.3 percent below the target of K6.2 billion. This shortfall is attributed to lower-than-expected releases for pensions, which are scheduled for the third and fourth quarters of the year. Of the total funds released, K3.5 billion was allocated to the Social Cash Transfer, K1.3 billion to the Public Service Pension Fund, and K100.0 million to the Local Authorities Superannuation Fund. This amounts to a 1.3 percentage reduction in disbursement when compared to 2023.

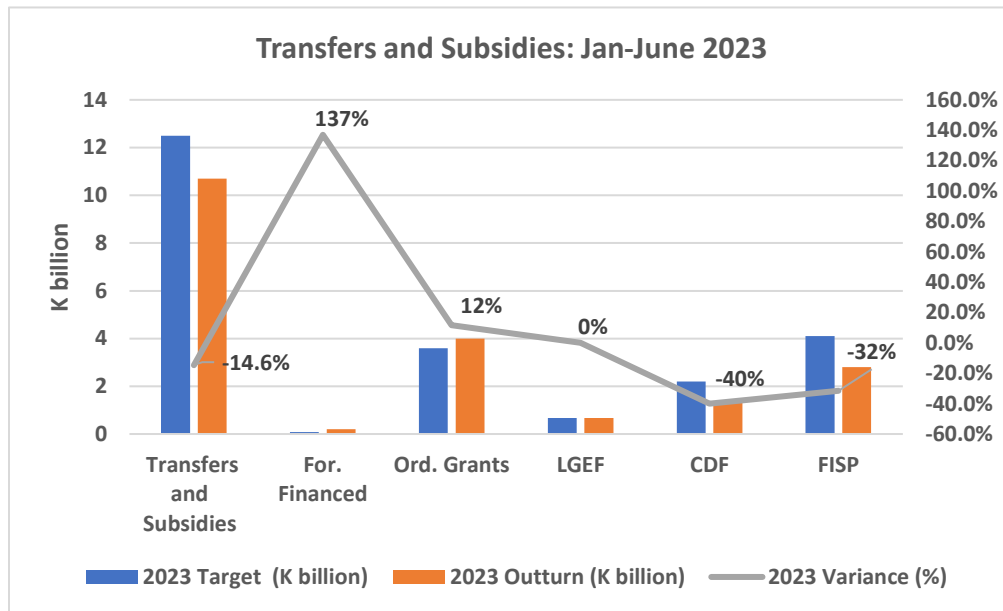
6.5. Debt Management (Interest Payments and Amortisation)

Under debt management, interest payments and amortisation overperformed by 16 percent and 723 percent respectively. This was on account of the resumption of debt servicing following the successful completion of debt restructuring. Of the total amount released for debt service, K20.7 billion was allocated to domestic debt, while K12.5 billion was directed towards external debt service. Compared to 2023, there is a significant increase in payments, as 2023 had lower-than-projected payments, particularly for commercial loans, which had been halted due to the debt restructuring exercise.

6.6. Transfers and Subsidies

In the first half of 2023, disbursements towards transfers and subsidies fell below the budget projection of K12.5 billion by 14.6 percent. This underperformance was due to releases to CDF and FISP which were below their targets by (-40 percent) and (-32 percent) respectively. Government has been making reforms in the FISP as it migrates to the Comprehensive Agricultural Transformation Support Programme (CATSP), in addition to intentions to complete development of farm blocks across the country.

Figure 4: Budget Performance of Transfers and Subsidies-2023



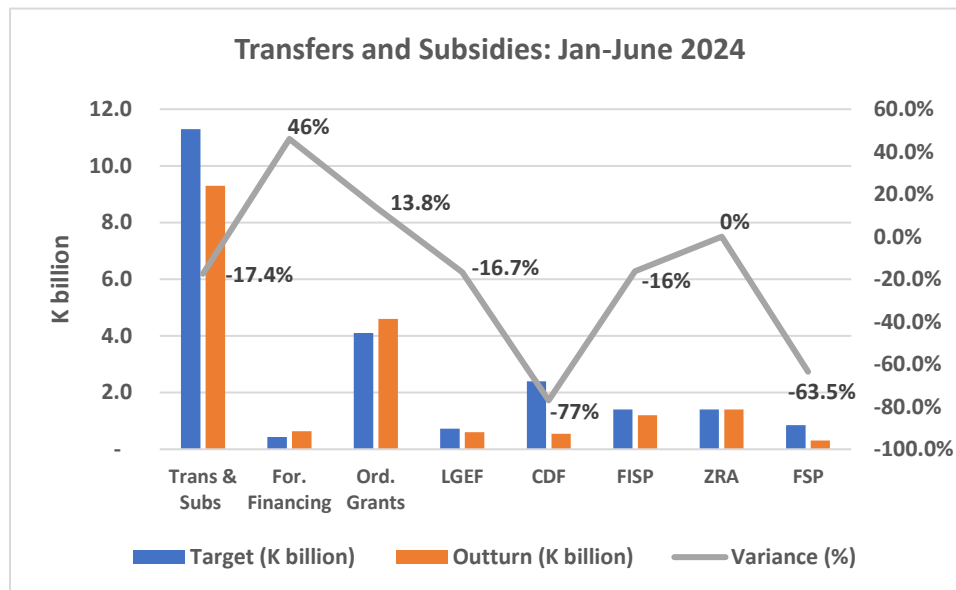
Source: Constructed by PBO using data extracted from the Mid-Year Annual Economic Report (2023), Ministry of Finance.

Disbursements in the first half of 2024 towards transfers and subsidies were below target by 17.4 percent, compared to 14.6 percent in 2023. This was attributed to releases towards Local Government Equalisation Fund (LGEF), Constituency Development Fund (CDF), Farmer Input Support Programme (FISP), and the Food Security Pack (FSP) which were below target by (-16.7 percent), (-77 percent), (-16 percent), and (-16.5 percent). The low disbursement to FSP has potential to reduce beneficiary households benefiting from this programme, thereby enhancing food insecurity amid the ongoing drought situation in the country.

The underperformance of CDF and LGEF in the first half of 2024 affects Government’s aspiration of fiscal decentralisation to transfer resources to the local level for service delivery. The low disbursements towards CDF is due to low absorption capacity and huge unspent balances from the 2023 Financial Year under the programme. Based on this, there is need to ensure capacity building of local authorities in Public Resource Management and Procurement, to improve the absorption rates of various CDF Components. This is in addition to reviewing regulations in the Public Procurement Act which have too many processes, contributing to delay in utilization of funds and completion of community projects. It has further been observed that funding towards the LGEF is not sustainable to enhance the Fiscal Decentralization agenda.

Local Authorities should be encouraged, through devolution of certain sectors, to ensure they find ways to enhance Own-Source Revenue Mobilisation at the Local Level.

Figure 5: Budget Performance of Transfers and Subsidies-2024



Source: Constructed by PBO using data extracted from the Mid-Year Fiscal Tables (2024), Ministry of Finance.

Apart from the low absorption rate of the CDF, the Auditor General’s Report on the CDF for 31st December 2022 revealed some irregularities in the management of CDF which are because of internal control deficiencies in Local Authorities. There is therefore urgent need to address structural challenges and internal controls to achieve prudent utilisation and expedite service delivery through the Fund.

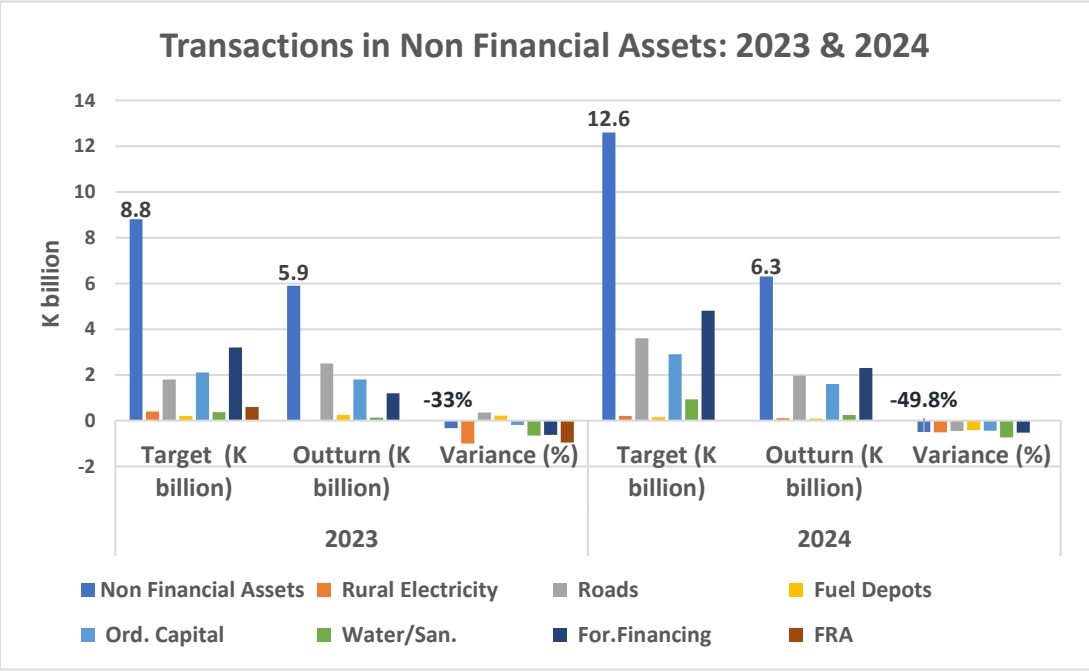
6.7. Transactions in Non-Financial Assets

In the first half of 2023, releases to Non-Financial Transactions were below target by 33 percent as only 67 percent of funds targeted were disbursed. This was attributed to underfunding to Rural Electrification (-100 percent), Food Reserve Agency (-96 percent), Water and Sanitation (-66 percent), Foreign Financing (-62 percent), and Ordinary Capital (-18 percent), in that order. The only programs that were funded above their targets were roads and fuel depots, in which 139 percent and 123 percent of targeted funds were released, with variances of 35 percent and 22 percent. This shows Government’s commitment to road development as 42 percent of the K5.9

billion released went to that sector. Rural Electrification is the only programme that did not receive any funding in 2023.

Compared to 2023, releases to Non-Financial Assets in the first half of 2024 were below target by 49.8 percent, as only 50 percent of targeted funds were released. All programmes in 2024 were below target, as follows; Water and Sanitation (-72.9 percent), Foreign Financing (-52.4 percent), Rural Electrification (-51.7 percent), Roads (-45.6 percent), Ordinary Capital (-43.7 percent), and Fuel Depots (-40.6 percent). Food Reserve Agency (FRA) did not receive any funding in the first half of 2024, compared to 2023 in which only 4 percent of targeted disbursements was funded.

Figure 6: Budget Performance of Non-Financial Assets-Mid 2023 and 2024



Source: Constructed by PBO using data extracted from the Mid-Year Annual Economic Report (2023) and Mid-Year Fiscal Table (2024), Ministry of Finance.

Negative performance in rural electrification may affect Government efforts of narrowing the energy deficit and limit rural access to clean, affordable, and reliable energy. In addition, the negative performance in disbursements towards FRA in both years may affect Government’s commitment to enhancing Strategic Food Reserves, amid the prevailing drought situation the

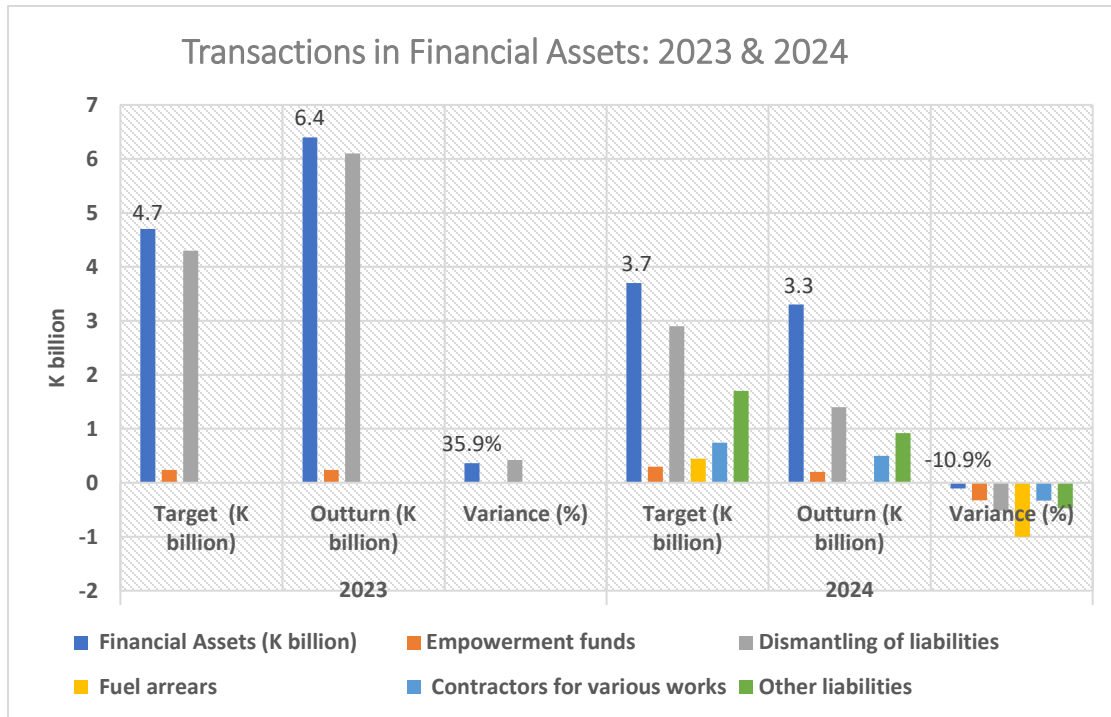
country is faced with, and may further contribute to food insecurity. Further, the underfunding to Water and Sanitation by (-66 percent) and (-72.9 percent) in both years is a major risk to the health sector, as this may affect Government's response to pandemics such as Cholera and other Water Borne Diseases. It's worth noting that lack of prioritisation in Water and Sanitation impacts Governments objective in the 8NDP to improve access to clean and safe water supply. In addition, this impacts Government's objective as pronounced in the 2024 Budget Speech to construct 1,374 boreholes and rehabilitate 1,270 boreholes projected to benefit 92,000 households.

6.8. Transactions in Financial Assets

Overall, funding towards Financial Assets in the first half of 2023 was above target by 35.9 percent, as over 136 percent of budgeted funds were released. The over-performance was attributed to higher releases for dismantling of liabilities which were above target by 42 percent, i.e., 142 percent of targeted funds were released. Other disbursements included empowerment funds channelled to Citizens Economic Empowerment which were above target by only 0.6 percent.

In 2024 however, releases towards Financial Assets were below target by 10.9 percent, as only 89 percent of budgeted funds were released. The underperformance was attributed to underfunding to Dismantling of Liabilities (-51.6 percent) and Empowerment Funds (-32.4 percent), as only 48 percent and 68 percent of budgeted funds were released. In addition, fuel arrears budgeted at K444 million were not funded, while contractors for various works and other liabilities were underfunded by (-33 percent) and (-47.3 percent), respectively.

Figure 7: Budget Performance of Financial Assets- Mid 2023 and 2024



Source: Constructed by PBO using data extracted the Mid-Year Annual Economic Report (2023) and Mid-Year Fiscal Table (2024), Ministry of Finance.

Between 2023 and 2024, releases (outturns) towards Financial Assets reduced by 48 percent, from K6.4 billion to K3.3 billion. This resulted to reduced releases towards Empowerment Funds and Liabilities by (-15 percent) and (-77 percent). Between 2023 and 2024, actual releases towards Empowerment Funds reduced by 15 percent. In addition, only 68 percent of budgeted funds were released in 2024, compared to 100 percent releases in 2023. The underfunding therefore affects Government’s ambition to promote entrepreneurship through the Citizens Economic Empowerment Commission, as pronounced in the 2024 Budget Speech.

7. CONCLUSION

Macroeconomic fundamentals in the first half of 2024 have weakened evidenced from the decline in agricultural output coupled with an energy crisis as a result of the prevailing drought. The slowed economic activities have triggered a downward revision of the real Gross Domestic Product (GDP) growth target from the initial 4.8 percent to 2.3 percent for 2024.

In the first half of 2024, total revenues and grants were 1.4 percent below target. The negative outturns in revenue types may potentially strain the National Budget, necessitating adjustments

in spending and potentially leading to cuts in public services or development projects. Further, underperformance in revenue collection especially from the mining sector may result in increased projected fiscal deficit, thereby necessitating for more debt financing.

In the first half of 2024, a substantial portion or 66 percent of expenditure was allocated to Non-Discretionary Expenditure (Wage Bill and Debt), leaving only 34 percent for investment in productive sectors and social sector expenditure. This is concerning, as non-discretionary spending limits the fiscal space available for the government to undertake developmental projects and fund social sectors. This eventually results to an increase in financing gap which has an effect in attaining Government's objectives in the 8NDP.