



BRIEF ON THE 2025-2027 MEDIUM TERM BUDGET PLAN

PARLIAMENTARY BUDGET OFFICE
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List of Acronyms

Balance of Payments	BoP
Bank of Zambia	BoZ
Constituency Development Fund	CDF
Consumer Price Index	CPI
Eighth National Development Plan	8NDP
Gross Domestic Product	GDP
Gross International Reserves	GIR
International Monetary Fund	IMF
Local Government Equalisation Fund	LGEF
Medium Term Budget Plan	MTBP
Monetary Policy Rate	MPR
Parliamentary Budget Office	PBO
Southern Africa Development Community	SADC
Zambia Revenue Authority	ZRA

A. INTRODUCTION

- 1.0. This Policy Brief has been prepared by the Parliamentary Budget Office (PBO) for the Expanded Planning and Budgeting Committee. The Brief unpacks the Green Paper on the 2025-2027 Medium Term Budget Plan (MTBP) and the 2025 Annual Budget. The Green Paper on the Medium-Term Budget Plan has been presented to the Expanded Planning and Budgeting Committee in line with Section 37 of the National Planning and Budgeting Act No. 1 of 2022. The MTBP is a three-year projection of the resources of the Government and their allocation across heads of expenditure and functions to finance the operational and development expenditures of the Government in line with a National Development Plan.

B. MACROECONOMIC DEVELOPMENTS

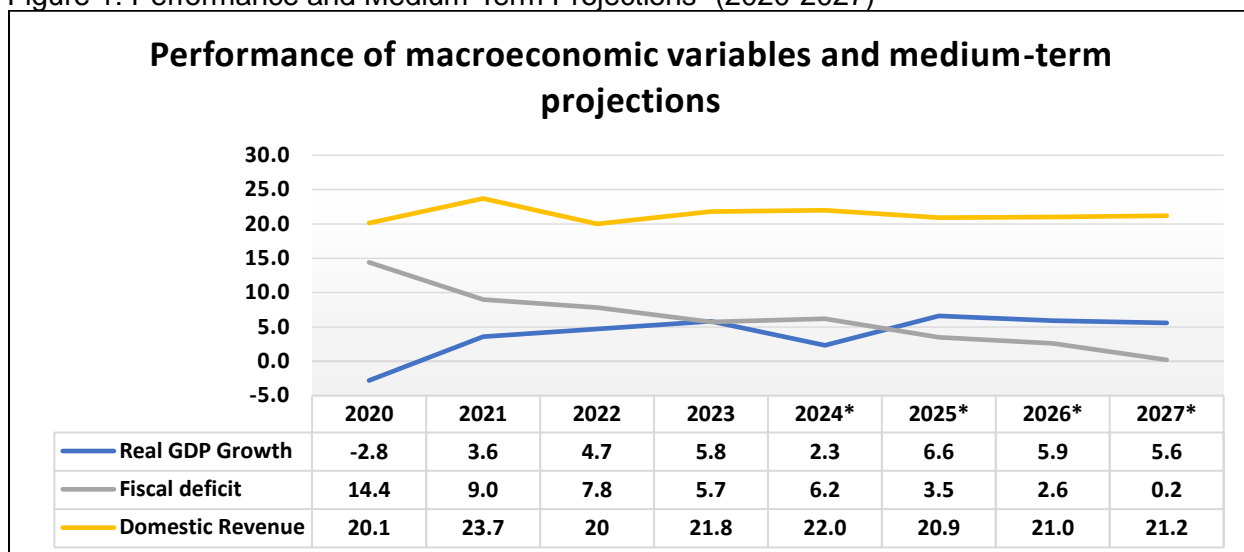
GDP GROWTH RATE

- 2.0. The macroeconomic economic outlook for Zambia deteriorated in the first half of 2024, occasioned by a myriad of factors including the effects of the El Nino induced drought. As a result, the Gross Domestic Growth (GDP) has been revised downwards to 2.3 percent of GDP from the initial projection of 4.8 percent.
- 3.0. The performance in the first half of 2024 notwithstanding, the MTBP (2025-2027) projects a positive economic outlook with an average growth rate of 6.0 percent in the medium-term.
- 4.0. The drought and energy crises have contributed to the reduced agricultural output and economic activities, respectively. The projected growth rate of 6.6 percent for Zambia in 2025 exceeds the Sub-Saharan average growth forecast of 4.0 percent¹. Growth in the medium term is premised, among other things, on the recovery of the agriculture sector and increased mining output. The anticipated La Niña, typically associated with above average rainfall in most parts of the region, fosters an opportunity for recovery from the El Nino induced drought with potential increase in agricultural output².
- 5.0. On the downside, flood prone areas may be vulnerable to this climate change risk as well increased risk of flooding in some mines, potentially hindering the recovery of the primary sector (agricultural and mining) and impacting forward linkages. Therefore, sustaining sectors currently driving growth (Information, Communication Technology and Education sectors) is crucial for maintaining a positive economic outlook while pursuing recovery in mining and agriculture. Most importantly, growth that impacts poverty is what should be desirable. Thus, recovery of the agriculture sector is crucial considering that 78.8 percent of the poor are rural-based and rely on agriculture as their main stay.

¹ IMF Regional Economic Outlook: Sub-Saharan Africa, April 2024

² SADC Regional Humanitarian Appeal: Response to the El Niño Induced Drought and Floods, May 2024.

Figure 1: Performance and Medium-Term Projections ³(2020-2027)



Source: PBO computation using data from Economic Reports and ZAMSTATS

PBO COMMENT

Notably, while economic growth rate is expected to rise to 6.6 percent in 2025, it is expected to steadily decline to 5.9 and 5.6 percent of GDP in 2026 and 2027, respectively. The underlying factors driving growth downwards have not been highlighted in the MTBP. In addition, the 2026 economic growth rate target is above the 4.6 percent projected in the Eighth National Development Plan (8NDP).

INFLATION RATE

- 6.0. Average annual inflation rate has diverged away from the 6-8 percent target band reaching 15.2⁴ percent at the end of June 2024 while, the projected fiscal deficit for 2024 has widened further to 6.2 percent from the projected 4.8 percent of GDP at the beginning of year after increased financing requirements presented in the Supplementary Estimates of Expenditure No. 1 of 2024 and the revised GDP figure.
- 7.0. In the medium term, inflation is expected to stay within the 6-8 percent range, consistent with the 8NDP target. Despite various monetary tightening measures implemented in the first half of June 2024, annual average inflation has been on the rise reaching 15.2 percent at the end of June 2024. This increase has mainly been attributed to increased food prices, elevated fuel prices and exchange rate effects. The drought affecting the significant part of the Southern Africa Development Community (SADC) necessitates importing food commodities from outside the Region, raising food costs. Additionally, non-food inflation is anticipated to heighten part of 2025, particularly with expected increases in petroleum demand to mitigate power outages.

³ 2024-2027 are projections

⁴ Year-on-Year annual inflation

EXCHANGE RATE

- 8.0. Increased import demand is expected to weaken the Kwacha, raising expenditure on exchange rate-sensitive budget lines like external debt service, infrastructure projects, imported goods and services, and allowances to missions abroad. However, an increase in mining output, projected copper price of around US \$10,000 per metric tonne (MT) and anticipated favourable rainfall in the medium term is likely to boost foreign currency supply, supporting the Kwacha's appreciation and stability.

FISCAL BALANCE

- 9.0. The fiscal deficit is expected to trend downwards in the medium-term declining from 6.2 percent in 2024 to 0.2 percent of GDP in 2027⁵ driven by fiscal consolidation measures and limiting external borrowing to concessional financing. As shown in Table 1, between 2020 and 2023, the fiscal deficit narrowed from 14.4 to 5.7 percent influenced by exceptional performance in revenue collection in 2022 and the debt suspension initiative.

REVENUE

- 10.0. In the medium term, the Government's domestic revenue is anticipated to rise from 20.9 percent in 2025 to at least 21.2 percent by 2027.

PBO COMMENT

However, while revenue is expected to increase, growth is projected to decline during this period. Therefore, meeting the set revenue targets in the medium term will depend on strengthening of tax administration, effectiveness of revenue strategies and interventions to enhance compliance.

MONETARY POLICY

- 11.0. In the medium term, the Monetary Policy Rate (MPR) is expected to be an essential instrument for implementing the monetary policy stance, aimed at maintaining price stability. Notwithstanding the desired outcome of the policy adjustment, the tight policy could contribute to the decline in the overall economic activity occasioned by reduced public borrowing and spending.

INTEREST RATE

- 12.0. The movement in the interest rates to 26.6 percent in the first quarter of 2024 from an average of 25.5 percent in the fourth quarter of 2023 was influenced by tight liquidity in the market.

BUDGET CREDIBILITY

- 13.0. A comparison of National Budget targets to outturns for the years 2020 to 2024 provides insights into the budget credibility for various economic indicators as shown in Table 1.

⁵ MTBP Fiscal Table

Table 1: Credibility of Budget Targets

	2020		2021		2022		2023		2024	
	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn	Target	Proj Outturn
Real GDP Growth	3	-2.8	1.8	3.6	3.5	4.7	4	5.8	4.8	2.3*
Fiscal Deficit	5.5	14.4	9.3	9.0	6.7	7.8	7.7	5.7	4.8	6.2*
Domestic Revenue	22	20.1	18	23.7	21.0	20.0	20.9	21.8	22.0	21.6*
Inflation	6 to 8	19.2	6 to 8	16.4	6 to 8	9.9	6 to 8	13.1	6 to 8	15.2*

Source: PBO construction using MoFNP data

- * Projected Outturns are obtained from the Fiscal Table while the 2024 inflation is at end-June 2024
- GDP growth targets were exceeded in the period 2021 to 2023, indicating effective performance in these areas while domestic revenue exceeded the target in 2021 and 2023.
 - Inflation targets were consistently missed, reflecting challenges in managing price stability. Fiscal deficit targets showed improvement but were significantly missed during the pandemic year save for 2023.
- 14.0. While there are areas of alignment, particularly in Real GDP growth, and inflation between the MTBP and the International Monetary Fund (IMF), there are also discrepancies in fiscal deficit and domestic revenue projections, suggesting some differences in underlying economic assumptions.

Table 2: Consistency of Budget Targets

Macroeconomic Variables	MTBP			IMF			8NDP	
	2025	2026	2027	2025	2026	2027	2025	2026
Real GDP Growth	6.6	5.9	5.6	6.6	5.9	5.6	4.2	4.5
Fiscal Deficit	3.5	2.6	0.2	2.8	3.4	2.6	4.6	3.6
Domestic Revenue	20.9	21.0	21.2	21.8	21.8	21.9	22.9	23.0
Inflation	6 to 8	6 to 8	6 to 8	7.0	7.0	7.0	6to8	6 to 8

Source: PBO construction using data from the MTBP, IMF⁶ and 8NDP

- Real GDP Growth: MTBP and IMF projections are consistent, but 8NDP is notably lower for 2026.
- Fiscal Deficit: There is some variation in projections, with MTBP showing more optimistic (lower) deficit figures compared to the IMF and 8NDP.
- Domestic Revenue: MTBP projections are generally lower than IMF projections, with 8NDP aligning closely with MTBP for 2026.
- Inflation: Inflation target is consistent for the three sources.

⁶Report of the IMF on the Third Review of the Extended Credit Facility programme

C. EXTERNAL SECTOR

- 15.0. Over the four-year period (2020-2023), the overall Balance of Payments (BoP) has been in deficit except for 2021 when the current account surplus translated into an overall BoP surplus. This surplus was largely due to the US\$1.3 billion (SDR 937.6 million equivalent) general allocation by the IMF.
- 16.0. In 2023, the overall BoP deficit deteriorated further to US\$2.4 billion (8.4 percent of GDP) from US\$1.6 billion (5.5 percent of GDP) in 2022 as the current account balance turned negative. The current account recorded a deficit of US\$0.3 billion in 2023 against a surplus of US\$1.1 billion in 2022 as net exports (balance on goods) reduced significantly amid a sustained deficit in the primary income account⁷. The balance on goods reduced by US\$2.0 billion to US\$1.4 billion as imports increased by 12.4 percent while exports fell by 8.4 percent. Imports were driven by a surge in consumer goods, mostly petroleum products.
- 17.0. The overall BoP statistics underscore Zambia's dependence on external inflows to finance imports and other financial obligations, highlighting the need for initiatives that bolster domestic production and enhance export competitiveness. However, the MTBP has not explicitly addressed projections for 2025-2027, unlike the IMF's Medium-Term Macroeconomic Framework, which forecasts a declining trade balance from 15.9 percent of GDP in 2025 to 14.4 percent and 14.0 percent in 2026 and 2027, respectively⁸.

COPPER PRODUCTION

- 18.0. Over the medium term, the MTBP projects the mining sector to grow at an average of 11.7 percent⁹. This growth is attributed to the resolution of challenges that some major mines namely Konkola Copper Mines (KCM) and Mopani Copper Mines have been experiencing leading to a reduction in production. To this effect, the MTBP projects copper outputs to be 822,661.3 MT in 2025, 905,249.9 MT in 2026 and 1,012,699.3 MT in 2027.

COPPER PRICES

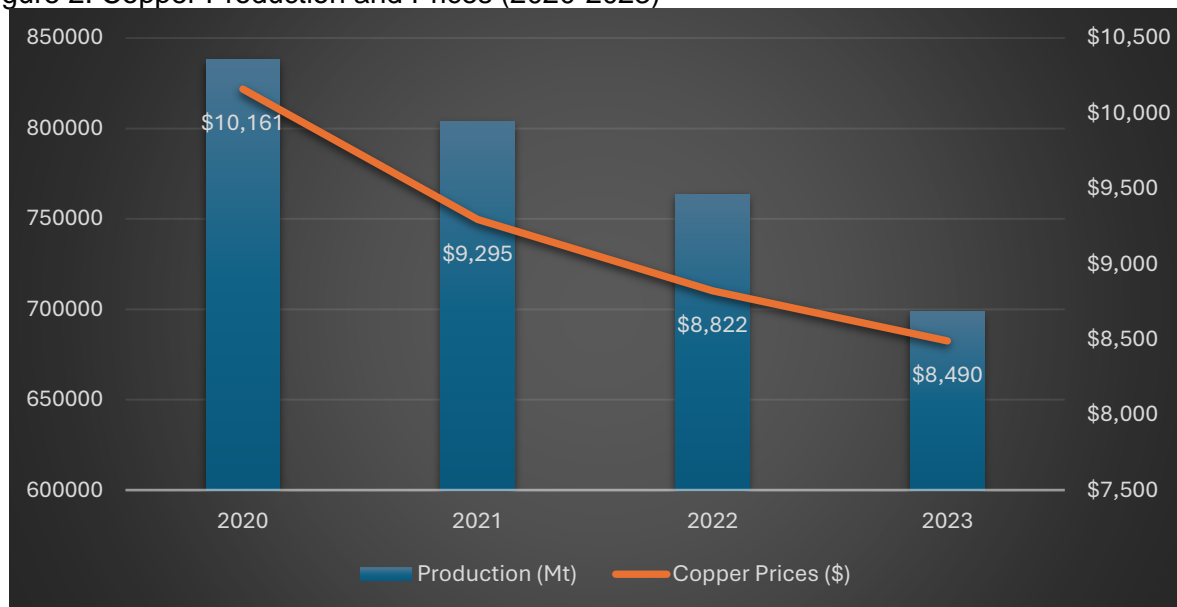
- 19.0. While the projections are tenable, there are other identified factors that may negatively impact output such as, operational impediments, low ore grades, flooding due to above average rainfall in relevant mining areas and Copper prices on the international market. For instance, although prices have been forecasted to remain elevated over the medium term, this is not within the control of the Country. Figure 2 below shows that in periods of low copper prices, the output remains low, and this may pose a risk to not only growth and revenues but also put pressure on the exchange rate and inflation, as copper is the country's major foreign exchange earner.

⁷ BoZ, 2023 Annual Report

⁸ IMF Country Report, June 2024

⁹ Green Paper, 2025-2027

Figure 2: Copper Production and Prices (2020-2023)



Source: MoFNP, 2023 Annual Report

PBO COMMENT

Given the copper output of 698,566 MT in 2023, to achieve the projected figures in the Medium-Term Budget Plan MTBP, production will need to grow at an annual rate of approximately 11.4 percent. Consequently, to achieve the 8NDP target of 1.5 MT by 2026 and the Vision 2030 target of 3 million MT by 2032, policy consistency and concerted efforts from all stakeholders will be required.

INTERNATIONAL RESERVES

20.0. Over a four-year period (2020-2023), Gross International Reserves (GIR), shows a positive trajectory with reserves rising from US\$1.5 Billion in 2020 (equivalent to 2.4 months of import cover) to US\$3.3 Billion (equivalent to 3.7 months of import cover) at end-December. This was mostly attributed to mining tax payments (US\$865.9 million), disbursements by the IMF under the Extended Credit Facility (US\$376.7 million) and World Bank (US\$127.8 million), net statutory reserve deposits (US\$208.4 million), project inflows (US\$199.3 million) and monetary gold reserves (US\$43.5 million). The increase in reserves was partially offset by the BoZ net sales (US\$1.0 billion) to meet critical imports and moderate volatility, external debt servicing (US\$208.7 million) mainly to multilateral institutions, and other Government payments (US\$506.2 million)¹⁰

PBO COMMENT

The GIRs demonstrate steady progress, surpassing both the IMF targets and the 8NDP target and looks to continue the same path in the medium term (2025-2027). This underscores the Government's commitment to financial stability. Currently standing at 3.7 months of import cover (projected by the IMF to increase to 5.7 by 2027), international reserves still fall significantly short of the Vision 2030 target of maintaining at least 12 months of import cover. Therefore,

¹⁰ BoZ, 2023 Annual Report

there is need to intensify efforts aimed at strengthening the accumulation of international reserves.

D. REVENUE MOBILISATION

- 21.0. Over the medium term, total revenue, including grants, is expected to average K199.4 billion compared to an average of K107.2 billion during the period 2021-2023. The growth in revenue is envisaged to result from several measures, including:
- indexing specific excise duties on selected goods to preserve their respective yield values;
 - continuing implementation of the Smart Invoicing System aimed at enhancing monitoring and verification of tax invoices issued by businesses;
 - expediting the mass valuation of properties to ensure property values remain current, facilitating billing and collection of rates; and
 - finalisation of the assessment of options to implement the Two-Pillar Solution to address the tax challenges arising from the digitalisation of the economy, to prevent erosion of the tax base.

PBO COMMENT

Indexing excise duty involves adjusting tax rates on goods subject to excise duty based on an index, typically inflation or the consumer price index (CPI). This adjustment ensures that the real value of the excise duty remains constant over time, countering the effects of inflation. The MTBP does not specify the goods that will be subject to excise indexing. However, given the volatility of the inflation rate, critical commodities such as fuel and electricity are likely to contribute to increased inflation if indexed.

The planned enhancement of own source revenue at the local level in the medium term in line with the decentralisation agenda is a positive development. Political will, will be paramount for some of the measures to bear fruit. There are issues of illegal development of some properties which may pose some challenges with mass valuations of properties.

CONSISTENCY OF REVENUE TARGETS

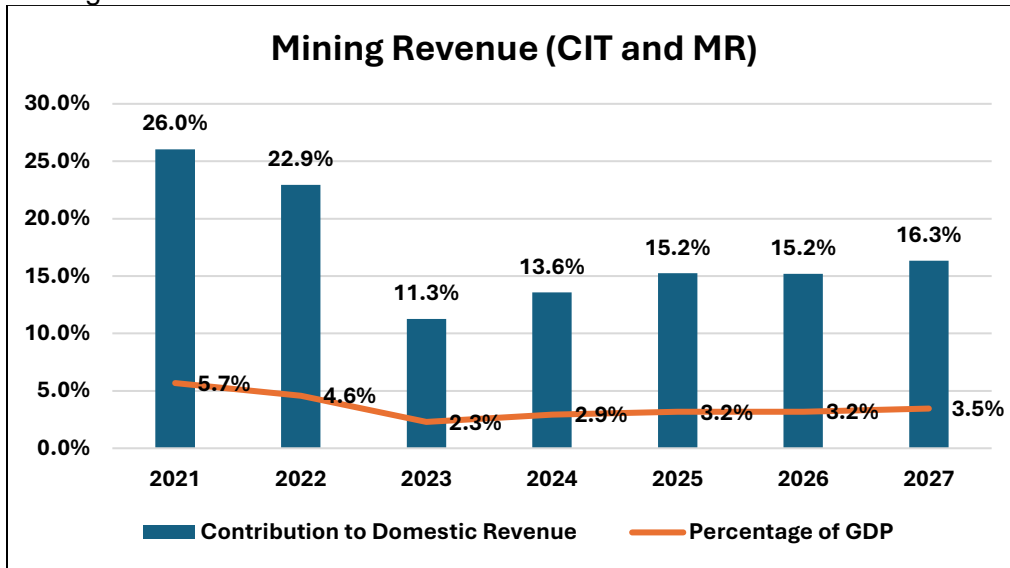
- 22.0. In 2025, domestic revenue collections are expected to decline to 20.9 percent of GDP from a projected 21.6 percent in 2024 before rebounding to 21.2 percent of GDP in 2027. However, projections for 2025 and 2026 are significantly below the 8NDP targets of 22.9 and 23 percent, respectively, potentially undermining revenue-driven fiscal consolidation and attainment of development outcomes of the 8NDP.

MINING REVENUE

- 23.0. Over the medium term, the contribution to domestic revenue from the mining sector – Corporate Income Tax (CIT) and Mineral Royalty (MR) – is expected to increase to 16.3 percent by 2027, up from 11.3 percent in 2023. This increase is attributed to a recovery resulting from the resolution of challenges that some major mines have been experiencing, which had led to a reduction in production. Additionally, the commencement of greenfield projects and continued development of brownfield projects are anticipated to contribute to increased production. Despite this growth, the

contribution to domestic revenue is still expected to remain below the 26 percent recorded in 2021.

Figure 3: Mining Revenue



Source: Annual Economic Reports, 2025-2027 MTBP

PBO COMMENT

The greenfield projects expected to come online during the forecast period and their anticipated production output have not been outlined. Given that on average, it typically takes around 7 to 10 years from exploration to commencement of production for greenfield mines, this poses a risk to the timely attainment of this target. The almost flat trend, that is, contribution of the CIT and MR to domestic revenues in the medium term, may intensify the discourse on the Country not deriving maximum benefits from the mining industry.

COMPLIANCE REVENUE

24.0. Expanding the tax base beyond the mining sector and enhancing tax policy remain paramount for revenue-based fiscal consolidation. This is necessary to create sustainable fiscal space for responding to shocks without drastically scaling back spending and investment, as has been the case in the 2023 and 2024 fiscal years. In view of this, it will be important to close the tax compliance gap. Table 4 below shows tax compliance in 2023.

Table 3: Tax Compliance in 2023

S/N	Compliance Area	Details	Compliance Rate	Revenue Gain/Loss
a	Filing Compliance	1,561,057 returns submitted out of 2,326,760 expected returns	67%	
b	Payment Compliance	K57.3 billion was paid against the expected amount of K67 billion from returns filed in the year	86%	K9.7 billion not collected
c	New Tax Registration	86,151 new registrations compared to 66,667 in 2022	29.2% increase	K1.6 billion collected from new accounts
d	Debt Collection	K9.7 billion collected compared to K15.9 billion in 2022	39% reduction	K9.7 billion collected
e	Other Compliance and Enforcement Initiatives	K512.6 million		K512.6 million collected
d + e	Total Compliance Revenue			K10.2 billion collected
f	Total Outstanding Debt Stock as at December 2023			K68.5 billion

Source: PBO Construction using 2023 ZRA Annual Report

PBO COMMENT

In 2023, total compliance revenue amounted to K10.2 billion (8.8 percent of domestic revenue), underscoring the importance of enhanced compliance and enforcement activities in boosting domestic resource mobilisation.

HARMONISATION OF CORPORATE INCOME TAX

25.0. In the 2022 Budget Speech, harmonisation of CIT across different sectors was one of the revenue measures earmarked for implementation in the medium term. As of 2023, the range of CIT rates across various sectors was between 10 and 35 percent.

PBO COMMENT

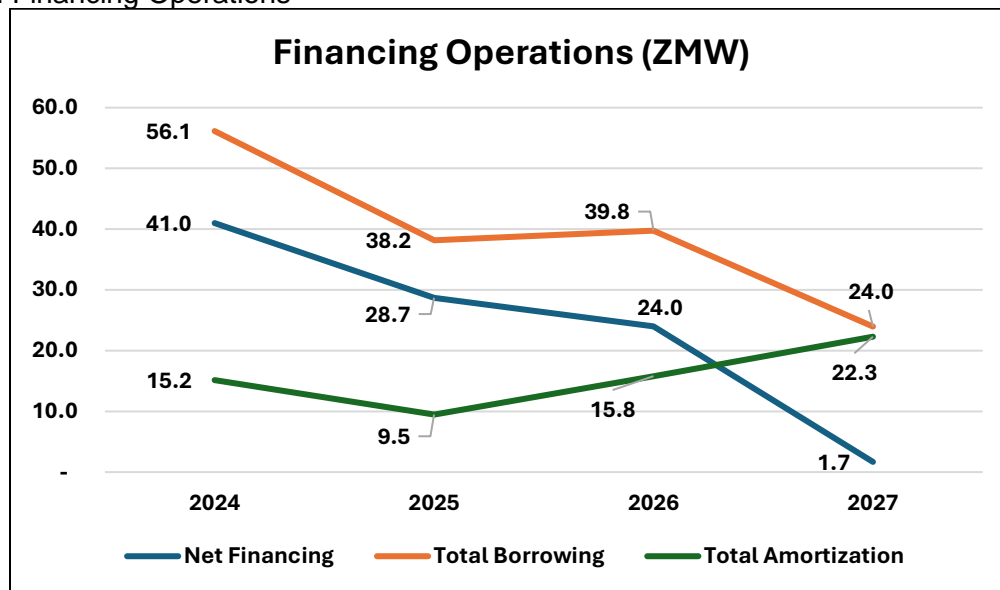
The MTBP does not highlight harmonisation of CIT as one of the domestic revenue mobilisation strategies. That notwithstanding, wide stakeholder consultation on the harmonised rate will be critical to ensure tax equity and a competitive private sector.

E. FINANCING

26.0. Over the medium term, total borrowing is projected to decrease by 57 percent from K56.1 billion in 2024 to K24 billion in 2027. Similarly, net financing towards budget implementation will decrease from K41 billion in 2024 to K1.7 billion in 2027, representing a reduction of 96 percent in line with the Government's debt sustainability efforts.

27.0. Despite a reduction in amortisation to K9.5 billion in 2025 from K15.2 billion in 2024, amortisation costs are projected to increase to K22.3 billion by 2027 due to the amortisation of external debt. Figure 4 illustrates the projected financing operations over the medium term.

Figure 4: Financing Operations



Source: 2025-2027 Medium Term Budget Plan

PBO COMMENT

- a) The reduction in projected borrowing coupled with the increase in external amortisation costs will result in a net reduction of the external debt stock.
- b) In July 2024, the National Assembly approved the contraction of K6 billion in domestic debt from commercial banks in the Amended 2024 Annual Borrowing Plan. While amortisation costs towards external debt have been provided for the entire medium-term period, amortisation costs towards domestic commercial debt have not been provided for beyond 2024. The inclusion of these amortisation costs would impact the net financing available to finance the budget in the period 2025-2027.

Despite the operationalisation of the Public Debt Management Act, 2022, the Regulations of the Act are yet to be issued. Several key provisions, such as the guidelines for the establishment of the Sinking Fund and the functions of the Debt Management Office, are contingent on the Regulations.

F. EXPENDITURE

30.0. Zambia's national budget expenditure from 2021 to 2023 showcases significant trends and shifts in Governmental resource allocation across various sectors. These allocations reflect the Country's strategic priorities and responses to evolving socio-economic needs. Table 5 presents budgetary allocations for different Government functions from 2021 to 2023.

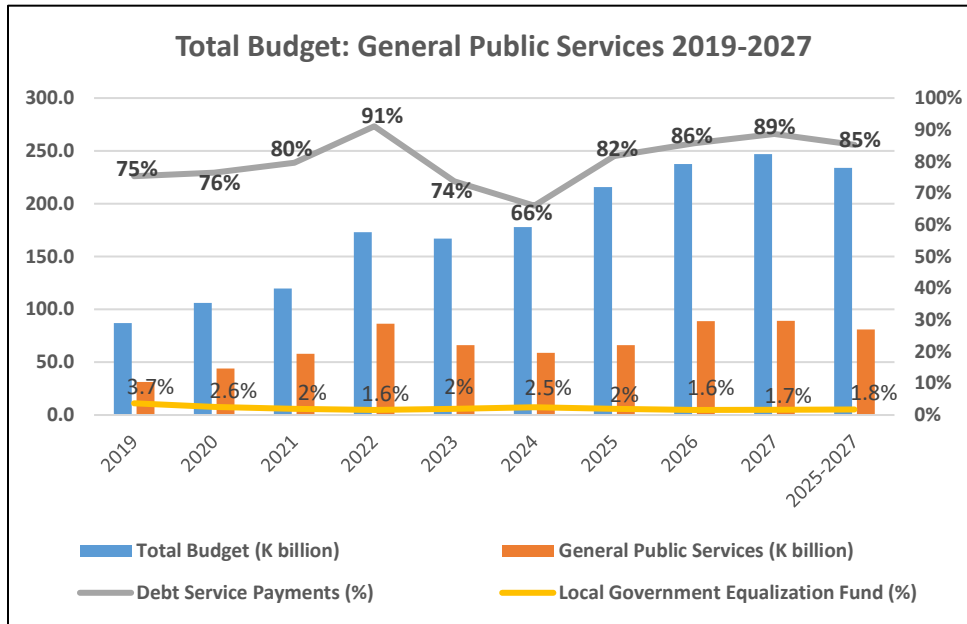
Table 4: Budget Allocations (K Billion) 2021-2023

Function	2021		2022		2023	
	Allocation	Share of Budget	Allocation	Share of Budget	Allocation	Share of Budget
General Public Services	57.82	48.3%	86.37	49.9%	66.17	39.5%
Defence	5.64	4.7%	7.63	4.4%	8.15	4.9%
Public Order and Safety	3.08	2.6%	3.49	2.0%	5.19	3.1%
Economic Affairs	21.49	18.0%	33.71	19.5%	35.01	20.9%
Environmental Protection	0.96	0.8%	0.97	0.6%	1.06	0.6%
Housing and Community Amenities	2.22	1.9%	2.38	1.4%	2.58	1.5%
Health	9.65	8.1%	13.91	8.0%	17.39	10.4%
Recreation, Culture and Religion	0.15	0.1%	0.16	0.1%	0.44	0.3%
Education	13.77	11.5%	18.07	10.4%	23.19	13.9%
Social Protection	4.82	4.0%	6.29	3.6%	8.13	4.9%

Source: 2021-2023 National Budgets

GENERAL PUBLIC SERVICES IN THE MEDIUM-TERM

- 31.0. The allocation towards General Public Services is meant to cater for programmes such as Debt Servicing Obligations as well as Dismantling of Arrears owed to suppliers of Goods and Services. Between 2019 and 2024, the budget for General Public Services has been impacted by allocations towards Domestic Debt and External Debt Servicing Costs, thereby impacting funding to other key developmental programmes. In 2022 for example, total public debt accounted for 91 percent of General Public Services. Between 2022 and 2024 however, budgetary allocations towards Debt Servicing reduced from 91 percent to 74 percent in 2023 and 66 percent in 2024. This was compounded by a reduction in External Debt Servicing while Domestic Debt Servicing increased due to Government's priority towards Dismantling of Domestic Arrears which have increased from 3.2 percent of General Public Services in 2022 to 10 percent and 11.6 percent in 2023 and 2024.
- 32.0. Between 2025 and 2027, Government has projected to spend 30.6 percent, 37.5 percent, and 36.1 percent on General Public Services, that is, K66 billion, K89 billion, and K89.1 billion, totalling K244 billion. Total Debt Service will account for 82 percent, 86 percent, and 89 percent during the Medium Term (K53 billion in 2025, K76 billion in 2026 and K79 billion in 2027, totalling K209 billion for the entire period. In 2027, General Public Services is projected at K89.1 billion, an increase of 51 percent from the K58.9 billion allocated in 2024. In addition, Local Government Equalisation Fund (LGEF) has been projected to account for 2 percent, 1.6 percent and 1.7 percent of General Public Services, and an average of 1.8 percent for the entire period, a slight reduction from the 2.5 percent allocated in 2024.



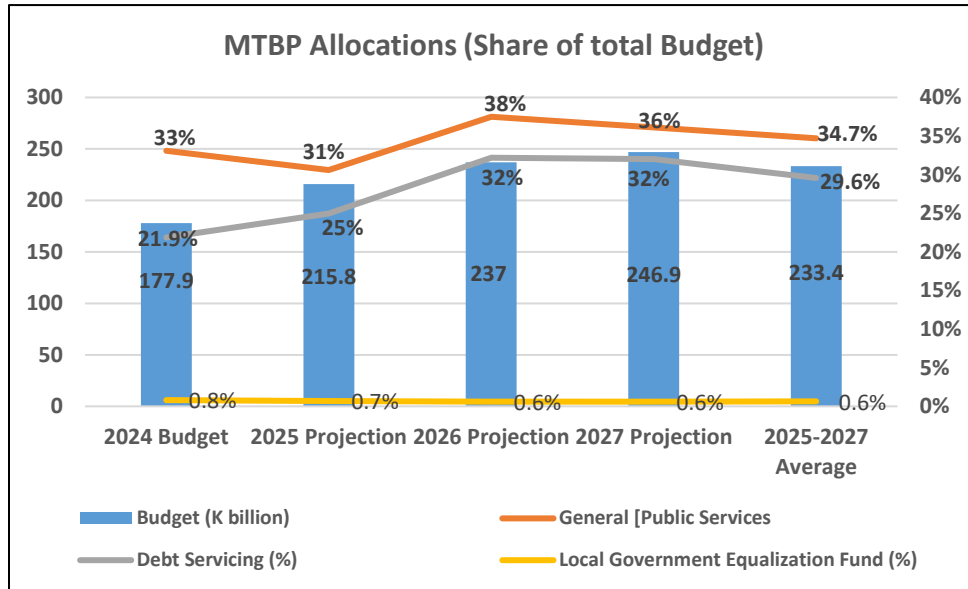
Analysis of General Public Services. Source: PBO Construction using data extracted from the 2025-2027 Medium Term Budget Plan and Budget Speeches (2019-2024)

DEBT SERVICING

33.0. Between 2025 and 2027, Government is projected to spend a total of K700 billion, that is, K215.8 billion, K237.5 billion, and K246.9 billion, of which 25 percent, 32 percent, and 32 percent will go towards Debt Servicing (K54 billion or 6.6 percent of GDP in 2025, K76.3 billion or 8.4 percent of GDP in 2026, and K79 billion or 7.8 percent of GDP in 2027), totalling K209.3 billion or 29.9 percent of the total budget for the entire period. The projected K79 billion to be spent on Debt Servicing in 2027 shows an increase by 103 percent from the K38.9 billion allocated in 2024.

LOCAL GOVERNMENT EQUALIZATION FUND

34.0. During the same period, projected budgetary allocations towards LGEF as a percentage of the total budget is projected to remain somewhat constant, from 0.8 percent in 2024, 0.67 percent in 2025, and 0.62 percent in 2027. Between 2024 and 2027, funding towards LGEF has only grown by 6 percent from K1.45 billion to K1.53 billion. This emphasizes the importance of Government's objective of Fiscal Decentralisation for local authorities to make their own revenues for development at local level instead of depending on transfers from the Central Government.



MTBP Allocation (Share of total Budget). Source: PBO Construction using data extracted from the 2025-2027 Medium Term Budget Plan and Budget Speeches (2015-2024)

ECONOMIC AFFAIRS

- 35.0. Allocations to Economic Affairs are projected to average around 22.1 percent of the budget, supporting food security, electricity infrastructure development in rural areas, and other strategic initiatives. The introduction of a comprehensive agriculture support program to replace the Farmer Input Support Programme (FISP) that was expected to be introduced in 2022 is anticipated by the end of 2024.
- 36.0. The consistent high allocation to economic affairs supports the Government's agenda of economic transformation and job creation. However, the delayed implementation of the Comprehensive Agriculture Support Programme indicates potential inefficiencies in resource utilisation within the agriculture sector.

ENVIRONMENTAL PROTECTION

- 37.0. This sector's share remains constant at 0.8 percent. The minimal increase in environmental protection funding is concerning given the growing challenges of climate change. Adequate funding is essential for sustainable development and long-term economic health.

HOUSING AND AMENITIES

- 38.0. The share for Housing and Community Amenities rises slightly from 1.5 percent in 2024 to 1.9 percent in 2025, then stabilises at 1.8 percent through 2027. The relatively low and decreasing share of the budget for housing and community amenities suggests that this area is not a high priority, which could impact efforts to improve living conditions and infrastructure development especially in the water supply and sanitation sector.

HEALTH

39.0. Health allocations start at 11.8 percent in 2024, increase to 12.0 percent in 2025, and stabilise at 11.5 percent for 2026 and 2027. These figures fall short of the 15 percent target set by the Abuja Declaration, potentially impacting universal healthcare coverage.

EDUCATION

40.0. Education's share begins at 15.4 percent in 2024 and slightly decreases to 14.5 percent by 2027, remaining below the 15-20 percent target of the Incheon Declaration.

SOCIAL PROTECTION

41.0. The Social Protection share fluctuates, starting at 5.4 percent in 2024, peaking at 7.6 percent in 2025 due to drought relief initiatives, and then decreasing to 4.4 percent and 4.6 percent in subsequent years. This highlights a reactive rather than proactive approach to planning for natural disasters such as La Niña which is anticipated in the medium term. Fluctuations in social protection funding highlight the need for a more stable and proactive approach to addressing vulnerabilities, particularly in view of potential climate-related challenges such as La Niña.

42.0. Overall, while budget allocations reflect commendable efforts to address key socio-economic priorities, there are areas where funding levels and strategic implementation could be improved to meet international commitments and ensure sustainable, inclusive development.

EXPENDITURE BY ECONOMIC CLASSIFICATION

Table 5: Expenditure by Economic Classification (2021-2027)

Classification	Budget Allocation (K'billion)						
	2021	2022	2023	2024	2025	2026	2027
Personal Emoluments	28.46	37.82	46.54	52.79	59.09	65.07	69.85
Use of Goods & Services	6.92	10.55	14.86	17.66	17.8	18.58	19.27

Source: Annual Economic Reports and 2025-2027 MTBP

PERSONAL EMOLUMENTS

43.0. Personal Emoluments continue to take a huge portion of the expenditure budget with allocations towards expenditure rising from 24 percent in 2021 to 30 percent in 2024. average of K64.67 billion or 27.71 percent will be allocated to personal emoluments in the period 2025-2027. Dedicating a large portion of the budget to personal emoluments reduces the fiscal space available for other critical areas such as infrastructure, healthcare, education, and social services.

44.0. To help mitigate the risks of having a large public wage bill, Government would in the medium-term contain the public sector wage bill to within 34.6 percent of domestic revenues. However, measures of how the wage bill will be contained have not been highlighted.

USE OF GOODS AND SERVICES

45.0. Budget allocation towards use of goods and services has been steadily increasing from K6.92 billion in 2021 to K19.27 billion projected for 2027. This upward trend indicates a growing expenditure in this category. Increased spending on goods and services can lead to better quality and availability of public services, and stimulate the local economy by increasing demand for products and services provided by local businesses, support economic growth and job creation in related industries. However, of concern is that allocations as a percentage share of the budget reduce from 9.93 percent in 2024 to an average projection of 7.96 percent between 2025 and 2027.

ASSETS

46.0. Over the Medium Term, Government has projected to spend a total of K82.8 billion on assets, of which K73.6 billion or 88.9 percent is for Non-Financial Assets while K9.2 billion or 11.1 percent is for Financial Assets. On average, K27.6 billion is projected to be spent on assets between 2025-2027. In the Medium Term, allocation towards assets has increased by 5.7 percent from K26.1 billion in 2024 to a projected average of K27.6 billion between 2025-2027.

NON-FINANCIAL ASSETS

47.0. Government projects to spend K73.6 billion on Non-Financial Assets over the Medium Term, i.e., K27.6 billion in 2025, K24.1 billion in 2026 and K21.9 billion in 2027. This will be used for investments in the Rural Electrification Programme, at K1.9 billion, rehabilitation and construction of roads at K23.6 billion, water projects such as development of water infrastructure and dams at K4.6 billion, etc.

Table 6: Non-Financial Assets

Details	2023 Proj (K billion)	2023 Outturn (K billion)	Variance (%)
Transactions in Non-Financial Assets	17,298,010,000	15,758,278,000	-8.9%
Rural Electrification Programme	743,579,000	447,106,000	-39.9%
Roads	3,871,345,000	5,478,727,000	41.5%
Fuel Depots	250,000,000	343,487,000	37.4%
Ordinary Capital	3,898,244,000	3,536,479,000	-9.3%
Water and Sanitation	1,026,212,000	338,415,000	-67%
Foreign financed	6,908,632,000	4,157,080,000	-39.8%
Food Reserve Agency	600,000,000	1,456,985,000	142.8%

Source: PBO construction using data extracted from the 2025-2027 Medium Term Budget Plan and the 2023 Annual Economic Report.

48.0. In 2023, Government projected to spend K17.3 billion on Non-Financial Assets, but however had a variance of (8.9 percent), attributed to underperformance on the Rural Electrification Programme at (39.9 percent), Water and Sanitation at (67 percent), and foreign financing at (39.8 percent). In 2023, the Annual Progress Report on the 8NDP recorded negative performance in Water and Sanitation due to failure to meet set targets, thereby posing a threat on water borne diseases like cholera or mitigation against climate change.

FINANCIAL ASSETS

49.0. Government has projected to spend K9.2 billion on Financial Assets over the Medium Term, i.e., K2.9 billion in 2025, K3 billion in 2026 and K3.2 billion in 2027. The funds will be allocated towards empowerment funds for Small and Medium Enterprises, Recapitalisation of State-Owned Enterprises (SOEs) and Credit Guarantees to offer affordable financing for Agricultural Equipment to build resilience against climate shocks. Over the years, SOEs have demonstrated weak governance and inefficiencies due to mismanagement, which has affected their financial sustainability and independence. This has been due to failure to conduct feasibility assessments before recapitalisation or injection of public funds.

PBO COMMENT

SOEs earmarked for recapitalisation have not been identified in the MTBP.

LIABILITIES

50.0. During the period under review, a total of K23 billion is projected to be allocated in the Medium Term towards liabilities, i.e., K7 billion in 2025, K7.9 billion in 2026 and K8 billion in 2027. This will be used for Dismantling of Domestic Arrears in line with Government's Dismantling of Domestic Arrears Strategy. In 2023, expenditure on liabilities had a positive variance of 77.6 percent, attributed to an increase in allocations towards contractors for various works, fuel arrears, and other liabilities (TAZAMA Pipeline).

Table 7: Transactions in Liabilities

Details	2023 Projection	2023 Outturn	Variance (%)
Liabilities	6,823,755,000	12,117,522,000	77.6%
o/w Fuel arrears	980,000,000	968,788,000	-1%
Fuel Depots	0	302,412,000	0%
Contractors for various works	1,103,480,000	2,573,422,000	133%
Other liabilities	4,740,275,000	8,138,176,000	71.7%
o/w TAZAMA Pipeline		2,713,167,000	0%

Source: PBO construction using data from the 2023 Annual Economic Report

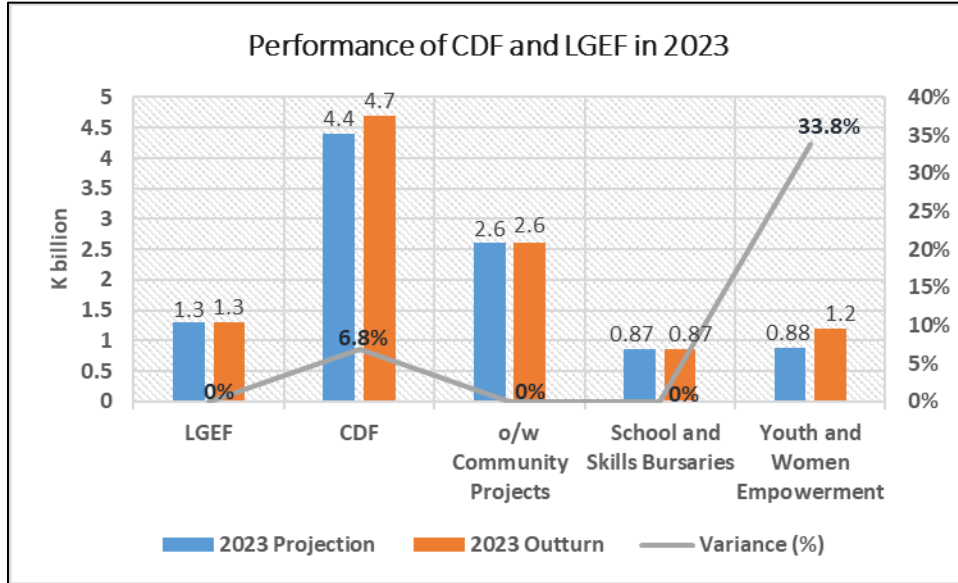
FISCAL DECENTRALISATION

51.0. Over the years, local authorities have continued to largely depend on transfers from Central Government through the LGEF for operations and some capital projects, and the CDF for financing initiatives such as community projects, skills development, and grants. Despite the existence of measures aimed at fostering decentralisation, councils countrywide do not have sufficient financial resources to facilitate the effective performance of their functions, a situation which results into dismal service delivery and underdeveloped localities.

52.0. The source of revenue for local authorities that may be described as buoyant is the LGEF, which is however not sustainable. As such, any delayed disbursement negatively affects their ability to meet financial obligations as well as implement projects. In 2023, disbursements towards the CDF were beyond target by 6.8 percent, attributed to

increased disbursement towards Youth and Women Empowerment Funds which were beyond target by 33.8 percent. The rest of the programmes under the CDF such as Community Projects and School and Skills Bursaries were both on target.

Figure 5: Performance of CDF and LGEF in 2023



Source: PBO construction using data from the 2023 Annual Economic Report

PBO COMMENT

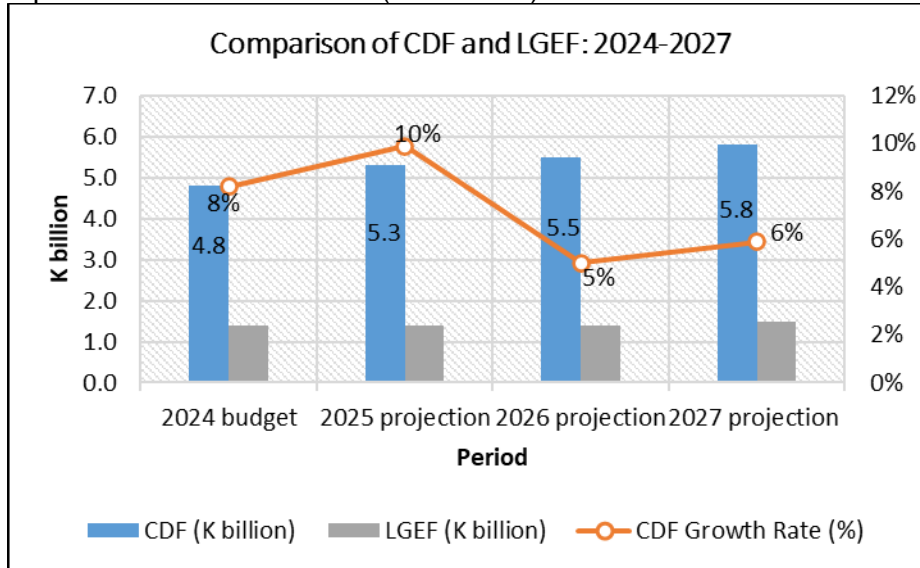
From the above analysis, it can be argued that Government’s aspiration of fiscal decentralisation was demonstrated in the commitment towards disbursement to CDF, which was fully funded beyond the target by 6.8 percent in 2023 and full disbursements to LGEF. However, there is need to ensure enhanced capacity building of community members and Local Authorities in Public Resource Management, to meet Government’s aspirations of Fiscal Decentralisation, which should be sustainable for Local Authorities to enhance Own-Source Revenue collection instead of over-dependence on the LGEF and CDF.

53.0. In the 2025-2027 medium term, Government intends to implement expenditure policies aimed at enhancing economic growth, reflected through key fiscal objectives such as economic diversification, protection of livelihoods through increased social spending as well as development of communities through fiscal decentralisation. This will be done through the CDF which is aimed at developing local communities through actualisation of Community Projects as well as through Women and Youth Empowerment Funds.

54.0. In the Medium Term between 2025 and 2027, the CDF budget has been projected to total K16.6 billion, i.e., K5.3 billion, K5.5 billion, and K5.8 billion in each year. Between 2024 and 2027, CDF has been projected to increase by 22 percent, from K4.8 billion to K5.8 billion in the Medium Term, attributed to projected increase in funding towards Community Projects, Skills Bursaries, and Youth and Women Empowerment. The CDF is projected to increase by 10 percent between 2024 and 2025 from K4.8 billion to K5.3 billion, while 2025 and 2026 will experience the lowest growth at 5 percent, respectively. In the same period, the LGEF is projected to increase by only 6 percent, from K1.4 billion to K1.5 billion, demonstrating the need for Local Authorities to enhance their local

revenue mobilization strategies instead of depending on Government transfers through LGEF.

Figure 6: Comparison of CDF and LGEF (2024-2027)



Source: PBO Construction using data from 2025-2027 MTBP

G. RISKS

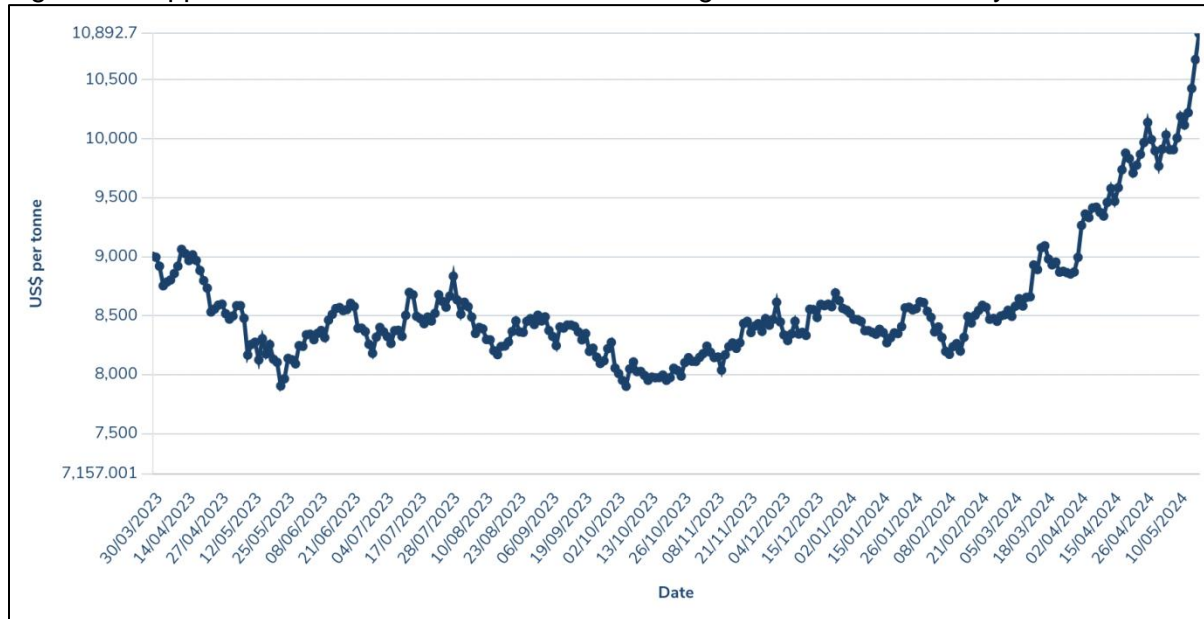
55.0. The risks that may threaten attainment the economic and fiscal objectives are stated in the draft MTBP as highlighted below.

- i. Climate Change which may negatively affect the rain cycle for an extended period, and this may impact the economy which is 24 heavily dependent on hydropower generation and rain-fed agriculture. Conversely, a La Nina rainy season, which usually follows an El Nino, is characterised by high precipitation levels may also cause flooding and other high-water related adverse effects in 2025;
- ii. Exchange rate pressures may further heighten inflationary pressures as well as disrupt consumption patterns and planned investments;
- iii. Low copper prices may pose a risk to growth and revenues as copper is the country's major foreign exchange earner;
- iv. Delayed implementation of pledged investments may negatively affect planned investment projects in the mining, agriculture and energy industries, among others, and weigh down growth prospects;
- v. Slowdown in global economic growth mainly due to a contraction of China's economy poses a risk to growth as this dampens demand and may negatively affect foreign exchange earnings as China is a main market for the country's copper exports;
- vi. Debt vulnerabilities may lead to tighter global financial conditions and elevated borrowing costs which may negatively affect investment and expenditure prospects;
- vii. Delayed implementation of policy reforms would likely heighten fiscal risk; and
- viii. Geopolitical conflicts pose risks to global supply chains and heighten the risk of inflationary pressures that may negatively impact domestic growth prospects.

PBO COMMENT

LOW COPPER PRICE AS A RISK - Going by the trend of the price of copper in the last fifteen months, this risk appears to be remote. The risk now is further delays in actualising investment pledges to increase copper output.

Figure 7: Copper Prices on the London Metal Exchange - March 2023 to May 2024



Source: *London Metal Exchange*

PUBLIC ACTIVISM

56.0. Recently, there have been incidences of sections of the public resisting government policy measures in some countries namely Kenya and Bangladesh. In the case of Kenya, the Government was forced to backtrack on proposed tax measures. This may be a risk as one of the Trade Unions Grouping in Zambia recently threatened to organise mass protests over the amendment of the Employment Code.

H. CONCLUSION

57.0. This analytical brief has been prepared for the Planning and Budgeting Committee as part of the support that the PBO provides to parliamentary committees. It is meant to provide background information to the Committee as it meets various stakeholders invited to comment on the 2023 Budget proposals.