Republic of Zambia

2024-2026

MEDIUM TERM BUDGET PLAN

(WHITE PAPER)

Ministry of Finance and National Planning

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2024-2026

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FOREWORD

On behalf of the Government of the Republic of Zambia and in line with Section 44 of the National Planning and Budgeting Act No.1 of 2020, I present to you the White Paper for the 2024 - 2026 Medium Term Budget Plan (MTBP). This paper outlines the economic and fiscal policy framework in the approved 2024 National Budget and the outlook for the 2025 and 2026 fiscal period. The White Paper will also be the basis for the formulation of the 2025-2027 MTBP.

The 2024-2026 MTBP White Paper is anchored on the thematic areas of the Eighth National Development Plan (8NDP) and the strategic focus areas identified through the Presidential Delivery Unit (PDU) to accelerate the delivery of development for the country. Therefore, the White Paper will be cardinal in actualising the plans contained in the 8NDP. In addition, the MTBP White Paper will ensure that Government actualises its policy objectives of promoting economic growth through enhanced private sector investment, improved public service delivery, as well as increased production and productivity. This will be done by focusing on improving the domestic economy in order to create a conducive business environment for increased investment in agriculture and livestock, mining, tourism, and energy sectors, among others. This will include policies aimed at improving macroeconomic stability.

This White Paper also indicates the proposed resource envelope which will support Government programmes aimed at improving service delivery to the citizenry, over the medium term.

Felix Nkulukusa
Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

CHAPTER ONE

1.0 INTRODUCTION

1. The economic outlook for the 2024-2026 medium term is projected to remain positive. This will be anchored on Government's implementation of sound macroeconomic and fiscal policies, as well as the debt restructuring agreement reached with the official creditors under the G20 Common Framework and the anticipated positive outcome from negotiations with the country's commercial creditors.

2. Over the medium term, Government's economic policy objectives will focus on promoting economic growth by improving macroeconomic stability, attaining debt and fiscal sustainability to facilitate for a conducive environment for enhanced private sector participation, job creation and improved livelihoods. This will be anchored on the four pillars outlined in the Eighth National Development Plan 2022 – 2026. These are:

    i. Economic Transformation and Job Creation;
    ii. Human and Social Development
    iii. Environmental Sustainability; and
    iv. Good Governance Environment.

3. Over the medium term, the economy is expected to grow at an average of 4.6 percent. In 2024, the economic growth rate is projected at 4.8 percent, 4.3 percent in 2025 and 4.7 percent in 2026. The positive growth prospects will be informed by an improvement in the macroeconomic environment as a result of effective implementation of Government's developmental programmes. In addition, investments in key sectors such as agriculture, mining, tourism and manufacturing, among others, will boost production and productivity.

4. The highlighted interventions will be augmented by legal, structural and policy reforms that the Government will undertake to support growth and development. The reforms relate to fiscal policy, domestic resource mobilisation, debt management, decentralisation, public private partnerships and public investment management, among others.

5. However, the overall outlook for the economy is threatened by tightening of monetary policy across the globe to curb inflation, debt burdens, and geo-political tensions which have affected commodity prices. Further, risks could arise from impacts of climate change related events and resurgence pandemics. This paper, will, therefore, outline the policies, reforms and measures which will curb the domestic and externally induced challenges that might derail Government's development agenda.

CHAPTER TWO

2.0 MACROECONOMIC REVIEW, 2021-2023

2.1 Developments in the Global Economy, 2021-2023

6. The global economy over the past three (3) years has undergone turbulences which have caused a slowdown in economic activity. Global growth was recorded at 6.0 percent in 2021, 3.5 percent in 2022 and is projected at 3.1 percent in 2023. Several factors are holding back growth and include the long-term consequences of the COVID-19 pandemic, global political tensions, monetary policy tightening, withdrawal of fiscal support, high debt levels and the effects of climate change.

7. In line with slower growth and supply chain constraints, copper prices declined during the review period to an average of US$ 8,527.0 per metric tonne in 2023 from US$9,295.0 per metric tonne in 2021. Crude oil prices on average increased to US$80.9 per barrel in 2023 from US$67.8 per barrel in 2021.

2.2 Developments in the Domestic Economy, 2021-2023

Economic Growth

8. Over the period 2021 to 2023, growth has been positive. Real GDP growth in 2021 was recorded at 6.2 percent driven mainly by the information and communication technology and the construction sectors. Growth in 2022 was more broad based though lower at 5.2 percent with key drivers being wholesale and retail trade, information and communication technology, transport and storage, education, accommodation and food services and manufacturing sectors.

9. Real GDP growth was projected at 4.3 percent in 2023. Growth in the first, second, and third quarters of 2023 was recorded at 4.4 percent, 5.7 percent and 5.1 percent, respectively. Sectors projected to drive growth in 2023 were information and communication technology, education, tourism and transport.

10. Notwithstanding the growth over the period, the contribution from the agricultural sector has been negligible, while the mining sector contracted. This has largely been due to adverse weather events and operational challenges at some mining companies. This had, therefore, negatively impacted targeted employment prospects.

Debt Position

11. During the period 2021-2023, the stock of both public domestic debt and external debt increased. As at end-December 2023, the domestic debt stock increased to K232.6 billion from K210.0 billion and K193.0 billion at end 2022 and 2021, respectively. This outcome entailed an increase of 20.5 percent from 2021 to 2023. The increase during the period was mainly attributed to increased domestic financing and budget support.

12. The Central Government external debt stock for 2021, 2022 and 2023 was US$13.0 billion, US$13.9 billion and US$14.57 billion respectively, signifying an increase of 12.1 percent from 2021 to 2023. The increase was on account of continued disbursements on existing project loans largely from multilateral institutions and a few bilateral creditors to finance on-going priority infrastructure projects.

Domestic Arrears

13. The stock of audited and verified domestic arrears amounted to K79.9 billion in 2021, K79.4 billion in 2022 and K91.2 billion as at end-September 2023. The bulk of arrears were on fuel, electricity, personal emoluments, VAT refunds, road projects, other capital expenditure, compensation and awards as well as on other goods and services.

14. To expedite the clearance of arrears and reduce the continued accumulation of penalties, Government will implement the 2022-2026 Domestic Arrears Dismantling Strategy to ensure a continued cost-effective liability management, while adhering to a rule-based and transparent clearance process. Government also rolled out IFMIS with a newly established commitment control module which links procurement commitments to the approved budgets to all public spending units. This module is expected to curtail the unnecessary accumulation of arrears.

Monetary and Financial Sector Performance

15. Monetary policy continued to focus on containing inflationary pressures and anchoring inflation expectations with a view to steering inflation back into the 6-8 percent target band. Inflation has trended upward in 2023, rising to 13.1 percent in December 2023 from 9.9 percent in December 2022 while having reduced from 22.1 percent in December 2021. The key drivers of inflation included the pass-through effect from the depreciation of the Kwacha against the US dollar and other tradeable currencies, higher prices of maize grain and other cereals owing to constrained supply amid strong regional demand for maize grain, upward adjustment in electricity tariffs, and higher transportation costs following increases in retail fuel prices.

16. In response to rising inflation, the Bank of Zambia tightened monetary policy by raising the Policy Rate to 11.0 percent in November 2023 from 9.0 percent in November 2022. In addition, the statutory reserve ratio was increased by 800 basis points to 17.0 percent in November 2023.

17. The overall financial performance and condition in the banking sector remained satisfactory over the period 2021-2023. This was on account of consistent profitability, low levels of non-performing loans (NPLs), adequate liquidity, and sufficient capital levels available to absorb unexpected losses.

18. At end-October 2023, banking sector capital adequacy ratios remained significantly above the regulatory minimum of 5.0 percent and 10.0 percent for primary and total regulatory capital, respectively, at 23.0 percent and 23.7 percent, respectively. The growth in capital was primarily attributed to increased retained earnings, as banks were able to generate sufficient income to augment capital.

19. The level of NPLs in the banking sector remained below the prudential benchmark of 10.0 percent and declined further to 4.3 percent at end-October 2023 from 6.7 percent at end-October 2021, indicative of satisfactory asset quality. The reduction in NPL ratio was partly attributed to improved loan portfolio, as the level of NPLs dropped by 6.6 percent due to recoveries and write-offs, coupled with a growth in the total gross loans of 43.1 percent, mainly due to increased loan disbursements. Despite the challenges of the COVID-19 pandemic, bank loan performance was able to rebound, even after the lifting of most of the prudential measures.

External Sector Performance

20. External sector performance fluctuated over the period 2021 to 2023. External sector performance remained strong in 2022, with a current account surplus of US$1.75 billion (6.0 per cent of GDP), albeit lower than US$2.68 billion (11.9 per cent of GDP) recorded in 2021. The narrowing in the current account surplus was underpinned by the decline in net merchandise exports and the widening of the services account deficit. Net merchandise exports declined largely due to a rise in imports of intermediate goods, reflecting further improvements in domestic economic activity. However, during the first three quarters of 2023, the current account deficit stood at US$0.40 billion compared to a surplus of US$1.2 billion recorded during the same period in 2022. This outturn was largely due to a fall in copper export earnings coupled with a rise in imports.

21. At the close of December 2022, gross international reserves increased to US$3.0 billion, equivalent to 3.8 months of import cover, compared to US$2.8 billion (equivalent to 4.4 months of import cover) at the end of December

2021. This growth was primarily attributed to project receipts (US$771.7 million), other government receipts (US$237.0 million), and the disbursement of the first tranche under the IMF Extended Credit Facility (ECF) arrangement (US$182.1 million). Notable outflows in 2022 included net Bank of Zambia foreign exchange sales for market support (US$1.5 billion), primarily for critical agricultural, petroleum, and health products, as well as other government uses (US$546.7 million). As at end November 2023, international reserves remained the same at US $3.0 billion (equivalent to 3.4 months of import cover).

22. The Kwacha appreciated by 15.1 percent in 2022 against the US dollar to an annual average exchange rate of K16.91/USD from an annual average of K19.97 in 2021. The Kwacha weakened in 2023, depreciating by 42.3 percent against the US dollar to K25.71 at end December 2023 from K18.07 at the end of December 2022. Low foreign exchange supply, particularly from the mining sector, amidst high demand for various purposes, including imports of medicines, agricultural inputs, and fuel were the main drivers of the depreciation. Aside from demand pressures, negative market sentiments from the protracted debt restructuring process, added to the negative performance, particularly the agreement with Eurobond holders and other private creditors.

CHAPTER THREE

3.0 FISCAL PERFORMANCE REVIEW, 2021-2023

3.1 Overview

23. The Government maintained an expansionary fiscal policy anchored on budget credibility over the 2021-2023 medium term. In nominal terms, the combined revenues and grants increased from K98.9 billion in 2021 to K122.1 billion in 2023. This outcome implied a rise from 21.6 percent of GDP in 2021 to 22.9 percent in 2023.

24. Total expenditure, in the same period increased from K138.0 billion in 2021 to K159.9 billion in 2023.

25. During the period under review, the cash-based fiscal deficit amounted to K105.0 billion. In addition, the fiscal deficit, expressed as a percentage of GDP, was 9.0 percent in 2021, 8.2 percent in 2022, and 5.7 percent in 2023. The annual financing through domestic and external borrowing averaged K35.0 billion, equivalent to 7.5 percent of the GDP from 2021 to 2023.

Table 1: Fiscal Performance, 2021-2023

	2021		2022		2023		2021-2023	2021-2023 AVARAGE	
	Actual K('000)	% of GDP	Actual K('000)	% of GDP	Preliminary K('000)	% of GDP	TOTAL	AVARAGE	% of GDP
GDP	406,778,900	100%	466,179,300	100%	533,346,000	100%	1,406,304,200	468,768,067	100%
TOTAL REVENUE AND GRANTS	98,944,794	24.3%	100,683,517	21.6%	122,103,910	22.9%	321,732,221	107,244,074	22.9%
Tax Revenue	71,151,233	17.5%	79,492,051	17.1%	92,380,958	17.3%	243,024,242	81,008,081	17.3%
Non-Tax Revenue	25,312,135	6.2%	19,210,311	4.1%	23,674,363	4.4%	68,196,809	22,732,270	4.8%
Grants	2,481,426	0.6%	1,981,155	0.4%	6,048,590	1.1%	10,511,170	3,503,723	0.7%
TOTAL EXPENDITURE (Incl Amortisation)	138,028,976	33.9%	140,838,237	30.2%	159,882,245	30.0%	438,749,458	146,249,819	31.2%
TOTAL EXPENDITURE (Excl Amortisation)	134,928,618	33.2%	138,687,372	29.7%	152,541,089	28.6%	426,157,079	142,052,360	30.3%
Expenses	99,963,042	24.6%	111,622,789	23.9%	123,958,111	23.2%	335,543,942	111,847,981	23.9%
Assets	19,341,516	4.8%	18,178,810	3.9%	16,465,455	3.1%	53,985,782	17,995,261	3.8%
Liabilities	15,624,060	3.8%	8,885,773	1.9%	12,117,522	2.3%	36,627,355	12,209,118	2.6%
FINANCING	36,713,968	9.0%	38,055,590	8.2%	30,200,868	5.7%	104,970,426	34,990,142	7.5%
Domestic	31,195,931	7.7%	13,907,387	3.0%	14,303,756	2.7%	59,407,074	19,802,358	4.2%
External	5,518,037	1.4%	24,148,203	5.2%	15,897,112	3.0%	45,563,352	15,187,784	3.2%

3.2 Revenue Performance, 2021-2023

26. For the 2021 to 2023 medium term, the Government continued to use the domestic revenue mobilisation strategy as a fundamental pillar of its fiscal policy, serving as a basis for sustainable development through continued investments in critical sectors such as health, education, infrastructure, and other essential sectors to Zambia's economic development.

27. In pursuit of this objective, the Government remained resolute in its commitment to fortify domestic resource mobilisation, intending to achieve a target of at least 21.2 percent of GDP over the medium term while fostering equity and fairness within the tax system and concurrently upholding a stable and conducive business environment.

Table 2: Revenue Performance, 2021-2023

	2021		2022		2023		2021-2023	2021-2023 AVARAGE	
	Actual K('000)	% of GDP	Actual K('000)	% of GDP	Preliminary K('000)	% of GDP	TOTAL	AVARAGE	% of GDP
GDP	406,778,900	100%	466,179,300	100%	533,346,000	100%	1,406,304,200	468,768,067	100%
TOTAL REVENUES AND GRANTS	98,944,793	24.3%	100,526,420	21.6%	122,103,910	22.9%	321,575,123	107,191,708	22.9%
TAX REVENUE	71,151,232	17.5%	79,492,052	17.1%	92,380,958	17.3%	243,024,242	81,008,081	17.3%
Income Tax	42,057,589	10.3%	47,910,199	10.3%	45,144,653	8.5%	135,112,441	45,037,480	9.6%
VAT	19,372,591	4.8%	20,580,192	4.4%	32,907,647	6.2%	72,860,430	24,286,810	5.2%
Customs and Excise Duties	9,478,166	2.3%	10,663,683	2.3%	13,916,942	2.6%	34,058,791	11,352,930	2.4%
Insurance Premium	143,636	0.0%	235,336	0.1%	301,528	0.1%	680,500	226,833	0.0%
Export Duties	99,250	0.0%	102,642	0.0%	110,187	0.0%	312,079	104,026	0.0%
NON-TAX REVENUE	25,312,135	6.2%	19,160,311	4.1%	23,674,363	4.4%	68,146,809	22,715,602.85	5%
Total User fees, Fines and Charges	6,205,856	1.5%	6,633,895	1.4%	11,824,348	2.2%	24,664,099	8,221,366.25	1.8%
Interest from On-lending/Dividends	6,271,793	1.5%	1,672,537	0.4%	3,613,388	0.7%	11,557,718	3,852,572.69	0.8%
Mineral Royalty	12,417,039	3.1%	10,445,321	2.2%	7,708,994	1.4%	30,571,354	10,190,451.44	2.2%
Motor Vehicle Fees	102,945	0.0%	146,807	0.0%	187,083	0.0%	436,835	145,611.82	0.0%
FRA Proceeds from Crop Sales	71,064	0.0%	-	0.0%	0	0.0%	71,064	23,688.00	0.0%
Tourism Levy	20,278	0.0%	50,845	0.0%	45,723	0.0%	116,846	38,948.70	0.0%
Skills Development Levy	223,160	0.1%	210,906	0.0%	294,826	0.1%	728,892	242,963.95	0.1%
GRANTS	2,481,426.00	0.6%	1,874,057	0.4%	6,048,590	1.1%	10,404,072.74	3,468,024.25	0.7%

28. For the three years under review, the combined total of revenues and grants amounted to K321.6 billion, with an average of K107.2 billion, constituting an average of 22.9 percent of the Gross Domestic Product (GDP). Tax revenues averaged K81.0 billion, while non-tax revenues averaged K22.7 billion. The overall performance during this period generally surpassed the set targets.

29. The favourable outcome was mainly attributed to the higher collections from the mining sector during 2021 and 2022 financial years, amid high copper prices. Furthermore, the adoption of the Government Service Bus

(GSB) enhanced efficiency, leading to non-tax revenue collections surpassing projections. Despite these positive developments, excise duty and Value Added Tax (VAT) collection underperformed due to the temporary suspension of these taxes on fuel, lasting until September 2022.

30. Over the medium term, grants from cooperating partners stood at K2.5 billion, K1.9 billion, and K6.0 billion in 2021, 2022, and 2023, respectively.

3.3 Expenditure Performance, 2021-2023

31. During the period 2021 - 2023, Government spent a total K438.7 billion. Of this amount, K138.0 billion was spent in 2021, K140.8 billion in 2022 and K159.9 billion in 2023.

Table 3: Expenditure Performance, 2021-2023

	2021		2022		2023		2021-2023		
	Actual K('000)	% of GDP	Actual K('000)	% of GDP	Actual K('000)	% of GDP	TOTAL	AVERAGE	% of GDP
GDP	406,778,900	100%	466,179,300	100%	533,346,000	100%	1,406,304,200	468,768,067	100.0%
TOTAL EXPENDITURE (Incl Amortisation)	138,028,976	33.9%	140,838,237	30.2%	159,882,245	30.0%	438,749,458	146,249,819	31.2%
TOTAL EXPENDITURE (Excl Amortisation)	134,928,618	33.2%	138,687,372	29.7%	152,541,089	28.6%	426,157,079	142,052,360	30.3%
EXPENSES	99,963,042	24.6%	111,622,789	23.9%	123,958,111	23.2%	335,543,942	111,847,981	23.9%
Personal Emoluments	31,880,790	7.8%	37,699,112	8.1%	44,898,071	8.4%	114,477,974	38,159,325	8.1%
Use of Goods and Services	16,347,836	4.0%	13,076,940	2.8%	12,981,422	2.4%	42,406,198	14,135,399	3.0%
Interest Payments	26,909,810	6.6%	30,475,882	6.5%	33,943,238	6.4%	91,328,930	30,442,977	6.5%
Transfers and Other Payments	20,571,662	5.1%	24,374,386	5.2%	25,682,618	4.8%	70,628,666	23,542,889	5.0%
Social Benefits	4,252,944	1.0%	5,996,470	1.3%	6,452,761	1.2%	16,702,175	5,567,392	1.2%
ASSETS	19,341,516	4.8%	18,178,810	3.9%	16,465,455	3.1%	53,985,782	17,995,261	3.8%
Non Financial Assets	17,451,204	4.3%	17,829,642	3.8%	15,657,703	2.9%	50,938,549	16,979,516	3.6%
Financial Assets	1,892,312	0.5%	349,168	0.1%	807,752	0.2%	3,049,232	1,016,411	0.2%
LIABILITIES	15,624,060	3.8%	8,885,773	1.9%	12,117,522	2.3%	36,627,355	12,209,118	2.6%

Expenses

Personal Emoluments

32. During the period under review, Government spent a total of K114.5 billion on Personal Emoluments. Of this amount, K31.9 billion was spent in 2021, K37.7 billion in 2022 and K44.9 billion in 2023. The increase in Personal Emoluments over the medium term was mainly attributed to recruitments of Health, Education, Defence and Security personnel, among others. In addition, the 2022 and 2023 wage awards for public service

workers also contributed to the increase in expenditure on Personal Emoluments.

Use of Goods and Services

33. Over the 2021-2023 period, Government total spending on Use of Goods and Services amounted to K42.4 billion. Of this amount, Government spent K16.3 billion in 2021, K13.1 billion in 2022 and K13.0 billion in 2023. The decrease in expenditure from 2021 to 2023 in this category was mainly attributed to expenditure realignment to cover other priority Government expenditure such as, the implementation of the free education policy, enhanced Constituency Development Fund (CDF), among others. In addition, the reduction is also attributed to the 2021 one-off expenditure items such as the 2021 General Elections and the 2022 Census of Population and Housing preparations.

Interest Payments

34. During the period under review, Government spent a total of K91.3 billion on interest payments; with K26.9 billion, K30.5 billion and K33.9 billion being spent in 2021, 2022 and 2023, respectively. Of the total interest paid, domestic debt interest payments amounted to K80.0 billion while external debt interest payment amounted to K11.3 billion. The increase in domestic interest payments was due to the increase in the stocks on Government securities (Treasury Bills and Bonds), while the decrease in external interest payments was due to the debt restructuring process that was still on-going with the external creditors.

Transfers and other payments

35. Over the 2021-2023 medium term, a total of K70.6 billion was spent on transfers and other payments. Of this amount, K20.6 billion was spent in 2021, K24.4 billion in 2022 and K25.7 billion in 2023. Notable expenditures under this category included K20.8 billion towards the Farmer Input Support Programme (FISP), K15.5 billion as transfers to Grant Aided Institutions, K6.1 billion to Zambia Revenue Authority (ZRA) and K3.7 billion to the Local Government Equalisation Fund (LGEF).

Social Benefits

36. During the period 2021-2023, a total of K16.7 billion was spent on social benefits. Of this amount, K4.3 billion was spent in 2021, K6.0 billion in 2022 and K6.5 billion in 2023. The notable increment from K4.3 billion in 2021 to K6.5 billion in 2023 was mainly attributed to an increase in the number of Social Cash Transfer beneficiaries and increase in transfer value. Notable

expenditures under this category included, K6.5 billion towards the Pension Fund and K9.1 billion towards the Social Cash Transfer programme.

Assets

37. Over the 2021-2023 medium term, total expenditure on assets amounted to K54.0 billion; of which K19.3 billion was spent in 2021, K18.2 billion in 2022, and K16.5 billion in 2023. Of the total amount, Government spent a total of K50.9 billion on non-financial assets. Notable expenditures under this category included, K14.9 billion towards road projects, K1.7 billion towards to water supply and sanitation projects and K993.3 million towards the Rural Electrification Programme, among others. Further, Government spent a total of K3 billion towards financial assets. This included funds for, empowerment programmes, and the recapitalisation of some state-owned enterprises.

Liabilities

38. During the period under review, Government spent a total of K36.6 billion. Of this amount, K15.6 billion was spent in 2021, K8.9 billion in 2022 and K12.1 billion in 2023. In form of categories K2.8 billion towards fuel arrears, K3.5 billion towards liquidating of arrears to suppliers of goods, works and services and K18.2 billion towards dismantling of other liabilities.

CHAPTER FOUR

4.0. MACROECONOMIC OUTLOOK, 2024-2026

4.1. Macroeconomic Objectives

39. The economic outlook for the medium-term, underpinned on fiscal consolidation, debt restructuring and prudent financial management, is intended to spur economic growth and improve productivity in the various sectors of the economy.

40. To unlock the economic potential, in line with the Eighth National Development Plan (8NDP), the focus is to create a stable macroeconomic environment that will enhance private sector investment, create employment and catalyse economic growth. Therefore, the medium -term macroeconomic targets will be to:

a) Attain an annual average GDP growth rate of at least 4.6 percent;
b) Reduce inflation to within the target band of 6-8 percent;
c) Maintain reserves at above 3.0 months of import cover;
d) Increase domestic revenue to not less than 22.0 percent of GDP by 2026;
e) Reduce the fiscal deficit to 4.8 percent of GDP in 2024 and 2.2 percent by 2026; and
f) Limit domestic borrowing to no more than 1.7 percent of GDP by 2026.

Table 4: Macroeconomic Indicators Projections 2024 - 2026

	2023	2024	2025	2026
Real GDP Growth	4.3	4.8	4.3	4.7
Nominal GDP (in millions of Kwacha)	567,880.4	641,620.8	707,975.1	791,191.1
Average Inflation (%)	10.9	8.2	7.3	7.0
Budget Deficit (% of GDP)	7.7	4.8	2.8	2.2
Copper prices (in US$ per MT) 2	8,500	8,300	8,000	8,500

4.2. MACROECONOMIC POLICIES FOR 2024 AND THE MEDIUM TERM

41. Over the medium term, Government will implement economic, social and governance policies in line with the 8NDP aimed at attaining higher economic growth, restoring fiscal and debt sustainability as well as improving livelihoods. Therefore, the policies highlighted in the 2024-2026 Medium Term Budget Plan will be anchored on the four strategic focus areas outlined in the 8NDP:

i. Economic Transformation and Job Creation;

ii. Human and Social Development;

iii. Environmental Sustainability; and

iv. Good Governance Environment.

4.2.1 *ECONOMIC TRANSFORMATION AND JOB CREATION*

42. Government will focus on stimulating growth by sustaining macroeconomic stability and ensuring that the right policies and regulatory environment are in place to support private sector investment. The policies will be aimed at transforming the economy from one which is predominantly dependent on the primary production of copper, to an industrialised and diversified economy through value addition across the key sectors of agriculture, manufacturing, tourism and mining. Investment in growth-enabling infrastructures such as roads, dams, border facilities, telecommunications, solar energy plants, among others, will also be promoted. This will enable Government achieve the desired growth levels and create employment opportunities, especially for the youth and women. Under this strategic development area, the following interventions will be implemented:

Agriculture, Livestock and Fisheries

43. The sector is projected to grow by 4.3 percent over the medium term premised on increased investments as well as the full implementation of the Comprehensive Agriculture Transformation Support Programme (CATSP) that addresses the entire agricultural production and productivity value chain.

44. As part of the CATSP, the Government will undertake the final phases of migrating the Farmer Input Support Programme (FISP) to a more cost-efficient electronic system. This transition is expected to enhance the accessibility of required inputs for farmers. Further, the CATSP will include a focus on research and development to improve crop varieties, including tree crops, as well as the breeds of livestock and fish. These efforts are intended to diversify agricultural outputs, leading to increased productivity and creating job opportunities. The implementation of the CATSP will further contribute to a more sustainable and thriving agriculture, livestock and fisheries sector.

45. To further enhance agriculture, the Government will continue working towards the completion of the Nansanga, Lusuwishi, Shikabeta and Luena farm blocks, among others, where higher technology agriculture will be undertaken to produce large stocks of farm products for domestic consumption and exports. In this regard, Government will construct 300 kilometres of roads, 10 bridges and embark on installation of 200km of power lines to facilitate access to power in the farm blocks. The Government will also continue to provide support to small-scale farmers through extension services which will equip them with the necessary knowledge and assistance for improved farming practices while leveraging on technology.

46. To address the challenges posed by climate change and to reduce the over-dependence on rain-fed agriculture, the Government will continue to invest in irrigation infrastructure and operationalise irrigation schemes at Chiansi in Kafue District, Mwomboshi in Chisamba District, Musakashi in Mufulira District and Lusitu in Chirundu District, among others. This will ensure consistent agricultural production throughout the year, regardless of weather conditions. Further, the Government will continue promoting the implementation of smart agricultural technologies which will include conservation agriculture, water harvesting, adaptive research programmes, as well as the enhancement of agriculture insurance and early warning systems.

47. In the livestock sub-sector, Government will enhance the disease surveillance and response system which will include the rehabilitation and operationalisation of seven (07) regional veterinary laboratories including in Mongu, Choma, Kasama, Chipata, Solwezi, Isoka and Ndola. To enhance

animal traceability and identification, the Government has developed an online system which is being piloted in Central, Lusaka, North-Western, Southern and Western Provinces. To deter livestock theft, Government has amended the Criminal Procedure Code to make the offence non-bailable.

48. In addition, to improve the quality and productivity of livestock within the sub-sector through cross-breeding, among others, the Government will promote linkages between ranches and small holder farmers. The functionality of livestock service centres will also be expanded to include various services such as facilitation of extension services and marketing facilities to better livestock breeds by small-scale farmers.

49. Further, to increase livestock carrying capacity and build climate resilience, the Government will prioritise the promotion of fodder and improved pasture production among smallholder farmers. This will enhance livestock production and productivity and reduce seasonal nutritional stress suffered by livestock, especially ruminants.

50. To enhance production and productivity in the fisheries sub-sector, Government is promoting the establishment of fish feed plants, cold chain facilities and hatcheries. The hatcheries will be established in three aquaculture parks in Kasempa, Mushindamo and Samfya. This is with the aim of attaining domestic self-sufficiency and entering the export market.

51. In addition, Government will promote sustainable capture fisheries through enforcement of the fishing ban and enhanced surveillance of water bodies. This will reduce the national fish deficit.

52. To facilitate access to affordable financing in the agriculture sector, Government has established an agriculture credit window to be administered through financial institutions. This will support small scale farmers, emergent farmers, who are also public service workers, with affordable financing to procure inputs, equipment and irrigation systems, among others.

Manufacturing

53. Government will promote value addition as a critical catalyst to grow the economy and create jobs. Priority will be on food and beverages, wood and wood products, textiles, leather and leather products, metallic and non-metallic mineral, pharmaceutical products as well as crop, livestock, and fisheries products.

54. Government will continue to develop the Multi-Facility Economic Zones (MFEZ) and industrial parks to attract investment and promote

industrialisation. Additionally, the tax regime will remain attractive to spur new local and foreign investors in the zones.

Mining

55. Over the medium term, the mining sector is projected to experience an upward growth trajectory. This growth will be facilitated by increased investments in the sector which are aimed at boosting copper production, ultimately working towards the goal of achieving the production of 3 million metric tonnes of copper per annum by 2030.

56. To unlock the national mineral potential, the Government will also undertake integrated geophysical, geological and satellite imagery surveys with a view of identifying mineral resource deposit areas. Further, the Government will operationalise the establishment of the Mining Regulatory Commission to enhance regulation of the sector, promote investments, and ensure the nation accrues the requisite benefits from its mineral endowments.

57. To address the weak mining value chain, the Government will develop local content regulations that will enhance the participation of Zambians through the development of partnerships with investors. The creation of the electric vehicles' battery value chain, for which preliminary undertakings are already underway, will also be accelerated.

Tourism

58. To ensure continued growth of the sector at an average of 14.0 percent in the medium term, the Government's focus will be on the consolidation of the development of the Northern and Southern Circuits particularly around Kasaba Bay and Liuwa National Park as well as the source of the Zambezi river through the facilitation of requisite infrastructure. Further, the Government will improve the regulatory and licensing framework for the sector by reviewing legislation with the overall objective of reducing the cost of doing business to unlock and attract transformative investment in the sector.

59. In addition, to diversify tourism products and increase the length of stay of tourists, the Government will establish Eco-Tourism Centres across the country. To support this, Government will undertake measures that will improve wildlife conservation and management, sustain tourism development and promotion, as well as cultural preservation and development. Government will continue to support the hosting of meetings, conferences, exhibitions and incentive travel.

Small and Medium Enterprise Development

60. The Government will continue supporting the growth of Small and Medium Enterprises (SMEs) by creating an enabling environment for businesses and cooperatives to thrive and support job creation. Special focus will be given to improving access to affordable financing, enhancing market access, and supporting business development skills.

61. Through empowerment programmes such as the Citizens Economic Empowerment Commission, Women Empowerment, Constituency Development Fund, and the Youth Empowerment, the Government will continue to facilitate access to financing to promote the growth of SMEs and creation of decent jobs. Additionally, the Government has increased budgetary allocation to the Zambia Credit Guarantee Scheme to further facilitate access to affordable financing by SMEs.

62. The Government will also continue constructing industrial yards to accelerate enterprise development. The setting up of industrial yards will provide a conducive operating environment for business expansion and create employment opportunities especially for the women, youth and persons with disabilities.

Energy

63. Over the medium term, growth in the energy sector is expected to average 0.3 percent. The Government will work to increase the country's electricity generation capacity. This will be done through investing in additional power generation infrastructure and promotion of the use of alternative green and renewable energy sources to make the energy sector more resilient and supportive of industrialisation. The Government will also continue to scale-up rural electrification initiatives to ensure that remote areas have increased access to electricity.

64. In addition, the Government will continue to implement the cost reflective pricing based on the multi-year tariff adjustment framework and accelerate the integration of transmission projects to improve access to regional power markets.

65. In the petroleum sub sector, Government has converted the TAZAMA pipeline from a petroleum feedstock to a low sulphur diesel carrier. This will reduce the cost of transporting low sulphur diesel. In addition, to enhance competition among the suppliers and ultimately benefit consumers, Government has developed regulations to enable players in the sector to have third party access to the TAZAMA pipeline.

66. Further, the Government will establish and operationalise a one-stop shop that will facilitate the coordination of all institutions involved in the permit and licensing process in the development of energy projects to enhance efficiency and attract investment.

Transport and Logistics

67. Government will continue with the development, maintenance, rehabilitation, modernisation and integration of road, rail, air and water transport infrastructure which are key to economic transformation and job creation. This will position the country as a regional transport and logistics hub that will unlock regional and local trade as well as open up rural areas for development and enhance the participation of local communities in the economy.

68. Government will continue to leverage on the Public Private Partnership (PPP) model as a source of financing to construct, rehabilitate, and maintain road infrastructure. Some of the roads under construction using this model include the Lusaka-Ndola dual carriage way, Chingola-Kasumbalesa and Katete-Chanida roads. Government has also signed concessions for Kasomeno-Mwenda, Chingola-Solwezi–Mutanda, Kambimba-Lumwana and Ndola-Mufulira-Sakanya -Mukambo roads.

69. Further, Government will continue with the construction and rehabilitation of rural roads through the Improved Rural Connectivity Project which targets to construct, maintain and rehabilitate 4,300 kilometres of feeder roads across the country. Additionally, through the Constituency Development Fund, several constituencies have acquired road construction equipment which is expected to construct and rehabilitate an additional 1,000 kilometres of feeder roads.

70. To reduce clearance time at borders, Government will implement an electronic data exchange system for customs and make pre-clearance of goods mandatory as well as introduce a Single Payment Point for collection of statutory fees at the borders. In addition, operating hours at Kasumbalesa, Nakonde and Katima Mulilo Border Posts have been extended to 24-hours.

71. In order to improve air transport, promote tourism and trade in the country, the Government has rehabilitated and upgraded Kasama Airport. Additionally, the construction of airports at Kasaba Bay, Chinsali and Choma will be undertaken.

Information and Communication Technology

72. In the medium term, growth of the Information and Communications Technology (ICT) Sector is expected to remain positive, at an average of 7.6 percent. This is premised on continued investment in the construction of ICT infrastructure and increased use of ICT services. The focus will be to integrate digital technologies into business processes which are key to enhancing efficiency and productivity for economic transformation. Further, investments in building digital skills, especially among the youth, will provide a foundation for innovation, including science and technology.

73. To address the extensive digital inclusion gap in the country that is inhibiting universal connectivity and access, Government will leverage on the use of a mix of technologies such as satellite and fibre connectivity to reach the unserved and underserved areas. Therefore, Government in collaboration with the private sector, will invest in developing the last mile and leverage on the extensive national fibre network to reach the underserved districts. In the medium term, Government targets to reach 80 percent digital inclusion.

74. In addition, the Government will establish and operationalise technology and innovation hubs across the country, which will serve as centres for fostering technological advancements and promoting innovation across various sectors.

75. The Government will transform public service provision through the adoption and application of digital technologies. This will improve the business environment, promote seamless access to public services and enhance public service delivery. Therefore, Government has been migrating public services to the online platform, ZamPortal, which is part of the Government Service Bus and Payment Gateway.

76. Further, to provide a reliable and credible basis for public service delivery and planning, the Government will implement a digital identity system. This will resolve the challenges associated with the current manual system and bring efficiency in provision of public services to citizens.

4.2.2 HUMAN AND SOCIAL DEVELOPMENT

77. Human and social development will remain paramount in building human capital and uplifting and safeguarding livelihoods for all Zambians. In this regard, over the medium term, focus will be to prioritise investments and interventions in health and nutrition, education and skills development, water and sanitation, as well as social protection programmes aimed at reducing poverty, inequality and vulnerability.

Education and Skills Development

78. Over the medium term, the focus in the education sector will be to ensure that all learners have access to equitable and inclusive quality education. This will be achieved through construction and rehabilitation of primary and secondary school infrastructure including teachers' housing facilities, completion of university infrastructure, and provision of teaching and learning materials. The Government will also continue with the teacher recruitments to reduce the pupil teacher ratio.

79. In addition, Government will continue enhancing the skills development sector through improved access to TEVET and quality of skills training. To ensure that learners are equipped with practical skills that are relevant for industry, Government will prioritise equipping training centres with modern equipment as this will align skills of TEVET graduates to industry requirements. In addition, through the Constituency Development Fund, Government will continue providing bursaries for vulnerable learners as a way of promoting equal opportunities for employability, including self-employment across the country.

80. Further, Government will prioritise the completion of ongoing infrastructure such as Mumbwa Training Institute as well as student hostels at Northern Technical College, Evelyn Hone College and Luanshya Technical and Business College. Government will also rehabilitate Kaoma and Mongu Training Institutes, among others.

Health

81. Over the medium term, Government's efforts will be targeted at improving the provision of quality healthcare through equitable access to preventive, curative and palliative care. Government will continue with the provision of medicines and medical supplies, recruitment of health personnel, promotion of non-state actors' participation in healthcare delivery, strengthening of integrated health systems and enhancing food security and nutrition. The decentralisation of district health services is also expected to significantly contribute to health outcomes at the community level.

82. Government in collaboration with stakeholders will establish a Local Pharmaceuticals Manufacturing Strategy to promote domestic production of pharmaceutical products and enhance the resilience of the supply chain in the country. This will further contribute to job creation.

83. Improving access to healthcare facilities in the attainment of universal health coverage remains key. Therefore, Government will continue with the construction of hospitals at all levels as well as continue undertaking the rehabilitation and maintenance of these health facilities. Over the medium

term, Government will construct two cancer disease hospitals in Ndola and Livingstone, maternity annexes and commence the construction of 135 mini hospitals under phase II of the construction of mini hospitals across the country. The women and children's specialised hospital in Lusaka and 36 district hospitals across the country will also be completed.

Water and Sanitation

84. Over the medium term, Government will continue to invest in water resources infrastructure to improve water security and access to clean water and sanitation services in order to improve service provision for citizens.

85. To enhance access to clean water and sanitation services, the Government will develop water resources infrastructure through the construction, rehabilitation and maintenance of dams, the development of well fields as well as the construction of rainwater harvesting facilities. The development of water infrastructure will improve economic prospects through its role as an enabling sector providing support for irrigation development, manufacturing, among others.

86. To improve access to clean water and sanitation, the Government will expedite the completion of ongoing infrastructure projects to improve productivity and mitigate the spread of waterborne diseases such as cholera. This will be done through completion of water and sanitation projects in densely populated areas by increasing of the number of households connected to water supply networks as well as the construction and rehabilitation of boreholes. Therefore, Government will, over the medium term, construct, at least 2,000 boreholes and rehabilitate 2,770 boreholes.

87. To improve access to sanitation and mitigate the spread of waterborne diseases, Government will accelerate efforts to develop faecal sludge treatment plants and construct and rehabilitate sanitation facilities in public institutions such as schools, health facilities, markets and bus stations.

88. Further, the Government will enhance the operational efficiency of the commercial water utility companies, who act as implementing partners in enhancing access to water and sanitation services by households and businesses through mobilising financing for expansion projects, among others. Government will also over the medium term, aim to reduce non-revenue water and subsequently improve the operational efficiency of these companies.

Social Protection

89. Government will continue to implement social protection interventions over the medium term to improve the welfare and livelihoods of people, especially the poor and vulnerable through programmes such as the Social Cash Transfer Scheme (SCT) and other social safety nets such as the Food Security Pack (FSP), Public Welfare Assistance Scheme (PWAS) and Girls Education and Women Empowerment Livelihood (GEWEL) and Home-Grown School Feeding Programmes. In the medium term, Government will continue to increase resource allocations, coverage and number of beneficiaries towards all social safety nets.

90. Government has reformed the pension system to address bottlenecks constraining the administration and sustainability of provision of pensions under the Public Service Pension Fund (PSPF) and Local Authorities Superannuation Fund (LASF). In this regard, Government will ensure that timely payments of pension benefits are made to public service workers and curtail the accumulation of pension arrears. In addition, Government will continue implementing the partial withdrawal of pension benefits under the National Pension Scheme Authority.

4.2.3 ENVIRONMENTAL SUSTAINABILITY

91. To promote environmental sustainability, Government will over the medium term undertake development that is anchored on sustainable environmental management, ecosystems and natural resource management. This will lead to the attainment of socio-economic development to meet the needs of the current and future generations.

92. Government will expand coverage and enhance early warning systems through the installation of automatic weather stations across the country to adequately prepare and respond timely to adverse weather conditions. Government will also strengthen climate change adaptation and mitigation as well as disaster risk reduction by developing climate resilient infrastructure, safeguarding water sources and other natural resources that support socio-economic sustenance and maintaining a stable ecosystem.

93. Additionally, Government will enhance the legal and regulatory framework to support green finance and entrench environmentally friendly practices in the financial sector.

4.2.4 GOOD GOVERNANCE ENVIRONMENT

94. Government will continue to strengthen oversight in the use of public resources and enhance transparency and accountability. This will be achieved through strengthening the policy, legal and institutional framework that will also enhance the rule of law, human rights and constitutionalism. Additionally, Government will implement fiscal, debt management, monetary and external sector policies in order to stimulate growth and improve the livelihoods of the people.

Fiscal Policy

95. Government will over the medium-term focus on achieving fiscal sustainability and creating a platform for inclusive growth. The overall objective will be to progressively reduce the overall fiscal deficit, on cash basis to 2.2 percent of GDP by 2026. This will be achieved mainly through a combination of measures including, enhancement of revenue mobilisation, expenditure rationalisation and freeing up of fiscal space resulting from debt restructuring.

96. On the revenue front, Government will continue to prioritise domestic resource mobilisation through implementation of tax policy measures which are expected to result in revenue collection of at least 22.4 percent of GDP by 2026. This will be achieved through improved tax administration to reduce the compliance gap by leveraging on technology. Further, Government will endeavour to maintain a tax policy environment that is stable and predictable.

97. Further, Government will put in place measures to maintain public expenditures within sustainable levels whilst prioritising social sector spending. This will be achieved by ensuring strict adherence to priority projects, streamlining the design and implementation of the subsidy programmes such as in agriculture and improving procurement procedures. Further, Government will curb the accumulation of new arrears by enforcing the use of the Commitment Control System for procurement of goods and services.

Domestic Revenue Mobilisation

98. The medium-term revenue goal is to develop sustainable revenue generation and achieve domestic revenue mobilisation of at least 22.4 of GDP by 2026. Revenue mobilisation will continue to be anchored on improving tax policy and tax administration mechanisms. To this end, the Government will over the medium-term index selected excise duties to inflation, upscale digital solutions for collecting non-tax revenue, and rationalise the provision of tax incentives by establishing a tax expenditure framework, with the view of

expanding the tax base. To enhance compliance, Government will implement the following measures:

a) **Implement an electronic invoicing system** which will enable the Zambia Revenue Authority to have real time access to business transactions. The system will prevent the use of fake invoices in VAT refund claims and ensure that only qualifying entities claim deductions;

b) **Establish a legal framework** for the taxation of the Cross-Border Electronic Services. This will enable Government to expand the tax base and collect more revenue;

c) **Introduce a unified Tax Administration Act** which will among others, enable the harmonisation of tax treatment across different tax types and ease tax administration; and

Debt Management Strategy

99. The Government has been undertaking an external debt restructuring exercise under the G20 Common Framework. A Memorandum of Understanding (MoU) was agreed in October 2023 with official creditors, marking a significant step towards restoring Zambia's long-term debt sustainability. Further to this, Government will continue to engage its commercial and private creditors, including Eurobond holders, to seek a debt treatment comparable to what has been agreed with the official creditors.

100. To augment the ongoing external debt restructuring efforts, Government will:

a) Continue with the moratorium on contraction or guaranteeing of new non-concessional external debt. New external borrowing will be on concessional terms from multilateral partners such as the World Bank and African Development Bank, for projects of high socio-economic importance;

b) Continue with the moratorium on contraction or guaranteeing of new non-concessional external debt except for priority projects financed by multilateral partners such as World Bank and African Development Bank;

c) Adhere to the Medium-Term Debt Management Strategy (MTDS) for the medium term;

d) Develop general regulations for the Public Debt Management Act No. 15 of 2022 to ensure adherence to the provisions of the law. This will also enhance transparency and accountability in the contraction of debt;

e) Operationalise the Debt Management Office (DMO) by end 2024 as prescribed by the Public Debt Management Act No. 15 of 2022; and

f) Continue with efforts to develop the domestic financial market.

Domestic Arrears Management Strategy

101. In order to curb accumulation of arrears by public institutions, the Treasury will in line with Cabinet Circular No. 13 of 2023, implement appropriate strategies outlined below:

a) **Adequate budgetary appropriation,** Government will continue to centrally dismantle arrears incurred on or before end-December 2021, while requiring MPAs to adequately budget for clearance of arrears incurred post end December 2021. MPAs will in this process be required to strictly adhere to relevant commitment controls in order to avoid further accumulation of arrears in the medium to long term;

b) **Direct borrowing from financial institutions,** this will involve direct contraction of loans from domestic commercial banks at rates desirably not exceeding those applicable on Government securities in the primary market. Proceeds will then be utilized to clear a portion of arrears; and

Public Financial Management

102. Government is in the process of developing the 2024-2027 Integrated Public Finance Management Reform Strategy (IPFMRS) which seeks to integrate reforms in the Public Financial Management (PFM) framework. This strategy will aim at strengthening the links between the multiple processes in the PFM cycle as well as enhancing the efficacy of the integrated PFM processes. This will ensure that public resources are efficiently mobilised and used to cost-effectively support the delivery of national development and public services.

Decentralisation

103. In 2023, Government embarked on the devolution of eight functions to the local authorities and subsequently attached 34,963 civil servants to the various councils. Further, matching financial resources to the local authorities for these devolved functions have been allocated in the 2024 National Budget. Over the 2024-2026 medium term, Government will in line with the decentralisation implementation plan ensure that resources for

devolved functions are shifted to the subnational levels in a predictable and transparent manner.

104. The Government will continue to increase the allocation towards CDF over the medium term as a commitment towards fiscal decentralisation and moving development closer to the people. Government will also continue to ensure the disbursement of CDF and other grants under the Local Authorities as well as put in place measures to ensure that there is efficient utilisation of these resources. The monitoring and evaluation of the CDF will also be strengthened with the automation of mechanisms for data management and information sharing in line with good governance principles of transparency and accountability. Further, Government will address equity concerns in the allocation of the resources at subnational level by employing an appropriate formula to share the resources.

105. The Government will further support the strengthening of revenue collection at the subnational levels in the medium term in order to increase capacity of Local Authorities to enhance service delivery. This will include measures aimed at expanding the revenue base in order to attain an improved subnational fiscal position and manage the escalating debt and arrears.

106. Government is currently implementing the Zambia Devolution Support Program (ZDSP) which focuses on fiscal decentralisation and financial management, local area planning and budgeting, governance, and human resource management of the Local Authorities. In the medium term, focus will be to ensure that town councils benefit from this programme through accessing of capital grants to be utilised on public infrastructure and improvement of service delivery.

Public Private Partnerships

107. In the medium term, Government will focus on creating an enabling environment for effective development and implementation of Public Private Partnerships (PPP) as a corner stone for the delivery of quality and sustainable infrastructure and social services. This will be supported by the development of Regulations for the better carrying out of the provisions of the PPP Act No. 18 of 2023,

108. Further, the revised PPP regulatory framework which has been enhanced to facilitate for small and medium scale PPP is expected to further enhance development at the local level in line with the objectives of the decentralisation policy.

Public Investment Management

109. An efficient and effective public investment management system will be pivotal in supporting fiscal sustainability and budget credibility in the period 2024-2026. In this regard, all major public investment projects will continue to be appraised before inclusion in Medium Term Budget Plans and the Annual Budget. This will reduce wasteful expenditure on public capital projects and mitigate fiscal risks emanating from implementation of public investment projects, regardless of the mode of financing.

110. The strategic policy areas in public investment management for the 2024-2026 medium term will, therefore, include the development and operationalisation of the Public Investment Management Information System (PIMIS) as a platform for enhancing efficiency in the appraisal and management of Public Investment Projects.

Monetary and Financial Sector Policies

111. Over the medium-term, the Government will continue to pursue policies aimed at maintaining price and financial system stability. The Bank of Zambia will continue to rely on a forward-looking monetary policy framework and decisions on the policy rate will continue to be guided by inflation outcomes, forecasts, and identified risks that include those associated with financial stability and economic growth.

112. To limit disruptions in the provision of financial services, the Bank of Zambia will continue to focus on strengthening the macro-prudential function. In this regard, the Bank of Zambia will operationalise the Financial Stability Committee in 2024 in accordance with the Bank of Zambia Act, 2022 to maintain overall stability of the financial system. The Bank will also review the Banking and Financial Services Act, 2017 to align with international standards.

113. Following the issuance of Green Finance Guidelines, the Bank will heighten monitoring of implementation to determine how the financial institutions are incorporating policies that promote sustainability. In addition, the Bank of Zambia intends to provide further regulatory guidance on Environmental, Social and Governance (ESG) matters as a way of strengthening the legal and regulatory oversight in view of elements of gender, inclusiveness as well as imminent risks arising from climate and nature related risks. The Bank has incorporated ESG in the revised corporate governance code for the financial sector which will be finalised in 2024.

External Sector Policies

114. Government will maintain a flexible exchange rate and continue mitigating excessive volatility in the exchange rate. To promote external sector resilience and guard against adverse shocks, the accumulation of international reserves will be enhanced through higher export earnings and promotion of stable foreign investment flows. The Bank of Zambia will continue to add gold bullion to foreign reserves through the purchase of locally mined gold. The policy requiring mining companies to pay mineral royalties in US dollars directly to the Bank of Zambia will also continue.

115. Over the medium-term, Government's policy will continue to be underpinned by an open trade regime. In this regard, Government will design and implement policies and strategies to attract and secure investments in sectors such as agriculture, manufacturing, mining and tourism. This will be supported by investment in infrastructure and human resource development.

116. To enhance the formulation of external sector policies, the Bank of Zambia has implemented the Exports Proceeds Tracking Framework to improve the quality of external sector statistics. Under this Framework, all export earnings will be required to be reflected in an account at a bank domiciled in the Republic of Zambia. Exporters will retain full rights and control to use the funds as they deem fit as long as they comply with Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF) obligations as has been the case under the current foreign exchange arrangement.

Financial Inclusion

117. To bridge the gaps and challenges in financial inclusion and emerging issues that could hinder or reverse financial inclusion in the country, Government is developing the 2024-2028 National Financial Inclusion Strategy. This is aimed at achieving 85 percent financial inclusion in the next five years by deliberately focusing on the underserved groups of Micro, Small and Medium Enterprises (MSMEs), adults in agriculture, rural adults, women, youths, the differently abled, refugees and senior citizens. It will focus on climate change and inclusive green finance, digital financial services, as well as financial consumer protection and capability.

CHAPTER FIVE

5.0 FISCAL OUTLOOK, 2024-2026

5.1 Overview

118. Over the medium term, the Government will continue with fiscal consolidation to foster fiscal sustainability by rationalising expenditures and harnessing revenue mobilisation while pursuing debt restructuring to free up resources for developmental programmes. Focus will be on reallocating expenditures to priority areas while protecting social spending. In addition, the Government will continue to devolve functions from central Government to the subnational level for effective service delivery.

119. On the revenue side, the Government will undertake tax policy measures aimed at improving revenue collections and tax administration to reduce the compliance gap. Therefore, Government intends to raise a total of K484.0 billion in form of revenues and grants in the medium term while on the expenditure front, Government intends to spend a total of K564.8 billion over the medium term. This will result into a financing gap amounting to K80.8 billion.

120. The financing gap will be supported domestically and externally by borrowing gross financing amounting to K80.8 billion. The total amortisation for the period under review is projected at K12.5 billion translating into a net financing of K68.3 billion.

Table 5: Fiscal Projections, 2024-2026

	2024		2025		2026		2024-2026	
	Projection		Projection		Projection		Total	Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
GROSS DOMESTIC PRODUCT	**641,020,800**	**100.0%**	**707,975,100**	**100.0%**	**791,191,100**	**100%**	**2,140,187,000**	**713,395,667**
TOTAL REVENUE AND GRANTS	**144,548,825**	**22.5%**	**160,064,732**	**22.6%**	**179,352,844**	**22.7%**	**483,966,401**	**161,322,134**
TOTAL DOMESTIC REVENUE	**141,113,730**	**22.0%**	**157,736,913**	**22.3%**	**176,908,634**	**22.4%**	**475,759,277**	**158,586,426**
Tax Revenue	114,832,255	17.9%	130,605,641	18.4%	147,047,064	18.6%	392,484,959	130,828,320
Non-Tax Revenue	26,281,476	4.1%	27,131,272	3.8%	29,861,570	3.8%	83,274,317	27,758,106
Grants	3,435,095	0.54%	2,327,819	0.3%	2,444,210	0.3%	8,207,124	2,735,708
TOTAL EXPENDITURE (Incl. Amortisation)	**177,891,869**	**27.8%**	**183,566,855**	**25.9%**	**203,349,725**	**25.7%**	**564,808,449**	**188,269,483**
Expenses	143,718,463	22.4%	145,329,780	20.5%	160,915,029	20.3%	449,963,271	149,987,757
Assets	24,784,327	3.9%	25,562,318	3.6%	25,664,339	3.2%	76,010,984	25,336,994.57
Liabilities	6,864,199	1.1%	9,128,311	1.3%	10,296,141	1.3%	26,288,651	8,762,883.74
Amortisation	(2,524,880)	-0.4%	(3,546,446)	-0.5%	(6,474,216)	-0.8%	(12,545,543)	(4,181,848)

5.2 Revenue Mobilisation and Financing

1. The Government aims to establish a resilient resource base and boost domestic revenue mobilisation, targeting a minimum of 22.4 percent of GDP by 2026. The goal is to gradually reduce the fiscal gap to sustainable levels. Achieving this objective involves reinforcing tax policies, utilising technology for improved tax administration, and fostering better tax compliance. The emphasis is on promoting fair and equitable taxation while creating a consistent and favourable business tax policy environment. This strategy is anticipated to enhance the investment climate and foster private sector development and growth through innovation and industrialisation. Efforts will also be made to advocate for tax registration among MSMEs in order to broaden the tax base.

5.2.1 Revenue Forecast 2024-2026

121. For the medium-term period covering 2024 to 2026, the anticipated total revenues and grants are estimated to reach K484.0 billion. Within this projection, K144.5 billion, equivalent to 22.5 percent of GDP, is projected for the year 2024. Subsequently, collections for 2025 and 2026 are expected to amount to K160.1 billion (22.6 percent of GDP) and K179.4 billion (22.7 percent of GDP), respectively.

Tax Revenue

122. In the medium term, the forecasted total tax revenues amount to K392.5 billion. This projection includes K114.8 billion, equivalent to 17.9 percent of

GDP, estimated for the year 2024. Subsequently, projections for 2025 indicate K130.6 billion or 18.4 percent of GDP, and for 2026, K147 billion or 18.6 percent of GDP.

Non-Tax Revenue

123. Over the medium term covering 2024 to 2026, non-tax revenue collections are anticipated to reach K83.3 billion. Of this amount, K26.3 billion projected to be collected in 2024, K27.1 billion in 2025, and K29.9 billion in 2026. The collection is an average of 3.9 percent of GDP.

Grants

124. During the medium term, the projected grants from cooperating partners are expected to amount to K8.2 billion. Of this amount, K3.4 billion is projected for 2024, K2.3 billion for 2025, and K2.4 billion for 2026. These grants will play a crucial role in supporting diverse Government projects, particularly those under the Ministry of Education, Health, and Community Development, among others.

Table 6: Revenue Projections, 2024-2026

ANNEX I : FISCAL FRAME										
	2023		2024		2025		2026		2024-2026	
	Approved Budget		Projection		Projection		Projection		Total	Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
GROSS DOMESTIC PRODUCT	**533,346,000**	**100.0%**	**641,020,800**	**100.0%**	**707,975,100**	**100.0%**	**791,191,100**	**100%**	**2,140,187,000**	**713,395,667**
TOTAL REVENUE AND GRANTS	**113,348,735**	**21.3%**	**144,548,825**	**22.5%**	**160,064,732**	**22.6%**	**179,352,844**	**22.7%**	**483,966,401**	**161,322,134**
TOTAL DOMESTIC REVENUE	**111,643,321**	**20.9%**	**141,113,730**	**22.0%**	**157,736,913**	**22.3%**	**176,908,634**	**22.4%**	**475,759,277**	**158,586,426**
Tax Revenue	**93,767,023**	**17.6%**	**114,832,255**	**17.9%**	**130,605,641**	**18.4%**	**147,047,064**	**18.6%**	**392,484,959**	**130,828,320**
a. Income Taxes	50,427,135	9.45%	61,322,018	9.6%	70,392,392	9.9%	81,069,773	10.2%	212,784,183	70,928,061
b. Value Added Tax (VAT)	29,209,212	5.5%	36,361,861	5.7%	40,953,294	5.8%	44,639,201	5.6%	121,954,357	40,651,452
c. Customs and Excise Duties	13,810,456	2.6%	16,774,267	2.6%	18,864,492	2.7%	20,901,870	2.6%	56,540,629	18,846,876
d. Insurance Premium Levy	210,720	0.0%	253,260	0.0%	264,150	0.0%	277,357	0.0%	794,767	264,922
e. Export Duties	109,501	0.0%	120,849	0.0%	131,313	0.0%	158,862	0.0%	411,024	137,008
Non-Tax Revenue	**17,876,298**	**3.4%**	**26,281,476**	**4.1%**	**27,131,272**	**3.8%**	**29,861,570**	**3.8%**	**83,274,317**	**27,758,106**
o/w Total User fees, fines and Charges	7,098,291	1.3%	10,695,361	1.7%	11,635,262	1.6%	12,397,025	1.6%	34,727,648	11,575,883
Interest from On-lending/Dividends	1,418,991	0.3%	3,359,110	0.5%	3,503,552	0.5%	3,678,729	0.5%	10,541,391	3,513,797
Mineral Royalty	8,986,242	1.7%	10,004,180	1.6%	11,042,041	1.6%	12,805,412	1.6%	33,851,633	11,283,878
Motor Vehicle Fees	127,299	0.0%	209,511	0.0%	218,520	0.0%	229,446	0.0%	657,478	219,159
Tourism Levy	24,644	0.0%	26,616	0.0%	27,760	0.0%	29,148	0.0%	83,524	27,841
Skills Development Levy	220,830	0.0%	268,249	0.0%	294,537	0.0%	312,209	0.0%	874,995	291,665
GRANTS	**1,705,414**	**0.3%**	**3,435,095**	**0.54%**	**2,327,819**	**0.3%**	**2,444,210**	**0.3%**	**8,207,124**	**2,735,708**

5.2.2 Financing 2024-2026

125. In order to address the budget deficit in the medium term, the Government anticipates borrowing a sum of K68.3 billion, excluding amortisation. Domestic financing is expected to contribute K41.8 billion, while external financing is projected to provide K26.5 billion. The Government's policy during this period will continue to focus only on concessional borrowing for economically sound projects.

Table 7: Financing, 2024-2026

	2024		2025		2026		2024-2026	
	Projection		Projection		Projection		Total	Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
GROSS DOMESTIC PRODUCT	641,020,800	100.0%	707,975,100	100.0%	791,191,100	100.0%	2,140,187,000	713,395,667
FISCAL BALANCE: Surplus(+)/Deficit(-)	(30,818,163)	-4.8%	(19,955,677)	-2.8%	(17,522,665)	-2.2%	(68,296,505)	(22,765,502)
FINANCING	30,818,163	4.8%	19,955,677	2.8%	17,522,665	2.2%	68,296,505	22,765,502
Net Domestic Financing	16,328,756	2.5%	11,855,693	1.7%	13,650,153	1.7%	41,834,602	13,944,867
Net External Financing	14,489,408	2.3%	8,099,983	1.1%	3,872,512	0.5%	26,461,903	8,820,634
O/w Budget Support	7,671,674	1.2%	4,795,375	0.7%	6,337,929	0.8%	18,804,978	6,268,326
Project Support	9,342,613	1.5%	6,851,055	1.0%	4,008,799	0.5%	20,202,468	6,734,156
Amortization	(2,524,880)	-0.4%	(3,546,446)	-0.5%	(6,474,216)	-0.8%	(12,545,543)	(4,181,848)

5.3 Expenditure Policy and Strategy 2024-2026

126. Over the 2024-2026 medium term, the Government will implement expenditure policy measures and interventions aimed at enhancing economic growth and development, bridging the rural-urban gap through fiscal decentralisation while protecting social spending. The public expenditure strategy will include:

a) Measures to contain the public sector wage bill within the current ratio of 42 percent of domestic revenues;

b) Prioritise social spending to programmes with a minimum of 1.6 percent of GDP of the budget going to social protection programmes;

c) Contain non- social sector spending to create space for the expected resumption of external debt service obligations in view of the expected conclusion of the foreign debt restructuring process; and

d) Increase the allocation to Constituency Development Fund (CDF) to reduce the rural-urban developmental gap.

5.3.1 Expenditure by Economic Classification

127. Over the 2024-2026 medium term, Government will spend a total of K462.5 billion or 21.6 percent of GDP towards recurrent expenditure, administrative expenses, operating costs for running Government services, salaries and wages and interest payments on external and domestic debt. Of this amount, K146.2 billion will be spent in 2024, K148.9 billion in 2025 and K167.4 billion in 2026. In addition, Government will also spend a total of K102.3 billion on Assets and Liabilities. Of this amount, K76.0 billion will be spent on Assets and K26.3 billion of Liabilities. Under the Asset category, Non-Financial Assets and Financial Assets which will account for K72.5 billion or 3.4 percent of GDP and K3.6 billion or 0.2 percent respectively.

128. To continue implementing the dismantling of arrears strategy and unlock liquidity in the economy, Government will spend a total of K26.3 billion on liabilities over the medium term. Of this amount, K6.9 billion will be spent in 2024, K9.1 billion in 2025 and K10.3 billion in 2026.

Table 8: Expenditure Projections, 2024-2026

	2024 Projection		2025 Projection		2026 Budget Projection		2024-2026 Total	2024-2026 Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
GROSS DOMESTIC PRODUCT	**641,020,800**	**100.0%**	**707,975,100**	**100.0%**	**791,191,100**	**100.0%**	**2,140,187,000**	**713,395,667**
TOTAL EXPENDITURE (Incl. Amortisation)	**177,891,869**	**27.8%**	**183,566,855**	**25.9%**	**203,349,725**	**25.7%**	**564,808,449**	**188,269,483**
EXPENSES	**146,243,343**	**22.8%**	**148,876,226**	**21.0%**	**167,389,245**	**21.2%**	**462,508,814**	**154,169,605**
1. Personal Emoluments (PEs)	52,785,353	8.2%	57,446,742	8.1%	62,551,657	7.9%	172,783,751	57,594,584
2. Use of Goods and Services	17,657,848	2.8%	20,117,588	2.8%	22,440,834	2.8%	60,216,270	20,072,090
3. Debt Service Payments	38,917,266	6.1%	34,839,729	4.9%	43,600,960	5.5%	117,357,954	39,119,318
4. Transfers	28,491,718	4.4%	27,739,003	3.9%	29,667,211	3.7%	85,897,933	28,632,644
5. Social Benefits	8,391,158	1.3%	8,733,164	1.2%	9,128,583	1.2%	26,252,905	8,750,968
ASSETS	**24,784,327**	**3.9%**	**25,562,318**	**3.6%**	**25,664,339**	**3.2%**	**76,010,984**	**25,336,995**
1. Non Financial Assets	23,457,727	3.7%	24,490,849	3.5%	24,508,275	3.1%	72,456,851	24,152,284
2. Financial Assets	1,326,600	0.2%	1,071,468	0.2%	1,156,064	0.1%	3,554,132	1,184,711
LIABILITIES	**6,864,199**	**1.1%**	**9,128,311**	**1.3%**	**10,296,141**	**1.3%**	**26,288,651**	**8,762,884**

Expenses

Personal Emoluments

129. The Government will spend a total of K172.8 billion on Personal Emoluments, over the medium term. Of this amount K52.8 billion will be spent in 2024, K57.4 billion in 2025 and K62.6 billion in 2026. Of the total medium-term allocation to Personal Emoluments, K3.3 billion is earmarked for the recruitment of over 40,000 additional personnel across the public service in the sectors of education, health, agriculture, fisheries, security wings among others.

Use of Goods and Services

130. Over the medium term, the Government will spend a total of K60.2 billion on use of goods and services. Of this amount, K17.7 billion or 2.8 percent of GDP will be spent in 2024, K20.1 billion or 2.8 percent of GDP in 2025 and K22.4 billion or 2.8 percent of GDP in 2026. Notable expenditures under this category include, K17.4 billion for the procurement of drugs and medical supplies and 2.3 billion towards Compensation and Awards.

Domestic and External Debt Service

131. Over the 2024-2026 medium term, Government will spend a total of K104.8 billion on domestic and external debt interest payment. Of this amount, K36.4 billion will be spent in 2024, K31.3 billion in 2025 and 37.1 billion in 2026. Of the total allocation over the medium term, K86.9 billion is projected to be spent towards servicing domestic debt; of which K32.9 billion will be in 2024, K27.5 billion in 2025 and K26.4 billion in 2026. Further, a total of K17.9 billion is projected to be spent on external debt interest payment; with K3.5 billion in 2024, K3.7 billion in 2025, and K10.7 billion in 2026.

132. External debt principal payments will amount to K12.5 billion over the medium term. Of this amount, K2.5 billion will be spent in 2024, K3.5 billion in 2025 and K6.5 billion in 2026. Note that the interest and amortisation on external debt is subject to the ongoing debt restructuring process between Government and its creditors.

Transfers and Other Payments

133. Over the medium term, the Government will spend a total of K85.9 billion on Transfers and Other Payments. Of this amount, K19.4 billion will be spent on ordinary grants while K6.0 billion will be utilised as school grants in order to continue implementing Government's free education policy.

134. The Government will spend a total of K4.7 billion towards the Local Government Equalisation Fund to support all local authorities across the country in delivering key public services. Further, a total of K9.1 billion has been allocated to the Zambia Revenue Authority to enhance domestic revenue mobilisation.

135. To continue developing the country and empower more women and youths, Government has allocated a total of K15.4 billion to the Constituency Development Fund (CDF). Of this amount, K9.3 billion has been allocated to Community Projects, K3.1 billion to Youth and Women Empowerment programmes, and K3.0 billion has been earmarked for Secondary Boarding

Schools and Skills Development Bursaries. The increase in the budget allocation is in line with the Government's agenda to take resources closer to the people and enhance the participation of the community in decision making. It is also envisaged that education, health, and water and sanitation projects will be prioritised.

136. Over the medium term, the Government will spend a total of K24.4 billion on FISP. Of this amount, K8.6 billion will be spent in 2024, K7.7 billion in 2025 and K8.1 billion in 2026.

Social Benefits

137. The Government will spend a total of K26.3 billion over the medium term on social protection programmes. Of this amount, K8.4 billion will be spent in 2024, K8.7 billion in 2025 and K9.1 billion in 2026. Notable allocations under this expenditure category include; K14.9 billion for the Social Cash Transfer programme and K11.3 billion earmarked for the pension funds.

Assets

138. Over the medium term, the Government will spend a total of K76.0 billion on Assets. Of this amount, K24.8 billion will be spent in 2024, K25.6 billion in 2025 and K25.7 billion in 2026. The funds will be spent on Non-Financial Assets and Financial Assets.

Non – Financial Assets

139. Expenditure on Non-Financial Assets is set at K72.5 billion. Of this amount, K23.5 billion is projected to be spent in 2024, K24.5 billion is expected to be spent in 2025 and 2026. Out of the total medium-term allocation, K13.4 billion will be spent on ordinary capital to complete various Government projects including the health and education sectors as well as equipping of health facilities and skills training institutions, among others.

140. The Government will continue implementing the Rural Electrification Programme and projects to spend a total of K1.4 billion over the medium term. Of this amount, K409.4 million will be spent in 2024, K468.8 million in 2025 and K521.8 million in 2026. This programme will support the efforts of the small and medium enterprises in rural areas.

141. Over the medium term, Government will spend a total of K23.3 billion on domestically funded road projects. Of this amount, a total of K871.6 million has been allocated towards rural roads connectivity.

142. Further, a total of K8.3 billion is projected to be spent on the maintenance of the national strategic food reserves over the medium term.

Financial Assets

143. Over the medium term, the Government will spend a total of K3.6 billion on financial assets. Of this amount, K1.3 billion will be spent in 2024, K1.1 billion in 2025 and K1.2 billion in 2026. The funds will be utilised to continue facilitating access to affordable credit for micro, small and medium enterprises as a means of enhancing citizenry participation in the economy to drive development and entrepreneurship for job creation and improved livelihoods. Expenditures under this category include K1.7 billion earmarked for the Citizens Economic Empowerment Fund, K830.2 million for the Credit Guarantee Scheme and K1.0 billion earmarked for Recapitalisation of State-Owned Enterprises (SOEs).

Liabilities

144. To continue unlocking liquidity in the economy, the Government will spend a total of K26.3 billion towards dismantling domestic arrears, including arrears for contractor financed projects in a bid to facilitate effective implementation of projects. Of this amount, K6.9 billion will be spent in 2024, K9.1 billion in 2025 and K10.3 billion in 2026.

CHAPTER SIX

6.0 CONCLUSION

145. The global economy over the past few years has undergone a number of turbulences which have posed a challenge to economic activities. In view of these challenges, global growth is projected to slow down to 3.0 percent in 2023. Despite the unfavourable global economic developments, the domestic economy is projected to grow by an average of 4.6 percent, over the medium term. This will be supported by interventions aimed reinvigorating growth, restoring macro-economic stability, attaining fiscal and debt sustainability. In particular, increased investments in the mining, agriculture, manufacturing, tourism as well as other sectors such construction, accommodation and food services

146. It is therefore, the expectation that the country should over the medium term achieve economic expansion for business opportunities, more jobs and social support, translating into better livelihoods for all Zambians.