ZIPAR

Zambia Institute for Policy Analysis & Research

Quest for Growth and Resilience in the Face of Mounting Economic Headwinds

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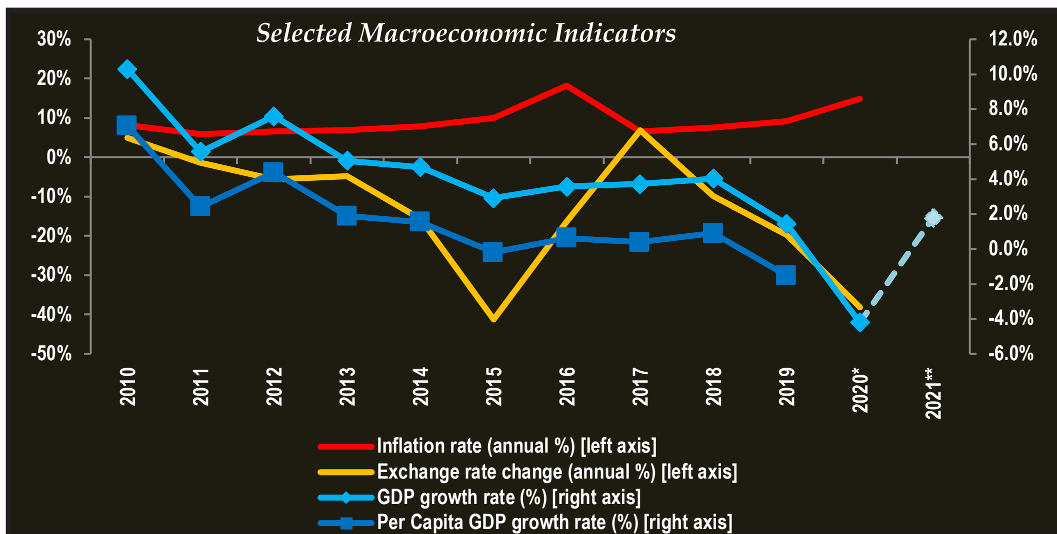
The Economy and the 2021 Budget in Charts

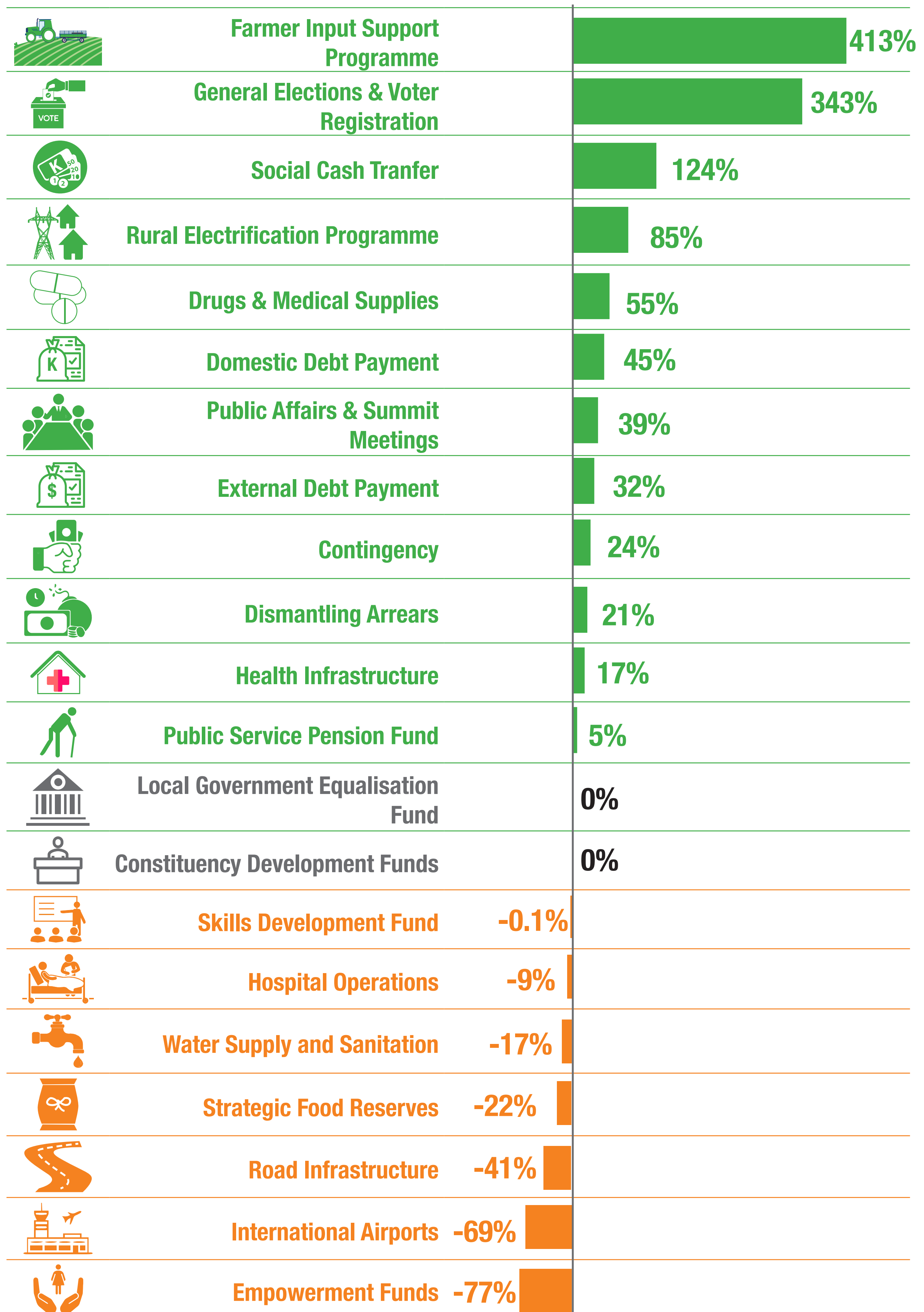


Zambia has experienced weakening macroeconomic conditions in the past 10 years, with falling real GDP and per capita GDP growth, a depreciating kwacha and rising inflation…

Against this backdrop, the 2021 National Budget is themed: "Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable". Many sub-functional big winners are expected in 2021 in terms of allocation increases (e.g. FISP, Voter Registration and Social Cash Transfer), and some critical losers are also expected, particularly Empowerment Funds.

Winners and Losers in the Budget

Percentage change in allocation by selected sub-function over 2020-2021



What's ZIPAR's Take at a Glance?

The main takeaways from this analysis are not fundamentally different from those of the previous years because the circumstances surrounding the 2021 Budget have continued to decline. While the 2021 Budget anticipates a GDP growth rebound by 6 percentage points to 1.8% by the end of 2021, unhinged macroeconomic conditions aggravated by the exogenous shocks of COVID-19 and a slowing world economy will pose precarious economic headwinds. The analysis therefore provides the following insights to digest:

1. ***Watch out for jobless stagflation***: even before COVID-19, Zambia was on a downward growth trajectory and inflation was rising (classic case of stagflation). Worse still jobless stagflation can lead to developmental decline and poverty. Government should therefore set for itself employment targets to complement the other macroeconomic objectives.

2. ***Monetary policy at the end of its tether***: the monetary authorities have already used several innovative policy tools to support the overall economy. With continued weakening of crucial macroeconomic fundamentals partly due to external influences, monetary policy has reached its limit; fiscal policy now needs to weigh in.

3. ***Contentment with little:*** Decision-makers ought to be wary of the lure to depend on debt financing to deliver services and public investments especially when the market conditions are unfavourable. A heads-up, the Government's recent application to suspend interest payment on foreign debt from the G20 Debt Service Suspension Initiative and Eurobond holders given COVID-19 was met with adverse signals of eroded capacity to sustainably service its debt, a worrying sign for debt re-scoping.

4. ***All the way support growth sectors:*** A key imperative in the 2021 Budget is the proposal of measures that ensure the survival of firms and employment in priority sectors, and support the recovery and growth of the private sector. These include Agriculture, Tourism, Mining and Manufacturing, with ICT, Energy and Trade acting as enablers.

5. ***Walk the talk on social protection:*** Overall, the Social Sector is among the big winners in the 2021 Budget. Implicitly, the Budget sets out to protect and benefit more vulnerable persons from deprived households. However, with the severe shrinkage in the fiscal space due to a narrow revenue base and increasing debt service, it is hard to conceive how the increased social sector spending will be financed. The Government may have to borrow to cover social spending.

   The 2021 Budget will require positive and patriotic responses from all sectors of the economy to ensure implementation. Feasible policy options to rescue the economy are becoming scarce. It is now time to make the tough decision we have previously avoided. To borrow the words of President Edgar Chagwa Lungu, this Budget will require a mind-set change, innovation, entrepreneurship, dedication, endurance and resilience of our people in the face of the current challenges.

1. Introduction

The Minister of Finance unveiled a K119.6 billion 2021 Budget on Friday, 25th September, 2020. The Budget was themed; "Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable." It is worth noting that the 2021 Budget was delivered in an environment beset with a spate of anxieties. Firstly, the economy is plunged into a recession, the first since 1998, with a projection to shrink by 4.2% in 2020. This contraction comes after a streak of positive, but declining growth over 2010-2019. Compounding the scenario are, *inter alia*, rising inflation, a weakened kwacha, a mounting debt overhang and rising debt service costs, and dwindling international reserves.

Secondly, the unsustainable external debt position with rising debt servicing obligations is attenuating the fiscal space to support investment and social spending. The debt amortization and servicing obligations have leapt from K23.6 billion in 2019, to K33.7 billion in 2020 and now to K46.1 billion in 2021. Further borrowing could place Government's chances of getting on a financing programme with the IMF in jeopardy.

Thirdly, the misadventure of the COVID-19 pandemic threatened to paralyse the entire economy through supply chain disruptions, loss of incomes and lives, and a mounting disease burden. Clearly, the pandemic has significantly contributed to the negative growth of the economy and it still remains uncertain how long the pandemic will stick around. The Government has thus relaxed restrictions on nearly all business and social activities but with caution.

Fourthly, and perhaps the most important anxiety, is that the 2021 Budget for an election year, faces the usual risks of fiscal slippages.

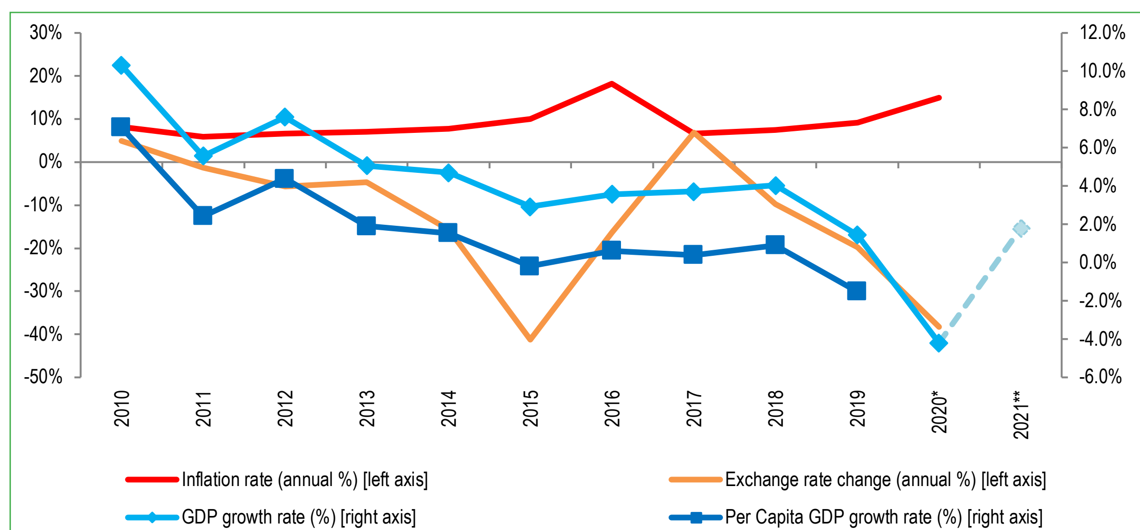
Against this backdrop, this Budget analysis echoes previous analyses where ZIPAR has given policy advice for taking the road less travelled, staying the course of fiscal fitness, and nurturing the seeds of growth. In relation to the 2020 Budget, ZIPAR enunciated the need for Government to realign the macroeconomic targets that had fallen off the Economic Stabilisation and Growth Programme and the Medium-Term Expenditure Framework among other things. In this paper, we generally give insights on the macroeconomic imperatives, debt management and fiscal and sectoral policy options to stimulate the recovery of the economy and effectively protect the poor and vulnerable. We offer suggestions for strengthening the effectiveness of budget execution and avoiding key risks and pitfalls given the economic headwinds Zambia is expected to face in 2021.

2. Navigating Precarious Macroeconomic Conditions

2.1 From Recession to Positive Growth?

GDP growth, possibly the most crucial macroeconomic indicator of economic development, has been faltering in Zambia in the last decade. Real GDP growth rate declined from an average of 6.6% during 2010-2014 to 3.1% during 2015-2019 (Figure 2.1). In 2020, the economy is expected to contract by 4.2% (the lowest growth outcome since 1998) and then to rebound to 1.8% in 2021, as targeted in the Budget. This suggests a V-shaped recovery and represents a rebound in real terms of 6 percentage points - which has not been recorded going by the past growth trajectory.[1]

Figure 2.1: Selected macroeconomic indicators for Zambia



**Preliminary estimate for 2020 end-year*

***Official MOF projection for 2021*

Source: Author's construction from various official sources

To make a bad situation worse, in mid-March 2020, Zambia was impacted by the COVID-19 pandemic, further limiting growth; although even before this, the country's per capita GDP growth was in decline and ultimately shrank by 1.5% in 2019, signifying a deterioration in productive capacities over time. An increasingly deepening fiscal deficit and associated mounting debt overhang, rising inflation, a deteriorating kwacha, and dwindling gross international reserves persisted as major macroeconomic challenges for economic growth. Essentially, by 2020, Zambia exhibited all the signs of classic stagflation. Growth recovery from these conditions will be a daunting task.

2.2 What will drive us towards Growth?

Achieving a GDP growth rebound of 6 percentage points (from -4.2% to +1.8%) with anticipated on-going headwinds in 2021 may be hard to attain considering the slow-down in Zambia's real GDP growth pre-COVID-19. It will require the effective implementation of an integrated multi-sectoral approach, with all the economic sectors expected to perform well above their recent historical averages.

1 Even in the late 1990s when the economy contracted by -0.39% in 1998, the rebound in 1999 was by about 5 percentage points.

The 2021 Budget has maintained agriculture, tourism, mining and industry as sectors to spur growth and economic recovery, and drive economic diversification and job creation in line with the country's long-term developmental plans. Further, information and communication technologies (ICT) is also projected to grow and to foster growth in other sectors, mainly on account of increased demand for data services and mobile money transactions in the wake of the COVID-19 pandemic. Growth of ICT, a key enabler of economic growth, will be a key prerequisite for economic recovery, productivity and income growth and attainment of a well informed and knowledgeable society. As argued in Section 4, the Government should endeavour to channel sufficient budgetary resources and tax and non-tax policy measures to support these sectors, as they drive growth.

2.3 Jobs Targeting Crucial for the Drive Back to Growth

The growth story correlates with employment or unemployment such that when real growth increases, likewise, employment increases (Table 2.1). Considering the recession situation Zambia is experiencing, tracking jobs is important because the decline in production inevitably leads to job losses, wage freezes and pay cuts. Tracking jobs matters for two major reasons: (i) it helps put a human value to the changes in growth; and (ii) it helps to monitor the impact of the strategies put in place to protect jobs and support recovery as jobs are crucial to strengthening aggregate demand. The adage, "jobs aren't just jobs, they are who we are," comes to the fore. Alleviating the human misery resulting from joblessness is thus as much a critical concern as the recovery of the overall economy, in the spirit of safeguarding livelihoods.

Table 2.1: Zambia's Unemployment Rate, 2017-2019

Year	*2017*	*2018*	*2019*
National Combined Rates of Unemployment (%)	41.2	41.2	41.4
GDP Growth Rates (%)	3.7	4.0	1.4

Source: Author's construction based on various ZamStats data

Inauspiciously, the 2021 Budget, like many others before it, does not specify any employment macroeconomic targets. An old maxim of economics management is that we cannot manage what we cannot measure. Considering that unemployment was already very high prior to the advent of the COVID-19 pandemic, it would be very helpful to have an estimate of the overall status of jobs in the economy and target where they ought to be for the economy to get back on the recovery road. For instance, the assessment of the effect of COVID-19 on the Trade in Tourism Sector conducted by the Ministry of Commerce, Trade and Industry (2020) shows that in Q1 and Q2 of 2020 respectively, 87.5% and 82.1% of tourism firms had suspended some jobs. Further slippages on jobs like this one could be distressing and the Government would do well to set for itself an employment target, and steadfastly work towards this target in order to "stimulate economic recovery and build resilience to safeguard livelihoods and protect the vulnerable."

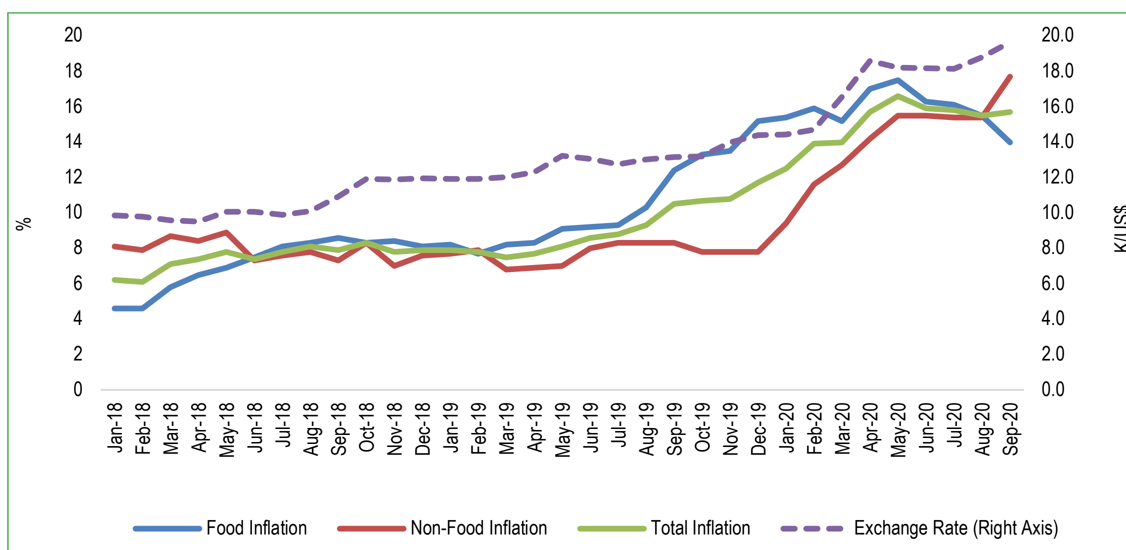
2.4 Steering Clear of Runaway Inflation

The inflation target for 2021 is to "reduce the inflation rate towards the 6-8 percent medium-term target". Here, the Government is right in continuing to work towards this medium-term target, albeit without a hard short-term target for 2021. Over the medium-term forecast horizon of eight quarters to second quarter 2022, the Bank of Zambia (BOZ) anticipates that inflation will steadily decline and reach the upper bound of the

forecast range. In the short-term, therefore, inflation shows limited signs of abating. In August 2020, inflation rose to 15.5%, reportedly driven by upward adjustments in energy prices, higher food prices, and the exchange rate pass-through effect as the Kwacha depreciated.

As the Government aims to reduce inflation towards the 6-8 percent target, a lot hinges on the role that food prices will play in driving inflation as food inflation contributes the largest proportion to overall inflation. In 2020, the good crop harvest of the 2019/2020 farming season helped to drive down food inflation from a peak of 17.5% in May 2020 to reach 14% in September 2020 (Figure 2.2). The various measures put in place to support the agriculture sector in 2021 should go some ways to maintaining the current downward trajectory in food price inflation by boosting agricultural production.

Figure 2.2: Inflation and Exchange Rate Trends, Jan 2018 - Sept 2020

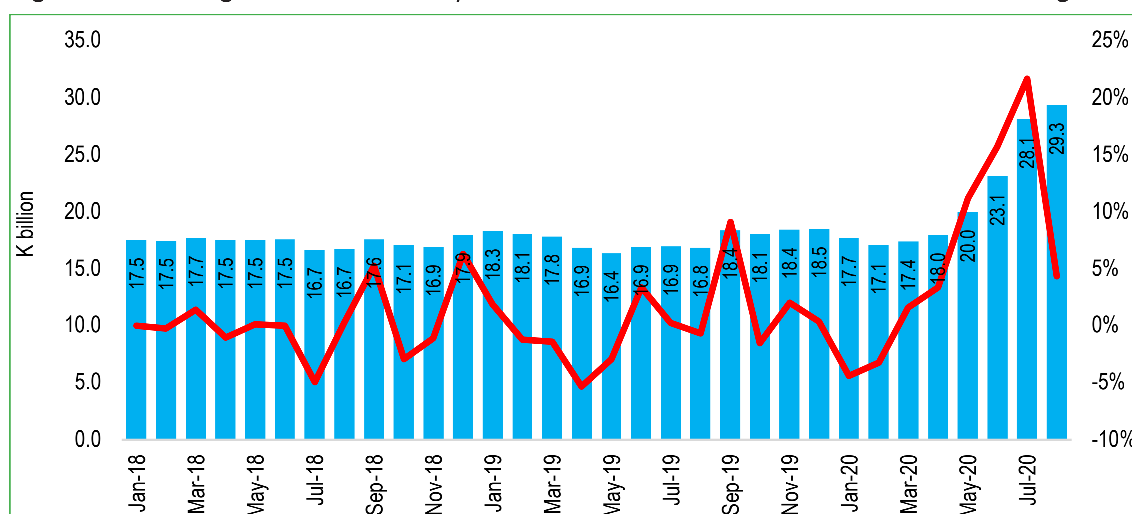


Source: Author's construction based on the BOZ Fortnightly Series Data

Over the first half of 2020, non-food inflation also rose sharply from 7.8% in December 2019 to 15.5% in May 2020 driven by imported inflation as the kwacha depreciated by 27% against the US dollar over the same period. These pass-through effects can be managed through policy measures that encourage import substitution and thus manage import demand.

Another driver of inflation recently has been the steep increase in liquidity from May to July 2020 as BOZ worked to ease liquidity conditions in response to the COVID-19 pandemic (Figure 2.3). While necessary to help shore up economic activity, the expansionary monetary policy heightens the risk of additional upward pressure on inflation. It is therefore critical that the Government keeps a close eye to avoid excess liquidity being pumped into the financial market, particularly given the potential political pressures to put more money in peoples' pockets during an election year. BOZ should stand ready to mop up excess liquidity as soon as economic conditions improve to avoid a case of runaway inflation.

Figure 2.3: Change in Total Core Liquid Assets of Commercial Banks, Jan 2018-Aug 2020



Source: Author's construction based on the BOZ Fortnightly Series Data

2.5 Reigning in the Exchange Rate Depreciation

The depreciation of the kwacha reported in the Budget Speech between end-December 2019 and September 2020 does not bode well for other macroeconomic fundamentals in the country. Over this period, the kwacha depreciated by a massive 42% against the US dollar, from K14.05 at end-December 2019, to K19.96 on 24th September 2020. However, the remedies proposed to deal with this precipitous depreciation are largely medium to long-term in nature, including the diversification of exports, attraction of foreign direct investments (FDI), import demand management including through import substitution, and securing of balance of payments support through an International Monetary Fund (IMF) programme.

In terms of short-term measures to address the exchange rate depreciation, monetary policy will be neither appropriate nor permanently potent to defend the persistent structural fall of the kwacha. It should therefore focus on short-term support to smooth fluctuations in the exchange rate market as has been done in the past. A lot of the depreciation of the kwacha is down to a structural imbalance given Zambia's high import dependency and the limited range of exports for earning foreign currency. It is now necessary for fiscal policy to take on some of the burden of working to contain the exchange rate depreciation in the short term. To this end, it is of utmost importance that prudent fiscal management and fiscal consolidation is put into practice. Budgeting for a large fiscal deficit to support high expenditure through external borrowing jeopardises prospects to attract FDI and in particular, to secure the ever-elusive IMF programme. Fiscal policy must strengthen its focus on external debt re-scoping to mitigate the high foreign currency denominated debt service payments.

2.6 Ramping-up International Reserves

The 2021 budget targets to increase gross international reserves (GIR) to at least 2.5 months of import cover. As at end July 2020, GIR, at 2.3 months of import cover, had declined to US$1.38 billion from US$1.45 billion at end-December 2019. This means that the pressure is on for the country to increase foreign currency earnings and achieve the targeted level of 2.5 months of import cover amid a recession. The persistent decline in GIR has largely been on account of external debt service payments, compounded by

the limited fall of (inelastic) import demand, without corresponding increases in export earnings.

Conditions of low import cover create vulnerability to exogenous shocks. Export-led growth strategies which build productive and export capacities in key economic sectors like agriculture, manufacturing and other identified drivers of growth can support the accumulation of GIR.

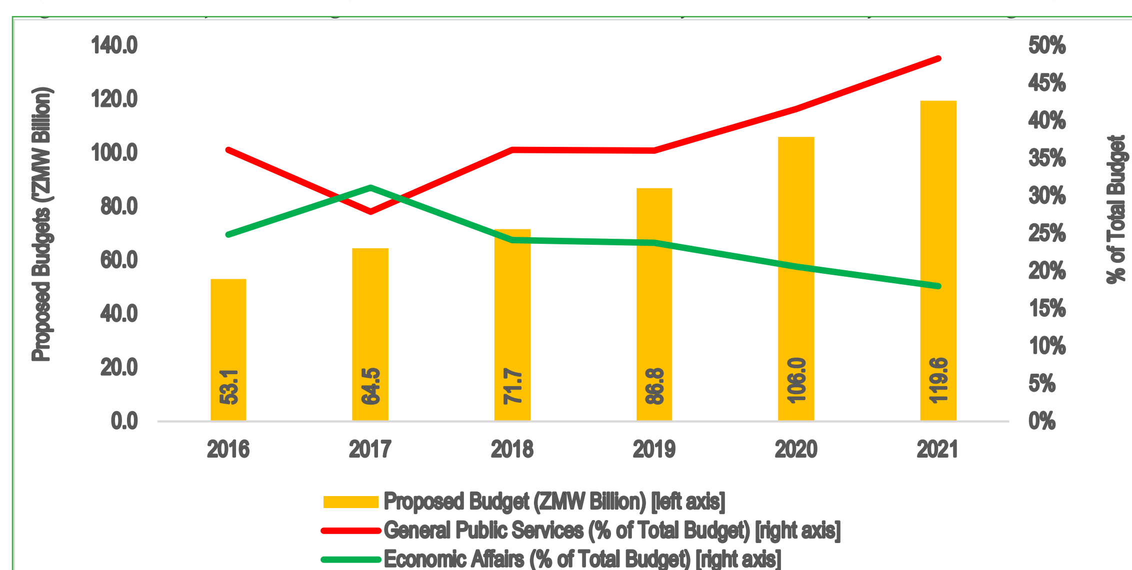
3. Rebalancing Fiscal Scales amidst a Multiplicity of Crises

3.1 Debt Servicing Crowding Out Other Spending Priorities

The Government proposes to spend K119.6 billion in 2021, a nominal increase of 12.8% compared to the 2020 budget of K106 billion (Figure 3.1). In real terms, the proposed budget has only marginally increased by 0.2 percentage points to 32.6% of GDP from 32.4% in 2020. By Government function, general public services continue to command the lion's share of planned spending at 48.3% of the total budget, of which nearly 80.0% is earmarked for debt servicing. This crowding out effect of debt can be observed from 2017, with debt servicing allocations in the budget growing at a nominal annual average of about 34.0% from K11.5 billion in 2017 to approximately K46 billion in 2021.

As a result, spending priorities in other functions such as economic affairs continue to be crowded out with only 18.0% of the proposed total budget allocation for 2021. While the Government plans to resuscitate economic growth in 2021 following the general decline over the last decade compounded by the adverse effects of the COVID-19 pandemic, the debt focused spending will severely limit the fiscal space to support economic activities and achieve the projected 1.8% growth.

Figure 3.1: Proposed budget and allocations, selected functions (% of total Budget)



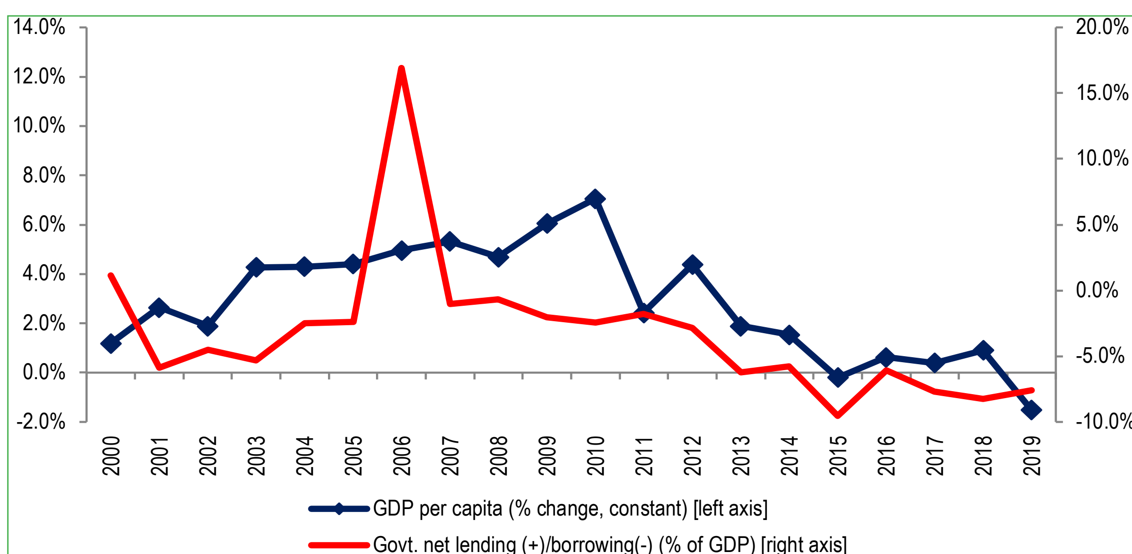
Source: Author's construction based on various Budget Speeches, MoF (2016-2021)

Interestingly, the health sector which might have been expected to see a significant increase in allocations given the COVID-19 pandemic, has seen a reduction in its

planned spending for 2021 to 8.1% of the total budget from 8.8% of the budget in 2020. Notwithstanding, the increased COVID-19 related support from Cooperating Partners and assertions that the pandemic will subside by 2021, reduced planned spending in the health sector – along with a spending mix skewed towards emoluments and health infrastructure development (discussed in Section 5.2) – may affect the quality of health care services provided.

To create fiscal space and foster the achievement of the projected growth, the Government should reprioritise planned expenditure particularly away from "slow return" debt financed investments in infrastructure such as roads (especially in urban areas), education and health infrastructure and other infrastructure under the public order and safety function. The challenging thing about Zambia's past net borrowing position for infrastructure is that the Government's withdrawals were generally directly correlated with falling growth in real per capita incomes (Figure 3.2). The correlation seems particularly strong during 2011-2019 (correlation coefficient of 0.78 compared to 0.52 over the full period 2000-2019; small sample biases notwithstanding). Ultimately, over the full period, per capita income growth contracted twice by 0.2% in 2015 and by 1.5% in 2019, driven down by a quality of spending that did not support growth. Considering that after nearly 10 years, the fiscal expansion for infrastructure yielded the opposite of the growth we anticipated, it is now time to fundamentally reform and start to reverse the expansionary fiscal policy stance.

Figure 3.2: Net lending (+)/ borrowing (-) and Real per Capita GDP Growth



Source: Author's construction based on IMF WEO data

Repurposed funds from infrastructure development could be directed towards identified growth driving sectors such as agriculture, tourism and manufacturing (discussed in Section 4). This will support growth, create jobs and ultimately improve livelihoods. Nevertheless, it is worth noting that within what would remain as infrastructure spending, rural roads, rural electrification and rural ICT connectivity should be prioritised as this will support agricultural activities and also take modern social and other economic services to rural areas.

3.2 Domestic Resource Mobilisation Key in 2021

Amid the COVID-19 pandemic, domestic resource mobilisation will remain key for the implementation of the 2021 Budget. Consequently, one of the main macroeconomic objectives is to achieve domestic revenue collections of not less than 18% of GDP. Policy measures aimed at enhancing the domestic resource envelop in 2021 include innovative technological solutions, enforcement and stiffer penalties on evaders, improved use of data in analysis and segmentation, and use of local authorities as agents of tax collection in the informal sector. Arguably, these measures will work to ensure that the revenue base is protected from actions that tend to shrink the Treasury's collections.

The revenue target in 2020 was anticipated to be 22% of GDP with income tax, Value Added Tax (VAT) and non-tax revenues set as the major contributors to domestic revenues. Income tax and non-tax revenue were above target by 11.3% and 23.5% respectively, as of August 2020, whereas VAT was below target by 39% majorly on account of clearing VAT refund arrears. Nonetheless, revenues are still anticipated to fall short of the budget target by approximately K17.2 billion or 17.8% in 2020 on account of the anticipated loss of exceptional revenue and the COVID-19 related tax and non-tax concessions as relief measures[2].

3.3 Revenues Perform Better than Expected in 2020

Over the last three years, the variance between projected revenues and the outturn as a proportion of GDP has been positive, showing an over-performance in revenue collections. However, revenue collections by Government in 2020 are anticipated to be below target as evidenced by the performance in the first half of the year, as shown in Table 3.1.

Table 3.1: Variance in projected and actual revenues by revenue type, 2018 – 2020

	2018			2019			2020			
	Projection	*Outturn*	*Variance*	*Projection*	*Outturn*	*Variance*	*Budget*	*Projection**	*Outturn**	*Variance*
Revenue and Grants	18.4%	19.1%	3.8%	19.5%	20.6%	5.6%	23.1%	10.4%	9.9%	-5.1%
Domestic Revenue	17.6%	18.9%	7.4%	18.7%	20.3%	8.6%	22.0%	9.9%	9.6%	-2.8%
Tax Revenue	14.6%	15.8%	8.2%	15.6%	16.3%	4.5%	16.4%	8.2%	7.4%	-10.2%
Income Tax	7.3%	7.2%	-1.4%	7.8%	8.0%	2.6%	7.8%	4.1%	4.4%	0.6%
Value Added Tax	4.4%	6.1%	38.6%	5.0%	5.6%	12.0%	5.5%	2.8%	1.9%	-1.7%
Customs and Excise Duties	2.9%	2.3%	-20.7%	2.8%	2.5%	-9.5%	2.8%	1.3%	1.1%	-15.3%
Non-Tax Revenue	3.0%	3.0%	0.0%	3.1%	4.1%	32.3%	5.5%	1.7%	2.3%	32.8%
Grants	0.9%	0.0%	-74.4%	0.6%	0.3%	-50.0%	1.5%	0.5%	0.2%	-53.0%

Source: Author's construction from MOF Fiscal Tables

Given this background, the lower domestic revenue target of 18% of GDP compared to the revenue target of 22% of GDP in 2020, appears a plausible reach in 2021. This lower target reflects COVID-19 related nervousness and considers the negative lag effects of the pandemic on certain revenue sources that are likely to be experienced in

2 Ministerial Statement on the Performance of the economy amid the COVID-19 Pandemic by Hon Dr. Bwalya Ng'andu (July 2020), Ministry of Finance.

* The projection and outturn figures are for up to August 2020 and are calculated based on the 2020 GDP provided in the 2020 Budget Speech.

2021. For instance, non-mining corporate income tax (CIT) will likely be hampered by poor sector performances in 2020 and the larger relief given to workers in the Pay-As-You-Earn (PAYE) exempt threshold will further reduce income tax collections.

3.4 Elementary Workers to Benefit the Most from Tax Revisions

Fittingly, the relief given by the Government to employees who account for 20% of the population[3] is timely. Working individuals have over the years consistently borne a significant responsibility of contributing to tax, with PAYE as a steady contributor to income tax averaging 4.1% of GDP in the past 10 years,[4] compared to corporate income tax (CIT) which averaged 2.5% of GDP over the same period. Of the estimated 2.9million employed persons in 2019, 31.4% of the employees in formal employment stand to benefit from this measure. With current average salary and wage earnings standing at K4, 010[5] in the country, workers in the rural areas, female workers, plant and machine operators, craft and trade workers, services and sales workers, agriculture, forestry and fishery workers and those in elementary occupations will be cushioned to a larger extent, as their earnings on average are below the K4, 000 PAYE tax exempt threshold.

Notably, the larger share of the labour force made up of informal workers will not benefit from this PAYE relief and some incentives aiming at keeping them in the labour force should be crafted. Thus, the recapitalisation of National Savings and Credit Bank to provide financing to small and medium enterprises should serve to also safeguard informal workers. A condition that could be included in the access to the financing should be that the small and medium firms ensure to employ some individuals and with this condition, the employers should receive a relief on their turnover tax payments.

Overall, domestic revenue will be under excessive pressure and reaching the target of 18% of GDP will require vigorous implementation of the strategic policies put in place to ensure collections are maximised and leakages are minimised.

3.5 Balancing Deficit Financing with Economic Growth Restoration

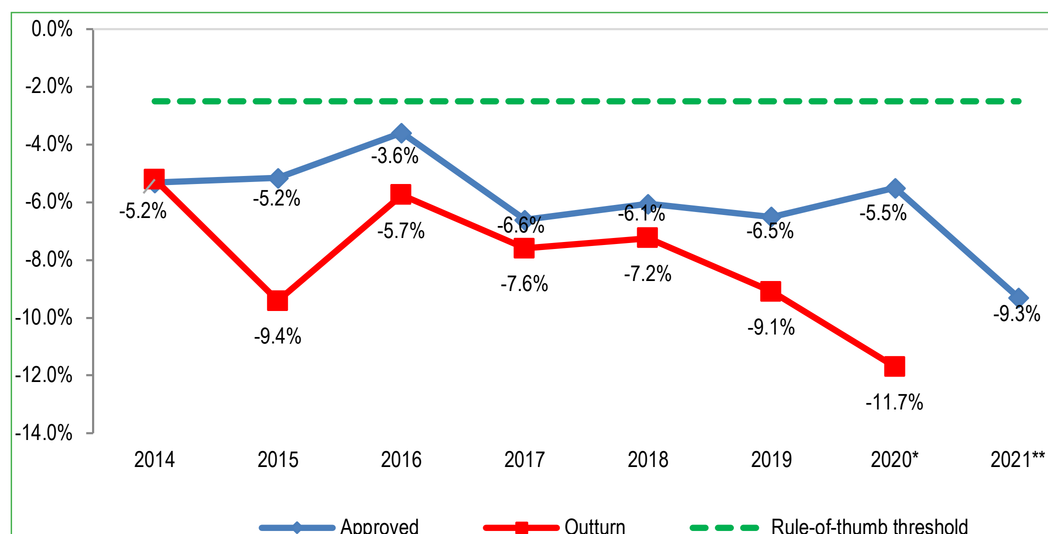
The economic deterioration which has been exacerbated by the COVID-19 pandemic has been notable. The measures put in place to contain the spread of COVID-19 have caused significant disruptions in the country's real sectors to the extent that Zambia will for the first time since 1998, record negative GDP growth. Broadly speaking, the losses resulting from the shock of the pandemic necessitate an increase in public spending, with total expenditure in 2020 expected to close at 5.6% above the 2020 target of K106 billion. Correspondingly, waning performance of domestic revenues on account of subdued economic activity will entail a widening of the budget deficit to 11.7% of GDP from a target of 5.5%, as the year comes to a close (Figure 3.3). Even though Zambia has begun to ease its COVID-19 containment measures, uncertainties around the pandemic still remain with growth still expected to be slow in 2021, a situation that would likely cause domestic revenues to fall even as the country spends increasingly more to try and contain the damage. By and large, Zambia will need to manage its deficit while finding the best way to support economic recovery.

3 ZamStats (2020) Labour Force Survey 2019
4 Ministry of Finance Fiscal Tables
5 ZamStats (2020) Labour Force Survey 2019

(i) Proposed Spending to Push Deficit Higher Still

Zambia plans to achieve a cash-basis fiscal deficit of 9.3% of GDP in 2021. However, if the turnout of the last few years is anything to go by, the 2021 deficit is likely to be wider than the projection of 9.3% of GDP as large fiscal deficits have been a recurring feature particularly in 2015, 2019 and most likely 2020 as announced in the 2021 Budget Speech (Figure 3.3).

Figure 3.3: Fiscal deficit (as a Percentage of GDP)



**Preliminary estimate for 2020 end-year*

***Official MOF projection for 2021*

Source: Author's construction using Budget Speeches and Fiscal Tables, MoF (2014-2020)

On a commitment basis, the deficit is expected to be even deeper as has been the case in the past. For example, in 2019, the fiscal deficit on a commitment basis was 17.7% of GDP compared to 8.5% of GDP on cash basis. More generally, maintaining spending levels in 2021 will be challenging as past experience shows that during election years, Government spending increases significantly leading to wider deficits. Fiscal slippage risks also become heightened in election years.

(ii) Risk Aversion of Lenders May Derail Deficit Financing Plans

Growing international risk aversion to Zambian Government securities could become a problem for the country which plans to bridge its financing gap of K53.6 billion (9.3% of GDP) using a combination of both domestic and foreign financing. Further, as economic uncertainties brought about by the COVID-19 pandemic and concerns about Zambia's debt sustainability continue to mount, lenders both here at home and in the rest of the world have become more risk averse. In the domestic financial markets, the increased caution by lenders is reflected in the increasing frequency of undersubscriptions in Government security auctions. In external financial markets, apprehensions about Zambia's ability to meet its foreign debt obligations reflected in higher yield rates may limit the country's prospects for offshore borrowing. The negative sentiments in international markets were brought about by the fiscal authorities' request, towards the end of September 2020, for a moratorium on interest payments on the country's three outstanding Eurobonds. On this basis, Fitch downgraded Zambia's Long-Term Foreign Currency Issuer Default Rating (IDR) to C from CC just days after the country asked for the deferred interest payments on the three outstanding Eurobonds until March/April 2021.

Of the total external financing needs on the fiscal deficit, K20.6 billion is expected to come from programme loans, K13.6 billion from project loans and K1.9 billion from foreign grants. But the past performance of these budget lines in particular grants and programme loans, suggests that the prospects for financing the deficit from foreign financing may be limited as shown in Table 3.2. For instance, programme loans underperformed by 100%, with foreign grants also posting negative variances in the 2018-2020:H1 period. Based on the past performance, it is worrisome that the Government will face severe constraints to finance the deficit in 2021.

Table 3.2: Financing the Deficit 2014-2020:H1

		2014	*2015*	*2016*	*2017*	*2018*	*2019*	*2020: H1*	*2021*
Grants	Approved	2,626	1,213	545	2,396	2,438	1,924	1,553	1,986
	Variance	-89%	-70%	-4%	-81%	-74%	-56%	-53%	
Programme Loans	Approved	5,500	1,482	3,120	8,033	1,425	7,825	4,350	20,608
	Variance	-16%	576%	-100%	-84%	-100%	-100%	-100%	
Projects Loans	Approved	1,515	2,676	4,016	7,678	7,558	25,173	23,165	13,608
	Variance	-100%	93%	19%	3%	130%	-50%	-45%	

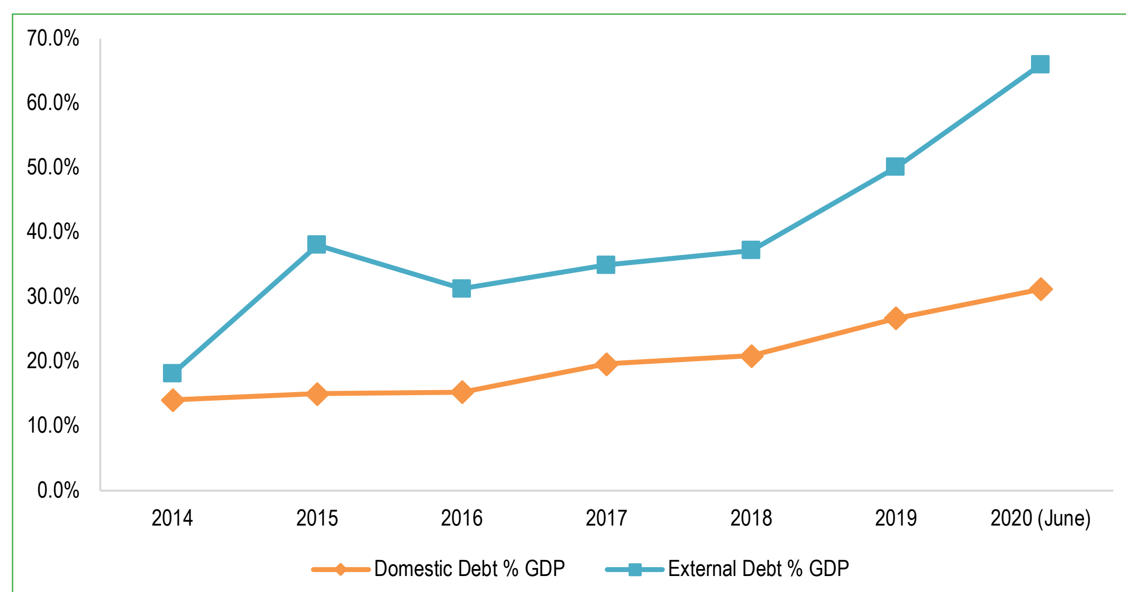
Source: Author's construction based on Ministry of Finance Fiscal Tables

The limited scope for both domestic and external borrowing may mean a diminished ability to dismantle domestic arrears (and free up resources for financing the deficit). To align spending with available financing, payments of arrears to suppliers will most likely be scaled-back. Indeed, domestic arrears may well escalate in 2021 as the constraints on grants, programme loans and project loans cause shortfalls on deficit financing. While the financing constraints may, overall, help to rein in the fiscal deficit, unrestrained spending by Ministries, Provinces and Spending Agents (MPSA) – particularly should they yield to spending pressures of an election year – will pose a high risk of accelerating the accumulation of domestic arrears, and further widening the deficit on a commitment basis.

3.6 Public Debt Stock Continues to Mount

According to the 2021 budget, the stock of public debt has increased. As at end June 2020, the stock of external debt was US$11.97 billion or 66% of GDP, an increase of 7.0% compared to the figures for December 2019 (US$11.2 billion). In addition, domestic debt has increased to K114.3 billion or 31.2% of GDP from K80.2 billion (26.7% of GDP) for the same period as shown in Figure 3.4. The rise in the stock of debt is attributed to the persistent widening fiscal deficit, due to increased debt servicing costs. External debt servicing costs and domestic interest payments will take up 23.2% and 15.3% of the 2021 budget, respectively.

Figure 3.4: Domestic and External Debt (% of GDP)



Source: Author's own construction using MoF Fiscal Tables

The high debt stock is exerting economic pressures on the economy, including through mounting liquidity challenges and a currency depreciation. In this regard, Government has committed to restoring public debt sustainability and has put forward policy measures in the 2021 Budget to achieve this objective. Firstly, Government in 2020 has commenced the process of debt cancellation, postponement and re-scoping of projects. This has resulted in a cancelation of US$1.1 billion pipeline debt and a saving of US$280 million from re-scoping of projects. This shows that through these measures, the stock of external debt as at end June would have been more than US$13 billion rather than the reported US$11.97 billion. If followed through, this is commendable and could create some fiscal space for Government to engage in other productive economic activities. Nevertheless, caution and risk mitigation will be required against the historical fiscal slippages that have caused massive borrowing.

Secondly, the G20 Debt Service Suspension Initiative (DSSI) and debt service suspension from international capital markets is expected to free up more resources during the COVID-19 pandemic. Despite the benefits that come with such measures as briefly discussed above, we urge the Government to be mindful of out rightly participating in the debt service suspension because of the following:

(a) Since the debut of the Eurobonds in 2012, the stock of public debt has increased drastically from 23.6% to 97.2% of GDP as end June 2020. This is way above the crude rule of thumb threshold for debt sustainability (55% of GDP) prescribed by the International Monetary Fund (IMF). Therefore, creditors and international investors view debt suspension seeking nations as those that have been careless when borrowing, and this has a future reputational risk, because lenders will now be extra cautious and may most likely lend at higher interest rates.

(b) According to the IMF and WB, a country that is benefiting from the G20 DSSI will commit to use the freed resources to safeguard social, health or economic spending in response to the COVID-19 pandemic and not commercial debt payments[6]. Under the G20 DSSI, countries will have to limit their use of non-concessional financing

6 https://www.worldbank.org/en/topic/debt/brief/debt-service-suspension-initiative-qas

and this will make it difficult for Zambia to finance the deficit[7].

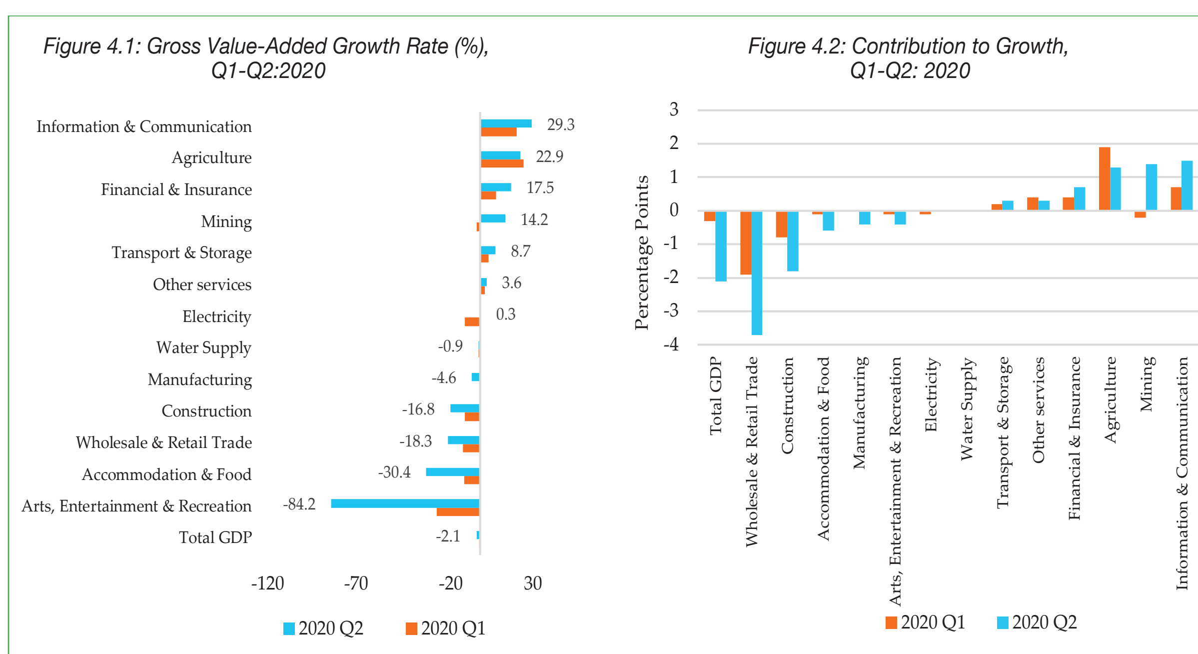
(c) There is a high possibility of credit rating downgrade as witnessed by the recent downgrades by Fitch in September 2020, shortly after Government applied for a six months interest payment suspension on its dollar denominated bonds. In addition, the Financial Times reported that "The six-month freeze is tantamount to default"[8]. Other countries that have had their sovereign credit ratings downgraded after their participation in the G20 DSSI include Cameroon, Ivory Coast and Senegal.

4.0 Recovery, Growth and Resilience in the Company of COVID-19

In keeping with the priority sectors identified in the 7NDP to drive economic diversification and job creation, the 2021 Budget, like its predecessors, seeks to anchor economic recovery on agriculture, tourism, mining and manufacturing, with ICT, energy and trade acting as enablers. While these sectors hold potential for reinvigorating growth and driving employment creation, they have not been spared from the adverse and to a smaller extent, positive impact of COVID-19 as depicted in Figure 4.1. below[9]. Thus, a key imperative for 2021 Budget is the proposal of measures that will ensure the survival of firms and employment, and support the recovery and growth of the private sector. We analyse these in turn.

Figure 4.1: Gross Value-Added Growth Rate (%), Q1-Q2:2020

Figure 4.2: Contribution to Growth, Q1-Q2: 2020



Source: Author's construction based on ZamStats GDP data

4.1 Sustaining Agriculture as a Mainstay

In the 2021 Budget, agriculture has arguably received the most generous funding allocation coupled with measures aimed at improving productivity, promoting local

7 https://read.oecd-ilibrary.org/view/?ref=132_132874-inojmef893&title=A-debt-standstill-for-the-poorest-countries-How-much-is-at-stake

8 https://www.ft.com/content/0b744d46-46b1-48c3-81cd-be0d78d99262

9 Figure 3.1. Depicts the gross value-added growth rate of various industries in Q1 and Q2 of 2020 (left graph) and their contribution to the overall economic growth rate recorded in both quarters. Notably, the impact of COVID-19 is greatest in quarter 2 of 2020 following the full implementation of the containment measures

production and revamping the horticulture and floriculture sub-sectors. Although the industry has seemingly been unscathed by COVID-19 as evidenced by its continued strong growth performance in quarters 1 and 2 of 2020[10], a number of challenges[11] persist that still hold back the full potential of the industry to drive economic and income growth and poverty reduction. Considerable support is therefore warranted.

In the 2021 National Budget, the allocation to the Framer Input Support Programme (FISP) stands out markedly. Spending to FISP has been increased by more than 400%, from K1.1 billion in 2020 to K5.7 billion in 2021. While the overall allocation has increased, there is no corresponding increase in the number of beneficiaries from the target of one million. The increased allocation therefore suggests an increase in the grant per capita (from K1, 100 per beneficiary in 2020 to K5, 700 per beneficiary in 2021), which is commendable considering that this has long been recommended to improve the effectiveness of the programme and commercialise smallholder farmers. We urge that the stock of arrears owed to agro-dealers and other domestic suppliers of goods and services under FISP be dismantled.

To increase labour productivity (which has remained low at K13, 249 per worker compared to the economy-wide labour productivity estimated at K47, 311 per worker in 2019[12]) and incomes, beyond strengthening extension services, the Government has committed to ensuring that all FISP beneficiaries adopt climate smart agriculture technologies and practices. Although the detail of how the technologies will be funded has not been elaborated in the Budget Speech, we assume that these will be at least partly funded under the increased per capita FISP allocations. The continued expansion of communication towers to unserved and underserved areas under the Universal Access to Communication Project, though costly, could further resolve the ICT challenges impeding the full migration to the e-FISP[13] and reduce the distribution costs of the programme.

Additionally, key tax measures have been proposed that could reduce operational costs and promote the much needed mechanisation in agriculture. These include: zero-rating VAT for all tractors irrespective of the horsepower; reduced import duty on secateurs and pruners from 15% and 25% respectively to 5%; and zero% duty on selected agricultural clippers. Further, the 2021 Budget has provided for measures with potential to support the competitiveness of local farmers and promote import substitution. These include increased import duty from 25% to 40% on beef, pork, chicken, fish and their processed products imported from outside the SADC and COMESA regions.

While these aforesaid measures are commendable, Zambia's fish production falls short of satisfying the domestic demand for fish. In the 2018/2019 Food Balance Sheet, this deficit was estimated at 114 thousand metric tonnes (see Table 4.1 below). China is a major source of fish imports outside of SADC and COMESA. Thus higher customs duty on fish poses the risk of reducing consumer welfare. Notwithstanding, the Aquaculture Enterprise Development Project could potentially counter this risk. But beyond suspending duty on refrigerated trucks, developing aquaculture will require increased funding and more importantly, full disbursement; and improved extension services that

10 See Figure 4.1. Agricultural output remained strong in both quarters although growth slowed down slightly from 24.6% in Q1 to 22.9% in Q2. This is largely attributed to favourable maize production in the 2019/2020 farming season.

11 Challenges include: low productivity exacerbated by low mechanization and modernisation, dependency on rainfall for agro-production, limited diversification, inadequate extension services and skills, limited financing including insurance, inadequate investment in research and development, and inadequate infrastructure in rural areas.

12 Labour productivity estimates based on the 2019 Labour Force Survey and GDP from ZamStats

13 Mulenga, Brian P., Mulako Kabisa, and Antony Chapoto. 2019. Zambia Agriculture Status Report 2019. Lusaka: Indaba Agricultural Policy Research Institute.

promote sustainable methods and consistent supply of fingerlings[14]

Table 4.1: Food Balance Sheet 2018/2019 (thousand Metric tonnes)

	Supply					Domestic Utilization					
	Production	Opening Stock as on 1st May	Imports	Exports	Available Supply	Feed	Seed	Food Manufacture	Other uses	Waste	Food
Beef Meat	1,212	-	0	0	1,212	-	-	1,187.85	0	24.24	1,187.85
Cattle offal	121	-	0	0	121	-	-	118.78	0	2.42	118.78
Pig meat	524	-	0	0	524	-	-	513.36	0	10.48	513.36
Cow Milk	1,179	-	0	0	1,179	-	-	1,143.63	0	35.37	1,143.63
Poultry	115	-	0	0	115	-	-	111.55	0	3.45	111.55
Freshwater Fish	121	-	119.07	1.057	239	-	-	235.35	0	3.63	235.35

Source: Author's construction adapted from the Food Balance Sheet by the Ministry of Agriculture

For the dairy sub-sector, an excise duty of K1.50 per litre on reconstituted milk has been introduced, which has the potential to promote and strengthen the linkages between dairy-processing and the livestock sub-sector. Additional non-tax measures to increase the production of livestock and curb diseases include continuation of the Livestock Stocking and Restocking and the Vaccination Programmes. A number of measures have also been proposed for the horticulture and floriculture sub-sectors that have seen a marked reduction in exports over the years. For instance, between 2005 and 2018, horticulture exports fell by 60%[15]. This sub-sector however presents opportunities for extensive employment creation particularly in the production of vegetable crops. Therefore, the proposed measures to: suspend import duty on biological control agents and imports of refrigerated trucks; reduce import duty on selected bulb plants and seedlings from 25% to 15%; and remove import duty on greenhouse plastics, could reduce both capital and operational costs, increase competitiveness and stimulate the sub-sectors.

Beyond these measures, three additional measures should be considered to sustain agro output, improve productivity and wages and significantly reduce poverty:

- Land under irrigation should be increased through the continued provision of irrigation infrastructure and equipment;
- Access to improved and diversified agricultural inputs for crops, livestock, fisheries & forestry should be increased. Diversification within agriculture should be supported with increased investments in R&D aimed at developing seed varieties (i.e. drought resistant) and livestock breeds; and
- Access to affordable development finance and full disbursement should be provided including insurance to hedge against poor harvests.

4.2 Half and half for Manufacturing

Some notable measures to promote value addition in manufacturing and more broadly, industrialisation have been pronounced in the 2021 National Budget. These measures have the potential to promote industrial growth and drive economic growth and employment creation. They include: increasing the local participation of local suppliers in the supply of goods and services through repealing and replacing of the Public

14 Ibid
15 Source: UN COMTRADE data obtained from World Bank WITS

Procurement Act No.12 of 2008 and providing for preferential public procurement; the continued construction and operationalisation of industrial yards in Kafue, Kitwe, Ndola, Solwezi, Kasama, Mongu and Chipata; commitment to promote stronger domestic linkages between manufacturing and agriculture via the establishment of a tomato and fruit processing plant by the Industrial Development Corporation; reduced customs duty on trimmings such as sewing thread, zips and buttons from 25% to 5%; provision of financing through the National Savings and Credit Bank to support the growth of Small and Medium Enterprises (SMEs) and dismantle arrears owed to local contractors and suppliers; and the introduction of a 2% Local Content Allowance for income tax purposes to encourage value addition to local selected raw materials such as mangoes, pineapples and cassava.

While these measures are commended, the impact of COVID-19 on the manufacturing sub-sectors has been varied thus necessitating additional targeted sub-sector interventions. Broadly, manufacturing output growth contracted by 4.6% in quarter 2 of 2020 from a positive albeit slower growth rate of 0.3% in quarter 1 of the same year (recall, Figure 4.1. above). When we disaggregate manufacturing (Table 4.2 below), there is evidence of a heterogeneous effect. This is because COVID-19 has increased the demand for some manufactured products such as masks and sanitisers and at the same time, reduced consumer demand for non-essential manufacturers. In addition, supply chain disruptions have increased the time and cost of sourcing inputs and invariably, the cost of production.

Although COVID-19 presents opportunities for the increased production of masks (apparel), in the first quarter of 2020, the Textiles, Clothing and Leather sub-sector contracted by 73%. In quarter 2, growth was still negative but by only 6.1%. The biggest challenge for the sector remains the lack of competitive local raw materials to substitute imports from China, India and Malaysia. And even though the introduction of a Local Content Allowance has the potential to encourage the use of locally sourced materials, value addition and stronger domestic linkages within the economy; the high cost of production for input producers makes local raw materials less competitive relative to imports, and thus less viable. To promote full economic recovery and realise the potential of manufacturing to stimulate and reinforce growth and employment creation, there is need for additional measures to reduce the cost of production and create a more enabling business environment.

Table 4.2: Quarterly Growth Performance of the Manufacturing Industry, 2019-2020 (%)

	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	1.4	4.6	2.8	0.6	-0.3	-4.6
Food, Beverages & Tobacco	-1.4	0.9	-1.5	1	0.2	0.7
Textile, Clothing & Leather	83.2	-51.9	19.8	-49	-73	-6.1-
Wood & Wood Products	1.2	2.8	-0.4	1.5	-0.2	-3.3
Paper & Paper Products	-0.3	1.2	-1.2	11.6	-0.2	-0.2
Chemicals, Rubbers & Plastics	2.1	1	18.6	5	1	-12.3
Non-metallic Mineral Products	6.3	8.3	-3.9	-0.2	-7.7	-28.1
Basic Metal Industries	1.9	11.1	3.1	0.6	6.7	1.1
Fabricated Metal Products	-7.1	-5.3	14.4	1.8	3.7	-4.7

Source: Author's construction based on ZamStats GDP data

Improving security of electricity supply is imperative; the measures to increase electricity

generation are therefore commendable. In addition, Government should consider temporary (COVID-19 recovery) subsidies on electricity to MSMEs that face higher production costs due to lack of scale. Moreover, licenses and business processes should be streamlined by implementing the single licensing system. Particularly for the development of the textiles, clothing and leather sub-sector, customs duty on imports of yarns and fabrics not produced locally should be removed in the short-term while supporting the development of raw material and intermediate industries in the long term. In this regard, the Local Content Allowance should cover a broader spectrum of raw materials.

Furthermore, the measure to reduce the investment threshold for a Zambian citizen to qualify for tax incentives under the Zambia Development Agency Act No.11 of 2006 to US$100,000 from US$500,000 for those intending to operate in a priority sector, a multi-facility economic zones and industrial parks is commended. This measure will address the long-held concerns the 'half a million' dollars investment threshold acted as a barrier to entry in MFEZs for local investors and spur increased domestic investments. Government should go a step further by prescribing the lower threshold for local investors in Kwacha. This will partially protect local investors from exchange rate risk arising from the volatility and depreciation of the Kwacha.

4.3 Resuscitating the Tourism Sector

Undeniably, COVID-19 has had a disproportionate negative impact on tourism compared to other sectors, eroding the positive gains of yesteryears, owing to the drastic collapse in demand for accommodation, food, conferences, tours, entertainment and other tourism-related activities. Figure 4.1 shows that in 2020, Zambia's output in industries such as accommodation and food that proxy tourism contracted by 21.5 percentage points from -8.9% in quarter 1 to -30.4% in quarter 2 signifying the magnitude of the impact of COVID-19 on the tourism sector. Also, estimates from the Ministry of Tourism and Arts[16] show that international arrivals at Zambia's international airports between January and May 2020 reduced by 52.3% from 282,697 in 2019 to 134,790 during the same period. Domestic arrivals similarly reduced by 60.1% from 65,035 in 2019 to 25,945 during the same period in 2020.

Alive to the adverse impact of COVID-19 on the tourism sector, the Government has proposed a raft of measures to resuscitate the sector and also promote local tourism. These measures are: reduction of the corporate income tax rate to 15% from the current 35% on income earned by hotels and lodges on accommodation and food services; suspension of import duty on safari game viewing motor vehicles, tourist buses and coaches; suspension of license of renewal fees paid by hotels and lodges; suspension of the retention fees paid by tourism enterprises and retention fees paid by tourism enterprises; and the suspension of registration fees for hotel managers.

While the Government's focus in the tourism sector has been to tap into the unexploited potential of domestic tourism, evidently, household income of the average Zambian remains inadequate, leaving little available for leisurely consumption options like travel and holidays thus limiting the growth of domestic tourism. Also, the pricing of tourism products is inhibitive owing to levies and taxes which the firms simply pass on to the consumer.

Table 4.3 shows that the cost of a multiple and single-entry visa is more expensive in

16 Adapted from Airports General Passenger Aircraft movement statistics compiled by the Ministry of Tourism and Arts

Zambia compared to Zimbabwe and Botswana. Moreover, while Botswana provides visa-free access to visitors from its largest tourist source markets, Zambia does not apply such preferential treatment to stimulate visitors from its largest overseas markets (UK, USA, etc.). Ultimately, this makes Zambia an uncompetitive destination for international visitors.

Table 4.3: Regional Comparative Regulation and Visa Costs

	Visa Costs (USD) by Country			
Type of Visa	*Zambia*	*Zimbabwe*	*Tanzania*	*Botswana*
Single Entry	50	30	50	30
Multiple Entry	150	55	100	50

Source: Author's construction from various online sources[17]

Nevertheless, it is highly commendable that the 2021 Budget intends to lower the financial burden on tourism sector firms during a period when they have faced hardships sustaining their businesses. The measures will stimulate recovery, promote investment and offer firms relief from the financial pressure of adhering to statutory obligations.

The recovery of the tourism sector is critical considering its potential to contribute to job creation and diversification. The World Travel and Tourism Council (WTTC) estimates that in 2019, travel and tourism accounted for 7% of Zambia's GDP and grew at a real growth rate of 7.5%. Being a labour-intensive sector, direct and indirect jobs were estimated at 469,700[18] which accounted for 16% of total employment in 2019[19]. In addition, foreign spending (or visitor exports) accounted for 8% of total exports and more than 80% of services exports in 2018[20].

The proposed incentives to revive the tourism sector will require additional measures especially to stimulate domestic tourism which is an obvious cushion in the wake of COVID-19. As such, generally, the Government must enhance the development of a two-tier tourism product pricing system in line with targets in the 7NDP; this will have lower rates for domestic tourists and will thus stimulate domestic tourism. As observed in ZIPAR's Pre-Budget Submissions[21], the Government can also stimulate domestic tourism by reducing or suspending the tourism levy as it provides an ideal tool for a well-targeted policy measure to stimulate demand for tourism services. Tourism levy on leviable services such as accommodation, conference, food and beverages should be reduced from 1.5% to 0.5% in 2021 to reduce the cost of tourism services. This will increase Zambia's competitiveness in the short to medium term and stimulate demand particularly for domestic tourism. In view of the constrained fiscal space, as the sector gradually recovers, this can be increased to 1% in 2022 and finally back to 1.5% in 2023.

ZIPAR's Pre-Budget submissions[22] urged the Government to align visa costs with competitive countries in the region to attract foreign visitors as the world adjusts to the new normal. Visa costs for single and multiple entries should be reduced to US$20 and US$40 respectively. This will be below the visa costs for Zimbabwe and Botswana

17 https://www.zambiaimmigration.gov.zm ; http://www.zimimmigration.gov.zw/index.php/visa/apply-for-a-visa ; https://eservices.immigration.go.tz/visa/guidelines; https://www.gov.bw/visa-applications/visa-application-transit-visa

18 Since Tourism is not an industry per se, various tourism activities are also reflected in other industries and this figure is an aggregation.

19 Estimates calculated based on aggregation of industries under the 2019 Labour Force Report

20 Estimates based on data from UNCTAD & WTTC available at https://unctadstat.unctad.org, https://www.wttc.org

21 Proposals towards the 2021 National Budget Pre-Budget Analysis Report Prepared by Zambia Institute for Policy Analysis and Research submitted to the Ministry of Finance 31 July 202

22 ibid

– landlocked countries with some of the most competitive visa costs in the region – thereby making Zambia a more competitive tourism destination and positioning the country as a prime destination under the "COVID-19 new normal".

4.4 Mining: a deep and wide escapade

Since 2001, the mining fiscal tax regime has on average undergone one tax change every 18 months. These changes take different forms: some focus on strengthening Government's resource mobilisation while others are corrective measures to enhance the sector's resilience and growth. However, because of the unpredictable way these changes are made, it suggests that the objectives and approaches of implementing the fiscal regimes in the sector may not be well-understood, and thus, might not well integrate into the national development framework. Further, these changes generally mean uncertainty and lack of stability in the sector. This has potential of limiting growth and meaningful mining expansion, which lead to negative ripple effects on the general economy, as mining is core to Zambia's economy. To highlight the importance of the mining sector in Zambia's economy, as reported in the 2021 Budget Speech, the mining tax receipts amounting to US$203.5 million played an important role in moderating the decline in foreign reserves in 2020.

To effectively address the concerns around mining regime stability, we recommend that a study with wide stakeholder consultations be done. In a similar fashion as the Energy Cost of Service Study, such a study would create an open dialogue and common understanding about how regime rates are determined and would create a clear and predictable framework among stakeholders. Such an approach has proved effective in Australia[23].

The 2021 Budget has yet again proposed a change to the mining fiscal regime, this time to remove import duty on copper ores and concentrates. This import duty was reintroduced in the 2019 Budget, and was set at 5%. The removal is a good short-term measure that will encourage increased local copper value addition and processing, and will support the much needed sectoral and overall recovery process.

Following on from 2020 Budget pronouncement, the Government has established the Zambia Gold Company (ZGC) Ltd which will spearhead gold mining and trading activities in the country. Towards mining diversification from copper to non-traditional minerals such as gold and manganese, the Government increased funding to exploration, and geological data and information. While the newly created ZGC will be focused on gold, the framework has the potential to increasing production among artisanal and small-scale mines as well. For instance, investment in information generation has potential of increasing activities in the industrial minerals sector,[24] with further potential for increased employment, enhanced livelihoods, and reduced poverty and vulnerability.

The 2021 Budget Speech reflects that the Government is considering an offer to increase its shareholding in Mopani Copper Mining (MCM). While increasing the stake in MCM might come with many other benefits, considering the immediate focus of fiscal stabilisation, recovery and reducing vulnerabilities, we recommend that the Government should instead focus on investing in short-term returns ventures than acquiring shares in MCM. For MCM, as with Konkola Copper Mining, the Government should focus on

23 Stephen F Ralbovsky (ed), Corporate Income Taxes, Mining Royalties and other Mining Taxes: A Summary of Rates and Rules in Selected Countries, Global Mining Industry Update (June 2012) PricewaterhouseCoopers http://www.pwc.com/en_GX/gx/energy-utilities-mining/publications/pdf/pwc-gx-miining-taxes-and-royalties.pdf

24 Tychsen et al., (2018). Artisanal and Small Scale (ASM) Mining Handbook for Zambia: with a regional perspective

co-opting an investor that could enhance operations, transparency and production of the mine.

4.5 Energy: Powering and Moving Zambia in 2021

Zambia's electricity continues to be vulnerable to climate change and variability. As of 2019, hydro-power accounts for 83% of the total electricity generation (ZESCO, 2020).[25] While hydro-power production remains the most cost effective technology in Zambia, majority of the hydro-power potential is located in the Zambezi River Basin (ZRB). This poses a significant challenge as the ZRB is both vulnerable and projected to be hard hit by climate change and variability. Therefore, the Government has continued with the drive of diversifying the energy mix[26]: this has resulted into an increase in installed capacity of solar, coal and heavy fuel oil plants since 2013 (ZESCO, 2014).[27]

Furthermore, beyond the deliberate actions of reducing investment risks by guaranteeing the investors of solar[28], the Government has rightly recognised that for the diversification drive (a long-term measure) to be sustainable, a cost reflective tariff is essential. While a cost reflective tariff will not cure all challenges in the electricity sub-sector, it is key to attracting new investments. A diversified energy mix is important in ensuring security of electricity supply. This is critical because during this recovery period, having reliable supply of electricity would support a rebound in economic activities and also reduce the need to the Government to import electricity during emergencies: imports of electricity would further add pressure on the Treasury, the exchange rate and national reserves. However, care must be taken to ensure that a cost-reflective tariff does not become prohibitive as this would be counter-productive.

Beyond the effects of climate change on the electricity supply, the Government notes that increased electricity demand has contributed to load management events. We, therefore, commend the Government for the continued capital investment in new and retrofitted power generation plants. Particularly the retrofitting and upgrading of Musonda Falls Hydro-Power Plant is strategic because the Luapula and Northern Provinces will not be significantly impacted by climate change. Further, the development of Kafue Gorge Lower (KGL) Hydro-Power Plant will bring online relatively cheaper electricity: KGL plant is cost effective and is currently not significantly impacted by climate variabilities. However, the Government should pay particular attention to how general economic developments and population dynamics are changing in the Kafue River Basin, because evidence suggests that climate change would have considerable impact on electricity production of KGL plant.[29] Nevertheless, the current pipeline electricity projects and other measures that the Government has pronounced are not sufficient to end load management events.

Furthermore, the Government via ZESCO intends to re-negotiate the Power Purchase Agreements (PPA) they have with various Independent Power Producers. This too is commendable as it will increase fairness and ensure that that the costs are borne by the right institution compared to passing them down to the electricity consumers in the name of a cost reflective tariff. It is therefore important also that in the drive to diversify the energy mix, the Government should carefully evaluate the technology options, as

25 ZESCO (2020) ZESCO's 2019 Annual Electricity Statistics
26 This drive has been noted both in the Budget pronouncements and investment profile under ZESCO and IDC.
27 ZESCO (2014) ZESCO's 2013 Annual Electricity Statistics
28 Bangweulu and Ngonye Solar Power Plants are low risk projects because the Government through IDC is a key player and also that World Bank through the IFC has offered considerable guarantees that would otherwise not be available to an average private sector investor.
29 Stenek et al. (2011) Climate risk and business: hydropower, Kafue Gorge Lower

some technologies might be more expensive than others. Thus, the re-negotiating and better adaptation plans around hydro-power production would play a critical role in the recovery process of the economy.

Under the petroleum sub-sector, the Government proposes to reduce import duty of electric vehicles from 30% to 15% in order to reduce the demand on petroleum products. While this is a step in the right direction, we recommend that the Government should prioritise the creation of incentives to enhance the growth of the bio-fuels sector. This is because, firstly, the bio-fuels have both strong back-ward and forward linkages, and secondly, the current stock of motor vehicles still has a healthy lifespan. The first key step and critical signal in the development of the bio-fuels sector is putting in place a bio-fuels blending mandate. The mandate will guarantee a market for all bio-fuels and feedstock producers. Currently, Zambia only has blending ratios. This, however, is not a sufficient signal to the market.

A developed bio-fuels sector would further create options for production of bio-gas, increase employment opportunities, and improved incomes and livelihood for farmers involved in this trade. The seemly negative impacts of development of the bio-fuels sector in Zambia, which we must hasten to say would be quickly off-set by the resulting gains such as employment and increased incomes, is increased capital infrastructure spending. This, we contend, is a necessary cost based on the benefits that would be realised.

4.6 Enhancing Trade Facilitation for NTE Growth

Rising trade costs – from transport, logistics, as well as border controls and documentation requirements – often act as impediments to both trade flows and the global economy. In the wake of COVID-19, this has been aggravated, with the rise in trade costs from additional border controls, transport and supply chain disruptions estimated to account for up to a third of the World Trade Organisations' forecast range of 12% to 32% decline in merchandize trade for 2020 (WTO, 2020)[30].

Various agreements exist, at the global and regional levels, such as the WTO Trade Facilitation Agreement (TFA), COMESA treaty and SADC protocol on trade which seek to improve trade efficiency at borders. In line with these agreements, Zambia has made strides to enhance trade facilitation and border processing efficiency in recent years. It is therefore laudable that the Government has proposed measures to improve trade facilitation in the 2021 Budget. However, this will be through the establishment of a Fund that will support border infrastructure development, which may not be the most pressing problem for traders compared to the need for increasing work-hours and human resource complements at the borders, to reduce border clearance times. We would therefore urge the Government to switch from the current border infrastructure spending focus to human resources and operational measures that could reduce the border time spent of traders.

A look at the 2019 and 2020 Ease of Doing Business framework[31], specifically under the dimension of trading across borders (or the time, procedures and costs associated with the logistical process of exporting and importing goods) show that Zambia's rank marginally dropped from 153 in 2019 to 155 in 2020 ranking worse than its neighbours such as Namibia and Botswana. Table 4.4 shows that for the indicator specific to, 'time to export (hours)', Zambia performed worse than the sub-Saharan averages for

30 WTO (2020), "Methodology for the WTO Trade Forecast of April 8 2020"
31 See https://www.doingbusiness.org/

2019 and 2020. On the indicator, 'time to import': border compliance (hours)' Zambia performed better than the sub-Saharan average in both 2019 and 2020.

Table 4.4: Trading across Borders - Zambia

Indicator	2019		2020	
	Zambia	Sub-Saharan Africa	Zambia	Sub-Saharan Africa
Time to export: Border compliance (hours)	120	97.3	120	97.1
Cost to export: Border compliance (USD)	370	605.8	370	603.1
Time to export: Documentary compliance (hours)	96	72.8	96	71.9
Cost to export: Documentary compliance (USD)	200	168.8	200	172.5
Time to import: Border compliance (hours)	120	126.3	120	126.2
Cost to import: Border compliance (USD)	380	684.3	380	690.6
Time to import: Documentary compliance (hours)	72	97.7	72	96.1
Cost to import: Documentary compliance (USD)	175	283.5	175	287.2

Source: Author's construction adapted from the World Bank Ease of Doing Business[32]

The mixed performance for the time to export and import reflects the need for further interventions to improve border processing efficiency. Zambia is dependent on regional transportation networks and close relations with its neighbours to ensure well-functioning customs, border control and access to exporting ports. Going forward, the Government must enhance cooperation with neighbouring countries streamline, simplify, harmonise and modernise customs procedures. Granted, the Government has committed to allocate a Fund towards this undertaking; however, it is crucial re-evaluate and focus the purpose of the Fund.

Since 2019, the interest of the authorities in the African Continental Free Trade Area (AfCFTA) has increased considerably, and this growing interest is echoed in the 2021 Budget. However, given that Zambia is already party to the COMESA, SADC and Tripartite Free Trade Areas (FTAs), whose benefits the country has only marginally exploited, it will be important for the Government to redirect it focus towards COMESA, SADC and the Tripartite, particularly in the short-term as post-COVID sub-regional demand for primary commodities rebounds.

4.7 The Information and Communications Technologies Silver Lining

Information and Communications Technologies (ICT) is undoubtedly one of very few industries that have managed to ride the COVID-19 wave and even profit from it. The industry grew rapidly in quarter 2 at a rate of 29.3% from 20.7% in quarter 1 (recall, Figure 4.1). This exceeds the industry's compounded annual average growth rate of 18.5% recorded over the period 2011-2018. Growth has been bolstered by measures aimed at limiting person-to-person contact such as working from home, virtual meetings, e-learning and other e-services (including electronic financial intermediary services – mobile money) that have increased the demand for broadband and other ICT services.

Given the industry's favourable performance in the wake of COVID-19, few measures were expected to support the ICT industry particularly given Government's difficult task of balancing revenue generation and support to adversely impacted businesses. As

32 ibid

a result, there is little to write home about in the 2021 Budget. Nonetheless, what is noteworthy is Government's commitment to continue the construction of communication towers in a bid to increase access to ICT services in unserved and underserved areas. This strategic focus is commended particularly for improving access to ICT services in rural areas. If anything, COVID-19 has underscored the urgent need to ensure universal access to reliable and affordable ICT services for communication, economic and social activities (including FISP) and economic and productivity growth. However, this initiative places an unfair burden on the State-Owned Enterprise – Zamtel – tasked with the responsibility of constructing and managing the 1009 communication towers through external borrowing.

To share in the cost of developing ICT infrastructure in rural areas more broadly, and ensure sustainable financing, a proportion of the 17.5% excise duty levied on airtime[33] should be earmarked and ring-fenced for ICT infrastructure development in rural areas. This strategy has been employed to finance rural electrification and could be extended to finance ICT service provision to supplement financing for the universal access to ICT project

4.8 Something for the Youths

In summing up, we further acknowledge and commend the launch of the Youth Empowerment Fund with an allocation of K470 million in the push for economic diversification and job creation. This measure has potential to provide self-employment opportunities for youths and reduce the high youth unemployment rate estimated at 17.9% in 2019[34]. This new fund which replaces the erstwhile Youth Development Fund should take cognisance of the challenges identified in the evaluation of the Fund that led to the poor loan recovery rate (16%) and failure of several businesses to thrive. Thus, additional measures to support this Fund should include:

- Identifying a specialized institution with experience in both managing loan portfolios and providing business development services to administer the Fund on behalf of the Government;
- Sufficient mentorship, training and business support services before loans are disbursed to build financial and business management skills and improve the loan recovery rates so that more youths benefit from the Fund.

33 Voice calls, short message service, multimedia service, internet bandwidth etc.
34 2019 Labour Force Survey, ZamStats

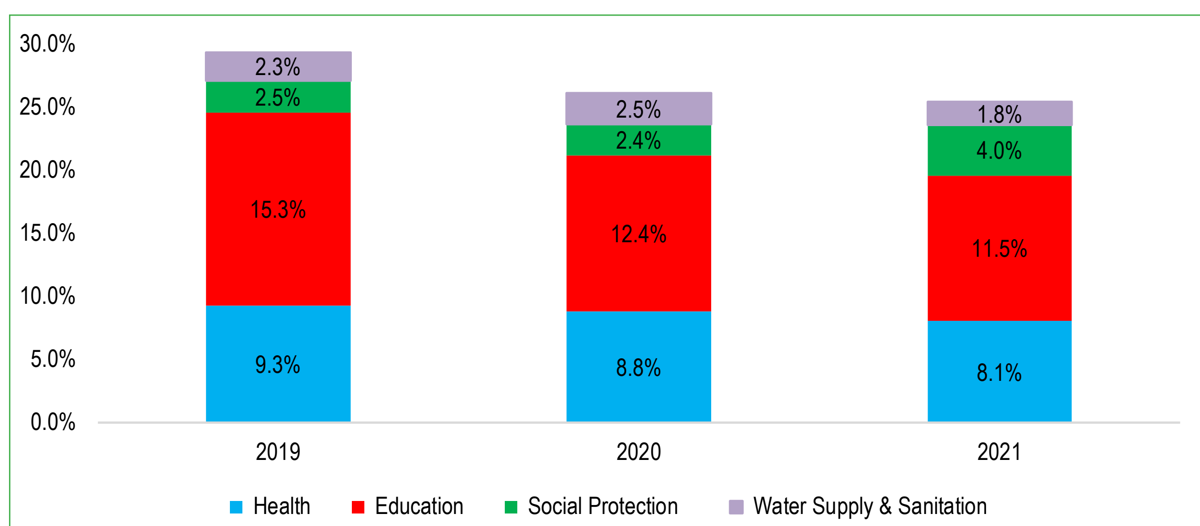
5. Coping with the Dual Effects of a Recession and a Pandemic: Towards Safeguarding Lives and Livelihoods

Social sector public spending is crucial for alleviating poverty and inequality and for saving lives and sustaining livelihoods. It is arguably the most important instrument for ensuring that no one is left behind in the development process, in good and in bad times, irrespective of economic fortunes.

The Social Sector Budget is expected to increase by 10% in 2021 from K27.7 billion in 2020 to K30.4 billion. This is largely due to a K2.2 billion increase in the Social Protection budget. However, expressed in relation to the total Budget, the Social Sector Budget is expected to decline to 25.4% in 2021 from 26.1% in 2020. The declining allocation to the social sectors risks making it more difficult to tackle social development challenges and could limit the effectiveness of overall poverty reduction efforts. Given the limited fiscal space, it is understandable that the Government has prioritised Social Protection to mitigate the adverse socioeconomic effects and safeguard the lives and livelihoods of the most vulnerable of its citizens.

Despite the decreases as a share of the total Budget, education (11.5% of the Budget) will take up the largest share of the Social Sector budget, followed by Health (8.1% of the Budget) and Social Protection (4.0%). Water Supply and Sanitation (1.8%) takes up the lowest share of the Social Protection budget (Figure 5.1).

Figure 5.1: Budget allocation to the Social Sectors, 2019-2021 (% Share of National Budget)



Source: Author's construction from the Ministry of Finance Budget Speeches

5.1 Social Protection

Social Protection has emerged as a big winner of the 2021 Budget receiving an 87% increase in budgetary allocation in comparison to the 2020 Budget. In absolute kwacha terms, the Budget allocation has increased to K4.8 billion in 2021 from K2.6 billion in 2020. Within Social Protection, key programmes such as the Social Cash Transfers (SCT) and the Food Security Pack (FSP) received significant increases in allocations of 124% and 801%, respectively. These increases in allocations to Social Protection are justified as allocations had been declining before 2021; between 2017 and 2020 allocation to Social Protection declined by 4.2% from K2.7 billion in 2017 to K2.6

billion in 2020. This increase in allocations in 2021 is indicative of the Government's willingness to respond to the deteriorating economic conditions which have resulted in the Zambian economy slipping into recession.

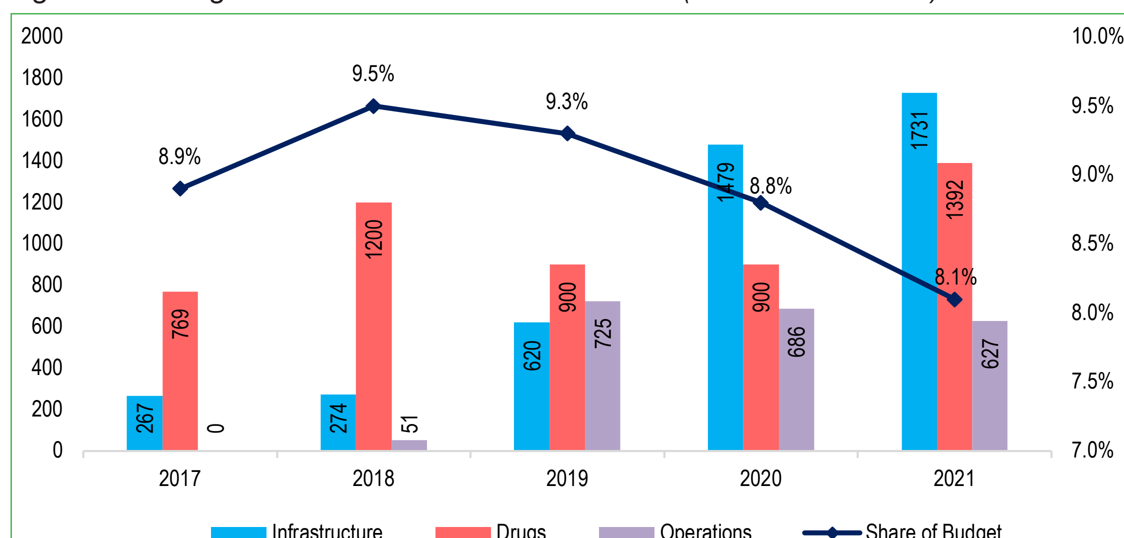
Social Protection has received significant increases in the budget allocation in 2021. While this is encouraging, past disbursements reveal a worrying trend. These past trends reveal that the significant allocation in the Budget Speech has not translated into actual disbursements of committed funds. Between 2015 and August 2020, the Government on average underspent on the SCT programme by 62%. During the same period, the Government underspent on Pensions Fund by 32% and by 26% on the FSP. The consistency in the failure to actualize budgets is a threat to the various social protection programmes the Government has been implementing. Should this trend continue in 2021, the Government risks failing to live up to its aspiration to safeguard livelihoods and protect the vulnerable.

5.2 In Search of Better Health Outcomes

In 2020, Zambia's health sector like the rest of the globe was rocked by the COVID-19 pandemic. Despite early fears that the pandemic would overwhelm an already constrained health sector, Zambia seems to have fared relatively well in managing the pandemic. As of 28 September 2020, Zambia had recorded 14,660 COVID-19 cases and saw a high recovery rate of 94.3%. Similarly, only 2.3% of those identified as infected succumbed to COVID-19. In spite of the moderated health implications of COVID-19, significant and continuing costs were incurred in managing the pandemic. The costs associated with testing were estimated at K158 million between March and August 2020.[35] This was equivalent to 18% of the 2020 allocation for drugs and medical supplies. In addition, 2,232 health workers were recruited and deployed in 2020, reportedly as part of the COVID-19 response of strengthening the healthcare system.

In 2021, the Government has committed to spending a total of K9.7 billion on the health sector representing a nominal 3% increment from the 2020 allocation. As shown in Figure 5.2, the 2021 allocation represents a 0.7 percentage point decrease for the health sector as a share of the total budget. Significant increases have been made to the allocations for infrastructure, drugs and medical supplies while allocations to hospital operations have decreased by 8%.

Figure 5.2: Budget Allocations to the Health Sector (in millions Kwacha)



Source: Author's construction from the Ministry of Finance Budget Speeches

35 ZIPAR 2020, Rapid Assessment of Effects of COVID-19 on Education, Health, Food & Nutrition and Social Welfare in Zambia

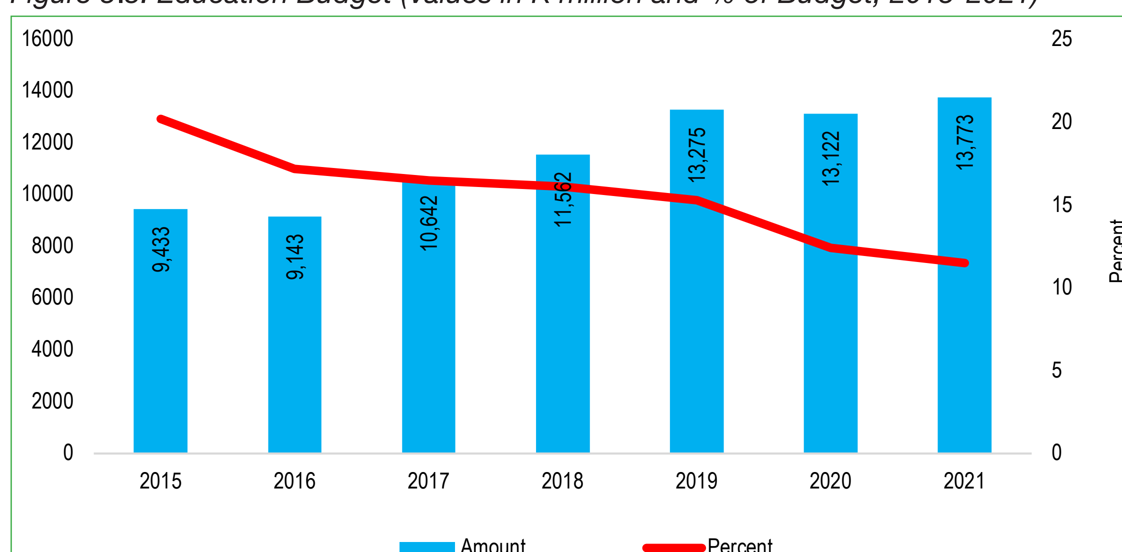
The general decline in the health sector budget as a share of the total budget is a source of concern and risks harming the good progress made in the fight against COVID-19. It was expected that the Government would adopt a similar approach exhibited with Social Protection and similarly increase allocations to ensure that the health sector is adequately equipped to face the COVID-19 pandemic and manage care for those with various pre-existing health conditions. In light of the uncertainties related to the future course of the COVID-19 pandemic and the recent resurgences in cases in other countries, it is prudent for the Government to suspend all **new** infrastructure projects within the health sector and reallocate it to drugs, medical supplies and hospital operations. Currently, the healthcare system already faces challenges of inadequate medical supplies and drugs; thus, the need to ensure that the currently operational health facilities are fully resourced.

The onset of the COVID-19 pandemic is also expected to increase the demand for health services translating into significant out-of-pocket expenditures for households facing various constraints. This makes the National Health Insurance Scheme (NHIS), established in 2019, a critical mechanism for cushioning the cost of healthcare services for households.

5.3 Education and Skills Development

The Government, in the 2021 Budget, has shown commitment to improving the education sector by increasing the nominal allocation from K13.1 billion in 2020 to K13.8 billion in 2021, an increase of 5%. Although this increase is notable, this does represent a reduction in the proportion of the overall budget spent on education. This continues to show a downward trend, falling from 20%, 12.4% to 11.5% in 2014, 2020 and 2021, respectively (Figure 5.3). Additionally, the Government allocation to the skills development fund is a paltry 1.3% of the education budget compared to, for example, the 8.8% allocated to infrastructure projects.

Figure 5.3: Education Budget (Values in K million and % of Budget, 2015-2021)



Source: Author's construction from the Ministry of Finance Budget Speeches

While the education sector budget has been increased, substantial investment is still required in order to maintain the gains made so far and make further improvements in terms of access, quality and equity.

5.4 Water Supply and Sanitation: A Sector left behind

WASH is critical for preventing various contagious diseases and COVID-19 is the starkest reminder of this in recent times. WASH services are a public good whose supply will be far lower than demand if left to the private sector; hence the importance of adequate public sector resourcing in the Budget. If anything, demand for clean water, sanitation and hygiene services has become more pronounced even in areas that previously did not focus on WASH services given the demands for sanitation and hygiene due to COVID-19. Schools and public institutions in rural and urban areas alike are now mandated to have facilities for WASH. Hence, the need for WASH services and increased financing cannot be overemphasized.

National water supply and sanitation coverage has slightly improved since 2015. According to the 2018 Zambia Demographic and Health Survey, 72% of households in Zambia now have access to safe drinking water compared to 68% in 2015. However, nearly half of the population in rural areas remain without access to safe drinking water. Access to improved sanitation facilities had gone up from 31% in 2015 to about 54% in 2018. This was an important milestone. However, rural areas remain disadvantaged as only 37% of the population has access to improved sanitation.

Given that the rural areas account for about 57% of the population, there is a clear imbalance in the provision of WASH services. Recognizing these gaps, the Government has been implementing the National Urban and Rural Water Supply and Sanitation programmes. Major projects under these programmes include Kafue, Nakonde, Chinsali and Chongwe water supply projects as well as the Lusaka Water Supply Sanitation and Drainage programme which is expected to benefit an additional 90,000 residents. Further, with regard to the Rural Water and Sanitation Programme, six piped water schemes in Central, Southern and Western provinces have been completed benefiting more than 155,000 people

Despite these efforts, the national budget allocation to the WASH sector has been declining since 2018 and is further expected to decline by 17% in nominal terms from K2.6 billion in 2020 to K2.2 billion in 2021. As a share of the national budget, the WASH sector is expected to decline from 2.5% in 2020 to 1.8% in 2021. Given this decline in the budget, these programmes are likely to stall.

Additionally, Government efforts have focused on enhancing access and coverage of water supply to households while other aspects of sanitation and hygiene such as handwashing facilities and menstrual hygiene have not been prioritised. Menstrual hygiene which was mentioned in the 2017 Budget has largely remained ignored and underfunded. In the wake of the COVID-19 pandemic, menstrual hygiene requires special consideration due to the complications it presents for girls attending primary and secondary education especially in rural areas. The lack or limited availability of facilities for girls will likely affect the dropout and school attendance rates with an eventual effect on human development.

5.5 Protecting the Vulnerable through Climate Change Mitigation and Adaptation

Climate Change mitigation and adaptation mechanisms play a significant role in safeguarding and protecting vulnerable groups in Zambia. The adverse effects of climate change and variability disproportionality affects vulnerable groups. In the last three years, Zambia has experienced extreme weather events such as floods, droughts

and heavy rainfall that have led to the worsening of the vulnerability level of thousands. These events are expected to increase in intensity and frequency further threatening the livelihoods of many Zambians (Tembo et. al, 2020).

In 2021, the Government has allocated K995 million for environmental protection. This represents an increase of 56% in nominal terms in comparison with the 2020 allocation of K612 million. As a share of the total Budget, this is an increase of 0.2 percentage-points from 0.6% in 2020 to 0.8% in 2021. This reiterates the Government resolve to achieve sustainable development by implementing climate change mitigation and adaptation measures thereby improving the management of natural resources. Similarly, on-going programmes such as the Transforming Landscapes for Resilience and Development programme and the Climate Change Resilience programme are instrumental to facilitate remedial actions to: firstly, provide immediate and effective response to crisis emergency; and secondly, support the Government to mainstream climate resilience in development planning. These and other programmes aid the vulnerable to adapt to climate-change related shocks across sectors.

The effects on vulnerability are already being felt given that the country has experienced an increase of severe droughts and reduced rainfall patterns in parts of Eastern, Southern and Western regions of Zambia. This is an important threat to the livelihoods of Zambians especially rural households, 90% of whom depend on rain-fed agriculture as their main economic activity. It is therefore commendable that the Government is keen on strengthening the national response to climate change shocks and particularly enhance resilience among communities.

5.6 Sustainably Financing Social Sector Expenditure

The Social Sectors can only be sustainably financed through domestic resources. However, this has been a challenge in the past, and 2021 will be no exception. This is largely due to the shrinking fiscal space for discretionary spending as a result of increased debt servicing costs, low economic growth which has translated to reduced domestic revenues, as well as low budget execution rates. The 2021 Budget shows that debt servicing costs and the wage bill alone will be higher than total domestic revenues (Table 5.1).

Table 5.1: Shrinking Fiscal Space

	2019	2020	2021
Domestic revenue	56,087	71,927	65,983
Non-discretionary expense	48,818	59,353	73,380
o/w Debt service [Principal & Interest payments on debt]	23,573	33,726	46,084
o/w Personal emoluments	25,244	25,628	27,296
Surplus (+)/Deficit (-) from domestic revenues	7,269	12,574	- 7,398
Surplus (+)/Deficit (-) as % of domestic revenues	13.0%	17.5%	-11.2%

Source: Author's construction from MOF Budget Speeches

At the very least, the Government would have to borrow to cover these expenditures as they cannot be entirely covered by domestic revenues. However, the unpredictability of foreign grants and concessional loans which are premised on fulfilling certain conditionalities usually pertaining to fiscal governance and borrowing, and the limited market access for commercial loans, makes the financing of the discretionary budget in general, and the Social Sector budget in particular, a big challenge going into 2021.

With many people losing jobs or livelihoods, there is an increased need for supporting the vulnerable sections of the population.

Given this state of affairs, it is unlikely that the non-wage components of the Social Sector budget will be adequately funded. At this time of slow growth, high risk of debt distress and the COVID-19 pandemic, the need to create fiscal space has never been greater. It is imperative that the Government aggressively explores all possible financing alternatives to expand fiscal space to raise funds to support the social sectors. With the global economy registering minimal growth, there is a likelihood that donor investment in the Social Sectors will decline, so investment needs to be inward looking. Some inward-looking financing options are explored below:

- ***Revisiting rental income taxation:*** The tax on rental income has eluded the tax authorities for a number of years now. The appointing of local authorities as tax agents to collect turnover tax, base tax and withholding tax should be extended to withholding tax on rental income. Further, the tax authorities should revert to landlords paying the tax. This will increase administrative feasibility as landlords are easier to locate and follow up. Other strategies that can be employed on landlords to strengthen enforcement include the use of third-party information by leveraging on information from commercial banks, including the mandatory Tax Payer Identification Number (TPIN) registration for all bank account holders, to identify landlords.

- ***Rationalising excise duty for mobile phone subscribers*: ** Despite negative growth in most sectors, the information and communication technology sector is one of the two sectors projected to register positive growth; the other being agriculture. According to the Information and Communication Technologies Sector mid-year market report, the total number of active mobile network subscriptions increased from 16.3 million subscriptions at the end of June 2019 to 17.9 million subscriptions at the end of June 2020 reflecting an improvement of 10.0%. Charging every subscriber a percentage of their talk time through excise duties could generate funds to partly fund social protection.

- ***Curbing illicit financial flows:*** Illicit financial flows, largely driven by trade mis-invoicing, through deliberate mis-reporting of values of commercial transactions on invoices submitted to Zambia Revenue Authority (ZRA) Customs, as well as unaccounted for balance of payment movements, continue to be a serious issue for Zambia. Addressing illicit financial flows would require the country to strengthen institutions and legislation, and leverage on the use of technology.

- ***Expenditure rationalisation in order to increase the provision of social services within a given limited fiscal envelope***: Good candidates for this are rationalising subsidies to the agriculture sector which can bring about sufficient savings. Completely moving to the FISP e-voucher system, among other things, encourages private sector participation, thereby easing pressure on the Treasury.

6. In Closing…

The 2021 Budget aims to stimulate economic recovery and build resilience towards protecting the poor and vulnerable and safeguarding their livelihoods. It is set against the backdrop of weakening macroeconomic conditions in the past 10 years, with falling real GDP and per capita GDP growth, a depreciating kwacha, rising inflation, serious fiscal policy and debt management misalignments, sectoral supply-side and productive capacity constraints, social sector vulnerabilities and other social and economic malaise confounded by the debilitating effects of the exogenous shock of the COVID-19 pandemic.

While the 2021 Budget would desire to stimulate a real GDP growth rate recovery to the tune of 1.8% by the end of 2021, the adverse macroeconomic conditions and lingering after-effects from COVID-19 will pose precarious headwinds that could stall recovery and growth should budget execution wane. The fiscal authorities would therefore do well to mind the following:

- Long-term structural imbalances have emerged (including a huge debt overhang, persistent exchange rate depreciation, inflation and growth stagnation), mainly as a result of our infrastructure led development attempts; fiscal policy, which has had a constraining effect of growth, now needs to be reformed, even at the philosophical level if necessary.

- The jobless stagflation of 2020, which actually set in at the end of 2019, even before COVID-19, implies that Zambia needs renewed efforts in targeting and stimulating employment creation.

- The fiscal deficit programming places the country in a precarious position, both in terms of prospects for financing the deficit and giving Zambia a firm footing on which to negotiate with the IMF (for general programme support) and with international private creditors (towards debt re-scope or restructuring).

- The priority sectors that the Budget has targeted support to for stimulating growth offer an important lifeline for moving the economy towards positive growth recovery; however, the budgetary commitments will need to come through for this positive movement to happen.

- Walking the talk of protected social sector spending has been a challenge in the past, so the scaled-up allocations to some social programmes like the SCT will bring the 2021 Budget execution under the microscope, particularly bearing in mind this will be an election year with heightened risks of spending pressures all around.

Executing the 2021 Budget will require strong patriotic responses from all sectors of the economy. Economic actors must brace for strong headwinds in the coming year, given the prevailing economic conditions. The insight presented here on the macroeconomic imperatives, debt management, fiscal and sectoral policy options to stimulate the recovery of the economy and to effectively protect the poor and vulnerable are meant to strengthen the effectiveness of the authorities in budget execution and in avoiding key risks and pitfalls inherent in the economy given the perilous headwinds expected in 2021.

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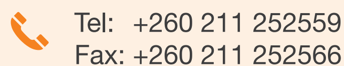
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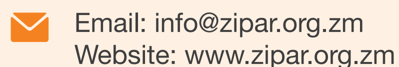
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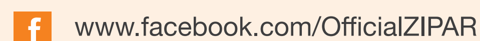
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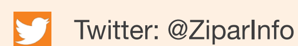
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