



# OP-ED

## FISCAL AND DEBT SUSTAINABILITY: RESTORING ECONOMIC GROWTH AND STABILITY AMIDST THE COVID-19 PANDEMIC

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The onset of the COVID-19 pandemic has negatively affected many economies including Zambia. However, there have been several strides made towards restoring and stabilizing growth within the economy, which have resulted in some of the following positive performances in economic parameters. For instance:

- Government's recent **100% acquisition of Mopani Copper Mines (MCM) places Zambia to benefit from higher copper prices, particularly when one considers that copper is a significant source of FOREX.** Improved copper prices are also likely to see the Kwacha appreciate in value. **The price of copper has increased on the global market, trading at \$9,042 per tonne as of 21st of June 2021.** According to the Bank of America, prices could reach as high as \$20,000 per metric ton by 2025 amid the widening supply and demand deficits.
- Zambia has recorded a trade surplus of 84.7% for the period January to May 2021, amounting to **K147.50 billion, while that of 2020 for the same period was K79.87 billion, which entails an increase in the demand for Zambian products.**
- In the first half of the year, Government revenue has performed better than the same period in 2020 and above set targets. Between January and May 2021, total revenues and grants amounted to K40.1 billion, an impressive 43% above the projection of K28.03 billion for the period. Of the total collection, K39.03 billion consisted of domestic revenues, while resources amounting to K582.2 million came from cooperating partners.
- Tax revenue within the **first months amounted to K26.5 billion, representing a performance rate above target that was approved by Parliament for the 2021 Budget.** Income tax was K15.1 billion, representing a 36% above target performance. This was mainly driven by increased provisional declaration and payments made during the period under review by some mining companies.
- VAT collection was K7.6 billion which was 13% resulting from increased volumes and value of imports, mainly in the mining sector. **This is a positive indicator in the growth of the sector.**

- Customs and Excise Duty collections totalled K3.7 billion which was 4% above target. **This can be attributed to an increase in the importation of mining machinery and other consumables such as spare parts.**
- Revenues for non-taxed sources such as road fees and road tolls have also performed above target and this is attributed to the roll-out of electronic payment solutions under the **Government Service Bus (GSB) Project.**

### **Attaining Fiscal and Debt Sustainability**

Government has continued to strive towards attaining fiscal and debt sustainability in order to restore economic growth. A myriad of strategies have been put in place through the Economic Recovery Programme and other monetary and fiscal measures which underpin economic restoration and growth. These include:

- In the **medium-term**, Government is seeking to undertake further tax policy and administrative measures in order to enhance domestic resource mobilization. Amongst others, one such measure is to broaden excise taxation by expanding the scope of goods on which excise duty is levied. Excise duties are traditionally charged to discourage the purchase of goods which are harmful to consumers' health or the environment.
- Additionally, Government is committed to accelerating the **mass valuation of properties so that tax base information and property values are kept up-to-date and taxes are properly assessed, billed, collected and enforced.**
- The **Zambia Revenue Authority** has recently signed a memorandum of understanding with Local Government Authorities to act as tax collection agents on their behalf. They will be required to collect tax on **rental income, base tax and turnover tax in markets and bus stations only.** It is especially required in the informal sector, which is large and hard-to-tax. The informal sectors tax potential in Zambia is about **42% of total tax revenues per annum.** Realizing this revenue will further consolidate the country's fiscal position.
- Government will implement the **Public Investment Management System, which will ensure that capital projects are appraised before being included in the National Budget.** This is an important action that will ensure projects pursued are financially viable to prevent unnecessary expenditure.
- Additionally, Government has developed an Economic Recovery Programme, which outlines austerity measures to ensure the continued reduction of administrative costs associated with its operations. For instance, **it will leverage on the efficiency and effectiveness of electronic platforms to reduce costs.**
- In the medium term, Government intends to introduce fiscal rules to cap expenditure growth and limit deviations between money allocated for a particular use and actual out turns.
- The K10 billion Targeted Medium-Term Refinancing Facility issued by the Bank of Zambia as a way of easing liquidity during the COVID-19 pandemic as part of the fiscal stimuli measures.
- Government in 2020 released an K8 billion COVID-19 Bond as an economic stimulus package.
- Government is implementing efforts to dismantle domestic arears as a way of easing liquidity into the economy. In 2020, Government released K1.9 billion to this effect.

With regards to debt, Government has put in place several measures to address this issue:

- In the medium term, Government will seek to return to debt sustainability by undertaking **project rescoping, cancellation and restructuring of debt** by the end of 2022.
- The Government also intends to dismantle outstanding external payment arrears as well as refinance domestic debt. This will be achieved by increasing the maturity profile of domestic debt through the refinancing of shorter-term debt to longer term.
- The Government has been implementing measures **to stem negative growth, reduce inflation, interest rates, fiscal deficits and to build a sustainable external sector that will stabilise the exchange rate.**
- The Government seeks to narrow the fiscal deficit from the projected **11.7% of GDP in 2020 to 5% by 2023**. The lowering of the deficit is in line with Government Policy to reduce the pace of debt accumulation.
- Government intends to **enhance debt transparency which will entail publishing a quarterly report of the stock of public debt, loans contracted as well as funds disbursed**. Transparency will be key to ensuring that bondholders as well as other creditors provide debt relief.

## Conclusion

Government's effective implementation of the **measures aimed at restoring fiscal and debt sustainability are crucial to ensuring economic stabilization and growth**. Its commitment is evidenced by the strategies outlined in the Economic Recovery Programme, which when implemented holistically will spur growth and set Zambia on a path of economic recovery. Equally, curbing the spread of the COVID-19 pandemic at a global level will have a positive impact on economies such as Zambia. **PMRC encourages the Government to continue pursuing avenues that are aimed at restoring the economy, such as debt restructuring, adopting cost efficient measures of doing business and considering the formulation of a medium-term policy that will put the country back on a trajectory to achieving fiscal consolidation.**



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