

PARLIAMENT PRESENTATION



REVIEW OF THE BUDGET PERFORMANCE IN THE FIRST QUARTER OF THE 2022 FINANCIAL YEAR

POLICY MONITORING AND RESEARCH CENTRE

Corner of Nationalist & John Mbita Roads, opposite Ridgeway Campus gate
10101 Lusaka, Zambia
Tel: +260 211 269 717 | +260 979 015 660
<https://pmrczambia.com>



Introduction

PMRC was requested to submit a written memorandum detailing the 2022 first quarter budget performance as well as provide any information that may assist the committee to effectively review the performance of the budget in the first quarter and provide recommendations to improve its performance.

This memorandum is outlined as follows:

- i. Global performance and outlook
- ii. Domestic performance and outlook
- iii. Budget performance Expenditure and Revenue side
- iv. PMRC key observations of the budget performance
- v. PMRC recommendations

1. Global economic performance and outlook

The following indicators highlight the global economic performance:

- The Russia-Ukraine crisis has led to a disruption in oil supplies, leading to a price increase of over \$60, from \$75.24 at the end of 2022 to around US \$140 per barrel in the first quarter. Prices now stand at US \$101.29 per barrel following measures taken by the United States government to release oil from its reserves.
- Fertilizer prices have trended at around US \$887 per tonne since March 2022 compared to less than US \$450 per tonne in 2021.
- Copper prices have remained high in the recent past, reaching an all-time high of US\$10,725 per metric tonne in April 2021. Prices averaged US\$9,295 per metric tonne in this period compared to US\$ 6,174 in 2020. Prices are now around US\$10, 400 per metric tonne
- Monetary policy in many countries will need to continue to tighten to curb inflation pressures, while fiscal policy will have to operate with more limited space than earlier in the pandemic.

The April 2022 IMF World Economic Outlook Report gives the following global projections based on the impact of the Ukraine-Russia conflict:

- Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than in the January World Economic Outlook Update
- Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term. Crucially, this forecast assumes that the conflict remains confined to Ukraine.
- Inflation is expected to remain elevated for longer than in the previous forecast, driven by war-induced commodity price increases and broadening price pressures. For 2022, inflation is projected at 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies - 1.8 and 2.8 percentage points higher than projected in January.

2. Domestic performance and outlook

- The Zambian economy grew by 3.6 percent in 2021 from negative growth of 2.8 percent in 2020. The Information and Communication Technology and Construction sectors largely drove this growth.
- The inflation rate for March 2022 slowed down to 13.1 percent from 16.4 percent at end December 2021. Inflation averaged 14.1 percent in the first quarter of 2022 compared to 18.9 percent recorded in the fourth quarter of 2021. This reduction is attributed to the reduction in food prices.

- The average exchange rate in the first quarter of 2022 was K17.76 per US Dollar. This compares well to the average exchange rate in the fourth quarter of 2021, which was K17.12 to the US Dollar.
- The reserve position as at end February 2022 was US\$2.8 billion (3.9 months of import cover), the same as the end 2021 position.

3. Revenue and Expenditure Budget Performance for the First Quarter of 2022 Fiscal Year

Overview

Total Revenues and Grants

- The total collection of Revenue and Grants from January to March was K23.8 billion which was 1.5 percent above the approved 2022 budget projection of K23.4 billion. Tax Revenue for the period under review amounted to about K19.1 billion, Non-Tax K4.5 billion and K195.1 million was from grants.
- In 2021, the total domestic revenue collected was K18.4 billion. Tax Revenue accounted for K12.4 billion, Non-Tax K3.8 billion and K205.7 million was from grants.

Figure 1: Revenue and Grants Total 2022 (Billion Kwacha)

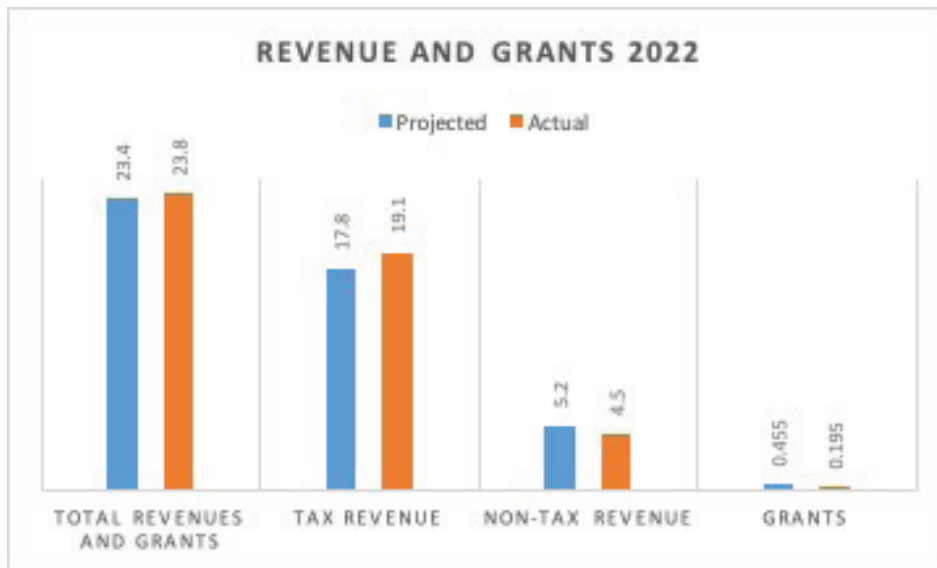
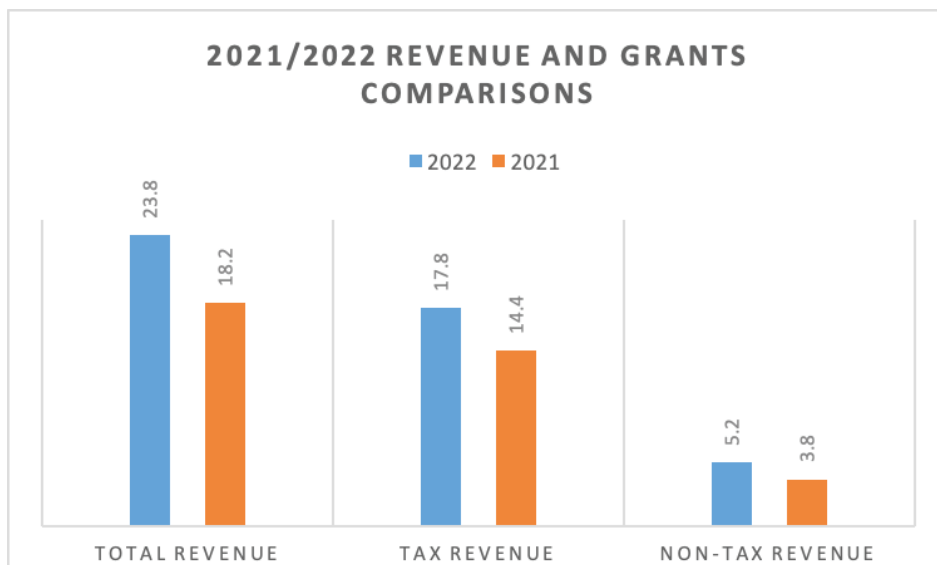


Figure 2: 2021/2022 Revenue and Grants comparisons (Billion Kwacha)



A. Income Tax

Income tax collection amounted to K12.2 billion against the set target of K10 billion and was above target by 22.3 percent. This performance was driven mainly by high company Tax collection on account of payments made by both Mining and non-mining companies and positive performance under PAYE due to the increase in high payments compliance by Government institutions. However, underperformance was recorded under Withholding Tax.

Company Tax- collections amounted to K5.3 billion against the target of K3.4 billion representing a positive collection variance of K1.9 billion or 55.8 percent.

- **Mining Tax**- Mining tax amounted to K3.4 billion against the target of K2.2 billion. This performance was boosted by payment of arrears by some mining entities.
- **Non-Mining Tax** - Collections amounted to K1.8 billion against the target of K1.1 billion. This performance was boosted by payment of arrears not paid in the previous period by various companies.
- **PAYE** - Total collection amounted K4.8 billion against the target of K4.5 billion the performance was attributed to the payment of current liabilities by mining companies such as Konkola, Mopani and Lubambe Copper Mines.
- **Other Income Tax - Withholding Tax** - Collection under this tax type amounted to K2.1 million against the target of K2.6 million. This performance was attributed to lower than projected payments in the quarter by the Bank of Zambia.

B. Value Added Tax (VAT)

VAT collection amounted to K4.4 billion against a target of K4.9 billion and was below target by 9.5 percent.

- **Domestic VAT**- Underperformance was due to low compliance by VAT Withholding Agents, most of whom have requested for offsets against the tax obligations.
- **Import VAT**- The underperformance was attributed to low import volumes.

C. Insurance Premium Levy

Insurance Premium Levy collection for the quarter amounted to K71 million against a target of K15.6 million and was over 100 percent above target. This performance was as a result of increased insurance renewals during the first quarter.

D. Customs Duty

Total collection under this tax type amounted to K1.2 billion against a target of K1.5 billion. This performance was attributed to low volumes of taxable products such as the tax concession on fuel.

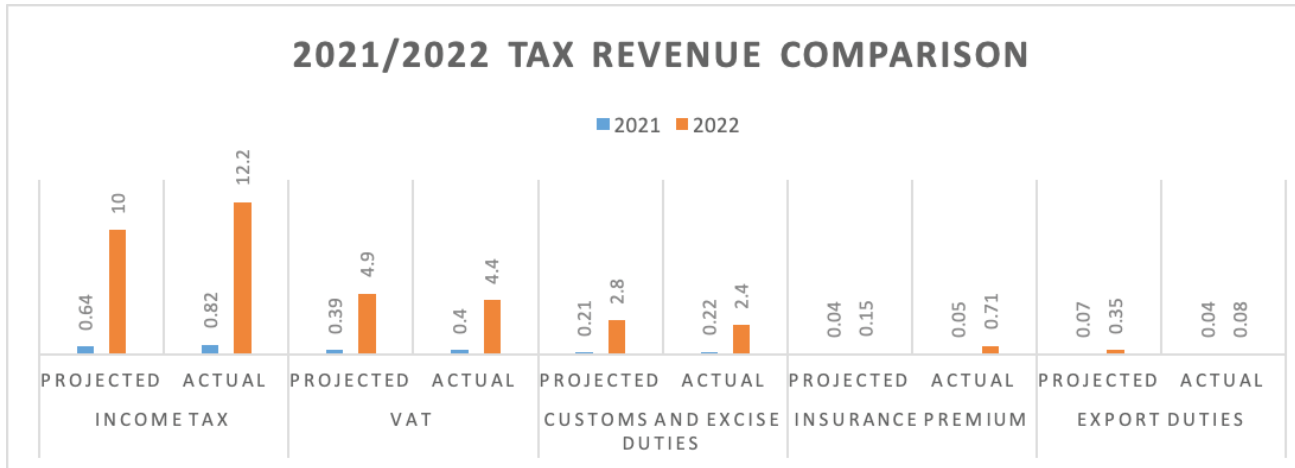
D. Excise Duty

Total collection in Excise Duty amounted to K1.1 million against a target of K1.7 billion. This performance was on account of the Removal of Fuel Levy on diesel and reduction of the duty rate on petrol following the implementation of Statutory Instrument No. 2 of 2022.

E. Export Duties

Export Duties collection of K8.2 million against a target of K34.7 million. This was below target by 76.4 percent. This performance was caused by low exports.

Figure 3: 2021/2022 Tax Revenue Comparison (Billion Kwacha)



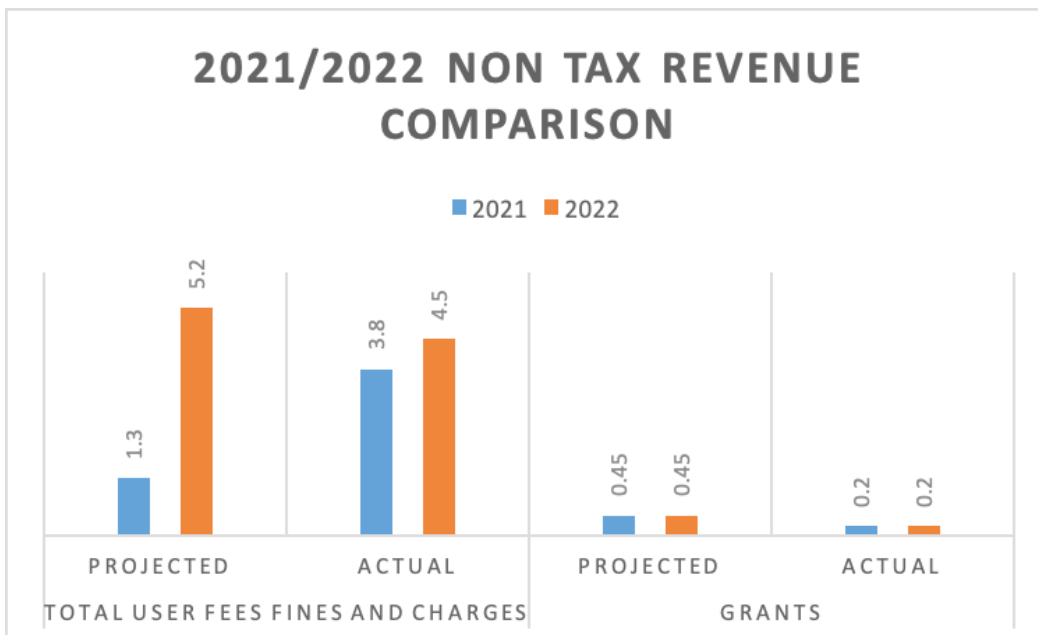
Non-Tax Revenue

Non-tax revenue amounted to K4.5 billion against a target of K5.2 billion and was below target by 13.6 percent. This negative performance was attributed to lower than forecasted collection in fees and fines under the Ministries of Lands and Natural Resources, Home Affairs and Internal Security, and Agriculture (FRA and Fertilizer sales) and projected dividend which were expected to receive from the Bank of Zambia during the period under review did not materialize. However, mineral royalty boosted revenue collection under this category due to the continued favorable copper prices on the London Metal Exchange market.

Grants

A total of K195.1 billion against a target of K455.5 billion was received from cooperating partners and the performance was below the target by 57.2 percent. This underperformance is largely on account of non-remittance of the pledged funds by cooperating partners.

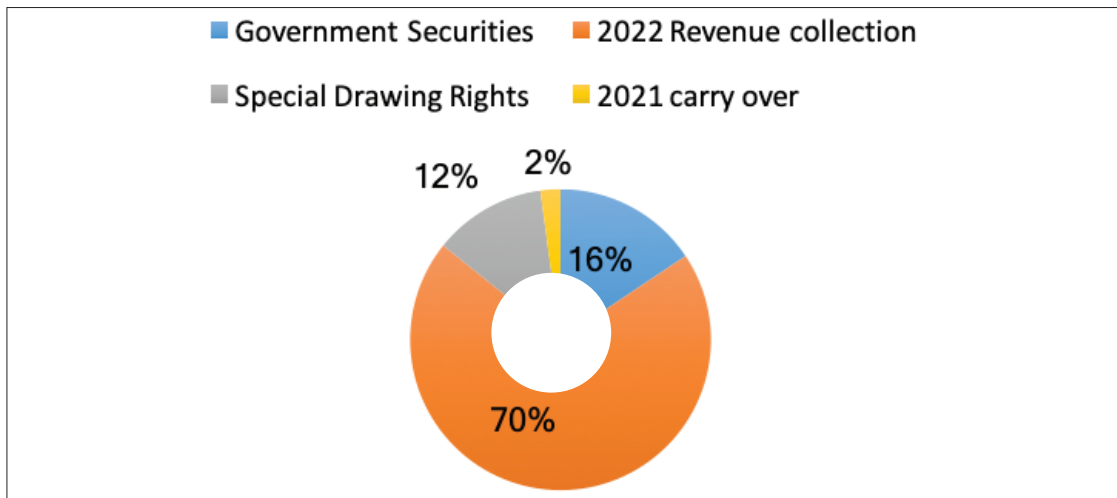
Figure 4: 2021/2022 Non-Tax revenue Comparisons (Billion Kwacha)



Expenditure Performance

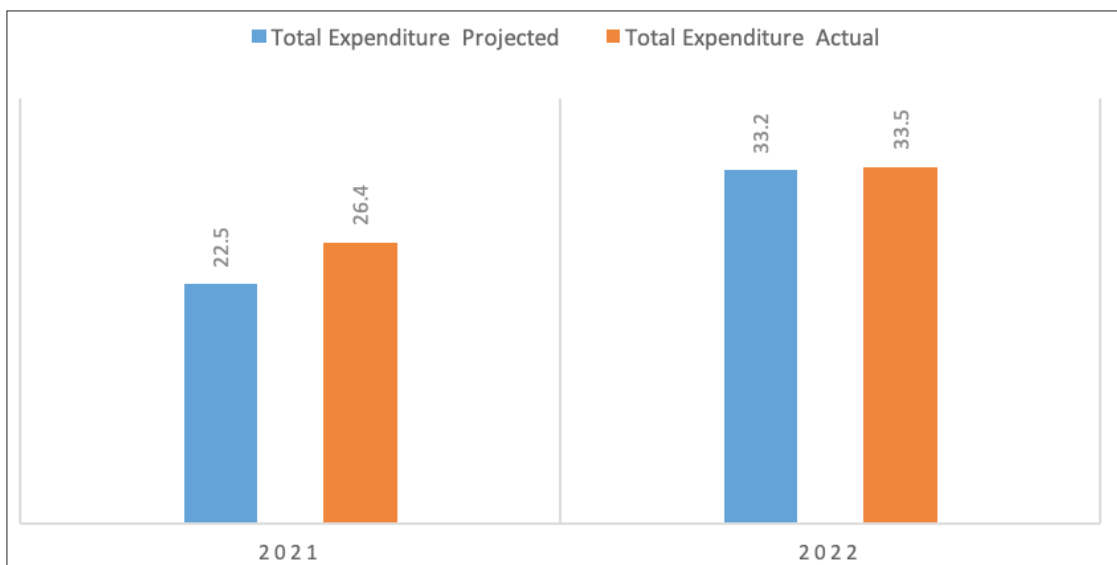
During the period under review, Total expenditures amounted to K33.5 billion against a target of K33.2 billion. Total financing was K10.1 billion relative to the target of K9.8 billion. About K5.3 billion was borrowed from the domestic market through the issuance of Government securities, K4.1 billion was drawn down from the special drawing rights allocation and K730.1 million was carry over funds from 2021.

Figure 5: 2022 first quarter budget funding sources



Expenditure comparisons between 2021 and 2022 indicate that the 2022 budget first quarter expenditure was within target when compared to 2021 in the same period. The figure below depicts this comparison.

Figure 6: 2021/2022 Total expenditure comparison (Billion Kwacha)



Personal Emoluments

Government released K9.0 billion on costs relating to the Public Service Wage Bill and overseas allowances in order to achieve the timely payment of salaries for various public service workers, including teaching, medical and security personnel. The expenditure was 7.9 percent below the projection due to lower releases towards other emoluments, which includes clearance of outstanding personnel related arrears.

Use of Goods and Services

In order to support operations of various public institutions, Government released K4.6 billion for general government operations. This was 69.9 percent above the projection due to higher releases towards drugs and medical supplies which accounted for K1.4 billion of the total releases under this category. Other notable releases included K100.0 million to the Compensation Fund, K85 million to the Zambia Statistical Agency to facilitate the 2022 Census of Population and Housing and K18.7 million for conducting by-elections.

Debt Service

Debt service during the period amounted to K8.1 billion of which domestic debt service payments totaled K7.6 billion which included principal repayments on commercial bank facilities of K191.1 million. On the other hand, external debt service, mainly to multilateral debt amounted to K495.6 million with principal repayments amounting to K370.7 million.

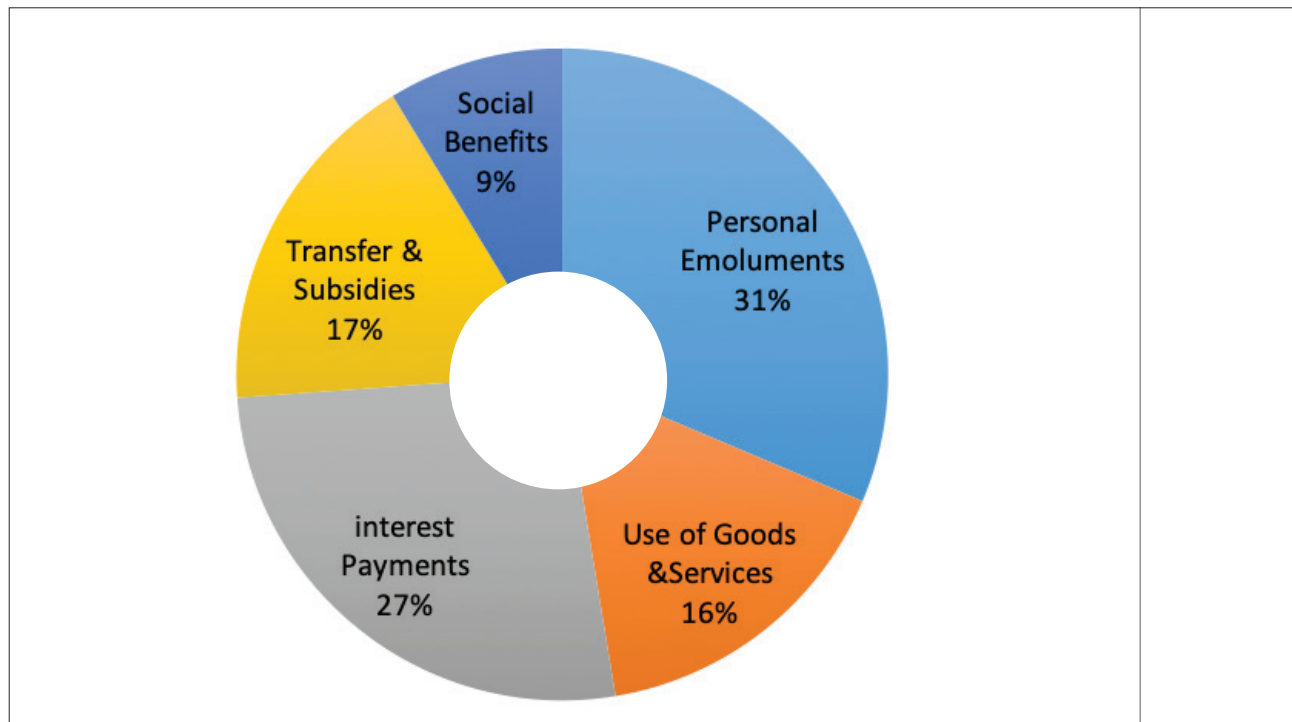
Transfers and Subsidies

Releases to transfers and other payments totaled K5.0 billion and was 3.3 percent above the target due to higher releases on grants to grant-aided institutions and higher receipts of funds from cooperating partners for implementation of programmes. Other notable expenditures included K1.0 billion meant for the Constituency Development Fund, K900.6 million for the Farmer Input Support Programme, K824.3 million for grants to schools, hospitals and universities, K519.7 million for the Zambia Revenue Authority Grant, K334.8 million to the Local Government Equalization Fund, and K327.2 million to the Public Service Pension Fund grant.

Social benefits

Releases under this category amounted to K2.5 billion, and were above target by 16.6 percent due to higher releases towards the Public Service Pension Fund Financing Gap which amounted to K1.7 billion. These funds were released as Government support to assist the fund pay out outstanding pensions and annuities to members. In addition, K721.3 million was released to the Social Cash Transfer Programme of which K213.4 million was support from cooperating partners under the Programme.

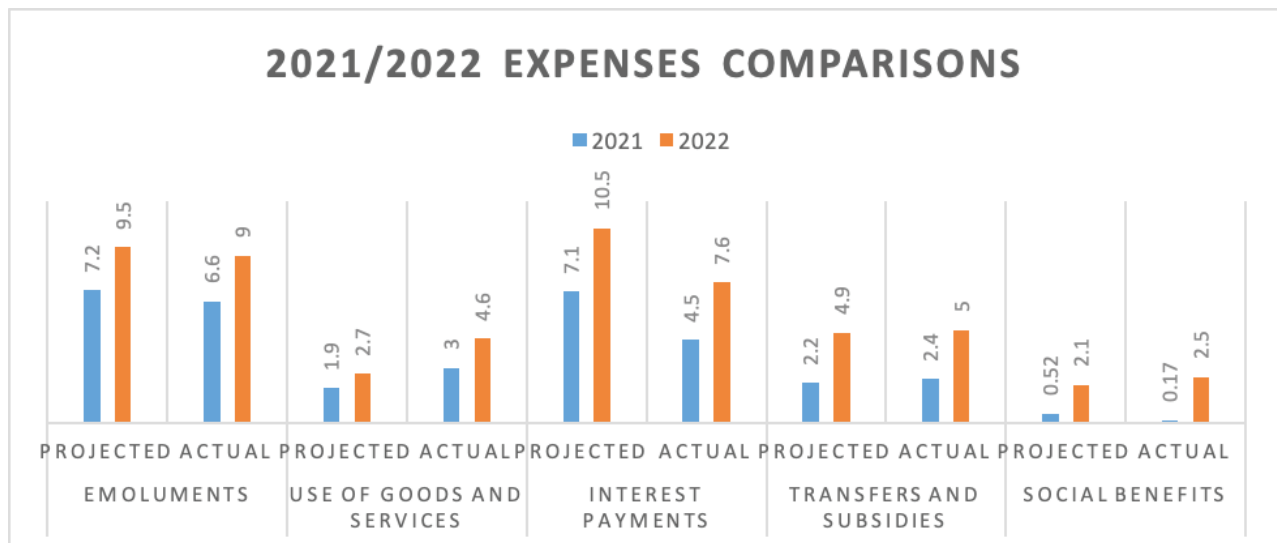
Figure 7: Expenditure breakdown 2022 (Billion Kwacha)



Expenditure observations

- The pie chart above highlights some of the key expenditures by government in the first quarter of 2022.
- Personal emoluments remain the highest government expenditure in the first quarter at 31% while social benefits remain the lowest at 9%.
- When compared to 2021 there is a percentage reduction in the budget for personal emoluments from 36.9% in 2021 to 31% in 2022.
- When compared to 2021 there is a percentage increase in social benefits spending in the budget - from 3% in 2021 to 8% in 2022 with significant increase in the amounts released from K522 million in 2021 to K2.5 billion in 2022.
- There was also a reduction in interest payments as a percentage of the budget from 36.6% in 2021 to 27% in 2022. This percentage reduction is attributed to the suspension of selected interest payments on foreign debt service.

Figure 8: 2021/2022 Expenses Comparisons (Billion Kwacha)



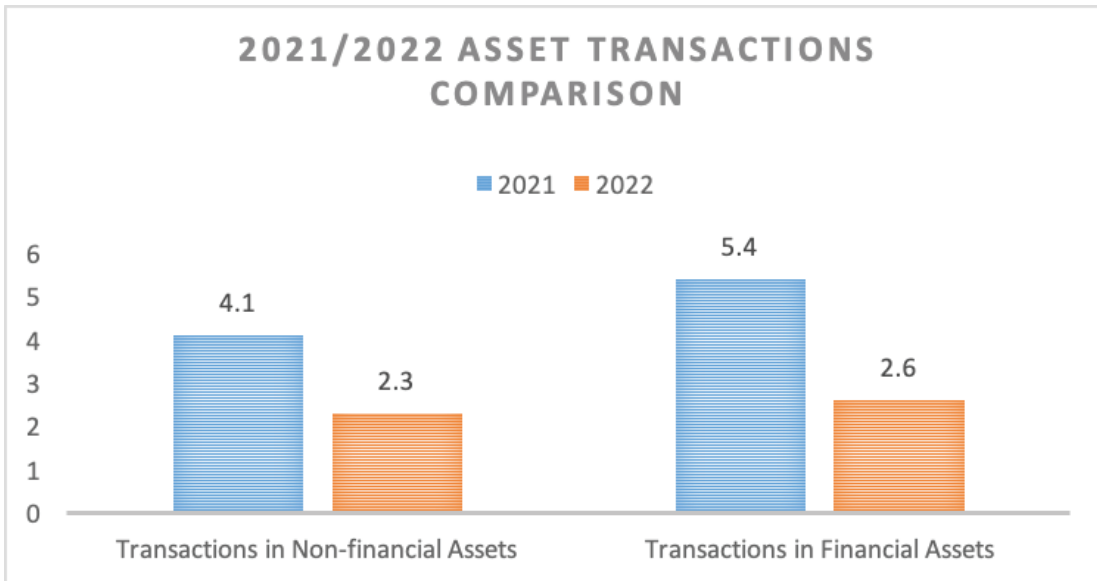
Transactions in Non-Financial Assets

Government released K2.3 billion for non-financial assets and this performance was 28.6 percent below the target due to the non-release of funds to the Rural Electrification Programme. It is worth noting that releases to this programme are based on collections of the electricity levy, hence releases are made after collections accrue in the designated account. Notable releases included K984.6 million for road projects, K960.0 million to the Food Reserve Agency to enable them liquidate arrears arising from the purchase of strategic grain and K257.9 million for capital projects.

Transactions in Financial Assets & Liabilities

Releases under this category amounted to K2.6 billion and were above the projection due to higher than projected disbursements on dismantling of liabilities, where a sum of K2.4 billion was released against a projection of K310.3 million. This amount went towards dismantling of fuel arrears and arrears to various suppliers of good services. Other releases included K91.6 million to the Citizen's Economic Empowerment under the Ministry of Small and Medium Enterprise.

Figure 9: 2021/2022 Asset Transactions Comparison (Billion Kwacha)



Recommendations

- Line ministries and institutions should submit monthly reports to support information availability in the quarterly review which subsequently feed into a more comprehensive mid-term review.
- All supplementary budgets should be backed and supported by a detailed policy analysis concerning how proposed supplementary budget items will affect both the country's revenue and expenditure plans as well as its overall benefits for the economy and society.
- Because quarterly reviews and reports are a key accountability document, the committee needs to ensure that public funds have been spent on their intended purpose and anything that raises a query should be dealt with by relevant authorities. Particularly if coupled with sanctions for noncompliance
- Parliament should consider enshrining fiscal discipline rules in a strong legal framework of Fiscal Responsibility Laws (FRL). A legal base that will give clear disciplinary actions to any individual/s found wanting in terms of misapplication of public funds. It has been well documented that countries that have been unsuccessful in the implementation of their FRL have also, in general, failed to implement good practices in fiscal transparency.
- Government is urged to hasten up the restoration process of its budget credibility by observing fiscal discipline and avoid breaching the deficit targets. Furthermore, strong adherence towards the various austerity measures that have been announced by the Government should be heeded. This coupled with provisions of the public Finance Act, need to be adhered to and enforcement must be ensured.
- Government is urged to expedite talks with the IMF as a deal will pave the way for debt restructuring talks with Zambia's external creditors which are set to take place in the second quarter of 2022. Additionally, having such a deal in place will improve international confidence in Zambia's economy.
- Government must consider prioritizing the dismantling of arrears owed to suppliers of goods and services in order to free up money for investments in the economy.
- Linked to the above, Government should be discouraged from borrowing from the local market and consequently crowding out the private sector. PMRC notes that the stock of Government securities rose by 4.3% in the first quarter.
- Government is urged to consider re-aligning expenditure in the agricultural sector to more productive sub-sectors such as agricultural mechanization and irrigation to ensure increased productivity that will fill the food crisis gap caused by the Ukraine-Russia conflict.
- Government is encouraged to continue on a path of fiscal discipline. In the first quarter of 2022, expenditure was only 300 million Kwacha above the target as compared to the first quarter of 2021 when expenditure was 2.9 billion Kwacha above the target.



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