Policy Monitoring and Research Centre

PARLIAMENTARY PRESENTATION

PRESENTATION

PMRC PARLIAMENTARY PRESENTATION - PARLIAMENTARY SUBMISSION ON EXPANDED PLANNING AND BUDGETING COMMITTEE.

TOPIC: ESTIMATES OF REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR ENDING 31 DECEMBER, 2024

OCTOBER 2023

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Introduction

Domestic revenue in Zambia is projected to increase in nominal terms from K98.6 and K111.7 billion in 2022 and 2023 respectively to K141.1 billion in 2024. This represents an annual growth rate of 8.6% over the three-year period. In addition, Tax revenue is projected to account for a large portion of domestic revenue, with a share of 81.3% in 2024. Furthermore, Non-tax revenue is projected to account for the remaining 18.7% of domestic revenue. The budget reduced by approximately K5.58 billion from K 172.9 billion in 2022 to K167.32 billion in 2023. On a more positive note, the 2024 budget increased by approximately K10.57 billion from K167.32 billion in 2023 to K177.89 billion. The following are the views of PMRC on the 2024 National Budget:

The implications of the 2024 Budget on the economic sectors including mining, infrastructure development, manufacturing and employment

Mining

- The mining sector remains the bedrock of Zambia's economy accounting over 10% and 70% of GDP and export earning respectively.
- Mining has been one of the country's major economic activities dating back to the 1920s when the first commercial mine was opened. The sector is a major contributor to foreign direct investment with the mining tax revenues contributing a significant portion of total government revenue (World Bank, 2016).
- In terms of the country's revenue, the mining sector contributes to the treasury through an array of taxes, directly and indirectly. In addition, the sector contributes heavily to the country's trade profile with copper accounting for a staggering 70% of export earnings (Bank of Zambia, 2021).
- The lack of geological information continues to undermine the growth of the mining sector. Only about 55 per cent of the country had been geologically mapped and the information available is too old and not of high resolution.
- The lack of updated and high-resolution geological information is mainly attributed to the lack of adequate funding to the Ministry of Mines and Minerals Development.
- It is for this reason that Government in the 2024 budget has allocated K160.0 million to carry out a high resolution countrywide geophysical survey.
- The high resolution countrywide geophysical survey will therefore, be key in enhancing mineral exploration and exploitation as investors will have adequate information to determine when and where to invest time and resources as well as how to unearth the targets as safely and effectively as possible.
- In addition, the use of aerial surveys will facilitate for the application of multiple mining applications such as inspection, surveying, mapping, preserving safety, improving security which are fundamental in achieving among others, the 3 million metric tonnes of copper production target by 2032.

Manufacturing

- The Government has continued to demonstrate a strong commitment to developing Multi-Facility Economic Zones (MFEZs). These zones are seen as a key strategy to promote manufacturing, with a focus on job creation.
- Progress has been made in establishing MFEZs, which have attracted both local and foreign investors. For example, the Lusaka South MFEZ currently has 22 companies operating with a total investment of

US $541.4 million and 12,558 jobs have been created. The Government is pleased with the response of local entrepreneurs to MFEZs and is encouraging their participation in manufacturing activities.

- However, the government acknowledges the need to address inadequacies in MFEZs to make them more attractive. Proposed measures include harmonizing and reducing land rates, reviewing onerous provisions in the Employment Code Act and streamlining immigration and work permit requirements.
- The major priorities for Zambia's manufacturing sector in the 2024 National Budget, therefore, is increasing production and exports, attracting investments, enhancing value addition, promoting collaboration with foreign partners and improving the business environment to encourage manufacturing and job creation.

Infrastructure development

- Infrastructure development involving road network is cardinal in promoting the ease with conducting business through transportation of goods and services on the markets.
- Increasing the allocation to CDF to K4.8 billion and each constituency receiving K30.6 million from the current K28.3 million will promote development of community infrastructure such as roads, maternity wings and health posts as well as schools.
- To improve air transport and to ensure that Zambia becomes a regional hub for air connectivity, the Government will spend K700.7 million on Provincial Aerodromes. The allocation is earmarked for the rehabilitation and upgrade of Mansa, Mbala, Mongu, and Solwezi Airports and the development of Chinsali, Choma, and Kasaba Bay Airports.

Employment

- The manufacturing sector through MFEZs will attract more investors, which implies more job creation in the sector.
- The mining sector will promote employment with increased investment through exploration and geological mapping as such information will be key in attracting both domestic and foreign investors in the sector.
- Equally, the infrastructure sector will promote job creation through construction of roads, accommodation facilities, health posts and schools by utilisation of the increased CDF.
- In the education sector, the Government will recruit 5,400 personnel by spending K356.1 million. 4,200 will be teachers while the balance of 1,200 will be non-teaching staff. This is in line the Government's aspirations to improve service delivery in the education sector.
- The Government will further recruit 4,000 health personnel to improve quality of healthcare and will spend K356.1 million.

The fiscal framework and monetary policy

The fiscal framework

- Governments' primary fiscal objective is to decrease the budget deficit from 5.8 percent of GDP in 2023 to 4.8 percent in 2024, reflecting a responsible goal focused on macroeconomic stability and diminishing the need for extensive borrowing.
- This will be achieved through efficiency gains in domestic resource mobilisation, emphasising the need to close tax loopholes, improve tax administration, and combat tax evasion.
- There is a revenue collection target set at a minimum of 22.0 percent of GDP, a challenging but

necessary goal, contingent on economic growth, tax policy effectiveness, and taxpayer compliance.

- The budget highlights the prioritisation of areas that promote economic growth, such as infrastructure development, CDF, with a keen focus on ensuring efficient and transparent utilisation of allocated funds. Commitment to continuing social protection programs to safeguard vulnerable communities is also emphasized.
- The introduction of an annual Fiscal Risk Statement enhances fiscal transparency and budget credibility, while the maintenance of stable and predictable tax and non-tax policies support a conducive business environment. These objectives represent a balanced approach to fiscal management, provided they are effectively implemented and monitored.
- Government has emphasised the need to seal revenue leakages and improve service delivery in tax administration. Leveraging technology and redefining the operating model for the Zambia Revenue Authority (ZRA) are key in this regard. This is a commendable step as modernising tax administration can lead to more efficient revenue collection and reduced opportunities for tax evasion.
- The proposed introduction of an electronic invoicing system is an innovative response to some of the challenges faced by ZRA in dealing with fraud.
- However, Government needs to ensure that the implementation of this system is smooth and user-friendly. Attendant actions will be key through awareness raising and sensitisation campaigns to ensure on-boarding by users of the system.
- Joining the Global Forum on Tax Transparency and Exchange of Information demonstrates Zambia's commitment to combat tax evasion and illicit financial flows (IFF).
- The Centre for Trade and Policy Development (CTPD) claims that Zambia accounts for 65% of Africa's illicit financial flows, of which 80% is through copper. This has a significant negative impact on revenues for the Republic.
- Therefore, the move to join the Global Forum will be beneficial as we improve international collaboration and information sharing, enhancing transparency and tax compliance.
- The plan to introduce a unified Tax Administration Act and reward whistleblowers is a step towards simplifying tax administration and encouraging citizens to report tax-related misconduct. However, the success of such initiatives will depend on effective implementation and safeguards to protect whistle-blowers.

Monetary policy

- High inflation disrupts business planning, raises the cost of finance, and undermines the provision of credit and the promotion of investment.
- Inflation also erodes the purchasing power of money, making it more challenging for people with limited financial resources to afford essential goods and services.
- The Bank of Zambia has a clear and specific inflation target of 6-8 percent. Having a well-defined inflation target is a standard practice in modern monetary policy. It helps guide policy decisions and provides transparency and predictability to businesses and consumers.
- The monetary policy rate is the key instrument used to achieve the inflation target. This rate is usually adjusted to influence the overall money supply in the economy. A higher rate can help reduce inflation by making borrowing more expensive and slowing down spending.
- Certain aspects of inflation, such as the increase in food prices, can be challenging to address with traditional monetary policy tools. This is a crucial recognition, as food inflation often depends on

external factors like weather conditions, crop yields, and global commodity prices.

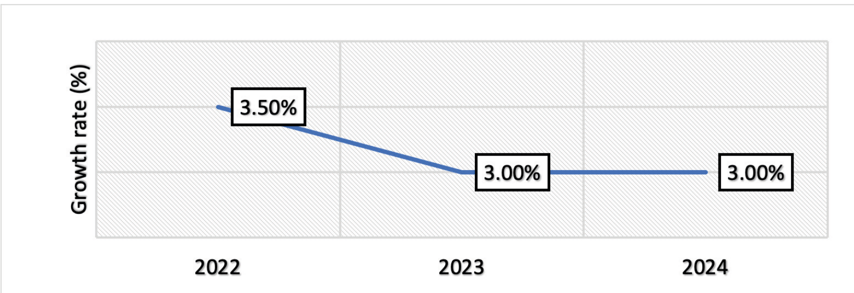
- Addressing food inflation may require a mix of monetary and fiscal policies, as well as efforts to boost agricultural productivity and food security.
- To address food inflation effectively, increasing the supply of food products is essential. This could involve policies to support agriculture, improve distribution networks, and reduce post-harvest losses. Supply-side interventions are crucial to stabilise prices and ensure food affordability for the population.
- The establishment of the Financial Stability Committee, as outlined in the Bank of Zambia Act, signifies the government's commitment to maintaining financial system stability, which is crucial for economic growth and investor confidence.
- Equally, the decision to review the Banking and Financial Services Act in 2024 is a positive step, despite the absence of specific details, raising questions about the scope and objectives of the review.
- Acknowledging the issue of high borrowing costs and expecting yield rates on Government securities to fall demonstrates the government's efforts to stimulate economic activity by making credit more accessible to businesses and individuals.
- Emphasis on financial literacy as a key constraint to financial inclusion is valid. Initiatives like the "Go Cashless" Awareness Campaign and the forthcoming National Financial Inclusion Strategy aim to enhance financial literacy and promote the use of formal financial services.

Macroeconomic fundamentals

Global and domestic growth rates

- At the global level, economic growth is expected to slow down to 3.0 percent in 2023 from 3.5 percent recorded in 2022.
- Sustained tightening of monetary policy in advanced economies, adverse effects of climate change, and the impact of the prolonged Russia-Ukraine war are largely responsible for the subdued economic growth.

Figure 1: Projected global growth rates for 2022, 2023 and 2024



Source: *PMRC adopted from IMF and 2024 budget speech*

- According to the International Monetary Fund (2023), global growth grate is projected to reduce from an estimated 3.5 % in 2022 to 3.0 % in both 2023 and 2024 as shown in the graph above. This is due to global economic activity experiencing a broad-based and sharper than expected slowdown, with inflation higher than seen in several decades, cost-of-living crisis, tightening financial conditions in most regions and Russia's invasion of Ukraine.
- The consequence of the weak global economy is that during the first nine months of 2023, commodity prices trended downwards. the consequence of the weak global economy is that during the first nine months of 2023, commodity prices trended downwards. Copper prices declined to an average of US

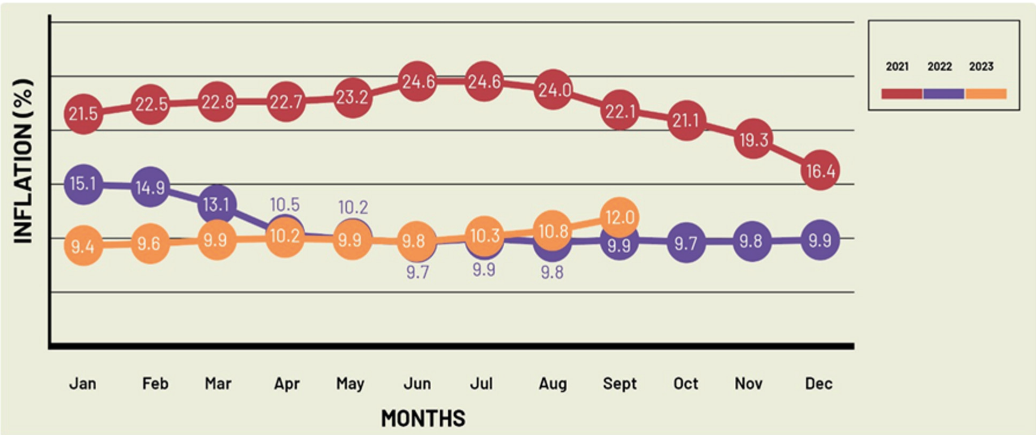
$8,589 per metric tonnes from US $9,084 during the same period in 2022. Crude oil prices also reduced to an average of US $82.8 per barrel from US $104.6

- Downward trending of copper prices on the international market entails reduced export revenues which can affect the trade balance.
- The domestic economy is projected to grow by 2.7 percent in 2023 compared to 5.2 percent in 2022. The slowdown is mainly attributed to reduced production in the mining sector on account of operational challenges and flooding in some of the major mines.
- Slow down in the growth of domestic economy might result in the shrinking of economic activities and tightening of the cost of living resulting from high prices of commodities.

Inflation

- Inflation edged upwards to 12.0 % in September 2023 from 9.9 % in December 2022. This was largely driven by increases in prices of maize grain and meat products as well as the depreciation of the Kwacha against the United States dollar.
- In response to the rise in inflation, the Bank of Zambia raised the policy rate by 100 basis points to 10.0 % in August.
- Higher inflation makes the domestic goods less attractive and demanded on the international market and erodes the purchasing power of a currency hence the need to make the inflation within a single digit band such as 6 – 8 percent.

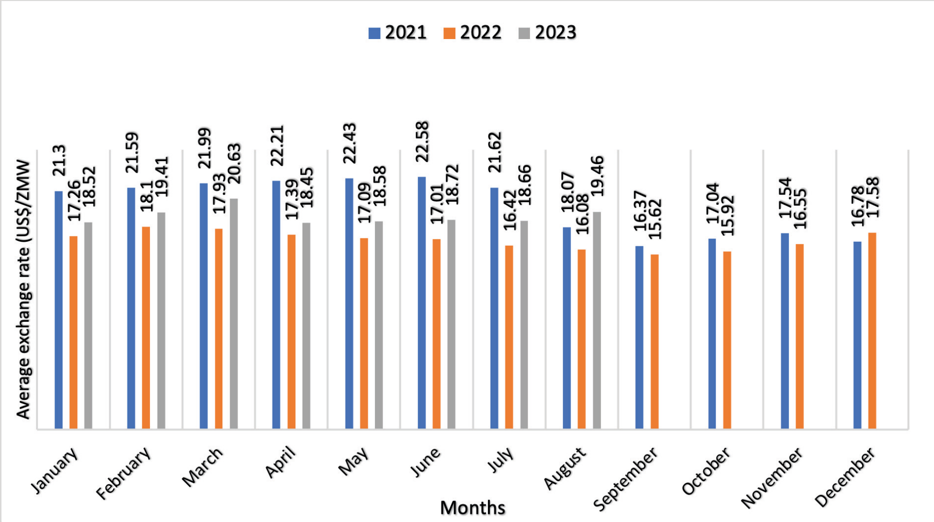
Figure 2: Trends in inflation from 2021 to 2023
Source: *PMRC adopted from Zambia Statistics Agency*



Exchange rate

- The Kwacha depreciated by 10.9 % against the US dollar to K20.05 per US dollar between January and August 2023. The depreciation of the Kwacha was mainly on account of strong demand while inflows, especially from the mining sector, reduced.
- To address volatility in the exchange rate as well as safeguard the stability of the foreign exchange market, the statutory reserve ratio was increased by 250 basis points to 11.5 % in February 2023.
- A country's trade balance is predicted to get worse with a higher exchange rate while getting better with a lower one.

Figure 3: Average exchange rate from 2021 to 2023



Source: *PMRC adopted from Bank of Zambia*

Secured debt structuring deal (bilateral and multilateral) and its impact on the economy

- Government acknowledges the need to address its external debt burden.
- Undertaking a debt restructuring exercise with official creditors under the G20 Common Framework is a major achievement and provided important impetus for mobilising around the efforts to unlock the stagnation that had resulted from debt financing.
- In principle, the agreement reached with official creditors in June 2023 signified progress in managing the country's debt crisis.
- However, it's crucial to finalise the Memorandum of Understanding (MoU) promptly to provide clarity and assurance to all parties involved.
- As the investment environment is deemed to be stable and favourable due to debt restructuring and investors will not be forced to pay for the debt through increased taxes, debt restructuring will have an economic benefit and impact the economy by increasing investor confidence. Bringing in investment will boost the local economy and provide jobs for residents.

Outstanding debt with private lenders

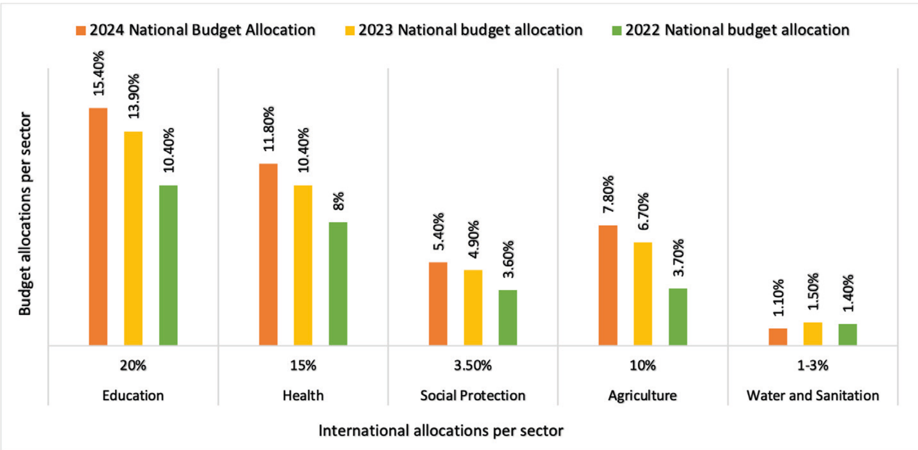
- Finally, it's imperative that the commercial debt with private lenders which is yet to be restructured be expedited as this will improve the country's credit rating and spur more foreign direct investment.
- According to Debt Justice (2023), Zambia's private creditors must reduce their relative debt payments by more than 50% in order to match the government debt relief agreements as estimated by the Zambian Civil Society Debt Alliance and Debt Justice.
- A further $6.5 billion in debt owed to bondholders, Western banks, and Chinese private lenders is still the subject of restructuring discussions (Debt Justice, 2023).
- According to the G20 Common Framework, private creditors must receive "comparable treatment" and accept restructuring terms that are at least as favourable as those offered by public lenders.
- Engaging with private creditors, including Eurobond holders, to seek debt treatment comparable to official creditors is a reasonable approach.
- It demonstrates the government's commitment to treating all creditors fairly and seeking a comprehensive solution to its debt challenges.
- However, the success of these negotiations will depend on the willingness of private creditors to cooperate.

Any relevant information that may be useful to the Committee

2024 Budget Allocation Against International Protocols

Zambia is a signatory to numerous international standards, such as the Maputo Declaration on Agriculture and Food Security, which makes a number of key obligations, including one to devote at least 10 % of national budgetary funds to agriculture. Similar obligations are made in the Abuja Declaration on HIV and AIDS, Tuberculosis and Other Infectious Diseases, which calls for an objective of dedicating at least 15 % of national budget to health sector. According to the Incheon Declaration and Framework for Action towards Inclusive and Equitable Quality Education and Lifelong Learning for All, 20 % of the entire national budget should be allocated towards the education sector. While there has been an increase in the amounts allocated to the education, health, social protection and agriculture sectors in the 2024 budget, the % allocation falls short of the aspirations of international protocols. Similarly, the Government has been unable to meet the international protocols in allocating funds to the education, health and agriculture sectors in the 2022 and 2023 national budgets but making progress with regards to increasing funding from year to year. However, PMRC commends the Government for its' continued allocation in meeting international best practices in % allocated to social protection, and water and sanitation sectors.

Figure 4: Trend analysis of 2024, 2023 and 2022 budget allocations against international protocols



Source: *Compiled by PMRC*

Conclusion

The 2024 budget has seen a great shift toward allocating resources to economic sectors such as Agriculture, Mining and Tourism. In terms of budget credibility, Government has demonstrated by prudence spending within the budget threshold.

Recommendations

With the comments highlighted in this submission, PMRC is therefore recommending the following to;

- The Government to meet budget allocation in key sectors against international budget allocation protocols.
- The Government to expedite negotiations with private creditors to make the debt more sustainable in-order to attract investors in key sectors like mining, agriculture and manufacturing.

  The Government through Zambia Revenue Authority to expedite introduction of an electronic invoicing system and ensure that the implementation of this system is smooth and user-friendly.

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