



PwC Zambia 2024 Illustrative Budget Analysis

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Foreword



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Welcome to the PwC Zambia 2024 Illustrative Budget Analysis!

As is our annual tradition, we have spent a lot of time analysing the 2024 budget speech that was presented to Parliament on Friday 29 September 2023 by the Honorable Minister of Finance and National Planning, Dr Situmbeko Musokotwane, MP.

We have published a detailed report in which we share our thoughts on pertinent issues contained in the budget.

That said, we have heard your feedback about the complexity of some of the matters and so we have decided, for the first time, to present answers to the frequently questions we've received in a simpler form.

It should be noted that this presentation is not a substitute for reading and understanding the budget in full, but is rather to provide a basic overview of key issues that we believe everyone should be aware of and appreciate.

We look forward to receiving your feedback.

Contents

1	The budget in perspective	4
2	Debt restructuring	9
3	Overview of the economic challenges being faced and Government's response	11
4	A focus on other priority sectors included in the 8NDP	15
5	A look at the 8NDP enablers	17
6	A summary of the main positive and negative factors impacting Zambia	20
7	Revenue mobilisation for the 2024 budget	22
8	Significant changes in tax policy proposed in the 2024 budget	26

A close-up photograph of several large spools of bright green thread. The spools are arranged in a row, with the thread wound in a dense, crisscross pattern. The lighting is soft, highlighting the texture of the thread and the wooden bobbins.

Part 1

The budget in perspective

Question 1: What has influenced the formulation of Government policy as reflected in the budgets presented for the years 2022 to 2024?

Answer: The budgets are largely aligned to the Eighth National Development Plan (8NDP). The 2024 budget is the third one presented by the Government and is also the second to be issued after the official launch of the 8NDP.

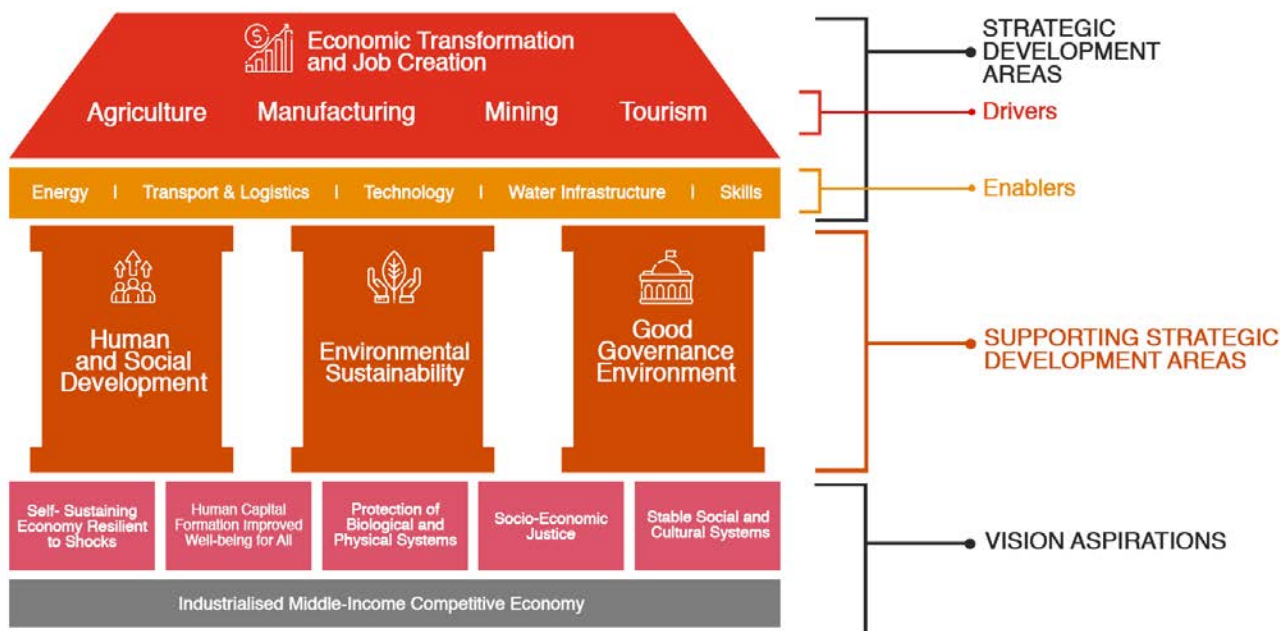


Figure 1 The Eighth National Development Plan,GRZ

Question 2: What is the relationship between the 2024 budget and those presented for 2022 and 2023?

Answer: The latest budget builds on the policies and measures outlined in the two previous budgets.

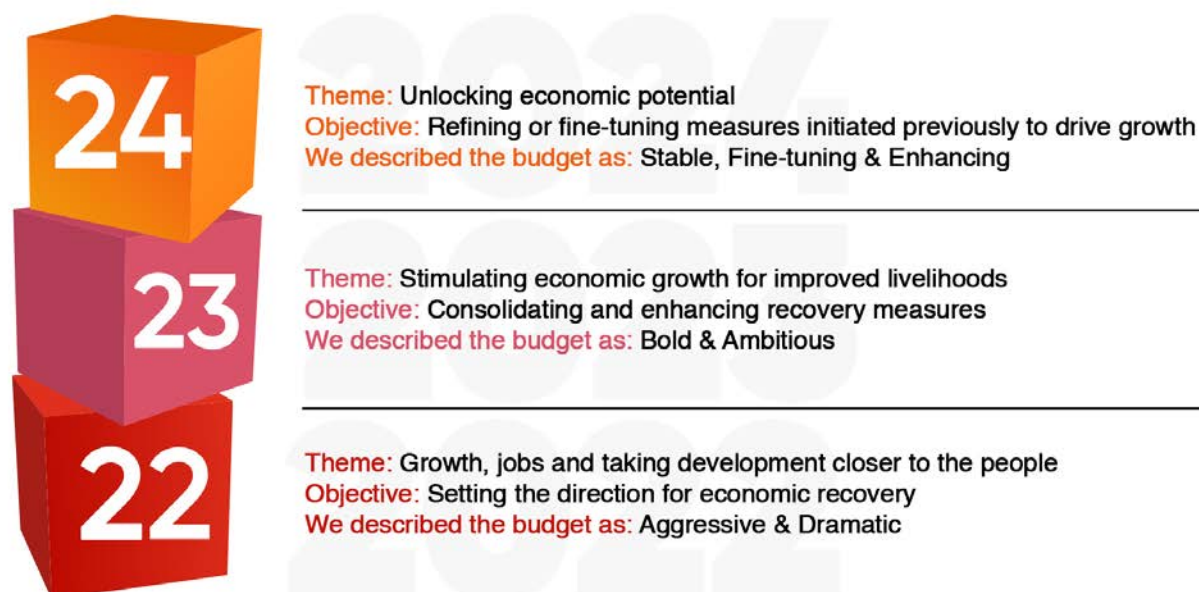


Figure 2. The New Dawn Government's budgets in perspective

Question 3: What principles and pronouncements have informed the Government's tax policy and what are the overall budget objectives?

Answer: Overall, Vision 2030, which aims to turn Zambia into a prosperous middle-income country, coupled with a number of other significant plans and agreements.

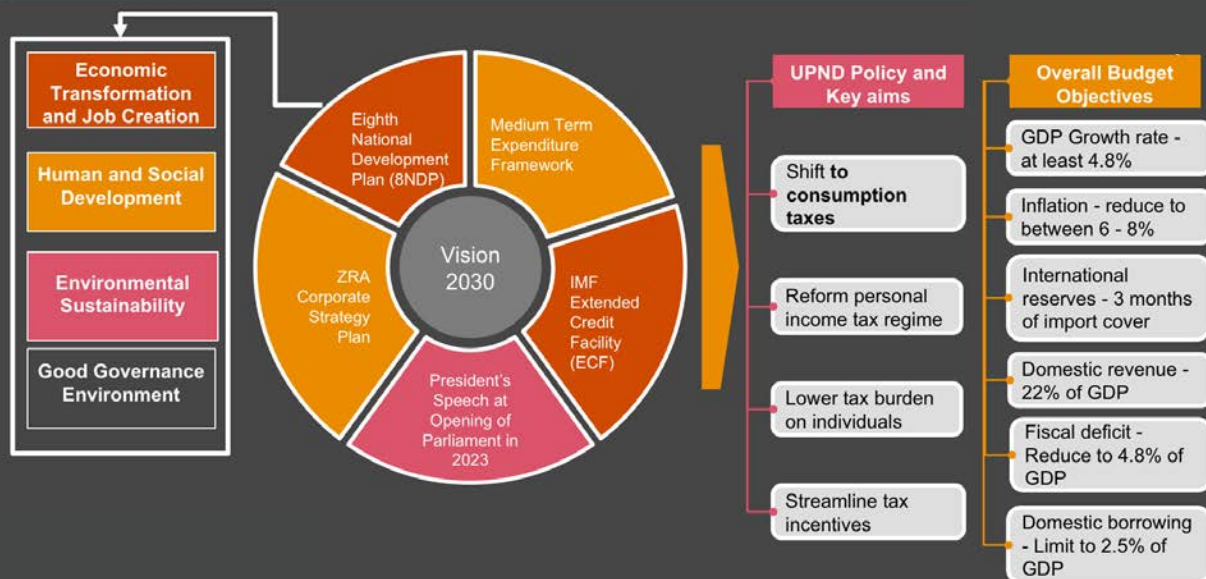


Figure 3. Foundations: Zambia's Tax Policy in Context

Question 4:

What is meant when the 2024 budget is described as building on the budgets presented in previous years?

Answer:

Progressively, fewer significant changes are being announced. Instead, we have seen that previously announced policies have been refined. Some examples are presented for illustrative purposes.

	2022	2023	2024
Mining	Mineral royalty made tax deductible	Mineral royalty rates adjusted downwards	Establishment of Mineral Regulation Commission Undertake high resolution geophysical survey
Manufacturing	15 year tax relief for exporters in MFEZ areas Tax rate lowered to 30% from 35%*	Establishment of Kalumbila MFEZ	Lowering of MFEZ land rates and elimination of bottlenecks
Health	Recruit 11,200 health workers Complete hospital construction	Recruit 3,000 health workers Construct 36 district hospitals, 16 mini hospitals and 83 health posts	Recruit 4,000 health workers Complete 4 mini hospitals & build 30 maternity annexes

*This change affected several industries

	2022	2023	2024
Education	Recruit 30,000 teachers Free education up to Grade 12	Recruit 4,500 teachers Complete 115 schools Construct 56 early childhood centres	Recruit 4,200 teachers & 1,200 non-teaching staff Complete 82 secondary schools Commence construction of 120 secondary schools
Good Governance Environment	CDF increased from K1.6m to K25.7m Fiscal deficit of 9.8% Recurring grant of K1.3 billion to LGEF	CDF increased from K25.7m to K 28.3m Fiscal deficit of 5.8% Recurring grant of K1.3 billion to LGEF	CDF increased from K28.3m to K30.6m Reduce fiscal deficit to 4.8% Recurring grant of K1.4 billion to LGEF

Figure 4. Examples of the progression in notable policies from 2022 to 2024

Question 5:

What trends in spending are observed in key economic and social sectors?

Answer:

Increases in spending can be seen in key areas such as education, health, infrastructure and social protection. A reduction in spending on the Fertiliser Input Support Programme (FISP) has been noted which is attributed to expected savings, and does not imply a contraction in the size and scale of the programme. The total budgeted expenditure is K171.89 billion.

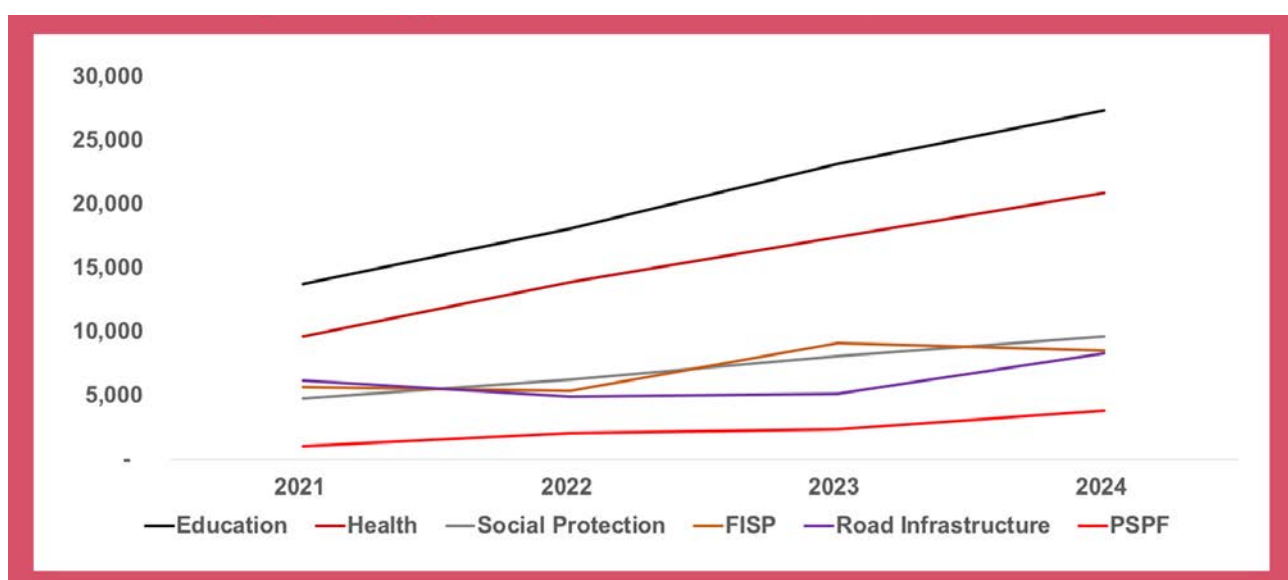


Figure 5. Spending on selected areas (K'millions)

Question 6:

What trends in spending can be observed in key areas as a percentage of the total budget?

Answer:

Generally, spending on social and economic sectors is either stable or increasing as the budget is reconfigured to reflect the priorities of the current Government. Partly, this has been made possible by the debt relief secured, which has allowed for the reallocation of amounts that would be committed to debt service to other areas.

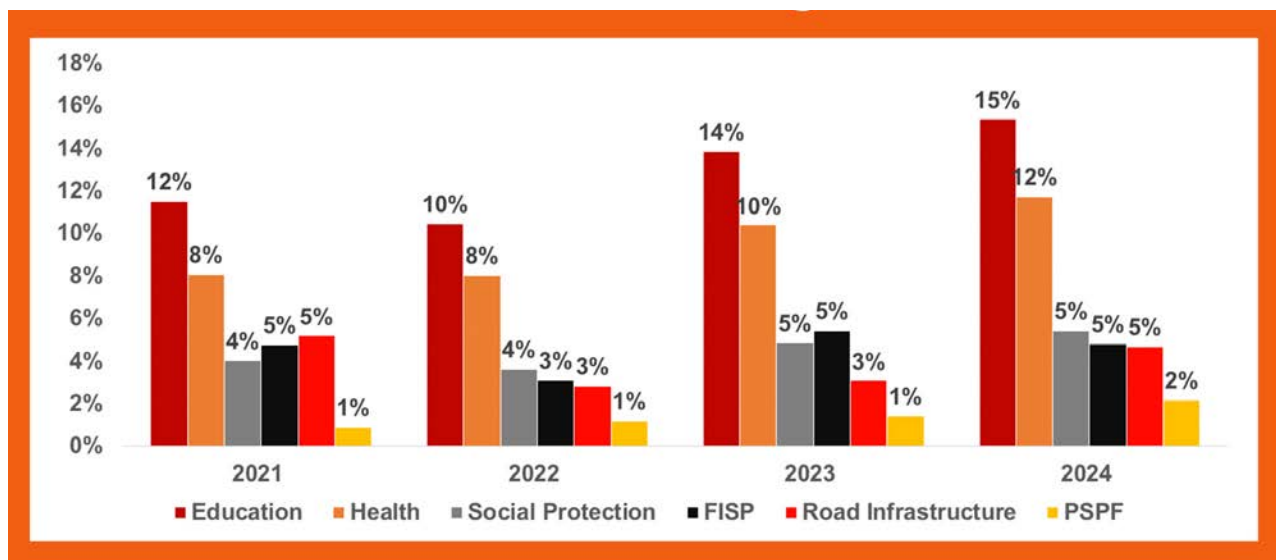


Figure 6. Expenditure as a percentage of the total budget

A woman wearing a white hard hat and a yellow safety vest over a grey blazer is shown in profile, looking down at a laptop she is holding. The background is a blurred construction site with scaffolding and structural elements.

Part 2

Debt restructuring

Question 7:

What has happened in Zambia's debt restructuring journey and what lies ahead?

Answer:

Negotiations are ongoing. An agreement in principle has been reached regarding the US\$6.3 billion dollars owed to official creditors. Negotiations to deal with the US\$6.8 billion owed to private creditors are ongoing.

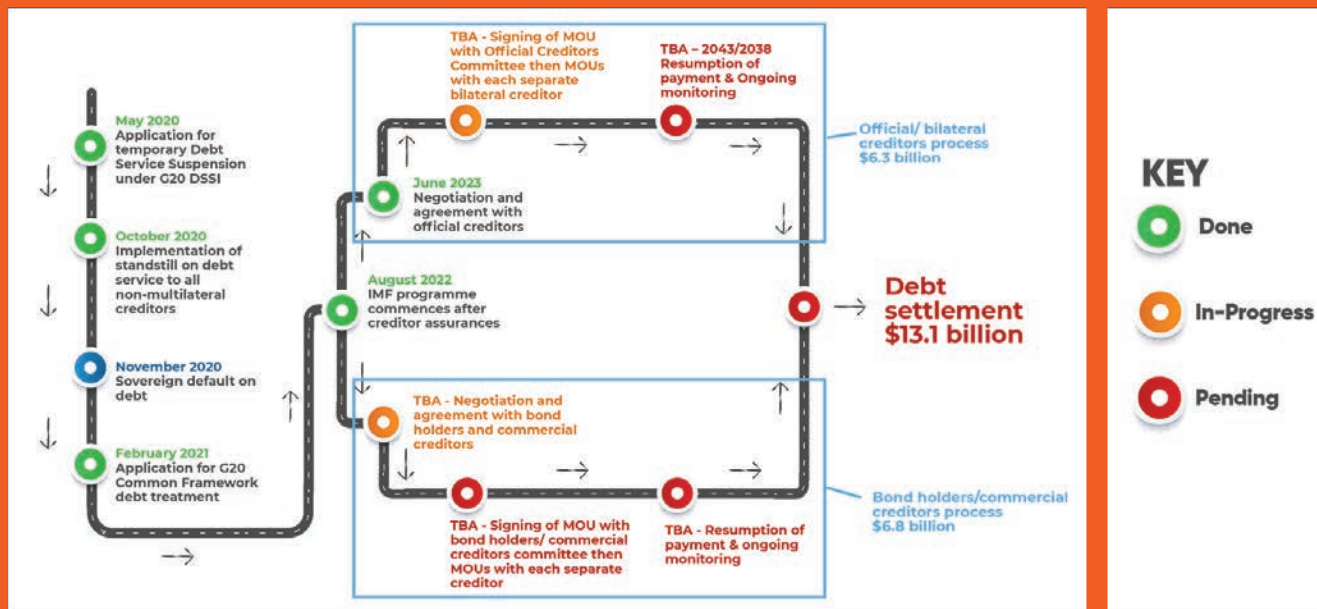


Figure 7. Zambia's debt journey: What has happened and what lies ahead?

Question 8:

What are the terms of the restructuring agreement reached with the Official Creditors?

Answer:

The repayment period has been extended with applicable interest rates reduced significantly.

	Question 1	Question 2	Question 3	Question 4	Question 5	Question 6	Question 7	Question 8
Year	What amount is CURRENTLY due to official creditors? And over what period is it to be paid?	Based on the agreement reached, what amounts will now be paid and when?	What exactly will Zambia be paying for?	How will the interest payable on the loans be determined?	How has the maturity profile of the debt changed?	What is the cashflow deferral on debt repayment due?	What is the effective saving of all the changes made: Interest rate and duration?	What may happen if Zambia's debt carrying capacity improves from weak to medium?
2023	US\$ 6.3 billion (by 2031)	US\$0.75 billion (to 2031)	Interest only	Interest to be set at very concessional rates	Original average maturity of 9 years in which US\$ 6.3 billion was to be paid in full.	US\$5.55 billion	40% reduction in Net Present Value of Debt (Time value of money) equivalent to US\$ 2.52 billion. Effectively, \$6.3 billion = \$3.78 billion in today's money	Loans will be repaid by 2038 instead of 2043 (5 year reduction in tenor) and interest will also be adusted
2024								
2025								
2026								
2027								
2028	Nil	USD 5.55 billion	Principal and interest	Interest to be reset to no more than 2.5% per annum	An extension of 12 years has been given under the agreement.	Not applicable		Shortened period
2029								
2030								
2031								
2032								
2033								
2034								
2035								
2036								
2037								
2038								
2039								
2040								
2041								
2042								
2043								

Figure 8. Summary of terms agreed with the Official Creditors



Part 3

Overview of the economic challenges being faced and Government's response

Question 9:

What are the main issues that have caused the economic growth forecast for 2023 to be revised from 4.2% to 2.7%?

Answer:

Escalating costs, challenged mining sector performance and the protracted debt negotiations.

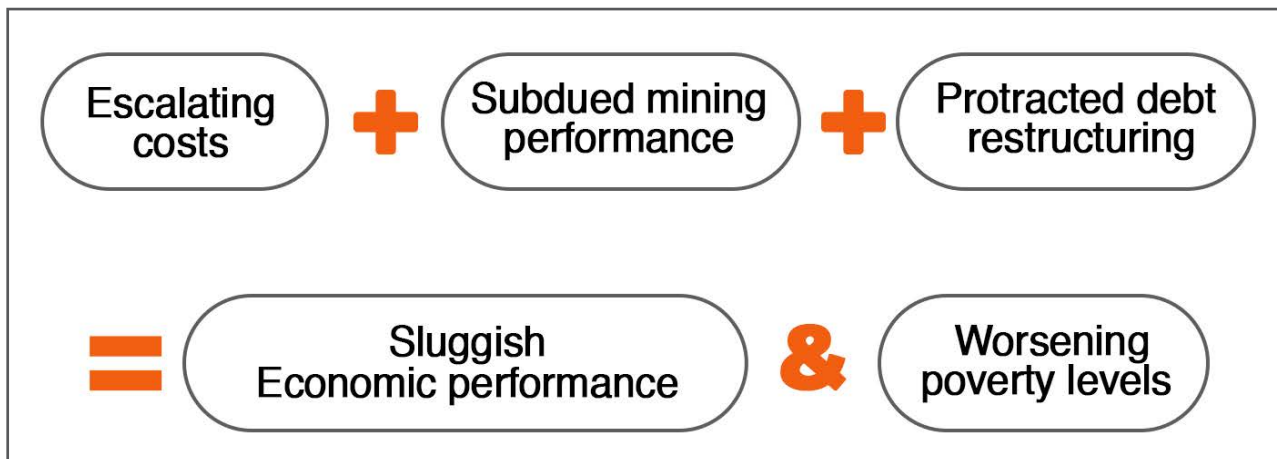


Figure 9. Overall economic performance and implications

Question 10:

What has caused cost escalations?

Answer:

Mainly the increases in prices of food items and petroleum products.

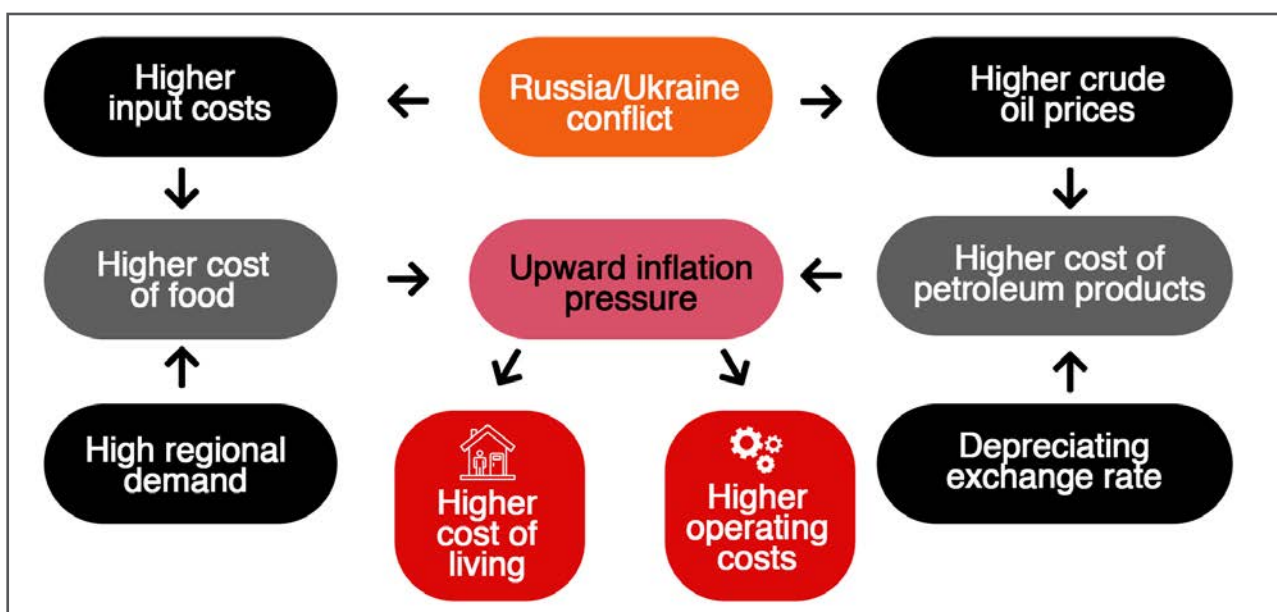


Figure 10. Causes of escalating costs

Question 11:

What actions has the Government outlined in order to address the high costs?

Answer:

Where possible, lower costs but also the provision of additional support for the most vulnerable in society.

FOOD	PETROLEUM	THE VULNERABLE
Lowering input costs Stimulating production Providing maize to millers Encouraging own production	Use of the pipeline for diesel Stabilise the exchange rate Removal of duty on equipment for oil exploration to support possible discoveries	More vulnerable households to be supported More to be paid to the vulnerable

Figure 11. Dealing with escalating costs

Question 12:

What has caused the slump in mining sector performance?

Answer:

Operational issues such as lower grades and flooding coupled with few new prospects.

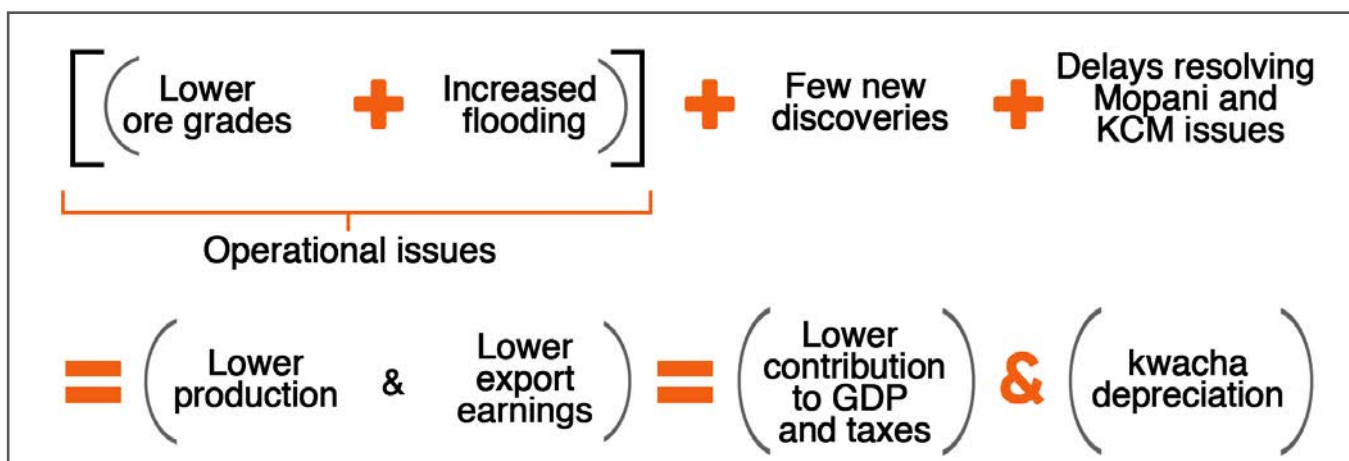


Figure 12. What is happening with mining?

Question 13:

What actions have been proposed to stimulate mining sector performance?

Answer:

Various actions have been taken or proposed to resolve issues in the sector and encourage investment in the sector that will lead to the establishment of new mines.

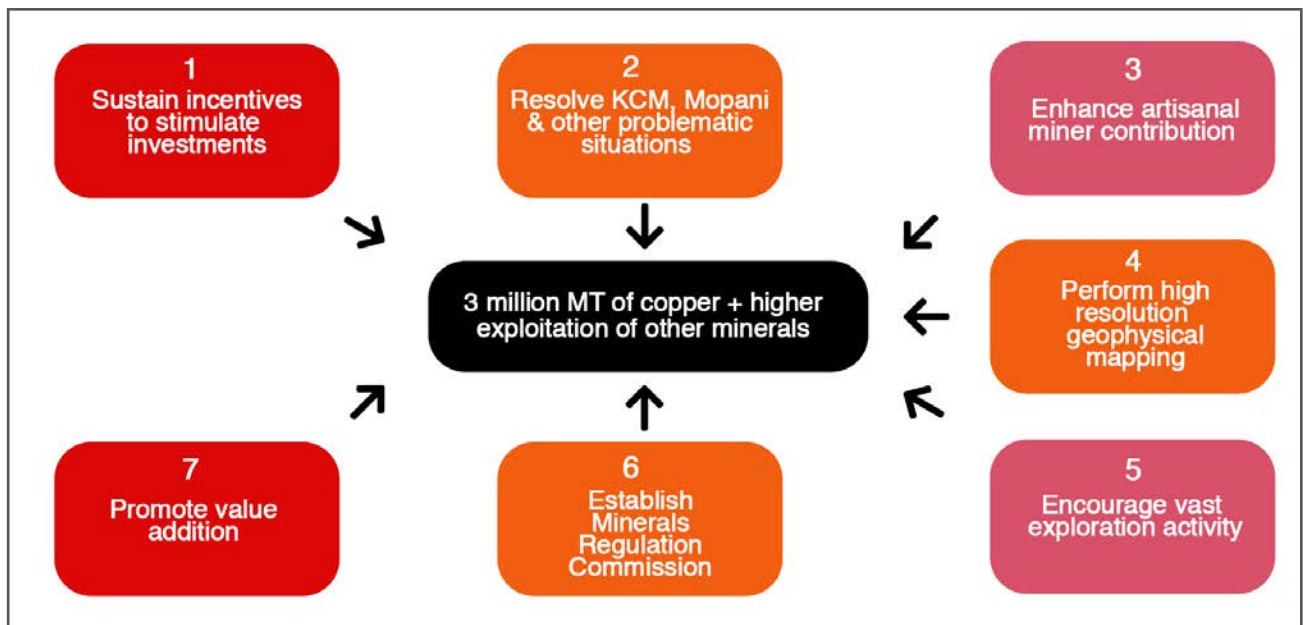


Figure 13. Jump-starting the mining sector



Part 4

A focus on other
priority sectors
included in the 8NDP

Question 14:

What actions has the Government announced with respect to the other priority sectors outlined in the 8NDP?

Answer:

Some initiatives that build on those announced in previous budgets have been outlined covering the key sectors of agriculture, tourism and manufacturing.




Agriculture 	Tourism 	Manufacturing 
<p>Exploit regional & global opportunities</p> <p>Large-scale farming blocks</p> <p>Roll out the Comprehensive Agriculture Transformation Support Programme</p> <p>Irrigation development</p> <p>Incentives for the cotton sector</p>	<p>More infrastructure</p> <p>Promoting international tourist arrivals</p> <p>Promoting local tourism</p>	<p>Addressing Multi-Facility Economic Zone (MFEZ) bottlenecks</p> <p>Lowering Multi-Facility Economic Zone (MFEZ) costs</p>

Figure 14. Seizing the opportunities



Part 5

A look at the 8NDP enablers

Question 15:

Infrastructure: There is increased infrastructure spending in the 2024 budget relative to what we observed for 2022 and 2023. Who will be responsible for developing the assets that the Government is keen to have constructed?

Answer:

Infrastructure will be built using a range of public and private sector initiatives.



Figure 15. Economic enablers: Increases in infrastructure spending.

Question 16:

What are some of the infrastructure projects that have been planned?

Answer:

A number of economic and social assets will be constructed starting in 2024.

Nature of infrastructure	Nature of infrastructure
300 km of roads & 10 bridges	Farming blocks - Nansanga, Luena & Shikabeta
200km of power lines	Farming blocks - Luena, Luswishi & Shikabeta
Irrigation infrastructure	Farming blocks
Tourism facilitation infrastructure	Kasaba Bay, Liuwa National Park, River Zambezi Source
Air and road connectivity	Liuwa Plains National Park, Sioma-Ngwezi National Park, Lower Zambezi National Park and Kafue National park
Improved Rural Connectivity Project - roads	Construct and rehabilitate 4,300km of feeder roads (500km targeted for 2024)
Feeder road construction	700km
Feeder road rehabilitation (through CDF)	1,000km
Trunk road rehabilitation and upgrade	<ul style="list-style-type: none">• Chipata - Lundazi• Mansa - Nchelenge• Monze - Niko• Mpika - Chinsali• Tateyoyo - Katunda
Schools	Construction and completion

Figure 16. Infrastructure Projects

Question 17:

Electricity is an important enabler for economic growth. Have any measures been put forward to increase generation?

Answer:

There are incentives to increase generation in order to support higher activity in the country as well as for exports.

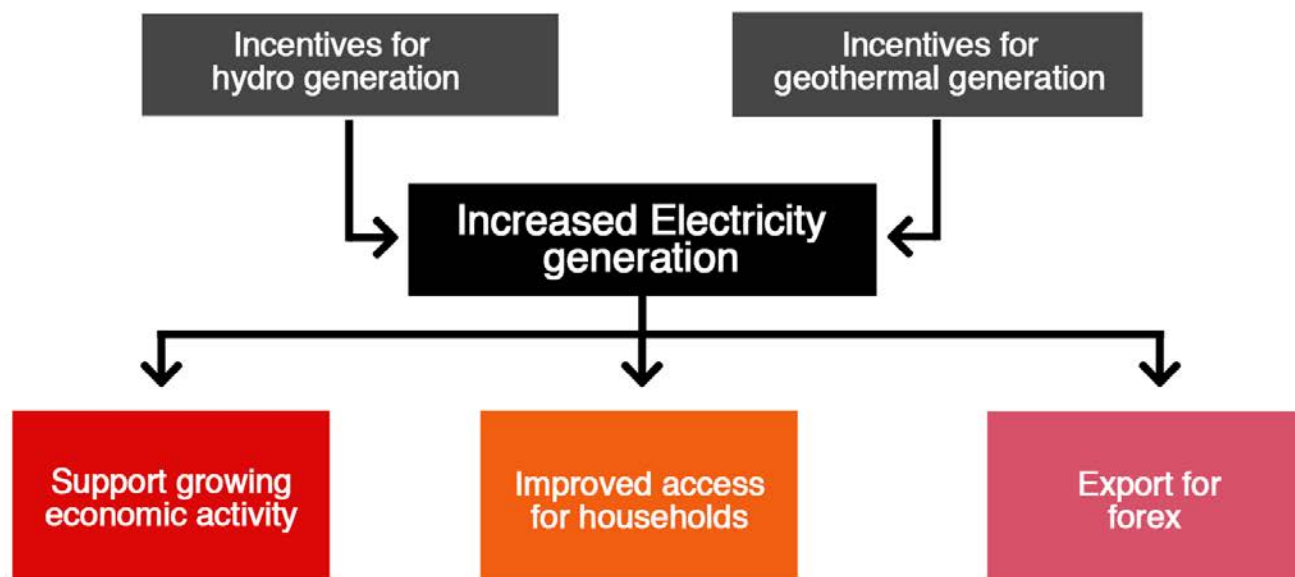


Figure 17. Economic enablers: Electricity



Part 6

A summary of the main positive and negative factors impacting Zambia

Question 18:

What are the main positive and negative factors that may affect Zambia's development objectives in short term?

Answer:

In our view, the main factors are as summarised in below.

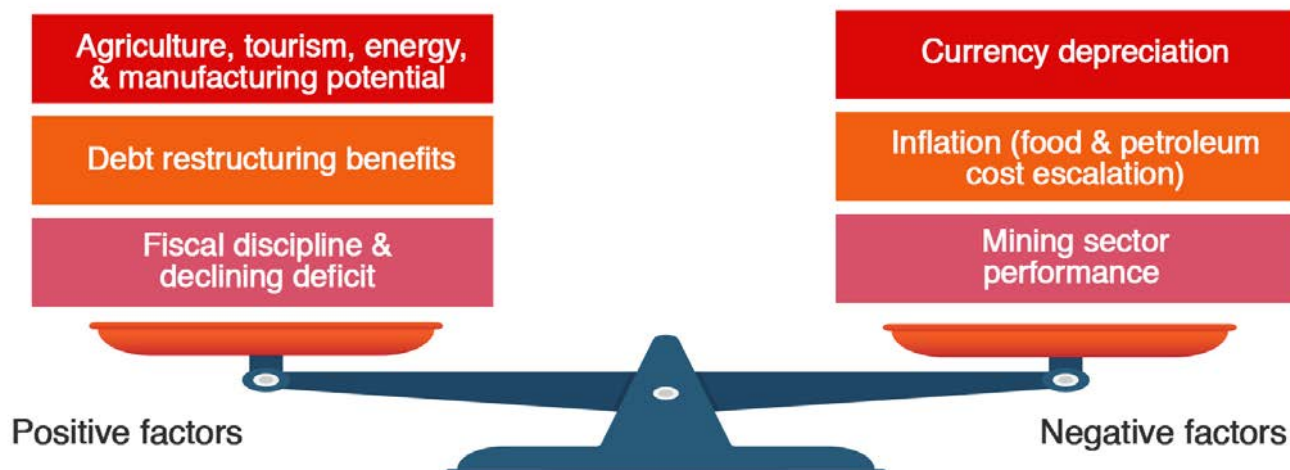


Figure 18. Zambia's balancing act

Question 19:

What initiatives are being implemented aimed and transforming Zambia into a digitally led economy?

Answer:

Increasing access through better connectivity and making progress with various technological initiatives.



Figure 19. Information and Communication Technology

A close-up, shallow depth-of-field photograph of a dark-colored credit card. The card features a gold-colored EMV chip on the left side. Embossed on the card are the numbers '4711' and '08/11'. The background is blurred, showing another card and a calculator.

Part 7

Revenue mobilisation for the 2024 budget

Question 20:

Successful implementation of budgets is dependent on the Government's ability to mobilise revenues. What strategies are being pursued to achieve higher revenue collection targets?

Answer:

Raising the tax to GDP ratio will be done through growing the economy and improving taxpayer compliance and strengthening the administrative capabilities of the ZRA.

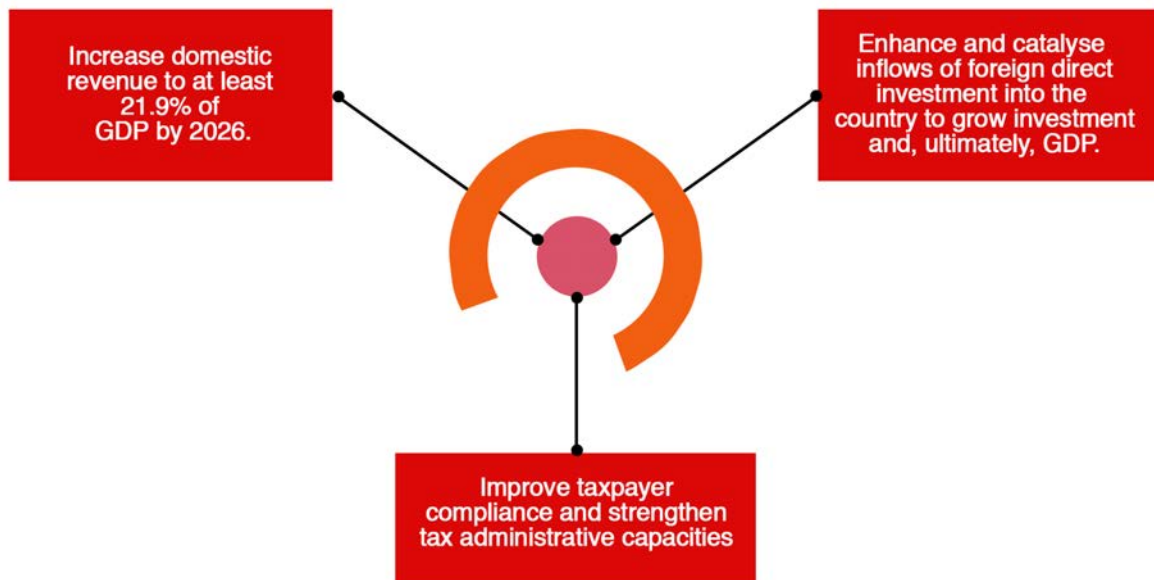


Figure 20. Revenue Mobilisation Strategy for 2024-2026

Question 21:

What is Zambia's tax to GDP ratio and how does it compare with that of other countries in the region whose economies are biased towards mining?

Answer:

Our analysis shows that Zambia's ratio of 17.8% is lower than that of other countries in the region and of OECD countries.

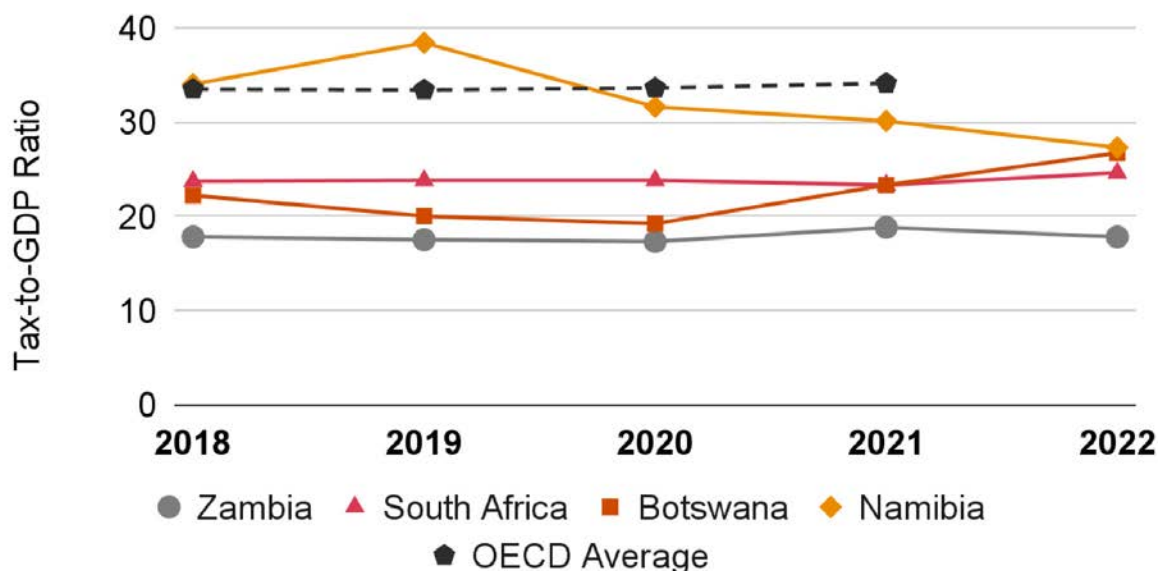


Figure 21. Tax to GDP Ratio by Region

Question 22:

How has the Government performed with regards domestic revenue collection in the first half of 2023?

Answer:

Direct taxes and customs are below target, while VAT and non-tax revenues are above the targets set.

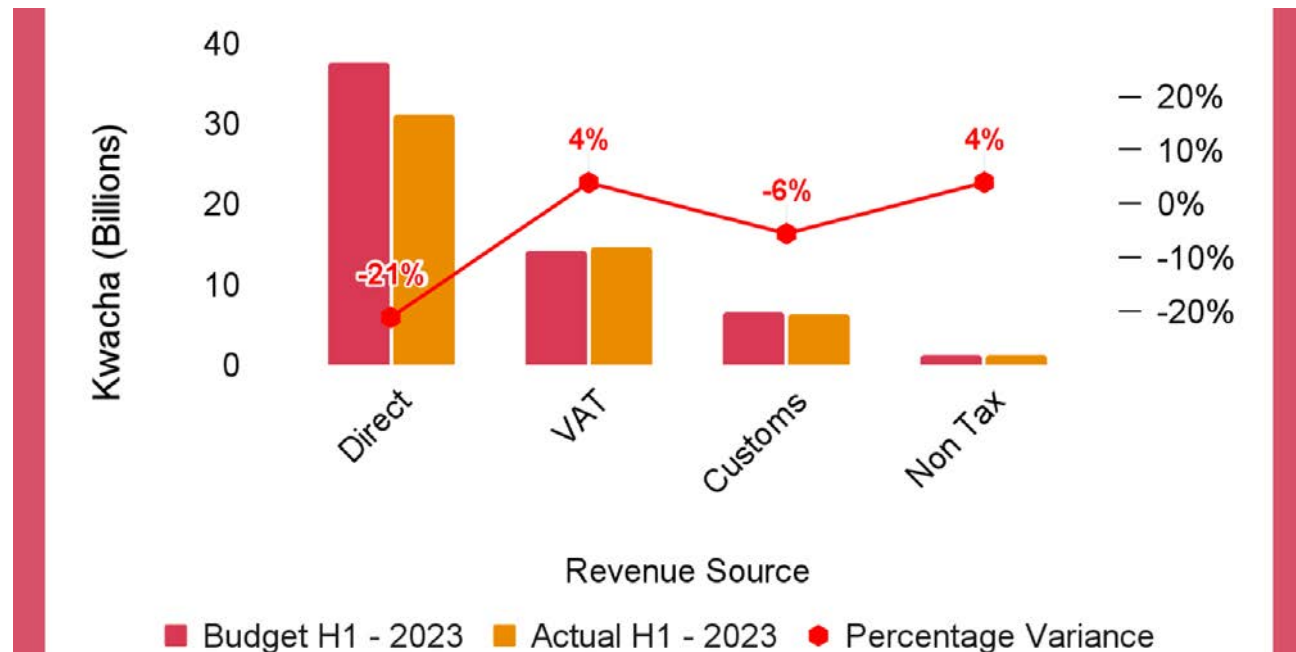


Figure 22. 2023 First Half Performance Review

Question 23:

What is the revenue collection target for 2024?

Answer:

K141 billion, which is 26% higher than the target of K112 billion set for 2023.

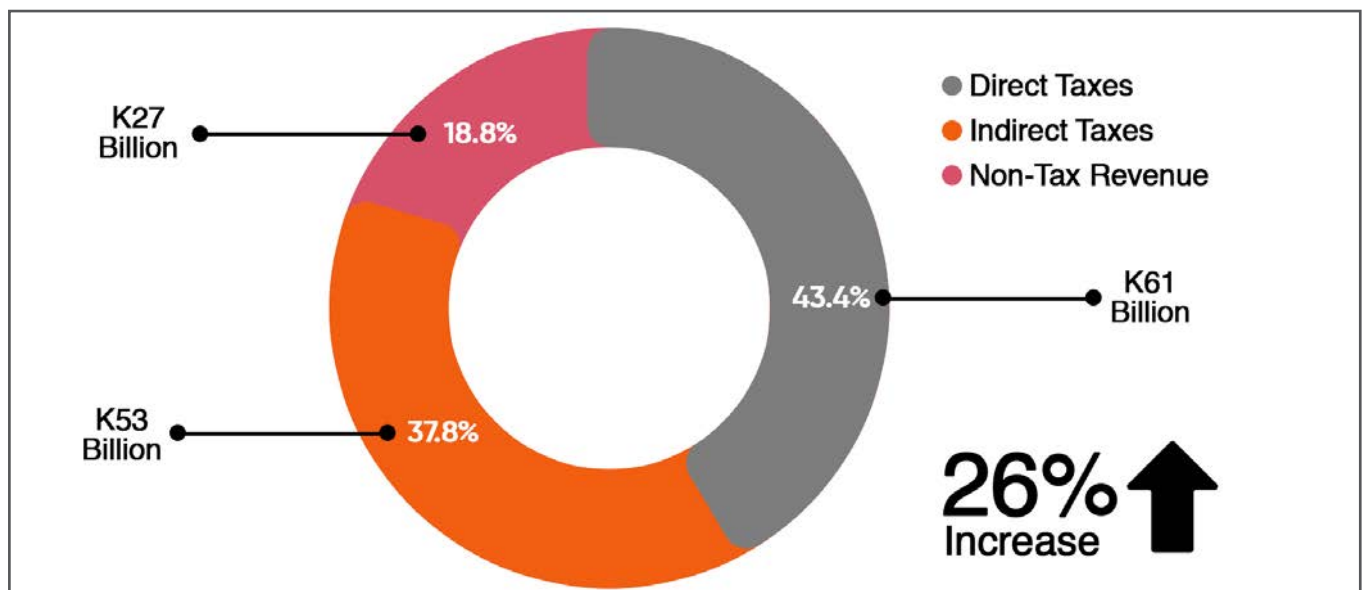


Figure 23. 2024 Domestic Revenue Targets

Question 24:

The increase of 26% in the domestic revenue target is ambitious. What are the anticipated challenges and what measures will be implemented to address them?

Answer:

The main issues relate to tax fraud and non-compliance. Technology based solutions coupled with changes to tax administration will be implemented to mitigate the identified risks.

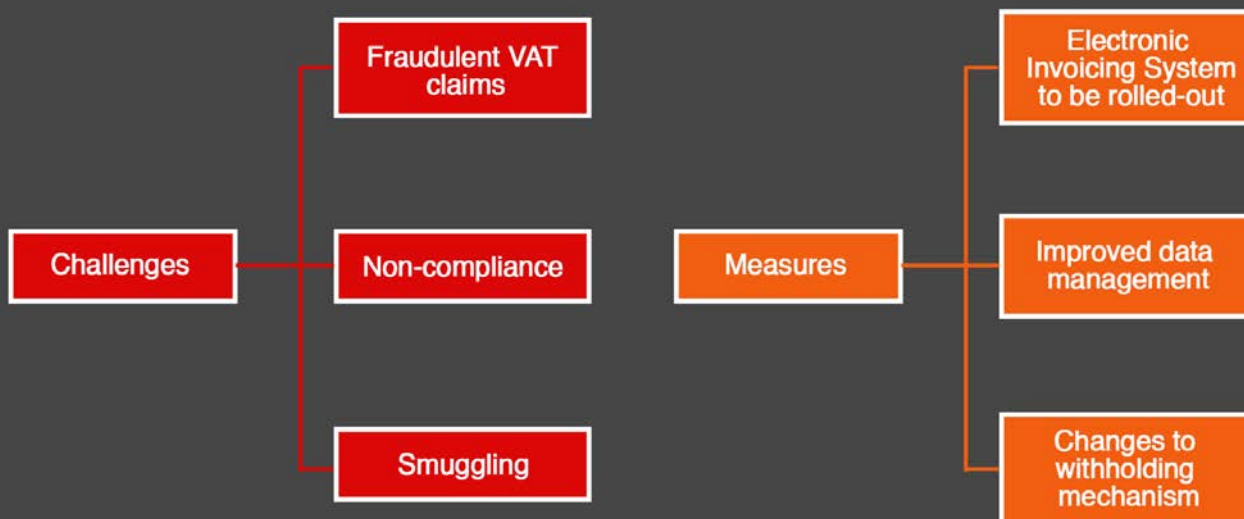


Figure 24. Domestic revenue mobilisation challenges and response measures



Part 8

Significant changes in tax policy proposed for 2024

Question 25:

What are some of the significant tax changes that will be implemented?

Answer:

Notable measures are presented below.



Manufacturing

- 2% local content allowance on sorghum and millet.
- Removal of customs duty on motorcycles and tricycles in complete knock-down form.



Agriculture

- Tax holidays for the cotton industry.



Tourism

- Prescribed invoicing system for all tourism levy transactions.



Mining

- Designation of Mineral Royalty Tax agents for improved compliance.



Energy

- Input VAT refund claim period for pre-generation costs incurred extended to 7 years.
- Removal of customs duty on equipment to be used for geothermal activities.



Transport

- Removal of 10% customs duty on the importation of rolling stock.
- Reduction of excise duty to 25% on hybrid vehicles designed for the transportation of persons.
- Removal of customs duty on electric powered vehicles.

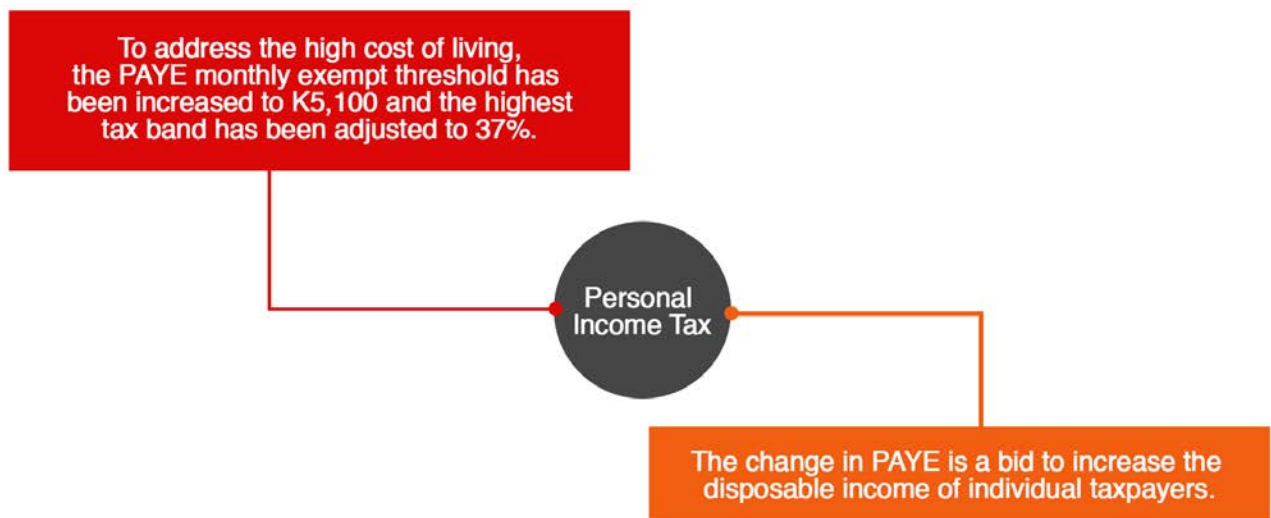


Figure 25. Other Tax changes

Question 26:

What other notable changes will be made to tax policy?

Answer:

Changes to introduce new indirect taxes and improve overall tax administration will be made.

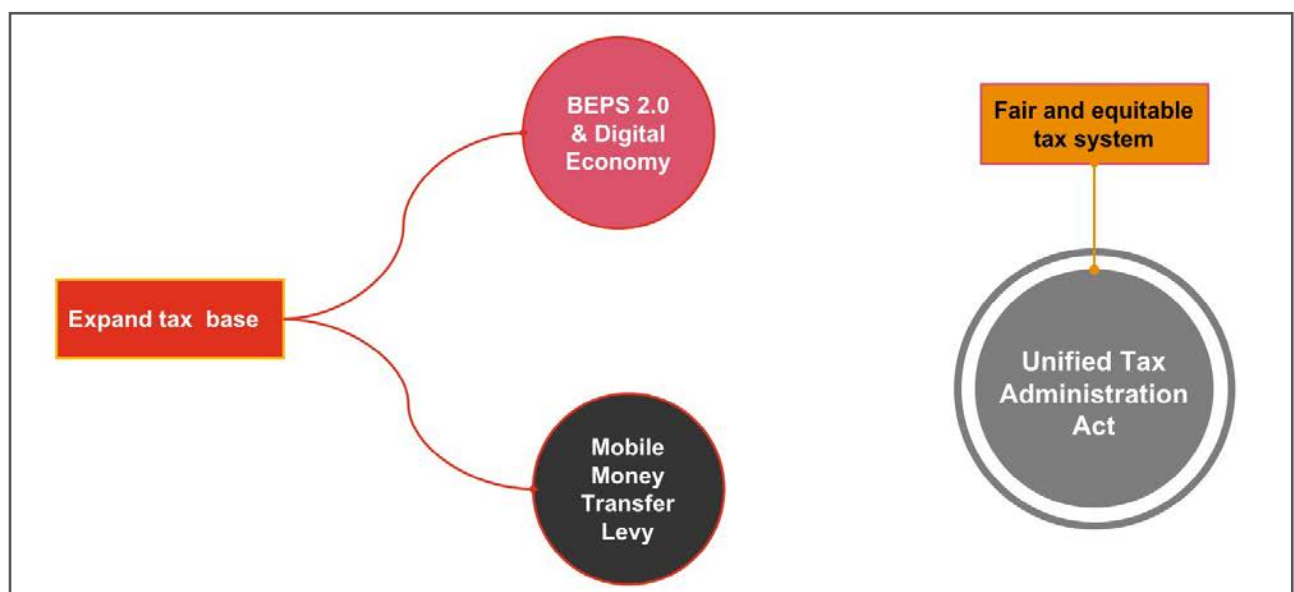


Figure 26. Key Tax changes

Question 27:

What other changes are proposed to the administration of taxes in Zambia?

Answer:

A range of measures to strengthen the ZRA's efficiency and effectiveness will be implemented.

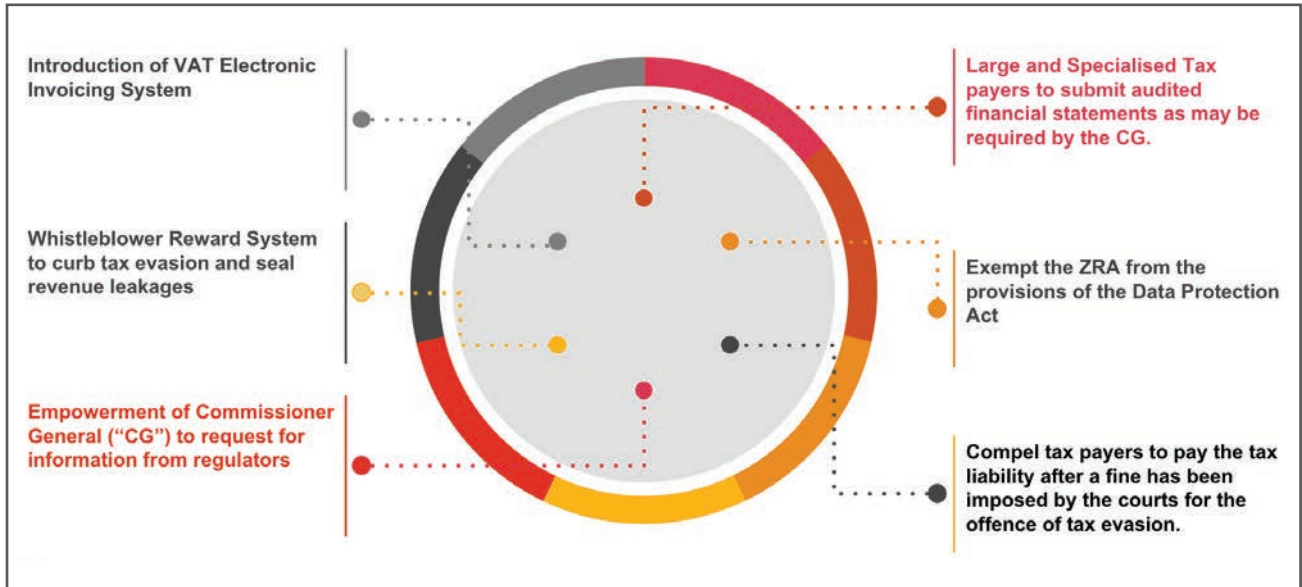


Figure 27. Tax administration enhancements

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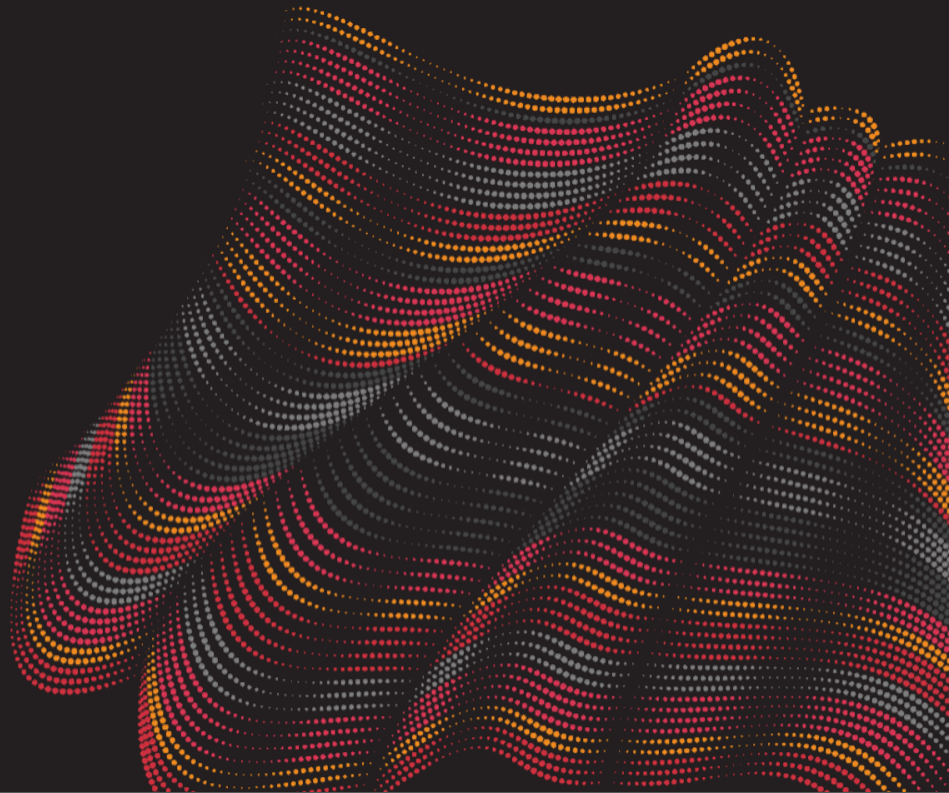


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