2021 Navigating the New Normal

World economy
- 2020 GDP: -4.9%
- 2021 GDP: 5.4%

Advanced Economies
- 2020 GDP: -8.0%
- 2021 GDP: 4.8%

Emerging Markets and Developing Economies
- 2020 GDP: -3.0%
- 2021 GDP: 5.9%

Sub-Saharan Africa (SSA)
- 2020 GDP: -3.2%
- 2021 GDP: 3.4%

Zambia
- 2020 GDP: -4.2%
- 2021 GDP: 1.8%

Source: IMF, World Economic Outlook Update, June 2020
Zambia National Budget 2021 (For Zambia GDP)
2021 Navigating the New Normal

Domestic economy

Real GDP growth

Zambia’s real GDP is projected to contract to -4.2% for FY 20. This is in sharp contrast to the 3% growth targeted in the 2020 budget. This is largely attributable to the Covid-19 pandemic and the electricity rationing programme exacerbating already existing vulnerabilities. Target growth for FY 21 is set at 1.8%.

Projected expenditure

Projected expenditure for FY 20 has been revised from the initial budget of K106.0 billion to K111.9 billion, representing an increment of 5.6%. This additional expenditure is mainly attributed to Covid-19 containment measures and activities associated with the agricultural sector.

Expenditure for FY 21 has been budgeted at K 119.6 billion, an increase of 6.7% from FY 20 revised estimates (K 111.9 billion) or 32.6% of projected GDP.

Exchange rate

Kwacha depreciated from K14.05 at the end of December 2019 to K19.95 as at 22 September 2020, representing 41.9% depreciation. On a year-on-year basis, this represents a 51.4% depreciation from K 13.17 as at 23 September 2019.

Headline inflation

Average overall inflation rate is currently at an average of 16.1%, up from 11.7% in December 2019. This is above the medium-term target range of 6% - 8%.

Fiscal deficit

Fiscal deficit, on a cash basis, is expected to rise to 11.7% of GDP by the end of 2020 against a target of 5.5%.

External public debt

External public debt stock increased to US$11.97 billion as at end-June 2020 from US$11.48 billion at close of 2019, representing 52% of GDP.

Gross reserves

At the end of July 2020, Gross international reserves declined to US$1.38 billion from US$1.45 billion at end-December 2019, representing 2.3 months of import cover. The Ministry of Finance expects to increase the reserves to at least 2.5 months of import cover in FY 21.
2021 Navigating the New Normal

Where is it going to?

Total expenditure
K119 billion

The budget represents a 13.6% increase from last year’s initial budget estimate of K106.0 billion and a 6.9% increase from the revised budget of K111.9 billion. The FY 21 budget also translates to 32.6% of GDP.

Key expenditure areas

<table>
<thead>
<tr>
<th>Function</th>
<th>2021 K billion</th>
<th>2020 K billion</th>
<th>Movement K billion</th>
<th>Movement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Interest</td>
<td>46.08</td>
<td>36.00</td>
<td>10.08</td>
<td>28%</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>21.50</td>
<td>21.83</td>
<td>(0.33)</td>
<td>-2%</td>
</tr>
<tr>
<td>Education</td>
<td>13.77</td>
<td>13.12</td>
<td>0.65</td>
<td>5%</td>
</tr>
<tr>
<td>General Public Services</td>
<td>11.74</td>
<td>8.08</td>
<td>3.65</td>
<td>45%</td>
</tr>
<tr>
<td>Health</td>
<td>9.65</td>
<td>9.37</td>
<td>0.29</td>
<td>3%</td>
</tr>
<tr>
<td>Defence</td>
<td>5.64</td>
<td>6.53</td>
<td>(0.88)</td>
<td>-14%</td>
</tr>
<tr>
<td>Social Protection</td>
<td>4.82</td>
<td>2.58</td>
<td>2.24</td>
<td>87%</td>
</tr>
<tr>
<td>Public Order and Safety</td>
<td>3.08</td>
<td>4.04</td>
<td>(0.96)</td>
<td>-24%</td>
</tr>
<tr>
<td>Housing and Community Amenities</td>
<td>2.22</td>
<td>3.46</td>
<td>(1.24)</td>
<td>-36%</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>0.96</td>
<td>0.61</td>
<td>0.34</td>
<td>56%</td>
</tr>
<tr>
<td>Recreation, Culture and Religion</td>
<td>0.15</td>
<td>0.38</td>
<td>(0.23)</td>
<td>-60%</td>
</tr>
<tr>
<td>Total</td>
<td>119.62</td>
<td>106.01</td>
<td>13.61</td>
<td>13%</td>
</tr>
</tbody>
</table>
2021 Navigating the New Normal

Where is the money coming from?

** Grants **

K2.0 billion (1.7%)

** Domestic borrowing **

K17.4 billion (14.5%)

** External financing **

K34.2 billion (28.6%)

** Non-tax revenue **

K12.7 billion (10.6%)

** Taxes **

K53.3 billion (44.6%)

** Budget **

K119.6 billion

---

** Taxation **

** Direct tax measures **

- Increase in monthly tax exemption threshold for PAYE from K3,300 to K4,000 and adjustment of tax bands. This increases disposable income by a minimum of K175 per month.
- Reduction in corporate income tax rate on income earned by hotels and lodges on accommodation and food services from 35% to 15%.
- Harmonisation of the presumptive tax structure for the gaming and betting industry by increasing the tax rate from 16% to 25% of gross takings.

** Indirect tax measures **

- Removal of the 5% import duty on copper ore and concentrates.
- Increase in import duty rate from 25% to 40% on specified agro products which are imported from some SADC and COMESA regions.
- Zero rating of all tractors for VAT purposes.
- Zero rating of full body sanitisers for VAT purposes.
- Reduction of import duty rates on various agricultural equipment and tools.
- Removal of export duty on export of crocodile skins.

** General administrative measures **

- Reduction in the threshold to access ZDA incentives for Zambian citizens from US$500,000 to US$100,000.
- Introduction of income tax incentive for utilisation of local raw materials.
- Suspension of various fees paid by operators in the tourism sector.
- Removal of the discount granted on fees payable to PACRA where the payment is made online on e-PACRA system.