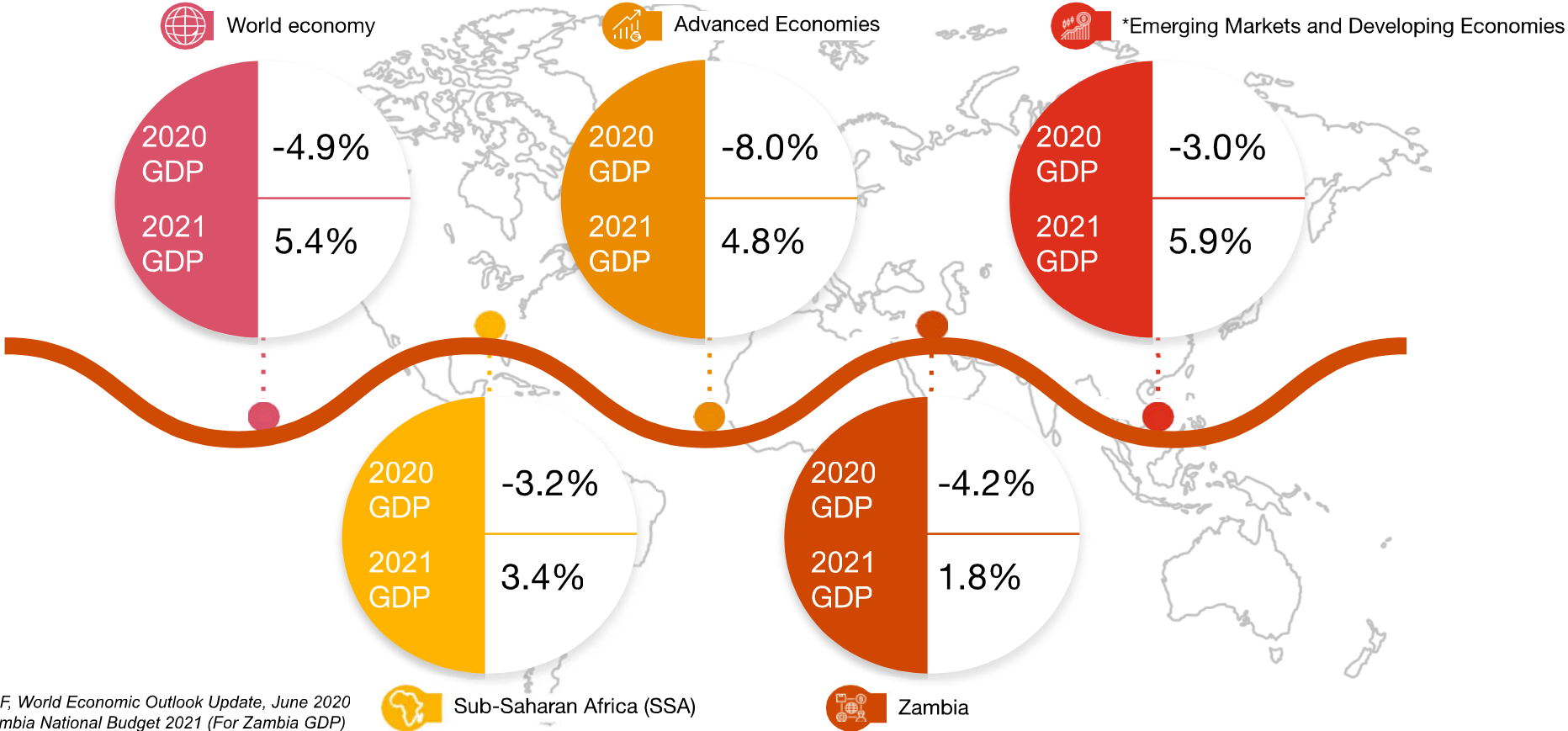


## 2021 Navigating the New Normal



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



Annual 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 K 106.0 billion and a 6.9% increase from the revised projected budget of K 111.9 billion. The FY 21 budget also translates to 32.6% of GDP.

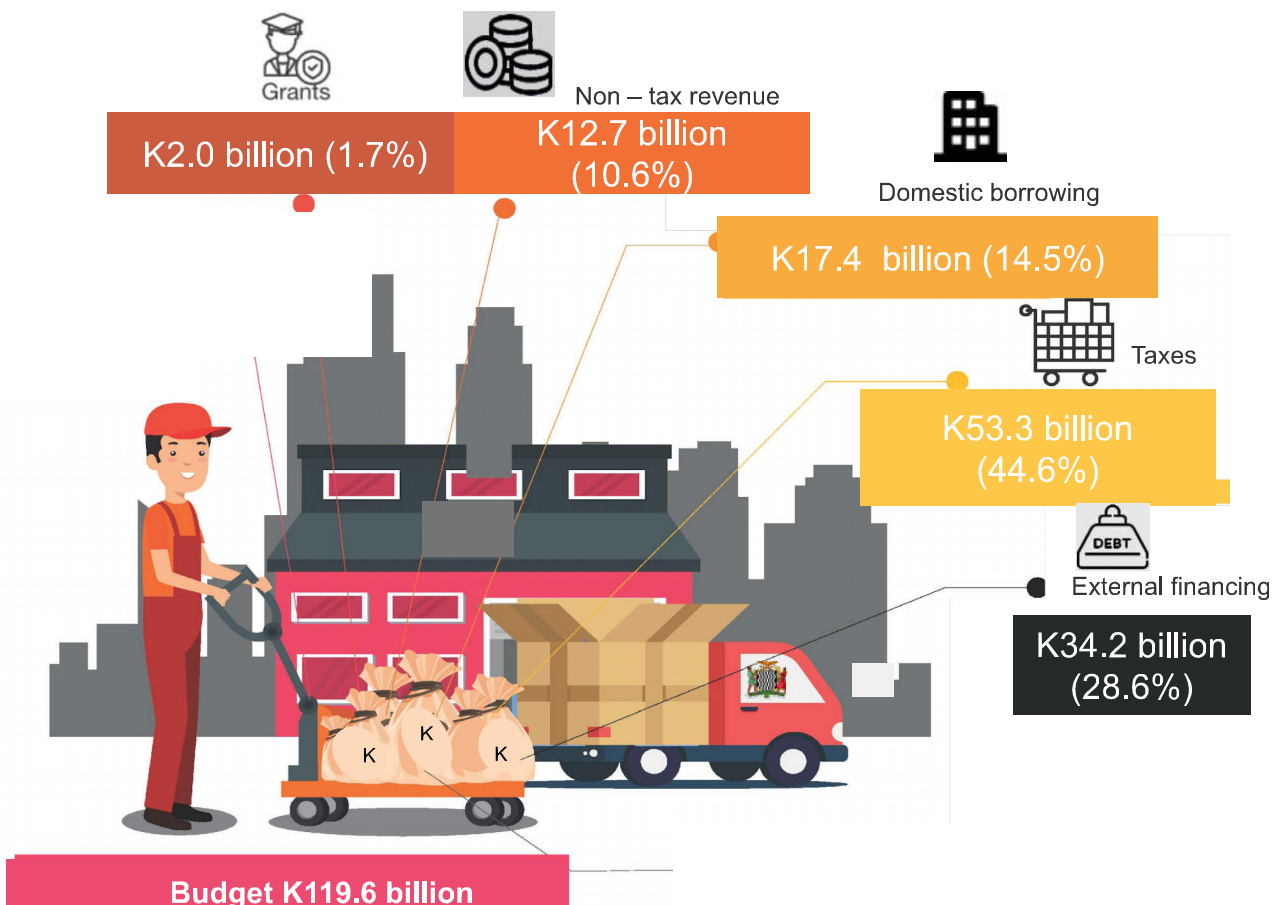


## Key expenditure areas

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

# 2021 Navigating the New Normal

## Where is the money coming from?



## 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 10% 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 outside 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 inputs.
- 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.