ZIPAR
Zambia Institute for Policy Analysis & Research

UNITED NATIONS
ZAMBIA

ANALYSIS OF THE 2025 NATIONAL BUDGET

THEME: BOLD PLANS, HARSH REALITIES: PATHWAYS TO INCLUSIVE GROWTH

READER'S DIGEST

The 2025 National Budget, themed "Building Resilience for Inclusive Growth and Improved Livelihoods, was presented amid persistent economic challenges in Zambia. The 2023/24 drought has taken a toll on the economy, causing widespread food insecurity, power outages and water shortages, leading to price increases and reduced economic growth. As a result, the growth forecast for 2024 has been revised downwards from 4.7% to 2.3%. despite, the difficulties, Government has remained optimistic, focusing on infrastructure development, reopening of mines and strengthening social safety nets like the Constituency Development Fund (CDF), Farmer Input Support Programme (FISP) and extended social cash transfer programs, offering hope for recovery for 2025. This analysis offers key insights and recommendations:

1. 1. The budget sets ambitious growth targets for 2025, aiming for a 6.6% growth rate, an increase from 2.3% in 2024. The government plans to drive this growth through mining, agriculture, and infrastructure sectors. However, concerns remain about exchange rate instability and the effects of external shocks, especially given Zambia's ongoing energy deficit. To achieve these targets, energy investments, agricultural productivity, and exchange rate stabilization will be critical.

2. Revenue mobilization in the 2025 budget centres on expanding domestic resources and improving tax efficiency. A notable increase in VAT collections is projected, rising from K36.4 billion in 2024 to K48.3 billion in 2025. This is largely due to the introduction of the Smart Invoicing System, which aims to ensure all eligible VAT taxpayers comply with regulations. Mineral royalty earnings are also expected to increase, buoyed by higher copper prices and the resolution of operational challenges at Konkola Copper Mines (KCM) and Mopani Copper Mines. Additionally, the budget introduces new revenue measures, including a 10% excise duty on betting and increased fees for foreign artists performing in Zambia. However, income tax revenues are projected to decline from 9.57% of GDP in 2024 to 8.05% in 2025, reflecting the adverse effects of the drought on business profitability.

3. Expenditure in the 2025 budget is projected to grow by 22%, reaching K217.1 billion, though as a percentage of GDP, it will decline slightly from 27.8% in 2024 to 26.6%. Significant areas of spending include debt servicing, with allocations increasing from K38.9 billion in 2024 to K54.0 billion in 2025 due to the resumption of debt servicing after the successful restructuring process. Increased allocations are also directed toward economic sectors, particularly infrastructure, where spending on road

infrastructure will rise by 44.2%. In the social sector, total allocations have increased to K73 billion, with social protection programs such as the social cash transfer program doubling in size to address the urgent needs of drought-affected communities. However, inflationary pressures and the temporary nature of some measures may limit their long-term impact.

4. In the agriculture sector, the need to ensure food security while navigating current challenges has seen the 2025 Budget allocate K15.4 billion (7.1% of total budget) to Agriculture, Fisheries and Livestock Interventions, of which 60.1% (K 9.27 billion) is directed towards the Farmer Input Support Programme (FISP), hence missing a critical opportunity to shift agricultural programming towards a market-oriented framework through the Comprehensive Agricultural Transformation Support Programme (CATSP) and the Sustainable Agriculture Financing Facility (SAFF).

5. In the energy sector, the Budget makes some positive strides, though gaps remain in addressing the country's energy sector challenges comprehensively. Suffices, the Minister emphasised the shift to cost-reflective tariffs to make the electricity sector attractive for private investment but the statement lacked specificity in implementation timeline. The current 2.5 GW national electricity generation deficit requires immediate investment to prevent industrial collapse. There is need for blended finance mechanisms to make renewable energy projects bankable, "senior debt" to provide cheaper financing options which would make investments in the energy more viable.

6. With regard to mining, pronouncements to revive, expand and open new mines including re-opening of KCM, Mopani, and Lumwana are commendable as they signal continued government commitment to increase production and meet the 3 million tonnes target by 2032. However, scaling up copper production is largely dependent on availability of reliable and sufficient energy supply and an enabling policy and legal environment.

7. Performance of the manufacturing sector has been consistently below 8NDP target of 5% annual growth, dropping from 4.7% in 2022 to 1.5% in 2023, mainly due to challenges such as electricity shortages, high fuel prices and exchange rate depreciation. On the other hand, Multi-Facility Economic Zones (MFEZs) continue to drive value addition and job creation in the sector, with over USD 2 billion invested in 2024 and over 16,400 jobs created. Further, the Budget proposes increasing the surtax on specified imports to discourage the consumption of products that can be locally manufactured, including excise duty on non-alcoholic beverages from 60 Ngwee to K 1 per litre.

8. To promote Micro, Small and Medium Enterprise (MSME) development, the Budget highlights various measures aimed at increasing access to affordable finance. For example, allocation to the Zambia Credit Guarantee Scheme has been increased by 121% from K386 million in 2024 to K851.7 million in 2025. Further, the planned facility by Bank of Zambia to address the impact of drought on the agriculture and energy sectors by providing concessional loans to MSMEs is a crucial initiative aimed at enhancing resilience in these sectors. The development of industrial yards is commendable to

address the challenge of inadequate business infrastructure. However, industrial yards located far from central business districts (CBDs) pose logistical challenges for MSMEs that need to travel long distances to access these facilities.

9. To grow the tourism sector, the 2025 budget plans to enhance Meetings, Incentives, Conferences and Exhibitions (MICE) through waiver of visa fees. Notably, there is a significant increase in funding for the Tourism Development and Promotion sub-programme, from K 160.7 million (20.9%) in 2024 to K 691.2 million (53.6%) in 2025, of which K 132.3 million is allocated towards tourism marketing. Additionally, tourism infrastructure developments at Kasaba Bay and Liuwa National Park in the northern and southern tourism circuits scheduled to begin in 2025 promises to be a game-changer.

10. Investment in transport infrastructure remains key to support economic transformation and job creation in priority sectors. In 2025, allocations towards road infrastructure increased by 44.3% from 8.3 billion in 2024 to 12 billion in 2025. For budget financed projects, the Government should continue to prioritise critical road infrastructure by constructing, rehabilitating and upgrading key corridors and trade to avoid derailing fiscal consolidation efforts. In that regard, strategic partnership grants and private public partnerships (PPPs) are commendable to ease pressure on the treasury.

11. Information, communication and technology (ICT) is essential for economic digital transformation. Thus, the 2025 Budget provides for increased investments in telecommunications infrastructure, data centres, and access devices, essential for boosting productivity. In addition, the licencing of Starlink is a strategic step to enhance connectivity in underserved rural areas, improving public service delivery. We urge the Government to extend these services to learning facilities to promote ICT integration and STEM learning.commitment to addressing current human and social development challenges, worsened by the drought and lingering effects of COVID-19, has seen allocation to the sector (health, education, social protection and WASH) increase by 21.7% from K60 million in 2024 to K73 billion in 2025; while their share of the total budget has remained the same at 34%. The harsh realities of rising poverty – now at 60%- food insecurity and inadequate Water, Sanitation and Hygiene (WASH) services continue to strain the population, particularly vulnerable groups such as children, women and Persons with Disability.

12. The 2025 budget reflects a 21.7% increase in social sector allocations (health, education, social protection, and WASH) to K73 billion, though the sector's share of the total budget remains at 34%. Despite these increases, challenges such as rising poverty (now at 60%), food insecurity, and inadequate WASH services persist, especially for vulnerable groups like women, children, and people with disabilities. Education funding rose by 15%, with significant investments in Early Childhood Education, while social protection reached a historic 7.5% of the budget, largely driven by the Emergency Social Cash Transfer program responding to drought. Health funding focused on supporting the National Health Insurance Management Authority (NHIMA), and gender inequalities could be addressed through these increased allocations, though a clearer gender mainstreaming strategy is needed.

TABLE OF CONTENTS

TABLE OF CONTENTS

2025 NATIONAL BUDGET K217.1Bn

1. INTRODUCTION

The 2025 National Budget, announced by Honourable Dr. Situmbeko Musokotwane, follows three key events: the successful restructuring of 75% of Zambia's external debt, creating fiscal space for key development programs, Zambia's worst drought, which dampened economic growth, and a severe cholera outbreak in early 2024, causing fatalities and disrupting livelihoods.The severe drought during the 2023/24 rainy season has had profound impact, leading to widespread food insecurity, prolonged power outages, and difficulty accessing clean water. Inflation has surged on the back of grain shortages, driving up the cost of living and straining the business environment. Subsequently, growth projections for 2024 have been revised down from 4.7% to 2.3%, reflecting the rough realities on the ground.

Despite these challenges, there are signs of hope. The reopening of KCM and Mopani Mines, two of Zambia's largest, is expected to bring in new investments in 2025, providing a much-needed boost to the economy. The Government is also ramping-up infrastructure development in both social and economic sectors, aimed at supporting businesses and improving service delivery. Social safety nets, like the Constituency Development Fund (CDF), the free education policy, and extended social cash transfer programmes, continue to play a critical role in helping vulnerable households navigate these difficult times. While challenges remain, these developments point to the possibility of recovery.

The 2025 National Budget, delivered under the theme "Building Resilience for Inclusive Growth and Improved Livelihoods", focuses on fostering resilience and promoting inclusive growth. The Government has set bold targets, including raising growth to 6.6% in 2025, through support for productive sectors, limiting debt accumulation and strengthening governance systems. There is also a strong emphasis on safeguarding livelihoods, with various social protection measures on the table. Yet, the effects of the drought and its associated challenges still loom large.

This report analyses the 2025 National Budget under the theme, "Bold Plans, Harsh Realities: Pathways to Resilient and Inclusive Growth." While the outlook is cautiously optimistic, the path to achieving these goals will require careful navigation. Increasing domestic resource mobilisation, broadening the tax base, and tightening governance will be key to driving the necessary growth. The private sector must also play a central role in fueling economic activity, and social protection programs will need careful attention to ensure they deliver the intended impact.

We begin our analysis with an overview of the broad macroeconomic objectives outlined in the budget, followed by a review of the measures aimed at strengthening governance systems. We then explore the fiscal measures and budget financing, before turning to the plans for revitalising productive sectors. Finally, we consider the social and human development policies aimed at protecting livelihoods and fostering resilience in the face of ongoing challenges.

2. BALANCING AMBITION WITH REALISM: STRONGER GOVERNANCE SYSTEMS FOR INCLUSIVE GROWTH

The stark realities of the drought have laid bare the urgent need for bold action in resource management. Swift, effective responses to crises demand not only prudent use of resources but also stronger governance systems. Setting aside reserves for a rainy day, plugging revenue leakages and managing debt wisely are no longer optional—they are critical to Zambia's path toward inclusive growth. The 2025 National Budget responds to these challenges with a set of governance reforms aimed at strengthening the Government's ability to respond to crises, enhancing domestic resource mobilisation, tightening debt management and advancing decentralisation.

2.1 ZAMBIA'S STABILISATION FUND: A BOLD STEP TOWARD RESILIENCE

The 2025 National Budget announces the establishment of a Stabilisation Fund to respond to climate-induced disasters, to be primarily financed by excess mineral royalty proceeds. This is an ambitious and much-needed step, as stabilisation funds globally have proven to be invaluable tools in ensuring that governments can respond swiftly to crises, protecting livelihoods and saving lives. Having a readily deployable source of funding at the onset of disasters like droughts is crucial for mitigating their impact and cushioning vulnerable communities.

However, the realities of implementing this initiative present significant challenges. The fund's reliance on mineral royalties exposes it to the inherent volatility of commodity prices, which could undermine the consistency of its revenue stream. To mitigate this risk, diversifying funding sources is essential. In addition to mineral royalties, the Government should explore long-term disaster risk financing from development partners and existing financing mechanisms like the Green Climate Fund. These alternatives would provide a more stable and reliable financial base reducing the fund's vulnerability to fluctuations in commodity prices.

The Budget is silent on the management mechanisms for the Stabilisation Fund, raising concerns about its long-term viability. Without a clear, independent governance structure, the risk of mismanagement or diversion of funds to other spending priorities is significant. Zambia's experience with the Sinking Fund highlights the challenges of managing such initiatives in the face of unclear governance systems and competing fiscal pressures. These past difficulties serve as valuable lessons, emphasising the importance of establishing strong oversight and management frameworks to ensure the success of the stabilisation fund. With a robust framework, including a clear legal structure that ring-fences funds, the Stabilisation Fund can avoid past challenges and ensure that resources are available when needed.

2.2 STRENGTHENING STATE-OWNED ENTERPRISE OVERSIGHT TO SAFEGUARD PUBLIC RESOURCES

The Government has recognised the significant financial burden posed by its continued support of State-Owned Enterprises (SOE), which diverts critical resources from priority development areas. According to a recent World Bank report, SOE portfolio net losses amounted to 4% of GDP in 2020—equivalent to more than half of the social protection budget, which stood at 7.9% of GDP[1] that year. The 2023 repossession of the Development Bank of Zambia[2] (DBZ) by the Bank of Zambia (BOZ), and ZESCO's external arrears of US$101 million owed to Independent Power Producers (IPPs), underscore the fiscal pressures these entities place on the national treasury[3]. To mitigate these risks, the Government has committed to developing a Supervisory and Performance Monitoring Framework in 2025, a key step towards addressing these challenges.

As outlined in the 2025 National Budget, the new framework introduces guidelines on performance monitoring and reporting, borrowing practices, board appointments, recapitalization, dividend declarations, and supervisory guidelines—areas that have historically suffered from gaps in oversight between the Ministry of Finance and National Planning (MOFNP), the Industrial Development Corporation (IDC), and line ministries. By tightening controls, the Government can reduce financial risks from SOE losses, safeguarding public resources for reallocation to essential development priorities, especially in light of the drought. This initiative is critical for reinforcing fiscal discipline and ensuring the sustainable use of public funds.

However, the fragmented legal framework governing SOEs presents a significant challenge to the effective implementation of this supervisory framework. The Government is therefore urged to expedite the

[1]World Bank (2024). Zambia Public Finance Review 2024, Washington D. C.

[2]Bank of Zambia (2023) Press Statement: Notice of Taking Possession of Development Bank of Zambia, 21-Jul-2023 (Accessed at: https://www.boz.zm/Public_Notice_DBZ.pdf)

[3]International Monetary Fund (2024). Third Review Under the Arrangement Under the Extended Credit Facility, Requests for Augmentation of Access, Modifications of the Monetary Policy Consultation Clause and of Quantitative Performance Criteria, and Financing Assurances Review—Debt Sustainability Analysis, 13-Jun-2024

revision of the 2012 SOE Policy to address inconsistences in the guidelines for overseeing SOEs. Additionally, a comprehensive assessment of all SOEs is necessary to reexamine the rationale for maintaining loss-making entities. This evaluation must balance the benefits these enterprises provide—such as ZESCO's electricity services and ZAMTEL's telecommunications infrastructure, which are essential in underserved areas—against the fiscal cost of continued support of SOEs recapitalisation and operational needs. It is crucial to carefully evaluate the benefits of the goods and services these enterprises provide against the negative impacts of using public financial resources to support their recapitalization and operational needs.

2.3 GOVERNMENT BOOSTS CDF, REAFFIRMING CONFIDENCE IN THE FUND

For the fourth consecutive year, the Government has announced an increase in the allocation to the Constituency Development Fund (CDF) in the 2025 National Budget, reaffirming its commitment to decentralisation and bringing development closer to the people. The budget has proposed a 17.9% increase, raising the allocation from K30.6 million in 2024 to K36.1 million per constituency. This aligns with the Medium-Term Budget Plan (MTBP) 2025–2027, which projected a gradual increase in CDF allocations. By continuing to prioritise the CDF, the Government signals its strong belief in the fund as a key instrument for local development and community empowerment.

However, this increase in allocation comes amid ongoing concerns over absorption rates, which have been notably slow due to several various administrative bottlenecks. According to the 2023 Eighth National Development Plan (8NDP) Annual Progress Report, the uptake of the CDF was just 54.0%, falling significantly short of the 75.0% target. This underperformance was primarily due to administrative hurdles, including delays in revising the CDF Act No. 11 of 2018, complex approval and procurement processes, and limited capacity within local authorities, which have significantly slowed the disbursement and effective use of CDF funds. This challenges, raise concerns about whether the increased allocation will translate into tangible development outcomes.

The proposed enactment of the revised CDF Act in the 2025 National Budget is a positive step toward resolving long-standing implementation challenges. However, to fully realise its benefits, the Government must expedite the update of CDF Guidelines to align with the new Act, streamlining approval processes and enhancing the management of CDF. While this enactment is a positive development, the opportunity cost of increasing the CDF allocation in 2025 may be significantly high as the fund is expected to have tenuous development programming impact considering that many constituencies still have unspent funds.

ZIPAR's 2024 mid-year budget analysis revealed that out of the K2.4 billion planned for release in the first two quarters of 2024, only K500 million was disbursed, suggesting that there will be significant carry-over of funds, into 2025[4]. Maintaining the 2024 allocation of K30.6 million would have allowed time for gradual improvements in the fund's absorption and management. This approach would give the Government time to resolve administrative hurdles and ensure that future increases are fully utilised, maximising the fund's impact on development. Nonetheless, designating over half of the increase to feeder roads maintenance and rehabilitation may cure some of this concern because of the need to repair the roads is urgent.

[4]https://www.zipar.org.zm/download/14/budget-analysis/2769/mid-year-social-sector-budget-analysis-with-an-emphasis-on-drought-and-cholera-preparedness.pdf

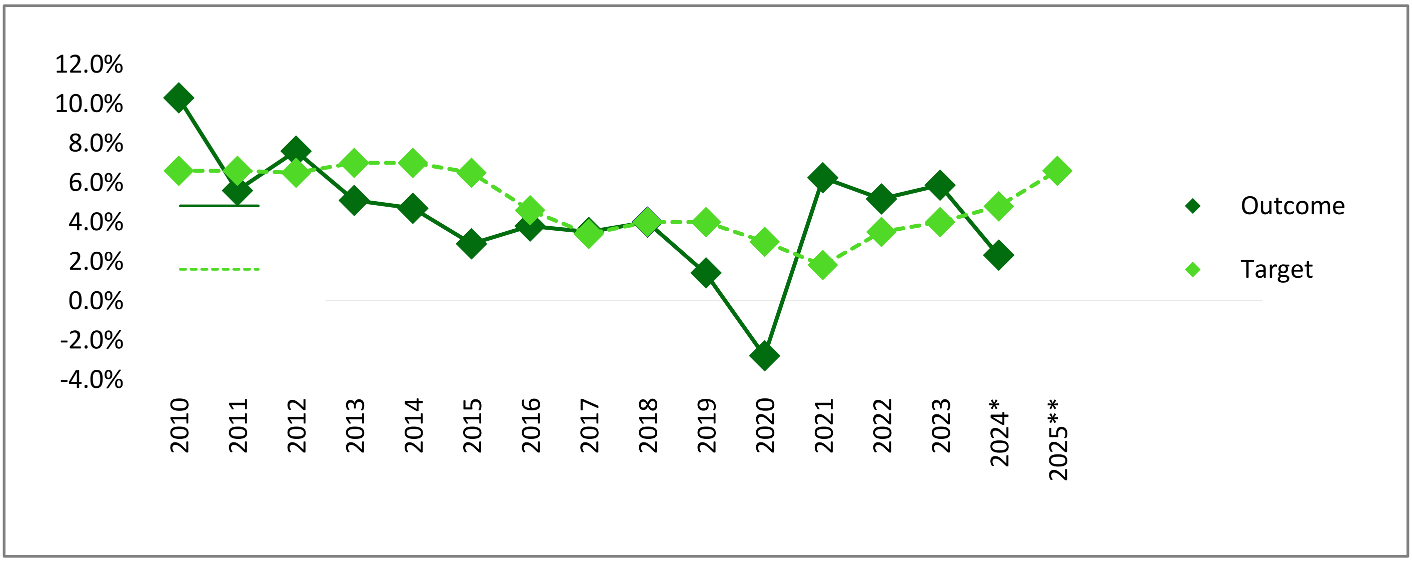
3. A CAUTIONARY MACROECONOMIC TALE

The 2025 National Budget presents an optimistic macroeconomic outlook for the year 2025. Three things stand out, namely, economic growth expectations, exchange rate risks, and debt restructuring. These issues are considered in turn below.

3.1 AGAINST THE TIDE: BULLISH GROWTH AMBITIONS

Zambia's real GDP has grown steadily since the COVID-919 pandemic, increasing by 6.3% in 2021 to 5.9% in 2022 and 5.4% in 2023 because the Government created a stimulating environment for businesses to drive-up growth (Figure 3-1).However, estimates for 2024 indicate that the real GDP growth rate will drop to 2.3%. The primary cause of the downturn is the 2023/2024 drought, which has drastically lowered agricultural output, electricity generation and availability, and subsequently manufacturing performance.

Figure 3-1: Real GDP growth rate (%), targets and outcomes, 2010 - 2025



***Source**: constructed from Budget Speeches (2010-2025) and ZamStats (http://www.zamstats.gov.zm/)*

Against this backdrop, the 2025 Budget sets a real GDP growth rate target of 6.6% up from 4.8 % in 2024 (Figure 3-1). This target is aligned with the 2025-2027 Medium-Term Budget Plan (MTBP) and the macroeconomic framework of the Eight National Development Plan (8NDP). The government remains committed to promoting private-sector-led growth while restricting its role to the creation of business-friendly environment. This notwithstanding, at 22.4% of the total budget, the allocation towards Economic Affairs is not matched with the 23% MTBP target raising concerns about whether Government spending will be sufficient to support the higher growth target.

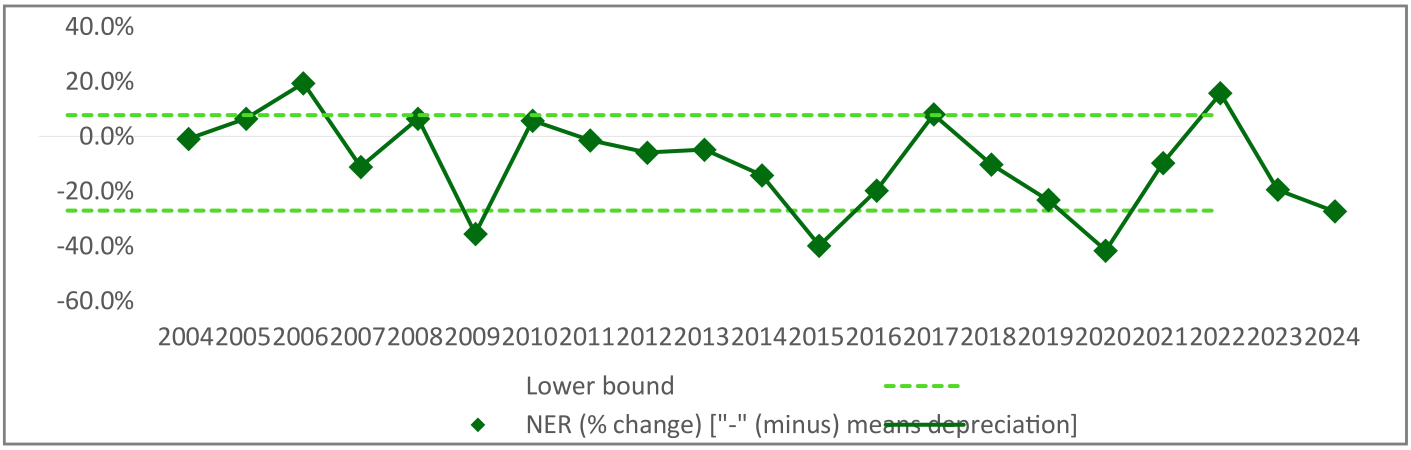
The 2025 Budget anticipates growth from key sectors like mining, agriculture, ICT, accommodation, and construction but fails to fully acknowledge the energy deficit, a critical growth enabler. While recovery in mining and agriculture may support the 6.6% growth target, challenges such as low agricultural productivity, persistent exchange rate depreciation, and power generation constraints could undermine the growth aspiration.

Achieving the 6.6% 2025 growth target will require the government to prioritise energy investments, strengthen resilience to climate shocks, improve agricultural productivity, stabilise the Kwacha, and finalise debt restructuring.

3.2 MINDING THE RISKS OF EXCHANGE RATE INSTABILITY

The 2025 Budget promises to curb exchange rate volatility through export diversification, sustaining foreign investment and facilitating private sector market penetration both internationally and locally. These measures are critical to addressing the kwacha's persistent depreciation, which spiked during 2010-2015 and 2017-2020 periods (Figure 3-2)

Figure 3-2: Zambia's Nominal Exchange Rate (NER) (K/US$) Movements, 2004 - 2024



***Source**: Constructed from Bank of Zambia Fortnightly Statistics (www.boz.zm)*

The kwacha-dollar exchange rate has come under immerse pressure in recently primarily driven by the high demand for foreign currencies to settle payments for critical imports such as fuel and agricultural inputs. Despite this, occasional appreciations have also been observed particularly when mine houses injected foreign currency inflows. In 2020, the kwacha depreciated by nearly 42% (Figure 3-2), exacerbated by COVID-19-related supply chain disruptions. Thereafter, the currency posted a recovery in 2021 and 2022, appreciating by an average of 12% and 8%, respectively due to positive sentiments around Zambia's progress on debt restructuring and IMF tranche payments under the Enhance Credit Facility (ECF) agreement.

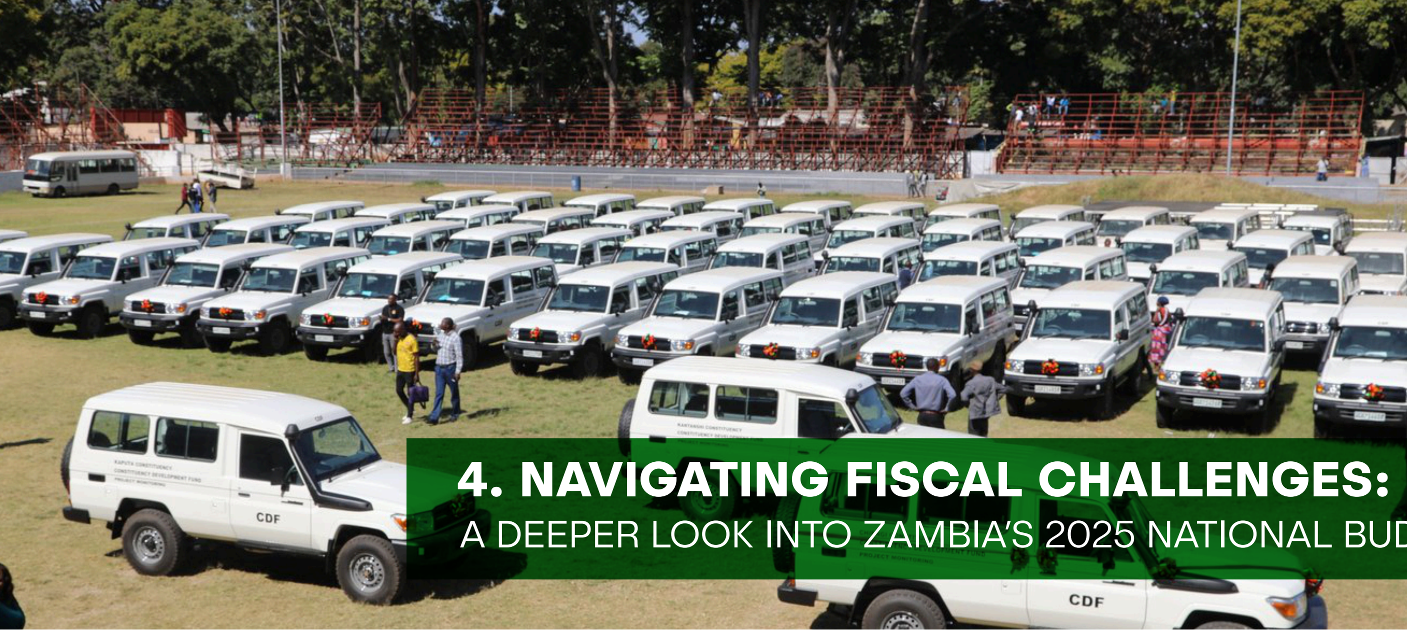
However, these gains were not sustained, and by 2023, the kwacha ranked amongst the worst performing currencies globally, depreciating by almost 20%. Between January and September 2024, the kwacha depreciated by an average of 27%, primarily because of declining copper prices and reduced output. Containing this significant currency is crucial as it has a bearing on the country's overall business environment, balance of payment position, and price stability.

Real sector investment will inescapably be a critical complement the monetary policy in addressing the exchange rate volatility in Zambia. It is commendable that in 2024 the Government resolved the management challenges in two major copper mines (MCM and KCM), launched the geophysical minerals and water resources surveys, and facilitated the actualization of over US$400 million investments in priority sectors of the economy. Looking ahead, the pending investments worth US$2.5 billion in the mining, manufacturing and energy sectors and formalization of trading in gold will be critical to boost foreign exchange earnings and improve Zambia's balance of payment position. A more proactive exchange rate management policy could also be useful. Furthermore, measures targeted at increasing value addition especially in the extractive industries will be imperative to increase export earnings.

3.3 NEARLY OUT OF THE WOODS OF DEBT DISTRESS

Zambia has achieved a few key milestones. The restructuring of the US$ 6.3 billion of external debt owed to official creditors and US$3.8 billion owed to Bondholder has been restructured in 2024, which accounts for 75% of external debt is commendable. Therefore, only the US$3.3 billion (or 25% of total external debt) owed to other private creditors remains un-restructured, although the Government announced that progress had been made with the Chinese lenders, holding a substantial portion of that debt. The anticipated fiscal space from the debt restructuring is huge: "Without restructuring, the total debt service payable in 2025 would have been US$8 billion, but now, the Government will only pay US$599 million in 2025" (MOFNP, 2024). This represents a fiscal saving of US$7.4 billion or 1,236% of the pre-restructuring debt service amount.

While Zambia is not yet fully out of the woods given a debt overhang of above K736.5 billion (US$ 28.3 billion or 90% of GDP) the outstanding issues with private creditors, stretching-out of terms and downward revision of interest rates has granted the nation some relief, making it possible to make substantial allocations to priority development areas. The Government showed commitment towards fiscal consolidation as the total borrowing proposed for 2025 is slightly lower than in 2024, with a reduction from K33.3 billion in 2024 to K31.1 billion in 2025, despite the pressures of post-drought recovery expenditure. The Government is therefore urged to stay the course of prudent fiscal and debt management.



4. NAVIGATING FISCAL CHALLENGES:
A DEEPER LOOK INTO ZAMBIA'S 2025 NATIONAL BUDGET

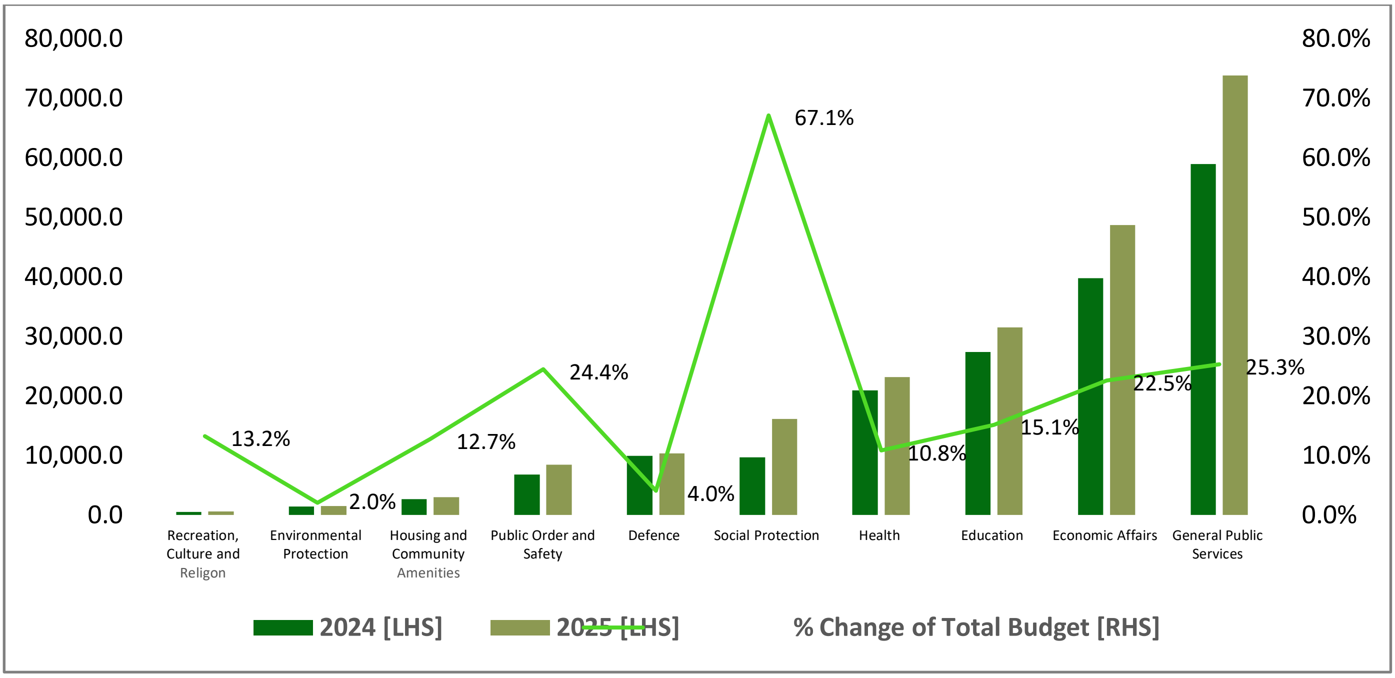
Source: https://www.pdu.gov.zm/cdf

4.1 BALANCING DEBT OBLIGATIONS WITH DEVELOPMENT PRIORITIES FOR INCLUSIVE GROWTH

The Government plans to spend K217.1 billion in 2025, a 22% increase from the K177.9 billion authorised in 2024. However, as share of GDP, 2025 Budget represents a decrease from 27.8% of GDP in 2024 to 26.6% of GDP in 2025, indicating that the Government will be directing smaller portion of the national resources in 2025. This reflects cautious fiscal policy stance in the context of ongoing debt restructuring and signalling a strategic shift and bold commitment to private-sector-led growth in 2025. However, because of the lingering effects of the 2023/2024 severe drought, greater allocation towards state-led development of water reservoirs to support both energy production and agriculture production was desirable.

The allocation to General Public Services has risen to K73.8 billion in 2025, up from K58.9 billion in 2024, representing a 25.3% increase (Figure 4-1). This increase is primarily driven by higher debt service costs, which have surged from K38.9 billion in 2024 to K54 billion in 2025, reflecting Zambia's resumption of debt payments, as it approaches completion of its debt restructuring process. Demonstrating a consistent commitment to debt servicing is crucial for restoring Zambia's fiscal credibility and rebuilding trust with international financial markets. By staying on course with its debt obligations, Zambia can position itself to attract much-needed investment and support long-term economic stability.

Figure 4-1 Budget Allocation Comparison between 2024 and 2025



***Source**: Author's construction based on the 2024 and 2025 Budget Speeches, MoFNP*

It is critical to curb further debt accumulation to prevent rising debt servicing costs from undermining other priority spending in key sectors such as health, WASH, agriculture and energy. The risk of escalating debt servicing costs, especially with persistent depreciation of the Kwacha continues could in future further limit resource availability to these essential sectors.

Additionally, while the planned recruitment of more teachers and health workers is critical to addressing developmental challenges and improving productivity, the resulting increase in the wage bill could put exert pressure non-discretionary spending. This pressure could worsen if complementary revenue growth does not materialise, limiting funds available for other critical development initiatives.

To stimulate resilient and inclusive growth, the Government proposes to increase the allocation to Economic Affairs from K39.8 billion in 2024 to K48.7 billion in 2025, representing a 22.5% increase. Within Economic Affairs, notable increases include CDF at 17.6%, Road Infrastructure at 43.7%, and Agriculture, Fisheries, and Livestock at 11.4%, reflecting the Government's continued commitment to funding key development areas.

The allocation to Education has increased nominally from K27.4 billion in 2024 to K31.5 billion in 2025, underscoring the importance that the Government attaches this sector as a key driver of national development. However, as a share of the budget, the allocation declined to 14.5% in 2025 from 15.4% allocated in 2024, well below the Education 2030 Framework of Action's recommendation to allocate at least 20.0% of the national budget to the sector.

Similarly, the allocation towards Health has risen from K20.9 billion in 2024 to K23.2 billion in 2025, but its share of the Budget has dropped to 10.7% from 11.8%, below the 15% target set by the Abuja Declaration.

These reductions in Budget share for education and health in 2025 reflect the growing fiscal pressure of debt servicing against a revenue capacity national constrained and the Government's renewed commitment to staying current on its debt servicing obligations, rather than a shift in the Government priorities away from these sectors. However, this raise concerns about whether funding to Education and Health will be sufficient to ensure effective service delivery and improved outcomes in these essential services, which are critical for long-term development. While the size of the budget share is important, it is not the sole determinant of the adequacy of resources for effective service delivery. Strategic efficiency in resource utilization will be vital to ensure these sectors contribute meaningfully to long-term development.

4.2 GOVERNMENT ADOPTS A MORE MEASURED STANCE TO DOMESTIC REVENUE MOBILISATION

As Zambia nears completion of its debt restructuring process, enhancing domestic resource mobilization (DRM) is critical to ensure fiscal sustainability. The 2025 domestic revenue target of 21.3% of GDP, is slightly higher than the MTBP 2025 target of 20.9%, but lower than the 2024 target of 22.0% (Table 4-1). The revenue target is thus, relatively more conservative in 2025 than in 2024 reflecting the updated constraints in the economy restraining the Government from pursuing more ambitious domestic revenue mobilisation. However, the lower target heightens the risk of insufficient revenue generation to meet the rising debt servicing obligations while simultaneously time catering to priority sector spending need.

Table 4-1: Comparison of Revenue Targets, 2024, 2025 and MTBP

	2024		20025		MTBP (2025 – 2027)	
	K' Million	% of GDP	K' Million	% of GDP	K' Million	% of GDP
Total Domestic Revenues	141,113.7	22.0	174,188.40	21.3	171,013.5	20.9
Tax Revenues	114,832.3	17.9	137,414.10	16.8	136,657.1	16.7
o/w Income Taxes	61,322.1	9.6	65,810.20	8.1	69,200.6	8.5
VAT	36,361.9	5.7	48,341.40	5.9	46,926.5	5.7
Customs and Excise Duty	16,774.3	2.6	22,854.10	2.8	19,989.2	2.4
Non-Tax Revenues	26,281.5	4.1	36,774.30	16.9	34,356.4	4.2
o/w Mineral Royalty	10,004.2	1.6	17,354.70	2.1	16,308.9	2.0

***Source**: Author's Construction from Budget Speeches and MTBP 2025 – 2027*

In 2025, the Government is set to generate K174.2 billion, exceeding both the 2025 MTBP target (K171 billion) and the 2024 target (K141.1 billion). Notably, income tax revenue is projected to decline from 9.57% in 2024 to 8.05% in 2025, reflecting the lingering effects of the drought on businesses. Value Added Tax (VAT) is set to rise from K36.4 billion in 2024 to K48.3 billion in 2025, driven by the full rollout of the Smart Invoicing System by September, aimed at improving VAT compliance. Additionally, collections from Mineral Royalties are expected to increase from 1.56% of GDP in 2024 to 2.12% of GDP in 2025, owing to increased copper prices and the resolution of problems at Konkola and Mopani Mines. The increments show potential for Government to improve its DRM and achieve its targets despite the dip in the income tax target.

Despite the highlighted risk, the 2025 National Budget underscores a bold stance by the Government to bolster revenue generation through a strategic blend of tax and non-tax reforms, accompanied by improved administrative oversight. By choosing not to introduce any new tax concessions, the Government has again reaffirmed its bold stance on fiscal discipline. A suite of new measures has been introduced to expand the revenue base and enhance collection efficiency including, the introduction of a 15% advance income tax on remittances, a 10% excise duty on betting amounts, and increased fees for foreign artists.

4.2.1 2025 BUDGET MANDATES 15% ADVANCE INCOME TAX ON REMITTANCES

The Government has introduced a mandatory 15% advance income tax on remittances exceeding US$ 2,000, or its equivalent, on transactions made without a valid Tax Clearance Certificate. This measure aims to improve tax compliance and curb illicit financial flows. Similar policies in South Africa, Ghana, Nigeria, and Kenya have proven effective in enhancing transparency and reducing tax evasion. With electronic tax systems largely in place in Zambia, this requirement is expected to enhance compliance without imposing significant burdens on compliant tax payers.

4.2.2 2025 BUDGET INTRODUCES A 10% EXCISE DUTY ON BETTING

In an effort to broaden the tax base, the Government proposes a 10% excise duty on betting, targeting a rapidly growing industry,7 while also discouraging excessive gambling by raising participation costs. This measure aims to reduce the social and economic impacts of gambling, such as financial distress and mental health issues. However, careful implementation is needed to prevent driving betting into unregulated markets and to ensure that vulnerable groups already at risk of adverse outcomes, are not disproportionately affected[5].

[5]Gainsbury, S.M., & Blaszczynski, A. (2017). The Impact of Gambling on Individuals and Society in Australia. International Gambling Studies, 17(1), 56-72.

4.2.3 BUDGET PROPOSES INCREASED FEES FOR FOREIGN ARTISTS

Additionally, the Government plans to increase fees for foreign artists—from K1,778 to K5,000 for SADC-based artists and K15,000 for non-SADC artists—aiming to tap into the growing performance arts and MICE tourism sectors. While this move could boost revenue, the sharp fee hike for non-SADC artists may deter smaller performers, potentially limiting cultural exchange. Striking the right balance between revenue generation and maintaining accessibility for international performers will be crucial to the policy's success.

4.2.4 LOOKING BEYOND PROPOSED REVENUE MEASURES

The Government's decision to refrain from introducing new tax concessions is commendable. However, the Government is urged to go further by conducting a comprehensive review of existing tax incentives to identify and eliminate those that have become ineffective or outdated. Additionally, intensifying the digitalisation of tax systems, ensuring alignment with the Integrated Financial Management Information System (IFMIS), is crucial. Fully digitalised tax collection and payment processes can significantly enhance DRM, reduce leakages and improve compliance across sectors. Emphasising these proactive strategies will not only strengthen the Government's revenue base but also promote a more efficient and transparent tax system.

4.3 FINANCING THE DEFICIT POST-DEBT RESTRUCTURING

The 2025 National Budget projects a fiscal deficit of K25.2 billion, or 3.1% of GDP, down from the K30.8 billion deficit (4.8% of GDP) projected in 2024. This ambitious target is set against the backdrop of a revised 2024 deficit, which following fiscal realignments, is expected to rise to 6.4% of GDP. The Government's ability to meet this projection faces considerable risks, particularly from the resumption of full debt servicing, post-debt restructuring.

Debt servicing costs are likely to rise further if the Kwacha continues to depreciate, adding financial pressure. Additionally, non-discretionary spending is expected to absorb a substantial share of domestic revenues. Out of the projected K174.2 billion in domestic revenues for 2025, K147.3 billion (84.5%) will be allocated to non-discretionary expenditures, leaving only K26.9 billion for other central government spending (Table 4-2). This limited fiscal space raises concerns about the Government's capacity to finance key developmental priorities without resorting to additional borrowing.

Table 4-2: Shrinking Fiscal Space

DESCRIPTION	2024	2025
Revenues	141,113.7	174,188.4
Non-Discretionary Spending	123,131.3	147,268.4
o/w Debt Service (Interest and Principal Payments)	72,260.3	88,746.7
Personal Emoluments	50,870.9	58,521.7
Surplus/Deficit of Domestic Revenues	17,982.4	26,920.1

The projected increase in grants from K3.4 billion (0.6% of GDP) in 2024 to K8.2 billion (1% of GDP) in 2025 suggests a shift toward greater reliance on external support to finance the budget. While this uptick in grant funding may provide temporary relief by easing pressure on domestic revenue mobilisation and reducing the immediate need for borrowing, it does not necessarily mitigate all the risks, particularly those associated with debt servicing and the potential for increased borrowing. A balanced approach combining more aggressive revenue generation and prudent fiscal management will be essential in mitigating these risks.

ZIPAR Zambia Institute for Policy Analysis & Research
UNITED NATIONS ZAMBIA

5 SUPPORTING ECONOMIC RECOVERY AND LAYING A FOUNDATION FOR FUTURE GROWTH

5.1 TOWARDS FOOD SECURITY: NAVIGATING CURRENT CHALLENGES

The 2025 Budget represents a pivotal moment in Zambia's agricultural policy, highlighting three key programme vehicles namely the Comprehensive Agricultural Transformation Support Programme (CATSP), the Farmer Input Support Program (FISP), and the Sustainable Agriculture Financing Facility (SAFF) for achieving agriculture development and improving productivity.

The allocation of K15.4 billion (7.1% of total budget) to Agriculture, Fisheries and Livestock interventions in 2025 represents a significant step towards the growth of the sector. However, this allocation falls short of the target set by the "Maputo Declaration on Agriculture and Food Security in Africa" where the African Union member states committed to allocate at least 10% of their national budgets to agriculture and rural development. The reduced planned spending on agriculture is justified given the Government's need to balance competing national priorities, particularly in light of limited resources. Additionally, the drought has necessitated a significant reallocation of funds towards relief interventions in the social sectors, while the resumption of debt repayments following successful debt restructuring has further constrained fiscal space.

About 60.1% (K9.27 billion) of the allocation to Agriculture, Fisheries and Livestock is directed towards FISP reflecting government's continued commitment to promote maize production and ensure food security. However, by increasing allocations to FISP the government has traded-off an opportunity to shift agricultural programming towards a market-oriented framework through the CATSP and SAFF which together, aim to enhance transparency and accountability in agricultural expenditure.

The sharp increase in FISP's share of the Agriculture Development and Productivity Programme budget, rising from 83.8% in 2024 to 90.5% in 2025 (Table 5-1), reflects the Government's response to the food production impact of the 2023/2024 drought, which caused a deficit of 2.1 million metric tonnes of maize. In addition, K2.3 billion or15.0% of the Agriculture, Fisheries and Livestock budget has been allocated to the National Food Reserves Management Programme to enhance the agencies capacity to secure strategic reserves. Combined, these two programmes account for nearly K 11.6 billion, representing approximately 75% of the total agricultural budget.

Table 5-1: Budget Allocation by Agriculture Development and Productivity Sub-Programme

PROGRAMME/SUB-PROGRAMME	2023 BUDGET (K)	2024 BUDGET (K)	2025 BUDGET (K)	Percentage Change (%)
Agriculture Development and Productivity	**10,067,769,062**	**10,222,074,515**	**10,249,476,828**	**0.27**
Farmer Input Support (FISP)	9,119,154,149	8,561,421,253	9,270,982,106	8.30
Agricultural Advisory, and Technical Services	447,039,593	283,984,272	236,618,575	-16.69
Agriculture Research and Development	34,686,281	95,797,446	102,253,416	6.74
Agricultural Training	32,691,366	63,533,665	49,239,963	-22.50
Agriculture Information Services	11,499,696	13,695,033	20,280,664	48.11
Agriculture Development (Miscellaneous)	422,697,977	1,203,642,846	570,102,104	-52.64
Strategic Food Reserve (FRA)	686,200,000	1,766,200,000	2,366,000,000	33.97

***Source**: Author's construction based on the 2025 Yellow Book.*

The Minister's announcement that the Government will retain the FISP program has settled ongoing policy speculations among stakeholders regarding its future. Moving forward, the priority should shift to reforms that support FISP through market-based approaches to improve its efficiency. Notably, the Government has committed to fully transition to the e-voucher system in 2025, which has the potential to address long-standing concerns such as beneficiary targeting, delays in input distribution, corruption, high administrative costs, and limited private sector participation.

Despite these promising developments, it is concerning that the budget allocations for agricultural extension services and training programs—key drivers of agricultural productivity—have been cut by 16.6% and 22.5%, respectively, from 2024 to 2025. These reductions appear contradictory at a time when the Government is focused on agricultural recovery following the drought.

5.2 GARNERING INCLUSIVE GROWTH AMIDST ENERGY WOES

Reliable power supply is indispensable to support growth in key sectors such as mining and manufacturing, with mining alone consuming over 50.0% of the country's generation. . The severe droughts of recent years have had a profound impact on energy supply, with hydroelectric power generation which is Zambia's dominant source, dropping significantly. This underscores the urgency of diversifying energy sources.

The 2025 National Budget makes some positive strides, though gaps remain in addressing the country's energy sector challenges comprehensively. While the Government allocates K1.8 billion towards the creation of non-financial assets, mainly relating to electricity development projects including counterpart funds, a 22% increase over the 2023 allocation, this is still inadequate to tilt the energy supply towards the desired mix.

Notably, the Minister of Finance emphasised the shift to cost-reflective tariffs as key to attracting private sector investment in the energy sector, though the statement lacked clarity on the specific timelines for implementing these tariffs. In the meantime, increased investment in electricity generation is crucial to support the growth of the economy. Therefore, aligning electricity tariffs to accurately reflect market fundamentals is essential to unlocking private investment in the sector.

The current 2.5 GW national electricity generation deficit requires immediate investment to prevent industrial collapse. We commend the Government for its short- to medium-term interventions, such as the continued importation of power and the development of new solar projects to add 350 MW to the national grid, which will positively impact power availability and supply. However, while these measures provide relief in the short term, the Government must secure sustainable long-term financing solutions for electricity generation. We urge the Government to explore options like blended finance mechanisms to make renewable energy projects more bankable. This could include securing 'senior debt,' which would enhance the viability of investments in renewable energy and attract private sector participation

Net-metering, while promising should not be seen as a substitute for Zambia's distribution network expansion. Its primary focus is support to prosumers (those who both produce and consume electricity) rather than increase generation capacity. Consequently, cost reflective tariffs are required for its success. Similarly, Government's plans to increase power access in rural areas through the Rural Electrification Programme are commendable. To ensure greater coverage and achieve long-term sustainability, the Government should prioritize Public-Private Partnerships (PPPs), and strengthen the Rural Electrification Fund.

The drought had a profound impact on the energy sector, with only 1.2 GW available out of 3.8 GW at the time of the 2025 Budget speech. To address the risk of undiversified energy sources, a transition to renewable energy sources is inevitable. Additionally, Zambia should maximise its potential in clean coal power plants in the near term while the country scales up renewable energy solutions. In this regard, it would be important to see extended development in coal fired power plants. Local clean coal energy generation would improve grid resilience and support economic development in a predictable manner as a firm source of electrical supply.

In summary, while the 2025 Budget makes notable strides, including investments in renewable energy projects and rural electrification, much more is needed in terms of policy reforms and financial strategies to ensure Zambia's energy sector can support long-term, inclusive economic growth.

5.3 LEVERAGING MINING POTENTIAL FOR SUSTAINABLE AND INCLUSIVE GROWTH

Despite efforts to diversify the economy, the mining sector remains the backbone of Zambia's economic structure, contributing over 75% of foreign exchange earnings. After a consistent decline in copper production since 2021, signs of recovery have emerged, with copper output in the first half of 2024 surpassing that of 2023. This rebound signals renewed momentum in the sector, laying the foundation for further growth.

Key to this recovery are three critical factors. First, the Government's resolution of long-standing issues at Konkola Copper Mines (KCM) and Mopani Copper Mines, leading to their reopening, marks a significant step towards revitalizing the industry. Secondly, the Government's efforts to improve the investment climate have attracted both brownfield expansions and new greenfield investments, including major projects by First Quantum Minerals (FQM) and Lumwana, further boosting confidence in Zambia's mining sector.

Finally, the renewed focus on geological surveys, with a substantial increase in funding, underscores the Government's commitment to data-driven development. These surveys will unlock new mineral potential, enabling more informed investment decisions and exploration. Together, these three factors set Zambia on a promising path towards achieving the ambitious target of producing 3 million metric tonnes of copper by 2031, building on the sector's recent rebound and positioning the country for long-term growth.

In the 2025 National Budget, the Ministry of Mines and Minerals Development's allocation was reduced by 15.8%, from K807.3 million in 2024 to K680 million. Despite this reduction, 57% of the allocation (K388 million) is directed towards the Mineral Resource Development and Management programme, with almost all (99.7%) dedicated to geological surveys—more than doubling last year's budget. This highlights the Government's focus on data-driven development in the mining sector.

The ongoing aerial geophysical surveys, backed by a K364 million allocation, play a crucial role in unlocking Zambia's mineral potential. Although the funding is modest, it is a key step in attracting future investment by providing critical data for both large-scale and artisanal miners to make informed decisions. Additionally. the 95.1% increase in funding for mineral resource development, from K199 million in 2024 to K388 million in 2025, reflects the Government's commitment to enhancing resource mapping and supporting sector growth.

While these achievements demonstrate progress in revamping the sector's performance, much more needs to be done to fully realize this vision. Key challenges, such as energy deficits, regulatory inefficiencies, and the need for a fair taxation system to attract sustainable investment, must be addressed. Additionally, passing the Minerals Regulations Commission Bill is critical, as it will enable the establishment and operationalization of the Minerals Regulation Commission (MRC)—a significant milestone for Zambia's mining sector. The MRC will play a crucial role in resolving long-standing issues like legal disputes, illegal mining, and unsustainable exploration practices, which have hindered the sector from reaching its full potential and optimizing revenue generation.

5.4 REVIVING GROWTH IN THE MANUFACTURING SECTOR

Performance of the manufacturing sector has been consistently below 8NDP target of 5% annual growth, dropping from 4.7% in 2022 to 1.5% in 2023 (Table 5-2) and is expected to remain below the 8NDP target in 2024. This trend is driven by challenges such as electricity shortages, high fuel prices and exchange rate depreciation, among others. In that regard, improving support services in form of improved energy supply and enhancing the enabling environment would boost sector growth. Although the performance of the textiles industry has been poor over the past years, the 2025 Budget pronouncements to revamp the Zambia-China Mulungushi Textiles presents a ray of hope for the subsector, but broader measures are needed to address the influx of second-hand clothing imports and supply-side constraints.

On the other hand, Multi-Facility Economic Zones (MFEZs) continue to drive value addition and job creation in the manufacturing sector, with over USD 2 billion invested in 2024 and over 16,400 jobs created in the Lusaka South and the Jiangxi MFEZs. Despite this promising performance exhibited by MFEZs, challenges of power outages and limited access to support services as well as limited integration with local businesses continue to exist. Thus, addressing the various impediments and integrating local MSMEs into these economic zones could be crucial to maximize local benefits.

Table 5-2: Manufacturing growth rates by subsector 2020 - 2023

SUB- SECTOR	2020	2021	2022	2023
Food, Beverages and Tobacco	1.4	7.5	7.5	-0.5
Textile and leather industries	-50.7	697.1	0.5	-33.5
Wood and wood products	-1.0	13.9	-1.7	-3.6
Paper and Paper products	1.4	4.7	-5.4	23.9
Chemicals, Rubber and Plastic products	-1.2	1.76	1.44	8
Non-metallic mineral products	0.7	28.8	-8.2	10.4
Basic metal products	4.3	0.3	5.7	2.2
Fabricated metal products, computer, machinery, vehicles and installation of machinery	-3.3	17.1	9	-4.3
Total Manufacturing Annual Growth rate	1	13.1	4.7	1.5

__Source__: Adopted from the 2023 Annual Economic Report, MoFNP

Further, the 2025 National Budget proposes increasing the surtax on specified imports to discourage the consumption of products that can be locally manufactured. This aims to protect domestic industries by making imported alternatives more expensive, thereby promoting local procurement and consumption. However, care must be taken in defining the surtax list to avoid raising manufacturing costs and discriminating against foreign products. Additionally, the budget proposes raising the excise duty on non-alcoholic beverages from 60 Ngwee to K 1 per litre. This is a commendable revenue-raising measure and may help reduce sugary drink consumption, thereby addressing public health concerns. However, it also risks reducing the competitiveness of the food and beverage sector, a key part of the manufacturing sector.

5.5 PROMOTING MSME DEVELOPMENT FOR INCLUSIVE GROWTH

Micro Small and Medium Enterprise (MSME) development is essential for job creation, revenue mobilisation and promoting inclusive growth. The Budget has highlighted various measures aimed at increasing access to affordable finance for MSMEs. Allocation to the Zambia Credit Guarantee Scheme has been increased by 121% from K386 million in 2024 to K851.7 million in 2025. This is a positive step as the scheme guarantees loans to reduce the credit risk factor in the cost of money, thereby facilitating access to finance for MSMEs. Additionally, the increased allocation will increase credit guarantees to support the implementation of Sustainable Agriculture Financing Facility (SAFF). That stated, even more allocations to the scheme will be required going forward owing to the large number of MSMEs that need access to finance. In the same vein, the Government should review the scheme's performance from time to time to help identify impediments.

Further, the planned facility by Bank of Zambia to address the impact of drought on the agriculture and energy sectors by providing concessional loans to MSMEs is a crucial initiative aimed at enhancing resilience in these sectors.

Finally, the development of industrial yards across major provinces is commendable, as it addresses the challenge of inadequate business infrastructure faced by MSMEs as highlighted in the MSME Development Policy of 2023. These industrial yards are crucial not only for enhancing manufacturing value addition but also for tackling youth unemployment by providing opportunities for skills development and job creation. However, the location of some industrial yards, such as those in Kasama, Chipata, and Mongu, is situated far from the central business districts (CBDs), posing logistical challenges for MSMEs who travel long distances to access these facilities (Wellingtone and Siaminwe, 2024). Therefore, the Government should ensure that future industrial yards are strategically located closer to CBDs, with access to key support services and good road infrastructure to maximize their effectiveness.

5.6 DRIVING TOURISM THROUGH THE MICE STRATEGY

As Zambia strives for economic diversification, policy pronouncements continue to show government's commitments to grow the tourism sector in the medium term with a projected annual average growth rate of 6.1% between 2025 to 2027 (Ministry of Finance and National Planning, 2024). As such, the Government's efforts in the 2025 budget to enhance Meetings, Incentives, Conferences and Exhibitions (MICE) through waiver of visa fees is commendable as reflected in the targets set in the 8NDP.

Notably, there is a significant increase in funding for the Tourism Development and Promotion sub-programme, from K160.7 million (20.9%) in 2024 to K 691.2 million (53.6%) in 2025, of which K 132.3 million is allocated towards tourism marketing. This is essential for driving the implementation of key tourism interventions, such as tourism marketing, as well as the formulation, review and implementation of tourism policies. Additional resources be channelled towards the development of the MICE tourism strategy, which is currently non-existent.

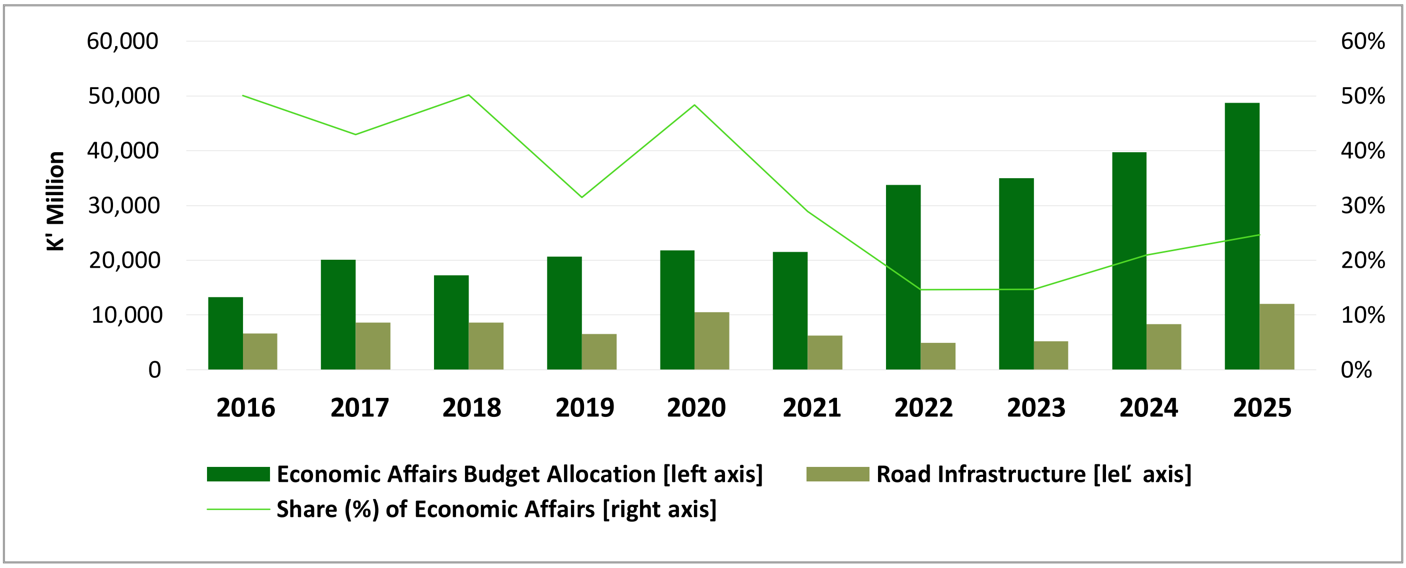
At regional level, Zambia has made significant strides by signing the Trans frontier Conservation Area (TFCA) Agreement with Zimbabwe and Mozambique known as (ZIMOZA – TFCA). This agreement focuses on wildlife conservation and management, creating the potential to tap into a regional tourism market of approximately 600,000 people. Successful implementation and consistent monitoring of the agreement will be essential to ensure its long-term benefits.

Additionally, the Budget provides for tourism infrastructure developments at Kasaba Bay and Liuwa National Park in the northern and southern tourism circuits of Zambia, respectively. This infrastructure development, scheduled to begin in 2025, promises to be a game-changer in the sector. It will help transform these regions into premier tourist attractions. To ensure the timely realization of these projects and the benefits thereof, it will be essential to streamline bureaucratic processes that could otherwise impede implementation.

5.7 PRIORITISE CRITICAL TRANSPORT INFRASTRUCTURE

Investment in transport infrastructure remains key to support economic transformation and job creation in priority sectors such as agriculture, mining, manufacturing, and tourism. In 2025, allocations towards road infrastructure increased by 44.3% from K8.3 billion in 2024 to K12 billion in 2025; with share of total budget marginally increasing by 0.9 percentage point from 4.7% in 2024 to 5.5% in 2025 (Figure 5-1). Although vital, caution in the design of financing mechanism should be taken to avoid derailing fiscal consolidation efforts. Thus, for all road infrastructure financed through the Budget, the Government should continue to prioritise critical road infrastructure by constructing, rehabilitating and upgrading key corridors and trade routes such as Chinsali-Mpika, Serenje-Mpika, and Monze-Niko. Otherwise, the Government is urged to focus on strategic partnership grants and private public partnerships (PPPs). The negotiation of the US$458 million grant financing from Millennium Challenge Corporation and US$270 million from the World Bank to support the Transport Corridor for Economic Resilience Project (TRACER) is commendable as it will ease pressure on the treasury.

Figure 5-1: Share of Road Infrastructure Allocation in Total Economic Affairs Budget



***Source**: Constructed by Author from Budget Speeches, MoFNP*

Further, plans to revitalise the Tanzania Zambia Railway Authority (TAZARA) and Zambia Railway Limited (ZRL) are laudable, as they are essential to support expected increase in freight volumes as the increase in cooper production to 3 million metric tons annually starts to take effect. That stated, ensuring off budget financing mechanisms through user-pays principle will be important to avoid another "infrastructure-driven debt cumulation".

Finally, the allocation of K511 million from the K5.6 billion Constituency Development Fund (CDF) specifically for the maintenance and rehabilitation of feeder roads is a crucial and equitable policy measure aimed at improving rural livelihoods. This targeted funding further reinforces the significance of the increased CDF in the 2025 budget. This will help improved rural connectivity and promote access to vital social services in line with SDG No. 3, 4 and 10.

5.8 ICT ESSENTIAL FOR ECONOMIC DIGITAL TRANSFORMATION

The deployment of Digital Public Infrastructure (DPI) has become a critical tool for enhancing transparency, efficiency, and governance quality globally. The 2025 National Budget outlines key improvements in information, communication and technology (ICT) which is essential for economic transformation. Notably, the Budget provides for increased investments in telecommunications infrastructure, data centres, and access devices, essential for boosting productivity.

The rising cellular mobile subscription and corresponding mobile money transactions is a significant opportunity for increased revenue collection, particularly from the informal sector. In this regard, the construction of 202 towers in 2024 towards a target of 998 by 2027, representing 20.2% progress, is commendable as it aligns with government’s aspiration in the National Digital Transformation Strategy (Ministry of Technology and Science, 2023). This initiative is expected to boost access to mobile and internet services, fostering economic growth and digital inclusion. The 2025 budget allocation for ICT Infrastructure Development sub-programme has increased by 51.5% from K 9.7 million in 2024 to K 14.7 million in 2025, highlighting the urgent need to expand the ICT landscape in response to growing demand. In addition, the licencing of Starlink is a strategic step to enhance connectivity in underserved rural areas, improving public service delivery, especially in local authorities, schools, hospitals and border facilities.

***Source**: Adopted from https://lusakastar.com/news/costaz-to-setup-ict-learning-centres*

Further, the establishment of 125 Digital Transformation Centres (DTCs) aligns with the country's digital transformation goals and contributes to the achievement of SDG No. 9, thereby bridging the urban-rural digital divide. It is recommended that the Government extend these services to learning facilities to promote ICT integration and STEM learning.

Lastly, in line with the Cyber Security and Cyber Crimes Act No. 2 of 2021, deliberate and robust countermeasures must be implemented to address emerging ICT-related threats such as hacking and on-line fraud which are inherent risk in the digital space. These measures are essential for safeguarding the integrity of the country's expanding digital ecosystem.

6 TOWARDS RESILIENCE: A CALL TO GREATER ACTION ON ENVIRONMENTAL SUSTAINABILITY

In the wake of a severe and devastating drought, the National Budget addressing the National Green Growth Strategy (GGS) as a key policy document is paramount. Having the need for policy direction to ensure Zambia's strategic planning and financing capabilities to better prepare the country for future shocks is forward-looking. The GGS contains a strategic pillar that seeks to promote low carbon economic growth that minimises the adverse impacts of climate change and other shocks, while maximizing on opportunities. Thus, with the socio-economic devastation caused by the recent drought, the 2025 National Budget presents a critical opportunity to introduce more ambitious strategies for environmental management.

The 2025 National Budget reveals the Government's continued heavy reliance on foreign financing for climate change mitigation and environmental protection. Key programs such as Forestry Management, Green Economy, Climate Change Coordination, and Environmental Management are predominantly funded through external loans and grants. While the 2025-2027 Medium Term Budget Plan mentions exploring innovative financing options like green bonds and carbon trading, there is an urgent need for increased domestic financing, particularly to build climate resilience. One potential avenue for such funding is the Constituency Development Fund, which could better address the needs of vulnerable communities at the subdistrict level.

6.1 2025 BUDGET COMMITS TO STRENGTHENING EARLY WARNING SYSTEMS

In the wake of a severe and devastating drought, the National Budget addressing the National Green Growth Strategy (GGS) as a key policy document is paramount. Having the need for policy direction to ensure Zambia's strategic planning and financing capabilities to better prepare the country for future shocks is forward-looking. The GGS contains a strategic pillar that seeks to promote low carbon economic growth that minimises the adverse impacts of climate change and other shocks, while maximizing on opportunities. Thus, with the socio-economic devastation caused by the recent drought, the 2025 National Budget presents

a critical opportunity to introduce more ambitious strategies for environmental management.

The 2025 National Budget reveals the Government's continued heavy reliance on foreign financing for climate change mitigation and environmental protection. Key programs such as Forestry Management, Green Economy, Climate Change Coordination, and Environmental Management are predominantly funded through external loans and grants. While the 2025-2027 Medium Term Budget Plan mentions exploring innovative financing options like green bonds and carbon trading, there is an urgent need for increased domestic financing, particularly to build climate resilience. One potential avenue for such funding is the Constituency Development Fund, which could better address the needs of vulnerable communities at the subdistrict level.

6.2 ENVIRONMENTAL PROTECTION BUDGET FALLS SHORT AMIDST ESCALATING CLIMATE CHALLENGES

While improved early warning systems and access to climate data are critical for mitigating the impact of extreme weather events, the budget could have demonstrated a stronger push for environmental protection measures. The modest K30 million increase in the 2025 environmental protection budget highlights a potential shortfall in addressing the scale of Zambia's pressing environmental challenges. In light of the severe drought and its widespread socio-economic impacts, the modest increase raises concerns about the adequacy of the Government's response. With the environmental protection budget still stubbornly below 1% of the total budget—albeit in line with the African average—it highlights a lack of ambition to push beyond the norm and prioritize greater investment in this critical sector.

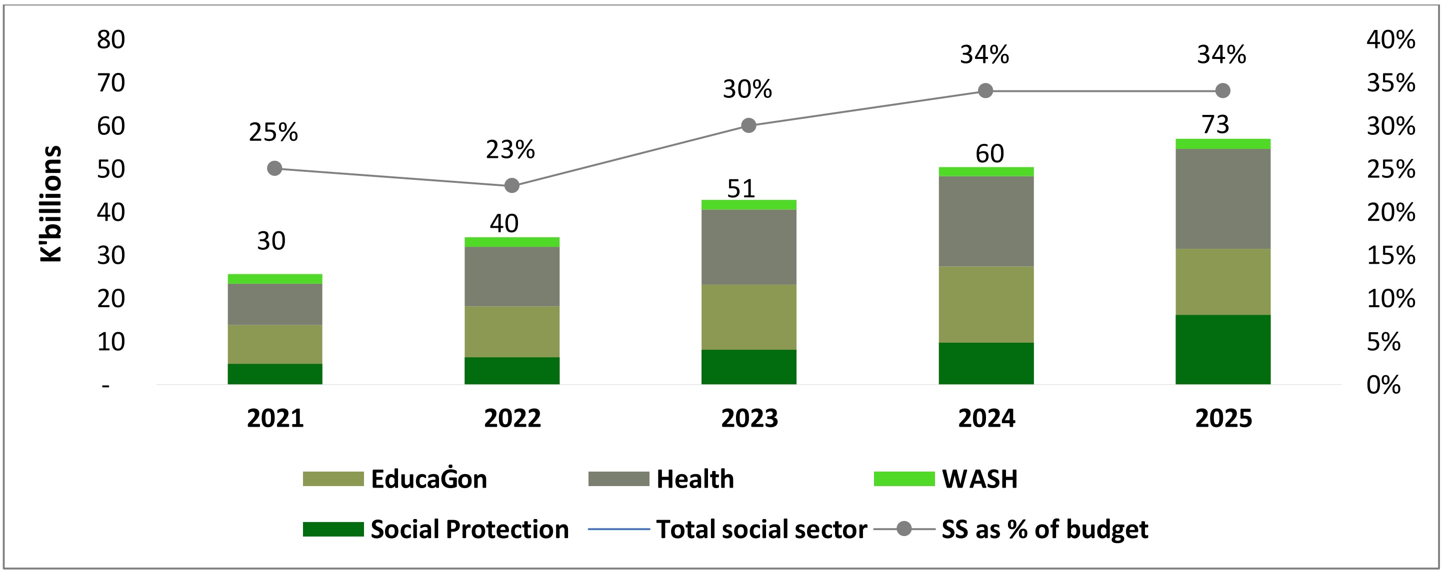
The plans to construct 947 boreholes and 12 dams, as well as rehabilitate 500 boreholes and 14 dams are welcome especially as the Government continues to display a high actualisation rate in fulfilling its target of water infrastructure development since 2022. However, the lack of significant annual increments to the environmental protection budget highlights a concern around providing the adequate resources to, combat rising deforestation; increase innovation in sustainable cooking and energy practices; and increase research and development initiatives to expand the country's natural resource base to maximize revenue generation from the country's vast natural resource base, while reducing the harsh implications of climate change.

These challenges are further complicated by the reduction in funding for the Ministry of Green Economy and Environment, which plays a crucial role in advancing climate adaptation and mitigation efforts. The Ministry's budget allocation has fallen by 31.9%, from K812 million in 2024 to K553 million in 2025 impacting its dissemination, and monitoring and evaluation activities in implementing the Green Growth Strategy. Conversely, the Ministry of Water Development and Sanitation has seen an increase in its budget allocation by 16.7% which is a positive step further highlighting the case for stronger investments across the broader environmental sector for better coordination and impact efforts.

7 SAFEGUARDING LIVELIHOODS AMID CLIMATE EXTREMES

The 2025 National Budget demonstrates the Government's commitment to addressing Zambia's current human and social development challenges, worsened by the recent drought and lingering effects of COVID-19. While social sector (health, education, social protection and WASH) allocations have risen to K73 billion from K60 billion in 2024, their share of the total budget has remained the same at 34% (Figure 7-1), reflecting the tough trade-offs in managing competing national priorities, especially the resumption in sovereign debt servicing following successful restructuring.

Figure 7-1: Social Sector Budget Allocations, 2021-2025



***Source**: Government of Zambia, 2022- 2025 Yellowbook Estimates of Revenue and Expenditure (Output-Based Budget)*

The 2025 National Budget demonstrates the Government's commitment to addressing Zambia's current human and social development challenges, worsened by the recent drought and lingering effects of COVID-19. While social sector (health, education, social protection and WASH) allocations have risen to K73 billion from K60 billion in 2024, their share of the total budget has remained the same at 34% (Figure 8 1), reflecting the tough trade-offs in managing competing national priorities, especially the resumption in sovereign debt servicing following successful restructuring.

7.1 BALANCING THE SCALE: TOWARDS QUALITY EDUCATION FOR ALL

The Education budget increases to K31.4 billion from K27.3 billion, representing a 15% increase from 2024 in nominal terms. As a share of the total national budget there is a decline by about 9 percentage points from 15.4% in 2024 to 14.5% in 2025. The Government's commitment to continuous development of Early Childhood Education (ECE) is reflected in the 2025 budget, which has increased the ECE specific budget to K702.5 million from K528 million in 2024, representing growth of 33% in just one year. This trend has remained consistent since the Government launched the sector strategy to ensure increased access to ECE is expanded through development of ECE appropriate infrastructure, provision of learning materials and employment of ECE trained teachers.

The teacher recruitment drive seen since 2021 has continued and is necessary for improving quality indicators such as teacher-pupil-ratios which have changed to undesirable levels since the free education policy. In 2020, teacher pupil ratios stood at 1:58 in primary schools and 1:38 in secondary school, up from 1:43 and 1:21 previously[6]. These have likely increased following the return of over 2 million learners. Pronouncements to recruit more teachers will help address these quality concerns. Secondary education has received significant boost, with an allocation of K7.6 billion from K5.5 billion in 2024. The increased allocations will be directed towards building infrastructure, enhancing gender parity, and boosting the completion rates for grades 9 and 12 which stood at 61.9% and 32% respectively[7] in 2020 , while transition rates for grade 9 stood at 63% in the same year. The partnership with the World Bank to construct 120 secondary schools further underscores the critical role infrastructure plays in advancing educational outcomes.

7.2 SOCIAL PROTECTION: NOT ALL THAT GLITTERS IS GOLD

Social protection has recorded one of the largest budget increases in terms of resource allocation, rising from K9.6 billion in 2024 to K16.1 billion in 2025, representing a 67% change. As a share of the total budget social protection now accounts for an historical high of 7.5%, the largest in the past 5 years. This increase is justified by the growing number of vulnerable people due to the 2023/24 drought spell who need safety nets. The allocation to the social cash transfer saw the largest nominal increase of about 100%. This increase is driven in part by the Emergency Cash Transfer (ECT) which will bring on board 950,000 new beneficiaries as part of the drought response. However, the ECT will be discontinued in June 2025, and the regular SCT programme will revert to its transfer amount of K200 per month from K400 during the drought

[6]Education Statistical Bulletin 2020

[7]Education Statistical Bulletin 2020

response. Given high inflation rate of over 15% and the extended recovery periods households typically need after droughts[8] it will be difficult for households to adjust. Government must maintain the K400 for regular beneficiaries as well as integrate cash transfers with other existing programs, allowing recipients to benefit from multiple interventions through the CASH PLUS approach which Cabinet has approved.

The Government has allocated K2 billion towards the Cash for Work program for the first time in recent years to build resilience of citizens in drought affected districts. This program is will go up to June 2025 after which it will be discontinued. It is important that Cash for Work programs promote decent work conditions by ensuring protective clothing is provided to workers, work environments are safe and workers' rights are respected. The programs should also prioritise vulnerable and marginalised groups such as women. To ensure sustainability beyond June 2025, recipients of Cash for Work programs should be provided with follow up or parallel interventions such as financial literacy or business management skills.

Absence of support towards extending health coverage for the poor and vulnerable, could impact negatively on efforts to attain Universal Health Coverage (UHC). The National Health Insurance Management Authority (NHIMA)'s current pilot to onboard SCT beneficiaries and PWDs on the scheme supported by the Global Fund could benefit from Government support through subsidizing of health services for the poor and vulnerable beyond the pilot. The 2025 budget support to NHIMA is primarily directed towards administrative and management support, with no specific targets set for expanding coverage.

7.3 TOWARDS GREATER INCLUSION: GENDER AND DISABILITY MAINSTREAMING

The increase in many social sector budgets such as social protection potentially advances gender equality, given that poverty in Zambia disproportionately affects women more due to lower economic participation and limited educational opportunities. Nonetheless a clearer strategy is needed to ensure the participation of women in social programs is increased in line with Government policies on tacking gender inequality. The increase in the allocation to the Keeping Girls in School (KGS) program to K281.75 million or 652% growth, represent opportunities that target and promote empowerment of more women. However, the reduction in the number of beneficiaries for the Girls' Education and Women's Empowerment and Livelihood (GEWEL) programme has reduced its target for empowering women's groups from 50,000 in 2024 to 13,000 in 2025, due to the transition from GEWEL I to GEWEL II. This reduction could result in setbacks, including increased

[8] Impact of climate-smart agriculture adoption on food security and multidimensional poverty : Impact of climate change on biodiversity and food security : Study finds drought recoveries taking longer

child marriages, which would threaten girls' education and empowerment. Women who won't be reached as a result should be incorporated in other programs.

The 2025 National Budget reflects a mixed picture for disability inclusion efforts, with funding cuts in some areas and increases in others. The allocation for disability affairs under the Ministry of Community Development and Social Services has been reduced by 11.2%, while funding for the Zambia Agency for Persons Living with Disabilities (ZAPD) has gone up by 15.9%. Allocations for inclusive education have also risen. The K21.6 million allocated for special education in 2025 represents a 20.0% increase, alongside a 25.2% rise in special education grants to K12.5 million. Despite this funding boost, performance gaps remain. Only 71.1% of targeted persons with disabilities (PWDs) receive educational support and just 20% access rehabilitation services. To improve outcomes, increased staffing and resources at the subnational level are essential, especially as the ongoing drought worsens the challenges faced by PWD. Lack of disability certification continues to be a technical barrier to disability inclusion among many PWDs. The increased resources to ZAPD in the 2025 budget should make this a priority to ensure many PWDs benefit from various relief interventions during the drought emergency.

7.4 SHRINKING WASH BUDGETS IN THE WAKE OF THE DROUGHT

The 2025 budget allocation to the water sector presents an opportunity to reassess Zambia's commitment to addressing the extensive water supply, sanitation, and hygiene (WASH) challenges confronting Zambia, particularly considering the ongoing drought. Over the past 5 years (2020 to 2024), WASH allocation as a share of the total budget have decreased. This persistent trend is concerning, especially as Zambia faces recurring threats from Cholera outbreaks and other waterborne diseases, exacerbated by drought conditions that disproportionately affect already vulnerable communities. The decline in budgetary allocations is a continuous deviation away from the eThekwini declaration of 2008 where 32 African heads of states and delegation leaders committed to spend 0.5% of their GDP on water and sanitation[9]. The 2025 budget allocation represents 0.2% of GDP.

The 2023/24 drought has further highlighted the consequences of chronic underfunding in the water sector, leaving many without access to safe and clean water, and sanitation and hygiene services which are essential for health, livelihoods and overall well-being. Increased investments in WASH could greatly enhance resilience against water insecurity and disease outbreaks, especially in a time when these challenges are more pressing. Without focused investment, Zambia may struggle to meet its national development goals and to prepare adequately for both immediate and long-term water-related crises.

7.5 BUILDING RESILIENCE THROUGH INCREASED ACCESS TO HEALTH

The increased allocation to health from K20.9 billion in 2024 to K23.1 billion in 2025 represents Governments commitment to increase access to health during current human development challenges. However, the health budget as a share of the total budget has decreased from 11.8% in 2024 to 10.7% in 2025. Further, at 10.7% of the total budget, the allocation is less than 15.3% of the national budget as recommended by the Abuja declaration[10]. This could compromise the health systems ability to address rising public health risks such as Cholera outbreaks and increasing prevalence of non-communicable diseases. Notwithstanding the continued drive to recruit 2,000 additional health workers will significantly reduce the human resource for health gaps that currently exist and help the Government attain its target of attaining 70% of the establishment by 2026 to address the doctor- patient and nurse- patient ratios.

Stock availability of drugs and medical supplies which currently stand at 85%[11] surpasses the WHO benchmarks is essential to curb the erratic availability of medicines and medical supplies. Challenges of accessibility at facility level, such as logistical, storage, distribution and inventory should be prioritized to ease access. The announced implementation of a digital inventory management system will promote transparency of drug management including combating misuse by monitoring and tracking of medications from procurement stage through to delivery at health facilities.

7.6 RESTORING FOOD SECURITY: ENSURING ACCESS AND NUTRITION AFTER DROUGHT

The government has increased its nutrition budget by 9.0%, from K14.7 billion in 2024 to K16 billion in 2025, reflecting a strengthened commitment to addressing malnutrition and supporting essential programmes for vulnerable populations. Zambia has historically struggled with high rates of malnutrition, with 35% of children under five already affected by stunting. The extended dry conditions have led to widespread crop failures, compounding pre-existing nutritional issues. Access to nutritious food has been further restricted, particularly in rural areas where poverty is prevalent. Consequently, the prevalence of malnutrition, including stunting and wasting, is expected to rise, and micronutrient deficiencies—such as anaemia, which affects around 60% of children—are likely to worsen due to reduced access to diverse diets.

[9]WHO (2012)

[10]On April 27, 2001, African Union (AU) governments adopted the Abuja Declaration, in which they set a target of allocating at least 15 percent of their national budgets to improve health care.

[11]2025 BUDGET SPEECH

The government has increased its nutrition budget by 9.0%, from K14.7 billion in 2024 to K16 billion in 2025, reflecting a strengthened commitment to addressing malnutrition and supporting essential programmes for vulnerable populations. Zambia has historically struggled with high rates of malnutrition, with 35% of children under five already affected by stunting. The extended dry conditions have led to widespread crop failures, compounding pre-existing nutritional issues. Access to nutritious food has been further restricted, particularly in rural areas where poverty is prevalent. Consequently, the prevalence of malnutrition, including stunting and wasting, is expected to rise, and micronutrient deficiencies—such as anaemia, which affects around 60% of children—are likely to worsen due to reduced access to diverse

7.7 SUMMARY

Considering the recent drought that has profoundly affected nearly half of the Zambian population, it is crucial to critically assess the effectiveness of the 2025 National Budget in safeguarding livelihoods. With poverty levels escalating to 60.0% and food insecurity placing immense strain on vulnerable groups—including children, women, and Persons with Disabilities—it is essential for Zambia to adopt a more robust and responsive approach to these pressing challenges.

8 CONCLUSION

Borrowing the words of Vivian Greene, "Resilience is not about overcoming the storm but about learning to dance in the rain." The 2025 National Budget reflects government's determination to balance bold economic growth ambitions with the realities of persistent challenges such as drought, energy shortages, and rising debt obligations. While the budget outlines significant investments in key sectors like agriculture, energy, and social protection, the economic impact of the 2023/24 drought and its effect on inflation and food security cannot be overlooked. The budget's emphasis on building resilience, through infrastructure development, mining sector revitalization, and enhanced social safety nets, is a positive step toward economic recovery and inclusive growth. However, critical gaps remain, especially in energy sector investments and food security measures, which may undermine the ability to meet the ambitious growth targets set for 2025.

Despite these challenges, the government's commitment to fiscal consolidation and prudent debt management is commendable. The restructuring of Zambia's debt has created fiscal space for priority development programs, though concerns about exchange rate volatility and debt servicing costs persist. In moving forward, the success of the 2025 National Budget will hinge on effective governance, particularly in the implementation of social protection programs and infrastructure projects. It is crucial for the government to not only mobilize domestic resources effectively but also ensure that key reforms in agriculture, energy, and social sectors are fully realized to foster long-term sustainability and inclusive growth for all Zambians.