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SUSTAINING LIVELIHOODS THROUGH FINANCIAL HEADWINDS

Mid-Year Analytical Report on Budget Performance and Socioeconomic Outcomes for the First Half of 2025

JULY 2025

ACKNOWLEDGMENTS

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EXECUTIVE SUMMARY

The 2025 National Budget, themed “Building Resilience for Inclusive Growth and Improved Livelihoods”, reflects Zambia’s strategic response to the socio-economic shocks caused by the 2023/24 drought. With a total allocation of K217.1 billion, representing a 22.0% nominal increase over 2024, the budget is anchored on macroeconomic stability and poverty reduction. It targets 6.6% GDP growth, inflation control between 6–8%, and increased domestic revenue mobilisation to 21.3% of GDP, while safeguarding critical social sector investments.

By mid-2025, Zambia’s economy showed signs of recovery, with real GDP growth of 4.5% in Q1, driven by agriculture (74.4%), mining (16.5%), and food services (27.6%). Inflation eased to 14.1% in June, supported by declining food prices, and the Kwacha appreciated by 17% year-to-date, buoyed by mining receipts and offshore investments. Debt restructuring agreements covered 94% of eligible debt, enhancing fiscal sustainability.

Despite these gains, fiscal performance remained uneven. While total revenues and grants reached K89.2 billion, just 3.0% below projections, VAT underperformed by 14.3%, and non-tax revenues lagged due to inefficiencies in State-Owned Enterprises. External financing fell 174% below expectations, prompting net domestic borrowing of K13.1 billion (1.6% of GDP), raising concerns about crowding out private sector credit.

Social sector spending remained resilient. The Social Cash Transfer (SCT) programme exceeded expectations, disbursing K5.5 billion to 1.3 million households, 29.3% above target, and maintaining the emergency transfer value of K400 monthly. The Cash for Work programme disbursed K1.3 billion, engaging 2.5 million beneficiaries, though implementation was hindered by inconsistent fund releases and weak local administrative capacity. The WASH sector, however, remained underfunded, with only 4.2% of its K2.3 billion allocation released, resulting in missed infrastructure targets under 8NDP.

Despite macroeconomic improvements, child poverty remains a critical concern. According to the 2024 Child Poverty Report, 70.6% of Zambian children (6.6 million) are deprived in two or more dimensions of wellbeing, including nutrition, health, education, water, sanitation, housing, and access to information. Alarmingly, 2.7 million children (28.7%) face deprivations in four or more dimensions, while only 11.1% are deprivation-free (UNICEF Zambia, 2024).

The withdrawal of about US$50 million in U.S. health support and the closure of USAID operations in Zambia have created a major funding gap, threatening to reverse two decades of progress in public health, particularly in HIV/AIDS treatment and rural health services. These external shocks compound existing vulnerabilities and risk deepening multidimensional child poverty.

The 2025 budget presents several opportunities to strengthen investments in children:

- Education: With K31.5 billion allocated (14.5% of the budget), including funding for 2,000 new teachers, K2.6 billion for infrastructure, and K534.4 million for the School Feeding Programme, there is scope to enhance learning outcomes, especially in underserved areas (MoFNP, 2025).
- Targeted Social Protection: Leveraging granular data from the Child Poverty Report enables better targeting of SCT and school feeding programmes to reach the most deprived children, particularly those in rural and female-headed households.

While Zambia's economic outlook remains cautiously optimistic, the country must address persistent child poverty and protect gains in health and education amid tightening fiscal space. The 2025 budget offers a foundation for inclusive growth, but sustained and targeted investments in children are essential to ensure long-term resilience and human capital development.

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1. INTRODUCTION

The 2025 National Budget aims to address the drought experienced during the 2023/24 agricultural season. The 2025 budget, which is K217.1 billion, is under the theme "Building Resilience for Inclusive Growth and Improved Livelihoods." This budget is 22.1% larger than the 2024 allocation of K177.9 billion, with a larger portion of the increase allocated to address the severe impacts of the 2023/24 drought. For instance, social sector allocations (health, education, social protection and Water and Sanitation and Hygiene) in the 2025 National Budget increased nominally by 21.7% to K73.1 billion.

The Government has set out macroeconomic targets and has also committed to social sector spending. In its 2025 National Budget, the Government, targets a real Gross Domestic Product (GDP) growth rate of 6.6%, reducing inflation to within the 6–8% medium-term target band, maintain international reserves above 3 months of import cover, increase domestic revenue to at least 21.3% of GDP, and lower the fiscal deficit to 3.1% GDP, and limit net domestic borrowing to 1.9%. Further, the Government, in its agreement with the International Monetary Fund (IMF) on the Extended Credit Facility (ECF), has committed to spending at least K27.3 billion by June 2025 on social spending.[1] These goals reflect a commitment to economic stability, fiscal prudence, and inclusive growth.

This report reviews the performance of the 2025 National Budget during the first half of the year. The report begins by providing an analysis of recent economic developments by looking at broad macroeconomic aggregates and the fiscal position in the first two quarters of 2025. Secondly, it provides an in-depth analysis of social sector spending and performance over this period. Next, the report discusses the outlook and potential risks for the second half of 2025. Finally, the report concludes with recommendations.

[1] *IMF (2024). Zambia: Fourth Review Under the Arrangement Under the Extended Credit Facility and Financing Assurances Review—Press Release; Staff Report; and Statement by the Executive Director for Zambia. IMF Country Report No. 24/350. Washington, D.C.: International Monetary Fund. Available at: https://www.imf.org/en/Publications/CR/Issues/2024/12/17/Zambia-Fourth-Review-Under-the-Arrangement-Under-the-Extended-Credit-Facility-and-Financing-476897*

2. ECONOMIC DEVELOPMENTS

The economy had demonstrated resilience to the effects of the drought, supported by increased output in mining and agriculture. In 2024, real GDP was reduced from the projected 4.8% to 2.3%, due to the adverse effects of the drought, which destroyed a total of 982,765 hectares of crop out of an estimated 2,272,931, and reduced electricity generation to less than 4 hours a day[2]. However, in the first quarter of 2025, the economy grew by 4.5% year-on-year, up from 2.2% in the same period of 2024, which is a rebound from the drought as shown in ***Figure 2-1***. The strongest growth was recorded in agriculture, forestry, and fishing at 74.4%, while accommodation and food services grew by 27.6%, mining and quarrying by 16.5%, and information and communication by 16.2%.

The Kwacha had been bullish in the first two quarters of 2025. Zambia's Kwacha had seen a massive depreciation in 2024 and weakened by 11.6% against the US dollar, and this was largely on account of increased imports of food stemming from the drought and increased imports of petroleum products. But in March 2025, the Kwacha began appreciating against the US dollar, reversing the depreciation seen at the end of December 2024. By June 2025, it had strengthened by 20.0% since March and 17.0% year-to-date, trading at K23.1/US$ (***Figure 2-2***). This appreciation was largely driven by increased foreign exchange inflows, particularly from offshore investors converting dollars to buy government securities, largely stemming from the upgrade in the creditworthiness, along with tax remittances from the mining sector, which recorded significant net inflows between April and June. Additionally, lower import demand for energy and grains, combined with a weaker US dollar, was reflected in an 11.0% drop in the US Dollar Index to 98, further supporting the Kwacha's rise.

Figure 2-1: *Economic Growth*

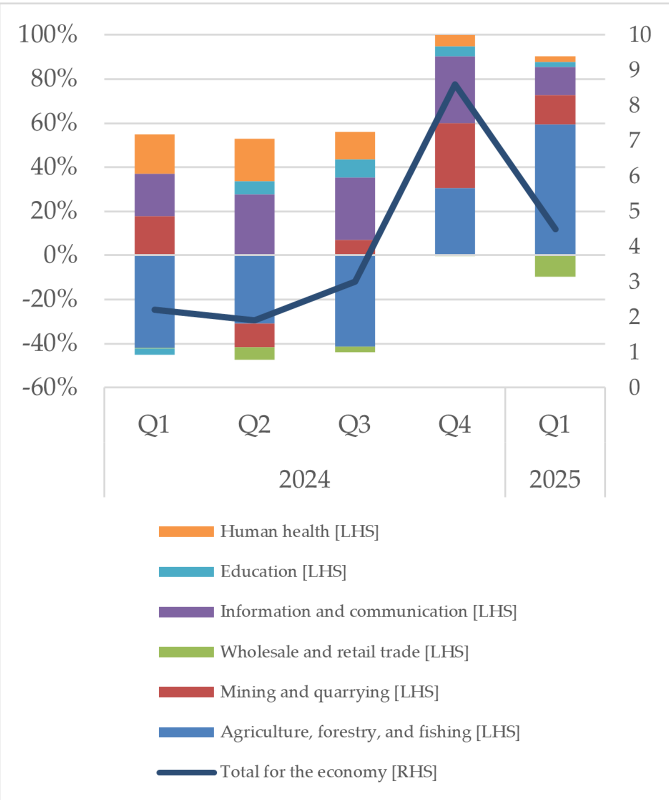
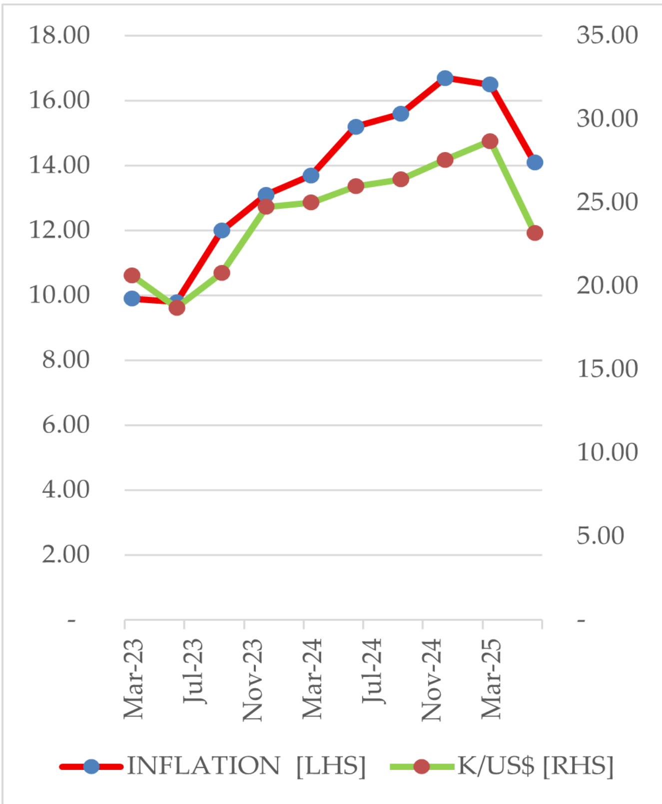


Figure 2-2: *Inflation and Exchange Rate Trends*



Source: *Zambia Statistics Agency*

[2] *https://www.unocha.org/publications/report/zambia/zambia-drought-response-appeal-may-2024-december-2024-may-2024*

Inflation had eased in the first half of 2025 as food and fuel prices reduced. The Consumer Price Index (CPI) slowed down to 14.1% in June 2025 from 15.3% in May 2025, as seen in ***Figure 2-2***. The reduction in the CPI was largely attributed to a decline in food and non-food inflation. Food inflation reduced to 16.7% from 17.9% over the same period, and this was stemming from the bumper harvest that the country recorded of 3.5 million metric tonnes. In addition, non-food inflation, reduced to 10.3% from 11.6% and was partly attributed to the appreciation of the kwacha and reduced price of crude oil on the international market. Further, the drop in inflation had slightly improved the cost of living, as was seen from the Jesuit for Theological Reflection (JCTR) Basic Need and Nutrition Basket, which declined from K5,059.1 in April 2025 to K4,929.9.

The authorities had restructured 94.0% of the external debt stock, reducing the risk of debt distress. In October 2023, the Zambian Government reached an agreement with its official bilateral creditors and its international bondholders in June 2024. More recently, in principle, deals with two major Chinese private creditors, along with several others, have also been agreed upon. With this, the agreements had culminated in 94.0% of the debt being restructured, freeing up more resources for critical social sector spending as well as building investor confidence. According to the latest Debt Sustainability Analysis (DSA) report by the World Bank, Zambia was classified as being at high risk of debt distress, but the projections indicated improvements over the medium term toward a moderate risk level. The present value of the external debt-to-exports ratio was expected to drop below the 84.0% DSA threshold by 2027, suggesting greater resilience to economic shocks. Additionally, the debt service-to-revenue ratio was forecast to fall below the 14.0% threshold by 2025 and remain below that level on average between 2026 and 2031.

3. FISCAL PERFORMANCE

Revenue collections were largely driven by an upsurge in income tax collections stemming from increased copper output. Total revenue and grants for the first half of 2025 were projected at K91.8 billion, but actual collections stood at K89.0 billion, representing 10.9% of GDP. However, tax revenues were above target by 4.3% against the target of K67.3 billion. This performance was driven by increased company tax revenues from the mining sector, which were 42.8% above the target of K5.2 billion, and this is thanks to increased copper output to 460,000 metric tonnes, an 8.2% increase over the same period in 2024. On the downside was the underperformance of Value Added Taxes (VAT), which were 14.3% below target, and were mainly due to non-payment of arrears by some companies, which faced cash flow constraints.

The underperformance by State-owned Enterprises (SOEs) is reflected in the underperformance of non-tax revenues. A report by the World Bank showed that SOEs in Zambia had a yearly fiscal cost of US$ 113.5 million, mainly due to government capital injections aimed at easing financial difficulties in the sector[3]. This is shown in the underperformance of non-tax revenues, in which dividends and interest from on-lending were 27.9% lower than the projected amount of K7.2 billion. In addition, mineral royalty collections fell 9.9% short of the target due to lower global copper prices and Kwacha appreciation, which reduced the local currency value of foreign-denominated revenues.

Table 3-1: *2025 H1 Fiscal Performance*

	2025 BUDGET	H1:PROJECTED	HI: ACTUAL	VARIANCE	% of GDP
TOTAL REVENUE AND GRANTS	182,357.60	91,769.56	89,009.84	-3.0%	10.9%
TOTAL DOMESTIC REVENUE	174,188.39	87,991.48	87,953.38	0.0%	10.8%
Tax Revenue	137,784.26	67,371.07	70,258.86	4.3%	8.6%
Income Taxes	65,810.24	33,735.91	40,820.90	21.0%	5.0%
Company	22,950.47	12,656.45	17,089.80	35.0%	2.1%
Value Added Tax (VAT)	48,341.43	22,747.32	19,499.79	-14.3%	2.4%
Customs and Excise Duties	22,854.13	10,476.96	9,550.89	-8.8%	1.2%
Non-Tax Revenue	36,404.14	20,620.41	17,694.51	-14.2%	2.2%
GRANTS	8,169.20	3,778.07	1,056.46	-72.0%	0.1%
Project	4,110.27	3,778.07	901.68	-76.1%	0.1%
TOTAL EXPENDITURE (Incl. Amortisation)	217,105.38	110,220.92	104,450.52	-5.2%	12.8%
TOTAL EXPENDITURE (Excl Amortisation)	207,638.46	103,930.14	98,503.50	-5.2%	12.0%
EXPENSES	169,443.91	84,243.97	87,037.54	3.3%	10.6%
Use of Goods and Services	19,146.64	9,155.09	8,872.24	-3.1%	1.1%
Ordinary UGS	16,402.41	7,748.75	7,737.14	-0.1%	0.9%
O/w Drugs & Medical Supplies	4,951.09	2,475.55	2,479.22	0.1%	0.3%
Interest Payments	44,531.96	21,518.02	22,600.30	5.0%	2.8%
Domestic Debt	37,334.58	19,216.85	18,722.68	-2.6%	2.3%
External Debt	7,197.39	2,301.17	3,877.61	68.5%	0.5%
Cash For Work-Drought Response	2,000.00	1,000.00	1,333.33	33.3%	0.2%
Social Benefits	14,049.78	7,304.70	7,835.43	7.3%	1.0%
Social Cash Transfer	8,270.00	4,294.12	5,552.97	29.3%	0.7%
FISCAL DEFICIT	(25,280.86)	(12,160.58)	(9,493.66)	-21.9%	-1.2%

Source: *MOFNP Fiscal Tables*

[3] *World Bank. (2024). Zambia – Public Finance Review: Strengthening Fiscal Governance. Washington, DC: World Bank Retrieved from https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099091224144585257/p1749101c3e397025185251c015bc93ca1f*

Grants from cooperating partners were way below the target, which posed a risk to budget execution. During the period under review, grants were 72.0% below the projected amount of K3.7 billion. Foreign grants have supported Zambia's current account and reserve accumulation at the Bank of Zambia, as well as direct budget support. Specifically, in 2024, higher inflows from cooperating partners, partly in response to the drought, helped narrow the current account deficit to 2.6% of GDP, while gross international reserves rose to US$4.3 billion (4.2 months of imports) and further to US$4.7 billion by May 2025. Under the Extended Credit Facility(ECF), disbursements such as the July 2025 tranche of Special Drawing Rights (SDR) 139.88 million (about US$184 million) also provided direct budget support. Without such grants, these reserve gains and budget financing would be reduced, risking wider external deficits, weaker reserve buffers, and greater budgetary pressures.[4]

The first half of 2025 was highly characterised by spending compression, despite spending overruns on interest payments. Total spending, excluding amortisation, stood at K98.5 billion or 12.1% of GDP, and this was 5.2% below the projected amount of K103.9 billion. Expenditure on interest payments was 5.0% above target, and this was on account of a 68.5% surge in external debt servicing obligations due to the depreciation of the Kwacha that was experienced during the first quarter of 2025. However, the Government maintained its commitment to social protection, as was evidenced by the 29.3% over-expenditure on Social Cash Transfer, which was projected at K4.3 billion. The Cash for Work programme also saw a 33.3% over-expenditure.

To finance the deficit, the Government relied mostly on the domestic market. The lower-than-planned expenditure had led to a lower-than-planned fiscal deficit, which was 1.2% of GDP against the projected 1.5% of GDP. To finance the deficit, the Government turned to the domestic markets, as Zambia remained excluded from the international capital markets. At the end of the first two quarters of 2025, net domestic borrowing was 1.6% of GDP, amounting to K13.1 billion, which was higher than the K5.8 billion. This raises concerns about the crowding out of private investment, as evidenced by the elevated lending rates, which exceed 25.0%. External net financing was 173.9% below target, and this is on account of none of the projected concessional funds materialising.

[4] *International Monetary Fund. (2025, July 2). Zambia: 2025 Article IV Consultation, Fifth Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review – Press Release; Staff Report; and Statement by the Executive Director for Zambia (IMF Country Report No. 25/225). Washington, D.C.: International Monetary Fund.*

4. SOCIAL SECTOR PERFORMANCE AND EXPENDITURE

4.1. HEALTH SECTOR

Funding towards the health sector was fairly on track in the first half of 2025, with 56.3% of the total being consumed by the wage bill. In the 2025 National Budget, the Government had allocated K21.5 billion for the health sector. However, by the end of May 2025, 45.6% of this amount had been released, indicating that budget execution was well within course in efforts to achieve quality health care for all. The lower budget releases were on account of the recent withdrawal of US funding. A granular analysis of the released funds shows that salaries and wages in the health sector consumed 56.3% (K5.9 billion), while 35.3% (K3.9 billion) went towards non-wage expenditure.

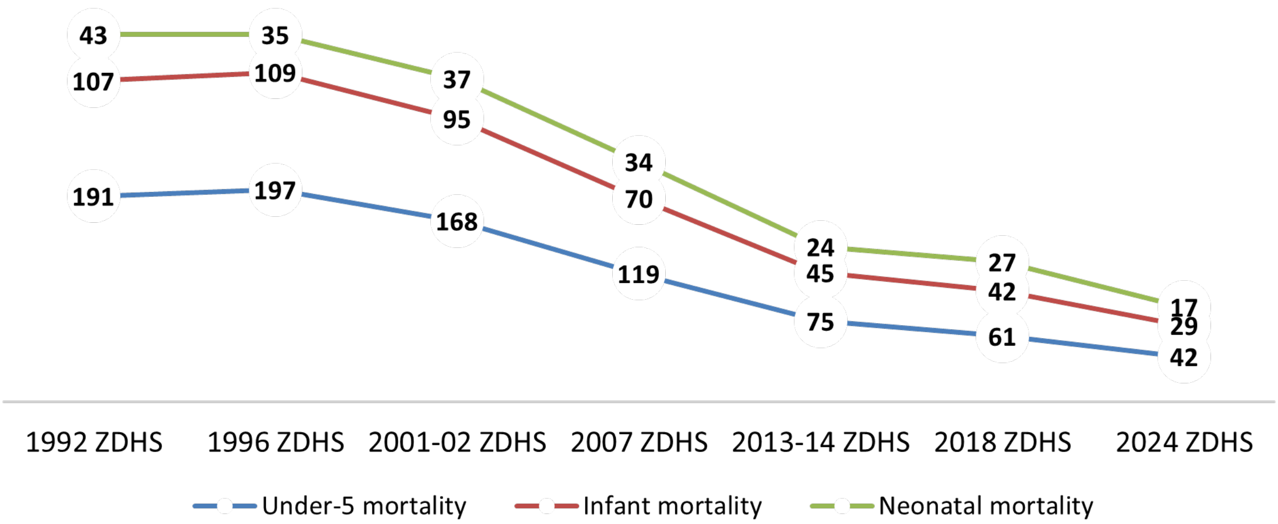
Spending on essential medicines and medical supplies progressed in line with planned targets. In the first half of 2025, the Government spent K2.5 billion on drugs and medical supplies, aligning with the projected allocation. This reflected a strong commitment to ensuring consistent availability of essential medicines in health facilities and marks a significant improvement from the previous year, which saw an under-expenditure of 61.0% during the same period. The sustained investment has enabled Zambia to surpass the World Health Organisation (WHO) recommended threshold of 80.0% drug stock availability. However, challenges related to governance in the procurement process persist, prompting the Government to take decisive corrective measures, including the dissolution of the Zambia Medicines and Medical Supplies Agency (ZAMMSA) Board and the initiation of legal actions to strengthen accountability and transparency.

Recruitments in the health sector planned for 2025 were not implemented in the first half of the year. In 2024, the Government recruited 4,140 health workers who were deployed in 2025. This comprised of 3,494 candidates selected by the district and provincial committee, and 646 were cholera volunteers from the recent devastating 2023/2024 cholera outbreak. Additionally, the Government planned to recruit an additional 2,000 frontline health personnel in 2025; however, this exercise has not commenced yet. While the Government had shown commitment to recruiting health workers, a significant workforce gap of 44,287 remains to be filled by 2026 to meet the National Health Strategic Plan (NHSP) target of 126,831. However, recruitment delays may impact this target and overall delivery of Universal Health Care (UHC).

The health sector has made significant progress in most of the key areas of health service delivery. Since the 2018 Zambia Demographic and Health Survey (ZDHS), there has been notable progress in the reduction of child mortality rates, which is in line with the Sustainable Development Goal (SDG) 3.2 target of reducing under-5 mortalities to at least as low as 25 per 1,000 live births by 2030. This progress was observed in the 2024 ZDHS preliminary findings. Child mortality rates had declined by over 70.0% in the past 25 years, with under-5 mortality rates falling from 168 per 1000 live births in 2001 to 42 per 1,000 live births in 2024, as shown in ***Figure 4-1***. Similarly, infant and neonatal deaths had declined over the same period. This was attributed to the improvement in live births assisted by a skilled health provider, which increased from 50.0% in 1992 to 94.0% in 2024, and an increase in the births delivered in health facilities from 49.0% in 1992 to 93.0% in 2024. These achievements reflect the Government's commitment to not only ensuring that every child is not left behind in the development process but also reaffirm prioritisation in enhancing access to universal quality universal healthcare as part of the national development priority of the country through prioritisation of skilled health personnel and quality infrastructure.[5]

[5] *8NDP.pdf*

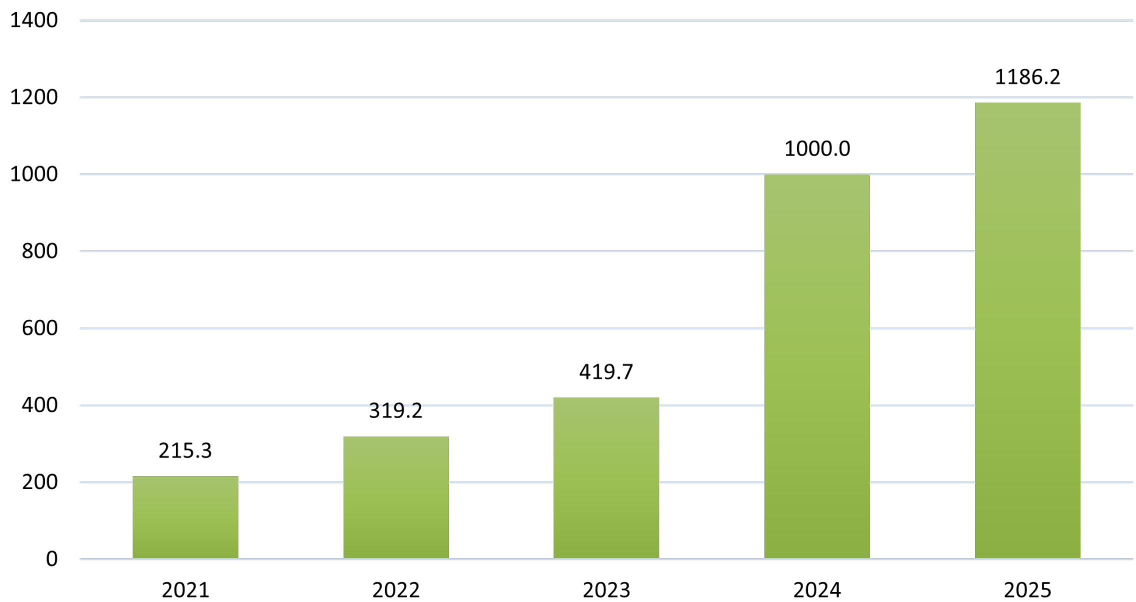
Figure 4-1: *Child Mortality Rates, 1992-2024*



Source: *Constructed from ZDHS 2024*

Reduced funding from foreign aid presented a notable risk to the sustainability and effectiveness of health sector interventions. Expenditure on primary health services had been largely supported by external financing through loans and grants. In 2024, the United States Government, through the Global Fund and USAID, contributed K1.0 billion to support HIV/AIDS, TB, and malaria prevention services as direct budget support. However, the closure of USAID in 2025, despite a projected contribution of K817.5 million to the health sector, raised concerns about the sustainability of these critical programmes. Without continued support from the U.S. and given the constraints of a limited domestic health budget, there is a risk of reversing recent health gains, potentially leading to the discontinuation of essential services and increased mortality rates.

Figure 4-2: *US Government Support Towards the Health Sector (K' Million), 2021 - 2025*



Source: *Constructed using 2021-2025 Yellow books*

4.2. EDUCATION SECTOR

The allocation of the budget to education was among the three largest shares of the total budget in 2025. In the 2025 National Budget, the education sector was allocated K31.5 billion, accounting for 14.5% of the total budget and ranking third after General Public Services (34.0%) and Economic Affairs (22.4%). This reflected a nominal increase from the 2024 allocation of K27.4 billion. However, after adjusting for inflation, which averaged 14.65% between June 2024 and June 2025, the real increase was only about 0.3%, meaning that despite the higher nominal figures, the education sector's purchasing power remained largely unchanged, leaving little room for meaningful change. The increased funding aimed to address persistent challenges in the sector, including infrastructure deficits in underserved rural areas, improved access for vulnerable groups such as children with disabilities, support towards school feeding programmes, and the integration of modern technology into the education system.

Budget execution rates towards the education sector had been fairly on course in the first half of the year. As earlier noted, the education sector was allocated K31.5 billion, with K20.2 billion earmarked for Personal Emoluments, another K10.9 billion for non-wage expenditure, and K444.7 million allocated to the Home-Grown School Feeding (HGSF) programme. By the end of May, 54.0% of the budget for Personal Emoluments, 53.0% for non-wage expenditure, and 77.8% for the HGSF programme had been released.

The budget towards Early Child Education (ECE) had increased to cater for the expanded school feeding programme. In 2024, ECE was allocated K462.2 million, but this increased to K702.5 million in 2025. The increase was primarily driven by the expanded school feeding coverage (from K6 million in 2024 to K58.5 million in 2025)[6] and increased school grants. The ECE programme is executed through six sub-programmes, including ECE provision, Teacher Education and Specialised Services, Curriculum and Material Development, and Open and Distance Learning. Mid-year progress reflected the finalisation of the national ECE syllabus in the first quarter and the scale-up of the school feeding programme to 116 districts from 70 in 2024.

Table 4-1 below highlights key performances areas under ECE:

Table 4-1: *Performance of the Early Childhood Education Sector, Mid-2025*

Sub-Programme/Activity	Budget (K)	Target /Purpose (2025)	Mid-Year Performance
ECE Provision	463.8	Expand School grant and expand school feeding programme to 116 districts	Partially achieved: 116 districts implementing but only 83% of schools in Q2.
Open and Distance Learning	59.9	Expand remote ECE access	No update available at reporting time
Teacher Education and Specialised Services (TESS)	142.9	Enhance ECE teacher training (pre-and in-service) – 1 TEVET School	Ongoing (5 TEVET Institutions Supported)
Educational Standards, Assessment and evaluation	4, 538.7	Monitor quality and ECE standards	No update available at reporting time
Curriculum and Material Development	975.7	Finalise and review ECE curriculum	Completed
Infrastructure Development	232.9	Construct ECE hubs and satellite centres	No update available at reporting time

Source: *Estimates of the Yellow Book 2025 and Quarterly Reports*

6 *stimates of Revenue and Expenditure 2025*

Enrolment of out-of-school children (OOSC) and the inspection of primary schools surpassed the projected targets in the first half of 2025. The 2025 allocation for primary schools stood at K15.47 billion, representing an increase from K13.30 billion in 2024. An analysis of sub-programme performance at mid-year revealed mixed results. Teacher recruitment fell significantly short, with only 1,136 teachers recruited out of a target of 4,000, representing 28.4% achievement. In contrast, other areas performed strongly. School inspections surpassed expectations, with 1,183 inspections conducted against a target of 850, achieving 139.2%. Enrolment efforts for vulnerable groups also recorded notable success: the Youth and Adult Literacy Education (YALE) programme enrolled 10,920 learners, more than five times its target, while enrolment of out-of-school children (OOSC) at the primary level reached 8,626, surpassing the target by 172.5%. However, there was no progress in recruiting teachers for learners with special education needs (LSEN), despite a target of 875.

Secondary school level had a strong performance in the first half of the year, with several key indicators exceeding their 2025 annual targets. Teacher recruitment achieved a commendable 88.0% completion rate, with 2,640 teachers recruited out of the planned 3,000, suggesting that, with the timely release of the K1 billion budget allocation, full target achievement remained attainable. School inspections also performed well, exceeding the annual target with 1,174 inspections conducted against a target of 1,125. A significant achievement was recorded in the deployment of Guidance and Counselling (G&C) teachers, where 1,030 officers were deployed against a target of 80, an achievement rate of 1,287.5%. This reflected the reclassification or mainstreaming of existing staff, highlighting the need to reassess the accuracy of future target setting. Additionally, the re-enrolment of 10,885 girls into school—more than double the 5,000 targets—points to the effectiveness of re-entry policies and intensified community sensitisation initiatives.

Table 4-2: *Secondary Education Budget Performance Mid-Year 2025*

Indicator	Target (2025)	Mid-Year Result	Achieved (%)
Teacher recruitment	3000	2,640	88.0
School Inspections	1125	1,174	104.4
Guidance and Counselling Teachers	80	1,030	1,287.5
Girls Re-enrolled	5,000	10,885	167.7
Out-of-School Children Enrolled	50,000	83,829	217.7
MHM Beneficiaries	550,000	289,507	52.6

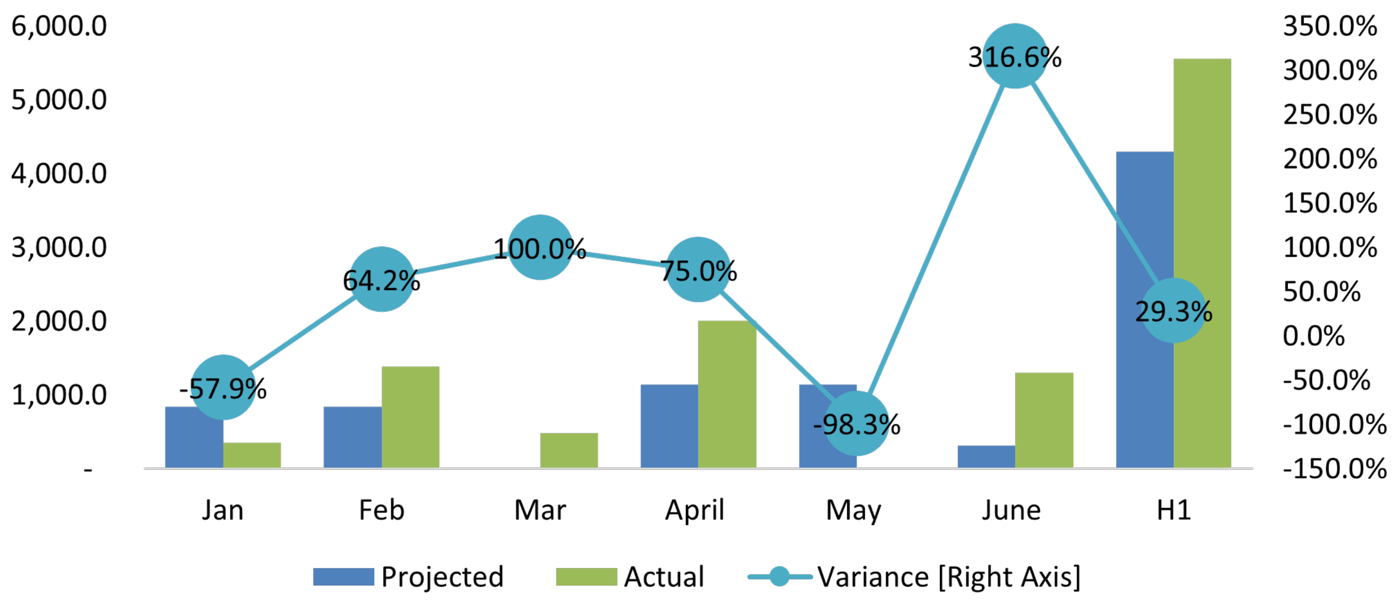
Source: *Constructed from 2025 Yellow Book and Quarterly Reports 2025*

4.3. SOCIAL PROTECTION

4.3.1. SOCIAL CASH TRANSFER

In a bid to protect the poor and vulnerable, the Government continued funding the SCT during the first half of 2025. Being Zambia's social protection flagship programme, the SCT had continued to provide critical financial relief to poor and vulnerable households across the country. In 2025, the Government had allocated K8.2 billion towards expenditure on SCT. With this amount, K4.3 billion was projected to be spent in the first half of the year, but actually K5.5 billion was spent, representing an overspend of 29.3% as shown in ***Figure 4 1***. The higher-than-planned spending on the SCT was largely on account of the Emergency Cash Transfers (ECT) and maintenance of the transfer values paid during the drought response. To maintain momentum, with regular and timely payments, the Government had utilised digital platforms including mobile money and bank transfers, which had been used to reach 78.0% of the beneficiaries, accounting for 994,041 out of 1.3 million households.

Figure 4-3: *Social Cash Transfer Expenditure, 2025:H1*



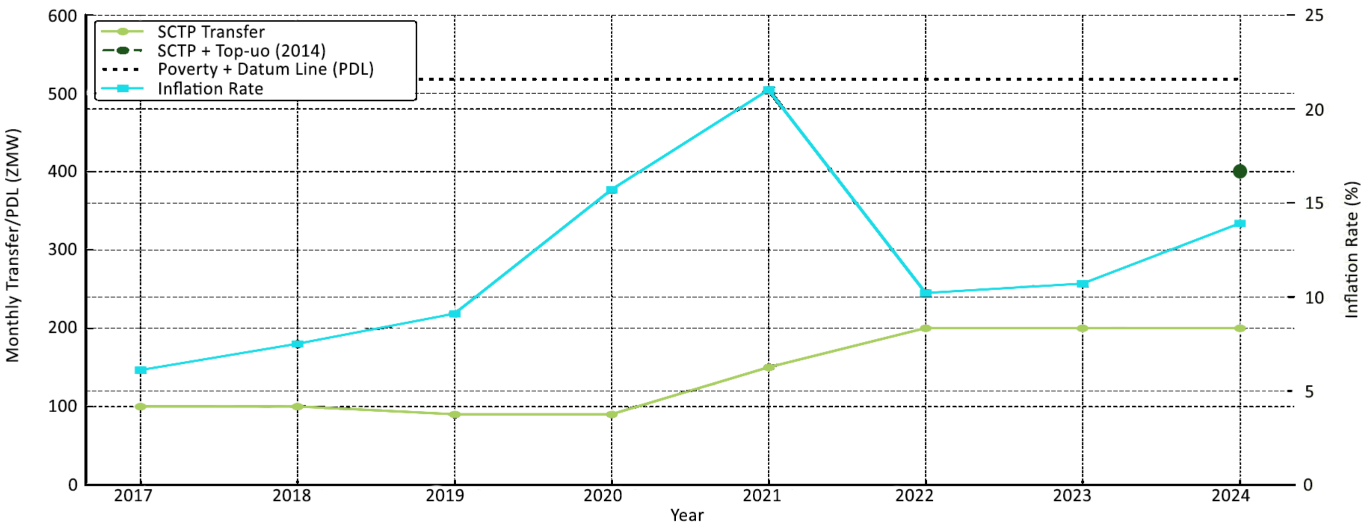
Source: *Constructed from MOFNP Fiscal Tables*

Securing transfer value adequacy in a shifting economy. The current high inflation rate of 14.1 percent[7] has always prompted discussions on the adequacy of current transfer amounts under the Social Cash Transfer programme supporting a total of 1,311,101 households, including 307,118 households with persons with disabilities, 732,286 female-headed households, 66,467 caring for the critically ill or in palliative care, 9,110 child-headed households, and 196,035 elderly-headed households. Through the recently presented Supplementary Estimates No. 1 of 2025, the Government has proposed a total allocation of K1.9 billion under the Ministry of Community Development and Social Services. K1.6 billion of this is to cater for the extra cost on the Social Cash Transfer programme due to the decision to continue, beyond June 2025, with a K400 transfer value, which was approved last year as a temporary measure to respond to the devastating effects of the 2024 drought, but is now an increase that is here to stay.

The current transfer value continues to be below the poverty line, compounded by eroded incomes. Over the past years, inflation had remained elevated, and by the end of June 2025, it was recorded at 14.1%[8]. With double-digit inflation, concerns arose around the adequacy of current transfer amounts. Further, it was compounded by the fact that the transfer amount of K400.0 was significantly below the poverty datum line of K517.60 per adult[9], covering less than 40.0% of the basic needs as shown in ***Figure 4-4.*** Even with the temporally price-shock top-up, introduced in 2024, the amount remained below the threshold required for basic sustenance. This increased K400 transfer value is now the new permanent transfer value.

[7] *Vol 267 – The Monthly – June (Zambia Statistics Agency)*
[8] *Vol 267 – The Monthly – June (Zambia Statistics Agency)*
[9] *Living Conditions Monitoring Survey 2022*

Figure 4-4: *Trends in SCTP transfer value, Inflation and Poverty Line (2017-2024)*



Source: *Constructed using MCDSS and LCMS dat*

The ECT ended in June 2025, prompting the need for a clear plan for the next steps. With the conclusion of the 12-month drought period for drought-affected households, questions of sustainability and transition had taken centre stage. What remained very unclear was whether these beneficiaries had indeed rebounded through the support provided during the temporary period. Though temporary, both the 'emergency' and broader cash transfer programmes should incorporate a timely and comprehensive reassessment exercise to reassess the economic status of onboarded beneficiaries and whether they were effectively reached. This process will be aimed at strengthening overall integrity by ensuring that support is continually targeted at the most vulnerable. Currently, the ECT is undergoing a comprehensive review[10] aimed at assessing its impact, efficiency, and sustainability, to inform potential expansion and guide the formulation of strategic next steps to better serve the needs of our most vulnerable citizens. If complemented by pathways that enable beneficiary households to transition into resilience-focused interventions such as Cash-for-Work, livelihood support, and climate-smart agriculture, this would mark a strategic pivot from short-term emergency response to long-term adaptation and recovery.

4.3.2. FOOD SECURITY PACK

Although at the heart of our nation's food security strategy, the Food Security Pack (FSP), budget allocation reflected a critical missed opportunity to enhance resilience. Budget execution towards the FSP in the first two quarters of 2025 had a minimal variance of -0.5%, reflecting commendable fiscal discipline and implementation capacity. Despite this fiscal performance, FSP allocations had largely stagnated over the years (hovering at K1.2 million with only about 242,000 beneficiaries between 2023 and 2024 and a caseload of 244,000 in 2025 with an envisioned target of 249,000 by end year), limiting the programme's potential to adapt and scale in response to growing need.

[10] *Ministerial statement by the Honourable Minister of Community Development and Social Services, Mrs. Doreen Mwamba; MP on the Impact of Social Protection Programmes: The Social Cash Transfer and Cash for Work Initiatives*

4.3.3. PENSION FUND

Underspending in the execution of Pensions undermined social protection objectives. The 2025 National Budget had allocated K2.3 billion for the first half of 2025, but only K1.6 billion was released towards pensions. The lower-than-planned spending of 31.7% on pensions has the potential to delay the resolution of pension-related obligations and could potentially weaken the effectiveness of social protection interventions for retired public servants. As underscored in the 2025 National Social Protection Policy, which promotes a comprehensive lifecycle approach, timely and full disbursement is essential to reinforce public trust and uphold the dignity of those who have served the nation.

4.3.4. SOCIAL SERVICE WORKFORCE INVESTMENT CASE

The role of social workers is critical in uplifting the lives of the poor and vulnerable. Social workers constitute a critical component of the public service delivery system and play a pivotal role in advancing Zambia's broader national development objectives. However, the country continues to face significant challenges related to the deployment and retention of social workers at the district level. Inadequate staffing has led to an excessive concentration of management and administrative responsibilities among the limited personnel available. Additional constraints include insufficient budgetary support, limited access to professional development opportunities, and a general lack of recognition for the essential services provided by social workers.

Zambia faces a critically low ratio of social service workers to children, significantly constraining the delivery and effectiveness of child welfare and protection services. The Social Service Workforce Investment Case highlights that out of the total child population, there are only 17.5 social service workforce staff per 100,000 children, based on the 1,437 social workers and community development assistants employed by the Government in provinces and districts as of June 2023.[11] This ratio is significantly lower than the regional average of 58 per 100,000 children in Eastern and Southern Africa, and far below the 146 per 100,000 children seen in low- and middle-income countries. The report further highlights that such underinvestment in the social service workforce has economic consequences, estimating that violence against children costs Zambia 9.12% of its GDP in 2021 an impact that could be reduced through greater investment in prevention and protection services.

Low staffing levels have far-reaching consequences on children. Besides the economic costs, the shortage of social service workforce in Zambia has significant implications for child protection, particularly as the country faces a high prevalence of teenage pregnancies. With only 17.5 social workers and community assistants per 100,000 children, the capacity to provide timely support, awareness and preventative services is significantly constrained. This gap weakens the country's ability to respond to the needs of vulnerable boys and girls, many of whom face early and unintended pregnancies due to a lack of information, limited access to reproductive health services, as well as the ongoing cycle of poverty.

[11] *UNICEF Zambia & Ministry of Community Development and Social Services. (2023). Investment Case for Social Service Workforce Strengthening in Zambia. Lusaka: UNICEF.*

4.4. CASH FOR WORK

In response to the severe 2023/2024 drought, the Government launched the Cash for Work (CFW). The CFW programme aimed to provide temporary employment and financial relief to vulnerable communities, particularly those who faced economic hardships, climate change, and acute food insecurity in 2024. Its dual objectives were to offer immediate income support for essential needs and to simultaneously build or rehabilitate vital public and community assets and infrastructure, thereby building resilience against future shocks.

Text Box: CFW Administration and On-Boarding Criteria

"

The Cash for Work (CFW) operates through a decentralized model under the Ministry of Local Government and Rural Development (MLGRD).

The programme started out as a response to the 2023/2024 severe drought. Now aims to provide temporal employment.

The programme targets unskilled and semi-skilled workers impacted by the drought, engaging them in labour-intensive community projects in exchange of a cash benefit.

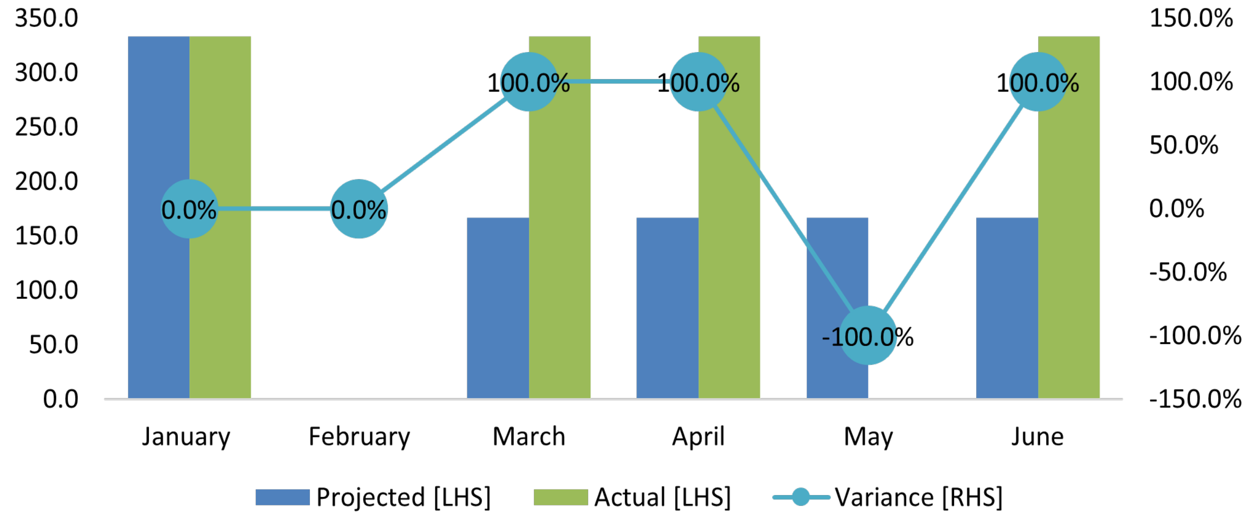
Beneficiaries are selected collaboratively at sub-district levels by Ward Development Committees (WDCs) and Community Welfare Assistance Committees (CWACs).

"

The Government had set a very ambitious coverage rate for beneficiaries for the CFW. As of April 2025, the Government had onboarded a total of 2.5 million. In order to achieve the objectives of the programme, the Government in the 2024 supplementary budget had allocated K2.0 billion for the first phase of the programme, and another K2.0 billion was allocated in the 2025 National budget to cater to the second phase of the programme.

Disbursements towards the CFW had been above target, despite having some months of sporadic funding in the first half of 2025. According to treasury figures, K1 billion was budgeted for CFW in the first half of the year, but actual disbursements were above target by 33.3% as a total of K1.3 billion was disbursed by the end of June 2025. This represented a notable improvement compared to 2024, when only 47.8% of the annual CFW budget was disbursed. **Figure 4-3** shows the budget allocations and actual disbursements for the six months of 2025. The variance observed in disbursements in the first half of the year is attributed to the technicality of doubling disbursement amounts, as the programme was meant to be completed by June 2025.

Figure 4-5: *CFW Budget Allocations January 2025 – June 2025*



Source: MOFNP Fiscal Tables

Some successes have been scored in both income support and public service delivery. Beneficiaries of the Cash for Work (CFW) programme had reported significant benefits from their participation. Available information indicates that most recipients have utilised their earnings to meet essential household needs, with some channelling resources into small-scale business ventures[12]. From a public service delivery perspective, the programme has contributed to improvements in environmental sanitation, as beneficiaries have been engaged in activities such as road clearance, drainage maintenance, and waste management in participating communities nationwide[13].

However, implementation challenges and delays have weakened the programme's effectiveness. The lack of adequate financing, institutional capacity, and citizens engagement continues to affect service delivery by the MLGRD. Specific to the CFW programme has been the inconsistent release of funds driven by administrative bottlenecks in the submission of returns, and a time lag between requests for additional funding and the release of these funds. Not only has this been demotivating to some participants, but it has negatively impacted many others who have no reliable source of income for daily sustenance. Further, Local Authorities highlighted constraints, including inadequate administrative budget allocations (i.e., K150,000 per constituency), which have to be spread across competing needs for spot monitoring, equipment and protective clothing for public works, and bank charges for payments to beneficiaries[14].

[12] *KII with officials from MLGRD*

[13] *MLGRD (2025). Cash for Work (CFW) Programme Monitoring and Evaluation Report*

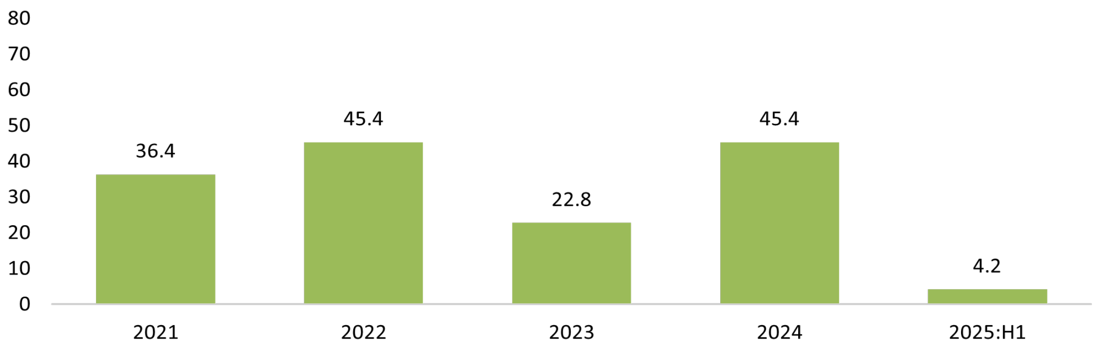
[14] *KII with officials from MLGRD and LCC*

4.5. WATER SUPPLY AND SANITATION

Budget allocations for water supply and Sanitation (WASH) had increased in nominal terms as a response to the drought. In the 2024 National Budget, the Water, Sanitation and Hygiene (WASH) sector was allocated K2.0 billion. This increased to K2.3 billion in the 2025 National Budget, representing a nominal growth of 15.0%. However, the sector's share of the overall national budget remains modest, accounting for just over 1.0% in 2025. An analysis of the 2025 allocation by economic classification reveals that 94.0% of the budget is earmarked for asset acquisition, while 3.3% is allocated to transfers and subsidies, 1.4% to goods and services, and 1.3% to personal emoluments.

Budget execution in the first half of 2025 showed a worrying trend. In the first half of 2025, only 4.2% of the allocated budget was released, signalling a significant gap between planned and actual disbursements. This trend is consistent with the 2024 budget execution, during which only 45.4% of the total WASH allocation was disbursed, despite the country grappling with the adverse effects of a severe drought. The lower-than-planned releases are a reflection of the lower receipts of foreign grants, as WASH financing is dominated by external funding.

Figure 4-6: *WASH Budget Execution Rates (%)*



Source: *MOFNP Fiscal Tables*

There has been a consistent decline in meeting targets as espoused in the 8NDP due to lower-than-planned budget releases. The performance of WASH Development Outcome under the 8NDP had shown a declining trend over the period 2022 to 2024, as reflected in the Annual Progress Reports. The share of fully met targets dropped significantly from 84.6% in 2022 to 62% in 2023, and further to 45.5% in 2024. Conversely, the proportion of partially met targets rose from 7.7% in 2022 to 19% in 2023 and sharply to 36.4% in 2024, indicating that while some progress was made, full achievement remained limited. The percentage of targets not met fluctuated, increasing from 7.7% in 2022 to 19% in 2023, before a slight decline to 18.2% in 2024. Overall, the data points to growing difficulties in fully attaining WASH-related development goals. **Table 4-3** and **Table 4-4** show the performance of WASH in the 8NDP in 2024.

Table 4-3: *Infrastructure Development and Maintenance and Water Quality Monitoring*

Target Description	Target	Actual	Status
Boreholes constructed	3,205	2,851	Partially Met
Piped water schemes constructed	500	620	Met
Boreholes rehabilitated	2,825	3,212	Met
Piped water schemes rehabilitated	2	20	Met
Maintenance ratio in urban areas	98%	90.6%	Not Met
SOMAP shops equipped and functional	10	23	Met
Metering ratio	94%	79.6%	Not Met
Expansion of water supply network	200 km	214 km	Met
Average hours of water supply	22 hours	14.3 hours	Not Met
Households connected to water network	35,000	24,978	Partially Met
Boreholes drilled outside resettlement schemes	5	0 outside (5 inside)	Not Met
Commercial utilities meeting national water quality standards (ZABS/WHO)	81.8%	45.5%	Not Met

Source: *8NDP Annual Progress Report*

Table 4-4: *Improve Sanitation Services*

Target Description	Target	Actual	Status
Inclusive institutional waterborne sanitation facilities constructed	150	198	Met
Wastewater treatment plant constructed	1	0	Not Met
Solid waste collected and recycled	20%	10%	Not Met
Household waste collected and disposed at authorised facility	35%	30%	Not Met
Wastewater treatment plant rehabilitated	1	0	Not Met
Sewer network system expanded	55 km	56.8 km	Met
Additional households connected to sewer network	7,000	6,251	Partially Met
Villages attaining Open Defecation Free (ODF) status	1,000	3,626	Met
People reached with sanitation and hygiene promotion (triggered communities)	100,000	1,156,989	Met
Zambia Water and Sanitation Resource Mobilisation Strategy developed	1 Strategy	1 Strategy	Met

Source: *8NDP Annual Progress Report*

5. OUTLOOK AND RISKS

5.1. FOREIGN POLICY SHIFTS AND DONOR FUNDING CUTS

The outlook faces significant external risks due to lower global growth amid emerging uncertainty in trade policies. While Zambia is unlikely to face major direct impacts, the country remains vulnerable to indirect effects such as fluctuations in global commodity prices, rising operational costs, and disruptions in supply chains, all of which could complicate the medium-term outlook. Nevertheless, certain developments may offer relief, most notably, declining oil prices driven by global growth uncertainties and increased OPEC output could ease the burden of Zambia's heavy fuel import bill and help contain inflation. Additionally, copper exports, which form the backbone of Zambia's foreign earnings, remain unaffected by retaliatory tariffs and are projected to maintain strong prices. However, any sudden drop in commodity values could pose serious risks to both fiscal stability and external accounts.

Zambia faces significant risks in the uncertainty arising from a shift in foreign policy and cuts in aid trade. In 2025, the U.S. Government announced the global closure of USAID, which had been supporting various programs, including those in the social sector. While the full extent of the impact on Zambia remains unclear, Treasury figures indicate that USAID contributed K817.5 million to the health sector in the 2025 budget. Additionally, the U.S. Government had withdrawn approximately US$50 million in health sector support, placing further strain on public resources. This funding has been critical to key programs such as HIV/AIDS treatment, and its reduction threatens to reverse public health gains achieved over the past two decades, particularly in rural areas where access to care is limited. Similar funding gaps have already led to preventable deaths in countries like South Sudan, where mothers and children were unable to access life-saving HIV medication due to clinic closures. [15]

Delays in debt restructuring risk exacerbating Zambia's macroeconomic vulnerabilities by prolonging uncertainty over fiscal and external stability. Protracted negotiations could heighten exchange rate pressures as investor confidence weakens, while the potential exit of non-resident holders of domestic debt may drive up domestic yields and borrowing costs. Furthermore, the accumulation of additional external arrears would complicate efforts to restore debt sustainability, undermining policy credibility and dampening the country's growth outlook.

5.2. THE MEDIUM-TERM ECONOMIC OUTLOOK

Government has unveiled a supplementary budget amounting to K33.6 billion. On 26 June 2025, the Government announced a supplementary budget amounting to K33.6 billion, addressing critical national priorities including fuel arrears, debt servicing, agriculture, education, and social protection. This reflects a shift toward expenditure reprioritisation and the use of internal savings to limit the growth of the fiscal deficit. The amendment to the 2025 Borrowing Plan underscores the need to balance short-term financing needs with long-term sustainability.

The medium-term outlook remains optimistic but hinges on the successful implementation of near-term fiscal adjustments. The 2026 – 2028 Medium Term Budget Plan (MTBP), projects the economy to grow at an average of 6.0% over the medium term, premised on increased mining output, increased agricultural production and electricity generation as rainfall conditions have normalised. Inflation is expected to decline

[15] *https://sites.lsa.umich.edu/mje/2025/05/13/op-ed-the-devastating-impacts-of-the-usaid-pullout-on-africa/*

gradually,driven by declining food prices as supply conditions improve. The current account balance is also projected to remain positive, underpinned by strong export performance, particularly from the mining sector. These macroeconomic improvements are contingent upon sustained structural reforms, improved energy supply, and restoration of fiscal discipline.

Fiscal performance in the medium term is expected to hinge on revenue mobilisation and expenditure controls. The Government aims to consolidate public finances by narrowing the fiscal deficit from an estimated 5.2% in 2025 to 3.0% by 2028. This will be achieved through an increase in domestic revenues, in which tax revenues, which have been the mainstay of the resource envelope, are projected to increase from 18.4% of GDP in 2025 to 19.5% in 2028, supported by improvements in tax compliance and administrative efficiency. In terms of expenditure, the Government plans to allocate K33.4 billion to the education sector, K24.6 billion to health, and K6.3 billion to social protection in 2026. These allocations reflect a continued commitment to human capital development and cushioning vulnerable groups. Key programmes such as the Social Cash Transfer and the Food Security Pack will be scaled up, while a shift to results-based budgeting and improved targeting mechanisms is expected to enhance the efficiency and impact of social spending.

6. CONCLUSION AND RECOMMENDATIONS

The first half of 2025 had underscored Zambia's macroeconomic resilience but also revealed the fragility of its fiscal position. At the same time, revenue performance benefited from strong mineral tax inflows, particularly company tax collections due to increased copper output; other revenue components underperformed, such as VAT collections. In addition, non-tax revenues declined due to the poor performance of SOEs, and donor grant disbursements dropped by a staggering 72%. Meanwhile, critical social sectors such as health and social protection have continued to face growing demands, exacerbated by reduced donor support, particularly the withdrawal of K817.5 million in U.S. funding to the health sector. These fiscal pressures, combined with high external debt servicing obligations and elevated social spending, such as the 29.3% overspend on the SCT programme, signal an urgent need to increase and diversify domestic revenues to safeguard social service delivery.

Looking within the promise of domestic resources. With the reduction in donor funding, emerging uncertainty in global trade policies, Zambia risks undermining progress made on poverty reduction, education, and health outcomes, particularly as external shocks and climate-related vulnerabilities persist. Now more than ever, building a robust domestic financing architecture is essential to ensuring inclusive growth, protecting the vulnerable, and achieving long-term fiscal sustainability. Therefore, the following recommendations are provided:

i) **Strengthen Revenue Mobilisation.** To sustain fiscal consolidation, the Government should reduce poorly targeted tax exemptions, strengthen tax administration, and broaden the tax base to boost revenues. These measures should be paired with protecting social protection programmes and priority investments to maintain growth and reduce poverty while improving fiscal sustainability and resilience.

ii) **Protect and prioritise social sector spending.** Despite ongoing fiscal consolidation, there is a need to improve the targeting and efficiency of social spending to ensure that vulnerable groups are adequately supported, especially in the context of the drought and cholera.

iii) **Accelerate the debt restructuring process.** To reduce the risk premiums, improve investor confidence, and create fiscal space for priority spending, there is a need for the Government to conclude bilateral agreements with is official creditors, and finalise arrangements with the remaining commercial creditors, while ensuring comparability of treatment, which is critical to restoring debt sustainability and supporting medium-term growth

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