

The New Dawn Government officially began implementing its maiden National Budget on 1st January 2022. The 2022 National Budget speech outlined Zambia's aspirations for the 2022 fiscal year anchored on attaining a real Gross Domestic Product (GDP) growth rate of 3.5 percent, reducing inflation to single digit by end of 2022 and within the 6-8 percent target range by mid 2023, limiting international reserves to 3 months of import cover, reducing the fiscal deficit to no more than 6.7 percent of GDP and limiting domestic borrowing to no more than 5.2 percent of GDP. In this week's Monday Opinion, we rely on the performance of selected indicators at the inception of the New Dawn Budget to assess how what has been done so far fits into the broader framework of Government's 2022 aspirations, placing emphasis on potential risks to the attainment of these targets.

Government revenues and grants in January 2022, stood at K10.2 billion, 11.3 percent above the target of K9.1 billion. Tax revenues at K8.8 billion were 18.6 percent above the target of K7.4 billion. This was largely due to higher Income Tax collections that were 29.5 percent above the target. Customs and Excise duties were below the January target at K751.2 million against the target of K881.5 million. Non-tax revenues at K1,383.8 million were 12.1 percent lower than the projected amount of K1,574.1 million. This was attributed to the lower than projected collections of the Total User Fees, Fines and Charges at K333.8 million, 24.4 percent lower than targeted. Over the same period in 2021, total revenues and grants stood at K7,471.9 million which was 16.7 percent above the monthly target of K6,400.1 million. Tax revenues amounted to K6,176.9 million, 20.1 percent above the target of K 5,141.5 million. Similarly, non-tax revenues amounting to K1,242.0 million, were 13.6 percent above the monthly target of K1,093.1 million.

On the expenditure side, total Government expenditure including amortization at K13,077.1 million was 18.7 percent lower than the target of K16,075.6 million in January 2022. This is compared to January 2021 where total expenditure excluding amortisation stood at K8,235.5 million, which was 28.8 percent above the monthly target of K6,394.1 million. Overall, the fiscal deficit at end January 2022 was much higher at K2.7 billion relative to the K763 million deficit recorded at end January 2021. In February 2022, the Ministry of Finance indicated that expenditure on the public service wage bill was pegged at K3 billion. Government has already advertised for the recruitment of over 11 thousand health workers and based on the pronouncements in the 2022 National Budget, is expected to employ about 30 thousand teachers within this fiscal year. This will inevitably increase expenditure on personal emoluments and present significant upside risks to the attainment of the 6.7 percent target deficit envisaged in the 2022 National



CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investments Law, Public Finance Management, Extractives and Human Development.

TODAYS TOPIC

A GLANCE AT THE FIRST TWO MONTHS OF THE NEW DAWN NATIONAL BUDGET IMPLEMENTATION: PROJECTING THE END FROM THE BEGINNING.



A GLANCE AT THE FIRST TWO MONTHS OF THE NEW DAWN NATIONAL BUDGET IMPLEMENTATION: PROJECTING THE END FROM THE BEGINNING

Budget. To negate this risk, the Zambia Revenue Authority will need to outdo themselves in domestic revenue collection efforts while Government continues to aggressively pursue the International Monetary Fund Executive Board's approval of the Extended Credit Facility.

The Kwacha depreciated by 2.9 percent against the US Dollar in January 2022, trading at an average of K17.26/USD from K16.78/USD in December 2021. The Kwacha also depreciated against the British Pound to K23.39/GBP, the Euro to K19.53/Euro and the South African Rand to K1.12/ZAR which were 4.6, percent, 2.9 percent, and 5.4 percent respectively. These numbers are compared to the corresponding month in 2021 when the Kwacha depreciated against major trading currencies, averaging K21.30/USD, K29.04/GBP and K25.92/EURO from K21.08/US\$, K28.27/GBP and K25.63/EURO, respectively but appreciated marginally against the Rand averaging K1.40/ZAR from K1.41/ZAR in December 2020. Private sector activity as measured by the Purchasing Managers Index stood at 49.9 in January 2022 above the 47.7 recorded at the same time in 2021 signalling improved private sector activity at the start of 2022 relative to 2021.

In January 2022, annual inflation as measured by the Consumer Price Index averaged 15.1 percent from 16.4 percent in December 2021. Food inflation stood at 16.9 percent while Non-Food inflation averaged 12.7 percent. We compare these figures to January 2021 where annual inflation hovered around 21.5 percent while annual food inflation was recorded at 25.6 percent and Non-food inflation was recorded at 16.7 percent. Post the August 2021 elections, overall inflation maintained a downward trend, reducing to 14.2 percent by February 2022 from the 24.4 percent

recorded in August 2021. This reflects a sustained decline in the rate at which aggregate prices are increasing. All else equal, achieving single digit inflation by end of 2022 if this trend is sustained looks more likely.

However, in a press release on 22nd March 2022, the Ministry of Finance indicated that during the month of February 2022, total domestic revenue collections amounted to K6.2 billion and that Government released K11.1 billion to finance developmental programs and public service operations with the difference between revenues and expenditures being financed from domestic financing and the International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation. The reliance on SDRs for deficit financing has potential to exacerbate inflationary pressures and undoing gains so far made in containing rising prices. In the first instance, this policy crutch is at odds with the macroeconomic objective that seeks to maintain gross international reserves at 3 months of import cover by end of 2022. Ultimately, it has potential to present Balance of Payment imbalances which will trigger a weakening of the Zambian Kwacha against major currencies even further. The depreciation of the Kwacha will expectedly feed into higher domestic aggregate prices and alter the current inflation path which has persisted towards the target range.

About the author

Wakumelo Mataa is a Researcher for Public Finance at the Centre for Trade Policy and Development. He holds a Master's Degree in Economics from the University of Zambia and he is currently pursuing a Master of Science in Financial Economics from the University of Edinburgh in the UK.

EXECUTIVE DIRECTOR
P.O. Box 50882, Lusaka, Zambia
Plot 3823, Manda Hill Road,
Olympia Park
Tel: +260 211 264409
Email: info@ctpd.org.zm


Centre for Trade Policy & Development

www.ctpd.org.zm


 +260975876038

With support from:

