ZIPAR
Zambia Institute for Policy Analysis & Research

UNITED NATIONS ZAMBIA

ANALYSIS OF THE 2027 NATIONAL BUDGET

PART I: FISCAL, MONETARY AND GOVERNANCE

Building Fiscal Resilience and Strengthening Economic Governance



Novemebr 2026

TOTAL NATIONAL BUDGET

K284.8 bn'



KEY HIGHLIGHTS

1. The authorities are mindful of macroeconomic headwind risks:

Despite real Gross Domestic Product (GDP) growth reaching 7.4% in the first half of 2026, the economy is projected to grow by 4.9% in 2027, below the 6.0% projected in the Medium-Term Budget Plan (MTBP) 2027 – 2029. However, as espoused in the Grow Zambia Agenda, the economy is expected to double by 2031. Our estimates, however, show that the targeted growth falls short of the 7.4% annual rate required to double its size by 2031.

2. Prices are expected to remain within the Bank of Zambia's (BOZ) target range:

Maintaining inflation within the 6–8% target band remains achievable, although risks are tilted to the upside due to anticipated El Niño-induced disruptions to agricultural production, elevated global energy prices and the reinstatement of taxes on petroleum products. While improved food reserves and stronger foreign exchange inflows could moderate price pressures, the convergence of adverse climate and energy shocks could push inflation above the target band, eroding household purchasing power and increasing production costs.

3. Domestic Resource Mobilisation is the cornerstone of fiscal policy:

The projected reduction in the fiscal deficit from 5.9% of GDP in 2026 to 3.0% in 2027 is driven by domestic revenue rather than reduced expenditure. Revenues are projected to rise to 23.3% of GDP, despite collections falling 13.3% short of target by August 2026. The revenue increase is tied to several factors, including mining revenues, which are expected to rise significantly, leaving the fiscal outlook exposed to copper price volatility.

4. The reduction in debt service costs has created more room for developmental expenditure:

Debt service is projected to decline by 8.3% to K67.6 billion, creating room for growth-enhancing investments and social spending. Allocations to Economic Affairs increase by 29.4% to K75.9 billion, while Education and Health rise by 15.7% and 15.6%, respectively. However, Social Protection's share declines to 5.7% from 6.2% in 2026. Government should safeguard high-impact investments and essential social programmes during budget execution, particularly if revenue collections fall short.

5. Make growth work for jobs and livelihoods:

Although unemployment declined to 9.9%, 72.9% of employed persons remain in informal work, while mining accounts for less than 2% of total employment. Stronger linkages between capital-intensive and labour-intensive sectors are therefore essential to broaden employment opportunities. Extending National Pension Scheme Authority (NAPSA) and National Health Insurance Management Authority (NHIMA) coverage to informal workers and investing in sectors with greater job-creation potential can support inclusive growth. Meanwhile, despite a 45% increase in the Constituency Development Fund (CDF) allocation to K9.0 billion, funding remains at K40 million per constituency as their number rises from 156 to 226. The allocation formula should better reflect population, development needs and climate exposure to promote equitable resource distribution.

TABLE OF CONTENTS

Key Highlights i

1.0 About This Report 1

2.0 Assessing Zambia's Macroeconomic Ambitions 3

2.1 Staying Stable in Uncertain Times 3
2.2 Price Stability Faces an Uncertain Road Ahead 3
2.3 A Stronger Kwacha Faces a Test of Resilience 6

3.0 The Fiscal Balancing Act 7

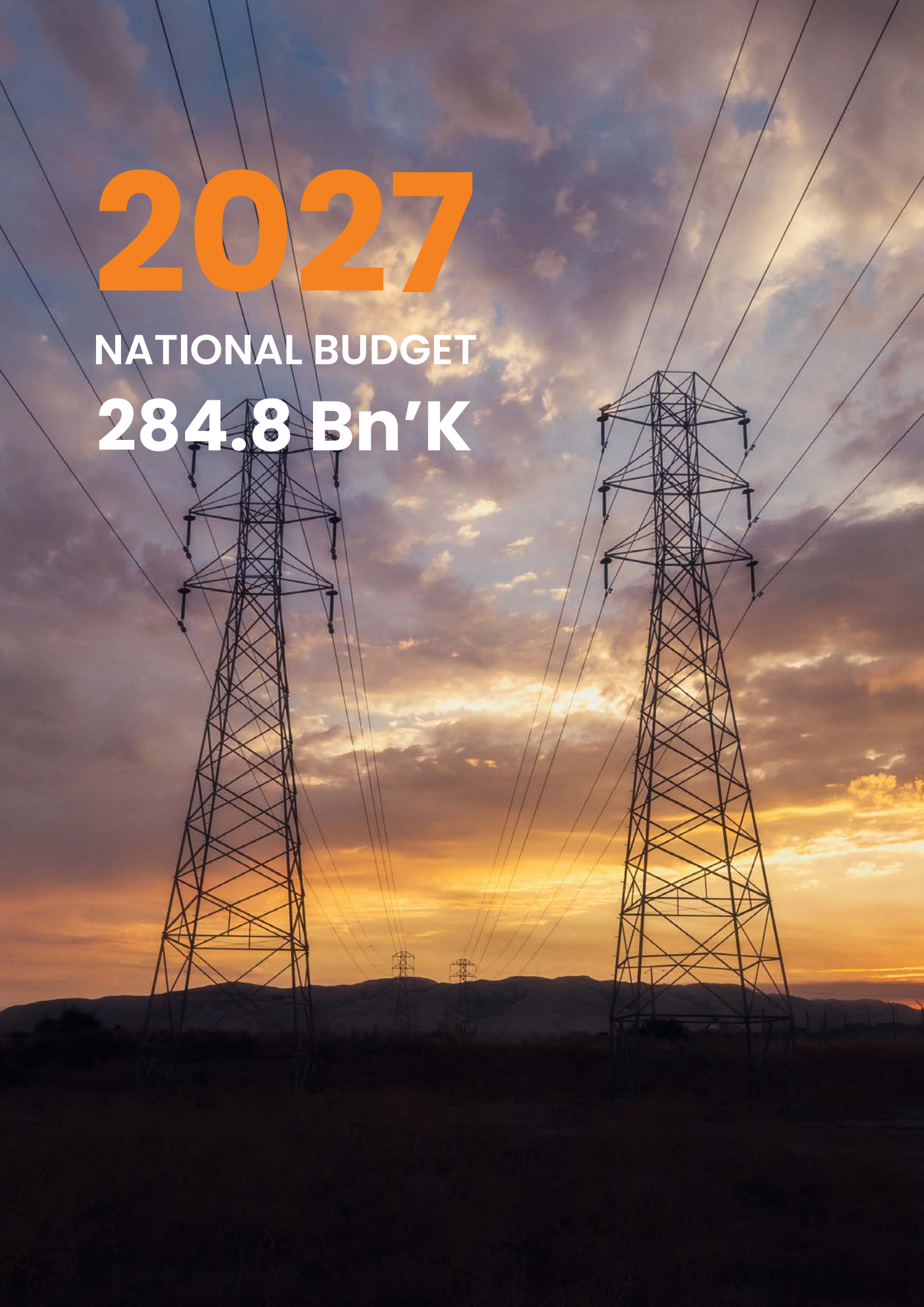
3.1 Less for Debt, More for Growth and Human Development 7
3.2 Domestic Revenues Driving Zambia's Growth Ambitions 9
3.3 Assessing The 2027 Fiscal Framework 13

4.0 Governance and Implementation Capacity 16

4.1 Debt-to-GDP Ratio Falls, but Better Debt Management Remains a Priority 16
4.2 Larger Local Funding, For Increased Service Delivery 17
4.3 SOE Reforms Creating More Fiscal Space 18

5.0 The Grow Zambia Agenda and The Need for Decent Employment 19

6.0 The Final Word 22


2027
NATIONAL BUDGET
284.8 Bn'K



1. ABOUT THE REPORT

On Friday, 6 November 2026, the Minister of Finance and National Planning, Hon. Dr Situmbeko Musokotwane, presented the 2027 National Budget, hereinafter referred to as the Budget, amounting to ZMW 284.8 billion, equivalent to 28.4% of GDP. Delivered under the theme ***("Grow Zambia: From Stabilisation to Unlocking Opportunities, Creating Jobs and Improving Livelihoods for All.")*** The Budget is the first Budget of the United Party for National Development (UPND) Government's second term in office and the first fiscal anchor to the Grow Zambia Agenda (10-10-5-3-3-1-1-1), which sets ambitious 2031 targets of producing 10 million tonnes of maize; generating 10,000 MW of electricity; attracting 5 million international tourists annually; producing 3 million tonnes each of copper and soya beans; producing 1 million tonnes each of wheat and sugar; and generating US$1 billion annually from beef exports.

Grow Zambia: The 2031 Targets

K284.8bn — the 2027 National Budget, equivalent to 28.4% of GDP.

10 million Mt Maize	**10, 000 Mw** New Electricity	**5 Million Mt** New International tourists	**3 million Mt** Tonnes Copper
3 million Mt Tonnes Soya beans	**1 million mt** Tones wheat	**1 million Mt** Tonnes sugar	**US$1 Bn** A year beef exports

The Budget signals a shift in policy focus from restoring macroeconomic stability and completing the debt restructuring process towards accelerating economic growth, creating jobs and improving livelihoods. To achieve these ambitions, Government intends to promote private sector-led and export-oriented growth, with particular emphasis on mining, agriculture, manufacturing and tourism. The Budget also aligns with the forthcoming Ninth National Development Plan (9NDP) 2027–2031, which will provide the overarching medium-term development framework for guiding policy priorities, public resource allocation, and investment towards achieving the country's development objectives.

Against this policy backdrop, Part I of ZIPAR's 2027 Budget Analysis provides a detailed assessment of the macroeconomic, fiscal and governance frameworks underpinning the Budget and their implications for economic stability and inclusive growth. Specifically, the analysis examines the macroeconomic objectives, fiscal policy measures, domestic revenue mobilisation, public expenditure priorities and public debt management, alongside monetary policy developments and governance considerations. It assesses the extent to which the Budget's policy measures and resource allocations can sustain macroeconomic stability, strengthen public financial management and advance the objectives of the Grow Zambia Agenda. It also identifies key policy gaps and provides recommendations to enhance budget credibility, implementation, and accountability, while ensuring that anticipated economic growth translates into tangible improvements in livelihoods.

> ***The 2027 Budget signals a shift in policy focus from restoring macroeconomic stability and completing the debt restructuring process towards accelerating economic growth.***



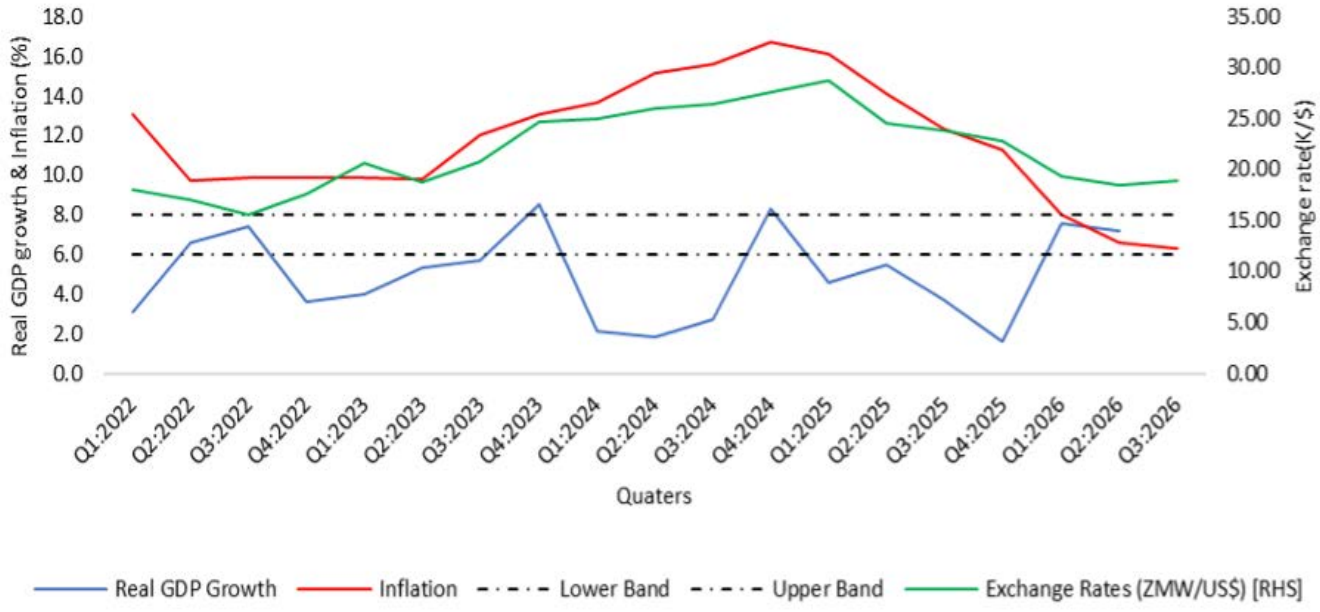
2. ASSESSING ZAMBIA'S MACROECONOMIC AMBITIONS

2.1. STAYING STABLE IN UNCERTAIN TIMES

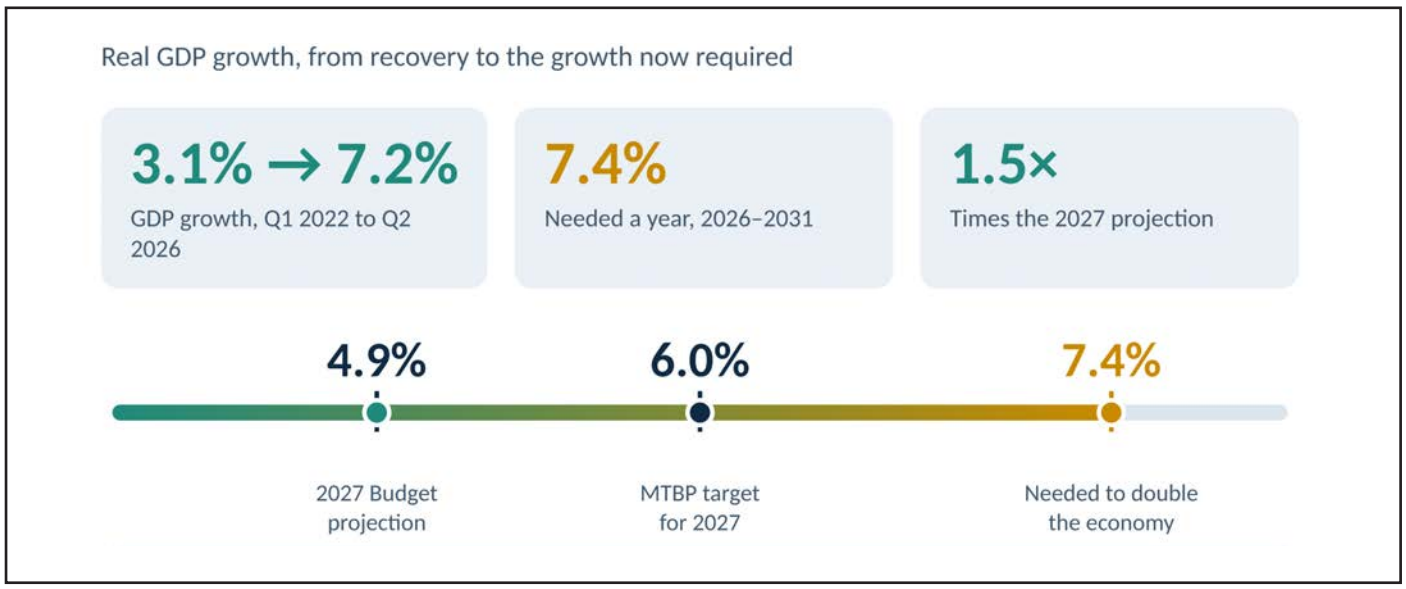
Zambia's economy has recovered strongly with real Gross Domestic Product (GDP) growth, rising from 3.1% in Q1 2022 to 7.2% in Q2 2026, driven primarily by stronger performance in mining, agriculture, electricity generation and information and communication technology (ICT) (see Figure 2-1). However, the Budget projects real GDP growth of 4.9%, which is 2.1 percentage points below the Medium-Term Budget Plan (MTBP) 2027 - 2029 target of 6.0% in 2027. Vulnerability to climate change events and geopolitical tensions in Asia has induced variations that cost the nation a 2.1% reduction in GDP growth, dragging the Budget down to 4.9%, below the MTBP target. Consequently, the national target of doubling the economy by 2031 appears very elusive and severely derailed. Achieving this milestone would require average annual real GDP growth of approximately 7.4% between 2026 and 2031, nearly 1.5 times the 2027 projection. Bridging this wide gap demands aggressive growth-acceleration interventions to boost productivity, mobilise private investment, and drive exports..

Vulnerability-induced variations in GDP growth are 4.9%, 2.1% below the MTBP target; doubling the economy by 2031 appears very elusive. The economy would require average annual real GDP growth of approximately 7.4% between 2026 and 2031, nearly 1.5 times the 2027 target. This highlights a significant gap between the government's growth ambitions and the growth target anchoring the 2027 national budget. As such, ambitious growth-acceleration interventions are needed to raise productivity, mobilise private investment, and drive exports.

Figure 2-1: GDP Growth, Inflation and Exchange Rate



Source: Author's construction using data from ZAMSTATS and the BOZ



2.2. PRICE STABILITY FACES AN UNCERTAIN ROAD AHEAD

Zambia has made significant progress in restoring price stability, with inflation declining from 13.1% in the first quarter of 2022 to 6.3% in the third quarter, reined into the Bank of Zambia's (BOZ) target band of 6–8% (see Figure 2 1). This disinflation has largely been supported by improved food supplies following the favourable 2025/2026 agricultural season, a stronger Kwacha, and the lagged effects of earlier monetary policy tightening. The Budget aims to consolidate these gains by maintaining inflation within the 6–8% target band, consistent with the 2027–2029 MTBP and the BOZ's inflation outlook.

However, the inflation outlook remains subject to significant upside risks, particularly from anticipated El Niño conditions and prolonged geopolitical tensions in the Middle East. The anticipated El Niño is projected to adversely affect agricultural production, constrain food supplies in some regions and exert upward pressure on food prices. The severe drought conditions experienced in 2024 illustrate Zambia's vulnerability to climate-related supply shocks, triggering a rise in inflation from 13.7% in January to 16.7% in December.[1]

Furthermore, the prolonged conflict in the Middle East throttled international energy supply, with crude oil prices rising from US$60.6 per barrel in January 2026 to US$97.4 per barrel.[2] This development put upward pressure on domestic fuel pump prices, increasing transport margins and production costs, forcing the government to temporarily suspend excise duty and zero-rate VAT on petroleum products. The reinstatement of VAT and excise duty on petroleum products presents a critical pathway for inflationary pressures that must be critically monitored.

Conversely, downside risks to inflation include improved domestic food reserves from the 2025/2026 agricultural season, a projected rise in copper outputs and prices, and increased foreign exchange inflows, which could help moderate price pressures. On balance, maintaining inflation within the 6–8% target band appears achievable, although risks remain tilted to the upside. Therefore, if the adverse weather conditions coincide with sustained international energy price pressures, inflation could move towards the upper end of the target band or breach it, eroding household purchasing power and increasing production costs.

Sustaining price stability will therefore require sustained coordination of fiscal, monetary and structural policy responses. In the short term, Government should maintain fiscal discipline, use any extra revenue above target to build reserves, support exchange-rate stability and safeguard domestic food supplies.

Over the medium term, priority should be given to addressing the structural drivers of inflation through increased investment in climate-resilient agricultural assets, including construction of water canals and reservoirs, to reduce dependence on rain-fed agriculture.

Beyond safeguarding agricultural productivity, stabilising the domestic economy also requires fortifying our industrial and transport supply chains against external shocks. Strengthening strategic petroleum storage capacity and improving fuel supply efficiency would help cushion the economy against international energy price volatility. Together, these interventions will be critical to consolidating macroeconomic stability, protecting household purchasing power and ensuring that inflationary pressures do not undermine the broader objectives of the Grow Zambia Agenda.

1 BOZ Fortnightly Series
2 BOZ Fortnightly Series

2.3. A STRONGER KWACHA FACES A TEST OF RESILIENCE

In the foreign exchange market, the Kwacha appreciated by 23.1% between Q2 2025 and Q3 2026, following a cumulative depreciation of 59.3% from ZMW 18.01/US$ in Q1 2022 to ZMW28.69/US$ in Q1 2025 (see Figure 1). This recovery, driven by increased mining-related foreign exchange inflows, improved market liquidity following the December 2025 Currency Directives, and inflows from foreign financial institutions, has significantly bolstered foreign buffers,[3] bringing the Budget target of maintaining international reserves above four months of import cover within reach.

However, the external sector outlook remains vulnerable to significant downside risks, including copper price volatility, anticipated El Niño-induced drought conditions, prolonged geopolitical tensions in the Middle East and renewed external debt-servicing obligations projected at ZMW 67.5 billion in 2027. Such pressures could weaken foreign exchange inflows, increase import costs and intensify demand for foreign currency, thereby exerting depreciation pressures on the Kwacha. Conversely, sustained favourable copper prices, potential financing under a successor International Monetary Fund (IMF) Extended Credit Facility (ECF) programme and anticipated inflows under the Zambia–US Health Compact could bolster foreign exchange reserves and stabilise the exchange rate. Sustaining external sector resilience will ultimately require prudent fiscal and monetary policies, export diversification, stronger foreign exchange earnings and reduced dependence on imported energy.

The Kwacha: a significant recovery

23.1%

Kwacha appreciation between Q2 2025 and Q3 2026.

K18.01 → K28.69

Cumulative depreciation of 59.3% from Q1 2022 to Q1 2025, before the recovery.

US$6.1 bn

international reserves in August 2026, equivalent to 4.4 months of import cover (Budget target: above four months).

Drivers: *mining-related foreign exchange inflows, prudent monetary policy and improved international reserves.*

3 Bank of Zambia (2026). Monetary Policy Report, August 2026 Edition.



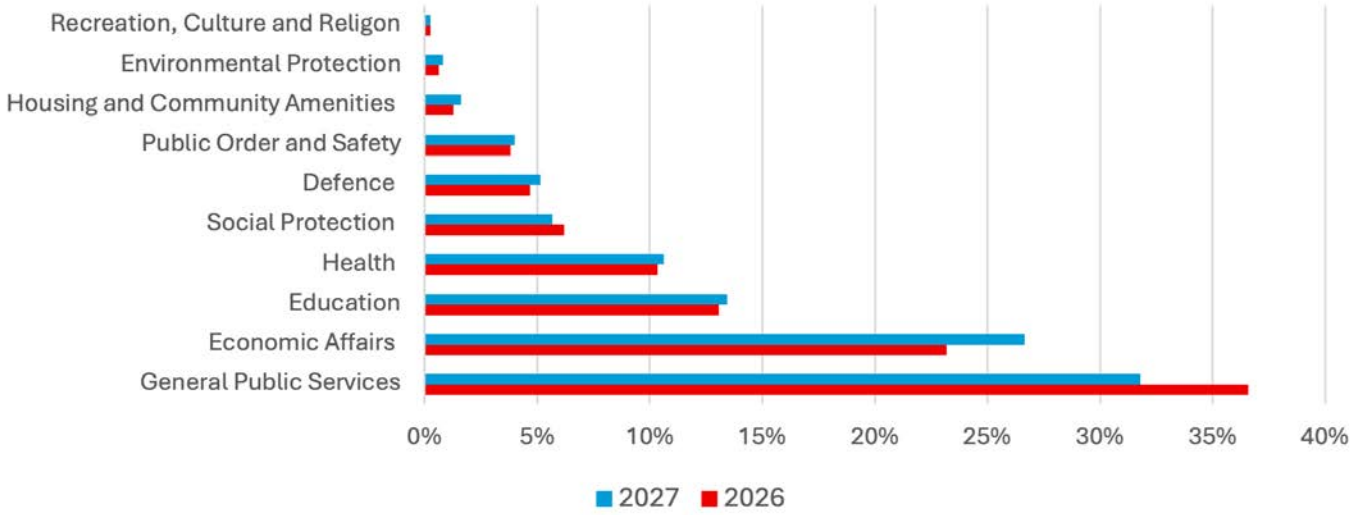
3. THE FISCAL BALANCING ACT

3.1. LESS FOR DEBT, MORE FOR GROWTH AND HUMAN DEVELOPMENT

The Budget aims to balance advancing the development priorities outlined in the Grow Zambia Agenda with safeguarding medium- to long-term fiscal sustainability, with a proposed expenditure of ZMW284.4 billion, a 12.4% increase over the ZMW253.1 billion in 2026, in nominal terms. At face value, this suggests higher Government expenditure in 2027. However, when the two supplementary budgets for 2026, totalling approximately ZMW 46.2 billion, are included, total expenditure rises to ZMW 299.1 billion. Against this revised baseline, the proposed 2027 expenditure represents a 4.9% reduction, suggesting an expenditure restraint amid so many spending priorities, despite the nominal increase relative to the original 2026 Budget.

The allocation to General Public Services, which continues to account for the largest share of Government expenditure, is projected to decline by 2.2% to ZMW 90.5 billion in 2027, reducing its share of the National Budget from 36.6% in 2026 to 31.8% in 2027 (see Figure 3 1). This decline is largely attributable to lower debt-service obligations, projected to fall from ZMW 73.7 billion in 2026 to ZMW 67.6 billion in 2027. According to the Ministry of Finance and National Planning (MOFNP), this reduction is because of the US$1.36 billion Eurobond buyback and continued progress in debt restructuring.

Figure 3-1: Expenditure by Function, 2026 and 2027



Source: Author's construction based on the 2026 and 2027 Budget Speeches

The reduction in the allocation to General Public Services creates additional fiscal space for more productive and economically transformative initiatives espoused in the Grow Zambia Agenda. This is evident in the 29.4% increase in the allocation to Economic Affairs, from ZMW 58.7 billion in 2026 to ZMW 75.9 billion in 2027, and exceeding the 25.3% projected in the 2027–2029 MTBP, signalling the Government's increased prioritisation of productive sectors.

Agriculture accounts for the largest share of the allocations to Economic Affairs ensuring food security and to advance the agricultural production targets under the Grow Zambia Agenda. This increased allocation is a positive step towards sustainable livelihoods for agricultural communities, accelerating economic growth and strengthening resilience to climate-related shocks.

While the Budget places greater emphasis on stimulating economic growth, the Government has maintained its commitment to the social sectors, too. Allocations to Education have increased by 15.7% to ZMW 38.2 billion as Government continues to implement the Free Education Policy. The Free Education Policy is critical to advancing the Grow Zambia Agenda by expanding equitable access to education, strengthening human capital development and equipping the future workforce with the skills needed to enhance productivity, competitiveness and inclusive economic growth.

Similarly, Social Protection receives a modest 3.2% increase, although its share of the Budget declines to 5.7%. The increase in Social Protection is partly attributable to the increase in the Social Cash Transfer (SCT), which has increased support to over 1.6 million beneficiary households, up from 1.5 million households in the 2026 Budget, as well as the transfer amount proposed to increase to ZMW 450 for eligible beneficiary households and ZMW 650 for households with eligible persons with disabilities. This is commendable, especially as the country is forecasting a drought and the poor and vulnerable are the hardest hit.

3.2. DOMESTIC REVENUES DRIVING ZAMBIA'S GROWTH AMBITIONS

3.2.1. THE REVENUE REALITY CHECK

The Budget rolls out Domestic Resource Mobilisation (DRM) to the centre of fiscal policy. Therefore, to finance the proposed expenditure in this Budget, the Government plans to mobilise 82.1% of the required resources from domestic revenues, supplemented by borrowing (14.7%) and foreign grants (3.2%). This financing structure places domestic resource mobilisation at the centre of fiscal policy and the need to strengthen revenue collection. Therefore, the central question is whether the revenue target of 23.3% of GDP is feasible, which is higher than the projected 2026 target of 22.3% of GDP.

Table 3-1: Variance between Approved Revenue Types as a % of GDP, 2024 - 2026:H1

	2024			2024			2026:H1		
	Approved	Actual	Variance	Approved	Actual	Variance	Approved	Actual	Variance
Tax Revenue	9.6%	9.3%	-3.1%	8.1%	10.3%	27.2%	8.9%	5.4%	-39.3%
Income Tax	5.7%	6.4%	12.3%	5.9%	4.5%	-23.7%	5.9%	1.6%	-72.9%
VAT	2.6%	2.8%	7.7%	2.8%	2.6%	-7.1%	3.1%	1.3%	-58.1%
Customs & Excise	4.1%	4.9%	19.5%	4.5%	5.9%	31.1%	4.4%	2.4%	-45.5%
Non-Tax Revenues	22.0%	23.4%	6.4%	21.3%	22.2%	4.2%	22.3%	10.6%	-52.5%
Total Domestic Revenues	9.6%	9.3%	-3.1%	8.1%	10.3%	27.2%	8.9%	5.4%	-39.3%

Source: Author's Construction from MOFNP Economic Reports and Budget Speeches

Over the past two and a half years, the variance between projected revenues and the outturn, as a share of the economy, has fluctuated, with periods of overperformance and underperformance. While revenue collections fell 3.1% short of the target in 2024, due to the adverse effects of the drought, it was exceeded by 27.2% in 2025 (see Table 3-1). Therefore, the feasibility of the 2027 revenue target should be taken cautiously, as lingering El Niño effects could constrain agricultural production, electricity generation, and broader economic activity, as seen in 2024 when adverse climatic conditions coincided with revenue underperformance. Additionally, the ongoing conflict in the Middle East poses risks through higher energy prices, increased production costs, and disruptions to economic activity. Revenues are also closely tied to copper prices, which could pose significant risk if prices decline (see TEXT BOX I). These uncertainties could weaken the domestic tax base and constrain revenue mobilisation, underscoring the need for realistic revenue projections and stronger tax administration.



TEXT BOX I: HIGH COPPER PRICE ASSUMPTIONS POSE RISKS TO FISCAL SUSTAINABILITY

The credibility of the 2027 National Budget's revenue projections remains vulnerable to developments in international copper prices. The Budget assumes a copper price of approximately US$14,300 per tonne, exceeding the World Bank's 2027 forecast of US$13,000 and the longer-term benchmark of approximately US$11,000 per tonne. Against this backdrop, mining company income tax and mineral royalties are projected to generate approximately K45 billion, equivalent to 4.5% of GDP. While favourable copper prices provide an opportunity to strengthen domestic revenue mobilisation, reliance on elevated commodity prices exposes the fiscal framework to external shocks and potential revenue shortfalls.

The fiscal implications of a decline in copper prices could be substantial, particularly given the differing sensitivities of mining taxes to commodity price movements. Mineral royalties are largely determined by the value of mineral sales, whereas mining company income tax depends on profitability. Consequently, a decline in copper prices could lead to a disproportionately larger reduction in corporate income tax receipts, particularly where production costs remain relatively unchanged. Illustrative estimates suggest that, if copper prices averaged the World Bank's projected US$13,000 per tonne rather than the Budget assumption, mining revenue could fall by

approximately K5 billion, potentially widening the fiscal deficit from the projected 3.0% to around 3.5% of GDP. A further decline towards longer-term price levels would amplify these fiscal pressures.

These risks underscore the importance of distinguishing between structural revenue improvements and temporary gains arising from favourable commodity prices. Financing recurrent expenditure commitments, including wages, subsidies and transfers, through potentially volatile mining revenues could undermine medium-term fiscal sustainability. A more prudent fiscal approach would involve adopting conservative copper price assumptions and directing windfall revenues towards debt reduction or fiscal buffers, rather than creating permanent expenditure obligations.

The need for fiscal prudence is reinforced by the revenue and expenditure performance recorded in 2026. By August, revenue collections were 13.3% below target, while expenditure exceeded planned levels by 7.7%. Consequently, the fiscal deficit was projected to widen to between 4.8% and 5.9% of GDP, substantially above the original target of 2.1%. Although the 2027 Budget envisages renewed fiscal consolidation, achieving the targeted deficit will require stronger expenditure controls, improved revenue performance and effective management of commodity-related risks.

To safeguard fiscal sustainability, Government should consider adopting a more conservative copper price benchmark for budget planning, establishing clear mechanisms for saving or reducing debt with windfall mining revenues, and developing expenditure contingency measures to address potential revenue shortfalls. Strengthening mid-year reporting on mining revenue performance against budget assumptions would also support timely fiscal adjustments and reduce the risk of expenditure overruns.

3.2.2. THE REVENUE REFORM BALANCING ACT BETWEEN FISCAL NEEDS AND HOUSEHOLD WELFARE

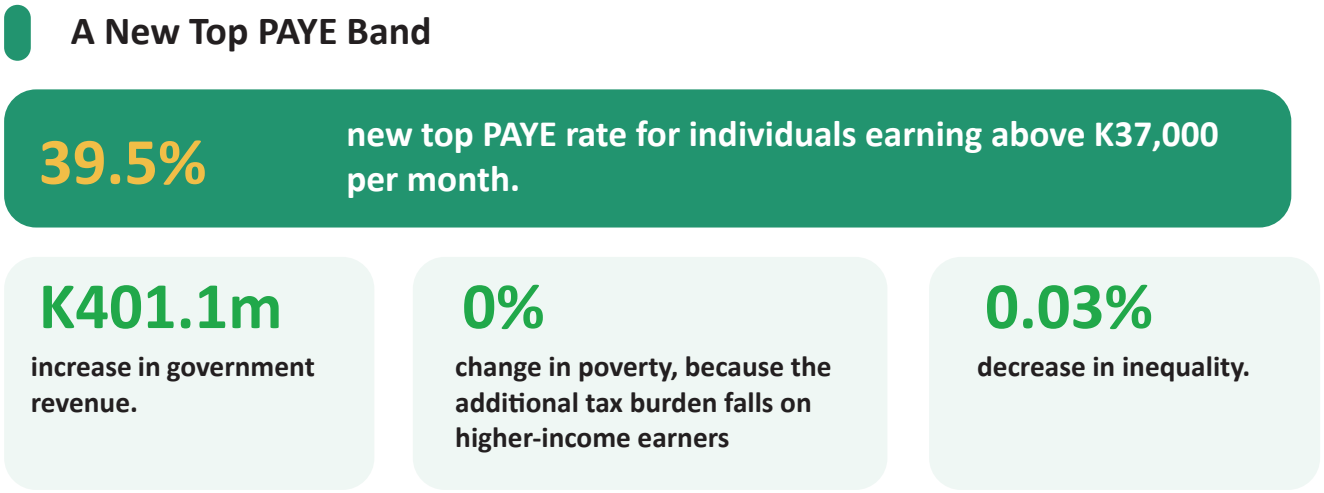
The 2027 Budget proposes a range of tax reforms projected to generate an additional K10.8 billion (1.1% of GDP). However, two matter more because their impacts on revenue and household welfare deserve closer examination. Therefore, this analysis focuses on two key measures: introducing a new top Pay-As-You-Earn (PAYE) tax band and increasing the Value Added Tax (VAT) rate.



3.2.2.1. MAKING PAYE MORE PROGRESSIVE THROUGH A NEW TOP TAX BAND

The proposed PAYE reform, which introduces a new top band of 39.5% for income above ZMW 37,000 per month, signals a shift towards greater progressivity in Zambia's income tax system. This measure aims to strengthen domestic revenue mobilisation and promote greater equity. It increases the tax contribution of higher-income earners but does not affect those earning below ZMW 37,000 per month. Our simulation (MicroZAMOD) of the impact of the PAYE reform on revenue and household welfare (see Table 3 2) shows that government revenue increases by ZMW 401.1 million. However, the measure has no effect on poverty, while inequality decreases minimally by 0.03%.

The reform has no effect on poverty because the additional tax burden falls on higher-income earners, who are generally above the poverty line. The results also suggest that increasing the marginal tax rate on higher incomes strengthens PAYE's redistributive role by reducing disposable income disparities, particularly at the top of the distribution. This is consistent with empirical evidence from Uganda, where greater personal income tax progressivity contributed to reduced after-tax inequality, and with broader evidence on the equalising role of progressive income taxation.[4]



4 Jouste, M., Kaidu Barugahara, T., Ayo Okello, J., Pirttilä, J. and Rattenhuber, P. (2025), 'Taxpayer Response to Greater Progressivity: Evidence from Personal Income Tax Reform in Uganda', International Tax and Public Finance, 32, pp. 1177–1212.

Table 3-2: Revenue and Welfare Effects of the PAYE Reforms

	Before	After	Difference to Base
Revenues (K, Billion)	19,376.26	19,777.94	401.69
Poverty (%)	48.54	48.55	0.00
Inequality	50.59	50.56	-0.03

Source: MicroZAMOD Simulations, the VAT rate increase, and the proposed tax-to-GDP ratio

3.1.2.2. VAT REVENUE GAINS AND HOUSEHOLD WELFARE

The 2027 Budget proposes raising the VAT rate from 16% to 16.5% to strengthen domestic revenue mobilisation. Our simulation shows that the proposed VAT increase could generate an additional ZMW 252 million in Government revenue, with no measurable changes in poverty or income inequality. This finding is consistent with the fiscal incidence literature, which suggests that modest changes in indirect taxation may have limited effects on aggregate distributional indicators, particularly where consumption patterns, exemptions and zero-rated goods moderate the tax burden across households.[5] However, the absence of measurable changes in poverty and inequality does not necessarily imply that the reform is welfare-neutral, as higher consumption taxes can erode household purchasing power without significantly altering poverty headcounts or income distribution.[6]

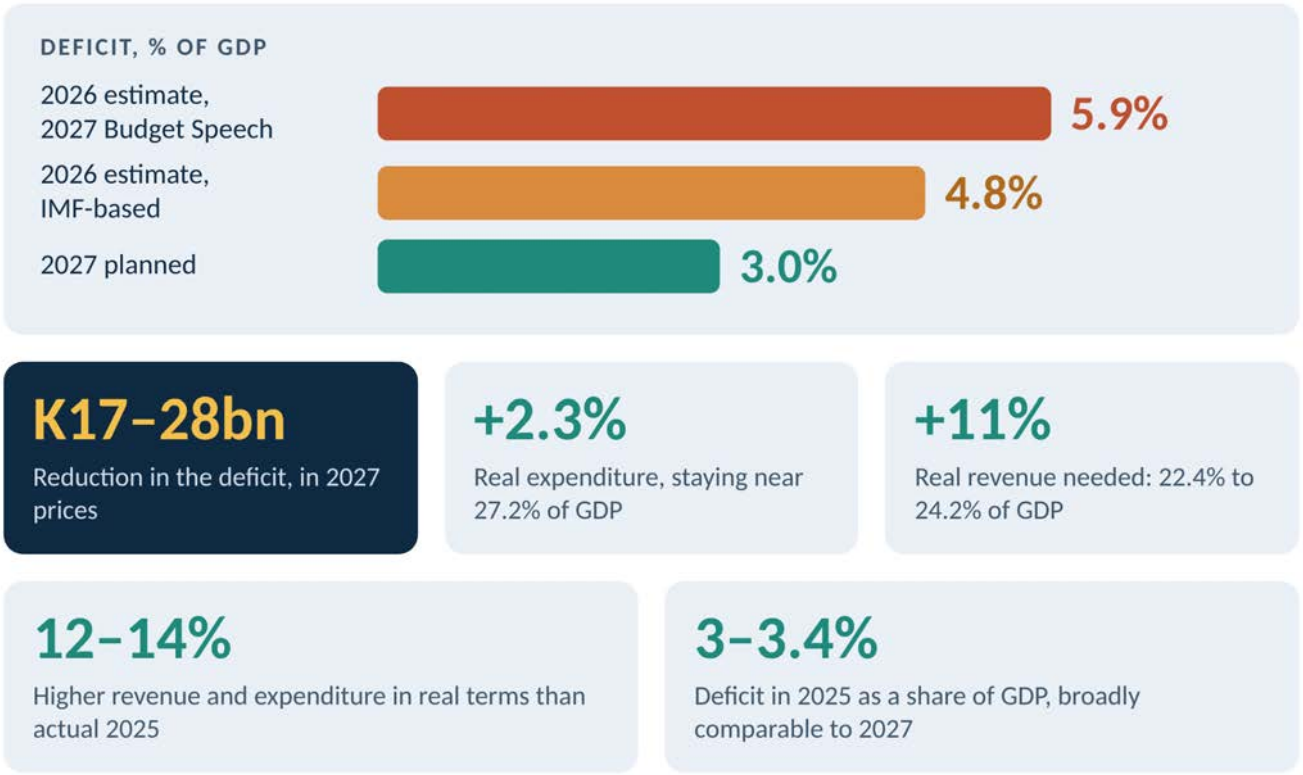
3.3. ASSESSING THE 2027 FISCAL FRAMEWORK

As earlier alluded to, the 2027 Budget suggests an expansionary fiscal stance, when compared with the 2As earlier alluded to, the 2027 Budget suggests an expansionary fiscal stance, when compared with the 2026 Budget. However, comparing the 2027 Budget with the estimated 2026 outturn points to fiscal consolidation. This distinction matters for assessing whether the Budget can support the Grow Zambia Agenda while maintaining fiscal credibility.

Relative to the approved 2026 Budget, real expenditure is projected to rise by 8.1%, compared with a 4.8% increase in real revenue. Consequently, the overall deficit widens from 2.1% to 3.0% of GDP, equivalent to an additional ZMW 9.4 billion in 2027 prices. The increase in spending is driven largely by capital investment, which rises from 3.6% to 5.4% of GDP, while interest payments decline from 6.3% to 5.5% of GDP. The primary surplus correspondingly narrows from 4.2% to 2.6% of GDP.

5 Harris et al. (2022), The Redistributive Power of Cash Transfers vs VAT Exemptions: A Multi-Country Study.
6 Mariscal, R. and Werner, A.M. (2018) 'The price and welfare effects of the value-added tax: Evidence from Mexico', IMF Working Paper, No. 18/240. Washington, DC: International Monetary Fund. Available at: https://doi.org/10.5089/9781484381632.001

However, the approved 2026 Budget is an incomplete baseline because fiscal performance has deviated from its original targets. The IMF-based estimate places the 2026 deficit at approximately 4.8% of GDP, while the 2027 Budget Speech indicates 5.9% of GDP. Against these estimates, the planned 2027 deficit of 3.0% of GDP represents a reduction of approximately ZMW 17–28 billion in 2027 prices. Real expenditure would increase by only 2.3%, remaining at approximately 27.2% of GDP, while real revenue would need to grow by about 11%, from approximately 22.4% to 24.2% of GDP. Relative to actual 2025 performance, revenue and expenditure would both be around 12–14% higher in real terms, with the deficit broadly comparable at approximately 3–3.4% of GDP.



The implication is that the proposed fiscal adjustment is principally revenue-led rather than expenditure-led. The revenue outlook is particularly sensitive to the mining sector: mining company income tax and mineral royalties are projected to rise from 3.4% to 4.5% of GDP, while non-mining domestic revenue remains broadly unchanged at approximately 18.8–19.0% of GDP. The Budget assumes a copper price of about US$14,292 per tonne in 2027, approximately 10% above the World Bank's October 2026 forecast. This reinforces the commodity-price vulnerability discussed in Text Box I.

Revenue execution therefore constitutes the principal risk to the fiscal framework. Revenue was reportedly 13% below target by August 2026, while the deficit exceeded its original target by approximately 3–4 percentage points of GDP. If the anticipated revenue increase does not materialise, Government may face a choice between allowing the deficit to exceed 3.0% of GDP and scaling back capital expenditure. The

latter would protect the fiscal target but weaken the planned investment stimulus under Grow Zambia. Strengthening non-mining revenue mobilisation, improving the realism of revenue forecasts and protecting high-impact investment should therefore be central to budget implementation.

To achieve sustainable domestic resource mobilisation and reduce long-term fiscal reliance on narrow tax bases and external borrowing, Government should expand its non-tax revenue streams by adopting equity-based Public-Private Partnerships (PPPs) as a non-managing shareholder. Under the PPP Act, the Government can systematically structure joint ventures (JVs) and commercial PPPs in high-yield commercial retail developments and strategic industrial projects. Rather than relying solely on monetary equity injections, the State should leverage non-cash contributions – specifically state-owned land, bulk infrastructure/utility services, and regulatory goodwill – to secure substantive equity stakes, guaranteeing recurring dividend income and asset appreciation for the Treasury. Government should also consider devolving its controlling interest in commercially viable but underperforming SOEs to the private sector to ensure competitiveness and guaranteed dividend income.

Table 3-3: Central Government Revenue, Expenditure and the Deficit

Nominal, K billion	2025 actual	2026 budget	2026 outturn (IMF est.)	2027 budget	2026 outturn
Revenue and grants	187.8	218.6	207.0	242.9	
Expenditure excl. amortisation	215.6	238.0	251.6	272.8	
Overall balance	-27.8	-19.4	-44.5	-29.9	-54.5
Nominal GDP (MoF)	817.5	923.7	923.7	1003.1	923.7
Non-Tax Revenues	22.0%	23.4%	6.4%	21.3%	22.2%
Total Domestic Revenues	9.6%	9.3%	-3.1%	8.1%	10.3%
Real, K billion, 2027 prices					
Revenue and grants	212.5	231.7	219.5	242.9	
Expenditure excl. amortisation	243.9	252.3	266.6	272.8	
Overall balance	-31.4	-20.5	-47.2	-29.9	-57.8
Percent of GDP					
Revenue and grants	23.0	23.7	22.4	24.2	
Expenditure excl. amortisation	26.4	25.8	27.2	27.2	
Overall balance	-3.4	-2.1	-4.8	-3.0	-5.9
2027 budget comparison					
Revenue and grants, real % change	14.3	4.8	10.7		
Expenditure, real % change	11.9	8.1	2.3		
Overall balance, change in real K billion (+ = smaller deficit)	1.5	-9.4	17.3	27.9	



4. GOVERNANCE AND IMPLEMENTATION CAPACITY

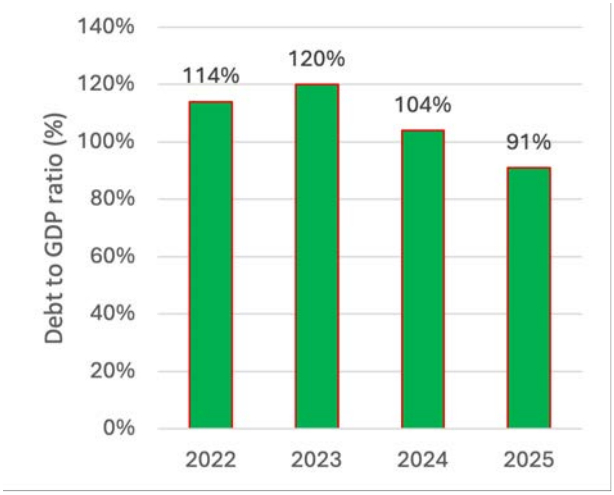
4.1. DEBT-TO-GDP RATIO FALLS, BUT BETTER DEBT MANAGEMENT REMAINS A PRIORITY

Zambia has made significant progress in managing its public debt, with the debt-to-GDP ratio declining from 114% in 2022 to 91% in 2025 (Figure 4-1). The Eurobond buyback further reduced external debt, which declined from US$16.15 billion at the end of December 2025 to US$15.46 billion at the end of June 2026. By October 2026, 96% of the external debt profile had been restructured, and the nation had obtained three (3) sovereign credit rating upgrades from major credit rating agencies within the year 2026.

Despite this remarkable progress, debt vulnerabilities remain elevated, as reflected in the revised sovereign credit ratings, which still classify the nation in the high-risk category, leaving limited access to commercial lending. With the country facing limited access to external markets, the Government has heavily relied on the domestic securities market. Because of this, the Government has resorted to domestic borrowing, increasing domestic debt from ZMW 253.7 billion to ZMW 280.9 billion between end-December 2025 and end-June 2026. Real interest rates remain elevated, excluding firms and households from credit markets.[7] As shown in Figure 4-2, between January 2025 and August 2026, claims on central government increased by 23.4%, compared to 22.9% for the private sector, suggesting that sustained government borrowing may be competing with private sector credit for financial resources, potentially crowding out productive investment and constraining private sector-led growth.

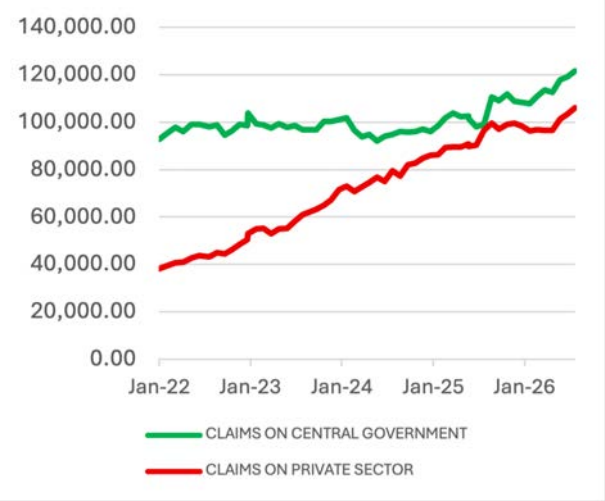
7 Banda-Muleya, F., & Nalishebo, S. (2018). Reversing Zambia's High Risk of Debt Distress. Working Paper No. 31. Zambia Institute for Policy Analysis and Research (ZIPAR), Lusaka.

Figure 4 1: Public Debt to GDP ratio.



Source: Author's Construction from MOFNP

Figure 4 -2: Net Claims on Central Government and Private Sector



Source: BOZ Fortnightly Series

Effective domestic debt management remains critical to safeguarding private sector-led growth under the Grow Zambia Agenda. As shown, excessive Government borrowing from domestic financial markets risks crowding out private sector credit and investment, particularly where financial markets remain shallow. Addressing this challenge requires sustained fiscal consolidation, diversification of the Government securities investor base, development of secondary debt markets and a gradual shift towards longer-term debt instruments to minimise refinancing risks while preserving credit availability for productive private investment.

4.2. LARGER LOCAL FUNDING, FOR INCREASED SERVICE DELIVERY

TThe Budget proposes increasing resources to the grassroots through the Constituency Development Fund (CDF) nominal allocation to ZMW 9.0 billion, up from ZMW 6.2 billion in 2026, a 45% increase. However, the allocation per constituency remains at ZMW 40 million because the number of constituencies increased from 156 to 226. Therefore, to ensure equitable distribution of CDF resources, as constituencies differ in characteristics and the challenges they face, the Government proposed in its Budget speech to review the allocation formula.

However, any resource allocation formula should be grounded in strong analysis because it can be contentious. The government should leverage the analyses already conducted and learn from countries

that use similar funding models, including Uganda and Kenya. Both countries provide a baseline allocation to every constituency and then allocate additional funding to promote equity. This additional funding is based on each constituency's weighted contribution to national poverty and population size, its development-related needs, and the extent to which conflict and war have affected the constituencies, similar in many ways to what ZIPAR had recommended. With an increase in climate events affecting the Zambian economy, we recommend that the suggested formula also account for exposure to extreme climate-related vulnerabilities, such as droughts and floods.

4.3. SOE REFORMS CREATING MORE FISCAL SPACE

The Budget proposes restructuring underperforming State-Owned Enterprises (SOEs), strengthening performance monitoring, and promoting private sector participation in 2027. This commitment is essential to reduce pressure on public finances, safeguard public assets and improve fiscal sustainability. The World Bank's 2024 Public Finance Review underscores the urgency of these reforms, revealing that SOEs recorded net losses equivalent to approximately 4% of GDP in 2020, while contingent liabilities averaged US$3.3 billion annually, equivalent to nearly 15% of GDP, between 2018 and 2022.[8] These findings highlight the significant fiscal risks arising from weak financial performance, inadequate oversight and continued dependence on Government support.

Against this background, the 2024 revision of the SOE Policy, the 2025 development of the Supervisory and Performance Monitoring Framework, and the 2026 enactment of the SOE Act represent important steps toward strengthening corporate governance and accountability. However, the critical test in 2027 will be whether these institutional reforms translate into measurable improvements in SOE financial performance and reduced fiscal exposure.

Importantly, restructuring should not be viewed merely as a means of disposing of underperforming public assets, but as an opportunity to improve their productivity and contribution to economic growth. Successful implementation could reduce fiscal risks, limit the need for Government bailouts and create additional fiscal space for productive investments and social services under the Grow Zambia Agenda.

8 World Bank (2024). Zambia Public Finance Review: Strengthening Fiscal Governance for Transformative Public Sector Investments. Washington, DC: World Bank



5. THE GROW ZAMBIA AGENDA AND THE NEED FOR DECENT EMPLOYMENT

The Budget comes at a pivotal moment, following the launch of the Republican President's Grow Zambia Agendaa[9]. The agenda sets ambitious production and development targets intended to accelerate economic growth. However, higher production of maize, copper, soybeans, wheat and sugar, increased tourist arrivals, and expanded electricity generation will not automatically translate into decent jobs. Growth that fails to create productive and protected employment risks deepening exclusion rather than promoting broad-based development. This section assesses whether the Budget positions the Grow Zambia Agenda not only as a production strategy, but also as a strategy for creating decent and inclusive employment.

Recent labour market trends provide a favourable foundation for the Grow Zambia Agenda. According to the 2025 Labour Force Survey, 4.76 million Zambians were employed out of a labour force of 5.28 million, leaving 523,751 people unemployed and resulting in an unemployment rate of 9.9%, down from 12.9% in 2024. Labour force participation also increased from 38.0% to 41.2%, while youth unemployment among persons aged 15 to 35 years stood at 14.2%.[10]

9 Speech by Zambia's President to the National Assembly, 2026.
10 Zambia Labour Force Survey, 2025

Despite these gains, Zambia's labour market continues to be characterised by high levels of informality. In 2025, an estimated 72.9% of employed persons worked in informal employment, often without access to social security, paid leave, sickness benefits or formal employment contracts.[11] Informal workers also face greater income insecurity and account for most of the country's working poor. The challenge is especially pronounced among young people, who represent more than half of Zambia's labour force. An estimated 65% of employed youth work in informal employment, limiting their access to secure livelihoods and economic opportunities.[12]

Consequently, Zambia's employment challenge is no longer only about creating jobs. It is increasingly about creating productive, formal, and protected employment that can reduce poverty, improve incomes, and expand economic inclusion. This lens should be used to assess the employment potential of the Grow Zambia Agenda.

The Grow Zambia Agenda can become a powerful vehicle for decent job creation if the Budget deliberately links production growth to employment outcomes. Four priorities are particularly important;

Raise agricultural productivity

Most Grow Zambia Agenda targets are concentrated in agriculture. Investments in mechanisation, irrigation and modern farming practices, as outlined in the 2027 budget, can increase productivity, raise rural incomes and support the creation of better-quality jobs across agricultural value chains.

Strengthen sector-specific skills

The 2027 budget's commitment to bursaries and skills development targeted towards sectors expected to drive growth, particularly agriculture, tourism, manufacturing and mining, is a welcome initiative. A skilled workforce is essential to improve productivity and ensure Zambians benefit from emerging employment opportunities.

11 Zambia Labour Force Survey, 2025
12 Zambia Labour Force Survey, 2025

Extend social protection to informal workers:

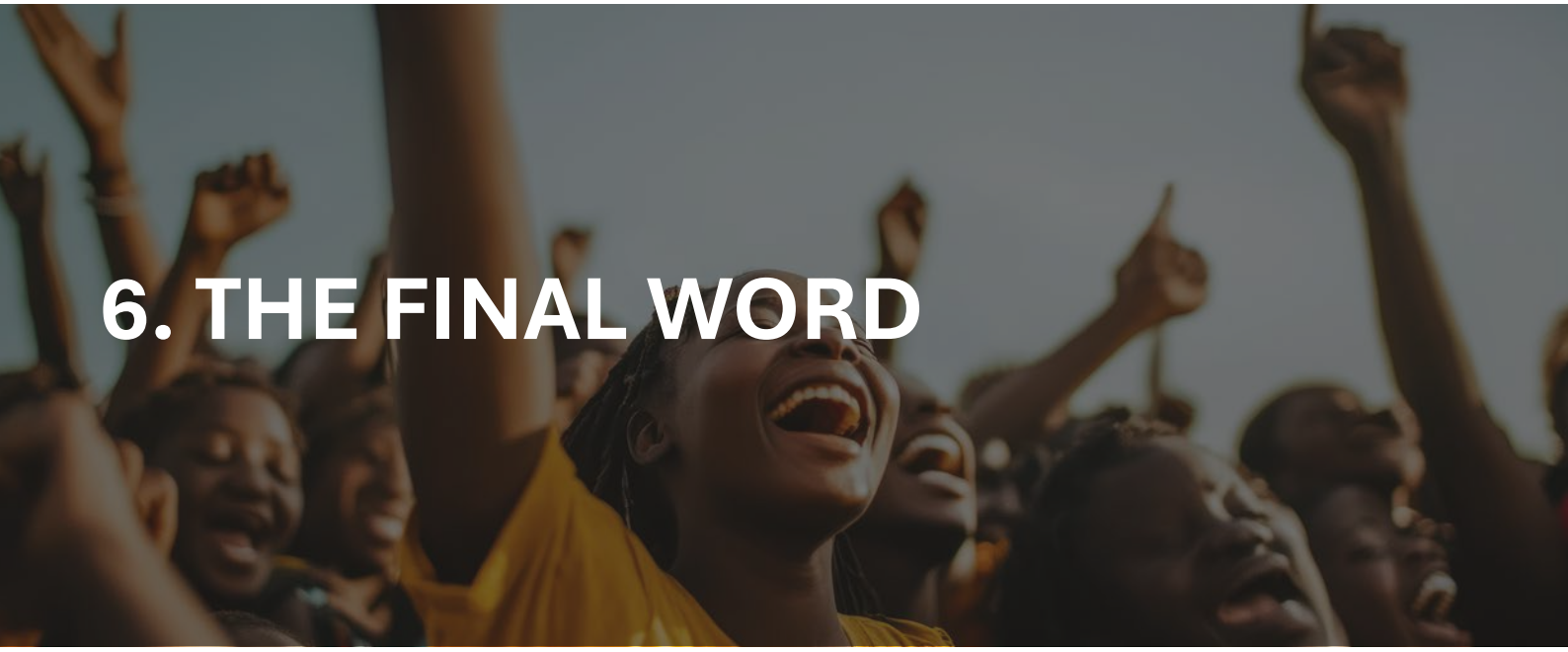
If most workers remain in informal employment, growth alone will not deliver decent work. Expanding access to NAPSA, NHIMA and Workers' Compensation schemes through simplified registration and tailored products for informal workers can significantly improve employment quality and worker protection. While NAPSA and NHIMA have opened doors to the informal economy, enrolment rates are still low and far from providing protection for informal workers.[13]

Use mining revenues to diversify employment:

Although mining is a major contributor to output and exports, it remains relatively capital intensive and contributes less than 2% to national employment.[14] Increased mining revenues anticipated from increased production under the Grow Zambia Agenda should be strategically invested in labour-intensive sectors and mining-support industries that can generate wider and more sustainable employment opportunities, especially for youth.



13 NAPSA Strategic Plan 2027-2031
14 Zambia Labour Force Survey 2024



6. THE FINAL WORD

As Nobel Laureate Amartya Sen observed, “Development requires the removal of major sources of unfreedom,” underscoring the importance of translating economic progress into improved livelihoods. The Budget builds on recent macroeconomic stabilisation gains to advance the Grow Zambia Agenda, supported by improved inflation, exchange rate stability and reduced debt-service pressures. However, projected growth of 4.9% remains below the 7.74% required to double the economy by 2031, while ambitious revenue targets face risks from copper price volatility and collection shortfalls. Sustaining progress will require fiscal discipline, stronger domestic revenue mobilisation, efficient public investment and reforms that promote productive employment. Ultimately, the Budget’s success will depend on translating macroeconomic stability into inclusive growth and tangible improvements in household welfare.

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