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MID-YEAR BUDGET PERFORMANCE ANALYSIS ZAMBIA 2026

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SINGER

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Executive Summary

This report assesses Zambia's economic, fiscal, and social sector performance during the first half of 2026, examining how global developments, domestic policy responses, and public spending patterns have influenced economic outcomes and service delivery. Part I of the report is undertaken against a backdrop of heightened global uncertainty arising from conflict in the Middle East, which has contributed to higher oil prices, slower global growth, and renewed inflationary pressures. Global crude oil prices have risen, averaging US$95.9 per barrel in May 2026, compared with around US$63.1 per barrel at the beginning of the year. This has renewed inflationary pressures. The International Monetary Fund (IMF) projects that the conflict in the Middle East will raise global headline inflation from 4.1% in 2025 to 4.4% in 2026 under its reference scenario. However, should the conflict persist and energy market disruptions intensify, global inflation could rise to 5.4% in 2026.

Despite heightened geopolitical tensions in the Middle East, Zambia's macroeconomic fundamentals have been resilient, mitigating the transmission of external shocks to the domestic economy. Inflation has declined from 10.9% in January 2026 to 6.5% in June 2026. The decline in inflation has been mainly due to a fall in food prices, particularly for mealie meal. However, there was a slight increase in non-food inflation from 5.9% in quarter one to 6.0% over the period under review, largely due to price movements in fuels and lubricants, driven by increases in crude oil prices. This was reflected in the price of petroleum, for instance, with diesel increasing significantly from K25.1 per litre in January 2026 to K32.1 per litre in June 2026. Further, the Kwacha appreciated by 20.1% against the US dollar between January and June 2026. The relatively stronger kwacha has also cushioned the economy against the full pass-through effects of the Middle East conflict by reducing the domestic-currency cost of higher-priced fuel imports.

The fiscal position has been characterised by lower-than-planned revenue collections and expenditure compression. Total revenues and grants between January and June 2026 amounted to K96.3 billion, which was 11.5% below target, while domestic revenues underperformed by 9.2% against a target of K103.2 billion. Although mining company income tax collections significantly exceeded projections due to higher copper prices, VAT and excise duty collections were 48.4% and 28.1% below target, respectively, following the temporary suspension of petroleum products as a response to the conflict in the Middle East. The temporary suspension of VAT and excise duty on petroleum products is projected to cost the treasury around US$200 million in foregone revenue. On the other hand, total expenditure was broadly within target, with a variance of 0.1% against a target of K144.3 billion in the first half of 2026.

Emerging fiscal pressures are beginning to constrain Zambia's fiscal space. The introduction of Supplementary Budget No. 1 of 2026, amounting to K26.3 billion (2.9% of GDP), reflects the Government's efforts to respond to emerging expenditure needs including food security, public-sector wage adjustments, domestic arrears clearance, debt-related obligations, and expansion of social protection. While these allocations have helped protect households and maintain key commitments in a difficult fiscal environment, they also point to growing expenditure pressures and reinforce the need for stronger budget realism, commitment controls, and clearer reporting on the implementation and financing of supplementary allocations. These pressures have been further amplified by procurement above budget for strategic food reserves, which the IMF has identified as a factor behind the deterioration in the fiscal outlook and the downward revision of the projected primary fiscal surplus to 1.1% of GDP. While acknowledging the sensitivity and food security imperatives underpinning these expenditures, the IMF underscored the importance of preserving fiscal discipline to sustain macroeconomic stability and debt sustainability. Looking ahead, the gradual resumption of debt service obligations following debt restructuring will increase the share of non-discretionary expenditure in the budget, further compressing fiscal space and limiting resources available for priority social sectors, including health, education, and social protection.

Social sector spending continued to play a critical role in protecting vulnerable households and supporting human development outcomes. Part II of the report reviews how the Government largely maintained budget allocation to social sectors despite a constrained fiscal environment. Budget releases to social protection remained broadly supportive of vulnerable households, although financing performance varied across programmes. By the end of June 2026, the Treasury had released K2.8 billion towards the Social Cash Transfer (SCT) programme, equivalent to 33.0% of the revised annual allocation after the supplementary budget, or 37.2% of the original approved allocation. This was broadly in line with the programme's bi-monthly payment schedule.

The education sector remained the top priority in budget execution, although the budget is skewed towards wage expenditure. Treasury released K18.0 billion by the end of June 2026, representing 58.9% of the initial approved allocation of K30.6 billion and 55.4% of the revised allocation of K32.5 billion after the K1.93 billion supplementary budget. This was the highest execution rate among the major social sectors. A granular analysis of releases shows that wage expenditure accounted for the larger share of education spending, while non-wage releases also performed relatively strongly compared with other social sector operational budgets. Sustaining education gains will require greater investment in non-wage inputs alongside continued expansion of access.

Wage expenditure remained the main driver of health sector spending in the first half of the year. By the end of June 2026, Treasury had released K9.7 billion, equivalent to 39.1% of the original approved annual budget of K24.75 billion and 39.0% of the revised annual budget of K24.80 billion after the K53.95 million supplementary allocation. Wage expenditure accounted for the bulk of releases, with K6.9 billion (55.7%) disbursed for wages compared with only K2.8 billion (22.6%) for non-wage expenditure, including K1.3 billion (19.9%) for medicines and medical supplies. At the same time, declining donor financing has increased pressure on domestic resources, underscoring the need to strengthen operational financing as Zambia transitions towards greater domestic ownership of the health sector.

Budget execution for the WASH sector improved compared with previous years but remained below the level required to meet national development targets. Budget releases by the end of June 2026 amounted to K921.8 million, representing 38.7% of the approved annual allocation, marking the strongest execution performance recorded over the past five years. While programme implementation exceeded targets for several water supply interventions, including borehole rehabilitation and hygiene promotion, sanitation outcomes remained weak, particularly in achieving open-defecation-free status. Continued financing shortfalls are therefore likely to delay progress towards universal access to safe water and sanitation.

Zambia's experience during the first half of 2026 reflects both the opportunities created by improving macroeconomic stability and the difficulties posed by fiscal pressures, climate risks, and global uncertainty. The gains achieved in inflation reduction, exchange rate stability, reserve accumulation, debt restructuring, and social sector outcomes provide a strong foundation for future progress. However, sustaining these achievements will require continued fiscal prudence, stronger institutions, improved quality and efficiency of public expenditure, protection of investments in human development, and investments that enhance resilience and productivity. Against this backdrop, the report proposes a set of recommended policy actions to consolidate recent gains and accelerate inclusive, resilient and sustainable development.

(i) The Government should undertake a comprehensive review and rationalisation of tax exemptions to offset revenue losses associated with temporary fiscal measures while preserving fiscal sustainability. Reducing inefficient and poorly targeted tax expenditures would broaden the tax base, strengthen domestic revenue mobilisation, and create additional fiscal space to finance priority investments in health, education, social protection, and other productive sectors without increasing statutory tax rates or public borrowing. Any remaining tax incentives should be transparent, well targeted, and subject to regular cost-benefit evaluations.

(ii) As the Government considers a successor programme to the current IMF-supported arrangement, it should build on the macroeconomic stabilisation achieved to date while placing greater emphasis on inclusive growth, economic diversification, and resilience. The successor programme should incorporate stronger and more clearly defined social spending floors to protect financing for health, education, nutrition, and social protection, ensuring that children and vulnerable households are shielded from the adverse effects of fiscal adjustment and external shocks.

(iii) The Government should protect the non-wage component of public expenditure to strengthen frontline service delivery. Future expenditure reprioritisation should focus on improving the balance between personnel costs and operational expenditure within the social sectors. In education, this requires progressively expanding financing for classrooms, teaching and learning materials and school operations to complement continued investments in teachers. In the health sector, greater priority should be given to medicines, medical supplies, diagnostics and disease control programmes to ensure that investments in the health workforce translate into improved service delivery, particularly as donor financing continues to decline.

(iv) The Government should integrate supplementary budget implementation into regular budget reporting to strengthen transparency and accountability. While supplementary budgets are sometimes necessary to respond to emerging or unforeseen expenditure pressures, their implementation should be systematically reflected in in-year budget execution reports once approved. This would help ensure that supplementary budgets are not treated as stand-alone or ad hoc instruments but are incorporated into the broader budget monitoring system, improving public oversight and strengthening confidence in fiscal management.

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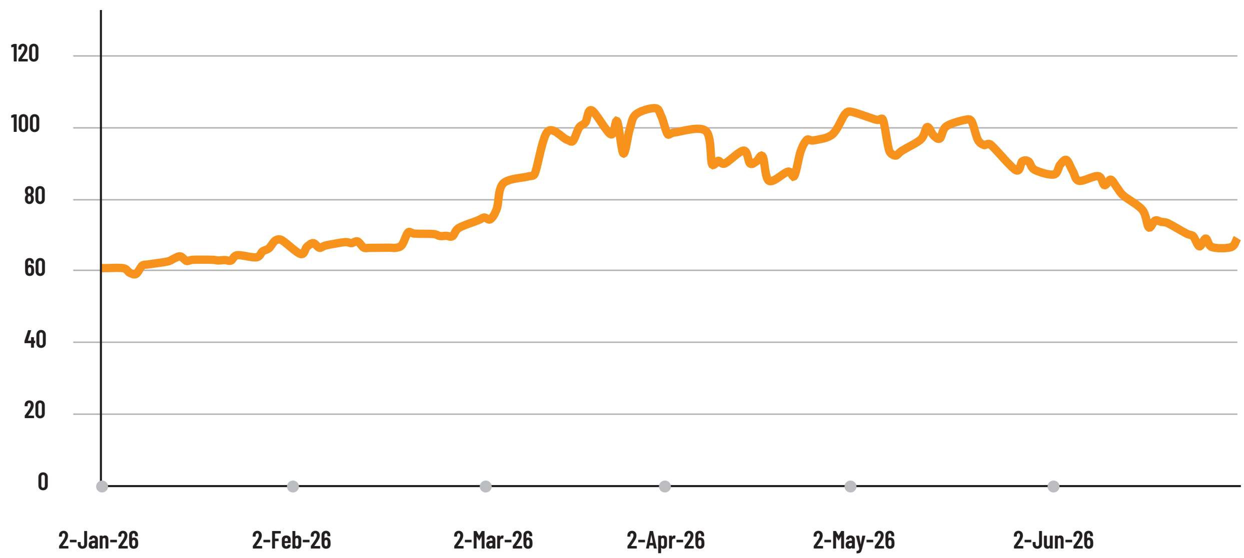
Part I: Gains, Pressures and Policy Choices

1.1 From Global Tensions to Domestic Realities

The escalation of the Middle East conflict has emerged as a major downside risk to the global economy, at a time when the world economy was beginning to stabilise. The conflict, which intensified in early 2026, heightened concerns about disruptions to global energy supplies and trade routes. The Middle East accounts for nearly one-third of global oil production, while the Strait of Hormuz handles approximately 20% of global petroleum products and trade. Consequently, global oil prices have risen sharply, averaging US$95.9 per barrel in May 2026, compared with around US$63.1 per barrel at the beginning of the year (Figure 1). Increased uncertainty has also raised shipping and insurance costs, disrupting global supply chains and increasing the cost of international trade.

Figure 1: Crude Oil (Dubai) US$/ barrel



Source: Bank of Zambia (BOZ) Fortnightly Statistics, 2026

The conflict has contributed to a deterioration in the global growth outlook by increasing production costs, reducing investor confidence, and weakening trade prospects. According to the International Monetary Fund (IMF), growth is projected to moderate from 3.3% in 2025 to 2.8% in 2026, reflecting the combined effects of geopolitical tensions, trade fragmentation, and policy uncertainty, with emerging economies such as Zambia remaining particularly vulnerable due to their dependence on imported fuel and exposure to tighter global financial conditions. The International Monetary Fund (IMF) projects that the conflict in the Middle East will raise global headline inflation from 4.1% in 2025 to 4.4% in 2026 under its reference scenario. However, should the conflict persist and energy market disruptions intensify, global inflation could rise to 5.4% in 2026.

1.2 From Global Tensions to Domestic Realities

Zambia's macroeconomic fundamentals have proved buoyant and have largely been shielded from the adverse effects of the conflict in the Middle East. While global economic growth has been revised downward from 3.3% to 2.8% in 2026, as noted earlier, the domestic economy grew by 7.7% in the first quarter, higher than the 4.5% recorded in the same period of 2025. The positive growth has been driven by a strong recovery in the agricultural sector as rainfall conditions improved, alongside continued expansion in mining activities. Increased activity in key service sectors, particularly transport, logistics, and communications, also contributed to economic growth by supporting production, trade, and the movement of goods and services across the economy.[1]

The kwacha has remained resilient during the first six months of 2026, helping to cushion the economy against external shocks. It opened the 2026 fiscal year at K22.1/US$, but by the end of June 2026, the kwacha had appreciated by 20.1% against the US dollar, trading at K18.1/US$. The significant appreciation of the kwacha has largely been attributed to increased foreign exchange earnings from higher copper prices, improved market confidence following the sovereign rating upgrade, and regulatory measures that improved liquidity in the interbank FX market. The relatively stronger kwacha has also cushioned the economy against the full pass-through effects of the MiddleEast conflict by reducing the domestic-currency cost of higher-priced fuel imports. As a result, increases in fuel prices, transport costs, and imported inflation have been more moderate than they would have been under a weaker exchange rate.

Inflation continued to trend lower, reaching the Bank of Zambia's (BOZ) target range for the first time in three years. Inflation, recorded at 10.9% in January 2026, had declined to 6.5% by the end of June 2026. Food inflation fell from a peak of 10.9% in January 2026 to 6.7% in June 2026, largely due to a bumper harvest and steady supplies of staples such as maize. Notable price declines were recorded for cereals, breakfast mealie meal, vegetables, sugar, cooking oil, and eggs. However, while non-food inflation declined from 7.3% to 5.9% during the first quarter of 2026, it edged up slightly to 6.0% by the end of June 2026, largely due to price movements in fuels and lubricants, driven by increases in crude oil prices. This was reflected in the price of petroleum, for instance, with diesel increasing significantly from K25.1 per litre in January 2026 to K32.1 per litre in June 2026.

1.3 Fiscal Performance Amid Evolving Budget Priorities

1.3.1 Revenue Performance

The first half of 2026 shows that total revenue collections were below the projected amount. Total revenues and grants amounted to K96.3 billion, 11.5% below the target of K108.8 billion. Domestic revenue collections were 9.2% below the projected target of K103.2 billion, at K93.7 billion. Despite lower-than-planned revenue collections, Company Income Tax (CIT) was 33.9% above the projected target, driven by mining CIT, which was 75.5% above its K6.1 billion target. This was thanks to higher copper prices, which increased from US$12,538.2/MT in January 2026 to US$ 13,665.0/MT in June 2026 and were above the 2026 budget price of US$8,897.0/MT.[2]

Lower-than-planned collections of Value Added Tax (VAT) and excise duties affected domestic revenue performance. As a mitigation measure against the effects of the conflict in the Middle East, the Government announced in April 2026 that it would temporarily zero-rate VAT and suspend excise duty on imported petroleum products to provide immediate, short-term relief to consumers. As a result, VAT and excise collections underperformed by 48.4% and 28.1%, respectively, putting pressure on the already strained fiscus. This intervention is projected to result in US$200 million in foregone revenue, underscoring the importance of clearly time-bound relief measures and transparent assessment of their distributional impact.

1 Zambia Statistics Agency (ZamStats) (2026) The Monthly: Volume 279 – June 2026. Lusaka: Zambia Statistics Agency.
2 Bank of Zambia (2026) Monetary and Financial Statistics. Available at: Bank of Zambia Monetary and Financial Statistics

Foreign grants largely underperformed, posing significant risks to social sector financing. Between January and June 2026, foreign grants also underperformed by 54.7%, highlighting growing fears of reduced and declining Overseas Development Assistance, which has primarily supported and supplemented social sector spending. The lower-than-planned receipts from foreign sources can be partly attributed to a shift in donor priorities, reflecting global reprioritisation of budgets amid geopolitical pressures.

1.3.2 Expenditure Performance

Total expenditure was broadly within the projected amount during January–June 2026. Against a target of K144.3 billion, actual expenditure amounted to K144.4 billion, 0.1% above target. The higher-than-planned expenditure was mainly driven by capital expenditure, particularly Strategic Food Reserves, which were 242.0% above the projected amount of K7.2 billion. However, other expenditure lines were below target, such as use of goods and services, social benefits, and transfers, with variances of 14.8%, 39.3%, and 3.4%, respectively.

Debt service remains above plan, posing challenges to expenditure containment and increasing the risk of crowding out spending on priority social sectors. Interest payments, which are one component of total debt service, amounted to K27.3 billion against a target of K26.5 billion, or 3.1% above plan, in the first half of 2026. Total debt service costs were higher than planned over the same period, reflecting both interest payments and other debt-related obligations. The higher-than-planned interest payments are mainly due to the continued implementation of the external debt restructuring programme, with Zambia having secured agreements on debt treatment covering 94% of the external debt within the restructuring perimeter. A defining feature of the period was the Eurobond buyback operation, involving the African Development Bank (AfDB), which purchased K10.4 billion in bonds, and the Bank of Zambia (BOZ), which acquired K9.6 billion. This proactive intervention was designed to shift away from a costly debt servicing arrangement in the future. The operation is expected to strengthen debt sustainability and help safeguard future social sector spending.

1.3.3 Supplementary Budget

Over the past four years, the Government has used supplementary budgets to respond to additional financing needs that emerged during budget implementation. While supplementary appropriations are an important fiscal instrument for responding to exceptional or unforeseen circumstances, the 2026 adjustments are largely directed towards programmes and commitments that are ongoing, policy-linked, or reasonably foreseeable at the time the original budget was formulated. This partly reflects that the supplementary budget mainly accommodates expenditure requirements arising from implementation pressures and evolving fiscal conditions, rather than responding solely to a single major exogenous shock.

The 2026 supplementary budget reflects a mix of recurrent, structural, and time-sensitive expenditure pressures. On 30 April 2026, the Minister responsible for finance tabled Supplementary Estimates No. 1 of 2026, amounting to K26.3 billion, equivalent to 2.9% of GDP. Although the conflict in the Middle East and the temporary suspension of fuel taxes have reduced fiscal revenues, the composition of the supplementary budget shows that additional allocations were concentrated in domestic expenditure priorities, including food security, agricultural support, public-sector compensation, arrears clearance, and social protection. Resources have been directed towards FRA maize purchases and FISP arrears, totalling K7.4 billion for agriculture-related commitments, the single largest allocation in the supplementary budget. Further, K2.9 billion has been allocated for wage adjustments, K2.1 billion for domestic arrears clearance, and K1.3 billion for social protection programmes.

The supplementary budget points to a more constrained fiscal position relative to the original budget assumptions. Zambia's 2026 Budget had been prepared under the discipline of the IMF-supported Extended Credit Facility (ECF), targeting an overall fiscal deficit of 2.1% of GDP and net domestic borrowing of K21.6 billion. However, the supplementary budget has increased planned net domestic borrowing by K7.5 billion, reflecting expenditure pressures associated with agricultural support programmes, domestic arrears clearance, and public-sector compensation. This additional borrowing comes at a time when Government securities auctions recorded relatively weak investor demand, with a 43% subscription rate shortly before the supplementary estimates were presented. Greater reliance on domestic borrowing could increase financing costs, put upward pressure on domestic interest rates, and potentially crowd out private-sector access to credit, thereby moderating investment and economic activity for the remainder of the year.

The gradual resumption of external debt service is also increasing pressure on the fiscal position and may constrain resources available for priority spending, including social sectors. The allocation of K811.9 million towards external debt service reflects Zambia's progress in implementing debt restructuring agreements and signals the gradual re-emergence of debt service payments as restructuring arrangements become operational. This reduces available resources for other budget lines, including social spending, and builds on the higher-than-planned total debt service costs in the first six months of 2026, which were 12.9% above target. This is broader than interest payments alone, which are only one component of total debt service.

Tables 1a and 1b show that Supplementary Budget No. 1 of 2026 increased the approved budget by approximately K26.3 billion, raising total expenditure from about K253.1 billion to about K279.4 billion. The additional allocations are concentrated in a few priority areas, particularly agriculture, arrears dismantling, elections, mining, and selected social sectors. Agriculture receives the largest increase, mainly through support to FISP and strategic food reserves, reflecting continued pressure from food security and implementation commitments. Social sector additions are more modest, with education receiving K1.93 billion, Social Cash Transfer receiving K955.77 million, health receiving K53.95 million, and the Food Security Pack receiving K350.9 million. Overall, the tables suggest that the supplementary budget is helping Government respond to immediate expenditure pressures, but it also increases financing requirements, including higher domestic borrowing.

Table 1a: Original Budget vs. Supplementary Estimates No. 1 of 2026 – Expenditure Items (K million)

Expenditure Item	2026 Budget	Supplementary Budget	Revised Budget	% Increase
Agriculture (Ministry of Agriculture)	11,420.00	7,440.00	18,860.00	65.2%
of which: FISP and Strategic Food Reserves	11,370.00	7,440.00	18,810.00	65.4%
Electoral Commission of Zambia (ECZ)	1,125.20	1,138.16	2,263.36	101.2%
Ministry of Mines and Minerals Development	667.64	1,098.74	1,766.38	164.6%
Arrears Dismantling	4,662.84	2,066.80	6,729.64	44.3%
External Debt Service	21,669.53	809.77	22,479.30	3.7%
Ministry of Health	344.08	53.95	398.03	15.7%
Ministry of Education	27,100.43	1,925.64	29,026.07	7.1%
Social Cash Transfer (MCDSS)	7,649.89	955.72	8,605.61	12.5%
Food Security Pack (MCDSS)	1,512.70	350.94	1,863.64	23.2%
Approved Budget (including amortisation)	253,091.92	26,319.47	279,411.39	10.4%

Table 1b: Financing of Supplementary Estimates No. 1 of 2026 (K million)

Financing Item	2026 Budget	Supplementary Budget	Revised Budget	% Increase
Gross Supplementary Expenditure	—	26,319.47	—	—
Less: Savings Declared Across Heads	—	(10,047.15)	—	—
Net New Domestic Borrowing	21,619.80	10,359.40	31,979.20	47.9%
Grants (Additional Funds from Donors)	12,149.83	2,089.25	14,239.08	17.2%

Source: MOFNP Supplementary Estimates of Expenditure No. 1 2026

NOTE: *Budget figures in this table are based on the 2026 Supplementary Estimates of Expenditure No. 1 (Head-level allocations), while the budget execution analysis that follows uses sector-level allocations from the 2026 Yellow Book. Differences in budget totals reflect these different reporting frameworks rather than inconsistencies in the data.*

Overall, Supplementary Budget No. 1 of 2026 demonstrates the Government's continued effort to finance protective measures in response to emerging pressures, including support for food security, arrears clearance, and the expansion of social protection programmes. These allocations are important in helping to cushion households and sustain essential commitments during a period of global uncertainty, climate-related risks, and tightening fiscal space. At the same time, the scale and composition of the supplementary budget underline the importance of strengthening budget realism, fiscal forecasting, and commitment controls so that recurrent and foreseeable expenditure pressures are better anticipated within the original budget. Going forward, clearer reporting on the objectives, beneficiaries, financing sources, and implementation progress of supplementary allocations would strengthen accountability, improve public confidence, and help preserve fiscal space for growth-enhancing and social-sector investments.

Part II: Social Sector Expenditure And Service Delivery Performance

The performance of Zambia's social sectors during the first half of 2026 cannot be understood in isolation from the broader macroeconomic and fiscal environment discussed in Part I. Macroeconomic stability, characterised by declining inflation, exchange rate appreciation, and progress in debt restructuring, created a more favourable environment for financing public services and protecting vulnerable households. At the same time, fiscal developments, including weaker-than-expected domestic revenue, growing debt service obligations, reduced external financing, and the introduction of a supplementary budget, have shaped both the availability and composition of public resources. These competing forces have ultimately influenced the pace of budget execution, the balance between wage and operational spending, and the Government's capacity to sustain investments in education, health, social protection, water and sanitation, and nutrition. The analysis that follows therefore examines how macroeconomic conditions and fiscal policy have translated into outcomes in social sector financing and service delivery during the first six months of 2026.

This section assesses the level, composition, and execution of social sector spending, focusing on how budget allocations and expenditure patterns support service delivery performance across the social sectors. Beyond examining expenditure trends, the analysis evaluates budget allocations, expenditure composition, budget execution, and selected programme performance indicators, recognising that the effectiveness of public expenditure depends not only on the amount spent but also on how resources are allocated and utilised. Where data permitted, the analysis follows a common framework covering budget allocations, expenditure composition, execution, programme outputs, and the implications for service delivery. Where comparable expenditure composition or performance data were unavailable, these limitations are explicitly acknowledged.

The analysis draws on Treasury releases and sector performance data available up to June 2026, providing a more comprehensive assessment of budget implementation during the first six months of the financial year. While this captures a substantial portion of expenditure execution and programme implementation, the findings should still be interpreted in the context of an ongoing fiscal year, as expenditure patterns and sector performance may continue to evolve through supplementary allocations and subsequent budget releases. Consequently, the findings should be interpreted as preliminary, offering an assessment of the direction of social sector spending and the quality of expenditure, rather than a comprehensive evaluation of full-year performance.

2.1. Social Protection

Social protection remains central to Zambia's efforts to cushion vulnerable households from rising economic and climate-related shocks. The continued financing of social protection, including through the supplementary budget, demonstrates the Government's commitment to protecting vulnerable households during a period of heightened economic, climate, and cost-of-living pressures. This has become increasingly important in 2026 as households continue to recover from the effects of the 2024 drought while facing renewed pressure from rising food, transport, energy, and household costs. Treasury releases during the first six months of the year continued to support school grants, social transfers, grant-aided institutions, and selected poverty-reduction programmes, reflecting efforts to protect vulnerable households amid growing fiscal pressures.

2.1.1. Social Cash Transfer

The SCT programme remains Zambia's most important direct poverty-reduction intervention, with budget execution broadly consistent with the programme's bi-monthly payment schedule. By the end of June 2026, the Treasury had released K2.8 billion. This represented 33.0% of the revised annual allocation of K8.6 billion after Supplementary Budget No. 1 of 2026, or 37.2% of the original approved allocation of K7.6 billion. While the revised-budget execution rate was below the 50% mid-year benchmark, the lower rate should be interpreted in the context of the programme's bi-monthly payment cycle and the expansion of the annual financing envelope following the supplementary budget. It therefore does not necessarily imply a shortfall in financing, but points to a more back-loaded release profile.[3]

The Supplementary Budget No. 1 of 2026 provided an additional K955.7 million to accommodate the expansion of the SCT programme to 1,555,840 beneficiary households. This represents approximately 12.5% of the programme's initial allocation and increased the financing requirement for the remainder of the year. While the supplementary provision ensures that the expanded caseload is reflected in the annual budget, its effectiveness will depend on the timely release of these resources. With about two-thirds of the revised allocation still outstanding at mid-year, releases will need to accelerate during the second half of 2026 to close the financing gap and sustain scheduled payments to the expanded beneficiary base. Delays in doing so could increase the risk of payment disruptions later in the year.

The effectiveness of SCT will increasingly depend on its ability to protect poor households from broader cost-of-living pressures. While the supplementary allocation strengthens programme coverage by accommodating the expanded beneficiary caseload, it principally finances additional beneficiaries rather than an increase in the value of support received by individual households. This brings into focus the trade-off between coverage and adequacy. Although inflation declined from 10.9% in January 2026 to 6.5% in June 2026, and temporary tax measures helped moderate fuel price increases arising from the conflict in the Middle East, continued volatility in global energy markets still poses risks to household welfare through higher food and transport costs. This remains particularly important given that social cash transfer values continue to fall below prevailing poverty thresholds and household consumption needs. ZIPAR's 2025 mid-year analysis showed that the earlier K400 monthly transfer covered less than 40% of the basic needs basket when measured against the poverty datum line of K517.60 per adult equivalent, raising concerns about the adequacy of support during periods of elevated living costs.[4]

2.1.2. Food Security Pack

Budget releases towards the Food Security Pack (FSP) during January–June 2026 were below the projected amount. By the end of June 2026, the Treasury had released K800 million. This represented 42.9% of the revised annual allocation of K1.9 billion after Supplementary Budget No. 1 of 2026, or 52.9% of the original approved allocation of K1.5 billion. The revised-budget execution rate was below the expected cumulative release of 50.0% for the period. The slower-than-planned disbursements are a cause for concern, particularly as El Niño conditions are forecast to emerge later in the year, posing risks to agricultural production and food security. These risks could be compounded by the pass-through effects of the conflict in the Middle East, which may increase food and transport costs, thereby placing additional pressure on vulnerable households.

3. Post-reporting period data indicate that SCT releases accelerated in July, raising cumulative releases to 56.8% of the revised annual allocation. July releases are excluded from the mid-year assessment, which covers the period ending 30 June 2026.
4. ZIPAR and UNICEF (2025) *Sustaining Livelihoods Through Financial Headwinds: Mid-Year Analytical Report on Budget Performance and Socioeconomic Outcomes for the First Half of 2025*. Lusaka: ZIPAR and UNICEF.

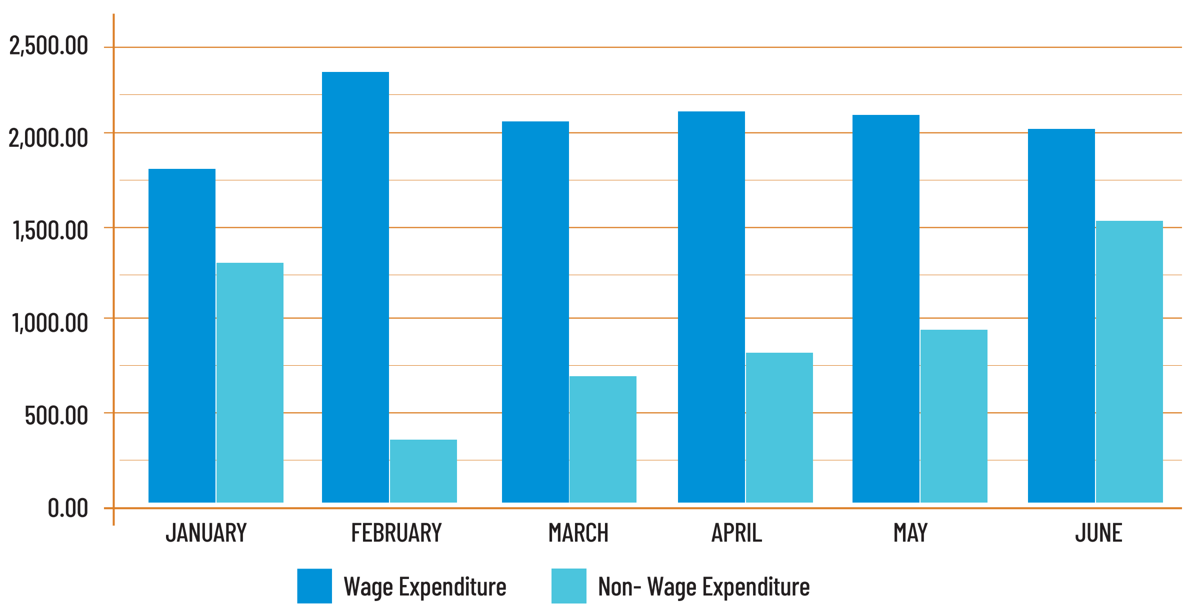
Despite the lower-than-planned releases, programme implementation remained strong. Under the rain-fed component, 200,000 households have been supported, representing approximately 80% of the 2026 8NDP annual target of 250,350 households. Performance has been particularly strong under the wetland farming component, where support has expanded to 120,000 households, more than double the 8NDP annual target of 50,000 households. These figures reflect programme implementation outputs rather than development outcomes but nevertheless demonstrate the rapid scale-up of productive social protection interventions in response to heightened food insecurity and climate-related shocks.

The Treasury has set aside extra funds to clear arrears within the programme during this financial year. Recent fiscal developments indicate continued prioritisation of food security interventions despite mounting expenditure pressures elsewhere within the budget. The Supplementary Budget No. 1 of 2026 has allocated K350.9 million to clear arrears associated with the accelerated implementation of the programme during the drought response period. Going forward, stronger commitment controls and more predictable release schedules would help prevent the recurrence of arrears.

2.2. Education Sector

Budget execution continued to prioritise the education sector during January–June 2026. By the end of June 2026, Treasury had released K18.0 billion to the sector. This represented 58.9% of the initial approved budget of K30.6 billion and 55.4% of the revised budget of K32.5 billion after Supplementary Budget No. 1 of 2026 added K1.93 billion. The supplementary allocation increased the sector's financing envelope, which explains why execution against the revised budget is lower than execution against the initial budget, even though education still recorded the strongest release performance among the major social sectors. Non-wage budget releases increased from K1.3 billion to K1.5 billion during January–June 2026, while releases towards wage expenditure increased from K1.8 billion to K2.1 billion over the same period (see Figure 2). This leaves comparatively limited fiscal space for quality-enhancing investments such as teaching and learning materials, school infrastructure, and operational inputs.

Figure 2: Education Sector Disbursements, January–June 2026



Source: MOFNP Social Sector Fiscal Tables

The composition of the education budget is reflected in some selected quality indicators. The national primary pupil-teacher ratio remains high at 52:1 and reaches as high as 99:1 in some peri-urban schools, highlighting continued pressure on teaching and learning conditions. The primary and secondary pupil-classroom ratios vary across regions, with 2025 national averages of 69 and 60, respectively; 120 of 317 secondary schools are still to be completed in 2026. Nevertheless, several budget commitments, including the recruitment of additional teachers, are expected to be implemented during the second half of 2026 and could help alleviate some of these constraints. According to the Ministry of Education, Grade 5 completion rates improved from 87.1% in 2021 to 96.1% in 2025, while Grade 12 completion rates increased from 35.4% to 49.6% over the same period. However, some challenges persist, particularly in learner progression, with the transition rate from Grade 7 to Grade 8 declining from 84.0% in 2024 to 72.8% in 2025. Programme implementation also remained strong during the first half of 2026, with progress in expanding access. Overall, 44,938 students benefited from higher education support, exceeding the target of 20,260, and 13,686 students benefited from TEVET bursaries, exceeding the target of 1,500.[5]

The enactment of the Education (Amendment) Act No.6 of 2026, signed into law on 4 June 2026, is a major milestone. The law converts free education from a policy into a statutory right from early childhood to secondary school.[6] The guarantee locks in the 2.6 million enrolment gains since 2022 across political cycles, but by making the access surge permanent, it shifts the binding constraint to supply and quality, which current capacity cannot meet.

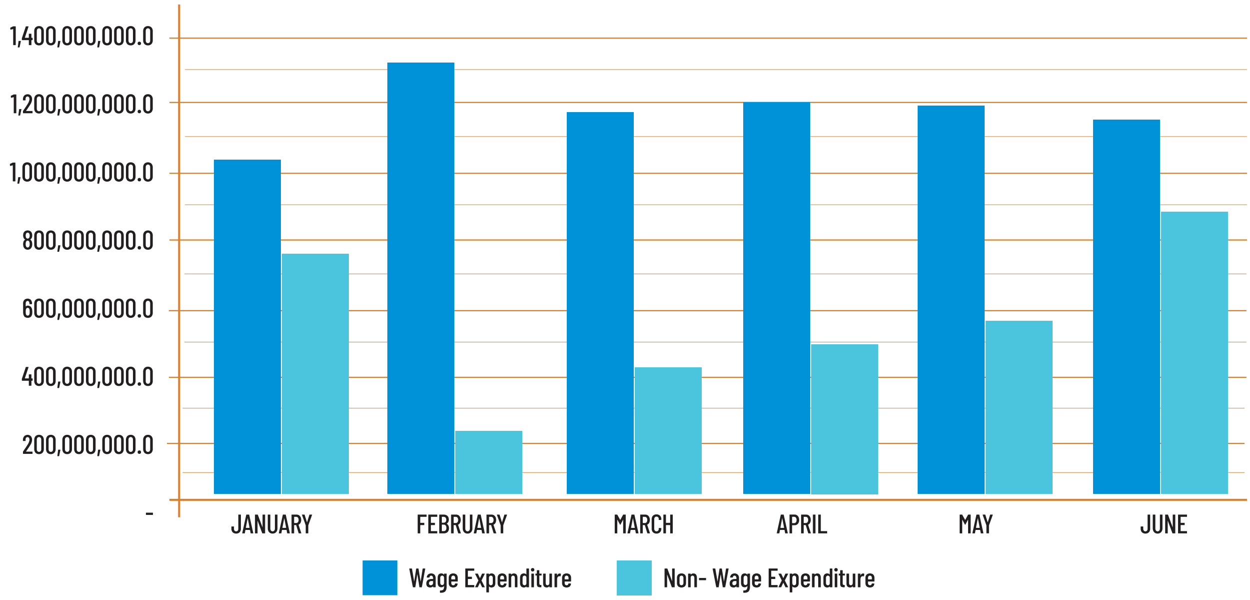
2.3. Health Sector

Budget releases to the health sector stood at 39.1% of the original approved budget and 39.0% of the revised budget by the end of June 2026, below the projected 50.0% mid-year benchmark. During January–June 2026, disbursements to the health sector amounted to K9.7 billion. Using sector-level fiscal tables, the revised health budget increased only modestly after the K53.95 million supplementary allocation, from K24.75 billion to K24.80 billion. The small increase means execution changed only marginally when assessed against the revised budget. Nonetheless, the level of execution remained below the proportional benchmark expected by the first half of the financial year under an even rate of budget execution.

The composition of health expenditure highlights a growing divergence between wage and operational spending. By the first half of 2026, releases towards wage expenditure had reached K6.9 billion (55.7% of the annual allocation), compared to only K2.8 billion (22.6%) for non-wage expenditure, as shown in Figure 3. Within the operational budget, releases for drugs, medical supplies and medical equipment for the period under review amounted to only K1.3 billion, representing 19.9% of the approved allocation. These expenditure patterns suggest that while the Government has largely protected investments in the health workforce, financing for operational inputs has lagged considerably behind. This imbalance has important implications for service delivery.

5. Ministry of Education (2026) Education Statistical Bulletin, GRZ
6. President Hichilema on the 4th of June Assented the Education (Amendment) Bill 2026: https://www.sh.gov.zm/president-hichilema-signs-landmark-education-and-pension-bills/

Figure 3: Health Sector Budget Disbursements, January–June 2026



Source: MOFNP Social Sector Fiscal Tables

The scaling back of donor funding for the health sector is now putting pressure on service delivery. Over the past years, donor funding has been heavily used to finance primary health services and disease prevention (NCDs). However, there has been a scaling back of external support from development partners, with funding declining from K3.2 billion in 2025 to K2.9 billion in 2026, while the domestic health budget has increased from K18.3 billion to K21.9 billion over the same period. The nominal increase in the domestic health budget is largely driven by wage expenditure rather than service delivery, as alluded to earlier.

The 2026 National Health Policy places increasing emphasis on strengthening domestic financing while recognising that external support will remain an important complement during the transition to a more sustainable health financing model.[7] The policy acknowledges that government budget appropriations, the National Health Insurance Scheme (NHIS), donor financing, and household contributions remain the principal sources of health financing. However, it explicitly commits to reducing dependence on donor funding by increasing domestic resource mobilisation through higher government budget allocations, expanding the National Health Insurance Fund, broadening health insurance coverage, and introducing innovative financing mechanisms. At the same time, the policy continues to recognise the important role of cooperating partners, the private sector, and public-private partnerships in supporting health system strengthening, infrastructure development, and service delivery. This approach reflects a gradual shift towards greater domestic ownership of the health sector while maintaining strategic external partnerships to advance Universal Health Coverage (UHC).

7 The National Health Policy 2026.pdf

Programme performance remained broadly positive during the reporting period. According to the 8NDP 2026Q1 progress report, 44.4% of pregnant women attended antenatal care (ANC) during their first trimester, exceeding the 40% target. Additionally, 77.4% of pregnant women received five (5) basic antenatal services at first ANC, including deworming, anaemia, syphilis, HIV testing and ITNs, against a target of 90%.[8] These indicators reflect continued progress in the delivery of essential maternal and child health services, although they represent programme performance rather than attributable health outcomes.

2.4. Water, Sanitation and Hygiene

Budget execution for the Water, Sanitation and Hygiene (WASH) sector improved during the first six months of 2026, although overall funding remained below the level required to achieve the sector's development targets. By the end of June 2026, Treasury had released K921.8 million, representing 38.7% of the approved annual allocation of K2.38 billion. This marks an improvement from the 18.6% execution recorded at the end of the first half of 2025 and remains the strongest pace of budget execution observed over the past five years. Despite this improvement, budget execution remained below the 50.0% proportional benchmark by the sixth month of the financial year.

The composition of physical delivery has been skewed more towards water access than towards a balanced mix of sanitation outputs. In the first quarter of 2026, the 8NDP Implementation Progress Report on water and sanitation shows that 150 boreholes were rehabilitated against a target of 141, benefiting more than 37,000 people; a further 138 boreholes and 73 water supply schemes were constructed; and sanitation and hygiene messaging reached 148,965 people against a target of 25,000. However, selected sanitation outputs fell short. Only 32 villages attained open-defecation-free (ODF) status against a target of 250, and 85.1% of commercial utilities met national drinking-water-quality standards against a target of full compliance. These outputs are interpreted alongside WASH coverage indicators from the Zambia Demographic Health Survey in 2018 and 2024. Detailed expenditure composition for the WASH sector is not available from the fiscal tables. Consequently, the analysis focuses on the composition of programme implementation outputs rather than expenditure categories.

Despite the gains observed during the first half of 2026, the sector continues to face funding constraints to meet overall water and sanitation goals. As the year progresses against a demanding fiscal calendar, the principal risk is not misallocation between water and sanitation spending but insufficient resourcing of both. Without deliberate action to meet the recommended budgetary allocations, the cumulative effect for the WASH sector would be to defer rather than advance the attainment of the goals of universal water access and sanitation coverage.

8. Ministry of Finance and National Planning (MoFNP) 2026, 2026 First Quarter Progress Report on the Implementation of the Eighth National Development Plan (8NDP): Cluster 2 Human and Social Development, presentation to the National Development Coordinating Committee (NDCC), May 2026, Lusaka.

Part III: Looking Ahead Amid Global and Domestic Uncertainties

Zambia's growth prospects have been revised downwards for 2026. Climate variability and extreme weather events, including El Niño-induced droughts, continue to pose significant risks to food production and energy security, particularly as hydropower accounts for over 80% of Zambia's electricity generation. For example, the 2023/24 drought had a severe impact, in which we saw around 9.8 million people, nearly half of the country's population, with 6 million people needing immediate assistance.[9] Further, as a net importer of petroleum products, the country faces risks from higher fuel import costs, increased transportation expenses, and rising production costs stemming from the conflict in the Middle East. Therefore, growth is projected to decline from 6.4% to 4.3% due to higher energy prices and supply chain disruptions, with inflation rising to 9% in 2026.[10]

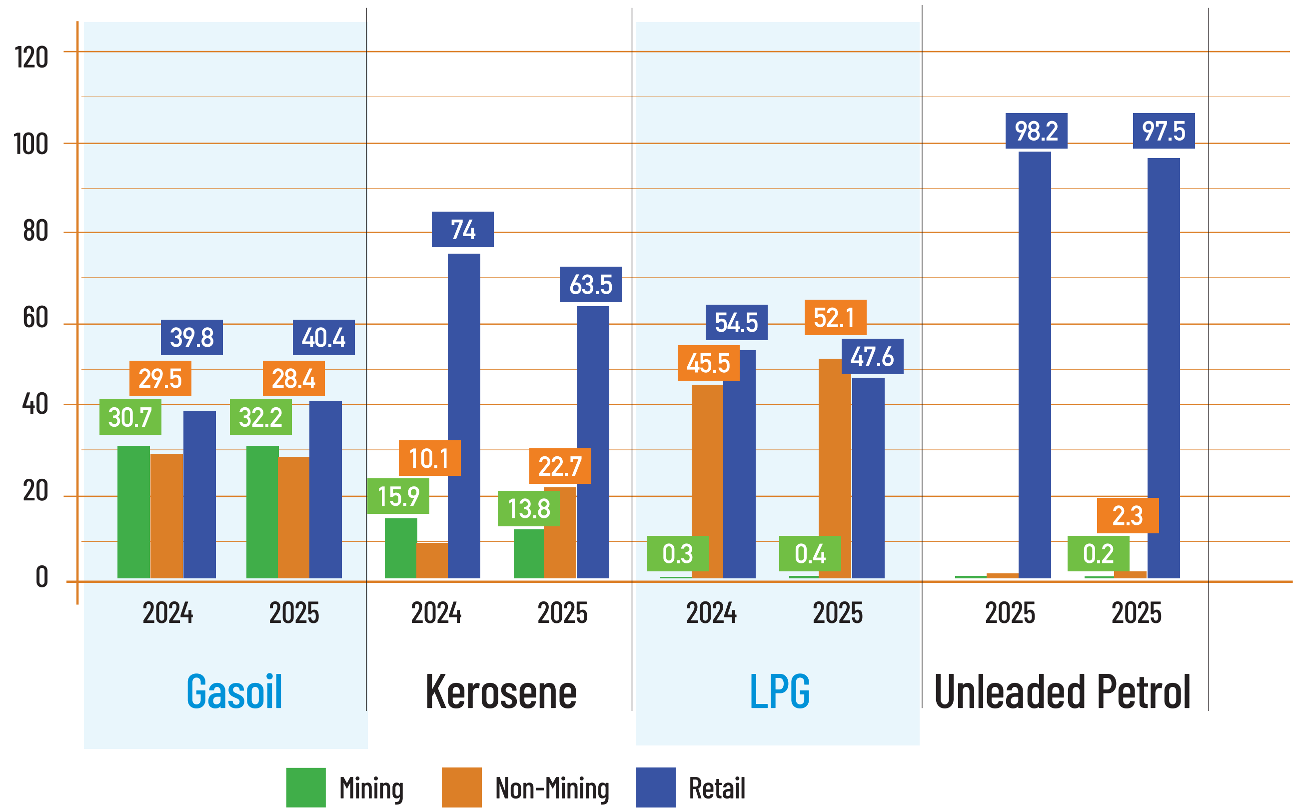
Zambia's fiscal outlook has become more challenging following the Government's decision to extend the temporary suspension of VAT and excise duty on imported petroleum products for a further 90 days, until the end of September 2026. While the extension is intended to cushion households and businesses from persistently high global oil prices arising from the conflict in the Middle East, it also prolongs the fiscal cost of the intervention, with the Government estimating cumulative foregone revenue of approximately US$200 million. The extension underscores the difficult policy trade-off between protecting consumers from higher fuel and transport costs in the short term and preserving fiscal space for priority public expenditure. With domestic revenue already performing below target, the continued tax relief is likely to further constrain resources available for health, education, nutrition, social protection, and water and sanitation unless offset by stronger performance in other revenue sources or expenditure reprioritisation. Moreover, the measure comes at a time when debt service obligations are gradually increasing following debt restructuring and climatic risks associated with the projected return of El Niño are expected to raise demand for food security and humanitarian spending. Should geopolitical tensions persist beyond September, the Government may face difficult fiscal choices between extending consumer support measures, restoring fuel taxes to safeguard revenues, and accommodating higher borrowing requirements, each with implications for macroeconomic stability and the financing of social sector service delivery. The experience also illustrates a broader challenge highlighted by the World Bank: although temporary fuel tax reductions can provide immediate relief from global energy price shocks, they often become difficult to reverse, resulting in prolonged revenue losses and increasing pressure on already constrained public finances.[11]

Petrol and diesel consumption patterns across the mining, non-mining, and retail sectors in 2024 and 2025 highlight clear differences in how fuel products are used within the economy, with important implications for households. For diesel, the mining sector's share of consumption increased marginally from 30.7% in 2024 to 31.2% in 2025, while the retail sector's share rose from 39.8% to 40.4% over the same period.

9. ACAPS, 2024. *Briefing Note: Drought in Zambia, 15 March 2024*. Available at: https://www.acaps.org
10. https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026
11. International Monetary Fund (2026) *Global Financial Stability Report: Global Financial Markets Confront the War in the Middle East and Amplification Risks*. Washington, DC: International Monetary Fund. Available at: IMF Global Financial Stability Report, April 2026

In contrast, petrol consumption is overwhelmingly concentrated in the retail sector, which accounted for 98.2% of unleaded petrol consumption in 2024 and 97.5% in 2025, as illustrated in Figure 4. This distinction is important because diesel price movements are transmitted through production, mining, transport, and distribution costs, while petrol price movements affect households more directly through retail fuel purchases and transport costs. For instance, pump prices increased between January and June 2026, with diesel and petrol following different price paths. Overall, the evidence shows that the retail sector accounts for the largest share of petrol consumption, while diesel use is more spread across productive and transport-related activities, underscoring the different channels through which fuel price shocks affect households and the wider economy.

Figure 4: Annual National Consumption of Petroleum Products by Economic Sector 2024-2025 (%)



Source: ERB 2025 Statistical Bulletin

The conflict in the Middle East is projected to worsen household welfare, particularly among poor and vulnerable households with children. Higher fuel prices place greater pressure on household incomes, particularly among poor and vulnerable households that spend a larger share of their income on essential goods and services. To estimate these welfare losses, this analysis uses the MicroZAMOD microsimulation model, calibrated with data from the 2022 Living Conditions Monitoring Survey (LCMS). Two scenarios are constructed: a baseline reflecting pre-shock conditions and a shock scenario in which the transport component of the CPI is adjusted to capture increases in domestic fuel prices. This approach assumes that transport is the primary transmission channel, allowing the model to trace how rising fuel costs feed into the prices of goods and services, ultimately affecting household consumption and poverty outcomes. The results suggest that the fuel price shock could increase the proportion of individuals living in extreme poverty from 48.6% to 51.8%, implying that more households would struggle to meet their basic needs. For households with children, rising living costs can reduce expenditure on nutritious food, healthcare, education, and other essential goods and services. Although the shock increases the number of people living in extreme poverty, it has little effect on overall inequality, suggesting that rising costs are felt across much of the income distribution.

On the positive side, the government has committed to negotiating an IMF successor programme after the August 2026 general elections. Zambia's engagement with the IMF has significantly restored macroeconomic stability. Inflation declined from 24.6% before the programme's commencement to 6.5% by June 2026, reflecting tighter macroeconomic policies, improved exchange-rate stability, and easing food-price pressures. Fiscal consolidation has been substantial, with the overall fiscal deficit projected to narrow from 14.5% of GDP before the programme to 2.1% of GDP in 2026, supported by fiscal reforms, expenditure rationalisation, and progress in debt restructuring. The ECF incorporated indicative social spending floors, which helped safeguard priority expenditure on health, education, and social protection during fiscal consolidation. The programme is expected to build on the stabilisation gains achieved to date while placing greater emphasis on growth and job creation. Building on these safeguards will remain important to ensure that macroeconomic stabilisation continues while protecting vulnerable households. Key reform priorities are expected to include enhancing domestic resource mobilisation, improving the business climate, supporting private-sector-led growth, and strengthening governance and public-sector accountability. The implementation of the Access to Information Act and the operationalisation of the State Audit Commission are expected to reinforce transparency and institutional effectiveness, while continued efforts to diversify the economy, address energy constraints, and strengthen resilience to climate and external shocks will be essential to sustaining inclusive, long-term growth.


Eating a variety of
LOCAL FOOD is good for your
health.
Avoid fast food. Discuss your

Part IV: A Parting Word on Moving from Assessment to Action

Zambia's performance during the first six months of 2026 demonstrates both the progress that can be achieved through sustained policy reforms and the challenges that remain in translating macroeconomic stability into broad-based development outcomes. Improvements in inflation, exchange rate stability, and international reserves, along with progress in debt restructuring, point to a strengthening macroeconomic environment. At the same time, the Government has largely sustained investments in key social sectors despite a constrained fiscal environment, reflecting continued commitment to protecting human development. However, fiscal pressures associated with rising debt service obligations, climate-related shocks, and an increasingly uncertain global environment continue to pose significant risks to the sustainability of these gains.

The evidence presented in this report suggests that the principal challenge is no longer maintaining budget allocations to the social sectors, but improving the pace and composition of budget execution. Budget execution remained uneven across sectors, with education recording the highest execution rate by the end of June 2026: 58.9% against the initial approved budget and 55.4% against the revised budget after the K1.93 billion supplementary allocation. Health releases were lower, at 39.1% against the original approved budget and 39.0% against the revised budget after the modest K53.95 million supplementary allocation, while water, sanitation and hygiene remained at 38.7%. Social protection programmes generally remained on track, even though disbursement is below 50% mid-year, this is explained mostly by the non-linear disbursement schedules of the Social Cash Transfer and Food Security Pack programmes. However, maintaining the real value of transfers and sustaining productive social protection investments will remain important as fiscal pressures persist.

Table 2: Summary Performance of the Social Sectors (K million)

Social Sector	Initial Approved Budget (K million)	Supplementary Budget (K million)	Revised Budget (K million)	Jan–Jun Releases (K million)	Execution against Initial Budget (%)	Execution against Revised Budget (%)
Social Cash Transfer	7,649.89	955.72	8,605.61	2,843.08	37.2%	33.0%
Food Security Pack	1,512.70	350.94	1,863.64	800.00	52.9%	42.9%
Public Welfare Assistance Scheme	7.00	0.00	7.00	0.00	0.0%	0.0%
Water, Sanitation and Hygiene (WASH)	2,381.39	0.00	2,381.39	921.76	38.7%	38.7%
Cash for Work (Drought Response)	1,032.18	0.00	1,032.18	347.53	33.7%	33.7%
Health Sector	24,746.32	53.95	24,800.27	9,672.94	39.1%	39.0%
Education Sector	30,590.69	1,925.64	32,516.33	18,021.18	58.9%	55.4%

Source: authors' own construction based on MOFNP 2026 Estimates of Revenue and Expenditure (Yellow Book); Supplementary Estimates of Expenditure No. 1 2026; and MOFNP Social Sector Fiscal Tables, updated August 2026.

The analysis further demonstrates that wage and non-wage expenditure has become an increasingly important determinant of service delivery performance. In education, more than 70% of the approved budget is allocated to wage expenditure, limiting the fiscal space available for classrooms, teaching and learning materials and other quality-enhancing inputs. Similarly, in the health sector, releases towards operational expenditure and medicines continue to lag behind the wage bill at a time when declining donor support is increasing reliance on domestic financing for essential service delivery inputs. In the WASH sector, the principal constraint remains the overall level and pace of financing, while nutrition financing continues to be driven predominantly by agriculture and food security interventions rather than direct nutrition programmes. These findings suggest that improvements in service delivery will depend less on increasing sector allocations alone and more on ensuring timely budget execution and an expenditure composition that supports frontline service delivery.

Policy Recommendations

Against this backdrop, the following policy actions are proposed to help translate current progress into sustainable improvements in economic welfare, human development, and shared prosperity.

(i) The Government should undertake a comprehensive review and rationalisation of tax exemptions to offset revenue losses associated with temporary fiscal measures while preserving fiscal sustainability. Reducing inefficient and poorly targeted tax expenditures would broaden the tax base, strengthen domestic revenue mobilisation, and create additional fiscal space to finance priority investments in health, education, social protection, and other productive sectors without increasing statutory tax rates or public borrowing. Any remaining tax incentives should be transparent, well targeted, and subject to regular cost-benefit evaluations.

(ii) As the Government considers a successor programme to the current IMF-supported arrangement, it should build on the macroeconomic stabilisation achieved to date while placing greater emphasis on inclusive growth, economic diversification, and resilience. The successor programme should incorporate stronger and more clearly defined social spending floors to protect financing for health, education, nutrition, and social protection, ensuring that children and vulnerable households are shielded from the adverse effects of fiscal adjustment and external shocks.

(iii) The Government should protect the non-wage component of public expenditure to strengthen frontline service delivery. Future expenditure reprioritisation should focus on improving the balance between personnel costs and operational expenditure within the social sectors. In education, this requires progressively expanding financing for classrooms, teaching and learning materials and school operations to complement continued investments in teachers. In the health sector, greater priority should be given to medicines, medical supplies, diagnostics and disease control programmes to ensure that investments in the health workforce translate into improved service delivery, particularly as donor financing continues to decline.

(iv) The Government should integrate supplementary budget implementation into regular budget reporting to strengthen transparency and accountability. While supplementary budgets are sometimes necessary to respond to emerging or unforeseen expenditure pressures, their implementation should be systematically reflected in in-year budget execution reports once approved. This would help ensure that supplementary budgets are not treated as stand-alone or ad hoc instruments but are incorporated into the broader budget monitoring system, improving public oversight and strengthening confidence in fiscal management.

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