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ANALYSIS OF THE 2026 MID-YEAR BUDGET AND ECONOMIC PERFORMANCE

Fiscal Governance Advocacy Brief

August 2026

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EXECUTIVE SUMMARY

At the beginning of 2026, Zambia experienced lower inflation, stronger international reserves and a sharp rebound in first-quarter real GDP. These gains strengthened the macroeconomic outlook, but they do not yet demonstrate that the recovery is broad-based or that the fiscal position is secure. Real GDP grew by 7.7% year-on-year in the first quarter, against the Budget's 6.4% annual target, while institutional full-year forecasts ranged from 4.3% to 5.5%.

The approved 2026 Budget totals K253.089 billion, financed by K206.452 billion in domestic revenue, K12.148 billion in grants and K34.490 billion in gross financing. In the first quarter, resources reached K59.86 billion and expenditure reached K59.77 billion. Tax revenue, non-tax revenue and grants fell below projection by 4.8%, 3.4% and 67.0%, respectively, while expenditure exceeded projection by 9.8%. Financing therefore compensated for weak recurrent revenue and grant performance, increasing pressure on budget credibility and programme ceilings.

The Government subsequently presented Supplementary Estimates No. 1 of 2026 amounting to K26.3 billion, or 10.4% of the original Budget. The package responded to public-service wages, agriculture, electoral and constitutional costs, domestic arrears, social protection, mining-sector measures and additional external debt service. It includes K7.5 billion in additional domestic financing. Added to the approved K21.62 billion domestic-borrowing plan, this produces an indicative K29.12 billion; about 3.15% of the Budget's implied GDP base, compared with the original 2.3% objective.

Treasury releases for January–June are estimated at K142.67 billion. However, in July 2026, the Treasury reported total releases of K152.05 billion for the first half of the year, indicating an apparent discrepancy of approximately K9.38 billion. Releases stood at K23.2 billion in January, K14.5 billion in February, an estimated K22.07 billion in March, K17.8 billion in April, K16.0 billion in May and K49.1 billion in June. Debt service and arrears accounted for K34.9 billion of the June release, so the surge did not represent a comparable expansion in routine service delivery or capital investment.

The supplementary package combines measures with different economic effects. Agriculture, social protection, arrears clearance, mining regulation and the Lobito Corridor can support food security, household welfare, supplier liquidity and future growth. By contrast, higher wages, electoral costs, debt service and domestic borrowing intensify recurrent and financing pressures. The Bank of Zambia's May 2026 Monetary Policy Report projected the fiscal deficit at 3.5% of GDP, above the original 2.1% target. This makes transparent implementation of the K10.0 billion expenditure rationalisation essential.

CSPR's assessment is that the Government must now consolidate macroeconomic stability through credible budget revisions, predictable social and capital releases, transparent debt and arrears management, equitable domestic revenue mobilisation and a single reconciled fiscal-data series. The central test for the second half of 2026 is whether the Government can meet additional obligations without further weakening growth, revenue, deficit and domestic-borrowing outcomes or displacing pro-poor expenditure.

BACKGROUND, PURPOSE AND METHOD

The Civil Society for Poverty Reduction (CSPR) is an anti-poverty civil-society network established in 2000. It advances pro-poor development through coordinated civil-society action, evidence-based policy engagement and community participation. CSPR's fiscal-governance work examines whether the Government mobilises, allocates and spends public resources in ways that reduce poverty and inequality, improve service delivery and strengthen accountability.

This brief assesses Zambia's 2026 mid-year budget and economic performance to support engagement with the Government, Parliament, oversight institutions, cooperating partners, civil society, the media and citizens. It draws on official budget, statistical, central-bank, parliamentary and Treasury information available by July 2026. Where a complete January–June fiscal outturn was unavailable, the analysis distinguishes first-quarter results from half-year Treasury releases and clearly identifies derived estimates.

Purpose

To produce an independent mid-year assessment of Zambia's 2026 budget implementation and macroeconomic performance that informs policy advocacy, strengthens fiscal transparency and helps protect pro-poor spending in the second half of the year.

Specific Objectives

- **Track and document** January–June 2026 budget disbursements and expenditure execution against the approved Budget and Supplementary Estimates.
- **Analyse macroeconomic developments** (real GDP, inflation, exchange rate, reserves) and their implications for revenue, debt service and household welfare.
- **Evaluate financing and fiscal-governance risks, including domestic borrowing, arrears dynamics and the composition of Treasury releases.**
- **Generate actionable recommendations for the Government, Parliament, cooperating partners and civil society to improve the predictability of social and capital releases, the transparency of debt and arrears management, and the protection of poverty-reducing programmes.**

Methodology

A mixed-methods review combining quantitative fiscal and macroeconomic analysis with qualitative validation and stakeholder consultation.

Primary official sources include Ministry of Finance and National Planning budget-execution summaries, Treasury release statements, National Assembly ministerial statements, Bank of Zambia monetary reports and Zambia Statistics Agency data on GDP and inflation. Supplementary sources include IMF, African Development Bank and World Bank macroeconomic updates, where relevant.

Scope: January–June 2026 (first-quarter fiscal reports, where available, and half-year Treasury release data). Where full half-year outturns are unavailable, the analysis distinguishes Q1 results from derived half-year estimates and clearly flags assumptions.

1. Data compilation and reconciliation: Collect published budget, Treasury and macroeconomic releases, and reconcile reported releases with programme-level allocations and the approved 2026 Budget and Supplementary Estimates No. 1.
2. Descriptive fiscal analysis: Calculate year-to-date variances for revenue components (income tax, VAT, customs, non-tax revenue and grants), expenditure categories (wages, transfers, operations, capital, debt service and arrears), and monthly Treasury release patterns.
3. Financing and debt assessment: Compare planned and indicative domestic borrowing after the supplementary package, and assess the composition and timing of financing inflows (domestic securities, external loans and IMF disbursements) and their implications for rollover risk and crowding out.
4. Macroeconomic cross-checking: Compare outturns and forecasts for GDP growth, inflation and reserves against budget targets and independent forecasts to identify downside risks to revenue and expenditure.
5. Qualitative validation: Convene a validation workshop with CSOs, government representatives and cooperating partners to test preliminary findings, verify data interpretations and refine recommendations (as set out in the concept note).

Transparency and limitations: The report clearly states data sources, estimation methods and any derived assumptions (for example, where March releases are estimated as residuals). Where official half-year outturns are incomplete, the analysis separates confirmed Q1 figures from derived half-year estimates and highlights the degree of uncertainty.

GLOBAL AND REGIONAL ECONOMIC CONTEXT

The IMF's April 2026 World Economic Outlook projected global growth of 3.1% in 2026 and 3.2% in 2027, assuming that the Middle East conflict remained limited in duration and scope. The IMF's July update later revised the path to 3.0% in 2026 and 3.4% in 2027. The World Bank's June 2026 Global Economic Prospects projected weaker growth of 2.5% in 2026 and 2.8% in 2027 after incorporating higher energy prices, tighter financial conditions and conflict-related disruption.[1]

These forecast differences matter for Zambia's public finances. Weaker global demand can reduce export earnings and raise risk premia, while energy-market disruption can increase the cost of fuel, fertiliser, transport and electricity. Together, these pressures can weaken revenue, raise inflation, affect the exchange rate and increase the domestic-currency cost of external debt service.

The African Development Bank projected African growth of 4.2% in 2026 and 4.4% in 2027 but expected Southern African growth to remain subdued at 2.1% in 2026. Zambia therefore operates in a region with uneven growth and constrained fiscal space, where climate shocks, electricity shortages and high debt-service burdens can transmit through trade and financing channels.[2]

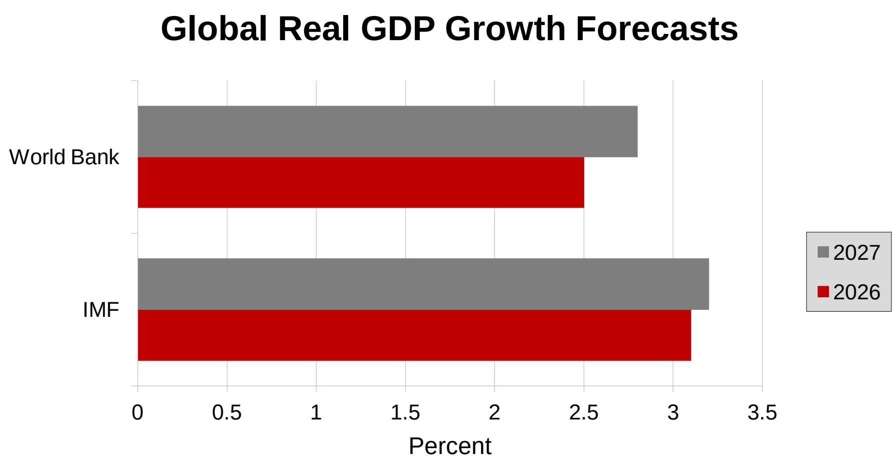

Figure 1: Global real GDP growth forecasts for 2026 and 2027.

Sources: IMF World Economic Outlook, April 2026, and World Bank Global Economic Prospects, June 2026.

[1] The global forecast discussion draws on International Monetary Fund, World Economic Outlook: Global Economy in the Shadow of War (April 2026)

[2] African Development Bank, African Economic Outlook 2026 (26 May 2026) <https://www.afdb.org

ZAMBIA'S GROWTH AND THE BREADTH OF RECOVERY

Real GDP growth slowed to 1.6% year-on-year in the fourth quarter of 2025, from 8.3% in the fourth quarter of 2024, before rebounding to 7.7% in the first quarter of 2026. Agriculture, forestry and fishing contributed 1.9 percentage points to growth; wholesale and retail trade contributed 0.9 percentage points; and information and communication contributed 0.8 percentage points. Zambia Statistics Agency measures these estimates at constant prices.[3]

The first-quarter rebound is encouraging, but it should not be extrapolated mechanically to the full year. The approved Budget targets 6.4% annual growth, while the IMF projected 4.3%, the Bank of Zambia 4.8%, the Ministry of Finance and National Planning 4.5% and the African Development Bank 5.0%. These lower forecasts signal downside risks to revenue, employment and household incomes if mining, electricity, agriculture or external demand underperform.[4]

The composition of growth matters as much as the headline rate. A recovery concentrated in agriculture, mining, trade and communications can support livelihoods and transactions, but it will generate stronger employment and fiscal gains only if productivity improvements spread to manufacturing, energy and other labour-absorbing sectors. Fiscal policy should therefore treat the quarterly rebound as an opportunity to address structural constraints, not as evidence that those constraints have disappeared.

[3] Zambia Statistics Agency, Annual Inflation Rate for March 2026 and Fourth-Quarter 2025 GDP Update (March 2026) < www.zamstats.gov.zm

[4] Ministry of Finance and National Planning, 2026 Budget Address (26 September 2025).

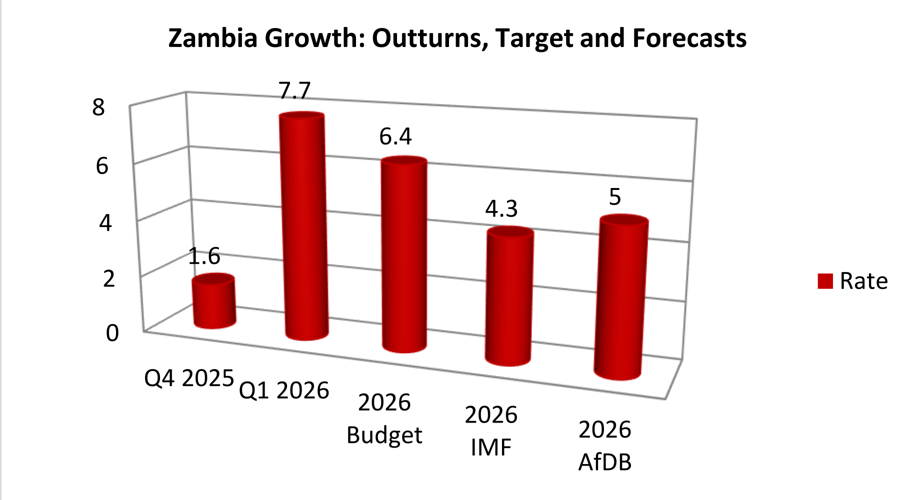

Figure 2: Zambia's quarterly growth outcomes and full-year 2026 target and forecasts.

Sources: Zambia Statistics Agency; 2026 Budget Address; IMF; Bank of Zambia; and African Development Bank.

Inflation, Reserves and the Exchange Rate

During the period under review, Zambia's annual inflation declined consistently from 9.4% in January to 6.5% in June 2026, placing it within the Bank of Zambia's 6–8% target band, as shown in Figure 3. Lower inflation supports household purchasing power and reduces pressure for compensating expenditure. The Bank of Zambia attributed much of the disinflation to maize-related base effects, the favourable harvest outlook and the appreciation of the kwacha. Food supply, fuel prices, electricity availability, exchange-rate movements and fiscal discipline will determine whether this improvement lasts.[5][6]

Gross international reserves reached a record US$6.5 billion in February 2026 and stood at US$6.2 billion at end-March, equivalent to 5.2 months of import cover. On 30 June 2026, the Bank of Zambia published average ZMW/US dollar rates of K18.0565 for buying and K18.1065 for selling. The reserve buffer and exchange-rate stability strengthen macroeconomic resilience, but they do not remove the budgetary cost of external debt service or exposure to imported energy shocks.[7]

[5] Zambia Statistics Agency, Annual Inflation, June 2025–June 2026 (25 June 2026)
[6] Zambia Statistics Agency, Annual Inflation, June 2025–June 2026 (25 June 2026)
[7] Bank of Zambia, Monetary Policy Report (May 2026) .

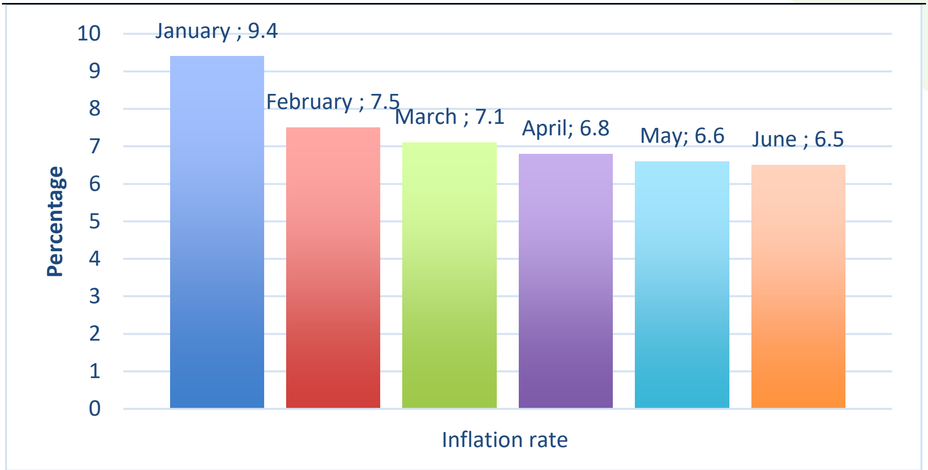

Figure 3: Zambia's annual inflation rate, January–June 2026.

Source: Zambia Statistics Agency.

ASSESSMENT OF THE 2026 MACROECONOMIC OBJECTIVES—MID-YEAR

The 2026 Budget sets six macroeconomic objectives:[8]

- • Attain real GDP growth of 6.4%;
- • Keep inflation within the 6–8% target band;
- • Maintain gross international reserves above four months of import cover;
- • Increase domestic revenue to at least 22.3% of GDP;
- • Reduce the fiscal deficit to 2.1% of GDP; and
- • Limit net domestic borrowing to 2.3% of GDP.

Real GDP growth of 6.4%

First-quarter growth of 7.7% provides momentum but does not guarantee achievement of the 6.4% annual target. The IMF, Ministry of Finance and National Planning, Bank of Zambia and African Development Bank projected full-year growth between 4.3% and 5.0%. The supplementary package supports agriculture, mining information and the Lobito Corridor, but its largest allocations mainly replenish earlier agriculture spending, meet wage costs, clear arrears and finance other obligations. In the short term, these measures are more likely to protect existing activity and liquidity than to create enough productive capacity to close the forecast gap.[9]

The Government should protect high-multiplier capital and maintenance expenditure while accelerating reforms that ease electricity, logistics and regulatory constraints. Borrowing-financed recurrent spending may support demand temporarily, but it cannot substitute for productivity growth and may raise future interest costs. The Government should publish revised baseline and downside growth scenarios and show how each would affect revenue and expenditure.

Inflation within the 6–8% target band

Inflation stood at 6.5% in June and therefore remained within the target band. Petroleum tax relief and agricultural support may have helped contain fuel, transport and food costs, while social transfers protected consumption among vulnerable households. However, the associated revenue loss and additional borrowing create a

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[8] Ministry of Finance and National Planning, 2026 Budget Address.
[9] International Monetary Fund, IMF Staff Concludes Visit to Zambia; Bank of Zambia, Monetary Policy Report; and African Development Bank, Zambia Economic Outlook.

fiscal trade-off. If domestic financing expands materially, higher interest costs and liquidity absorption could erode part of the disinflation benefit over time.[10]

The Government should disclose the monthly retail-price pass-through from petroleum tax relief, the final revenue foregone and the distribution of benefits across households and firms. Temporary tax relief is fiscally defensible when the Government measures its price and welfare effects, identifies its financing and implements a credible exit strategy.

Reserves above four months of import cover

At end-March, reserves covered 5.2 months of imports—1.2 months above the objective. However, reserve adequacy should reflect scheduled external debt service and essential import needs, not only the headline stock. The Government and the Bank of Zambia should publish a forward-looking reserve and external-debt-service profile, preserve exchange-rate flexibility and avoid fiscal measures that create unbudgeted foreign-exchange demand.[11]

Domestic revenue of at least 22.3% of GDP

The domestic-revenue objective remains at risk because first-quarter tax and non-tax revenue fell below projection, while VAT and customs recorded large component shortfalls. The supplementary plan assumes K1.4 billion in additional domestic revenue, equivalent to about 0.15% of the original implied GDP base. This amount is smaller than the Ministry’s K3.99 billion estimate of the revenue cost of the April–June petroleum tax relief.

The Government should protect the revenue base through compliance rather than abrupt rate increases. Stronger VAT refund governance, customs valuation, mining-revenue assurance, digital data matching, non-tax revenue collection and tax-expenditure reporting can raise revenue without shifting a disproportionate burden onto low-income households. The Government should publish a revised 2026 revenue-to-GDP projection and identify the measures expected to generate the additional K1.4 billion.

Fiscal deficit of 2.1% of GDP

The original 2.1% deficit objective is off track. First-quarter expenditure exceeded projection while core revenue aggregates underperformed, and the supplementary appropriation equals 10.4% of the original Budget. The Bank of Zambia’s May 2026 Monetary Policy Report projected the 2026 fiscal deficit at 3.5% of GDP, mainly because of conflict-related pressures and new financing needs. Expenditure rationalisation, grants, additional revenue and carry-over funds can contain the

[10] Zambia Statistics Agency, Annual Inflation, June 2025–June 2026.
[11] Bank of Zambia, Monetary Policy Report.

increase, but they do not restore the original target unless the Government identifies and implements sufficient offsets.[12]

It would therefore be fiscally incorrect to add the full K26.3 billion directly to the deficit because the financing package includes reallocations, carry-over funds, grants and additional revenue. It would also be incorrect to assume that these offsets fully neutralise the fiscal effect. The Government should publish a reconciled fiscal table showing the original Budget, supplementary changes, programme reductions, revised revenue and grants, financing, interest, arrears and the resulting deficit.

Net domestic borrowing limited to 2.3% of GDP

The K7.5 billion in additional domestic financing poses the clearest direct challenge to the original framework. On the original implied GDP base, the indicative domestic-borrowing amount rises from K21.62 billion, or 2.3% of GDP, to K29.12 billion, or about 3.15%. Additional government-securities issuance can raise interest and rollover risks and reduce the credit available to firms and households.[13]

Table 1 summarises the mid-year assessment of the six macroeconomic objectives.

Objective	Official target	Mid-year evidence	Assessment
Real GDP growth	6.4% annual growth.	Q1 growth reached 7.7%, but full-year forecasts ranged from 4.3% to 5.0%.	At risk. The rebound is strong, but the supplementary package mainly protects existing activity and clears obligations rather than immediately expanding productive capacity.
Inflation	Remain within the 6–8% target band.	Annual inflation stood at 6.5% in June 2026.	On track at mid-year. Food supply, the exchange rate, fuel prices, electricity conditions and fiscal discipline will determine whether the improvement lasts.
International reserves	Remain above four months of import cover.	Reserves covered 5.2 months of imports at end-March.	Above the floor, but external debt-service peaks and imported energy shocks could reduce the buffer.
Domestic revenue	Reach at least 22.3% of GDP.	Q1 tax and non-tax revenue were 4.8% and 3.4% below projection; the supplementary plan assumes K1.4 billion in additional domestic revenue.	At risk. VAT, customs and grant shortfalls require a revised revenue-to-GDP projection and clearly specified compliance measures.
Fiscal deficit	Reduce to 2.1% of GDP.	The Bank of Zambia projected a 3.5% deficit for 2026; Q1 expenditure exceeded projection and the supplementary appropriation totals K26.3 billion.	Off track. The Government must publish the programme-level K10.0 billion rationalisation and a reconciled revised fiscal table.
Net domestic borrowing	Limit to 2.3% of GDP.	The approved K21.62 billion plan rises to an indicative K29.12 billion after K7.5 billion in additional domestic financing.	At high risk. The indicative amount equals about 3.15% of the original implied GDP base, subject to the revised Annual Borrowing Plan.

[12] Bank of Zambia, Monetary Policy Report; and Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026.
[13] Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026.

2026 BUDGET PERFORMANCE ASSESSMENT

The 2025 outturn provides the baseline for assessing the 2026 Budget. In 2025, total revenue and grants reached K187.89 billion against a K185.5 billion target, exceeding the target by 1.3%. Domestic revenue amounted to K181.6 billion against K178.1 billion, while grants reached K6.21 billion against K7.35 billion and therefore fell 15.6% below target.[14]

In the same year, Government expenditure reached K223.7 billion against a K233.0 billion projection, an under-execution of about 4%. However, transfers reached only K31.0 billion against K38.15 billion, and social benefits reached K13.37 billion against K15.61 billion. The Social Cash Transfer Programme received K9.3 billion. These figures show that aggregate expenditure restraint partly reflected shortfalls in programmes that directly affect households and service delivery.

Debt-service payments totaled K58.1 billion, comprising K40.9 billion for domestic debt service and K17.2 billion for external debt service. The concentration in domestic debt service shows that fiscal sustainability depends not only on external debt restructuring but also on domestic interest costs, rollover requirements and the interaction between government borrowing and private-sector credit.

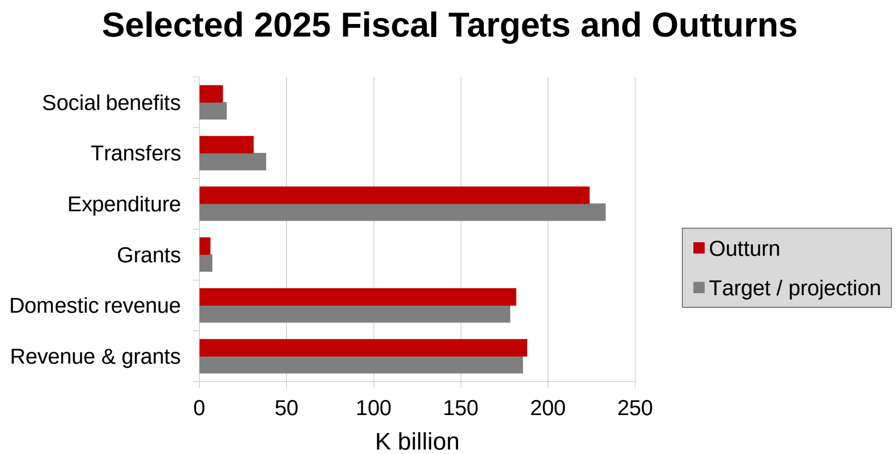

Figure 4: Selected 2025 fiscal targets and outturns.

Source: National Assembly of Zambia, Ministerial Statement on 2025 Budget Performance.

The fiscal deficit stood at 3.4% of GDP. Total public-sector debt reached US$28.9 billion at end-December 2025, comprising US$16.1 billion in central-government external

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[14] National Assembly of Zambia, Ministerial Statement on 2025 Budget Performance (19 February 2026) https://www.parliament.gov.zm

debt, US$1.4 billion in government-guaranteed external debt and US$11.4 billion in domestic debt.

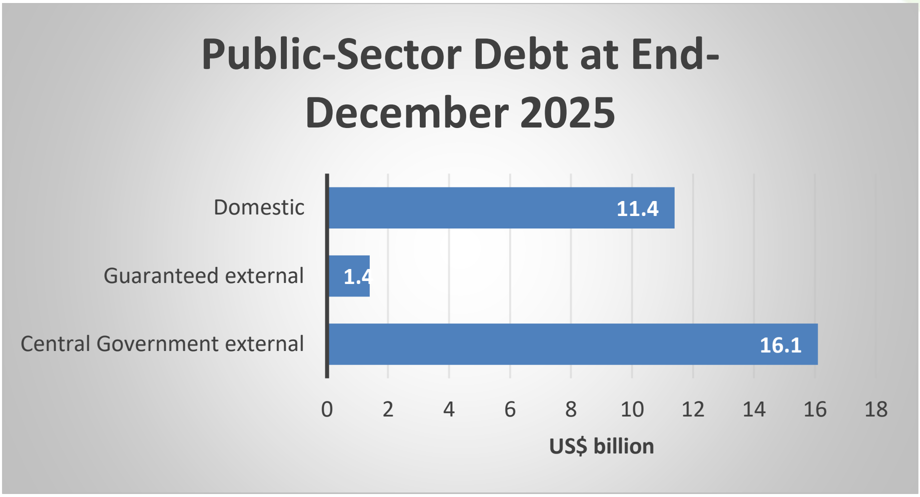
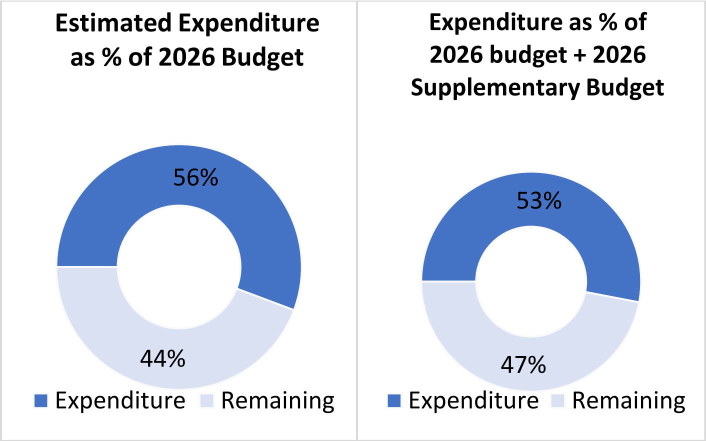


Figure 5: Composition of Zambia's public-sector debt at end-December 2025.

Source: National Assembly of Zambia, Ministerial Statement on 2025 Budget Performance.

The approved 2026 Budget totals K253.089 billion, equivalent to 27.4% of GDP. It projects K206.452 billion in domestic revenue, equal to 81.6% of the Budget; K12.148 billion in grants, equal to 4.8%; and K34.490 billion in gross financing, equal to 13.6%. As at June 2026, expenditure represented approximately 56% of the approved 2026 Budget. When expressed as a ratio of the combined approved Budget and the K26.3 billion Supplementary Budget—totalling K279.389 billion, expenditure represented approximately 51%.

Figure 6: Mid-Year Expenditure as a share of the approved and revised 2026 budget envelope (revised total K269.389 billion).



Gross financing comprises K21.620 billion in domestic financing and K12.870 billion in foreign financing. The revised combined 2026 budget envelope is K269.389 billion; expenditure of approximately K142.8 billion therefore represents about 53.0% of that envelope. This financing mix matters because revenue or grant shortfalls can force the Government to borrow more, compress expenditure or accumulate arrears. Domestic borrowing also carries commercial interest costs, refinancing risks and potential crowding-out effects on credit to firms and households.

The strong reliance on domestic revenue supports national ownership and fiscal sustainability, but it also requires realistic assumptions and efficient collection. The Government should strengthen compliance, digital administration, mining-revenue integrity, VAT administration, non-tax revenue collection and the taxation of high-value under-taxed activities, while avoiding measures that place a disproportionate burden on low-income households.

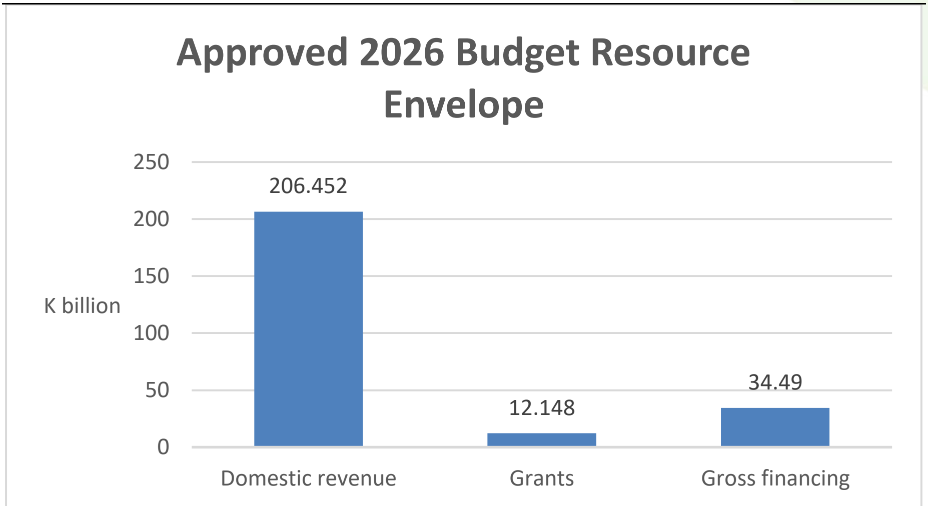


Figure 7: Composition of the approved 2026 Budget resource envelope.

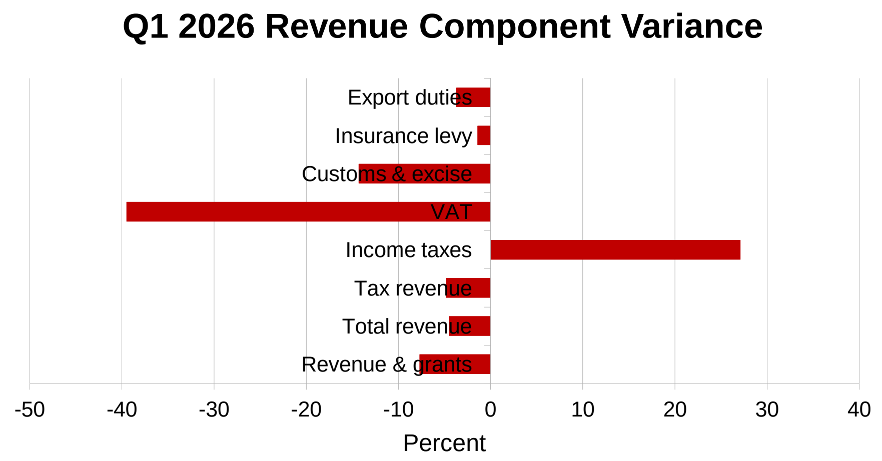
ANALYSIS OF REVENUE AND FINANCING AT MID-YEAR

First-quarter resources totaled K59.86 billion. Financing inflows pushed total resources above the quarterly projection even **though tax revenue, non-tax revenue and grants fell below projection by 4.8%, 3.4% and 67.0%, respectively. The aggregate result therefore depended partly on financing rather than on recurrent revenue and grants.**[15]

The revenue composition shows why the response must address specific weaknesses rather than simply call for higher collection**. Income taxes exceeded projection by 27.1%, creating a K4.37 billion positive variance. VAT fell 39.5% below projection, creating a K5.13 billion shortfall, while customs and excise duties fell 14.3% below projection, creating a K959 million shortfall. I**nsurance-premium levy and export duties also recorded modest shortfalls.

This divergence exposes concentration risk in the revenue base. Based on the reported Q1 percentage and kwacha variances, approximate actual collections were K20.49 billion for income taxes (K4.37 billion above a K16.12 billion projection), K7.86 billion for VAT (K5.13 billion below a K12.99 billion projection), and K5.75 billion for customs and excise (K0.96 billion below a K6.71 billion projection). Income-tax strength, including mining-related receipts, masked weakness in consumption and import taxes. The pattern means the Government should prioritise VAT compliance and refund governance, customs valuation, mining-revenue assurance and credible tax-expenditure reporting; otherwise a narrow income-tax base leaves revenue exposed to copper prices, mining profitability and provisional-tax timing.

[15] Ministry of Finance and National Planning, Q1 2026 Budget and Economic Performance Summary (2026).



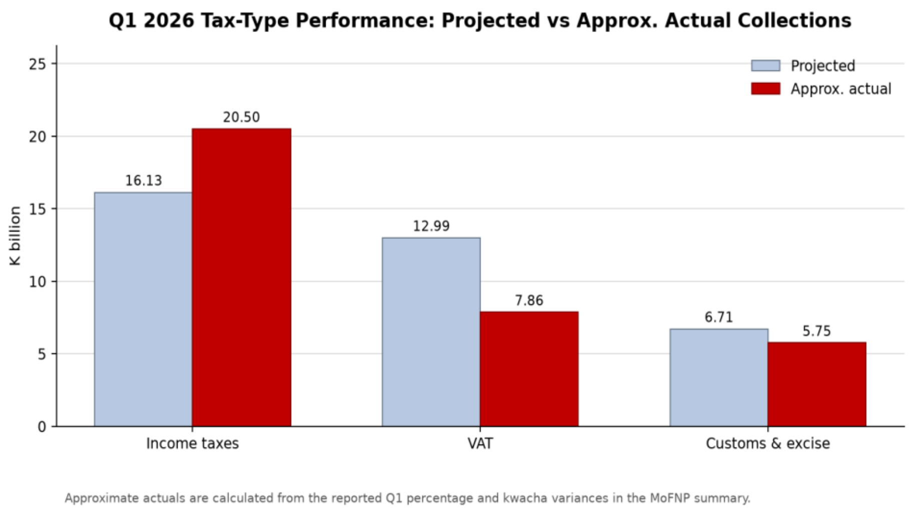


Figure 8A: Q1 2026 tax-type performance—projected versus approximate actual collections (K billion; authors' calculations from reported MoFNP variances).

Figure 8: First-quarter 2026 revenue-component performance relative to projection.

Source: Ministry of Finance and National Planning, Q1 2026 Budget and Economic Performance Summary.

EXPENDITURE EXECUTION AND PRIORITY PROGRAMMES

First-quarter expenditure totaled K59.77 billion, 9.8% above projection. Reported priority spending included K7.87 billion for the Farmer Input Support Programme, K2.10 billion for the Food Reserve Agency, K1.60 billion for capital expenditure, K1.50 billion for roads, K1.44 billion for the Social Cash Transfer Programme, K696.14 million for the Constituency Development Fund and K646.84 million for Free Education.

The aggregate result shows that the Government did not constrain total first-quarter execution, but programme-level performance remains decisive. A high aggregate release can coexist with delayed procurement, uneven transfers, arrears and under-execution in health, education, water, sanitation and social protection. The Government should therefore report both releases and verified programme outputs.

The Government temporarily suspended excise duty on fuel and zero-rated VAT on petroleum products from April to June. The Ministry estimated the revenue cost at K3.99 billion, or about K1.3 billion per month. The immediate benefit was lower pump prices, but the distributional effect was not automatically progressive: households and firms that purchase fuel directly captured the clearest savings, while households without vehicles benefited only if lower fuel costs passed through to public transport, food and other prices. Weak pass-through, supply disruptions or exchange-rate movements could dilute those gains. The K3.99 billion revenue cost also created an opportunity cost because the forgone resources could otherwise support social cash transfers, school grants, health supplies or capital maintenance. The Government should publish the final revenue cost, retail-price pass-through, beneficiary incidence and financing treatment before extending the relief.[16]

[16] Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026 (30 April 2026) https://www.mofnp.gov.zm/?wpdmpro=supplementary-budget-no-1-of-2026

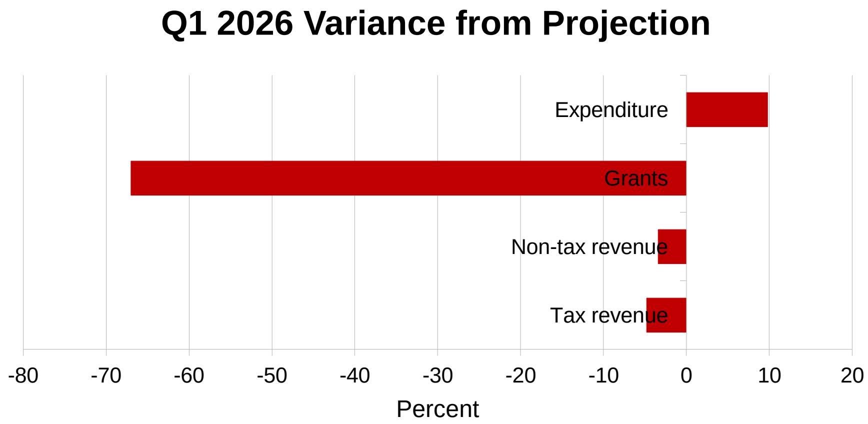


Figure 9: First-quarter 2026 aggregate performance relative to projection.

Source: Ministry of Finance and National Planning, Q1 2026 Budget and Economic Performance Summary.

SUPPLEMENTARY BUDGET AND IN-YEAR PRESSURES

The Government presented Supplementary Estimates No. 1 of 2026 amounting to K26.3 billion, equivalent to 10.4% of the original K253.089 billion Budget. After incorporating the supplementary budget, the revised 2026 budget envelope is K269.389 billion, equivalent to approximately 29.2% of the nominal GDP base implied by the original Budget. Its cash and deficit effects are smaller only where expenditure rationalisation, carry-over funds and other disclosed offsets are genuine, available and implemented.[17]

The package responds to maize purchases, a higher-than-planned public-service wage settlement, Middle East-related oil-price effects and petroleum tax relief, constitutional and electoral costs, FISP and social-programme arrears, mining-sector measures and additional external debt service. These pressures have different economic effects: some protect welfare or productive capacity; some clear past obligations; some create a permanent recurrent baseline; and others meet statutory or financing commitments. The Government allocated K7.4 billion to agriculture, K7.5 billion under Head 21—Loans and Investments, K1.3066 billion to Community Development and Social Services, K1.1 billion to the Electoral Commission, K1.0905 billion to Mines and Minerals Development and K811.9 million to additional external debt service.

These top-level allocations total approximately K19.21 billion, **leaving about K7.09 billion of the K26.3 billion package aggregated in the summary statemen**t. Within Head 21, the Government identified K2.9 billion for the wage settlement, K2.1 billion for domestic arrears, K390 million for the Lobito Corridor and K610 million for the Contingency Vote. These components total K6.0 billion, leaving K1.5 billion of the Head 21 allocation aggregated. The wage provision supports public servants and household demand, but it also raises the recurrent baseline unless the Government absorbs it through establishment control and future ceilings. Arrears clearance can restore supplier liquidity, employment and tax payments, but only stronger commitment controls will prevent new arrears.

The K7.4 billion agriculture allocation can support food security, farm incomes and inflation control by replenishing resources used for maize purchases and clearing FISP agro-dealer arrears. However, its composition shows that current resources are also regularising obligations created by earlier procurement and policy decisions. The Government should publish the net effect on FRA and FISP baselines, procurement commitments and payment schedules so that food-security policy does not generate recurring quasi-fiscal liabilities.

The K1.3066 billion allocation for the Social Cash Transfer and Food Security Pack has a direct poverty-reduction rationale and can stabilise consumption among vulnerable

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[17] Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026.

households. Part of the allocation, however, clears arrears from accelerated implementation in 2024. The Government should finance social protection through credible annual ceilings and predictable releases rather than supplementary catch-up funding, because payment uncertainty shifts fiscal-adjustment costs onto households least able to absorb them.

The K1.0905 billion for mining regulation and the aerial geophysical survey, together with K390 million for the Lobito Corridor, may expand the medium-term growth and revenue base. Fiscal returns will depend on timely implementation, transparent procurement, investor response and the conversion of geological information and transport connectivity into production, exports, jobs and taxable profits. These allocations can strengthen future growth, but they cannot by themselves offset immediate downside risks to the 2026 forecast.

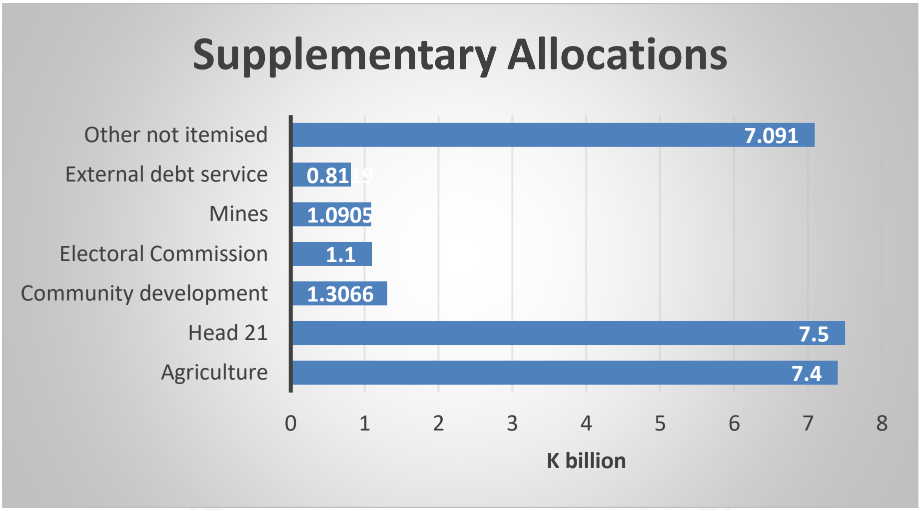


Figure 10: Top-level allocations disclosed in Supplementary Estimates No. 1 of 2026.

Source: Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026.

Supplementary Budget Financing and the Domestic-Borrowing Objective

The Government proposed to finance the supplementary budget through K2.1 billion in additional project grants, K1.4 billion in additional domestic revenue, K2.4 billion in 2025 carry-over funds, K10.0 billion in expenditure rationalisation, US$95 million in delayed IMF Extended Credit Facility resources, US$15 million from an African Development

Bank loan for the Lobito Corridor and K7.5 billion in additional domestic financing through government securities.[18]

The approved 2026 Budget planned K21.62 billion in domestic borrowing, equivalent to 2.3% of GDP. Adding K7.5 billion produces an indicative K29.12 billion, or approximately 3.15% of the original implied GDP base. This is about 0.85 percentage points above the 2026 macroeconomic objective and represents a 34.7% increase in the planned domestic-borrowing amount, subject to the revised Annual Borrowing Plan.

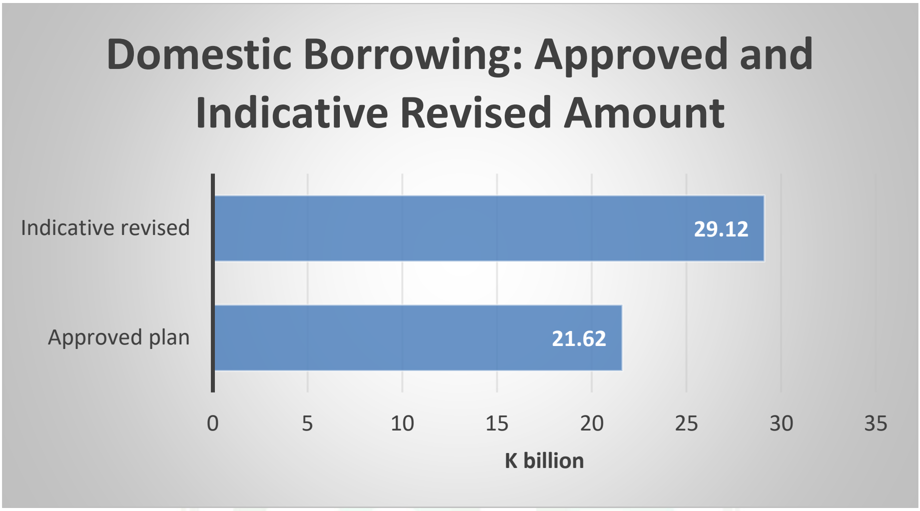


Figure 11: Approved domestic borrowing and the indicative amount after additional supplementary financing.

Sources: 2026 Budget Address and Supplementary Budget No. 1 of 2026. The indicative revised amount remains subject to the revised Annual Borrowing Plan.

A supplementary appropriation does not automatically demonstrate fiscal indiscipline; genuine shocks and legally authorised priorities can arise during implementation. The governance test is whether Parliament and the public can trace the adjustment from the approved Budget to revised ceilings, financing, debt and outputs. **The K10.0 billion rationalisation is central to that test as there was no details given.** However, the Bank of Zambia's May 2026 report projected the 2026 fiscal deficit at 3.5% of GDP, already above the original 2.1% target. Unless the Government discloses the affected programmes and service-delivery outputs, rationalisation may conceal expenditure compression rather than demonstrate strategic reprioritisation.

[18] Ministry of Finance and National Planning, Supplementary Budget No. 1 of 2026.

ANALYSIS OF JANUARY–JUNE 2026 TREASURY DISBURSEMENT TRENDS

Monthly headline releases

The Treasury release profile changed markedly during the first half of 2026. Releases totaled K23.2 billion in January, K14.5 billion in February, an estimated K22.07 billion in March, K17.8 billion in April, K16.0 billion in May and K49.1 billion in June. The six-month total is therefore estimated at K142.67 billion, averaging K23.78 billion per month. Excluding June, the monthly average falls to K18.71 billion, showing how strongly the June debt operation shaped the half-year profile.[19]

January releases included K7.4 billion for debt service and arrears and K7.7 billion for transfers and social benefits, including Food Reserve Agency obligations, school grants, Constituency Development Fund releases and Cash for Work arrears.

February releases then moderated to K14.5 billion, comprising K3.7 billion for debt service, K4.4 billion for wages, K3.8 billion for transfers and social benefits, K1.9 billion for operations and K737.1 million for capital expenditure. The estimated March release rebounded to K22.07 billion which was broken down as; K6.6 billion allocated for sector salaries including health, education, and security.K6.3 billion channeled toward key national and social protection priorities, K4.5 billion dedicated to general administrative and operational requirements, K2.8 billion for domestic debt, K429.5 million for external debt, and K589.6 million to dismantle domestic arrears. K767.5 million directed toward infrastructure and development.

April and May releases settled into a narrower range of K17.8 billion and K16.0 billion. April included K6.6 billion for wages, K4.0 billion for transfers and social benefits, K3.1 billion for operations, K2.4 billion for debt service and arrears and K1.7 billion for capital expenditure.

May included K4.7 billion for debt service and arrears, K3.7 billion for wages, K3.6 billion for transfers and social benefits, K2.2 billion for operations and K1.8 billion for capital expenditure.

June releases surged to K49.1 billion. Debt service and arrears absorbed K34.9 billion, or approximately 71.1% of the total, while wages received K5.5 billion, transfers and social benefits K4.2 billion, operations K3.0 billion and capital expenditure K1.4 billion. The debt component covered external and domestic debt service and domestic arrears, including the Bond B buyback.

[19] Ministry of Finance and National Planning, Update on January 2026 Budget Releases (2026)

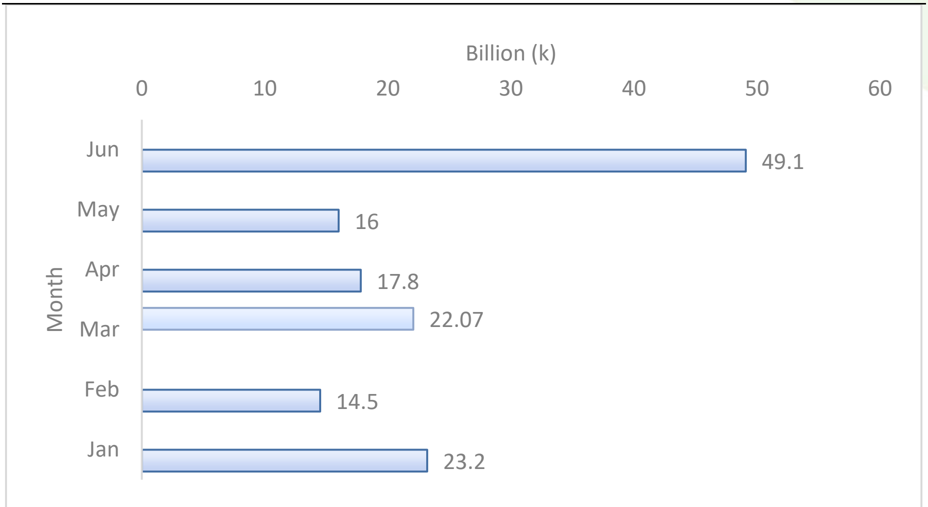


Figure 12: Monthly Treasury releases, January–June 2026.

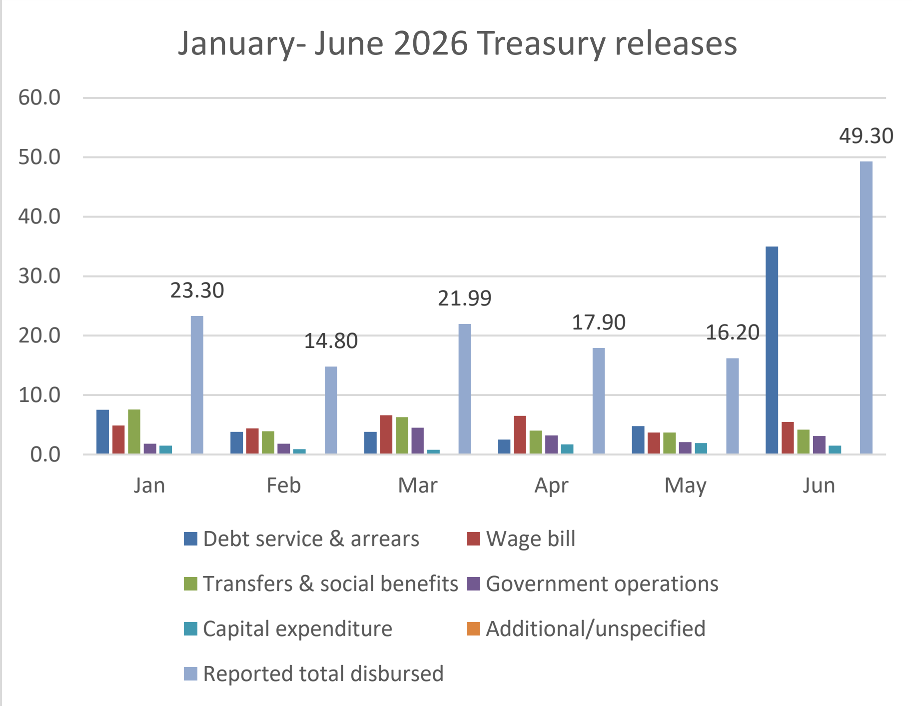
Sources: MoFNP Q1 summary and January release; attributed Ministry statements for February, April, May and June. March is a derived residual, not a reported standalone release.

ANALYSIS OF THE HALF-YEAR TREASURY RELEASE COMPOSITION AND FISCAL IMPLICATIONS

The monthly trend carries two fiscal implications. First, **lumpy debt service and arrears drive much of the volatility in headline releases**. More than seven of every ten kwacha released in June went to debt and arrears, so the June spike did not translate into an equivalent increase in services or capital spending. Second, wages, transfers, operations and capital expenditure moved within narrower ranges, which means that programme delivery depends on the cash left after the Government meets mandatory obligations.

Debt-management operations can improve fiscal credibility when they reduce refinancing risk, clear arrears or strengthen the debt profile. They can also create short-term cash-flow pressure and make aggregate release figures appear stronger than the resources available for services. The Government should publish a monthly reconciliation that separates routine programme releases, debt service, debt buybacks, arrears clearance, financing transactions and actual cash expenditure.

Volatile releases also disrupt procurement and commitment control. Ministries, provinces, districts and spending agencies cannot implement annual plans efficiently when social and capital releases remain uncertain or arrive late in a quarter. Predictable minimum release floors for social protection, school grants, essential medicines, water and sanitation, agriculture support and capital maintenance would protect service delivery while preserving aggregate expenditure control.



Source: Ministry of Finance and National Planning, 2026 Budget Address.

FISCAL GOVERNANCE AND POVERTY IMPLICATIONS

Budget credibility and transparency

Revenue shortfalls, expenditure overruns and a large supplementary appropriation weaken budget credibility when the Government does not publish a complete account of offsets, revised ceilings and financing costs. The Government can restore credibility by publishing approved and revised estimates, quarterly outturns, commitment data and programme-level explanations of material variances.

Fragmented monthly statements and inconsistent terminology also constrain fiscal transparency. Revenue, grants, financing, releases, expenditure, arrears and debt service are related but distinct. A single fiscal-performance dataset, supported by a reconciliation statement, would reduce misinterpretation and strengthen parliamentary, civil-society and citizen oversight.

Revenue mobilisation and financing risk

First-quarter underperformance in tax revenue, non-tax revenue and grants increased reliance on financing. Sustainable domestic revenue mobilisation should strengthen digital compliance, VAT administration and refund governance, mining-revenue assurance, non-tax revenue collection and the taxation of high-value under-taxed assets and activities. The Government should transparently cost and evaluate temporary tax relief, including petroleum price cushioning measures and mining-sector incentives, so that it does not quietly displace social and development spending.

Additional domestic borrowing can support orderly implementation when revenue arrives late, but persistent reliance on government securities can raise interest costs and refinancing risk and restrict private-sector credit. The financing strategy should therefore be tested against debt sustainability, the maturity profile, domestic-market absorption and the Budget's poverty-reduction objectives.

Social-sector and distributional effects

Macroeconomic stability reduces poverty only when it protects household welfare and improves service quality. Debt service, wages and arrears are legitimate obligations, but their cash demands can crowd out transfers, essential supplies, maintenance and capital investment. Aggregate releases should therefore show whether schools, health facilities, local authorities and social-protection programmes receive predictable funding and convert it into services.

The social effect of fiscal adjustment depends on timing, composition, geographic distribution, beneficiary coverage and expenditure quality—not only on the total amount spent. The Government should apply poverty and distributional analysis when rationalising expenditure, designing tax measures and approving supplementary allocations, especially where households face food, energy and climate shocks.

CONCLUSION

Zambia reached mid-2026 with important macroeconomic gains: inflation returned to the target band, reserves strengthened and first-quarter real GDP growth rebounded. The fiscal position, however, remained exposed to weak revenue components, external shocks, agriculture and wage pressures, domestic financing costs and the heavy cash demands of debt service and arrears.

The K26.3 billion supplementary budget and the composition of June Treasury releases show why fiscal governance is central to sustaining stability. The package equals 10.4% of the original Budget, while the K7.5 billion in additional domestic financing raises indicative domestic borrowing to K29.12 billion, or about 3.15% of the original implied GDP base. The Bank of Zambia's 3.5% deficit projection confirms that the original 2.1% deficit target is off track, while the 2.3% domestic-borrowing objective also faces material risk.

The January–June release profile also shows why headline releases cannot serve as a simple proxy for development expenditure. The June peak mainly reflected debt management. The supplementary package can support food security, social protection, supplier liquidity, mining governance and infrastructure, but recurrent costs, debt service and additional borrowing may weaken these gains if they crowd out productive and pro-poor expenditure.

A credible second half of 2026 requires a reconciled fiscal framework rather than isolated expenditure announcements. The Government should account for every supplementary allocation and financing source, protect priority social and capital releases and report progress against all six macroeconomic objectives. Fiscal prudence should be judged by the transparency, quality and sustainability of the adjustment—not simply by whether the Treasury can meet immediate cash obligations.

RECOMMENDATIONS

- 1. Publish a reconciled revised fiscal framework by 30 September 2026, showing the original Budget, the K26.3 billion supplementary allocation, the K10.0 billion rationalisation, revised revenue and grants, financing, interest, arrears and the resulting deficit.

- 2. Publish the TADAT assessment report and an implementation timetable for tax-administration reforms.

- 3. Protect pro-poor and high-return spending during rationalisation by ring-fencing social cash transfers, the Food Security Pack, school grants, essential medicines, climate-resilient agriculture, critical maintenance and high-return capital projects; disclose any reduction and recovery plan.

- 4. Strengthen equitable revenue mobilisation through VAT compliance and refund governance, customs valuation, mining-revenue assurance, digital data matching, non-tax collection and tax-expenditure reporting; publish the cost and distributional impact of petroleum relief.

- 5. Align borrowing, debt service and arrears clearance with the revised fiscal path by publishing a forward calendar, new-securities maturity and cost, and the cash and debt-stock effects of the Bond B buyback; prevent new arrears through stronger commitment controls.

- 6. Make social-protection releases predictable: publish a quarterly release calendar and minimum monthly or quarterly floors for the Social Cash Transfer, Food Security Pack, school grants and essential medicines, together with agriculture support, local government, CDF and critical capital maintenance; disclose delays and dated catch-up plans.

- 7. Institutionalise integrated fiscal reporting by publishing a quarterly dataset that separates revenue, grants, financing, releases, actual expenditure, debt service, debt and arrears clearance, with quarterly parliamentary hearings and independent follow-up.

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