



ZAMBIA RESEARCH NOTE [REV]

The 2019 Budget - a fiscal catastrophe

The 2019 budget presented on Friday represents a monumental disaster: the numbers simply do not add up, which could well provide the ignition for a major conflagration.

1) At Kw 86.8 billion, **Total spending** is set to grow by 21% in nominal terms¹, a figure that flies in the face of the fiscal consolidation mantra² that Mwanakatwe has been invoking so earnestly since February. Clearly the **fiscal deficit target of 6.5% is as much of a pipe-dream** as was the -6.8% goal set for 2018.

2) Even more problematical is the question of how these generous outlays are to be funded. Total **domestic revenues** are optimistically projected at Kw 56.09 billion, which still leaves a **financing requirement** of Kw 28.8 billion, **equivalent to 9.6% of GDP**.

Of this amount, **the Minister expects to raise offshore** the sum of Kw 24.6 billion³, equivalent to **8.2% of GDP**. This is clearly a non-starter, given Zambia's sovereign rating of Caa1.

3) Several of the **individual revenue items strain credulity**, given the palpable slow-down in the economy:

- **Income tax** receipts are projected to **increase at more than 5x times GDP's** expected growth rate;
- **VAT** proceeds are shown **increasing by 20.15%**, despite Mwanakatwe's announcement that, "To this end, **Government proposes to abolish the Value Added Tax** and replace it with a simpler and non-refundable Sales Tax."⁴
- The expectation of a 39% surge in **Mining royalties** seems highly optimistic, since **miners are likely to challenge the 1.5% rate** increase and/or scale back production⁵.

4) The expenditure side of the ledger is riddled with omissions, inconsistencies and discrepancies, viz.:

- The allocation for **General public services**, the largest single category, has been increased by 16% to Kw 31.3 billion. However, the individual items listed sum to a total of only 80% of this amount, which **leaves unexplained the attribution of Kw 25.2 billion**.
- The problem arises – even more egregiously - with the categories of **Economic affairs** and **Health** for which the **itemized breakdowns explain a risible 52% and 12%, respectively**.
- Meanwhile, the appropriations for **Defence** and **Public order** have been hiked by 45% and 34%, respectively – with **no breakdown for either category, and no explanation**⁶.

5) On the vexed question of the government's **Payment arrears**, the budget provides **no guidance whatsoever**. Although the document lists among the government's key macroeconomic objectives "*Prioritising the dismantling of arrears and curtail accumulation*", **not a single ngwee has been allocated to the task**.

¹ Equivalent to 12.5% in real terms.

² The tiresome message is repeated in Para. 124 of the Minister's address.

³ This is almost 2.75x the amount that Zambia had hoped to raise offshore during FY 2018.

⁴ See 2019 Budget Speech, Para. 194.

⁵ It is worth recalling the lessons of 2015, when Zambia abruptly hiked the royalty rate.

⁶ Apart from the vague mention, in Para. 169, to their "*significant role in safeguarding strategic installations, economic investments and maintaining peace within the country.*"

Nor should we ignore the fact that, by the Government's own admission, the **stock of arrears increased⁷ by almost 10% to Kw 13.9 billion** during the first three months of the year.

⁷ And this despite the fact that "dismantling arrears" has been identified as a priority in every Budget since 2016.

Expenditure

Item (Kw millions)	2018	2019	Δ	% GDP
General public services	26,898.03	31,277.06	16.28%	10.41%
Domestic debt payment	6,972.26	14,947.08	114.38%	4.98%
External debt payment	7,268.80	8,626.28	18.68%	2.87%
Public affairs & Summit	235.30	176.47	-25.00%	0.06%
Constituency Dev. Fund	218.40	249.80	14.38%	0.08%
Local Govt Eq. Fund	1,078.43	1,164.56	7.99%	0.39%
Sinking fund				
Defence	3,499.22	5,072.43	44.96%	1.69%
Public order & Safety	2,144.57	2,865.51	33.62%	0.95%
Economic Affairs	17,268.33	20,661.09	19.65%	6.88%
Farmer Input Support	1,785.00	1,428.00	-20.00%	
Strategic Food Reserve	1,051.20	672.00	-36.07%	0.22%
Rural electrification fund	251.33	182.40	-27.43%	0.06%
Roads Infrastructure	8,660.31	6,501.67	-24.93%	2.16%
Arrears settlement	441.00			
Energy power infrastructure		415.76	N.A.	
International airports	940.50	1,592.85	69.36%	0.53%
Environmental Protection	961.36	875.10	-8.97%	0.29%
Housing & Community	816.28	2,238.70	174.26%	0.75%
Water supply & Sanitation	564.51	1,984.79	251.60%	0.66%
Markets & bus stations	17.82	10.81	-39.34%	0.00%
Health	6,781.56	8,069.13	18.99%	2.69%
Drugs & Med. Supplies	1,200.23	900.08	-25.01%	0.30%
Med. Infrastructure & equipt	51.56	620.19	1102.85%	0.21%
Hospital operations	274.58	725.88	164.36%	0.24%
Recreation, culture & religion	461.18	297.27	-35.54%	0.10%
Education	11,681.84	13,274.55	13.63%	4.42%
Schools infrastructure	740.06	258.81	-65.03%	0.09%
Tertiary infrastructure	321.87	601.65	86.92%	0.20%
Student loans scheme	557.00	557.00	0.00%	0.19%
School feeding prgm				
Skills develop. Fund	176.70	163.99	-7.19%	0.05%
Social Protection	2,301.26	2,187.06	-4.96%	0.73%
Public service pension fund	1,060.55	1,060.55	0.00%	0.35%
Social cash transfer	721.18	699.49	-3.01%	0.23%
Food security pack	140.00		-100.00%	
Grand Total	71,662.39	86,817.90	21.15%	28.90%

6) Despite the accumulating evidence - highlighted by the performance of the currency⁸ - **the patient seems oblivious of the gravity of the situation** and in no hurry to seek the the attention that is so urgently required. Indeed, the indications are that it will require the equivalent of a cardio-vascular event⁹ to alter this stance.

But by then, **it may be too late to prevent a disorderly default on Zambia's external debt.**

⁸ Since June 2018, the Kwacha has depreciated by 18.87%.

⁹ Dependent on imported petroleum products, Zambia is now rumoured to be experiencing difficulty obtaining the letters of credit required by fuel exporters.

Revenue

Item (Kw millions)	2018	2019	Δ	% GDP
Total tax revenues	40,805.77	46,956.57	15.07%	15.63%
Income tax	20,337.60	23,291.35	14.52%	7.75%
Company income tax	6,115.94	7,221.61	18.08%	2.40%
PAYE	10,264.02	11,421.00	11.27%	3.80%
Withholding, etc.	3,957.64	4,648.74	17.46%	1.55%
Value added tax	12,369.47	14,862.48	20.15%	4.95%
Customs & Excise	8,098.70	8,410.79	3.85%	2.80%
Customs duty	3,302.25	3,537.75	7.13%	1.18%
Excise duty	4,796.45	4,723.89	-1.51%	1.57%
Other revenues		391.95		
Non-tax revenues	7,947.24	9,130.24	14.89%	3.04%
Fees & fines	4,419.50	4,242.64	-4.00%	1.41%
Mineral royalty	3,527.74	4,887.60	38.55%	1.63%
Domestic revenue	48,753.01	56,086.81	15.04%	18.67%
Domestic borrowing	11,153.29	4,164.21	-62.66%	1.39%
Total domestic funding	59,906.30	60,251.02	0.58%	20.06%
Foreign grants & financing	11,422.08	26,556.88	132.50%	8.84%
Grants	2,438.30	1,924.18	-21.09%	0.64%
Foreign financing	8,983.78	24,632.70	174.19%	8.20%
Total revenue & financing	71,328.38	86,807.90	21.70%	28.90%

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