Zambia 2026 National Budget Bulletin

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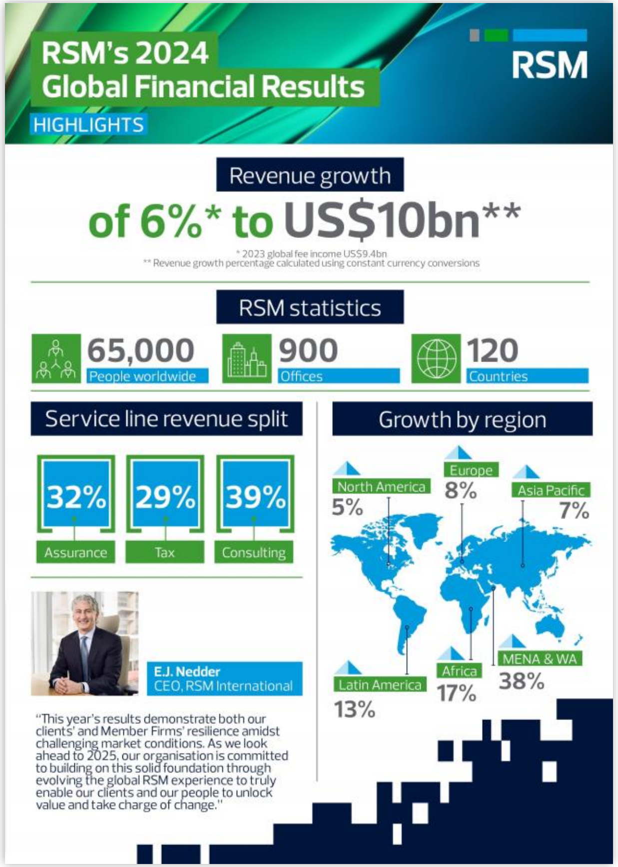

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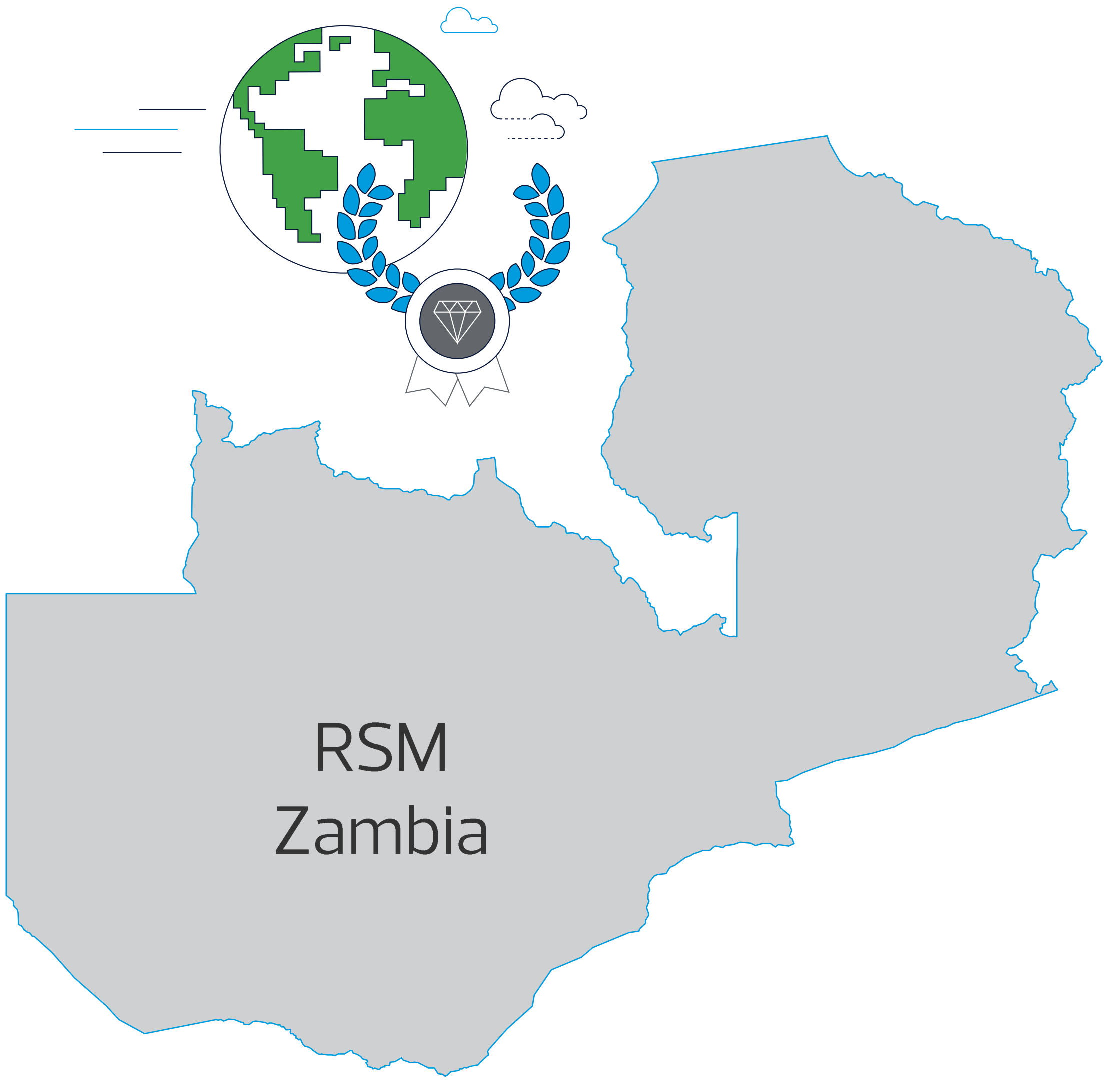

2026 National Budget Overview

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Commentary

The presentation of Zambia's 2026 National Budget by Honourable Dr. Situmbeko Musokotwane, Minister of Finance and National Planning, demonstrates government's resolve to consolidate the macroeconomic stability achieved in 2025. Compared to the 2025 Budget theme "Building Resilience for Inclusive Growth and Improved Livelihoods", this year's focus has shifted to "Consolidating Economic and Social Gains", signalling a transition from recovery towards sustained growth.

In 2025, GDP growth rebounded modestly to 5.8% from 3.8% in 2024, driven primarily by a bumper maize harvest of 3.7 million tonnes, a recovery in mining output, and resilience in ICT and tourism. This was below the ambitious 6.6% growth target set in the 2025 Budget, but nonetheless a strong recovery given the severe drought shocks of the previous year. The 2026 projection of 6.4% reflects continued optimism, though it highlights the need for consistent investment in agriculture, energy diversification, and infrastructure to meet such targets sustainably.

Inflation, which averaged **15.6% in 2024**, eased to **12.3% by August** 2025, reflecting a combination of food price stabilisation, a **14.7% appreciation of the kwacha**, and reduced fuel prices. This was an improvement compared to 2024, when inflation had been elevated by a collapse in maize production from **3.3 million tonnes in 2023** to **1.5 million tonnes in 2024.** The easing trend is expected to continue in 2026, bringing inflation into the **6–8% target band** set by the Bank of Zambia.

On the external front, international reserves rose to **US$4.9 billion (4.8 months cover)** in 2025, compared to **US$4.3 billion (4.2 months cover) in 2024**. This improvement exceeded the 3-month benchmark highlighted in the 2025 analysis and reflects stronger copper exports, higher non-traditional export earnings, and inflows from the IMF and cooperating partners. The reserve build-up provided the country with a much-needed buffer against external shocks and currency volatility, improving investor confidence.

Overall, the 2025 outturn illustrates how fiscal discipline and structural reforms—particularly in debt restructuring, mining policy stability, and agricultural support—created the macroeconomic stability upon which the 2026 Budget seeks to consolidate.

2026 Ambitions Amid Fiscal Constraints

The 2026 Budget amounts to K253.1 billion (27.4% of GDP), up **16.5%** from **K217.1 billion (25.7% of GDP)** in 2025. This expansion is more pronounced than the **9% rise in 2025 compared to 2024** when expenditure was set at K177.9 billion (25.0% of GDP). The upward trend underscores government's continued focus on scaling fiscal resources to match developmental priorities.

- **Domestic Revenue:** K206.5bn in 2026 vs. K177.1bn in 2025 vs. K152.4bn in 2024 (22.3% vs 21.3% vs 20.1% of GDP).
- **Grants:** K12.1bn in 2026 vs. K8.9bn in 2025 vs. K7.1bn in 2024.
- **Borrowing:** K34.5bn in 2026 vs. K31.1bn in 2025 vs. K18.4bn in 2024.

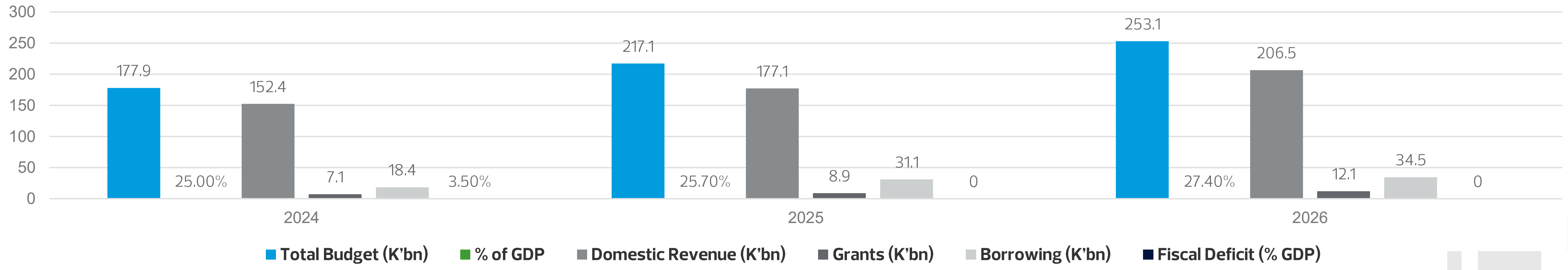
The fiscal deficit is projected to decline to **2.1% of GDP in 2026,** compared to the original target of **3.1% in 2025** and a realised outcome of **4.6%**. By contrast, the 2024 deficit was held at **3.5% of GDP**, reflecting disciplined fiscal management even amid drought shocks.

2026 Ambitions Amid Fiscal Constraints

Table – Comparative Budget Size and Financing (2024–2026)

Year	Total Budget (K'bn)	% of GDP	Domestic Revenue (K'bn)	Grants (K'bn)	Borrowing (K'bn)	Fiscal Deficit (% GDP)
2024	177.9	25.00%	152.4	7.1	18.4	3.50%
2025	217.1	25.70%	177.1	8.9	31.1	4.6% (outturn)
2026	253.1	27.40%	206.5	12.1	34.5	2.1% (projection)

Comparative Resource Envelope (2024 vs 2025 vs 2026)



Revenue and Debt Management

The 2026 Budget amounts to **K253.1 billion (27.4% of GDP),** up **16.5% from K217.1 billion (25.7% of GDP)** in 2025. This expansion is more pronounced than the **9% rise in 2025 compared to 2024** when expenditure was set at K177.9 billion (25.0% of GDP). The upward trend underscores government's continued focus on scaling fiscal resources to match developmental priorities.

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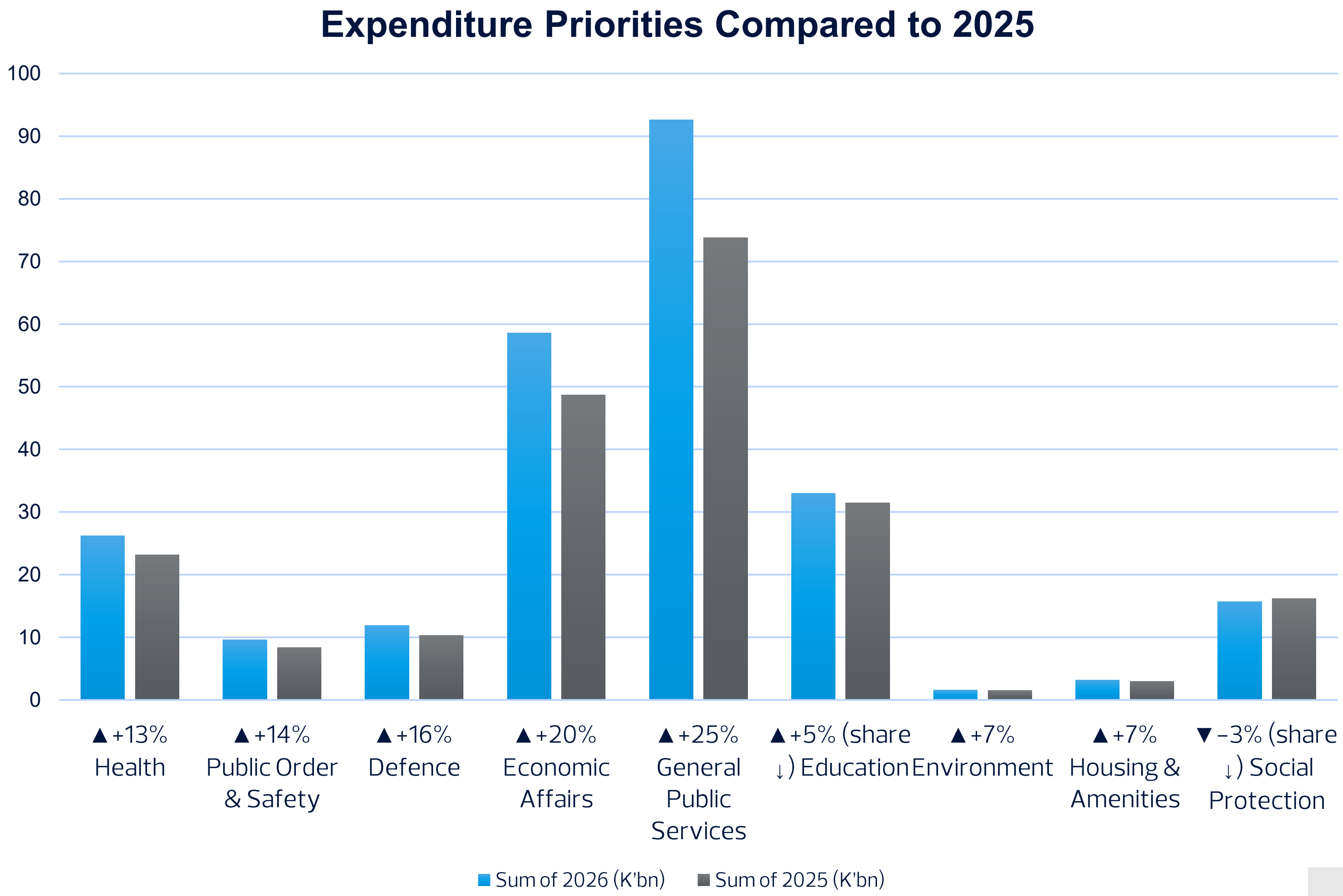
Function	2026 (K'bn)	% of Budget	2025 (K'bn)	% of Budget	Change
General Public Services	92.6	36.60%	73.8	34.00%	▲+25%
Economic Affairs	58.6	23.20%	48.7	22.40%	▲+20%
Education	33	13.00%	31.5	14.50%	▲ +5% (share ↓)
Health	26.2	10.30%	23.2	10.70%	▲+13%
Social Protection	15.7	6.20%	16.2	7.40%	▼ −3% (share ↓)
Defence	11.9	4.70%	10.3	4.70%	▲+16%
Public Order & Safety	9.6	3.80%	8.4	3.90%	▲+14%
Housing & Amenities	3.2	1.30%	3	1.40%	▲+7%
Environment	1.6	0.60%	1.5	0.70%	▲+7%

The fiscal deficit is projected to decline to **2.1% of GDP in 2026,** compared to the original target of **3.1% in 2025** and a realised outcome of **4.6%.** By contrast, the 2024 deficit was held at **3.5% of GDP**, reflecting disciplined fiscal management even amid drought shocks.

Of the total 2026 budget, **K206.5 billion (81.6%)** will be financed through domestic revenue, supported by tax reforms, compared to **K177.1 billion (81.6%)** in 2025 and **K152.4 billion (85.7%)** in 2024. Grants are projected at **K12.1 billion (4.8%)** in 2026 versus **K8.9 billion (4.1%)** in 2025 and **K7.1 billion (4.0%)** in 2024, reflecting stronger engagement with cooperating partners. Borrowing is set at **K34.5 billion (13.6%)** in 2026, slightly higher than **K31.1 billion (14.3%)** in 2025 and significantly above **K18.4 billion (10.3%)** in 2024.

A critical shift is seen in debt servicing: **domestic debt servicing costs (K52.0 billion in 2026)** now exceed external debt servicing **(K21.7 billion).** In 2025, debt service demands had been relatively contained due to restructuring, but already required **K39.4 billion combined.** The steep rise in 2026 is mainly attributed to the maturing of treasury bills and government bonds issued between 2015 and 2021. This highlights the persistent legacy of past borrowing practices and underscores the need for careful balancing between debt obligations and social investment priorities.

Looking ahead, sustaining revenue growth will be critical to achieving the government's fiscal targets. While the narrowing fiscal deficit is encouraging, the rising expenditure envelope highlights the importance of efficient public financial management and effective utilisation of borrowed resources. For the private sector, these measures present both opportunities from increased public spending and challenges from potential adjustments in the tax and compliance environment.



Sectorial Expenditure Priorities

General Public Services (K92.6bn, 36.6% vs 34.0%)

- Significant rise of **25% in nominal terms** and a larger share of the budget.
- Increase is primarily due to **higher domestic debt servicing costs (K52bn in 2026 vs K39.4bn in 2025),** absorbing fiscal space that might otherwise have supported social sectors.
- Highlights the structural challenge of Zambia's debt profile, where past borrowing continues to crowd out developmental spending.

Economic Affairs (K58.6bn, 23.2% vs 22.4%)

- Up **20%** in value, reflecting strong emphasis on **infrastructure, agriculture, mining, and energy investments.**
- Alignment with government's diversification and job creation agenda.
- However, large capital spending carries implementation risks if procurement and disbursement are delayed.

Education (K33bn, 13.0% vs 14.5%)

- Allocation grew slightly in value (+K1.5bn) but **declined as a share of the budget**.
- Suggests government is maintaining commitments to free education and curriculum reforms, but the proportional reduction reflects the rising cost of debt.
- Risk: slower infrastructure expansion in schools and higher strain on service delivery, unless efficiency gains are realised.

Health (K26.2bn, 10.3% vs 10.7%)

- Increased by **13% nominally**, but share of budget slipped marginally.
- Key driver: higher provision for essential medicines and hospital infrastructure.
- Shows consistency in prioritising universal health coverage, though squeezed fiscal space may limit ambitious reforms.

Social Protection (K15.7bn, 6.2% vs 7.4%)

- One of the few functions to record a **decline in both nominal terms (–K0.5bn) and budget share.**
- Reflects a difficult balancing act between protecting vulnerable groups and servicing debt.
- Potential concern: reduction may undermine poverty alleviation gains at a time when economic shocks (food, energy) persist.

Defence (K11.9bn, 4.7% vs 4.7%)

- Nominal increase (+16%) but stable as a share of the budget.
- Reflects ongoing commitments to modernisation while maintaining fiscal discipline.

Public Order & Safety (K9.6bn, 3.8% vs 3.9%)

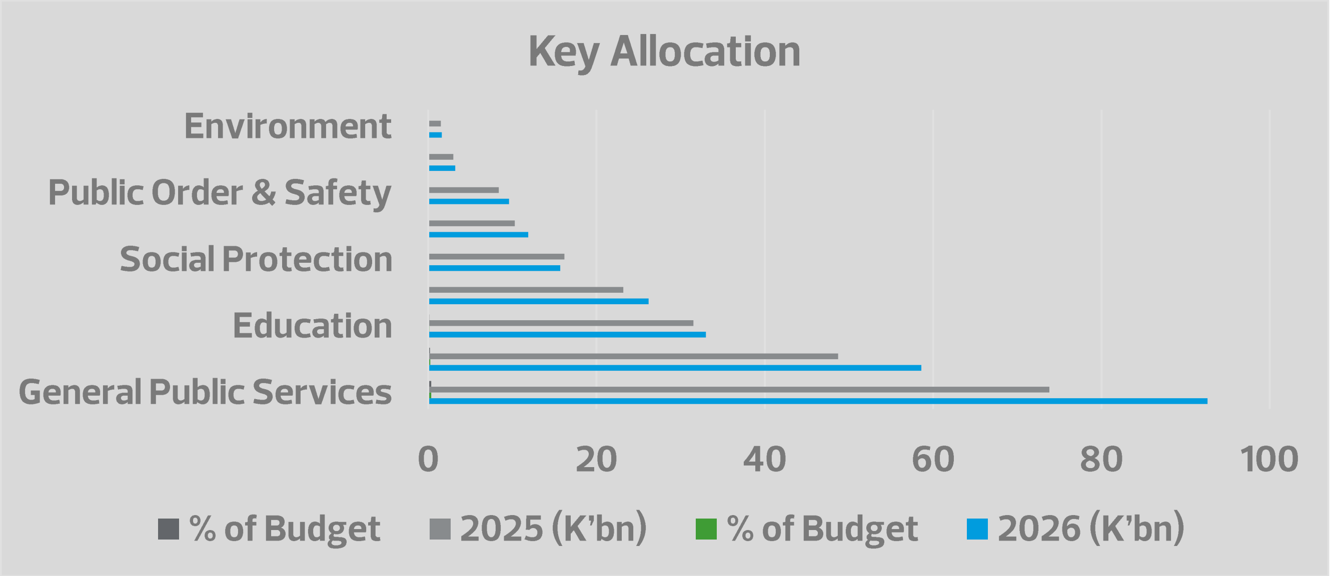
- Nominal rise (+14%) but slight proportional decline.
- Suggests priority on law enforcement and governance reforms, though constrained by fiscal realities.

Housing & Community Amenities (K3.2bn, 1.3% vs 1.4%)

- Modest increase but marginally lower share.
- Allocations continue to support water and sanitation infrastructure, though constrained relative to broader needs.

Environmental Protection (K1.6bn, 0.6% vs 0.7%)

- Nominal increase (+7%), but proportionally still very low.
- Limited funding contrasts with government's climate resilience agenda, despite Zambia's exposure to droughts and environmental shocks



Key allocations for 2026 are as follows:				
Function	**2026 (K'bn)**	**% of Budget**	**2025 (K'bn)**	**% of Budget**
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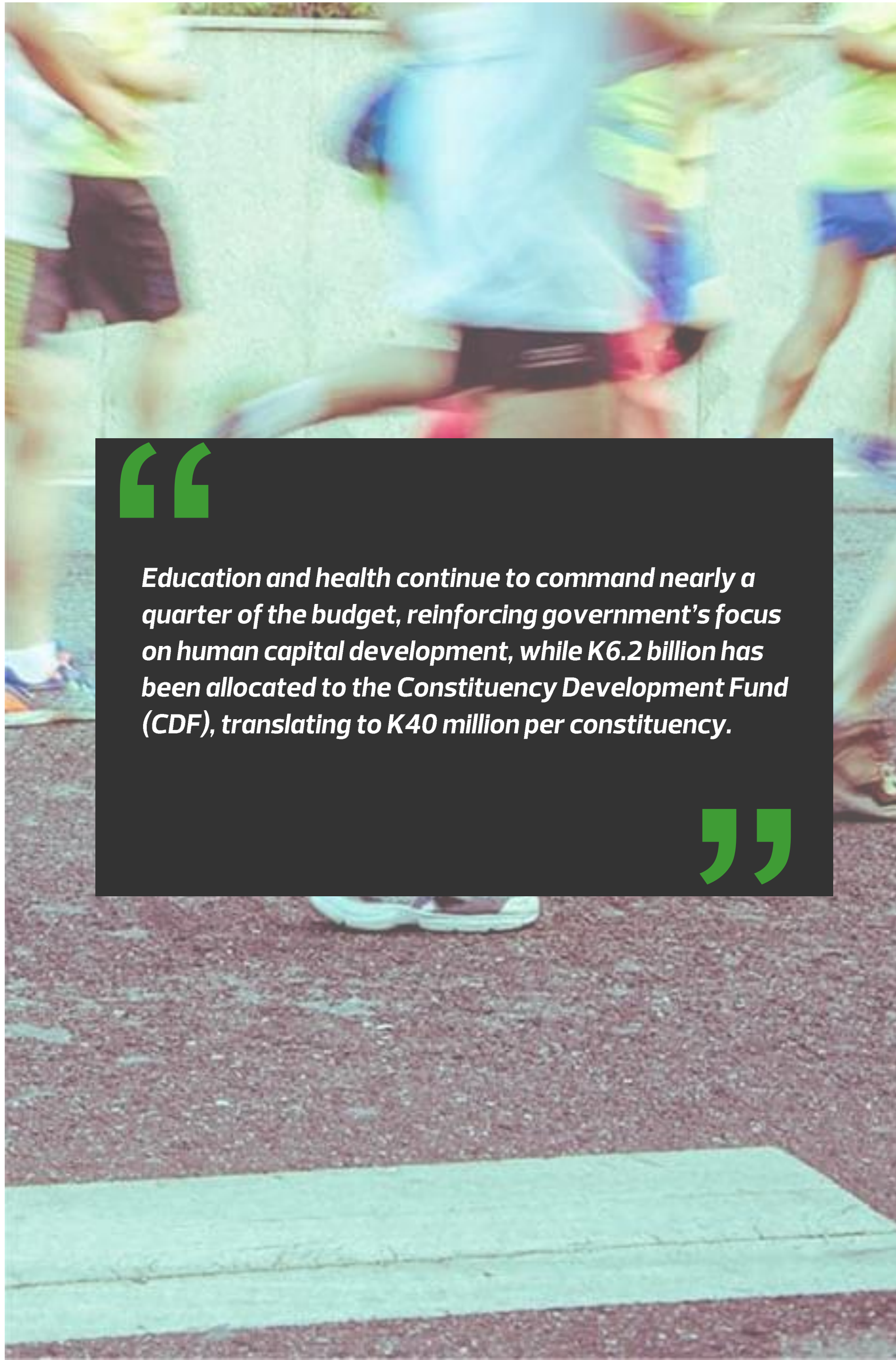

> *Education and health continue to command nearly a quarter of the budget, reinforcing government's focus on human capital development, while K6.2 billion has been allocated to the Constituency Development Fund (CDF), translating to K40 million per constituency.*

Tax and Non-Tax Measures

The 2026 Budget introduces targeted reforms aimed at revenue mobilisation, SME growth, and sustainability. Compared to 2025, when measures were more stabilisation-oriented (such as maintaining PAYE bands), the 2026 measures are broader and more reforms.

Key Reforms and Analysis

1. SMEs and Informal Sector

- Turnover tax threshold raised to K5m (from K800k in 2025) expands the scope for small businesses to operate outside the corporate tax net, offering relief for genuine SMEs. However, it also broadens compliance requirements, as more firms will need to register under turnover tax.
- Rental income exemption increased to K2,500/month provides relief to low-income landlords, reducing the compliance burden on small property owners.
- Late payment penalties cut to 0.5% (from 5%) ease cashflow challenges and may encourage compliance. Impact to Business: These measures are strongly pro-SME, lowering the cost of compliance and allowing reinvestment of resources into growth and job creation. Medium-sized firms approaching the K5m turnover threshold will, however, need to carefully plan tax structuring to remain compliant.

2. Agriculture and Dairy

- Duty on imported milk products raised to 40% (vs 25% in 2025) protects domestic producers by improving competitiveness.
- Local content incentives extended to milk, hides, and skins encourage value addition along the dairy and leather value chains.
- Impact to Business: Domestic dairy processors and livestock farmers stand to benefit from higher margins and expanded demand, but import-dependent retailers and consumers may face higher prices. This could trigger inflationary pressure in the short term but supports local industry in the long term.

3. Energy & Climate

- Excise duty on hybrid vehicles reduced to 15% (from 30%) incentivises adoption of cleaner transport technologies, potentially lowering operating costs for logistics firms and individuals adopting hybrid fleets.
- Single-use plastics taxed at 100% (vs 30% in 2025) significantly increases costs for packaging-heavy industries, encouraging investment in alternative packaging solutions. Impact to Business: Logistics, retail, and consumer goods sectors will benefit from cheaper hybrid adoption but must absorb or pass on higher costs for packaging substitution.

4. Water Sector

- Piped water supply zero-rated for VAT lowers household and business utility costs, especially for manufacturing and hospitality sectors that are heavy water users. Impact to Business: This measure reduces input costs, improves competitiveness, and supports compliance by clarifying VAT treatment.

5. Other Levies and Fees

- Toll fees, mobile money levies, firearm licences, and citizenship application fees are all adjusted upwards. Impact to Business: Transport-intensive sectors will face higher logistics costs due to toll adjustments. SMEs and individuals relying heavily on mobile money will encounter higher transaction costs, potentially reducing financial inclusion unless offset by digital tax credits.

Key Comparisons and Insights

Budget Expansion: The 2026 budget is significantly larger (+16.5%) compared to the modest +9% growth in 2025.

Debt Servicing: In 2025, debt servicing had eased to 9.6% of domestic revenues. In 2026, domestic debt servicing alone has surged to K52.0bn, eclipsing external debt (K21.7bn).

Social Spending: While allocations to education and health grew in absolute terms, their proportional share declined due to rising debt service costs.

Revenue Base: Domestic revenue as % of GDP improved from 21.3% (2025) to 22.3% (2026).

Structural Reforms: The 2026 Budget demonstrates a stronger focus on compliance, broadening the tax base, and incentivising investment compared to the cautious stabilisation tone of 2025.

Measure	2025 Treatment	2026 Treatment	Business Impact
Turnover tax threshold	K800,000	K5,000,000	Expands SME coverage; eases compliance burden on small firms
Rental income exemption	K1,000/month	K2,500/month	Relief to small landlords, reduces compliance costs
Penalty for late turnover tax	5%	0.50%	Improves cashflow, encourages timely compliance
Duty on imported milk products	25%	40%	Protects local producers, may raise consumer prices
Local content allowance	Limited scope	Extended to milk, hides, skins	Boosts value addition, supports agro-processing
Excise duty on hybrid vehicles	30%	15%	Encourages cleaner transport adoption, lowers fleet costs
Excise duty on single-use plastics	30%	100%	Raises packaging costs, incentivises eco-friendly alternatives
VAT on piped water	Standard-rated	Zero-rated	Reduces costs for households & water-intensive businesses
Mobile money levy	Lower bands	Increased across all tiers	Raises transaction costs, may affect SMEs & individuals
Toll fees	Lower	Increased (esp. for heavy vehicles)	Higher logistics costs for transport-intensive sectors
Firearm licences & citizenship fees	Lower	Increased	Higher costs for compliance and legal processes

Remaining Challenges

Despite the progress, significant challenges persist and could undermine the momentum of the 2026 Budget if not addressed.

High Borrowing Costs: Commercial bank lending rates remain elevated at 29%, a level that constrains private sector investment and limits SMEs' ability to scale operations. Compared to 2025, when borrowing costs were already seen as restrictive, little progress has been made in easing access to affordable credit. Without effective interventions, the cost of finance will continue to suppress entrepreneurship, delay capital expansion, and dampen job creation.

Reliance on Mining Exports: Zambia's export profile is still dominated by copper and a few other minerals. While copper production is projected to exceed one million tonnes, dependence on global commodity price cycles exposes the economy to volatility. In 2025, higher copper prices helped boost foreign reserves, but an unexpected downturn in 2026 could reverse fiscal and external gains. Diversification into agriculture, manufacturing, and tourism remains urgent but underfunded relative to the scale of need.

Underinvestment in Energy and Infrastructure: Despite incremental progress, electricity shortages remain a binding constraint. Installed capacity rose in 2025, yet drought-related risks highlighted over-reliance on hydropower.

Remaining Challenges

In 2026, large-scale projects are planned, but implementation lags and financing bottlenecks remain. Infrastructure backlogs in road, rail, and logistics further raise business costs and weaken Zambia's regional competitiveness.

Social Protection Trade-offs: Allocations for social protection have declined as a share of the budget to 6.2% in 2026 from 7.4% in 2025, even though the number of beneficiaries continues to expand. This signals efficiency pressures—doing more with less—but raises questions about sustainability. Vulnerable households risk being underfunded in real terms if inflation erodes transfer values. This could undermine poverty reduction gains achieved in recent years.

Implementation and Efficiency Risks: Zambia's ability to realise the ambitious macroeconomic goals—GDP growth of 6.4%, deficit reduction to 2.1% of GDP, and inflation within the 6-8% band—depends heavily on timely and efficient implementation of reforms. Historically, absorption rates of capital budgets and delays in project execution have weakened impact. Strengthening public financial management, procurement, and monitoring systems is therefore essential.

In summary, while the 2026 Budget sets a positive trajectory, the risks of high borrowing costs, narrow export base, infrastructure gaps, and social protection pressures highlight the importance of reforms that foster diversification, ease access to finance, and ensure funds are used effectively.

Conclusion

The 2026 Budget represents continuity in fiscal consolidation, social investment, and economic diversification. Compared to the resilience-focused 2025 Budget, this year's plan places greater emphasis on consolidation and long-term structural transformation. Zambia has made significant strides in stabilising its economy, restructuring debt, and attracting investment across mining, agriculture, and manufacturing. Yet, the sharp rise in domestic debt servicing, modest declines in social protection as a share of expenditure, and persistent infrastructure gaps underscore that the path ahead remains challenging.

Sustained commitment to structural reforms, prudent debt management, and pro-poor policies will be essential to translate these gains into inclusive and equitable growth. Effective implementation, efficient use of resources, and timely project execution will determine whether the ambitious targets—**GDP growth of 6.4%, deficit reduction to 2.1% of GDP, and inflation within the 6–8% band**—are achieved. Ultimately, the 2026 Budget must serve as both a stabiliser and a catalyst: consolidating past progress while laying a firm foundation for a diversified, resilient, and inclusive Zambian economy.

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