



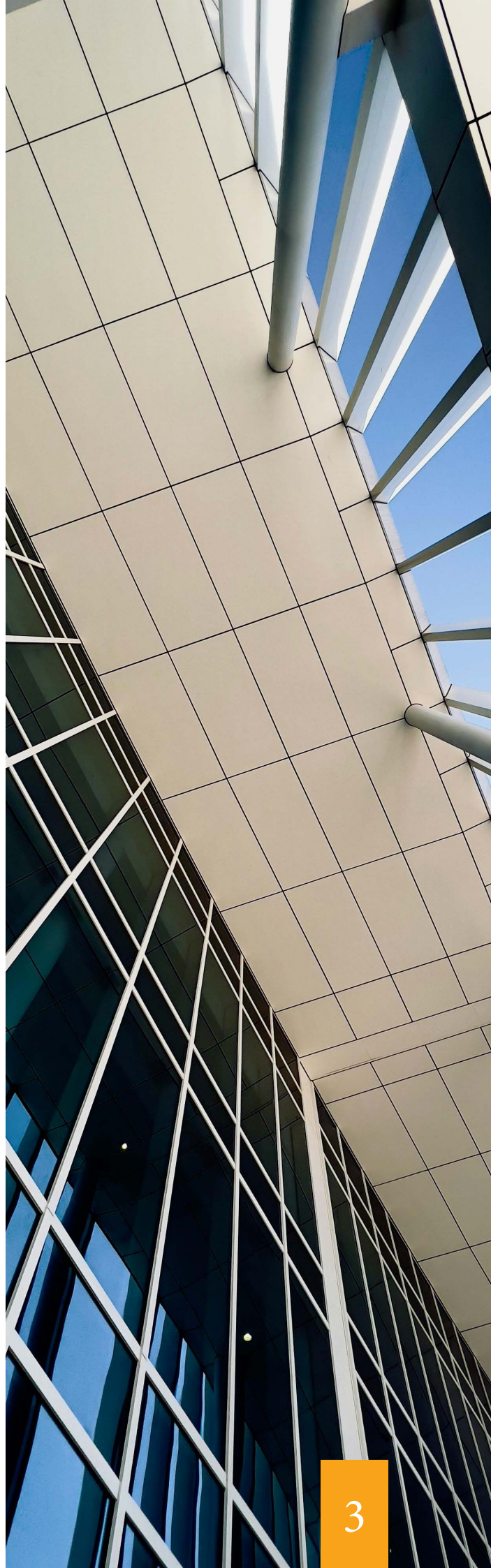
ZAMBIA'S PROPOSED 2025
BUDGET: PRELIMINARY ANALYSIS



ABOUT VNBV CONSULTANTS

Vendnbuy Ventures Consulting is a premier economic and risk management consultancy firm, dedicated to providing cutting-edge solutions to businesses, financial institutions, and organizations across various industries. We are committed to helping our clients navigate the complexities of today's economic landscape with expert guidance, data-driven insights, and a proactive approach to risk management.

Our team of seasoned professionals brings a wealth of experience in economic analysis, financial strategy, and risk management, offering a broad range of specialized services that are designed to drive growth, optimize performance, and mitigate risks.



WHAT WE DO

1

Market Risk Analysis

Liquidity Risk Management

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Asset-Liability Management

Bank Regulatory Compliance

4

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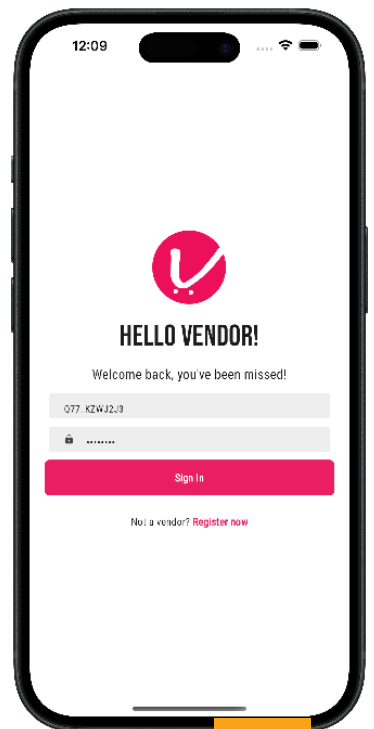
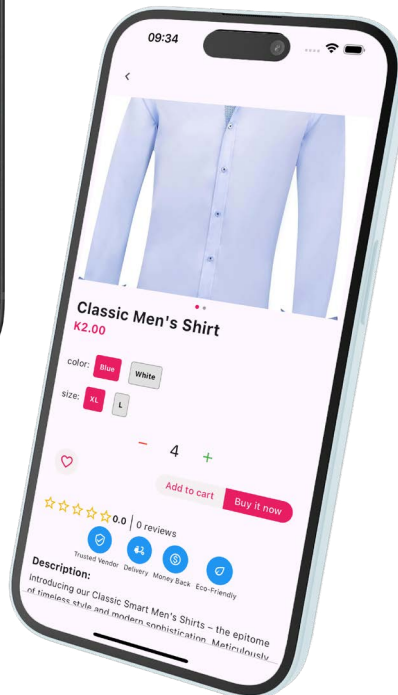
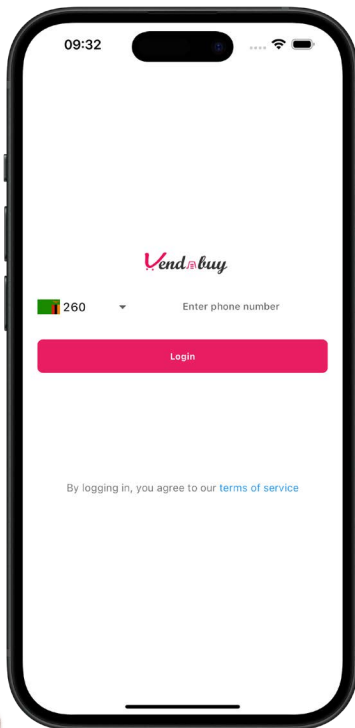
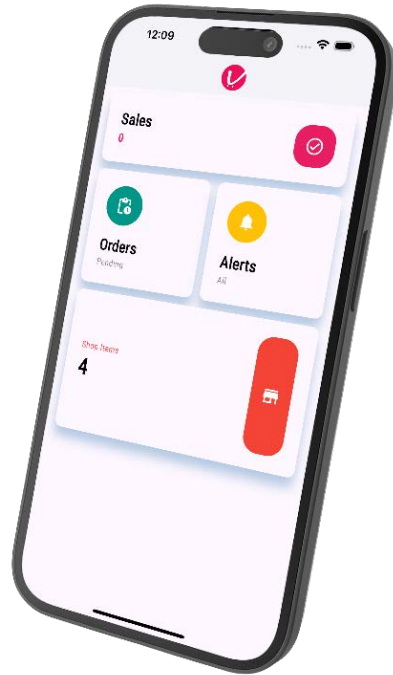
Economic Modelling

ICAAP & ILAAP

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Vendnbuy

Zambia's premier e-commerce platform designed for both sellers and buyers. Whether you're a business looking to expand your reach or a shopper in search of unique products, VendNBuy offers a seamless, user-friendly experience. Customize your store, manage your deliveries, and accept secure online payments, all from one convenient platform. Explore the future of Zambian e-commerce with Vendnbuy!







THEME:
Building
resilience
for inclusive
growth
and
improved
livelihoods

Budget Overview

The 2025 Zambian budget, amounting to K217.1 billion (26.6% of GDP), is focused on fostering economic recovery and resilience following the 2024 drought. 80.2% of the budget will be financed through domestic revenues, with 3.8% coming from grants and 16% from borrowing. The government aims for 6.6% GDP growth in 2025, driven by agriculture, mining, and construction, while reducing inflation to 6-8% and narrowing the fiscal deficit to 3.1% of GDP.

Key allocations include K37.3 billion for domestic debt servicing and K16.7 billion for external debt, along with K48.7 billion for economic sectors such as agriculture and infrastructure. Social protection programs will receive K16.1 billion, while K23.2 billion is set aside for health and K31.5 billion for education, focusing on infrastructure development and personnel recruitment.

Debt restructuring has significantly lowered Zambia's 2025 debt service obligations to US\$599 million, freeing up resources for development projects. The government also plans major infrastructure investments in road construction and the expansion of solar and thermal energy to enhance long-term resilience and reduce reliance on hydropower.

Budget Financing

Domestic Revenue

K174.2 Billion

Grants

K8.2 Billion

Domestic Borrowing

K15.4 Billion

External Borrowing

K19.4 Billion

MACROECONOMIC OBJECTIVES



Maintain International Reserves
Above 3 Months of Import Cover

Increase Domestic Revenue to
21.3% of GDP

Limit Net Domestic Borrowing
to 1.9% of GDP:

Achieve a Real GDP
Growth Rate of 6.6%

Reduce Inflation to
6-8%

Reduce the Fiscal
Deficit to 3.1% of
GDP

In the aftermath of a turbulent year, Zambia finds itself at a critical juncture. The devastating drought of 2024 crippled the nation’s agriculture, strained the energy sector, and exacerbated food insecurity, putting immense pressure on the country’s economic and social fabric. With livelihoods at risk and the broader economy weakened, the need for a bold and strategic response was undeniable. Enter the 2025 budget—crafted under the theme “Building Resilience for Inclusive Growth and Improved Livelihoods”, it serves not only as a financial plan but also as a blueprint for Zambia’s economic revival and future prosperity.

This budget marks a pivotal moment for Zambia, laying out a framework designed to overcome the immediate challenges brought about by the climate crisis while positioning the country for sustained, long-term growth. It sets ambitious targets for GDP growth, inflation control, and fiscal deficit reduction, all while maintaining a commitment to social welfare, debt management, and infrastructure development. The government’s vision is clear: stimulate the economy through critical investments in agriculture, mining, and infrastructure, and enhance the livelihoods of Zambians by focusing on key social sectors such as health and education.

However, beyond the numbers and policy goals, this budget speaks to a larger narrative—one of resilience, recovery, and hope. Zambia’s leaders are not only aiming to rebuild after the socio-economic hardships of 2024 but to lay a foundation that can withstand future shocks. By expanding energy resources, improving infrastructure, and diversifying revenue streams, the budget seeks to future-proof the nation against both external economic pressures and internal vulnerabilities.

We examine the opportunities this budget presents for businesses, investors, and citizens, and how it aligns with Zambia’s broader goal of achieving inclusive growth. As Zambia takes this significant step towards economic recovery and transformation, we break down what these fiscal policies mean for the nation and its people, offering insights into the pathways toward a more resilient and prosperous future.



DEBT POSITION

The debt position as of June 2024 highlights the increasing external debt stock, which reached US\$15.17 billion, a 4.1% increase from the previous year. This rise was mainly due to new disbursements from multilateral creditors and the accumulation of arrears, showing the ongoing challenge Zambia faces in managing external debt.

The stock of publicly guaranteed external debt slightly decreased by 1.3%, falling to US\$1.39 billion, reflecting some progress in debt service payments by guaranteed entities. However, the overall debt burden remains significant, with Zambia's fiscal space constrained by the need to service these obligations. The government's focus on restructuring debt and managing arrears remains critical for restoring fiscal sustainability.

Domestically, the stock of Treasury bills and government bonds reduced by 3.1% to K225.5 billion by mid-2024, reflecting tight liquidity conditions in the money market. Commercial banks' reluctance to increase lending to the government due to liquidity challenges signals the difficulties in raising domestic financing without crowding out private sector investment.

Moreover, the government has been actively working on dismantling fuel arrears, which contributed to the reduction of outstanding government bills to suppliers by 18.3%, down to K79.8 billion. This focus on reducing arrears is a positive step toward improving Zambia's fiscal credibility, but the country still faces high debt servicing costs, which will need to be addressed through further fiscal reforms and debt restructuring efforts.

High debt levels continue to constrain the government's ability to invest in essential infrastructure and social programs, necessitating careful management

of both external and domestic debt obligations. The rising global interest rates and tightening financial conditions will also make it more expensive for Zambia to service its debt, potentially complicating the government's fiscal consolidation efforts.

While the government has made strides in reducing certain debt obligations and improving fiscal management, Zambia's debt sustainability remains fragile. The success of the 2025 budget will depend on continued efforts to restructure debt, manage arrears, and attract investment to stimulate growth without further exacerbating the debt burden.





POLICIES

A close-up, high-angle photograph of a lush green cornfield. The plants are densely packed, with long, pointed leaves and emerging tassels. The lighting is bright, creating strong highlights and shadows on the foliage. A solid orange horizontal bar is overlaid across the middle of the image, containing the word 'AGRICULTURE' in white, bold, sans-serif capital letters.

AGRICULTURE

The agriculture sector is central to Zambia's 2025 budget, with a substantial allocation of K15.4 billion aimed at addressing the challenges that have plagued the sector, particularly following the devastating drought in 2024. Agriculture is a cornerstone of the Zambian economy, supporting the livelihoods of millions of people, especially in rural areas, and serving as a major contributor to food security. The government's policy for 2025 focuses on increasing productivity through irrigation, mechanization, and the expansion of the Farmer Input Support Programme (FISP), which is set to benefit over 1 million farmers. These efforts are aimed at making the agricultural sector more resilient and sustainable, ensuring that Zambia can withstand future climate shocks and safeguard its food security.

One of the primary objectives of the agricultural policy is to reduce Zambia's reliance on rain-fed farming by significantly investing in irrigation systems. In the aftermath of the drought, it became clear that dependence on seasonal rainfall posed serious risks to crop yields and national food supply. The government's irrigation projects are designed to stabilize production by providing a consistent water supply, even in dry periods. This will help farmers increase their output, reduce vulnerability to unpredictable weather patterns, and create a more stable agricultural sector that can contribute to both rural development and the national economy.

Mechanization is another key element of the 2025 agricultural policy. By providing farmers with access to modern farming tools and technologies, the government aims to enhance productivity and efficiency. Many small-scale farmers in Zambia still rely on traditional farming methods, which limit their ability to maximize yields and meet the growing food demands. Through mechanization initiatives, farmers will be able to cultivate larger areas, increase their efficiency, and improve crop quality. The government plans to work closely with private sector partners to provide these technologies and ensure they are affordable and accessible to farmers across the country, particularly those in rural and remote areas.



The expansion of the Farmer Input Support Programme (FISP) plays a crucial role in boosting agricultural productivity. The FISP has been a lifeline for small-scale farmers, providing them with access to essential inputs like seeds, fertilizers, and pesticides. The government's plan to expand this program in 2025 will enable more farmers to benefit from subsidized inputs, allowing them to increase their crop production and contribute to national food security. The FISP is also seen as a tool for poverty alleviation, as it helps farmers increase their incomes by enabling them to produce more and sell surplus crops.

The agricultural policy also includes support for livestock and fisheries. In addition to crop farming, Zambia's agricultural sector encompasses a significant portion of livestock production, which is vital for the livelihoods of many rural households. The government's policy aims to improve livestock health, productivity, and market access by investing in veterinary services, animal disease control programs, and the construction of modern slaughterhouses. These initiatives are intended to boost the livestock sector's contribution to the economy and improve food security through increased meat and dairy production.

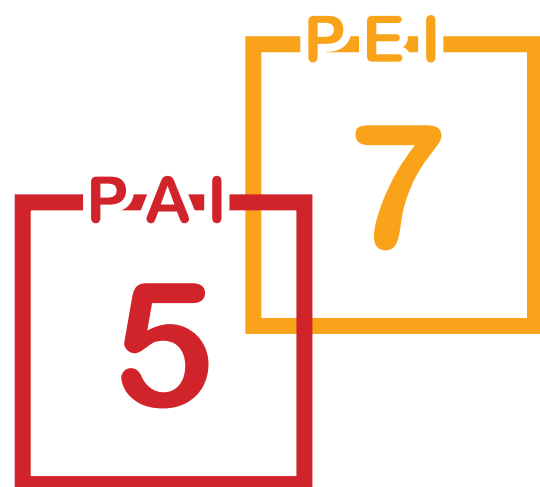
Furthermore, the fisheries sub-sector is also receiving attention, with the government focusing on promoting aquaculture to meet the rising demand for fish in both local and international markets. By investing in fish farming, the government hopes to reduce the pressure on Zambia's natural fish stocks, which have been declining due to overfishing, while also creating new job opportunities in the aquaculture industry.



What we think...

Policy Achievability Index (5): The process is often criticized for lacking transparency, with reports of ineligible individuals receiving support while some deserving farmers are excluded. This lack of fairness in the selection process has raised concerns about the program's equity and effectiveness in reaching those most in need.

Policy Effectiveness Index (7): The sector is critical for food security and rural livelihoods, and increasing agricultural productivity can have widespread benefits. However, effectiveness could be dampened by issues such as limited infrastructure in rural areas and market volatility, which may reduce the impact of increased production.





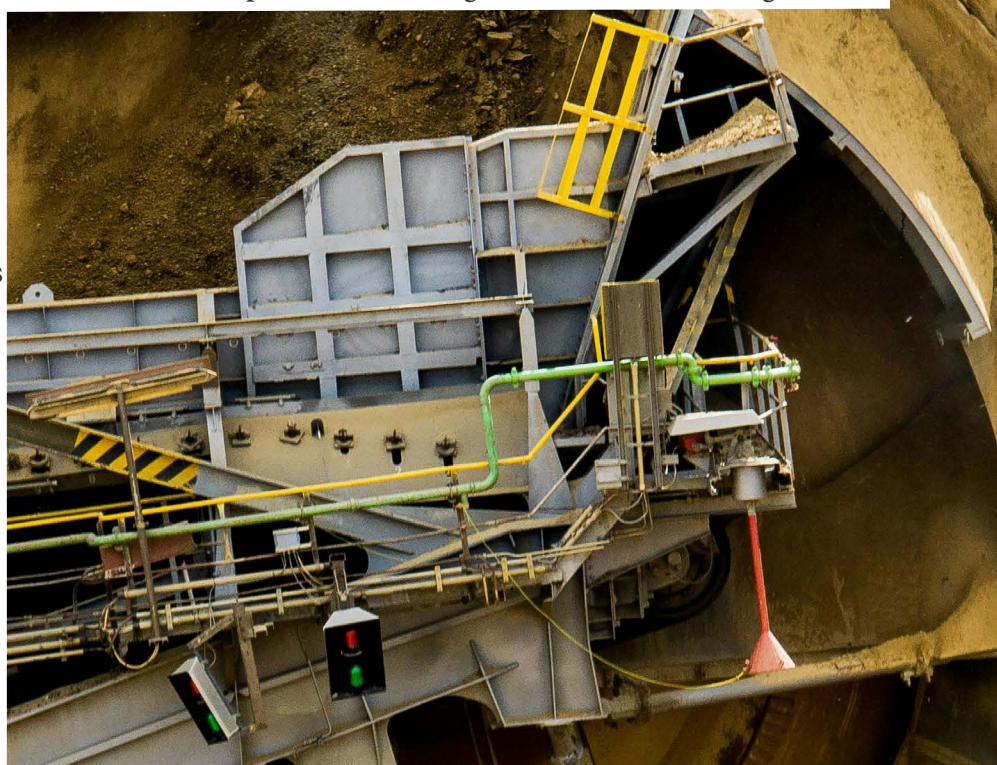
MINING

The mining sector remains one of the most pivotal areas for Zambia's economic growth, contributing significantly to the country's GDP and export revenues. The government's policy for this sector is heavily focused on increasing copper production, with a target to produce 3 million tonnes by 2025. This target comes at a time when global demand for copper is surging, driven by the transition to green energy technologies, particularly in industries like electric vehicles, renewable energy, and electronics. The rising global appetite for copper presents Zambia with an immense opportunity to capitalize on its vast mineral wealth, positioning itself as a key player in the global supply chain.

A key part of the mining policy is the reopening and revitalization of crucial mining operations, including Konkola Copper Mines and Mopani Copper Mines. These mines, which have faced operational and financial challenges in recent years, are now central to the government's strategy to increase output and attract investment. By bringing these mines back to full production, the government aims to significantly boost copper output, increase export revenues, and create thousands of jobs in mining communities. This policy not only addresses the immediate economic needs but also aims to ensure that Zambia maintains its competitiveness in the international mining market.

The mining sector's investment incentives are another cornerstone of the 2025 policy.

Environmental sustainability is also becoming a central theme in Zambia's mining policy. While the government is keen on ramping up production, there is growing recognition of the environmental impacts associated with mining activities, particularly in areas such as land degradation, water pollution, and greenhouse gas emissions. To mitigate these risks, the government is encouraging mining companies to adopt sustainable mining practices. This includes improving waste management processes, rehabilitating mining sites, and investing in cleaner technologies that minimize the environmental footprint of mining operations. The goal is to strike a balance between economic growth and environmental protection, ensuring that the benefits of mining do not come at an unsustainable cost to Zambia's natural resources.



In addition to copper, the government is exploring ways to diversify the mining sector by promoting the extraction of other minerals like cobalt, gold, and nickel. Cobalt, in particular, is in high demand due to its use in batteries for electric vehicles. By expanding Zambia's mining activities to include these other minerals, the country can reduce its dependency on copper and tap into broader markets that are rapidly growing as part of the global energy transition. This diversification is crucial for reducing the risks associated with fluctuating copper prices and ensuring a more stable revenue base from the mining sector.

The local content policy within mining also plays a significant role in ensuring that the benefits of the mining boom are widely shared across Zambia. The government is pushing for increased participation of local companies in the mining value chain, from providing services and equipment to processing and refining minerals locally. This will not only create more job opportunities for Zambians but also strengthen the linkages between the mining sector and the broader economy, leading to more inclusive growth.

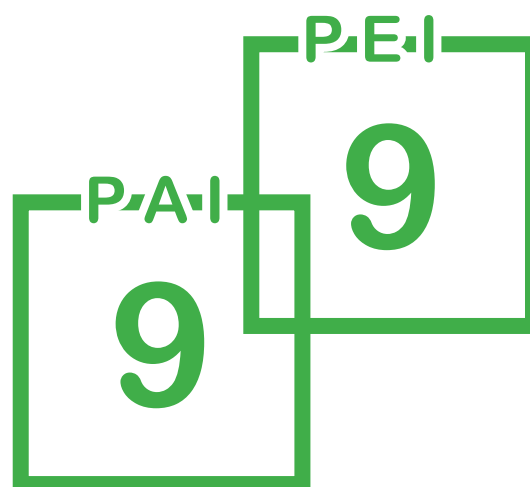
The mining policy for 2025 also includes plans to improve infrastructure in mining areas, particularly in terms of road and power networks. Reliable infrastructure is key to reducing operational costs for mining companies, making the sector more efficient and competitive. The government's commitment to improving transport and energy access in mining regions will facilitate smoother production processes, enable the transportation of minerals to export markets, and make it easier for mining companies to expand their operations.



What we think...

Policy Achievability Index (9): Zambia has a solid foundation in the mining sector, and reopening mines with support from foreign investors is achievable. The global demand for copper, driven by the energy transition and electric vehicles, strengthens the achievability of this target.

Policy Effectiveness Index (9): Mining is a crucial driver of Zambia's export earnings. Increased production will have a significant effect on economic growth, government revenue, and job creation, especially as global copper demand continues to rise. However, environmental concerns and over-reliance on mining remain potential risks.





ENERGY

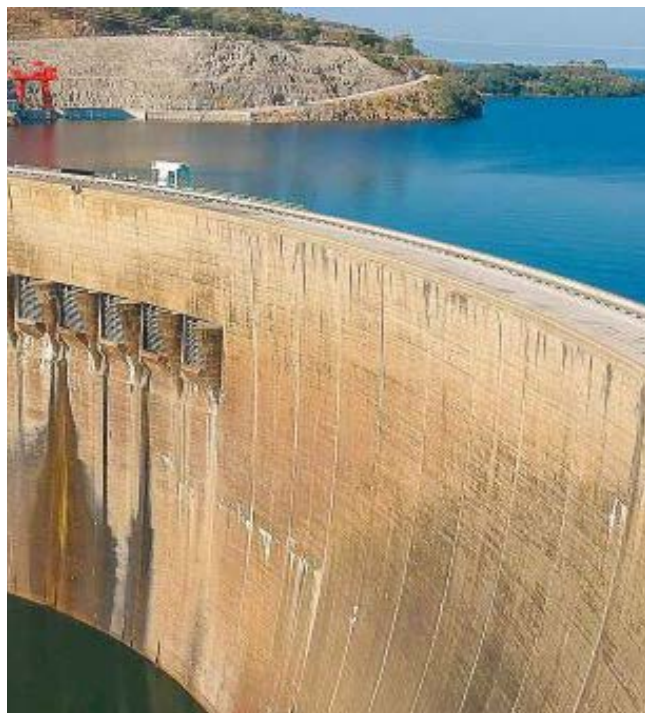


The budget allocates K12 billion to infrastructure development, with a significant portion dedicated to expanding solar and thermal energy projects. The aim is to diversify Zambia's energy mix and ensure a more stable and reliable power supply that can support economic growth, industrialization, and improved living standards.

Historically, Zambia has been heavily dependent on hydropower, which accounts for the majority of the country's electricity generation. However, frequent droughts in recent years have led to water shortages, drastically reducing the capacity of hydroelectric plants and causing nationwide power outages. These outages have not only disrupted the daily lives of citizens but have also significantly hampered industrial productivity, agricultural output, and overall economic activity. The government's energy policy for 2025 aims to mitigate these risks by investing in renewable energy and thermal power to diversify the energy supply and reduce dependence on unpredictable rainfall patterns.

At the core of this energy diversification strategy is the expansion of solar power. Zambia has vast solar potential due to its high levels of sunlight, and the government is capitalizing on this by promoting large-scale solar projects that can provide a stable and sustainable source of energy. The policy includes plans to generate an additional 1,000 MW of solar power by 2025, with support from both public investments and private partnerships. Solar energy projects will not only address the shortfall in electricity supply but also contribute to Zambia's efforts to combat climate change by reducing reliance on fossil fuels.

In addition to solar, the government is investing in thermal power plants, which are crucial for providing a reliable energy source that can operate independently of climatic conditions. Thermal power, generated from natural gas or coal, can provide base-load power, ensuring a continuous and stable energy supply even when hydropower output is low. This approach is intended to complement renewable energy efforts and ensure that Zambia has a diversified energy portfolio capable of meeting the country's growing energy demands. The government is also exploring clean coal technology to reduce the environmental impact of thermal power generation.



The energy policy also emphasizes the importance of rural electrification. A significant portion of the population, particularly in rural areas, still lacks access to electricity, limiting economic opportunities and the quality of life. The government has committed to expanding the Rural Electrification Authority (REA) programs, which focus on extending the national grid to remote areas and promoting the use of decentralized renewable energy solutions, such as solar mini-grids. Electrifying rural areas is essential for boosting agricultural productivity, enabling the establishment of small-scale industries, and improving access to services like healthcare and education.

Another important aspect of the 2025 energy policy is regional energy integration. Zambia is part of the Southern African Power Pool (SAPP), a regional electricity grid that allows countries to trade electricity across borders. By investing in energy infrastructure and increasing its electricity generation capacity, Zambia aims to not only meet domestic demand but also position itself as a net exporter of electricity to neighboring countries. This could provide an additional revenue stream for Zambia while helping to stabilize the power supply in the region.

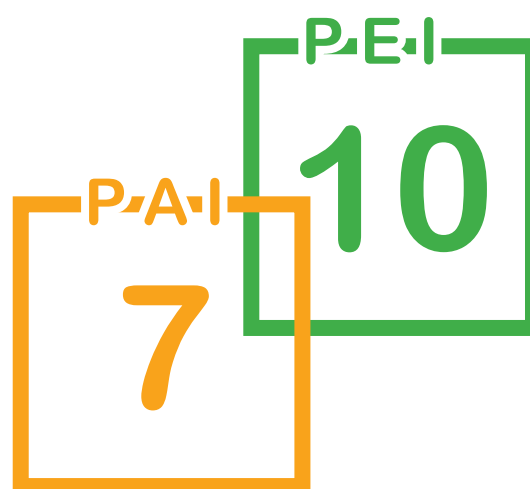
The government is also taking steps to improve the regulatory framework governing the energy sector. One of the key goals is to reduce inefficiencies and promote competition, especially in the generation and distribution of electricity. The Energy Regulation Board (ERB) is being empowered to ensure that both public and private energy companies operate efficiently, maintain service quality, and adhere to environmental standards. This will create a more dynamic and competitive energy market, encouraging innovation and investment in clean energy technologies.



What we think...

Policy Achievability Index (7): The shift to solar and thermal energy is a strategic move, and with growing investments in renewable energy globally, this is achievable. Though, it may take time to build capacity and attract significant foreign investment in the energy sector.

Policy Effectiveness Index (10): Diversifying the energy mix will reduce the risk of power shortages caused by droughts, which have heavily impacted Zambia in recent years. This will have a broad positive effect on all sectors, particularly agriculture and manufacturing. The effectiveness would increase further if Zambia can become a regional energy exporter.



Area of a square = $L \times L$
 $25 \text{ cm}^2 = 5 \times 5$

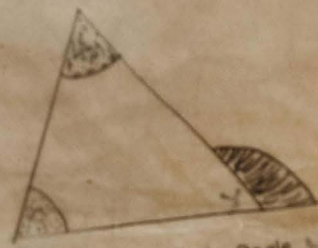
Find the Perimeter given the Area is 36 cm^2
 Perimeter is $6 \times 4 = 24 \text{ cm}$

Area = 60 cm^2
 Length = 15 cm
 Width = $\frac{\text{Area}}{\text{Length}} = \frac{60}{15} = 4$
 Width = 4 cm

Area of the outer rectangle
 Length = 55 cm
 Width = 35 cm
 Area = Length \times Width
 $55 \times 35 = 1925 \text{ cm}^2$

925
 1925
 425 cm

the interior angle opposite to the exterior angle

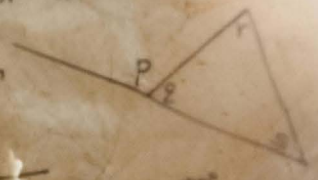


$\text{angle } a + \text{angle } y = 180^\circ$
 $\text{angle } b + \text{angle } z = 180^\circ$

From the statement above $a + b = c$
 $\dots = 180^\circ$

The exterior angle of a triangle is equal to the sum of the two interior opposite angles

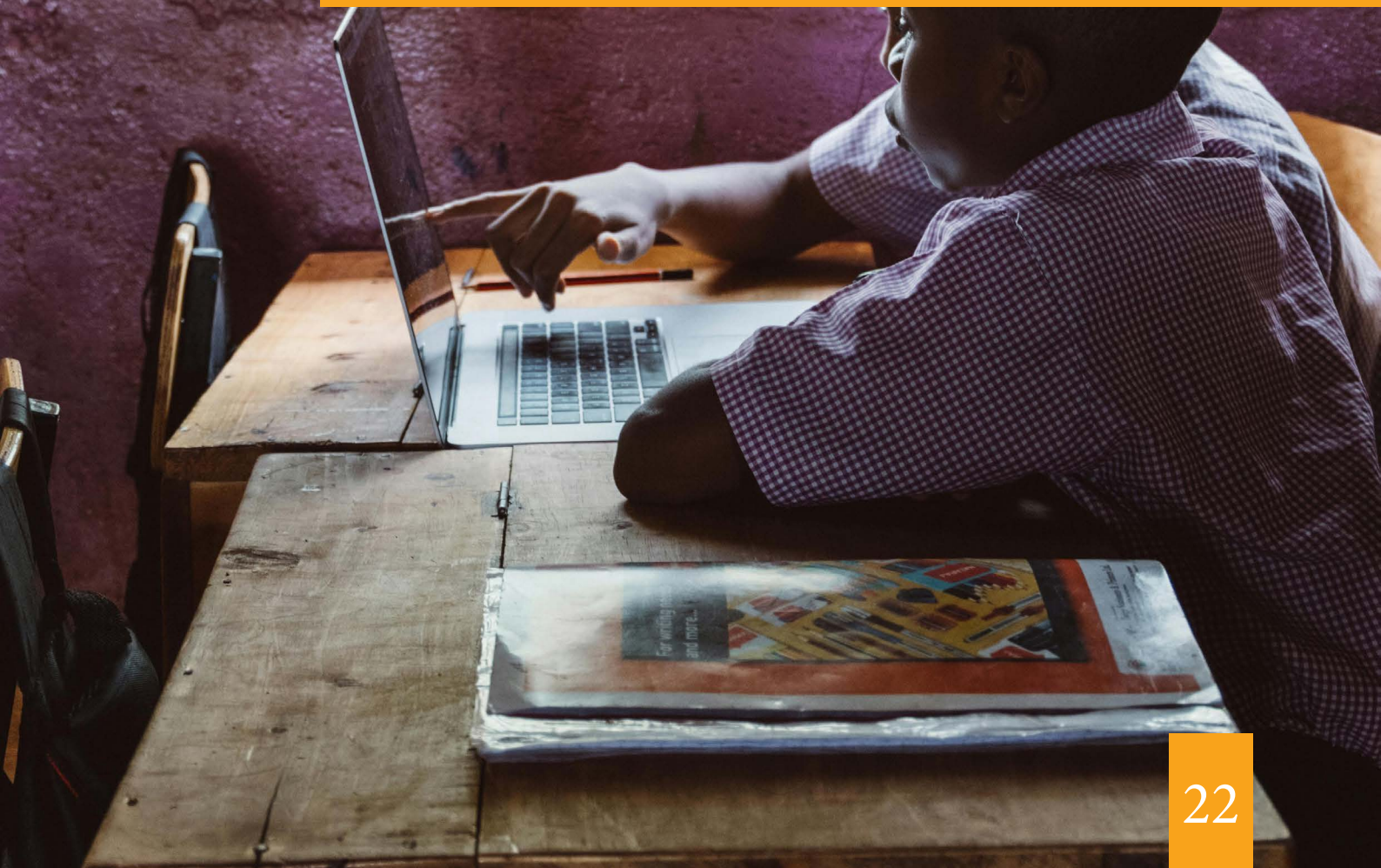
Therefore the diagram alongside



$a = 45^\circ$
 angles on a straight line adds up to 180°
 $45 + 135 = 180^\circ$
 $\therefore \text{angle } b = 135^\circ$

KEY
 RA — RIGHT ANGLE
 RV — RIGHT VERTICAL
 LA — LEFT ANGLE
 LV — LEFT VERTICAL

EDUCATION

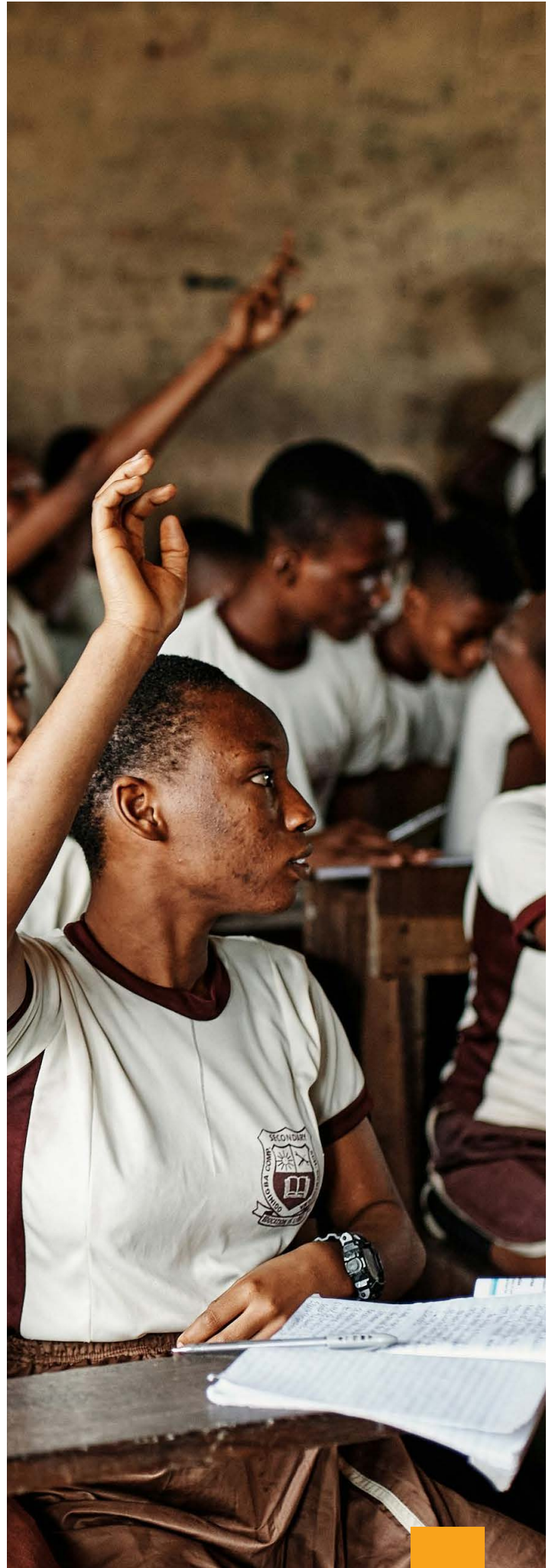


The education sector is a major priority in Zambia's 2025 budget, reflecting the government's commitment to building human capital and improving the quality of life for its citizens. With a significant allocation of K31.5 billion, the education policy focuses on expanding access to free education, improving infrastructure, and addressing the critical shortage of qualified teachers. These efforts are designed to enhance the overall quality of education in Zambia, reduce barriers to learning, and ensure that the country is well-equipped to meet its future economic and social development goals.

A key component of this infrastructure development is the expansion of early childhood education facilities. Early childhood education is critical for laying a strong foundation for future learning, and the government recognizes the importance of investing in pre-primary education. By constructing more early learning centers and providing training for early childhood educators, Zambia aims to ensure that children have access to quality education from an early age, which is essential for cognitive and social development. This investment in the early years of education is expected to have long-term benefits, improving literacy rates and educational outcomes as children progress through the education system.

The recruitment of 4,200 new teachers is another vital part of the education policy. Zambia has been grappling with a severe teacher shortage, which has contributed to poor teacher-to-student ratios, especially in rural areas. The 2025 policy seeks to address this issue by significantly increasing the number of teachers in the public education system. This recruitment drive is aimed at reducing classroom sizes, ensuring that students receive more individual attention, and improving the overall quality of teaching. The government is particularly focused on ensuring that newly trained teachers are deployed to rural and underserved areas, where the shortage of qualified teachers is most acute.

Furthermore, school feeding programs are being expanded as part of the 2025 education policy. These programs, which provide meals to students during the school day, have been shown to improve attendance and academic performance, particularly in areas where food insecurity is high. The government's investment in school feeding is not only a way to improve educational outcomes but also a means of addressing broader issues of malnutrition and poverty among children.



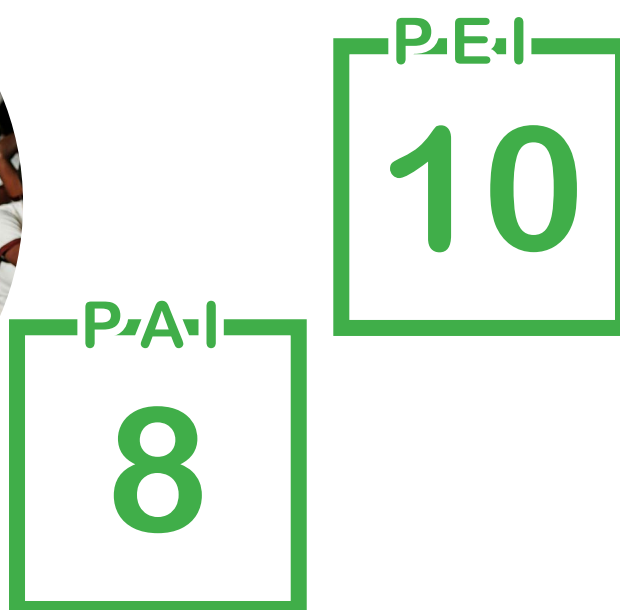
In addition to increasing teacher numbers, the government is committed to enhancing the quality of teacher training. The policy includes initiatives to improve teacher training colleges and provide continuous professional development for educators. By investing in teacher training, the government aims to raise the standards of teaching and ensure that teachers are equipped with modern pedagogical skills, including the ability to use technology in the classroom. This is especially important as Zambia seeks to modernize its education system and prepare students for a rapidly changing global economy. Teachers will be trained to incorporate digital tools into their teaching methods, helping students develop the skills they need to thrive in the digital age.

Technical and vocational education also receives attention in the 2025 budget, as the government seeks to address the gap between academic learning and practical skills. The policy promotes the expansion of technical and vocational education and training (TVET) programs to equip young people with the skills needed for Zambia's growing industries, such as manufacturing, construction, and technology. The government plans to establish new vocational training centers and enhance existing institutions to offer a broader range of courses tailored to the demands of the labor market. This focus on vocational training is crucial for reducing youth unemployment and ensuring that the workforce is prepared to meet the needs of a diversifying economy.

What we think...

Policy Achievability Index (8): The allocation is substantial, and Zambia has made considerable progress in expanding access to education. Recruiting new teachers and building infrastructure is feasible, though rural areas may face logistical challenges.

Policy Effectiveness Index (10): Investment in education has long-term benefits for economic growth and social development. Improving access to quality education boosts human capital, which is crucial for driving innovation and productivity in the future.





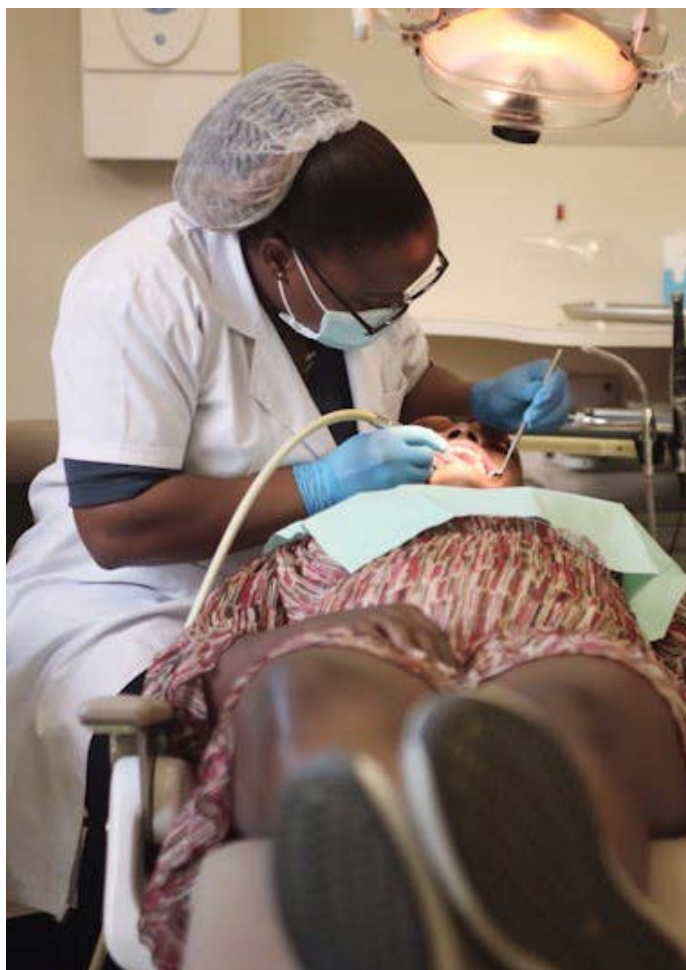
HEALTH

The health sector is a key focus of Zambia's 2025 budget, with a significant allocation of K23.2 billion aimed at improving healthcare delivery, expanding infrastructure, and addressing long-standing challenges in access to medical services. The government's health policy is centered around enhancing the availability of healthcare services, particularly in rural and underserved areas, improving the supply of essential medicines, and strengthening the overall healthcare system to support Zambia's population, especially in the wake of recent public health crises such as the COVID-19 pandemic.

A major component of the health policy is the expansion of healthcare infrastructure. Zambia faces a shortage of hospitals, clinics, and health centers, particularly in rural regions, where access to quality healthcare remains limited. The government plans to address this by constructing 279 new health facilities and 7 Level-1 hospitals across the country. These investments are designed to improve the geographical distribution of health services, ensuring that more Zambians, regardless of where they live, can access timely and effective medical care. The new hospitals and clinics will be equipped with modern medical equipment, allowing them to provide a wider range of services, from basic outpatient care to more specialized treatments.

In addition to building new facilities, the 2025 policy also emphasizes the upgrading and rehabilitation of existing healthcare infrastructure. Many of Zambia's public health institutions are operating in aging buildings that lack the capacity to handle the growing demand for services. The government is allocating resources to refurbish these facilities, ensuring that they are better equipped to serve their communities. This infrastructure investment will help reduce overcrowding in hospitals, cut down on patient waiting times, and improve the quality of care provided in both urban and rural areas.

Human resource development is another critical aspect of the 2025 health policy. Zambia has long struggled with a shortage of healthcare workers, which has led to overburdened staff, particularly in public hospitals. The government aims to address this issue by recruiting 4,000 new health personnel, including doctors, nurses, and clinical officers. The recruitment drive is focused not only on increasing the number of healthcare workers but also on improving the distribution of staff to underserved areas where the healthcare workforce is most limited. By filling these gaps, the government hopes to improve the ratio of healthcare workers to patients, ensuring that more people receive quality care and reducing the strain on existing personnel.



One of the pressing issues the 2025 health policy aims to tackle is the availability of essential medicines. Zambia has historically faced challenges with the procurement and distribution of drugs, often leading to shortages in public hospitals and clinics. To address this, the government is increasing its investment in pharmaceutical supply chains, ensuring that essential medicines are consistently available in health facilities across the country. This will be supported by improvements in storage and distribution systems, aimed at reducing waste and ensuring that medicines reach even the most remote health centers in a timely manner. The policy also includes plans to strengthen the regulatory framework for pharmaceuticals, ensuring that medicines meet safety and efficacy standards.

The government is also prioritizing maternal and child health, recognizing the importance of improving health outcomes for women and children as a key indicator of the overall health of the nation. Zambia continues to grapple with high maternal and child mortality rates, and the 2025 policy includes targeted interventions to reduce these figures. This includes expanding prenatal and postnatal care, ensuring that more women have access to skilled birth attendants, and increasing the availability of vaccinations for children. By investing in maternal and child health, the government aims to significantly lower mortality rates and improve the well-being of families across the country.

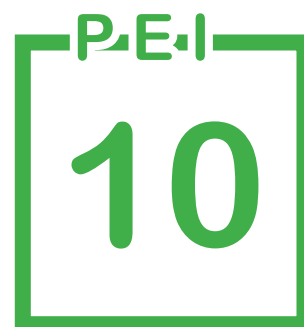
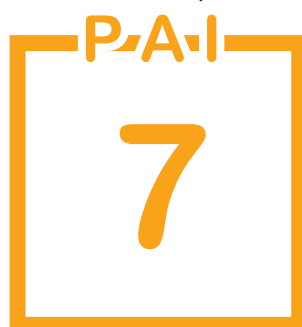
Another critical area of focus is disease prevention and control. The government is ramping up its efforts to combat communicable diseases such as HIV/AIDS, malaria, and tuberculosis (TB), which continue to pose significant public health challenges in Zambia. The 2025 budget allocates resources to expand testing, treatment, and prevention programs, particularly in high-risk communities. The government also aims to strengthen its public health surveillance systems to better track disease outbreaks and respond swiftly to potential health crises. This approach is designed to not only treat existing cases but also reduce the transmission of these diseases through widespread education, vaccination, and distribution of preventive measures like mosquito nets and antiretroviral treatments.

Additionally, the government is investing in healthcare technology and digital health solutions to modernize the delivery of medical services. This includes the development of electronic health records, telemedicine platforms, and mobile health applications that can connect patients in remote areas with doctors in urban centers. The use of technology in healthcare will improve patient management, reduce diagnostic errors, and allow for more efficient use of medical resources. Telemedicine, in particular, holds great potential for increasing access to specialized care for people living in rural areas, who often struggle to access medical specialists.

What we think...

Policy Achievability Index (7): Expanding health infrastructure and recruiting personnel is achievable, especially with the government's focus on post-pandemic recovery. However, challenges such as rural access to health services and healthcare distribution logistics could lower achievability.

Policy Effectiveness Index (10): Improving healthcare access will have a direct impact on the population's well-being, boosting labor productivity and reducing mortality rates. Addressing healthcare gaps, especially in rural areas, will significantly enhance the quality of life for many Zambians.





Social Protection



With an allocation of K16.1 billion, the government's social protection policy focuses on safeguarding the most vulnerable groups in society, ensuring food security, and creating pathways out of poverty through a comprehensive range of interventions. This commitment reflects the recognition that social protection is not only a humanitarian priority but also a key component of Zambia's broader strategy for achieving inclusive growth and social stability.

At the heart of the government's social protection policy is the expansion of the Social Cash Transfer Program, which remains one of the most direct and effective tools for poverty alleviation. The program provides financial support to 1.3 million households across Zambia, particularly targeting the elderly, disabled, and households headed by women or children. These cash transfers offer immediate relief, enabling families to meet their basic needs such as food, healthcare, and education. In rural areas where poverty levels are higher, the cash transfers serve as a lifeline for families struggling with the effects of climate change, market volatility, and unemployment.

Alongside cash transfers, the government has allocated funds for food security interventions, particularly in response to the lingering effects of the 2024 drought, which severely affected agricultural production. The Food Security Pack (FSP) program is designed to support vulnerable farmers by providing them with essential agricultural inputs such as seeds, fertilizers, and training. This assistance enables subsistence farmers to increase their food production and move towards self-sufficiency. By ensuring that vulnerable households have access to the resources needed for farming, the government aims to reduce the risk of food insecurity, which has been exacerbated by the unpredictable climate conditions in recent years.

In tandem with food security, the government is also focusing on livelihood empowerment programs, which are aimed at creating more sustainable sources of income for poor households. These programs, such as the Cash for Work initiative, target communities affected by natural disasters like droughts or floods. In exchange for participating in community development projects, such as road maintenance or public infrastructure development, participants receive cash payments that help them stabilize their incomes. The dual benefits of these programs lie in their ability to provide immediate income support while also building community assets that enhance the resilience of local economies.



In line with the government's focus on reducing poverty and inequality, children's welfare is another critical component of the social protection policy. Zambia has a large population of orphaned and vulnerable children, many of whom face barriers to accessing education, healthcare, and proper nutrition. The 2025 budget includes targeted programs aimed at improving the welfare of these children, providing them with access to educational support, healthcare services, and psychosocial counseling. These efforts are intended to safeguard the next generation, ensuring that vulnerable children have the opportunity to break out of the cycle of poverty and reach their full potential.

The home-grown school feeding program is an important element of social protection that addresses both food insecurity and education. This initiative provides nutritious meals to children attending schools in food-insecure areas, helping to boost attendance and improve learning outcomes. For many children, the meals they receive at school are their main source of daily nutrition. By expanding the school feeding program, the government hopes to encourage higher school enrollment, reduce drop-out rates, and improve the overall health and academic performance of children in rural and poor communities.

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Another pillar of the social protection policy is the expansion of pension schemes. In 2025, the government plans to broaden the coverage of pension systems to include more workers in the informal sector, which constitutes a large portion of Zambia's labor force. Many workers in informal employment do not have access to formal retirement savings plans, leaving them vulnerable in old age. By extending pension coverage, the government aims to provide social security to a wider range of workers, ensuring that they have financial stability in retirement. The reform of pension systems also includes improving the efficiency and financial sustainability of pension funds, ensuring timely payments and better management of pension resources.

What we think...

Policy Achievability Index (9): With a significant portion of the budget allocated to social protection, the government has shown a strong commitment to these programs. Expanding cash transfers and food security programs is realistic, given the country's experience with social safety nets.

Policy Effectiveness Index (7): Social protection programs provide immediate relief to vulnerable populations, particularly in areas affected by the drought. However, the long-term effectiveness depends on whether these interventions can help recipients transition from dependency to self-sufficiency.





INFRASTRUCTURE DEVELOPMENT



Infrastucture development plays a critical role in driving economic growth, improving connectivity, and enhancing the quality of life for the population. With an allocation of K12 billion, the government’s infrastructure policy focuses on expanding and upgrading essential transport networks, particularly road construction, as well as improving energy infrastructure and other key facilities that support economic activity. Infrastructure development is seen as a crucial enabler for Zambia’s industrialization efforts, supporting both urban and rural economies by improving access to markets, reducing costs of doing business, and creating jobs.

One of the flagship projects of the 2025 infrastructure development plan is the construction of the Lusaka-Ndola dual carriageway, which is set to be a vital economic artery, connecting two of Zambia’s most important cities—Lusaka, the capital, and Ndola, an industrial hub in the Copperbelt Province. This project is crucial for reducing travel times, improving road safety, and facilitating the efficient movement of goods between these regions. The Lusaka-Ndola corridor handles 70% of Zambia’s commercial road traffic, and the expansion of this route is expected to significantly reduce congestion, lower vehicle operating costs, and improve the efficiency of supply chains that link Zambia to its key export markets in the region.

The government’s focus on road infrastructure extends beyond this major highway. The 2025 policy also includes the construction and rehabilitation of rural roads and feeder roads that connect remote farming communities to urban markets. In many rural areas, poor road conditions have been a major barrier to economic development, limiting farmers’ ability to transport their produce to markets, especially during the rainy season. The development of these rural roads is intended to open up these areas to increased economic activity, facilitating the flow of goods and services and improving access to essential services such as healthcare and education. By enhancing rural connectivity, the government aims to reduce the rural-urban divide and promote more inclusive growth.

Public transport is another focus within urban infrastructure development. With cities experiencing increasing traffic congestion, the government is looking to enhance public transportation systems to provide more efficient and reliable alternatives to private vehicle use. This includes plans to introduce bus rapid transit (BRT) systems in Lusaka and other major cities, providing commuters with faster, more accessible, and environmentally friendly transport options.



The infrastructure policy also covers the expansion and modernization of airports and border facilities, which are essential for improving Zambia's trade links with neighboring countries and the wider world. Key airports, such as the Kenneth Kaunda International Airport in Lusaka and the Simon Mwansa Kapwepwe International Airport in Ndola, are being upgraded to handle larger volumes of passengers and cargo, supporting the growth of the tourism and export sectors. Improving the capacity and efficiency of these airports is vital for attracting foreign investment and facilitating the movement of goods and people across borders, positioning Zambia as a regional trade and logistics hub.

In the water and sanitation sector, the government has allocated resources for expanding access to clean water and improving sanitation facilities in both urban and rural areas. Access to clean water and proper sanitation remains a major challenge in many parts of Zambia, contributing to public health issues such as waterborne diseases. The infrastructure policy includes investments in water treatment plants, pipelines, and sanitation systems, particularly in areas that have been underserved by previous development efforts. These investments are expected to improve public health outcomes, reduce disease outbreaks, and ensure that more Zambians have access to clean drinking water and safe sanitation facilities.

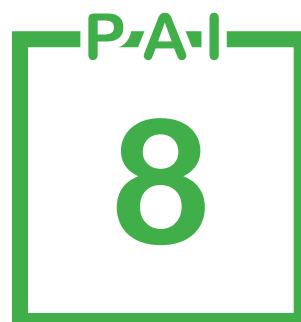
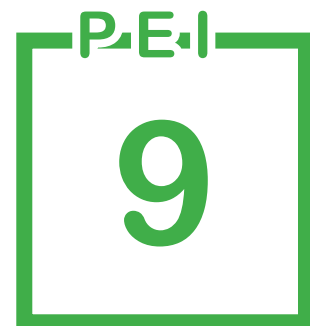
In addition to physical infrastructure, the government is also focusing on digital infrastructure, recognizing the importance of information and communication technology (ICT) for economic development. Expanding access to high-speed internet and improving ICT infrastructure is essential for supporting Zambia's ambitions in areas such as e-commerce, digital education, and telemedicine.



What we think...

Policy Achievability Index (8): With the significant budget allocation, achieving infrastructure development goals is highly likely. However, project delays and mismanagement could hamper progress.

Policy Effectiveness Index (10): Improved road infrastructure will reduce transport costs, enhance market access, and stimulate economic activity. The Lusaka-Ndola dual carriageway, in particular, is expected to ease transport between key economic regions, fostering trade and investment.





Strategic Implications for Commercial Banks



The 2025 Zambian budget brings both opportunities and challenges for commercial banks. With government prioritizing sectors such as agriculture, energy, and infrastructure, banks will need to navigate risks related to liquidity, market, and credit while strategically positioning themselves for growth. Drawing from past market behaviors and responses, our analysis explores how banks can adapt to these evolving conditions.

Liquidity Risk

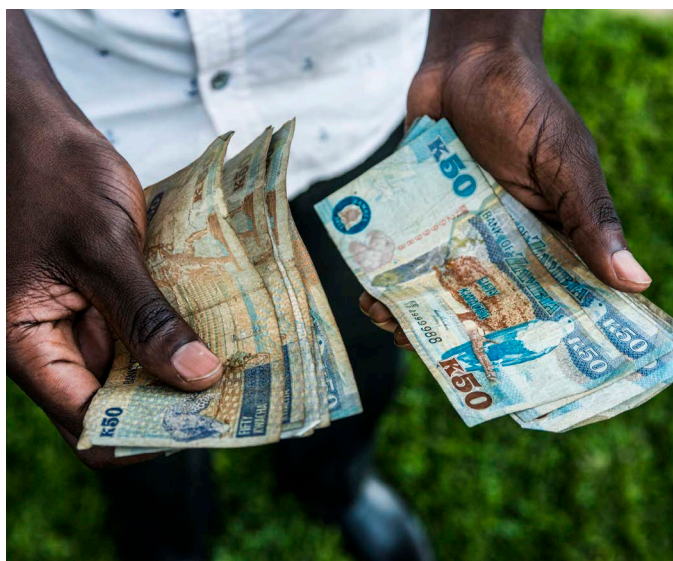
Zambian banks have been grappling with liquidity challenges, particularly following the government's efforts to mop up excess liquidity from the market. The Bank of Zambia's decision to raise the statutory reserve ratio to 26% has further constrained liquidity in the banking sector. This situation is not new; during the COVID-19 pandemic, banks faced similar constraints as the government increased domestic borrowing to manage the crisis. Many banks responded by raising interest rates on term deposits and turning to the Overnight Lending Facility (OLF) for short-term relief.

In the current scenario, the government's 9% increase in expenditure and continued reliance on external borrowing may ease pressure on local banks. However, liquidity remains a concern due to the rising statutory requirements. To counter

this, banks need to shift their focus towards attracting longer-term deposits, particularly from high-growth sectors. Strategies such as introducing digital savings products and collaborating with fintech companies to expand reach into rural areas can provide much-needed deposit inflows. Additionally, offering tiered interest rates for larger deposits can incentivize clients to lock in their funds for extended periods.

What We Think...

The current liquidity challenges are likely to persist unless banks adopt innovative deposit strategies. By focusing on digital products, targeting high-growth sectors, and collaborating with fintechs, banks can bolster their liquidity position. The OLF will remain a necessary tool in the short term, but long-term strategies must focus on securing more stable funding sources.



Credit Risk and Sector-Specific Exposure

Market risk is another pressing issue for Zambian banks, driven largely by inflation (currently at 15.6%) and the volatility of the kwacha. Currency depreciation, compounded by rising import costs and high inflation, poses significant foreign exchange risk for banks. This is particularly concerning for sectors such as mining and manufacturing, which rely heavily on imports. The recent policy rate increase to 13.5% by the Bank of Zambia will make borrowing more expensive, further squeezing the private sector's ability to take on new debt.

Historically, banks like Zanaco and FNB Zambia have managed similar market risks by introducing FX hedging solutions and focusing on sectors less sensitive to exchange rate fluctuations, such as ICT and telecommunications. For example, during the kwacha's steep depreciation in 2015, many banks reduced their exposure to high-risk sectors while offering products that helped businesses hedge against currency and interest rate risks.

Looking ahead, banks should enhance their FX hedging tools and interest rate management products to help clients, particularly large corporate borrowers, manage their exposure to market volatility. At the same time, portfolio diversification remains key. By reallocating lending to more resilient sectors, such as local manufacturing or telecommunications, banks can reduce their reliance on volatile sectors.

What We Think...

Market volatility is a long-term concern for Zambian banks, especially given the current inflationary pressures and currency depreciation. Expanding FX hedging solutions and offering fixed-rate loans will help mitigate these risks. We believe that diversifying portfolios into less volatile sectors will be crucial for maintaining stability amidst economic uncertainty.

Expected Bank Responses and Strategic Adjustments

Credit risk remains one of the most significant challenges for banks, particularly given the 2025 budget's focus on sectors like agriculture and energy. While both sectors are critical for Zambia's economic recovery, they also present heightened credit risks. The agricultural sector is especially vulnerable to adverse weather conditions, as seen in the 2023/2024 drought that severely impacted production. In 2016, during a similar drought, banks such as Barclays Zambia and Zanaco experienced high default rates, particularly among small-scale farmers. To mitigate these risks, many banks introduced insurance-backed loans that offered some protection against weather-related defaults.

In the energy sector, the government's investment in renewable energy projects (such as solar and thermal) presents significant growth opportunities but comes with infrastructure-related risks. Given Zambia's reliance on hydro power and ongoing challenges in hydropower production, any delays in these projects could lead to significant financial strain on borrowers.

Banks need to carefully assess credit risk by adopting insurance-backed lending models in agriculture and project finance solutions for renewable energy. Additionally, the expansion of the Zambia Credit Guarantee Scheme in the 2025 budget provides an opportunity to extend credit to SMEs while reducing direct exposure to default risks.

What We Think...

Credit risk is inevitable in high-growth but vulnerable sectors like agriculture and energy. However, by leveraging insurance-backed products and government-backed guarantees, banks can reduce their risk exposure while tapping into these essential sectors. We recommend a cautious but proactive approach, particularly in agriculture, where weather-related risks remain significant



Growth Opportunities

Despite these risks, Zambia's 2025 budget presents several growth opportunities for banks willing to adopt sector-specific strategies. Agriculture, for example, offers potential for expansion, particularly in areas like irrigation and mechanization, which the government has prioritized. Banks can offer equipment leasing finance and input loans, targeting commercial farmers who are better positioned to withstand economic shocks.

In the energy sector, banks can take advantage of the government's push for renewable energy by offering green financing products such as green bonds and sustainability-linked loans. With Zambia's increasing investment in solar and thermal power, these financing options could position banks as leaders in sustainable finance.

The construction and infrastructure sectors also stand to benefit from significant public investment, particularly in public-private partnerships (PPPs). Banks should focus on providing project finance for infrastructure development, following successful models used by FNB Zambia in previous large-scale road projects.



GLOBAL ECONOMIC CLIMATE



Global Economic Outlook and Zambia's Macroeconomic Objectives

Approaching the year end, the global economic outlook remains highly uncertain for 2025, influenced by ongoing geopolitical tensions, supply chain disruptions, and rising commodity prices, especially due to conflicts like the Israeli-Palestinian war. For Zambia, these global factors present both challenges and opportunities that will significantly impact the achievement of its macroeconomic objectives, such as 6.6% GDP growth, 6-8% inflation control, and fiscal stability.

Rising global oil prices due to geopolitical instability could have an immediate inflationary effect on Zambia's economy. As a net importer of petroleum, Zambia is particularly vulnerable to fluctuations in energy prices. Increased fuel costs would lead to higher production and transport costs across sectors, potentially pushing inflation above the targeted 6-8% range. This would undermine price stability and the purchasing power of consumers, particularly in rural areas that rely heavily on agricultural transport.

Additionally, global copper demand, driven by the green energy transition, remains a key factor for Zambia's mining sector. However, any downturn in global markets due to geopolitical or economic shocks could reduce demand for copper, affecting Zambia's export revenues and its balance of payments. If copper prices fall, this would hinder the country's goal of boosting production to 3 million tonnes and slow down the recovery of foreign exchange reserves, which are critical for supporting the exchange rate and import cover.

On the positive side, Zambia could benefit from rising prices for non-oil commodities such as copper, which may partially offset the negative impacts of rising oil prices. The demand for raw materials related to renewable energy production is expected to remain strong, bolstering Zambia's export earnings and contributing to fiscal revenues. If global copper prices remain favorable, this would support the government's objective of achieving 6.6% GDP growth through increased mining output and exports.

However, global uncertainty may also affect foreign direct investment (FDI), a crucial source of funding for Zambia's infrastructure and energy projects. International investors may become more risk-averse in a volatile global environment, slowing down investment flows into Zambia. This could delay the achievement of key infrastructure and energy development goals, impacting sectors that are essential for economic diversification.

Lastly, the global focus on addressing conflicts and crises elsewhere may lead to a reduction in development aid and grants, potentially complicating Zambia's ability to finance social programs and infrastructure projects. This could further strain Zambia's fiscal position, making it harder to reduce the deficit to the targeted 3.1% of GDP.