

**Comments on the
Annual Borrowing Plan
for the 2026 Financial
Year**

ZICA

1.0 INTRODUCTION

- i. The Zambia Institute of Chartered Accountants (ZICA) is a professional membership body whose function, among others, is to advise Government on matters of national and economic development. The Institute is also mandated to develop, promote and enforce internationally comparable practice standards in Zambia as well as protect and assist the public in all matters relating to the practice of accountancy. With this mandate in mind, our comments on the Annual Borrowing Plan for the financial year 2026 have been made with full cognizance of our obligations as promulgated in the Accountants Act as well as our professional resolve to act in the public interest.

We are privileged to be invited to make oral and written submissions to the Planning and Budgeting Committee on the consideration of the Annual Borrowing Plan (ABP) for the financial year 2026.

ii. Executive Summary

The 2026 Annual Borrowing Plan (ABP) Amendment represents a significant and high-risk deviation from its stated fiscal consolidation path. While the borrowing is directed towards strategically important and socially necessary expenditures, namely, clearing costly fuel arrears and funding critical social safety nets amidst a severe drought the scale and nature of the domestic financing pose substantial threats to macroeconomic stability.

In 2026, the Government plans to spend **K253.09 billion**, with funding sourced from tax and non-tax revenues, grants, and debt. Total revenue and grants are

projected at **K218.60 billion**, resulting in a fiscal deficit of **K34.49 billion**. This deficit will be financed through a combination of domestic financing of **K21.62 billion** and external financing of **K12.87 billion**.

The domestic financing of **K21.62 billion** relates to new debt to be raised from the domestic market through issuances of Government securities in 2026, while the external borrowing of **K12.87 billion** relates to projected disbursements on already contracted loans.

The principal risks are manifold and interconnected. The expanded domestic borrowing will intensify the crowding out of private sector credit, a sector already facing tight conditions and high borrowing costs, thereby stifling investment and the potential for private sector led growth. This fiscal expansion places the Treasury on a conflicting path with the Bank of Zambia's (BoZ) aggressive monetary tightening, threatening to fuel inflationary pressures and undermine the central bank's efforts to steer inflation back to its target band. This policy divergence risks de-anchoring inflation expectations and threatens the credibility of the government's fiscal targets.

2. ANALYSIS AND IMPLICATIONS OF THE ANNUAL BORROWING PLAN (ABP) FOR THE FINANCIAL YEAR 2026

2.1 Debt to be Contracted in 2026

In 2026, the Government plans to borrow **K21.62 billion** from the domestic market for budget support. Government does not plan to contract any new external loans in 2026, therefore, external financing in the 2026 budget relates only to disbursements on already contracted debt.

2.2 Domestic Financing

In line with the Medium-Term Debt Strategy, borrowing from the domestic market will be utilised to refinance domestic debt falling due within 2026 and finance part of the budget deficit. Government bonds will continue to be issued at face value with market driven coupon rates while Treasury bills will continue to be issued at a discount at market yield rates. Additionally, Government securities will be issued in local currency through competitive and non-competitive bidding at single price allotment.

Accordingly, gross domestic borrowing for the financial year 2026 is projected at **K106 billion**. Of this amount, **K21.62 billion** will go towards financing part of the 2026 budget deficit, with the remaining **K84.38 billion** being utilised to refinance domestic debt maturities.

Further, commencing in 2026, Government will undertake market based domestic debt portfolio optimisation operations. These operations are intended to develop and deepen the domestic debt and capital markets through the re-introduction of Government's benchmark bond programme, as well as optimise our debt management strategies with the goal of elongating the maturity profile and smoothening the redemption profile of our existing debt in the medium to long term.

2.3 External Financing

Projected Disbursements on Existing Loans

In 2026, disbursements on loan financed projects are projected at **US\$494.98 million**. The timing of the disbursements will be in line with the implementation schedules and quarterly milestones of the projects. The funds will be utilised for the implementation of ongoing projects across various sectors of the economy.

Implementation of these projects is key to achieving economic transformation as set out in the 8NDP.

Description	2026 Projected Disbursements (US \$)
Drawdown on already contracted loans	494,984,000.00

2.4 Net Change in Public Debt

Total Government securities issuances in 2026 are projected at **K106 billion**. With maturities on domestic debt estimated at **K84.38 billion**, the net increase on the domestic debt stock is projected at **K21.62 billion** as at end December 2026.

On the external side, disbursements are projected at **US\$ 494.98 million (K12.87 billion)**, while principal repayments are projected at **US\$573.04 million (K14.90 billion)**, resulting in a net decrease of **US\$78.06 million (K2.03 billion)** in the external debt stock.

Overall, the projected impact of Central Government borrowing operations in 2026, both domestic and external, is a net increase of **K19.59 billion (US\$509.35 million)** in the stock of Central Government debt by end December 2026, relative to the debt stock as at end December 2025.

3. IMPLICATIONS OF THE PROPOSED BORROWING

3.1 The 2025 Fiscal and Economic Landscape

The decision by the Government of the Republic of Zambia to significantly amend its 2026 Annual Borrowing Plan cannot be analysed in isolation. It is a direct consequence of a severe and multifaceted crisis environment that has rendered the original fiscal framework untenable. The convergence of an unprecedented climate shock, persistent inflationary pressures, and the stringent requirements of a post-debt-restructuring economic program has forced a dramatic re-evaluation of the country's financing needs. This section establishes the challenging context in which the borrowing plan was formulated, highlighting the severe external shocks and the growing divergence between initial plans and emerging realities.

3.2 The IMF Program and Debt Restructuring Context

All of Zambia's fiscal and monetary policy actions are framed by its 38-month, approximately \$1.7 billion ECF arrangement with the IMF, which was approved in August 2022. This program is designed to support the government's homegrown 8NDP, with key objectives of entrenching macroeconomic stability and restoring fiscal and debt sustainability. Through multiple reviews, the IMF has assessed Zambia's program performance as "broadly satisfactory," acknowledging the government's commitment to reform despite the challenging environment.

A critical component of this context is Zambia's debt situation. Following a sovereign default in 2020, the country embarked on a long and arduous debt restructuring process under the G20 Common Framework. By 2024,

agreements had been reached with the Official Creditor Committee and private bondholders, a landmark achievement that provided significant debt relief.

The outcome of this process is precarious stability. The IMF's latest Debt Sustainability Analysis (DSA) assesses Zambia's public debt as **sustainable**, a major improvement from the previous "in debt distress" status. However, the analysis immediately qualifies this by stating that the country remains at a **high risk of both overall and external debt distress**. This classification means that while the current debt trajectory is manageable under the program's assumptions, the nation has very little space to absorb new shocks. Any significant negative deviation in growth, fiscal performance, or the exchange rate could quickly tip the country back towards unsustainability. The IMF has been explicit that continued fiscal consolidation, prudent monetary policy, and the accumulation of reserves are "crucial for safeguarding macro-financial stability and building resilience against shocks". The borrowing plan must be viewed through this lens of extreme fiscal fragility.

3.3 Deconstructing the 2026 Annual Borrowing Plan

The 2026 Annual Borrowing Plan, prepared in accordance with the Public Debt Management Act of 2022, represents a fundamental and substantial revision of the government's financing strategy for the fiscal year. It moves beyond a simple quantitative adjustment to introduce new borrowing instruments and risk profiles into the domestic debt portfolio. This section provides a granular examination of the plan, detailing the amounts, instruments, purpose, and, most critically, the terms of the new debt being contracted.

3.4 *Borrowing Strategy*

The K21.62 billion will be raised through a single, uniform method. The government has outlined a one-pronged strategy, financing mechanisms, and risk characteristics.

Breakdown of the 2026 Domestic Borrowing Plan (ZMW Billions)			
Component	Financing Instrument	Amount (ZMW)	Purpose
General Budget Support	Issuance of Government Securities (Treasury Bills & Bonds)	21,620,000,000	Finance widened budget deficit due to higher debt service and election related costs).
Total Borrowing		21,620,000,000	

The **K21.62 billion** facility to be raised through the conventional issuance of Government securities (Treasury bills and bonds) via competitive public

auctions. These funds are designated for general budget support, specifically to accommodate the widened budget deficit resulting from higher than anticipated debt service obligations, election related costs and increased projected expenditures on key social programs, namely the Farmer Input Support Programme (FISP) and the Social Cash Transfer (SCT). The cost of this borrowing will be market-determined, reflecting the prevailing interest rates and investor appetite at the time of the auctions.

This approach signals a potential fragmentation and stress within the domestic financial market. It implies that the government may believe the market's capacity to absorb new paper is not limited, and that attempting to raise the full K21.62 billion through auctions could drive yields to prohibitively high levels, increasing the cost of all government debt.

4. COSTS AND RISKS INHERENT IN THE PROPOSED DEBT AND APPROPRIATENESS OF THE RISK MANAGEMENT STRATEGY

Domestic Debt Risks:

- **Market Saturation:** Increased issuance of Treasury bills and Government bonds may lead to market saturation, resulting in higher yields demanded by investors.
- **Inflationary Pressures:** High levels of domestic borrowing can contribute to inflationary pressures if not managed carefully.

External Debt Risks:

- **Exchange Rate Risk:** Given that a significant portion of the new external debt will be in foreign currencies, there is a substantial exchange rate risk that could affect repayment costs.
- **Debt Servicing:** While the concessional nature of the loans mitigates some risks, the total volume of external debt increases the overall debt servicing burden.

5. *ADDITIONAL INFORMATION AND RECOMMENDATIONS*

Recommendations

- **Debt Management Strategy:** A comprehensive debt management strategy should be implemented to monitor and manage the growing debt levels effectively. This includes setting clear guidelines for future borrowing and exploring alternative financing options.
- **Economic Diversification:** Efforts should be intensified to diversify the economy to enhance revenue generation, which can reduce reliance on borrowing.
- **Strengthening Institutions:** Institutional frameworks governing public debt management should be strengthened to ensure transparency and accountability in debt contraction and utilization.

Additional Information

- **Macroeconomic Stability:** Ensuring macroeconomic stability through sound fiscal and monetary policies will be crucial in managing the debt effectively.
- **Stakeholder Engagement:** Continuous engagement with key stakeholders, including international financial institutions and domestic financial markets, will be essential in securing favorable borrowing terms and maintaining investor confidence.

6. *PRESENTING A FORWARD-LOOKING VIEW ON THE BORROWING PLAN*

ZICA would like to take a forward-looking view beyond the published Annual Borrowing Plan. The Debt Sustainability Analysis (DSA) that was conducted indicated that Zambia's debt was unsustainable and the country faced debt distress. Looking forward into the future, the country needs to ensure that we do not fall

into such a situation ever again. The debt restructuring which was reached with creditors has in effect shifted the burden of debt repayments from the current generation to the future generation.

If the economy or country resources are not managed prudently, the future may prove to be a very difficult one for the next generation as a result of the debt burden from the extended maturity of the current debt. 2043 looks too far but not far enough for those in primary or secondary school currently.

7. ZICA RECOMMENDATIONS ON THE ABP

To increase the probability of achieving the bull case and mitigate the risks of the bear case, the government must act with urgency and discipline on several fronts:

- **Enhance Fiscal-Monetary Policy Coordination:** The current collision course between expansionary fiscal policy and contractionary monetary policy is untenable. The GRZ should establish a high-level, formal, and transparent coordination mechanism between the Ministry of Finance and National Planning and the Bank of Zambia. The objective of this body would be to ensure that fiscal financing plans are fully consistent with monetary policy objectives. Future borrowing plans must be rigorously stress-tested against inflation and interest rate targets before being presented to Parliament.
- **Develop and Publish a Credible Medium-Term NDF De-escalation Path:** To restore the credibility of its fiscal anchors, the government must urgently articulate and publish a clear, time-bound, and quantitative strategy for reducing Net Domestic Financing back to the sustainable levels outlined in the MTBP. This cannot be a vague promise; it must be a concrete plan that will inform the formulation of the 2026 National

Budget, which will be the single most important test of this commitment.

- **Accelerate Expenditure Efficiency and PFM Reforms:** The government must double down on reforms that improve the quality and efficiency of its spending to create fiscal space from within. This includes aggressively implementing biometric verification and other measures to root out ghost beneficiaries and input leakages in FISP, strengthening public procurement processes to prevent the cost overruns and irregularities that have plagued past infrastructure projects, and enhancing the financial oversight and governance of State-Owned Enterprises (SOEs) like ZESCO to prevent the future accumulation of contingent liabilities.

8. CONCLUSION

The 2026 Annual Borrowing Plan (ABP) addresses the requirement for the Government to bridge the financing gap in the 2026 National Budget. In addition, publication of the ABP demonstrates Government's commitment to enhance transparency and accountability in the contraction of public debt.

We believe that the added scrutiny should ultimately result in improved debt management by the Government.