

## Statement

20<sup>th</sup> December, 2021

### **WILL RESOURCES REALIZED FROM SUBSIDY REMOVAL REALLY BE UTILIZED TO CUSHION THE POOR AND VULNERABLE?**

On 16<sup>th</sup> December, 2021, the Energy Regulation Board (ERB) announced fuel price adjustments. Wholesale and pump prices for petroleum products were revised upwards effective midnight 16<sup>th</sup> December, 2021. The pump price of one litre of Petrol has increased by K3.54 and now pegged at K21.16 from K17.62. The pump price of one litre of diesel was also increased by K4.56 to K20.15 from K15.59. The pump price of one litre of Low Sulphur Gasoil (LSG) was increased from K17.82 to K22.29 which gives an absolute variance of K4.47. Kerosene prices have remained unchanged. This follows an announcement by the government that fuel subsidies will be removed so as to migrate to cost reflective pricing as a measure to return the nation on a path to debt sustainability. This adjustment is part of the economic reforms being implemented by the United Party for National Development (UPND) Government as part of its staff-level agreement with the International Monetary Fund.

The Jesuit Centre for Theological Reflection (JCTR) notes that fuel pricing in Zambia is determined by two key fundamentals i.e. international fuel prices and exchange rates. JCTR has observed that pump prices have been kept artificially constant since 26<sup>th</sup> December, 2019, despite movements in the key fundamentals. Since the December 2019 fuel price adjustments, Government policy of reviewing fuel prices every 60 days was not adhered to, due to the subsidies and tax incentives which were introduced by the Patriotic Front (PF) Government. Until 16<sup>th</sup> December, 2021, the Government had been spending over US\$67 million per month or US\$800 million per annum on fuel subsidies. The ERB proposal to start reviewing fuel prices every 30 days instead of every 60 days is a welcome position. The review of fuel prices every 30 days and the pricing trigger band of 2.5% change in wholesale prices should be strictly adhered to, to allow for price stability when new fuel prices are introduced. This will provide for smooth and gradual fuel price adjustments.

Without the current tax relief on petroleum products such as zero rated VAT as opposed to it being at 16%; and Excise Duty being reduced from K2.07/litre to K0.64/litre on petrol while diesel and LSG, moved from K0.66/litre to K0.00/litre, fuel prices would have been higher. These tax incentives recommended by the Energy Regulation Board (ERB) should be maintained as a mitigation measure which will lead to fuel prices gradually migrating to cost reflectivity without the requirement of subsidies.

Positive investor sentiment and the continued appreciation of the Kwacha are giving Zambia a positive economic outlook which will greatly control any future fuel price adjustments. The 4<sup>th</sup> wave of the COVID-19 pandemic poses a risk to the current, positive economic outlook. The transformation of the TAZAMA Pipelines Limited into a finished products pipeline and the standardisation of import cost lines to make procurement costs for petroleum products more competitive are some of the reforms that will support Zambia's positive economic outlook. The Government should ensure that TAZAMA Pipelines becomes operational as this will reduce the cost of transporting fuel in Zambia, reduce expenditure on road infrastructure renovations.

The cost of living for a family of five as measured by the JCTR Basic Needs and Nutrition Basket (BNNB) for November 2021 stood at K8,145.28. This is already far beyond the reach of most households in Lusaka. The ripple effects from the upward adjustment of fuel prices will increase the cost of living and therefore, negatively affect the poor and vulnerable in society. JCTR would like to remind the nation that the pronouncement in December 2019; regarding increment of fuel pump price saw the cost of living as measured by JCTR's BNNB rise from K6,600 in December 2019 to K7,410 in January 2020 in Lusaka. The same was seen in all the towns where the Basic Needs and Nutrition Basket (BNNB) survey is conducted. JCTR further wishes to highlight that while the cost of living keeps increasing, salaries and incomes remain very low. The 2020 Labour Force Survey pegs average incomes in Zambia at K4,391. This is way below the cost of living in a number of places and therefore means that families' living conditions are compromised. What is worse is that incomes have not increased at a rate similar to the cost of living. Between January 2019 and January 2020 the cost of living rose by over 37% due to the fuel pump price adjustment in December 2019. But how many Zambians got a 37% income rise in 2020 for example to keep up with inflation and sharp increase in cost of living. As we close 2021, at the backdrop of hiked fuel prices, Government has announced a 12% salary increment for all civil servants while salaries in the private and informal sector have remained static.

However, the Government's position is that the removal of subsidies will result in more money to be spent on free education, hiring more teachers and medical personnel, bursaries and meal allowances to vulnerable pupils and students, enhancing education and health services and enhancing social protection programmes such as social cash transfer.

In light of the above, JCTR has the following recommendations to the Government:

1. The review of fuel prices every 30 days and the pricing trigger band of 2.5% change in wholesale prices should be strictly adhered to, to allow for price stability when new fuel prices are introduced. This will provide for smooth and gradual fuel price adjustments.
2. The tax incentives recommended by the Energy Regulation Board (ERB) should be maintained as a mitigation measure which will lead to fuel prices gradually migrating to cost reflectivity without the requirement of subsidies.
3. The Government should ensure that TAZAMA Pipelines becomes operational as this will reduce the cost of transporting fuel in Zambia and reduce the wear and tear of roads.
4. The Government should ensure that the money it was spending on subsidies is well spent on free education, hiring of teachers and medical personnel, bursaries and meal allowances to vulnerable pupils and students and on other social welfare programmes that benefit the poor and vulnerable in society.

In conclusion, the Zambian people are closely watching to ensure that the resources realized from removal of subsidies are really going to be utilized to cushion the poor and vulnerable. It is a social justice imperative that the Government takes deliberate measures to improve the living standards and conditions of the poor and vulnerable people in our society.

**Fr. Alex Muyebe, S.J., JCTR Executive Director. For further information, please contact the Jesuit Centre for Theological Reflection (JCTR) on 0954755319. Email: [media.information@jctr.org.zm](mailto:media.information@jctr.org.zm). Martin Mwamba Road, Plot 3813 Martin Mwamba Road, Olympia Park – Lusaka. P. O. Box 37774 Lusaka - Zambia**

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