

SOME EXCERPTS FROM THE 2019 BUDGET SPEECH BY THE MINISTER OF FINANCE OF THE REPUBLIC OF ZAMBIA - “Delivering Fiscal Consolidation for Sustainable and Inclusive Growth”

- * Zambia is and will remain a Christian nation whose values, principles and ethics in all aspects of life are anchored on our covenant with God. These values will always be mainstreamed in the country’s policies and national development plans to guide our attitudes and aspirations
- * Reflecting on the past decade on the progress made and lessons learnt in the country’s quest to create an inclusive and just society that leaves no one behind. Notable achievements over the decade include among others:
 - i. The amendment of the Republican Constitution,
 - ii. Expansion in our health and education facilities,
 - iii. Enhanced interconnectivity of our country through improved road and information and communication technology infrastructure
 - iv. Scaled up the provision of social safety nets for the vulnerable

The Government will consolidate and build on these achievements

- * Government has laid the ground for a more inclusive economy. However, it acknowledges that growth remains below the country’s potential and poverty remains high, especially in rural areas. To address these challenges, the private sector needs to be encouraged to invest, innovate and create jobs. In practice this means that Government needs to reduce the fiscal deficit, maintain debt within sustainable levels and build a smart Zambia to stimulate private sector investments.
- * The 2019 budget thus seeks to progressively reduce the fiscal deficit, maintain a sustainable debt position and safeguard the vulnerable of our society. These are the current key issues that must be dealt with decisively and by doing so, lay the foundation for the country’s higher and sustainable growth.
- * Zambia is a sovereign and unitary State as enshrined in the Constitution and is also governed by international law. As a sovereign state, the government makes decisions that foster the best interests of its people. Therefore, any insinuations on Government surrendering strategic assets to foreign interests are unfounded.

DOMESTIC ECONOMIC DEVELOPMENTS IN 2018

- * In line with the high global growth, commodity prices trended upwards in 2018. Copper prices averaged US\$6,723 per tonne in the first eight months of 2018 compared to US\$5,892 per tonne in the same period in 2017. However, the prices moderated after the first half of the year and are now around US\$6,000 per tonne.

Economic Growth

- * The economy in 2018 is projected to grow at around 4 percent from 3.4 percent in 2017. This is due to improved performance in sectors such as mining, construction, manufacturing, wholesale and retail trade as well as stable and reliable energy supply that is supporting growth. However, agriculture output was subdued in the last farming season due to prolonged dry spells given our dependence on rain-fed agriculture.
- * Overall revenue and grants for 2018 are expected to be broadly in line with the 2018 Budget projections. However, expenditures are projected to be higher on account of higher interest payments and project loan disbursements. Consequently, the budget deficit is estimated at 7.4 percent of GDP against the target of 6.1 percent

Debt Position

- * Government's external debt stock as at end-June 2018 was US\$9.4 billion, representing 34.7 percent of GDP from US\$8.7 billion as at end-December 2017. The increase was on account of disbursements on existing loans. The total stock of Government guaranteed debt stood at US\$1.2 billion as at end-June 2018
- * The stock of domestic debt in the form of Government securities amounted to K51.9 billion as at end-June 2018 representing 19.2 percent of GDP, compared to K48.4 billion as at end-December 2017. Domestic arrears amounted to K13.9 billion by end-March 2018 from K12.7 billion as at end-December 2017.

Monetary and Financial Performance

- * Implementation of monetary and supervisory policies by the Bank of Zambia continued to focus on containing inflation within the target band of 6-8 percent, strengthening the resilience of the financial sector and supporting economic activity. The Policy Rate was reduced to 9.75 percent in May 2018 from 12.5 percent in November 2017. Over the same

period, the statutory reserve ratio was reduced to 5.0 percent from 8.0 percent.

- * Inflation remained relatively stable within the target range of 6-8 percent in the first half of 2018. Inflation was 7.9 percent in September 2018 from 6.1 percent in December 2017. Food inflation was the key driver of the increase and was recorded at 8.6 percent in September 2018 compared to 4.8 percent in December 2017. Over the same period, non-food inflation reduced to 7.3 percent from 7.5 percent.
- * Following the easing of monetary policy, lending rates declined to an average of 23.5 percent in August 2018 from an average of 26.7 percent in December 2017. These rates, however, remain too high to support private sector growth. Consequently, domestic credit to the private sector remained relatively subdued, with growth of 6.7 percent during the year to August 2018. Nonperforming loans, at 11.9 percent as at end-August 2018, remained above the prudential threshold of 10 percent.
- * Government also concerned with the high cost of most financial services which has been constraining business expansion as well as financial inclusion. To address this, the Bank of Zambia, in August 2018, issued directives to do away with unwarranted bank charges and fees.

External Sector Performance

- * Export earnings increased by 20.7 percent to US\$4.6 billion during the first half of 2018 from US\$3.8 billion over the same period in 2017. Copper export earnings were the largest contributor at US\$3.5 billion from US\$2.9 billion following an increase in both price and export volumes. Non-traditional exports increased by 17.7 percent to US\$911 million from US\$774.1million. Notwithstanding the increase in export earnings, the current account deficit widened to US\$756.5 million in the first half of 2018 compared to US\$340 million in the corresponding period in 2017. This was explained by higher growth in imports relative to export earnings, an increase in interest payments on public sector external debt, and dividend payments to non-resident shareholders.
- * In the foreign exchange market, the Kwacha remained relatively stable. The Kwacha depreciated by 0.9 percent to an average of K10.10 per United States dollar in August 2018 from K10.01 in December 2017. The depreciation was mainly on the backdrop of the strengthening of the United States dollar. However, during the month of September 2018, the

market has seen increased pressure on the exchange rate mainly due to increased demand for foreign exchange by fuel importers.

Implementation of Reforms (Economic Stabilization and Growth Programme)

- * Government remains committed to implementing reforms as outlined in the Economic Stabilization and Growth Programme, and the Seventh National Development Plan. Notable policy, structural and legislative reforms have been undertaken in agriculture, public financial management, domestic resource mobilization, and state owned enterprises

MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2019

- * In 2019, the Government will continue to promote not only broad based sustainable and inclusive growth, but also address the high unemployment and poverty levels among our people. Creating space for private sector growth and entrenching macroeconomic stability through fiscal consolidation is central to this process
- * The specific macroeconomic objectives for 2019 will be to:
 - i) Attain annual GDP growth rate of at least 4 percent;
 - ii) Sustain inflation within the range of 6 to 8 percent;
 - iii) Raise international reserves to at least 3 months of import cover;
 - iv) Increase domestic revenue to not less than 18 percent of GDP;
 - v) Reduce the fiscal deficit to 6.5 percent of GDP;
 - vi) Prioritise the dismantling of arrears and curtail accumulation; and
 - vii) Reduce the pace of debt accumulation and ensure sustainability

ECONOMIC DIVERSIFICATION AND JOB CREATION

- * Attaining broad based inclusive growth requires the country to pursue its diversification agenda more aggressively. The sectors which can drive growth and help attain shared prosperity through creating employment opportunities remain agriculture, tourism and manufacturing. These will be supported by the energy, transport and finance sectors. The mining sector will also continue to be important through its linkages with other sectors and the generation of foreign exchange;

Agriculture, Livestock and Fisheries

- * The agriculture sector is the largest source of livelihood for Zambia's people. A diversified and export oriented agriculture sector is critical to uplifting the people's living standards. Agricultural productivity, however, remains very low especially among small scale farmers. This low productivity is attributed to over dependence on rain fed agriculture, poor agricultural practices and limited mechanisation. Other challenges include poor market linkages and low value addition to agricultural output due to inadequate agro-processing industries.
- * Mechanisation in the agriculture sector is critical to improving productivity. In this regard, the establishment of the US\$100 million tractor assembly plant in the Lusaka South Multi Facility Economic Zone is on course to help farmers access cheaper equipment to improve mechanisation.
- * To increase land under cultivation, Government has revised guidelines for land acquisition in farm blocks to foster Public Private Partnerships in the development of infrastructure. This is with a view to accelerate progress in infrastructure development in farm blocks, such as Nansanga, Luswishi and Luena.
- * Under the livestock subsector, the country's focus will continue to be on livestock breed improvement through stocking and restocking, artificial insemination and construction and rehabilitation of infrastructure.

Industrialisation

- * Government has been working on setting up Multi Facility Economic Zones, Industrial Parks and other support infrastructure to accelerate industrialisation. The programme has now gained traction and the actualised investment into the Multi Facility Economic Zones is estimated at US\$ 3.3 billion, with more than 15,000 jobs created.
- * To add value to agricultural produce, Government through the Industrial Development Corporation, will make investments in pineapple processing in North Western Province, fruit processing in Eastern Province and cashew nut processing in Western Province. Further, in Muchinga Province, an out-grower scheme for palm oil trees will be rolled out to 500 households covering an initial 380 hectares under the Industrial Development Corporation. Government will over the next 5 years expand the scheme to

cover 20,000 hectares in Luapula and Muchinga Provinces to boost the country's capacity to produce edible oils.

Regional and International Trade

- * To enhance regional and international trade, Government is implementing a number of interventions. Key initiatives for implementation in 2019 and beyond include the enhancement of border management through legislation review, which will enable, among others, the use of the National Electronic Single Window for trade facilitation. The ultimate objective is to ensure that trade is facilitated through single payment points that avoid multiple interventions at the borders.

Tourism

- * The policy focus in tourism will be the diversification of tourism products and promoting domestic tourism. The diversification effort will be achieved by, among other things, integrating the country's rich cultural heritage into tourism packages beyond traditional ceremonies. As regards foreign tourists, the aim is to lengthen tourists stay to an average of six days from the current four days.
- * Government will continue with the restocking of wildlife in areas where numbers have been depleted. So far, restocking has been done in Sioma Ngwezi National Park, Bangweulu Game Management Area and seven private game ranches. This exercise is aimed at expanding the tourism resource base from focusing exclusively on the Victoria Falls and the South Luangwa National Park
- * To improve access to wildlife tourist sites, government will rehabilitate and maintain roads to, and within, the major national parks to facilitate all-year-round access to tourism sites.
- * To promote international conference tourism, the Government will in 2019 commence the upgrade and expansion of Mulungushi International Conference Centre. This will enable the country to host the African Union Heads of State Summit scheduled for 2022 and contribute towards implementation of the Meetings Incentives Conferences and Exhibition strategy.

Mining

- * The mining sector, being an important source of foreign exchange earnings, plays a critical role in the economy. Government will continue to

promote exploitation of industrial minerals and gemstones by making available geological information. To promote small-scale mining, the Development Mineral Capacity Building Programme, with the support of cooperating partners, will continue. The major intervention will be promotion of environmentally and socially responsive mining.

- * Traction gained in the implementation of the Mineral Production Monitoring Support Project aimed at enhancing monitoring of mineral production and exports. Currently, all the large scale mining companies are on the system and in 2019 the system will be extended to cover small and medium mining companies as well as other minerals beyond copper. The system will empower Government to collect accurate revenue from mineral royalties and other mining taxes.

Energy

- * The energy sector is a key enabler for sustained economic growth, diversification and creation of employment. In this regard, the focus in the energy sector will be to continue with provision of adequate and reliable supply of energy through diversification of energy sources. This will require that investment continue to be undertaken into the sector.
- * In the electricity subsector, a number of projects are currently being undertaken to increase electricity generation as well as diversify the energy mix. These include, among others, the 300 megawatts of the second phase Maamba coal-fired thermal power plant, 750 megawatts Kafue Gorge Lower Hydro Power Station and upgrading of the Lusiwasi Hydro Power Project. The preparation process towards the construction of the 2,400 megawatts Batoka hydropower plant co-financed by Zambia and Zimbabwe will continue in 2019.
- * To diversify the energy mix, Government is implementing the Renewable Energy Feed-in-Tariff Strategy which aims to bring an additional 200 megawatts to the national grid. The procurement process for the first 100 megawatts under this Strategy has already commenced and implementation is expected to start in 2019.
- * The Scaling Solar Initiative being implemented in the Lusaka South Multi-Facility Economic Zone, the construction of the two 50 megawatt projects will be completed in 2019. Construction of additional solar power plants will commence in 2019. Once completed, 200 megawatts will be added to the grid. The target is to generate 600 megawatts under the Scaling Solar

Initiative. It is expected that once these and other projects are completed, Zambia will become a net exporter of electricity.

- * Migration to cost reflective electricity pricing remains a priority for Government in order to promote investment and growth in the electricity subsector. To ensure that Government has a sound basis for adjusting electricity tariffs in future, a study has been commissioned and once finalised will inform electricity pricing.
- * To enhance the regulatory framework governing the petroleum subsector, Government will table before parliament the Petroleum Management Bill which will, among other things, facilitate enhanced participation of the private sector in the procurement and financing of petroleum products.

Transport, Information and Technology Infrastructure

- * With regard to road infrastructure, Government will continue to implement, among other projects, the Link Zambia 8,000, township roads and the Rural Connectivity Project. In addition, greater emphasis will be placed on maintenance in order to increase the lifespan of roads.
- * To ensure sustainable financing for road maintenance, Government embarked on the National Road Tolling Programme. So far, a total of 14 inland toll stations have been constructed and are operational across the country, with an additional 6 sites expected to be completed this year.
- * Zambia is on course to become an air transport hub. The expansion and modernisation of the Kenneth Kaunda International Airport has reached 75 percent completion. The Airport is expected to be completed in 2019. Construction of the Copperbelt International Airport has also commenced, and is at 13 percent completion.
- * To increase revenue and derive value from airports, Government transferred 10 airports in 2018 to the Zambia Airports Corporation Limited. These are Chinsali, Choma, Chipata, Kasama, Mansa, Mongu, Kasaba Bay, Mbala, South Down and Solwezi Airports. With these transfers, the airports will now be professionally managed in line with the International Civil Aviation Organisation standards.
- * In order to achieve universal access to communication services, Government is implementing a programme to construct 1,009 communication towers across the country. To date, 318 towers have been erected out of which 193 are operational. A further 300 towers will be

erected in 2019. The increased network coverage will not only promote the use of electronic platforms by the larger population, but also enhance efficiency in private sector and Government transactions as well as facilitate financial inclusion.

- * Government has introduced a number of electronic platforms which include e-cabinet, e-payslips, e-payments, e-voucher and e-visa. The introduction of these platforms has started paying dividends as the cost of running Government and rent-seeking behaviour have reduced.

CREATING A CONDUCTIVE GOVERNANCE ENVIRONMENT FOR A DIVERSIFIED AND INCLUSIVE ECONOMY

Debt Management Policy

- * Government is committed to maintaining the debt levels within sustainable limits. In this regard, in June 2018, Government undertook to implement a number of measures to return the country to a moderate risk of debt distress in the medium-term and to low risk over the long-term
- * Austerity measures are being undertaken by government with further consultation on specific measures to reduce planned and existing debt and to reduce debt service obligations over the medium to long-term.
- * Government remains committed to meeting its debt obligations as they fall due and will not take any unilateral action as it designs and implements its debt management strategy. To ensure dissemination of accurate information, Government through Ministry of Finance will continue to provide quarterly updates on the debt position.

Business Regulatory Reforms

- * To further reduce the cost of doing business and facilitate efficient business friendly registration and licensing services, Government in 2018, established two additional regulatory service centres bringing the total number of regulatory service centres to four.

Rebasing of the Gross Domestic Product

- * In 2019 Government will undertake an exercise to rebase the Gross Domestic Product, an exercise last conducted in 2012. The rebasing of the Gross Domestic Product will provide reliable and updated information on the current size and structure of the national economy. The rebasing will also provide Government with an opportunity to update and develop

appropriate social and economic indicators to measure progress in achieving the objectives under the country's the National Development Plans and the Sustainable Development Goals.

State Owned Enterprises

- * Through the Industrial Development Corporation, Government has been restructuring state owned enterprises to make them competitive, viable and contribute to national development. In this regard, ZSIC Life Limited has been successfully restructured while ZESCO Limited, Zamtel Limited, Zambia Daily Mail and Times of Zambia will be restructured in 2019. Further, Government will divest some of its shares to the private sector. Strategic equity partners will be invited into Indeni Petroleum Refinery Limited and ZSIC General Limited, while ZSIC Life Limited and the Zambia Forestry and Forest Industries Corporation will be listed on the Lusaka Securities Exchange in 2019.

Revenue measures proposed for 2019

i. Direct Taxes

- * Base erosion and profit shifting through aggressive tax planning is detrimental to enhanced domestic resource mobilisation. A proposal to introduce a new method of computing the amount of interest to be disallowed when computing profits of a business has been made.
- * Under this method, interest allowable for deduction will be limited to 30 percent of the earnings before interest, tax, depreciation and mortisation. This measure will exclude businesses on the turnover tax system and those registered under the Banking and Financial Services Act, and the Insurance Act.
- * The Government is committed to preventing the abuse of transfer prices by associated enterprises. However, transfer pricing cases normally take longer to conclude due to their complexity. A proposal has been made to remove the limitation requirement to retain records for up-to six years in respect of documents for transfer pricing purposes and allow for assessments to be made beyond the period of six years but not beyond 10 years. A further proposal is made to increase the penalty for non-compliance with transfer pricing regulations to eighty million penalty units from ten thousand penalty units.

- * It has been proposed to increase the withholding tax rate on dividends, interest and branch profit remittance to 20 percent from 15 percent. This measure is intended to harmonise at 20 percent the withholding tax rate for all payment in the form of cross-border dividends, interest payments, branch profit remittances, royalties and commissions payable to non-residents.
- * In order to encourage local value addition and employment creation in the copper sub-sector, it's been proposed to reduce the company income tax rate to 15 percent from 35 percent for companies that add value to copper cathodes
- * It's been proposed to abolish the current turnover tax regime and re-introduce a flat rate of 4 percent on business turnover below K800, 000 per annum. This is in order to make taxation of small and medium enterprises simpler and thereby encourage compliance.
- * Proposed to abolish the 20 percent casino levy and introduce a new tax regime on casino, lottery, betting and gaming to allow for better regulation of the industry as follows:
 - Casino live games at 20 percent of gross takings;
 - Casino machine games at 35 percent of gross takings;
 - Lottery winnings at 35 percent of net proceeds;
 - Betting at 10 percent of gross stakes; and
 - Gaming at K250 to K500 per machine per month.

To ensure effective implementation of this measure, the Zambia Revenue Authority has been appointed as an interim regulator for the gaming and betting industry.

ii. Customs and Excise Duty

- * Introduction of an excise duty of 30 ngwee per litre on non-alcoholic beverages. The Government will take appropriate fiscal measures to protect local manufacturing of non-alcoholic beverages from unfair competition while discouraging import dependence.
- * Solar energy equipment and requisite batteries are exempt from customs duty. To promote and ensure affordable access to off-grid efficient energy solutions, suspension of customs duty on LED lights is proposed.

- * To encourage value addition and further investment in the leather industry, the ban on exports of raw hides and skin will be lifted and an export duty of 10 percent will be introduced on these items.
- * To discourage use of plastic carrier bags and curtail their negative impact on the environment, excise duty on plastic carrier bags will be increased to 30 percent from 20 percent.
- * Increase of the customs duty on used and retreaded tyres from 25 percent or K3.00 per Kg to 40 percent or K5 per Kg. The measure is intended to reduce the use of used tyres that are in most cases the cause of Road Traffic Accidents and result in loss of lives.
- * Increase on the customs duty on powdered milk to 15 percent from 5 percent. The measure is intended to curtail misclassification.
- * To further rationalise incentives, customs duty rebates on the construction of shopping malls to be removed.

iii. Changes to the Mining Tax Regime

- * Zambia is endowed with vast mineral resources which transcend beyond copper and cobalt. As mineral resources are a depleting resource, it is vital to structure an effective fiscal regime for the mining sector to ensure that Zambians benefit from the mineral wealth our country is blessed with. In this regard the following measures are proposed;
 - Increase mineral royalty rates by 1.5 percentage points at all levels of the sliding scale
 - Introduce a fourth tier rate at 10 percent on the sliding scale mineral royalty regime which would apply when copper prices rise beyond US\$7,500 per metric tonne;
 - Make mineral royalty tax non-deductible for income tax purposes;
 - Introduce an import duty at the rate of 5 percent on copper and cobalt concentrates;
 - Introduce an export duty on precious metals including gold, precious stones and gemstones at the rate of 15 percent; and
 - Lift the suspension of the export duty on manganese ores and concentrates which was put in place in 2012 and increase this duty to 15 percent from 10 percent.

iv. Reintroduction of Sales Tax

- * Government emphasises the need to enhance domestic revenue mobilisation and has therefore, undertaken a review of the various taxes currently being implemented with a view to improve their contribution and minimise revenue leakages. To this end, Government will abolish the Value Added Tax and replace it with a simpler and non-refundable Sales Tax.
- * As the new tax is being implemented, the Government, through the Zambia Revenue Authority will finalise audits of all outstanding VAT refund claims and enforce all outstanding VAT assessments in order to collect any unpaid taxes. Government also remains committed to settling the verified VAT refund claims that have so far been accumulated. The necessary legislation to repeal the current VAT legislation will be tabled after consultations
- * ***All the measures outlined above with the exception of Sales Tax, will take effect on 1st January, 2019.***