



Republic of Zambia

2018 BUDGET ADDRESS

By the
Minister of Finance
Hon. Felix C. Mutati, MP

*“Accelerating fiscal fitness for sustained inclusive growth,
without leaving anyone behind”*

2018 Budget Address by Honourable Felix C. Mutati, MP
Minister of Finance
Delivered to the National Assembly on Friday, 29th September, 2017

1. Mr. Speaker, I beg to move that the House do now resolve into Committee of Supply on the Estimates of Revenue and Expenditure for the year 1st January, 2018 to 31st December, 2018, presented to the National Assembly on Friday, 29th September, 2017.
2. Sir, I am a bearer of a message from His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia recommending favourable consideration of the motion that I now lay on the Table.
3. Mr. Speaker, this is my second address since I was granted this rare and momentous task to serve as Minister of Finance. The walk has not been easy, but collectively we have made notable successes as I will highlight in my address. I once again wish to thank His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia for giving me this opportunity. I also thank my Cabinet colleagues, all members of this august House and the Zambian people for their support.
- Further, I wish to applaud the church, media, private sector, civil society organisations and cooperating partners for their support in our development endeavours.
4. Sir, during the official opening of the second session of the twelfth National Assembly, His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia reminded the nation of the need to uphold our national values and principles, which are centred on patriotism and love for one another as enshrined in our national anthem "one land and one nation is our cry". I wish to reiterate the President's call, as it is critical if we are to effectively implement our development agenda and meet our aspirations as a nation, without leaving anyone behind.
5. Mr. Speaker, the people of Zambia deserve peace and stability, decent employment, quality public services and a conducive environment where they can thrive, create their own wealth and prosper. Achieving these outcomes is the task with

which the Zambian people have entrusted us.

6. Sir, this we shall attain through the diligent pursuit of the strategic objectives contained in the recently launched Seventh National Development Plan. We aspire to make a reality of the Plan's theme of "accelerating development efforts towards the Vision 2030, without leaving anyone behind".

7. Mr. Speaker, during the nine months of implementing the Economic Stabilisation and Growth Programme, dubbed "*Zambia Plus*", a lot has been achieved. The Patriotic Front Government is cognisant of the fact that our people deserve much more. We have made strides, yet challenges still remain. Youth unemployment and poverty levels remain high. To this end, Government is resolved to work tenaciously to uplift the wellbeing of our people and enhance their meaningful participation in the economy.

8. Sir, inclusive growth is only possible if we are steadfast in collectively implementing bold policy decisions and reforms. This year, Government implemented austerity measures that have

started showing positive results in securing a sustainable growth going forward. Through these measures Government significantly reduced the accumulation of arrears. As a result of the reforms, Zambia's credit rating outlook and investor confidence have improved. Government is mindful that despite this positive outlook, the measures in the short term have not yet favourably impacted on the welfare of the people. The long term benefits will be inclusive growth and prosperity.

9. Mr. Speaker, by working collectively, we can ensure that our goals and priorities are clearly defined. Our resolve for inclusive development remains unwavering. Our actions remain fiscally prudent. It is in this context that the theme of the 2018 Budget is "*Accelerating fiscal fitness for sustained inclusive growth, without leaving anyone behind.*"

10. Sir, my address to this august House is in four parts. In Part One, I review the performance of the global and domestic economies during 2017 and present the outlook for the rest of the year. Part Two, outlines the macroeconomic objectives, policies and strategies for 2018. In

Part Three, I present the details of the 2018 budget and in Part Four, I conclude.

PART I

GLOBAL AND DOMESTIC ECONOMIC DEVELOPMENTS IN 2017

11. Mr. Speaker, the global economy is projected to grow by 3.5 percent in 2017, compared to 3.2 percent in 2016. This is mainly premised on a projected 4.6 percent growth in the large emerging and developing economies, driven by the gradual improvement in commodity prices.

12. Sir, growth in advanced economies is expected to strengthen to 2.0 percent in 2017 from 1.7 percent in 2016. Sub-Saharan African growth is projected to expand to 2.7 percent in 2017 from 1.3 percent in 2016, driven by increased agricultural and mining output.

13. Mr. Speaker, as global economic activity gains momentum, commodity prices are expected to continue strengthening in 2017. Copper prices are projected to average US\$5,827 per tonne in 2017

compared with an average of US\$ 4,868 per tonne in 2016. Similarly, international crude oil prices are expected to surge upwards to an average of US\$49.0 per barrel in 2017 from an average of US \$42.8 per barrel in 2016.

14. Sir, the Zambian economy in 2017 has continued to rebound. Growth is expected to be above 4.0 percent from 3.8 percent in 2016. Key drivers will be the mining, agriculture and manufacturing sectors supported by improved electricity generation. It is worth noting that the Zambian economy has outpaced the Sub-Saharan African economic growth of 2.7 percent. This is a reflection of the sound economic policies that this Government has put in place.

15. Mr. Speaker, I now outline in detail, the developments in the domestic economy.

Real Sector

16. Sir, crop production during the 2016/2017 farming season was favourable with significant increases in the output of maize, Irish-potatoes, rice, tobacco, groundnuts and soya beans.

17. Mr. Speaker, growth in the fisheries sub-sector strengthened for both capture and aquaculture

fisheries to 77,029 metric tonnes for the period January to June 2017 from 56,241 metric tonnes in the same period in 2016. This was explained by higher participation by commercial and emergent fish farmers in aquaculture, and enhanced enforcement of fisheries regulation in capture fisheries.

18. Sir, in the livestock sub-sector, there was an increase in the livestock population to 4.9 million during the period January to June 2017 from 4.3 million compared to the same period in 2016. This was due to the stocking and restocking programmes and improved animal disease control programmes.

19. Mr. Speaker, on account of improved water levels, electricity generation in the first eight months of 2017 increased by 23.7 percent to 9.4 million megawatt hours from 7.6 million megawatt hours during the corresponding period in 2016. This has significantly reduced load shedding creating better prospects for industrialisation.

20. Sir, as at end August 2017, copper production stood at 510,369 metric tonnes, with the end year production expected to

exceed the 2016 output of 770,000 metric tonnes.

21. Mr. Speaker, following the initiative to modernise Harry Mwanga Nkumbula International Airport, tourist arrivals at the airport increased by 23.6 percent in the first half of 2017 compared with the same period in 2016. We anticipate similar trends at Ndola and Lusaka once the modernisation projects have been completed.

External Sector Performance

22. Sir, the performance of the external sector has improved relative to 2016. Zambia's trade balance recorded a surplus of US\$388.3 million during the first six months of 2017 compared with a surplus of US\$45.8 million during the corresponding period in 2016. This was mainly driven by higher export earnings relative to imports. Total export earnings were 25.8 percent higher at US\$3.9 billion compared with US\$ 3.1 billion in the corresponding period in 2016.

23. Mr. Speaker, copper export earnings were higher by 38.1 percent at US\$ 2.9 billion from US\$ 2.1 billion in the corresponding period in 2016. This was due to a

rise in both export volumes and prices. Non-traditional exports, however, marginally declined to US\$ 811.7 million during the first six months of 2017 from US\$ 835.5 million during the same period in 2016.

24. Sir, Gross international reserves as at end-August 2017 were estimated at US \$2.3 billion, relatively unchanged from the end-2016 level. This translates into 3.2 months of import cover.

Monetary and Financial Performance

25. Mr. Speaker, monetary performance in 2017 has been positive. The exchange rate of the Kwacha against major tradable currencies has been relatively stable appreciating by approximately 4.0 percent to date. Inflation has fallen significantly to 6.6 percent in September 2017 from 18.9 percent during the same period in 2016. The Bank of Zambia eased monetary policy significantly in 2017. The policy rate was reduced from 15.5 percent in January to 11 percent in August 2017. Statutory reserve ratios reduced from 18 percent to 9.5 percent over the same period. The overall performance and condition of the financial sector

remained satisfactory as at end-August 2017. The banking sector also maintained a strong capital adequacy position and satisfactory earnings performance.

26. Sir, despite the easing of monetary policy, commercial bank average lending rates only fell marginally to 26.6 percent in August 2017 from 29.4 percent in December 2016. Private sector credit remained subdued, contracting by 2.9 percent as at end August 2017. Asset quality also deteriorated as reflected by increased non-performing loans to 12.2 percent relative to total loans, compared to 9.7 percent as at end-December 2016. This is above the internationally acceptable threshold of 10 percent. However, measures are being taken to reverse this trend and restore asset quality in the banking sector.

27. Mr. Speaker, Government has successfully restructured the Intermarket Banking Cooperation that closed last year. I am glad to inform the House that the shareholder agreement for the new restructured bank has been concluded and the capital requirement has been met. The new bank will operate under the name of Zambia Industrial

Commercial Bank and will take over the assets of Intermarket Banking Cooperation. Management for the restructured bank has been appointed and it will soon commence operation.

28. Sir, following the successful restructuring of Intermarket Bank, Government is now repositioning the National Savings and Credit Bank and Development Bank of Zambia to improve their governance structure and their capability in contributing to the development of the banking sector and the economy. The repositioning will include the restructuring of the National Saving and Credit Bank into a full-fledged commercial bank with private equity participation.

Fiscal Performance

29. Mr. Speaker, execution of the budget in 2017 remained challenging. Revenues and grants are projected to be below target by 7.0 percent at K42.1 billion by the close of 2017. This will be on account of delayed and non-implementation of some measures such as the use of fiscal devices, low compliance in some tax types and the non-disbursement of grants from cooperating partners. In line with the fiscal consolidation

stance, expenditures are projected to be below target by 6.0 percent. Consequently, the deficit on cash basis is expected to close the year at 6.8 percent of GDP.

Debt and Arrears Position

30. Sir, the stock of Government's external debt as at end-August 2017 was US \$7.56 billion representing 29 percent of GDP. The stock of domestic debt in the form of Government securities was K44.6 billion, representing 18 percent of GDP. Total public debt (external and domestic) at end-August 2017 was therefore, K114.9 billion, equivalent to US \$12.45 billion and representing 47 percent of GDP. I will subsequently outline the measures we are undertaking to comprehensively deal with the issue of debt.

31. Mr. Speaker, the stock of domestic arrears as at end June 2017 was K13.2 billion, from K19.1 billion in December 2016. The significant reduction in arrears is attributed to Government's concerted effort to clear arrears.

PART II

MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES FOR 2018

32. Sir, accelerating fiscal fitness is critical for sustained inclusive growth, diversification and job creation. These outcomes are in conformity with the strategic objectives of the Seventh National Development Plan. In this regard, the macroeconomic objectives and policies for 2018 will be to:

- i) achieve real GDP growth of at least 5.0 percent;
- ii) maintain single digit inflation in the range of 6.0 to 8.0 percent;
- iii) maintain international reserves of at least 3 months of import cover;
- iv) attain domestic revenue mobilisation of at least 17.7 percent of GDP;
- v) limit the fiscal deficit, on a cash basis, to 6.1 percent of GDP;
- vi) limit domestic financing to no more than 4.0 percent of GDP;
- vii) accelerate implementation of measures towards diversification of the economy;

- viii) reduce the stock of arrears and curtail the accumulation of new arrears; and
- ix) Slow down the contraction of new debt to ensure debt sustainability.

Key Integrated Multi- Sectoral Policies and Interventions

33. Mr. Speaker, the Seventh National Development Plan has adopted an integrated multi-sectoral approach to development. This entails that sectors have to work together in clusters to achieve the objectives of the Plan. In this vein, the policy and structural interventions to be undertaken in 2018 will be aligned to the following five pillars of the Plan:

- i) economic diversification and job creation;
- ii) poverty and vulnerability reduction;
- iii) reducing development inequalities;
- iv) enhancing human development; and
- v) Creating a conducive governance environment for a diversified and inclusive economy.

34. Sir, there is need to create a supportive environment for

effective implementation of the Plan. This will be done by creating a stable macroeconomic environment and fiscal space, while consolidating policy and structural reforms as outlined in the Economic Stabilisation and Growth Programme.

35. Mr. Speaker, I now outline policies under each of the five pillars of the Plan.

PILLAR ONE: ECONOMIC DIVERSIFICATION AND JOB CREATION

36. Sir, the continued reliance on the mining sector has exposed the economy to volatility arising from external shocks. Further, owing to the high mechanisation, the mining sector's ability to absorb the large number of youth entering the labour market each year is limited. There is, therefore, need to diversify the economy to labour intensive sectors such as agriculture and tourism.

Agriculture, livestock and fisheries

37. Mr. Speaker, in transforming agriculture, diversification remains key. Government will implement measures aimed at raising farmer productivity as well as realising diversification within the sector. One such measure is the

introduction and development of a farm block model of which three will come on board in 2018. These are in Copperbelt, Muchinga and Northern provinces. This model is anchored on a core venture, agro processing facilities and smallholder farmers. This will further allow smallholder and emergent farmers to benefit from technology transfer and have access to ready markets. In addition, Government is facilitating a US\$100 million public private sector investment into a tractor and agricultural equipment assembly plant in the Lusaka South Multi-Facility Economic Zone. The plant will be operational by end of 2018. Further, Government has obtained financing of US\$40 million from EXIM Bank of India that will be used for agriculture mechanisation.

38. Sir, to maintain the diversification drive, Government during the 2017/18 farming season will fully migrate to the e-voucher system to cover one million beneficiaries. Government has further put in place a new framework to eliminate ghost farmers and the duplication of beneficiaries. As a result of the cleanup, a total of 600,000

undeserving beneficiaries were removed, resulting in a saving of K1.0 billion.

39. Mr. Speaker, in the 2017 Budget, I announced that Government would construct 18 artificial insemination centres to improve livestock production and breeds. I am happy to inform this august House that 10 centres have since been completed and are operational. The remaining 8 are at various stages of development.

40. Sir, in the area of animal health, Government will continue with animal disease prevention and control programmes across the country. To this effect work on 200 dip tanks will continue. In addition, construction of 4 regional laboratories will be completed by the end of 2018.

41. Mr. Speaker, given the rising market potential for livestock, especially goat and sheep, Government will facilitate access to both local and foreign markets for livestock products. One such initiative is the exportation of one million goats per annum to the Middle East.

42. Sir, with regards to fisheries, Government in 2018 will promote cage fish farming on lakes Mweru,

Kariba, Tanganyika and Bangweulu as well as along Kafue River at Kasaka and in water bodies in Western province. This is in an effort to improve productivity and production to attain self-sufficiency.

43. Mr. Speaker, Government will continue with the implementation of the US\$50 million Zambia Aquaculture Enterprise Development Project in 2018. This is aimed at, among others, building institutional capacity for fish, fingerling and feed production. Further, this will provide support to the private sector in developing the aquaculture value chain including establishing fish feed plants, hatcheries, and freezing and processing facilities.

44. Sir, in the fisheries and livestock sub-sector, Government is also currently undertaking a comprehensive livestock and aquaculture census which will be finalised in 2018. The results of the census will guide policy formulation to facilitate growth and development.

45. Mr. Speaker, in addition to the foregoing measures, Government will enhance extension service provision. In

partnership with the private sector, Government will work towards improving agriculture market information systems and the development of functional markets. This is essential for sustained higher production, enhancement of agriculture value chains, raising of farmer incomes and reduction of poverty.

46. Sir, to support the outlined measures, Government will recruit 750 extension service workers for agriculture, fisheries and livestock.

Industrialisation

47. Mr. Speaker, industrialisation is key to the promotion of value addition and the attainment of Government's economic diversification agenda. In order to facilitate expansion of the country's industrial base, the development of multi-facility economic zones and industrial parks will continue. In this regard, the process of setting up the Kafue Iron and Steel, Kalumbila and Chembe multi-facility economic zones is underway. To enhance the operations of the existing zones and parks, Government will in 2018 review their performance so as to identify and address

challenges affecting their operations.

48. Sir, in the 2017 budget, I announced that Government working with private sector would set up the Agricultural and Industrial Credit Guarantee Scheme. I am happy to report that this has been done. The scheme will facilitate access to affordable credit to Small and Medium Enterprises. Further, Government will engage financial institutions to increase credit to Small and Medium Enterprises using movable assets as collateral in line with the provisions of the Movable Assets Act. In addition to further enhance access to finance for Small and Medium Enterprises, Government will include the use of securities and stocks as collateral.

Tourism

49. Mr. Speaker, in order to reduce the cost of doing business and unnecessary bureaucracies in the Tourism Sector, Government will together with the Business Regulatory Review Agency establish and operationalize a Single Licensing System.

50. Sir, with regards to infrastructure development, the

Government will through an integrated approach, prioritise major roads, bridges and air strips leading to tourism destinations. Further, Government will facilitate development of requisite infrastructure to ease access to tourist sites, rehabilitate heritage sites and strengthen wildlife protection.

Mining

51. Mr. Speaker, policy consistency is critical to create and sustain investor confidence. Government is committed to ensuring that this continues. The focus in the mining sector in 2018 will be on broadening the tax base and enhancement of mineral production to include non-traditional minerals, such as gemstones and industrial minerals among others. Government will also strengthen the regulatory framework and enforcement in the sector to curb avoidance in payment of taxes and levies.

52. Sir, to enhance information provision and planning, Government will in 2018, continue with the geological mapping programme for the remaining 40 percent of the country. In addition, to promote inclusiveness within the mining sector, Government

will continue to support artisanal and small scale miners through the Development Mineral Capacity Building Programme. Further, promotion of downstream value chains will be emphasised.

Energy

53. Mr. Speaker, stable and reliable energy supply is critical to uplifting the welfare of our people and productivity of business. Priority in the electricity sub-sector will be placed on increasing the energy mix through promotion of off-grid electricity generation and alternative energy sources. In this regard, Government will continue with on-going reforms in the sector to boost private sector participation.

54. Sir, Government in 2018 will bring to this august House the Energy Regulation Bill and the Electricity Bill for enactment. The Energy Regulation Bill will allow for enhanced supervision and regulation of the energy sector, while the Electricity Bill will, among other things, allow for participation of other players in the industry.

55. Mr. Speaker, to ensure cost reflectivity in tariffs and encourage investment in the

sector, Government in 2018 will finalize the cost of service study. The results will provide the basis for future adjustments to electricity tariffs.

56. Sir, to promote small and medium private sector investment in renewable energy, Government will implement the Renewable Energy Feed-In Tariff Regulatory Framework. The target is to add 200 megawatts through this initiative in the first phase. I wish to inform this august House that financial closure on the scaling solar project has been reached. Construction will commence in October 2017 and will add 100 megawatts

57. Mr. Speaker, I am glad to inform this House that the dam construction of Kafue Gorge Lower power project is progressing well. Further, work on the second phase of the 300 megawatts Maamba thermal plant is expected to commence in 2018. In addition, the 250 megawatts Kalungwishi hydro power project will commence in 2018.

58. Sir, Government, in collaboration with the Republic of Zimbabwe has commenced preliminary financing arrangements for the development

of the 2,400 megawatts Batoka Hydro Power Project. In addition, Government has continued to work on linking Zambia to the Southern and East African region through the Zambia-Tanzania-Kenya inter-connector project. The project will enhance electricity trade, improve power security, ensure reliability of supply and foster regional integration, connecting power from Cape to Cairo.

59. Mr. Speaker, in the 2017 Budget address, Government indicated the intention to disengage from direct procurement of finished petroleum products by March, 2017. This is meant to remove the burden of oil procurement from the Treasury, attain efficiencies and promote private sector participation. This measure will take effect in the first quarter of 2018.

Transport, Information and Technology Infrastructure

60. Sir, it is often said that development follows infrastructure. Government in 2018 will continue with the ongoing road infrastructure projects, including the Link Zambia 8,000, the Lusaka 400 and

the Copperbelt 400 projects. To reduce congestion in Lusaka, the US\$240 million Lusaka City Traffic Decongestion Project financed by cooperating partners is expected to commence in 2018.

61. Mr. Speaker, the recently launched Lusaka - Ndola dual carriage way is one of the most critical economic roads. Let me hasten to mention that this project consists of two phases. Phase I will be the construction of the dual carriage way, while phase II will involve the construction of auxiliary infrastructure which includes hotels, toll gates and service stations. Phase I will be financed through Public Private Initiatives while phase II will be financed through private sector participation.

62. Sir, the National Road Tolling programme has proved to be successful in raising revenue for road maintenance and rehabilitation. In the first eight months of 2017, Government has raised K490.5 million. This is a sustainable way of ensuring that our road network is well maintained. In this regard, Government will in 2018 continue to construct Toll gates across the country.

63. Mr. Speaker, in my last budget address, I urged pension funds to participate in financing development projects. I am glad to inform the House that NAPSA has taken up the challenge to this call by investing in the rehabilitation of the Chingola to Solwezi Road at a cost of K2.1 billion. Recovery of the invested funds will be through revenue from toll gates to be constructed on the road. I encourage other pension funds to take up the challenge to diversify their investment portfolio through such arrangements.

64. Sir, to further diversify sources of financing for infrastructure development, Government will in 2018 set up an Infrastructure Development Fund. This will be financed through proceeds from the sale of Government assets, pension fund participation and the sale of infrastructure bonds.

65. Mr. Speaker, in the railway transport, Government will revitalise Zambia Railways Limited and concession TAZARA. Further, Government will through a Public Private Partnership arrangement, commence the development of the Chipata-Petauke-Serenje railway line.

66. Sir, the expansion and modernisation of the Kenneth Kaunda International Airport is expected to be completed in 2018. Further, Government has commenced construction of the Copperbelt International Airport.

67. Mr. Speaker, to improve ICT infrastructure, Government will invest in, and upgrade telecommunications networks, data centres and access devices through the Smart Zambia Master Plan. This will improve the flow of information within and among Government institutions, enterprises and citizens to bring about social and economic benefits. This is also aimed at transforming Government's mode of delivery of public services from traditional face-to-face interactions to online channels to ensure that citizens and business entities can access services anywhere and anytime. The Government will also facilitate the up-scaling of ICT skills for both public service and private sector workers. Government will also accelerate the mainstreaming of ICT culture in the Zambian education curricula. This is to ensure early adaptation and sustainability of ICT based solutions.

68. Sir, in order to achieve universal access to communication services, Government is implementing a programme to construct communication towers across the country. Under the first phase, Government has concluded the construction of 204 communication towers. In 2018, Government will commence the construction of 1,009 towers under the second phase in unserved and under-served areas.

69. Mr. Speaker, interventions under Pillar One are aimed at creating a supportive environment to stimulate economic diversification and job creation as enshrined in the Seventh National Development Plan.

70. Sir, these interventions also underscore Government's commitment to create jobs for our people.

PILLAR TWO: REDUCING POVERTY AND VULNERABILITY

71. Mr. Speaker, Government remains resolute to reducing poverty and vulnerability among its citizens.

72. Sir, in 2018, Government will continue to implement policies,

programmes and initiatives aimed at protecting and empowering vulnerable members in our communities. To assist in planning, policy formulation and eliminating duplications within the social protection programmes, Government is implementing the electronic Single Registry of Beneficiaries for all social protection programmes. This has been piloted in five districts and will be rolled out to an additional 36 districts in 2018.

Social Cash Transfer Scheme

73. Mr. Speaker, Government scaled-up the Social Cash Transfer in 2017, by increasing coverage and monthly payments to each beneficiary household. Further, the number of beneficiary households were increased from 242,000 in 2016 to 590,000 beneficiary households in 2017. In 2018, the number of Social Cash Transfer beneficiaries will be further increased to 700,000. In addition, Government will fully migrate to an electronic social cash transfer platform.

Public Welfare Assistance Scheme

74. Sir, in 2018, Government will increase support under this programme to 200,000 from the

134,000 targeted beneficiaries this year. This will enable vulnerable people to have access to education and healthcare.

Food Security Pack

75. Mr. Speaker, in the 2018/2019 farming season, Government will increase the number of household beneficiaries under this programme to 80,000 from 40,000 in the 2017/2018 farming season. The objective of the programme is to support vulnerable but viable farmers.

Home Grown School Feeding Programme

76. Sir, the Home Grown School Feeding programme has proved effective in increasing school attendance and combating malnutrition amongst the vulnerable pupils. I wish to report that by the end of June this year, over 956,000 children were on the programme in both Government and community schools. The focus in 2018 will be to increase the number of learners on the program to 1.5 million from 1.2 million projected at end 2017.

Womens' Development Programme

77. Mr. Speaker, Government will continue to implement the Womens' Development Programme aimed at enhancing access to productive resources and entrepreneurship skills for poor and vulnerable women. Under this programme about 30,000 women will be empowered with productive grants and micro credit countrywide in 2018. In addition, Government with support from the World Bank is targeting to provide educational support to 16,000 girls from extremely poor households in 16 districts and a further 75,000 women with grants in 51 districts.

Climate Change and Disaster Risk Reduction

78. Sir, Zambia has not been spared from the adverse effects of climate change which has the potential to reverse our developmental gains. In this regard, Government will implement strategies to mitigate and adapt to the adverse effects of climate change. Some of the measures include the Pilot Project for Climate Change Resilience currently being implemented in

Western, Southern and Central provinces. This intervention will also be extended to Northern, Muchinga and Luapula Provinces. To address deforestation, Government will undertake the US\$32.8 million Integrated Forestry Landscape project in Eastern province with the support of our cooperating partners. Further, Government will strengthen the national disaster response system.

Pensions Reforms

79. Mr. Speaker, in my address to this august House last year, I indicated Government's intention to review legislation to ensure a pension system that is affordable, sustainable and offers broader social security protection. I am happy to report that the Social Protection Bill has now been finalized.

80. Sir, among other things, the proposed legislation will include the establishment of a unified pension system, a national social security agency, a national social security fund, and provide for basic social protection, including health and maternity insurance. It will also provide for the self-

employed and other persons, to make contributions to the national social security scheme.

81. Mr. Speaker, these reforms will be a fundamental paradigm shift from the existing system and will help reduce destitution among our people. I therefore urge all Honourable Members of this august House to critically debate and approve the Bill when it is presented to the House.

PILLAR THREE: REDUCING DEVELOPMENT INEQUALITIES

82. Mr. Speaker, Government is concerned with developmental inequalities that exist between rural and urban areas in terms of inadequate social service delivery, poor infrastructure and financial exclusion among others.

83. Sir, Government will in 2018 prioritise the increased access to social services and completion of on-going education, health and water and sanitation infrastructure in rural areas. In order to attract investment in rural areas, Government will continue with the construction of economic infrastructure such as feeder

roads, communication and rural electrification infrastructure.

Feeder Roads

84. Mr. Speaker, Government is committed to upgrading, rehabilitating and maintaining feeder roads to enhance the connectivity of rural areas to markets. Government will continue to work with cooperating partners in this area and has since secured US\$200 million from the World Bank under the rural connectivity project.

Decentralisation

85. Sir, centralisation of power particularly in respect of resource control and decision making has hampered the attainment of equitable national development. In order to address this, Government will in 2018, ensure that finances required to provide front-line public services and infrastructure projects at provincial and district level are deconcentrated to provincial administration. To ensure participation of the citizenry in project identification, planning monitoring and evaluation, Government will commence the devolution of powers from central government to lower level

structures. This will help remove bureaucracy and enhance timely delivery of services.

86. Mr. Speaker, to deliver services, councils need to raise substantial revenue from property rates. However, procedural delays caused by processes set out in the 1997 Rating Act have led to substantial revenue losses by councils. To address these challenges in 2018, the Rating Act will be repealed and replaced to ensure that councils gain revenue buoyancy and adequacy from property rates. This will go a long way in establishing a sound financial base for local authorities, in accordance with Article 151 of the Constitution.

PILLAR FOUR: ENHANCING HUMAN DEVELOPMENT

87. Sir, human development plays a critical role in promoting inclusive growth and laying a foundation for future prosperity. The Seventh National Development Plan identifies three key components of human development namely health, education and skills development and improved access to water supply and sanitation.

Health

88. Mr. Speaker, health is key to enhancing productivity and the welfare of our people. In strengthening health systems, priority will be on completion of on-going construction of health infrastructure, ensuring availability and timely supply of drugs, procurement of medical equipment, recruitment of health personnel and promotion of innovative health financing.

89. Sir, in the 2017 budget address, I informed the House, that the construction of 350 health posts will be completed this year. As at end of August, a total of 275 health posts were completed and are operational. Further, Matero and Chilenje clinics have been upgraded to first level hospitals while 35 district hospitals are at various stages of construction. Other projects which include modernization and upgrading of various hospitals are still underway. In order to increase access to health services, Government will in 2018, continue to construct and upgrade health facilities across the country as well as procure modern equipment.

90. Mr. Speaker, Government will introduce measures to

strengthen local manufacturing of drugs thereby assuring security of supply of drugs. This will also create employment opportunities for our people and conserve foreign exchange.

91. Sir, in order to ensure timely and adequate availability of essential medicines and medical supplies, Government will establish an additional regional hub in Ndola this year. In 2018, Government will establish two more hubs in Mansa and Mpika and a sub-hub in Kabompo. Further, Government has also put in place prefabricated storage facilities at district level to increase storage capacity and ease drug accessibility.

92. Mr. Speaker, human resource for health remains a critical component in the provision of quality health services to the Zambian people. In 2018, Government will recruit 1,000 health personnel to add to the 7,400 recruited this year.

93. Sir, Government in 2018 will establish a Social Health Insurance Scheme to increase the resource envelop and enhance universal health coverage. The Social Health Insurance Bill will be tabled before this august House.

94. Mr. Speaker, in order to enhance health service delivery, Government will in 2018, focus on prevention, control and treatment of communicable and non-communicable diseases. Government will also focus on reproductive, maternal, neonatal, child health, adolescent health, nutrition and health promotion. Further, Government will introduce e-services in health institutions starting with the University Teaching Hospital.

Education and Skills Development

95. Sir, education and skills development is vital to ensure a high quality labour force that is necessary to foster development. In this regard, the focus of Government is to ensure increased access to quality education at all levels. This will be achieved by focusing on construction and rehabilitation of education facilities at all levels, provision of equipment and learning materials, recruitment of teachers and creating sustainable financing mechanisms for higher learning institutions. As part of the long term financing solution for Technical Education, Vocational and Entrepreneurship Training (TEVET), Government this year,

established a Skills Development Fund. As at end of August 2017, a total of K105.4 million was raised through the skills development levy.

96. Mr. Speaker, in 2018 the focus in the primary education sub-sector will be to continue increasing access to, and improving quality of primary education. Infrastructure development in the primary education sub-sector will focus on completion of schools under construction and rehabilitation of classrooms. With regard to secondary education, Government will focus on the implementation of the two-tier system which offers learners the opportunity to follow an academic or vocational career path way.

97. Sir, at tertiary education level, in 2017 Government committed to work towards the operationalization of the Higher Education Loans and Scholarships Scheme. I am pleased to inform this august House that Government has established the Higher Education Loans and Scholarship Board to oversee the operations of the Scheme.

98. Mr. Speaker, Government in 2018 will continue with the

construction of universities, and university colleges specialized in the fields of science, technology, mathematics and performing arts. Further, Government is committed to construction of on-going infrastructure and equipping of TEVET institutions.

Water Supply and Sanitation

99. Sir, in my last budget address, I allocated a total of K391.7 million for water supply and sanitation programmes throughout the country. I am happy to report to this august House that this investment has resulted in the drilling of 1,340 boreholes and construction of 10 small water schemes in rural areas. A further 600 boreholes have been rehabilitated. This investment will support the provision of safe and clean water to 600,000 households in rural areas.

100. Mr. Speaker, water and sanitation infrastructure are being constructed and upgraded in urban and peri-urban areas. Key is the Kafue Bulk Water Supply Improvement Project under the Millennium Challenge Account aimed at increasing water supply to 110 million litres of water per day to Lusaka and surrounding areas.

101. Sir, in 2018 focus will also be on unbundling the arrears owed to the contractors and suppliers, in order to complete the ongoing water supply and sanitation projects. Investment in the water supply and sanitation sectors will only yield tangible results if accompanied by supportive policy and legislative reforms. In this regard, Government will bring to this House amendments to the Water Supply and Sanitation Act no. 28 of 1997 in order to strengthen legislation surrounding the provision of water and sanitation services in the country.

**PILLAR FIVE: CREATING A
CONDUCTIVE GOVERNANCE
ENVIRONMENT FOR A
DIVERSIFIED AND
INCLUSIVE ECONOMY**

***Policy, Regulatory and Structural
Reforms***

102. Mr. Speaker, legal, policy, regulatory and structural reforms are critical in creating a conducive governance environment that supports a diversified and inclusive economy. Government will therefore continue its reform agenda in fiscal, land administration and management,

debt management and in the monetary and financial sector.

Fiscal Policy

103. Sir, during 2017, Government commenced the implementation of measures aimed at restoring fiscal fitness in order to attain inclusive growth and development under the Economic Stabilisation and Growth Programme. Accordingly, Government will continue to implement these measures in 2018 aimed at restoring budget credibility, transparency and policy consistency while scaling-up social protection. Government will also ensure that the allocations to the health and education sectors, as a proportion of the total budget, are protected.

104. Mr. Speaker, domestic resource mobilisation will be enhanced and subsidies will gradually be reduced. These resources will be channelled to areas with higher socio-economic returns.

105. Sir, under the Economic Stabilization and Growth Programme, Government has undertaken to restore budget credibility and stability. In doing so, enhanced domestic resource

mobilization will, therefore, be a pillar to achieving this objective, complemented by policies that ensure that expenditure is maintained within affordable levels.

106. Mr. Speaker, the Government in 2018 will, therefore, implement measures that ensure that the tax system is simpler and fairer in order to expand the tax base and increase compliance. This will be through continued modernisation and automation of revenue collection processes coupled with an upscale in tax payer education and services. In addition, tax incentives will be rationalised, while audit functions will be augmented to address base erosion and profit shifting.

107. Sir, on the expenditure side, the measures will:

- i) Concentrate resources in areas that facilitate economic diversification, including on-going projects so as to realize value for money;
- ii) Prioritise the dismantling of arrears;
- iii) Control the growth in the wage bill by limiting recruitments to critical sectors and undertaking a cleanup of the payroll;

iv) Limit the fiscal deficit in order to ensure sustainability of debt; and

v) Pursue project financing through Public Private Partnerships.

108. Mr. Speaker, to support and anchor fiscal prudence, Government will further carry out legal reforms that include:

i) Revisions to the Public Finance Act to make it more punitive to cases such as abuse of and misapplication of funds;

ii) Revisions to the Public Procurement Act to ensure value for money and introduce benchmarking of prices and requirements for project appraisal prior to granting of tender approvals;

iii) Enactment of the Planning and Budgeting Bill that will anchor budget and plan preparation in law and enhance participation by citizens including by Members of Parliament ; and

iv) Pension reforms including reforming public pension funds, enacting the social protection bill.

109. Sir, to maximize national benefits from our mineral assets,

Government has been implementing the Mineral Value Chain Project. This is intended to foster mutual accountability and transparency in the management of our mineral resources. I am pleased to report that nine of the major mines have now been migrated to reporting their production figures on a full time basis on the electronic system. Also, two laboratories for assaying mineral quality will soon be fully operational.

110. Mr. Speaker, in April, 2017 Government announced a three months amnesty on interest and penalties for taxpayers who had outstanding tax liabilities with the Zambia Revenue Authority. Owing to the overwhelming response of 1.3 million applications from taxpayers, Government extended the amnesty to 15th September, 2017. Sir, the Government greatly values all taxpayers. As such, we will continue to support those under the amnesty who wish to restructure their Time to Pay Agreements within the allowable period.

111. Sir, to enhance performance orientation of the budget and align it to the development outcomes in the Seventh National Development Plan, Government is migrating the

budget to Output Based Budgeting. In 2018, the Ministry of Community Development and Social Services will join the two education ministries in having Output Based Budgets. For the 2019 Budget the Output Based Budget will be rolled out to all Ministries, Provinces and Other Spending Agencies.

Land Administration and Management

112. Mr. Speaker, access to land is critical to the achievement of our economic diversification agenda, the reduction in poverty and vulnerability as well reducing inequalities among our citizens. I indicated in my 2017 budget address that Government would commence the land titling programme, starting with pilot sites in Lusaka. I am glad to report that the pilot has since been concluded.

113. Sir, Government in 2018 will therefore, roll out the national land titling pilot programme with the aim of issuing title for at least 300,000 parcels of land. The titling programme will significantly contribute to the generation of Government revenues.

Debt Management Policy

114. Mr. Speaker, Government undertook a deliberate and ambitious infrastructure development programme in order to address the binding constraints to growth caused by the poor state of economic infrastructure. The objective was to create a platform for sustainable and inclusive growth.

115. Sir, the financing of this ambitious programme has entailed accumulation of debt. However, Government is cognisant of the fact that the risk on our debt portfolio has heightened, worsened by the economic imbalances faced in 2015 and 2016 when economic growth was subdued.

116. Mr. Speaker, to address these concerns, the Government has published the Medium Term Debt Management Strategy that seeks to return the debt to low risk of debt distress. The strategy outlines measures to drastically reduce the rate of debt accumulation, attain a cheaper and longer debt maturity profile. In addition, future borrowing will be undertaken strictly within sustainable levels. The strategy also defines measures towards the refinancing of the three Eurobonds and dismantling of the

stock of arrears. Under the strategy, the Government will also continue to utilize Public Private Partnerships and joint ventures to finance projects and reduce the burden on the Treasury.

117. Sir, as part of transparency and good governance that is the cornerstone of this Government, I will, during this session of Parliament, present a bill to repeal the Loans and Guarantees (Authorisation) Act. The Bill I will present will provide for enhanced oversight over the borrowing activities of the Government by having the National Assembly approve loans before they are contracted. This is in line with the provisions of the Constitution.

Asset Management - State Owned Enterprises

118. Mr. Speaker, Government will put in place a robust asset management system for all State-Owned Enterprises to assess their viability and sustainability. A comprehensive monitoring and evaluation framework will be developed to ascertain compliance of State Owned Enterprises to corporate governance and operational efficiency. This will ensure that State Owned Enterprises contribute to domestic

revenues, employment creation and economic growth.

Capital Markets

119. Sir, capital markets in Zambia have remained highly underdeveloped and underutilized. The high cost of financing in the banking sector makes the case for development of capital markets as a cheaper source for raising longer term funds by the private sector and State Owned Enterprises that require capitalisation. The Government is therefore working to address this.

Monetary and Financial Sector Policies

120. Mr. Speaker, monetary policy will remain focused on maintaining price stability and will continue to utilise market-based instruments in line with the medium term target range of 6 to 8 percent. In the foreign exchange market, the Bank of Zambia will continue to pursue a flexible exchange rate regime and interventions in the foreign exchange market will be limited to smoothing volatility in the exchange rate and building international reserves.

121. Sir, the Bank of Zambia will continue to enhance the forward-looking monetary policy framework anchored on the Policy Rate as the key signal for the monetary policy stance. This is intended to improve the transmission of price signals and reduce reliance on non-price tools in the conduct of monetary policy.

122. Mr. Speaker, the Government remains steadfast in its commitments to financial sector stability. The Financial Sector Assessment Programme undertaken in mid-2016 identified a number of vulnerabilities, risks and reforms needed to support financial stability and financial development and inclusion. Largely, the required reforms were to review and update various pieces of legislation that involve regulation and supervision of the financial sector, modernization of the payments system and protection of depositors. The Bank of Zambia is strengthening its supervisory capacity and enhancing its collaboration with the Securities and Exchange Commission and the Pensions Insurance Authority as regulators of the financial sector.

123. Sir, Government is also reviewing the Bank of Zambia Act, and the National Payment Systems Act. Further, work is on-going to draft a depositor protection bill. These pieces of legislation will be brought to this House in due course. Other pieces of legislation that support the financial sector, such as the Insolvency Bill will also be reviewed and updated.

124. Mr. Speaker, with respect to insurance, the Government will repeal and replace the Insurance Act to strengthen governance and financial soundness. The Bill also seeks to implement micro insurance and require citizens to insure locally, serve for re-insurance

125. Sir, Government is finalizing the development of the financial sector development policy. Its overall objective is to have a well-developed, competitive and inclusive financial system that supports efficient resource mobilisation and access to financial services and products by all. The policy will promote financial stability, financial inclusion and deposit protection, among others.

126. Mr. Speaker, to accelerate financial inclusion, Government will over the next five years

implement the National Financial Inclusion Strategy. The overall objective of the strategy is to increase access and usage of a broad range of quality and affordable financial services. This is important in promoting the participation of the marginalized population in rural and peri-urban areas in the business and economic affairs of the country. The target is to increase financial inclusion from the current 59 percent to 80 percent by 2022. This will be done by using information and communication technology platforms, among others.

Public Investment Management Reforms

127. Sir, the Government has in recent years increased investment in public infrastructure to facilitate economic development and service delivery. To strengthen coordination in the preparation and implementation of public investment projects, Government will establish a public investment management system. This system will provide standardised procedures and guidelines in the identification, preparation, appraisal and implementation of public investment projects to ensure efficiency and attainment of

value for money. In this regard, Government will in 2018, establish a Feasibility Study Fund to facilitate undertaking of feasibility studies for major public investment projects before being considered for financing in the budget.

External Sector Policy

128. Mr. Speaker, Government policy in the external sector will remain anchored on the maintenance of an open economy with a competitive and market-driven foreign exchange rate. The focus will be on promoting a diversified export base to increase exports, increasing foreign direct investment inflows, and maintain international reserves to at least 3 months of import cover.

IMF Programme

129. Sir, Government's response to the economic challenges that faced the nation in the second half of 2015 and most of 2016 had to be confronted with bold reforms and measures. The measures outlined in our Economic Stabilization and Growth Programme were based on domestic solutions. The Economic Stabilization and Growth Programme provides measures for restoring budget credibility and sustainability, enhancing domestic

resource mobilization, improving economic and fiscal governance, ensuring economic stability, growth and job creation and protecting the vulnerable through scaling up of social protection programmes. Significant progress has been in the implementation of these measures.

130. Mr. Speaker, in implementing these measures, Government saw the need to collaborate with both external and internal partners. Key among the external partners in this process is the International Monetary Fund. In so doing we have been engaged in intense discussions with the IMF based on the programmes and targets we set for ourselves under the Economic Stabilization and Growth Programme. A lot of progress has thus far been made with key structural and regulatory reforms implemented. Based on the spending plans presented in the Medium term Expenditure Framework (MTEF) and the Budget I am presenting today, Government will continue to engage the Fund in October 2017 to set an agreeable macroeconomic framework that takes into account our spending and financing plans over the MTEF period and

provides a platform to conclude an IMF Programme.

PART III

THE 2018 BUDGET

131. Sir, I now present the 2018 National Budget, which lays out the various expenditure and revenue measures aimed at achieving Government policy objectives.

132. Mr. Speaker, the Government proposes to spend a total of K71.6 billion in 2018 or 25.9 percent of GDP. Of this amount, K49.1 billion or 68.5 percent of the total budget will be financed by domestic revenues and K2.4 billion or 3.4 percent by grants from various Co-operating Partners. The balance of

K20.1 billion or 28.1 percent of the budget will be financed through domestic and external borrowing.

133. Sir, in line with the Seventh National Development Plan, the allocations in this budget are targeted at addressing the five strategic areas of economic diversification and job creation, poverty and vulnerability reduction, reducing developmental inequalities, enhancing human development and creating a conducive governance environment for a diversified and inclusive economy.

134. Mr. Speaker, I now present the 2018 budget by functions of Government.

2018 Expenditure by Function

| Function | 2018 Budget | |
|---|-----------------------|-----------------|
| | Amount (K) | Share of Budget |
| General Public Services | 25,898,031,580 | 36.1% |
| External Debt Payment | 7,268,795,020 | |
| Domestic Debt Payment | 6,972,268,260 | |
| Local Government Equalization Fund | 1,078,428,000 | |
| Zambia Revenue Authority | 848,664,000 | |
| Compensation and Awards | 303,363,990 | |
| Public Affairs and Summit Meetings | 235,305,460 | |
| Constituency Development Fund | 218,400,000 | |
| Defence | 3,498,217,240 | 4.9% |
| Public Order and Safety | 2,144,570,440 | 3.0% |
| National Identity Documents | 37,249,430 | |
| Economic Affairs | 17,258,329,480 | 24.1% |
| Roads Infrastructure | 8,660,314,680 | |
| Farmer Input Support Programme (e-voucher) | 1,785,000,000 | |
| Strategic Food Reserves | 1,051,200,000 | |
| International Airports | 940,500,000 | |
| Arrears for FISP & FRA | 441,000,000 | |
| Rural Electrification Fund | 251,331,670 | |
| Environmental Protection | 951,352,080 | 1.3% |
| Climate Change Resilience | 457,574,620 | |
| Housing and Community Amenities | 816,262,640 | 1.1% |
| Water Supply and Sanitation <i>o/w Lusaka Sanitation Project (Millenium Challenge)</i> | 564,508,860 | |
| Markets and Bus Stations | 239,000,000 | |
| | 17,822,620 | |
| Health | 6,781,558,820 | 9.5% |
| Drugs and Medical Supplies | 1,200,227,400 | |
| Health Infrastructure | 274,580,400 | |
| Medical Equipment | 51,561,610 | |
| Recreation, Culture and Religion | 451,160,740 | 0.6% |
| Education | 11,561,643,204 | 16.1% |
| School Infrastructure | 740,060,456 | |
| Student Loans and Scholarships | 557,000,000 | |
| University and College Infrastructure | 321,865,420 | |
| Skills Development Fund | 176,698,000 | |
| Social Protection | 2,301,259,752 | 3.2% |
| Public Service Pension Fund | 1,060,550,000 | |
| Social Cash Transfer | 721,180,000 | |
| Food Security Pack | 140,000,000 | |
| TOTAL | 71,662,385,976 | 100.0% |

General Public Services

135. Sir, I propose to spend K25.9 billion on General Public Services. Significant outlays under this category include K7.3 billion and K7.0 billion for external and domestic debt payments, respectively.

136. Mr. Speaker, in our resolve to fiscally empower our Local Authorities and ensure equitable distribution of resources, I have allocated K1.1 billion to the Local Government Equalisation Fund. This represents an increase of 21.5 percent from 2017 levels.

137. Sir, in the same vein, I have allocated to the Constituency Development Fund a total of K218.4 million to support projects at the community level.

Economic Affairs

138. Mr. Speaker, the Economic Affairs function plays a major role in our quest to achieve a diversified economy that delivers more jobs for our citizenry. Accordingly, I propose to spend a total of K17.3 billion or 24.1 percent of the budget on the Economic Affairs function.

139. Sir, a significant allocation under this function is K8.7 billion for road infrastructure. This will include the continuation of the Link Zambia 8,000, the C400 and L400 projects. To complement these efforts, the Government will further undertake significant works to rehabilitate and upgrade feeder roads across the country through the Rural Roads Connectivity Programme.

140. Mr. Speaker, in order to improve airport infrastructure in the country, a total of K940.5 million has been allocated for the construction of the Kenneth Kaunda and Copperbelt International Airports. Once

completed, these investments will reposition Zambia into a regional air transport hub.

141. Sir, to facilitate the provision of agricultural inputs to one million beneficiaries, I have allocated K1.8 billion to the Farmer Input Support Programme, which will be implemented through the e-voucher system. I have also allocated K1.1 billion to facilitate maintenance of our country's strategic food reserves at 500,000 metric tonnes.

142. Mr. Speaker, in order to make rural areas attractive for investment and promote rural industrialisation, Government will continue with its Rural Electrification Programme to ensure access to electricity for rural areas. Accordingly, K251.3 million has been allocated for rural electrification.

Education and Skills Development

143. Sir, I propose to spend K11.6 billion on education and skills development. This will facilitate spending on, among others, infrastructure development, student loans, teacher recruitment and procurement of school requisites.

Health

144. Mr. Speaker, I propose to spend K6.8 billion on health. Of this amount, K1.2 billion is for procurement of essential drugs and medical supplies representing a 56 percent increase over the 2017 allocation. The balance will be used to finance health infrastructure, medical equipment and staff costs including the recruitment of medical personnel.

Housing and Community Amenities

145. Sir, I propose to spend a total of K816.3 million on housing and community amenities. Of this amount, K564.5 million is for water supply and sanitation. This allocation will supplement the expenditure by commercial water utilities.

Public Order and Safety

146. Mr. Speaker, I have allocated K2.1 billion towards the maintenance of public order and safety. Key interventions will include the recruitment of security personnel, continued rehabilitation and construction of infrastructure and the modernisation of operations of law enforcement agencies.

Social Protection

147. Sir, to reduce vulnerability and inequalities among our people, I have allocated K2.3 billion for social protection related expenditures. Significant provisions under this function include K1.1 billion for the Public Service Pension Fund and K721.2 million for the Social Cash Transfer Scheme. The allocation to the Food Security Pack has doubled to K140 million.

Other Functions

148. Mr. Speaker, the remaining functions of Defence, Environmental Protection and Recreation, Culture and Religion have a combined allocation of K4.9 billion.

REVENUE ESTIMATES AND MEASURES

149. Sir, resource mobilization to support the 2018 Budget, is anchored on enhancing tax administration through improved taxpayer services, risk management, enforcement and compliance. This is necessary to ensure that resources are mobilized in a cost effective and non-distortive manner.

150. Mr. Speaker, taking various demands into account, the Government had to find a balance that would provide fair taxation and at the same time garner sufficient resources to deliver public services and spearhead development.

151. The details of revenue and borrowing estimates are as follows:

| Resource Envelope for the 2018 Budget | | | |
|---|-------------|------------------|----------------|
| | (K'million) | (K'million) | % share of GDP |
| TOTAL DOMESTIC REVENUE, GRANTS & FINANCING | | 71,662.39 | 25.9% |
| A. Total Domestic Revenue and Domestic Financing | | 60,240.31 | 21.8% |
| I. Total Domestic Revenues | | 49,087.02 | 17.7% |
| Total Tax Revenue | | 41,139.78 | 14.9% |
| Income Tax | | 20,337.61 | 7.3% |
| <i>Company Income Tax</i> | 6,115.94 | | |
| <i>Personal Income Tax (incl. PAYE)</i> | 10,264.02 | | |
| <i>Withholding and other</i> | 3,957.64 | | |
| Value Added Tax | | 12,369.47 | 4.5% |
| Customs and Excise Duties | | 8,098.70 | 2.9% |
| <i>Customs Duty</i> | 3,302.25 | | |
| <i>Excise Duty</i> | 4,744.83 | | |
| <i>Export Duty</i> | 51.62 | | |
| Other Revenues | | 334.00 | 0.1% |
| Non Tax Revenues | | 7,947.24 | 2.9% |
| <i>Mineral Royalty</i> | 3,527.74 | | |
| <i>Other Non-Tax</i> | 4,419.50 | | |
| II. Domestic Financing | | 11,153.29 | 4.0% |
| B. Total Foreign Grants and Financing | | 11,422.08 | 4.1% |
| <i>Project Grants</i> | 2,438.30 | | |
| <i>Programme Loans</i> | 1,425.00 | | |
| <i>Project Loans</i> | 7,558.78 | | |

REVENUE MEASURES

Rationalization of Tax Reliefs

152. Sir, I propose to discontinue the 5-year income tax holidays that is facilitated through the Zambia Development Agency. In place of the tax holiday, I propose to grant accelerated depreciation for capital expenditures by qualifying investments in priority sectors.

153. Mr. Speaker, I also propose to remove the allowable deduction for contribution to approved pension funds of K255 per month as there is already relief given at the time one gets their lump sum payment and annuities.

Strengthening the Tax Base

154. Sir, intellectual property such as trademarks, patents and brands are assets that can be traded. However, such trades are currently not taxed unlike the case is with other properties such as shares, mining rights and land. I, therefore, propose to introduce property transfer tax at 5 percent on the transfer of intellectual property.

155. Mr. Speaker, to cast our tax net wider, I propose to impose a property transfer tax at a rate of 5

percent on the value attributable to a Zambian asset in cases where indirect ownership or control of a Zambian asset changes outside the Republic.

156. Sir, the record of the Patriotic Front Government in delivering infrastructure to the people is unmatched. To assist in mobilizing funds for the Infrastructure Development Fund, I propose to introduce an excise duty of K2 per 50 Kg of cement.

157. Mr. Speaker, the Government in 2004 introduced a presumptive tax for individuals operating public service vehicles based on vehicle sitting capacity. However, these amounts have not been adjusted since 2004. I therefore propose to adjust the presumptive tax rates upwards by 50 percent.

158. Sir, the Commissioner-General can charge a base tax where there is insufficient information on which to estimate tax payable by a business. Currently, the base tax is K150 per annum and has remained so since 2008. I, therefore, propose to adjust upwards the base tax rate from K150 to K365 per year.

159. Mr. Speaker, it is international practice that related parties are treated the same under certain rules such as transfer pricing. Accordingly, I propose to mandate all businesses to disclose their related parties for income tax and property transfer tax purposes.

160. Sir, in order to provide further clarity, I propose to revise the definition of residence for persons other than individuals as well as the definition for management or consultant fee.

161. Mr. Speaker, in order to prevent revenue leakages through misclassification, I propose to:

- i) Align the excise duty at 125 percent on methylated spirits, denatured alcohol and undenatured alcohol of heading 2207; and
- ii) Introduce registration of all importers of methylated spirit and denatured alcohol.

162. Sir, I propose to increase the customs duty on unmanufactured tobacco and tobacco refuse to 25 percent from 15 percent. This will harmonise the tax treatment with all other types of tobacco which are currently attracting a customs duty of 25 percent.

163. Mr. Speaker, I further propose to introduce specific excise duty on manufactured tobacco and provide for a separate tariff classification for other manufactured tobacco which are currently classified together with cigarettes.

Support to Business Growth and Diversification

164. Sir, diversification away from dependence on mining is key to attaining economic resilience. I therefore propose to:

- i) Remove customs duty on various inputs that are used in the manufacture of stock feed and fish feed.
- ii) Exempt unprocessed and semi-processed tobacco from VAT.

165. Mr. Speaker, in my last address, I introduced a surtax on selected imported products that are locally produced in order to support the growth of the domestic industry. In line with this policy, I propose to extend the number of items on which the surtax applies and also to remove raw materials that were erroneously put on the surtax schedule.

166. Sir, I propose to reduce the customs duty on bricks that are used in the formation of furnaces from 15 percent to 5 percent to reduce the cost of manufacturing.

167. Mr. Speaker, risk management is a crucial part of any business. As such, any undertaking to cover risk of the insured and the insurer must be cost effective. To reduce the cost of insurance, I propose to remove the insurance premium levy on reinsurance.

168. Sir, to discourage the use of inefficient electrical appliances and encourage the use of alternative sources such as solar and gas, I propose to increase customs duty on electric geysers and stoves to 40 percent from 25 percent.

169. Mr. Speaker, to promote the use of electronic payment devices and make it easier to collect and monitor taxes, I propose to remove the customs duty on point of sale machines and SIM cards.

Streamlining of the penalty regime

170. Sir, I propose to introduce penalties in the VAT Act, and the Customs and Excise Act for taxpayers that fail to furnish records upon request and

similarly for those who fail to issue tax invoices.

Submission of tax returns and payments

171. Mr. Speaker, I propose to change the due dates for submission of the VAT returns from the 16th to the 18th of every month. This will differentiate this date from the date for submitting withholding VAT returns, which also falls on the 16th of every month.

172. Sir, I also propose to provide for the same due date of the 14th of every month, for submission and payment of withholding tax, to ease compliance and improve tax administration.

Housekeeping Measures

173. Mr. Speaker, I propose to make amendments to the Income Tax, the Property Transfer Tax, the Value Added Tax, the Customs and Excise, and the Skills Development Levy Acts. This is intended to update, strengthen and remove ambiguities in certain provisions of tax legislation to make tax administration more effective. These measures are revenue neutral.

Non - Tax Revenue Measures

174. Sir, in order to improve service delivery of public broadcasting and promote growth of the media industry, I propose to:

- i) Introduce a landing rights charge at the rate of K3, 150 per television channel which has less than 35 percent local content except for educational and scientific channels.
- ii) Increase the TV levy to K5 per month. I further propose to change the current collection through electricity bills to subscriber management service licensing system.

175. Mr. Speaker, in line with the strategy of moving towards a prosperous smart Zambia, I propose to migrate all motor vehicles to the electronic number plate system at a reduced fee of K500 from the current re-registration fee of K975. The system will enhance security, enable easy payment of various road user charges such as road tolls as well as the renewal of driver's licences online.

176. Sir, in order to ensure that Government collects the much needed revenue on a cost

reflective basis, I propose to revise upward fees and charges collected by various Government institutions that have not been revised in a long time.

177. Mr. Speaker, the total net revenue gain from the various measures I have proposed above is K2.9 billion.

178. Sir, the tax and non-tax revenue measures I have announced today will take effect from 1st January, 2018.

PART IV

CONCLUSION

179. Mr. Speaker, with the launch of Seventh National Development Plan, our country has renewed its commitment to the attainment of the Vision 2030 to be a prosperous middle income country. We must learn from our past challenges if we have to charter the desired path to our destination. We must strive to foster unity of purpose in advancing our nation's interests and the well-being of our people. We must remain resolute and patriotic, never allowing our sight to slip from the development goals we have set for ourselves.

180. Sir, let me assure this House that our future is bright and secure

under the able leadership of His Excellency, Mr. Edgar Chagwa Lungu the President of the Republic of Zambia. With His Excellency's visionary and determined guidance, we are on the path to making our great nation a prosperous and more inclusive society.

181. Mr. Speaker, the Patriotic Front Government is however, cognizant of the fact that this is not an easy path. There are risks and challenges at every turn. We must therefore remain fiscally disciplined for us to achieve the desired fiscal fitness. We must sacrifice and raise more of our own resources to finance our development. We must borrow less and where we need to borrow, it should be for projects that will generate growth and enable us to repay. We must ground our aspirations on a realistic understanding of our current financial position.

182. Sir, this is what the 2018 Budget delivers. It provides a realistic platform for the attainment of our development

goals under the Seventh National Development Plan. It gives hope and practical support to our youth who are the key to our prosperous future. It protects the vulnerable within our midst so that no one is left behind.

183. Mr. Speaker, a new Zambia is possible where we can all adopt a broad-based development agenda. A Zambia where everyone is accountable for their actions; where the leadership governs justly, invests in its citizens and creates opportunities for all; and citizens rise to the occasion to perform their civic duties and responsibilities.

184. Sir, the Patriotic Front Government has always placed national interest at the centre of its development agenda. The 2018 Budget provides practical measures to diversify the economy, create jobs, reduce poverty, protect the vulnerable and reduce inequalities among our people. The 2018 Budget is therefore, for all Zambians and I commend it to this august House.

185. Mr. Speaker, I beg to move