

**BUDGET ADDRESS BY THE HON. NG'ANDU P. MAGANDE, MP**  
**MINISTER OF FINANCE AND NATIONAL PLANNING**  
**DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY, 28<sup>TH</sup> JANUARY 2005**

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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 1<sup>st</sup> January 2005 to 31<sup>st</sup> December 2005, presented to the National Assembly in January 2005.

2. Sir, I am the bearer of a message from His Excellency the President recommending favourable consideration of the motion I now lay on the Table.

3. Mr. Speaker, during the annual Budget process, the Government reviews the country's recent economic performance, assesses the challenges and opportunities facing the nation, and formulates the necessary policies and programmes on how to face the challenges and exploit the opportunities. In 2004, the focus of the Government was on fiscal prudence by avoiding wastage and directing resources to priority areas. This was a prerequisite for securing a new Poverty Reduction and Growth Facility (PRGF) and reaching the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative. The policy was also to provide a stable macroeconomic environment for private sector investment.

4. Mr. Speaker, all this was achieved in the year when Zambians celebrated 40 years of peaceful coexistence as one united country. Indeed, 2004 saw positive economic growth for six consecutive years, with growth in per capita incomes being achieved in each of the last five years. This is evidence that the economic policies pursued by the Mwanawasa

Administration are working and, therefore, we all must persevere to achieve further success.

5. Mr. Speaker, in 2005, the goal of the Government is to continue with viable economic policies that will promote broad-based growth and consolidate national unity, economic and political stability. It is in this context that the theme for the 2005 Budget is **“Steadfastness for Accelerated and Broad-based Growth.”**

6. Mr. Speaker, the Budget, which I am presenting today benefited from broad-based consultations with various stakeholders. During the consultations on the Green Paper for the Medium-Term Expenditure Framework for 2005-2007, the stakeholders put many proposals forward. Those consulted included the business community, the labour movement, professional associations, farmers associations, civil society and other non-governmental organisations. After considering these ideas, we have incorporated the feasible ones in formulating our policies and spending plans for the year 2005.

7. Mr. Speaker, my address consists of five parts. In Part One, I review the performance of the international economy in 2004. Part Two examines the performance of the domestic economy in the same year and this is followed in Part Three by an outline of the Government's economic policies for 2005. In Part Four, I present details of the 2005 budget and the supporting revenue measures. The final part contains my concluding remarks.

## **PART I**

### **PERFORMANCE OF THE GLOBAL ECONOMY IN 2004**

8. Mr. Speaker, the global economy in 2004 continued to grow, with Gross Domestic Product (GDP) growth projected at 5 percent compared to 3.9 percent recorded in 2003. This growth was underpinned by among other things, the strong upturn in industrial production, global trade flows, a pick up in private consumption growth and continued strength in investment. The volume of world trade increased by 8.8 percent in 2004 compared to 5.1 percent in 2003.

9. In the industrial countries, economic growth was projected at 3.6 percent compared to 2.1 percent recorded in 2003. This favourable performance was against a background of increasing oil prices. The major contributors to this growth were the United States of America (USA), Japan, and China. Growth in the USA was estimated at 4.3 percent.

10. In Japan, real GDP growth was strong at 4.4 percent in 2004 compared to 2.5 percent in 2003. This good performance was largely attributed to increased external demand notably from China and by rising domestic private consumption and investment. In Asia, growth in 2004 remained solid, at 7.6 percent, with China and India leading the expansion.

11. Mr. Speaker, economic performance in Africa continued to be favourable with real GDP growth estimated at 4.5 percent in 2004 compared to 3.5 percent in 2003. For Sub-Saharan Africa, real GDP growth was projected at 4.6 percent in 2004 compared to 3.7 percent in 2003. This growth was mainly due to the improved

macroeconomic conditions and the expansion in the global economy, which led to the higher demand and increased prices for commodities produced by most of the countries in this region.

12. Sir, the future continues to look bright for the global economy, which is poised for further expansion in 2005. This notwithstanding, growth is expected to be at a slower rate due to anticipated easing of economic activity in the United States and China.

## **PART II**

### **PERFORMANCE OF THE DOMESTIC ECONOMY IN 2004**

#### **Macroeconomic Performance**

13. Mr. Speaker, the initial macroeconomic objectives for 2004 were: (a) to achieve a real GDP growth of 3.5 percent; (b) to attain end-year inflation of 15 percent, (c) to build-up Gross International Reserves equivalent to 1.5 months of import cover and (d) limit Government domestic financing to 2.2 percent of GDP.

14. These targets were premised on among other things, the continued good performance of the tourism, agricultural, manufacturing and mining sectors. Good performance, particularly in the area of fiscal management was one of the key requirements for reaching agreement on the Poverty Reduction and Growth Facility. A track record of sound performance under a PRGF arrangement was a pre-requisite for the country to reach the Completion Point under the Heavily Indebted Poor Country Initiative by the end of 2004.

15. Mr. Speaker, despite the challenge of the escalating oil prices, the performance of the economy was

satisfactory. Preliminary figures for 2004 show that real Gross Domestic Product grew by 4.6 percent compared to a target of 3.5 percent. Furthermore, domestic financing was within the budget target of 2.2 percent of GDP. Gross International Reserves (GIR) were equivalent to 1.2 months of import cover. Annual inflation was 17.5 percent, which was 2.5 percentage points above the target, largely on account of high input costs arising from the increased oil prices.

### **Sectoral Performance**

16. Mr. Speaker, all sectors registered positive growth apart from the energy sector. The main drivers being agriculture, mining and the wholesale and retail trade sectors. Now I wish to give details on the performance of some selected sectors.

#### ***Agriculture***

17. Mr. Speaker, the performance of the agricultural sector has been impressive for the second year running. Output for most crops rose and value added for the sector increased to K452.0 billion in 2004 from K432.5 billion in 2003 representing a rise of 4.5 percent. It is estimated that the value of all crops produced is around K2.0 trillion much of which was paid to small-scale farmers for maize, cotton, tobacco, sorghum and sunflower crops. The continued favourable weather conditions and supportive Government policies were the main contributing factors to this positive development.

#### ***Mining and Quarrying***

18. Mr. Speaker, the mining sector is another area that recorded positive growth of 13.7 percent. In particular, total copper production rose to 409,000 metric tonnes, compared to 353,594

metric tonnes in 2003, representing a 15.7 percent increase. Coal production also recovered from a sharp decline in the last five years with output reaching 103,066 metric tonnes against 75,516 metric tonnes in 2003, an increase of 36 percent. This turn around, particularly in the copper mining sub-sector is attributed to improvements in production techniques and increased capital investment.

#### ***Manufacturing***

19. Mr. Speaker, the manufacturing activities were mostly concentrated in food processing and continued to grow with value added increasing to K327.0 billion from a revised figure of K310.0 billion in 2003, a growth of 5.1 percent. Some industries were revived in response to the reduction of import duties on raw materials. The good performance of the agricultural sector continues to support the sector as a source of raw materials. Improved macroeconomic conditions and increased domestic demand partially explain the sector's growth. We must consolidate the development of this sector by encouraging the local production of some of the needed spare parts and components.

#### ***Tourism***

20. Sir, the tourism sector continued to grow and was boosted by improved marketing and investments by the private sector, improvement in infrastructure as well as supportive measures such as the Tourism Development Credit Facility (TDCF). As a result, there has been an increase in tourist arrivals. For example, total arrivals at the Livingstone airport increased by 39 percent to 56,527 while at Mfuwe there was an increase of 17 percent to 1,657. Similarly, the number of international tourist visiting our game

parks increased by 9 percent in 2004. However, the potential of the sector is not being fully exploited because of relatively poor infrastructure especially in the majority of the national parks and the high administrative burdens.

### ***Construction***

21. Mr. Speaker, the building and construction sector also performed well registering a growth of 10 percent in 2004. Value added increased to K216.0 billion from K197.0 billion in 2003. Accounting for this growth were largely the public infrastructure works, the mushrooming private commercial and residential housing estates. The requirements of this sector have provided employment for thousands of artisans such as bricklayers, blacksmiths and plumbers.

### ***Privatisation and Parastatal Reform***

22. Mr. Speaker, the process to commercialise ZESCO reached an advanced stage in 2004 with most of the reform measures having been undertaken. These measures included the amendment of the Energy Regulation Board and Electricity Acts, settlement of the outstanding electricity bills for central government, local government and water utilities. The Government paid a total sum of K100.0 billion to settle the bills for these consumer units. However, it should be noted that, the challenge still remains to fully sustain the organisation by all stakeholders remaining current on their bills. This equally applies to the bills from all other utility companies such as ZAMTEL and water providers.

23. The partial privatization of Zambia National Commercial Bank through the sale of 49 percent of its shares is still being negotiated and

hopefully, this matter will be concluded this year. The government intends to float some of the shares of the bank on the stock exchange for public purchase.

### ***Domestic debt***

24. Mr. Speaker, the total domestic debt stock of Government stood at K5,498.8 billion as at the end of December 2004 from K 5,186.17 billion in December 2003. This represents an increase of 6.03 percent. However, Government has managed to control the growth in the domestic debt stock. It must be noted that in the period 2003 to 2004, the domestic debt stock only grew by 6.03 percent, which is an improved situation compared to the 31 percent increase in the period 2002 to 2003. The slow growth in domestic debt stock is largely due to consistent budget allocations towards the stock reduction, implementation of the commitment control system and reduced Government borrowing from the domestic market.

### ***External Debt***

25. Mr. Speaker, Zambia's debt burden still remained high and the total foreign debt stock as at end-December 2004 was US \$6.8 billion having risen from US \$6.38 billion in 2003. The debt rose over this period due to positive net flows on existing and new loans minus amortisation payments as well as exchange rate variations. Sir, in 2004 a total of US \$129.0 million was spent on foreign debt service of which US \$92.9 million was principal repayment and US \$36.0 million was interest repayment.

26. Mr. Speaker, Zambia's foreign debt is large and unsustainable, and this caused the country to seek international intervention on its resolution. Since December 2000, the country is under the HIPC Initiative, which is a global initiative to try to reduce debts of

developing countries to sustainable levels. Most of our bilateral creditors pledged to cancel our debts under the HIPC Initiative. In 2004, total debt relief amounted to US \$362.9 million of which US \$54.5 million was from bilateral creditors and US \$308.0 million from multilateral creditors. More debt relief will be given once an assessment and conclusion is made on reaching the HIPC Completion Point. Only last week I signed an agreement with the Japanese Government for the cancellation of the bilateral debt amounting to US \$688.8 million or approximately K3.2 trillion. This debt relief will be effected at Completion Point, which will reduce the stock by an equivalent amount.

### **External Sector Developments**

27. Mr. Speaker, the performance of the external sector in 2004 was outstanding, largely due to high commodity prices on the world market. The higher prices of commodities, especially for metals, resulted in a 51 percent increase in export earnings to US \$1,588 million from US \$1,052 million. This is the first time export earnings have reached this record high since the mid- 1970s. The earnings of US \$1,588 million were nearly double the earnings of 2001.

28. Mr. Speaker, his strong growth in exports is attributed mainly to increases in copper volumes and prices, cobalt prices and earnings from the Non-Traditional Exports (NTEs). It is pleasing to note that non-traditional exports increased by 212.9 percent over the past ten years. The non-traditional exports increased to US \$471 million from US \$362.7 million in 2003. The most notable increases came from burley tobacco, cotton lint, sugar, maize seed and gas oil. From being 14.0 percent of total exports, Non-Traditional

Exports now constitutes 30.6 percent of total exports. This impressive performance clearly indicates that the diversification of our export base is well under way.

29. Sir, I wish to state that the strong growth in export earnings was partially offset by a surge in imports, which rose from US \$1,393 million in 2003 to US \$1,845 million in 2004. The large volume of imports was largely as a result of increased imports into the mining sector for new investments, expansion and further rehabilitation works and as a result of the high oil prices.

30. Mr. Speaker, the net effect of the developments in exports and imports led to a slight narrowing of the external current account deficit to just over 6 percent of GDP. Most of the financing for the current account deficit came from the high levels of net private capital inflows amounting to US \$309 million and project grants amounting to US \$246 million. Consequently, the marginal improvement in the current account balance and the appreciable increase in the capital and financial accounts, resulted in the overall balance improving by 23 percent to a deficit of minus US \$247 million or 3.9 percent of GDP from minus US \$325 million or 6.0 percent in 2003.

### **Monetary and Financial Sector Developments**

31. Mr. Speaker, the primary objective of monetary policy in 2004 was to achieve an overall annual inflation rate of 15.0 percent. This was to be achieved by restraining the growth of reserve money and broad money to no more than 5.7 percent and 18.2 percent, respectively.

32. Sir, the high oil prices and the strong Rand made the fight against inflation extremely difficult. Thus, we closed the year with an inflation outturn of 17.5 percent in December 2004. Had it not been for the relative stability in food prices, especially maize and its by-products, this outturn could have been even higher. Broadly, the inflation outturn in 2004 is close to the 17.2 percent recorded in December 2003.

33. Mr. Speaker, in 2004 developments in the supply of domestic credit to the economy by the banks was most encouraging. I am glad to report that domestic credit increased by 20.0 percent, with most of it going to the productive sectors, such as agriculture, manufacturing, energy and mining. This positive development in the credit supply is to a large extent a result of the prudent fiscal and monetary policies pursued in 2004.

34. Mr. Speaker, due to the implementation of appropriate monetary policy and the fiscal prudence exercised by Government in 2004, interest rates generally declined. The Treasury bill average yield rate dropped by 44 percent from 31.9 percent in 2003 to 17.8 percent in 2004. Similarly, the Government bond average yield rate dropped by 58 percent from 38.9 percent in 2003 to 16.4 percent in 2004.

35. In line with the decline in yield rates on Government securities, the lending interest rates of commercial banks also edged downwards by 37 percent, although at a relatively slower pace. These went down to 29.7 percent in 2004 from 37.7 percent in 2003. The drop in commercial banks' average lending interest rates explains the observed increase in domestic credit to the private sector enterprises during the year.

Mr. Speaker, the exchange rate remained relatively stable throughout the year under review. This stability was to a large extent attributed to the favourable functioning of the broad-based inter-bank foreign exchange system and the strong growth in export earnings. The transparency in the allocation of foreign exchange under the inter-bank foreign exchange system ensured a steady flow of foreign exchange to the market.

### **Capital Market Developments**

36. Mr. Speaker, it is gratifying to report that in 2004, the capital market continued to perform favourably. The participation of Zambians at the stock exchange is also encouraging. In 2004, there were over 30,000 Zambians participating as individual shareholders, thereby assisting in diversifying the investment portfolio of Zambians.

37. Mr. Speaker, the All-Share Index at the Lusaka Stock Exchange (LuSE) rose by an impressive 77.3 percent, while market capitalization increased by 125.6 percent to K7,754.9 billion. In US dollar terms, this market capitalization represents an increase of 114.8 percent to US \$1,650 million. This positive development was helped not only by the stable exchange rate but equally by investor confidence in the market. With the listing of the Zambia Metal Fabricators Plc (ZAMEFA), the number of companies listed on the LuSE increased to 12 from 11 in 2003.

### **Foreign Financing**

38. Mr. Speaker, last year Zambia continued to strengthen its relations with our cooperating partners. This resulted in increased disbursements of both project and direct budget support and a total of US \$64.75 million was disbursed by various donors as direct

budget support while a total of US \$346.0 million was disbursed as project support by bilateral donors. Under the PRGF programme, the International Monetary Fund disbursed an amount of US \$247.5 million.

#### **Budget Performance in 2004**

39. Mr. Speaker, budget performance and management in 2004 was outstanding. The fiscal targets as indicated in the budget were met. Domestic borrowing was contained within the budget target. Spending towards priority programmes and social sectors were largely on target. Domestic tax revenue collections were on target.

40. Mr. Speaker, the Government collected a total of K4, 678.3 billion in domestic revenues against a budget estimate of K4, 782.7 billion. This was marginally below the target by 2 percent. Of this amount, tax revenue stood at K4, 551.5 billion and was above the target of K4, 536.9 billion by K14.7 billion. The Government also collected K86.1 billion as non-tax revenue, which was 35 percent lower than projected. In addition to domestic revenues, our co-operating partners extended general budget support of K234.7 billion against our estimate of K163.0 billion. This favourable disbursement from our cooperating partners was in response to the competent management of the economy by the Government. Further, confidence was shown by the country getting back on the PRGF arrangement and attaining the benchmarks towards the Completion Point under the HIPC Initiative.

41. Sir, the preliminary figures on expenditures show that domestically financed expenditure was K5, 298.5 billion, slightly exceeding the budget by 0.4 percent. However, the Government still remained within the domestic

financing of 2.2 percent of GDP, on account of higher than programmed General Budget support.

42. Mr. Speaker, as regards to debt service, Government spent K1, 373.7 billion on external and domestic interest compared to a projection of K1, 469.2 billion. External debt payments at K637.2 billion were above projection on account of payments carried over from 2003. Domestic debt interest payments at K734.0 billion were lower than the target of K927.5 billion by 21 percent due to lower interest rates.

43. Mr. Speaker, a total of K570.5 billion was released towards capital programmes and this was below the target of K601.4 billion by only 5.1 percent. Of the amount released, K112.3 billion went to the Road Fund as fuel levy collections. The higher collections were on account of higher fuel prices.

44. As per our undertaking to this august House, it remains Government's commitment to release all the fuel levy collections in full. The release of K112.3 billion in 2004 was 49.8 percent above the budget estimate of K75 billion. All of the funds released to the former National Roads Board was for road rehabilitation. In addition, a total of K8.2 billion was released as counterpart funds towards donor financed infrastructure projects.

#### **Poverty Reduction Programmes (PRPs)**

45. Mr. Speaker, I am pleased to report that of the total budget of K532.6 billion for poverty reducing programmes, 100 percent was released compared to only 24 percent achieved in 2002 and 50 percent in 2003. This, Mr. Speaker, clearly demonstrates the commitment of the New Deal

Government to refocus public expenditure to poverty reducing programmes.

46. Of the amount released for poverty reducing programmes, K96.7 billion was for the fertiliser support programme to provide subsidised inputs to farmers. K47.2 billion went to the procurement of maize from small-scale farmers to provide them with incomes. A further K29 billion was funded towards the Food Security Pack programme for vulnerable but viable farmers. All these programmes empowered the rural population by creating wealth and distancing them from poverty.

47. Mr. Speaker, in addition, other important programmes that received funds included the following: the preparation of agricultural land for farm blocks; promotion of out-grower schemes; control of livestock diseases; livestock re-stocking; basic education; Roll Back Malaria; child survival and health; procurement of kits for essential drugs and supply of clean and safe water.

48. Mr. Speaker, 2004 was a peculiar year as the country had strict benchmarks to meet. It is gratifying to note that we sailed through. The remarkable performance by the Government would not have been possible without the full cooperation and understanding of ordinary Zambian citizens, the workers both in the private and public sectors and the cooperating partners. The sterling performance in Government financial management and prudence is unprecedented. It is, therefore, appropriate for me to say, "Thank you most sincerely to everyone who made this possible". We indeed broke with the past and should now march forward with courage, confidence and conviction.

## **Structural Reforms**

49. Mr. Speaker, the implementation of structural reforms was on track in 2004. The focus being mainly on improving public expenditure management and financial accountability, addressing the problems of the state-owned non-bank financial institutions, and removing the bottlenecks to private sector development. In this regard, in June the Government approved the Action Plan for the Public Expenditure Management and Financial Accountability Reforms (PEMFAR), which contain a broad and detailed programme of reforms to improve public expenditure management further. In addition the Government approved a Financial Sector Development Plan (FSDP), which broadly aims at addressing the weaknesses in the financial sector, including the state owned non-bank financial institutions.

50. Sir, the Government, in collaboration with the private sector and other stakeholders also prepared a comprehensive Private Sector Development Initiative (PSDI), aimed at improving the environment for private sector investment and growth.

## **PART III**

### **ECONOMIC POLICIES FOR 2005**

#### **Macroeconomic Policies**

51. Mr. Speaker, macroeconomic conditions have improved markedly and the resultant benefits have been clearly demonstrated. Inflation is abating and growth is now more entrenched. The exchange rate of the Kwacha is now stable while interest rates are edging downwards. Therefore, in 2005, Government policies will principally be tailored to preserve the recent gains and

to make further improvements in macroeconomic stability and encourage investments for growth.

52. Mr. Speaker, the fiscal prudence exhibited last year played a critical role in strengthening and stabilising the macroeconomic environment. This year, we will consolidate and enhance the fiscal stance by limiting Government borrowing to levels below those of 2004. Similarly, monetary policy will be anchored on price stability, while sufficiently allowing for credit expansion to the productive sectors of the economy.

53. Mr. Speaker, the broad macroeconomic objectives for 2005, therefore, include: (i) attaining real GDP growth of at least 6 percent; (ii) containing inflation to no more than 15 percent; (iii) limiting domestic borrowing to 1.6 percent of GDP; (iv) increasing gross international reserves to no less than 1.3 months of import cover and (v) raising spending towards poverty reducing programmes to 13 percent of GDP or 42 percent of the total budget.

54. Mr. Speaker, economic growth in 2005 will principally be driven by the primary sectors of agriculture, tourism and mining. There is, however, need for growth to be broad based and strong in the other sectors of the economy if high and sustainable growth is to be achieved. This is the only way that we can sharply reduce the high poverty levels and meet the United Nations Millennium Development Goals (MDGs).

55. Mr. Speaker, we have to make notable improvements to our business and investment climate so as to stimulate private sector development. The private sector must also reciprocate by coming up with imaginative and

viable projects for creating employment and incomes. The recently launched Private Sector Development Action Plan, therefore, provides a sound platform for the Government and private sector to engage in a meaningful compact for development. On our part, we intend to scale-up the implementation of the various reform measures, especially those related to improving the regulatory and licensing framework.

### **Monetary and Financial Sector Developments**

56. Mr. Speaker, inflation has remained stubborn at around 17 percent over the past two years. This is the single most important factor in determining the level of interest rates. High inflation rates have contributed to the high interest rates in the country, making the cost of doing business prohibitive. In our quest to see the economy grow, inflation must be brought to single digit over the next two years. In this regard, monetary policy in 2005 will be geared towards reaching the end-year annual inflation of not more than 15 percent by restricting the growth of money supply to 16 percent.

57. In the exchange rate area, let me re-affirm the commitment of the Government to maintaining stability in the foreign exchange market. The exchange rate will remain market-determined and any interventions in the foreign exchange market will be aimed at strengthening our Gross International Reserves (GIR) in line with our economic programme.

58. Mr. Speaker, in last year's budget speech, I highlighted the poor credit culture reflected in high levels of debt delinquencies as one of the main weaknesses of our financial sector. I wish to inform this august House that to

further address this and other weaknesses in the sector so that it responds to the needs of our economy more efficiently and effectively, the Government in 2004 approved a comprehensive Financial Sector Development Plan (FSDP). The plan will be implemented over the next 5 years.

59. Sir, the implementation of this Plan has already started with the establishment of a credit reference service, which should be operational in the course of the year. Equally important, work on the review of the legal framework to harmonise laws governing the financial sector has begun. Later in the year, I intend to bring legislation for your consideration and enactment. The implementation will also include identifying vehicles for wider participation in the provision of rural and development finance.

60. Mr. Speaker, let me take this opportunity to thank our co-operating partners, for offering financial and technical support to ensure the successful implementation of the plan. I also wish to thank all the stakeholders who willingly participated in the development of this important plan. Without viable financial intermediaries, investments and growth will be elusive.

## **SECTOR POLICIES AND INTERVENTIONS**

### **Agriculture**

61. Mr. Speaker, the Government will continue to focus on food security, crop diversification and the opening up of new agricultural production areas. In this regard, the Fertilizer Support Programme, which is aimed at maize production, will continue at the current subsidy rate of 50 percent. Other support programmes for cotton, tobacco, bee-

keeping, paprika, cashew nuts and coffee will continue. It is pleasing to note the overwhelming and favourable response by the farming community to the policies of the Government as demonstrated by increased production of various crops.

62. Mr. Speaker, last year, the livestock sub-sector was seriously affected by the outbreak of diseases in some parts of the country. This had negative impacts on productivity, the income levels of the affected communities and also the availability of livestock products. In 2005, the Government will continue its fight against diseases, while assisting with the livestock restocking in areas affected by these diseases.

63. Sir, the ultimate goal of the Government in agriculture is to go beyond food self-sufficiency by expanding production of cash crops for exports by both the small and large-scale farmers. For small-scale farmers, the policy remains that of promoting out-grower schemes and providing affordable farming inputs. Millions of our citizens are currently employed in this sector, with additional employment in related service sectors such as transport.

64. Mr. Speaker, the Government will also promote large scale farming through the provision of serviced land, better infrastructure and investment incentives. In this regard, the Government is supporting the electrification of the 150,000-hectare Nansanga farming block in Serenje District. It is expected that the construction of the power grid line to the farming block and provision of other supporting infrastructure and services will be completed by the end of this year. The Government is exploring the possibility of establishing a

development fund to assist potential farmers.

65. For the fisheries sub-sector, the overall objective is to increase fish production and promote sustainable utilisation of fisheries resources. The sector has potential to contribute to the economy through the generation of employment, income and improved availability of fish. The programme of the Government shall be to restock lakes and rivers where this is an important occupation for the local people.

### **Mining**

66. Mr. Speaker, large-scale mining is expected to expand with the coming on board of Kansanshi Mine in the North-Western Province and the securing of new strategic share holders in the Konkola Copper Mines (KCM) and Luanshya Mines. With these developments, it is expected that copper production will rise significantly this year and beyond.

67. Zambia has vast mineral resources and the Government will continue to facilitate exploration and prospecting activities by the private sector so as to fully exploit the mineral resource. In line with the private sector development programme, the Government will continue to provide an enabling environment to enhance investment in the sector. This is not withstanding the current issues concerning some of our already existing investors, which the Government wishes to resolve amicably within the shortest time possible.

### **Energy**

68. Mr. Speaker, the focus of the Government in the energy sector for 2005 remains that of increasing access to electricity services, enhancing the

security of supply of petroleum products and promotion of alternative energy sources to traditional fuels. The Government will facilitate the provision of energy to areas of high economic potential such as the mining areas in the North-Western Province and the proposed farming blocks. The rural electrification programme will be accelerated by extending the national grid lines and providing solar panels.

### **Tourism**

69. Sir, the tourism sector has recently performed well. However, robust growth of the sector is still constrained by a heavy bureaucratic and regulatory requirement and lack of infrastructure. In line with the Private Sector Development reforms, Government in 2005 will focus on simplifying and rationalizing the licensing framework in the sector to bring it in line with international best practices. The Tourism and Hospitality Bill will, therefore, be enacted to facilitate the implementation of these reforms.

70. Mr. Speaker, last year, Government sourced a loan from the World Bank for the Support for Economic Expansion and Diversification (SEED) programme. A key component of this programme is the improvement of infrastructure in some tourist areas, especially in the Livingstone Town area. Work will commence this year on the rehabilitation of roads, drainage system and street lighting in Livingstone. This should eventually bring the standard of infrastructure in the city to levels befitting its status as the Tourist Capital of the Nation. Feasibility studies are being conducted on the road from Kalomo to the Kafue National Park and work is expected to commence by the end of this year.

71. Mr. Speaker, Zambia has been honoured to host the 3<sup>rd</sup> International Institute for Peace through Tourism Conference between 6<sup>th</sup> and 11<sup>th</sup> February 2005. This is in recognition of Zambia as an oasis of peace as well as the depth and variety of our tourism products. This should showcase our beautiful Zambia and its peaceful and friendly people and attract increased numbers of visitors under the 2005 Visit Zambia campaign. It is the national duty of every patriotic Zambian to sell our country by displaying exemplary behaviour to all our visitors in both speech and actions.

72. As part of its effort to encourage Zambians to participate in this sector, the Government will continue with the Tourism Development Credit Facility, which will enhance investment in the sector.

### ***Manufacturing***

73. Mr. Speaker, in order to promote manufacturing in the country, Government will this year support the sector through the provision of an enabling environment for growth. In this regard, the Government will endeavour to make the sector more competitive by ensuring that the regulatory framework is responsive to the sector. In the 2004 budget, a lot of leeway was given to the sector by reducing import duties on most of the raw materials and intermediate goods. Most capital equipment is already duty free and we will continue to facilitate importation of capital equipment for industrialisation.

74. Mr. Speaker, it is proposed to implement a principle that provides more relief on equipment than on raw materials, which should be produced locally. The sector is expected to start thinking of manufacturing some of the

components required in the sector and others. For example, Manufacturing should not just be a consumer of agricultural raw materials, but it should be a provider of equipment to the agricultural sector. We must have both vertical and horizontal integration of our industries in order to have sustainable industrialisation.

### ***Education Sector***

75. Mr. Speaker, the development of our country needs human resources who will innovate and establish industries that will create jobs. We need literate manpower that is able to communicate in the modern world and share experiences and knowledge. While Zambia's literacy rate is much higher than many other countries at the same level of development, this is no time to relax. It was in recognition of this vital input in development that the New Deal Government declared a policy of free education for primary schooling. This policy has paid dividends as numbers of school attendances have risen, and gladly more girls are being enrolled.

76. Sir, in implementing the existing education policy, the Government will strive to produce a conducive learning environment for equitable and quality education. This will be by progressively allocating higher levels of resources for education infrastructure and service providers. The prime focus will be to address the shortage of teachers. Education enlightens citizens on the possibilities in life. And educated mothers make rational decisions on reproduction and viable family sizes.

### ***Health Sector***

77. Mr. Speaker, this Government has committed itself to improving the quality of health for all citizens. Two

out of the eight Millennium Development Goals (MDGs) are in the health sector and relate to the health of mothers and children. An important health policy reform is the restructuring of the primary health care programme, by dealing with health problems at community level. While the health per capita expenditure is low by international standards, it is encouraging to note that infant mortality rates from other causes apart from HIV/AIDS have declined. However, the maternal mortality rate is still high and is not showing signs of improvement. This seems to indicate reluctance by Expectant mothers to consult health institutions. The Government policy is to increase the number of health workers and provide incentives for their retention in the sector.

78. Mr. Speaker, one of the challenges of development is the HIV/AIDS pandemic. Many of us who have lost relatives have felt the devastating impact of this scourge. In most work places, including agriculture, productivity has been greatly affected by workers who are too weak to perform their duties due to HIV/AIDS related illnesses. The New Deal Government has, therefore, developed a supportive policy stance, which has provided an environment for open discussion of the pandemic. Many more people are now involved in the awareness campaigns aimed at not only preventing infection but also counselling those that may already be infected and affected.

79. Sir, funding is readily available through the National HIV/AIDS/STI/TB Council to non-governmental organisations that are prepared to assist in the fight against this pandemic. However, we do realise that in order to scale up the provision of anti-retroviral therapy and other health services, there

is also a need for more trained medical personnel.

### ***Decentralisation***

80. Mr. Speaker, our budgeting system recently has tried to involve the stakeholders in elaborating policies and programmes to be followed in spending public funds. The exercise, which has been very useful, has not been fully effective due to lack of involvement of the general populace throughout the country. In an effort to involve the stakeholders, the Government approved a Decentralisation Policy and is now poised to implement it. During the opening of this session of Parliament, it was indicated that a secretariat which was created under Cabinet office has now shifted to the Ministry of Local Government and Housing and will oversee the implementation of the policy.

81. Mr. Speaker, in order to facilitate the devolution of power to and the creation of capacity amongst the people, the Government has commenced the process of reviewing and establishing appropriate institutional structures and arrangements. These structures will facilitate the decentralisation of funds, coordination, monitoring and implementation of development projects conceived by the local communities. Being responsible for disbursement of public funds and national planning, my Ministry has started a programme of capacity building for district officers to enable them effectively assist local communities in development work. This training programme will be continued throughout this year in readiness for allocation of more funds next year.

82. Mr. Speaker, over the past few years, the Government has implemented a limited decentralised project development programme through the

Zambia Investment and Social Fund (ZAMSIF), Micro-projects Unit (MPU) and Constituency Development Fund (CDF). The first two project units have been housed under the Ministry of Finance and National Planning and had special project loan funds, which have now been exhausted. There are other local committees under the Basic Education Sector Investment Programme and also under the health sector. It is true that these programmes have been successful in involving the local communities in not only articulating their development needs but also in invoking a sense of ownership by the local communities of the projects they implement.

83. Mr. Speaker, I strongly feel that this process of localisation will bring development closer to those most affected by poverty. The structure will make development open, participatory and inclusive. The Government would like to use these working concepts and systems of local community participation in development for implementing the Decentralisation Policy. The programme of the Government is to consolidate and strengthen this local capacity to plan by amalgamating all local sector committees to form the nucleus of district planning and development committees. However, the prime movers

of this well-intended decentralisation initiative are the elected representatives of the people both at constituency and ward levels.

## **PART IV**

### **THE 2005 BUDGET**

#### **EXPENDITURE MEASURES**

84. Mr. Speaker, the 2005 budget is the second to be prepared using the Activity Based Budget (ABB) system. The system provides details of all projects and programmes to be funded. This exemplifies the resolve of this Government to operate in a transparent and accountable manner.

85. In its continued quest for creating wealth and reducing poverty, the Government proposes to spend a total of K9, 779.02 billion or 31.37 percent of GDP in 2005. Of this amount, K 4,184.60 billion or 42.8 percent is for poverty reducing programmes, which now aggregates all expenses including personal emoluments for service providers such as teachers, nurses and doctors.

86. The proposed total expenditure for 2005 is broken down as follows:

		<b>Total (K'billion)</b>
<b>TOTAL EXPENDITURE</b>		<b>9,779.02</b>
<b>Personal Emoluments</b>		<b>2,186.51</b>
O/W	Housing Allowance	86.40
	Net Recruitment of Teachers/Medical personnel	114.25
<b>Other Personal Related Expenses</b>		<b>130.57</b>
O/W	Housing Allowance Arrears	64.87
	PSRP Retrenchments	65.70
<b>Recurrent Programmes</b>		<b>2,808.69</b>
O/W	Donor funded Recurrent Programmes	637.08
	Constitutional Review/Electoral Reforms/Elections/	142.00
	Bye- elections	4.00
	Voters registration exercise	11.65
	Food Security Packs	20.00
	Fertiliser Support Programme (FSP)	140.00
	Arrears to suppliers of Goods and Services	76.00
	Pensions Fund	159.00
	Awards and Compensations	54.00
	Public Expenditure Management and Accountability Reforms (PEMFAR)	131.96
	Food Strategic Reserve	59.13
<b>Capital Programmes</b>		<b>2,854.20</b>
O/W	Donor funded Capital Programmes	2,236.54
	Financial Restructuring/ Contingent Liabilities	100.00
	Road Fund	90.00
	Rural Electrification	11.30
	Road Infrastructure Projects	100.00
<b>Constitutional and Statutory</b>		<b>1,799.05</b>
O/W	Domestic Debt Service	850.00
	Foreign Debt Service	192.70
	Amortisation	383.80
	Contingency	15.85
	Wage Award	343.70
	Constitutional Posts	13.00

87. Mr. Speaker, in order to remedy the shortage of teaching and health staff, I have allocated an amount of K114.25 billion. Out of this, K82.25 billion will be for net recruitment of teachers and should cover over five thousand new teachers. An amount of K32.0 billion will be for the net recruitment and retention schemes for medical personnel. The recruitment and creation of new posts in other spending units other than for “front line” service delivery positions will be kept to a minimum. This will provide space for future growth of the size of the civil service in these important social sectors.

88. Mr. Speaker, In addition, Government has increased the allocation to the education sector from the discretionary budget to 24.0 percent from 20.5 percent in 2004. The allocation to the health sector has been increased to 12 percent from 11.54 percent in 2004. These increased resources can only show improvements in the quality of education and health of our people with the full cooperation, dedication and commitment of all service providers including the teachers.

89. Sir, apart from the automatic wage adjustment within salary notches, last year the Government only awarded

a wage increase to officers who had been missed out of the 2003 wage award. This year, I am proposing to spend K343.7 billion for a general wage award for the whole public service. In conformity with our tight fiscal control, I intended to maintain the public service personal emoluments to below 7.99 percent of GDP as in 2004. However, due to the special needs of the education and health sectors and the payment of current housing allowances of K86.4 billion, personal emoluments will now rise to 8.12 percent of GDP compared.

90. Mr. Speaker, with regard to the payment of housing allowance arrears, I have allocated K64.87 billion. This amount is sufficient to pay all remaining arrears from 2002 and to dismantle the first one third of the outstanding arrears from 2003 due to eligible workers. While on this matter, may I plead that housing allowance be paid only to eligible officers. It is not a salary enhancement to be shared amongst all officers at receiving stations.

91. Mr. Speaker, having dealt with the problems of serving officers, I now address myself to those who left employment. Sir, the Government is continuing with the Public Service Reform Programme (PSRP) in 2005. However, during the process of reducing the numbers in the civil service, the people who were retrenched were maintained on the payroll due to the non-payment of their terminal benefits. I, therefore, propose to spend a total of K65.70 billion to pay off all civil servants already retrenched as at December 2004. I also want to assure all retired teachers that they will be paid their terminal benefits from the donor funds I had announced late last year. The programme has been delayed by the need to authenticate some of the personal data provided.

92. Mr. Speaker, with regard to funding of the Public Service Pensions Fund, I have made a grant provision of K 159.0 billion. Of this amount, K142 billion will clear the backlog of lump sum pension payments for the deceased, early retirements on medical grounds and in the national interest cases, and the payments due in 2005. In addition, I have provided K74.6 billion for employer's pension contributions, which together with the employees' contribution will be remitted timely. Further, efforts to liquidate past pension contribution arrears are being pursued. All these measures are aimed at alleviating the suffering of our senior citizens, who devoted much of their working lives to developing our country.

93. Mr. Speaker, the Government is aware that contractors and suppliers of goods and services have been crippled due to non-payment for goods supplied and services rendered. However, completely dismantling outstanding bills to suppliers and contractors estimated at over K 577 billion will not be possible in 2005 without unrealistic curtailment of on-going operations and reducing the allocations to priority poverty reducing programmes. Within the available means, I have provided a sum of K76 billion towards the payment of outstanding bills owed to suppliers and contractors.

94. Sir, the Government will negotiate for discounts on this debt, especially where onerous interest rates have been applied or high prices charged, with a view to pay off the balance over a given number of years. To achieve a complete dismantling of supplier' debt, not only must the stock of outstanding debt be reduced, but the contracting of new suppliers' credit must be effectively curtailed by strict implementation of the commitment control system. Punitive measures in

accordance with the Public Finance Act passed by this august House during its last sitting will be taken against erring controlling officers.

95. Sir, a lot of court judgements have continued to go against the Government leading to huge claims on the Treasury. This is a big drain on the scarce resources. For the future, the Government will fully and carefully analyse the terms of the contracts. In case of breach of contracts, alternative dispute resolution options such as mediation between parties and settlements out of courts should be explored so that savings can be made. In the 2005 budget I have provided K54.0 billion towards the settlement of outstanding court judgements.

96. Mr. Speaker, as was indicated in the opening speech of the Fourth Session of the Ninth National Assembly, the Constitutional Review and Electoral Reforms processes will continue this year. Accordingly, a sum of K17 billion has been set aside for these processes. In addition, a sum of K125 billion has been set aside for the voters' registration exercise. To support the voter registration exercise, a further K 11.65 billion has been provided for the accelerated issuance of national registration cards in 2005. In addition, K4 billion has been reserved to finance the cost of any possible bye-elections.

97. Mr. Speaker, an amount of K59.13 billion has been allocated to purchase maize, rice and cassava from smallholder farmers. A further K 140.0 billion has been allocated to continue the fertilizer support programme with the level of the Government support set at 50 percent in the 2005/2006 farming season. An additional K20.0 billion is allocated for fertiliser and seed under the Food Security Pack programme for the vulnerable but viable farmers.

98. Mr. Speaker, from the above allocations, it is evident that the rural poor are being catered for and this is beginning to show in their improved livelihoods. However, there is need to address the problems of the many unemployed in our urban areas. The Government will, therefore, undertake a comprehensive survey to determine skills levels and also the needs of the thousands of artisans eking out a living from self-employment on various ventures. The intention is to create a fund to assist these young and skilled to fully exploit their ingenuities.

99. Sir, apart from these Government funded recurrent programmes, donor support will amount to K637.08 billion, of which the biggest single element is K131.96 billion for the Public Expenditure Management and Financial Accountability Reforms (PEMFAR). This support is in recognition of the enhanced confidence by the cooperating partners in this administration's willingness and commitment to improve the management of public resources in the most transparent and effective manner. PEMFAR is a comprehensive programme aimed at strengthening the planning, budgeting, procurement, accounting and auditing systems in the public sector.

100. Mr. Speaker, as indicated in the last few paragraphs above, the Government will be paying out large amounts of money to various categories of beneficiaries. There is need, therefore, for a strong accounting system in order to detect mismanagement by those entrusted to deal with the weak and vulnerable such as retirees. The PEMFAR programmes are to assist in establishing user friendly but strict financial management systems, while accounting for donor funds and improving public debt management.

101. Mr. Speaker, in 2005 an amount of K2,854.20 billion is allocated for capital programmes. K2,236.54 billion or 78.4 percent is donor-financed. Honourable Members may wish to note that the Government is in dialogue with cooperating partners to move from project support to General Budget Support. The advantage of General Budget Support is that the Government will have greater flexibility to allocate resources to programmes and projects, which reflect its priorities as articulated in its medium-term development plans. However, although we are switching to the General Budget Support, some of the on-going capital programmes supported by donors will continue in the short to medium-term until the commitments expire. The main donor supported capital programmes are in the tourism, water and sanitation, roads and social sectors.

102. Mr. Speaker, the total domestically financed capital expenditure in 2005 will be K617.66 billion. This will go towards providing for existing infrastructure contracts to which K100 billion has been allocated, while K90 billion is earmarked for road maintenance to be financed from the fuel levy. K11.3 billion is meant for the Rural Electrification Fund, while K6.80 billion will go to the Land Development Fund.

103. Mr. Speaker, payment for external debt service obligations continues to be a major drain on government resources. As Zambia achieves the HIPC Completion Point, the Government will engage our cooperating partners into negotiations for more debt relief.

104. After the negotiations, debt service is expected to substantially fall. In addition prudent debt management would continue to be the underlying

commitment to further debt reduction and debt procurement. The Government strategy will be to access only grants and highly concessional loans mostly from Bilateral and multilateral institutions so that we do not fall back into debt unsustainability. In 2005, I have allocated K576.5 billion for debt service for both multilateral and bilateral creditors.

105. Mr. Speaker, in order to honour the domestic debt obligations, the Government has set aside a sum of K850 billion or 2.73 percent of GDP to cover payments on the domestic debt obligations in respect of interest payable on Treasury Bills and Bonds.

106. Mr. Speaker, K100 billion has been provided for financial restructuring of some parastatals. These will include the National Savings and Credit Bank, the Zambia National Building Society and Nitrogen Chemicals of Zambia. However, as per our current policy, the release of this money will be contingent upon the submission of and approval of viable business plans that are financially and technically feasible.

107. Mr. Speaker, a contingency amount of K15.8 billion has been provided for unforeseen and unavoidable expenditure.

## **REVENUE MEASURES**

108. Mr. Speaker, in coming up with the proposed revenue measures for the 2005 budget, the Government had to carefully balance the demands of citizens for lower taxes and their demands for high expenditure on poverty reducing programmes. After a critical analysis of the situation, the Government had to find a balance that will provide tax relief while at the same time generate adequate resources to support the various development

programmes demanded by and meant to benefit the taxpayers and other citizens.

109. Mr. Speaker, under these circumstances, the Government expects to raise a total of K9, 779.02 billion. Of this amount, K5, 722.25 billion will come from domestic revenue while our cooperating partners are providing K3,

556.77 billion in project and general budget support. The balance of K500.00 billion will constitute domestic financing of 1.6 percent of GDP.

110. Mr Speaker, the summary of the revenue estimates and financing to support this year's expenditure is as follows:

	(K' billion)	
<b>TOTAL TAX REVENUES</b>		<b>5,505.56</b>
<b>Direct Taxes</b>		<b>2,419.31</b>
o/w Company Income Tax	444.87	
Pay As You Earn	1,726.81	
Withholding and Other Income Taxes	243.49	
Mineral Royalty Tax	4.14	
<b>Excise Taxes</b>		<b>728.94</b>
o/w Fuel Levy	90.00	
Other Excises	638.94	
<b>Domestic VAT</b>		<b>608.98</b>
<b>Trade Taxes</b>		<b>1,748.33</b>
o/w Import Tariffs	744.73	
Import VAT	979.00	
Export Duties	24.60	
<b>NON -TAX REVENUE</b>		<b>135.85</b>
o/w User Fees and Charges		111.00
Dividends, Interest & Other levies		24.85
<b>EXCEPTIONAL REVENUE</b>		<b>80.84</b>
<b>DOMESTIC FINANCING</b>		<b>500.00</b>
<b>TOTAL DOMESTIC REVENUE AND FINANCING</b>		<b>6,222.25</b>
<b>FOREIGN FINANCING</b>		<b>3,556.77</b>
o/w Project Financing		2,873.62
General Budget Support		683.15
<b>TOTAL REVENUE AND FINANCING</b>		<b>9,779.02</b>

### Direct Taxes

111. Mr. Speaker, last year the top rate of Pay As you Earn (PAYE) was raised in an effort to reduce the financing gap. I have appreciated the austerity exercised by many Zambians to see through the relatively tough 2004 budget. The good news on debt cancellations, cheap capital for industry and growth of the economy are some of the positive results of the perceived pain.

112. Mr. Speaker, having considered the various representations as well as to

provide more take home pay for the working class, I propose to reduce the top rate from 40 percent to 37.5 percent in 2005. In addition, I have raised the exempt threshold from K260, 000 to K280, 000 per month. In view of the stable and positive macroeconomic parameters, I am hopeful that any surplus from this tax relief will go into investing in wealth creation ventures. The proposed PAYE system will, therefore, be as follows:-

<b>Existing System</b>	
<b>Income Bands</b>	<b>Rate %</b>
First K3,120,000 per annum	0
Next K8,640,000 per annum	30
Next K48,240,000 per annum	35
Balance	40

<b>Proposed System</b>	
<b>Income Bands</b>	<b>Rate %</b>
First K3,360,000 per annum	0
Next K8,640,000 per annum	30
Next K48,000,000 per annum	35
Balance	37.5

The measure will result in a revenue loss of K35.0 billion.

113. Mr. Speaker, the Zambian workers who have laboured and contributed to the development of this nation need to be commended and appreciated once they have retired. I, therefore, propose to increase the exempt portion of terminal benefits from K5 million to K10 million. This means that a retiree will only be required to pay tax on the amount above K10 million. This will give retirees an opportunity to create a sustainable livelihood. This measure will result in a revenue loss of K900.0 million.

114. The above measures take effect from 1<sup>st</sup> April 2005.

### **Customs and Excise**

115. Mr. Speaker, the cellular mobile telephone network is a modern innovation in telecommunication undergoing expansion. To enable more people have access to the network and hence spur further growth in this area, I propose to reduce customs duty on cellular mobile telephone handsets from 15 percent to 5 percent. The expected

revenue loss is an estimated K320.0 million.

116. Sir, the current policy of Government is to, as much as possible, move away from taxing capital goods to make investment less costly. Forklifts are capital equipment used by many industries including production processes. I propose to reduce customs duty on forklifts from 15 percent to 5 percent. The measure will result into an estimated revenue loss of K105 million.

117. Mr. Speaker, the current policy of the Government in the education sector is to make educational requisites less costly by removing taxes. However, certain categories of books for children still attract duty and this contradicts the Government policy. I, therefore, propose to reduce customs duty on children's books from 15 percent to 0 percent. This measure will help in providing a good foundation to the education of our children.

118. Sir, the music industry has in the recent past flourished and a number of young talented Zambian musicians have emerged. They have not only provided entertainment but have given timely counsel on issues such as HIV/AIDS to their peers. In order to further enhance the growth and support to the music industry, I propose to reduce customs duty on pancakes used in music production from 15 percent to 5 percent. The estimated revenue loss is K84 million.

119. Mr. Speaker, due to the positive economic developments in the country, many Zambians who are abroad would like to come back home. However, currently, the law allows these returning residents to bring into the country household goods duty free. In most of the representations made to me, some would wish to bring home assets such as

motor vehicles and trucks. In order to assist these patriotic Zambians who want to come back home to help in national reconstruction, I have decided to allow one motor vehicle per family to be brought into the country as personal effects.

120. Mr. Speaker, I have also proposed to categorise certain agricultural and other products in the customs tariffs and the process involves upward and downward adjustments in tariff rates. This measure is mostly meant to discourage importation of some agricultural products already being produced in Zambia and is meant to encourage and stimulate local production. From this measure, the Government estimates to raise K5.8 billion.

121. Sir, the opaque beer industry is one sector where the Government raises revenue. To improve and simplify tax collection, I propose to provide for an alternative method of charging excise duty. The excise duty will now be paid at the rate of 35 percent on the value for duty purposes or K132.00 per litre, whichever is greater. The expected revenue gain from this measure is K2.0 billion.

122. Sir, currently, bottled aerated or carbonated water attracts excise duty, while bottled still water does not. I, therefore, propose to introduce excise duty on bottled still mineral water, whether flavoured or not, at the rate of 10 percent. The measure is expected to raise K1.0 billion.

123. Mr. Speaker, the domestic industry needs the support of the Government particularly in sectors where there are threats from cheap imports. To promote local manufacturing and preserve employment, I propose to increase

customs duty on imported chalk from 15 percent to 25 percent. The measure is expected to raise K144 million.

124. Sir, I propose to introduce export duty at the rate of 25 percent on unprocessed timber and scrap metals exported. This measure is intended to encourage the export of value added timber products and has the added benefit of creating employment. The export duty on scrap metal is meant to stimulate local recycling of waste metal and to encourage the growth of the local foundry industry. On coming into effect of this tax measure, Statutory Instrument Number 23 of 2004 issued by the Minister of Commerce, Trade and Industry shall stand revoked. The introduction of this new tax will raise K24.6 billion.

125. The above measures will be effective from mid-night tonight.

#### **Value Added Tax**

126. Mr. Speaker, in the 2004 Budget, the Government moved several agricultural products and supplies from the zero-rating schedule to the exempt schedule. It has, however, been observed that some of the products included on the exempt schedule were export agricultural products hence making these goods internationally uncompetitive. I, therefore, propose to standard-rate these selected agricultural products. These products when exported will attract VAT at 0 percent making them competitive in the export market. This measure is in line with the policy of the Government to make agriculture a sustained contributor to foreign exchange earnings. The measure will cost the Treasury K29.8 billion.

127. Sir, in line with the health policy of the Government to keep the cost of drugs and other medical products low, I

propose to remove medical supplies from the exempt schedule to the zero-rate schedule. This measure will boost local manufacturing of medical products while at the same time levelling the playing field with the imported medical products that are tax-free. The Government expects to lose an estimated K2.3 billion.

128. Mr. Speaker, the above measures will take effect from mid-night tonight.

### **Housekeeping Measures**

129. Mr. Speaker, I propose to amend the Customs and Excise, Income Tax and Value Added Tax Acts so as to update, strengthen and remove ambiguities in certain sections of tax legislation and to make tax administration more effective. These measures are revenue neutral.

## **PART V**

### **CONCLUSION**

130. Mr. Speaker, the New Deal Administration has made great strides in turning the Zambian economy around and securing a sound foundation for future progress. Zambia has had positive economic growth for six straight years and per capita incomes have risen in the last five years. However, despite this impressive economic performance, there are still too many of our citizens who are living in unacceptable economic circumstances.

131. Mr. Speaker, too many of our children lack access to quality education, too many of our sick lack access to affordable health services and too many of our youths are unable to find something worthwhile to do. It is clear from this that much remains to be done if the Millennium Development

Goals (MDGs) are to be achieved by 2015.

132. Mr. Speaker, in this year's Budget, the Government has moved decisively to address some of these problems and to broaden the benefits of the growth that the country has been registering to a wider cross section of our society. For example, with the large provision in the Budget for net recruitment and retention of teachers and health personnel, affordable access to quality education and health services should become a reality for the majority of our people.

133. The further provision of substantial sums of public money for empowerment programmes like the out-grower schemes, the fertiliser support programme and the tourism development fund will enhance further household food security and create jobs. The beneficiaries will also be engaged in self-employment, while creating jobs in the transportation and processing of the products. Also, by substantially enhancing the budgetary provisions to areas like the Pensions Fund, some of our most vulnerable citizens who have diligently served the nation during their working lives, will be able to have a more secure and peaceful retirement.

134. Mr. Speaker, economic growth is indispensable for poverty reduction and the achievement of the MDGs by 2015. However, the challenge facing the nation now is to ensure that this growth is more broad-based and addresses the pockets of extreme poverty found in our midst. With the policies and programmes put in place in the Budget for 2005, I am confident that this will be attained and I therefore commend this Budget to the House.

135. Mr. Speaker, I beg to move.