

**Budget Address by The Honourable Ng'andu P. Magande, MP
Minister of Finance and National Planning Delivered to
the National Assembly on Friday, 6th February, 2004**

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, 2004 to 31st December, 2004, presented to the National Assembly in February, 2004.

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

3. Mr Speaker, the Budget for 2004 is anchored on the premise that the empowerment of the Zambian people must be the only reason for all our development endeavours. This will secure sustained and broad-based development, which will create wealth, reduce poverty and raise living standards of all the citizens. Government therefore recognises that it must constantly evaluate its performance, identify the shortcomings and re-dedicate itself to ensuring the realisation of the full potential of the Nation's greatest asset: the Zambian people.

4. With this premise in mind, in the 2004 Budget, the Government has focused expenditures on areas that will directly involve and benefit the people and curb waste within the public sector. Only by observing prudence in expenditure can the limited resources be directed at priority investments, which will reduce poverty and create wealth. Thus, the theme of the 2004 Budget is **"Austerity for Posterity"** by which I mean, the observance of fiscal prudence

and postponement of needless present consumption in order to secure our future sustained prosperity.

5. Mr Speaker, before proceeding further, I wish to pay tribute to my predecessor Mr Emmanuel G. Kasonde, for initiating the budget reforms from which this budget has been framed. Allow me to also thank the many individuals and organisations who made valuable contributions towards the preparation of this year's Budget. Through a number of seminars, we were able to interact with the many stakeholders who made comments on the resource envelope and the intended utilisation of the limited resources.

6. Mr Speaker, the 2004 Budget has been formulated in the context of the Medium-Term Expenditure Framework (MTEF) for 2004-2006, thus placing the annual budgeting cycle in a more strategic context. Further, all spending agencies have used the Activity Based Budgeting (ABB) procedures to explicitly link their budget allocations to service delivery and outputs. While we have experienced teething problems in this reform of our budgeting process, it is nevertheless a great step forward. It makes the budgeting process more transparent while making the Executive Wing of Government more accountable to this august House and indeed to the Zambian people as a whole. In this regard, the 2004 Budget provides much more information which will allow Honourable Members to constructively debate the Budget allocations.

7. Mr Speaker, my address this afternoon consists of five parts. In Part one, I give a brief on the performance of the global economy during the past year. In Part Two, I discuss developments in the Zambian economy during the same period and this is followed in Part Three, by an outline of the Government's economic policies for 2004. In Part Four, I present details of the 2004 Budget and the supporting revenue measures. The final part consists my concluding remarks.

PART I

PERFORMANCE OF THE GLOBAL ECONOMY IN 2003

8. Mr Speaker, the global economy continued to recover in 2003 reflecting the expansion of activity and investment in the United States of America, Japan and some emerging markets. Recovery in the Euro Zone was hampered by the strong euro. Macroeconomic conditions were favourable with inflation remaining subdued, and interest rates remaining low.

9. In the commodity markets, prices for crude oil and non-fuel commodities showed an upward trend in 2003. Fuel prices increased largely due to the slower than expected recovery in Iraq's oil production and the pick up in demand in US economy. As for copper, which is Zambia's principal export commodity, the average price at the London Metal Exchange rose from US 68 cents to 83 cents per pound by the end of 2003. However, world prices of agricultural commodities, which are the major exports of many developing countries, declined.

)
10. Sir, the global economy is estimated to have grown by 3.2 percent in 2003, up by 0.2 percentage points

when compared to 2002. Growth rates of 1.8 percent, 5.0 percent, and 4.9 percent were recorded for the advanced economies, developing countries and countries in transition, respectively. The strengthened consumer and business confidence together with easier monetary, fiscal and financial conditions boosted growth in the United States. However, labour markets remained subdued and high unemployment levels persisted.

11. Mr Speaker, monetary conditions in 2003 were generally conducive with inflation falling below 2 percent for the second year running in advanced economies. This was the lowest level for 30 years. In developing countries, inflation was projected to fall to 5 percent, also a historical low. Inflation in countries in transition was relatively high at 9.7 percent.

12. Mr Speaker, in line with the increase in global output, world trade continued to increase, although at a slower pace than in 2002. The volume of world trade increased by 2.9 percent in 2003 compared to 3.2 percent in 2002.

13. Mr Speaker, Africa recorded a Gross Domestic Product (GDP) growth of 3.7 percent. This was the third consecutive year that the region registered a positive growth. Debt relief under the global Highly Indebted Poor Countries (HIPC) Initiative and improved macroeconomic policies aided growth in a number of African countries.

14. Mr Speaker, despite growth in Africa being resilient, it is still far too low to meet the United Nations Millennium Development Goals (MDGs) by 2015. For Sub-Saharan

Africa, growth will need to be above 7 percent a year, if the number of the poor is to be halved by the year 2015. In this regard, the New Partnership for Africa's Development (NEPAD) has been formulated as a comprehensive strategy to address Africa's development problems.

PART II

PERFORMANCE OF THE DOMESTIC ECONOMY IN 2003

Macroeconomic Performance

15. Mr Speaker, our macroeconomic targets for 2003 were to achieve a growth in real Gross Domestic Product of at least 4 percent; reduce the average annual inflation rate to 17.9 percent; build up gross international reserves equivalent to 1.9 months of imports, ensure food security; reduce poverty levels; reduce domestic borrowing to 1.55 percent of GDP and reach the Completion Point under the enhanced HIPC Initiative. The attainment of the growth objective was based on the projected recovery of agricultural production and a favourable performance of the mining, manufacturing, tourism and service sectors.

16. Mr Speaker, preliminary data show that the growth target was achieved as real, Gross Domestic Product grew by 4.3 percent in 2003. This expansion in growth was mainly attributed to the recovery of agricultural output from the effects of the 2002 drought. This growth which is higher than the population growth rate of 2.4 percent presupposes a reduction in poverty. The country attained food security and prices of maize, the staple crop, dropped drastically during the year.

17. Mr Speaker, annual inflation fell from 26.7 percent at the end of 2002 to 17.2 percent at the end of 2003, largely due to the fall in food prices following the bumper harvest. However, non-food inflation increased in 2003 to 21.7 percent from 17.2 percent in 2002. This outcome was largely attributed to several factors, including the strengthening of the South African Rand, the currency of the major source of our imports and the upward adjustments in prices of petroleum products. Further, the build up of international reserves at 1.3 months of imports was less than the target of 1.9 months due to reduced balance of payments support.

18. Mr Speaker, it is a well-known fact that the country failed to reach the HIPC initiative Completion Point due to the budget overrun that arose largely from the higher than programmed civil service wage award during 2003. The country is again under an observation period with the International Monetary Fund (IMF) that could lead to a programme with them during the latter part of the year. I shall give more details on this later in my address.

19. Mr Speaker, domestic borrowing at K1,047 billion, about 5 percent of GDP, exceeded the target of 1.5 percent. This out-turn was largely due to the higher than budgeted expenditures on the 2003 civil service pay award and housing allowances as well as spending on retrenchment packages for RAMCOZ employees. In addition, the shortfall in balance of payments support necessitated increased borrowing from the domestic economy to maintain expenditure programmes.

Sectoral Performance

20. Mr Speaker, below I give the performance of five major sectors. However, these are not the only ones that contributed to the growth of the economy in 2003. The transport sector, financial and insurance services, the real estate sector, wholesale and retail; and electricity, gas and water also experienced growth.

Agriculture

21. Mr Speaker, the performance of the agriculture, forestry and fishing sector was favourable during the year. Value added increased by 5.0 percent from K411.7 billion in 2002 to K432.5 billion in 2003. This was due to the favourable weather conditions for crops and the timely provision of inputs. Government also facilitated private sector investment, especially in the cultivation of cash crops such as cotton, paprika and tobacco. Furthermore, ZESCO developed a scheme that reduced electricity tariffs by 50 percent for irrigation farming. Sir, these factors led to an improvement in the country's food situation.

Mining and Quarrying

22. Mr Speaker, the mining and quarrying sector continued to grow mainly due to increases in copper production coupled with favourable international metal prices. Growth of 3.3 percent in 2003 was, however, lower than that recorded in 2002 when production increased rapidly following new investments after the privatisation of most of the mines.

Manufacturing

23. Mr Speaker, value added in the industry increased from K289.4 billion in 2002 to K307.6 billion in 2003, representing a growth of 6.3 percent. The growth in the sector was largely from the food, beverages, tobacco, textiles and leather sub-sectors. The strong correlation between agricultural production and agro-processing should be fully exploited as it will generate high levels of employment.

Tourism

24. Mr Speaker, the tourism sector continued to register positive growth in 2003. Preliminary data show that the number of tourist arrivals increased from 565,081 in 2002 to 577,526, representing a 2.2 percent increase. Average room occupancy rates rose to 53.2 percent from 50.4 percent, while the bed occupancy rate rose to 44.1 percent from 43.3 percent. Similarly, the level of employment also rose by 9.4 percent to 16,548 in 2003.

Construction

25. Mr Speaker, the construction sector continued to register a strong positive growth in 2003 with value added increasing by 13.9 percent. Infrastructure projects such as road rehabilitation works, residential and commercial construction works drove this growth.

Privatisation and Parastatal Reform

26. Mr Speaker, in 2003, the Government continued cautiously with the privatisation policy and parastatal reforms. The major development was the concessioning of the operations of Zambia Railways Limited to a consortium comprising the New

Limpopo Bridge Project Investments and Spoonnet, both of South Africa. The concession will run for a period of 20 years.

27. The commercialisation of ZESCO was started, and the company embarked on new investments from commercial borrowings. Negotiations for the sale of 49 percent of the shares of the Zambia National Commercial Bank commenced and hopefully, a deal will be concluded soon.

Domestic Debt

28. Mr Speaker, the total stock of domestic debt increased by 28.6 percent from K4.9 trillion at the end of 2002 to K6.2 trillion at the end of December, 2003. This rise was largely attributed to the increase in the stock of Government securities caused by the financing of the higher than programmed fiscal deficit. However, the Public Service Pensions Fund arrears reduced to K263 billion from K270 billion.

External Debt

29. Mr Speaker, at the current level, Zambia's external debt continues to be unsustainable. In 2003, Zambia spent US \$113.1 million in debt service and when write-offs are included, this still left a debt stock of US \$6.5 billion. This highlights the need for deeper debt relief and indeed debt cancellation from our cooperating partners.

30. Mr Speaker, currently, cooperating partners have indicated their willingness to give additional and substantial debt relief once the country reaches the HIPC Initiative Completion Point. To reach the Completion Point, the country must have a Poverty Reduction and Growth Facility (PRGF)

with the International Monetary Fund (IMF). The targeted date for the Completion Point, scheduled for end December 2003, was not achieved as Zambia did not graduate to a new Poverty Reduction and Growth Facility (PRGF).

31. Mr Speaker, the country is now under a Staff Monitored Programme (SMP) which will be assessed sometime in April. Depending on the performance, the IMF will consider and approve a new PRGF. Satisfactory performance during a six months period will then qualify Zambia to reach the Completion Point.

32. Sir, the Government is working hard to ensure that Zambia reaches the Completion Point by the end of this year. Substantial progress has been made towards implementing measures for reaching this goal. Some of the triggers include a bias to allocating the limited resources to the education and health sectors. Attaining the Completion Point will enable the country to benefit from a reduction of US \$3.8 billion, in the stock of debt. This will eventually result in savings which will be directed at more poverty reduction and wealth creation programmes.

External Sector Developments

33. Mr Speaker, preliminary information indicates that the external sector performed better than expected in 2003. The country's terms of trade showed a 7.0 percent improvement as against a minus 7.1 percent in 2002. The up-turn in the terms of trade was largely due to increased metal prices.

34. Mr Speaker, the favourable terms of trade had a positive influence

on the current account balance, which narrowed to minus US \$628 million in 2003 from minus US \$652 million in 2002. This was due to a 21.9 percent increase in the value of merchandise exports to US \$1,117 million. Merchandise imports rose by 15.3 percent to US \$1,388 million.

35. Sir, another factor that raised the value of total exports was the strong growth in the exports of non-traditional products, whose earnings increased by 14.0 percent to US \$407 million. Accounting for this strong performance were increased exports of scrap metal, cotton lint, copper rods, tobacco and gas oil. This increase is a sure sign that we can do much more in export diversification as non-metal exports and tourism receipts now account for 40 per cent of export earnings.

36. The most significant sources of financing for the current account deficit were the high level of net private capital inflows and project grants, which amounted to US \$153 million and US \$240 million respectively. The overall balance of payments deficit, which narrowed by 15.1 percent to minus US \$325 million, was better than anticipated.

Monetary and Financial Sector Developments

37. Mr Speaker, the main focus of monetary policy in 2003 was to achieve an end-year inflation target of 8.0 percent. In order to achieve this target, money supply growth was to be restricted to 6.6 percent. This required limiting domestic borrowing to 1.5 percent of GDP and achieving stability in the foreign exchange market and the financial system.

38. Sir, in 2003, the end-year inflation fell to 17.2 percent from 26.7 percent in 2002. Despite this significant reduction, the inflation out-turn was still higher than the target. This was due to a 23.4 percent growth in money supply which was higher than programmed largely due to increased Government borrowing from the banking system.

39. Mr Speaker, during the year, the yield rates on Government securities continued to decline. The composite weighted average yield rate for all Treasury bill portfolios decreased to 15.0 percent from 33.1 percent at end-December 2002. Similarly, the composite weighted-average Government bond yield rate declined to 24.8 percent from 45.0 percent recorded at end-December 2002. It was expected that yield rates would adjust in line with inflation.

40. The Bank of Zambia also completed the conversion of Kwacha statutory reserves on foreign currency deposits into US dollars. In addition, the Bank of Zambia reduced the statutory reserve ratio on both Kwacha and foreign currency deposits to 14.0 percent from 17.5 percent.

41. Mr Speaker, following the decrease in yield rates on Government securities, and reserve ratios, the lending rates of commercial banks also declined. The weighted average base lending rate dropped to 37.7 percent in December 2003 from 42.5 percent in December 2002. While this gesture from commercial banks is acknowledged, I wish to implore commercial banks to reduce their lending rates even lower and faster.

42. Sir, in line with our commitment in last year's Budget to maintain a competitive exchange rate, the Bank of Zambia, in conjunction with other major stakeholders, set up a broad-based inter-bank foreign exchange market. This action enhanced the role of the market and addressed the shortcomings that characterised the previous trading system.

43. Sir, these changes in foreign exchange operations contributed to the stability of the exchange rate of the Kwacha against the US dollar. The Kwacha depreciated by only 7.5 percent in 2003 compared with a depreciation of 13.2 percent recorded in 2002.

44. Mr Speaker, the overall financial condition and performance of the banking sector, during 2003, was satisfactory. The sector maintained adequate capital and reserves, while asset quality, earnings and liquidity were also satisfactory. Sir, with regard to the non-bank financial institutions sector, the overall performance of the leasing, micro finance and bureau de change institutions was considered fair. However, the performance of some non-bank financial institutions was unsatisfactory largely due to liquidity problems and inadequate capital. To address this, the Bank of Zambia is closely supervising the operations of these institutions.

45. Mr Speaker, in 2003, the Bank of Zambia and other stakeholders, including Government started developing a comprehensive medium-to-long term Financial Sector Development Plan (FSDP). The main objective of the plan is to develop an efficient financial system adequate to

meet the challenges of development of the economy.

46. Mr Speaker, it is envisaged that the plan will, inter alia, foster a more reliable and stable provision of services to the lower income groups. The non-bank financial institutions are expected to contribute greatly to poverty reduction in the country after the implementation of the plan.

47. Mr Speaker, to strengthen the micro finance sector, the Bank of Zambia has together with stakeholders been formulating regulations to govern operations in this sector. Micro finance operations will go a long way in making credit and other financial services more easily accessible to low-income groups.

Capital Market Developments

48. Mr Speaker, in 2003, the performance of the stock market was favourable. All performance indicators at the Lusaka Stock Exchange (LuSE), namely: market capitalization, number of trades, volume, turnover and the total number of companies on the stock market showed an upward trend. Market capitalization went up by 209 percent to US \$768 million as at end-December 2003 from US \$246 million as at end-December 2002. Similarly, the volume of shares increased by 280.9 percent to 311,443,174 shares from 81,755,945 shares as at end-December 2002.

49. The number of trades increased by 34.4 percent from 1,565 at the end of December 2002 to 2,103 at the end of December 2003. Similarly, the turnover value increased by 1.9 percent to US \$10.9 million from US \$10.7 million. In terms of the number of companies listed and quoted on LuSE, there was a

marginal increase in the period under review. Currently the number of listed companies is 11 while the number of quoted companies is 10.

50. Mr Speaker, reflecting this favourable performance of the stock market, the LuSE All Share Index reached an all time high of 414.0 points in December 2003, up from 336.6 points in December 2002.

51. Sir, foreign participation on the LuSE increased in 2003 compared to 2002. Net foreign capital inflows were positive at US \$2.25 million compared to an outflow of US \$0.26 million in 2002.

Foreign Financing

52. Mr Speaker, in 2003, Balance of Payments support was substantially lower than expected. Out of a programmed amount of US \$111 million only US \$56.8 million, representing 50.5 percent, was received. The low level of expected programme financing was a result of some donors withholding disbursement due to the fact that Zambia did not reach agreement on a new PRGF programme. With regard to project support, a total of US \$347.7 million was received, of which US \$183.1 million came from multilateral while US \$164.6 million came from bilateral donors.

53. Mr Speaker, I would like to point out that while we had difficulties in receiving adequate Balance of Payments support from some of our cooperating partners, we continued to receive significant resources for capital projects. Among the major projects undertaken in 2003 with donor support were the Chirundu Bridge, the Kabwe-Kapiri

Mposhi road, the Lusaka city roads, the Lusaka-Mongu road, the Mongu-Kalabo road, the Livingstone-Sesheke (Nakatindi) road and the Katimamulilo Bridge. Further, a major water and sanitation project for Copperbelt towns continued in 2003. In addition, substantial donor resources were received for enhancing social service delivery, capacity building and combating the HIV/AIDS pandemic.

54. Sir, last year the Government strengthened development cooperation with cooperating partners. Agreement was reached on a framework that would help facilitate the provision of direct budget support and strengthening of sector wide approaches. Sir, we and our cooperating partners recognise that direct budget support will only be effective when there is progress in implementing the Public Expenditure Management and Financial Accountability Reforms (PEMFAR) and in particular the Integrated Financial Management Information System (IFMIS).

55. In 2003, the final design of the IFMIS model was completed and procurement of the hardware and software was initiated. Sir, last year also witnessed concerted efforts with our cooperating partners to improve the management and coordination of aid. To this effect, a memorandum of understanding was signed between the Government and some of the donors on Harmonisation In Practice (HIP) aimed at enhancing aid effectiveness and efficiency.

Budget Performance in 2003

56. Mr Speaker, I wish to inform the Honourable Members that while good performance was recorded in terms of

revenue collection in 2003, expenditure performance was most unsatisfactory. This was evidenced by higher than programmed expenditures on Personal Emoluments and Recurrent Departmental Charges (RDCs) against under-expenditure on Poverty Reduction Programmes (PRPs).

57. Sir, Government collected a total of K3,679.5 billion in domestic revenues compared to a budget estimate of K3,676.9 billion. Of this amount, tax revenue collections stood at K3,546.6 billion and were 2.9 percent above the target of K3,445.7 billion. Non-tax revenue collections amounted to K87.8 billion which was K 9.8 billion or 12.5 percent above the target of K78.0 billion.

58. Preliminary figures show that total domestically financed expenditures amounted to K4,726.9 billion, exceeding the programmed amount of K3,974.6 billion by K752.3 billion or 18.9 percent. The over expenditure mainly arose from extra budgetary expenditures, especially on the 2003 civil service wage award and increased Government operations. The payments to RAMCOZ workers were to facilitate the sell of the mine and restore prosperity to Luanshya. Sir, current expenditure accounted for 92 percent of expenditures with capital expenditure claiming only 8 percent.

59. Sir, as regards debt service, K1,174.6 billion was spent. Within this amount, K563.5 billion was used to service the domestic debt stock while K611.1 billion was spent on foreign debt service.

60. Mr Speaker, domestically financed capital expenditure during

2003 was K412.4 billion of which K212.9 billion was for poverty reducing expenditures, K42.9 billion for fuel levy, K23.2 billion was released as counterpart funding on a number of donor supported projects and K133.4 billion was released for other capital expenditures, mostly roads projects.

61. Mr Speaker, in addition to domestically financed capital projects, significant amounts of financial resources were released by our co-operating partners for capital projects. Our capacity to absorb all these resources and implement projects has unfortunately been lacking. In this regard, Government initiated measures to increase the participation of all stakeholders in the design, implementation and evaluation of projects, in an effort to improve the absorptive capacity.

62. We currently have a team comprising members from professional associations and the civil society assisting in monitoring and tracking the utilisation of HIPC funds. I wish to call upon Honourable Members of this House and all citizens to own development projects in their localities and help by complimenting the efforts of the Government in supervising project implementation. After all, these projects are funded from taxes imposed on you and loans for which we are all obliged to repay.

Poverty Reduction Programmes (PRPs)

63. Mr Speaker, in 2003, the Poverty Reduction Programmes (PRPs) were aimed at economic empowerment, social safety net operations and key socio-economic investment projects. The budget allocation for PRPs was K420.7

billion of which K240.8 billion was to be financed from domestic resources. By the end of December 2003, K212.9 billion or 50.4 percent of the total PRP budget was released. This 50.4 percent outcome was a significant improvement over the 2002 out-turn when only 24.5 percent had been released for PRPs.

64. Of the total PRP releases, rural development projects absorbed 57.2 percent. It was spent on feeder roads, irrigation infrastructure, rural electrification and farmer support programmes such as crop marketing and subsidised fertilizer and seeds as well as control of animal diseases.

65. Mr Speaker, the Government released K5 billion to the Tourism Development Credit Facility to facilitate the effective and meaningful participation of Zambians in the tourism business. This facility is expected to increase employment creation and therefore representing a meaningful tool for poverty reduction.

66. With regard to the health sector, K26.2 billion or 43.9 percent of the health PRP allocation was released. This mainly covered the purchase of drugs including Anti-Retroviral drugs (ARVs), the Roll Back Malaria Programme and the rehabilitation of hospitals. Resources were also spent on improving housing for medical staff in rural areas for which K4.0 billion was released.

67. Sir, in addition to the provision of ARVs, by the Ministry of Health, each key Ministry had an allocation for HIV/AIDS awareness programmes at places of work. By end-December 2003, a total amount of K18.0 billion or 58.4 percent of the allocation was released towards HIV/AIDS programmes.

68. Mr Speaker, total releases amounting to K13.2 billion against a budget allocation of K8.0 billion went to social safety net programmes. These programmes included the Peri-Urban Self Help (PUSH) programme and the Public Welfare Assistance Scheme (PWAS).

69. Sir, in the education sector, PRPs included the construction and rehabilitation of classrooms and the provision of school desks. By end-December 2003, releases to these programmes amounted to K4.5 billion. In addition, K3.9 billion was disbursed to colleges and universities for rehabilitating infrastructure.

PART III MACROECONOMIC POLICIES FOR 2004

Macroeconomic Policies for 2004

70. Mr Speaker, in 2004, the country faces a number of challenges. The main challenge is to reach agreement on a Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF by June 2004. This is a critical and cardinal condition for the country to reach the Completion Point under the enhanced HIPC Initiative by the end of the year.

71. Mr Speaker, currently the country is under a Staff Monitored Programme (SMP) with the IMF. Performance under the SMP will be assessed in April, 2004 and, if satisfactory, will allow us to move onto a full PRGF in mid-2004. Further satisfactory performance under the new PRGF during the second half of 2004 will allow Zambia to qualify for the HIPC Initiative Completion Point by the end of 2004.

72. In this regard, we urgently need a sharp fiscal adjustment in 2004 to address a growing threat to fiscal sustainability which will greatly erode and endanger our economic prospects. We also need to implement policies in a way that curbs the cost of our escalating domestic debt that threatens to undermine macroeconomic stability and growth.

73. Sir, to meet the challenges, our macroeconomic objectives in 2004 will focus on: (a) attaining real GDP growth of 3.5 percent (b) attaining end-year inflation of 15 percent (c) building up gross international reserves to about 1.5 months of import cover, and (d) limiting domestic borrowing to 2.0 percent of GDP.

74. Mr Speaker, achieving the above objectives will require more resolute and unwavering commitment to the fiscal and monetary framework. It will also require steadfast implementation of key structural reforms in public expenditure management, financial sector reforms and governance. I wish to assure this august House that, Government will not relent in the fight against poverty. The Government will continue to pursue policies aimed at promoting economic growth and reducing poverty.

Monetary and Financial Sector

75. Mr Speaker, high interest rates have had an adverse impact on the private sector activities and on prospects for economic growth. This has been a source of concern to the Government and the issue should be addressed immediately. In this regard, Government domestic borrowing requirements shall be within sustainable limits. It is for this reason that domestic borrowing has been limited to 2 percent of GDP in 2004.

This will release more financial resources for access by the private sector.

76. Sir, with respect to the foreign exchange market, the exchange rate will continue to be market-determined. Bank of Zambia intervention in the market will aim at smoothening short-term fluctuations and meeting the targeted level of gross international reserves without putting undue influence on the functioning of the market.

77. Sir, one of the weaknesses highlighted in the financial sector is the poor credit culture. Therefore, there is need to restore public confidence in the sector. The Bank of Zambia in consultation with the Bankers Association of Zambia is working on initiatives to establish credit information and rating bureau in Zambia as a step towards improving the credit culture in the financial sector. Currently, many new viable investment plans cannot be financed due to the high past debt delinquency levels. This continues to frustrate the ingenuity of the young generation due to omissions of a passing spendthrift generation.

SECTOR POLICIES

Agriculture

78. Mr Speaker, the main focus of Government in the agricultural sector is to encourage both large and small-scale farming and also enterprise diversification. In this regard, Government will facilitate the establishment and expansion of large scale farming through the creation of properly surveyed and demarcated farm blocks as a way of encouraging large investments and job creation. With regard, to small-scale fanning,

Government will put more emphasis on the provision of inputs on a timely basis, encourage out-grower schemes especially for export crops. We shall also provide services for the control of animal diseases and encourage investment in irrigated agriculture. Resettlement schemes will also be supported and Government will continue to improve the land tenure system as well as strengthening rural infrastructure and extension services.

79. Sir, it is my conviction that the agricultural sector will continue to play a vital role in the economy, particularly with respect to poverty reduction. The sector has the greatest potential to create employment, raise exports and enhance food security in the short-term. Government will therefore continue to pursue policies that will support the rapid and sustainable growth of this sector. The main focus in the medium term will be to promote productivity, attract investment, expand markets, provide adequate support services and make the agricultural sector competitive.

Mining

80. Mr Speaker, in order to boost and make the mining sector viable once more, the Government is implementing a comprehensive economic restructuring programme aimed at promoting private-sector led mining development. In this regard, both large and small-scale mining will be encouraged.

81. Sir, in order to enhance the exploitation of the small-scale mining sub-sector, affordable financing mechanisms will be put in place under the Enterprise Development Fund (EDF), the Trade and Enterprise Support Facility (TESF), the Revolving Fund and Joint Ventures/Partnerships. In

addition, Plant Hire Schemes will be introduced and the Gemstone Exchange will finally be operational. This will revitalise the small-scale sub-sector and increase incomes of the communities within the mining sector.

82. Under the large-scale mining sub-sector, the Lumwana and Kansanshi Copper Projects in the North-Western Province are being promoted among others. Such investments will have a positive impact on economic growth and social benefits in terms of improvements in infrastructure and employment opportunities. The coming on stream of Kansanshi mine in 2005 and Lumwana mine in 2006 will contribute significantly to the growth of the external sector in Zambia. The Kansanshi project, once in operation, will produce 60,000 tonnes per annum of finished cathode and 25,000 tonnes concentrates during the first three years of operations. The Lumwana mine has the potential to produce 140,000 tonnes of copper per annum.

83. While encouragement is being given to opening up mining operations elsewhere away from the traditional Copperbelt, there are still opportunities for viable new mining in the area. One of these rich deposits is at Konkola. It is Government's strong desire that investment into the exploitation of this deposit is undertaken as early as possible, especially now that copper prices have recovered.

Tourism

84. Sir, the tourism sector has in recent years experienced a renaissance with increased tourist arrivals and earnings. Given the immense tourism resource base that we have, it is clear that this sector can contribute even more

to foreign exchange earnings, economic growth and poverty reduction.

85. Therefore, in addition to maintaining existing incentives, the policy of the Government will be to improve infrastructure, such as, roads, airports, and communications facilities and security in the tourism areas. Furthermore, Government will continue to encourage community participation in the preservation of our wildlife and natural resources. Major activities for Government in the sector will focus on activities identified in the tourism development master plan.

86. Mr Speaker, as a result of our economic liberalisation programme, Zambia's vast tourism potential has, in recent years, attracted viable investments and exploitation especially around the Victoria Falls area. However, the Kafue National Park remains the largest undeveloped tourist resource in the country. In recognition of this fact, in May 2004, Government will sponsor an investors' conference to attract credible investors to invest in the development of this untapped resource. In addition, under the ROAPSIP II project, the road from Kalomo to Itezhi-Itzhi and northwards up to the Kaoma-Mumbwa Road, will be reconstructed. This will open up access to the spectacular beauty of the Kafue National Park and facilitate private sector investment in this vast area of high tourism potential. Further, additional investment will be made in the Luangwa and lower Zambezi mainly on upgrading the infrastructure.

Manufacturing

87. Mr Speaker, Government recognises that the manufacturing sector, if well nurtured, is capable of

contributing significantly to GDP, export earnings and employment. Growth in this sector will continue to be largely driven by agro-processing, textiles and leather sub-sectors. Government will promote small and medium-sized enterprises in rural and urban areas so as to enhance labour-intensive light manufacturing. Towards this objective, major areas of emphasis will be in investment and export promotion, promotion of local products. We intend to create an enabling environment and level the playing field in aspects that are conducive to the growth of the manufacturing sector. In addition, appropriate laws such as the Investment Act will be amended so as to provide for special incentives and modalities' for Zambians to participate in the manufacturing sector.

PART IV

THE 2004 BUDGET

EXPENDITURE MEASURES

88. Mr Speaker, Government proposes to spend a total of K8,328.6 billion in 2004, which is 33 percent of GDP. Of this amount, K5,287.0 billion, or 63.5 percent, will be domestically financed from revenues and by borrowing K504.45 billion, or 2 percent of GDP, from the domestic economy. A further K3,041.6 billion or 36.5 percent will be funded by our co-operating partners by way of project assistance and programme support. The Medium Term Expenditure Framework (MTEF) for 2004 to 2006 envisages a reduction in domestic borrowing to 0.2 percent of GDP by 2006. It also projects a restructuring of expenditures towards priority areas over the medium term. For example, the share of Poverty Reduction Programmes (PRPs) will rise to 2.2 percent of GDP by 2006 and the share of

revenues needed to service domestic debt will reduce as a result of the fall in domestic borrowing.

89. Mr Speaker, in the context of the MTEF the Government has adopted an Activity Based Budgeting process across all spending agencies in 2004. Thus, the 2004 Budget documents contain more information on how Government intends to use the monies voted by this august House to implement specific programmes meant to achieve identified objectives and outcomes. The Government is aware that a lot of work

still remains to be done to focus resources more sharply on priority areas as identified in the PRSP and TNDP. To this effect, early this year, clients and stakeholders of Government institutions, through the Sector Advisory Groups, will be invited to participate more fully in defining priority programmes for the 2005 Budget.

90. The proposed total expenditure for 2004 is broken down as follows:

	Domestically Financed (K'billion)	Externally Financed (K'billion)	Total (K'billion)
Personal Emoluments	1,879.50	33	1,912.50
O/W Wages and Salaries	1,852.80	.	1,852.80
Housing Allowance Arrears	26.7	-	26.7
PSRP	0	33	33
Recurrent Dept. Charges	628.9	-	628.9
O/W Ordinary RDCs	532.9	-	532.9
CRC/elections	26	.	26
Arrears	50	-	50
Awards and Compensations	20	.	20
Grants and Other Payments	537.4	-	537.4
O/W Pensions (grant & arrears)	30	-	30
ZRA	118	-	118
Other Grants and Payments	389.4	-	389.4
Poverty Reduction Programmes	521.7	-	521.7
O/W Fertiliser Price Support	70	-	70
Capital	354.7	2,684.60	3,039.30
Donor Capital	-	2,684.60	2,684.60
Financial Restructuring	119.6	-	119.6
Domestic Road/Infrastructure	80	-	80
Fuel levy	75	.	75
Land Development Fund	6	-	6
Rural Electrification Fund	9	-	9
Counterpart funds, non-PRP	4	-	4
Other Domestic Capital	61.1	-	61.1
Constitutional and Statutory	1,364.80	324	1,688.80
O/W Interest on Domestic Debt	927.5	-	927.5
Foreign Debt Service	217.7	324	541.7
Constitutional posts	12	-	12
Medium Term Pay Reforms	165.6	-	165.6
Presidential Affairs	30	-	30
Contingency	12	-	12
Total Expenditure	5,287.00	3,041.60	8,328.60

91. Mr Speaker, public service wages have been budgeted on the basis that, apart from the police, immigration and prison service personnel, who did not receive a pay award in 2003, there will be no general wage award in 2004. However, the "wage creep" will allow the usual annual increments within salary scales to be paid. Further, the K7.2 billion per month for housing allowance will be continued up to December 2004. Thereafter, this will be integrated into the basic pay of civil servants in accordance with the spirit of the Medium Term Pay Reforms.

92. The dismantling of the arrears in housing allowance payments to civil servants will also continue in 2004. On this basis, Personal Emoluments, including the payment of housing allowance arrears, will cost K2,045.1 billion, which is 8.1 percent of GDP and will absorb 43.0 percent of domestic revenues. It should be noted that this proportion excludes the allowances paid to public officers through grants and personnel related expenditures under RDCs.

93. Sir, containing the cost of civil service remuneration within K2,045.1 billion or 8.1 percent of GDP is fundamental to Government's efforts to allocate sufficient resources for Poverty Reduction Programmes (PRPs) and other Government operations and also service both the internal and external debt stock. Spending any higher than 43.0 percent of domestic revenues on civil service remuneration will entail unacceptable curtailment of expenditures in these and other important areas.

94. Mr Speaker, Zambia must remain current with her foreign debt service payments. In 2004, this is projected to be K541.7 billion of which K349.7 billion is for repayment of principal, while K192.0 billion is for foreign debt interest payments. Default on these payments would mean that Zambia will not successfully complete the extended Staff Monitored Programme, graduate to a full PRGF and reach the Completion Point by the end of 2004.

95. Sir, in order to maintain credibility in the domestic security markets, Government must service its domestic debt stock as well. In this regard, the Government has provided K927.5 billion, which is 3.7 percent of GDP and will require almost 20.0 percent of domestic revenue to service this debt. The escalating cost of domestic debt service, that is claiming an ever-increasing proportion of tax revenue, is a further strong reason to reduce domestic borrowing in 2004 and to eliminate it by 2007. It is in this regard that the domestic borrowing requirement for 2004 has been set at 2 percent of GDP, down from almost 5 percent in 2003.

96. Mr Speaker, completely dismantling the outstanding debt to suppliers and contractors, will not be possible in 2004 without negatively affecting on-going operations and commitments. Nonetheless, the debt will be dismantled over the medium term in line with our debt reduction strategy. In this regard, Government will negotiate for discounts on this debt especially where onerous interest rates have been applied. A provision of K50 billion has been made to clear some of the outstanding arrears. To achieve a complete dismantling of supplier's 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.

97. Mr Speaker, the Public Service Pensions Fund is owed K263 billion as a result of unpaid pension contributions over the years. A K24 billion provision in the 2004 Budget will reduce the indebtedness by about 10 percent with the remaining outstanding debt to be repaid once a comprehensive plan for pension reform is instituted. In addition to this K24 billion, the Pensions Fund will receive a grant of K6 billion. Further, Government will continue to keep current with its Employers' pension contributions in 2004.

98. Further Mr Speaker, court decisions already made against Government by successful litigants are in excess of K100 billion. About a fifth of this amount, K20 billion, is provided for in the 2004 Budget to reduce this backlog of court related debt.

99. Sir, due to the need to contain the domestic borrowing to 2.0 percent of GDP, the provision for Recurrent Departmental Charges (excluding court related debt and arrears) and for Grants (excluding to the Pensions Fund) will be constrained to K558.9 billion and K507.4 billion respectively. With the adoption of Activity Based Budgeting across the whole of Government, it is expected that Controlling Officers will spend these funds only to finance the prioritised expenditure programmes that have been budgeted for.

100. Mr Speaker, a small contingency reserve of K12 billion has been provided to cover unforeseen and unavoidable

expenditure. My Ministry will ensure that the principle of funding only unforeseen and unavoidable expenditures out of this reserve is strictly adhered to and will not release money for unbudgeted programmes.

101. Sir, the Government is committed to the implementation of Poverty Reduction Programmes. To this end, K521.7 billion, the equivalent of just over 2 percent of GDP, is provided for this purpose. Within this amount, K56.0 billion is provided to procure maize from smallholder farmers for the strategic food reserve and K29.0 billion to settle the outstanding commitments under the input pack programme administered by the Programme Against Malnutrition (PAM). A further K70 billion will be used to continue the fertiliser subsidy programme but the level of the subsidy will be reduced to 25 percent.

102. Mr Speaker, in addition, the following programmes will be embarked upon: the Commercialisation of Agricultural Land for farm blocks (starting with Nansanga Farm block, K14 billion); Outgrower Schemes (for Tobacco, Coffee, Cotton, Paprika and Cashew Nut, K1.5 billion); Animal Disease Control (K2 billion); Livestock Re-stocking (K2 billion); and Fertilizer Support Programme (K70 billion) amongst others.

103. Sir, with regard to the Energy sector, borehole and dam construction/rehabilitation have been allocated K3.5 billion.

104. Mr Speaker, under the social sectors, priority programmes that have been provided for include: the BESSIP (K6.5 billion), Infrastructure

development (K13.6 billion) and the Education Support Services (K3 billion). With regard to the Health Sector, allocations have been made for the following programmes: Roll Back Malaria (K3.8 billion), Child Survival / Child Health (K4.7 billion), Procurement of Essential Drugs Kits (K2.8 billion) and Training Schools Rehabilitation (K3.3 billion). Under the Water and Sanitation Sector, the following are some of the major programmes: Township Water Supply, Rural Water Supply and Peri-Urban Water Supply with a provision of K19 billion.

105. Mr Speaker, an amount of K354.7 billion allocated for domestically financed non-PRP capital projects. This is distributed as follows: K80.0 billion for non-PRP road/infrastructure projects; K75 billion for the Road Fund; K9 billion for the Rural Electrification Fund; K6 billion for the Land Development Fund; K4 billion for counterpart funding; K17 billion for defence procurement; K10 billion for the Zambia Police; K5 billion for the installation of a Government telephone system; K4.5 billion for the Constituency Development Fund; K7.5 billion for foreign Chanceries and K1 billion for the new House of Chiefs.

106. Mr Speaker, K1 19.6 billion has been provided for financial restructuring of some parastatals which includes the further capitalisation of Nitrogen Chemicals of Zambia and Kafue Textiles of Zambia in 2004. However, the release of any public money for capitalisation will be contingent upon the submission and approval of business plans that are financially and technically feasible.

REVENUE MEASURES

107. Mr Speaker, in coming up with the proposed revenue measures, I have sought to balance the revenue needs of the Government against the need to provide tax relief to citizens and businesses. The proposed domestic revenue measures are expected to raise a total of K4,782.6 billion.

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

	(K' billion)		
TAX REVENUES			4,533.3
Direct Taxes		2,044.3	
Company Income Tax	382.6		
Pay As You Earn	1,428.7		
Other Income Taxes	229.0		
Mineral Royalty Tax	4.0		
Excise Taxes		627.9	
Fuel Levy	75.0		
Other Excises	552.9		
Domestic VAT		613.7	
Trade Taxes		1,247.4	
Import Tariffs	492.0		
Import VAT	755.4		
NON-TAX REVENUE			169.0
User Fees and Charges		79.2	
Vehicle licenses & Fees		53.8	
Dividends, Interest & other Levies		36.0	
EXCEPTIONAL REVENUE			80.3
DOMESTIC FINANCING			504.4
TOTAL DOMESTIC REVENUE AND FINANCING			5,287.0
FOREIGN FINANCING			3,041.6
Project Financing		2,717.6	
Budget Financing		324.0	
TOTAL REVENUE & FINANCING			8,328.6

Direct Taxes

109. Mr Speaker, for a long time now, there have been calls to raise the threshold for Pay As You Earn. In light of this genuine request, I have conceded to raise the exempt threshold for PA YE by 62 percent, from K 160,000 to K260,000 per month. This measure will benefit particularly those on low and middle incomes. In order to balance this reduction in tax, it is necessary to raise rates for those on relatively high incomes, by introducing a 35 percent rate on incomes above K980,000 per month, and a top rate of 40 percent on incomes above K5 million per month. Under the new system, income will now be taxed as follows:

Income bands	Tax rate (%)
First K3, 120,000 per annum	0
Next K8,640,000 per annum	30
Next K48,240,000 per annum	35
Above K60,000,000 per annum	40

This measure gives considerable tax relief to the workers in formal employment. All those earning below K1,580,000 per month will pay less tax. Overall, the measure will result in a revenue gain of K23.8 billion.

110. Mr Speaker, presently, an employee who contributes to an approved occupational defined pension contributory scheme can only claim refund on his or her own contribution plus interest upon loss of employment. However, the employer's share is not refunded until upon attainment of normal retirement age of 55 years. This is unfair, especially when a retrenched employee cannot immediately find another job. I, therefore, propose to allow refund of employers' share or contribution. However, this will be subject to tax under the PA YE system. This measure is aimed at mitigating

difficulties faced by workers caused by abrupt loss of employment. This measure will result in a minimal revenue gain.

111. Mr Speaker, saving is related to investment and is critical for economic growth. There is therefore a need to encourage small savers. In this regard I propose to increase the exempt portion of bank deposit interest subject to withholding tax from K300,000 to K750,000 per annum. This measure also takes account of the effect of inflation and will result in a revenue loss of K1.5 billion.

112. Sir, as a boost and to provide further relief to the agricultural sector, I propose to increase farm dwelling allowance from K5 million to K10 million. Government will lose about K436 million from this measure, but expects farmers to provide decent accommodation to their farm workers.

113. Mr Speaker, the main purpose of a stock exchange is to enable businesses to raise cheap capital by selling securities to investors. For some years now, companies listed on the Lusaka Stock Exchange have additionally been benefiting from a lower rate of company tax. When this measure was introduced in 1996, it was envisaged as a temporary incentive to spur growth in the recently established stock exchange. It is now time to level the playing field with respect to company taxation. I, therefore, propose to remove the preferential tax rate for LuSE listed companies.

114. Mr Speaker, in order to continue to support the development of the stock exchange, I am proposing a new incentive structure that will apply to new listing on the Lusaka Stock Exchange

as follows: a 2 percent discount from a normal corporate tax rate applicable to each sector. The incentive will be for one year only. A further discount of 5 percent over and above the 2 percent will also be available for those companies that will have more than 33 percent of their shares taken up by Zambians. This incentive is also for one year only and each incentive can only be accessed once by a company. I expect this harmonization measure of the tax rates to raise K17.4 billion.

115. Sir, it has come to my knowledge that small businesses with annual turnover of K200 million and below experience many problems to maintain detailed and elaborate books of accounts. They also have to hire accountants to prepare their books for onward submission to the Zambia Revenue Authority, for tax purposes. This increases their compliance costs. I therefore propose to introduce a presumptive tax of 3 percent on businesses with annual turnover of K200 million and below. This will be a final tax and such businesses will not be required to pay corporate tax.

116. Mr Speaker, introducing a presumptive tax creates benefits for both tax administration and taxpayers. For tax administration, the benefit is that presumptive tax reduces enforcement efforts and cost, while broadening the tax base. On the part of the taxpayers, especially small or medium businesses, the cost of compliance is greatly reduced as they do not need to keep detailed books of accounts. This measure will also improve compliance. Government estimates to raise K7.3 billion from this measure.

117. Mr Speaker, all the above measures will take effect on 1st April, 2004.

Customs and Excise

118. Mr Speaker, the whole world today has embraced information and communication technology as one of the tools of development. Zambia should not lag behind in particularly important area. To encourage technological development and advancement in the country and to align ourselves with what is prevailing in the region, I propose to reduce customs duty on computers from 15 percent to 5 percent. The expected revenue loss is estimated at K800 million.

119. Mr Speaker, additives and base oil are major raw materials in the manufacture of lubricants. The importance of lubricants in industry cannot be over-emphasised. I propose to reduce customs duty on additives and similarly on base oil used in the manufacturing of lubricants from 5 to 0 percent. This measure is aimed at reducing the cost of production and make local manufacturers competitive on the export market. Government expects to lose an estimated K4.1 billion.

120. Mr Speaker, currently plastic closures are classified as finished products and attract customs duty at a rate of 25 percent. I propose to reduce this to 15 percent so as to provide an incentive to the manufacturing sector. This measure will result in an estimated revenue loss of K 1.0 billion.

121. Mr Speaker, acrylic yarn is a raw material in the manufacture of blankets. This yarn is not manufactured in the

COMESA and SADC region. It is imported from the Far East at a rate of 5 percent customs duty. The manufacturing of blankets is a re-emerging industry in Zambia, which needs to be encouraged and supported. In this regard, I propose to remove the customs duty applicable to acrylic yarn. This measure will result in an estimated revenue loss of K180 million.

122. Similarly, glucose is an input in the production of medicines. In order to reduce the cost of producing medicines in the country, I propose to remove the 5 percent duty applicable on imported glucose. This will improve access to cost effective quality health care. This measure will result in an estimated revenue loss of about K300 million.

123. Mr Speaker, because of the imperative to lower the production costs for local manufacturers, to keep them competitive internationally and to safeguard them against undervalued imports, I propose to re-categorise a number of goods. Among the products are high tensile galvanised steel wire, flat rolled steel coated with zinc, buckles and hooks used in shoe manufacturing. This involves adjusting customs duty rates both upwards and downwards. The combined effect of these measures will be an estimated revenue loss of K1.3 billion.

124. Mr Speaker, I propose to reduce excise duty on cigarettes from 125 to 115 percent. The measure is aimed at reducing the cost of local manufacture of cigarettes. In comparison with excise duty regimes in the region, the rate in Zambia stands out to be the highest. Revenue loss arising from this measure is estimated at K1.2 billion.

125. Mr Speaker, in order to compensate for the loss of revenue arising from the concessions alluded to earlier, I propose to introduce excise duty on mobile phones airtime or call time at a rate of 10 percent. This measure has little distorting effect and has the potential to raise K15.6 billion.

126. Mr Speaker, I have noted a major influx of cotton fabrics from the Far East into the country. Currently, imported cotton fabrics from non-COMESA countries, attracts 15 percent customs duty. However, the fabric is still able to retail at a lower price than locally produced materials which poses a threat to our local manufacturers. I therefore propose to introduce a specific duty rate of K3,500 per Kg or 15 percent whichever is higher on imported cotton fabrics. This measure will result in a revenue gain of K2.5 billion.

127. Mr Speaker, as a revenue enhancing measure, I propose to increase excise duty applicable on saloon cars and station wagons of a seating capacity below 14 persons from 10 to 20 percent. This measure will however exclude passenger service motor vehicles like buses, trucks and vans. I estimate to raise K8.4 billion from this measure.

128. Sir, all the above measures will take effect from midnight tonight.

129. Mr Speaker, in accordance with the Southern African Development Community (SADC) Protocol on Trade towards the establishment of a Free Trade Area by 2012, Zambia is expected to implement tariff reductions on items in Category B, the bulk of which are intermediate products. I propose to effect the tariff reductions on items in

this category from 1st July, 2004. The implementation of the tariff reduction will result in a revenue loss of K20.8 billion.

Value Added Tax

130. Sir, there is currently a discrepancy in the taxation of insurance services. Under current regulations, the provision of insurance is exempt from VAT, whilst services complementary to the provision of insurance are taxable. In order to remove this distortion in the insurance industry, I propose to exempt insurance brokerage from VAT. This measure will be revenue neutral.

131. Mr Speaker, in order to facilitate the introduction of a presumptive tax on small businesses, I propose to remove voluntary registration under VAT and raise the threshold to K200 million. This means that those businesses below the threshold of K200 million will now be deregistered. This measure will result in an estimated revenue gain of K26.3 billion.

132. Mr Speaker, at the onset of VAT in 1995, only exports and supplies related exports, were zero rated, whilst Food and Agriculture, Medical Supplies and Drugs and supplies to privileged persons were exempt from VAT.

133. Sir, in 1996, Food and Agriculture, Medical Supplies and Drugs, and Supplies to privileged persons were moved from the exempt to the zero rated schedule. The aim was to encourage agriculture and protecting the poor. However, by virtue of VAT being a consumption tax, the zero rating mainly favoured the high income groups compared to the low income groups through their ability to consume more of

the affected items. Therefore, I propose to reduce the list of zero rated products by making unprocessed agricultural goods and medical supplies and drugs exempt from VAT.

134. The measure is aimed at correcting the unintended distortion by reverting the groups of items to their 1995 status to achieve equity. The estimated revenue gain is K95.3 billion.

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

Housekeeping Measures on Existing Tax Legislation

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

PARTV CONCLUSION

137. Mr Speaker, the year 2003 was a successful one by all economic indicators. Zambia had a bumper crop and attained food security with current reserves of over 60,000 tonnes of maize. The gross domestic product grew by 4.3 percent which was higher than the population growth rate of 2.4 per cent. The inflation rate came down to 17.2 percent. Commercial bank lending rates came tumbling down towards the end of the year, while the exchange rate was stable for most of the year. Non-traditional exports increased to a new record of over US \$400 million.

138. Mr Speaker, all this was achieved due to some deliberate policies and strategies by the New Deal Government and the contribution of many hard working patriotic Zambians. The measures that I have just announced are meant to consolidate these gains by providing viable instruments and resources to all those Zambians willing and ready to work.

139. Mr Speaker, I have not increased the Value Added Tax (VAT) above the current rate of 17.5 percent, but have instead increased the Pay As you Earn tax threshold. This is to allow the few working citizens some more take home pay. But for how long shall the development of our country depend upon less than 500,000 citizens in formal employment? Each one of us must make a contribution to the well-being of our country. The harmonisation of much of the tax regime during this year is therefore to make it fair and equitable.

140. Mr Speaker, the 2004 Budget will require 36 percent financing by our co-operating partners in a year when Zambia shall be celebrating 40 years of her Independence. We are all aware of the famous tribe that wandered in the wilderness for 40 years looking only to God for manna from heaven. In Zambia, all too often, we have collected masuku and mushroom without regard to how they came to be.

141. Mr Speaker, I call upon each one of the Honourable Members and every Zambian citizen to declare that we have had enough share of wandering in the wilderness. Now is the time to break with the past. Now is the time to act to redeem mother Zambia from the shame of being one of the poorest countries but immensely endowed with natural resources and beauty. Our motherland

must not continue to bleed and weep from loss of her daughters and sons due to diseases, ignorance, hunger and migration.

142. Mr Speaker, how many of us do visualise 40 years from now, proclaiming that, "Yes I was there in the year of our Lord 2004 and am proud to have been part of the winning team." Such foresight is a tribute of men and women of vision, willing to challenge the unknown future, with courage and determination.¹ As I look around this august House and beyond, I see many patriotic Zambians with these valiant qualities, willing and ready to make history by sacrificing present illusory comforts for posterity.

143. Mr Speaker, the Government's first act of austerity is my Ministry's inability to finance the usual cocktail party at the end of my budget address this afternoon. This is a clear indication that from now onwards, it will not be business as usual. The Government intends to cancel many celebrations during the year, unless we get sponsors. I therefore wish to sincerely thank the Bankers' Association of Zambia that has been so gracious to sponsor the cocktail party to which you are all invited.

144. Mr Speaker, I beg to move.