

BUDGET ADDRESS BY THE HON. EMMANUEL G. KASONDE, MP
MINISTER OF FINANCE AND NATIONAL PLANNING
DELIVERED TO THE NATIONAL ASSEMBLY ON FRIDAY, 31ST JANUARY 2003

1. Mr Speaker, Sir, 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, 2003 to 31st December, 2003, presented to the National Assembly in January, 2003.

2. Mr Speaker, 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, Sir, my Government is deeply indebted to the Zambian people who, even in the midst of the hardships caused by last season's drought, have taken hold of opportunities created by the liberalisation of the economic and political life of our nation. By doing so, they have begun to build a sound foundation for broad based economic growth - the only viable basis for sustained poverty reduction. Their efforts in this regard are bearing fruit, as evidenced by the revival of economic life in places like Livingstone and the diversification of our economy and its export base.

4. Mr Speaker, Sir, I also wish to acknowledge the valued contributions made by the public to this year's budgeting process. Obviously, not all contributions can be accommodated in one budget. However, my Government greatly values the principle of inclusion, and we will endeavour to ensure that our policies and programmes are developed and implemented in partnership with all stakeholders. Last year's budget theme, which focused on food security, production and employment, remains relevant and so this year's budget theme - in line with the consistent policy emphasis of the New Deal Government - is again "Food Security through Production and Job Creation".

5. Sir, my address this afternoon consists of six parts. In Part One, I give an overview of 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 Government's macroeconomic and development policies for 2003. In Parts Four and Five, I present details of expenditure and the supporting revenue for the 2003 budget, respectively. Finally, in Part Six, I give my concluding remarks.

Part I

Performance of the Global Economy in 2002

6. Mr Speaker, Sir, in 2002 the world economy showed signs of recovery from the sluggish growth of 2001. Real Gross Domestic Product (GDP) was estimated to have increased by 2.8 percent compared to 2.2 percent in 2001. This upturn was largely due to expansive macroeconomic policies in most industrial countries and the knock on effects of lower oil prices in 2001. Global inflation was subdued in 2002, while in Japan deflation remained a serious concern.

7. The recovery in 2002 was largely attributable to strong first quarter performance in the U.S.A. From the second quarter onwards, global economic activity slowed down significantly as concerns about accounting and auditing practices, especially in corporate America, intensified.

8. While growth in the USA rose to 2.2 percent from 0.3 percent in 2001, growth in the European Union fell from 1.6 percent in 2001 to 1.1 percent in 2002. In Japan, the recession deepened from negative 0.3 percent in 2001 to negative 0.5 percent in 2002.

9. Mr Speaker, Sir, consistent with the general upturn in economic activity, global trade recovered in 2002 with trade volumes increasing by 2.1 percent from a decline of 0.1 percent in 2001. In commodity markets, prices generally recovered in the initial months of 2002 in tandem with the strong first quarter performance and thereafter stabilised as global economic activity slowed down. Crude oil prices went up by 0.5 percent from a decline of 14 percent in 2001, mainly due to rising global demand, cuts in Organisation of Oil Producing and Exporting Countries (OPEC) production targets and destabilising political events in the Middle East and Venezuela.

10. Mr Speaker, Sir, in the non-oil commodity markets, grain prices rose, largely due to reduced production on account of adverse weather conditions in the USA, Canada and Australia. Sugar, cotton and coffee, important agricultural exports from developing countries, including Zambia, recorded price declines in 2002 on account of increased supply.

11. As for metals, prices picked up in the first quarter when growth was stronger before levelling off thereafter. In the case of copper, although demand picked up reflecting increased global activity, stocks remained quite high and, as a result, prices remained depressed.

12. Mr Speaker, Sir, developing countries registered growth of 4.2 percent in 2002 compared to 3.9 percent in 2001. Apart from Latin America, all developing regions registered positive growth. In Sub-Saharan Africa, real GDP growth was estimated at 3.0 percent compared to 3.3 percent in 2001.

13. The relatively low growth in Africa continued to be below that required to achieve sustained poverty reduction due in part to low investment and savings, regional droughts, several areas of conflict and political unrest and a high disease burden. However, Africa recorded notable success in combating inflation in 2002. For the first time in many years, single digit average inflation of 9.6 percent was achieved.

Part II

Performance of the Zambian Economy in 2002

Macroeconomic Performance

14. Mr Speaker, Sir, our macroeconomic targets for 2002, were to achieve a growth in real Gross Domestic Product (GDP) of 4 percent, end-year inflation of 13 percent, a reserve build-up of at least US \$129 million, and to limit the domestic fiscal deficit to 3.0 percent of GDP. These targets were premised on continued growth in the agriculture, tourism and manufacturing sectors.

15. Mr Speaker, Sir, preliminary data show that in 2002, real GDP increased by 3.0 percent compared to a revised target of 3.7 percent. I am satisfied with this outturn given the economic uncertainty that plagued our economy. Sir, a major macroeconomic challenge we faced in 2002 was the drought that caused a significant fall in agricultural output and necessitated food imports. Also, in early 2002, Anglo American Corporation unexpectedly announced their withdrawal from Konkola Copper Mines (KCM). As Honourable Members of the House will recall, these developments cast a very dark shadow over our economy that remained with us for a large part of the year.

16. Sir, I am also satisfied that growth was broad based in all sectors apart from agriculture. In my assessment, the economy's

ability to register broad based growth despite the fundamental adversity experienced in 2002, is a positive indicator of the inherent resilience of our economy. On the other hand, the domestic budget deficit of 3.3 percent was above the target deficit of 3.0 percent of GDP due to higher than anticipated expenditure on food imports and purchase of agricultural inputs. Due to the drought, the inflation target was exceeded, reaching 26.7 percent at the end of 2002, although non-food inflation was lower at 17.2 percent. However, I am very pleased to report that our efforts to build up gross international reserves were very successful, as US \$149 million was accumulated, which was 16 percent above the target of US \$129 million.

Agriculture

17. Mr Speaker, Sir, growth in agriculture, forestry and fisheries declined by 4.1 percent in 2002 compared to 2.6 percent in 2001. The decline in the sector is understandable, given the drought that we experienced. However, even in the midst of the drought, agricultural exports rose by 22.6 percent, a firm indicator that diversification of our economy is steadily taking root.

Mining

18. Mr Speaker, Sir, for the past three years, output in the mining sector has increased. In spite of the pull out by Anglo American Corporation, real value added in the sector was estimated to have increased by over 16 percent, in 2002, compared to 14 percent recorded in 2001. This improvement in the performance of the mining sector in 2002 was largely influenced by an increase in output to 338,000 metric tons and was the highest level in the last five years.

Tourism

19. Mr Speaker, Sir, the tourism sector witnessed slower growth in 2002, growing by 4.7 percent compared to 24.7 percent in 2001. However, the House will recall that in 2001 the country experienced a number of exceptional events such as the popularised eclipse of the sun, the opening of the two Sun hotels in Livingstone and the hosting of the OAU Heads of State and Government Summit. In these circumstances, the fact that the sector sustained the activities achieved in 2001, and posted additional growth of 4.7 percent beyond this, is very commendable.

Manufacturing

20. Mr Speaker, Sir, the manufacturing sector continued to register positive growth with output rising by 5.8 percent in 2002 compared to 4.2 percent in 2001. The major sources of this growth were the chemicals, rubber and plastics; wood and wood products; textiles and leather products; food, beverages and tobacco; and the non-metallic mineral products sub-sectors.

Construction

21. Mr Speaker, Sir, in 2002 the construction sector continued to expand. Value added grew by 17.4 percent compared to 11.5 percent in 2001. This growth in value added was largely driven by public infrastructure programmes such as the construction of roads, schools and markets.

Transport, Storage and Communications

22. Value added in the sector increased by 5.4 percent in 2002 compared to 2.8 percent in 2001, and resulted mainly from the increase in rail freight volumes. The transportation of emergency food relief to various areas was an influential factor in the increase in freight volumes.

Privatisation and Parastatal Reform

23. Mr Speaker, Sir, by the end of 2002, a total of 257 companies and units had been privatised out of a working portfolio of 280 with the remaining companies being in various stages of the privatisation process. Of the privatised companies, 19 have since closed although 12 are in the process of being resuscitated. As at 31st December 2002, Zambians had bought 56 percent of the privatised companies, foreigners bought 33 percent and Zambian/Foreign Joint Ventures got 11 percent.

Domestic Debt

24. Mr Speaker, Sir, the stock of domestic debt increased by 2.7 percent from K4,139.3 billion in 2001 to K4,249.2 billion in 2002. The increase in Government borrowing was largely as a result of the need to finance the budget deficit and was mainly done through issuance of Government securities and direct borrowing from the central bank. The delayed disbursement of budgetary and balance of payments support from our cooperating partners added to the pressure on domestic financing of the budget, particularly in the first nine months of the year.

25. Mr Speaker, Sir, I wish to add that the increase in domestic debt also emanated from debt assumed by Government from some

privatised companies, accumulation of interest on various other liabilities such as domestic arrears, awards and compensations, and unremitted funds to pension houses.

26. Sir, the Government is committed to dealing with the issue of domestic debt which is unsustainable. I know that this issue cannot be resolved immediately but the Government has taken initial steps to address this issue in this year's budget.

External Sector Development

27. Mr Speaker, Sir, the external environment continued to be unfavourable, with our terms of trade deteriorating by 8.8 percent in 2002, compared to the 3.5 percent deterioration in 2001. However, despite this, preliminary data indicate that the current account deficit narrowed by 16.1 percent to US \$610 million in 2002 from US \$727 million in 2001. This was mainly due to the decline in the value of merchandise imports, particularly in the mining sector. The value of merchandise imports decreased by 7.7 percent to US \$1,157 million in 2002, from US \$1,253 million in 2001, while merchandise exports increased by 3.7 percent to US \$920 million in 2002, from US \$887 million in 2001.

28. Sir, the slowdown in the global economy after the first quarter of 2002 dampened our export earnings through continued low prices of primary commodities. The average realized prices of copper and cobalt fell by 9.1 percent and 26.2 percent, respectively. Copper prices fell from US 77 cents per pound in 2001 to US 70 cents per pound in 2002, while cobalt prices fell from US \$7.97 per pound to US \$5.88 per pound in the same period.

29. Mr Speaker, Sir, despite lower copper prices, the volume of copper exports increased by 17.5 percent to 349,000 metric tons in 2002 from 297,000 metric tons in 2001. However, the volume of cobalt exports declined by 9 percent to 4,300 metric tons in 2002 from 4,720 metric tons in 2001.

30. Mr Speaker, Sir, preliminary figures indicate that non-traditional exports registered strong growth in 2002, with earnings increasing by 10.9 percent to US \$326 million from US \$294 million in 2001. Contributing to this strong performance were fresh flowers, gemstones, cotton lint, sugar, copper wire and gold bar exports. Sir, the continued growth in non-traditional exports is strong evidence that our economy is responding to our efforts to diversify the export base. I am pleased to note that non-traditional exports now account for

about 35 percent of exports earnings compared to less than 10 percent in the 1980's.

31. Mr Speaker, Sir, the current account deficit was financed in part by net private capital inflows of US \$166 million, net change in foreign assets of commercial banks of US \$40 million, and net official disbursements of US \$111 million.

32. The overall balance of payments deficit widened by 1.0 percent to US \$403 million in 2002. The financing of the overall balance of payments deficit came from the use of international reserves, debt relief and balance of payments support.

External Debt

33. Mr Speaker, Sir, Zambia's total debt stock stood at US \$6.5 billion as at end of June, 2002 from US \$7.2 billion in 2001. The reduction in the debt stock was as a result of continued repayment of loans as well as debt relief from both our bilateral and multilateral creditors. Sir, despite the reduction in the debt stock, the debt burden remains a very severe constraint on our efforts to promote sustained positive economic growth, maintain a stable macroeconomic environment and reduce poverty.

Foreign Financing

34. Mr Speaker, Sir, in 2002, Government continued to enjoy warm relations with our cooperating partners. In this regard, the thirteenth Consultative Group (CG) Meeting was held in Zambia, at which US \$1.3 billion was pledged by our cooperating partners for the period 2002/2003.

35. Sir, in 2002 Balance of Payments (BOP) support was programmed at US \$145.2 million. I am pleased to inform this august House that by end-December, 2002 US \$138.2 million, representing 95 percent of the programmed amount, was received from both multilateral and bilateral donors.

36. Sir, of the total project financing requirements of US \$532 million for 2002, a total of US \$443.1 million was received, representing 83 percent of the budgeted target. Of the amount disbursed, bilateral support totalled US \$275.5 million while multilateral support totalled US \$167.6 million. The assistance was mostly spent on the fight against the HIV/AIDS pandemic, strengthening of institutions of good governance, and capital projects. I pay tribute to our cooperating partners for having delivered on their pledges and I look forward to their continued assistance.

Poverty Reduction in 2002

37. Mr Speaker, Sir, Zambia completed preparing her Poverty Reduction Strategy Paper (PRSP), which was approved by Cabinet in May, 2002. Implementation of the PRSP for twelve months is an important qualifier for Zambia to reach the HIPC Initiative completion point. In order to develop a broader development agenda, Zambia has since prepared the Transitional National Development Plan (TNDP) that extended the PRSP by including other areas such as housing, foreign relations, defence and security.

38. Mr Speaker, Sir, it is unfortunate that the unexpected economic shocks that we experienced a few months into our administration diminished our capacity to release all the budgeted resources for poverty reduction programmes. However, I am pleased that tangible progress has been made in implementing those programmes that received reasonable levels of funding. To mention a few examples, funding was released for rehabilitation of hospitals and clinics, agricultural colleges, other institutions of higher learning, dams and boreholes, and feeder roads. This programme will continue in 2003.

39. If I may elaborate more on the critical education sector, I am pleased to announce that 29 primary schools were built across the country to replace those made of pole and mud. We also procured K22 billion worth of school requisites including textbooks. These items were all despatched and the Press witnessed the ceremony. At high school level, nearly K23 billion was distributed to all schools for rehabilitation, especially the water and sanitation facilities.

Budget Performance in 2002

40. Mr Speaker, Sir, our main fiscal policy objective in 2002 was to reduce the deficit from 4.7 percent of GDP in 2001 to 3.0 percent. Sir, as the year progressed it became necessary to revise the figure upward to 3.3 percent. This was due to the fact that whereas the revenue side performed better than was projected, the expenditure side of the budget experienced pressures that were much higher than was earlier envisaged.

41. Mr Speaker, Sir, these pressures were mainly from two areas. Firstly, it became necessary to increase the expenditures associated with mitigating the effects of the drought in some parts of the country. Secondly, in view of the events of last year, we had to adequately prepare for the next farming season

so as to avert hunger this year. In this regard, substantial funds went into the purchase of inputs for the 2002/2003 agricultural season to levels higher than earlier projected.

42. Mr Speaker, Sir, in order to mitigate the effects of the drought, a total of K117.4 billion was spent during the course of the year. Of this amount, K26 billion was spent on maize price support, K15 billion on the disaster relief programme and K76.4 billion on the purchase of maize.

43. Sir, with regard to the 2002/2003 agricultural season, a total of K51.8 billion was spent on the importation of fertiliser. Furthermore, a total of K37.5 billion was spent on agricultural inputs. Of this amount, K24 billion was spent on the purchase of farming inputs for vulnerable but viable small-scale farmers, K10.7 billion was spent on seed purchases under the Ministry of Agriculture and Co-operatives, and K2.8 billion was allocated to the Zambia National Service to revamp their food production capability. The agriculture input programme was an important component of the poverty reduction programmes.

44. Mr Speaker, Sir, as a result of the budget pressures I have alluded to, it became extremely difficult to implement the budget as earlier planned. As the Honourable Members are aware, these circumstances resulted in reduced expenditure levels for some categories and non-release for others. Sir, the most affected expenditure category was that for poverty reduction programmes. This category was allocated K450 billion, of which K210 billion was expected from donors, while K240 billion was expected from domestic resources. However, actual releases during the year were K110.1 billion, representing only 24.5 percent of the total budgeted amount. Sir, other important programmes such as the Constituency Development Fund, the Youth Development Fund and the creation of the Gemstone Exchange were also affected as they could not be funded at all.

45. Mr Speaker, Sir, despite the extra pressures that made it difficult to implement the budget as planned, not all was lost. Progress was made in meeting some of the pronouncements that I made in my budget address last year. Sir, one pronouncement was that we would allocate K80 billion towards the Public Service Reform Programme (PSRP) to cover retrenchment packages. I am glad to report that this was achieved. Another pronouncement was that K20 billion and K2 billion would be allocated to NCZ and KTZ, respectively, so as to revive these companies. These amounts were released and the two

companies started production during 2002. In addition, Sir, we indicated that we would allocate K24 billion for the reduction of outstanding pension arrears and a further K10 billion as a grant to the Public Service Pension Fund. Once again, these amounts were paid in full.

Monetary and Financial Sector Developments

46. Mr Speaker, Sir, the primary focus of monetary policy in 2002 was originally to reduce year-end inflation to 13 percent. Owing to some hitherto unaccounted for inflationary pressures, originating mainly from the drought, the target was revised to 16 percent later in the year. For monetary policy to achieve its intended objective, it was also essential that relative stability of the financial system and that of the exchange rate were maintained. Accordingly, and consistent with the inflation and growth objectives, broad money growth was expected not to exceed 16.1 percent.

47. Mr Speaker, Sir, the Kwacha depreciated against major foreign currencies. Between end-December 2001 and end-December 2002, the depreciation of the Kwacha was 13.2 percent against the US dollar.

48. Mr Speaker, except for the last quarter, yields on government securities followed a downward trend even though commercial banks' lending rates remained high. Money supply rose by 27 percent during the year.

49. Mr Speaker, Sir, although one commercial bank was closed during the year, the overall financial condition and performance of the banking industry was satisfactory. The banking industry maintained adequate capital and reserves, while asset quality, earnings and liquidity were also satisfactory.

50. Sir, amongst the non-bank financial institutions, the overall performance and condition of the leasing sector, micro finance institutions, and bureaux de change was fair. On average these institutions maintained adequate capital and reserves relative to their risk profiles. However, the conditions and performance of some institutions was unsatisfactory due to inadequate capital and liquidity problems.

51. Mr Speaker, Sir, I am pleased to inform the House that, in 2002, the financial sector was assessed for observance and compliance in line with international best practice in transparency and accountability. This assessment showed that prudential standards in Zambia were broadly in line with

international best practice. Sir, the good performance of the financial sector was as a result of continued strengthening of Bank of Zambia's supervisory and regulatory framework. This notwithstanding, some deficiencies still remain with regard to enforcement and in the supervision of non-bank financial enterprises. I am confident that the Bank of Zambia will address these deficiencies with the efficiency that they have shown when dealing with the commercial banks.

52. Mr Speaker, Sir, in 2002, the issue of dollarisation generated a lot of public debate, particularly after we issued directives that local transactions should be quoted and settled in local currency. The matter was, in some instances, misrepresented to imply that Government was reintroducing foreign exchange controls. I wish to emphasise that Government has no intention of doing so. The measures introduced aimed to restore our national currency as the legal tender and for it to play an effective role as a medium of exchange.

53. Government, therefore, welcomes the initiative taken by the business community to come up with a code of conduct in this and other areas. Many of the business houses have since reverted to pricing in Kwacha for local transactions. I wish to appeal to the rest to do the same otherwise we will have to enforce compliance through legislation.

54. Mr Speaker, Sir, in my budget address last year, I informed this House that the Bank of Zambia would reduce the effective Statutory Reserve Ratio for commercial banks lending to the agricultural sector. I expected this to result in enhanced credit volumes and lower lending rates for farmers. Sir, this voluntary scheme, designed after consultation with the Zambia National Farmers Union and the Bankers Association of Zambia, became effective on September 27, 2002. I wish to report that three commercial banks have expressed willingness to participate in the scheme. My appeal, therefore, is for the other commercial banks to join with Government to develop this important sector through provision of affordable credit.

Capital Market Developments

55. Mr Speaker, Sir, in 2002, the focus in capital markets continued to be on deepening the market and increasing participation. To this end, the Lusaka Stock Exchange (LuSE) continued with its awareness campaigns among corporate entities on the benefits of raising capital and the general public on the

alternative investment options available on LuSE.

56. Mr Speaker, Sir, in general, the performance of the capital markets in 2002 was mixed. The LuSE All Share Index, which measures the performance of the capital market increased by 10.3 percent to close at 334.8 points in 2002. Additionally, the secondary bond market continued to grow with market value increasing from K29.0 billion in 2001 to K60.5 billion in 2002.

57. Mr Speaker, Sir, the number of listed and quoted companies on LuSE increased from 10 and 8 in 2001 to 11 and 19 in 2002 respectively. Market capitalisation, measured in Kwacha terms, rose from K966.1 billion in 2001 to K1,060.6 billion in 2002, although it declined by 13.3 percent when measured in US dollar terms. However, the number of trades and volume of shares traded fell, as the capital market remained subdued for most of last year. Similarly, foreign participation declined, resulting in a net capital outflow of US \$0.3 million compared to the net inflow of foreign capital of US \$7.5 million in 2001.

Part III

Macroeconomic Policies for 2003

58. Mr Speaker, Sir, as articulated in the PRSP/TNDP, the challenges we face over the medium-term are to reduce poverty, sustain positive per capita income growth, lower inflation to single digits, and improve the fiscal balance and external position. To rise to these challenges, we will vigorously pursue the economic diversification programme and continue to implement appropriate fiscal and monetary policies. We shall also implement key structural reforms aimed at improving efficiency, raising productivity and output and attracting foreign direct investment. These macroeconomic strategies will be complemented by increased Government investment in infrastructure and human development.

59. Mr Speaker, Sir, our macroeconomic objectives for 2003 will focus on: (a) achieving real GDP growth of at least 4 percent; (b) reducing the average annual inflation rate to 17.9 percent (c) building up gross international reserves equivalent to 1.9 months of imports; (d) ensuring food security; (e) reducing poverty levels; and (f) reducing the budget deficit to 1.55 percent of GDP.

60. Mr Speaker, Sir, I expect economic growth in 2003 to be driven by recovery of agricultural production as well as favourable performance in mining, manufacturing,

tourism and service sectors. The projected increase in agricultural output will result from relatively favourable weather conditions, timely delivery and distribution of agricultural inputs, and rehabilitation and development of rural infrastructure.

61. Sir, growth of mining output will be stimulated by continuation of improvements in productivity and a further reduction in unit copper production costs that will mainly emanate from additional capital investments in privatised mines.

62. Sir, Government recognizes that broad based growth can only be promoted with lower interest rates than is currently the case. In this regard, high Government borrowing is recognised as a major cause of high interest rates as banks have little incentive to engage in traditional lending activities, which are perceived to be too risky. To address this problem, the domestic budget deficit has been reduced to 1.55 percent of GDP from 3.3 percent in 2002. Government is committed to adhering to this and other budgetary limits, thereby removing one important factor that raises interest rates. It is therefore Government's expectation that commercial banks will play their rightful developmental role effectively.

63. Mr Speaker, Sir, in the past, substantial Government resources have been expended in shoring up non-performing and loss-making parastatals at the expense of critical infrastructure and social services. This situation has also contributed to Government running large budget deficits. In 2003, Government intends to take decisive steps to redress this state of affairs. Our structural reforms will include reduction of Government expenditure on parastatal companies, inviting private sector investment into the remaining parastatals and attracting additional foreign direct investment in privatised companies.

64. As His Excellency the President mentioned in his address two weeks ago, our privatisation programme will be decisive and resolute. However, in order to carve out a more cautious and beneficial process of transforming our economy, we are in the process of renegotiating our privatisation modalities with our cooperating partners. These modalities will clearly distinguish between parastatals that are public utilities of a strategic nature, and those that are purely commercial ventures.

65. Sir, apart from promoting macroeconomic stability and reducing our budget deficit, our structural reforms under the economic programme have a very important link to our prospects of addressing two of our

major development challenges, namely debt and poverty reduction. At current levels, our debt burden has severely restricted our ability to provide critical growth enabling infrastructure and improve the coverage of social services.

66. Mr Speaker, Sir, the building up of official international reserves will come from an increase in the export earnings. We will also require additional financial assistance and external debt relief from our cooperating partners. In this regard, Government will work tirelessly to ensure that we reach completion point under the enhanced HIPC Initiative by end of this year. It also requires increased private sector investments under a stable business environment that will be induced by the reduction in Government borrowings accompanied by low interest rates.

Monetary and Financial Sector

67. Sir, the main objective of monetary policy in the medium term will be to reduce inflation to single digits. Consistent with this objective, we aim to reduce the annual average inflation rate to 17.9 percent and ensure that the foreign exchange market remains stable and competitive. To achieve this objective, we aim to restrict average money supply growth to 16.1 percent.

68. Mr Speaker, Sir, Government is concerned with the persistently high lending rates of commercial banks. These have adversely affected private sector investment decisions and frustrate our effort to diversify the economy. We expect to reduce interest rates by cutting the fiscal deficit by half as I explained and pursuing prudent financial policies. We expect financial institutions to work hand in hand with Government to reduce interest rates.

69. Mr Speaker, Sir, a stable and competitive exchange rate is critical to economic growth and development particularly with regard to the diversification of the export base of our economy. It is important to assure the business community that Government is committed to maintaining a liberal foreign exchange regime. Thus, the exchange rate will continue to be market driven. Further, to improve the efficiency of the foreign exchange market, the Bank of Zambia will, after consultations with key stakeholders, introduce a broad-based unified inter-bank foreign exchange system.

Export Processing Zones

70. Mr Speaker, Sir, in my Budget Speech last year, I informed this august House that to expand the export base, Government would work out modalities to implement the Export Processing Zones Act of 2001. The Board has already appointed the Chief Executive Officer and I expect the Authority to be operational this year.

Mining Sector Development

71. Mr Speaker, Sir, Government is determined that Roan Antelope Mining Company of Zambia (RAMCOZ) resumes mining operations this year with the introduction of a new strategic partner. The bidding process for the preferred investor has been completed. Negotiations and completion of transaction documents will commence next month with a view to re-opening the mines as soon as practicable. Similarly, with regard to KCM, Sir, the search for a strategic partner has reached an advanced stage. A number of mining houses have expressed interest and final bids are being received as I speak. Government will expedite the evaluation of the bids with a view to finding a suitable strategic partner.

Governance and Public Expenditure Management

72. Mr Speaker, Sir, public expenditure management is important for the attainment of transparency and efficiency in resource allocation decisions, expenditure tracking and evaluation of the budget process. We have identified some major weaknesses in the existing public expenditure management system, and in 2003 and onwards, we will take decisive steps in addressing these weaknesses.

73. Sir, to enhance transparency in resource allocation, Government prepared a Budget Framework Paper as the basis for its internal consultations with Controlling Officers on the 2003 Budget and as a first step towards drafting and publishing a three year Medium Term Expenditure Framework (MTEF). The MTEF will set annual budgets in a strategic context. It will also facilitate the restructuring of expenditures, whether domestically financed or from our cooperating partners, increasingly towards the priorities in the PRSP/TNDP. Government aims to publish the first MTEF in the third quarter of 2003 and will encourage public debate on its proposed spending priorities. This debate will in turn form part of the process of preparing the 2004 Budget.

74. Further, as regards Budget presentation, Honourable Members will agree that the present structure of our "Yellow Book" is not conducive to critical analysis. In

particular, it does not provide information about the purpose and objectives of Government spending. In this regard, Activity Based Budgeting (ABB) is being studied and developed for future use. Since it is based upon a programme/activity structure, it provides a framework for the budget to be related to physical performance targets so that stakeholders can better assess Government's spending programmes.

75. As regards budget implementation and evaluation, a computer-based Integrated Financial Management and Information System (IFMIS) is being developed and installed in all ministries and provinces. While full implementation of IFMIS will only be achieved in 2006, this year the design of IFMIS will take centre stage as the evaluation of options has now been completed. Once fully operational, it will facilitate the prompt generation of financial reports and allow this to be related to the physical performance targets emerging from the implementation of ABB. The timely production of financial reports will aid efficient planning and monitoring of Government operations.

76. Mr Speaker, Sir, other initiatives being undertaken to improve financial accountability, good governance and public expenditure management include strengthening the Public Finance Act, the public procurement system and its institutional framework.

Part IV

The 2003 Budget

77. Mr Speaker, Sir, Government proposes to spend a total of K6,931.5 billion in 2003, which is 36.1 percent of GDP. Of this, K3,975.0 billion (57.3 percent) will be financed from domestic revenues and by running a domestic budget deficit of 1.55 percent of GDP while a further K2,956.5 billion (42.7 percent) will be raised from our cooperating partners by way of project assistance, budget/Balance of Payments support and commodity aid.

78. The proposed total expenditure is broken down as follows:

	Domestically Financed (K' billion)	Externally Financed (K' billion)	Total (K' billion)
Personal Emoluments	1,441.6	51.8	1,493.4
O/w Wages and Salaries	1,378.1	-	1,378.1
PSRP	63.5	51.8	115.3
Recurrent Departmental Charges	465.2	-	465.2
O/w Arrears	73.4	-	73.4
Awards and Compensations	22.0	-	22.0
Contingency	12.0	-	12.0
Other RDC s	357.8	-	357.8
Grants and Other Payments	448.4	106.5	554.9
O/w Pensions (Arrears)	24.0	-	24.0
Crop Marketing Agency	3.0	-	3.0
New Foreign Missions	3.0	-	3.0
ZRA	80.0	-	80.0
Other Grants and Payments	338.4	106.5	444.9
Poverty Reduction Programmes	240.8	179.9	420.7
Capital	466.9	2,289.8	2,756.7
O/w Fertiliser Price Support	50.0	-	50.0
Maize Reserves and Imports	77.5	172.5	250.0
Financial Restructuring	64.6	-	64.6
Fuel Levy	72.0	-	72.0
Land Development Fund	3.0	-	3.0
Rural Electrification Fund	5.0	-	5.0
Counterpart Funds	68.1	-	68.1
Other Capital	126.7	2,117.3	2,244.0
Constitutional and Statutory	912.1	328.5	1,240.6
O/w Interest on Domestic Debt	451.8	80.2	532.0
Foreign Debt Service	312.1	248.3	560.4
Medium Term Pay Reform	142.2	-	142.2
Constitutional Posts	6.0	-	6.0
Total Expenditure	3,975.0	2,956.5	6,931.5

79. Mr Speaker, Sir, allow me to highlight some of the key areas of expenditure in this year's Budget.

80. Sir, in accordance with our Constitution, Zambia must remain current with her foreign debt payments, projected to be US \$108.3 million (K560.4 billion) in 2003. In doing so, Zambia will remain on track with her economic programme and satisfy one qualifier for reaching the enhanced HIPC completion point. Balance of Payments support from donors is projected to cover K248.3 billion of the cost of foreign debt payments falling due, with the remaining K312.1 billion to be paid from domestic sources.

81. Domestic debt interest must also be honoured. This will cost K532 billion, which is

2.8 percent of GDP, representing over 15 percent of tax revenues. This high interest cost on domestic borrowing is crippling and hence the domestic debt stock must be reduced. This is one reason why we intend to run a reduced budget deficit this year and are targeting to balance the budget effective 2004.

82. Mr Speaker, Sir, Treasury Bills and Bonds are only a part of Government's domestic debt. Other major components of our domestic debt include arrears to suppliers, court related debt, the pension fund and contingent liabilities arising from the parastatal sector.

83. The verified debt owed to suppliers and contractors is K420 billion. To completely dismantle this debt, it will not be possible in

2003 without curtailment of on-going Government operations, commitments and other programmes. However, the domestic debt stock must be dismantled and money owed to the private sector for services rendered paid back. To make any tangible progress on this, we must begin by reigning in contracting of new credit. Past efforts to do this have been undermined by Controlling Officers who flagrantly incur debt without regard to financial regulations. I want to serve a timely caution that in 2003 and beyond, punitive measures will be enforced against any Controlling Officer who flouts Government financial regulations by incurring unbridled debt. Additionally, Government will negotiate discounts on the debt owed and pay off the balance over a period of four years. On this basis, I have provided K73.4 billion this year.

84. Sir, as at end-2002, the Public Service Pensions Fund was owed an estimated K240 billion in unpaid pension contributions. Of this amount, K24 billion has been proposed in this budget. This will reduce the outstanding stock by only 10 percent. Quite clearly, the settlement of the remaining outstanding debt has to be a key element of Government's comprehensive medium term plan for the retirement of domestic debt. However, in addition to the allocation above, the Pensions Board will receive a grant of K12 billion and K97.6 billion as employer's and employees' contributions for the year. With these inflows, I expect the Public Service Pensions Fund to be current with pension payments due to retired civil servants in 2003.

85. Mr Speaker, Sir, another area of concern is the debt arising from successful litigants against Government. As at 31st December 2002, this figure stood at K65 billion. To reduce this debt, K22 billion has been provided in this Budget.

86. Mr Speaker, Sir, I have set aside in the budget K64.6 billion for re-capitalisation, restructuring and settling debt owed by parastatals. Of this amount, K5 billion and K2 billion are for further re-capitalisation of NCZ and KTZ, respectively, while K9.1 billion will go towards the payment of creditors in liquidated companies. The balance will go towards settling other debts.

87. Mr Speaker, allow me to emphasise what His Excellency the President said in His speech to this House, two weeks ago, regarding management in parastatal companies. Government will no longer condone misuse of tax-payers' money. Therefore, I will only release the above amounts to NCZ and KTZ on condition that financially and technically feasible business

plans are submitted to my Ministry. Utilisation of these resources will be closely monitored.

88. Mr Speaker, Sir, K1,493.4 billion has been provided for Personal Emoluments. This includes K115.3 billion for retrenchment payments under the Public Service Reform Programme. In addition, K142.2 billion is proposed to implement the Medium Term Civil Service Pay Reforms. These allocations entail that over 44 percent of domestic revenues will be used to pay wages and salaries. If wages and salaries for those working in grant-aided institutions are included, the percentage is even higher. Out of the amount for retrenchment, K25 billion will be for payment of retrenched workers from the Copperbelt University and the University of Zambia. An additional K14.1 billion has also been allocated under grants to pay workers retrenched from church-run health institutions.

89. Mr Speaker, Sir, K67.5 billion has been proposed to facilitate the importation of commercial maize to fill the projected food deficit up to April 2003 that is not covered by millers and other private sector importers. This is in addition to K172.5 billion worth of relief maize financed by the African Development Bank, the European Union, Japan, the Netherlands, Switzerland, New Zealand and the United Kingdom, to be imported by the World Food Programme (WFP) during the same period. Any balance from the K67.5 billion not used to import commercial maize will be used to buy locally produced maize from the current season's crop. A further K10 billion is provided for the procurement of maize from smallholder farmers for topping-up the strategic food reserves.

90. In addition to the agriculture sector related Poverty Reduction Programmes (PRPs) that I will explain later, K50 billion is being proposed for the 2003/2004 season to continue the targeted subsidisation of fertiliser and seed. Of this amount, K40 billion will come from the fertiliser and seed credit repayments due from the current season and K10 billion from money allocated under the Poverty Reduction Programme.

91. Proposed allocations for Recurrent Departmental Charges (excluding arrears, awards and compensations and contingencies) and for Grants (excluding the arrears to the Pensions Board) have been put at K357.8 billion and K424.4 billion, respectively. Within this provision, I have provided K3 billion for the updating of local councils' rolls of rateable values for the six largest councils so that their revenue collection can be enhanced. I have also ensured that the K3.8 billion expected from the proposed Medical Levy that I shall announce

later this afternoon has been applied to the 2003 drugs budget. Within grants, I have provided K3 billion for the establishment of the Crop Marketing Authority once Parliament enacts appropriate legislation. I have also enhanced the allocation for the Zambia National Broadcasting Corporation.

92. Mr Speaker, Sir, K274.8 billion has been provided for other (non-PRSP specific) capital expenditure. It will be used, amongst other things, to finance further road rehabilitation and construction, provide counterpart funding to donor supported projects and finance eligible capital expenditures from the Road, Rural Electrification and Land Development Funds.

Poverty Reduction Programmes

93. Mr Speaker, Sir, I have provided K420.7 billion (2.2 percent of GDP) for targeted Poverty Reduction Programmes (PRPs) of which K179.9 billion is to be financed by a grant from the EU. The aim of the PRPs is to commit significant resources to economic empowerment programmes, social safety net operations and key socio-economic investment projects. These projects are intended to ensure that human capital is developed, opportunities for employment are created and private sector investment is encouraged.

94. Regarding the economic sectors, starting with tourism, the major focus for this year is on rehabilitating the infrastructure in the Livingstone area to which I am allocating K5.3 billion. A further K6.9 billion is allocated to promote tourism development in the other important tourist areas of Kafue National Park, Lower Zambezi and Luangwa Parks while the marketing of Zambian tourism in key markets has received K1.7 billion.

95. Mr Speaker, Sir, I further propose to allocate K2.6 billion to promote investment in tourism. Specifically, Government wishes to promote a major investment programme in the Kafue National Park, which will act as a flagship of tourist facilities in the area. Under this initiative, Government intends to enter into an arrangement with investors in which Government will invest in infrastructure whilst investors will commit themselves to constructing lodges and hotels. Sir, I am aware of the general complaint that has been made that the tourism sector has not sufficiently included Zambian entrepreneurs. I therefore propose to allocate K5 billion as a Tourism Credit Facility to be accessed by Zambians to invest in tourist ventures. The operational modalities of this fund will be announced in due course.

96. Sir, while food self-sufficiency is the first step in reducing poverty, most agricultural households aspire to achieve more than that. Given the small size of the market for maize, the appropriate crops for generating wealth and economic growth are cash crops. Production in these export crops has been very encouraging. Consequently, I propose to allocate K8 billion in support of out-grower schemes in the production of tobacco, coffee, cotton, vegetables and paprika and a further K1.5 billion for dairy production.

97. Mr Speaker, Sir, to encourage export crops, this House will recall that money was allocated to identify farming blocks that would be developed for producing export crops either raw or processed on site. To this end, I wish to report that Government has identified Nasanga in Serenje and Kalumwange in Kaoma as new farming blocks. Government plans to provide complete infrastructure namely feeder roads, power and irrigation dams where feasible in these areas. With such preparations, this land will be ready to settle investors. Each block will be designed to settle mixed farm sizes, from large corporate to small-scale out-growers, all primarily producing an identified export crop. I propose to allocate K14 billion for this purpose. This will be an on-going programme and will cover the whole country in future years. To facilitate this, I propose K600 million in 2003 for land advocacy programmes.

98. Government is proposing to set aside K5 billion towards initial infrastructure development and investment promotion for Luena in Kawambwa where there is great potential for large-scale sugar production. It is Government's intention to dialogue with interested private sector investors so that they may invest to realise this potential in Luena. In addition, they will be encouraged to take advantage of opportunities in other areas where there is scope for large-scale production of industrial crops such as rubber, pineapples, timber and forest plantation on a large-scale. This is consistent with the New Deal administration's policy to enter into productive partnerships with the private sector where Government funds the needed public infrastructure to enable the projects take off while the private sector undertakes the investment.

99. Mr Speaker, Sir, I propose to allocate K6 billion to support irrigation development throughout the country. In addition, Sir, I also wish to highlight that as in 2002, I have provided K5 billion to support dam construction and rehabilitation, K2 billion for the provision of animal draught power and K3 billion for animal disease control. I have also

provided K1.1 billion for seed multiplication in rural areas and K3.5 billion to encourage fish farming.

100. For the non-traditional mining sector, I propose to allocate K1 billion to facilitate the creation of a private-sector-led gemstone exchange to serve as a forum for producers and buyers to conduct auctions and routine transactions. May I also take this opportunity to inform this august House that, in the area of traditional mining, there are large undeveloped ore bodies in Lumwana and Kansanshi, which have great mining potential but require infrastructural development. I am proposing K2 billion for this purpose as initial investment towards power connection and other infrastructure. Operations at Kansanshi mine will start as soon as power is connected.

101. Mr Speaker, Sir, Government shall continue to invest in key socio-economic infrastructure, such as, feeder roads, dams, rural electrification, rural water supplies, prisons, courts of law, colleges and universities. Specifically, K26 billion is being proposed to continue the work started in 2002 of rehabilitating health institutions all over the country. This amount is in addition to K10 billion provided to construct houses for medical staff in rural areas. Sir, I am proposing a further K5 billion to construct health posts throughout the country.

102. In terms of health services, K12 billion is being earmarked for essential health kits, K5.5 billion for the Roll Back Malaria programme and K15 billion for the provision of Anti-Retroviral drugs (ARVs) in our hospitals. Separate amounts to provide ARVs have been proposed for public workers in key ministries like health, education and others where massive loss of qualified staff is severely undermining the provision of services. I urge private sector employers to emulate Government's efforts to prolong the lives of their affected staff through the provision of ARVs. It is regrettable, Sir, that in certain professions, Zambia cannot train new staff quickly enough to replace those that are dying from HIV/AIDS related diseases.

103. In education, the special emphasis this year is on the provision of school desks for which a sum of K12 billion is being proposed. Another major undertaking is construction of teachers' houses in rural areas for which I am allocating K10 billion and I am allocating a further K10 billion for other school requisites in support of free basic education. Regarding secondary schools, I am proposing K9 billion to build new schools at Itezhi-tezhi, Kaputa and Mufumbwe. Sir, our universities have been allocated K7 billion to continue the

rehabilitation of the infrastructure which they started last year.

104. Mr Speaker, Sir, the Poverty Reduction Programmes include K14.4 billion for the establishment of a District Development Fund to finance locally identified development projects by respective District Development Coordinating Committees (DDCCs). These projects will be approved and monitored by local councillors and area Members of Parliament. The District Development Fund will replace the Constituency Development Fund and Youth Development Fund. Sir, I also propose that in 2003 we continue to allocate K2 billion for feeder roads in each province as we did in 2002. I further propose that we allocate resources for resettlement schemes and infrastructure and these amounts and what they will be used for will vary depending on the needs of each province.

105. Mr. Speaker, I wish to emphasize that the Poverty Reduction Programmes are complementing the usual ministerial activities. In this respect, Members are advised to study the provisions made in the various ministries and provinces in order to have a complete picture of all Government interventions in their respective areas.

Part V

Revenue Measures

108. Mr Speaker, Sir, Government has been under a lot of pressure to fund a number of development programmes. However, the existing revenue base is not adequate to generate the resources needed to finance such programmes. Consequently, I have to propose new revenue measures to mitigate the effect of tax concessions I have also put forward.

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

	(K' billion)	
TAX REVENUES		3,445.7
Direct Taxes	1,472.1	
Company Income Tax	293.3	
Pay As You Earn	954.4	
Other Income Taxes	217.4	
Mineral Royalty Tax	7.0	
Excise Taxes	505.5	
Fuel levy	72.0	
Other excises	433.5	
Domestic VAT	422.6	
Trade Taxes	1,045.5	
Import tariffs	459.5	
Import VAT	586.0	
NON-TAX REVENUE		111.0
User Fees and Charges	48.0	
Vehicle licenses & Fees	30.0	
Dividends, Interest & other Levies	33.0	
EXCEPTIONAL REVENUE		120.3
FOREIGN FINANCING		2,956.5
Project Financing	2,209.5	
Budget Financing	747.0	
DOMESTIC FINANCING		298.0
TOTAL REVENUE AND FINANCING		6,931.5

106. Mr Speaker, let me now explain the details of the revenue measures I am proposing.

Direct Taxes

107. Mr Speaker, Sir, to take into consideration the effects of inflation on personal income, I propose to increase the current exempt threshold of Pay As You Earn from K1,800,000 to K1,920,000 per annum. The expected revenue loss from this measure amounts to K16 billion.

110. Sir, it has been recognised that exchange losses caused by the depreciation of the Kwacha are a real cost to business. Where large amounts have been borrowed in foreign currency, the cost of such borrowing can be significantly raised and be a hindrance to development. I therefore propose to allow exchange losses on loans for capital expenditure to be deductible but be restricted to real estate development only. This measure will cost the Treasury K6 billion.

111. The floricultural sub-sector has performed very well so far as evidenced by increased exports. To further support this sub-sector, I propose that the expenditure incurred on the growing of rose flowers be allowable and qualify for a development allowance. This measure will result in a minimal revenue loss.

112. Sir, presently, I have noticed that many operators of mini buses, taxis and buses do not maintain and submit books of accounts

and hence do not pay appropriate tax. In the interest of broadening the tax base and ensuring an equitable tax burden, and after consultations with these operators through their representative bodies, new mechanisms will now be put in place to ensure that these operators are effectively taxed and this will be a final tax. This measure is expected to raise K2.3 billion.

113. Mr Speaker, I also propose to remove exemption on contract gratuity paid to employees engaged by organisations like the University of Zambia, Local Authorities, the National Council for Scientific and Industrial Research, and Government. This measure will remove the present discrimination whereby some employees do not pay tax on gratuity while others pay. The measure will, therefore, level the playing field. It is estimated that this measure will raise K300 million.

114. Sir, currently, the income of exempt organisations, which is generated from the undertaking of commercial activities, is not subject to tax if that income is ploughed back into the organisation. However, an increasing number of exempt organisations are undertaking very large and profitable commercial activities and are causing distortions in the economy. To rectify the situation, I propose that the income generated from any such commercial activities be taxed at the rate of 15 percent and this should be a final tax. This measure will result in a revenue gain of K1 billion.

115. Similarly, Sir, interest earned by exempt organisations on Treasury bills and Government bonds will be taxed. The rationale of this measure is to level the playing field between commercial companies and exempt organisations carrying on similar business. I expect to raise K4.5 billion from this measure.

116. Sir, mineral royalty is a levy payable by any person extracting mineral resources of the country. At the moment, only holders of large-scale mining licences pay the mineral royalty. I now propose that the payment of this levy be extended to small and medium-scale companies involved in the mining of gemstones and other precious stones and metals. Government is conscious of the fact that different mining companies face different tax regimes. It is Government's intention to introduce legislation to level the playing field in the near future.

117. I further propose to increase the royalty payable by gemstone miners and miners of other precious stones and metals from 2 to 5 percent. In addition, as a way of reinforcing compliance, I propose that renewal of mining licenses be subject to a tax clearance certificate. These measures will result in a gain of K3.7 billion.

118. Sir, although the informal sector has grown considerably over the past years, its contribution to the Treasury remains insignificant. This year, I intend to tackle this sector more vigorously. The Zambia Revenue Authority will target small-scale traders and marketeers and unregistered passenger and cargo transporters. Furthermore, enforcement of the law regarding withholding tax on rental income will be strengthened, and will focus more rigorously on medium and high-density areas where compliance is very low at the moment. This measure is estimated to raise K500 million.

119. Mr Speaker, Sir, currently, companies listed on the Lusaka Stock Exchange pay corporate tax at the rate of 30 percent. I have observed that despite this incentive being in place, few companies have taken up the call to support our capital market by enlisting on the stock exchange. I therefore propose to increase this rate from 30 percent to 33 percent. Sir, I must point out that even with this measure, listed companies will still pay 2 percentage points lower than unregistered companies who pay at 35 percent. The revenue gain from this measure is estimated at K4 billion.

120. Sir, Property Transfer Tax is payable whenever there is a transfer of property. I propose to increase the tax rate from 2.5

percent to 3 percent. This measure will raise K100 million.

121. Mr Speaker, I propose to introduce new legislation to provide for a Medical Levy to be deducted from the gross interest earned at the rate of 1 percent from savings and deposit bank accounts, Treasury Bills and Government Bonds. This is an additional measure to raise funds for the purchase of medical equipment and drugs for clinics and hospitals. This measure is estimated to raise K3.8 billion.

122. Mr Speaker, Sir, all the above measures will take effect on 1st April, 2003.

Customs and Excise

123. Mr Speaker, Sir, currently, mining companies in Zambia have excess capacity to process mineral ores. Thus, they have begun to import mineral ores to utilise this capacity. To further allow them to fully utilise their capacity and increase the viability of cross border mining operations, I propose to remove the 5 percent customs duty on mineral ores. This measure will create employment on the Copperbelt through increased utilisation of the extensive mineral-processing infrastructure and bring other economic benefits to the country. A revenue loss of about K400 million is expected from this measure.

124. Mr Speaker, Sir, local manufacturers continue to face high production costs. To alleviate the impact of this, I propose to remove customs duty on a number of machines essential in furniture manufacturing, packaging and labelling of products. The revenue loss is estimated at K91 million.

125. Sir, I propose changes to the customs and excise tariff rates resulting from the re-categorisation of a number of tariff items. These changes will involve a reduction of customs and excise rates in the case of key manufacturing inputs and an increase in the customs duty rates for some misclassified finished items. Overall, the changes are meant to increase the competitiveness of our local industries. The net effect of this measure is a revenue loss of K128 million.

126. Mr Speaker, Sir, the textile industry has been in decline for sometime now and many factories have closed and jobs lost partly due to "Salaula". The textile sector presents a good opportunity for us to spur growth and combat poverty because of its vertical linkage to agriculture. It can potentially be one of the largest employers and hence the need to revamp this sector again. While appreciating the need for our people to have access to

affordable clothing, I am also aware of the importance of stimulating tangible value-adding investment in our economy. I therefore propose to introduce a fixed duty of K2,500 per kg on "Salaula" as a first step in addressing the textile sector's problems. It is estimated that this measure will raise K5.5 billion.

127. Sir, I also propose to increase excise duty on saloon cars from 5 percent to 10 percent. This measure is expected to raise K6.5 billion.

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

129. In the last two years, Government has got an undertaking from Zambian Breweries management to reduce tax on clear beer and carbonated drinks. Government accepts their proposal to do the same this year so long as they guarantee the expected revenue through Zambia Revenue Authority. To implement this measure, appropriate legislation will be brought to the House in due course.

Value Added Tax

130. Mr Speaker, Sir, in line with the Abuja Declaration on Roll Back Malaria programme, to which this country is a signatory, I propose to zero rate inputs used in the manufacture of mosquito nets. This measure will encourage the local manufacture of mosquito nets and will result in minimal loss of revenue.

131. Sir, currently, registered mineral prospecting companies are allowed to claim input VAT on their activities before they start production. I propose to introduce cash accounting for suppliers involved in mineral prospecting activities and intending traders. This is to ensure that Zambia Revenue Authority refunds only what has been collected. I expect a minimal gain in revenues from this measure.

132. These measures take effect from 1st April, 2003.

Housekeeping Measures

133. Mr Speaker, Sir, I further 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 these laws and to make tax administration more effective. These measures are revenue neutral.

Part VI

Conclusion

134. Mr Speaker, Sir, while the 2003 budget is tight, it will bring development and hope to our nation. Resources have been targeted to empowerment programmes that will benefit all and diversify our economy further. In agriculture, small-scale farmers will have timely access to key inputs at affordable prices, out-grower schemes and new farm blocks will be developed to produce export crops to boost farm incomes and rural infrastructure like feeder roads, dams and irrigation systems will raise agricultural productivity.

135. In tourism, private sector investment in the sector will be promoted in partnership with public investment in key infrastructure and access to entrepreneurship opportunities for Zambians will be facilitated by new term credit arrangements.

136. In mining, new mines in North-Western Province will be developed to ensure that Zambia remains a great mining nation. The existing privatised mines will continue to invest and lower costs under a benign incentive regime and the introduction of new strategic partners for KCM and RAMCOZ will ensure that mineral production in Chingola and Chililabombwe continues and is resumed in Luanshya.

137. Mr Speaker, Sir, this budget ensures effective implementation of the "New Deal" Government's policy of free universal basic education for every child in Zambia and teachers in rural areas will be motivated through provision of proper housing. Access to health services as close to the family as possible, will be enhanced by rehabilitating health institutions and establishing health posts through out the country. Further, this budget has the largest resource input yet to combat the HIV/AIDS pandemic, through the provision of anti retroviral drugs.

138. Sir, the establishment of the district development fund is just the beginning of the process of taking power to the people, not just through words but also through resource empowerment. It is Government's intention, as capacity at district level is developed, to allocate more resources to this fund in future.

139. Mr Speaker, Sir, this budget addresses the aspirations of all Zambians and that is why the Government seeks the support from all members of this House who want to see development, regardless of their party affiliation.

140. Mr Speaker, Sir, I beg to move.

