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Contents

2016 Budget Commentary

The 2016 National Budget was presented by the Honourable Minister of Finance to the National Assembly on 9 October 2015.

The theme of the 2016 budget is "Fiscal Consolidation to Safeguard our Past Achievements and Secure a Prosperous Future for All".

The country was projected to achieve a 4.6 percent growth of Gross Domestic Product (GDP) in 2015. This was mainly attributed to a poor harvest in the 2014/2015 farming season, reduced electricity generation and reduced foreign exchange earnings. Copper prices averaged at US$5,160 per metric tonne during the first nine months of 2015, down from US$6,829 per metric tonne in 2014.

In formulating the 2016 budget, the Minister of Finance had to consider the following:

- Sustain broad based and inclusive growth;
- Necessary funding to progress the current ambitious infrastructure development programme;
- Poverty remains high;
- Diversify and deepen the resilience of our economy;
- Entrench social justice;
- Threats posed by climate change;
- Over-reliance on copper, as a primary commodity;
- Limited capacity to generate more tax revenues from the economy; and
- Continued need for fiscal prudence and responsibility.

The Government has set the following macroeconomic objectives for 2016:-

- Achieve real GDP growth of above 5%;
- Attain end year inflation of no more than 7.7%;
- Maintain international reserves at no less than 4 months of import cover;
- Create employment opportunities through accelerated implementation of programmes such as the Industrialisation and Job Creation Strategy and the Youth Empowerment Action Plan;
- Increase domestic revenue mobilisation to at least 20.4 percent of GDP from 18.1 percent of GDP projected in 2015;
- Limit domestic borrowing to no more than 1.2 percent of GDP;
- Reduce the budget deficit to 3.8 percent of GDP from 6.9 percent of GDP projected in 2015; and
- Accelerate the diversification of the economy particularly towards tourism, energy, agriculture and agro processing.

In order to achieve the budget objectives and targets for 2016, the Government has proposed to spend K53.1 billion.

The 2015 outturn has been projected as follows:

	2015 Budgeted outturn	2015 Projected outturn
GDP growth rate	7.0%	4.6%
Inflation rate	7.0%	8.0%
Overall fiscal deficit to GDP	4.6%	6.9%
Gross International reserves of import cover	4 months	4 months
Domestic borrowing to GDP	2.0%	2.0%
External debt (US$ billions)	4.8	6.3

2016 Budget Commentary (Continued)

The funding will be split as follows:

	K billion
• Domestic revenue	42.1
• Domestic borrowing	2.5
• Foreign grants	0.5
• Foreign financing	8.0
	53.1

The allocation of the budgeted expenditure in percentage terms is as follows:

	2011	2012	2013	2014	2015	2016
	%	%	%	%	%	%
General Public Service	28.5	30.0	26.2	25.1	25.8	36.1
Economic Affairs	25.6	29.3	27.6	28.0	27.3	24.9
Education	18.6	17.5	17.5	20.2	20.2	17.2
Health	8.6	9.3	11.3	9.9	9.6	8.3
Defence	7.2	6.0	6.3	6.4	6.9	5.9
Public Order and Safety	4.5	3.7	4.2	5.0	4.7	3.5
Environmental Protection	0.6	0.1	0.2	0.4	0.4	0.3
Housing and Community Amenities	3.2	1.3	3.1	1.5	1.7	0.9
Recreation, Culture and Religion	0.5	0.5	0.8	0.7	0.7	0.5
Social Protection	2.7	2.3	2.8	2.8	2.7	2.4
	100.0	100.0	100.0	100.0	100.0	100.0

Overall the Budget is drawn to consolidate and fund the key sectors identified by the Government. The implementation of the Budget is dependent on Government meeting its revenue targets. The Budget faces the following risks:

- any significant further drop in copper prices;
- any further deterioration in the exchange rates;
- any significant reduction in programmed levels of external financing;
- any substantial increase in oil prices;
- adverse weather conditions;
- any significant continued power deficits;
- usual pressures for unbudgeted expenditures in an election year;
- any deterioration of the industrial relations atmosphere arising from labour expectations; and
- any failure to manage the population's expectations that may lead to unplanned expenditure.

2016 Budget Commentary (Continued)

Overall comments

- The 2016 budget will go some way in providing stability in implementation of the Medium Term Expenditure Framework (MTEF) objectives.
- Has budgeted for the increasing external and domestic debt interest payments.
- May not have fully factored in the possible increases in prices of services and goods arising from the depreciated kwacha.
- It provides continued funding to the infrastructure development programme.
- It has budgeted for the tripartite elections and the Referendum.
- It has budgeted for funding to local councils.
- To create substantial jobs in the economy, the manufacturing and agro processing sectors will require serious and immediate attention.
- The Industrial Development Corporation should be fully resourced and granted the necessary operational autonomy for it to create the required new and expanded business activities.
- Development and resourcing of entrepreneurial enterprises should be encouraged and incentivised, so as to achieve the required industrialisation.
- Serious studies should be undertaken to assess why despite many years of overall GDP growth, the benefits have not trickled down to the majority of the population.

2016 Sectoral Impact

Agriculture

- One of the objectives of Government in 2016 will be to accelerate the diversification of the economy particularly towards agriculture among others.

- The country is feeling the impact of global warming on its ability to produce sufficient food. In order to ensure national food security, Government intends to expand the area under irrigation in 2016 and beyond. This will help reduce dependency on rain-fed agriculture.

- K56.7 million has been allocated to irrigation programmes.

- Under the Irrigation Development Support Programme, irrigation of a further 5,000 hectares will be implemented in 2016. This will increase the areas under irrigation to 22,500 hectares since 2011. The areas to be covered include Lusitu in Chirundu, Mwomboshi in Chisamba and Musakashi in Mufulira.

- Government intends to promote the diversification of the agricultural sector to move away from over-reliance on maize production.

- In order to support the diversification, the electronic voucher scheme will be implemented during the 2015/2016 agricultural season in thirteen districts namely: Kalomo, Choma, Monze, Mazabuka, Chikankata, Pemba, Chongwe, Mumbwa, Chibombo, Kabwe, Kapiri-Mposhi, Ndola and Chisamba.

- K1.0 billion has been allocated for the Farmer Input Support Programme of which K248.3 million will be disbursed through the e-voucher modality to cover 480,000 farmers of the targeted 1,000,000 beneficiaries of the programme.

- The electronic voucher system will give farmers a wider choice of inputs including requirements for livestock and fisheries. It will also allow farmers to source their inputs directly from agro-dealers. This will reduce the role of Government in the supply and distribution of inputs.

- Government has established the Ministry of Livestock and Fisheries as part of its resolve to diversity the agricultural sector. It will stimulate growth in the livestock and fisheries sub-sectors by providing the necessary technical and financial support.

Agriculture (continued)

- Provision of extension services and disease control measures will be enhanced in order to boost productivity in the livestock sub-sector. Government will intensify primary animal health care and vaccination programmes especially for cattle and chickens.

- Government will continue producing vaccines in order to make these readily available to farmers.

- Government will continue to construct and rehabilitate dip tanks across the country in order to make these accessible to small scale farmers.

- Government will also continue with the construction and rehabilitation of livestock extension service centres and satellite insemination centres.

- In an effort to increase supply to both domestic and export markets, Government will establish additional breeding centres for goats and sheep.

- In order to achieve self-sufficiency in fish production by the end of 2018, Government will, in 2016, continue with the establishment of fish hatcheries in each province and encourage the establishment of private owned hatcheries.

- Citizens will be encouraged to set up fish fingerling nurseries in each district while Government will provide technical support and set up a Fisheries Fund to provide credit to small scale fish farmers. K5 million has been allocated for the establishment of the Fisheries Development Fund.

- Fish cage culture, especially for tilapia, will also be promoted through the creation of aqua-parks in Rufunsa, Kasempa, Mungwi and Chipepo. These are intended to provide market to local fish farmers by linking them to commercial core ventures.

- Government anticipates that over time an increasing proportion of grain and agricultural marketing activity will be undertaken by co-operatives. K750 million has been allocated to procure grain in the 2016 crop marketing season.

2016 Sectoral Impact (Continued)

Transport Infrastructure Development

- An allocation of K6.6 billion has been made in the 2016 budget towards the continued implementation of the Link Zambia 8000 project, Pave Zambia 2000, and L400 road project in Lusaka, as well as commencement of the C400 road project on the Copperbelt and rehabilitation of rural roads.
- The C400 programme on the Copperbelt will be launched soon.
- Over 6,000 jobs are estimated to have been created through the road construction and rehabilitation programme.
- Government has reserved some road projects for citizen-owned companies with at least 50.1 percent shareholding under Link Zambia 8000.

Monetary and Financial Sector

- Monetary and supervising policy will remain focused on supporting Government's broad economic objectives which include achieving an end-year rate and more than 7.7 percent.
- Monetary policy will continue to be implemented through multi based monetary tools, guided by an interest rate targeting framework.
- Bank of Zambia interventions in the foreign exchange market will be limited to smoothening short-term volatility and building of international reserves. Bank of Zambia will encourage development of foreign exchange hedging of instruments.
- To mitigate the negative impact of high lending rates, Government intends to consolidate the fiscal position to contribute towards the reduction of interest rate.
- Bank of Zambia is expected to fully implement the basel II framework, which is aimed at strengthening the safety and soundness of the international financial system.
- Government will facilitate the operationalisation of the National Financial switch platform to increase financial inclusion. This will integrate different payment channels such as Automated Teller Machines, point of sale terminals, mobile and internet banking platform and other e-commerce and e-government platforms.

Monetary and Financial Sector (continued)

- K5.5 billion and K4.3 billion has been proposed to be spent on external and domestic debt related payments respectively.
- Government is committed to maintaining debt within sustainable levels and will therefore limit domestic borrowing and focus on in accessing external financing with lower interest rates and longer repayments periods. Domestic borrowing is budgeted at K2.5 billion i.e. 4.7% of the budget.
- International reserves are budgeted to be maintained at no less than 4 months of import cover.
- Government will continue to enhance the development of both the primary and secondary markets, the aim will be to create a more liquid and efficient domestic debt market that promotes the efficient utilisation of financial reserve in the economy.

Small and Medium Sized Entities (SMEs) and the capital market

- A number of allocations have been made in the budget to provide for the economic empowerment of Zambians; K187.5 million to the Citizen Economic Empowerment Fund, K150 million to the Action plan on Youth Employment and Empowerment, K35.7 million to the Women's Economic Empowerment Fund and K49.5 million for Youth Skill Training Development
- Government is alive to and will continue to address challenges that the Micro, Small and Medium Enterprises face such as access to finance, markets and technology and the development of enterpreneural skills. In this regard, Government for example, plans to limit domestic borrowing to 1.2 percent of GDP in 2016 and thereby creating more room for private sector credit.
- Government will continue with the establishment of fish hatcheries in each province and encourage the establishment of private owned hatcheries to achieve self-sufficiency in fish production by end – 2018. This should provide commercial opportunities for SMEs.

2016 Sectoral Impact (Continued)

Small and Medium Sized Entities (SMEs) and the capital market (continued)

- The Value Chain Clusters Development Programme which is designed to promote local value addition is a key intervention in addressing the challenges MSMEs face. Under the Programme, Government is supporting 1,800 projects in activities such as mango juice production, processing of fish, rice, dairy, cotton, honey and forestry products in 42 districts countrywide and thereby creating opportunities for employment and income generating especially for women and youth.

- The Government will further recapitalise the Development Bank of Zambia, National Savings and Credit Bank and empowerment agencies to enable them provide affordable financing to micro, Small and Medium enterprises.

- From 1 September 2015, it became mandatory for all public sector departments to procure locally manufactured goods for all contracts which are valued at K3 million or less. This presents a tremendous opportunity in manufacturing and trading for MSMEs.

- Government will continue to promote strategic local industries with a comparative advantage and source markets for Zambian products through trade blocks such as the Tripartite and continental Free Trade Area.

- To enable local contractors participate in road infrastructure development, Government has deliberately reserved some road projects for citizen owned company with at least 50% Zambian shareholding in the link Zambia 8000 programme. Further participation in the road construction by Zambian companies will be under the continuing L400 in Lusaka and soon to be launched C400 on the Copperbelt.

- The revenue measures taken such as removing the 15% and 5% customs duty rates applicable on green houses and rose seedlings respectively will go a long way in promoting SMEs economic activities.

- SME's will continue to benefit from allocations to various allocations to infrastructure such as learning and health institutions.

- The National airline is scheduled to be operational in 2016. This together with the continued rehabilitation of key infrastructure such as access roads to tourist sites, airports and cultural centres should boost tourism creating more opportunities for SMEs

Tourism

- Government will continue to develop and rehabilitate key infrastructure such as :
  - access roads to tourism sites;
  - airports; and
  - cultural centres

- Progress has been made towards establishment of a national airline scheduled to start operating in 2016

- The Tourism and Hospitality Act of 2015 will be operationalised in 2016.

- K498.4 million has been allocated to the upgrading and expansion of the Kenneth Kaunda International Airport (KKIA) and establishment of a national airline.

Construction and infrastructure development

- The Government will continue to work on the construction of the Lubwa, Chalimbana and Palabana Universities.

- The Government also plans to commence the construction of King Lewanika University in Western Province, Luapula University in Luapula Province and the three university colleges in Katete, Nalolo and Solwezi.

- 2,500 water points to be constructed which will comprise mainly boreholes equipped with hand pumps, small piped water schemes and rehabilitation of 700 dysfunctional water points.

- With regard to rural sanitation and hygiene, the Government will construct 500 institutional facilities and continue to promote community led approaches to sanitation.

- Rehabilitation and construction of water supply and sanitation infrastructure in various urban towns under the 11 water and sewerage utility companies to increase access to improved sanitation from the current 57 percent to 60 percent.

- A total of K468.8 million has been allocated for amongst-others the rehabilitation and construction of water supply and sanitation infrastructure and, implementation of housing development programmes.

2016 Sectoral Impact (Continued)

Construction and infrastructure development (continued)

- Rehabilitation of prison infrastructure and completion of the construction and rehabilitation of police stations and posts is among the key interventions included in the allocated K1.8 billion towards public order and safety.

- The Government will also focus on completing the construction of health facilities and continue with the construction of regional drug supply hubs.

- The Government further plans to construct engineered land fill to better manage waste and ensure a cleaner environment.

- K498.4 million has been allocated for the upgrading and expansion of the Kenneth Kaunda International Airport and establishment of a national airline.

- K1.0 billion is earmarked for various infrastructural projects such as schools, universities and trades training institutes.

- The Government will continue with the construction and rehabilitation of livestock extension service centres and satellite insemination centres.

Fiscal policy

- Government will act to consolidate the fiscal position by ensuring that Government expenditure is primarily financed from domestic revenues. This is in view of the prevailing adverse economic conditions.

- Government has drastically reduced allocation for non-core recurrent allocations by more than 50 percent and has taken measures to enhance domestic revenue mobilisation.

- The fiscal deficit in 2016 is projected to reduce to 3.8 percent of GDP.

- Domestic borrowing by Government will be limited to 1.2 percent of GDP in 2016, in order to create more room for private sector borrowing.

- VAT registered vendors to use electronic fiscal cash registers that will be interfaced with the TaxOnline System to improve compliance.

Fiscal policy (continued

- To accelerate the implementation of an Electronic Cargo Tracking System to mitigate revenue leakages through transit fraud.

Energy

- The Government is alive to the negative effects of the electricity deficit that the country is experiencing. This has resulted in load shedding which has a real cost to the economy in terms of loss of production and therefore lower income.

- As a long term solution the Government recognises the need to promote private sector participation in the generation of electricity with a number of projects in the pipeline such as the 300 megawatts coal-fired thermal plant in Maamba which is near completion.

- To encourage private sector investment in electricity generation and ensure that investors get a fair return on their investments, electricity tariffs will continue to be adjusted to make them cost reflective which is believed will encourage speedy completion of private sector pipeline projects such as the 150 megawatts Kalungwishi hydro power station and in excess of 300 megawatts from other thermal power projects that are likely to happen soon.

- The 120 megawatts hydro power generation project at Itezhi-Tezhi is expected to come on stream next year.

- The other energy generating projects in progress include the upgrading of the following:

  - Chisamba falls mini hydro power plant from 6 megawatts to 14.8 megawatts;
  - Musanda falls mini-hydro power plant from 5 megawatts to 10 megawatts and;
  - Lusiwasi mini- hydro power plant from 12 megawatts to 101 megawatts;

- The Government expects that once all these projects come on stream, the energy sector will emerge as one of the major sources of foreign exchange.

2016 Sectoral Impact (Continued)

Energy (continued)

- The Government's policy on the petroleum sub-sector will be to continue with a cost reflective pricing system and ensure a stable supply of fuel to all parts of the country. This is also expected to be achieved by promoting private sector participation in the sub-sector.
- To facilitate rural access to electricity, K118.2 million has been allocated to the Rural Electrification Programme.
- In addition to the above interventions to encourage the development of sustainable and alternative sources of energy the following measures have been proposed;
  - increase the capital allowance for implements, machinery and plant used in the generation of electricity to 50% from the present 25%;
  - extend the 10 year period for carrying forward of losses for businesses engaged in the generation of electricity using hydro and thermal, to businesses generating electricity using other sources of energy such as wind and solar but excluding wood.
  - increase the period for claiming input Value Added Tax, as an intending trader for electricity generation to 4 years from 2 years; and
  - remove the 5 percent customs duty on Pitch Coke and the 15 percent customs duty on Petroleum Coke

Education and Skills Development

- To increase access to quality education, Government will focus on completion of various education infrastructure currently under construction. This includes early childhood, primary and secondary facilities. K1.0 billion is earmarked for various infrastructural projects such as schools, universities and trades training institutes.
- In order to reduce the pupil – teacher ratio at all levels, teacher recruitment and retention will continue. K217.8 million has been planned for the recruitment of an additional 5,000 teachers.

Education and Skills Development (continued)

- To enhance the cognitive ability of vulnerable children and encourage school attendance, K35.6 million has been allocated to the rolling out of the School Feeding Programme. This has proven to be very successful especially in rural schools.
- Government will continue to roll-out the revised education curriculum in 2016 which focuses on among other things inculcating information and technology skills in children at an early age.
- Piloting of the two-tier education system, which gives learners an option to pursue an academic or vocational pathway, will be scaled up in 2016. The first pilot of the system was at secondary schools that are located around Chipata, Nkumbi and Mansa Trades Training Institutes.
- Government will continue construction work at Lubwa, Chalimbana and Palabana Universities. This is in addition to the expansion of student accommodation at the Universities of Zambia, Copperbelt University, Mulungushi University and Evelyn Hone College.
- Government will operationalise Robert Makasa University in Muchinga Province and commence the construction of King Lewanika University in Western Province, Luapula University in Luapula Province and the three university colleges in Katete, Nalolo and Solwezi.
- K311 million has been allocated towards the implementation of the Student Loans Scheme for university students.

Mining

- Although it remains the major contributor to the GDP, the mining sector did not perform well mainly due to low copper demand, low copper prices and electricity constraints.
- Government has been actively engaging mining companies to minimise job losses and to keep the mines operational in view of the challenges faced.
- Government plans to exploit opportunities for diversification from copper to other minerals such as gemstones, manganese, diamonds and gold.

2016 Sectoral Impact (Continued)

Mining (continued)

- Copper prices were estimated to have fallen from an average of US$6,829 per metric tonne in 2014 to US$5,160 per metric tonne in 2015.

Health

- Government will in 2016 focus on completing the construction of health facilities and the recruitment, retention and training of frontline medical personnel.
- Government will continue with the construction of required drug supply hubs in order to decentralise and improve storage and distribution of essential medicines.
- In order to achieve universal health coverage, Government will continue to undertake social protection reforms, including establishment of the National Social Health Insurance Scheme.
- A total budget of K4.4 billion has been allocated to the health sector.

Social, water and sanitation

- The Social Cash Transfer Programme has proved to be the most effective tool in providing assistance to vulnerable households. The programme will be significantly scaled up and in 2016, a total of 250,000 vulnerable beneficiaries will be targeted.
- A total of 50,000 beneficiaries will be targeted in 2016 under the Public Welfare Assistance Scheme. This among other things will provide vulnerable children with access to education and skills training.
- Government plans to create employment opportunities through accelerated implementation of programmes such as the Industrialisation and Job Creation Strategy and the Youth Empowerment Action Plan.
- Government plans to bring a Bill to Parliament with a view to actualise the pension reforms in order to address the challenges with the Public Service Pension system.
- His Excellency the President has directed revisions to the Former Presidents' Benefits Act with a view of reducing his benefits, as a first step to reforms towards equitable pensions.

Social, water and sanitation (continued)

- Government plans to increase rural access to clean and safe drinking water from 67 percent to 69 percent and to sanitation from 44 percent to 47 percent, mainly through construction and rehabilitation of boreholes. In urban and peri-urban areas, access to clean and safe drinking water will be increased from 87 percent to 89 percent while access to improved sanitation will be increased from 57 percent to 60 percent.
- Government plans to revise the Water Supply and Sanitation Act No. 28 of 1997, in order to facilitate the implementation of the water supply and sanitation programmes in the country.

Manufacturing

- The growth of the manufacturing sector remains critical in the Government's efforts to diversify the economy and in this regard it remains committed to continue addressing the challenges faced by the Micro, Small and Medium Enterprises such as access to finance, markets and technology and the development of entrepreneurial skills. These interventions are expected to speed enterprise growth and contribute to job creation.
- Other key interventions include the Value Chain Cluster Development Programme which is designed to promote local value addition. Under this programme, the Government is currently supporting more than 1,800 projects in activities such as mango juice production and processing of fish, rice, dairy, cotton, honey and forestry products. These projects are being implemented in 42 districts countrywide thereby creating opportunities for employment and income generation especially for the women and youth. In the medium term, Government plans to expand this programme with a view to creating at least 100,000 Micro-Small and Medium Enterprise jobs predominantly in rural Zambia.
- The Government plans to continue providing targeted incentives in designated areas such as Multi-Facility Economic Zones to attract further investment and create more jobs in the manufacturing sector.
- The Government will further recapitalise the Development Bank of Zambia, National Savings and Credit Bank and empowerment agencies to enable them provide affordable financing to Micro, Small and Medium Enterprises.

2016 Sectoral Impact (Continued)

Manufacturing (continued)

- To further support the growth of manufacturing enterprises, the public procurement guidelines were revised to support local manufacturers. In this regard, from 1 September 2015, it became mandatory for all public sector departments to procure locally manufactured goods for all contracts that are valued at K3 million or less. The Government recognises the importance of accessing export markets particularly for non-traditional exports as being essential to economic diversification and therefore pledges to continue promoting strategic local industries which have comparative advantage and secure markets for Zambian products in the region and beyond through trade blocks such as Continental Free Trade Areas.

- To improve the competitiveness of locally manufactured products, the Government has restructured the Zambia Bureau of Standards and the Zambia Weights and Measures Agency to enable them effectively monitor the quality of domestically produced goods to meet international standards.

- In order to provide an enabling environment, spur local manufacturing and curb smuggling, excise duty on clear beer will be reduced to 40 percent from 60 percent.

Public Sector

- Government has transferred its shares in 29 out of 33 State - Owned Enterprises from the Ministry of Finance to the Industrial Development Corporation. This is aimed at enhancing the strategic focus of parastatals in order to maximise their contribution to national development. The following have been transferred:

    - Afrox Zambia Plc, Engineering Services Corporation, Indeni Petroleum Refinery Limited, Kagem Minerals Limited, Kariba Minerals Limited, Lusaka South Multi-Facility Economic Zone Limited.

    - Lusaka Trust Hospital, Medical Stores Limited, Mpulungu Harbour Corporation Limited, Mukuba Hotel Limited, Mulungushi Village Complex Limited, Mupepetwe Development Company.

    - Nanga Farms Limited, Nitrogen Chemicals of Zambia Limited, Times Printpak Zambia Limited, Zambia Daily Mail Limited, Zambia Electricity Supply Corporation (ZESCO), Zambia Forestry and Forest Industries Company.

Public Sector (continued)

    - Zambia International Trade Fair Limited, Zambia Printing Company, Zambia Educational Publishing House Limited, Zambia Railways Limited, Zambia State Insurance Corporation, Zambia-China Mulungushi Textiles Limited.

    - Zamcapital Enterprises Limited, Zamtel Limited, ZANACO PLC, ZCCM Investment Holdings PLC, Indo-Zambia Bank Limited

- The Planning and Budgeting Bill aimed at integrating planning and budgeting will be presented to Parliament for enactment.

- The Public Finance Act is being reviewed to foster and improve accountability and transparency in the management of public resources.

- Implementation of the pilot Output Based Budget (OBB) is now underway. An evaluation of this pilot will be undertaken in early 2016 and, on the basis of the results, decisions will be taken about how the pilot may be rolled out in 2017.

- Output Based Budgets have been prepared by the Ministries of General Education and Higher Education for 2016.

- The roll-out of the Integrated Financial Management Information System to line Ministries, Provinces and other Spending Agencies will be completed in 2016 and will improve financial accounting and reporting.

- To enhance cash management, Government has commenced the operationalisation of the Treasury Single Account. All payments by the Ministry of Finance are now made through the Treasury Single Account. The full roll – out of the Treasury Single Account will be completed in 2016.

- To enhance transparency in the Mining sector, development of the Mineral Output Statistical Evaluation system for monitoring of the country's mineral value chain has reached an advanced stage. The prototype has been developed and the piloting of the system is expected in the fourth quarter of 2015. The full roll-out and implementation is targeted for June 2016.

Review of 2015 Economic Performance

Overview

Key Performance Indicator	31 Dec 2015 (Projected)	31 Dec 2014 (Actual)
Gross Domestic Product (GDP)	4.6%	6.7%
Inflation	8.0%	7.1%
Commercial bank base lending rate	20.5%	16.5%
US$ Exchange rate (30 September 2015)	12.02	6.40
Non-traditional export earnings (US$bn)	1.8	2.49
Domestic Government debt stock (Kbn)	26.5	23.5
Foreign debt stock (US$bn) (30 August 2015)	6.3	4.8

- In the domestic economy, real GDP growth is projected at 4.6 percent in 2015, down by 2.1 percentage points compared to 2014. The reduction in growth is due to weaker global economic activity, especially in China and the Eurozone which has affected the copper prices. The poor rainfall last season also led to an unfavourable performance of the agricultural sector. Further, electricity supply constraints in 2015 will affect output across all sectors of the economy. Production of maize was expected to decline by 21.9 per cent to 2.62 million metric tonnes from 3.35 metric tonnes in the 2013/2014 season.

- The overall budget deficit in 2015 is projected at K20.0 billion, higher than the K8.5 billion factored in the 2015 budget. The 2015 Budget deficit is expected to widen to 6.9 percent of GDP from the projected 4.6 percent of GDP.

- The goal of the monetary policy in 2015 is anchored on maintaining single digit inflation. As at end of September 2015, the inflation rate had decreased to 7.7 percent from 7.9 percent in December 2014. This was on account of non- food prices which reduced appreciably. Despite the increase in the inflation pressures, maintenance of a single digit inflation rate remains feasible, premised on measures taken to limit the slide of the Kwacha.

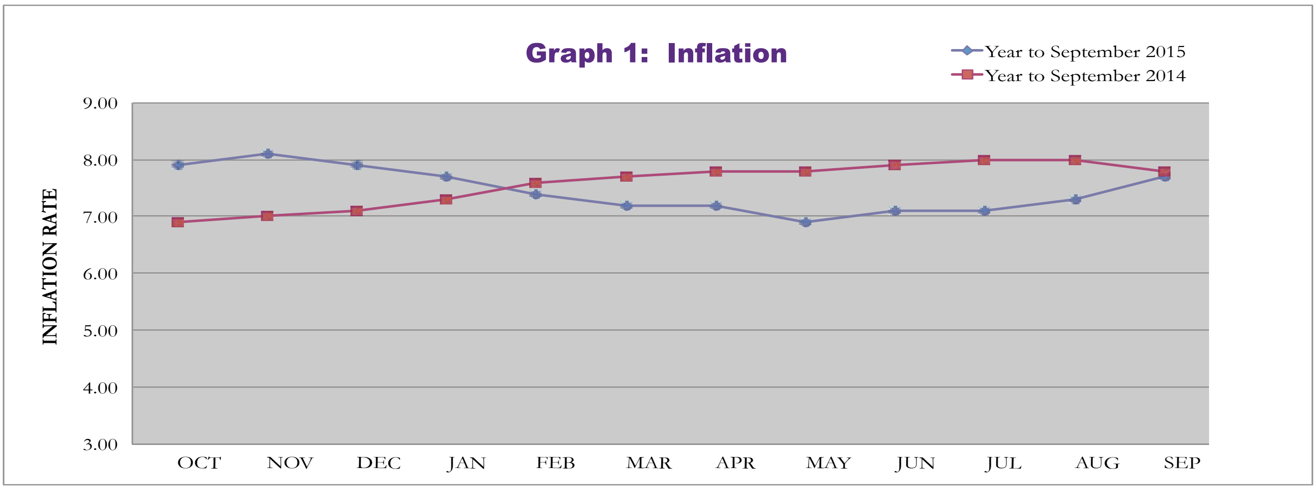
- In the foreign exchange market, the Kwacha depreciated by 88% percent in the first part of 2015 to close at K12.02/US$1 as at 30 September 2015 compared to 31 December 2014 when it closed at K6.40/US$1. The depreciation of the Kwacha was attributed to a combination of international and domestic factors. The continued relatively lower copper prices in 2015 compared to 2014 on the international market, and their consequent impact on the country's Balance of Payment (BOP) position resulted in negative investor perceptions of the Kwacha. International factors included the general strengthening of the US Dollar, low copper prices and noticeable reduction in foreign portfolio investment inflows.

- Domestic credit increased by 20.9 percent in the first eight months of 2015 to K27.2 billion from K22.5 billion in December 2014. In terms of commercial bank credit by sector, households (personal loans category) continued to account for the largest share of outstanding credit. This was followed by agriculture, manufacturing, wholesale and retail sectors. Access to credit was inhibited by the high interest rates, which, although stable at around 20.5 percent, continued to be prohibitive.

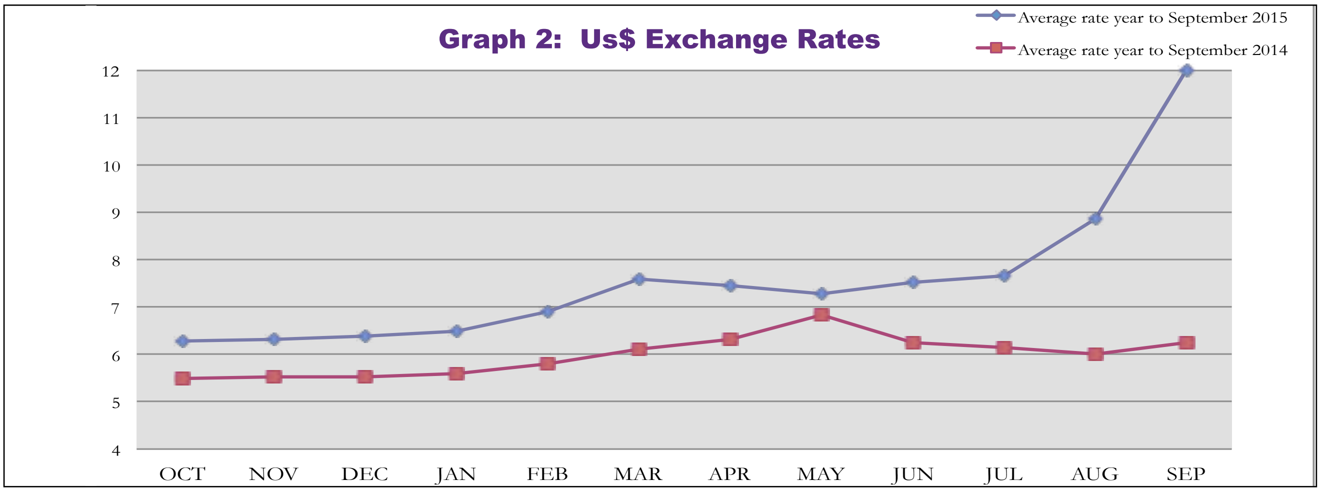
- During most of 2015, Zambia's external sector performance was unfavorable compared with the performance recorded during the corresponding period in 2014. Preliminary data indicates that in the first half of 2015, the current account deficit widened to US$386 million from US$179 million recorded in the first half of 2014. The deficit was largely attributed to unfavourable performance in the current accounts, which in turn were adversely affected by the sluggish performance of the global economy and consequent effect on lower prices for copper, cobalt and gold.

- Over the same period, Non-Traditional Export (NTE) earnings declined by 20 percent to US$0.9 billion from US$1.1 billion recorded in 2014. The decline in NTEs was largely on account of lower earnings from the export of electrical cables, gemstone, cement, sulphuric acid, fresh fruits and vegetables.

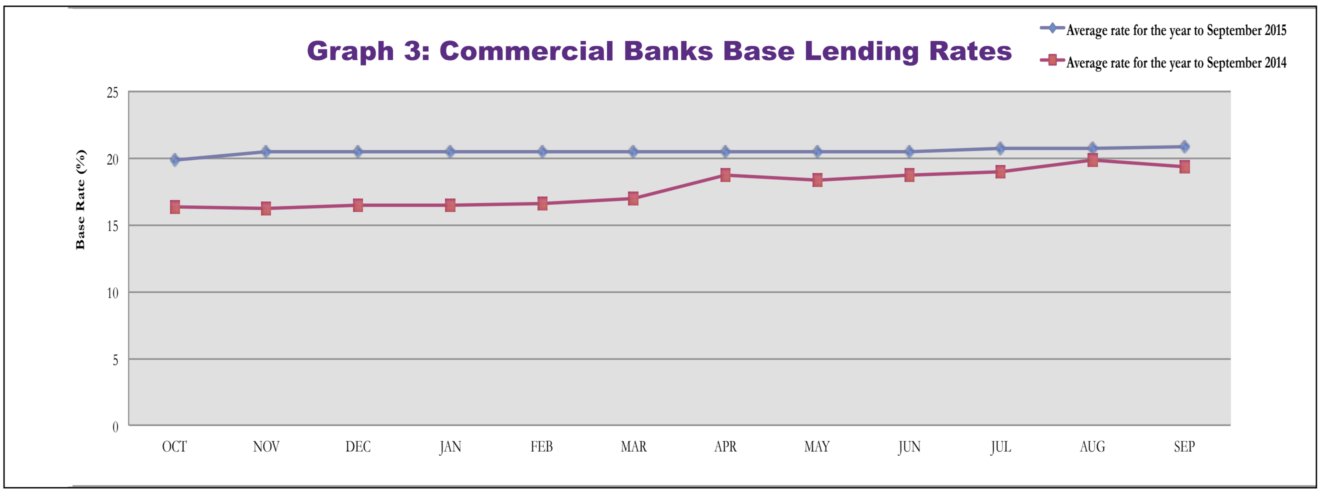
Review of 2015 Economic Performance (Continued)



Source: Central Statistical Office



Source: Bank of Zambia



Source: Bank of Zambia

Review of 2015 Economic Performance (Continued)

Transport and Telecommunications

In the 2015 Budget, Government planned to continue with major road infrastructure namely Link Zambia 8000, L400 and Tolling at Weigh Bridges and ports of entry. Other road works were also planned for maintenance and procurement across the country.

During 2015, the following major activities took place:

- Identification of six (6) commercially viable roads for Public Private Partnership covering about 2,200kms;
- Approval of the C400 project for the rehabilitation and construction of township roads on the Copperbelt covering about 408kms;
- Completion of surfacing of about 147kms of the L400 project in Lusaka;
- Implementation of the road maintenance strategy from 2015-2024, whose priorities include:
  - Full utilisation of installed freight capacity for TAZARA and Zambia Railways
  - Identification of Greenfield railway lines.
  - Transfer of Rural Roads Unit to Zambia National Service (ZNS), to cover about 10,000kms
- Procurement of cargo and passenger vessels as well as marine patrol boats;
- Procurement and distribution of dredging machines for clearance of water canals.
- Working on modernisation of the port of Mpulungu, Zambezi/Shire waterways and Shan'gombo/Rivungu canal
- Commencement of the modernisation and upgrading of airport infrastructure including international airports, provincial and selected district aerodromes at an estimated cost of US$1.7 billion.
- Progress in establishing a national airline
- Successful completion of phase one of the migration from analogue to digital terrestrial television transmission.
- Enhancement of e-Government for ease of access to GRZ services and information online.

Construction

- The Government remained committed to the provision of affordable and quality housing for its citizens by facilitating investment in cement production. Dangote plant in Ndola was duly commissioned and led to an immediate reduction in the price of cement.
- Construction of the Cancer Disease Hospital in Lusaka has been completed. This is expected not only to cater for treatment of local cancer patients but will also promote medical tourism from the region and beyond.
- The Government commenced construction of eight new District Hospitals to include Vubwi, Ikeleng'e, Mufulira, Mafinga, Mansa, Nalolo, Limulunga and Chilubi Island.
- Construction of 3,000 student capacity facility in Lusaka at Levy Mwanawasa Hospital commenced in March 2015. The construction and rehabilitation programme has been extended to other Health training schools across the country.
- Construction works at Lubwa, Chalimbana and Palabana Universities are progressing well.
- Construction of Robert Makasa University in Muchinga Province has been completed.

Tourism, Arts and Culture

- In 2015, Government approved expenditure of K3.5 million towards the creation of a National Arts and Culture Heritage Commission.
- Infrastructure development has continued in particular, access roads and airports to enhance accessibility to tourism sites and attractions
- Total tourist arrivals up to March 2015 were 207,306. Total tourist arrivals up to December 2014 were 946,969.
- From January to June 2015, the total of international tourists visiting the four major parks was 30,372 whereas 10,981 local/domestic tourists visited the same parks during the period.

Review of 2015 Economic Performance (Continued)

Energy

- At the beginning of the year 2015 the pump prices of petrol, diesel and kerosene were reduced twice in a row due to lower international prices for crude oil.
- After the second quarter of 2015 the prices of petrol, diesel and kerosene were increased due to the depreciation of the Kwacha.
- A consignment of crude oil received at Indeni in June/ July had a high acidic content which led to corrosion of some sections of Indeni Petroleum Refinery. This caused challenges on the supply side of the petroleum products though the impact was short-lived.
- No significant progress seems to have occurred or has been publicised on the oil and gas exploration in the blocks that were allocated.

Energy (continued)

- The Energy Regulation Board (ERB) has become more vigilant in regulating the construction and safe operations of filling stations. A grading system based on the suite of services that customers can access at any particular filling station has been introduced.
- The Country experienced significant shortfall in the supply of electricity in 2015. This has been attributed to lower than expected levels of water in the dams used to supply water to the generating plants. This resulted in widespread load shedding.
- Economic output in 2015 will be dampened by this shortage of electricity.
- The country's generation capacity in 2015 is estimated as follows:-

Project	Project Runner	Source	Installed Capacity (MW)
Kafue Gorge	ZESCO	Hydro	990.00
Kariba North Bank	ZESCO	Hydro	720.00
Kariba North Bank Extension	ZESCO	Hydro	360.00
Victoria Falls	ZESCO	Hydro	108.00
Lunsemfwa & Mulungushi	Lunsemfwa Hydro Power Co. (IPP)	Hydro	56.00
Ndola Energy	Ndola Energy Co. (IPP)	Thermal	50.00
Thermal (Diesel)	ZESCO	Thermal	1.00
Lunzua	ZESCO	Hydro	14.80
Lusiwasi	ZESCO	Hydro	12.00
Musonda Falls	ZESCO	Hydro	5.00
Shiwang'andu Mini Hydro	ZESCO	Hydro	1.00
Zengamina Power Limited	Zengamina Power Limited	Hydro	0.75
			2,318.55

- The generation of power at the main plants at Kariba and Kafue Gorge are significantly lower than the installed capacity.
- Cabinet has approved the increase in the price of electricity from 5.64 cents to 10.35 cents per kilo watt hour so as to encourage the private sector to invest in the industry.
- The company is importing about 148 MW from Mozambique to cushion the impact of the shortfall in local supply.

Review of 2015 Economic Performance (Continued)

Energy (continued)

- The Rural Electrification Authority (REA) has continued to connect various rural areas and new districts to electricity supply.
- ZESCO has continued to work on various transmission and distribution lines such as:-
  - Zimbabwe-Zambia-Botswana-Namibia (ZIZABONA) 330 KV interconnector
  - Pensulo to Chipata 330 KV
  - Pensulo to Kasama 330 KV
  - Kariba North Bank to Kafue West 330 KV
  - Itezhi Tezhi – Mumbwa-Lusaka West 330 KV
  - Kafue Town – Muzuma – Livingstone 220 KV
  - Chipata – Lundazi – Chama 132 KV
  - Lusaka South MFEZ
  - Connection of North Western to the national grid
  - Connection of Nyimba-Petauke
- Various solar projects have been proposed and are at various stages of planning.

Education

- In order to promote synergies in the planning, implementation, monitoring, evaluation and coordination of national programmes the Ministry of Education, Science, Vocational Training and Early Childhood Education has been split into the Ministry of General Education and the Ministry of Higher Education.
- In 2014, 1,526 Early Childhood Education Centres became operational countrywide with an initial enrolment of 70,000 learners. The centres are mainly in the rural and remote areas.
- 220 basic schools are being upgraded into secondary schools. Government is also expanding the secondary school sub-sector by constructing new boarding and day schools. This will result in the creation of over 100,000 spaces for learners.
- Construction works at Lubwa, Chalimbana and Palabana Universities are progressing well.
- Construction of Robert Makasa University in Muchinga Province has been completed and the Ministry of Education is working on its operationalisation.

Education (continued)

- Construction of King Lewanika University in Mongu and Luapula University in Mansa is planned to commence before the end of the year.
- 2,700 teachers are under-going fast-track continuous professional development in mathematics and sciences at various universities to help reduce the acute shortage of suitably qualified teachers of mathematics and sciences in secondary schools.

Parastatal sector

- Government has transferred its shares in 29 state-owned enterprises incorporated under the Companies Act and the Banking and Financial Services Act to the Industrial Development Corporation (IDC).
- In August 2015, Government transferred to the Industrial Development Corporation all the 96,926,669 Class 'A' shares representing 60.3% shareholding in ZCCM-IH.
- The 27,961,237 Class 'B' shares representing 17.4% shareholding have not been transferred to the IDC and are being sold to the Zambian public under a Preferential Secondary Market Offer.

Health

- Government has continued to invest in the health sector to improve the quality of health.
- The main investments include completion of the Cancer Diseases Hospital in Lusaka, transformation of Livingstone from General to Central and teaching hospital status and construction works of thirty-eight district hospitals in progress.
- Alongside these developments, the health statistics show progress in the health status of the people. Maternal mortality has declined from 591 to 398 deaths per 100,000 live births in 2014. Less than five years of age mortality has declined from 119 to 75 per 1,000 live births in 2014. Infant mortality and neonatal mortality rates have declined from 70 to 45 per 1,000 live births and 37 to 24 per 1,000 live births in 2014 respectively.

Review of 2015 Economic Performance (Continued)

Social

- The National Social Protection Policy (NSPP) was formulated and its implementation approved by Cabinet.
- In March 2015, draft guidelines and minimum standards on the protection of older persons in institutional homes were developed.
- Government is implementing social protection programmes such as the Social Cash Transfer Scheme, social welfare, food security pack, and women and youth empowerment.
- By May 2015, the total number of beneficiary households for the Social Cash Transfer Programme increased to 145,698 from 145,000 in 2014.
- Government is also reforming the social security system to among others address the plight of retirees. Government is also developing a national social health insurance scheme to enable all citizens access quality health services.
- The Mansa place of safety for victims of Gender Based Violence (GBV) continued to receive funding.
- Government is investing in affordable and quality housing for citizens by facilitating investment in cement production.
- Under community development, a total of 1,400 women clubs and associations received grants by August 2015, benefiting over 6,000 women in 53 districts.

Financial and monetary

- The Government projected an inflation rate of no more than 7.0% for 2015. At September 2015, the inflation rate declined to 7.7% from an average recorded inflation of 7.9 per cent in December 2014.
- The Kwacha has suffered unprecedented depreciation against the United States Dollar and other major trading partner currencies. Against the Dollar, the exchange rate has moved from K6.40/US$ 1 as at the beginning of the year to K12.02/US$1 as at 30 September 2015.
- The depreciation of the Kwacha is attributed to a number of factors which include:
  - General strengthening of the US Dollar.

Financial and monetary (continued)

  - The falling copper prices and production.
  - Load shedding of electricity which has impacted production negatively.
  - The Government's budget deficit which is expected to be higher than planned.
  - Uncertainty over performance of the mining sector.

- To moderate the impact of some of these factors, Bank of Zambia sold foreign exchange to the market and tightened monetary policy through an upward adjustment in the statutory reserve ratio and use of open market operations.
- The fall in the copper prices has reduced Zambia's foreign exchange earnings to about US$3.6 billion in the first half of 2015 from US$5.0 billion over the same period.
- At end of September 2015, Zambia's gross international reserves stood at US$3.6 billion compared to US$3.1 billion at end of December 2014, representing 4.4 month of import cover.
- Credit to the private sector increased by 20.9 percent to K27.2 billion as at end of August 2015 from K27.5 billion as at end of December 2014. The growth in domestic debt was, however, constrained by high monetary conditions necessitated by the need to curtail inflation.
- Access to credit was inhibited due to high interest rates which although high stabilied at about 20.5%.
- The financial sectors performed satisfactorily over 9 months to September 2015 with total assets and earnings increasing, capital adequacy position strong while the overall liquidity position remained fair.
- The number of adult Zambians with access to financial services increased to 59% in 2015 from 36% in 2009.
- The stock of Government debt increased by 31% to US$6.3 billion as at end of August 2015 from US$4.8 billion as at end of December 2014, mainly on account of the US$1.25 billion Eurobond issued in July 2015.
- The total external debt service for 9 months to September 2015 was US$225.4 million. Domestic debt as at end of September 2015 was about K26.5 billion compared to K23.5 billion as at end of December 2014.

Review of 2015 Economic Performance (Continued)

Micro Small and Medium Enterprises (MSME's) and the Capital Markets

- The LuSE all share index dropped by 6% to 5826.42 points as at August 2015 from 6208.6 points as at August 2014. The market capitalisation was at K64.658 billion at August 2015, an increase of 3% year on year.

- Trading activity on the Lusaka Stock Exchange fell sharply; year on year as at August 2015, the volume of shares traced was 106,945 (K723.5 billion) compared to 286,381 (K913.070 billion), a decrease of 63% and 21% in number and value respectively.

- The Alternative Investment Market was launched in April 2015 to cater for emerging corporates that are yet to meet the listing requirements on the main window.

- The number of listed companies has remained the same at 23 from January 2015 to date.

- Four companies, namely Professional Insurance Plc, Veritas General Insurance Plc, Finance Bank Plc, and Ikulileni Investments Plc were quoted. This brought the number of quoted companies to 12.

- The number of authorised Investment schemes increased to 8 with the addition of Mukuyu Growth Fund.

- Zambeef Products Plc disposed off Zamanita to Cargill for a cash consideration of USD25.7 million payable on completion date.

- Engineering Institution of Zambia Properties Plc offered 30,000,000 shares of par value K0.01 at an offer price of K2.00. The offer opened on 4th May 2015 and closed on 1st June 2015.

- In June 2015, GRZ completed the sale of 15,850,631 of its 43,811,868 Class "B" shares in ZCCM-IH to NAPSA as Tranche 1 of the sale-down, which resulted in GRZ's shareholding reducing from 87.5% to 77.7%. Tranche 2, being 27,961,237 Class "B" shares in ZCCM-IH, were offered to further reduce GRZ shareholding to 60.3%, with first preference given to investors that meet the Preferred Applicant criteria, and secondly to any other investors with no restrictions on the domicile of the investor ("General Applicants").

Agriculture, Forestry and Fisheries

- Agriculture contributes about 10% to Zambia's Gross domestic products and employs approximately 67% of the Zambia's workforce. The sector is a main source of raw materials for industry and a contributor to foreign exchange earning other than the mines. However, the industry is vulnerable to environmental calamities such as drought and flooding.

- Total area planted for all major crops moderately decreased by 7.25% from 2.892 million hectares in the 2013/2014 season to 2,683 million in the 2014/2015 season. The decrease is attributed to the late on set of rains and it's poor distribution throughout the period. As a result, the yield rates for most of major crops decreased in 20214/2015 as compared to 2013/2014

- Barley continues to register the largest decline in both the area planted and expected production of 76,02% and 74.97% respectively.

- The national average yield rate (metric tonnes per hectare) for maize had decreased from 2.36 in 2013/2014 season to 1.75 in 2014/2015.

- Cotton production continued on a downward decline trend in the 2014/2015 season decreasing by 13.65% to 10,389 metric tonnes from 120,314 metric tonnes in 2013/2014 season.

- Soya beans production has increased in 2014/2015 season by 5.67% to 226,326 metric tonnes from 214,179 metric tonnes in the 2013/2014 agricultural season. The increase is attributed to the oil industry expansion in the country.

- The natural food balance sheet for 2014/2015 marketing season showed that the country had sufficient maize for both human consumption and industrial use. However, the food balance sheet recorded an anticipated deficit in wheat amounting to 64,081 metric tonnes while for paddy rice a deficit of 35,000 metric tonnes was recorded. Cassava recorded a significant surplus of 111,825 metric tonnes.

Review of 2015 Economic Performance (Continued)

Agriculture, Forestry and Fisheries (continued)

- Livestock population continued to show an upward trend in 2015 compared to previous year.

The table below highlights this growth.

Table : 2014-2015 Livestock Numbers

Year	Cattle	Pork	Poultry	Goat	Sheep
2014	4,026,658	1,098,951	122,605,273	3,023,585	101,,456
2015	5,319,277	1,533,402	146,055,266	3,538,785	115,338
%Change	7.27	39.53	19.13	17.04	13.68

(Source: Ministry of Agriculture and Livestock)

- To support this growth in the livestock sector, a total of 152 livestock services centres are under construction and 104 • are already operational.

The table below provides the summary the infrastructure development.

Table : Summary Of Livestock Infrastructure

	Livestock service Centres	Milk Collection Centre	Livestock Breeding Centres	Artificial Insermination Services Centres
National Totals	152	54	15	17
Operational	104	54	15	17

- It is estimated that the aquaculture production for the first half of 2015 has already surpassed what was produced in 2014 during the same period. However, due to the water stress the country has experienced, the small and medium scale fish farming for 2015 is likely to be negatively affected.

Mining

- The performance of the mining sector in the first half of 2015 remained favorable despite the significant drop in metal prices. This was reflected by the increased production of copper, gemstones and coal. Production of gold, however, declined.

- Copper output increased by 2.5 percent to 332,807 Mt compared to 324,651 Mt in the corresponding period in 2014. This outturn was largely on account of increased production at Lumwana mine, continued processing of stockpiled ore and ramping-up of production at Lumwana and Mulyashi mines, respectively.

- In the first half of 2015, a total of 5,444 kg of Emerald/Beryl were produced compared to 2,708 kg of Emerald/Beryl in the corresponding period in 2014. This outturn was on account of favourable prices that rose to US$3.72 per carat in February 2015 from US$1.34 per carat in the 2014 auction.

- Gold production declined by 16.9 percent to 2,109kg from 2,539 kg recorded in the corresponding period in 2014. The decline in gold output is mainly due to reduction in copper output at Kansanshi mine, a major gold producer.

Budget Highlights

Taxation

The Honourable Minister of Finance in his Budget Speech indicated that the main objectives of the revenue measures are to raise adequate resources for various development programmes with the need to generate these resources in an equitable and efficient manner.

Personal Taxation

No changes have been made to the tax bands in the 2016 Budget. The Tax Bands therefore remain as they were for the Fiscal Year to 31 December 2015.

Year to 31st December 2016

	%
First K36,000 per annum	Nil
Next K9,600 per annum	25
Next K25,200 per annum	30
Above K70,800 per annum	35

Year to 31st December 2015

	%
First K36,000 per annum	Nil
Next K9,600 per annum	25
Next K25,200 per annum	30
Above K70,800 per annum	35

The effects of these measures are that:

- a 30% rate will apply to income above K3,800 per month; and
- a top rate of 35% will apply on income above K5,900 per month.

Budget Highlights (Continued)

Company Tax	**31 December 2016 %**	**31 December 2015 %**
Tax rates		
Farming		
- Local	10	10
- Export of cotton	35	35
Rural manufacturing business for first 5 years	30	30
Export of non-traditional products	15	15
Other sources:		
- Manufacturing	35	35
- Others	35	35
- Fertilizers	10	10
Trusts, deceased or bankrupt estates	35	35
Banks	35	35
Companies listed on the Lusaka Stock Exchange:		
- Existing	33	33
- New (only for the first year the company gets 2% discount on the applicable tax rate).		
- New with more than 33% shares held by indigenous Zambians (the 5% discount appeared to the particular rate of incone tax).	32.5	32.5
Mining:		
- All other mining companies (mining industrial minerals)	30	30
- Tolling	30	30
- Income earned from processing of purchased Mineral ores, concentrates and any other Semi – processed minerals	30	30
- Mineral royalty: (final tax)		
- Underground mining operations	9	9
- Open cast mining operations	9	9
- Capital allowances		
Rate for capital equipment	25	25
- Implements, machinery and plant used in the generation of electricity	50	25
- Capital expenditure on new projects to be ring-fenced and deductible when production commences.		
- A reference price deemed to be at arm's length, will be the basis for assessing of mineral royalties on base metals, gemstones and precious metals. The reference price shall be the price tenable at the London Metal Exchange, Metal Bulletin or any other commodity exchange market recognized by the Commissioner General.		
Telecommunications:		
- On income up to K250 million	35	35
- Excess income	40	40

Budget Highlights (Continued)

Company Tax (continued	**31 December 2016 %**	**31 December 2015 %**
Others:		
- Carry forward of losses for 10 years for the energy sector extended to businesses generating electricity using other sources of energy such as wind and solar.		
- Companies with turnover of K800 million and below (Income tax will be on turnover)	3	3
- Advance income tax on commercial imports by non registered traders	6	6
- Refund of up to 15% of expenses incurred in shooting movies locally		
Withholding Tax		
Individuals		
- Interest (final tax)	15	15
- Dividends (final tax)	15	15
- Dividends earned by individuals from companies listed on LuSE	0	0
- Royalties, management and consultancy fees - resident	15	0
- Royalties, management and consultancy fees – non-resident	20	20
- Rents (final tax)	10	10
- Commissions - resident	15	15
- Commissions - non - resident	20	20
- Gaming, lotteries and betting (final)	20	20

Budget Highlights (Continued)

Withholding Tax (continued)	**31 December 2016 %**	**31 December 2015 %**
Persons other than individuals		
Dividends (final tax)		
- other	15	15
- mining	0	0
Interest (not final tax)		
- other	15	15
- mining	15	15
- MFEZ and Industrial parks (foreign contractors)	0	0
Royalties, management and consultancy fees – resident	15	15
Royalties, management and consultancy fees – non-resident	20	20
- commissions, public entertainment fees and contractor – non-resident	20	20
- mining companies	15	15
- MFEZ and Industrial Parks (foreign contractors)	0	0
- Commissions	15	15
- Branch profits distribution	15	15
• **Other payments**		
- Non-resident contractors	20	20
- Public entertainment fees (non-resident only)	20	20
• **Property transfer tax**		
- On the realisable value of the property (Property means: any land and improvements thereon and any share issued by a company in Zambia)	5	10
- Exclusion from liabilities of interest on related party loans used to purchase shares, unless conducted at arm's length.		
- Sale or transfer of mining right	10	10

Budget Highlights (Continued)

- **Indirect Taxes**

	Effective Date
- Increase the period for claiming input Value Added Tax, as an intending trader, for electricity generation to 4 years from 2 years	01.01.2016
- Remove the 5% customs duty on Pitch Coke and the 15% customs duty on Petroleum Coke	01.01.2016
- Reduce excise duty on clear beer to 40% from 60%	01.01.2016
- Removal of 15% and 5% customs duty rates currently applicable on greenhouses and rose seedlings, respectively	01.01.2016
- Removal of withholding tax applicable on the discount income on Government Bonds while maintaining it on the coupon income	01.01.2016
- Reduction of Property Transfer Tax on land and shares to 5% from 10%	01.01.2016
- Suspend customs duty on transmission apparatus of television and radio for a period of two years	01.01.2016
- Landlord to account for tax on rentals in circumstances where the tenant cannot withhold the tax, subject to approval by the Commissioner General	01.01.2016
- Extend the application of withholding tax at the rate of 15% for management and consultancy services to resident consultants (not final tax)	01.01.2016
- Remove Value Added Tax in the Insurance Industry and introducing a levy at the rate of 3% on insurance premiums	01.01.2016
- Increase specific excise duty rate on cigarettes to K200 from K90 per 1,000 sticks and introduce incentives to support local manufacture of cigarettes	01.01.2016
- Introduce an export duty on unprocessed wood at 40% and semi processed wood at 20%	01.01.2016

Budget Highlights (Continued)

- **Indirect Taxes**

	Effective Date
- Increase the customs duty to 40% on all wood and wood products	01.01.2016
- Increase the specific customs duty rate on refined oils to K4.00 from K2.20 per litre	01.01.2016
- Increase excise duty on plastic carrier bags to 20% from 10%	01.01.2016
- Adjust upwards customs duty on selected categories of motor vehicles excluding buses and trucks, from K2,000 to K6,000	01.10.2016
- Introduce a surcharge of K2,000 on motor vehicles older than five years from the year of manufacture	01.01.2016
- Increase the Customs Duty rate to 30% on all motor vehicles excluding buses, trucks, ambulances, prison vans and hearses	01.01.2016

Direct Taxes

• Increase the capital allowance for implements, machinery and plant used in the generation of electricity to 50% from 25%	01.01.2016
• Extend the 10 year period for carrying forward losses for businesses engaged in the generation of electricity using hydro and thermal to businesses generating electricity using other sources of energy such as wind and solar, but excluding wood	01.01.2016

Non tax revenues

• Consideration fees for any category of land to be acquired by non-Zambians be adjusted upwards relative to the market value. Consideration fees for high cost residential, commercial and industrial land also be revised relative to market value	10.10.2015
• To revise upwards various fees and fines to bring them to appropriate, cost recovery levels of providing the respective services. These fees include those collected under the ministries responsible for immigration and forestry	-

Detailed Analysis of Budget

Revenue	Note	2016 K'million	%	2015 K'million	%
Domestic Revenue and Financing					
Mineral Royalty Tax		2,889.10	5.4	5,936.88	12.7
Income Tax	1	14,340.30	27.1	11,793.25	25.3
Value Added Tax		9,893.50	18.6	6,576.73	14.1
Customs and Excise duty	2	6,132.50	11.5	6,974.80	14.9
Domestic Debt		2,509.50	4.7	6,189.90	13.3
Non-Tax Revenue	3	8,853.80	16.7	3,822.69	8.2
Total Domestic Revenue and Financing		**44,618.70**	**84.0**	**41,294.25**	**88.5**
Foreign Grants and Loans					
Project financing	4	4,562.90	8.6	3,889.72	8.3
Non-project financing	5	3,954.30	7.4	1,482.59	3.2
Total Foreign Grants and Loans		**8,517.20**	**16.0**	**5.372.31**	**11.5**
Total Revenue and Financing		**53,135.90**	**100.0**	**46,666.56**	**100.0**

Notes:

		K'million 2016	K'million 2015
1)	**Income tax**		
	Company income tax	3,239.10	2,399.44
	PAYE	7,934.40	7,466.90
	Withholding and other taxes	3,166.80	1,926.91
		14,340.30	11,793.25
2)	**Customs and excise duty**		
	Customs duty	2,488.90	3,341.38
	Fuel levy	991.20	903.13
	Excise duty	2,652.40	2,730.29
		6,132.50	6,974.80
3)	**Non-tax revenue**		
	Fees and fines	7,645.40	468.58
	Insurance Premium Levy	44.00	-
	Dividends and Exceptional	1,164.40	3,354.12
		8,853.80	3,822.70
4)	**Project Financing**		
	Project loans	4,017.00	2,676.13
	Project grant	545.90	1,213.59
		4,562.90	3,889.72
5)	**Non-project Financing**		
	Programme loans	3,954.30	1,482.59
		3,954.30	1,482.59

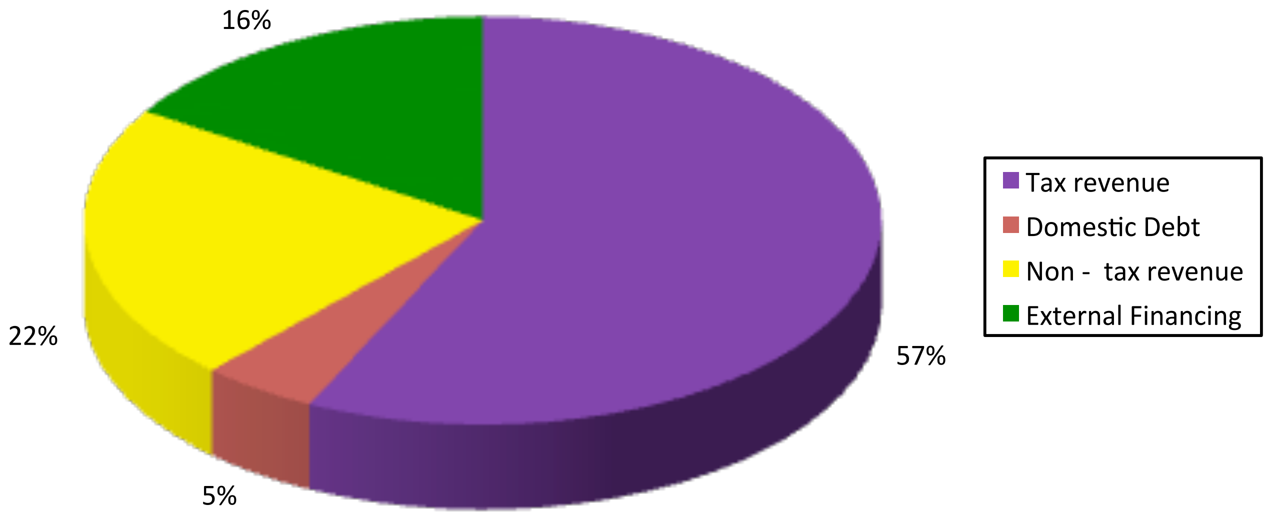
Detailed Analysis of Budget (Continued)

Expenditure	Note	2016 K'million	%	2015 K'million	%
General Public Services	1	19,171.70	36.1	12,040.2	26
Defence		3,145.80	5.9	3,247.2	6
Public Order and Safety		1,840.56	3.5	2,180.0	5
Economic Affairs	2	13,247.24	24.9	12,746.6	27
Environmental Protection		151.41	0.3	175.0	0
Housing and Community Amenities		468.75	0.9	798.7	2
Health	3	4,431.85	8.3	4,464.1	10
Recreation, Culture and Religion		261.54	0.5	323.6	1
Education	4	9,143.22	17.2	9,433.3	20
Social Protection	5	1,273.76	2.4	1,257.8	3
Total expenditure		**53,135.83**	**100**	**46,666.5**	**100**

Notes:	**K'million**
1) The total amount includes:	
- Local Government Equalisation Fund	717
- Domestic Debt Interest	3,549
- External debt interest & amortisation	3,615
- Compensation and awards	100
- Sinking Fund	536
- Constitution making process and Elections	728
- Public Affairs and Summit	83
2) The total amount includes:	
- Economic Empowerment Funds	373
- Food Reserve Agency	750
- Farmer Input Support Programme	752
- Rural Electrification Fund	118
- E- Voucher System	248
- Roads Infrastructure	6,630
- Fisheries Development Fund	5
- Kenneth Kaunda International Airport	498
- Citizens Empowerment Fund	150
- Youth Employment and Empowerment	36
- Women's Empowerment Fund	
3) The total amount includes:	
- Drugs and Medicals Supplies	754
- Medical Infrastructure & Equipment	387
- Recruitment of Health Personnel	74
4) The total amount includes:	
- School Infrastructure (Primary & Secondary)	637
- University Infrastructure	390
- Student Loans and Bursaries	311
5) The total amount includes:	
- Public Service Pension Fund	805
- Social Cash Transfer	302
- Food Security Pack	20

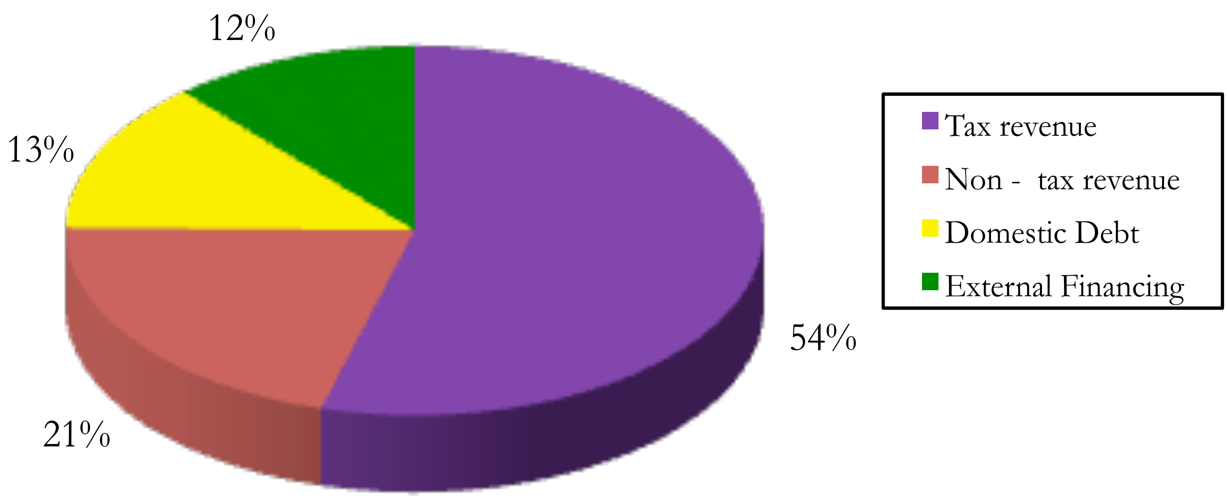
Detailed Analysis of Budget (Continued)

Revenue Budget 2016



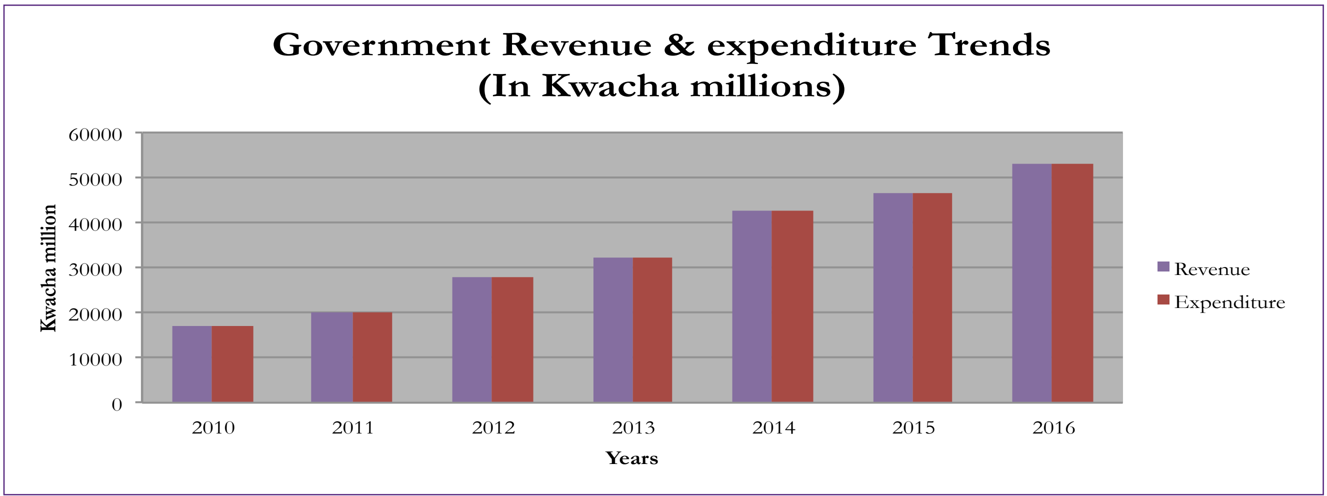
Source: Annual Budget 2016

Revenue Budget 2015

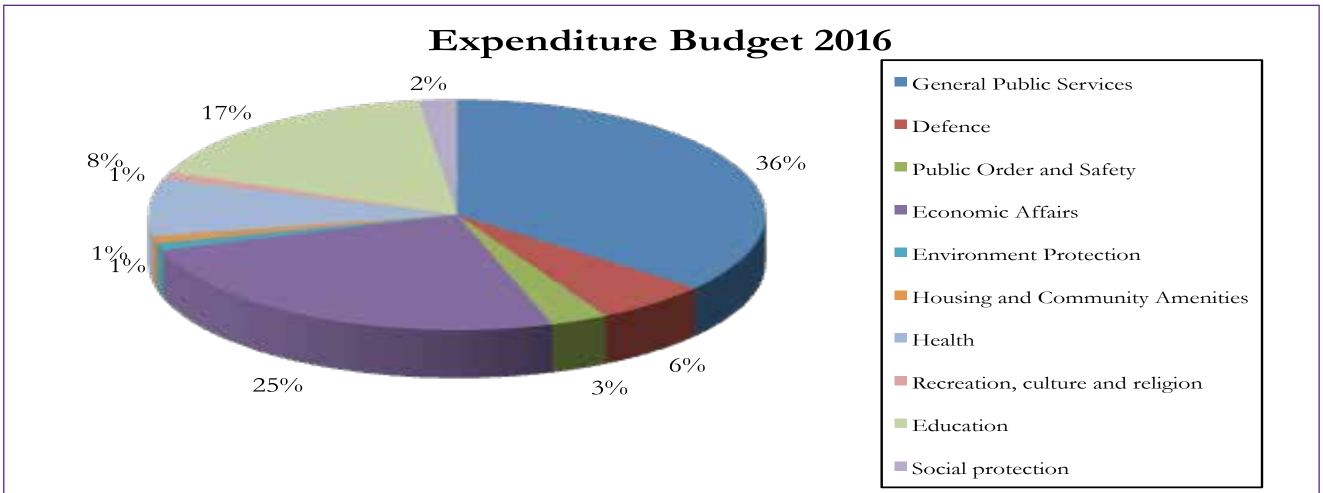


Source: Annual budget 2015

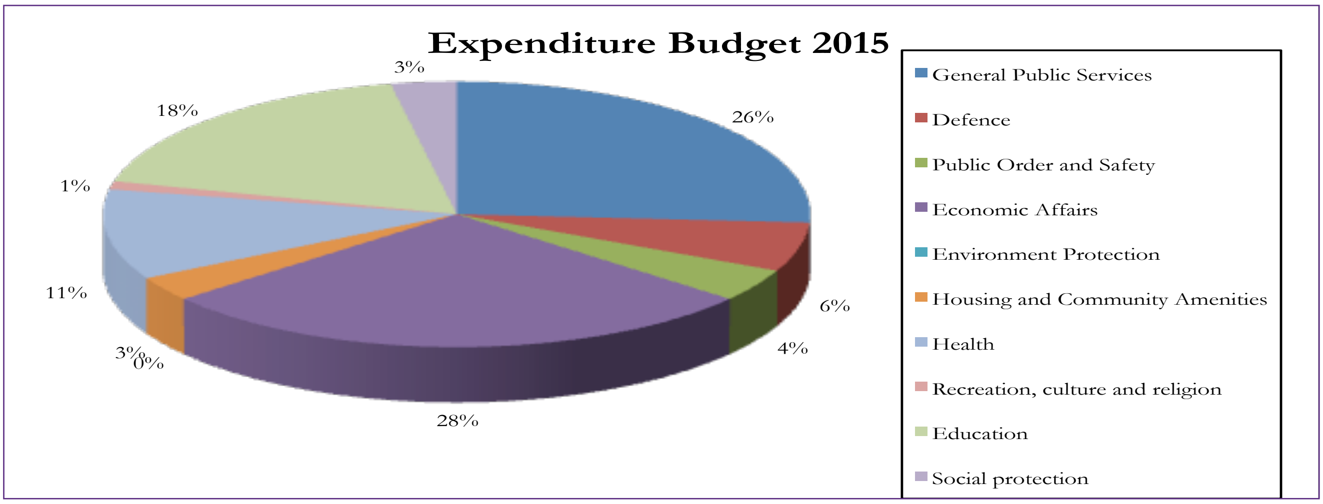
Detailed Analysis of Budget (Continued)



Source: Annual budget 2010 - 2016



Source: Annual budget 2016



Source: Annual budget 2015

Tax Measures Specified By Zambia Revenue Authority (ZRA)

1.0 Direct Tax Measures

1.1 Concessions

1.2 Reduce Property Transfer Tax rate on land and shares to 5 percent from 10 percent.

- This measure is intended to increase activity and encourage proliferation in the property transfer market.

1.3 Restructure the taxation of interest on Government bonds by removing the withholding tax applicable on the discount income and maintain its applicability on coupon income.

- This measure is intended to reduce the complication of pricing of bonds on the secondary market and therefore promote growth of the secondary market. Currently, interest earned on Government bonds whether resulting from discount or the coupon value is subject to withholding tax, implying that any trading of a bond in the secondary market has to track the initial price of the bond.

1.4 Introduce the following measures in the energy sector:

- Increase the capital allowance rate to 50 percent from 25 percent on implements, machinery and plant for businesses carrying on electricity power generation; and

- Extend the 10 year period for carrying forward of losses for business engaged in the generation of electric power using hydro and thermal, to businesses generating power using other sources except wood.

    - These measures are intended to encourage capital investment and therefore growth in the energy sector, by providing for accelerated depreciation of implements, machinery and plant for use in electric power generation. In addition the measure promotes diversification within the

Concessions (continued)

energy sector by extending the 10 year loss carry forward period which is currently applicable to businesses generating power using hydro and thermal sources, to those using other power generating sources.

2.0 Compensating Measures

2.1 Extend the application of Withholding Tax to local consultants at the rate of 15 percent.

- This measure aims to widen the tax base by capturing the growing amount of income being earned by local consultants. The Withholding tax of 15 percent is not a final tax.

3.0 House keeping Measures

3.1 Provide for a landlord to account for tax on rental income at 10 percent, subject to approval by the Commissioner General, depending on occupancy and privileges of the tenant.

- This measure is intended to address some of the existing administration and compliance challenges of the tax.

3.2 Clarify that only companies whose shares are listed on the Lusaka Stock Exchange (LuSE) qualify for a two (2) percent discount on the applicable Corporate Tax Rate in the year of listing.

- This measure is intended to provide clarity in the law that the two (2) percent discount on the applicable corporate income tax rate, applies in the first year of listing, for companies whose shares are listed on the LuSE.

3.3 Clarify that the companies that achieve a one third ownership of their listed shares by indigenous Zambians qualify for a five (5) percent reduction on their applicable Corporate Tax Rate for as long as they maintain the qualification threshold.

3.4 Provide for different due dates for manual and electronic submission of Provisional and Annual Income Tax returns as follows:-

Tax Measures Specified By Zambia Revenue Authority (ZRA) (Continued)

House keeping Measures (continued)

- Manual: 5th March for Provisional Income Tax return and 5th June for Annual Income Tax return; and
- Electronic: 31st March for Provisional Income Tax return and 30th June for the Annual Income Tax.

• This measure is intended to encourage the uptake of electronic filing of returns. The late submission of returns will attract penalties.

3.5 Provide clarity in the law on the tax treatment of payment of withholding tax on winnings from gaming, lotteries and betting when such winning arise by virtue of employment or office held.

• The measure is intended to clarify that, where the promotion by the employer is exclusive for employees, and the recipient is the employee, the tax applicable on winnings will be Pay-As-You-Earn (PAYE) and not withholding tax.

3.6 Amend the Property Transfer Tax Act in order to replace the words "Charities" and "Direct Taxes" with the words "Public Benefit Organisations" and "Domestic Taxes", respectively.

• This measure is intended to update various provisions in the law and provide for consistency where these terms have been changed.

4.0 Value Added Tax measures

4.1 Concessions

4.2 Increase the period for claiming Input Value Added Tax (VAT) as an intending trader, for electricity generation from two (2) years to four (4) years.

• This is aimed at enhancing the existing VAT relief measures for businesses involved in electricity generation by extending the period for claiming VAT relief to four (4) years from two (2) years, so as to encourage growth in the energy sector.

5.0 Compensating Measures

5.1 Remove VAT on Non-Life Insurance and introduce a Levy on all insurance premiums at the rate of 3 percent. This measure is intended to simplify the taxation of insurance products and is envisaged to promote growth of the insurance subsector.

• Currently, property or non-life insurance policies attract VAT at 16 percent while life insurance and re-insurance policies are exempt from VAT. The differentiated application of VAT in the insurance sector has resulted in challenges of compliance and administration on hybrid insurance policies which may have both life and non-life components.

6.0 Housekeeping Measures

6.1 Provide for the replacement of the use of Cash Registers with the Fiscal Cash Registers and make the use of such devices mandatory for VAT registered suppliers.

• The measure is intended to replace the cash registers with the technologically advanced fiscal registers that will enable the Zambia Revenue Authority to directly monitor the transactions of VAT registered suppliers. The measure will enhance the existing VAT compliance management strategies and, therefore, assist in revenue optimisation.

Tax Measures Specified By Zambia Revenue Authority (ZRA) (Continued)

Housekeeping Measures (continued)

6.2 Realign the provision of the VAT (Exemption) Order regarding Financial Services in order to provide clarify on the treatment of such services and products.

- The measure is intended to provide clarity on financial services and products that qualify for VAT exemption as listed in the Exemption Order. The measure will remove duplication and will also update the list of qualifying financial services in the Exemption Order.

6.3 Clarify that, businesses solely involved in the supply of exempt outputs, are not allowed to form part of a "recognised group" for VAT registration purposes.

- This measure is intended to clarify that businesses exclusively dealing in exempt supplies do not qualify to be part of recognised group for VAT purposes.

6.4 Introduce a Secrecy Provision in the VAT Act to safeguard confidentiality of taxpayers' information.

- This measure is intended to harmonise the confidentiality provisions in the VAT Act with those given in the Income Tax Act and Customs and Excise Act.

6.5 Delete the word 'Wheat' from the Exemption Order to clarify that Wheat is zero rated.

- This measure is intended to remove Wheat from the Exemption Order as it was zero rated from 1st January 2013 but is erroneously appearing in the Exemption Order that was effected in 2014.

6.6 Align the provisions of the VAT (Zero Rating) Order to the VAT Act concerning the VAT refund scheme for tourists.

- This measure is intended to remove the zero rating of exports for tourists from the Zero Rating Order as this was replaced by a Tourist Refund Scheme.

7.0 Customs and Excise Measures

7.1 Concessions

7.2 Reduce Excise Duty on clear beer to 40 percent from 60 percent.

- This measure is intended to restore competitiveness of the locally produced clear beer which will induce investment in the industry and assist in curbing vices such as smuggling and mushrooming of illicit alcoholic beverages.

7.3 Remove Customs Duty on Green Houses and Rose Seedlings.

- This measure is intended to encourage investment in the floriculture sub-sector which is one of the potential foreign exchange earners for the country. Currently the customs duty rates on Green Houses and Rose Seedlings are 15 percent and 5 percent, respectively.

7.4 Suspend customs duties on transmission apparatus for television and radio for a period of two (2) years, effective 1st January 2016.

- The measure is intended to facilitate upgrading of existing infrastructure for digital migration and also to promote investment in community based television and radio stations in order to enhance information dissemination.

7.5 Remove customs duty on Pitch Coke and Petroleum Coke.

- This measure is intended to increase accessibility to alternative sources of energy. Currently, customs duty on Pitch Coke and Petroleum Coke is 5 percent and 15 percent, respectively. Pitch Coke and Petroleum Coke are alternative sources of energy in the manufacturing industry.

Tax Measures Specified By Zambia Revenue Authority (ZRA) (Continued)

Concessions (continued)

7.6 Remove customs duty on Wattle Extract and Chrome Powder.

- This measure is intended to enhance competitiveness of the local leather industry by reducing the cost of the essential inputs. Wattle extracts and chrome powder are essential inputs in the treatment of leather and currently attract customs duty of 5 percent and 25 percent, respectively.

8.0 Compensating Measures

8.1 Increase Excise Duty on Plastic Carrier Bags for shopping to 20 percent from 10 percent.

- This measure is intended to re-enforce the initial aim of imposing excise duty on plastic carrier bags for shopping as a way of discouraging their use. Plastic is non-bio-degradable and thus environmentally unfriendly.

8.2 Increase the minimum specific Customs Duty rate on motor vehicles excluding buses and trucks, to K6,000 from K2,000.

- This measure is intended to safeguard revenue by adjusting the specific duty on the said types of motor vehicles which has not been revised since 1996.

8.3 Introduce a surtax of K2,000 on all imported motor vehicles older than 5 years from the year of manufacture.

- This measure is intended to discourage the importation of vehicles older than 5 years from the year of manufacture so as to minimise the adverse effect on the environment caused by older motor vehicles.

8.4 Increase the Customs duty rate to 30 percent on all motor vehicles excluding buses, trucks, ambulances, prison vans and hearses.

8.5 In order to discourage low quality imports, promote local manufacturing through value addition and adjust for inflation, where applicable, the following measures have been proposed:

Compensating Measures (continued)

- Increase the specific customs duty on imported refined edible oil from K2.20 per litre to K4.0 per litre.
- Increase the specific excise duty rate on cigarettes to K200 from K90 per Mille (1,000 cigarettes make a Mille) and maintain the ad valorem rate at 145 percent.
- Introduce Export Duty on unprocessed wood and semi-processed wood at a rate of 40 percent and 20 percent, respectively.
- Increase Customs duty to 40 percent on wood and wood products.
- Amend the valuation for duty purposes of assessing excise duty on snuff, pipe tobacco, cigars, and cigarette tobacco when manufactured in Zambia.

9.0 House Keeping Measures

9.1 Provide for the Minister to prescribe by Statutory Order parameters for the Commissioner General to adjust (Index) some specific rates under the Customs and Excise Act.

- This measure is intended to provide for a structured • predictable adjustment mechanism for all the specific tax rates in order to allow for regular adjustment of these rates.

9.2 Increase the fee to be paid on entry of goods (ASYCUDA fee) to K325 from K125 or to 1,082 fee units from 415 fee units.

- This measure is intended to adjust the fee in order to reflect the cost of maintaining the tax administration system.

Tax Measures Specified By Zambia Revenue Authority (ZRA) (Continued)

House Keeping Measures (continued)

9.3 Increase the time required for a taxpayer to keep records for tax assessment purposes under the Customs and Excise Act to six years from five years and provide for the Commissioner General to make an assessment of taxes that may not have been previously accounted for. Where there is evidence of wilful default or fraud, the Commissioner General may make an assessment of taxes beyond six years.

9.4 Introduce a specific penalty of 3,000 fee units per day for late clearance of goods allowed into the country for in-bound carriage to another customs port for further entry after expiry of the statutory limit of 15 days.

9.5 Harmonise the fees payable by taxpayers for customs officers to perform official customs work at any time beyond the defined working hours under the Ports of Entry and Routes Order, 2003 and the Customs and Excise (General) Regulations, 2000.

9.6 Introduce a standard valuation method for second hand motor vehicles based on parameters to be prescribed by Statutory Order, in order to ensure that the amount of tax payable is consistent for similar motor vehicles.

9.7 Provide Rules for self-assessment as the Commissioner General may prescribe.

- This measure is intended to further reduce the cost of compliance and enhance trade facilitation by incorporating products of modernisation of revenue administration such as the recently introduced online platforms.

9.8 Provide classification codes for copper blister, mineral ores and mineral concentrates according to output from mining activities.

- The measure is intended to sub-divide the tariffs for mineral ores and mineral concentrates in order to enhance monitoring of mineral production and export. The proposed tariff sub-divisions will provide for accurate capturing of descriptions, value and trade quantities.

House Keeping Measures (continued)

9.9 Introduce a provision to extend the liability for an offence committed by a corporate body to be extended to directors or principal officers of the body, where such officers have knowledge of the offense.

- This measure is intended to make directors and principal officers of corporate bodies liable for offences committed by such bodies for which they had full knowledge. A similar provision exists under the Income Tax Act.

9.10 Provide for accreditation of employees of clearing agents that directly handle customs business.

- The measure is intended to provide for accreditation of employees of clearing agents who directly handle customs business in order to enhance professionalism and safeguard Government revenue.

9.11 Amend the law to harmonise the treatment of consumable items imported by Third Parties acting on behalf of organisations listed in the Third Schedule of the Act to the treatment when the consumables are self-imported by the listed organisations.

- This measure is intended to harmonise the treatment of all imports for donor funded projects.

10.0 Cross – Cutting Measures

10.1 House Keeping Measures

10.2 Amend the Income Tax Act, Customs and Excise Act and the Value Added Tax Act, where applicable, to align to changes made under the new Mines and Minerals Development Act, the Tax Appeals Tribunal Act and the National Pension Scheme Act.

Medium Term Expenditure Framework (MTEF) – 2016 to 2018

Introduction

The 2016 to 2018 medium term objectives have taken into account the 2015 shocks and their anticipated impact on the economy going forward. The 2015 fiscal year has faced various external shocks arising from the slowdown in the Chinese economy as well as internal adjustments arising from the Presidential by-election and fuel subsidies.

To attain its development objectives in the medium term, Government will focus on:

- Maintaining a positive and broad based growth trajectory, and macroeconomic stability;
- Consolidating its fiscal position to create fiscal space for vital public services and infrastructure development;
- Protecting critical social programmes in the health, education and social sectors; and
- Directing resources in its capital budget to complete ongoing projects in order to enhance service delivery and create jobs.

Government will continue with its unwavering commitment to ensure that the benefits of economic growth are shared widely by all citizens of every age and gender and by all regions of Zambia.

To achieve its objectives in the medium term, Government plans to:

- Allocate funds raised externally to strategic sectors of the economy, especially transport, communications, energy, and to key socio-economic infrastructure to enhance delivery of essential public services like health, education, water and sanitation;
- Commit resources to the youth for the development of their talents to achieve both personal and national development;
- Maintain public service pay share of GDP to 8.4% from 9.0 percent in 2015, despite Government's resumption of recruitment of public service sector workers in education, health and public order, and award of pay increases from 2016;
- Re-align spending, especially in the agriculture sector. The e – voucher scheme roll out is expected to bring efficiencies and cost savings in the operations of the Farmer Input Support Programme (FISP);
- Re-focus the operations of the Food Reserve Agency (FRA) to its core function of maintaining the strategic food reserves; and
- Continue with its efforts to increase mobilization of resources domestically through tax and non-tax revenues. Tax and non-tax revenues are projected to rise to over 20% of GDP in 2018.

Macroeconomic policy

Programmes targeted at attaining inclusive growth will be undertaken as part of Government's efforts towards the achievement of the new Sustainable Development Goals.
The specific broad socio-economic objectives during the 2016-2018 MTEF period will be to:

- Achieve an average annual real GDP growth rate of 6.0 percent;
- Maintain single digit inflation;
- Accelerate the diversification of the economy particularly towards the agriculture, manufacturing, tourism and energy sectors;
- Increase international reserves to at least 4 months of import cover by end of 2018;
- Increase domestic revenue mobilization to at least 20 percent of GDP by 2018;
- Limit Government net borrowing to no more than 5.2 percent of GDP in 2016, 2.3 percent in 2017 and 1.5 percent in 2018;
- Contain domestic borrowing to no more than 1.0 percent of GDP by 2018;
- Create employment opportunities in the economy which will include the vigorous implementation of the Youth Empowerment Action Plan that targets 500,000 jobs over the medium term; and
- Focus on completion of all, ongoing infrastructure projects, particularly in health, education, transport and water and sanitation sectors.

Economic and Social Sector Policies

Agriculture

In the agriculture sector, emphasis will be on;

- Promoting agricultural diversification and higher productivity in order to ensure food security, income generation, creation of employment opportunities and reduction in poverty levels.
- Revision of the mechanism of delivery of inputs under the FISP in a phased manner. As a starting phase, 13 districts have been earmarked for piloting of the e-voucher system in 2015/2016 farming season as a tool to promote diversification from maize. Under the system, small scale farmers will have a wider choice of inputs.
- Empowering the rural areas through the establishment of 13 large scale milling plants with a daily production capacity of between 80 and 240 metric tones. With increased output of milling products, the prices of maize, feed stocks and other milling products are projected to decline.

Medium Term Expenditure Framework (MTEF) – 2016 to 2018 (continued)

Economic and Social Sector Policies

Agriculture (continued)

- Promoting irrigated farming, aimed at improving the sector's resilience to droughts in view of climate change challenges. Lusitu in Chirundu District, Mwomboshi in Chisamba and Musakashi in Mufulira are targeted to bring over 17,500 hectares under irrigation by 2018;
- Intensifying livestock disease prevention and control measures through aggressive up-scaling of livestock extension services to farmers; and
- Promotion of aquaculture and combating of illegal, unreported and unregulated fishing.

Energy

In collaboration with development partners such as the World Bank, Government will strengthen its strategy of encouraging private sector investments in alternative sources of energy, such as solar power. To this end:

- The Government will facilitate the development and installation of at least 600 MW solar power over the medium term;
- The focus in the medium term will be to increase electricity generation and to build appropriate infrastructure for transmission and distribution;
- The Government intends to build 17 hydro power generation plants and one thermal plant by 2030, which altogether will bring over 4,000 MW of additional power under the Power System Master Plan (PSMP). Additionally, the Rural Electrification programme will continue to be implemented;
- Government will continue with relevant reforms, such as the review of the legislative framework and the phased attainment of cost reflective electricity tariffs, to encourage investments into the power sector by private sector investors; and
- Government's policy in the petroleum sub-sector will be to ensure a stable supply of fuel to all parts of the country by encouraging private sector participation in the supply of petroleum products;

Tourism

- In the tourism sector, Government shall prioritise the development and rehabilitation of key infrastructure such as access roads to tourist sites, airports and cultural centres.
- It is envisaged that the operationalisation of the Tourism and Hospitality Act of 2015 will provide for the sustainable development of the tourism industry.

Tourism (continued)

- To increase tourist arrivals and facilitate their internal transportation to tourist sites within the country, Government is examining viable modalities for establishing a national airline.

Manufacturing

- The focus in the sector shall be investment promotion, technology and skills development and Micro Small and Medium Enterprise (MSMEs) development and economic empowerment, through the Value Chain Cluster Development Programme whose objective is to add value to local raw materials.
- Government will continue to recapitalize Development Bank of Zambia (DBZ), Citizens' Economic Empowerment Commission (CEEC) and the National Savings and Credit Bank (NATSAVE). The recapitalization of these institutions will result in cheaper credit facilities that will be available to MSMEs.
- Government will continue promoting and facilitating business enterprise development, encouraging investment and job creation

Mining

- In mining, Government will continue to promote investments by providing a predictable, consistent and stable policy environment.
- In addition, the operationalisation of the revised mining law to streamline issuance of mining licenses, establishment of a tribunal and promotion of local content will enhance development of the sector.
- Copper output is projected to increase from 741,916 MT in 2015 to 916,767 MT by 2018, largely on account of increased output at Kansanshi mine to be anchored by the new smelter. Production at Konkola Copper Mines is also projected to increase with the coming on line of the Konkola Deep Mining project in 2016.
- The development of Kalumbila and Chambeshi West Ore Body will also spur growth in the sector.
- Further, the mining and quarrying sector is expected to benefit from mineral diversification by enhancing production of minerals such as Nickel, Gold, Iron, Manganese and Uranium.

Medium Term Expenditure Framework (MTEF) – 2016 to 2018 (continued)

Monetary and Financial Sector

Government will continue to implement prudent monetary and financial policies to support high and sustained economic growth. In this respect:

- Monetary policy will focus on meeting the objective of achieving end-year inflation of no more than 8.0 percent by 2018. The Bank of Zambia will principally use Open Market Operations to maintain reserve money, supported by the primary auction of Government securities and, complemented by sound fiscal management;
- Government will, in the medium term, reduce its appetite for domestic financing to achieve lower interest rates on the market;
- Reforms to harmonise and strengthen the various laws governing the financial sector will continue; and
- Government will continue to maintain a market driven foreign exchange rate regime in tandem with other macroeconomic objectives.

External Sector

- The primary objective in the external sector will be to improve the current account balance by enhancing the external competitiveness of the economy and maintaining a sustainable external debt position. In this regard, the main strategy remains that of diversifying the economy and promoting export growth.

Education and Skills Development

Over the 2016-2018 period, Government will continue to focus on improving the access and quality of education including skills training relevant to the needs of society, through:

- The recruitment of teachers;
- The completion of ongoing education infrastructure projects including universities, schools and teachers' houses; and
- Ensuring that Early Childhood Education (ECH) remains paramount in the medium term, particularly in the rural areas.

Health

Over the next three years:

- Government will focus on completing the construction of health facilities and increasing the number of frontline medical personnel;
- Government will further commence actions to achieve universal health coverage;
- Staff recruitment, retention and training as well as the timely provision of drugs and medical supplies, will remain a priority; and
- Government will continue with the construction of regional hubs in the remaining regions from which drugs will be distributed to the lower levels.

Water Supply and Sanitation

The Government will consolidate efforts to improve access to safe drinking water and basic sanitation in the peri-urban and rural areas through various initiatives such as the Lusaka Water Supply, Sanitation and Drainage Project.

Public Financial Management Reforms

The Government will continue with the implementation of Public Financial Management (PFM) reforms aimed at strengthening the procedures and processes in the budget cycle, including planning, internal controls, procurement, debt management, monitoring and evaluation, and accounting and reporting. In this regard Government will:

- Present the National Planning and Budgeting Bill to Parliament for enactment;
- Review the Public Finance Act and fully operationalise the Treasury Single Account (TSA); and
- Continue piloting Output Based Budgeting (OBB) in the Ministry of Education, Science, Vocational Training and Early Education and, after evaluation, roll out to other MPSAs starting in 2017.

Fiscal Decentralization

In line with Government's commitment to decentralization, the Local Government Equalization Fund (LGEF) which was established in 2015 is included in the 2016-2018 MTEF as a central pillar in Zambia's Inter-Governmental Fiscal Architecture. Further, actions to devolve functions, such as primary education, disaster management and mitigation and primary health care, have commenced and will continue in 2016.

Medium Term Expenditure Framework (MTEF) – 2016 to 2018 (continued)

Fiscal Policy for the 2016-2018 MTEF

During the 2016-2018 MTEF periods, Government will:

- Focus on consolidation of its fiscal position to safeguard macro-economic stability and create fiscal space for vital public services and infrastructure development, while protecting critical social programmes in the health, education and social sectors.
- Continue with the improvement of domestic resource mobilization by employing both policy and administrative measures. To achieve this, some key areas and strategies that will be targeted are as follows:
  - Enhance IT solutions to augment VAT collections and trade taxes;
  - Introduce measures to encourage the use of electronic payments;
  - Focus on enhancing capacity and skills in tax auditing, addressing transfer mispricing, base erosion and profit shifting;
  - Stiffen sanctions imposed on tax evaders; and
  - Review legislation pertaining to fees and other levies so as to reflect the cost of providing the related services.
- Government will increasingly use fiscal policy to influence interest rates. This will also avoid the crowding out effect of the private sector to access financing.

Medium Term Revenue and Expenditure Forecast

Over the medium term, total domestic revenues and grants are projected to grow from 17.4 percent of GDP in 2016 to 20.1 percent in 2018. Projected total domestic revenues are as follows:

Year	K' billion
2016	36.1
2017	44.3
2018	52.1
	132.5

Total expenditures are expected to decrease from 22.6 percent of GDP in 2016 to 21.5 percent of GDP in 2018. Expenditure on expenses is expected to average 16.5 percent of GDP by 2018. Total expenditures will amount to K157.9 billion broken down as follows:

Year	K' billion
2016	48.8
2017	51.2
2018	57.9
	157.9

Macroeconomic Indicators

The table below summaries selected macroeconomic indicators for 2014 – 2018

Table 1: Selected Macroeconomic Indicators (2014-2018)

	2014**	2015**	2016**	2017**	2018**
Real GDP (%) growth	6.5	5.0	6.0	6.5	6.8
Inflation (end of period) (%)	7.9	7.5	7.7	7.8	7.9
Inflation (annual average) (%)	7.9	7.4	7.7	7.6	7.8
Domestic Revenue (% of GDP)	18.4	18.1	17.4	19.0	20.1
Overall Fiscal Deficit, incl. grants (% of GDP)	5.2	6.9	5.2	2.3	1.5
Domestic borrowing (% of GDP)	2.2	2.0	1.9	1.7	
Current account balance, incl. grants (% of GDP)	0	(1.8)	0.7	1.9	2.5
Gross International Reserves (months of import cover)	4.4	4.0	4.0	4.0	4.0
Nominal GDP (K'millions)	165,900	184,252	207,370	232,404	259,891

**Projections

Source: Ministry of Finance

Doing Business in Zambia

- Zambia was recently voted as having attracted the largest Foreign Direct Investments (FDIs) among the landlocked countries in Africa in 2014. This attests to the attractiveness of doing business in Zambia. Since 1991 the Government of the Republic of Zambia (GRZ) has been providing an enabling environment for businesses, both public and private to thrive. For the last 50 years since its independence in 1964, Zambia has been politically stable and has a young and stable democracy. It is an oasis of peace.

- The Government continues to create an enabling and conducive regulatory environment for operating business in Zambia through:

  - Revamping of the Patents and Companies Registration Agency (PACRA) and the creation of a one stop shop.

  - Elimination of the minimum capital requirement for the business start up.

  - Land registry computerisation and creation of customer service centre to eliminate the backlog of registration requests. As a result, the time required to register property in the country has reduced.

  - Positioning the country well with comparator economies on the ease of obtaining credit by strengthening access to credit information by use of credit reference reports and data provided to the Credit Reference Bureau by banks and non-bank financial institutions.

  - Implementation by Zambia Revenue Authority (ZRA) of electronic filing and payment (e-filing and payment) systems to enhance tax compliance.

  - Implementation of one - stop border posts at Chirundu, Livingstone, Kasumbalesa and Nakonde to ease trade for importers and exporters of goods. Zambia Revenue Authority (ZRA) has also launched web-based submission of customs declaration and scanning machines at some border posts.

- Globally the table below shows how Zambia stands in ranking of 189 economies in terms of Doing Business in Zambia:

Topic	2015	2014
Ease of Getting Credit	23	30
Ease of Starting a Business	68	72
Dealing with Construction Permits	99	102
Ease of paying taxes	78	80
Ease of resolving Insolvency	95	95
Protecting investors	83	81
Registering Property	152	106
Ease of enforcing Contracts	98	98
Getting Electricity	126	126
Ease of trading across borders	177	177
Overall	**111**	**107**

Source: World Bank Group

Why Invest in Zambia

- Zambia is a large country with a relatively small population, good climate to live in and has abundant natural resources and consequently a conducive country to do business in. Some of the salient statistics of Zambia are shown in the table below:

Land area	752,618 sq. km
Population	Approx.14 million, constituting young people and relatively skilled labour force.
Gross Domestic Product (GDP) per capita	Approx. US$ 1,350
GDP growth (annual)	About 6.0%
Exchange rate	US$1=13 Zambian Kwacha (K)
Inflation rate	Approx. 8%
Repatriation of Profits	100%
Exchange Control	None. Free floating currency
Natural Resources	Abundant
Taxation system	Attractive and Progressive
Electricity and Energy	Abundant but relatively expensive. Shortage experienced in 2015
Average Lending Rate (ALR)	Approx. 20%
Legal Framework	Zambian Companies Act and Statutory Instruments subsequently issued.

Source: ZDA (why invest in Zambia) -

Doing Business in Zambia (Continued)

- The Government has continually streamlined the licensing and administrative processes for the private sector through a Private Sector Development and Reform Program (PSDRP).

- The Certificate of Registration for investments under the ZDA Act 2006 provides investment guarantees and protection against state nationalisation.

- In addition to the statistics shown above the Government of the Republic of Zambia has formulated very attractive Investment Incentives. Investors are allowed to form any type of companies but GRZ encourages partnering with local businesses and people.

- Zambia has been moving towards a One Stop Shop for Business Registration (OSSBR) by bringing in the Zambia Development Agency (ZDA), the Investment Centre, Patents and Companies Registration Agency (PACRA) and other agencies as an OSSBR. The objectives are to improve efficiency, reduce cost and time, make business registration more accessible and increase level of compliance. This has been done through streamlining business registration procedures, having integrated IT systems, decentralisation and carrying out sensitisation and awareness campaigns.

- The mainstay of the Zambian economy remains mining (mainly copper). The other major sectors are Tourism, Agriculture, Construction and Transport. There is potential in the Manufacturing and Financial Services sectors which are growing and thriving. There are also various other niche sectors which offer attractive investment opportunities.

- The Financial Services sector is regulated by both the Financial and Banking Services Act through the Bank of Zambia (BOZ) which falls under the Ministry of Finance and the Pensions and Insurance Act through the Pension and Insurance Authority (PIA).

- The banking sector in Zambia comprises some of the large and internationally renowned commercial banks such as Barclays Bank, Standard Chartered, Stanbic Bank and First National Bank of South Africa and the local banks such as the Zambia National Commercial Bank (the largest bank in Zambia), Finance Bank, Investrust Bank and Cavmont Bank.

- There is also a thriving Micro Financial Services Sector dominated by the private sector such as Pulse Financial Services Limited trading as Entrepreneurs Financial Centre (EFC), Bayport Financial Services, Micro Bankers Trust and Focus Financial Services Limited.

- The Insurance companies and Pension Funds are both public and privately owned ones. These include the National Pension Scheme Authority (NAPSA), Zambia State Insurance Corporation (ZSIC) and Local Superannuation Fund (LASF) and Madison Insurance Group (Madison), Professional Insurance Corporation of Zambia (PICZ), Focus Insurance Services (Focus), Prima Re Reinsurance, Sartunia Regna under African Life Assurance and Goldman Insurance (Goldman) respectively.

Grant Thornton profile and our services

Who we are

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Our portfolio of core consultancy, accounting, audit and tax services is enriched by our knowledge of the local operating environment, regulatory requirements and an insight into existing business cultures and practices.

National Network

In Zambia, Grant Thornton has offices in Lusaka and Kitwe. The Zambian firm is supported by a large network of about 35,000 accountants and business advisors operating in more than 100 countries worldwide.

We unite with all member firms in living our global values: Unite through global **Collaboration**, demonstrate **Leadership** in all we do, promote a consistent culture of **Excellence,** act with **Agility**, ensure deep **Respect** for people and take **Responsibility** for our actions.

Our geographical spread, knowledge and understanding of the local business environment is unsurpassed. Our offices are staffed with professional staff many of whom are either citizens or residents in the country and are therefore fully conversant with the most effective methods of operating required to meet client needs in the local business and economic environment. This instills confidence in our clients that they are dealing with business advisors who will help them succeed in an increasingly sophisticated and competitive market place.

How we work

It is a distinctive feature in Grant Thornton that one partner/director assumes overall responsibility for a client's affairs. Proactive and skilled teams of advisors led by approachable partners/directors use insights, experience and instinct to solve complex issues for privately owned, publicly listed and public sector clients. "Engagement teams" work closely with clients to interpret their business needs, identify opportunities for growth and minimise risks.

What we do

Audit/Assurance

- Statutory financial statements Audit
- Grant aided project audit
- Agreed upon procedures

What we do (Continued)

Taxation services

- Preparation of corporate tax computations
- Preparation of annual returns
- VAT accounting
- Withholding tax accounting
- Tax planning

Advisory

- Human resources
- Information technology
- Corporate finance
- Mergers and acquisitions
- Internal audit services
- Due diligence

Other services

- Corporate Recovery
- Statutory and business services

Insight

Grant Thornton's business advisory services provide assistance to organisations at the different stages of their development.

Our experience and approach enables us to bring insight to the whole range of issues affecting businesses. Our services are targeted at identifying opportunities for growth and profitability. Our specialists will advise on matters such as business strategy, financial management, investment opportunities and procedures and transaction support.

Audits undertaken by Grant Thornton are not about only establishing the overall financial position but about gaining insight into all aspects of the business, from management structures to buying policies. We then use that insight to give relevant and constructive advice, which adds value to the business.

Our tax specialists are able to assist with determining an efficient tax structure for a business. An efficient tax structure is important to the financial health and growth of a business. We always want to ensure that we advise our clients on the steps to undertake in order to maximize the benefits to the business.

These are just an indication of some of the areas where we can help. Further details of our services can be obtained from a partner/director at your nearest Grant Thornton office or visit us at www.gt.com.zm.

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