

**Budget Address by Honourable Ng'andu P. Magande, MP,
Minister of Finance and National Planning
Delivered to the National Assembly
on Friday, 3rd February, 2006**

1. Mr. Speaker, I beg to move that the House do now resolve into Committee of Supply on the Estimates of Revenue and Expenditure for the year 1st January 2006 to 31st December, 2006 presented to the National Assembly in February 2006.

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

3. Mr. Speaker, I wish to remind Honourable Members that the policies and programmes of the New Deal Administration were made clear in the opening address to this House by His Excellency President Levy Patrick Mwanawasa, State Counsel on Friday 13th January 2006. What I intend to do this afternoon is to present to the Honourable Members the details of the measures, programmes and projects we intend to implement in order to attain the targets of these noble policies. I will therefore put numbers to the many programmes set out by His Excellency the President.

4. Mr. Speaker, as has become the custom, the budget, which I am presenting today benefited from broad-based consultations with various stakeholders. During the consultations, the stakeholders put forward many proposals. These proposals reflected optimism and a sigh of relief at having achieved one of the landmarks in the history of Zambia. This was the qualification for debt relief after reaching the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative in April 2005.

5. Mr. Speaker, over the past four years under the New Deal Government, the country has continually experienced positive changes in the economy. The remarkable results have been the sustained economic growth and macroeconomic stability. Zambians have witnessed a positive change of behavior in the management of public resources by the Government. The country has also won increasing recognition and respect in the international community due to good governance and strict control of public finances. Sir, all these developments have not happened by accident. They are a result of the resolute political will of the New Deal Government to consistently observe best practices and implement sound economic policies and programmes.

6. Mr. Speaker, let me seize this opportunity to sincerely thank all the patriotic Zambians for having supported President Levy Patrick Mwanawasa SC in his quest to get the country out of the wilderness. The visible successes achieved during the past four years, and clearly manifested during the past few months, are due to their tenacity, resilience and willingness to follow a visionary leader who can clearly see Zambia as a country of prosperous citizens.

7. Mr. Speaker, the goal of the Government in 2006 is to continue with the viable economic policies that will promote broad-based participation in economic activities and equitable wealth creation and consolidate economic

stability. The Government is, therefore, determined to remain consistent in order to consolidate even further the gains attained in the past few years. It is in this context that the theme for the 2006 Budget is, “**From Sacrifice to Equitable Wealth Creation.**”

8. Mr. Speaker, as we celebrate our recent economic achievements, we must remember that our work will only be complete when the majority of our people will have been emancipated from the yoke of poverty. It is our strong belief that the sacrifices that the Zambian people continue to make will not be in vain but sooner than later, the benefits will reach the majority of them.

9. Sir, in our crusade to uplift the living standards of our people, we will intensify our efforts through progressive advances in access to education, health care and other economic opportunities. As a Government that cares for its people, and committed to social delivery, we shall, in the 2006 Budget, focus on economically empowering Zambians, especially the youth, as this is a sustainable way of fighting poverty and ensuring the country’s future prosperity.

10. Mr. Speaker, my address this afternoon contains five parts. In Part I, I give an overview of the performance of the global economy during the past year. In Part II, I discuss the developments in the Zambian economy during the same period and this is followed, in Part III, by an outline of the Government’s economic policies for 2006. In Part IV, I present the details of the 2006 Budget and the supporting Expenditure and Revenue measures. Finally, in Part V, I conclude my address.

PART I

PERFORMANCE OF THE GLOBAL ECONOMY IN 2005

11. Mr. Speaker, the global economy in 2005 continued to expand led by the United States of America and the People’s Republic of China. However, partly as a result of the adverse effects of high oil prices, global real Gross Domestic Product (GDP) growth slowed down to 4.3 percent compared to 5.1 percent in 2004.

12. Sir, the growth in 2005 was highest in developing Asia, where output increased by 7.8 percent, with the People’s Republic of China and India recording growth rates of 9.0 percent and 7.1 percent, respectively. In the advanced economies, real GDP growth was estimated at 2.5 percent.

13. Sir, in Africa, economic performance remained favourable, although real GDP growth slowed down to 4.5 percent from 5.3 percent in 2004. For Sub-Saharan Africa, growth was projected at 4.8 percent in 2005 compared to 5.4 percent in 2004. This was partly due to a moderation of growth in some oil importing countries.

14. Mr. Speaker, a notable feature of the global economy has been the escalating prices of the key commodities. For instance, the average spot crude oil price rose by 43.6 percent to US \$54.23 per barrel from US \$ 37.76 per barrel in 2004. This steep rise in crude oil prices is mainly attributed to the increased global demand for fuel, especially emanating from the People’s Republic of China. Supply side shocks and the on-going hostilities in the Middle East also contributed to rising oil prices.

15. Sir, the prices of non-fuel commodities, especially metals, also continued to rise on account of strong

demand mainly from the People's Republic of China. The price of copper in 2005 rose by 33 percent to an average of US 161 cents per pound compared to US 121 cents per pound in 2004.

16. Sir, as I will explain later, the developments in the global economy, especially with regard to commodity price movements, had both positive and negative impacts on our economy during the year.

PART II

PERFORMANCE OF THE DOMESTIC ECONOMY IN 2005

Macroeconomic Performance

17. Mr. Speaker, the Government's macroeconomic objectives in 2005 were to: (i) achieve a real GDP growth of at least 6.0 percent; (ii) contain inflation to no more than 15.0 percent; (iii) limit the Government domestic borrowing to 1.6 percent of GDP; (iv) increase gross international reserves to no less than 1.3 months of import cover; and (v) increase spending on poverty reducing programmes to 13.0 percent of GDP.

18. Sir, implementation of economic policies in 2005 was challenging due to several factors. These included the sustained oil price increases on the international market and the disruptions in fuel supply following the extended shutdown of the INDENI Oil Refinery in October. The country also experienced reduced food supply emanating from the partial drought, which led to increases in food prices.

19. Mr. Speaker, real GDP is estimated to have grown by 5.1 percent compared to 5.4 percent in 2004. The

sources of this growth were construction, manufacturing, wholesale and retail trade, and the services sectors. The rate of inflation declined to 15.9 percent in 2005. Although this was above the year's target by 0.9 percentage points, it was the lowest inflation rate during the past 10 years. The relatively strong Kwacha also assisted in dampening inflationary pressures.

20. Sir, due to the strong external sector, which resulted in increased foreign exchange inflows, we built-up our Gross International Reserves (GIR) to an equivalent of 1.8 months of import cover. This was higher than the target of 1.3 months of import cover.

21. Mr. Speaker, the Government domestic borrowing at 1.9 percent of GDP was slightly above the budget target of 1.6 percent of GDP. The target was exceeded in order to allow the Government to settle domestic arrears to road contractors, which have been outstanding for a long time. The release of these resources to the private sector will rejuvenate their economic activities.

22. Mr. Speaker, as alluded to earlier, the country reached the HIPC Initiative Completion Point in April 2005 after struggling to meet a number of conditionalities agreed to at the HIPC Initiative Decision Point in December 2000. Immediately after reaching the Completion Point, most of the Paris Club creditors wrote off 100 percent of Zambia's public and publicly guaranteed debt. In addition, Zambia qualified for write-off of 100 percent of its debt to the African Development Bank (ADB), International Monetary Fund (IMF) and World Bank under the Multilateral Debt Relief Initiative (MDRI), which is a new initiative borne out of the G-8 proposal at the Gleneagles Summit held in Scotland in July 2005.

23. Sir, the HIPC Initiative is an international test for governments on integrity, and prudent financial management. Full and timely implementation of the stringent conditionalities of the initiative has created the confidence and trust of the international community. The New Deal Government has therefore passed the test and now wishes to pass the benefits to all Zambians through prudent use and focused investment of public resources. This will clearly be evident from the allocations made in this year's Budget.

Sectoral Performance

24. Mr. Speaker, all the sectors of the economy registered growth in 2005. In the sections that follow, I highlight the performance of the key sectors of the economy.

Agriculture

25. Mr. Speaker, the agriculture sector grew by 2.8 percent in 2005 compared to 4.3 percent in 2004. The slow down in the growth of the sector was attributed to the effects of the partial drought and the outbreak of livestock foot and mouth disease, especially in the Southern and Central Provinces. The partial drought resulted in a drop in the production of some key food crops such as maize, the major staple food, which declined by 28.6 percent to 866,187 metric tonnes.

26. Mr. Speaker, despite the partial drought, the production of non-food crops such as cotton and tobacco continued to expand. Production of virginia tobacco increased by 82.0 percent to 23.2 million kilograms while cotton production increased by 7.0 percent to 155,213 metric tonnes. The increase in production of these crops was mainly due to the

recent rise in private sector investment and the financial support provided by the Government to the out-grower schemes.

Mining

27. Mr Speaker, the mining sector experienced increased production capacity on account of recapitalisation in existing mines on the Copperbelt and the coming on stream of the Kansanshi Mines in the North Western Province. I am pleased to note that new jobs have been created, with 1,300 new jobs having been created at Kansanshi Mine alone. The Government, in addition, concluded a Development Agreement with the promoters of Lumwana mine and made progress in the negotiations for the sale of Mulyashi copper assets.

28. Sir, despite these positive developments, the mining sector experienced a number of setbacks that negatively affected its performance. These include mine accidents, labour disputes, and persistent fuel shortages caused by an extended shutdown of the INDENI Oil Refinery. Consequently, preliminary figures indicate that copper production increased by only 5.0 percent in 2005 as against 12 percent in 2004. This contributed to the slow down of the overall growth of the sector from 13.9 percent in 2004 to 2.8 percent in 2005.

Manufacturing

29. Mr. Speaker, the manufacturing sector posted a growth of 3.7 percent in 2005 compared to 4.7 percent in 2004. The growth was mainly driven by the food, beverages and tobacco sub-sectors. However, I am concerned that the textiles and leather sub-sector, which is the second largest component of manufacturing, continued to record a decline in production. Output in this sub-

sector declined by 4.7 percent having also fallen by 1.9 percent in 2004. The Government has taken note of the challenges that this sub-sector is experiencing and has taken measures in this year's Budget to address the situation.

Tourism

30. Sir, the tourism sector posted a robust growth of 12.1 percent compared to 6.4 percent in 2004. The major reasons for the expansion of this sector were the enhanced marketing initiatives and the sharp rise in private sector investment. The 2005 Visit Zambia campaign was one such marketing initiative that boosted tourism activities. The other initiative was the Tourism Development Credit Facility (TDCF), which was launched in 2004. These initiatives contributed to the rapid expansion of tourism facilities such as lodges, guesthouses and camping sites.

Construction

31. Mr. Speaker, the construction sector continued to register double digit growth. The strong growth of 19.9 percent in 2005 and 20.5 percent in 2004 was due to a sharp rise in housing and commercial development around most of our main urban centres. The development has created employment opportunities for skilled artisans like bricklayers, blacksmiths, plumbers and electricians.

32. Mr. Speaker, while these positive developments are indeed commendable, there is need, however to improve town and country planning in many of our towns and cities. Currently, residential housing construction is characterised by the proliferation of all sorts of unplanned structures without regard to standards, order and provision of support services such as water, sewerage and roads.

Privatisation and Parastatal Reform

33. Mr. Speaker, in 2005, three companies were privatised bringing the cumulative total number of companies and units privatised, leased or concessioned to 262 out of a working portfolio of 284. The privatised companies were Monarch Zambia Limited, Zambia Seed Company and Kafue Textiles of Zambia, which came back to life after years of difficulties. In addition, significant progress was made in negotiations for the privatisation of a number of firms.

34. Sir, the commercialisation of ZESCO was successfully completed in 2005. However, what remains is the evaluation of the performance of the company in June 2006. The Government has also decided to commercialise Zambia Telecommunications Company Limited (ZAMTEL). In this regard, a team of experts from various stakeholder organisations has been constituted to work on the modalities of the commercialisation of the company.

Domestic Debt

35. Mr. Speaker, the domestic debt stock and other liabilities increased by 17 percent to an estimated K6,100.0 billion. The increase was primarily on account of a rise in the Government securities debt (Treasury bills and bonds) and an increase in liabilities related to Awards and Compensations.

36. Sir, the stock of Government securities rose by 20.8 percent to K5,256.2 billion while arrears on Awards and Compensation increased by 49.9 percent from K58.4 billion as at end December 2004 to K87.5 billion by end of December 2005. The Government made available K54.0 billion, which was used to clear some of the cases in 2005. While the Government made progress in addressing

the external debt and is now addressing the domestic debt by limiting domestic borrowing, I am very concerned at the continued surge in judgements passed against the State.

37. Mr. Speaker, the Government made tremendous efforts in 2005 to reduce the stock of domestic arrears to suppliers of goods and services. In this regard, a budgetary allocation of K76.0 billion and supplementary funds of K120.0 billion were disbursed, mostly to road contractors.

External Debt

38. Mr. Speaker, Zambia has benefited from debt relief under the HIPC Initiative, which coupled with timely debt service has led to a significant reduction in the debt stock. Preliminary data indicates that Zambia's external debt stock stood at US \$4.5 billion at the end of 2005.

39. Mr Speaker, under the new MDRI, the African Development Bank, the IMF and the World Bank are expected to cancel 100 percent of the debts owed to them. At the conclusion of the HIPC Initiative and the MDRI, hopefully by July 2006, Zambia's external debt will be reduced to about US \$502 million from US \$7.1 billion as at the end of 2004.

40. Sir, the country will be saving annually about US \$180 million or K500 billion in debt service. The savings arising from the debt relief under both the HIPC Initiative and MDRI will assist the country in its development efforts so as to reduce the current levels of poverty by 50 percent by 2015. The Government is determined to focus and step up expenditure on poverty reducing programmes as per the requirement under these generous external debt service relief schemes.

External Sector Developments

41. Mr. Speaker, in 2005, the

country's external position continued to strengthen, with the trade balance recording a surplus of US \$59.0 million. Total export earnings increased by 17.5 percent to US \$2,127.0 million from US \$1,810.0 million in 2004. It is worth noting that export earnings in 2005 doubled from US \$1,061.0 million in 2003. The increase in the value of export earnings was mainly attributed to the growth in copper export volumes and the rise in the copper price. Sir, the strong expansion in non-traditional exports also contributed to the growth in export receipts, with earnings increasing by 20.3 percent to US \$581.9 million.

42. Sir, non-traditional export earnings have more than doubled in the last five years, reflecting a positive response to the improved economic environment and the Government supportive policies to the sub-sector. The growth in non-traditional exports was accounted for by the strong performance in tobacco, copper wire, electrical cables, fresh flowers, fresh vegetables, gemstones, scrap metal, cotton yarn, cotton lint, and sugar exports.

43. Mr. Speaker, while exports grew strongly, imports also rose sharply in 2005 by 19.7 percent to US \$2,068.0 million from US \$1,727.0 million in 2004. This rise in imports was on account of high world oil prices and strong investment activity in the mining sector.

44. Sir, although the trade balance improved, the net services and income accounts deteriorated by 17.2 percent and 42.7 percent to US \$252.0 million and US \$605.0 million, respectively. These net payments combined, resulted in the widening of the current account deficit, excluding grants, to an estimated US \$826.0 million or 11.9 percent of GDP in 2005 from about US \$583.0 million or 10.7 percent of GDP in 2004.

45. Mr. Speaker, the current account

deficit was mainly financed by project grants, foreign direct investment and portfolio inflows. Project grants increased by 24.4 percent to US \$306.0 million while foreign direct investment increased by 11.7 percent to US \$334.0 million. Increased external capital inflows partly resulted from the rise in investor and donor confidence following the attainment of the HIPC Initiative Completion Point in April 2005.

Monetary and Financial Sector Developments

46. Mr. Speaker, in 2005, the Government set out to achieve an overall annual inflation rate of 15.0 percent. This entailed pursuing tight monetary and prudent fiscal policies, which were consistent with the inflation and economic growth objectives.

47. Mr. Speaker, it is pleasing to note that consumer price inflation reduced to 15.9 percent compared to 17.5 percent achieved in 2004. This outturn is a milestone as it is the lowest inflation rate achieved since the advent of the liberalisation of the economy in 1991. This occurred against a backdrop of food price increases, temporary disruption in fuel supply and a persistent rise in oil prices on the world market. These negative shocks to the economy were mitigated, to a large extent, by the sustained appreciation of the Kwacha against major currencies and tight monetary policy.

48. Mr. Speaker, the fiscal restraint observed by the Government allowed for an expansion of credit to the private sector, thereby stimulating growth in the economy. For instance, credit to agriculture increased by 32.8 percent, to manufacturing by 26.1 percent, to construction by 56.3 percent and to the wholesale and retail trade by 41.1 percent. This shows that money is going into the real economy.

49. Sir, the Government securities market was developed further by the introduction of the 364-day Treasury bill and the 3 and 5-year Government bonds and the discontinuation of the 12-month and 18-month Government bonds. These measures will enable the Government to restructure its domestic debt and establish a pricing benchmark for the private sector to raise funds from the capital market for investment.

50. Mr. Speaker, the commercial banks nominal weighted lending base rate fell to 27.6 percent from 29.8 percent in 2004. Although this is a movement in the right direction, the Government is still concerned about the slow pace at which lending rates are generally declining. Given the recent declining trend in inflation, I implore the commercial banks to begin to reflect these positive developments in the economy by reducing the lending rates. This move will improve the prospects for higher economic growth. On its part, the Government will ensure that inflation and inflationary expectations are further curtailed.

51. Mr. Speaker, as mentioned earlier, the foreign exchange market was characterized by a general appreciation of the Kwacha against major currencies. This was mainly due to the increased supply of foreign exchange on the market arising from higher export earnings and donor inflows following the attainment of the HIPC Completion Point, which reduced debt service payments substantially. In addition, there was an increase in portfolio and foreign direct investments.

52. Sir, the implementation of the Financial Sector Development Plan (FSDP) continued in 2005. The key milestones achieved in the area of financial sector legislation were the amendments of the Acts of various state-owned non-bank financial institutions. The amendments, which were signed into

law in October, 2005, will harmonise these Acts and give the Central Bank a clear supervisory responsibility over these institutions.

53. Mr. Speaker, in an effort to improve the credit culture in the country, the Credit Reference Services (licensing) Guidelines and the Credit Data (privacy) Code have been approved by the Bank of Zambia and will take effect early this year. These guidelines are intended to provide an interim regulatory framework for credit reference services in Zambia, whilst the substantive law is being developed. The guidelines will also facilitate the licensing of the credit reference service providers.

54. Sir, the Government has also approved the Banking and Financial Services (Microfinance) Regulations, which will facilitate the effective supervision and regulation of both deposit-taking and non-deposit taking microfinance institutions. The introduction of appropriate legal framework is aimed at setting standards for rural and micro finance and enforces compliance. The microfinance sector, therefore, will be required to operate and grow in a manner that is safe, sound and sustainable.

Capital Market Developments

55. Mr. Speaker, the performance of the stock market in 2005 was impressive. The number of trades increased by 26 percent while the market size grew by 11 percent to K8,600.0 billion. In addition, the Lusaka Stock Exchange (LuSE) All Share Index rose by 62 percent to close the year at 1,240 points. This was a result of improved portfolio inflows that increased on a net basis by US \$5.0 million. Sir, this clearly demonstrates the growing attractiveness of our economy to

investors as a result of the improved macroeconomic fundamentals and good corporate governance.

56. Mr. Speaker, in 2005, the Government through the Zambia Privatisation Trust Fund (ZPTF) offered for sale to the Zambian public its remaining shares in five LuSE listed companies. These are BP Zambia Plc, National Breweries Plc, Zambia Sugar Plc, Pamodzi Hotel Plc and British American Tobacco Plc. Sir, this offer was a resounding success recording an over subscription by 420 percent. In line with the Government's policy of empowering Zambians through wide spread company ownership, I am pleased to report that all the 451 individuals who applied were allotted the shares they had applied for.

Foreign Financing

57. Mr. Speaker, the continued cordial relationship the country has enjoyed with our co-operating partners and the favourable economic performance in 2005, led to the disbursement of a significant amount of both budget and project support. Direct budget support increased by 97.6 percent to US \$154.9 million from US \$64.8 million in 2004, whereas project support (loans and grants) increased by 39.9 percent to US \$498.0 million from US \$356.0 million in 2004. A further amount of US \$177.4 million was disbursed by the International Monetary Fund (IMF) as a HIPC grant and US \$16.1 million was disbursed under the PRGF arrangement.

58. Mr. Speaker, the increase in disbursements by co-operating partners is, once again, a resounding message of the confidence and the trust that they have in the able manner this Government is managing the political and economic affairs of the country.

Budget Performance in 2005

59. Mr. Speaker, the budget performance in 2005 was satisfactory with the budget releases to line ministries and Government departments reaching 90 percent or above what was budgeted. I am pleased to report that this is the first time in recent times that the budget execution has reached these high levels. In addition, our intervention in poverty reducing programmes was outstanding, with releases made according to plan.

60. Sir, preliminary data on total revenue and programme grants indicate that the receipts amounted to K7,743.7 billion and were broadly in line with the budget.

61. Sir, tax collections amounted to K5,518.4 billion and were above target by K6.9 billion. However, non-tax and exceptional revenue collections at K88.5 billion and K 36.2 billion were below target by K47.3 billion and K38.7 billion, respectively.

62. Mr. Speaker, foreign grants in 2005 amounted to K2,100.5 billion and were above the pledged amount by K79.7 billion. With regard to programme grants, a total of K598.8 billion was received from our cooperating partners against the pledged figure of K382.0 billion. Compared to the previous years, this was an outstanding disbursement. I, therefore, wish to take this opportunity to commend our cooperating partners for this tremendous support.

63. Mr. Speaker, total domestic and foreign financed expenditures in 2005 amounted to K8,845.7 billion against the target of K9,395.2 billion and were below by K549.4 billion or 5.8 per cent. Of these expenditures, the Government

disbursed a total of K2,062.4 billion to poverty reducing programmes and were above the domestic budget allocation of K1,849.1 billion by 11.5 percent. This reflects the Government's commitment to re-orienting significant resources to poverty reducing programmes.

64. Sir, in 2005, budgetary releases to the social sectors stood at 25.4 percent of the national budget. As a share of discretionary budget, these releases amounted to 51.0 percent. Disbursement to the education sector amounted to K1,062.6 billion against the budget allocation of K1,026.8 billion and was above by 3.3 percent. As a share of discretionary budget, this was 31.0 percent, reflecting the Government's resolve to enhance the quality of education. By the end of 2005, the Government had recruited an additional 8,000 teachers.

65. Sir, with respect to the health sector, disbursements amounted to K480.0 billion and were above the budget allocation of K431.9 billion by K48.1 billion. As a proportion of the total discretionary budget, releases were 14.0 percent. The main focus in 2005 was on addressing the issue of ensuring the availability of adequate medical personnel throughout the country. Thus, the Government's interventions were aimed at recruitment of additional frontline medical personnel as well as introducing retention schemes in order to counter the brain drain experienced in this sector. By the end of 2005, the Government had recruited 1,336 medical personnel.

66. Mr Speaker, in order to promote economic growth, the focus on support for infrastructure development and agricultural activities was maintained. For instance, while K439.2 billion was allocated for road infrastructure, a total of

K410.9 billion was disbursed. With regard to the agriculture sector, K346.3 billion was disbursed against an allocation of K352.3 billion, representing 98.3 percent of the budget allocation. Of this amount, K140.0 billion was for the Fertilizer Support Programme and K59.1 billion was for strategic food reserves. The rest of the expenditure was on crop diversification, livestock restocking, promotion of out grower schemes and the promotion of sustainable utilization of the fisheries resource.

67. Mr. Speaker, domestic interest payments amounted to K731.5 billion and were lower than the budgeted figure of K850 billion, representing a saving of K118.5 billion. This was on account of the relatively lower than projected levels of interest rates. In addition, external debt payments amounted to K568.9 billion out of which K438.9 billion was amortisation. This was less than the budget provision of K576.5 billion by K7.6 billion.

68. Mr. Speaker, in 2005, domestic budget deficit of K596.3 billion was incurred and was financed through the banking and non-bank sectors in the form of Government securities.

Zambia Social Investment Fund (ZAMSIF)

69. Mr. Speaker, the Zambia Social Investment Fund (ZAMSIF), a World Bank supported Government programme that took development to the people by working with and through communities, closed on 31st December 2005. Having recognised the positive impact that ZAMSIF had on the Zambian population, especially in rural areas, the Government is currently holding discussions with the World Bank for a follow-up programme to ZAMSIF. The programme to succeed ZAMSIF will be called the Local Development Programme (LDP) and will

be implemented as part of the decentralisation programme of the Government.

PART III

ECONOMIC POLICIES FOR 2006

70. Mr. Speaker, the economy has recorded positive growth over the last six successive years averaging 4.6 percent, which is above the average annual population growth rate of 2.4 percent. However, poverty levels still remain high amongst our people and this is a major concern to the Government. To address the high poverty levels, we should not only sustain the recent positive economic strides that we have made, but also raise further economic growth to more than six percent per annum in the coming years. In addition, we need to ensure that the growth process benefits more of our people by integrating them in economic activities.

71. Sir, in order to further raise economic growth and decisively tackle poverty, the Government in 2005, embarked on the preparation of the Fifth National Development Plan (FNDP) to cover the period 2006-2010. The FNDP will focus on those areas of intervention where the greatest gains will be achieved. These are enhancing rural development, especially agriculture; strengthening the linkages between the resource sectors with manufacturing; fostering a competitive and outward-oriented economy; and improving infrastructure and social service delivery.

72. Mr. Speaker, as was indicated by His Excellency the President in his opening address to the current session of Parliament, the preparation of the FNDP has benefited from broad consultations with stakeholders. These include traditional leaders, local authorities, trade

unions, civil society organisations, church organisations and political parties. In addition, members of this august House were also consulted. The FNDP is expected to be launched in July of this year and, therefore, this budget marks the beginning of the implementation of the Plan.

Macroeconomic Objectives for 2006

73. Mr. Speaker, in line with the broad development agenda that I have outlined above, the Government's macroeconomic objectives for 2006 are to: (i) achieve real GDP growth of 6 percent; (ii) bring down end-year inflation to 10 percent; (iii) reduce domestic Government borrowing to 1.6 percent of GDP; and (iv) maintain the coverage of official gross international reserves to at least 1.5 months of imports.

Fiscal Policies

74. Mr. Speaker, in 2006, fiscal policies will continue to focus on containing the fiscal deficit to within sustainable levels. In this regard, the Government will limit its domestic borrowing to 1.6 percent of GDP. It is expected that the limiting of the Government domestic borrowing will contribute to a decline in nominal interest rates and allow for increased credit to the private sector to stimulate economic growth.

75. Sir, the Government will continue to channel more resources towards enhancing economic growth and poverty reducing programmes. This will include the hiring of more teachers and core health workers so as to enhance service delivery in the education and health sectors.

76. Mr. Speaker, this year, the

Government will conduct an overall review of the country's tax policy which will be aimed at, among other things, rationalizing the tax system and expanding the tax base. Once revenues are realised, they must be spent on agreed programmes and according to laid down rules. We will therefore continue with strict fiscal discipline and apply the provisions of the Public Finance Act in the management of resources.

Monetary and Financial Sector Policies

77. Mr. Speaker, the Bank of Zambia will continue to pursue tight monetary policy in 2006 in order to achieve the inflation target of 10 percent. This will be complimented by prudent fiscal policies. With lower inflation, the cost of doing business will be reduced. This will improve the environment for achieving higher economic growth.

78. Mr. Speaker, the Government will remain committed to a flexible exchange rate regime. In this regard, the Government wishes to state that it does recognise the potential negative impact of the recent appreciation of the kwacha on the international competitiveness of non-traditional exports and domestic manufacturers. It is the Government's considered view that competitiveness needs to be attained through the establishment and maintenance of a business environment that is conducive to high productivity. Now is the opportunity for the business community to turn the country into a productive centre, by taking advantage of the strong Kwacha to recapitalize the industrial base through acquisition of new capital machinery at affordable cost.

79. Sir, our capital markets are still in their nascent stage. In line with the Financial Sector Development Plan

(FSDP), measures aimed at developing and strengthening our capital markets will be implemented. This year, the Government intends to begin the review and to make necessary regulations for the Securities schemes. The amendments to these pieces of legislation will encourage the pension funds and other institutional investors to channel a portion of their investible funds to our domestic capital markets.

Debt and Aid Policies

80. Mr. Speaker, the Government is implementing the Debt Reform and Capacity Building Programme, under the Public Expenditure Management and Financial Accountability (PEMFA) reforms. The aim, among other things, is to develop a Debt Reform Plan and to strengthen debt management capacity. It has been observed that after being granted debt relief, several countries easily fall back into debt distress due to poor public debt management practices. A key element to be addressed under the reform programme is to improve governance as it relates to debt acquisition.

81. Sir, once the Debt Reform Plan has been developed, the Government will adopt a prudent new debt policy and strategy that will entail contracting highly concessional loans, where grant resources are inadequate. This will assist Zambia to avoid falling back into an unsustainable debt position that takes away resources from development.

82. Mr. Speaker, with respect to aid management, the Government will continue with the harmonisation of donor aid. The aim is to ensure that aid is aligned with national development priorities and that transaction costs are minimised as this will make aid more efficient and effective. It will also ensure

that the country has a predictable and well co-ordinated system to mobilise, monitor and evaluate the impact of external assistance.

Key Sector Policies and Interventions

Agriculture

83. Mr. Speaker, agriculture remains a priority for accelerated growth and poverty reduction. The Government's policy in the sector is to facilitate and support the development of a sustainable and competitive agricultural sector able to ensure food security and income generation at household and national levels. The private sector will continue to play a leading role in driving the sector while the Government will focus on infrastructure development and provision of supportive services.

84. Sir, to enhance food security, the Government will continue to implement the fertiliser support programme with coverage of more than 150,000 small-scale farmers. Through the Food Reserve Agency, we will continue to maintain strategic food reserves in order to mitigate the effects of natural disasters on food production and food security.

85. Sir, with regard to the land development programme, we shall continue with the provision of basic infrastructure such as roads and electricity at Nansanga, Luena, and Kalumwange farm blocks. The objective for developing these farm blocks is to make more serviced land available for both large and small-scale farming activities with a view to increasing agricultural production.

86. Mr. Speaker, the Government recognises that the best way to enhance incomes for small-scale farmers from their activities is to integrate them with

commercial production. In this regard, under the agricultural commercialisation programme, the Government will continue to support out-grower schemes for the production of cash crops.

87. Sir, livestock diseases have recently ravaged our livestock sector thereby reducing the assets and incomes of many of our rural population. The Government will, therefore, scale up the implementation of animal disease control programmes. These will include the construction of a cordon line in the Western and North-Western Provinces and the continuation of vaccination programmes to prevent the spread of animal diseases.

Mining

88. Mr. Speaker, activities in the mining sector are expanding rapidly although expansion is mostly confined to large-scale mining. The small-scale mining sub-sector, which should contribute to our poverty reduction efforts, is still very much underdeveloped. In this regard, Government interventions will largely be directed at supporting small-scale mining while maintaining the existing investor friendly environment for large-scale mining.

89. Sir, the Government will maintain the recently established Mining Sector Revolving Fund set up last year with a capital outlay of K2.0 billion. The fund will assist small-scale miners with development financing for improving their operations. Further, we will continue to provide the necessary extension services to small-scale miners.

Energy

90. Mr. Speaker, the importance of

the energy sector in the economy cannot be over-emphasised. Last year, we faced a prolonged interruption in fuel supply, which adversely affected our industry and indeed households. This situation was mainly due to the recurring crises at INDENI Oil Refinery. Sir, in light of these developments, the Government will in 2006 step up the process of establishing petroleum strategic reserves and address the problems of INDENI on a sustainable basis.

91. Sir, with regard to the electricity sub-sector, the rehabilitation programme at the major power stations will continue while encouraging new investment in additional capacities, especially hydro electric power development.

92. Sir, in addition to these measures, the Government will continue with the Rural Electrification Programme. We will also promote use of alternative energy sources to traditional fuels such as bio-diesel so as to conserve the environment.

Tourism

93. Mr. Speaker, in line with the Private Sector Development Plan, the focus in the tourism sector is to enhance the business climate and improve infrastructure. These are key bottlenecks to the development of a vibrant hospitality industry.

94. Sir, with regard to infrastructure development, the major activities to be carried out are the improvement of the roads in the Kafue and Mosi-oa-Tunya National Parks, and accelerating the facelift of the Greater Livingstone City. Other key interventions will be the enhancement of park management aimed at increasing animal species as well as reducing poaching. In addition, the

Government will support the development of the Northern circuit covering Northern and Luapula Provinces where there are numerous tourist attractions.

95. Mr. Speaker, another important project is the extension of the runway and passenger facilities at the Livingstone International Airport in order to accommodate landing and handling of large aircraft. The project has already commenced and when completed in 2007, it will open up the City of Livingstone to long haul international flights.

Manufacturing

96. Mr. Speaker, the Government is committed to the development of a vibrant but competitive manufacturing sector. To this effect, several measures and incentives aimed at enhancing the competitiveness of the sector will be provided. The Government is in the process of implementing a new initiative called the Multi-Facility Economic Zone (MFEZ). The MFEZ, which will replace the Export Processing Zones (EPZ), will be special industrial zones for both export-oriented and domestic-oriented industries. The zones will have all the necessary infrastructure for the easy commencement and conduct of manufacturing activities. In addition, several concessions will be provided for those companies that will operate in the MFEZ.

Trade

97. Mr. Speaker, the Government will, in partnership with the private sector, pursue an export-led growth strategy, through coherent actions at national, regional and multilateral levels. Value chain analysis in priority sectors, as identified through the Integrated Framework and Private Sector Development Programme, will be carried out. The results of the value chain

analyses will feed into an Aid-for-Trade programme aimed at the gradual elimination of supply-side constraints.

Structural Reforms

98. Mr. Speaker, our structural reform programme aims at contributing to the achievement of a high and broad based economic growth and also to rapidly reduce poverty. The key reforms in 2006 will continue to focus on prudent public expenditure management and financial accountability through PEMFA, financial sector development through the FSDP, and enhancing the business and investment climate through the PSD.

99. Mr. Speaker, last year, the Cabinet approved the establishment of the Zambia Development Agency (ZDA) as a “one stop shop” to bring together the operations of five statutory bodies, namely, Zambia Investment Centre (ZIC), Zambia Export Processing Zones Authority (ZEPSA), Export Board of Zambia (EBZ), Zambia Privatisation Agency (ZPA) and Small Enterprise Development Board (SEDB). This year, we will commence the initial start-up works for the establishment of the new Agency.

PART IV

THE 2006 BUDGET

100. Mr. Speaker, as indicated earlier, this year’s budget is being presented under the theme “**From Sacrifice to Equitable Wealth Creation**”. The budget will, therefore, seek to consolidate the gains made in 2005 and further strengthen the economy by continuing to direct more resources towards priority programmes. These are road

infrastructure, water supply and sanitation, agriculture support as well as education and health service delivery. In addition, the budget has provided resources to specifically empower the youth so as to address the high levels of unemployment and lack of capital. Further, the budget has provided a number of fiscal incentives to targeted priority sectors in order to encourage and attract new investments and stimulate growth. Through these measures, it is hoped that the majority of the able-bodied Zambians will find space to be involved in the development of their country.

Expenditure Measures

101. Mr. Speaker, the Government proposes to spend a total of K10,236.6 billion in 2006, representing 26.9 percent of GDP. A total of K7,264.2 billion or 71.0 percent of the budget will be financed from domestic resources, while the remainder of K2,972.4 billion or 29.0 percent will be externally financed. This is a positive development as it reflects increasing dependence on internal resources.

102. Sir, the Government proposes to spend K 6,853.5 billion or 67.0 percent of the total budget on current expenditures and K 2,203.7 billion or 21.5 percent of the total budget on capital expenditures. The remaining K1,179.3 billion or 11.5 percent of the budget is being proposed for Constitutional and Statutory expenditures, a major component of which is debt service.

103. Mr. Speaker, with regard to current expenditures, the Government has allocated K3,022.8 billion or 7.9 percent of GDP to personal emoluments and K1,851.6 billion or 4.9 percent of GDP to recurrent departmental charges. A further K1,518.3 billion or 4.0 percent of

GDP has been provided for transfers and pensions.

104. Sir, out of the allocation for recurrent departmental charges, K239.6 billion is for the 2006 Tripartite Elections and K100.0 billion is for payment of arrears to suppliers of goods and services.

105. Mr. Speaker, with regard to grants and other payments, K254.0 billion is for Public Service Pensions Fund. Of this amount, K154.0 billion will be for payments relating to retirement in national interest, early retirement, deceased estates and judges' normal retirements, while K100.0 billion will be for payment of arrears.

106. Sir, with regard to constitutional and statutory expenditure, the Government proposes to spend K1,155.6 billion on domestic and foreign debt service. Of this amount, K777.6 billion is for domestic debt service while K378.0 billion is for external debt service.

107. Sir, foreign debt service obligations for 2006 have reduced from US \$213.3 million (K1,018.3 billion) without HIPC Initiative debt relief to US \$79.3 million (K378.0 billion) after HIPC Initiative debt relief. This is the benefit of the belt-tightening we all went through.

economy. As such, the Government has streamlined the financing and management of the road sector. The National Road Fund Agency (NRFA) will now be responsible for the management of all the resources for road programmes, while the Road Development Agency (RDA) will be responsible for the physical planning and execution of the road works. The Road Fund has also been broadened and will comprise the Government budget provision, fuel levy, 50 percent of other road user charges and donor funds.

110. Sir, a total of K904.5 billion has been proposed for the road programmes. Of this amount, K882.3 billion is provided for under the National Road Fund Agency and the balance of K22.2 billion has been provided for under the road programmes of the provinces.

Agriculture

111. Mr. Speaker, the Government proposes to spend K580.0 billion or 5.7 percent of the total budget on support to agriculture. Of this amount, K158.7 billion is for the fertilizer support programme for the 2006/2007 agricultural season. In addition, K40 billion has been allocated to settle outstanding payments from the previous farming seasons. Further, K15.0 billion has been provided for the procurement of input packs for the vulnerable but viable farmers. An amount of K50 billion is being proposed for the strategic food reserves.

Social Sectors

112. Mr. Speaker, in pursuing the social economic objectives, the Government proposes to spend K3,113.1 billion or 30 percent of the total budget on the social sectors.

Expenditure by Function.

Economic Sector

108. Mr. Speaker, in line with the Government's objective of enhancing broad-based economic growth, we are proposing to spend K1,843.4 billion or 18 percent of the total budget in the economic sectors. Of this amount, K905.5 billion or 55.9 percent has been allocated for infrastructure, mostly roads.

Roads

109. Mr. Speaker, the Government recognises the strategic importance of the road infrastructure in the country's

Education

113. Mr. Speaker, the Government proposes to spend K1,647.4 billion in the education sector. This is equivalent to 26.9 percent of the discretionary budget compared to 24.0 percent in 2005. These resources are required to cater for teachers' salaries, school requisites, rehabilitation and building of school infrastructure, including teachers' houses in the rural areas. Sir, the increase in allocation to the education sector will also allow the Government to recruit an additional 4,578 teachers.

114. Mr. Speaker, out of the total education allocation, the Government proposes to spend K700.5 billion on pre-primary and basic schools, K217.4 billion on tertiary education and K165.6 billion on high school education.

Health

115. Mr. Speaker, with respect to the health sector, the Government proposes to spend K1,098.4 billion. This represents 18.0 percent of the discretionary budget, an increase from 12.0 percent in 2005. The allocation will cater for HIV/AIDS control and mitigation, primary and community health care, purchase of medical equipment and drugs, transfers to hospitals and clinics as well as out patient services. In addition, the Government will recruit 800 medical personnel to address the problem of inadequate staff in our health institutions.

Housing and Community Amenities

116. Mr. Speaker, the Government is proposing to allocate K291.9 billion or 2.9 percent of the total budget for housing and community amenities. Of this amount, K182.5 billion is being directed

to water supply and sanitation. The programmes include provision of boreholes and wells in the rural and peri-urban areas. The remainder of K109.4 billion has been allocated for community and social welfare and housing development.

Youth Empowerment

117. Mr. Speaker, in this year's budget, the Government proposes to provide K40.0 billion to cater for youth projects and innovations. The Government has thus created the Youth Empowerment Fund, Youth Inventors Fund and Youth Constituency Development Fund, which will provide seed money for youth projects and innovations. Through the youth inventors' fund, we intend to facilitate the development of all those innovations readily available through the Junior Engineers and Technical Scientists (JETS) fairs.

Revenue Estimates and Measures

Revenue Estimates

118. Mr. Speaker, the details of the revenue estimates to finance the expenditure are broken down as follows:

of housing, proposes to suspend customs duty for five years on all materials used in the manufacture and packaging of cement. The Government also proposes to suspend customs duty on imported materials used in the manufacture of roofing sheets.

121. Sir, these measures are aimed at reducing the cost of production of cement and roofing sheets, which are major inputs in housing development. It is hoped that this relief will be passed onto the consumers through reduced prices of cement and roofing sheets and, therefore, provide an opportunity for Zambians to afford decent housing. These measures will result in a revenue loss of K8.1 billion.

122. The measures will take effect from midnight tonight.

Concessions for the assembly of motor vehicles, motor cycles and bicycles

123. Mr. Speaker, it is the intention of the “New Deal” Government to revive the motor vehicle and bicycle assembly industry. In addition, our people will get employment and, therefore, more taxes will be paid to the Government. In this regard, the Government proposes to suspend customs duty on all machinery, fixtures and equipment, tools, motor vehicle parts, motor cycle parts and bicycle parts used in the assembly of motor vehicles, motor cycles and bicycles, for a period of five years.

124. This will result in a revenue loss of K4.1 billion and will take effect at midnight tonight.

Concessions for priority sectors under the proposed Zambia Development Agency (ZDA) Act

125. Mr. Speaker, in order to attract

Revenue Measures

119. Mr. Speaker, in line with the Private Sector Development (PSD) Initiative, we need to quickly enhance the competitiveness of our economy. In this regard, the Government will provide relief in form of tax incentives to targeted sectors in an effort to attract new investments and consolidate existing ones.

Concessions for Housing Development

120. Sir, the Government, in recognition of the current serious shortage

investment, the Government proposes to provide the following incentives for priority sectors to be declared under the proposed ZDA Act:

- i. No tax on dividends will be paid by companies operating under the proposed ZDA Act for a period of five years from the year of first declaration;
- ii. Only 50 percent of the profits made by companies operating under the proposed ZDA Act will be taxed under the Income Tax Act for a period of five years from the first year profits are made;
- iii. For the purpose of the Income Tax Act, capital expenditure on improvement or for the upgrading of infrastructure will qualify for improvement allowance of 100 percent of such expenditure for tax purposes; and
- iv. Suspend customs duty to zero percent for a period of five years on machinery and equipment acquired by business enterprises that will operate under the proposed ZDA Act or rural enterprises.

126. Sir, let me now outline other revenue measures that the Government has provided in this Budget.

Direct Taxes

127. Mr. Speaker, the “New Deal” Administration has been committed to providing relief to tax payers. In this respect, the Government proposes to increase the current exempt threshold of Pay As You Earn and expand the income tax bands. This measure will ease the tax burden of tax payers and will ensure that

about 12,500 low income earners are actually removed from the tax net. Under the new system, income will now be taxed as follows:

Income Bands	Tax rate (%)
First K3,840,000 per annum	0
Next K9,858,240 per annum	30
Next K54,768,000 per annum	35
Above K68,466,240 per annum	37.5

128. Sir, the loss in revenue arising from this measure will be K39.5 billion.

129. Mr. Speaker, high lending interest rates have made it difficult for borrowers to access funds from commercial banks. The Government would like banks to make available to citizens affordable funds to enable them participate in economic activities. In this regard, the Government proposes to reduce the upper corporate tax rate for banks from 45 percent to 40 percent. It is expected that this measure will encourage banks to make more resources available for on-lending at affordable interest rates.

130. Sir, this measure will result in a revenue loss of K4.1 billion.

131. Mr. Speaker, in order to encourage more Zambians to own shares and also to deepen the capital markets, the Government proposes to exempt dividend income earned by individuals on shares listed on LuSE from tax.

132. Sir, the estimated revenue loss arising from this measure is K225.0 million.

133. Mr. Speaker, mining is a key sector in our economy. Given that Zambia is now engaged in the exploitation of other metals, the Government proposes

that all the tax incentives that apply to mining of copper and cobalt under the Income Tax Act be extended to all other base metals.

134. Sir, this measure will result into a minimal revenue loss.

135. Mr. Speaker, the Government proposes that provisions for environmental costs made by mining companies for environmental restoration be allowed to be deductible for income tax purposes. In addition, the Government proposes to introduce indexation of loss carry-forward and capital allowances for mining companies holding large-scale mining licenses.

136. Sir, in an effort to track and improve compliance in the informal trade sector, the Government proposes to introduce a withholding tax at the rate of 45 percent on payment to suppliers of goods and services who do not have a tax clearance certificate. This tax will not apply on transactions below a threshold of K200, 000. This measure will re-enforce compliance and expand the tax net. It will also ease administration to both small-scale suppliers whose transaction value is less than the threshold and the person receiving the goods or services. The measure will result in a revenue gain of K500 million.

137. Sir, all these measures will take effect on 1st April 2006.

Customs and Excise

138. Mr. Speaker, the Government reduced customs duty on computers in 2004 in order to encourage technological advancement and to align the country with developments in the region. I am pleased to report that following this reduction, we have seen a remarkable improvement in

this industry, including computer assembly entrepreneurship. To support this development in the Information Communication Technology (ICT) sector, the Government proposes to reduce customs duty on computer parts, which is currently at 15 percent to zero percent.

139. Sir, this measure will result in a revenue loss of K935.5 million.

140. Mr. Speaker, in order to revitalize the textile and clothing industry, the Government proposes to suspend customs duty for a period of five years on inputs used in the textile and clothing industry such as grey fabrics including loomstead, machinery, sewing threads, sewing machine spares and trimmings. These measures will result in a revenue loss of K4.2 billion.

141. Sir, I also propose to increase duty from 15 percent to 25 percent on finished polyester and cotton fabrics, most of which are coming from the Far East at very cheap prices and have had adverse effects on our local products. This measure will result in a revenue gain of K966.7 million.

142. Mr. Speaker, for the manufacturing sector to continue to grow and remain competitive in the region, the Government proposes a re-classification of a number of inputs used in food processing, shoe and paint manufacturing industries and to reduce customs duty on these inputs. In addition, the Government proposes to remove customs duty on printed paper board used in the packaging of Ultra High Temperature (UHT) milk. These measures will result into a revenue loss of K1.6 billion.

143. Sir, currently Liquefied Petroleum Gas (LPG) attracts excise duty at a rate of 30 percent. This tax has

constrained the widespread use of LPG. Further, it has given rise to the use of cheaper sources of energy, such as charcoal, that are detrimental to our environment. LPG is a source of energy that can be easily used in homes and the hospitality industry and, therefore, reduce demand on electricity. Sir, the Government proposes to reduce excise duty on LPG from 30 percent to 15 percent so as to encourage the use of LPG as an alternative source of energy. The measure will result in an estimated revenue loss of K417 million.

144. Sir, in order to compensate the revenue loss as a result of many incentives proposed in this year's budget, as indicated above, the Government proposes to increase excise duty on motor vehicles by 5 percent. This measure will result in a revenue gain of K12.5 billion.

145. Sir, all these measures become effective at midnight tonight.

146. Mr. Speaker, in order to curb smuggling of cigarettes into the country, the Government proposes to introduce cigarette tax stamps. This measure is not only expected to combat illicit cigarette trade and reduce smuggling but will also raise resources for the Government. This measure will become effective in July this year and will raise revenues amounting to K1.4 billion.

147. Sir, the Government proposes to introduce a carbon tax on all motor vehicles as follows:

- (a) K50,000 per annum for engines of a cylinder capacity of 1500cc or less;
- (b) K100,000 per annum for engines of a cylinder capacity exceeding 1500cc but not exceeding 2000cc;

- (c) K150,000 per annum for engines of a cylinder capacity exceeding 2000cc but not exceeding 3000cc; and

- (d) K200,000 per annum for engines of a cylinder capacity exceeding 3000cc.

148. Sir, this measure will raise K10.3 billion and will become effective on 1st April 2006.

Value Added Tax

149. Mr. Speaker, under the Mines and Minerals Act, mineral prospecting companies are allowed to hold a prospecting license for a maximum period of five years. However, under the Value Added Tax Act, registered mineral prospecting companies are only allowed to claim input VAT on their pre-production activities for a period of four years. Sir, this is a disparity in the treatment of such companies under the two Acts. In order to remove this anomaly and align the two Acts, the Government proposes to amend the VAT Act so as to extend the period in which input VAT for pre-production expenditure for mineral prospecting companies can be recovered, from four to five years.

150. Sir, in an effort to broaden the tax base and reduce the cost of production, the Government proposes to amend the VAT Act so as to standard rate the supply of newspapers and magazines. This measure will result in a revenue gain of K5.2 billion.

151. Mr. Speaker, currently, some agricultural products are exempt for VAT purposes thereby denying producers the opportunity to claim input VAT. The Government proposes to standard rate all

agricultural products except baby cereals, and maize and flours produced from it. This will enable producers to claim input VAT and make the products competitive on the export market as they will now attract VAT at zero percent when exported.

152. Sir, this measure will result in a revenue gain of K40.5 billion.

153. Mr. Speaker, all these measures will take effect at midnight tonight.

Non-Tax Measures

154. Mr. Speaker, the Government proposes to revise the road tax for trucks weighing 20 tonnes and above from K300,000 per annum to K1.5 million per annum. Sir, the revenue raised from this measure will go towards rehabilitation and maintenance of roads. The measure will result in a revenue gain of K4.8 billion and will come into effect on 1st April, 2006.

155. Sir, the Government proposes to increase fees for police clearance certificates. These fees have been revised in order to bring them in line with the cost of providing the service. In addition, the Government also proposes to introduce new charges for police clearance certificates for money lenders licence, registration of societies, and resident permits.

156. These measures will result in a revenue gain of K790.0 million and will become effective from midnight tonight.

157. Mr. Speaker, the Government proposes to increase fees for citizenship application forms, registration for Zambian citizenship, certificate of citizenship, application for registration of Zambian citizenship and registration for

restoration of Zambian citizenship. Zambia's citizenship fees are very low compared to those obtaining in other countries. This increase reflects a modest cost-effective level of processing the documents.

158. Sir, this measure will result in a revenue gain of K1.1 billion and will become effective from midnight tonight.

Housekeeping measures

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

PART V

CONCLUSION

160. Mr. Speaker, this year's budget has been formulated on the firm foundation of continued sustained and steady growth that has been consistently attained during the last four years. It is cardinal that we do not deviate from this path but consolidate these past gains. Our austerity in spending and steadfastness in the implementation of sound macroeconomic policies have shown that this country can improve and sustainably move forward.

161. Sir, the positive developments in the economy are a demonstration of the confidence and trust by the private sector and foreign investors in the economic policies of the "New Deal" Administration. A trust earnestly and genuinely earned by a clear demonstration of integrity by President Levy Patrick

Mwanawasa, State Counsel and his team. Unfortunately integrity cannot be bought nor transferred as it is part of an individual's inherent character.

162. Mr. Speaker, attaining the HIPC Completion point does not mean that we have reached the "Promised Land". It gives us space to decisively focus our efforts onto the long journey ahead. The journey to prosperity requires hard work, dedication, focus and concerted effort from each one of us. My challenge to fellow Zambians is that they must apply their minds and start thinking as entrepreneurs, ready to produce and contribute positively to the development of "Mother Zambia".

163. Sir, with the developed economies now prepared to allow greater market access to goods and services from developing countries, Zambian entrepreneurs must see this development as a business opportunity and be prepared to seize it. The Government is going ahead with the implementation of the Multi-facility Economic Zones and will offer a wide range of incentives so that the exporters can compete in the international market.

164. Sir, the Government is determined to address a number of administrative and financial constraints faced by investors or would-be investors, especially Zambians. The creation of the Zambia Development Agency is one of the policy measures the Government has taken in order to create a conducive environment for the private sector to thrive and be an engine of economic growth. We will not relent in our effort to bring down inflation and ultimately interest rates, which in turn will make credit to the private sector affordable.

165. Mr. Speaker, in this year's budget, the Government has allocated considerable amounts of resources to important sectors in support of our growth objectives. In particular, priority has been given to road infrastructure improvement and rehabilitation, agriculture, education and health. These sectors are key for achieving accelerated economic growth and the Millennium Development Goals (MDGs).

166. Sir, agriculture still remains an important sector not only from the view point of food security but also economically. It should be a launch pad for an industrial revolution by being a source of raw materials for our industries through value addition. It can also provide a huge market for some industrial goods such as equipment and spare parts. In this vein, I have allocated more resources to support the sector. In addition, attractive tax and other incentives are available to the sector. For example, corporate tax is at 15 percent after many allowable capital investments while imported capital equipment and inputs are duty free and VAT deferred.

167. Mr. Speaker, with so many incentives, the current state of development and growth of the agricultural sector is not encouraging. I implore the private sector to make use of all these incentives and make the sector a viable business proposition. To unlock the potential this sector has, the Government intends to make improvement to the land tenure system so that value can be attached to land to ensure that it becomes a source of capital or security for financing of investment. The Government will expect the full cooperation of all the stakeholders who have authority over land.

168. Sir, as part of the Government

strategy of empowerment, significant resources have been devoted to the creation of special funds where our young and determined Zambian entrepreneurs can access capital. This is the Government's vision to create an entrepreneurship culture starting with the young, who are the giant businesses of tomorrow.

169. Mr. Speaker, the year 2006 must set a stage for the Zambian economy to move to a higher level of sustained growth and development in the wake of massive debt forgiveness. In our resolve to move this country forward and create wealth thereby defeating poverty, we need to put all our efforts together.

170. Sir, may I re-reiterate that developing this country is the sole responsibility of the Zambian people. The Government has taken the lead with definite key policy initiatives and I challenge the private sector and all Zambians to do the rest. I have faith in my fellow countrymen and women because they have the skill, innovation, entrepreneurial spirit and the appetite to move the Zambian economy to the next level of development.

171. **Mr. Speaker, I beg to move.**