Media Statement For Immediate Release

Sunday, 10 September, 2017

THE 2018-2020 MEDIUM TERM EXPENDITURE FRAMEWORK & THE 2018 BUDGET

[Foreword & Chapter 1]

I am pleased to present the 2018 - 2020 "*Green Paper*" which is aimed at linking Government's medium term development goals, as tabulated in the Seventh National Development Plan (7NDP), to their budgetary implications within the current fiscal environment. In over seven [7] years, this is the first time that a green paper is being availed to the public for scrutiny, commentary, and refinement.

Following the implementation of Zambia Plus - The Economic Stabilization and Growth Program (ESGP), a number of positive developments have been attained in 2017. These include the reduction in the inflation rate from a high of around 23 percent in February, 2016 to 6.3 percent in August this year, the appreciation of the Kwacha against major currencies and higher growth projections for 2017 at 4.3 percent compared to the initial forecast of 3.4 percent Nonetheless, challenges still exist on the fiscal front. These include, but are not limited to, the large stock of arrears, for which the Government has designed a medium-term-time-specific-arrears-dismantling-strategy so as to significantly reduce the stock over the medium term.

The 2018 – 2020 Green Paper focuses on sustaining economic growth and development through the continued implementation of the ESGP. The programme is aimed at restoring fiscal fitness and overall macroeconomic stability as a basis for setting a platform for higher inclusive growth, employment and wealth creation in the medium to long-term. In this regard, Government over the medium term plans to prioritize agriculture, mining, manufacturing and tourism as the strategic sectors for the creation of decent employment opportunities and inclusive development.

All stakeholders are therefore implored to scrutinize the 2018 - 2020 "Green Paper" and make constructive recommendations that will enable the finalization of the nation's objectives over the next medium term period.

In line with the theme of the Seventh National Development Plan (7NDP) which focuses on an integrated multi-sectoral development approach of "accelerating development efforts towards Vision 2030 without leaving anyone behind", the 2018-2020 Medium Term Expenditure Framework (MTEF) reflects Government's commitment to ensure that the benefits of economic growth are shared equitably by all citizens. Therefore, Government will work on creating a diversified and resilient economy for sustained growth and socio-economic transformation driven, by among others, the agriculture, tourism, manufacturing and mining sectors.

The MTEF will focus on restoring fiscal fitness for sustained inclusive growth and development. This will be done by realigning spending and enhancing domestic resource mobilisation. Administrative measures are being put in place to strengthen efforts of improving domestic revenue mobilisation so as to meet the medium term revenue targets. This will be through the full implementation of various measures already commenced upon, such as installation of fiscal registers in the retail and wholesale sector and the forensic audit of VAT refund claims to reduce cheating and revenue leakages. Tax payer education campaigns will also be enhanced to encourage compliance, while the introduction and roll out of electronic payments will be followed through in order to limit cash transactions and enhance audit trails.

To complement the various efforts on mobilising revenues, the Government will also continue to engage with Cooperating Partners to increase the level of assistance from 2018 and beyond.

Monetary policy will remain focused on maintaining price stability to support sustenance of macroeconomic stability and thereby aid fiscal fitness, as a basis for higher growth and development.

Maintenance of debt sustainability will remain pivotal in the rebalancing of the Zambian economy. Government's borrowing over the medium term, therefore, will be guided by the Medium Term Debt Strategy, soon to be published, so as to ensure that the country remains within sustainable debt levels. It is envisaged that the fiscal deficit will be reduced to no more than 3 percent of GDP by 2020.

Further, the Government will continue with the dismantling of arrears owed to suppliers of goods and services, as well as contractors so as to unlock economic activity. The Government has designed a medium-term-time-specific-arrears-dismantling-strategy which will see arrears being gradually cleared, over the medium term, through the use of budgetary provisions and restructuring of some of the components into longer term debt instruments.

In order to support the development trajectory set out for the 2018 – 2020 medium term, the institutional framework needs to be right. As such the Government will continue to follow through with the necessary structural reforms so as to ensure that the medium term Budgets deliver the expected development. This will include the operationalisation of the Project Appraisal System and e-Procurement as well as the revision and enactment of public financial management legislation to ensure effective and efficient use of public resources, improved credibility of the budget and enhanced Parliamentary oversight over debt contraction.

Over the medium term, the Government is also expected to fully phase out electricity subsidies, with the migration to cost reflective tariffs once the Cost of Service Study, which is currently underway, is completed. Mining houses and other bulk power consumers have already been engaged on the need for all to migrate to cost reflective tariffs.

To lessen the impact of the Economic Stabilisation and Growth Programme (ESGP) measures on the vulnerable, the Government will continue to implement social safety nets for the most vulnerable. The Social Cash Transfer Scheme which has proved to be most effective in addressing vulnerabilities will, in terms of both coverage and support be scaled up.

//ORIGINAL SIGNED//

Fredson Yamba
SECRETARY TO THE TREASURY

SEE BELOW FOR DETAILS

CHAPTER 2

2.0 MACROECONOMIC OVERVIEW

2.1 Developments in the Global Economy

1. The global economy is projected to grow by 3.5 percent in 2017, compared to 3.2 percent in 2016. Growth will be driven by both the advanced and emerging and developing economies.

2. In advanced economies, growth is projected at 2.0 percent in 2017 compared to 1.7 percent in 2016. This reflects increased economic activities across most countries due to an increase in domestic demand and improved market confidence. Growth in the United States of America is projected at 2.1 percent compared to 1.6 percent in 2016. In the euro area, growth is projected at 1.9 percent compared to 1.8 percent in 2016. The general upward growth in many advanced countries, notwithstanding growth in the United Kingdom, is projected to decline due to weak economic activity.

3. Emerging market and developing economies are projected to grow by 4.6 percent in 2017, compared to 4.3 percent in 2016. This in large part reflects gradually improving conditions in large commodity exporters that experienced recessions in 2015 and 2016, which in many cases was caused or exacerbated by declining commodity prices. China's growth is expected to remain at 6.7 percent in 2017, the same level as in 2016, on the back of continued fiscal support.

4. In Sub-Saharan Africa, growth is projected at 2.7 percent in 2017, compared to 1.3 percent in 2016. A bumper crop due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices partly explains this outturn, especially for larger economies such as South Africa. The Nigerian economy is projected to return to positive growth after a recession in 2016, while modest recovery is projected for the Zambian economy.

5. Commodities broadly benefited from rising prices in the first half of 2017 after many averaged cycle-lows last year. Crude oil prices have relatively have been on an upward trend although gradual while base metals have gained from a recovery of the global economy and rising manufacturing activity, with copper fundamentals in particular improving significantly.

6. The global prices of copper continued to be strong during the period under review, mainly on account of increased demand from China and disruption of supply from major producers. Realised copper prices averaged US$5,655.4 per Mt during the first of the year compared to US$4,499.3 per Mt during the same period in 2016. Prices of crude oil rose to US $47.02 per barrel from US$41.21 per barrel.

2.2 Developments in the Domestic Economy in 2017

7. Economic growth for 2017 is now projected at 4.3 percent which is higher than the 3.6 percent outturn in 2016. The pick-up will be aided by improved production in agriculture, mining, manufacturing and trade. Further, improved electricity supply is expected to support increased production in all sectors of the economy.

8. Over the first six months of 2017, inflation has remained at single digit, and 6.3 percent was recorded in August 2017 from 7.5 percent in December 2016. Inflation is expected to remain within the target range of 6-8 percent in 2017.

9. The exchange rate of the Kwacha has shown resilience over the first six months of the year. As at end-June, 2017 the exchange rate of the Kwacha per US dollar was K9.25, with a further appreciation recorded thereafter. The appreciation of the Kwacha is a reflection of increased supply of foreign exchange arising from among others, higher participation of foreign portfolio investors in Government Securities. Additionally, continued strong copper prices and market confidence have supported the Kwacha. Going forward, the expectation is that the Kwacha will remain stable.

10. External sector performance improved in the first half of 2017. Preliminary data show that Zambia's merchandise trade balance recorded a surplus of US$186.6 million compared to a deficit of US$316.4 million in the first half of 2016. This performance was due to a rebound in copper and cobalt export earnings.

11. Copper export earnings increased by 49.7 percent to US $3,165.9 million during the first half of 2017 from US $2,114.3 million over the same period in 2016. This was on account of an increase in both export volumes and copper prices. However, Non-Traditional Exports (NTEs) declined to US $811.7 million from US $835.5 million recorded during the same period in 2016. The lower earnings were largely on account of reduced export of maize cotton lint wheat and gemstones.

2.3 MACROECONOMIC FRAMEWORK 2018-2020

2.3.1 Macroeconomic Objectives

12. In the medium term, the overall macroeconomic objective will be to maintain a positive and broad based growth trajectory and will focus on implementing strong fiscal consolidation measures. The guiding principle will be to maximise domestic revenues while applying available resources to areas that will aid growth and export diversification in addition to attaining and sustaining cost reflectivity in energy pricing.

13. The specific broad socio-economic objectives during the 2018-2020 MTEF period will be to:

a) Achieve an average annual real GDP growth rate of at least 5 percent;
b) Maintain single digit inflation in the range of 6-8 percent;
c) Accelerate the diversification of the economy, particularly towards agriculture, manufacturing, tourism and energy, through among others, the enhanced use of Information Communication and Technology, in accordance with the Seventh National Development Plan;
d) Increase international reserves to at least 4 months of import cover;
e) Increase domestic revenue mobilization to not less than 18 percent of GDP by 2020;
f) Reduce the fiscal deficit to no more than 3 percent of GDP by 2020;
g) Prioritise the dismantling of arrears and curtail further accumulation; and
h) Decelerate the contraction of new debt to ensure debt sustainability.

Table 1: Selected Macroeconomic Indicators

	2016	2017	2018	2019	2020
	Final	Proj.	Proj.	Proj.	Proj.
National Account and Prices					
Real GDP Growth (%)	3.6	4.3	5.0	5.1	6.1
GDP in Constant Prices (K'millions)	129,516	135,019	141,802	148,985	158,006
Nominal GDP (K'millions))	217,225	245,103	276,046	313,101	357,960
GDP Per Capita (US$ millions)	1,322	1,532	1,681	1,848	2,055
Fiscal Deficit (% of GDP)	5.8	7.0	6.3	4.3	2.6
Inflation (%)	7.5	6 to 8			
Commodity Prices					
Metal Prices					
Copper price (in US$ per MT)	4,868	5,827	5,957	5,991	6,003
Realized Zambia copper export price (US$ per MT)	4,714	5,643	5,769	5802	5,814
Oil price (US$ per barrel)	42.8	49.0	50.0	51.5	52.0

2.3.2 Economic and Social Sector Policies

Agriculture

14. The Government will promote diversification of agriculture through the e-voucher input supply system by allowing farmers to access inputs for varied cash crops as well as livestock and fisheries development. In addition, Government will facilitate farmer access to other necessary services and support-infrastructure in order to raise productivity and fully realize diversification.

15. Critical to the attainment of Government's objectives in agriculture is the establishment of strong market linkages which are essential for raising farmer incomes and reducing poverty, enhancing agriculture value chains, improving access to finance for production and exports, promoting small-scale agriculture and enhancing investment in agriculture infrastructure.

16. Further, Government will continue with the development and facilitation of irrigation schemes across the country, to mitigate erratic rains associated with climate change.

17. In the livestock subsector, Government will scale up production of vaccines and continue with the construction and completion of 18 artificial insemination centres. Further, to prevent and control trans-boundary disease transmission, Government is considering establishing an emergency disease control fund.

18. In the fisheries subsector, Government will upsurge its facilitation with the aim of attaining domestic self-sufficiency and entering the export market. This will be done through the establishment of fish feed plants, freezing facilities and hatcheries by the private sector in order to enhance productivity.

Manufacturing

19. In the manufacturing sector, Government's focus will be industrialisation through acceleration of the implementation of the Industrialisation and Job Creation Strategy and facilitation of value addition in the agriculture, mining and forestry sectors. Government will also continue to work with the private sector to develop the Kalumbila Multi-Facility Economic Zone in North-Western Province. This will be in addition to the scaling up of investment projects at the Lusaka South-Multi Facility Economic Zone.

20. To augment financing for industrialisation in the country, the Government will encourage pension funds to consider investment alternatives, especially those aimed at enhancing value addition particularly in agriculture, mining and other primary sectors.

Tourism

21. In order to improve the range of tourism products, increase accessibility of tourism sites and make the country a prime destination of choice by tourists, Government will focus on tourism marketing, tourism product development and infrastructure development.

22. In this view, Government will prioritise implementation of the Tourism Development Fund as provided for in the Tourism and Hospitality Act. Particular attention will also be directed at enhancing capacity in safeguarding our wildlife resources.

Energy

23. Priority will continue to be given to ensuring that there is reliable and adequate supply of energy to all sectors of the economy. This will be achieved in close collaboration with the private sector by increasing on-and-off-grid electricity generation and moving to a better energy mix. In this respect, the establishment of two large scale solar plants with an estimated capacity of 100MW, are already underway. A further 600MW of solar power is projected to come on board over the medium term.

24. The Government in collaboration with the Zimbabwean Government has also commenced preliminary works for the development of the mega Batoka Hydro Power Project. The Project which is expected to generate a total of 2,400 MW between the two countries, has generated significant interest among stakeholders following an Investor Conference held in March, 2017. The project once actualised is expected to meet not only the energy needs of the two countries, but also regional power demand.

25. Further, the Government will work to fully connect to the Zambia-Tanzania-Kenya Interconnector to increase the country's energy security and diversify the export base.

Transport and Information Technology Infrastructure

26. Over the medium term, the Government will continue with the completion of various road infrastructure projects currently underway, including the Link Zambia 8000, the Lusaka 400 and the Copperbelt 400. The Government to ensure sustainable financing of these roads will also continue with the construction of tolling sites across the country under the National Road Tolling programme. It is also expected that the tolling of roads will assist Government leverage on private sector financing, thereby reducing pressure on the fiscal.

27. To reduce the maintenance costs of road infrastructure, Government is making concerted efforts to find an equity partners to revamp the operations of Zambia Railways Limited and TAZARA. Government will further facilitate the construction of a greenfield railway from Chingola to Jimbe linking into the Benguela railway network to the port of Lobito in Angola.

28. In order to enhance the country's regional and international connectivity and transform the country into a competitive tourist destination, Government will continue with the expansion and modernisation of the Kenneth Kaunda International Airport and the Ndola Airport. The periodic maintenance of various aerodromes will be undertaken on a timely basis.

Health

29. Over the next three years, Government will focus on completing the construction of health facilities. Some of the specific projects to be undertaken include:

    a) Establishment of an 800 bed specialised hospital for women and children in Lusaka;

    b) Upgrading of Levy Mwanawasa hospital from 120 bed to 850 bed hospital;

    c) Construction of Petauke and Chinsali, second level hospitals; and

    d) Construction of 108 health centres and 3 first level hospitals.

30. Government will also continue to construct regional hubs in the remaining parts of the country from which drugs and medical supplies will be distributed to the lower levels.

31. Further, Government will submit to the National Assembly, the Social Health Insurance Bill for enactment. This is aimed at achieving universal health coverage which shall include the establishment of the National Social Health Insurance Scheme. To further enhance health care service delivery, Government will continue to train, recruit and retain critical front line personnel as well as ensure the timely provision of drugs and medical supplies.

Education and Skills Development

32. In the education sector, Government will continue to expand access and provision of quality early childhood, primary, secondary and tertiary education in order to improve learning outcomes. Specific interventions will include the following:

    a) Reviewing the curriculum and strengthening regulation and accreditation initiatives;

    b) Increasing the proportion of female learners studying science courses;

    c) Operationalizing the Loan Scheme and strengthening the loan recovery system for student loans in order to make student financing self-sustaining;

    d) Promoting the development of artisan skills that respond to the needs of the industry through support to students, investments in training equipment and review of curricula;

    e) Completing and equipping primary and secondary schools under construction and upgrading of selected basic schools into secondary schools especially in rural areas;

    f) Completing ongoing construction of colleges and trades training institutes;

    g) Completing ongoing projects in universities and restricting any new projects to academic (learning) infrastructure such as lecture theatres, laboratories and libraries to meet the growing demand for higher education;

    h) Enhancing research in higher institutions of learning by targeting the capitalization (equipping) of research facilities at these institutions.

Water Supply and Sanitation

33. To ensure provision of reliable and safe water and sanitation services, Government will continue with the construction and rehabilitation of water and sanitation infrastructure. Substantial works have so far been undertaken under the Millennium Challenge Account Project and Government will leverage on the financing being provided by getting other cooperating partners to extend the works to the rest of the city. Further, Government will embark on a project aimed at building a second Kafue bulk water supply line to Lusaka including a new treatment plant. Similarly, the Government will also prioritize the implementation of the Water and Sanitation Project in Luapula Province with financing from African Development Bank which will focus on improving water and sanitation services in informal settlements.

34. Further, Government, through the Water Resource Management Authority (WARMA), will strengthen measures for effective water resource management so as to safe guard the country's water resources.

Climate Change

35. Government will continue to implement initiatives that mitigate effects of climate change. Climate change has adversely affected agricultural activities and hydro-electricity generation while threatening the good state of infrastructure such as roads. Working with cooperating partners, Government will aim to strengthen resilience within communities and build capacities to manage and recover from disasters. Mitigating the effects of climate change is crucial to ensure that weather related shocks do not threaten economic stability, growth and job creation.

Debt Management

36. Consistent with the country's debt strategy, Government will maximize the use of available concessional resources before resorting to commercial loans. The contraction of new debt over the medium term will be scaled down, consistent with Government's lower fiscal deficit targets. Any new borrowings will be governed by a commitment to ensure that the country's domestic and external debt remains sustainable.

37. The Government will also over the medium term put in place measures to address the 2022, 2024 and 2027 maturities on the three (3) Euro Bonds that were issued in the international capital markets by setting aside funds in the Sinking Fund.

2.3.3 Structural Reforms

38. Government reforms over the medium term will target the critical structural weaknesses of Zambia's economy. The main focus of these reforms, therefore, will be on addressing the macroeconomic obstacles to inclusive growth and job creation. The reforms will be anchored on the following pillars:

    i. **Commitment control system:** Strong and consistent control over spending commitments will be implemented to keep expenditures within budget targets. In this regard, Government will present to the National Assembly, for enactment, the Planning and Budgeting Bill, the revised Public Finance Act and the Loans and Guarantees Act;

    ii. **Procurement reforms:** Government will implement a price benchmarking mechanism in order to get value for money. This will give an indication on the optimal prices for goods and services. Further, to speed up procurement processes, Government will roll out the e-Government procurement system;

    iii. **Budgeting:** In transitioning to a more performance-oriented budget system, Government will, for the 2018 Budget, roll out the Output Based Budget (OBB) to one additional ministry, namely, the Ministry of Community Development and Social Services. Additional ministries are expected to come on board beyond 2018.

    iv. **Business reforms:** This will aim at providing a conducive policy and regulatory environment in order to ensure a business and investment-supportive environment. This will be achieved by enhancing the legal and institutional framework to allow for a competitive business environment.

    v. **Pension reforms:** These will focus on ensuring a pension system that is affordable, sustainable and facilitates a broader social security protection. One of the key specific actions will include the revision of legislation on the benefits structure to ensure longer-term protection for pensioners and facilitate more private sector involvement in the management of pension funds.

    vi. **Reforming State Owned Enterprises (SOEs):** The reforms are aimed at reviewing performance and assessment of the viability of SOEs to make them more efficient and commercially viable.

    vii. **Decentralisation:** In 2018, Government will proceed to ensure that finances required to provide frontline public services at sub-national (provincial and district) level are *deconcentrated* to provincial administration budgets from respective line Ministry budgets. This will be a first step toward devolving resources to district councils. The line Ministry budget ceilings set out in Annex 2 of this Green Paper shows the ceilings before the effecting of any deconcentration. However, as the final budget estimates are prepared, resources required for sub-national service delivery will be identified and moved to provincial administration budgets, and reported to the National Assembly in the 2018 Yellow Book.

2.3.4 Monetary and Financial Sector Policies

39. In the monetary and financial sector, Government will aim at maintaining price and financial stability to support sustenance of macroeconomic stability and thereby aid fiscal fitness, as a basis for higher growth and development. Government will also in collaboration with various stakeholders implement the Financial Sector Development Policy with the aim of growing and transforming the financial sector into one which is well-developed, inclusive and that supports efficient resource mobilisation and investment for sustainable economic development. The implementation of the Financial Inclusion Strategy during the medium term will be critical to ensuring universal access to, and usage of a broad range of quality and affordable financial products and services by all.

40. In the medium term, Bank of Zambia will adopt a target range for inflation of 6-8 percent. This will strengthen implementation of the Central Bank's forward looking monetary policy framework.

41. The Kwacha exchange rate will continue to be market determined as stability in the foreign exchange rate is essential for maintaining low and stable domestic prices. Government recognises the contribution of price stability in achieving high levels of economic activity and employment, through attracting investment and supporting consumer confidence in the economy.

42. During the medium term, the Central Bank will continue to ensure that the financial sector is stable. Further, the Bank will implement measures to strengthen the resilience of the sector against economic and financial shocks. One such measure will be the establishment of a financial stability framework.

43. The Bank of Zambia will also continue with the modernisation of the payments system with the objective of incrementally limiting cash transactions over the medium term. An efficient payments system is crucial for enhanced business transactions and maintenance of investor confidence. A strong economy also relies on an efficient payments system.

2.3.5 External Sector Policy

44. Government policy in the external sector will remain anchored on the maintenance of an open economy with a competitive and market-driven foreign exchange rate regime. The focus will be on promoting a diversified export base to grow exports, increasing foreign direct investment inflows, building up of international reserves to more than four (4) months of import cover and maintaining of a market determined, competitive and stable exchange rate of the local currency.

2.3.6 Risks to Attainment of Macroeconomic Objectives and Targets

45. The macroeconomic objectives and targets outlined above are premised on a number of assumptions, which have potential down side risks. In the external sector the sources of risks stem from potential changes to commodity prices, foreign direct investment, economic growth, and interest rates.

46. Further, volatility in commodity prices could constrain the expected growth projections. In particular, oil being an essential input across several economic activities, a substantial rise in prices could adversely affect the cost of domestic production, induce inflationary pressures and negatively affect general productivity in the economy.

47. On the domestic front, policy uncertainty could negatively affect future investments, and subsequently lower growth prospects. Failure to adhere to and/or delay implementation of policy pronouncements and programmed activities in the budget could also negatively impact on growth.

48. Further, increases in the cost borrowing as well as delays in dismantling arrears to the private sector, could limit access to credit and investment resources by the productive sectors, thereby constraining growth prospects.

CHAPTER 3

3.0 FISCAL OVERVIEW

3.1 Review of Fiscal Performance 2014 – 2016

49. Government's fiscal stance during the period 2014-2016 continued to be expansionary. This was driven by the need to invest in social and economic infrastructure with a view to stimulate and support further growth. This was however beset by challenges in the energy sector that led to huge fiscal outlays on subsidies, particularly on the importation of power to cushion the power deficit. The depreciation of the Kwacha against major trading currencies particularly in 2015 and 2016 also increased the level of external debt service.

50. In order to rebalance the fiscal position, Government had to put in place a number of measures, including prioritizing ongoing projects over new ones, limiting recruitments to frontline personnel mainly in the sectors of health and education and controlling growth of the wage bill. Government also abolished subsidies on fuel and initiated the partial upward revision to electricity tariffs pending outcome of the Cost of Service Study.

51. Total revenue and grants averaged K34.7 billion per annum with tax revenues accounting for 77.0 percent, non-tax 21.9 percent and grants 1.1 percent. As a share of GDP, total revenue and grants increased from 18.4 percent in 2014 to 18.5 percent in 2016. In terms of public spending, total expenditure (excluding amortisation) averaged K46.6 billion per annum or 25.1 percent of GDP.

52. Financing averaged 6.7 percent of GDP per annum over the period. Of the total financing, external financing accounted for 60.8 percent mainly driven by the US$1.25 billion Eurobond acquired in 2015 while the balance of 39.2 percent was bridged through domestic financing.

3.2 2017 First Half Budget Performance

53. During the period January to June 2017, Government collected a total of K20.5 billion in revenues and grants while expenditure, excluding amortisation amounted to K26.1 billion. The difference in revenues and expenditures was financed through domestic and external borrowing.

54. Total domestic revenue collections during the period under review were below target by 4.6 percent at K20.2 billion against the projection of K21.1 billion. The tax revenue category was below target by 1.9 percent owing lower collections in income tax and customs and excise duties. The lower than projected inflow on customs and excise duties was attributed to reduced importation of high value commodities, and increased imports from the free trade areas (trade diversion). However, there was a notable improvement in the performance of VAT with collections being 22.4 percent or K1.0 billion above target.

55. Collections under non-tax revenue at K3.1 billion fell below target by 14.4 percent. This outturn was on account of delayed implementation of revenue measures on the land titling programme. Under this category, however, mineral royalties performed above target, by 40.1 percent due to the rebound in copper prices. In terms of grants from cooperating partners, a total of K274.2 million was receipted.

56. In terms of public spending, total expenditures excluding amortization amounted to K26.4 billion against a target of K29.9 billion. Releases towards expenses amounted to K23.0 billion, of which K10.6 billion went towards personal emoluments, K2.2 billion was spent on use of goods and services while grants and other payments were at K4.2 billion. A total of K4.6 billion and K1.1 billion was spent on debt interest payments and social benefits, respectively.

57. Expenditure towards the acquisition of assets stood at K2.6 billion. Notable expenditures included K1.3 billion to the road sector with a substantial component of the balance going towards infrastructure projects in the education and health sectors.

58. A total of K1.0 billion was released for dismantling of arrears owed to the various suppliers of goods and services, including outstanding payments to contractors for various projects.

3.3 2017 Second Half Outlook

59. Generally, revenue collections are expected to improve in the last half of the year with implementation of measures such as the use of electronic fiscal registers. On the other hand, expenditures are projected to remain under control with the end year fiscal deficit expected to remain within the planned 7 percent of GDP on a cash basis.

3.4 Fiscal Policy for the 2018 – 2020 MTEF

60. Government will continue to build on previous MTEF measures during the 2018 – 2020 MTEF aimed at restoring budget credibility, transparency and policy consistency. This will be achieved through increased domestic resource mobilisation, reducing deficit levels and channelling resources to productive areas as outlined in the 7NDP. Activities that have higher potential to generate revenues for the Treasury will be prioritised when allocating resources.

CHAPTER 4

4.0 REVENUE MOBILISATION AND FINANCING

61. The Government has continued to implement measures aimed at strengthening domestic resource mobilisation which is a central pillar of the development agenda. Efforts to modernise tax administration will continue while strengthening tax compliance will remain paramount in the 2018 – 2020 medium term. Government will also continue to implement measures aimed at strengthening domestic resource mobilisation and will specifically implement the following:

i. **Modernisation and Automation of Revenue Collection Processes:** The tax administration measures being implemented include the introduction of enhanced information technology solutions to improve Value Added Tax (VAT) collection. In particular, the use of electronic devices such as fiscal cash registers will continue to be rolled out in 2018. This is intended to improve the performance of VAT by ensuring that the revenue collector monitors directly the transactions of suppliers of taxable goods and services.

   Further, to minimise revenue leakages associated with manual processes, Government will continue to ensure that major revenue collection processes are automated in the medium term.

ii. **Rationalisation of Tax Incentives and Processes for Facilitation:** During the medium term, Government will continue to streamline the tax incentive structure and facilitation processes to ensure that they are sustainable, well aligned with the nation’s development agenda and not wasteful.

iii. **Informal Sector Taxation:** Over the medium term, Government will partner with various stakeholders such as local authorities to develop practical mechanisms of improving tax compliance in the informal sector.

iv. **Property Taxes:** Over the medium term, Government will roll out the land titling programme to increase the number of land parcels on title and consequently, make them obligated to pay land rents. Furthermore, Government will make improvements to valuation of property with a view to improve revenue collections from property taxes.

v. **Enhancement of Tax Auditing to Improve Transfer Pricing Audits:** Transfer pricing has become a global challenge on resource mobilisation. To address this, Government will focus on enhancing capacity and skills in tax policy analysis and tax administration particularly in the areas of auditing and transfer mispricing rules to address base erosion and profit shifting. In addition, Government will pursue the enhancement of bilateral and multilateral collaborations for exchange of information relevant for tax purposes, which is vital for resolving the challenge of illicit financial flows and combating tax evasion and avoidance.

vi. **Appointment of Revenue Collecting Agents to improve efficiency:** In an effort to improve efficiency in collecting revenues, Government will appoint agents to collect other taxes, in addition to VAT. These additional taxes will include withholding taxes on rentals, turnover taxes, presumptive taxes, base tax and other fees collected by Government institutions.

4.1 Revenue Forecast

62. Total domestic revenues and grants are projected to grow from K47.9 billion in 2018 to K65.9 billion in 2020, which is an average of K56.6 billion over the medium term.

Table 2: Revenue Forecast 2018-2020

	2018 Budget Projection		2019 Budget Projection		2020 Budget Projection		2018-2020 Total	2018-2020 Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
TOTAL DOMESTIC REVENUES	**47,919,515**	**17.3%**	**55,928,368**	**17.9%**	**65,851,018**	**18.4%**	**169,698,901**	**56,566,300**
Tax Revenue	**39,891,946**	**14.4%**	**46,866,521**	**15.0%**	**55,738,509**	**15.6%**	**142,496,975**	**47,498,992**
Income Taxes	20,368,560	7.4%	23,460,306	7.5%	27,321,655	7.6%	71,150,522	23,716,841
o/w Mining CIT	1,795,863	0.6%	1,977,382	0.6%	2,174,091	0.6%	5,947,336	1,982,445
Excise Duties	4,890,645	1.8%	6,640,778	2.1%	9,119,170	2.5%	20,650,593	6,883,531
o/w Fuel Levy	730,660	0.3%	826,774	0.3%	946,111	0.3%	2,503,545	834,515
Value-Added Tax (VAT)	11,522,400	4.2%	13,416,182	4.3%	15,743,092	4.4%	40,681,675	13,560,558
Customs Duty	2,970,009	1.1%	3,200,435	1.0%	3,394,241	0.9%	9,564,685	3,188,228
Non-Tax Revenue (Includes Mineral Royalty)	**8,027,569**	**2.9%**	**9,061,847**	**2.9%**	**10,112,509**	**2.8%**	**27,201,925**	**9,067,308**
Mineral Royalty	3,501,455	1.3%	3,857,907	1.2%	4,241,688	1.2%	11,601,050	3,867,017

4.2 Financing

63. Over the medium term, Government will decelerate external and domestic financing with the fiscal deficit not exceeding 3 percent of GDP by 2020. In this regard, Government proposes to access financing of up to K40.3 billion over the medium term. Of this amount, 77.9 percent will be from domestic financing and the balance from external sources.

Table 3: Summary of Financing over the Medium Term

	2018 Budget Projection		2019 Budget Projection		2020 Budget Projection		2018-2020 Total	2018-2020 Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
FINANCING	**17,529,166**	**6.3%**	**13,519,099**	**4.3%**	**9,225,169**	**2.6%**	**40,273,433**	**13,424,478**
Net Domestic Financing	11,003,290	4.0%	11,390,731	3.6%	8,960,123	2.5%	31,354,144	10,451,381
Net External Financing	6,525,876	2.4%	2,128,367	0.7%	265,046	0.1%	8,919,289	2,973,096

CHAPTER 5

5.0 EXPENDITURE POLICY AND STRATEGY

5.1 Overview

64. In the context of the objective of fiscal consolidation, Government will over the medium term progressively scale down its borrowing levels. With domestic resource mobilisation not being able to fully compensate for lower financing, Government's overall expenditure policy for the period 2018 – 2020 will be characterized by reforms aimed at improving value for money as well as reduced spending in non-priority areas. Therefore, expenditure will be focused on areas that will contribute to economic diversification and job creation. This will facilitate a reduction in poverty and vulnerability levels, developmental inequalities and enhance human development. Expenditure policy will also focus on developing a governance environment for a diversified and inclusive economy, in line with the 7NDP.

65. Further, Government will continue to prioritise the dismantling of arrears in the allocation of resources in order to inject working capital back into the private sector and move public finances to a more sustainable trajectory.

66. Therefore, over the 2018 – 2020 medium term, Government projects to spend a total of K210.0 billion, excluding amortisation, out of which, K65.4 billion will be spent in 2018, K69.4 billion in 2019 and K75.1 billion in 2020. As a share of GDP, this will amount to an average of 22.2 percent per annum. Out of the projected total expenditure of K210.0 billion, 80.8 percent will be financed from domestic revenues and the balance through domestic and external borrowing. Table 4 below shows the budget by economic classification as a share of GDP.

Table 4: Public Expenditure by Economic Classification

	2018 Budget Projection		2019 Budget Projection		2020 Budget Projection		2018-2020 Total	2018-2020 Average
	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	% of GDP	K'thousand	K'thousand
TOTAL EXPENDITURE (Excl. Amortisation)	**65,448,681**	**23.6%**	**69,447,466**	**22.2%**	**75,076,187**	**20.9%**	**209,972,334**	**69,990,778**
EXPENSES	**49,582,272**	**17.9%**	**53,341,490**	**17.0%**	**54,767,530**	**15.3%**	**157,691,292**	**52,563,764**
Personal Emoluments (PEs)	22,928,168	8.3%	23,641,379	7.6%	26,395,190	7.4%	72,964,737	24,321,579
Use of Goods and Services	5,733,323	2.1%	7,249,696	2.3%	6,771,841	1.9%	19,754,860	6,584,953
Interest Payments	10,774,022	3.9%	12,066,936	3.9%	10,187,313	2.8%	33,028,270	11,009,423
Grants and Other Payments	7,245,411	2.6%	7,412,946	2.4%	7,619,731	2.1%	22,278,088	7,426,029
Social Benefits	1,610,550	0.6%	1,256,250	0.4%	1,897,445	0.5%	4,764,245	1,588,082
Other Expenses	1,290,798	0.5%	1,714,284	0.5%	1,896,010	0.5%	4,901,091	1,633,697
ASSETS	**14,445,883**	**5.2%**	**13,481,002**	**4.3%**	**15,944,140**	**4.4%**	**43,871,025**	**14,623,675**
Non Financial Assets	14,242,517	5.1%	12,452,501	4.0%	11,685,757	3.3%	38,380,775	12,793,592
Financial Assets	203,366	0.1%	1,028,501	0.3%	4,258,383	1.2%	5,490,250	1,830,083
LIABILITIES	**1,420,526**	**0.5%**	**2,624,974**	**0.8%**	**4,364,517**	**1.2%**	**8,410,017**	**2,803,339**
FINANCING	**17,529,166**	**6.3%**	**13,519,099**	**4.3%**	**9,225,169**	**2.6%**	**40,273,433**	**13,424,478**
Net Domestic Financing	11,003,290	4.0%	11,390,731	3.6%	8,960,123	2.5%	31,354,144	10,451,381
Net External Financing	6,525,876	2.4%	2,128,367	0.7%	265,046	0.1%	8,919,289	2,973,096

5.2 EXPENSES

5.2.1 Personal Emoluments

67. The public service wage bill currently absorbs over 51 percent of domestically generated resources, thereby crowding out domestically financed operational and capital expenditures. Government will, therefore, ensure that the public service wage bill does not exceed 45 percent of domestic revenues by 2020. This will be attained through maintaining fiscally sustainable wage adjustments and net recruitments.

68. In this regard, Government proposes to spend an average of K24.3 billion per annum on personal emoluments over the medium term, translating to 43.0 percent of domestic revenues or 7.7 percent of GDP.

5.2.2 Use of Goods and Services

69. Government expenditure on goods and services will be primarily channelled towards requisites for frontline service delivery such as, drugs and medical supplies, school requisites and operations of security wings. Overall, Government projects to spend an average of K6.6 billion per annum to facilitate its operations.

5.2.3 Interest Payments

70. The need to finance development programmes has over the past decade necessitated a rise in borrowing levels. This has resulted in increased deficit financing by the Government and led to a progressive increase in the level of resources used to service the debt. Over the MTEF period, interest payments will absorb K33.0 billion which translates to 19.5 percent of domestic revenues.

5.2.4 Grants and Other Payments

71. Over the medium term, Government will continue with the rationalization of agriculture subsidies whereas energy sector subsidies will be phased out. Spending on grants and other payments will amount to K22.3 billion over the medium term. Of this amount, K5.4 billion has been provided for the e-voucher under the Farmer Input Support Programme (FISP), which will cater for one million beneficiaries per annum, in order to promote diversification and ensure food security. The balance of K16.9 billion will be channelled to public entities such as universities, local authorities, road agencies and the Zambia Revenue Authority.

5.2.5 Social Benefits

72. Government will continue setting aside substantial allocations to programmes that protect the vulnerable in society from the adverse effects of the ESGP. In this regard, K4.8 billion has been set aside for social protection programmes over the medium term. Within this amount, K1.8 billion is planned for the Social Cash Transfer and K3.0 billion for the Public Service Pension Fund.

5.2.6 Other Expenses

73. In the medium term, Government will continue to maintain the strategic food reserve requirement of 500,000 metric tonnes of grain under the Food Reserve Agency to ensure and maintain food security for the country. Therefore, Government projects to spend K1.0 billion in 2018 and K1.2 billion in both 2019 and 2020 for the Strategic Food Reserve.

74. In order to cater for unforeseen and unavoidable expenditures, a contingency of K239.6 million has been set aside in 2018, K559.3 million in 2019 and K658.5 million in 2020.

5.3 ASSETS

75. Expenditure on assets is projected at K14.4 billion in 2018, K13.5 billion in 2019 and K15.9 billion in 2020. Of the total expenditure of K43.9 billion on assets over the medium term, approximately 87.5 percent will be allocated to non–financial assets (capital expenditure).

5.3.1 Non-Financial Assets

76. With regard to non-financial assets, Government will continue to focus on completing existing capital projects, prior to embarking on new ones. Further, all new projects will be subject to project appraisal by the Ministry of National Development Planning and will only be introduced in the budget as finances become available.

77. In this regard, expenditure on the acquisition of non-financial assets has been proposed at K14.2 billion in 2018, K12.5 billion in 2019 and K11.7 billion in 2020. The main areas of focus under this category will be to complete on-going projects in the roads, health, education as well as the water and sanitation sectors.

78. In addition, to support sustainable economic growth and reduce urban-rural disparities over the medium term, Government has allocated a total of K689.8 million for the Rural Electrification Programme so as to increase access to electricity in outlying areas over the medium term.

5.3.2 Financial Assets

79. The Government recognizes the significant role entrepreneurship plays in the development of our economy. In this regard, the Government proposes to allocate a total of K480 million towards empowerment funds over the medium term which will mainly target the youth and women. In addition, an allocation of K800.0 million and K3.97 billion has been set aside for the sinking fund in 2019 and 2020, respectively, to enable Government meet its debt obligations.

5.4 LIABILITIES

80. In keeping with Government efforts to reduce arrears owed to suppliers of goods and services, Government will institute strict commitment control measures to halt and then reverse the build-up of arrears. Government proposes to liquidate at least 90 percent of the stock of arrears over the medium term which currently is in excess of K17.0 billion.

CHAPTER 6

6.0 MEDIUM TERM FUNCTIONAL ALLOCATIONS

6.1 Overview of Strategy

81. The Classification of Functions of Government (COFOG) is a categorisation of all public expenditures in accordance with the purpose for which they are intended to achieve. In the 2018-2020 medium term period, Government spending will be guided by the 7NDP. Therefore, resources have been apportioned in a way intended to create a diversified and resilient economy for sustained growth and socioeconomic transformation.

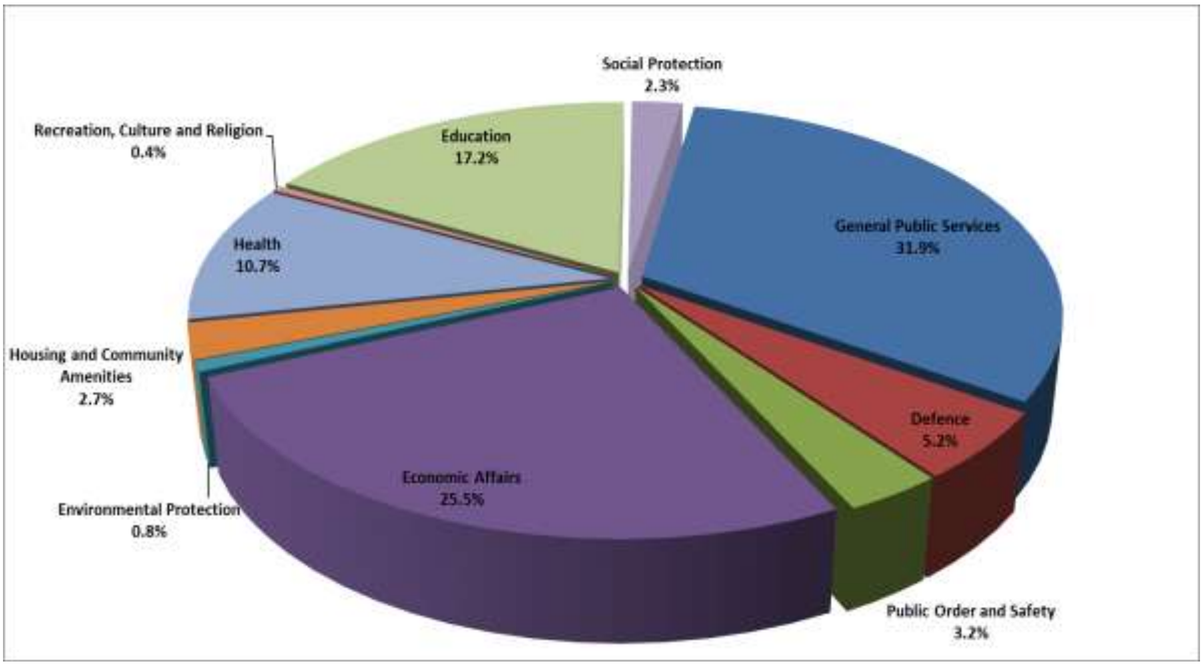
6.2 Functional Resource Allocation Priorities (2018 – 2020)

82. Over the medium term, Government proposes to spend an average of 55.7 percent per annum of the total projected resources on the priority functions of education, health, social protection and economic affairs. The balance of 44.3 percent will be allocated to the other functions such as defence, public order and safety and general public services. Table 5 and Figure 1 below show budget allocations by Functions of Government as a share of total expenditure over the medium term period.

Table 5: 2017 Budget and 2018-2020 MTEF Allocations by Function of Government (As a Share of Total Budget)

Function	2017 Approved Budget	2018 Projection	2019 Projection	2020 Projection	2018-2020 Average
General Public Services	27.9%	29.4%	32.0%	34.5%	31.9%
Defence	5.0%	5.8%	4.7%	5.2%	5.2%
Public Order and Safety	3.6%	3.2%	3.4%	3.1%	3.2%
Economic Affairs	31.0%	25.7%	26.7%	24.1%	25.5%
Environmental Protection	0.9%	0.8%	0.9%	0.7%	0.8%
Housing and Community Amenities	1.3%	2.7%	3.0%	2.5%	2.7%
Health	8.9%	11.4%	10.4%	10.2%	10.7%
Recreation, Culture and Religion	0.5%	0.4%	0.5%	0.4%	0.4%
Education	16.5%	18.1%	16.6%	16.9%	17.2%
Social Protection	4.2%	2.5%	1.9%	2.5%	2.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 1: 2018-2020 Medium Term Budget Allocation by Function of Government (As a Share of Total Budget)



6.2.1 General Public Services

83. Over the medium term, Government proposes to spend an average of K24.2 billion per annum on General Public Services, representing 31.9 percent of the total projected expenditures or a 4.0 percentage point increase over 2017 levels. This is mainly attributed to an increase in the level of resources projected for debt payments which will account for an average of K16.4 billion per annum. Other notable expenditures include an average of K1.2 billion per annum for the Local Government Equalisation Fund and K210 million for the Constituency Development Fund per annum.

6.2.2 Economic Affairs

84. Government proposes to spend an average of K19.2 billion per annum on Economic Affairs which accounts for an average of 25.5 percent of the overall expenditure during the medium term. The rationalization of agriculture subsidies through the full rollout of the e-voucher under Farmer Input Support Programme (FISP) and the phasing out of subsidies in the energy sector have attributed to the dip in the allocation in this sector. In these amounts, roads infrastructure will account for a total of K9.4 billion over the medium term.

85. The Government further intends to spend a total of K5.4 billion over the medium term on FISP. This will facilitate the provision of farmer input support to 1,000,000 beneficiaries annually. A further K3.4 billion is proposed to be spent over the medium term to maintain strategic food reserves at 500,000 metric tonnes.

86. Government will continue to prioritise access to electricity for the rural areas, and in this vein, K689.8 million is projected to be spent on the Rural Electrification Programme during the MTEF period.

6.2.3 Education

87. Government projects to spend a total of K38.7 billion on the Education function, translating to 17.2 percent of total expenditure over the medium term. This will facilitate spending on the school feeding programme, the procurement of school requisites and the emoluments of teachers, among others. Other interventions will include the continuation of construction of primary and secondary schools yet to be completed, and expansion of academic infrastructure at existing universities.

6.2.4 Health

88. Over the medium term, Government proposes to spend a total of K24.0 billion on health translating to 10.7 percent of the overall expenditure. This will facilitate, among other things, the procurement of essential drugs and medical supplies and equipment as well as the operation of health facilities across the country.

6.2.5 Housing and Community Amenities

89. The allocation to Housing and Community Amenities is projected at a total of K6.2 billion, translating to 2.7 percent of the total expenditure over the medium term. In this amount, a total of K771.9 million is projected to be spent on water supply and sanitation, to supplement what the commercial water utilities will also spend to provide services to local communities.

6.2.6 Public Order and Safety

90. The Government plans to spend a total of K7.3 billion translating to 3.2 percent of total expenditure over the medium term to maintain public order and safety. Interventions will include the recruitment of security personnel, continued rehabilitation and construction of infrastructure and modernisation of security wings.

6.2.7 Other Functions

91. The remaining functions of defence, environmental protection, social protection and recreation, culture and religion will account for an average of 8.7 percent of total expenditure over the medium term. Significant allocations under these functions include the Social Cash Transfer Scheme with a budgetary allocation of K1.8 billion, the Public Service Pension Fund which has a total allocation of K3.0 billion and the Food Security Pack Programme with K225.0 million over the medium term.