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REPUBLIC OF ZAMBIA - 2020 BUDGET HIGHLIGHTS

PART I-GLOBAL AND DOMESTIC ECONOMIC REVIEW

GLOBAL ECONOMY

1. Global economic growth in 2019 is projected at 3.2%, compared to 3.6% recorded in 2018. This is mainly on account of the trade war between the United States of America and China, prolonged uncertainty on Brexit and geo-political tensions.
2. Growth in advanced economies, led by the USA, projected to fall to 1.9% from 2.2 in 2018 and growth in the emerging economies, estimated at 4.91%, compared to 4.5% in 2018. However, in Sub-Saharan Africa, growth is expected to improve from 3.1% in 2018 to 3.4% in 2019. This is mainly due to growth in non-resource intensive countries.
3. Copper prices are projected at US\$6,091/tonne in 2019 compared to US\$6,723/tonne in 2018.
4. Crude oil prices average US\$71 per barrel in 2019, compared to US\$49 per barrel in 2018.

DOMESTIC ECONOMY

GROWTH AND INFLATION

1. Initially projected at 4%, will slow-down to 2% compared to 3.7% in 2018. This is mainly on account of adverse climatic conditions, particularly poor rainfall in the 2018/2019 rainy season, which negatively affected agricultural production and electricity generation. The lower electricity generation has had negative spill-over effects on other sectors. The budget deficit is estimated to close in line with the target of 6.5% of GDP on a cash basis.
2. The Kwacha depreciated by 9.4% to an average of K13.03 per United States dollar in August 2019 from K11.91 per United States dollar in December 2018.
3. Inflation was 7.9% in September 2019 from 6.1% in December 2018. Food inflation was the key driver, recorded at 8.6% in September 2019 compared to 4.8% in December 2018. Non-food inflation reduced from 7.5% to 7.3% over the same period.

MONETARY PERFORMANCE

1. The average inflation remained broadly in line with the 6 to 8% target range in the earlier part of 2019. In the second quarter, inflationary pressures built up, resulting in inflation breaching the upper bound of the target range in May, 2019 at 8.1%. As at end-August 2019, inflation rose further to 9.3%. This was largely on account of higher food prices and the pass-through effects from the depreciation of the Kwacha against the United States dollar
2. To counter inflationary pressures, the Policy Rate was adjusted upwards to 10.25% in May 2019 from 9.75% in December 2018.
3. Banks' average lending rate rose to 26.0% in August 2019 from 23.6% in December 2018.

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4. The ratio of non-performing loans to total loans dropped to 9.4% at end-August 2019 from 11.0% at end-December 2018

FISCAL PERFORMANCE

1. For January to August 2019, revenues and grants, at K42.8billion, exceeded their target by 9.1% while expenditures including amortisation, at K60.9billion, were above target by 3.4%.
2. The budget deficit estimated to close in line with the target of 6.5% of GDP.

GOVERNMENT'S EXTERNAL DEBT

The external debt stock as at end-June 2019 increased to US\$10.23billion from US\$ 10.05billion at the close of 2018. This was mainly on account of disbursements on existing loans. The rate of debt accumulation at 1.9% was lower than the 7.6% recorded in the corresponding period in 2018.

PART II-MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES IN 2020

2020 MACROECONOMIC OBJECTIVES

1. Achieve a real GDP growth rate of at least 3%;
2. Achieve and maintain inflation within the target range of 6 to 8percent;
3. Increase international reserves to at least 2.5 months of import cover;
4. Reduce the fiscal deficit to 5.5percent of GDP; and
5. Increase domestic revenue mobilization to at least 22% of GDP.

CRITICAL SECTOR POLICIES: 7TH NATIONAL DEVELOPMENT PLAN: PILLARS

1. **Pillar I:** Economic diversification and job creation: (Agriculture, Fisheries, Industrialisation, Regional and International Trade, Tourism, Mining, Energy, Transport and Technology Infrastructure);
2. **Pillar II:** Poverty and vulnerability reduction: (Social cash transfer scheme, public welfare assistance scheme, Food Security Pack, Home, Grown School Feeding Programme, Women Empowerment Programme, Youth Empowerment, Climate Change and Disaster Risk Reduction);
3. **Pillar III:** Reducing development inequalities;
4. **Pillar IV:** Enhancing Human Development: (Education, Skills Development; Health; Water, Sanitation);
5. **Pillar V:** Creating a conducive governance environment for a diversified and inclusive economy (Policy, Regulatory and Structural Reforms, Fiscal Reforms, Debt Management Policy, Arrears Dismantling Strategy, Monetary and Financial Sector Policies, Insurance, Decentralisation, Business regulatory Reforms, Labour Law reforms, Public Investment Management Reforms Census of Population and Housing, Rebasing of the Gross Domestic Product, State-Owned Enterprises).

MONETARY AND FINANCIAL SECTOR POLICIES

1. Brining back a target range for inflation of 6-8%.The BoZ will continue to pursue a forward looking monetary policy anchored on the policy rate.
2. The implementation of the National Financial Switch project, which will allow universal access to digital transacting, has made significant progress. All domestic Automated Teller Machine

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transactions by the various commercial banks are now being channeled through the National Financial Switch Platform. The project will be fully implemented by end-December 2019.

3. The fiscal deficit is projected to reduce to 5.5% of GDP in 2020 from 6.5% in 2019.
4. Government will introduce an electronic trading platform to increase transparency, price discovery and liquidity in the secondary market for Government bonds.

DEBT MANAGEMENT POLICY

1. Increase the allocation towards dismantling of arrears to K2.3billion in 2020 from K437million in 2019.
2. Reduce borrowing from the domestic market to 1.1% of GDP from 1.4% of GDP in 2019.

PART III-THE 2020 BUDGET

Governmentmillions to spend a total of K106billion. Of this amount, domestic revenues account for 32%, is support from cooperating partners. The balance of 682% is financing from domestic and foreign sources.

FUNCTION	2020 PROJECTION	
	Amount (K)	Share of Budget
General Public Services	44,080,742,270	41.6%
<i>O/w External Debt</i>	21,090,794,856	
<i>Domestic Debt</i>	12,634,848,146	
<i>Dismantling of Arrears</i>	2,278,733,732	
<i>Local Government Equalization Fund</i>	1,164,567,612	
<i>Sinking Fund</i>	636,000,000	
<i>Constituency Development Fund</i>	249,800,000	
<i>Public Affairs and Summit Meetings</i>	143,726,697	
<i>Elections & Voter Registration</i>	135,000,000	
<i>Contingency</i>	100,636,628	
<i>Compensation Fund</i>	100,000,000	
Defence	6,526,391,423	6.2%
Public Order and Safety	4,042,702,155	3.8%
<i>O/w National Identity Documents</i>	50,000,000	
Economic Affairs	21,833,351,543	20.6%
<i>O/w Energy/ Power Infrastructure</i>	11,187,970,334	
<i>Roads Infrastructure</i>	10,552,606,147	
<i>O/w Government Contribution</i>	2,772,777,430	
<i>International Airports</i>	1,823,481,818	
<i>Farmer Input Support Programme</i>	1,111,840,201	
<i>Strategic Food Reserves</i>	660,000,000	
<i>Rural Electrification Fund</i>	166,339,781	
Environmental Protection	611,777,853	0.6%
Housing and Community Amenities	3,460,376,555	3.3%
<i>O/w Water Supply and Sanitation</i>	2,620,137,161	
<i>O/w Nkana Water & Sanitation Project</i>	607,500,000	
<i>Kafufufuta Water Supply and Sanitation Project</i>	540,000,000	
<i>Kafue Bulk Water Supply and Sanitation Project</i>	405,000,000	
<i>Water Supply and Sanitation (GRZ Contribution)</i>	185,000,000	
<i>Markets, Bus Stations and Solid Waste Management</i>	24,441,200	
Health	9,366,591,584	8.8%
<i>O/w Health Infrastructure Projects</i>	1,479,947,346	
<i>Drugs and Medical Supplies</i>	900,622,880	
<i>Hospital Operations</i>	686,266,173	
Recreation, Culture and Religion	383,045,401	0.4%
Education	13,121,648,466	12.4%
<i>O/w Infrastructure Projects</i>	1,071,920,363	
<i>O/w FTJ University</i>	860,625,000	
<i>Skills Development Fund</i>	179,181,956	
Social Protection	2,580,984,987	2.4%
<i>O/w Public Service Pension Fund</i>	1,020,387,712	
<i>Social Cash Transfer</i>	1,047,422,180	
<i>O/w Donor</i>	347,927,780	
<i>Food Security Pack & Public Welfare Assistance Scheme</i>	122,162,992	
TOTAL	106,007,612,236	100.0%

REVENUE MEASURES: TAX MEASURES

VALUE ADDED TAX AND REINTRODUCTION OF SALES TAX

1. Sales Tax as announced from 2019 budget will not be introduced. Instead, Government has decided to maintain the Value Added Tax, but address the compliance and administrative challenges through the following:
2. Upgrade the Tax online system for domestic taxes and interface it with customs system to ensure that all claims of refund for import VAT paid to Customs Services during import of goods are validated through systems based controls against data in the customs system;
3. Make it mandatory to use Electronic Fiscal Devices (EFD) for VAT and other tax types and facilitate accreditation of additional EFD distributors and Virtual EFD are suppliers and vendors;
4. Make it mandatory to capture and electronically transmit to ZRA the Taxpayer Identification Number and Name of both the buyer and seller of goods and services in all Business to Business and Business to Government transactions;
5. Enhance Data Analytics and bulk data matching with third party institutions such as Patents and Company Registration Agency, Ministry of Lands and Natural Resources, NAPSA, ZESCO and the Zambia Public Procurement Authority;
6. Accelerate implementation of the Government Service Bus and Payment Gateway to ensure interface with ZRA; and
7. Augment and ensure timely audits of VAT claims, including outsourcing services of external forensic auditors whenever necessary.
8. Additional Measures:
 - i. Zero rate capital equipment and machinery for the mining sector;
 - ii. Standard rate ancillary services that are directly linked to the transit of goods through
 - iii. Zambia;
 - iv. Dis-allow claims of VAT on consumables such as stationery, lubricants and spare parts. This measure will not apply for which these consumables are stock in trade;
 - v. Limit input VAT claims by mining companies on diesel to 70 percent from 90 percent; and
 - vi. Limit input VAT claims by mining companies on electricity to 80 percent from 100 percent.
9. To encourage value addition, in line with Government's industrialisation and job creation agenda, to zero-rate copper cathodes sold locally.
10. To mitigate the impact of climate change and promote the use of alternative energy sources, to zero rate the supply of gas stoves, other gas cookers and gas boilers

CUSTOMS AND EXCISE

1. Introduce duty at 10 percent on specified capital equipment and machinery imported by mining companies which are currently duty free or attract 5 percent.
2. To promote local production of Flexible Intermediate Bulk Containers and create jobs, to impose a surtax at the rate of 5 percent on these containers..

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3. To maintain competitiveness of domestic producers of cigarettes and increase revenue collection, to increase the specific excise duty rate on cigarettes from K240 per mill to K265 per mill.
4. To streamline the Duty Draw Back Scheme, to limit the duty refunds under the scheme to import duty paid by a claimant and remove refunds of implied duties on locally sourced inputs.
5. To encourage sustainable industrialisation while mitigating the effects of climate change, to suspend import duty, for three years, on the importation of machinery for processing of solid waste to generate electricity and produce organic fertilizers.
6. To mitigate the effects of climate change and air pollution, Imillion to increase carbon tax on all motor vehicles entering Zambia by 20 percent.
7. To promote the aquaculture sub-sector and make community fish farming affordable, Imillion to suspend duty for three years on selected aqua culture equipment..

DIRECT TAXES

Not covered: (Presumably Unchanged from 2019)

GENERAL INCOME AND CORPORATE TAX

Not covered: (Presumably Unchanged from 2019).

PAYE

Not covered: (Presumably Unchanged from 2019).

CHANGES TO MINING TAX REGIME

Not covered: (Presumably Unchanged from 2019).

REVENUE MEASURES: NON-TAX MEASURES

1. To amend the Income Tax Act, Customs and Excise Act, Property Transfer Tax Act and Value Added Tax Act so as to update, strengthen and remove ambiguities in certain provisions of the tax laws and make tax administration more effective. The details of the changes will be reflected in the respective legislation to be brought to the House.
2. Reaffirm the Government's resolve to protect public resources. To this end, Government shall enforce all the provisions of the Public Finance Management Act No. 1 of 2018
3. All the measures, with the exception of Sales Tax, will take effect on 1st January, 2020.

DISCLAIMER

The information contained in this document is based on the Budget Address presented by the Minister of Finance, Honourable Bwalya N'gandu, MP Minister of Finance Delivered to the National Assembly on Friday, 27th September, 2019. This document provides an overview of the announcements made in the speech and whilst every effort has been made to ensure its accuracy we are unable to accept responsibility for errors and omissions. It should be noted that the measures as introduced by the Budget Address are subject to Parliamentary approval. No financial decisions should be made based solely on the information contained herewith and no liability will be accepted for decisions based on its contents without further consultation with an official representative of EMM Corporate Partners.