

2019 BUDGET EXPECTATIONS

PRESS STATEMENT

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In August 2018, the Ministry of Finance released the 2019- 2021 Green Paper '*Medium Term Expenditure Framework*' which highlights Government's policy direction over the medium term. The Green Paper is the cornerstone for actualising the plans that are laid out in the Seventh National Development Plan (7NDP) and proposes guidelines for the preparation of the national budgets.

The Green paper projects the 2019 Budget at **K75.2 Billion** which is 25 % of GDP, this is a significant increase from the 2018 Budget which stood at **K71.6 Billion**.

In the medium term, the overall macroeconomic objective will be to accelerate implementation of reforms as outlined in the **Economic Stabilization and Growth Programme (ESGP)** and austerity measures announced by His Excellency the President of the Republic of Zambia. The ESGP will continue to support fiscal consolidation, debt sustainability and entrenching macroeconomic stability for broad-based and inclusive growth while protecting the vulnerable, in line with the Seventh National Development Plan (7NDP), 2017 – 2021

The specific objectives for the 2019-2021 MTEF will be to:

- a. Attain an average annual GDP growth rate of at least 4 percent;
- b. Sustain inflation within the range of 6 to 8 percent;
- c. Raise international reserves to at least 4 months of import cover by 2021;
- d. Increase domestic revenue to not less than 19 percent of GDP by 2021;
- e. Reduce the fiscal deficit to no more than 5.1 percent of GDP by 2021;
- f. Prioritize the dismantling of domestic arrears and curtail their accumulation;
- g. Reduce the pace of debt accumulation and ensure sustainability; and
- h. Accelerate the diversification of the economy supported by the implementation of structural reforms.

PMRC'S BUDGET EXPECTATIONS

The expected marginal increase in the 2019 budget compared to the 2018 budget is consistent with PMRC expectation as there is need to reduce on budget deficits towards the social sector and dismantling of arrears. The following are key expectations of PMRC in the 2019 budget as the country moves towards the successful implementation of the 7NDP:

- Goods and services to decline in 2019 as austerity [announced by the H.E. the President] and fiscal consolidation measures aimed at reducing the administrative costs of running Government take effect. In the 2018 budget expenditure on goods and services was 2.1 percent of the GDP and is expected to decline below 1 percent in order to reduce the budget deficit to not more than 5.1 percent of GDP.
- Government had embarked on massive public infrastructure development across the breadth of the country such as roads, health and education facilities largely financed by both external and domestic borrowing, resulting in increased debt service obligations. We therefore expect the 2019 budget to

address how government will curtail further accumulation of debt and the operationalization strategies for the sinking fund.

- Government to allocate sufficient resources towards dismantling of domestic arrears which currently stand at **K 13.9 billion** Kwacha and curb any further accumulation of arrears through the full roll-out of the **Integrated Financial Management System (IMFIS)**. Payment of arrears will ensure that there is enough liquidity for Micro, Small, and Medium-Sized Enterprises which form the backbone of the economy.
- Allocations towards Social Protection to increase from the 2018 allocation of **K2.3 billion** to around **K3.0 Billion**. These efforts must be supported by fully migrating the social cash transfer system to an electronic platform to reduce administrative costs and improve overall efficiency. Further, we expect the Government to prioritize funding payments of pensions to ease the burden of keeping unpaid retirees on the Government payroll.
- Budget to address the challenges of water and sanitation in rural areas by allocating more money towards water and sanitation projects. In the 2018 budget much of the funding towards water and sanitation went towards the Lusaka urban water and sanitation project. PMRC expects 25% of the water and sanitation budget to go towards rural areas.
- In order to actualize diversification away from mining, Government must increase funding to the economic sector. PMRC notes that in the 2018 budget there was reduction in spending from **ZMW 20,132,600,000** in 2017 to **ZMW 17,258,329,480**. Government should therefore prioritize setting up the Tractor assembly plant and utilize the \$100 million Public Private Partnership fund to improve productivity in the agriculture sector. There is urgent need to realign spending in the Agriculture sector from Food Reserve Agency and Farmer Input Support Programme to key drivers of growth in the sector such as extension services, research and development, livestock management and production, aquaculture, disease control and irrigation.
- Furthermore, PMRC expects Government to maintain stability in the mineral royalty tax regime (both in quantum and deductibility) and explore ways to boost production to offset losses from low commodity prices including capital allowances of up to 100% for mining operations and legislative reform to allow ring-fencing of capital allowances for open pit development, shaft sinking and shaft re-deepening. It is envisaged that these measures will create optimal conditions for the industry to grow production.

CONCLUSION

PMRC encourages Government to press on towards achieving macroeconomic growth, fiscal consolidation and debt sustainability. We urge Government to continue to acclimatize to austerity measures; the effective implementation of these measures, coupled with the Green Paper's objectives, will uplift the livelihoods of Zambians through improved service delivery, low inflation rates, increased employment and increased Gross Domestic Product (GDP). Government's intentions to rebalance the allocations in education, health and water and sanitation infrastructure in rural areas as a way of reducing development inequalities remains high priority focus.

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