Press Release
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2017 National Budget: Consumers must brace for tough times ahead

On 11 November 2016, Hon. Felix Mutati MP, Minister of Finance delivered the long-awaited 2017 Budget Address to the National Assembly. As can be expected, a number of his statements spoke to certain measures that will directly impact Zambian consumers in 2017. As Consumer Unity and Trust Society (CUTS), having analysed the budget it is clear that that consumers will have to brace themselves for some tough times ahead.

Firstly, regarding incomes, we were glad to note that the budget indicated that there would be an increase in the exempt threshold for Pay As You Earn (PAYE) from K3,000 to K3,300 per month and as such, all other income bands would need to be adjusted accordingly. However, to mitigate the revenue loss, there will be an increase the top marginal tax rate from 35 percent to 37.5 percent.

Another key area that will most directly impact consumers is the changes that will take place in the energy sector. According to the minister, pricing of fuel and electricity has not been cost reflective leading to unsustainable fiscal outlays and a lack of investments in the sector. As a result, the Government will by the end of 2017 move to cost reflective tariffs to attract private sector investment while maintaining the lifeline tariff to protect poorer households. While we applaud the Government for maintaining the lifeline tariff, consumers can generally expect a significant rise in electricity tariffs in the next few months.

The minister was however quick to highlight that this did not mean that consumers should pay for increases in cost that are due to inefficiency. As a result in moving towards cost reflective tariffs, Government will also consider options to improve both technical and commercial efficiency in the electricity supply industry. It was also good to see that the Government has commenced discussions with mining houses and other bulk power consumers to ensure that they too start migrating towards cost reflective tariffs in 2017.

Regarding the petroleum sub-sector, the minister noted that this too is also embedded with inefficiencies and unsustainable Government involvement. In order to ensure efficiency and disengage Government from the sector, the procurement of finished petroleum products will with effect from 1st March, 2017 be undertaken by the private sector. Government’s role will be limited to regulation. However, regarding pricing, the Government will continue to adjust prices in line with changes in market conditions - similar to the price hikes that we experienced a few weeks ago.

Another area that CUTS identified that will have a negative impact on consumers is import taxes. The government has implemented these measures to assist local producers compete with imported goods by raising the cost of imported agricultural products; however, although it may prove to be beneficial to producers, it is consumers who will have to bear the brunt of this price increase. If the Government is to go ahead with this introduction of import taxes it is important that the Government put in place a limited time frame for these taxes. so as to encourage producers to become more efficient over time and subsequently ease the burden on consumers. An open-ended imposition of import taxes will result in inefficient producers who will ultimately negatively impact consumers.

In light of all of these proposed changes, CUTS intimates that we will likely see an increase in the cost of living resulting in the erosion of disposable income. This will have most dire impacts on low-income consumers. However, the minister indicated that inflation is expected to fall to single digits this year; and that next year, the expected 2017 inflation rate is to be no more than 9 per cent. While it seems highly unlikely in light of these measures, we will nonetheless have to wait and see.

It was comforting to note that the Government is aware that this Economic Recovery Programme will have a negative effect on society. Consequently it intends on up-scaling its social protection programmes by 85 per cent to 2.7 billion in 2017 in order to mitigate the adverse effects on vulnerable households. In 2017 therefore the Government will scale-up social cash transfers in terms of both coverage and monthly amounts to be given to each beneficiary household in all the 105 districts. Additionally, for low-income consumers, the Government will also continue to implement the Food Security Pack Programme in all the ten provinces in order to alleviate hunger and poverty among vulnerable but viable farmers.

While there are other programmes that will be introduced and/or expanded, the figures of the targeted beneficiaries still remain marginal in comparison to the number of people living in poverty in Zambia. Additionally, one of our fears is that due to these austerity measures we may see an increase in poverty statistics as some households are unable to cope with these measures.

Overall, it is clear that consumers can expect some difficult times ahead. As CUTS it is our hope that firstly, the social protection programme that will be implemented over the course of 2017 is done so effectively to ensure that it reaches the intended beneficiaries. And secondly, while the minister made it clear that as a country we will have to tighten our belts, it is important to ensure that this applies not only to ordinary citizens – the burden must be borne equitably by all.