

MINISTERIAL STATEMENT
ON THE
STATE OF THE ECONOMY AND GOVERNMENT'S ENGAGEMENT WITH THE
INTERNATIONAL MONETARY FUND
BY THE
HON. MINISTER OF FINANCE, MR MUTATI

Mr Speaker, I thank you most sincerely for according me this opportunity to brief the House and nation on the state of the economy and Government's engagement with the International Monetary Fund (IMF). The first part of the ministerial statement will provide an update on the state of the economy while the second part, will provide a briefing on the IMF engagement.

Sir, the economic performance has rebound with inflation down to single digits, the exchange rate remaining largely stable while Gross Domestic Product (GDP) has started recovering. I will now give the highlights.

GDP Growth

Mr Speaker, growth in 2017 is projected to rise to 4.3 against an initial forecast of 3.4 per cent. This is as a result of increased agricultural output, recovering generation for electricity and higher mining output supported by better prices and power supply. Other sectors that are supporting the growth are construction, wholesale, trade and tourism.

Inflation

Mr Speaker, inflation closed at 7.5 per cent in 2016 but has now reduced to 6.5 per cent in May, 2017. This was supported by the continued stability of the exchange rate, lower food prices in view of the good harvest and improved market confidence in the country's economic policy direction. Inflation is projected to remain single digits in 2017.

Exchange Rate and External Factor Development

Mr Speaker, the exchange rate of the Kwacha against major currencies has remained stable with a bias towards appreciation. The Kwacha appreciated against the United States (US) Dollar to an average of K9.34, in May, 2017, compared to K9.92, in December, 2016. The stability of the currency is account of improved supply of foreign exchange, better outlook for copper prices and positive market sentiments.

Mr Speaker, in the external sector, the country's current account deficit narrowed to US\$257 million in the first quarter of 2017, against a deficit of US\$574 million in the fourth quarter of 2016. This was largely explained by an improvement in the trade and primary income balances.

Foreign Reserves

Mr Speaker, as at the end of May, 2017, the foreign reserves stood at US\$2.4 billion which translated to around 3.3 months of import cover. The Government's call is to attain four months of import cover over the medium term.

Lending Rates

Mr Speaker, let me now provide Government's perspective on the lending rates which are still very high for sustainable economic growth. In the first five months of 2017, the rates averaged 28 per cent, a level that limits lending to the private sector. This rate was slightly below the 29 per cent average for the quarter ending, December, 2016.

Sir, in an effort to lower the cost of credit and increase lending to the private sector, the Bank of Zambia eased the monetary policy. Both the policy rate and statutory reserve ratio were reduced to 12.5 per cent. These measures will be complimented by Government's fiscal restraint. I, therefore, urge the banking community to reciprocate and pass on the cheaper credit to the market.

Fiscal Policy

Mr Speaker, may I now brief the House on the fiscal development. The fiscal performance in the first five months of 2017, was challenging. Revenues under performed by 10 per cent compared to budget. The underperformance in revenues has been on account of lower tax compliance by tax payers and delayed implementation of budget measures such as land titling, installation of electronic physical devices to improve Value Added Tax (VAT) collection, implementation of electronic equipment in the communication sector to improve the performance of Excise Duty and the introduction of a single window at entry points, to reduce the turnaround times at borders and boost revenue.

Sir, to contribute to resolving the challenge of lower revenue collection, we are enhancing compliance efforts coupled with getting additional revenues through the tax amnesty. Further, we must all play our part by ensuring that we meet our tax obligations failure to do so will attract punitive measures.

Mr Speaker following the lower than projected revenues during the first five months of 2017, the Government will reduce the underlying expenditure to meet the deficit target and the fiscal consolidation objective. The Government will also hasten to implement the Budget 2017 measures.

External and Domestic Debt Performance

Mr Speaker, Zambia's external debt stock as at the end of May, 2017, increased to US\$7.2 billion from US\$6.9 billion in December, 2016. The increase in the stock was on account of new disbursements. The domestic debt stock was K38.6 billion in May, 2017, compared to K33 billion in December, 2016. The rise is explained by increased demand for Government paper.

Sir, in order to ensure continued debt sustainability, the Government has finalised a Medium Term Debt Strategy that provides a framework for prudent debt management. Further, regular debt sustainability analysis will be the guiding principle for future borrowing activities.

Stock of Government Arrears

Mr Speaker, as at the end of March, 2017, the stock of domestic arrears stood at K17.4 billion. In 2017 alone, the Government has paid out a total of K4.3 billion towards the clearance of the arrears. To address the arrears situation in a sustainable manner, the Government has designed a Time Specific Arrears Dismantling Strategy. This strategy also includes measures that will stop the accumulation of new arrears.

Structural Reforms

Sir, the Government will continue to implement structural reforms aimed at strengthening Public Finance Management to support fiscal prudence and address other structural challenges to stimulate inclusive growth. These include:

- (a) the full roll-out of the Integrated Financial Management Information System (IFMIS) and full implementation of the Treasury Single Account (TSA) by the end of 2017;
- (b) the full implementation of the Electronic Voucher (e-Voucher) System under the Farmers Input Support Programme (FISP); and
- (c) the revision of a number of laws including the Public Finance Act, a new Zambia Procurement Public Procurement Bill, review of the Loans and Guarantees (Authorisation) Act and introduction of the Planning and Budgeting Bill to Parliament.

The Medium Term Outlook

Mr Speaker, as outlined in the Seventh National Development Plan (7NDP), growth over the medium term is forecast to rise to at least 5 per cent. Growth will be mainly driven by

agriculture, energy, mining, construction and manufacturing sectors. The exchange rate stability will be sustained while inflation is projected to be within the target range of 6 to 8 per cent. Regarding the fiscal position, the Government will work towards fiscal sustainability and consolidation. This will create room for lending to the private sector and stimulate increased economic growth.

Sir, overall, pressure on the external sector is expected to continue in 2017, and reduce over the period 2018 to 2019, mainly because of increased export earnings.

The Government's Engagement with the IMF

Mr Speaker, the country has made tremendous social and economic progress. However, risks remain on the external side. Based on the need to support the external side, increase market confidence, enhance investment flows and leverage more resources from co-operating partners, the Government has engaged the International Monetary Fund (IMF) on a possible programme. In this regard, we hosted the IMF in discussions from 29th May to 10th June, 2017.

Sir, during these meetings, the Government and the fund agreed on the remaining actions needed to reach a staff level agreement on a programme that could be supported under the IMF's Extended Credit Facility. With the required actions agreed to, we are now on course to have the programme presented to the board in August, 2017.

Mr Speaker, let me take this opportunity to emphasise the position with regard to where we are in our discussions. The major issues required to be addressed for us to proceed to the conclusion mainly relate to higher than projected budget deficits, accumulation of arrears and an increase in debt levels. As hon. Members of the House may recall, I did highlight key policy and structural measures aimed at mitigating these challenges, including reforms in energy and agriculture. Further, recognising that the reforms may have adverse effects on vulnerable members of society, I did state that the Government would scale up the social protection programmes. In addition to the increased resources that the Government has committed to the programmes, our co-operating partners have also augmented resources for social protection.

Conclusion

Sir, in conclusion, allow me to mention that the growth prospects that I have highlighted require the support of all Zambians from all walks of life. I, therefore, wish to urge all of us to put the interest of Zambia first, as we deliberate, including on the need for an IMF Programme. Further, I wish to indicate that the Government will in a few months present before this House the 2018 Budget. I encourage all our people to participate actively in the budget formulation process in line with the nation's values and principles. This will ensure that we lay the necessary foundation to sustain our financial needs largely using domestic resource mobilization.

Mr Speaker, I thank you.