



Republic of Zambia

**MINISTERIAL STATEMENT ON THE STATE OF THE
ECONOMY BY HONOURABLE ALEXANDER B. CHIKWANDA,
MP, MINISTER OF FINANCE**

MINISTRY OF FINANCE

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A. INTRODUCTION

1. **Mr. Speaker, Honourable members of the house**, it is my inescapable duty that as Minister of Finance, I appraise the nation through this August House on the performance of our economy in 2015 including the outlook of the economy in 2016 and over the medium term. In my statement this afternoon, I highlight our assessment of economic growth as well as developments in the fiscal, monetary and external sectors.

B. Macroeconomic Performance

2. **Distinguished members**, you will recall that when I presented the 2015 budget, the broad specific socio-economic policy objectives included, achieving a real GDP growth rate of above 7.0 percent; end year inflation rate of no more than 7.0 percent and containing the fiscal deficit within sustainable levels. These objectives were premised on a favorable global and domestic economic environment.
3. You will further recall that in my June, 2015 address to this house, these prospects were downcast with growth expected at around 5 percent owing to concerns emanating from external and domestic developments.
4. **Mr. Speaker Sir**, may I now proceed with the specific economic highlights.

Real GDP Growth

5. **Sir**, preliminary estimates indicate that the economy grew by 3.5 percent in 2015. This reflects the generally slow global growth which has dampened demand and indeed prices of many commodities including copper. In addition, adverse weather conditions and the electricity deficits affected output across the different sectors. The agriculture sector contracted by about 8.3 percent while mining sector output substantially slowed down growing only by 1.5 percent. However, positive growth was registered in the construction, transport and communications; and the Manufacturing sectors.
6. In 2016, the economy is expected to grow at around 3.7 percent against the budget projection of around 7 percent. The lower than expected outturn is on account of the expected continuation of adverse weather conditions, persistent electricity deficit and the challenges associated with the mining sector, which have their origins in depressed commodity prices, itself a consequence of a porous global economy.
7. **Mr. Speaker**, the Government has taken stock of the economic challenges that we have faced as a country in 2015 as well as in 2016. In this regard, government has this year

taken measures to increase the resilience of the economy to both external and domestic shocks.

8. In the agriculture sector, efforts have been stepped up in developing irrigation facilities and diversifying the sector away from maize production through the introduction of the e-voucher.
9. In the mining sector, the mineral royalty regime has been redesigned in order to ensure that operations of the mining companies are sustained and jobs are secured, while at the same time minimizing the impact on the fiscal position.
10. Government will also continue rolling out economic infrastructure particularly, in the transport and energy sectors to underpin growth and employment creation this year and beyond. In the energy sector, the coming on stream of additional power from greenfield projects is expected to support higher growth prospects.
11. As a result, **Honourable members**, over the medium term, growth is expected to improve to an average of 5 percent. This is further premised on a more stable macroeconomic environment, improvement in the weather conditions, stabilisation of commodity prices on the international market and increased electricity generation.

12. **Distinguished members**, it is the resolve of Government to continue with policies and strategies that will further consolidate the diversification of our economy, and in the process ensure resilience to any adverse external developments, such as those experienced in 2015.

C. Fiscal Developments

13. **Mr. Speaker**, budget implementation in 2015 was faced with challenges attributed to shortfalls in both revenues and grants coupled with expenditure pressures. Government raised a total of K34.1 billion in revenues and grants. Against the budget target of K35.4 billion, this represents a 4.0 percent underperformance on account of lower collections under customs duty as well as mineral royalties.
14. Customs and excise duty was below target by 26 percent due to reduced import volumes whilst mineral royalty collections underperformed by 37.0 percent due to the reduction in the rates.
15. Total expenditure amounted to K51.26 billion and was 10 percent above the target of K46.6 billion. This outturn was on account of unforeseen expenditures related to importation of emergency power, higher expenditures on farm inputs and grain purchase by the food Reserve Agency (FRA) beyond

what was provided for in the Budget. Fuel subsidies were also higher on account of the Kwacha depreciation.

16. The depreciation of the Kwacha also impacted negatively on constitutional payments such as debt servicing and maintenance of missions abroad. Further, due to tightened monetary conditions interest rates went up resulting in higher payments on domestic debt.
17. **Sir**, due to the mismatch in revenues and expenditures, the fiscal deficit in 2015 was 8.1 percent of GDP, higher than the revised projection of 6.9 percent of GDP in June, 2015.
18. Mr. Speaker, Government is confident that the 2016 budget deficit will be contained around 3.9 percent of GDP. This is premised on the implementation of fiscal consolidation and sustainability measures that were announced by His Excellency the President in November, 2015.
19. For the medium term, the Government will reduce the deficit to an average of 3.0 percent of GDP. This will be firmly anchored on continued re-alignment of expenditures to priority areas such as infrastructure, maintaining the policy of realigning subsidies and, improved public service delivery.

20. The Government has also commenced the operations of the Treasury Single Account (TSA) which is expected to contribute to improved fiscal management, enhance implementation of monetary policy and end the vice of Government borrowing its own funds as a result of Government's substantial unspent balances in the Commercial Banks.

21. Further, the tightened controls on the budget as result of the enactment of the new constitution will ensure that budgeting is realistic and mis-application of funds is curbed.

Debt and Debt Sustainability

22. **Mr. Speaker**, debt sustainability remains a key objective for the Government. I wish to inform this house that despite the sharp depreciation of the Kwacha, Zambia's debt ratios remain within internationally acceptable thresholds.

23. Zambia's external debt as at end-December, 2015 stood at US \$6.4 billion. This represents 38.7 percent of GDP below the internationally accepted threshold of 40 percent. When domestic debt is included, the ratio of total public debt to GDP is 52.7 percent which is below the international threshold of 56 percent.

24. **Sir**, that said, excesses and euphoria in terms of borrowing will continue to be discouraged. To this end, borrowing will continue to be limited to sectors that underwrite future growth. The Government will also continue to undertake periodic Debt Sustainability Analysis (DSA) to establish the sustainability of the country's debt and the public will continue be informed on the debt situation in line with the provisions of the amended constitution.

25. **Mr. Speaker**, in line with the requirements of the constitution, I will in due course be requesting this August house to re-align the debt ceilings on domestic and external loans as well as contingent liabilities. This measure is aimed at ensuring that we mobilise adequate resources to attain our ambitious growth and poverty reduction objectives.

D. Monetary and External Sector Developments

Inflation

26. **Mr. Speaker**, as earlier indicated, we set an inflation target of 7.0 percent for 2015. As at end-December 2015, the inflation rate was recorded at 21.1 percent.

27. The higher inflation was mainly a result of the pass through effects of the sharp depreciation of the Kwacha in the third

quarter of 2015 coupled with the high production costs which were induced by power rationing.

28. **Honourable members**, inflation is expected to remain high particularly during the first half of this year, but will decline sharply from the third quarter. We project that inflation will close the year at around 15 percent. Over the medium term, we expect inflation to return to single digit levels as the exchange rate stabilizes, fiscal deficit reduces and the power situation improves

Exchange Rate

29. **Mr. Speaker Sir**, regarding the exchange rate, the bias for the larger part of 2015 was towards depreciation. For instance, the Kwacha depreciated by 24 percent and 20 percent in September and October, 2015, respectively. In response, the Bank of Zambia tightened monetary policy and sold foreign exchange to the market that led to relative stability of the currency observed since November, 2015. This was complimented by the Treasury that increased its operational liaison with the Central Bank and begun to operationalize the Treasury Single Account (TSA) to facilitate effective cash flow management.
30. As a result, the Kwacha appreciated against the US Dollar by 8.6 percent to K10.98 in December, 2015 from K13.7 at end

September, 2015. The Kwacha also firmed up against other major trading partner currencies and has currently stabilised around K11.3 per US Dollar.

31. Government will continue to ensure stability of the exchange rate by using appropriate fiscal and monetary instruments while maintaining a fine balance between the use of these instruments and growth objectives.

Interest Rate Developments

32. **Mr. Speaker**, consistent with a rise in inflation rate, interest rates have remained relatively high during 2015. Commercial Bank average nominal lending rate rose to 23.9 percent at end-December, 2015 from 20.5 percent in December, 2014, reflecting the tight monetary policy stance particularly in the last quarter of 2015. Government however, remains committed to ease liquidity conditions in the financial sector once stability in the exchange rate has been sustained.

Balance of Payments

33. **Mr. Speaker**, in 2015, the balance of payment position deteriorated with the current account posting a deficit. The financial account, however, registered a surplus mainly on account of increased financial inflows associated with the

issuance of the third Eurobond while the capital account balance reduced following a decline in project grants inflows .

34. As at end of December 2015, an overall balance of payments deficit of US\$ 432.3 million was recorded compared to a surplus of US\$321.6 million registered in 2014. This outturn was mainly on account of the a deficit in the current account balance which in turn was explained by lower copper and reduced non-traditional export earnings.

35. As at end December 2015, the current account deficit was US\$767.7 million compared to a surplus of US\$ 581.2 million in 2014. This was mainly on account of a deficit in the trade balance of US \$ 74.3 million from a surplus of US \$1,625.4 million in 2014, following a sharp decrease in exports of both traditional and non-traditional exports.

Foreign Direct Investment Flows

36. **Mr. Speaker**, investor confidence continued to be strong in 2015 evidenced by continued rise in FDI inflows. As at end-December, 2015, FDI inflows were US \$1,582.7 million, 6.3 percent higher than in 2014. It is worth noting that the investments covered growth sectors such as agriculture, tourism, mining and manufacturing.

Foreign Reserves

37. **Sir**, foreign reserves at end 2015 were US \$2.98 billion compared to US \$ 3.01 billion at the end of 2014. This translates to 3.7 months of import cover and in line with the SADC convergence target. The goal is to attain 4 months of import cover in the medium-term and 6 months thereafter.

E. Other Economic Matters

Relations with the IMF

38. **Mr. Speaker**, Government continues to enjoy good relations with the International Monetary Fund (IMF). Following the expiry of the last programme in June 2011, the Government has been interacting with the Fund through standard surveillance under the provisions of Article 8 of the Fund's governing laws. The last review we had with the Fund was November, 2015.
39. I wish to inform this August House that Cabinet at its meeting held on 15th February, 2016 approved that Government engages the IMF on an economic programme within 2016. An IMF team is expected in March, 2016 to commence discussions in this regard. The mandate of the

IMF is to assist member countries in the balance of payments. All member countries have a right to seek recourse to IMF assistance on terms that are mutually agreed upon.

Mining sector challenges

40. Sir, the challenges currently being faced in the mining sector transcend social and economic dynamics in the areas where the mining companies operate. Closing of any mining operation has the potential of disrupting the core economic and social structures of the country. Therefore, the linkages between mining and other sectors should not be downplayed.
41. In recognizing this fact and as I alluded to earlier, Government has taken a bold step to ensure continuation of mining activities and limit the disruption such as loss of employment and the potential increase in poverty levels.
42. I will therefore, present to this sitting of parliament ,a realignment of the fiscal regime for the mining sector which will enable the mining companies to be afloat in boom and burst periods. I therefore call upon honourable members on both sides of the house to fully support the measures. For a while, mines will continue to be the single most significant

growth engine of our economy. Supporting the mining sector is therefore an essential requirement.

F. Conclusion

43. **Mr. Speaker**, as I conclude, let me indicate that Government will continue with inclusive growth and job creating strategies through ensuring macroeconomic stability that supports both local and foreign direct investment. Further, Government will continue to pay particular attention to diversification of the economy and support to SMEs, and will encourage as it has been in the past, effective and regular engagement with investors and the private sector. This will ensure mutual benefits and equity for both the country and investors.

44. Difficulties experienced in the global economy will continue for a foreseeable future. The only way we can insulate our country against externally induced shocks is to utilise the unmatched comparative advantage in areas like agriculture and the energy sectors. This means hard work and streamlined thinking for it cannot be business as usual.

Mr. Speaker, I thank you