

**STATEMENT BY HONOURABLE FELIX C. MUTATI, MP,
MINISTER OF FINANCE ON THE STATE OF THE
ECONOMY AND ECONOMIC RECOVERY PROGRAMME TO BE
SUPPORTED BY THE IMF**

Mr. Speaker,

I am here today to make clear the gravity of our current economic situation and set out our Economic Recovery Programme that will guide us and ensure that we shift back to levels of growth our country needs to prosper.

The state of the Economy

Honourable Members, Zambia is experiencing slower growth in 2016, after a decade of accelerated progress. This is on account of external and domestic challenges.

External challenges relate to low international commodity prices and adverse weather linked to the El Nino weather system over the past two agricultural seasons.

Domestic challenges include:

1. the power crisis and high inflation that have increased the cost of production for the private sector;
2. policy reversals that have adversely impacted business planning particularly in the mining sector; and

3. the impact of growing expenditure pressures that have exerted pressure on monetary policy whose ability has been reduced.

These factors have had a negative effect on the confidence of foreign and domestic investors and the players in the financial markets.

Mr. Speaker, economic growth in 2015 slowed to around 3% and is currently projected just above 3% for 2016. This is far below the 70% levels required to reduce poverty and to drive this country's development. Further, the substantial tightening of monetary policy has not come without cost. Tighter liquidity and higher costs of borrowing have weighed on the private sector at a very difficult time, threatening growth prospects further. What is clear, Honourable Members, is that the monetary policy would not have needed to be so tight if the fiscal policy had been less expansionary. In future we need greater balance and a more integrated and joined approach to our policies so that we can be supportive of the private sector. This will enable the much needed job creation by our firms, farms and industries.

On the external side, the external sector is weaker. The value of our exports has fallen with global price falls. A trade deficit has emerged as we are at present importing more than we are exporting. This has put pressure on our international reserves, which have substantially declined from US\$3.9 billion in July 2015 to US\$2.3 billion at present. The much-needed foreign exchange is

flowing out of the country. This is as a result of the existing commitments, particularly those relating to subsidies that have an external component. Positively, we have now started to deal with these subsidies.

Sir, the economic challenges we are facing are also reflected in the deterioration of public finances. In 2016 the fiscal impact of the economic shocks has forced public expenditure upwards while revenues fell short of expectations. This has caused the gap between what taxes we collect and what we must spend to drift further. The fiscal deficit when unpaid bills or arrears are included is expected to breach 10% of GDP this year. Key parts of the deficit include:

1. a build-up of arrears related to infrastructure, particularly in the road sector;
2. government expenditures on fuel subsidies;
3. financing of emergency electricity imports to mitigate the impact of the power crisis; and
4. above budget expenditures via the Food Reserve Agency and FISP.

Added to these pressures have been rising debt service costs as a result of the depreciation of the Kwacha and higher domestic lending rates.

Whilst some of the shocks we have faced are externally induced and so cannot be controlled, there are areas where more consistent policymaking can play a key role. These imbalances clearly need to be urgently addressed. This is needed to unlock faster growth and provide the employment opportunities sought across the country. Moving from these imbalances to a more sustainable footing will be the focus of our Economic Recovery Programme. Shifting from an expansionary fiscal stance to more sustainable public finances will be cardinal as it will improve our ability to respond to external challenges and provide the much needed jobs and growth on the domestic front.

Mr. Speaker, we are alive to the fact that the economic glitches are hitting the pockets of families, particularly the marginalized that are unable to respond to these negative developments. To shorten the challenging period for our people, Government is determined to embark on measures to start addressing the economic imbalances through a home grown economic recovery programme.

Sir, with this economic recovery programme Government has taken responsibility for the hard work and decisions that lay ahead. The Economic Recovery Programme provides Zambian solutions to the challenges we face. We will reach out for support, but any support will be limited to assisting us, in our processes and our policies for economic recovery.

This is the reason we are referring to our Economic Recovery Programme as "Zambia Plus", meaning that all solutions will be determined by us Zambians while external partners will form the plus as we engage them to assist in this Zambian process. This includes the IMF.

The Economic Recovery Programme

Sir, there are substantial costs associated with delaying action. Hence we launch our Economic Recovery Programme with immediate effect. Our Economic Recovery Programme has five pillars.

The first pillar involves strengthening tax policy and administration, to improve revenue inflows, and to shift public expenditure back to affordable levels. We cannot spend what we do not have. As a start, we are dealing with reallocating subsidies that have been growing and cost us over US\$1 billion in 2016 alone. This money can immediately be used in more productive areas and be better targeted towards supporting the poorest households.

As earlier mentioned, the removal of subsidies can harm the poor, as they are least able to adjust. To ensure the poor are better protected, Government will embark on the **second pillar** that will see an increased budgetary allocation to social protection including addressing the plight of pensioners.

Honourable members, you will agree with me that Zambia's resources must be safeguarded so that there is no wastage and that we achieve high impact from our spending. Government will therefore ensure that it improves economic and fiscal governance under the **third pillar**. This will involve strengthening of regulations and laws to make them more punitive to abusers and ensure transparency in the way we arrive at economic and spending decisions.

Mr, Speaker, budget credibility remains a big concern. Past deviations to the budget have been as high as 25%. This cannot continue given that the discretionary budget is only around 20% of domestic revenues. The **fourth pillar** will be centered around improving budget credibility. Better planning, and adherence to expenditure plans and improvement of the quality of Government's spending.

Honourable members, **the fifth pillar** will provide us with greater economic stability. With economic stability comes a better platform for economic growth and job creation. Without stability and market confidence, the private sector will not recover. Under this pillar, Government will also put in place measures to unlock growth by targeting investment in the sectors with binding constraints to growth. On the investment side enhancing energy and transport infrastructure remains key. On the policy side we will be prioritizing efforts to reduce the costs of production and ease doing business. Improving access to credit, lowering lending rates

and reducing inflation are key to this part of our Economic Recovery Programme.

As part of the economic recovery programme, Government will:

1. prioritise the dismantling of arrears owed to contractors to help companies meet their obligations and sustain their operations.
2. put in place measures to give access to cheaper financing for SMEs. As a start, we have accessed a US\$50 million facility with the African Development Bank to be used for lending to SMEs.
3. put in place clearly elaborated programmes to realize the vision of His Excellency the President, Mr. Edgar C. Lungu, regarding industrialization and turning Zambia into an agricultural hub.

IMF Programme

Sir, all these plans I have highlighted above will require strong domestic and external collaboration. International support, on our negotiated terms, will help make the recovery plan a success. As a member of the IMF we welcome their financial and technical support and we will engage with the visiting IMF team in discussions on how best IMF financing could help strengthen our Economic Recovery Programme. This will be done with all other Cooperating Partners.

Honourable Members, I wish to mention from the onset that the efficacy of IMF programmes is beyond getting financing, but inducing the confidence and cooperation of external benefactors such as the investor community and cooperating partners regarding the credibility of our economic programmes. The credibility of the IMF as an independent appraiser cannot therefore be over emphasized.

May I now take this opportunity, Sir, to inform the house that Government has not yet hosted any detailed programme discussions with the IMF and there are no IMF preconditions.

Our engagement with the IMF has changed considerably over the past decade. And thankfully the days of prescriptions from Washington, without due regard for country peculiarities, have made way and evolved into a better technical and collaborative partnership. The IMF provide financial support to countries facing balance of payments. We should not turn away from financial and technical assistance and instead take charge and utilize the support.

The IMF are here this week on a monitoring mission to discuss the economic situation and for us to start presenting to them our Economic Recovery Programme. We expect them to return for programme discussions later.

May I inform the house that before any programme details are agreed upon, Cabinet and other economic stakeholders will be consulted and any final agreement, if appropriate, would be expected in the first quarter of 2017.

Conclusion

I will, Mr. Speaker, soon be presenting to this house to this house the 2017 budget, in which I will in greater detail underline the measures we plan to undertake to ensure that stability and growth return.

Mr. Speaker, I thank you.