

MINISTERIAL STATEMENT

STATE OF THE ZAMBIAN ECONOMY AS AT 31ST JANUARY, 2024

BY

THE MINISTER OF FINANCE AND NATIONAL PLANNING (DR MUSOKOTWANE)

Madam Speaker, I thank you for according me the time to present a ministerial statement on the state of the economy. The statement that I am presenting is very broad which should also enable the hon. Members of Parliament to ask follow up questions in a broad framework.

Madam Speaker, this is the first time Parliament is meeting in 2024, so it is a great opportunity to acquaint the House on some salient aspects of the economy in 2023, and also touch on some of the contemporary issues about the economy which are on the minds of the citizens.

Madam Speaker, growth in 2023, at 4.3 per cent was very satisfactory. It was slightly less than the growth of 4.7 per cent in 2022 through. What is clear however is that since 2021, when this Government took office growth has been consistently positive year after year and contrast with the economic decline of 2.8 per cent recorded in 2020.

Madam Speaker, this Government has its eyes fixed on getting even stronger growth in the coming years as a key strategy for fighting poverty. How this growth in the sectors takes place, is a subject that has been discussed in the National Development Plan and several time also during various budget addresses in this House. I will move on to make some remarks on the performance of the external sector which reflects transactions between Zambia and the rest of the world

Madam Speaker copper exports earnings as at the end of the third quarter of 2023, decreased by almost 19 per cent to US\$ 5.1 billion from US\$6.3 billion, the corresponding period in 2022, due to lower export volumes and the realised copper prices. The reduction in copper exports was due to a decline in copper output amidst low grades, operational challenges and routine closers for maintenance at some mines.

Madam Speaker, the drop of copper exports by almost 19 per cent in 2023, was significant and was the most important factor in the depression of the kwacha against foreign currencies, last year. I will return to this matter later in this speech. For now, let me give a summary of how the budget has performed.

Madam Speaker, I wish to express pride that under the New Dawn Administration, budget credibility has become the hallmark of fiscal operations. Simply stated, the Treasury disburses money strictly following the appropriations passed by this House. For example, when the House appropriates money for recruiting teacher or paying pensioners or financing free education, the Treasury ensures that cash for these activities is released without fail.

Madam, these good things are new developments in our country. Colleagues how have served here longer, will recall how this House would appropriate money for the Constituency Development Fund (CDF). However, for three years, the Treasury never released that money. That type of conduct is now history.

Madam Speaker, on the actual fiscal operations, I am happy to report that we mobilised revenues and grants amounting to K122.1 billion in 2023, representing an over-performance of 7.7 per cent. This was mostly due to over-performance from non-tax collections and grants as the tax collections were slightly below target.

Madam Speaker, on the expenditure side, a total of K160.0 billion was released and was 4.4 per cent below the target of K167.3 billion. Notable expenses were as follows:

- (a) personnel emoluments at K44.9 billion;
- (b) Government operations at K13.0 billion against a target of K14.9 billion, of which drugs and other medical suppliers constituted K2.6 billion;
- (c) debt service payments amounted to K41.3 billion against a target of K48.8 billion;

- (d) transfers and subsidies at K25.7 billion against a target of K25.9 billion, of which K1.8 billion went towards grants to schools, K7.3 billion for the 2022/2023 Farmer Input Support Programme (FISP) and K4.7 billion for the Constituency Development Fund, which was disbursed in full;
- (e) social benefits at K6.5 billion against a target of K6.4 billion, of which K2.0 billion for the pension financing gap under the Public Service Pension Fund (PSPF) and K3.8 billion for implementation of the Social Cash Transfer Programme;
- (f) arrears clearance at K12.1 billion against a target of K6.8 billion, we paid more arrears almost twice than what was budgeted for; and
- (g) K362 million to empowerment funds.

Madam Speaker, having given you an overview of the performance of the Budget in 2023, I now wish to provide updates on topics that are currently of interest to the public. These are; the exchange rate of the Kwacha, the future of debt restructuring and the financial consequence of the looming drought under the current agricultural season.

Madam Speaker, the exchange rate of the Kwacha depreciated substantially during 2023. This depreciation continued in January and part of February 2024. The depreciation of the Kwacha well beyond expectations, no doubt, has brought about some economic problems. This has seen the rate of inflation rise from the single rate of 9.9 per cent in December, 2022, to the double digit of 13.1 per cent in December 2023. As stated earlier when I described the external sector development, the most important driver of the exchange rate has been the drop in copper production in 2023, resulting in reduced inflows of foreign exchange.

So, why did copper production drop? It was due to two factors. Firstly, the high rainfall in early 2023 resulted in some mines having excessive water, which took time to remove from the pits. I

would talk about the mining sector here because that is where most of the foreign exchange comes from.

Madam Speaker, secondly, some of the operating mines, those that we did not close, had before the 2021 elections, decided to leave Zambia, citing an un-conducive environment that prevailed then. So, because they had decided to leave, they did not arrange to develop new mining areas, which would be exploited when the areas currently being mined got exhausted.

Madam Speaker, what measures are being instituted to stabilise the exchange rate? The first point is to remember that the primary shock to the exchange rate emanated from reduced copper earnings. This shock requires to be addressed. This entails bringing back into production the two mining giants of Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM) back into production. These two companies had been out of serious production for more than four years when they were closed under the Patriotic Front (PF). In terms of KCM, only one step remains before it is handed back to Vedanta Resources so that production resumes. This should happen very soon. In terms of MCM, the target date for handing it over to the new investor is the end of this month, February, 2024.

Madam Speaker, the importance of these two mining firms is that even before they increase production, they are already sending money to Zambia in foreign exchange to pay local creditors who were not paid before and to prepare for increased production. This is happening now. Creditors are being paid and this is one of the factors that is supporting our Kwacha in the foreign exchange market, helping to re-establish stability. Beyond this preparatory stage, which is already supporting the exchange rate, as I have mentioned, we are looking forward to increasing copper production and foreign exchange earnings as the two mining companies get to work.

The effect of the return of the two mining companies is set to change things very positively. The second leg of increasing copper production is by expanding production at First Quantum Minerals (FQM) and Barrick Lumwana. As indicated already, both companies had contemplated leaving Zambia because of the un-conducive investment climate under the PF Government. Had

that happened, almost the entire mining industry in Zambia would have closed. As it would have meant that KCM, MCM, FQM and Barrick Lumwana would be out. The economic consequences of this scenario would have been beyond imagination.

Madam Speaker, after the United Party for National Development (UPND) assumed office in 2021, both companies were successfully persuaded to stay, but the earlier decisions to leave impacted production because they had not developed new ore bodies in time. Both FQM and Barrick Lumwana have started developing new ores and they have put in US\$1.3 million and US\$2 billion respectively to achieve enhanced production.

Madam Speaker, the shock to the exchange rate was largely attributed to the problems in the mining sector. This has been a temporal problem, which this Government has now resolved. Going forward, the people of Zambia should feel comfortable that the future is bright on account of the mining sector alone without even considering other sectors. Concrete steps will soon be visible as production towards the 3 million tonnes of copper target takes shape. I am sure my Colleague in charge of mining will at an appropriate time share the projections of expansion of the mining sector to this House.

Madam Speaker, the final remark on the stability of the exchange rate is this. Stability comes about because supply and demand for foreign exchange roughly get into balance. We have already discussed the supply as we described the development of the mining sector because it is the main source of foreign exchange.

Madam Speaker, the demand side of the equation can be managed by monetary policy actions such as those instituted by the Bank of Zambia (BoZ) recently. These included withdraw of Government deposits from commercial banks to BoZ and increase in the statutory reserve ratios. Both measures have the effect of reducing access to local currency financing from the banking system, and, therefore, dampen the effective demand for domestic expenditure, including on foreign exchange purchases. Once again, the positive effects of this monetary policy action are evident today.

Madam Speaker, moving on to debt restructuring, I am happy to report that significant progress has been achieved. We all recall that there are two broad categories of external debt. There is the official category, which is government-to-government, and the private sector category. For the official debt restructuring, this was already achieved last year. All that remains is to complete the formalities, which are expected to be signed shortly.

Madam Speaker, regarding the private sector creditors, the focus of the work now is to clarify the meaning of ‘comparable treatment of all creditors’. Hon. Members will recall that as a way of ensuring that no creditor takes advantage of other creditors, a requirement exists which demands that any proposal for debt restructuring must satisfy the criterion of comparable treatment.

Madam Speaker, this concept was not properly clarified, leading to ambiguous understanding by different creditors as they made proposals for debt restructuring. With the progress made to clarify the meaning of that term, this should pave way for agreements with the private creditors as well.

Madam Speaker, my last point on the state of the economy is with regard to the drought which the current rainy season is suffering from. It is clear that this season is one of the worst in living memory with many of our citizens in different provinces facing their worst food insecurity calamities.

Madam Speaker, the President of the Republic has vowed that no one should be left to starve. As such, the Government will be left with no choice, but to propose amendments to the 2024 Budget, so that financing room is created to enable the financing of the vulnerable households. This Government will this year ensure that all citizens are food secure.

Madam Speaker, the challenge of local foods is not alone. Our national dependence on hydro-electricity equally means that in this year of drought, power will become limited, unless we find alternatives. As in the case of food security, the Treasury awaits response proposals on energy, just like on food, to guide how the 2024 Budget will be adjusted to accommodate these imperatives.

Madam Speaker, given the imperatives arising from the drought calamity, the need for judicious care for our limited financial resources has never been more important. That being the case, I want to make it clear that the requests for supplementary budgets or indeed requests for subsidies of any sort beyond these priorities of feeding the people and providing power, such requests will not fly.

Madam Speaker, as I conclude, I am happy to say that this economy is poised to be in a very strong position this year going forward. The drag on the economy in the past few years, which also reflected itself on the exchange rate, high cost of living and poverty, was due to the absence of normal production at our two mining giants, Konkola Copper Mine (KCM) and Mopani Copper Mine. This made the economy act like a lame person. The two mining giants are now very close to resuming normal operations, which will revive life on the Copperbelt and the rest of the country. On top of that, the expansion taking place at First Quantum Mine (FQM) and Lumwana Mine and anticipated new mines such as that of KoBold Metals, will in a few years put Zambia on a different scale of development.

Madam Speaker, other sectors of the economy are also poised for greater heights. Tourism is doing great, so is the telecommunications industry, manufacturing and construction. On construction, I want to tell you that immediately after this rainy season, the construction of the Ndola-Lusaka Dual Carriageway will kick-in in earnest.

Madam Speaker, by the time we reach 2026, the citizens of this country will say to this Government, “Well done”.

Madam Speaker, this is because at that time, the additional positive changes I am describing will become so evident to every citizen of our country.

Madam Speaker, I wish to thank you.