PMRC
Policy Monitoring and Research Centre

THE MIDYEAR ECONOMIC BRIEF

PRESS STATEMENT

FOR IMMEDIATE RELEASE

Friday 20th July, 2018

On 19th July 2018, the Minister of Finance,Honourable Margaret D. Mwanakatwe, MP, provided the midyear economic brief to update the nation on the following subject matters:

1. Recent Economic Development
2. Policy and Structural Reforms Measures
3. Implications of Austerity Measures
4. IMF Programme

RECENT ECONOMIC DEVELOPMENT

The Minister indicated that projected annual economic growth of above 4 percent remained feasible because of the increased economic activities in the country. The growth was going to be in the range of 4-5 percent in the medium term and was driven by mining, tourism and construction which had been supported by stable power supply and stable global developments. The downside risks to the projected economic growth included among others volatility in copper prices, high lending rates and adverse weather conditions. On Government expenditure (including amortization) for the first half of 2018, the Minister stated that expenditure amounted to K39.6 billion, against the budgeted K34.19 billion. The major components which were above target were interest payments by 43.2 percent and capital expenditure by 65 percent.

2019 budget Preparations

The Minister highlighted the fact that the 2019 budget preparation process had commenced, and the budget's broad objectives were:

- Increased revenue performance, particularly taking bold steps on non-tax revenue collection;
- Implementation in full, measures announced by His Excellency the President while protecting growth and enhancing social protection; and
- Reduction of Government borrowing, particularly in the domestic market.

Monetary Policy Developments

Inflation remained within the target range of 6-8 percent closing the first half of 2018 at 7.4 percent down from the May rate of 7.8 percent. For the rest of the year, inflation it expected to remain within the programmed target. Government has committed to scale back in domestic borrowing to help improve monetary conditions and lowering the cost of borrowing.

Foreign Exchange market and External Sector

The Minister indicated that the **Kwacha** remained relatively stable against the major trading currencies during the first half of the year, trading at an average of K9.93 per US$. However, the trade deficit during the first five months of 2018 continued being positive with a surplus of K245.4 Million recorded in May 2018.

Reserve position

The reserve position as at end June 2018 was US$1.82 billion.

Debt Position

The stock of external debt as at end of first quarter of 2018 was US $9.37 billion. The slight increase in the debt stock was because of disbursements during the review period. As at June 2018, Government paid US$161.3 million in external debt service. Total guaranteed debt was US$2.7 billion, of which US$1.21 billion had been drawn against the principal amount. The stock of domestic debt as at end June 2018 was K51.86 billion.

Domestic Arrears

The Minister announced that domestic arrears in the first quarter 2018 increased to K13.91 billion from K12.77 billion due to a rise in arrears related to roads and other RDCs. She stated that the pace of arrears accumulation is a source of concern to the Government and commitment controls were being strengthened to avoid accumulation in RDCs.

Fiscal Performance

The Minister stated that preliminary estimates for revenues and grants in the first half of 2018 amounted to K25.07 million and were in line with period's projections. Domestic revenue collections were above target by 3.3 percent which was supported by positive performance of VAT collections.

In an effort to address challenges experienced in lower target performance in some revenue categories such as excise duty, export duties among others the Minister stated the following measures that had been instituted by government;

- Use of electronic solutions in revenue collections such as fiscal registers and telecommunications transaction monitoring system for mobile service providers;
- Working with World Bank to accelerate the pace of land titling programme; and
- Change of the taxation system for fuel importers to enhance excise duty collection.

POLICY AND STRUCTURAL REFORMS UPDATE

The Minister also referred to the following policy reforms that Government had committed itself to undertake;

- Reforms to parastatal bodies with attention being given to institutions such as ZESCO whose debt was high resulting in operations being unsustainable.
- Energy sector reforms that included reforming the fuel importation system and the completion

of the cost of service study which had faced challenges that required resolution.

- Legislative reforms that form a cornerstone of fiscal sustainability. In the review period, the Public Finance Management Act had been signed into law, while the crediting reporting and Public Private Partnership bill were at an advanced stage in Parliament.
- Work on the enactment of the Planning and Budgeting Bill was at an advanced. She stated that the aim of Government was to take the Bill to parliament as part of the budget legislation alongside the new Procurement Bill.
- Work on the Loans and Guarantees (Authorization) Act which had been delayed due to reviews to the constitution.

OUTLOOK AND RISKS FOR 2018

The Minister indicated that the implementation of the austerity measures would aid the sustenance of the macroeconomic environment, growth prospects and renewed confidence in the economy.
She further outlined some risks that could affect the economic outlook which included the following;

- Climate variability.
- Failure to achieve structural adjustment measures announced by Government over the medium term that may impact on growth.
- Failure to address tight liquidity in the market to address the limited access to credit by private sector.
- Global economy developments such as trade issues.

PMRC ANALYSIS

PMRC commends Government for various interventions (Fiscal, Monetary, Policy and Structural Reforms) it has instituted that have brought about consistent growth over the years averaging 4% and above. However, it must be noted higher growth rates should be targeted in the future if such economic growths are to be of benefit to ordinary Zambians.

PMRC also applauds Government for exceeding its revenue target in the first half of 2018 by 3.3 percent. The proposed measures by Government to use electronic solutions in revenue collections should be supported by all Zambians. Such efforts will ensure that the country has adequate funds to finance all its budget obligations. Government should therefore, continue building the capacity of the Zambia Revenue Authority to consistently meet and exceed revenue collection targets.

Policy and Structural reform update

The Government has made revisions to the Public Finance Act of 2004 to strengthen laws and regulations and make them more punitive to abusers of public funds. This will provide a clear framework for dealing with cases of abuse of public resources and deter would be offenders. This will further improve decision morality, transparency, accountability and integrity among persons in positions of responsibility. PMRC also emphasizes that the Planning and Budgeting Bill must be enacted to ensure adherence to planned programmes and enhance budget credibility. This was announced in the 2017 Budget and is currently before parliament. Once enacted these laws will also support provisions of the Public Finance Act.

IMF

In the address, the Minister also provided an update on the IMF engagement. As a matter of fact, Zambia, like many other countries are all stakeholders with the IMF and thus the engagements and negotiations continue. Zambia is currently undertaking measures to rein in on fiscal slippages and risks related to debt. Zambia is further working on the Economic Stabilization and Growth Plan, which also include austerity measures as well as strategies on revenue collection. The IMF will further provide feedback as to the appropriateness of the measures for macroeconomic sustainably. The indication on this matter is that engagements continue.

SI 34 of 2018

The Government issued a statutory instrument (Accountants [Client Fees] Regulations, 2018 [Statutory Instrument Number 34 of 2018]) to regulate the fees charged by accountants in order to avail accounting services to more citizens and micro, small, medium, and large organisations. This is a logical step in reducing the cost of accountancy transactions. PMRC however recommends for renegotiations into the fees to ensure that businesses are able to pay for the fees and encourage compliance.

Further, PMRC is keenly monitoring the measures that the Government has committed itself to for the rest of 2018 of enhancing payroll management, expenditure cuts, in areas such as use of goods and services, progressing on procurement reforms and debt reprioritisation. PMRC cautions that such measures would only yield desired results if implementation mechanisms are put in place and strictly monitored by all controlling officers. PMRC is concerned that the stock of external debt and domestic arrears as at end of first quarter slightly increased during the review period. Government is therefore urged to quickly find a lasting solution to the escalation of external debt and domestic arrears respectively for the country to return to moderate risk debt distress and support fiscal consolidation. The China debt restructuring is one such proposals that have been taken up and we as PMRC shall be keenly following the discussions to understand the outcome of the planned engagements with China.

In conclusion, measures such as those announced by the Minister of Finance to cancel some contracted debt which have not be disbursed and considerations of extending some loan maturity profiles should be supported and implemented. The IMF Engagement or bailout programme route should also be exploited fully for as long as the terms and conditions shall be a win-win situation for Zambia by consolidating growth and not otherwise.

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