

# MID YEAR ECONOMIC BRIEF

(JANUARY 2018 – JUNE 2018)

PREPARED BY



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## ECONOMIC GROWTH

Projected annual economic growth to range between 4-5 percent in the medium term driven by:



Mining



Tourism



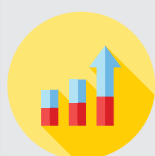
Construction

ECONOMIC GROWTH

### SUPPORTED BY



Stable power supply



Stable global developments

## GOVERNMENT EXPENDITURE

First half of 2018, Expenditure amounted to K39.6 billion, against the budgeted K34.19 billion.

**39.6B** ↑  
EXPENDITURE

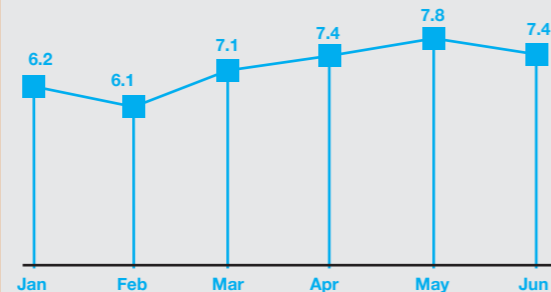
**34.19B**  
BUDGETED



Interest payments and capital expenditure were major components above target at 43.2 and 65 percent respectively.

## INFLATION

Inflation within target of 6-8 percent closing the first half of 2018 at 7.4 percent from the May rate of 7.8 percent.



Inflation between January and June of 2018 increased by 5 percent.

## FOREIGN EXCHANGE MARKET



Kwacha remained stable against the major trading currencies trading at an average of K9.93 per US\$ compared to the K 9.53 per US\$ the same period in 2017.

## TRADE BALANCE

Trade balance during the first five months of 2018 was positive with a surplus of K245.4 million recorded in May 2018.



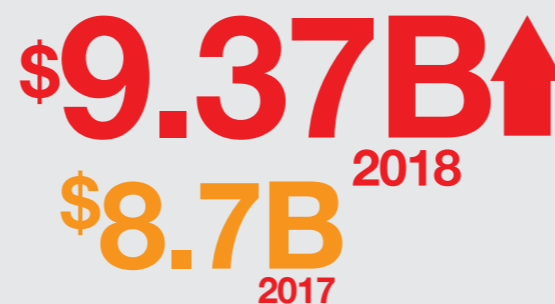
Recovery in the performance of Non-Traditional Exports in the recent past has been recorded with the share of NTEs averaging of 22.9 percent in export earnings between May and April 2018.

## FOREIGN EXCHANGE RESERVE POSITION

This refers to money or other assets held by Bank of Zambia so that it can pay if need be its liabilities. Reserve position as at end of **June 2018 was US\$1.82 billion** compared to **US\$2.1 billion** gross international reserves as at December 2017.

## EXTERNAL DEBT

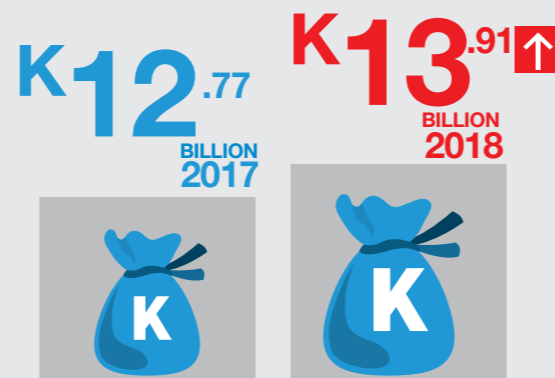
The stock of external debt as at end of first quarter of 2018 increased to **US \$9.37 billion** from **\$8.7 billion** as December 2017 representing 8 % increase.



Government also paid **US\$161.3 million** in external debt service

## DOMESTIC DEBT

Domestic arrears in the first quarter 2018 increased to K13.91 billion from K12.77 billion [representing 9% increase] due to a rise in arrears related to roads.



## ESTIMATES OF REVENUES AND GRANTS

Estimates for revenues and grants in the first half of **2018 was K25.07 million.**

**Domestic revenue collections** were above target by **3.3 percent** due to positive performance of VAT collections.

**Lower target performance** in some revenue categories included

1. Excise duty
2. Export duties

## POLICY AND STRUCTURAL REFORMS UPDATE

**Government committed to the following reforms:**

1. Reforms to parastatal bodies such as ZESCO with high debt leading to unsustainable operations.

2. Energy sector reforms

- Fuel importation system.
- Completion of the cost of service study which had faced challenges.

**Legislative reforms that relate to fiscal sustainability**

■ *Public Finance Management Act* had been signed into law.

■ *Credit Reporting and Public Private Partnership Bills* were at an advanced stage in Parliament.

■ *Planning and Budgeting Bill* was at an advanced yet to be taken to parliament as part of the budget legislation, alongside the new *Procurement Bill*.

■ *Loans and Guarantees (Authorization) Act* had been delayed due to reviews to the constitution.

## OUTLOOK FOR 2018

Implementation of the austerity measures to aid sustenance of the macroeconomic environment, growth prospects and renewed confidence in the economy.

### Risks

*Potential risks that could affect the economic outlook include*

1. Climate variability.
2. Failure to achieve structural adjustment measures as announced by Government.
3. Failure to address tight liquidity in the market to address the limited access to credit by private sector.
4. Global economy developments such as trade issues.

## RECOMMENDATIONS

1. Government should target economic growth rates higher than 4% in the future if such economic growth rates are to benefit ordinary Zambians.

2. Government must broaden the tax base to ensure that the country has adequate funds to finance all its budget obligations. There is need to build the capacity of the Zambia Revenue Authority [especially when dealing with matters related to transfer pricing/tax avoidance by multinationals] for the country to consistently meet and exceed revenue collection targets.

3. There is need for the Planning and Budgeting Bill to be enacted into law in order to ensure strict adherence to planned programmes and enhancement of budget credibility. Planning and Budgeting Laws will support provisions of the Revised Public Finance Act.

4. There need to put in place a robust implementation mechanism to enforce austerity measures as directed by the Republican President and all other measures put in place by Government such as enhancing payroll management, expenditure cuts and procurement reforms.

5. Government to prioritize debt restructuring programme and curb any further contraction of debt. Chinese Government supported debt restructuring or the IMF Engagement programmes need to be exploited fully for as long as the terms and conditions of such programmes benefit Zambia by consolidating growth.

6. Government needs to renegotiate the fees charged by accountants as per regulations contained in the Statutory Instrument Number 34 of 2018, Accountants (Client Fees) Regulations. Affordable client fees will encourage compliance and enable all businesses to pay prescribed fees.