

# OUTCOME OF THE 11<sup>th</sup> (SPECIAL) CABINET MEETING ON THE STATE OF THE ECONOMY, HELD AT STATE HOUSE ON MONDAY, 27<sup>th</sup> MAY, 2019

CABINET RESOLVED THAT THIS IS NOT BUSINESS AS USUAL AND THAT TOUGH TIMES CALL FOR TOUGH MEASURES.



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Due to the prevailing economic environment the country is going through, His Excellency the President Mr. Edgar Chagwa Lungu called for an urgent Cabinet Meeting on Monday, 27th May 2019 to decide on measures to be taken to;



Restore **macroeconomic stability**



Restore **debt sustainability** and



Ensure that **growth is restored**

## KEY OUTCOMES OF THE MEETING

### FISCAL PERFORMANCE & DEBT



Cabinet recognized the need to move from high risk to moderate risk of debt distress and the impact this was having on the macroeconomic fundamentals.

#### Cabinet decided on the following action points:

- ✔ Indefinitely postpone the contraction of all new non-concessional loans.
- ✔ Cancel some signed but undisbursed loans.
- ✔ Increase the control and management of disbursements on foreign financed loans.
- ✔ Reduce the budget deficit.
- ✔ Fiscal reforms and oversight measures to slow down budget deficit – to improve liquidity and growth
- ✔ Dismantling of domestic arrears, and halting the accumulation of new arrears
- ✔ Energy reforms - continued investments in the sector to overcome energy deficit and renegotiations of unsustainable power purchase agreements
- ✔ Ministry of National Development Planning to lead implementation of the diversification agenda.
- ✔ The Minister of Finance to present to Cabinet at its next sitting a list of **project loans to be considered for slowing down, postponing and cancellation.**
- ✔ Hastening the enactment of legal reforms such as the **enactment of a new Public Procurement Act.**

### DELAYS IN THE IMPLEMENTATION OF PREVIOUS AUSTERITY MEASURES



Cabinet took note of delays in implementing some of the previously taken **decisions and directed that:**

- ✔ Ministers to be allocated tasks and associated timelines to ensure effective implementation;
- ✔ The implementation of measures and adherence to deadlines will be monitored by the Ministry of Finance and Cabinet Office for report back to Cabinet; and
- ✔ Cabinet resolved that this is not business as usual and that tough times call for tough measures.

### MONETARY AND EXTERNAL SECTOR



#### Exchange Rate Developments

Cabinet deliberated on the factors affecting the volatility of the exchange rate that included;

- High and lumpy demands for foreign exchange.
- Strengthening of the United States Dollar.
- Sentiments emanating from concerns on the macroeconomic developments in Zambia.

In dealing with these issues, Cabinet noted the following action point to be considered:

- ✔ Reserves accumulation; **addressing lumpy demands on items such as fuel procurement and to slowing down on debt servicing through debt cancellation and postponement.**

### OUTSTANDING LEGISLATIVE REFORMS



- Revise the **Loans and Guarantees (Authorisation) Act** - to require the Minister of Finance to get parliament approval of national debt **to increase public transparency.**
- Enact the **Planning and Budgeting Bill** - to ensure full appraisals of major public investments before project commencement **to guarantee value for money.**
- Revise the **Public Procurement Act of 2008** - to close loopholes in procurement, such as artificially inflated costs of public goods and services.

### RECOMMENDATIONS & WAY FORWARD

#### A. IMMEDIATE ACTION; Laying the Groundwork

1. Implementation of oversight reforms e.g **rolling of Integrated Financial Management Information System (IFMIS), review of the Public Procurement Act, Loans and Guarantees Act.**
2. Increased transparency in the debt contraction through continued timely release of information on the debt.
3. If possible secure International Monetary Fund (IMF) technical support in the management of the economy.

#### B. 2020 BUDGET FOCUS

4. Reinforce implementation of austerity measures by cutting wasteful expenditure and cancelling projects that are not 80 percent complete.
5. Focus on budget deficit reduction to 5.5% in 2020 and 5.1% in 2021.
6. Focus on **sustainable domestic revenue mobilization measures such as land titling and use of electronic fiscal devices.**

7. Need to ensure social protection expenditure is safeguarded in the midst of austerity measures.

#### C. MEDIUM TERM FOCUS; Options to manage debt and stimulate private sector led growth

8. Explore privatization for loss making non-strategic parastatals.
9. Consideration to be given to dismantling of pipeline debt and restructuring of the existing loans.
10. Strengthen legal framework on the Sinking Fund in the Loans and Guarantees Act.
11. Secure World Bank (WB) / Africa Development Bank (AFDB) guarantee.
12. Prioritise building up of reserves from US \$1.4 billion as at February 2019 representing 1.6 months of import cover to the targeted 4 months of import cover. **See graph below**

