



2019 SECOND QUARTER ECONOMIC PERFORMANCE UPDATE

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PREPARED BY



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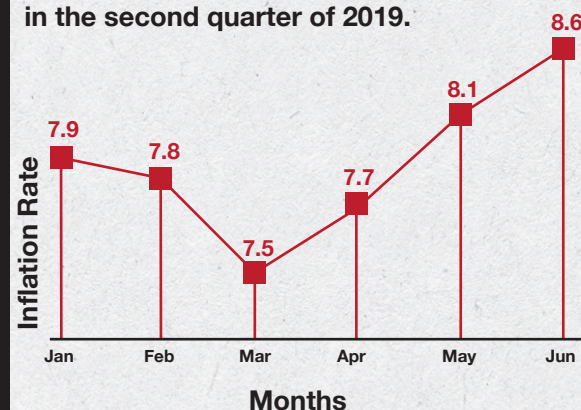
Update on Economic performance of the economy for the second quarter of 2019. (As Highlighted by Minister of Finance Hon. Bwalya Ng'andu).

ECONOMIC GROWTH

- In the first quarter of 2019, the economy grew by 2.6 % compared to 2.7 % in the first quarter of 2018.
- Growth was driven by wholesale and retail as well as the information and communication sectors.
- Risks to growth in the second quarter include; electricity load management, lower investment and climate changes.
- Growth in 2019 is projected to be in the range of 2 to 3 % and expected to gradually pick up in 2020.

INFLATION

During the second quarter, annual inflation averaged 8.1 % from an average of 7.8 % in the second quarter of 2019.



Source: compiled from Central Statistics Office data.

FOREIGN EXCHANGE MARKET

- Kwacha depreciated by 7.6 percent against the \$US trading at an average of K12.83 per \$US from K11.961 during the first quarter of 2019.
- The Kwacha also depreciated by 6.1 percent, 6.5 percent and 4.9 percent against the British Pound, the Euro and the South African Rand, respectively.

FOREIGN EXCHANGE RESERVES POSITION

External Gross Reserves as at end June 2019 remained at the same level as at end March 2019 at US \$1.41 billion. (1.6 months of import cover)



DEBT

Foreign Debt stock as at end June 2019 was US \$10.23 billion compared to end of March 2019 which was K10.18 billion.



Domestic Debt in terms of securities and bonds as at June 2019 was K60.3 billion showing an increase from K58.3 billion in March, 2019.



Arrears stood at K16.7 billion in March 2019 compared to 15.6 billion in December 2018.



POLICY AND STRUCTURAL REFORMS UPDATE



Government is committed to the following reforms:

- Sales Tax Implementation:** Government is addressing the following issues;
 - Cascading effects due to multiple value chains.
 - The need to avoid loss of employment due to possibilities of value chains dying off.
 - The timing of introducing the tax and the need to protect manufacturers.
- Public Investment Management reforms;** Multi-sectoral Public Investment Board (PIB) established to have oversight on public investment project development.
- Energy reforms;** implementation of cost reflective tariffs.
- Pension reforms;** restructuring of the social protection system.

LEGISLATIVE REFORMS THAT RELATE TO FISCAL SUSTAINABILITY

Government is committed to the following reforms:

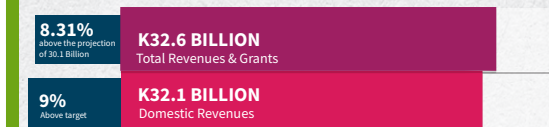
- ZPPA Act;** - Legislative process ongoing.
- The Bank of Zambia Bill;** - Drafting to commence.
- Financial and Asset Regulations;** to come in force through issuance of Statutory instrument (SI).

BUDGET PERFORMANCE

Revenue Side

Over the first half of 2019, total revenues and grants amounted to K32.6 billion, which was 8.31 percent above the projection of K30.1 billion.

Domestic revenues at K32.1 billion were above target by 9 percent.



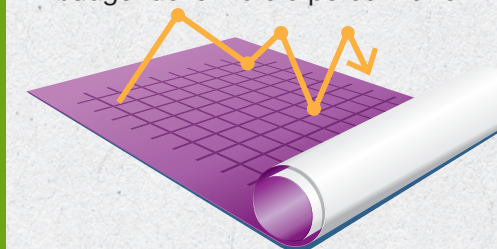
Expenditure Side

Total expenditures were above target by 6.4 percent at K46.8 billion, this was mainly on account of interest payments on debt which were 27.3 percent higher than projected at K9.2 billion, due to the depreciation of the Kwacha in the second quarter of 2019.

TOTAL EXPENDITURES
K46.8 Billion



The target for 2019 remains to reduce the budget deficit to 6.5 percent of GDP.



UPDATE ON IMPLEMENTATION OF AUSTERITY MEASURES

Revenue Measures

- Switch from VAT to Sales Tax.
- Completion of audits for large tax payers particularly in the mining sector.
- Automating and digitizing Government processes to enhance revenue collection.

Expenditure Measures

- Funding projects that are at least 80 percent complete.
- Controlling foreign financed disbursements.
- Enhancement of commitment controls to curb accumulation of arrears.
- Curtail personal emoluments related expenditures.
- Suspension of both foreign and domestic travel for top government officials.
- Indefinite postponement of contraction of all pipeline debt.

PMRC RECOMMENDATIONS

- Government is encouraged to engage the International Monetary Fund (IMF) and discuss a possible package for the technical support to management of the economy.
- An inflation rate of 8.1 as at the end of June 2019 means that measures being instituted to contain the inflation within the target of between 6 percent to 8 percent.
- Government needs to put in place mitigation measures to reduce on the impact of adverse weather conditions on agriculture production by prioritizing more investments in climate smart agricultural practices. Government should also intensify investments in renewable energies to avert the impact of load shedding because of overreliance on Hydro Electric Power (HEP) which is vulnerable to climate variations.
- Government needs to reinforce the implementation and enforcement of austerities as announced by the Republican President.