

STATE OF THE ECONOMY

2020 BRIEF INFOGRAPHIC



State of the Economy Brief, on 12th February 2020 by Honourable Minister of Finance, Dr. Bwalya Ng'andu.

ECONOMIC GROWTH 2019

- In 2019 GDP growth was revised down to **2%** from an initial projection of **4%**.
- Adverse weather conditions of 2018/19 led to negative growth in **agriculture** and **electricity generation**, in turn slowing down most sectors i.e. **retail, wholesale trade and manufacturing industry**.
- Liquidity constrained** because of higher debt service payments stifling private sector economic activity.

FISCAL DEVELOPMENT 2019

- Estimates indicate that **fiscal deficit on cash basis was 8.2% of GDP** against target of 6.5%.
- Revenues and grants** were higher by 5.7% at K61.3 billion compared to the target of K58 billion.
- There was **non-disbursement of grants by some cooperating partners**; K838.5million received against a grant budget of K1.9 billion.
- Total expenditures were higher by 8.7%** at K94.3 billion against budgeted target of K86.8 billion.
- Depreciation of the Kwacha led to a rise in total **expenditure by 8.7%** due to **interest payments** which were **27.1% above target**.

DEBT DEVELOPMENTS

- Stock of **external debt increased** from **US\$10.23 billion** at end of June 2019 to **US\$11.2 billion** at end of December 2019 on account of **new disbursements on existing loans**.



- Stock of **Government securities increased** to K80.2 billion at end of December 2019 from K60.3 billion at end-June 2019



- Stock of **domestic arrears excluding VAT increased** to K26.2 billion at end-September 2019 from K20.2 billion at end-June, 2019.



MONETARY, FINANCIAL, AND EXTERNAL SECTOR DEVELOPMENTS

INFLATION DEVELOPMENTS

- Inflation increased from **7.9%** at end-December 2018 to **11.7%** at end of December 2019 due to an **increase in fuel prices, food items and depreciation of the Kwacha**.



FINANCIAL SECTOR CONDITIONS

- Average lending rates for Commercial banks increased to **28%** in December 2019 from **25.4%** in June 2019, this reflected the rise in the cost of funds.
- Non-performing loans ratio of 9.8%** at end of December 2019 **was below the 10% prudential threshold level**.



EXCHANGE RATE DEVELOPMENTS

- Kwacha generally depreciated and averaged **K12.97** and **K13.86** against the US dollar in the **3rd and 4th quarters of 2019 respectively**. There was heightened demand of dollars for **petroleum, electricity and fertilizer imports**.



GROSS INTERNATIONAL RESERVES

- At the end of December 2019, there was an **increase** in the **Gross International Reserves** from **\$1.41 billion** [representing a 1.6 months of import cover] at end-June 2019 to **\$1.45 billion** [representing a 2.1 months of import cover] at end-December 2019, attributed to **purchase of foreign exchange** by Bank of Zambia and continued payment of **mineral royalties in US Dollars**.



ECONOMIC OUTLOOK IN 2020 AND THE MEDIUM TERM

- Economic growth is expected to be above 3%** in the medium term because of climate change risks.
- Fiscal deficit is projected at 5.5% of GDP** - Government is enhancing revenue collection.
- Special focus to be given to **funding pensions, health, social cash transfer and education** as well as efforts at **domestic arrears dismantling**.
- Inflation is expected to remain high in the 1st half of the year** on account of exchange rate depreciation, as well as increase in fuel and electricity prices.
- Inflation is expected to taper down in the 2nd half** due to reduction in food prices as fresh produce comes to the market.
- Bank of Zambia to purchase forex and gold from the market as a reserve asset to **stabilize and augment external reserves**.

STRUCTURAL AND LEGAL REFORMS

- Government is implementing reforms to enhance domestic resource mobilisation** by stepping up the **modernization of revenue collection processes** and provision of Government services through electronic platforms.
- Government committed to reforming** the Farmer Input Support Program.
- Government committed to** Implementing energy sector reforms.
- Government presented the **Planning and Budgeting Bill** to the National Assembly to **enhance the credibility of the planning and budgeting processes**.
- Government is finalizing a new **Public Procurement Bill** to entrench the **credibility of the budget** and also avoid **wasteful expenditure and over-pricing**.

DEBT MANAGEMENT

- To **manage debt**, Cabinet directed that the following measures be undertaken:
 - A **moratorium on contraction of external project loans**;
 - Cancellation** of selected external project loans; and
 - Re-scoping** of selected externally financed projects in order to reduce project cost, and undisbursed loan balance.
- These measures are aimed at reducing the current undisbursed external debt of approximately **US\$7 billion** by about **US\$5 billion**.

- Re-scoping exercise in the road sector will reduce project costs from K10 billion to K1.4 billion.**

ARREARS CLEARANCE

- Between December 2019 and January 2020, the Ministry released a total of **K590 million** to the **National Road Fund Agency** and paid out **K452 million** representing **77%** of the amount owed to local road contractors and consultants.
- To avoid accumulation of arrears, Government has **enhanced its commitment control systems**.

ENGAGEMENT WITH THE IMF AND OTHER COOPERATING PARTNERS

- Between 13th-19th November, 2019 the **International Monetary Fund (IMF) mission and Government discussed recent economic developments and the economic outlook for 2020**.
- Government to work with the IMF to **define a working relationship** with them and determine the nature of its support to the Government.
- Next engagement with IMF** to be held from 18th March to 1st April, 2020.

PMRC RECOMMENDATIONS

- PMRC urges the Ministry of Finance to give regular updates on the Sinking Fund [or any other viable proposed redemption strategy] especially for the Euro-bonds taking into consideration that the bullet payment of the first Eurobond amounting to US \$750 million falls due in 2022.
- PMRC urges the Ministry of Finance to **continue engaging the IMF for technical assistance and possible bailout package that will assure and signal stability of the economy** to bondholders and investors.
- With regards to Farmer Input Support Program (FISP), PMRC urges the Government through the Ministry of Agriculture to develop an exit and graduation strategy for all beneficiaries to ensure sustainability of the programme in the long term.
- In view of the approved the **New Energy Policy 2019**, we **re-echo the need to improve the creditworthiness of ZESCO as the sole off-taker** in order to instil confidence in private sector investors that the organization would purchase energy generated.
- In light of the challenges faced by Government in meeting commitments on the Social Cash Transfer in 2019, **PMRC urges the Government to ring-fence funds for social protection purposes** to prevent delays in disbursements.

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