



Republic of Zambia

**BRIEF BY THE HONOURABLE MINISTER OF FINANCE,
MRS. MARGARET D. MWANAKATWE, MP, ON 2018
THIRD QUARTER ECONOMIC PERFORMANCE**

November 2018

Introduction

It is my pleasure to engage with you and to provide an update on developments in the economy to the period ending 30th September, 2018.

This update is in line with the commitment by the government to provide periodic updates on the developments in the economy.

Developments in the economy to third quarter 2018

Growth

- ❖ Preliminary GDP growth estimate as at second quarter of 2018 picked up to 3.9 percent compared to 2.7 percent in quarter 1 of 2018.
- ❖ Growth has generally been supported by positive performance in mining, stable supply of electricity, manufacturing and construction.
- ❖ You may wish to note that copper output during the first three quarters of 2018 grew by 8.8 percent to 632,267 mt compared to 581,334 mt over the same period in 2017. Similarly, electricity production was higher by 12.3 percent.

Budget performance

- ❖ In third quarter, budget performance was broadly in line with the quarter target with revenues and grants recorded at 5% above target. This was on account of high vat collections.
- ❖ In line with fiscal consolidation, expenditure in the third quarter was below the period target by 9.4%.
- ❖ You may wish to note that a total of K38.7 billion was collected in revenue and grants over the period January to September, 2018 and was 1.1 percent higher than the target of K38.3 billion.
- ❖ Total expenditure over the same period amounted to K50.3 billion which was below the target of K51.4 billion by 2.1 percent.
- ❖ Based on the movement in revenues and expenditures, the fiscal deficit outturn for the year is expected to be around 7 percent of GDP lower than the initial projection of 7.4 percent.

Debt position

- ❖ The external debt stock as at close of the third quarter was US\$ 9.51 billion from US\$ 9.37 billion at end of the second quarter of 2018. The increase in the quarter was on account of payment of some new disbursement.
- ❖ Debt service for three quarters of 2018 amounted to US\$545.02 million.
- ❖ The stock of domestic debt mainly government securities, as at end of third quarter 2018 amounted to K54.6 billion from K51.9 billion at the end of second quarter 2018.
- ❖ A total of K647.8 billion was paid towards domestic debt service.
- ❖ Total guaranteed debt was at US\$1.2 billion as at end September 2018.
- ❖ Government acknowledges the rising vulnerabilities from its debt profile and is committed to implementation of austerity measures to ensure movement back to moderate debt risk distress.
- ❖ Verified domestic arrears as at end second quarter stood at K14.7 billion compared K13.9 billion recorded at the end of quarter one of 2018.

Monetary and external sector developments

- ❖ Inflationary pressure was experienced during the third quarter of 2018.
- ❖ Annual inflation increased to an average of 7.9 percent from a quarterly average of 7.6 percent in the second quarter of 2018. This increase was attributed to significant price movements in both food and non-food commodities.
- ❖ The exchange rate of the kwacha against major currencies was relatively stable until September. The kwacha averaged K10.95 per United States dollars in September 2018, from an average of K9.89 per us\$ in the second quarter of 2018. This represents a 10.8 percent depreciation of the kwacha against the United States dollar.
- ❖ The export of goods declined during the third quarter of 2018 to K23.9 billion from K24.6 billion recorded in the second quarter of 2018. This was mainly on account of reduced export earnings from traditional exports partly as result of relatively lower copper prices in the third quarter even though production increased. However, there was a 13.3 percent increase in non-traditional exports at K6.3 billion during the third quarter of 2018 from K5.6 billion recorded during the second quarter.
- ❖ Imports of goods in the third quarter, increased by 1.5 percent to K28.2 billion from K27.8 billion recorded in the second quarter of 2018.

- ❖ The decline in exports led to the widening of the trade deficit to K4.3 billion in the third from K3.2 billion recorded in the second quarter.

Reserve position

- ❖ The reserve position as at end august was US\$1.73 billion from US\$1.82 billion June 2018.

Other developments in the third quarter

- ❖ The 2019 budget was presented during the quarter and a number of tax related pronouncements were made. In order for these to be implemented effectively, a tax review committee has been constituted to work out details on measures such as sales tax. The committee will be meeting business bodies and professional association in the next few weeks.
- ❖ Regarding public finance management, government has rolled out the IFMIS and TSA to 57 out of 62 heads of revenue and expenditure in order to enhance internal controls and facilitate timely production of financial and management reports for informed decision making.
- ❖ Government is in the process of establishing public investment management framework which will require any major public investment to undergo project appraisal before it is included in the medium term expenditure framework and annual budget.
- ❖ Government is also rolling out output based budgeting to all line ministries in order to ensure that the budget prepared reflects the result to be attained and makes it easier to measure the performance of line ministries and spending agencies in implementing government programmes and projects.
- ❖ All the reforms among others are meant to enhance accountability of public resources in order to cartel misuse.

Outlook for rest of 2018

- ❖ We expected the macroeconomic fundamentals to remain stable in the last quarter of 2018 despite the pressure from the recent depreciation of the kwacha and inflation.
- ❖ Inflation is however, expected to close the year within single digit level.
- ❖ Work on implementation of austerity measures will continue as well as those announced in the 2019 budget such as sales tax.

- ❖ Growth 2018 is expected to be close to the year projection of 4 percent.
- ❖ Government remains committed to addressing emerging threats to the advancement of its development agenda, including rising debt and vulnerabilities in public financial management.
- ❖ Happenings such as those at the ministries of education, community development and Lusaka provincial administration will be dealt with decisively through instant dismissals and prosecutions as provided for under the public financial management act. Further any misappropriated funds will be recovered from perpetrators.

Other expected developments in fourth quarter

- ❖ I wish to inform you that in this month November 2018, Zambia will be hosting the World Bank International Development Association (IDA) 18 high-level mid-term review.
- ❖ I also wish to update you that we are currently hosting an IMF staff visit. The staff are here to exchange information on economic data that will allow the development of a macroeconomic framework that will be used under the upcoming article 4 consultations. The framework will also provide a basis for determination of any policy adjustment required going forward
- ❖ Further, in the fourth quarter we are expected to have bilateral negotiations with Germany to discuss future cooperation.
- ❖ Government is expected to take public procurement act and the planning and budgeting bill to parliament during the next sitting in order to strengthen public financial management.

Conclusion

- ❖ Let me conclude by thanking you for coming. As minister of finance, I find it very important that we hold such interactions on a regular basis.