

**MINISTERIAL STATEMENT**  
ON THE  
STATE OF THE ECONOMY AND GOVERNMENT'S ENGAGEMENT WITH THE  
INTERNATIONAL MONETARY FUND  
BY THE  
HON. MINISTER OF FINANCE, MR MUTATI

Mr Speaker, I thank you most sincerely for according me this opportunity to brief the House and nation on the state of the economy and Government's engagement with the International Monetary Fund (IMF). The first part of the ministerial statement will provide an update on the state of the economy while the second part, will provide a briefing on the IMF engagement.

Sir, the economic performance has rebound with inflation down to single digits, the exchange rate remaining largely stable while Gross Domestic Product (GDP) has started recovering. I will now give the highlights.

*GDP Growth*

Mr Speaker, growth in 2017 is projected to rise to 4.3 against an initial forecast of 3.4 per cent. This is as a result of increased agricultural output, recovering generation for electricity and higher mining output supported by better prices and power supply. Other sectors that are supporting the growth are construction, wholesale, trade and tourism.

*Inflation*

Mr Speaker, inflation closed at 7.5 per cent in 2016 but has now reduced to 6.5 per cent in May, 2017. This was supported by the continued stability of the exchange rate, lower food prices in view of the good harvest and improved market confidence in the country's economic policy direction. Inflation is projected to remain single digits in 2017.

### *Exchange Rate and External Factor Development*

Mr Speaker, the exchange rate of the Kwacha against major currencies has remained stable with a bias towards appreciation. The Kwacha appreciated against the United States (US) Dollar to an average of K9.34, in May, 2017, compared to K9.92, in December, 2016. The stability of the currency is account of improved supply of foreign exchange, better outlook for copper prices and positive market sentiments.

Mr Speaker, in the external sector, the country's current account deficit narrowed to US\$257 million in the first quarter of 2017, against a deficit of US\$574 million in the fourth quarter of 2016. This was largely explained by an improvement in the trade and primary income balances.

### *Foreign Reserves*

Mr Speaker, as at the end of May, 2017, the foreign reserves stood at US\$2.4 billion which translated to around 3.3 months of import cover. The Government's call is to attain four months of import cover over the medium term.

### *Lending Rates*

Mr Speaker, let me now provide Government's perspective on the lending rates which are still very high for sustainable economic growth. In the first five months of 2017, the rates averaged 28 per cent, a level that limits lending to the private sector. This rate was slightly below the 29 per cent average for the quarter ending, December, 2016.

Sir, in an effort to lower the cost of credit and increase lending to the private sector, the Bank of Zambia eased the monetary policy. Both the policy rate and statutory reserve ratio were reduced to 12.5 per cent. These measures will be complimented by Government's fiscal restraint. I, therefore, urge the banking community to reciprocate and pass on the cheaper credit to the market.

### *Fiscal Policy*

Mr Speaker, may I now brief the House on the fiscal development. The fiscal performance in the first five months of 2017, was challenging. Revenues under performed by 10 per cent compared to budget. The underperformance in revenues has been on account of lower tax compliance by tax payers and delayed implementation of budget measures such as land titling, installation of electronic physical devices to improve Value Added Tax (VAT) collection, implementation of electronic equipment in the communication sector to improve the performance of Excise Duty and the introduction of a single window at entry points, to reduce the turnaround times at borders and boost revenue.

Sir, to contribute to resolving the challenge of lower revenue collection, we are enhancing compliance efforts coupled with getting additional revenues through the tax amnesty. Further, we must all play our part by ensuring that we meet our tax obligations failure to do so will attract punitive measures.

Mr Speaker following the lower than projected revenues during the first five months of 2017, the Government will reduce the underlying expenditure to meet the deficit target and the fiscal consolidation objective. The Government will also hasten to implement the Budget 2017 measures.

### *External and Domestic Debt Performance*

Mr Speaker, Zambia's external debt stock as at the end of May, 2017, increased to US\$7.2 billion from US\$6.9 billion in December, 2016. The increase in the stock was on account of new disbursements. The domestic debt stock was K38.6 billion in May, 2017, compared to K33 billion in December, 2016. The rise is explained by increased demand for Government paper.

Sir, in order to ensure continued debt sustainability, the Government has finalised a Medium Term Debt Strategy that provides a framework for prudent debt management. Further, regular debt sustainability analysis will be the guiding principle for future borrowing activities.