



REPUBLIC OF ZAMBIA

2015 MID-YEAR ECONOMIC AND BUDGET REVIEW STATEMENT

By

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Made to the

National Assembly

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Introduction

- 1. Mr. Speaker, I am pleased to present the Mid-Year Economic and Budget Review for 2015 to this August House.** This review provides an account on the performance of the Economy since the commencement of the year and a review of the implementation of the budget over the first five months of the year. My address will further provide revised macroeconomic and budget targets that take into account both domestic and external challenges faced in the first 5 months of this year. It will also provide proposals aimed at ensuring that we stay on course with our programme of economic growth and job creation in 2015, and beyond.
- 2. Sir,** my address to this August House is therefore divided into 4 Parts. Part 1 will be a review of the performance of the Economy and will provide adjusted projections, while Part 2 will review the performance of the budget against targets, and provide revisions thereof. Part 3 will provide proposed revisions to the budget targets including the deficit. In Part 4, I will conclude and ask the House to consider passing some statutory reviews and approvals.

PART I - 2015 MACROECONOMIC PERFORMANCE

Projected Economic Growth

- 3. Mr Speaker, when I tabled the 2015 budget, we expected the economy to grow by at least 7.0 percent.** This growth was

premised on healthier recovery in the global economy as well as continued favourable performance in the country's growth sectors, namely agriculture, manufacturing, construction, tourism and mining. However, we have observed that the global economic environment has been much weaker, characterised by a slowdown in economic activity in Europe, China and the emerging market economies. Given these developments, global economic growth for 2015 has been revised downwards to 3.5 percent from the earlier projection of 3.8 percent. The slowdown coupled with the strengthening of the United States dollar has triggered a decline in prices of most traded commodities including copper, our main export, and ominously, prices of non-traditional exports such as cement, lime, cotton lint, fresh fruits, vegetables and flowers. These developments exerted pressure on our revenue receipts and external sector position, as I will elaborate later.

4. Domestically, the crop forecast survey for the 2014/2015 farming season indicates a decline in output of a number of crops. For instance, maize output is expected to decline by 21.9 percent to 2.62 million metric tons from 3.35 million metric tons in the 2013/2014 farming season. This was due to the late onset and poor distribution of rainfall. With this expected outturn in maize output, growth in agriculture is expected to be lower than anticipated.

5. **With respect to the mining sector**, we had projected that the sector would grow by above 12.0 percent. This was mainly premised on copper production exceeding 800,000 metric tons in 2015 from 708,265 metric tons in 2014. |Data for the first quarter shows that copper output at 164,386 metric tons was 8.5 percent lower than the 179,584 metric tons produced in the corresponding quarter of 2014. This fall in copper output during the quarter is likely to result in lower than projected total copper output in 2015 with a likely consequence of lower growth in the mining sector than projected. Sir, the drop in copper production is as a result of the persistent fall in the price of the commodity, which in turn is attributed to the weak global demand for the metal as it is for other traded commodities.
6. Taking into account that the slowdown in agriculture and mining has knock-on effects to other sectors such as manufacturing, GDP growth for 2015, while remaining positive is now estimated at 5.8 percent from the initial projection of at least 7 percent.

Inflation

7. **Mr. Speaker, in my 2015 budget address to this House, I announced an end-year inflation target of no more than 7.0 percent.** This was to be anchored on the continued implementation of an effective monetary policy, supported by prudent fiscal operations.

8. In line with this objective, the Bank of Zambia continued managing liquidity through Open Market Operations and maintained the Policy Rate at 12.5 percent. The Bank also raised the Commercial Banks' statutory reserve ratio to 18 percent from 14 percent to counter pressures on the exchange rate mainly in the first quarter of the year. These measures contributed to the decline in annual inflation to 6.9 percent in May, 2015 from 7.9 percent in December, 2014.

9. Sir, despite the recent increase in prices of fuel and the lagged effect of the depreciation of the exchange rate, we are confident that the projected inflation will be attained. This is on account the fine balance between monetary and fiscal policy that is required to maintain stability in the economy and ensure continued economic growth.

Interest rates

10. Mr. Speaker, Commercial Banks nominal interest rates were generally stable during the first five months of 2015. The average lending rate and average savings rate for amounts above K100 were relatively unchanged around 20.5 percent and 3.4 percent respectively.

11. Despite this stability in the Commercial Banks' lending rates, the cost of borrowing continued to be relatively inhibitive