ADDRESS BY HONOURABLE ALEXANDER B. CHIKWANDA, MP - MINISTER OF FINANCE - FRIDAY, 21ST MARCH 2014

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The Government wishes to update the nation on the state of the economy to ensure that the public is well informed on the latest developments and the outlook in line with our economic development model that aspires to maintain strong partnerships between ourselves, private sector, cooperating partners and other non-governmental partners in development.

Since the coming to power of the PF Government, the nation has continued to post favourable economic outcomes. This positive performance has been made possible because of the strong partnership and collaboration of all stakeholders. It is the intention of Government to continue fostering this partnership in order to consolidate the long term prospects of our country.

I will highlight the performance of the economy in the areas of economic management, fiscal/monetary policy including the social and economic sectors.

Developments in the Economy

I would like to state from the onset that the economy has remained strong and stable. The Zambian economy is among the ten fastest growing in the world and among the four fastest in Sub Saharan Africa. The economic performance in 2013 was strong and the real GDP growth preliminary outturn is at 6.4%. This means that over the past three years from 2011 when the PF assumed office the economy has grown at an annual average rate of 6.9%. In 2013 growth was largely driven by the manufacturing; mining; construction; as well as financial and insurance sectors.

Economic diversification away from copper is slowly but surely being attained and this can be attested by the positive growth in Non-Traditional Exports. These exports have over the past three years increased by an average of 41.9 percent. In 2013 the sector grew by 23 percent and accounted for 32 percent of our total export earnings. This sector is labour intensive and offers the best employment opportunities especially for the youths.

For the economy to continue on the path of strong growth, it is imperative that the country expands its productive capacity by investing in infrastructure development. Our transport network, as well as our energy supply, need to expand to support private sector growth and lower the cost of doing business. We also need to invest in our education and health infrastructure and staff, so that we build the most important ingredient in our country's development, which is the capacity and energy of its people.

Fiscal Operations

On the fiscal front, 2013 was a challenging year. This was principally on account of important measures we took to address several structural factors that had the potential to significantly undermine fiscal policy over time if not addressed in a timely manner. These factors included the payment towards arrears for fuel and maize subsidies as well as a higher than planned wage award. These expenditures resulted in the fiscal deficit increasing from the planned 4.3% of GDP to a preliminary outturn of 6.7%.

Going forward, as indicated in our Medium Term Expenditure Framework, we will reduce the deficit to around 3% of GDP. This will be achieved by ensuring that spending is within the budget, borrowing is contained to sustainable levels while revenue collection measures will be instituted to increase collection. The reduction in the deficit is consistent with Government policy of minimising its domestic borrowing to make available resources for private sector growth.

The Government is awake to the need for us to ensure that huge infrastructure projects that we have embarked on do not negate fiscal prudence and economic parameters. We are therefore closely interacting with the different implementing institutions. In this regard, private sector initiatives that will compliment Government resources are being implemented. This can be seen in the energy sector where private sector financing has been a success in projects such as the Kariba North Bank and Itezhi-Tezhi Power Stations. In the road sector, Government is looking to other ways of meeting the financing needs such as through tolling of various economic roads, contractor financing, public private partnership projects, as well as any other arrangements that will reduce pressure on the budget.

Having addressed issues related to subsidies in 2013, the downside risks remain that of stabilising expenditure on wages. With a huge increment that averaged 42 percent last year, expenditure on wages in fiscal 2014 account for 52.5% of domestic revenues. If we factor in other personnel emoluments, this percentage increases to over 60% of Domestic revenues. This high wage level implies reduced service delivery to the larger population and increased inflation that affects the poorest of our people. Going forward, The Government will address structural distortions in the Public Sector pay structure, harmonise salaries to ensure that there is equal pay for equal work, promote productivity through performance based increments and stabilise expenditure on wages at 35% of domestic revenues, among others.

Debt Management

The Government is mindful of the need to maintain debt sustainability to safeguard macroeconomic stability. I wish to reiterate that current levels of external and domestic debt remain below international thresholds of 40% and 25% of GDP, respectively. External debt stood at US$3.2 billion in 2013 or 15% of GDP, whilst domestic debt stood at K19.7 billion or 16.3% of GDP. It is important that in the medium term our debt parameters do not exceed these levels.

Monetary and External Sector Operations

On the monetary side, the Government has maintained inflation at low levels while the financial sector continues to be strong and expanding access to finance particularly for SMEs. Inflation in 2013 remained in single digits at 7.1% and our goal is to reduce this to no more than 5% by end 2016.

With respect to the foreign exchange market, current developments in the exchange rate are indeed a source of concern to the Government. The nominal exchange rate of the Kwacha to other currencies, particularly the US Dollar, has come under pressure that has seen it depreciate by up to 13.6% since the last quarter of last year. The depreciation has accelerated in the last few weeks.

As you are aware, Zambia's exchange rate is free floating, meaning that its level is a reflection of a composite set factors that impact on the supply of and demand for foreign currency. These factors are influenced by the state of the economy, trends in the international markets, illicit flows and factors that are more difficult to quantify such as market sentiments and perceptions.

The factors that are currently affecting the exchange rate are domestic and external. On the domestic side we also saw a decline in the Balance of Payments Position that showed a deficit of US$344.9 million compared to a surplus of US$726.7 million in 2012. On the external front, happenings in the big economies such as the United States of America and China have negatively impacted our commodities resulting in a slowdown in foreign inflows, which has adversely impacted on the exchange rate.

The current depreciation of the currency does not necessarily imply a weakening of our economic fundamentals. The weakening in the Kwacha parity is temporary and Government will not be tempted into interventions that may just end up affecting our as the reserves, as doing so will only artificially stabilise our exchange rate and make us more vulnerable in case of continued volatility. In the long term, we will need to increase our resilience to shocks by accelerating the diversification of the economy away from copper to ensure resilience to global financial shocks.

The Efficacy of SI 33 of 2012 and SI 55 of 2013

You will recall that Government put in place Statutory Instrument No. 55 of 2013 and Statutory Instrument No. 33 of 2012. These regulations were passed principally to support the implementation of monetary Policy. However, challenges have arisen in the implementation of these instruments. To allow for further consultations, Government has decided to revoke these Statutory Instruments immediate effect.

I would like to assure our citizens that Government in consultation with other stakeholders will look at other veritable options to protect and safeguard public interests. We need to intensify efforts aimed at enhancing Zambians' participation in the economy.

Conclusion

In conclusion, I would like to assure the nation that the Government is firmly in the driving seat to steer the economy of our beloved country to greater economic prosperity which is only possible if all Zambians are active agents of development. I am glad to inform the nation that just this morning Fitch Ratings, one of our two external reviewers, has affirmed Zambia's strong growth prospects and has maintained its B rating with a stable outlook. This reflects the positive strides that we are making as a country. Fitch's rating also highlights some weaknesses which Government is vigorously addressing.

I Thank You.