



Macroeconomic Performance in Contemporary Zambia

DEBT MANAGEMENT CONFERENCE PROGRAMME

“THE ELEPHANT IN THE ROOM”

26TH OCTOBER 2017

Venue: TAJ PAMODZI HOTEL

“Working Towards the formulation of Sound Economic Policies”

Outline

- ❑ **Political History**
- ❑ **Macroeconomic Performance: stability, growth, poverty reduction, and jobs**
- ❑ **Monetary and Fiscal Policies Recently**
- ❑ **Challenges for Prudent Macroeconomic Policy-Making**

1. Political History

1.1 Political History...

What has happened since Zambia gained independence in 1964?



K.D Kaunda
1964-1991
27 years
(surviving)
UNIP



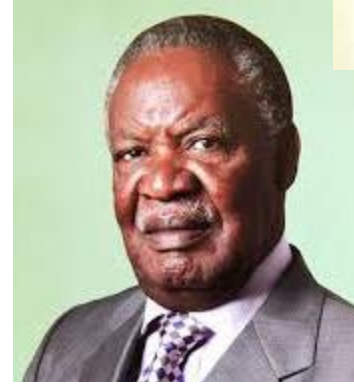
F.T.J Chiluba
1991-2001
10 years
(died June 2011)
MMD



L. Mwanawasa
2001-2008
6 years
(died Aug 2008)
MMD



R. Banda
2008-2011
3 years
(surviving)
MMD



M.C Sata
2011-2014
3 years
(died Oct 2014)
PF



E.C Lungu
2015-2021
6 years
(incumbent)
PF



1.2 Political History...

Economic ideology or philosophy is chosen by politicians; and it matters greatly for macroeconomics and development.

□ The major shifts in ideology was in 1991/1992 when Zambia transitioned from UNIP to MMD

□ Liberalization and public Sector reforms

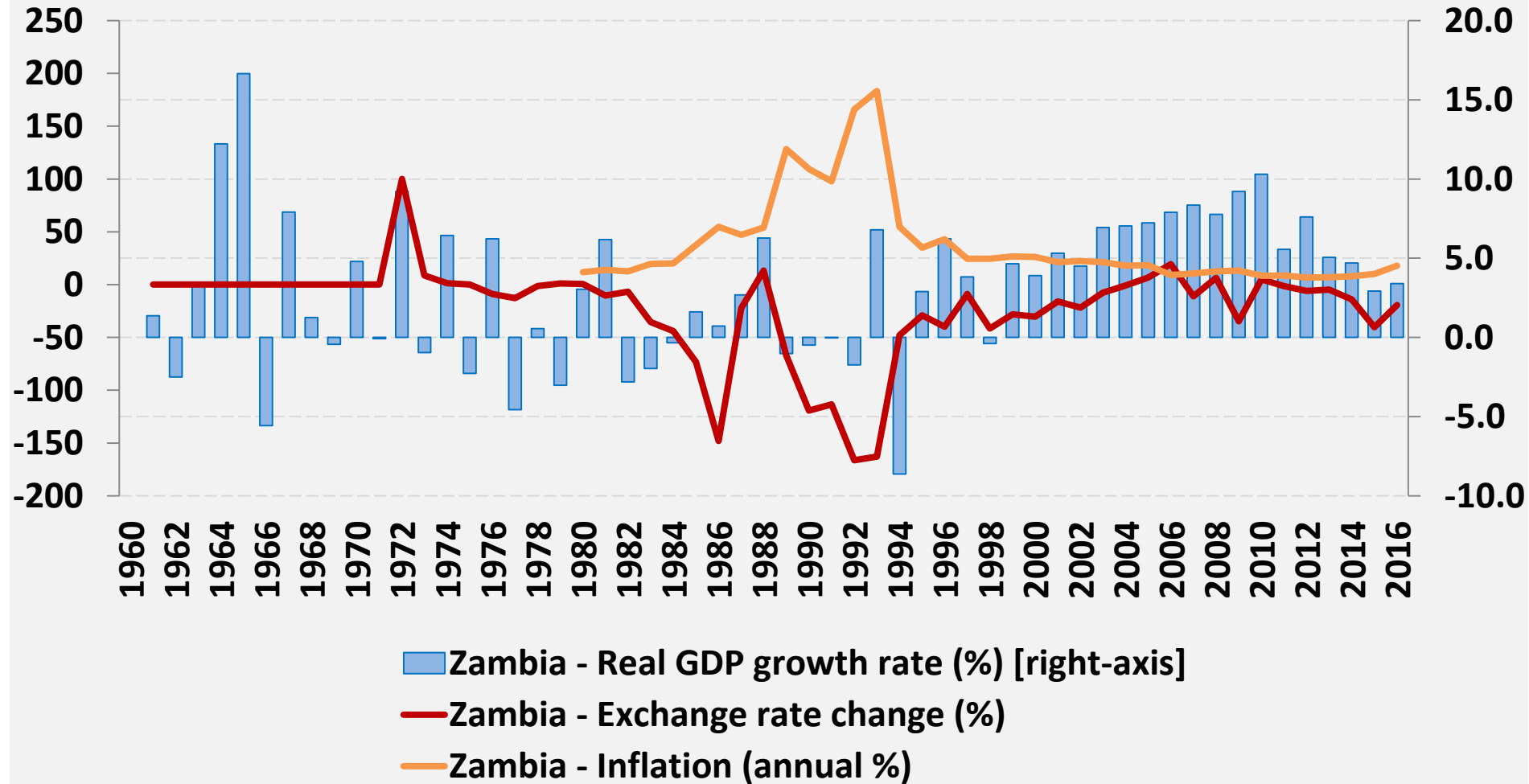
□ In 2011, when political power transferred from MMD to PF, the economic philosophy did not change so much on paper (e.g., in the Constitution), but the culture/mindset changed...



2. Macroeconomic Performance

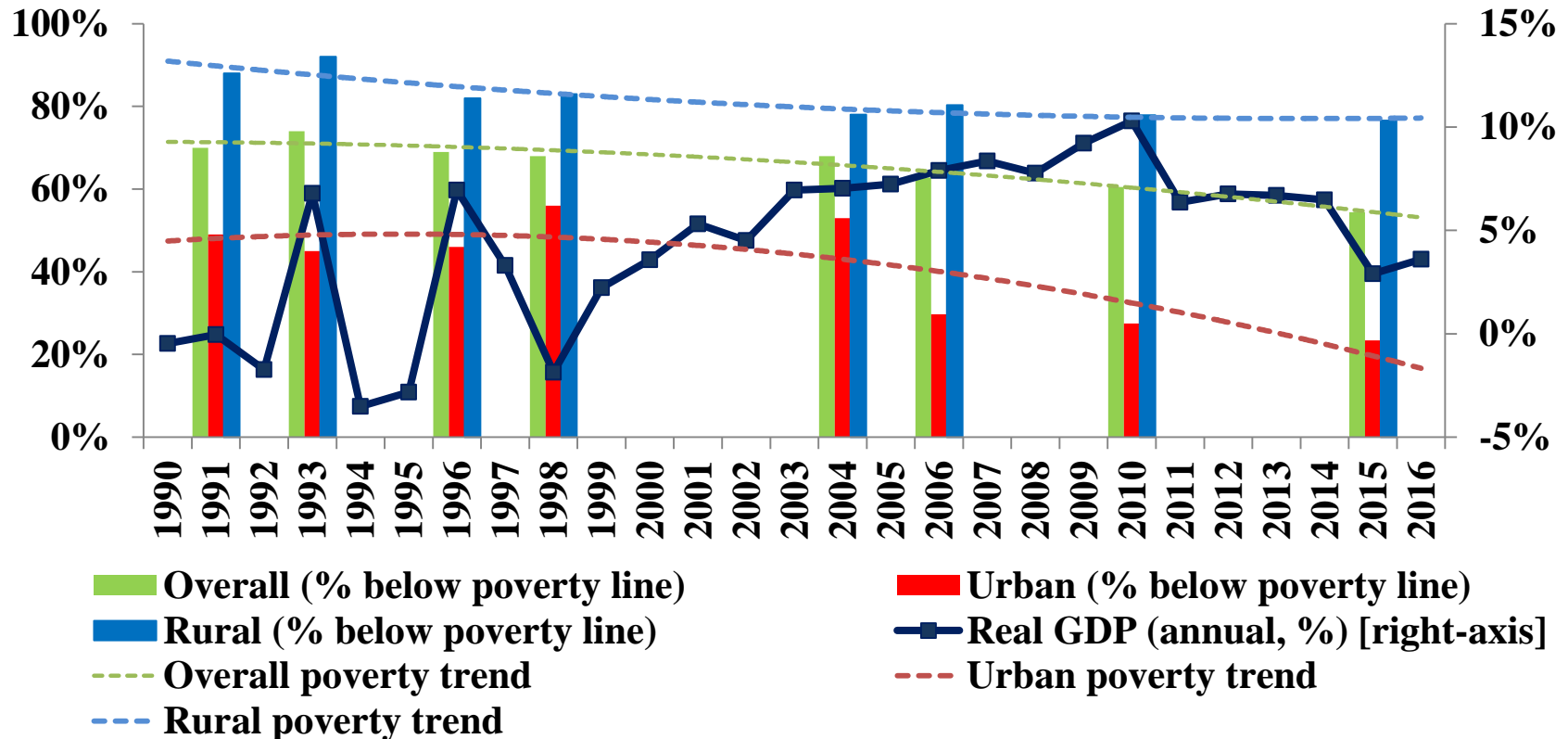
2.1 Macroeconomic Performance

Macroeconomic instability was at its worst during the UNIP era & **stability** was established under MMD...



2.2 Macroeconomic Performance

- With **stability** relatively locked in and **growth** restored, **poverty reduction** became a key issue. Poverty declined in urban areas...

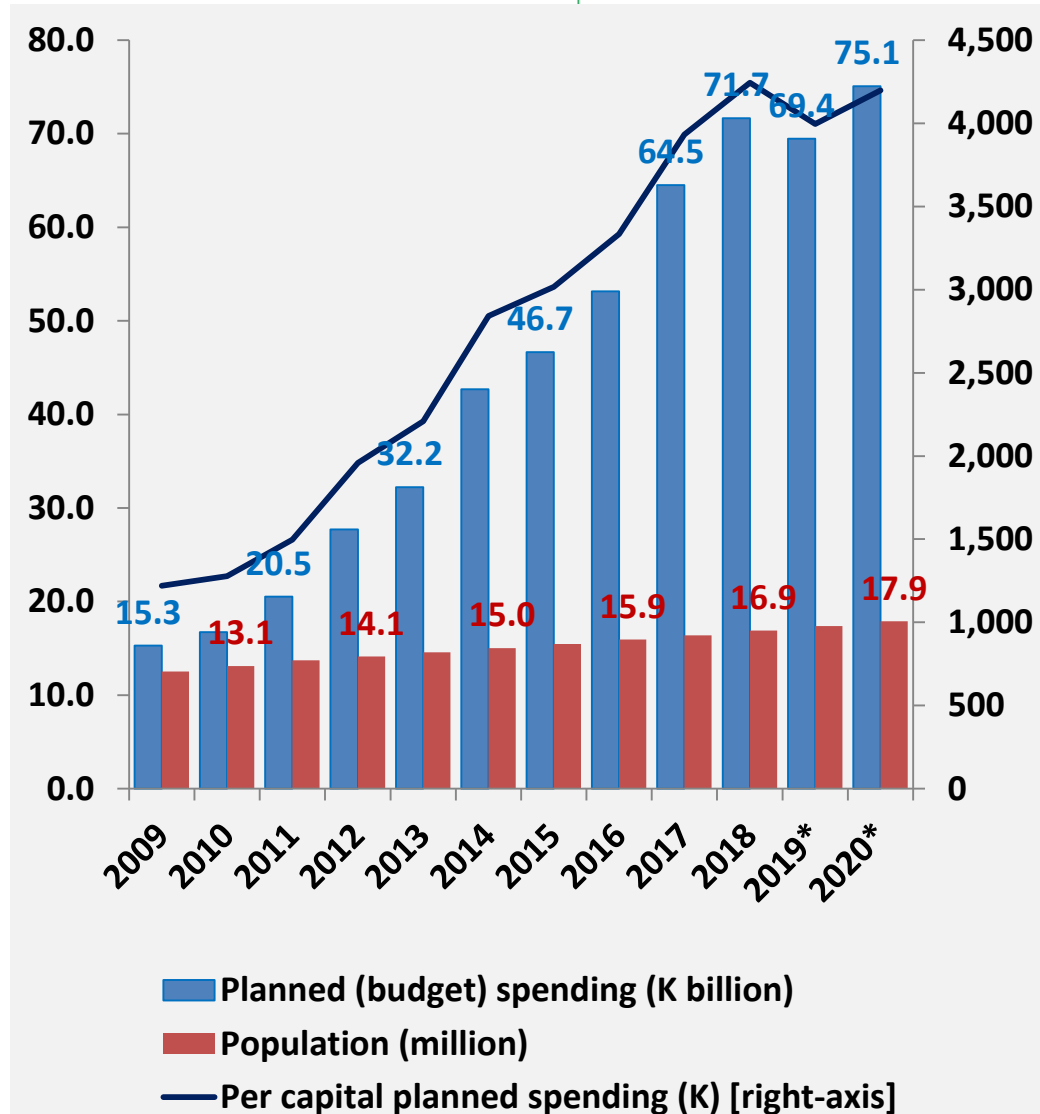


- Lack of rural poverty reduction partly caused political change from MMD to PF; slow poverty progress causes anxiety...

2.3 Macroeconomic Performance

- ❑ Emerging new challenge of low **job creation**; & public pressure....
- ❑ plus persistently **high rural poverty**...
- ❑ **Pressure to spend** to deliver jobs & services (health, water, education, social protection, etc.) has remained high...

Key issue for **fiscal discipline**...



3. Monetary and Fiscal Policies

3.1 Exogenous shocks & policy responses

Relative stability saw relatively calm monetary policy; fiscal policy was expansionary, a misalignment with monetary policy...

In 2015, Zambia saw exogenous macroeconomic shocks:

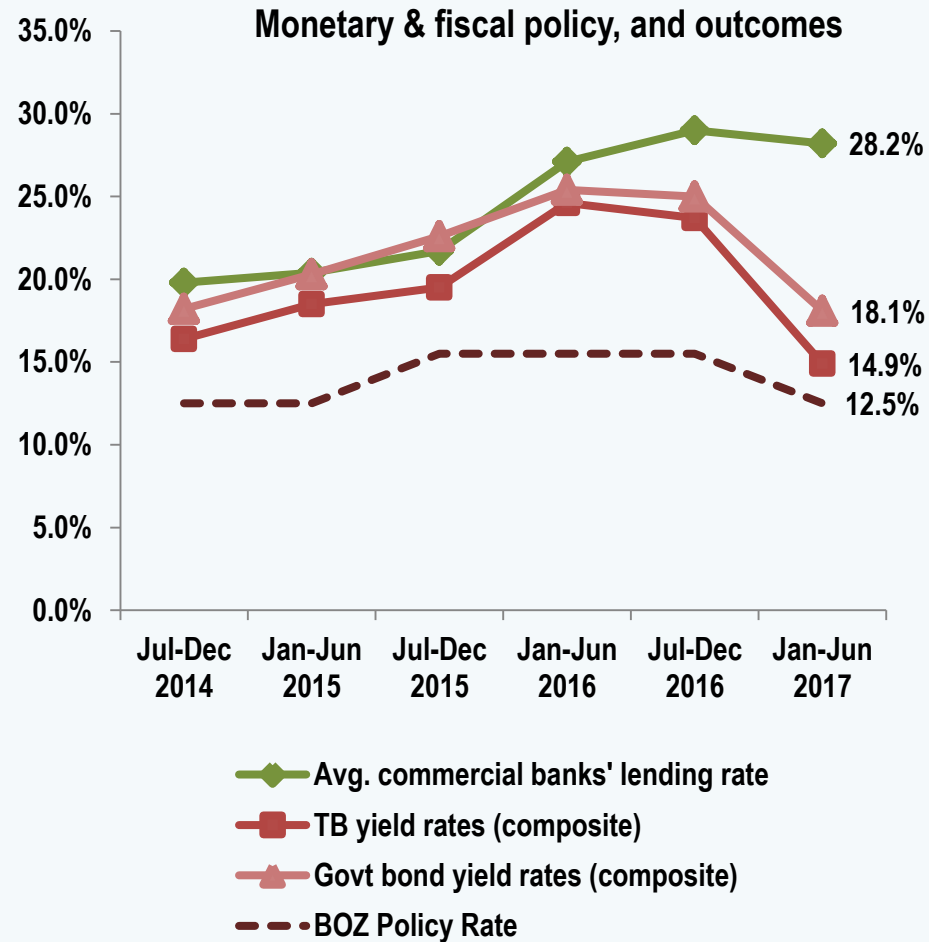
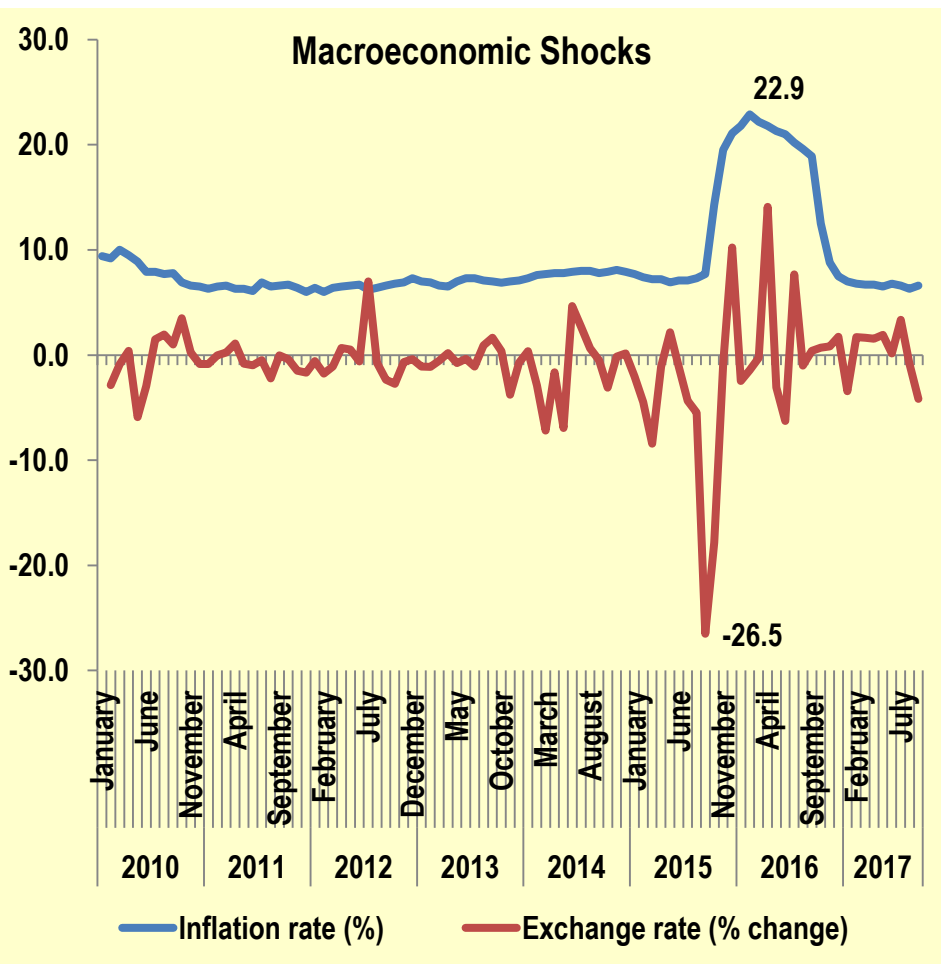
- ❑ (i) **Copper prices fell** by 30%; (ii) **Poor rains** affected **electricity** and **agriculture**; and (iii) **Kwacha collapsed** by 59% & **inflation soared**; from 7.7% in Sept 2015 to 22.29% by Feb 2016 etc.

Domestic policy misalignments and adjustment failures remained:

- ❑ (i) **Monetary policy became tighter** & severely squeezed the private sector; and (ii) **fiscal policy remain loose**, with huge spending & borrowing appetites...

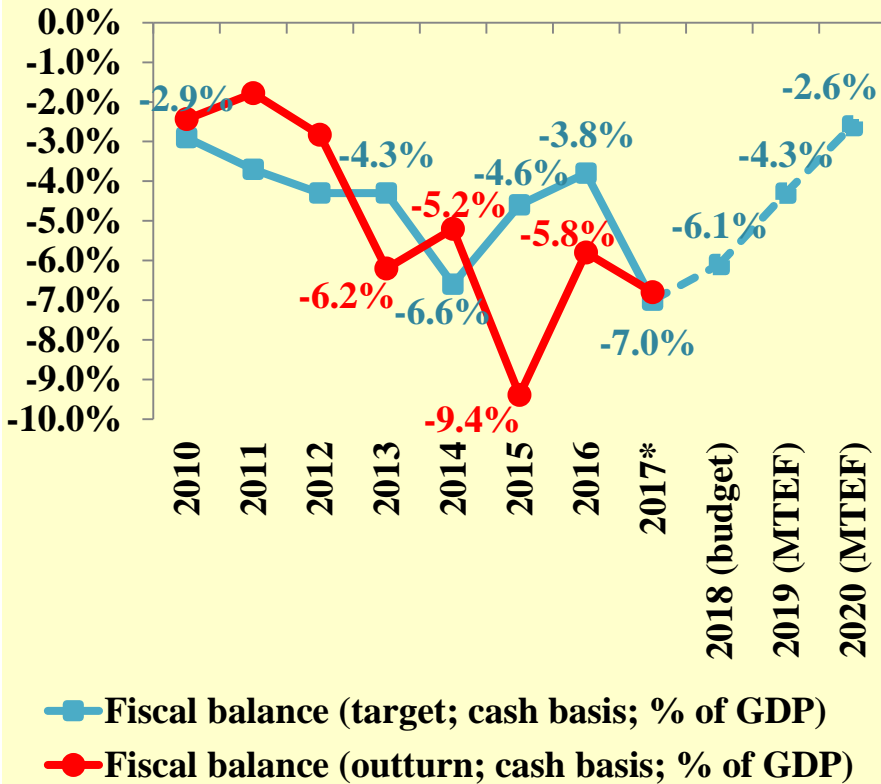
3.2 Monetary Policy

❑ **Side-effects** of uncoordinated fiscal and monetary policies, led by monetary policy squeeze:



3.3 Fiscal Policy Responses

❑ **Fiscal discipline** was particularly challenging...



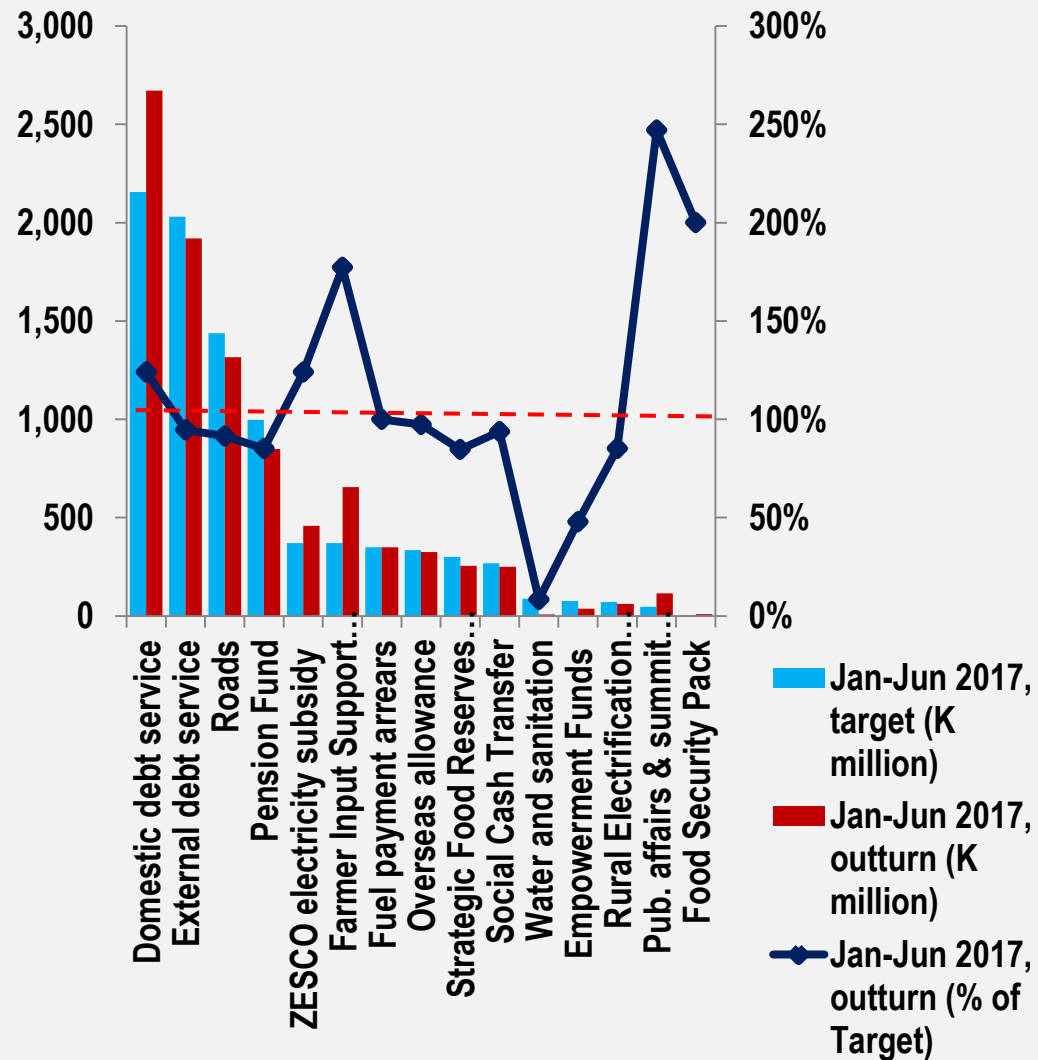
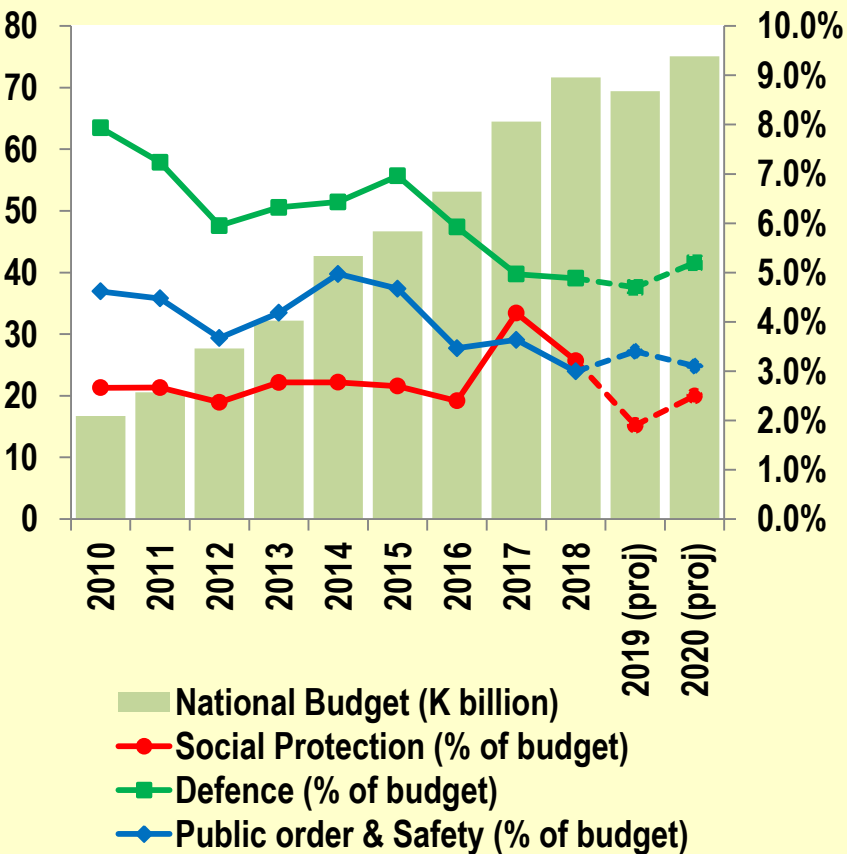
	2010		2017		2018	
	<i>K billion</i>	(%)	<i>K billion</i>	(%)	<i>K billion</i>	(%)
Interest payments	1.3	8%	11.5	18%	14.2	20%
o/w domestic	1.2	7%	5.0	8%	7.0	10%
o/w external	0.1	1%	6.5	10%	7.3	10%
Total Budget	16.4	100%	64.5	100%	71.7	100%

❑ **Borrowing appetite** → **debt stock** rose from 19% of GDP in 2010 to 47% (MOF) or 56% (IMF) (??) in 2017; **debt service costs** mounted...

3.4 Fiscal Policy – spending choices

Social Protection, a declining fiscal priority in MTEF (2018-2020)...

Also prone to considerable underfunding...



3.5 Fiscal Policy Reforms

Zambia Plus to **Restore Credibility of the Budget**. reforms needed:

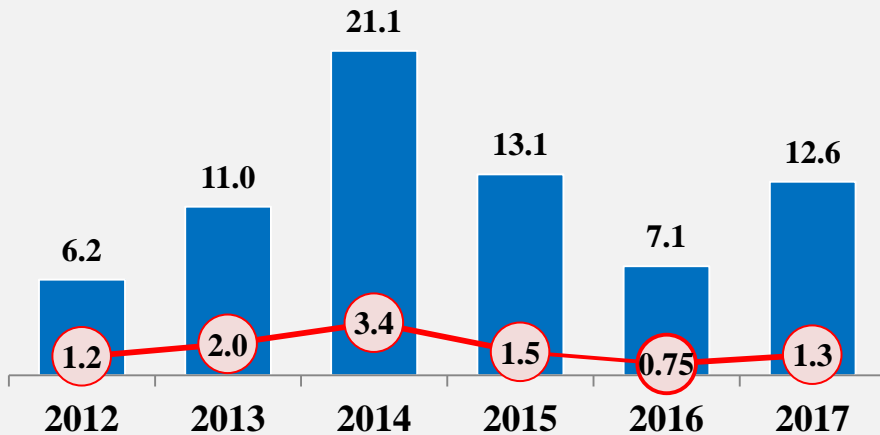
- ❑ **Legal:** (a) Revise Public Finance Act (PFA) and Regulations; and (b) Enact the Planning and Budgeting Bill (PBB): both **commitments shifted to 2018 Budget** (from 2017 Budget);
- ❑ **Legal:** (c) Revise Loans and Guarantees Act, incl. project appraisals); and (d) Revise Public Procurement Act, incl. international price benchmarking & project appraisals: **were missing in Zambia Plus but in 2018 Budget**.
 - ❑ On Debt specifically: What are underlying **borrowing assumptions**? What are the **economic rates of returns** on diff investment? Will MOF establish & strengthen a **Project Appraisal Unit**? What were **Eurobonds used on** & what is the expect economic return.
- ❑ **Systems strengthening:** (e) Roll out the Integrated Financial Management Information System (IFMIS) by end-2017; & (f) Roll out of the Treasury Single Account to restrict borrowing.

3.6 Importance of Systems

- IFMIS prohibits spending outside the system; could have prevented this →



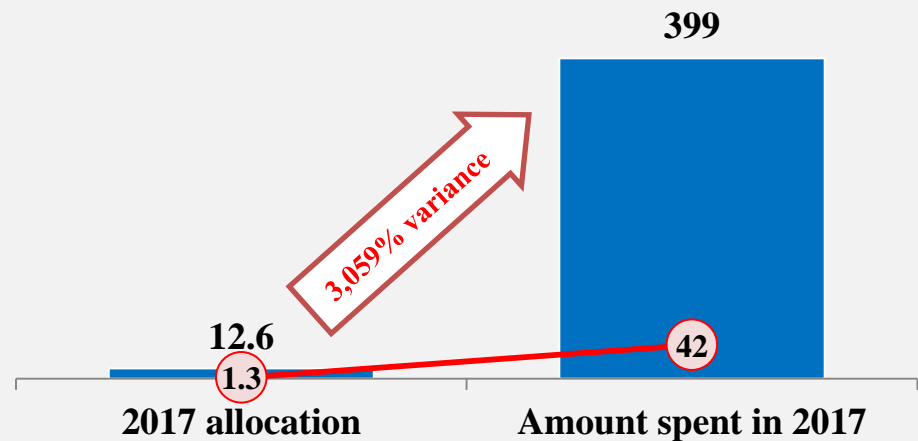
Allocations in the Annual Budgets



■ Fire Safety and Services (Programme 5054) (K million)

○ Fire Safety and Services (Programme 5054) (\$ million)

2017 indicative budget performance



■ Fire Safety and Services (Programme 5054) (K million)

○ Fire Safety and Services (Programme 5054) (\$ million)

- Questions about **fiscal discipline**

4. Challenges for Prudent Macroeconomic Policy-Making

4.1 Policy Challenges

Fiscal & macroecon. governance issues are the most challenging...

- ❑ Resources are still scarce despite resource mobilization attempts...**
- ❑ Expectations on Govt. are high (low social & political restraints)...**
- ❑ Temptation for wastage, misappropriation and corruption cannot be ignored...**
- ❑ Public institutions and individuals possibly feel unprotected or uninsulated to do their job professionally...**
- ❑ Thus, rational macroeconomic policy-making is at risk...**

4.2 Policy Opportunities

- ❑ **Political will for development: 7NDP, Zambia Plus/MTEF & National Budgets (need rational spending).**
- ❑ **Undercurrent of political will for transparency & accountability; good for good governance...**
- ❑ **Political will to reform the civil service and bring back professionalism, efficiency, effectiveness, efficacy, etc.**
- ❑ **Momentum for decentralization (although this is a difficult one for Central Govt.)....**



Political and social pressures have a strong bearing on macroecon.



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