

Press Release

7th September, 2015

A REFLECTION ON 2015 ECONOMIC PERFORMANCE

The ambience that trails the year 2015 is one of uncertainty, speculation and panic with a limping Kwacha, a large fiscal deficit, nation-wide load shedding and other social-economic factors that all possess the ability to negatively affect the well-being of every Zambian, especially the majority poor. In discussing the BNB for August and looking toward the close of the year, the JCTR would like to discuss a few of these thematic areas and propose some recommendations to government.

1. Debt Situation

The recent acquisition of US\$1.25 billion is a third euro bond in three years, the country's debt stock will rise to over 50% of GDP, way beyond the suggested prudent limit of 40% for developing countries. The three Eurobonds are due in 2022, 2024 and 2025 with the latest bond attracting a premium interest rate of about 9%. Repaying these loans will be costly and Zambians must brace themselves for hard times.

2. Power Outages

The adverse effect on the productivity of Zambia caused by the power outages cannot be overemphasised. From causing life threatening situations in the mines to reducing – and in some cases halting – production hours for both large enterprises and SMEs, this is a devastating reality currently facing the country. Solutions have been proposed from time in memorial of diversifying the energy sector, engaging smaller entrepreneurs to participate in the distribution of energy etc. but it is unfortunate that the crisis had to hit before more stringent measures were put in place seeing that other countries in the region have been going through this crisis for a number of years now.

3. Depreciating Kwacha

The Kwacha as of 4th September 2015, stood at **K10.03** while in January 2015 it was at **K6.40**. It has been said that the crash of the Chinese market is a huge factor to this depreciation of the kwacha but it can also be argued that Zambia's economy has taken a harder hit and may not be poised as other countries e.g. South Africa that has other exports to depend on. The economy being heavily dependent on copper exports whose price has been adversely affected by the slowing down of the Chinese economy and coupled by the reduction in energy (electricity) production which has slowed the countries productivity are significant aspects to look at. Even though Government is said to release some United States Dollar into the economy (which will mainly go to contractors) this money may not likely circulate and thus cause the Kwacha to appreciate

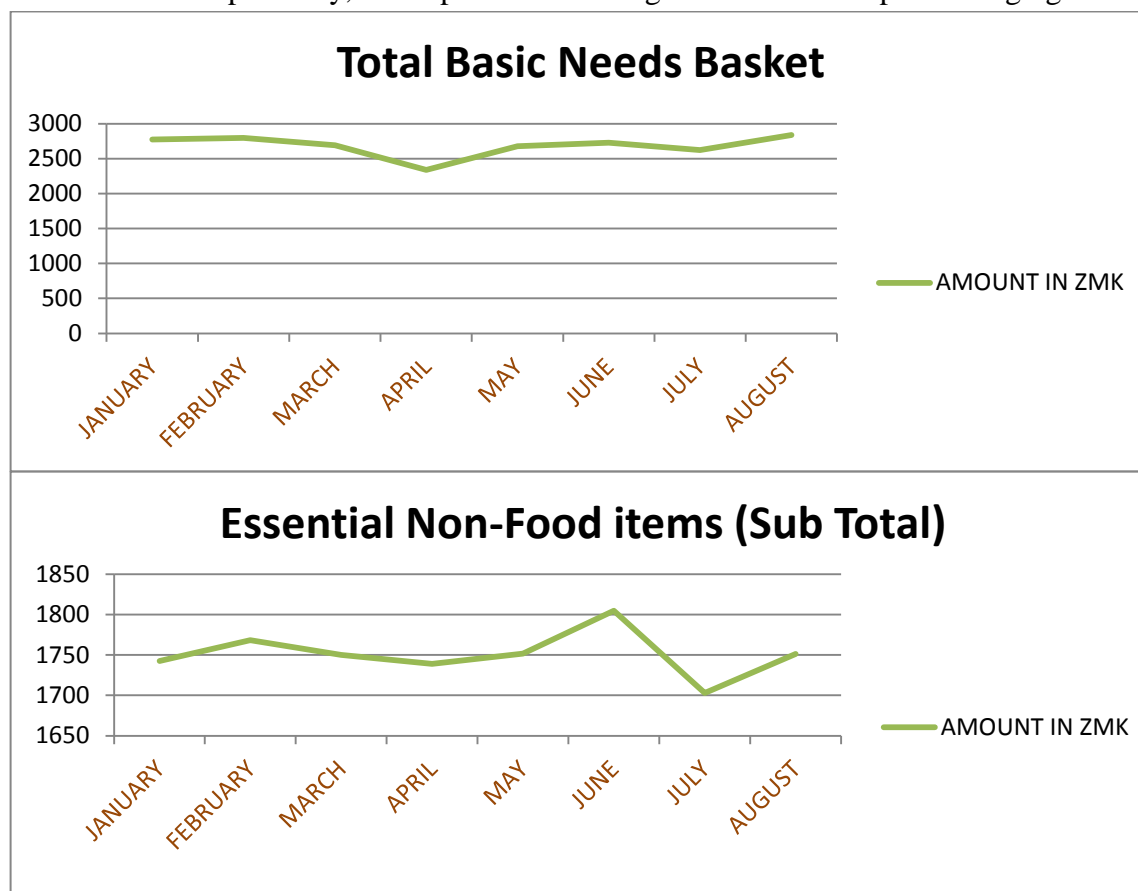
4. FRA Maize price and targeted reserves

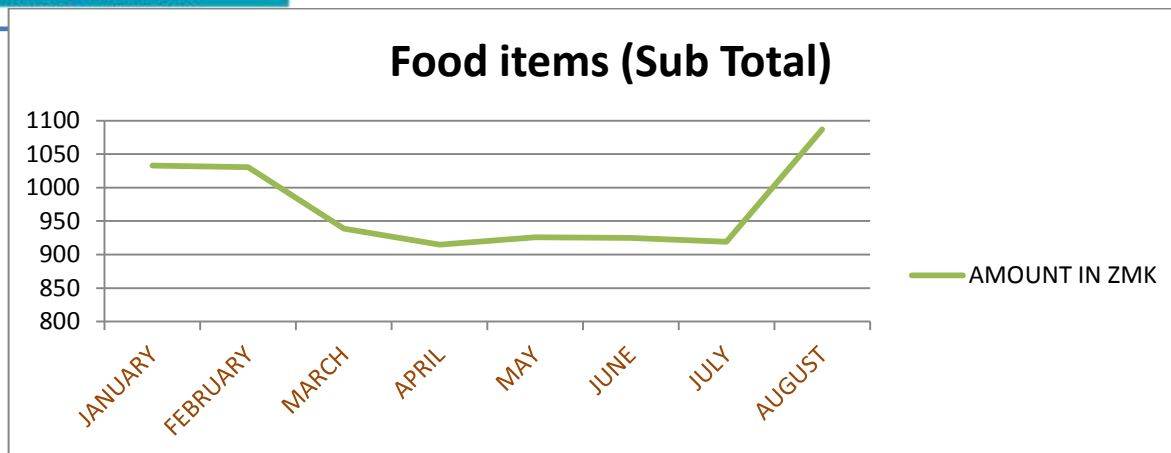
Key to the cost of living and the livelihoods of the vast majority practicing agriculture was the presidential announcement of the maize floor price at **K75** per 50Kg bag. This elated the farmers but is marked with the usual question of how the government of the day determines the floor price. It was shocking to note the president instead of the FRA director/ the Minister of Agriculture and Livestock who would have given a technical background on the

determination of this floor price gave this announcement. Even more shocking was the announcement by the President's press aid Amos Chanda that all maize from farmers will be bought regardless of the FRA threshold and the budgeted funds for procurement of maize. It is thus hoped that government will be able to make the payments available for this year's harvest to the farmers on time.

5. JCTRs BNB for August and Inflation levels against target

The August *Basic Needs Basket* for Lusaka stood at **K3, 659.92** There were, however, other important increases in the cost of food items such as that of mealie meal which increased by **8%** from an average unit cost of **K63.43** to **K68.57** per 25kg bag. Changes experienced in 2015 so far on the cost of living are shown in graph inserts for the Lusaka BNB. It is also noted that Chipata and Chinsali at the end of August had the highest costs of mealie meal at K81 and K80 respectively, while places like Mongu and Ndola had prices ranging K70.





According to the graph on the essential non-food items, there was a spike indicated in the month of June which can be attributed to the increase in the price of charcoal of **14.2%** as compared to the month of April. However, there was a dip experienced on the same graph, from the month of June to the month of July, of about **18.27%** as a result of a slump in the price of charcoal around that period. There was an overall increase as can be noticed on all three graphs in the month of August across the 15 towns for which the Basic Needs Basket is conducted, this increase is as a result of the instability of the prices of commodities in the wake of macro-economic disarray.

Recommendations

1. **Debt situation:** Government to maintain its current debt levels without further massive borrowing from international markets especially with the reduction in copper prices and productivity of the country due to load shedding which will adversely affect the country's GDP to which the current debt level sustainability is tied to. Further JCTR continues to call for reduced spending by government on foreign trips and creation of new districts and procurement of vehicles which at a point of crisis such as now should be secondary to provision of services and ensuring a minimal budget deficit as a way of living within our means.
2. **Power Outages:** In the short term not much may be available as options apart from encouraging alternative energy sources through tax exemptions. Apart from this ZESCO as a service provider needs to provide a monthly schedule to which it will be answerable to the ERB. The current status is that ZESCO has monthly schedules which it does not adhere to and is not held to account by any institution.
 ZEMA should also take a keen role together with Forestry department to ensure that the rampant cutting down of trees due to the increased charcoal demand is regulated and managed. The deforestation and pollution caused by charcoal burning and use of charcoal may also have an adverse effect on the next rain season and climate change effects felt by the country in general.



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3. **Depreciation of the Kwacha:** ~~Strengthening of internal markets and manufacturing is key~~ and this should be in-line with improving and diversifying the energy sector to encourage efficiency.
 4. **FRA Reserve Threshold:** The FRA and Ministry of Agriculture should stick to the current threshold and is advised to finalise payments in due time. Already the 2015 budget is estimated at having a high deficit. It is worrying to note that this is not regarded and buying of maize against the budget will either dip into funds for other agricultural budgets and/or will need to be paid as outstanding payments in 2016. Government at this point should be targeting encouraging the private businesses to buy excess maize and milling plants to expand their businesses to procurement so that FRA sticks to only strategic reserves that it can efficiently store.

Looking forward to the end of this year and into the year 2016 – which is an election year – it is hoped that the macro and micro economic situation in Zambia will stabilize and Government both present and future will learn from the current power crisis and ensure that set plans for Zambia's growth and development are actualised and not shelved.

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