

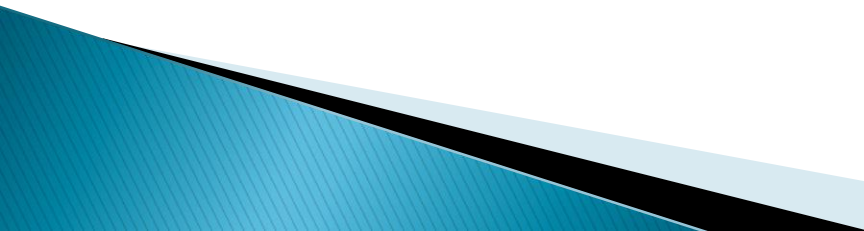
Economic Recovery, a case study of Zambia



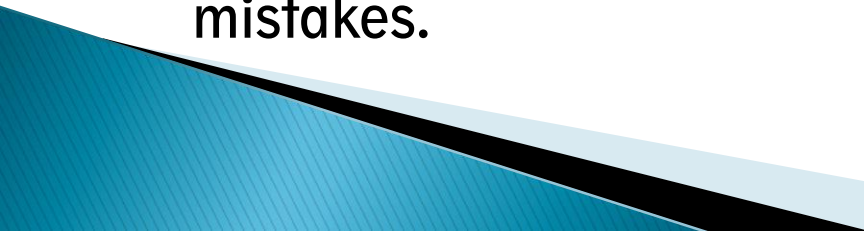
Presented by David Chewe
At the Institute of Chartered Accountants of Zimbabwe
Winter School

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Presentation outline

- ▶ Introduction
 - ▶ Fact file on Zambia
 - ▶ Main presentation
 - Historical developments in the economic
 - Political and economic reforms
 - Drivers of economic reforms
 - Challenges
 - Measures taken to remain competitive
 - ▶ Conclusion
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Introduction

- The economic crisis of 1970s compelled African countries to look for ideas outside its boundaries;
 - Structural adjustment programs largely funded by the IMF, WB and bilateral partners were instituted to support establish market based economies;
 - IMF/WB Model focused on growth, ecological sustainability, agric. expansion and democracy; and
 - Some of the adverse consequences of these interventions included falling wages, higher unemployment, higher prices for staple foods and fewer services.
 - It can be argued that these economic recovery programs prescribed to African countries in the long run contain some mistakes.
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Fact file about Zambia

Geographical area (km ²)	752,612
Population (approx.)	15m
Population growth rate	3.10%
Literacy	81% men 61% women
People & languages	multilingual with 72 dialects
Independence	24-Oct-64
Government	Multiparty democracy
Economy: GDP	\$62.71bn (2015)
Annual growth rate	3.6% in 2015
Per capita income	\$3,900 in 2015
Gross National Reserves	US\$2.7bn (2015)
External Debt	US\$6.73bn (2015)
Life expectancy (years)	52.36
Work force:	
Agric	85%
Mining & manufacturing	6%
Services	9%

Zambia at a glance

- In the past ten years the country has grown at an average of 6.7% real GDP per annum and was dubbed one of the fastest growing economies in the world.
 - Reputation for political stability and relatively efficient, transparent government.
 - Growth slowed down in 2015 to 3.6% largely due to falling copper prices, reduced power generation and depreciation of the Kwacha.
 - Lack of economic diversification and dependency on copper as sole major export makes the country vulnerable to fluctuations in world commodities; market and prices turned downwards in 2015.
 - This was largely due to declining demand from China.
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Historical developments of the country

1964 - 1990

- One party political system under Dr. Kaunda & UNIP
- Command economy with central planning; nationalization of the mines, energy and manufacturing.
- In 1969 Zambia was developing world's largest copper producer and the world's third largest producer of copper, producing 12.2 percent of world copper output (80% of forex earnings).
- 1973 -1975 oil crisis caused sharp fall in GDP.
- By 1977 the government had completely exhausted its foreign reserves.
- By mid-1980s, Zambia became one of the most indebted countries in the world, relative to its Gross Domestic Product (GDP).
- Inefficient agricultural support put pressure on government fiscal space.
- IMF program included ending price controls, the devaluation of the Kwacha, cut-backs in government expenditure, cancellation of subsidies on food and fertilizer, and increased prices for farm produce.
- Austerity measures resulted in political instability and government abandoned IMF programs.
- In 1990 there were food riots and attempted coup.

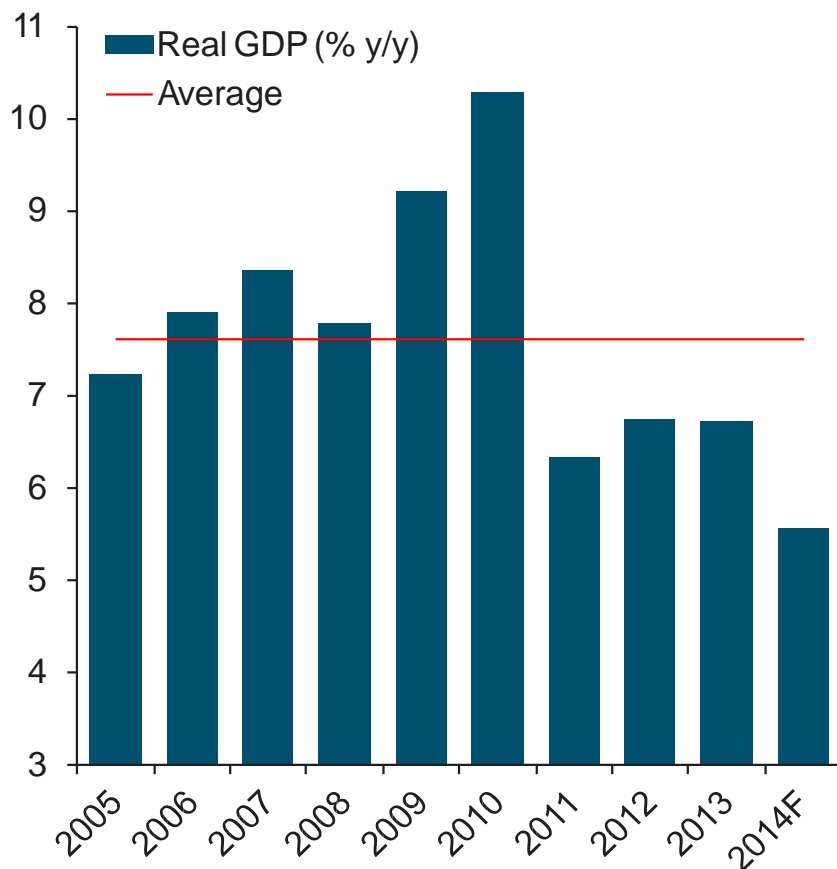
Post political and economic reforms

1991 – onwards

- Multiparty democracy ushered in by MMD in 1991.
 - Institutional and policy changes made to support economic reforms.
 - Declaration of country as a Christian nation.
 - Private sector driven economy.
 - privatization of the mines drew a surge in FDI and output.
 - Financial sector reforms to increase access to finance
 - Exchange controls were lifted in 1994.
 - Challenging macroeconomic situation.
 - Government support to agriculture contributed to economic growth.
 - In 2005 highly indebted countries status changed when country got debt write off for US\$6bn.
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Economic growth: recent experience

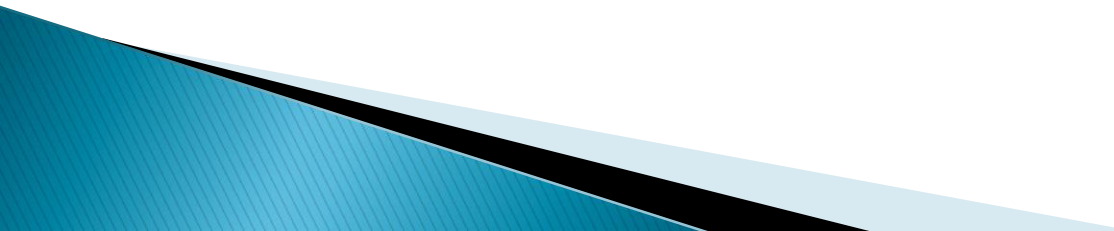
Real GDP growth fell to the lowest level in over 10 years in 2014 amid a broad weakening in growth, particularly noticeable in the primary sector



	2012	2013	2014
Agriculture & fishing	6.8	-7.4	6.3
Mining & Quarrying	-2.7	5.9	-7.2
Primary sector (18%)	1.7	-0.6	-1.0
Manufacturing	7.2	4.5	3.6
Electricity, gas & water	4.1	5.9	3.3
Construction	13.6	11.4	7.4
Secondary sector (22%)	10.3	8.4	5.7
Wholesale & retail trade	4.0	5.2	5.5
Transport, storage & comm.	12.8	12.4	14.0
Financial inst. & insurance	12.0	12.2	13.5
Tertiary sector (57%)	7.1	8.6	7.6
Real GDP (% y/y)	6.7	6.7	6

Pro-poor reforms

2012 – 2016

- ▶ Pro-poor policies including raising the minimum wage
 - ▶ Infrastructure development across the country amid declining copper export values.
 - ▶ Promotion of value addition and beneficiation.
 - ▶ Access to balance of payment support
 - ▶ Seeking the face of God (2 Chronicles 7:13-14)
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Macroeconomic agents

- The economic philosophy has changed significantly over the last 52 years.
- The liberalisation of the economy post 1991 has helped transform the economy.

1.0 Government policy and intervention

Prior to 1991 there was significant government intervention and this affected the economic performance. Post 1990s government promotes a free economy.

1.1 Fiscal policy

The expansionary policy stance has had mixed effects on the economy overtime.

1.2 Monetary policy

Prior to 1991 inflationary pressure had almost crippled the economy. This was changed when government introduced inflation targeting policy. In 2015-16 focus has shifted to interest rate targeting.

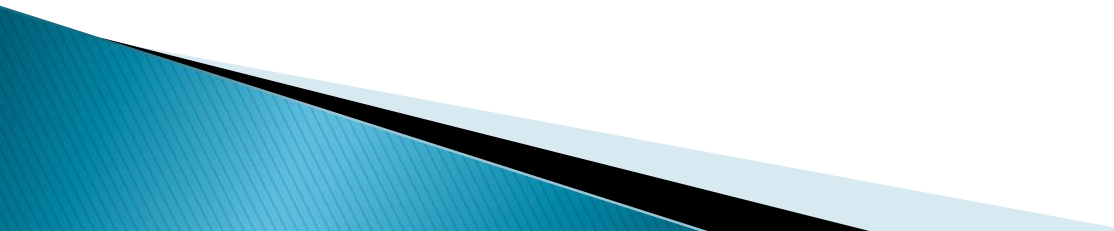
1.3 Trade policy

Government attempted to use government controls and drove import substitution policies to manage the external trade sector but this was short-lived.

2.0 Adjustment policies and economic reforms

The government has been willing to carry out economic reforms including: liquidations and privatisation of non-performing or loss making public enterprises.

Current challenges

1. Poverty particularly in rural areas despite the country graduating into a middle income country.
 2. High unemployment levels (15%) amid high birth rate.
 3. Economic policy inconsistencies and budget support.
 4. Inflationary pressure that is weighing heavily on the currency.
 5. Drought and lack of robust water management affecting the power generation.
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Access to global markets and competitiveness

- a) Country raised US\$7billion from sovereign bonds, first tranche issued in 2012
 - b) Using the landlocked status as an opportunity to attract investments
 - c) Regional integration
 - d) Massive infrastructure developments in roads, health and social services improves competitiveness
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Conclusion

- ▶ **Zambian economy has faced ups and downs since independence in 1964.**
- ▶ **Economic performance has moved from good at independence to a bad situation during one party state but improved after economic reforms.**
- ▶ **Structural reforms and Debt write off played a part in economic recovery.**
- ▶ **Political stability has played a big role.**
- ▶ **Human capital development is very critical as economy needs qualified workers.**
- ▶ **Policy consistency and engagement with private sector is critical to quick recovery.**

Question time

THANK YOU

▶ And lastly

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