

**A REPORT FOR
MACROECONOMICS THEMATIC GROUP**

**CIVIL SOCIETY FOR POVERTY REDUCTION
(CSPR)**

**NATIONAL DEVELOPMENT PLAN
CONSENSUS BUILDING WORKSHOP**

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6th SEPTEMBER 2005

1.0 Introduction

The macroeconomics thematic group was chaired by Mr. Dale Mudenda (an economist/lecturer from the University of Zambia). Other members present were; Prof Seshamani from UNZA (economist/lecturer), Mr. Brian Manchishi (a student of Economics from UNZA, Mr. Edmond Kangamungazi (from EAZ), Mr. Vladmir (from Consumer Unit Trust), and Mr. Humphrey Mweete – the rapportuer for the group (from EAZ).

As a way of starting the discussion on the contents of the macroeconomics chapter for the Civil Society for Poverty Reduction proposed National Development Plan, the chairperson asked Mr. Kangamungazi to lead the Macroeconomics proposed chapter to the group so as to familiarize group members with the content of the chapter.

After familiarize the group with the text, the group chair asked for reactions from the group members beginning from the situation analysis to recommendations, and priorities respectively.

2.0 Situation analysis /Macroeconomic framework.

The group identified five issues to constitute macroeconomics; fiscal policy, monetary policy, exchange rate policy, fiscal policy, income policy, and trade policy. These five areas were said to be the core of macroeconomics. To this regard the group asked that the whole chapter should be centered on these variables.

The group also decided to put a table for macroeconomic performance from 1998 through 2004 as indicated below.

Macroeconomic performance,1998-2004.

| Macroeconomic variable | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------------------------------|----------|----------|----------|----------|----------|----------|----------|
| inflation | 30.6 | 20.6 | 30.1 | 18.7 | 26.7 | 17.2 | 17.5 |
| Exchange rate (K/US\$) | 1,862.15 | 2,385.84 | 4,108.75 | 3,607.32 | 3,930.72 | 4,619.54 | 4,651.51 |
| GDP growth | -1.90 | 2.20 | 3.60 | 4.90 | 3.30 | 4.30 | 4.60 |
| interest rate % | | | | | | | |
| 28 days Treasury bill yield | 25.69 | 42.1 | 23.4 | 51.4 | 25.3 | 26.75 | n/a |
| 91 days Treasury bill yield | 30.88 | 42.2 | 34.1 | 54.4 | 32 | 38.5 | 16.3 |
| 182 days Treasury bill yield | 26.71 | 42.6 | 36.5 | 51.3 | 32.9 | 39.5 | 18.3 |

Source: Thematic Group Compilation from MoFNP macroeconomic indicators -20/03/05

However, the group observed that in Zambia, external and internal debts are increasingly taking center stage in macroeconomic analyses, and hence debt was included in macroeconomics chapter.

On HIPC, the group observed that there was inconsistency between International Monetary Fund (IMF) and Government positions with specific reference to when the actual debt write off will become effective. The Government seems to be indicating that by end of December this year (2005), about US\$3.1 billion worth of external debt portfolio will be written off, while IMF is suggesting that actual debt relief will be spread over a twenty year period. To this effect, the group suggested to seek clarification from the Ministry of Finance and National Planning.

The group also suggested that there was need to attribute overall economic performance in the situation analysis to specific sector performance so as to identify sectors with maximum potential in poverty reduction.

3.0 Existing Policy Framework

The group observed that NePAD and AGOA Initiatives were not in existence when the PRSP was formulated therefore it (PRSP) could not mainstream them into local initiatives. So the members suggested that weakness on the PRSP be removed.

4.0 OBJECTIVES AND STRATEGIES

The group felt that objectives and strategies should only address issues of fiscal policy, monetary policy, exchange rate policy, income policy, and trade policy areas within macroeconomics as indicated above any other should be removed.

5.0 MACROECONOMIC INDICATIVE TARGETS.

The group further observed that there was need to make a table on Gross Domestic Product (GDP), and inflation indicators with actual figures for periods 2003 and 2004, as well as projected figures for periods 2005 through 2011. The proposed table is indicated below.

Macroeconomic indicators and targets for 2006-2011

| indicator | Actual 2003 | Actual 2004 | Proj 2005 | Proj 2006 | Proj 2007 | Proj 2008 | Proj 2009 | Proj 2010 | Proj 2011 |
|------------------|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| GDP | 4.3% | 5% | 6% | 7.5% | 9% | 11% | 13.5% | 16% | 19% |
| INFLATION | 17.5% | 17.2% | 15% | 13% | 11% | 9% | 8% | 7% | 5% |

Source for actual figures: 2004 economic report.

6.0 RECOMMENDATION ONE (ON MACROECONOMIC STABILITY).

Under recommendation one (Macroeconomic stability), on Monetary Policy strategies, the group included the following points;

1. Provide cheap credit to private sector especially priority areas.

2. Make the Central Bank independent from government interference.

7.0 RECOMMENDATION TWO (ON ECONOMIC DIVERSIFICATION).

Under recommendation two (on promoting economic diversification) , the group changed the recommendation to *Maintaining exchange rate stability*. Further, the group included the following;

1. Diversify sources of foreign exchange through export oriented crops like cotton, sugar, and tobacco. These groups have strong linkages with the manufacturing sector through value addition. To this effect, the group emphasized on encouraging firms or individuals to add value to these raw materials in order to export finished products.
2. Build the capacity of the Zambia Bureau of standards by providing state of the art laboratories, computers etc.
3. Promote horticulture and floriculture for export markets (e.g vegetables, cut flowers etc).
4. Promote value addition in gemstones mining.

8.0 RECOMMENDATION FOUR (ON TRADE POLICY).

On recommendation four, the group felt that Government should review its trade protocols to avoid uncertainties of SADC or COMESA. This was in view of the fact that in future Zambia will have to choose either to remain in COMESA or quit to remain in SADC.

The group also suggested the following;

1. Accelerate efforts towards the proposed merger of Investment centre and Zambia Privatization Agency (ZPA), Zambia Investment Center (ZIC), and Zambia Export Processing Zone (ZEPZA) so as to have a one stop shop for prospective investors through the proposed Zambia development Agency (ZDA).
2. Need to have qualified trade Attaches in trade missions that matter to enhance representation.
3. Have trade positions in trade negotiations based on empirical data.
4. Strengthen the accreditation of Zambia bureau of standards.
5. Government should avail cheap credit finance to prospective small scale exporters.
6. Government should reconsider the issue of Zambia Export Processing Zones (ZEPZA).

9.0 RECOMMENDATION FIVE (ON PUBLIC EFFICIENCY).

The group decided to delete recommendation five on strengthening the role of the private sector and leave it to relevant thematic group dealing with the issue.

10.0 RECOMMENDATION SIX AND SEVEN (ON M & E).

The group also decided to remove the recommendations on public sector efficiency and that of strengthening M & E because they don't fall under macroeconomics.

11.0 RECOMMENDATION EIGHT (ON RURAL DEVELOPMENT).

Under recommendation eight, the group included the following;

1. Encourage joint ventures between foreign and local investors in retail businesses.
2. The group decided to remove the figures on giving local investors 50% shares in joint ventures because there are few local investors who can manage this in case of large business ventures.

12.0 RECOMMENDATION NINE (ON NATIONAL INCOME POLICY).

On recommendation nine, the group included the recommendation below;

- Design policy framework for employment generation.

13.0 RECOMMENDATION TEN (ON DEBT POLICY).

On debt policy, the group suggested that government should formulate a comprehensive debt policy covering both external and internal debts.

14.0 RECOMMENDATION ELEVEN (ON CROSSCUTTING ISSUES).

The group removed the strategy on *framework for employment generation* and moved it to National Income Policy.

15.0 ABSOLUTE PRIORITIES

1. The group added the achievement of macroeconomic stability to the list of absolute priorities. These macroeconomic fundamentals include; inflation, exchange rate, interest rates etc.
2. The group also decided to move infrastructure development to other priorities.