



REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE

**STATEMENT BY THE HON. MINISTER OF FINANCE ON THE IMPACT OF
THE CORONAVIRUS (COVID-19) ON THE ZAMBIAN ECONOMY**

MARCH 2020

1.0 PREAMBLE

1. Good Morning Ladies and Gentlemen, thank you for honoring our invitation to this press briefing.
2. As we are all aware, the world has experienced an unprecedented outbreak of COVID-19, more commonly known as the Coronavirus. The latest update from the World Health Organization indicates that over 470,000 confirmed cases have been recorded around the world and more than 20,000 deaths have been reported. In Zambia, sixteen confirmed cases have been recorded as at 26th March 2020. Our sympathies go out to all those who have lost their loved ones all over the world due to this pandemic.
3. The impact of the outbreak has been both extensive and severe, including but not limited to, a health crisis and an economic crisis characterized by financial market stress and a collapse in commodity prices. The outbreak has led to disruptions in supply chains, created uncertainties and significantly dampened near-term growth prospects.
4. Following these developments, various Sector Ministries have provided updates and a range of measures to contain the spread of the pandemic within the Zambian economy. In addition, His Excellency the President on Wednesday 25th March, 2020 gave the following directives:
 - i. The Zambian Missions abroad and the Department of Immigration must be alert to review the issuance of visas for people wanting to travel to Zambia, as well as at all ports of entry into the country for all travelers from countries affected by COVID-19;
 - ii. Travellers will be allowed entry into Zambia, however, upon screening those who exhibit symptoms will be quarantined in a medical facility for treatment, while all other travellers without symptoms will be quarantined for at least 14 days;
 - iii. Government has suspended non-essential foreign travel, particularly, to countries which have confirmed COVID-19 cases;

- iv. Public gatherings such as conferences, weddings, funerals, festivals are to be restricted to at most 50 people subject to them complying with public health authority guidelines;
 - v. Restaurants must operate only on a take-away and delivery basis;
 - vi. All bars, night clubs, cinemas, gyms and casinos must close; and
 - vii. All international flights to and from Harry Mwaanga Nkumbula, Simon Mwansa Kapwepwe and Mfuwe International Airports are suspended, instead, all international flights should land at and depart from Kenneth Kaunda International Airport only. This is to ensure efficient and effective screening of travellers, as well as following them up by our health authorities.
5. Following from these directives, I would now like to discuss the impact of the pandemic on both the global and domestic economies with a view to providing citizens, business houses and investors a preliminary assessment of the changed economic landscape and mitigatory measures that are being undertaken.

Impact on the Global Economy

- 6. **Slow Down in Global Growth:** Preliminary assessments by the International Monetary Fund (IMF) indicate a substantial slowdown in global economic growth in 2020 compared to 2019. The full assessment is expected to be provided at the upcoming virtual Spring Meetings.
- 7. **Drag in Global trade:** Global trade has slowed down following closure of borders and the lock down in major economies. The reduction in merchandise trade has impacted negatively on revenues particularly for commodity exporting economies. The cancellation of flights by major carriers has also impacted negatively on trade in services such as tourism.
- 8. **Plummeting of commodity prices:** commodity prices have drastically reduced. In the case of copper, prices opened the year at US\$6,165 per metric tonne closed at US\$4,754 per metric tonne on Wednesday 25th March 2020 while stocks on the London Stock Market have surged to about 225

thousand metric tonnes from about 145 thousand metric tonnes in January 2020.

9. **Capital flight in the financial markets:** the financial markets have not been spared by the pandemic. The international economy has seen investors divesting their funds from traditional assets such as stocks to safe havens that include the US Dollar. This has resulted in the US Dollar strengthening against other currencies, including the kwacha.

2.0 Impact of COVID-19 on the Zambian Economy

10. I will now give a preliminary assessment of COVID-19 on the Zambian economy. I should mention that the full extent of its impact will depend on the severity and duration of the pandemic.

GDP Growth

11. You may recall that during my 2020 budget address, I projected that the Zambian economy would grow at 3.2 percent. In view of the recent developments, growth is now projected to be lower at around 2 percent despite the anticipated significant recovery in the agricultural sector. The tourism, mining, manufacturing, construction as well as wholesale and retail trade sectors are projected to slow down on account of the pandemic.

Tourism

12. In the specific case of tourism, disruptions in international air transport from the United States of America, Europe, Asia and within Africa have had an adverse effect on tourist arrivals. Although the reduction in international air traffic arrivals was only 5 percent in the first two months of the year compared to last year, it is anticipated that there will be a sharper decline in March and the months to come.

This follows an increase in the number of cancellations on pre-booked tour packages coupled with travel restrictions and lock downs in other jurisdictions. Emirates Airlines, RwandAir and South African Airways have suspended flights into Zambia while other carriers have scaled down the number of flights into the country.

13. Consequently, some hotels and lodges have already reported significant reductions in bed occupancy rates, to less than 20 percent from an average of 50 percent for the same period last year. Based on current information, occupancy rates are expected to decline further. In addition, closure and restricted operating hours are also affecting the operations of various businesses. This has drastically reduced both tax and non-tax revenue and is posing a challenge to employment in the sector.

Mining

14. As alluded to earlier, copper prices have declined by 23 percent to US\$4,754 per metric tonne as at 25th March, 2020 from US\$6,165 per metric tonne in January 2020. This represents a reduction of about US\$1,400 per tonne. Consequently, copper export earnings are expected to decline substantially by more than US\$1 billion in 2020 if the situation persists. It follows, therefore, that mineral royalty tax collection will decline.

Fiscal

15. Revenues under the 2020 budget are projected to be lower on account of the slowdown in economic activity. Collections under VAT, Customs Duties, Income Tax and Mineral Royalty are expected to decline. For instance, in February 2020, revenue and grants collections were recorded at K4.6 billion, which was 4 percent below the target. More particularly, collection from mining company tax and overall VAT were below target by 32 and 13 percent, respectively. Revenue collected in March 2020, thus far, stands at K2.7 billion against the target of K4.5 billion. This trend could continue if the pandemic persists.

16. On the expenditure side, the depreciation of the Kwacha against major currencies is resulting in higher debt service than programmed. Further, expenditures are also increasing to respond to the pandemic.

17. In order to accommodate the decrease in revenues, increase in debt service payments and expenditures in response to the pandemic, it is expected that other expenditures in the budget will have to be scaled down.

Trade

18. COVID-19 has disrupted international trade in terms of both volumes and commodity prices. Collections of trade taxes are expected to be lower than projected in the first quarter of the year and most likely, beyond. There is also disruption to cross border supply chains given Zambia's close trading relations in the region. This will have a significant negative impact on small and medium scale businesses.
19. Preliminary information indicates that there was a significant reduction in imports from China, which has emerged as a major trading partner, both in dollar terms and volumes in February 2020 compared to February 2019. In addition, in March 2020 the volumes of imports from India, Japan, Kenya, Namibia and Tanzania have declined relative to March 2019. Given the lock down announced by South Africa, imports from that country will decline further with direct adverse impact on wholesale and retail trade, manufacturing and mining. To this end, revenue collections in the form of VAT and Customs Duty for March 2020 are expected to be below target by 25 percent.

Exchange Rate Depreciation

20. Following the deterioration in the terms of trade from the fourth quarter of 2019 as a result of the decline in copper prices, the Kwacha has been on a depreciation trend. More recently, the Kwacha has depreciated by more than 20 percent to around K17.50 per US dollar. The Kwacha has come under more intense pressure as a result of the Coronavirus which has impacted most emerging market currencies due to flight to safety that has resulted in strengthening of the US dollar.

Inflation

21. Annual inflation is projected to remain above the target range of 6-8 percent. Inflation as announced by the Zambia Statistical Agency yesterday for the month of March stood at 14 percent. Food inflation, exchange rate depreciation, the effects of electricity and petroleum price adjustments have led to the increase in overall inflation. More recently, panic buying particularly of essential commodities such as mealie meal has a potential of further increasing inflation. We encourage businesses and retail outlets to avoid

taking advantage of the pandemic to distort prices and therefore worsen the inflation spiral.

Financial Sector

22. The broader impact on the financial sector is likely to be observed with lags as the economy faces the challenges I have earlier outlined which translate into rising non-performing loans. This is adding to the liquidity constraints that the financial sector is already facing.

3.0 MEASURES TAKEN TO MITIGATE THE IMPACT OF COVID-19

23. In response to the challenges that have been presented, we have implemented a number of first line measures which include:

Funding towards COVID-19 Response

24. In order to finance the response towards COVID-19, Government has taken the following measures:

- i. Set up an Epidemic Preparedness Fund under the Ministry of Health amounting to K57 million;
- ii. Cabinet approved a COVID-19 Contingency and Response Plan with a budget of K659 million under the Disaster Management and Mitigation Unit; and
- iii. The Government has started mobilizing funds through the budget and engagement with various local and international stakeholders.

Resources available from Multilateral Organisations

25. We are in the process of making applications to our multilateral partner organisations for COVID-19 support. As announced, the International Monetary Fund is making available a total of US\$50 billion to affected countries via rapid disbursing emergency facilities while the World Bank Group has approved support of up to US\$14 billion under a fast track COVID-19 Facility.

Easing Liquidity

26. To support the easing of liquidity in the face of the adverse effects of COVID-19, Government will release K2.5 billion to:

- i. Reduce domestic arrears owed to domestic suppliers of goods and services;
- ii. Reduce outstanding arrears to pensioners under Public Service Pension Fund and retirees under Ministry of Justice; and
- iii. Reduce outstanding third-party arrears and other employee related commitments.

In addition, K140 million will be released to pay local contractors in the road sector.

Tax Relief

In order to provide relief to businesses, Government will:

- i. Suspend excise duty on ethanol for use in alcohol-based sanitisers and other medical related commodities;
- ii. Remove provisions of SI 90 relating to claim of VAT on imported spare parts, lubricants and stationery to ease pressure on companies;
- iii. Suspend export duties on the export of concentrates in the mining sector to ease pressure on the sector; and
- iv. Suspend export duty on precious metals and crocodile skin.

Financial Sector Measures

27. Government as announced by the Bank of Zambia has taken a number of measures to encourage the use of digital financial services. These measures are aimed at preventing the spread of the disease by minimizing person to person contact in conducting financial transactions, decongesting banks and reducing the use of cash. The measures are as follows:

- a) Waived charges for person to person electronic money transfers of up to K150. These transactions are now free of charge;

- b) Revised upwards transactions and balance limits for individuals, small scale farmer and enterprises. The limits by agents have been revised upwards to give agents more float to deal with transactions. This is made to decongest banks;
 - c) Removed the transaction and balance limits on agents and corporate wallets; and
 - d) Reduced the processing fees for Real Time Gross Settlement System;
28. I wish to urge businesses and organisations to take advantage of these revisions or measures by adopting mobile money and other electronic forms to pay for goods and services to safeguard against or reduce the possibility of spreading the disease.
29. In addition, Government will issue a Statutory Instrument for Classification and Provisioning of Loans Directives to encourage financial service providers to provide relief to the private sector and facilitate long term lending to productive sectors of the economy. We expect the Banking Sector to pass on these benefits to their clients.

Business Continuity

30. With regard to the Single Treasury Account, the Integrated Financial Management Information System (IFMIS) and Payroll Management and Establishment Control (PMEC), Government has put in place measures to enable continuity of its operations by making it possible for officers to work remotely.
31. In view of the anticipated difficulties in importing various consumer goods, we now have an opportunity to work with major retail outlets in building domestic value chains that will encourage the sell of domestically produced goods in our major supermarkets. The Minister of Commerce, Trade and Industry working with my Ministry will engage the major retail outlets to ensure that this process begins in earnest.

4.0 Conclusion

32. I wish to emphasize that the measures I have announced are the initial response to the impact of COVID-19. Government may take additional measures to support the economy and respond specifically to the challenges

the business community may face as well as safeguard the financial sector, should the situation worsen.

33. In closing, Government will continue to review developments as they unfold and take appropriate measures where necessary. Most importantly, prevention is key and my appeal to all is that we must exercise utmost personal hygiene and conduct as guided by His Excellency the President, the Ministry of Health and the World Health Organisation. Failure to do so will result in devastating health, economic and financial consequences for the country.

May God bless our great nation.