MEASURES AIMED AT MITIGATING THE IMPACT OF THE CORONAVIRUS (COVID-19) ON THE ZAMBIAN ECONOMY

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PREPARED BY

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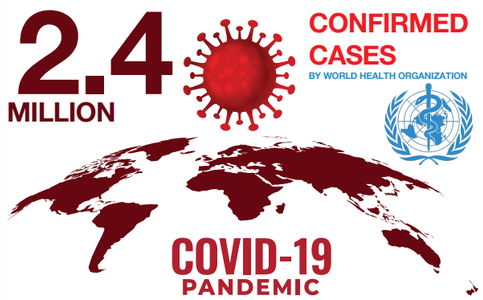
INTRODUCTION

- COVID-19 pandemic is **both a health and economic** catastrophe.
- The latest update from the World Health Organization indicates that **over 2.4 million confirmed cases have been recorded around the world.**



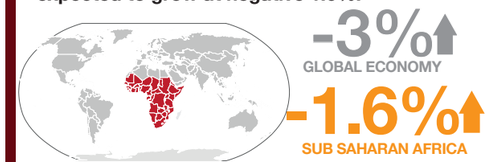
- 20,000 deaths were recorded on the 25th of March 2020, 165,000 deaths were recorded on the 19th of April 2020.

- Number of corona cases in Zambia as at April 27th were 89 cumulative cases, 44 active cases, 42 recoveries and 3 deaths.

IMPACT ON THE GLOBAL ECONOMY

International Monetary Fund (IMF) projections indicate that the world will experience the worst economic fallout since the **great depression of 1930 and worse than the 2007/2008 financial crisis.**

The global economy is projected to grow at **negative 3% in 2020 while Sub Saharan Africa is expected to grow at negative 1.6%.**



Further projections indicate that there will be a drastic drop in per capital income globally.

PROJECTED IMPACT ON THE ZAMBIAN ECONOMY

- The IMF projections indicate that the Zambian economy will grow by negative 2.6% in 2020 from the earlier projections of 3.6%.
- The economic adjustments due to COVID -19 will result in the drop of revenue. The **budgeted revenue for 2020 is likely to be short by at least K14.8 billion or 19% of the approved budget.**

19%
OF THE APPROVED BUDGET

K14.8B

- Prices of copper on the London Metal Exchange are likely to continue dropping resulting in the drop in mineral royalty and income tax form mining companies.

- Pay as You Earn (PAYE) from the mining sector is expected to reduce as some contactors might lose their contracts due to reduced revenue from the sale copper.

- Scaling down of mining activities will lead to reduced engagement of foreign providers of management services which will affect withholding tax receipts on management fees and consultancy.
- Reduction in economic activities by all sectors will translate into a reduction in all forms of tax and non-tax revenues among them PAYE, customs duty, VAT, exercise duty, fuel levy, road user charges, fees and fines.

ADDITIONAL MEASURES TAKEN TO MITIGATE THE IMPACT OF COVID-19 TAX RELIEF

In order to help keep businesses running the Government is implementing the following tax relief measures.

1. Waiver of tax penalties and interests

- This measure intends to assist companies and businesses manage their cash flows during the period of reduced revenues.
- Zambia Revenue Authority (ZRA) to issue guidelines on the criteria of qualification, period of relief and other related modalities.

2. Suspension of customs duties and VAT on additional medical supplies used in the fight against COVID -19

- This measure aims to expedite the provision of medical related devices needed for the fight against COVID -19.
- Government to issue a list of medical supplies that will not be subjected to duty and VAT for the period of 6 months.
- The list comprises of 38 items among them testing equipment, protective garments, thermometers, disinfectants, sterilization products and other medical equipment.

3. Easing of liquidity

- The country continues to experience tight liquidity which is impacting negatively on businesses and households and the financial sector.
- To alleviate economic pressure associated with reduced liquidity due to COVID -19 especially for the financial institutions, Government has released:
  - a. K500 million to the Public Service Pensions Fund to pay over 1,500 retirees or their beneficiaries;
  - b. K170 million to Banks to clear third party arrears; and
  - c. K140 million to various road contractors.
- These releases are part of the K2.5 billion which had been previously announced by President Edgar Lungu in his last address to the nation

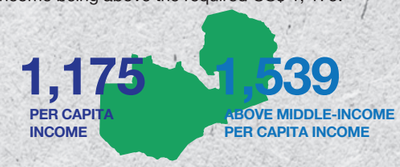
  The treasury will focus on completing the ongoing verification exercise which will permit payment of K1 billion to various suppliers of goods and services to Government.
- Financial sectors liquidity challenges will be ameliorated by tapping into the Bank of Zambia K10 billion medium term refinancing facility which is eligible for commercial banks and non-financial institutions in order to restructure, refinance or extend credit to business and households impacted by COVID-19.

4. Building new and sustainable value chains

- The current situation creates an opportunity for Zambia to sell domestic agricultural and locally manufactured products in great numbers to the major chain stores found at the shopping malls.
- Consequently, Government has established a taskforce comprising of representatives of South African owners of chain stores, the Zambia Association of Manufacturers (ZAM), Zambia Farmers Union(ZNFU), and the Zambia Chamber of Commerce and Industry to bring more Zambian products to shops in order to support domestic production.

5. Engagement with Multilateral Organizations

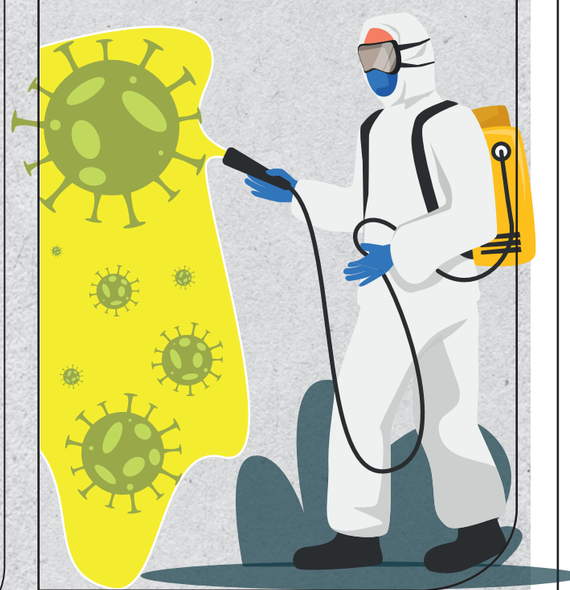
- The IMF has disbursed support to 25 countries under the **Catastrophic Containment and Relief Trust (CCRT).** Zambia being a middle-income country with per capita income at US$1,539, **does not qualify for the support** due to its per capita income being above the required US$ 1, 175.



- Zambia has applied to the **World Bank, the African Development Bank and Afrexim Bank** to be considered for support under their various COVID-19 Emergency Funds.

- Bilateral discussions have also commenced with a number of **G20 countries** on the postponement or rescheduling of debt service payments over a period to be agreed.

- Engagement with the bilateral partners center around the possibility of them meeting the financing gap arising from the adverse effects of COVID-19 on the fiscus.

6. Handling of Funding Towards COVID-19 Response

- The controller of Internal Audit to ensure donations towards COVID-19 are applied exclusively to COVID-19 related activities.
- Donations in form of funds made towards the fight against COVID-19 must be made through the Integrated Financial Management System (IFMIS) and shall be subjected to internal audit processes.
- All MPSAs must submit and retire income received from the treasury on the 5th of every month to the Office of the Accountant General in accordance with the Public Management Finance act 2018.