

MINISTERIAL STATEMENT ON THE PERFORMANCE OF THE ECONOMY AMID THE COVID-19 PANDEMIC

BY HONOURABLE MINISTER OF FINANCE, DR. BWALYA K.E NG'ANDU

- COVID-19 has reversed the fortunes of many economies around the world
- IMF revised its 2020 global economic growth forecast to -4.9% on account of foreseen economic disruptions around the world
- Economic disruptions are expected to affect the tourism and travel industry, manufacturing output, trade activities as well as dampen demand for goods in general

DEVELOPMENTS IN THE DOMESTIC ECONOMY

Domestic growth

- Zambia's Gross Domestic Product (GDP) has been revised downwards from an initial positive growth of at least 3% to a new forecast indicating negative growth of around -4.2%

3%
-4.2%

- Mining, energy, construction and manufacturing are all expected to record poor performance



- Wholesale and retail trade, tourism, transport and professional services are equally expected to under-perform



- Outbreak has also resulted in dampening of commodity prices
- Price of copper declined to US\$ 5,179 in April 2020 from US\$ 6,156 in December 2019
- Exchange rate of the Kwacha against the United States Dollar depreciated by 26% from K14.38 per US Dollar in December 2019 to K18.09 per US Dollar on 13th July 2020
- Kwacha depreciation has led to an increase in inflation to 16.6% and 15.9% in May and June 2020 respectively. This is compared to 11.7% recorded in December 2019.
- Maize production in 2020 increased by 69% to 3.4 million metric tonnes from 2 million metric tonnes recorded in 2019



Fiscal (Revenue)

Budgeted 2020 resource envelope will fall short of target by approximately K17.2 billion

- Revenue reduction of **K12.8 billion** from COVID-related tax relief measures and reduction in economic activity
- External financing of K4.35 billion no longer expected to materialize

- Domestic revenues in 2020 are projected to be 17.8% below budget target
- Tax revenues are now projected at **K47 billion** against a budget target of K53.9 billion representing a decline of 12.7%
- Non-tax revenue category is now projected to outperform the budget target of **K11.3 billion** by 7.3% at **K12.1 billion**

Fiscal (Expenditure)



- Government spending in 2020 is expected to increase by an estimated **K9.7 billion**
- External debt service is expected to increase by **K2.2 billion**

Fiscal (Financing gap)

Decline in revenues and increase in expenditures is expected to create a financing gap of K26.9 billion

- Loss of resources amounting **K17.2 billion**
- Increase in expenditures amounting to **K9.7 billion**

MEASURES TAKEN TO MITIGATE THE IMPACT OF COVID-19

Funding towards COVID-19 response



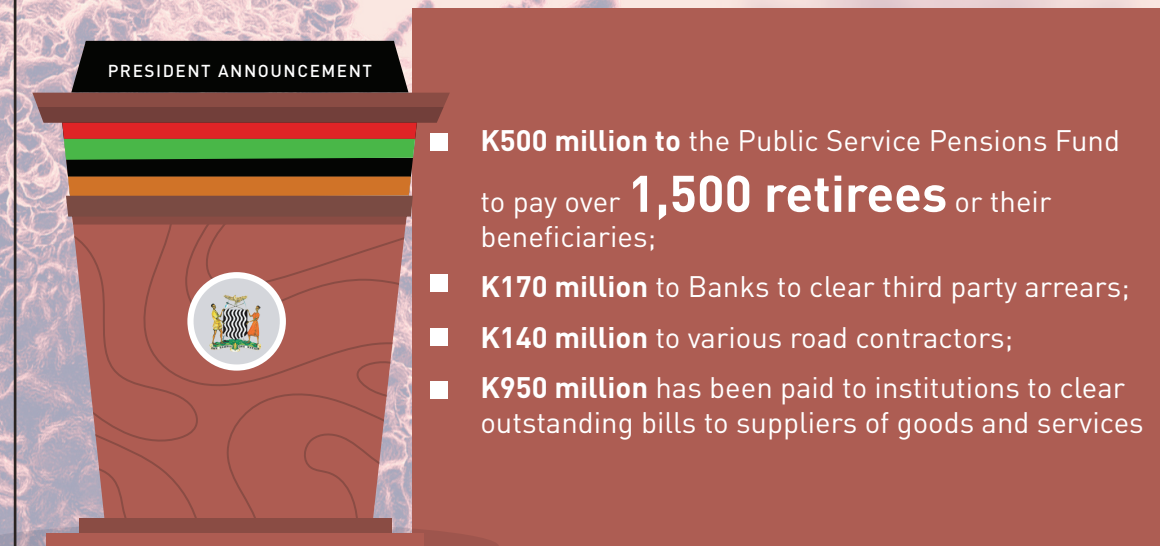
- Allocation of **K57 million** to Epidemic Preparedness Fund
- Allocation of **K659 million** to support COVID-19 Contingency and Response Plan

Tax relief

- Government extended the list of medical supplies that are not subject to import duty and Value Added Tax for an initial period of 6 months
- Suspended excise duty on ethanol for use in alcohol-based sanitisers and other medical related commodities; Removed provisions of SI 90 relating to claim of VAT on imported spare parts, lubricants and stationery to ease pressure on companies;
- Suspended export duties on the export of concentrates in the mining sector to ease pressure on the sector; and
- Suspended export duty on precious metals and crocodile skin
- Waived tax penalties and interest on outstanding tax liabilities resulting from the impact of COVID-19

Easing of liquidity

President announced availing of K2.5 billion in financial relief for businesses

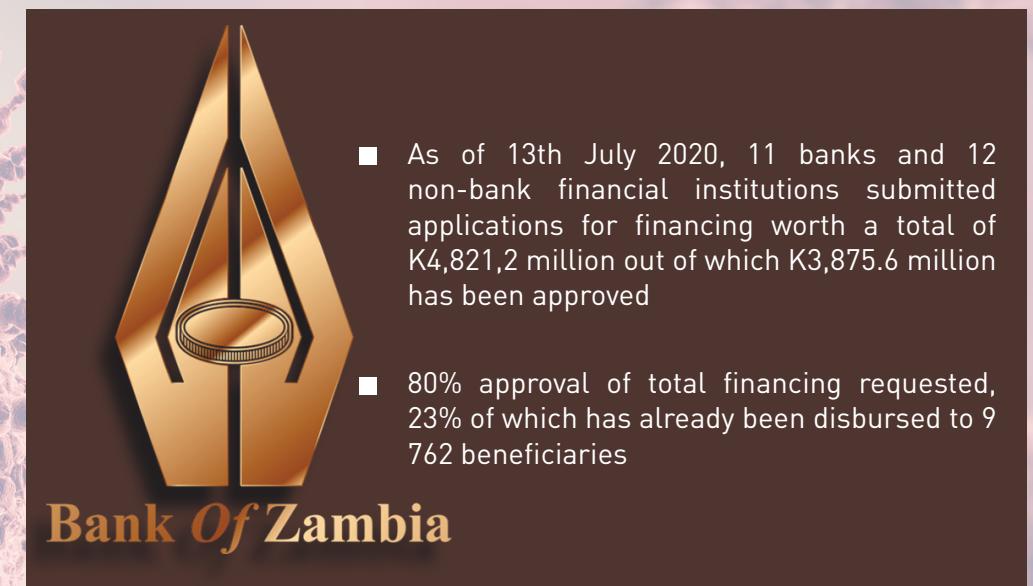


- K500 million** to the Public Service Pensions Fund to pay over **1,500 retirees** or their beneficiaries;
- K170 million** to Banks to clear third party arrears;
- K140 million** to various road contractors;
- K950 million** has been paid to institutions to clear outstanding bills to suppliers of goods and services

COVID-19 Bond

- So far, Government has raised **K6.8 billion**
- Allocation of bond proceeds:
 - Presidential COVID-19 economic recovery fund **K3.185 billion**
 - Payment to third-parties (micro finance institutions) **K1.315 billion**
 - Drugs debts and equipment procurement **K1 billion**
 - Grain purchases **K1.7 billion**
 - Other applications **0.8 billion**

Bank of Zambia's K10 billion medium-term refinancing facility



- As of 13th July 2020, 11 banks and 12 non-bank financial institutions submitted applications for financing worth a total of K4,821.2 million out of which K3,875.6 million has been approved
- 80% approval of total financing requested, 23% of which has already been disbursed to 9 762 beneficiaries

OTHER MEASURES TO SUPPORT ECONOMIC RECOVERY

Issuance of the employment code (exemptions) regulations 2020

- Government to exempt all employees/ employers from the provisions of Section 36 which deals with annual leave as this does not take into account the alternative of carrying forward leave days;
- Government to exempt all employees/ employers from the provision of Section 37 which deals with the calculations of annual leave benefits;
- Government to exempt an employer from the provisions of section 48 where an employer is financially incapacitated once approved by the Labour Commissioner.

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