MINISTERIAL STATEMENT

ON THE VISIT BY THE IMF MANAGING DIRECTOR, DR. DOMINIQUE STRAUSS-KAHN, 10TH AND 11TH MARCH, 2010

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MINISTER OF FINANCE AND NATIONAL PLANNING

Mr. Speaker,

The Managing Director of the International Monetary Fund (IMF), Dr. Dominique Strauss-Kahn, visited Zambia between 10th and 11th March, 2010, as part of his tour of three African countries. Prior to coming to Zambia, the MD visited Kenya and South Africa.

Sir, Zambia has enjoyed cordial relationship with the IMF for many years. This visit by the IMF Managing Director was therefore aimed at cementing this relationship. Further, the deliberate choice by the Managing Director to visit Zambia was in recognition not only of the efforts that the country has made in implementing sound economic policies over the past few years but also of her strong economic performance in 2009 when the global economic crisis was slowing economic performance in most countries of the world.

During his visit, the Managing Director met with His Excellency the President, Mr. Rupiah Bwezani Banda, and officials at the Ministry of Finance and National Planning and Bank of Zambia. At the latter meeting, the MD met the economic team led by myself, the deputy Minister, the Secretary to the Treasury, the Bank of Zambia governor and other senior staff. Later he also met with the business community, civil society and university students.

During the meeting with Government officials, a wide range of issues were discussed. The IMF commended the Zambian government, led by President Banda, for putting in place appropriate fiscal and monetary policy measures to mitigate the effects of the global economic crisis. These measures enabled the country to record positive economic growth of 6.3 percent in 2009, even in the wake of the global economic crisis. The IMF chief pledged continued support to our country.

Other issues that were discussed between the Government and the Fund were:

1. The importance of continuing reforms within the IMF to improve the voice and shareholding, or quota as it is usually referred to, of developing and emerging economies;

2. The need to Enhance flexibility in the use of IMF financing to include development financing;
3. The importance of Zambia accelerating economic diversification and, therefore, the need for her to access increased resources for infrastructure development;
4. The importance of infrastructure development to foster African economic integration;
5. The importance of adhering to the debt sustainability principle when contracting debt;
6. The need for Zambia to enhance revenue collection generally and from the mining sector in particular and
7. The important role the IMF played in helping countries address the effects of the global economic crisis, such as the augmentation of Zambia' international reserves.

As indicated, the IMF Managing Director also met and had an open discussion with more than 200 people coming from the business community, civil society and students. During the meeting, he outlined the role of the International Monetary Fund in ensuring stability of the international monetary system. Additionally, the need for the Zambian Government to boost its revenue collection effort, enhance diversification and the need for African economic integration were discussed at the forum.

Measures Taken By the Government to Mitigate the Effects of the Global Economic Crisis

Mr. Speaker, in the light of the importance attached by the Managing Director to the success by the Zambian government to contain the negative effects of the global economic crisis, let me briefly remind the House of the measures that were put in place.

(i) Fiscal Measures

In relation to the budget, the fiscal measures paid particular attention to mining, which was the sector most vulnerable to the effects of global economic crisis and yet had biggest potential to drag the rest of the economy down with it if it collapsed. In order to reduce the chances of the mining sector collapsing, the government reduced customs duties on heavy fuel oil, deferred import VAT on copper concentrate to encourage

usage of local smelting capacity, and removed mining windfall taxes. In addition, capital allowance was increased to 100 percent to encourage investment in the sector.

In manufacturing, the Government announced a number of incentives for developers of Multi-Facility Economic Zones and Industrial Parks. The main benefits were to be through customs duty waivers for imports of construction equipment, which was also expected to improve the capacity of contractors in the country.

Finally, the fiscal deficit in 2009 was widened compared to the usual range seen in recent years. In the midst declining demand from consumers in the country due to the effects of the crisis, increased government spending was necessary to minimize job losses. Most of this expenditure was on infrastructure like schools, hospitals and roads.

Sir, in the light of these measures, Zambia's mining sector experienced minimum disruption in 2009 and, in fact, ended up being one of the strongest drivers of GDP growth. The only copper mine that closed at Luanshya was quickly sold to other investors and it has since re opened and it now employs more labour than before its closure. The other mine that closed, Munali Nickel has equally been sold to stronger investors and it is about to open. Overall therefore, the fear that the mining sector could drag the rest of the economy down did not materialise.

(ii) Monetary and Financial Sector Conditions

Equally important for containing the crisis, the maintenance of a flexible exchange rate policy in Zambia has proved an excellent tool to preventing a foreign exchange crisis arising from the global economic crisis. As external earnings declined with lower copper prices, availability of foreign exchange declined. Even though Bank of Zambia intervened, selling more than $500 million in the process, no attempt was made to prevent the exchange rate from depreciating. With foreign exchange getting more expensive in the process, demand for dollars fell and this prevented foreign reserves from falling to dangerous levels.

Finally, Members will recall that the global economic crisis which started in the USA was ignited by failures in the banking sector. As banks failed and

lending drastically reduced, businesses failed to sell their merchandise due to lack of customers. Hence the crisis moved from banks to farms, factories and shops.

The overall financial condition of the Zambian banking system in 2009 was satisfactory despite the adverse effects of the global financial crisis. On aggregate, the banking system was adequately capitalized and the liquidity position remained satisfactory. Consequently, no banking crisis emerged in Zambia and therefore, unlike in the USA, there was no crisis arising in productive areas caused by a banking crisis.

Nevertheless, Zambia like most Sub-Saharan African economies was subsequently affected by the second round effects through declining commodity prices, tourism remittances and foreign portfolio flows. As economic activity declined, especially in the export sectors, the financial sector Zambia experienced increased non-performing loans. This notwithstanding, the Zambian financial system remains resilient and is stable, reflecting prudent economic management in the face of the crisis.

Mr. Speaker, let me conclude this statement by making a number of points.

Firstly, I wish on behalf of the government and the people of Zambia to thank the Managing Director of the IMF for honoring our country with his visit. The IMF has many member states and therefore his choice to visit Zambia is an honor.

Secondly, I thank the MD once more for the pro active role that the IMF took to assist poor countries like Zambia to meet the challenges arising from the global economic crisis. In Zambia's case the assistance came through increased resource allocation which partly enabled the Zambian government to avoid expenditure cuts in social areas and infrastructure which is what tended to happen in previous crisis.

Thirdly, I wish to thank the President, Cabinet and indeed this House for having played their respective roles in instituting measures to protect our economy from the worst effects of the global economic crisis. The act by the MD of the IMF to travel here and recognize this achievement is an honor to all of us.

Zambia has faced similar crisis before, such as the one that happened in 1975. Zambia took decades to come out of that crisis, as evidenced then by the near collapse of our mining sector, chronic shortage of foreign exchange and commodities and reduced employment. The fact that we have managed to escape a deep and prolonged crisis this time shows that, as a people, we are capable of learning from our past mistakes and we are ready to forge ahead to even greater achievements.

I thank you, Mr. Speaker.