



# COVID-19

## Response and Recovery

### Mobilizing financial resources for development

DA-COVID-19 project led by Debt and Development Finance Branch, Division on Globalization and Development Strategies (DDFB/DGDS)



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# The Economic and Social Impact of COVID-19 in Zambia

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Background Study for UNCTAD

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## About the COVID-19 Response and Recovery project

This paper is an output from the project “Response and Recovery: Mobilising financial resources for development in the time of COVID-19”, which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

### Abstract

The analysis in this study attempted to show the macroeconomic and social effect of the COVID-19 pandemic on GDP and sectoral GDP growth, including the external sector, on a small mineral dependent economy in Africa -Zambia. The analysis has shown that for small countries that are dependent on a single (or a few) primary commodities, the recovery of the global economy is very crucial for their recovery. It also addresses the policy response of both the government and the private sector, as well as the potential implications of a global demand-led recovery policy option, as proposed by the UN Global Policy Model (GPM) in its analysis in UNCTAD Trade and Development Report 2020, for resource dependent economies such as Zambia. Finally, the paper discusses the scope for demand led recovery in Zambia and examines the socio-economic effect of the pandemic, including its gender dimension. The conclusion draws policy implications for a sustainable economic recovery in Zambia.

*Key words: Global Policy Model, Macroeconomic and Socio-Economic challenges, COVID-19 pandemic, Zambia, Sustainable economic recovery*

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## I INTRODUCTION

Zambia is a small landlocked, resource-rich country with a population size of about 19 million in 2020. It has a middle-income status since 2011 with per capita GDP of US\$1,305 at current price (US international \$3,624 in PPP terms) in 2019. Zambia is also a politically stable country having a regular election every five years, the next one being this year, 2021. The current government, re-elected in 2016, has a general policy direction aimed at growth and employment generation that is envisaged to occur in the context of sustainable public finance that includes sustainable public debt, moderate inflationary pressures, and diversification of the production structure. Taken together, these policies are meant to help reduce poverty, which is very high even by African standard- the headcount ratio in 2019 being 38 percent (Alemayehu et al, 2017; and section four below).

Between the year 2000 and 2014 the Zambian economy registered an average annual growth of about 7 percent which was one of the best growth records in the continent. This growth began to decelerate to about 3 to 4 percent between 2015 and 2018 (Table 1). This has further decelerated to 1.9 percent in 2019. This declining trend is related mainly to the fall in copper price on which the country is dependent for over 70 percent of its exports. It has also to do with the decline in its agricultural output and the challenge of hydro-electric power generation both of which are related to the insufficient rain. Following the outbreak of the COVID-19 pandemic, this growth began to further decline to a negative growth level in 2020. COVID-19 is becoming a stumbling block for prospect of growth in the coming years and a policy challenge for the government. The socio-economic effect of COVID-19 and its challenges are the subject of this study that is examined in detail in the rest of this document.

*Table1: Major Macroeconomic Indicators Before and During the Period of COVID-19 in Zambia*

						The COVID Period				
	2015	2016	2017	2018	2019	2020 (Annual)	2020 Q1	2020 Q2	2020 Q3	2020 Q4
GDP Growth (%) [Ave. annual Growth ,2000-14 was 7%]	2.9	3.8	3.5	4	1.9	-2.5 <sup>^</sup>	-0.3	-5.6	-2.6	-1.7 <sup>^</sup>
Copper Export Volume growth (%)	-10.8	-8.2	9.2	2.6	-20.4	11.3				
Copper Price (realized)Growth (%)		-8.4	27.4	6.1	-5.8	2.2	(-17)	17	9.2	8.24
Inflation (%)	21.1	7.5	6.1	7.9	11.7	16.2	14.0	15.9	15.7	19.2
<b>Annual Average Exchange rate</b> (Kwacha per US\$)	8.6	10.3	9.5	10.5	12.9	18.9	16.5	18.2	19.8	21.1
Trade Balance (%GDP) (Growth rate for 2020)*	0.6	0.9	2.0	1.1	2.6	18.8	390	311	206	17.5
Current Acct Balance, % GDP (Growth rate for 2020)*	-2.7	-3.2	-1.7	-2.6	0.6	12.2	708.8	(19.9)	(38.2)	(22.6)
Reserve in Month of Imports	4.7	3.3	2.5	2.3	2.5	2.4	1.9	2.34	2.3	2.4
Debt (% GDP) (growth rate of stock in 2020) **			65.5	78.1	91.6	95.5	7.6	16.5	14.4	7.1
Domestic % GDP, (Growth rate of Stock in 2020)			27.3	30	31.7	29.8	7.9	18.5	15.6	7.5
External, % GDP (Growth rate of Stock in 2020)			38.2	48.2	59.9	65.6	5.1	1.7	3.3	3.2

*Source: Author's Compilation based on Zambian Statistical Agency, Ministry of Finance, Quarterly Economic Review 2020; and Bank of Zambia*

*\* Note: Debt data is growth of stock for the quarterly data and debt to GDP ratio for annual data. The initial level of domestic and external debt at the end of quarter 4 in 2019 had been K80.24 and US\$11.2 billion, respectively. \*\* Annual figures of debt to GDP ratio from IMF 2019; ^ our estimate*

A major feature of the Zambian macro economy is its dependence on copper as the most important export item. Both changes in volume of exports and global prices of copper determine the pattern of economic growth and related major macro variables such as trade balance, fiscal balance, exchange rate and inflation in Zambia. As can be read from Table 1, growth generally varies in tandem with the variations in copper export volume and price. Trade balance in the last five years (2015-2019) was generally positive, although the current account balance recorded deficit in the same period, chiefly because of the rising level of debt service, which is the result of significant accumulation of public debt. The total debt to GDP ratio has continuously rising, reaching 95.5 percent in 2020 (Table 1). Inflation has also risen and the currency depreciated continuously over the last five years – getting worst during the COVID-19 year, 2020. Notwithstanding such recent weak macroeconomic features of the Zambian economy, one strong feature of the macro economy relates to the very high level of national saving which is nearly equal to total gross investment, as can be read from data provided by IMF (2019). Investment is also dominated by the private sector – showing the presence of strong private sector in the country. This has allowed the country to maintain a very small level of deficit in its current account balance which is excellent by the regional standards, being in the range of -1.7 to -3.3 percent in the last five years (Table 1).

For decades successive democratically elected Zambian governments have sought to resolve the difficult and persistent macroeconomic problems characteristic of small open economies, with high export concentration. Thus, since independence perhaps the major policy challenge for Zambian governments has been how to manage the copper-dominated economy in general and the related macro economy in particular and achieves national prosperity. Such challenges become more demanding when an economy is hit by severe external shock such as COVID-19.

Just before the outbreak of COVID-19, the Zambian economy was witnessing a weak macroeconomic condition typical of such a single-commodity dependent small economy. Thus, the economy was facing substantial problems of unmanageable public debt, unsustainable fiscal balances, and significant inflationary and currency depreciation pressures. These were primarily driven by the volatility of the international price of copper. The economic impact of COVID-19 in such an economy is to change this for the worst, which is a challenge for policy makers. The latter, invariably are confronted with the challenge of choosing what type of macroeconomic policy to pursue as a response to external shocks such as copper price decline and volatility, and attain speedy recovery. Such policy choice become much harder when an economy with such precarious macro features is hit by pandemic such as COVID-19. Understanding what these macroeconomic and socio-economic challenges had been in Zambia in the last one years and what is likely to happen in the coming years as well as what was (and should also be) the policy response to the pandemic's socio-economic effect is the subject of this study.

The rest of the study is organized as follows. In section two we will focus on GDP and sectoral GDP growth effect of the pandemic that includes the external sector. Section three will address the policy response of both the government and the private sector. It also addresses the potential implications of a global demand-led recovery policy option, as proposed by the UN Global Policy Model (GPM) in its analysis in UNCTAD (TDR 2020), for resource dependent economies such as Zambia. The section will also discuss the scope for demand led recovery in Zambia. Section four is devoted to an examination of the socio-economic effect of the pandemic, including its gender dimension. Section five will conclude by drawing the policy implications.

## II THE MACROECONOMIC EFFECT OF COVID-19 ON ZAMBIA

Before the emergence of COVID-19 as a major economic shock to the Zambian economy, the government of Zambia was in the course of pursuing a comprehensive policy program that is also supported by International Financial Institutions (IFIs) such as the IMF and the World Bank. This was aimed at addressing the many macroeconomic challenges briefly noted above. To address these challenges the government of Zambia adopted policies designed with long-, medium- and short-term perspectives. The policies appear in the 7th National Development Plan, the new Economic Stabilization and Growth Program (ESGP, commonly called Zambia Plus), and the 2018 Budget Speech and the government's program with IFIs. The IFIs are generally focusing on pressuring the government to engage in fiscal restraint; tight monetary policy and debt management, using lending as leverage (see IMF, 2019).

The general direction of these policy frameworks could be categorized under three main headings: (i) real sector policies aimed at revitalizing growth that includes revamping infrastructure, especially roads, diversification and job creation; (ii) fiscal, debt and monetary policies aimed at "restoring fiscal fitness" for sustained inclusive growth and development (MoF, 2017) and (iii) structural policies with the objective of restoring credibility of the budget, enhance domestic resource mobilization, ensure greater economic stability, and scaling-up social protection programmes to shield the most vulnerable in society from negative effects of the programmes (Alemayehu et al, 2017; IMF, 2019). It is amidst implementing these policies that the economy confronted the economic impact of COVID-19.

### 2.1 GDP and Sectoral Growth Effects of COVID-19

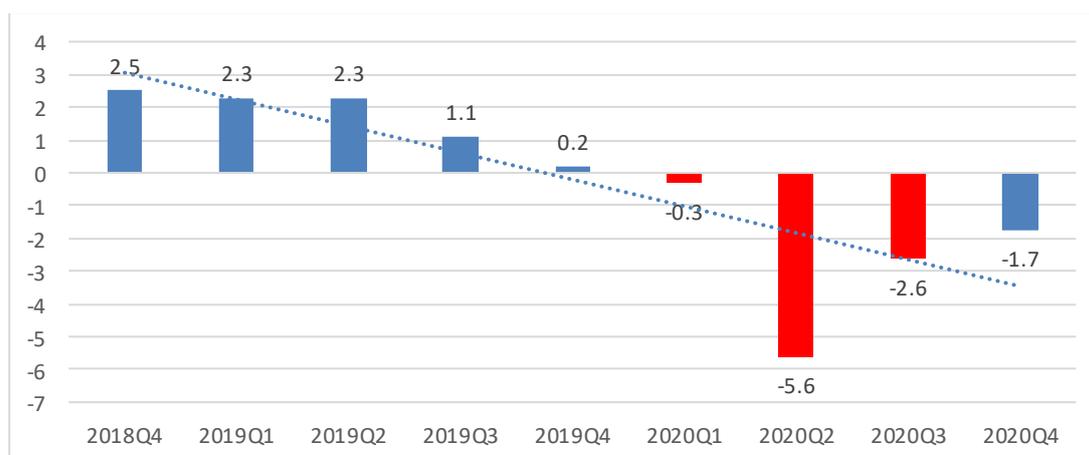
COVID-19 pandemic has led to the contraction of the Zambian economy in 2020, as depicted in Figure 1. As discussed above, the economy was already in a weak condition since 2015. The growth rate in 2019 was just 1.9 percent – the lowest growth rate since growth began decelerate by nearly 50 percent in 2015, compared to the year before 2015 (Table 1). The progressive declining trend of economic growth is clearly shown by the quarterly data of GDP growth in this year – 2019. Figure 1 shows, the growth rate of 2.3 percent registered in first quarter of 2019 sharply declined to 1.1 and 0.2 in quarters

three and four, respectively. Thus, even before the outbreak of the pandemic, growth was sharply declining. This is the result of the sharp decline in the agricultural and the mining and quarrying sectors by 7.5 and 5.5 percent, respectively. The later, in turn, is the result of the fall in the global price of copper, and the impact of drought on agricultural and hydroelectric production. The Ministry of Agriculture estimated that about 2.3 million people's livelihoods were affected by the 2018/2019 drought (Nwafor, 2020). The industrial sector has also declined by 1 percent in the same year, primarily because of the negative growth in the construction sub-sector due to the slowdown of the significant infrastructure and urban expansion projects financed by loans and windfall gains from the mineral sector, which are now dwindling. The combined effect of all this is to lead GDP growth in 2019 to decelerated to 1.9 percent, despite the growth in service sector by 5.3 percent in the same year (Table 2).

This gloomy picture of growth just before the outbreak of the pandemic has to change for the worst in 2020, following the outbreak of the pandemic which resulted in disruption of the supply chain, the external trade as well as domestic economic activities due to the partial lockdown measures that disrupted economic activity across the county. As a result, the small decline in growth in the first quarter, which was just 0.2 percent, has sharply declined to negative 5.6 percent in the second quarter of 2020. This is shown in Figure 1 that is based on the latest data from the Ministry of Finance (MoF). It also further declined by 2.6 percent in quarter three. This is also attributed to a slowdown in economic activity due to the disruptions caused by the COVID-19 pandemic. Assuming the performance of the final quarter will recover a little, say by one third from the level in quarter three, given the moderate positive expectation revealed in business survey reports, the growth in 2020 will be about (-2.5) percent.

From the sectoral growth perspective, this decline in overall GDP was the result of a sharp decline in the industrial and the service sectors (see Table 2). Manufacturing output fell sharply as supply chains were disrupted, while the service and tourism sectors were hurt as demand weakened due to measures taken to contain the spread of the virus. Mining output, which declined initially due to falling global demand for copper, began to revive in quarter two and three (AfDB, 2021; World Bank, 2021). The combined effect has led to an overall decline in GDP growth in the year 2020, despite the excellent growth registered in the agriculture sector as given in Table 2 below.

**Figure 1: The Effect of COVID-19 on Zambia's GDP Growth (Quarterly Growth)**



Source: Author's Computation based on Ministry of Finance (MoF) Annual Economic Report 2019 and Zambian Statistical Agency, 2021

Table 2 shows the pandemic's effect varies across sectors with varying implications for overall GDP growth. The service sector is the dominant sector in Zambia, contributing about 57 percent to GDP in 2018 –the “wholesale and retail trade, repair of motor vehicles” sub-sector accounting for nearly half of that, at 21 percent in 2018. This is followed by the industrial and agricultural sectors that contributed about 21 and 17 percent, respectively, in the same period (Table 2). The “mining and quarrying” sub-sector (in the primary sector) accounts for about 11 to 13 percent to GDP (Table 2). This sectoral composition has implications for overall deceleration of growth in 2019 as well as during the pandemic year 2020, as the dominant GDP contributors – the service and industrial sectors – were hit by the pandemic severely. This is shown in Table 2 when the COVID-19 economic effect primarily hit the non-agricultural sector relatively heavily in the three quarters of 2020. At these periods, there were, a positive growth in the agricultural sector. However, this couldn't contribute a lot for overall GDP growth recovery, as depicted in Figure 1, because its relative contribution to GDP is the lowest.

*Table 2 GDP and Sectoral Growth (at constant 2010 prices)*

	Share in GDP % (2018)	Growth Rate (Annual, in %)					The COVID-19 Period Growth rate 2020		
		2015	2016	2017	2018	2019	Q1	Q2	Q3
<b>Primary</b>	<b>16.6</b>	<b>-3.3</b>	<b>5.8</b>	<b>5.8</b>	<b>-5.4</b>	<b>-6.2</b>	<b>7.5</b>	<b>17.3</b>	<b>14.6</b>
Agriculture, forestry and Fishing <sup>1</sup>	5.9	-7.7	3.7	9.8	21.2	-7.5	24.6	22.9	16.7
Mining and Quarrying	10.7	0.2	7.3	3	6.3	-5.5	-2	14.2	13.5
<b>Secondary</b>	<b>20.9</b>	<b>10.5</b>	<b>4.7</b>	<b>6.7</b>	<b>3.4</b>	<b>-1</b>	<b>(-4.7)</b>	<b>11.6)</b>	<b>(-1.8)</b>
Manufacturing	8.1	5.4	1.9	4.4	4.1	3	0.3	-4.6	0.2
Construction	10.9	18	10.2	6.4	1.6	-3.4	-8.5	-16.8	-3.2
<b>Tertiary sector</b>	<b>56.6</b>	<b>2.2</b>	<b>2.8</b>	<b>1.7</b>	<b>6.8</b>	<b>5.3</b>	<b>(-1.0)</b>	<b>10.5)</b>	<b>(-8.21)</b>
Wholesale and retail trade, repair of motor	21.3	1.5	-0.1	0.7	3.3	4.4	-9.6	-16.8	-10.7
Transport and Storage	3.1	0.6	-2.2	7.8	0.9	1.4	4.6	16.5	8.5
Accommodation & Food Services	1.7	-0.1	1.2	6.1	1.7	3.4	-8.9	-30.4	-1.1
Information and Communication	3.0	2.5	17.4	13.2	40.1	18	20.7	29.3	19.3
Education	6.6	0.5	4.7	6.7	4.8	1.6	1.1	-33	-23
Arts, Entertainment and Recreation	0.4	3.8	0.1	-4	12.2	9.6	-24.7	-84.2	-83.2
Financial and Insurance Activities	3.9	12.1	-2.4	-5.8	2.7	7.2	8.9	17.5	11.4
<b>GDP at constant 2010 Market price</b>	<b>100</b>	<b>2.9</b>	<b>3.8</b>	<b>3.5</b>	<b>4.0</b>	<b>1.9</b>	<b>(-0.3)</b>	<b>(-5.6)</b>	<b>(-2.6)</b>

*Source: Author's Computation based on Ministry of Finance (MoF) Annual Economic Report 2019 and  
Zambian Statistical Agency*

**Macroeconomic Implication:** this growth deceleration has also brought about serious macroeconomic challenges. Following the outbreak of COVID-19, inflation nearly doubled, reaching 19.2 percent in the final quarter of 2020 compared to the 11.7 percent registered at the end of 2019,

just before the outbreak of the pandemic. In tandem with this, the Kwacha depreciated sharply being traded at K21.1 per US\$ at the end of 2020, compared to K12.9 per US\$ at the end of 2019 – a depreciation of about 64 percent. Widening deficit and rising debt and debt servicing are also witnessed during this period. The external balance position of the country also worsened in 2020, resulting in dwindling level of reserves, averaging 1.9 months of import cover in the second quarter, which recovered latter (see Table 1; see also next sub-section for detail). In addition, the government's previous pursuit of expansionary foreign financed capital expenditure/ investments, the rise of servicing this borrowing, despite falling revenues, has resulted in widening fiscal deficits from 7.7. and 8.3 percent of GDP in 2017 and 2018, respectively, to 9.1 and 14 percent of GDP in 2019 and 2020, respectively 14(; MOF, 2019; 2020, IMF, 2019). The expansionary fiscal policy, mainly financed by external and local borrowing, caused Zambia's public and publicly guaranteed debt to hit 91.6% of GDP in 2019 and about 104% in 2020 (Table 1 and AfDB, 2021). In short, the effect of the pandemic is to change the precarious macroeconomic position of the country for the worst.

## 2.2 The Effect on External Sector and Financialization Implications

The external sector (International trade and finance) in Zambia is especially vulnerable to the COVID-19 effect because Zambia disproportionately dependent on single commodity –copper – for its export earning as shows in Table 3. The demand for copper (and hence its price) is directly dependent on the performance the global economy. This in turn have significant impact on the national economy because what happens to copper exports determine disproportionately the trade balance, the exchange rate, government revenue and inflation in Zambia (Alemayehu and Weeks, 2018; Alemayehu et al, 2017; World Bank, 2018).

Some of the major indicators of the Zambian external sector, and their evolution during the COVID-19 period, are given in Table 3. Table 3 shows, notwithstanding the pandemic, Zambia's trade balance has significantly improved during the pandemic year (2020), the value in the final quarter of 2020 exceeding the pre-COVID-19 level of exports registered in the last quarter of 2019 by 31 percent. This is due to the rise in copper price and the dominant role of copper in Zambian exports. Copper constitutes about 71 of Zambian total exports, leaving the rest for the non-traditional exports (if gold and cobalt are included, mineral exports become nearly 75.6% of Zambian total exports for 2015-2020). The excellent performance of Zambian external trade during the pandemic year indicates how important the global recovery (and hence the global demand for copper) is for mineral dependent economies such as Zambia in withstanding the effect of the pandemic's economic impact. This issue is discussed in detail in the next sub-section by relating it to the UNCTAD's (TDR, 2020) suggested demand-led global recovery from the pandemic's effect.

The balance of trade improvement during the pandemic period was also helped by the decline in imports that is related to the effect of the pandemic. The import traffic in Zambia between March and April 2020 declined sharply as a result of the import restrictions which were being imposed in various countries. In value terms, imports declined by 27 percent with Kazungula border that serves Zambia, Botswana and Zimbabwe recording the largest decline of 89 percent. This is followed by Livingstone Port (87 percent) and Nakonde (55 percent) (COMESA, 2020). The export traffic declined by a lower

percentage compared to imports at 7 percent, however (COMESA, 2020). This is also shown in the first two quarters of 2020 in Table 3. Although this has helped to improve the trade balance, it had implications for shortage of goods and inflation witnessed in 2020, however. Moreover, it also has implications for government revenue. For instance, according to COMESA (2020), the national customs duty receipts of Zambia have declined by 36 percent in April, compared to March 2020, with the largest decline being registered at Kazungula (84 percent), Nakonde (31 percent) and Chirundu (30 percent) borders.

*Table 3: Major Indicators of the External Sector during COVID-19 in Zambia.*

(US millions)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	The COVID-19 Period			
						Mar-20	Jun-20	Sep-20	Dec-20
Exports (including gold), fob	2135.7	1907.8	1866.4	1593.5	1803.3	1654.9	1634.7	2309.1	2369.3
Total Metals Earning (US\$ million)	<b>1521.9</b>	<b>1435.2</b>	<b>1320.3</b>	<b>1013.8</b>	<b>1268.0</b>	<b>1189.5</b>	<b>1207.8</b>	<b>1690.4</b>	<b>1790.7</b>
Of which Copper	1502.0	1431.9	1320.3	1013.8	1228.6	1161.8	1138.1	1687.5	1697.4
Non-Traditional Exports (NTE) (US \$ million)	576.9	429.4	500.1	529.6	478.2	415.8	367.4	554.0	531.6
Imports, c.i.f.	-	-	-	-	-	-	-	-	-
Trade Balance	2437.0	1820.5	1865.7	1796.0	1741.9	1456.4	1143.3	1355.2	1362.4
Foreign direct investment	<b>-301.3</b>	<b>87.3</b>	<b>0.6</b>	<b>-202.4</b>	<b>61.3</b>	<b>198.4</b>	<b>491.4</b>	<b>953.9</b>	<b>1006.9</b>
Gross Official Reserves expressed in terms of months of import cover	-35.2	229.7	182.8	6.3	129.1	-189.0	-105.9	148.4	380.6
Exposure to foreign currency	1.9	1.6	1.7	1.7	2.1	1.9	2.3	2.3	2.4
Foreign currency loans to total gross loans	44.5	47.0	46.2	47.1	50.3	51.6	50.8	53.2	47.1
Foreign currency liabilities to total liabilities	46.6	48.0	48.8	48.4	47.4	53.3	50.2	53.0	52.2
Memorandum Items (Annual Values)	2015	2016	2017	2018	2019	2020			
Trade balance (% GDP)	0.6	0.9	2.0	1.1	2.6				
Current Account Balance (%GDP)	-2.7	-3.2	-1.7	-1.3	0.6	12.2			
Copper Export Volumes (mt, in '000)	1022.1	938.0	1023.9	1050.3	836.3	931.0			
Growth in Copper	<b>-10.8</b>	<b>-8.2</b>	<b>9.2</b>	<b>2.6</b>	<b>-20.4</b>	<b>11.3</b>			
Copper Prices (Realized) (US \$/ton)	5120.5	4690.0	5976.1	6339.3	5972.6	6106.3			
Growth in Copper Price (%)		<b>-8.4</b>	<b>27.4</b>	<b>6.1</b>	<b>-5.8</b>	<b>2.2</b>			
Gross Reserves (In months of imports)	4.7	3.3	2.5	2.3	2.5	2.4			
FDI, net (-ve Inflow)	-	-	-	-	-	-			
External Debt to GDP ratio %	1179.8	-486.2	1179.6	-363.1	148.2	-100.6			
			34	38.11	48				

*Author's Computation based on Bank of Zambia data (2021)*

**External Debt and Financialization during COVID-19:** McKinley (2021) and Cripps (2021) noted, using the UN Global Policy Model (GPM) based analysis that one aspect of dwindling sources of finance to maintain the previous high-level investment and the effect of attempting to recover from the pandemic in such situation is to render importance to other capital inflows. This offers providers of such funds leverage over the host country – an indicator of financialization (see UNCTAD, 2020 TDR; McKinley, 2021). Zambia’s recent pattern of external finance attests to this fact.

The expansion of investment through the accumulation of significant debt in Zambia’s past growth, combined with the effect of COVID-19 is forcing the Zambian government to default on its debt servicing obligations. It is also forcing Zambia to seek for debt relief and re-scheduling servicing its already contracted debt. This situation is giving lenders that include IFIs, bilateral lenders such as China as well as private lenders leverage over the country– indicating the trend of financialization (see UNCTAD, TDR 2020; McKinley, 2021).

Thus, one of the major macroeconomic challenges of Zambia is the mounting level of debt and the burden of servicing this debt and its implications when that is not possible. The stock of public external debt by the end of the fourth quarter of 2020 stood at US\$12.75 billion, from US\$12.36 billion recorded in the quarter before. The ratio of this debt to GDP stood at 95.5 percent in 2020, up from 91.6 percent in 2019, before the pandemic -of this, 65.6 percent is external while 29.8 percent is domestic (Table 1). In fact, by September 2020 this has already reached 104 percent of GDP and expected to rise further in 2021 (AfDB, 2021). During the pandemic year of 2020 this has grown at an average rate of 11 percent on quarter-to-quarter basis (the external debt growth rate being less than the domestic one during this period). About 50 percent of Zambia’s external debt is owed to multilateral financial institutions, while 28 percent are “export and suppliers’ credit”. Domestic debt is also growing significantly lately (Table 1). The bulk of this domestic debts (about 80 percent) are in the form of bonds, the rest being treasury bills (about half of which is held by commercial banks).

The debt problem is related to significant public spending that is leading to growing fiscal deficit which is being financed both by external and domestic debt. In the last three years (2017-19) before COVID-19, the average annual external debt was about US\$10 billion. The bulk of this debt was commercial debt. This has jumped to about \$12 billion by the end of 2020.

The recent pattern of financing of deficit, the effect of COVID-19 in this process and its implication for further indebtedness could be illustrated by the pattern of deficit financing in the last two years. In the 2019 estimated overrun of the budget, external sources financed 72 percent of (K18.4 million) of the total deficit of K25.5 billion that needed financing, leaving the 28 percent for domestic sources. This pattern of financing was also planned to continue when the 2020 budget is approved. This took a radical reversal in the final quarter of 2020. That is, in the budget outturn of quarter four of 2020, the bulk of the deficit (83 percent) was initially budgeted to be financed by external sources. This is ended up being financed by domestic borrowing (at 82 percent), leaving only 18 percent for external financing. This is most likely related to the effect of the pandemic that led to the drying up of external borrowing as before and the accumulation of significant debt by the country before and its inability to service it. A supporting evidence for this is that, since the burden of servicing the debt already contracted became heavy for the country, according to AfDB (2021), the Zambian government initiated a creditor engagement strategy under the auspices of the G20 Debt Service Suspension Initiative (DSSI) and entered into a memorandum of understanding with Paris Club Creditors in

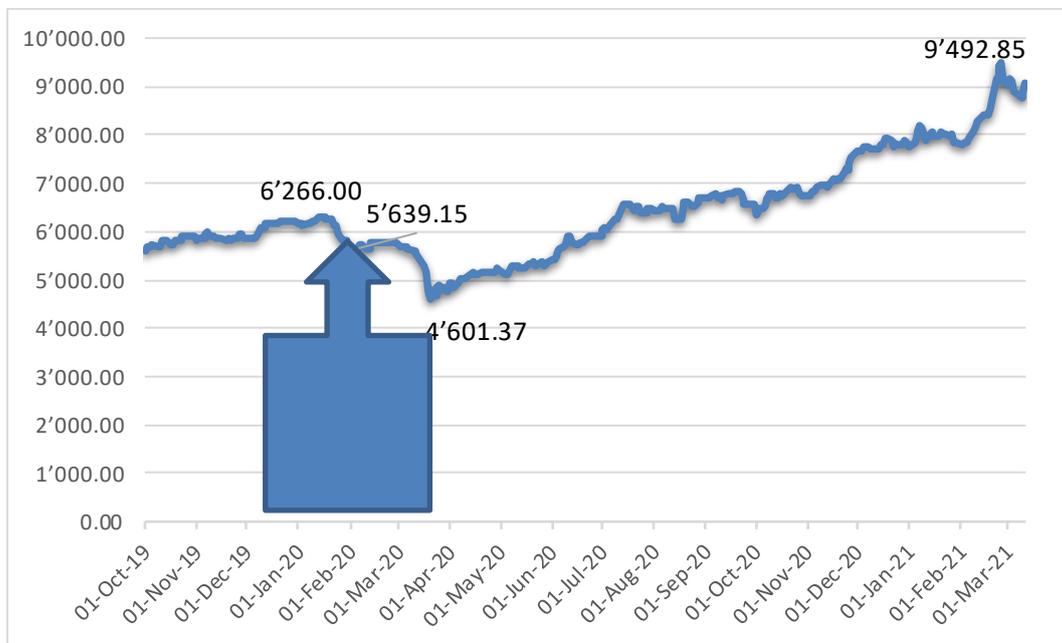
September 2020. This was aimed at securing immediate debt service relief. The government made similar requests to all external commercial creditors that include its Eurobond creditors. However, according to AfDB (2029), this request was declined (especially by the Eurobond creditors). Unable to serve all creditors equally and at the same time, the government chose to default on its payment on 13 November 2020. It has also to negotiate with IFIs on policy conditionality terms to get a relief or new resources. In addition, Table 3 also shows the exposure of the country's debt to foreign currency which is significant, being nearly 50 percent – which remained fairly stable during the pandemic period. This, combined with the significant accumulation of external debt noted shows the general exposure and vulnerability of the economy for financialization.

In sum, financialization conditions in Zambia could be observed in the context of the COVID-19 effect on the external sector and this has three forms. The first one is similar to the general pattern in low-income countries where IFIs determine the path of development and macroeconomic policy to be pursued through aid-conditionality. The encounter of Zambia with IMF in the past few years is a clear indication of that. The second one relates to the role of influential bilateral lenders that financed capital investment in Zambia. The main one here is China. This has a positive feature but if it is not well managed it may put a country and its assets on a debt trap to the advantage of the financiers even if the financing is coming in the context of South-South cooperation. Third, Zambia has also the standard financialization where foreign financial sectors dominate the economy and the economies landscape. Zambia is dominated by few foreign banks and indigenous banks are not only feeble but incomparable to foreign owned banks which determine major macroeconomic outcomes such as, inter alia, the evolution of the exchange rate and inflation which are major indicators of macroeconomic conditions (Alemayehu and Weeks, 2018).

### 2.3 UNCTAD's (TDR, 2020) Global Demand-led Recovery Path, Copper Price and Zambia's Recovery

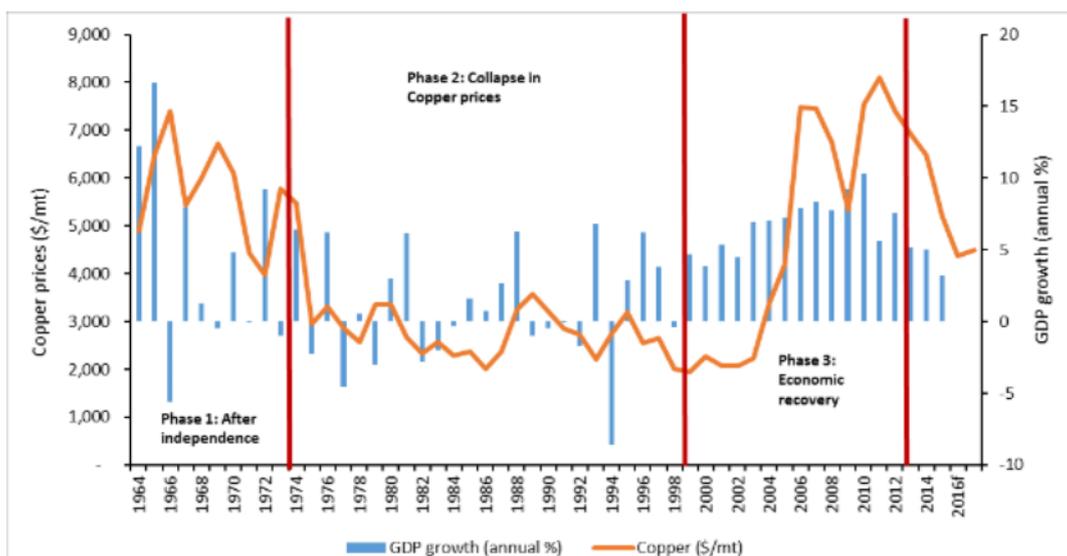
Based on its UN Global Policy Model (GPM) based scenario analysis and demand decomposition-based examination, UNCTAD (TDR 2020), inter alia, argued that demand management is an important policy direction for sustainable recovery of the world economy from the effect of the pandemic. However, UNCTAD (TDR, 2020) also noted, this policy alternative is not properly exploited for various reasons that includes ideological bias against using it. Such demand-based recovery of the global economy is important for Africa because African growth is strongly associated with global price of primary commodities which in turn is related to growth of the advanced and emerging economies such as China, which are their important trading partners. The relationship between the terms of trade improvement of Africa between 2002-2013 and Africa's impressive growth during this time as well as its growth collapse by more than 50 percent following the sharp decline in global commodity price in 2013-16 attests to this fact (Alemayehu 2029 for detail). Thus, sustained recovery of the world economy as outlined in UNCTAD (TDR 2020) is in particular crucial for countries such as Zambia which are dependent on single mineral commodity and their growth and macroeconomic condition is tightly tied to the global price of such commodities. This is demonstrated for Zambia in Figure 2a and 2b which shows the evolution the global copper price using daily data during the pandemic period as well as the historic relationship between growth and copper price in Zambia.

Figure 2: Daily Copper Price, US\$/Ton (Monthly Trend, Central Bank of Zambia Data)



Source: Author's Computation based on Bank of Zambia data (2021)

Figure 2b: GDP Growth and Copper Price in Zambia



Source: World Bank, 2019

While global commodity price for all commodity declined by about 22 percent during the pandemic year 2020 (compared to the previous year), price of food and mineral products has increase at 5 and 8.2 percent, respectively, during the same time. Fuel price, however, has declined by 37 percent (UNCTAD, TDR 2020). This pattern has benefited Zambia which is a mineral exporter and an oil

importer. For Zambia, the copper price is a key price and it sharply declined at the outbreak of the pandemic (Figure 2a; Table 1). In the first quarter into the pandemic, it decelerated by 17 percent and bounced back growing by 17 percent in the 2<sup>nd</sup> quarter. This growth rate has decline to 9.2 and 8.2 percent in 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2020 and remained about that into 2021 (Table 1). When the copper price reaches its historic peak level of US\$9494 per metric ton in March 2021, never seen in the last 15 years, it has increased by 100% compared the level a year ago when the pandemic started in March 2020, where price was\$4,601 per metric ton (Figure 2a).

This positive trend of the cooper price has helped Zambian economy in general and its external sector in particular, despite the disruptive effect of the pandemic. This is because, Zambia as a major global exporter of copper (and the second largest in Africa) is heavily dependent on copper exports which makes up three-quarters of its export earnings and about 26 percent of its budget revenue. Zambia's growth is also heavily dependent on copper price development (Figure 2b). The stability of its currency as well as its inflationary implications is also dependent on copper exports and prices (see Alemayehu and Weeks, 2018; Alemayehu et al, 2017; Nwafor, 2020). These indicators were negatively affected when the copper price was initially declining at the outbreak of the pandemic. Growth was also sharply decelerated during this initial period –declining by 5.6 percent in 2<sup>nd</sup> quarter (see Figure 1). Thus, the deceleration of growth in the first half of 2020 would have been much worst in the second half of 2020 had it not been for the positive development in global copper price as explained above and depicted in Figure 2a. This in turn is related to the recovery of the global economy to which the demand stimulus in advanced countries was crucial as is also noted by UNCTAD (TDR, 2020).

## 2.4 Zambia's Growth during the Pandemic Year and Its Prospects for Recovery in 2021

Despite the gloomy macroeconomic picture in 2020 which is discussed thus far, the recent Ministry of Finance (MoF) data also shows that cooper production, which is a key determinant of economic growth and foreign currency earning, and hence, the Zambian macro economy (see Alemayehu and Weeks, 2017), has increased in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2020 by 9.7 and 2.4 percent, respectively. This is a remarkable recovery compared to the 2.8 percent (-2.8%) contraction recorded in 1<sup>st</sup> quarter of 2020 when the COVID-19 virus broke out. This did not continue into the 4<sup>th</sup> quarter, unfortunately, as it contracted by 1.3 (-1.3) percent. In addition, as discussed in detail in the previous section, copper price has also recovered from its sharp decline when the pandemic began (Table 1; Figure 2a). However, in the final quarter of 2020, earning from metal exports as well as the trade balance remained unchanged from the level registered in quarter three, despite the fall in copper production. This development and copper price prospects in 2021 are important factors taken on board to project their likely effect on growth of the economy in 2020 and 2021, which is reported in Table 4 below.

The projection of Zambia's economic growth by the government of Zambia and international and regional financial institutions, as well as this study, is given in Table 4. Based on the information available for three of the quarters in 2020, the government of Zambia projected GDP growth to contract by 2.8 percent in 2020. It expects the economy to recover in 2021 through a particular figure is not given. The IFIs estimated growth for 2020 that ranges from (-1.2) which is given by the WB to -4.9 estimated by AfDB. The prospect for 2021 growth also found to range from the pessimistic projection of the IMF at 0.6 percent to the World Bank's optimistic growth rate of 1.8 percent.

**Table 4 Forecast of the Economic Effect of COVID-19 by Different Institutions for Zambia**

<b>GDP Growth (Various Estimates)</b>	<b>2020 (Estimate)</b>	<b>2021 (Forecast)</b>
World Bank	-1.2	1.8
International Monetary Fund (IMF)*	-3.5	0.6
African Development Banks	-4.9	1.0
COMESA (Common Market for Eastern and Southern Africa)		
Government of Zambia (Average of the first three quarters, MoFdata)*	-2.8	
This study	-2.5	1.5%

*Source: Author's Compilations*

According to the MOF (2020) latest data and review of the economy, at the end of Quarter 4 of 2020, the purchasing manager index (PMI), a popular business outlook survey used by the government, has improved only by 5 per cent over its value in the third quarter of 2020. This performance is on account of a slight improvement in private sector activity, despite the hindrance of the corona virus pandemic, currency weakness and inflation observed. However, purchasing activity at this final quarter has fallen at its lowest since the COVID-19 pandemic. In addition, despite the COVID-19 pandemic, the growth in agriculture, which was helped by good weather outturn, shows positive prospects for the country in general and the rural population in particular (Table 1 and Nwafor, 2020). In the non-agricultural sector, the prospects of the economy for 2020 and 2021 are positive, chiefly because of the continuous rise in global price of copper. Relaxation of the lockdown measures in second half of the year, the commissioning of a new hydro power station, and a return to normal rainfall patterns are expected to support growth in agriculture and electricity production too (Nwafor, 2020). For these reasons we expect a very small recovery – about 30 to 50 percent improvement from the rate of decline in quarter three in our projection of growth four quarter four of 2020, as shown in Figure 1 (although the trend and the regression equation suggest it might decline by 3.4 percent) – this gives us a growth rate of about (-2.5) percent in 2020 (Table 4).

Regarding the prospects of growth and recovery in 2021, it is generally positive owing to the rise on copper price and its prospects as well as the positive trend of recovery in private economic activity as described in the next section. However, the MoF latest “monthly economic indicators” published in January 2021 shows that macroeconomic instability, measured by inflation and currency depreciation, became worst in early 2021, compared to the end of the previous year. The private sector confidence has also deteriorated in this period. Trade balance hardly changed, although copper price has increased by about 3 percent; but production has declined. Public revenue has improved a little. The general picture at the beginning of 2021 was that both the macro and trade condition did not improve fundamentally. However, given the current trend of global copper price that has increased in May 2021 by 30 percent, compared to its level in January 2021, the prospects of recovery in Zambia in 2021 is very high if the prospect for copper price remains high throughout the year. After reviewing the pattern of global copper consumption, copper stock changes and recovery of the world economy,

Fetch Research (at [miningweekly.com](http://miningweekly.com)) noted that the global price will be lower than the historic peak of \$9, 412/t shown in Figure 2a above but will remain high at \$7250. Similarly, “[tradeconomics.com](http://tradeconomics.com)” also forecasts the price will remain high in 2021 due to speedy vaccination rollouts and trillions in dollars of economic stimulus as well as recent economic readings from the United States and China. These prospects will have a positive effect on Zambia’s growth, helping its GDP to recover to about 1.5 percent in 2021, according our estimate (Table 3). This latter estimate of our’s is arrived at using a regression-based relationship between GDP growth and copper price growth in Zambia and assuming the copper price for the year will averages about \$8300 (the average of the historic peak and Fitch’s forecast). It is imperative to note that this positive outlook is strictly dependent on the recovery of in advanced economies and China – underscoring the importance of the global demand-led recovery path suggested in the GPM-based analysis and the UNCTAD (TDR, 2020) study noted above.

### III POLICY RESPONSE AND RECOVERY: GOVERNMENT, THE PRIVATE SECTOR AND THE POTENTIAL FOR DEMAND-LED GROWTH RECOVERY

The economic effect of the pandemic in Zambia is related to the disruption of the production and trading processes both in Zambia and its trading partners. This effect was in particular strong in the service (tertiary sectors) and industrial (secondary) sectors as shown in section two above. The pandemic was a very big shock to firms all over the country and entailed adjustment costs both for firms and their workers. The government has also implemented various supportive measures to keep firms going and minimize the economic and social cost of the pandemic. These responses of the private sector and the government are briefly discussed in this section. In addition, the section will also discuss the challenge of demand led recovery as proposed in UNCTAD (TDR, 2020) and the related analysis that is based on UN Global Policy Model (GPM) (McKinley, 2021; Cripps, 2021) for Zambia’s recovery, if it is taken as a policy option. The firm response is based on two surveys conducted in June 2020 by Ministry of Trade, Commerce and Industry (MTCI) and another survey conducted by Impact Capital Africa (ICA) in the same period. The latter is used since it is based on a larger sample size.

#### 3.1 Private Sector Response

Zambian firms suffered a revenue loss following the outbreak of the pandemic and the government’s health related measure that included partial lockdown measures. This is revealed in the Ministry of Trade, Commerce and Industry (MTCI) survey which is conducted in June 2020, using a sample of 500 business firms that represent all type of business and covering the whole country (see MTC, 2020). Table 5, which is based on this data shows that about 88 percent of firms reported revenue loss that ranges from 10 to 90 percent of their revenue before the pandemic. Those they lost 90 percent of their revenue are about 10 percent; while those who lost 50 to 80 percent of their revenue are about 43 percent. Similarly, 25 percent of the respondents stated that they lost about 10 to 20 percent of their revenue. The survey also revealed that those firms that are not affected or seriously affected and closed their business because of the pandemic is very few. Thus, about 4 percent closed their business

while another 4 percent stated that their revenue is not affected. Similar survey conducted at the same time with much larger sample size of 11,416 Zambian businesses also revealed that 73 percent of the respondents reported revenue loss and cash flow problem (Table 6). The conclusion that could be drawn from this information is that the pandemic's economic effect on firms was very strong, especially in the middle of 2020.

*Table 5: Business Response to COVID-19 in Zambia.*

	Rate of Revenue Los	Percent of total respondent	Cumulative Percentage
<b>Business as usual</b>	0	4%	
	10 to 20%	12%	
	30 to 40%	23%	35%
	=50%	16%	
	50 to 60%	26%	61%
<b>Reduce by</b>	70 to 80%	17%	78%
	90%	10%	88%
<b>Business closed</b>		4%	92%

*Source: Author's Compilation based on The Republic of Zambian Business Survey Report: The Impact of COVID-19 on Zambian Enterprises, June 2020, Ministry of Trade, Commerce and Industry (Sample size 500 covering all sectors and the whole country)*

Notwithstanding this depressed outlook in the first two quarter into the pandemic in 2020, a slow recovery of the economy is observed in the last two quarters of 2020. Based on another regular expectation survey conducted by the Central Bank of Zambia (The Bank of Zambia, BoZ), economic performance improved significantly in the two final quarters mainly due to the relaxation of COVID-19 containment measure that helped revival of activity in the tourism sector and led to an increase in general demand. This was boosted by the festive season in the final quarter 2020. However, business expectation in 2021 has generally remained subdued because of the Kwacha depreciation, high inflation, electricity load shedding and associated rise in input cost and low-capacity utilization, tight credit condition as well as elevated public debt service burden. On the positive side the rolling out of the vaccine, the good rain obtained will improve economic condition (BoZ, Quarterly Survey, Quarter 4, 2020).

Other indicators of the private sector's response to COVID-19 are also provided in Tables 6a and 6b. The information contained in these tables is based on another larger national survey of 11,416 Zambian businesses that are interviewed from the end of May to 5 June 2020. Companies responding are broadly representative of the Zambian formal economy. This survey is conducted by "Impact Capital Africa" (ICA, 2020). As Table 6a shows most firms (73 percent) suffered from decrease in revenue/cash flow problem. This major problem is followed by supply chain related challenges as well as temporary closure of their business as well as other business that are working with them. Logistic problems and inability to plan your business followed this as major challenges that firms in Zambian encountered because of COVID-19. In addition, in the third and fourth quarter of 2020, most firms reported a rising cost of inputs due to the disruption effect of COVID-19 (and the rapid currency depreciation mentioned above as well) is hampering their speedy recovery (BoZ, Quarterly Survey of Expectation, 2020).

*Table 6a: Firms' Challenges and Response to COVID-19 in Zambia*

	% ge of respondents
<b>Major Impact felt by Business (&gt;20% respondents only)</b>	
Decrease in revenue/cash flow	73%
Supply Chain Challenges	34%
Temporary stop closure	31%
Difficulty planning	30%
Challenges of logistic/delivery	27%
Shift to remote working	25%
<b>Business/Firms Response about Employment</b>	
	<b>% of respondents</b>
Reduced Working hours	45%
Asked workersto take paid leave	28%
No change	25%
Retrenched/laid off workers	21%
Reduced workers' pay	20%
Asked workersto take unpaid leave	16%

*Author's Computation based on MTCl and ICA survey (2021)*

One of the ways firms responded to these challenges of the pandemic is an attempt to minimize the cost of labour. Thus, as shown in Table 6a, on average 45 percent of the respondents across all sectors of the economy reduced working hour of workers. About 28 percent of firms have asked their workers to take a "paid leave" while 16 percent of them asked them to take "unpaid leave". In addition, 21 percent of firms retrenched workers while 20 percent reduced workers' pay. Only 25 of the firms reported no change to the pre-COVID-19 level regarding their work force.

This average picture, however, is found to have significant variation across sectors of the economy. This information is given in Table 6b. While the majority of firms in the agricultural sector (36 percent) reported no change with regard to employment, compared to the pre-COVID-19 period; 67 percent of firms in the construction sector have reducing working hours and asked workers to take paid leave. Similar pattern is also observed in the manufacturing sectors where 44 percent of firms reduced working hours, and 50 percent of them asked workers to take paid leave In addition, 22 percent of these firms also asked workers to take unpaid leave (Table 6b). The sectors with most firms "reducing working hours" are the transport and construction sectors. The sectors with large number of firms making "no change" with regard to employment are Financial Service, Telecommunication and NGOs – and understandably so with remote working gaining ground. The sectors where most firms laid-off workers are transport and logistics, followed by construction. Tourism and the hospitality industry lead all by asking its workers to take a leave without pay (Table 6b).

**Table 6b: Firms' Employment Related Response to COVID-19 in Zambia**

	Reduced Working hours	Asked worker to take paid leave	No change	Retrenched workers	Reduced workers' pay	Asked workers to take unpaid leave
Agriculture	22	14	36	19	14	13
Business Services & Consultancy	52	16	24	28	24	12
Construction	67	67		33		
Education & Sports	38	10	29	10	19	14
Energy	33	33	44	11		
Financial Services	24	32	40	8	8	12
Health	50	29	29	21	21	14
Infrastructure	50	13		25	25	13
Manufacturing	44	50	11	17	17	22
Media and News	38	25	13	25	25	25
Mining and Mining Services	61	39	17	17	17	11
NGO	27	9	36	9	9	9
Others	40	30	30	10	10	
Real estate	33		33	17	17	17
Retail and Wholesale	48	12	24	20	20	24
Technical/Engineering Services	57	14	14	21	21	7
Telecommunication	56		33			11
Tourism and Hospitality	59	38	5	34	39	33
Transport and Logistic	65	41	6	47	18	12
Water Management and Recycling	33				33	
<b>Average</b>	<b>44.9</b>	<b>27.8</b>	<b>24.9</b>	<b>20.7</b>	<b>19.8</b>	<b>15.6</b>

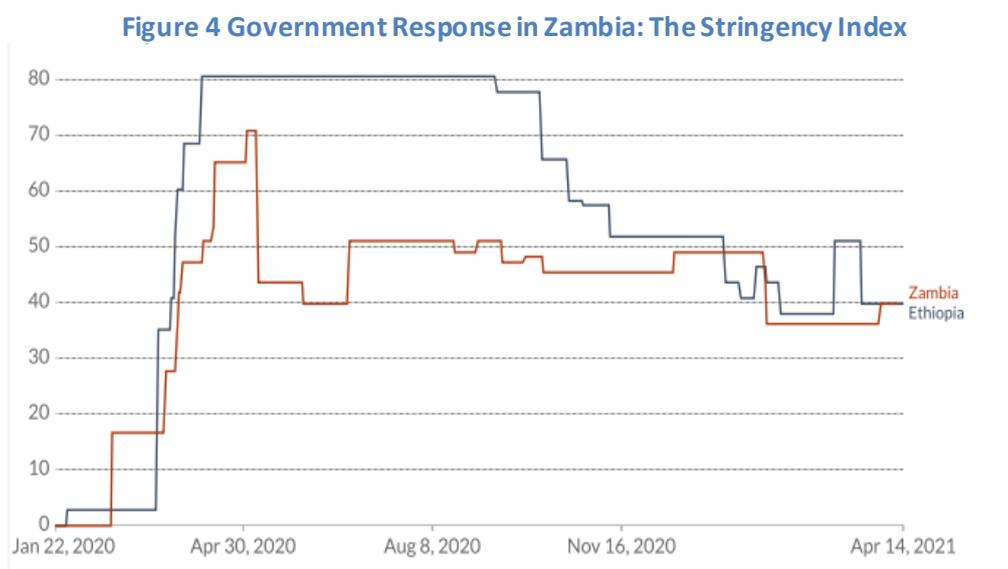
*Source: Author's computation based on Impact Capital Africa Survey of 11 416 Zambian firms.*

In sum, the ICA large sample size survey shows, Zambian firms, irrespective of size and sector of operation, are affected across all value chains, with 87 percent of businesses reporting being negatively impacted by COVID-19 (ICA, 2020 survey). Similarly, 48 percent of businesses reported being at risk of business failure within the next 12 months, which is very high. Of these, the majority are micro and small businesses, with larger businesses having more established resilience. Challenges presented span the value chain for most sectors, with the main issues highlighted including decrease in revenue, demand problem, supply chain and logistics challenges and unstable and depreciating foreign exchange rates of the Kwacha. All business across the country took some adjustment measures to tackle the economic effect of COVID-19, only 5 percent of managers saying they did not do anything. These actions include attempting to reduce their wage bill through various mechanism as outlined in Table 6b. There are also opportunities; about 13 percent most businesses have accelerated growth plans, seeing this as an opportunity to test new markets, push new products and new model of

business. Agriculture businesses are capitalising on increased local demand, and online education providers are some of the winners, taking advantage of the shift in consumer behaviour.

### 3.2 Government Response and Potential Macroeconomic Effect

The response of the government to COVID-19 could be read from Figure 4 which shows the “stringency index” for Zambia. The “Stringency Index” is a composite measure of government response to COVID-19 which is based on nine response indicators including school and workplace closures, travel bans, etc. rescaled to value from 0 to 100 (100 being strict). As can be read from Figure 4, Zambia’s response in the month of March was very poor. It became strong at the end of April, 2020 being about 70 percent strict. This was not strong, however, as it was, for instance, below the level in Ethiopia which was 80 percent during the same time. Between May to 3<sup>rd</sup> week of June, the response decelerated sharply to 40 percent before recovering to 50 percent at the end of June and stabilized at that level till the end of the year 2020. Since the early 2021 it is relaxed a bit, being about 40 percent now (April, 2021). Although this might have a risk of initiating a second wave of the various, its positive side is that it helped the recovery of firms’ activities as discussed above.



Source: Phillips, Samuel Webster, Emily Cameron-Blake, Laura Hallas, Saptarshi Majumdar, and Helen Tatlow. (2021). *A global panel database of pandemic policies (Oxford COVID-19 Government Response Tracker)*. at <https://www.bsg.ox.ac.uk/research/research-projects/oxford-covid-19-government-response-tracker>.

In addition to such health-related measures, the government of Zambia has also undertaken a number of fiscal and monetary policy measures to support the economy although the government fiscal posture (and hence its fiscal space) was very weak. In the years before the pandemic, the fiscal condition of the government had been ridden by challenges that included significant and growing budget deficit, low domestic resource mobilization, mounting debt and the difficulty of servicing the accumulated debt. The COVID-19 effect was to aggravate this precarious fiscal position if an extended fiscal measure to help firms and households is to be made. Notwithstanding such challenges, the government has developed a COVID-19 response plan to ease liquidity challenges firms may face due

to the economic impact of the pandemic. It also developed a government support package that includes the following (Nwafor, 2021; Ernest and Yong, 2021; COMESA, 2020):

- a) Released K2.5 billion (\$137 million) to reduce domestic arrears owed to domestic suppliers of goods and services;
- b) It has reduced the policy rate by 225 bps to 9.25% and availed 10 billion Kwacha (3% of GDP) as medium-term liquidity support to eligible financial services providers; and scale up open market operations to provide short-term liquidity support to commercial banks.
- c) Suspended excise duty on ethanol for use in alcohol-based sanitizers and other medical related commodities;
- d) Waived charges for person-to-person electronic money transfers of up to K150 (\$8); and also did upward revision of transactions and balance limits for individuals, small-scale farmer and businesses and agents
- e) Reduced outstanding arrears to pensioners under Public Service Pension Fund and retirees under Ministry of Justice; as well as reduced outstanding third-party arrears and other employee related commitments;
- f) Suspended export duties on the export of concentrates in the mining sector to ease pressure on the sector;
- g) Removed the transaction and balance limits on agents and corporate wallets; reduced the processing fees for Real Time Gross Settlement System;
- h) An initiative for funding the COVID-19 response programs has been initiated through: (i) the setting up of an Epidemic Preparedness Fund; (ii) approval of a COVID-19 Contingency and Response Plan; under the Disaster Management and Mitigation Unit; and (iii) the mobilizing of funds through budget and engagement with various local and international stake holders.

Notwithstanding these and various efforts of the government to contain the economic impact of the pandemic and ensure quick recovery, the shrinking of the economy in 2020, the rising burden of debt servicing, the continuous depreciation of the currency and the rising inflation that reach about 20% by the end of 2020 has made the macro economy a very weak one. Since these measures are not direct expansion of demand by the government spending, that demand is implicitly assumed to come from the private sector which is getting these assistances. However, it is generally unlikely that such demand is forthcoming from the private sector in such uncertain time. Survey data generally shows that business firms in Zambia are not yet ready to engage in investment and rising input cost are eroding their real spending. It is imperative, then, to ask whether the government had (or still has) alternative policy response options, such as demand-led recovery options as in the advanced countries and as suggested in UNCTAD (TDR, 2020)? Can it pursue such demand stimulus policy as that of the developed country both for an enhanced recovery as well as to reverse the weak macroeconomic position that it has found itself? This issue is discussed next.

### 3.3 Can Zambia Stimulate Domestic Demand for Recovery

Despite UNCTAD's (TDR 2020) advocacy for demand-led recovery path and benefit of that kind of recovery for mineral-dependent economies such as Zambia, through raising the price of their export

commodities as discussed above, UNCTAD (TDR, 2020) also rightly noted (see Ch 2) that a “demand-driven growth path” has some limitation in developing countries because of three major challenges related to their peculiar features: (i) lack of access to foreign currency, (ii) limited industrial capacity and (iii) the risk of debt accumulation. These features are among the major challenges in Zambia’s recover attempt too. This can be examined using Table 7 which decomposes the source of the recent growth of Zambia from the demand side.

Table 7 is based on data from African Development Bank (AfDB). Zambia’s major statistical sources do not have GDP by expenditure category. The AfDB data used is given at \$2010 constant prices. However, the components of GDP do not add-up to the total GDP figure. The WB, World Development Indicator (WDI) data (2021) for Zambia has also similar problems but the AfDB data is better. Although we have used the AfDB data, we have computed private consumption as residual instead of taking it directly from AfDB data for the purpose of national accounting consistency, assuming all the other components of the GDP are relatively correctly recorded. Both the AfDB and WDI data noted also show significant fluctuation for each demand component of GDP year to year and need to be taken cautiously. That is also one of the reasons for using averages values in Table 7 for our analysis.

With the above caveat, Table 7 shows that growth in Zambia is primary driven by growth in private consumption in 2014. This leading role is taken over by gross capital formation (investment) in 2014-18. In the latest data available, 2019, both consumption and gross capital formation (investment) became equally important, while the contribution of net exports drastically declined in 2019. Over the past six years gross capital formation became leading contributor, its average contribution for the six years reported in Table 7 being the highest at 83 percent. This is understandable, given the significant investment in infrastructure that the government was undertaking. This is followed by the contribution of consumption which accounted for about 60 to 88 percent of the annual economic growth in the same period. Government consumption ranks third at an average annual contribution of 27 percent. The contribution of net exports generally was initial positive, yet very small. However, its contribution drastically declined over time owing to the excess of imports over export for the most of the years.

Although both consumption and investment growth were behind Zambia’s growth over this period from the demand side, this was accompanied by significant macroeconomic imbalance that includes significant indebtedness and the burden of debt servicing, high inflation, and fast depreciation of the currency. This is because this demand injection was largely financed by accumulation of debt. As a result, the country is now left with shrinking fiscal space. This macroeconomic condition entails that Zambia can’t stimulate the economy from the demand side any further so as to attain a speedy recovery without worsening further the already observed macroeconomic imbalance problem that we examined in detail in the previous sub-section, unless some global financial resources are available somehow, as argued in UNCTAD (TDR, 2020).

**Table 7: Demand Side Sources and Challenges of Growth (2014-220)**

	Contribution to GDP Growth (in %)				Contribution to GDP Growth		
	2014	2014-18	2019	2014-19	2015	2018	2019
Final consumption expenditure, households	83.3	58.5	87.9	63.4	-0.54	1.55	1.79
Final consumption expenditure, government	35.4	28.5	17.5	26.6	0.69	1.50	0.36
Gross capital formation	18.8	81.3	89.1	82.6	10.00	3.36	1.81
Net exports (X-M)	11.9	-54.4	-84.5	-59.4	-7.23	-2.22	-1.72
Memo (Contribution of)							
Exports of goods and services	1.9	-14.0	-20.2	-15.1	-0.60	-0.08	-0.41
Less: Imports of goods and services	-10.0	40.3	64.2	44.3	6.63	2.14	1.30
GDP Growth*					<b>2.92</b>	<b>4.00</b>	<b>2.03</b>

*Author's Computation based on African Development Bank Data, 2021.*

*\*Note the GDP growth rate here is different from the official growth rate given in Table 1 since this is computed from the demand side.*

This inability to stimulate demand is the result of the declining level of external resources because of the country's significant accumulation of debt and the burden of serving this debt which is the result of its past attempt for high growth through borrowing. It has also to do with the government's agreement with IFIs to pursue tight monetary and fiscal policy that demanded lesser role of government spending, as part of these agreements - a version of financialization in low-income countries where the principal agents are IFIs and influential bilateral lenders. In summary, from this discussion we can observe the three challenges of using demand-led recovery in developing countries, which is identified in UNCTAD (TDR 2020), in the context of Zambia:

- a) The Foreign Currency Problem:** in line with UNCTAD's (TDR 2020) analysis, the significant investment growth in Zambia in past was the outcome of its past reliance and success in maintaining a borrowing-led growth strategy, especially in its infrastructure investment. This is now in the course of slow down owing to the pressure it is putting on the balance-of-payment, especially through debt servicing burden. This past pattern is impossible to continue through demand led growth if loans which were primarily coming from China, private non-concessional lenders and multilateral sources, as discussed above, are not forthcoming at the previous pace. Owing to its flexible exchange rate system, this is leading to significant depreciation of its currency –showing shortage of foreign currency. This in turn is fuelling inflation which will lead to further depreciation and a trend of inflation-depreciation cycle. Such signals of macroeconomic imbalance not only discourage private investment but also undermine effective (consumption) demand that is need for recovery. The implication of this for slow growth should be obvious.

- b) Limited industrial Capacity:** UNCTAD (TDR 2020) noted that in recent economic history of late industrialization, public policy that directed credit to promote industrial development was successful and created decent job. Such domestic credit policy may not work in a country like Zambia unless it is directed at the creation of capacity in industry and agriculture, which is dearly missing. Even then it will encounter the currency problem noted above if copper price declines for some reason. With majority of its poor in rural areas being dependent in rain-fed subsistence agriculture, the rural population in Zambia are also vulnerable to climate shock to get adequate and regular supply of food. So is the supply of manufactured consumer goods since its industrial base is weak. Combined with significant population growth, such lack of capacity both in agriculture and in industrial sector is making Zambia extremely dependent on external sector for its basic goods provision. Demand stimulation in such structurally supply constrained condition will put significant inflationary pressure, will raise the demand for foreign resources/currency and put pressure on depreciation of the local currency –with an adverse consequence for macroeconomic stability and social welfare of the majority.
- c) Debt Accumulation and the Implications for Financialization:** As argued in UNCTAD (TDR 2020), pursuing growth through domestic demand stimulation in countries such as Zambia will also lead to external debt and debt servicing, problem. While Zambia’s external debt reached about 50 of GDP, combined with domestic debt it is now (2020) over 100 of GDP. The impact of COVID-19 is to make the servicing of this debt more difficult when resources are needed for spending in the social sector. The accumulation of debt and the burden of servicing have already forced Zambia to default on its payment. It is also already forced to seek for relief. This condition, together with the push from IFIs is in the course of leading Zambia towards restrictive fiscal and monetary policy – not stimulation of demand. Tackling the COVID effect in such context is challenging because lack of fiscal space is already a major problem in Zambia. Analysis of the 2021 budget by ZIPAR (2020) shows the already existence of this problem. ZIPAR (2020) noted, in the 2021 financing of the budget, the social sector is becoming difficult to finance due to the shrinking fiscal space for discretionary spending as a result of increased debt servicing costs, low economic growth which has translated to reduced domestic revenues, as well as low budget execution rates. The 2021 Budget shows that debt servicing costs and the wage bill alone will be higher than total domestic revenues. This is worsened by the unpredictability of foreign loans and grants and the limited access to commercial loans (ZIPAR, 2020). At this time of slow growth, high risk of debt distress and less donor investment in the social sector because of the COVID-19 pandemic effect on donor countries themselves, the need to create fiscal space has never been greater in Zambia, ZIPAR noted (ZIPAR, 2020). This is despite the fact that overall deficit, excluding grants, has increase from 6.1% in 2016 to 8.5 of % GDP in 2019.

In sum, because of this peculiar feature in Zambia, demand-led growth recovery without additional resources from external sources is impossible to carry without leading to significant macro-economic imbalances. Perhaps securing such resource through South-South cooperation could be one way of exploring this possibility. This clearly shows how narrow the policy space is to respond to economic effect of COVID-19 in Zambia as well as the difficult of recovery by stimulating demand. This calls for a global financial architecture that will address such structural problems of developing countries, as argues in UNCTAD (TDR, 2020).

## IV THE SOCIO-ECONOMIC IMPACT OF COVID-19 AND ITS GENDER DIMENSION

### 4.1 The Poverty Impact with Its Gender Dimension

Both poverty and inequality are very high in Zambia, even relative to other Sub-Saharan African countries. The poverty incidence measured by the population living below US\$1.90 per day of purchasing power parity (PPP) in Zambia was 57.5 percent in 2015, dropping from 60.4 percent in 2010 – a level that is above the Sub-Saharan African average of 41 percent in 2013 (World Bank, 2019; CSO, 2021). It is also concentrated in rural areas, the rate of rural poverty of 76.6 being more than three times in the urban areas that have a rate of 23.4 percent in the same period (CSO, 2021). Similarly, the level of inequality, with a Gini coefficient of 0.56 in 2015, that has increase from 0.52 in 2010, is also very high by regional standard (World Bank, 2019). As the relationship between growth and poverty reduction in Zambia shows, this high inequality is one of the major reasons for the high poverty level which failed to decline over time, despite significant growth of the economy at 7.4 percent per annum for a decade (2004-2014), for instance.

Poverty in Zambia has also a gender dimension which is biased against females. The 56.7 percent level of poverty among household that are headed by females is about 3 percentage points higher than those that are headed by men, which is 53.8. This gender-gap becomes wider in urban areas at a difference of about 8 percentage points (the female-headed households' rate being 29.6 percent compared to their male counterpart of 21.7). The poverty data also further show that there were proportionately more extremely poor persons in female-headed household than in male headed households. Thus, with the pandemic reducing income that pushes the poor downward towards extreme poverty, it is making females, who are poorer compared to males, more vulnerable to the pandemic's socio-economic effect than males, even if the income reduction is the same. This reasoning has also found supporting evidence on recent survey results that are conducted to gauge the effect of the pandemic on households (see below).

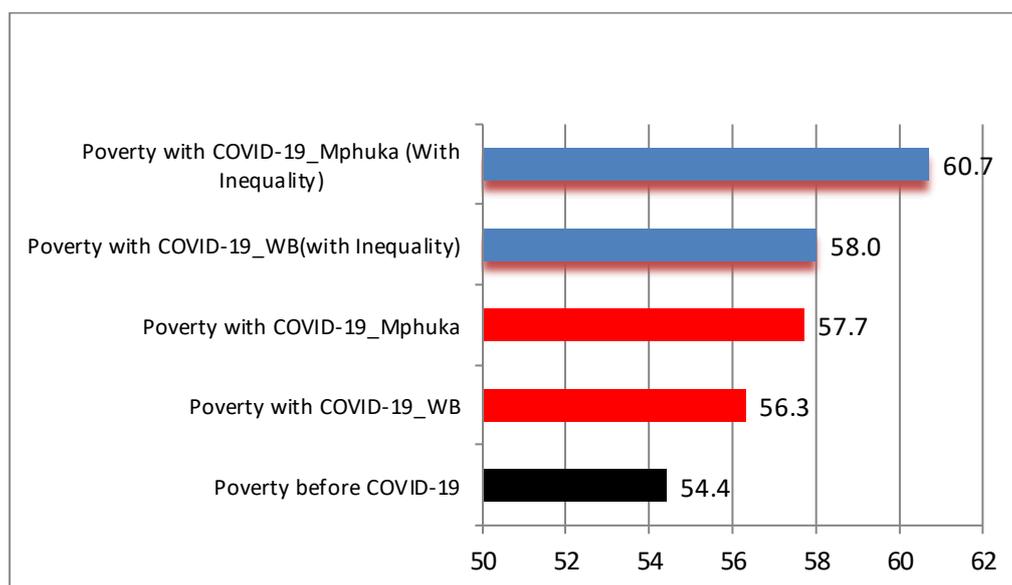
We have attempted to quantify the poverty impact of the deceleration of growth in 2020 owing to the effect of COVID-19 as expounded in detail in the preceding sections. We have used elasticity values of poverty to change in income and inequality for this purpose. Taking into account the decline in poverty and the corresponding percapita consumption growth of 12.9 between 2010-2015, the elasticity of poverty with respect to growth and inequality is found to be about (-0.36) and (0.33) respectively, in the recent World Bank study (World Bank, 2018). Although the poverty reduction effect of growth in Zambia is very small, mainly because of the growing inequality that accompanied that growth and offset the poverty reduction effects of the income growth, whether such inequality gets worse or better with a decline in income due to the COVID-19 effect is difficult to establish theoretically. As result, we will assume in one of our scenarios that it has remained unchanged during the period of the pandemic, in 2020. With this assumption, and using two sources of elasticity of poverty for Zambia, the poverty implications of the percapita growth deceleration due to the pandemic in 2020, assuming

a population growth rate of 2.8 percent, is given in Figure 4. These results are based on World Bank's poverty elasticity of growth for Zambia which is (-0.36) for the period 2010-2015 and Mphuka et al's (2017) estimate of the same at (-0.63). These elasticities assume that inequality has no effect on poverty or have no effect when income is declining. In addition, we have also offered the level with an alternative scenario that also included the poverty increasing effect of inequality – assuming the poverty elasticity of inequality is not symmetric with regard to the income-growth effect. This later result is given in blue color in Figure 5.

Figure 5 shows that on average, the COVID-19 economic impact is estimated to increase the number of poor people in Zambia by about 380,000 to 627,000 people using only the income effect of poverty, with low and high elasticity values noted, respectively. This may reach about 684,000 to 1.197 million people, if the poverty-worsening effect of inequality is assumed to hold during this period of income decline, again using the low and high elasticities, respectively, too.

In conclusion, in addition to the above poverty effect, it has also to be noted that external shocks related to global copper price as well as the possible economic effect of COVID-19 as expounded above, Zambians, especially in rural areas, are also vulnerable to shocks that emerge from climate change. Extreme weather events such as floods, droughts and reduced rainfall are major risks for rural household, 90 percent of whom depend on rain-fed agriculture as their main economic activity (ZIPAR, 2020).

**Figure 5 The Poverty Impact of COVID-19 in Zambia**



*Source: Author's Computation based on CSO data*

## 4.2 The Labour Market, Jobs and the Gender Dimension of the COVID-19 Economic Effect

The latest labour force survey data for Zambia, which is for the year 2018 (LFS 2018), shows that out of the total population of about 17 million in the survey year, 9.5 million of them (56 percent) are in the working age category of 15 years old and above. Out of this labour force of 2.95, the bulk of the labour force is employed in the service sector (54 percent of the total) followed by the primary sectors at 31 percent of the total (see Table 8). This is dominated by males with the share of 62 percent of total employed in the country (Table 8). This male employment rate is the highest in secondary sector at 83 percent followed by the primary sectors and service sectors at 66 and 56 percent, respectively. Unemployment in the survey year stands at 11.4 percent. This rate is the lowest for males at 10.5 percent, compared to that of the females which is about 13 percent. About 62 percent of the employed are also found in the rural areas.

Informal employments dominated the Zambian labour market accounting for 68 percent of total employment in 2018. The informal sector is dominated by female employees that account for 55 percent of the total informal employment. Females also are the majority (77 percent) in the household sector which is usually a marginalized and lower-paying sector. Interestingly, the average monthly earning of females in the formal sector in the 2018 LFS is slightly larger than that of the males. However, males do better in terms of earning compared to the females both in the informal and household sectors. In the former sector males earn 1.4 times that of females while they earn 2.7 times larger than that of female in the latter (household) sector. In general, the labour market profile shows that the market is biased against females. The impact of a pandemic such as COVID-19 which lowers income in such labour market conditions is to hurt more those already marginalized as it pushes them further into extreme poverty – survey results conducted in relation to the COVID-19 effect in the country generally confirm this situation (see below).

Having this general labour market profile, we have attempted to estimate the possible employment effect of the pandemic in 2020 using the deceleration of growth in each sector that is given as the average of the three quarters of 2020 which is given in column 3 of Table 2 (see also section 2). This is combined with the employment elasticity of growth by sector for Zambia which is taken from previous studies and given in column 2 of Table 2 (Alemayehu et al, 2017). Normally, a rise in productivity may lead to a decline in employment and should be considered in such studies. However, productivity has generally stagnated in Zambia over time. In the service sector it has increased between 2000 and 2008 and began to decelerate after that. Similarly, productivity in the industrial sector improved in the same way between 2000-2008, and decelerated after that (WB, 2008). Similarly, total factor productivity (TFP) growth – another indicator of productivity - has stagnated at 2 percent between 2005 and 2010 (WB, 2018). Given this pattern, we have assumed productivity has unchanged during the period of COVID-19 (2020) to estimate the employment effect of the pandemic using the elasticity of employment to growth given in Table 2. We have also excluded the primary sector from this estimation for two

reasons. First, these sectors actually grow during the COVID period of 2020. Second, their elasticity value is also negative, showing growth was accompanied or caused by a rise in productivity (and hence a decline in employment) in these sectors in the past. This decision is also in line with ICA survey of June 2020 which noted that the majority of firms in agriculture reported no change in employment condition due to the COVID-19 effect. This is in addition to small-holder and subsistence farmers that are not expected to stop working during this period (see section 3 above).

With these assumptions, the result reported in Table 8 reveals that the pandemic might have led to a job loss for about 172,000 people. This is about 5.6 percent decline from the total employed person before the pandemic. This job loss is the highest in the secondary sectors (industrial sector) that saw a job loss for 111,000 people, the majority of them (95 percent) being in the construction sector. The rate of job loss also is higher for men (7.2 percent) compared to that of women (3.6 percent). This estimated job losses are realistic as they accord with many of the survey results conducted during 2020 to gauge the effect of the pandemic (see section 3 above). For instance, in the survey conducted by the Ministry of Trade, Commerce and Industry (MTCI) noted that changing the employment condition is found as one of the strategies adopted by firms to withstand the effect of the pandemic. The MTCI survey, for instance, also noted that, to keep afloat during the pandemic period some businesses have adopted measures, ranging from communicating with employees about layoff to temporal salary reductions. This is reported by 37.3 percent of the total responding enterprises. Flexible shifts and working from home were also reported by 33.6 percent, with those reported to have shut down certain production lines and outlets being 22.8 percent.

Table 8: Expected Job loss the COVID-19 Economic Effect.

	Elasticity of Employment to Growth	COVID Period Growth Q1-Q3 Average	Total Employed	Share of Male (%)	Number		COVID-19 Impact		
					Male	Female	Male	Female	Total
<b>Total Employed (in 000)</b>			2949.0	61.9	1825.4	1123.6	-	-	-
<b>Primary</b>		<b>13.1</b>	<b>899.2</b>	<b>65.6</b>	<b>590.1</b>	<b>309.1</b>			
Agriculture, forestry and Fishing <sup>1</sup>	-1.25	21.4	814.7	63.3	515.7	299.0	-	-	-
Mining and Quarrying	-1.80	8.6	84.5	88.1	74.4	10.1	-11.5	-1.6	-13.0
<b>Secondary</b>		<b>-6.0</b>	<b>441.9</b>	<b>82.6</b>	<b>365.0</b>	<b>76.9</b>	<b>109.2</b>	<b>-2.2</b>	<b>-111.4</b>
Manufacturing	0.61	-1.4	239.0	70.6	168.8	70.3	-1.4	-0.6	-2.0
Construction	6.42	-9.5	176.7	98.8	174.6	2.1	106.5	-1.3	-107.8
Others	1.03	-6.0	26.2	82.65	21.6	4.5	-1.3	-0.3	-1.6
<b>Tertiary sector</b>		<b>-6.6</b>	<b>1607.8</b>	<b>55.52</b>	<b>892.6</b>	<b>715.2</b>	<b>-22.4</b>	<b>-38.2</b>	<b>-60.6</b>
Wholesale and retail trade, repair of motor	0.50	-12.4	701.7	46.6	327.0	374.7	-20.2	-23.2	-43.4
Transport and Storage	0.92	9.9	122.7	97.3	119.4	3.3	10.8	0.3	11.1
Accommodation & Food Services	0.50	-13.5	64.6	53.2	34.4	30.3	-2.3	-2.0	-4.3
Information and Communication	2.41	23.1	16.0	82.9	13.3	2.7	7.4	1.5	8.9
Education	0.55	-18.3	182.4	51.2	93.4	89.0	-9.4	-9.0	-18.4
Arts, Entertainment and Recreation	0.55	-64.0	8.8	66.5	5.9	3.0	-2.1	-1.0	-3.1
Financial and Insurance Activities	1.98	12.6	24.6	59.5	14.7	10.0	3.7	2.5	6.1
<b>Other Services</b>	<b>0.55</b>	<b>-6.6</b>	<b>486.9</b>	<b>58.46</b>	<b>284.6</b>	<b>202.3</b>	<b>-10.3</b>	<b>-7.3</b>	<b>-17.6</b>
<b>Rate unemployment due to COVID-19 (in %)</b>							<b>-7.2</b>	<b>-3.6</b>	<b>-5.8</b>

Source: Author's Computation using the 2018 Labour Force Survey

We may conclude this analysis about the social effect of the pandemic by looking at some indicators of how households in general and the poor and females in particular are coping with the pandemic's effect by looking at some of the survey results. According to a survey conducted by IPA in June 2020 using a sample size of 3, 213 people, 43 percent of them being women and 31 percent of them being below poverty line. In this survey, more than 70 percent of the respondents stated that they have difficulty buying basic goods such as food in the amount they normally buy because of high prices. The survey also revealed that women are less likely to get money from working, from savings or to get loan from private lenders to cope with the economic effect of the pandemic compared to males. They

are also found to be more likely to be unable to access money for emergency and are more likely to rely on family and social network to cope with the crisis – showing the possibility of higher negative effect of the pandemic on women. Another social adjustment made by poor households is that they were forced either to reduce the portion size of their meals or reduce the number of meals at least once in the past week to cope with the economic effect of the pandemic. These later responses are generally found to be common among women than men too. Although women were less likely to be employed even before the pandemic, the gap grew wider during the pandemic, according to this survey. Thus, women were getting less paid work and their earnings declined more, compared to men.

## V CONCLUSION AND POLICY IMPLICATIONS

The analysis in this study attempted to show the macroeconomic and social effect of COVID-19 on a small mineral dependent economy in Africa -Zambia. The analysis has shown that for small countries that are dependent on a single (or a few) primary commodities, the recovery of the global economy is very crucial for their recovery. Zambia's recent growth has been extremely dependent on two factors: copper prices and significant amount of external capital inflows (debt-creating flows). For Zambia, its recovery and a return to the growth rate it has attained in the years before COVID-19 is considerably dependent on the prospects of the global price of copper as well as a continuous access to external capital flows. The Zambian economy has suffered from the effect of the pandemic as well as the dwindling of the external flows due to the burden of servicing borrowing that led to deceleration of its growth in 2020 by about 2.5 percent. We also found that Zambia just happened to be lucky during this period of pandemic on the copper price side of its source of growth (though not on capital inflow side, however) because the global price of copper has steadily increased in 2020 and 2021 after its sharp drop in the first quarter of 2020. Had it not been for that, the effect of the pandemic combined with dwindling level of external borrowing and the burden of servicing past borrowing on the Zambian economy would have been much more severe than this. Our projection also shows that the pandemic has led to a significant job loss that we estimated to be about 6 percent, compared to the pre-pandemic period. The other social effect we found is related to poverty. The decline in income that is related to the pandemic might have led to a 2 to 3.3 percentage points increase in the rate of poverty in the country, according to our projection.

The pandemic hit Zambia at a time when its major macroeconomic indicators are not in a good shape. Just before the outbreak of the pandemic, growth was decelerating fast, the level of debt was accumulating significantly, its fiscal deficit was rising, its currency was fast depreciating and inflation was rising. When the pandemic hit Zambia being in this situation, not only was the country's fiscal space has been shrinking already but also the pandemic's effect began to make these macro indicators worst – leading to more inflation, currency depreciation and significant debt service burden that forced the country to default on its debt obligation and seek for more relief from its lenders.

Since Zambia's past high investment and growth had been generally financed by accumulation of debt (both internal and external), it is no longer in a position to stimulate the economy from the demand side because first (i), the sources of those external loans were drying up in 2020 in the face of the

country's dwindling debt service capacity; second (ii) its domestic economy, undiversified as it is and dependent on copper, was also characterized by lack of industrial and agricultural capacity that can't respond to demand stimulus and finally (iii) significant accumulation of debt that has reached the unprecedented level of about 100 percent of the GDP. Demand stimulus in such structurally constrained economy is going to lead to further macroeconomic imbalance that includes inflation, currency depreciation and pressure on balance of payment because there is no domestic capacity to respond. This makes it challenging to come up with alternative policy options to tackle the macroeconomic and social effects of the pandemic for policy makers in Zambia.

The study also shows that there is lack of fiscal space to deal with the economic effect of COVID-19 without leading to macroeconomic instability that included indebtedness and inability to service the debt already contracted. On the other hand, conservative fiscal and monetary policy to achieve macroeconomic stability, which is also suggested by IFIs in Zambia, is creating a policy dilemma for the government since such policies would lead to slowdown of growth and job creation. Thus, the general policy directions need to be framed in such a way that it avoids or at least minimize this potential macroeconomic instability and yet attain speedy recovery and growth. From our analysis in this study, it is imperative to pursue a mix of heterodox policies for this. These policies could be inferred from the analysis in this study as well as the global analysis about these issues contained, for instance, in UNCTAD (TDR 200). The list of these short-term policies includes the following:

- *Expenditure switching and its rationalization*: this means the government needs to revise its budget and switch some of the less urgent items in the current and next budget, and shift the resources to fund the COVID-19 related economic effect so as to quickly revive growth. It also needs to raise the efficiency of public spending so as to handle its current activities with few resources.
- *Avoiding slowdown of growth at the same time*: the expenditure switching policy and the attempt to reduce spending and also the rising indebtedness has the down side of slowing growth (i.e., there is a trade-off between growth on the one hand and debt accumulation and macroeconomic instability on the other). This trend of growth deceleration is already observed in Zambia, even before the pandemic. The COVID-19 effect in 2020 is to aggravate this growth deceleration further. Thus, as suggested in UNCTAD (TDR 2020), avoiding slows down of growth in Zambia requires "resolving the financial bottlenecks [which in turn] requires support from global macroeconomic conditions and some degrees of financial insurance, either regional or global. The binding constraint is thus the level of global and regional support to growth and stability, a question of political economy".
- *Avoiding or minimizing borrowing for deficit financing*: this is important because major macroeconomic imbalances and the shrinking of the fiscal space in Zambia today are related to significant accumulation of debt (a good part of them in non-concessional terms) and the inability to service the debt contracted. Deferral of debt servicing payments and debt restructuring opportunities, if available, need to be pursued by negotiating with lenders in the short run. This calls for an alternative and conducive global financial architecture that could help developing countries such as Zambia as their individual power to realize this is limited.

In addition to growth and macroeconomic effects discussed so far, one of the other major possible socio-economic effects of the pandemic in Zambia that is discussed in this study is its effect on increasing the poverty rate of the country at least by three percentage points. The analysis also revealed that the COVID-19 economic effect has led and will continue to lead to job loss. The report also noted there is a structural bias against female workers in Zambia and, hence, the burden of the pandemic's effect is heavier on women. This requires a social policy that targets these potential job losses and vulnerable groups. The policy direction that could be considered to minimize the socio-economic effect of the pandemic is to make sure that firms (as well as the self-employed) are fully recovering so that people are earning a living. A closer follow up of the firm's recovery and supporting them in that process is crucial for this. In all its policy direction paying a special attention to the gender dimension of the pandemic's effect is also very important.

Finally, and more generally, as noted by UNCTAD (TDR 2020), moving in the direction of the growth revival calls for policy focus and bold measures and informed economic planning and industrial policies aimed at diversification and capacity creation (both in the agriculture and industrial sector) in Zambia. Lack of such bold and informed strategy has been the failing of many African countries both internally as well as in dealing with the advanced and emerging economies such as China -China being an important and influential trade and financial partner for Zambia today. Such a medium-term strategy for Zambia is crucial to tackle the vulnerability of its economic growth to copper prices and external finance. Internationally, policy coordination that takes on board the structural constraints of primary commodity-dependent economies and their vulnerability to global commodity price as well as alleviating their current external finance problem is needed. In addition, the demand led growth path advocated by UNCTAD (TDR 2020) for recovery in advanced countries is critical for single or few commodity dependent economies such as Zambia. This is because the growth of commodity-dependent economies such as Zambia and their macroeconomic conditions are dependent on the recovery of the advanced countries which, in turn, is crucial for good prospects of global commodity prices – which is copper price for Zambia. This may not be enough for sustained recovery, however. This is because the growth in Zambia that was achieved before COVID-19 was also equally dependent on external borrowing. Thus, a complementary resource in the context of South-South cooperation from emerging economies could be very helpful for recovery in Zambia, indeed to many countries in Africa.

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