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The Economic and Social Impact of COVID-19 in Zambia

Abstract

This study attempts to show the macroeconomic effect of the COVID-19 pandemic on a small mineral dependent economy in Africa like Zambia. In particular, it focuses on GDP and sectoral GDP growth and employment, as well as the external sector. The analysis shows 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 growth and development. It addresses the possible policy responses, for resource dependent economies such as Zambia, 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 in its analysis in UNCTAD Trade and Development Report 2020. Finally, the paper discusses the scope for demand led recovery in Zambia and in doing so it 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: Economic development, Africa, Zambia, Covid-19, Macroeconomics, commodity exports

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1. 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 $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 per cent (Geda et al., 2017; and section four below).

Table 1. Major Macroeconomic Indicators Before and During the Period of COVID-19 in Zambia

						The COVID Period				
	2015	*2016*	*2017*	*2018*	*2019*	*2020*	*2020*			
						(Annual)	*Q1*	*Q2*	*Q3*	*Q4*
GDP Growth (percentage) [Ave. annual Growth 2000-14 was 7 per cent]	**2.9**	**3.8**	**3.5**	**4.0**	**1.9**	**-2.5^**	**-0.3**	**-5.6**	**-2.6**	**-1.7^**
Copper Export Volume growth (percentage)	-10.8	-8.2	9.2	2.6	-20.4	11.3				
Copper Price (realized) Growth (percentage)		-8.4	27.4	6.1	-5.8	2.2	(-17)	17.0	9.2	8.24
Inflation (percentage)	21.1	7.5	6.1	7.9	11.7	16.2	14.0	15.9	15.7	19.2
Annual Average Exchange rate (Kwacha per $)	8.6	10.3	9.5	10.5	12.9	18.9	16.5	18.2	19.8	21.1
Trade Balance (percentage 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, percentage 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 (percentage GDP) (growth rate of stock in 2020) **			65.5	78.1	91.6	95.5	7.6	16.5	14.4	7.1
Domestic percentage GDP, (Growth rate of Stock in 2020)			27.3	30	31.7	29.8	7.9	18.5	15.6	7.5
External, percentage 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 $11.2 billion, respectively. ** Annual figures of debt to GDP ratio from IMF, 2019; ^ our estimate.

Between the year 2000 and 2014 the Zambian economy registered an average annual growth of about 7 per cent which was one of the best growth records in the continent. This growth began to decelerate to about 3 to 4 per cent between 2015 and 2018 (Table 1). This has further decelerated to 1.9 per cent in 2019. This declining trend is related mainly to the fall in cooper price on which the country is dependent for over 70 per cent 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.

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 (2015-219) 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 per cent 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 per cent 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 sever 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.

2. 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 International Monetary Fund (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 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 (Geda et al., 2017; IMF, 2019). It is amidst implementing these policies that the economy confronted the economic impact of COVID-19.

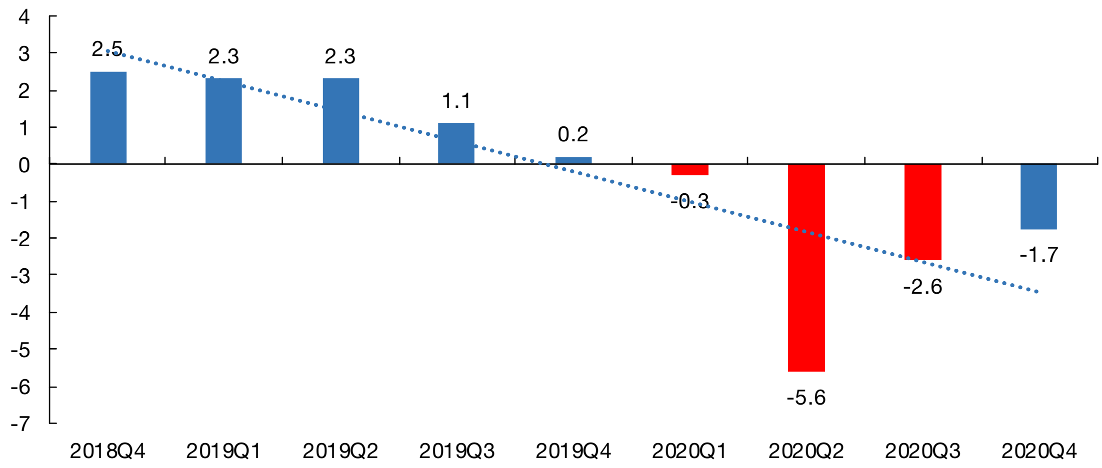
2.1 GDP and Sectoral Growth Effects of COVID-19

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 per cent – the lowest growth rate since growth began decelerate by nearly 50 per cent 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 per cent 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 per cent, 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 per cent 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 per cent, despite the growth in service sector by 5.3 per cent 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 per cent, has sharply declined to negative 5.6 per cent 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 per cent 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) per cent.

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, 2019). 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 per cent to GDP in 2018 –the "wholesale and retail trade, repair of motor vehicles" sub-sector accounting for nearly half of that, at 21 per cent in 2018. This is followed by the industrial and agricultural sectors that contributed about 21 and 17 per cent, respectively, in the same period (Table 2). The "mining and quarrying" sub-sector (in the primary sector) accounts for about 11 to 13 per cent 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.

Macroeconomic Implication: this growth deceleration has also brought about serious macroeconomic challenges. Following the outbreak of COVID-19, inflation nearly doubled, reaching 19.2 per cent in the final quarter of 2020 compared to the 11.7 per cent 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 $ at the end of 2020, compared to K12.9 per $ at the end of 2019 – a depreciation of about 64 per cent. 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 per cent of GDP in 2017 and 2018, respectively, to 9.1 and 14 per cent 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 per cent of GDP in 2019 and about 104 per cent 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.

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

	Share in GDP percentage (2018)	*Growth Rate (Annual, in percentage)*					*The COVID-19 Period Growth rate 2020*		
		2015	*2016*	*2017*	*2018*	*2019*	*Q1*	*Q2*	*Q3*
Primary	**16.6**	**-3.3**	**5.8**	**5.8**	**-5.4**	**-6.2**	**7.5**	**17.3**	**14.6**
Agriculture, forestry and Fishing'	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
Secondary	**20.9**	**10.5**	**4.7**	**6.7**	**3.4**	**-1**	**(-4.7)**	**(-11.6)**	**(-1.8)**
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
Tertiary sector	**56.6**	**2.2**	**2.8**	**1.7**	**6.8**	**5.3**	**(-1.0)**	**(-10.5)**	**(-8.21)**
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
GDP at constant 2010 Market price	**100**	**2.9**	**3.8**	**3.5**	**4.0**	**1.9**	**(-0.3)**	**(-5.6)**	**(-2.6)**

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

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 disproportionally 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 (Geda and Weeks, 2018; Geda 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 per cent. 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 per cent 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 per cent with Kazungula border that serves Zambia, Botswana and Zimbabwe recording the largest decline of 89 per cent. This is followed by Livingstone Port (87 per cent) and Nakonde (55 per cent) (COMESA, 2020). The export traffic declined by a lower percentage compared to imports at 7 per cent, 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 per cent in April, compared to March 2020, with the largest decline being registered at Kazungula (84 per cent), Nakonde (31 per cent) and Chirundu (30 per cent) borders.

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

						The COVID-19 Period			
(US millions)	*Dec-18*	*Mar-19*	*Jun-19*	*Sep-19*	*Dec-19*	*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 ($ million)	**1521.9**	**1435.2**	**1320.3**	**1013.8**	**1268.0**	**1189.5**	**1207.8**	**1690.4**	**1790.7**
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) ($ million)	576.9	429.4	500.1	529.6	478.2	415.8	367.4	554.0	531.6
Imports, c.i.f.	-2437.0	-1820.5	-1865.7	-1796.0	-1741.9	-1456.4	-1143.3	-1355.2	-1362.4
Trade Balance	**-301.3**	**87.3**	**0.6**	**-202.4**	**61.3**	**198.4**	**491.4**	**953.9**	**1006.9**
Foreign direct investment	-35.2	229.7	182.8	6.3	129.1	-189.0	-105.9	148.4	380.6
Gross Official Reserves expressed in terms of months of import cover	1.9	1.6	1.7	1.7	2.1	1.9	2.3	2.3	2.4
Exposure to foreign currency									
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									

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