ZAMBIA

Table 1	2019
Population, million	18.1
GDP, current US$ billion	23.0
GDP per capita, current US$	1266.8
International poverty rate ($1.9)[a]	58.7
Lower middle-income poverty rate ($3.2)[a]	75.4
Upper middle-income poverty rate ($5.5)[a]	88.1
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	63.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

The COVID-19 crisis has exacerbated Zambia's fragile macroeconomic situation and increased poverty and vulnerability. After growing by 1.4 percent in 2019, the economy is projected to contract by 4.5 percent in 2020, reflecting declines in all sectors except agriculture. With limited fiscal space to respond to the crisis, the authorities have largely relied on monetary policy easing to prop up domestic demand. A weak rebound is expected in 2021, but risks are heavily tilted to the downside.

Recent developments

The COVID-19 pandemic has pushed into contraction an economy that was already weakened by persistent drought and unsustainable fiscal policies. GDP contracted by 0.3 percent in the first quarter of 2020 and is projected to contract by 4.5 percent for the year, following a year when GDP growth had slowed to the lowest rate in two decades. With the first case of COVID-19 confirmed in mid-March, the authorities instituted early on measures to control the spread of the virus and established a National COVID-19 Preparedness and Response Plan. Mining and services have suffered from lower global demand and price outlook and social distancing measures. The impact of social distancing is amplified by the presence of a large informal sector, which usually lacks insurance, savings, or access to formal financial services. Meanwhile, a collapse in investment is driving the contraction of aggregate demand.

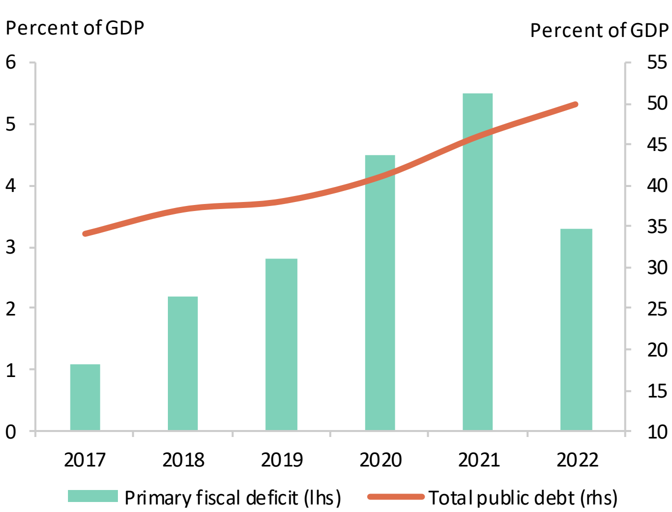
Because of chronically high deficits and rising debt, the authorities currently have little fiscal space to respond to the COVID-19 crisis. They are revising the 2020 budget to reflect lower revenues caused by the economic slowdown and to respond to the COVID-19 pandemic with increased health and social spending. Domestic revenue remained broadly in line with the budget in the first half of the year, at 48 percent of planned revenue, but the authorities expect a decline in domestic revenue of more than 15 percent and more than double the fiscal deficit compared to the 2020 budget.

Zambia's debt vulnerabilities have significantly heightened since 2019. The 2019 Debt Sustainability Assessment concluded that Zambia remained at high risk of debt distress and that its debt was unsustainable. All indicators of debt carrying capacity have since worsened since then--including lower GDP growth, lower export earnings and fiscal revenues and a weaker exchange rate. The authorities recently hired debt advisors to help them with a comprehensive and orderly debt restructuring. The country's participation in the Debt Service Suspension Initiative (DSSI) will also help it free up resources for the COVID-19 response.

The Bank of Zambia has eased monetary policy in response to the COVID-19 crisis, despite growing inflationary pressures. Rapidly falling aggregate demand and financial sector stability concerns due to the COVID-19 pandemic encouraged the authorities to reduce the policy rate by a cumulative 350 basis points, to 8.0 percent. Combined with the introduction of a Medium-Term Refinancing Facility in April, the monetary easing is expected to support private sector liquidity and prop up aggregate demand.

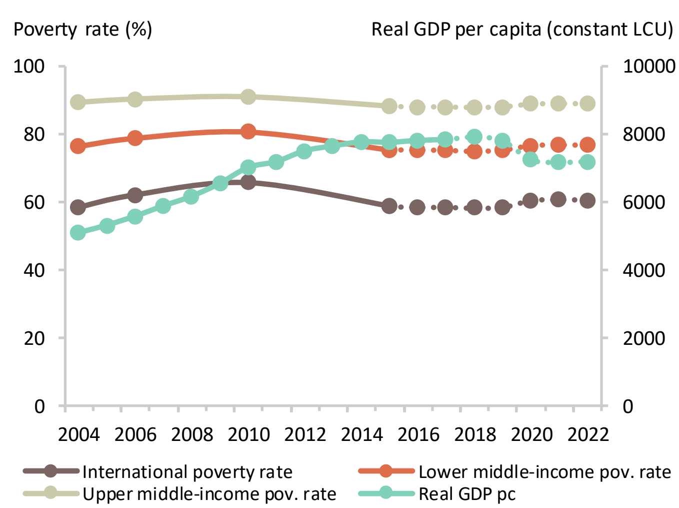
External stability has weakened further in the face of low exports and debt service pressures. The current account is expected to record a deficit of 2.3 percent of GDP in 2020 after registering a surplus of 1.1 percent of GDP in 2019. Exports in January–July 2020 are 11.8 percent lower than in the same period of 2019, although this has

FIGURE 1 Zambia / Interest payment to domestic revenue ratio



Sources: Zambia Ministry of Finance and World Bank estimates.

FIGURE 2 Zambia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

been tempered by import compression of 29.1 percent over the same period. Higher debt service and low capital inflows have put pressure on foreign exchange reserves, which were $1.4 billion in June 2020. Depreciation of the kwacha by 40 percent since the end of 2019 further weakens external sustainability.

There has been a considerable fall in household income since the start of the pandemic. A World Bank household monitoring phone survey found that 4 in 5 households reported a drop-in income from nonfarm business, and that 1 in 3 reported a reduction or disappearance of wages. There has been a considerable reduction in employment in both urban and rural areas. Job losses have been particularly severe in the tourism, manufacturing and services sectors. There has been a concerning impact on the food security of vulnerable households, with a high proportion of respondents reporting skipping meals or running out of food since the onset of the pandemic. These results are consistent across urban and rural parts of Zambia.

Outlook

A gradual recovery is expected in Zambia. Marginal GDP growth of 1.9 percent is projected for 2021 and real output should reach its pre-crisis rate in 2022. The current account deficit is projected to worsen to 3.1 percent of GDP in 2021, and lower copper export earnings and capital inflows will likely put pressure on reserves. Given the unsustainable debt position, the authorities intend to start fiscal consolidation in 2021, with the FY21 budget targeting a fiscal deficit of 9.3 percent of GDP.

Poverty is projected to increase. Simulations of the impact of the COVID-19 pandemic show that the national poverty headcount rate is expected to increase by around 2 percentage points in 2020. This is largely driven by increases in poverty in urban areas, and among those relying on employment income from the informal sector, in particular. Core recurrent spending, especially social cash transfers, has suffered in recent years. Only 7.4 percent of the budgeted social cash transfers in FY 20 has been disbursed through June. This could be further affected by the increasing fiscal pressures due to the crisis, with a substantial impact on the most vulnerable households in the population. Absent decisive policy interventions, poverty is expected to rise by more than a percentage point from 58.3 percent in 2018 to 60.5 percent and 60.7 percent in 2020 and 2021, respectively.

Risks and challenges

Risks to the macroeconomic outlook are tilted to the downside. Domestically, an increase in the number of COVID-19 cases and related social distancing measures could overwhelm the health system, resulting in massive business and job losses, especially in the urban informal sector. A slower than expected global recovery would depress exports, deepen exchange rate pressures, and further weaken the base on which the Zambian economy is expected to recover. It could also lengthen the time for Zambia to start a full macroeconomic adjustment program to restore debt sustainability. Moreover, the upcoming 2021 general elections could limit the political will to undertake key reforms to stabilize the economy.

TABLE 2 Zambia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.4	4.2	1.4	-4.5	1.9	3.4
Private Consumption	12.5	1.2	2.3	3.1	3.6	4.5
Government Consumption	-8.6	-14.9	-10.1	11.2	-5.3	-7.5
Gross Fixed Capital Investment	10.2	9.9	-14.3	-21.2	2.1	-1.3
Exports, Goods and Services	-3.8	8.7	-7.2	7.1	5.2	10.4
Imports, Goods and Services	10.9	4.9	-13.7	5.4	7.0	7.2
Real GDP growth, at constant factor prices	3.5	4.0	1.5	-4.5	1.9	3.4
Agriculture	9.8	-21.2	7.7	3.7	5.0	4.0
Industry	5.4	4.6	-3.3	-5.7	1.8	4.5
Services	1.7	7.3	3.5	-4.7	1.6	2.7
Inflation (Consumer Price Index)	6.6	7.5	9.1	12.9	11.5	10.0
Current Account Balance (% of GDP)	-1.7	-1.3	1.1	-2.3	-3.1	-1.4
Net Foreign Direct Investment (% of GDP)	4.6	1.4	-1.0	2.1	2.2	3.4
Fiscal Balance (% of GDP)	-9.8	-10.1	-9.8	-12.4	-10.8	-6.4
Debt (% of GDP)	65.5	77.8	88.4	95.0	94.0	93.1
Primary Balance (% of GDP)	-5.8	-5.5	-5.9	-8.2	-5.3	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	58.5	58.3	58.6	60.5	60.7	60.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	75.2	74.9	75.3	76.7	76.9	76.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.0	87.8	88.0	89.0	89.2	89.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.