ZAMBIA

Key conditions and challenges

The Zambian economy was under considerable stress on multiple fronts even before the onset of the COVID-19 pandemic. Economic growth averaged only 3.1 percent over 2015-19 and had slumped to 1.4 percent in 2019—the lowest in the past two decades, due to drought and a downturn in global copper prices. Fiscal and external indicators worsened, due to sizable public investments and a weakening exchange rate.

The impact of the COVID-19 pandemic heightened these macroeconomic imbalances in 2020. The economy contracted by 2.9% in 2020, marking Zambia’s first recession since 1998. Mining and services suffered from lower global demand and social distancing measures, respectively, earlier in 2020. A relaxation of lockdown measures in the second half of 2020, along with a global pick-up of copper prices did, however, help activity to recover. Falling revenues and COVID-19 related expenditure pressures saw the fiscal deficit increase to 14.8% of GDP compared to an approved budget of 6.5%. The Kwacha depreciated by over 50% against the US$ while reserves declined to $1.2 billion against at least US$1.3 billion in debt service obligations. As a result, Zambia became the first Sub-Saharan African country to default on the Eurobonds in the midst of the COVID-19 crisis in 2020. Despite the persistent inflationary pressures that saw CPI inflation average 15.7% for the year, the central bank kept a relaxed monetary policy stance throughout 2020 to temper the adverse economic effects of the pandemic.

Recent developments

Recent economic developments point to a weak recovery in 2021, with higher copper prices and post-election rise in market confidence expected to strengthen economic activity in the second half. GDP in the first quarter of 2021 grew by 0.7% year-on-year, largely driven by agriculture and manufacturing, while continued challenges in tourism affected the services sector. The decade-high increase in copper prices is expected to help boost production, fiscal revenues, and external balances. The successful conduct of the August 2021 elections followed by the ushering in of a new administration and smooth power transfer have also helped improve market confidence and economic outlook, as reflected in the recent Kwacha appreciation and increasing participation of foreign investors on the domestic debt market. Zambia’s exchange rate flexibility and the new IMF SDR allocation have helped absorb the impact of the economic shock on the external sector. The Kwacha depreciation in 2020 led to huge import compressions, leading to a current account surplus of 12.0% of GDP. Preliminary data for 2021 also shows a sizeable current account surplus in Q1 of 2021 (about 5% of 2020 GDP), driven by increased

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**Table 1** 2020

<table>
<thead>
<tr>
<th>Metric</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>18.4</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>18.7</td>
</tr>
<tr>
<td>GDP per capita, current US$</td>
<td>1016.3</td>
</tr>
<tr>
<td>International poverty rate ($5.5)</td>
<td>58.7</td>
</tr>
<tr>
<td>Lower middle-income poverty rate ($3.2)</td>
<td>75.4</td>
</tr>
<tr>
<td>Upper middle-income poverty rate ($5.5)</td>
<td>88.1</td>
</tr>
<tr>
<td>Gini index</td>
<td>57.1</td>
</tr>
<tr>
<td>School enrollment, primary (% gross)</td>
<td>98.7</td>
</tr>
<tr>
<td>Life expectancy at birth, years</td>
<td>63.9</td>
</tr>
<tr>
<td>Total GHG Emissions (mtCO2e)</td>
<td>99.4</td>
</tr>
</tbody>
</table>

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

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The Zambian economy is expected to grow moderately by 2.2 percent in 2021 following a historic contraction of 2.9% in 2020, driven by high copper prices, rising market confidence, and normal rainfall patterns. Poverty is expected to increase slightly by 0.2 percentage points to 60.3 percent, reflecting COVID-19 impacts. Economic activity will gradually pick up to potential growth rates beginning in 2023. However, risks stemming from prolonged debt negotiations and low COVID-19 vaccination rates will need to be managed.

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**FIGURE 1** Zambia / Fiscal operations (2011-20)

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

Sources: Zambian authorities and World Bank Staff estimates and projections.
Source: World Bank. Notes: see Table 2.
copper sales and further declines in imports. Following a depreciation of 7% from the beginning of the year through mid-July 2021, the Kwacha has significantly appreciated in the past two months, reflecting an improved reserve position from the new IMF SDR allocation, improved post-election market confidence, and increased foreign currency sales by private sector agents. Overall, the Kwacha had appreciated by over 20% against the US dollar from the beginning of the year through mid-September 2021. Nonetheless, the effects of the pandemic on poverty and vulnerability have continued in 2021. The national poverty headcount rate is projected to increase by around 1.7 percentage points since the start of the pandemic, from 58.6 percent in 2019 to 60.3 percent in 2021. This has largely been driven by increases in poverty in urban areas, and among those relying on employment income from the informal sector. A World Bank Household Monitoring phone survey found that in 4 in 5 households reported a drop-in income from nonfarm business, and that 1 in 3 reported a reduction or disappearance of wages. A recent Socio-economic Impact Assessment conducted by the National Statistical Office found that 9 in 10 households have experienced spikes in the price of food, and that 64 percent of these had to reduce food consumption as a result. Core recurrent spending, including social benefits, has suffered in recent years, with only about one third percent of the government’s budget on social cash transfers (SCT) disbursed in FY20. While the government has budgeted for a higher amount in SCT in FY21, 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.

### Outlook

GDP growth is projected at 2.2 percent in 2021, gradually moving towards its potential growth region of between 4-5 percent by 2023. Higher copper prices, 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. However, the impact of COVID-19 will continue to dampen activity, especially in tourism and retail and wholesale trade. While the recent uptick in copper prices could help in ramping up mining activity in the next few years, a stable fiscal regime and clarity on the role of the state will be critical for increased long-term investment in the sector. More importantly, while mining will remain a key sector for driving growth in the foreseeable future, the country must begin to make significant steps towards economic diversification and structural transformation to generate sufficient jobs for its young and growing population and reduce poverty and inequality. Risks to the outlook are balanced. On the one hand, the persistent upward trajectory in global copper prices will boost copper production, domestic revenue, and external stability. On the other, slow progress on debt restructuring negotiations will weaken the confidence that creditors and markets have given to the new government and may affect the economic outlook. Further, the continued low rates of COVID-19 vaccinations pose significant health and economic risks in case of a new outbreak. Rainfall variability remains a key structural risk to Zambia’s sustainable growth, affecting key sectors like agriculture and electricity, and highlights the need to incorporate climate-smart solutions in the country’s long-term growth strategy.

<table>
<thead>
<tr>
<th>TABLE 2 Zambia / Macro poverty outlook indicators</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth, at constant market prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Consumption</td>
<td>1.2</td>
<td>2.3</td>
<td>3.1</td>
<td>3.6</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>-14.9</td>
<td>-10.1</td>
<td>10.8</td>
<td>11.7</td>
<td>-33.1</td>
<td>-4.4</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment</td>
<td>9.9</td>
<td>-14.3</td>
<td>-35.8</td>
<td>3.7</td>
<td>16.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Exports, Goods and Services</td>
<td>8.7</td>
<td>-7.2</td>
<td>10.7</td>
<td>8.7</td>
<td>9.8</td>
<td>6.9</td>
</tr>
<tr>
<td>Imports, Goods and Services</td>
<td>4.9</td>
<td>-13.7</td>
<td>-10.7</td>
<td>17.4</td>
<td>14.3</td>
<td>13.1</td>
</tr>
<tr>
<td>Real GDP growth, at constant factor prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.0</td>
<td>1.5</td>
<td>-2.5</td>
<td>1.7</td>
<td>2.9</td>
<td>4.4</td>
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<tr>
<td>Industry</td>
<td>-21.2</td>
<td>7.7</td>
<td>17.2</td>
<td>5.0</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Services</td>
<td>4.6</td>
<td>-3.3</td>
<td>0.6</td>
<td>1.1</td>
<td>1.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Net Foreign Direct Investment (% of GDP)</td>
<td>7.3</td>
<td>3.5</td>
<td>-6.2</td>
<td>1.5</td>
<td>3.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Inflation (Consumer Price Index)</td>
<td>7.5</td>
<td>9.1</td>
<td>15.7</td>
<td>22.5</td>
<td>15.0</td>
<td>10.0</td>
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<tr>
<td>Current Account Balance (% of GDP)</td>
<td>-1.3</td>
<td>0.6</td>
<td>12.0</td>
<td>10.3</td>
<td>8.5</td>
<td>5.4</td>
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<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>1.4</td>
<td>-0.6</td>
<td>-1.1</td>
<td>1.8</td>
<td>2.7</td>
<td>2.7</td>
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<tr>
<td>Debt (% of GDP)</td>
<td>-10.1</td>
<td>-9.5</td>
<td>-10.5</td>
<td>-2.6</td>
<td>-0.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>77.8</td>
<td>87.8</td>
<td>87.0</td>
<td>73.6</td>
<td>72.4</td>
<td>99.6</td>
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<tr>
<td>International poverty rate ($1.9 in 2011 PPP)</td>
<td>58.3</td>
<td>58.6</td>
<td>60.1</td>
<td>60.3</td>
<td>60.3</td>
<td>60.0</td>
</tr>
<tr>
<td>Lower middle-income poverty rate ($3.2 in 2011 PPP)</td>
<td>74.9</td>
<td>75.3</td>
<td>76.4</td>
<td>76.6</td>
<td>76.6</td>
<td>76.3</td>
</tr>
<tr>
<td>Upper middle-income poverty rate ($5.5 in 2011 PPP)</td>
<td>87.7</td>
<td>88.0</td>
<td>88.8</td>
<td>89.0</td>
<td>89.0</td>
<td>88.7</td>
</tr>
<tr>
<td>GHG emissions growth (mTCO2e)</td>
<td>-0.7</td>
<td>1.7</td>
<td>4.8</td>
<td>1.2</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Energy related GHG emissions (% of total)</td>
<td>11.8</td>
<td>11.2</td>
<td>10.4</td>
<td>10.7</td>
<td>10.1</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.