

A Critical Review of Economic Policy Responses to the Covid-19 Pandemic: The Case of Zambia



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ABSTRACT: The aim of this paper is to systematically review the economic interventions, measures, and policies that Zambia has implemented in the last three (3) years as a response to COVID 19. The methodology used involved drawing together secondary literature and evidence from a number of sources such as the World Bank (WB), UNCTAD, COMESA, International Monetary Fund, Ministry of Finance, Bank of Zambia (BOZ), and various African countries' trade and national statistics publications. Findings revealed that organizations in Zambia implemented the global and national health Covid-19 guidelines that were provided by institutions such as the World Health Organisation (WHO) and the Government of the Republic of Zambia through the Ministry of Health. The focus of this study was to assess the economic interventions and policy measures put in place as a response to COVID-19. Some of the social implications observed in the study included increased social cash transfers and stimulus packages that resulted in decreased chances of poverty. The Economic interventions included monetary policy rates favourable for the economy and tax reliefs. Fiscal and monetary interventions included the issuance of the COVID-19 bond, and the promotion of local agricultural produce to meet demand and trade restrictions. It is clear from the study that the economic interventions that Zambia undertook stemmed from a social, fiscal, monetary, and economic perspective and had effects in each of these areas. The aim of all the interventions was to stabilize the economy and ensure that the welfare of the population did not deteriorate. The study recommends that further work be done analyzing the impacts of these interventions with more data and that the Government continues on its path of protecting the economy from external shocks such as COVID-19.

KEY WORDS: Covid-19, Zambia, Economic Policy Measures, Monetary Policy Measures, Fiscal Policy Measures.

1.0 INTRODUCTION

The COVID 19 pandemic, coupled with the resulting health and economic issues, is without a doubt Zambia's and the world's most prevalent development challenge. As of April 6, 2021, the overall number of COVID 19 cases worldwide was around 132.48 million, with 2.87 million deaths, with the United States accounting for 24% of cases and 20% of deaths (Osakwe, 2021). Zambia had a small number of illnesses and mortality in the first half of 2020. However, in the second half, the number of cases increased dramatically, rising from 1594 at the end of June 2020 to 20,727 by the end of the year. By April 6, 2021, the number of cases had risen to 89, 009, continuing the rising trend (CITATION). The number of deaths increased in a similar upward trend, rising from 24 at the end of June 2020 to 1,222 on April 6, 2021 (Osakwe, 2021).

The pandemic put the Zambian economy to the test and compounded the country's development issues. Prior to the outbreak of the pandemic in the first quarter of 2020, the economy was hampered by issues such as high debt and fiscal deficits, high poverty and inequality, food insecurity, and poor growth, (BOZ, 2020b).

Countries around the world had implemented numerous policy measures in response to the global Corona virus (COVID 19) pandemic, although differing in approach, are all evolving as the pandemic unfolds, and Zambia was no exception. Since the emergence of the COVID 19 pandemic in Zambia, the Government implemented a number of policies to mitigate the pandemic's impact on people and businesses, with its concern on how to strike a balance between health and economic consequences.

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Zambia is a small landlocked, resource-rich country with a population size of about 19 million in 2020 (Geda, 2017). It has had 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 (African Development Bank, 2019). Politically, Zambia is a stable country having a regular election every term which stretches for five years. The last election took place in the year 2021 ushering in the New Dawn Government. The general policy direction of the new government aims at growth and employment generation that was envisaged to occur in the context of sustainable public finance that includes sustainable public debt, moderate inflationary pressures, and diversification of the production structure (Hichilema, 2021). Taken together, these policies were meant to help reduce poverty, which was very high even by African standard- the headcount ratio in 2019 being 38 percent.

Zambia's growth decelerated to about 3 to 4 per cent between 2015 and 2018 and a further 1.9 per cent in 2019. This declining trend was related mainly to the fall in copper price, decline in agricultural output and the challenge of hydro-electric power generation both of which were 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 (Geda, 2019).

1.1 Research Purpose

The purpose of this paper is to highlight the key economic interventions, measures, and policies that Zambia had implemented as a response to COVID-19 pandemic

1.2 Research Question

The specific research questions that this paper will address are:

- i. What economic interventions, measures and policies has the Government of the Republic of Zambia taken to counter the effect of COVID 19?
- ii. What is impact of COVID-19 economic interventions on social, fiscal, economic and monetary aspects of the county?
- iii. Was Government harmonizing the interventions above?

1.3 Research Objectives

Given the impact that COVID 19 had had on the economy of Zambia, this paper was a systematic literature review with objectives of:

- i. Systematically reviewing the Zambian COVID 19 economic interventions, measures and policies;
- ii. Reviewing the social, economic, fiscal and monetary impacts of these interventions; and
- iii. Assessing the harmonization of the interventions.

1.4 Significance of The Study

The Government of the Republic of Zambia continues to rely on both external and domestic resources to meet its financing needs as articulated in the 2022 budget speech by the Minister of Finance and National Planning. This situation has been exacerbated by the COVID-19 pandemic despite government policies and interventions. Thus, the rationale of this study is to conduct an in depth systematic analysis of the impact of COVID 19 on the social-economic situation given the policy interventions the government has taken.

2.0 METHODOLOGY: SCOPING THE STUDY

This paper used a systematic review to collect and analyse the data. A systematic literature review (SML) is a research methodology used to help evaluate studies by capturing principal analyses on the basis of specific criteria (Shakeel et al., 2021). A systematic review can also be looked at as a method that collects secondary data, synthesizes all of this available data and relevant evidence and brings together all existing primary studies for review (Phillips & Barker, 2021). In this paper, particular words that were used in search engines such as google scholar, google books and websites such as the Bank of Zambia were, COVID-19, economic interventions, policy measures, Zambia, corona virus in different combinations. The results of these searches are as shown in the table below. The selection criteria used for the papers and report were that all had to be related to COVID-19 economic interventions from 2019 till date and also the impact in terms of economic, social, fiscal and monetary policies of these interventions.

Table 2.0: Search results

No.	Search engine/ website	Number of papers appearing	Number used
1.	Google scholar	11,400	1
3.	Bank of Zambia	27 publications	2

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4.	UNCTAD	1	1
5.	World Bank	-	2

3.0 FINDINGS OF THE STUDY:

The findings are drawn from the review of several articles and policy documents published between 2019 and 2022 on the economic impact of Covid-19 on Zambia. The findings are categories as follows: social, economic, fiscal, monetary and other policy reforms.

3.1 Social Policy Responses

One of the responses of the Government to COVID-19 could be seen from the “stringency index” for Zambia. The stringency index is “a composite measure of government response to COVID-19 which was based on nine response indicators including school and workplace closures, travel bans, etc. rescaled to value from 0 to 100 (100 being strict)” (Geda, 2019). The stringency index shows Zambia starting off at 0 in January 2020 and hitting an all-time high of 80 in April 2020 when the pandemic was at its peak. As the COVID cases started to reduce by April 2021, the index showed that Zambia stood at 40. The restrictions were lifted although there was a risk of initiating a second wave of the virus. This lifting however, helped business to recover and run operations (Geda, 2019).

The Government of Zambia, through the Ministry of Community Development and Social Services with technical support from UN agencies (UNICEF, UNDP, ILO, WFP) has been implementing the COVID-19 Emergency Cash Transfer programme to support over 200,000 households in 25 districts in Zambia during the COVID crisis (Nkandu, 2021). This was an economic intervention that had social repercussions as it targeted the most vulnerable people in the Zambia society. The World Bank estimates 616,000 households, approximately 3million people to be registered on social cash transfer. A reflection of 20% of Zambia/s population that will be aided by the social cash transfer economic interventions (World Bank, 2021).

The Zambian Government also adopted a number of social protection initiatives to help homes and businesses affected by the outbreak. These included the Bank of Zambia's approval of ZMW 10 billion (USD 540 million) for micro financial institutions and commercial banks within the country to help businesses to stay afloat (Bank of Zambia, 2020), cash transfers from the Disaster Management and Mitigation Unit (DMMU) of ZMW 400 to ZMW 800 (USD 21 to USD 42) per month for vulnerable households in the communities (UNOCHA, 2020), and the issuance of a COVID 19 bond worth ZMW 2,671 million (USD 144 million) to pay pensioners (Ministry of Finance, 2020). The majority of policy measures were enacted in March and April of 2020, with the number of responses dramatically declining from May 2020 onwards. Continued slack policy execution, particularly, for measures involving individuals congregating and wearing masks, might offer considerable impediments in reducing COVID 19's spread and impact.

All of the above interventions aimed to subsidize citizen's welfare so the social implications could be reduced.

3.2 Economic Policy Responses

The Government revised some of its economic targets, such as Gross Domestic Product (GDP) growth rate and revenue collection estimates. In the 2020 National Budget, GDP growth was projected at 3.2 per cent. However, it was revised downwards in March, 2020 to below 2 per cent. Further interventions included establishment of an economic stimulus package that among other things would be financed through the issuance of a COVID 19 Bond (BoZ, 2022). While the fight against the pandemic was expected to be won as a result of the development of vaccines, the economic effects posed by the virus on Zambia's economy were seen to exist for a considerable period of time. What made the response to this pandemic highly limiting for Zambia were the pre-existing conditions that had been worsened by the pandemic such as the debt burden, high poverty levels and Illicit Financial Flows (IFFs), among others.

Zambia and other countries during this imposed a number of trade restrictions that affected both internal and external trade. In Zambia, 2020 saw a balance of trade that was positive with import declining by 27%. This however, had a ripple effect of inflation and shortage of goods, resulting in people being unable to access certain goods. The prices of copper during this time soared (Geda, 2019)

3.3 Fiscal Policy Measures

The government of Zambia had 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 was to be made. Notwithstanding such

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challenges, the government had developed a COVID 19 response plan to ease liquidity challenges firms faced due to the economic impact of the pandemic. It also developed a government support package that included the following (Nwafor, 2020; Ernest and Yong, 2021; COMESA, 2020):

- i. Released K2.5 billion (\$137 million) to reduce domestic arrears owed to domestic suppliers of goods and services.
- ii. Suspended excise duty on ethanol for use in alcohol-based sanitizers and other medical related commodities.
- iii. 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.
- iv. Suspended export duties on the export of concentrates in the mining sector to ease pressure on the sector.
- v. An initiative for funding the COVID 19 response programs had been initiated through: the setting up of an Epidemic Preparedness Fund.
- vi. Approval of a COVID-19 Contingency and Response Plan; under the Disaster Management and Mitigation Unit; and

In 2020, the Government released K500 million for payment of Public Service retiree benefits. They further released K170 million to banks so as to clear third-party arrears and K140 million for the payment of various road contractors. The Government directed the Secretary to the Treasury to focus on the completion of the verification exercise aimed at permitting payments of K1 billion to Government suppliers of goods and services (EY, 2020).

The Government also constituted a task force that was mandated to ensure that Zambia products were available in major chain stores taking advantage of the trade restrictions that had been instituted in supplier countries (EY, 2020).

3.4 Monetary Policy Measures

The Bank of Zambia had instituted measures to promote the use of digital financial services. The objective was to decongest banks, reduce use of cash and minimize person-to-person contact. These included:

- i. Removal of the transaction and balance limits on agents and corporate wallets; reduced the processing fees for Real Time Gross Settlement System.
- ii. Reduced the policy rate by 225 bps to 9.25 per cent and availed 10 billion Kwacha (3 percent 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.
- iii. Complete waiver of charges for person-to-person electronic money transfers of up to K150. Upward revision of transaction and balance limits for individuals, small-scale farmers and enterprises.
- iv. Notably, the limits by agents and corporate wallets had also been revised upwards to give agents more credit to deal with transactions.
- v. Reduction of the processing fee for the Real Time Gross Settlement System.
- vi. The Government had also committed to issuing a Statutory Instrument addressing loan provisions and impairments. This was aimed at encouraging financial service providers to provide relief to the private sector and facilitate long-term lending to productive sectors of the economy.

Further, (Ernest and Young, 2020) the Government issued an update to outline its response to the COVID 19 pandemic. Various measures were implemented in response to COVID 19 which suggested that the Ministry of Finance would oversee the implementation of the Cabinet-approved COVID 19 contingency plan. The Government tried to ease liquidity in the economy through the Central Bank's liquidity easement initiative, this was by accessing the K10 billion medium-term refinancing facility. This would provide funding to commercial banks and non-bank financial institutions for them to restructure, refinance or extend credit to businesses and households on more favorable terms. These terms and conditions for the access to these and other facilities had already been issued by the Bank of Zambia (EY, 2020).

3.5 Other Policy Responses

Zambia's trade policy response to the pandemic took three main forms: direct support for vulnerable businesses, particularly in tourism and agriculture, through the Bank of Zambia's financing scheme and targeted tax relief; investment in rural infrastructure and roads despite broader capital expenditure cuts; and incentives to promote local procurement and processing of domestic raw materials. At the same time, it boosted electricity tariffs for non-mining and non-export companies by more than 100 percent. (PwC 2020: 35).

As previously stated, the Bank of Zambia prioritized agriculture, tourism, industry, and energy in its financial aid scheme. These industries received 60% of the total K10 billion in the scheme. They had gotten 56% of all approvals as of January, but no information on the value of payments by sector were available. (BOZ 2021: 1).

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Dedicated levies on gasoline and electricity were used to pay government capital investments in roads and rural electrification. As a result, they were generally spared from cuts to debt-financed capital spending. The budget for 2021 included K307 million for rural electricity, including some solar projects, as well as K6 billion for rural and urban roads. The Government eliminated duties on copper ores and concentrates imports, significantly lowering the cost of obtaining them from the Democratic Republic of Congo than from Zambian refinery suppliers. This was in response to a long-standing demand by large mining and refining firms.

Outside of mining, the government created a slew of (mainly minor) incentives for local consumer items' access to market entry (Ng'andu 2020: 6). It planned to replace government procurement legislation to allow priority for citizen-owned vendors, as per 2021 budget address. It took steps to restrict the import of some manufactured and agricultural goods, particularly from beyond the continent. It imposed tariffs on meat and fish imported from outside the SADC or COMESA (Common Market for Eastern and Southern Africa), as well as cotton and polyester fabric. Finally, it created a 2% income tax credit for producers who used locally produced farm products (Neva, 2021).

All the interventions that the government implemented, the overriding theme was to keep the economy stable enough for the citizens to continue doing business and usual and also maintain a reasonable lifestyle and not fall into poverty.

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