Major Country Risk Developments
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By Byron Shoulton

Overview

Although not the first disease to spread around the world, Covid-19 is probably the first one that governments have been forced to combat this forcefully. Efforts, including lockdowns and travel bans, were meant to slow the rate of infections and to conserve on available medical resources. Funding of those efforts and public health measures taken by governments around the world is on a scale rarely experienced before.

Still, multiple signs point to a crisis in global order. The uncoordinated international response to the pandemic, the resurgence of nationalist politics, and the hardening of state borders all seem to herald the emergence of a less cooperative and more fragile international system.

The shared nature of the Covid-19 shock has succeeded in putting a larger percentage of the global community in recession than at any other time since the Great Depression. The recovery from this downturn will likely not be robust or rapid. Ultimately, the fiscal and monetary policies used to combat the current global contraction will mitigate but not eliminate the economic losses. There is a growing consensus that it will be an extended period of time before the global economy claws back to where it was at the start of 2020. It seems increasingly clear that deep economic contraction will be followed by financial weaknesses in many parts of the world, as nonperforming corporate loans accumulate alongside bankruptcies. Sovereign defaults in the developing world are poised to spike. Also, The World Bank estimates that as many as 60 million people globally will slide into extreme poverty because of the pandemic. Consequently, balance sheets in many countries will slip deep into the red as the march of globalization slows and suffers deep wounds. The World Bank predicts that the global economy will contract by 5.2% this year.

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The pandemic has forced companies and governments to relearn some basic lessons. Institutions everywhere are examining how prepared they are for the worst. The early scramble for national supplies of personal protective equipment, as governments realized they did not have enough to cope with the scale of the health emergency, was followed by fears over a shortage of critical medicines and key ingredients. The current focus is on securing access to a potential vaccine, with the U.S. government agreeing in late July to a $2.1 billion deal with Sanofi and GlaxoSmithKline to buy 100 million doses when a vaccine becomes available.

More than any other recent health or economic crises, Covid-19 has exposed the developed world's reliance on imports and the fragility of long global supply chains. Self-sufficiency appears to be the new mantra. Several countries have launched programs to ensure access to critical goods while diversifying trading relationships. In France , President Macron is exploring bringing home the manufacture of key medicines and has pledged to reshore some essential ones (e.g. the drug paracetamol) within three years. The UK recently launched "Project Defend" for similar reasons. The European Union's 750 billion euros recovery fund includes a requirement for national plans to reinforce the trade bloc's economic and social resilience.

Companies are having to reconsider their supply-chains and some are looking to shift their models from "just in time" to "just in case". These responses are understandable. Governments want to ensure that they have the ability to protect their citizens in a national emergency. Long-term resilience planning, including the monitoring of supply chains and inventories, is a legitimate ambition for governments, as well as companies.

The manufacture of active pharmaceutical ingredients (APIs) used in many drugs had shifted to lower-cost Asian countries over many years. This caused Europe and North America to become overly dependent on imports of these agents. Estimates suggest that between 50% and 80% of API's and so-called small molecule drugs in Europe and the U.S. are sourced from India and China. In the UK, academics have called on governments to re-evaluate the case to encourage greater domestic manufacture of critical medicines.

Policymakers will need to tread with caution. While it makes sense for governments to ensure that they have the capacity to produce critical medicines or goods; and the ability to source them quickly from allies, if this is not carefully targeted it could lead to protectionism. This could negatively impact trade and jobs across a wide-range of sectors, hurting a lot of existing businesses and households. One example is the proposal to reshore production of the drug paracetamol to France. This is a commodity that is produced more cheaply in Asia. For the plan to be successful, the French government would have to provide subsidies to domestic companies to manufacture the drug's API in France.

Two leading drug companies which sell about 90% of paracetamol in the country, currently source their API's from the U.S., China and India. Governments are being cautioned to be wary of adopting self-sufficiency as the overarching aim in new policies. Even domestic supply chains are at risk of disruption. Businesses require the economies of scale provided by global markets to help generate the capital needed to invest in innovation. Ultimately, market scale, size and future growth potential are integral for companies to proceed with a bet to invest. True resilience will come via potential for true diversification.

Because of border closures and lockdowns, global demand for goods has contracted, hitting export-dependent economies hard. Even before the pandemic, many exporters were facing pressures. Between 2008-2018 global trade growth had decreased by 50%, compared with the previous decade. More recently, exports were hurt by the U.S.-China trade war launched in mid-2018. Covid-19 merely added to this trend.

For economies where tourism is an important source of growth, the collapse in international travel has been catastrophic. The IMF predicts that the Caribbean, where tourism accounts for between 50% and 90% of income and employment in some countries, tourism revenues will return to pre-crisis levels only gradually over the next three years. Not only is the volume of cross-border trade down; the prices of many exports have fallen. The fall in oil prices due to the slowdown which caused demand for energy to plunge is one example. The resulting overproduction and free fall in oil prices has tested the business models of all producers, particularly those in emerging markets, including U.S. shale oil and gas producers. Oil-dependent Ecuador defaulted in April 2020, and other developing oil producers are at high risk of following suit.

Some important economies are attempting to reopen, reflected in improving business conditions across Asia and Europe. However, signs of rebound should not be confused with a recovery. Rebounds noted from one place to the next marks the beginnings of a long journey out of a deep hole. The World Trade Organization estimates that world trade is likely to fall between 13% and 32% in 2020. If the outcome is somewhere in the middle of that wide range, it will be the worst year for globalization since the early 1930's.

Slow recovery in unemployment may be long lasting. Some shuttered businesses will not reopen. The owners would have depleted savings and may opt for a more cautious approach toward future business ventures. Some laid-off or fired workers will likely exit the labor market permanently. Others will lose skills and miss out on professional development opportunities during the long spell of unemployment, making them less attractive to potential employers. The most vulnerable are those who may have difficulty getting a job in the first place-graduates entering an impaired economy.

Worth mentioning is that this downturn arrived at a time when the economic fundamentals in many countries-including many of the world's poorest-were already weakening. Partly because of this prior instability , more sovereign borrowers have been downgraded by rating agencies in 2020 than in any year since 1980.

A fresh mass outbreak of Covid-19 would increase the risks of an external debt crisis among emerging and developing economies which are vulnerable to sudden capital outflows. The economic impact has been especially acute for countries that rely on oil exports, tourism or remittances from migrant workers. Many of these countries face a fall in their current account balances in 2020, equivalent to more than 2% of GDP, according to the IMF. These trade balance losses are to exceed 3% of GDP for oil exporters such as Russia and Saudi Arabia. In countries such as Costa Rica, Morocco, Portugal, Jamaica, Turkey, Egypt losses of tourism proceeds exceed 2% of GDP, while remittances would hit hardest in countries such as Guatemala, Pakistan, Egypt, Jordan.

According to the IMF the world entered the pandemic with persistent, pre-existing imbalances between global spending and savings that increased the economic risks. About 40% of countries had excessive surpluses or deficits in 2019, and these were concentrated in advanced economies, with Canada, UK and the U.S. standing out for unwarranted size of their deficits. The U.S. deficit was set to narrow from $498 billion to $402 billion in 2020, equivalent to 2% of U.S. GDP. Excessive surpluses were concentrated in the eurozone, with Germany's current account surplus set to fall from $275 billion to $199 billion in 2020, still equivalent to 5.6% of its GDP.

USA

While the U.S. economy contracted by a record 32.9% in the second quarter, the economy is expected to resume growth in the third quarter, which began July 1. A surge in in virus infections in Mid-June appears to be slowing the recovery in some states. The data shows that spending rose in May and early June before stalling and remaining flat t hrough J uly. Credit-card debt in the U.S. and other advanced economies has fallen since the arrival of the pandemic, and consumer demand for new borrowing—through credit cards, personal loans or by other means—is down sharply. The flood of money from government stimulus programs, along with debt-relief measures such as deferred mortgage and student-loan payments, has stabilized the finances of many households and may have left some in better shape than before the pandemic (at least temporarily). The Federal Reserve says it is preparing to effectively abandon its strategy of pre-emptively lifting interest rates to head off inflation, essentially telling markets that interest rates will stay low for a long time.

The U.S. unemployment rate fell to 10.2% in July, but employers added fewer jobs than in June, as the economic rebound from the pandemic was hindered by a spike in Covid-19 cases in the American south and west. The fall in the jobless rate from 11.1% in June was slightly better than expected. The U.S. labor department reported 1.8 million new jobs in July, a much slower pace from 4.8 million in June. Labor conditions reflect continued resumption of economic activity (but at a slower pace than the previous month), still an improvement over four months of shutdowns that severely curtailed commerce, manufacturing, transportation, work, services, etc., due to the coronavirus pandemic and efforts to contain it.

The economy saw job gains in July across a range of industries, including leisure and hospitality, government, retail and a variety of services, including healthcare. One-third of the gains in new jobs came in the leisure and hospitality industry, with more people traveling, compared to the height of the lockdowns in the pandemic's early days. The retail sector added 258,000 jobs, with a half in the clothing sector. The healthcare sector added 126,000 jobs, driven in part by increased employment at dental clinics. The deceleration in the labor market recovery came as legislators remained sharply divided over how much Congress should provide in a new aid package for Americans who remain out of work.

The number of unemployed fell by 1.4 million to 16.3 million in July. The percentage of African-Americans out of work showed little change at 14.6%. The data underscores the continuing impact of the pandemic, which has taken the U.S. death toll to above 150,000. The most recent data show that the number of Americans applying for jobless benefits each week remained stubbornly above 1 million.

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The Conference Board's index of consumer confidence sank to 92.6 in July from 98.3 in June, as consumers became less optimistic about the short-term outlook for the economy and the labor market. Consumers, businesses, and lenders have become more cautious with leading financial institutions dramatically increasing their reserves for bad loans while protecting against the likelihood of rising defaults and/or bankruptcies.

U.S. legislators face tough choices hashing out what would be the fifth rescue/stimulus package since the pandemic began. Some understand that extending emergency jobless benefits further, acts as a disincentive for some workers to return to their jobs. However, without a new relief measure, some 30-40 million tenants are reportedly at risk of being evicted. According to one report by academics and housing advocates, a broad swath of renters had until recently been protected by the $600 a month in supplemental unemployment payments, but many are now falling behind. The bills are piling up just as several federal, state and local eviction moratoriums are expiring.

China

The U.S. continues to broaden its offensive against China. In addition to targeting Chinese-owned technology companies and products on national security grounds, the U.S. also imposed sanctions on several leading Chinese Communist Party officials, businesses, banks and on pro-Beijing officials who rule in Hong Kong. The U.S. intends to maximize its pressure on China over its crackdown on dissent in Hong Kong. The Chinese leadership may seek ways to climb down gracefully from more confrontation with the U.S. To the Chinese leadership continued U.S. pressure serves as a distraction and keeps Hong Kong in the spotlight, while undermining confidence and potentially encouraging capital flight.

Meanwhile, both countries are set to meet soon to assess China's progress under the "Phase One" interim trade agreement with the U.S., signed at the beginning of 2020. It is hardly possible that this meeting will go well. China has, so far, purchased only a fraction of U.S. goods called for in the agreement. The U.S.-China relationship remains on a slippery path. Many believe it is destined to become a more contentious face off, sooner or later.

Beijing has delivered a message to Washington: U.S. pressure over Hong Kong and Taiwan [which China considers as part of China] are matters China considers off limits. Chinese leaders accuse Washington of meddling in its "domestic" affairs and warn that this could further jeopardize Chinese purchases of U.S. farm goods, LNG and other U.S. exports under the Phase One trade deal.

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Meanwhile, China factory activity reportedly expanded last quarter at the fastest rate in 9 years. Chinese exports rose sharply in July (7.2%), a sign of resilience in the country's trade activity despite the lingering impact of the pandemic worldwide.

The sharp rise compares to 0.5% increase in June, when Chinese data began to improve after a severe contraction. Higher demand for China's goods comes after the economy returned to growth in the second quarter.

It suggests that other economies are also beginning to emerge from the early stages of the crisis even as global trade levels remain depressed. Exports to the U.S. rose by 12.5% in July, after falling sharply for the first five months of 2020. The figures are also bolstered by increased exports to south-east Asia.

China's economic recovery has been mixed , with state-backed industrial growth balanced against continued weakness in consumption. Earlier Australia reported that its trade surplus reached a record high on the back of Chinese demand for its commodities, with a wave of infrastructure stimulus boosting demand for iron ore. Almost half of all Australian exports went to China in June, compared to one-third in February.

Still, China faces the combination of weak global growth, pandemic fatigue, and a potential boycott of some of its products around the world. It appears that rising global tensions combined with nationalist and protectionist sentiment, and an emerging anti-China narrative, could potentially hurt Chinese commerce, diplomacy, and its image on the global stage over the short-term.

Over the longer-term China remains the country to beat in terms of technological advancement, 5G roll out, investment in next generation growth drivers [AI, Robotics, Bio-Medicine, industrial engineering, innovation, electric vehicles, etc.], and FDI growth inroads made via its Belt-Road Initiative.

Technologically, China will likely play a leading role in post-pandemic global recovery, given its significant investment in next generation technology, their applications, equipment development and manufacture. This will no doubt suffer setbacks [as is the case today], but China's long-term vision is to prevail, through deft persistence and patience using trade, diplomacy, knowhow and affordable financing enhancements.

The Chinese believe the long game ultimately wins. This is derived from over 5,000 years of Chinese history that has seen many triumphs and defeats, conquests and invasions, famine and great harvests. It is left to be seen what holds this time around for China. It will need to regain good faith among some global consumers and trading partners if it is to rebuild goodwill.

The country's image has suffered because of the outbreak of Covid-19 in central China, its attempt to cover it up; and widened global concerns over China's disregard for WTO rules, lack of reciprocity in allowing access to its market, charges of unfair trade practices and a perception of being committed to global dominance. The U.S. is bent on maintaining this rivalry no matter who sits in the White House.

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Europe

Spanish and Italian manufacturing activity are showing signs of a pick-up. Most European countries appear to be benefiting from strict lockdowns implemented in the spring, as well as adhering to policies regarding mask wearing, social distancing and bans on large gatherings. New infections have been reduced to hundreds per day from several thousands at the peak of the crisis. The IHS Markit's index for Europe surged to 54.8 in July from 48.5 indicating that activity increased at a faster pace in more than two years, after months of contraction.

It is projected that the strength of Europe's rebound could lay the groundwork for a recovery over the remainder of 2020 and could help push the global economy toward expansion. In France, the Purchasing Managers' Index (PMI) jumped to a 30-month high of 57.6 from 51.7 in June. Recruiting companies are reporting improved momentum for hiring over recent weeks. Still, industrial firms in Europe confess that it is difficult to draw concrete conclusions, with many countries still facing continuing or new restrictions that could have long-term economic consequences. Lots of uncertainty remains. Some businesses are continuing layoffs, an indication that they are not convinced the return to pre-pandemic activity will be rapid.

Although down from its peak, a recent slight uptick in new Covid-19 cases in Europe appears to have coincided with the start of the summer tourist season. This highlights the dilemma facing policymakers: on one hand a fear of re-imposing a shutdown that has devastated their economies, but on the other they worry the return of mass travel will trigger a second wave of the pandemic.

European tour operators responded with dismay to new curbs on travel imposed by countries following a string of local upsurges in infections in July, dealing a blow to hopes of a revival in the global tourism industry.

Spain's tourism sector is in particular feeling the brunt of the latest caution, prompting an angry response from Madrid that "Spain is a safe country". Those comments came after the UK government said Britons on holiday in Spain would be required to self-isolate for two weeks upon their return, following a spike in infections in three Spanish regions.

France reacted in similar fashion, strongly advising against travel to Spain's north-eastern region of Catalonia, one of the places that has seen a spike in Covid-19 cases.

France also ruled that any travelers arriving from a list of 16 countries from outside the EU where coronavirus is circulating very strongly, would be subject to mandatory testing at French airports and ports. For passengers coming from four of those countries, including the U.S., France is asking that a negative test taken three days before flying be presented before boarding.

Germany also saw a fresh uptick in Covid-19 cases in late July, which health authorities attributed to travelers returning from certain regions such as the West Balkans and Turkey. German authorities were considering whether to force travelers to take a coronavirus test upon their return home.

Germany suffered a record economic contraction in the second quarter as measures to slow the pandemic's spread closed businesses and kept consumers at home, but Europe's economic powerhouse (as Germany is often referred to) is nonetheless expected to shrink by less and recover faster than other major economies.

Germany's gross domestic product fell 10.1% [April-June] compared with the previous quarter, the largest decline since comparable records began in 1970, and roughly double its contraction at the nadir of the global financial crisis in 2009. Weakness in Germany is ominous for the rest of Europe, and not just because of the country's size, accounting for

about a fifth of the European Union's total GDP. German manufacturers are also tightly integrated in the continent, particularly Italy and Eastern Europe. Other European economies including France and Italy are expected to post even deeper contractions when they report second-quarter economic data. Still, a host of recent indicators suggest that the German economy is staging a V-shaped recovery, bolstered by aggressive state-support schemes for workers and businesses.

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Despite its heavy reliance on global supply chains and foreign demand, Germany has so far managed to limit the coronavirus's economic toll. Its strategy: a relatively light lockdown, strict hygiene measures and testing, and a heavy dose of government spending. That cocktail of policies will likely help Germany to outperform other Group of Seven advanced economies. The German economy is likely to shrink 4.3% this year and surpass its pre-pandemic size by the end of 2021. By contrast, the U.S. economy will likely shrink more than 5% this year and still be around 2.5% smaller at the end of 2021 than it was going into the crisis.

Germany should benefit from more generous fiscal support in the coming months. Its low Covid-19 infection rate, strong public-health system, and limited dependence on foreign tourists are complimentary to a smooth recovery.

Germany's exposure to overseas demand via its large exporters makes the nation vulnerable, however, as long as the virus is not under control around the world. An early recovery in China, Germany's largest trading partner, has helped German auto manufacturers and high-tech engineering businesses to offset weakness in Europe and North America. But the resurgence in infections in the U.S. in particular is creating headaches for German business executives.

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The impact of the pandemic ricocheted through German industries and sectors, from exports to household consumption, as measures to contain the virus closed stores, restaurants and venues. Pockets of infection have recently broken out across Germany as vacationers returned home, prompting a plea from public-health officials to strictly follow public-hygiene policies.

Germany, among the most open economies in the West, remains highly dependent on trade. Exports are worth around 47% of Germany's GDP, roughly four times the share of the U.S., according to data from the World Bank. That dependence creates risks in the short term relating to rising trade tensions, the absence of a pact on future EU-U.K. trade ties, and the slowdown in China's economy. Longer term, Germany's car industry—central to a manufacturing sector that accounts for about a quarter of the economy—and the country's sprawling capital-goods sector are facing rapid technological change and rising competition. Still, German consumers and businesses are increasingly optimistic.

Germany, like other European governments, has poured billions of euros into incentives to discourage employers from laying off workers, which appears to be helping consumption. German retail sales jumped almost 14% in May-June from the previous month, while industrial production rose around 8% in the same period. The nation's unemployment rate crept up to 4.5% in June from 4.4% the previous month, still close to a record low. German consumers appear to be leaving the Covid-19 shock behind. The latest survey

of around 2,000 consumers found that confidence is fast returning to pre-pandemic levels.

Daimler, the German auto manufacturer, reported that it was seeing the first signs of a recovery in sales after a sharp drop in the second quarter, especially at its Mercedes-Benz passenger car unit. Volkswagen, Germany's largest auto manufacturer, expects to report a positive operating profit for 2020 as a whole, even after a 27% decline in vehicle deliveries in the six months through June.

In China, sales of its luxury Audi brand rose in the first half of 2020 from a year earlier. While China's economy has stabilized, Europe might be facing a second wave of the virus, which would affect the appetite for cars. German exporters and some of its lenders are quite exposed to whatever goes wrong in the U.S., China and East Asia.

German companies see a lot of uncertainty. Looking out at the global market situation-from one day to another - there is the potential that a manufacturer (or similar) will be closed, according to an auto-parts supplier based in northwest Germany. That manufacturer plans to cut around 900 jobs in Germany over the next three years to save costs, joining other German auto manufacturers and suppliers that have recently unveiled plans to cut jobs or trim workers' hours.

South Africa

South Africa received a $4.3 billion loan from the IMF in July, the single largest allocation of emergency financing from the fund yet for a country hit by the pandemic. The IMF approved the loan for South Africa in order to address the challenging health situation and severe economic impact of the Covid-19 shock on Africa's most industrialized economy.

South Africa has reported about 450,000 of the continent's approximately 850,000 Covid-19 cases to date. It has Africa's biggest testing regime, but the health system has come under severe strain from surges in its biggest cities, particularly Johannesburg.

The country faces its worst downturn in nearly a century and a record budget deficit this year after one of the world's strictest lockdowns in March. Even before the pandemic, the economy had been struggling for over a decade with low growth, high joblessness and rising government graft. The IMF's pandemic funding has relatively light terms compared to normal loans from the fund but is coming to South Africa at a time when state debts are at dangerous levels and the country has lost investment-grade credit ratings for its borrowing.

As South Africa takes up the IMF loan there is a pressing need to strengthen economic fundamentals and ensure debt sustainability by carrying out fiscal consolidation and structural reforms such as changes to state companies, the IMF has cautioned.

Covid-19 heightens the urgency of implementing these efforts to achieve sustainable and inclusive growth. The ruling African National Congress has traditionally been wary of approaching the IMF but has been won around by its finance minister, who emphasized that the loan's terms would not affect South Africa's sovereignty. The South African treasury considers the IMF a source of low cost financing. The low-interest loan contributes to government's fiscal relief package while respecting South Africa's decisions on how best to provide relief to the economy and those worst affected by the current crisis.

South Africa's sharp increase in hospitalizations and deaths in recent weeks followed the June reopening of large parts of the economy.

In April, South Africa's government announced $30 billion in fiscal relief for the economy, including $13 billion in bank loan guarantees to beleaguered businesses. However, the state was slow to pay out on

social grants to protect the poorest, and the loan guarantees have had few takers. The government also had to acknowledge increasing evidence of looting of state resources and contracts related to the pandemic in the ANC's heartlands. The authorities' commitment to transparently monitor and report all use of emergency funds is crucial to ensuring Covid-19-related spending reaches the targeted objectives.

South Africa has already tapped just over $1 billion in official pandemic financing from development banks. The IMF has approved more than $14 billion in pandemic loans for African countries so far.

South Africa's sharp increase in hospitalizations and deaths in recent weeks followed the June reopening of large parts of the economy. It highlights how economic realities are restricting politicians' ability to act against Covid-19 in low and middle-income countries that cannot afford the large stimulus packages adopted by richer nations.

South Africa's foreign exchange reserves stood at six-months' worth of import cover as of June (latest available data). This cushion will give the central bank the capacity to mitigate depreciation pressures on the rand over the short term, while a gradual improvement in global financial market sentiment will temper the pace of the currency's depreciation for the remainder of 2020.

A range of commodity prices have picked up on the possibility of a recovery, particularly in China, allowing currencies such as the South African rand to pare back losses. However, the global economic recovery will be slow and uneven given regional outbreaks and lockdowns. Major currencies in sub-Saharan Africa will therefore remain under pressure over the short to medium term.

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Zambia

Once a model debtor country, Zambia is now struggling to repay more than $11 billion in loans. The country looks set to become a case study in the clash over how to ease the debt load of developing countries that were ill-prepared for the financial pain inflicted by the pandemic. Downward spiraling commodity prices, like copper and oil, pushed further down by the global economic slowdown and a crash in local currencies, have left many poor countries unable to pay off the legacy of more than a decade of foreign borrowing.

Without debt relief, Zambia would need to spend more than a third of its revenue to service debt in 2020, and much more in the coming years.

Zambian government debt is on course to surpass 100% of GDP in 2020 according to the IMF. The economy is now forecast to contract by 5% - the previous prediction was growth of 1.7%. Without debt relief, Zambia would need to spend more than a third of its revenue to service debt in 2020, and much more in the coming years. Debt relief negotiations have been complicated. Unable to meet face to face due to travel restrictions, debt negotiators confess that it is difficult to establish trust with government officials from behind a screen, where body language can be hard to read and concerns about privacy tend to limit discussions.

Of 24 low-income countries that issued foreign currency bonds over the last decade, raising $135 billion, at least half-including Ghana and Zambia- are now at high risk of debt distress or already in distress.

Zambia's real GDP is forecast by the central bank to contract by 2.6 % in 2020, suggesting that consumer and business activity will be limited. However, the latest IMF forecast is more pessimistic – indicating a 5.1% contraction, down from 1.5% GDP growth in

2019. Annual inflation is forecast to accelerate to 12.5% in 2020 from 9.2% in 2019, with higher electricity tariffs in effect since January taking effect and likely to keep inflation elevated above the central bank's target range of 6%- 8%. Zambia's PMI improved to 44.6 index points in July from 42.3 in June according to IHS Markit. The index rebounded further from the survey-low recorded in May but remained in contraction territory for the 17th consecutive month. The currency, the kwacha is projected to continue to depreciate against the dollar and euro.

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Output and new orders continued decreasing at sharp rates but has slowed down since June. Weak demand led companies to cut jobs further with the rate of decline in employment accelerating. Business sentiment improved slightly in July though it remained well below positive territory. The economy is impacted by reduced global demand and subsequent weak commodity prices as a result of the Covid-19 outbreak, which compounded existing economic challenges, including rising fiscal deficits and debt, reduced liquidity, and weak investor confidence.

Zambia's copper production rose about 6% in the first half of 2020, defying Covid-19 related supply-chain disruptions. It is Africa's second largest copper producer. Output hit 420,000 metric tons in the first six months of the year from 397,000 tons in the same period last year. Miners including Chinese-owned NFC Africa ramped up production. However, the Zambia Chamber of Mines has warned that global restrictions on movements continue to hit mining supply chains, which might have a lasting damage on the industry. A recent rebound in copper prices will help to contain currency depreciation pressures somewhat. Zambia is also a major cobalt producer.

Note: Across Sub-Saharan Africa many governments have started to ease lockdown measures despite either a rising number of Covid-19 cases or inadequate testing capabilities, adding uncertainty to the timing of any recovery. In addition, macroeconomic fundamentals in many of Sub-Saharan Africa's main economies (e.g. Angola, South Africa, Botswana) remain weak, with economic activity contracting despite significant monetary easing by many central banks. Given already weak fiscal dynamics in many countries, policymaking will likely become increasingly challenging. This is especially true as large and unprecedented fiscal and monetary responses have already been implemented, leaving little room for further policy support.

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