

# ZAMBIA

Table 1	2016
Population, million	16.7
GDP, current US\$ billion	19.7
GDP per capita, current US\$	1181
Poverty rate (\$1.9/day 2011PPP terms) <sup>a</sup>	57.5
Poverty rate (\$3.1/day 2011PPP terms) <sup>a</sup>	73.2
Gini Coefficient <sup>a</sup>	57.1
School enrollment, primary (% gross) <sup>b</sup>	103.7
Life Expectancy at birth, years <sup>b</sup>	59.2

Source: World Bank WDI and Macro Poverty Outlook  
Notes:

(a) Most recent value (2015)

(b) Most recent WDI value (2014)

GDP growth improved to 3.3 percent in 2016 from 2.9 percent in 2015, but remained below the rate achieved between 2004 and 2014 (average 7.4 percent). In 2016, economic activity was constrained by slower regional and global growth, lower copper prices, power outages, and tight monetary policy that constrained access to credit. Growth is projected to improve slightly in 2017 (4.1 percent) and over the medium term. Economic and fiscal reforms remain key for a shift to sustained and more inclusive growth.

## Recent developments

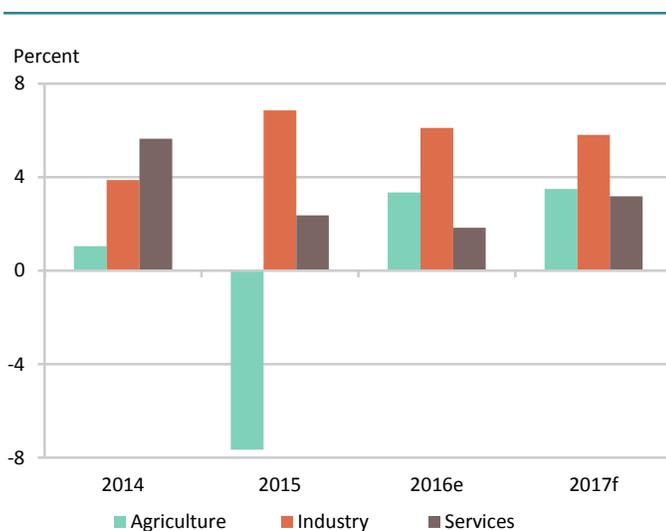
Zambia experienced subdued economic activity in 2015 and 2016, with real GDP growth easing to 2.9 percent in 2015 and 3.3 percent in 2016. During the first three quarters of 2016, the economy continued to face tough global and domestic conditions for growth, including slower global and regional growth, lower copper prices, power outages and high cost of credit resulting from tight monetary policy. Improved economic performance in 2016 was grounded in a better harvest, reduced power outages and increasing signs of macroeconomic stability. Despite slower expansion in the construction sector due to low public investment, growth of the industrial sector has remained robust on the back of increased copper production from new mining projects. In contrast, service sector growth decelerated by almost a quarter to 1.8 percent in 2016, following slower expansion of wholesale and retail trade, and financial services. The local currency, the Kwacha, has remained stable since mid-2016, and appreciated slightly in the first quarter of 2017. After reaching a peak of 22.9 percent in February 2016, annual inflation declined to reach single digits in November 2016, and 6.8 percent in February 2017. Lower inflation allowed an easing of monetary policy in November 2016 and February 2017. Fiscal pressures remained the major challenge in 2016 as government could not control expenditure following reduced

revenues. Revenues dropped below targeted levels by 7.6 percent, while government spending was 17.4 percent above target, with the public sector wage bill utilizing 47.7 percent of 2016 resources and interest payments 18.9 percent. The fiscal deficit reached 6.5 percent of GDP (cash basis) while the stock of public expenditure arrears increased to an estimated \$1.4 billion from \$827 million in 2015. The arrears and tight liquidity contributed to increased non-performing loans reaching 9.7 percent of bank portfolios at the end of 2016, up from 7.3 percent in 2015. Large and repeat fiscal deficits have been financed via foreign-currency denominated commercial debt in recent years, and the total stock of public debt reached 51.1 percent of GDP in 2016, up from 33.2 percent in 2014, elevating the risk of debt distress.

Both exports and imports fell in 2016 relative to 2015, but imports fell by a larger magnitude, serving to narrow the trade and current account deficits in 2016. Inflows of foreign currency remained subdued until the last quarter of 2016, putting pressure on international reserves that fell to 2.7 months of import cover in December 2016 from 3.3 months the year earlier.

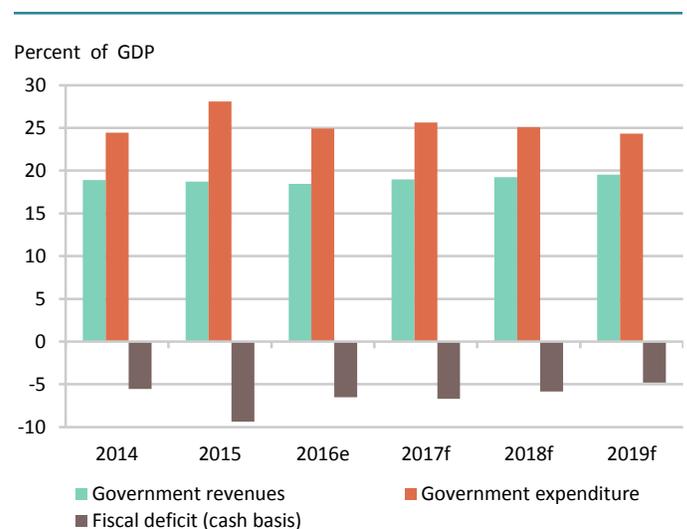
With population growth near 3 percent, per capita incomes grew only modestly in 2016, moderating progress in reducing poverty. The 2015 Living Conditions Monitoring Survey (LCMS) suggests that 54.4 percent of the population lives below the government's national poverty line. Poverty is higher in rural areas (76.6 percent) than in urban areas (23.4 percent).

**FIGURE 1 Zambia / Sector growth rates (2014-2017)**



Sources: Central Statistics Office, Zambia and World Bank forecasts.

**FIGURE 2 Zambia / Fiscal trends (2014-2019)**



Sources: Ministry of Finance, Zambia and World Bank forecasts.

Inequality is high in Zambia, with a Gini coefficient of 0.56 in 2015.

## Outlook

Growth is projected to improve in 2017 and over the medium term, as domestic constraints have been easing gradually. Rainfall has been higher in the last two seasons since the major El Nino hit (2014-15). Accordingly crop projections point to improved growth of the agricultural sector in 2017. The better rains have also led to faster replenishment of hydroelectric reservoirs in 2017 that will reduce the frequency and severity of power outages (Zambia is 95 percent dependent on hydroelectricity).

New mining projects are expected to improve copper production further in 2017. Copper prices have increased since the final quarter of 2016, but price momentum may moderate as global supply increases to match demand. Growth projections assume a modest increase in copper prices and production in 2017 relative to 2016.

Per capita GDP growth is projected at 1 percent in 2017 up from 0.2 percent in 2016. This is expected to reduce modestly the proportion of people living under the \$1.90/day poverty line from 57.3 percent

in 2016 to 56.9 percent in 2017. However, at existing population growth rates, the actual number of poor people is expected to increase from 9.5 million in 2016 to 9.8 million in 2017.

Less tight monetary policy in 2017 should help improve conditions for growth of the financial and private sectors. Fiscal consolidation is likely to weigh on growth in 2017 and 2018, but is deemed essential to allow for less restrictive monetary policy and restraining the accumulation of debt.

## Risks and challenges

The outlook is subject to both upside and downside risks. The downside includes the possibility that the recent copper price increase is reversed (global copper supply appears fairly well matched with expected demand), slow progress with fiscal consolidation and structural reforms, and the possibility that investor sentiment will fade if the government reverses its decision to engage with the IMF on a program. On the upside, the copper price might continue to rally, and expedited progress with economic reforms could provide a further boost to investor confidence.

The Economic Recovery Plan, launched in the final quarter of 2016, offers a solid framework to meet the set of potential challenges. However, positive sentiments need to be backed by bold reforms. The government eliminated the fuel subsidy in October 2016, but as of March 2017, progress with other structural reforms remains limited.

Among key economic reforms: improved debt management, adopting a strategy for clearing public expenditure arrears, improving mechanisms for the collection of revenues, and building systems to ensure that public investment plans are much better targeted and executed. To expedite economic expansion, greater efficiency is needed from State Owned Enterprises, especially in the electricity sector where the supply deficit is a huge drag on growth.

There also remains a need to ensure that growth is more inclusive. Economically depressed rural areas need to be linked to the most dynamic sectors of the economy. Coverage of programs targeted to help the poor and vulnerable remains small relative to the need, as well as compared to regional and international standards.

**TABLE 2** Zambia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
<b>Real GDP growth, at constant market prices</b>	4.7	2.9	3.3	4.1	4.5	4.7
Private Consumption	5.2	4.9	1.9	4.6	4.8	5.0
Government Consumption	3.1	-3.4	0.3	0.4	-1.0	-0.2
Gross Fixed Capital Investment	-7.1	7.6	2.5	2.5	4.9	4.6
Exports, Goods and Services	-5.4	-11.0	-8.4	5.6	5.9	6.1
Imports, Goods and Services	-6.5	-7.0	-10.9	3.9	5.1	5.0
<b>Real GDP growth, at constant factor prices</b>	4.7	2.9	3.3	4.1	4.5	4.7
Agriculture	1.1	-7.7	3.3	3.5	3.8	3.7
Industry	3.9	6.8	6.1	5.8	5.7	5.5
Services	5.6	2.4	1.8	3.2	3.8	4.4
<b>Inflation (Consumer Price Index)</b>	7.7	8.3	18.2	7.9	7.8	7.6
<b>Current Account Balance (% of GDP)</b>	2.1	-3.4	-3.2	-2.7	-2.2	-1.5
<b>Fiscal Balance (% of GDP)</b>	-5.5	-9.4	-6.5	-6.7	-5.8	-4.8
<b>Debt (% of GDP)</b>	33.2	54.5	51.1	54.4	58.6	60.2
<b>Primary Balance (% of GDP)</b>	-3.3	-6.8	-2.8	-3.6	-2.6	-1.3
<b>Poverty rate (\$1.9/day PPP terms)<sup>a,b,c</sup></b>	..	57.5	57.3	56.9	56.2	55.8
<b>Poverty rate (\$3.1/day PPP terms)<sup>a,b,c</sup></b>	..	73.2	73.2	72.8	72.4	71.9

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2015-LCMS.

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

(c) Actual data: 2015. Nowcast: 2016 - 2016. Forecast are from 2017 to 2019