

ZAMBIA

Table 1 **2016**

Population, million	16.7
GDP, current US\$ billion	211
GDP per capita, current US\$	1262
International poverty rate (\$ 19) ^a	57.5
Lower middle-income poverty rate (\$3.2) ^a	74.3
Upper middle-income poverty rate (\$5.5) ^a	87.2
Gini coefficient ^a	69.0
Life expectancy at birth, years ^b	60.0

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2015), 2011 PPPs.

(b) Most recent WDI value (2014).

Economic activity has improved in 2017, following a bumper harvest and improved hydro-electricity generation, increased copper production, higher copper prices and more accommodating monetary policy. Growth is projected to register 4.2 percent in 2017 (up from 3.6 percent in 2016) and improve over the medium term. Despite this, huge fiscal and debt challenges remain. Economic and fiscal reforms remain key for a shift to sustained and more inclusive growth that can accelerate poverty reduction.

Recent developments

Following slower growth in 2015 and 2016, three factors have supported faster growth in 2017. First, was a longer and heavier 2016-17 rainy season that has led to improved crop production and increased hydro-electricity production. Second, is improved copper production and copper prices (up 23 percent in H1 2017). Third, is improved macroeconomic stability that has strengthened confidence and permitted the reduction of the policy rate and reserve requirement ratio three times between February and August 2017.

After two tough El-Nino influenced agricultural seasons, agriculture output expanded strongly during the first half of 2017, driven by a 19 percent increase in crop production. The growth of industry rebounded after a slow first quarter, when heavy rains subdued the construction and mining sectors. The services sector improved as looser monetary policy stimulated wholesale and retail trade, and the financial sector.

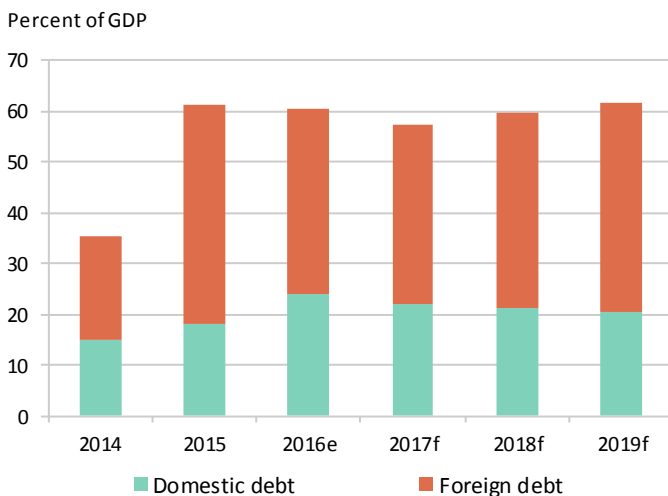
Following a large depreciation and exchange-rate volatility in 2015, the Kwacha has since been more stable. It appreciated by 10 percent against the US\$ between January and August 2017. After reaching a peak of 22.9 percent in February 2016, inflation has remained below 10 percent since November 2016. Increased tariffs of fuel and electricity did not significantly impact on inflation as they were offset by a stronger Kwacha, reducing the cost of imported fuel. Low

inflation has prompted the central bank to loosen monetary policy. This supported a decline in lending rates during the first half of 2017 and private sector credit rebounded during the second quarter of 2017 after a year of continuous decline.

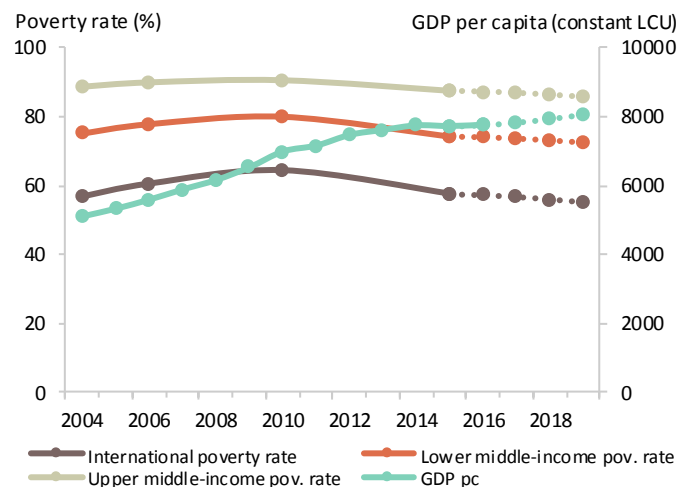
Over the first half of 2017, government revenue was below target by 10 percent, while public expenditure plans remained on track. The 2017 fiscal deficit target of 7 percent of GDP is unlikely to be met. Repeated large fiscal deficits have occurred since 2013, reaching 9.4 percent of GDP in 2015 (cash basis). In 2016, following revenue shortfalls and a lack of affordable financing, the fiscal deficit reached 5.7 percent of GDP (cash basis) and 8.5 percent on a commitment basis. The stock of public expenditure arrears reached US\$ 1.7 billion at the end of 2016 (up from \$827 million in 2015) contributing to an increase in non-performing loans to 11 percent of outstanding loans.

Fiscal deficits have been financed by increased inflows of commercial and foreign-currency denominated debt (including US\$3 billion worth of Eurobonds since 2012). The stock of public debt (two-thirds of which is external) reached 60.5 percent of GDP in 2016, up from 35.3 percent in 2014, elevating the risk of debt distress.

The improved macroeconomic indicators and growth prospects have encouraged the purchase of government securities by non-residents. In consequence, domestic public debt increased sharply in H1 2017. Over the first half of 2017, exports grew faster than imports due to higher copper prices. The merchandise trade deficit reduced to US\$ 171 million in H1 2017, the

FIGURE 1 Zambia / Public sector debt


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

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


Source: World Bank. Notes: see table 2.

lowest since the first half of 2015, reducing pressure on the balance of payments. With population growth near 3 percent, per capita incomes grew at only 0.6 percent in 2016, moderating progress in reducing poverty. The 2015 Living Conditions Monitoring Survey suggests that 54.4 percent of the population lives below the national poverty line. Poverty is higher in rural areas (76.6 percent) than in urban areas (23.4 percent). Inequality is also very high in Zambia, with a Gini coefficient of 0.56 in 2015.

Outlook

Growth is projected to improve in 2017 (to 4.2 percent) and over the medium-term. In 2017, higher growth will be driven by agriculture and industry (especially construction and electricity production). Over the medium-term, the services sector is expected to be the key driver (led by finance, wholesale and retail trade, and information and communication). Recent disputes over new electricity tariffs for the mining sector may negatively weigh on H2 2017. However, if the dispute is settled, and copper prices maintain their current levels, copper production might

improve further. Unless a new path of fiscal consolidation is embarked upon, fiscal deficits are projected to moderate only slightly to 6 percent of GDP by 2019. The debt stock will continue to grow at a brisk pace, unless efforts are made to slow down the signing of new non-concessional loans.

Per capita GDP growth is projected at 1.1 percent in 2017 up from 0.2 percent in 2016. This is expected to reduce poverty only slightly. The proportion of people living under the \$1.90/day poverty line is projected to fall by just 0.6 percent to 56.7 percent in 2017. However, at existing population growth rates, the actual number of poor people would increase from 9.6 million in 2016 to 9.8 million in 2017.

Risks and challenges

The outlook is subject to downside risks and the possibility of positive developments. The upside is that copper prices might continue to rally. The downside includes possibilities that: (i) progress with fiscal consolidation and structural reforms are slower than expected; (ii) investor confidence fades if talk of an IMF program dissipates; and (iii) copper

production declines if disputes with some mines over new electricity tariffs do not get resolved.

The Government's 'Economic Growth and Stabilization Plan', launched in late-2016, offers a solid framework to meet the challenges. It includes measures to support a return to a sustainable fiscal stance and structural reforms to promote more inclusive growth. Efforts to tackle fuel and electricity subsidies have already been implemented, but there remains a long list of much needed reform. It remains critical for Government to: (i) limit the growth of public debt, (ii) improve debt management, (iii) adopt a strategy for preventing the accumulation of public expenditure arrears, (iv) build systems to better manage public investment; and (v) improve the efficiency State Owned Enterprises.

Overall, there remains a need to ensure that growth is more inclusive. Economically depressed rural areas need to be better integrated 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
Real GDP growth, at constant market prices	4.7	2.9	3.6	4.2	4.5	5.0
Private Consumption	5.2	4.9	1.9	4.9	5.5	5.8
Government Consumption	4.5	3.7	4.4	2.4	1.9	1.1
Gross Fixed Capital Investment	1.5	5.0	-3.2	3.5	4.3	6.1
Exports, Goods and Services	-5.4	-11.0	-10.0	8.8	9.0	9.2
Imports, Goods and Services	-6.5	-7.0	-10.6	8.5	8.8	9.0
Real GDP growth, at constant factor prices	4.7	2.9	3.6	4.2	4.5	5.0
Agriculture	1.1	-7.7	3.6	7.0	5.2	5.1
Industry	3.9	6.8	5.3	5.6	5.8	5.9
Services	5.7	2.4	2.7	3.0	3.7	4.5
Inflation (Consumer Price Index)	7.8	10.1	18.2	7.2	7.0	6.8
Current Account Balance (% of GDP)	2.1	-3.9	-4.5	-3.3	-2.7	-1.5
Fiscal Balance (% of GDP)	-5.5	-9.4	-5.7	-7.6	-7.0	-6.0
Debt (% of GDP)	35.3	61.4	60.5	57.4	59.9	61.9
Primary Balance (% of GDP)	-3.3	-6.7	-2.3	-3.9	-3.2	-2.3
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	..	57.5	57.2	56.7	55.9	55.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	..	74.3	74.0	73.6	73.0	72.2
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	..	87.2	87.1	86.8	86.5	86.0

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

Notes: f = forecast.

(a) Calculations based on 2010-LCMS-VI and 2015-LCMS. Actual data: 2015. Nowcast: 2016 - 2016. Forecast are from 2017 to 2019.

(b) Projection using annualized elasticity (2010-2015) with pass-through = 0.87 based on GDP per capita in constant LCU.