

ZAMBIA

Table 1 **2015**

| | |
|---|-------|
| Population, million | 16.2 |
| GDP, current US\$ billion | 21.6 |
| GDP per capita, current US\$ | 1330 |
| Poverty rate (\$1.9/day 2011PPP terms) ^a | 57.5 |
| Poverty rate (\$3.1/day 2011PPP terms) ^a | 73.2 |
| Gini Coefficient ^a | 57.1 |
| School enrollment, primary (% gross) ^b | 109.2 |
| Life Expectancy at birth, years ^b | 58.4 |

Sources: World Bank WDI and Macro Poverty Outlook.

Notes:

(a) Most recent value (2015)

(b) Most recent WDI value (2014)

The economy has come under recent strain as external headwinds and domestic pressures have intensified. GDP growth slowed to 2.8 percent in 2015 from 5.0 percent in 2014. External headwinds have included slower regional and global growth, lower copper prices and the strengthening of the U.S. dollar against the kwacha. Domestic pressures include a power crisis affecting all sectors of the economy and repeat fiscal deficits that have weighed on investor confidence. Growth in 2016 is expected to remain sluggish at 2.9 percent, leading to only a marginal decline in poverty.

Recent developments

The Zambian economy has come under strain since mid-2015. Real GDP growth slowed to 2.8 percent in 2015, well below its historical average. Weaker growth has been tied to both global headwinds and domestic pressures which have intensified. Zambia is sensitive to slower regional and global growth and a sharp fall in the price of copper, given that copper typically contributes about 75 percent to exports. Domestically, a power crisis has affected all sectors of the economy as well as low and poorly-timed rains that dented the agricultural incomes of 61.3 percent of the population living in poverty. Accordingly, poverty rates in rural areas likely went up in 2015 relative to past years.

Lower, El Nino-influenced rainfall led to 2015 agriculture output falling, while lower copper prices suppressed the mining and quarrying sector, which grew by only 0.3 percent. Over the course of 2015 copper exports fell, leading to a current account deficit of 3.4 percent in 2015. The industrial sector (which includes mining) was supported by strong growth in construction (18.9 percent), driven by public infrastructure investment. Services gained at a slower 2.3 percent pace in 2015.

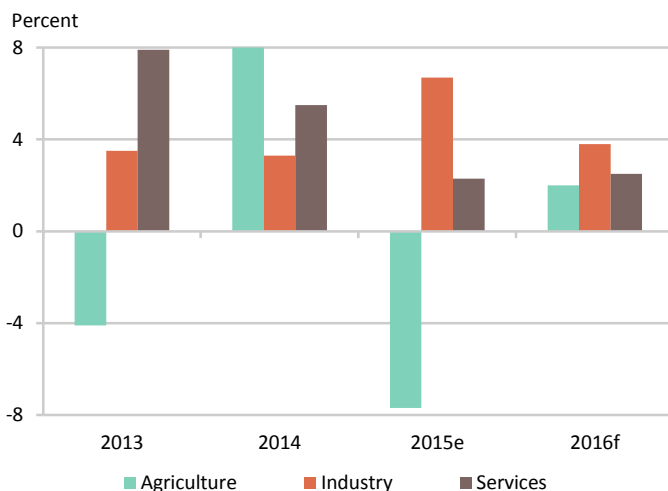
Lower copper prices are typically followed by a depreciation of the Kwacha. This pressure on the currency was worsened by ebbing investor confidence related to the power crisis, repeat fiscal deficits, a widening trade deficit and large external borrowing. The Kwacha lost 41 percent of its value against

the US\$ in 2015. Weakness and volatility in the Kwacha was more severe compared to other emerging market currencies

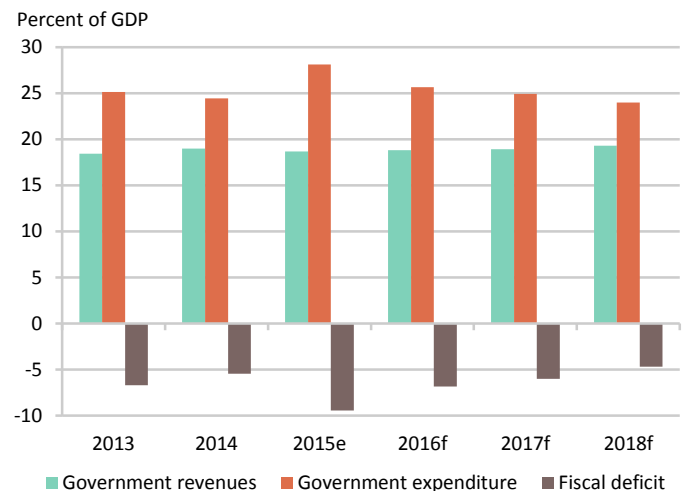
The depreciation, together with an increase in food prices and a loose fiscal position lifted annual inflation to a peak of 22.9 percent in February 2016. To mitigate this, the Bank of Zambia reduced liquidity severely through a variety of measures. The central bank also intervened in the foreign exchange market, impacting the level of reserves. These interventions helped to tame annual inflation to 19.6 percent by August 2016 and to bring stability to the Kwacha-US\$ exchange rate. However, this achievement has not been without cost and has led to a reduction in private sector investment and growth.

Recent fiscal expansion has been financed by external borrowing, including large Eurobond issues beginning in 2012 which nearly tripled the size of external debt relative to GDP. Both domestic and external financing has been more challenging to source during 2016, and revenue has fallen short of budget projections for the first half of the year. At the same time expenditure has not been curtailed, leading to a build-up in arrears, and forcing the Government to borrow from the Central Bank. Current pressures on expenditure include the import of emergency power, a fuel subsidy, debt service costs and spending in the build-up to the August 2016 elections. The 2016 fiscal deficit (cash basis) is likely to register almost twice its target of 3.6 percent of GDP.

The benefits of GDP growth have accrued mainly to the richer segments of the population in urban areas. Despite gradual

FIGURE 1 Zambia / Sector growth rates (2013-2016)


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

FIGURE 2 Zambia / Fiscal trends (2013-2018)


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

poverty reduction over the past decade, poverty in Zambia remains high with 54.4 percent of households at incomes below the national poverty line in 2015. Poverty is estimated at 57.5 percent in 2015 when measured by a \$1.90/day (2011 PPP). Overall, the level of inequality is also very high in Zambia. In 2015, the Gini coefficient was 0.559, an indication that expenditure has continued to be unevenly distributed among the population. Many of the gainful economic activities in the country are concentrated along the economic corridor that runs from the highly urbanized Copperbelt region to Lusaka.

Outlook

The medium-term outlook has been revised downward from the previous MPO, mainly following slower regional and global growth and lower copper prices. On the upside however, is the likely realization of stronger agricultural sector growth following late but not reduced rains as earlier feared in the second of the El Nino influenced agricultural seasons. GDP growth for 2016 is projected at 2.9 percent, before improving in 2017 (4.0 percent) and 2018 (4.2 percent), assuming that copper prices stabilize and domestic

pressures ease. Per capita GDP growth of 0.5 percent in the current year is expected to keep the proportion of people living under the \$1.90/day poverty line in 2016 at 57.5 percent, which is the same as in 2015. However, at the existing population growth rates the actual number of poor is expected to increase from 9.32 million people in 2015 to 9.61 million in 2016. Tough action is required in the second half of 2016 and 2017 to curb runaway fiscal expenditures, with inflation close to 20 percent and persisting twin deficits. The outlook is also subject to down-side risks, both domestic and external. A further slowing in China's economy could weigh on demand for Zambia's exports by further reducing copper prices. While main domestic risks are two-fold: first that the power crisis will continue to worsen (this could occur via continued reduced capacity at the main hydro-power plants); and second, that a falloff in confidence in the economy re-occurs, following recent improvement tied to expectations that there will be a post-election IMF program and World Bank support.

Risks and challenges

Lower copper prices, power outages and fiscal imbalances present the major

challenges over the medium term. Furthermore, there is a need to ensure that growth is more inclusive across income groups, economic sectors and geographical areas also remains a major challenge. Economically depressed rural areas need to be linked to the most dynamic sectors of the economy.

Continued large fiscal deficits remain costly to finance, and they send adverse signals to investors that undermine confidence in the kwacha. With financing constraints emerging, fiscal consolidation is inevitable. Nevertheless consolidation needs to take place in a gradual and orderly fashion so that medium and long term growth is preserved. Moreover consolidation must not erode the nascent system of social safety nets if the country is to boost the livelihoods of the poorest citizens.

Improving the economic benefits from Zambia's mineral wealth in an environment of depressed world prices is a further challenge. Finally, income inequality poses a major challenges for poverty reduction in Zambia as it erodes the gains associated with income or economic growth, and likely reflects inequalities in the access to assets, services and opportunities across the population, especially in rural areas.

TABLE 2 Zambia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2013 | 2014 | 2015 | 2016 f | 2017 f | 2018 f |
|---|------|------|------|--------|--------|--------|
| Real GDP growth, at constant market prices | 5.1 | 5.0 | 2.8 | 2.9 | 4.0 | 4.2 |
| Private Consumption | 0.8 | 1.6 | 1.0 | 2.8 | 5.6 | 6.1 |
| Government Consumption | 25.2 | 5.8 | 7.1 | 6.0 | -6.3 | -12.5 |
| Gross Fixed Capital Investment | 9.1 | 3.4 | 3.7 | 3.6 | 4.1 | 6.5 |
| Exports, Goods and Services | 12.6 | 0.6 | -5.5 | -5.1 | 9.6 | 12.9 |
| Imports, Goods and Services | 13.3 | 0.7 | -4.0 | -5.6 | 6.5 | 9.7 |
| Real GDP growth, at constant factor prices | 5.1 | 5.0 | 2.8 | 2.9 | 4.0 | 4.2 |
| Agriculture | -4.1 | 8.0 | -7.7 | 2.0 | 3.6 | 3.8 |
| Industry | 3.5 | 3.3 | 6.7 | 3.8 | 3.5 | 3.7 |
| Services | 7.9 | 5.5 | 2.3 | 2.5 | 4.4 | 4.6 |
| Inflation (Consumer Price Index) | 7.0 | 7.8 | 10.1 | 19.0 | 9.8 | 8.3 |
| Current Account Balance (% of GDP) | -0.6 | 2.1 | -3.4 | -3.6 | -2.6 | -0.9 |
| Fiscal Balance (% of GDP) | -6.7 | -5.5 | -9.4 | -6.8 | -6.0 | -4.7 |
| Debt (% of GDP) | 29.1 | 35.2 | 52.9 | 55.4 | 58.6 | 59.2 |
| Primary Balance (% of GDP) | -5.2 | -3.3 | -6.6 | -4.2 | -3.3 | -2.1 |
| Poverty rate (\$1.9/day PPP terms)^{a,b,c} | .. | .. | 57.5 | 57.3 | 57.0 | 56.2 |
| Poverty rate (\$3.1/day PPP terms)^{a,b,c} | .. | .. | 73.2 | 73.1 | 72.8 | 72.4 |

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 = 0.7 based on GDP per capita in constant LCU.

(c) Actual data: 2015. Projections are from 2016 to 2018.