ZAMBIA

Table 1	2015
Population, million	16.2
GDP, current US$ billion	21.1
GDP per capita, current US$	1300
Poverty rate ($1.9/day 2011PPP terms)[a]	64.4
Poverty rate ($3.1/day 2011PPP terms)[a]	78.9
Gini Coefficient[a]	55.6
School enrollment, primary (% gross)[b]	113.6
Life Expectancy at birth, years[b]	57.0

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:
(a) Most recent value (2010)
(b) Most recent WDI value (2013)

The economy has come under strain as external headwinds and domestic pressures have intensified. GDP growth slowed to 3.6 percent in 2015 from 4.9 percent in 2014. External headwinds include slower regional and global growth and the strengthening of the U.S. dollar against the kwacha. Domestic pressures include a power crisis impacting on all sectors of the economy, repeat fiscal deficits that have weighed on investor confidence, and low and poorly-timed rains that have reduced agricultural incomes of the poorest households.

Recent developments

On the back of higher copper production, foreign direct investment in manufacturing and the mining sectors, government infrastructure spending, and stronger private sector investment in construction and services, Zambia grew at an average annual rate of 7 percent between 2010 and 2014. But as copper prices plummeted in 2015 the Zambian economy has come under strain.

External headwinds have intensified, including slower regional and global growth and a sharp decline in the price of copper. While many commodity-driven economies face this threat, it has been more severe for Zambia as copper accounts for 75 percent of exports. Domestic pressures have also risen. Zambia faces a power crisis, repeated fiscal deficits have reduced confidence in the economy, low and poorly-timed rains have dented agricultural incomes of population in poverty, and the mining sector has faced job losses.

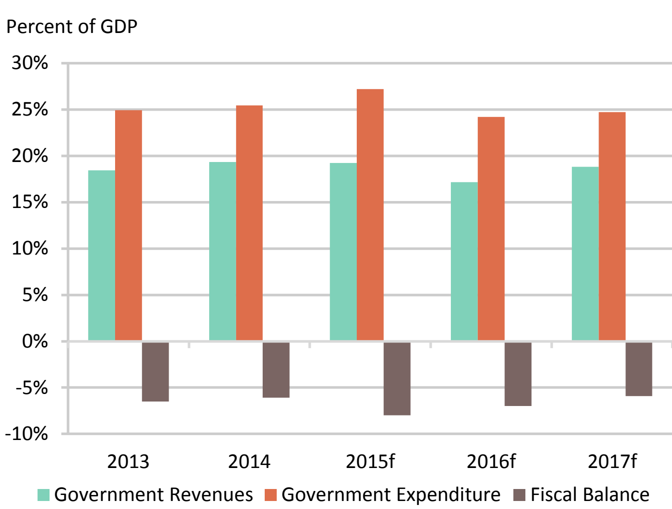
The country's currency, the kwacha, lost 41 percent of its value against the dollar during 2015, making conditions yet more adverse. The strength of the dollar globally was a factor, but the kwacha's decline was much greater than other currencies in the region. Since November 2015 exchange rate stability has been achieved through central bank intervention and changes to inter-bank trading rules. Following the loose fiscal position and depreciation of the kwacha, inflation picked-up from 7.3 percent in August 2015 (year-on-year) to 21.1 percent in December 2015 and remained above 20 percent in February 2016. Inflation will remain elevated until pass-through from the depreciation unwinds in the second half of the year.

Fiscal expansion since 2012 has helped to boost GDP, but it has exhausted fiscal space, and reining in deficits is now vitally important for macro-fiscal stability. Government spending advanced by an average 12.3 percent in real terms since 2012, and the fiscal deficit reached 8.0 percent of GDP in 2015, up from 6.1 percent in 2014. The 2016 budget plans a consolidation but one based on higher revenues to meet still -higher expenditures.

Given slower growth, surging external debt service costs (following depreciation), August-11 election spending pressures, and a need for emergency power imports, the 2016 budget appears optimistic. While the deficit can be reduced in 2016, it is unlikely that the government meets its target of 3.6 percent of GDP. Large Eurobond issuances in 2012, 2014 and 2015 have been used to finance the deficits, almost doubling the size of external debt relative to GDP from 13.5 percent in 2012 to 38.7 percent in 2015. Total public sector debt breached 52 percent of GDP in 2015.

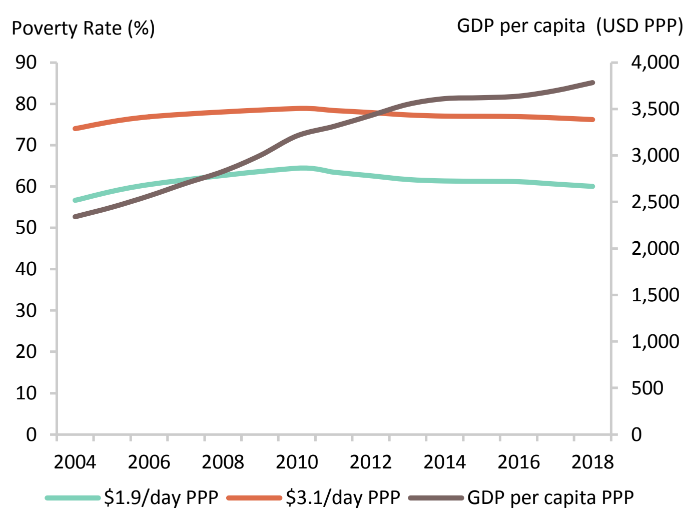
Copper prices declined by almost a third from their peak in February 2011 to US$4,595 per metric ton by February 2016 (LME), and are expected to remain soft over the medium-term as global supply currently exceeds demand. Accordingly the current account registered a deficit of 3.4 percent of GDP in 2015 after a surplus of 2.1 percent in 2014.

FIGURE 1 Zambia / Fiscal trends



Sources: Government of Zambia, WDI and World Bank forecasts.

FIGURE 2 Zambia / Actual and estimated poverty rates (%) and GDP per capita (PPP)



Sources: World Bank (see notes to table 2).

Poverty in Zambia remains stubbornly high, especially in rural areas where three out of every four people had income below the national poverty line in 2010. Such situation is likely to continue this year linked to the failure- and late onset of 2015 rains, which will reduce agricultural incomes in 2016 and cause some households to fall into poverty. On the other hand, the benefits of growth have accrued mainly to urban areas where many of the gainful economic activities in the country take place, such as in the highly urbanized Copperbelt and Lusaka regions. But recent adverse developments in the country, such as power shortages (and effects on SMEs in industry and services) and depreciation may impact adversely on urban centers. Zambia also has one of the most unequal distributions of income in Sub-Saharan Africa, with a Gini coefficient of 55.6.

Outlook

The outlook for growth in 2016 has been revised lower, following announcements of expected mine closures, severity of the power crisis and the rapid depreciation of the kwacha. The failure and late onset of the 2015 rains are also likely to pressure agricultural incomes. Given the challenges facing Zambia, GDP is expected to ease to 3.4 percent gains in 2016 before rebounding to 4.2 percent in 2017 and to 5.0 percent by 2018, assuming copper prices stabilize and domestic pressures ease. Growth is expected to provide only modest reductions in poverty incidence. Per capita GDP growth of 0.5 percent in the current year should bring the proportion of households living under $1.90/day to 61.2 percent in 2016 from 61.3 percent in 2015.

Tough action is required in 2016 to curb runaway expenditures, with inflation above 20 percent and growing twin deficits. The outlook is also subject to downside risks, both domestic and external. Externally, a further slowing in China's economy could weigh on demand for Zambia's exports by further reducing copper prices. The main domestic risks are threefold. First that the power crisis will worsen--this could occur via delays in new generation coming online or through a further reduction of capacity at the main hydropower plants. Second, a falloff in confidence in the economy, leading to additional weakening of the currency and increased inflation. This might result from absence of measures to curtail runaway spending or other failures to make a substantial cut in the fiscal deficit. Finally, the possibility of a bad harvest could serve to increase food prices and reduce rural and agricultural incomes, with the impact falling on the poorest households.

Risks and challenges

Lower copper prices, power outages and fiscal imbalances present the major challenges over the medium term. Large fiscal deficits will remain costly to finance, sending adverse signals to investors that reduce confidence in the kwacha. Bringing spending on subsidies and government salaries under control is an urgent priority. Reforming farm subsidies is important for both poverty reduction and fiscal consolidation. And improving the economic benefits from Zambia's mineral wealth in an environment of depressed world prices is a further challenge. Income inequality poses a major impediment for poverty reduction in Zambia as it erodes possible gains associated with income or economic growth, reflecting inequalities in the access to assets, services and opportunities across the population which could compromise the prospects of future generations.

TABLE 2 **Zambia** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	6.7	4.9	3.6	3.4	4.2	5.0
Private Consumption	0.8	1.6	2.7	3.2	3.8	4.2
Government Consumption	25.2	13.4	21.3	6.5	-7.2	7.3
Gross Fixed Capital Investment	14.1	-1.5	11.3	-6.8	5.8	4.6
Exports, Goods and Services	12.6	-1.9	-9.0	5.6	8.0	14.4
Imports, Goods and Services	13.3	-3.1	9.2	2.8	6.7	5.6
Real GDP growth, at constant factor prices	6.7	4.9	3.6	3.4	4.2	5.0
Agriculture	-7.4	8.0	-8.6	-2.6	6.5	4.8
Industry	7.6	4.8	4.2	3.8	5.1	5.2
Services	8.9	4.5	5.3	4.0	3.3	4.9
Inflation (Consumer Price Index)	7.0	7.8	10.1	22.5	9.9	7.7
Current Account Balance (% of GDP)	-0.6	2.1	-3.4	-3.9	-2.6	-0.4
Fiscal Balance (% of GDP)	-6.5	-6.1	-8.0	-7.0	-5.9	-3.7
Debt (% of GDP)	28.6	35.4	52.9	55.4	58.6	59.2
Primary Balance (% of GDP)	-4.9	-3.8	-5.4	-2.5	-1.2	1.4
Poverty rate ($1.9/day PPP terms)[a,b,c]	61.7	61.3	61.3	61.2	60.6	60.0
Poverty rate ($3.1/day PPP terms)[a,b,c]	77.3	77.0	77.0	76.9	76.6	76.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: f = forecast.
(a) Calculations based on 2010-LCMS-VI.
(b) Projection using neutral distribution (2010) with pass-through = 0.7 based on GDP per capita constant PPP.
(c) Projections are from 2013 to 2018.