Zambia Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
The Zambian Development Agency (ZDA) has provided a clearer framework and a variety of incentives for foreign direct investment.	Portfolio investment is limited due to the lack of secondary trading in equities.
Lusaka Stock Exchange (LuSE) is well established, with reasonable liquidity and good connections to international financial markets.	Investments under $10 million are not eligible for certain tax breaks and incentives.
Zambia has one of the most open trade environments in Africa and is a member of the Southern Africa Development Community (SADC) and the Common Markets for Eastern and Southern Africa (COMESA).	Fitch Ratings downgraded Zambia's national credit rating in 2013 due to weakness in public finances and government expenditure acts as a barrier to investment.
Businesses in Zambia benefit from among the lowest profit taxes in the region.	High levels of trade bureaucracy add significantly to shipping lead times to and from Zambia, which undermine trade competitiveness.
Opportunities	**Threats**
The streamlining of some bureaucratic procedures which has already taken place suggests that further improvements are possible.	Amendments to the Companies Act could see minimum quotas for domestic investment imposed in some industries.
Developing ICT legislation and e-government readiness will improve the security and ease of business activity in Zambia.	Corruption continues to be a serious issue.
Mining continues to attract FDI, while the manufacturing, energy, agriculture, tourism and infrastructure sectors provide alternative opportunities for FDI.	Rising capital outflows to overseas markets have created a deficit in the financial account, which drags on balance of payments and economic openness in Zambia.
Increasing regional cooperation through multilateral organisations, including SADC and the African Union should continue to reduce the likelihood of interstate conflict.	Rising commercial activity driven by economic growth, coupled with a rapidly increasing population will place mounting pressure on utilities and transport infrastructure which already struggle to meet demand.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector comprises of crop farming, livestock rearing and fisheries, and the staple crop in the country is corn. The agricultural sector is the backbone of the Zambian economy as it contributes to the growth of the economy and also to exports, even though it contributes the least to gross domestic product (GDP). Mining, construction and manufacturing together make up the majority of the secondary sector. Growth in the manufacturing industry is largely driven by the agro processing of food and beverages as well as the textiles and leather subsectors. Manufacturing absorbs much of the output from other sectors such as agriculture, and also supplies inputs into the other secondary sectors. The Zambia Development Agency (ZDA) provides various incentives for companies investing in the mining sector in the country. Zambia is a large producer of copper and the commodity is the country's largest export product. The tertiary sector includes a large wholesale and retail trade industry. Tourism is also growing and has a positive knock-on effect on transport and accommodation providers.

Recent economic developments – The risk of instability has receded in the short term following the release of opposition leader Hakainde Hichilema in August 2017. However, such incidents could affect Zambia's reputation as a beacon of democracy and stability. S&P Global Ratings affirmed Zambia's sovereign credit ratings at "B" in August 2017, and changed to outlook from negative to stable. The revised outlook is based on an improving macroeconomic climate which will be supportive of reducing fiscal deficits. Zambia's budget deficit expanded in 2017 as the government attempted to consolidate domestic arrears. The International Monetary Fund (IMF) emphasised in October 2017 stressed that credible fiscal consolidation is necessary to sustain the current monetary policy stance. The Bank of Zambia (BoZ) cut interest rates by a cumulative 450 basis points between February and August 2017. Headline inflation slowed from 6.6% y-o-y in September to 6.4% y-o-y in October 2017.

Mega trends

Population	2017	Total: 17.24 million; female: 8.63 million; male: 8.61 million; age 0-14: 45.53% of total; age 15+: 54.47% of total; age 65+: 2.88% of total
Population growth rate	2015	3%
Life expectancy at birth	2015	Total: 61.34 years; female: 63.9 years; male: 58.9 years
HIV/AIDS	2016	Total number of people living with HIV: 1.2 million; total adult prevalence: 12.4%; HIV AIDS orphans (age 0-17): 0.38 million
Adult literacy rate	2015	Total population: 73.81%; female: 66.78%; male: 80.95%
Urbanisation	2016	Urban population: 41.38% of total; annual urban population growth: 4.11%; rural population: 58.62% of total
Population below $1.90/day poverty line	2010	64.42%
Unemployment rate	2017	Total: 7.4%; female: 7.5%; male: 7.3%; youth (15 - 24): 13.6%
Employment	2017	Agriculture: 67.5% of total; industry: 7.3% of total; services: 25.2% of total
Labour participation rate	2017	Total (ages 15+): 75.33% of total population
Business languages	n/a	Bemba, Nyanja, Tonga, Lozi, Lunda, Kaonde, Luvale, English
Telephone & internet users	2013; 2016	Fixed telephone subscriptions: 0.1 million (2016); wired internet subscriptions: 0.02 million (2013); cell phone subscriptions: 12.02 million (2016)
Quality of infrastructure (1 = underdeveloped; 7 = developed)	2017	3.24

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
139th	out of 188 countries	122nd	out of 180 countries	118th	out of 137 countries	85th	out of 190 countries	87th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The 7th National Development Plan (7NDP) 2017-2021 s aimed at attaining the long-term objectives as outlined in the country's Vision 2030 of becoming a "prosperous middle-income country by 2030". It departs from the previous NDP's sectoral-based planning and is an integrated (multi-sectoral) development approach. The key outcomes of the plan includes: 1) economic diversification; 2) job creation; 3) poverty and vulnerability reduction; 4) reduced developmental inequalities; 5) enhanced human development; and 6) an enhanced governance environment. On the policy front, the 7NDP identifies the need for "fundamental policy shifts if the country is to achieve the objectives of the Vision 2030". The latter's objectives include 1) accelerating economic diversification, 2) building a strong manufacturing and industrial base, 3) promoting the graduation of micro and small to medium-scale enterprises, 4) investing in human capital development and 5) strengthening governance mechanisms and institutional capacities.

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
B/Stable	B/Negative	B3/Negative

Source: Trading Economics

S&P Global Ratings affirmed Zambia's long-term foreign sovereign credit ratings at "B" in August 2017, and changed to outlook on this rating from negative to stable. The revised outlook is based on an improving macroeconomic climate which will be supportive of reducing fiscal deficits and the stock of debt. S&P expects a program agreement with the IMF to be in place by end-2017 and that this will act as a policy anchor. In the meantime, the agency expected higher copper prices and production to support the local economy. Macroeconomic stability is also a key downside risk factor for the country's ratings. Some of the factors that could individually or collectively result in a deterioration of the rating include weaker copper prices and lower agricultural production due to drought, "These factors have a substantial bearing on macroeconomic stability, growth, and the government's financing position."

Fitch Ratings affirmed Zambia's long-term foreign Issuer Default Ratings (IDR) at "B" with a negative outlook in February 2017. The agency affixed the negative outlook a year earlier due to a combination of falling copper revenue and slowing economic growth leading to persistent and large fiscal deficits as well as a doubling of government debt since 2012. In February 2017, Fitch commented that the doubling in the government debt ratio over the past five years was a product of this fiscal situation. It also noted an improved outlook for fiscal and debt dynamics if the country was able to agree with the IMF on a support programme. Lusaka had been in discussions with the multilateral organisation since early 2016 and Fitch expected an agreement during the first half of 2017. However, progress has been slow. In July, the rating agency commented that and IMF programme is key to underpinning the current rating.

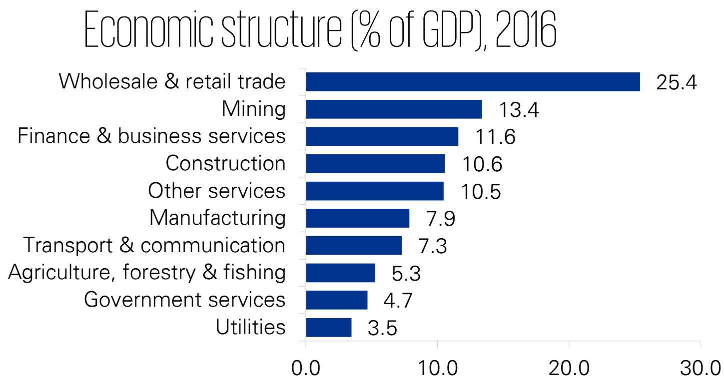
Moody's Investors Services rated Zambia with a "B3" government bond rating with a negative outlook in May 2017. A month later, the agency commented that the suspension of 48 opposition members of parliament for 30 days "point to a gradual institutional weakening". Moody's warned that the suspensions "raise the risk of domestic political turmoil" that will discourage foreign financiers from supporting a wide range of ongoing development projects in the country. This is disappointing considering that, historically, Zambia has been recognised "as a beacon of democracy in Sub-Saharan Africa", and that the country's "previous overall political stability was a relative credit strength" in Moody's credit assessment.

Finance & Banking

Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of Zambia (BoZ)	19	4.68	11.15	25.97
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
Lusaka Securities Exchange (LuSE)	23	$3.1 billion	Retail	$0.5 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Developed in an African context	91 days to 15 years	No	Yes

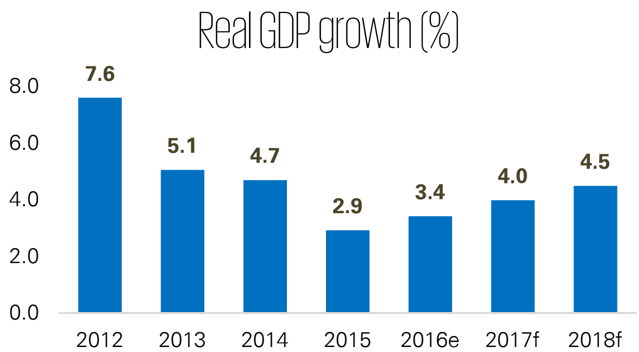
Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

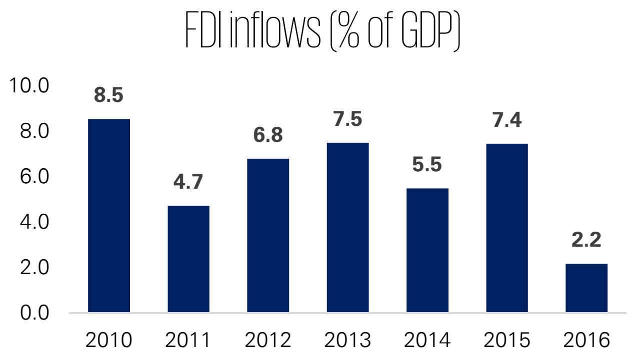
Macroeconomic overview



Source: African Economic Outlook (AEO)

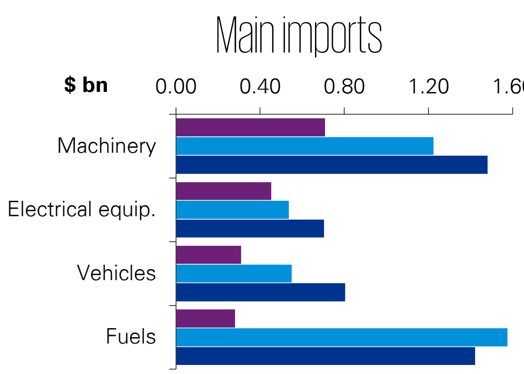
Economic growth – The IMF expects that the Zambian economy will grow by 4% in 2017 and 4.5% in 2018, following a weaker trend in 2015-2016. During the earlier period, exogenous shocks and lax policy in the lead up to general elections led to a poor performing economy. Foreign revenue from copper production - amid increasing world copper prices - will drive growth rates higher over the forecast period. Zambia have also seen a recovery in the agriculture sector, led by strong maize production, and plans to promote diversification to cash crops such as cotton, cashew nuts, soya beans, cassava and rice. The economy will also benefit from rising investment as investors' appetite to enter Zambia returns after a period of rigid tax policies in 2015. However, going ahead, forecasts from the IMF shows that GDP growth will remain below the pre-2014 commodity boom years. This is due to copper production that remains structurally lower than before. A combination of lower inflation levels, monetary easing and improving employment prospects will begin to feed through to stronger growth in the consumer-driven sectors.

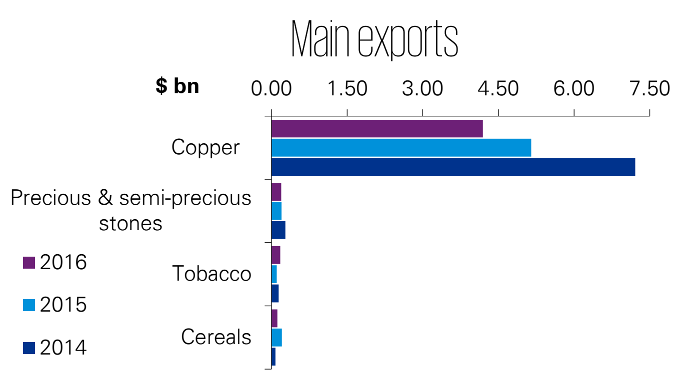




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Openness to investment in Zambia is better than most of its Southern African peers. The Zambian government has outlined a clear foreign direct investment (FDI) framework with various Special Economic Zones (SEZs) and incentives on offer for foreign investors. There are also no restrictions imposed on which sectors foreign business are allowed to participate in. The risk of instability in Zambia has receded in the short term following the release of opposition leader Hakainde Hichilema in August 2017, after four months imprisonment on treason charges. However, such incidents could affect Zambia's reputation as a beacon of democracy and stability. Further threats to investor sentiment include the underdeveloped and underfunded power network, sizable fiscal deficit, as well as an uncertain regulatory environment. Despite these risks, the country's mining strength should continue to attract FDI as commodity prices recover further.

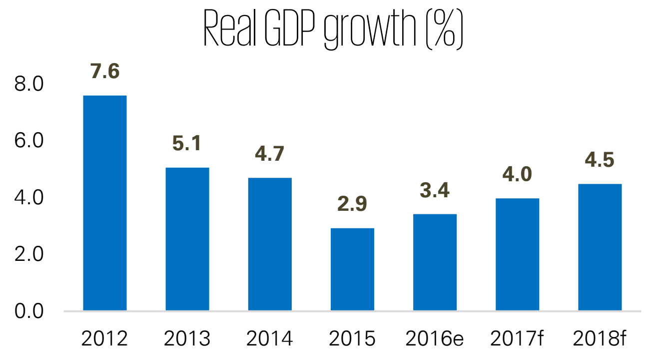


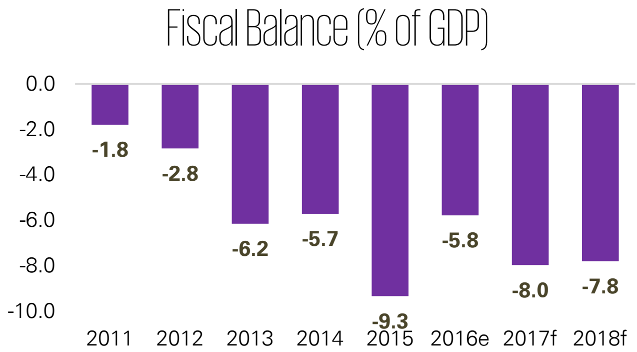


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Machinery	15.5%	14.6%	17.8%	Copper	74.4%	73.8%	79.0%
Electrical equipment	7.4%	6.4%	11.4%	Precious & semi-precious stones	2.8%	2.9%	3.7%
Vehicles	8.4%	6.6%	7.8%	Tobacco	1.5%	1.5%	3.3%
Fuels	14.9%	18.7%	7.1%	Cereals	0.8%	2.9%	2.2%

Source: Trade Map

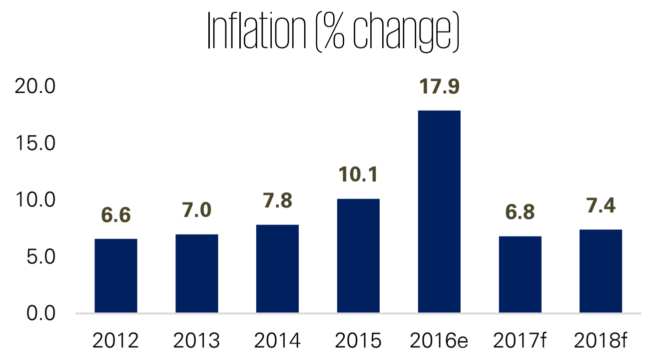
External trade – Zambia's current account deficit should narrow during 2017-2018. Rising copper prices and production, a strong maize harvest and fiscal consolidation will contribute to a narrowing of the current account deficit. A possible financing deal in 2018 with the IMF will buoy Zambia's stockpile of foreign reserves and provide a policy anchor, which will assure foreign investors. There is some concern around Zambia's political environment, which deteriorated markedly during 2017. While the government has made some efforts to diversify the economy into other sectors like agriculture, the copper industry remains the dominant source of export revenue – copper accounted for 79% of export revenues in 2016. As a result, economic growth will continue to be reliant on imported goods and services imported. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 3.4 months in 2018, compared to a global benchmark of at least three months.

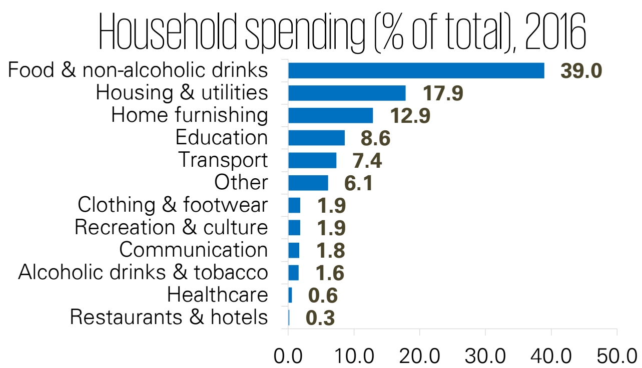




Source: IMF

Fiscal policy – Zambia's budget deficit expanded in 2017 as the government attempted to consolidate domestic arrears, before narrowing gradually thereafter. Rising copper prices and production will support fiscal revenues in 2018 while capital spending will slow as the government limits new capital projects until ongoing projects are completed. This slowdown in large projects, mainly financed through high-cost borrowing, will have a positive effect on the fiscal balance and reduce the fiscal shortfall. An uptick in participation of foreign investors in the government securities market has eased the government's financing constraint but has made the economy more vulnerable to swings in market sentiments and capital flow reversals. On their recent visit to Zambia in October 2017, the IMF emphasised the importance of safeguarding financial stability and stressed that credible fiscal consolidation is necessary to sustain the current monetary policy stance.





Source: IMF, BMI, country statistics agencies

Monetary policy – Towards the end of 2015, Zambia experienced a sharp depreciation of the kwacha, which pushed inflation from 7% y-o-y in mid-2015 to nearly 23% in February 2016. After inflation eased during the remainder of 2016, the BoZ cut interest rates by a cumulative 450 basis points between February and August 2017. Most recently, headline inflation slowed from 6.6% y-o-y in September to 6.4% y-o-y in October 2017. The BoZ will likely continue its easing cycle heading into 2017 due to still-poor private credit growth and inflation levels remain within its target band of 6%-8%.

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