

ZAMBIA

Key conditions and challenges

| Table 1 | 2021 |
|--|--------|
| Population, million | 18.9 |
| GDP, current US\$ billion | 19.3 |
| GDP per capita, current US\$ | 1019.1 |
| International poverty rate (\$2.15) ^a | 61.4 |
| Lower middle-income poverty rate (\$3.65) ^a | 77.5 |
| Upper middle-income poverty rate (\$6.85) ^a | 90.7 |
| Gini index ^a | 57.1 |
| School enrollment, primary (% gross) ^b | 98.7 |
| Life expectancy at birth, years ^b | 64.2 |
| Total GHG emissions (mtCO2e) | 93.1 |

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2015), 2017 PPPs.
 b/ WDI for School enrollment (2017); Life expectancy (2020).

Growth in 2022 is expected to ease at 3.3 percent, reflecting challenges in mining and agriculture despite strong momentum in services. A continuation of ongoing macro-fiscal and structural reforms should help restore macroeconomic stability and reinvigorate growth following multiple shocks—adverse weather, debt distress, COVID-19 pandemic, and the Russia-Ukraine war. Over the medium term, growth is expected to accelerate, despite a weaker global economy, but poverty will remain above the pre-pandemic level.

Zambia's economy is showing encouraging signs of stabilizing after a period of macroeconomic imbalances that weakened economic performance. Between 2015 and 2021, economic growth slowed down and averaged 2.5 percent per year, lower than the annual population growth rate of 2.9 percent. Poverty increased amid diminishing policy space and adverse weather shocks. Thus, the COVID-19 pandemic hit a struggling economy and the Russia-Ukraine war has weakened recovery. Consequently, Zambia slipped back into the low-income category in 2022 for the first time since attaining lower middle-income status in 2011.

The key challenge for Zambia is to achieve sustained macroeconomic stability that lays the foundation for sustainable growth and to pursue structural reforms for an economic transformation that lifts more Zambians out of poverty. Implementation of the government's program, reflected in its 2023–25 medium-term budget framework and supported under the recently approved IMF Extended Credit Facility arrangement, combined with a deep and timely debt restructuring under the Common Framework, should help restore macroeconomic stability. Swift implementation of structural reforms to remove market distortions in such sectors as agriculture and energy, supported by structural fiscal reforms to improve public spending efficiency, budget

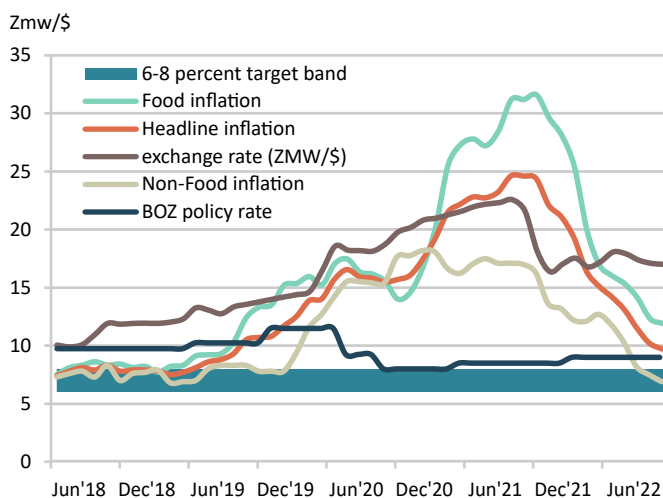
credibility, and social spending, will be critical for economic transformation and sustainable job creation.

Recent developments

The momentum of Zambia's rebound from the pandemic eased in the first half (H1) of 2022. Real GDP growth moderated to 2.4 percent in Q1 2022, year-on-year, as agriculture and industry contracted. Copper output declined by 6.7 percent, year-on-year, in H1 2022 despite firmer copper prices, reflecting a prolonged rainy-season, lower ore grades, and management challenges at two notable mines. The Stanbic-Purchasing Managers' Index suggests that private sector business activity remained unchanged in Q2 2022, averaging 50.1 (same as in Q1 2022).

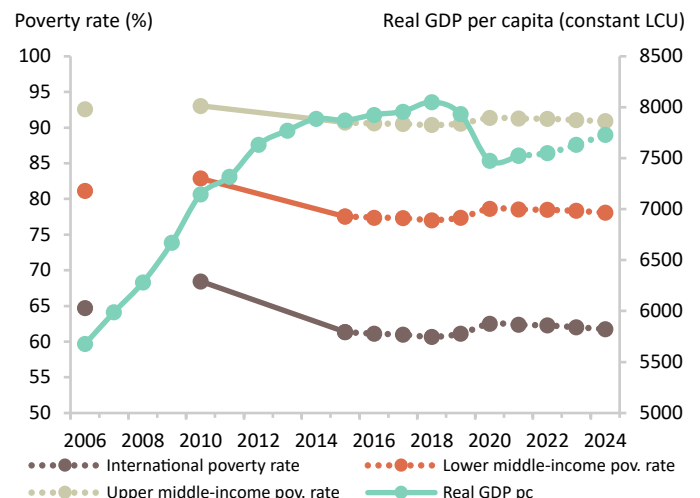
Fiscal revenues exceeded budgeted levels by 5.5 percent in H1 2022, supported by strong tax revenue and grants that offset lower-than-planned non-tax revenue. Expenditure fell below target by 14.7 percent, reflecting delayed recruitment and continued external debt service standstill. The current account balance remained positive in H1 2022, y/y, estimated at \$700 million (about 3.4 percent of GDP) but the surplus moderated in Q2 affected by the decline in net exports as copper earnings reduced on account of declining prices. The exchange rate remained stable in H1 2022 with the appreciation in Q2 offsetting the depreciation in Q1 whereas international reserves increased by \$0.2 billion to \$3 billion, covering 3.6 months of imports in June,

FIGURE 1 Zambia / Inflation, exchange rate (ZMW/\$) and Central Bank policy rate



Source: Zambian authorities.

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



Source: World Bank. Notes: see Table 2.

boosted by mining tax payments and inflows of project funds.

Fiscal and monetary policy restraint damped inflationary pressures (Figure 1). Inflation continued to decline throughout 2022, reaching single digits in June for the first time since mid-2019, and was at 9.8 percent in August, reflecting exchange rate appreciation, improved food supply, and high base effects from H1 2021. Improvement in fiscal consolidation has led to a drastic reduction in central bank lending to government that nearly halved on a year-to-date basis at the close of August. Zambia has made considerable progress towards debt restructuring under the G20 Common Framework. In July 2022, the Official Creditor Committee committed to negotiate debt restructuring for Zambia under the Common Framework.

Outlook

Zambia's economy is forecast to grow by 3.0 percent in 2022, 3.9 percent in 2023, and

accelerating slightly to 4.1 percent in 2024, buoyed by improvement in the macroeconomic environment, stable and predictable mining policy, and improved electricity supply supported by new generation capacity at Kafue Gorge. The planned fiscal consolidation targets to achieve a positive primary balance by 2024 through the reduction of inefficient subsidies in agriculture, electricity, and petroleum products; cancellation of some public projects; rolling back of election-related spending; and improved revenue mobilization through various tax policy and revenue administration reforms. Although the planned fiscal adjustment is large—an adjustment of 8.5 percent of GDP since 2020—it is expected to have a muted impact on growth and poverty as it reflects cuts in waste and rents, while increasing social spending.

Poverty is projected to remain unchanged in the short term but will reduce over the medium term as economic reforms translate into higher per-capita growth and improved social spending. Since June 2020, urban food

security improved only slightly while it worsened significantly among rural households. However, a World Bank Household Phone Survey, conducted in June 2022, shows that households' expectations are aligned with 60 percent of respondents indicating that they expect the general economic situation in the country to improve in 5 years' time, despite widespread food insecurity. The poverty rate is projected to remain at 62.3 percent in 2022, before marginally declining by a half percentage point by 2024.

Risks to the baseline outlook are firmly to the downside. A sustained downward trajectory in global copper prices will affect external stability and impact tax collections. Delays in concluding the debt restructuring process could dampen market confidence and perpetuate an uncertain economic environment whilst a worsening of Russia-Ukraine war could cause a resurgence in global fuel, fertilizer, and grain prices, which could in turn reverse the deceleration of domestic inflation in Zambia.

TABLE 2 Zambia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2019 | 2020 | 2021 | 2022e | 2023f | 2024f |
|--|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 1.4 | -3.0 | 3.6 | 3.0 | 3.9 | 4.1 |
| Private Consumption | 2.3 | 3.1 | 3.6 | 4.5 | 4.5 | 4.5 |
| Government Consumption | -10.1 | 10.8 | 5.6 | -2.0 | 11.4 | 8.8 |
| Gross Fixed Capital Investment | -14.1 | -35.5 | -9.5 | 31.5 | 11.5 | -16.1 |
| Exports, Goods and Services | -7.2 | 10.7 | 23.0 | -2.0 | 7.0 | 17.5 |
| Imports, Goods and Services | -13.7 | -10.7 | 21.0 | 14.3 | 15.0 | 7.5 |
| Real GDP growth, at constant factor prices | 1.5 | -2.5 | 3.6 | 3.0 | 3.9 | 4.1 |
| Agriculture | 7.7 | 17.2 | -0.7 | 4.4 | 8.8 | 4.0 |
| Industry | -3.3 | 0.6 | 4.2 | 3.3 | 3.5 | 3.9 |
| Services | 3.5 | -6.2 | 3.8 | 2.6 | 3.5 | 4.2 |
| Inflation (Consumer Price Index) | 9.1 | 15.7 | 22.1 | 12.0 | 10.0 | 9.7 |
| Current Account Balance (% of GDP) | 0.6 | 12.8 | 8.7 | 2.0 | 0.5 | 4.1 |
| Net Foreign Direct Investment Inflow (% of GDP) | -0.6 | -1.0 | 2.1 | 3.4 | 3.4 | 3.4 |
| Fiscal Balance (% of GDP) | -9.4 | -13.2 | -9.3 | -9.4 | -7.2 | -6.3 |
| Debt (% of GDP) | 102.2 | 157.4 | 118.1 | 113.9 | 106.5 | 101.2 |
| Primary Balance (% of GDP) | -2.5 | -7.3 | -2.9 | -1.8 | -0.1 | 0.7 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 61.1 | 62.5 | 62.4 | 62.3 | 62.0 | 61.8 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 77.4 | 78.6 | 78.6 | 78.5 | 78.3 | 78.1 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 90.6 | 91.4 | 91.3 | 91.2 | 91.1 | 90.9 |
| GHG emissions growth (mtCO₂e) | 1.4 | 0.5 | 1.4 | 1.1 | 1.0 | 1.2 |
| Energy related GHG emissions (% of total) | 8.3 | 7.8 | 8.0 | 8.0 | 8.1 | 8.5 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.

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