

ZAMBIA

Table 1	2022
Population, million	19.6
GDP, current US\$ billion	28.3
GDP per capita, current US\$	1445.4
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	62.4
Total GHG emissions (mtCO ₂ e)	94.5

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

Challenges in agriculture, mining, and construction slowed economic growth to 3.9 percent in 2022 after the post-pandemic rebound in 2021. Strong momentum in services, continued government commitment to reform, a boost in business confidence from expected debt restructuring, and favorable copper prices should support a modest but steady growth acceleration in 2023–24.

Key conditions and challenges

Zambia is in debt distress and requires debt relief. Weak fiscal discipline, excessive non-concessional borrowing, and falling copper prices caused external debt to jump to 66.4 percent of GDP in 2019 from 6.7 percent in 2011. The COVID-19 pandemic exacerbated Zambia's debt vulnerabilities, leading to a default on Eurobond payments in 2020. The government elected in August 2021 has launched policy reforms and begun a sharp fiscal adjustment but a substantial reduction in the net present value of Zambia's debt stock is also required to restore debt sustainability. Currently, Zambia's creditors—official and private—are discussing terms for a debt restructuring agreement.

In addition, job creation, increased productivity, and economic transformation is needed to ensure that future economic growth lifts more Zambians out of poverty, currently estimated at 62 percent. This is needed over the medium term to counter the track record of low and uneven growth, slow structural change, weak productivity especially in agriculture, insufficient human capital accumulation, and lack of adequate enablers for private sector-led growth. The Human Capital Index shows that a child born in Zambia will be 40 percent as productive when they grow up as they could be if they enjoyed complete education and full health, which is below the regional average.

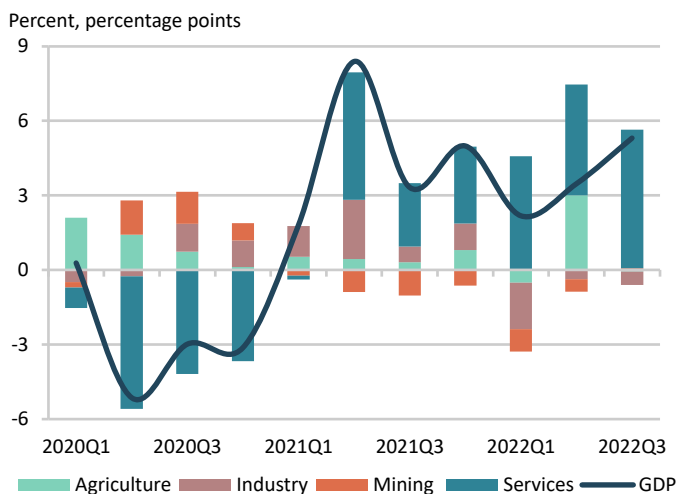
Recent developments

External and domestic headwinds slowed the pace of recovery in 2022. Real GDP grew by 3.7 percent, year-on-year, in Q1–Q3, driven by services (Figure 1). But falling world copper prices and operational challenges reduced copper production by 4.4 percent in 2022. Meanwhile, adverse weather and disruptions in the supply of fertilizer dampened crop output. The current account surplus narrowed to 2.3 percent of GDP in 2022 as spillovers from Russia's invasion of Ukraine raised Zambia's import bill while falling copper prices and output slowed growth in nominal export revenue. Uncertainty about debt restructuring reversed portfolio capital flows, triggering a 28.6 percent depreciation of the kwacha between September 2022 and February 2023 and placing pressure on reserves.

Inflation has remained in single digits since June 2022 and was 9.6 percent (y/y) in February 2023, supported by fiscal and monetary restraints. In February 2023, the Bank of Zambia increased the statutory reserve ratio on deposits by 2.5 percentage points and hiked the policy rate by 25 basis points.

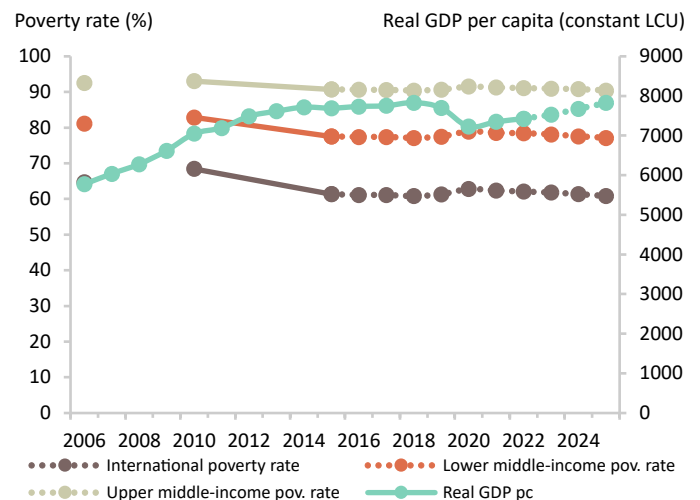
The government remains committed to fiscal prudence and in 2022 delivered 6 percentage points of GDP improvement in the primary fiscal balance (commitment basis). The debt service standstill, controls on recurrent spending, rationalization of capital projects, and increased income tax revenue

FIGURE 1 Zambia / Real GDP growth and sectoral contributions to real GDP growth



Source: Zambia Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

created space to increase social spending—ensuring that fiscal consolidation did not excessively drag growth.

Available data point to a slow and uneven recovery of household welfare in the last couple of years. The annual Labor Force Survey indicates that urban unemployment returned to pre-COVID-19 levels by 2021 but rural unemployment did not recover from the sharp increase in 2018. Household earnings, in turn, decreased across the board 2020–21. A phone survey from July 2022 found that as many as 50 percent of households did not fully meet their demands of basic staples, overwhelmingly citing economic reasons as the main barrier to access (increased prices or lack of money).

Outlook

The recovery is expected to strengthen, with GDP growing by around 4.5 percent

annually 2023–25. A debt restructuring deal will boost market confidence, external capital flows, and macroeconomic stability. Firmer copper demand from China and commencement of fertilizer production at a newly established domestic plant will broaden the base of GDP growth. Completion of reforms to agricultural policies, business regulations, and the energy sector will ensure fiscal sustainability and promote private sector-led growth. However, the Bank of Zambia expects inflation to rise and remain above its target band of 6–8 percent over the next two years on account of inflationary pressure from sustained exchange rate depreciation, increase in energy costs, and lingering external headwinds.

The risks to the outlook are balanced but there is substantial uncertainty. Sooner-than-anticipated debt restructuring deal would create fiscal space, accelerate foreign aid delivery, and improve engagement with the international community. Firmer-than-expected copper prices will

boost the external sector's performance and support exchange rate stability. However, the prolonged war in Ukraine will continue to impact the terms of trade for Zambia as it heavily depends on imported petroleum. Growing rainfall variability leading to floods and sometimes droughts is a risk that is undermining agriculture production and rural livelihoods.

Under current GDP-based projections, the incidence of poverty is projected to slowly return to pre-pandemic levels by 2025. Projected sustained growth in the services and construction sectors are expected to benefit the urban poor and reverse the recent increase in urban poverty. Progress with rural poverty, however, is more uncertain. While the agriculture sector is projected to grow, rates are just above population growth and the sector is subject to high volatility. Structural barriers to agricultural productivity and limited ability to cushion external shocks among the rural poor mean that additional support may be needed to improve their livelihoods.

TABLE 2 Zambia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.8	4.6	3.9	4.2	4.7	4.8
Private Consumption	3.1	3.6	4.5	4.5	4.5	4.5
Government Consumption	10.8	5.6	-3.4	12.8	8.8	8.8
Gross Fixed Capital Investment	-29.7	25.3	9.2	11.3	0.2	7.4
Exports, Goods and Services	21.8	-6.6	6.0	-4.6	3.5	2.6
Imports, Goods and Services	10.6	2.5	9.3	1.6	-0.6	4.7
Real GDP growth, at constant factor prices	-2.2	4.7	3.0	4.2	4.7	4.8
Agriculture	17.2	6.9	-3.9	2.0	3.0	3.0
Industry	1.3	4.2	-3.9	1.0	2.5	2.5
Services	-6.1	4.7	7.8	6.1	5.9	6.1
Inflation (Consumer Price Index)	15.7	22.3	10.7	11.1	10.1	7.1
Current Account Balance (% of GDP)	10.7	8.4	2.3	3.4	4.3	3.7
Net Foreign Direct Investment Inflow (% of GDP)	-1.0	1.9	-2.5	-2.9	-3.5	-4.1
Fiscal Balance (% of GDP)	-13.3	-9.3	-7.9	-8.5	-7.7	-6.9
Revenues (% of GDP)	21.0	23.1	21.9	21.5	22.3	20.3
Primary Balance (% of GDP)	-7.3	-2.9	-0.2	-0.1	0.7	0.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	62.7	62.2	61.9	61.7	61.2	60.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	78.7	78.5	78.3	78.0	77.5	77.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	91.5	91.2	91.1	90.9	90.6	90.4
GHG emissions growth (mtCO₂e)	1.0	1.5	0.9	1.0	1.4	1.4
Energy related GHG emissions (% of total)	8.2	8.7	8.8	9.0	9.4	9.9

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

Notes: e = estimate, f = forecast.

a/ Calculations based on 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016–2022. Forecasts are from 2023 to 2025.

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