Country Report

Zambia

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The Economist Intelligence Unit

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Zambia

Summary

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Economy

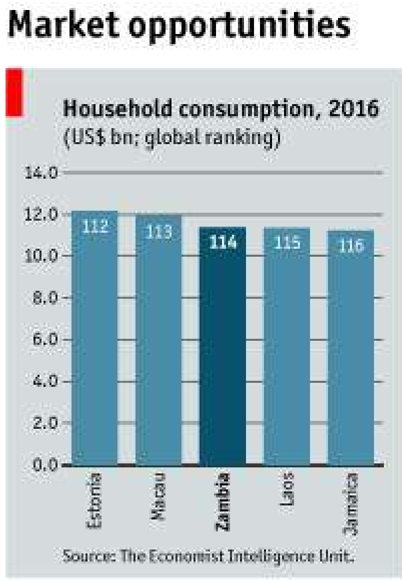
Briefing sheet

Editor: **Benedict Craven**

Forecast Closing Date: **January 15, 2018**

Political and economic outlook

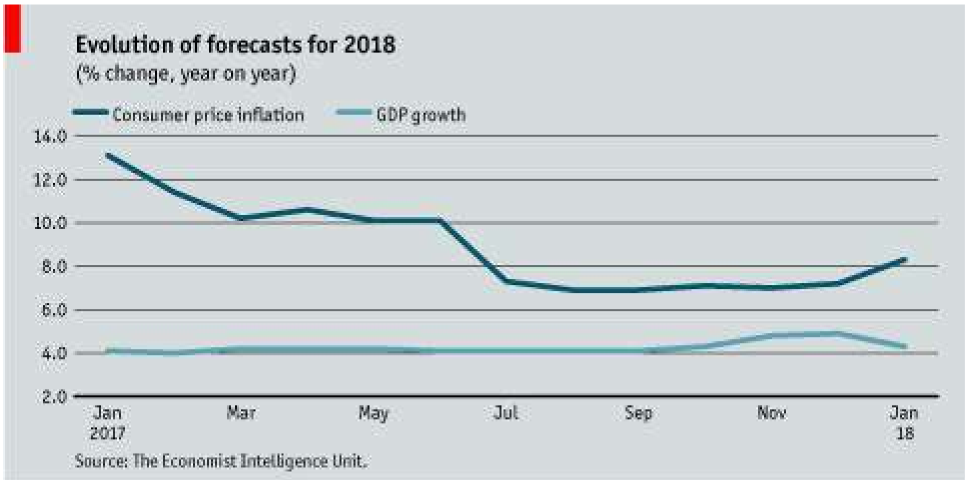
- Tensions between the opposition and government will be acute, leaving political stability in a permanently vulnerable position. Besides this, there will be serious internal volatility within the ruling party, the Patriotic Front, ahead of a 2020 presidential nomination.
- Fiscal policy is currently lax but to win over the IMF and because the current stance is unsustainable we expect tightening from 2019 onwards. This will help to slow the pace of external debt-accumulation compared with recent growth in the stock.
- Monetary policy will be loosened in 2018 as inflation remains well within the central bank's medium-term target range, followed by a period of stasis and then tightening in 2021-22 as price pressures rise.
- Real GDP growth will average 4.3% a year in 2018 22, mainly on the back of a strong copper price outlook and an expected mining boom, which will trickle down into other sectors.
- The current-account position will strengthen in 2018–19, moving from deficit to surplus, as strong copper exports outpace imports. The current account will stay in modest surplus in 2020–22 as the copper price environment remains supportive.



Key indicators

	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth (%)[c]	3.6	4.3	4.8	4.2	3.8	4.3
Consumer price inflation (av; %)	6.6[d]	8.3	6.4	6.0	8.2	6.7
Government balance (% of GDP)	-7.9	-7.0	-4.7	-2.8	-4.5	-1.8
Current-account balance (% of GDP)	-2.6	-1.3	0.9	0.5	0.5	0.9
Money market rate (av; %)	13.6	12.5	10.9	10.8	12.7	12.8
Exchange rate ZK:US$ (av)	9.53[d]	10.15	10.60	10.92	11.31	11.50

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] GDP at market prices on a factor cost basis used as a proxy. [d] Actual.



Key changes since November 3rd

- Glitches to an e-voucher subsidy system for farmers have dashed prospects of a strong maize harvest in 2018. As a result we have revised agricultural growth downwards for 2018, causing a small decrease in the headline economic growth rate.
- Expectations of a weaker 2018 harvest have also led us to revise up imports (causing the current-account deficit for that year as a share of GDP to rise from 1.1% to 1.3%) and annual average inflation, from 7.4% to 8.3% as price pressures rise from mid-year.
- Another factor influencing the rise in inflation is a cholera outbreak, which has prompted drastic measures including the closure of markets. Even assuming the infection can be brought under control relatively fast, this will raise prices for staple goods in early 2018,
- Inflation dynamics have caused us to push back our expectation for monetary loosening to 2019, from 2018 previously.

The month ahead

- **January 26th—Consumer price index (January):** Annual inflation has continued to drop, most recently from 6.3% in November to 6.1% in December, but the closure of markets countrywide to contain a cholera outbreak implies that the price of basic goods will be temporarily lifted, breaking a deflationary trend that held over the entire of 2017.

Major risks to our forecast

Scenarios, Q4 2017	Probability	Impact	Intensity

Tax policy towards the mining sector remains unpredictable	High	High	16
The president's bid for another term in office rattles political stability	High	High	16
A protracted slump in global copper prices undermines macroeconomic stability	High	Moderate	12
A shortage of skilled labour affects business operations	High	Moderate	12
Power shortages disrupt operations	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2018-22

Political stability

Zambia will face substantial threats to political stability in 2018-22. Much of this stems from what is for Zambia an unusual degree of social division and political intolerance under the presidency of Edgar Lungu. Amid widespread perceptions of worsening corruption and concerns that Zambia is descending into authoritarianism, tensions with the opposition will be acute. In particular, a deep-seated mistrust between Mr Lungu, and the leader of the opposition United Party for National Development (UPND) is unlikely to heal, despite "peace talks" brokered by the Commonwealth, a multilateral organisation, given the absence of any common ground over the validity of the 2016 election—the key sticking point. Over the longer run, there are several potential flashpoints where this animosity stands to spark serious turbulence.

For example, serious unrest is likely to break out when the Supreme Court delivers a verdict on whether Mr Lungu should be eligible to stand for another term in office in a 2021 general election; the announcement date is unspecified. If another term is deemed unconstitutional, Mr Lungu has himself publicly warned of chaos. Likewise, this clear politicisation of the legal process implies that a ruling declaring him able to stand again will now be viewed as tainted by the opposition, who already reject the idea of him having another term. If the ruling goes against Mr Lungu, disturbances could be severe enough to prompt political crisis—this is now a real downside risk—but as the president appoints Supreme Court judges, such a verdict is unlikely. Any related unrest is likely to be in the form of opposition protests, potentially involving low-level violence. The 2021 election will be another volatile period, during which the government will look to aggressively narrow the political space. If disorder becomes widespread, as is likely, we expect extra security powers to come into force, as they did for three months in 2017. On the one hand this would act as a mechanism for bolstering overall stability; on the other it would reinforce perceptions that Zambia is staggering into autocracy and deepen underlying social tensions.

Besides relations with the opposition, intra-governmental divisions will keep policy unpredictable, with a vocal conservative faction of the ruling Patriotic Front (PF) having long been sceptical of the president and his choice of cabinet. Key ministers have already been fired or resigned amid whistleblowing about corruption or mismanagement in government. To cement his position Mr Lungu is likely to continue purging this faction, which will prove a distraction to the functioning of government while it lasts, but later on it should help to avoid internal instability—for example, in the run-up to the 2020 PF presidential nomination process.

Election watch

The next presidential and legislative elections are due in August 2021. Assuming Mr Lungu is deemed eligible to stand again, the PF will be streamlined to fit around his ambitions for another term ahead of the 2020 nominations, whereby influential (and usually old-guard) competitors will be expelled or opt to leave. But this will come at a cost, as all PF politicians that have left his administration, either on their own volition or after being fired, have done so while exposing official mismanagement. This is no coincidence: given that corruption is a deep-seated public concern—and for good reason—citing it is a means by which ambitious politicians can begin afresh, in opposition, with a powerful campaigning message at their disposal. As the PF shake-up continues there will probably be similar allegations and the associated bad press stands to cause damage at the polls. Standing to gain from all this is the National Democratic Congress—a new party founded by Chishimba Kambwili, an ex-PF minister expelled by Mr Lungu in mid-2017—which is already making inroads within the ruling party's Copperbelt heartland on an anti-corruption platform. If key PF members switch over to this new force, it would split votes to the ultimate benefit of the UPND, which is less involved in the region. Even so, the UPND has become relatively timid since fierce crackdowns on its members and leadership in 2017, and now seems without the direction needed to fully exploit such a scenario. Therefore as things stand, The Economist Intelligence Unit retains its forecast for a Lungu victory in 2021, although this prognosis is at increasing risk.

International relations

Solid Sino-Zambian relations will be underlined by a string of infrastructure and manufacturing investment deals agreed with Chinese firms over the past few years. Relations with Western donors will be strained by concerns over widespread official corruption, but Zambia will largely remain on good terms with its regional neighbours. Some efforts to push Zambia back onto a more democratic path may be made later in the forecast period, but with major diplomatic players such as South Africa facing political controversy themselves, there will be no punitive action.

Policy trends

The government will have recourse to IMF funding eventually, but judging by a rapid build-up in public debt, we now only expect an assistance package to be agreed in 2019, when the government takes a more stringent fiscal line. Some difficult reforms and fiscal austerity measures will be required to secure and maintain IMF backing, even alongside reasonably high copper prices. But without the boost to investor confidence that comes with a programme, Zambia will struggle to access much-needed concessional loans (servicing domestic public debt is hugely costly) and, perhaps most crucially, refinance part of its Eurobond stock on more favourable terms.

Indeed, an IMF package will be central to the country's seventh national development plan (NDP7), spanning 2017–21. At the heart of the latter will be an attempt to stimulate value-added industrialisation in the mining sector and economic diversification. For this to work, policy stability—something the government has struggled with in the past—is being stressed as vital, but we remain sceptical. NDP7 envisages real GDP growth averaging 4.9% a year, underpinned by industrialisation, which overoptimistically suggests rapid dividends from greater economic liberalisation. As the programme falls behind target in the programme's later years, the government will probably try to speed industrialisation along artificially. Likely interference includes export taxes on unprocessed goods and local-content requirements that will undermine investment in the longer run. Interventionism—specifically against companies in the mining sector—is also popular with voters and for the sake of political capital will probably be ramped up as the election nears. Still, upward adjustments to electricity tariffs should see a wave of private investment in the energy sector, especially after the IMF programme is locked in, supporting a slow expansion of generation and some industrialisation.

Fiscal policy

Although fiscal policy will notionally tilt towards consolidation over the longer-term, official projections have spending as a proportion of GDP increasing in 2018 over the estimated 2017 outturn. Most of the increase is centred on core recurrent spending and costly debt servicing. There is also a stock of arrears to the private sector that needs clearing. With the government postponing necessary spending cuts in 2018, our assumption is that outlays will edge down as a proportion of GDP in 2019‑20. An expected loan agreement with the IMF, struck once fiscal policy tightens, will also introduce external oversight and help to limit policy slippages in these years. With an election due in 2021, there will be a partial abandonment of the consolidation agenda, with spending set to increase as a proportion of GDP that year, before falling back again in 2022 once election pressures subside.

On the revenue side, stronger copper prices will mean the revenue/GDP ratio increases in 2018‑20. By 2019 the IMF will also have oversight of budget planning, and so we expect the increasing revenue/GDP ratio to be supported by wider tax reforms. The ratio will then dip in 2021 on the back of an expected election-related tax cut that year, and recover in 2022 as compensatory revenue-raising measures are brought in again to try to rebalance the government account.

Overall, on the back of high spending we forecast that the deficit will remain wide at 7% of GDP in 2018. As consolidation efforts take effect, the shortfall will steadily narrow to 2.8% of GDP in 2020. An election-related uptick in spending will cause the shortfall to widen to 4.5% of GDP in 2021, but corrective measures will narrow it again, to 1.8% of GDP, in 2022. Regarding finance, domestic borrowing will be emphasised in the short term, but as this policy crowds out private-sector activity there will be a renewed emphasis on external borrowing later in the forecast period.

Monetary policy

Monetary policy has been getting progressively looser despite weak asset quality limiting the effects of this on credit extension, with banks preferring government paper instead. The Bank of Zambia (BoZ, the central bank) has repeatedly opted to use the base rate to try to push down average lending costs, but with a cholera outbreak likely to mean prices temporarily spike in early 2018 and a weak harvest sustaining upward pressure on food prices later in the year, we now expect the base rate to be kept flat until 2019, when some loosening will resume. As a reduced government deficit will be diverting less liquidity into Treasury securities, a flat rate is again expected in 2020, followed by a tighter stance in 2021 to counterbalance renewed fiscal laxity. In 2022, as inflation remains at the upper end of the central bank's 6‑8% target range, the monetary authorities will maintain a cautious stance.

International assumptions

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.2	2.2	2.3	0.9	1.9	1.8
OECD GDP	2.3	2.1	2.0	1.3	1.9	1.9
World GDP	2.9	2.8	2.8	2.3	2.8	2.7
World trade	4.6	3.5	3.7	2.7	3.7	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.2	2.3	1.3	1.8	1.9
OECD CPI	2.1	2.0	2.0	1.7	1.8	1.9
Manufactures (measured in US$)	3.5	4.2	4.0	2.9	4.0	3.3
Oil (Brent; US$/b)	54.5	59.0	57.5	54.5	58.8	62.0
Non-oil commodities (measured in US$)	7.5	1.6	0.8	-2.3	2.1	1.4
Financial variables						
US$ 3-month commercial paper rate (av; %)	1.1	1.7	2.5	2.3	1.5	1.8
US$:€ (av)	1.13	1.17	1.16	1.20	1.20	1.24
¥:US$	111.84	108.95	106.83	104.00	100.00	100.20

Economic growth

Strong copper prices imply good years for the mining sector. We expect an average spot price of just above US$300/lb for the metal in 2018–22, up from US$280/lb in 2017, meaning most producers will turn a profit. Increased output off the back of this will cause real GDP growth to pick up from an estimated 3.6% in 2017 to an annual average of 4.3% over the forecast period. In addition to the direct impact on national output (mining only accounts for around 14% of GDP), higher mineral production will also benefit the construction sector through investment in mine expansions. Transportation services will likewise receive a boost as a result of increased metals shipments. Private investment in the energy sector and company plans to rapidly expand in telecommunications should also provide stimulus to growth outside of mining, and help to offset the impact of generally lower recurrent government spending.

However, 4.3% is still well down on the annual average growth rate of nearly 7% in 2000–14. Indeed, although more cost-reflective electricity tariffs will encourage private investment in energy, translating this into higher output will be slow to materialise—leaving Zambia with a persistent supply gap. Expansion in agriculture will also be affected by less subsidy and policy inconsistency. In addition, the 2018–22 average is pulled down by a relatively weak year of growth in 2021, as a tense election period undermines business confidence.

Economic growth

%	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
GDP[c]	3.6	4.3	4.8	4.2	3.8	4.3
Private consumption	3.0	2.3	4.4	4.2	2.4	3.1
Government consumption	0.2	0.3	-1.6	-1.0	3.2	-0.9
Gross fixed investment	6.7	6.0	6.2	5.1	3.2	5.2
Exports of goods & services	5.0	7.1	6.9	6.3	6.2	6.6
Imports of goods & services	4.8	4.2	4.8	5.0	4.5	4.2
Domestic demand	3.3	2.9	3.7	3.5	2.8	3.0
Agriculture	7.8	0.3	2.0	2.7	3.1	3.1
Industry	2.9	5.8	6.4	6.3	5.9	6.1
Services	3.5	4.1	4.2	3.1	2.7	3.5

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] GDP at market prices on a factor cost basis used as a proxy.

Inflation

A slight rise in public spending, quicker economic growth, a further trimming of government subsidies and a lower harvest will increase inflation from 6.6% in 2017 to 8.3% in 2018. We then expect inflation to decline to an annual average of 6.2% in 2019-20 as the kwacha remains broadly stable, oil prices falter and the effects of subsidy cuts fade. Expansionary fiscal policy in the election year of 2021 and a rise in oil prices will then push up inflation to an average of 8.2%. Although demand pressures should ease in 2022, the headline rate will fall back within the BoZ's 6-8% target range but remain relatively high, at 6.7%, as oil prices rise again.

Exchange rates

In 2018 the kwacha-US dollar exchange rate will be put under pressure by uncertainty about the government's ability to secure a finance package with the IMF, but strong copper prices will soften the impact. We now expect the kwacha to average ZK10.2:US$1 in 2018, from ZK9.5:US$1 in 2017. After Zambia enters into the IMF package in 2019, and as a result of strong copper prices, the pace of depreciation will then slow, with the currency reaching ZK10.9:US$1 in 2020. Uncertainties surrounding a general election in 2021 will then prompt a faster slide, with the kwacha averaging ZK11.3:US$1 that year, followed by a slower rate of weakening in 2022, to ZK11.5:US$1, as these uncertainties subside and exports remain strong.

External sector

Current-account dynamics will continue to be shaped by the copper-dominated mining industry, and as productivity in the sector increases the trade balance will move out of deficit and return to surplus in 2018–22. Indeed, as copper production is ramped up, export volumes should grow markedly while reasonably solid copper prices will support the surge in earnings.

The import bill will also expand, driven by a reasonably strong kwacha as well as capital goods imports for projects in roadbuilding, energy and the expanding mining sector in 2018–22. Projections for 2018 have also been revised upwards to account for reduced expectations of local maize production, raising the need for imports. The services account will remain in deficit as demand for services related to infrastructure and mining projects remains robust. The primary income deficit will broadly track trends in copper prices and the profitability of mining companies, widening or remaining stable in every year except 2020, when it narrows in line with a small dip in copper prices. The secondary income account will remain in surplus owing to remittances from Zambians working abroad and aid inflows.

Overall, the current account will improve steadily from an estimated deficit of 2.6% of GDP in 2017 to a surplus of 0.9% of GDP in 2019 as mineral exports pick up. As a small dip in copper prices slows the pace of export growth in 2020, the surplus will then narrow to 0.5% of GDP, before expanding to 0.9% of GDP in 2022 as external conditions improve. Borrowing, as well as foreign direct investment flows into energy projects and mining ventures, will cover the shortfall in 2018.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
Real GDP growth[c]	3.6	4.3	4.8	4.2	3.8	4.3
Gross industrial growth	2.9	5.8	6.4	6.3	5.9	6.1
Gross agricultural production growth	7.8	0.3	2.0	2.7	3.1	3.1
Consumer price inflation (av)	6.6[d]	8.3	6.4	6.0	8.2	6.7
Consumer price inflation (end-period)	6.1[d]	6.5	6.2	6.3	6.9	5.3
Weighted lending base rate (av; %)	12.5	12.0	11.1	10.9	11.2	11.0
Government balance (% of GDP)	-7.9	-7.0	-4.7	-2.8	-4.5	-1.8
Exports of goods fob (US$ m)	8,092	9,229	10,267	10,381	10,799	11,484
Imports of goods fob (US$ m)	-7,448	-8,141	-8,434	-8,640	-8,859	-9,302
Current-account balance (US$ m)	-625	-346	236	148	144	304
Current-account balance (% of GDP)	-2.6	-1.3	0.9	0.5	0.5	0.9
External debt (year-end; US$ bn)	10.1	10.3	11.1	11.6	12.2	11.8
Exchange rate ZK:US$ (av)	9.53[d]	10.15	10.60	10.92	11.31	11.50
Exchange rate ZK:¥100 (av)	8.52[d]	9.32	9.92	10.50	11.31	11.47
Exchange rate ZK:€ (av)	10.74[d]	11.90	12.24	13.05	13.58	14.23
Exchange rate ZK:SDR (av)	13.20[d]	14.23	14.74	15.38	16.03	16.53

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] GDP at market prices on a factor cost basis used as a proxy. [d] Actual.

Data and charts

Annual data and forecast

	2013[a]	2014[a]	2015[a]	2016[a]	2017[b]	2018[c]	2019[c]
GDP							
Nominal GDP (US$ m)	28,041	27,145	21,245	20,957	24,434	25,603	27,600
Nominal GDP (ZK m)	151,331	167,053	183,381	216,098	232,798	259,914	292,428
Real GDP growth (%)	5.1	4.7	2.9	3.8	3.6	4.3	4.8
Expenditure on GDP (% real change)							
Private consumption	-2.2[b]	3.8[b]	3.4[b]	2.0[b]	3.0	2.3	4.4
Government consumption	21.9[b]	7.6[b]	5.5[b]	4.7[b]	0.2	0.3	-1.6
Gross fixed investment	16.0[b]	5.3[b]	2.1[b]	-0.9[b]	6.7	6.0	6.2
Exports of goods & services	13.8[b]	2.8[b]	0.2[b]	3.0[b]	5.0	7.1	6.9
Imports of goods & services	17.3[b]	3.0[b]	1.8[b]	-1.6[b]	4.8	4.2	4.8
Origin of GDP (% real change)							
Agriculture	-3.8	1.1	-7.7	3.7	7.8	0.3	2.0
Industry	2.3	4.0	6.6	6.7[b]	2.9	5.8	6.4
Services	12.5	-1.3	2.2	2.0[b]	3.5	4.1	4.2
Population and income							
Population (m)	15.3	15.7	16.2	16.6	17.1	17.6	18.2
GDP per head (US$ at PPP)	3,678	3,802	3,836	3,939	4,028	4,169	4,309
Fiscal indicators (% of GDP)							
Public-sector revenue	17.6	18.9[b]	17.2[b]	18.2[b]	18.1	19.7	20.0
Public-sector expenditure	24.0	24.3[b]	25.4[b]	24.0[b]	26.0	26.8	24.8
Public-sector balance	-6.4	-5.4[b]	-8.1[b]	-5.7[b]	-7.9	-7.0	-4.7
Net public debt	30.5	37.1[b]	61.7[b]	58.3[b]	65.4	70.4	69.9
Prices and financial indicators							
Exchange rate ZK:US$ (end-period)	5.51	6.39	10.98	9.92	10.00[a]	10.47	10.73
Exchange rate ZK:€ (end-period)	7.60	7.76	11.95	10.46	11.75[a]	12.20	12.55
Consumer prices (end-period; %)	7.2	7.8	21.1	7.5	6.1[a]	6.5	6.2
Stock of money M1 (% change)	16.0	3.7	4.5	10.9	10.2	10.1	7.9
Stock of money M2 (% change)	19.7	9.8	24.9	0.1	8.7	13.1	11.6
Weighted lending base rate (av; %)	9.5	11.6	13.3	15.5	12.5	12.0	11.1
Lending interest rate (av; %)	16.3	18.7	21.1	28.1	27.2	20.6	19.4
Current account (US$ m)							
Trade balance	1,648	1,625	-74	-25	645	1,088	1,834
Goods: exports fob	10,843	10,220	7,362	6,514	8,092	9,229	10,267
Goods: imports fob	-9,195	-8,595	-7,436	-6,539	-7,448	-8,141	-8,434
Services balance	-1,058	-794	-571	-508	-616	-644	-641
Primary income balance	-1,153	-1,517	-349	-607	-848	-985	-1,162
Secondary income balance	345	283	227	212	194	196	205
Current-account balance	-219	-401	-768	-929	-625	-346	236
External debt (US$ m)							
Debt stock	5,885	7,524	8,743	9,607	10,076	10,305	11,120
Debt service paid	315	385	489	635	725	838	858
Debt service due	811	884	992	1,143	1,233	1,344	1,353
International reserves (US$ m)							
Total international reserves	2,684	3,078	2,968	2,353	1,977	2,514	3,099

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.
Source: IMF, International Financial Statistics.

Quarterly data

	2016 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2017 1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (2009=100)	180	183	184	188	193	195	196	199
Consumer prices (% change, year on year)	22.3	21.4	19.5	9.5	6.8	6.7	6.5	6.3
Copper, LME (US$/tonne)	4,675	4,736	4,780	5,281	5,840	5,668	6,349	6,823
Financial indicators								
Exchange rate ZK:US$ (av)	11.27	10.16	9.96	9.85	9.76	9.32	9.12	9.93
Exchange rate ZK:US$ (end-period)	11.08	9.82	10.00	9.92	9.68	9.13	9.66	9.98
Deposit rate (av; %)	10.20	11.38	10.72	10.84	10.69	9.71	8.13	n/a
Central bank policy rate (end-period; %)	15.50	15.50	15.50	15.50	14.50	13.00	11.60	n/a
Treasury bill rate, average on all issues (%)	25.20	24.57	23.75	23.61	19.30	14.70	11.40	n/a
M1 (end-period; ZK m)	12,750	13,421	14,194	15,690	15,016	15,691	n/a	n/a
M1 (% change, year on year)	2.0	4.6	2.4	10.9	17.8	16.9	n/a	n/a
M2 (end-period; ZK m)	40,286	40,624	40,455	41,118	43,126	44,171	n/a	n/a
M2 (% change, year on year)	14.8	18.4	-4.8	0.1	7.0	8.7	n/a	n/a
Foreign trade (US$ m)								
Exports fob	1,554.8	1,610.2	1,553.8	1,788.7	1,886.9	1,881.3	2,044.2	n/a
Imports cif	-1,763.8	-1,778.7	-1,820.9	-2,193.0	-1,888.5	-2,077.1	-2,271.6	n/a
Trade balance	-209.0	-168.5	-267.0	-404.3	-1.5	-195.8	-227.4	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	2,592	2,404	2,262	2,353	2,292	2,369	2,151	n/a

Sources: Bank of Zambia, Statistics Fortnightly; IMF, International Financial Statistics; Direction of Trade Statistics; Haver Analytics.

Monthly data

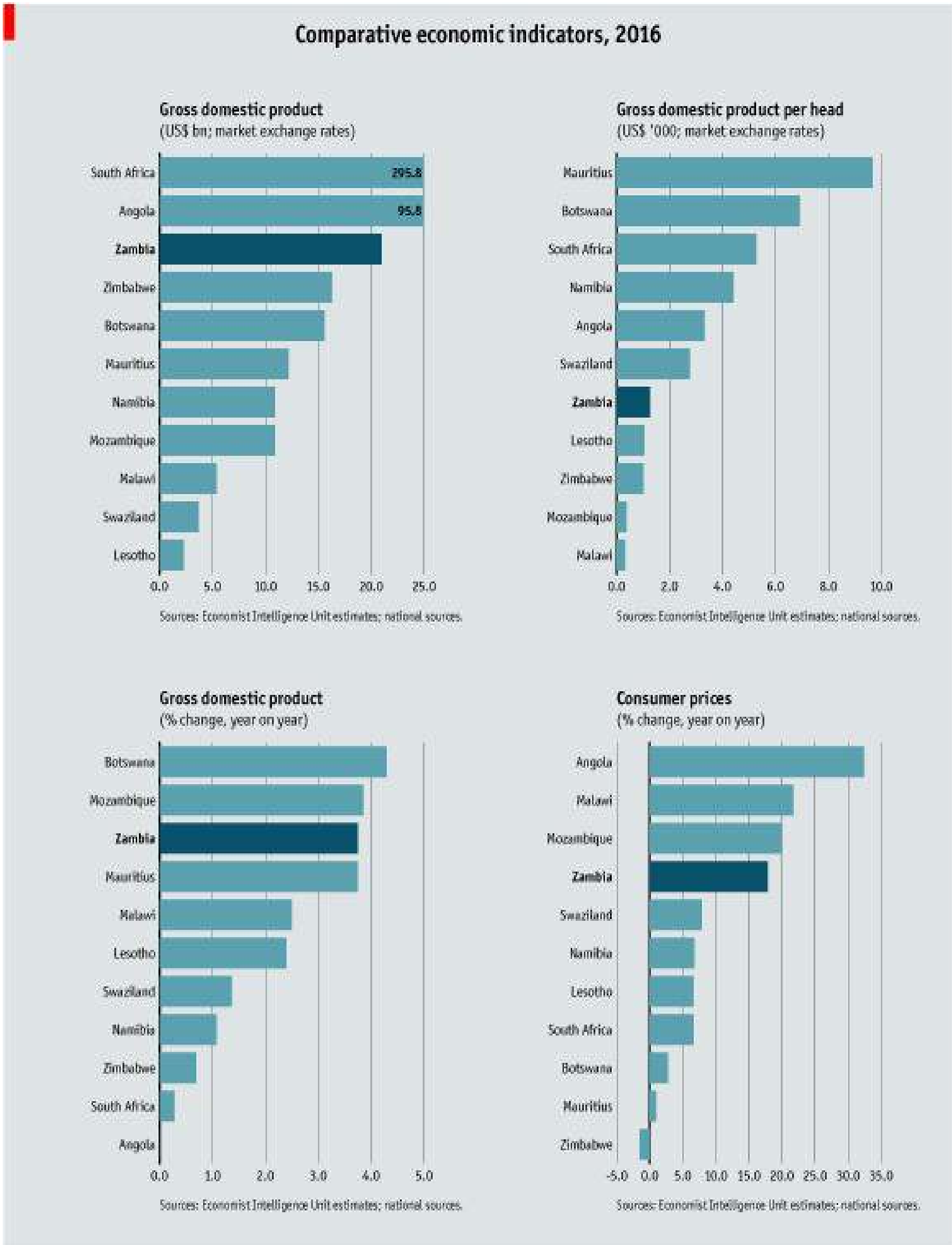
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate ZK:US$ (av)												
2015	6.46	6.75	7.33	7.41	7.26	7.33	7.68	8.09	10.24	12.02	12.18	10.83
2016	11.13	11.33	11.34	9.74	10.05	10.70	9.90	10.01	9.98	9.87	9.83	9.93
2017	9.93	9.75	9.60	9.42	9.26	9.24	8.93	9.02	9.41	9.77	10.00	10.00
Deposit rate (end-period; %)												
2015	9.2	9.3	9.3	9.3	9.2	8.9	9.1	8.7	8.5	8.4	8.8	9.4
2016	9.8	9.9	10.9	11.9	11.4	10.9	11.0	10.6	10.6	10.9	10.8	10.8
2017	10.9	10.7	10.6	10.4	10.1	8.7	8.6	8.0	7.8	6.9	n/a	n/a
Central bank policy rate (end-period; %)												
2015	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	15.5	15.5	15.5
2016	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
2017	15.5	14.0	14.0	14.0	12.5	12.5	12.5	11.0	11.0	11.0	n/a	n/a
M1 (% change, year on year)												
2015	8.2	1.4	-5.8	-6.8	-1.6	-6.0	6.4	16.6	15.5	18.0	10.2	10.2
2016	0.5	-4.5	-5.9	0.3	6.4	6.4	9.3	15.1	5.7	1.7	12.3	4.9
2017	0.7	8.1	16.6	16.3	21.2	18.2	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2015	19.0	13.0	16.4	10.4	9.9	5.3	5.6	29.5	40.7	46.0	35.9	29.7
2016	24.9	22.1	19.3	14.4	17.3	19.6	21.0	16.1	16.2	3.4	0.7	-9.8
2017	-6.4	1.3	8.5	5.7	7.4	14.0	n/a	n/a	n/a	n/a	n/a	n/a
Stockmarket index												
2015	6,172	6,150	6,104	5,994	5,923	5,842	5,847	5,826	5,800	5,772	5,745	5,735
2016	5,554	5,575	5,534	5,011	4,964	4,753	4,698	4,384	4,321	4,307	4,265	4,196
2017	4,052	4,229	4,414	4,570	4,718	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2015	7.7	7.4	7.2	7.2	6.9	7.1	7.1	7.3	7.7	14.3	19.5	21.1
2016	21.8	22.9	22.2	21.8	21.3	21.0	20.2	19.6	18.9	12.5	8.8	7.5
2017	7.0	6.8	6.7	6.7	6.5	6.8	6.6	6.3	6.6	6.4	6.3	6.1
Total exports fob (US$ m)												
2015	584.9	618.0	571.6	536.8	537.6	553.4	663.0	668.8	472.3	515.4	669.4	648.2
2016	559.9	465.9	528.9	541.3	543.6	525.3	563.1	501.9	488.8	610.1	581.9	596.7
2017	588.1	646.2	652.7	616.6	626.3	638.3	747.6	709.8	586.9	n/a	n/a	n/a
Total imports cif (US$ m)												
2015	785.9	617.3	596.4	624.8	694.1	730.0	773.6	758.5	681.1	730.6	769.8	720.0
2016	597.8	547.4	618.6	625.3	572.6	580.8	614.2	592.0	614.6	786.9	732.4	673.8
2017	499.1	682.0	707.3	740.2	662.3	674.6	701.5	763.6	806.5	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2015	-201.0	0.7	-24.8	-88.0	-156.5	-176.6	-110.5	-89.7	-208.8	-215.2	-100.4	-71.8
2016	-37.9	-81.5	-89.6	-84.1	-28.9	-55.5	-51.1	-90.1	-125.8	-176.8	-150.5	-77.1
2017	88.9	-35.9	-54.6	-123.6	-36.0	-36.3	46.1	-53.9	-219.6	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2015	2,908	2,801	2,668	2,690	2,687	2,726	3,903	3,847	3,586	3,341	3,021	2,968
2016	2,893	2,763	2,592	2,650	2,456	2,404	2,228	2,246	2,262	2,202	2,300	2,353
2017	2,302	2,257	2,292	2,397	2,372	2,369	2,396	2,262	2,151	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

Monthly trends charts

Comparative economic indicators



Basic data

Land area

752,612 sq km

Population

16.59m (IMF actual, 2016)

Main towns

Population in '000 (World Gazetteer estimates, 2012)

Lusaka (capital): 1,526

Kitwe: 562

Ndola: 518

Kabwe: 221

Chingola: 183

Mufulira: 144

Livingstone: 141

Luanshya: 134

Climate

Tropical, cool on high plateaux

Weather in Lusaka (altitude 1,277 metres)

Hottest month, October, 18-31°C; coldest month, July, 9-23°C (average daily minimum and maximum); driest month, August, 0 mm average rainfall; wettest month, December, 231 mm average rainfall

Languages

English (official), Nyanja, Bemba, Tonga, Lozi and other local languages

Measures

Metric system

Currency

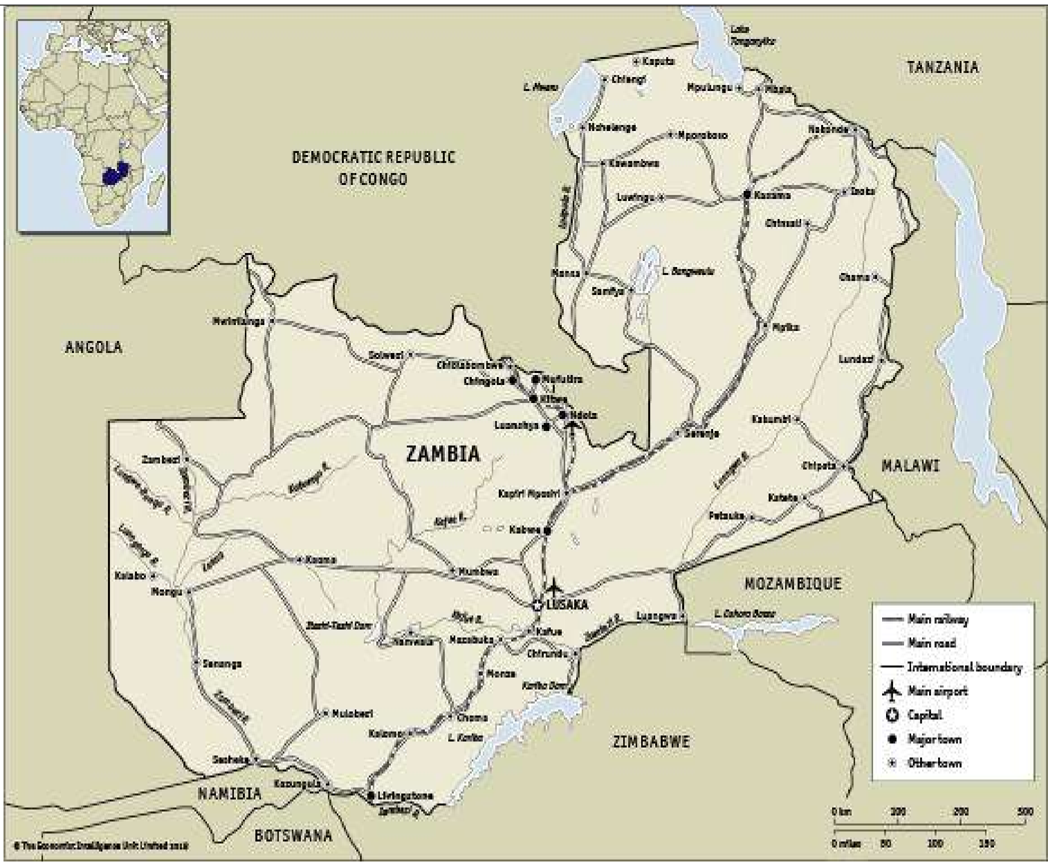
Kwacha (ZK)=100 ngwee; ZK9.53:US$1 (2017 average)

Time

2 hours ahead of GMT

Public holidays

New Year's Day (January 1st), Good Friday, Easter Monday, Labour Day (May 1st), Africa Day (May 25th), Heroes' Day (first Monday in July), Unity Day (first Tuesday in July), Independence Day (October 24th), Christmas (December 25th-26th)



Political structure

Official name

Republic of Zambia

Form of state

Unitary republic

Legal system

Based on the 1996 constitution (last amended in 2015)

National legislature

National Assembly; 156 members elected by universal suffrage, serving a five-year term; the president can appoint eight further members

National elections

The most recent presidential and legislative elections were held on August 11th 2016; the next national elections are scheduled for August 2021

Head of state

President, elected by universal suffrage for a term of five years

National government

The president and his appointed cabinet

Main political parties

The Patriotic Front (PF) is currently the ruling party; the main opposition party is the United Party for National Development (UPND); other parties include the Movement for Multiparty Democracy (MMD), the Forum for Democracy and Development (FDD) and the Alliance for Democracy and Development (ADD); independents form the third-largest bloc in parliament

Key ministers

President: Edgar Lungu

Vice-president: Inonge Wina

Agriculture: Dora Siliya

Chiefs & traditional affairs: Lawrence Sichalwe

Commerce, trade & industry: Margaret Mwanakatwe

Communication & transport: Brian Mushimba

Community development & social services: Emerine Kabanshi

Defence: Chama Davies

Development planning: Alexander Chiteme

Energy & water development: David Mabumba

Finance: Felix Mutati

Fisheries & livestock: Michael Katambo

Foreign affairs: Joel Malanji

Gender: Victoria Kalima

General education: Dennis Wanchinga

Health: Chitalu Chilufya

Higher education: Nkandu Luo

Home affairs: Stephen Kampyongo

Housing & infrastructure development: Ronald Chitotela

Information & broadcasting services: Kampamba Mulenga

Justice: Given Lubinda

Labour & social security: Joyce Nonde Simukoko

Lands, natural resources & environmental protection: Jean Kapata

Mines & mineral development: Christopher Yaluma

National guidance & religious affairs: Godfridah Sumaili

Tourism & arts: Charles Banda

Works & supply: Mathew Nkhuwa

Youth, sports & child development: Moses Mawere

Central bank governor

Denny Kalyalya

Recent analysis

Generated on February 6th 2018

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Lucky Mulusa sacked

December 29, 2017: Political stability

Event

The minister of national planning, Lucky Mulusa, has been sacked from government soon after he blamed widespread power shortages experienced in 2016 on failings by the state-owned power utility, Zesco, and the Zambezi River Authority (ZRA), which owns the key Kariba hydroelectric dam.

Analysis

The president, Edgar Lungu, revoked Mr Mulusa's ministerial appointment and nomination as a member of parliament without giving reasons. However, the sacking came a day after Mr Mulusa blamed Zesco and the ZRA for inertia during the country's worst electricity crisis in recent history. Moreover, the accusation contradicts the president's own explanation that power shortages were caused by drought hitting hydroelectric dams, which Zambia is heavily dependent on, and so to some may suggest a cover-up.

Mr Mulusa, a controversial political figure, is well-known for criticising the government at times, which has not gone unnoticed by the president's supporters, some of whom petitioned the president in October to dismiss the minister. For example, Mr Mulusa recently questioned the controversial purchase of 42 fire engines at a cost of US$42m, amid nationwide anger over what was a costly procurement. Some critics have even called it evidence of corruption. Although all of this will have been embarrassing for the president, the sacking of the minister adds fuel to claims that the current administration is intolerant of dissenting views. It also seems to tie into a loyalist streamlining of the cabinet ahead of a re-election bid that Mr Lungu is hoping for in 2021; other senior members of the ruling Patriotic Front have already been purged for speaking out against the president. Like Chishimba Kambwili, who was expelled for insubordination in July, Mr Mulusa may now be prompted to join the opposition and become a fully fledged government critic. Notwithstanding this, Mr Lungu's hold around his administration is getting stronger.

Impact on the forecast

The sacking is aligned with our forecast for intra-governmental volatility ahead of the 2021 election season, aimed at consolidating Mr Lungu's position. The forecast is therefore unchanged.

Analysis

Foreign minister resigns in protest over corruption

January 9, 2018

In early January Harry Kalaba, Zambia's foreign minister, resigned from office, ostensibly in protest against corruption within government. For the president, Edgar Lungu, the resignation represents the most high-profile and damaging condemnation of his administration yet. But the nature of Mr Kalaba's exit could prove politically advantageous for him ahead of national elections in 2021.

The ruling Patriotic Front (PF) is plagued by internal volatility. As recently as December another member of the cabinet, Lucky Mulusa, was sacked for openly accusing the government of covering up gross mismanagement that led to an electricity crisis in 2016. The voluntary departure of a popular minister, for similar reasons, is as an even bigger embarrassment for the embattled president. Corruption is a prominent public concern in Zambia; over-inflated tenders have been exposed; the auditor-general has uncovered rampant mismanagement of funds within the civil service; and many Zambians have begun to feel the pinch of fiscal austerity as subsidies are rolled back, making theft by elites an increasingly irksome concept. If left to fester, these frustrations stand to be electorally damaging for Mr Lungu; the National Democratic Congress (NDC), a new opposition party founded by Chishimba Kambwili, a former minister ousted from the PF in mid-2017, is already using an anti-corruption platform to make inroads in the Copperbelt. And judging by the 2016 general election result, this should be an invincible PF stronghold. Mr Kalaba has now been invited to join the NDC, where his message about graft in government could be put to powerful use in building a new political career.

A self-destructive path

Corruption is an important issue, but it is not the main one tearing the PF apart. Arguably the 2021 election, in which Mr Lungu has announced he wants to stand as the PF presidential candidate, is even more divisive. Mr Lungu's eligibility for standing again is yet to be determined by the Constitutional Court, but some in the PF's old guard—a group that includes founding members of the party—already feel cheated of their chance to rule. This was true of Mr Kambwili, who had presidential ambitions of his own and openly scorned the president's alleged obsession with staying on before he was expelled. The same frustrations probably applied to Mr Kalaba as well; although Mr Kalaba had not publicly declared any presidential ambitions, he never denied speculation that he would be a willing candidate should the incumbent step aside. More senior PF figures will come under pressure as the party further orients itself around the president, and those that voice any intention to stand for the top job will face intense scrutiny. As Mr Lungu's determination to stand again is clear, to the extent that he has publicly warned the judiciary against denying him the opportunity, ambitious politicians will be feeling either frustrated or under threat of being purged and will be tempted to reconsider their options. Moreover, some among the party's old guard feel that the PF has been disfigured beyond recognition under Mr Lungu, specifically with regards to opposition figures being brought into government in exchange for their support during the extremely tight 2016 election. So there are multiple reasons besides alleged corruption for turning against the current administration. Mr Kalaba is unlikely to be the last to leave or be kicked out either.

Officially, the party is unperturbed by its most recent loss; its secretary-general, Mumbi Phiri, quickly told local media that Mr Kalaba's resignation was welcome and that self-cleansing would only make the party stronger ahead of 2021. But a glaring error in this argument is the effect on public relations as senior figures quit, citing corruption and the like in justification. Evidently this damage is being regarded as an unavoidable by-product of a more important restructuring of the party around Mr Lungu. But by the time of the election in 2021, the party's brand will be substantially tarnished if the party is stripped of key members—particularly when some of them have gone on to accuse the government of systemic corruption. As this process plays out and threatens the PF's electoral prospects, politicians currently backing the president may eventually be prompted to turn against the leadership.

The opposition lurks on the sidelines

As divisions within the PF worsen, the opposition will be well placed to exploit the disarray. Mr Kambwili is widely expected to contest the 2021 presidential election on behalf of the NDC, and his campaign will be galvanised by growing, high-level accusations of corruption within government. He and Mr Kalaba may even join forces. In any case, the vote stands to be split within the Copperbelt, where both Mr Kambwili and Mr Kalaba have influential presences. The main beneficiary of extra competition there would be Zambia's main opposition group, the United Party for National Development (UPND), whose own support base is located in other parts of the country. At present The Economist Intelligence Unit considers the UPND to be too weak to be able to clinch a victory in 2021 and the NDC too new and geographically concentrated—although judging by how ugly internal rifts within the PF have become, and set against the likelihood of further controversy as Mr Lungu continues to mould the party around his own ambitions, this forecast is increasingly at risk. For example, should the NDC and the UNDP form an alliance, that would be a game changer, as would a bona fide split in the PF.

Economy

Forecast updates

Plan to refinance US$2.8bn of Eurobond stock reiterated

December 5, 2017: Fiscal policy outlook

Event

Zambia intends to refinance US$2.8bn in Eurobonds in 2019, according to Mukuli Chikuba, the Ministry of Finance's permanent secretary.

Analysis

The government made identical claims in late 2016 but was warned off refinancing its Eurobond debt—which totals US$3bn—by the IMF as financing conditions were deemed unsuitable; copper prices were low and the budget deficit including arrears for that year was, at that point, officially estimated at 10% of GDP. As then, the motivation behind an early rollover (the first Eurobond in the current stock matures in 2022) is to reduce high servicing costs; external debt payments make up around 10% of total expenditure in the 2018 (calendar year) budget, despite the kwacha having stabilised from a period of freefall in recent years.

Affordably raising US$2.8bn in one year is unlikely with Zambia's sovereign rating at junk status, and even refinancing a smaller amount may again be postponed beyond 2019. As a virtual precondition to a successful bond issuance, Zambia will first need to demonstrate a focused commitment to rebalancing the fiscal account. Judging by the 2018 budget, which officially projects a wide government deficit—incidentally made worse by the inflexibility of large debt repayments—doing so will have to wait until 2019 at least. We also expect a loan facility with the IMF, which the government is currently in negotiations for, to be struck in 2019 as well, as opposed to 2018, which the government is hoping for. But the timeline between getting a deal with the Fund, making concrete progress on strengthening the public finances and issuing Eurobonds all in one year will be tight. Not only that, but by 2019 we expect US monetary tightening to peak, with the Federal Reserve (the US central bank) possibly raising its discount rate to as high as 3%. Given that Zambia's three Eurobonds were issued during super-lax financing conditions, this will make undercutting yields on the existing stock difficult, even if just a fraction of the US$2.8bn is actually floated. And with the first Eurobond still a while away from maturity in 2019 there is nothing time-wise forcing the government into making decisions that could backfire. By 2020 we expect the contractionary monetary cycle in the US to be reversed, by which time Zambia will be in a better position to tap sovereign debt markets.

Impact on the forecast

We will factor in a Eurobond issue into our debt forecast, but for 2020 and only for around US$1bn.

Strike halts exports of Zambian copper by rail via Tanzania

December 8, 2017: Economic growth

Event

A wage-related strike by workers has forced the cash-strapped Tanzania-Zambia Railway Authority (TAZARA) to suspend rail services between Kapiri Mposhi in central Zambia and Nakonde on the border with the Tanzania, thereby preventing the transport of Zambian copper for export through the Tanzanian port of Dar es Salaam. At the same time, the government has lifted a night-time driving ban on trucks transporting the metal.

Analysis

In early December TAZARA announced that its trains would only operate between Dar es Salaam and Mbeya in Tanzania. The railway firm, once a reliable transporter of Zambia's imports and exports, has struggled in recent years because of under-capitalisation, obsolete infrastructure and mismanagement. Strikes have been frequent.

TAZARA had attempted to vastly increase the volumes of copper it transports between the mines in Zambia and the Tanzanian coast, but the company's failure to guarantee the security of copper cargoes, its antiquated rolling stock and rail infrastructure, and near-constant industrial action have thwarted these plans. The firm has only been transporting a paltry 7,000 tonnes/month of copper out of Zambia, out of 64,000 tonnes/month produced on average, with the mines preferring to move copper by road to ports in East Africa and import equipment by the same route. So the suspension of services by TAZARA will not have a big impact on Zambia's mining sector as a whole. Moreover, the impact of a temporary disruption to rail services will be more than offset by the lifting of a moratorium on super-heavy trucks moving at night, aimed at speeding up imports and exports. The ban, which was announced in 2016 in a bid to try to reduce road accidents, has been blamed by the Chamber of Mines of Zambia, an industry body, for slowing the traffic of copper shipments and the inflow of key equipment other industrial inputs. The move to increase road transportation capacity is a strong indication that the mining sector is expanding rapidly.

Impact on the forecast

Although TAZARA will continue to be plagued by inefficiencies, added road capacity reinforces our forecast that transportation services in Zambia will grow quickly on the back of an expanding copper sector. And with re-exports of Zambian copper representing only a tiny share of Tanzania's export basket, the trade forecasts for Tanzania are unchanged.

Vedanta gives details on mooted US$1bn investment

December 8, 2017: Economic growth

Event

UK-based Vedanta Resources has released details about a US$1bn investment via its local subsidiary, Konkola Copper Mines (KCM), with plans to set up a new refinery and smelter.

Analysis

According to a press release, Vedanta is to invest US$100m in upgrading its flagship Konkola Deep Mine by drilling new tunnels in order to triple annual ore production from 2m to 6m tonnes over the next three to five years. On top of this, some US$300m will be earmarked for accelerating the development of another unit, Konkola, which includes dewatering the mine, and setting up a new copper refinery to replace the company's existing one, Nkana, which employs outmoded technology and consumes a huge amount of power. Another US$600m will go towards building a cobalt processing facility—enabling KCM to process copper-cobalt alloy (it currently exports this in raw form)—a training academy and a power plant, which is presumably being developed to lower tariff costs and obviate the risk of electricity shortages. KCM has long been exploring for coal in Maamba, and Vedanta has some coal-fired power stations in India that could be tapped for expertise.

The massive investment is being made with a view to lifting KCM's annual finished copper output from 190,000 tonnes currently to 400,000 tonnes in two to three years. This output level has been targeted by KCM for a while, but activity had been impaired by inadequate capitalisation; Vedanta invested heavily in sinking a new shaft at Konkola mine during the last major expansion in 2011, but because copper prices collapsed in 2014–16 little progress has been made in tapping an ore reserve with a rare, very valuable 3.5% copper grade. Assuming it goes ahead in light of strong global prices, the new investment should see this highly rich deposit accessed and exploited. Besides the implications for economic growth, the investment resonates strongly with the government's seventh national development plan, which puts skills development and downstream mineral processing centre stage.

Impact on the forecast

Details of the investment reinforce our expectation of rapid mining sector growth throughout the forecast period, which is unchanged.

Private company plans to build two hydropower stations

December 19, 2017: Policy trends

Event

A privately owned energy company, Lunzua Power Authority (LPA), has outlined plans to build two medium-sized power plants as it seeks to boost its presence in the power sector.

Analysis

The company has proposed a budget of about US$850m to build a 96 MW hydropower station at Kabwelume and another 151 MW facility at Kundabwika Falls on the Kalungwishi River. A flurry of small and medium-sized projects have been put forward by independent power producers (IPP), all on the back of sectoral reforms being planned by the government and ZESCO, the state utility, which hopes to attract private investment to finance the bulk of its US$6.5bn programme, which is aimed at rapidly expanding power generation over the next five years. Most importantly of all, these investor-friendly reforms include fully cost-reflective tariffs; tariffs were increased by 75% in 2017, and it seems likely that another hike will be made in 2018 as the government attempts to reduce consumer subsidies and narrow a large fiscal deficit.

The two hydropower projects have been in the pipeline since 2011 and the recent renewed push probably has something to with this gradual liberalisation of the energy sector. An environmental impact assessment (EIA) report has already been submitted by LPA to the state regulator, the Zambia Environmental Management Agency. This is ordinarily preceded by a feasibility study, the absence of which suggests that the project is at an advanced stage. Meanwhile, contract tenders for IPPs to develop small-scale solar parks to produce a total of 100 MW of power are being finalised and will be launched in early 2018. Ultimately, although the US$6.5bn in investment envisaged by ZESCO is still a long way from materialising—the company still needs to overcome large transmission losses, which will deter some private investors—another round of subsidy cuts in 2018 should nonetheless see interest pick up further and Zambia's energy deficit slowly narrow over the forecast period (2018‑22).

Impact on the forecast

Although ZESCO is unlikely to see its generation expansion programme materialise in full, growing investor interest in Zambia's energy sector reinforces our forecast that a liberalised energy sector will slowly start to address supply shortages.

Farmers' union warns of slump harvest

January 3, 2018: Inflation

Event

Zambia National Farmers' Union (ZNFU) president, Jervis Zimba, has warned that lower maize production will be inevitable in the next few months following a poorly managed 2017/18 agricultural planting season, lasting from November-April.

Analysis

Agricultural equipment—mainly seed and fertilisers—have not been delivered to thousands of small-scale farmers following glitches in the e-voucher system the government uses to provide subsidised inputs. In many instances the hiccups can be traced back to farmers being unable to redeem their vouchers, a warning sign that there are serious cash-flow problems for the programme and possibly within government itself.

The ZNFU has raised concerns that delayed plantings for the country's staple maize will cause poor yields, and has directly blamed an impending need for maize imports on poor management of the agricultural sector by the government. Meddling and policy inconsistency in the sector is certainly a major problem; in 2017 the state-run Food Reserve Agency (FRA) caused consternation by dropping its procurement price to ZK60/kg (around US$6), down from ZK75 in 2016, which was below cost for many producers and shook confidence. Many farmers that sold to the FRA were also affected by delayed payments. Some arrears are still outstanding. On top of all this an export ban and later a 10% export tax was slapped on the maize crop despite there being a market surplus locally. So many farmers were left undercapitalised even before the e-voucher system failed. Now there is also a new outbreak of armyworms, a recurring pest, although the extent of damage to the crop has been under-reported so far.

All of this points to a disappointing planting season in 2017/18. Farmers could still sow early-maturing seeds if there was a serious government push to undertake corrective measures and get subsidised inputs to farmers, although that is unlikely owing to considerable cash constraints faced by the Treasury. The main impact of lower maize availability will be higher inflation, with food having a 53% weighting in the consumer price index, and higher imports.

Impact on the forecast

Glitches to the e-voucher system, which many farmers will be dependent on after a challenging agricultural year for profitability in 2017, spells a lower harvest. We will account for this by reducing agricultural growth for 2018 slightly, although the direct impact on the headline rate will be relatively slight alongside robust mining activity. We will also raise imports and inflation (from 7.2% presently) for that year.

Cholera situation prompts crisis measures

January 12, 2018: Inflation

Event

The country's worst ever outbreak of cholera, a highly infectious disease, has pushed the economy into partial shutdown.

Analysis

Nearly 3,000 cases of cholera and about 66 deaths have been recorded countrywide, with the majority in the capital, Lusaka. In a bid for containment many businesses have suspended operations, including most markets across Zambia, as part of a ban on gatherings above five people. Government ministries also suspended some of their key services to the public and a curfew has been imposed in some regions under military oversight. Neighbouring Namibia has responded by banning imports of fresh vegetables, fruits and other fresh products from Zambia.

Cholera thrives in unhygienic surroundings, and a blooming informal sector, with limited sanitation in undesignated trading areas, has made it easy for it to spread quickly. The disease is a perennial problem in crowded, generally impoverished parts of Lusaka but it has spread to other more upmarket parts of the city at a more rapid rate than during previous outbreaks. A hurried vaccination exercise is now under way, initially targeting 2m residents of the capital.

The impact on the economy will be notable. Tourist arrivals will slump on the back of health warnings already being issued by foreign governments and artificial shortages caused by the closure of markets countrywide will cause food prices to rise. If the crisis continues to get worse, it stands to interrupt tax collection, primarily with regard to value-added tax, as markets remain out of action. On the positive side, the government is taking decisive action to prevent contagion from slipping out of control, which means a wider epidemic should be avoided.

Impact on the forecast

Even if it can be contained within a relatively short timeframe, the crisis will probably see consumer prices jump in early 2018. As a result, we will revise inflation upwards from 7.2% presently. Tourism will be affected, but as it accounts for only a small share of GDP (around 3.5%) and most visitors travel to parts of the country unaffected by the outbreak, the impact on the national accounts will be small.

Analysis

High copper prices point to renewed state meddling in mining

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The Economist Intelligence Unit's copper price projections imply that some producers will enjoy windfall profits in the coming years. During previous periods of rising prices the Zambian government has experimented with different ways of extracting revenue from the sector. Combine this tendency to intervene in the sector with a currently precarious fiscal situation and the stage is set for history to repeat itself. Even so, the outlook for the mining sector is bright so long as the government acts with some restraint.

Ever since Zambia's mines were privatised at the turn of the 21st century there have been recurring tussles between the major operators and the government over tax, with stringent measures being introduced during boom periods and concessions being made during downswings. In line with this pattern, the commodity price bust in 2015 saw the introduction of a variable mineral royalty tax (MRT) in mid‑2016 that indexes the tax rate that mining companies pay to global prices, with the rate rising from 4% to 6%. In theory this system should satisfy both parties; producers would be better positioned to maintain mineral production during lean times and the government would still be able to tap windfall profits. The system also serves to avoid constant tinkering with regulations. The problem is that, in boom times, the government gets less than it would have done under previous tax regimes. And now, with copper trading at US$3.08/lb on the spot market—up by 44% on a year ago—and official projections that copper production will reach 1m tonnes in 2018, the finance minister, Felix Mutati, and the mines minister, Christopher Yaluma, have both hinted at possible policy changes, reviving a practice that has blighted the mining industry particularly badly since the Patriotic Front (PF) formed a government in 2011.

High copper prices and a fiscal deficit mean more government interference

Several factors point towards more policy inconsistency over the medium term. Foremost is prices; The Economist Intelligence Unit expects copper prices to average US$3.02/lb in 2018–22 and to be especially high in the coming years, reaching US$3.09/lb in 2019 as demand in the key US and Chinese markets remains supportive. Producers operating upgraded and highly sophisticated mines will be in a position to reap big profits. At the same time, the government is grappling with a yawning budget deficit, officially forecast at 6.1% of GDP in 2018, and has repeatedly failed to strike a policy support deal with the IMF. So with the government being desperately strapped for cash, possibly more so than it has been in over a decade, squeezing additional revenue from the mining sector will become increasingly appealing.

In addition to the fiscal incentive, bearing down on the mining sector has always been a vote-winner in Zambia, with many people regarding the mines as tax-dodging and exploitative entities. The PF is also frustrated that some of the biggest mine operators openly support and allegedly bankroll the opposition. So overall, increased meddling in the coming years seems likely. In its more sweeping form this could mean adjustments to the variable MRT (the government had initially said that the system would only last three years or so). Another option is imposing levies on unprocessed metals exports. Such a policy would also chime with Zambia's industrialisation and job-creation plans and has already been posited by Mr Yaluma. Responsibility for working out the modalities of any changes would fall to a newly authorized ministerial committee, which is to be launched by 2018 with a telling mandate to increase the tax take from minerals. But although fiscal deficits make tinkering with the tax regime likely, draconian measures will probably be avoided. Indeed, although copper prices are stronger than they have been, they are still forecast to remain below levels seen during the height of the 2010–14 commodity "super-cycle". If tax reforms were harsh enough to cause production cuts, the threat of job losses would prompt the government to backtrack, as has happened numerous times in the past.

Mines prepare for the windfall

For the mining industry, which routinely lists policy inconsistency as among its chief concerns, high copper prices are thus likely to bring mixed fortunes. But with major investments already going ahead, sunk costs mean that mining companies will remain committed to Zambia, assuming that any tax changes are commercially bearable. Producers that continued to invest during the period of depressed global prices, as Canada's First Quantum Minerals (FQM) did in its Kansanshi and Kalumbila mines, are likely to increase production and see revenue surge in the short term. A new smelter at Kansanshi is now operational, and FQM's flagship and high-tech Sentinel project is expected to start full production in 2018. And amid high prices, other producers are gearing up for added capacity over the coming years, which should keep the growth spurt going. For example, Konkola Copper Mines, a local subsidiary of UK-based Vedanta Resources, is investing some US$1bn in developing shafts at its Konkola Deep underground mine with a view to cutting costs and increasing production from 150,000 tonnes/year (t/y) to 400,000 t/y over the next five years. Likewise, at Mopani Copper Mines, which is majority-owned by Switzerland's Glencore, progress has been made in sinking two new shafts in a US$1.1bn investment aimed at incrementally raising production from 120,000 t/y to 200,000 t/y by 2023. So ultimately, with these large-scale investments going ahead, the government can probably get away with some changes to the tax regime so long as it refrains from pushing too hard.

