

Executive Briefing

- Zambia's smooth transition of power following the August 2021 elections will facilitate the policy-making process over the coming years.
- Private investment will rise in 2022 due to improving economic conditions and a more business-friendly administration under the newly elected President Hakainde Hichilema.
- Specific reforms in the mining sector will boost sentiment and incentivise higher output.
- The government is focusing on economic diversification by boosting the non-mining sectors, including wholesale and retail trade, tourism and manufacturing.

Macroeconomic Outlook

Real GDP growth will come in at 3.3% in 2022 on the back of a strong rebound in exports, notably copper, and elevated private investment, in line with a more business-friendly administration.

The new administration led by President Hichilema reintroduced the deductibility of mineral royalties from corporate tax (which the previous government removed in early 2019), with effect from January 2022. This should support the mining industry in terms of encouraging greater output. The sector should also benefit from elevated global copper prices and further government pledges to reform the tax regime.

Economic growth will accelerate to an annual average of 3.6% between 2022 and 2026, as domestic demand continues to strengthen. Further progress on containing the Covid-19 pandemic and a sharper slowdown in inflation will support household consumption. Government spending will also begin to rebound amid support from the IMF and potential progress on debt restructuring, which should alleviate the burden of debt payments and free up resources for public consumption and investment.

The government is focusing on economic diversification and hopes to boost the non-mining sectors, including wholesale and retail trade, tourism and manufacturing. However, the absence of a reliable source of power is a severe constraint on growth in the manufacturing sector.

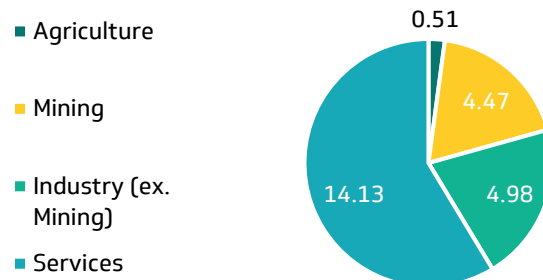
Key Macroeconomic Indicator	2019	2020	2021	2022	2022-26 ave	2022-31 ave
Population, mn	17.86	18.38	18.92	19.47	20.62	22.15
Real GDP Growth, % y-o-y	1.44	-2.77	3.09	3.28	3.64	3.82
Real GDP per capita, USD	1653.68	1562.10	1564.71	1570.49	1594.70	1638.88
Inflation (%)	9.16	15.68	22.60	14.00	8.73	8.12
Fiscal balance, % of GDP	-7.80	-12.72	-9.35	-6.90	-4.82	-4.22
Public debt, % of GDP	82.65	126.93	105.23	122.86	107.45	95.12
Current account balance, % of GDP	0.63	11.81	12.46	7.88	3.93	0.83
Exchange rate, ZMW/USD, ave	12.89	18.34	20.20	19.75	21.01	22.60

Source: National Sources, Fitch Solutions

Political Climate

Zambia's smooth transition of power following the August 2021 elections will facilitate the policy-making process over the coming years. Former President Edgar Lungu and his Patriotic Front Party conceded defeat, despite fears that he would seek to hold on to power, given his efforts to restrict the political space ahead of the election. The incumbents chose not to contest the outcome of the vote, allowing for the formation of a new government and National Assembly. The new ruling party, the United Party for National Development (UPND), now holds a majority of 91 seats out of 165 (55.2%), which will ensure the smooth passage of legislation and allow the new president, Hakainde Hichilema, to move ahead with his business-friendly reform agenda.

Zambia - GDP by Output, USD billion (2022)



Source: World Bank, Fitch Solutions

A gradual expansion of the domestic renewable energy sector and increased electricity trading links to regional neighbours will therefore play a crucial role in driving sustainable economic growth.

Business & Trade Climate

President Hichilema was elected on the back of a strong reform agenda, which includes efforts to tackle corruption, strengthen public finances and improve the business environment. The new finance minister, Situmbeko Musokotwane, has already taken steps to improve fiscal management and transparency, releasing a contractionary 2022 budget in October, which highlighted the need to restore debt sustainability and was welcomed by investors. On the anti-corruption front, a process to recover stolen assets under previous administrations is under way, and in October 2021 the Anti-Corruption Commission arrested 14 former and current government officials over alleged graft offences.

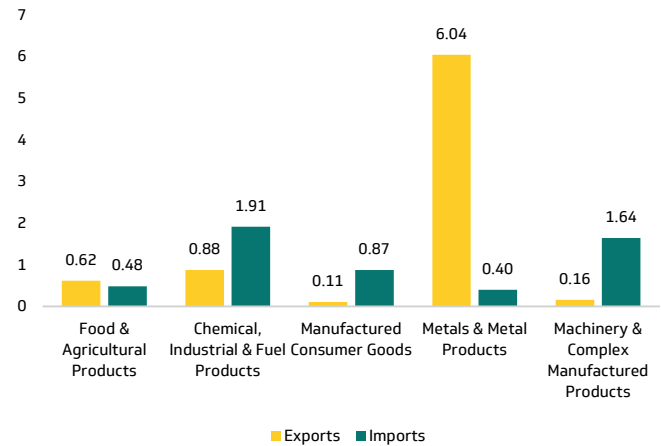
Zambia has one of the most open trade environments on the continent and is a member of two regional free trade areas, the SADC and COMESA. Given Zambia's landlocked status, maintaining a high level of free trade ties with its regional neighbours will remain important and transport interconnection projects are underway to facilitate trade flows. Most recently, the commissioning of the USD259.3 million Kazungula Bridge between Botswana and Zambia in May 2021 will boost road freight and promote trade between the two countries.

Exports of metals and metal products totalled USD6.0 billion in 2020, by far the largest export category, made up predominantly of copper. Easing global demand for copper will cause merchandise export growth to slow in 2022.

Zambia's lack of natural domestic oil and gas resources and limited domestic refining capacity mean that chemical, industrial and fuel

imports account for the bulk of total goods imports. Machinery and complex manufactured products imports are also important in keeping up with demand for commercial vehicles and industrial equipment for the country's growing construction sector as well as its mining and agriculture sectors. Import growth will remain steady on the back of a further strengthening of domestic demand.

Zambia Exports & Imports, USD billion (2020)



Source: UN Comtrade

Market Risk

Risk Factor	Impact on Business
Zambia has high minimum wages, a poor ratio of valued added per worker to minimum wage and the ever-present threat of workers going on strike.	Labour costs in Zambia are some of the highest in the region and strikes have caused costly work stoppages for businesses in the past.
Widespread inequality (Zambia is the world's fourth most unequal country, according to the World Bank) will continue to weigh on social cohesion.	Social unrest threatens the business environment and serves to dampen investor confidence.
Supply chain risks in Zambia are underlined by the country's weak transport network, high reliance on congested roads and limited port access through regional peers.	Increases costs for businesses. International shipping to and from Zambia is already time-consuming and costly given the poor overland transport network.

Investment Opportunities



Road Infrastructure

Business-friendly reforms following the recent administration change will pose an upside risk to Zambia's mining production and related exports, supporting long-term demand for investment in Zambia's trunk road network. Trunk roads T1, T2 and T3 connect Zambia's Copperbelt region and the Democratic Republic of the Congo's mineral-rich Katanga region with seaports in South Africa and Dar es Salaam Port in Tanzania, as well as Walvis Bay Port in Namibia. Multiple projects to rehabilitate and upgrade various sections of the network are underway or planned and the sustained heavy usage of the road for mineral freight transport will support the need for continuous further investment. Urban road construction opportunities will be concentrated in Zambia's central and copper belt regions, where the country's largest cities are located.



Corn Production

Zambia is a significant regional corn exporter and the production outlook has improved over recent months. Zambia is on track to record a bumper corn crop in 2022 after an expansion in the planted area driven by continued government support to smallholder farmers to access subsidised agricultural inputs. Specifically, the Farmer Input Support Programme is assisting small-scale farmers and producers with subsidised fertiliser and seed.



Mining

Zambia's mining outlook has improved markedly due to more favourable government policy towards the sector. In October 2021, Zambia's new government announced tax breaks to the mining sector as part of the 2022 budget discussions. This suggests a more business-friendly environment for miners in the coming years should the government remain in place. Under the previous administration of President Lungu (2015–2021), resource nationalism rose quickly and significantly, with the implementation of higher mining taxes, greater state ownership of mines and a tense relationship with key foreign mining players. More mining-friendly policies will likely revive investment in existing mines and investors' interest in new projects.



Renewable Energy

The government will intensify efforts to increase its renewables capacity as it seeks to mitigate the risks associated with the country's heavy reliance on hydropower. The government has implemented the World Bank's Scaling Solar initiative, and a Renewable Energy Feed-in Tariff (REFiT) tendering scheme. The Scaling Solar initiative in particular has attracted significant levels of investment, with the first tender attracting 48 developers and bidding prices reaching as low as USD0.06 per kWh. Outside of this initiative, the solar project pipeline continues to strengthen; most recently, Ultra Green Corporation unveiled plans in July 2021 to build the 200MW Serenje solar power plant in the country.

For more information please contact:

Trade Intelligence Solutions, African Export-Import Bank [AFREXIMBANK], 72B El-Maahad El-Eshteraky Street, Roxy, Heliopolis, Cairo 11341, Egypt

afreximbank.com Tel: + 2 02 2456 4100/1/2/3/4 Email: trade.intelligence@afreximbank.com