Country Report

Zambia

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

Zambia

Summary

Outlook for 2023-27

Data and charts

Summary

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Benedict Craven**

Forecast Closing Date: **September 12, 2023**

Political and economic outlook

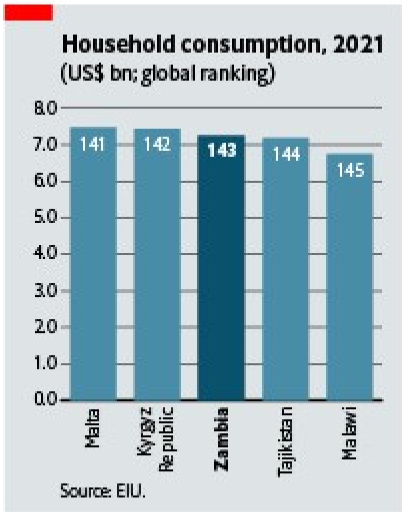
- Zambia, ranked as the eighth-largest producer and exporter of copper globally, is crucial to the economy, accounting for about three-quarters of export earnings and some 10% of overall GDP. The government's industrial policy is to encourage private investment and take mines out of state control.
- Zambia is in sovereign default. A Memorandum of Understanding (MoU) was reached on a restructuring with official creditors in July, paving the way for crucial new IMF support and negotiations with the private creditors. EIU expects a deal with all creditors to be agreed in 2024, forging a path out of debt crisis for the country.
- The president, Hakainde Hichilema, will remain in power until at least 2026, but the afterglow of the successful democratic transition of power will fade as debt restructuring is accompanied by IMF-recommended austerity. An uptick in popular protests is likely. An effective move against corruption is needed, if Mr Hichilema is to be re-elected in 2026.
- The economic outlook is less favourable in the short term, owing to belt-tightening measures. High inflation, monetary tightening and undercapitalisation of major copper mines will keep growth low this year and next. We expect stronger growth in 2025-27 as rising mining output boosts exports and fiscal consolidation supports investor confidence.
- Zambia's inflation rate will remain stubbornly high in 2023, at 10.4%. This is relatively high—well above our forecast of 4.3% for Tanzania and 5.7% for South Africa. Inflation will stay above the 6-8% target ceiling until 2025 amid tight local food supply.
- Zambia will run a current-account surplus in 2023-27, aided by high copper prices and reduced external debt repayments. Capital inflows will strengthen, once a debt-restructuring deal is reached and new capital inflows, including FDI, rise.
- Zambia is heavily dependent on copper exports for foreign-exchange earnings and government revenue. High global copper prices will support fiscal consolidation, subject to the risk that a plunge in copper prices would negatively affect the fiscal balance.

Key indicators

	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
Real GDP growth (%)	4.7	2.5	3.4	4.0	4.5	4.3
Consumer price inflation (av; %)	11.0	10.4	9.7	8.9	6.2	5.5
Government balance (% of GDP)	-8.2	-8.0	-6.8	-5.0	-5.1	-5.3
Current-account balance (% of GDP)	4.0	0.8	1.5	3.1	3.7	4.8
Short-term interest rate (av; %)	9.5	12.0	15.5	14.0	13.5	13.0
Exchange rate ZK:US$ (av)	16.94[c]	19.62	20.96	20.68	20.39	19.34

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Market opportunities



Key changes since June 19th

- Lower copper production than expected has prompted us to revise down our real GDP forecast for 2023, from 3.1% to 2.5%, and for 2024, from 3.6% to 3.4%.
- Lower economic growth than expected so far this year is considerable enough to have led us to revise our fiscal deficit forecast. We now expect that the shortfall will be 8% of GDP in 2023, up from 7.5% of GDP previously.
- We have also revised down our forecast for the current-account surplus for 2023, from 4.4% of GDP previously, to 0.8% of GDP, as a result of lower copper earnings, which comprise more than 75% of goods exports in some years.

The quarter ahead

- **TBC—Debt restructuring with private creditors:** A blueprint for debt restructuring with official creditors was reached in July and will be used as the template for talks with them. Zambia is currently in default to Eurobond-holders. We expect a deal to be reached in 2024, following which Zambia's road out of default will become clear.
- **November 13th-14th—Monetary policy committee meeting, Bank of Zambia (BoZ, the central bank):** Inflation is above the 6-8% target ceiling, standing at 10.8% year on year in August. The BoZ has evinced a hawkish tone at recent committee meetings, and we expect another rise, of 50 basis points, in November, taking the policy rate to 10.5%.

Major risks to our forecast

Scenarios, Q2 2023	Probability	Impact	Intensity
Zambia is forced to restructure its bilateral debt with China on unfavourable terms	High	Very high	20
Power shortages disrupt operations	High	High	16
A shortage of skilled labour affects business operations	Very high	Moderate	15
The government fails to agree to a debt-restructuring programme with its creditors	Moderate	Very high	15
Russia-Ukraine conflict draws development funding away from Africa back to Europe	High	Moderate	12

Note. Scenarios and scores are taken from our Operational Risk 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: EIU.

Outlook for 2023-27

Political stability

The president, Hakainde Hichilema, decisively ousted his predecessor, Edgar Lungu, in a presidential election in 2021. EIU expects Mr Hichilema to serve his first full term, given the absence of a popular and credible opposition. He came to power on a strong mandate to turn the economy's fortunes around—a voter priority after Zambia's sovereign default in 2020. There are no easy fixes, and his administration is unable to hide the government's low fiscal capacity, following an unresolved sovereign default in 2020. In this environment, the government has little option but to press on with the macroeconomic consolidation set out in its extended credit facility (ECF), worth US$1.3bn, which was agreed with the IMF in 2022.

It is unlikely that the government will cede to opposition political pressure for increased subsidy support owing to cost-of-living pressures, in case talks with creditors and relations with the IMF deteriorate. A fuel subsidy was scrapped in 2021, and Mr Hichilema had enough political capital to withstand the backlash. Pressure will be reapplied for the government to widen support as inflation stays high over the medium term. Other difficult reforms are yet to come, including higher electricity tariffs and reduced support for farms, including a subsidy that has long proven politically challenging to cut.

There will be elements within the opposition and wider society that demand that the government loosen the spending taps, and this could be the basis for protests and possibly riots—fairly common in urban areas. However, we expect Mr Hichilema and his broadly pragmatic team to hold firm. Zambia is largely a two-party political system, and the main opposition party, the Patriotic Front (PF; Mr Lungu's party), is still widely held to be responsible for the country's debt predicament. This gives Mr Hichilema's team political space, and increased social spending under the IMF programme should also take the edge off some of the criticism. However, hardship for households presents a downside risk that attitudes will shift drastically against the government.

Besides economic policy, corruption will remain a major public concern. Some media outlets and opposition groups have labelled anti-graft efforts by the current administration as largely superficial. More positively, Mr Hichilema's re-engagement with Zambia's traditional investment and development partners will play well with sections of society that had become concerned about the growing economic role of China under the Lungu administration (a cause of unrest in the past).

Election watch

The next legislative and presidential elections are due in 2026. Mr Hichilema won 59% of the vote in the August 2021 presidential election, compared with 38.7% for Edgar Lungu, the former president. Our core scenario assumes that Mr Hichilema will successfully negotiate debt restructuring with all creditors and press on with the macroeconomic consolidation set out in Zambia's accord with the IMF in order to avert an even more severe economic crisis. This will unlock stronger economic growth and popular public support, leaving him well placed to win, if he runs for re-election in 2026. Harsh austerity measures will damage his political popularity in the medium term, but the PF—a largely hobbled force—gives him manoeuvrability in carrying out his mandate and avoiding an early election.

International relations

In the short term, Zambia's foreign policy will continue to be dominated by the country's pressing need to secure a path out of the debt crisis. A deal struck with official creditors is a major milestone in achieving this policy priority. The government will now have to finalise terms with every bilateral lender in turn, leaving Zambia in a delicate diplomatic position. Without a final deal on official debt, talks with private bondholders cannot progress. China's preference for maturity extensions rather than a debt write-down (which might set a precedent for similar talks with other sovereigns) featured in the agreement, making talks with the country's largest creditor easier. Mr Hichilema's clean break from the Lungu administration has alleviated tensions with Western partners, and the economy is now more open to overseas investment. This will play well with Zambia's traditional partners.

Further into the forecast period, Zambia will be able to leverage its copper resources to improve relations with Western partners and diversify its sources of inward investment. A more investor-friendly fiscal regime rolled out by the Hichilema administration has already demonstrated success in this regard.

Policy trends

Policy is expected to follow an orthodox pattern guided by the ECF, which runs from 2022 until 2025. Despite a deal with official creditors, which unlocked a second tranche of funds from the ECF, the full treatment of Zambia's debt is yet to be agreed. Negotiations with private creditors are likely to last into 2024. The need to establish credibility leaves economic policy confined largely to the IMF programme's requirements for deep fiscal adjustments and monetary orthodoxy. Beyond creating the basic conditions for macroeconomic stability and growth, the government will attempt proactively to undo policy mis-steps made during the Lungu era and improve the business environment. Two mines that went into state ownership are being sold, allowing for the significant recapitalisation needed to lift the production of copper—the mainstay export (accounting for about 70% of goods earnings) and an important source of government revenue. One of these facilities, Konkola Copper Mines (KCM), has been reacquired by the original investor, India's Vendanta. The company has confirmed an investment of US$1bn for KCM over the next five years. A sale of Mopani Copper Mines (MCM) is reportedly not far off, and other mining giants, including Anglo American (UK), are returning after a lengthy hiatus. High copper prices in the long term will be supportive of large capital investment programmes, and Mr Hichilema's government has made the fiscal regime more attractive through a new royalty scheme and tax benefits. An IMF programme and sustained commitment to fiscal caution should also prevent erratic tax changes to the tax code. The government aims to boost annual copper production to 3m tonnes by 2032, from about 763,000 tonnes in 2022, which is a hugely ambitious plan. Our view is that by 2027 production will reach a record high but still be short of 1m tonnes as investment projects, especially highly productive deep mines, take time to yield material output gains.

On debt, it remains unclear whether or not private creditors will be forced to abide by the same restructuring terms as those agreed to by official creditors, creating further uncertainty over the timing of a comprehensive debt treatment. Under the G20's Common Framework for Debt Treatment, it is likely that the template set by official creditors will be applied. Despite the prevailing ambiguity, we retain our assumption that a broad restructuring of private debt will be agreed by 2024, with a large enough net present value reduction to ensure Zambia's exit from debt distress.

Fiscal policy

Reducing the fiscal deficit is a central tenet of the ECF, and the programme is likely to remain on track, as long as the government can show some progress on fiscal consolidation. The medium-term consolidation plan is challenging but credible. The government has committed to cutting the support programme for farmer inputs (spending on which has been raised by nearly 70% in the 2023 budget), which by 2025 will be cut back significantly. We expect the government to fulfil these aims, to retain the IMF's goodwill, and social spending will be scaled up substantially, providing some balance. Debt-financed capital spending was the root cause of Zambia's debt crisis, and cutbacks to this area of the budget should be politically simpler to implement than subsidies, making the programme a weight on economic growth but still credible. Spending restraint complemented by revenue gains as copper prices and production increase will support a gradual reduction of the overall fiscal deficit in 2023-27.

The austerity programme has had a gentle start, and in 2023 overall revenue will be held back by low copper production and slow economic growth, exerting pressure on targets set by the IMF and the government in terms of narrowing the deficit. Our forecast is for a deficit of 8% of GDP in 2023 against 7.7% of GDP in the budget. Austerity will kick in more forcefully over the medium term, but as copper output stays relatively low in 2024, we expect the deficit to exceed the IMF target in 2024, at 6.8% of GDP versus 6.3% of GDP. We expect the shortfall to move closer to IMF targets by 2025, with a shortfall of 5% of GDP in that year, supported by a stronger economy. Once the IMF programme concludes, we expect the deficit to stay close to this level in 2026-27, averaging 5.2% of GDP, reflecting an election season and higher interest payments as Zambia's debt-carrying capacity improves (in line with the agreement with official creditors).

The deficit will be financed mainly by domestic and concessional external borrowing, with credit lines from some official lenders remaining open while Zambia remains in default. Because of a primary surplus, which we expect to be maintained broadly in line with the IMF programme, and the restructuring of public debt, we forecast that the level of public debt will ease from 123% of GDP in 2023 to 99.5% of GDP by 2027. The high ratio will leave Zambia's public finances exposed heavily to shocks related to copper prices or the global economy and preclude access to the international capital market throughout the forecast period and probably beyond.

Monetary policy

In August the Bank of Zambia (BoZ, the central bank) raised its main policy rate by 50 basis points, to 10%. This was the third such increase since late 2021. An inflation outlook that exceeds the BoZ's 8% target ceiling and an IMF-recommended orthodox policy slant implies a further 50-basis-point rise in November, when the rate-setting committee meets next. Based on our inflation projection for 2024, this will translate into a positive real rate, and as monetary policy in advanced markets begins to loosen (expected in the US by mid-2024) the pressure for the BoZ to maintain a tight stance will ease off. Cuts are expected from mid-2024 as disinflation sets in and to support the economy, with growth well below potential. The rate is expected to be cut cautiously in 2024, to 9.5%, and to 9% in 2025, reaching 8.5% in 2027.

International assumptions

	2022	2023	2024	2025	2026	2027
Economic growth (%)						
US GDP	2.1	1.8	0.9	2.0	2.2	2.0
OECD GDP	2.6	1.3	1.3	1.8	1.9	1.8
World GDP	3.1	2.3	2.4	2.7	2.7	2.7
World trade	3.3	1.6	3.2	3.5	3.7	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	8.0	3.9	2.2	2.1	2.0	2.1
OECD CPI	7.0	4.4	2.2	1.9	1.8	1.9
Manufactures (measured in US$)	-2.2	5.0	3.6	3.4	2.3	2.0
Oil (Brent; US$/b)	99.8	81.6	78.8	75.6	72.2	68.1
Non-oil commodities (measured in US$)	14.7	-13.2	-1.0	-0.5	0.2	0.3
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.1	5.1	5.1	4.2	3.2	2.5
US$:€ (av)	1.05	1.10	1.14	1.17	1.18	1.20
¥:US$	131.46	131.93	119.07	110.25	106.50	105.25

Economic growth

Zambia's vital copper sector is in a period of temporary decline. KCM and MCM are high-cost operations, and the government cannot meet the upkeep and investment costs needed to stem a fall in production. The sale of KCM to Vedanta and the company's announced recapitalisation plan (assumed to include capital expenditure for the 250,000-tonnes/year Konkola Deep Mining Project) is positive for medium-term copper output, but in 2023 real GDP growth will slow to 2.5%, from 4.7% in 2022.

As export growth remains negligible while tight monetary policy continues, economic growth in 2024 will quicken but remain modest, at 3.4%. The longer-term outlook brightens as these pressures fade, a debt-restructuring process with private creditors boosts confidence and the government continues to dismantle payment arrears to local suppliers, providing much-needed cashflow. As mining investment yields copper output gains, new entrants to the sector begin developing assets and monetary policy continues to loosen, we expect growth to average 4.3% a year in 2025-27. This is lower than 2021-22, as fiscal austerity will weigh on government spending.

Global copper demand will remain high, owing to growth in the green economy, notably the electric vehicle and renewable energy sectors, underpinning investment and high output. In early May First Quantum Minerals (Canada) approved a US$1.25bn expansion of the Kansanshi copper and gold mine in north-western Zambia, marking the largest mining sector investment since 2012, and Vedanta is expected to invest in developing a deep and highly ore-rich underground shaft as part of its US$1bn investment package. Anglo American has returned to the sector for the first time since the early 2000s, in another sign that the policy environment has become more attractive. However, Zambia's underdeveloped power sector (exacerbated by arrears run up by Zesco, the state utility) is an obstacle to the government's ambition to raise output to 3m tonnes by the early 2030s, keeping growth at an expected average rate of 4% a year in 2024-27.

Economic growth

%	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
GDP	4.7	2.5	3.4	4.0	4.5	4.3
Private consumption	4.5	2.1	2.6	3.1	3.2	3.2
Government consumption	4.0	-3.4	-1.2	2.0	2.0	2.2
Gross fixed investment	3.6	3.5	3.0	3.2	4.0	4.5
Exports of goods & services	3.2	1.7	3.0	2.5	3.2	5.2
Imports of goods & services	2.5	2.0	1.5	2.0	2.5	2.8
Domestic demand	4.1	2.2	2.5	3.1	3.4	3.6
Agriculture	-2.4	10.1	3.5	2.1	3.2	4.3
Industry	7.5	5.1	6.5	7.7	8.0	4.3
Services	4.6	0.1	1.5	1.9	2.3	4.3

[a] EIU estimates. [b] EIU forecasts.

Inflation

Inflation in 2023 has averaged 10%, until August, when the annual rate was 10.8%. An increased floor price for maize, reflecting regional shortages, will feed into higher food prices for the remainder of the year and into 2024, as will high global energy prices. Until a debt-restructuring process is finalised with official creditors and a roadmap for a settlement with private creditors emerges, kwacha weakness will add an imported component to inflation. In 2024, assuming greater clarity on Zambia's exit from debt distress and strong copper prices, the kwacha will stabilise, and annual inflation will end the year at 8.4%, down from 11.5% at end-2023. Inflation will continue to moderate over the remainder of the forecast period, a trend that will be supported by currency strength and lower imported commodity prices, and average inflation will slow to 5.5% in 2027.

Exchange rates

The kwacha has been highly volatile in recent months. Dual forces are at work: a debt deal with official creditors led to a bout of appreciation against the US dollar in June, and another confidence-driven boost will happen once a restructuring programme is agreed with private creditors, expected in 2024. More dominant, over-arching forces will be low copper production—a medium-term phenomenon as major mines are slowly recapitalised following sales to private investors—plus rising inflation. In early September the kwacha was trading at ZK20.7:US$1—the weakest rate since March and near an all-time high. The end-2023 forecast is for a rate of ZK21.15:US$1, reflecting the fact that copper prices are in a temporary state of slippage. Our longer-term forecast is for copper prices to rise to US$4.65/lb by 2027 (from US$3.8/lb in early September), putting a solid floor beneath the kwanza, as will eventual monetary loosening by advanced markets. Continued low production in 2024, combined with above-target inflation, means that the effects will be captured more fully in the latter years of the forecast window as output rises. We forecast an average exchange rate for 2024 of ZK20.96:US$1, appreciating to ZK19.34:US$1 in 2027, underpinned by a solid current-account surplus and greater confidence in the Zambian capital market.

External sector

The current account will be in surplus throughout the forecast period, supported by commodity exports and reduced external debt servicing. We expect copper prices to stay strong over 2023-27, averaging US$4.37/lb and rising steadily, to US$4.65/lb in 2027. Low production in 2023 will more than halve the trade surplus/GDP ratio in that year, compared with 2022, but as higher prices kick in from 2024 and production rises in the following years, the ratio will widen by about 4.5 percentage points by 2027, to 8.9%. This will be the driving force behind a steadily widening current-account surplus, which as a share of GDP is projected to rise from 0.8% in 2023 (from 4% in 2022) to 4.8% by 2027. Default and then debt-restructuring process will keep the primary income low in the early years of the forecast period, but as copper earnings rise, so will profit repatriation and external debt repayments. Restructuring requires a higher interest rate, if debt-service capacity improves, as under the high copper price scenario that we envisage. Zambia's structural services deficit will remain smaller as a share of GDP in 2023-27 on average than in the five preceding years, reflecting lower debt-financed public capital expenditure, which under Mr Lungu had been carried out using overseas contractors (notably Chinese construction firms). Zambia will post a small, remittances-led surplus on the secondary income account throughout 2023-27.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2022[a]	2023[b]	2024[b]	2025[b]	2026[b]	2027[b]
Real GDP growth	4.7	2.5	3.4	4.0	4.5	4.3
Gross industrial growth	7.5	5.1	6.5	7.7	8.0	4.3
Gross agricultural production growth	-2.4	10.1	3.5	2.1	3.2	4.3
Consumer price inflation (av)	11.0	10.4	9.7	8.9	6.2	5.5
Consumer price inflation (end-period)	9.9	11.5	8.4	7.8	5.6	5.4
Lending rate (av; %)	9.0	10.0	9.5	9.0	8.5	8.5
Government balance (% of GDP)	-8.2	-8.0	-6.8	-5.0	-5.1	-5.3
Exports of goods fob (US$ m)	11,505	9,290	9,820	11,047	12,132	13,661
Imports of goods fob (US$ m)	-8,136	-7,967	-8,410	-9,007	-9,601	-10,265
Current-account balance (US$ m)	1,071	182	388	915	1,222	1,827
Current-account balance (% of GDP)	4.0	0.8	1.5	3.1	3.7	4.8
External debt (year-end; US$ bn)	32.5	32.2	32.0	31.8	31.1	30.2
Exchange rate ZK:US$ (av)	16.94[c]	19.62	20.96	20.68	20.39	19.34
Exchange rate ZK:¥100 (av)	12.88[c]	14.87	17.60	18.76	19.14	18.37
Exchange rate ZK:€ (av)	17.85[c]	21.54	23.89	24.09	24.06	23.11
Exchange rate ZK:SDR (av)	22.67[c]	26.52	28.99	29.04	28.86	27.57

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Data and charts

Annual data and forecast

	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[c]	2024[c]
GDP							
Nominal GDP (US$ bn)	26	23	18	22	27	24	25
Nominal GDP (ZK bn)	275	301	331	443	457	473	529
Real GDP growth (%)	4.0	1.4	-3.0	4.9	4.7	2.5	3.4
Expenditure on GDP (% real change)							
Private consumption	-2.9[b]	-1.1[b]	-2.3[b]	2.0[b]	4.5	2.1	2.6
Government consumption	-3.9[b]	-2.0[b]	1.0[b]	1.0[b]	4.0	-3.4	-1.2
Gross fixed investment	12.0[b]	-0.3[b]	-6.3[b]	-3.9[b]	3.6	3.5	3.0
Exports of goods & services	7.0[b]	-9.5[b]	-5.2[b]	2.0[b]	3.2	1.7	3.0
Imports of goods & services	9.5[b]	-21.1[b]	-4.1[b]	-3.0[b]	2.5	2.0	1.5
Origin of GDP (% real change)							
Agriculture	-21.2	7.7	17.2	6.9	-2.4	10.1	3.5
Industry	4.6	-3.3	1.3	4.2	3.7	9.0	6.5
Services	7.3	3.5	-6.1	4.6	6.7	-1.9	1.5
Population and income							
Population (m)	17.4	17.9	18.4	18.9	19.4[a]	20.0	20.5
GDP per head (US$ at PPP)	3,607	3,618	3,454	3,671	4,000	4,159	4,266
Fiscal indicators (% of GDP)							
Public-sector revenue	19.4	20.4	20.3	22.4	22.0	20.8	21.8
Public-sector expenditure	27.7	29.8	34.2	30.5	30.2	28.9	28.6
Public-sector balance	-8.3	-9.4	-13.8	-8.1	-8.2	-8.0	-6.8
Net public debt	75.2	94.4	140.6	111.0	119.2	121.9	117.3
Prices and financial indicators							
Exchange rate ZK:US$ (end-period)	11.92	14.11	21.17	16.67	18.08[a]	21.15	20.53
Exchange rate ZK:€ (end-period)	13.65	15.85	25.98	18.88	19.28[a]	23.79	23.71
Consumer prices (end-period; %)	7.9	11.7	19.2	16.4	9.9	11.5	8.4
Stock of money M1 (% change)	14.0	4.8	46.5	19.3	28.0[a]	3.4	5.4
Stock of money M2 (% change)	15.4	12.2	47.2	6.7	21.0[a]	4.5	13.5
Lending rate (av; %)	9.8	10.3	9.5	8.5	9.0	10.0	9.5
Deposit rate (av; %)	6.8	8.3	8.7	7.5	5.8	7.5	8.0
Current account (US$ m)							
Trade balance	514	744	3,216	4,816	3,369	1,323	1,411
Goods: exports fob	9,029	7,246	8,003	11,202	11,505	9,290	9,820
Goods: imports fob	-8,516	-6,502	-4,787	-6,386	-8,136	-7,967	-8,410
Services balance	-724	-522	-1,706	-779	-943	-639	-510
Primary income balance	-408	-404	-769	-1,709	-1,639	-809	-836
Secondary income balance	276	322	221	302	285	306	312
Current-account balance	-342	140	961	2,630	1,071	182	376
External debt (US$ m)							
Debt stock	26,711	30,596	31,643	32,574	32,545	33,573	34,437
Debt service paid	1,287	2,606	1,570	1,473	1,859	1,360	910
Debt service due	1,879	2,752	2,086	2,206	4,560	3,760	2,839
International reserves (US$ m)							
Total international reserves	1,569	1,449	1,203	2,754	2,968	2,641	2,898

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

Quarterly data

	2021 3 Qtr	4 Qtr	2022 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2023 1 Qtr	2 Qtr
Prices								
Consumer prices (2009=100)	331	334	350	359	364	367	383	395
Consumer prices (% change, year on year)	23.7	18.9	14.1	10.5	9.9	9.8	9.6	9.9
Copper, LME (US$/tonne)	9,382	9,703	9,985	9,521	7,758	8,025	8,944	8,474
Financial indicators								
Exchange rate ZK:US$ (av)	19.03	17.05	17.79	17.16	16.12	16.67	19.52	18.58
Exchange rate ZK:US$ (end-period)	16.80	16.67	18.09	16.83	15.75	18.08	19.52	17.58
Central bank policy rate (end-period; %)	8.50	9.00	9.00	9.00	9.00	9.00	9.25	9.50
M1 (end-period; ZK m)	40,224	38,143	41,881	43,759	46,714	48,898	48,497	52,857
M1 (% change, year on year)	35.7	19.8	14.1	16.2	16.1	28.2	15.8	20.8
M2 (end-period; ZK m)	98,572	99,227	105,459	108,565	114,492	120,034	132,200	125,198
M2 (% change, year on year)	14.0	6.9	4.3	-4.0	16.2	21.0	25.4	15.3
Foreign trade (US$ m)								
Exports fob	2,829.8	3,101.5	3,003.7	2,963.5	2,914.3	2,765.1	2,712.9	n/a
Imports cif	-2,140.5	-1,944.8	-1,912.5	-2,348.3	-2,335.2	-2,446.5	-2,557.5	n/a
Trade balance	689.3	1,156.7	1,091.2	615.2	579.1	318.6	155.4	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	2,897	2,754	2,841	2,959	3,006	2,968	2,825	2,557

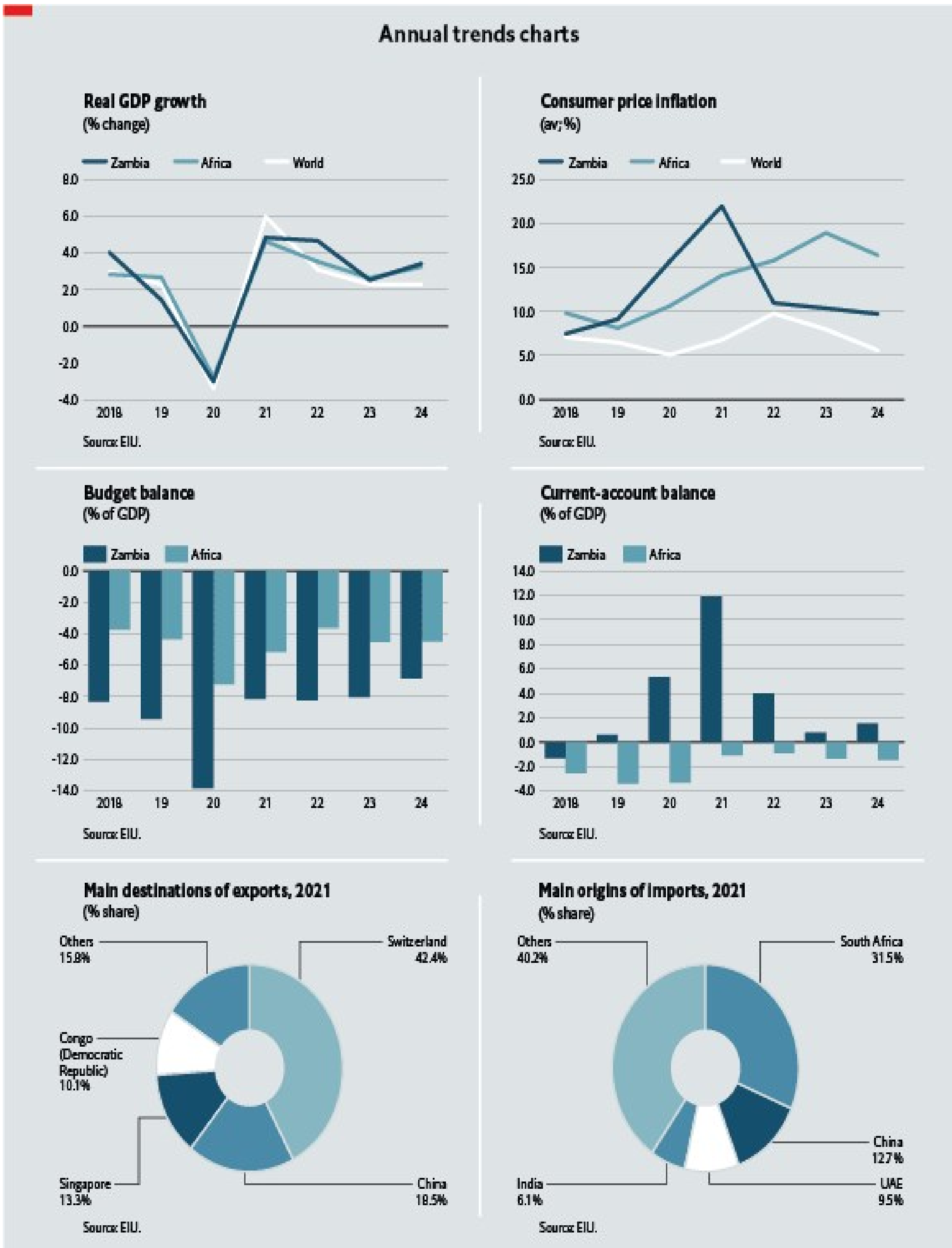
Sources: Bank of Zambia, Statistics Fortnightly; IMF, International Financial Statistics; Direction of Trade Statistics; Haver Analytics.

Monthly data

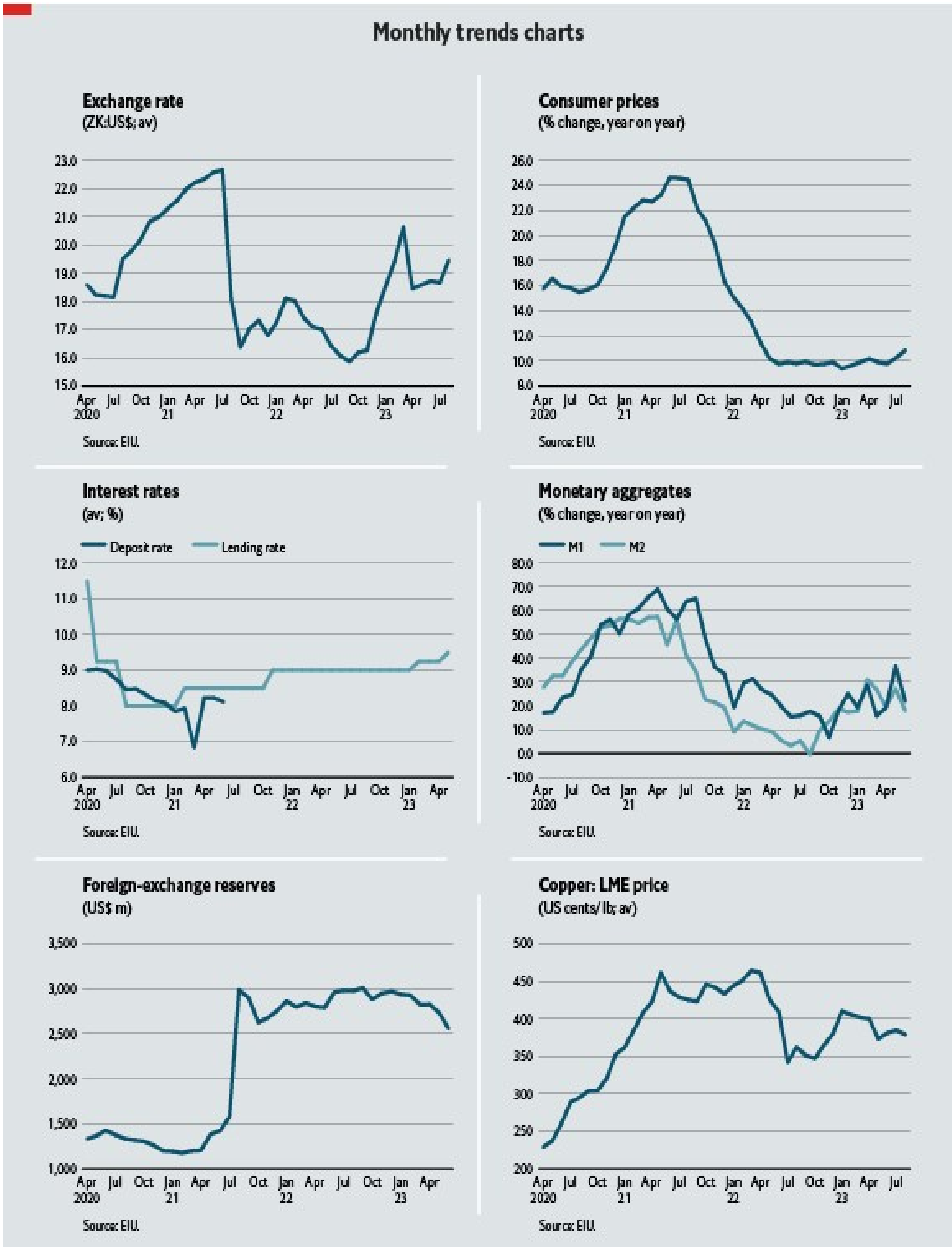
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate ZK:US$ (av)												
2021	21.30	21.58	21.98	22.21	22.33	22.58	22.66	18.07	16.37	17.04	17.32	16.78
2022	17.26	18.10	18.01	17.39	17.09	17.01	16.42	16.08	15.86	16.18	16.26	17.58
2023	18.52	19.41	20.63	18.45	18.58	18.72	18.66	19.46	n/a	n/a	n/a	n/a
Deposit rate (end-period; %)												
2021	7.9	7.9	6.8	8.2	8.2	8.1	n/a	n/a	n/a	n/a	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Central bank policy rate (end-period; %)												
2021	8.0	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	9.0	9.0
2022	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
2023	9.0	9.3	9.3	9.3	9.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2021	58.4	60.9	65.7	69.0	60.7	56.3	63.9	65.0	48.6	36.4	33.5	19.5
2022	29.5	31.4	26.7	24.6	19.7	15.4	16.0	17.7	15.7	6.7	18.0	25.1
2023	19.5	28.6	15.9	19.2	36.8	21.9	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2021	56.4	54.6	57.1	57.3	45.8	56.0	41.3	34.4	22.7	21.5	19.3	9.1
2022	13.6	11.8	10.1	9.2	5.4	3.3	5.3	-0.4	9.5	13.6	18.7	17.4
2023	17.9	31.1	27.0	19.5	27.3	17.9	n/a	n/a	n/a	n/a	n/a	n/a
Stockmarket index												
2021	3,912	3,984	4,021	4,089	4,155	4,425	4,638	4,647	4,896	4,833	5,433	6,060
2022	6,014	6,474	6,848	6,924	6,799	6,854	6,890	7,017	7,342	7,230	7,285	7,338
2023	7,218	7,250	7,838	8,019	8,242	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2021	21.5	22.2	22.8	22.7	23.2	24.6	24.6	24.4	22.1	21.1	19.3	16.4
2022	15.1	14.2	13.1	11.5	10.2	9.7	9.9	9.8	9.9	9.7	9.8	9.9
2023	9.4	9.6	9.9	10.2	9.9	9.8	10.3	10.8	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2021	820.6	796.1	843.6	978.4	907.6	863.6	868.2	970.7	991.0	952.6	1,092.3	1,056.6
2022	985.1	963.3	1,055.3	957.7	1,032.8	973.1	991.7	979.6	943.0	951.4	977.7	835.9
2023	1,079.0	824.7	809.3	821.3	1,008.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US$ m)												
2021	385.7	395.7	507.5	521.4	587.7	612.5	689.1	754.0	697.4	625.5	670.4	648.9
2022	587.8	615.5	709.2	704.9	816.5	827.0	745.5	750.1	839.7	773.8	810.6	862.1
2023	806.1	790.7	960.8	846.0	1082.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2021	434.9	400.4	336.0	456.9	319.9	251.1	179.1	216.6	293.6	327.2	421.8	407.7
2022	397.3	347.8	346.2	252.8	216.3	146.1	246.2	229.6	103.3	177.7	167.1	-26.2
2023	272.8	34.0	-151.5	-24.8	-73.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2021	1,196	1,177	1,201	1,208	1,386	1,427	1,580	2,985	2,897	2,626	2,675	2,754
2022	2,863	2,797	2,841	2,802	2,789	2,959	2,978	2,974	3,006	2,881	2,947	2,968
2023	2,936	2,926	2,825	2,827	2,731	2,557	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

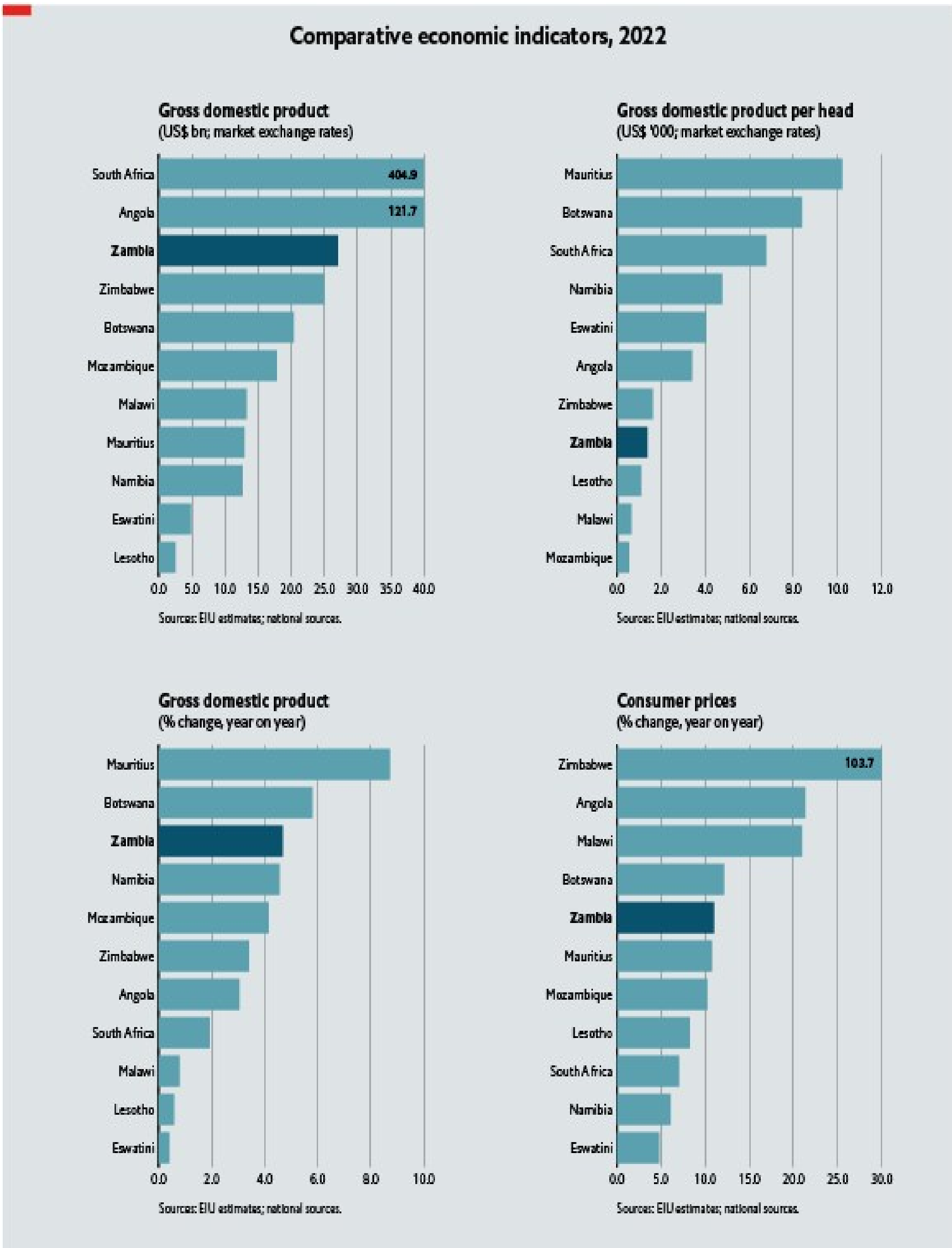
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

752,612 sq km

Population

18.9m (World Bank estimate, 2021)

Main towns

Population in '000 (World Gazetteer estimates, 2020)

Lusaka (capital): 3,731

Kitwe: 838

Ndola: 612

Kasama: 520

Kapiri Mposhi: 306

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

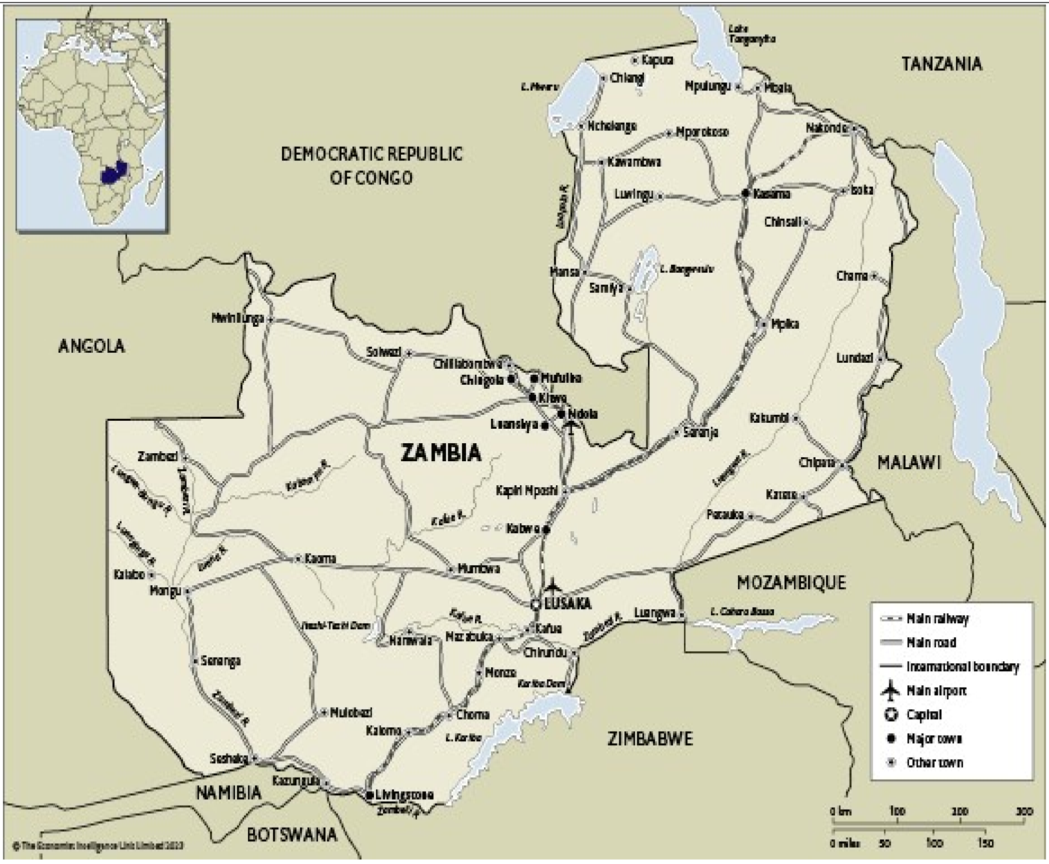
Kwacha (ZK)=100 ngwee; ZK16.94:US$1 in 2022 (annual average)

Time

2 hours ahead of GMT

Public holidays

New Year's Day (January 1st-2nd); Women's Day (March 8th); Youth Day (March 12th-13th); Good Friday (April 7th); Easter Monday (April 10th); Kenneth Kaunda Day (April 28th); Labour Day (May 1st); Africa Day (May 25th); Heroes' Day (July 3rd); Unity Day (July 4th); Farmers' Day (August 7th); Prayer Day (October 18th); Independence Day (October 24th); Christmas Day (December 25th)



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; the vice-president, the speaker and the deputy speaker also receive seats

National elections

The most recent presidential and legislative elections were held on August 12th 2021; the next national elections are scheduled for 2026

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 United Party for National Development is currently the ruling party; the main opposition party is the Patriotic Front; there are also 13 independent members of parliament (MPs) in the current assembly and a single MP from the Party of National Unity and Progress

Key ministers

President: Hakainde Hichilema

Vice-president: Mutale Nalumango

Agriculture: Mtolo Phiri

Commerce & trade: Chipoka Mulenga

Community development & social services: Doreen Mwamba

Defence: Ambrose Lufuma

Education: Douglas Siakalima

Energy: Peter Kapala

Finance & national planning: Situmbeko Musokotwane

Foreign affairs: Stanley Kakubo

Green economy & environment: Collins Nzovu

Health: Sylvia Masebo

Home affairs & internal security: Jack Mwiimbu

Information & media: Chushi Kasanda

Infrastructure, housing & urban development: Charles Milupi

Justice: Mulambo Haimbe

Labour & social security: Brenda Tambatamba

Lands & natural resources: Elijah Muchima

Livestock & fisheries: Makozo Chikote

Local government & rural development: Gary Nkombo

Mines & mineral development: Paul Chanda Kabuswe

Small & medium enterprises: Elias Mubanga

Technology & science: Felix Mutati

Tourism & arts: Rodney Sikumba

Transport & logistics: Frank Tayali

Water development & sanitation: Mike Mposha

Youth, sport & arts: Elvis Nkandu

Central bank governor

Denny Kalyalya

Recent analysis

Generated on November 2nd 2023

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.

Risk

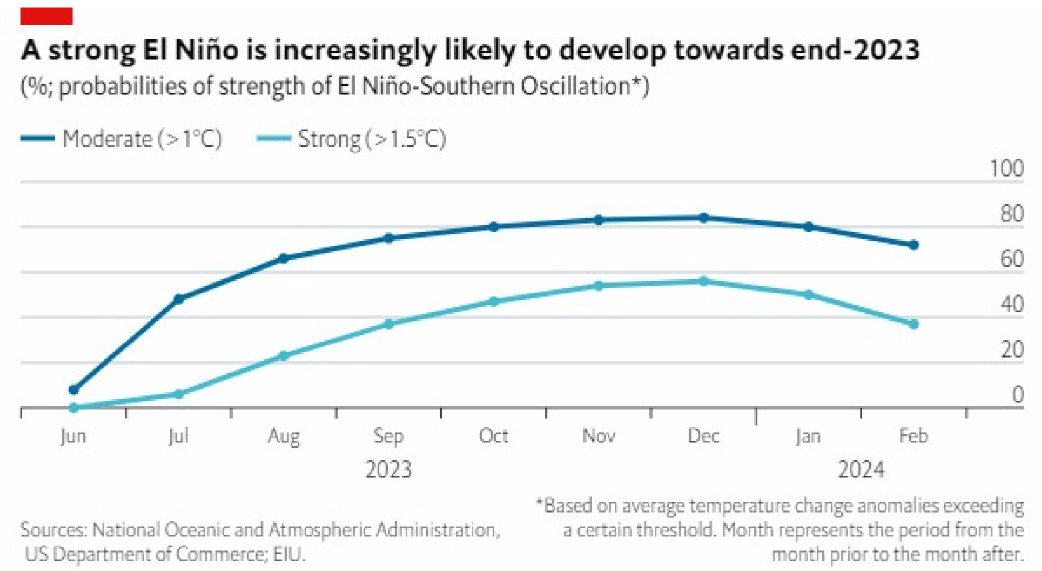
Analysis

El Niño will aggravate Africa's food security stresses

June 21, 2023: Macroeconomic

- **El Niño is set to have varied effects across Africa, and there is a very high risk that an acute El Niño will cause severe economic disruption in many African countries through its impact on agriculture, given largely rain-fed cultivation, and livestock. Countries in West and Southern Africa (including island economies) typically face dry weather, and a strong El Niño increases the risk of drought in these countries.**
- **El Niño typically brings abundant rainfall in East Africa, which can be beneficial for agricultural prospects, but with it being an extreme weather event, the possibility of excessive rainfall and associated devastation poses adverse risks. Countries in the Horn of Africa still face downside risks of worsening drought after multiple successive failed rainy seasons since 2020.**
- **With several African states already facing heightened food insecurity, a strong El Niño presents a significant downside risk to regional food supplies and their impact on inflation, displacement and social stability.**

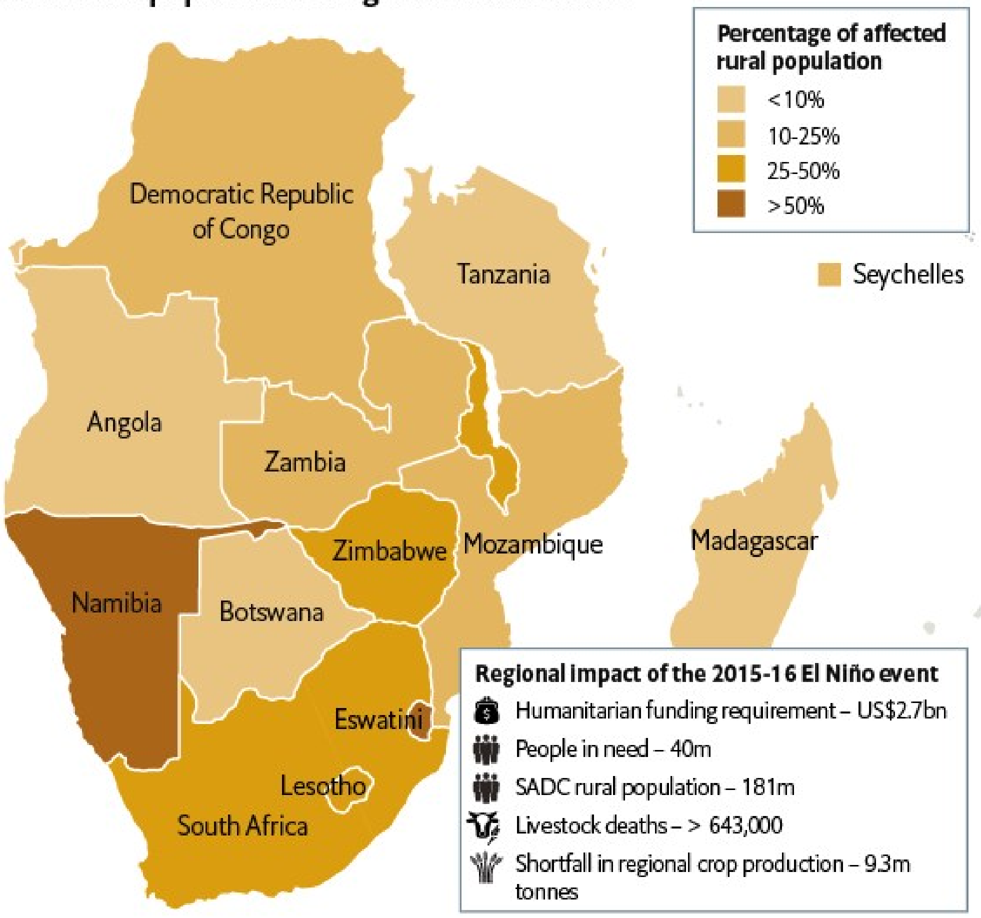
On June 8th the US Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) announced the arrival of El Niño, during which a warming of surface temperatures of the Pacific Ocean causes above-average atmospheric warming and altered trade wind patterns. The impact on seasonal rainfall depends on the intensity of El Niño and varies globally, causing both droughts and flooding in different parts of the world. In Africa, El Niño causes warmer and drier conditions in Southern Africa (including Indian Ocean island economies) and the Sahel region, but wetter than normal conditions in parts of East Africa. **The NOAA forecasts a strengthening El Niño through the northern hemisphere winter, projecting an 84% probability of a stronger than moderate El Niño at its peak and a 56% probability of a strong El Niño. The uniqueness of each occurrence alongside a general increase in climate variability makes it difficult to assess the exact impact of El Niño, but past events serve as a warning for what might lie ahead.**



Southern Africa to be hit hardest

The NOAA projects that the peak of the 2023-24 El Niño effects are likely to occur during November-December, coinciding with crop planting and the onset of monsoons in Sothern Africa. During the last strong El Niño event in 2015-16 (which peaked in November 2015) the region was hit by its worst drought in over three decades, leaving it with a perilous cereal deficit of 9.3m tonnes following the main harvest (April-May 2016). In a span of a year the food insecure population had almost doubled to over 40m by mid-2016. **Dry conditions triggered by El Niño prevail over the entirety of the subregion's main growing season (November-March), implying that countries are looking at likely crop losses in the 2023/24 harvest season. The impact will thus be felt more greatly in 2024, depending on the intensity of warming.**

Southern Africa was the worst-hit region of Africa by the 2015-16 El Niño, with the rural population being the most affected



Sources: Southern African Development Community (SADC); EIU.

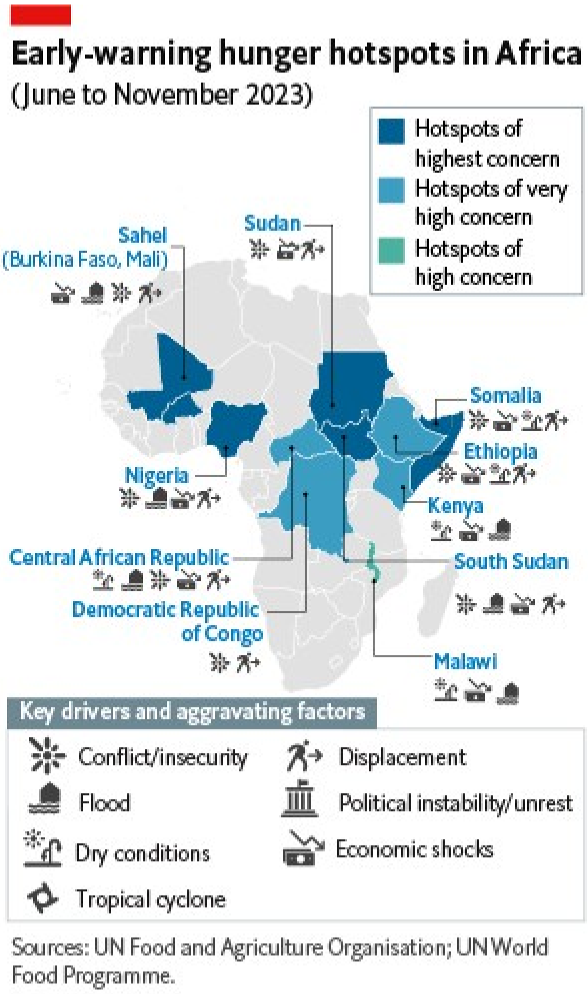
The Southern Africa region is already fragile as it is just emerging from a period of reduced cereal production and associated food price inflation in 2022, reflecting rainfall deficits during the 2021/22 monsoons across major parts of the region, which adversely affected harvests. In its quarterly assessment of crop prospects in March, the UN Food and Agriculture Organisation (FAO) gave a positive outlook for regional output in 2023, owing to good 2022/23 rainfall, but some countries are in a weaker position than others. **The FAO estimates that about 15.9m people across Southern Africa (excluding South Africa) faced food insecurity over the January-March 2023 period, with Angola, Madagascar, Malawi and Zimbabwe having been most affected. These countries are therefore entering another season of heightened climate uncertainty with pre-existing vulnerabilities and will be in a particularly weak position to mitigate a strong El Niño shock.** The small economies of Lesotho and Eswatini, which are highly dependent on regional cereal imports to meet domestic consumption, will also be negatively affected by declines in regional production.

Southern Africa produces most of the continent's maize, a key staple crop, and thus production

shortfalls will have adverse macroeconomic effects throughout Africa, including via another spike in food prices and the loss of crucial agricultural export earnings. In South Africa, the subregion's biggest producer, favourable output prospects for the ongoing 2023 harvest herald stable cereal availability in the short term, but given El Niño a decline in output can be expected in the 2023/24 season. Meanwhile, water shortages associated with droughts would generate business risks, prompting rationing as well as weighing on electricity provision in countries heavily reliant on hydropower.

Horn of Africa: from drought to flood risks

The wider Horn of Africa region is another vulnerable spot, but the impact of El Niño is likely to be mixed in some countries. Uganda, Kenya and parts of Somalia typically receive above-average rainfall during El Niño, which could help to improve agricultural prospects. This could prove especially crucial for Kenya, which along with Ethiopia and Somalia has experienced at least five consecutive seasons of poor rains (from 2020 up to early 2023). That said, the benefits of above-average rains could quickly disappear if a high-intensity El Niño causes flooding, which could cause crop damage and increase humanitarian needs. These vulnerabilities were on display in March-May 2023 when heavy rains struck Somalia, Kenya and Ethiopia, causing damaging flash floods and overshadowing the respite from the regional drought. **For Ethiopia and Somalia, both of which are already identified by the FAO as global hunger hotspots for 2023 with a cumulative estimate of 31.1m people facing acute food insecurity, the consequences of another climate shock could be grave.**

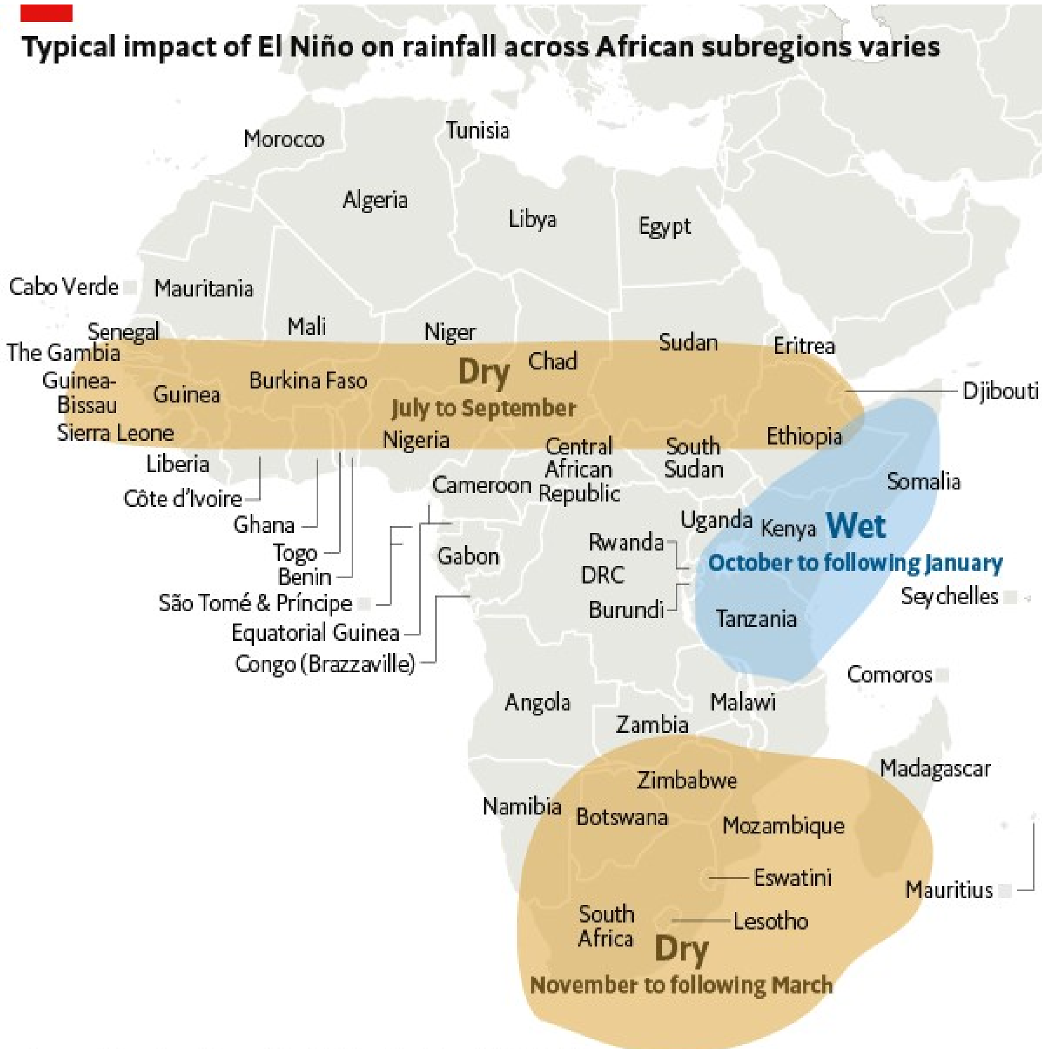


Rest of Africa will not escape unscathed

The typical impact of El Niño in the West African region (particularly the Sahel) is through drier and warmer climatic conditions over the July-September period. However, this did not materialise during the 2015 El Niño, when the region received average to above-average rainfall and higher regional cereal supplies offset declines in individual countries. **It is thus hard to**

predict what the current El Niño will bring, although we know the region is prone to drought and poor rains and this coupled with widespread regional instability and conflict has entrenched regional food insecurity. Further vulnerabilities include persistent insecurity (mainly jihadi insurgencies), intercommunal violence and competition for scarce resources (land and water), all of which have created a food crisis that is not receiving the funding that is needed to tackle it. Instability and conflict—including in Burkina Faso, Chad, Mali, Niger and Nigeria—have disrupted agricultural activity. Similar factors of conflict and displacement underpin severe hunger in the Central African countries of Cameroon, the Central African Republic and the Democratic Republic of Congo, with an estimated 30.8m people acutely food insecure. These countries remain vulnerable to indirect effects of the regional fallout of a strong El Niño.

Typical impact of El Niño on rainfall across African subregions varies



Sources: International Research Institute for Climate and Society; EIU.

The impact of El Niño is not typically directly felt in North Africa, but some countries in the region, including Morocco, Algeria and Tunisia, are struggling with prolonged droughts that have only partially lifted this year and continue to negatively affect rain-fed crop production. Egypt's cultivation of cereal crops under irrigation and its strategic reserves of wheat stocks arguably strengthen its ability to withstand climatic shocks to agricultural production.

What next?

Given the inherent unpredictability of weather systems, the possibility of a more (or less) severe episode than we currently expect is considerable and the varied impact of past El Niño events will lead to growing uncertainty for the most-affected countries. **The onset of El Niño has prompted us to revise up our price forecasts for some agricultural commodities for 2023-24, but a strong El Niño poses an upside risk to our price forecasts and downside risk to our commodity production projections.**

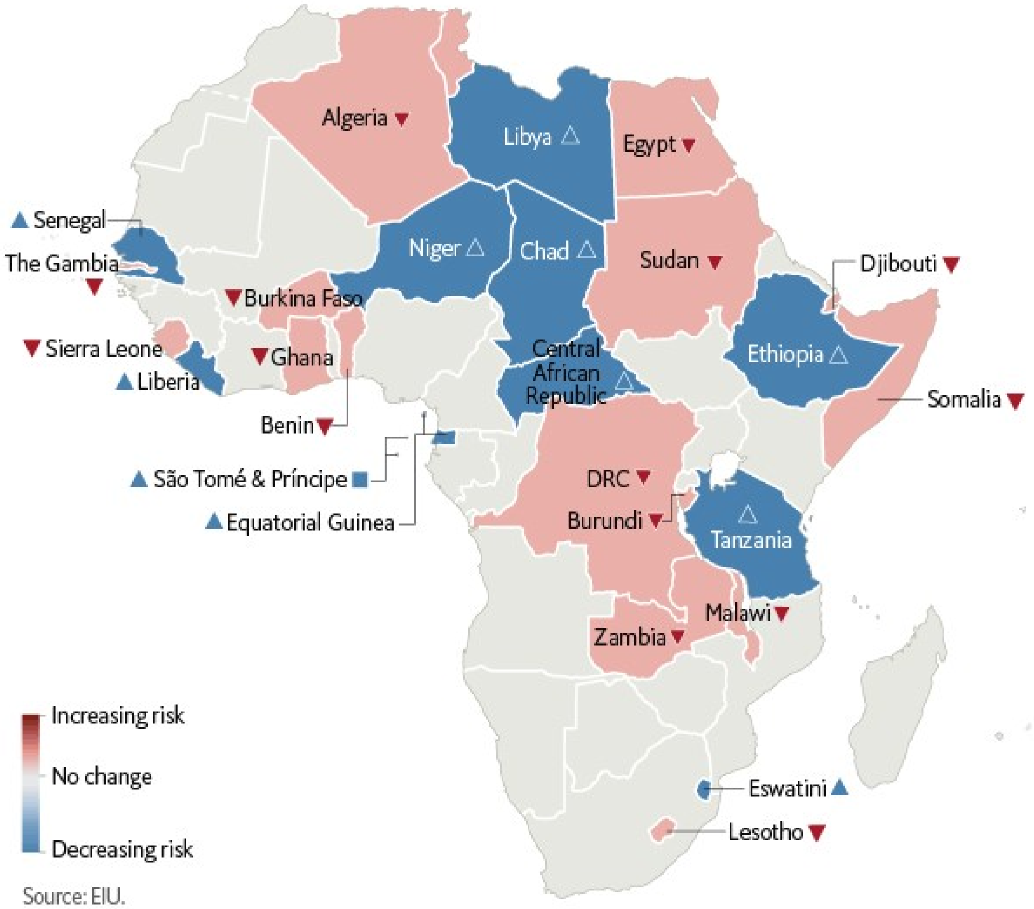
We will also be reviewing our real GDP and inflation forecasts for African economies, particularly in Southern Africa and the Sahel, to factor in the impact of a moderate El Niño. In Africa dwindling regional food production would push up import needs at a time when countries are just beginning to get some relief from inflated import bills. Still-high prices for farm inputs (especially fertilisers) and imported food products will exacerbate the food security crisis playing out across much of East Africa, the Sahel and parts of Southern Africa. **Funding to address the food security crisis remains well below required levels, despite international pledges and commitments, and mitigation measures to get ahead of the El Niño threat remain largely absent.** Although the FAO has announced anticipatory protocols for certain African countries likely to be hit by drought (including Burkina Faso, Chad, Niger, Madagascar, Malawi and Zimbabwe), there is no planned policy action yet. By contrast, proactive mitigation measures have been announced in some Asian countries, such as Indonesia and the Philippines, and others such as India are in the process of formulating a plan. **Implementing measures to prevent crop and livestock losses in the upcoming months as well as scaling up humanitarian assistance programmes will be critical in averting what could be a much more severe hunger crisis in Africa than already exists.**

Highly challenging operational risk outlook for Africa

July 24, 2023: Overview

- **The operational risk scores for 16 of the 51 African countries in EIU's Operational Risk Service worsened between end-2022 and mid-2023, including those for Ghana, Egypt and Sudan.**
- **The worsening scores have been driven mainly by a deterioration in the macroeconomic risk subcategory, reflecting the negative impact of rising domestic consumer prices on businesses' profit margins and the wider implications for exchange-rate and monetary policy.**
- **That said, despite shocks presented by the Russia-Ukraine war and the scars left by coronavirus pandemic in 2020-21, macroeconomic risk retains its place as the best-rated subcategory across the region (with an average score of 43, equivalent to a C rating), mainly reflecting relatively fast economic growth that comes with expanding populations.**
- **Eleven of the 51 countries have an improving risk outlook, including Tanzania, the Central African Republic (CAR) and Ethiopia. The improvements reflect country-specific factors, including comparative stabilisation in Ethiopia in line with the ongoing implementation of its peace accord after two years of civil war, and the CAR's securing of an IMF deal in April 2023.**
- **Political stability and government effectiveness present the biggest risks across the region, with an average score of 74 (equivalent to a D rating). Entrenched political volatility, rising authoritarianism and the risk of escalating civil wars (as in case of Sudan) and military coups paint a picture of democratic recession across most of Africa.**
- **We also believe that there is a high risk of financial sector distress, given high and rising public debt levels and comparatively low levels of banking supervision and autonomy in the region.**

In the first half of 2023 the operational risk score worsened for 16 countries in Africa
(change in EIU operational risk score January-June 2023)



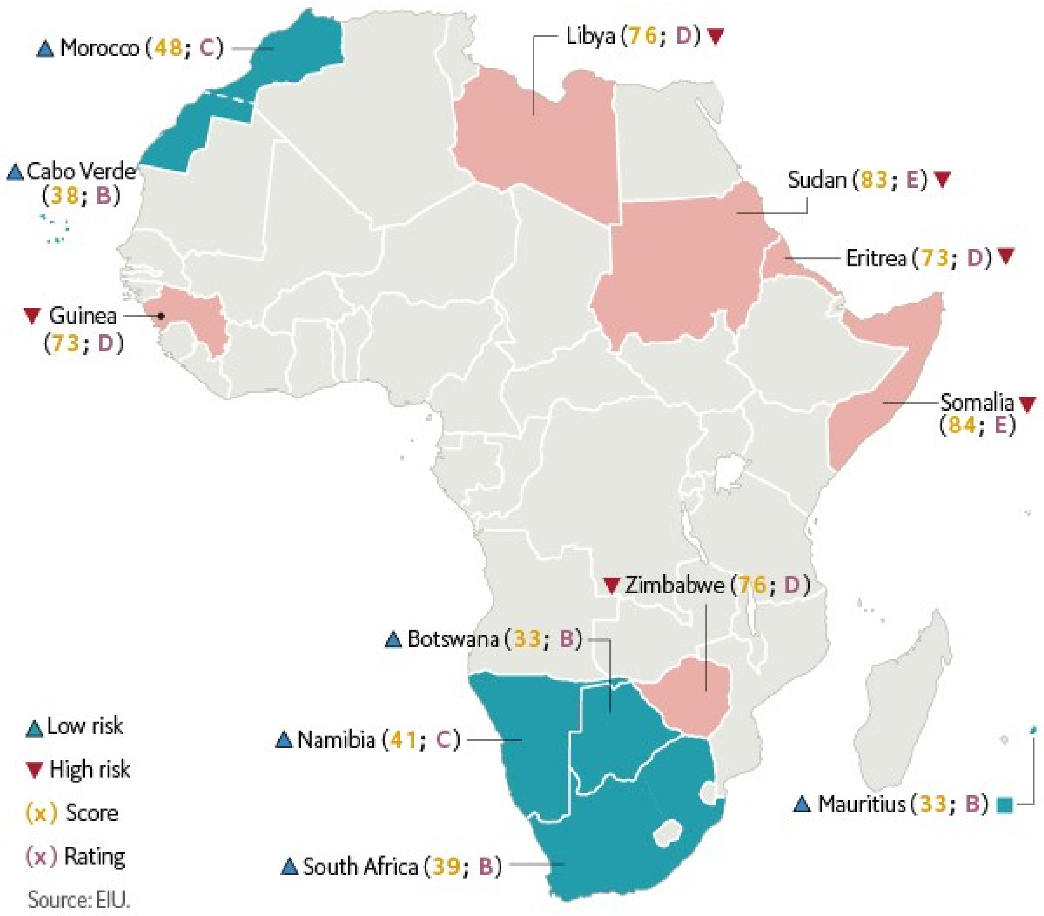
Source: EIU.

Africa faces a challenging operational risk outlook

Inflationary pressures in Africa remain high, which coupled with high interest rates could continue to weigh on growth and investor confidence over the 2023-24 forecast period. This, alongside rising instability and militancy in the Sahel region, Sudan and the Democratic Republic of Congo (DRC), is driving security risks in the region, heightening the prospects of violent crime and unrest. Many African countries are experiencing political instability, including coups, civil wars and prolonged conflicts. These situations disrupt businesses, investment and economic growth, leading to uncertain operating environments.

Although greater focus will be placed on building regional markets and value chains, progress on the continent-wide African Continental Free-Trade Area (AfCFTA) will remain slow given the complexities and challenges of setting up effective trading arrangements and existing non-tariff barriers (such as poor regional infrastructure connectivity). In addition, **widespread corruption in public services, bureaucratic red tape, a lack of accountability among civil servants, limited government control beyond key urban capital centres, a lack of judicial independence, excessive state authority, infrastructural deficiencies, shallow financial markets and a lack of skilled labour will continue to hold back Africa's operational risk environment in the medium term.**

Operational risk: best and worst performers in Africa



The five best-rated African countries for operational risk in Africa (as at mid-2023) are Mauritius, Cabo Verde, Botswana, South Africa and Morocco, reflecting these countries' comparatively business-friendly tax and trade policies and relative political stability and government effectiveness. The five worst-rated African countries are Sudan, Somalia, Guinea, Eritrea and the CAR, reflecting entrenched political instability, pervasive graft and uncertain government policy (with a high risk of pivoting towards resource nationalism) with regard to foreign businesses.

Key operational risk scenarios for Africa in 2024

Mounting debt distress pushes countries to default, and banks' reluctance to extend commercial credit rises

High probability; Very high impact

The growing risk of public debt distress will weigh heavily across the region as highly leveraged states struggle to bridge financing gaps without debt restructuring, forgiveness or new lines of credit. Africa is approaching a maturity wall on its Eurobonds that begins in 2024, with most of the continent unable to tap international capital markets to roll over maturing debts. An increasing number of countries are seeking restructuring deals—both domestic and external—ahead of an expected spike in debt servicing in 2024-25. Repayment schedules will become a much greater burden and could push more countries into or to the brink of debt default. Ghana, Zambia and Ethiopia are already having discussions over unsustainable debt and the need for restructuring, and several other countries, including Chad, Mozambique, Sudan, Zimbabwe and Somalia, have been identified by the IMF as at risk of debt distress. **Should domestic public debt remain extremely high as a proportion of the broad money supply (M2) for affected countries, it would be a recipe for smaller borrowers—including small and medium-sized enterprises (SMEs)—being crowded out as governments continue to finance structurally wide fiscal deficits.** Moreover, African banking systems are not immune to global financial shocks and could face contagion risks through their heavy exposure to local-currency sovereign bonds, which could diminish in market value and be subject to write-downs as part of restructuring strategies. **This would weigh heavily on banks' capital levels and probably prompt a sharp downturn in commercial lending as asset quality deteriorates.** Limited financial inflows and rising emerging-market risks could further depress the region's economic recovery and increase pressure on exchange-rate stability and ability to repay debt, as well as potentially triggering country-level recessions.

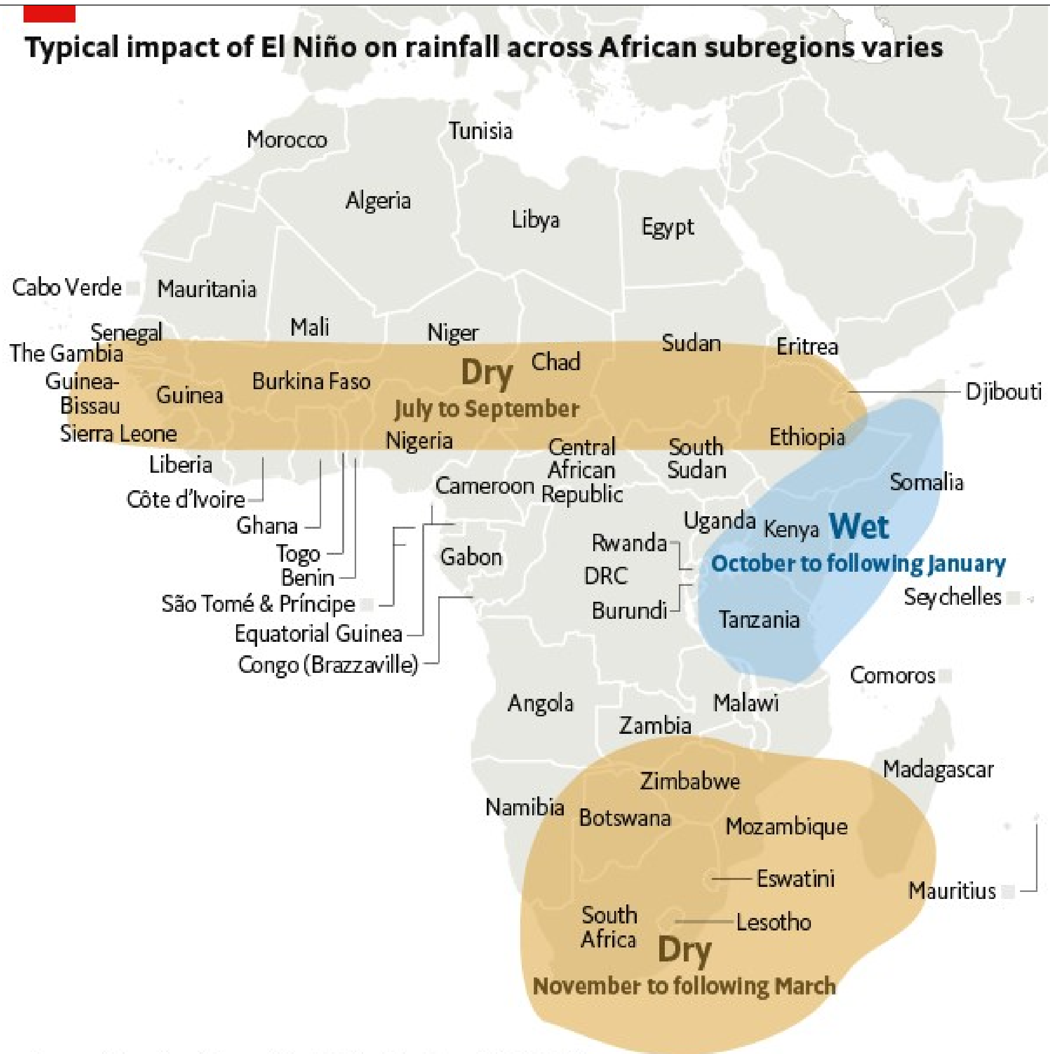
Operational risk in Africa by category
(score out of 100; 100=highest risk)

Source: EIU.

A severe El Niño disrupts agricultural output and drives drought/flood conditions and water/electricity shortages

High probability; High impact

Africa is highly vulnerable to droughts, floods and other extreme weather events. **The ongoing El Niño phenomenon—which the US Department of Commerce's National Oceanic and Atmospheric Administration expects to reach its peak in November-December—is set to have varied effects across different subregions in Africa.** A high-intensity El Niño will cause severe economic disruption in many African countries through its impact on agriculture, given largely rain-fed cultivation, and livestock. **High prices for farm inputs (notably fuel and fertilisers) and imported food products (in part driven by the war in Ukraine and uncertainty over the Black Sea grain deal) will drive up overhead costs and pose risks to businesses involved in the agricultural sector.** Countries in West and Southern Africa (including island economies) typically face dry weather during El Niño, and a severe El Niño would increase the risk of drought in these countries. **Water shortages associated with droughts would generate business risks, especially for the water-intensive extractive sector—key driver of growth for the region. Moreover, water shortages would also prompt rationing and weigh on electricity provision in countries heavily reliant on hydropower; this would have a negative impact on all businesses operating in the affected areas.** El Niño typically brings abundant rainfall in East Africa, but with it being an extreme weather event, there is the possibility of excessive rainfall. **Flash floods and associated problems could disrupt road networks and access to markets, posing adverse risks to businesses operating in the affected areas.**

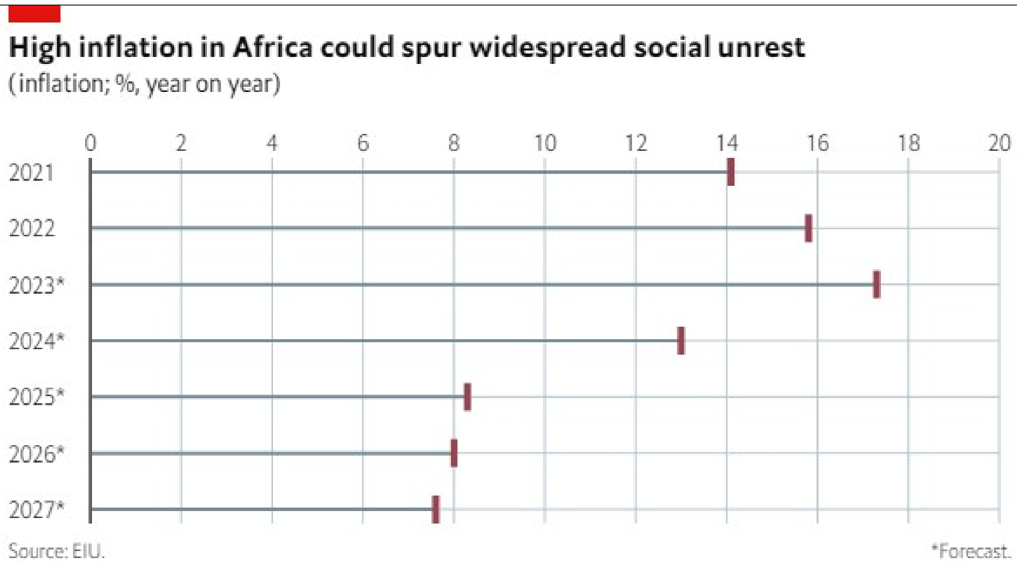


Sources: International Research Institute for Climate and Society; EIU.

High regional inflation drives up business input costs and fuels widespread social unrest

High probability; High impact

Regional headline inflation will remain high, driven by still-high global commodity prices, lingering supply-chain tightness, high regional food prices and local-currency weakness against the US dollar for most countries, fuelling discontent in 2023-24—as already seen in Ghana, South Africa, Kenya, Tunisia and Madagascar. Inflation also continues to run high as subsidy regimes buckle under the fiscal strain—including in Angola, Malawi, Nigeria, Ethiopia, Sudan and Madagascar. **Public dissatisfaction over worsening living conditions could manifest itself in the form of frustration against affluent foreigners and attacks on private property and could lead to an uptick in both violent crime and demonstrations.** A continued sharp rise in price growth could result in a decline in living standards and an increase in public frustration, as wages have not risen as quickly as inflation across the region, making it harder for poorer households to purchase basic staples. This is especially crucial against a backdrop of entrenched widespread poverty and high unemployment across most of Africa. **Protests could push workers employed by large manufacturers to co-ordinate large-scale strikes to demand salary increases.** This kind of action by trade unions, such as the National Union of Mineworkers in South Africa in April 2023, when it affects key services (electricity) could paralyse entire industries.



Increased water shortages and load-shedding and poor intra-regional connectivity disrupt business operations

High probability; High impact

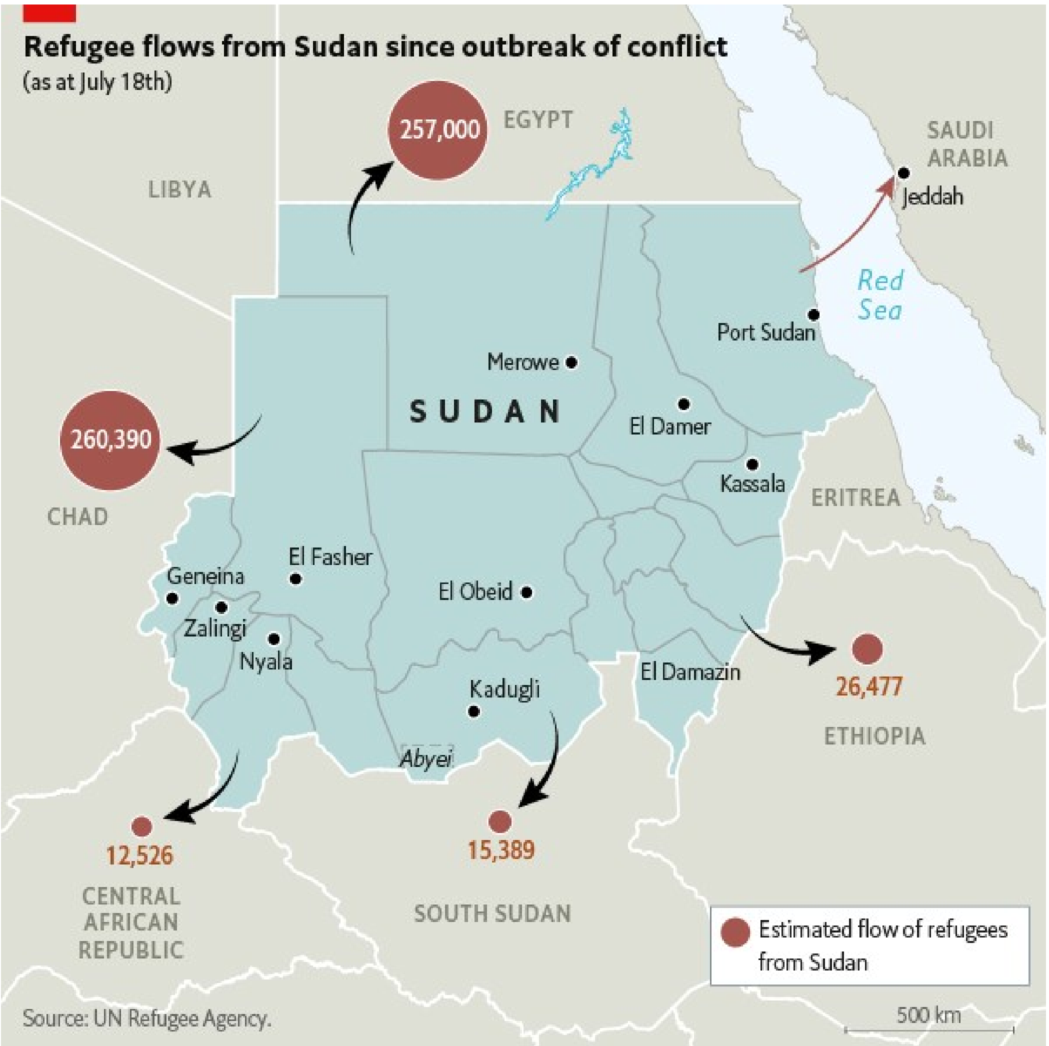
The region's infrastructure deficit—especially in Sub-Saharan Africa—will continue to seriously hamper the business environment. South Africa is going through a period of excessive load-shedding (power rationing), with the possibility of both power and water supply becoming more erratic in the coming months. In Ethiopia and Zambia, prolonged drought conditions risk leading to a substantial decline in water levels at major hydropower projects, forcing the government to extend power rationing that is mainly restricted to residential and domestic use to commercial use. **The continent's poor infrastructural outlook is compounded by deteriorating public-sector infrastructure, funding shortfalls for developing large-scale infrastructure projects, inadequate transport networks, limited access to technology and chronic electricity and water shortages.** A worsening of already weak governance and entrenched corruption in the region could also exacerbate mismanagement of infrastructure projects, cost overruns and delays. Sustained supply-chain and capacity-related inefficiencies (especially against a backdrop of rising business costs) could continue to push up transportation costs and limit access to markets. To date, very little trade has been conducted under the umbrella of the AfCFTA, which reflects the persistence of a long list of trade-restricting non-tariff barriers in the region. **Limited connectivity between markets and ports continues to hamper the efficient movement of goods and services and impede business operations across large parts of the continent.**

Massive surge in intra-regional migration spurs unrest, disrupting businesses

Moderate probability; High impact

Intensifying internal displacement and migrant flows are being driven by internal conflict in several African countries, such as the DRC, Ethiopia and Sudan. **In particular,** a prolonged high-intensity security crisis in Sudan**, which has a population of about 46m, could lead to a serious refugee crisis that increases intra-regional migration flows as well as a sharp uptick in internally displaced people. A humanitarian crisis has already begun unfolding and spilling over into neighbouring states, and this will only intensify in the current circumstances.** More than 650,000 refugees have fled Sudan since the conflict broke out, with Chad absorbing the largest number (263,390), followed by Ethiopia (257,000). As humanitarian activities will remain disrupted as the conflict continues, refugee flows will only increase. Countries that are facing higher-intensity climate and security risks—especially those in the Horn of Africa region, which is experiencing recurrent droughts—could also see an increase in internal displacement, which will lead to a rise in unrest and conflict over scarce resources. The East Africa region—in particular Uganda—hosted a total of more than 4.9m refugees and asylum seekers at end-2022. **Food and**

water shortages stemming from excessive pressure on already limited resources in host countries could generate widespread discontent (potentially targeted at foreigners and foreign-owned businesses), fuel ethnic strife and lead to widespread unrest, creating a politically volatile and hostile operational risk environment for businesses.



Politics

Forecast updates

Zambia's former ruling party bemoans anti-graft campaign

July 17, 2023: Political stability

What's happened?

The Zambian authorities have seized property that is allegedly linked to Edgar Lungu, a former president, as well as Dalitso Lungu (his son), Esther Lungu (his wife) and Tasila Lungu (his daughter), who is also a member of parliament for the Patriotic Front (PF), the erstwhile ruling party. The PF is currently a spent force in Zambian politics, giving the new government a freer hand in executing tricky reforms.

Why does it matter?

Hakainde Hichilema, the current president, defeated Mr Lungu in an election in August 2021. He ran on an anti-corruption mandate and a promise to fix the economy. Mr Lungu's government had overseen a rapid rise in public debt that eventually led to default in 2020. The questionable cost-benefit analysis of foreign loans taken out were a common theme in politics during that era. On coming to office, Mr Hichilema announced plans to sell a new presidential jet bought by Mr Lungu and has also ordered the sale of high-end cars bought for government officials. These measures, aimed at signalling a leaner government, fit into Mr Hichilema's wider agenda of restoring investor and credit relations—so far a success. He stuck a provisional debt-restructuring deal with official creditors in June, and the IMF has resumed an extended credit facility, worth US$1.3bn. Accusations of bias by the opposition have been dismissed by the government, and **the crackdown on the PF old guard shows that Mr Hichilema is confident in his position.**

Mr Hichilema has pointed to the dismissal and arrest of Derricky Chilundika, a former minister for Luapula province and a senior figure in the ruling United Party for National Development (UPND), and more than a dozen other corruption charges since July, as evidence of government impartiality in the anti-corruption fight. Tensions within the opposition are nonetheless high, and the UPND has had to deny claims made by the PF that there is a plot to deregister the party. Party-political tensions at this stage can be considered as a minor distraction. However, early wins in Mr Hichilema's tenure, such as securing bail-out funds from the IMF, must now be followed with painful adjustments to the public finances, including subsidy withdrawals. The economic policy direction is pro-business, and the trickle-down effects could be slow. **Austerity will be an opportunity for opposition parties to seize, but the PF in its current state gives little indication that it can take advantage.**

What next?

Mr Hichilema's position is strong—an essential precondition for the success of his reform agenda. Although indignant about the anti-corruption fight, we believe that the PF's decline means that **the government will remain committed to its IMF targets, which include a consistent primary budget surplus.**

Zambia's energy minister rules out subsidy support

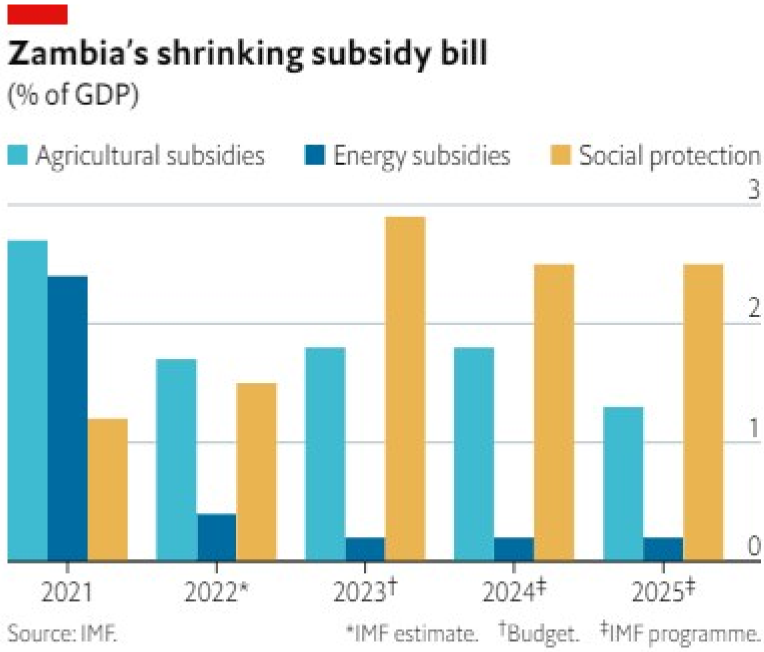
September 7, 2023: Political stability

What's happened?

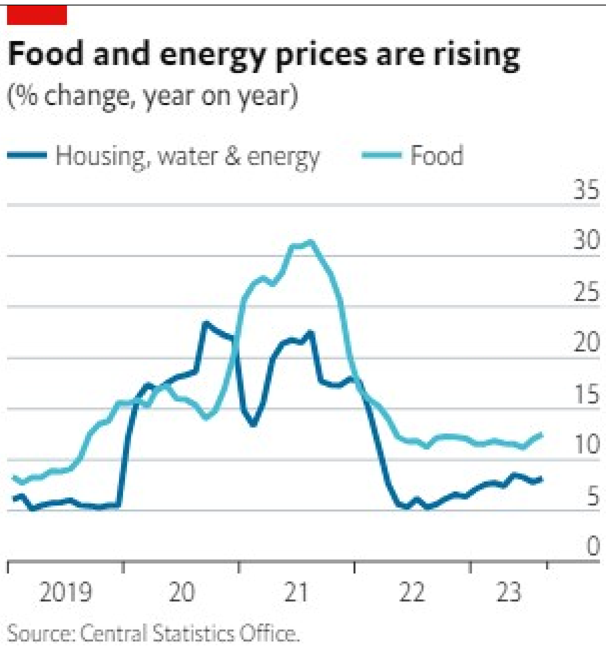
In remarks by Peter Kapala, Zambia's energy minister, in early September, the authorities have ruled out the return of energy subsidies. Under Zambia's extended credit facility (ECF) with the IMF, which runs to 2025, **the subsidy bill as a share of GDP is scheduled to fall to 1.6% by 2025, from 2.1% in 2022.**

Why does it matter?

Accelerating inflation in Zambia has created an opening for debate about whether the government should be providing more support for households. The president, Hakainde Hichilema, has staked his presidency on fixing Zambia's economy, which in turn requires keeping the IMF's support and finalising a debt restructuring with creditors. Zambia has been in sovereign default since 2020. Mr Hichilema has a strong mandate from his victory in the 2021 election, in which he trounced Edgar Lungu, his predecessor, but the economic pain of adjusting from years of fiscal profligacy under Mr Lungu is beginning to be felt. The official plan is for a fiscal deficit averaging 5.3% of GDP in 2023-25, a significant reduction from 10% of GDP in 2020-22.



The cause of cost-of-living pressures is largely incidental to policy at this stage. Prices for maize mealie meal (the main staple food) have been rising, with Zambian farmers smuggling maize across the border into the Democratic Republic of the Congo to get around an export ban to that country, where a local shortage has pushed prices higher. A fuel subsidy was scrapped in 2021 soon after the IMF programme began. Although energy prices are rising, the year-on-year rate of increase is not atypical, yet. Global oil prices are increasing, however, and cuts to farming subsidies will deepen in the medium term, according to the ECF.



With [inflation set to remain above the central bank's 6-8% target range to 2025](), household budgets will be squeezed, and popular pressure for government support will inevitably mount. The weakness of the political opposition plays well for Mr Hichilema, who cannot afford fiscal slip-ups. The Patriotic Front, which was the ruling party between 2015 and 2021, is widely viewed as responsible for Zambia's debt predicament and remains deeply unpopular. **With a two-party system, this gives Mr Hichilema a fair degree of political manoeuvrability to hold out on a tighter fiscal policy.** The IMF programme also includes scaled-up social protection support, taking the edge off some of the criticism.

What next?

We expect criticism of lower government subsidy support to grow over time. However, Mr Hichilema has political capital to draw from. By 2025, his administration will be far less popular than it is now, but **EIU expects the government to broadly stick to its IMF commitments, as Mr Kapala's statement affirms.**

Analysis

Russia bids for African support at Russia-Africa summit

August 9, 2023

- **The Russia-Africa summit in late July was used by Russia to highlight the country's support for a multipolar world. Opposition to US hegemony runs deep in Africa, despite US pressure for Africa to condemn the Ukraine war.**
- **Russia will back any reform that would give permanent African representation on the UN Security Council. There will remain a degree of African support for Russia at the UN, weakening US claims that Russia has become a "pariah".**
- **African concern over the impact on grain prices of Russia's cancellation of the Black Sea Grain Initiative (which has allowed Ukrainian grain exports) saw Russia offer free grain to six African countries and write off US$23bn of African debt.**
- **Russia will continue security co-operation with African allies, notably with the assistance of the Wagner Group, a private military company. Western countries see this as overtly backing military coups and fostering political instability.**

The second Russia-Africa summit, which was held on July 27th-28th in the Russian city of St Petersburg, came at a critical juncture in the Russian-Ukraine war, falling days after [Russia withdrew from the Black Sea Grain Initiative]() that has hitherto allowed grain trade to continue. This meant that African attendees of the summit called for an end to the Ukraine war, in a way that was potentially awkward for Russia's president, Vladimir Putin. The issue appears to have been relatively well handled by the Russians, who used the summit to highlight their opposition to US hegemony and support for a multipolar world. We believe that, as a consequence, key African countries will continue to back Russia in the war, or take a neutral stance that the US will interpret as less than fulsome support for US dominance. Russia is likely to remain involved in African politics beyond the Ukraine war, but will be seen by the West as a rogue player. **The summit also highlights the emergence of an African point of view in global politics**, one that the US and the West more generally—and also Russia and China—will increasingly need to take into account.

Supporting a multipolar world

Ties between Russia and the continent date back to the cold war and the Soviet Union's support for national liberation movements and newly independent African countries. Since the start of the Ukraine war, Russia has vigorously expanded its diplomatic engagement with African countries in an attempt to garner diplomatic support. Although Western comment has focused on the fact that only 17 African heads of state and government attended, down from 43 at the first summit in 2019, the gathering was largely well attended, with a total of 49 out 54 African countries represented. The presence of the Egyptian president, Abdel Fattah el-Sisi, and the South African president, Cyril Ramaphosa, was notable, suggesting some strengths in Russia's diplomatic position in Africa.

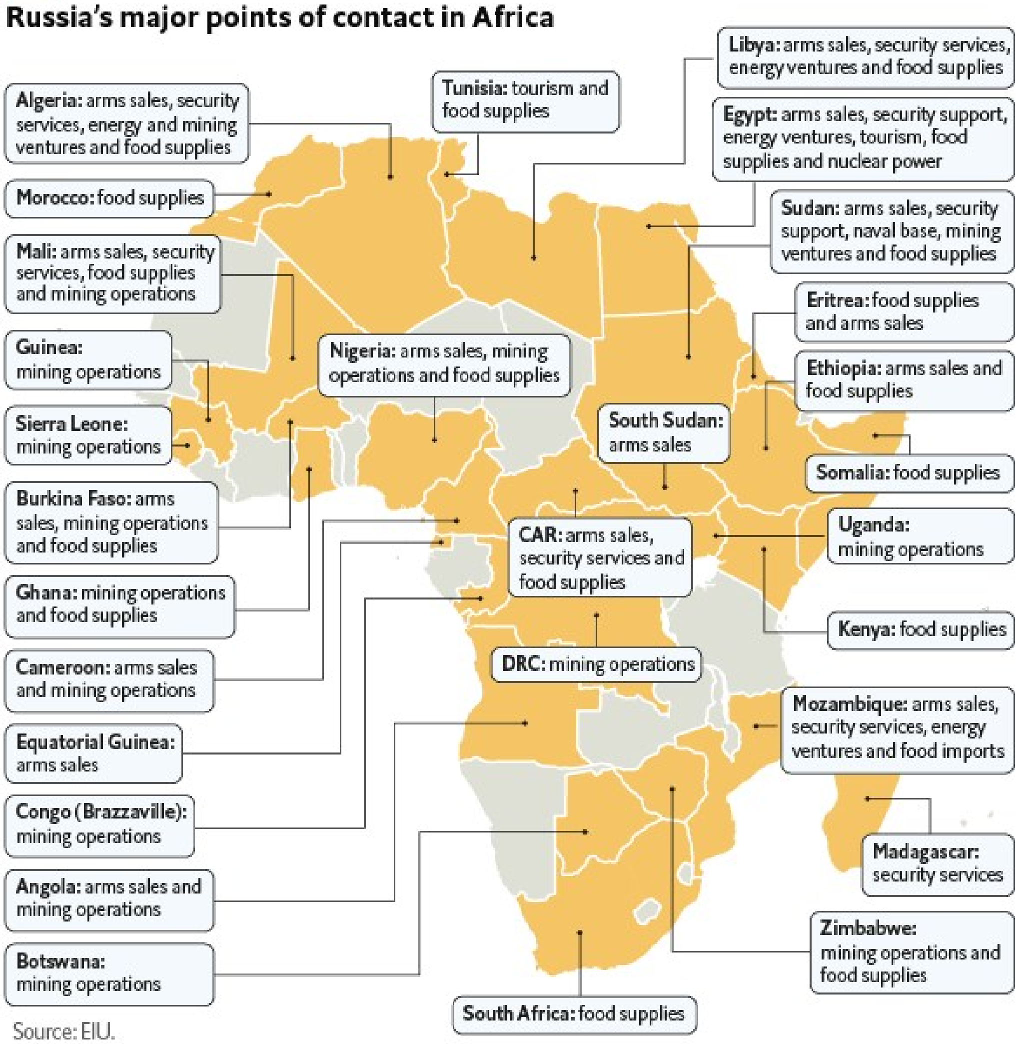
Russia announced at the summit that it would support greater representation of African countries in the Security Council and other UN structures. Although desirable from the African point of view, this is merely symbolic and does not mean much in practical terms. Nevertheless, it forms part of Russia's anti-colonial rhetoric, which it has deployed since the Ukraine war began in order to stir up tensions between the West and African countries. Propaganda on social media has served to fuel pro-Russian sentiment on the streets in Africa. Notably, many demonstrators in support of the recent coup in Niger waved Russian flags. This suggests that Russia is seen in many African countries as a key backer of their sovereignty and an opponent of Western intervention. Africa's 54 nations make up the largest voting bloc at the UN and have been more divided than any other region on UN resolutions criticising Russia's actions in Ukraine. Russia will therefore be able to contend that it is not a pariah state, as many African leaders are unwilling to condemn Russia's invasion of Ukraine.

Moreover, close ties with Russia are perceived by some African countries as a counterbalance to the influence of other global powers in the region, such as the EU, China and the US, that can help to usher in a more multipolar global system. At the same time, many African countries (including Egypt, Nigeria, Algeria, Ethiopia, Gabon, the Central African Republic and Congo-Brazzaville) are seeking to join the BRICS bloc, a grouping of non-Western states currently limited to Brazil, Russia, India, China and South Africa. Many African leaders believe that, whatever happens in the Ukraine war, it is only a matter of time before Western hegemony has to give way to a less coherent world order in which there is less global intervention in their domestic and political affairs.

Russia announces critical aid for African countries

A bone of contention in Russian-African relations is that the current cost-of-living crisis has its roots in supply-chain disruption caused by the Ukraine war, as a number of African countries depend on Russia and Ukraine for grains and fertilisers. Mr Putin's cancellation in mid-July of the Black Sea Grain Initiative, which had facilitated the export of Ukrainian grain and other foodstuffs to global markets via three Black Sea ports, **gives African leaders a valid interest in bringing the Ukraine war to an end**. Mr Putin emphasised that Russia was prepared to hold peace talks with Ukraine—although the positions of the two sides are far enough apart to make such a venture unlikely and unproductive at the current juncture. He also needed to use the summit to head off the notion that Russia's challenge to US hegemony was becoming a domestic economic problem for all African countries.

Russia's major points of contact in Africa



Source: EIU.

Russia has responded to food insecurity in Africa by stepping up its grain exports to Africa: Russia exported 10m tonnes of grain to Africa in the first six months of 2023, compared with a total of 11.5m tonnes in 2022. Russia also announced that it would provide hard-pressed countries with free grain: 25,000-50,000 tonnes of free grain aid will be shipped to each of six countries (Burkina Faso, Zimbabwe, Mali, Somalia, Eritrea and the Central African Republic) in the next three to four months. Russia announced that it had written off US$23bn in African debts, of which US$5.7bn for Algeria, US$5bn for Ethiopia, US$4.5bn for Libya, US$3.5bn for Angola and US$684m for Somalia. Russia will also provide US$90m in development aid to the continent. Although welcome in their own terms, **these measures have been criticised in some quarters for treating Africans as supplicants seeking handouts**—whereas the African countries were actually calling for an end to the Ukraine war and thus its impact on the global economy.

Military co-operation is at the heart of the relationship

Russia is increasingly betting on security co-operation to deepen ties with the continent. Russia remains the continent's largest arms exporter, with a 26% market share in 2018-21 according to the Stockholm International Peace Research Institute (SIPRI). Russia has been able to make further inroads in Africa in recent years with its private military company, the Wagner Group, which has acted as an extension of Russian foreign policy. Wagner will remain the primary tool to project Russian influence in the Central African Republic, Sudan, Libya and Mali—and may be able to extend its influence to Niger following the recent coup there.

About 5,000 Wagner forces are believed to be stationed in a small number of countries on the continent and have continued their operations throughout the Ukraine war with little impediment. The Russian Ministry of Defence will strengthen ties with partner countries by providing training and reconnaissance missions and deploying military advisers to train African militaries in the use of Russian equipment, particularly in the Sahel (where a battle against a jihadi insurgency continues). The Wagner option gives a small number of African countries the ability to play off rival great powers against one another, and assert their independence, as they did during the cold war era. That said, **trade and investment ties with Russia will not be able to rival ties with China**. In economic terms, Russia has little to offer Africa, and is useful mainly as a counterweight to Western pressure. For this reason, **Russian military operations will remain mainly confined to the least stable parts of the continent.** More prosperous and more stable African countries have little to gain from falling under Wagner's influence and spurning more commercially viable international ties.

Economy

Forecast updates

Zambia reaches MoU on debt deal with official creditors

June 23, 2023: Policy trends

What's happened?

Zambia's government has, after a lengthy delay, secured a Memorandum of Understanding (MoU) on a restructuring deal with official creditors, covering US$6.3bn in external debt under the G20 Common Framework. Zambia will get more than 20-year maturity extensions on loans, with a three-year grace period. **The relief will give a benchmark for negotiations with private creditors on external obligations worth about US$6.8bn, which the government has pledged to embark on quickly. More immediately, the deal will enable Zambia to access IMF liquidity under an extended credit facility (ECF).**

Why does it matter?

Zambia's sovereign default on external debt began in late 2020. Foreign reserves of US$970m at the time covered only two months of imports and stood against external debt-service obligations due of more than US$1bn. Following a change in government, Zambia's new president, Hakainde Hichilema, was able to secure a US$1.3bn ECF in September 2022. Only one disbursement of about US$185m has been made, with subsequent tranches conditional on a debt deal with official creditors. **IMF funds can now be unlocked, with Zambia scheduled for disbursements of US$375m in 2023, and there is a working template for a follow-up deal with private creditors**.

The authorities have pursued debt relief under the G20 Common Framework since February 2021. China, which is Zambia's largest foreign bilateral creditor, and France have been co-chairs. As relations with the IMF warmed under Mr Hichilema, there was an in-principle agreement among official creditors to restructure Zambia's debt in mid-2022, but the process was stalled by China's demand that multilateral agencies share in loss-taking.

Zambia has not got external debt forgiveness. Rather, the sovereign will initially pay less principal and lower interest and account will be taken of its debt-repaying capacity at agreed review dates. When official creditors assess that its capacity to repay has risen—as will be the case if copper prices stay high—payments will be revised upwards. This approach tackles the moral hazard of external lending to distressed countries hoping for debt forgiveness down the line. **Zambia will repay its external debt, but without foregoing its more pressing developmental priorities.**

External creditors	% of total external debt
Non-Paris Club (bilateral)	18
Eurobonds	17
Non-resident holdings of domestically issued debt	16
International financial institutions	11
State-owned enterprises (guaranteed)	8
State-owned enterprises (non-guaranteed)	1
Budget (fuel, contractor) and independent power producer	7
Other commercial	7
Other multilateral	2
Paris Club (Export Credit Agency-backed)	4
Paris Club (bilateral)	2
Non-Paris Club (Export Credit Agency-backed)	7

Source: IMF.

What next?

We were expecting official debt restructuring in 2023, but the timing of China's assent to a deal was a source of uncertainty. Precise details on the terms of the MoU are yet to be made available, but the path is now much clearer for a deal with private creditors, which we expect by 2024. This will increase investor confidence and demand for Zambian assets; we expect the kwacha to appreciate by 13% in 2024.

Zambian inflation dips in June

July 4, 2023: Inflation

What's happened?

Annual consumer inflation slowed slightly in June, to 9.8% year on year, continuing a disinflationary trend that has held since May, when the consumer price index eased by 9.9% year on year, from 10.2% year on year in April. The monthly pace of price growth nonetheless continues to gather steam, accelerating to 0.8% month on month in June, from 0.6% month on month in May. **We expect the headline inflation rate to remain outside of the target range of 6-8% in 2023-25 set by the Bank of Zambia** (BoZ, the central bank), although an earlier than expected restructuring of US$6.3bn of Zambia's external debt owed to official creditors will be a moderating force.

Why does it matter?

June's rate was based mainly the reduction of prices of petrol, diesel and kerosene, by 12%, 11% and 8%, respectively, by the regulator at the end of May. Importantly, the data for June will not fully reflect the confidence dividend of a Memorandum of Understanding (MoU) that Zambia made with official creditors in late June, which paves the way for a restructuring of debt with private creditors and a full exit from default that began in late 2020. As we had forecast that a debt deal would be made later in the year, the MoU has precipitated greater currency appreciation earlier than we had expected. **The kwacha has strengthened by about 10% since June 22nd as investor confidence improves, and gains will be cemented by funds disbursed by the IMF under an extended credit facility**, which had been paused until a debt deal was made. This implies lower imported inflation in the coming months. Accordingly, the trend of slowing inflation in June will continue in the coming months.

We continue to expect that the BoZ, which has raised the policy rate by 50 basis points this year thus far, to 9.5%, will bring the policy rate to a terminal 10% by the end of the year. Inflation will remain above target—food prices in particular are increasing rapidly, and gradually rising electricity tariffs (a requirement of the IMF programme) will drive overall consumer price growth. However, there is a reasonable chance of the rate being held steady, given kwacha strength, although this is not our core forecast.

What next?

In our next update will revise down our forecast for average inflation in 2023 to account for the MoU with official creditors. **We now expect that the average inflation rate for the year will be closer to 9.5%, from about 10% previously.**

Zambia draws up short list of foreign buyers for copper mine

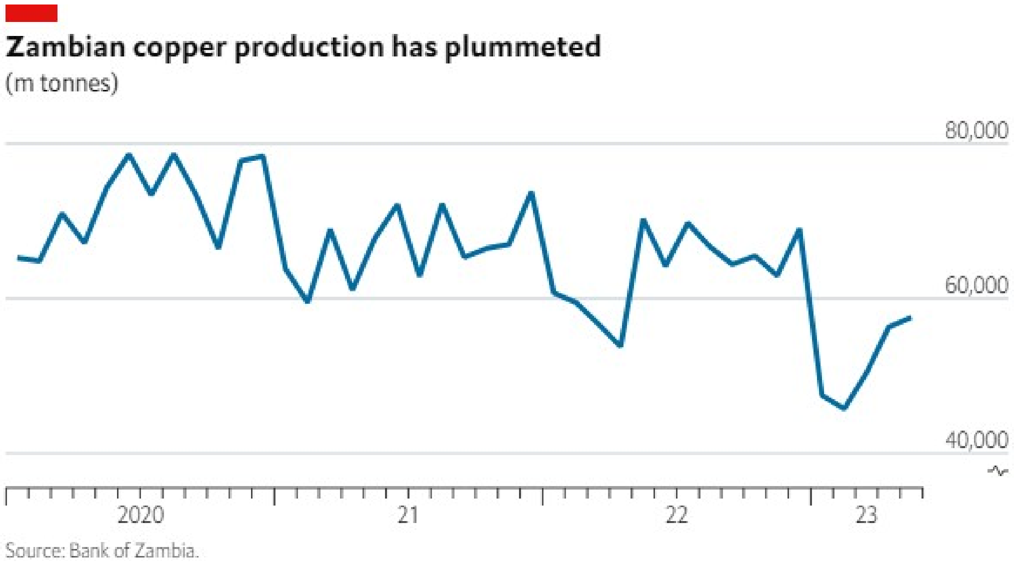
July 31, 2023: Economic growth

What's happened?

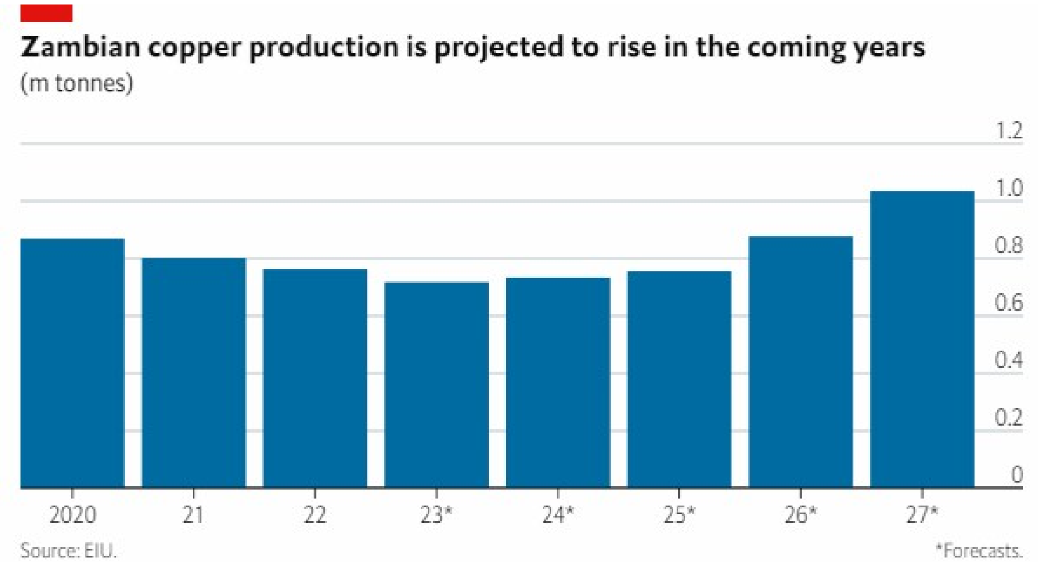
Four foreign firms have been short-listed as potential strategic equity partners for Mopani Copper Mines (MCM), which has been under government control since Glencore International sold its stake in the mine in March 2021.

Why does it matter?

Two Chinese firms, Zijin Mining and Norinco Group, South Africa's Sibanye Stillwater and an investment company owned by former Glencore employees are seeking a majority shareholding in Mopani, in line with the government's intention to reverse a resource nationalisation agenda pursued by the previous government. The state took control of Mopani in 2021 and Glencore's exit stalled the Mindolo shaft-sinking project, a flagship investment in Gencore's plan to ramp up annual production to about 220,000 tonnes by 2024. Konkola Copper Mine (KCM), which was taken over by the state from India's Vedanta Resources in 2019 after a forced liquidation, has also seen production decline. On July 26th the Bank of Zambia (the central bank) announced that Zambian copper output would decline by 10% in 2023, partly due to low production at these two mines, **leaving Zambia unable to capture the full benefit of high prices for the metal**.



The pro-business administration of the president, Hakainde Hichilema, is in advanced discussions to hand back KCM to Vedanta Resources and select a new investor for Mopani by end-July, although **the complex nature of negotiations suggests this is an extremely ambitious target**. Following the mine takeovers, Mopani's Mindolo deep shaft equipping stalled, and progress on a new concentrator slowed, ultimately causing production to plummet from an average of 133,000 tonnes in 2019 to 58,000 tonnes in 2022. Mopani requires a capital injection of about US$350m to materially raise production. Similarly, KCM's production declined to about 60,000 tonnes in 2022, and higher output now depends on investment of about US$1.2bn in the Konkola Deep Mine project.



What next?

The government is evidently eager to get the mines back into private hands and is targeting annual copper production of 3m tonnes by the early 2030s, which is hugely ambitious given the starting point. By 2027 we expect output of just over 1m tonnes, assuming significant investment over the medium run while copper prices remain high.

Zambia's inflation rate edges up in July

July 31, 2023: Inflation

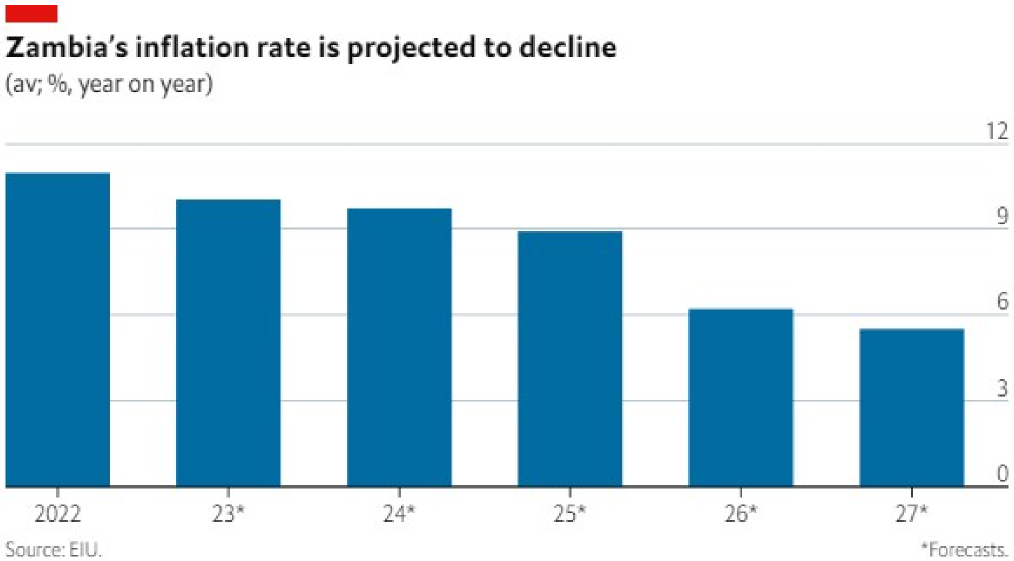
What's happened?

Zambia's headline inflation rate wandered further from the 6-8% target range in July, rising from 9.8% year on year in June to 10.3% year on year, driven by higher food prices. Domestic food stocks are adequate but high regional prices for maize and smuggling have tightened availability locally. In May the government raised the benchmark price for maize paid to farmers, lifting retail prices.

Why does it matter?

We expect inflation to average 10% in 2023, slightly above the average for the year so far. From a weak point in March the kwacha has broadly strengthened against the US dollar, with added gains since the government struck a debt deal with official creditors late that month. Zambia went into sovereign default on its external debt in late 2020. The agreement paves the way for a comprehensive debt treatment involving private creditors and allowed the completion of a first review of an extended credit facility with the IMF and a second disbursement under the US$1.3bn programme, in a major boost to market confidence. **The strengthening of the kwacha should keep price growth close to our forecast, although rising prices for food—a category with a 53.4% weighting in the consumer price index—could result in a higher outturn, considering huge demand for Zambian maize in neighbouring Democratic Republic of the Congo, which shows little sign of easing.** A sizable maize deficit is causing local prices there to spiral.

We forecast that the Bank of Zambia (BoZ, the central bank) will continue on a gentle monetary tightening cycle. Currency gains had temporarily made it possible that there would be no interest-rate rises at all in 2023, considering inflation had dropped in June. **Our forecast that the policy rate will rise to 10% by year-end is strengthened by the July inflation rate.** Nevertheless, higher electricity tariffs, which are being introduced in phases, and a broader programme of subsidy reduction, including for fertilisers, will be passed on to consumers. Inflation is consequently expected to stay above the target ceiling until 2026.



What next?

The monetary policy committee of the BoZ next meets in mid-August, where we expect a 25-basis-point rise in the policy rate, based on the July inflation data and an IMF-backed framework for bringing inflation back to target.

Bank of Zambia raises rates again, signalling orthodoxy

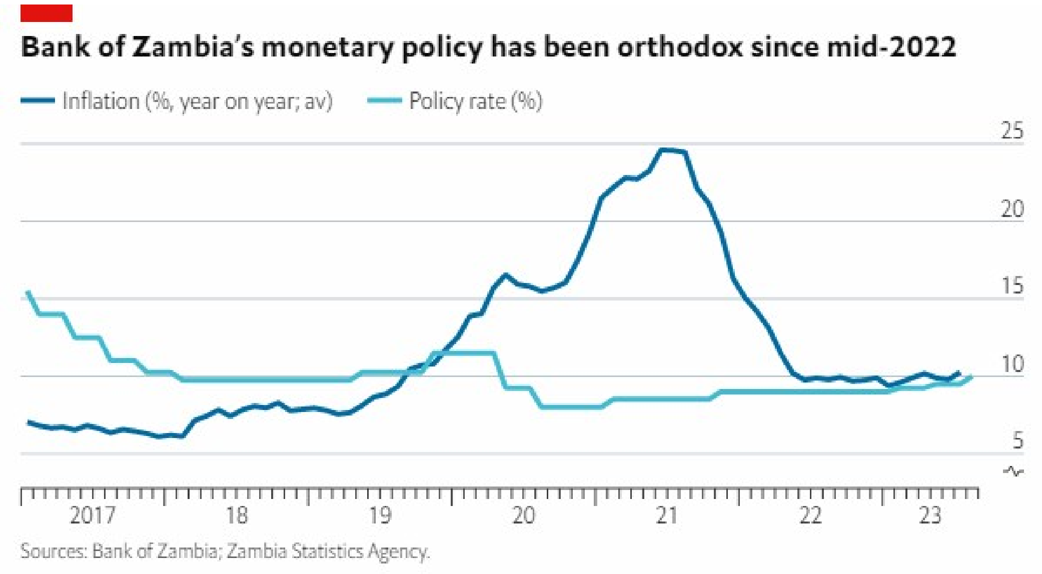
August 24, 2023: Monetary policy outlook

What's happened?

The Bank of Zambia (BoZ, the central bank) raised its monetary policy rate by 50 basis points to 10% in late August, citing sustained price growth above its target inflation-rate band of 6-8%. The central bank's action aligns with our current forecast that the policy rate will end 2023 at 10%, but we now believe that the BoZ is on a more aggressive policy trajectory than before and so will revise our interest-rate forecast for this year.

Why does it matter?

Inflation accelerated in July, rising to 10.3% year on year from 9.8% the month before. Food inflation appears to be the main culprit, as well as exchange-rate depreciation. Money supply growth, which remains high at 17.5% year on year in June, slowed from 30% in March. Domestic credit expansion, which has been slowing as well, was 9.1% year on year in June, down from 12.1% in March. Growth in food prices, in contrast, especially for grains, continues to quicken. Maize for mealie meal, the main staple food, remains in short supply, owing to rampant smuggling to Zambia's maize-scarce neighbours, especially the Democratic Republic of Congo. Energy inflation expectations remain heightened as well, after rises in fuel prices in August and planned continued increases in electricity tariffs. The tradable inflation outlook also points to the upside, given kwacha depreciation of about 11% since July.



In general, **the BoZ has been far more activist since Zambia secured an IMF loan in August 2022 and we now expect another 50-basis-point rate rise by the BoZ at its final monetary policy committee meeting of the year in late November.** Economic growth is likely to be slowing as mining output contracts; the BoZ itself reckons the sector will shrink by as much as 8.7% in 2023, as it is still feeling the effects of economic policy mismanagement under a former government. Nationalisation of key mines has led to a collapse in investment. Following an expected rate rise in November, the monetary stance should be appropriate, given that we expect lower world commodity prices and a final resolution to Zambia's sovereign debt crisis to buoy the kwacha and leave inflation lower in 2024, at 9.7%.

What next?

We will revise our interest-rate forecast to include another 50-basis-point rise in November, translating to an end-year policy rate of 10.5%. As inflation moderates we continue to expect the rate to be cut to 9% in 2024.

Inflation in Zambia reaches 16-month high

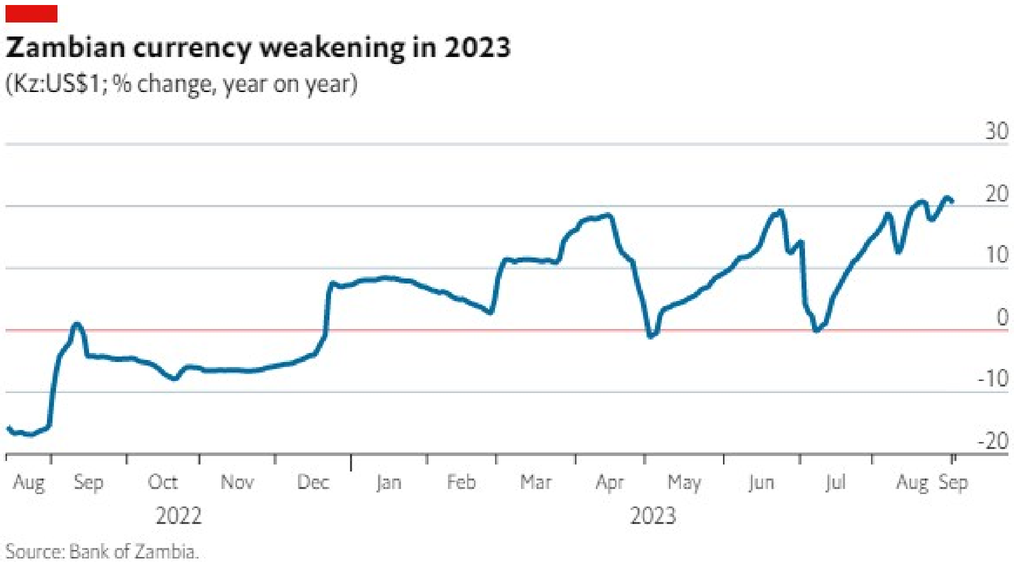
September 4, 2023: Inflation

What's happened?

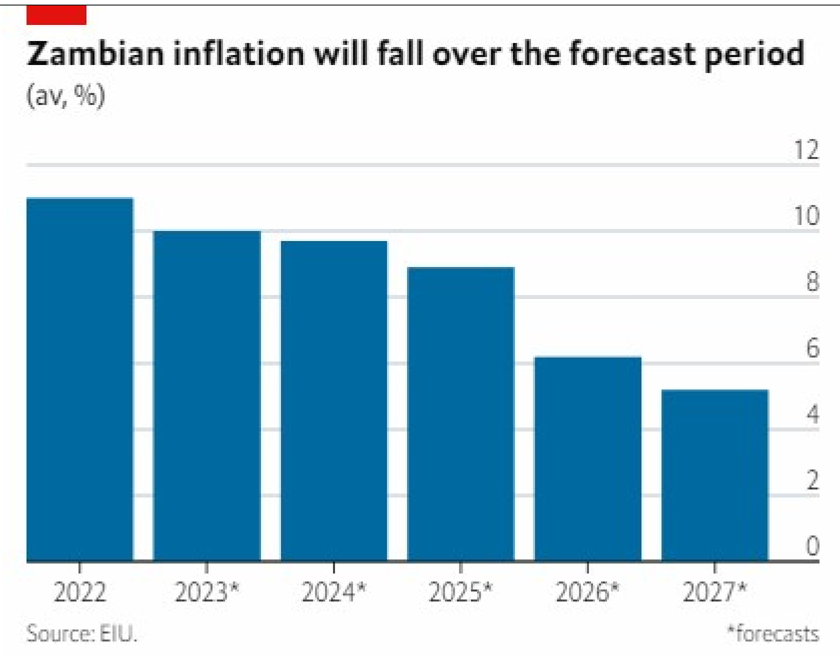
Annual consumer inflation quickened in August, to 10.9% year on year—a 16-month high and up from a rate of 10.3% in July. A weaker exchange rate is causing an increase in prices across the consumer basket, and both food and non-food price growth quickened from July. Our revised forecast for further monetary tightening by the central bank, **of 50 basis points in November, to 10.5%, is strengthened.**

Why does it matter?

Annual consumer price inflation is likely to remain outside the central bank's 6-8% target band until 2026. The Bank of Zambia (BoZ, the central bank) forecasts that inflation will average 10.2% in 2023 and 9.3% in 2024, similar to our forecasts of 10% and 9.7% respectively. Although market confidence has been buoyed by a debt-restructuring deal that the government struck with official creditors in June (a milestone moment in Zambia's attempt to resolve a sovereign default), low copper production is holding back exports and the value of the kwacha.



A lack of investment in major mines (nationalised under a previous government) led to refined copper exports falling by 12.4% in January-July, to 458,000 metric tonnes, from about 523,000 metric tonnes in the same period last year. The contraction is weighing on the performance of the real economy, but an IMF programme underpinning Zambia's debt negotiations obliges the BoZ to follow an orthodox policy walk. Recent monetary policy committee statements have given slowing economic growth minor treatment, and the focus rests firmly on containing inflation. The BoZ raised its monetary policy rate by 50 basis points in August, to 10%, and we expect it to opt for another rise, of the same magnitude, in November.



Besides currency weakness, a lucrative maize-smuggling trade with neighbouring countries, where the grain is in short supply and thus more expensive, will keep local food prices high and inflation above target in 2024. As more electricity tariff rises are on the horizon, the state-owned utility, ZESCO, reintroduced a connection subsidy for some mostly rural-based poor households and small firms in late August. **We do not expect a broader-based reintroduction of energy subsidies, which were withdrawn ahead of the IMF programme that began in August 2022.**

What next?

We will raise our average inflation forecast for 2023 to 10.4% in our next forecasting round. Based on our projection for disinflation in 2024, we believe that a policy rate of 10.5% is will be appropriate, and we expect this to be the terminal rate of the tightening cycle, and gentle loosening will begin in the latter half of 2024.

Key Zambian copper mine is back in private hands

September 11, 2023: Economic growth

What's happened?

On September 5th the government announced that India's Vedanta Resources had been restored as the majority shareholder of Konkola Copper Mines (KCM), ending over four years of legal wrangling.

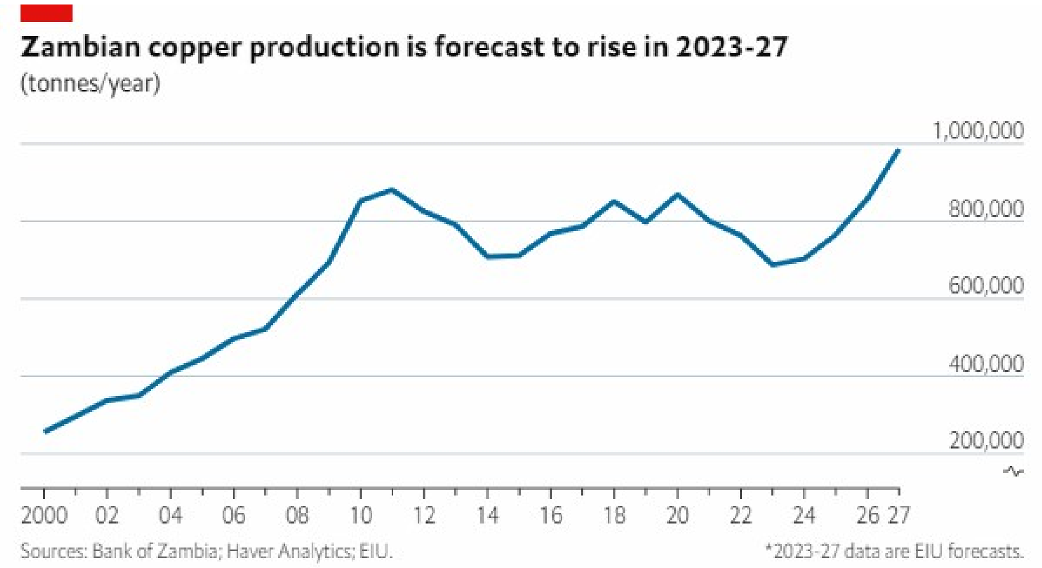
Why does it matter?

In May 2019 the former president, Edgar Lungu, announced that his government was "divorcing" Vedanta by placing its subsidiary, KCM, under liquidation. Mr Lungu accused Vedanta of failing to invest enough. Protracted legal battles then ensued in both Zambia and the UK, while KCM was run by a provisional liquidator that performed board functions and oversight to management. Following the August 2021 presidential and parliamentary elections, Zambia's current president, Hakainde Hichilema, directed the mines and minerals development minister, Paul Kabuswe, to pursue an out of court settlement with Vedanta, a move intended to aid plans to more than treble Zambia's total copper production to 3m tonnes by 2032.

The return of KCM to Vedanta is a key first step towards halting a decline in copper output. The government expects 682,000 tonnes to be produced in 2023, 10% lower than in 2022, partly owing to low copper production at KCM and another key mine, Mopani Copper Mines, which was also placed under government control under the Lungu government. **Without doubt, past state interference in the sector has been a costly misadventure.** The government has drawn up a shortlist of buyers for Mopani Copper Mines while Vedanta has pledged to invest US$1bn in KCM; US$250m will be used to pay off historical debt to local contractors and suppliers; employee salaries are to be raised by 20% and another US$20m will go towards community social responsibility projects on an annual basis. We expect the bulk of the pledged investment to be directed towards the Konkola Deep Mining Project, which has the potential to raise copper production by 250,000 tonnes/year (t/y). Investment is also needed to carry out further exploration to increase the mine's life beyond its initial 50 years and tap into over 250m tonnes of copper ore reserves at the site. Under-capitalisation prior to and during the period of liquidation has caused a deterioration in plant and machinery and hence Vedanta is likely to make every effort to quickly rehabilitate the asset, given a strong outlook for copper prices.

What next?

KCM's return to private hands is a first step towards materially raising copper output. Although the government's 3m-t/y target for 2032 is too ambitious, we expect annual average copper production to rise to just below 1m t/y in 2027, a record level for Zambia. This underpins our expectation that real GDP growth will average above 4% a year in 2025-27, up from 3.1% in 2023.



G20 awards permanent membership to the African Union

September 11, 2023: Policy trends

What's happened?

The annual summit of the G20 grouping—hosted by India on September 9-10th—handed permanent membership to the Africa Union (AU), giving it equivalent status to the EU. **The move is aimed at bolstering Africa's voice and influence, but the initial impact will be small, in our view, given heightened geopolitical tensions and faultlines in Africa.**

Why does it matter?

Against the background of the Russia/Ukraine war and strained relations between China and both India and the US, expectations for the G20 summit were muted, making the AU's membership a notable highlight. **Africa will now have two representatives in the enlarged 21-member G20, along with South Africa.** India's prime minister, Narendra Modi, gained some ground over China in their race to represent the global south, by presiding over Africa's invitation. The impact was magnified as the Chinese and Russian leaders both skipped the event, partly owing to their antipathy towards the US and improving India-US relations, instead sending minister-led delegations. Alongside a bland final statement about the Russia/Ukraine war, the summit's other **notable outcome was a proposal to build new trade networks between India and Europe via the Middle East—to compete with China's faltering Belt and Road Initiative—which could benefit parts of Africa.**

Permanent G20 membership for the AU will give Africa more input into pivotal global issues—such as determining financial responsibility for alleviating the climate change crisis—but two obstacles persist. The first is the AU's fragile institutions, especially compared with the EU, and the difficulties of reaching consensus, which is not helped by thee suspension of six of the AU's 55 members because of military coups. The AU and the EU also have similarities, such as a large membership without a single dominant country. **Africa is still a battleground for global competition, but the AU is gradually building greater cohesion, highlighted by the slow, but ongoing, rollout of the African Continental Free-Trade Area, and a recent Kenyan-hosted Africa Climate Summit.** The other main hurdle is the questionable status of the G20, given geopolitical fracturing since the bloc was launched in 2008 to help to deal with the fallout from the global financial crisis. However, despite the challenges, the AU's inclusion will make the G20 more inclusive, and could help to reinforce its role as a geoeconomic forum, to Africa's advantage.

What's next?

Africa's G20 status will come under the spotlight again at the next two annual summits, in Brazil (2024) and South Africa (2025). The US will review its trade preferences under the African Growth and Opportunity Act before the 2025 summit. Regardless of the G20's fate, the AU's inclusion is a positive step towards Africa's global integration.

Analysis

Africa builds world's largest free-trade area

June 9, 2023: Economic growth

- **The African Continental Free-Trade Area (AfCFTA) is taking shape following a lengthy period of negotiation, and participating states are hopeful of concluding phase-one and phase-two negotiations by the end of 2023.**
- **To date, very little trade has been conducted under the umbrella of the AfCFTA, which reflects disagreement on the finer details of trading arrangements and the persistence of a long list of trade-restricting non-tariff barriers.**
- **The African Union (AU) has designated 2023 as the "Year of the AfCFTA" and, together with the AfCFTA Secretariat and participating states, is pushing ahead with initiatives to fast-track implementation of the deal.**
- **Sectors that stand to benefit most from the incremental and eventually full implementation of the AfCFTA include agro-processing, automotive, pharmaceuticals, logistics, light**

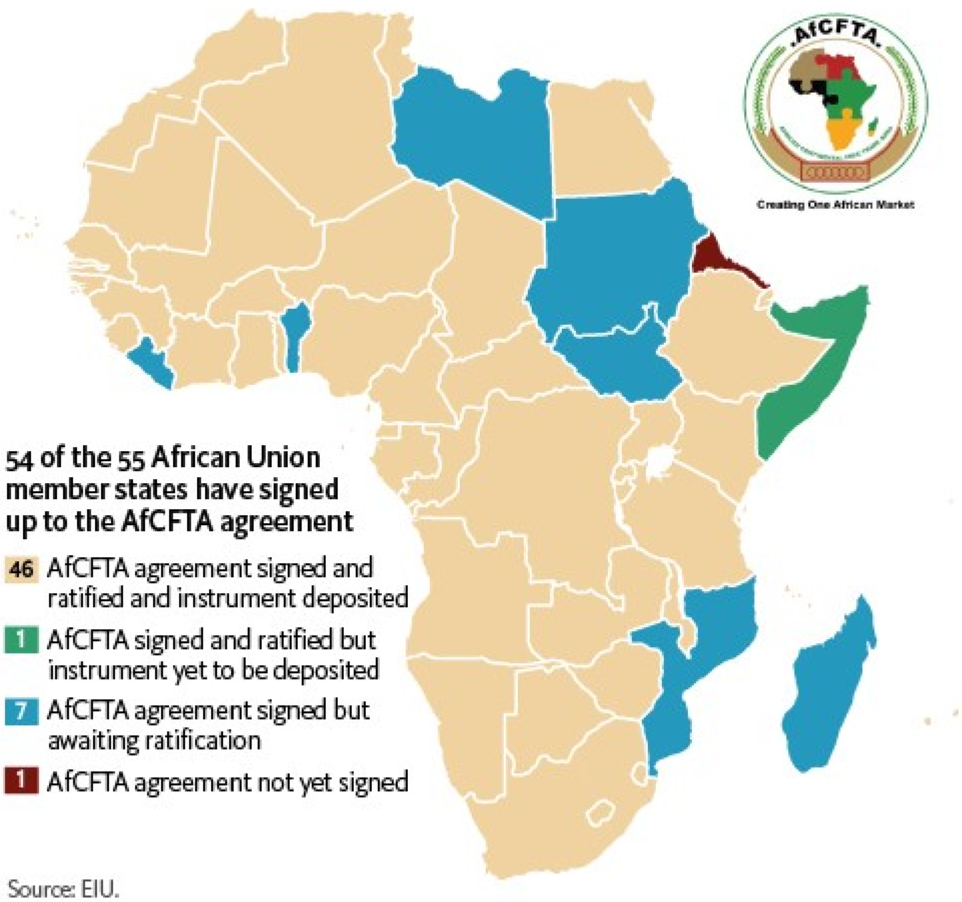
manufacturing, textiles and apparel, financial and business services, telecommunications, and travel and tourism.

- **Opportunities will grow as the AfCFTA is progressively rolled out, but major new business in the short term is unlikely and more substantial trading and investment opportunities are not expected until the late 2020s or early 2030s, at the earliest.**

The AfCFTA is up and running and already heralded as the world's largest active free-trade area in terms of members, population and geographical size. Currently, 54 African states have signed up to the AfCFTA agreement, which encompasses more than 1.3bn people across the entire African continent. The combined nominal GDP of participating states is forecast at about US$3trn in 2023.

The commencement of formal trading under the agreement was announced in 2021, although this was largely a symbolic launch rather than the start of substantive cross-border, tariff-free trade between the AfCFTA's participating states—to date, there has been very little real trade under the framework of the AfCFTA. The building blocks are being put in place and the AU has designated 2023 as the "Year of the AfCFTA" with the aim of fast-tracking implementation. The AfCFTA has progressed beyond some key milestones and is firmly in an operational phase, but the project is slow-moving and full implementation of the deal remains a distant prospect. Nevertheless, the direction of travel is clear and we expect incremental adjustments that will free up intra-African trade flows and bring new opportunities for some countries and in some sectors during the late 2020s and beyond.

AfCFTA agreement ratification status (April 2023)

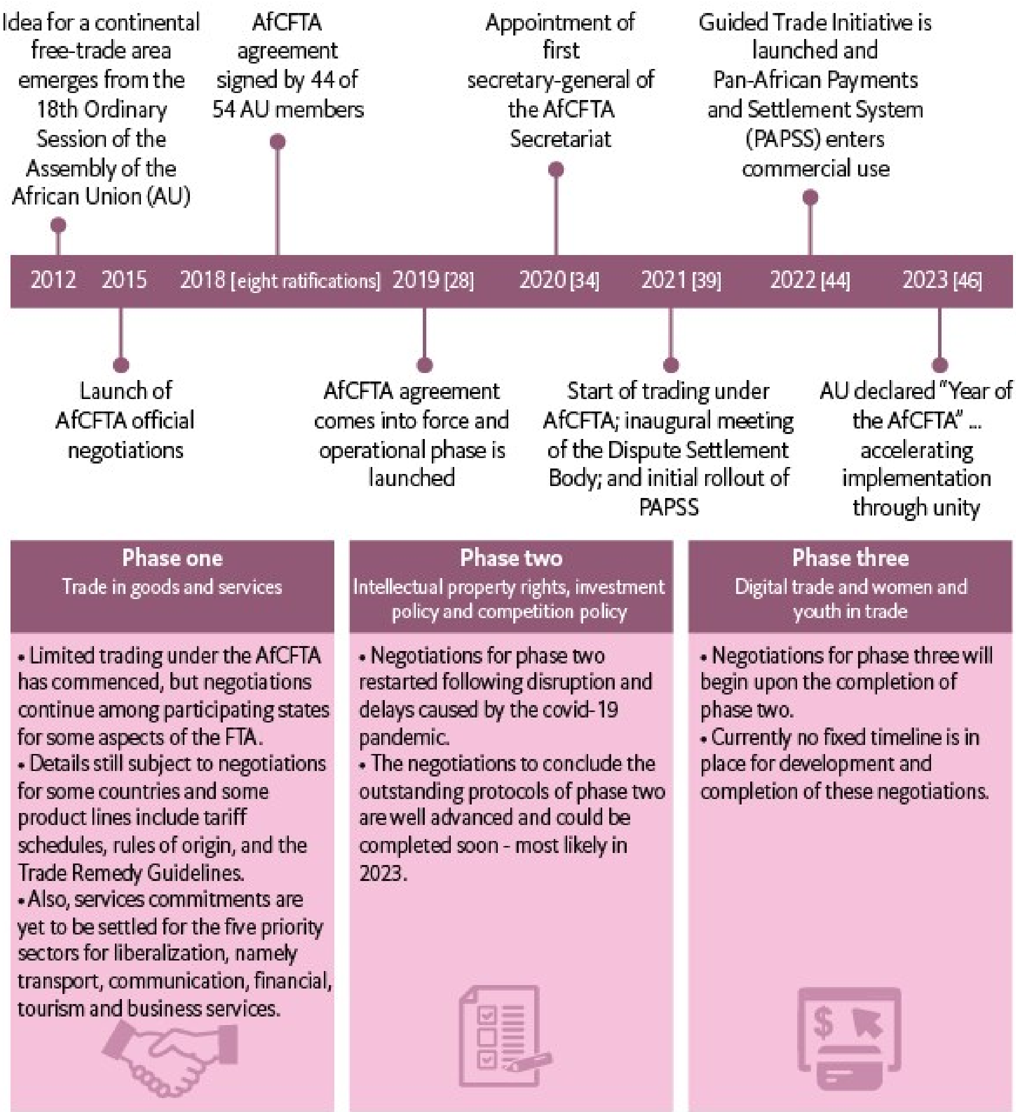


Source: EIU.

Negotiations are close to completion

The AfCFTA has passed through a lengthy process of inception and negotiation, which began in 2012 and eventually saw the agreement formally adopted by African states in 2018, which facilitated the commencement of an "operational" phase in 2019. Trading under the agreement was scheduled for 2020, but the onset of the covid-19 pandemic delayed proceedings until 2021—even so substantive cross-border trade under the AfCFTA has not really happened to date. This reflects ongoing disagreement over the finer details of some aspects of the AfCFTA and the difficulty in overcoming an array of other challenges, which include a long list of substantial non-tariff barriers that continue to hold back formal cross-border trade in Africa.

Timeline of AfCFTA key developments and negotiation phases



Source: EIU.

Phase one of the AfCFTA negotiations covering goods is largely complete and has established protocols, procedures and frameworks that will govern and facilitate free trade across participating states. Rules of origin—crucial to ensure that only genuine African goods benefit from tariff concessions and trade under the preferential AfCFTA regime—are settled for 90% of goods to be traded under the AfCFTA. The remaining 10%, which largely cover the complex and sensitive areas of textiles and apparel and the automotive industry, are still subject to negotiation. Where rules of origin are settled, 46 of the 54 signatories to the AfCFTA agreement have submitted their tariff-reduction schedules to the AfCFTA Secretariat. In general, AfCFTA signatories intend to phase out tariffs on 90% of goods by 2030 at the latest, while they will get more time to scrap tariffs on 7% of goods that are considered sensitive, and the remainder will be excluded from tariff reductions. In terms of services, commitments to free trade are yet to be settled for the five priority sectors for liberalisation: business services, communications, financial services, transport and logistics, and tourism.

Phase-two negotiations are under way, and the trade ministers of the 46 states that have ratified the AfCFTA agreement to date are reported to have agreed on the outline for the protocols covering intellectual property rights (IPRs), investment policy and competition policy. Pan-African agreement on IPRs and investment and competition policy—together with trade liberalisation settled under phase-one negotiations and the removal of non-tariff barriers—is viewed as a crucial step to help to develop regional value chains and attract more substantial and more diversified foreign direct investment (FDI) to the region. The AfCFTA Secretariat appears optimistic that all phase-one and phase-two negotiations can be wrapped up before the end of 2023. Phase-three negotiations covering digital trade and women and youth in trade will begin upon completion of phase two, but as yet there is no fixed timeline for the start or completion of these discussions.

Setting the foundations for free trade

Five key operational instruments have been developed and adopted by participating states to help to facilitate the implementation of the AfCFTA. These instruments are the Pan-African Payments and Settlement System (PAPSS), a monitoring mechanism for non-tariff barriers, the African Trade Observatory, the AfCFTA e-Tariff Book and the AfCFTA Adjustment Fund. In addition, there are various enabling tools and regulations, customs documentation—including a Rules of Origin Manual—and trade facilitation initiatives that aim to support and fast-track the effective implementation of the AfCFTA.

African Continental Free-Trade Area: operational instruments

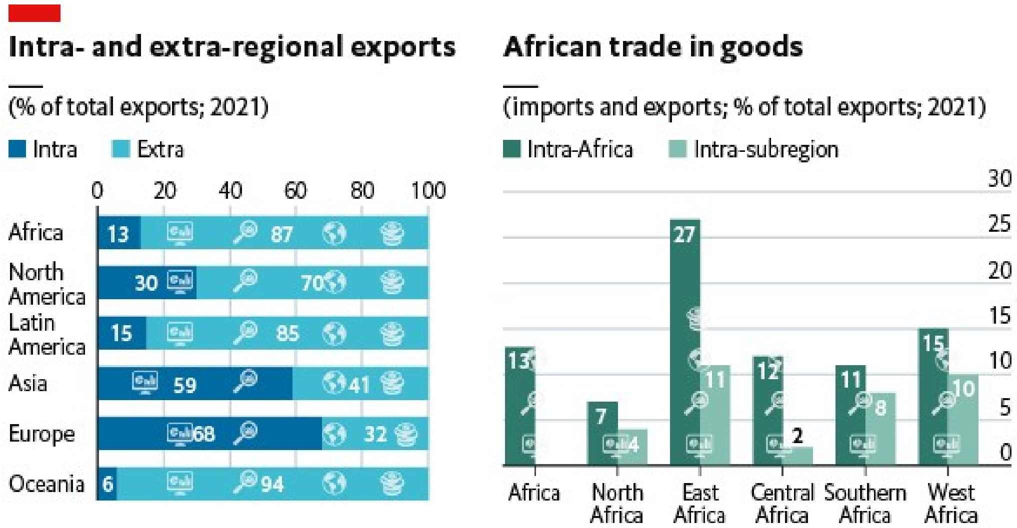
Operational instruments	Key features
Pan-African Payments and Settlement System (PAPSS)	• A joint initiative between the African Continental Free-Trade Area (AfCFTA) Secretariat, the African Export-Import Bank and the African Union. Launched for commercial use in January 2022 following an operational pilot in six West African states. • The PAPSS has three core functions—instant payments, pre-funding, and net settlements—that facilitate direct transfers using African currencies without the need for intermediary currencies (ie, the US dollar, the euro or the British pound). • At the end of 2022 the PAPSS network consisted of eight central banks, 28 commercial banks and six switches. It will expand into the five regions of Africa before the end of 2023. All central banks are to sign up by the end of 2024 and all commercial banks by the end of 2025.
Monitoring mechanism for non-tariff barriers (NTBs)	• An online mechanism for the notification and monitoring of NTBs to help to ensure that they are eliminated. • NTBs are an immense hindrance to intra-African trade and a key obstacle to the effective and full implementation of the AfCFTA.
The Africa Trade Observatory	• An online platform that provides trade-related information and statistics • Market-access-related information at a country, market and product level to help to identify opportunities and specific exporters and importers.
e-Tariff Book	• The e-Tariff Book aims to help to ensure that tariff concession schedules and their status are easily accessible to trade and customs authorities. • Tariffs on 90% of goods are to be phased out by 2030—with more advanced economies subject to a shorter phasing-out period. Sensitive goods (7%) will get more time and 3% of goods will be exempt.
AfCFTA Adjustment Fund	• The fund will support African countries and the private sector to effectively participate in the new trading environment established under the AfCFTA, in part by easing the impact of short-term revenue losses. • The resources required for the Adjustment Fund over the next 5-10 years are estimated at US$10bn. Already, the African Export-Import Bank has committed US$1bn towards the fund.

Source: EIU.

Fast-tracking the testing phase

The operational instruments are viewed as essential free-trade facilitators and will be tested through the Guided Trade Initiative (GTI). The GTI deploys a matchmaking strategy to connect businesses and products for export and import with the aim of testing the operational, institutional, legal and trade policy environment established under the AfCFTA. Among other things, the GTI will assess the readiness of participating states—including their customs and revenue authorities—to operate under the AfCFTA and demonstrate that AfCFTA trading documents, systems and platforms are operational and viable. In effect, the GTI is a proof of concept that trade under the AfCFTA is possible. The AU hopes that the GTI will help to kick-start more substantive free trade under the AfCFTA in 2023 and accelerate the implementation of the AfCFTA across Africa.

The GTI was launched in October 2022 for a limited number of products to facilitate duty-free and quota-free trade between businesses in eight participating states—Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia. The GTI involves an initial batch of 96 products—including batteries, rubber, sugar, tea, coffee, processed meats, dried fruits, pasta, glucose syrup and ceramic tiles—but that could double or triple in 2023, according to the AU. The GTI will be reviewed annually to consider expansion in terms of products and participants, and the GTI for services could start in 2023, with countries indicating the services sectors or subsectors in which they want to start trading.



Source: UN Conference on Trade and Development, Handbook of Statistics 2022.

Major potential benefits of the AfCFTA

Full and effective implementation of the AfCFTA has the potential to be a game changer for Africa, in terms of elevating national incomes, boosting cross-border and international trade, attracting more substantial flows of inward FDI and creating many more and higher-value jobs. A fully functioning continent-wide free-trade area could help to encourage industrialisation in Africa and generate more extensive regional value chains, create greater levels of integration into global value chains and produce much larger consumer markets for goods and services. The AfCFTA could help to improve the competitiveness of African industries and enterprises through increased market access, the exploitation of economies of scale and more effective resource allocation at pan-African and subregional levels. The AfCFTA could help to cut Africa's huge import bill for products such as refined petroleum, processed food and beverages, agricultural inputs and pharmaceuticals. Also, the deal could help to reduce reliance on and exposure to the boom-bust commodity cycle by encouraging greater levels of economic diversification and new income streams for governments and the business community.

In 2022 the World Bank estimated that full liberalisation under the AfCFTA—which entails the elimination of import tariffs on intra-regional trade along the lines of AfCFTA reduction schedules, a vast reduction in non-tariff barriers on goods and services, and substantial improvement in trade facilitation measures—could boost Africa's real income by 8%, or US$560bn, by 2035, compared with a baseline without the AfCFTA. This boost to African income is accompanied by an expansion of total African exports by about a third—consisting of a doubling of intra-African trade flows and an almost 20% rise in exports to non-African countries—and the stock of intra-African FDI and external FDI into Africa could more than double by 2035, relative to the baseline. The potential economic benefits of the AfCFTA, in terms of trade, investment and income, are even larger should participating states expand the agreement to successfully harmonise their policies and protocols for investment, competition, e-commerce and IPRs.

Major obstacles delay full implementation

There are high hopes that the final phase-one and phase-two negotiations will make solid progress and could be wrapped up in 2023, while at the same time the GTI will gain momentum to encourage more intra-regional trade flows. Nevertheless, the AfCFTA will continue to face major practical challenges that complicate the implementation of the agreement in terms of breadth of cover and achievable timelines. These factors include a long list of non-tariff barriers that will prove hard to tackle and take years to erode, never mind eliminate. Major obstacles include inadequate national and cross-border transport and utility sharing infrastructure; limited access to digital technology to facilitate efficient and cost-effective cross-border trade; excessive, inconsistent and informal business bureaucracy or regulatory frameworks; skills shortages to drive change and take full advantage of emerging opportunities; a lack of institutional capacity to effectively implement and enforce the AfCFTA agreements; and vast amounts of informal trade that is partly facilitated by corrupt officials and criminal networks. Also, the AfCFTA will continue to be confronted by entrenched nationalistic interests and a strong sense of protectionism for key industries in some countries—including the major economies of Nigeria, Egypt and South Africa—the ebb and flow of political will and commitment to the agreement, and various security issues and conflict hotspots across the continent.

The AfCFTA is likely to eliminate some tariffs, cut red tape and simplify customs checks, which together with improvements to trade-facilitating infrastructure, will improve trading conditions and the investment environment throughout the late 2020s and into the 2030s. However, the barriers to full implementation are numerous, substantial and hard to shift, which means that incremental change should be expected at best and the full benefits as envisaged by the World Bank are a very distant prospect. There remains a lot of heavy lifting for respective governments, their delegations, business communities and international partners before Africa can lay claim to have the world's largest, fully integrated trade bloc. However, the direction of travel points to greater liberalisation, which will create new opportunities across certain sectors and in some countries during the late 2020s and beyond.

Sector-specific opportunities under the AfCFTA

The AfCFTA has identified some priority sectors for growth and development and has the potential to unlock opportunities for local and international businesses in production networks and markets across the continent. Strategic industries earmarked for development across the AfCFTA by participating states are agro-processing, automotive, pharmaceuticals, and transport and logistics—in part this reflects the potential for much greater levels of intra-African trade, larger regional value chains and value addition, and substantial employment gains in these sectors in the medium term. In addition, other sectors that stand to benefit most from incremental trade liberalisation under the AfCFTA include chemical, rubber and plastic products; construction services and building materials; textiles and apparel; energy-intensive manufacturing; energy products and mining; finance and insurance; professional and business services; information and communications technology industries; and travel, tourism and hospitality.

Agriculture and agro-processing have been identified as key sectors for growth by the AfCFTA Secretariat and are central pillars of the Private-Sector Engagement Strategy—unsurprising as these industries are crucial for economic growth, job creation, poverty reduction and food security across Africa. The AfCFTA aims to boost domestic production and processing capacity, vastly increase cross-border trade and reduce the continent's enormous import bill for agricultural inputs and consumer products. Demand for raw and processed agricultural and aquacultural products will grow as urban populations and incomes rise, which will require a scaling up of current supply chains and value chains. Domestic and foreign businesses and investors will be encouraged to invest and will find opportunities to serve larger and better-connected markets. Agricultural trade is highly protected, and the removal of tariffs barriers together with the erosion of non-tariff barriers will take time, but major benefits will accrue from incremental change during the late 2020s and 2030s. Fish and meat industries, processed foodstuffs and beverages, and agricultural supply chains—including plant, machinery and fertilisers—are likely to experience increased demand as incomes rise, and there is great scope to scale up production, attract domestic and foreign investment, and build export capacity.

The **automotive industry** is another key sector identified for development by the AfCFTA Private-Sector Engagement Strategy. Africa has average annual demand for 2.4m cars and 300,000 commercial vehicles and this is expected to rise in line with higher disposable incomes, growth of the middle class and rapid urbanisation across much of Africa. Currently, this demand is met primarily by imported used vehicles and this will remain the case unless the region-wide trading and investment environment vastly improves. The AfCFTA has the potential to create new local and regional assembly, production and sourcing partnership, while creating a platform for businesses operating in the industry to achieve economies of scale and tap into regional supply chains and consumer markets. The removal of tariffs could help to spur intra-African trade in inputs such as aluminium, rubber and battery metals. Established automotive hubs in South Africa and Morocco stand to benefit most but could be accompanied by new or expanded vehicle assembly, production, distribution and after-sales servicing industries in Angola, Egypt, Ethiopia, Ghana, Kenya, Nigeria and Rwanda. Already, foreign companies compete intensely for market share in Africa and will be keen to avoid a competitive disadvantage, especially should the AfCFTA begin to take shape.

There is considerable political and business sector desire to build a more complex and competitive automotive industry because of the potential employment and investment opportunities, as well as the capacity of the sector to generate value addition. However, major obstacles such as skills shortages and supply-chain deficiencies will take enormous effort and investment to overcome. Nevertheless, a fully functioning AfCFTA has the potential to attract more foreign companies to gradually relocate production phases and elements of supply chains to Africa to take advantage of region-specific rules of origin, harmonized tax rates and lenient tariff schedules and in doing so tap into growing domestic demand and opportunities for new export bases to supply international markets.

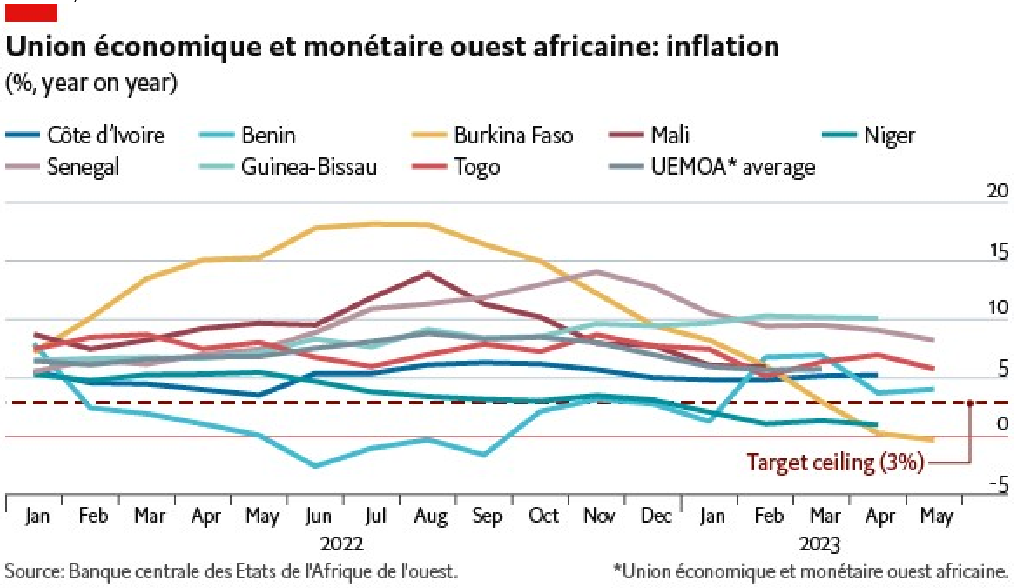
The **pharmaceutical** industry has the potential to meet a large share of local and regional demand as long as international companies are reassured of the direction of travel in terms of creating a single market and are willing to invest and partner up with local enterprises. Africa's demand for packaged medicines is valued at about US$18bn a year and almost two-thirds of these goods are imported, about 36% is produced locally but not traded, and just 3% of demand is met by intra-African trade. There are tremendous opportunities to invest in local value chains for goods such as packaged and unpackaged medicines, vaccines, medical instruments and bandages, although this will require the removal of tariffs and substantial erosion of damaging non-tariff barriers. Progress on removing friction in cross-border trade and levelling the business operating and investment environment—especially through harmonisation of regulations and fiscal rules governing the sector—could see the pharmaceutical industry become one of the prime beneficiaries of the AfCFTA, but incremental change to the trading environment for complex medical products will prevent any major boost to domestic production and intra-African trade in the short term. Countries that stand to benefit most from expanded pharmaceutical industries include Morocco, Algeria and Egypt together with Kenya, Nigeria, and South Africa, which is likely to strengthen their position as key pharmaceutical hubs in Africa.

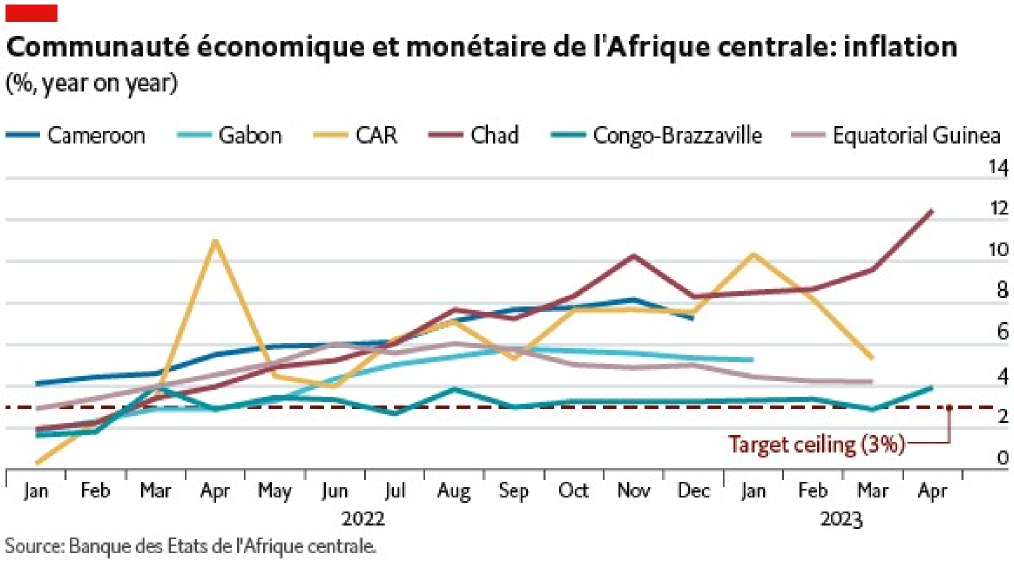
Transport and logistics services remain a key weakness in plans to develop better-connected regional markets, but together with infrastructure development represent high-potential sectors. The UN Economic Commission for Africa estimates that the AfCFTA will boost demand for intra-African freight by almost 30% by 2030, which will require expansion and upgrade to road, rail, air and maritime infrastructure and much-improved transport capacity and services. Development plans should open the door for local and foreign construction companies, transport and logistics service providers, and related supply chains during the late 2020s and to an even greater extent in the 2030s. In terms of logistics, cross-border business-to-business (B2B) and business-to-consumer (B2C) services will increase in line with improved infrastructure, reduced tariffs, a lighter burden of non-tariff barriers and higher levels of government, business and consumer spending.

Financial services providers, such as banks, insurance companies and other financial services companies, will be quick to expand their operations across the continent once attention turns to negotiations to reduce services-sector-related tariffs and non-tariff barriers. Financial services industries are nimble and flexible, and there is enormous scope to expand markets at a country and regional level, where there are fast-growing and largely underserved urban populations. **Telecommunications services** stand to benefit from larger business and consumer markets as it becomes easier for companies to scale up and operate across borders. The sector is dynamic and international partners are heavily involved, which could see trade and investment ramp up quickly from local and international sources should signs of concrete progress on liberalising trade across the continent take shape. **Travel, tourism and hospitality** sectors should receive a boost from domestic (African) business and leisure tourism as inter-connectivity between African states improves and it becomes much easier for people to move around. Successful implementation of an "open skies" initiative and full adoption of the free movement of people protocol will prove crucial to spur trade and investment in the sector.

Africa chart of the week: CFA franc zone inflation

June 26, 2023





- Monetary policy at both the Banque centrale des Etats de l'Afrique de l'ouest (BCEAO) and the Banque des Etats de l'Afrique centrale (BEAC) prioritises inflation-targeting in member countries, as well as maintaining the CFA franc's peg to the euro, and so is therefore influenced by the monetary stance of the European Central Bank (ECB). As the ECB continues undertake monetary tightening, we expect both the BEAC and the BCEAO to raise their main policy rates further this year.
- Although monetary policy is generally appropriate at the aggregate regional level (with regional inflation levels moderating owing to falling regional food and global commodity prices and appreciation of the euro against the US dollar), **several countries in the region are facing divergent inflationary trends (primarily because of local factors affecting domestic food prices), so the monetary stance of the central banks is either too lax for price stability (in Senegal, Chad, and Guinea-Bissau for example) or too tight (as in Burkina Faso and Niger) and a constraint on growth**. In the absence of independent monetary policy, member states' governments can use fiscal policy (including subsidies on fuel and essential products) to bring down domestic food prices, although many lack the capacity to do this.
- In 2024 we expect that both the BEAC and the BCEAO will implement modest interest-rate cuts,

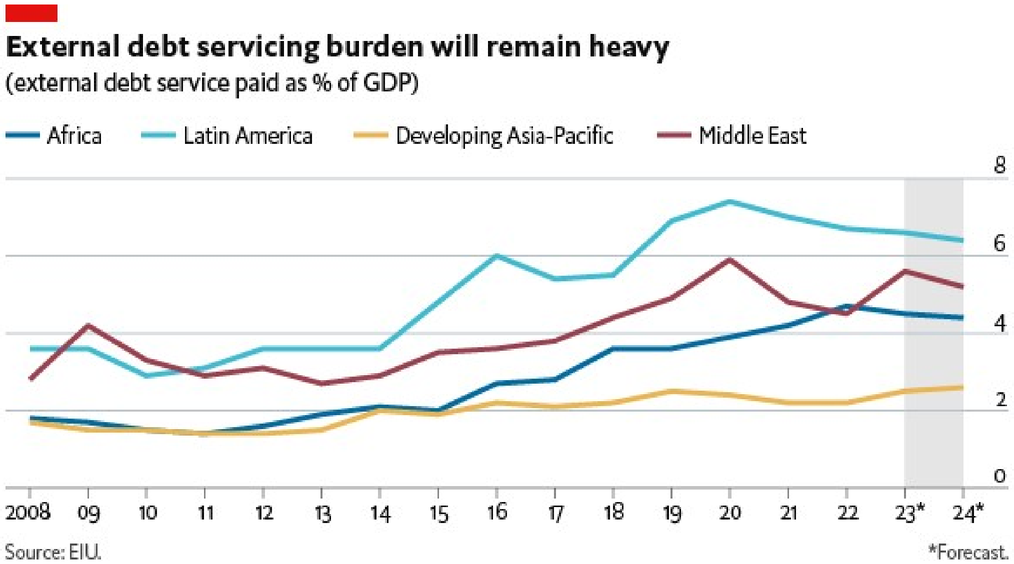
facilitated by falling regional inflation and monetary loosening by the ECB. We currently forecast that inflation in both the Communauté économique et monétaire de l'Afrique centrale (CEMAC, the regional bloc whose central bank is the BEAC) and the Union économique et monétaire ouest africaine (UEMOA, whose central bank is the BCEAO) will fall below the 3% target ceiling in 2024 (owing to lower global commodity prices and expected further appreciation of the euro against the US dollar), although some member states are likely to face higher domestic food prices (due to poor harvests or local conflicts), pushing up prices in those countries. **Although monetary policy is expected to remain appropriate at the aggregate regional level, it is likely that it will be inappropriate (either too lax or too tight) for several member states, exacerbating local challenges due to limited fiscal capacity.**

No return to cheap money

August 21, 2023: Fiscal policy outlook

- **Rising global interest rates have increased the debt-servicing burden for many countries.**
- **There were six sovereign defaults in 2022; others may follow in 2023-24, given that interest rates will remain high.**
- **The most exposed economies are in Africa, reflecting high indebtedness, heavy external debt-service burdens and stretched public finances.**
- **Financial risk has eased in Asia, but there are several countries (Sri Lanka and Pakistan, in particular) that will remain vulnerable.**
- **Argentina and Ecuador are in the spotlight in Latin America: both could face repayment difficulties, particularly if policy becomes less market-friendly after elections later in 2023 and external financing is trickier to secure.**
- **Developed economies will face different challenges. Repayment burdens are lighter, but some countries have large public debt loads. Fiscal deficits will remain above pre-pandemic levels in many countries.**

The past year has been dominated by monetary policy concerns. Soaring inflation has prompted central banks to raise interest rates sharply. Massive quantitative easing (QE) rolled out over 2020-21 was tapered and finally reversed, with central banks switching to quantitative tightening (QT) in a bid to shrink their balance sheets. Few would argue that the focus on monetary policy tools has been inappropriate. Rapid monetary tightening is showing signs of cooling inflation, aided by moderating global energy prices.



Fiscal policy has generally been less prominent. There was a moderate improvement in many countries' public finances after a coronavirus-related splurge in spending, but with many governments extending some form of cost-of-living support to households and businesses, budget deficits narrowed only gradually. Government plans for fiscal consolidation were placed firmly on the back burner.

Against this backdrop, public finances remain strained in many countries. **Six countries defaulted**

in 2022: three of these (Russia, Ukraine and Belarus) were the result of Russia's invasion of Ukraine, while the other three (Ghana, Sri Lanka and Mali) were related to either a combination of domestic economic imbalances—exacerbated by a less favourable external context—or policy mismanagement. **Others may follow in 2023-24.**

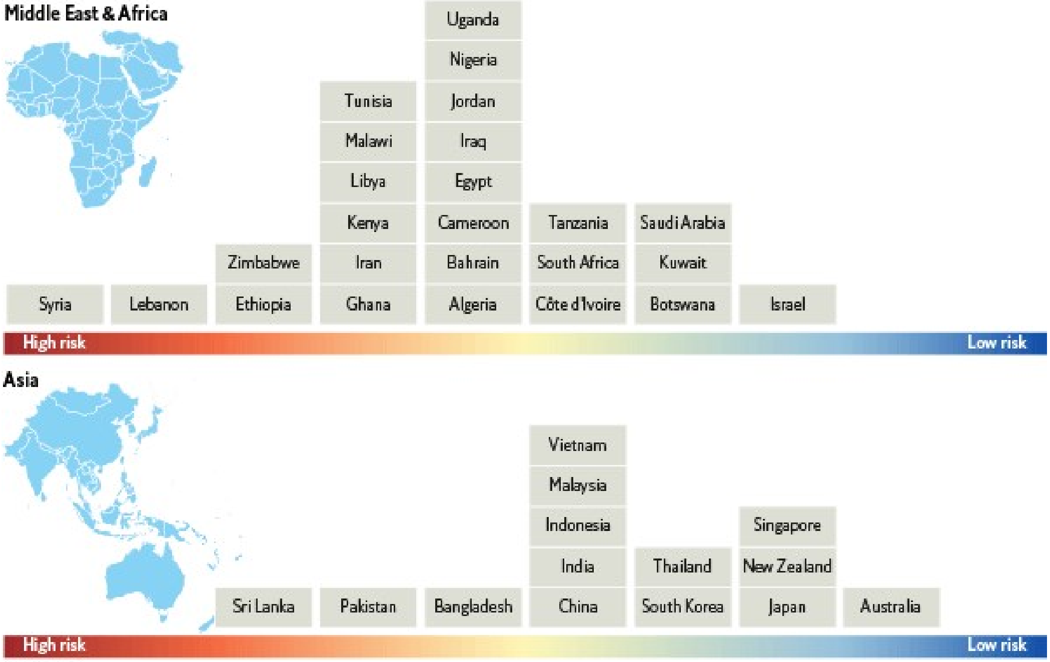
Africa: under pressure

Most of the countries at the highest risk of a debt default are in Africa, reflecting high indebtedness, heavy external debt-service burdens and stretched public finances. African economies had taken advantage of low-cost international credit before the pandemic for budgetary and balance-of-payments support, accumulating large external debt burdens as a result. However, rising interest rates have increased debt-servicing costs drastically.

Egypt is particularly at risk of facing payment difficulties. Public debt has risen from about 80% of GDP in 2019 to 90% in 2022, and a large fiscal deficit will make it difficult to reduce this ratio meaningfully. Debt-servicing costs were officially projected at 46% of total revenue in the 2022/23 financial year (July-June), but the reality is likely to have been even higher, given sharp increases in interest rates. We expect Egypt to meet its financing requirement in 2023, but this rests on the assumption that it will be able to tap Gulf finance. Currency risk remains elevated, given that the Central Bank of Egypt has reverted to a heavily managed exchange-rate regime following sharp depreciation from early 2022 until early 2023. IMF disbursements are unlikely to be forthcoming following Egypt's reluctance to fully adhere to programme conditions (which, in turn, will undermine market confidence and reduce other avenues for external finance). Foreign-exchange shortages could raise repayment difficulties in servicing hard-currency loans, which represent 16% of the loan book to private businesses and households.

Ethiopia also combines a large external financing requirement with uncertainty about how the government will close this funding gap. Financing needs reflect mainly a wide current-account deficit, but rising debt repayments are also a contributing factor. This is exacerbated by a precipitous decline in foreign reserves (import cover is less than one month). The currency is heavily overvalued, and with foreign exchange in short supply, there is a significant gap with the black-market rate. These developments will be mitigated by the ongoing implementation of the November 2022 peace deal that ended a conflict with Tigray (a northern province); this agreement has resulted in disbursements of foreign aid to assist with reconstruction and redevelopment. However, the peace deal is fragile, and if renewed conflict were to break out, donor aid would probably be reduced or withdrawn. This would increase the risk of repayment difficulties and currency volatility, particularly in 2024 when a US$1bn Eurobond payment falls due.

Financial risk in selected countries

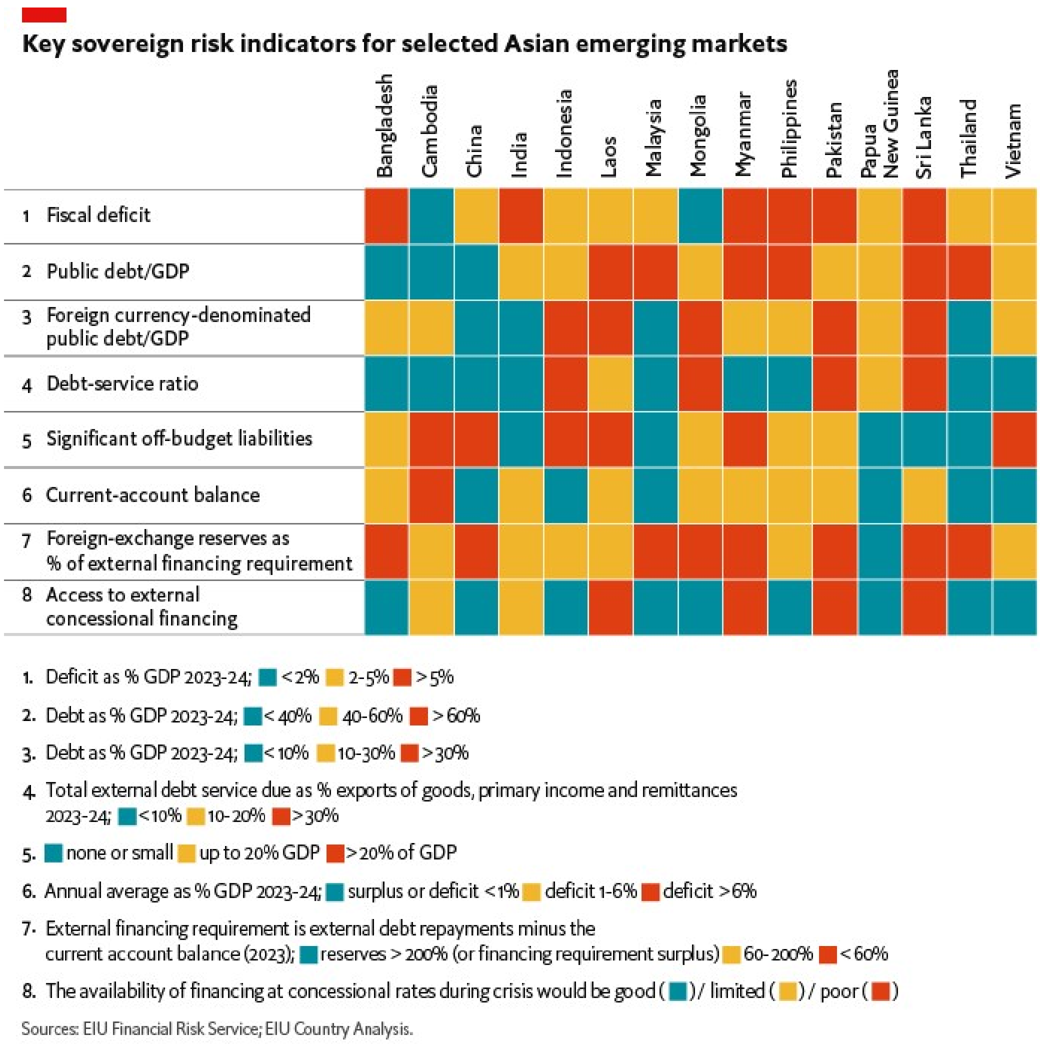


Source: EIU.

Financing conditions will improve but remain difficult for **Zambia**, despite securing a Memorandum of Understanding on a debt-restructuring deal with official creditors in June. However, Zambia has not secured external debt forgiveness, raising the risk of future repayment issues. Meanwhile, following a default in December 2022, **Ghana** has requested bilateral debt restructuring under the Common Framework for Debt Treatments supported by the G20. In June the Ghanaian authorities sent a non-binding working debt-restructuring proposal to official bilateral creditors, signifying the beginning of a negotiation process that we expect to conclude in the coming weeks.

Asia: some improvements, but vulnerabilities remain

Financial risk has eased in several Asian countries. After announcing that it would suspend external debt repayments indefinitely in April 2022, **Sri Lanka** secured final approval from the IMF for a US$2.9bn package in March 2023. The government hopes to negotiate an extended grace period for its foreign debt, with the prime minister, Ranil Wickremesinghe, seeking a ten-year moratorium. However, there are several difficulties, including Sri Lanka's designation as a middle-income economy, which disqualifies it from applying for relief under the Common Framework. In addition, Sri Lanka owes a significant amount of debt to China, which is reluctant to agree to a haircut or to participate in a multilateral restructuring initiative. Conditions in the banking sector remain challenging, with some of Sri Lanka's biggest banks having extensive exposure to foreign-currency-denominated government securities. The sovereign debt default threatens to undermine these banks' balance sheets, heightening the risk of a crisis.

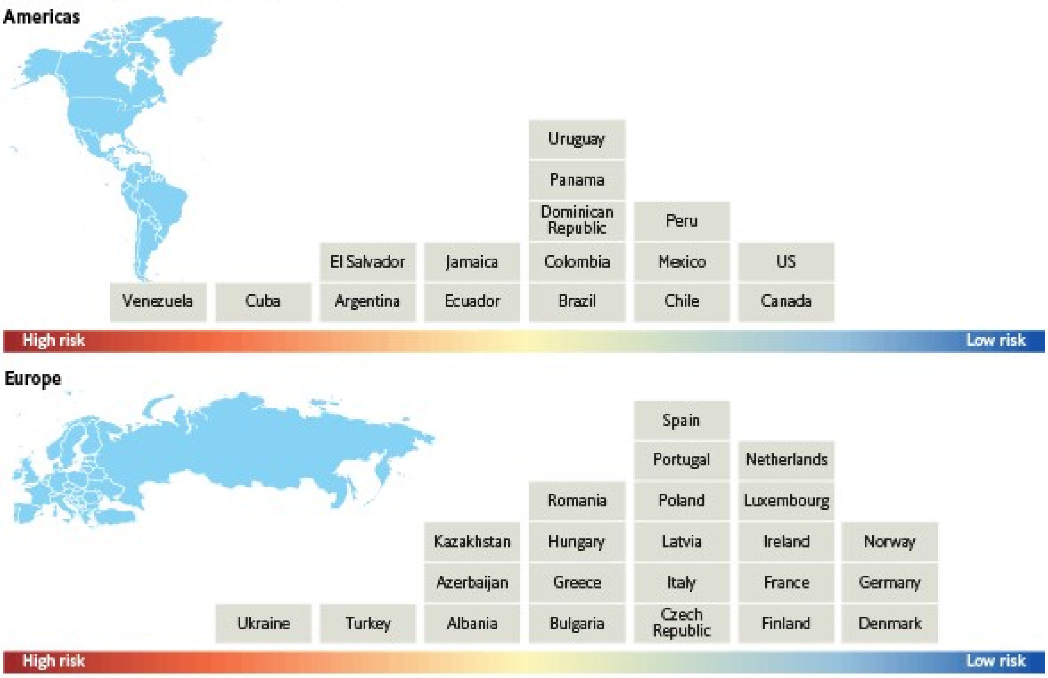


A last-minute staff-level agreement by the IMF in late June to unlock a new stand-by arrangement (SBA) worth US$3bn has helped **Pakistan** to avoid a debt default. The SBA will help the government to get through the national election (due to be held by October 2023) without risking a default. Access to fresh loans will shore up Pakistan's foreign-exchange reserves, and allow the country to pay for critical industrial raw materials, thereby giving some traction to faltering industrial activity. However, the chronic twin deficits on the balance of payments and fiscal accounts (linked to a very narrow tax base), lacklustre economic activity and limited appetite for other creditors to assist Pakistan mean that the next government will have to start negotiating for another IMF package sooner rather than later. The fresh IMF package will lend some support to the currency, but ongoing investor concerns about Pakistan's debt sustainability will weaken the rupee.

Latin America: Argentina and Ecuador in the spotlight

In Latin America, many governments are grappling with the dilemma of raising taxes or cutting spending to ensure debt sustainability, but financial risk appears well contained in most of the region. Among the major economies, financial risk remains highest in the two economies with a recent history of debt default: Argentina and Ecuador. In **Argentina**, a severe drought has contributed to a fall in export earnings that, coupled with a near-total lack of access to private external finance, leaves the country reliant on the IMF for financing. This financing is conditional on meeting targets laid out in an extended fund facility (EFF) deal. The government reached a staff-level agreement with the IMF on the fifth and sixth reviews of its US$44bn EFF in late July, with the IMF easing some programme targets. However, a tight election race is putting default and devaluation risk in the spotlight. The government manages a multiple exchange-rate system, intended as a stopgap measure to give the authorities time to restore policymaking credibility and reduce depreciation pressure. Nevertheless, there is still a substantial risk of an uncontrolled devaluation in the coming year.

Financial risk in selected countries



Source: EIU.

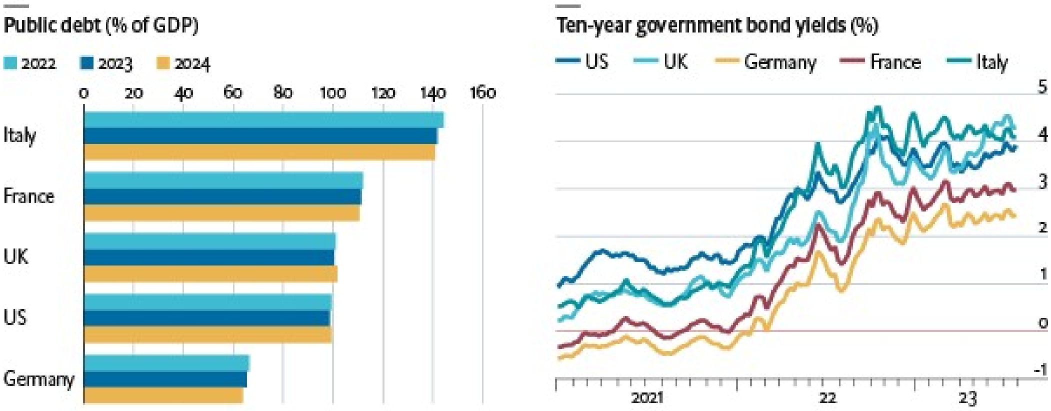
Meanwhile, in **Ecuador** political risks to creditworthiness will remain a concern. External debt restructurings in 2020 and 2022, along with a recently completed US$6.5bn IMF loan agreement, make Ecuador's external financing position more manageable. However, a snap election scheduled for August 20th is likely to usher in a new government with less market-friendly policies. Given the country's default history, financing is therefore a cause for concern, particularly as Ecuador is essentially shut out of voluntary markets.

Fiscal consolidation will be slow in developed markets

For developed economies, the main issue to watch is government policy towards fiscal consolidation. Many governments have yet to engage in any serious discussion about the appropriate budgetary stance once inflation subsides. Fiscal responsibility laws that fix a maximum deficit ceiling were in most cases suspended during the pandemic, and governments have dragged their feet on deciding when (or whether) to reinstate them.

The **EU** has already delayed the reintroduction of its fiscal framework several times, most recently until the start of 2024. Few of its member countries are close to complying with the 3% of GDP deficit ceiling. There is a significant risk that the reintroduction will slip past this date, as the bloc is struggling to agree on whether to exclude some spending items (such as green transition costs) from the deficit calculations.

Little fiscal consolidation likely in most developed economies



Sources: EIU; Refinitiv.

The **US** is also unlikely to see meaningful fiscal consolidation in the near term. The president, Joe Biden, has accepted some spending caps in exchange for a Republican concession to temporarily suspend the federal government's US$31.4trn debt ceiling. However, we expect the federal deficit to remain wide in fiscal year 2023, at 5.7% of GDP (higher than in fiscal year 2022), as income growth slows in line with economic activity. The budget deficit will remain large compared with pre-pandemic averages, as tax receipts will not fully cover a modest moderation in spending, and federal debt will remain at over 120% of GDP.

No near-term easing of financing conditions

Central banks are generally either close to the end of their monetary policy tightening cycle or have already reached peak interest rates, so global financing conditions are unlikely to tighten much further. However, with inflation still well above target in many countries, there is little chance of a near-term shift back to monetary easing and cheaper financing. In developed economies where deficit financing is easier and sources of credit more abundant, governments will face heavier interest burdens. In developing economies with a limited revenue base and financing options, some governments will have to address fundamental concerns about debt sustainability.

