

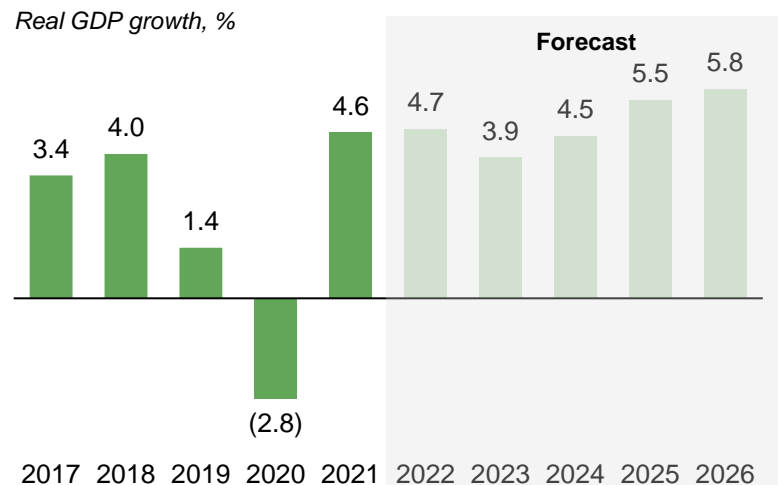


# Macroeconomic Outlook

Zambia Q2 2023

18 April 2023

## Real GDP growth rate (%)

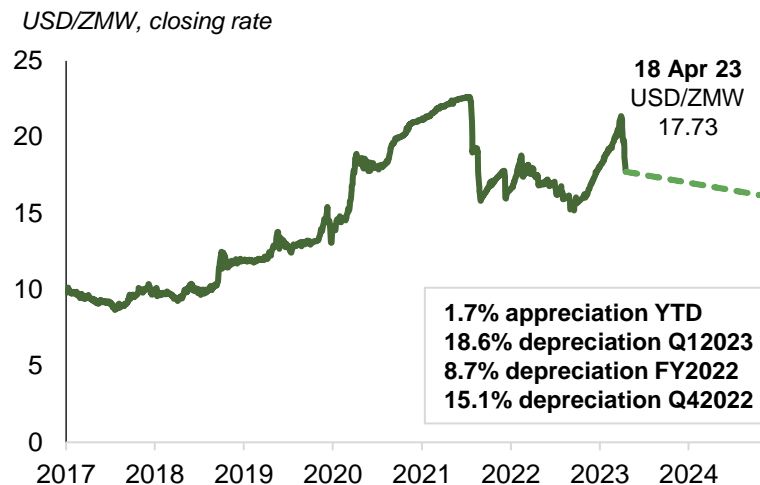


### GDP growth

Preliminary GDP calculations show a GDP growth of 4.7% in 2022, which is higher than initial expectations. The growth is driven largely by transportation and storage and the education sector while agriculture, construction and mining (due to lower output) have contracted slightly.

Moderate growth is expected for 2023 with higher prices of critical commodities such as petroleum and fertiliser driving higher input costs and thus limiting growth of some sectors such as agriculture. However, we expect substantial FDI inflows towards energy, mining and agriculture going forward. This combined with a strong global demand for copper and nickel and a shift to an increasingly business-friendly policy environment with restored access to international credit will contribute towards increased GDP in the future.

## USD/ZMW exchange rate

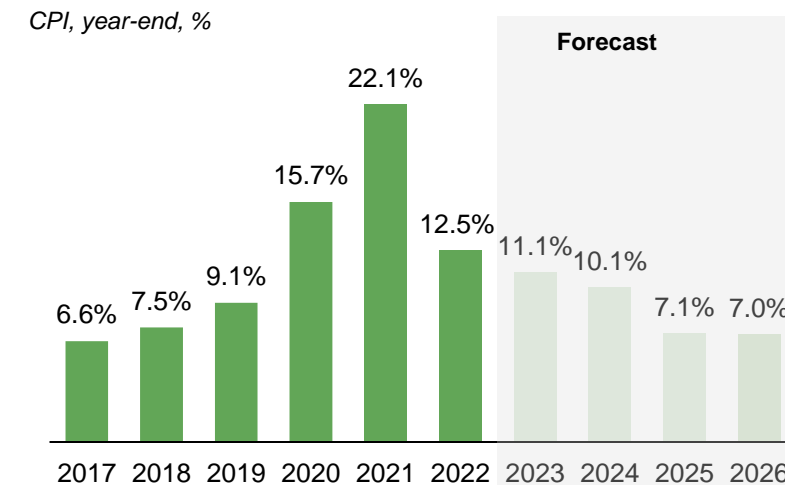


### USD/ZMW exchange rate

In recent weeks, the Kwacha has appreciated rapidly after a BoZ intervention where US dollars were injected into the market. This intervention coupled with momentum caused by expectations of positive news regarding the ongoing debt restructuring has led to a rapid strengthening of the currency, resulting in 1.7% appreciation YTD. The trend towards depreciation which started in late 2022 otherwise continued into 2023. In Q1 of 2023, the Kwacha depreciated 18.6% after already depreciating 15.1% in Q4 of 2022. This meant that the Kwacha was approaching a similar weak value as in 2021 around the election.

With greater political certainty, IMF supporting Zambia's debt restructuring and improved supply of foreign exchange, we expect the Kwacha to appreciate moderately over the medium term despite recession fears.

## Inflation rate (%)



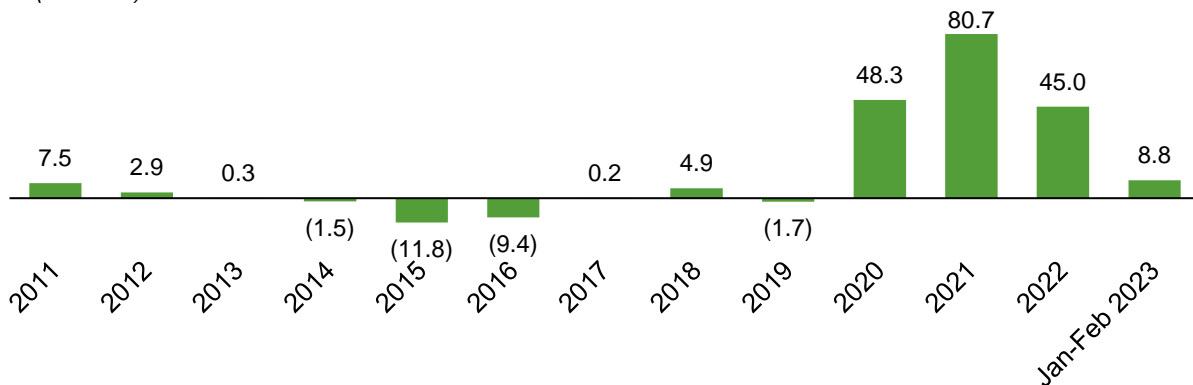
### Inflation rate

Annual inflation decreased significantly in 2022 relative to 2021, where Zambia had one of the highest rates in Africa. YoY inflation for March closed at 9.9%, much lower than the 13.1% measured in March 2022.

However, YoY inflation for January and February came in at 9.4% and 9.6% respectively. Hence, inflation has increased recently and the BoZ has upwards adjusted its inflation projection to remain above the target range of 6-8%. The forecast predicts an average inflation of 11.1% in 2023 and 10.1% in 2024, largely driven by electricity tariffs being increased to cost reflective levels and a possible reduction in maize production. For this reason, the BoZ increased the policy rate by 25 basis point to 9.25% during its recent February meeting after having maintained the rate in November.

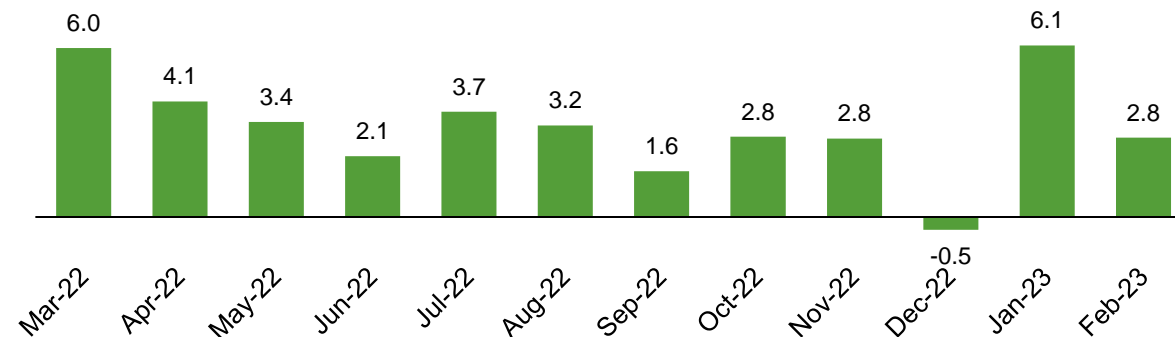
### Historical annual aggregated trade balance

(ZMW bn)



### Monthly trade balance – LTM

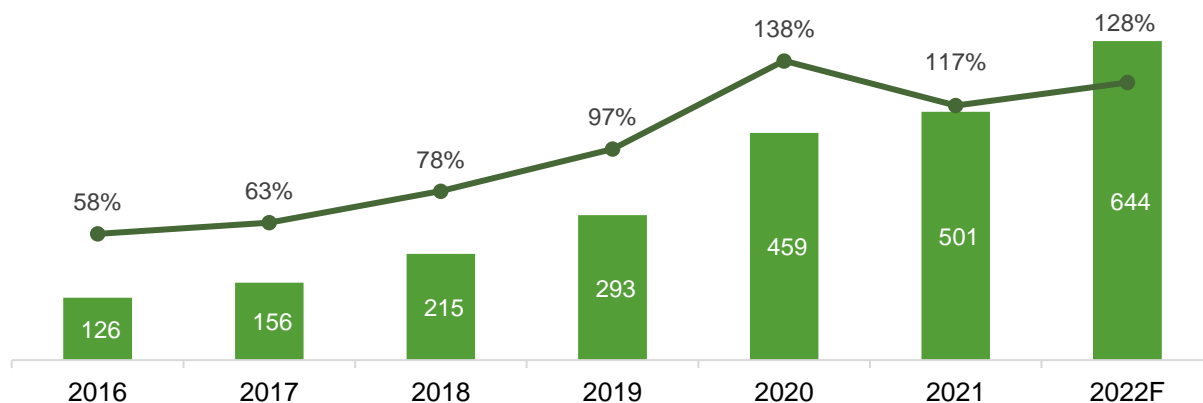
(ZMW bn)



### Net sovereign debt

(ZMW bn)

Net Sovereign Debt (Bar) Net Sovereign Debt as % of GDP (Line)



### Observations

- Zambia registered a positive trade balance of approx. ZMW 2.8bn for the month of February 2023. This represents a 54% decrease MoM compared to ZMW 6.1bn registered in January 2023. Exports decreased by 13.8% due to account of decrease from intermediate goods, raw materials, consumer goods and capital goods. Imports increased by 2.7% mainly as a result of increases in import bills of capital goods, consumer goods and raw materials. Ultimately, we expect the trade balance to remain positive, especially as copper prices stabilize above its long-term average<sup>(1)</sup>.
- A negative trade balance of ZMW 0.5bn was registered in December 2022 for the first time since February 2020, but January 2023 reported the most positive trade balance in a year.
- While the trade balance remains strong, the drop in the balance from April 2022 and onwards has been driven by the war in Ukraine, increasing prices on imported goods such as fertilizer and fuel. Nevertheless, the consistent positive trade balance, sovereign debt restructuring, IMF programme and expected FDI inflows are all expected to contribute toward a relatively stable exchange rate going forward.

# CORRELATION BETWEEN COPPER AND THE KWACHA REMAINS DETACHED FROM HISTORICAL TREND





# COPPER PRICES EXPERIENCE STRONG RECOVERY AFTER SELLOFF IN MID-2022

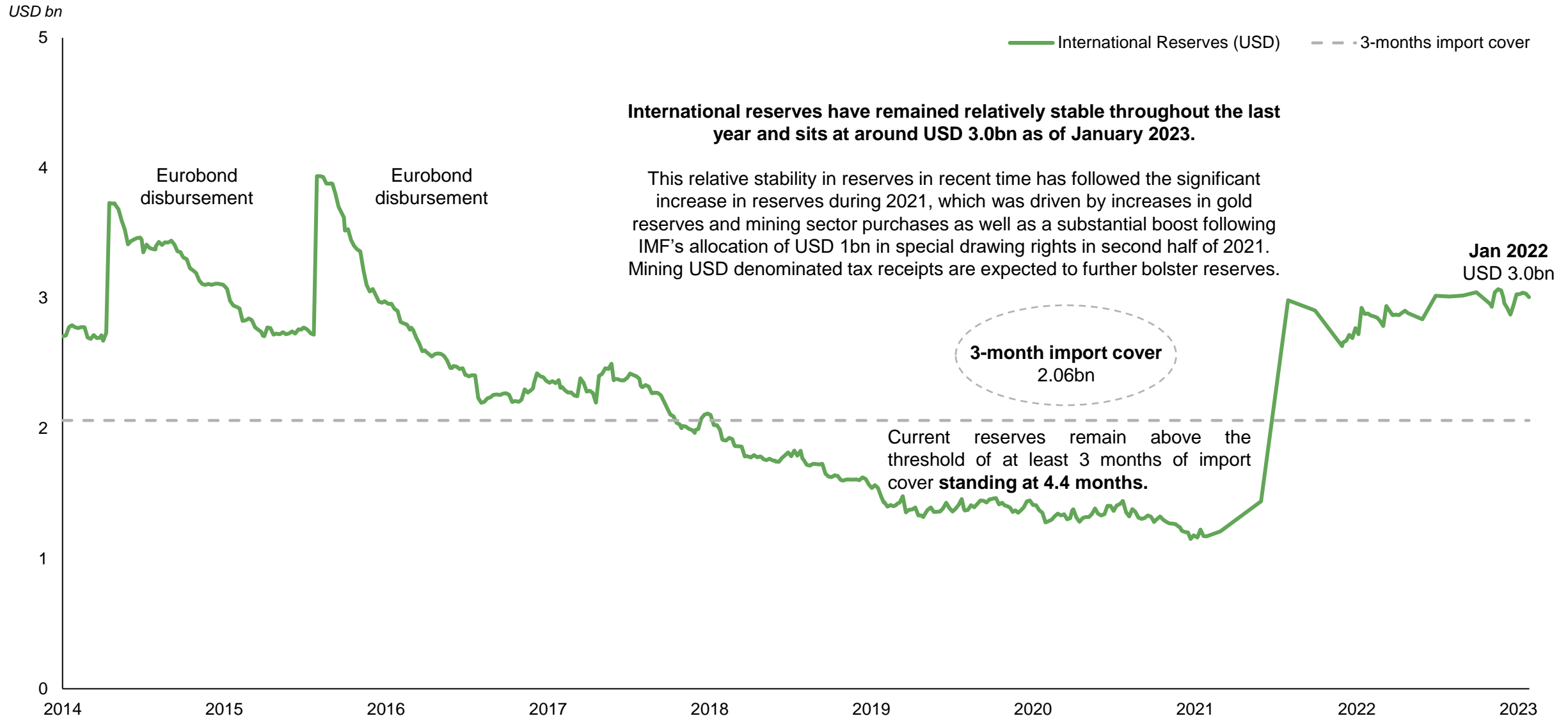


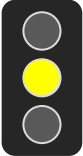
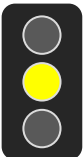
# CURRENCY HAS DEPRECIATED AS OF RECENT BUT REMAINS SIGNIFICANTLY STRONGER RELATIVE TO PEAK DEPRECIATION IN 2021

ZMW/USD



# INTERNATIONAL RESERVES HAVE REMAINED STABLE OVER THE LAST 12 MONTHS



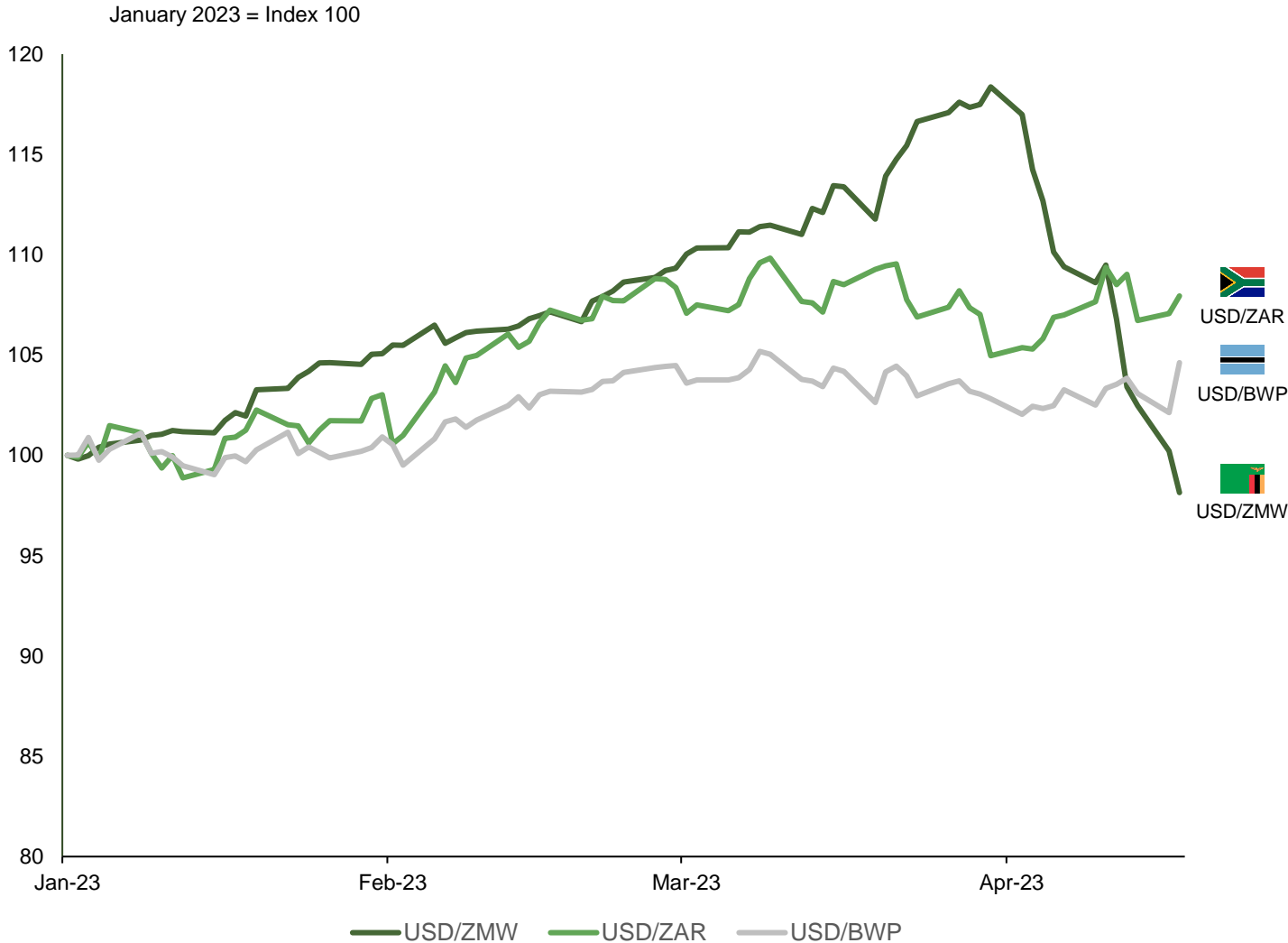
Theme	Outlook	Macroeconomic developments
<b>Economic Growth</b>		<ul style="list-style-type: none"> <li>▪ <b>In the near-term, economic growth is expected to be below Zambia’s long-term potential</b> as Zambia battles with limited fiscal flexibility.</li> <li>▪ <b>Government expects the budget deficit to have been 9.8% of GDP in 2022</b> resulting from increased spending pressure in the second half of 2022.</li> <li>▪ <b>Copper prices have experienced a good recovery after a broader selloff in commodities during parts of 2022 due to recession fears.</b> Copper demand is expected to remain resilient in the long term and <b>increased prices are expected</b> in the short to medium term.</li> <li>▪ <b>FDI directed at manufacturing is expected to arrive in the medium term.</b> This will have long term benefits in terms of boosting local production and import substitution which will help reduce reliance on imports.</li> </ul>
<b>Inflation</b>		<ul style="list-style-type: none"> <li>▪ <b>Inflation for the month of March registered at 9.9%, up 0.3% from 9.6% the previous month,</b> narrowly remaining in single digits.</li> <li>▪ <b>BoZ increased the monetary policy rate by 25 basis points to 9.25%</b> following its February meeting after having maintained the rate at 9.00% in previous meetings. The reason for the rate hike was BoZ’s updated inflation forecast, which projects inflation to increase over the short to medium term.</li> <li>▪ <b>In line with BoZ’s forecast, we expect inflation to remain above the BoZ’s target rate of 6-8%</b> in the short to medium term driven by electricity tariffs being being increased to cost reflective levels and a possible reduction in maize production.</li> <li>▪ The recent BoZ intervention and resulting <b>rapid strengthening of the Kwacha will contribute to decreasing the inflationary pressure</b> Zambia has been experiencing.</li> </ul>
<b>Exchange Rates</b>		<ul style="list-style-type: none"> <li>▪ Despite looming recession fears, <b>we expect the Kwacha to continue to appreciate towards ZMW/USD 16.00,</b> where we project the currency to stabilize in the medium to long term. The strengthening of the currency will largely be driven by IMF supporting Zambia’s debt restructuring, increases in copper prices, disciplined government spending, slowing of rate hikes and improved investor sentiment.</li> <li>▪ We expect a <b>flexible exchange rate regime</b> while mitigating excessive volatility. To cushion the economy against external shocks, accumulation of international reserves will be enhanced through export earnings and promotion of sustainable foreign investment flows.</li> <li>▪ <b>New capital inflows at both private and sovereign level</b> to further develop copper production capacity is likely to strengthen the Kwacha.</li> </ul>
<b>External Sector</b>		<ul style="list-style-type: none"> <li>▪ <b>We expect a positive trade surplus growth</b> in the near term as <b>global commodity prices look to increase.</b></li> <li>▪ <b>Increased import is expected</b> due to improved economic activity which <b>strengthens demand for capital items and raw materials.</b></li> <li>▪ <b>South Africa’s headline consumer inflation continues to be above the South African Reserve Bank’s upper limit of 6%,</b> coming in at 7.0% in February. Empirical evidence suggests that South African inflation tends to be imported into Zambia considering South Africa’s role as a major import origin. This is expected to put pressure on local prices for both food and non-food items in Zambia.</li> </ul>



## APPENDIX: REGIONAL FX PERFORMANCE

# THE KWACHA ENDED THE YEAR WITH SIGNIFICANT DEPRECIATION, MAKING IT THE POOREST PERFORMER REGIONALLY

## Regional FX performance YTD



## Comments

The Zambian Kwacha depreciated during the start of 2023, continuing the trend from the end of 2022, although, during early April, the BoZ has carried out an intervention by injecting US Dollars into the system to strengthen the Kwacha. This has led to a rapid appreciation of the currency in recent weeks, and as a result, the Kwacha is currently outperforming other currencies in the region. Overall, the Kwacha has appreciated significantly from its weakest point in mid-2021, having been boosted substantially by the reduced political uncertainty, firming up of international reserves and FDI inflows.

The South African Rand appreciated slightly toward the end of 2022 after depreciating substantially throughout 2022. During the start of 2023, the Rand has depreciated approximately 8% against the dollar, and the SARB expects the currency markets to remain volatile and explains the recent depreciation as a result of the current risk-off sentiment of global investors, dropping riskier assets in favour of safe-haven assets such as gold and hard currencies. In March, the SARB once again raised the policy rate, this time with 50 bps, to 7.75% with inflation continuing to be above the target range of 3-6% despite having cooled off slightly since October. In February, inflation came in at 7.0%, and the SARB expects inflation to remain above the target range until Q4 2024.

Despite depreciating slightly, The Botswanan Pula did not experience the same level of depreciation as the Rand and the Kwacha during Q1 2023, although the Kwacha has outperformed the Pula in recent weeks. The Pula is typically closely tied to the ZAR due to 64% of Botswanan import coming from South Africa, and during early 2023, the movements of the ZAR is also reflected on the BWP despite the ZAR's weakening being more substantial than the Pula's.