

Good cop (investment) vs. bad cop (debt)

General Information

GDP	USD 19.55bn (World ranking 108, World Bank 2016)
Population	16.6mn (World ranking 66, World Bank 2016)
Form of state	Republic
Head of government	Edgar Lungu
Next elections	2021, Presidential



Strengths

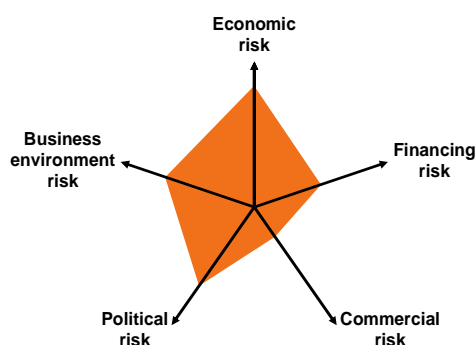
- The government already heeds advice on increasing investment and diversifying the economy
- Sizable land and water resources should help to develop agriculture and increase productivity
- Business climate should be improved, but is already good enough to attract new foreign investment.
- Succeeds in funding increasing financing needs despite the failure to reach an agreement with the IMF

Weaknesses

- Political risk: the opposition still disputes the results of the August 2016 Presidential election. A state of emergency announced in July 2017.
- High reliance on copper exports (69% of total)
- Capital stock (110% of GDP) too low to spur higher growth rates on the long-run
- Fiscal deficit and difficulty to raise higher fiscal revenues.
- Debt had increased: higher debt allows lower flexibility to finance massive infrastructure projects with debt. Lack of transparency has raised the issue of hidden debt.

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Switzerland 39%	1	33% South Africa
China 18%	2	14% Rep. of the Congo
Dem. Rep. of the Cong 7%	3	9% Kuwait
South Africa 6%	4	8% China
United Arab Emirates 6%	5	4% United Arab Emirates

By product (% of total)

Exports	Rank	Imports
Non-ferrous metals 69%	1	15% Petroleum, petroleum products and related materials
Non metallic mineral manufactures, n.e.s. 4%	2	12% Metalliferous ores and metal scrap
Tobacco and tobacco manufactures 3%	3	7% Specialised machinery

Source: UNCTAD 2016

Slippery slope

Zambia is the 6th largest copper exporter in the world with 3.3% of the global market. As a result it was hit by the metal price crisis, when overconsumption in China has put the sector under scrutiny. Yet evidence of oversupply is less striking than for other commodities (iron ore, steel). Thus, while Zambia experiences vulnerabilities, these are less extreme than for some oil or iron ore exporters.

Overall balances deteriorated. The current account moved from surplus (5.4% in 2012) to a sustainable deficit (-3.5% in 2017). This reversal was driven by an increasing fiscal deficit (-8% of GDP), a major issue given fiscal revenues amount to 15% of GDP.

As a result of rising deficits, debt deteriorated despite low initial levels. According to official figures there is no solvency issue with public debt should be 61% of GDP, and external debt 50% of GDP in 2017).

But current dynamics are not positive and liquidity worsened. Lower foreign exchange liquidity gave rise to the issue of securing adequate reserves. While these stand at 3.4 months of import cover, Zambia and the IMF failed to agree on required fiscal adjustments and reach a lending deal. The Central Bank was forced to let the local currency depreciate by -60% in 2014-15, and inflation jumped to +17.9% in 2016.

Climbing back

The Zambian outlook is brightening. As other frontier economies, the country attracts foreign investors eager to benefit from the yields offered. Exchange rate pressures lowered and the acceleration of world growth boosts copper prices. As a result, growth should accelerate from +3% in 2016 to +3.8% in 2017, and inflation is set to rise at a more moderate pace of +6.5% in 2017.

Long-term opportunities

Zambia has started to invest in diversifying its economy. The business climate is overall supportive. The country ranks 98 out of 190 in 2017 in the World Bank Doing Business survey. But the capital stock stands at 110% of GDP, same as it was in 1993. Thus investors are in a position to make the most of Zambia's potential and develop much-needed infrastructure.

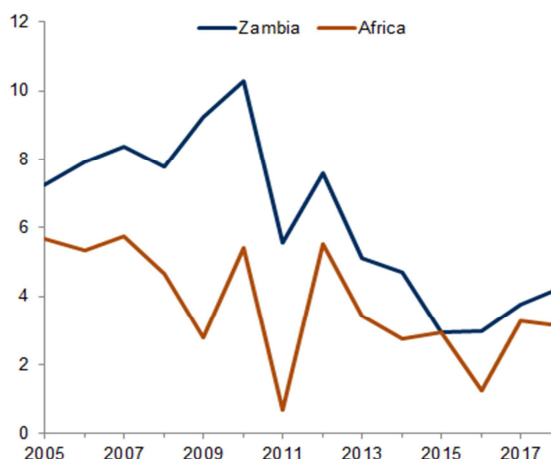
Agriculture is a case in point. Only 25% of Zambia's immense land resources (42 bn hectares) are used. The country controls 40% of central and southern African water resources. Improved power generation and irrigation are crucial to modernize agriculture, much like Kenya did with the floral industry. The biggest obstacle to achieving much-needed progress is, yet again, political stability.

Key Economic Forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.9	3.0	3.8	4.3
Inflation (%)	10.1	17.9	6.5	6
Fiscal balance (% of GDP)	-9.527	-6.1	-8	-7
Public debt (% of GDP)	56.3	55	61	66
Current account (% of GDP)	-3.5	-5.5	-3.5	-2
External debt (% of GDP)	31.9	40	50	54

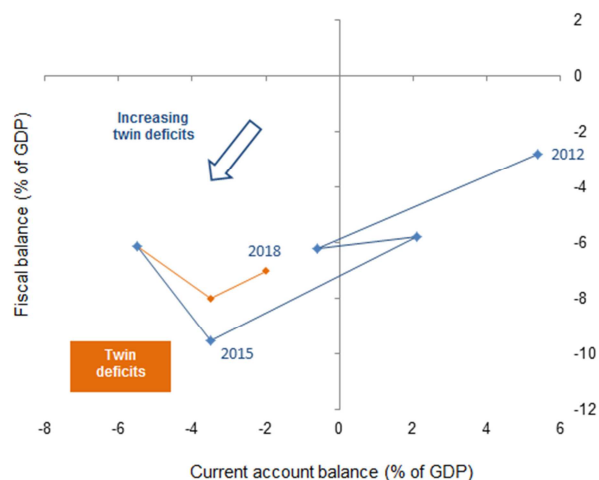
Sources: National Sources, IHS, Euler Hermes

Zambia and Africa: Real GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Current account and fiscal balances (% of GDP)



Sources: National sources, IHS, Euler Hermes

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