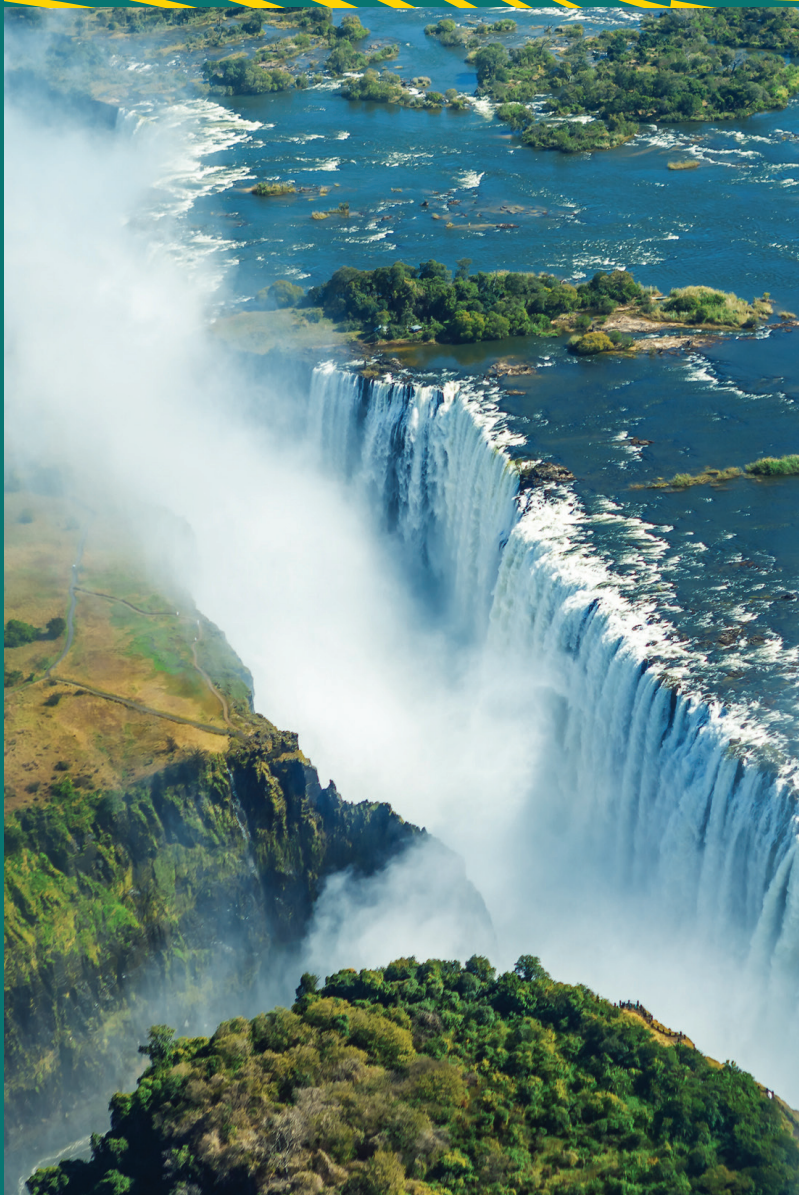


# Zambia Country Brief



November 2023



Transforming Africa's Trade

African Export-Import Bank  
Banque Africaine d'Import-Export

# Zambia

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**17th**  
largest African  
country by area

**752,618**  
square kilometers

**22nd**  
most populous  
African country





## INTRODUCTION

The Republic of Zambia is a landlocked country located in the south-central part of Africa. It covers an area of 752,618 square kilometers, making it the 17th largest country on the continent. Lusaka is the capital and largest city. Zambia shares borders with the Democratic Republic of Congo to the north, Tanzania to the north-east, Malawi to the east, Mozambique to the southeast, Zimbabwe and Botswana to the south, Namibia to the south-west, and Angola to the west. With an estimated population of about 20 million inhabitants in 2023, Zambia is the 22nd most populous country in Africa and the 63rd most populous country in the world. It has more than 70 ethnic groups, the largest of which is the Bemba. English is the official language.

In 2022, Zambia's output stood at US\$29.78 billion, making it the 19th largest economy in Africa and the 104th largest economy in the world. Although the services and industry sectors are the major drivers of the economy, the agriculture sector remains the largest source of employment, with an employment rate exceeding 70 percent. Copper and its derivatives have been the main export products, accounting for about 70 percent of the country's foreign exchange earnings, while mechanical and industrial products have dominated imports. Despite the challenging global environment characterised by the pandemic and the ongoing Ukraine war, Zambia's economy has been resilient, with a growth rate exceeding 4.7 percent in 2022.

## POLITICAL ENVIRONMENT

The Republic of Zambia is governed under a presidential system, whereby the president is the head of state and head of government. Although Zambia has functioned as a democracy from independence, the country soon became a single-party state, and remained so for several years until a democratic system was re-introduced in 1990, leading to its first multi-party democratic elections held in 1991. Over the years, the country has enjoyed relative stability and peaceful democratic transitions. During the general elections held on 12 August 2021, Hakainde Hichilema of the United Party for National Development (UPND) was elected the new President of Zambia, defeating incumbent Edgar Lungu of the Patriotic Front (PF).

## ECONOMIC OVERVIEW

### Gross Domestic Product

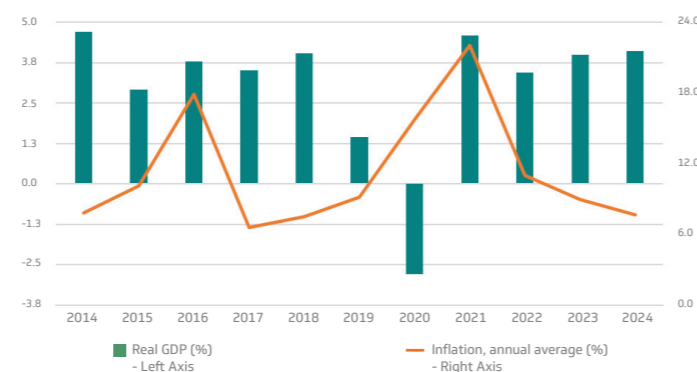
Like many other African countries, Zambia has faced some challenges in recent years. Emerging out of an economic slowdown occasioned by the COVID-19 pandemic, the

economy posted growth of 4.6 percent in 2021, up from a contraction of 2.8 percent in 2020. The steady recovery was interrupted by the Ukraine conflict in 2022, resulting in muted growth of 3.8 percent (Figure 1).

On the back of reforms undertaken by the government, including debt restructuring, fiscal discipline, prudent macroeconomic policies, and regulatory reforms to boost investor confidence, the economy is projected to be on a growth trajectory of around 4 percent in the short to medium term. The newly established local fertilizer production plant, new agricultural and energy reforms, and new business regulations will contribute to enhance economic growth.

Strong performance in the services sector supports the positive growth forecast. Additionally, a surging appetite for renewable energy infrastructure will likely sustain copper prices. As China has eased COVID-19 containment measures, increased economic activity will also boost demand for base metals, including nickel and copper, which forms the backbone of the Zambian economy.

Figure 1: Zambia's GDP growth and inflation trends (%)



Sources: Afreximbank Research, IMF World Economic Outlook (2023)

### Inflation

Inflation rose to 11-month highs at 10.2 percent in April 2023, above the Central Bank's target range of 6–8 percent as a sharp depreciation of the country's currency (the Kwacha) against the US dollar slowed progress in debt restructuring negotiations during the first quarter of 2023. Forecasts point to gradual deceleration of inflation to 8.9 percent in 2023 and 7.7 percent in 2024, on the back of successful debt restructuring, strengthening of the Kwacha, and tightening monetary policy.

### Exchange Rate

In 2022, the Zambian Kwacha appreciated against the US dollar and traded at an average of K16.94:US\$1, up from an average of K19.95:US\$1 in 2021. This was driven by factors such as positive post-election investor sentiments, higher

inflows from remittances, and the 2021 allocation of the International Monetary Fund (IMF) facility.

However, the trend reversed during the last quarter of 2022 and persisted through the first quarter of 2023, reaching K21.30:US\$1 at the end of March as the procurement of agricultural, medical, and petroleum products put pressure on the currency. As a measure to minimise exchange rate volatility and safeguard the stability of its currency, the Bank of Zambia raised its minimum statutory reserve ratio on commercial banks' deposits by 2.5 percentage points to 11.5 percent. While the Kwacha firmed up to K18.30:US\$1 by mid-May 2023, it is projected to weaken trading at about K21.15:US\$1 at end of 2023 and at about K23:US\$1 in 2024 due largely to low copper prices and still high inflationary pressures. However, it is projected to improve thereafter, underpinned by a debt restructuring deal with private creditors and enhanced confidence in the country's capital market and macroeconomic environment.

## Fiscal Balance

After widening sharply to 13.8 percent of GDP in 2020 from 9.4 percent of GDP in 2019, due to the COVID-19 pandemic, Zambia's fiscal deficit has been improving over the last two years, narrowing to about 8.2 percent of GDP on average in 2021 and 2022. The improvement in the fiscal deficit was driven largely by the recovery in copper prices and the IMF support program. The declining momentum is expected to be sustained, with the fiscal deficit narrowing further to 8 percent of GDP in 2023 and 6.8 percent of GDP in 2024, on the back of continued fiscal consolidation under the IMF support program and revenue gains from increasing copper prices and production.

## OVERVIEW OF TRADE, RESERVES, AND THE FINANCIAL SECTOR

### Total Trade

Zambia's total trade amounted to about US\$20.69 billion in 2022, representing a 13.45 percent increase from 2021. The country's total exports stood at US\$11.65 billion in 2022 up from US\$11.14 billion in 2021, while its total imports reached US\$9.04 billion, up from US\$7.1 billion over the same period. This resulted in a trade surplus of about US\$2.60 billion in 2022, compared with the US\$4.05 billion trade surplus enjoyed in 2021. The decrease in the trade surplus was mainly the result of the decline in copper prices arising from knock-on effects of the Ukraine conflict (Figure 2).

In 2022, Zambia's main export markets were Switzerland (38.45 percent), China (20.69 percent), the Democratic Republic of

Congo (13.73 percent) and Singapore (10.54 percent). Its exports were dominated by copper, iron and steel, salt, sulfur, earth, and stone. The country's main import sources were South Africa (30.03 percent) and China (15.51 percent). Its top imports were nuclear reactors, machinery and mechanical appliances, vehicles and parts, and fertilizers.

Figure 2: Zambia's total trade



Sources: Afreximbank Research, IMF Direction of Trade and Statistics.

## Intra-African Trade

Zambia's trade with other African countries was estimated at US\$7.06 billion in 2022, accounting for 34.1 percent of the country's total trade, significantly higher than the regional average of 14 percent. Zambia's major export destinations were its neighboring countries, with the Democratic Republic of Congo being its largest market, accounting for more than 55 percent of Zambia's total exports. Other major export markets were South Africa and Zimbabwe (9.3 percent each), Tanzania (6.3 percent), Namibia (4.9 percent), and Malawi (4.2 percent). Zambia's top three export products were salt, sulfur, and cement (16.5 percent), mineral fuels and oils (9.6 percent), and copper (9.3 percent).

South Africa emerged as Zambia's largest import partner in the continent. Imports from South Africa to Zambia stood at 65.5 percent of total imports from Africa, followed by the Democratic Republic of Congo (15.8 percent), Mauritius (4.9 percent), Namibia (3.5 percent), and Zimbabwe (2.2 percent), with a combined share of 26.4 percent of Zambia's total imports from within the continent in 2022. Nuclear reactors and boilers, ores, precious metals, zinc, cobalt oxide, and hydroxides were Zambia's main intra-African imports.

## Reserves

Zambia's external reserves, which experienced a steady decline from US\$2.9 billion in 2015 to US\$1.4 billion in 2019, declined further to US\$1.2 billion 2020, largely on account of debt service payments and the COVID-19 pandemic, which constrained economic activity and put pressure on exports.

The upward trajectory of the country's reserves observed since 2021, has been driven mainly by the gradual resumption of economic activities and the increase in commodity prices. Supports from the IMF, including through receipts of External Credit Facilities (ECF), and support from the World Bank including through receipts of US\$156.8 million to support Zambia's health sector, and another US\$275 million to support macroeconomic stability, also contributed to the increase in reserves. The upward trend of Zambia's reserves is projected to be sustained, on the back of the recent debt restructuring agreement with official creditors, continued IMF support program, increased copper prices, and mega-projects attracting foreign investors and tourists.

### Current Account Balance

Zambia's current account surplus, which stood at 11.9 percent of GDP in 2021, narrowed sharply to 2.4 percent of GDP in 2022, on account of the ripple effects from the Ukraine conflict that increased the import bill. Low copper output in 2023 will increase pressure on the current account surplus, narrowing GDP further by about 1 percent. However, the surplus is projected to expand in the medium term, exceeding 3 percent of GDP in 2024 and 2025, as increased economic activity in China boosts demand and copper prices, and mega infrastructure projects alongside debt restructuring enhance confidence and drive capital flows.

### Financial Sector

Zambia's financial sector has been growing over the past few years, although it remains relatively small compared with other countries on the continent. At end-March 2023, Zambia's financial landscape consisted of 17 banks with 408 branches, and 123 nonbank financial institutions operating in 507 branches across the country. The nonbank financial institutions comprised 70 Foreign Exchange Bureaus, 35 microfinance companies, 1 development finance institution (The Development Bank of Zambia), and 17 other nonbank financial institutions. In 2022, Zambia's financial sector was dominated by the banking sub-sector, with only five banks holding 65 percent of total assets and deposits. Commercial banks in Zambia were mostly subsidiaries of foreign groups from South Africa and accounted for about 75 percent of the banking sub-sector's total assets. Only four banks were state-owned and accounted for about 29 percent of the banking sub-sector's total assets in 2022.

On the back of reforms undertaken by the Central Bank of Zambia, including the creation of an inter-agency Financial Stability Committee (FSC), the banking sub-sector has been performing well in terms of assets, deposits, liabilities, and

loans. As of March 2023, the sector's total assets reached US\$10.25 billion, up from US\$9.2 billion in March 2022, representing a 11.49 percent increase. Deposits surged to US\$7.71 billion, up from US\$6.66 billion over the same period. As a result, the sector's total liabilities rose to US\$9.17 billion in March 2023, from US\$8.18 billion in March 2022. The sector's loan portfolio has been boosted largely by the Central Bank's Targeted Medium-Term Refinancing Facility, which aims to provide support to businesses and households affected by the COVID-19 pandemic. As a result, total gross loans grew by 20.38 percent to US\$2.71 billion in March 2023, up from US\$2.25 billion in March 2022. The manufacturing sector was the largest beneficiary, with a loan share of 18.4 percent, followed by household loans (16.4 percent) and loans to wholesale and retail trade (9.2 percent).

Notwithstanding current global financial challenges, Zambia's banking sector has remained resilient and profitable. At end-March 2023, the Central Bank deemed the banking sector's performance and soundness satisfactory. For instance, the net nonperforming loans (NPLs)-to-regulatory capital ratio stood at a mere 1.9 percent, well below the 10 percent benchmark. In addition, the sector had good asset quality, with net NPL-to-total loans at 0.8 percent, again below the threshold of 2.5 percent. At 85.4 percent, the ratio of allowance for loan losses to gross NPLs was also adequate, as it remained above the 80 percent threshold. Return on assets (5.2 percent) and return on equity (30.2 percent) were also above the 4 percent and the 20 percent thresholds, respectively, underscoring the sector's profitability.

Although Zambia's banking sector is performing relatively well, there remain downside risks that could undermine the sector's stability. For instance, the country's reliance on copper exports could constrain the availability of liquidity, especially in the event of prolonged low copper prices and exchange rate depreciation. At the same time, a sustained tightening of funding requirements could undermine the sector's resilience and profitability.

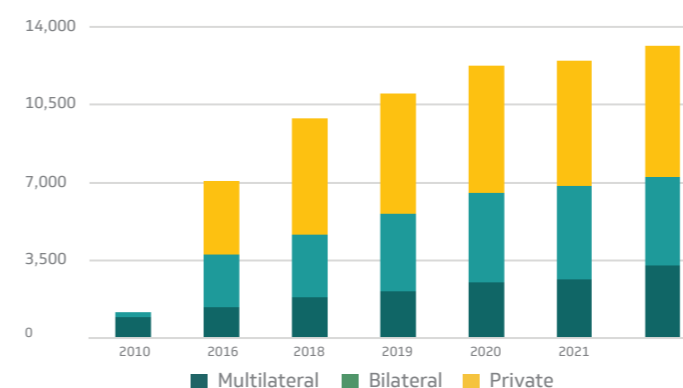
### Debt Sustainability

Zambia's debt increased astronomically over the past few decades, calling for debt relief under the Heavily Indebted Poor Countries initiative and the Multilateral Debt Relief Initiative in 2005. Despite these programs, the country continued to experience a high debt burden on account of poor economic policies, coupled with a series of economic crises. The global financial crisis in 2007/8 and the commodities crash in 2014 culminated in deep economic and social challenges, triggering the need for further borrowing.

Zambia issued three Eurobonds over the period 2012–2015, with US\$750 million in 2012, US\$1 billion in 2014, and US\$1.25 billion in 2015, with maturity dates ranging from 2022 to 2025.

Recently, surging sovereign liabilities, underpinned by the existing debt and compounded by the government's responses to the COVID-19 pandemic and fallout from the Ukraine conflict, Zambia's debt became increasingly unsustainable, rising by 11 percent to US\$19.8 billion in 2020. The rapidly increasing debt burden, combined with a decrease in exports, led the country into default on its sovereign debt in 2020. The debt burden continued to rise by 14 percent, reaching US\$22.7 billion at the end of 2021. It increased by another 2.03 percent to post a total debt stock of US\$23.1 billion in 2022. However, the country's debt position is projected to improve on the back of reforms supported by multilateral financial institutions and successful debt restructuring negotiations with creditors.

Figure 3: Evolution of Zambia's External Public Debt composition, (in \$US millions)



Sources: Sources: Afreximbank Research, International Debt Statistics (DSSI), Zambian Ministry of Finance and National Planning.

### i. PV of external debt/GDP

Zambia's external debt-to-GDP ratio rose sharply from about 37 percent in 2016 to 59 percent in 2019 and surged further to 64.8 percent and 67 percent in 2020 and 2021, respectively. While the ratio fell to 64 percent in 2022, it is expected to increase to 66.5 percent in 2023 before declining to 65.7 percent in 2024 and 62.7 percent in 2025. The downward trend is expected to be maintained on the back of reforms being implemented under the IMF support program, though the ratio remains significantly above the prudent and sustainable threshold of 40 percent.

### ii. Present value of total debt/GDP

The present value (PV) of public debt to GDP has been high over the past five years, increasing from 81.3 percent in 2018

to 93.5 percent in 2019 and jumping to 141 percent in 2020 amidst structural economic challenges. It was exacerbated by the fallout of the COVID-19 pandemic, precipitating Zambia's default on its sovereign debt in 2020. While the ratio remained well above the sustainable threshold of 55 percent, its trend reversed, declining to 124 percent in 2021 and further to 112.7 percent in 2022, as the government introduced structural reforms and the resumption of economic activity and the pickup in global demand positively affected copper prices. The ratio is expected to remain on a downward trajectory, declining to 108.7 percent in 2023 and further to 99.4 percent in 2024, as Zambia continues to implement reforms, including fiscal consolidation supported by the IMF program, which will boost confidence and drive investment and growth.

### iii. Present value of external debt/Exports

The PV of external debt to exports has been deteriorating since 2015, reaching 158.7 percent and 160 percent in 2020 and 2021, respectively. The ratio fell to 152.9 percent in 2022, and it is projected to sustain the downward trajectory, declining further to 148 percent and 139.4 percent (within the 140 percent threshold) in 2024, as the government's reforms start taking effect and copper prices improve.

### iv. External debt service/Exports

Zambia's external debt service-to-exports ratio averaged around 10 percent between 2016 and 2018 before rising sharply to 16 percent in 2019 and 26.9 percent in 2020. The ratio declined steadily in the past two years by 24.4 percent in 2021 and 10.6 percent in 2022 but remained marginally above the 10 percent sustainability threshold. However, the ratio is projected to increase to 23.3 percent in 2023 and increase further by 27.2 percent in 2024.

An overall assessment of Zambia's debt based on the above-mentioned debt sustainability indicators suggests that Zambia is in debt distress, with all four debt sustainability indicators breaching the prudent Country Policy and Institutional Assessment (CPIA) thresholds. However, the country is on track to address its debt overhang, as the government implements bold reforms under the IMF support program, to improve domestic resource mobilisation, strengthen public financial management, and rationalise expenditure. Further, the recent successful debt restructuring agreement reached by Zambia and its official creditors is a critical milestone in the country's debt management as it paves the way for similar debt restructuring deals with private creditors, thus restoring confidence and access to international capital markets by Zambia and enhancing the



country's debt-carrying capacity. These developments will help re-direct Zambia's debt to a sustainable path.

### OPPORTUNITIES FOR BANK SUPPORT

Zambia's Eighth National Development Plan (8NDP), covering the period 2022–2026, is the fourth in a series of national development plans. It is designed to drive the attainment of Zambia's Vision 2030, whereby the country aspires to become a prosperous middle-income nation with enhanced livelihood. In this context, the 8NDP, dubbed "Socio-Economic Transformation for Improved Livelihoods," aims to facilitate trade and increased investment by the private sector for higher production, value addition, and diversification of goods and services, with the overarching objective of improving the efficiency and competitiveness of the economy in efforts to sustainably raise the living standards of the Zambian people. The 8NDP, therefore, identifies key strategic development areas, including "economic transformation and job creation" to be achieved through industrialization, with a focus on value addition in key sectors such as agriculture, mining and manufacturing, and tourism. The government's development strategy aligns with the Bank's Strategic Plan, which is underpinned by a number of key pillars including promoting intra-African trade and AfCFTA implementation, and industrialisation and export development. Supporting implementation of Zambia's development strategy

through various programs and facilities that accelerate industrialisation and increase manufacturing capacity will further enhance the development relevance of the Bank and help Zambia safeguard macroeconomic stability and restore debt sustainability.

In the manufacturing sector, Afreximbank financing could scale up the capacity of Zambia's light manufacturing and agro-processing industries by increasing output in the sector, making it an important source of growth and economic transformation. The Bank's financing could also be vital to enhance promotion of local value addition in the mining sub-sector, especially copper and the petroleum sub-sectors, alongside other strategic minerals where financing is being sought to produce batteries, electric motor vehicles, and renewable energies.

Closing the infrastructure deficit—particularly transportation and logistics such as airport, railways, roads, inland waterways, and trade centres—will help make the country a regional transport and logistics hub. At the same time, the financing of economic infrastructure, including industrial parks and special economic zones, will go a long way to boosting productivity and accelerating the process of industrialisation. The financing of these infrastructures, along with the financing of inland dry ports and warehousing, provide further growth opportunities for the Bank.

### Appendix: Zambia—Selected Macroeconomic and Financial Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022(f)	2023(f)	2024(f)
Real GDP, %	4.7	2.9	3.8	3.5	4.0	1.4	-2.8	4.6	3.8	4.0	4.1
Inflation, annual average, %	7.8	10.1	17.9	6.6	7.5	9.2	15.7	22.0	11.0	8.9	7.7
Exports of goods and services, % y/y	-4.0	-11.4	-5.2	4.0	5.4	-11.7	9.2	-1.8	-3.2	6.9	6.3
Current account, % of GDP	2.14	-2.69	-3.27	-1.68	-1.30	0.44	10.61	11.9	2.36	3.85	4.46
Total reserves, US\$ millions	3,078	2,96	2,353	2,082	1,569	1,449	1,203	2,754	2,968	2,641	2,898
Gross reserves, months of imports	3.14	3.86	3.26	2.51	1.77	2.05	1.84	3.54	3.07	3.30	3.50

Sources: Afreximbank Research, World Bank, IMF, Economist Intelligence Unit.

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