Country Report

Zambia

April 2010

Economist Intelligence Unit
26 Red Lion Square
London WC1R 4HQ
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London
The Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong
The Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Website: **www.eiu.com**

Electronic delivery

This publication can be viewed by subscribing online at www.store.eiu.com.

Reports are also available in various other electronic formats, such as CD-ROM, Lotus Notes, online databases and as direct feeds to corporate intranets. For further information, please contact your nearest Economist Intelligence Unit office.

ISSN 1478-0372

Symbols for tables

“n/a” means not available; “–” means not applicable

Printed and distributed by PurePrint Group, Bellbrook Park, Uckfield, East Sussex TN22 1PL, UK.

Zambia

Executive summary

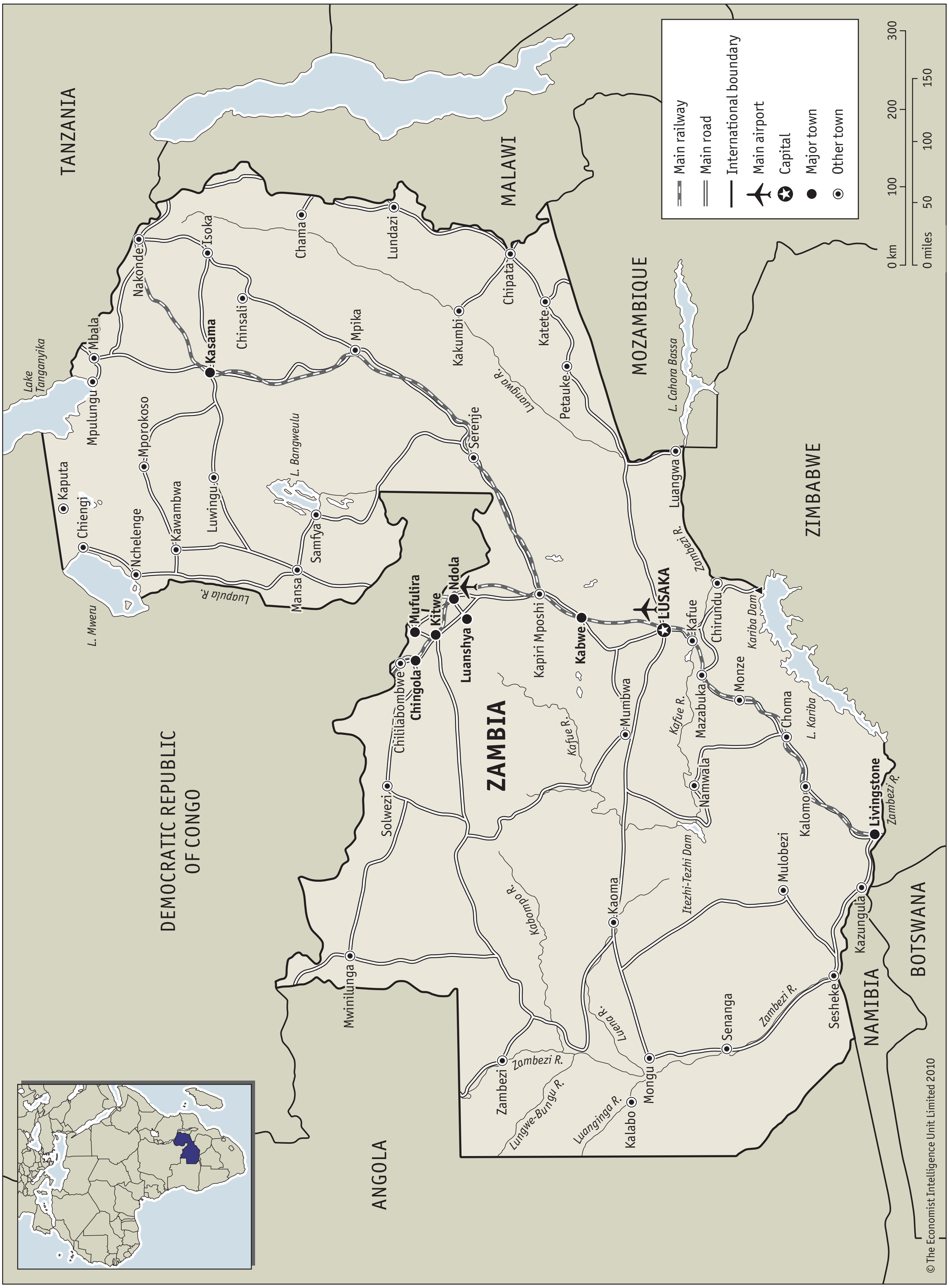
Outlook for 2010-11

Monthly review: April 2010

Data and charts

Country snapshot

Editors: Shefali Rai (editor); Philip Walker (consulting editor)
Editorial closing date: March 30th 2010
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com
Next report: To request the latest schedule, e-mail schedule@eiu.com


TANZANIA
MALAWI
MOZAMBIQUE
ZIMBABWE
BOTSWANA
NAMIBIA
ANGOLA
DEMOCRATIC REPUBLIC OF CONGO
ZAMBIA
LUSAKA
Kasama
Kabwe
Ndola
Kitwe
Mufulira
Chingola
Luanshya
Livingstone
Nakonde
Isoka
Chama
Lundazi
Chipata
Katete
Petauke
Kakumbi
Mpika
Chinsali
Mbala
Mpulungu
Mporokoso
Kaputa
Chiengi
Nchelenge
Kawambwa
Luwingu
Samfya
Mansa
Serenje
Kapiri Mposhi
Luangwa
Kafue
Chirundu
Mazabuka
Monze
Choma
Namwala
Kalomo
Mumbwa
Kaoma
Mulobezi
Kazungula
Sesheke
Senanga
Mongu
Kalabo
Zambezi
Mwinilunga
Solwezi
Chililabombwe
Lake Tanganyika
L. Mweru
L. Bangweulu
L. Cahora Bassa
L. Kariba
Kariba Dam
Itezhi-Tezhi Dam
Luapula R.
Luangwa R.
Zambezi R.
Kafue R.
Kabompo R.
Luena R.
Luanginga R.
Lungwe-Bungu R.
Main railway
Main road
International boundary
Main airport
Capital
Major town
Other town
0 km 100 200 300
0 miles 50 100 150
© The Economist Intelligence Unit Limited 2010

Executive summary

Highlights

April 2010

Outlook for 2010-11

- Despite the strong powers of incumbency that Rupiah Banda enjoys, there is now a realistic possibility that the opposition alliance's candidate—Michael Sata—will win the presidential election in 2011.
- Zambia's relations with the West will remain strained as donors express concern about the government's commitment to fighting corruption.
- Real GDP will grow by a buoyant 6.8% in 2010 as copper production rises in response to a recovery in copper prices and agricultural productivity is sustained by favourable rains and government subsidies.
- The Bank of Zambia will attempt to reduce volatility in the value of the kwacha but will remain committed to an exchange rate that reflects market fundamentals.
- Inflationary pressures are expected to ease in response to lower food prices and a stronger kwacha, with inflation declining from 13.4% in 2009 to 10% in 2010 and 9.3% in 2011.
- The exchange rate will appreciate to ZK4,515:US$1 in 2010, underpinned by a strong recovery in copper exports, but depreciate slightly, to ZK4,615:US$1, in 2011.

Monthly review

- The ruling party has attempted to appeal to historic rivalries between the Bemba and Tonga ethnic groups to undermine the electoral alliance between Mr Sata's Patriotic Front and the United Party for National Development.
- A new political party, the National Restoration Party, was formed in March by a prominent Lusaka lawyer, Elias Chipimo. The party is unlikely to be able to mobilise significant grassroots support before the 2011 elections.
- Mr Sata has stated that he does have a university degree, confirming that he is eligible to contest the 2011 presidential election.
- China announced that it would extend a US$1bn concessional loan to Zambia during Mr Banda's state visit to China at the end of February.
- An IMF mission that visited Zambia in February commended the government on its fiscal policy management in 2009.
- The Fund stated that the key medium-term policy challenge would be to create greater fiscal space by raising domestic tax collection—including from the mining sector—and by improving the efficiency of government spending.
- Three of Zambia's largest mines awarded their workers above-inflation pay rises in February, averting the possibility of strikes and ensuring that copper production would remain stable in the medium term.

Outlook for 2010-11

Political outlook

Domestic politics

Political tension is expected to increase throughout the forecast period ahead of the legislative and presidential elections, which are due in 2011. The president, Rupiah Banda, is struggling to hold together the ruling Movement for Multiparty Democracy (MMD). A faction of MMD members is opposed to his leadership, and the government's performance is likely to suffer as Mr Banda spends time trying to assert his authority. An alliance between the two largest opposition parties, the Patriotic Front (PF) and the United Party for National Development (UPND), represents a major electoral threat to Mr Banda and the MMD. The National Constitutional Conference's approval of a presidential candidate qualification clause had led to concerns that the PF-UPND alliance's candidate—Michael Sata—may no longer be eligible to stand for president. Although Mr Sata's recent confirmation that he does have a degree has put these concerns to rest, it will not mean an end to efforts by the ruling party to attack Mr Sata's credibility in an attempt to counter his growing popularity.

It has become increasingly clear that the 2011 presidential election will be closely contested. Mr Banda's electoral prospects will continue to be buoyed by the advantages of incumbency and by the MMD's formidable electoral machinery. However, an opposition victory is looking increasingly probable—Mr Sata lost the last presidential election on a narrow margin, and his popularity has grown since then, as the electorate has become increasingly disillusioned with the government's performance. The parliamentary result is, similarly, likely to be close. This will put greater pressure on whoever is in power to be more accountable, but will also mean that passing legislation takes longer as the opposition makes itself heard. If the MMD remains in power, it is likely that unity will just about be maintained—Zambian politicians tend to be driven by career ambitions rather than ideology—although some defections are, nevertheless, likely to take place. If defeated, the MMD is likely to break apart.

The adoption of a new constitution has the potential to generate controversy. There is much support among the opposition and wider civil society for the constitution to be altered so that a presidential candidate requires 50% plus one of the votes to secure victory, involving extra rounds of voting if necessary. Such a system would remove some of the advantages of incumbency and will therefore be opposed by Mr Banda and the MMD. The decision over which voting system to adopt will go to a national referendum. Although the population is expected to vote in favour of the 50%-plus-one system, the MMD will attempt to delay the referendum until it is too late to use the new system at the 2011 presidential election.

The vital copper-mining sector is recovering from the worst of the fallout from the global economic slowdown, as international prices have bounced back strongly. This will defuse tensions that had been brought about by falling prices and job losses in late 2008 and early 2009. Stability in the Copperbelt will also be underpinned by the recent negotiation of above-inflation pay increases for workers at the Konkola, Mopani and Lumwana mines.

International relations

Zambia is not expected to face any external threats during the forecast period. Nevertheless, the country's international relations are set to deteriorate as donors express their unhappiness with a perceived softening in the government's commitment to fighting corruption. On the one hand, the government is angry at what it perceives as donors impinging on its sovereignty, and anti-Western rhetoric may well increase. On the other hand, the government is well aware of its dependence on external financial assistance and is therefore likely to make some efforts to placate donors. This was demonstrated recently, when the government gave renewed assurances that it would ensure the enforcement of more stringent accounting measures at the Ministry of Health, after a corruption scandal there resulted in the suspension of some donor funds. Zambia's engagement with China will continue to grow over the forecast period, but the country will remain predominantly reliant on Western aid.

Economic policy outlook

Policy trends

The government's latest Medium Term Expenditure Framework (MTEF) and the 2010 budget are both based around the intention of trying to position Zambia to take best advantage of the global economic recovery. While ambitious policies are laudable, there is a strong risk that economic policy execution will, conversely, slow over the forecast period—bureaucratic capacity remains weak in Zambia, and the government will be distracted from its responsibilities by an escalation of political manoeuvring in the run-up to the elections. Furthermore, the recovery in copper prices may see the waning of the government's commitment to diversifying the economy.

Alongside the MTEF, medium-term economic policy will largely continue to be shaped by the latest three-year extended credit facility (ECF; formerly known as the poverty reduction and growth facility) with the IMF, which began in June 2008. The ECF has the same broad aims as its predecessor. These include ensuring fiscal prudence, reducing poverty and preserving macroeconomic stability and debt sustainability. The government is keen to lower the cost of doing business in order to develop the private sector, but the country's poor infrastructure will remain a hindrance. Electricity supply will continue to be tight, despite the efforts of both the government and the private sector to increase supply, as production in the power-intensive mining sector rises in response to higher copper prices. Poor transport infrastructure will continue to hinder rural development, particularly in the agricultural sector.

Fiscal policy

The challenge for the 2010 budget is to get policy back on track after the fiscal deficit opened up in 2009. The domestic tax take has begun to improve as revenue from the mining sector grows in line with increases in copper prices and production. Trade taxes should also improve after posting large falls in 2009 as world trade fell back. Expenditure will rise owing to an increase in civil service pay agreed in 2009, and as the government comes under greater pressure to meet its development commitments ahead of the elections.

Nevertheless, the fiscal deficit is expected to come down to 2.7% of GDP in 2010. The MTEF anticipates fiscal consolidation in 2011, with the tax take increasing and expenditure growth slowing, leading to a fiscal deficit of 1.5% of GDP. However, restraining expenditure in an election year seems unlikely, and the government is being over-ambitious with its target for public-sector wages. As a result, the Economist Intelligence Unit expects a fiscal deficit of 2.4% of GDP in 2011.

In recent years the government has demonstrated that it is determined to keep domestic borrowing down as part of its drive to entrench macroeconomic stability and to lower the risk of crowding out the private sector. Although this policy suffered in 2009 as the fiscal deficit widened, the government should be more successful in 2010-11. External borrowing will therefore continue to play a large role in financing deficits. Most of this will be from donors at concessional rates of interest. China has recently committed to providing Zambia with a US$1bn concessional loan, which will help to ease budgetary constraints over the forecast period. The government has reiterated its interest in securing non-concessional loans to finance investments in infrastructure. The IMF recently expressed its support for this decision, increasing the likelihood that it will be implemented.

Monetary policy

One of the main priorities of the Bank of Zambia (BoZ, the central bank) is to bring down inflation. The BoZ should be more successful during 2010-11, as food price pressures are expected to be lower. The BoZ also intends to move away from setting monetary aggregate targets and towards the direct setting of a policy interest rate, in line with most other central banks. This should—in theory—make it easier for the BoZ to smooth out adverse cyclical conditions, as well as targeting a specific inflation rate. However, higher copper prices may complicate this by creating excess liquidity in the economy. The BoZ also faces the task of stabilising the kwacha, which has experienced considerable volatility in recent months. However, it will remain committed to an exchange rate that reflects market fundamentals.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.9	-0.9	3.8	3.5
OECD	0.5	-3.4	2.1	1.6
EU27	0.7	-4.2	0.9	1.1
Exchange rates				
¥:US$	103.4	93.7	90.9	90.0
US$:€	1.470	1.393	1.365	1.393
SDR:US$	0.629	0.646	0.650	0.642
Financial indicators				
€ 3-month interbank rate	4.65	1.23	0.70	0.93
US$ 3-month Libor	2.91	0.69	0.63	0.93

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Commodity prices				
Oil (Brent; US$/b)	97.7	61.9	77.0	73.0
Gold (US$/troy oz)	872	973	1,150	1,214
Copper (US cents/lb)	316	234	321	323
Industrial raw materials (% change in US$ terms)	-5.1	-25.6	31.5	0.6

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

World GDP is forecast to start to recover in 2010, growing by 3.8%, led by Asia. Growth is expected to dip fractionally in 2011, as there is likely to be a stutter in Western economies as the fiscal stimulus packages run out. Global prices for copper, Zambia's main export commodity, are expected to recover strongly, to 321 US cents/lb in 2010 and 323 US cents/lb in 2011, as Asian demand, particularly from China, continues to surge. Oil prices are expected to increase to US$77/barrel in 2010, before falling to US$73/b in 2011 as supply increases while demand slows in the West as the fiscal stimulus packages run out.

Economic growth

The recovery of the economically vital copper sector since the crash in prices during the second half of 2008 has been impressive. Strong growth in the mining sector, coupled with robust agricultural production and increased construction activity, contributed to real GDP growth estimated by the Zambian authorities at 6.3% in 2009. This is expected to continue into 2010, as increasing copper prices will encourage further mining-related investment and substantial increases in production. However, a limiting factor will be power supply, which will remain tight throughout the forecast period. In addition, the recovery in mining-related services will be slow, as mine owners will remain wary of overheads after major efforts to reduce costs in 2009. Agricultural production, especially of the key foodstuff, maize, looks set to be strong in 2010-11 as government efforts to assist the sector continue to yield results. Nevertheless, production growth may slow in 2010, as some farmers were put off by difficulties in getting their harvest to market in 2009. Tourism will receive a boost in 2010 from the football World Cup being held in South Africa, with visitor numbers to the Victoria Falls in particular expected to increase. However, manufacturing, other than copper refining, will remain moribund owing to poor infrastructure and cheap Asian imports. Real GDP growth is therefore forecast to increase to 6.8% in 2010, before dipping slightly to 6.4% in 2011 as growth in the mining sector eases after a number of boom years. Political uncertainly related to the 2011 elections, as well as a stutter in global prospects, could also damage confidence.

Inflation

Inflation continued to come down in the final quarter of 2009, reaching single digits in December for the first time in 21 months. The factors behind this downward trend—mainly lower food prices—should continue into 2010, as the outlook for domestic food production looks strong. Greater kwacha stability will also contribute to lower prices, but an expected increase in the oil import bill, as prices increase, will limit more significant falls in inflation. Overall inflation is forecast to average 10% in 2010. Inflation should fall further in 2011, to 9.3%, as strong food production continues and fuel prices stabilise. However, this could be undermined if fiscal policy is loosened significantly ahead of the 2011 elections. In addition, Zambia remains susceptible to drought, as agriculture is predominantly rain-fed, and this would quickly affect food prices.

Exchange rates

After the turmoil in 2009, which saw the kwacha first depreciate heavily and then recover strongly, currency markets should be less volatile during the forecast period. Foreign-exchange inflows from copper exports are expected to increase. Zambia's Western donors are likely to reduce their financial support to the country, but this will be countered by a rise in inflows from China. Private investors are likely to return to the country only gradually, after having been forced to withdraw quickly in 2009 as global financial markets tightened. Nevertheless, the rebound seen in the kwacha during the latter part of 2009 is likely to translate into a small overall appreciation during 2010, to an average of ZK4,515:US$1. The narrower current-account deficit (in historical terms) and robust level of reserves will mean that the kwacha remains largely stable in 2011, when it is expected to average ZK4,615:US$1.

External sector

Copper export levels are expected to rise in 2010-11 in line with the increase in global copper prices. Growth in non-traditional exports will be more fragile owing to the stuttering global recovery. Imports will increase strongly as domestic demand picks up, particularly from the copper sector, and as international prices rebound after the falls seen in 2009. However, the expected increase in imports will not be enough to stop the overall trade surplus from growing in 2010 and remaining substantial in 2011.

The improvement in the trade account will marginally exceed the deterioration in the invisibles deficit. Debits from trade and mining-related services will outpace tourism growth, while income outflows will increase as profit remittances from the mining sector recover. Transfer inflows will also fall back as relations between the government and donors deteriorate. The recovery in worker remittances will only partially offset this. Overall, the deterioration in the invisibles account will not be enough to fully offset the increase in the trade surplus in 2010, with the current-account deficit expected to fall to 0.3% of GDP. However, in 2011, when copper prices stabilise and imports of goods and services continue to grow, the current-account deficit is forecast to increase slightly, to 1% of GDP.

Forecast summary

(% unless otherwise indicated)

	2008[a]	2009[b]	2010[c]	2011[c]
Real GDP growth	5.7	6.3	6.8	6.4
Gross industrial growth	4.1	11.0	12.4	8.8
Gross agricultural production growth	2.6	7.1	3.0	4.5
Consumer price inflation (av)	12.4	13.4[a]	10.0	9.3
Consumer price inflation (year-end)	16.6	9.9[a]	9.6	10.0
Short-term interbank rate	19.1	22.1[a]	19.2	18.5
Government balance (% of GDP)	-1.5	-3.5	-2.7	-2.4
Exports of goods fob (US$ m)	4,957.0	4,375.0	6,118.3	6,874.2
Imports of goods fob (US$ m)	4,555.0	3,735.1	4,706.2	5,412.2
Current-account balance (US$ m)	-618.9	-102.1	-53.8	-201.3
Current-account balance (% of GDP)	-4.2	-0.8	-0.3	-1.0
External debt (year-end; US$ bn)	3.1[b]	3.3	3.5	3.8
Exchange rate ZK:US$ (av)	3,746	5,046[a]	4,515	4,615
Exchange rate ZK:¥100 (av)	3,624	5,385[a]	4,968	5,128
Exchange rate ZK:€ (av)	5,506	7,029[a]	6,163	6,426
Exchange rate ZK:SDR (av)	5,952	7,815[a]	6,947	7,194

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Monthly review: April 2010

The political scene

Political manoeuvring escalates ahead of elections

Although the next round of presidential and legislative elections is over 18 months away, Zambia's politicians appear to be almost completely preoccupied with the task of consolidating support ahead of them. This partly reflects the widespread expectation that the 2011 election will be the most closely contested election since the shift to multiparty politics in 1991—Michael Sata, the leader of the Patriotic Front (PF) and the prime threat to the president, Rupiah Banda, in 2011, lost the 2008 election on an extremely narrow margin, securing 38.7% of the vote against Mr Banda's 40.7%, and his electoral prospects have been buoyed since then by growing discontent with the government's performance (March 2010, The political scene). In its quest to combat the steady rise in Mr Sata's popularity, Mr Banda's party—the Movement for Multiparty Democracy (MMD)—has resorted to several unsavoury tactics. Most notably, it has tried to appeal to historic rivalries between the Bemba and the Tonga ethnic groups to undermine the electoral alliance between the PF and the United Party for National Development (UPND). While Mr Sata belongs to the Bemba group, the UPND's leader, Hakainde Hichilema, comes from the Tonga group. The MMD has drawn on this to instigate dissent among UPND legislators and Tonga traditional chiefs, urging them to withdraw their support for Mr Hichilema because he has aligned himself with a member of the Bemba group. The MMD appears to have had some success in its endeavours, with a few Tonga chiefs retracting their support for Mr Hichilema and switching allegiances to the MMD.

Although Zambia has had no recent record of conflict or confrontation between its ethnic groups, historical rivalries between groups such as the Tonga and the Bemba have continued to exercise an influence on political attitudes. The PF's and UPND's ability to negotiate an alliance, despite their leaders' tribal backgrounds, was therefore surprising and encouraging. The MMD's tactics, conversely, are disappointing, as by emphasising tribal allegiances they have arguably served to reinforce them.

The MMD questions the Church's support for Mr Sata

In a similar vein, the MMD has attempted to negate the electoral implications of the influential Roman Catholic Church's support for Mr Sata by questioning the basis of this support. In particular, it has accused the head of the Roman Catholic Church in Zambia, Archbishop Telesphore Mpundu, of supporting Mr Sata because the latter fathered two children with the archbishop's sister out of wedlock. The archbishop has denied these accusations, stating that he does not support Mr Sata's relationship with his sister, and that his political opinions are informed purely by the ruling party's failure to fight corruption and deliver services to the Zambian people. The Roman Catholic Church has been a vocal critic of the government in recent years, and the MMD's attempt to tarnish the Church appears to reflect its concern about the Church's influence on public opinion—26.3% of Zambians are Catholic, so the Church's unfavourable views on the government could have significant implications for the MMD.

A new political party is formed

On March 2nd Elias Chipimo, a prominent Lusaka lawyer and graduate of Oxford University, announced the formation of a new political party called the National Restoration Party (Narep). Narep's formation comes just 18 months before the elections, giving it very little time to mobilise grassroots support. Furthermore, Narep is largely perceived as an elitist party, so garnering support among the rural population—which constitutes the vast majority of the electorate—will be particularly challenging. As a result, it is unlikely to win many seats at the parliamentary elections in 2011. In theory, Narep could still undermine Mr Sata's electoral prospects by splitting the urban vote—urban voters are a key component of Mr Sata's core support base. However, this is unlikely for two reasons. First, although Mr Chipimo is a well-respected lawyer, he does not command the level of support required for him to be a significant threat to Mr Sata. Second, Mr Chipimo is a close ally of the minister of livestock and fisheries, Bradford Machila, and there is a strong possibility that he will form an electoral pact with the MMD. This would alienate him from Mr Sata's support base, which consists largely of voters who are disgruntled with the MMD.

Mr Sata remains eligible to stand for president

Earlier this year the National Constitutional Conference (NCC), which was created to debate amendments to the constitution, endorsed a clause requiring all presidential candidates to hold a degree from a recognised university (March 2010, The political scene). The NCC's decision met with strong criticism from the opposition and the urban population, which perceived it as a direct attempt to exclude Mr Sata from the presidential election in order to cement Mr Banda's electoral prospects. The clause also led to concern about whether the PF-UPND alliance would survive if Mr Sata were no longer able to stand for president. However, recent developments appear to have put these concerns to rest. In late February Mr Sata told two private radio stations that he holds two degrees—one in political science from the University of London, and the other in arts and history from an American university—and an honorary degree from a Russian university. The MMD has changed its tactics in response to this—in March the former president, Frederick Chiluba, claimed that Mr Sata had a criminal record. Attempts at political point-scoring of this kind are not unusual in the run-up to an election. However, they appear to be far more pervasive this time round—reflecting expectations that the 2011 elections will be very closely contested—and are likely to distract the president and members of parliament from the task of governing the country

Economic policy

Mr Banda visits China

In late February Mr Banda made a nine-day state visit to China at the invitation of his Chinese counterpart, Hu Jintao. During his trip Mr Banda secured a US$1bn concessional loan from the Chinese authorities. Although the money will not all be released at once, it remains fairly substantial, amounting as it does to the equivalent of 40% of Zambia's total public external debt stock. The loan represents a part of China's commitment—expressed at the summit of the Forum for Africa-China Co-operation (FOCAC) in Egypt last year—to provide US$10bn in concessional loans to Africa over the next three years. The Zambian government has said that it will spend 70% of the loan on investments in infrastructure and the other 30% on the development of Multi-Facility Economic Zones (MFEZs). Although Chinese aid to Zambia remains small compared with total aid inflows, the loan reflects China's growing presence in Africa and points to a potentially substantial new source of financing, particularly for infrastructure projects. Mr Banda's delegation also signed a number of agreements while in China. The most salient of these were an agreement with the Chinese government to promote co-operation in the mining sector and an agreement with the China Non-ferrous Metal Mining Corporation (CNMC), under which the CNMC will invest in the development of a number of MFEZs in Zambia, including one near Lusaka International Airport.

Chinese investors are likely to play a growing role

The president's visit signals a continuation in the recent strengthening of ties between China and Zambia, and comes in the wake of a marked increase in China's presence in Zambia. China's share of total foreign direct investment (FDI) to Zambia has doubled from an average of 13% in the first half of the decade to 26% in the second half. China's presence in the mining sector has increased markedly as Chinese firms bought up stakes in distressed mining firms at the height of the recent global financial crisis (June 2009, Economic performance). Mr Banda's government has expressed much enthusiasm for Chinese investment, partly because it is seen as a crucial source of investment in infrastructure—the government recently approached a Chinese construction company, Gezhouba Group, to consider investing US$1.5bn in hydropower stations through the medium of public-private partnerships—and, perhaps more importantly, because it sees this as integral to creating jobs. Job creation, in turn, is seen as essential to winning back support among the electorate, particularly Zambia's youth. The most recent Integrated Labour Force Survey, conducted in 2005, estimated unemployment in Zambia at 16%. This has presumably been a major factor underlying the electorate's disenchantment with the government. Mr Banda seems keen to counter this by convincing people that he is committed to creating new jobs. Attracting Chinese investment and emphasising China's role on this front appear to be the central planks of his strategy.

The government's enthusiasm for China has been matched, to some extent, by public opinion, with hostility towards Chinese investors falling. In the past, relations between Chinese investors and their Zambian employees have been fraught with tension, as workers have been disgruntled owing to low pay and poor working conditions. In March 2008 a Chinese manager at the Chambishi mine had to be taken to hospital after being attacked by workers during a protest over unsatisfactory working conditions (March 2008, The political scene). One possible reason for the recent decline in hostility is that, as employment became increasingly difficult to come by during the recession, the fact that the Chinese were providing jobs at all was seen as grounds for contentment. In addition, the opposition front-runner, Mr Sata—once a vocal critic of Chinese investors, whom, in 2006, he had sworn to expel from Zambia should he come to power—had tempered his position by 2008 in response to concerns among donors and investors over his nationalist rhetoric, promising to protect all existing investments and respect legally binding contracts signed by the MMD (September 2008, The political scene). On every front, therefore, China's presence in Zambia is looking increasingly secure.

Chinese foreign direct investment in Zambia
(US$m unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chinese FDI	14.7	8.9	20.7	2.9	14.0	41.1	210.6	292.6	5,471.1	116.5
Total FDI	80.6	107.9	82.0	111.1	119.9	244.6	673.4	1,694.6	9,839.6	1,036.1
Share (%)	18.3	8.2	25.3	2.6	11.7	16.8	31.3	17.3	55.6	11.2

Source: Zambia Development Agency.

Economic performance

The IMF is optimistic about the economy's prospects

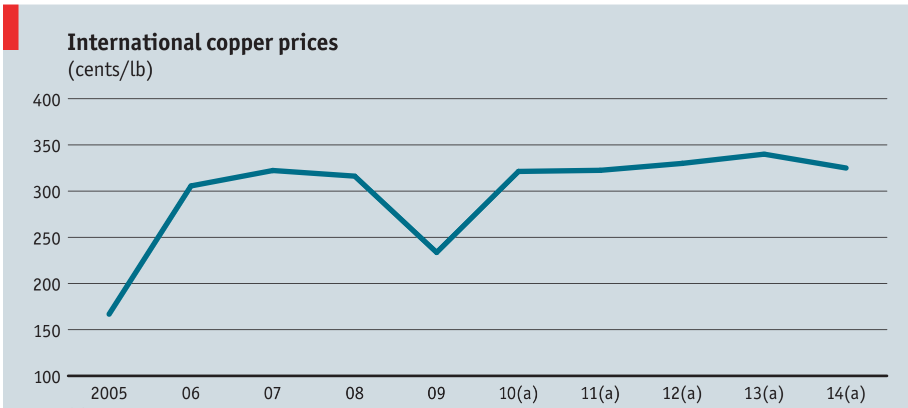
An IMF delegation visited Zambia at the end of February to hold discussions on the fourth review of the country's performance under the extended credit facility (ECF) arrangement (formerly known as the poverty reduction and growth facility). At the conclusion of its mission the Fund issued a statement commending the government's management of the economy and expressing optimism about the economy's medium-term prospects. It endorsed the government's management of fiscal policy in 2009 and its use of greater domestic financing to compensate for the decline in tax collection to ensure that capital expenditure projects were implemented as planned. The Fund noted that the key medium-term policy challenge would be to create greater fiscal space both by raising domestic tax revenue collection—including from the mining sector—and by improving the efficiency of government spending, in particular through keeping the wage bill in check and avoiding fuel subsidies. This is essential if the government is to raise capital spending—and therefore the investment rate—which will be a critical determinant of the economy's longer-term performance.

Gross fixed investment
(% of GDP)

	2007	2008	2009
China	40.1	41.1	43.7
India	33.0	33.0	32.3
Botswana	24.0	23.4	25.6
Mozambique	21.8	25.1	22.3
South Africa	20.2	22.5	20.6
Kenya	19.0	20.3	20.5
Zambia	**20.6**	**19.6**	**19.6**
Tanzania	17.7	17.7	17.4
Malawi	11.6	11.7	11.5

Source: Economist Intelligence Unit.

The Fund's explicit mention of the mining sector in this context is potentially significant given the recent controversy surrounding Zambia's mining tax regime. In April 2008 the government increased certain aspects of the mining tax regime. This met with considerable opposition from mining firms, as the new structure was inconsistent with the development agreements that these firms had previously signed with the government (April 2008, Economic Policy). Although one component of the new tax regime—a windfall tax—was abolished in 2009 in response to the drop in copper prices (February 2009, Economic policy), the other elements of the new regime were retained, and the recent surge in copper prices has made it increasingly unlikely that they will be retracted (March 2010, Economic performance). The IMF's statement could be interpreted as an endorsement of the current tax regime, further reducing the likelihood that the 2008 tax increases will be retracted. The Fund expects buoyant economic growth over the medium term, underpinned by strong international copper prices.



(a) Forecast.
Source: Economist Intelligence Unit.

Workers in the mining sector receive pay increases

In February Vedanta Resources, the company that runs the Konkola Copper Mines, agreed to raise wages for all its workers by 11%. This decision follows strikes over wages in November 2009, which led to an estimated 40% drop in the mine's output in the last quarter of 2009, and renewed threats that workers would go on strike again if they were not given above-inflation pay rises. The pay increase was negotiated by the Mine Workers' Union of Zambia (MUZ). The MUZ also recently negotiated a 22% pay increase for employees at the Lumwana mine, owned by Equinox Minerals, and a 10.5% increase for workers at the Mopani Copper Mine, owned by a Swiss firm, Glencore International, in both cases averting the possibility of strikes. The pay rises will help to maintain stability in the Copperbelt—where unions have been prone to strikes over pay in the past (September 2007, The domestic economy)—and to sustain the recent recovery in copper production.

Data and charts

Annual data and forecast

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]
GDP							
Nominal GDP (US$ m)	7,179	10,702	11,541	14,705	13,237	17,667	19,468
Nominal GDP (ZK bn)	32,042	38,561	46,195	55,079	66,797	79,766	89,845
Real GDP growth (%)	5.2	6.2	6.2	5.7	6.3	6.8	6.4
Expenditure on GDP (% real change)							
Private consumption	3.5	-1.2	2.1	4.0[b]	0.7	4.5	4.3
Government consumption	23.3	25.5	27.2	23.0[b]	10.0	14.0	17.5
Gross fixed investment	6.0	11.0	9.0	8.0[b]	2.0	7.5	6.0
Exports of goods & services	23.1	21.0	21.2	19.2[b]	12.6	15.0	15.6
Imports of goods & services	16.7	14.3	16.2	16.2[b]	8.3	12.8	13.7
Origin of GDP (% real change)							
Agriculture	-0.6	2.2	0.4	2.6	7.1	3.0	4.5
Industry	9.4	9.1	8.3	4.1	11.0	12.4	8.8
Services	5.4	6.7	7.1	7.2	3.0	5.3	5.5
Population and income							
Population (m)	11.7	12.0	12.3	12.6[b]	12.9	13.2	13.4
GDP per head (US$ at PPP)	1,130	1,211	1,291	1,360[b]	1,433	1,522	1,610
Fiscal indicators (% of GDP)							
Public-sector revenue	23.3	21.6	23.0	22.3	17.4	18.5	18.7
Public-sector expenditure	26.1	23.2	24.3	23.8	21.0	21.2	21.0
Public-sector balance	-2.7	-1.7	-1.3	-1.5	-3.5	-2.7	-2.4
Net public debt	62.6	31.1	28.7	29.7[b]	29.1	26.7	27.8
Prices and financial indicators							
Exchange rate ZK:US$ (end-period)	3,509	4,407	3,845	4,832	4,641[a]	4,569	4,647
Exchange rate ZK:€ (end-period)	4,139	5,815	5,615	6,717	6,651[a]	6,213	6,576
Consumer prices (end-period; %)	15.9	8.2	8.9	16.6	9.9[a]	9.6	10.0
Stock of money M1 (% change)	17.8	54.0	14.6	30.4	-0.7	12.0	9.0
Stock of money M2 (% change)	3.2	44.2	25.3	23.2	1.4	16.9	14.7
Lending interest rate (av; %)	28.2	23.2	18.9	19.1	22.1[a]	19.2	18.5
Current account (US$ m)							
Trade balance	86	1,293	899	402	640	1,412	1,462
Goods: exports fob	2,247	3,929	4,510	4,957	4,375	6,118	6,874
Goods: imports fob	-2,161	-2,636	-3,611	-4,555	-3,735	-4,706	-5,412
Services balance	-198	-360	-642	-621	-537	-785	-961
Income balance	-595	-1,169	-1,486	-1,190	-912	-1,361	-1,435
Current transfers balance	375	539	754	790	707	680	732
Current-account balance	-332	303	-475	-619	-102	-54	-201
External debt (US$ m)							
Debt stock	5,386	2,284	2,789	3,073[b]	3,334	3,542	3,849
Debt service paid	455	159	123	201[b]	193	189	193
Debt service due	483	209	132	228[b]	196	189	193
International reserves (US$ m)							
Total international reserves	560	720	1,090	1,096	2,562	2,950	3,200

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2008				2009			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (1994=100)	1,559	1,599	1,645	1,714	1,783	1,830	1,871	1,906.5
Consumer prices (% change, year on year)	9.5	11.0	13.4	15.7	14.3	14.4	13.7	11.2
Copper, LME (US$/tonne)	7,796	8,443	7,680	3,905	3,429	4,663	5,859	6,649
Financial indicators								
Exchange rate ZK:US$ (av)	3,737	3,389	3,462	4,395	5,336	5,308	4,874	4,667
Exchange rate ZK:US$ (end-period)	3,674	3,186	3,577	4,832	5,589	5,167	4,723	4,641
Deposit rate (av; %)	6.43	6.59	6.59	6.59	6.59	6.97	7.40	7.40
Weighted lending base rate (av; %)	18.30	18.29	18.96	20.70	20.86	21.58	22.85	22.97
Treasury bill, 91-day rate (av; %)	12.49	12.87	13.28	15.23	15.98	16.08	16.93	12.59
M1 (end-period; ZK bn)	3,605	4,109	4,547	4,994	4,277	4,377	4,871	4,962
M1 (% change, year on year)	28.3	39.8	39.1	30.4	18.6	6.5	7.1	-0.7
M2 (end-period; ZK bn)	10,195	10,630	11,140	12,815	12,815	12,908	12,700	12,992
M2 (% change, year on year)	33.1	27.8	18.8	23.2	25.7	21.4	14.0	1.4
Sectoral trends								
Copper in concentrates, production ('000 tonnes)	138.9	149.1	141.7	182.1	170.9	168.4	178.1	175.9
Copper in concentrates, exports ('000 tonnes)	140.8	143.5	127.3	175.6	153.3	157.7	186.9	177.5
Foreign trade (US$ m)								
Exports fob	940.1	906.3	1,047.0	685.5	632.8	920.0	820.5	n/a
Imports cif	-884.3	-1,049.4	-1,288.4	-878.7	-715.0	-778.2	-1,071.4	n/a
Trade balance	55.9	-143.2	-241.4	-193.2	-82.2	141.9	-250.9	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	1,230	1,391	1,279	1,096	952	1,154	2,434	2,562

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

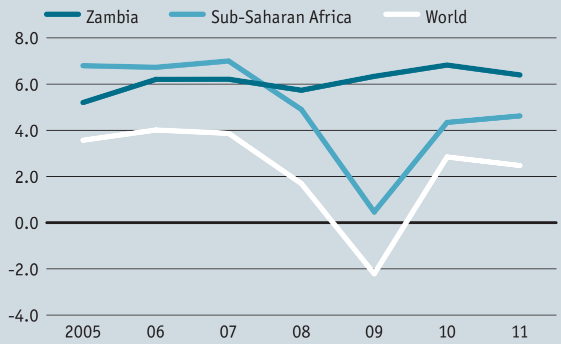
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate ZK:US$ (av)												
2007	4,221	4,254	4,259	4,161	4,014	3,888	3,827	4,013	3,961	3,831	3,767	3,834
2008	3,793	3,753	3,666	3,517	3,399	3,250	3,393	3,453	3,540	4,044	4,257	4,883
2009	5,017	5,407	5,585	5,663	5,186	5,074	5,134	4,832	4,655	4,660	4,657	4,682
Deposit rate (end-period; %)												
2007	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	9.3	6.3	6.3	6.3
2008	6.3	6.4	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
2009	6.6	6.6	6.6	6.6	6.9	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Lending rate (av; %)												
2007	21.0	21.0	20.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
2008	18.4	18.3	18.2	18.2	18.2	18.5	18.6	18.6	19.7	20.6	20.6	20.9
2009	20.9	20.9	20.9	20.7	21.6	22.4	22.4	23.0	23.1	23.1	23.1	22.7
M1 (% change, year on year)												
2007	31.1	26.1	34.5	35.5	32.3	25.4	27.9	19.7	9.9	18.7	18.7	14.6
2008	21.1	26.8	28.3	29.2	40.5	39.8	36.0	33.7	39.1	49.0	34.6	30.4
2009	25.3	24.5	18.6	17.2	6.2	6.5	7.7	13.1	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2007	36.2	34.8	35.1	40.4	41.0	33.8	37.7	32.5	24.2	31.7	26.7	25.3
2008	33.0	33.5	33.1	30.8	28.0	27.8	25.1	21.9	18.8	38.3	29.3	23.2
2009	20.4	26.7	25.7	27.7	17.6	21.4	17.5	18.2	n/a	n/a	n/a	n/a
Stockmarket index												
2007	2,155	2,097	2,078	2,322	2,507	3,002	3,065	3,081	3,262	3,446	3,539	3,534
2008	3,965	4,313	4,440	4,000	4,062	3,915	3,901	3,684	3,621	3,345	2,797	2,506
2009	2,420	2,382	2,183	2,143	2,498	2,745	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2007	9.8	12.6	12.7	12.4	11.8	11.1	11.2	10.7	9.3	9.0	8.8	8.9
2008	9.3	9.5	9.8	10.1	10.9	12.1	12.7	13.2	14.2	15.2	15.3	16.6
2009	16.0	14.0	13.1	14.3	14.7	14.4	14.0	14.3	13.0	12.3	11.5	n/a
Total exports fob (US$ m)												
2007	242.0	280.8	398.4	332.8	384.4	433.5	412.3	465.5	515.1	364.9	384.7	401.3
2008	293.4	298.8	348.0	271.4	332.2	302.6	343.6	344.6	358.9	238.4	235.8	211.3
2009	183.0	192.2	257.6	310.0	297.4	312.6	245.9	282.5	292.2	177.9	n/a	n/a
Total imports cif (US$ m)												
2007	325.4	240.3	263.7	266.2	320.4	325.1	358.6	352.3	397.3	405.8	386.5	363.9
2008	277.5	274.1	332.8	333.9	369.3	346.3	374.8	491.3	422.3	345.7	254.1	278.9
2009	238.2	211.1	265.7	259.9	255.3	263.0	319.9	411.5	340.0	301.2	n/a	n/a
Trade balance fob-cif (US$ m)												
2007	-83.4	40.5	134.7	66.7	64.0	108.4	53.6	113.1	117.8	-40.9	-1.9	37.4
2008	15.9	24.8	15.2	-62.5	-37.0	-43.7	-31.3	-146.7	-63.4	-107.3	-18.3	-67.6
2009	-55.2	-18.8	-8.1	50.1	42.1	49.6	-74.1	-129.0	-47.8	-123.4	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2007	697.3	709.0	766.6	824.8	875.2	958.9	982.7	961.8	1037.6	998.8	1072.8	1090.0
2008	1098.0	1106.0	1230.2	1302.2	1333.5	1391.4	1412.8	1338.4	1279.4	1170.7	1142.8	1095.6
2009	1049.7	904.0	952.1	932.0	1118.1	1154.0	1181.8	2312.5	2434.1	2468.4	2542.7	2561.8

Sources: IMF, *International Financial Statistics*; Haver Analytics.

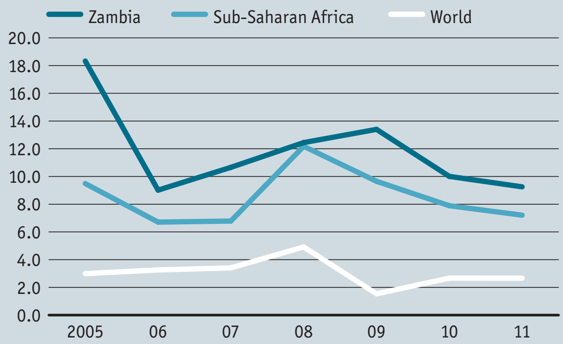
Annual trends charts

Real GDP growth
(% change)



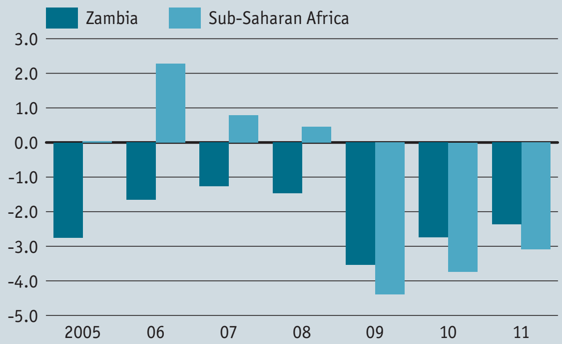
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



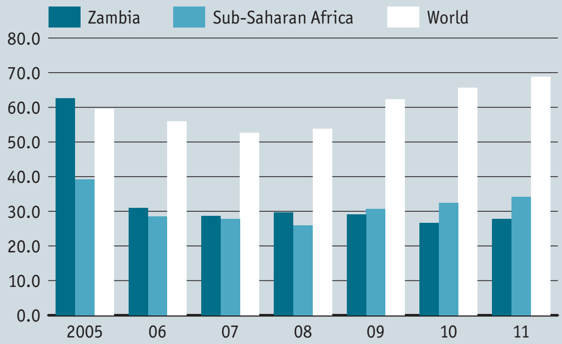
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



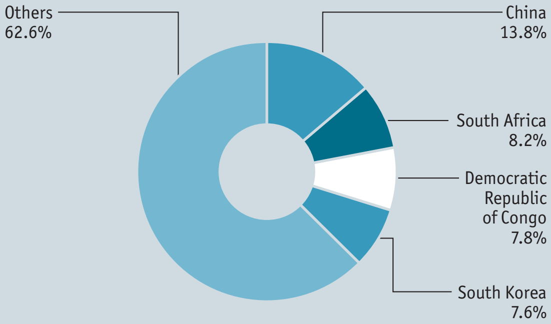
Source: Economist Intelligence Unit.

Public debt
(% of GDP)



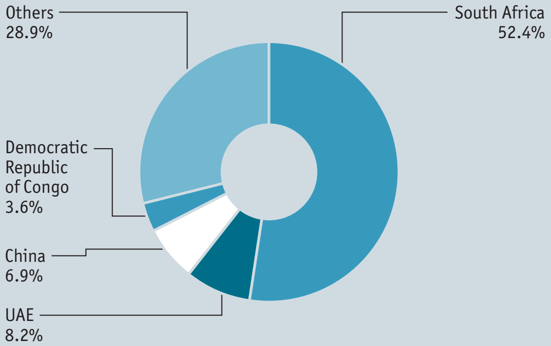
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

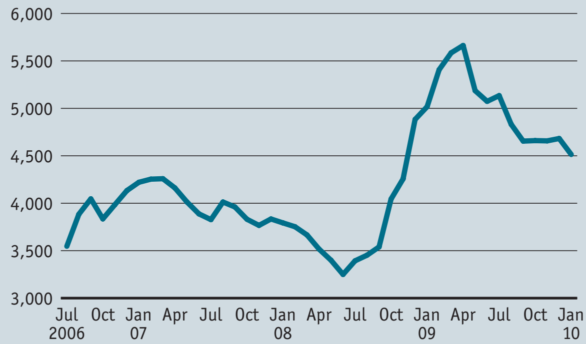
Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

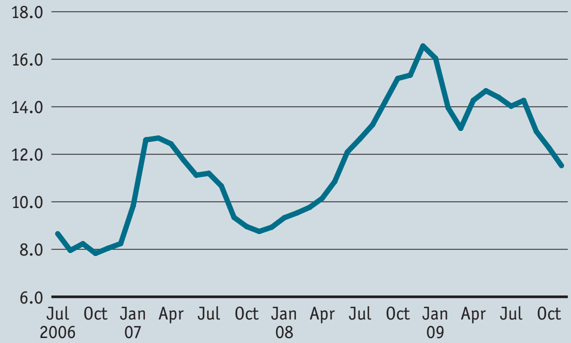
Monthly trends charts

Exchange rate
(ZK:US$; av)



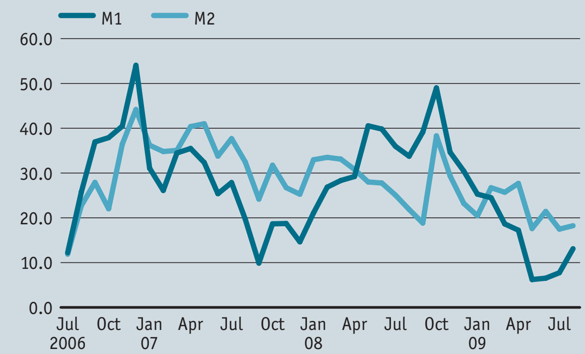
Source: Economist Intelligence Unit.

Consumer price inflation
(% change, year on year)



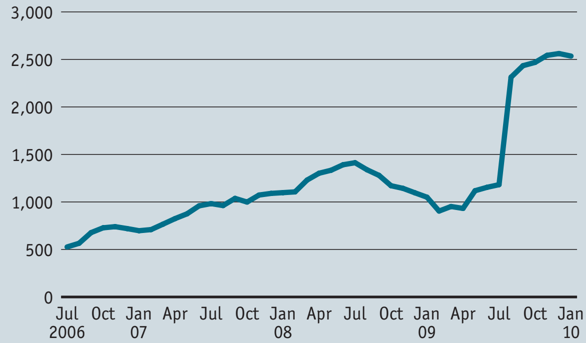
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



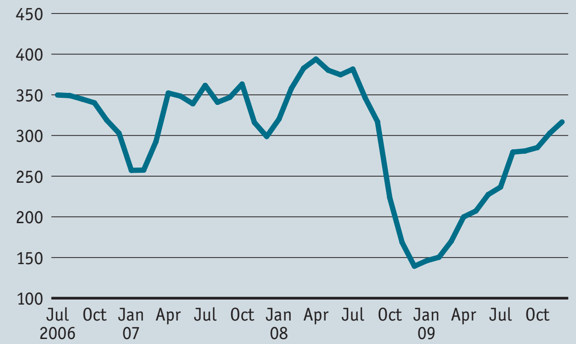
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



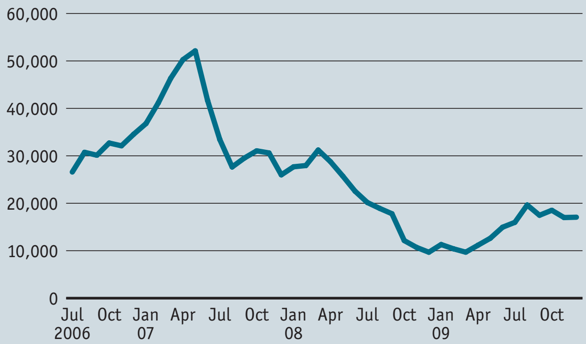
Source: Economist Intelligence Unit.

Copper: LME price
(US cents/lb; av)

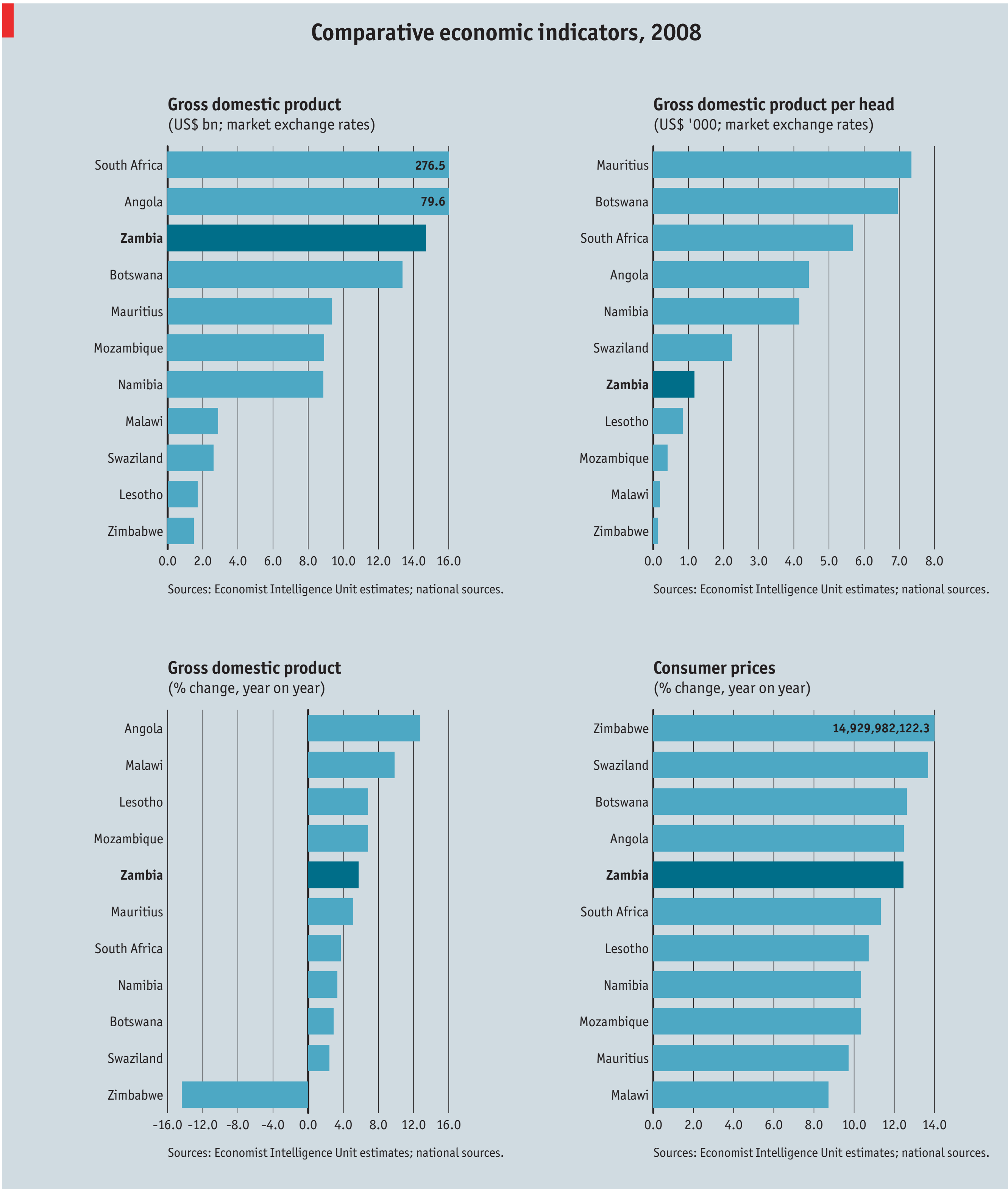


Source: Economist Intelligence Unit.

Nickel: LME price
(US$/metric tonne)



Source: Economist Intelligence Unit.


Comparative economic indicators, 2008
Gross domestic product
(US$ bn; market exchange rates)
South Africa 276.5
Angola 79.6
Zambia
Botswana
Mauritius
Mozambique
Namibia
Malawi
Swaziland
Lesotho
Zimbabwe
0.0 2.0 4.0 6.0 8.0 10.0 12.0 14.0 16.0
Sources: Economist Intelligence Unit estimates; national sources.
Gross domestic product per head
(US$ '000; market exchange rates)
Mauritius
Botswana
South Africa
Angola
Namibia
Swaziland
Zambia
Lesotho
Mozambique
Malawi
Zimbabwe
0.0 1.0 2.0 3.0 4.0 5.0 6.0 7.0 8.0
Sources: Economist Intelligence Unit estimates; national sources.
Gross domestic product
(% change, year on year)
Angola
Malawi
Lesotho
Mozambique
Zambia
Mauritius
South Africa
Namibia
Botswana
Swaziland
Zimbabwe
-16.0 -12.0 -8.0 -4.0 0.0 4.0 8.0 12.0 16.0
Sources: Economist Intelligence Unit estimates; national sources.
Consumer prices
(% change, year on year)
Zimbabwe 14,929,982,122.3
Swaziland
Botswana
Angola
Zambia
South Africa
Lesotho
Namibia
Mozambique
Mauritius
Malawi
0.0 2.0 4.0 6.0 8.0 10.0 12.0 14.0
Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 752,612 sq km

Population 11.7m (2006, IMF mid-year estimate)

Main towns Population in '000, 2000 (Economist Intelligence Unit estimates based on actual data from the 1990 census and regional growth rates from the 2000 census)

Lusaka (capital)	1,432
Ndola	536
Kabwe	512
Kitwe	373
Chingola	173
Mufulira	156
Luanshya	152
Livingstone	103

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; average exchange rate in 2008: ZK3,746:US$1

Time 2 hours ahead of GMT

Public holidays New Year's Day (January 1st), Good Friday, Easter Monday, Labour Day (May 1st), Africa Day (May 25th), Heroes' Day (first Monday in July), Unity Day (first Tuesday in July), Independence Day (October 24th), Christmas (December 25th-26th)

Political structure

Official name	Republic of Zambia
Form of state	Unitary republic
Legal system	Based on the 1996 constitution
National legislature	National Assembly; 150 members elected by universal suffrage, serving a five-year term; the president can appoint eight further members
National elections	Last presidential election on October 30th 2008, necessitated by the death of the incumbent, Levy Mwanawasa; last legislative election on September 28th 2006; next presidential and legislative elections due in 2011
Head of state	President, elected by universal suffrage for a term of five years; the current president will serve the remainder of Mr Mwanawasa's term
National government	The president and his appointed cabinet
Main political parties	The Movement for Multiparty Democracy (MMD) is the ruling party and holds a parliamentary majority; the largest opposition party is the Patriotic Front (PF); other parties in the National Assembly include the United Party for National Development (UPND), the Forum for Democracy and Development (FDD), the United National Independence Party (UNIP), the United Liberal Party and the National Democratic Focus

	President	Rupiah Banda
	Vice-president & justice minister	George Kunda
Key ministers	**Agriculture & co-operatives**	Peter Daka
	Commerce, trade & industry	Felix Mutati
	Defence	Kalombo Mwansa
	Education	Dora Siliya
	Energy & water development	Kenneth Konga
	Environment, natural resources & tourism	Catherine Namugala
	Finance & national planning	Situmbeko Musokotwane
	Foreign affairs	Kabinga Pande
	Gender	Sara Sayifwanda
	Health	Kapembwa Simbao
	Home affairs	Lameck Mangani
	Information & broadcasting	Ronnie Shikapwasha
	Labour & social security	Austin Liato
	Lands	Gladys Nundwe
	Local government & housing	Estarckio Kazanga
	Mines & minerals development	Maxwell Mwale
	Parliamentary chief whip	Vernon Mwaanga
	Science & technology	Brian Chituwo
	Sport, youth & child development	Kenneth Chipungu
	Transport & communications	Geoffrey Lungwangwa
	Works & supply	Mike Mulongoti

Central bank governor Caleb Fundanga

