



A division of FirstRand Bank Limited

Traditional values. Innovative ideas.

Zambia: Shifting up a gear

RMB Global Markets Research



AGENDA

Zambia economic outlook

April 2017

- Economic growth from a low base
- Coming out from a storm
- Big brother coming to town
- Macroeconomic forecasts

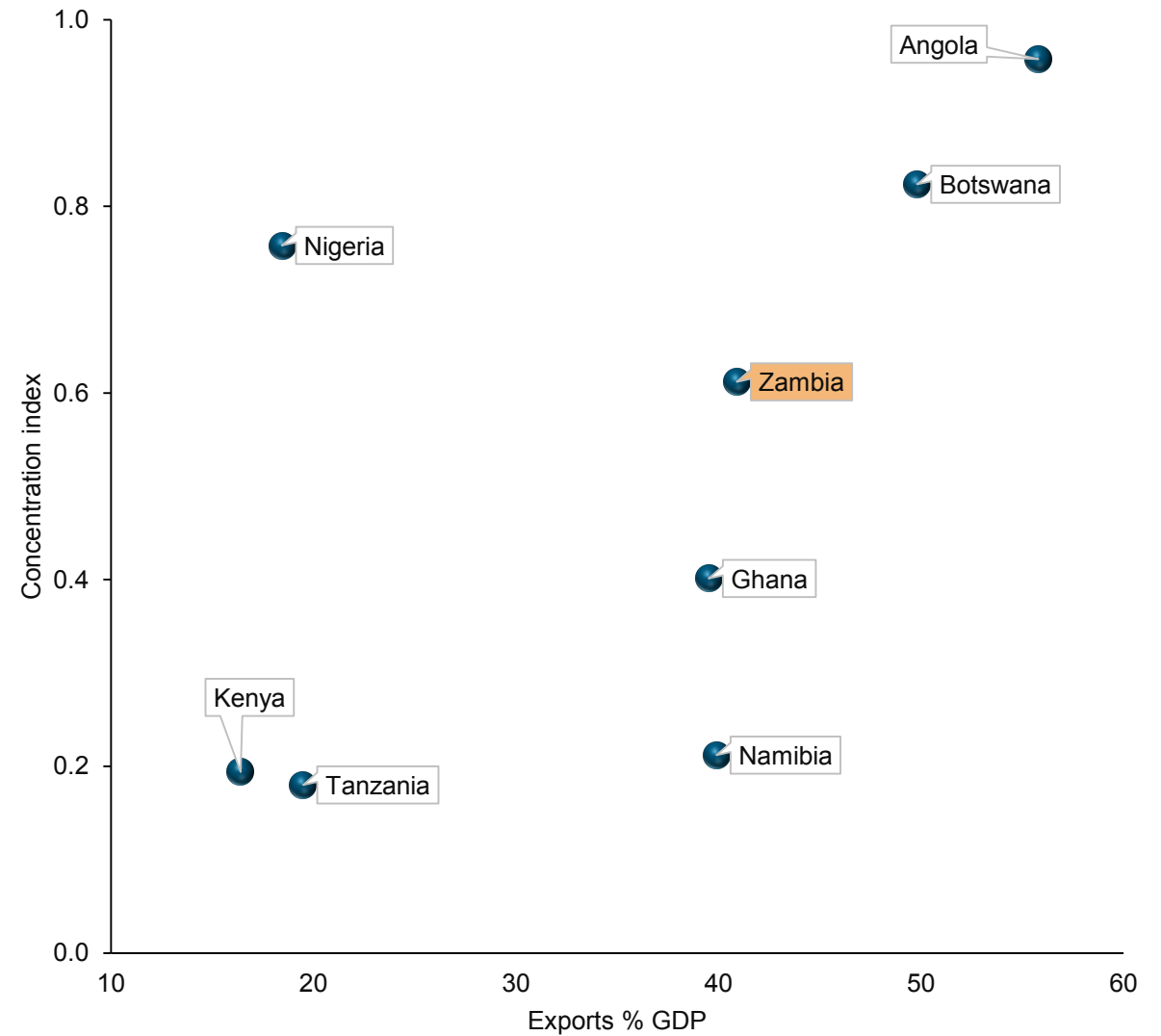


Economic growth

Growth at 17 year lows because of lopsided sources of growth



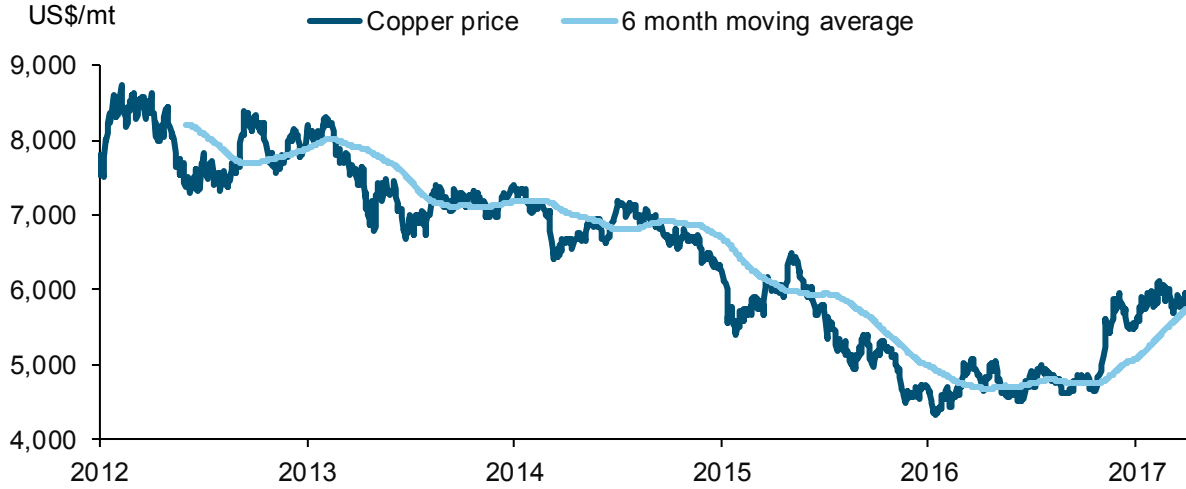
Copper constitutes a large portion of exports



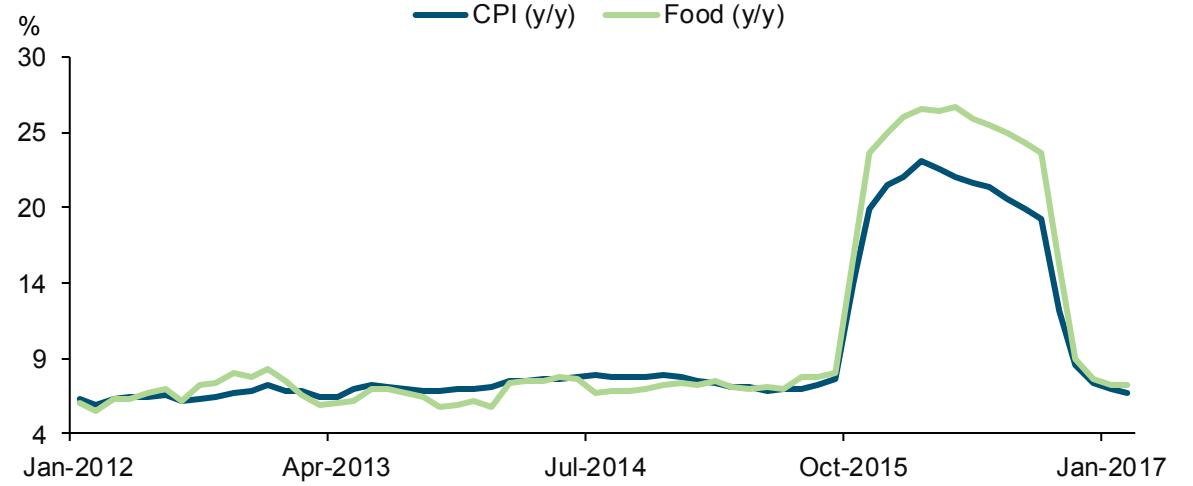


Coming out of a storm

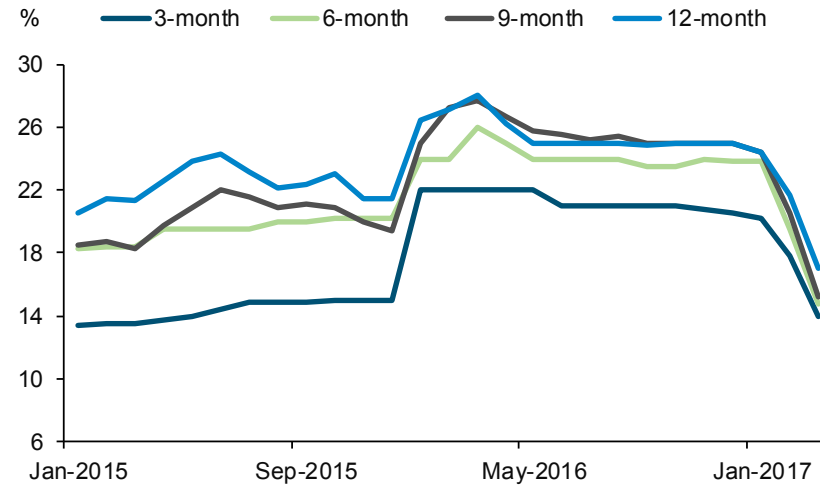
Copper prices starting to push up



Inflation has fallen off a cliff



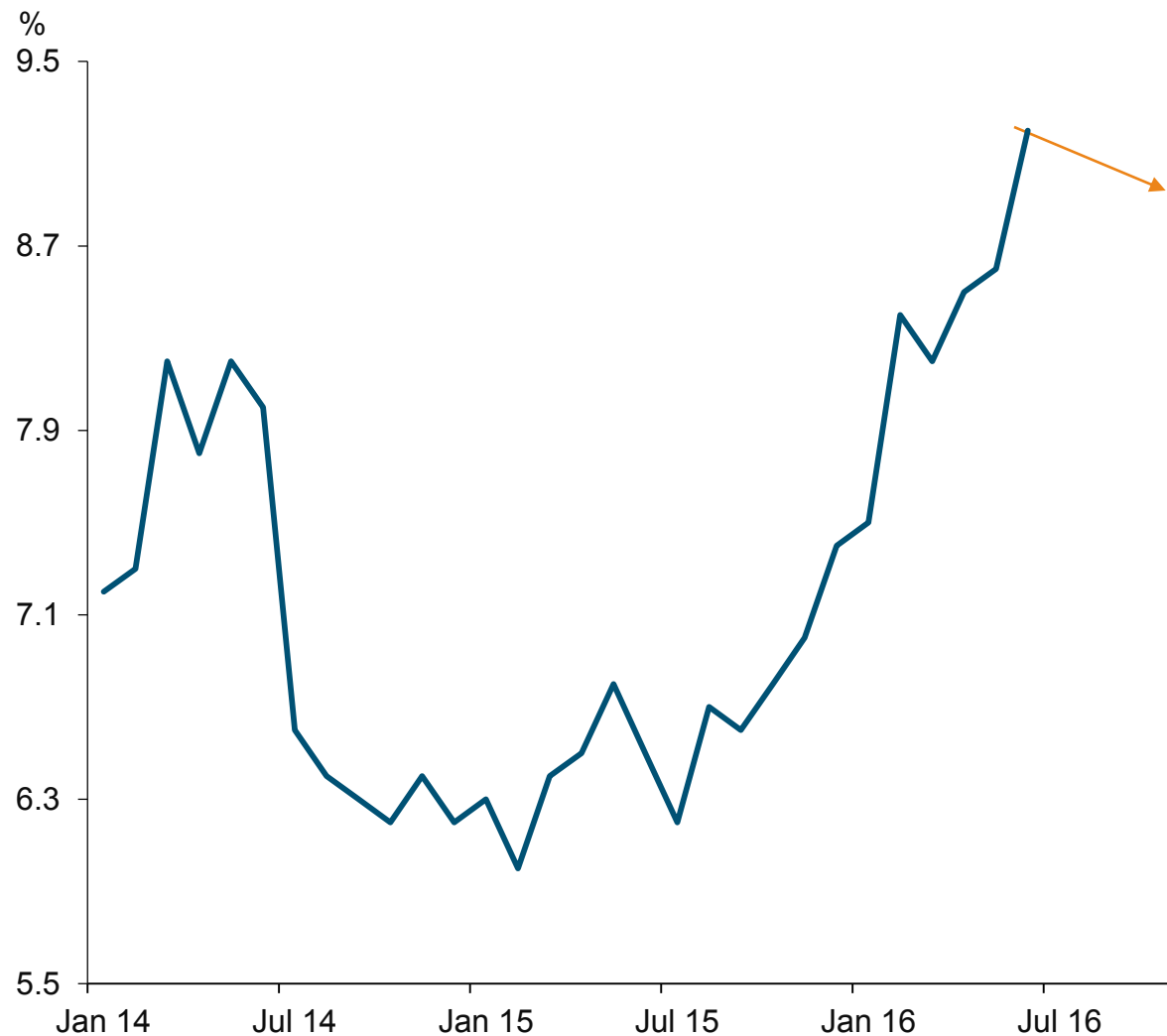
Treasury bill yields responding likewise



Significant deterioration in asset quality



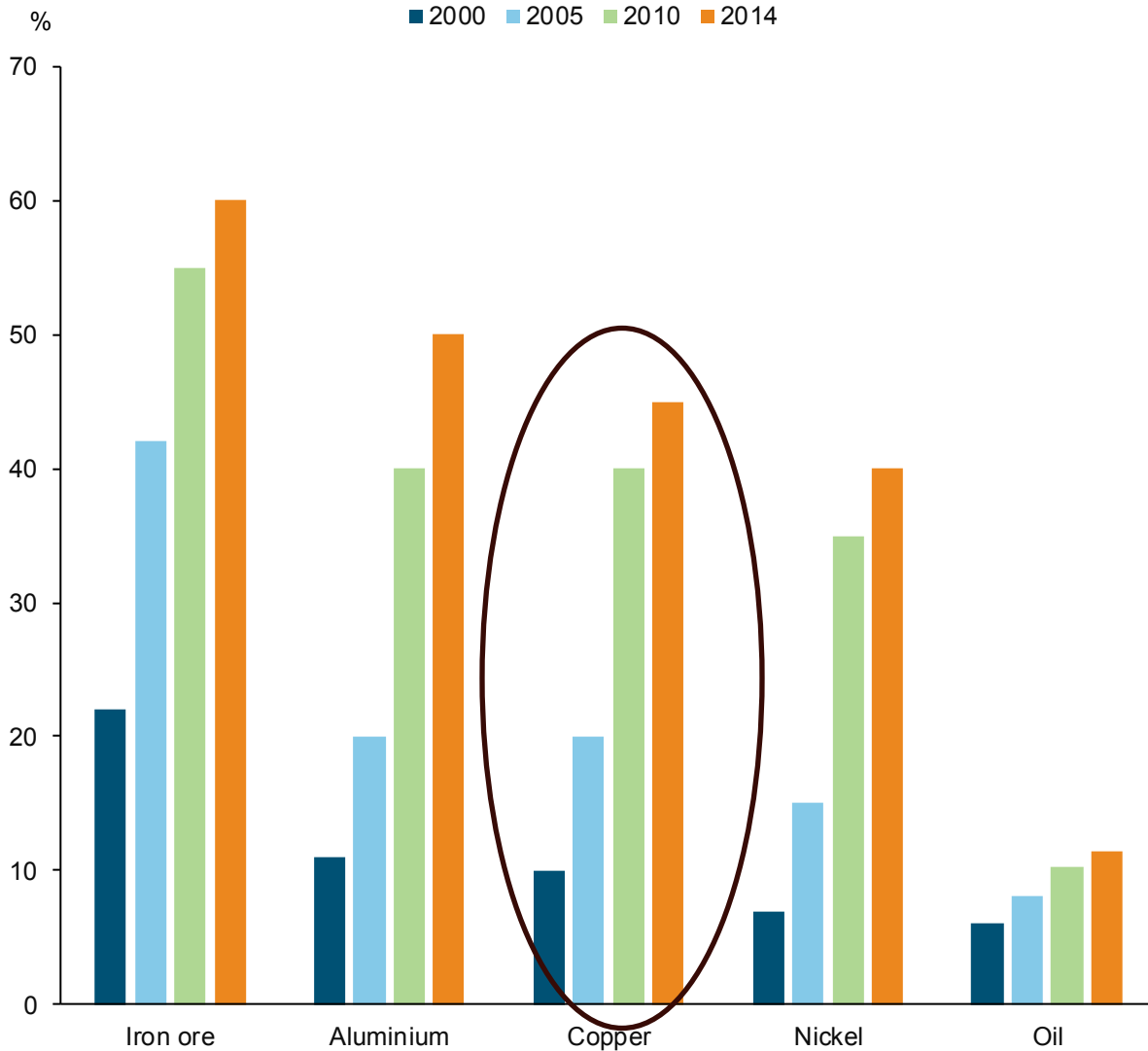
Gross NPLs to gross loans



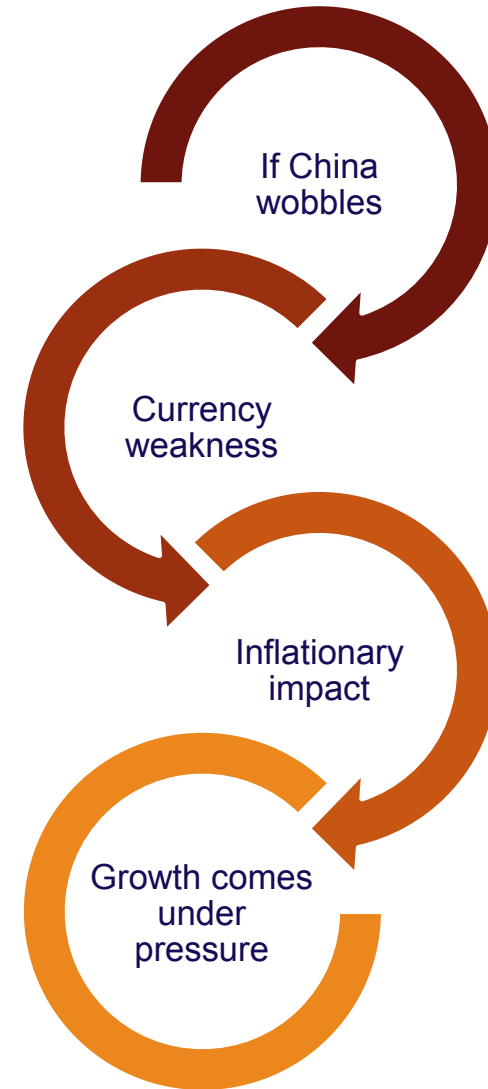


However, risks remain

China's share of global consumption of copper



If China sneezes, we catch a cold





Policy dynamics

Why is Big Brother (IMF) coming to town?





	2012	2013	2014	2015	2016
Budget revenue	18.7	17.6	18.9	17.2	16.4
Budget expenditure	21.9	24.0	24.3	25.3	24.4
Budget balance	-3.2	-6.4	-5.4	-8.1	-7.9
Domestic debt	11.7	13.6	14.1	13.2	13.8
External debt	14.0	13.1	17.8	32.3	35.3

Budgetary dynamics (% GDP)

- Strained public finances.
- Fiscal performance this year has been subpar as revenue has fallen short of target and spending has exceeded expectations.
- Payment arrears has been on the rise with current arrears expected to increase from 5% of GDP last year to 9% of GDP this year.
- We expect the budget deficit to come in at -9.2%.
- To date, the deficit has been largely financed by domestic borrowing.



What has the Ghana experience taught us?

Criteria	Latest assessment
Quantitative performance criteria	
Primary fiscal balance	Met
Wage bill	Not met 
Net international reserves	Met
Government arrears	Met
Continuous performance criteria	
Financing to SOEs	Met
Domestic borrowing	Met
External borrowing	Met
Reduce SOE guarantee	Met
Indicative targets	
Inflation	Met
Concessional debt	Not met 
Social spending	Met

Key reform areas for Zambia

- Wage bill reduction is proving to be a sticky point. Zambia could have a similar experience.
- With the help of base effects and a stable currency, keeping inflation in target should prove relatively easy. However, how electricity subsidies are removed could pose significant upside bias in inflation.
- Rebalancing debt away from external expensive debt could prove challenging. Looking towards multilateral loans to diversify borrowing base would be an immediate target.
- Removal of agriculture subsidies could pose social unrest risk.
- Government guarantees to ZESCO (60% guaranteed by government) needs to be relooked.
- Central bank intervention in interbank market to be lessened.
- **Political will** is paramount. So far the authorities seem determined to push through the necessary reform



Macroeconomic forecasts

Macroeconomic forecasts



	GDP growth(%)			Average inflation (%)			Budget balance (%)			Current account (%)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Angola	2.2	2.9	3.4	26.0	22.0	18.0	-6.0	-6.8	-5.5	-5.5	-3.8	-3.7
Botswana	3.3	3.8	4.1	3.8	4.2	4.2	-0.9	-1.6	0.0	2.9	4.3	9.3
Ghana	4.5	5.5	6.0	13.0	10.5	8.0	-7.5	-6.0	-4.0	-6.0	-4.8	-4.5
Kenya	6.1	6.3	6.8	6.8	5.6	4.3	-8.8	-8.0	-7.5	-6.9	-6.7	-6.5
Mozambique	4.5	5.5	6.0	12.0	9.0	8.0	-9.0	-7.0	-4.5	-70.2	-91.5	-96.0
Namibia	2.6	2.1	2.3	7.1	6.8	6.3	-3.0	-2.0	0.5	-5.2	-3.9	-3.1
Nigeria	0.2	1.5	3.5	14.0	10.7	7.0	-3.7	-3.0	-2.8	-5.5	-5.2	-4.9
South Africa	0.8	1.9	2.0	5.7	5.1	5.7	-3.2	-3.0	-2.7	-3.1	-3.8	-4.8
Tanzania	7.0	7.0	6.5	5.8	5.0	5.6	-4.0	-3.8	-3.8	-5.0	-6.0	-8.6
Zambia	3.7	4.1	4.9	8.0	5.5	6.0	-8.3	-7.0	-6.0	-0.5	0.1	0.2
World	3.4	3.6	3.7	3.3	3.3	3.2						
SSA	2.9	3.6	4.2	10.8	9.3	8.9						



Strictly Private & Confidential

This research has been written by the South African Global Markets research team at FirstRand Bank Limited (“the Bank”) (acting through its Rand Merchant Bank Division).

Whilst all care has been taken by the Bank in the preparation of the opinions and forecasts and provision of the information contained in this report, the Bank does not make any representations or give any warranties as to their correctness, accuracy or completeness, nor does the Bank assume liability for any losses arising from errors or omissions in the opinions, forecasts or information irrespective of whether there has been any negligence by the Bank, its affiliates or any officers or employees of the Bank, and whether such losses be direct or consequential. Nothing contained in this document is to be construed as guidance, a proposal or a recommendation or advice to enter into, or to refrain from entering into any transaction, or an offer to buy or sell any financial instrument.

This research contains information which is confidential and may be subject to legal privilege. Irrespective of whether you are the intended recipient or not, you may not copy, distribute, publish, rely on or otherwise use anything contained herein without our prior written consent.

Some of our communications may contain confidential information which could be a criminal offence for you to disclose or use without authority. If you have received this communication in error, please notify us at research@rmb.co.za and destroy the communication immediately.

This communication is not intended nor should it be taken to create any legal relations or contractual relationships.

FirstRand Bank Limited is an Authorised Financial Service Provider under South African law. FirstRand Bank Limited is authorised and regulated by the South African Reserve Bank. In the United Kingdom, FirstRand Bank Limited acting through its London Branch is authorised by the Prudential Regulation Authority (“PRA”) and is subject to regulation by the Financial Conduct Authority (FRN 476154) and limited regulation by the PRA. Details about the extent of FirstRand Bank Limited’s regulation by the PRA is available upon request.