Economic Growth in Zambia: Key Issues and Trajectory

SECOND ECONOMIC GROWTH FORUM: PATHWAYS TO GROWTH
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Agenda

- Growth Trajectory—Stylized Facts
- Zambia’s Reform Path: From Economic Stabilization to Inclusive Growth
- Enhancing Growth Potential
Elevated poverty and inequality

Poverty and Inequality in Sub-Saharan Africa

Source: World Bank World Development Indicators.
1/ The poverty rate is measured by the national poverty line.

Per Capita GDP
(current prices, in U.S. dollars)

Source: R EO
Subdued and volatile economic growth

Gross Domestic Product
(current prices, in billions U.S. dollars)

GDP Growth
(in percent)

Source: IMF Staff Estimates.
Investment contribution to growth

- Private investment strongly correlated with growth.
- Public investment a more nuanced story.
- Little evidence of an impact on boosting long-term growth from the most recent investment drive financed by excessive borrowing.
- The need for investment – especially in infrastructure – remains high.

**Zambia: GDP Growth, Public and Private Investment**

(In percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Rates</th>
<th>Public Investment-to-GDP Ratio (RHS)</th>
<th>Private Investment-to-GDP Ratio (RHS)</th>
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<td>2000</td>
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<td>2022</td>
<td>-10.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Sources: IMF staff estimates
Low diversification and employment

Zambia: Sectoral Contribution to Growth and Employment in 2021 (in percent)

- Agriculture: Share of GDP = 24, Share of employment = 3
- Manufacturing: Share of GDP = 18, Share of employment = 9
- Trade: Share of GDP = 14, Share of employment = 5
- ICT: Share of GDP = 9, Share of employment = 4
- Total: Share of GDP = 25, Share of employment = 28

Sources: Zamstat, Staff calculations

Export Concentration and Terms of Trade Volatility (in percent)

- Copper to Total Exports
- Terms of Trade (RHS)

Source: IMF Staff Estimates
Services have been the most vibrant sector...

Primary sectors contributed little to growth...

Zambia: Average Share of GDP 2011-2021 (In percent)

...while ICT had an outsized contribution

Zambia: Average Share of GDP 2011-2021 (In percent)
Unsustainable public debt

General Government Gross Debt
(Percent of GDP)

Source: IMF Staff Estimates
Weak governance

Governance Indicators, 2022
(Average of score estimate -1.5 – 1.5, weak to strong)

Source: Worldwide Governance Indicators
Note: ZMB = Zambia; NGA = Nigeria; ZAF = South Africa; and SSA-HI = Sub-Saharan Africa without Nigeria and South Africa
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Authorities’ program supported by the IMF

The Fund-supported program will underpin the authorities’ efforts to:

• restore macroeconomic stability,

• foster higher, more resilient, and more inclusive growth.

Restore fiscal and debt sustainability through a fiscal adjustment and debt restructuring.

Increase much needed social spending.

Strengthen governance and reduce the risk of corruption, including by improving public financial management (PFM).
Pillar I: Policies to restore sustainability

Reduce spending on inefficient investment, regressive fuel subsidies (fuel), and reform agricultural subsidies (FISP).

Raise domestic revenues through policy changes and improvements in administration.

A deep and comprehensive debt treatment under the G20 Common Framework.
Strengthen PFM and expenditure rationalization

**Fiscal Management & Social Spending**
- Expenditure Control
- Improving Cash Management
- Effective Decentralization
- Upscaling Social Support

**Public Investment Management & Project Oversight**
- New Public Investment Management Guidelines
- Transparency in Project Execution
- Inclusion of Project List in Budget Documentation

**Fiscal Risk Management & PPP Oversight**
- Fiscal Risk Analysis
- Enhancing SOE Oversight
- Public-Private Partnership (PPP) Commitments:
Revenue Mobilization

Broadening the Tax Base
- Expanding withholding tax base
- Rescinding general exemptions
- New levies and adjustments
- Indexing excises

Improving Tax Compliance
- Tax audits
- Specialized Units
- Enhancing tax administration

Modernizing Revenue Collection
- IT system and data analytics
- Effective VAT Functioning
Comprehensive Debt Restructuring

**Goal:** Bring public and publicly guaranteed debt to a level consistent with moderate risk of debt distress over the medium term

Restoring debt sustainability will:

- improve debt dynamics—including by recalibrating revenue/expenditure mix.
- create fiscal space for development needs.
- increase resilience to shocks.

Paired with efforts to enhance transparency in borrowing and debt statistics.
Advancing on the debt restructuring process

Buildup of debt vulnerabilities – Early warning
November 2020

IMF Program negotiations
February 2021–July 2022

Agreement in Principle with OCC
August 2022

First ECF Review concluded
July 2023

Authorities announce API with bondholders cannot be concluded

Ongoing engagement
December 2023

Debt default

Board program approval
June 2023

Second ECF review concluded

Next steps:
- AIP with private commercial creditors
- Third review of the program (June 2024)
Pillar II: Strengthening public governance and transparency

Increase fiscal accountability and transparency around debt and public procurement. Strengthen public financial management and enhance expenditure effectiveness.

Strengthen fiscal, monetary and financial frameworks to enhance resilience to shocks and support policy flexibility.

Comprehensive governance reforms that building a level-playing field for private entrepreneurship that promotes higher and more inclusive growth.
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Raising Growth Potential

Mining wealth
- Promote FDI
- Enhance value-added
- Adequate management

Diversification
- Services—enhance labor productivity/employment
- Leverage the population dividend
- Address infrastructure gaps
- Improve the business environment

Resilience
- Build resilience to external and domestic shocks, including climate shocks
- Leverage policies towards a level-playing business environment
- Support private-sector development toward economic diversification
The Road Ahead

• Boosting sustainable growth requires focus beyond the traditional sectors—Mining sector could provide scope for diversification, including in agriculture.

• Restoring macroeconomic stability and credibility, improving the business climate and governance will help attract new investment.

• The focus on improving education and health is warranted to improve growth; job creation is needed to boost incomes and provide opportunities for the increasing labor force.

• Education and health spending, together with infrastructure investment, will increase potential growth.
The Road Ahead

• The **copper-based and public investment-driven growth model** that Zambia has relied on for decades needs to be recalibrated towards a more diversified and private investment-led growth model.

• This **strategic shift** is essential to reduce the country's vulnerability to global commodity price fluctuations and to create a more sustainable and resilient economy.

• Zambia can leverage to diversify its economy and stimulate growth. For example,
  
  • The **agriculture sector**, with a focus on expanding and improving seedling production, presents a significant opportunity for both domestic consumption and export markets.
  
  • Leverage **the green transition** by developing green electricity, through investments in renewable energy sources such as solar and hydro, to meet domestic needs and potentially supply regional markets.
  
  • **Tourism** also offers vast potential, with Zambia's rich wildlife heritage and natural beauty being underutilized assets that could attract more international visitors.
Thank you