



# **Economic Growth in Zambia: Key Issues and Trajectory**

**SECOND ECONOMIC GROWTH FORUM:  
PATHWAYS TO GROWTH**

**FEBRUARY 2024**

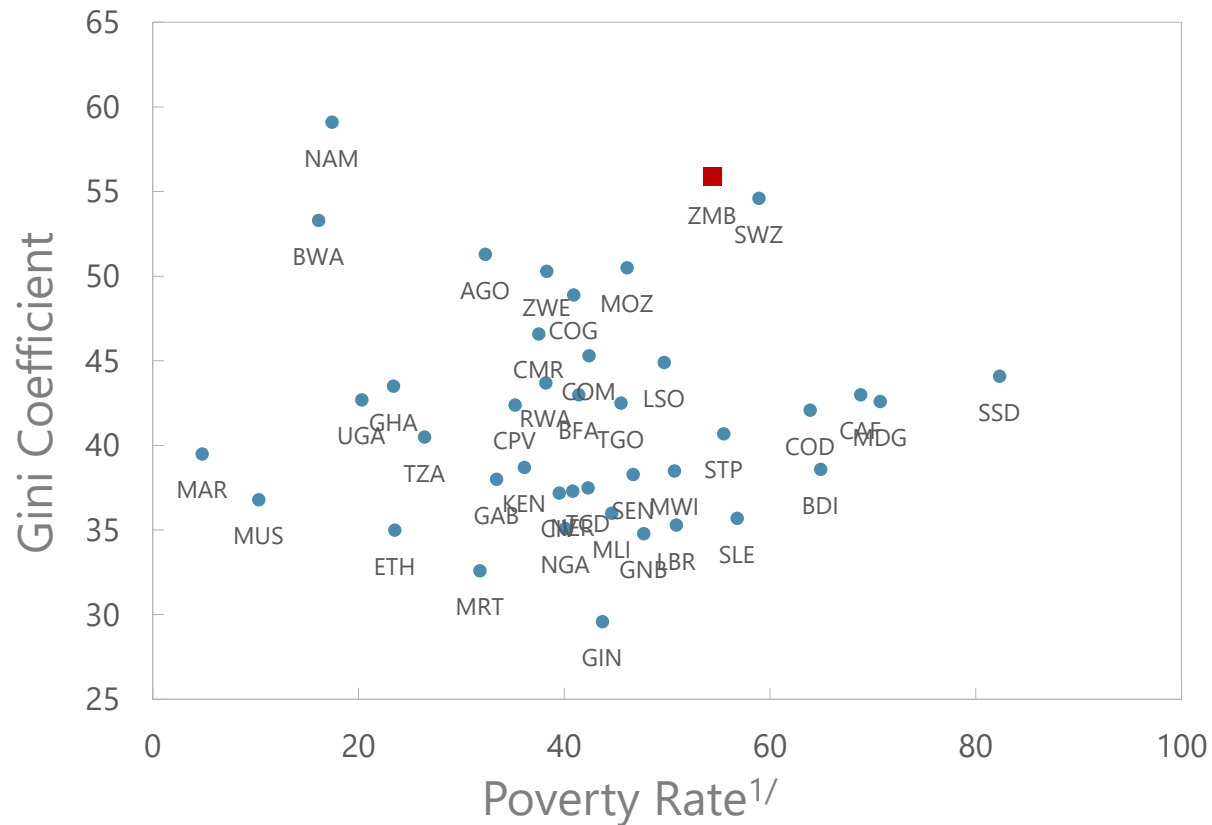
Mercedes Vera Martin  
IMF Mission Chief for Zambia

# Agenda

- **Growth Trajectory—Stylized Facts**
- Zambia's Reform Path: From Economic Stabilization to Inclusive Growth
- Enhancing Growth Potential

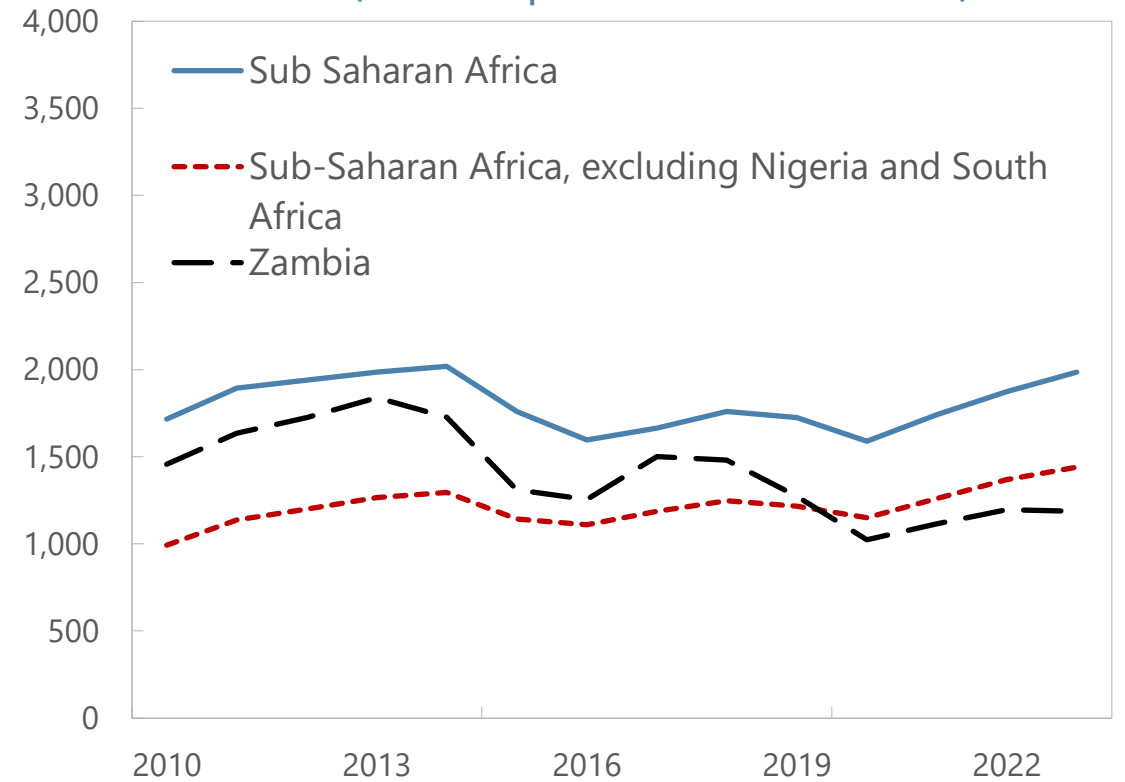
# Elevated poverty and inequality

## 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)

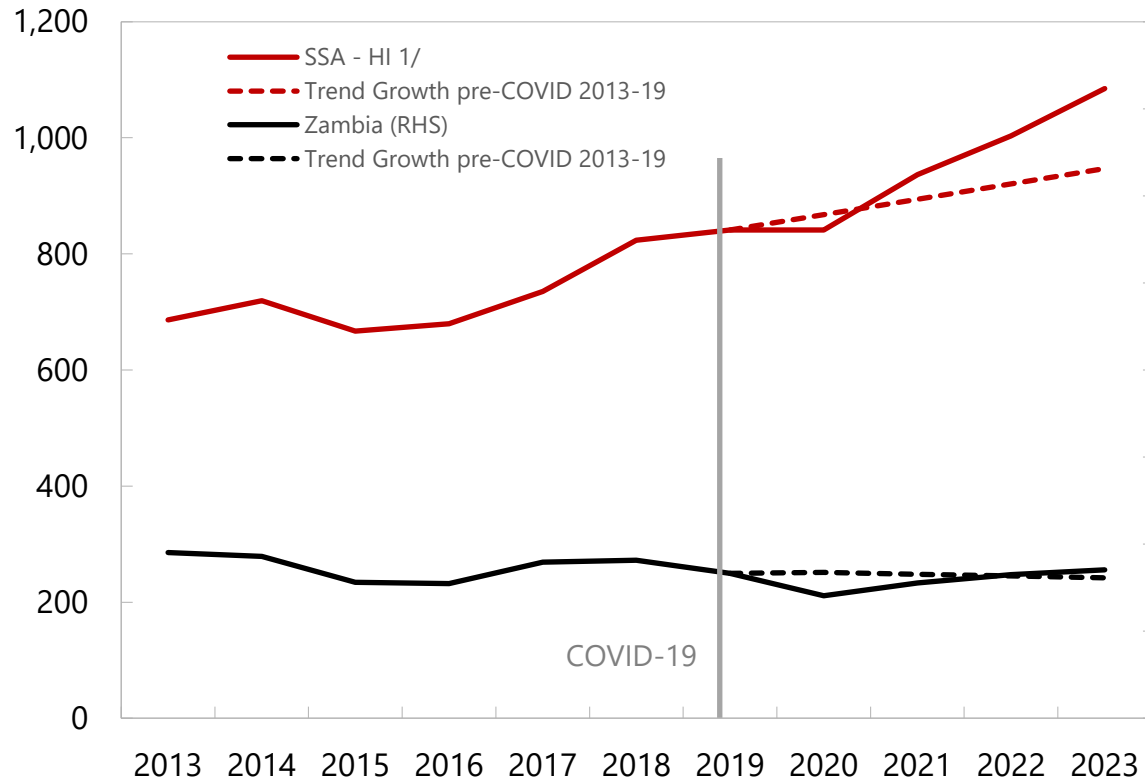


Source: REO

# Subdued and volatile economic growth

## Gross Domestic Product

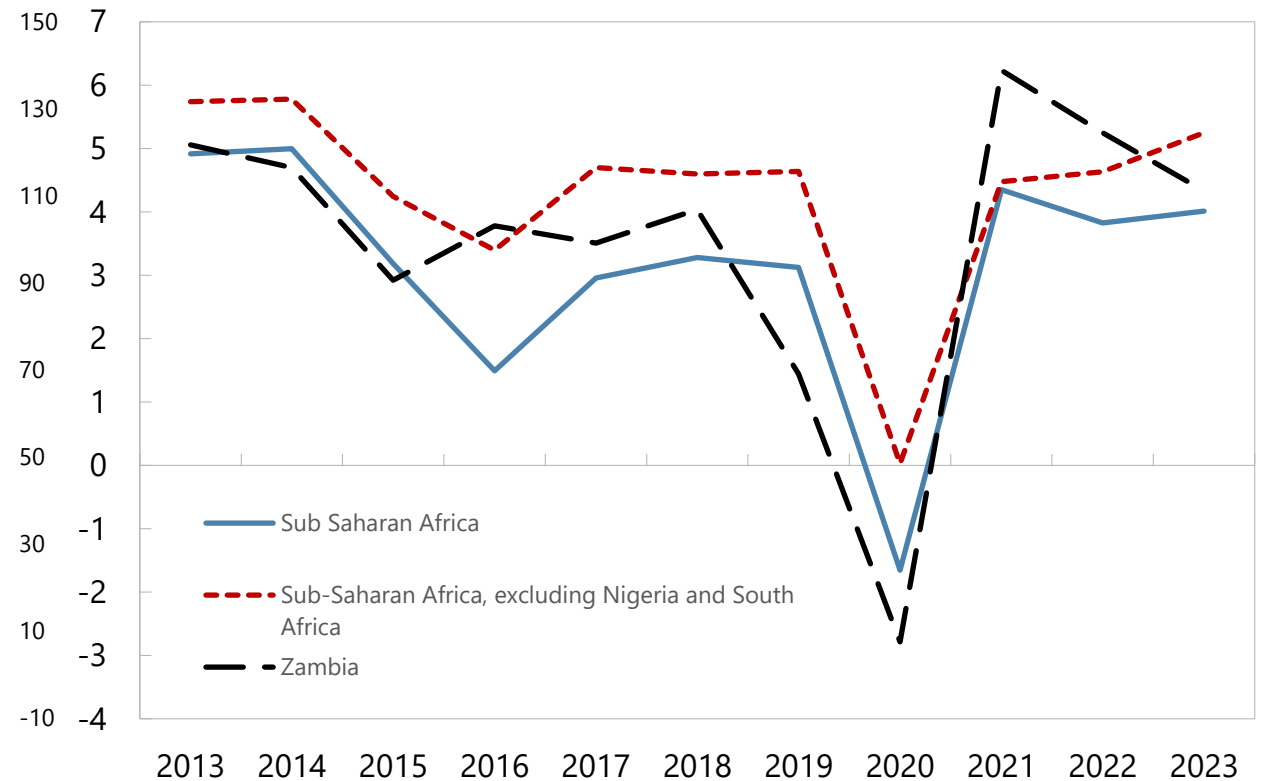
(current prices, in billions U.S. dollars)



1/ SSA - HI: Sub Saharan Africa minus high income countries: South Africa and Angola  
Source: IMF Staff Estimates

## GDP Growth

(in percent)

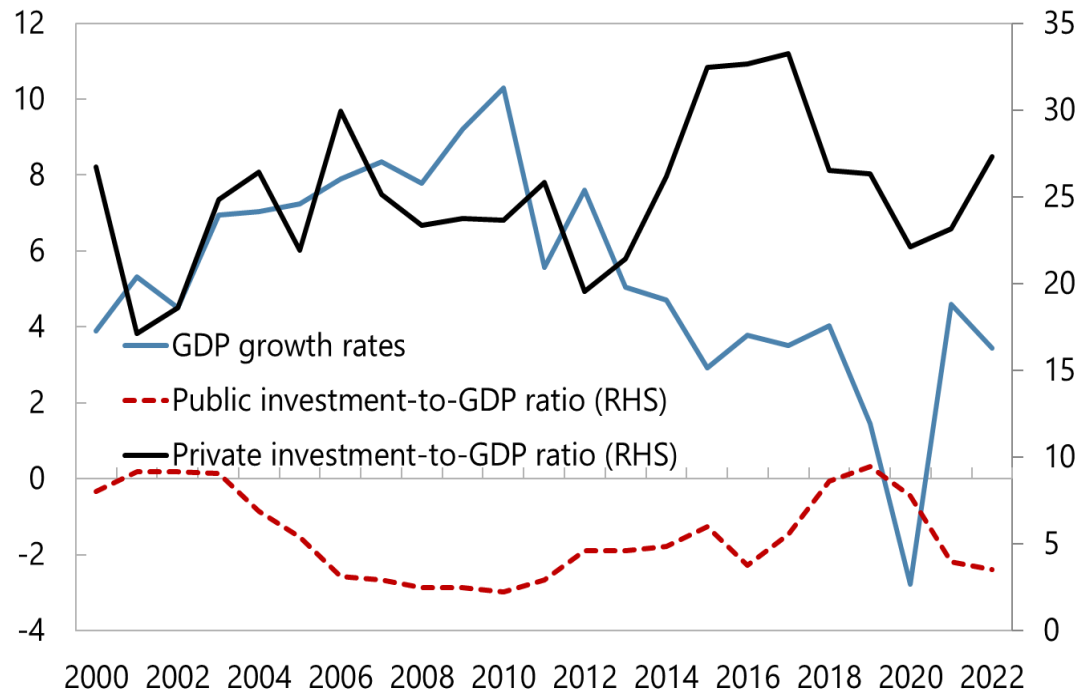


Source: IMF Staff Estimates.

# Investment contribution to growth

## Zambia: GDP Growth, Public and Private Investment

(In percent)

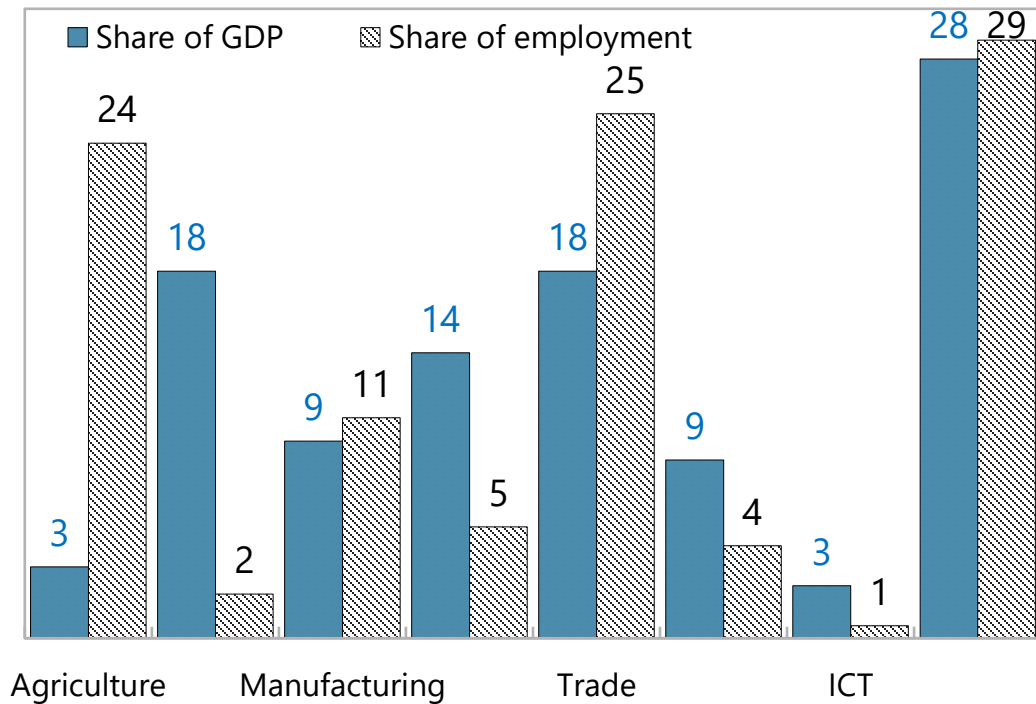


Sources: IMF staff estimates

- 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.

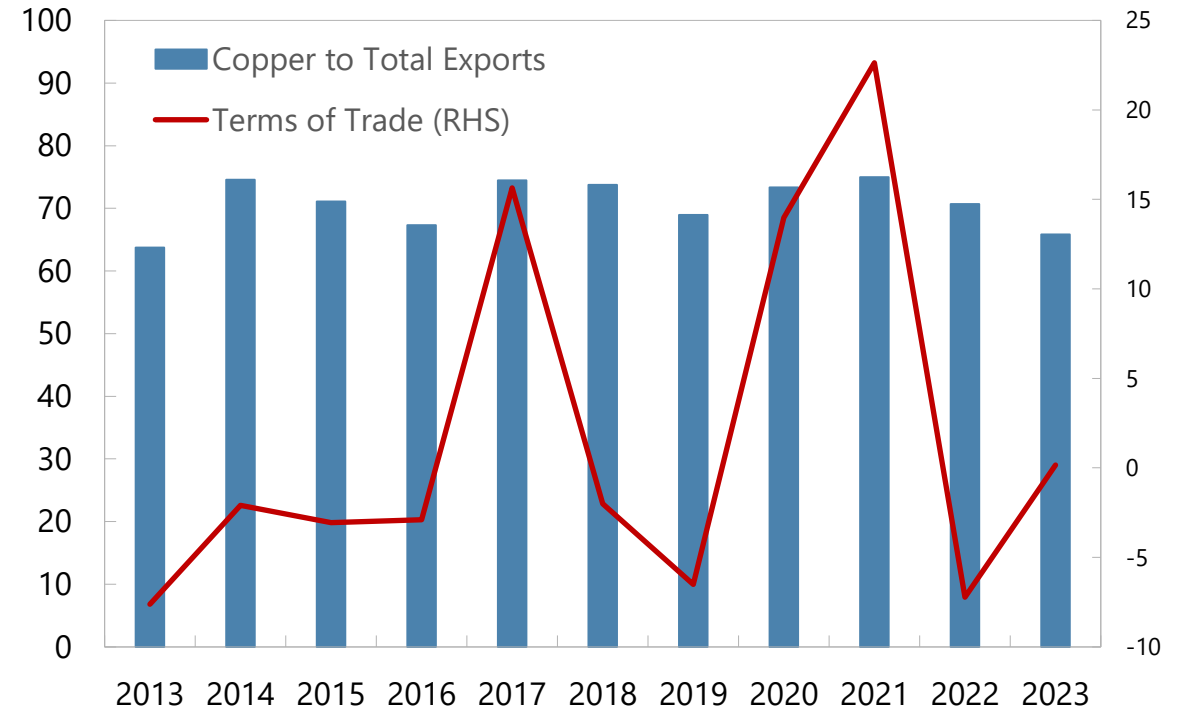
# Low diversification and employment

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



Sources: Zamstat, Staff calculations

## Export Concentration and Terms of Trade Volatility (in percent)



Source: IMF Staff Estimates

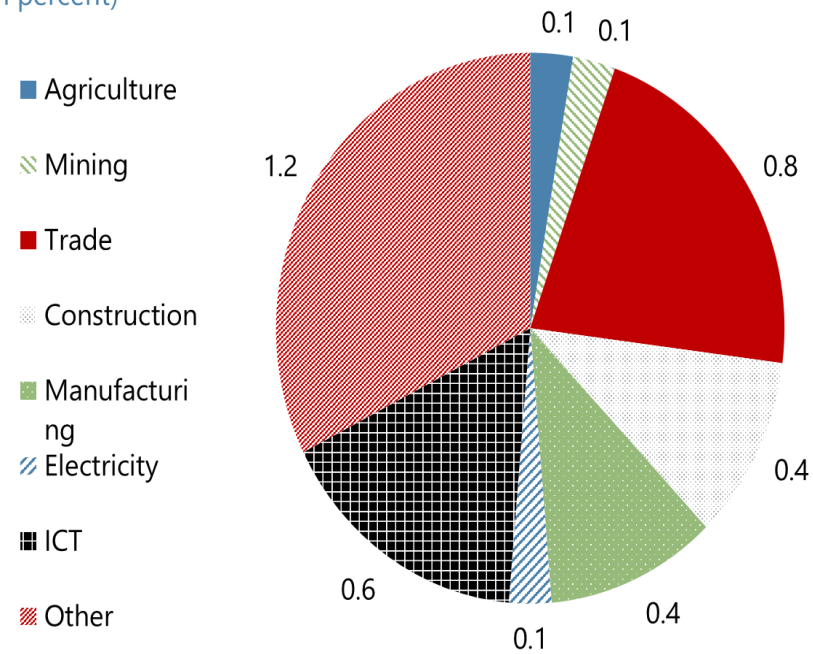
# Services have been the most vibrant sector...

**Primary sectors contributed little to growth...**

**...while ICT had an outsized contribution**

**Zambia: Average Contribution to Real GDP Growth 2011-2021**

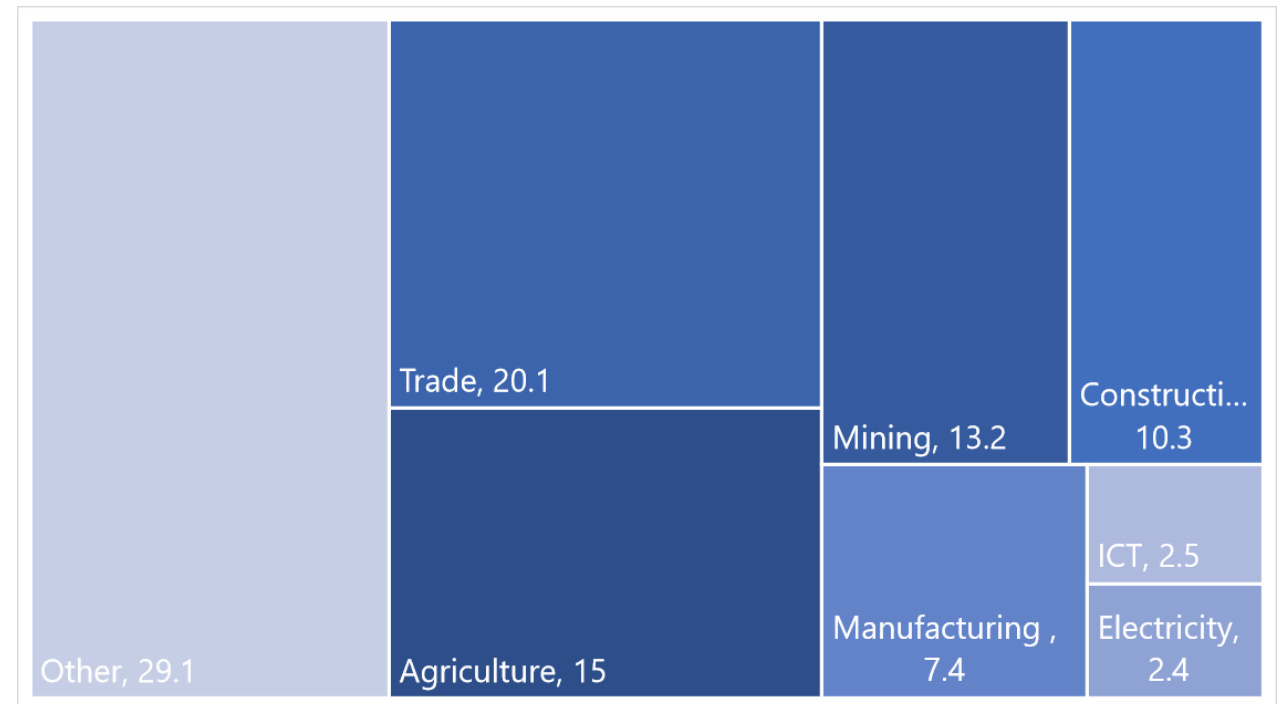
(In percent)



Sources: IMF staff estimates

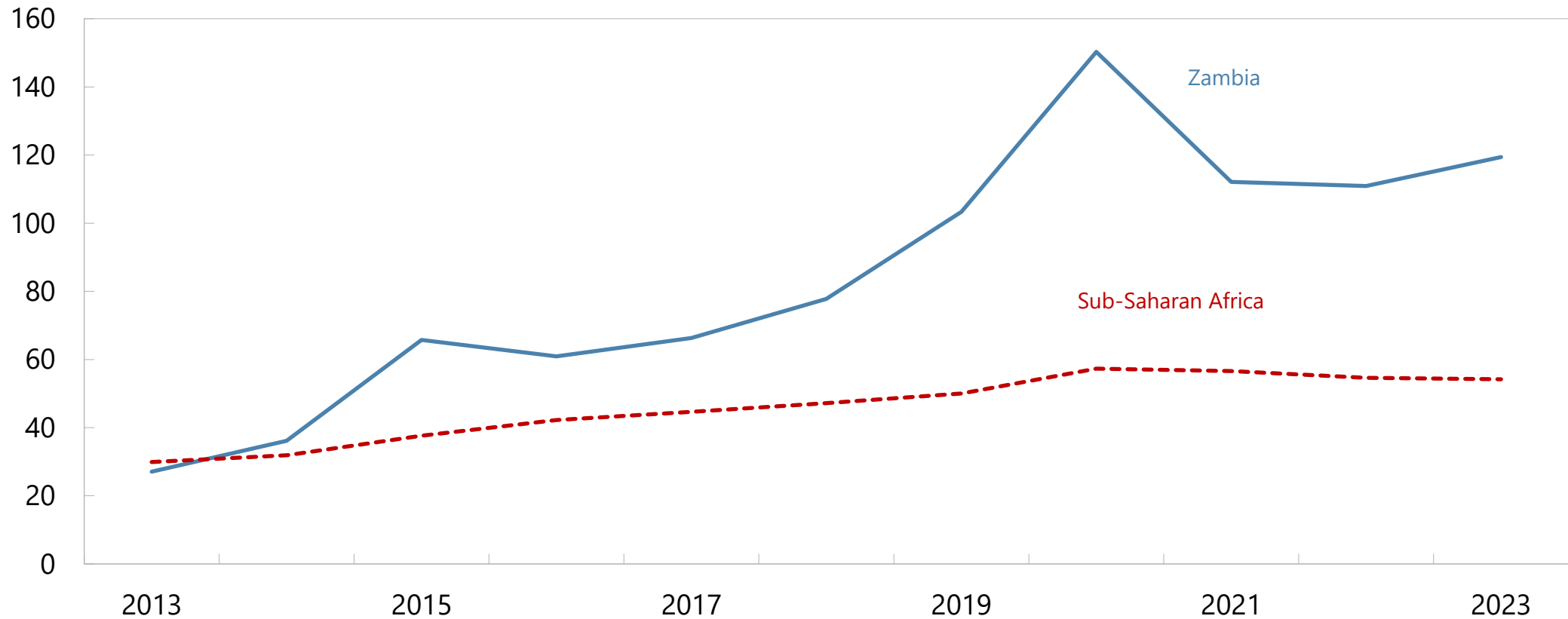
**Zambia: Average Share of GDP 2011-2021**

(In percent)



# Unsustainable public debt

General Government Gross Debt  
(Percent of GDP)



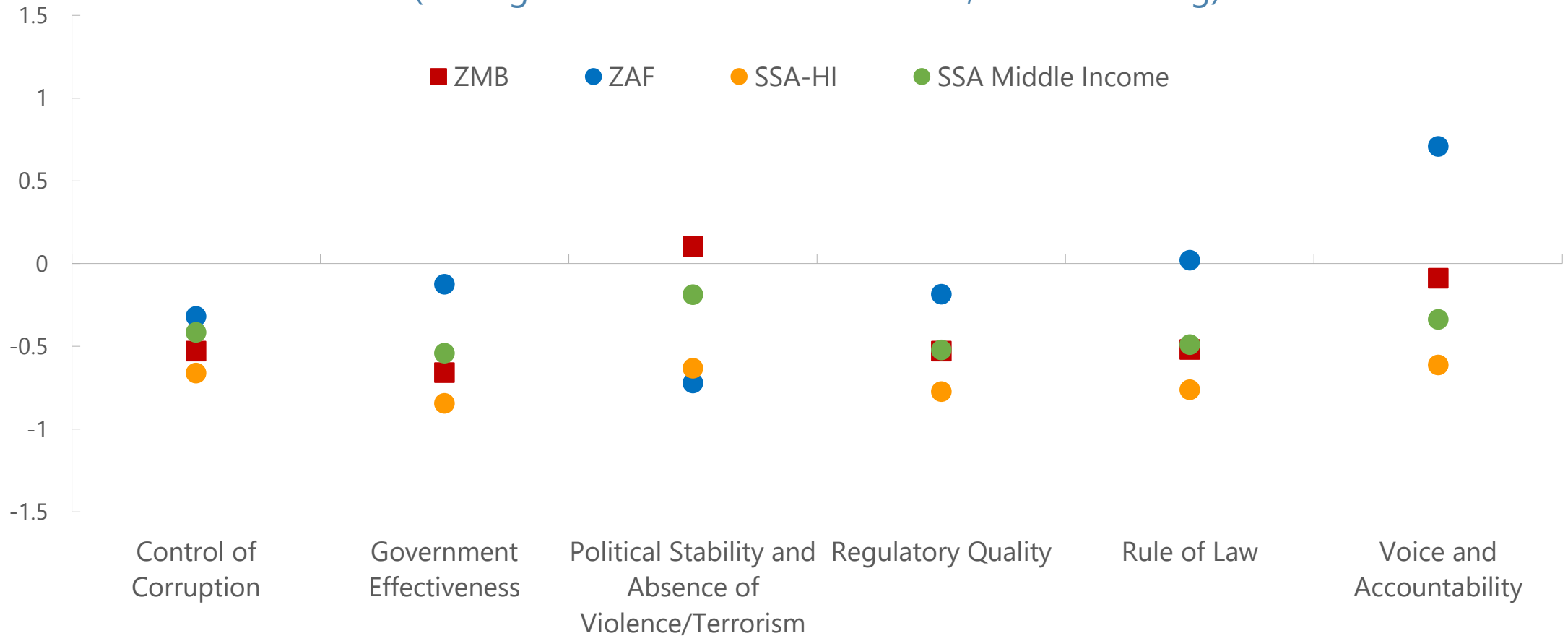
Source: IMF Staff Estimates



# 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).

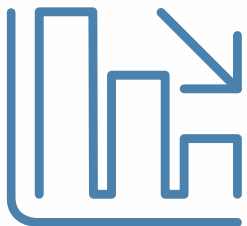
# Pillar I: Policies to restore sustainability



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

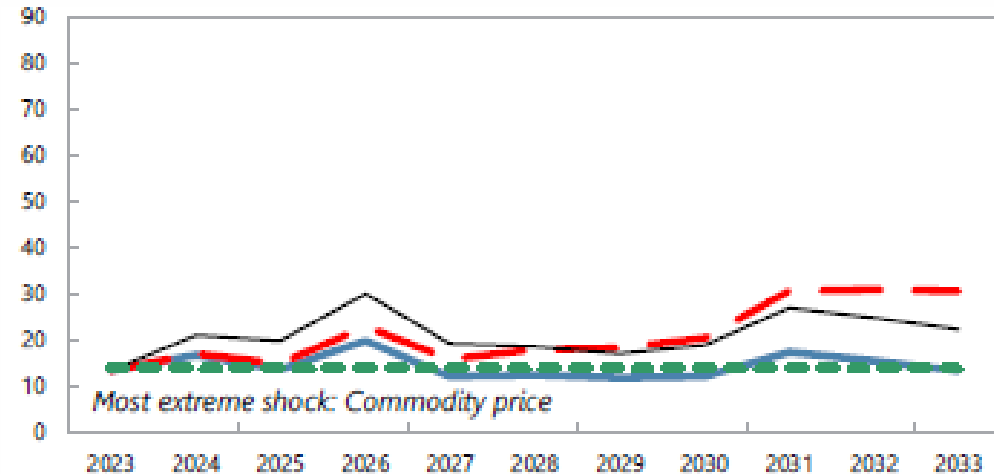
**Goal:** Bring public and publicly guaranteed debt to a level consistent with moderate risk of debt distress over the medium term

Restoring debt sustainability will:

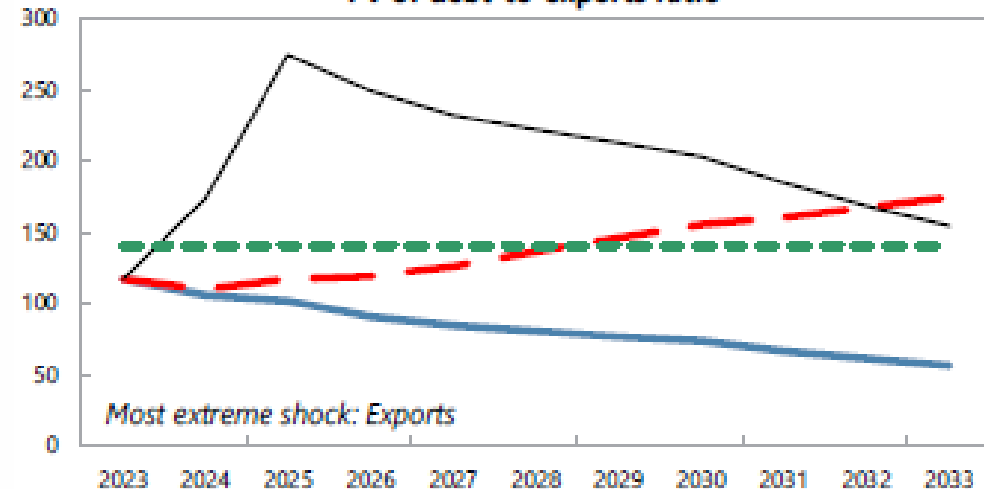
- improve debt dynamics—including by recalibrating revenue/expenditure mix.
- create fiscal space for development needs.
- increase resilience to shocks.

Paired with efforts to enhance transparency in borrowing and debt statistics.

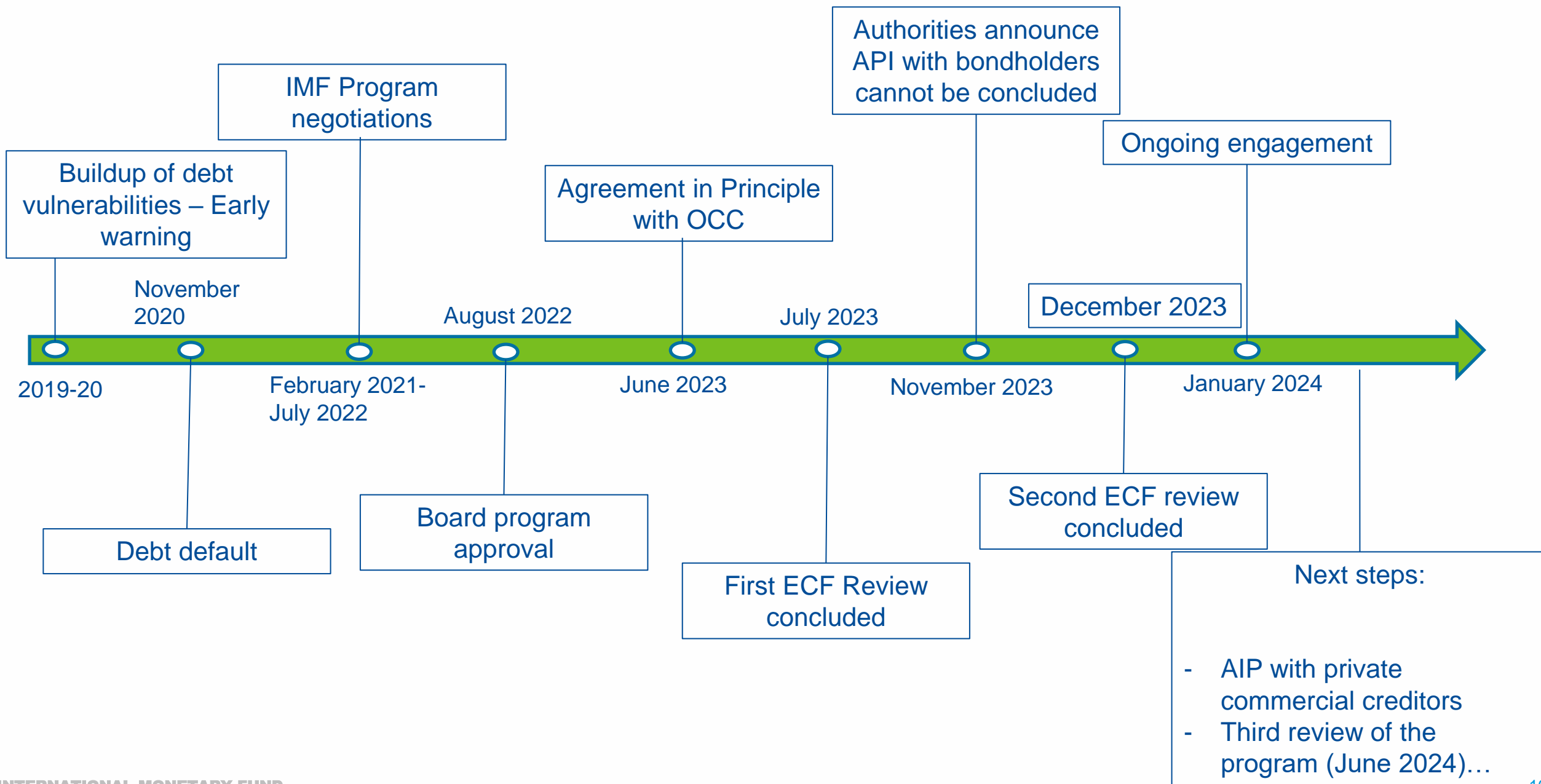
Debt service-to-revenue ratio



PV of debt-to-exports ratio



# Advancing on the debt restructuring process





# 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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- **Enhancing Growth Potential**

# 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**