

Zambia Business Forecast Report Q2 2014

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Abstracts

Core Views

We retain our view that the Zambian economy will expand by 6.9% in 2014, up from an estimated 6.3% in 2013, thanks to strong private consumption, robust investment and resilient exports.

We are expecting Zambia's current account surplus to narrow in the years ahead thanks to high import demand and weak copper prices. Even though the current account will remain positive and we expect foreign direct investment to continue to flow in, we note that Zambia's external accounts are rendered vulnerable by significant 'other investment' outflows in the financial account.

Despite increasing from 7.1% in December 2013 to 7.3% in January 2014, we believe that Zambia's inflation outlook is relatively benign. We therefore expect the authorities to maintain the current monetary policy trajectory and to keep rates on hold at 9.75% for the year.

Key Risks To Outlook

The most salient risks to Zambia's economy stem from global economic developments which directly impact the price of copper, Zambia's chief export, as well as the appetite for frontier market investment. If struggles in Europe, China, and other major markets are more or less pronounced than we currently anticipate, then our forecasts would be rendered either too optimistic or too negative. We believe that President Michael Sata understands the importance of maintaining good relationships with foreign businesses and other private sector stakeholders. However, recent actions threaten Zambia's reputation for democratic stability, and if the situation worsens, businesses may become more wary.

There are also risks emanating from the agriculture sector. It is possible that subsidy removals will have a greater impact on maize production than we currently anticipate. If that turns out to be the case, we would expect private consumption – and by extension headline growth – to come in lower than we are presently forecasting. Similarly inclement weather could also weigh on agriculture production.

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We retain our view that the Zambian economy will expand by 6.9% in 2014, up from an estimated 6.3% in 2013, thanks to strong private consumption, robust investment and resilient exports. The main risks stem from the possibility that subsidy removals have a greater impact on agricultural production (and therefore private consumption) than we currently anticipate.

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We are expecting Zambia's current account surplus to narrow in the years ahead thanks to high import demand and weak copper prices. Even though the current account will remain positive and we expect foreign direct investment to continue to flow in, we note that Zambia's external accounts are rendered vulnerable by significant 'other investment' outflows in the financial account.

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Despite increasing from 7.1% in December 2013 to 7.3% in January 2014, we believe that Zambia's inflation outlook is relatively benign. We therefore expect the authorities to maintain the current monetary policy trajectory and to keep rates on hold at 9.75% for the year.

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