

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.

Contents

Executive Summary
Core Views
Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis
BMI Political Risk Ratings
Domestic Politics
Sata 'Authoritarianism' Tested In Constitutional Review

The arrest of an opposition leader for insulting Zambian President Michael Sata is being trumpeted by critics as further evidence of growing authoritarianism. The sincerity of Sata's rebuttals of these claims will be tested by the way in which his administration deals with an ongoing, contentious and drawn-out constitutional review process.

Table: Political Overview

Long-Term Political Outlook

A Question Of Policy, Not Politics

Zambia boasts a competitive political environment that has been characterised by closely contested and increasingly freer and fairer elections (according to observers). However, issues such as corruption and income inequality will require redress over the coming decade, in order to keep Zambia on a progressive political and economic growth trajectory.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Ratings
Economic Activity
Growth To Increase In 2014

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.

Table: ECONOMIC ACTIVITY

Balance Of Payments

Current Account Surplus To Narrow

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.

Table: MONETARY POLICY

Monetary Policy

Little Sign Of Inflationary Pressure

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.

TABLE: CURRENT ACCOUNT

Exchange Rate Policy

Kwacha: Depreciatory Pressure To Ease

TABLE: BMI CURRENCY FORECAST

CHAPTER 3: 10-YEAR FORECAST

The Zambian Economy To 2023

Mines Both A Driver Of And Risk To Growth

On the back of an improving regional outlook and good prospects for the mining sector, we are projecting average annual growth of 6.9% over our forecast period to 2023. Buoying this strong performance will be a strengthening private sector, as well as ongoing investment in mining, agriculture and infrastructure, aided by a favourable business environment.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

Institutions

TABLE: BMI BUSINESS AND OPERATION RISK RATINGS

Table: BMI LEGAL FRAMEWORK RATING

Table: LABOUR FORCE QUALITY

Infrastructure

TABLE: ANNUAL FDI INFLOWS

Table: TRADE AND INVESTMENT RATINGS

Market Orientation

Operational Risk

Table: Top Export Destinations, 2002-2009

CHAPTER 5: KEY SECTORS

Food And Drink

Table: Food Consumption Indicators - Historical Data & Forecasts , 2011-2018

Table: Mass Grocery Retail Sales - Historical Data & Forecasts , 2011-2018

Other Key Sectors

Table: Pharma Sector Key Indicators

Table: Telecoms Sector Key Indicators

Table: Infrastructure Sector Key Indicators

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Global Growth Optimism Turning To Disappointment

Table: Global Assumptions

Table: Developed States , Real GDP Growth, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH

FORECASTS, %

Table: Emerging Markets , Real GDP Growth , %

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