

Zambia Business Forecast Report Q3 2014

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Abstracts

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Core Views

Zambia is facing several political challenges including a weakening currency, rumours of President Sata's ill-health and a main opposition party in disarray. The country must also navigate what is likely to be a volatile constitution-making process. At this stage, we believe that Zambia has an institutional framework robust enough to see off these challenges.

The Zambian kwacha will remain under pressure over the short-term as it will take time for the monetary authorities' tightening measures to feed through to sentiment. Over the longer term, we believe that the kwacha is likely to stabilise rather than descend into a spiral à la the Ghanaian cedi.

Currency weakness and potential macroeconomic instability will not meaningfully affect economic growth and we have only made a small downgrade to our 2014 real GDP growth forecast (to 6.7% from 6.9% previously) and left our 2015 forecast unchanged at 7.0%. That said, risks are firmly to the downside.

Major Forecast Changes

We have downgraded our 2014 real GDP growth forecast to 6.7% from 6.9% previously.

We have increased our end-2014 inflation forecast to 9.3% from 7.9% previously owing to currency weakness.

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CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Political Challenges Mounting

Zambia is facing several political challenges including a weakening currency, rumours of President Sata's ill-health and a main opposition party in disarray. The country must also navigate what is likely to be a volatile constitution-making process. At this stage, we believe that Zambia has an institutional framework robust enough to see off these challenges. However, we note that risks are rising.

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

Currency Weakness To Have Little Impact On Growth

Currency weakness and potential macroeconomic instability will not meaningfully affect economic growth and we have only made a small downgrade to our 2014 real GDP growth forecast (to 6.7% from 6.9% previously) and left our 2015 forecast unchanged at 7.0%.

That said, risks are firmly to the downside.

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The Zambian kwacha will remain under pressure over the short-term as it will take time for the monetary authorities' tightening measures to feed through to sentiment. Over the longer term, we believe that the kwacha is likely to stabilise rather than descend into a

spiral à la the Ghanaian cedi. The risks are firmly to the downside however.

Table: BMI CURRENCY FORECAST

Monetary Policy

Monetary Policy To Remain Tight On Kwacha Weakness

Monetary policy will remain in its current, tight state for the remainder of 2014 due to currency weakness and related imported inflationary pressures. At this stage, we do not expect the monetary policy committee to tighten further due to the impact that this would have on the banking sector. However, if the currency continues on its current trajectory, the central bank's hand might be forced.

Regional Outlook

African Lions: Is Ghana A Bellwether?

Ghana's current economic malaise could be replicated in other 'African Lions' over the coming months and years. We will be watching out for a number of red flags for growth: surging imports, deterioration of the government budget and negative shifts in local sentiment.

At present, Mozambique, Tanzania and Zambia are most at risk of economic instability.

Table: African Lions - Current Account Balance, % of GDP

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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.

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