

# Zambia Business Forecast Report Q4 2013

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## Abstracts

### Core Views

Sluggishness in global metals markets has continued to weigh on Zambia's economy, although we still foresee real GDP expansion of above 6.0% in both 2013 and 2014.

Although still a bastion of stability by regional standards, political risk continues to rise, as President Michael Sata and his Patriotic Front come under criticism for disrespecting the rights of free assembly, the press, and rule of law.

### Major Forecast Changes

Due to ongoing headwinds in the global economy that have hampered economic activity in the crucial mining sector, along with the expected impacts of new government policies, we have downgraded our growth estimate for 2013, from 7.3% to 6.3%.

### Key Risk 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 again stress that 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.

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The heavy-handed actions of the administration of President Michael Sata continue to generate controversy in Zambia, as the ruling party has demonstrated a low tolerance for criticism. The Public Order Act in particular is under increased scrutiny by opposition parties and civil society groups, and could see the law modified or even repealed over the medium term.

### Long-Term Political Outlook

### 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.

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Due to sluggishness in the global economy, and the expected impact of various recently-enacted policy reforms, we have downgraded Zambia's real GDP growth forecast. We now believe that the economy will expand by a still-respectable 6.3%, compared to our

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Given the adverse pressures on the horizon for both growth and inflation, the Bank of Zambia has elected to maintain its benchmark policy interest rate at 9.75%. The kwacha has begun to stabilise, and inflation ticked slightly lower in August, but overall we believe that risks to the policy rate remain weighted to the upside; our year-end target stands at 10.0 0%.

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