# Zambia

## Recent macroeconomic and financial developments

GDP contracted by 3.0% in 2020 due to COVID-19 but showed a muted recovery of 4.0% in 2021. GDP per capita growth was 6.0% and 1.1% in these two years, reflecting pandemic control measures that shut down economic activities such as tourism and hospitality, and supply chain disruptions in key sectors. The impact on GDP per capita was amplified in 2021. General consumption was also dampened. Inflation rose from 15.7% in 2020 to 22.1% in 2021, driven by food inflation and a lower kwacha. The policy rate was lowered from 10.25% in May 2019 to 8.0% in August 2020 and to 9.0% in November 2021, to moderate inflation and support growth. The kwacha depreciated by some 50% against the dollar in 2020 before appreciating by 21% from the last quarter of 2021.

The fiscal deficit narrowed from 13.2% in 2020 to 8.4% in 2021 despite a surge in COVID-19-related spending and revenue shortfalls. The current account surplus was 12.0% and 18.3% in 2020 and 2021, buoyed by high global copper price. The financial performance and condition of the banking sector at end-December 2020 and end-June 2021 remained satisfactory given adequate capital, satisfactory earnings, and liquidity. Although the NPL ratio was high at 11.6% at end-2020, it improved to 9.1% as at end-June 2021. International reserves were at 2.4 months of import cover at end-2020 and 5.5 months at end-2021, reflecting the SDR allocation of $1.33 billion.

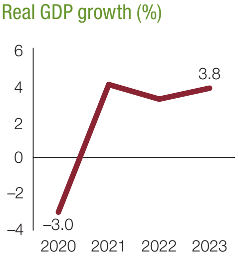
## Outlook and risks

The economy is projected to grow only by 3.2% and 3.8% in 2022 and 2023, because of weak recovery in mining, tourism, and manufacturing. Inflation is projected to decelerate to 17.5% and 13.2% in 2022 and 2023, but still above the upper bound of the central bank's 6–8% target range. Monetary policy will prioritize inflation and livelihoods. Risks to inflation include the government's removal of fuel and electricity subsidies in December 2021 resulting in increases in fuel pump prices and electricity tariffs. The current account outlook remains positive at 16.4% and 16.9% of GDP in 2022 and 2023. The NPL ratio is expected to fall in 2022 and 2023, and the Bank of Zambia will shore up bank liquidity through its Medium-Term Refinancing Facility. On the plus side are expected growth in ICT given current and expected expansion of mobile payment services and investment in ICT infrastructure. Electricity generation began at Kafue Gorge Lower and Lusiwasi Upper Hydropower Stations in July 2021. Current tax reforms in mining will increase investment.

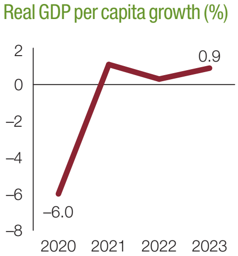
## Climate change issues and policy options

Zambia has experienced perennial climate shocks and is 59 on the 2021 GCRI. A prolonged drought in 2018 and 2019 contributed to cutting GDP growth from 4.0% to 1.4% over the two years. Projections for the climate change impact on economic growth is a $13.8 billion GDP loss, while funding needs are conservatively estimated at $15 billion between 2010 and 2030. A higher estimate is $35 billion, comprising domestic, bilateral, and multilateral sources. Current financing options are bilateral and multilateral sources, alongside limited mitigation financing from the Clean Development Mechanism, Global Climate Fund, Global Environmental Facility, and climate insurance programs in agriculture. Zambia has integrated climate change issues in its policies, programs, and strategies as outlined in its Vision 2030. The government recently created a Ministry of Green Economy and Environment and began mitigation and adaptation policies targeting the country's renewable energy potential, agriculture, and the mainstreaming of climate change in all economic sectors. Zambia expects to achieve SDG 13 on climate action by 2030.

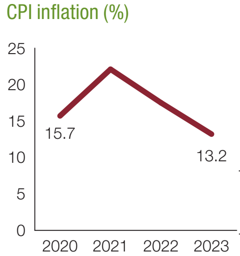
Real GDP growth (%)



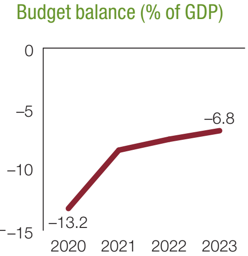

Real GDP per capita growth (%)



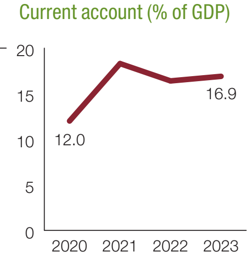

CPI inflation (%)




Budget balance (% of GDP)




Current account (% of GDP)




*Source:* Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.