

ZAMBIA – 100 000 CHINESE WORKERS IN THE COUNTRY

- *High poverty*
- *High dependence on copper*
- *100 000 Chinese working in the country*
- *Construction of Batoka hydroelectric power station*
- *Political stability*
- *Tension at mines operated by Chinese*

	2011	2012	2013E	2014F
GDP growth (%)	6.8	7.2	6.0	6.5
Inflation (yearly average) (%)	8.7	6.6	7.1	6.5
Budget balance (% GDP)	-2.2	-3.1	-8.5	-8.0
Current account balance (% GDP)	3.7	0.0	-3.7	-3.8
Public debt (% GDP)	27.2	32.4	37.0	41.1

Strengths

- Mineral wealth (copper: No1 in Africa, No7 in the world, cobalt, uranium, gold and diamonds)
- Major hydroelectric potential
- Tourism
- Democratic system

Weaknesses

- Dependence on copper
- Isolation and dependence on neighbouring countries' communication channels
- Limited electricity production and inadequate transport networks
- High youth unemployment in urban centres
- Huge inequalities, shortcomings in health, educational and administration



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Economic growth

Zambia's economy has experienced strong growth in recent years, with real GDP growth in 2005-12 more than 6% per year. Privatisation of government-owned copper mines in the 1990s relieved the government from covering mammoth losses generated by the industry and greatly increased copper mining output and profitability to spur economic growth. Copper output has increased steadily since 2004, due to higher copper prices and foreign investment. In 2005, Zambia qualified for debt relief under the Highly Indebted Poor Country Initiative, consisting of approximately US\$6-billion in debt relief.

Poverty remains a significant problem in Zambia, despite a stronger economy. Zambia's dependency on copper makes it vulnerable to depressed commodity prices, but record high copper prices and a bumper maize crop in 2010 helped Zambia rebound quickly from the world economic slowdown that began in 2008. Zambia has made some strides to improve the ease of doing business. A high birth rate, relatively high HIV/AIDS burden, and market distorting agricultural policies have meant that Zambia's economic growth has not dramatically decreased the stubbornly high poverty rate.

China in particular has invested heavily in Zambia, creating jobs and new infrastructure. Census data suggests about 100 000 Chinese live in the country, and about 500 firms are active in sectors across the economy. On the flipside, labour relations at Chinese-owned firms have sometimes been tense, and some Zambians complain of being exploited. The effects of massive foreign investment have spread throughout Zambia. On the economic front, investment should continue to spur economic growth, especially in the construction and mining sectors. Furthermore, massive capital inflows are likely to push up the exchange rate but also give rise to a growing dependence on China, especially for trade.



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Economy by sector

Mining, construction and financial services drove the growth and did little to create jobs and expand opportunities beyond the small labor force employed in these industries. The urban-centered growth also did not generate better incomes, health, nutrition and key services for the majority of Zambians living in the rural areas and dependent on agriculture. Reducing poverty is the greatest development challenge for Zambia. Zambia therefore needs to press ahead to diversify its economy with particular focus on agriculture to achieve inclusive growth.

Growth will remain dynamic in 2014. Mining production, on which the Zambian economy depends to a large extent, will climb due to increased capacity at the existing mines and the opening of new ones.

Construction will continue to gain from the development of mining installations, the construction of transport infrastructures and housing, as well as from the realisation of major projects. For example, investments related to the construction of the Batoka hydroelectric power station, which will start in 2014, represent more than 10% of GDP.

The services sector (telecommunications, commerce and financial services), which accounts for almost 50% of GDP, will continue to grow. However, the expansion of household consumption could slow because of the announced public sector wage freeze (after strong increases in mid-2012, the effects of which are being felt in 2013).

Against this backdrop of wage moderation, inflation looks set to remain close to the central bank target (7%) in 2014, despite the impact on imported goods prices (particularly petrol) of the kwacha's depreciation.

Political landscape

President Kaunda imposed single-party socialism, in which his United National Independence Party (UNIP) was the only legal political party within a "one-party participatory democracy". Constitutional change was introduced in 1991 under popular pressure, allowing a multi-party



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system and a change of leadership. Zambia has a reputation for political stability and a relatively efficient, transparent government.

The Government of Zambia recognises that prudent public expenditure management and financial accountability are key ingredients in national development. In this regard, the authorities have continued with Public Sector Reforms, encompassing public expenditure management and improvements in financial accountability. In September 2012, the Cabinet approved the new three-year Public Financial Management Strategy for the period 2013-15.

However, social conditions are tough. Poverty is widespread. Life expectancy is among the lowest in the world and the death rate is one of the highest - largely due to the prevalence of HIV/Aids. In its 2013 Budget Speech, the government announced the implementation of reforms that will simplify the tax code in order to improve revenue collection from small- and medium-sized enterprises.

The government also stated its commitment to modernise tax administration. In the same vein, the government remains committed to introducing revenue sharing arrangements with local councils, although progress with its decentralisation programme has been slow. The authorities also plan to decentralise procurement functions for ministries, provinces and other spending agencies.

The October 2011 elections brought Michael Sata and the Patriotic Front (PF) to power, succeeding the Movement for Multiparty Democracy (MDD). The political climate deteriorated sharply in 2013, as shown by the strong tensions between the different PF factions, which led to violent demonstrations in November 2013. However, these tensions do not threaten the country's stability pending the next elections planned for 2016.

Meanwhile, the government position with regard to foreign investors is ambiguous. Though it seems to be more conciliatory than the presidential election campaign appeared to suggest, relations with China, the country's main investor are, however, more confrontational with the PF



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than those that prevailed with the MDD. Tensions over working conditions in the mines operated by the Chinese companies are regularly the subject of protests and sometimes of riots. In November 2013, the president threatened to withdraw the licence of a British-owned mining group when it announced a redundancy plan.

The measures aimed at preventing and condemning corruption practices are taking a long time to produce any effect. There are still shortcomings, meanwhile, particularly in terms of the quality of regulation and property rights.

Foreign trade

Based on the latest figures available, imports in 2012 were estimated at \$7,361-billion. This includes machinery, transportation equipment, petroleum products, electricity, fertilizer, foodstuffs, clothing. Import partners include South Africa 36,2%, Democratic Republic of the Congo 21,3%, China 10,1%, Kuwait 5,7% (2012).

Zambia's main imports are fuel, machinery and foodstuffs. Zambia's main import partner is South Africa followed by Congo-Kinshasa and China. Exports in 2012 were estimated at \$8,589-billion, this includes copper/cobalt, cobalt, electricity, tobacco, flowers and cotton.

Major export partners include China 42,2%, South Africa 7,2%, Democratic Republic of the Congo 7,2%, South Korea 5,3%, India 4,5%, Egypt 4,5%, UAE 4,4%. Zambia's main export, copper accounts for 70% of Africa's production and 60% of country's total exports. Other exports include sugar, tobacco, gemstones, cotton and electricity. Zambia's main export partner is Switzerland (45% of total exports). Others include: China (20%), South Africa, United Kingdom, Zimbabwe and Congo-Kinshasa.



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Business Climate

The World Bank in 2011 named Zambia among the 10 most improved economies in the ease of doing business in the world, which included two others - Cape Verde and Rwanda - from Sub Saharan Africa. Every year, the World Bank recognises 10 economies that improved the most in

the ease of doing business in the previous year and introduced policy reforms in at least three business regulatory areas. Zambia was also ranked among the best five performing countries in Southern Africa.

In assessing a country's ease of doing business, the World Bank considers the following: starting a business, dealing with construction permits, registering property, getting credit, protecting investments, paying taxes, trading across borders, enforcing contracts, and closing a business.

The Zambian Government has made a policy decision to enter the international capital market by issuing its first sovereign bond. This follows positive credit ratings from internationally renowned credit rating firms Standards and Poor's, and Fitch Ratings who both assigned Zambia a B+ (long term foreign and local currency Issuer Default Rating) in March 2011.

On its part, the Zambian government is aggressively addressing the issue of reducing the cost of doing business in Zambia by improving infrastructure such as roads, telecommunications, energy and water which are all embodied in the objectives of the SNDP. The Government, through the central bank, has also created a favourable macroeconomic environment that has led to a downward trend in the cost of borrowing to improve access to long term finance at lower interest rates.



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Financial sector

Zambia's financial landscape during 2012 remained buoyant, supported by a favourable political and socioeconomic environment, which enabled the country to record positive and significant growth. Investments showed positive signs as evidenced by a successful issuance of the US\$ 750-million bond, which attracted bids amounting to US\$12-billion.

There were general improvements in all areas as the banking sector recorded growth in loans, advances and total deposits. Yields on government securities remained positive in real terms due to a sustained reduction in the inflation rate. However, high lending rates and other usury

charges constrained access to financial services. At the end of 2012, only 37% of the bankable population had access to banking services.

Debt

Zambia recorded a Government Debt to GDP of 31,2% of the country's Gross Domestic Product in 2011 and 33,1% of GDP in 2012. Government Debt To GDP in Zambia is reported by the Bank of Zambia. From 1990 until 2011, Zambia Government Debt To GDP averaged 122,9% reaching an all-time high of 277,5% in December of 1991 and a record low of 4,4% in December of 2006.

Generally, Government debt as a % of GDP is used by investors to measure a country ability to make future payments on its debt, thus affecting the country borrowing costs and government bond yields. This page provides - Zambia Government Debt To GDP - actual values, historical data, forecast, chart, statistics, economic calendar and news.

Zambia's current external debt stands at US\$1,2-billion. The country's debt in 2005 stood at US\$500-million after Zambia's US\$7-billion was forgiven following the attainment of the Highly



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Indebted Poor Countries (HIPC) completion point. The country, which had more than \$6-billion of loans canceled by creditors including the World Bank by 2006, raised \$750-million with its first international sale in September.

As much as \$4,5-billion of international bonds are now planned by companies from the nation's power utility to its railway operator and road builder, while municipalities are seeking to follow a

maiden debt sale by the capital, Lusaka. According to Richard Odumodu, head of fixed income at London-based Silk Invest Ltd, debt may jump to more than 35% of gross domestic product if all sales go ahead. Zambia's borrowings rose to 27% of the country's \$19,2-billion economy at the end of 2011, according to data compiled by Bloomberg.

Infrastructure

Infrastructure still remains a major challenge to growth, economic diversification and human development in Zambia. As such, Infrastructure development, is one of the Government's priority areas, and is upheld in both the Sixth National Development Plan, and the National Vision 2030.

The aim is to achieve availability of reliable and affordable public infrastructure services for sustained economic development. There is a huge infrastructure financing gap and Government is aware that resources from the public sector and development partners are limited and can only cover part of the financing needed. Government recognizes the need to mobilize private sector financing to support public infrastructure development through PPPs as alternative financing for infrastructure development.

The Zambian economy is forecast to grow between 7,5 and 8% annually over the next five years. To sustain this growth, Zambia needs to upgrade its transportation infrastructure. Zambia, being a landlocked country lies in the center of the Southern African Region and to this effect heavily relies on her neighbors for vital routes to various import and export destinations.



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