

# Annual profile – Zambia

Revised: January 2003



## Background

The South Africa Company administered the territory of Northern Rhodesia from 1891 until take-over by the UK in 1923. During the 1920s and 1930s, advances in mining spurred development and immigration. The name was changed to Zambia on independence in 1964. In the 1980s and 1990s, declining copper prices and a prolonged drought hurt the economy. Elections in 1991 brought an end to one-party rule. But the subsequent vote in 1996 saw blatant harassment of opposition parties. The election in 2001 was marked by administrative problems with at least two parties filing legal petitions challenging the results. Opposition parties currently hold a majority of seats in the National Assembly.

Government	Geography
<p><b>Government type:</b> Republic.</p> <p><b>Capital:</b> Lusaka.</p> <p><b>Independence:</b> 24 October 1964 (from UK).</p> <p><b>Chief of state:</b> President Levy Patrick Mwanawasa (since 2 January 2002).</p> <p><b>Elections:</b> President elected by popular vote for a five-year term. Election last held: 27 December 2001. Next election: 2006.</p> <p><i>Source: CIA World Factbook, State House, Republic of Zambia.</i></p>	<p><b>Area:</b> Total: 752 614 sq km. Land: 740 724 sq km. Water: 11 890 sq km.</p> <p><b>Land boundaries:</b> Total: 5 664 km.</p> <p><b>Border countries:</b> Angola 1 110 km, Democratic Republic of the Congo 1 930 km, Malawi 837 km, Mozambique 419 km, Namibia 233 km, Tanzania 338 km, Zimbabwe 797 km.</p> <p><b>Coastline:</b> Landlocked.</p> <p><b>Climate:</b> Tropical; modified by altitude; rainy season (October to April).</p> <p><b>Terrain:</b> Mostly high plateau with some hills and mountains.</p> <p><b>Natural resources:</b> Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium and hydropower.</p> <p><b>Land use:</b> Arable land: 7.08%. Permanent crops: 0.3%. Other: 92.9% (1998 est).</p> <p><b>Irrigated land:</b> 460 sq km (1998 est).</p> <p><b>Natural hazards:</b> Tropical storms (November to April).</p> <p><b>Environment:</b> Air pollution and resulting acid rain in the mineral extraction and refining region; poaching seriously threatens rhinoceros, elephant, antelope and large cat populations; deforestation; soil erosion; and desertification; lack of adequate water treatment presents human health risks.</p> <p><i>Source: CIA World Factbook 2002</i></p>
People	
<p><b>Population:</b> 9.96 million (2002 est.) <b>Population growth rate:</b> 1.9% (2002 est.) <b>Life expectancy at birth:</b> total population: 37.35 years male 37.05 years female: 37.66 years (2002 est.)</p> <p><b>Ethnic groups:</b> African 98.7%, European 1.1%, other 0.2%.</p> <p><b>Religions:</b> Christian 50%-75%, Muslim and Hindu 24%-49%, indigenous beliefs 1%.</p> <p><b>Languages:</b> English (official), major vernaculars - Bemba, Kaonda, Lozi, Lunda, Luvale, Nyanja, Tonga, and about 70 other indigenous languages.</p> <p><b>Adult literacy rate:</b> Definition: % of population aged 15 and over that can read and write English: 78.9%.</p> <p><i>Source: CIA World Factbook, UNDP</i></p>	

Health	Human development																																														
<p><b>People living with HIV/Aids:</b>  Adults (age 15-49): 2001 21.5%.  Woman (age 15-49): 2001 590 000.  Children (age 0-14): 2001 150 000.</p> <p><b>Tuberculosis cases (per 100 000 people):</b>  1998: 482.</p> <p><b>Undernourished people (1997/99):</b>  47% of total population.  Source: UNDP 2001, 2002</p>	<p style="text-align: center;"><b>UNDP HDI Ranking (2000)</b>  <b>153 out of 173 countries</b>  (1 = most developed, 173 = least developed)</p> <table> <tr><td><b>Norway</b></td><td><b>1</b></td></tr> <tr><td>Seychelles</td><td>47</td></tr> <tr><td>Mauritius</td><td>67</td></tr> <tr><td>South Africa</td><td>107</td></tr> <tr><td>Gabon</td><td>117</td></tr> <tr><td>Namibia</td><td>122</td></tr> <tr><td>Swaziland</td><td>125</td></tr> <tr><td>Botswana</td><td>126</td></tr> <tr><td>Zimbabwe</td><td>128</td></tr> <tr><td>Ghana</td><td>129</td></tr> <tr><td>Lesotho</td><td>132</td></tr> <tr><td>Kenya</td><td>134</td></tr> <tr><td>Madagascar</td><td>147</td></tr> <tr><td>Nigeria</td><td>148</td></tr> <tr><td>Uganda</td><td>150</td></tr> <tr><td>Tanzania</td><td>151</td></tr> <tr style="background-color: #cccccc;"><td><b>Zambia</b></td><td><b>153</b></td></tr> <tr><td>DRC</td><td>155</td></tr> <tr><td>Ivory Coast</td><td>156</td></tr> <tr><td>Angola</td><td>161</td></tr> <tr><td>Malawi</td><td>163</td></tr> <tr><td>Mozambique</td><td>170</td></tr> <tr><td><b>Sierra Leone</b></td><td><b>173</b></td></tr> </table> <p>The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.</p>	<b>Norway</b>	<b>1</b>	Seychelles	47	Mauritius	67	South Africa	107	Gabon	117	Namibia	122	Swaziland	125	Botswana	126	Zimbabwe	128	Ghana	129	Lesotho	132	Kenya	134	Madagascar	147	Nigeria	148	Uganda	150	Tanzania	151	<b>Zambia</b>	<b>153</b>	DRC	155	Ivory Coast	156	Angola	161	Malawi	163	Mozambique	170	<b>Sierra Leone</b>	<b>173</b>
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<p><b>Score: 2.6</b> (where 10 is "highly clean" and 0 is "highly corrupt").  <b>Place: 80</b> (102 countries surveyed, 1 = least corrupt, 91 = most corrupt).  (The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).</p> <p>Source: Transparency International</p>																																															
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Taxation																																															
<p>Personal tax: top rate of 30% above cut-off level.  Corporate tax: between 15% (e.g. farming) and 45% (e.g. banking if profits exceed cut-off level). Copper and cobalt mining companies pay 25% tax. Manufacturing, banking (profits below cut-off level) and trading companies pay 35% tax.  Capital gains tax: none.</p>	<p style="background-color: #cccccc;"><b>Sovereign credit rating</b></p> <p><b>Standard &amp; Poors</b></p> <p><b>Local currency</b>  Long-term: not rated  Short-term: not rated</p> <p><b>Foreign currency</b>  Long-term: not rated  Short-term: not rated</p> <p><b>Moody's Investor Service</b></p> <p>Foreign currency debt: not rated  Foreign currency bank deposits: not rated</p> <p>Angola Government  Issuer rating –Foreign currency: not rated  Issuer rating –Domestic currency: not rated</p> <p><b>Fitch ratings</b></p> <p><b>Local currency</b>  Short-term: not rated</p> <p><b>Foreign currency</b>  Long-term: not rated  Short-term: not rated</p>																																														

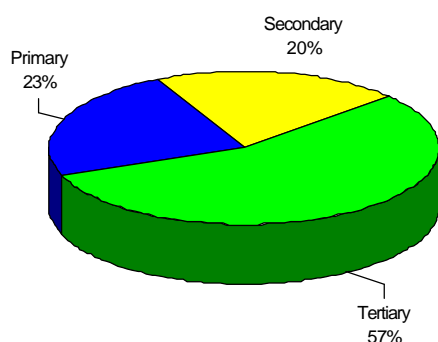
## Economy

### Selected statistics

	1996	1997	1998	1999	2000	2001	2002	2003(f)
<b>Population</b> (million)	9.2	9.4	9.7	9.9	10.3	10.6	9.96	9.7
<b>Nominal GDP</b>	3081.0	3709.8	3157.9	3014.8	3213.0	3921.9	4 000	4 000
<b>GDP/head</b> (US\$)	334.4	392.9	326.7	305.1	312.4	370.0	401	412
<b>Exchange reserves</b> (US\$)	222.7	239.1	69.4	45.4	245.0	150	149	174
<b>Import cover</b> (months)	2.5	2.4	0.9	0.6	3.0	1.75	2.4	1.9*
<b>External debt</b> (US\$bn)	5.1	5.1	5.1	4.9	4.7	7.27	...	...
<b>% of GDP %</b>	166.4	136.7	160.8	161.8	146.2	185.37	...	...

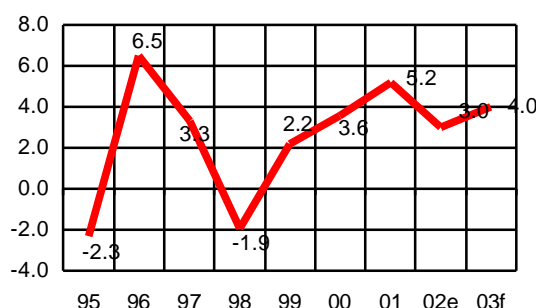
\* 2003 budget estimate.

### Economic structure



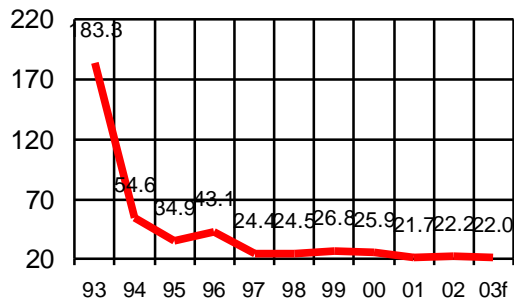
- The primary sector represents 23.4% of GDP (agriculture 17.3% and mining 6.1%), secondary sector represents 20.4% (manufacturing 11.4%) and the tertiary sector 56.2% (wholesale and retail trade 16.9%; and financial institutions 9.6%).
- The economy is largely dependent on the agricultural sector for employment. About four-fifths of the labour force is employed in the sector. Industry and services each employ less than 10% of the labour force.
- Main industries are mining, construction, food, beverages, chemicals and textiles. The mining industry (copper, cobalt and zinc) is the mainstay of the Zambian economy.
- Copper accounted for 49.3% of total exports and cobalt of 17.6% in 1998. Zambia is the world's second largest cobalt producer and the fourth biggest copper producer.

### Real GDP growth (%)



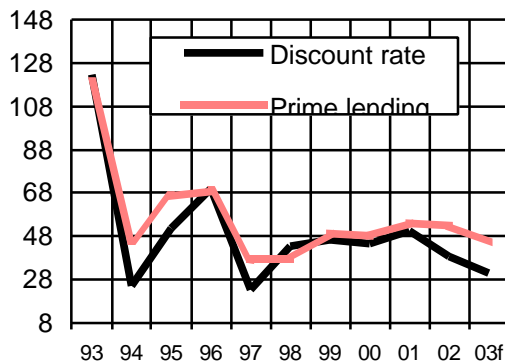
- Zambia has experienced low and volatile growth in recent years. From 1991 to 1995 the country experienced negative economic growth, but it recovered after 1996 and average real growth returned to positive levels.
- The agricultural sector and a rise in non-traditional exports have supported the modest recovery. Given Zambia's growth potential, overall performance over the past decade has been disappointing.
- The withdrawal of Anglo American (AA) from the Copperbelt in January 2002, less than two years after it invested in Konkola Copper Mines (KCM), was a major setback for the economy. The reason for the departure is the low copper prices in recent years. The government and AA made a transitional arrangement for KCM to remain operational. The mines are being managed by the government, while a new owner is being found.
- The slowing world economy and the threat of war in the Middle East are cause for concern as Zambia's economy is still weak.
- The copper industry could face declining prices in the long run. However, it increased production in 2002 despite lower prices and AA's departure.

## Consumer inflation (%)



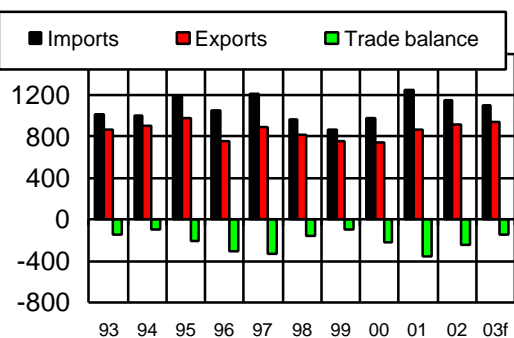
- The inflation rate has remained high because of poor macroeconomic management and external price shocks, such as high international crude oil prices and adverse weather conditions.
- However, inflation has declined substantially over the past decade, after reaching hyper-inflationary levels in the early 1990s.
- The 2002 inflation target of 13% (revised to 16%) by year-end was missed and inflation was 22.2%, mainly driven by high food inflation.
- Food inflation, which constitutes 57% of the consumer price index, was well above non-food inflation with a 43% weight in the index. Food inflation reached levels of above 30% in 2002.
- To reduce inflation the Bank of Zambia intends to improve its monetary policy through greater use of open market operations.
- The 2003 budget aims to reduce the annual average inflation rate to 17.9% in 2003. The authorities also aim to restrict the money supply growth to 16.1%.

## Interest rates (%)

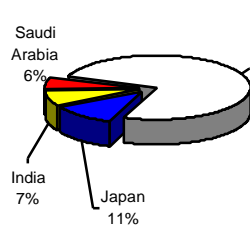


- Although Zambia's interest rates, which are underpinned by high inflation, have been at punitive levels for a number of years, the long-term trend appears to be downwards.
- High inflation and interest rates have been caused by a large budget deficit. The government has undertaken to halve the budget deficit in 2003, which should create an environment conducive for interest rates to decline.
- The government has expressed concern that commercial banks' lending rates remain at relatively high levels, thus inhibiting investment and growth.

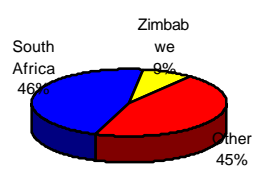
## International trade (US\$m)



Source of Imports

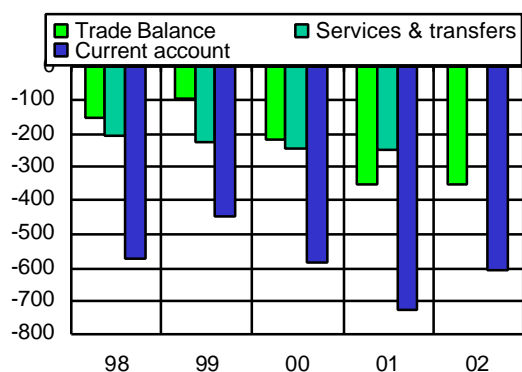


Destination of exports



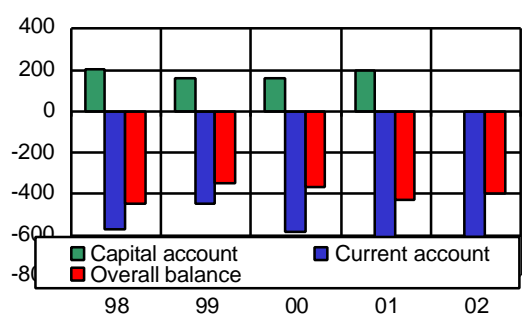
- The main exports are copper, cobalt, electricity and tobacco.
- Zambia's main export partners are Japan, Saudi Arabia, India, Thailand, South Africa, US & Malaysia. Non-traditional exports have risen over the last decade and now represent an increasing share of the country's merchandise exports. This will diversify the country's export market and lessen its dependence on copper and cobalt mining.
- Zambia's main import commodities are machinery, transportation equipment, foodstuffs, fuels, petroleum products, electricity and fertiliser.
- Imports are mainly sourced from South Africa, Saudi Arabia, UK and Zimbabwe. South Africa's share of Zambian imports is growing.
- Zambia's future export and import performances are linked to the Copperbelt's recovery. Investment in the copper-mining sector will require increased imports, such as machinery. The country's export performance is also largely linked to copper as it is significant source of foreign exchange.
- The recent improved performance of non-traditional exports is a positive sign that diversification of the economy is on track, albeit from a low base.

## Current account (US\$m)



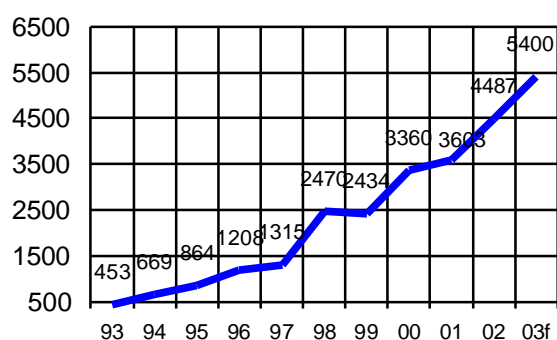
- The trade balance and the current account have registered deficits in recent years, despite positive net transfers.
- The current account deficit has not been offset by inflows from services and transfers. Interest payments on official debt have also put pressure on the current account.
- The current account is expected to remain in deficit in the short term.

## Capital flows (US\$m)



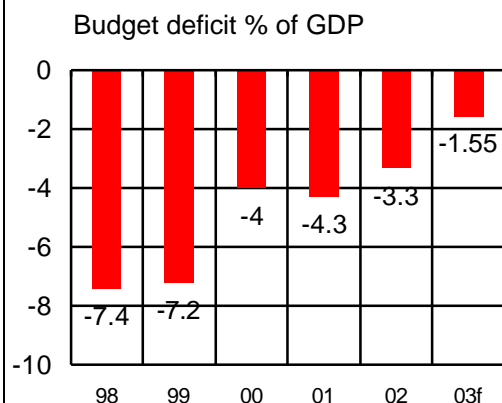
- The capital account has been underpinned by inflows mainly to the mining sector. The inflows have been small relative to the current account deficit.
- Official amortisations in the capital account have registered net outflows, resulting in a deficit in the overall balance.
- The overall balance is likely to remain in deficit.
- Debt relief and rescheduling, as well as new investment, if forthcoming, should reduce the deficit on the overall balance.

## Kwacha/US\$



- Low export earnings, rising imports and subdued capital inflows have contributed to the kwacha's decline against the US dollar.
- Trade policies were liberalised in the early 1990s.
- The country's central bank, the Bank of Zambia's (BoZ) policy is aimed at not only maintaining a market-determined exchange rate, but also to smooth out short-term currency fluctuations.
- A weaker currency will stimulate exports, particularly after the global slowdown since 11 September and the threat of war in the Middle East.
- The Zambian economy is highly dollarised. The BoZ issued a directive in 2002 that local transactions must be quoted and settled in local currency. The presence of US dollars circulating in the economy is problematic for monetary policy as there is additional currency in circulation.
- There are no foreign exchange controls in Zambia.

## Government finances



- Since 1998 the budget deficit has been on a declining trend as buoyant tax revenues and lower expenditures have reduced the deficit.
- Fiscal policy is aimed at sustainable growth and poverty reduction through targeted social spending.
- The 2002 budget deficit of 3.3% of GDP exceeded the projected deficit of 3.0%, mainly because of the higher government expenditure on mitigating the effects of the drought.
- A fiscal deficit of 1.55% of GDP is estimated for the 2003 budget. The halving of the deficit will take pressure off the high interest rates.
- The stock of domestic debt of K4,25 billion (2002) is not sustainable. It is used mainly to finance the budget deficit. Interest on domestic debt absorbs 15% of tax revenues.
- The budget, however, is only partly financed (57%) by domestic revenue and the budget deficit; almost 43%, will be financed by outside support and aid.

## Economic outlook

- The outlook is relatively positive and 4% real GDP growth can be expected in 2003.
- A contributing factor to a positive outlook is the country's eligibility for the Heavily Indebted Poor Country (HIPC) initiative. External debt was US\$6.5 billion in June 2002, a decline from US\$7.2 billion in 2001. Zambia received US\$155 million in November 2002 under the HIPC programme. Some US\$3.8 billion debt will be cancelled over the next 22 years.
- Zambia became eligible to draw US\$64 million under the IMF's Poverty Reduction and Growth Facility (PRGF) in November 2001, as government policies of containing inflation and stabilising the currency were relatively successful. Zambia received a further US\$55 million for poverty relief under the programme in November 2002 after a review by the IMF.
- Of concern are the high poverty and unemployment levels. Some 73% of the population live below the national poverty line. The unemployment rate is also unacceptably high. Further hardship is caused by the high HIV/Aids infection rate of above 20% of the adult population, the deterioration of the health sector and the crises in state hospitals.
- The regional drought has affected many parts of the country and is a setback for agricultural development. Some 20% of the population is being affected by the drought. The government also banned the import of genetically modified (GM) maize, which may lower the amount of emergency food imported.
- Although the Lusaka Stock Exchange (LuSE) opened its doors for trading in 1994. It is still small in comparison to other regional exchanges, market capitalisation and volumes traded have steadily increased. There were 11 listed companies on the LuSE at the end of 2002. The market capitalization capitalisation was about US\$230 million in January 2003.
- Zambian authorities are committed to privatising 280 state-owned enterprises, 257 of which have been sold.
- The most significant privatisation was the sale of Zambia Consolidated Copper Mines in 2000. This breathed new life into the Copperbelt region, boosting the business climate and increasing employment. However, the withdrawal of AA from the mining sector was a major setback and new investors are being sought.
- The economy is poorly diversified. However, in 2002 non-traditional exports grew by almost 11% and accounted for about 35% of export earnings.
- There is considerable scope for the country to develop its tourism and apparel and textile sectors. The tourism sector can grow if the recent positive developments are sustained, such as the opening of new hotels in Livingstone on the Zambezi River. The US African Growth and Opportunity Act (AGOA) provides duty- and quota-free access to the US for locally manufactured textiles and apparel. The country has not made any significant use of the act to boost its exports.
- Politically, the country remains in turmoil. The outcome of the December 2001 election, when Levy Mwanawasa was elected president, is being challenged in court. Election observers allege that there were irregularities.
- The new president has taken a strong stance against corruption, which is at high levels. Even ex-president Chiluba has been accused of graft and corruption. Corruption has been an ongoing problem and is seen as a strong deterrent to investment.

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