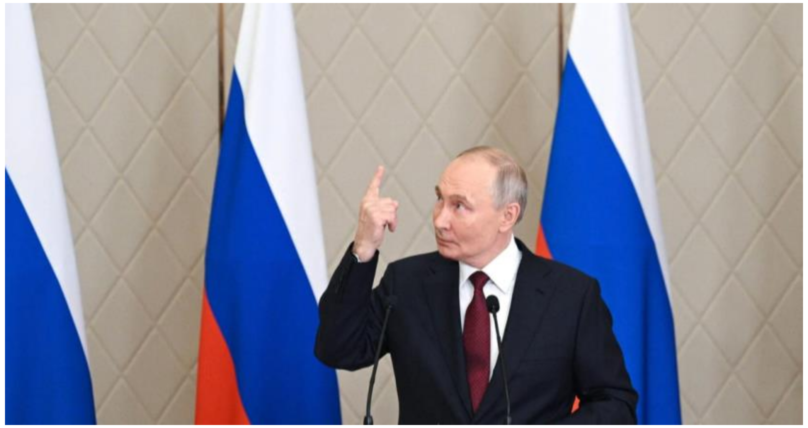
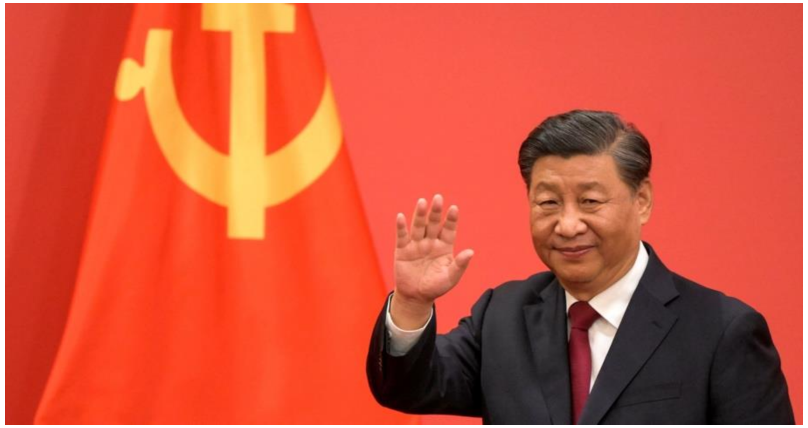
# Zambia's Economic Outlook 2025 Looking Ahead


Mutisunge Zulu
Chief Risk Officer

# Global Outlook





# GLOBAL UNCERTAINTY UNDER TRUMP 2.0

Key risks include geopolitical tensions, trade wars, climate policy shifts, aid suspensions and exits from global humanitarian bodies such as the World Health Organization

# GEOPOLITICAL & MARKET OVERVIEW

- **Middle East (Israeli - Hamas War):** A ceasefire agreement was reached in January 2025 following a year of intense conflict, facilitated by U.S., Egyptian, and Qatari mediators. Key components of the deal include hostage exchanges and the delivery of humanitarian aid to Gaza. **However, the situation remains volatile, with Israeli airstrikes continuing to target Gaza in response to sporadic Hamas activity.** While a ceasefire is in place, the humanitarian crisis and political tensions persist, and a comprehensive long-term solution remains elusive.

- **Russo - Ukraine War: The conflict between Russia and Ukraine continues with no immediate prospect of a ceasefire.** Russia has launched renewed offensives in Eastern Ukraine, although territorial gains have slowed significantly since late 2024. Ukrainian forces have launched successful counteroffensives, but the defense capabilities of Ukraine are increasingly constrained by slower Western aid, which is impacting the availability of critical resources. Despite ongoing diplomatic efforts, the war shows no signs of imminent resolution.

- **Red Sea Crisis (Houthis):** Attacks on commercial shipping in the Red Sea remain a significant concern, despite efforts by the U.S.-led coalition to curb the threat. A ceasefire has not been achieved, and disruptions to vital shipping routes continue, heightening global supply chain risks. The ongoing instability in this region contributes to rising global energy and shipping costs, further complicating supply chain dynamics.

# GEOPOLITICAL & MARKET OVERVIEW

**U.S. Tariffs**
On April 2, 2025, U.S. President Donald Trump imposed a 10% tariff on all imports and increased tariffs on select Chinese goods, including EVs and clean energy tech, by up to 17%, targeting trade imbalances and national security concerns.

**Market Reactions**:

- **S&P 500 Performance**: After reaching record highs in 1Q25, the **S&P 500 has dropped approximately 6%** over the past month due to rising geopolitical tensions and fears of further tariff escalation.
- **Volatility Spike**: **The VIX ("fear index")** surged to its highest levels since October 2023, reflecting significant investor anxiety.
- **Market Sentiment**: There has been a marked shift in investor behavior, with capital rotating out of high-growth tech stocks and into defensive sectors like utilities and consumer staples. Investors are bracing for a potential broader stock market correction should geopolitical risks continue to escalate.

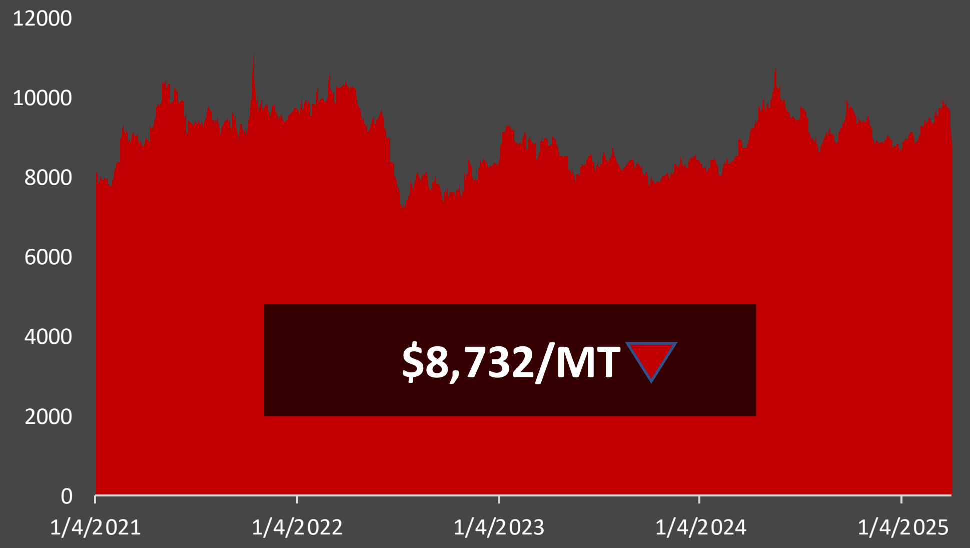

**Global Trade Concerns**: Growing fears of retaliatory tariffs from China and other global partners raise the risk of a renewed trade war. The U.S. tariffs have strained relations with key trading nations, including Canada, Mexico, the EU, China, and Japan, all of which are considering countermeasures.

**Impact on Emerging Markets**: While the direct impact on Zambia remains limited, the broader escalation in global trade tensions could dampen global demand, suppress commodity prices, and negatively affect investor sentiment in emerging and frontier markets.

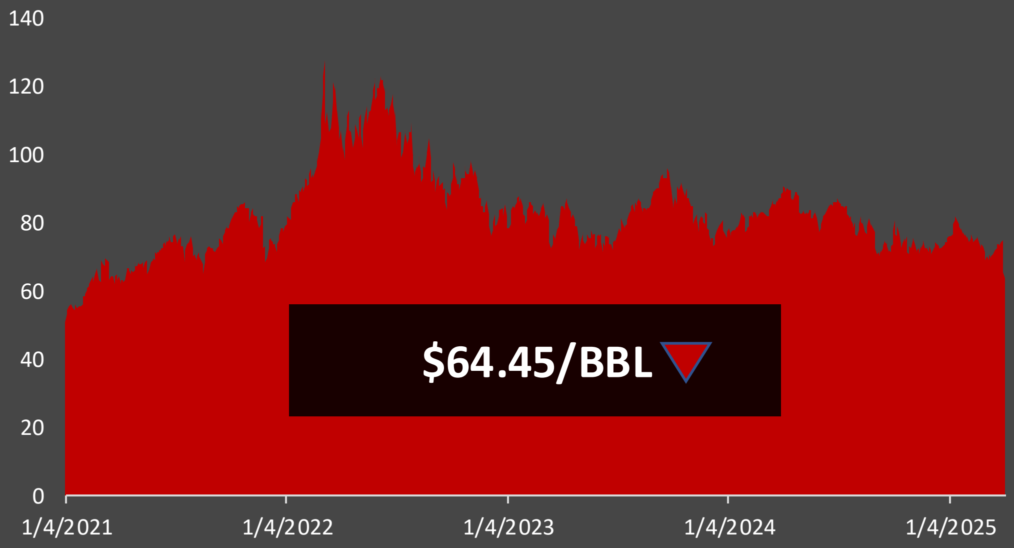
# DXY – DOLLAR STRENGTH


Global Uncertainty has strengthened the DXY as more players prefer USD denominated safer haven assets

London Metal Exchange Copper - USD/MT

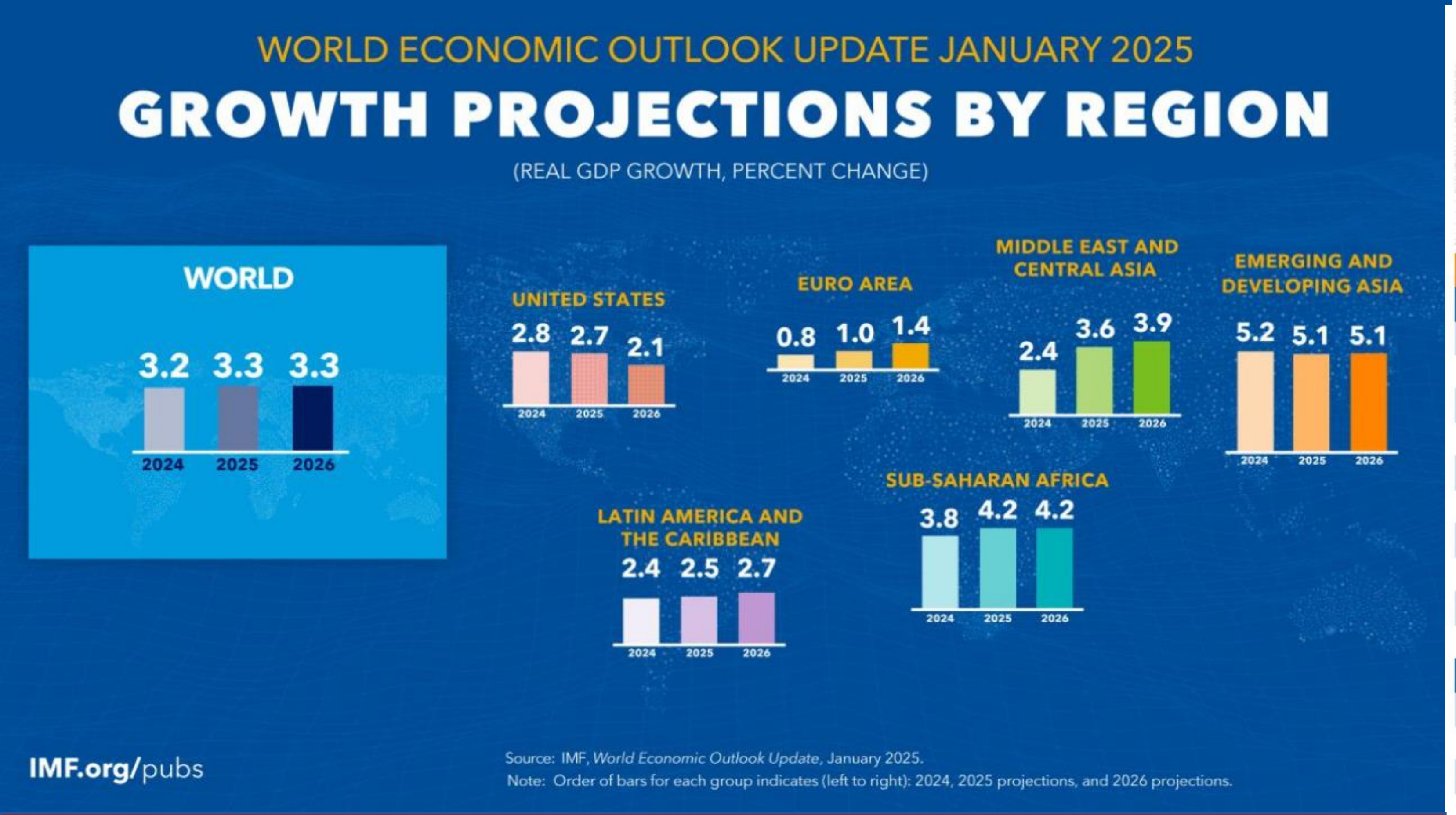



Brent Prices USD/bbl




Gold Price USD/Oz


**KEY GLOBAL RISK DRIVERS**
**Geopolitical Tensions surrounding Russo – Ukraine war**
**Trade Wars in Tariff Hikes**
**Growth Concerns**
**Policy Instability**
**Extreme Weather Concerns**




# GLOBAL GROWTH AT RISK

Global growth is forecast at 3.3% slightly below the 3.7% average of between 2000 – 2019. Risks to growth include deteriorating geopolitical posture, slower contribution from China, potential trade war tensions and a confluence of headwinds.

## World Economic Outlook Growth Projections

| (Real GDP, annual percent change) | ESTIMATE 2024 | PROJECTIONS 2025 | 2026 |
|---|---|---|---|
| **World Output** | 3.2 | 3.3 | 3.3 |
| **Advanced Economies** | 1.7 | 1.9 | 1.8 |
| United States | 2.8 | 2.7 | 2.1 |
| Euro Area | 0.8 | 1.0 | 1.4 |
| Germany | -0.2 | 0.3 | 1.1 |
| France | 1.1 | 0.8 | 1.1 |
| Italy | 0.6 | 0.7 | 0.9 |
| Spain | 3.1 | 2.3 | 1.8 |
| Japan | -0.2 | 1.1 | 0.8 |
| United Kingdom | 0.9 | 1.6 | 1.5 |
| Canada | 1.3 | 2.0 | 2.0 |
| Other Advanced Economies | 2.0 | 2.1 | 2.3 |
| **Emerging Market and Developing Economies** | 4.2 | 4.2 | 4.3 |
| Emerging and Developing Asia | 5.2 | 5.1 | 5.1 |
| China | 4.8 | 4.6 | 4.5 |
| India | 6.5 | 6.5 | 6.5 |
| Emerging and Developing Europe | 3.2 | 2.2 | 2.4 |
| Russia | 3.8 | 1.4 | 1.2 |
| Latin America and the Caribbean | 2.4 | 2.5 | 2.7 |
| Brazil | 3.7 | 2.2 | 2.2 |
| Mexico | 1.8 | 1.4 | 2.0 |
| Middle East and Central Asia | 2.4 | 3.6 | 3.9 |
| Saudi Arabia | 1.4 | 3.3 | 4.1 |
| Sub-Saharan Africa | 3.8 | 4.2 | 4.2 |
| Nigeria | 3.1 | 3.2 | 3.0 |
| South Africa | 0.8 | 1.5 | 1.6 |
| ***Memorandum*** | | | |
| Emerging Market and Middle-Income Economies | 4.2 | 4.2 | 4.2 |
| Low-Income Developing Countries | 4.1 | 4.6 | 5.4 |

# Regional Outlook

# REGIONAL POLITICAL TENSIONS IN EAST – SOUTHERN & CENTRAL AFRICA

These are characterized by uprisings in Kenya, tensions between Rwanda and Democratic Republic of Congo (DRC), electoral tensions in Mozambique and most recent US - South Africa outbursts with economic implications

These nations affected are either Zambia's trade corridors and partners. Political tension could likely have commercial implications.

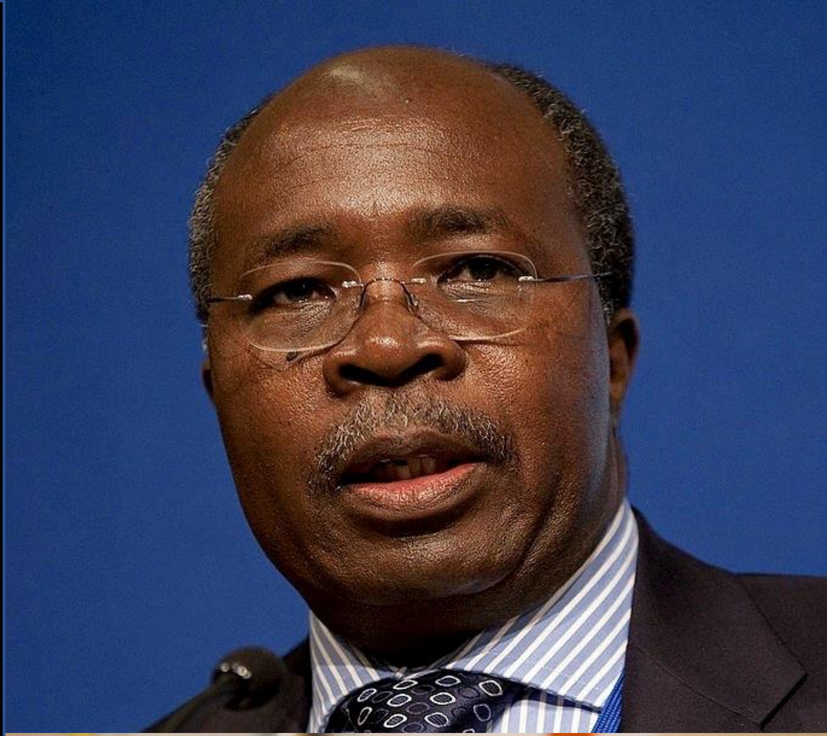
# Domestic Outlook

# 2025 MACROECONOMIC TARGETS

- GDP growth of 6.2% from 4.0% FY24
- Maintaining FX Reserves at 3 months of import cover. Zambia is currently at $4.31 billion (4.6 months IC)
- Narrow Fiscal Deficit to 3.1% from 6.8%* (FY24)
- Limiting Net Domestic Borrowing to 1.9% GDP
- Copper production to 1 million metric tons from 820,673 metric tons (FY24) and strive top hit 3 million metric tons by 2031
- Keeping inflation as close as possible to 6-8% BOZ band
- Growing domestic revenues by 21.3% (the 2025 budget is forecast to be 80.3% funded by domestic revenues.

# SOVEREIGN RISK POSTURE: STEADY PATH TO RESTORATION OF FISCAL FITNESS

- Zambia is still rated high risk of distress and default and will only graduate to medium by 2027. The 38 month IMF Extended Credit Facility expires on 31st Oct and Zambia sees IMF deal beyond.
- Restructure progress is 90% with the pending 10% ($1.8billion) expected in 1H25.
- Restructure is key for Zambia's long term issuer rating upgrade from current selective default by Standards and Poor's (S&P)
- Ministry of Finance presented a K217.1billion budget 22.3% higher than last year to be funded 80.3% by domestic sources
- Zambia paid $364 million in debt service on restructured dollar bonds with a further $599 million to be serviced in 2025
- Risks to cashflows include strains from withdrawal of aid which funds 60% of the healthcare sector. Improvements in mining production could offer a cushion to public purse in higher royalties.



TIME SERIES OF STEPS TOWARDS ZAMBIAS FISCAL FITNESS

Sovereign: Zambia
Rating: 'CCC+'/'Caa2'/'CCC+' with Moody's/Fitch/S&P from R/D/CCC-/S/D (prior to June) (FCY/LCY)
Inflation: 16.5% (March)
Growth Forecast: 6.2%
Forecast Fiscal Deficit: 6.8%
Debt Restructure Progress: 90% complete

| | | |
|---|---|---|
| 2021 (Feb) | Formally Request for IMF Extended Credit Facility | Completed |
| 2021 (Feb) | Application for Debt Treatment Under G20 Common Framework | Completed |
| 2022 (Jul) | Formation of Official Creditor Committee (OCC) Representing Bilateral Creditors | Completed |
| 2022 (Aug) | Approval of 38M ($1.3B) Extended Credit Facility | Completed |
| 2023 (Jun) | Debt Treatment Agreement with Official Creditor Committee ($6.3B) | Completed |
| 2024 (Mar) | Debt Restructure Proposal with Dollar Bondholders – Steering Committee Bond A ($1.7B) & Bond B ($1.35B) | Completed |
| 2024 (Apr) | Third Review of the IMF Staff Level Agreement /Appl. For Augmentation of ECF to $1.7B for additional $388M drought funding | Completed |
| 2024 (Jun) | Consent Solicitation on London Stock Exchange – 94% holders nodded the proposal | Completed |
| 2024 (Jun) | Successful Restructure of $3B debt & bond exchange on LSE 10 June | Completed |
| 2024 (Jun) | Approval of $569M ECF /Fitch/Moody's/S&P rating upgrade of the bonds and the country's STIR while LTIR was left at S/D /World Bank $208M grant towards drought | Completed |
| 2024 (Jul) | Supplementary Budget by MinFin of K41.9B to cushion drought effects and debt service | Completed |
| 2024 (Jul) | De-dollarization legislation proposals & energy reforms in response to the power emergency /Medium Term Expenditure Framework Presented | Progress |
| 2024 (Aug) | Monetary Policy Committee Session kept rates unchanged at 13.5% | Completed |
| 2024 (Sep | 2025 Budget Presentation with greater funding allocation towards Debt Service/Energy/Agric/Social Cash Transfer. | Completed |
| 2024 (Nov) | Monetary Policy Committee Session hiked rates 50bps to 14.0% | Completed |
| 2024 (Dec) | K11.8B supplementary budget for domestic debt service and outstanding bills | Completed |
| 2024 (Dec) | Fourth review of the IMF staff level agreement providing Zambia with immediate access to $184m | Completed |
| >2025 (Dec) | Projected Completion of $1.8B Sinosure Debt | Progress |

*Time chart for Zambia fiscal and monetary developments

Completed   Progress

## Mining

- FY24 production increased 12% y/y first to 820,760 MTs
- Mining outlook is (+ve) with output forecast at 1M tons by 2025
- Muted activity persist in the interim impacting FX supply
- Drivers of demand include global monetary expansion in stimulus and decarbonization – LME copper is $9,350/MT

## Currency

- FX risks remain persistent as supply constraints and increased demand weigh
- Drought continue to added a wave of FX demand for power and maize imports
- FX reserve position has improved to $4.31B (4.6M of import cover)
- Global outlook could pressure currency stability on view of **stronger dollar** in the interim

## IMF/World Bank Funding

- Completion of IMF fourth review providing Zambia with immediate access to about $184M.
- Zambia sees IMF beyond 2025 after expiry of current ECF in Oct 25.
- IMF forecasts growth 6.2% in 2025 supported by recovery in mining, agriculture and manufacturing sectors.

## Credit Ratings

- Despite upgrades in short term issuer rating Zambia remains selective default with S&P until debt cocktail is reorganized.

## 2025 Budget

- The budget amounts to K217.1b. Funded 80.3% by domestic revenues (19.7% non-domestic revenue sources). Macroeconomic targets include a growth target of 6.6%, keeping inflation within 6-8% and containing fiscal deficit within 3.1% of GDP.
- Zambia in 4Q24 announced an K11.8B supp. budget in a reallocation of its fiscal purse to address domestic debt service (53%) and outstanding bills (42%)

## Business Pulse Rebound

- March PMI declined to 49.3 from 50.9 in Feb25 as weak demand weighed.
- Inflation eased, vendor performance improved while hiring continued despite lower optimism.

## Tightened Monetary Policy

- Given worsened drought effects inflationary pressures remain elevated signaling higher likelihoods of rate hikes
- BOZ hiked its BPR 100bps at the Nov (50bps) and Feb (50bps) MPC to 14.5% as inflation pressures heighten
- Earlier last year BOZ hiked the cash reserve ratio to 26% to curb an FX slide.
- BOZ is expected to implement **de-dollarization** in 1Q25 following completion of consultations.

# SUBSIDING POWER GENERATION RISKS

- Zambia's power generation deficit is currently at 700 MW shaped by 2,400 MW demand vs 1,700 MW in supply vs an 3,567MW inst capacity. Power supply is expected to improve to 7hrs from 5hrs. This supported by forecast improved generation due to better rainfall prospects.

- Dam levels at the Kariba are alarmingly low but are improving with usable capacity at 9.32% vs. 3% (Dec24) compared with 13.59% a yr. ago

- Energy reforms were implemented last year to include open access, expedited licensing, net metering and VAT removal on renewable energy imports. Tariff adjustments will be implemented in a graduated fashion to 2027. ZESCO was granted emergency 3 month tariff hike in Oct24 that has extended to April25.

- **2025 Power Outlook:** Given the current precipitation forecasts best case scenario for the Kafue basin will be 70% usable capacity while the Zambezi feeding into the Kariba will increase to 32% to increase power availability to about 12 hours in 2025.

- Mining is set to add 2,000 MW demand to the grid by 2029. In the pipeline is 1,500 MW in coal plants, 470 MW is solar and 1,175 MW in hydro as part of the power utilities diversification strategy.

Key Pipe Line Projects
**ZESCO's Diversification Mix**

**Solar**
Lupaula - 50MW, Chisamba -100MW (Apr25), Siavonga - 100MW, Chama & Kasama 220MW

**Hydro**
Chishimba (KFW) - 130MW, Lusiwasi - 12MW, Luapula Kalungwishi - 244MW, North West Lunga (at feasibility stage), Luapaula (JV between DRC/Zambia) - for 789MW.

**Coal through PPA's**
Maamba Energy - 300 MW, Wonderful Group – 600 MW (2027) and Sunshare 600 MW (2028). Other PPA's (ex coal fired will include Western Power - 180MW and Lufubu in Mporokoso (168 MW)

Zambia signed 29 PPP's for 332MW Solar power generation

# ZAMBIA IN MINING REBOUND

- Generally copper demand is set to increase fairly supported by global decarbonization and renewable energy.

- Copper is expected to trade between $10,000 - $12,000/MT supported by red metal deficit and a strong decarbonization drive.

- Copper production for 2024 recorded a 12% increase, reaching 820,676 metric tons and is on track to hitting 1 million metric tons. Supporting this growth was increased production at previously legal impasse plagued mines such as Mopani and Konkola Copper Mine.

- Mining outlook remains positive with output forecast supported by investment actualization. Ivanhoe Mines is expanding its footprint in Zambia, with a focus on high-grade copper exploration. The company has secured exploration licenses and is investing significantly in projects like the Western Foreland, aiming to replicate its success from the DRC and bolster Zambia's mining sector.

- Zambia will set up an SPV into future explorations in critical minerals to take up to 30% ownership in new ventures and additionally 30% in ‘production share’ in line with the Minerals Regulation Commission Bill
- Zambia has a $160 million geophysical exercise in progress

# TIGHTENED MONETARY POLICY AS INFLATION CLIMBS


- Given global uncertainty fueled by US policy shifts and residual drought effects from last year, inflation risks remain elevated.

- Zambia’s central bank revised its 2025 average inflation to 14.6% (from 13.9% earlier forecast) weighed mainly by currency depreciation, introduction of an electricity emergency tariff and rising food prices.

- The MPC raised its benchmark interest rate 50 basis points to 14.5% in the debut rate decision meeting of the year. Other drivers of inflation include a strong dollar environment in the wake of global uncertainty.

- Foreign Exchange reserves have grown to $4.31 billion, accounting for 4.6 months of import cover.

- The market grapples with foreign currency supply which mismatched with rising demand is breeding depreciation pressure.

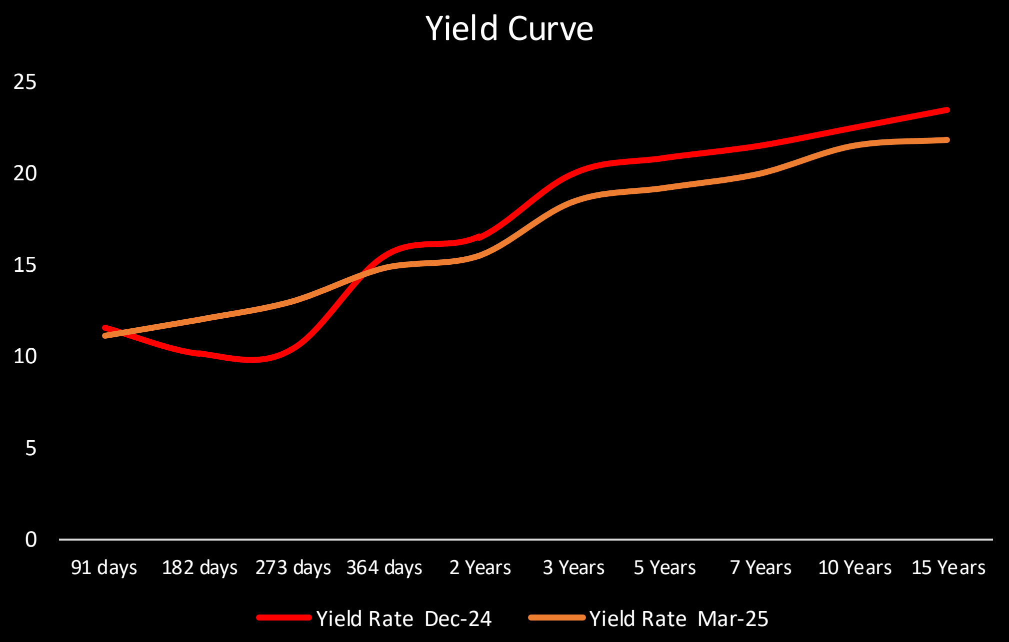

- De-dollarization legislation is still on the cards.

- Effective 31 March the BOZ launched 6 new notes namely K500, K200, K100, K50, K20 and K10 and 6 new coins namely K5, K2, K1,50N,10N and 5N to the kwacha currency family. This is a response to inflation, soiled notes and to strengthen the fight against counterfeit risks.

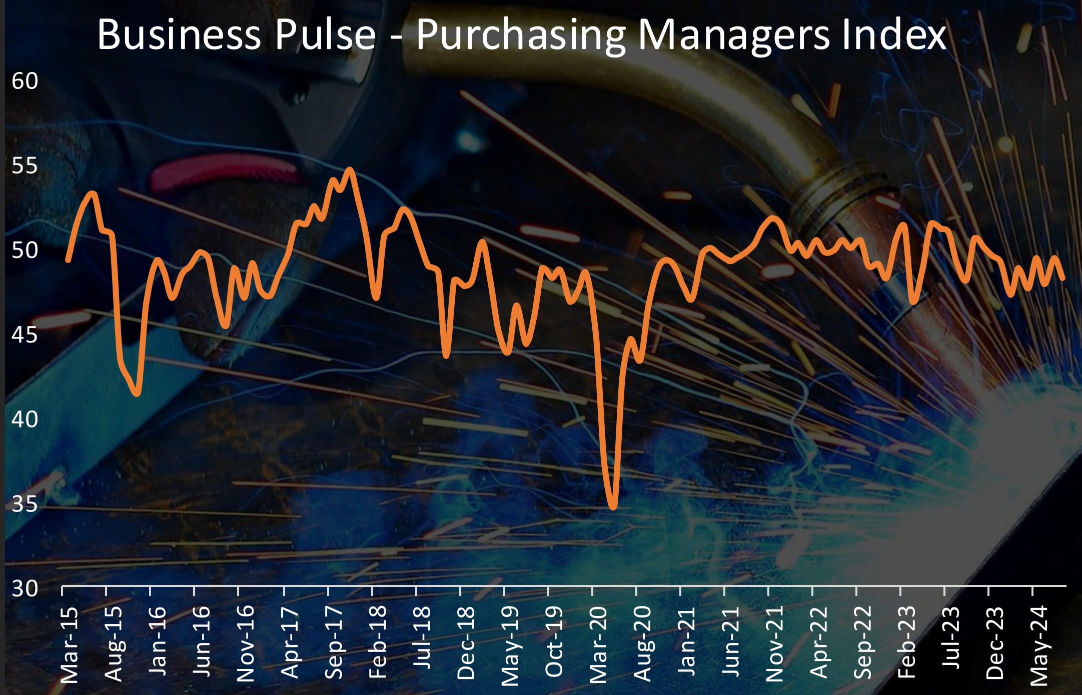
- Industry NPL ratio as at Dec 24 was 4.0% vs. 10% prudential limit. In 4Q24 the BOZ did throw a life line to Small to Medium Sized Businesses in a resilience facility to the tune K5billion to cushion potential credit risks.

- FX supply rose $60.1 million, led by mining sector inflows, which climbed to $526.2 million. Banks absorbed $239.7 million in net purchases, up from $232 million (3Q24), while $285.5 million was remitted to BOZ for tax payments, increasing from $233.9 million prev. Net market support by BOZ was $197.8 million, down from $230.8 million in 3Q24.


- Yield Curve: Overall, while there was a slight increase in short- to medium-term yields, the general trend across the yield curve is downward between December 2024 and March 2025, suggesting that investors are becoming more confident in Zambia's economic stability and recovery. The most significant movements were seen in the 182-day and 273-day maturities, where the 182-day yield rose sharply from 10.12% to 12%, and the 273-day yield increased from 10.3% to 13%, indicating potential short-term uncertainty. However, the consistent decline in longer-term yields reflects optimism regarding long-term economic growth and a more stable investment environment moving forward.



# PRIVATE SECTOR PULSE IN CONTRACTION




- Zambia’s private sector pulse as measured by Purchasing Managers Index fell to 49.3 for March, up from 50.9 in February
- Readings above 50 signal expansion while those below 50 reflect contraction
- Power deficits and currency depreciation still remain key drivers of input inflation in higher selling prices.

# FAVORABLE AGRIC PROSPECTS

- ❑ Despite 2024 being a drought year 2025 started on a better note with healthier rainfall precipitation. This is forecast to agriculture a positive cue in the 2025 season
- ❑ As part of the Comprehensive Agriculture support Program (CASP) agribusiness sector will see increased investment in infrastructure – electricity power lines, irrigation support, road construction and farm block developments in 2025.
- ❑ Misfortunes of the Sustainable Agriculture Finance program still pose credit risk pressure for Banks
- ❑ Some notable risks in the sector include flash floods that could adversely impact crops.
- ❑ Livestock initiatives include set up of manufacturing hubs for producing vaccines. Disease support is forecast to continue for foot and mouth, bovine pleuropneumonia and swine fever.
- ❑ Zambia is setting up disease free zones as it repositions itself as a key beef exporter

# Real Estate Sector

# GLOBAL AND DOMESTIC DEVELOPMENTS AND THEIR IMPACT REAL ESTATE SECTOR

**De-dollarization Measures:**

**BOZ De-dollarization Plans**: Potential transition to Kwacha as the mandatory currency for all domestic transactions could reshape the real estate market. This may reduce currency risks for local investors but could increase volatility for foreign investors, depending on exchange rate fluctuations.

**Implications**:

- **Transaction Dynamics**: Real estate pricing and financing may adjust to the Kwacha's performance, impacting both local and international investor sentiment.
- **Foreign Investment**: A shift towards Kwacha could prompt caution among foreign investors, influencing demand for large-scale commercial and residential developments.

**Geopolitical Risks & Global Trade Disruptions:**

**Global Tensions**: Escalating trade wars, US tariffs, and geopolitical instability can dampen investor confidence, especially in emerging markets like Zambia.

**Implications**:

- **Investment Flows**: Global risk aversion may slow foreign direct investment inflows into Zambia’s real estate sector.
- **Construction Costs**: Tariffs and supply chain disruptions could push up the costs of construction materials, leading to higher development costs and, potentially, elevated property prices.
- **Migration and Demand**: Geopolitical instability may drive migration patterns, potentially increasing demand for housing and commercial properties in Zambia.

# GLOBAL AND DOMESTIC DEVELOPMENTS AND THEIR IMPACT REAL ESTATE SECTOR

**Domestic Economic Stability & Inflation:**

**Inflation and Economic Outlook**: Effective inflation management has the potential to stabilize the real estate market. As Zambia's inflation outlook improves, purchasing power and housing demand could see a positive trajectory.

**Implications**:

- **Affordability**: Stable inflation enhances purchasing power, supporting residential market stability. However, sustained inflationary pressures could erode affordability, particularly in the low- to mid-income housing segments.
- **Investment Confidence**: Economic stability would foster a more favourable environment for both local and international real estate investment.

**Infrastructure Development & Urbanization:**

**Government Initiatives**: Increased public sector investment in infrastructure, combined with urbanization, is likely to continue driving demand for real estate in key urban centres.

**Implications**:

- **Sector Growth**: Urban infrastructure development opens new markets for residential, commercial, and industrial real estate.
- **Policy Support**: Regulatory reforms, such as favourable land policies and tax incentives, could further stimulate sector growth, particularly in emerging urban regions.

# Q&A