

Zambia's Economic Outlook

Contribution of Insurance to Economic & Social Transformation



ZAMBIA'S ECONOMIC OUTLOOK – INSURANCE AS A CATALYST FOR ECONOMIC RESILIENCE AND POSITIVE SOCIAL TRANSFORMATION – PROFESSOR OLIVER SAASA



Oliver Saasa is Professor of International Economic Relations and Managing Consultant/Proprietor of Premier Consult Limited in Lusaka. Prior to 2000, Prof. Saasa served for 12 years as the Director of the Institute of Economic and Social Research at the University of Zambia. A Rhodes Scholar, Prof. Saasa obtained his doctorate in 1983 from Southampton University in the UK. His PhD thesis was on: The Control of transnational Corporations in Developing Countries: A Comparative Analysis of National Policymaking towards International Investment in Tanzania and Zambia. He has served and continues to serve on other financial sector boards at both national and international levels. These have included Zambia National Commercial Bank (Zanaco); Trade and Development Fund (a subsidiary of TDB – of which he is currently the Chairman); Public Service Pensions Fund (Zambia); and the Africa Economic Research Consortium (AERC). He is also Chancellor of Mulungushi University in Zambia. He is also the Chairman of the Business Coalition Council Emergency Taskforce – BCCET (with over 180 large corporate members in Zambia). Prof. Saasa has consulted widely with many governments, international and regional bodies that have included the World Bank, OECD, and many other multilateral and bilateral institutions. He has published widely in the fields of trade, investment and international economic relations.



Economic Outlook

Economic Backdrop - Exogenous factors

- Slowdown of the global economic growth during 2023
 - pegged at 3.0 percent, compared to the 3.5 percent growth posted in 2022.
 - Elevated inflationary pressure
 - Continuing interest rate increases
- Sustained tightening of monetary policy in advanced economies
- Continued manufacturing downturn amid international trade contraction

- Adverse effects of climate change
- Impact of the protracted Russia-Ukraine war
- Consequences for Zambia
- commodity prices trending downwards since beginning of 2023
- copper prices declined to an average of US\$8,589 per metric tonne from US \$9,084 during the same period in 2022



Although global economic outlook is moderating to 2.6% growth (average projection for IMF and WB), growth is seen as picking up to 2.7% in 2024 and 3.1% in 2025

Economic Backdrop - Domestic factors

- **Zambian economy projected to grow by only 3.8% in 2023 (compared to 5.2% in 2022)**
 - **Downturn drivers**
 - **Dissipating effects of NAPSA partial withdrawals**
 - **Surging cost of living**
 - **Weaker than anticipated offshore flows**
 - **Weaker copper production**
 - **Dollar liquidity challenges**
 - **Contracting private sector pulse**
 - **Intensifying cost pressures**
 - **Weakening Kwacha: local currency depreciated by 5.6% by Q3**
 - **Rising fuel prices**
 - **Tightening monetary policy (SRR increased)**

GDP growth anticipated to pick-up in 2024 to 4.5%

➤ Key lingering downside risks

- Protracted debt restructure with private creditors
- Subdued global growth
- Low production and productivity
 - Especially in the mining sector (Budget Speech attributes this to operational challenges)
- Climate change effects (on agric and energy sectors)
- Low diversification and industrialization
- Low private sector investment
- Low access to affordable finance
- Low citizen participation



Economic Backdrop - Domestic factors

High inflation - October 2023 inflation growth – at 12.6% - mainly on account of rise in prices of maize grain and meat products & worsened Kwacha depreciation.

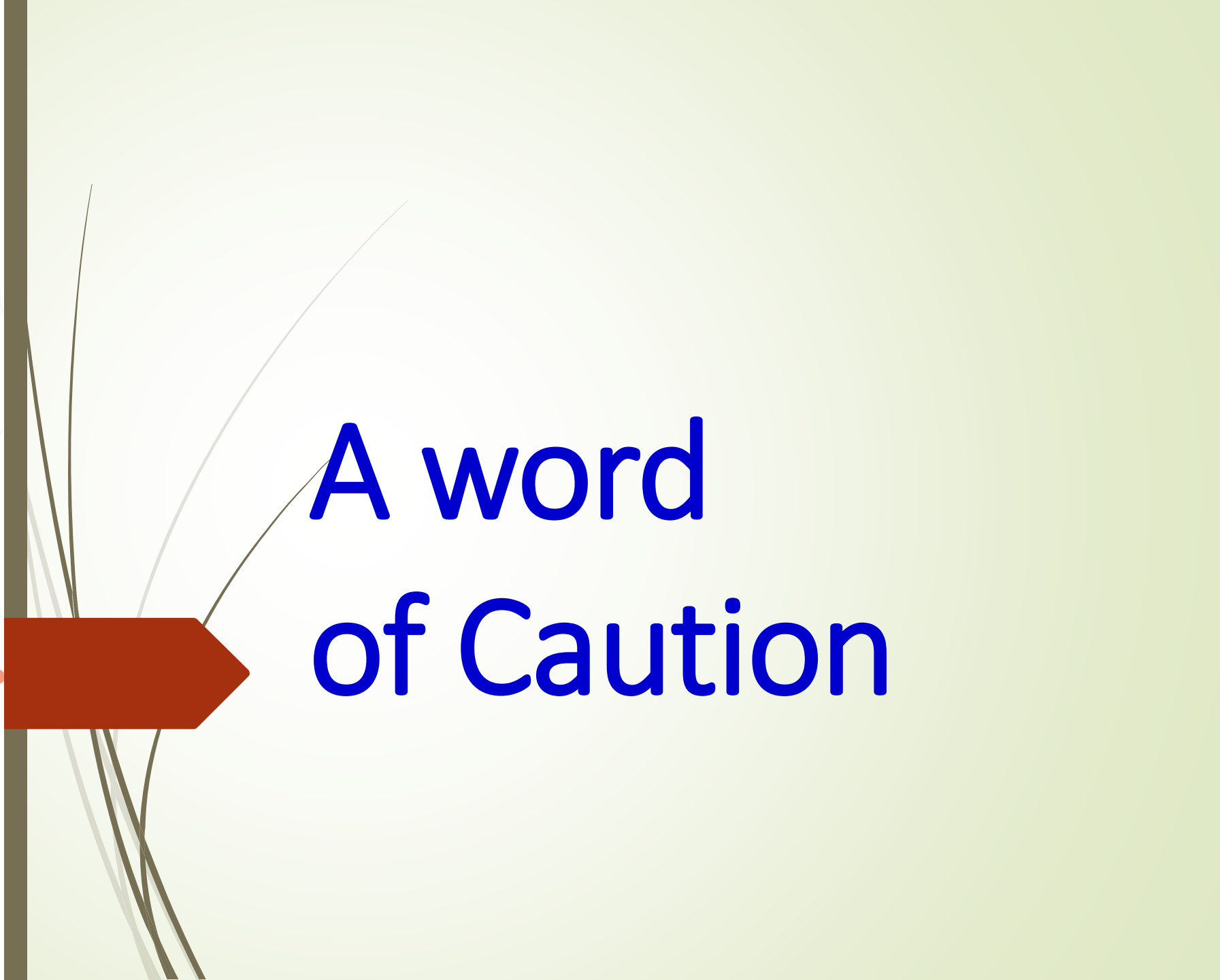
At the end of August 2023, Zambia had US\$2.9 billion gross international reserves, amounting to 3.2 months of import cover

19) Brighter Light in the Horizon...

The Zambian economy has expanded 2.3 percent in the second quarter of 2023

- buoyed by the external debt restructuring deal
- Attainment of currency stability albeit at a higher level
- The Kwacha is expected to stabilize in coming months on account of
 - return of offshore investors
 - addressing of mining sector challenges – KCM/Mopani





A word of Caution



A significant reduction in copper production, which could spell doom for the larger economy



A drought that could trigger load shading



A global recession, particularly in China, that could result in plunged price of copper.




A significant depreciation of the Kwacha, which could result into worsening inflation levels.



Tighter monetary Policy.



Significant inflationary pressures (12.6 % in October 2023)



**There are
real
emerging
risks...**

- Slow rate of concluding commercial debt restructuring
- Declining copper production
- Over the January to March 2023 period, the local currency posted a near 3-year high depreciation of 17 percent on the interbank
 - significance of exogenous factors on currency stability
 - Slow restructuring of private credit obligations would continue to adversely affect the country's credit rating

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Insurance Sector Outlook

Main Implications for the Insurance Sector

Contraction in private sector borrowing could result in tightened credit conditions

- NPLs have remained elevated
- Risk-averse banks usually add a premium to their lending rate in the face of higher default incidences
- Insufficient access to finance by companies reduces the appetite for insurance of assets



Who are the winners...

For the real estate market, while poor GDP growth is bad for insurance companies, policy buyers are winners

Poor economic performance attracts a high supply of insurance products but a low uptake because of stressed household and corporate incomes.

As a result, an over-supply of insurance products is greeted by lower demand, which pushes the price of premiums downwards, thus reducing your bottom lines

The main Drivers



4 Key Factors That Drive The Insurance Market in Zambia



Poverty levels



Interest rates



Health of the economy



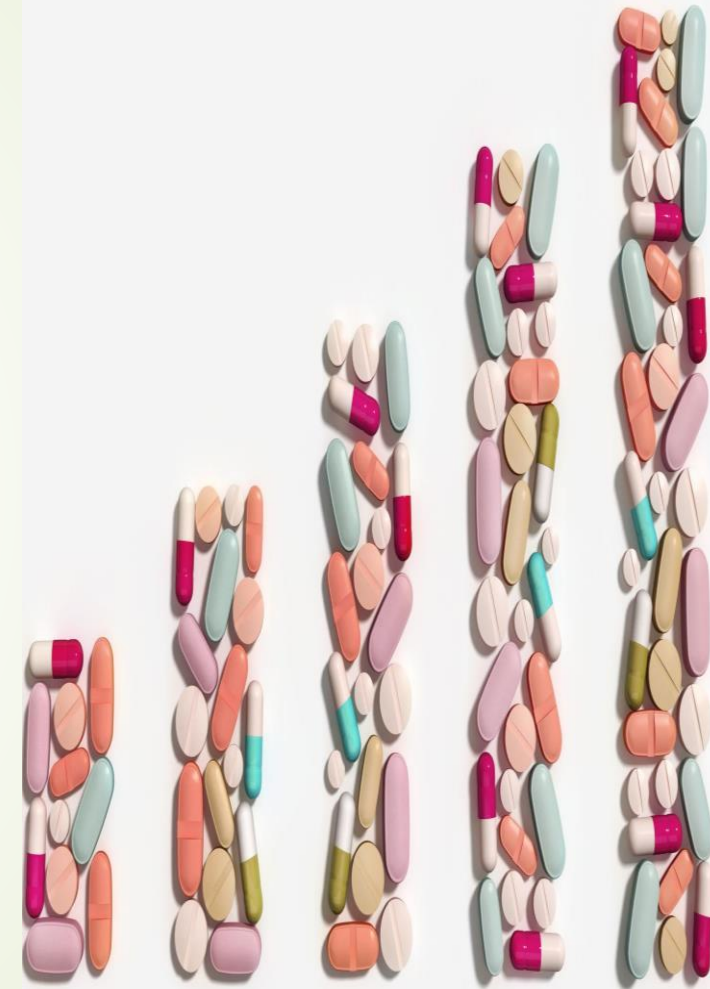
Government policies

Interest rates

- Escalating interest rates influence potential policy holders to purchase policies
- When interest rates decline in the market, the cost of insurance covers reduces, which creates higher appetite for insurance covers- which incidentally, pushes prices up.

19 Health of the economy

- ➔ The health of the economy influences the value of premiums
 - ➔ increased GDP growth, including rising employment opportunities enhance demand for insurance covers



Government Policies matter...

20

- Supportive policies & legislation influence demand and prices of insurance products
 - Withholding tax deductions, subsidies, and tax credits can temporarily boost or lower demand for insurance premiums



Opportunities for growth of insurance business in Zambia



- Strategic location in Southern Africa (land-linked)
- Huge economic growth... potential
 - Tourism
 - real estate property
 - Agriculture (crops & livestock)
 - Mining (small and large scale)
 - Services sector (hotels and recreation)



The End