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CENTRE FOR TRADE POLICY & DEVELOPMENT

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CTPD'S EXPECTATIONS FOR 2023

The year 2022 was eventful but with uncertainties caused by the continuing Russia/Ukraine war, the COVID 19 pandemic and subsequent global food and energy crisis, global inflation, and its corresponding policy rate hikes. Further, slow growth in the US, China, UK, and the Euro zone, resulted in adjustments to growth predictions in advanced countries, emerging markets, and developing economies. 2022 reminded the world of the melancholy of stagflation of the 1970s when inflation was high and growth was slowing down, with possibilities of a recession. Domestically, Zambia aimed to achieve GDP growth of 3.5 percent in 2022; by the third quarter, growth averaged 3.6 percent. Furthermore, grants and domestic revenue outturn to September 2022 was a marginal 2 percent above target, reaching 77.6 percent of overall annual target. The administration also managed to maintain stability of the Kwacha and inflation, recorded marginal reduction in interest rates and contributed to unemployment reduction. However, challenges remain such as the protracted debt restructuring process, delayed implementation of the Farmer input support programme (FISP), low Constituency Development Fund (CDF) absorption rate, late disbursement of Citizen Economic Empowerment Commission (CEEC) funds, shortages of essential drugs in health facilities, poor planning in electricity supply, the high cost of living and largely ineffective government communication on various programs among others.

The 2023 economic outlook is subject to several risks. These include:

1. The government needs to develop an efficient communication system to help citizens better manage their expectations, particularly when it comes to adjusting to various reform fatigue (cost-reflective energy rates, load shedding, multiyear tariff frameworks etc.), considering the high cost of living and that of doing business.

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Government must rely on forecasts and predictions to manage expectations in the various sectors like energy.

2. Global fertilizer shortages, climate change, the ongoing Russia/Ukraine conflict, the resurgence of highly vaccine evasive COV1D-19 strains will all contribute to sustained increases in food and energy prices. This might cause a breakdown in commodity supply chains. As a result, there could be risks to government's domestic revenue, currency rates, and inflation. Government should focus on import substitution on various imports like agricultural inputs to lower local prices.

3. Flash floods and late implementation of the FISP in 2022 are expected to lower yields, endangering food security and potentially creating inflationary pressures in 2023. Government needs to draw up a predictable plan on the procurement and distribution of farming inputs to avoid delays in 2023.

4. The feasibility of restoring macroeconomic stability through debt and fiscal sustainability including the predicted economic recovery for Zambia in 2023 is uncertain due to the protracted nature of the debt restructuring. The government must accelerate negotiations with various creditors to expedite the process.

5. Despite single digit performance, inflation is expected to remain relatively stable in 2023, but will face risks due to global upside inflationary pressures, possible COVID 19 resurgences, the possibility of low yields due to delays in the distribution of agricultural inputs, an increase in aggregate demand if efficiency on CDF and CEEC funds improves, timely payment of retirees, loadshedding, and an increase in energy prices. Consequently, Inflation might not recede into the target band of 6-8 percent by the end of 2023. Government should ensure that productivity capacity, operational efficiency and effectiveness is prioritized across all functions.

6. Projected real GDP growth rate of 4 percent in 2023 is likely to be attained, albeit with challenges from the domestic and external economic environment. Unemployment remains very high due to limited opportunities and huge backlogs over the years and high rate of graduate entry into the labor market. Interest rates will

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continue with marginal decline especially with improved availability and access to CDF and CEEC funds supported by relatively stable inflation. The Kwacha will remain relatively stable in 2023 but not likely to benefit from a series of sentiments like in 2022, nevertheless it may incur shocks arising from resumption of debt service after the debt is restructured and strengthening of major currencies.

7. Finally, increased allocations like the CDF (carry forwards from 2022 plus new K28.3 million in 2023 per constituency) that can only be beneficial with enhanced absorption efficiency. The government must ensure that budgetary allocation matches the financial years in which expenditure is planned to improve absorption efficacy and avoid funds spillover and mismatched inflationary pressures.

Issued by:

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Editor's Note

The Centre for Trade Policy and Development (CTPD) is a not- for –profit, membership based trade policy and development think tank. The organization was established in 1999 and existed as the civil society trade network (CSTNZ), until 2009 when it was rebranded as the Centre for Trade Policy and Development (CTPD).

The mandate of CTPD is to influence pro-poor trade and investment reforms at national, regional and multilateral levels as well as facilitate the participation of various stakeholders including member organizations in ensuring that trade is used as a tool for poverty eradication.

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