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# Zambia: A Resource-Rich Copper Giant Awakens

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Boasting Africa's second-largest reserves of copper<sup>1</sup>, Zambia has a unique opportunity to leverage its natural resource endowment and make real progress on the road to development. Despite some near-term challenges, we believe this landlocked nation in Southern Africa is on the rise, tackling debt, investing in its future, and capitalizing on its abundant resources. Prudent government decision making is providing relief from an El Nino induced drought, which should position Zambia toward greater economic resiliency and beneficial transformation. We believe Zambia offers attractive value for investors looking to actively participate in a well-managed developing country that is battling climate change and is also a key player in the supply chain for renewable energy and EVs.

## Tackling Debt: Zambia's Path to Fiscal Responsibility

Crushed under the weight of crippling debt<sup>2</sup>, Zambia has embarked on a crucial journey towards fiscal responsibility. Partnering with the International Monetary Fund (IMF), the country has agreed to terms with investors on its debt restructuring<sup>3</sup>, which unlocks disbursements under the current program and committed financing by other multilateral lenders. It could also facilitate additional funds later in the year to help with the drought or potentially even lead to an IMF program extension. By aligning all investors and establishing a roadmap for financial discipline, Zambia will free up resources for vital investments in infrastructure, education, and healthcare. This, in turn, attracts foreign investors and propels long-term growth. The IMF projects foreign direct investment to more-than-double from the 2.9% of GDP estimated for this year to 6.5% over the medium term<sup>4</sup>.

Other economic reforms are also afoot. The National Pension Scheme Authority (NAPSA) is playing a more prominent role in securing retirement for Zambians, with its Assets Under Management (AUM) now at \$3.5 billion expected to reach \$10 billion in 10 years, with a mandate to invest in Zambia and a special focus on infrastructure<sup>5</sup>. Meanwhile the government strives to reduce corruption and improve tax administration, leading to a fiscal consolidation that will allow for broader capital expenditure, further supporting long-term growth.

## Copper's Vital Role

Copper has long been the lifeblood of the Zambian economy. Its vast reserves translate into significant foreign exchange earnings through exports. Higher copper prices directly correlate with increased government revenue via mining taxes and royalties<sup>6</sup>. This revenue fuels investments in infrastructure, social programs, and essential goods imports, fostering economic activity.

The full potential of the mining sector is vast. Zambia produced 830k metric tonnes of copper in 2022 which is expected to more than double by 2030, triple by 2035 and eventually rise to its target capacity of 3 million metric tonnes per year<sup>7</sup>. The result in medium term would mean a windfall of 2x GDP and 3x government revenues or an increase of \$1 billion in annual fiscal revenues which is approximately an increase of 3.5% of nominal GDP<sup>8</sup>. By responsibly exploiting this resource and focusing on sustainable mining practices, Zambia can generate substantial revenue. This revenue can be strategically invested in human capital development, debt reduction, and a sovereign wealth fund to safeguard future prosperity.

## The Drought's Ripple Effect

Zambia's 2023/2024 rainy season was negatively impacted by an El Nino-related drought<sup>9</sup>. Lack of water led to crop failures and energy rationing with broad impacts to growth, inflation, fiscal performance, balance of payments and FX devaluation. Fortunately, the drought has a limited impact on the mining industry because it is given priority access to energy supply and has not had to face power cuts. Most importantly, we understand that the drought is likely a temporary phase and the country should return to normal hydrology as soon as the 24/25 rainy season and has additional buffers to withstand one more bad season should that be the case.

All of this highlights the vulnerability of countries like Zambia to climate change and the critical need for investments in water infrastructure, including dams, irrigation systems, and water conservation measures. Such investments are essential to ensure long-term food security and economic resilience in the face of climate challenges.

## Conclusion: A Nation on the Rise

Zambia's journey toward economic prosperity is just beginning and is one of both opportunity and challenge. Focus on responsible debt management, social safety nets, infrastructure development, and harnessing its resource potential paints a promising picture. As Lusaka continues to develop and economic diversification takes root, Zambia is poised to become a key player in the Southern African economic region; one that is likely to attract further investment and ensures a brighter future for its people. In order for this to happen, Zambia must make progress towards its full mining potential while simultaneously lowering its vulnerability to the global economic cycle and commodity price swings. By diversifying the economy, investing in water infrastructure, growing tourism by showcasing its stunning natural beauty, and embracing drought-resistant agricultural practices, Zambia can better prepare itself for the future and ensure long-term economic stability and prosperity for its citizens.

### Endnotes

<sup>1</sup> Global copper reserves by country 2023 | Statista

<sup>2</sup> Zambia External Debt, 2011 – 2024 | CEIC Data

<sup>3</sup> IMF Staff Completes Mission to Zambia

<sup>4</sup> Zambia and the IMF

<sup>5</sup> Home—National Pension Scheme Authority (napsa.co.zm)

<sup>6</sup> Zambia Exports of Copper—2024 Data 2025 Forecast 1995-2023 Historical (tradingeconomics.com)

<sup>7</sup> Zambias-Key-Reforms-for-the-Actualization-of-the-3-Million-Metric-Tonnes-of-Copper-in-a-Decade-Policy-Brief.pdf (pmrczambia.com)

<sup>8</sup> IBID.

<sup>9</sup> Malawi follows Zambia in declaring drought disaster as El Niño brings hunger to southern Africa | AP News

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