

Major Country Risk Developments May 2024



By Byron Shoulton

Overview

While inflation has come down from a peak of 9.3% in mid-2022, U.S. annual inflation ticked higher in March and underlying price pressures remain stubbornly strong, forcing the Federal Reserve (“the Fed”) to step back from its forecast to begin cutting interest rates during 2024. The consumer-price index, a measure of goods and services prices across the economy, rose 3.5% from a year earlier. That was up from 3.2% in February. The upward trend has continued. Recent data showed inflation running higher this year than expected, an unwelcome shift after months of encouraging reports which showed a marked decline in the pace of price increases late last year.

Businesses, investors, and households started 2024 ex-

pecting a number of U.S. rate cuts during the year. However, the Fed has changed its outlook in response to both the inflation reports and solid economic activity data. Employment data also provide fuel for skepticism as the economy added far fewer jobs than was expected last month.

A measure of U.S. consumer sentiment has unexpectedly fallen to its lowest level since November as more Americans expect inflation, unemployment, and interest rates to become “unfavorable” in the year ahead. The University of Michigan’s consumer sentiment index registered a preliminary reading of 67.4 in May, its lowest since November, falling far short of the 76 expected by forecasters and April’s reading of 77.2.



Recently, Tesla and Microsoft announced sizable job cuts. U.S. unemployment rate edged up to 3.9% in April after only 175,000 new non-farm jobs were added. This compares with 315,000 jobs created in March. Meanwhile, surveys suggest that Americans remain frustrated by the higher cost of living. Indexes of consumer sentiment remain well below pre-pandemic levels. One poll of consumers in seven states found 74% thought that inflation had moved in the wrong direction over the past year. The higher prices for gas, rents, services, food, transportation, etc., are biting into consumer pocketbooks.

Also, weighing on sentiment: Some important interest rates that are not directly controlled by the Fed have ticked higher recently. Mortgage rates, for example, are closely linked to yields on longer-term U.S. government bonds, which have climbed this year as investors have dialed back their bets on Fed rate cuts. The average 30-year fixed mortgage rate has been hovering around 6.8%, according to Freddie Mac, up from 6.6% at the end of last year and 3.7% in late 2019, just before the pandemic. Meanwhile, the U.S. government is proactively encouraging U.S. tech groups to seek artificial intelligence deals and partnerships in the United Arab Emirates. The aim

is to cultivate an alliance that would provide the U.S. an edge in competing with China in developing the revolutionary technology. Microsoft announced a \$1.5 billion investment in G42, an Abu Dhabi-based AI group, representing the tech giant's latest huge bet on AI.

The U.S.-UAE collaboration shows how the fight to dominate emerging technologies has become geopolitical, as commercial decisions have become intertwined with national strategic and security interests. Oil rich Abu Dhabi has cultivated ambitions to deploy its vast petrodollar wealth to be at the heart of the global development of AI as it works to lessen its dependence on fossil fuels. It has launched MGX, a fund dedicated to AI deals, and is also expected to spend billions on research and development through government organizations such as the Advanced Technology Research Council. AI leaders, including Open AI chief executive and the head of chipmaker, Nvidia, have become regular visitors to the Gulf state.

Given the sensitivities around national security, approval for the G42-Microsoft deal took months of talks with government officials on both sides. The deal involved



G42 pledging to remove Chinese technology- most importantly, hardware built by Huawei-from its systems. Reportedly, G42 was cutting ties to Chinese partners in order to prioritize relationships with U.S. companies.

The U.S. Committee on Foreign Investment (Cfius) has approved Fortress Investment Group’s sale of a majority equity interest in Mubadala, the investment arm of Abu Dhabi’s almost \$300 billion in assets wealth fund. The clearance came after Mubadala agreed to let the investment group commit to keeping data and technology inside the U.S. on top of an earlier pledge to waive day-to-day control over Fortress. The new concession comes as Washington is increasingly focused on protection U.S. intellectual property, spanning cyber security software and data algorithms.

From the outset, the Fortress sale was structured to appease regulators concerns. Though Mubadala is buying a controlling 70% interest, Fortress employees will gain control of the investment group with a majority control over its board. The board control structure is meant to allow Fortress to have its operations run independently of Mubadala’s broader investment portfolio, giving employees full control over their investment decisions and fundraising efforts.

Gaining approval from Cfius marks a significant milestone in closing a transaction that was first agreed a year ago by Softbank, the current owner of Fortress. The Fortress deal will propel Mubadala into the ranks of the world’s largest credit investors. Sovereign wealth funds such as Mubadala have increasingly sought closer ties with the largest and most successful U.S. investment groups, which in turn are seeking to win investment mandates in the Middle East.

BlackRock meanwhile struck a deal in April with the Saudi Arabian government to open a multi-class investment firm in Riyadh, anchored by a 45 billion mandate from the kingdom’s Public Investment Fund.

The U.S. is preparing to raise tariffs on clean-energy goods from China in the coming days, with the levy on Chinese electric vehicles set to roughly quadruple, according to people familiar with the matter.

Higher tariffs, which Biden administration officials are preparing to announce on Tuesday, will also hit critical minerals, solar goods and batteries sourced from China, according to the people. The decision comes at the end of a yearslong review of tariffs imposed by former President Donald Trump on roughly \$300 billion in goods from China.

Europe

European automakers, steel manufacturers, and energy companies are struggling to compete with cheaper cars, steel products, electronic devices, and solar technology exports from China.

One report is that European ports are looking like car parks as vehicle imports from China pile up. The Chinese have flooded Europe with vast quantities of EV’s, solar panels and high-tech devices. The Chinese prices are impossible for European automakers to match.

One exception to the trend is Volkswagen (“VW”), which reported unexpectedly strong growth in its deliveries of electric and combustion engine cars in China in the first quarter; helped by significant price cuts. Meanwhile in Europe, deliveries of Volkswagen’s EV’s fell sharply.



Europe’s largest carmaker reported an 8% increase of deliveries to China during the first quarter, compared to the same period last year. Amid a market characterized by an ongoing price war, VW lowered its prices to retain market share. To retain market share, Chinese car manufacturers have become predatory in their own domestic market. Foreign competitors will only survive in China by slashing prices as well. That is what VW has done. The company shared that despite the ongoing high price discounts war, particularly from local Chinese manufacturers, it has managed to stay in the game via its own discounting programs.

The Chinese auto market is experiencing a fierce price war between legacy carmakers and newer rivals such as BYD and Tesla.

The image in Europe is complicated as Germany is cutting consumer subsidies and consumer demand for EV’s is threatening to stagnate. VW recorded a significant decline of 24% in EV deliveries in Europe, including its home market Germany. Globally VW reported a 3% increase in deliveries of all vehicles, led by growth in China and the Americas.

Meanwhile, rival German auto makers Mercedes-Benz and BMW reported declines of 12% and 4% respectively in their China sales numbers in the first quarter of 2024 versus the previous year. Mercedes said supply chain bottlenecks in Asia limited sales. Sales of Mercedes cars fell 6% worldwide, including 17% in its home market. BMW sold 8% more cars in Germany than in the previous year and reported worldwide electric battery sales growth of 27%.

Meanwhile, Nissan and Honda are setting aside their rivalry to jointly invest and develop electric vehicles that will rival Chinese producers at affordable prices. The Chinese auto market is the largest in the world. However, China’s current economic slowdown saw lower 2023 demand for new vehicles. The trend continues in 2024.

European Central Bank policymakers believed they were close to cutting interest rates in April, but most thought they should wait until June to see if escalating geopolitical tensions could cause a fresh surge in inflation.

South Africa

South Africa’s opposition is turning on itself weeks before critical elections, adding fresh uncertainty to a vote that threatens to overturn the majority of the African National Congress (“ANC”). Polls predict that the former liberation party’s vote share will fall below 50% for the first time since the advent of democracy in South Africa, amid anger at high unemployment, rampant crime, corruption and a stagnant economy.

Voter disenchantment with the ANC has provided fertile ground for several new political parties on the May 29 ballot. However, they are now clashing with established opposition rivals as they vie for votes and the chance to be coalition kingmakers. Underscoring the tensions the leader of the Democratic Alliance (DA) has attacked “political opportunists in small parties” for competing with his party for votes in its Western Cape heartland, the only South African province not controlled by the ANC.





South Africa’s proportional representation system has no formal electoral threshold for winning seats, making it viable for relatively small opposition parties to run on their own. At the same time, competition for voters and donors also threatens to unravel a multi-party pact between the DA and nine other parties. Many have refused to exclude post-election talks with the ANC despite provisions in the alliance that rule out making such deals.

The ANC and its leader President Ramaphosa are playing on these divisions within the opposition - to present the ANC to voters as relatively stable. But, analysts say the ANC itself is preparing to deal with these parties in the event it loses its majority. A recent poll showed the ANC’s support plunging to 37%, but much depended on whether voters can be convinced to come out on polling day. A weakened ANC could still seek to govern without its biggest opponents, but at the risk of deals with multiple small groups that are much more unstable. That would mean a hodgepodge of ideologically opposed parties could join a government facing huge pressure to turn around crippling service delivery failures at home.

Many fear that recent chaotic pacts in some of South Africa’s biggest cities will be replicated at a national level.

Johannesburg has been beset with deepening service delivery problems since the ANC lost control of the city in local elections in 2021. The country’s largest city has endured a series of volatile power-sharing agreements that have churned out six mayors in three years. Similar revolving doors have played out in the Western Cape and in another region outside Johannesburg.

If the ANC vote share falls far enough than it needs to negotiate with its larger rival parties, it could look towards the radical Economic Freedom Fighters, who advocate sweeping state nationalization and the expropriation of land without compensation. Its leader, the firebrand Julius Malema, has cited control of the national treasury as a condition of backing the ANC to continue in government.

Meanwhile South Africa’s mining giant Anglo-American Corporation, which was founded to mine gold around Johannesburg, is likely to merge with Australia’s BHP. Anglo American was the heart of industry which transformed South Africa from a colonial under-developed territory to the world’s biggest diamond and gold producer, laying the foundations for Africa’s most industrialized economy.

The company started off in 2017 after Earnest Oppenheimer, a German-born diamond trader, raised 1 million British pounds to fund the Anglo-American Corporation to mine gold around Johannesburg. The gold fields were among the steady stream of South African asset sales, but the company remains a sprawling international business spanning coveted copper mines in Peru and Chile.

It has long had to navigate a fraught relationship with the governing ANC. A move to the London Stock Exchange in 1999 hurt investor sentiment and had lasting real-world consequences for South Africa. There was an enormous repository of intellectual capital built up locally and in mines throughout southern Africa, which started to dissipate since then.

The discovery in the 1920's of vast platinum reserves beneath the farmlands north of Pretoria transformed the region. Years of often violent wildcat strikes helped hasten the search for alternatives to platinum metals and exploration elsewhere.

Today, job offers are scant for those relocated to a barren, sunbaked settlement known as Ga-Puka. While other platinum miners in the region have also slashed jobs, Anglo American Platinum, along with the miner's iron ore unit Kumba, have come under the spotlight after Australia BHP \$40 billion offer to buy Anglo-American. The BHP unsolicited bid was conditional on Anglo American demerging its Johannesburg-listed divisions. A sharp decline in platinum group metal prices, used in everything from medical equipment to diesel car exhausts, has contributed to a 45% fall in Amplats' shares in the past year, with rising costs leading to a 20% cut in its number of employees.

The downturn in the platinum metals markets has come as South Africa's mining industry has been embattled by power outages and crumbling infrastructure after years of government under-investment.

Anglo American's journey from South African corporate wealth creator to prey for a rival miner reflects the country's own decline as a mining powerhouse, as well as the rising risks of doing business in the country.



According to a survey by a Canadian think-tank, foreign investors last year perceived South Africa to be in the bottom 10 - lower than Mali and Burkina Faso - out of 62 mining jurisdictions. Delays by the government in setting up industry basics such as a mining cadaster- a public online map that lists available mining or prospecting rights – have contributed to holding up a pipeline of projects, according to the Minerals Council.

South Africa's Mining Minister has reacted angrily to the proposed break-up of Anglo, saying the company was born and grew up in South Africa therefore BHP cannot want Anglo and not want South Africa.

BHP has backpedaled with a statement that its proposal to exit Anglo's remaining South African assets was not a negative reflection on the country. Few believe that to be the case.

Despite a series of critical missteps that encouraged BHP's offer, Anglo remains a leading private employer and investor in South Africa. The miner has invested more than \$6 billion into the country over the past five years, including heavily in renewables projects and being a driving force in business efforts to work with President Ramaphosa's government to fix electricity and logistics crises. Still, for an upcoming generation of South Africans, the mining sector already seems to be in the rear-view mirror. The industry accounts for just 6% of total GDP compared to the 1980's, when its contribution was about 20%.

Ivory Coast

Alassane Ouattara has served as president since 2011. He intended to stand down ahead of the 2020 election, after serving two terms. However, his chosen successor and candidate of the ruling party (RHDP), Amadou Gon Coulibaly (the then prime minister), died in July 2020 ahead of the poll. The country has had several prime ministers since then; many in the highly factional RHDP party -thought were deemed capable of taking on the

role of prime minister and, eventually, the presidency.

Mr. Ouattara has previously spoken of his desire to hand over political power to the next generation of politicians, and he has not expected him to run in the 2025 presidential election. The current prime minister, Robert Beugr Mamb (was appointed in October 2023). If he is not deemed capable of continuing the pro-growth reforms of the current administration, Mr. Ouattara could seek to run for a fourth term. The constitution has a two-term limit, but Mr. Ouattara has previously argued that this was 'reset' following the adoption of a new constitution in 2016. A fourth term bid would probably spark major unrest that would be at least as deadly as the post-election clashes in 2020 and could ultimately lead to a third civil war.

This could lead to major economic disruption, including delays to the development of the oil sector and a slow-down in foreign investment (which has soared in the period of stability since the end of the second civil war in 2011). There would likely be significant operational disruptions for businesses across the country, while Ivory Coast's hard-earned reputation for recent political stability would be damaged. This would probably lead to a surge in borrowing costs, making expected future Euro-bond issuances untenable (which could lead to dramatic cuts in government spending).

Ahead of the election, companies have been advised to consider taking additional security precautions and review security systems and controls frequently if Mr. Ouattara indicates that he will run for another term. Companies should also work to minimize reputational risks to avoid becoming a particular target for violent protest.

The government is implementing its 2021-25 National Governance Plan. The goal of good governance has been a focal point for many years, and improvements to governance and respect for the rule of law are among the legacies that the president hopes to leave once he steps down.



Ivory Coast’s 2021-25 National Development Plan highlights improving governance as the cornerstone for achieving sustainable and inclusive growth. Tackling corruption (alongside other business environment reforms such as cutting red tape and simplifying corporation tax) is a major part of the government’s plan to improve the business environment, facilitate investment inflows and structurally transform the economy through industrialization. Perceptions about corruption by public officials remain high among the electorate and businesses. Contract enforcement and the protection of property rights are weak. Petty corruption, ranging from roadblocks to obtaining documents from government bureaucracies, is deeply ingrained in the daily lives of many Ivorians, although the ongoing crackdown, combined with increased digitalization of tax collection and administrative processes, will help to increase transparency and accountability.

The ongoing efforts by the government will take a long time to improve governance and corruption. There is a risk that the current reforms will not yield meaningful results. Companies should factor in the bureaucratic delays and the higher cost of doing business while planning

their strategies, allocating sufficient time and resources to clear these hurdles.

Despite the politicization of the attribution of contracts, the country has little history of either revoking existing contracts or government interference in foreign firms’ operations. Although the establishment of a specialized commercial court has sped up the hearing of court cases, the enforcement of contracts remains costly and time-consuming. It is prudent to establish procedures for dispute resolution in trusted jurisdictions (but court decisions reached through international arbitration have not always been honored by local courts) and to employ experienced legal counsel while negotiating contractual terms. Businesses should factor in bureaucratic delays while planning their strategies, allocating sufficient time and resources to clear these hurdles.

Italian energy major, Eni, has announced the discovery of two major offshore oilfields in Ivory Coast. We expect total oil output to rise considerably over the coming years, in line with the development of these two fields, and with other fields coming online. These discoveries highlight the country’s potential to develop its hydrocarbons sector, boost export revenue and attract further investment as oil majors seek to explore other untapped fields. However, production volumes in the country are low and have declined in recent years.

Ivory Coast has historically struggled to attract oil and gas investors owing to a lack of large discoveries, with output dwarfed by neighboring Ghana and Nigeria, where production stands at about 200,000 barrels/day and 1.4m b/d respectively.

Trigger: There is a risk that exploration activities at other unexplored fields will be abandoned and that fields with proven reserves will be left untapped as other energy majors seek to cut their carbon dioxide emissions. For instance, Eni has already set ambitious targets to cut its carbon emissions to net zero by 2050 through expanding its renewable power generation and biofuel capacity. Our core forecast is that Cote d’Ivoire will be able



to attract some investment into its hydrocarbons sector and boost oil output from the current low levels in the near term, but production will remain far below levels in Ghana and Nigeria.

If energy majors refrain from developing or exploring new oil sites, Ivory Coast’s hydrocarbons sector would probably slide further into a quagmire. Although the sector is not a major driver of economic growth or fiscal or export revenue (owing to its low levels compared with other commodities such as cocoa and gold), this would weigh heavily on the country’s growth outlook over the medium and longer terms.

Businesses can mitigate this risk by reducing their exposure to the hydrocarbons sector and by diversifying into other sectors.

Ivory Coast is a leading exporter of cocoa, cashews and rubber, but most of these commodities are exported in their raw form rather than being domestically processed. Under its 2021-25 National Development Plan

(NDP) the government is seeking to expand domestic processing capacity, particularly for agricultural products and other commodities such as gold. Trigger: Although local processing capacity is limited, EIU’s core view is that there will be modest growth in 2024-25, with investment inflows, driven by abundant natural resources and reforms under the NDP, supporting local job creation and boosting export earnings. However, failure to enact proposed reforms, delays in upgrading transport infrastructure, deterioration in Ivory Coast’s economy or a significant drop in global commodities prices could derail some planned investment in domestic processing capacity.

In such a scenario investment inflow into the country would be lower than forecast, economic diversification and job creation would be weaker, and real GDP growth would be slightly subdued, although still robust, given a relatively strong economic base.

This would also weigh on poverty alleviation efforts, as more (predominantly rural) families would continue to

rely on jobs handling raw commodities instead of focusing on new jobs further along the value chain with higher value addition and skills development. Mitigation: Businesses are advised to track global commodity prices and government projects under the NDP.



The government is committed to reducing vulnerabilities in the banking sector and has implemented a recapitalization plan for several public banks through privatizations and liquidation in recent years. Although there has been strong real GDP growth in recent years, income per head remains low. Lending to the private sector as a share of GDP is increasing, but the ratio remains low at 21.4%, underlining the small and underdeveloped nature of the banking system, which leaves it exposed to a potential banking crisis. The Banque Centrale des tats de l’Afrique de l’ouest (BCEAO, the regional central bank) increased the minimum capital-adequacy ratio from 10.4% to 11.5% at end-2023.

Ivory Coast’s banking sector reported a capital-adequacy ratio of 13.1% at end-2022 (latest data available), giving

the sector a sufficient buffer to absorb losses, but two public banks are undercapitalized. The authorities estimate that about CFAfr140bn (US\$253m) expected to come from public and private sources will be needed for the recapitalization process. The possibility of these two banks failing cannot be ruled out; however, the spread of the banking crisis will be limited by the small share of assets of the two banks, coupled with support measures such as the BCEAO increasing liquidity injections to the local financial system. That said, if such a banking crisis emerges, it would probably affect players/firms in other sectors of the economy, leading to subdued private investment. Businesses should take care in selecting local financial institutions to work with and should follow the government’s implementation of planned financial reforms.

The government has been striving to increase tax revenue in recent years, with the IMF’s backing. Given the small fiscal margin for maneuver, there is a risk that it will be tempted to raise taxes in the country significantly, as highlighted by the tax rises on telecommunications companies announced in 2014. Nevertheless, the public finances will benefit from the expansion of the domestic tax base and additional concessional lending from donors. Moreover, the authorities want to maintain an attractive environment for investors, and abrupt and more general tax increases are unlikely in the near term. Businesses may want to seek assistance from local accountants on reducing their tax obligations.

ZAMBIA

A revised deal between Zambia and its Eurobond creditors will support investor sentiment and help the kwacha (currency) pare back recent losses over the remainder of 2024. Indeed, the forecast is that the kwacha will strengthen further in 2024, with the currency expected to reach ZMW21.9/USD by year-end, 13.1% higher than the April 3 spot rate of ZMW24.8/USD. Despite progress on debt restructuring, we expect that persistent

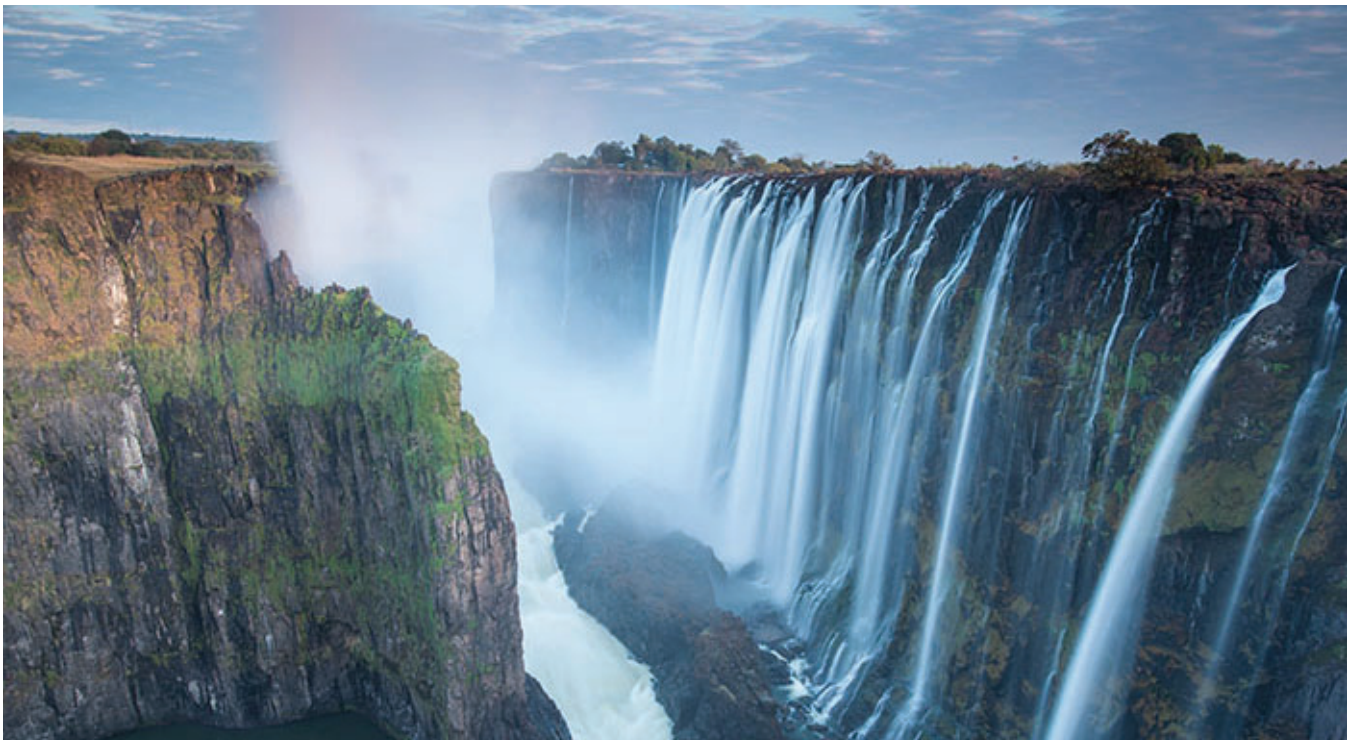
price pressures and energy shortages caused by drought conditions will continue to weigh on economic activity in H1 2024. We expect that a revised deal between Zambia and its Eurobond creditors will support investor sentiment and help the kwacha pare back recent losses over the remainder of 2024.

On March 25, Zambia’s Ministry of Finance and National Planning announced that a revised deal with commercial creditors had been reached to restructure over \$3.8 billion of outstanding Eurobond liabilities. As was the case in October 2023, the deal restructures Zambia’s three existing bonds into two new amortizing instruments, with extended maturities and lower interest payments. The treatment as set out in the agreement in principle results in a nominal haircut of approximately 21.6% of the face value of Zambia’s Eurobond debt (compared to an 18.0% haircut in the October deal).

Critically, the accompanying statement outlines that ‘the

Government has received confirmation that the agreed terms are compatible with the [Official Creditor Committee] OCC’s assessment of comparability of treatment and are compatible with IMF’s program parameters under the Second Review framework.’ This should allay fears amongst investors that the revised deal could be rejected (as happened previously) and will support continued disbursements of funding from Zambia’s \$1.3 billion IMF Extended Credit Facility. The revised deal also includes an adjustment clause which, if activated, would increase the coupon on the long-dated bond (bond B) and bring forward principal payments, a move which would give investors greater scope to recoup losses should Zambia’s debt-carrying capacity improve (in line with IMF guidance).

Moreover, the deal contains several non-financial terms, including a most favored creditor clause which would ensure that all creditors receive a similar recovery in net present value terms over the life of the restructured



bonds. Given that the timing and terms of this deal were largely as expected, the forecast that the kwacha will strengthen further in 2024 remains intact, with the currency expected to reach ZMW21.9/ USD by year-end, 13.1% higher than the April 3 spot rate of ZMW24.8/ USD. While volatility is expected to persist in the near-term, given ongoing dollar liquidity issues, improving trade dynamics in H2 2024 (especially as drought conditions ease, providing tailwinds to copper production), alongside still-tight monetary policy and greater risk appetite will all boost the kwacha.



Moreover, it was noted that the currency remains undervalued in real effective exchange rate terms, with mean reversion likely to offer some support to the kwacha, especially as inflationary pressures dissipate from Q2 2024 onwards.

Meanwhile, non-FX markets have also reacted positively to the deal, with yields on Zambia's 2027 Eurobond dropping sharply following the announcement. Concurrently, the Lusaka Securities Exchange All-Share Index has rallied (in USD terms) and is now trading at pre-pandemic levels.

Taken together, this points to a marked improvement in investor sentiment towards Zambia, which is expected to feed into higher capital inflows over the coming quarters, thereby helping to alleviate liquidity constraints in the FX market.

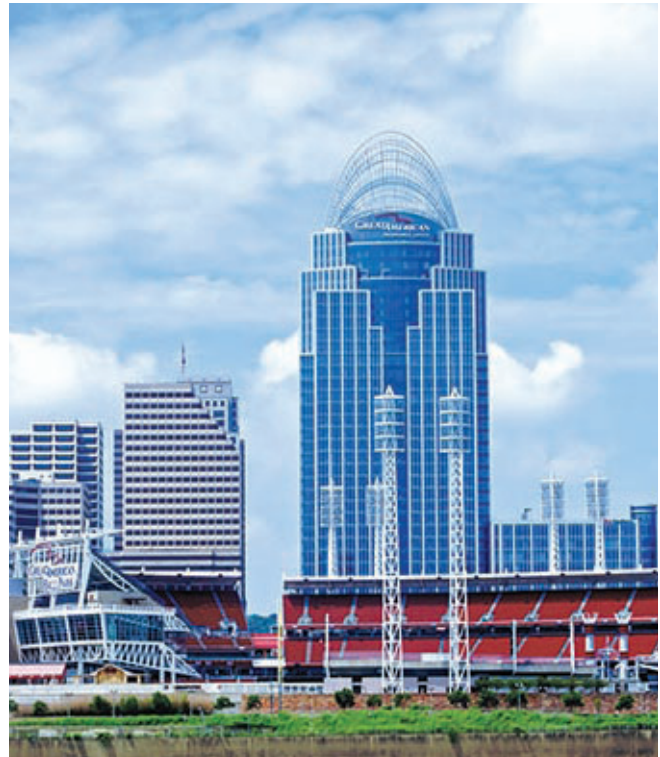
It should be noted that both domestic and international bond yields remain elevated, reflecting Zambia's still-challenging fiscal outlook. Attention will now turn to the sizeable amount of \$3.3 billion of non-Eurobond commercial debt that Zambia is yet to restructure (making up 20% of total government debt at end-2023), much of which is held by Mainland Chinese banks including the China Development Bank and the Industrial and Commercial Bank of China.

While negotiations have started, according to Zambia's Secretary to the Treasury, a drawn-out process could see investor sentiment sour once again, posing downside risks to capital inflows and exchange rate forecasts. Additionally, the expectation is that Zambia's debt burden will remain elevated over the coming years, with a projected fall from 142.9% of GDP in 2023 to 94.1% in 2024 -contingent on the kwacha making further gains over the coming quarters, thereby deflating the nominal value of dollar denominated liabilities.

Notwithstanding this drop, the forecast is that the debt-to-GDP ratio will remain very high by regional standards, falling to 80% by 2028. Moreover, despite progress on debt restructuring, persistent price pressures and energy shortages caused by drought conditions will continue to weigh on economic activity in H1 2024. Following the release of Q4 2023 real GDP data, which pointed to growth of 8% y-o-y, the 2024 growth projection was revised down from 5.6% to 5.0%. While this is partly underscored by a higher than-expected statistical base, the expectation is that growth in H1 2024 will be constrained by severe drought conditions, which have pushed ZESCO (the state-owned power utility company) to initiate loadshedding, posing major downside risks to mining output. Additionally, drought has dec-

imated corn production across Southern Africa, which is expected to exert continued pressure on regional food prices. Indeed, rainfall has been particularly low in Zambia’s North-Western, Southern, Central, and Eastern provinces, which typically account for around 75% of domestic corn production.

At the end of February Zambian President Hakainde Hichilema declared the drought a national emergency, following the February 21 ban on corn exports and the suspension of wheat import tariffs. In response, forecasters have revised down Zambia’s 2024 corn production forecast, now projecting output to fall by 41.8%. Taken together, the expectation is that these dynamics will weigh on Zambia’s trade balance in 2024, while also exerting upward pressure on price growth in the coming months. In this way, while progress on debt restructuring will provide greater certainty for investors, supporting the kwacha and facilitating further inflows of foreign investment, risks to Zambia’s near-term economic outlook remain elevated and are likely to mask the immediate benefits of the debt restructuring deal.



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