Bank *of* Zambia


# MONETARY POLICY STATEMENT

## January - June 2021

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Bank of Zambia

**This Monetary Policy Statement is made pursuant to Part II, Section 9 of the Bank of Zambia Act Chapter 360 of the Laws of Zambia**

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# Executive Summary

Monetary policy will focus on containing escalating inflationary pressures and anchoring inflation expectations during the first half of 2021. The shift in the monetary policy stance, after almost a one-year period of monetary easing, balances the need to rein in escalating inflation against the efforts made to support financial system stability and economic growth since the outbreak of the COVID-19 pandemic. In February 2021, the Bank of Zambia signalled its intention to progressively tighten monetary policy stance in order to bring inflation back to the 6-8% target range over the medium-term. The key drivers of inflation include the lagged pass-through from the depreciation of the Kwacha and sustained high fiscal deficits. However, implementation of complementary and strong fiscal policy adjustment, whose key parameters are clearly outlined in the Government's Economic Recovery Programme, remains critical to restoring macroeconomic stability.

In the second half of 2020, annual overall inflation accelerated to a four-year high, driven largely by the sustained depreciation of the Kwacha, reduced seasonal supply of some vegetables and the fish ban. In line with the accommodative monetary policy stance, liquidity conditions improved and interest rates continued to trend downwards. However, credit to the private sector remained subdued due to strict lending conditions as banks sought to curb elevated credit default risk. Credit to Government continued to expand at a strong pace as revenue declined while expenditure rose, particularly on agricultural inputs under the Farmer Input Support Programme. Despite easing liquidity conditions and the stimulus measures, economic activity remained subdued and significant downside risks to the growth outlook persisted. These include the high degree of uncertainty regarding the resurgence of COVID-19 infections, and narrow policy space to support fiscal spending.

# 1.0 Introduction

This Statement outlines the monetary policy objectives of the Bank of Zambia (BoZ) for the first half of 2021. It also provides prospects for the global economy and outlook for domestic economic growth and inflation. Further, monetary policy performance and macroeconomic developments in the second half of 2020 are reviewed.

# 2.0 Monetary Policy Objectives and Instruments for the First Half of 2021

Monetary policy will focus on containing escalating inflationary pressures and anchoring inflation expectations during the first half of 2021. The shift in the monetary policy stance follows almost a one-year period of monetary easing to support financial system stability and economic growth in the wake of COVID-19. In February 2021, the Bank of Zambia signalled its intention to progressively tighten the monetary policy stance in order to bring inflation back to its 6-8% target range over the medium-term. This policy stance balances the need to rein in inflation against the efforts made to support financial system stability and economic growth since the outbreak of the COVID-19 pandemic. Ensuring that inflation remains well anchored in the medium-term is essential to moderate fragilities in the financial sector and support economic recovery.

In this regard, the Bank of Zambia will continue to rely on the forward-looking monetary policy framework anchored on the Policy Rate as a key signal for monetary policy stance. The decision on the Policy Rate will be guided by inflation forecasts, outcomes, and identified risks, including those associated with financial stability and the COVID-19 pandemic. Further, monetary policy will remain supportive of the Government's macroeconomic objectives (Table 2 – Appendix). The implementation of a strong fiscal policy adjustment, whose key parameters are clearly outlined in the Government's Economic Recovery Programme, is critical in restoring macroeconomic stability.

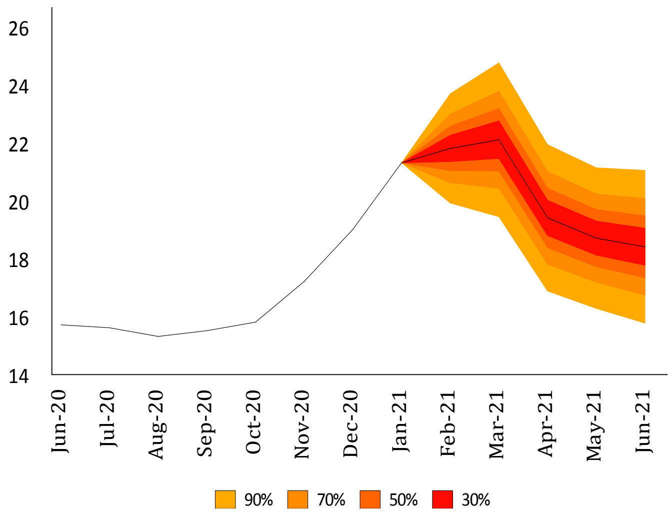
# 3.0 Inflation Projections for the First Half of 2021

Inflation is projected to deviate further away from the upper bound of the 6-8% target range over the first half of 2021 (Chart 1 and Table 1 – Appendix). This is largely due to the lagged pass-through from the depreciation of the Kwacha and sustained high fiscal deficits.

The risks to the inflation outlook are assessed to be tilted to the upside. They include persistent increases in crude oil prices, higher than programmed fiscal deficits and a further weakening of the Kwacha against the US dollar. However, inflation may be moderated by improved supply of food and subdued aggregate demand as economic growth is likely to remain modest.

The range of possible inflation outcomes during the first half of 2021 are illustrated in Chart 1. Inflation outcomes are expected to range from a minimum of 19.5% to 21.7% with a 30% probability, 19.2% to 21.8% with a 50% probability, 18.7% to 22.0% with a 70% probability, and 17.9% to 24.9% with a 90% probability.

**Chart 1: Actual and Projected Inflation (Percent): June 2020 – June 2021**




Source: Zambia Statistics Agency and Bank of Zambia Forecasts

Attaining a robust economic recovery path will require the effective implementation of the measures contained in the Government's recently launched Economic Recovery Programme. In this regard, mobilising external support and the successful restructuring of the external debt are critical components in achieving fiscal sustainability, reestablishing macroeconomic stability and reinvigorating sustainable growth.

# 4.0 Domestic Economic Outlook for 2021-2022

Real GDP is projected to recover in 2021 and the medium-term. The economy is projected to grow by 1.5% in 2021 against a preliminary outturn of -2.9% in 2020 (Table 2 – Appendix).

Underlying the recovery in 2021 is the expected positive growth in mining, electricity, gas and water as well as information and communication (ICT) sectors. Mining will benefit from stronger copper prices and demand as the global economy recovers. Favourable rainfall and the expected commencement of electricity generation at Kafue Gorge Lower HydroPower Station are expected to support growth of the electricity sector. The ICT sector will leverage the expansion of mobile payment solutions, rising migration to digital platforms in the COVID-19 era and continued investment in modern infrastructure.

However, uncertainty surrounding the resurgence of COVID-19 infections and the narrow fiscal space pose significant downside risks to the growth outlook.

# 5.0 Global Economic Outlook for 2021-2022

### 5.1 Economic Growth

The global economy is projected to strongly rebound to 5.5%[1] in 2021, but moderate to 4.2% in 2022 against a contraction of 3.5% in 2020. The optimistic growth projection in 2021 is mainly based on a gradual easing of restrictive measures owing to the anticipated widespread vaccination against COVID-19 coupled with strong policy support. This is expected to boost consumer and business confidence and contribute to the recovery of most global supply chains with a positive impact on demand, trade, consumption, investment and financial conditions. However, the recovery is envisaged to be uneven and likely to differ across countries contingent on the extent of economic damage, effectiveness of policy support and severity of health shocks.

The downside risks to the growth outlook dominate as stiffer restrictive measures, disruption to the recovery in consumer and business confidence as well as lower productivity may re-emerge. In addition, there is a high degree of uncertainity regarding the efficacy of the COVID-19 vaccines in the wake of the resurgence of new variant-related infections. Further, underlying fragilities in the financial markets could mount on account of rising debt burdens and likely premature withdrawal of policy support.

The above notwithstanding, the potential for additional fiscal stimulus and faster-than-anticipated roll out of vaccines could result in higher growth outturn than envisaged.

Further, economic activity in all major trading partner countries for Zambia[2] is expected to gather pace in 2021 and the medium-term. This is underpinned by easing COVID-19 containment measures on the back of widespread vaccine coverage, sustained policy support, restoration of consumer and investment spending, the recovery in global and domestic aggregate demand, higher commodity prices and favourable financing conditions.

Real GDP growth is projected to rebound to 5.1%, 4.2% and 4.5% from contractions of 3.4%, 7.2% and 10.0% for the United States, Euro area and UK in 2021 and 2020, respectively. In 2022, economic growth for these countries is estimated to remain strong at 2.5%, 3.6% and 5.0%, respectively.

In China, a robust growth outturn of 8.1% is projected for 2021 compared to the outturn of 2.3% in 2020. In 2022, growth is expected to strengthen to 5.6%. For South Africa and the Democratic Republic of Congo (DRC), growth is expected to expand to 2.8% and 3.0% from -7.5% and -2.7% in 2020 and in 2021, respectively. However, in 2022, economic growth in South Africa is projected to slowdown to 1.4% while that for the DRC is expected to strengthen further to 3.8%. Persistent electricity supply challenges and high unemployment levels may constrain growth in South Africa while growth in DRC could be affected by constrained capacity to fully respond to the pandemic and the economy's susceptibility to commodity price swings.

### 5.2 Commodity Prices

Commodity prices are expected to rise over the medium-term, supported by a rebound in global demand as economic activity normalises amid easing COVID-19 restrictions and increased vaccine coverage.

In 2021, copper prices are projected to average US$7,791.6 per tonne and remain buoyant in 2022 from US$6,180.9 in 2020. The momentum in crude oil prices is expected to continue, rising to US$56.0 per barrel on average in 2021, and further to US$58.6 in 2022 from US$43.4 in 2020.

Prices for selected agricultural commodities are expected to sustain the recovery momentum in the medium-term. This is largely based on resilient domestic demand, firming global demand and deteriorating production prospects due to adverse weather conditions for some crops. However, a more protracted duration of the pandemic amid new variants of the virus that may pose uncertainty on the efficacy of vaccines, could weigh on the recovery in commodity prices.

[1]January 2021 IMF World Economic Outlook (WEO) Update.
[2]These are China, South Africa, Democratic Republic of Congo, United Kingdom, United States of America, and Euro Area.

# 6.0 Review of Global Developments in the Second Half of 2020

### 6.1 Economic Growth

The global economy contracted by 3.5% in 2020 against an expansion of 2.8% in 2019 on the back of lockdown measures necessitated by the COVID-19 pandemic. These measures caused severe disruptions to global supply chains and the slump in consumption and investment spending. A synchronised recession, albeit to varying degrees, was, therefore, observed across all the regions of the world. The diversity in the severity of the recession mainly reflected pre-pandemic idiosyncratic stresses, the degree of restrictions on movement and the effectiveness of policy responses.

Consistent with the slump in global economic activity, growth in Zambia's major trading partners declined in 2020 except for China.

Growth accelerated in China in the second half of 2020 on account of quick containment of the COVID-19 outbreak, robust policy stimulus and higher manufacturing. In addition, robust demand for Chinese exports of medical supplies, equipment and technical products related to the COVID-19 pandemic supported growth.

In South Africa, economic growth remained subdued. The country experienced the most severe COVID-19 outbreak in the SSA region characterised by deteriorating business sentiments, subdued domestic and foreign demand, weak industrial output, a weak fiscal position and persistent electricity supply challenges. However, the rate of contraction in economic activity eased in the second half of the year as containment measures were partially eased coupled with suatained policy support.

Real GDP growth in the DRC continued to be affected by the severe impact of the COVID-19 pandemic. However, resilient mining activity, supported by the recovery in commodity prices, cushioned economic activity.

In the UK, economic contraction eased, particularly in the third quarter as the impact of the COVID-19 pandemic moderated and significant Government policy support was sustained. Consequently, consumer spending, manufacturing, services output, and investment picked up slightly amid relaxed social distancing measures.

In the Euro Area, domestic demand, investment and business sentiment, as well as manufacturing and services sectors improved in the second half of the year. This was on account of easing containment measures and favourable financial conditions underpinned by vaccine rollouts and substantial policy support.

The downturn in economic growth in the USA moderated, particularly in the third quarter, following the easing of restrictions and fiscal and monetary stimulus support which enhanced the flow of credit to households and businesses. As a result, consumer spending, business fixed investment, industrial output and export demand gathered pace leading to a slight recovery in employment levels.

### 6.2 Commodity Prices

Commodity prices rebounded in the second half of 2020. Stronger demand and optimism about a strong recovery in global economic activity underpinned by positive news about roll out of COVID-19 vaccines supported both copper and crude oil prices. For oil prices, additional support came from expectations that OPEC and allies would extend supply cuts into early 2021 as new COVID-19 cases surged.

Copper prices rose to an average of US$6,856.7 per metric tonne and closed 2020 at US$7,764.3 from US$5,530.4 in the first half of 2020. Crude oil prices also rose to US$51.0 per barrel in December 2020 from US$43.1 in June.

Prices for selected agricultural commodities continued to exihibit a recovery momentum in the second half of 2020 on account of resilient domestic demand, firming global demand and deteriorating production prospects for some crops due to adverse weather conditions. Soybeans prices rose to US$488.00/metric ton in December from US$363.00 in June while wheat prices rose to US$248.10/metric ton from US$210.70. Maize prices increased to US$192.00/metric ton from US$146.30 over the same period.

# 7.0 Assessment of Monetary Policy Implementation in the Second Half of 2020

Monetary policy focused on safeguarding, in a proactive way, the stability of the financial sector, peoples' lives and livelihood in the wake of the COVID-19 pandemic during the second half of 2020. In doing so, the Bank of Zambia remained mindful of the need to bring back inflation to the 6-8% target range over the medium-term.

In this regard, the Bank of Zambia reduced the Policy Rate by 125 basis points to 8.0% in August

2020 despite projections indicating that inflation would remain above the 6-8% target range over the medium-term. In November 2020, the Policy Rate was maintained at 8.0% to allow monetary policy measures taken earlier in 2020 to take full effect. The accommodative monetary policy stance in the second half of 2020 complemented the broader set of measures the Bank of Zambia initiated to support the economy in the wake of COVID-19.[3]

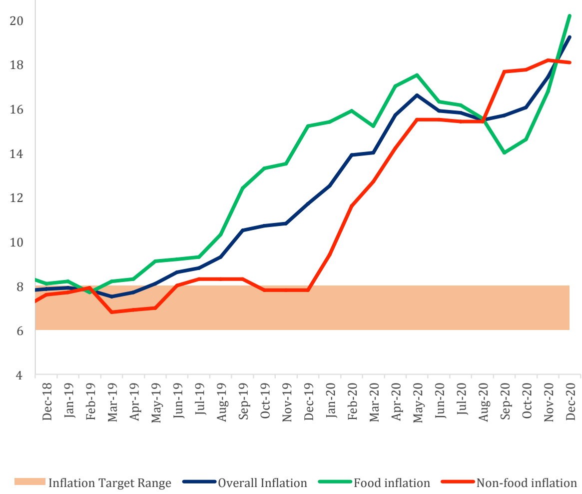
# 8.0 Review of Domestic Macroeconomic Developments in the Second Half of 2020

## 8.1 Inflation Outturn

Annual overall inflation accelerated to a four-year high in the second half of 2020. This was largely driven by the sustained depreciation of the Kwacha, reduced seasonal supply of some vegetables and the fish ban.

Inflation averaged 16.6%, up from 14.8% in the first half of 2020. Food inflation broadly remained unchanged at 16.2% while non-food inflation rose to 17.1% from 13.1% (Chart 2).

**Chart 2: Annual Inflation Rate (Percent)**




Source: Zambia Statistics Agency

## 8.2 Interbank Rate and Money Market Liquidity

The overnight interbank rate declined to an average of 8.31% from 11.77% and remained within the Monetary Policy Rate Corridor (Chart 3).

**Chart 3: Market Liquidity and Interbank Rate**


Source: Bank of Zambia Compilations

This followed a further cut in the Policy Rate in August 2020 and the increase in liquidity. Commercial banks' aggregate current account balance rose to a record high of K6.0 billion in August before declining to K3.3 billion at end-December from K3.0 billion at end-June (Table 3 – Appendix). Liquidity was largely driven by Government spending. In addition, the Bank continued to provide liquidity support to sustain financial system stability through extended open market operations and the Secondary Market Bond Purchase Programme.[4] The Bank also injected funds through the Targeted Medium Term Refinancing Facility.[5]

## 8.3 Government Securities Market

Demand for Treasury bills remained strong as the subscription rate averaged 117.0% compared to 123.0% in the first half of 2020. Although auctions remained undersubscribed, the average subscription rate for Govrnment bonds improved to 45.0% from 33.0%. The favorable liquidity conditions supported demand for Government securities. However, investors preferred shorter dated instruments in view of heightened sovereign credit risk.[6]

A total K22.4 billion was raised from the auctions against maturities of K15.7 billion resulting in a surplus of K6.7 billion. Due to constrained revenue amid heightened spending needs particularly for petroleum product imports and procurement of inputs under the Farmer Input Support Programme (FISP), Government increased tender sizes for Treasury bills and Government bonds[7] and continued to issue

[3]The measures included the establishment of a K10 billion 3-5 year Targeted Medium-Term Refinancing Facility to eligible Financial Service Providers; scaling-up of open market operations to provide short-term liquidity support on more flexible terms; revision of rules governing the operations of the interbank foreign exchange market to support its smooth functioning, strengthen market discipline, and address heightened volatility; revision of loan classification and provisioning rules to better accommodate lending, refinancing, and restructuring of facilities to critical sectors; stepping up sensitisation on the use of digital channels and contactless mobile payment mechanisms; and implementation of Business Continuity protocols to ensure systemically important payment systems and financial market infrastructures remain available.

securities through private placements. Consequently, the outstanding stock of Government securities increased by 27.0% to K130.2 billion (face value). Of the total holdings, non-resident investors held K18.1 billion (13.9%) from K13.5 billion (13.2% stock) at end-June. Nearly all the holdings (93.0%) were in Government bonds.

### 8.4 Capital Markets Development

The Lusaka Securities All-Share Index (LASI) gained by 6.2% to 3,912.3 in December. The increase in share prices of selected companies in the energy, manufacturing and mining sectors largely accounted for improved earnings and subsequently market capitalization, which rose by 3.3% to K57.5 billion. Despite the heightened sovereign risk, net inflows from foreign investors increased to US$2.6 million from US$0.4 million at end-June.

### 8.5 Foreign Exchange Market

The build-up in excess demand mostly for imports of petroleum products and agricultural inputs under FISP exerted sustained pressure on the exchange rate, leading to a much higher depreciation of the Kwacha in the second half of the year. Against the US dollar, the Kwacha depreciated by 18.4% to an average of K19.83 (Table 4 – Appendix). The Kwacha also weakened by 23.2%, 27.2% and 21.8% against the British Pound Sterling, Euro and South African Rand to averages of K25.94, K23.46 and K1.23, respectively.

In response to increased volatility in the exchange rate, the Bank of Zambia scaled-up interventions and revised rules governing the Interbank Foreign Exchange Market (IFEM). [8]

### 8.6 Interest Rates

Broadly, market interest rates maintained a downward trend in the second half of 2020, largely reflecting the continued impact of the accommodative monetary policy stance. Commercial banks' average lending rate declined to 25.1% in December from 26.4% in June while the average 180-day deposit rate for amounts exceeding K20,000 fell to 9.8% from 10.3%. The composite Treasury bill rate also declined to 22.0 in December from 25.9% in June. However, the Government bond yield rate slightly edged up to 32.6% from 31.3, largely reflecting increased domestic borrowing (Table 5 – Appendix). Non-bank lending rates also rose to 57.5% from 54.2% as the cost of funds increased amid elevated credit risk (Table 6 – Appendix).

### 8.7 Domestic Credit

Total domestic credit[9] continued to expand at a strong pace, growing by 18.7% in the second half of 2020 (Table 7 – Appendix). This was largely attributed to the sustained expansion in lending to Government to meet mounting spending requirements. Private sector credit growth remained subued at 6.4% in December (2.0% in June) due to strict lending conditions as banks sought to curb elevated credit default risk. The increase was driven by rising demand for bridge financing and working capital to meet escalating operating costs induced by the adverse effects of the COVID-19 pandemic.

Households (personal loans) continued to account for the largest share of commercial bank loans and advances at 19.7% (22.6% in June 2020) followed by agriculture, forestry and fishing at 16.4% (15.9% in June 2020) (Table 8 – Appendix).

### 8.8 Broad Money

Money supply (M3) continued to expand at a strong pace, growing by 25.8% compared to 16.4% in the first half of the year. M3 rose to K 103.8 billion at end-December from K82.5 billion at end-June (Table 9 - Appendix). Sustained expansion in credit to Government and valuation effects following a higher depreciation of the Kwacha accounted for the growth in M3.

### 8.9 International Trade

Merchandise trade surplus rose to almost US$2.0 billion (cif) from US$0.7 billion in the first half of 2020. Exports significantly increased amid a modest rise in imports.

Export earnings grew by 42.2% to US$4.7 billion explained by the rise in copper and non-traditional exports (NTEs) (Table 10 - Appendix). Copper earnings increased by 47.2% to US$3.4 billion, supported by higher copper production and prices. Low operational costs and increased capacity utilization contributed to the increase in copper production leading to a 19.7% increase in export volumes to 507,172.9 metric tonnes (Table 12 – Appendix). In addition, higher prices due

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[4] A total of K4.9 billion was supplied through extended open market operations whilst the Bank injected K2.0 billion through the Secondary Market Bond Purchase Programme.

[5] As at end December 2020, K2.2 billion was injected via the Targeted Medium-Term Refinancing Facility.

[6] In September, 2020 Government announced a Consent Solicitation to Eurobond holders to request the suspension of debt service payments for a period of six months. This request was rejected, and culminated in a default on a Eurobond interest payment on 14 October 2020. Fitch and Standard & Poor's (S&P) downgraded Zambia's credit rating to C and CCC- with a negative outlook on September 24 and 24, respectively.

[7] In July, Treasury bill and Government bond tender sizes were raised to K1, 300 million and K1, 500 million from K950 million and K1, 100 million, respectively.

to the recovery in economic activity in China as well as production disruptions at copper mines in Chile and Peru supported copper output. The rise in NTEs largely reflects the seasonal increase in exports of agricultural commodities.

Imports grew modestly by 4.5% to US$2.7 billion following the easing of COVID-19 related global and regional supply disruptions in many jurisdictions. However, subdued domestic economic activity and the sustained depreciation of the Kwacha constrained growth in imports (Table 11 - Appendix).

### 8.10 Fiscal Balance

Fiscal pressures were sustained as revenue fell due to the COVID-19 shock amid rising expenditures, especially on agricultural inputs. Total spending (excluding amortization), at K64.5 billion, was 20.3% higher than the projected K53.6 billion. Thus, fiscal consolidation remained challenging in the second half of 2020 given the significant uncertainty about the evolution of escalating COVID-19 infections and the debt restructuring process.

### 8.11 Economic Activity

High frequency indicators of economic activity point to a less severe contraction in real GDP in the last half of 2020. This mostly follows the partial relaxation of COVID-19 restrictions.

Preliminary data indicate that real GDP shrunk at a reduced pace of 2.6%, year-on-year, in the third quarter compared to a contraction of 5.6% in the second quarter. Agriculture, mining, information and communication (ICT) as well as financial and insurance sectors registered positive growth while wholesale and retail trade, public administration, education, as well as construction sectors contracted.

The results from the two Bank of Zambia Quarterly Surveys of Business Opinion and Expectations conducted in August and November also indicate improvements in economic performance as nearly all the monitored indicators improved (Chart 1 in the Box in the appendix). The partial relaxation of COVID-19 containment measures, accounted for the increase. In addition, the Stanbic Bank Zambia Purchasing Manager's Index signalled a softer deterioration in the private sector business environment (Chart 2 in the Box in the appendix).

## 9.0 Conclusion

In February 2021, the Bank of Zambia signalled its intention to progressively tighten monetary policy stance in order to bring escalating inflation back to the 6-8% target range and anchor inflation expectations over the medium-term. However, implementation of complementary and strong fiscal policy adjustment, whose key parameters are clearly outlined in the Government's Economic Recovery Programme, remains critical to restoring macroeconomic stability.

In the second half of 2020, annual overall inflation accelerated to a four-year high, driven largely by the sustained depreciation of the Kwacha, reduced seasonal supply of some vegetables and the fish ban. In line with the accommodative monetary policy stance, liquidity conditions improved and interest rates continued to trend downwards. However, credit to the private sector remained subdued due to strict lending conditions as banks sought to curb elevated credit default risk. On the other hand, credit to Government continued to expand at a strong pace as revenue declined while expenditure rose. Economic activity continued to contract, albeit at a slower pace. However, growth is projected to recover, albeit at a weak pace, with significant downside risks.

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[8]On November 6, 2020, IFEM Rules were revised requiring Authorised Dealers to transact at current retail board rates by buying foreign exchange from retail and corporate clients at rates not exceeding the interbank bid price and selling at prices not exceeding the retail board offer rate.

[9]Total domestic credit includes lending by the Bank of Zambia, commercial banks, and Other Depository corporations in both Kwacha and foreign currency.

# Assessment of the Macroeconomic Impact of COVID-19 in Zambia in 2020

### 1.0 Preamble

As at February 28, 2021,[10] the coronavirus (COVID-19) pandemic, that originitated in Wuhan City in China in December 2019, had infected 13,467,303 people worldwide and caused 2,520,550 deaths. The Americas, Europe and South-East Asia regions have recorded the highest cases. Governments responded to the pandemic by implementing, among other measures, widespread lockdowns and social distancing. These measures disrupted global supply chains and induced economic contraction. Consequently, global demand fell significantly as consumer and business spending declined and heightened uncertainty about the economic outlook contributed to global economic recession in 2020.

In Zambia, COVID-19 cases increased to 20,725 at end-December 2020 from two first reported on March 18. Following the onset of the more severe second wave, the number of COVID-19 cases accelerated to 77,171, including 1,059 deaths as at February 28, 2021.

The severity of the pandemic has had a telling effect on the performance of the Zambian economy. Prior to the outbreak of COVID-19, the economy had been facing a number of challenges reflected in high fiscal deficits, elevated debt levels and debt service, low international reserves, huge domestic arrears owed to suppliers of goods and services, tight liquidity conditions as well as subdued growth. The macroeconomic environment worsened after the outbreak of COVID-19. Economic activity has remained subdued despite high frequency indicators pointing to a less severe contraction in the second half of 2020.

The impact of COVID-19 on both the global and the domestic economy in 2020 is highlighted and the policy response by the Bank of Zambia to mitigate the effects of the pandemic outlined.

## 2.0 Global Impact of COVID-19

### 2.1 Global Economic Activity

The global economy contracted by 3.5%[11] in 2020 against an expansion of 2.8% in 2019. This was largely on the back of lockdown measures taken to contain the COVID-19 pandemic. Private consumption, investment, trade, and travel were severely constrained resulting in weaker global demand. Consequently, output and employment fell as manufacturing activity declined due to supply chain disruptions and the shutdown of factories. The services sector, particularly transport and tourism, were the most adversely affected. However, the global economy is projected to rebound strongly by 5.5% in 2021 as restrictions are gradually eased owing to the anticipated widespread vacination coupled with strong policy support.

### 2.2 Commodity Prices

Both copper and crude oil prices, which declined sharply as a result of growing panic when the pandemic broke out, rebounded in the third quarter and closed 2020 at buoyant levels.

Copper prices recovered to US$7,821.50/metric ton at end-December 2020, higher than the pre-pandemic price of US$6,173.00 at end-December 2019, from a dip of US$4,626.5 in March induced by COVID-19 outbreak. The recovery in copper prices was supported by strong global industrial activity led by China.

Crude oil prices have doubled since the April low, but remain slightly lower than the pre-pandemic levels. Crude oil prices fell steapily, in the wake of COVID-19, exacerbated by the collapse of the three-year OPEC+ Agreement in early March 2020 after Saudi Arabia radically decided to increase oil production and exports to drive down prices in response to Russia's refusal to follow production limits. Crude oil prices collapsed to the lowest level of US$19.3 per barrel in April from US$66.68 at end-December 2019, but rebounded and closed 2020 at US$51.05, supported by sharp oil supply cuts.

### 2.3 Stock Markets

Major stock markets tumbled and recorded the deepest decline since the financial crisis of 2008 as fears that COVID-19 may have persistent damaging effects on the global economyheightened. This triggered a worldwide plunge in stock prices. In addition, bond yields escalated on the back of reduced appetite by investors for risk assets and their preference for safe haven assets like US Treasuries as stock prices tumbled and commodity prices collapsed. However, stock markets recovered in September and recorded all-time highs , albeit volatile, since the dip in March. The robust policy stimulus, vaccine discovery and higher global industrial activitity led by China supported stock market recovery. The performance of the Luska Securities Exchange broadly remained unchanged in the wake of the COVID-19 contagion as frontier markets are less interlinked and generally illiquid.

### 2.4 Eurobond Yields

Yields on Zambian Eurobonds skyrocketed to a record high of 63.2%, 47.0% and 37.5% in April 2020 from 21.5%, 19.6% and 17.0% at end-December 2019 for the 2022, 2024 and 2027, respectively. However, yield rates receded to 42.5%, 20.4% and 12.2% at end-December 2020 for the 2022, 2024 and 2027, respectively in line with the strong rebound in major global equity markets.

### 2.5 Global Travel and Tourism

The COVID-19 pandemic negatively impacted global travel and tourism as restrictive travel measures and social distancing continued to weigh on leisure activities. The airlines and cruise ships were hit the hardest in 2020. Global travel remains subdued despite the ongoing roll out of vaccines in some countries.

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[10] World Health Organization (WHO) COVID-19 Situation Global Monitor
[11] January 2021 IMF World Economic Outlook(WEO).

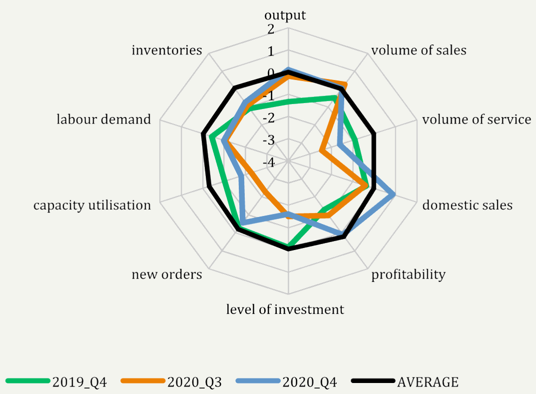
## 3.0 Domestic Impact of COVID-19

### 3.1 Domestic economic activity

The impact of COVID-19 on domestic economic activity was pronounced in the first half of 2020 when activity contracted sharply. This was reflected in company shutdowns, job and income losses, declining business output, and a notable weakening in consumer demand. Further, electricity load shedding, and rising production costs associated with high energy tariffs weighed on growth.

Preliminary data indicate that real GDP shrunk by 5.6% in the second quarter of 2020 after a modest decline of 0.3% in the first quarter. In the third quarter, real GDP shrunk at a reduced pace of 2.6%. Agriculture, mining, information and communication as well as financial and insurance sectors registered positive growth while wholesale and retail trade, public administration, education, as well as construction sectors contracted. The indicators of economic activity point to a less severe contraction during the second half of the year following the partial relaxation of COVID-19 restrictions. The results from the two *Bank of Zambia Survey of Business Opinions and Expectations* conducted in August and November indicated improvements in economic performance as nearly all the monitored indicators improved (Chart 1).

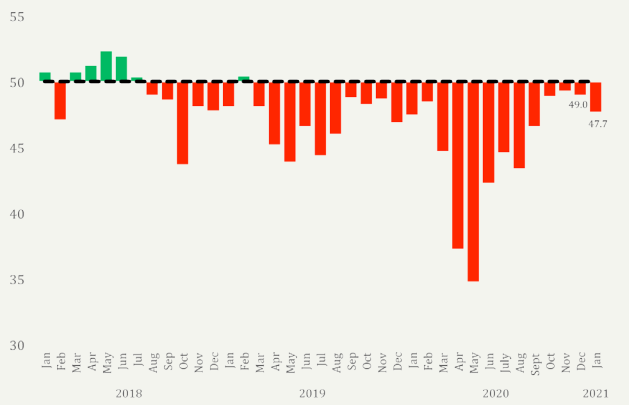
**Chart 1 Business Opinions Survey Responses**




Source: Bank of Zambia
Notes: Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker perforamnce.

The *Stanbic Bank Zambia Purchasing Managers Index* also signalled a softer deterioration in the private sector business environment in the second half of 2020 relative to the first half (Chart 2).

**Chart 2 Purchasing Manager's Index for Zambia**




Source: Stanbic Bank Zambia
Notes: The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: New orders, output, employment, suppliers' delivery times and stocks of purchases. Below 50 means business conditions deteriorated; above 50 means it improved and 50 means no change in business environment.

as the volume of international passengers arriving by air collapsed, dropping by 98.4% in June, year-on-year. This followed widespread restrictions on non-essential international travel in the wake of COVID-19 and suspension of operations at all but one international airport as part of COVID-19 emergency response. The partial relaxation of foreign travel restrictions in the second half supported international passenger arrivals to improve thereby moderating the decline to 67.6% in December.

### 3.2 Inflation

Annual overall inflation continued on an upward trend, accelerating to 19.2% in December from 11.7% in December 2019. This was largely driven by the sustained depreciation of the Kwacha against the US dollar partially associated with COVID-19.

### 3.3 Exchange rate

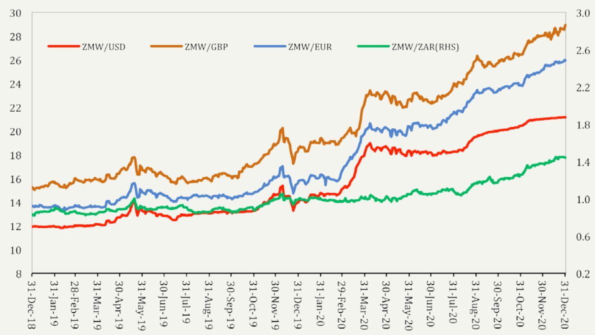
The economic fallout from the COVID-19 pandemic generated significant exchange rate pressures throughout 2020. The Kwacha faced several vulnerabilities mainly from the weakening macroeconomic environment. In addition, the build-up in excess demand mostly for imports of petrolium products and agricultural inputs under FISP excercerbated exchange rate pressures,

The Kwacha depreciated by 41.7% to an annual average of K18.31/US dollar. At the beginning of April 2020, the Kwacha rose above K18.00, but subsequently stabilised around K18.20 during May-July period. However, it weakened further throughout the second half and closed 2020 at K21.15 (Chart 3).

The Bank of Zambia continued to provide measured support to the market inline with the policy objective of allowing the exchange rate to adjust in line with market conditions. In this regard, the

Bank of Zambia scaled-up interventions and revised rules governing the Interbank Foreign Exchange Market (IFEM)[12] to dampen volatility in the exchange rate.

**Chart 3 Nominal Exchange Rates**




Source: Stanbic Bank Zambia

### 3.4 Domestic credit and money supply

Credit to the private sector slowed down to 8.5% in December 2020, year-on-year, from 17.2% in December 2019. This was on the back of depressed aggregate demand and reduced appetite by banks to lend in light of heightened default risk. However, over the same period, credit to Government expanded at a faster rate, growing by 68.8% compared to 17.2%. Consequently, annual money supply (M3)[13] growth was 46.4% inDecember 2020 compared to 12.5% in December 2019.

### 3.5 Merchandise Trade

Preliminary data indicate that the trade surplus (c.i.f) increased to US$332.7 million in December 2020 from US$43.6 million in December 2019 (Table 1). Exports significantly increased following a recovery in copper prices and increase in production due to higher capacity utilisation, favourable ore grades and reduction in cash costs at major mines (Table 2). Imports, however, contracted in 2020 mainly on account of subdued economic activity, sharp depreciation of the Kwacha, travel restrictions and closure of borders earlier in the year to contain the COVID-19 pandemic.

**Table 1: Earnings Month-on-Month (US $ millions)**

| | Dec - 19 | Mar - 20 | Jun - 20 | Sep 20 | Dec 20 |
|---|---|---|---|---|---|
| Trade Balance | 43.6 | 32.0 | 112.9 | 385.0 | 322.7 |
| Total Exports | 599.8 | 527.4 | 539.8 | 852.8 | 801.5 |
| Copper | 439.5 | 375.5 | 342.9 | 642.7 | 581.1 |
| Copper concentrates | 0.0 | 12.4 | 25.5 | 0.0 | 36.0 |
| Cobalt | 6.7 | 0.0 | 5.9 | 0.7 | 0.0 |
| Gold | 19.6 | 14.0 | 23.2 | 17.9 | 18.5 |
| NTEs | 134.1 | 125.5 | 142.3 | 191.5 | 165.8 |
| Total Imports | 556.2 | 495.4 | 426.8 | 467.8 | 478.8 |

Source: Bank of Zambia and Zambia Statistics Agency

**Table 2: Realised Prices, Export Volumes and local production**

| | Dec - 19 | Mar - 20 | Jun - 20 | Sep 20 | Dec 20 |
|---|---|---|---|---|---|
| **Realised Prices** | | | | | |
| Copper (US$/mt) | 5,953.7 | 5,224.5 | 5,616.2 | 6,529.8 | 7,552.1 |
| Cobalt (US $/mt) | 31,977.1 | 0.0 | 28,713.7 | 26,180.2 | 0.0 |
| Gold (US $/ounce) | 1,548.8 | 1,621.5 | 1,633.0 | 1,627.4 | 2,395.1 |
| Copper Concentrates (US$/mt) | | 771.1 | 987.9 | 739.1 | 1,701.0 |
| **Export Volumes** | | | | | |
| Copper (mt) | 71,356.0 | 71,875.7 | 61,049.8 | 98,428.0 | 76,952.3 |
| Copper Concentrates (mt) | 73,822.2 | 16,066.5 | 25,804.1 | 0.1 | 21,179.1 |
| Cobalt (mt) | 208.4 | 0.0 | 206.7 | 24.9 | 0.0 |
| Gold (ounces) | 12,626.0 | 8,622.0 | 14,193.0 | 11,021.0 | 7,729.0 |
| **Domestic Production** | | | | | |
| Copper (mt) | 70,060.5 | 70,969.7 | 78,625.4 | 72416.9 | 77,766.8 |

Source: Bank of Zambia and Zambia Statistics Agency

### 3.6 Fiscal Performance

Fiscal pressures remained high as revenue fell due to the COVID-19 shock amid rising expenditures, especially on agricultural inputs. In view of this, fiscal consolidation remained challenging in 2020 given the significant uncertainty about the evolution of escalating COVID-19 infections and the debt restructuring process.

## 4.0 Measures Taken by the Bank of Zambia in Response to Covid-19

- Monetary Policy Rate cut by 350 basis points to 8.00% from 11.50% to safeguard the stability of the financial sector, people's lives and livelihoods;
- A K10 billion 3-5 year Targeted Medium-Term Refinancing Facility established to eligible Financial Service Providers for onward lending to viable and priority sectors of the economy, including non-financial corporates and households;
- Secondary Market Bond Purchase Programme launched to support market liquidity, promote bond consolidation and thereby deepen the secondary trading of Government paper as well as strengthen the transmission of monetary policy;
- Open market operations scaled-up to provide short-term liquidity support on more flexible terms;
- Rules governing the operations of the interbank foreign exchange market revised to support its smooth functioning, strengthen market discipline, and address heightened volatility;
- Loan classification and provisioning rules revised to better accommodate lending, refinancing, and restructuring of facilities to critical sectors; and
- Sensitization on the use of digital channels and contactless mobile payment mechanisms stepped up.

[12]On November 6, 2020, IFEM Rules were revised requiring Authorised Dealers to transact at current retail board rates by buying foreign exchange from retail and corporate clients at rates not exceeding the interbank bid price and selling at prices not exceeding the retail board offer rate.
[13]M3 comprises currency in circulation and Kwacha as well as foreign currency deposits.

# Appendix

### Table 1: Actual and Projected Inflation: June 2020 – June 2021

| Month | Projection (a) | Actual (b) | Forecast error (b-a) |
|---|---|---|---|
| Jun-20 | 11.5 | 15.9 | 4.4 |
| Jul-20 | 15.6 | 15.8 | 0.2 |
| Aug-20 | 15.2 | 15.5 | 0.3 |
| Sept-20 | 15.0 | 15.7 | 0.7 |
| Oct-20 | 14.7 | 16.0 | 1.3 |
| Nov-20 | 14.4 | 17.4 | 3.0 |
| Dec-20 | 14.3 | 19.2 | 4.9 |
| Jan-21 | 19.5 | 21.5 | 2.0 |
| Feb-21 | 22.0 | 22.2 | 0.2 |
| Mar-21 | 22.3 | | |
| Apr-21 | 19.6 | | |
| May-21 | 18.9 | | |
| Jun-21 | 18.6 | | |

Source: Bank of Zambia, Zambia Statistics Agency

### Table 2: Macroeconomic Targets and Outturns: 2019 -2021

| | 2019 Target | 2019 Outturn | 2020 Target | 2020* Outturn | 2021 Target |
|---|---|---|---|---|---|
| Real GDP growth rate (%) | 4.0 | 1.4 | -4.2 | - | 1.5 |
| CPI Inflation (%), Annual Average | 6-8 | 9.1 | 6-8 | 19.2 | 6-8 |
| Gross International Reserves (months of imports cover) | 3.0 | 2.1 | 2.5 | 2.4 | 2.5 |
| Broad Money growth (%) | 10.2 | 7.9 | 11.8 | 46.4 | - |
| Budget deficit (on cash basis, excluding grants), % of GDP | 6.5 | 9.1 | 5.5 | - | 9.3 |
| Domestic financing of Budget (% of GDP) | 1.4 | 6.3 | 1.1 | - | 4.8 |

Source: Bank of Zambia Compilations, Zambia Statistics Agency, Ministry of Finance
*preliminary estimate, - means estimate is not available

### Table 3: Liquidity Influences (K' billion): Jan 2017 – Jun 2020

| | Jan-Jun 2018 | Jul-Dec 2018 | Jan-Jun 2019 | Jul-Dec 2019 | Jan-Jun 2020 | Jul-Dec 2020 |
|---|---|---|---|---|---|---|
| Opening balance | 1.4 | 1.1 | 1.4 | 0.9 | 2.0 | 3.0 |
| Net Government spending | 2.6 | -1.0 | -8.1 | -3.8 | -1.2 | 10.8 |
| BoZ foreign exchange influence | 2.5 | 1.4 | 3.2 | 4.2 | 2.5 | -9.3 |
| Other BoZ Operations* | na | na | na | na | 6.4 | 4.5 |
| Change in currency in circulation | -0.2 | -0.5 | -0.1 | -0.3 | -1.8 | -2.8 |
| Change in statutory reserve deposits | -6.0 | -1.9 | -0.3 | -1.4 | -1.2 | -0.2 |
| Overnight Lending Facility | -2.8 | -1.3 | 0.0 | 0.7 | 0.2 | 0.1 |
| Net Government securities influence | 3.1 | 2.6 | 2.3 | 3.4 | -6.6 | -2.5 |
| Open market operations | 0.1 | 0.4 | 1.5 | -1.5 | 2.9 | -1.4 |
| Miscellaneous | 0.4 | 0.6 | 1.0 | -0.2 | -0.2 | 1.1 |
| Closing balance | 1.1 | 1.4 | 0.9 | 2.0 | 3.0 | 3.3 |

Source: Bank of Zambia Compilations
*This includes the Targeted-Medium Term Refinancing Facility and Secondary Market Bond Purchase Programme introduced in April and June 2020, respectively.

### Table 4: Exchange Rate: Jan 2017 – Jun 2020

| | Jan-Jun 2018 | Jul-Dec 2018 | Jan-Jun 2019 | Jul-Dec 2019 | Jan-Jun 2020 | Jul-Dec 2020 |
|---|---|---|---|---|---|---|
| ZMW/USD | 9.8241 | 11.1132 | 12.4260 | 13.4107 | 16.7434 | 19.8319 |
| ZMW/GBP | 13.5113 | 14.3836 | 16.0622 | 16.9035 | 21.0565 | 25.9400 |
| ZMW/EUR | 11.8850 | 12.7927 | 14.0373 | 14.8728 | 18.4354 | 23.4562 |
| ZMW/ZAR | 0.7982 | 0.7836 | 0.8752 | 0.9128 | 1.0070 | 1.2264 |
| **Real Trade-weighted Exchange Rate (end-period)** | | | | | | |
| | Jun 2018 | Dec 2018 | June 2019 | Dec 2019 | June 2020 | Dec 2020 |
| Domestic CPI (2005=100) | 312.6 | 322.6 | 339.6 | 360.2 | 393.7 | 429.5 |
| Weighted Foreign CPI (2005=100) | 145.7 | 146.7 | 149.3 | 150.0 | 151.0 | 152.3 |
| NEER | 3.03 | 3.45 | 3.73 | 4.13 | 4.86 | 6.2 |
| REER Index (2005=100) | 108.4 | 120.1 | 125.8 | 132.0 | 143.1 | 168.7 |

Source: Bank of Zambia Compilations

### Table 5: Interest Rates (Percent, period average): 2017 – 2020

| | 2017 | 2018 | | 2019 | | 2020 | |
|---|---|---|---|---|---|---|---|
| | Second Half | First Half | Second Half | First Half | Second Half | First Half | Second Half |
| BoZ Policy Rate (end-period) | 10.25 | 9.75 | 9.75 | 10.25 | 11.5 | 9.25 | 8.00 |
| Overnight Lending rate (end-period) | 16.25 | 15.75 | 15.75 | 18 | 28 | 25.75 | 24.5 |
| Overnight interbank rate | 10.03 | 9.87 | 9.87 | 9.98 | 11.09 | 11.77 | 8.31 |
| Average commercial banks' lending rate | 28.2 | 24.2 | 23.6 | 25.4 | 28.6 | 26.4 | 25.1 |
| **Savings rate** | | | | | | | |
| more than K100 | 2.7 | 2.8 | 3.0 | 3.1 | 3.0 | 3.0 | 3.0 |
| above K20,000 (180 days) | 11.9 | 8.1 | 8.5 | 10.1 | 10.1 | 10.3 | 9.8 |
| Treasury bills yield rates | | | | | | | |
| composite yield rate | 15.06 | 16.46 | 20.04 | 23.55 | 25.47 | 25.9 | 22.0 |
| 91days | 9.92 | 9.96 | 13.27 | 15.59 | 16.5 | 16.6 | 14.3 |
| 182 days | 10.09 | 11.49 | 14.69 | 15.61 | 18.38 | 20.8 | 16.8 |
| 273 days | 11.98 | 11.6 | 18.77 | 23.67 | 26.38 | 27.0 | 20.7 |
| 364 days | 15.98 | 17.29 | 21.1 | 24.6 | 27.29 | 28.7 | 24.9 |
| **Government bond yield rates** | | | | | | | |
| composite yield rate | 18.2 | 18.56 | 19.38 | 28.11 | 31.08 | 31.3 | 32.6 |
| 2 years | 16.5 | 16.4 | 19.25 | 27.66 | 29.5 | 31.0 | 31.8 |
| 3 years | 17.9 | 17.9 | 19.22 | 28 | 29.5 | 30.6 | 32.7 |
| 5 years | 17.8 | 17.9 | 20.3 | 28.83 | 32.63 | 33.0 | 33.0 |
| 7 years | 18.6 | 18.98 | 18.74 | 25.04 | 25 | 25.0 | 26.7 |
| 10 years | 19.7 | 19.5 | 20.56 | 26.62 | 26.38 | 24.8 | 33.0 |
| 15 years | 18.7 | 18.5 | 17.37 | 18.33 | 24.5 | 31.4 | 33.1 |

Source: Bank of Zambia Compilations

### Table 6: Average Annual Non-Banks' Effective Interest Rates (Percent): 2017 – 2020

| | 1st Half 2018 | 2nd Half 2018 | 1st Half 2019 | 2nd Half 2019 | 1st Half 2020 | 2nd Half 2020 |
|---|---|---|---|---|---|---|
| Microfinance Institutions | 82.7 | 83.1 | 81.0 | 81.0 | 88.8 | 96.9 |
| Leasing Finance Institutions | 28.0 | 40.5 | 39.0 | 39.9 | 39.9 | 39.9 |
| Building Societies | 28.9 | 34.91 | 34.9 | 34.9 | 51.0 | 51.0 |
| Development Bank of Zambia | 30.6 | 26.6 | 27.1 | 27.1 | 28.2 | 24.9 |
| National Savings and Credit Bank | 67.0 | 67.0 | 73 | 73.0 | 73.5 | 62.0 |
| Financial Businesses | 35.5 | 35.5 | 35.5 | 35.5 | 43.5 | 70.4* |
| Overall for the sector | 45.5 | 46.7 | 48.4 | 48.6 | 54.2 | 57.5 |

Source: Bank of Zambia Compilations

*The increase followed the change in the strategic decision to focus on short-term facilities with a higher interest cost by one of the major players in the sector.

### Table 7: Domestic Credit (K' billion unless otherwise stated): June 2018 – December 2020

| | Jun-18 | Dec-18 | Jun-19 | Dec-19 | Jun-20 | Dec-20 |
|---|---|---|---|---|---|---|
| Domestic Credit (DC) | 63.8 | 71.1 | 76.6 | 83.0 | 98.8 | 117.2 |
| o/w foreign currency denominated | 13.3 | 17.0 | 19.5 | 22.7 | 25.9 | 27.7 |
| DC (excl. FX denominated credit) | 50.5 | 54.1 | 57.1 | 60.3 | 72.8 | 90.3 |
| 6-month % change in DC | 3.2 | 11.4 | 7.8 | 8.4 | 18.9 | 18.7 |
| 6-month % change in Forex Credit | -0.4 | 28.0 | 14.8 | 16.7 | 14.0 | 6.5 |
| 6-Month Change in DC (Excl. Forex Credit) | 4.2 | 7.1 | 5.6 | 5.5 | 20.8 | 23.8 |
| Annual Change in Domestic Credit | 15.0 | 15.0 | 20.1 | 16.8 | 28.9 | 41.9 |
| Government Credit | 34.6 | 37.9 | 40.6 | 44.4 | 59.7 | 75.0 |
| 6-month % change in Government Credit | 3.0 | 9.5 | 7.1 | 9.4 | 34.5 | 25.6 |
| Annual Change in Government Credit | 18.1 | 12.8 | 17.5 | 17.2 | 46.9 | 68.8 |
| Private Sector Credit | 28.6 | 32.1 | 34.7 | 37.6 | 38.4 | 40.8 |
| 6-month Change in Private Sector Credit | 4.0 | 12.2 | 8.1 | 8.4 | 2.1 | 6.3 |
| Annual Change in Private Sector Credit | 11.5 | 16.7 | 21.4 | 17.2 | 10.4 | 8.5 |

Source: Bank of Zambia

### Table 8: Shares of Total Loans and Advances by Sector (%): June 2018 – December 2020

| | Jun-18 | Dec-18 | Jun-19 | Dec-19 | Jun-20 | Dec-20 |
|---|---|---|---|---|---|---|
| Agric, forestry, fishing & hunting | 18.8 | 16.9 | 17.3 | 16.4 | 15.9 | 16.4 |
| Mining & Quarrying | 6.7 | 7.0 | 6.6 | 7.4 | 7.3 | 6.2 |
| Manufacturing | 7.9 | 9.2 | 10.7 | 8.9 | 10.0 | 10.2 |
| Electricity, Gas, Water & Energy | 2.8 | 3.0 | 4.3 | 4.3 | 3.9 | 4.5 |
| Construction | 3.9 | 3.0 | 2.4 | 2.2 | 2.0 | 1.7 |
| Wholesale & Retail Trade | 11.2 | 11.1 | 10.7 | 11.5 | 8.8 | 8.5 |
| Restaurants & Hotels | 1.3 | 1.3 | 1.1 | 0.9 | 1.1 | 1.0 |
| Transport, Storage & Communications | 4.7 | 6.2 | 7.8 | 8.8 | 8.4 | 8.5 |
| Financial Services | 3.0 | 4.1 | 2.6 | 2.1 | 2.9 | 1.8 |
| Community, Social & Personal | 4.2 | 4.8 | 4.7 | 6.6 | 9.8 | 12.2 |
| Real Estate | 3.7 | 3.5 | 3.3 | 3.2 | 3.6 | 4.5 |
| Personal Loans | 29.7 | 27.9 | 27.1 | 23.8 | 22.6 | 19.7 |
| Others | 2.1 | 2.1 | 1.3 | 3.9 | 3.7 | 4.6 |

Source: Bank of Zambia

### Table 9: Broad Money (K' billion unless otherwise stated): June 2018 – December 2020

| | Jun-18 | Dec-18 | Jun-19 | Dec-19 | Jun-20 | Dec-20 |
|---|---|---|---|---|---|---|
| Broad Money (M3) | 55.3 | 63.0 | 63.7 | 70.9 | 82.5 | 103.8 |
| Foreign Exchange (FX) Deposits | 21.4 | 25.4 | 25.9 | 28.9 | 35.1 | 47.3 |
| M3 (excl. Foreign Exchange Deposits) | 31.9 | 37.6 | 37.8 | 42.0 | 47.4 | 56.5 |
| 6-month change in M3 (%) | 2.2 | 14.0 | 1.2 | 11.2 | 16.4 | 25.8 |
| 6-month % change in Forex deposits | 10.0 | 18.5 | 2.3 | 11.5 | 21.4 | 34.8 |
| 6-Month % change in M3 (excl. Forex deposits) | -7.9 | 18.0 | 0.4 | 11.1 | 12.9 | 19.2 |
| Annual % change in M3 (%) | 15.6 | 16.5 | 15.4 | 12.5 | 29.4 | 46.4 |
| Annual % change in Forex deposits | 28.1 | 30.4 | 21.2 | 14.0 | 35.3 | 63.6 |
| Annual % change in M3 (excl. Forex Deposits) | 2.6 | 8.7 | 18.5 | 11.6 | 25.4 | 34.6 |

Source: Bank of Zambia

### Table 10: Trade Data (c.i.f - US$ million): Jan 2018 – Dec 2020

| | Jan-Jun 2018 | Jul-Dec 2018 | Jan-Jun 2019 | Jul-Dec 2019 | Jan-Jun 2020 | Jul-Dec 2020 |
|---|---|---|---|---|---|---|
| Trade Balance | -86.8 | -357.0 | 88.0 | -141.1 | 689.8 | 1,960.8 |
| Total Exports, c.i.f. (including Gold) | 4,610.0 | 4,407.9 | 3,774.2 | 3,396.8 | 3,289.6 | 4,678.4 |
| General Exports, f.o.b | 4,530.3 | 4,339.6 | 3,685.0 | 3,289.6 | 3,180.5 | 4,566.6 |
| Metals | 3,619.3 | 3,179.2 | 2,755.5 | 2,281.7 | 2,397.3 | 3,481.1 |
| Copper | 3,548.8 | 3,130.7 | 2,752.2 | 2,242.3 | 2,299.8 | 3,385.0 |
| Copper concentrates | | | | | 89.4 | 93.5 |
| Cobalt | 70.5 | 48.5 | 3.3 | 39.4 | 8.1 | 2.6 |
| Non-Traditional Exports | 911.0 | 1,160.4 | 929.5 | 1,007.8 | 783.3 | 1,085.5 |
| Exporter Audit Adjustor | -13.2 | -13.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sub Total | 924.1 | 1,173.6 | 929.5 | 1,007.8 | 783.3 | 1,085.5 |
| Gemstones | 5.1 | 5.6 | 63.0 | 93.9 | 34.7 | 34.1 |
| Sulphuric acid | 84.8 | 86.5 | 95.1 | 53.7 | 53.1 | 41.5 |
| Industrial Boilers and Equipment | 59.7 | 66.8 | 80.2 | 59.0 | 37.0 | 53.0 |
| Cane Sugar | 55.5 | 69.3 | 66.8 | 75.0 | 44.9 | 70.6 |
| Gasoil/Petroleum Oils | 4.5 | 5.1 | 4.1 | 3.5 | 7.1 | 4.0 |
| Cement & Lime | 43.7 | 70.0 | 71.9 | 95.3 | 83.9 | 107.1 |
| Electricity | 33.7 | 49.3 | 38.2 | 48.2 | 58.2 | 65.5 |
| Raw hides, Skins & Leather | 1.1 | 4.3 | 1.8 | 2.9 | 2.1 | 3.2 |
| Sulphur sublimed or precipitated; colloidal | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 |
| Burley Tobacco | 42.3 | 62.3 | 28.5 | 41.3 | 50.3 | 66.3 |
| Copper Wire | 35.2 | 43.7 | 34.6 | 18.6 | 17.3 | 31.0 |
| Scrap of precious metals | 1.2 | 0.3 | 0.7 | 1.5 | 1.0 | 1.7 |
| Maize & Maize Seed | 18.4 | 26.0 | 10.7 | 26.2 | 5.8 | 33.0 |
| Electrical Cables | 13.6 | 7.6 | 11.2 | 6.1 | 5.1 | 7.5 |
| Cotton Lint | 12.0 | 37.2 | 21.2 | 32.2 | 4.4 | 13.3 |
| Soap, Active Agents, Washing Preps. | 25.4 | 27.7 | 21.6 | 33.8 | 30.5 | 43.3 |
| Fresh Fruits & Vegetables | 7.6 | 5.4 | 4.4 | 5.0 | 3.7 | 8.4 |

*Continued on page 14*

*Continued from page 13*

**Table 10: Trade Data (c.i.f - US$ million): Jan 2018 – Dec 2020**

| | Jan-Jun 2018 | Jul-Dec 2018 | Jan-Jun 2019 | Jul-Dec 2019 | Jan-Jun 2020 | Jul-Dec 2020 |
|---|---|---|---|---|---|---|
| Manganese Ores/Concentrates | 9.7 | 17.2 | 7.6 | 10.4 | 5.0 | 4.9 |
| Wheat & Meslin | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Fresh Flowers | 6.4 | 3.7 | 4.6 | 4.0 | 3.8 | 3.9 |
| Other | 464.1 | 585.4 | 362.0 | 397.1 | 335.3 | 493.1 |
| Gold | 79.7 | 68.3 | 89.2 | 107.2 | 109.0 | 111.9 |
| Imports c.i.f./1 | 4,696.8 | 4,764.8 | 3,686.2 | 3,537.9 | 2,599.7 | 2,717.6 |

Source: Bank of Zambia Compilations

**Table 11: Imports by Commodity Groups (c.i.f - US$ million): Jan 2018 – Dec 2020**

| | Jan-Jun 2018 | Jul-Dec 2018 | Jan-Jun 2019 | Jul-Dec 2019 | Jan-Jun 2020 | Jul-Dec 2020 |
|---|---|---|---|---|---|---|
| Food Items | 255.9 | 258.9 | 235.9 | 299.9 | 234.0 | 247.9 |
| Petroleum Products | 674.9 | 664.9 | 648.5 | 611.7 | 319.8 | 199.3 |
| Fertilizer | 186.9 | 244.5 | 104.3 | 231.9 | 221.3 | 189.6 |
| Chemicals | 504.3 | 492.6 | 470.6 | 381.8 | 337.9 | 463.0 |
| Plastic and Rubber Products | 224.7 | 247.4 | 212.4 | 228.0 | 199.9 | 222.5 |
| Paper and paper products | 58.0 | 74.8 | 51.5 | 78.2 | 45.6 | 50.8 |
| Iron and Steel and items thereof | 276.6 | 289.0 | 243.7 | 247.0 | 136.3 | 167.5 |
| Industrial Boilers and Equipment | 676.8 | 713.0 | 606.9 | 528.1 | 349.0 | 418.5 |
| Electrical Machinery & Equipment | 346.5 | 242.6 | 222.5 | 217.8 | 140.2 | 132.8 |
| Vehicles | 364.1 | 439.3 | 304.5 | 278.6 | 179.4 | 264.5 |
| Ores, Slag and Ash | 657.5 | 614.0 | 138.9 | 20.7 | 61.3 | 13.4 |
| Other Imports | 470.6 | 484.1 | 446.3 | 414.2 | 374.9 | 347.6 |
| **Total** | **4,696.8** | **4,765.1** | **3,686.2** | **3,537.9** | **2,599.7** | **2,717.5** |

Source: Bank of Zambia Compilations

**Table 12: Metal Export Volumes, Values and Prices: Jan 2018 – Dec 2020**

| | Copper* | | | | Cobalt | | | |
|---|---|---|---|---|---|---|---|---|
| Period | Export Volumes (mt) | Export US $'000 | Price/ Tonne | Price/ Pound | Export Volumes (mt) | Export US $'000 | Price/ Tonne | Price/ Pound |
| Quarter 1 | 272,106.4 | 1,907,609.7 | 7,010.5 | 3.2 | 397.0 | 32,256.1 | 81,244.0 | 36.9 |
| Quarter 2 | 253,774.4 | 1,641,198.3 | 6,467.2 | 2.9 | 462.0 | 38,222.7 | 82,733.2 | 37.5 |
| Jan-Jun 2018 | 525,880.7 | 3,548,808.0 | 6,748.3 | 3.1 | 859.0 | 70,478.8 | 82,044.9 | 37.2 |
| Quarter 3 | 275,352.9 | 1,628,639.4 | 5,914.7 | 2.7 | 429.0 | 28,681.8 | 66,857.5 | 30.3 |
| Quarter 4 | 244,753.5 | 1,502,029.9 | 6,136.9 | 2.8 | 478.2 | 19,848.6 | 41,510.3 | 18.8 |
| Jul-Dec 2018 | 520,106.3 | 3,130,669.3 | 6,019.3 | 2.7 | 907.2 | 48,530.4 | 53,497.1 | 24.3 |
| Quarter 1 | 236,434.7 | 1,431,902.6 | 6,056.2 | 2.7 | 66.0 | 3,314.4 | 50,217.9 | 22.8 |
| Quarter 2 | 212,614.6 | 1,320,268.4 | 6,209.7 | 2.8 | 0.0 | 0.0 | n.a | n.a |
| Jan-Jun 2019 | 449,049.3 | 2,752,171.1 | 6,128.9 | 2.8 | 66.0 | 3,314.4 | 50,217.9 | 22.8 |
| Quarter 3 | 174,359.4 | 1,013,753.7 | 5,814.2 | 2.6 | 0.0 | 0.0 | n.a | n.a |
| Quarter 4 | 212,849.5 | 1,228,596.5 | 5,772.1 | 2.6 | 1,205.3 | 39,371.3 | 32,664.5 | 14.8 |
| Jul-Dec 2019 | 387,208.9 | 2,242,350.2 | 5,791.1 | 2.6 | 1,205.3 | 39,371.3 | 32,664.5 | 14.8 |
| Quarter 1 | 206,746.2 | 1,161,790.9 | 5,619.4 | 2.5 | 33.0 | 1,044.8 | 31,660.5 | 14.4 |
| Quarter 2 | 217,050.0 | 1,138,055.3 | 5,243.3 | 2.4 | 239.7 | 7,018.8 | 29,279.3 | 13.3 |
| Jan-Jun 2020 | 423,796.2 | 2,299,846.2 | 5,426.77 | 2.5 | 272.7 | 8,063.6 | 29,567.4 | 13.4 |
| Quarter 3 | 265,633.1 | 1,687,548.4 | 6,352.9 | 2.9 | 94.2 | 2,557.6 | 27,145.2 | 12.3 |
| Quarter 4 | 241,539.8 | 1,697,419.7 | 7,027.5 | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Jul-Dec 2020 | 507,172.9 | 3,384,968.2 | 6,674.19 | 3.0 | 94.2 | 2,557.6 | 27,145.2 | 12.3 |

Source: Bank of Zambia Compilations
*Excludes exports of copper concentrates

**Table 13: Government Budget (K'bn): June 2019 - Dec 2020**

| | Second Half 2019 | | First Half 2020 | | Second Half 2020 | |
|---|---|---|---|---|---|---|
| | Target | Prel | Target | Prel | Target | Prel |
| Total Revenue & Grants | 27.9 | 28.8 | 36.6 | 32.4 | 35.0 | 35.0 |
| Tax Revenue | 22.8 | 23.3 | 28.5 | 24.0 | 27.1 | 28.1 |
| Non-Tax Revenue | 4.8 | 5.2 | 5.6 | 7.7 | 5.4 | 5.9 |
| Grants | 0.4 | 0.4 | 1.6 | 0.7 | 1.6 | 1.0 |
| Total Expenditure | 44.1 | 44.2 | 51.1 | 48.4 | 53.6 | 64.5 |
| Current Expenditure | 33.3 | 32.1 | 33.7 | 29.5 | 39.6 | 46.1 |
| Personal Emoluments | 12.4 | 11.8 | 12.9 | 12.5 | 13.3 | 14.4 |
| Use of Goods & Services | 1.4 | 2.2 | 3.3 | 3.7 | 3.8 | 5.5 |
| Interest | 7.9 | 8.8 | 10.7 | 9.0 | 11.0 | 10.4 |
| Grants & Other Payments | 10.5 | 8.9 | 6.2 | 3.8 | 10.6 | 14.1 |
| Social Benefits | 0.9 | 0.1 | 0.6 | 0.6 | 0.8 | 1.7 |
| Other Expenses | 0.4 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities | 0.1 | 0.2 | 0.3 | 2.3 | 1.6 | 6.3 |
| Assets | 10.5 | 12.0 | 16.4 | 16.6 | 12.4 | 12.1 |
| Non- Financial Assets | 10.5 | 12.0 | 15.8 | 16.6 | 11.9 | 10.6 |
| Financial Assets | 0.0 | 0.0 | 0.6 | 0.0 | 0.5 | 1.4 |
| Change in Balances & Statistical discrepancy | -2.4 | 0.7 | 0.0 | 1.7 | 0.0 | -0.2 |
| Fiscal Balance | -16.2 | -15.4 | -14.5 | -15.9 | -18.6 | -29.5 |
| Financing | 13.8 | 16.1 | 14.5 | 17.7 | 18.6 | 29.2 |
| Net Domestic | 7.2 | 8.6 | 6.2 | 7.3 | 13.1 | 24.4 |
| Net Foreign (net) | 6.6 | 7.5 | 8.3 | 10.4 | 5.5 | 4.8 |

Source: Ministry of Finance


BANK OF ZAMBIA