



Republic of Zambia

# Ministry of Finance

## 2017 Second Quarter Economic Review



July, 2017

## ECONOMIC PERFORMANCE HIGHLIGHTS IN THE SECOND QUARTER 2017

### Overview

This brief provides a snapshot of domestic economic developments in the second quarter of 2017.

Generally, the macroeconomic environment in the second quarter continued to be positive aided by the stability in the exchange rate, low inflation and relative easing of monetary policy.

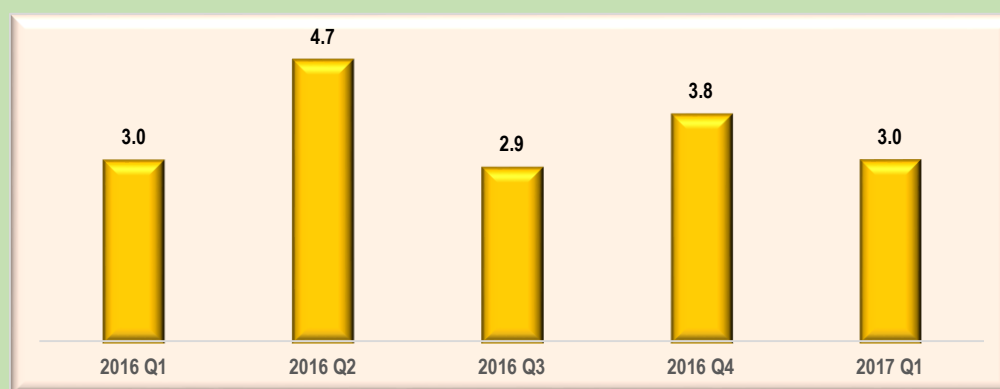
### Growth<sup>1</sup>

In the first quarter of 2017, preliminary data indicate that the economy grew by 3.0% albeit lower than 3.8% recorded in the fourth quarter of 2016 (See Figure 1). The marginal

deceleration in growth estimate was reflection of a decrease in mining production by 12.1%.

Notwithstanding, second quarter growth is projected to rebound on account of positive performance mainly attributed to growth in the electricity and agriculture sub-sectors which grew by 25.6% and 17.5%, respectively. Increased electricity supply and agriculture production was aided by improved rainfall pattern in the country during the 2016/17 season which is expected to boost growth across the other sectors of the economy.

**Figure 1. Quarterly Gross Domestic Product (GDP), 2016 Q1 - 2017 Q1**



Source: Central Statistical Office

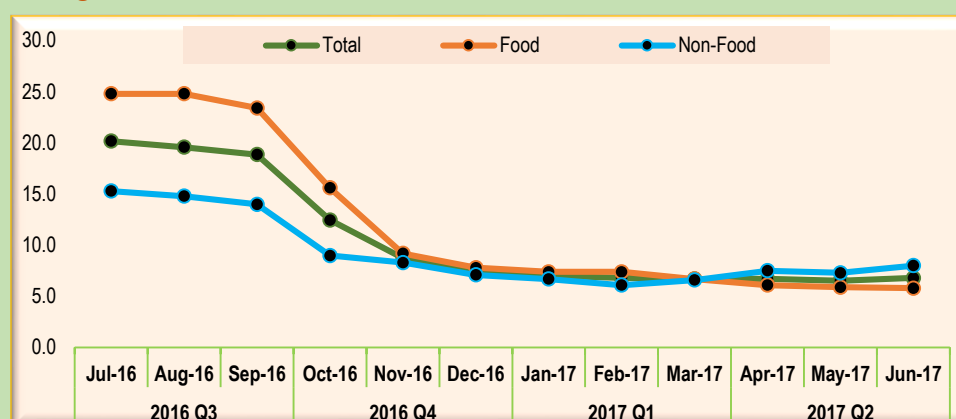
### Inflation

Inflation continued to be low during the second quarter of 2017 averaging 6.7 percent compared to 6.8 percent in the first quarter of 2017 (See Figure 2). This was mainly attributed to a reduction in

food inflation as the supply of some seasonal food items increased. Further, the pass-through effect from the continued appreciation of the Kwacha against major tradable currencies supported stability in the general level of prices.

<sup>1</sup> Reported with a one-quarter lag.

**Figure 2. Annual Inflation Trends, 2016 Q1 to 2017 Q2**



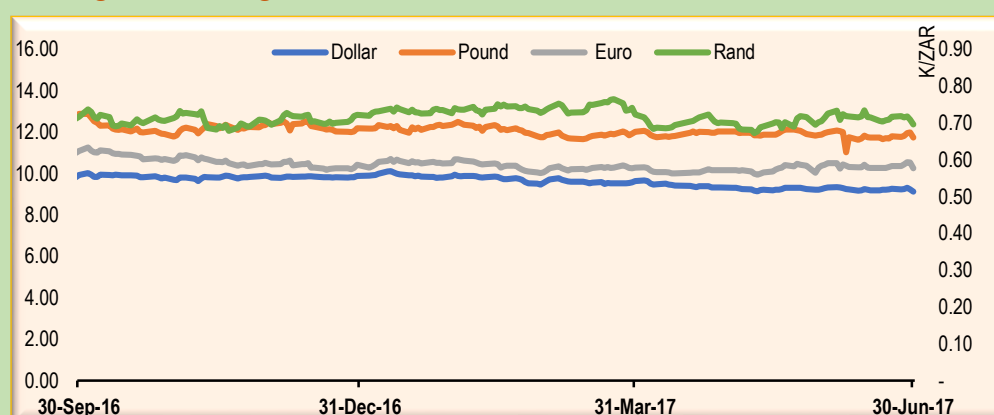
Source: Central Statistical Office

### Exchange Rate

During the quarter under review, the exchange rate of the Kwacha against major tradable currencies remained relatively stable with a bias towards appreciation (see Figure 3). The Kwacha appreciated against the US dollar and the Rand by 5.3% and 5.4% to K9.14 and K0.70, respectively. Further, the local currency gained by 2.3 % and 0.4% to K11.75 and K10.26 against the British pound and the Euro, respectively. The

appreciation was largely attributed to increased supply of foreign exchange, increased participation by non-residents in government securities, positive market sentiments and global weakening of the US Dollar. In addition, the strengthening of the Kwacha was aided by the improvement in copper prices which averaged US\$5,720 per ton during the quarter although slightly lower than the average of US\$5, 835 per ton in the first quarter of 2017.

**Figure 3. Exchange Rate Trends 2017 Q2**



Source: Bank of Zambia

### Lending Rates

Although commercial banks' lending rates remained high during the quarter under review, they have been on a

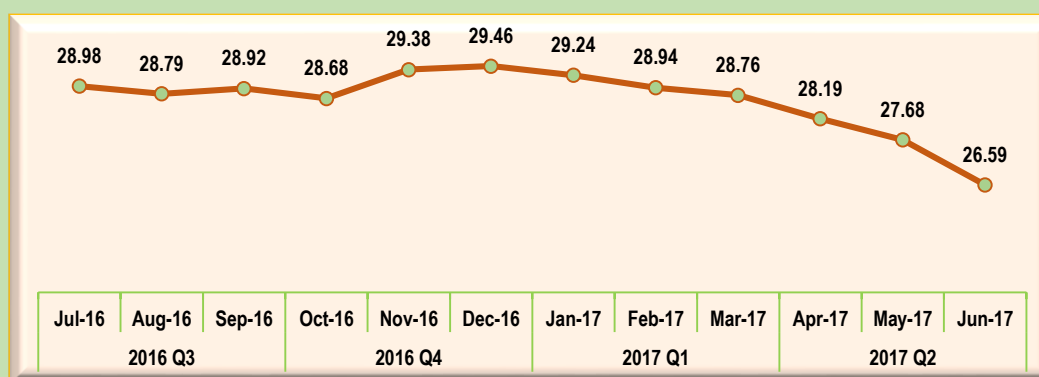
downward trend since the beginning of the year. At the end of the second quarter 2017, commercial bank average lending rates fell to 26.6% from 28.8% at the end of the previous quarter (see Figure 4). The

elevated lending rates are in part a response by the commercial banks to the non-performing loans, the high returns of investment for government securities and the lagged response to movements in the short term money market rates and inflation.

However, the impact of further easing of monetary policy in second quarter and

improving market confidence is evident in the recent downward trend in lending rates. During the quarter, the Bank of Zambia further reduced the policy rate to 12.5% from 14% and the statutory reserve ratio to 12.5% from 15.5%.

**Figure 4. Average Lending Rates**



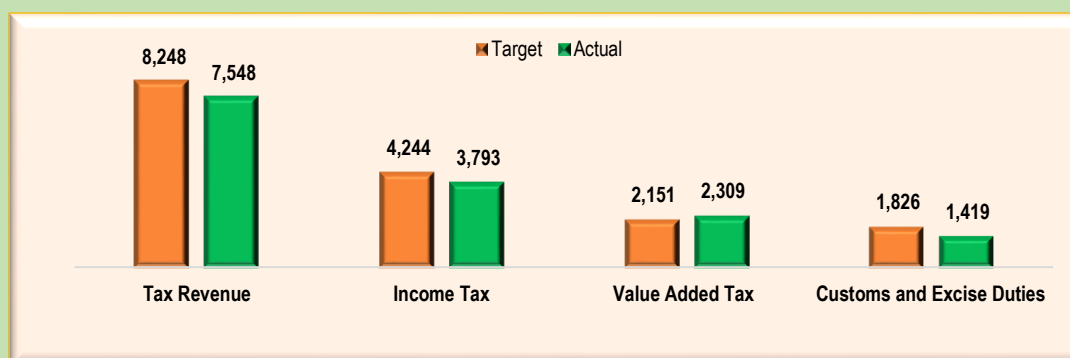
Source: Bank of Zambia

## Budget Performance

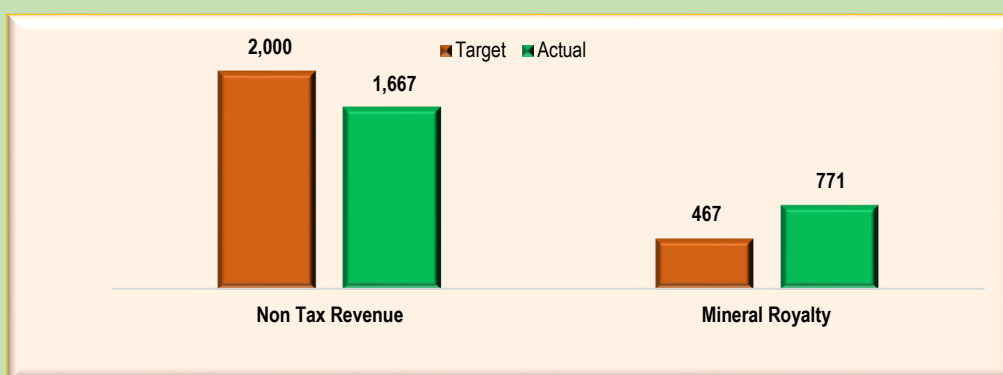
Total domestic revenue in the second quarter at K9, 216.0 million was below the target of K10,196.0 million. All the tax categories declined except for VAT which was above the target of K2,159 million at K2,309 million. This increase in VAT

collections was on account of improved compliance and the appointment of VAT agents to collect from source. Further, in the non-tax category, mineral royalty at K771.0 million was above the target of K467.0 million

**Figure 5: Tax Revenue (K'Million), 2017 Q2**



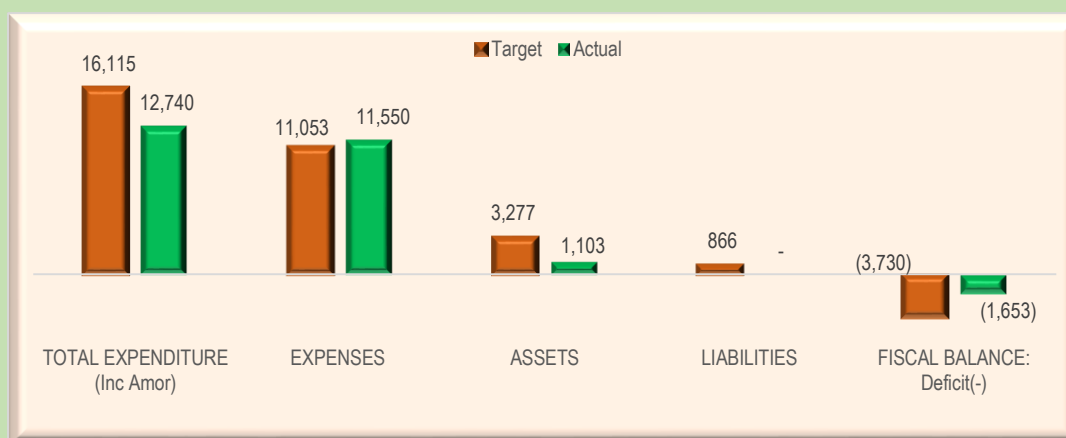
Source: Ministry of Finance

**Figure 6: Non-Tax Revenue (K'Million), 2017 Q2**

Source: Ministry of Finance

Total expenditure at K12, 740.4 million was below the quarter projection of K16,114.7 million. This outturn was mainly explained by a 66.3 percent fall in spending on assets compared with the projection. Actual spending on assets was K1, 102.9 million compared with the target of K3,276.6 million. Interest payment on external and domestic debt declined to

K2.190 million from K2.47 million at end Q1 of 2017. The decrease in debt service is as a result of the appreciation of the Kwacha and the decline in interest rates. The lower than projected expenditures relative to revenue, translated into a lower deficit in the fiscal balance during the quarter under review (see Figure 7).

**Figure 7: Expenditure Performance (K'Million), 2017 Q2**

Source: Ministry of Finance

## Sector Performance

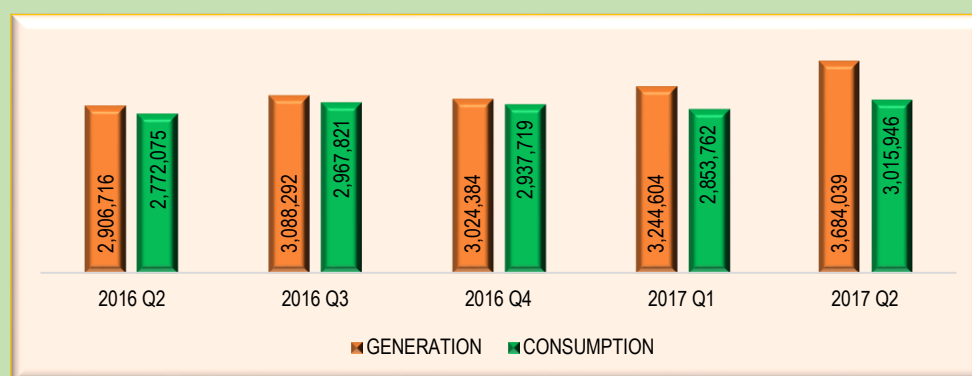
### Electricity

Electricity generation in Q2 of 2017 increased to 3.6 million Mwh from 3.2 million Mwh in Q1 of 2017(see Figure 8).

The increase in electricity generation was aided by improved water levels on

account of good rainfall during the 2016/2017 season.

**Figure 8: Generation and Consumption (Mwh), 2016 Q2 – 2017 Q2**

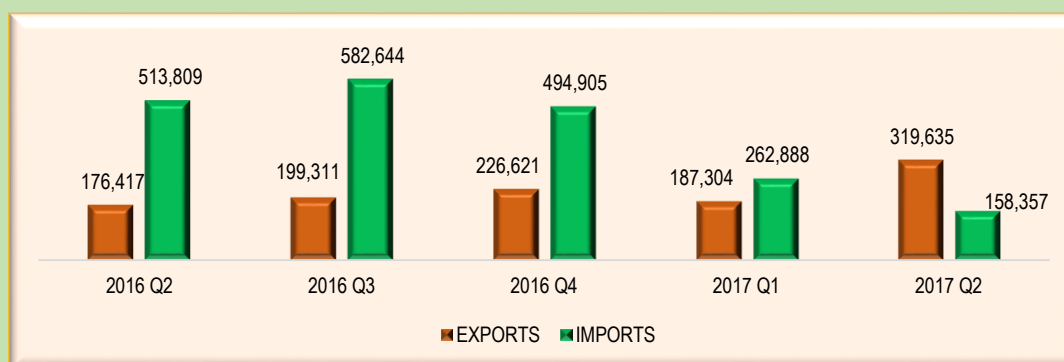


Source: Zesco

Similarly, electricity consumption in Q2 of 2017 increased to 3.01 million Mwh from 2.85 million Mwh in Q1 of 2017. The increase in consumption was largely due to improved supply. In line with increased generation, exports of electricity during

the quarter also increased while imports declined. Exports of electricity rose by 70.6 percent to 319,635 Mwh while imports declined by 39.8 percent to 158,357 Mwh (Figure 9).

**Figure 9: Electricity Imports and Exports (Mwh), 2016 Q2 to 2017 Q2**



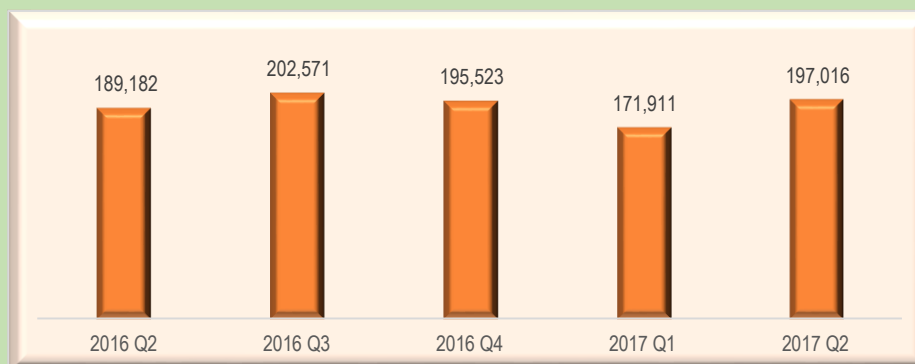
Source: Zesco

## Copper Production

Copper production during Q2 of 2017 increased to 197,016 Mt compared to 171,911 produced at end of Q1 2017 (see Figure 10). The increase in production was

mainly attributed to improved supply of electricity to the mines and the continued good performance of the copper prices.



**Figure 10: Copper Output (Mt), 2016 Q2 – 2017 Q2**

Source: Ministry of Mines and Mineral Development

### Crop production

The latest crop forecast survey indicates that crop production during 2016/2017 season, generally increased with maize

increasing by 24.9 percent , while rice soya beans and burley tobacco increased by 44%, 31.4% and 30% respectively.

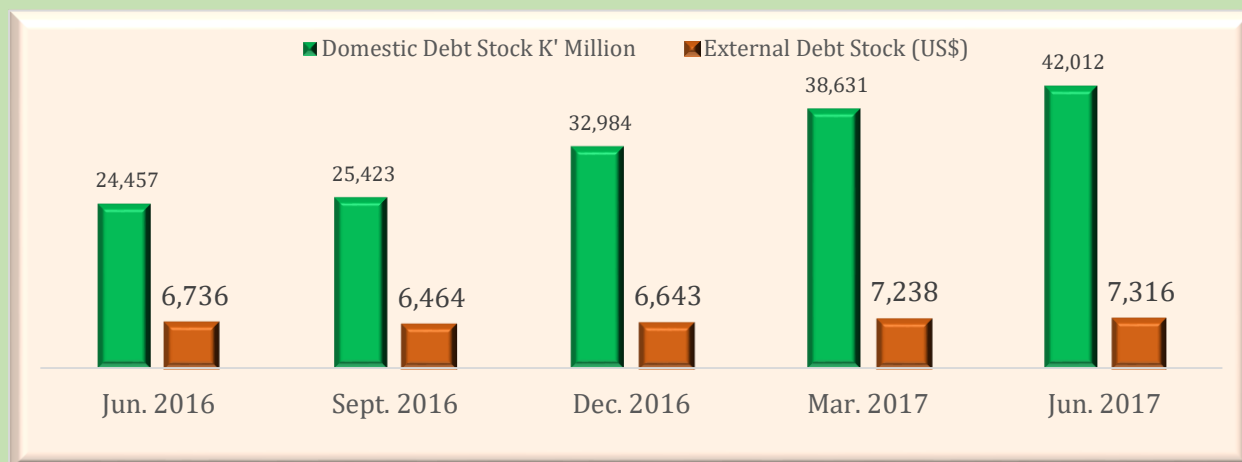
### Debt position

The stock of government securities as at end second quarter of 2017 was K42.01 billion from first quarter position of K37.0 billion (see Figure 11). The increase in the stock was attributed to the rise in demand for government securities by non-resident investors and higher participation by local institutional investors. The average subscription rate for treasury bills declined to 81.33% in second quarter compared to 114.03% in first quarter.

Government bonds average subscription rate remained relatively high at 125.76 % compared to 120 % in first quarter 2017. Yield rates on both treasury bills and bonds continued to decline. The weighted

average yield rate on treasury bills and bonds declined to 14.12% and 19.84% at end June 2017 from 16.6% and 20.4% at end March 2017. The decline in the yields was a reflection of the increased demand for Government securities. Similarly, interest cost on Government securities declined to K1, 259.17 million at end Q2 of 2017 from K1, 412.46 million in Q1 of 2017. The decline in the interest cost is as a result of the decrease in the yield rates on Government securities.

External debt stock increased to US\$ 7,316 million as at end June 2017 from US \$7,238 million at end March 2017(see Figure 11). The increase in the stock was on account of new disbursements.

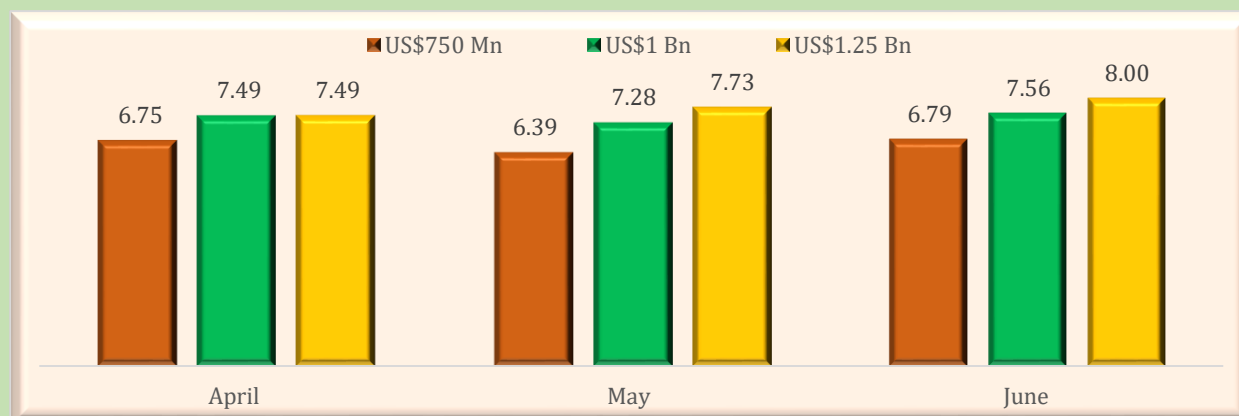
**Figure 11: Domestic and External Debt Stock, 2016 Q2 – 2017 Q2**

Source: Ministry of Finance

### Performance of the Zambian Sovereign Bonds

Zambia's bonds on the international bond market in the second quarter of 2017, continued to be on favourable performance trajectory. Market assessment indicate Zambia's sovereign bonds remained attractive. As at end June 2017, offer price of the bonds were US\$93.88, US\$104.88 and US\$106.50, for the US\$750 million, US\$1 billion and

US\$1.25 billion, respectively. This was better offer compared to US\$93.80, US\$105.25 and US\$105.75 as at March 2017, for the US\$750 million, US\$1 billion and US\$1.25 billion respectively. The yield rates of the three bonds over the same period were relatively close to the issuance levels (See Figure 12).

**Figure 12: Yield Rate Trends for Zambia's Euro Bonds**

Source: Barclays Bank

### Capital Markets

The Market Capitalization at K60 billion increased as at close of the second quarter

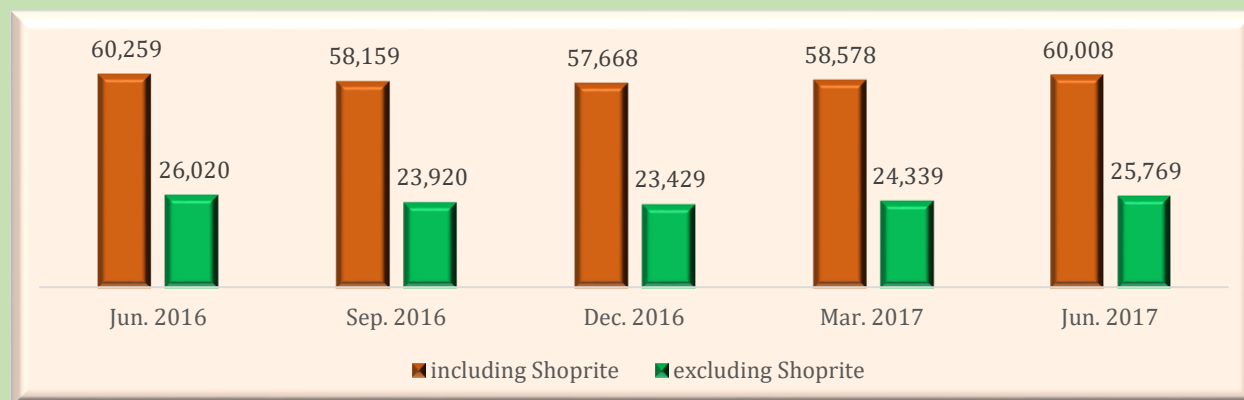
in 2017 from K58.6 billion at the end of the first quarter, reflecting an overall increase



in the value of the market. The LuSE all-share Index (LASI) closed the second quarter of 2017 at 4,760 points,

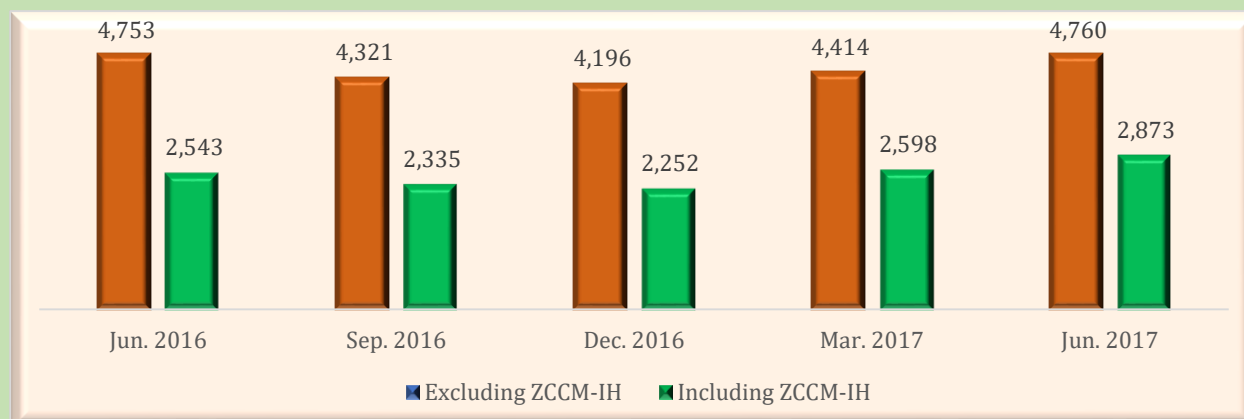
representing an increase of 7.84% from the end of the first quarter.

**Figure 13: Market Capitalization (K' Million)**



Source: LuSE

**Figure 14: LuSE all share index**



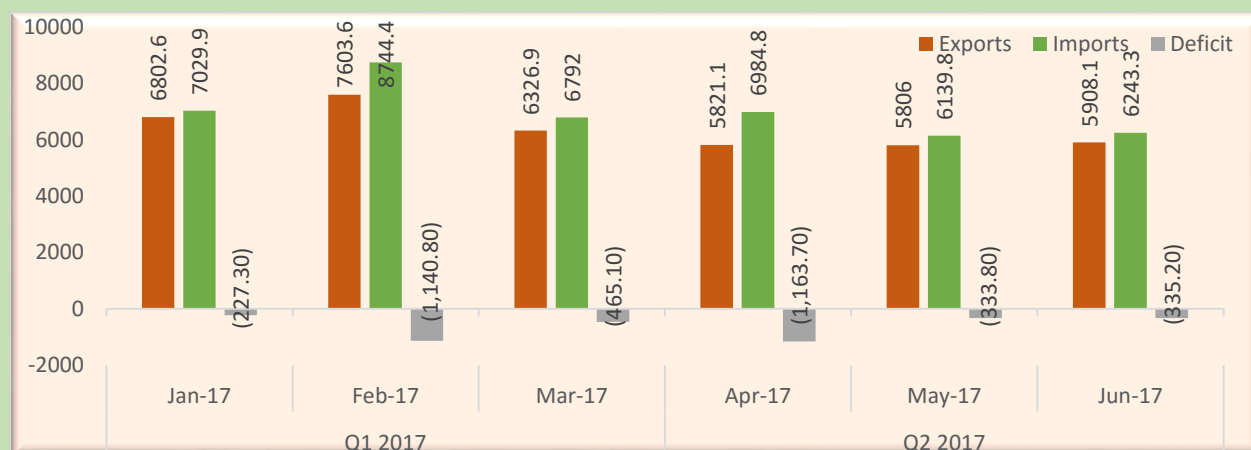
Source: LuSE

### Trade performance

The export of goods and services declined to K17,535 million as end June 2017 from K20,734 million as at end March 2017. Correspondingly, imports of goods and services decline as end June at K19,327

million compared to K22,566 million as end March 2017 (see Figure 15). The trade deficit narrowed to K1,792 million as at end June 2017 from K1,832 million as at end March 2017.

**Figure 15: Trade Performance (K' Million), Jan 2017- Jun 2017**



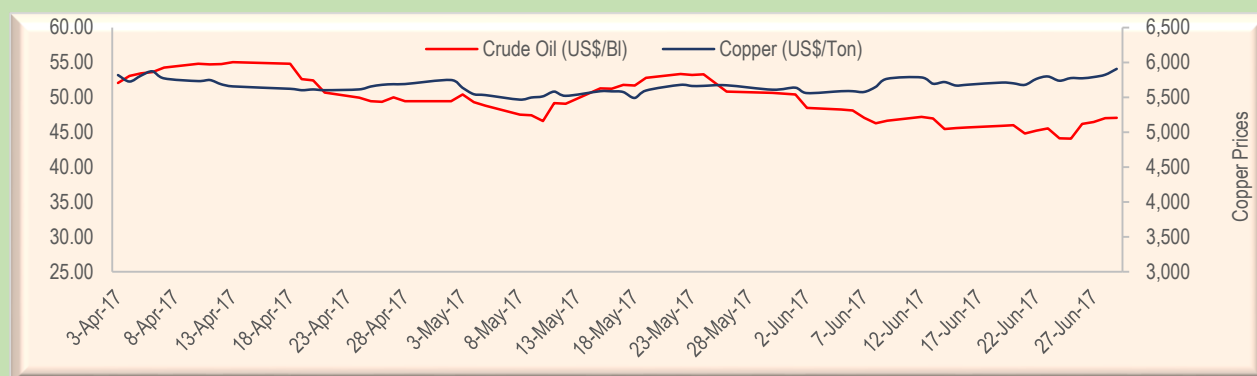
Source: Central Statistical Office

### Copper and Oil Prices

The global prices of copper continued to be strong during the second quarter, supported by the increase in demand for the metal particularly from China. Copper prices closed at US\$5,906 per ton compared with US\$5,725 per ton at the

beginning of the second quarter of 2017. Prices of Crude oil on the other hand declined from US\$53.08 per barrel at the start of the quarter to US\$47.02 per barrel at the close of the quarter (see Figure 16).

**Figure 16: Copper and Crude Oil Prices, 2017 Q2**



Source: Index Mundi, and WestMetall

### Outlook of the Economic Performance

Growth prospects are expected to improve with GDP in 2017 projected to be above 4% aided by improved production in agriculture, mining, manufacturing and wholesale. Further, stable electricity supply is expected to support production

cross the sectors of the economy. Inflation will remain within the annual target. The easing of monetary policy is expected to support liquidity conditions, and stability in the exchange rate.