



Republic of Zambia

Ministry of Finance

ECONOMIC REVIEW

SECOND QUARTER 2018



July

2018 Second Quarter Economic Review

Overview

This brief provides a snapshot of the developments in both the global and domestic economies in the second quarter (Q2) of 2018.

Growth in the Global economy is anticipated to strengthen from 3.8 percent in 2017 to 3.9 percent in 2018. Among emerging market and developing economies, growth prospects are becoming uneven, amid rising oil prices, higher yields in the US and escalating trade tensions.

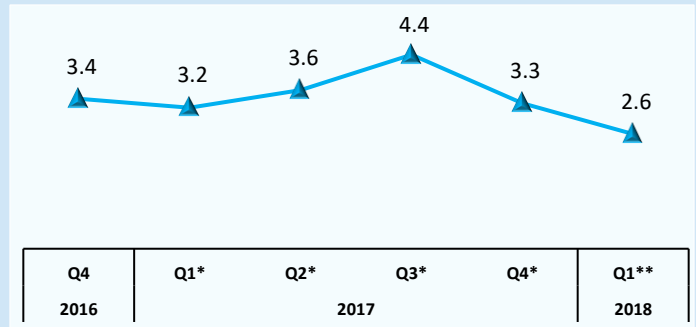
According to the July, 2018 World Economic Outlook, there has been a further shift upward in the balance of risks to growth. This is partly on account of the recently announced and anticipated tariff increases by the United States and retaliatory measures by trading partners which poses the likelihood of escalating and sustained trade actions. These could further derail recovery and depress growth prospects in the medium-term, through their direct impact on resource allocation as well as productivity by raising uncertainty. Tighter financial conditions in the USA could potentially cause disruptive portfolio adjustments, sharp exchange rate movements. Further, reductions in capital inflows to emerging markets, particularly those with weaker fundamentals or higher political risks has potential to affect the outlook for 2018.

On the domestic front, the macroeconomic fundamentals in Q2 remained stable thereby supporting business and economic activities. The relative stable macroeconomic environment was supported by the improving global conditions and commodity prices.

Economic Growth in Q1 2018 recorded at 2.6 percent.....

Preliminary data indicates that as at end Q1 of 2018, the Zambian economy grew by 2.6 percent compared to 3.3 percent recorded in Q4 of 2017 (See Figure 1). This slowdown in growth was mainly on account of the unfavourable performance in the agriculture sector which impacted on crop production. Production of maize for the 2017/2018 agriculture season declined by 33.6 percent.

Figure 1. Quarterly Gross Domestic Product growth rates, 2016 Q4-2018 Q1



Source: Central Statistical Office

*Revised

** Preliminary

Contribution to GDP growth in Q1 2018

The main contributors to the 2.6 percent growth in the first quarter was the mining and Quarrying industry with 1.4 percentage points followed by the Financial and Insurance industry, Information and communications as well as wholesale and retail trade industries at 0.9, 0.6, and 0.4 percentage points respectively.

As at end second quarter, the Purchasing Managers' Index (PMI)¹ by Stanbic Zambia, signaled a solid improvement in private sector economic activities. Expansions in business activity were reported in the private sector, with firms often indicating stronger underlying demand. The rate of increase was solid, despite easing from May. The PMI increased to 51.9 in June up from 50.7 recorded in March, 2018.

Box 1: PMI: The Zambian private sector continued to experience improving business conditions in June, as signaled by the latest PMI reading. Business activity continued to expand amid rising customer volumes and stronger demand. Firms also managed to secure greater new business at a strong pace. Companies increased their staffing levels as a result, with June data marking the first rise in workforce numbers since February this year.

Source: Stanbic Bank (Z) Ltd

Copper Production

Copper output during the second quarter of 2018 increased by 5.6 percent to 209,756 Mt from 198,608 Mt during the same period in 2017 (see Figure 2). There was a 4.9 percent increase in copper output in the second quarter compared to the first quarter of the same year at 199,915 Mt. The increase was largely

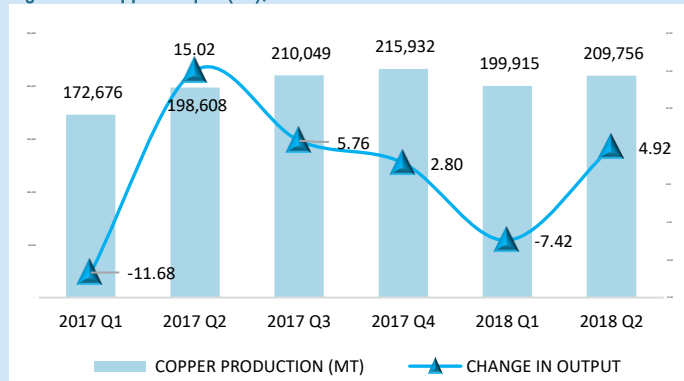
¹ PMI are surveys designed to provide a snapshot of the economic health of the manufacturing and service sectors. The purpose of the PMI is to provide

information about current business conditions to decision makers, analysts and purchasing managers.

2018 Second Quarter Economic Review

on account of the continued stability in copper prices and ramping up of copper production by a number of mines.

Figure 2: Copper Output (Mt), Q1 2017 to Q2 2018

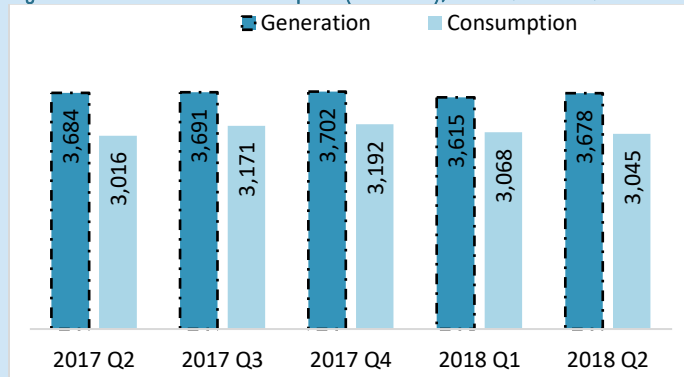


Source: Ministry of Mines and Minerals Development

Electricity

Electricity generation in the second quarter, 2018 recorded a marginal increase of 1.7% to 3.68 million Mwh from 3.62 million Mwh recorded in the first quarter of 2018. On the other hand, electricity consumption reduced to 3.04 million Mwh from 3.07 million Mwh in the previous quarter (see Figure 3).

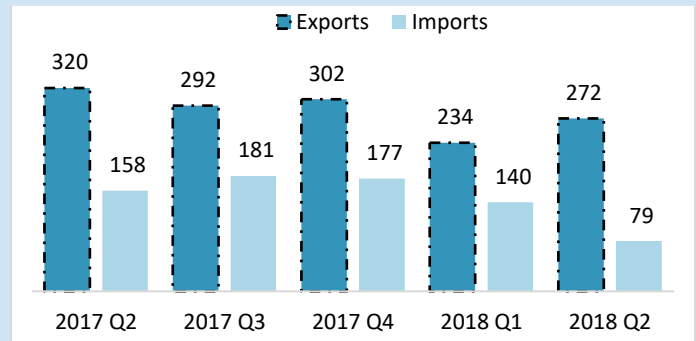
Figure 3: Generation and Consumption ('000 Mwh), 2017 Q2-2018 Q2



Source: ZESCO

Importation of electricity declined by 43.5 % to 78,970 Mwh from 139,780 recorded in the first quarter of 2018. The decline in imports of electricity was due to increased and stabilisation of domestic generation. The improved generation led to a 16.3% increase in electricity exports to 271,865 Mwh in the second quarter from 233,828 Mwh recorded in the first quarter of 2018. (see figure 4).

Figure 4: Electricity Imports and Exports ('000 Mwh), 2017 Q2 to 2018 Q2

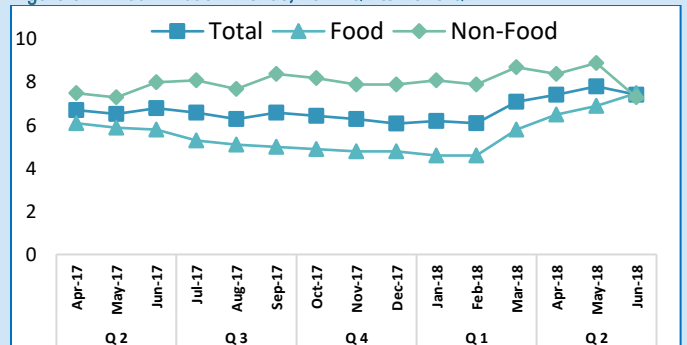


Source: ZESCO

Inflation

Inflation in the second quarter increased to an average of 7.6 percent compared to the previous quarter average of 6.5 percent of 2018 (See Figure 5). This increase was largely attributed to price increases in food, non-alcoholic beverages and transport.

Figure 5: Annual Inflation Trends, 2017 Q2 to 2018 Q2



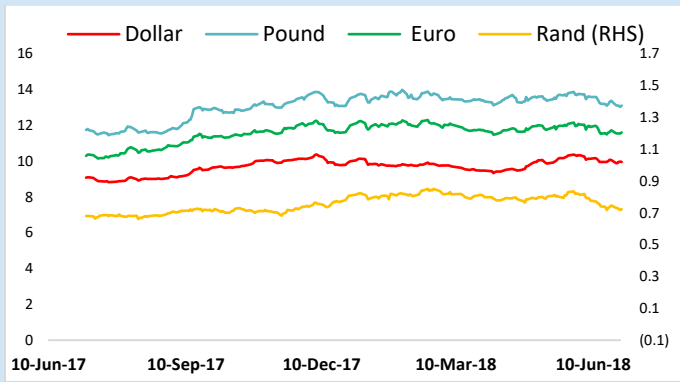
Source: Central Statistical Office

Exchange Rate

The exchange rate of the Kwacha against major tradable currencies continued to be relatively stable in the second quarter of 2018 (see Figure 6). The Kwacha depreciated by 1.4 percent against the US dollar averaging K9.89 per US\$ from a quarterly average of K9.75 Per US\$ recorded in first quarter of 2018. The Kwacha, however, appreciated against the Pound, Euro and the South African Rand averaging K13.45 per GBP, K11.79 per Euro and K0.78 per South African Rand from quarterly averages of K13.58 per GBP, K11.79 per Euro and K0.78 per South African Rand.

Figure 6: Exchange Rate Trends, 2017 Q2 - 2018 Q2

2018 Second Quarter Economic Review



Source: Bank of Zambia

Lending Rates

During the second quarter of 2018, the Policy Rate was maintained at 9.75%. This was after a downward trend for seven consecutive quarters. Subsequently, the average lending rates remained relatively high at 24.1 percent. (see Figure 7).

The continued high lending rates were largely on account of the high borrowing on Government securities and rising non-performing loans which continue to favour lending to Government by the banking sector. This has constrained private sector credit which only grew by 2.8 percent to K74.42 billion in the second quarter from 72.38 billion recorded in the first quarter of 2018.

Figure 7: Average Lending Rates, 2017 Q2- 2018 Q2



Source: Bank of Zambia

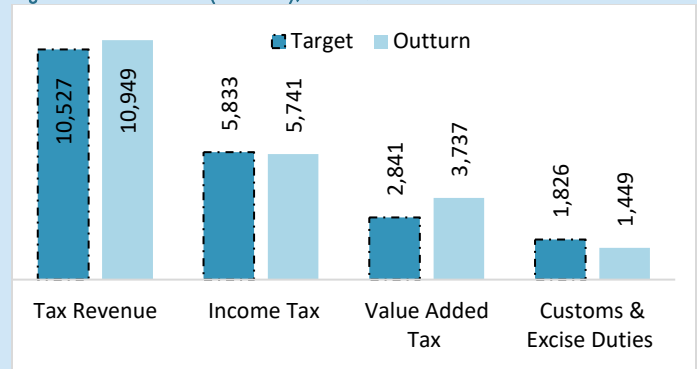
Budget Performance

In the second quarter of 2018, total domestic revenue, at K12,775 million was higher than the target of K12,635 million by 1.1 percent.

There was continued improvement in compliance towards VAT. VAT was 31.6 percent higher than projected at K3,737 million from a projection of K2,841 million. The positive performance in VAT largely led to higher than targeted Tax revenues at K10,949 million from a quarterly target of K10,527 million.

On the other hand, income tax stood at K3,737 million which was below the quarterly target of K5,833 million.

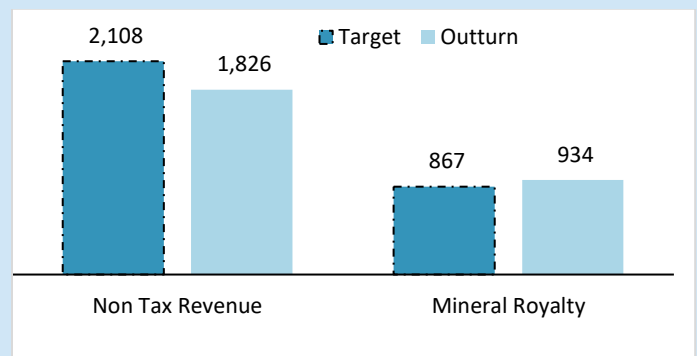
Figure 8: Tax Revenue (K'Million), 2018 Q2



Source: Ministry of Finance

Non-tax revenues during the quarter were below the quarterly target of K2,108 million by 13.4 percent standing at K1,826 million. There was a collection of K934 million in mineral royalty compared to a target of K867 million (see Figure 9)

Figure 9: Non-Tax Revenue and Mineral royalty (K'Million), 2018 Q2

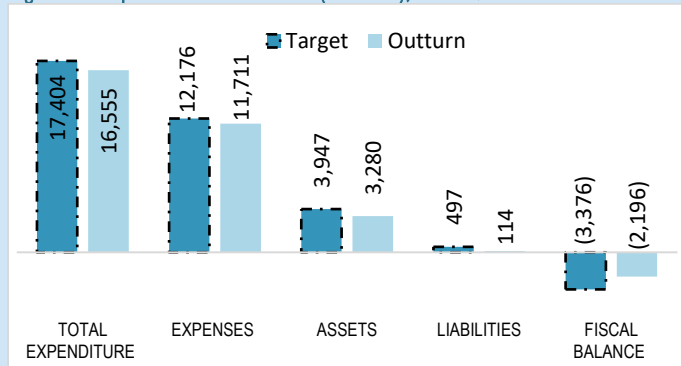


Source: Ministry of Finance

Total expenditure in the second quarter of 2018 stood at K16,555 million which was below the target of K17,404 million by 4.9 percent. This lower than targeted expenditure was explained by the continued constrained spending on non-financial assets at K3,276 million which was 15.2 percent lower than the target of K3,774 million (See Figure 10).

2018 Second Quarter Economic Review

Figure 10: Expenditure Performance (K'Million), 2018 Q2



Source: Ministry of Finance

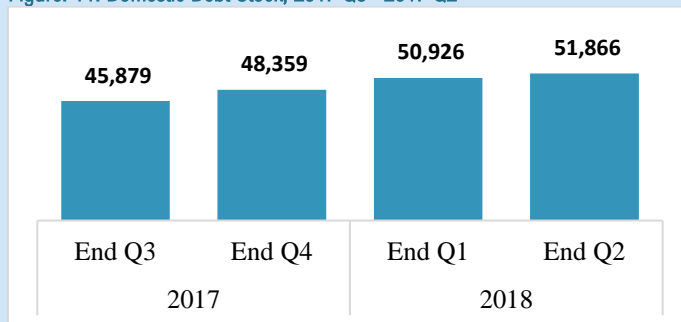
During the second quarter of 2018, expenditure on interest payment for both external and domestic debt stood at K2,653 million. This was higher than the target of K2,077 million by 27.8 percent.

The second quarter of 2018 recorded a lower than projected fiscal deficit at K2,196 million from a projection of K3,376 million. This is largely on account of constrained expenditures relative to total revenue (see Figure 10).

Domestic Debt position

As at the end of the second quarter of 2018, there was a 1.8 percent increase in the stock of government securities to K51.87 billion from K50.93 billion recorded as at end of first quarter of 2018 (see Figure 11).

Figure 11: Domestic Debt Stock, 2017 Q3– 2018 Q2

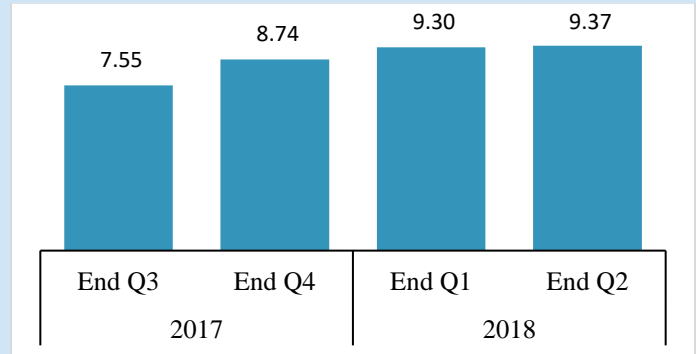


Source: Ministry of Finance

External Debt Position

The external debt stock increased to US\$ 9.37 billion as at end June 2018 from US \$9.30 billion recorded as at end first quarter 2018 (see Figure 12).

Figure 12: External Debt Stock, Q2 2017–June 2018

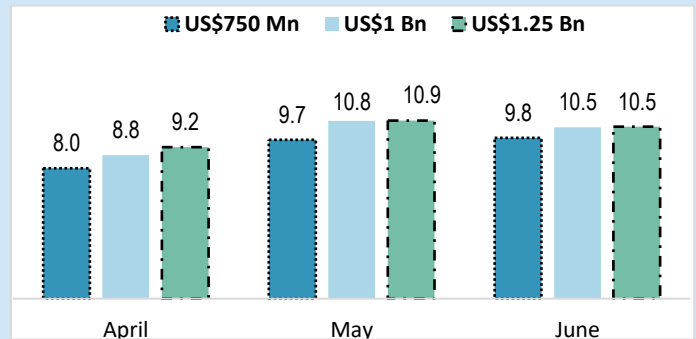


Source: Ministry of Finance

Performance of the Zambian Sovereign Bonds

As at the end of the second quarter of 2018, the yield rate stood at 9.81 percent, 10.46 percent and 10.50 percent for the US\$750 million, US\$ 1 billion and US\$ 1.25 billion bonds, respectively (See Figure 13).

Figure 13: Yield Rate Trends for Zambia's Euro Bonds, Q2 2018



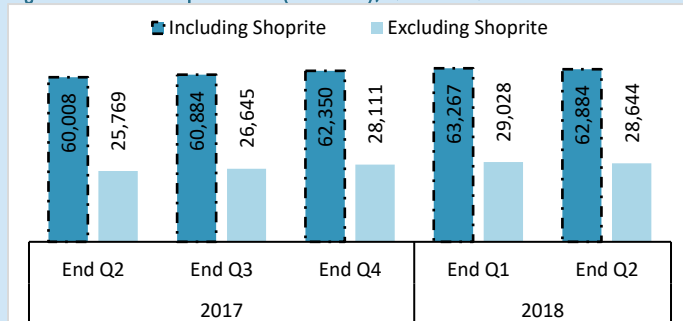
Source: Standard Chartered Bank - London

Capital Markets

Market Capitalisation as at end of the second quarter of 2018 decreased to K62,884 billion from K63,267 billion recorded as at close of the first quarter of 2018. This represents a 0.6 percent reduction in the value of the market (See Figure 15).

2018 Second Quarter Economic Review

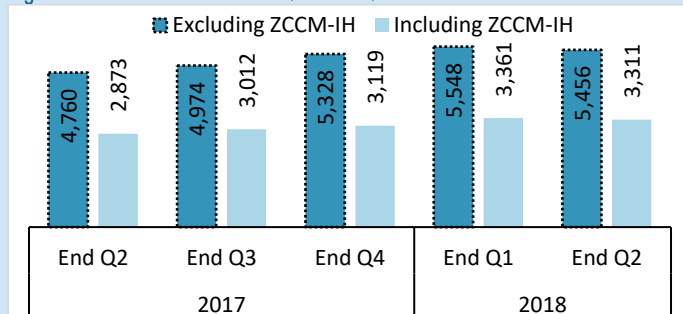
Figure 14: Market Capitalization (K' Million), Q2 2017-Q2 2018



Source: Lusaka Securities Exchange

The LuSE all-share index (LASI) also recorded a 1.3 percent reduction at close of the second quarter of 2018 at 5,456 points from 5,548 points as at close of the first quarter of 2018 (See Figure 15).

Figure 15: LuSE all share index Q2 2017-Q2 2018

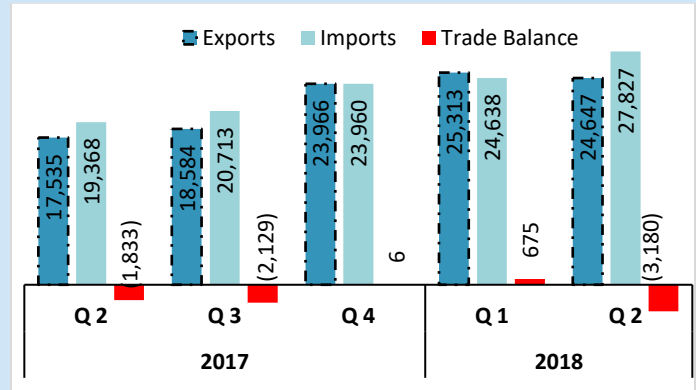


Source: Lusaka Securities Exchange (LuSE)

Trade performance

There was a reduction in the export of goods and services during the second quarter of 2018 to K24,647 million from K25,313 million recorded in the first quarter of 2018. On the other hand, imports of goods and services increased by 12.9 percent to K27,827 million from K24,638 million recorded in the first quarter of 2018. This translated into a trade deficit of K3,180 million from a surplus of K675 million recorded in the previous quarter (see Figure 16). This deficit was largely attributed to a decrease in Non-Traditional Exports and the increase in importation of Capital Goods within the quarter.

Figure 16: Trade Performance (K' Million), Q2 2017- Q2 2018

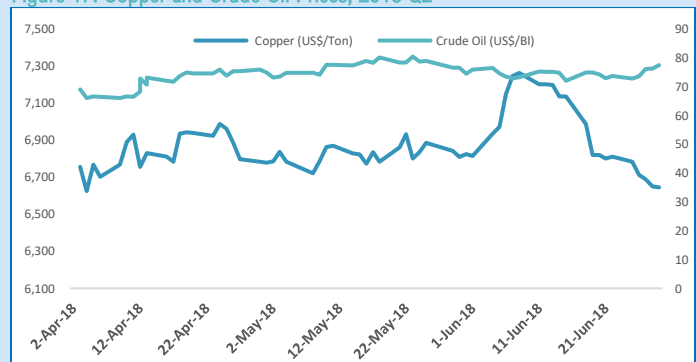


Source: Central Statistical Office

Copper and Oil Prices

The global price of copper stumbled towards the end of the second quarter of 2018. This is against the upward trend experienced in the first two months of the Quarter. This reduction was largely as a result of the reduced demand driven by the looming trade war between the USA and China. Copper prices averaged US\$6,868 per ton in the second quarter of 2018 compared to a quarterly average of US\$6,961 per ton recorded during the first quarter of 2018. Prices of Crude oil increased by 10.9 percent from an average of US\$66.93 per barrel during the first quarter of 2018 to an average of US\$74.23 per barrel during the second quarter of 2018 (see Figure 17). The general upswing in Crude oil prices is partly attributed to the recent concerns in major oil producing regions of the middle-east.

Figure 17: Copper and Crude Oil Prices, 2018 Q2



Source: WestMetall and Fred Economic Data

Outlook of the Economic Performance

Domestic Economic growth in 2018 is projected to be about 4.0%. The growth will be largely driven by improved economic activity

in mining, manufacturing, electricity generation, construction and wholesale & retail trade and public administration.

Copper prices are projected to record a slight decline in Q3 and Q4 compared to Q1 and Q2 2018. The trade wars between the US

and China as well as other countries are projected to have an impact on commodity prices. Oil prices are, however, projected to increase in Q3 and Q4 due to constrained supply from Venezuela and possible shut down of the Strait of Hormuz by Iran.

ANNEXES

GDP growth in percentages Q1 2017 to Q1 2018

Industry	Q1*	Q2*	Q3*	Q4*	Q1 **
	2017				2018
Agriculture, forestry and fishing	17.6	15.1	15.5	-6.1	-17.3
Mining and quarrying	-5.1	4.2	3.5	9.1	14.1
Manufacturing	1.8	6.6	2.6	6.4	2.1
Electricity generation and supply	25.6	27.1	19.8	22.6	11.4
Water supply & sewerage	1.9	-3.7	-6.9	-6.2	-4.5
Construction	2.6	6.6	14.9	2.0	3.3
Wholesale and retail trade	1.9	-1.2	-0.1	2.1	2.0
Transportation and storage	7.9	8.7	5.9	8.8	-4.6
Accommodation and food services	0.2	8.7	9.3	4.8	3.2
Information and communication	-30.5	-22.3	-2.5	-0.5	28.1
Financial and insurance activities	-10.5	-6.4	-6.1	-0.6	26.6
Real estate activities	3.3	3.3	2.5	2.5	2.5
Professional, scientific and technical	3.9	8.3	6.0	6.4	4.2
Administrative and support services	1.8	6.5	7.0	8.6	7.5
Public administration and defense	4.2	5.1	1.2	0.9	-1.1
Education	8.1	7.7	8.1	3.0	3.6
Human health and social work	11.5	15.4	21.9	20.5	12.5
Arts, entertainment and recreation	6.9	-1.4	-7.3	-7.0	-5.5
Other service activities	3.2	3.2	2.4	2.5	2.5
Gross Value Added for the economy	2.7	3.6	4.6	3.2	2.7
Taxes less subsidies	3.6	-0.4	0.2	2.1	2.0
GDP at market prices	2.7	3.4	4.3	3.1	2.6

Source: Central Statistical Office

*Revised

**Preliminary

BUDGET PERFORMANCE

Revenue Performance, (K' Million) Q2 2018

	2018		Q2	
	Approved	Projection	Projection	Preliminary
I Revenue and Grants	51,525,318	13,244,182		12,908,282
II Revenue and Direct Budget Support	49,087,017	8,341,377		8,182,316
III Domestic Revenue	49,087,017	12,634,606		12,775,385
1. Tax Revenue	40,874,378	10,526,791		10,949,211
a. Income Tax	20,337,608	5,832,837		5,741,445
Company Tax	6,115,944	2,398,625		2,463,910
Pay As You Earn (PAYE)	10,167,633	2,470,712		2,382,750
Other Income tax - Withholding Tax	4,054,030	963,500		894,786
b. Value Added Tax (VAT)	12,369,465	2,840,917		3,736,546
Domestic Value-Added Tax (VAT)	4,060,441	852,610		1,143,470
VAT on Imports	8,309,024	1,988,306		2,593,076
c. Insurance Premium Levy	68,601	13,394		19,462
d. Customs and Excise Duties	8,047,089	1,826,266		1,449,001
Customs Duty	3,302,255	787,305		798,797
Excise Duties	4,744,834	1,038,961		650,205
e. Export Duties	51,616	13,377		2,756
2. Non Tax Revenue	8,212,639	2,107,816		1,826,174
a. Total User fees, fines and Charges	4,235,361	1,130,886		824,255
RDA (Tolls)	845,190	211,298		348,723
c. Mineral Royalty	3,527,743	866,664		934,316
e. FRA-Proceeds from Crop Sales	93,832	23,458		-
g. Tourism Levy	11,264	2,816		3,993
IV Grants	2,438,301	609,575		132,897

Source: Ministry of Finance

Expenditure Performance, (K' Million) Q2 2018

	2018	Q2	
	Approved	Projection	Preliminary
TOTAL EXPENDITURE (Inc Amor)	71,662,386	17,403,739	16,554,531
TOTAL EXPENDITURE	68,444,600	16,619,907	15,104,456
o/w Domestically Financed EXPENSES	58,447,521	14,120,637	12,998,138
Personal Emoluments	23,103,744	5,704,564	5,182,904
Use of Goods and Services	7,340,225	2,122,574	1,679,510
Interest Payments	10,923,277	2,076,634	2,653,292
Domestic Debt	6,763,852	1,324,656	1,454,849
External Debt	4,159,426	751,978	1,198,444
Grants and Other Payments	8,073,388	1,567,097	1,809,925
Local Government Equalization Fund	1,078,428	269,607	269,607
Zambia Revenue Authority	848,664	192,166	188,624
Farmer Input Support Programme	1,785,000	50,000	332,540
Social Benefits	1,781,730	445,433	305,220
Pension Fund	1,060,550	265,138	199,793
Social Cash Transfer	721,180	180,295	105,427
Other Expenses	1,229,598	259,410	80,000
ASSETS	14,662,904	3,946,762	3,279,949
Non-Financial Assets	14,201,120	3,774,483	3,275,949
Rural Electrification Programme	251,332	62,833	-
Roads	3,516,715	809,956	838,379
Water and Sanitation	479,209	100,000	103,805
Ordinary	2,395,087	912,000	326,965
Financial Assets	461,784	172,279	4,000
LIABILITIES	1,329,734	497,434	113,656
FISCAL BALANCE: Surplus(+)/Deficit(-)	(16,919,282)	(3,375,725)	(2,196,173)

Source: Ministry of Finance

Financing, (K' Million) Q2 2018

	2018	Q2	
	Approved	Proj	Prelim
Central Government Operations			
FINANCING	16,919,282	3,375,725	1,593,627
Net Domestic Financing	10,944,874	1,002,758	804,140
Domestic Financing	11,153,290	1,152,758	1,618,837
<i>O/w Govt Securities</i>	10,230,175	1,002,758	1,550,000
<i>Roads- NAPSA Loan</i>	923,115	150,000	68,837
Amortisation	(208,417)	(150,000)	(814,698)
Net External Financing	5,974,408	2,372,968	789,488
Project	7,558,778	2,006,800	1,424,865
Amortisation	(3,009,369)	(633,832)	(635,377)

Exchange rate Q2 2018

		K/US\$		K/GBP		K/ZAR	
		End Period	Period Average	End Period	Period Average	End Period	Period Average
April	6th	9.41	9.38	13.23	13.19	0.79	0.79
	13th	9.53	9.47	13.49	13.37	0.79	0.78
	20th	9.47	9.52	13.47	13.59	0.79	0.78
	27th	9.76	9.61	13.53	13.40	0.78	0.78
	Average	9.54	9.50	13.43	13.39	0.79	0.78
May	4th	10.07	9.94	13.57	13.54	0.79	0.79
	11th	9.88	9.93	13.38	13.47	0.80	0.79
	18th	10.16	10.24	13.69	13.70	0.81	0.80
	25th	10.34	10.24	13.69	13.70	0.81	0.80
	Average	10.11	10.09	13.58	13.60	0.80	0.80
June	1st	10.31	10.32	13.76	13.74	0.82	0.82
	8th	10.15	13.32	13.60	13.60	0.79	0.80
	15th	9.95	10.05	13.33	13.48	0.76	0.77
	22nd	10.04	10.01	13.28	13.21	0.72	0.73
	29th	9.95	9.93	13.04	13.13	0.72	0.73
	Average	10.08	10.73	13.40	13.43	0.76	0.77
Quarterly Average		9.92	10.15	13.47	13.47	0.78	0.78

Source: Bank of Zambia

Inflation Q1 2018 and Q2 2018

	Annual Inflation			Month on month Inflation			Total CPI
	Total	Food	Non-Food	Total	Food	Non-Food	
Jan-18	6.2	4.6	8.1	1.0	1.0	1.0	203.15
Feb-18	6.1	4.6	7.9	0.9	1.2	0.5	204.91
Mar-18	7.1	5.8	8.7	1.3	0.7	0.6	207.62
Apr-18	7.4	6.5	8.4	0.6	0.1	0.5	208.93
May-18	7.8	6.9	8.9	0.4	0.4	0.5	209.83
Jun-18	7.4	7.5	7.3	0.2	0.3	0.2	210.35

Source: Central Statistical Office

Interest rates Q1 2018 and Q2 2018

	Lending rate				Savings	
	Weighted Lending Base rate	Lending Rate	Weighted Interbank Rate	Cheque Account (K500 & above)	Less than K100	More than K100
Jan-18	10.25	24.52	10.15	1.11	1.94	2.81
Feb-18	9.75	24.27	10.11	1.07	1.94	2.80
Mar-18	9.75	24.11	9.57	1.12	1.94	2.80
Apr	9.75	24.08	9.14	1.12	1.93	2.81
May	9.75	23.91	9.68	1.14	1.94	2.82
Jun	9.75	24.13	9.92	1.17	1.93	2.98

Source: Bank of Zambia