



Republic of Zambia

Ministry of Finance

ECONOMIC REVIEW

THIRD QUARTER 2018



October

2018 Third Quarter Economic Review

Overview

This brief provides a snapshot of the developments in both the global and domestic economies in the third quarter (Q3) of 2018.

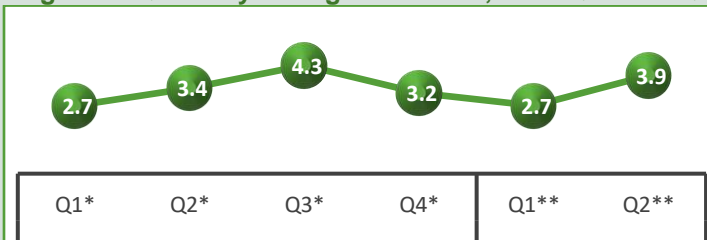
The **Global economy** is projected to continue steady grow at a marginally slower rate from the initial projection of 3.8 percent to 3.7 percent in 2018. Among emerging market and developing economies, growth prospects continue to be mixed, with many energy exporters being lifted by the higher oil prices. On the other hand, tighter financial conditions, geopolitical tensions and higher oil import bills have led to a downward revision in growth for the non-energy exporting countries.

According to the October, 2018 World Economic Outlook, escalating trade tensions and the potential shift away from a multilateral, rules-based trading system are key threats to the global outlook. An increase of trade tensions coupled with the rise in policy uncertainty, could dent business and financial market sentiment, trigger financial market volatility, and slow investment and trade. Higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare.

Economic Growth in Q2 2018 recorded at 3.9 percent.....

Preliminary data indicates that as at end Q2 of 2018, the Zambian economy grew by 3.9 percent compared to 3.4 percent recorded over the same period of 2017 (See Figure 1). This increase in growth was mainly on account of the improved growth in the manufacturing sector as well as the construction sector.

Figure 1. Quarterly GDP growth rates, 2017 Q1-2018 Q2



Source: Central Statistical Office

*Revised

** Preliminary

Contribution to GDP growth in Q2 2018

The main contributors to the 3.9 percent growth in the second quarter was the financial and Insurance activities with 1.2 percentage points followed by the mining with 1.0 percentage points) Information and communication and Manufacturing both at 0.8 percentage points.

The Purchasing Managers' Index (PMI)¹ by Stanbic Zambia, pointed to challenging business conditions in the Private sector. Volume of private sector business activity declined for the second month running in September, recording the sharpest rate of contraction in seven months. The PMI dropped to 48.6 in September down from recorded 51.9 in June, 2018.

Box 1: PMI: “Weaker customer demand, higher wage bills and increasing costs of raw materials is the narrative for the worsening business conditions seen in September. With the rising input costs, it is reasonable to expect that customers will soon be paying more for goods and services.”

Source: Stanbic Bank (Z) Ltd

Copper Production

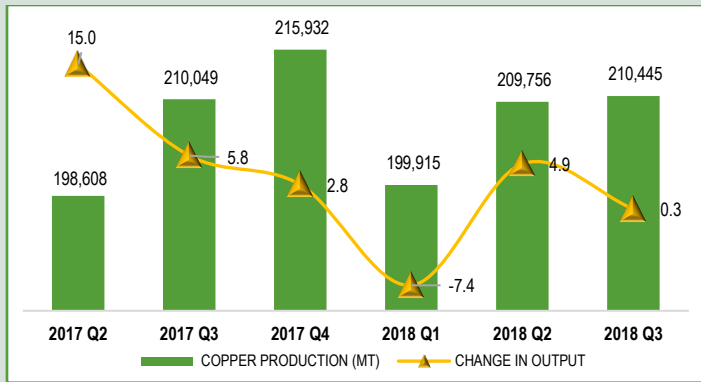
Copper output during the third quarter of 2018 marginally increased by 0.19 percent to 210,445 Mt compared to 210,049 Mt during the same period in 2017. There was a 0.33 percent increase in copper output in the third quarter compared to the second quarter of the same year at 209,756 Mt (see Figure 2).

Figure. 2: Copper Output (Mt), Q2 2017 to Q3 2018

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.

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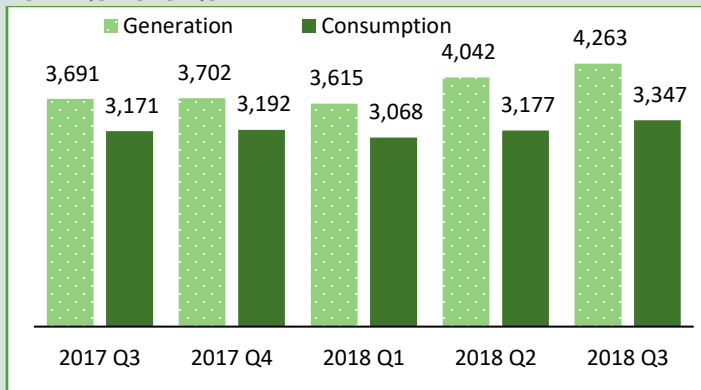


Source: Ministry of Mines and Minerals Development

Electricity

There was a 5.5 percent increase in electricity generation in the third quarter of 2018 to 4.26 Mwh million from 4.04 million Mwh recorded in the second quarter of 2018. Similarly, consumption of electricity increased to 3.35 million Mwh from 3.18 million Mwh in the previous quarter (see Figure 3).

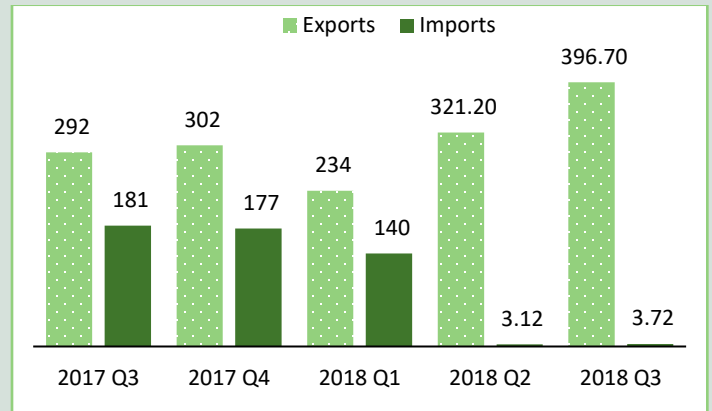
Figure 3: Generation and Consumption ('000 Mwh), 2017 Q3-2018 Q3



Source: ZESCO

Importation of electricity increased to 3.72 Mwh from 3.12 Mwh recorded in the second quarter of 2018. Similarly, there was a 23.5 percent increase in electricity exports to 396.7 Mwh from 321.2 Mwh recorded in the second quarter of 2018. (see figure 4).

Figure 4: Electricity Imports and Exports ('000 Mwh), 2017 Q3 to 2018 Q3

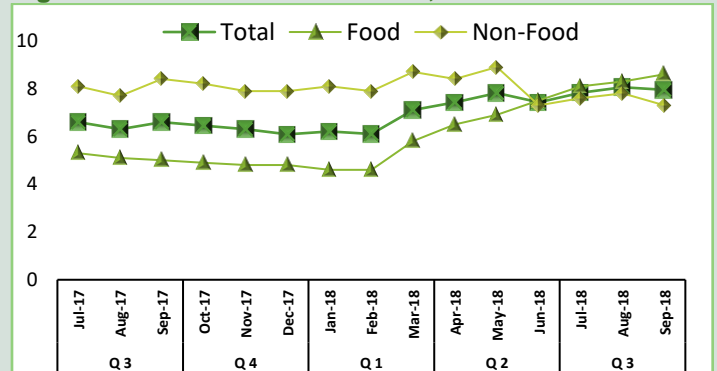


Source: ZESCO

Inflation

Inflation in the third quarter increased to an average of 7.9 percent from a quarterly average of 7.6 percent in the second quarter of 2018 (See Figure 5). This increase was attributed to price increases in both food and non-food commodities. Significant price movement was observed for food products like breakfast mealie meal, cassava meal, meat and rice. Non-food commodities such as charcoal and motor vehicles also contributed to the increase in inflation.

Figure 5: Annual Inflation Trends, 2017 Q3 to 2018 Q3



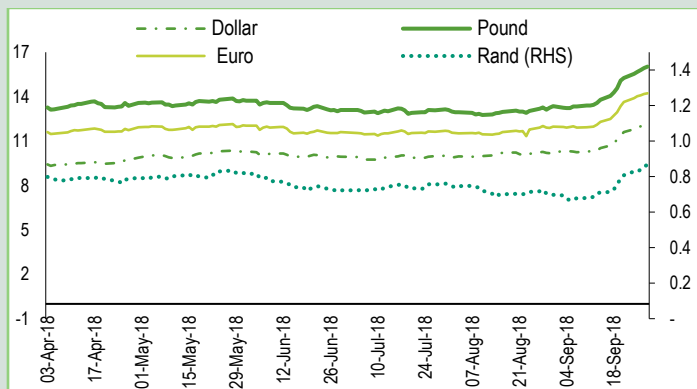
Source: Central Statistical Office

Exchange Rate

The exchange rate of the Kwacha against major tradable currencies was mixed in the third quarter of 2018 (see Figure 6). The Kwacha traded at a quarterly average of K10.21 per US\$ in Q3 from an average of K9.89 per US\$ in Q2 and K11.88 Per Euro from K11.79 per Euro. This translates into a 3.2 percent and 0.8 percent depreciation respectively. The Kwacha appreciated against the Rand by 6.4 percent trading at an average of K0.73 per South African Rand from K0.78 in Q2. Similarly, there was a 0.7 percent

appreciation against the British pound from K13.45 per Pound to K13.35 per Pound in Q2.

Figure 6: Exchange Rate Trends, 2018 Q2 - 2018 Q3

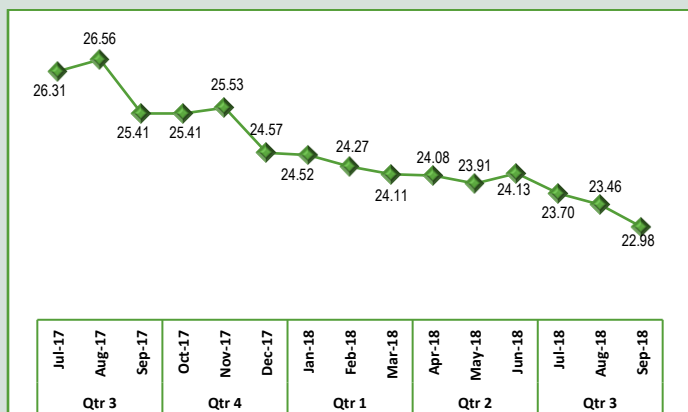


Source: Bank of Zambia

Lending Rates

The Policy Rate during the third quarter of 2018 was maintained at 9.75% same as the second quarter. The average lending rates remained relatively high closing the quarter at 22.98 percent in the third quarter, down from 24.13 percent as at close of the second quarter. (see Figure 7).

Figure 7: Average Lending Rates, 2017 Q3- 2018 Q3



Source: Bank of Zambia

Budget Performance

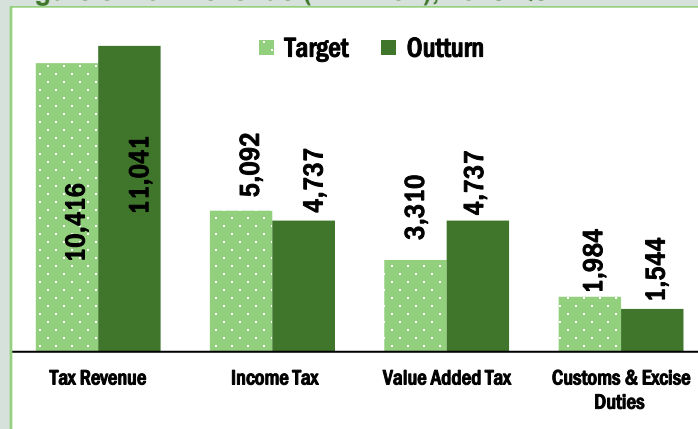
Total revenue and grants during the third quarter of 2018, at K13,633 million was higher than the target of K12,981 million by 5.0 percent.

The higher than targeted revenue collection was largely on account of higher VAT revenue, at K4,737

million, which was higher than the quarterly target of K3,310 million by 43 percent.

On the other hand, income tax at K4,737 million was below the quarterly target of K5,092 million by 7.0 percent.

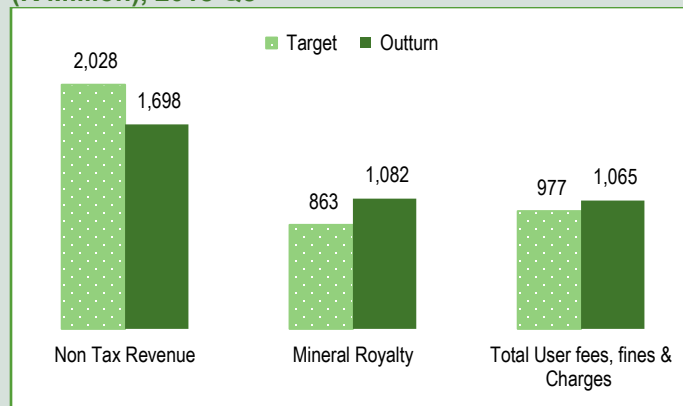
Figure 8: Tax Revenue (K'Million), 2018 Q3



Source: Ministry of Finance

Non-tax revenues during the quarter were above the quarterly target of K7,955 million by 22.0 percent at K2,386 million. This performance can be attributed to the higher than projected road tolls at K439 million against the quarterly target of K211 million and mineral royalty at K1,082 million against the quarterly target of K863 million (see Figure 9).

Figure 9: Non-Tax Revenue and Mineral royalty (K'Million), 2018 Q3



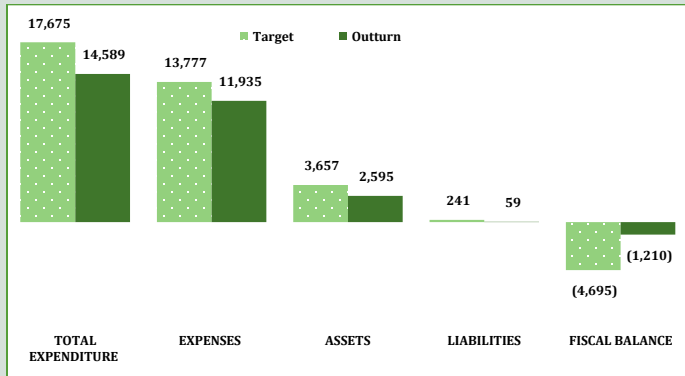
Source: Ministry of Finance

Total expenditure in the third quarter of 2018 stood at K16,839 million which was below the target of K18,586 million by 9.4 percent. This lower than targeted

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expenditure is partly explained by Government's fiscal consolidation agenda that evidenced through the implementation of austerity measures (See Figure 10).

Figure 10: Expenditure Performance (K'Million), 2018 Q3



Source: Ministry of Finance

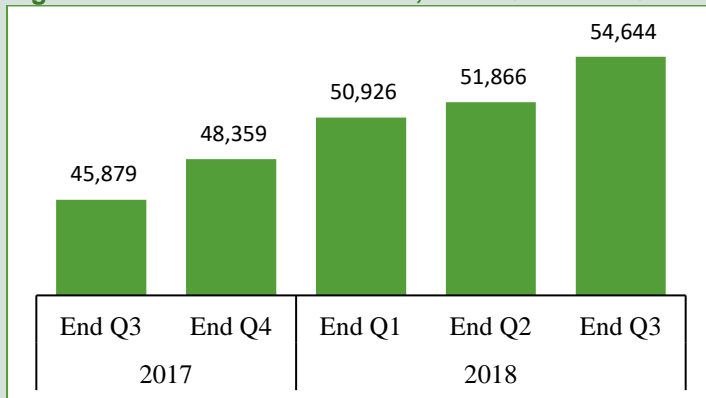
Expenditure on interest payment for both external and domestic debt stood at K4,021 million. This was higher than the quarterly target of K3,268 million by 23.0 percent. This was largely because of the depreciation of the Kwacha against major tradable currencies.

The third quarter of 2018 recorded a lower than projected fiscal deficit at K1,210 million against a projection of K4,695 million. This is largely on account of continued constrained expenditures relative to total revenue (see Figure 10).

Domestic Debt position

Stocks of government securities as at end of third quarter of 2018 increased by 5.4 percent to K54.64 billion from K51.87 billion recorded as at end of second quarter (see Figure 11).

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

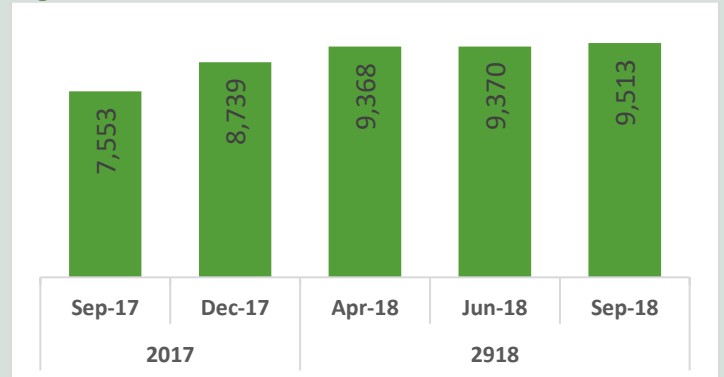


Source: Ministry of Finance

External Debt Position

The external debt stock increased by 1.5 percent to S\$ 9.51 billion as at end third quarter 2018 from US 9,37 billion recorded as at end second quarter 2018 (see Figure 12).

Figure 12: External Debt Stock, Q3 2017- Q3 2018

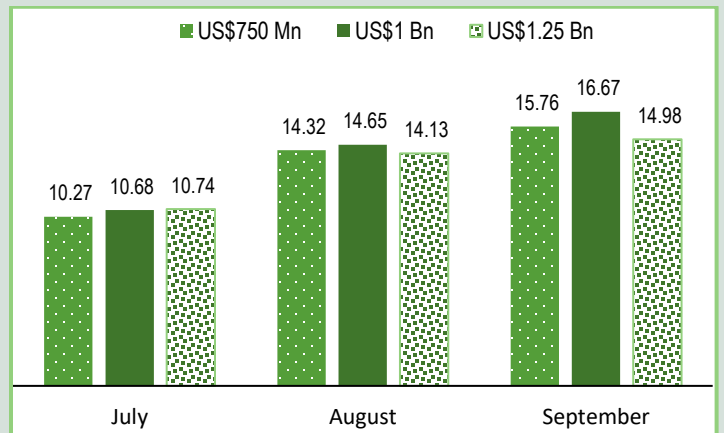


Source: Ministry of Finance

Performance of the Zambian Sovereign Bonds

As at the end of the second quarter of 2018, the yield rate stood at 15.76 percent, 16.67 percent and 14.98 percent from close second quarter rates of 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 12).

Figure 13: Yield Rate Trends for Zambia's Euro Bonds, Q3 2018



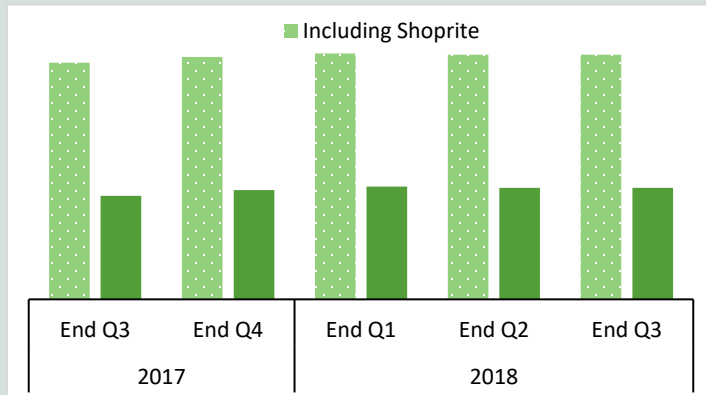
Source: Standard Chartered Bank

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Capital Markets

Market Capitalisation as at end of the third quarter of 2018 marginally increased by 0.1 percent to K62,935 billion from K62,884 billion recorded as at close of the second quarter of 2018 (See Figure 15).

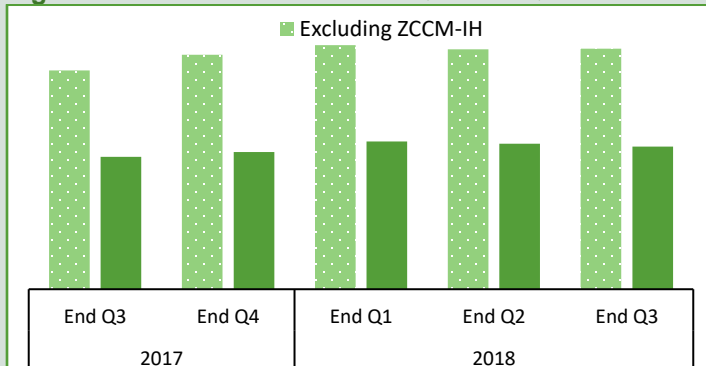
Figure 14: Market Capitalization (K' Million), Q3 2017-Q3 2018



Source: Lusaka Securities Exchange

The LuSE all-share index (LASI) also recorded a 0.2 percent increase as at close of the third quarter of 2018 at 5,468 points from 5,456 points as at close of the second quarter of 2018 (See Figure 15).

Figure 15: LuSE all share index Q3 2017-Q3 2018



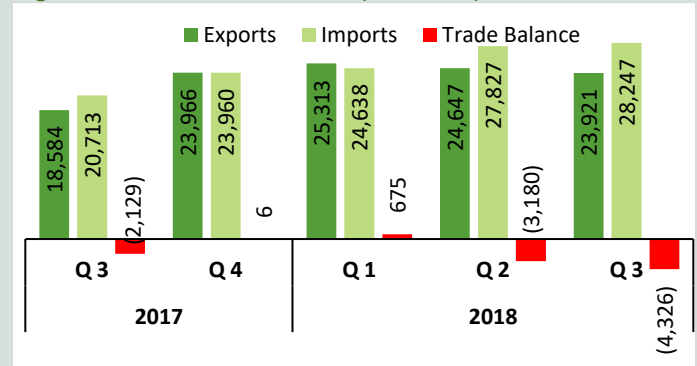
Source: Lusaka Securities Exchange (LuSE)

Trade performance

There was a 2.9 percent reduction in the export of goods during the third quarter of 2018 to K23,921 million from K24,647 million recorded in the second quarter of 2018. On the other hand, imports of goods and services increased by 1.5 percent to K28,247 million from K27,827 million recorded in the Second quarter of 2018. This translated into a trade deficit of

K4,326 million up from a deficit of K3,180 million recorded in the previous quarter (see Figure 16).

Figure 16: Trade Performance (K' Million), Q3 2017- Q3 2018

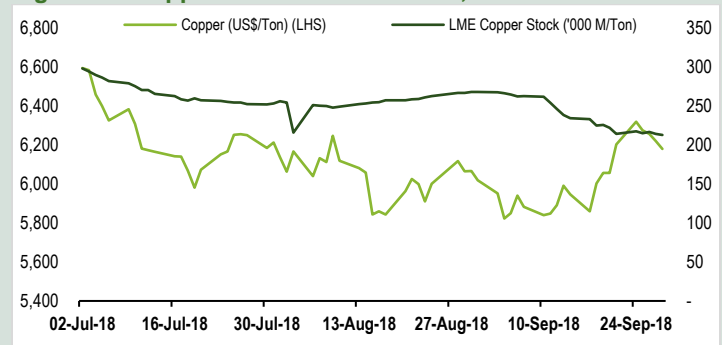


Source: Central Statistical Office

Copper and Oil Prices

There was a reduction in global copper prices during the third quarter of 2018 compared to the second quarter. This was largely as a result of reduced demand by major economies on account of the United States and China-led trade conflict that continued from the previous quarter. The decline in copper prices could also be attributed to the resolution of industrial action at the world's largest copper mine in Chile. The metal traded at a quarterly average of \$6,103 from an average of \$6,872 recorded during the second quarter of the year. However, copper prices started to recover towards the end of the quarter largely on account of reduced stocks of the metal. (see Figure 17).

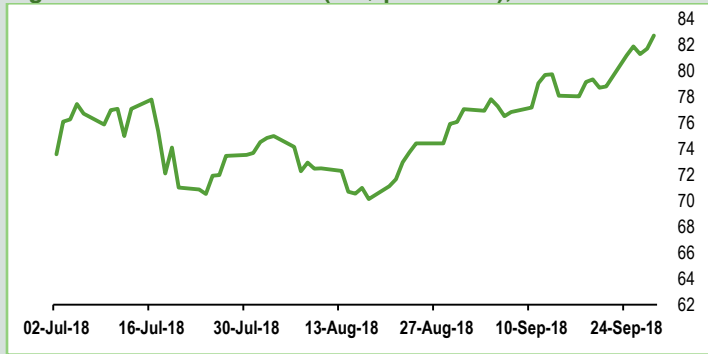
Figure 17: Copper and Crude Oil Prices, 2018 Q3



Source: WestMetal

The Price of Crude oil continued on an upward trajectory, increasing by 1.0 percent from a quarterly average of US\$74.5 per barrel during the second quarter of 2018 to an average of US\$75.27 per barrel during the third quarter. The crude oil price reached its peak towards the end of Q 3, closing the quarter at US\$82.72 per barrel (see Figure 18).

Figure 17: Crude Oil Prices (US\$ per Barrel), 2018 Q3



Source: Bloomberg

Outlook of the Economic Performance

Domestic Economic growth in 2018 is projected to be around 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 maintain a rise in value over the remainder of the year on account of the steady increase in demand for the metal and the health of emerging markets.

Oil prices are also expected to remain high for the rest of the year due to the unexpected drop in American crude stockpiles, while traders continued to assess simmering tensions between the U.S. and Saudi Arabia as well as the trade tensions with China..

ANNEXES

GDP growth in percentages Q1 2017 to Q2 2018

Industries	2017				2018	
	Q1	Q2	Q3	Q4	Q1*	Q2**
Agriculture, forestry and fishing	17.6	15.2	15.7	-6.0	-17.3	-19.2
Mining and quarrying	-5.1	4.2	3.5	9.1	14.1	6.1
Manufacturing	1.8	6.6	2.6	6.4	2.1	9.5
Electricity, gas, steam and air conditioning supply	25.6	27.1	19.8	22.6	11.4	9.7
Water supply; sewerage, waste management and remediation activities	1.9	-3.7	-6.9	-6.2	-4.5	3.0
Construction	2.6	6.6	14.9	2.0	3.3	5.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.9	-1.2	-0.1	2.1	2.0	2.5
Transportation and storage	7.9	8.7	5.9	8.8	-4.6	-1.9
Accommodation and food service activities	0.2	8.7	9.3	4.8	8.8	0.2
Information and communication	-30.5	-22.3	-2.5	-0.5	28.1	23.1
Financial and insurance activities	-10.5	-6.4	-6.1	-0.6	26.6	35.4
Real estate activities	3.3	3.3	2.5	2.5	2.5	2.5
Professional, scientific and technical activities	3.9	8.3	6.0	6.4	4.2	2.3
Administrative and support service activities	1.8	6.5	7.0	8.6	7.5	6.6
Public administration and defence; compulsory social security	4.2	5.1	1.2	0.9	-1.1	-2.1
Education	8.1	7.7	8.1	3.0	3.6	3.9
Human health and social work activities	11.5	15.4	21.9	20.5	12.5	10.8
Arts, entertainment and recreation	6.9	-1.4	-7.3	-7.0	-5.5	9.8
Other service activities	3.2	3.2	2.4	2.5	2.5	2.5
Total Gross Value Added for the economy	2.7	3.6	4.6	3.2	2.8	4.0
Taxes less subsidies	3.6	-0.4	0.2	2.1	2.0	2.5
GDP at market prices	2.7	3.4	4.3	3.2	2.7	3.9

Source: Central Statistical Office

*Revised

**Preliminary

BUDGET PERFORMANCE

Revenue Performance, (K' Million) Q3 2018

	2018		Q3
	Approved	Projection	Preliminary
I Revenue and Grants	51,525,318	12,980,554	13,632,639
III Domestic Revenue	49,087,017	12,370,979	13,426,830
1. Tax Revenue	40,874,378	10,415,960	11,041,041
a. Income Tax	20,337,608	5,092,376	4,737,144
Company Tax	6,115,944	1,568,015	1,331,774
Pay As You Earn (PAYE)	10,167,633	2,455,785	2,474,665
Other Income tax - Withholding Tax	4,054,030	1,068,576	930,706
b. Value Added Tax (VAT)	12,369,465	3,310,285	4,736,583
Domestic Value-Added Tax (VAT)	4,060,441	1,177,610	2,027,339
VAT on Imports	8,309,024	2,132,675	2,709,244
c. Insurance Premium Levy	68,601	16,513	21,291
d. Customs and Excise Duties	8,047,089	1,984,166	1,543,965
Customs Duty	3,302,255	835,347	722,766
Excise Duties	4,744,834	1,148,819	821,199
e. Export Duties	51,616	12,619	2,057
2. Non-Tax Revenue	8,212,639	1,955,019	2,385,789
a. Total User fees, fines and Charges	4,235,361	976,934	1,065,071
RDA (Tolls)	845,190	211,298	439,427
c. Mineral Royalty	3,527,743	862,767	1,081,695
e. FRA-Proceeds from Crop Sales	93,832	23,458	105,500
g. Tourism Levy	11,264	2,816	4,621
IV Grants	2,438,301	609,575	205,809

Source: Ministry of Finance

Expenditure Performance, (K' Million) Q3 2018

	2018	Q3	
	Approved	Projection	Preliminary
TOTAL EXPENDITURE (Inc Amor)	71,662,386	18,586,273	16,838,870
TOTAL EXPENDITURE	68,444,600	17,675,419	14,589,179
o/w Domestically Financed	58,447,521	15,176,149	14,051,590
EXPENSES	52,451,962	13,777,372	11,935,010
Personal Emoluments	23,103,744	5,856,656	5,691,609
Use of Goods and Services	7,340,225	1,983,440	1,113,613
Interest Payments	10,923,277	3,268,306	4,021,142
Domestic Debt	6,763,852	1,967,263	1,971,842
External Debt	4,159,426	1,301,043	2,049,299
Grants and Other Payments	8,073,388	1,607,097	947,422
Local Government Equalization Fund	1,078,428	269,607	179,738
Zambia Revenue Authority	848,664	192,166	230,321
Farmer Input Support Programme	1,785,000	50,000	228,000
Social Benefits	1,781,730	445,433	44,625
Pension Fund	1,060,550	265,138	44,625
Social Cash Transfer	721,180	180,295	-
Other Expenses	1,229,598	616,440	116,600
ASSETS	14,662,904	3,657,052	2,594,952
Non-Financial Assets	14,201,120	3,555,572	2,594,952
Rural Electrification Programme	251,332	62,833	26,906
Roads	3,516,715	852,132	1,512,728
Water and Sanitation	479,209	-	25,000
Ordinary	2,395,087	750,912	683,177
Financial Assets	461,784	101,480	-
LIABILITIES	1,329,734	240,995	59,218
FISCAL BALANCE: Surplus(+)/Deficit(-)	(16,919,282)	(4,694,865)	(956,540)

Source: Ministry of Finance

Financing, (K' Million) Q3 2018

	2018	Q3	
	Approved	Projection	Preliminary
FINANCING	16,919,282	4,694,865	1,210,238
Net Domestic Financing	10,944,874	3,200,000	2,138,119
Domestic Financing	11,153,290	3,200,000	3,112,788
O/w Govt Securities	10,230,175	2,956,226	3,002,564
Roads- NAPSA Loan	923,115	243,774	110,224
Amortisation	(208,417)	-	(974,669)
o/w maturities		-	(918,252)
Net External Financing	5,974,408	1,494,865	(927,881)
Project	7,558,778	1,980,719	347,141
Amortisation	(3,009,369)	(910,854)	(1,275,022)

Exchange rate Q3 2018

		K/US\$		K/GBP		K/ZAR	
		End Period	Period Average	End Period	Period Average	End Period	Period Average
July	6th	9.75	9.88	12.96	13.04	0.72	0.72
	13th	9.89	9.80	13.06	12.96	0.74	0.73
	20th	9.86	9.95	12.82	13.08	0.73	0.75
	27th	9.98	9.91	13.13	12.99	0.76	0.74
	Average	9.87	9.89	12.99	13.02	0.74	0.74
August	3rd	9.97	9.95	13.04	13.06	0.74	0.75
	10th	10.00	9.96	12.85	12.86	0.74	0.74
	17th	10.24	10.14	12.95	12.90	0.70	0.71
	24th	10.18	10.12	13.06	12.99	0.71	0.70
	31st	10.30	10.23	13.23	13.16	0.70	0.71
	Average	10.14	10.08	13.03	12.99	0.72	0.72
September	7th	10.26	10.29	13.28	13.31	0.67	0.68
	14th	10.57	10.36	13.62	13.44	0.71	0.69
	21th	11.65	11.12	15.29	14.53	0.80	0.75
	28nd	12.35	12.03	16.06	15.75	0.87	0.84
	Average	11.21	10.95	14.56	14.26	0.76	0.74
Quarterly Average		10.41	10.41	10.31	13.53	13.42	0.74

Source: Bank of Zambia

Inflation Q1 2018 to Q3 2018

2018	Annual Inflation			Month on month Inflation			Total CPI
	Total	Food	Non-Food	Total	Food	Non-Food	
January	6.2	4.6	8.1	1.0	1.0	1.0	203.15
February	6.1	4.6	7.9	0.9	1.2	0.5	204.91
March	7.1	5.8	8.7	1.3	0.7	0.6	207.62
April	7.4	6.5	8.4	0.6	0.1	0.5	208.93
May	7.8	6.9	8.9	0.4	0.4	0.5	209.83
June	7.4	7.5	7.3	0.2	0.3	0.2	210.35
July	7.8	8.1	7.6	0.3	0.2	0.1	210.92
August	8.1	8.3	7.8	0.3	0.3	0.3	211.52
September	7.9	8.6	7.3	0.2	0.1	0.3	211.93

Source: Central Statistical Office

Interest rates Q1 2018 to Q2 2018

	Lending rate			Savings		
	Weighted Lending Base rate	Lending Rate	Weighted Interbank Rate	Cheque Account (K500 & above)	Less than K100	More than K100
April	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
June	9.75	24.13	9.92	1.17	1.93	2.98
July	9.75	23.70	9.93	1.14	1.94	3.02
August	9.75	23.46	9.96	1.19	1.94	3.02
September	9.75	22.98	9.96	1.18	1.87	2.97

Source: Bank of Zambia