Bank *of* Zambia

MONETARY POLICY STATEMENT

JULY - DECEMBER 2020

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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

This Statement outlines the Bank of Zambia (BoZ) monetary policy objectives for the second half of 2020. It also provides the forecast for inflation and the prospects for domestic and global economic growth in 2020. The Statement further describes macroeconomic developments in the first half of 2020.

Prior to the COVID-19 outbreak, the Zambian economy had been facing a number of challenges reflected in high fiscal deficits, elevated debt levels and debt service, low international reserves, accumulation of arrears, tight liquidity conditions as well as subdued growth. The outbreak of the COVID-19 pandemic has worsened the domestic macroeconomic environment resulting in an unprecedented deterioration in economic activity with the economy projected to record a deep recession, the first in more than 20 years. Indicators of economic activity point to a further worsening of economic conditions in the first half of 2020. This reflects company shutdowns, job and income losses, declining business output, and a notable weakening in consumer demand in the wake of the COVID-19 pandemic.

Annual overall inflation is projected to remain above the upper bound of the 6-8% target range in the second half of 2020. This is largely on account of higher fiscal deficits and the weakening of the global economy which are likely to exert pressure on inflation through the exchange rate, interest rate, and/or expectations channels. A further deterioration of the fiscal deficit, adverse impact of monetary expansion, a deeper than projected global recession, as well as prolonged and extended electricity load shedding are among the key upside risks to the inflation outlook. However, inflation may moderate on account of subdued demand and the improvement in supply of food items following the notable increase in crop production from the 2019/2020 farming season.

Monetary policy will therefore continue to focus on safeguarding the stability of the financial sector and mitigating the adverse effects of the COVID-19 pandemic on peoples' lives, livelihood and overall economic activity. In doing so, the Bank of Zambia remains mindful of the need to bring back inflation to the 6-8% target range over the medium-term. The forward-looking monetary policy framework anchored on the Policy Rate will continue to serve as a key signal for the monetary policy stance. This framework takes into account inflation forecasts and outcomes, identified risks, as well as progress in the execution of fiscal consolidation.

Interest rates generally declined during the first half of 2020 broadly in line with the downward adjustment in the Policy Rate in May and improvement in liquidity conditions in the market through stimulus measures undertaken by the Bank of Zambia. These included the scaling-up of open market operations and the implementation of the Bond Purchase Programme.

Credit to the private sector slowed down on the back of reduced uptake of loans by households and private enterprises due to depressed demand and reduced risk appetite by banks to lend in light of heightened default risk as economic activity continues to deteriorate. However, credit to Government expanded at a faster pace mainly to meet rising financing needs in the wake of the COVID-19 pandemic which adversely affected domestic tax revenue.

Fiscal pressures intensified in the first half of 2020 as revenues were adversely affected by the COVID-19 pandemic while spending pressures rose in order to combat the virus and mitigate its impact. Bringing the fiscal deficit to sustainable levels over the medium-term has become even more challenging. Therefore, urgent macroeconomic adjustment measures, underpinned by the reorientation of expenditures to address the adverse impact of the pandemic to save peoples' lives, fiscal consolidation and the restoration of debt sustainability over the medium-term, remain imperative to promote sustainable growth.

Preliminary data indicate that Zambia's merchandise trade balance improved to a surplus from a deficit largely attributed to a slump in imports. The depreciation of the Kwacha against the US dollar and subdued domestic economic activity largely accounted for the fall in imports.

The global economy is projected to slump in 2020, deeper than previously expected, reflecting the higher than expected impact of the COVID-19 pandemic. The contraction reflects protracted economic lockdowns, which have led to global supply chain disruptions and severely constrained investment, global trade, manufacturing and travel. This is likely to keep copper prices subdued leading to lower export earnings than earlier anticipated.

1.0 Introduction

This Statement outlines the monetary policy objectives of the Bank of Zambia (BoZ) for the second half of 2020. It also provides prospects for the global economy and an outlook for domestic economic growth and inflation. In addition, a review of monetary policy performance and macroeconomic developments in the first half of 2020 is presented.

2.0 Monetary Policy Objectives and Instruments for the Second Half of 2020

The objective of monetary policy during the second half of 2020 will focus on safeguarding the stability of the financial sector and mitigating the adverse effects of the COVID-19 pandemic on peoples' lives and livelihood. In doing so, the Bank of Zambia remains mindful of the need to bring back inflation to the 6-8% target range over the medium-term.

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. This takes into account inflation forecasts and outcomes, identified risks, as well as progress in the execution of fiscal consolidation. Further, monetary policy will remain supportive of the Government's macroeconomic objectives (Table 1 – Appendix). The Bank of Zambia reiterates the need for urgent implementation of macroeconomic adjustment measures underpinned by the reorientation of expenditures to address the adverse impact of the COVID-19 pandemic on peoples' lives, fiscal consolidation and the restoration of debt sustainability over the medium-term to promote sustainable economic growth.

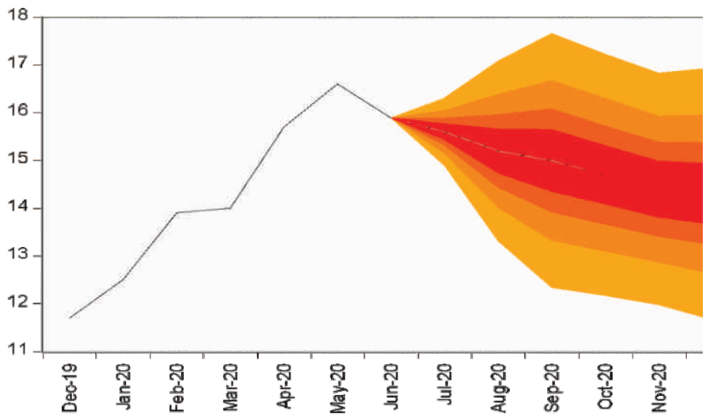
3.0 Inflation Projections for the Second Half of 2020

Annual overall inflation is projected to remain above the upper bound of 6-8% target range in the second half of 2020, averaging 15.1% against an outturn of 14.8% recorded in the first half of 2020 (Table 2 – Appendix). Factors underpinning this projection include higher fiscal deficits and the weakening of the global economy which are likely to exert pressure on inflation through the exchange rate, interest rate, and/or expectations channels. A further deterioration of the fiscal deficit, adverse impact of monetary expansion, a deeper than projected global recession, as well as prolonged and extended electricity load shedding are among the key upside risks to the inflation outlook.

However, inflationary pressures may be moderated by the supply of maize and related products following a good crop production in the 2019/2020 farming season. The Crop Forecast Survey shows that maize production increased by over 60.0% in the last farming season. In addition, depressed consumer demand, partly induced by the COVID-19 pandemic, is expected to dampen inflationary pressures over the forecast period.

The range of possible inflation outcomes over the forecast horizon are illustrated in Chart 1. Inflation outcomes are expected to range from a minimum of 14.3% to 15.4% with a 30% probability, 14.0% to 15.7% with a 50% probability, 13.5% to 16.2% with a 70% probability, and 11.7% to 17.0% with a 90% probability.

Chart 1: Actual and Projected Annual Inflation: Dec 2019 – Dec 2020



Source: Zambia Statistics Agency and Bank of Zambia

4.0 Domestic Economic Outlook for 2020 - 2021

Real GDP growth projection for 2020 has been downgraded significantly, reflecting the unprecedented negative impact of the COVID-19 shock. The economy is projected to contract by 4.2[1]%, deeper than the earlier projection of -2.6% and the revised preliminary outturn of 1.4% in 2019. A much gradual recovery in growth is anticipated, starting in 2021, but marked with a high degree of uncertainty.

The substantial decline in consumer and investment spending induced by disruptions in business operations are expected to weigh on growth. The secondary and tertiary sectors, particularly tourism, wholesale and retail trade, construction, as well as transport and storage are the most adversely affected by the pandemic. A gradual recovery from 2021 is projected as the COVID-19 pandemic abates and electricity generation picks up with the expected commencement of generation at the Kafue Gorge Lower Hydropower Plant.

[1]Ministry of Finance, June 2020

The risks to the outlook are tilted to the downside and include the extreme uncertainty surrounding the evolution of the pandemic and delayed restoration of fiscal sustainability through large, frontloaded and sustained macroeconomic adjustment.

5.0 Global Economic Outlook for 2020 – 2021

5.1 Economic Growth

The global economy is projected to contract by 4.9%[2] in 2020, deeper than the earlier projected contraction of 3.0%. This largely reflects a more protracted negative impact of the COVID-19 pandemic. This projection contrasts with the outturn of 2.9% in 2019. Protracted economic lockdowns, which have led to global supply chain disruptions and severely constrained investment, global trade, manufacturing and travel, mainly reflect the deeper contraction. Consumption growth is expected to be low due to larger than expected disruption to domestic economic activity and adverse impact on aggregate demand which has resulted from social distancing and lockdowns. The economic fallout from the pandemic is likely to be exacerbated by the anticipated second wave of infections as reflected in the surge in new cases as economies gradually reopen leading to the re-imposition of stricter measures. It is projected that global growth will recover to 5.4% in 2021 as the pandemic abates. This projection, however, is premised on the pandemic diminishing in the second half of 2020 in response to the policy measures[3] taken by governments around the world.

The downside risks to the outlook remain elevated with a high degree of uncertainty surrounding the forecast. The second wave of COVID-19 infections could have stronger repercussions on economic activity, exacerbate the fiscal burden, and exert more pressure on the financial system. Renewed infections could result in more stringent containment measures leading to more protracted supply chain disruptions, further weakening of consumer and business confidence as well as increasing unemployment levels. In addition, consumption demand and services activity are expected to be affected by social distancing measures, movement restrictions and adverse income losses partly reflecting business closures and rising unemployment levels. The escalating US-China trade tension[4], uncertainty about the future of the UK-EU trading relationship[5] and unstable relations between OPEC+ Members and its allies[6] are also eminent downside risks to the growth outlook. However, the development of a vaccine and treatment and further policy support will help boost business confidence and prop up economic activity.

Growth in the Sub-Saharan Africa region (SSA) is projected to contract by 3.2% in 2020, worse than the 1.6% contraction anticipated in April. This is against the 3.1% outturn in 2019. Weak demand from key trading partners; steep declines in commodity prices for oil, minerals and metals; and stringent domestic containment measures are expected to contribute to negative growth. Further, a decline in revenue, particularly for resource rich economies[7] due to the effects of the COVID-19 pandemic, is expected to lead to higher fiscal deficits and elevated debt levels thereby constraining efforts of the fiscal authorities to mitigate the economic impact of the pandemic. A recovery to 3.4% in 2021 is largely premised on the effectiveness of COVID-19 containment measures and national policy actions to cushion the adverse impact of the pandemic, including debt repayment freezes by creditors.

A synchronised deep economic downturn is envisaged for all Zambia's major trading partner countries[8] due to the impact of COVID-19 in 2020. Negative growth is projected in all these countries in 2020 except for China. A recovery is, however, envisaged in 2021.

Real GDP for South Africa is projected to contract by 8.0% in 2020 (-5.8% April 2020), affected by the health crisis, weaker external demand, fall in fixed investment and household consumption as well as the increase in unemployment levels. Electricity supply constraints, weak fiscal accounts and elevated government debt are also expected to weigh on the growth outlook.

For the Democratic Republic of Congo (DRC), growth is projected to drop to -2.1% in 2020 from 4.4% in 2019 as Coronavirus induced containment measures weigh on private consumption, while weak global demand for base metals negatively affects exports. Weaker activity in mining will

[2] IMF World Economic Outlook, June 2020.

[3] Monetary and fiscal policies are expected to remain accommodative over the medium-term in order to support liquidity, stimulate consumer and investor confidence, normalize financial conditions and prop up economic activity. Central banks globally have cut policy rates and taken other far-reaching steps to provide liquidity and maintain investor confidence.

[4] Trade relations between the US and China could deteriorate further due to disagreements over the origin of the COVID-19 pandemic and related policy responses, which may trigger restrictive trade relations. This may reignite the tensions surrounding the Phase One Trade Agreement between the two countries.

[5] The possibility that a formal Trade Deal will not be reached by end-2020 in accordance with the Withdrawal Agreement remains a downside risk and a source of uncertainty.

[6] In the recent past, relations between OPEC+ and its allies have been strained by the oil price war triggered by disagreements over oil production cuts amid plummeting prices in the wake of the COVID-19 pandemic. In addition, OPEC+ has been criticised over its power to raise oil prices as the bloc controls close to 40% of world oil production, whose dominant position has allowed it to act as a cartel, coordinating production levels among members to manipulate global oil prices.

[7] The economic downturn is expected to be more pronounced in tourism dependent (such as Comoros and Mauritius) and resource rich countries (such as Angola, Zambia, Botswana, Nigeria and South Africa) as growth in these countries is expected to return to pre-COVID levels only by 2023 or 2024.

[8] These include China, South Africa, Democratic Republic of Congo, Euro Area, United States of America, and the United Kingdom.

further weigh on growth prospects. Although support from international partners is expected to cushion the fallout, the risks are skewed to the downside.

In the US, growth is expected to dip to -8.0% in 2020 before rising to 4.5% in 2021. Sluggish growth reflects protracted economic lockdowns due to the COVID-19 pandemic and its effects on domestic activity. Supply chain disruptions and elevated unemployment levels are expected to affect manufacturing activity and suppress consumer spending while investment and trade are set to decline. Unprecedented fiscal and monetary stimulus are expected to cushion the impact. A second wave of infections and tensions with China are the key downside risks to the growth outlook.

For the Euro area, real GDP is projected to contract by 10.2% in 2020 before expanding by 6.0% in 2021. The contraction reflects weaker external demand and the health crisis that is suppressing investment activity and consumer spending amid a labour market downturn.

In the UK, real GDP is projected to contract by 10.2% in 2020 but recover to 6.3% in 2021. The contraction largely reflects the prolonged domestic lockdown which is expected to dampen private consumption, investment and exports. However, Government stimulus measures are expected to support economic activity. A possible second wave of infections and Brexit uncertainty pose downside risks to the outlook.

In China, growth is expected to remain positive in 2020, albeit subdued, at 1.0%, supported in part by policy stimulus and earlier than anticipated recovery in economic activity in the second quarter of 2020. The US-China trade tensions could, however, threaten the economic recovery. Renewed infections and the effects of containment measures and the current trade war with US remain eminent risks to the growth outlook.

5.2 Commodity Prices

Commodity prices are expected to remain subdued over the medium-term due to weakening global demand as well as COVID-19 related trade and supply chain disruptions. However, the anticipated pick-up in global economic activity and increase in the production of electric motor vehicles are expected to support copper prices. In the case of crude oil, production cuts in the second half of 2020 through to early 2021 are expected to exert upward pressure on prices. Further, the expected increase[9] in oil demand on account of the anticipated rise in consumption as economies continue to re-open could prop oil prices in the medium-term.

Copper prices are projected to average US$5,767.5/metric ton in 2020 and rise to US$6,044.7/metric ton and US$6,078.0/metric ton in 2021 and 2022, respectively. Crude oil prices are projected to follow a similar pattern, averaging US$42.7, US$44.5 and US$45.4 per barrel over the same period.

Prices of selected agricultural commodities, in particular food prices, are projected to decline in 2020, but recover somewhat in 2021 largely due to subdued global demand and supply chain disruptions as a result of trade restrictions. Adverse climate change and the resurgence of the US-China trade tensions remain upside risks to agricultural commodity prices.

6.0 Review of Global Developments in the First Half of 2020

6.1 Economic Growth

Preliminary data suggest a synchronised global contraction in economic activity in the first half of 2020 due to the COVID-19 shock which intensified in the second quarter. The stringent and prolonged containment measures reflected in economic lockdowns, disrupted global supply chains and severely restrained private consumption, investment, trade, and travel. Further, financial conditions tightened in emerging market economies and commodity prices, particularly for crude oil, substantially dropped. In addition, capital flows reversals occurred in some countries. There was, however, some modest recovery in global economic activity towards the end of the first half as COVID-19 lockdown measures were eased. As a result, manufacturing and services activity picked up as disruptions to global supply chains eased.

In the Sub-Saharan Africa region, preliminary estimates indicate a sharp contraction in economic activity reflecting the severe impact of prolonged economic lockdowns and other restrictive health measures to control the spread of COVID-19. Ghana, Nigeria and South Africa were the most affected countries as output and consumption demand decreased significantly and supply chain disruptions persisted thereby affecting manufacturing and trade. Similarly, activity in the services sector was curtailed by containment measures and social distancing efforts. Financial conditions tightened on account of large capital outflows and declining government revenues, partly reflecting subdued global trade and plummeting commodity prices. Debt levels remained elevated leading to widening fiscal deficits and exchange rate depreciation.

[9] In its June 2020 Oil Market Report, the International Energy Agency (IEA) revised upwards the 2020 global oil demand to 91.7 million barrels per day, almost 500,000 barrels higher than expected in May on account of stronger than anticipated deliveries during the lockdown period. In 2021, oil demand is expected to recover by 5.7 mb/day compared to the sharp decline of 8.1 mb/day in 2020 due to reopening of economies.

Economic activity in Zambia's major trading partner countries contracted in the first half of 2020 amid widespread economic lockdowns due to the COVID-19 shock. Output, new orders and employment all fell at record rates, reflecting sharp declines in manufacturing activity as supply chains were disrupted and factories shutdown. Further, the measures taken to contain COVID-19 severely constrained private consumption, investment, trade, and travel leading to weakening global demand. The pandemic related restrictions have severely impacted the services sector, particularly the transport and tourism industries.

In South Africa, the economy slipped into a recession due to lockdown measures that affected manufacturing output and domestic demand amid deteriorating consumer and business confidence. Exports declined sharply, affected by subdued foreign demand and supply chains disruptions. Fiscal risks and electricity supply constraints also weighed on economic growth.

Growth in the DRC contracted as COVID-19 containment measures affected domestic economic activity and fiscal revenue. Further, a significant fall in demand from China as well as lower prices of the main export commodities, particularly cobalt, exacerbated the downturn.

Real GDP growth in the US is estimated to have dipped as COVID-19 induced lockdowns weighed heavily on consumption, investment and exports. Consequently, unemployment rose sharply on account of redundancies and workforce restructuring as employers sought to cut down operating costs. Fears of a second wave of infections further weighed on business and consumer confidence. Further, a re-emergence of tension with China fueled market uncertainty.

In the Euro area, low demand and supply chain disruptions accounted for the sharp contraction in economic activity across the block. Firms were forced to close and consumers and businesses cut back on spending due to travel restrictions, social distancing measures, as well as the deterioration in business and consumer confidence as uncertainty about economic outlook heightened. Government investment also fell as growth dragged amid a downbeat global trade environment. The sharpest contractions were recorded in France, Italy and Germany. The prolonged containment measures in the second quarter affected the manufacturing sector and adversely impacted business sentiments. The downturn in activity, however, eased markedly in June as containment measures were relaxed.

In the UK, the economy shrunk as the full force of lockdown measures, particularly in the first quarter, negatively impacted manufacturing and construction activity, trade and the services sector. In addition, weak business and consumer sentiments and a weaker labour market affected growth.

China recorded a rebound in economic activity in the second quarter after a sharp contraction in the first quarter, supported by improved domestic demand following the easing of lockdown restrictions and stimulus measures undertaken by authorities.

To mitigate the adverse economic impact of COVID-19, authorities across regions deployed fiscal stimulus and monetary policy measures to increase liquidity in the financial markets and preserve growth. Fiscal stimulus measures included expanded unemployment benefits, tax relief to businesses and households, waived social security contributions, credit holidays to existing debtors, direct grants for small businesses and increased spending on epidemic prevention and control. As at end-June 2020, fiscal stimulus measures were estimated at nearly US$11.0 trillion globally[10], and included both additional spending and forgone revenue. Additional spending measures comprised liquidity support such as loans, equity injections, guarantees, expanded unemployment benefits, tax relief to businesses and households, direct grants for small businesses and increased spending on epidemic prevention and control. Foregone revenue measures involved waived social security contributions, credit holidays to existing debtors and various tax relief measures to support businesses.

Some of the measures undertaken to improve liquidity and the functioning of financial markets included asset purchase, credit guarantees, easing of collateral standards, targeted relending facilities to business entities, as well as cuts to benchmark interest rates and reserve ratio requirements. Further, swap lines between the US Federal Reserve and several emerging market central banks helped ease US dollar liquidity shortages.

6.2 Commodity Prices

Commodity prices declined markedly in the first half of 2020 on account of the adverse impact of the COVID-19 shock. Copper prices declined to US$5,058.0/metric ton in April 2020 before rising slightly to US$5,755.0/metric ton in June from US$6,077.0/metric ton in December 2019. This largely reflect weak global demand, particularly from China, on account of the COVID-19 pandemic that significantly affected manufacturing and construction activities. Crude oil prices fell sharply to US$19.3/barrel in April 2020, rising only to US$40.1 by June from US$64.4/barrel in December 2019. This was largely due to subdued economic activity as well as reduced transportation and travel activity attributed to restrictive health measures and trade restrictions. The plunge in crude oil prices was

[10] IMF World Economic Outlook, June 2020.

exacerbated by the collapse of the three year OPEC+ Agreement in early March 2020 as Saudi Arabia sought to regain market share.

The moderate rise in copper and oil prices towards the end of the first half of 2020 was driven by a slight pick-up in global economic activity and external demand due to the gradual reopening of economies. Specifically, copper prices were supported by the uptick in manufacturing and construction activities in China, the increase in global inventories and supply disruptions at Codelco Mines in Chile[11], the world's biggest copper producer. The increase in oil prices reflected the agreement by OPEC+ Members and its allies to extend oil supply cuts to end-July 2020.

Agricultural prices declined in the first half of 2020, reflecting weakening global demand due to COVID-19. Prices for soybeans decreased to US$368/metric ton in June 2020 from US$376/metric ton in December 2019, while wheat prices declined to US$200.5/metric ton from US$237.7/metric ton. Maize prices fell to US$148.0/metric ton from US$167.0/metric ton over the same period.

7.0 Assessment of Monetary Policy Implementation in the First Half of 2020

In the first half of 2020, monetary policy was focused on addressing, in a proactive way, the effects of the emerging COVID-19 pandemic. 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. The forward-looking monetary policy framework anchored on the Policy Rate served as a key signal for the monetary policy stance.

In this regard, the Bank of Zambia maintained the Policy Rate at 11.5% in February 2020 to allow time for the measures[12] taken in the fourth quarter of 2019 to fully work through. However, the Policy Rate was cut by 225 basis points to 9.25% in May despite inflation being projected to remain above the upper bound of the medium-term target range. This decision was intended to mitigate the adverse impact of the COVID-19 pandemic on economic activity, financial sector stability and ultimately on people's lives and livelihoods. The Bank of Zambia noted that in the absence of urgent and appropriate policy response, prospects for domestic economic activity were likely to deteriorate significantly as the economy was and is still projected to record a recession in 2020. The cut in the Policy Rate complemented the broader set of measures the Bank initiated to support the economy in view of COVID-19. These 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 sensitization 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.

To effectively deal with the COVID-19 shock and its effects, concerted efforts and strengthened collaboration among all stakeholders remain critical. In particular, implementation of fiscal and structural reforms that deliver inclusive growth is required.

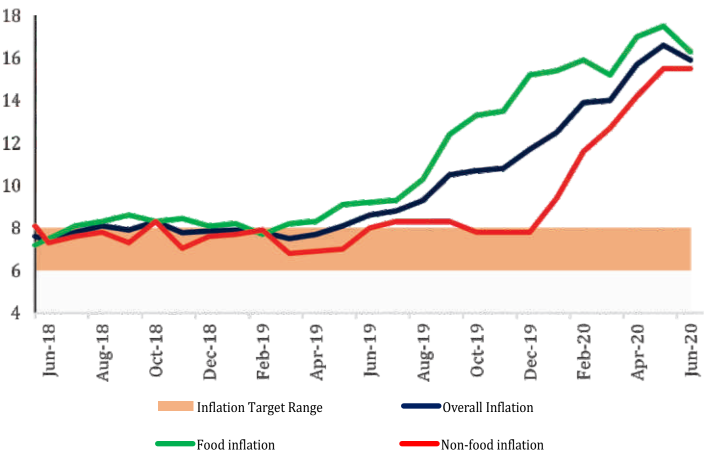
8.0 Review of Domestic Macroeconomic Developments in the First Half of 2020

8.1 Inflation Outturn

Annual overall inflation continued to trend upwards, driven mainly by the depreciation of the Kwacha, upward adjustment in energy prices (fuel pump prices and electricity tariffs) and the rise in food prices. As a result, annual overall inflation rose to an average of 14.8% from 10.3% recorded in the second half of 2019. Overall inflation ended the first half of 2020 at 15.9% from 11.7% in December 2019. Over this period, food inflation rose by 1.1 percentage points to 16.3%, while non-food inflation increased by 7.7 percentage points to 15.5% (Chart 2).

[11] Supply disruptions arose as labour unions threatened to intensify restrictive health measures following the death of a miner from COVID-19.
[12] The Policy Rate was adjusted upwards to 11.5% in November 2019 from 10.25% to counter heightening inflationary pressures. The Overnight Lending Facility (OLF) rate was also raised to 28% in November 2019 from 18% to help restore stability in the foreign exchange market and rein in inflationary pressures. Additionally, the statutory reserve ratio was increased to 9.0% in December from 5.0%. For maximum effect, the compliance requirement for statutory reserves was also changed to daily from weekly.

Chart 2: Annual Inflation Rate

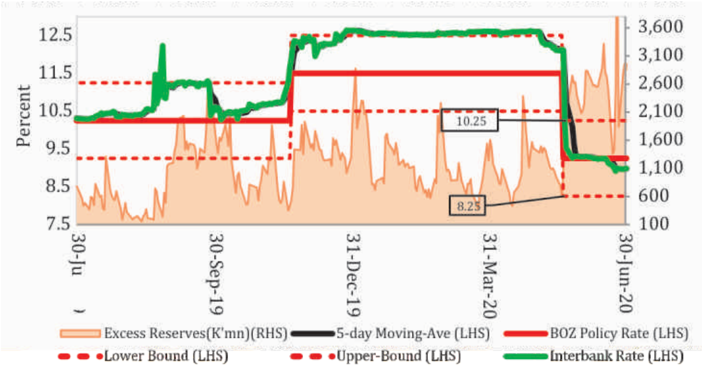


Source: Zambia Statistics Agency

8.2 Interbank Rate and Money Market Liquidity

The overnight interbank rate marginally increased to 11.77% from 11.09% and broadly remained within the Monetary Policy Rate Corridor (Chart 3).

Chart 3: Market Liquidity and Interbank Rate



Source: Bank of Zambia Compilations

The overnight interbank rate rose between January and May due to tight liquidity conditions. This resulted in the current account balance of commercial banks held at the Bank of Zambia reaching a record high of K5.1 billion and ended at K3.0 billion in June (Table 3 – Appendix). The Bank of Zambia scaled-up open market operations (OMOs) by providing liquidity on longer term tenors of up to 90 days from previous overnight maturities. Consequently, K4.4 billion was injected into the system through OMOs. Additional liquidity was injected through the net purchase of foreign exchange, Secondary Market Bond Purchase Programme[13], and the Targeted Medium-Term Refinancing Facility[14].

8.3 Government Securities Market

Investors' appetite for Treasury bills improved relative to the last half of 2019. This was largely attributed to increased liquidity arising from the measures taken to mitigate the economic fallout from the COVID-19 pandemic. The average subscription rate for Treasury bills rose to 123.0% from 84.0% in the last half of 2019. However, for Government bonds, the subscription rate remained lackluster, averaging 33.0% compared to 41.1% mainly on account of risk aversion by investors due to increased uncertainty about the future macroeconomic environment.

This notwithstanding, total funds raised from the auctions more than doubled to K23.8 billion from K11.2 billion in the last half of 2019. Against total maturities of K20.1 billion, the surplus was K3.7 billion. Additional funds were raised by issuing securities through private placements in order to meet Government financing needs amidst falling domestic tax revenue. Thus, the outstanding stock of Government securities (at face value) increased by 75.7% to K102.6 billion at end-June 2020. Of this, non-resident investors held K13.5 billion (13.2% of the stock) from K8.8 billion (11.0% of the stock) at end-December 2019 with virtually all their holdings (97.4%) in Government bonds.

8.4 Capital Markets Development

The Lusaka Securities All Share Index (LASI) declined in the first half of 2020 largely due to high operational costs and the depreciation of the Kwacha. The decline of share prices for selected companies in the energy, real estate, banking, manufacturing and telecommunication sectors led to a dip in the LASI by 8.1% to 3,919.6 at end-June. Market capitalization also fell by 1.2% to K55,881 million. Nonetheless, the Exchange recorded a net inflow of US$0.4 million against a net outflow US$0.9 million in the second half of 2019.

8.5 Foreign Exchange Market

The Kwacha depreciated against major trading partner currencies in the first half of 2020 (Table 4 – Appendix). Against the US dollar, the Kwacha depreciated by 24.9% to an average of K16.74. The Kwacha also depreciated by 24.6%, 24.0% and 10.3% against the British pound sterling, Euro and South African rand to averages of K21.06, K18.44 and K1.01, respectively.

[13] The Bond Purchase Programme is intended to provide additional liquidity support to the financial sector; promote bond consolidation and thereby deepen the secondary market trading of Government; as well as strengthen the transmission of monetary policy.

[14] The Targeted Medium-Term Refinancing Facility (TMTRF) allows Financial Service Providers (FSPs) (commercial banks and non-bank financial institutions) under the supervision of the Bank to access funds from the Bank of Zambia at a relatively low interest rate for on-lending to businesses and households in priority sectors that are adversely impacted by COVID-19.

The sharp depreciation of the Kwacha partly reflects the fallout from the COVID-19 pandemic. The Coronavirus impacted most emerging market currencies as investors divested their funds from traditional assets such as stocks to safe havens like US Treasuries and bonds, including the US dollar. This resulted in the US dollar strengthening against other major global currencies, and the Kwacha was not spared. This was compounded by the vulnerability of the Kwacha arising from the weakening macroeconomic environment associated with high debt service and debt levels, rising fiscal deficits as well as declining international reserves. In addition, negative market sentiments following Zambia's sovereign credit rating downgrades[15] weighed on the Kwacha.

8.6 Interest Rates

Interest rates generally declined in the first half of 2020 relative to the second half of 2019 (Table 5 – Appendix). This was broadly in line with the downward adjustment in the Policy Rate in May and other stimulus measures taken by the Bank of Zambia such as the scaling-up of open market operations and the implementation of the Bond Purchase Programme which improved money market liquidity. Commercial banks' average lending rate declined to 26.4% in June from 28.0% in December although the weighted average Treasury bill yield rate and the 180-day deposit rate for amounts exceeding K20,000 remained broadly unchanged at 25.94% and 10.3% in June 2020, respectively. However, the composite Government bond rate edged up to 32.38% in June from 31.02% in December 2019 as investors sought a higher risk premium on longer dated securities (Table 5 – Appendix). The average effective lending rate for the non-bank financial institutions also increased to 54.2% from 48.6% (Table 6 – Appendix).

8.7 Domestic Credit

Domestic credit expanded by 18.9% in the first half of 2020 compared to 8.4% in the second half of 2019 (Table 7 – Appendix). On an annual basis, domestic credit growth edged up to 28.9% in June 2020 from 16.8% in December 2019. The rise in credit growth was largely due to increased lending to Government in the wake of rising financing needs as domestic tax revenue drastically fell amidst COVID-19.

Credit to the private sector grew at a slower pace of 2.0% in the first half of 2020 compared to a growth of 8.3% in the preceding half. This was on the back of reduced uptake of loans by households and private enterprises due to depressed demand and reduced risk appetite by banks to lend in light of heightened default risk due to weak economic activity. Year-on-year, growth of credit to the private sector slowed down to 10.4% from 19.5%. Households (personal loans) continued to account for the largest share of commercial bank loans at 22.6% (23.8% in December 2019) followed by agriculture, forestry and fishing at 15.9% (16.4% in December 2019) (Table 8 – Appendix).

8.8 Broad Money

Money supply (M3) grew by 16.4% compared to a growth of 11.2% in the second half of 2019. The stock of M3 rose to K82.5 billion at end-June 2020 from K70.9 billion at end-December 2019 (Table 9 - Appendix). Year-non-year, M3 growth rose to 29.4% in June from 12.5% in December 2019. The growth in M3 was largely due to the expansion of credit to Government.

8.9 International Trade

Preliminary data indicate that the merchandise trade balance turned to a surplus of US$669.5 million from a deficit of US$141.1 million in the second half of 2019(Tables 10 and 11 - Appendix). This was largely due to the compression in imports as economic activity remained subdued and the Kwacha depreciated sharply. Imports fell by 26.5% to US$2,599.2 million, representing a decline across most import categories, with petroleum products, industrial boilers and equipment, iron and steel and items thereof, as well as motor vehicles being the most affected (Table 12 - Appendix).

Export earnings were also lower, but only declined by 3.8% to US$3,268.8 million, attributed to the reduction in non-traditional exports (NTEs) as shown in Table 10 in the appendix. The fall in NTEs was largely on account of lower earnings from gemstones, cane sugar, cotton lint, industrial boilers and equipment, maize and maize seed, cement and lime as well as electricity. Trade disruptions related to the COVID-19 pandemic largely accounted for the fall in exports of gemstones, industrial boilers and equipment, as well as cement and lime, while seasonal factors explained the fall in agricultural exports. On the other hand, metal exports grew as copper earnings rose, supported by export volumes[16] (Table 11 - Appendix). Copper export volumes grew by 35.2% to 523,452.7 metric ton on account of improved production efficiencies at some major mining companies. Realised copper prices, however, declined to US$4,564.5 per metric ton from US$5,791.1 per metric ton.

[15]Standard and Poor's and Moody's downgraded Zambia's credit rating to CCC and Ca with a negative and stable outlook, while Fitch downgraded to CC with no indication on the outlook (N/A), respectively citing the rise in external debt service payments amidst declining international reserves.
[16]Export volumes refer to gross volumes exported which include, but not restricted to, production from Zambian mines.

8.10 Fiscal Balance

Fiscal pressures intensified in the first half of 2020 as revenue was adversely affected by the COVID-19 pandemic while spending pressures rose in order to combat the virus and mitigate its impact. Total revenue and grants, at K32.2 billion, were 5.1% below the target. VAT and customs and excise duties registered the most pronounced reductions. However, non-tax collections were above target mainly due to the receipt of dividends. Total spending (excluding amortisation), at K41.6 billion, was 6.0% lower than projected on account of reduced disbursement of foreign financing.

8.11 Economic Activity

Real sector indicators[17] point to a further worsening of economic conditions in the first half of 2020 amplified by the fallout from the COVID-19 pandemic. Preliminary data indicate that real GDP contracted by 0.3% in the first quarter of 2020 compared to the growth of 2.3% recorded in the corresponding period in 2019. The decline largely reflects contraction in wholesale and retail trade, construction, mining and quarrying, electricity, accommodation and food services as well as arts, entertainment and recreation. The expansion in agriculture, forestry and fishing, information and communication as well as financial and insurance services, however, moderated the contraction in overall economic activity.

Further, the results from the two Bank of Zambia Quarterly Surveys of Business Opinion and Expectations conducted in February and June indicate worsening economic conditions. All the monitored indicators deteriorated except for new orders associated with increased demand for pharmaceutical products used to fight the COVID-19 pandemic. Company shutdowns, job and income losses, declining business output, and a notable weakening in consumer demand reflected the deterioration in economic conditions. Electricity load shedding, and rising production costs, associated with high energy tariffs, continued to weigh on growth.

The Stanbic Bank Purchasing Manager's Index (PMI)[18] also indicates significant deterioration in business conditions for the private sector amid company shutdowns, decline in business output, and weak demand. The PMI dropped to a record low of 34.8 in May indicating the significant deterioration in business conditions for the private sector.

Conclusion

Prior to the COVID-19 outbreak, the Zambian economy had been facing a number of challenges reflected in high fiscal deficits, elevated debt levels and debt service, low international reserves, accumulation of arrears, tight liquidity conditions as well as subdued growth. The outbreak of COVID-19 compounded the situation, resulting in an unprecedented deterioration in economic activity and the economy is projected to record a deeper recession, the first in more than 20 years. The impact of COVID-19 is summarized in the Box below.

Annual overall inflation is projected to remain above the upper bound of the 6-8% target range in the second half of 2020 on account of higher fiscal deficits and the weakening of the global economy which are likely to exert pressure on inflation through the exchange rate, interest rate, and/or expectations channels. However, inflation may moderate on account of subdued demand and improvement in supply of food items.

Monetary policy will therefore continue to focus on safeguarding the stability of the financial sector and mitigating the adverse effects of the COVID-19 pandemic on peoples' lives, livelihood and overall economic activity. In doing so, the Bank of Zambia remains mindful of the need to bring back inflation to the 6-8% target range over the medium-term. The forward-looking monetary policy framework anchored on the Policy Rate will continue to serve as a key signal for the monetary policy stance.

A relatively accommodative monetary policy was pursued in the first half of 2020. The Policy Rate was maintained at 11.5% in February, but cut by 225 basis points to 9.25% in May. The Policy Rate was lowered in order to mitigate the adverse impact of COVID-19 on financial sector stability, economic activity, and ultimately on people's lives and livelihoods.

Interest rates generally declined broadly in line with the downward adjustment in the Policy Rate in May and the improvement in money market liquidity. Credit to the private sector slowed down on the back of low uptake due to depressed demand and reduced risk appetite by banks to lend in light of heightened default risk on account of the deterioration in economic activity. However, credit to Government expanded at a faster pace mainly to meet rising financing needs in the wake of COVID-19 pandemic which adversely affected revenues.

Fiscal pressures intensified as revenues were adversely affected by the COVID-19 pandemic while spending pressures rose in order to combat the virus and mitigate its impact. Bringing the fiscal deficit to sustainable levels over the medium-term has become even more challenging. In this regard, there is need for urgent implementation of macroeconomic adjustment measures underpinned by reorientation of expenditures to address the adverse impact of the pandemic on peoples' lives and livelihoods. This is in addition to fiscal consolidation and the restoration of debt sustainability over the medium-term in order to promote sustainable economic growth.

[17] Bank of Zambia Quarterly Survey of Business Opinions and Expectations and Stanbic Bank PMI.
[18] 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.

Assessment of the Macroeconomic Impact of COVID-19

1. Preamble

The coronavirus (COVID-19) pandemic, that originated in Wuhan City in China in December 2019, is having an unprecedented impact on human life and livelihoods. As at September 15, 2020 29,155,581 confirmed cases of COVID-19, including 926,544 deaths were reported by the World Health Organisation. The Americas, South-East Asia and Europe regions have the highest reported cases. In an effort to curb the exponential rise in the number of cases, governments have responded by implementing, among other measures, widespread lockdowns, which have disrupted global supply chains and induced economic contraction. This is affecting global demand through reduced consumer and business spending, and generally heightened uncertainty about the economic outlook as global economic growth is projected to plummet and lead to a global economic recession in 2020.

In Zambia, COVID-19 cases increased to 13,720 on September 15, 2020 from 2 cases first reported on March 18, 2020. The rapid increase in cases reflects the severity of the pandemic, which has had a telling effect on the performance of the domestic economy. Prior to the outbreak of the pandemic, the Zambian economy had been facing a number of challenges that included high fiscal deficits, elevated debt levels and debt service, low international reserves, accumulation of arrears, tight liquidity conditions as well as subdued growth. The outbreak of the COVID-19 pandemic has worsened the domestic macroeconomic environment.

2. Global Impact of COVID-19

2.1 Global Economic Activity

Global economic growth is projected to contract by 4.9%[19] in 2020, which is 7.8 percentage points below the preliminary outturn of 2.9% for 2019. This largely reflects a deeper and more protracted negative impact of the COVID-19 pandemic. Measures taken to contain the pandemic, which are severely constraining private consumption, investment, trade, and travel are resulting in weakening global demand. Consequently, output and employment have fallen, as manufacturing activity has declined sharply due to supply chain disruptions and the shutdown of factories. The services sector, particularly transport and tourism sub-sectors, has continued to be the most adversely affected.

2.2 Commodity Prices

Both copper and crude oil prices declined sharply in the first quarter of 2020 amid growing panic over the impact of COVID-19. Reduced global demand in China and other major economies on account of slowing economic activity linked to supply disruptions and restrictive health measures instituted to contain COVID-19 account for this outturn. In the case of crude oil prices, the fall was sharper, 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.

Copper prices which declined to a low of US$4,626.5/metric ton in March 2020 recovered to US$6,689.50/metric ton at end-August. Similarly, crude oil prices that had dropped to a low of US$19.3 per barrel in April rebounded to US$45.05 per barrel as at end-August.

2.3 Stock Markets

Major stock markets tumbled in the first quarter of 2020, recording the deepest decline since the Global Financial Crisis of 2008 on the back of heightened fears that COVID-19 would have persistent damaging effects on the global economy or induce a global economic recession. These fears triggered a worldwide plunge in stock prices. In addition, bond yields escalated on the back of reduced appetite by investors for risky assets and their preference for safe haven assets like US Treasuries as stock prices tumbled and commodity prices collapsed.

As of August 2020, major stock markets showed signs of recovery as equities trended upwards, albeit volatile. The Lusaka Securities Exchange market continued to post weaker performance in the wake of the COVID-19 shock.

2.4 Eurobond Yields

Yields on Sub-Saharan Africa Eurobonds have risen sharply in the wake of global contagion linked to COVID-19. Yield rates 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. As at end-August 2020, the yields had receded to 42.0%, 31.3% and 24.7% for the 2022, 2024 and 2027, respectively inline with the gradual recovery in major global equity markets.

2.5 Global Travel and Tourism

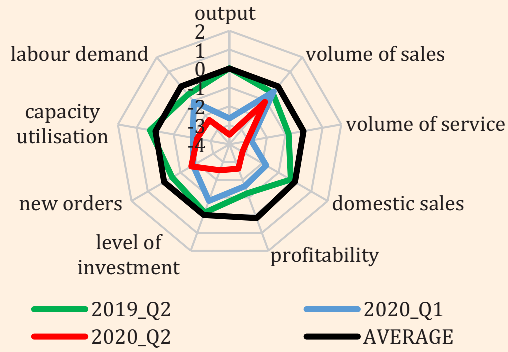
The COVID-19 has also had a negative impact on global travel and tourism. The airlines and cruise ships are currently the hardest hit. The impact on the industry could, however, be much worse depending on how long the pandemic and the restrictive travel measures last.

3. Domestic Impact of COVID-19

3.1 Domestic Economic Activity

Domestic economic activity has contracted as 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, continued to weigh on growth. The results from the two Bank of Zambia Quarterly Survey of Business Opinion and Expectations conducted in February and June 2020 indicate worsening economic conditions. All the monitored indicators showed deterioration except for new orders associated with increased demand for pharmaceutical products used to fight the COVID-19 pandemic (Chart 1).

Chart 1 Business Opinions Survey Responses

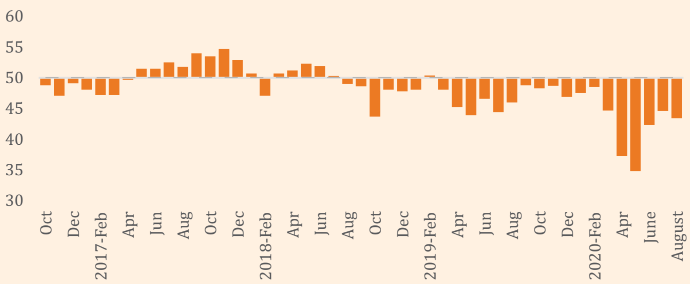


Source: Bank of Zambia

Notes: The Quarterly Survey of Business Opinions and Expectations (QSBOEs) is a supplementary tool used by Bank of Zambia to gauge the business community's opinions and expectations about the current and future direction of the economy. Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

The Stanbic Bank Zambia Purchasing Managers Index also indicates significant deterioration in business conditions for the private sector as the Index has persistently remained below the 50-mark (Chart 2).

Chart 2 Purchasing Manager's Index for Zambia



[19] IMF World Economic Outlook, June 2020

The tourism sector has been the hardest hit by COVID-19. The volume of international passengers arriving by air in Zambia collapsed, dropping by 98.4%, year-on-year, and 97.8%, quarter-on-quarter, as at end-June 2020. The worst decline in arrivals 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.

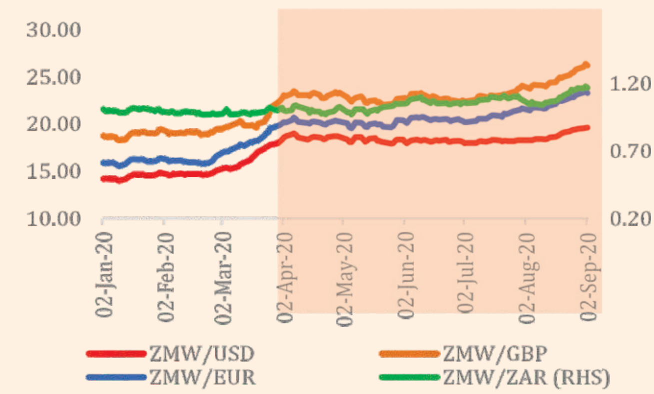
3.2 Inflation

Annual overall inflation continued on an upward trend, rising to an average of 16.1% in the second quarter from 13.5% in the previous quarter. This was mainly on account of the sharp depreciation of the Kwacha against the US dollar associated with COVID-19. In July and August, however, inflation marginally went down to 15.8% and 15.5%, respectively from 15.9% in June. This was mainly on account of the reduction in prices of maize and related products as well as those for seasonal vegetables.

3.3 Exchange rate

The depreciation pressures in the foreign exchange market have increased considerably in 2020, partly reflecting the fallout from the ongoing COVID-19 pandemic. Given the vulnerability of the Kwacha arising from the weakening macroeconomic environment, particularly declining international reserves, the pandemic has accelerated the Kwacha's adverse trajectory against major currencies. The Kwacha depreciated by 38.2% to K19.53/US dollar on a year-to-date basis (September 2) as depicted in Chart 3. It rose to above K18.00/US$ at the beginning of April 2020 and subsequently stabilised around K18.20/US$ during the May - July period. However, the Kwacha depreciated in August and closed the month at K19.50 /US$. The Bank of Zambia has continued to provide measured support to the market in line with its policy objective of allowing the exchange rate to adjust to market conditions.

Chart 3 Nominal Exchange Rates



Source: Bank of Zambia

3.4 Domestic credit and money supply

Credit growth to the private sector slowed down to 10.4%, year-on-year, in June 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 due to weakened economic activity. However, credit to Government continued to expand at a faster rate, growing by 46.9%, year-on-year, in June compared to 28.6% in March as domestic revenue has been adversely affected by the COVID-19 pandemic. In spite of the expansion in lending to Government, money supply (M3)[20] growth slowed to 29.4% in June from 31.6% in March 2020.

3.5 Merchandise Trade

Preliminary data indicate that the trade surplus (c.i.f) increased to US$102.9 million in June 2020 from US$32.2 million in March (Table 1). This outturn is largely due to the compression in imports mainly on account of subdued economic activity, depreciation of the Kwacha, and travel-restrictions and border closures implemented to contain the COVID-19 pandemic.

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

	Jan-20	Feb- 20	Mar-20	Apr-20	May-20	Jun-20
Trade Balance	154.6	11.7	32.2	150.7	217.3	102.9
Total Exports	573.2	554.2	527.4	499.5	584.4	530.0
Copper	416.3	369.9	375.5	362.0	433.1	342.8
Copper concentrates	1.7	12.5	12.3	16.4	20.7	25.4
Cobalt	0.0	1.0	0.0	1.1	0.0	5.9
Gold	19.0	16.6	14.0	18.4	17.9	23.2
NTEs	136.1	154.1	125.5	101.5	112.6	132.5
Total Imports	418.6	542.5	495.2	348.8	367.1	427.1

Source: Bank of Zambia and Zambia Statistics Agency

Global copper prices, although initially impacted by COVID-19 especially in April 2020, have broadly remained favourable thereby supporting exports and local production (Table 2).

Table 2: Realised Prices, Export Volumes and local production

Realised Prices	Jan -20	Feb-20	Mar -20	Apr-20	May-20	Jun-20
Copper (US$/mt)	5,833	5, 824	5, 224	4, 912	5, 264	5, 616
Cobalt (US $/mt)	0.0	31, 661	0.0	32, 820	0.0	28, 714
Gold (US $/ounce)	18,971	16, 583	13, 981	18, 421	17, 908	23, 177
Copper Concentrates (US$/mt)	674	907	766	8712	915	984
Export Volumes						
Copper (mt)	71,382	63, 515	71, 882	73, 717	82, 287	61, 052
Copper Concentrates (mt)	2, 521	13, 782	16, 066	18, 818	22, 622	25, 804
Cobalt (mt)	0.0	33.0	0.0	33.0	0.1	206.7
Gold (ounces)	11, 475	10, 757	8, 622	10, 135	10, 255	14, 193
Production						
Copper (mt)	65,231	64,807	70,970	67,143	74,291	78,625

Source: Bank of Zambia and Zambia Statistics Agency

3.6 Fiscal Performance

COVID-19 adversely affected the fiscal performance through reduced tax revenue mainly from trade (import VAT and customs duty) and corporate taxes while spending pressures have risen in order to combat the virus and mitigate its impact. In addition, external debt service costs have risen on account of the sharp depreciation of the Kwacha. Further, the contraction in economic activity on account of COVID-19 is weighing on tax revenue that was 5.1% below the target of K34.0 billion for the period January -June 2020.

4. Measures taken by the Bank of Zambia in Response to COVID-19

- Reduced the Monetary Policy Rate by 225 in May to 9.25% from 11.50% and further by 125 basis points to 8.00% in August;
- Established a K10 billion 3-5 year Targeted Medium-Term Refinancing Facility to eligible Financial Service Providers;
- Implemented a Bond Purchase Programme;
- Scaled-up open market operations to provide short-term liquidity support on more flexible terms;
- Revised rules governing the operations of the interbank foreign exchange market to support its smooth functioning, strengthen market discipline, and address heightened volatility;
- Revised loan classification and provisioning rules to better accommodate lending, refinancing, and restructuring of facilities to critical sectors; and
- Stepped up sensitization on the use of digital channels and contactless mobile payment mechanisms.

[20] M3 comprises currency in circulation and Kwacha as well as foreign currency deposits.

Appendix

Table 1: Macroeconomic Targets and Outturns: 2018 -2020

	2018 Target	2018 Outturn	2019 Target	2019 Outturn	2020 Target
Real GDP growth rate (%)	5.0	4.0	4.0	1.4*	-4.2
CPI Inflation (%), Annual Average	6-8	7.5	6-8	9.1	6-8
Gross International Reserves (months of imports)	3.0	1.8	3.0	2.1	2.5
Broad Money growth (%)	20.7	15.4	10.2	7.9	11.8
Budget deficit (on cash basis, excluding grants), % of GDP	6.1	7.6	6.5	9.1*	5.5
Domestic financing of Budget (% of GDP)	4.0	3.2	1.4	6.3*	1.1

Source: Bank of Zambia Compilations, Zambia Statistics Agency, Ministry of Finance
*preliminary estimate

Table 2: Actual and Projected Inflation: Dec 2019 – Dec 2020

Month	Projection (a)	Actual (b)	Forecast error (b-a)
Dec-19	10.9	11.7	0.8
Jan-20	12.5	12.5	0.0
Feb-20	12.5	13.9	1.4
Mar-20	14.1	14.0	-0.1
Apr-20	13.9	15.7	1.8
May-20	13.6	16.6	3.0
Jun-20	13.3	15.9	2.6
Jul-20	15.6	15.8	0.2
Aug-20	15.4	15.5	0.1
Sept-20	14.9		
Oct-20	14.8		
Nov-20	14.7		
Dec-20	14.5		

Source: Bank of Zambia, Zambia Statistics Agency

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

	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020
Opening balance	0.3	1.4	1.1	1.4	0.9	2.0
Net Government spending	4.2	2.6	-1.0	-8.1	-3.8	-1.2
BoZ foreign exchange influence	2.2	2.5	1.4	3.2	4.2	2.5
Change in currency in circulation	-0.3	-0.2	-0.5	-0.1	-0.3	-1.8
Change in statutory reserve deposits	-3.1	-6.0	-1.9	-0.3	-1.4	-1.2
Overnight Lending Facility	-1.6	-2.8	-1.3	0.0	0.7	0.2
Net Government securities influence	-1.6	3.1	2.6	2.3	3.4	-0.9
Open market operations	1.3	0.1	0.4	1.5	-1.5	2.9
Closing balance	1.4	1.1	1.4	0.9	2.0	3.0

Source: Bank of Zambia Compilations

Table 4: Exchange Rate: Jan 2017 – Jun 2020

	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020
ZMW/USD	9.53	10.3	11.11	12.43	13.41	16.74
ZMW/GBP	12.57	9.82	14.38	16.06	16.90	21.06
ZMW/EUR	11.22	13.51	12.79	14.04	14.87	18.44
ZMW/ZAR	0.71	11.89	0.78	0.88	0.91	1.01
Real Trade-weighted Exchange Rate (end-period)						
	Dec 2017	Jun 2018	Dec 2018	June 2019	Dec 2019	June 2020
Domestic CPI (2005=100)	299.0	312.6	322.6	339.6	360.2	393.7
Weighted Foreign CPI (2005=100)	143.2	145.7	146.7	149.3	150.0	151.0
NEER	3.03	3.03	3.45	3.73	4.13	4.86
REER Index (2005=100)	111.2	108.4	120.1	125.8	132.0	143.1

Source: Bank of Zambia Compilations

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

	2017		2018		2019		2019
	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half
BoZ Policy Rate (end-period)	12.5	10.3	9.8	9.8	10.3	11.5	9.3
Overnight Lending rate (end-period)	18.5	16.3	15.8	15.8	18.0	28.0	25.8
Overnight interbank rate	12.2	10.0	9.9	9.9	10.0	11.1	9.2
Average commercial banks' lending rate	28.2	28.2	24.2	23.6	25.4	28.6	26.4
Savings rate							
more than K100	2.7	2.7	2.8	3.0	3.1	3.0	3.0
above K20,000 (180 days)	11.9	11.9	8.1	8.5	10.1	10.1	10.3
Treasury bills yield rates							
composite yield rate	14.9	15.1	16.5	20.0	23.6	25.5	25.9
91days	15.7	9.9	10.0	13.3	15.6	16.5	16.6
182 days	17.4	10.1	11.5	14.7	15.6	18.4	20.7
273 days	17.9	12.0	11.6	18.8	23.7	26.4	27.0
364 days	19.3	16.0	17.3	21.1	24.6	27.3	28.7
Government bond yield rates							
composite yield rate	18.1	18.2	18.6	19.4	28.1	31.1	32.4
2 years	21.4	16.5	16.4	19.3	27.7	29.5	30.7
3 years	20.9	17.9	17.9	19.2	28.0	29.5	30.2
5 years	21	17.8	17.9	20.3	28.8	32.6	33.0
7 years	21.6	18.6	19.0	18.7	25.0	25.0	25.0
10 years	21.4	19.7	19.5	20.6	26.6	26.4	25.2
15 years	23.3	18.7	18.5	17.4	18.3	24.5	30.8

Source: Bank of Zambia Compilations

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

	1st Half 2017	2nd Half 2017	1st Half 2018	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020
Microfinance Institutions	73.4	81.3	82.7	83.1	81.0	81.0	88.8
Leasing Finance Institutions	59.1	52.0	28.0	40.5	39.0	39.9	39.9
Building Societies	39.5	35.3	28.9	34.91	34.9	34.9	51.0
Development Bank of Zambia	25.2	25.2	30.6	26.6	27.1	27.1	28.2
National Savings and Credit Bank	31.0	31.0	67.0	67.0	73	73.0	73.5
Financial Businesses	33.8	33.8	35.5	35.5	35.5	35.5	43.5
Overall for the sector	43.7	43.1	45.5	46.7	48.4	48.6	54.2

Source: Bank of Zambia Compilations

Table 7: Domestic Credit (K' billion unless otherwise stated): June 2017 – June 2020

	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	Jun-20
Domestic Credit (DC)	55.5	61.8	63.8	71.1	76.6	83.0	98.8
o/w foreign currency denominated	10.9	13.3	13.3	17.0	19.5	22.7	25.9
DC (excl. FX denominated credit)	44.6	48.5	50.5	54.1	57.1	60.3	72.8
6-month % change in DC	13.4	11.4	3.2	11.4	7.8	8.4	18.9
6-month % change in Forex Credit	32.9	22.2	-0.4	28.0	14.8	16.7	14.0
6-Month Change in DC (Excl. Forex Credit)	9.6	8.7	4.2	7.1	5.6	5.5	20.8
Annual Change in Domestic Credit	20.4	26.4	15.0	15.0	20.1	16.8	28.9

Source: Bank of Zambia

Table 8: Shares of Total Loans and Advances by Sector (%): Jun 2017 – June 2020

	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	Jun-20
Agric, forestry, fishing & hunting	19.6	20.3	18.8	16.9	17.3	16.4	15.9
Mining & Quarrying	6.4	6.3	6.7	7.0	6.6	7.4	7.3
Manufacturing	10.6	7.8	7.9	9.2	10.7	8.9	10.0
Electricity, Gas, Water & Energy	2.2	3.1	2.8	3.0	4.3	4.3	3.9
Construction	3.8	4.4	3.9	3.0	2.4	2.2	2.0
Wholesale & Retail Trade	10.2	11.4	11.2	11.1	10.7	11.5	8.8
Restaurants & Hotels	1.4	1.5	1.3	1.3	1.1	0.9	1.1
Transport, Storage & Communications	4.5	4.7	4.7	6.2	7.8	8.8	8.4
Financial Services	2.3	2.2	3.0	4.1	2.6	2.1	2.9
Community, Social & Personal	4.3	4.1	4.2	4.8	4.7	6.6	9.8
Real Estate	3.7	3.5	3.7	3.5	3.3	3.2	3.6
Personal Loans	27.2	28.0	29.7	27.9	27.1	23.8	22.6
Others	3.9	2.7	2.1	2.1	1.3	3.9	3.7

Source: Bank of Zambia

Table 9: Broad Money (K' billion unless otherwise stated): Jun 2017 – Jun 2020

	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	Jun-20
Broad Money (M3)	47.8	54.1	55.3	63.0	63.7	70.9	82.5
Foreign Exchange (FX) Deposits	16.7	19.4	21.4	25.4	25.9	28.9	35.1
M3 (excl. Foreign Exchange Deposits)	31.1	34.6	31.9	37.6	37.8	42.0	47.4
6-month change in M3 (%)	7.1	13.1	2.2	14.0	1.2	11.2	16.4
6-month % change in Forex deposits	-1.9	16.5	10.0	18.5	2.3	11.5	21.4
6-Month % change in M3 (excl. Forex deposits)	12.9	11.4	-7.9	18.0	0.4	11.1	12.9
Annual % change in M3 (%)	8.3	21.3	15.6	16.5	15.4	12.5	29.4
Annual % change in Forex deposits	-8.9	13.7	28.1	30.4	21.2	14.0	35.3
Annual % change in M3 (excl. Forex Deposits)	20.6	26.0	2.6	8.7	18.5	11.6	25.4

Source: Bank of Zambia

Table 10: Trade Data (c.i.f - US$ million): Jul 2017 – Jun 2020

	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020
Trade Balance	-311.3	-86.8	-357.0	223.8	-141.1	669.5
Total Exports, f.o.b. (including Gold)	4,453.9	4,610.0	4,407.9	3,909.9	3,396.8	3,268.8
General Exports, f.o.b	4,382.3	4,530.3	4,339.6	3820.7	3,289.6	3,159.7
Metals	3,382.4	3,619.3	3,179.2	2,755.5	2,281.7	2,397.4
Copper	3,307.8	3,548.8	3,130.7	2,752.2	2,242.4	2,389.3
Cobalt	74.6	70.5	48.5	3.3	39.4	8.1
Non-Traditional Exports	999.9	911.0	1,160.4	1,065.2	1,007.8	762.4
Exporter Audit Adjustor	-13.2	-13.2	-13.2	0.0	0.0	0.0
Sub Total	1,013.0	924.1	1,173.6	1,065.2	1,007.8	762.4
Gemstones	4.9	5.1	5.6	63.0	93.9	40.6
Sulphuric acid	47.6	84.8	86.5	95.1	53.7	53.1
Industrial Boilers and Equipment	43.9	59.7	66.8	80.2	59.0	37.0
Cane Sugar	64.3	55.5	69.3	66.8	75.0	44.9
Gasoil/Petroleum Oils	3.8	4.5	5.1	4.1	3.5	7.1
Cement & Lime	40.0	43.7	70.0	71.9	95.3	83.9
Electricity	33.6	33.7	49.3	38.2	48.2	37.2
Raw hides, Skins & Leather	5.0	1.1	4.3	1.8	2.9	2.1
Sulphur sublimed or precipitated; colloidal	0.0	0.0	0.1	0.2	0.0	0.0
Burley Tobacco	36.8	42.3	62.3	28.5	41.3	50.3
Copper Wire	42.1	35.2	43.7	34.6	18.6	17.3
Scrap of precious metals	0.2	1.2	0.3	0.7	1.5	1.0
Maize & Maize Seed	72.2	18.4	26.0	10.7	26.2	5.8
Electrical Cables	10.9	13.6	7.6	11.2	6.1	5.1
Cotton Lint	24.6	12.0	37.2	21.2	32.2	4.4
Soap, Active Agents, Washing Preps.	24.5	25.4	27.7	21.6	33.8	30.5
Fresh Fruits & Vegetables	8.7	7.6	5.4	4.4	5.0	3.7
Manganese Ores/Concentrates	9.3	9.7	17.2	7.6	10.4	5.0
Wheat & Meslin	0.0	0.0	0.0	0.0	0.0	0.0
Fresh Flowers	4.6	6.4	3.7	4.6	4.0	3.8
Other	536.0	464.1	585.4	498.6	397.1	329.5
Gold	71.6	79.7	68.3	89.2	107.2	109.0
Imports c.i.f./1	-4,765.2	-4,696.8	-4,764.8	-3,686.1	-3,537.9	-2,599.2

Source: Bank of Zambia Compilations

Table 11: Metal Export Volumes, Values and Prices: Jan 2016 – Jun 2020

	Copper				Cobalt			
	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound
Jul-Dec 2016	468,077.6	2,284,859.2	4,881.4	2.2	2,718.0	71,287.8	26,228.0	11.9
Quarter 1	259,675.9	1,429,496.8	5,504.9	2.5	602.8	26,683.6	44,264.9	19.8
Quarter 2	253,428.0	1,428,281.5	5,635.8	2.6	652.2	23,504.8	36,040.6	23.3
Jan-Jun 2017	513,104.0	2,857,778.4	5,569.6	2.5	1,255.0	50,188.4	39,991.0	21.6
Quarter 3	231,858.4	1,450,945.6	6,257.9	2.8	726.0	41,054.3	56,548.7	25.7
Quarter 4	278,897.3	1,856,875.8	6,657.9	3.0	609.0	39,067.4	64,150.2	29.1
Jul-Dec 2017	510,755.2	3,307,820.9	6,476.3	2.9	1,335.0	80,121.8	60,016.3	27.2
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	239,151.1	1,188,482.4	4,969.6	2.3	33.0	1,044.8	31,660.5	14.4
Quarter 2	284,301.6	1,200,811.0	4,223.7	1.9	239.7	7,017.0	29,271.8	13.3
Jan-Jun 2020	523,452.7	2,389,293.4	4,564.5	2.1	272.7	8,061.8	29,560.9	13.4

Source: Bank of Zambia Compilations

Table 12: Imports by Commodity Groups (c.i.f - US$ million): Jan 2017 – Jun 2020

	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2019	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2019
Food Items	286.4	255.9	258.9	235.9	299.9	234.3
Petroleum Products	649.6	674.9	664.9	648.5	611.7	319.8
Fertilizer	237.3	186.9	244.5	104.3	231.9	221.3
Chemicals	961.4	504.3	492.6	470.6	381.8	337.8
Plastic and Rubber Products	208.6	224.7	247.4	212.4	228.0	199.9
Paper and paper products	56.1	58.0	74.8	51.5	78.1	45.6
Iron and Steel and items thereof	244.4	276.6	289.0	243.7	247.0	136.3
Industrial Boilers and Equipment	568.0	676.8	713.0	606.9	528.1	348.8
Electrical Machinery & Equipment	222.3	346.5	242.6	222.5	217.7	140.2
Vehicles	257.9	364.1	439.3	304.5	278.6	179.2
Ores, Slag and Ash	589.4	657.5	614.0	138.9	20.7	61.3
Other Imports	483.9	470.6	484.1	446.3	414.2	374.7
Total	**4,765.2**	**4,696.8**	**4,765.1**	**3,686.1**	**3,537.9**	**2,599.3**

Source: Bank of Zambia Compilations

Table 13: Government Budget (K'bn): Jan 2019 - Jun 2020

	Second Half 2019		Second Half 2019		First Half 2019	
	Target	Prel	Target	Prel	Target	Prel
Total Revenue & Grants	30.1	32.5	28	28.8	34.0	32.2
Tax Revenue	24.8	25.2	22.8	23.3	26.8	24.0
Non-Tax Revenue	4.6	6.9	4.8	5.2	5.6	7.5
Grants	0.6	0.5	0.4	0.4	1.6	0.7
Total Expenditure	43.1	42.6	44.1	44.2	44.3	41.6
Current Expenditure	27.2	26.2	33.3	33.3	28.9	30.2
Personal Emoluments	12.9	11.2	12.4	11.8	12.3	12.5
Use of Goods & Services	2.3	2.0	1.4	2.2	3.0	3.7
Interest	7.3	9.2	7.9	8.8	10.2	9.1
Grants & Other Payments	3.7	3.5	10.5	8.9	3.0	4.3
Social Benefits	0.7	0.1	0.9	0.1	0.4	0.6
Other Expenses	0.4	0.2	0.4	0.3	0.0	0.0
Liabilities	0.3	0.0	0.2	0.2	0.3	1.4
Assets	11.1	16.3	10.5	12.0	15.0	10.0
Non- Financial Assets	11.0	16.3	10.4	12.0	14.9	10.0
Financial Assets	0.0	0.0	0.1	0.0	0.1	0.0
Change in Balances & Statistical discrepancy	1.5	1.1	-2.4	0.7	-0.4	1.5
Fiscal Balance	-8.5	-10.1	-16.1	-15.4	-10.4	-9.4
Financing	10.0	11.2	13.8	16.1	9.9	10.9
Net Domestic	2.9	0.3	7.2	8.6	2.8	7.1
Net Foreign (net)	7.1	10.9	6.6	7.5	7.1	3.8

Source: Ministry of Finance