



Bank of Zambia



MONETARY POLICY STATEMENT

July - December 2021

REGISTERED OFFICES

Head Office

Bank Square, Cairo Road
P.O. Box 30080, Lusaka, 10101, Zambia
Tel: +260 211 399300
Cell:+26 097 1270090/096 388482
E-mail: info@boz.zm
Website: www.boz.zm

Regional Office

Buteko Avenue
P.O. Box 71511, Ndola, Zambia
Tel: +260 212 399600
Cell:+260 971 270120/+260 963 885580
E-mail: info@boz.zm
Website: www.boz.zm



Bank of Zambia

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

TABLE OF CONTENTS

Executive Summary	1
Introduction	2
Monetary Policy Objectives and Instruments for the Second Half of 2021	2
Inflation Projections for the Second Half of 2021	2
Domestic Economic Outlook for 2021-2022	2
Global Economic Outlook for 2021-2022	3
Review of Global Developments in the First Half of 2021	4
Assessment of Monetary Policy Implementation in the First Half of 2021	5
Review of Domestic Macroeconomic Developments in the First Half of 2021	5
Conclusion	7
Appendix	8



BANK OF ZAMBIA

Executive Summary

In February 2021, the MPC signalled the need to address rising inflation by increasing the Policy Rate whilst remaining mindful of the continuing impact of the COVID-19 pandemic on people's lives and livelihoods. Over the second half of the year, the Bank will continue on the normalisation path to unwind the accommodative monetary policy measures implemented in 2020. Despite holding the Monetary Policy Rate at 8.5 percent on September 1, 2021, for the second consecutive time, the Bank remains committed to adjusting the Policy Rate upwards should the disinflationary process be slower than expected in returning inflation to within the target range over the next eight quarters—second half of 2023 at the latest. Inflation is currently projected to decelerate faster and edge closer to the target range than was envisaged earlier mainly due to the favourable outlook for the exchange rate and improved prospects for fiscal consolidation. The Bank will continue to rely on the forward-looking monetary policy framework anchored on the Policy Rate as a key signal for monetary policy stance bearing in mind subdued economic activity and existing vulnerabilities in the financial system.

Annual inflation rose in the first half of 2021 driven by the sustained depreciation of the Kwacha as well as reduced supply of selected food items. Interest rates generally increased in line with the upward adjustment in the Policy Rate in February and the rise in domestic financing requirements by Government. Credit to the private sector picked up, bolstered by disbursements under the Bank of Zambia Targeted Medium-Term Refinancing Facility. However, the growth in credit to Government reduced as commercial banks accumulated less securities than in the previous period. Nonetheless, the fiscal deficit widened owing to financing pressures to meet expenditures for agricultural inputs, but the current account surplus expanded as the rise in exports outweighed imports. Economic activity remained weak in the first half of 2021 as the spike in COVID-19 cases and related restrictions weighed on overall business performance.

1.0 Introduction

This Statement outlines monetary policy objectives of the Bank of Zambia (BoZ) for the second half of 2021. It also contains inflation projections, prospects for global and domestic economic growth as well as a review of macroeconomic developments in the first half of 2021.

2.0 Monetary Policy Objectives and Instruments for the Second Half of 2021

Over the second half of the year, the Bank will continue on the normalisation path to unwind the accommodative monetary policy measures implemented in 2020 to mitigate the adverse effects of the pandemic¹. Despite holding the Monetary Policy Rate at 8.5 percent on September 1, 2021, for the second consecutive time, the Bank remains committed to adjusting the Policy Rate upwards should the disinflationary process be slower than expected in returning inflation to within the target range of 6-8 percent over the next eight quarters — second half of 2023 at the latest. Inflation is projected to decelerate faster and edge closer to the target range than was envisaged earlier mainly due to the favourable outlook for the exchange rate and improved prospects for fiscal consolidation.

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 bearing in mind subdued economic activity and existing vulnerabilities in the financial system. In addition, inflation forecasts, outcomes, and identified risks, including those associated with financial stability and the COVID-19 pandemic will inform decisions on the Policy Rate.

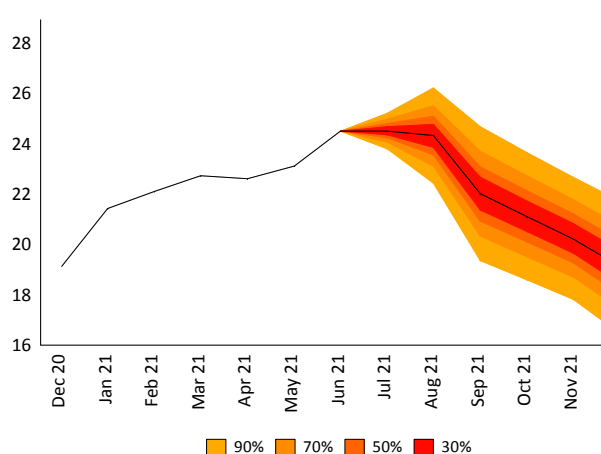
3.0 Inflation Projections for the Second Half of 2021

Annual overall inflation is projected to decline to 19.2 percent in December 2021 from 24.6 percent in June 2021 (Chart 1 and Table 1 – Appendix). Underlying this projection is mainly the impact of the recent significant appreciation of the Kwacha driven by improved supply of foreign exchange and positive sentiments arising from the receipt of Special Drawing Rights from the IMF, prospects of securing an IMF

Programme earlier than previously anticipated, and progress with debt restructuring.

The range of possible inflation outcomes during the second half of 2021 are illustrated in Chart 1. Inflation is expected to range from 21.4 percent to 22.5 percent with a 30 percent probability, 21.1 percent to 22.8 percent with a 50 percent probability, 18.6 percent to 23.3 percent with a 70 percent probability, and 16.8 percent to 26.1 percent with a 90 percent probability. Nonetheless, the possible increase in domestic energy prices (fuel pump prices and electricity tariffs) and COVID-19 related supply disruptions remain key upside risks to inflation.

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



Source: Zambia Statistics Agency and Bank of Zambia Forecasts

4.0 Domestic Economic Outlook for 2021-2022

The economy is projected to rebound in 2021 and the medium-term. Real GDP is expected to grow by 1.6 percent in 2021 and strengthen to 3.0 percent in 2022 against a preliminary contraction of 3.0 percent in 2020 (Table 2 – Appendix). Largely accounting for the recovery in 2021 is the expected positive growth in information and communication, electricity, public administration, as well as mining sectors.

The information and communication sector is expected to benefit from the continued expansion in mobile payment solutions, additional investments in modern data and voice infrastructure as well as recourse to virtual platforms in the COVID-19 era.

¹The measures included the significant reduction in the Policy Rate, increased liquidity support through the scaling up of open market operations, launching a Secondary Market Bond Purchase Programme, and measures to enhance financial sector resilience such as the establishment a K10 billion Targeted Medium-Term Refinancing Facility, revision of loan classification and provisioning rules as well as the promotion of digital channels for making payments.

The commencement of generation at Kafue Gorge Lower and Lusiwasi Upper Hydropower Stations will significantly improve electricity supply and support economic activity over the medium-term. The good rainfall received in 2020/2021 rainy season has improved dam water levels and continues to support hydropower generation previously affected by the drought.

The recruitment of staff in health and education is expected to boost the contribution of the public administration and defence sector.

Copper output is projected to rise further in 2021 and the medium-term. The recently refurbished smelter at Mopani Copper Mines, higher capacity utilisation, favourable ore grades, and the reduction in cash costs at several mines are expected to support production.

However, uncertainty surrounding new and more contagious COVID-19 variants remains a key downside risk to the growth projection.

5.0 Global Economic Outlook for 2021-2022

5.1 Economic Growth

The global economy is expected to recover² in 2021, expanding by 6.0 percent against a contraction of 3.2 percent in 2020. However, growth is expected to moderate to 4.9 percent in 2022. Sustained expansionary fiscal policies, particularly in the United States³, and recovery in global trade are expected to drive global growth. This is despite the emergence of more contagious COVID-19 variants coupled with the slower pace of vaccinations, particularly in most emerging markets and developing economies, as well as geopolitical tensions.

Growth is projected to be uneven across countries depending on the extent of economic disruption by the pandemic as well as the magnitude and impact of stimulus packages. For instance, for most emerging markets and developing economies (EMDEs), growth is expected to be sluggish considering the surge in COVID-19 infections and low vaccination rates amid constrained policy support.

Growth in the sub-Saharan Africa (SSA) region is projected to rebound to 3.4 percent in 2021 and

strengthen to 4.1 percent in 2022 from a contraction of 1.8 percent in 2020. This reflects strong demand from key trading partners, particularly China, higher commodity prices and a gradual pick-up in tourism supported by improvements in COVID-19 vaccination. However, renewed COVID-19 infections, elevated fiscal deficits, slower pace of vaccination and social unrest could weigh heavily on economic activity.

According to the export-weighted GDP Index (GDP-9)⁴, real GDP growth in Zambia's major trading partner countries is expected to recover in 2021 and strengthen in 2022. China, the Democratic Republic of Congo (DRC) and South Africa are expected to drive the recovery, reflecting the strong turnaround in economic activity on account of progress on COVID-19 vaccination, sustained policy support and increased external demand.

The Chinese economy is projected to expand by 8.1 percent in 2021 and 5.7 percent in 2022 as export demand and domestic consumption strengthen, monetary and fiscal support is sustained, and the construction sector supported by enhanced public infrastructure spending expands. In addition, the implementation of the *Made In China 2025 Initiative* focusing on innovation-driven development and industrialisation is expected to boost growth.

In DRC, a favourable economic outlook is anticipated with real GDP growth projected at 3.8 percent in 2021 and 4.9 percent in 2022. This reflects prospects of stronger mining exports as global demand and commodity prices rise and production at the Kamoakakula Copper Mine⁵ is ramped up. For South Africa, real GDP is projected at 4.0 percent for 2021 and 2.2 percent for 2022. The upbeat economic outlook is based on improvements in COVID-19 vaccination, upturn in domestic and external demand, higher commodity prices as well as envisaged gradual easing of electricity supply constraints over the medium-term in view of the planned commissioning of additional generating capacity⁶.

In the United Kingdom, Singapore, United Arab Emirates (UAE), Hong Kong, Malawi and Tanzania, sustained policy support, increased vaccination, improved tourism as well as rising domestic and external demand are the key factors to drive growth in the medium-term. In addition, for Tanzania, a prospective IMF Rapid Credit Facility should augment the recovery while firming crude oil prices are expected to provide more stimulus to UAE growth.

²International Monetary Fund, World Economic Outlook (WEO) Update, July 2021. The revised projections are 0.5 percentage points and 0.7 percentage points higher for 2021 and 2022, respectively than envisaged in January 2021.

³The U.S. Congress is expected to approve approximately US\$4.0 trillion in proposed infrastructure, education and family support spending by the current administration.

⁴The GDP-9 index is a measure used to assess external demand conditions in Zambia's key trading partner countries. It is computed as a Fisher Ideal Index and constructed based on nine countries that include China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi and Tanzania. In 2020, these countries accounted for 86.9 percent of Zambia's exports, excluding Switzerland (predominantly an invoicing country for copper exports).

⁵The Kamoakakula Copper Project which commenced production in the second quarter of 2021 is a massive undertaking with a projected production of about 400,000 tonnes of copper per annum. Peak annual copper output is estimated at approximately 800,000 tonnes.

⁶In line with the Integrated Resource Plan of 2019, South Africa plans to develop new electricity generating capacity of about 39,730 MW by 2030.

Nonetheless, the growth outlook is largely dependent on the evolving path of the pandemic. In addition, the US-China trade tension, particularly for Singapore and Hong Kong, and slowing productivity due to the aging population could weigh on growth in China. For the United Kingdom, persistent trade disruption on account of post-Brexit border formalities and associated costs may dampen exports. High public debt, elevated unemployment, slower than anticipated resolution of electricity supply constraints and social unrest in some parts of the country could possibly slow the recovery in South Africa. In Tanzania, Malawi and the DRC, limited access to vaccines remains the major downside risk.

5.2 Commodity Prices

Copper and crude oil prices are projected to pick-up in the near-term, supported by strengthening global demand, particularly from China. Copper prices are also expected to be boosted by the rapid growth of the electric vehicle industry and transition to renewable energy systems. The pick-up in economic activity is expected to support the rise in crude oil prices although the increase will largely depend on the evolution of the pandemic and key supply side factors, including US crude inventories and supply by OPEC+⁷.

Copper prices are expected to average US\$9,244.1 per tonne in 2021 and rise to US\$9,418.4 in 2022. Crude oil prices are also projected to rise, averaging US\$67.4 per barrel in 2021 and US\$68.1 in 2022. Prices for selected agricultural commodities are projected to rise on account of stronger global demand and rising crude oil prices that are expected to escalate production costs.

Nonetheless, the likely emergence of new COVID-19 variants poses a downside risk to commodity prices as demand may slacken due to possible re-imposition of lockdown measures.

6.0 Review of Global Developments in the First Half of 2021

6.1 Economic Growth

The global economy posted gains in the first half of 2021, driven by the gradual reopening of economies following the relative success in COVID-19 vaccination in most advanced countries. However, rising COVID-19

delta-wave infections amid vaccine hesitancy, particularly in emerging markets and low-income countries, as well as labour and material shortages as rising demand outpaced supply leading to inflationary pressures weighed on business activity.

Economic growth in Zambia's major trading partner countries gained further traction as economies, especially China, re-opened.

In China, growth accelerated owing to strengthening domestic and external demand due to strong policy support and increased COVID-19 vaccination. Consequently, manufacturing output and services activity gathered momentum. However, the pace of economic expansion slowed down towards the end of the first half of 2021 as renewed COVID-19 infections affected output, particularly in the export hub of Guangdong.

Higher commodity prices contributed to increased economic activity in the DRC while the services sector led growth in the United Kingdom following the easing of COVID-19 restrictions. In South Africa, growth was supported by mining, finance and manufacturing sectors. In the UAE, Singapore, Hong Kong, Tanzania and Malawi, the improvement in economic activity was mainly backed by recovery in external demand and easing of COVID-19 restrictions owing to increased vaccination. Nonetheless, the third wave of COVID-19 and fiscal fragilities continued to weigh on growth in some of Zambia's trading partner countries.

6.2 Commodity Prices

Commodity prices increased in the first half of 2021 mainly supported by a strong recovery in global demand. In particular, increased demand and a weaker US dollar largely contributed to price increases for copper and crude oil. In addition, the agreement by OPEC+ to maintain supply cuts, particularly in the early part of the period amidst declining US crude inventories, fears of a protracted Suez Canal blockage, and the effects of the Houthi attack on Saudi oil facilities⁸ reinforced the gain in crude oil prices. As a result, crude oil prices increased by 45.90 percent to US\$63.0/barrel while copper prices rose by 32.6 percent to average US\$9,091.5 per metric tonne in the first half of 2021.

Agricultural commodities prices also rose owing to a weaker US dollar and buoyant global demand amid constrained supply. Thus, the average price for soybeans increased to US\$601.5/metric tonne in the first half of 2021 from US\$442.0 in the preceding period. Over the same period, wheat prices rose to

⁷OPEC+ is a group comprising 24 oil-producing nations, 14 of which are members of the Organization of Petroleum Exporting Countries (OPEC), and 10 are non-OPEC members, including Russia. The group was formed to coordinate oil output among the countries in an effort to stabilise prices.

⁸In March, Houthi rebels of Yemen launched multiple drone and ballistic missile attacks on Saudi oil installations targeting Aramco facilities, which are important to petroleum exports. This caused Saudi Arabia to temporarily suspend crude oil production. The rebel group affirmed that more severe attacks were expected in the near future.

US\$275.5 /metric tonne from US\$ 231.0. Similarly, maize prices rose to US\$265.1/metric tonne from US\$174.0 and sugar prices increased to US\$0.36/kg from US\$0.30.

7.0 Assessment of Monetary Policy Implementation in the First Half of 2021

In the first half of 2021, monetary policy focused on containing escalating inflationary pressures and anchoring inflation expectations. In this regard, the Monetary Policy Rate was raised by 50 basis points to 8.50 percent having maintained it at 8.00 percent in 2020. The adjustment took into account the need to strike a balance between containing rising inflation and anchoring inflation expectations against supporting financial system stability given existing vulnerabilities and fragile economic growth.

The Policy Rate was maintained at 8.50 percent in May 2021 despite the inflation forecast remaining above the 6-8 percent target range. It was noted that inflationary pressures could ease faster than earlier anticipated, particularly towards the end of the forecast horizon⁹, on account of improved supply of food (particularly maize and wheat following a strong crop harvest), higher than anticipated copper prices, and improved external sector support. Holding the Policy Rate would also allow the hike in February to take full effect on the economy. Broadly, monetary policy remained supportive of the macroeconomic objectives (Table 2 - Appendix).

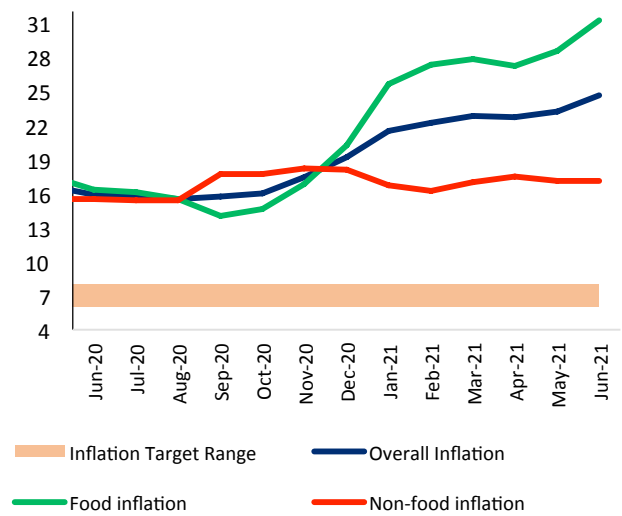
8.0 Review of Domestic Macroeconomic Developments in the First Half of 2021

8.1 Inflation Outturn

Annual average overall inflation rose to 22.8 percent in the first half of 2021 from 16.6 percent in the last half of 2020 (Chart 2). Sustained depreciation of the Kwacha, imported inflation, as well as reduced supply of meat, fish and some vegetables were the key drivers

of inflation. Food inflation rose to 27.9 percent from 16.2 percent but non-food inflation declined to 16.9 percent from 17.1 percent.

Chart 2: Annual Inflation Rate (Percent)

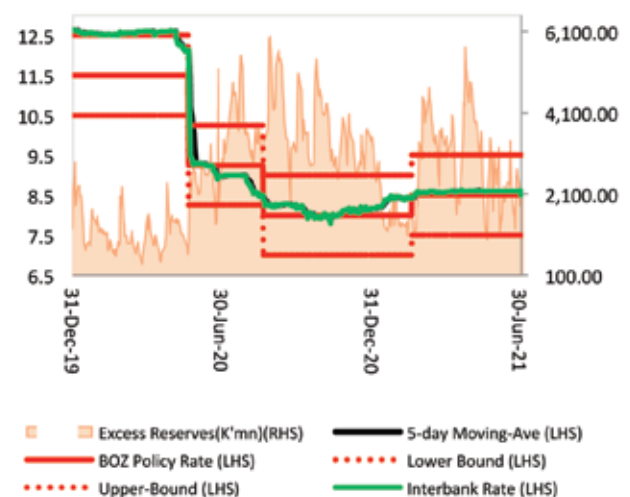


Source: Zambia Statistics Agency

8.2 Interbank Rate and Money Market Liquidity

The average overnight interbank rate marginally rose to 8.53 percent from 8.31 percent but remained within the Policy Rate Corridor of 7.50 – 9.50 percent (Chart 3 and Table 3 - Appendix). This was in line with the increase in the Policy Rate by 50 basis points to 8.50 percent in February.

Chart 3: Market Liquidity and Interbank Rate



Source: Bank of Zambia Compilations

Excess reserves, measured as commercial banks' aggregate current account balance, fell to K2.2 billion at end-June 2021 from K3.3 billion at end-December 2020 on the back of Bank of Zambia interventions in the foreign exchange market, net Government securities sales and currency demand by the non-bank public. This was despite liquidity injections through the Secondary Market Bond Purchase Programme (SMBPP)¹⁰, net Government spending and expansionary Open Market Operations (OMOs).

8.3 Government Securities Market

Demand for Government bonds picked up in the first half of 2021 on the back of relatively higher yield rates and improved investor sentiment following the credit rating upgrade by Fitch in April 2021. These developments particularly attracted non-resident investors. As a result, the subscription rate rose to 115.0 percent from 45.0 percent.

Treasury bill auctions continued to be dominated by commercial banks and were adequately subscribed with the subscription rate averaging 117.0 percent (123.0 percent in first half 2020)

A total K22.4 billion was raised from the auctions against maturities of K15.7 billion resulting in a surplus of K6.7 billion. In view of heightened spending needs, particularly for the Farmer Input Support Programme and importation of petroleum products, Government increased the tender size¹¹ for Treasury bills and issued additional securities through private placements.

Consequently, the outstanding stock of Government securities increased by 27.0 percent to K130.2 billion (face value). Non-resident investors held K18.1 billion at end-June, representing 13.9 percent of the stock (K13.5 billion, 13.2 percent in December 2020). Nearly all their holdings (93.0 percent) were in Government bonds.

8.4 Capital Market Performance

The performance of the domestic equity market continued to improve as the Lusaka Securities All-share Index (LASI) rose by 14.4 percent to 4,412.3 at end-June 2021 and market capitalization increased to K59.7 billion from K57.5 billion.

Positive performance of shares for some companies in the manufacturing and real estate sectors, favourable

litigation outcomes for some companies, and positive news regarding the acquisition of Lafarge Zambia by Huanxin Limited contributed to the increase in the LASI.

8.5 Foreign Exchange Market

The Kwacha continued to weaken against major trading partner currencies owing to sustained demand mostly for the procurement of farming inputs under FISP and petroleum products. Against the US dollar, the Kwacha depreciated by 11.1 percent to an average of K22.03 (Table 4 – Appendix). The Kwacha depreciated against the British pound sterling, euro and South African rand, by 17.9 percent, 13.2 percent and 23.7 percent to K30.59, K26.55 and K1.52, respectively.

To maintain stability in the exchange rate, the Bank of Zambia sold a net of US\$422.9 million to the market compared to US\$452.6 million in the second half of 2020.

8.6 Interest Rates

Interest rates generally increased in line with the upward adjustment in the Policy Rate in February and the rise in domestic financing requirements by Government (Tables 5 and 6 - Appendix).

Commercial banks' average lending rate rose to 25.6 percent in June 2021 from 25.1 percent in December 2020. Similarly, the average composite Treasury bill rate rose to 21.9 percent from 19.8 percent. The average composite Government bond rate, however, declined to 31.2 percent from 33.4 percent following heightened demand by non-resident investors. The average 180-day deposit rate for amounts exceeding K20,000 was broadly unchanged at 9.9 percent.

8.7 Domestic Credit

Domestic credit¹² continued to expand, albeit at a reduced pace, growing by 36.2 percent, year-on-year, in June from 41.9 percent in December 2020. This was largely due to reduced growth in lending to Government as commercial banks accumulated less securities than in the previous period (Table 7 - Appendix). However, credit to the private sector picked up to 16.3 percent from 8.5 percent largely due to increased disbursements under the Bank of Zambia Targeted Medium-Term Refinancing Facility (TMTRF)¹³. In addition, increased utilization of overdraft facilities for working capital by corporates

⁹The forecast period spans eight quarters from the third quarter of 2021 to the second quarter of 2023.

¹⁰The Board approved the extension of the Secondary Market Bond Purchase Programme on February 1, 2021. The extension is for K10 billion effective January 2021 to December 2021. As at end-March, K2.3 billion worth of bonds were purchased.

¹¹In April 2021, the Treasury bill tender size was raised to K1.4 billion from K1.3 billion while that for Government bonds remained unchanged at K1.5 billion.

¹²Total domestic credit includes lending by the Bank of Zambia, commercial banks, and other depository corporations in both Kwacha and foreign currency.

¹³Disbursements increased to K6.4 billion in June from K4.1 billion in January partly due to changes to the Terms and Conditions which provided flexibility for Financial Service Providers (FSPs) to drawdown on approved amounts based on confirmed pipeline irrespective of whether the borrowers were in targeted or non-targeted sectors.

and SMEs contributed to the growth in private sector credit. Households (personal loans) continued to dominate Kwacha loans followed by the community and social services as well as manufacturing sectors. (Table 8).

8.8 Broad Money

Money supply (M3) continued to expand, growing by 48.3 percent, year-on-year, in June 2021 compared to 46.4 percent in December 2020. The stock of M3 rose to K121.9 million at end June 2021 from K103.8 billion at end-2020 (Table 9 - Appendix). The accumulation of international reserves largely influenced the growth in M3.

8.9 Current Account

The current account surplus widened to US\$1.5 billion (16.0 percent of GDP) in the first half of 2021 from US\$1.4 billion (14.9 percent of GDP) in the second half of 2020 as exports outweighed imports and secondary income rose (Table 10 - Appendix).

Export earnings increased to US\$5.1 billion, the bulk of it was from copper receipts (US\$4.0 billion) from US\$4.7 billion in the second half of 2020 (Tables 11 and 13 - Appendix). Higher copper prices supported copper earnings despite a decline in export volumes due to the fall in production. Non-traditional export (NTEs) earnings, however, declined mainly due to lower earnings from cement and lime and electricity. Over the same period, imports rose to US\$2.7 billion from US\$2.4 billion, reflecting a pick-up in economic activity, particularly in the second quarter (Table 12 - Appendix). Secondary income rose by US\$40.7 million as a result of remittances to households.

8.10 Fiscal Balance

The fiscal deficit widened in the first half of 2021 owing to financing pressures mainly to meet expenditures for the Farmer Input Support Programme (Table 14 - Appendix). Total revenue and grants exceeded the target due to higher mining tax collections and dividend payment by the Bank of Zambia.

8.11 Economic Activity

Economic activity remained weak in the first half of 2021. Preliminary data indicate that real GDP grew by 0.7 percent, year-on-year, in the first quarter of 2021 against a contraction of 2.7 percent in the fourth

quarter of 2020. Agriculture, finance and insurance as well as information and communication sectors contributed significantly to the recovery.

Economic activity, however, slackened in the second quarter. This is based on the [Bank of Zambia Survey of Business Opinions and Expectations](#) results which revealed that only seasonal agricultural related activities improved of all the monitored indicators. Similarly, the Stanbic Bank Purchasing Manager's Index (PMI) also signalled a weak business environment with the average reading remaining below the 50.0 mark. A spike in COVID-19 cases between May and June and related restrictions weighed on overall business performance.

9.0 Conclusion

Over the second half of the year, the Bank will continue on the normalisation path to unwind the accommodative monetary policy measures implemented in 2020 to mitigate the adverse effects of the pandemic. Despite holding the Monetary Policy Rate at 8.5 percent on September 1, 2021 for the second consecutive time, the Bank remains committed to adjusting the Policy Rate upwards should the disinflationary process be slower than expected in returning inflation to within the target range of 6 - 8 percent over the next eight quarters—second half of 2023 at the latest. Inflation is projected to decelerate faster and edge to the target range of 6 - 8 percent mainly on account of the favourable outlook for the exchange rate and improved prospects for fiscal consolidation.

Annual inflation rose in the first half of 2021 driven by the sustained depreciation of the Kwacha as well as reduced supply of selected food items. Interest rates generally increased in line with the upward adjustment in the Policy Rate in February. Credit to the private sector picked up but credit to Government grew at a reduced pace as commercial banks accumulated less securities than in the previous period. The fiscal deficit widened, but the current account surplus expanded. Although economic activity remained weak in the first half of 2021, the economy is projected to rebound in 2021 and strengthen over the medium-term.

Appendix

Table 1: Actual and Projected Inflation: Dec 2020 – Dec 2021

Month	Projection (a)	Actual (b)	Forecast error (b-a)
Dec-20	14.3	19.2	4.9
Jan-21	19.5	21.5	2.0
Feb-21	19.1	22.2	3.1
Mar-21	18.2	22.8	4.6
Apr-21	18.0	22.7	4.7
May-21	17.5	23.2	5.7
Jun-21	17.0	24.6	7.6
Jul-21	24.4	24.6	0.2
Aug-21	23.8	24.4	0.6
Sep-21	23.0	22.1	-0.9
Oct-21	21.2		
Nov-21	20.3		
Dec-21	19.2		

Source: Bank of Zambia, Zambia Statistics Agency

Table 2: Macroeconomic Targets and Outturns: 2019 -2021

	2019 Target	2019 Outturn	2020 Target	2020 Outturn	2021 Target
Real GDP growth rate (percent)	4.0	1.4	-4.2	-2.8	1.6
CPI Inflation (percent), Annual Average	6-8	9.1	6-8	19.2	6-8
Gross International Reserves (months of imports cover)	3.0	2.1	2.5	2.4	2.5
Broad Money growth (percent)	10.2	7.9	11.8	46.4	22.0
Budget deficit (on cash basis, excluding grants), percent of GDP	6.5	9.1	5.5	14.2*	9.3
Domestic financing of Budget (percent of GDP)	1.4	6.3	1.1	9.5	4.8

Source: Bank of Zambia Compilations, Zambia Statistics Agency, Ministry of Finance

*preliminary estimate

Table 3: Liquidity Influences (K' billion): Jul 2018 – Jun 2021

	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020	Jul-Dec 2020	Jan-Jun 2021
Opening balance	1.1	1.4	0.9	2.0	3.0	3.3
Net Government spending	-1.0	-8.1	-3.8	-1.2	10.8	10.7
BoZ foreign exchange influence	1.4	3.2	4.2	2.5	-9.3	-8.9
Change in currency in circulation	-0.5	-0.1	-0.3	-1.8	-2.8	-3.3
Change in statutory reserve deposits	-1.9	-0.3	-1.4	-1.2	-0.2	-0.3
Overnight Lending Facility	-1.3	0.0	0.7	0.2	0.1	0.2
Net Government securities influence	2.6	2.3	3.4	-0.9	-0.2	-5.6
Secondary Market Bond Purchase Programme	0.0	0.0	0.0	5.7	2.0	2.3
Open market operations	0.4	1.5	-1.5	2.9	-1.4	1.6
Targeted-Medium Term Refinancing Facility	0.0	0.0	0.0	0.7	2.2	3.2
Closing balance	1.4	0.9	2.0	3.0	3.3	2.2

Source: Bank of Zambia Compilations

Table 4: Exchange Rate: Jul 2018 – Jun 2021

	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020	Jul-Dec 2020	Jan-Jun 2021
ZMW/USD	11.11	12.43	13.41	16.74	19.83	22.03
ZMW/GBP	14.38	16.06	16.90	21.06	25.94	30.59
ZMW/EUR	12.80	14.04	14.87	18.44	23.46	26.55
ZMW/ZAR	0.78	0.88	0.91	1.01	1.23	1.52
Real Trade-weighted Exchange Rate (end-period)						
Domestic CPI (2005=100)	322.6	339.6	360.2	393.7	429.5	490.6
Weighted Foreign CPI (2005=100)	146.7	149.3	150.0	151.0	152.3	153.5
NEER	3.45	3.73	4.13	4.86	6.2	6.9
REER Index (2005=100)	120.1	125.8	132.0	143.1	168.7	165.7

Source: Bank of Zambia Compilations

Table 5: Interest Rates (Percent, period average): 2018 – 2021

	2018		2019		2020		2021
	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half
BoZ Policy Rate (end-period)	9.75	9.75	10.25	11.50	9.25	8.00	8.50
Overnight commercial banks' lending rate (end-period)	15.75	15.75	18.00	28.00	25.75	24.50	25.00
Overnight interbank rate	9.87	9.87	9.98	11.09	11.77	8.31	8.53
Average commercial banks' lending rate	24.2	23.6	25.4	28.6	26.4	25.1	25.6
Savings rate							
more than K100	2.80	3.00	3.1	3.0	3.0	3.0	3.0
above K20,000 (180 days)	8.1	8.5	10.1	10.1	10.3	9.8	9.8
Treasury bills yield rates							
composite yield rate	16.5	20.0	23.6	25.5	25.9	21.9	23.0
91days	10.0	13.3	15.6	16.5	16.6	14.3	14.0
182 days	11.5	14.7	15.6	18.4	20.8	16.8	16.0
273 days	11.6	18.8	23.7	26.4	27.0	20.7	19.8
364 days	17.3	21.1	24.6	27.3	28.7	24.9	25.7
Government bond yield rates							
Composite yield rate	18.6	19.4	28.1	31.1	31.3	32.6	33.1
2 years	16.4	19.3	27.7	29.5	31.0	31.8	31.7
3 years	17.9	19.2	28.0	29.5	30.6	32.7	32.4
5 years	17.9	20.3	28.8	32.6	33.0	33.0	34.0
7 years	19.0	18.7	25.0	25.0	25.0	26.7	29.5
10 years	19.5	20.6	26.6	26.4	24.8	33.0	33.8
15 years	18.5	17.4	18.3	24.5	31.4	33.1	33.9

Source: Bank of Zambia Compilations

Table 6: Average Annual Non-Banks' Effective Interest Rates (Percent): 2018 – 2021

	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
Microfinance Institutions	83.1	81.0	81.0	88.8	96.9	90.1
Leasing Finance Institutions	40.5	39.0	39.9	39.9	39.9	31.8
Building Societies	34.91	34.9	34.9	51.0	51.0	58.9
Development Bank of Zambia	26.6	27.1	27.1	28.2	24.9	17.0
National Savings and Credit Bank	67.0	73	73.0	73.5	62.0	63.0
Financial Businesses	35.5	35.5	35.5	43.5	70.4*	45.4
Overall for the sector	46.7	48.4	48.6	54.2	57.5	51.0

Source: Bank of Zambia Compilations

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

Table 7: Domestic Credit (K' billion unless otherwise stated): December 2018 – June 2021

	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21
Total Domestic Credit (DC)	71.1	76.6	83.0	98.8	117.2	134.5
o/w foreign currency (FX) denominated credit	17.0	19.5	22.7	25.9	27.7	29.9
Credit to Government	37.9	40.6	44.4	59.7	75.0	88.5
Private sector credit	32.1	34.7	37.6	38.4	40.8	44.7
Half - year percent change						
6-month percent change in DC	11.4	7.8	8.4	18.9	18.7	14.8
6-month percent change in FX Credit	28.0	14.8	16.7	14.0	6.5	8.4
6-month percent change in credit to Government	9.5	7.1	9.4	34.5	25.6	17.9
6-month change in private sector credit	12.2	8.1	8.4	2.1	6.3	9.6
Annual percent change						
Annual change in DC	15.0	20.1	16.8	28.9	41.9	36.2
Annual change in credit to Government	12.8	17.5	17.2	46.9	68.8	48.3
Annual change in private sector credit	16.7	21.4	17.2	10.4	8.5	16.3

Source: Bank of Zambia

Table 8: Shares of Total Loans and Advances by Sector (Percent): December 2018 – June 2021

	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21
Community, Social & Personal	4.8	4.7	6.6	9.8	12.2	17.7
Personal Loans	27.9	27.1	23.8	22.6	19.7	16.0
Agric, forestry, fishing & hunting	16.9	17.3	16.4	15.9	16.4	15.2
Manufacturing	9.2	10.7	8.9	10.0	10.2	11.7
Transport, Storage & Communications	6.2	7.8	8.8	8.4	8.5	8.3
Wholesale & Retail Trade	11.1	10.7	11.5	8.8	8.5	7.8
Others	2.1	1.3	3.9	3.7	4.6	4.8
Mining & Quarrying	7.0	6.6	7.4	7.3	6.2	4.7
Electricity, Gas, Water & Energy	3.0	4.3	4.3	3.9	4.5	4.6
Real Estate	3.5	3.3	3.2	3.6	4.5	3.6
Financial Services	4.1	2.6	2.1	2.9	1.8	3.4
Construction	3.0	2.4	2.2	2.0	1.7	1.4
Restaurants & Hotels	1.3	1.1	0.9	1.1	1.0	0.8

Source: Bank of Zambia

Table 9: Broad Money (K' billion unless otherwise stated): December 2018 – June 2021

	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21
Broad Money (M3)	63.0	63.7	70.9	82.5	103.8	121.9
Foreign Exchange (FX) Deposits	25.4	25.9	28.9	35.1	47.3	60.2
M3 (excl. Foreign Exchange Deposits)	37.6	37.8	42.0	47.4	56.5	61.7
6-month change in M3 (percent)	14.0	1.2	11.2	16.4	25.8	17.4
6-month percent change in Forex deposits	18.5	2.3	11.5	21.4	34.8	27.3
6-Month percent change in M3 (excl. Forex deposits)	18.0	0.4	11.1	12.9	19.2	9.2
Annual percent change in M3 (percent)	16.5	15.4	12.5	29.4	46.4	48.3
Annual percent change in Forex deposits	30.4	21.2	14.0	35.3	63.6	71.6
Annual percent change in M3 (excl. Forex Deposits)	8.7	18.5	11.6	25.4	34.6	30.1

Source: Bank of Zambia

Table 10: Balance of Payments (US\$ million), 2018-2021

	2nd Half 2018	1st Half 2019	2nd Half 2019	1st Half 2020	2nd Half 2020	1st Half 2021
Current Account Balance	243.6	-5.0	145.7	981.5	1,441.3	1,487.3
Balance on Goods	96.0	494.1	250.2	980.1	2,235.9	2,400.4
Total Goods Exports	4,384.3	3,811.7	3,434.3	3,319.9	4,683.0	5,103.5
Copper	3,109.6	2,752.2	2,242.4	2,389.2	3,478.5	3,954.8
Cobalt	46.2	3.3	39.4	8.1	2.6	2.7
Gold	68.3	89.2	107.2	109.0	111.4	89.7
NTEs	1,125.2	929.5	1,007.8	783.3	1,085.5	1,051.8
Total Imports	4,288.4	3,317.6	3,184.1	2,339.8	2,447.1	2,703.1
Primary Income	340.1	-356.9	-221.6	-180.1	-588.5	-649.7
Secondary Income	139.1	158.4	164.1	103.7	117.5	158.2
Services Account	-331.5	-300.6	-221.6	-180.1	-323.6	-421.6
Capital Account	32.7	57.8	38.7	43.9	35.9	38.2
Financial Account	467.5	142.3	93.0	1,079.5	1,867.3	1,317.9
Net Errors/Omissions	-21.7	-0.9	-100.6	-27.6	49.4	-8.4
Overall Balance	212.9	90.4	9.1	81.6	340.7	-199.2
Change in Reserve and Related Items	-212.9	-90.4	-9.1	-81.6	-340.7	199.2
Memorandum Items						
<i>Realised Prices</i>						
Copper (US\$/mt)	5,929.2	6,128.9	5,791.1	5,426.8	6,690.2	8,857.9
Cobalt (US\$/mt)	57,471.0	50,217.9	32,664.5	29,567.4	13,572.6	30,268.3
Gold (US\$/ounce)	1,114.6	1,343.5	1,494.1	1,666.4	1,947.3	1,708.1
<i>Export Volumes</i>						
Copper (mt)	524,455.2	449,049.3	387,208.9	423,796.2	507,172.9	447,083.2
Cobalt (mt)	804.3	66.0	1,205.3	272.7	47.1	46.7
Gold (ounces)	61,239.0	66,365.0	71,770.0	65,437.0	57,720.0	52,613.0

Source: Bank of Zambia

Table 11: Trade Data (c.i.f - US\$ million): July 2018 – June 2021

	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020	Jul-Dec 2020	Jan-Jun 2021
Trade Balance	-357.0	88.0	-141.1	689.8	1,960.8	2,135.2
Total Exports, c.i.f. (including Gold)	4,407.9	3,774.2	3,396.8	3,289.6	4,678.4	5,134.1
General Exports, f.o.b	4,339.6	3,685.0	3,289.6	3,180.5	4,566.6	5,044.4
Metals	3,179.2	2,755.5	2,281.7	2,397.3	3,481.1	3,992.6
Copper	3,130.7	2,752.2	2,242.3	2,299.8	3,385.0	3,954.8
Copper concentrates				89.4	93.5	35.1
Cobalt	48.5	3.3	39.4	8.1	2.6	2.7
Non-Traditional Exports	1,160.4	929.5	1,007.8	783.3	1,085.5	1,051.8
Exporter Audit Adjustor	-13.2	0.0	0.0	0.0	0.0	0.0
Sub Total	1,173.6	929.5	1,007.8	783.3	1,085.5	1,051.8
Gemstones	5.6	63.0	93.9	34.7	34.1	46.0
Sulphuric acid	86.5	95.1	53.7	53.1	41.5	23.1
Industrial Boilers and Equipment	66.8	80.2	59.0	37.0	53.0	44.4
Cane Sugar	69.3	66.8	75.0	44.9	70.6	58.7
Gasoil/Petroleum Oils	5.1	4.1	3.5	7.1	4.0	4.9
Cement & Lime	70.0	71.9	95.3	83.9	107.1	84.8
Electricity	49.3	38.2	48.2	58.2	65.5	51.3
Raw hides, Skins & Leather	4.3	1.8	2.9	2.1	3.2	2.4
Sulphur sublimed or precipitated; colloidal	0.1	0.2	0.0	0.0	0.0	0.1
Burley Tobacco	62.3	28.5	41.3	50.3	66.3	56.3
Copper Wire	43.7	34.6	18.6	17.3	31.0	35.8
Scrap of precious metals	0.3	0.7	1.5	1.0	1.7	5.7
Maize & Maize Seed	26.0	10.7	26.2	5.8	33.0	15.1
Electrical Cables	7.6	11.2	6.1	5.1	7.5	14.7
Cotton Lint	37.2	21.2	32.2	4.4	13.3	6.2
Soap, Active Agents, Washing Preps.	27.7	21.6	33.8	30.5	43.3	43.9
Fresh Fruits & Vegetables	5.4	4.4	5.0	3.7	8.4	5.8
Manganese Ores/Concentrates	17.2	7.6	10.4	5.0	4.9	3.7
Wheat & Meslin	0.0	0.0	0.0	0.0	0.2	0.1
Fresh Flowers	3.7	4.6	4.0	3.8	3.9	5.2
Other	585.4	362.0	397.1	335.3	493.1	543.5
Gold	68.3	89.2	107.2	109.0	111.9	89.7
Imports c.i.f./1	4,764.8	3,686.2	3,537.9	2,599.7	2,717.6	2,998.9

Source: Bank of Zambia Compilations

Table 12: Imports by Commodity Groups (c.i.f - US\$ million): July 2018 – June 2021

	Jul-Dec 2018	Jan-Jun 2019	Jul-Dec 2019	Jan-Jun 2020	Jul-Dec 2020	Jan-Jun 2021
Food Items	258.9	235.9	299.9	234.0	247.9	263.4
Petroleum Products	664.9	648.5	611.7	319.8	199.3	280.2
Fertilizer	244.5	104.3	231.9	221.3	189.6	173.3
Chemicals	492.6	470.6	381.8	337.9	463.0	500.2
Plastic and Rubber Products	247.4	212.4	228.0	199.9	222.5	263.3
Paper and paper products	74.8	51.5	78.2	45.6	50.8	50.9
Iron and Steel and items thereof	289.0	243.7	247.0	136.3	167.5	174.4
Industrial Boilers and Equipment	713.0	606.9	528.1	349.0	418.5	473.8
Electrical Machinery & Equipment	242.6	222.5	217.8	140.2	132.8	109.8
Vehicles	439.3	304.5	278.6	179.4	264.5	265.9
Ores, Slag and Ash	614.0	138.9	20.7	61.3	13.4	73.9
Other Imports	484.1	446.3	414.2	374.9	347.6	374.2
Total	4,765.1	3,686.2	3,537.9	2,599.7	2,717.5	3,003.4

Source: Bank of Zambia Compilations

Table 13: Metal Export Volumes, Values and Prices: July 2018 – June 2021

Period	Copper*				Cobalt			
	Export Volumes (mt)	Export US	Price/Tonne	Price Pound	Export Volumes (mt)	Export US \$'000	Price/Tonne	Price/Pound
Quarter 3	275,352.9	1,628,639.4	5,914.7	2.7	429.0	28,681.8	66,857.5	30.3
Quarter 4	244,753.5	1,502,029.9	6,136.9	2.8	478.2	19,848.6	41,510.3	18.8
Jul-Dec 2018	520,106.3	3,130,669.3	6,019.3	2.7	907.2	48,530.4	53,497.1	24.3
Quarter 1	236,434.7	1,431,902.6	6,056.2	2.7	66.0	3,314.4	50,217.9	22.8
Quarter 2	212,614.6	1,320,268.4	6,209.7	2.8	0.0	0.0	n.a	n.a
Jan-Jun 2019	449,049.3	2,752,171.1	6,128.9	2.8	66.0	3,314.4	50,217.9	22.8
Quarter 3	174,359.4	1,013,753.7	5,814.2	2.6	0.0	0.0	n.a	n.a
Quarter 4	212,849.5	1,228,596.5	5,772.1	2.6	1,205.3	39,371.3	32,664.5	14.8
Jul-Dec 2019	387,208.9	2,242,350.2	5,791.1	2.6	1,205.3	39,371.3	32,664.5	14.8
Quarter 1	206,746.2	1,161,790.9	5,619.4	2.5	33.0	1,044.8	31,660.5	14.4
Quarter 2	217,050.0	1,138,055.3	5,243.3	2.4	239.7	7,018.8	29,279.3	13.3
Jan-Jun 2020	423,796.2	2,299,846.2	5,426.77	2.5	272.7	8,063.6	29,567.4	13.4
Quarter 3	265,633.1	1,687,548.4	6,352.9	2.9	94.2	2,557.6	27,145.2	12.3
Quarter 4	241,539.8	1,697,419.7	7,027.5	3.2	0.0	0.0	0.0	0.0
Jul-Dec 2020	507,172.9	3,384,968.2	6,674.19	3.0	94.2	2,557.6	27,145.2	12.3
Quarter 1	228,047.8	1,882,330.8	8,254.1	3.7	59.1	1,510.2	25,562.2	11.6
Quarter 2	219,035.4	2,072,458.8	9,461.8	4.3	34.3	1,200.3	34,974.5	15.9
Jan-Jun 2021	447,083.2	3,954,789.6	8,845.8	4.0	93.4	2,710.5	29,020.7	13.2

Source: Bank of Zambia Compilations

*Excludes exports of copper concentrates

Table 14: Government Budget (K'bn): 2019 – 2021

	2nd Half 2019		1st Half 2020		2nd Half 2020		1st Half 2021		2nd Half 2021
	Target	Prel	Target	Prel	Target	Prel	Target	Prel	Target
Total Revenue & Grants	27.9	28.8	36.6	32.4	35.0	35.0	34.7	50.7	33.3
Tax Revenue	22.8	23.3	28.5	24.0	27.1	28.1	27.0	33.8	26.4
Non-Tax Revenue	4.8	5.2	5.6	7.7	5.4	5.9	6.7	16.1	5.9
Grants	0.4	0.4	1.6	0.7	1.6	1.0	1.0	0.8	1.0
Total Expenditure	44.1	44.2	51.1	49.0	53.6	64.2	47.8	63.1	54.3
Current Expenditure	33.3	32.1	33.7	30.2	39.6	45.6	38.5	47.2	42.5
Personal Emoluments	12.4	11.8	12.9	12.5	13.3	14.4	14.4	14.8	14.1
Use of Goods & Services	1.4	2.2	3.3	3.7	3.8	5.5	4.0	8.1	2.9
Interest	7.9	8.8	10.7	9.4	11.0	10.4	14.4	11.5	14.2
Grants & Other Payments	10.5	8.9	6.2	4.0	10.6	13.6	4.0	11.3	9.8
Social Benefits	0.9	0.1	0.6	0.6	0.8	1.7	1.7	1.5	1.4
Other Expenses	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	0.1	0.2	0.3	1.9	1.6	6.3	1.4	5.8	1.5
Assets	10.5	12.0	16.4	16.9	12.4	12.2	8.0	10.2	10.3
Non- Financial Assets	10.5	12.0	15.8	16.8	11.9	10.8	7.8	9.8	10.1
Financial Assets	0.0	0.0	0.6	0.1	0.5	1.4	0.1	0.3	0.1
Change in Balances & Statistical discrepancy	-2.4	0.7	0.0	1.1	0.0	0.3	0.0	1.7	0.0
Fiscal Balance	-16.2	-15.4	-14.5	-16.6	-18.6	-29.2	-13.1	-12.4	-21.0
Financing	13.8	16.1	14.5	17.7	18.6	28.9	13.1	14.1	21.0
Net Domestic	7.2	8.6	6.2	7.1	13.1	24.0	6.3	10.8	11.2
Net Foreign (net)	6.6	7.5	8.3	10.6	5.5	5.0	6.8	3.3	9.9

Source: Ministry of Finance



TWENTY