



Republic of Zambia

Ministry of Finance

Economic Performance Highlights

SECOND QUARTER 2019



2019 Second Quarter Economic Performance Highlights

Overview

This brief provides a snapshot of the developments in both the global and domestic economies in the second quarter (Q2) of 2019.

Global growth is projected to slow down to 3.3 percent in 2019 from 3.6 percent in 2018 (WEO April 2019). This is on account of weaker international trade arising from continued trade wars. Growth in China is projected to slow down to 6.3 percent in 2019 from 6.6 percent in 2018. This has also led to a deceleration in global investment and a decline in confidence.

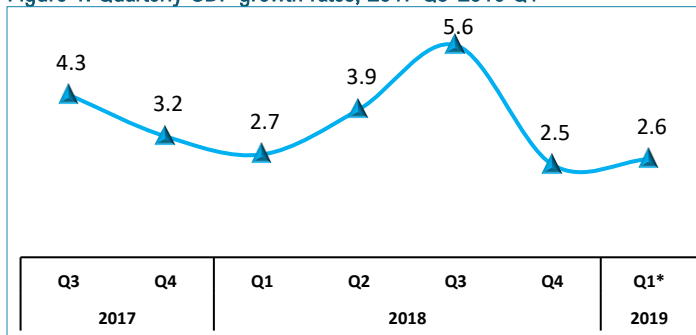
Activity in major advanced economies for the first half of 2019, particularly in the Euro Area, as well as in some large emerging market and developing economies, has been weaker than initially projected.

The domestic economic growth in Q1 2019 recorded at 2.6 percent...

Preliminary data indicates that growth in the First quarter of 2019 was 2.6 percent compared to 2.7 percent recorded during the first quarter of the 2018 (See Figure 1).

In Nominal terms, GDP during the first quarter stood at K69,648.7 million from K60,741.9 million with wholesale and retail trade accounting for the largest share at 18.7 percent.

Figure 1. Quarterly GDP growth rates, 2017 Q3-2019 Q1



Source: Central Statistical Office

* Preliminary

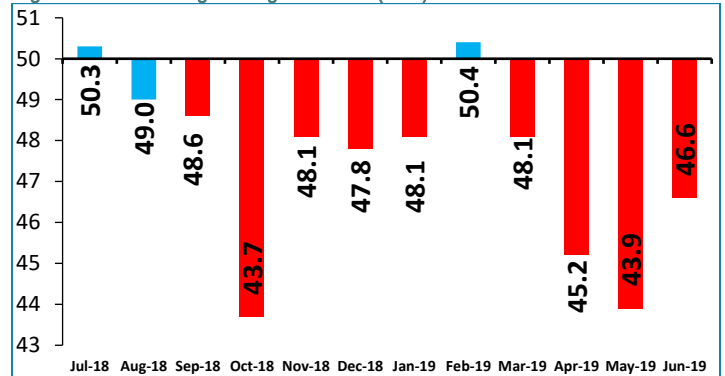
Contribution to GDP growth in Q1 2019

The Wholesale & Retail industry contributed the highest to the first quarter growth at 0.9 percentage points, followed by the Information & Communication and Public Administration & Defense Industries which contributed 0.8 and 0.6 percentage points, respectively.

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

Growth notwithstanding, the Purchasing Managers' Index (PMI)¹ by Stanbic Zambia, continued to indicate deterioration in business conditions in the Private sector during the second quarter of 2019. During the quarter, a decline in new orders, output and employment was recorded with May being the lowest month at 43.9. In June, business conditions improved, though still low at 46.6. (see figure).

Figure 2: Purchasing Managers' Index (PMI):

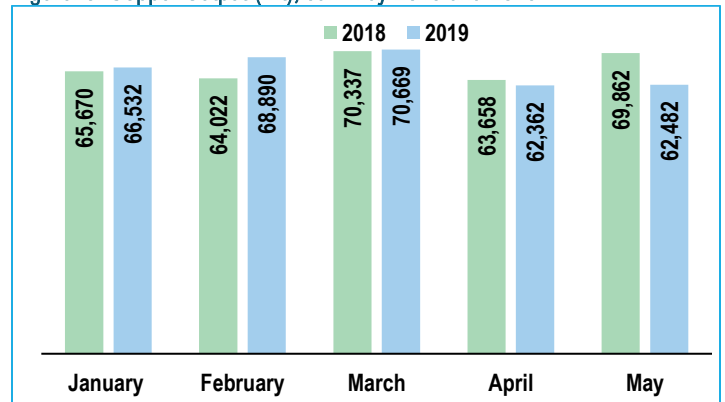


Source: Stanbic Bank (Z) Ltd

Copper Production

Copper Production during the first two months of the second quarter of 2019 was lower by 6.5 percent to 124,844 Mt from 133,519 Mt recorded during the same period in 2018. Relative to the first two months of the first quarter of 2019, output was lower by 7.8 percent from 135,422. This could partly be attributed to lower grade ore and lower prices on the international market coupled with lower demand from major consumers (see Figure 3).

Figure. 3: Copper Output (Mt), Jan-May 2018 and 2019



Source: Ministry of Mines and Minerals Development

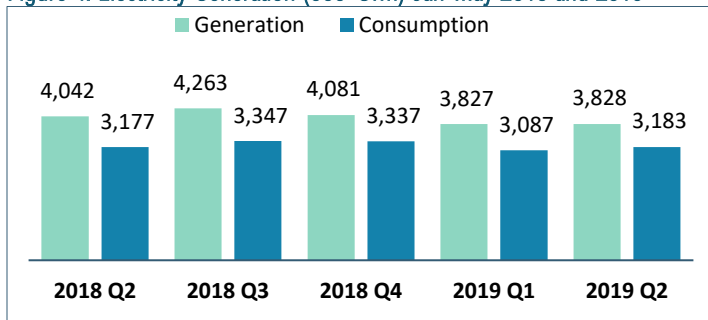
about current business conditions to decision makers, analysts and purchasing managers.

2019 Second Quarter Economic Performance Highlights

Electricity

Electricity generation during the second quarter of 2019 declined by 5.3 percent to 3,828 Gwh from 4,042 Gwh recorded during the same period in 2018. Relative to the first quarter of 2019, generation remained within the same margins. (see Figure 4). This decline in performance in 2019 was largely on account of lower water levels at the Kariba.

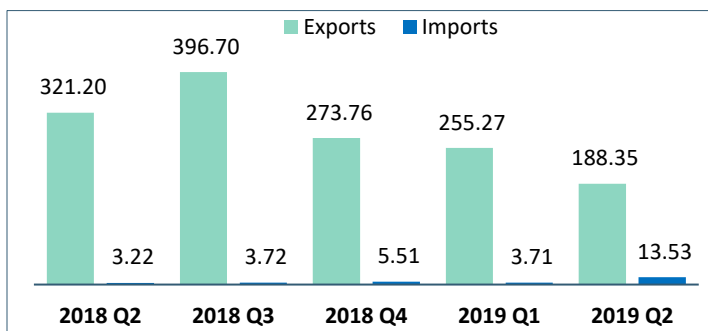
Figure 4: Electricity Generation (000' Gwh) Jan-May 2018 and 2019



Source: ZESCO

Electricity exports declined by 41.4 percent during the second quarter of 2019 at 188,353 Mwh from 321,199 Mwh recorded during the same period of 2018. Imports of electricity significantly rose to 13,533 Mwh from 3,223 Mwh over the same period of 2018 (See figure Below).

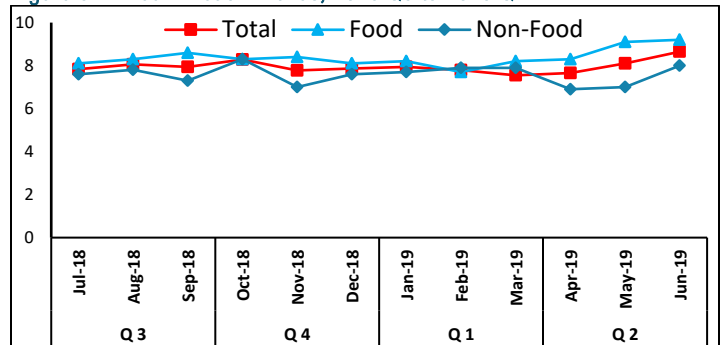
Figure 5: Electricity imports and exports (000' Gwh) Jan-May 2018 and 2019



Inflation

Annual inflation during the second quarter rose to an average of 8.1 percent from an average of 7.8 percent recorded in the first quarter of 2018 (See Figure 5). At close of the second quarter, inflation was 8.6 percent. The rise in inflation was largely on account of price adjustments in food items such as fish, cooking oil and meat products, and non-food items such as transport.

Figure 6. Annual Inflation Trends, 2018 Q3 to 2019 Q2



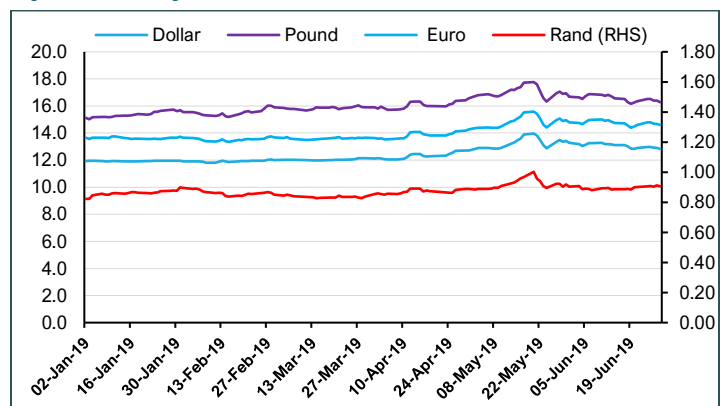
Source: Central Statistical Office

Exchange Rate

The Kwacha generally depreciated against the major tradable currencies during the second quarter of 2019 relative to the first quarter. This depreciation was largely on account of high demand for foreign currency relative to supply.

The Kwacha depreciated by 7.6 percent against the US Dollar, trading at an average of K12.833 per US Dollar from K11.961 during the first quarter of 2019. The Kwacha also depreciated by 6.1 percent, 6.5 percent and 4.9 percent against the British Pound, the Euro and the South African Rand, respectively (see Figure 6).

Figure 7: Exchange Rate Trends, 2019 Q1 - 2019 Q2



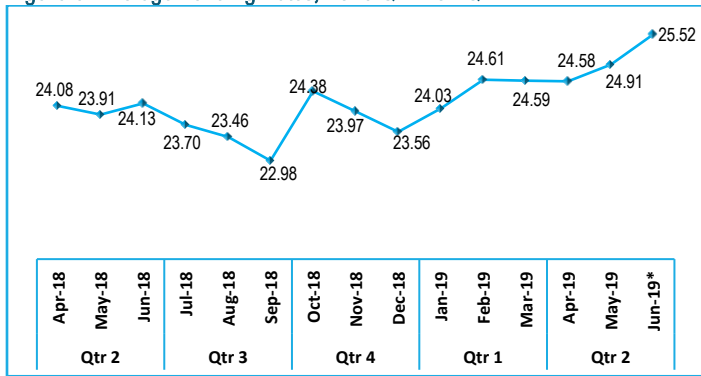
Source: Bank of Zambia

Lending Rates

Average lending rates slightly increased during the second quarter of 2019 to 25.0 percent from an average of 24.4 percent in the first quarter of 2019. (see Figure 8).

2019 Second Quarter Economic Performance Highlights

Figure 8: Average Lending Rates, 2018 Q2- 201 Q2



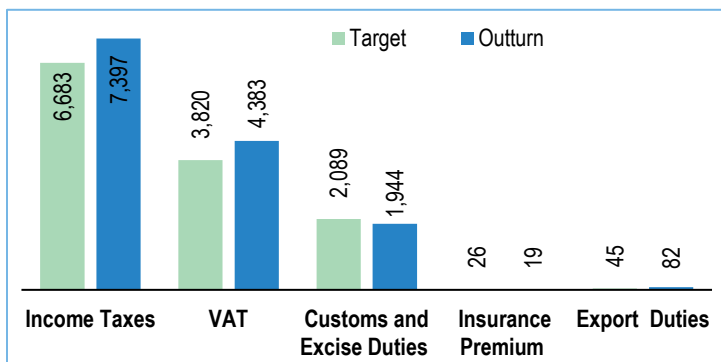
Source: Bank of Zambia
*Preliminary

Budget Performance

Total revenue and grants during the second quarter of 2019, were above the target of K,15,231 million by 14.5 percent at K17,436 million. This was largely explained by the 23.5 percent higher than projected collection of import VAT. Total VAT collections at K4,383 million during the period under review was 14.8 percent higher than the quarterly target of K3,820 million.

Similarly, income tax revenues at K7,397 million were 10.7 percent higher than the target of K6,683 million.

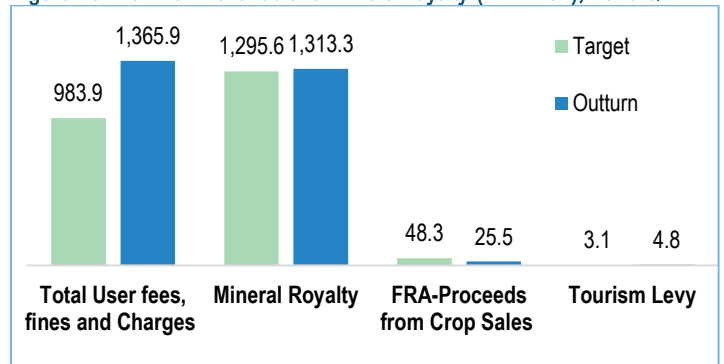
Figure 9: Tax Revenue (K' Million), 2019 Q2



Source: Ministry of Finance

Non-tax revenues during the second quarter of 2019 were 35.8 percent above the target of K2,420 million at K3,286 million. This was largely driven by the higher than projected total user fees, fines and charges which were 38.8 percent higher than the quarterly target. Mineral royalty during the second quarter at K1,313 million was 1.4 percent higher than the target K1,296 million (see Figure 10).

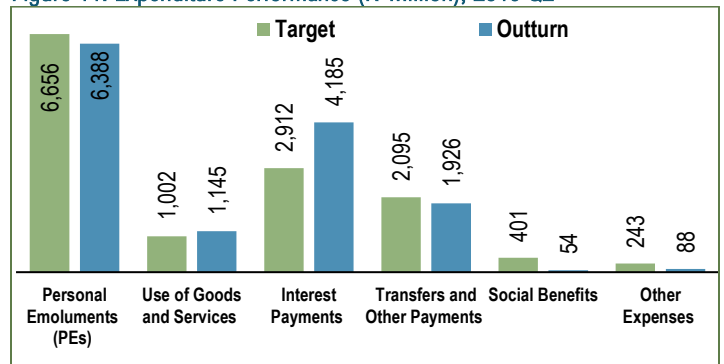
Figure 10: Non-Tax Revenue and Mineral royalty (K' Million), 2019 Q2



Source: Ministry of Finance

Total expenditure including amortisation during the second quarter of 2019 at K20,296 million was below the target of K22,496 million by 9.8 percent. (See Figure 11).

Figure 11: Expenditure Performance (K' Million), 2019 Q2



Source: Ministry of Finance

Expenditure on interest payment for both external and domestic debt at K4,185 million was higher than the target of K2,912 million. This was largely on account of 78.2 percent higher than projected interest payments on external debt as a result of exchange rate depreciations.

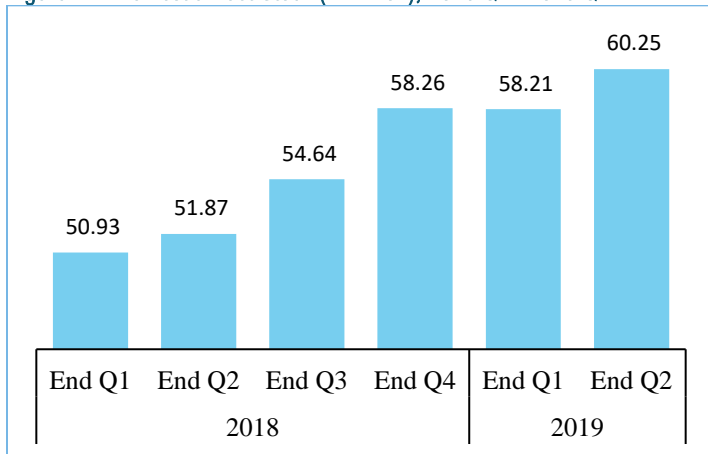
The fiscal deficit during the first quarter of 2019 at K509 million was below the projection of K5,144 million by 90.1 percent.

Domestic Debt position

Domestic debt in terms of securities and bonds as at end June 2019 was K60.3 billion up from the end-March position of K58.3 billion (see Figure 11). During the quarter, subscription rates for government securities were lower relative to first quarter 2019 due to liquidity challenges and exit of foreign participants in the market.

2019 Second Quarter Economic Performance Highlights

Figure 12: Domestic Debt Stock (K' Billion), 2018 Q4– 2019 Q2

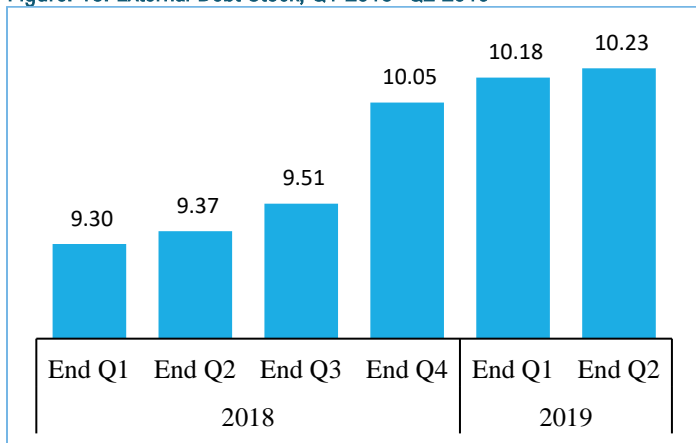


Source: Ministry of Finance

External Debt Position

The external debt stock marginally increased by 0.5 percent as at end of the second quarter 2019 to US \$10.23 billion compared to US \$10.18 billion at end of the first quarter 2019. The increase was a result of the disbursements for capital projects (see Figure 13).

Figure 13: External Debt Stock, Q1 2018- Q2 2019

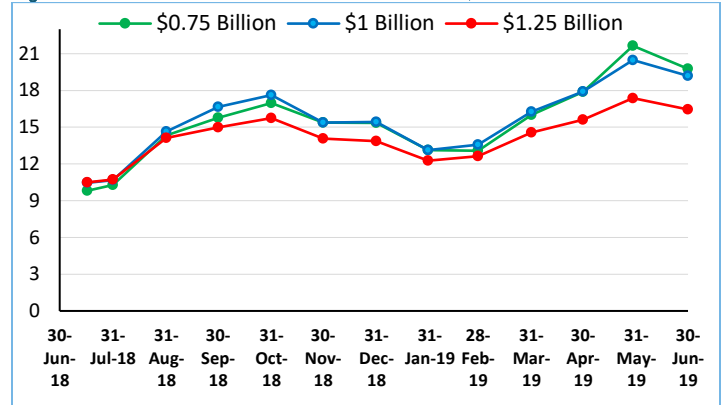


Source: Ministry of Finance

Performance of the Zambian Sovereign Bonds

The yield rates of the three Zambia's Euro Bonds generally weakened during the second quarter of 2019 relative to the first quarter. The average yield rates stood at 19.8 percent, 19.2 percent and 16.5 percent from 14.1 percent, 14.3 percent and 13.2 percent for the US\$750 million, US\$ 1 billion and US\$ 1.25 billion bonds, respectively (See Figure 14).

Figure 14: Yield Rate Trends for Zambia's Euro Bonds, Q1 2018- Q1 2019

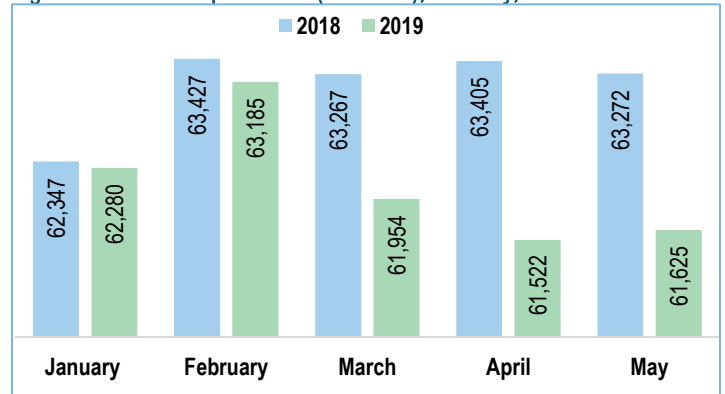


Source: Standard Chartered Bank

Capital Markets

Market Capitalisation as at end of May 2019 stood at K61,625 million which was 0.5 percent lower than it was as at close of the first quarter of the 2019 at K61,954 million. Relative to the same period in 2018, market capitalisation declined by 2.6 percent (See Figure 15).

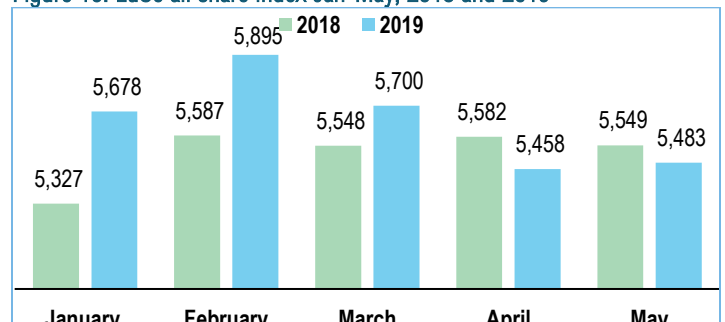
Figure 15: Market Capitalization (K' Million), Jan-May, 2018 and 2019



Source: Lusaka Securities Exchange

The LuSe All-Share Index (LASI) excluding ZCCM-IH was lower by 3.8 percent to 5,483 as at end May 2019 from 5,700 as at end first quarter 2019 (See Figure 16).

Figure 16: LuSe all share index Jan-May, 2018 and 2019

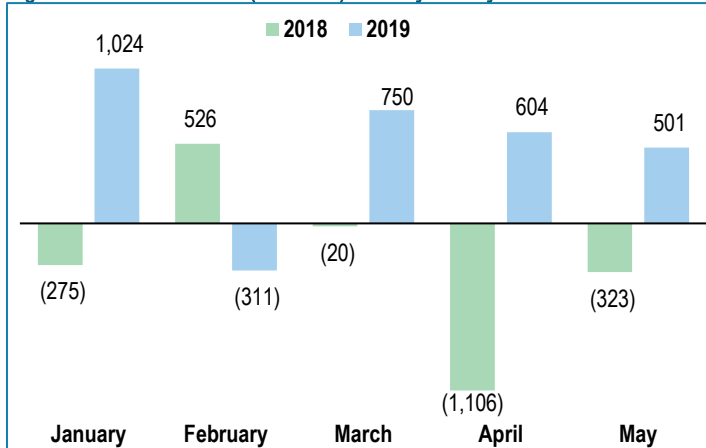


Source: Lusaka Securities Exchange (LuSE)

Trade performance

A trade surplus of K1,105 million was recorded during the first two months of the second quarter of 2019 compared a deficit of K1,428 million in the same period of 2018. The surplus was as a result of increased exports of intermediate goods among others (See Figure 16).

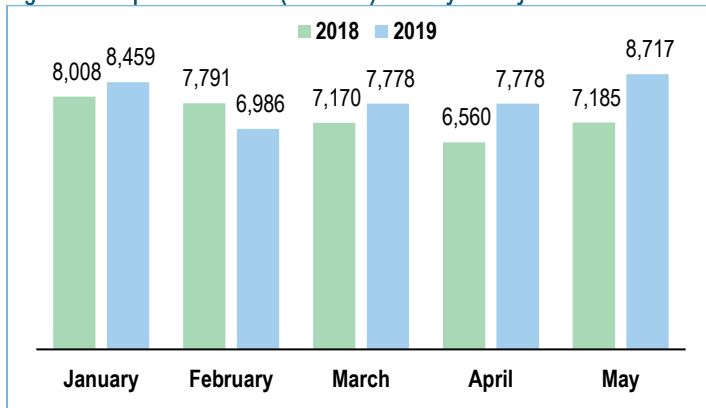
Figure 17: Trade Balance (K million) January to May 2018 and 2019



Source: Central Statistical Office

Exports of goods rose by 20.0 percent in the first two months of the second quarter of 2019 to K16,495 Million from K13,745 million recorded in the same period of 2018. Non-traditional exports also rose by 47.6 percent while the traditional exports increased by 11.4 percent. Relative to the first two months of quarter one of 2019 exports increase by 6.8 percent from K16,445 million (See Figure 19).

Figure 19: Exports of Goods (K million) January to May 2018 and 2019

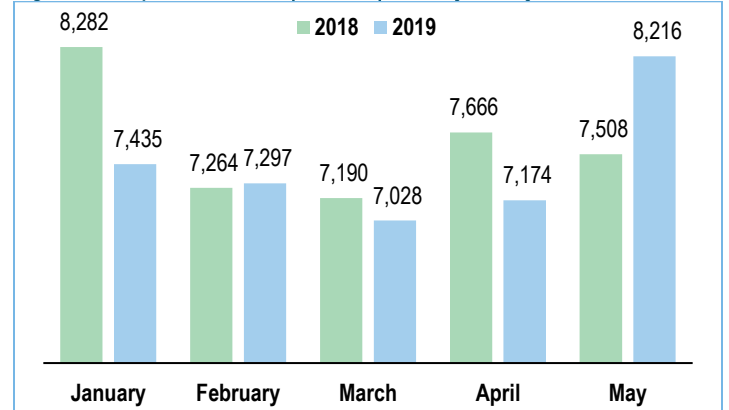


Source: Central Statistical Office

Imports of goods rose by 1.4 percent to K15,390 million in the first two months of the second quarter of 2019 from K15,173

million in the same period of 2018. This increase could be explained by a 29.4 percent increase in imports of consumer goods. Relative to the first two months of the first quarter 2019, imports of good increased by 4.5 percent from K14,733 million

Figure 18: Imports of Goods (K million) January to May 2018 and 2019

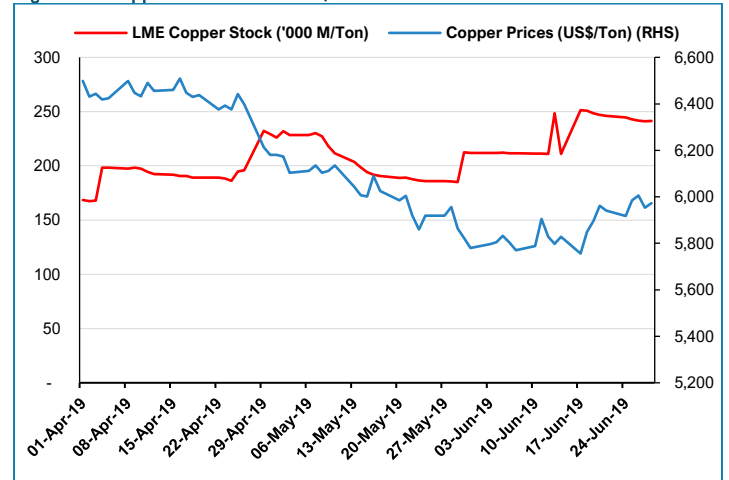


Source: Central Statistical Office

Copper and Oil Prices

Copper prices during the second quarter of 2019 marginally declined by 1.8 percent, selling at an average of US \$6,107 per Mt from an average pf US \$6,220 per Mt in the first quarter of 2019 (see Figure 20).

Figure 20: Copper stocks and Prices, 2019 Q2

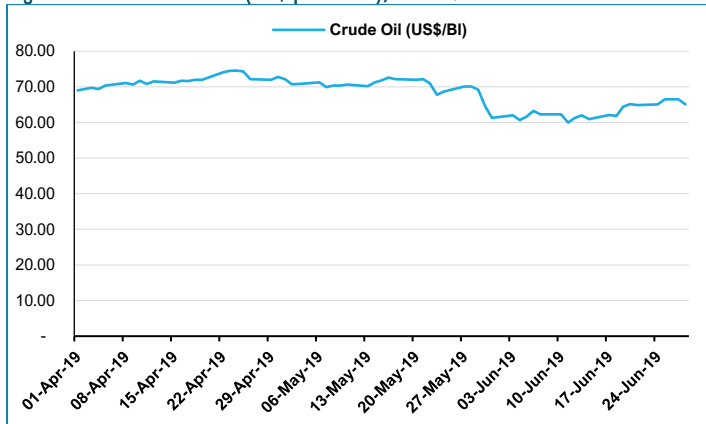


Source: WestMetall

Crude oil prices rose by 13.5 percent during the quarter under review averaging US \$68.5 per barrel from \$60.35 per barrel recorded during the first quarter of 2019 (see Figure 20).

2019 Second Quarter Economic Performance Highlights

Figure 21: Crude Oil Prices (US\$ per Barrel), 2019 Q2



Source: Fred Economic data

Outlook of the Economic Performance

Annual growth is projected at around 2 percent in 2019 lower than the medium-term projection of 3 percent. This is largely

on account of lower than initially projected agricultural production in the 2018/2019 farming season, lower mining output and constrained electricity generation as a result of low rainfall.

Growth prospects for Zambia in the medium-term is expected to average around 3 percent. This is lower than the initial projection of around 4 percent largely on account of adverse climate conditions that has affected performance of the agriculture sector and electricity generation.

Risks to the projections are electricity load management being carried out by Zesco that will affect most sectors. Further, the continued lower investment and subdued commodity prices may affect copper production. Climate change challenges continue to weigh down agricultural production and electricity generation.

ANNEXES

GDP growth in percentages Q1 2018 to Q1 2019

	2018				2019
	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	-17.3	-19.2	-15.4	-31.9	-10.1
Mining and quarrying	13.9	6.1	4.4	1.9	3.7
Manufacturing	2.1	9.5	2.9	1.5	1.4
Electricity, gas, steam and air conditioning supply	11.4	9.7	15.5	10.3	5.7
Water supply; sewerage, waste management and remediation activities	-4.5	3.0	15.4	7.5	4.7
Construction	3.3	5.6	2.2	-4.1	-5.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	2.0	2.5	5.8	2.7	4.4
Transportation and storage	-4.6	-1.9	-0.8	10.6	2.4
Accommodation and food service activities	3.9	0.0	7.4	-3.7	-1.5
Information and communication	28.1	23.1	31.6	75.2	30.1
Financial and insurance activities	27.1	35.5	36.6	-0.1	12.4
Real estate activities	2.5	2.5	2.5	2.5	3.4
Professional, scientific and technical activities	4.2	2.3	5.5	-2.1	0.5
Administrative and support service activities	7.5	6.6	6.6	3.4	2.6
Public administration and defense; compulsory social security	-1.1	-2.1	1.5	8.2	10.6
Education	3.6	3.9	3.3	8.4	1.2
Human health and social work activities	12.5	10.8	9.8	10.9	10.2
Arts, entertainment and recreation	-5.5	9.8	21.0	12.0	5.4
Other service activities	2.5	2.5	2.5	2.5	3.4
Total Gross Value Added for the economy	2.7	4.0	5.6	2.4	2.5
Taxes less subsidies	3.3	3.1	6.0	2.7	4.4
Total for the economy, at market prices	2.7	3.9	5.6	2.5	2.6

Source: Central Statistical Office

*Revised

**Preliminary

BUDGET PERFORMANCE

Revenue Performance, (K' Million) Q2 2019

	2019 Approved	2019 Q2 Projection	2019 Q2 Preliminary
TOTAL REVENUE AND GRANTS	58,010,985	15,230,633	17,436,384
TOTAL REVENUE	56,086,808	15,084,011	17,110,506
Tax Revenue	46,672,859	12,663,840	13,824,722
a. Income Taxes	23,291,352	6,683,371	7,396,588
b. VAT/ Good and Service Tax (GST)	14,862,476	3,819,941	4,383,458
o/w Domestic VAT	2,056,112	1,413,829	1,410,869
Import VAT	2,186,009	2,406,111	2,972,589
c. Customs and Excise Duties	8,261,637	2,088,831	1,944,309
Customs Duty	3,537,748	898,701	907,308
Excise Duties	4,723,889	1,190,130	1,037,002
d. Insurance Premium	108,242	26,412	18,800
e. Export Duties	149,153	45,285	81,567
Non-Tax Revenue	9,413,949	2,420,172	3,285,784
a. Total User fees, fines and Charges	3,945,196	983,923	1,365,938
o/w fees and fines, charges and GAI's	2,200,972	607,275	835,164
RDA (Tolls)	1,046,010	230,410	424,571
c. Mineral Royalty	4,887,598	1,295,626	1,313,284
e. FRA-Proceeds from Crop Sales	193,301	48,325	25,500
f. Tourism Levy	13,837	3,125	4,839
GRANTS	1,924,177	146,622	325,878

Source: Ministry of Finance

Expenditure Performance, (K' Million) Q2 2019

	Approved 2019	2019 Q2 Projection	2019 Q2 Preliminary
TOTAL EXPENDITURE (Including Amortisation)	86,807,894	22,496,489	20,296,471
TOTAL EXPENDITURE (Excluding Amortisation)	77,417,744	20,374,682	17,945,702
o/w Domestically Financed	58,685,865	14,098,565	14,677,107
EXPENSES (CURRENT EXPENDITURE)	56,319,452	13,309,240	13,785,348
Personal Emoluments (PEs)	25,244,359	6,656,328	6,387,594
Use of Goods and Services	6,112,883	1,001,557	1,144,594
Interest Payments	14,183,205	2,911,808	4,185,164
Domestic Debt	7,964,622	1,538,509	1,738,439
External Debt	6,218,583	1,373,298	2,446,726
Transfers and Other Payments	8,246,324	2,094,918	1,925,933
Local Government Equalisation Fund	1,164,568	291,142	291,142
Zambia Revenue Authority (ZRA)	900,000	209,659	209,660
Farmer Input Support Programme	1,428,000	411,239	204,442
Social Benefits	1,760,045	401,470	54,062
Pension Fund	1,060,550	234,888	26,313
Social Cash Transfer	699,494	166,582	27,750
Other Expenses	772,637	243,159	88,000
ASSETS	20,610,453	6,916,955	4,131,990
Non-Financial Assets	20,457,566	6,878,734	4,131,990
Rural Electrification Programme	166,634	41,659	32,459
Roads	2,055,572	481,708	884,442
Ordinary Capital	1,018,156	100,000	361,839
Water and Sanitation	409,502	136,501	4,842
Financial Assets	152,887	38,222	-
LIABILITIES	487,839	148,487	28,363
FISCAL BALANCE: Surplus (+)/Deficit (-)	(19,406,759)	(5,144,049)	(509,318)

Source: Ministry of Finance

Financing, (K' Million) Q2 2019

	Approved 2019	2019 Q2 Projection	2019 Q2 Preliminary
Financing	19,406,759	5,306,645	2,886,346
Net Domestic Financing	3,502,551	1,144,172	288,459
Domestic Financing	4,164,207	1,309,586	782,543
Amortisation	(661,656)	(165,414)	(494,084)
Net External Financing	15,904,208	4,162,473	2,597,887
Programme	7,825,000	-	-
Project	16,807,702	(1,956,393)	(1,856,686)
Amortisation	(8,728,494)	5,306,645	2,886,346

Source: Ministry of Finance

Selected Output (2019)

	January	February	March	April	May
Copper Production (Mt)	66,532	68,890	70,669	62,362	62,482
Electricity Generation (Mwh)	1,287,403	1,191,099	1,348,144	1,249,242	1,316,317
Electricity Consumption (Mwh)	1,072,597	980,153	1,034,332	1,059,885	1,072,926
Electricity Exports (Mwh)	81,843	86,260	87,171	57,158	49,207
Electricity Imports (Mwh)	1,278	1,191	1,244	1,374	1,556

Exchange rate Q3 2018 to Q2 2019

		K/USD		K/GBP		K/EURO		K/ZAR	
		End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average
Q3	17-Jul	9.96	9.89	13.09	13.03	11.68	11.56	0.76	0.74
	17-Aug	10.28	10.09	13.35	12.99	11.97	11.64	0.70	0.72
	17-Sep	12.29	10.95	16.03	14.31	14.23	12.78	0.87	0.74
Q4	17-Oct	11.81	11.91	15.04	15.51	13.37	13.69	0.80	0.82
	17-Nov	11.95	11.85	15.24	15.28	13.58	13.46	0.87	0.84
	18-Dec	11.92	11.91	15.26	15.11	13.66	13.63	0.83	0.84
Q1	18-Jan	11.94	11.93	15.69	15.38	13.72	13.63	0.90	0.86
	18-Feb	12.04	11.92	16.01	15.50	13.74	13.53	0.86	0.86
	21-Mar	12.14	12.03	15.91	15.86	13.65	13.61	0.84	0.84
Q2	21-Apr	12.72	12.31	16.56	16.05	14.27	13.83	0.89	0.87
	22-May	13.27	13.26	16.69	17.01	14.80	14.83	0.90	0.92
	22-Jun	12.83	13.05	16.29	16.55	14.60	14.75	0.91	0.90

Source: Bank of Zambia

Inflation Q3 2018 to Q2 2019

		ANNUAL RATES			MONTHLY RATES			
		CPI	Annual Inflation	Food	Non-Food	Total	Food	Non-Food
2018	July	210.92	7.8	8.1	7.6	0.3	0.2	0.1
	August	211.52	8.1	8.3	7.8	0.3	0.3	0.3
	September	211.93	7.9	8.6	7.3	0.2	0.1	0.3
	October	213.42	8.3	8.3	8.3	0.7	0.3	1.2
	November	215.37	7.8	8.4	7	0.9	1	0.8
	December	216.99	7.9	8.1	7.6	0.8	0.8	0.7
2019	January	219.27	7.9	8.2	7.7	1.1	1.1	1.0
	February	220.87	7.8	7.7	7.9	0.7	0.8	0.7
	March	223.29	7.5	8.2	7.9	1.1	1.9	0.2
	April	224.92	7.7	8.3	6.9	0.7	1	0.4
	May	226.84	8.1	9.1	7	0.9	1.1	0.6
	June	228.54	8.6	9.2	8	0.7	0.4	1.2

Source: Central Statistical Office

Interest rates Q3 2018 to Q2 2019

	Lending rate				Savings	
	Weighted Lending Base rate	Lending Rate	Weighted Interbank Rate	Cheque Account (K500 & above)	Less than K100	More than K100
Oct-18	9.75	24.38	9.77	1.21	1.94	3.02
Nov-18	9.75	23.97	9.82	1.14	1.94	3.02
Dec-18	9.75	23.56	9.84	1.21	1.94	3.00
Jan-19	9.75	24.03	9.87	1.22	1.94	3.01
Feb-19	9.75	24.61	9.92	1.29	1.85	3.13
Mar-19	9.75	24.59	9.91	1.26	1.79	3.13
Apr-19	9.75	24.58	9.91	1.27	1.74	3.08
May-19	10.25	24.91	9.90	1.41	1.74	3.08

Source: Bank of Zambia