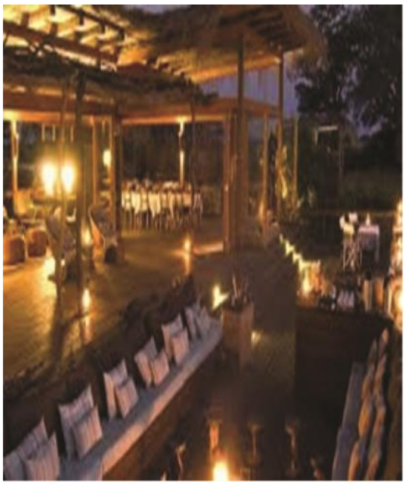
Republic of Zambia



# MID YEAR ECONOMIC REPORT

# 2019

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MINISTRY OF FINANCE

REPUBLIC OF ZAMBIA

# 2019
# MID-YEAR
# ECONOMIC REPORT

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# FOREWORD

On behalf of the Government, I am pleased to share the 2019 Mid-Year Economic Report, which reviews global and domestic economic developments in the first half of the year. In addition, the report provides an indication of the prospects for the second half of the year.

The global and domestic economies faced strong headwinds in the first half of the year. At global level, there have been downward revisions in growth, as the trade tensions between the United States and China show no signs of ending. Global growth is now projected at 3.2 percent in 2019, from earlier projections of at least 3.3 percent.

Domestically, during the period under review, macroeconomic environment was constrained. Growth for the first quarter of 2019 was estimated at 2.6 percent compared to 2.7 percent in corresponding period in 2018. Annual growth for 2019 is estimated to remain positive though subdued around 2 percent. The slow growth has been attributed to the poor agriculture output during the 2018/2019 farming season as well as low mining output registered in the first half of 2019 relative to the corresponding period in 2018. With electricity shortfalls due to unfavourable rainfall other sectors such as manufacturing have been adversely affected.

Overall inflation in the first half of 2019 remained within the target band of 6-8 percent although the average was close to the upper band at 7.9 percent. In terms of end-period developments, overall inflation, however, rose to 8.6 percent in June 2019 from 7.9 percent in December 2018 and 7.4 percent in June 2018 following an increase in both food and non-inflation.

In the foreign exchange market, the Kwacha weakened against all major convertible currencies during the first half of 2019 relative to 2018. The Kwacha depreciated by 26.5 percent to an average of K12.43 compared to an average of K9.82 in the first half of 2018 against the US dollar. This was largely on account of elevated demand for foreign exchange mainly for oil and fertilizer procurement coupled with negative market sentiments following Zambia's sovereign credit rating downgrades.

On the external sector front, the merchandise trade account recorded a surplus of US$248.4 million compared to a deficit of US$86.8 million recorded in the corresponding period in 2018. This was explained by the higher decline in imports relative to export earnings.

Fiscal performance was relatively favourable despite the constraints. Total revenues and grants amounted to K32.6 billion and were above budget target by 8.3 percent. The outturn was mainly driven by higher non-tax revenue collections. Total expenditures, however, were proportionately higher than total revenues and grants at K46.1 billion. This was on account of higher interest payments and inflows on foreign financed capital expenditure.

The above economic environment demands that Government prioritizes frontloading of fiscal consolidation measures. To this end, Government will continue to implement the austerity measures. The goal is to reduce the fiscal deficit and debt metrics to sustainable levels in the shortest possible time.

Fredson K. Yamba
**SECRETARY TO THE TREASURY**

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# 1 DEVELOPMENTS IN THE GLOBAL ECONOMY

## 1.1 Overview

Global economic growth is projected to be subdued in 2019 at 3.2 percent, from 3.6 percent in 2018 (see Table 1-1). This is due to intensified US-China trade and technology tensions, prolonged uncertainty on Brexit and geopolitical tensions. Over the first half of 2019, commodity prices were lower relative to the corresponding period in 2018, weighed down by subdued global trade and geopolitical tensions.

**Table 1-1: Overview of World Economic Performance, 2017- 2020**

| | Actuals | | Projections | |
|---|---|---|---|---|
| | **2017** | **2018** | **2019*** | **2020*** |
| **World Output** | **3.8** | **3.6** | **3.2** | **3.5** |
| **Advanced Economies** | **2.4** | **2.2** | **1.9** | **1.7** |
| United States | 2.2 | 2.9 | 2.6 | 1.9 |
| Euro Area | 2.4 | 1.9 | 1.3 | 1.6 |
| Germany | 2.2 | 1.4 | 0.7 | 1.7 |
| France | 2.3 | 1.7 | 1.3 | 1.4 |
| Italy | 1.7 | 0.9 | 0.1 | 0.8 |
| Spain | 3 | 2.6 | 2.3 | 1.9 |
| Japan | 1.9 | 0.8 | 0.9 | 0.4 |
| United Kingdom | 1.8 | 1.4 | 1.3 | 1.4 |
| Canada | 3 | 1.9 | 1.5 | 1.9 |
| Other Advanced Economies | 2.9 | 2.6 | 2.1 | 2.4 |
| **Emerging Market and Developing Economies** | **4.8** | **4.5** | **4.1** | **4.7** |
| Commonwealth of Independent States | 2.2 | 2.7 | 1.9 | 2.4 |
| Russia | 1.6 | 2.3 | 1.2 | 1.9 |
| Excluding Russia | 3.5 | 3.9 | 3.5 | 3.7 |
| Emerging and Developing Asia | 6.6 | 6.4 | 6.2 | 6.2 |
| China | 6.8 | 6.6 | 6.2 | 6.0 |
| India | 7.2 | 6.8 | 7.0 | 7.2 |
| ASEAN | 5.3 | 5.2 | 5.0 | 5.1 |
| Emerging Market and Developing Europe | 6.1 | 3.6 | 1.0 | 2.3 |
| Latin America and the Caribbean | 1.2 | 1.0 | 0.6 | 2.3 |
| Brazil | 1.1 | 1.1 | 0.8 | 2.4 |
| Mexico | 2.1 | 2.0 | 0.9 | 1.9 |
| Middle East, North Africa, Afghanistan and Pakistan | 2.1 | 1.6 | 1.0 | 3.0 |
| **Sub-Sahara Africa** | **2.9** | **3.1** | **3.4** | **3.6** |
| Nigeria | 0.8 | 1.9 | 2.3 | 2.6 |
| South Africa | 1.4 | 0.8 | 0.7 | 1.1 |
| **World Trade Volume (goods and services)** | **5.2** | **3.7** | **2.5** | **3.7** |
| Imports (goods and services) | | | | |
| Advanced Economies | 4.4 | 3.1 | 2.2 | 3.1 |
| Emerging Markets and Developing Economies | 7.4 | 4.7 | 2.9 | 4.8 |

Source: World Economic Outlook, April 2019
*Annual Projections

## 1.2 Developments in Advanced Economies

Growth in advanced economies is projected to slow down to 1.9 percent in 2019 compared to 2.2 percent in 2018. The low growth in advanced economies is premised on the weaker trade, low demand and investments coupled with public instability in some countries. In the United States, growth is projected to slow down to 2.6 percent in 2019 from 2.9 percent in 2018, due to softer domestic demand and weaker imports, in part reflecting the effect of retaliatory tariffs by China. In the Euro area growth is projected to slow down to 1.3 percent from 1.9 percent in 2018. A dip in investment and external demand for Germany, negative effects of street protests in France, subdued investment and domestic demand in Italy have all weighed down growth in the Euro area. Unlike most advanced economies, the Japanese economy is projected to marginally strengthen driven by inventory accumulation and a large contribution from net exports.

### 1.3 Developments in Emerging Market and Developing Economies

In emerging market and developing economies, growth is projected to be robust at 4.1 percent in 2019 albeit lower than 4.5 percent in 2018. This will be on account of developments in the Emerging and developing Asia particularly China. This notwithstanding strong growth is expected to be maintained in emerging and developing Asia at 6.2 percent though lower than 6.5 percent in 2018. Growth will be weighed down largely on account of the US imposed tariffs on trade. Growth in China is projected to slow down to 6.2 percent in 2019 from 6.6 percent in 2018. This is premised on the continued trade war with the USA and weakening external demand.

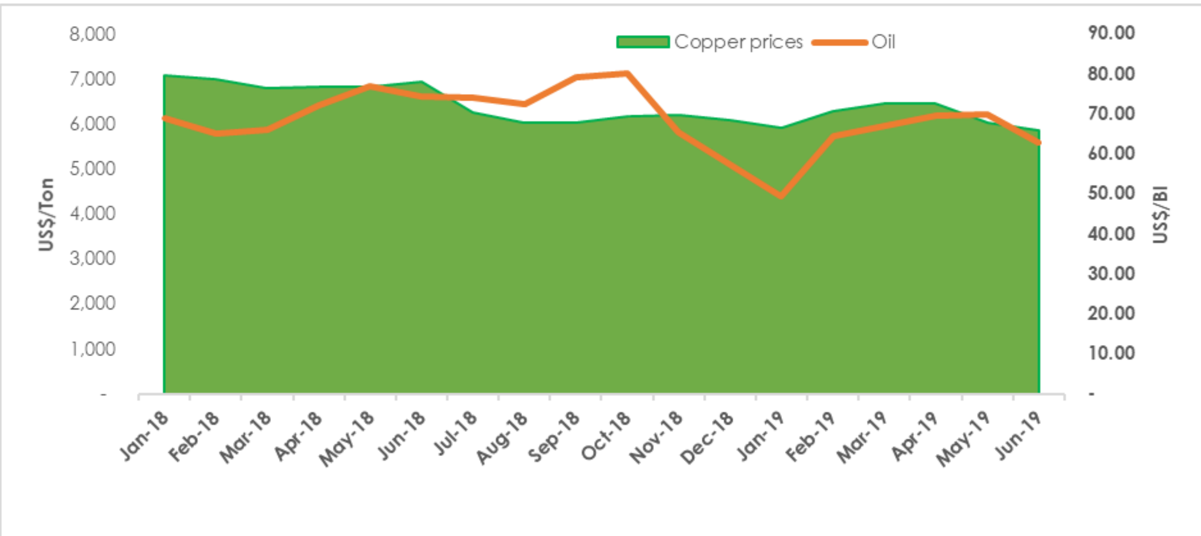
Growth in Sub-Saharan Africa is expected be robust at 3.4 percent in 2019, compared to 3.1 percent in 2018. Strong growth in many non-resource-intensive countries, and high, albeit volatile, oil prices will support the growth prospects for the larger oil dependent economies of Angola and Nigeria, and other oil-exporting countries in the region. The South African economy is expected to grow at a subdued pace of 0.7 percent in 2019 compared to 0.8 percent in 2018 on account of energy supply constraints especially in the mining sector and weak agricultural production.

### 1.4 Commodity Price Developments

In the first half of 2019, commodity prices were generally lower compared to the corresponding period in 2018. Copper prices averaged US $6,167 per Mt in the first half of 2019 compared to US $6,878 per Mt in 2018. This was mainly attributed to lower global economic activity largely associated with low global demand.

Crude oil prices averaged US $66 per barrel in the first half of 2019 compared to US $68 per barrel in 2018. The fall was account of the lower global demand as world economic activity slowed down.

Figure 1-1: Trend in Copper and oil prices




Source: Westmetal and Index Mundi.

## 1.5 Impact of Global Developments on the Domestic Economy

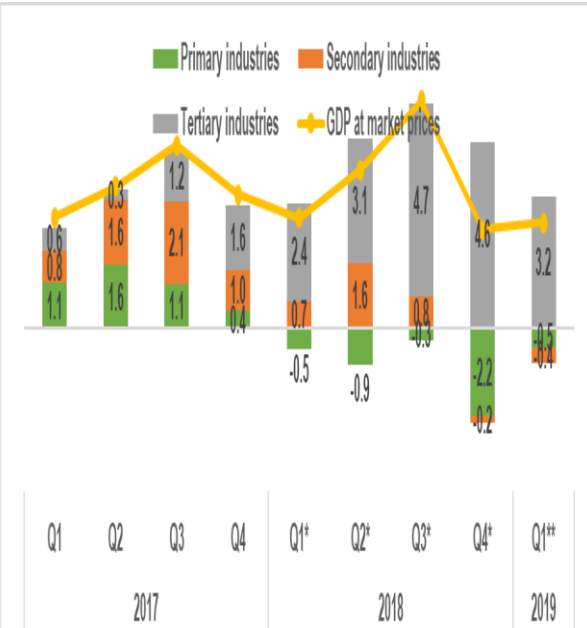
Subdued global economic activity in the first half of 2019, generally has weighed down the performance of the domestic economy. Lower global demand has reflected in lower realized copper prices and volumes, and reduced supply of foreign exchange in the domestic economy. Coupled with other factors, this adversely affected the performance of the Kwacha, especially in the second quarter of the year. The unfavourable prices on the international market and continued trade tensions also impacted on the copper production levels, thereby contributing to low growth.

# 2. REAL SECTOR DEVELOPMENTS

## 2.1 Overview

Preliminary data indicates that the domestic economy grew by 2.6 percent in the first quarter of 2019 compared to 2.7 percent during the corresponding period in 2018. This growth was mainly driven by the wholesale and retail trade, information and communication technology and the financial sector (see Figure 2-1 and 2-2). Growth was negative in agriculture and subdued in the mining, manufacturing and energy sectors. The annual growth for 2019 is projected to slow down to around 2.0 percent from the initial estimate of 4.0 percent. This is premised on the fact that, the effect of the adverse weather conditions on the energy sector, is expected to impact other sectors.

Figure 2-1: Trend in growth by Sector 2017- 2019




Source: Central Statistical Office

Figure 2-2: Contribution to nominal GDP Q1 2019


## 2.2 Agriculture, Forestry and Fisheries

### *2.2.1 Crop Production*

Production and yield rates for most of the major crops declined during the 2018/2019 farming season. This was due to prolonged dry spells experienced in the Southern, Western and Central parts of the country, coupled with infestation by army worms.

Maize output declined by 16.3 percent to 2,004,389 Mt in 2018/2019 farming season from 2,394,907 Mt in the 2017/2018 farming season. Similarly, Sorghum Soya beans, groundnuts, millet and sunflower production declined. Irish potatoes and Burley Tobacco, however, recorded a rise in output 186.3 percent and 65 percent, respectively (see Table 2-1).

**Table 2-1: Area Planted, Expected Crop Production and Yields, 2018/2019 farming season**

| Crop | Area Planted (ha) | | | Expected Production (MT) | | | Yield (MT) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017/2018 | 2018/2019 | percent Change | 2017/2018 | 2018/2019 | percent Change | 2017/2018 | 2018/2019 | percent Change |
| **Maize** | 1,392,546 | 1,557,314 | 11.8 | 2,394,907 | 2,004,389 | -16.3 | 1.72 | 1.29 | -25.0 |
| **Maize for seed** | 8,316 | 7,780 | -6.4 | 44,169 | 40,168 | -9.1 | 5.31 | 5.16 | -2.8 |
| **Sorghum** | 32,308 | 37,830 | 17.1 | 13,130 | 6,684 | -49.1 | 0.41 | 0.80 | 95.1 |
| **Rice** | 34,217 | 48,893 | 42.9 | 43,063 | 29,584 | -31.3 | 1.26 | 0.61 | -51.6 |
| **Millet** | 49,105 | 45,256 | -7.8 | 32,278 | 24,843 | -23.0 | 0.66 | 0.55 | -16.7 |
| **Sunflower** | 97,851 | 105,662 | 8.0 | 47,594 | 34,208 | -28.1 | 0.49 | 0.39 | -20.4 |
| **Groundnuts** | 284,708 | 276,383 | -2.9 | 181,772 | 130,825 | -28.0 | 0.64 | 0.47 | -26.6 |
| **Soya beans** | 205,505 | 237,601 | 15.6 | 302,720 | 281,389 | -7.0 | 1.47 | 1.18 | -19.7 |
| **Seed cotton** | 118,763 | 139,966 | 17.9 | 88,219 | 72,508 | -17.8 | 0.74 | 0.52 | -29.7 |
| **Irish potato** | 1,867 | 2,048 | 9.7 | 13,546 | 38,786 | 186.3 | 7.26 | 18.94 | 160.9 |
| **Virginia Tobacco** | 6,273 | 6,629 | 5.7 | 13,382 | 12,839 | -4.1 | 2.13 | 1.94 | -8.9 |
| **Burley Tobacco** | 7,787 | 7,191 | -7.7 | 11,512 | 9,176 | -20.3 | 1.48 | 1.28 | -13.5 |
| **Mixed beans** | 84,566 | 100,279 | 18.6 | 52,351 | 58,705 | 12.1 | 0.62 | 0.59 | -4.8 |
| **Bambara nuts** | 7,253 | 10,657 | 46.9 | 7,039 | 5,457 | -22.5 | 0.97 | 0.51 | -47.4 |
| **Cowpeas** | 140,222 | 17,992 | -87.2 | 6,824 | 3,566 | -47.7 | 0.49 | 0.20 | -59.2 |
| **Sweet Potatoes** | 6,325 | 34,209 | 440.9 | 183,280 | 109,336 | -40.3 | 3.04 | 3.20 | 5.3 |
| **Barley** | 936 | 1,064 | 13.7 | 5,102 | 8,417 | 65.0 | 5.45 | 7.91 | 45.1 |
| **Popcorn** | 11,190 | 9,053 | -19.1 | 9,459 | 5,915 | -37.5 | 0.85 | 0.65 | -23.5 |

Source: Ministry of Agriculture

### *2.2.2 Food Security Position*

In line with the decline in output of most crops during the 2018/2019 farming season the country recorded a deficit of 354,930 Mt maize equivalent, for both human and industrial consumption (see Table 2-2).

**Table 2-2: National Food Balance Sheet for the 2019/2020 Agricultural Marketing Season**

| | | Maize | Pad Rice | Wheat | Sorghum & Millet | Sweet & Iris Potatoes | Cassava Flour | Total Maize Equivalent |
|---|---|---|---|---|---|---|---|---|
| **A.** | **AVAILABILITY** | | | | | | | |
| | Opening Stock (1st May,2018 | 475,052 | 602 | 145,653 | 2,230 | 0 | 13 | 621,353 |
| | Production (2017/2018) | 2,004,389 | 29,584 | 151,850 | 31,527 | 148,122 | 1,009,146 | 3,196,625 |
| | **Total Availability** | **2,479,431** | **30,192** | **297,503** | **33,757** | **148,122** | **1,025,588** | **3,817,977** |
| **B.** | **REQUIREMENTS:** | | | | | | | |
| | **Staple food requirements** | | | | | | | |
| | Human Consumption | 1,558,339 | 70,713 | 427,895 | 29,681 | 140,716 | 1,006,692 | 3,056,125 |
| | Strategic Reserve Stocks (net) | 300,000 | 0 | 0 | 0 | 0 | 0 | 300,000 |
| | **Industrial requirements** | | | | | | | |
| | Stock feed | 284,347 | 0 | 0 | 0 | 0 | 0 | 284,347 |
| | Breweries | 124,671 | 0 | 0 | 0 | 0 | 0 | 124,671 |
| | Grain related for other uses | 92,592 | 3,000 | 0 | 2,500 | 0 | 0 | 97,933 |
| | **Losses** | **100,219** | **1,479** | **7,576** | **1,576** | **7,406** | **50,457** | **159,831** |
| | Structural cross-border trade | 150,000 | | | | | | 150,000 |
| | **Total requirements** | **2,610,168** | **75,192** | **435,487** | **33,757** | **148,122** | **1,057,150** | **4,172,907** |
| **C** | Surplus/deficit (A-B) | -130,737 | -45,000 | -137,984 | 0 | 0 | -47,991 | -354,930 |
| **D** | Potential Commercial exports | 130,737 | 45,000 | 137,984 | 0 | 0 | 0 | 0 |
| **E** | Food aid import requirements | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: Ministry of Agriculture

### *2.2.3 Livestock and Fisheries*

#### 2.2.3.1 Livestock Production and Products

The population of livestock increased in the first half of 2019 (see Table 2-3). This growth was mainly attributed to continued Government livestock stocking and restocking, and disease control. In the period under review the population of cattle increased by 3.3 percent to 4,058,608 from 3,927,432 in 2018.

**Table 2-3: Livestock Population, 2018-2019**

| Type of Livestock | Dec 2018 | June 2019 | % Change |
|---|---|---|---|
| Cattle | 3,927,432 | 4,058,608 | 3.34 |
| Sheep | 185,105 | 197,137 | 6.50 |
| Goats | 4,008,167 | 4,306,775 | 7.45 |
| Pigs | 1,292,287 | 1,458,346 | 12.85 |
| Poultry | 115,066 750 | 125,123,584 | 8.74 |

Source: Ministry of Fisheries and Livestock

The increase in the livestock population, contributed to the rise in livestock products. Milk production increased by 20.5 percent in the first half of 2019 albeit slower than 37.5 percent growth recorded in the corresponding period in 2018. Beef and egg production rose by 9.87 percent and 5.7 percent respectively, while the production of pork and poultry was higher by 5.43 percent and 5.0 percent, respectively (see Table 2-4).

**Table 2-4: Livestock Products, Jan-June 2018- Jan-June, 2019**

| Type of Product | 2018 | June 2019 | % Change |
|---|---|---|---|
| Milk (MT) | 1,686,400 | 2,034,642 | 20.65 |
| Eggs (000) | 1,642,693 | 1,737,312 | 5.76 |
| Hides (MT) | 345,549 | 363,241 | 5.12 |
| Beef (MT) | 6,103,281 | 6,705,675 | 9.87 |
| Pork (kg) | 555,270,223 | 585,421,396 | 5.43 |
| Poultry (MT) | 5,111,098 | 5,366,651 | 5.00 |

Source: Ministry of Fisheries and Livestock

#### 2.2.3.2 Fisheries

In the period under review, the performance of the fisheries sub-sector improved. Capture fisheries recorded an increase of 5.3 percent to 35,082 Mt from 33,316 Mt in the first half of 2018. Measures to enhance breeding of fish through continued sensitization countrywide on use of legal fishing methods, random monitoring, control and surveillance patrols, aided the increased compliance thereby allowing the fish to breed.

Aquaculture fish production increased by 10.2 percent to 18,627 Mt in the first half of 2019 from 16,910 Mt in the corresponding period in 2018 (see Table 2-5). This was attributed to increased production by commercial operators of both the cage and pond facilities. The major areas where aquaculture is undertaken is Southern, Lusaka and Northern provinces, accounting for about 74.0 percent of the national aquaculture production.

**Table 2-5: Capture and Aquaculture Fish Production, Jan-June 2018- Jan -June 2019**

| Type of Fisheries | 2018 | 2019 | %Change |
|---|---|---|---|
| Capture Fisheries (MT) | 33,316 | 35,082 | 5.30 |
| Aquaculture Fisheries (MT) | 16,910 | 18,627 | 10.15 |
| **Total** | 50,226 | 53,709 | 6.93 |

Source: Ministry of Livestock and Fisheries

Despite the increase in fish production, the country remained a net importer of fish. Fish imports, however, declined by 25.9 percent to 37, 843 Mt in the first half of 2019 from 51, 072 Mt in the first half of 2018. Fish exports remained relatively low at 624 Mt from 169Mt in the corresponding period in 2018.

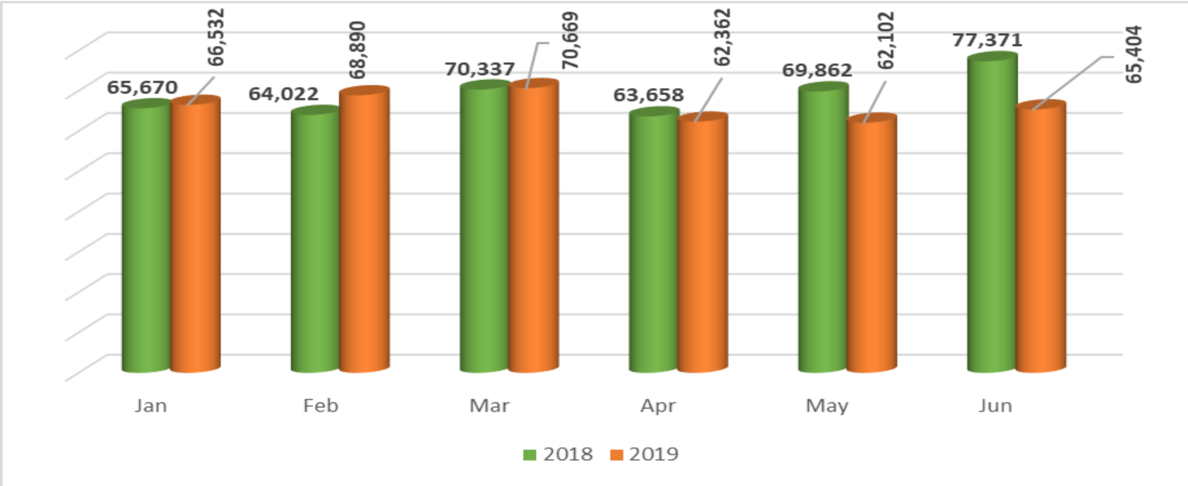
## 2.3 Mining

The performance of the mining sector was constrained during the first half of 2019 on account of suspension of mining operations at some mines compounded by weaker commodity prices particularly copper, as well as reduced global demand. In addition, introduction of import duty on concentrates from the Democratic Republic of Congo (DRC) also impacted overall performance of the sector. This notwithstanding, production of other minerals such as coal and precious minerals increased.

### *2.3.1 Copper Production*

Copper output declined by 3.6 percent to 395,960 Mt in the first half of 2019 compared to 410,919 Mt produced in the corresponding period of 2018(see Figure 2-3). The decline reflected the suspension of some mining operations, low investments in the sector coupled by declining copper prices on the international market due to subdued global demand.

**Figure 2-3: Copper output (Mt), Jan-June 2018 and 2019**




Source: Ministry of Mines and Minerals Development

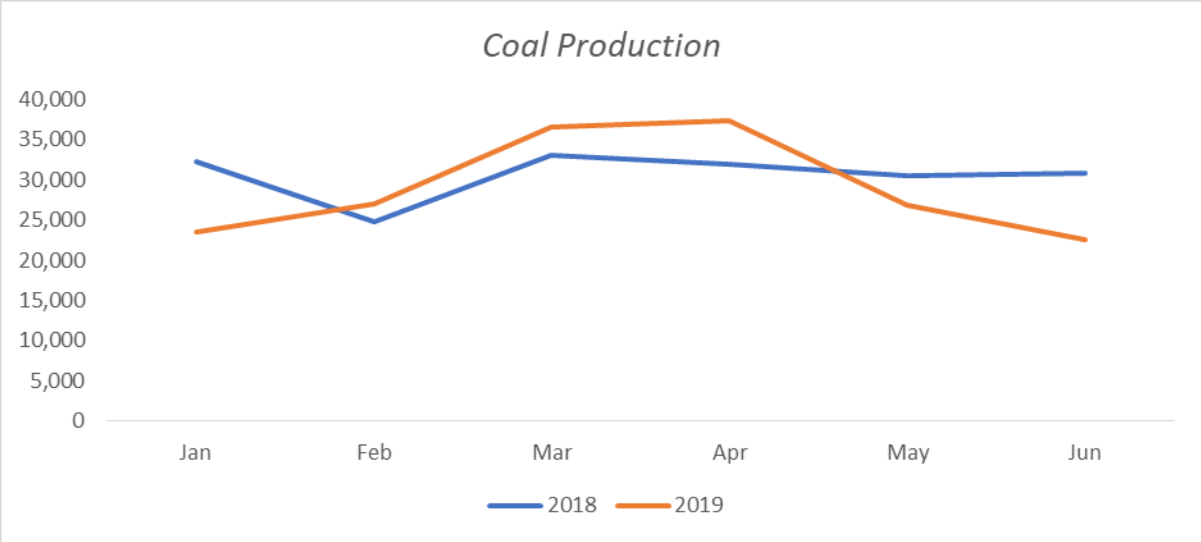
### *2.3.2 Gemstones, Manganese and Gold Production*

Production of emeralds in the first half of 2019 was higher by 34.0 percent at 12,696 Kg compared to 9,475 kg recorded during the corresponding period in 2018. The increase was attributed to the higher emerald content in the ore. Similarly, manganese production increased to 57,528 Mt in the review period in 2019 from 33,471 Mt in corresponding period in 2018. In line with the low copper ore grade, production of gold in the first half of 2019 declined by 56.0 percent to 937.6 Kg from 2,148.6 Kg recorded in the corresponding period of 2018.

### *2.3.3 Coal Production*

Coal output between January and June 2019 marginally decreased by 5.1 percent to 175,848 Mt from 185,352 Mt recorded in the corresponding period of 2018 (see Figure 2-4). Demand for coal has, however, continued to increase mainly for use in electricity generation and manufacturing.

**Figure 2-4: Coal Output (Mt), Jan-June 2018 and 2019**




Source: Ministry of Mines and Minerals Development

## 2.4 Manufacturing

Preliminary data indicates that the manufacturing sector grew by 1.4 percent in the first quarter of 2019 which is lower than the 2.1 percent recorded in the corresponding period in 2018 (see Table 2-6). The lower growth in manufacturing was attributed to lower agricultural output and power supply constraints. Subsequently, the food, beverages and tobacco, paper and paper products and fabricated metal products subsectors contracted by 1.4 percent, 0.3 percent and 7.1 percent, respectively. Contributing to the lower output in manufacturing were weak business condition as measured by the Stanbic Bank Purchasing Managers' Index which remained below 50[1].

**Table 2-6: Manufacturing growth by sub-sectors, Q1 2017 to Q1 2019**

| | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | 2018 | Q1 2019* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Food, Beverages & Tobacco | 2.7 | 0.4 | 4.1 | 0.1 | **4.4** | 3.9 | 0.9 | 9.5 | -0.1 | **4.1** | -1.4 |
| Textile, Clothing & Leather | 3.3 | 25.4 | 77.2 | 63.8 | **1.7** | 3.1 | 21.9 | 12.1 | 73.6 | **3.4** | 83.2 |
| Wood & Wood Products | 2.6 | -8.9 | 2.4 | -2.0 | **33.7** | -1.3 | 2.5 | -1.4 | -2.3 | **27.1** | 1.2 |
| Paper & Paper Products | -9.4 | 2.9 | 18.2 | -10.0 | **-1.6** | 5.9 | 6.0 | 14.1 | -0.9 | **-0.5** | -0.3 |
| Chemicals, Rubbers & Plastics | 8.4 | 8.0 | -2.1 | 5.5 | **-0.8** | 5.6 | 5.9 | 0.6 | 1.1 | **6.2** | 2.1 |
| Non-metallic Mineral Products | 3.8 | 11.5 | 6.5 | 28.3 | **5.1** | 2.1 | 5.8 | 4.1 | 2.8 | **3.5** | 6.3 |
| Basic Metal Industries | 3.4 | 11.4 | -4.3 | 5.7 | **12.4** | -1.7 | 22.2 | 9.9 | 3.4 | **3.7** | 1.9 |
| Fabricated Metal Products | -10.6 | 7.4 | 9.1 | 6.7 | **4.2** | 5.9 | 4.4 | -27.1 | -4.6 | **8.8** | -7.1 |
| **Total Manufacturing** | **1.8** | **6.6** | **2.6** | **6.4** | **3.1** | **2.1** | **9.5** | **2.9** | **1.5** | **-6.9** | **1.4** |

Source: Central Statistical Office
*Preliminary

## 2.5 Tourism

Preliminary data indicates that the performance of the tourism sector was mixed. While there was an increase in tourist arrivals at ports of entry, a reduction in visits to national parks and heritage sites was recorded.

[1] A reading of 50 is the PMI threshold, a reading above/below reflects improvement or deterioration in business conditions respectively.

### *2.5.1 Tourist Arrivals at Ports of Entry*

Tourist arrivals at ports of entry, during the period under review increased by 15.8 percent to 568,891 from 491,149 arrivals in the corresponding period in 2018. The increase in arrivals was mainly attributed to policies and legislation aimed at easing travel such as the Kavango-Zambezi (KAZA) Uni-Visa initiative, online visa applications and continued investment in infrastructure development.

#### 2.5.1.1 Tourist Arrivals at Airports

During the first half of 2019, tourist arrivals at airports increased by 9.1 percent to 163,739 compared to 150,096 in the corresponding period in 2018 (see Table 2-7). Significant increases in arrivals of 21.5 percent and 27.0 percent were recorded at Harry Mwaanga Nkumbula and Simon Mwansa Kapwepwe International Airports, respectively. A decline was recorded at Mfuwe International Airport.

**Table 2-7: Tourist Arrivals at Airports, Jan-June, 2018-2019**

| Ports of Entry | 2018 | 2019 | % Change |
|---|---|---|---|
| Kenneth Kaunda International Airport | 106,009 | 108,977 | 2.8 |
| Simon Mwansa Kapwepwe International Airport | 23,257 | 29,538 | 27.0 |
| Harry Mwaanga Nkumbula International Airport | 20,668 | 25,103 | 21.5 |
| Mfuwe International Airport | 162 | 121 | (25.3) |
| **Total** | **150,096** | **163,739** | **9.1** |

Source: Ministry of Tourism and Arts

#### 2.5.1.2 Tourist Arrivals at Border Entries

Preliminary data indicated that tourist arrivals at border entries rose by 18.8 percent to 405,152 in the first half of 2019 from 341,053 in the corresponding period in 2018. The increase was partly attributed to heightened marketing, trade and improved e-Visa services following the introduction of on-line payments by the Immigration Department. Significant tourist arrivals were recorded at Mokambo, Jimbe, Mpulungu and Feira border posts (see Table 2-8). Other border posts such as Nsumbu and Kariba recorded a decline in tourist arrivals.

**Table 2-8: Tourist Arrivals at Border Entries, Jan-June, 2018-2019**

| Ports of Entry | Jan-Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| Chanida | 4,222 | 4,240 | 0.4 |
| Chirundu | 92,126 | 100,652 | 9.3 |
| Feira/Luangwa | 6,483 | 9,752 | 50.4 |
| Jimbe | 97 | 337 | 247.4 |
| Mwami | 9,681 | 9,484 | -2 |
| Mpulungu | 1,969 | 2,720 | 38.1 |
| Kariba | 8,718 | 5,164 | -40.8 |
| Kasumbalesa | 40,576 | 36,664 | -9.6 |
| Katima mulilo | 16,008 | 14,851 | -7.2 |
| Kazungula | 28,133 | 45,826 | 62.9 |
| Kipushe | 3,068 | 3,542 | 15.4 |
| Mokambo | 1,927 | 8,841 | 358.8 |
| Sakania | 2,560 | 4,664 | 82.2 |
| Nsumbu | 625 | 273 | -56.3 |
| Nakonde | 88,511 | 109,069 | 23.2 |
| Victoria Falls | 36,349 | 49,073 | 35 |
| **Total** | **341,053** | **405,152** | **18.8** |

Source: Ministry of Tourism and Arts

### *2.5.2 Tourist Visits to National Parks*

The number of tourist arrivals at national parks decreased by 9.7 percent during the period under review to 33,300 from 36,865 visitors in the corresponding period in 2018 (see Table 2-9). The decrease in tourist visits was partly attributed to the exchange rate volatility as some fees are pegged to the United States Dollar.

**Table 2-9: Tourists visits at Major National Parks, Jan-June, 2018-2019**

| National Parks | Jan-Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| South Luangwa | 13,616 | 13,145 | (3.5) |
| Mosi-oa-Tunya | 10,356 | 9,337 | (9.8) |
| Lower Zambezi | 3,508 | 3,456 | (1.5) |
| Lusaka | 5,777 | 3,704 | (35.9) |
| Kafue | 3,608 | 3,658 | 1.4 |
| **Total** | **36,865** | **33,300** | **(9.7)** |

Source: Ministry of Tourism and Arts

The South Luangwa and Mosi-o-Tunya National Park recorded a decline in tourist visits by 3.5 percent and 9.8 percent, respectively. The general trend of a reduction in visits to national parks, notwithstanding, Kafue National Park recorded an increase in visits by 1.4 percent (see table 2-9).

### *2.5.3 Room and Bed Occupancy Rates*

The bed and room occupancy rates improved during the period under review. Bed Occupancy rose to 36.3 percent in 2019 from 31.2 percent in 2018 (see Table 2-10). Similarly, room occupancy increased by 8.9 percent to 50.3 percent from 46.2 percent. The positive increase is in line with the increase in tourist arrivals.

**Table 2-10: Room and Bed Occupancy Rates, Jan-June, 2018-2019**

| | Jan- Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| Bed Occupancy | 31.2 | 36.3 | 16.3 |
| Room Occupancy | 46.2 | 50.3 | 8.9 |

Source: Ministry of Tourism and Arts

### *2.5.4 Tourist Visits to Museums*

Tourist visits to museums decreased during the period under review by 16.6 percent to 26,438 visitors from 31,707 visitors in the corresponding period in 2018 (see Table 2-11). Choma Museum recorded the most significant decline of 79.0 percent. Increases were, however, recorded for Moto-moto museum in Northern Province of 39.7 percent as well as at the Copperbelt Museum of 36.7 percent. The number of international visitors to museums rose by 16.2 percent during the period under review to 5,590 visitors from 4,809 visitors during the corresponding period in 2018.

**Table 2-11: Tourist Visits to Museums, Jan-June 2018 and 2019**

| Name of Museum | Jan- Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| Copperbelt | 221 | 302 | 36.7 |
| Livingstone | 16,782 | 14,284 | -14.9 |
| Lusaka | 11,848 | 10,457 | -11.7 |
| Moto Moto | 670 | 936 | 39.7 |
| Choma | 2,186 | 459 | -79 |
| **TOTAL** | **31,707** | **26,438** | **-16.6** |

Source: Ministry of Tourism and Arts

### *2.5.4 Tourism Revenues*

Revenue collections from tourism activities in the first half of 2019 increased by 22 percent with highest collected from licenses, reflecting a rise in new entrants to the sector. Collections from Tourism enterprise and hotel managers licensing rose by 81.4 percent and 66.5 percent, respectively (see Table 2-12). Tourism Levy raised to support the development of tourism infrastructure rose by 20.5 percent to K8,344,453 million from K6,923,417million during the corresponding period in 2018. Revenues related to museum activities, however, declined as reflected in the lower number of visits.

**Table 2-12: Tourism Revenue, Jan-June 2018 and 2019**

| Source of Income | 2018 | 2019 | % Change |
|---|---|---|---|
| Tourism enterprise License | 742,247 | 1,346,092 | 81.4 |
| Hotel Managers Licensing | 147,950 | 246,280 | 66.5 |
| Casinos | 1,791,964 | 1,954,968 | 9.1 |
| Tourism Levy | 6,923,417 | 8,344,453 | 20.5 |
| wildlife | 54,172,857 | 66,379,758 | 22.5 |
| Museum | 1,177,955 | 970,550 | -17.6 |
| **Total** | **64,956,391** | **79,242,101** | **22.0** |

Source: Ministry of Tourism and Arts

## 2.6 Energy

The overall performance of the energy sector was constrained in the first half of 2019 relative to the corresponding period in 2018. This was partly on account of a reduction in electricity generation due to low water levels. The supply of petroleum products, however, remained stable.

### *2.6.1 Electricity Generation, Exports and Imports*

Electricity generation marginally declined to 7,654,861 Mwh in the first half of 2019 from 7,657,321 Mwh generated in the first half of 2018 (see Table 2-13). The decrease in electricity generation was attributed to low water levels largely at the Kariba dam.

**Table 2-13: Electricity Generation, Exports and Imports (Mwh)**

| | Jan-Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| Major Hydro | 6,219,261 | 6,217,057 | -0.03 |
| Mini Hydro | 133,837 | 109,184 | -18.2 |
| Diesel | 2,224 | 2,484 | 11.7 |
| Thermal | 1,302,000 | 1,286,047 | -1.2 |
| **Total Generation** | **7,657,321** | **7,654,861** | **-0.03** |
| Exports | 555,027 | 443,628 | -20.1 |
| Imports | 143,004 | 17.246 | -87.9 |

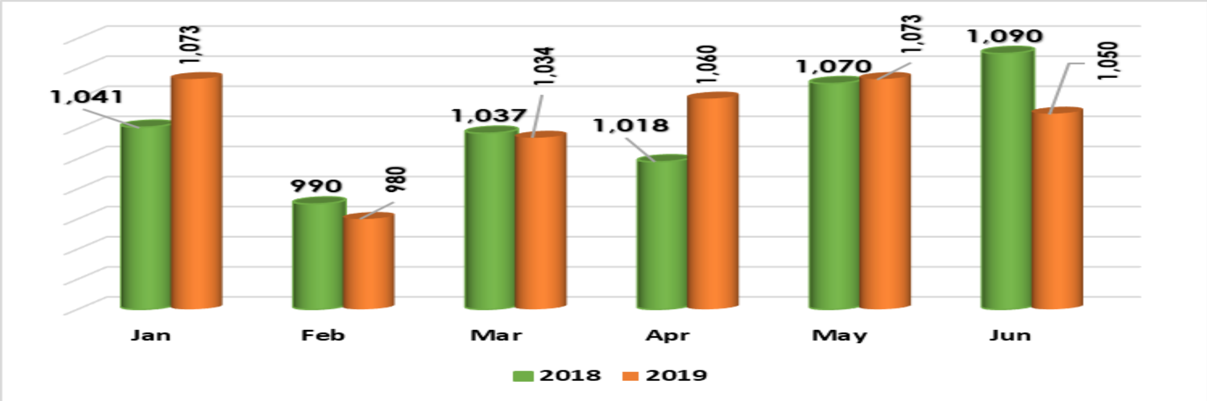
Source: Zesco Limited

In line with constrained generation, exports of electricity in the review period declined by 20.1 percent to 443,628 Mwh compared to 555,027 Mwh in the corresponding period of 2018. To manage the shortfall in electricity, Zesco implemented the load management system thereby reducing pressure on the importation of electricity which was lower by 87.9 percent at 17,246 Mwh relative to 143,004 Mwh imported during the corresponding period in 2018.

#### 2.6.1.1 Electricity Consumption

Notwithstanding the constrained generation, electricity consumption marginally increased in the first half of 2019 by 0.4 percent to 6,269,954 Mwh compared to 6,245,249 Mwh recorded over the corresponding period of 2018 (see figure 2-5). The increase was mainly due to rise in new customers connected to the National Power grid.

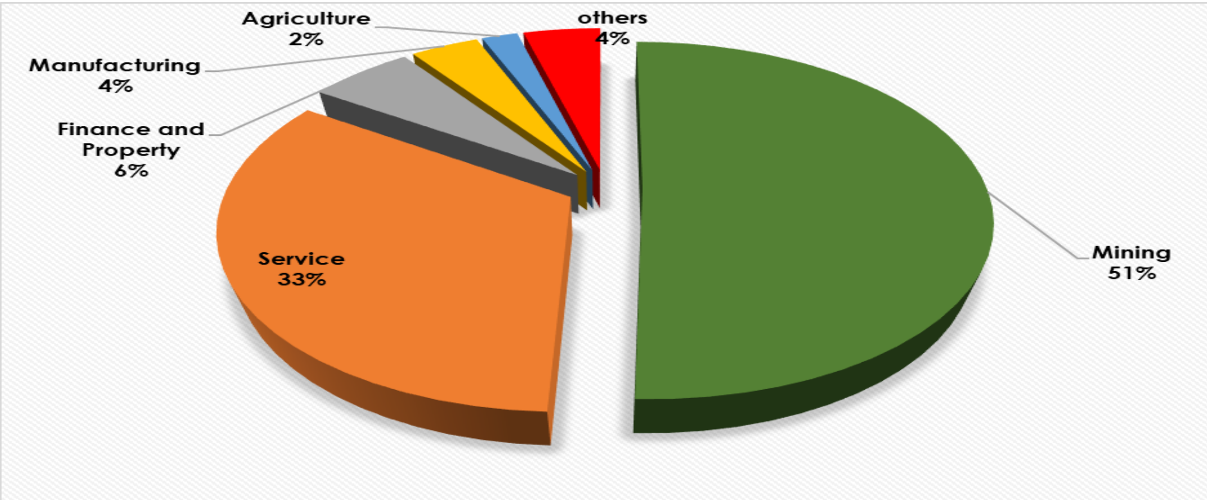
Figure 2-5: Electricity Consumption (Mwh), Jan-June 2018 and 2019




Source: Zesco Limited

The largest proportion of electricity continued to be consumed by the mining sector at 51 percent, while the agricultural sector was lowest at 2 percent (see Figure 2-6).

Figure 2-6: Share of Electricity Consumption by sector (Mwh), January-June 2019




Source: Zesco Limited

## 2.6.2 Petroleum

The supply of petroleum products in the review period remained stable. Similarly, despite fluctuations in the exchange rate, domestic pump prices remained relatively stable moderated by the slump in crude oil prices on the international market. In addition, the amendments to the Customs and Excise Act contributed to the stable domestic pump prices.

During the period under review, importation of feed stock increased by 33 percent to 415,794.16 Mt from 311,926.42 Mt in the corresponding period in 2018.

### 2.6.2 .1 Petroleum Consumption, Jan-June 2019

National effective demand for petroleum products in the first half of 2019 increased by 5.8 percent to 669,007 Mt from 632,247 Mt under the corresponding period in 2018. The increase in consumption was largely driven by the growth in the use of Heavy Fuel oil, LPG and diesel.

**Table 2-14: Trends in the consumption of petroleum product, Jan-June 2019**

| Products | Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|
| **Diesel /low Sulphur** | 73,384 | 68,560 | 75,408 | 78,352 | 90,712 | 85,956 |
| **Petrol** | 34,999 | 31,471 | 33,970 | 33,964 | 40,484 | 33,614 |
| **Kerosene** | 831 | 1,062 | 1,045 | 1,064 | 1,015 | 803 |
| **Jet A1** | 3,041 | 1,757 | 3,177 | 3,288 | 2,832 | 2,927 |
| **HFO** | 8,419 | 9,924 | 3,505 | 19,870 | 22,111 | 12,630 |
| **LPG** | 627 | 487 | 502 | 649 | 656 | 1,228 |

Source: Energy Regulation Board

### 2.6.2 .2 Petroleum Products Prices, Jan-June 2019

During the review period, domestic prices for petroleum products remained relatively stable with a downward adjustment made in February 2019 (see Table 2-15). The February price reduction was largely a reflection of downward movements in the international oil prices and relatively stable exchange rate against the US Dollar

**Table 2-15: Retail pump Price 2019 (ZMK/Litre)**

| Product | Price before adjustment | Price after adjustment | % change |
|---|---|---|---|
| **Petrol** | 16.06 | 15.20 | (5.4) |
| **Diesel** | 14.65 | 13.43 | (8.3) |
| **Kerosene** | 11.34 | 11.34 | (0.0) |
| **LPG** | 16.94 | 15.72 | (7.2) |

Source: Energy Regulation Board

## 2.7 Transport and Communication

The performance of the transport sector generally weakened with the number of passengers using road, railway and air transport declining. The utilization of Information and Communication Technology, however, improved.

### *2.7.1 Road Transport*

During the first half of 2019, the number of motor vehicle registrations decreased by 6.6 percent to 20,521 from 21,970 recorded in the corresponding period in 2018(see Table 2-16). This was largely explained by the decline in the number of vehicles imported due to the increase in the cost of imported vehicles arising from the depreciation of the local currency against the US dollar.

**Table 2-16: Motor Vehicles Registered, Jan-June 2018 and 2019**

| Motor Vehicle Type | Jan–Jun 2018 | Jan-Jun 2019 | % Change |
|---|---|---|---|
| Light Pass. Vehicle | 13,568 | 11,771 | -13.2 |
| Light Load Vehicle | 2,301 | 1,872 | -18.6 |
| Heavy Load Vehicle | 3,758 | 3,831 | 1.9 |
| Heavy Passenger Vehicle | 415 | 442 | 6.5 |
| Motor Cycle | 920 | 1,295 | 40.8 |
| Tri-Cycle | 64 | 47 | -26.6 |
| Agriculture Tractor | 91 | 60 | -34.1 |
| Agriculture Trailer | 1 | - | -100.0 |
| Trailers | 852 | 1,203 | 41.2 |
| **Total** | **21,970** | **20,521** | **-6.6** |

Source: Road Transport and Safety Agency

### *2.7.2 Air Transport*

Passenger movement by air in the first six months of 2019, as recorded at the four main airports, namely Kenneth Kaunda (KKIA), Harry Mwaanga Nkumbula (HMN), Simon Mwansa Kapwepwe (SMK) and Mfuwe International Airports, declined by 6.5 percent (see Table 2-17). The observed performance was attributed to the suspension of Ethiopian Airlines flights due to rehabilitation works in Blantyre, Malawi which resulted in the reduction of flights to Zambia.

**Table 2-17: Passenger Movements at the Four Major Airports, end-June 2018 and 2019**

| | Passenger Type | International Airports | | | | |
|---|---|---|---|---|---|---|
| | | KKIA | SMKIA | HMNIA | MIA | Total |
| **2019** | Domestic | 91,388 | 40,732 | 22,044 | 9,919 | 164,083 |
| | International | 500,903 | 83,499 | 94,770 | 368 | 679,540 |
| | **Total** | **592,291** | **124,231** | **116,814** | **10,287** | **843,623** |
| **2018** | Domestic | 94,507 | 41,744 | 22,431 | 9,984 | 168,666 |
| | International | 538,679 | 101,121 | 93,801 | 334 | 733,935 |
| | **Total** | **633,186** | **142,865** | **116,232** | **10,318** | **902,601** |

Source: Zambia Airports Corporation Limited

Cargo transported by air declined by 2.5 percent to 10,211.8 Mt from 10,472.17 Mt recorded over the corresponding period in 2018. KKIA accounted for 95 percent of the bulk of cargo due to availability of a longer runway, cold storage facilities as well as its central location.

Aircraft movement at the four main airports, also reduced by 2.2 percent to 25,577 in the first half of 2019 compared to 26,155 flights the corresponding period in 2018. In addition, domestic and international movements were 13,515 and 12,062 in the review period compared to the 13,830 and 12,325 movements recorded in the corresponding period of 2018 respectively.

### *2.7.3 Railway Transport*

In the first half of 2019, a total of 500,354 passengers were transported by rail from 529,139 recorded over the corresponding period in 2018 (see Table 2-18). Passengers transported by Tanzania Zambia Railway Authority (TAZARA) declined by 6.6 percent due to the poor state of the coaches which led the railway regulatory body in Tanzania to impose a speed restriction of 40 kilometres per hour on the interstate passenger train. Zambia Railways Limited (ZRL) also recorded a marginal decline in passengers due to reduced carrying capacity on account of rehabilitation of some coaches.

**Table 2-18: Passenger and Cargo Transported, Jan-June 2018 and 2019**

| Company | | Passengers | % Change | | Volume of Cargo | % Change |
|---|---|---|---|---|---|---|
| | Jan-June 2018 | Jan-June 2019 | | Jan-June 2018 | Jan-June 2019 | |
| **ZRL** | 111,326 | 110,210 | -1.0 | 360,622.00 | 484,974 | 34.5 |
| **TAZARA** | 417,813 | 390,144 | -6.6 | 99,320 | 77,615 | -21.9 |
| **Total** | **529,139** | **500,354** | **-5.4** | **459,942** | **562,589** | **22.3** |

Source: Ministry of Transport and Communications

The cargo transported by rail increased by 22.3 percent to 562,589 Mt from 459,942 Mt recorded in the corresponding period in 2018 (see Table 2-18). The volume of cargo transported by ZRL increased by 34 percent to 484,974 Mt from 360,622 Mt in the first half of 2018. The improved performance was mainly attributed to a rise in tonnage uptake by existing customers, non-traditional customers coming on board following the issuance of Statutory Instrument No.7 of 2018[2] and additional wagon capacity provided by some customers on the North- South Corridor.

Cargo transported by TAZARA decreased by 21.9 percent to 77,615 Mt from 99,320 Mt in the corresponding period in 2018. This was attributed to the introduction of private railway operators on the TAZARA network and the effect of the reintroduction of export tax in Zambia and the Democratic Republic of Congo on loading and movement of major commodities, such as copper and manganese.

### *2.7.4 Maritime and Inland Waterways*

The cargo exported through Mpulungu harbour increased by 17.8 percent to 84, 439.07 Mt in the first half of 2019 from 71,649.81 Mt recorded over the corresponding period in 2018. Zambian exports accounted for the largest share followed by transit exports and imports. The main exports included clinker, sugar and cement.

### *2.7.5 Information and Communications*

#### 2.7.5.1 Mobile Telephone Subscription

The number of active mobile telephone subscriptions increased by 17.8 percent to 16.3 million in the first half of 2019, from 13.8 million recorded over the corresponding period in 2018 (see Table 2-19). The growth was attributed to competition among operators through promotions which provided incentives for multiple subscriptions as well as a rise in the use of ICT devices, such as MiFi routers, tablets, point of sale machines and smart internet ready devices.

**Table 2-19: Active Mobile Subscriptions and Market Share, Jan-June 2018 and 2019**

| Mobile Company | Data | Subscription and Market Share | | | |
|---|---|---|---|---|---|
| | | Jun-18 | Dec, 2018 | June, 2019 | % change Ju 2019/2018 |
| Airtel Zambia | Number | 5,360,890 | 5,897,968 | 5,789,130 | -1.85 |
| | Market Share (%) | 38.7 | 38.1 | 35.5 | |
| MTN Zambia | Number | 6,302,117 | 7,016,393 | 7,388,559 | 5.30 |
| | Market Share (%) | 45.5 | 45.4 | 45.3 | |
| Zamtel | Number | 2,173,609 | 2,555,909 | 3,120,539 | 22.09 |
| | Market Share (%) | 15.7 | 16.5 | 19.1 | |
| **TOTAL SUBSCRIBERS** | | **13,836,616** | **15,470,270** | **16,298,228** | **5.35** |
| Population (CSO Estimate) | | 16,887,720 | 16,887,720 | 17,381,168 | 2.40 |
| Mobile Penetration per 100 | | 81.9 | 91.6 | 93.8 | |
| Growth Rates in Subscription | | | 11.8 | 17.8 | |

Source: Zambia Information and Communications Technology Authority

In terms of market share, MTN Zambia Limited and Airtel Zambia Limited continued to have dominance over Zamtel, with 45.3 percent, 35.5 percent and 19.1 percent respectively.

#### 2.7.5.2 Mobile Traffic Volume

In the first half of 2019, there was an increase in domestic incoming calls by 12.4 percent to 1.1 billion minutes from 937 million minutes recorded in

[2] SI No.7 of 2018 compels heavy cargo producers to ship 30 percent of their cargo by rail.

corresponding period of 2018 (see Table 2-20). Similarly, domestic outgoing calls increased by 30.4 percent to 7.7 billion minutes from 5.9 billion minutes recorded in the corresponding period in 2018. The performance was a reflection of sustained discounted minutes offered on bundled pricing offers by all the operators.

Incoming international calls marginally declined to 17.4 million minutes in the first half of 2019 from 17.6 million minutes recorded in the corresponding period in 2018. Similarly, outgoing international calls declined by 14 percent to 15.8 million minutes from 18.4 million minutes recorded in 2018. The lower minutes on international calls was partly attributable to increased adoption of internet-based applications like WhatsApp, Skype and Viber. Other adverse practices such as SIM boxing, a consequence of least cost routing, continued to negatively impact international voice call traffic. There was also slow progress in fully implementing regional initiatives, such as the SADC Home and Away Roaming preferential tariffs.

**Table 2-20: Mobile Traffic Volume Call Minutes, Jan-June 2018 and 2019**

| | Jan–Jun 2018 | Jan–Jun 2019 | percent Change |
|---|---|---|---|
| domestic Incoming | 937,258,215 | 1,053,359,234 | 12.4 |
| domestic Outgoing | 5,949,077,280 | 7,755,435,202 | 30.4 |
| International Incoming | 17,622,896 | 17,410,105 | -1.2 |
| International Outgoing | 18,436,977 | 15,854,742 | -14.0 |

Source: Zambia Information and Communications Technology Authority

### 2.7.5.3 Internet Service Provision

The mobile internet users increased by 33.3 percent to 10.5 million in the first half of 2019 from 7.8 million over the corresponding period in 2018 (see Table 2-21). This was due to easy access to mobile internet services and the lower cost of the services. As a result, internet usage per 100 population has been trending upward.

**Table 2-21: Internet Usage and Mobile Broadband Penetration ( Jan-Jun) 2018-2019**

| Internet Usage | June, 2018 | Dec 2018 | June, 2019 |
|---|---|---|---|
| Internet Subscription – Fixed Wireless | 37,392 | 44,711 | 41,656 |
| Internet users Per 100 Inhabitants | 0.22 | 0.26 | 0.24 |
| Mobile Internet Users – Sim Card Based internet | 7,858,186 | 9,825,716 | 10,480,464 |
| Mobile Internet users Per 100 Inhabitants | 46.5 | 58.2 | 60.3 |
| Internet Users – fixed wireless & Mobile Internet Usage | 7,895,578 | 9,870,427 | 10,522,120 |
| Internet Usage Per 100 Inhabitants | 46.8 | 58.4 | 60.5 |

Source: Zambia Information and Communications Technology Authority

### 2.7.5.4 Communication Tower Installation

During the period under review, the number of communication towers increased by 12 percent to 2,758 from 2,462 towers over the corresponding period in 2018(see Table 2-22). Zamtel recorded the largest growth in the number of towers owned due to the ongoing construction programme of 1009 towers by the Government through the company.

**Table 2-22: Ownership of Tower Infrastructure, June 2018 and 2019**

| Operator | June, 2018 | Dec, 2018 | June, 2019 | % Change |
|---|---|---|---|---|
| IHS | 1,706 | 1,707 | 1,728 | 1.3 |
| ZICTA | 204 | 229 | 229 | 12.3 |
| ZAMTEL | 536 | 545 | 784 | 46.3 |
| AIRTEL | 16 | 15 | 17 | 6.3 |
| **TOTAL** | **2,462** | **2,496** | **2,758** | **12.0** |

Source: Zambia Information and Communications Technology Authority

# 3 BUDGET PERFORMANCE

## 3.1 Overview

In the period under review, the total revenue and grants outturn was above target by 8.3 percent. This was largely attributed to higher than projected non-tax revenue. Similarly, preliminary data showed that expenditures (including amortisation) in the first half of 2019 were above target by 7.0 percent, mainly driven by interest payments and spending on assets. The increase in expenditure notwithstanding, the fiscal balance for the period was 6.3 percent lower than the projection.

## 3.2 Revenue and Grants

Total revenue and grants were K32.6 billion against the target of K30.1 billion with domestic revenues accounting for 98.6 percent at K32.1 billion. The outturn of domestic revenue was attributed to higher collections in Value Added Tax (VAT) and non-tax revenues. VAT and non-tax revenues were above target by 17.0 percent and 50.1 percent respectively (see Table 3-1).

**Table 3-1: Revenue Performance (K' Million), January–June 2019**

| | Target | Outturn | percent |
|---|---|---|---|
| Revenue and Grants | 30,081 | 32,582 | 8.3 |
| Domestic Revenue | 29,454 | 32,110 | 9.0 |
| Tax Revenue | 24,823 | 25,159 | 1.4 |
| Income Taxes | 13,194 | 12,741 | -3.4 |
| Value Added Tax | 7,469 | 8,736 | 17.0 |
| Customs and Excise Duties | 4,016 | 3,539 | -11.9 |
| Non-Tax Revenue | 4,631 | 6,951 | 50.1 |
| Grants | 628 | 472 | -24.8 |

Source: Ministry of finance

### *3.2.1 Domestic Revenue Performance*

Domestic revenue collections in the first half of 2019 were above target by 9.0 percent at K32.1 billion against the target of K29.5 billion. The higher domestic revenues were driven by relatively good performance of both non-tax and tax revenue. The performance was also aided by improved compliance coupled with increased use of e-payment platform.

#### 3.2.1.1 Tax Revenues

Tax revenues at K25.16 billion were above target by 1.4 percent (see Table 3-1). The 17.0 percent above the programmed VAT target of K8.74 billion contributed to the good performance of tax revenue. The relatively positive performance of VAT was aided by improved compliance which was enhanced by collection at source by tax agents. Export duties were also increased by 27.5 percent.

Income taxes, however, underperformed by 3.4 percent at K12.74 billion on account of lower than projected collection of company tax which contracted by 20.5 percent. The outturn of company tax was attributed to the liquidity challenges in the economy thereby constraining the ability of companies to meet their tax obligations. Similarly, customs and excise duties were lower by 11.9 percent partly due to the continued reduction of tariffs through the implementation of regional trade tariff protocols coupled with delayed operationalisation of the Digital Tax Stamps programme.

#### 3.2.1.2 Non-Tax Revenues and Grants

In the first half of 2019, non-tax collections were above target by 50.1 percent at K6.95 billion against the forecast of K4.63 billion. The outturn was largely attributed to higher than projected collections from dividends which amounted to K1.7 billion against the target of K52 million (see Table 3-2). In line with reduced copper output mineral royalty declined by 2.9 percent during the review period. Grant inflows continued to decline at K472.0 million representing a 24.8 percent reduction.

**Table 3-2: Non-Tax Revenue (K' Millions)**

| | Target | Outturn |
|---|---|---|
| Road User charges & Fess | 332 | 270 |
| Road Toll fees | 469 | 894 |
| Interest -lending/dividend | 52 | 1,822 |
| Mineral royalty | 2,393 | 2,323 |

Source: Ministry of Finance

## 3.3 Expenditure Performance

Expenditure excluding amortisation during the first half of 2019 increased by 4.8 percent to K40.4 billion against the programmed levels (see table 3-3). The main drivers were interest payments on debt and capital expenditure. Interest payments on debt rose by 27.2 percent partly explained by the weakening of the Kwacha against the US dollar. Similarly, capital expenditure mainly related to foreign financed projects increased to K15.6 billion of which 52 percent of the expenses were on roads projects. This notwithstanding, some expenditure lines were constrained.

**Table 3-3: Expenditure Performance (K' Millions, unless stated), January–June 2019**

| | Projections | Outturn | % Variance |
|---|---|---|---|
| **TOTAL EXPENDITURE (excl Amortisation)** | **38,592** | **40,436** | **4.8** |
| **EXPENSES** | **27,236** | **26,084** | **-4.2** |
| Personal Emoluments (PEs) | 12,853 | 11,175 | -13.1 |
| Use of Goods and Services | 2,290 | 1,941 | -15.2 |
| Interest Payments | 7,264 | 9,239 | 27.2 |
| Transfers and Other Payments | 3,676 | 3,421 | -6.9 |
| Social Benefits | 717 | 141 | -80.3 |
| Other Expenses | 436 | 165 | -62.2 |
| **ASSETS** | **11,995** | **14,282** | **19.1** |
| Non-Financial Assets | 11,919 | 14,282 | 19.8 |
| Financial Assets | 76 | - | -100 |
| **LIABILITIES** | **270** | **69** | **-74.3** |
| **Fiscal Balance: Surplus (+)/Deficit (-)** | **-9,420** | **-8,829** | **-7.7** |

Source: Ministry of Finance

### *3.3.1 Expenses*

In the period under review, expenses were constrained resulting in a 4.2 percent lower than target at K26.1 billion, mainly driven by low releases on Personal Emoluments (PEs), Use of Goods and Services, Transfers and Other Payments and social benefits. This notwithstanding, interest payments were above at K9.24 billion against the programmed target of K7.3 billion was compounded by the depreciation of the Kwacha which resulted in upswing in interest payments on external debt. The interest payments on external debt at K5.2 billion accounted for 44.2 percent of the K9.24 billion paid out.

Expenses on transfers and other payments, PEs, Use of Goods and Services and Social Benefits were below target by 6.9 percent, 13.1 percent, 15.2 percent and 80.3 percent, respectively, (See Table 3-2).

### *3.3.2 Assets and Liabilities*

Acquisition of assets which were mainly infrastructure related expenses were above target by 30.4 percent at K15.6 billion. This was largely driven by foreign financed projects. Expenses on liabilities were below target by 74.3 percent at K69 million on account of higher than programmed expenditure on debt service.

### *3.3.3 Fiscal Balance*

Despite the challenges in budget execution during the review period, the fiscal deficit narrowed by 7.7 percent to K8.8 billion from the period target of K9.4 billion(See Table 3-2).. In terms of financing the deficit, the largest inflow was under foreign project financing, while domestic financing declined on account of constrained liquidity in the economy (See Table 3-4).

**Table 3-4: Fiscal Deficit Financing (K' Million)-January-June 2019**

| | Projections | Outturn | % Variance |
|---|---|---|---|
| **FINANCING** | **9,986** | **8,829** | **-11.58** |
| Net Domestic Financing | 2,935 | 230 | **-92.16** |
| Domestic Financing | 3,266 | 2,158 | -33.92 |
| Amortisation | -331 | -1,928 | 4.8248 |
| o/w Commercial bank facilities | -165 | -151 | *-8.48* |
| Shortfalls on maturities | - | -1,777 | *0* |
| Net External Financing | 7,051 | 8,599 | **21.95** |
| Programme | 1,778 | - | 100 |
| Project | 9,412 | 12,325 | 30.95 |
| Amortisation | -4,139 | -3,726 | -9.99 |

Source: Ministry of Finance

# 4. PUBLIC DEBT

## 4.1 External Debt Position

The external debt stock as at end June 2019 increased by 1.86 percent to US $10,234.56 million from US $10,047.75 million in December 2018 (see Table 4-1). In terms of composition, the largest increase was 5.9 percent under Export and Suppliers Credit. A relative increase was recorded under the multilateral and bilateral loans. The stock of private bank loans, nevertheless, marginally declined by 0.71 percent.

The growth in external debt was, however, less than the growth of 7.6 Percent recorded in the corresponding period of 2018. This outturn was on account of strategies and policies, put in place to reduce the pace of debt accumulation.

**Table 4-1: Government External Debt Stock (US $ Millions), December 2018- June 2019**

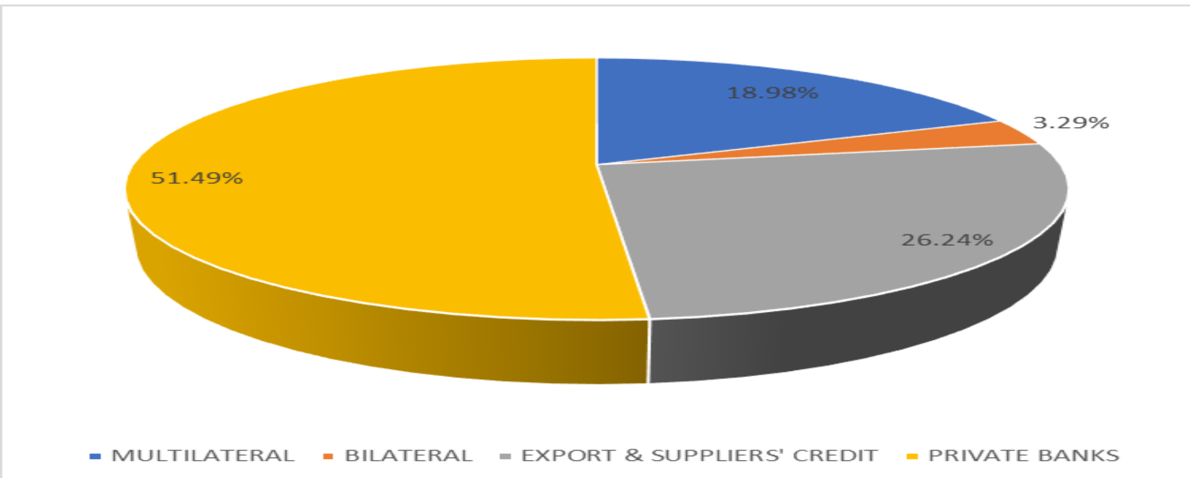
| Creditor Type / Creditor | Dec-18 | Jun-19 | % Change |
|---|---|---|---|
| **Multilateral** | **1,870,960,828.55** | **1,942,565,938.57** | **3.83** |
| o/w World Bank (IDA) | 1,011,686,555.64 | 1,071,230,872.39 | 5.89 |
| ADB/ADF | 498,967,855.22 | 531,504,555.48 | 6.52 |
| IMF | 62,317,336.91 | 8,780,300.00 | -85.91 |
| Others | 297,989,080.78 | 331,050,210.70 | 11.09 |
| **Bilateral** | **332,625,105.64** | **336,814,313.34** | **1.26** |
| o/w Paris Club | 101,280,446.14 | 112,446,234.65 | 11.02 |
| Non-Paris Club | 231,344,659.50 | 224,368,078.69 | -3.01 |
| **Export & Suppliers' Credit** | **2,537,211,081.41** | **2,685,843,565.54** | **5.86** |
| O/W Exim China | 2,267,974,346.30 | 2,351,601,955.24 | 3.69 |
| CATIC | 111,209,125.28 | 102,486,840.94 | -7.84 |
| Others | 158,027,609.83 | 231,754,769.36 | 46.65 |
| **Private Banks** | **5,306,960,093.91** | **5,269,332,827.87** | **-0.71** |
| O/W China Dev Bank | 324,809,784.81 | 311,115,118.14 | -4.22 |
| Euro Bond | 3,000,000,000.00 | 3,000,000,000.00 | 0 |
| Others | 1,982,150,309.10 | 1,958,217,709.73 | -1.23 |
| **Grand Total** | **10,047,757,109.51** | **10,234,556,645.32** | **1.86** |

Source: Ministry of Finance

### *4.1.1 External Debt Composition by Creditor*

Private Banks facilities at 51.5 percent accounted for the largest proportion of Government external debt, while bilateral creditors at 3.3 percent accounted for the lowest. Multilateral Creditors and Export & Suppliers' Credit facilities accounted for 18.98 percent and 26.24 percent, respectively (see figure 4-1).

**Figure 4-1: External Debt Composition by Creditor**




Source: Ministry of Finance

### *4.1.2 External Debt Service*

During the period under review, external debt service payments amounted to US $597.53 million (see Table 4-2). Relative to the corresponding period in 2018, External debt service payments in the first half of 2019 were higher compounded by the weaker domestic currency. Principal payments were US $416.68 million, while US $180.85 million was paid as interest. Principal payments were significantly higher than interest payments because most of the loans matured in the first half of 2019.

**Table 4-2: External Debt Service(US$ Million), January-June 2017-2019**

| Category | Jan-June 2017 | Jan-June 2018 | Jan-June 2019 |
|---|---|---|---|
| **Principal** | 58.58 | 138.24 | 416.68 |
| **Interest** | 217.07 | 203.58 | 180.85 |
| **Total** | 275.59 | 341.82 | 597.53 |

Source: Ministry of Finance

### *4.1.3 Loans Contracted*

During the first half of 2019, Government contracted four (4) new loans amounting to US $433.38 million to finance various development projects as programmed in the Seventh National Development Plan (see Table 4-3).

**Table 4-3: Loans Contracted by Government, January to June 2019**

| Loan Description | Lending Institution | Amount (US $) |
|---|---|---|
| Financing of medical equipment for various hospitals | Lillypeck int. fze | 288,486,918.90 |
| Fertiliser Procurement | African Export Import Bank | 45,000,000.00 |
| Home Affairs | HSBC Bank | 69,896,630.23 |
| Defence Project | Bank of China | 30,000,000.00 |
| **TOTAL** | | **433,383,549.13** |

Source: Ministry of Finance

### *4.1.4 Domestic Debt*

Domestic debt contracted through issuance of Government securities increased by 3.4 percent to K60.25 billion as at end-June 2019 from K58.3 billion as at end-December 2018 (see Table 4-4). The growth was, however, less than the 6.8 percent increase recorded in the first half of 2018.

The total domestic debt stock consisted of Government Bonds at K40.16 billion and Treasury Bills at K20.09 billion. The stock of Government Bonds grew by 8 percent while Treasury Bills grew marginally by 0.92 percent. This is in a bid to mitigate roll-over risks by contracting more of longer dated debt instruments.

**Table 4-4: Domestic Debt stock (K' Millions), June 2018 to June 2019**

| Instrument Type | Jun-18 | Dec-18 | Jun-19 | % Change June 2019/Dec 2018 |
|---|---|---|---|---|
| **Treasury Bills** | | | | |
| 91 Days | 189.27 | 407.49 | 366.63 | -10.03 |
| 182 Days | 556.51 | 752.79 | 459.11 | -39.01 |
| 273 Days | 1,092.05 | 1,654.83 | 3,293.60 | 99.03 |
| 364 Days | 17,383.34 | 15,652.95 | 15,974.15 | 2.05 |
| **Sub Total** | **19,221.16** | **18,468.06** | **20,093.49** | **8.80** |
| **Government Bonds** | | | | |
| 2 Years | 1,043.77 | 1,786.11 | 2,144.41 | 20.06 |
| 3 Years | 4,424.60 | 4,344.02 | 4,462.97 | 2.74 |
| 5 Years | 12,515.42 | 13,633.80 | 13,401.83 | -1.70 |
| 7 Years | 3,030.46 | 4,528.55 | 4,238.92 | -6.40 |
| 10 Years | 6,848.05 | 7,590.99 | 7,998.10 | 5.36 |
| 15 Years | 3,661.08 | 6,788.47 | 6,793.66 | 0.08 |
| Mega 10 Years | 1,120.97 | 1,120.97 | 1,120.97 | 0.00 |
| **Sub Total** | **32,644.35** | **39,792.91** | **40,160.87** | **0.92** |
| **Grand Total** | **51,865.51** | **58,260.97** | **60,254.36** | **3.42** |

Source: Ministry of Finance

## 4.2 Domestic Arrears

The stock of verified domestic arrears as at first quarter 2019, including VAT arrears declined by 4.21 percent to K17,884.70 million from K18,670.86 million in December 2018(see table 4-5). The decrease in the stock of arrears was attributed to dismantling of arrears owed to road contractors and clearing of VAT refunds. The notable increase in domestic arrears in the review period related to Pensions and FISP.

**Table 4-5: Domestic Arrears 2018- 2019 (K'Million)**

| | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 |
|---|---|---|---|---|
| Zamtel | 44.38 | 45.59 | 41.6 | 39.1 |
| Zesco | 140.49 | 128.72 | 113.91 | 70.25 |
| Water – Lsk | 89.6 | 98.15 | 231.69 | 90.84 |
| Water | 280.57 | 285.42 | 134.87 | 123 |
| Provisions | 203.86 | 193.83 | 173.98 | 151.54 |
| Other - RDCS | 2,546.01 | 2,478.68 | 2,178.60 | 2,034.89 |
| FISP | 1,349.55 | 591.97 | 2,486.39 | 2,262.62 |
| FRA | 179.89 | 179.89 | 179.89 | 179.89 |
| Road Contracts | 6,368.39 | 7,541.02 | 5,475.09 | 5,390.45 |
| Pension Arrears | 2,208.45 | 1,878.53 | 1,731.59 | 1,503.33 |
| VAT REFUNDS | 1,539.69 | 3,086.53 | 4,371.90 | 2,452.91 |
| Capital | 2,933.82 | 2,162.53 | 2,412.44 | 2,847.72 |
| **TOTAL** | **17,884.70** | **18,670.86** | **19,531.95** | **17,146.54** |

Source: Ministry of Finance

# 5 MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

## 5.1 Overview

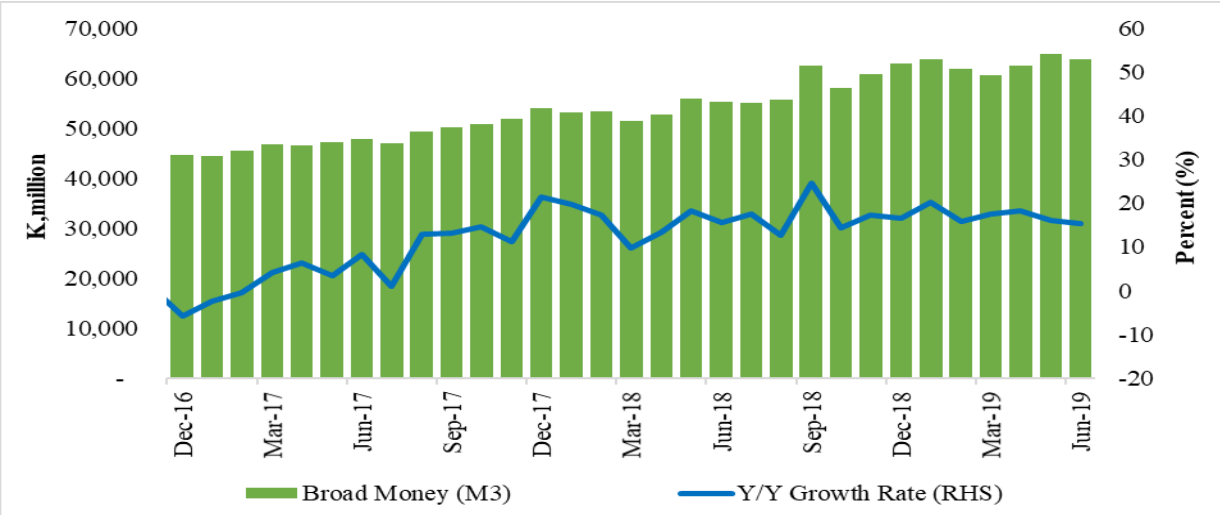
In the first half of 2019, monetary policy focused on maintaining inflation within the medium-term target range of 6-8 percent. Towards the inflation objective, the Bank of Zambia adjusted the Policy Rate upwards to 10.25 percent in May 2019 from 9.75 percent, against a backdrop of rising inflationary pressures.

## 5.2 Monetary Developments

### *5.2.1 Broad Money*

During the first half of 2019, broad money (M3) grew by 1.2 percent to K63.7 billion in June 2019 from K63.0 billion in December 2018. This was against an expansion of 2.4 percent in the first half of 2018 (see Figure 5-1). The growth in M3 was largely driven by expansion in domestic credit. On an annual basis, broad money grew by 15.4 percent in June 2019, against a growth of 15.6 percent recorded in June 2018.

**Figure 5-1: Annual Broad Money Growth: Dec 2016 – Jun 2019**

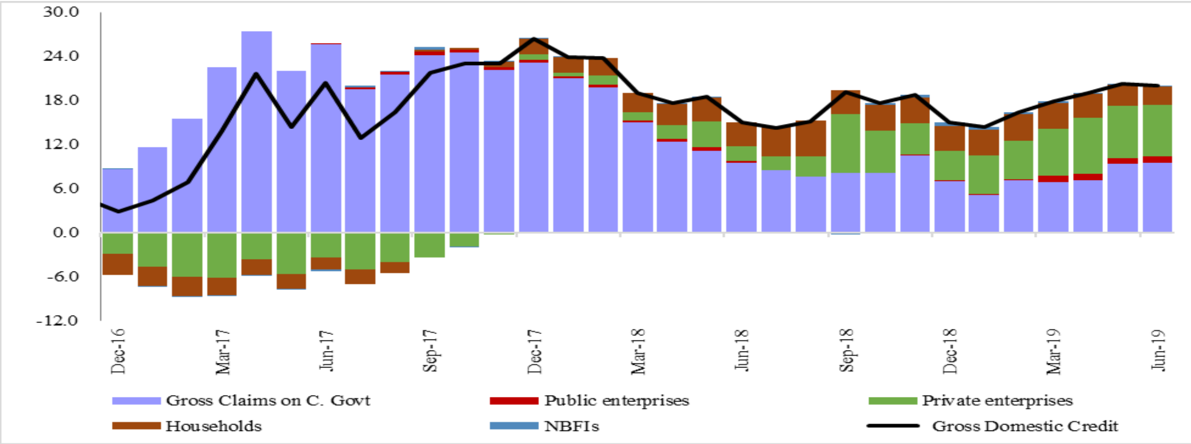



Source: Bank of Zambia

### *5.2.2 Domestic Credit*

Domestic credit expanded by 7.8 percent during the first half of 2019 to K76.6 billion in June 2019 from K70.7 billion in December 2018. This was against a growth of 3.2 percent in the first half of 2018 (Figure 5-2). The expansion in domestic credit was driven by increased lending to Government, private enterprises and households. On an annual basis, the growth in domestic credit amounted to 20.0 percent in June 2019, against a growth of 15.0 percent in June 2018 owing to an expansion in lending to private enterprises.

Figure 5-2: Contribution to Annual Domestic Credit Growth (percent), Dec 2016 – Jun 2019




Source: Bank of Zambia

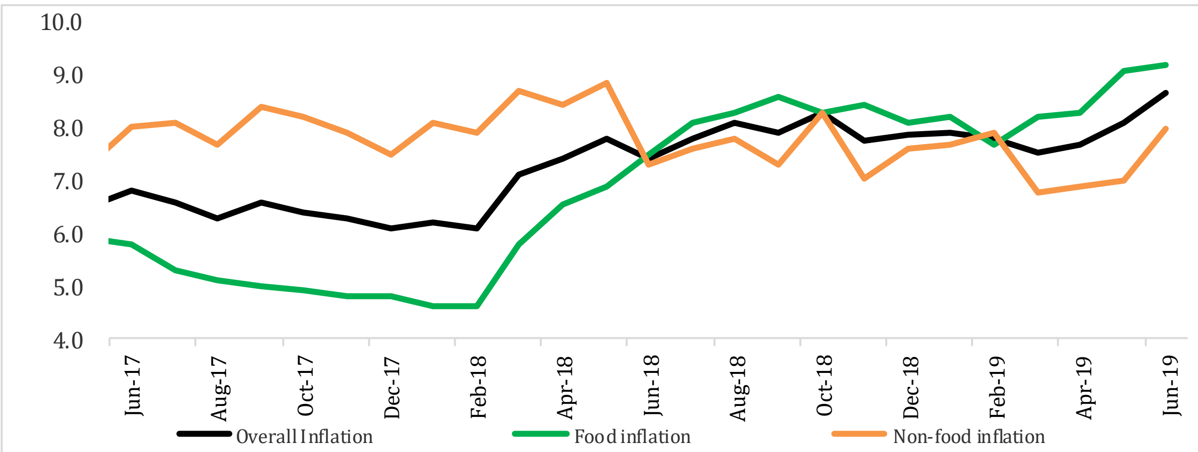
## 5.3 Inflation Developments

### *5.3.1 Overall Inflation*

In the first half of 2019, annual overall inflation averaged 7.9 percent compared to 7.0 percent recorded in the corresponding period in 2018. This was mainly on account of pass-through effects of the depreciation of the Kwacha, the rise in prices of fish products, and the increase in maize grain and mealie meal prices.

In terms of end-period developments, overall annual inflation rose to 8.6 percent in June 2019 from 7.9 percent in December 2018 and 7.4 percent in June 2018 following an increase in both food and non-food inflation (See Figure 5-3).

Figure 5-3: Annual Overall Inflation (percent), June 2017 to June 2019




Source: Central Statistical Office

### *5.3.2 Food Inflation*

Food inflation averaged 8.5 percent in the first half of 2019 compared to an average of 6.0 percent in corresponding period in 2018. In terms of end-period developments, food inflation was recorded at 9.2 percent in June 2019 compared to 8.1 percent in December 2018 and 7.5 percent in June 2018. The increase in the annual food inflation rate was mainly attributed to price increases for fresh and dried bream fish, buka buka fish, fresh and dried kapenta, and cooking oil.

### *5.3.3 Non-Food Inflation*

Non-food inflation averaged 7.4 percent in the first half of 2019 compared to 8.2 percent in the corresponding period in 2018. As at end-June 2019, non-food inflation was recorded at 8.0 percent from 7.6 percent in December and 7.3 percent in June 2018. The increase in non-food annual inflation was mainly attributed to price increases in non-food items such as motor vehicles.

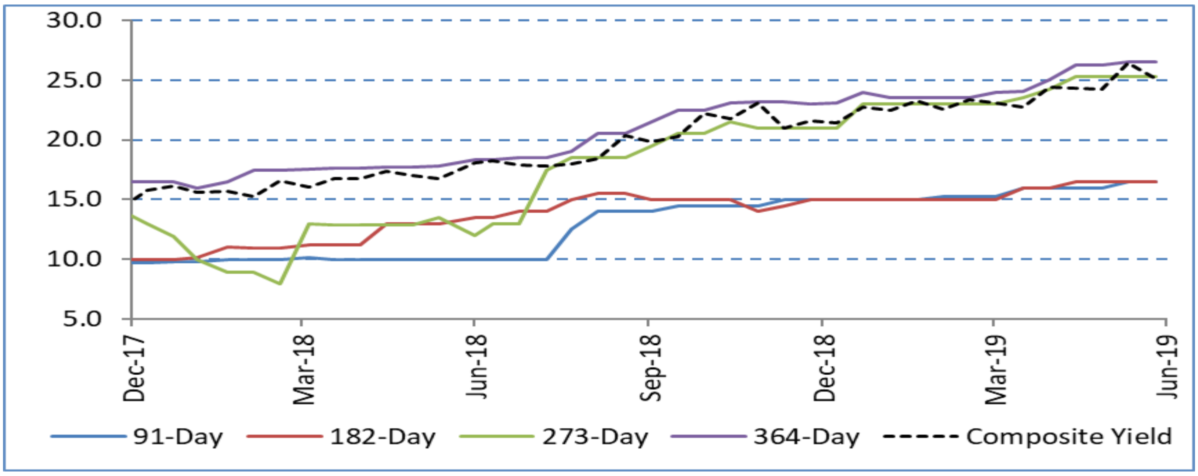
## 5.4 Interest Rate Developments

### *5.4.1 Yield Rates on Government Securities*

Yield rates on Government securities remained elevated in the first half of 2019 compared to the corresponding period in 2018, largely on account of low demand as a result of tight liquidity. The demand for Government securities was also affected by reduced participation of non-resident investors, partly influenced by adverse market sentiments associated with Zambia's sovereign credit rating downgrades by Fitch, Moody's and S&P in the first half of 2019.

The weighted average composite yield rate for Treasury bills was 25.1 percent in June 2019 from 18.1 percent in June 2018, an increase of 7.03 percentage points. The increase was mainly on the 273- and 364-day tenors (see Figure 5-4). The 273- and 364-day Treasury bills rose by 13.3 and 8.2 percentage points, to 25.3 percent and 26.5 percent, respectively. Yield rates on the 91- and 182-day Treasury bills also rose by 6.5 and 2.9 percentage points to 16.5 percent each.

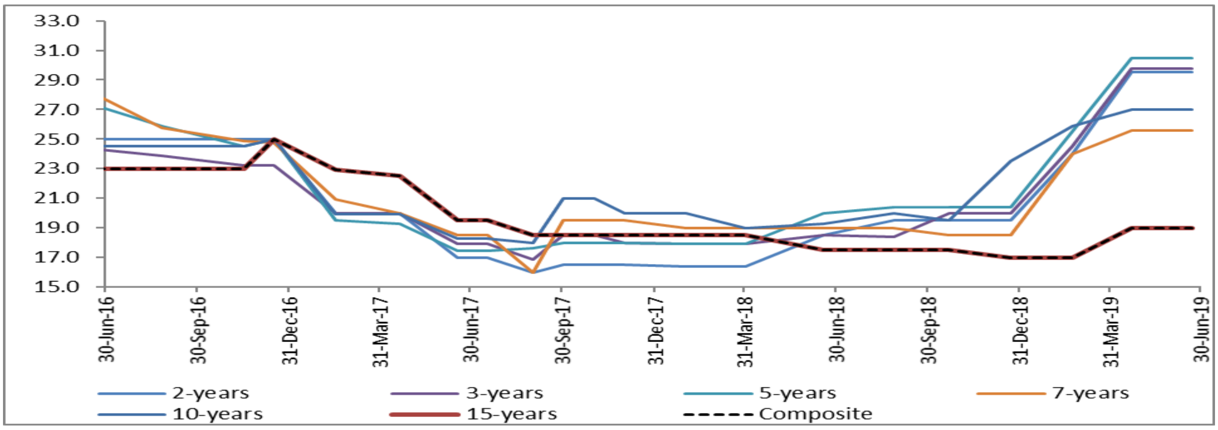
**Figure 5-4: Treasury bills Yield rates, Dec 2017 to June 2019**




Source: Bank of Zambia

During the period under review, yield rates on Government bonds increased in comparison to the corresponding period in 2018. The weighted average composite bond rate rose by 8.3 percentage points to 27.7 percent in the first half of 2019 from 19.4 percent over the corresponding period in June 2018 (see Figure 5-5). With regard to individual tenors, the 2-, 3- and 5- year bond yields increased by 11.0, 11.2 and 10.5 percentage points to 29.5 percent, 29.7 percent and 30.5 percent, respectively. The 7-, 10- and 15-year bonds rates also increased to 22.6 percent, 27.0 percent and 19.0 percent, respectively.

Figure 5-5: Government Bonds Yield rates, June 2016-Jun 2019

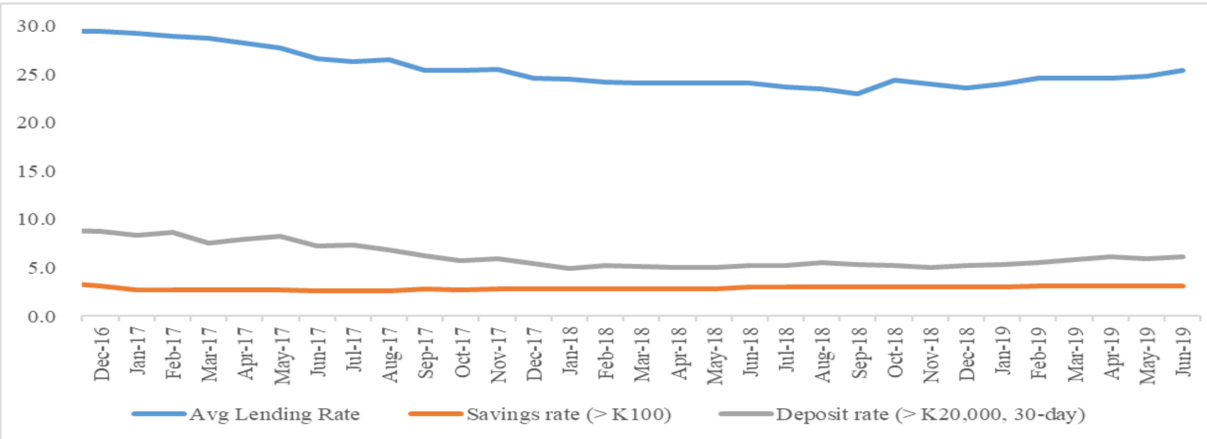



Source: Bank of Zambia

## *5.4.2 Commercial Banks' Interest Rates*

Commercial banks' nominal interest rates edged upwards during the first half of 2019. The average lending rate (ALR) rose to 25.4 percent in June 2019 from 24.3 percent recorded in December 2018 and 24.1 percent in June 2018. The average 30-day deposit rate for amounts exceeding K20,000 rose to 6.2 percent in June 2019 from 5.3 percent in December 2018 (5.2 percent in June 2018). The average savings rate (ASR) for amounts above K100, however, remained broadly unchanged at 3.1 percent (3.0 percent in June 2018) (Figure 5-6).

Figure 5-6: Lending and Savings Rates (percent): Dec 2016 – Jun 2019




Source: Bank of Zambia

In real terms, the real average lending rate rose to 16.8 percent in June 2019 from 15.7 percent in December 2018 (16.7 percent in June 2018). The real average 30-day deposit rate for amounts above K20,000 was recorded at -2.4 percent from -2.6 percent in December 2018 (-2.2 percent in June 2018). The real ASR for amounts exceeding K100, declined to -5.5 percent from -4.9 percent (-4.4 percent in June 2018).

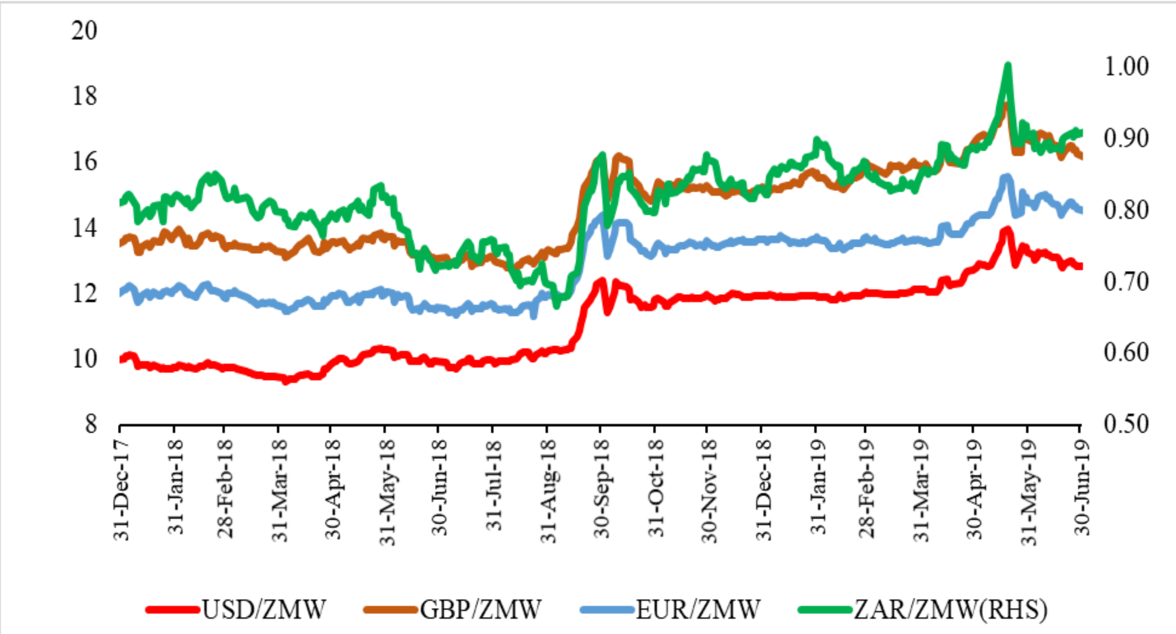
## 5.5 Foreign Exchange Market

In the foreign exchange market, the Kwacha depreciated against major trading partner currencies during the first half of 2019 in relation to 2018 (see Figure 5-7). Against the US dollar, the Kwacha depreciated by 26.5 percent to an average of K12.43 from an average of K9.82 in the first half of 2018. The depreciation of the Kwacha against the US dollar was largely on account of elevated demand for foreign exchange mainly for oil and fertilizer procurement. In addition, negative market sentiments following Zambia's sovereign credit rating downgrades weighed on the Kwacha.

The Kwacha also depreciated against the Pound Sterling by 18.9 percent to an average of K16.06 from K13.51 due to a relatively stronger pound following the extension of the United Kingdom's exit from the European Union to end October 2019. Similarly, the Kwacha slipped against the Euro by 18.1percent to an average of K14.04 in the first half of 2019 compared to an average of K11.89 over the corresponding period in 2018, mainly on account of the relatively lower depreciation of the Euro against the US dollar.

The Kwacha weakened against the South African rand by 9.6 percent to an average of K0.88 in the first half of 2019 from an average of K0.80 in the first half of 2018 as the rand gained against the US dollar following the U.S. Fed announcement to keep rates on hold (see Figure 5-7).

**Figure 5-7: Kwacha Exchange Rate against Major Foreign Currencies, Dec 2017 - Jun 2019**




Source: Bank of Zambia

## 5.6 Financial Sector Developments

### *5.6.1 Banking Sector*

The banking sector's overall financial performance and condition remained satisfactory, largely on the backdrop of strong aggregate capital adequacy position and satisfactory earnings performance. The strong capital adequacy position provided confidence of the sector's capacity to absorb unexpected losses. Credit risk, however, remained elevated and had a negative impact on asset quality as reflected by the ratio of non-performing loans to total loans, which remained high, although improved from 2018 (see Table 5-1).

**Table 5-1: Banking Sector Performance Indicators**

| | June-18 | June-19 |
|---|---|---|
| **Condition and Other Data** | | |
| Number of banks | 17 | 18 |
| Total Assets (K 'million) | 73,987.8 | 84,738.1 |
| Total Deposits (K 'million) | 56,145.0 | 63,581.7 |
| | | |
| **Performance Indicators** | **Percent** | **Percent** |
| ***Capital Adequacy*** | | |
| Total regulatory capital to risk-weighted assets | 26.7 | 22.0 |
| Tier 1 regulatory capital to risk-weighted assets | 24.3 | 19.9 |
| ***Asset Quality*** | | |
| Non-performing loans (NPLs) to total loans | 12.4 | 9.8 |
| Non-performing loans to total assets | 4.2 | 3.8 |
| Allowance for loan losses to NPLs | 80.1 | 90.2 |
| ***Profitability*** | | |
| Return on assets | 3.2 | 3.0 |
| Return on equity | 15.9 | 15.0 |
| Net interest margin | 9.1 | 9.0 |
| ***Liquidity*** | | |
| Liquid assets to total assets | 46.0 | 42.0 |
| Liquid assets to total deposits | 56.9 | 51.4 |
| Loans to deposits ratio | 44.2 | 51.2 |

Source: Bank of Zambia

### 5.6.1.1. Asset Structure

The banking sectors' balance sheet grew by 14.5 percent to K84, 738.1 million compared to a growth rate of 11.7 percent at end June 2018. The growth, which was largely funded by deposit liabilities, was mostly in net loans and advances which rose by 32.7 percent and balances with financial institutions abroad which went up by 10.9 percent. The growth in the loans notwithstanding, translation effects on the foreign currency denominated loans had a significant impact on the overall growth as illustrated in Table 5-2. Foreign currency (FCY) denominated loans and local currency (LCY) denominated loans grew in nominal terms by 16.6 percent and 18.9 percent, respectively. However, FCY loans in Kwacha terms, increased by a higher rate of 48.8 percent, reflecting valuation effects associated with the deprecation[3] of the Kwacha. FCY loans in Kwacha terms contributed 63.9 percent to the overall growth in the loan book. Growth in Government securities, however, slowed down reflecting subdued demand.

**Table 5-2: Loan Growth by Currency, June 2018 and 2019**

| | 2019 June | 2018 June | Change in nominal amount | Change in percent | percent contribution to rise in gross loans |
|---|---|---|---|---|---|
| ZMW denominated loans (K'000) | 17,480,634 | 14,703,427 | 2,777,207 | 18.89percent | 36.1percent |
| ZMW equivalent of FX loans (K'000) | 15,009,419 | 10,086,144 | 4,923,275 | 48.81percent | 63.9percent |
| Total (K'000) | 32,490,053 | 24,789,571 | 7,700,482 | 31.06percent | 100.0percent |
| Memoranda | | | | | |
| FX Loans (in absolute USD amounts) | 1,170,249,200 | 1,003,868,282 | 166,380,918 | 16.57percent | |

Source: Bank of Zambia

[3] The end of period exchange rate stood at K12.94/USD, up from K10.04 in June 2018.

The asset structure remained unchanged as net loans and advances continued to constitute the largest portion of the balance sheet at 35.0 percent (June 2018: 30.2 percent) followed by investments in Government securities at 25.6 percent (June 2018: 27.3 percent). The proportion of loans and advances increased over the past one year and reflected a shift in investment preferences.

#### 5.6.1.2 Liabilities Structure

Liabilities rose by 15.3 percent, largely attributed to an increase in deposits. Deposit liabilities continued to be the main source of funding for asset growth and represented 75.0 percent of the total assets at end-June 2019 (June 2018: 75.9 percent).

#### 5.6.1.3 Capital Adequacy

The sector remained adequately capitalised in relation to the balance sheet risk. The ratio of total regulatory capital to risk weighted assets at 22.0 percent was well above the minimum requirement of 10.0 percent despite declining from 26.7 percent at end-June 2018. The capital adequacy ratio dropped on account of a significantly higher percentage increase of 36.0 percent in risk weighted assets compared to an 11.8 percent increase in total regulatory capital. Primary capital increased in nominal terms following fresh capital injections in a few banks, mainly in form of both preference shares and paid up common shares. The increase in risk weighted assets was due to the growth in the loan book and partly as a result of the depreciation of the Kwacha. The drop in the capital adequacy ratio on account of the depreciation effects reflects the vulnerability of the sector to exchange rate volatility.

#### 5.6.1.4 Asset Quality

Credit risk remained high and had a negative impact on the quality of assets which were dominated by loans. Although the ratio of non-performing loans to total gross loans (NPL ratio) dropped to 9.8 percent at end-June 2019 from 12.4 percent at end-June 2018, the reduction in the ratio was due to a higher percentage increase in the stock of loans rather than a reduction in non-performing loans. NPLs increased by 3.5 percent to K3,187.3 million compared to the growth in loans which was over 30.0 percent. In terms of capacity to absorb potential loan losses, the sector's allowance for loan losses was sufficiently funded as reflected by the NPL coverage ratio of 90.2 percent (June 2018: 80.0 percent). The rise in the ratio was due to a 16.7 percent increase in the allowance for loan losses. Loan loss provisions have been increasing in response to the implementation of the new accounting standard, the International Financial Reporting Standard No. 9 which has much more stringent provisioning requirements based on expected losses.

#### 5.6.1.5 Earnings Performance

The banking sector remained profitable and was able to generate sufficient income to cover operating costs and retain profits to boost the capital position. For the six months ending June 2019, the sector recorded a profit before tax (PBT) of K1,341.0 million which was 13.2 percent higher than the

PBT recorded over the corresponding period in 2018. The higher profitability in the first half of 2019 was largely attributed to higher net interest income arising from both loans and advances and investments in Government securities which increased in volume. In addition, higher yield rates and lending interest rates, contributed to the rise in profits.

The sector's income from commission, fees and charges in the first half of 2019 compared to the corresponding period in 2018, was lower by 10.6 percent, partly attributed to the outlawing of unwarranted charges in August 2018.

#### 5.6.1.6 Liquidity and Funds Management

Liquidity conditions in the first half of the year were relatively fair as banks were able to meet obligations as they fell due. The ratio of liquid assets to total assets and liquid assets to deposits and short-term liabilities remained high at 42.0 percent and 51.4 percent, respectively (June 2018: 46.0 and 56.9 percent). The ratios were lower in June 2019 on account of a higher percentage increase in total assets and deposits/short-term liabilities compared to the rise in liquid assets.

### *5.6.2 Non-Bank Financial Sector*

The total number of licensed Non-Bank Financial Institutions (NBFIs) declined to 124 in June 2019 from 129 in June 2018 (Table 5-3).

**Table 5-3: Non-Bank Financial Institutions Licensed by the Bank of Zambia**

| Type of Institution Number of Institutions | Number of institutions | |
|---|---|---|
| | 30-Jun-18 | 30-Jun-19 |
| Leasing finance institutions | 8 | 7 |
| Building societies | 3 | 3 |
| Bureaux De Change | 80 | 76 |
| Savings and credit institutions | 1 | 1 |
| Microfinance institutions | 35 | 35 |
| Development finance institutions | 1 | 1 |
| Credit Reference Bureaux | 1 | 1 |
| **Total** | **129** | **124** |

Source: Bank of Zambia

The overall financial condition and performance of the NBFIs sector was marginal during the period under review. While the sector regulatory capital, liquidity and foreign exchange exposure were satisfactory, earnings performance and asset quality were unsatisfactory.

#### 5.6.2.1 Capital Adequacy

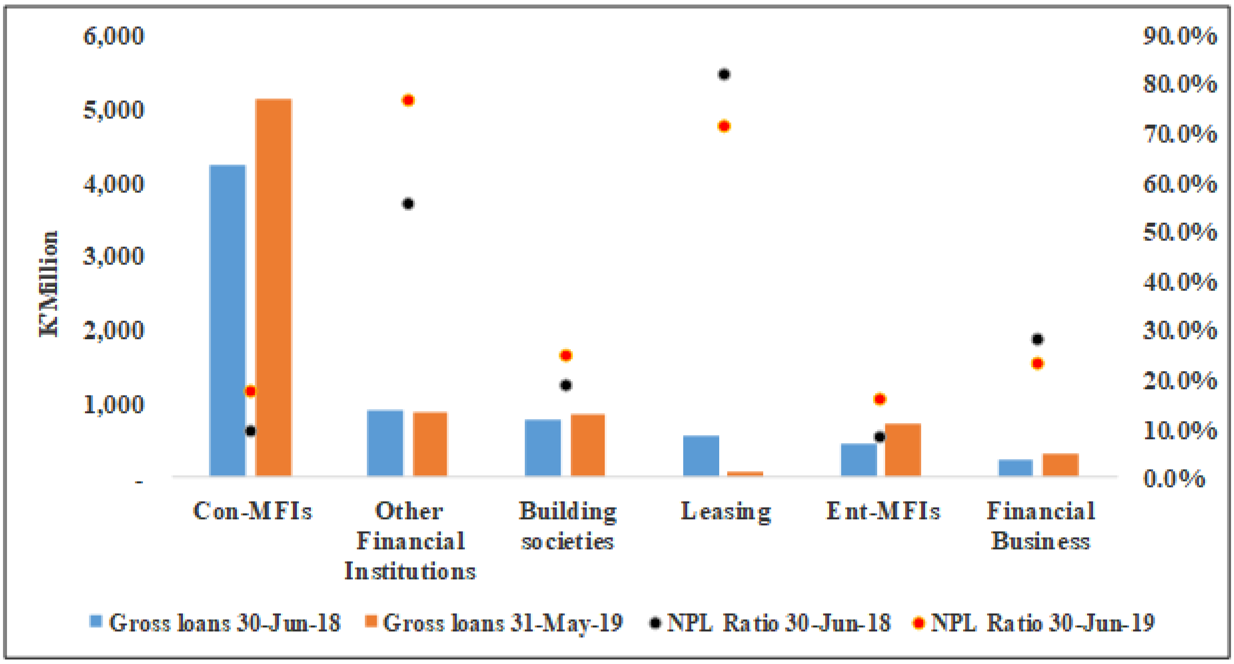
Capital adequacy of the NBFIs sector was satisfactory. The ratio of regulatory capital to total risk-weighted assets stood at 31.4 percent and was above the prudential minimum of 10.0 percent. The high capital adequacy ratio indicated that the sector was resilient. However, the ratio declined from 32.3 percent at end-June 2018 largely on account of a decrease in total regulatory capital to K2,648.5 million from K2,754.8 million at end-June 2018 due to a loss after-tax of K115.8 million recorded in the six months to 30 June 2019.

### 5.6.2.2 Asset quality

The asset quality of the NBFIs sector was unsatisfactory. The ratio of non-performing loans to total loans rose to 25.3 percent from 22.6 percent at end-June 2018. The NPL ratio was above the prudential limit of 10.0 percent. The increase in the NPL ratio was largely attributed to the delayed remittances of loan recoveries on personal loans. The exposure of the NBFIs sector to civil servants represented 54.2 percent of the sector total loans.

Total assets of the sector increased by 14.7 percent to K9,779.1 million from K8,527.9 million as at 30 June 2018. Net mortgages and loans accounted for 65.9 percent of the total assets of which 68.8 percent of the loan portfolio were consumer loans. Figure 5-8 shows an analysis of the sector loan portfolio as well as the respective NPLs ratio as at 30 June 2019 and 30 June 2018.

**Figure 5-8: Sub sector Gross Loans and NPLs ratio, 30 June 2018 and 2019**



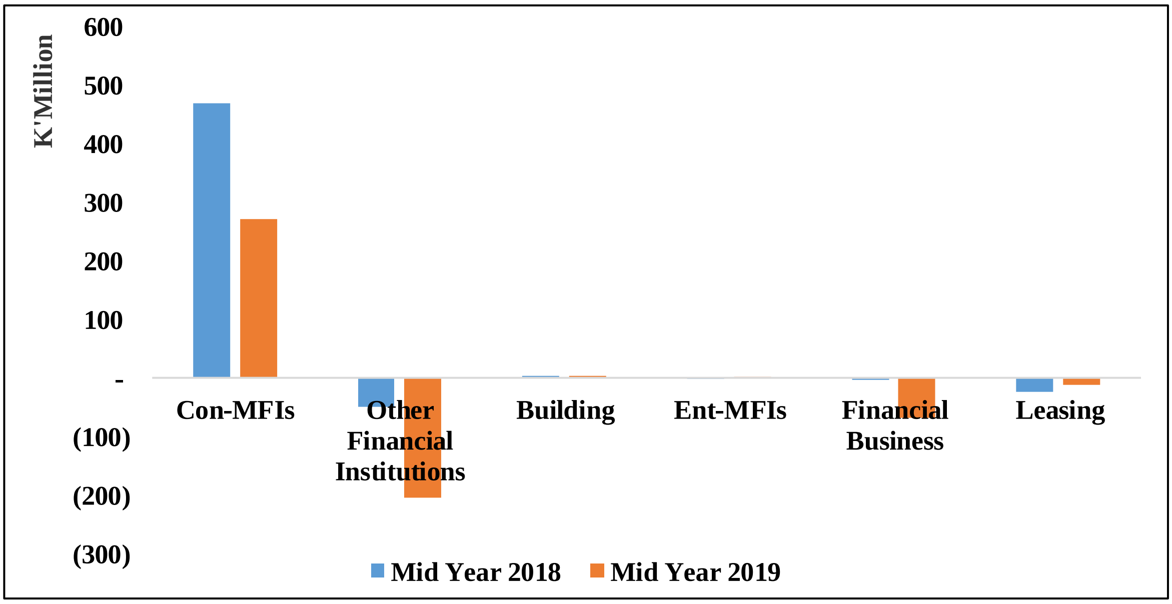

Source: Bank of Zambia

### 5.6.2.3 Earnings Performance

Earnings performance of the NBFIs sector during the first half of 2019 was unsatisfactory. The sector recorded a loss after tax of K115.8 million compared to a profit after tax of K227.1 million during the corresponding period in 2018. The reduction in the earnings performance was largely attributed to an increase in loan loss provisions by 118.7 percent to K482.3 million on account of an increase in NPLs.

Operational efficiency, as measured by the ratio of non-interest expenses to net interest and other income, deteriorated to 96.4 percent during the period ended 30 June 2019 compared to 67 percent recorded in the corresponding period in 2018. The deterioration in the operational efficiency arose from a combination of a decrease in total income and an increase in non-interest expenses. Total income declined by 12.4 percent to K1,069.7 million while non-interest expenses increased by 26.1 percent to K1,031.6 million (see Figure 5-9).

Figure 5-9: NBFIs Profit (Loss) Before Tax, 30 June 2018 and 2019




Source: Bank of Zambia

#### 5.6.2.4 Liquidity

The liquidity condition in the NBFIs sector was satisfactory as at end-June 2019. The ratio of liquid assets to current liabilities increased to 30.6 percent from 24.5 percent at end-June 2018. The liquidity ratio remained above the prudential minimum limit of 15.0 percent. The rise in the liquidity ratio arose from a proportionately higher increase in liquid assets (50.3 percent) compared to the rise in current liabilities (20.0 percent).

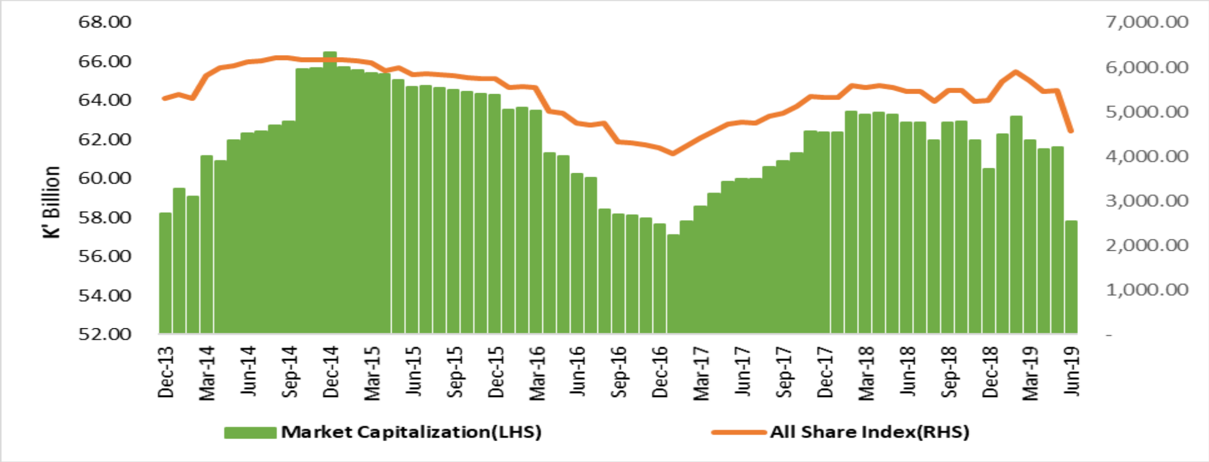
#### 5.6.2.5 Sensitivity to Market Risk

The foreign exchange exposure of the NBFIs sector was satisfactory at end-June 2019. The ratio of net foreign exposure to regulatory capital stood at 11.1 percent compared to 11.4 percent at end-June 2018 and remained below the prudential maximum limit of 25.0 percent of regulatory capital.

## 5.7 Capital Market Developments

Trading activity at the Lusaka Securities Exchange (LuSE) declined in the first half of 2019 compared to the corresponding period in 2018. The All Share Index fell by 16.3 percent to 4,564.8 from 5,455.8 in 2018 (see Figure 5-10). The decline in the All-Share index was largely on account of a fall in share prices of some of the large companies on the bourse. Consequently, the Exchange recorded a net outflow by foreign portfolio investors of US$0.89 million compared to a net outflow US$1.3 million over the corresponding period in 2018.

Figure 5-10: Indicators of LuSE Activity




Source: Lusaka Securities Exchange

# 6 EXTERNAL SECTOR DEVELOPMENTS

## 6.1 Trade Balance

During the period January to June 2019, Zambia's external sector performance improved relative to the corresponding period in 2018. Preliminary data show that Zambia's merchandise trade balance (CIF) recorded a surplus of US$248.6 million compared to a deficit of US$86.8 million in the previous period (see Table 6-1). A higher decline in imports relative to export earnings accounted for the improvement in the trade balance. Imports declined by 21.7 percent to US $3,678.3 million mainly on account of a slump in imports of copper ore which declined by 78.9% over the relevant period. Various other items such as electrical machinery and equipment, fertiliser, industrial boilers and equipment, vehicles, chemicals and iron and steel and items thereof also recorded lower imports.

Likewise, export earnings declined by 14.8 percent to US$3,926.9 million from US$4,610.0 million, mostly attributed to lower earnings from copper which outweighed the improvement in non-traditional export earnings. During the review period, copper export earnings declined by 22.0 percent to US$2,767.1 million from US$3,548.8 million due to a fall in both export volumes and average realised prices. Export volumes and average realised prices fell by 14.6 percent and 8.4 percent to 449,044.7 Mt and US$6,171.3 per Mt from 525,880.7 metric tons and US$6,738.8 per Mt respectively. Cobalt exports also fell markedly during the review period. The 95.3 percent drop from US $70.5 million to US $3.3 million in cobalt export earnings was occasioned by disruption in importation of cobalt concentrate from the DRC.

Non-traditional exports (NTEs), however, recorded a growth of 17.2 percent to US$1,067.3 million from US$911.0 million, mostly due to higher exports of gemstones, cement and lime, industrial boilers, sugar, sulphuric acid, cotton lint and gold.

**Table 6-1: Trade Balance, Jan- June 2018 and 2019**

| | 2018 | 2019 | % Change |
|---|---|---|---|
| **Trade Balance (US$ millions)** | **(86.8)** | **248.6** | **-386.2** |
| Exports, C.I.F (US$ millions) | **4,610.0** | **3,926.9** | **(14.8)** |
| Metals (US$ millions) | **3,619.3** | **2,770.5** | **(23.5)** |
| Copper | 3,548.8 | 2,767.1 | (22.0) |
| Cobalt | 70.5 | 3.3 | (95.3) |
| Gold | 64.1 | 73.5 | 14.7 |
| **Non -Traditional Exports** | 911.0 | 1,067.3 | 17.2 |
| Imports c.i.f. (US$ millions) | **4,696.8** | **3,678.3** | **(21.7)** |
| Realised Prices | | | |
| Copper (US$ per Mt) | 6,738.8 | 6,171.3 | (8.4) |
| Cobalt (US$ per Mt) | 81,988.6 | 50,217.9 | (38.8) |
| Gold (US$ per ounce) | 1,228.8 | 1,345.8 | 9.5 |
| **Export Volumes** | | | |
| Copper (Mt) | 525,880.7 | 449,044.7 | (14.6) |
| Cobalt (Mt) | 859.0 | 66.0 | (92.3) |
| Gold (ounces) | 64,825.0 | 66,365.0 | 2.4 |

Source: Central Statistical Office and Bank of Zambia

# 7 PROSPECTS FOR THE REMAINDER OF 2019 AND 2020

Global growth is projected to slow down to 3.2 percent in 2019 from 3.6 percent in 2018. This is on account of weaker international trade triggered by trade tensions between United States of America and China, accompanied by a deceleration in global investment and continued uncertainty surrounding Brexit. Activity in major advanced economies, particularly in the Euro Area, as well as in some large emerging market and developing economies, has half-way into 2019, been weaker than projected. The projection notwithstanding, Global growth is projected to edge up to 3.5 percent in 2020 driven by expected modest recovery in emerging and developing economies.

Amid low global inflation and a deterioration of the growth outlook, the prospect that the U.S. Federal Reserve and other major Central banks would tighten monetary policy in the near term has faded. Going forward, the expectations that most major central banks will either maintain or loosen monetary policy, will lead to an easing in global financing conditions and a recovery of capital flows to emerging and developing economies. Further, downside risks, which include continued trade and technology tensions, financial vulnerabilities, geopolitical tensions, and heightening disinflationary pressures, exposes the global economy to weaken further.

Overall, commodity prices are expected to decline slightly in 2019 and 2020, compared to 2018 premised on the low demand. Copper prices are expected to average around US $6,400 per Mt in 2019 and 2020, from an annual average of US $6,500 per Mt in 2018. Similarly, oil prices are expected to be relatively low averaging US $66 per barrel in 2019 and US $65 per barrel in 2020, from an average of US $71 per barrel in 2018. The outlook is, however, highly uncertain and dependent on policy decisions, particularly on further production cuts by OPEC and its partners.

In the domestic economy, economic growth in 2019 is projected to remain subdued to around 2.0 percent from 3.7 percent in 2018. This is mainly on account of lower agricultural production in the 2018/2019 farming season, constrained electricity generation and declining mining output. The risks to growth are more on the upside. Load management to mitigate the effects of constrained electricity, may affect most sectors of the economy. Further low investment and declining commodity prices may affect copper production. Additionally, the subdued global economic activities coupled with expected slump in the commodities prices poses weigh down the performance of domestic economy for the remainder of 2019

In the medium term, the growth prospects will improve, premised on recovery in agriculture, mining and manufacturing sectors.

# ANNEXES

### Annex I: Inflation Rate, Exchange Rate, Trade Data, and Electricity Data (June-18 to June-19)

| | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Inflation** | | | | | | | | | | | | | |
| Total | 7.42 | 7.83 | 8.06 | 7.95 | 8.28 | 7.77 | 7.86 | 7.94 | 7.79 | 7.55 | 7.65 | 8.11 | 8.65 |
| Food | 7.50 | 8.10 | 8.30 | 8.60 | 8.30 | 8.40 | 8.10 | 8.20 | 7.70 | 8.20 | 8.30 | 9.10 | 9.20 |
| Non-Food | 7.30 | 7.60 | 7.80 | 7.30 | 8.30 | 7.00 | 7.60 | 7.70 | 7.90 | 7.90 | 6.90 | 7.00 | 8.00 |
| | | | | | | | | | | | | | |
| **Exchange Rate** | | | | | | | | | | | | | |
| K/USD | 10.04 | 9.89 | 10.09 | 10.95 | 11.91 | 11.85 | 11.91 | 11.93 | 11.92 | 12.03 | 12.31 | 13.26 | 13.05 |
| K/Rand | 0.76 | 0.74 | 0.72 | 0.74 | 0.82 | 0.84 | 0.84 | 0.86 | 0.86 | 0.84 | 0.87 | 0.92 | 0.90 |
| | | | | | | | | | | | | | |
| **Trade** | | | | | | | | | | | | | |
| Imports | 8,342 | 7,320 | 8,690 | 8,022 | 9,747 | 9,763 | 9,460 | 7,435 | 7,297 | 7,028 | 7,174 | 8,216 | 8,511 |
| Exports | 8,463 | 8,013 | 8,459 | 7,493 | 8,323 | 8,108 | 8,916 | 8,459 | 6,986 | 7,778 | 7,778 | 8,717 | 7,994 |
| Trade Balance | 121 | 693 | -231 | -529 | -1,423 | -1,655 | -544 | 1,024 | -311 | 750 | 604 | 501 | -517 |
| | | | | | | | | | | | | | |
| **Electricity (Mwh)** | | | | | | | | | | | | | |
| Generation | 1,370,840 | 1,458,872 | 1,419,834 | 1,384,773 | 1,376,863 | 1,347,818 | 1,356,642 | 1,287,403 | 1,191,099 | 1,348,144 | 1,249,242 | 1,316,317 | 1,262,657 |
| Consumption | 1,089,787 | 1,129,901 | 1,119,459 | 1,097,737 | 1,111,997 | 1,096,864 | 1,128,027 | 1,072,597 | 980,153 | 1,034,332 | 1,059,885 | 1,072,926 | 1,050,061 |
| Exports | 93,394 | 143,733 | 128,872 | 124,092 | 104,727 | 83,229 | 85,809 | 81,843 | 86,260 | 87,171 | 57,158 | 49,207 | 81,988 |
| Imports | 1,347 | 636 | 1,230 | 1,859 | 2,836 | 1,038 | 1,634 | 1,278 | 1,191 | 1,244 | 1,374 | 1,556 | 10,603 |

Source: Bank of Zambia, Central Statistical Office and Ministry of Energy

## Annex II: GDP at current prices, 1st quarter 2018 to 1st quarter 2019

| | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1* | Q2* | Q3* | Q4* | Q1** |
| Agriculture, forestry and fishing | 1,937.7 | 1,858.9 | 1,593.2 | 1,809.2 | 1,972.4 |
| Mining and quarrying | 9,231.7 | 10,966.5 | 12,366.1 | 13,712.4 | 11,057.1 |
| Manufacturing | 5,160.1 | 5,368.1 | 6,580.2 | 6,584.2 | 5,621.3 |
| Electricity, gas, steam and air conditioning supply | 1,859.9 | 2,323.1 | 2,510.8 | 2,811.3 | 2,790.5 |
| Water supply; sewerage, waste management and remediation activities | 252.0 | 264.5 | 296.3 | 284.3 | 301.4 |
| Construction | 4,145.0 | 5,140.4 | 5,622.3 | 5,860.3 | 4,713.2 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 11,431.6 | 12,063.4 | 14,037.2 | 15,241.7 | 13,029.9 |
| Transportation and storage | 4,644.3 | 5,070.1 | 6,437.4 | 6,954.2 | 5,842.9 |
| Accommodation and food service activities | 822.1 | 1,058.3 | 1,205.6 | 1,033.6 | 1,003.1 |
| Information and communication | 1,110.4 | 1,091.1 | 1,164.0 | 1,241.1 | 1,105.7 |
| Financial and insurance activities | 4,002.7 | 4,362.4 | 3,804.8 | 3,701.6 | 4,454.7 |
| Real estate activities | 2,733.1 | 2,786.4 | 2,824.5 | 2,881.0 | 2,991.4 |
| Professional, scientific and technical activities | 640.2 | 774.7 | 734.2 | 965.3 | 911.0 |
| Administrative and support service activities | 674.7 | 646.7 | 651.9 | 825.1 | 734.8 |
| Public administration and defense; compulsory social security | 2,540.3 | 2,662.3 | 2,653.2 | 3,166.0 | 2,773.0 |
| Education | 4,264.9 | 4,437.1 | 4,389.3 | 4,410.3 | 4,365.5 |
| Human health and social work activities | 704.0 | 799.5 | 767.7 | 841.1 | 775.1 |
| Arts, entertainment and recreation | 82.6 | 169.9 | 265.8 | 174.9 | 93.0 |
| Other service activities | 224.9 | 341.8 | 364.9 | 269.8 | 234.7 |
| **Total Gross Value Added for the economy** | **56,462.3** | **62,185.3** | **68,269.4** | **72,767.4** | **64,770.7** |
| Taxes less subsidies | 4,279.6 | 4,516.1 | 5,255.1 | 5,706.0 | 4,878.0 |
| **Total for the economy, at market prices** | **60,741.9** | **66,701.4** | **73,524.4** | **78,473.4** | **69,648.7** |

Source: Central Statistical Office
*Revised
**Preliminary

## Annex III: GDP growth rate at current prices, Q1 2018 to Q1 2019

| | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 2018* | Q2 2018* | Q3 2018* | Q4 2018* | Q1 2019** |
| 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 generation and supply | 11.4 | 9.7 | 15.5 | 10.3 | 5.7 |
| Water supply; sewerage | -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; | 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 | 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 | 3.8 |
| 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; | -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 | 3.8 |
| **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 |
| **GDP at market prices** | **2.7** | **3.9** | **5.6** | **2.5** | **2.6** |

Source: Central Statistical Office
*Revised
**Preliminary