



Monthly Economic Bulletin

July 2021 Edition



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EXECUTIVE SUMMARY & HIGHLIGHTS

Once again, a warm welcome to you all!

It's a privilege to introduce July's Economic Bulletin. Judging by the number of hits we are receiving, I think it is safe to say that the content is considered appropriate and reliable by an ever-increasing number of people who read it. Thanks, once again, to Dr. Gabriel Pollen, for his ongoing collaboration in this regard.

The World Bank anticipates global economic recovery propelled by only a few large economies averaging 5.6 % in 2021 and then 4.3 % in 2022. Metals continue trading around decadal peaks.

Zambia, with a nominal GDP of around US\$19.4 billion, begun 2021 with an estimated economic contraction of 3 % in 2020. However, Zambia is optimistic about 2021, with the country expecting a recovery in 2021 of 1-2% economic growth. Encouragingly, in the first quarter of 2021, the Zambian economy is estimated to have grown by 0.7%.

In July 2021, the Kwacha experienced rapid appreciation largely on account of positive changes in the supply of foreign exchange and broad improvements in market sentiment. The Government has spent K79.1 billion between January and July 2021, representing almost a third of the estimated 2021 National Budget.

The Monetary Policy rate stands at 8.5%. Government financial securities have yielded almost double to over quadruple the monetary policy rate but have fallen slightly from last month. Broad money has grown over the past three quarters. Despite a third wave of the Covid-19, the country continues to remain resilient and optimistic as Covid-19 vaccinations are being rolled out.

HIGHLIGHTS

- Average copper prices persist above US\$9,000/tonne
- First Quarter 2021 records 0.7% economic growth
- June 2021 records a Trade Surplus of K5.3 billion, with Non-Traditional Exports accounting for almost a third of total export earnings.
- International reserves have increased by US\$200 million in under two months, to US\$1.4 billion at the end of May 2021.
- Between January and July 2021, the Government's total collections of Revenues and Grants totaled K64.4 billion.
- Between January and July 2021, Government expenditure amounted to K79.1 billion, representing 66.1% of the 2021 National Budget.
- The rapid appreciation of the Kwacha against the US\$ by 18% from about mid to end-July 2021
- The annual inflation rate stays the same in July 2021 as it was last month at 24.6%

We would like to hear from you if you have any feedback or comments to share. Please send us an email at feedback@firstcapitalbank.co.zm or call us on [+260 211 368 750](tel:+260211368750). Also, remember to follow our Twitter page [@FirstCapital_Zm](#) where you can stay up to date on important happenings within the Bank.

We sincerely appreciate you taking the time to keep up to date with us. Your involvement in our community is invaluable! [#BeliefComesFirst](#).



Paul Richards
Head, Business



Your password/PIN should be kept secret!

Belief comes first.



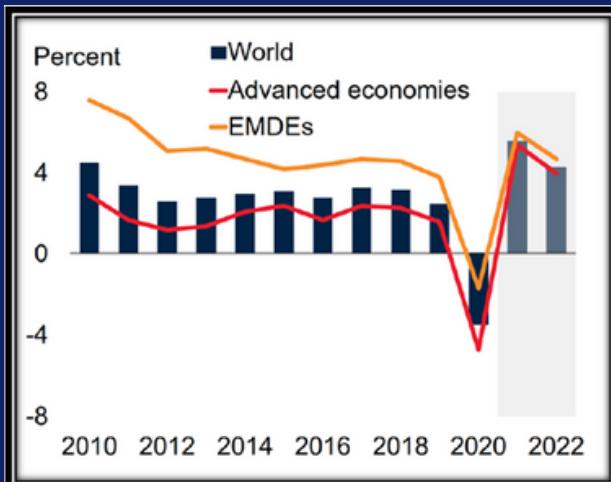
Global Economic Developments:

Global recovery gaining momentum

More rapid than anticipated, global growth is driven mainly by a few major economies like the United States and China. Nevertheless, in many Emerging Market and Developing Economies (EMDEs), output projections have been downgraded, with the pandemic eroding at least three years of per capita income gains in about two-thirds of EMDEs.

Global trade is gaining momentum and has continued to grow strongly, although Africa and the Middle East lag behind other regions. China is the fastest-growing. In Africa, trade remains below pre-pandemic levels.

Global Growth



Source: World Bank, June 2021

International Copper Prices

Zambia's economy depends to a large extent on copper exports, with the commodity accounting for about three-quarters of foreign exchange earnings.

From the start of the year, copper prices had peaked on average on 10 May 2021 at US\$10,635.98 per metric tonne. However, over the past 3 months, copper prices have consistently stayed above the US\$9,000/tonne threshold. By 5th August 2021, US\$9,660.25/tonne was recorded as the average price of the red metal.

Month	LME Copper Cash Settlement	LME Copper 3-month	LME Copper stock
August	9,660.25	9,687.75	238,325
July	9,433.59	9,464.20	221,994
June	9,612.43	9,637.98	154,205
May	10,183.97	10,196.05	123,245
April	9,335.55	9,324.13	157,300
March	9,004.98	8,988.20	102,630
February	8,460.25	8,439.78	75,339
January	7,970.50	7,978.38	94,604

Source: LME

Zambia: Selected Indicators

Population

Constituted of 9,028,652 females and 8,856,771 males, Zambia's total population in 2020 is estimated at 17,885,423.

In terms of population distribution, Lusaka province is estimated to have the highest population in 2020 at 3,289,132, followed by Copperbelt province at 2,675,446. North-Western Province has the lowest estimated population, standing at 952,470.



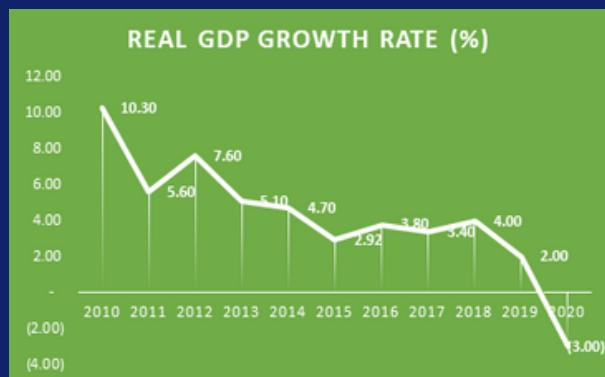
GDP and economic growth

Encouragingly, the Zambian economy grew by 0.7 % according to GDP estimates for the first quarter of 2021. The key drivers of growth were Agriculture, forestry & fishing, Financial & insurance, and Information & communication activities. The Zambia Statistics Agency reports that the industries with the highest growth rates in the first quarter of 2021 were information & communication (23.6 %), Financial & Insurance industry (20.2 %), and Agriculture, Forestry & fishing (14.5 %).

Zambia's nominal Gross Domestic Product (GDP) has fallen from US\$23.3 billion in 2019 to US\$19.4 billion in 2020, representing a contraction of the real GDP of 3 %.

In 2010, the Zambian economy grew at about 10 %, yet, a decade later, the country has experienced a recession along with the rest of the world.

In 2020, Zambia's economy is estimated to have contracted by about 3 % due primarily to the effects of the coronavirus pandemic that reflected in the disruption of global value chains, international, regional and domestic trade and economic activity more broadly.



Source: Bank of Zambia

In the past decade, from a peak of 10 percent annual growth, the Zambian economy has been gradually experiencing low growth, culminating into a recession in 2020 following the devastating effects of the coronavirus pandemic, although there were variations in quarterly growth in 2020. From 5.6 percent contraction in the second quarter of 2020 to a 2.6 contraction in the third quarter of the same year.

Labour markets

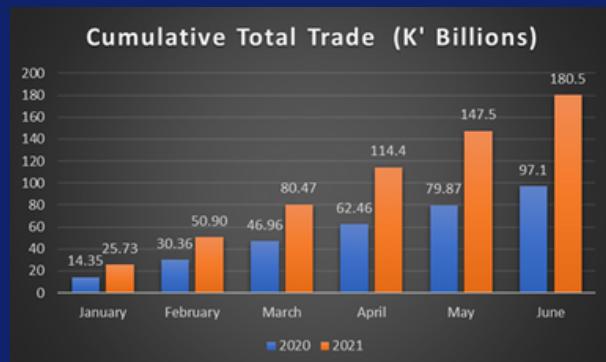
Labour market data suggest that Zambia's economy is largely informal, with informal employment accounting for more than half of total employment. According to the 2020 Second Quarter Labour Force Survey, 3,010,309 people were in employment, comprising 34.9 % from rural areas and 65.1 % from urban areas. In total, 1.8 million people were male while 1.2 million were females.

The results also show that from the employed population, almost a third, 29.9 %, had occupations in the formal sector, while people employed in the informal and household sectors accounted for 50.7 % and 19.4 %, respectively.

Trade

Trade concentration offers insights into a country's level of economic activity.

In Kwacha terms, Zambia's trade has gained pace in 2021 compared to the corresponding period in 2020. Total trade for the period January to June 2021 was K180.50 billion, while, for 2020 over the same period, K97.1 billion was recorded, representing a rise of 85.8%. Nevertheless, this comparison must be read with caution given the depreciation of the Kwacha over this period.



Source: Zamstats, July 2021

For all modes of transport, the total value of exports for the period January to June 2021 was K114.1 billion (roughly around US\$5.4 billion). By mode of transport: Road transport accounted for K71.0 billion representing 62.2%, Rail transport was second at K11.7 billion (10.2%) and Air transport was third accounting for K1.9 billion (1.7%). Other modes of transport accounted for K29.5 billion (25.9%).

For all modes of transport, the total value of imports for the period January to June 2021 was K66.4 billion (roughly around US\$3.2 billion). By mode of transport: Road transport was the highest at K35.8 billion representing 53.9% share, followed by Air transport at K5.6 billion (8.5%). Rail transport was third at K0.8 billion accounting for 1.2% of the total import bill. Other modes of transport accounted for K24.2 billion (36.5%). Overall, Zambia recorded a trade surplus of K5.3 billion in June 2021 compared to a surplus of K6.9 billion in May 2021, equivalent to a 23.5% decrease.

In June 2021, Traditional Exports, mainly copper, accounted for 67.7% of exports earnings; overall, a decrease of 18.4% was recorded at K12.9 billion in June 2021 from K15.9 billion (about US\$757 million) in May 2021.

Meanwhile, earnings of Non-Traditional Exports which accounted for 32.3% of total export earnings in June 2021 increased by 49.4 % to K6.2 billion in June 2021 from K4.1 billion in May 2021.

Copper, cobalt and gold production

From January to March 2021, the cumulative export volumes of copper were 228.0 thousand metric tonnes while that of 2020 for the same period was 206.7 thousand metric tonnes representing a 10.3 % increase. Correspondingly, export earnings from refined copper in March 2021 increased by 9.9 % to K14.1 billion from K12.8 billion in February 2021.

	Jan	Feb	Mar	Apr	May	Jun
Copper Production (MT)	63,775.57	59,454.24	68,921.61	61,064.77	67,767.40	72,131.30
Gold Prod (Not Bullion) (KG)	175.03	199.05	210.03	187.39	232.23	169.24
Gold (Bullion) (KG)	92.76	84.16	102.86	86.75	86.06	103.99

Source: Zamstats

Between May and June 2021, copper production went up.

Monetary Policy

The Monetary Policy Committee (MPC) at its May 17 - 18 2021 meeting decided to maintain the Monetary Policy Rate at 8.50 percent, in anticipation of easing inflationary pressures.

To mitigate the adverse economic impact of the Covid-19 pandemic, to support businesses and households via Financial Service Providers, the Bank of Zambia deployed the Targeted Medium-Term Liquidity Facility (TMTRF) of K10 billion. As of 31 March 2021, the Bank of Zambia had approved a total of K8.7 billion out of which, K6.9 billion is to commercial banks while K1.8 billion is to non-bank financial institutions.

Foreign Exchange Markets (Average Foreign Exchange Rates)

In the wake of the coronavirus pandemic, the rate of depreciation of the Zambian Kwacha gained momentum in 2020.



Source: Bank of Zambia

From January 2020 to December 2020, the Zambian Kwacha experienced breakneck depreciation, with the local currency depreciating by 50 %. However, from January 2021 to mid-July 2021, the depreciation had been gradual rather than rapid, with the Kwacha depreciating by only 7 % in six months.

By the end of 2020, the Kwacha had depreciated to over K21 for each US Dollar.

Kwacha per Dollar; Pound; Euro; Rand, Exchange Rate (selected dates)

Date	Dollar		Pound		Euro		Rand	
	Buy	Sale	Buy	Sale	Buy	Sale	Buy	Sale
02-Jan-20	14.14	14.19	18.65	18.72	15.82	15.88	1.01	1.01
31-Dec-20	21.14	21.19	28.88	28.95	25.93	26.00	1.44	1.44
04-Jan-21	21.15	21.20	28.87	28.95	25.00	26.00	1.44	1.44
05-Mar-21	21.89	21.94	30.27	30.35	26.13	26.19	1.43	1.44
08-Jun-21	22.53	22.58	31.86	31.94	27.43	27.50	1.66	1.67
01-Jul-21	22.62	22.67	31.25	31.32	26.86	26.93	1.58	1.59
30-Jul-21	19.19	19.24	26.75	26.83	22.79	22.86	1.31	1.32
09-Aug-21	19.25	19.30	26.72	26.79	22.64	22.70	1.32	1.32

Source: Bank of Zambia

From around mid-July, the Kwacha began a rapid ascent, from each US Dollar being bought at K22.63 on 15 July 2021 to K19.15 on 28 July 2021, representing an appreciation of the Kwacha against the US Dollar of over 18% in only two weeks. But by 9 August 2021, the average purchase price for each US Dollar had climbed slightly to K19.25.

To explain the sudden rapid appreciation of the Kwacha, the Ministry of Finance explained that the appreciation of the Kwacha "largely reflects changes in the supply of foreign exchange and broad improvements in market expectations." The Bank of Zambia says that rising copper prices "has resulted in improved foreign exchange flows from the mining sector through tax receipts remitted directly to the Bank of Zambia in US dollars."

Government Securities Market Rates

Treasury Bills		
Date: 29 July 2021		
Tenure	Yield	Weighted Average Discount Rate
91 Days	13.9884	13.5170
182 Days	16.0266	14.8407
273 Days	18.0001	15.8643
364 Days	25.4999	20.3300

Government Bonds		
Date: 25 June 2021		
Period	Yield	Coupon
2 Years	29.9000	9.000
3 Years	31.4900	10.000
5 Years	32.9900	11.000
7 Years	30.1000	12.000
10 Years	31.0000	13.000
15 Years	32.9000	14.000

Source: Bank of Zambia

Over the past 3-4 months, yield rates have changed only marginally in response to heightened demand by investors.

International Reserves

Zambia's foreign exchange reserves have reduced over the past five years, from around US\$4.0 billion to only US\$1.38 billion in 2020. In the intervening period, reserves declined from US\$2.4 billion at the beginning of 2017 to US\$1.4 billion at the end of 2019, mainly on account of increased external debt service payments. In part, the quantum of reserves matters for the effectiveness of central bank intervention in the foreign exchange market.

More recently, however, international reserves have increased by US\$200 million in under two months, to US\$1.4 billion at the end of May 2021.



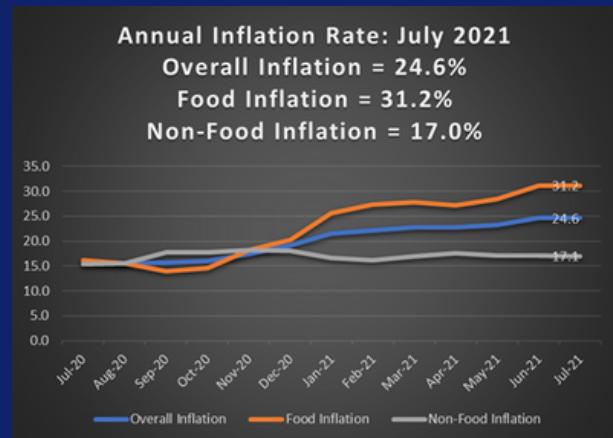
Source: Bank of Zambia

As copper prices rise, and copper production gathers pace while public debt management architecture improves, foreign exchange reserves are expected to increase. In the 2021 National Budget Speech, the Government announced that it hopes to increase Gross International Reserves to at least 2.5 months of import cover.

To shore up and diversify the international reserves position, the Bank of Zambia has embarked on a gold purchasing strategy. In a statement issued on 22 April 2021, it is reported 282.79 kilograms of gold were purchased locally since December 2020 for K345.6 million.

Inflation and the Cost of Living

The annual inflation rate remains unchanged between June and July 2021 at 24.6%. However, the implication is that between July 2020 and July 2021, the average prices of goods and services increased by 24.6%.



Source: Zamstats, July 2021

Annual food inflation for July 2021 stood at 31.2 %, just as it was in June 2021. The lack of change was due mainly to the relative price stability for food items such as Dried Kapenta (Mpulungu, Siavonga & Chisense), Cooking Oil, and Vegetables (Rape, Tomatoes, Cabbage, Dried Beans).

Meanwhile, the annual non-food inflation rate for July 2021 dropped by 0.1% to 17.0% from what was recorded a month earlier largely on account of decreases in Clothing & Footwear, (Men's and Ladies leather shoes, Sports shoes, Boy's school shoes) & Miscellaneous goods and services (Shampoo, Dettol, Umbrellas).

Owing to rising food and non-food prices, the Basic Needs and Nutrition Basket (BNNB) published by the JCTR shows that the cost of living has generally been rising over the past year. For a family of five, the BNNB shows that for March 2021, K8,644.50 is needed as a minimum, rising from K8,512.31 in February 2021 and K8,384.01 in January 2021. Maize prices were trading at K139.86 per 50Kg bag. The continued rise in food prices is worrying for consumers but producers may harness this situation to their advantage.

Fiscal situation

K119.6 billion is the total estimated amount of Government spending in 2021 according to the 2021 National Budget, translating to about 32.6 % of GDP. Of this amount, K68.0 billion, representing 18.5 % of GDP, will come from domestic revenues and grants. The balance of K51.6 billion will be raised through financing. In maintaining a tight fiscal stance, the fiscal deficit is targeted to reduce to 9.3 % of GDP in 2021 from the 11.7 % projected outturn for 2020.

The Treasury Brief for January to July 2021 published on Monday, 9 August 2021, notes that "Total collections of Revenues and Grants for the period January to July of 2021 amounted to K64.4 billion and were 56 percent above the target of K41.2 billion. Tax Revenue accounted for K45.2 billion, Non-Tax K18.4 billion and K753 million was from grants."

Meanwhile, for the same period from the expenditure side, it is reported that "the Government released K79.1 billion to finance public service delivery. Of the total expenditure, K73.1 billion was financed from domestic resources while K5.9 billion was foreign-financed. Expenditures were 18.9 percent above the projection for the period due to higher releases towards developmental programs and dismantling of arrears."

As of end-December 2020, Zambia's total public debt was USD 18.88 billion, broken down as USD 12.74 billion Central Government external debt including existing principal arrears and USD equivalent to 6.14 billion or K 130.2 billion domestic debt. The stock of Central Government guaranteed external loans was USD 1.58 billion as of end-2020.

The Stock of domestic debt as at end of December 2020 stood at K130.214 billion, driven mainly by an increase in government borrowing to acquire farmer inputs for the 2020/21 farming season. By end of March 2021, there was a 10.46 % increase in the stock of domestic debt, rising to K143.837 billion.

Energy

On account of the good rainfall that the country experienced which led to good water levels at major power station reservoirs, electricity generation increased by 18.59 % to 3,993,785 Mwh in the fourth quarter of 2020 in comparison to 3,366,649 Mwh in the corresponding period of 2019.

Electricity generation in the first quarter of 2021 was 4,096,143 Mwh.

Zambia has also recently signed a US\$5 billion oil pipeline deal with Angola, to help Zambia access cheaper fuel. The pipeline is expected to supply Zambia finished petroleum products from oil-rich Angola.

Appendix:

Quarterly Selected Macroeconomic Indicators

Description	Sep-20	Dec-20	Mar-21	Apr-21
Reserve money (period average in K'million)	25,003.9	24,543.2	26,754.9	31,134.91
Growth Rate (%)	15.3	-1.8	9.01	16.4
Broad money (in K'million)	96,896.1	103,828.7	111,175.79	116,574.53
Growth Rate (%)	17.4	7.15	7.08	4.9
Net Claims on Government (in K'million)	53,050.8	58,201.9	53,738.9	59,698.8
Commercial banks' weighted lending rate	25.72	25.09	25.97	26.28
Average Savings rate (>K100)	2.93	2.68	2.66	2.61
Deposit rate (30 days, over K20,000)	5.92	5.87	5.69	5.67
Currency in Circulation, issued by BoZ (K'million)	11,487.82	12,391.9	11,926.18	11,877.94

Real Sector

Earnings (US\$ million)

Commodity	Sep-20	Dec-20	Mar-21
Copper	1,687.81	1,790.68	1,867.75
Cobalt	2.56	0.00	1.51
Non-Traditional Exports	553.95	531.58	515.55
Gold	64.35	47.06	44.16