



RESTORING MACRO-ECONOMIC STABILITY THROUGH CURRENT ACCOUNT SUSTAINABILITY: THE CASE OF THE KWACHA APPRECIATION

PRESS STATEMENT

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At the height of the COVID-19 pandemic in 2020, global economies experienced instability due to reduced trade and restricted movements. This consequently weakened the macroeconomic environment, resulting in negative economic growth and increased inflation, among others. In the same year, **the global economy was projected to contract by 4.9% while Zambia's economy projected a 4.2% contraction owing to the pandemic, climate change as well as the volatility in copper prices, which greatly weakened the Zambian Kwacha.**

As of December 2019, the Zambian Kwacha was trading at K14.05 before it depreciated to trade at K22.69 against the US Dollar as of 12th July 2021. **However, over the past week the country has witnessed the appreciation of the Kwacha, the highest in its history at a rate of 5.6% from K22.69 on 12th July to K21.41 on July 23rd 2021.** Notwithstanding the negative impact of the pandemic, notable shifts in the market have triggered the appreciation of the Zambian Kwacha. For instance, the price of copper, which is a significant source of FOREX for our economy, **has increased on the global market, trading at US\$9,042 per tonne as of 21st June 2021.** According to the Bank of America, it is anticipated that copper prices could reach as high as US\$20,000 per metric tonne by 2025 amid the widening supply and demand deficits due U.S.-led global economic rebound that would boost demand for metals used in manufacturing and construction industries.

In addition, **Government's recent acquisition of Mopani Copper Mines places Zambia in a position to benefit from the higher copper prices on the global market.**

Another notable factor has been **improved trade volumes**. From January to May 2021, Zambia recorded a trade surplus of **84.7% amounting to K147.50 billion**, while in 2020 the same period saw a surplus of only **K79.87 billion**, which implies an increase in the demand for Zambian products. **This increase in trade on the global market is a strong indication that is reflecting positively on the Zambian Kwacha.** This is predominantly important as strengthening the Zambian Kwacha against major convertible currencies will translate into better prices for imported goods and services.

On the **supply side, Government has also reported an increase in international reserves, which stood at US\$1.4 billion as at the end of May 2021 compared to US\$1.2 billion at the end of March 2021.** The Bank of Zambia has also continued with the local gold purchase programme, accumulating about US\$22.0 million in monetary gold as of 23rd July, 2021. The improvement in the **reserve position** increases the country's ability to respond to unexpected external events and the ability to address volatility in the exchange rate. **The increased international reserves is an indication that the import cover is likely to grow and further reduce the volatility of the Zambian Kwacha.**

Lastly, the appreciation of the Kwacha is attributed to the improvements in supply associated with the forthcoming International Monetary Fund (IMF) **Special Drawing Rights (SDR)** allocation. Improved prospects of a formal Extended Credit Facility (ECF) Programme with the IMF have attracted growth in the demand for Government securities and bonds. The demand and supply factors that have led to the appreciation of the Zambian Kwacha are as a result of Government's efforts in achieving macro-economic stability through current account sustainability as enshrined in the Economic Recovery Programme (ERP 2020-2023).

PMRC is elated by the appreciation of the Kwacha. **The foreign earnings from copper exports are a critical factor that will strengthen the local currency as the global economy continues to recover from the pandemic.** This recovery is premised on low carbon emissions and as such copper will play a big role in the post COVID-19 recovery **since countries are looking to permanently shift from fuel combustion powered vehicles to electric powered automobiles meant to reduce global carbon emissions.**

In view of the current appreciation of the Kwacha, **PMRC hopes this will lead to the reduction in the cost of doing business and consequently a decline in the prices of major commodities.** Lastly, the gains in the Zambian Kwacha must be sustained by more investment in the backward and forward linkages in the agricultural sector through the investment in **agro-processing, research and development as well as enhanced extension services in the sector as a viable earner of FOREX and driver of the economy.**

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