2021 MID-YEAR ECONOMIC REPORT INFOGRAPHIC - PART 4

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INTRODUCTION

The 2021 Mid-Year Economic Report presents the developments in the global and domestic economy in the first half of 2021. On the basis of first half performance, a forecast is also made for the remainder of the year.

MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Interest Rate Developments

- Yield rates on Government securities **declined during the first half of 2021 on account of strong demand owing to adequate liquidity conditions and renewed investor interest**.
- The weighted average composite yield rate for Treasury Bills declined to **21.9%** from **26.6%** in June 2020.
- Similarly, the weighted average composite bond rate decreased to **31.2%** from **32.4%**

WEIGHTED AVERAGE COMPOSITE BOND RATE DECREASED TO
31.2%
FROM 32.4% IN JUNE 2020

- Commercial banks' nominal interest rates marginally declined during the first half of 2021. The average lending rate (ALR) edged down to **24.5%** in June 2021 from **25.1%** in December 2020.

AVERAGE LENDING RATE
24.5%
IN JUNE 2021

AVERAGE LENDING RATE
24.5%
IN DECEMBER 2020

- The overnight interbank rate fell to an average of **8.53%** from **11.77%** in line with a cumulative 350 basis points reduction in the Policy Rate to **8.0%** in 2020.

INTERBANK RATE FELL TO
8.53%
FROM 11.77% IN 2020

- The Kwacha depreciated further against the major foreign currencies during the first half of the year.
- Against the US dollar, the Kwacha depreciated by **31.6%** to an average of **K22.03** from **K16.74** in the first half of 2020. The Kwacha weakened relative to the British Pound Sterling, Euro, and South African rand by **45.3%**, **44.0%** and **50.5%** to averages of **K30.59**, **K26.55** and **K1.52**, respectively.

AGAINST DOLLAR, KWACHA DEPRECIATED BY
36.1%
TO AN AVERAGE OF K22.03 FROM K16.74 IN 1ST HALF OF 2020

- The sustained excess demand for foreign exchange largely for **imports of petroleum products** and **agricultural inputs for the FISP programme** explain much of the **weakness of the Kwacha**. On the other hand, supply of foreign exchange declined despite renewed foreign investor interest in domestic assets as inflows primarily from the **mining** and **construction sectors decreased notably**.

Financial Sector Developments

- The banking sector recorded satisfactory overall financial performance and condition for the first half of 2021.
- The banking sector total assets grew by **K60,353.1 million** or **54.7%** to **K170,699.6 million** at the end of the first half of 2021 compared to **30.2%** during the corresponding period in 2020.

BANKING SECTOR TOTAL ASSETS GREW BY
K60,353.1 million
REPRESENTING 54.7% COMPARED TO 30.2% IN 2020

- Deposits which constituted **79.8%** of total liabilities, increased by **K44,368.5 million** or **55.2%** to **K124,800.8 million** at the end of June 2021 and funded **73.1%** of the banking sector assets.

DEPOSITS MADE 79.8% OF LIABILITIES AND GREW TO
K124,800.8 million
REPRESENTING 55.2% INCREASE OF K44,368.5 M

- At the end of the first half of 2021, the banking sector remained adequately capitalized. Both primary and total regulatory capital adequacy ratios, at **17.0%** and **19.2%**, were respectively above the minimum prudential benchmark of **5.0%** and **10.0%**.
- The earnings performance in the first half of 2021 was satisfactory with cumulative profit before tax (PBT) at **K3,607.0 million** compared to **K813.8 million** recorded over the first half of 2020.

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EARNINGS PERFORMANCE CUMULATIVE PROFIT WAS
K3,607.0 million
COMPARED TO K813.8 M RECORDED IN 1ST HALF OF 2020

- Liquidity condition remained favourable as banks met the obligations as they fell due and funded asset growth. The liquid assets and liquidity ratios stood at **48.3%** and **57.3%**, respectively.

LIQUID ASSETS
48.3%

LIQUID RATIOS
57.3%

Non-Bank Financial Sector

- The total number of Non-Bank Financial Institutions (NBFIs) licensed by the Bank of Zambia (BoZ) increased to 120 in June 2021 from 119 in June 2020.
- The overall financial condition and performance of the NBFIs sector was satisfactory during the first half of 2021.
- The ratio of regulatory capital to total risk-weighted assets stood at **33.3%**, which is above the prudential minimum of **10.0%**.

REGULATORY CAPITAL TO TOTAL RISK-WEIGHTED ASSETS RATIO STOOD AT
33.3%
ABOVE PRUDENTIAL MINIMUM OF 10%

- The sector recorded a profit before tax of **K384.6 million** compared to a profit before tax of **K65.5 million** during the corresponding period in 2020.

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SECTOR PROFIT BEFORE TAX
K384.6 million
COMPARED TO K65.5 M IN 2020

- The ratio of liquid assets to current liabilities increased by **21.3%** points to **61.6%** from **40.3%** at the end of June 2020. The liquidity ratio remained above the prudential minimum limit of **25.0%**.

LIQUID ASSETS TO CURRENT LIABILITIES RATIO INCREASED TO
61.6%
FROM 40.3% AT END OF JUNE 2020

Insurance and Pensions

- The performance of the insurance industry indicates a rise in the gross written premium (GWP) of **22.65%** to **K3,142 million** recorded during the first half of 2021 from **K2,562 million** recorded in the corresponding period in 2020.

IN 2021 INSURANCE GROSS WRITTEN PREMIUM ROSE BY 22.65% TO
K3,142 million
COMPARED TO K2,562 M IN 2020

- This increase was on account of increase in general insurance GWP and Long-Term Insurance GWP business and those business underwritten in foreign currency which benefited more from the local currency depreciation
- The total number of registered Life and General Insurance Companies in insurance sub-sector during the period under review, were **10** and **20**, respectively.
- The total number of registered pension schemes during the period under review increased to **246** from **244** registered during the corresponding period in 2020.

246 Pension Schemes
COMPARED TO 244 IN 2020

- Further, the total pension scheme members or participants in the pension schemes increased to **111,039** from **109,920** in June 2020 representing a **1.02%** increase.

111,039
SCHEME MEMBERS FROM 109,920 IN JUNE 2020

- The pension benefits paid decreased by **1.67%** to **K1, 140 million** recorded during the first half of 2021 compared from **K1, 159 million** paid during the corresponding period in 2020. This was as a result of reduced number of eligible claimants.

Capital Markets Developments

- The **performance of the Lusaka Securities Exchange (LuSE) improved in the first half of 2021** compared with the corresponding period in 2020.
- The Lusaka Securities All-Share Index (LASI) rose by **14.2%** to **4,474.55** from **3,919.57** at the close of the first half of 2020.

LUSAKA SECURITIES ALL SHARE INDEX ROSE BY 14.2% TO
4,474.55
FROM 3,919.57 AT CLOSE OF 1ST HALF OF 2020

- This **outturn is explained by share price increases in selected companies in the manufacturing and real estate sectors.**

Mobile Payments

- The value of transactions through mobile channels increased by **76.1%** during the first six months of 2021 to **K76.0 billion** from **K43.1 billion** recorded in the first half of 2020.

VALUE OF TRANSACTIONS INCREASED BY 76.1% TO
K76 billion
FROM K43.1 BILLION IN 1ST HALF OF 2020

- The increase in the value of transactions processed through **mobile channels is driven by the rise in the number of active users of mobile channels due to the promotion of electronic payment methods in the COVID-19 era and adoption of new products introduced by service providers.**

EXTERNAL SECTOR DEVELOPMENTS

Trade Balance

- The merchandise trade surplus widened to **US$2,130.7** million in the first half of 2021 compared with **US$689.9** million during the same period in 2020 on account of higher increase in exports relative to imports.

MERCHANDISE TRADE SURPLUS WIDENED TO
US$2,130.7 million
COMPARED TO US$689.9 IN 2020

- Exports rose by **56.1%** to **US$5,134.1 million** mainly reflecting higher export earnings of refined copper. **Non-traditional export (NTEs) earnings mostly manufactured products such as copper wire, cane sugar, soaps and active agents, electrical cables as well as agricultural products such as maize and maize also rose and contributed to higher export earnings.**

EXPORTS ROSE BY 56.1% TO
US$5,134.1 million

- Imports increased by **15.5%** to **US$3,003.4 million** following a rise across most categories, including **chemicals, industrial boilers and equipment, motor vehicles**, as well as plastic and rubber products.

IMPORTS INCREASED BY 15.5% TO
US$3,003.4 million

- The easing of **COVID-19 related trade disruptions and a modest recovery in domestic economic activity explained the pick-up in imports.**

PROSPECTS FOR THE REMAINDER OF 2021

- Economic growth globally is projected at **6.0%** in 2021 and **4.4%** in 2022.

ECONOMIC GROWTH PROJECTED AT
6.0%
AND 4.4% IN 2022

- The **upward revision** which is an improved outlook reflects **ramping-up of COVID-19 vaccinations** across the globe, **supportive policies**, and **heightened adaptation of economic activity** and **gradual easing of pandemic mitigation measures**.
- Copper prices are anticipated to continue surging averaging around **US$9,000** per tonne owing to resurgence of economic activity in China and other advanced countries.

COPPER PRICES ANTICIPATED TO SURGE TO
US$9,000

- Domestically, economic growth is expected to improve to at least **1.6%** in 2021 from a contraction of **3.0%** in 2020. This is primarily ascribed to a return to positive growth in agriculture, manufacturing and information and communication technology sectors underpinned by the expansion of the COVID- 19 vaccination programme.

DOMESTIC ECONOMIC GROWTH EXPECTED TO GROW AT
1.6%
IN 2021

- The foremost drawback risk to the forecast is the evolution of the **COVID-19 pandemic both locally and globally.**
- Additional risks include limited fiscal space to respond to a prolonged pandemic, debt vulnerabilities and protracted debt restructuring activities and domestic currency depreciation.