

# Zambia ECONOMIC WEEKLY REVIEW

Week Ending 20<sup>th</sup> February, 2022

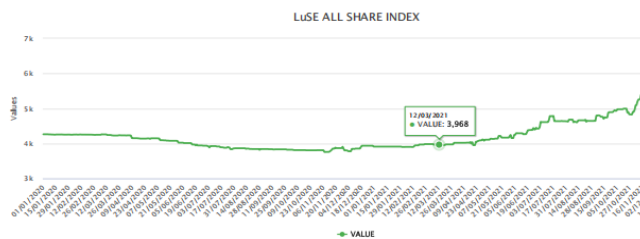
## Economic Policy Review

- The cost of connecting to the national electricity grid by both individual and corporate users has dramatically been increased by ZESCO – the nation's electricity monopolist. The connection's price was increased by 400% while the meter separation fee was increased by a staggering 800%.
- The policy mix still remains in disarray as both fiscal and monetary policies are not in tandem. Taxation remains high while interest rates also remain high and this situation can not be a source of spurring economic growth in the country.
- Inflationary pressures continue as the JCTR consumer basket indicated an increase in the price of basic household goods across the country.

## Business Environment

- In spite of setting up the Ministry of Small and Medium Enterprises, there is no clear information from that ministry showing how they are going to foster the growth of SMEs.
- Unemployment remains high with a potential of raising social unrest. Government seems not to have any clue as to how to tackle this problem.
- However, in spite of these negative signs, Zambia still enjoys international goodwill as a result of the smooth democratic transition as an aftermath of the 2021 General Elections.
- Zambia is not ready to join the African Free Trade Area as government has not yet engaged the private sector.

## Capital Markets



## Global Events

- The bi-annual AU-EU head of Governments meeting took place in Brussels and our President Hakainde Hichilema attended the meeting. The AU-EU Summit is Europe's response to the China-Africa, India-Africa and Russia – Africa summits where these major industrial countries of the 21<sup>st</sup> Century and wooing Africa with promises of enhanced future co-operation and investments. As usual the EU did not promise anyone anything.
- The tug-of-war between Russia and USA over Ukraine continued with everyone fearing that Russia will attack Ukraine. Whether this war will take place is a matter of time, but one thing is for sure, it has made financial markets jittery.
- With such a risky global situation, investors look for a safe-haven (usually gold) and demand for crude oil goes up as nations try to fill up their reserves.

## Weekly Comment

After being in office for around six months, the New Dawn government of President Hakainde Hichilema has not made headways on bits pre-election promises of reducing youth unemployment, strengthening the kwacha, improving the fate of small and medium enterprises (SMEs). The inequality in treatment of local and foreign investors. No complex plan has been put in place that seem to be on the direction of making UPND realize on election campaign promises.

The UPND government needs to come up with a politico-socio-economic plan that takes head-on the key issues in the country: lack of opportunities (both job and business) for the youth, SMEs and other disadvantaged groups. The net step would be a simultaneous undertaking on synchronizing the fiscal and monetary policies and the creation of financing for the SMEs and other job-creation activities. These should be industrial and anticultural ventures that create jobs, add value to the many raw material and minerals that we have and finally, making them export-oriented.

## The USD/ZMW/ZAR Exchange Rate



The kwacha continued its downfall against the two major foreign currencies important for our economy: the US dollar and the South African rand. Such a situation would have been ideal for Zambian exports. Also, we have no indigenous exports unlike Copper that is under the influence of other global conditions.

## Key Macroeconomic Data

CPI (inflation) y-o-y	15.1%	↓
Budget Deficit (% of GDP)	6.7%	↑
Total Debt (% of GDP)	128.7%	↑
Current Account Balance (% of GDP)	20.2%	↑
Trade Balance (% of GDP)	14.25%	↑
Exports (% of GDP)	34.64%	↑
Unemployment	12.2%	↔

The macroeconomic data shown above shows that the Zambian economy is in disarray. Inflation is on the rise keeping interest rates high; the government continues the tendency to borrow as exhibited by a high budget deficit. The current account shows a positive balance meaning there is a net forex balance. But the kwacha is losing value instead of gaining!!! Unemployment remains high. This requires a total review of the policy mix.

## LuSE: Gains and Losses

The Lusaka Stock Exchange continued in its slumber as the All-Share Index in the graph opposite shows. The major functions of a stock exchange which are: source of development capital for companies, a reflection of the costs of the means of production and a reflection of the health of the Zambian economy are NOT reflected here. The trading in stocks in Zambia is considered as a long-term deposit-investment option rather than a way of making profits due to market fluctuations.

## Key Global Indicators (relevant to Zambia)

Copper (3M)	USD 10 015/MT
Cobalt (3M)	USD 76 920.64
Gold (3M)	USD 1899/oz.
Brent Crude Oil (3M)	USD 93.6/bbl

The global economic climate is conducive for Zambia with Copper prices recording new highs. Similarly does Cobalt. However, there are risks associated with the threat of an American-Russian War as a result of Russia's expansionist policies towards Ukraine. This situation has pushed the prices of gold upwards, similarly to crude oil. The rise in crude oil prices puts pressure on local currencies for oil-importing countries (including Zambia).