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ZAMBIA ECONOMIC REPORT AND OUTLOOK – H1 2020

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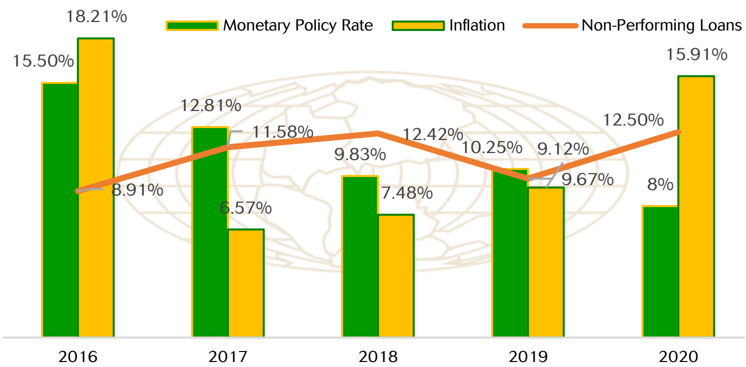
Zambia Economic Overview – A Time Of Economic Distress

Economic Highlights (Summary): On 18th August 2020, the Bank Of Zambia (BOZ) cut the Monetary Policy Rate (MPR) by a further 125 basis points to 8% following a previous cut by 225 basis points in May 2020. This was due to the weakening economic conditions amidst an economy plagued with the Corona Virus pandemic (Covid-19). Nominal interest rates have generally declined since May 2020 due to the BOZ policy cuts. The overnight lending rate decreased from 12.56% in Q1 to 10.58% in Q2. Commercial banks' nominal average lending rate declined to 26.4% from 28.8%. Inflation peaked at 16.6% in May 2020 and declined to 15.9% in June 2020. The BOZ expects inflation to steadily decline in H2 2020 but remain under the upper bound target range of 6-8%.

The BOZ provided a stimulus package of ZMW 10 Billion in order to inject liquidity in the financial sector and encourage Banks to lend out money despite the default risks due to the pandemic. The Non-Performing Loan (NPL) ratio stood at 12.5% during the H1 2020 compared to 9.67% in the YE 2019 .

Non Performing Loans, Inflation and Monetary Policy (%)

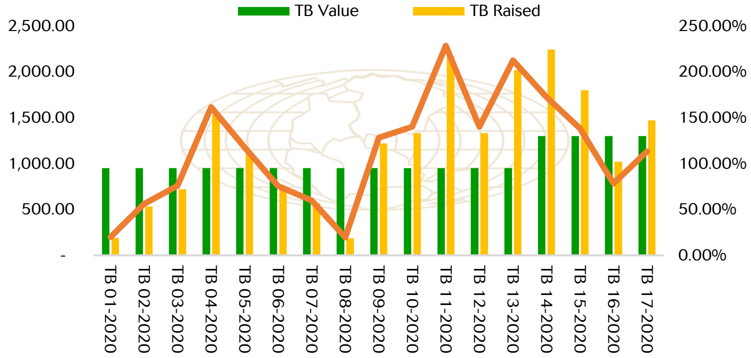


Source: (Bank Of Zambia statistics, Pangaea Research)

BOZ continues to raise money from Government Securities. The last T-bill auction on 13th August 2020 had 154% subscription rate compared to an average of 168% in the previous auctions suggesting a slowdown in demand for treasury bills. Yield rates on T-bills declined slightly to 25.9% in the H1 2020 from 26.1% in the previous month due to increased demand by local players.

Government bonds composite yield rate increased to 32.4% in Q2 2020 from 30.9% in Q1 due to investors high risk premium in a distressed environment. Bonds continue to be undersubscribed due to reduced appetite from investors compared to short dated securities.

H1 2020 Treasury Bills Auction Results



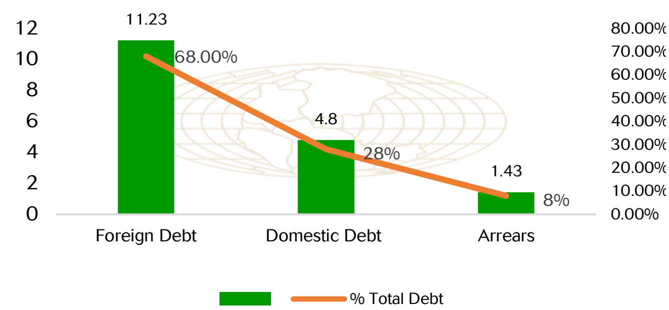
Source: (Bank Of Zambia statistics, Pangaea Research)

Economic Challenges (Summary): Zambias debt stood at USD 17.4 billion at the end of 2019, with 68% attributing to external debt ,26% domestic debt and 8% to arrears. In July 2020, Government released a total of ZMW 11.17billion to finance developmental programmes and public service delivery further agrrevating domestic debt.

Due to the impacts of the Covid-19 pandemic government spending was ZMW17.2 billion in H1 2020 as opposed to the budgeted amount of ZMW9.7 billion due to the Covid-19 pandemic. The Minister of Finance is expected to deliver the 2021 National Budget on Friday, 25 September 2020 in line with the International Monetary Fund's (IMF) request to revise the FY 2020 budget.

The current account stood at USD122 million at end-March 2020. The current account is expected to move into deficit during the H2 2020 due to global restrictions and volatile copper prices.

Debt Burden (USD Million)



Electricity shortages continue to remain a challenge with Companies reporting up to 10 hours of load shedding. it is expected that 750 Megawatts will be added to the grid from the completion and commissioning of the Kafue Gorge Lower by December 2020 hence significantly reducing load shedding hours.

The Covid-19 pandemic has worsened Zambias economic conditions due to a slowdown in global activity causing a disruption in supply chains. We expect the economy to recover by 2021 based on the assumption that Covid-19 is contained, and global restrictions are eased.

Positive Sentiments: Positive sentiments include the upward movement of copper prices which may have a favorable impact on exports and increase foreign exchange reserves which are currently at USD1.43 billion in June 2020 representing 2.3 months import cover.

Discussions with the IMF for a request for support under the Rapid Credit Facility Arrangement and G20 service suspension may reap positive results. We remain optimistic that Zambia will get emergency assistance from IMF before Q1 2020 . The revised 2021 budget will be key for a potential IMF bailout.

French Asset Management firm, Lazard Feres Gestion was contracted to restructure Zambia's liabilities for an amount valued at USD5 million over a period of three (3) years which will be key in achieving debt sustainability.

Further, Agriculture output has significantly improved in the 2019/2020 farming season increasing production In June 2020, agriculture products accounted for a 34.6% share of Zambia's Non-Traditional Exports (NTEs) in the H1 2020 which was a 12% increase from May 2020.

Economic Overview

Economic Growth: Zambia continues to face challenges in an economically distressed environment. According to the IMF GDP is expected to contract by -5% from an earlier prediction of -3.2% in April due to the economic shocks caused by the Covid-19 and the drought experienced during 2019. The Bank of Zambia, in the August 2020 monetary policy statement, predicted a reduction of -4.2% growth in 2020 from an earlier prediction of a contraction of -2.6% in the May 2020 monetary policy statement. If this materializes, it will be the first contraction in GDP in more than 20 years. The predicted reduction in the economic growth rate was based on; the high debt servicing costs estimated at USD1.5 billion in 2020, with a depreciation of the Kwacha (ZMW) against the United States Dollar (USD) which ended the month of July down by 37.48% from the exchange rate at YE 2019.

According to the IMF, economic growth in the Sub-Saharan African region will contract from +2.4% during 2019 to between -2.1% and -5.2% in 2020. The World Bank (WB), in its June Global Economic Prospects report, projects that economic growth in Emerging Markets and Developing Economies is not likely to recover until the second quarter of 2022.

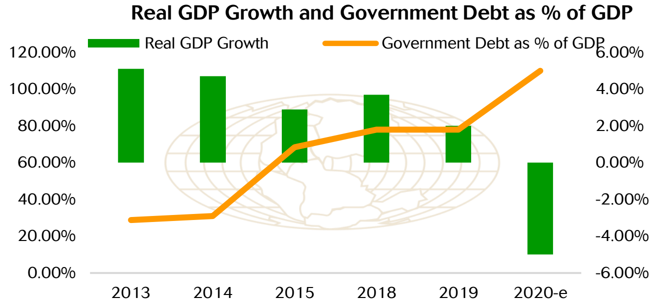
Distressed Economic Environment: Due to a distressed economic environment and the negative impacts of Covid-19, companies are faced with increased production costs due to electricity shortages, the sharp depreciation of the ZMW to the USD leading to high borrowing costs, inflationary pressures, fiscal challenges and tight liquidity conditions. It is expected that growth prospects will continue to remain weak. We are of the view that the Zambian economy will contract by -3.8%; this can be attributed to the macroeconomic headwinds highlighted above, but also the disruption in the supply chains particularly in the mining and agricultural sectors.

On the upside, copper prices have been on an upward trajectory which may have a positive impact on the economy. However, we are faced with other bottlenecks such as the weak fiscal position which is highly attributable to the Government debt and related servicing costs.

The fiscal position of Zambia may be positive if the country concludes discussions with the IMF for a bailout package.

Possible positive events include, increased subscription of Government paper by investors, a relief which will create fiscal space for the economy, and lastly, attracting more capital inflows from investors seeking higher yields in emerging economies.

The Economist Intelligence Unit expects that GDP will recover by 3.8% in 2021, and strengthen a further 5.8% by 2024, provided Covid-19 is contained and export routes fully open up.



Source: (IMF data base, Pangaea Research)

Impact Of Covid-19 On Domestic Activity: When the first two cases of Covid-19 were recorded in the country, President Edgar Lungu initiated a partial lockdown across the country. This resulted in 85% of businesses implementing remote working, others closing, and others operating although with a reduction in working hours. Furthermore, most businesses that remained opened operated with 50% of their staff at home and the other 50% on the premises alternating every 14 days.

Loss of Employment: With reference to South Africa, many say dark-days are ahead of Zambia, but even before we arrive to the "dark-days", it is worthy to note that close to 2,400 job losses were recorded between February and March 2020. According to a survey conducted by Impact Capital Africa, it is projected that job losses could exceed 10,000 before the end of the year. Results from the survey also showed that 87% of businesses reported being negatively impacted by Covid-19 and 48% of businesses reported being at risk of business failure before end of year.

Disruptions in Supply Chains: Although restrictions began to ease in May 2020, the lockdown led to a major disruption in supply chains due to border closures. These closures have had a significant impact on production for businesses leading to a strain on cash flows and the capacity to meet operational and financial obligations. Furthermore, according to the Stanbic Purchasing Managers Index travel restrictions imposed led to a decline in new orders as a majority of businesses are heavily reliant on imported goods.

According to a survey conducted by Impact Capital Africa, in the period under review, 86% of businesses have placed their growth plans on hold. We have seen a reduction in capital expenditure for public listed companies. Expansion into new markets, launching of new product lines, and purchasing new equipment have reduced across all sectors.

The Agricultural sector has leveraged on the increased local demand for food products, as large retail stores have faced supply disruptions attributable to the closure of borders.

The Education sector has had to move their services online. This is a trend that is repeated globally for most places of education.

The retention of cash and liquidity have been priorities for businesses. According to a survey by Impact Capital Africa, the Agriculture, Tourism, Retail, and Infrastructure industries have reported that they are all at risk of bankruptcy. The BOZ, in the August 2020 monetary policy statement, stated that the most negatively impacted sectors are wholesale and retail trade, construction and tourism.

Demand Recovery: Business conditions continue to remain weak with demand for new orders decreasing sharply due to a decrease in purchasing power of consumers. According to the Livingstone Chamber of Commerce, the pandemic has affected businesses in the tourist capital that depend on goods from Chinese and Asian companies. The Impact Capital Africa survey states that hotels and lodges have slashed their room rates by over 50% in order to increase demand.

This has been indicative in the Stanbic Purchasing Index which rose to 42.3 in June 2020 from a record low of 34.8 in May 2020. The increase in the Stanbic Purchasing Index portrays a slight improvement in business activity but still below the 50.0 targeted stability level, which indicates

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deterioration in business activity. Furthermore, consumer appetite continues to decline causing businesses to decrease prices in order to increase consumer demand hence resulting in increased losses. We expect demand recovery to continue to be adversely affected in the second half of the year as uncertainty remains on the impact of Covid-19. There was a steep increase in cases in the month of July causing businesses to begin to close down operations.

Fiscal Pressures: In 2017, the IMF and World Bank undertook a debt sustainability analysis on Zambia and concluded that Zambia was at a high risk of debt distress with external debt breaching the 40% of GDP threshold. The IMF emphasised the increased need to strengthen fiscal policies and adopt a debt strategy management plan.

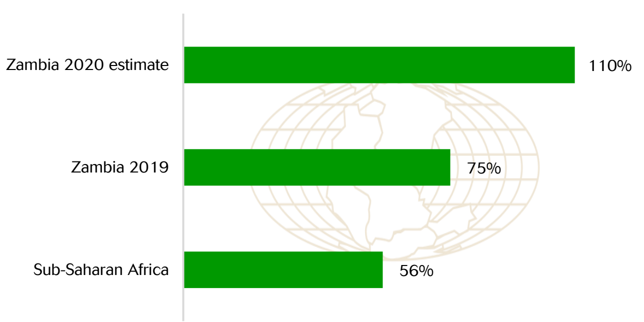
In 2018, the IMF emphasised that under the reforms debt was on an unsustainable path and there was urgent need to adjust fiscal policies, suspend the contracting of additional non-concessional debt, enhance domestic revenue, and reduce domestic arrears.

Currently, discussions with the IMF continue for a request for support under the Rapid Credit Facility Arrangement and G20 service suspension. The IMF has emphasised the need to revise the FY2020 budget in line with fiscal policies that will revive growth and lower poverty.

Debt Burden: According to the Ministry of Finance, in 2019 Zambia's total debt was at USD17.4 billion, of which USD11.2 billion was external debt and USD6.2 was domestic debt. A study conducted by the World Bank showed that countries whose debt-to-GDP ratio exceeds 77% over extended periods of time will experience a reduction in economic growth. Above this ratio, a percentage point of additional debt will cost a country 1.7% of economic growth.

In 2019, Zambia's debt-to-GDP ratio was 75% while Sub-Saharan African countries averaged 56%. According to Moody's Agency, Zambia's debt-to-GDP ratio is expected to exceed 110% at the end of 2020. This is attributed to the rapid depreciation of the ZMW against the USD and the large budget deficit. We project the fiscal deficit to widen to close to 7.8% of GDP in 2020 from an estimated 4.8% of GDP in 2019. If Government revenues increase, however, that could narrow down to 6.6% of GDP in 2021. If government restructures its debt, does not exceed budgeted expenditure in 2021-24 and gets on an IMF program, the deficit can shrink further to 1.5% of GDP in 2024. Further, if copper prices continue on an upward trajectory and there is an improvement in capital inflows in the mining sector, tax collections and mineral reserves will increase hence reducing the fiscal deficit to 1.5% of GDP in 2024.

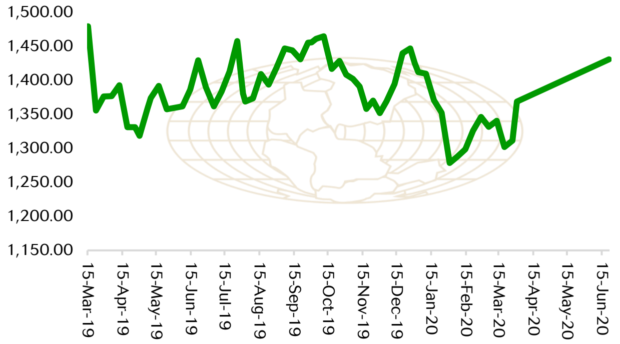
Debt To GDP Comparables (%)



Source: (IMF data base, Pangaea Research)

Foreign Reserves: According to the chart below, Zambia's foreign reserves increased from USD1.34 billion in May 2020 representing 1.4 months of import cover to USD1.43 billion in June 2020 representing 2.3 months of import cover. The increase in foreign reserves was due to mining tax receipts, mineral royalty tax payments and net foreign exchange purchases from the market. Reserves continue to be low due to Government's debt repayment costs, coupled with the impact of Covid-19. We are of the view that reserves will decline in H2 2020 due to disruption in the mining supply chain: the mining industry being Zambia's main foreign exchange earner.

International Reserves-H1 2020



Source: (Bank Of Zambia statistics, Pangaea Research)

Fiscal Deficit: The budget deficit is due to the adverse impact on Government revenue. Expenditure was ZMW17.2 billion as opposed to the budgeted amount of ZMW9.7 billion due to the Covid-19 pandemic. Health expenditure is expected to increase further as Covid-19 cases begin to spike, putting pressure on the Government to hire new medical health professionals and strengthen the healthcare system. Government revenue has also contracted due to a tumbling in mining revenues of over thirty percent according to an article by the Mining Chamber. Copper earnings which account for the largest portion of foreign reserves in the country have declined significantly. Other sectors of the economy have experienced a decline in production and revenue, hence driving down tax revenue for the Government.

Domestic Debt: Zambia's domestic arrears as of May 2020 were USD2.0 billion, which included VAT refunds, and goods and services delivered but not paid for. The Ministry of Finance initiated a Covid-19 bond in which they aimed to raise ZMW8.0 billion to dismantle domestic arrears. Only ZMW6.8 billion was raised implying 85% of the targeted amount. According to the Minister of Finance, domestic debt is projected to have to increased to ZMW 100-110 billon in August 2020.

External Debt: External debt, which accounted for 69% of total debt, increased from USD10.23 billion in June 2019 to USD11.2 billion in February 2020. The portion of debt was owed to the Chinese as the largest creditor group , followed by the Eurobond holders as the second largest group .

Zambia has USD3.0 billion Eurobonds outstanding, trading at distressed levels with yields due in 2020 rising to above 50 percent on the United States Dollar as reported by Bloomberg in March 2020. Yields have spread by over 500 basis points due to fiscal vulnerabilities and default risk pressures. According to market expectations investors will lose almost 50% of the face value of their investments.

According to the Finance Minister, the country intends to restructure its external debt portfolio in order to lengthen its maturity and increase its capability to service debt. In May 2020, after a tender process to restore debt sustainability, a French Asset Management firm, Lazard Feres Gestion was contracted to restructure Zambia's

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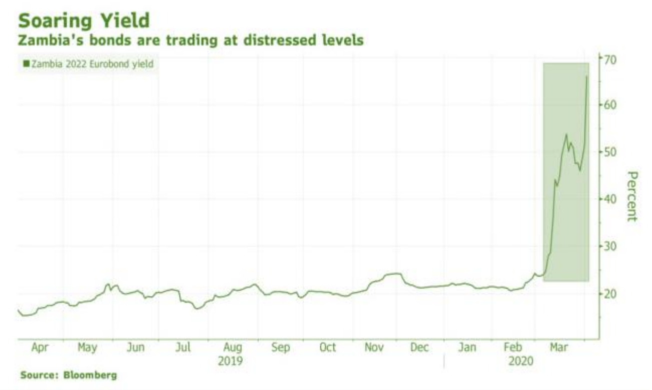
liabilities for an amount valued at USD5 million over a period of three (3) years.



Source: (Bloomberg, Pangaea Research)

Debt Management: With Lazard on board, we are of the view that this can improve the fiscal position of Zambia by: increased revenue collection, reduced debt service costs from the debt restructure program, and also it will facilitate an efficient way for the day-to-day expenses to be managed following a review of the Government's spending policy under the program.

Debt Relief: Zambia has also requested debt relief from China that it owes up to USD9.0 billion on project finance loans, some of which have not yet been disbursed. China is Zambia's largest creditor and a major source of debt for development and infrastructure. Prospective projects that require additional funding, such as the USD2.0 billion Kafue Hydro Power Plant that is expected to add 750 megawatts to the grid and increase power supply by 38% according to the Minister of Energy, have been put on hold. In a press statement, the Chinese government stated that it will consider postponing interest payments on Zambia's debt that was expected to mature at the end of 2020 and extend the debt repayment period in light of the effects caused by the Covid-19 pandemic.

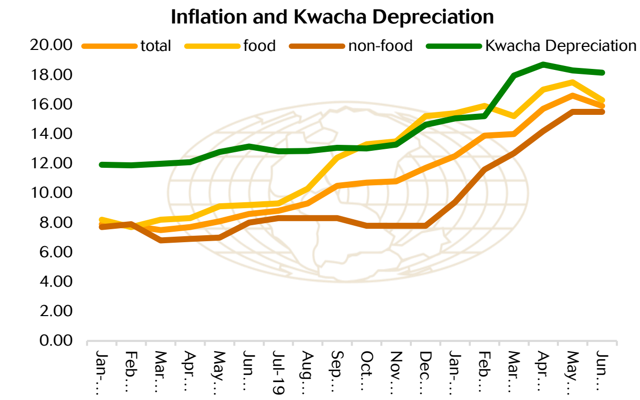
In 2005, Zambia was able to obtain 97% debt relief and cancellation under the Heavily Indebted Poor Countries Initiative (HIPC). We are of view that due to the composition of Zambia's debt which has shifted from multilaterals to more than 50% owed to commercial lenders and private investors for the development of public infrastructure, it is unlikely that such a facility can be provided to Zambia.

Zambia continues to negotiate with the IMF for a debt relief package. Support has been given to Zambia from the combination of G-20 debt moratoriums amounting to USD500-USD800 million, aid from Global and European Union partners amounting to USD 330million, donations from private donors of USD4 million, as well as current proceeds from Covid-bonds totalling USD290 mIllion. According to a press release by the Paris Club creditors, Zambia was provided a time-bound suspension of debt service due from 1st May – 31st December 2020.

Inflationary Pressures: According to the BOZ fortnightly statistics, annual inflation decreased to 15.9% in June 2020 from a high of 16.6% in May 2020 since September 2016. Inflationary pressures continue to persist due to the depreciation of the kwacha by 36% year on year pushing up the price of imported goods on which Zambia is heavily reliant. Furthermore, the effects of load shedding, increased costs of production as companies had to use alternative sources of energy such as diesel generators which in turn increased cost of sales, passing the high input costs to the consumer.

The BOZ stated in the August Monetary Policy Committee meeting that inflation is expected to steadily decline in H2 2020 due to an improvement in agriculture output following an improvement from the supply of food items from the 2019/2020 cropping season.

However ,as a result of slow economic growth, energy supply deficits and reduction in exports due to the pandemic , Pangaea expects inflation to remain above the upper bound target in H2 2020.



Source: (Bank Of Zambia Statistics, Pangaea Research)

The escalation of costs has remained a challenge in 2020 with manufacturing companies such as Zambia Sugar and Lafarge Cement reporting long hours of load shedding of up to 8 hours and recording high costs of sales for the half year ended 30 June 2020, i.e. 55% and 50% respectively.

We expect the inflation rate to continue to show an upward movement for the second half of the year, however if the easing of Covid-19 restrictions indicate improvements in the movement of supply of raw materials, we expect inflation to slow down and the Kwacha to be less volatile. We expect the inflation rate to show an upward movement, however, on the assumption that the Bank of Zambia implements an expansionary monetary policy, which will result in an increase in the money supply at the expense of deteriorating macroeconomic fundamentals which will place additional pressure on the prices of goods and services.

With the projected increase in the inflation rate coupled with a reduction in investment by foreign investors combined with the sovereign debt risk and the adverse impacts of Covid-19, we are of the view that the kwacha will continue to remain volatile against the US dollar.

Monetary Operations: In November 2019, the Bank of Zambia raised the policy rate from 10.25% to 11.5% due to escalating exchange rate and inflationary pressures. As of March 2020, the currency depreciated to ZMW15.00/USD1.00. Inflation rose to 11.7% at the end of 2019 exerting pressure on food prices and further decreasing consumer purchasing power.

In December 2019, the Central Bank raised the statutory reserve ratio to 9% from 5% and the duration of compliance on statutory reserve requirement reduced to daily from weekly. These measures further tightened liquidity in a financially stressed market. The average overnight lending rate rose to an average of 11.44% at the end of 2019 which remained in the policy rate corridor of 10.50% - 12.50%. The overnight lending rate increased significantly from 23% to 28% causing pressure on banks' lending rates and widened interest margins.

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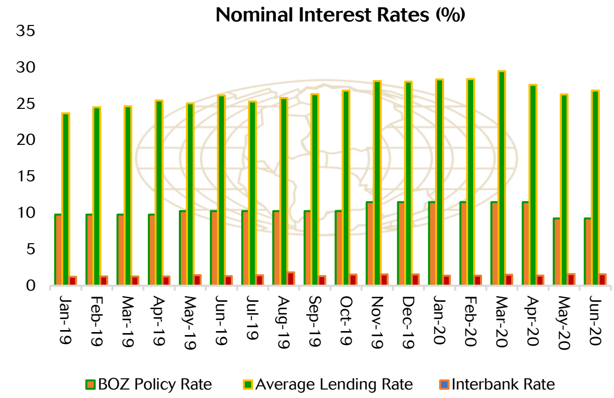
On 21st May 2020, the Central Bank cut the policy rate by 225 basis points to 9.25% in order to mitigate the effects of the Corona Virus Pandemic and support the other measures implemented by the Bank of Zambia to stabilize the financial sector. Average lending rates decreased slightly from 28% to 26%. The average overnight lending rate declined to an average of 10.98% in Q2 compared to an average of 11.9% at the end of 2019.

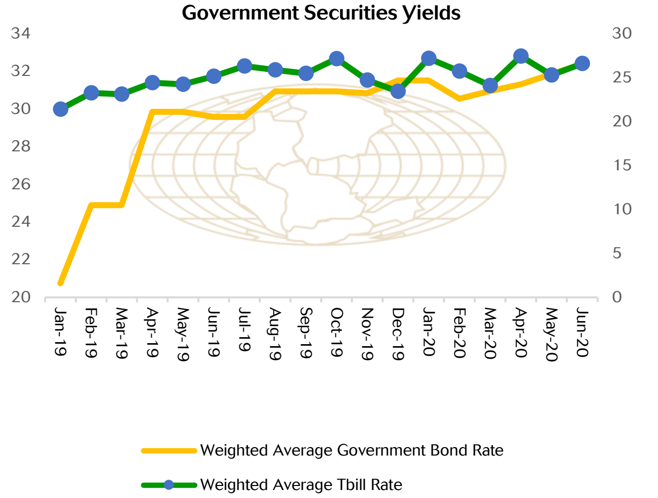
On 19th August 2020, the Central Bank lowered the policy rate further by 125 basis points to 8.0%. It is uncertain as to what extent the cut in the policy rate will curb the pressures faced in an environment struck by economic shocks that have disrupted productivity in the business environment. We expect interest rates to slightly decline further and the BOZ to further cut its rates given the rising inflationary pressures which are already above that 8% upper target range.



Source: (Bank of Zambia, Pangaea Research)

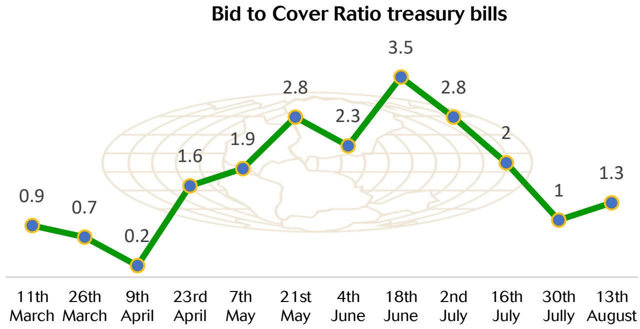
Average lending Interest rates continue to be elevated by over 20% due to Government's pressure to borrow to service its debt and finance outstanding arrears owed to suppliers and contractors hence crowding out the private sector and further tightening an illiquid environment. According to BOZ, in the August 2020 monetary policy statement ,growth in credit to the private sector declined to 10.4% in H1 2020 compared to 19.5% in H1 2019,however,credit to the Government increased to 46.9% in Q2 2020 compared to 28.6% in Q1 2020. We expect credit to the private sector to be further constrained by reduced appetite by banks to lend out money due to high default risk in a distressed economic environment.

On 14th July 2020, Finance Minister Bwalya Ngandu stated that ZMW 950 million had been paid to institutions to clear outstanding bills to suppliers of goods and services during the Covid-19 pandemic. The Government has been providing assistance in order to mitigate the economic and liquidity challenges faced by the Covid -19 pandemic such as the ZMW 2.5 billion in financial relief for businesses.



The hike in Government yields was due to the need to issue securities to service financing needs of the Government.

Appetite for shorter dated, higher yielding securities peaked in June 2020 , with government aiming to borrow ZMW 950 million on offer (at cost) ,receiving a total of ZMW 2.0 billion worth of bids (at cost) leading to a subscription rate of 212%. Demand began to plummet from the month of June as seen in the last treasury bill auction held on August 13th, 2020. The Government aimed to borrow ZMW 1.3 billion, total bids received amounted to ZMW 1.47 billion (at cost) leading to a subscription rate of 113% resulting in a bid-to-cover ratio of 1.3 compared to an all-time high of 3.5 in June 2020. It was noted that 50% was allocated to 1-year treasury bills.



In the last bond auction held on July 24, the Government aimed to borrow ZMW1.5 billion, and received total bids amounting to ZMW1.8 billion at face value resulting in a bid-to-cover ratio of 1.2 compared to 1.5 in June 2020. Investor appetite was not fully satisfied as only ZMW 1.08 billion was allocated at cost with 91% of this allocation accounted for by the 2-year, 3-year and 5-year bonds.

We are of view that the demand for treasury bills may continue to lag due to the increased sovereign credit risk exacerbated by the effects of the Covid-19 pandemic.

Copper Prices: Despite a drop in copper prices below USD5,000 per metric tonne in March 2020 for the first time since October 2016, copper rebounded to USD 5,653 per metric tonne compared to USD 5,127.35 per metric tonne in May 2020. This was a 12% price drop from the corresponding period in 2019. Copper exports increased by 11.6% from 73,717.3 metric tonnes in April 2020 to 82,287.5 metric tonnes in July 2020. Despite the increase in copper

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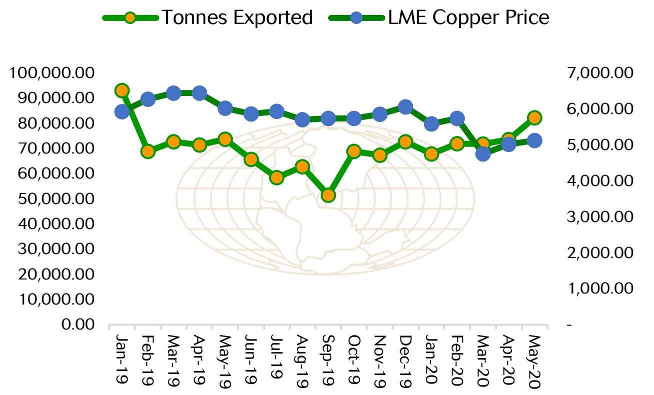
exports, lockdown restrictions globally have impacted the demand for exports pushing companies to decrease prices in order to earn revenues. Trade restrictions in China due to the closure of borders have impacted Zambia's total exports as China accounts for 21.9% of Zambia's export earnings.

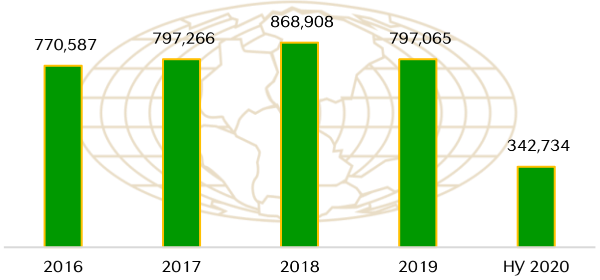
LME Copper Prices and Tonnes Exported



Copper saw an 8% decrease in production from 2018 to 2019 due to the introduction of new mining policies, instability in the mining sector affecting output, and power supply disruptions. Copper production increased by 4% for the H1 2020 compared to H1 2019. According to the Economist, the global demand for copper is projected to reach 7.0 million mt per annum by 2030 due in large part to growing demand for electric vehicles used in China.

According to The Economist, copper prices are expected to rise during the remaining half of 2020, however Zambian mining firms are faced with challenges: investors will hold on to funding due to the unpredictable change in the mining policy, a possible increase in the tax rate for mining minerals, and the fiscal image of Zambia. These headwinds make it challenging for mining firms in Zambia to raise the capital needed to meet their production targets.

Copper Production (Tonnes)



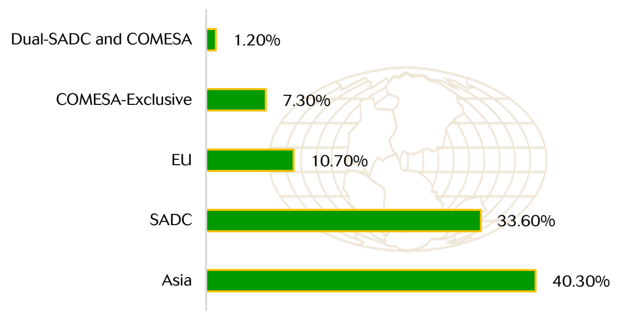
Source: (Zam Statistics, Pangaea Research)

Trade: Zambia recorded a trade surplus amounting to ZMW3,843.4million in May 2020 from ZMW2,231.6 million recorded in April 2020, indicating a 72.2 percent increase. The trade surplus was due to exports exceeding imports driven by lock- down pressures and global trade restrictions. According to BOZ statistics, the import bill declined by 25% as of March 2020 compared to the same period in 2019. The import bill is expected to decline further in the second half of the year due to a collapse in oil prices and supply disruptions that will continue to affect inbound trade, but will be cushioned by ongoing public capital imports. South Africa and China were Zambia's main sources of imported products in June 2020 and continue to be impacted by the Covid-19 pandemic indicating slow recovery in both economies.

The current account stood at USD122 million at end-March 2020. The current account is expected to move into deficit during the balance of 2020 as exports fall owing to trade disruptions and volatile copper prices. We expect the deficit to narrow in 2021 and 2022 and the account to move into surplus as copper prices continue on an upward trajectory and demand recovery from China is achieved.

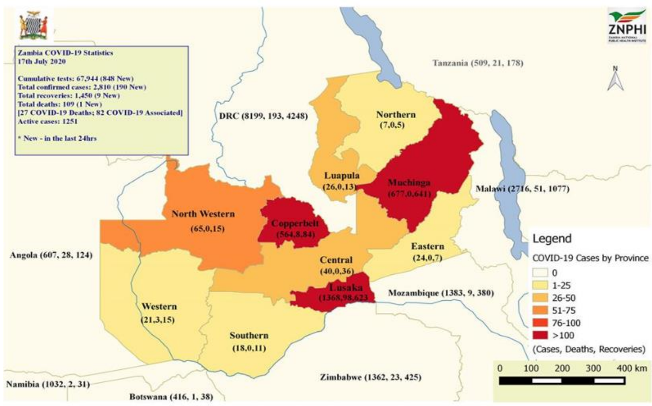
We expect the services deficit as a share of GDP to increase in 2020 as the tourism sector collapses due to travel restrictions imposed while service imports such as spending on foreign contractors remain high due to the need to complete infrastructure projects. In 2021-24 we expect contract tourism to recover while the Government's need for foreign contractors will decline, hence decreasing the services deficit.

Import Market Share



Source: (Zam Statistcs Pangaea Research)

Corona Virus (COVID 19) Update: Zambia recorded its first two Covid-19 cases on, March 18th. As of 15th August 2020, there have been 9186 cumulative cases, 8065 recoveries and 182 deaths. As of 15th August, the total number of tests conducted were recorded at 51,626. This was recorded as one of the lowest number of tests conducted in the region. As an example, South Africa had conducted 1.3 million tests through 29th July with over 100,000 cases recorded.



Source: (Ministry Of Health, Pangaea Research)

The easing of the lockdown imposed by President Edgar Lungu on 8th May 2020 has resulted in the number of cases beginning to spike with cases being recorded in Parliament and other institutions.

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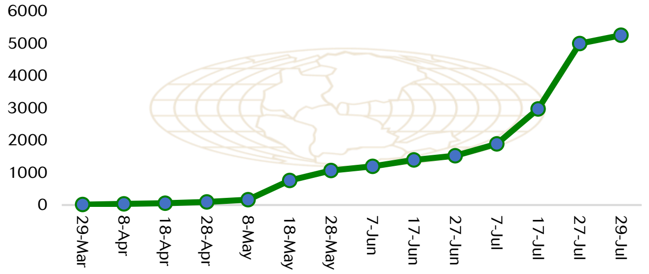
it is noted that the higher the number of tests taken the higher the number of positive cases recorded. Currently, the positive cases recorded are approximately 30% of the tests undertaken. Recently, Zambia was added to the high risk Covid-19 group by the Centre for Disease Control (CDC). Due to limited equipment for testing, this may have a significant impact on the actual numbers. Despite the surging increase in numbers, Cabinet agreed that the country will not undergo another lockdown, but the country will continue to be compliant with health regulations imposed by the Ministry of Health. It is expected that Zambia will continue to increase the number of cases until a solution is found to contain the Corona virus . Health guidelines will continue to be followed while avoiding a nationwide lockdown that could further exacerbate Zambia's already distressed economy.

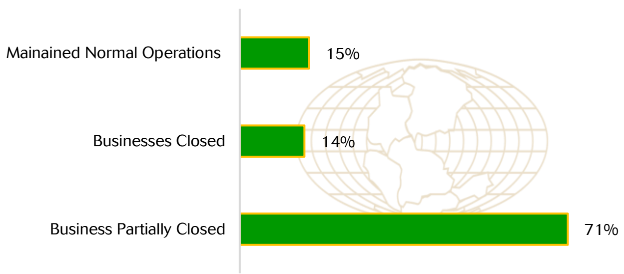
Covid Confirmed Cases



Source: (Ministry of Health, Pangaea Research)

According to a business survey report undertaken by the Zambian Government in conjunction with the United Nations Development Programme (UNDP) to determine the impact of Covid-19 on Zambian businesses it was identified that the impact of supply chain disruptions, weakening of consumer demand, and the shrinking of the global economy negatively impacted the operations of businesses. It was reported that 71% of businesses partially closed and adopted measures to work from home, while 14% of businesses closed due to constrained cash flows and a significant decrease in revenue. It was also noted that 60% of businesses in the human health and social work sector maintained normal operations while 65% of businesses in the education sector shut down completely as a result of the pandemic and measures taken by the Government.

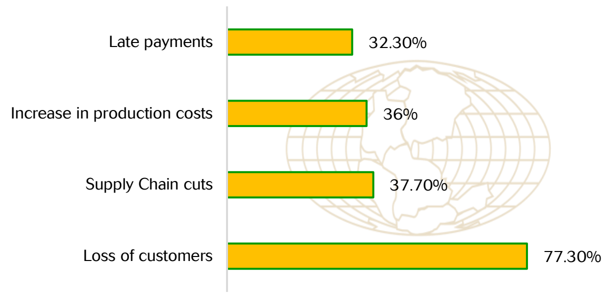
Business Operations



Source: (UNDP Business Survey, Pangaea Research)

Although 15% maintained normal operations and sectors such as tourism commenced operations, the surge in cases had an impact on consumer confidence resulting in lower demand generally for products and services, hence impacting revenues. It was also noted that 77.3% of businesses recorded a loss of revenue and suffered from a significant increase in material costs due to supply chain cuts.

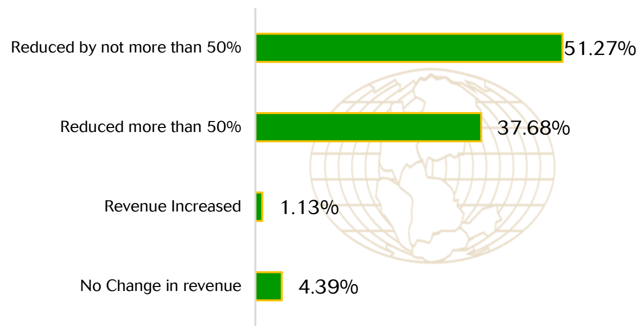
Challenges affecting Businesses



Source: (UNDP Business Survey, Pangaea Research)

The survey indicated that 38% of businesses had revenue reduction by more than 50%. This has led to businesses recording a reduction in employees due to constrained cash flows to pay salaries. This has caused a reduction in income for individuals and households which in turn have an impact on stability of the financial services sector through Non-Performing Loans (NPLs). In the period under review, it was found that companies that experienced more than 90% revenue decrease were in the tourism, construction, hospitality, and education sectors. This was due to the measures undertaken to contain the impact of Covid-19 that resulted in the closure of some restaurants, bars, schools, airports and restricted the movements of passenger and public transport. Companies that had revenue increments of more than 50% where found to be in the agriculture, energy, and wholesale and retail sectors. This was due to the increased demand for agriculture products and food items in the retail space. Companies that had revenue increases between 0-15% were identified in the financial services and insurance sectors. This may be due to the liquidity injected through BOZ interventions to cushion the effects of the pandemic and the increased demand for services such as health insurance.

Impact on Revenue (%)



Source: (UNDP Business Survey, Pangaea Research)

Measures Implemented

Bank Of Zambia Intervention Measures: In April 2020, the Central Bank established a Targeted Medium-Term Refinancing with an initial amount of ZMW10 billion to provide medium term liquidity. The stimulus package is a five-year tenor facility for priority sectors identified in the 7th National Development Plan namely agriculture, manufacturing, tourism, and energy. It is possible also to provide funding to other sectors with tenors of no more than 3 years. The facility is available to eligible Financial Service Providers (FSPs) to enable them to restructure, refinance or extend credit to businesses and individuals impacted by Covid-19 on more favorable terms. The average lending rate stood at 25.94% on 26th June 2020.

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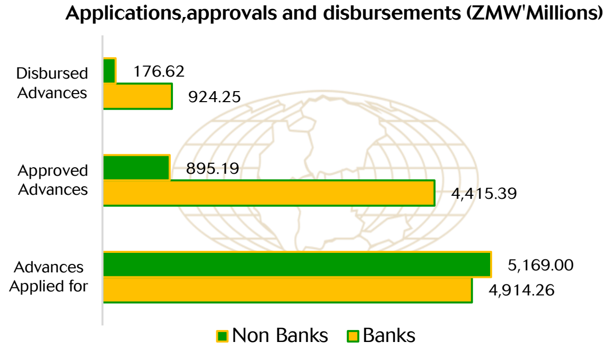
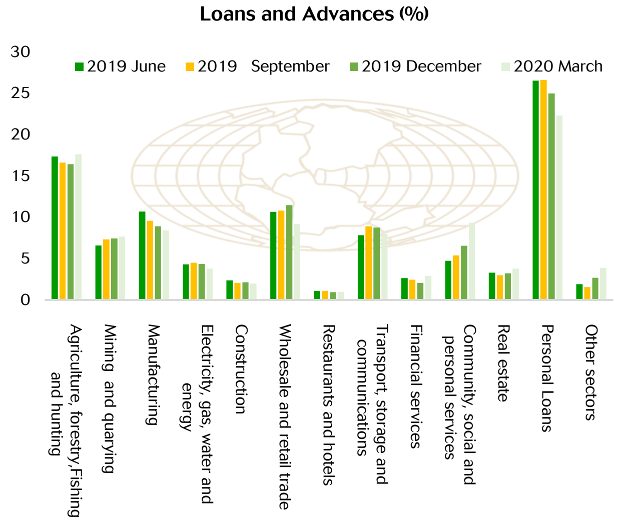


Source: (BOZ, Pangaea Research)

The facility is targeted to encourage banks to increase lending despite the default risks due to the pandemic. Historically banks have restructured their portfolios and reduced lending to Small and Medium Enterprises (SMEs) due to increased NPLs in the segment. SMEs had an average NPL ratio of 16.9% at the end of Q1 which is higher than the industry average of 9.1%. Currently, the highest percentage of loans and advances are in the personal loans for individuals and households at 22.31% of the total. This is due to the increased borrowing of civil servants from financial institutions and the most likely group in need of financing.



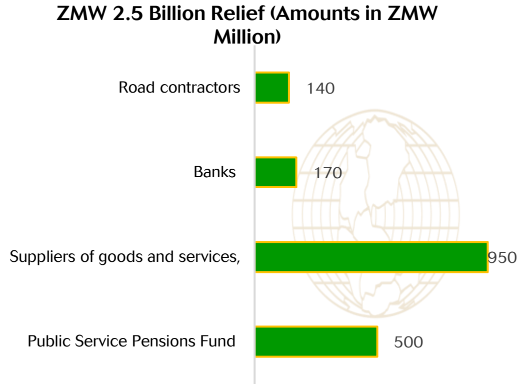
Source: BOZ, Pangaea Research)

National Savings and Credit Bank Recapitalization: According to the Minister of Finance, ZMW900 million was released to NATSAVE in order for it to meet the capital adequacy requirement set by BOZ enabling it to access the ZMW medium term facility. This will boost the bank's ability to provide affordable financing to SMEs and households.

Digital and Mobile Money Interventions: The Bank of Zambia has revised the transfer and balance limits on electronic banking in order to encourage cashless transactions in the wake of the coronavirus pandemic. The regulator has provided guidance that merchant transactions should not exceed 2% of each transaction in order to make the use of electronic swiping cheaper. The pandemic has resulted in the increased use of mobile money transactions which have significantly grown from 3 billion Kwacha in 2015 to 20 billion in 2019. This has been one of the fastest growing segments and is expected to grow significantly as Financial Service Providers continue to increase their agency banking outlets.

Issuance Of Covid -19 Bond: The Bond is targeted to raise up to ZMW8 billion in tranches from the banking sector and pension funds. The Government raised a total of ZMW6.8 billion which were targeted to finance domestic expenditures as well as uplift the economy. Currently yields on Government 10-year bonds are at 33% which have been the highest recorded in the past 5 years.

Domestic Arrears: The Government of Zambia released ZMW2.5 billon which is aimed at reducing domestic arears owed to local suppliers of goods and services; reducing outstanding arrears to pensioners under the Public Service Pension Fund (PSPF); clearing amounts owed to local road contractors; and enabling banks to clear outstanding third party arrears.



Source: (BOZ, Pangaea Research)

Agriculture Social Sector Benefit Programmes: The Treasury released ZMW318.5 million in order to support construction of on-going maize grain storage facilities and support vulnerable farmers through the Farmer Input Support programme. The interventions are expected to empower the rural population and establish sustainable livelihoods for the poor.

Suspension of Customs Duties and VAT: To assist companies to manage their cash flows the Government of Zambia provided relief for the importation of spare parts, lubricants and stationary that were exempted for claiming of Value Added Tax (VAT) under the provisions of Statutory Instrument 90. Government removed this statute in order to ease liquidity for suppliers of these imported goods.

Government further suspended import duty on mineral concentrates and export duty on copper concentrates. This was intended to ease pressure on the mining sector which currently accounts for 12% of GDP.

Government provided tax relief for businesses producing sanitizers by suspending excise duty on imported alcohol-based sanitizers. The Government extended the list of medical supplies that are not subject to Import Duty and Value Added Tax for an initial period of 6 months.

Waiver of Tax Penalties and Interest: In order to ease pressure on companies, Government decided to waive tax penalties and interest on outstanding tax liabilities resulting from the impact of Covid-19. On April 27th, the Zambia Revenue Authority issued guidelines on its website based on the criteria of who qualifies, the period of relief, and other related details.

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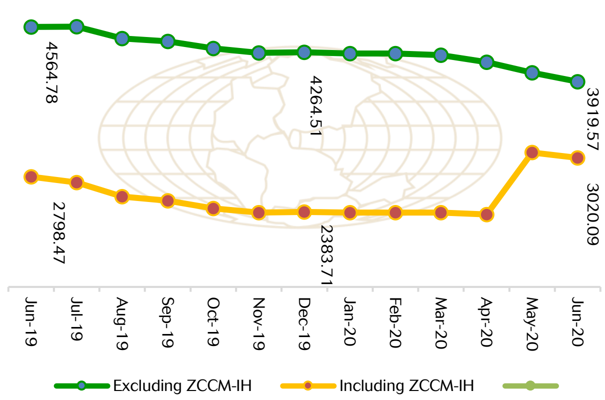
Local Market

Illiquid Market: Illiquidity was the theme of the market in H1 2020. The equity market was bearish at the end of 2019 and continued the trend in the H1 2020. The LuSE Share Index was down by 14% compared to the previous quarter representing a decline in the performance of top stocks deterring investors from the equities market. The macro-economic fundamentals have also attributed to a lack of investor confidence in the market.

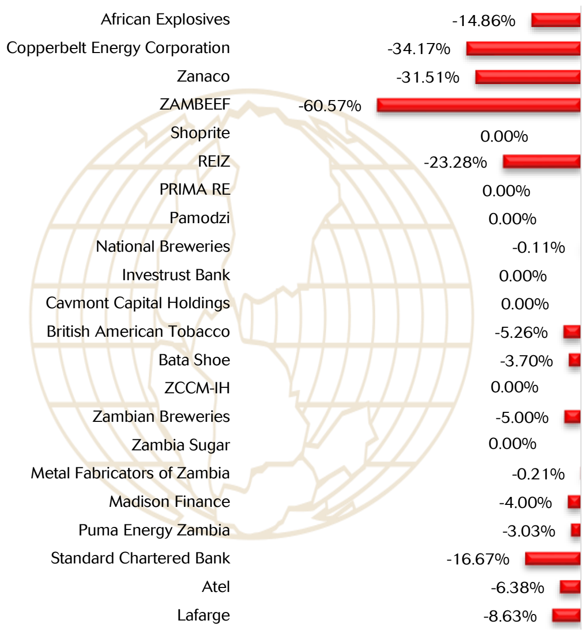
LuSE All Share Index



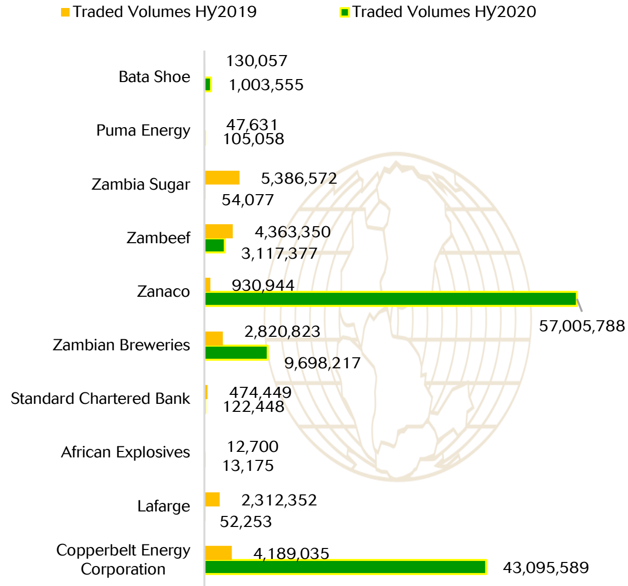
Source: (LuSE Data, Pangaea Research)

The were no growth stocks in H1 2020. The largest decline in share price was recorded by Zambeef which declined by -60.67% followed by CEC which declined by -34.67%.

Price Change June 2019 to June 2020



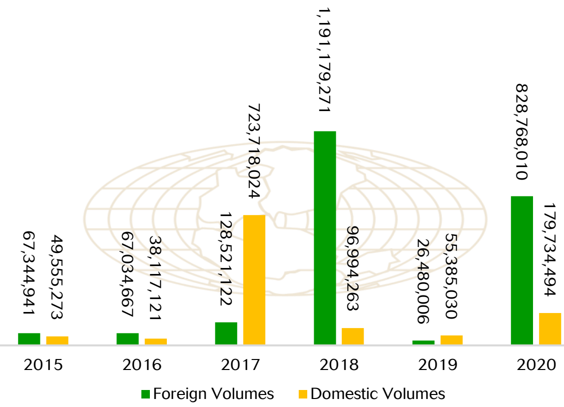
Traded Volumes



Source: (LuSE Data, Pangaea Research)

Despite low liquidity in the market, trading increased significantly in Zanaco, CEC and Zambian Breweries as foreign investors looked to exit the LuSE due to their portfolios being impacted by the depreciation of the Kwacha. Activity was noted as significant volumes were sold by international investors compared to local institutions.

Foreign and Domestic Volumes



Source: (LuSE Data, Pangaea Research)

Due to a lack of trades and the declining share prices the LuSE market capitalization consequently dropped by 3% in Zambian Kwacha terms. The drop in dollar terms was 31%. The depreciating kwacha significantly impacted the financial impact on the Exchange. 2019 proved to be worse compared to 2016, when Zambia experienced various adverse effects on the economy, such as a 70% devaluation of the Kwacha, power shortages, drought, and a national election. 2020 is expected to experience a recession according to the IMF with GDP growth forecasted to be -5.0%.

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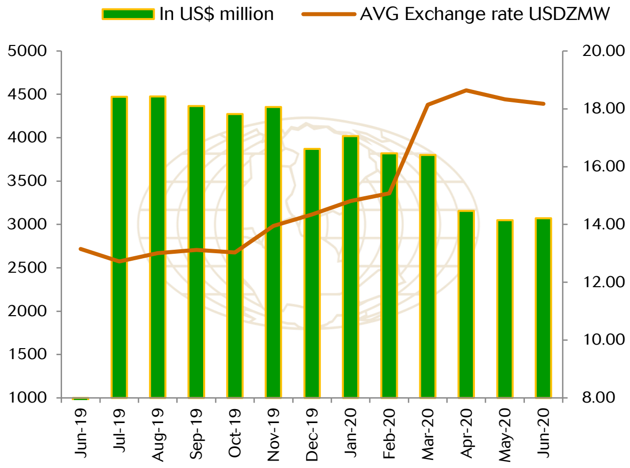
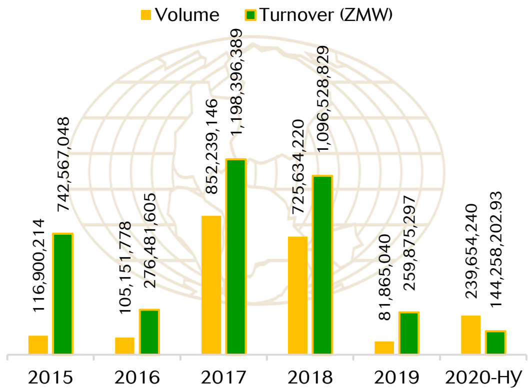
Market Capitalization In USD'Million



Source: (LuSE Data, Pangaea Research)

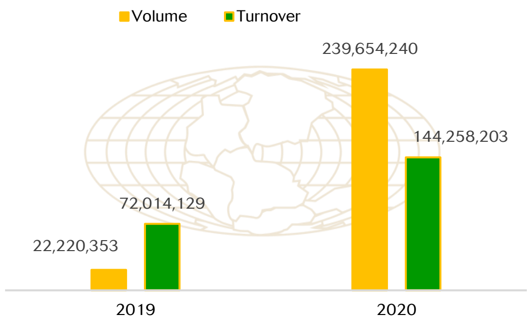
LuSE Liquidity



Source: (LuSE Data, Pangaea Research)

Due to the large volumes of sales by foreign investors, turnover for the first half of the year increased by 100% compared to the trading levels for same period in 2019. We expect this trend to continue in the second half of the year as foreign investors continue to exit the Zambian market due to the poor liquidity level and expectations of the currency to weaken further.

Revenue and Trading Volumes

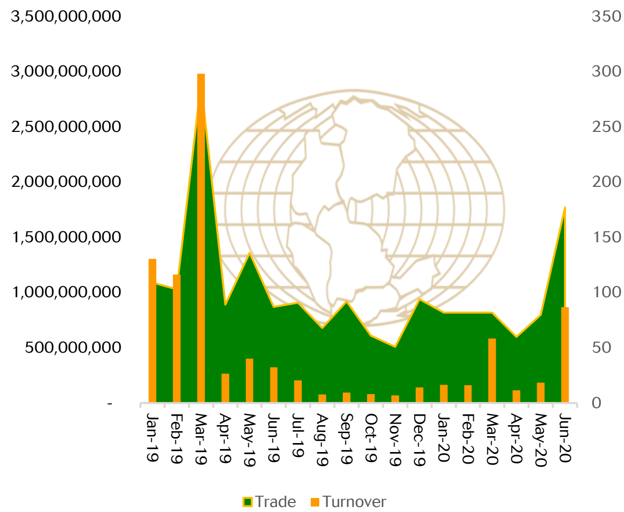


Source: (LuSE Data, Pangaea Research)

CEC Africa (CECA) Trades: In June 2020, the LuSE recorded trading volumes and turnover of 938,938,466 shares and ZMW 170,110,305, respectively, of which 68% of volumes and 95% of turnover where attributed to the sale of CECA's shares. On 12 June 2020, the LuSE announced that CEC Zambia approved the sale of the CECA loan to BP Investment Limited (BPI) of Nigeria. Furthermore, BPI agreed to acquire the CEC USD46 million loan to CECA for a total sum of USD6 million as it was a non-performing loan.

Government Securities: Demand for Government securities improved in the first half of 2020. Subscription rates increased to over 100% for Treasury Bills and this led to a favorable performance by local banks in the country. Due to economic uncertainties caused by the pandemic, investors have fled away from equities and found short term fixed income securities as an attractive option. Due to the heightened sovereign credit risk that was rated by S&P ratings agency to 'CCC' from 'CCC+' with a warning that the country is vulnerable to default on commercial obligations, foreign investors have been shying away from the long term bond market.

GRZ Bond Activity On LuSE



Source: (LuSE Data, Pangaea Research)

Brokerage: The first half year 2020 was a challenging period for brokerage firms as Covid-19 led to the various firms deciding to operate from home.

The tables below summarise how the various firms have ranked during the first half of 2020:

RANK	BROKER	CLIENTS	MARKET SHARE
6	Autus Securities	127	0.4%
5	Equity capital Resources Plc	281	0.9%
3	Intermarket Securities	6,488	19.7%
4	Madison Assets	4,048	12.3%
2	Pangaea Securities	8,084	24.6%
1	**Stockbrokers (Z)**	**13,834**	**42.1%**
	Total	32,862	100.0%

RANK	BROKER	No. of TRADES	MARKET SHARE
4	Autus Securities	63	3.8%

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5	Equity capital Resources Plc	9	0.5%
6	Intermarket Securities	-	0.0%
3	Madison Assets	259	15.5%
2	Pangaea Securities	378	22.6%
1	**Stockbrokers (Z)**	**966**	**57.7%**
	Total	1,675	100.0%

RANK	BROKER	VOLUME	MARKET SHARE
3	Autus Securities	30,862,369	12.9%
5	Equity capital Resources Plc	6,288	0.0%
6	Intermarket Securities	-	0.0%
4	Madison Assets	801,490	0.3%
1	**Pangaea Securities**	**173,030,030**	**72.2%**
2	Stockbrokers (Z)	34,954,064	14.6%
	Total	239,654,241	100.0%

RANK	BROKER	TURNOVER	MARKET SHARE
3	Autus Securities	18,654,125	20.6%
6	Equity capital Resources Plc	7,719	0.0%
5	Intermarket Securities	-	0.0%
4	Madison Assets	278,581	0.3%
1	**Pangaea Securities**	**41,600,090**	**46.0%**
2	Stockbrokers (Z) Ltd	29,855,283	33.0%
	Total	90,395,798	100.0%

Despite the hurdles and low liquidity in the market, Pangaea Securities ranked 1st place in trading volumes of 173,030,030 compared to trading volumes of 7,033,723 in the previous year. Pangaea also outperformed the market in terms of turnover attributed to the market. Turnover increased significantly during H1 2020 by 100% compared to the H1 2019. In the quest to promote the Zambian capital market, Pangaea this year will be introducing a primary and secondary trading application which will allow for clients to communicate to our brokers instructions to either buy or sell shares as well as allow future IPO transactions to be performed. This will definitely result in a better market participation rate. Given the tight liquidity challenges that are being faced in the Zambian capital market, investors must trade with caution as it is taking long for transactions to be completed.

Equity Overview H1 2020: During H1 2020 the LuSE had a new entrant on the market. Zambia Forestry and Forest Industries Corporation Plc (ZAFFICO) was listed on the LuSE on 12th February 2020 raising approximately ZMW300 million through the IPO. The IPO was led by Pangaea Securities as the lead manager and sponsoring broker.

Listed companies across all sectors on the LuSE continued to be impacted by the economic headwinds faced in the country aggravated by the Covid-19 pandemic. Load shedding continued to persist during H1 2020 which adversely impacted the overall performance of companies due to an increase in costs of running diesel back-up generators. It is expected that load shedding will improve in H2 2020 due to increased water levels recorded in the Kariba Dam and the completion of the Kafue Gorge Lower Dam, which is expected to commence operations in December 2020. The Kariba Dam reached a peak of 481.30 meters on the 30th of June which indicates an upward review according to the Zambia River Authority.

Depreciation of the Kwacha has continued to have an impact on borrowing rates and impacting interest rates due on debt owed by companies. Pangaea expects that the economic sectors will continue to be negatively impacted by the adverse effects caused by the Covid-19 pandemic.

Agriculture Sector

The agriculture sector contracted in 2019 by 7.3% following one of the worst droughts in the 2018-2019 agricultural season. Precipitation between November 2019 and April 2020 was favorable for normal growth. Maize yields are reflecting increased levels and production is expected to be over 3 million tonnes in 2020 which is above average levels. Despite the increases in maize production in 2020, the sharp depreciation of the country's currency and higher energy prices that increase production costs for millers coupled with the adverse impact of the COVID-19 pandemic on supply chains could still result in localized price hikes.

In June 2020, agriculture products accounted for a 34.6% share of Zambia's Non-Traditional Exports (NTEs) which was a 12% increase from the previous month. According to Zam-Statistics, agricultural products' export earnings increased by 68.8 percent from ZMW515.7million in May 2020 to ZMW870.6 million in June 2020 indicating an increase in demand for agriculture from the export market. Raw sugar cane accounted for 21.8%, tobacco, not stemmed/stripped 17.1% and groats and meal of maize corn 6.0%.

Due to the Covid-19 pandemic and the spike in cases worldwide imposing travel restrictions, we anticipate a reduction in the ability of farmers to access markets and sell their produce, with a reduction of their incomes and an adverse effect on local market supplies.

Zambia Sugar

Financial Highlights: Zambia Sugar recorded a net profit of ZMW32 million for the half year ended February 2020. Despite a 14% increase in revenue from the previous six-month period in 2019 and a 23% increase in operating profit, net profit decreased by 11% due to an increase in finance costs, from ZMW140 million from the previous six month period to ZMW163 million. The change in finance costs was mainly due to an increase in interest rates of long-term loans due to the depreciation of the Kwacha to the Dollar.

Operational Performance: High costs of production continue to remain a challenge for the company due to an increase in the cost of energy (i.e., electricity tariffs and fuel), coupled with an increase in the inflation rate. Significant hours of load shedding of up to eight hours per day impacted the full functioning of the production facilities hence adversely affecting the irrigation of crops to their full capacity. The Company did implement a number of strategies to improve efficiencies in agricultural and factory performance that has resulted in increased productivity and cost control.

Strategy and Outlook: Due to macroeconomic headwinds in the Zambian economy coupled with the impact of COVID-19, the company estimates a marginal decline in sugar production by 2% for the period April 2020 - March 2021. Domestic sales are expected to maintain the same level or decline slightly in the second half of the remaining year. The business expects a further depreciation of the Kwacha against the US dollar which will adversely impact its costs of production causing pressure on its operating profit. Export sales accounted for 56% of sugar sales for the financial year ended August

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2019 and we expect the disruption of logistical movements to have an impact on sales in the medium term.

Zambeef

Financial Highlights: Zambeef recorded net profit of ZMW2 million million for the half year ended March 2020 compared to a loss of ZMW32 million over the same period last year. Profitability was mainly driven by increased sales volumes in the cropping and stock feed divisions coupled with pricing and cost optimisation initiatives undertaken by management across the divisions. The wheat and maize milling division had an exceptional performance, recording operating profit growth of 57% in Kwacha terms (40% in Dollar terms), due to the increases in the flour price and the volumes of maize milled. Overheads were also well managed, helped by a reduction in repair and maintenance costs.

Operational Performance: The challenges faced due to load shedding and high inflation significantly increased operational costs which, in turn, squeezed margins as some divisions were unable to pass through the increases to the consumer.

Strategy and Outlook: Despite the challenging economic environment and the adverse effects caused by the onset of the COVID-19 pandemic, consumer demand for Zambeef's products remain favorable. The macro-economic climate is expected to remain challenging for the rest of Zambeef's financial year, characterized by a volatile Kwacha, continued electricity supply constraints and the negative impacts of the COVID-19 pandemic. Despite this, the Group still expects to report full year results for the year ending 30 September 2020 in line with current market expectations.

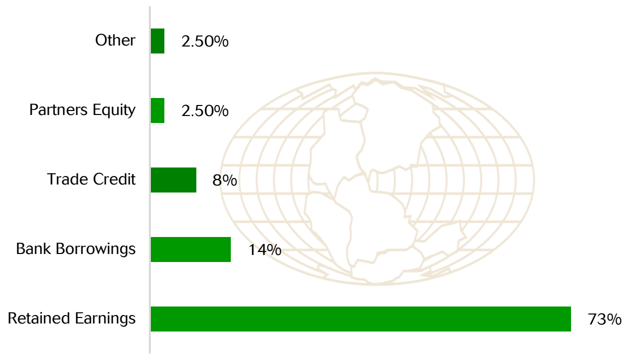
Financial Services Sector

According to the Bank of Zambia 2019 Annual Report growth in Financial Services was recorded at 7% at the year ended 2019. The banking sector continues to face increased risks due to a challenging economic environment, plagued with a decline in economic activity, volatile lending rates, increased inflation, and a weak currency. On 21st May 2020, the BOZ cut the policy rate by 225 basis points to 9.25% in order to mitigate the effects of the Covid-19 pandemic and support the other measures implemented by the Bank of Zambia to stabilize the financial sector.

Commercial lending rates decreased slightly from 28% in December 2019 to 25.9% on 26th June 2020. It is uncertain as to what extent the cut in the policy rate will curb the pressures faced in an environment struck by economic shocks that have disrupted productivity in the business environment.

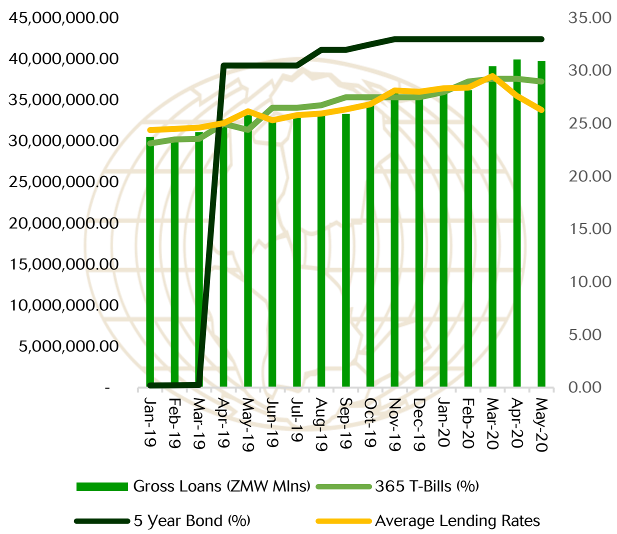
The banking sector faces constrained liquidity in a tight financial market. This has inhibited access to finance for private sector development and growth. A quarterly survey undertaken by Bank of Zambia indicates that businesses in the private sector source their working capital primarily from retained earnings.

Source of Working Capital



Source: (BOZ, Pangaea Research)

Loans and advances grew by 30% from June 2019 to June 2020. This is due to the increased disbursement of loans to the Government and large corporates. Increased yields on Government securities have deterred investors from the equities market as returns on capital gains from equities have tumbled and the returns on short term Government securities have become more attractive.



Source: (BOZ, Pangaea Research)

The asset structure of the banking sector has continued to be reliant on loans and advances, and Government securities. Due to the hike in Government yields and the growth in loans and advances, Government securities' contribution towards interest income has increased from 19.1% in 2014 to 27.8% in 2018. Whereas the contribution of loans and advances toward Government securities interest income has decreased from 43.9% in 2014 to 37.9% in 2019.

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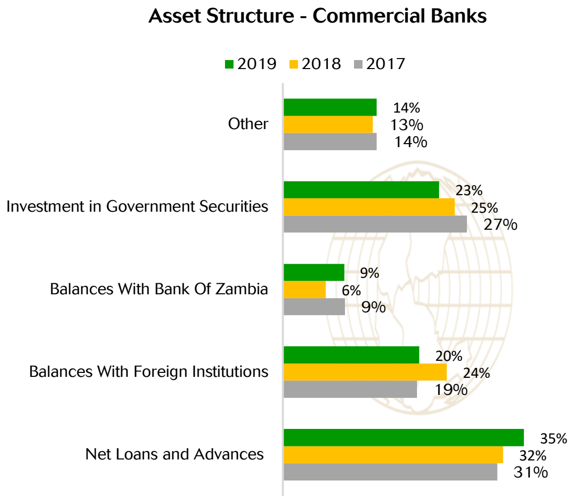
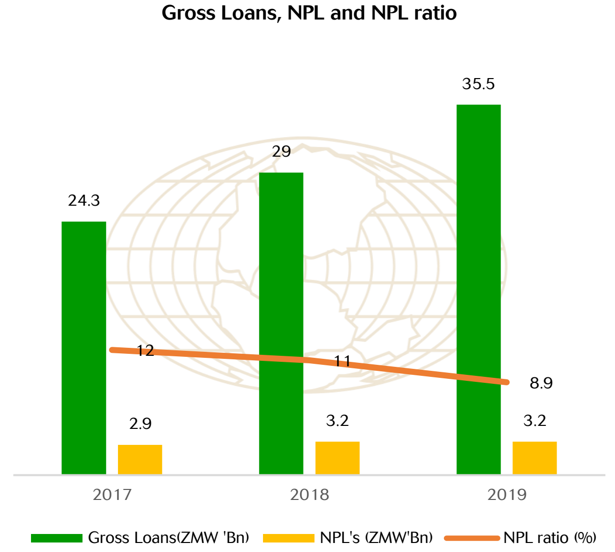
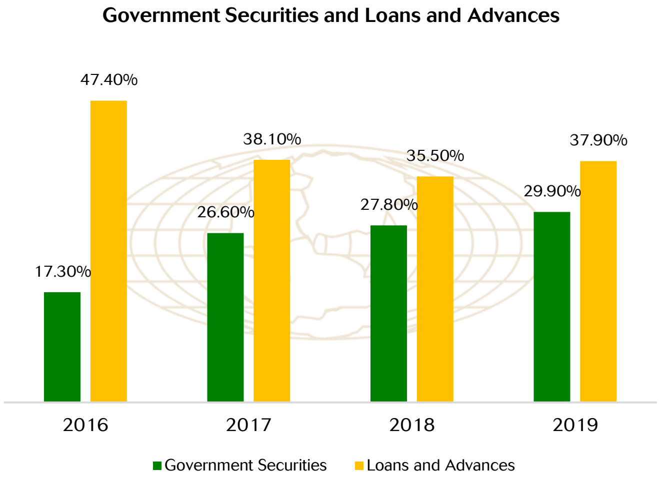


Source: (BOZ, Pangaea Research)



Source: (BOZ, Pangaea Research)



Source: (BOZ, Pangaea Research)

The direct impact on the financial sector due to a decline in economic activity caused by the Covid-19 pandemic is the increase in the default risk of Non - Performing Loans which has had a major impact on provisioning thereby affecting the profitability of Banks in H1 2020. Other than the ZMW10 billion stimulus package that provided a boost in liquidity, the Central Bank has established measures that will extend the period of classification of Non-Performing Loans which is currently ninety days. This will create more flexibility in lending giving creditors adequate time to generate a return in the challenging operating environment and pay back their debts. Historically, NPL's have shown a declining trend due to restructuring of loan books in the financial sector and reduced agriculture lending that represented the highest source of impairment losses. This has improved the banking sector's asset quality.According to the Minister of Finance, the NPL ratio stood at 12.50% in August 2020 which was a 4% increase from the previous year end. Pangaea expects that significant impairments will be recorded at the year ended 2020 due to an increase in NPL's caused by the adverse effects of the Covid-19 pandemic.

Zanaco

Financial Highlights: Zanaco recorded profit after tax of ZMW98.3 million which was an 82.6% increase from the previous H1 2019. Impairment during the H1 2020 was conservative at ZMW35.3 million. Zanaco's total income grew by 36.1% yoy to ZMW950 million. Interest income grew by 30.1% to ZMW848.8 Million compared to the previous H1 2020. Interest Income grew by 32.7% to ZMW493.5 million caused by an increase in margins due to the cutting of the MPR by the Central Bank by 225 points in May 2020. Interest Income from treasury bills increased by 29% to ZMW135.8 million due to increased yields in Government securities. Zanaco continued to realise increased trading income which increased by 320% to ZMW196 million compared to the H1 2019. Fees and commissions increased by 16.1% to ZMW240.1 million compared to the previous year end despite flat growth in Q2. Fees and commission growth continue to be impacted by statutory constraints imposed by the Bank of Zambia.

Operational Highlights: Interest expense increased to ZMW307.3 million which was 14.7% higher than Q1 indicating higher cost of funding due to the depreciation of the kwacha to the dollar. Operating expenses increased to ZMW791.5 million pushing the cost to income ratio to 80%. The bank aims to continue to diversify its revenue streams and transform its operating model into a more efficient one.

Strategy and Outlook: The Bank aims to continue to be market leader in Non -Interest Income (NOII) and aims to continue to diversify its revenue streams and transform its operating model into a more efficient one. The Bank has continued to enhance its trading capabilities which have been a main driver of NOII. We expect the bank's strategy to rationalize costs to take effect in 2021. It is expected that increased operational costs will be incurred in 2020 as the bank changes its operating model to a more efficient one.

Standard Chartered

Financial Highlights: Standard Chartered Bank Zambia Plc reported a loss after tax of ZMW222.5 million during the H1 2020 from a Profit After Tax of ZMW123.0 million in the previous H1 2019 due to sovereign risk related impairments that decreased from ZMW303 million in the H1 2019 to ZMW148.5 million for the H1 2020. This has been the lowest earnings after tax the Bank has recorded in the last 5 years. Non-Interest Income decreased by 27.9% to ZMW132.1

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million due to a decline in fees and commission income by 30.2% and a drop in trading income by 11%.

Interest Income increased by 28.2% to ZMW656.9 million for the H12020 due to a 56.5% increase in income from government securities and a 7.5% increase from loans and advances.

Operational Highlights: Operating expenses increased by 87.3% during H1 2020 from the previous H1 2019 to K633.3mln while interest expense increased by 28.7% to ZMW199.4 million due to a higher cost of borrowing. Cost to income ratio increased significantly to 107%. The Bank is currently in the process of leveraging on digitisation and downsizing into a leaner model.

Strategy and Outlook:In the beginning of the year the Bank closed four (4) branches and merged branches together as part of its restructuring process. We expect that operating costs will continue to increase during the rationalisation process. Further significant impairments will drastically erode the bottom line in 2020.

Cavmont Bank

Financial Highlights: Cavmont Bank Limited (Cavmont) posted a Loss After Tax of ZMW5.5 million in Q1 2020 which decreased by 587.5% from Q4 2019. The Bank has been in the process of restructuring its loan book and enhancing its risk protocols. This resulted in a reduction in impairments which was approximately 0.3% of loans and advanced in Q1 2020. We expect the impact of the Covid-19 pandemic to significantly impact provisioning in the second half of the year. Interest income from loans and advances and Government securities grew by 5.21% and 7.83% respectively from the previous quarter.

Non-Interest Income grew significantly by 153.67% from Q4 2019 to close at ZMW12,850,000. The key drivers of growth of NOII were gains in fees and commission income, and trading income.

Operational Highlights: Operating expenses reduced by 7.07% in Q4 2019 and have been decreasing from Q2 2019. The Bank recorded a Capital Adequacy Ratio (CAR) of 10.62% in Q1 2020 which was the lowest CAR in the market. This was impacted by the Bank of Zambia increasing the statutory reserve ratio from 5% to 9%. This increment adversely impacted the Bank's CAR from 15% in Q1 2019 to 11% in Q4 2019. Q1 2020 CAR showed a further decline in the Bank's position that is only marginally above the statutory minimum of 10%.

Strategy and Outlook: According to an announcement published on the LuSE, shareholders are advised that Cavmont Capital Holdings Zambia PLC ("CCHZ"), a subsidiary of CGP, has signed a Share Purchase Agreement with Access Bank (Zambia) Limited ("Access Zambia"), a subsidiary of Access Bank Plc, regarding a proposed merger of Access Zambia and Cavmont.

Access Zambia could potentially buy into Cavmont and increase its African footprint following key acquisitions such as the Diamond Bank takeover in Kenya. The amalgamation is expected to be completed in Q4 2020.

Mining Sector

According to the Bank of Zambia 2019 Annual Report growth in the mining sector contracted by 5.3% at the year ended 2019. Temporal shut down of smelters and low mineral ore grades in major mining companies had a major impact on production of copper which decreased by 8% at the year ended 2019 when compared to 2018

According to the Zambia Chamber of Mines, revenue has declined by 30% from February to April 2020 due to a slowdown in economic activity caused by the Covid-19 pandemic. As a result, mineral royalties tax revenue reduced by 6% to ZMW2.35 million compared to the previous half year ended 2019 despite higher mineral royalty taxes implemented in Q1 2019. Further, due to the Covid-19, global lockdown restrictions have significantly impacted the mining supply chain and hindered export income, pushing mines to sell their copper at below average prices.

One of the largest mines in Zambia, Mopani mines, which is 73% owned by Glencore, 16.9% by First Quantum minerals and 10% by ZCCM was requested to shut down by Glencore due to supply chain disruptions and low copper prices caused by the Covid-19 pandemic. The Minister of Mines rejected the proposal and the matter is currently undergoing an appeal process. According to Reuters, the effects of the disruption were evident in Glencore's half year earnings with EBITDA slashed by 13% to USD4.8 billion during H1 2020 compared to the previous H1 2019 and the scrapping off of the proposed dividend to focus on lowering debt.

In March 2020, average copper prices dropped below USD5 000 per metric tonne for the first time since October 2016, hence affecting production and resulting in lower export income in Q1 2020. Copper prices have been recovering and have shown an upward trajectory due to an improvement in demand from China. According to Bloomberg,consumption of copper will peak to 30 million tons by 2030 due to anticipated demand for electric vehicles.

First Quantum Minerals (FQM)

Financial Highlights: FQM reported a loss after tax of USD279 million in H12020 compared to a profit after tax of USD150 million in H12019. Sales revenues in H12020 were recorded at USD2,196 million compared to USD1,796 million in H12019 primarily driven by copper and gold sales from Cobre Panama and higher sales from Las Cruces offset by lower realized copper prices and the timing of sales at Sentinel delayed by an outage at a third party smelter. Copper production from Zambian operations were strong and Sentinel achieved record low unit costs for the quarter.

Operational Highlights: FQM recorded USD668million of cash flow from operating activities which was a 97% increase from the previous half year ended 31 December 2019. Kansanshi mines delivered strong performance with higher throughput and recoveries on the sulphide and mixed ore circuits ensuring overall production was in line with the same period in 2019.

Strategy and Outlook: FQM implemented a copper sales hedge program that contributed USD77 million (USD0.22 per lb) to sales revenues in H1, compared to a USD19 million sales hedge gain (USD0.06 per lb) in the corresponding period of 2019. The company's nickel sales hedge program contributed USD9 million to sales revenues in the Q2. In light of the uncertainty around the impact of COVID-19, the company has extended its copper sales hedge program to mitigate any future price risk.

Zamefa

Financial Highlights: During H12020, Zamefa recorded revenues of ZMW 395 million which were 44% lower than revenues recorded during H1 2019. The significant reduction in revenue is primarily due to unavailability of copper cathode experienced in the Zambian market during the first four months of the financial year. The company was impacted by low sales volumes in the first six months of the financial year resulting in an operating loss of ZMW11.4 million for the half year ended 30 June 2020 compared to an operating profit of ZMW18.2 million for the same period in the prior year. Cash from operations increased to ZMW49 million from -ZWM38 million in the previous half year ended 31 December 2019.

Operational Highlights: Financing costs increased by 26% during H1 2020 compared to H1 2019 due to the impact of the depreciating kwacha against the dollar. Funding requirements

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significantly increased as a result of the ongoing slow settlement of Government and Quasi-Government debt.

Strategy and Outlook: The Company aims to increase its working capital position through continued settlement by the Government of the VAT arrears and duty drawback claims. Zamefa aims to utilise these cash flows to service debt and improve on operations.

ZCCM-IH

Financial Highlights: ZCCM-IH top line for the financial year ended 2019 was primarily driven by a 100% increase in net finance income to ZMW78,941 million. The Group experienced losses after tax in its wholly owned subsidiaries Ndola Lime and Investrust of ZMW246million and ZMW79 million, respectively. This reduced profit after tax to ZMW462 million from ZMW843 million in 2018. Nevertheless, ZCCM recorded an increase in share of profit of associates from ZMW689 million to ZMW973 million due to improved performance in Kansanshi Mining Company Limited and Maamba Collieries Limited whose combined share contributed 84% of the total amount for the year. Cash from operating activities was recorded at ZMW-238 million indicating a need for the company to improve on its working capital operations .

Operational Highlights: ZCCM-IH made three acquisitions during the financial year 2019 including an increase in its holdings in Investrust Bank to 71.4%. ZCCM-IH also signed a share purchase agreement in November 2018 with Gemfields to acquire a further 50% stake in Kariba Minerals and incorporate it as a 100% owned subsidiary. In March 2019, the Company Incorporated Kabundi Resources Limited, a wholly owned subsidiary, as a special purpose vehicle involved in mining, processing, and marketing of non-ferrous metals. The investments are expected to yield results in the long term and reduce the company's dependency on a dividend income stream.

Strategic outlook: ZCCM-IH aims to increase its investments in new lines to reduce its dependency on dividend income from the mining companies in which it holds minority interests and has no level of control. Copper remains the main commodity in the company, which has been volatile resulting in lower levels of production in the investee companies and lower ore grades. ZCCM-IH aims to yield results from its investments in manganese and gold processing in Rufunsa, and Mumbwa respectively which are currently under statutory approval.

Retail Sector

According to the Bank of Zambia 2019 Annual Report the growth in the retail sector was 2.7% at the year ended 2019. The sector has been impacted by the Covid-19 pandemic with stores such as Spar Zambia shutting down due to unfavourable cash flows and restrictions imposed during lockdown. Despite decreased performance in some retail outlets due to the pandemic, a business survey undertaken by the Government in conjunction with the UN indicate 1% of businesses in the retail sectpr recorded an increase in revenues of 50% and above . There has been mixed performance in this sector. Immense pressure has been felt in outlets located in shopping centres with rentals charged in US Dollars. Outlets such as Food Lovers at East Park Mall have been forced to shut down amidst an environment with escalating exchange rates.

Zambian Breweries

Financial Highlights: Zambian Breweries is a subsidiary of Anheuser-Busch InBev (ABInBev), the largest brewer in the world. AB-InbEV has a wide geographic footprint and benefits from a wide beer portfolio. Zambian Breweries product range has grown to include clear beers such as Mosi Lager, Castle, Carling Black Label and Eagle beer as well as Stella Artois and Budweiser. AbInbev recorded a decline in revenue by 12% for H1 2020 due to a 13.4% drop in sales volume driven by the restrictions related to the Covid-19 pandemic. In April, sales volumes declined by 32.4%, as AbInbev shutdown major beer operations in key markets such as Mexico, South Africa, and Peru. Combined revenues of brands such as Budweiser, Stella Artois, and Corona declined by 14.1 % globally and by 14.9% outside of their respective home markets. Net profit stood at USD76 million from USD4.7 billion in the same period last year.

Strategy and Outlook: At the year ended 2019 Zambrew recorded a 9 percent increase in revenue and a 27 percent increase in net income. It is expected that the effects of the Covid-19 pandemic will continue to escalate the effects of inflation on raw materials and goods and will have an adverse effect on sales volumes. Zambrew has a healthy free cashflow of ZMW226 million (USD12.9 million), however, which will aid in mitigating the effects of the COVID -19 pandemic. According to the Business Telegraph, Zambrew made it to the debut of Africa's 250 with a market capitalization of USD558 million. The Company will continue to implement strategies to continue its market expansion.

Shoprite

Financial Highlights: South Africa's biggest retail group recorded increased total sale of merchandise for the H1 2020 by 6.4%, to approximately R156.9 billion. This was due to an 18.4% increase in the average basket spend despite the reduction in customer visits to outlets. In South Africa, sales (including alcohol) grew by 7.5% during H1 2020 compared to the previous H1 2019. Operations outside South Africa did not perform favorably seeing an overall decline of 1.4% yoy, however, Supermarkets Non-RSA's second half reported an increase in sales of 0.1%, while the group's furniture sales took a significant hit, down 11.9% yoy. Sales in Zambia increased by 0.2%. The group noted that it recorded a net total of USD21 million on direct Covid-19 costs, spent across the areas of health and safety, security, mobile clinics, and personal protective equipment.

Second half sales growth was significantly impacted by lockdown regulations across the 14 African countries in which Shoprite operates. Lockdown restrictions pertaining to store closures; social distancing; transport restrictions; the movement of people; trading hours; workforce limitations and trade in liquor had an adverse effect on various regions at different times. Shoprite recently announced considering to sell its stake in Nigeria as the company reviewed its operating model and aimed to down size on loss making operations.

Strategy and Outlook: Shoprite aims to continue to strengthen and extend its leadership position as the foremost Fast-Moving Consumer Good retail operation in Africa. The company aims to continue to focus on the delivery of affordable consumer goods.

National Breweries

Financial Highlights: Delta Corporation Limited, National Breweries majority shareholder, recorded a decrease in beer and sorghum sales volumes for the half year ended 30 June 2020 due to global restrictions on the sale and consumption of alcohol, the limiting of social gatherings and the closing down of bars. Sales volumes of soft drinks recorded positive results for the H1 2020. The Zambian subsidiary reported higher price adjustments due to an increase in costs of imported raw materials such as brewing cereals and packing costs emanating from the devaluation of the Kwacha. National Breweries recorded positive performance in sales of the Chibuku Super brand which was accessible on off trade premises despite the closing of bars. Increased finance costs and working capital continue to be a challenge to National Breweries. Finance costs increased by 86% during 2019 as compared to the previous year. With the volatile economic environment and pressure on the Kwacha we expect that finance costs will escalate further by the end of 2020.

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Strategy and Outlook: We anticipate that trading will be difficult in the second half of the year due to currency and inflationary pressures having an adverse impact on disposal income. The Zambian Revenue Authority aims to implement presumptive Excise Tax on local beer which will enhance legislation and compliance within the industry.

British American Tobacco (BATZ)

Financial Highlights: BATZ recorded an increase in gross revenue of 33% amounting to ZMW226.2million during H1 2020 compared to ZMW 169.5million recorded in H1 2019. The increase was primarily driven by improved revenues resulting from an increment in pricing on key brands. Net interest expense increased significantly from ZMW209 million in H1 2019 to ZMW 725 million in H2 2020. This was due to the devaluation of the Kwacha to the USD which impacted BATZ foreign currency denominated borrowings. BATZ recorded a loss after tax of ZMW 26 miliion during H1 2020 compared to a profit after tax of ZMW 0.2 million during H1 2019.

Operational Highlights: Operating costs increased by 31% to ZMW123million due to an increase of imported raw materials. Cash generated from operations decreased from ZMW 29 million in H1 2019 to ZMW 19 million in H1 2020.

Strategy and Outlook: The economic impact of the COVID-19 pandemic has put pressure on consumer purchasing demand. Further, border closures and the implementation of strict lockdowns by key trading partners such as South Africa have negatively impacted the trading environment. The company has continued operations while working with Government agencies to ensure a stable and predictable regulatory environment which will aid economic recovery.

Real Estate and Construction Sector

The real estate market has been negatively affected by the Covid-19 pandemic as customers have shifted their focus to buying essential items hence decreasing turnover for tenants in shopping malls and inhibiting their ability to meet dollar denominated rentals .

Demand for offices and residential spaces has decreased amidst a depressed economy. The real estate and construction industries are expected to remain challenging in 2020 with declining rental rates and high vacancy rates owing to slow-paced economic growth.

Real Estate Investments PLC (REIZ)

REIZ is involved in the investment, development and restructuring of commercial and non-commercial property primarily for commercial letting. REIZ owns high grade office, retail, industrial and residential real estate in central locations with a wide tenant base.

Financial Highlights: Gross rental income increased by 33% to ZMW 67.3 million for the financial year ended 2019. The increase in rental income was due to an improvement in occupancy levels at REIZ's investment properties, particularly, Arcades shopping mall (after completion of the mall redevelopment and expansion project). Depreciation of the Kwacha during the year ended 2019 had a favorable impact on USD-denominated operating leases. The Group's rent is approximately 90% USD based. The average exchange rate during 2019 was ZMW 12.93/USD1 compared to ZMW 10.70/USD1 during 2018. Collection of historic rentals was challenging during the year leading to an increase in impairment of receivables to ZMW 7.3 million compared to ZMW 4.0 million recorded for the financial year ended 2019. Net profit for the year ended 2019 increased from ZMW 2 million during 2018 to ZMW 19.7million during 2019.

Operational Highlights: Net interest expense increased by 67% to ZMW 27.1 million for the year ended 31 December(?) 2019 compared to the previous year ended 2018. The increase in interest expense was due to increased borrowings to complete the redevelopment and expansion of the Arcades shopping mall and the depreciation of the Kwacha against the USD during 2019. REIZ's statement of financial position remained strong due to its wide property portfolio. The value of the investment property portfolio (including land, banks, and Right of Use assets) increased to K1.074 billion in 2019 from K978.7million in 2018 due to the depreciation of the Kwacha against the USD.

Strategy and Outlook: The real estate industry is expected to remain challenging in H2 2020. Demand for office space will remain weak as businesses continue to operate from home. Further, occupancy levels will remain flat due to the increase in USD denominated rentals for some investment properties. REIZ will continue to be resilient and implement strategies that will improve company performance and combat the prevailing industry headwinds

Energy Sector

The opportunities for investment in the energy sector continue to grow in 2020 in order to fill in the gap of Zambia's over reliance on hydropower. Currently the power deficit stands at 810 megawatts with a load shedding program of 10 hours per day for different categories of customers. The national installed electricity capacity increased from 2,892.94MW in 2018 to 2,979.95MW in 2019 following the addition of two solar plants, namely Bangweulu (54MW) and Ngonye (34MW). Generation from independent power producers increased for the year ended 2019 from 245.74GW to 333.75GW

Water levels at Kariba Dam, which constitutes 37% of Zambia's installed power capacity has improved in recent months due to increased rainfall in early 2020 and Kafue Gorge is scheduled to be completed by September 2020 and begin to generate 750MW of electricity to the national grid by December 2020 hence to significantly reduce load shedding hours across the Country. The main player in the electricity sector is the State utility, ZESCO, which is the main operator in power generation, transmission, and distribution as a vertically integrated entity.

Other operators in Zambia consist of entities in an implementation stage and several that have been active for several years. Copperbelt Energy Corporation (CEC) is one of the longest operating entities after ZESCO. CEC has been supplying electricity to the majority of the country's mining operations and is currently the largest private sector player in the transmission sub-sector. CEC is also licensed to generate, transmit, distribute, and supply electricity.

With regard to generation, independent power producers include Lunsemfwa Hydro, Maamba Collieries and Ndola Energy, whose entire capacity is supplied to ZESCO. However, IPP's such as Lunsemfwa Hydro are not operating at full capacity due to arrears owed by ZESCO, and lack of water in its reservoir. According to an article by the Business Telegraph, Lunsemfwa Hydro was distributing 10MW when it has the capacity to produce up to 56MW. North Western Energy has the capacity to produce 20MW and is only distributing 10MW. The distressed economic environment coupled with uncompetitive tariffs and ZESCO'S high debt position have been a deterrent for investment in this sector. Opportunity to diversify and produce alternative forms of energy such as off grid and on grid solar solutions, however, exist in the market with pressure from a growing population and an expanding retail space. According to Policy Monitoring Research Centre Zambia, demand for energy is expected to triple by 2030. The Government of Zambia implemented various legislative and regulatory reforms to transform the power sector and shift the market from a single buyer model to a multiple buyer model and encourage domestic and foreign participation in the market. The Electricity Act No 11 of 2019 and the Energy Regulation Act No 12 of 2019 provide for the generation, transmission, distribution, and supply of electricity.

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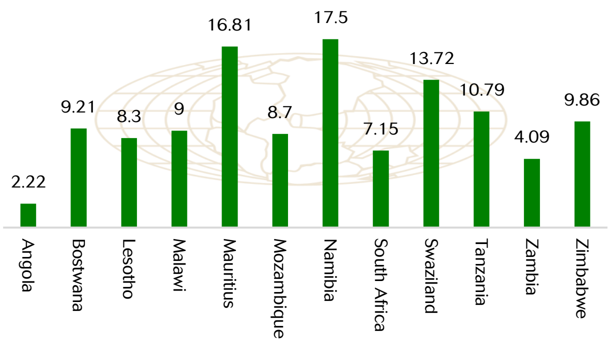
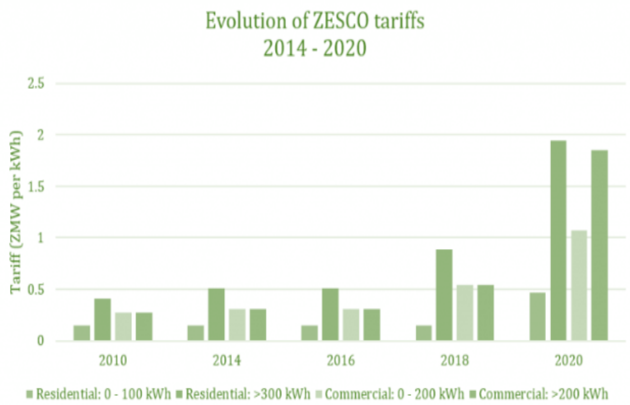
Regional Tariffs US Cent/KW



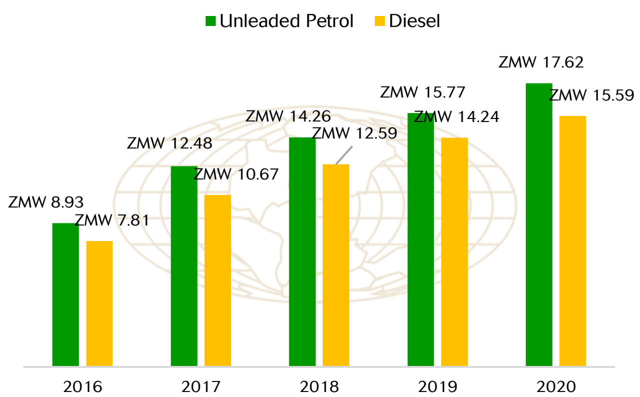
Source: (ERB Data, Pangaea Research)

The hike in electricity tariffs and fuel prices have raised consumers' cost of living and has become unsustainable for consumers with low income.



Despite the drop-in oil prices in international markets caused the collapse of the OPEC agreement and the effects of the Covid-19 pandemic the ERB stated that there would not be a reduction in fuel prices. Pangaea expects that energy costs will continue to rise due to inflationary pressures caused by a weak currency.

Average Retail Fuel Prices (ZMW/Liter)



Source: (ERB Data, Pangaea Research)

Copperbelt Energy Corporation

Financial Highlights: Revenue decreased from USD206.437 million in the H1 2019 to USD201.857 million during the H1 2020. This was due to the decrease in demand for power by mining customers in Zambia. Revenue from local supply reduced by 2% due to operational challenges faced by the mining customers due to the adverse effects of Covid-19. Furthermore, revenue from local supply was affected by the Konkola Copper Mines (KCM) load transfer arising from the non-renewal of the Company's power supply agreement (PSA) with Konkola Copper Mines Plc in May 2020.Consequently , a new segment of use of transmission system was introduced following the transfer of the KCM load from local supply. On the upside, revenue from wheeling services increased by 25% on the back of ZESCO's reduced load shedding to non-mining customers in H1 2020 compared to H1 2019. Regional power supply increased by 3% following an increase in the customer base.

During the H1 2020,CEC recorded a loss after tax of USD32 million which was 557% lower compared to H1 2019. The earnings were impacted by higher net impairment expenses that increased by 211% from the previous . This was primarily due to the Konkola Copper Mines ('KCM") outstanding payment amounting to USD144.7 million that consequently had an adverse impact on the operating cash flow of the company.

Operational Highlights: Cash flow from operations increased to USD19.235 million in the H1 2020 from USD2.732 million in the H1 2019 due to prudent working capital management VAT returns from Zambia Revenue Authority (ZRA) remained a challenge to collect , with USD17 million remaining unpaid during the H1 2020.Mining customers consumed a 1% reduction in energy from 1,638GWh during the H1 20109 TO 1,636GWh during the H1 2020. In the Democratic Republic Of Congo (DRC) market, power demand slightly improved with trade volumes increase from 328.199GWh in the H1 2019 to 333.421GWh in the H1 2020.

Strategy and Outlook: The supply of power to the mines remains the most fundamental business segment by revenue and achieving stability in this segment by finalising future supply arrangements is a key priority for the company. Under the Electricity Act No 11 of 2019, statutory instrument no. 57 of 2020 was issued which deemed CEC's transmission and distribution lines as a common carrier. The implication of this statutory instrument was that CEC would be required by law to transmit electricity on behalf of other players on agreed terms and conditions set by the parties. The ERB set a wheeling tariff equivalent to about 30% of CEC's current network tariff for the transportation of power using CEC's infrastructure. CEC continues to supply power to most of the mines on the Copperbelt through its long-term Power Purchase Agreement (PPA). Prospects for demand recovery and growth, remain positive due to expansion projects are nearing completion while others are in ramp up phase. CEC has extended the tenure of all its main PPAs and signed a number of new customers, in the DRC market .We expect the company to continue to be impacted by the effects of the Covid-19 pandemic due to the decline in mining activities caused by disruptions in the supply chains in the H2 2020.

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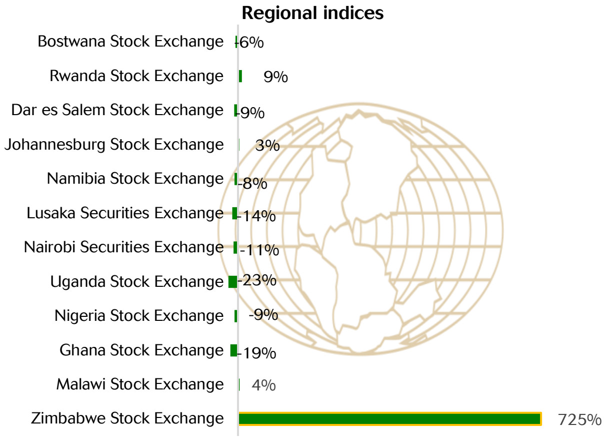
Pangaea Securities

Regional Market-H1 2020

Regional performance has seen an overall decline in indices due to a decrease in investor participation heightened by the disruption to global travel and supply chains, and the collapse in global commodity prices, particularly for oil and metals. These economic shocks have heightened risk aversion among investors and prompted them to pull out causing significant capital outflows.



Source: (Pangaea Research)

Zimbabwe Stock Exchange: The Zimbabwe All Share Index increased by 725% from the previous year as investors fled to invest in equities as a way of protection in an economy plagued by hyperinflation and a weak currency. Annual inflation increased by 766% in April 2020 and the Zimbabwean dollar depreciated by 68%. The rise in the index was a signal of the deteriorating inflationary and exchange-rate outlook. Institutions rushed to buy equities as a hedge against inflation, which drove up prices.

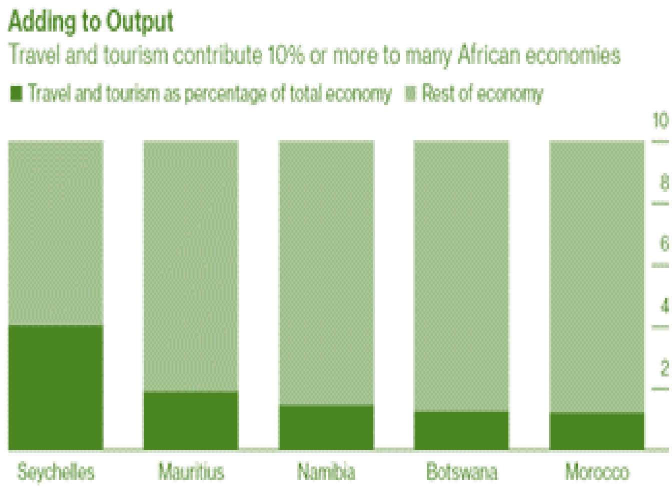
Johannesburg Stock Exchange: The Johannesburg All Share Index increased by 3% from the previous year as the Rand began to recover hence pushing the index on bank stocks by 3.3% in June 2020. The South African Reserve Bank cut interest rates for the fifth time this year in July 2020 to support an economy pressured by the Covid-19 pandemic. The interest rate cut brought the main lending rates down to 3.50% in June 2020. We expect, low-inflation, low-interest rates, and low-growth, seen by the Reserve Bank's revision in GDP growth in June 2020 , to contract by 7.3%, from a prediction of a 7% contraction in March 2020.

Rwanda Stock Exchange: The Rwanda Stock Exchange (RSE) opened in 2011 and has been growing steadily surrounded by a small economy with a GDP of less than USD10 billion. The RSE has raised USD761 million through the primary trading market and USD306 million through the secondary market. The All Share Index increased by 9% and remained stable amidst an environment struck with corona virus.

Ghana Stock Exchange: The Ghana Stock Exchange (GSE) for the H1 2020 continued to record bearish performance similar to the performance experienced in 2019. The All Share Index declined by -19% from the previous year . Macro-economic factors such as the depreciation of the Cedi as well as rising interest rates on benchmark Government treasuries favoured fixed income investments over equities. The All Share Index reached its all-time low in 3 years at the beginning of Q2 2020 arising from decreased investor sentiment due to the uncertainties caused by the Covid-19 pandemic. Ghana's consumer price inflation rose to an all-time high of 11.4% YOY which was above the Central Bank's targeted 8% range in July 2020 from 11.2% the previous month, due to the Covid-19 pandemic that has hit the cocoa, gold, and oil-dependent economy.

Nigerian Stock Exchange: The Nigerian Stock Exchange All Share Index declined by -9% from the previous year on the back of a COVID-19 induced oil price crash. It was noted by Bloomberg that performance in all sectors was negative with the banking sector recording a 26.8 percent loss from the previous year. The consumer goods sector declining by 14.9 percent, while the oil and gas, industrial goods and insurance sectors fell by 7.1 percent, 5.7 percent, and 5.1 percent, respectively. The economy of Nigeria is expected to contract by 3.2% this year, due to the significant decrease in oil prices, which account for 80% of the country's exports, a third of banking sector credit, and 50% of government revenues.

Economic Growth Sub-Saharan Africa: GDP is expected to contract by 3.2 percent, worse than the 1.6 percent contraction anticipated in April by the IMF Growth is projected to recover to 3.4 percent in 2021 provided the gradual easing of restrictions do not result in a second peak in corona virus cases . We expect growth to decline in the most tourism-dependent and resource-intensive countries. The IMF expects growth in non-resource intensive countries to be flat. According to Bloomberg, global restrictions on travel have had a hard hit on African nations that primarily depend on tourists and their foreign currency to boost an industry that employs millions of people on the continent. We expect the decline in global travel in H2 2020 as a result of the pandemic to continue to impact countries with substantial exposure to travel and tourism, such as Cape Verde, Ethiopia, Mauritius, Seychelles, Botswana, and Morocco.



Source: (Bloomberg, Pangaea Research)

Commodity Exporters: We expect the impact of the Covid-19 pandemic to continue to hit Africa's largest regions Nigeria, South Africa and Angola hard in H2 2020 due to weak growth and deterred investment, coupled with a decline in commodity prices. The collapse in oil prices will have a significant impact on government revenues for the continent's leading crude producers, Nigeria, and

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Angola. Commodity exporters, such as Angola, the Democratic Republic of Congo, and Ghana, have experienced weaker external demand and lower prices for oil and metals, in addition to a reduction in domestic activity. Agricultural commodity exporters, including Côte d'Ivoire, Ethiopia, and Kenya, have been impacted by a collapse in demand as well as disruptions to supply chains.

Inflationary Pressures: Inflation has escalated in the region, reflecting the depreciation of currencies against the dollar and supply chain disturbances. Despite implementation of fiscal measures to counteract inflationary pressures, many countries are faced with fiscal constraints such as debt vulnerabilities and lack of adequate revenues to sustain the negative effects of the pandemic. Global financial institutions have called on bilateral creditors to suspend some debt payments in order to provide relief for countries in the region.

Covid-19 Global Update

Increase in Covid-19 Cases: Despite strict measures and guidelines enacted in Sub-Saharan African countries, the number of cases reached a quarter million, of which over 60 percent were detected in Ghana, Nigeria, and South Africa. About 4 to 5 thousand new cases are recorded each day. With over 130 cases per million people the virus is less widespread in Sub-Saharan Africa than in Latin America and Europe but more so than in Asia.

Increased risks could materialize if health systems are put under immense pressure given that many economies have reopened before the infection has reached its peak. With the easing of global financial conditions and a rebound in oil and other commodity prices, however, the projected downturn could be less than anticipated.

Countries such as Cameroon, Mauritius, Niger, Rwanda, and South Africa have been easing restrictions since late April before the infection curve peaked. It is impossible to identify the actual number of cases due to constraints on testing capacity suggesting that many active cases may remain undetected and the true extent of the pandemic unknown.

Fiscal Deficit: According to the IMF, due to an expected 0.9% of GDP increase in expenditure to counteract the effects caused by the pandemic, revenues are projected to decrease on average by 2.6 percent of GDP compared to 2019, with oil exporters and tourism dependent countries hit particularly hard. In monetary terms Sub-Saharan Africa fiscal revenues in 2020 will drop by about USD70 billion.

Debt Levels: Debt levels are expected to continue to elevate amongst economies that are at a high risk of debt distress. The IMF rated 7 out of 35 countries already to be in debt distress with increased fiscal deficits, currency devaluations, and a rise in debt-to-GDP ratio by 7.3 % to 64.8 % in 2020.

International Assistance: On March 25, the IMF and the World Bank requested the G20 nations to provide debt relief to the world's poorest countries. The G20 initiated the Debt Service Suspension Initiative (DSSI), which allows those countries to suspend up to USD14 billion of debt service payments in total from all the poorest countries identified due in the eight months from May to December 2020.

On March 26, the IMF called on the Catastrophe Containment and Relief Trust (CCRT) to provide immediate debt service relief for its poorest and most vulnerable members affected by the COVID-19 pandemic.

On June 16, the IMF approved debt service relief to 28 countries—of which 21 are in Sub-Saharan Africa—for an initial phase of six months (ending October 13), which can be extended up to two years provided the CCRT has sufficient resources.

The IMF further doubled access to its emergency lending facilities, from 50 percent to 100 percent of the country's IMF quota per year, allowing the IMF to meet the expected global financing demand of about USD100 billion. Zambia continues to negotiate with the IMF for a debt relief package.

Global Growth: Global growth has been projected to decline by 4.9% in 2020. This was 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated and the recovery is projected to be more gradual than previously forecasted.

The pandemic has rapidly intensified in several emerging market and developing economies, requiring stringent lockdowns resulting in supply chain disruptions. In other countries such as Zambia, recorded infections and death rates have instead been more modest on a per capita basis, however limited testing implies considerable uncertainty about the path of the pandemic. In many advanced economies, the pace of new infections and hospital intensive care occupancy rates have declined due to weeks of lockdowns and voluntary distancing.

Advanced Economy Growth: GDP in the advanced economy group is projected at –8.0% in 2020, 1.9 percentage points lower than in the April 2020 WEO. This was due to a continued decrease in economic activity during H1 2020 than anticipated. It is expected that recovery will be gradual as fear of contagion continues to be seen in consumers despite restrictions easing in the second quarter of the year.

In China, output contracted by 34% in Q1 of 2020 which was the first contraction since 1976. Industrial profits were reported to fall by 37% in Q1 2020 and fiscal revenues declined by 14%. Activity began to rebound by April, however, and growth of vehicles recorded the first increase since 2018. The recovery of the services sector continues to lag in an economy plagued by the Covid-19 pandemic. Key risks to recovery include longer than expected duration of the pandemic without a vaccine and a sharper contraction in global output escalated by trade tensions.

China On A Recovery Path: According to Bloomberg, China's manufacturing activity indicated an upward movement in July and export orders increased despite weak U.S. and European demand, signs that the world's second-largest economy is gradually recovering from the coronavirus pandemic.

The monthly purchasing managers' index issued by the Chinese statistics bureau and an industry group increased to 51.1 from June's 50.9 on a 100-point scale. Numbers above 50 indicate activity increasing.

This trend was also seen on the IHS Markit's flash PMI surveys for the 'G4' developed economies. The peak of decline in the rate of business activity appeared in April 2020, coinciding with strict lockdowns, and enforced closures of non-essential businesses across many regions. Since April, the rate of decline has eased significantly as services and manufacturing firms indicated a significant improvement in business activity which rose 5.4 points to 47.8 as the lockdowns have relaxed. According to IHS Markit's flash, business activity has rapidly improved in July when compared to January.

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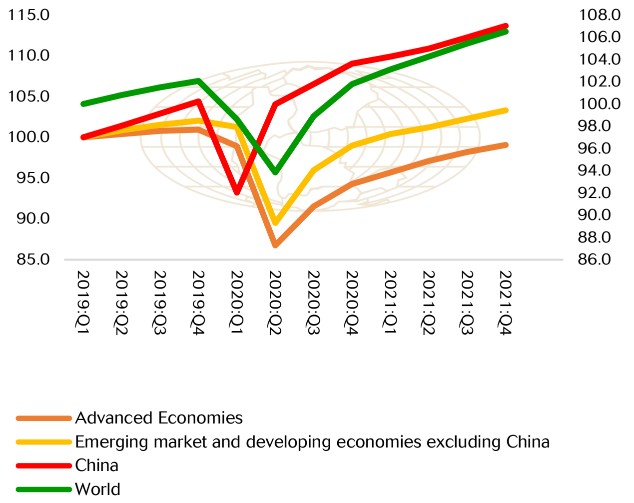
Emerging Market and Developing Economies Growth: In 2021 the growth rate for emerging market and developing economies is expected to increase by 5.9%, as China rebounds by an anticipated 8.2%. The growth rate for developing economies is expected to contract by –5.0% in 2020 and register a 4.7% increase in 2021.

Quarterly World GDP forecasts

2019 :Q1=100

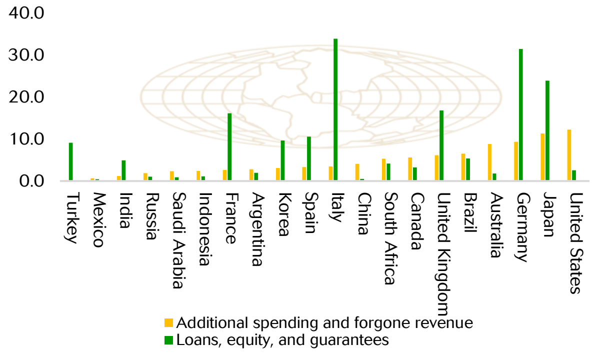


Source: (IMF Statistics, Pangaea Research)

Global Trade Contraction: Global trade contracted by approximately 3.5% during H1 2020 due to weak demand, the collapse of the tourism industry and supply disruptions that were exacerbated by trade restrictions. We expect that trade will continue to suffer in H2 2020 due to weaker demand for goods and services and a decline in the tourism sector. The IMF estimated a deep contraction this year of –11.9%.

Counteractive Measures: Fiscal and regulatory measures have been put into place to counteract the liquidity pressures of businesses. Financial regulators have extended bank loan repayment terms and release of capital and liquidity buffers which have counteracted disruptions.

According to the IMF, announced fiscal measures are now estimated at near USD11 trillion globally, up from USD8 trillion estimated in the April 2020 Fiscal Monitor. Of these measures, USD5.4 trillion are additional revenue spending and forgone revenue, directly impacting Government budgets. The remaining 50% is liquidity support, such as loans, equity injections, and guarantees, through local banks and enterprises, which help sustain cashflows and limit liquidity crunches. These measures are expected to increase Government debt and fiscal deficits in developing economies



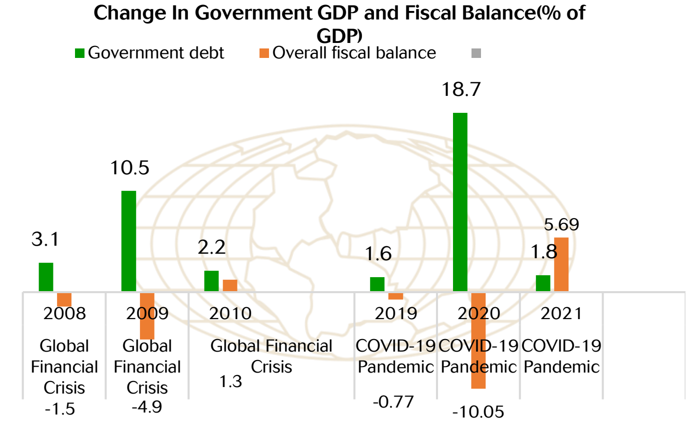
Source: (IMF Statistics, Pangaea Research)

In credit supply, it has been noted that portfolio flows into emerging markets have improved after the record outflows in February-March and hard currency bond issuances have strengthened economies with stronger credit ratings. Fiscal deficits, however, are expected to widen significantly and debt ratios to rise over 2020–2021.

Government Debts and Deficits: The decrease in Government revenue due to a steep contraction in output have led to a global increase in Government debt and deficits. According to the IMF, global public debt is expected to reach an all-time high, exceeding 101 percent of global GDP in 2020–2021 which is a 19 % increase from 2019 whereas the average overall fiscal deficit is expected to increase to 14% of GDP in 2020, which is 10 percentage points higher than last year.

Support given to stabilise the fall in household incomes during the pandemic such as tax reductions and increased social protection are expected to contribute, on average, about 30% of the rise in deficits. Government revenues are expected to decrease further than output and projected to be 2.5% of GDP compared to 1.8% of GDP in 2019 due to decreased personal and corporate incomes and hard-hit private consumption. In addition, companies exporting oil have suffered from a decline in oil revenue owing to low oil prices hence having a significant impact on Government revenues.

It is uncertain to what extent the deficits may widen, due to a potential resurgence in infections or if contingent liabilities from large liquidity support cannot be paid back causing immense debt pressures for Government and tightening liquidity.



Source: (IMF Statistics, Pangaea Research)

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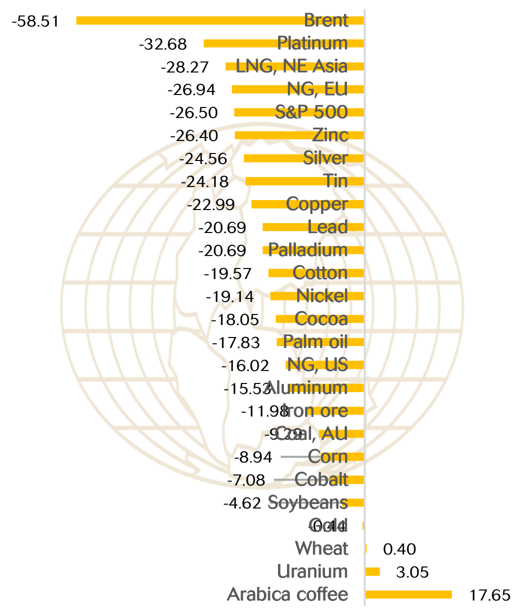
Commodity Prices: Commodity prices were hit hard by the effects of the pandemic in Q1 2020. Oil prices plummeted in March as the OPEC coalition broke down, unable to reach agreement on how to react to the weak oil demand outlook. The significance of the price impact has varied significantly across commodities, depending on the specific end-use sectors. Gold prices have been on the rise reaching a record high of USD2,060 at the end of July 2020 and it is anticipated that they will be trading between USD3,000-USD5,000 at the end of 2021. The outbreak reduced demand for some agricultural raw materials.

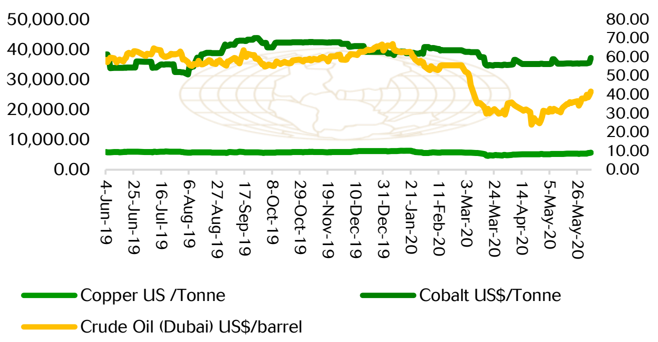
Impact On Commodity Prices



Source: (IMF Statistics, Pangaea Research)

The predictions on fuel prices are unchanged from the April 2020 WEO. Average petroleum spot prices per barrel are estimated at USD36.20 in 2020 and USD37.50 in 2021. Oil futures curves indicate that prices are expected to show an upward trajectory thereafter toward USD46.00, still about 25 percent below the 2019 average. Non-fuel commodity prices are expected to rise marginally faster than assumed in the April 2020 WEO. Copper prices are expected to continue an upward trend due to growing demand from China.

Commodity Prices



Source: (IMF Statistics, Pangaea Research)

Global Outlook: We expect Global GDP levels to continue to contract across all regions until the Corona Virus is fully contained. According to the Economic Intelligence Unit it is estimated that a vaccine will be developed by the end of 2021. It is expected that Asian countries will recover quicker to pre corona virus levels by 2021. Recovery will be slower in developing countries with existing economic vulnerabilities and increased risk of sovereign debt crises in the medium term due to large fiscal spending to support businesses and households.

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GDP	2015a	2016a	2017a	2018a	2019a	2020-e	2021-e
Nominal GDP (USDm)	21,245.00	20,965.00	25,814.00	26,719.00	24,252.00	19,313.00	21,124.00
Nominal GDP (ZMW' m)	183,381.00	216,098.00	245,686.00	279,441.00	312,609.00	343,182.00	395,665.00
Real GDP growth (%)	2.90	3.80	4.10	3.50	1.40	(3.80)	3.20
Expenditure on GDP (% real change							
Private consumption	3.4b	2.0b	2.3b	3.1b	3.10	(5.50)	2.40
Government consumption	5.5b	4.7b	1.3b	2.2b	2.20	1.00	2.20
Gross fixed investment	2.1b	-0.9b	6.7b	5.0b	3.80	6.30	4.00
Exports of goods and services	0.2b	3.0b	6.3b	6.4b	6.00	(8.50)	5.70
Imports of goods and services	1.8b	-1.6b	4.8b	4.9b	4.90	(4.10)	4.90
Origin of GDP (% real change							
Agriculture	(7.70)	3.70	9.80	(21.20)	7.70	1.00	3.10
Industry	6.60	6.70	4.70	4.30	(2.50)	2.00	4.20
Services	2.20	2.0b	3.0b	4.5b	5.50	(5.50)	2.80
Population and income							
Population (m)	15.90	16.40	16.90	17.40	17.90	18.40	18.90
GDP per head (USD at PPP)	3,569.00	3,632.00	3,739.00	3,850.00	3,860.00	3,667.00	3,715.00
Fiscal indicators (% of GDP)							
Public-sector revenue	18.80	18.20	17.50	19.10	19.50	17.60	17.60
Public-sector expenditure	28.30	24.30	25.20	27.40	24.20	25.40	24.20
Public-sector balance	(9.50)	(6.10)	(7.70)	(8.30)	(4.80)	(7.80)	(6.60)
Net public debt	62.30	60.70	62.00	78.10	91.90	91.50	86.00
Prices and financial indicators							
Exchange rate ZMW: USD (end-period)	10.98	9.92	9.92	11.92	14.11a	18.72	18.65
Exchange rate ZMW: € (end period)	11.95	10.46	11.90	13.65	15.85a	20.97	20.70
Consumer prices (end-period; %)	21.10	7.50	6.10	7.90	11.7a	14.80	8.90
Stock of money M1 (% change)	4.50	10.90	21.60	14.00	4.30	7.00	8.10
Stock of money M2 (% change)	24.90	0.10	20.70	15.40	12.20	21.90	15.80
Lending rate (av; %)	13.30	15.50	12.40	9.80	10.30	9.80	9.30
Deposit rate (av; %)	9.00	10.80	8.90	6.80	8.30	7.80	7.20
Current account (USDm)							
Trade balance	(74.00)	(4.00)	960.00	514.00	729a	403.00	570.00
Goods: exports fob	7,362.00	6,535.00	8,216.00	9,029.00	7228a	6,577.00	7,195.00
Goods: imports fob	(7,436.00)	(6,539.00)	(7,255.00)	(8,516.00)	(6499a)	(6,174.00)	(6,625.00)
Services balance	(571.00)	(508.00)	(609.00)	(724.00)	(520a)	(1,123.00)	(839.00)
Primary income balance	(349.00)	(654.00)	(1,145.00)	(408.00)	(-298a)	(180.00)	(449.00)
Secondary income balance	227.00	212.00	359.00	276.00	(331a)	365.00	287.00
Current-account balance	(786.00)	(954.00)	(435.00)	(342.00)	241a	(535.00)	(431.00)
External debt (USDm)							
Debt stock	11,917.00	15,359.00	17,521.00	19,124.00	19,383.00	19,677.00	20,786.00
Debt service paid	545.00	741.00	840.00	1467b	2,893.00	2,729.00	2,721.00
Debt service due	1,048.00	1,249.00	1,413.00	1988b	3,406.00	3,217.00	3,180.00
International reserves (USDm)							
Total international reserves	2,968.00	2,353.00	2,082.00	1,569.00	1,450.00	1,073.00	1,144.00

Table 1: (Annual data and forecasts)

Source: (IMF data)

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	2018	2019	Projections 2020	2021	Difference from April 2020 WEO Projections 1/ 2020	2021
Argentina	–2.5	–2.2	–9.9	3.9	–4.2	–0.5
Australia	2.8	1.8	–4.5	4.0	2.2	–2.1
Brazil	1.3	1.1	–9.1	3.6	–3.8	0.7
Canada	2.0	1.7	–8.4	4.9	–2.2	0.7
China	6.7	6.1	1.0	8.2	–0.2	–1.0
Egypt 2/	5.3	5.6	2.0	2.0	0.0	–0.8
France	1.8	1.5	–12.5	7.3	–5.3	2.8
Germany	1.5	0.6	–7.8	5.4	–0.8	0.2
India 2/	6.1	4.2	–4.5	6.0	–6.4	–1.4
Indonesia	5.2	5.0	–0.3	6.1	–0.8	–2.1
Iran 2/	–5.4	–7.6	–6.0	3.1	0.0	0.0
Italy	0.8	0.3	–12.8	6.3	–3.7	1.5
Japan	0.3	0.7	–5.8	2.4	–0.6	–0.6
Kazakhstan	4.1	4.5	–2.7	3.0	–0.2	–1.1
Korea	2.9	2.0	–2.1	3.0	–0.9	–0.4
Malaysia	4.7	4.3	–3.8	6.3	–2.1	–2.7
Mexico	2.2	–0.3	–10.5	3.3	–3.9	0.3
Netherlands	2.6	1.8	–7.7	5.0	–0.2	2.0
Nigeria	1.9	2.2	–5.4	2.6	–2.0	0.2
Pakistan 2/	5.5	1.9	–0.4	1.0	1.1	–1.0
Philippines	6.3	6.0	–3.6	6.8	–4.2	–0.8
Poland	5.3	4.1	–4.6	4.2	0.0	0.0
Russia	2.5	1.3	–6.6	4.1	–1.1	0.6
Saudi Arabia	2.4	0.3	–6.8	3.1	–4.5	0.2
South Africa	0.8	0.2	–8.0	3.5	–2.2	–0.5
Spain	2.4	2.0	–12.8	6.3	–4.8	2.0
Thailand	4.2	2.4	–7.7	5.0	–1.0	–1.1
Turkey	2.8	0.9	–5.0	5.0	0.0	0.0
United Kingdom	1.3	1.4	–10.2	6.3	–3.7	2.3
United States	2.9	2.3	–8.0	4.5	–2.1	–0.2

Table 2: (Selective Economies real GDP Growth)

Source: (IMF Estimates

	2017	2018	2019e	2020f	2021f	Percentage point differences from January 2020 projections 2020f	2021f
Angola	-0.1	-2.0	-0.9	-4.0	3.1	-5.5	0.7
Benin	5.8	6.7	6.9	3.2	6.0	-3.5	-0.7
Botswana	2.9	4.5	3.5	-9.1	4.2	-13.2	0.0
Burkina Faso	6.3	6.8	5.7	2.0	5.8	-4.0	-0.2
Burundi	0.5	1.6	1.8	1.0	2.3	-1.0	0.2
Central African Republic[2]	4.5	3.7	3.1	0.8	3.5	-4.1	-1.4
Cabo Verde	3.7	5.1	5.5	-5.5	5.0	-10.5	0.0
Cameroon	3.5	4.1	3.9	-0.2	3.4	-4.4	-0.9
Chad	-3.0	2.6	3.2	-0.2	4.7	-5.7	-0.1
Comoros	3.8	3.4	1.9	-1.4	3.2	-6.2	-0.5
Congo, Dem. Rep.	3.7	5.8	4.4	-2.2	3.5	-6.1	0.1
Congo, Rep.	-1.8	1.6	-0.9	-6.2	-1.1	-10.8	-3.0
Côte d'Ivoire	7.4	6.8	6.9	2.7	8.7	-4.3	1.6
Equatorial Guinea	-4.7	-6.1	-6.2	-8.4	-1.6	-6.1	-2.6
Eritrea[2]	-10.0	13.0	3.7	-0.7	5.7	-4.2	1.7
Eswatini	2.0	2.4	1.3	-2.8	2.7	-5.4	0.2
Ethiopia[3]	10.0	7.9	9.0	3.2	3.6	-3.1	-2.8
Gabon	0.5	0.8	3.3	-3.2	-2.6	-6.2	-5.8
Gambia, The	4.8	6.6	6.0	2.5	6.5	-3.8	0.7
Ghana	8.1	6.3	6.5	1.5	3.4	-5.3	-1.8
Guinea	10.3	6.2	5.6	2.1	7.9	-3.9	1.9
Guinea-Bissau	5.9	3.8	4.7	-1.6	3.1	-6.5	-1.9
Kenya	4.8	6.3	5.4	1.5	5.2	-4.5	-0.6
Lesotho	-0.4	1.5	1.4	-5.1	5.5	-5.8	3.4
Liberia	2.5	1.2	-2.3	-2.6	4.0	-4.0	0.6
Madagascar	3.9	4.6	4.8	-1.2	4.0	-6.5	-0.4
Malawi	4.0	3.5	4.4	2.0	3.5	-2.8	-1.7
Mali	5.3	4.7	5.1	0.9	4.0	-4.1	-0.9
Mauritania	3.0	3.6	6.3	-2.0	4.2	-7.7	-1.6
Mauritius	3.8	3.7	3.6	-6.8	6.4	-10.7	2.4
Mozambique	3.7	3.4	2.2	1.3	3.6	-2.4	-0.6
Namibia	-0.3	0.7	-1.1	-4.8	3.0	-5.7	1.3
Niger	4.9	6.5	6.3	1.0	8.1	-5.0	2.5
Nigeria	0.8	1.9	2.2	-3.2	1.7	-5.3	-0.4
Rwanda	6.1	8.6	9.4	2.0	6.9	-6.1	-1.1
São Tomé and Príncipe[2]	3.9	2.7	2.4	-9.5	6.1	-12.5	2.6
Senegal	7.4	6.4	5.3	1.3	4.0	-5.5	-3.0
Seychelles	4.3	4.1	3.8	-11.1	6.3	-14.4	3.0
Sierra Leone	3.8	3.5	5.1	-2.3	4.0	-7.2	-0.9

South Africa	1.4	0.8	0.2	-7.1	2.9	-8.0	1.6
Sudan	4.3	-2.3	-2.6	-4.0	0.5	-2.6	1.1
South Sudan[2,3]	-6.9	-3.5	3.2	-4.3	-23.6	-14.6	-29.0
Tanzania	6.8	5.4	5.8	2.5	5.5	-3.3	-0.6
Togo	4.4	4.9	5.3	1.0	4.0	-4.5	-1.5
Uganda[3]	3.9	6.2	6.5	3.3	3.7	-3.2	-2.2
Zambia	3.4	4.0	1.7	-0.8	2.4	-3.4	-0.2
Zimbabwe	4.7	3.5	-8.1	-10.0	2.9	-12.7	0.4

Table 3: Emerging economies real GDP Growth)

Source: (IMF Estimates)

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