

Cover Story

Inflation target missed



ZAMBIA's inflation closed 2014 at 7.9 percent. The end-2014 inflation rate has missed the 6.5 percent target set by the Hon. Minister of Finance during his 2014 Budget Speech. Why was the target missed? A couple of things. Chief among them is the increase in food prices.

See full story on page 3.

News in brief

Government to build 6 million litre fuel storage tank in Mongu

Zambia Daily Mail - Monday, December 22, 2014

GOVERNMENT has engaged Belgravia Services Limited, a UK-based firm, to construct a US\$9 million fuel storage facility in Mongu with a capacity of over six million litres. The proposed fuel reserve is part of Government's plan to increase fuel supply to meet the rising demand and fuel shortages in Western Province.

December inflation decreases to 7.9 percent

The Monthly - Wednesday, December 24, 2014

THE annual rate of inflation, as measured by the all items Consumer Price Index (CPI) for December 2014 was recorded at 7.9 percent compared to 8.1 percent recorded in November, 2014. This is according to a statement released by Director of Census and Statistics, John Kalumbi, at a media briefing on Wednesday.

ERB to reduce fuel pump prices mid-January

The Post - Thursday, December 25, 2014

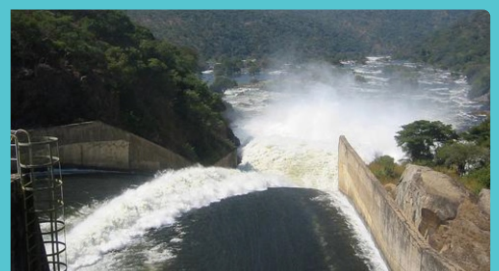
THE Energy Regulation Board expects a reduction in fuel pump prices mid-January after the arrival of a new feedstock consignment. ERB Executive Director Langiwe Lungu said the further adjustments on fuel pump prices could only be based on new feedstock due to arrive in the country on 30th December 2014.

INSIDE THIS ISSUE

My two cents: On the 6 percent GDP growth

Word on the street: Energy, our next biggest export revenue earner.

Perspective: The cost of living in Lusaka from an expat's view



Word From The Editor



Aisha Nalishebo

We at Katondo Street would like to express a sincere thank you to all those who gave us feedback on our first publication last week.

As we exit the calendar year 2014, which also coincides with Zambia's fiscal year end, it was best to highlight discussions on inflation and economic growth. Having missed the inflation target for 2014, we explore what caused this. The IMF, World Bank and the Zambian government have come up with varying estimates for the 2014 GDP growth. Who is correct?

We continue the discussion on diversification from the first issue by identifying the energy export sector as the next big revenue earner.

It is our sincere hope that you find these articles informative.

Once again we appreciate your interest. And we wish you all the best for 2015.

Who We Are

Katondo Street Journal (KSJ) is named after Katondo Street, a thoroughfare in the Central Business District of Lusaka.

What We Are About

At KSJ, we cover business and financial analytics in Zambia. We focus on the people, innovations and ideas behind Zambia's most dynamic and entrepreneurial companies. We also analyse business and financial data to inform decision making by business leaders.

Our tag-line **"The Business Highway"** provides a fast-paced route for businesses to showcase, network and grow.

Look out for the Katondo Street Journal hard copy version coming soon to a book store and supermarket near you.

KSJ's Weekly Economic & Financial Commentary is distributed to subscribers each Monday morning by e-mail and will soon be available on www.ksj.co.zm.

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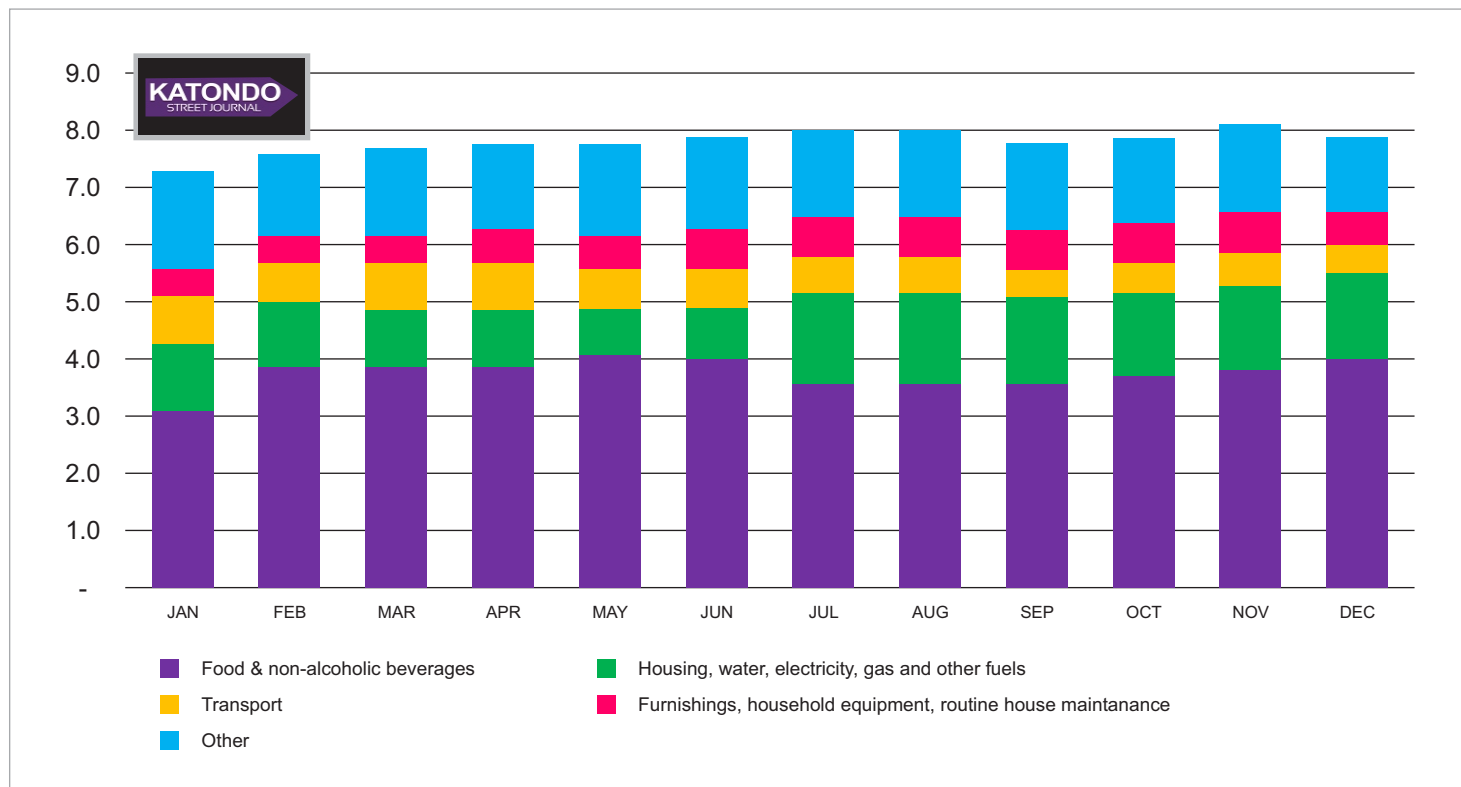
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Cover Story

Inflation target missed



ZAMBIA's inflation closed 2014 at 7.9 percent. The annual rate of inflation shows how much higher or lower prices are compared with the same month a year earlier. It indicates changes to our cost of living. An inflation rate of 7.9 percent in December 2014 means prices are 7.9 percent higher than they were 12 months earlier in December 2013. Or, to look at it another way, you need to spend K107.9 now to buy things you bought 12 months ago for K100.

The inflation rate is calculated every month by looking at the changes in prices of over 400 goods and services across Zambia. This is known as the basket of goods and is regularly updated to reflect changes in the things we buy.

The end-2014 inflation rate has missed the 6.5 percent target set by the Hon. Minister of Finance during his 2014 Budget Speech. The end-December 2014 inflation is lower than the 8.1 percent November 2014 inflation, thanks in part to the Bank of Zambia's raising of the policy rate to 12.5 percent from 19th November 2014. The next policy rate review is expected on 8th February 2015. Inflation is broadly broken down into food and non-food

components. The food and non-alcoholic beverages component accounts for 53.5 percent share of the total weight and contributed 4.0 percentage-points of the 7.9 percent in December, while the non-food component accounted for 3.9 percentage-points. Compared to November, food inflation share increased by 0.2 percentage-points, while furnishings and household equipment, transport, recreation and culture and education collectively declined by 0.4 percentage-points. The other components remained unchanged. The net effect was a decline by 0.2 percentage-points from 8.1 percent to 7.9 percent.

The decline in the inflation rate from 8.1 percent in November to 7.9 percent in December does not mean that the prices have declined. Rather, it means that prices are higher in December but have not increased by as much as they did in November.

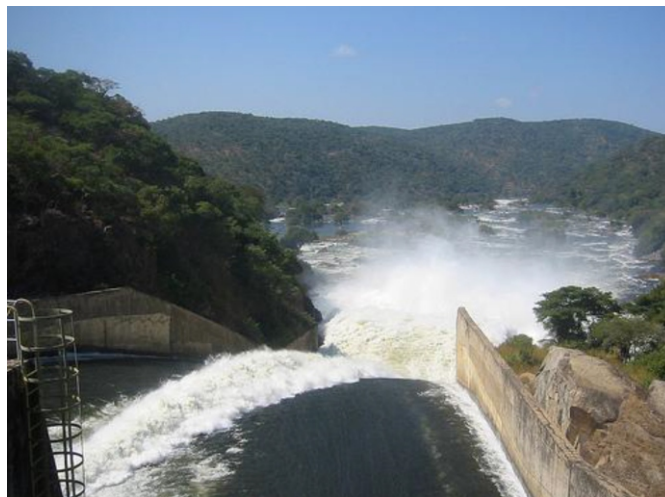
The end-2014 target was missed due to several factors. Top on the list was the increase in food prices. Of the 7.8 average inflation rate in 2014, about half of that inflation has been due to food prices. The percentage-point

The sectors sustaining the strong growth include construction, as well as transport and communications. Government's increased budget to the construction of roads and the planned construction of tourism, health and education infrastructure were among some of the projects that boosted the growth in the construction sector in 2014. The transport and communication activity is expected to increase due to increased output in the primary and secondary sectors. The railway sector has reportedly increased cargo haulage following Government's

repossession of Zambia Railways. Equally, the road construction projects being implemented will increase the volume of traffic. The information and communication sector will continue to grow based on the increased investments in laying of fibre-optic networks and the construction of communication towers. The growth of these non-agriculture sectors is not enough to put a significant dent in the 60 percent headcount poverty rates.

Word On The Street: Our next biggest export revenue earner

The news out of Kenya last week that Kenya will be exporting electricity to Zambia through the Zambia-Tanzania-Kenya power interconnector was, to say the least, surprising. Especially that we repeatedly boast of having 40 percent of the water resources in the Southern African region and we have little to show for it. Zambia's hydropower resource potential stands at an estimated 6,000 MW while its installed capacity is



approximately only 2,300 MW. The electricity sub-sector has experienced continuous growth in the last few years. This has primarily been driven by strong growth in mining, industrial and domestic demand, with the mining sector accounting for over half of the demand. These rapid developments in power demand have put pressure on existing generation capacity which has resulted in power shortages that have led to increased load shedding. ZESCO, the largest power utility company, is one of the most unpopular public sector firms in the country. I have no doubt that the man at the helm of ZESCO, Eng. Cyprian Chitundu, has numerous sleepless nights.

One area which we can tap into and diversify our exports in a big way is the energy sector, particularly the electricity sub-sector. And Eng. Chitundu is the man currently best placed to make that happen. He needs to think about Zambia becoming a net exporter of electricity in the Eastern and Southern African region, so that we

can get out of the Copper Dependency Syndrome. He is already doing quite a bit where that is concerned. I have in mind projects such as the 700–800 MW Kafue Gorge Lower, 120 MW Iteszhi-Tezhi, and the Kariba North Bank Extension Project which are underway and are expected to result in more than 1,000 MW of added capacity. Another project is the 1,600MW Batoka Gorge, which when

completed will be equally shared between Zambia and Zimbabwe.

I am thinking Eng. Chitundu should leverage on the fact that our production costs are relatively lower and he needs to think beyond the 5% power he exports while we are sleeping, by setting up power generation plants that are going to export power 24/7. We all know that ZESCO also has challenges with transmission lines. There is a need to ensure that the planned generation capacity is matched with adequate transmission capacity in order to evacuate power to demand centres through efficient high voltage transmission lines.

To do all this, and make us a net exporter of electricity, ZESCO will need money – loads of it. The crumbs from the recently acquired Eurobond, and government grants, are not enough to pull off what the ZESCO MD may have in mind. He may have to consider tapping into the

international capital markets to borrow. However, I doubt if Government can give a credit guarantee to ZESCO, so the firm has to do a lot of due diligence, and get itself its own credit rating so that creditors know what they are investing in. A credit rating is a pre-requisite for public utility firms like ZESCO to access international capital markets.

In order not to get us into the undesirable foreign debt, he also has another option to consider - the domestic capital market. The Government should institute policies aimed at developing the domestic debt market to cater for more innovative instruments and facilitate secondary market trading. Despite the considerable progress the country has achieved in establishing domestic primary markets for

government securities, the development of deep and liquid secondary markets has proved more challenging. A consultation with the market players will have to be done to determine the type of instrument, maturities and interest rates which need to be introduced in the domestic debt market. And then maybe Eng. Chitundu can tap into that.

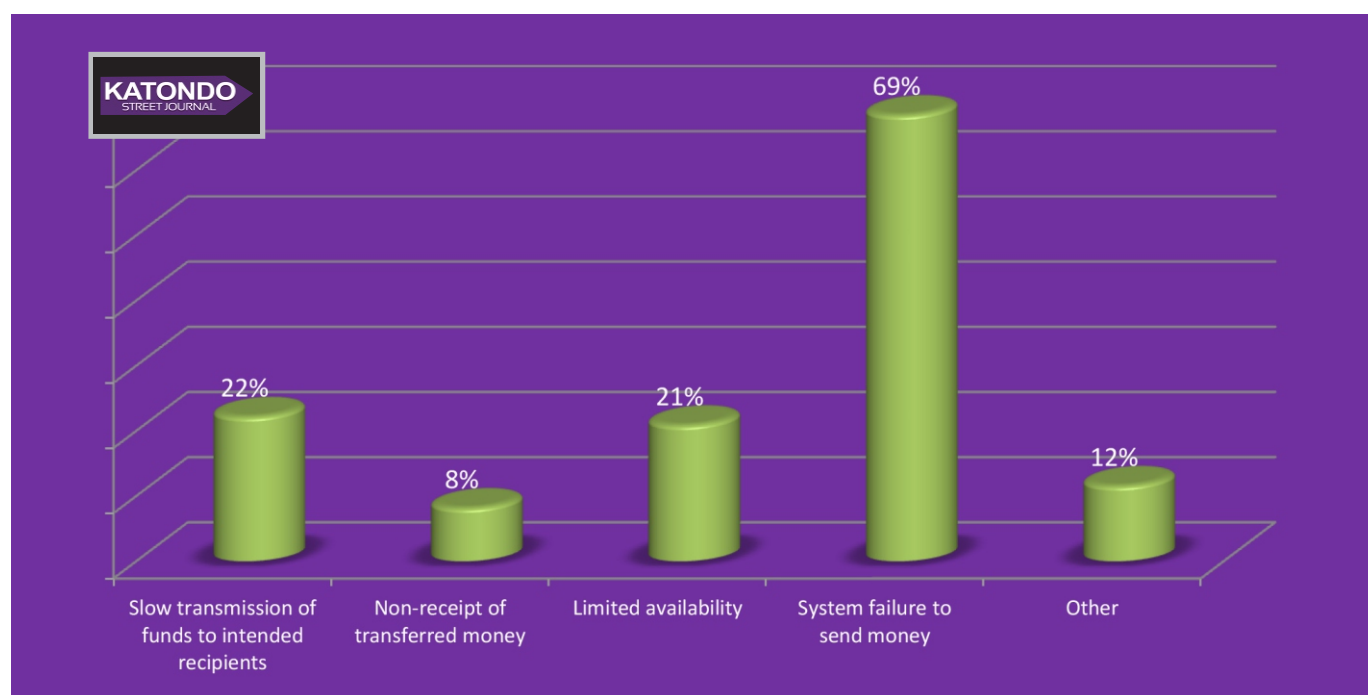
As the Eastern and Southern African countries continue on their strong economic growth paths, they will increasingly need more energy supplies. My firm belief is that energy is our next big export revenue earner after copper. Let us seriously consider this option as a country before the next copper price plunge.

Facts & Stats:

System failures main problem with mobile payment solutions

Mobile payment solutions have been in existence in Zambia since 1999. However, they only became prominent in 2010 when Airtel Zambia became the first mobile phone provider to start providing mobile payment solutions. The 2013 ICT Country Survey Report shows that the major

problem encountered by respondents in accessing mobile payment solutions is system or network failure. This was followed by slow transmission of funds to intended recipients.



Source: 2013 ICT Country Survey Report, ZICTA

Top Four Outstanding Zambian Women in 2014

1	2	3	4
Mulenga Kapwepwe	Monica Musonda	Tukiya Kankasa-Mabula	Mizinga Melu
			
<p>Who she is:</p> <p>Chairperson, Zambia@50; Chairperson - National Arts Council</p> <p>Why we think she was outstanding:</p> <p>She gets our top slot because she pulled off the organising of the 50th independence anniversary celebrations at the National Heroes Stadium on 23rd and 24th October 2014. She also featured on CNN's African Voices.</p>	<p>Who she is:</p> <p>Founder and CEO, Java Foods, a food processing company which processes Zambia's high quality wheat into instant noodles under the brand called eeZee instant noodles.</p> <p>Why we think she was outstanding:</p> <p>Bestowed "Africa's Leading Woman in Business Award" for 2014 at the Africa Investment and Business Leader awards. Was also named among the Forbes "20 Young Power African Women" in 2013.</p>	<p>Who she is:</p> <p>Deputy Governor, Administration – Bank of Zambia</p> <p>Why we think she was outstanding:</p> <p>Recipient of the International Bar Association 2014 Outstanding Woman Lawyer Award in recognition of her professional excellence, influencing other women to pursue careers in law, and advancing opportunities for women within the legal profession.</p>	<p>Who she is:</p> <p>Chief Executive Officer of Africa Regional Management, Barclays Bank Africa Group</p> <p>Why we think she was outstanding:</p> <p>She was appointed to her current position effective October 1, 2014. The Country Directors of all Barclays Africa's Businesses outside South Africa report to her.</p>

Business Of The Week

Zambeef



The Zambeef Group is one of the largest investors in the agricultural sector in Zambia, with investment amounting

to over USD150 million over the last six years. It also has operations in Nigeria and Ghana.

It is one of the largest employers in the country, with a staff complement of over 5,800 staff, who received a total of ZMW208 million (USD35 million) in remuneration and benefits.

The Group is a significant contributor to government revenues. For the financial year ended September 2014, the Group paid over ZMW110 million (USD18.5 million) to the Zambia Revenue Authority in taxes.

The Group is a member of the Zambia Development Agency's elite Million Dollar Club of leading exporters. For the FYE 30 September 2014, the Group recorded foreign exchange export income of over USD30 million.

Source: Zambeef 2014 Annual Report

Perspective:

The cost of living in Lusaka

By a Foreigner in Lusaka

Since moving to Zambia from my home country in Northern Europe, my wife and I have been tracking our expenditure to answer the question of how much it costs to live in the city of Lusaka. What follows are my reflections after living here for about a year.

Overview. Lusaka is an expensive city to live in. I understand very well that the majority of Zambians are getting along with much less expenditure than those well-off Zambians and the foreign expatriates. The double economy is strongly felt in Zambia, which makes life hard for the poor.

Housing. Good reasonably priced rental apartments in Lusaka can be hard to find, especially if you are new in town and do not have many contacts. Only the most expensive properties are being advertised online. The ones that are more affordable you find out about by hearing

from people or reading the newspaper advertisements, which generally also tend to list only the higher priced establishments.

Our landlord prefers payments on a quarterly basis in advance, which is quite steep. Also, the lease agreement we have must be terminated three months in advance, which makes things difficult as you are committed for such a long period and do not have flexibility to move to another apartment. In my country, on the contrary, the law is more on the tenant's side, as usually only one month's notice is needed, but three to six months if the termination is initiated by the landlord.

Getting around. In terms of transport, Lusaka seems to be divided into three. Owning a vehicle seems to be an important status symbol in Zambia, and those who can afford definitely buy one. We also have a car, but also

often walk, which is found strange by many Zambians – why do you walk if you have a car? As an interesting fact, in my home country many city-dwellers prefer public transport or walking as the more environmentally-friendly and less stressful and less expensive option to move around. In fact, among the most educated people owning a car can even be frowned upon. Even some MPs cycle to work.

New vehicles are cheaper in Zambia than in my country, where vehicle tax is extremely high. This does not mean that buying a new car in Zambia would be cheap. It is not and that is why even people with solid income can only afford to buy a used vehicle. Often those are bought from Japan. The delivery can take several months and can be a headache and includes a risk as you do not get to see the car before buying. So, you can only hope for the best after the purchase. I am glad that our vehicle turned out to be a good one after all the delivery troubles a well-known used car importing company caused us.



If you read the advertisements in a Zambian newspaper you will notice that many, if not most, advertised vehicles have been marked to have 'low mileage'. However, the sellers rarely put the actual mileage on the advertisements, maybe those are not so low after all. A litre of petrol in Lusaka costs about 9.89 Kwacha, it is a really high figure and I understand that to be one of the highest in the Southern African region (the cost in my country is even higher at almost 12 Kwacha per litre). In my country the prices vary from filling station to another compared to Zambia where the pricing is uniform. Yet contrary to what you could assume in the morning traffic, not all people in Lusaka are driving. For many, public transportation is the means to get around. The public transportation system comprises of minibuses charging 3-4 Kwacha per ride. The minibus network is a bit hard to get a grasp on as a newcomer and some of the minibus drivers are not exactly what one would call safe drivers. Just recently I was (again) close to being run over

when walking to work, as I did not notice a minibus which was driving on the wrong side of the road. And after the incident, the driver and passengers were laughing at me. Sometimes the so-called call boys also are a bit too aggressive when they try to persuade passengers to hop on board and I have had a couple of bad experiences when they have grabbed my hand when I have been trying to walk past.

The third user group are those who cannot even afford public transportation, leaving 'zamfooting' as the only method of transportation.

I hope there will be subways or trams in Lusaka and that the reliability and reach of the public transportation system would be at another level one day.

Electricity. I understand electricity is perhaps one of the cheapest things in Lusaka and one of the cheapest in the SADC region, though of course the supply can be unreliable due to frequent load shedding and malfunctions. Unlike its neighbours who rely more on coal to produce electricity, Zambia uses mostly hydropower, so the production cost is relatively low. The electricity bill comes with a ZNBC TV tax too besides the usual excise and value added tax.

Communications. In order to keep up with family and friends back home, communication is very important for the expatriates. What you need for that is of course the internet. And that is not cheap in Zambia and due to bandwidth issues the connections are neither fast nor stable. People buy those data bundles that cost a lot per Mb as affordable unlimited data plans are non-existent, even with a slow connection.



My guess is that the MTN Browse4eva service is at the moment the best value for money internet option available in Zambia with about 25 Kwacha for 1 Gb, if you would use that much in a day. For comparisons sake, in my country 20 mbps cable/ADSL connection with unlimited data usage with close to zero downtime costs you about 150 Kwacha per month and the connections gets better all the time.

Home entertainment. For about 500 or 550 Kwacha per month you would get to watch a range of TV shows, movies, sports etc. using the South African satellite TV provider, DSTV. That price is way too high for the majority of the people. Well, the majority in Zambia do not have a TV. Or even electricity. I do not have that premium bouquet mentioned above, but have a much cheaper basic package that also has the BBC World News and the main SuperSport channel. I watch the ZNBC news also in order to see what the national broadcaster is reporting.



Shopping. There are many huge grocery stores in Lusaka. Unfortunately none of those are Zambian franchises and so the money flows abroad in a business that in my opinion could very well be operated by Zambian companies. In those grocery stores the prices are high and there alone you do not get a realistic picture about what the majority of the Zambians are buying at the street stalls. In fact, especially the fresh products such as tomatoes you will find better priced in the open-air markets and even vendors at traffic lights. At the supermarkets you have to be aware of the prices, some things are grossly overpriced while others seem very cheap. Also pricing mistakes can be found. Supplies in the stores seem to vary considerably over time. I like rye bread as it is healthier than the white or brown bread they are usually selling. Sometimes Shoprite has it, and I will buy close to ten packs and put them to freeze. Well, it has been four months since they last had them and I do not even remember the price anymore. Electronics are expensive in my country, but here even more so. Computers sold in Lusaka seem to be older models, not old but older, and the prices higher. The same goes with TVs, new ones are extremely pricey, I got ours as used.

Activities. Racket sports are affordable for the higher-end consumer. Of course there is considerable variation in the prices, but there are places where you can play squash or badminton for 40 minutes for 20 Kwacha. I play at BP Sports Complex. Lighting at courts in my country might be a bit better, but the court cost would also be multiple times higher.

I have not been to movies too many times in Lusaka, probably only three times, but have noticed that the theatres seem to be almost empty. No doubt the high price of 40 Kwacha plays a big role in this. It is a bit odd that so many of the fancier restaurants are inside or in the vicinity of the malls with a view to the parking lot. Not all of them are expensive though and when compared to my country I would say similar quality meal is much cheaper in Lusaka.



Service included. As the labour costs are relatively cheap in Zambia, service is often included. In comparison, when filling up the fuel tank in my country it is self-service; when putting more air in tyres, it is self-service. Packing up the groceries, again, is self-service. The list would be endless... So Lusakans, enjoy the service you are provided! It is not to be taken for granted.

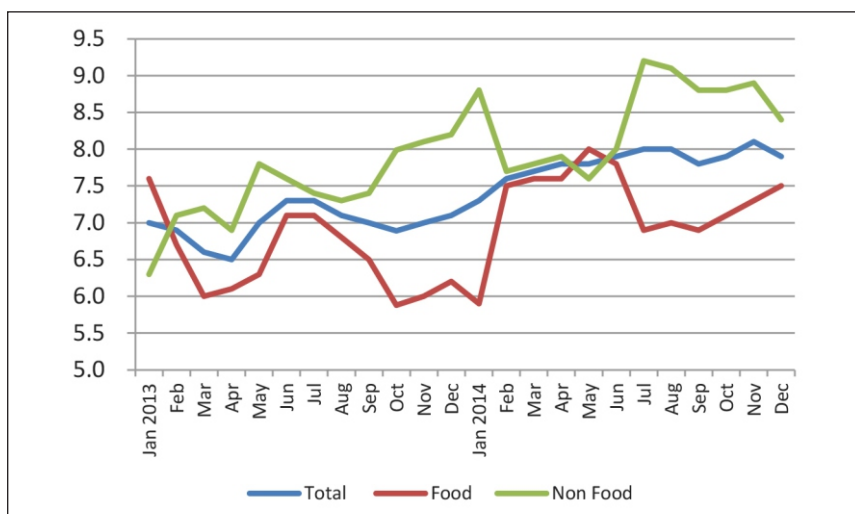
Market Data

Daily Average Exchange Rates, 22-24 December, 2014

Date	US DOLLAR			South African RAND		
	Buy	Sell	Mid	Buy	Sell	Mid
24 Dec 2014	6.3252	6.3452	6.3352	0.5416	0.5436	0.5426
23 Dec 2014	6.3126	6.3326	6.3226	0.5448	0.5470	0.5459
22 Dec 2014	6.2939	6.3139	6.3039	0.5429	0.5449	0.5439

Source: Bank of Zambia

Annual inflation rate: total, food and non-food; January 2013-December 2014



Source: Central Statistical Office, 2014

Lusaka Weather In The Week Ahead

	High	Low	Precipitation	Forecast
Mon Dec 29, 2014	25°	19°	12 mm	Cloudy, a couple of t-storms
Tue Dec 30, 2014	24°	18°	20 mm	Thunderstorms; mainly early
Wed Dec 31, 2014	21°	18°	31 mm	Cloudy, thunderstorms; cooler
Thu Jan 1, 2015	26°	18°	12 mm	Cloudy, a couple of t-storms
Fri Jan 2, 2015	25°	18°	20 mm	Cloudy, a couple of t-storms
Sat Dec 3, 2015	26°	18°	23 mm	Cloudy, a couple of t-storms
Sun Dec 4, 2015	21°	18°	12 mm	Cloudy, a couple of t-storms

UNNOTICED

CHICKEN TO GO

At this restaurant, we were not sure if they served Chicken CURRY or you have to CARRY the chicken with you! (Refer to the 4th item on the menu).



THE WEEK AHEAD

Saving for education: Does the start of the school calendar bother you so much? If your answer to the above question is yes, then one thing is true about you. You are financially insecure. Read more in the next issue