Bank of Zambia

Monetary Policy Statement

JUL - DEC 2019

Bank of Zambia

VISION

To be a dynamic and credible Central Bank
that contributes to the economic development of Zambia.

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to "achieve and maintain price and financial system stability to foster sustainable economic development".

This Monetary Policy Statement is made pursuant to Part II, Section 9 of the Bank of Zambia Act Chapter 360 of the Laws of Zambia

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This Statement outlines the Bank of Zambia's monetary policy objectives during the second half of 2019. It provides an outlook for economic growth and inflation, and reviews monetary policy performance and macroeconomic developments in the first half of 2019.

Monetary Policy Rate adjusted upwards as inflationary pressures build up and expected to persist in the medium-term

Average inflation remained broadly in line with the 6-8% target range in the first half of 2019. However, inflationary pressures continued to build up, resulting in inflation exceeding the target range in May and June. This was largely due to higher food prices and the pass-through from the depreciation of the Kwacha against the US dollar. Increased demand for foreign exchange by the energy sector, a stronger US dollar, and negative market sentiments arising from credit rating downgrades accounted for the depreciation of the Kwacha.

To contain inflationary pressures, the Policy Rate was adjusted upwards in May by 50 basis points to 10.25% from 9.75% as inflation was projected to breach the upper bound of the 6-8% target range over the medium-term. In the second half of the year, inflation is projected to remain above the target range, mainly on account of the persistent rise in food prices. Risks to inflation are skewed to the upside, and these include lower electricity generation, higher than programmed fiscal deficits and elevated external debt service payments. In this regard, monetary policy will focus on bringing inflation back to the target range in the medium term.

Interest rates rise further as credit growth remains subdued

Market interest rates generally edged up in the first half of 2019, reflecting the upward adjustment in the Policy Rate in May 2019, high yield rates on Government securities, and tight liquidity conditions. Yield rates on Government securities trended upwards amidst subdued demand and tight liquidity conditions. Credit growth to the private sector slowed down, reflecting tight credit conditions in the market.

Global economic growth remains low and prospects are weak

Global economic activity remained weak in the first half of 2019, on account of the continued slowdown in investment and consumer demand, low business spending amid high policy uncertainty, and trade tensions. Prospects for global economic growth in 2019 and 2020 are lower than earlier anticipated due to weaker momentum in advanced countries, intensifying US-China trade tensions, continued uncertainties related to Brexit, and rising geopolitical tensions in the Middle East.

Trade balance registers a surplus

A trade surplus was recorded in the first half of 2019 compared to a deficit in the second half of 2018, due to a larger contraction in imports than exports. The decline in imports was broad-based, while the fall in export earnings largely reflected the decline in copper export volumes and realised prices.

Domestic economic growth subdued, challenges on outlook remain

Indicators of economic activity[1] point to reduced growth in the first half of 2019. Real GDP growth for the first quarter of 2019 is estimated at 2.6% compared to 2.7% in the corresponding period in 2018. For the year as a whole, real GDP is projected to slow down to around 2.0% in 2019, before rising to 3.2% in 2020. The adverse effects of uneven rainfall in the country that have dampened agricultural production and hydro-electricity generation, domestic liquidity challenges, and softening of global demand are the major factors weighing negatively on growth prospects.

Fiscal deficit remains elevated

Preliminary data indicate the persistence of large fiscal deficits. To ensure overall macroeconomic stability and sustainable growth, the implementation of fiscal consolidation measures to address higher than programmed fiscal deficits, elevated debt and debt service levels, high domestic arrears and liquidity challenges is urgently required to support monetary policy.

[1] The Bank of Zambia Composite Index of Economic Activity, Bank of Zambia Quarterly Survey of Business Opinions and Expectations, and Stanbic PMI.

In light of the above developments, outlook and challenges, effective implementation of measures announced by the Government to restore fiscal fitness, debt sustainability, and macroeconomic stability in general is critical. Broadening the production and export base is key in not only building the country's resilience to shocks, but also keeping inflation low and maintaining overall macroeconomic stability.

1.0 INTRODUCTION

This Statement outlines the monetary policy objectives of the Bank of Zambia during the second half of 2019. It also provides an outlook for economic growth and inflation, and reviews monetary policy performance and macroeconomic developments in the first half of 2019.

2.0 GLOBAL ECONOMIC OUTLOOK: 2019 - 2020

2.1 Economic Growth

The global economic growth outlook remains sluggish over the medium-term. Economic growth projections for 2019 and 2020 were further revised downwards to 3.2% and 3.5% from the April 2019 forecasts of 3.3% and 3.6%, respectively[2].

Weaker growth momentum in advanced countries and China, intensifying US-China trade tensions[3] , uncertainties related to Brexit and rising geopolitical tensions in the Middle East that may potentially affect energy prices, underlie the lower growth prospects. Tight labour markets in the United States and more accommodative monetary policy in major central banks may, however, support economic activity.

Growth in advanced economies is expected at 1.9% in 2019 and 1.7% in 2020. The 2019 projection reflects an upward revision of the growth rate for the United States on account of robust exports, sustained consumer spending and inventory accumulation.

In the euro area, growth is projected at 1.3% in 2019 and 1.6% in 2020. The continued weak external demand and investment in Germany and fiscal uncertainties weighing on domestic demand in Italy are likely to affect growth prospects in the euro area. However, the implementation of fiscal stimulus measures in France and strong investment in Spain, are expected to offset the downturn.

In the United Kingdom, growth is projected at 1.3% and 1.4% in 2019 and 2020, respectively, mainly on account of higher wage growth, expansionary fiscal stance, and pre-Brexit accumulation of inventory and stockpiling. The uncertain Brexit outcome and weakening global economy remain the major risks to the growth outlook.

Economic growth prospects for Zambia's major trading partners are weaker in the medium-term. In China, growth is projected at 6.2% in 2019 and 6.0% in 2020, reflecting the effects of the escalating trade tensions with the US, weakening global demand, and high domestic debt levels especially to the state owned enterprises. However, expansionary fiscal and accommodative monetary policies are expected to support economic activity.

In South Africa, growth is expected to slow down to 0.7% and 1.1% in 2019 and 2020, respectively, on account of persistent power outages, weak investment and private spending as well as lower agricultural production. The downside risks to the growth outlook relate to policy uncertainty surrounding Eskom's debt restructuring, which may weigh on economic sentiments.

In the Democratic Republic of Congo, growth is projected at 4.3% in 2019 and 4.4% in 2020, underpinned by large-scale infrastructure projects and strong mining sector performance. Political uncertainties, a possible escalation in the Ebola virus outlook, and volatility in commodity markets could, however, weigh on the growth outlook.

2.2 Commodity Prices

Commodity prices are generally projected to decline in the medium-term. Copper prices are projected to decline to an average of US$6,350.7 and US$6,487.7 per tonne in 2019 and 2020, respectively. Weaker global growth prospects, and subdued growth in China underlie the expected lower copper prices.

Crude oil prices are also expected to be lower in 2019, averaging US$65.3/barrel and US$64.7/barrel in 2019 and 2020, respectively, mainly due to the weaker global growth outlook and expected increase in supply, particularly from the United States. Risks to the oil price outlook include the decision by OPEC+ to extend oil production cuts until end-March 2020, and the impact of the removal of waivers to the US sanctions on Iran.

[2]Growth forecasts are from the IMF's July 2019 World Economic Outlook Update, Focus Economics, Trading Economics, and the African Development Bank Group.
[3]In August 2019, the USA proposed a 10% tariff on US $300 billion Chinese imports, mostly consumer goods, effective 1st September 2019.

3.0 DOMESTIC ECONOMIC OUTLOOK FOR 2019 - 2020

Real GDP growth is projected to remain subdued, slowing down to 2.0% in 2019, against a preliminary estimate of 3.7% in 2018, largely reflecting the effects of drought on agriculture production and constrained electricity generation[4] as well as lower than anticipated mining output. However, other sectors such as wholesale and retail trade, information and communication, financial and insurance, construction and manufacturing, are expected to register improved activity that may support growth.

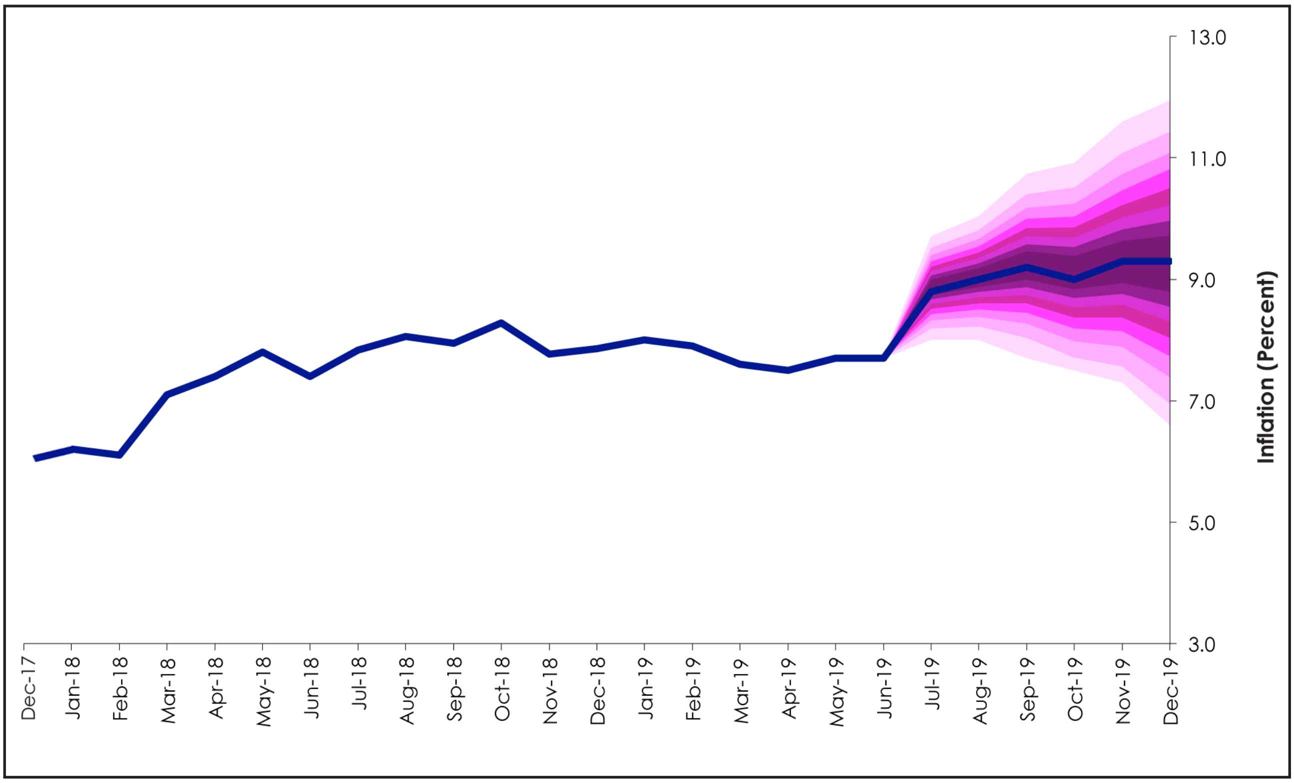
In 2020, growth is projected recover to 3.2% premised on the expected pick-up in agriculture as weather conditions improve. In addition, mining output is expected to improve as tax-related and challenges in the mining sector are resolved. Large fiscal deficits, elevated debt and debt service levels, and the weak global growth, however, continue to pose significant downside risks to domestic economic growth prospects. For the 3.2% growth to be achieved, there is need to urgently implement fiscal adjustment measures and unlock liquidity to the productive sectors by clearing arrears owed to domestic suppliers of goods and services.

4.0 INFLATION PROJECTIONS FOR THE SECOND HALF OF 2019

Annual overall inflation is projected to average 9.2% during the second half of 2019, 1.2 percentage points above the upper bound of the target range of 6–8% (Chart 1 and Table 1 – Appendix). This is mainly on account of the persistent rise in food prices primarily due to low agricultural food output in the 2018/2019 farming season.

The key upside risks to the inflation outlook include lower electricity generation, higher than programmed fiscal deficits, and elevated external debt service payments. These are likely to impact inflation through the exchange rate and expectations channels. In addition, the weaker than projected global growth, partly attributed to the escalation of trade tensions between the US and China, is likely to impact commodity prices, including that for copper, which in turn may negatively affect the exchange rate and ultimately inflation. However, inflationary pressures may be moderated by subdued domestic aggregate demand.

Chart 1: Actual and Projected Inflation: Dec 2017 – Dec 2019



Source: Central Statistical Office and Bank of Zambia Compilations

[4]As electricity generation in Zambia is predominantly hydro, the drought experienced during the 2018/2019 rainy season has led to lower electricity generation, thereby raising production costs.

5.0 MONETARY POLICY OBJECTIVES AND INSTRUMENTS FOR THE SECOND HALF OF 2019

In the second half of 2019, monetary policy will focus on bringing inflation back to the target range of 6-8% in the medium-term. In this regard, the Bank of Zambia will rely on the forward-looking monetary policy framework anchored on the Policy Rate as the key signal of the monetary policy stance, taking into account inflation forecasts and outcomes, identified risks, and progress in the execution of fiscal consolidation measures. Thus, market based instruments (i.e. open market operations) will be utilised to maintain the overnight interbank rate within the corridor of +/- 1 percentage point around the set Policy Rate.

Further, monetary policy will continue to support the Government's macroeconomic objectives outlined in the 2019 Budget Address and the Seventh National Development Plan (Table 2 - Appendix). However, the heavy reliance on domestic financing of the fiscal deficit may continue to exert upward pressure on interest rates, thereby constrain credit to the private sector and ultimately growth.

6.0 REVIEW OF GLOBAL ECONOMIC DEVELOPMENTS IN THE FIRST HALF OF 2019

6.1 Economic Growth

Preliminary data indicate sustained weak global economic activity in the first half of 2019 as the slowdown in investment and consumer demand, low business spending amid high policy uncertainty, and trade tensions continued. Preliminary estimates indicate that the global economy grew by 3.0% in the first quarter and by 2.8% in the second quarter of 2019.

Economic growth in Zambia's major trading partner countries generally slowed down, with the euro area registering the weakest performance in more than five years. The euro area recorded a year on year growth of 1.2% in first quarter and 1.1% in second quarter of 2019. Subdued growth in the euro area largely reflected significant slowdown in manufacturing activity across the region with the German industry hit particularly hard as trade tensions heightened.

In the UK, growth remained modest due to the slowdown in construction in addition to the Brexit related uncertainty. Preliminary estimates indicate the UK economy grew by 1.6% in the first quarter and 1.5% in the second quarter of 2019.

The Chinese economy registered weaker growth as construction and manufacturing decelerated amidst ongoing trade tensions with the US and as domestic deleveraging measures took effect. Year-on-year, the Chinese economy grew by 6.4% in the first quarter and 6.2% in the second quarter of 2019.

In South Africa, the drag on economic activity continued, following weakened investment, household consumption, and employment growth, exacerbated by electricity shortages and labour strikes. Short-term indicators suggest a modest recovery in the second quarter following a 3.2% contraction in the first quarter. Low business and consumer confidence on account of delayed implementation of structural reforms also remains a key constraint to the growth of the South African economy.

6.2 Commodity Prices

The developments in commodity prices during the first half of 2019 were mixed. Copper prices declined to US$5,882.2/mt in June 2019 from US$6,075.3/mt in December 2018 due to weak global growth concerns, particularly related to China's economic growth outlook as the trade dispute with the United States dragged on.

Crude oil prices, however, rose to US$61.3/barrel from US$56.5/barrel over the same period, largely reflecting the decision by OPEC+ members to continue to cut the supply, US sanctions on Iran, and geopolitical tensions in the Middle East.

Agricultural prices generally declined in the first half of 2019, largely due to increased supply on account of favourable crop conditions. Soybean prices declined to US$360.3/mt in June 2019 from US$380.5/mt in December 2018, while cotton and wheat prices fell to US$1.7/mt and US$206.1/mt from US$1.9/mt and US$211.3 /mt during the same period. The prices for maize, however, increased to US$195.1/mt in June 2019 from US$167.4/mt in December 2018 due to heavy rainfall and flooding.

7.0 ASSESSMENT OF MONETARY POLICY IMPLEMENTATION IN THE FIRST HALF OF 2019

In the first half of 2019, monetary policy continued to focus on maintaining inflation within the target range of 6-8%. In view of the rising inflationary pressures, and inflation projected to rise above the upper bound of the 6-8% target, the Bank of Zambia raised the Policy Rate by 50 basis points in May 2019 to 10.25% from 9.75%. In addition, the overnight lending rate was raised to 7.75 percentage points above the Policy Rate and commercial banks were required to account for accessing funds on the Overnight Lending Facility (OLF) Window. In its implementation of monetary policy, the Bank of Zambia continued to influence the overnight interbank rate to ensure that it remained as close as possible to the Policy Rate within the defined corridor of +/-1 percentage point.

However, higher than programmed fiscal deficits, elevated debt and debt service levels, high domestic arrears, and liquidity challenges continued to constrain the effectiveness of monetary policy implementation in the first half of 2019. The financing of the fiscal deficit from the domestic financial market continued to exert pressure on domestic interest rates to rise further, which affected the flow of credit to the private sector. Interest rates remained high, reflecting high yields on Government securities, tight liquidity conditions in the market, and high non-performing loans in the financial sector. Delay in payment of arrears owed to domestic suppliers and the emergence of arrears related to delayed remittance of third party loan payments by Government, continued to adversely impact the quality of assets (loans) in the financial sector and hence the ability of the financial sector to support growth. These challenges may continue if bold corrective measures are not taken.

8.0 REVIEW OF DOMESTIC MACROECONOMIC DEVELOPMENTS IN THE FIRST HALF OF 2019

8.1 Inflation Outturn

Average annual overall inflation remained unchanged at 8.0% in the first half of 2019. The end-period inflation was, however, higher at 8.7% in June 2019 than the 7.7% recorded in December 2018 (Charts 2a and 2b), driven largely by rising food prices (particularly maize and its products) and the pass-through from the depreciation of the Kwacha. The reduction in crop production during the 2018/19 farming season in Zambia and the Southern African region kept food prices at elevated levels.

Chart 2a: Annual Inflation (Percent)

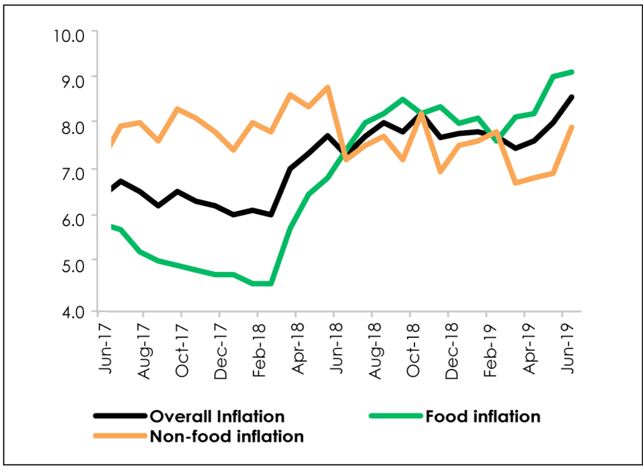
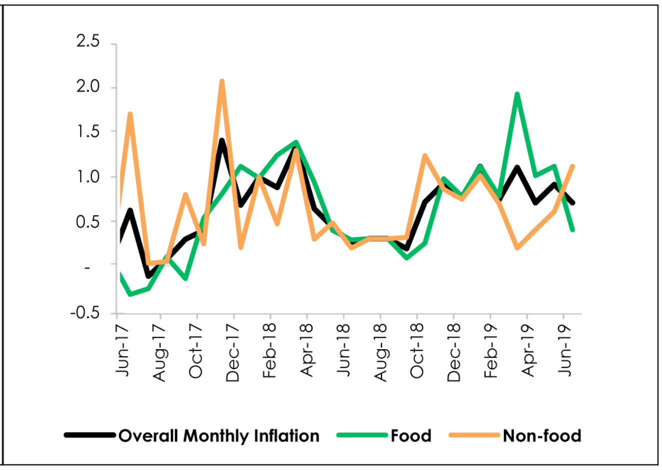


Chart 2b: Month-on-month Inflation (Percent)

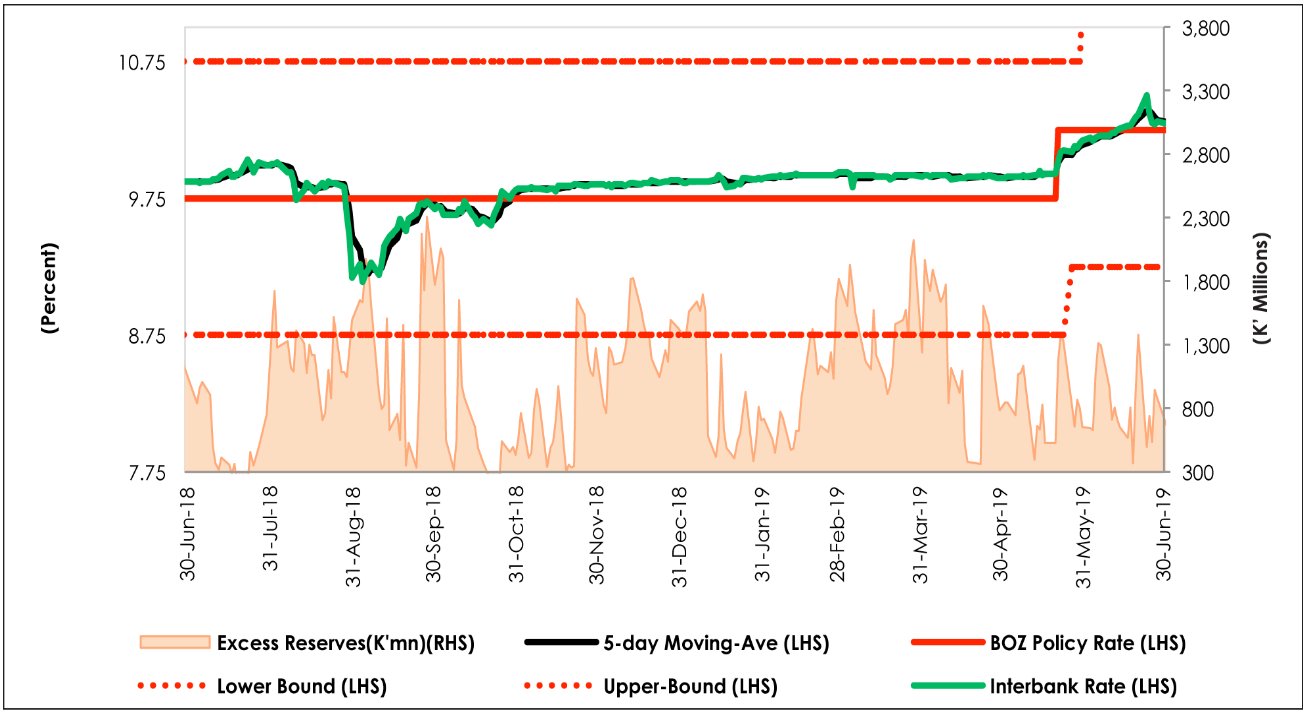


Source: Central Statistics Office

8.2 Interbank Rate and Money Market Liquidity

The open market operations conducted by the Bank of Zambia in the first half of 2019 kept the overnight interbank rate within the Policy Rate Corridor. However, the interbank rate rose to 9.98% from 9.76% (Chart 3 and Table 5 - Appendix). The rise in the interbank rate was induced by tight liquidity conditions attributed to net Government revenue, currency withdrawals, and statutory reserve transfers.

Chart 3: Market Liquidity and Interbank Rate



Source: Bank of Zambia Compilations

8.3 Government Securities Market

Demand for Government securities remained subdued in the first half as tight liquidity conditions persisted and demand remained weak due to subdued economic activity. The subscription rate for Treasury bills improved to 84% from 79%, while that for Government bonds reduced to 24.9% from 32.9% in the second half of 2018. Consequently, total funds raised (at cost) from Government securities was K10.6 billion against maturities of K10.8 billion, resulting in a deficit of K0.2 billion. As at end-June 2019, the stock of Government securities (at face value) increased by 3.4% to K60.3 billion from K58.3 billion, previously. The increase in the stock of Government securities was attributed to private placements of Government securities to selected institutions. Of the total stock of Government securities, non- resident investors held K8.2 billion, up from K8.1 billion, previously. All non-resident holdings were held in Government bonds.

8.4 Foreign Exchange Market

The Kwacha depreciated against all of its major trading partner currencies during the first half of 2019. Against the US dollar, the Kwacha depreciated by 11.8% to an average of K12.43 (Table 4 - Appendix). The depreciation of the Kwacha was mainly due to increased demand for foreign exchange by the energy sector, a stronger US dollar, and negative market sentiments arising from credit rating downgrades. Much of this depreciation occurred between April 1 and May 17, 2019 when the Kwacha weakened by almost 15%, but made some recovery towards the end of the second quarter following Bank of Zambia interventions to stem volatility.

8.5 Capital Markets

The Lusaka Securities All Share Index (LASI) fell by 13.0% to 4,564.78 at the close of the first half of 2019. The decline was largely on account of the fall in share prices of companies in the manufacturing, banking and energy sectors. The drop in the share prices is attributed to reduced earnings and high operating costs as a result the depreciation of the Kwacha. Consequently, market capitalisation declined to K57.8 billion in the first half from K60.5 billion. Net outflows from the Exchange reduced significantly to US$0.2 million compared to US$4.1 million in the last half of 2018. The reduction in the net outflow of investments on the Exchange was attributed to portfolio investors that took advantage of the dip in share prices.

8.6 Interest Rates

Interest rates generally edged up in the first half of 2019, partly in response to the upward adjustment in the Policy Rate, the general increase in the cost of funds, and tight liquidity conditions. The average commercial banks' lending rate rose to 25.4% in June 2019 from 23.6% in December 2018 (Table 6 - Appendix). The average effective lending rate for the non-bank financial institutions' sector rose to 48.4% from 46.7%. The rise in lending rates also reflected the high yield rates on Government securities. The weighted average Treasury bill yield rate rose to an average of 23.6% from 20.0%, while that for Government bonds rose by a bigger margin to 28.1% from 19.4%. Further, the average 30-day deposit rate for amounts exceeding K20,000 also rose to 6.2% from 5.3%. However, the average savings rate for amounts above K100 remained broadly unchanged at 3.1%.

8.7 Domestic Credit

Domestic credit grew by 7.8% in the first half of 2019, albeit at a slower pace than in the second half of 2018 when it grew by 11.4% (Table 7 – Appendix). The slowdown was on account of the reduction in lending, mainly to Government and private enterprises. The slowdown in credit to the private sector largely reflected tight credit conditions. This partly contributed to the slowdown in economic activity.

The growth in Kwacha denominated loans was unchanged at 8.6%, and covered virtually all the sectors. Foreign currency loans grew by 8.4%, up from 7.5% in the second half of 2018, driven by lending to agriculture, manufacturing, and transport sectors on account of increased demand for working capital. The household (personal loans) category continued to account for the largest share of total credit from commercial banks, representing 27.1% (27.9% in December 2018), followed by the agriculture, forestry and fishing sector at 17.3% (16.9% in December 2018) (Table 8 – Appendix).

8.8 Broad Money

Over the first six months of 2019, broad money (M3) growth slowed down to 1.2% to K63.7 billion (Table 9 - Appendix). This was against a growth of 14.0% recorded in the second half of 2018. M3 growth also slowed down year-on-year to 15.4% in June 2019 from 16.5% in December 2018. The slowdown was largely driven by the reduction in net foreign assets following a drawdown on commercial banks' foreign currency placements abroad on account of settlement of external obligations for their clients.

8.9 International Trade

A trade surplus of US$248.6 million (cif) was recorded in the first half of 2019 compared to a deficit of US$357.0 million in the second half of 2018. This was largely due to larger contraction in imports than exports (Tables 10 and 11 - Appendix).

Imports declined to US$3,678.3million from US$4,764.8million, and covered virtually all the categories. Export earnings declined to US$3,926.9 million from US$4,407.9 million recorded in the second half of 2018. This followed a drop in copper and cobalt earnings by 11.6% and 93.2% to US$2,767.1 million and US$3.3 million, respectively (Table 10 - Appendix). The outturn in copper earnings was explained by a reduction in export volumes[5] that fell by 13.7% to 449,044.7 metric tonnes (mt) as production at some mines decreased.

8.10 Economic Activity

Indicators of economic activity[6] point to a decline in growth in the first half of 2019 . Real GDP for the first quarter of 2019 is estimated at 2.6% compared to 2.7% in the corresponding period in 2018. This was also reflected in the Stanbic Purchasing Manager's Index (PMI)[7] which remained below the 50.0 threshold in the first half of 2019, indicating persistent challenges in the business environment for the private sector. Accounting for the weaker growth are largely the effects of drought on agriculture production, constrained electricity generation, as well as lower than anticipated mining output. This is in addition to liquidity challenges, subdued credit to the private sector and constrained aggregate demand that continue to weigh on economic activity.

[5] Export volumes refer to gross volumes exported which include, but not restricted to, production from Zambian mines.

[6] The Bank of Zambia Composite Index of Economic Activity, Bank of Zambia Quarterly Survey of Business Opinions and Expectations and Stanbic PMI.

[7] The PMI is a composite indicator produced by Stanbic Bank Zambia, to provide an overall view of activity in the economy. It is calculated as a weighted average of five individual sub-components: New Orders, Output, Employment, Suppliers' Delivery Times and Stocks of Purchases.

8.11 Fiscal Balance

Preliminary data indicate that the fiscal deficit remained high (Table 13-Appendix). To ensure overall macroeconomic stability and sustainable growth that is supportive of monetary of policy, the implementation of fiscal consolidation measures to address higher than programmed fiscal deficits, elevated debt and debt service levels, high domestic arrears and liquidity challenges is urgently required.

9.0 CONCLUSION

Monetary policy continued to focus on maintaining inflation within the target range of 6–8% in the first half of 2019. Average inflation remained broadly within the 6-8% target range. However, inflationary pressures continued to build up and exceeded the target range in May and June. This was largely due to the rise in food prices and the depreciation of the Kwacha. In the second half of 2019, inflation is projected to stay above the target range, as inflationary pressures persist. In this regard, monetary policy will focus on bringing inflation back to the target range in the medium-term.

However, the effectiveness of monetary policy may continue to be constrained by heavy reliance on domestic financing of the fiscal deficit which may continue to crowd out the private sector and exert upward pressure on interest rates, and ultimately constrain growth.

To bring inflation back to the target range, implementation of fiscal consolidation measures to address higher than programmed fiscal deficits, elevated debt and debt service levels, high domestic arrears and liquidity challenges remains critical. Lowering of the budget deficit will facilitate credit extension to the private sector and reduce yield rates on Government securities, thereby lead to lower lending rates generally. In addition, the dismantling of domestic arrears owed to the suppliers of goods and services will unlock funds for productive activities, which will contribute to supporting overall economic growth. This is also critical in supporting the reduction in non-performing loans and ensuring stability in the financial sector. The measures announced by the Government to restore fiscal fitness and macroeconomic stability in general, if effectively implemented, will restore the country's fiscal and debt sustainability and put the country on a path to stronger and more inclusive growth.

Appendix

Table 1: Actual and Projected Inflation: Jul 2017 – Dec 2019

	Projection (a)	Actual (b)	Forecast Error (b-a)
July 2017	6.6	6.6	0.0
August	6.5	6.3	-0.2
September	6.7	6.6	-0.1
October	6.8	6.4	-0.4
November	6.8	6.3	-0.5
December	7.0	6.1	-0.9
Jan 2018	6.2	6.2	0.0
February	6.2	6.1	-0.1
March	6.4	7.1	-0.3
April	6.5	7.4	-0.9
May	6.6	7.8	-1.2
June	6.4	7.4	-1.0
July	7.8	7.8	0.0
August	8.1	8.1	0.0
September	8.3	7.9	-0.4
October	8.4	8.3	-0.1
November	8.2	7.8	-0.4
December	8.2	7.9	-0.3
Jan 2019	8.0	7.9	-0.1
February	7.9	7.8	-0.1
March	7.6	7.5	-0.1
April	7.5	7.7	0.2
May	7.7	8.1	0.4
June	7.7	8.6	0.9
July	8.8	8.8	0.0
August	9.0	9.3	0.3
September	9.2		
October	9.0		
November	9.3		
December	9.3		

Source: Central Statistical Office and Bank of Zambia Compilations

Table 2: Macroeconomic Targets and Outturns: 2017 -2019

	2017 Target	2017 Outturn	2018 Target	2018 Outturn	2019 Target
Real GDP growth rate (%)	4.2	3.5	4.0	3.7	4.0
CPI Inflation, end period (%)	9.0	6.1	6-8	7.9	6-8
Gross Official Reserves (months of imports)	3.0	2.9	3.0	1.8	3.0
Broad Money growth (%)	17.9	21.4	20.7	15.4	10.2
Budget deficit (on cash basis, excluding grants), % of GDP	7.0	6.0	6.1	7.6	6.5
Domestic financing of Budget (% of GDP)	4.6	1.6	4.0	2.6	1.4

Source: Bank of Zambia Compilations, Central Statistical Office, Ministry of Finance

Table 3: Liquidity Influences (K' billion): Jul 2016 – Jun 2019

	Jul-Dec 2016	Jan-Jun 2017	Jul-Dec 2017	Jan- Jun 2018	Jul-Dec 2017	Jan-Jun 2019
Opening balance	0.8	2.7	0.3	1.4	1.1	1.4
Net Government spending	4.4	2.5	4.2	2.6	-1.0	-8.1
BoZ foreign exchange influence	3.5	2.4	2.2	2.5	1.4	3.2
Change in currency in circulation	-0.2	0.1	-0.3	-0.2	-0.5	-0.1
Change in statutory reserve deposits	-2.2	-0.8	-3.1	-6.0	-1.9	-0.3
Overnight Lending Facility	-0.2	0.02	-1.6	-2.8	-1.3	0.0
Net Government securities influence	4.3	-5.3	-1.6	3.1	2.6	2.3
Open market operations	0.3	-1.7	1.3	0.1	0.4	1.5
Closing balance	2.7	0.3	1.4	1.1	1.4	0.9

Source: Source: Bank of Zambia Compilations

Table 4: Exchange Rate: Jul 2016 – Jun 2019

Bilateral Nominal Exchange Rate (period average)						
	Jul-Dec 2016	Jan-Jun 2017	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2018	Jan-Jun 2019
ZMW/USD	9.9026	9.5393	9.5305	9.8241	11.1132	12.4260
ZMW/GBP	12.6561	11.9949	12.5691	13.5113	14.3836	16.0622
ZMW/EUR	11.7472	10.3230	11.2159	11.8850	12.7927	14.0373
ZMW/ZAR	0.7072	0.7218	0.7108	0.7982	0.7836	0.8752
Real Trade-weighted Exchange Rate (end-period)	**Dec 2016**	**Jun 2017**	**Dec 2017**	**Jun 2018**	**Dec 2018**	**June 2019**
Domestic CPI (2005=100)	281.9	291.3	299.0	312.6	322.6	339.6
Weighted Foreign CPI (2005=100)	139.6	141.9	143.2	145.7	146.7	149.3
NEER	2.83	2.81	3.03	3.03	3.45	3.73
REER Index (2005=100)	107.3	104.9	111.2	108.4	120.1	125.8

Source: Bank of Zambia Compilations

Table 5: Interest Rates (percent, period average): 2016 – 2018

	2016		2017		2018		2019
	First Half	Second Half	First Half	Second Half	First Half	Second Half	First Half
BoZ Policy Rate (end-period)	15.5	15.5	12.5	10.25	9.75	9.75	10.25
Overnight Lending rate (end-period)	25.5	25.5	18.5	16.25	15.75	15.75	18.0
Overnight interbank rate	24.3	17.2	12.2	10.03	9.87	9.87	9.98
Average commercial banks' lending rate	27.1	29	28.2	28.2	24.2	23.6	25.4
Savings rate							
more than K100	3.3	3.2	2.7	2.7	2.8	3.0	3.1
above K20,000 (180 days)	12.4	12.8	11.9	11.9	8.1	8.5	10.1
Treasury bills yield rates							
composite yield rate	24.6	23.7	14.9	15.06	16.46	20.04	23.55
91days	21.6	20.9	15.7	9.92	9.96	13.27	15.59
182 days	24.4	23.8	17.4	10.09	11.49	14.69	15.61
273 days	26.3	25.1	17.9	11.98	11.60	18.77	23.67
364 days	26.3	25	19.3	15.98	17.29	21.10	24.60
Government bond yield rates							
composite yield rate	25.4	25	18.1	18.2	18.56	19.38	28.11
2 years	24.5	25	21.4	16.5	16.40	19.25	27.66
3 years	24.3	23.9	20.9	17.9	17.90	19.22	28.00
5 years	28.3	26.3	21	17.8	17.90	20.30	28.83
7 years	28.5	26.6	21.6	18.6	18.98	18.74	25.04
10 years	23.4	24.6	21.4	19.7	19.50	20.56	26.62
15 years	23.5	23.3	23.3	18.7	18.50	17.37	18.33

Source: Bank of Zambia Compilations

Table 6: Average Annual Non-Banks' Effective Interest Rates (percent): 2017 – 2019

	1st Half 2017	2nd Half 2017	1st Half 2018	2nd Half 2018	1st Half 2019
Microfinance Institutions	73.4	81.3	82.7	83.1	81.03
Leasing Finance Institutions	59.1	52.0	28.0	40.5	39
Building Societies	39.5	35.3	28.9	34.91	34.9
Development Bank of Zambia	25.2	25.2	30.6	26.6	27.1
National Savings and Credit Bank	31.0	31.0	67.0	67.0	73
Financial Businesses	33.8	33.8	35.5	35.5	35.5
Overall for the sector	**43.7**	**43.1**	**45.5**	**46.7**	**48.4**

Source: Bank of Zambia Compilations

Table 7: Domestic Credit (K' billion unless otherwise stated): Dec 2016 – Jun 2019

	Dec 2016	Jun 2017	Dec 2017	Jun-2018	Dec-2018	Jun-2019
Domestic Credit [Gross](DC)	48.9	55.5	61.8	63.8	71.1	76.6
o/w foreign currency denominated	8.2	8.1	10.0	10.0	12.9	15.1
DC (excl. FX denominated credit)	40.7	47.4	51.8	53.8	58.2	61.5
6-month % change in DC	6.1	13.4	11.3	3.2	11.4	7.8
6-month % change in Forex Credit/	-7.9	-1.2	23.71	0.4	28.8	16.6
6-Month Change in DC (Excl. Forex Credit)	9.4	16.5	9.3	3.8	8.1	5.8
Annual Change in Domestic Credit	2.8	20.4	26.3	15.0	15.0	20.1

Source: Bank of Zambia Compilations

Table 8: Shares of Total Loans and Advances by Sector (percent): Dec 2016 – Jun 2019

	Dec 2016	Jun 2017	Dec 2017	Jun 2018	Dec 2018	Jun-2019
Agric, forestry, fishing & hunting	17.2	19.6	20.3	18.8	16.9	17.3
Mining & Quarrying	6.3	6.4	6.3	6.7	7.0	6.6
Manufacturing	12.7	10.6	7.8	7.9	9.2	10.7
Electricity, Gas, Water & Energy	2.2	2.2	3.1	2.8	3.0	4.3
Construction	3.9	3.8	4.4	3.9	3.0	2.4
Wholesale & Retail Trade	10.3	10.2	11.4	11.2	11.1	10.7
Restaurants & Hotels	1.6	1.4	1.5	1.3	1.3	1.1
Transport, Storage & Communications	4.6	4.5	4.7	4.7	6.2	7.8
Financial Services	1.8	2.3	2.2	3.0	4.1	2.6
Community, Social & Personal	1.7	4.3	4.1	4.2	4.8	4.7
Real Estate	3.5	3.7	3.5	3.7	3.5	3.3
Personal Loans	27.5	27.2	28.0	29.7	27.9	27.1
Others	6.8	3.9	2.7	2.1	2.1	1.3

Source: Bank of Zambia Compilations

Table 9: Broad Money (K' billion unless otherwise stated): Dec 2016 – Jun 2019

	Dec 2016	Jun2017	Dec 2017	Jun-2018	Dec-2018	Jun-2019
Broad Money (M3)	44.6	47.8	54.1	53.3	63.0	63.7
Foreign Exchange (FX) Deposits	17.1	16.7	19.4	21.4	25.4	25.9
M3 (excl. Foreign Exchange Deposits)	27.5	31.1	34.6	31.9	37.6	37.8
6-month change in M3 (%)	1.0	7.1	13.2	-1.5	14.0	1.2
6-month % change in Forex deposits	-7.2	-1.9	16.5	10.0	18.5	2.3
6-Month % change in M3 (excl. Forex deposits)	6.8	12.9	11.4	-7.9	18.0	0.4
Annual % change in M3 (%)	-5.7	8.3	21.4	15.6	16.5	15.4
Annual % change in Forex deposits	-17.9	-8.9	13.7	28.1	30.4	21.2
Annual % change in M3 (excl. Forex Deposits)	3.8	20.6	26.0	2.6	8.7	18.5

Table 10: Trade Data (c.i.f - US$ million): Jul 2016 – Jun 2019

	Jul-Dec 2016	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec 2018	Jan-Jun 2019
Trade Balance	**-504.6**	**2017**	**2017**	**2018**	**-357.0**	**248.6**
Total Exports, c.i.f. (including Gold)	**3,348.8**	**-250.5**	**-311.3**	**-86.8**	**4,407.9**	**3,926.9**
General Exports, f.o.b	**3,261.4**	**3,758.6**	**4,453.9**	**4,610.0**	**4,339.6**	**3,837.7**
Metals	2,356.8	2,908.0	3,382.4	3,619.3	3,179.2	2,770.5
Copper	2,284.9	2,857.8	3,307.8	3,548.8	3,130.7	2,767.1
Cobalt	72.0	50.2	74.6	70.5	48.5	3.3
Non-Traditional Exports	**904.6**	**766.2**	**999.9**	**911.0**	**1,160.4**	**1,067.3**
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	-13.2	0.0
Sub Total	913.4	779.4	1,013.0	924.1	1,173.6	1,067.3
Gemstones	15.4	49.1	4.9	5.1	5.6	63.0
Sulphuric acid	21.1	25.0	47.6	84.8	86.5	95.1
Industrial Boilers and Equipment	43.4	36.0	43.9	59.7	66.8	80.3
Cane Sugar	61.6	72.7	64.3	55.5	69.3	66.8
Gasoil/Petroleum Oils	6.2	4.2	3.8	4.5	5.1	4.1
Cement & Lime	40.8	34.5	40.0	43.7	70.0	71.9
Electricity	13.6	35.8	33.6	33.7	49.3	38.3
Raw hides, Skins & Leather	4.1	4.1	5.0	1.1	4.3	1.8
Sulphur sublimed or precipitated; colloidal	0.2	0.0	0.0	0.0	0.1	0.2
Burley Tobacco	46.0	51.7	36.8	42.3	62.3	28.5
Copper Wire	37.4	43.2	42.1	35.2	43.7	34.6
Scrap of precious metals	0.1	0.2	0.2	1.2	0.3	0.7
Maize & Maize Seed	108.9	25.4	72.2	18.4	26.0	10.7
Electrical Cables	7.3	9.1	10.9	13.6	7.6	11.2
Cotton Lint	45.0	13.7	24.6	12.0	37.2	21.2
Soap, Active Agents, Washing Preps.	27.9	21.4	24.5	25.4	27.7	21.6
Fresh Fruits & Vegetables	9.2	6.0	8.7	7.6	5.4	4.4
Manganese Ores/Concentrates	6.2	22.0	9.3	9.7	17.2	7.5
Wheat & Meslin	3.6	0.4	0.0	0.0	0.0	0.0
Fresh Flowers	6.2	6.3	4.6	6.4	3.7	4.6
Other	409.4	326.4	536.0	464.1	585.4	500.7
Gold	87.4	84.4	71.6	79.7	68.3	248.6
Imports c.i.f./1	**-3,853.3**	**-4,009.1**	**-4,765.2**	**-4,696.8**	**-4,764.8**	**-3,926.9**

Source: Bank of Zambia Compilations

Table 11: Imports by Commodity Groups (c.i.f - US$ million): Jul 2016 – Jun 2019

	July-Dec 2016	Jan-Jun 2017	Jul-Dec 2017	Jan-Jun 2018	Jul-Dec 2018	Jan-Jun 2019
Food Items	254.6	**224.7**	**286.4**	**255.9**	**258.9**	**233.3**
Petroleum Products	664.4	518.1	649.6	674.9	664.9	657.0
Fertilizer	187.2	303.5	237.3	186.9	244.5	102.8
Chemicals	515.3	503.5	961.4	504.3	492.6	430.7
Plastic and Rubber Products	173.7	175.2	208.6	224.7	247.4	211.2
Paper and paper products	58.0	58.7	56.1	58.0	74.8	53.0
Iron and Steel and items thereof	171.0	173.5	244.4	276.6	289.0	238.9
Industrial Boilers and Equipment	532.0	562.4	568.0	676.8	713.0	602.9
Electrical Machinery & Equipment	320.0	222.1	222.3	346.5	242.6	209.2
Vehicles	227.3	222.8	257.9	364.1	439.3	304.1
Ores, Slag and Ash	434.7	437.9	589.4	657.5	614.0	154.2
Other Imports	315.2	606.9	483.9	470.6	484.1	439.6
Total	**3,853.3**	**4,009.1**	**4,765.2**	**4,696.8**	**4,765.1**	**3,636.9**

Source: Bank of Zambia Compilations *Residual item and includes copper ores, sulphuric acid and clothing,

Table 12: Metal Export Volumes, Values and Prices: Jan 2016 – Jun 2019

	Copper				Cobalt			
	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound
Quarter 1	237,636.6	**1,043,080.2**	**4,389.4**	**2.0**	**1,241.2**	**22,037.1**	**17,754.4**	**8.1**
Quarter 2	225,653.5	1,055,918.3	4,679.4	2.1	1,102.8	20,587.8	18,668.9	8.5
Jan–Jun 2016	463,290.1	2,098,998.5	4,530.6	2.1	2,344.0	42,624.9	18,184.6	8.2
Quarter 3	**221,929.8**	**1,031,762.2**	**4,649.1**	**2.1**	**1,326.0**	**33,396.8**	**25.186.1**	**11.4**
Quarter 4	246,147.8	1,253,097.0	5,090.8	2.3	1,392.0	37,891.0	27,220.6	12.3
Jul-Dec 2016	468,077.6	2,284,859.2	4,881.4	2.2	2,718.0	71,287.8	26,228.0	11.9
Quarter 1	**259,675.9**	**1,429,496.8**	**5,504.9**	**2.5**	**602.8**	**26,683.6**	**44,264.9**	**19.8**
Quarter 2	253,428.0	1,428,281.5	5,635.8	2.6	652.2	23,504.8	36,040.6	23.3
Jan-Jun 2017	513,104.0	2,857,778.4	5,569.6	2.5	1,255.0	50,188.4	39,991.0	21.6
Quarter 3	**231,858.4**	**1,450,945.6**	**6,257.9**	**2.8**	**726.0**	**41,054.3**	**56,548.7**	**25.7**
Quarter 4	278,897.3	1,856,875.8	6,657.9	3.0	609.0	39,067.4	64,150.2	29.1
Jul-Dec 2017	510,755.2	3,307,820.9	6,476.3	2.9	1,335.0	80,121.8	60,016.3	27.2
Quarter 1	**272,106.4**	**1,907,609.7**	**7,010.5**	**3.2**	**397.0**	**32,256.1**	**81,244.0**	**36.9**
Quarter 2	253,774.4	1,641,198.3	6,467.2	2.9	462.0	38,222.7	82,733.2	37.5
Jan-Jun 2018	525,880.7	3,548,808.0	6,748.3	3.1	859.0	70,478.8	82,044.9	37.2
Quarter 3	**275,352.9**	**1,628,639.4**	**5,914.7**	**2.7**	**429.0**	**28,681.8**	**66,857.5**	**30.3**
Quarter 4	244,753.5	1,502,029.9	6,136.9	2.8	478.2	19,848.6	41,510.3	18.8
Jul-Dec 2018	520,106.3	3,130,669.3	6,019.3	2.7	907.2	48,530.4	53,497.1	24.3
Quarter 1	**236,465.7**	**1,432,112.4**	**6,056.3**	**2.7**	**66.0**	**3,314.4**	**50,217.9**	**22.8**
Quarter 2	**219,659.2**	**1,355,988.4**	**6,173.1**	**2.8**	**0.0**	**0.0**	**n.a**	**n.a**
Jan-Jun 2019	**456,124.9**	**2,788,100.8**	**6,112.6**	**2.8**	**66.0**	**3,314.4**	**50,217.9**	**22.8**

Source: Bank of Zambia Compilations

Table 13: Government Budget (K'bn): Jan 2018 - Jun 2019

	Jan - Jun 2018		Jul - Dec 2018		Jan - Jun 2019	
	Target	Prel	Target	Prel	Target	Prel
Total Revenue & Grants	25.2	**25.2**	**26.2**	**28.2**	**30.1**	**32.6**
Tax Revenue	19.9	21.3	20.9	23.0	24.8	25.1
Non-Tax Revenue	4.1	3.7	4.1	4.9	4.6	7.0
Grants	1.2	0.2	1.2	0.4	0.6	0.5
Total Expenditure	**36.0**	**42.0**	**37.5**	**37.2**	**43.1**	**46.1**
Current Expenditure	25.8	24.5	28.0	25.7	27.2	26.1
Personal Emoluments	11.4	10.4	11.7	11.4	12.9	11.2
Use of Goods & Services	3.4	2.8	4.3	2.9	2.3	1.9
Interest	5.4	6.4	5.8	7.2	7.3	9.2
Grants & Other Payments	4.3	3.9	4.3	3.5	3.7	3.4
Social Benefits	1.0	0.6	0.9	0.4	0.7	0.1
Other Expenses	0.3	0.2	0.9	0.4	0.4	0.2
0.2 Liabilities	0.7	0.1	0.6	0.3	0.3	0.0
Assets	9.5	14.9	7.2	8.2	11.1	14.3
Non- Financial Assets	9.3	14.9	6.9	8.2	11.0	14.3
Financial Assets	0.2	0.0	0.2	0.0	0.0	0.0
Change in Balances & Statistical discrepancy	2.2	0.1	0.3	0.2	1.5	1.0
Fiscal Balance	**-10.8**	**-14.3**	**-9.6**	**-6.0**	**-8.5**	**-7.9**
Financing	**8.6**	**15.0**	**9.6**	**6.1**	**10.0**	**8.8**
Net Domestic	5.6	4.0	6.5	3.1	2.9	0.2
Net Foreign (net)	3.2	11.0	3.1	3.0	7.1	8.6

Source: Ministry of Finance

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