Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JANUARY - JUNE 2006

Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to "formulate and implement monetary and supervisory policies that will ensure price and financial systems stability".

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This Monetary Policy Statement is made pursuant to Part II, Section 9 of the Bank of Zambia Act No. 43 of 1996

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Executive Summary

Concerns about rising inflationary pressures going into the second half of 2005 remained, as supply-side factors, namely, world petroleum prices (which continued to rise) and uncertainty about maize imports persisted. The conduct of monetary policy during the second half of 2005 was therefore focussed on achieving an overall inflation rate of 5.8% in order to meet the end-year annual overall inflation projection of 15.0%. To this end and as envisaged in the economic reform programme, reserve money and broad money (money supply) growth rates were to be limited to no more than 9.8% and 9.9%, respectively. In this regard, the Bank of Zambia was expected to continue to utilise mainly indirect instruments of monetary policy, notably open market operations and Government securities auctions. These were to be complemented by supportive fiscal performance as programmed and a relatively stable exchange rate.

A review of monetary policy performance in the second half of 2005 shows that money supply growth was lower than the targeted levels. Moreover, the exchange rate of the Kwacha against other currencies appreciated during the review period due to the continued favourable performance of the external sector and positive effects arising from the country's attainment of the enhanced HIPC Initiative Completion Point in April 2005. Consequently, annual overall inflation declined to 15.9% at the end of December 2005 from 19.2% at end-June 2005, and was broadly in line with the inflation objective of 15.0%. Annual non-food inflation decelerated to 14.0% at end-December 2005 from 19.2% at end-June 2005 while annual food inflation fell to 17.5% from 19.3% over the same period. This was despite adverse supply-side factors, such as, the shortfall in maize output in the 2004/2005 agricultural season, and interruptions in fuel supply during the period under review due to temporary shutdowns of Indeni Petroleum Refinery Company Limited.

With respect to interest rates, nominal lending interest rates of commercial banks declined marginally over the period under review, partly as a reflection of the decline in overall inflation. Yield rates on Government securities on the other hand trended upwards. This followed increased issuance of Government securities, the proceeds of which were for reducing domestic arrears. During the period under review, longer term Government securities, which included the 364-day Treasury bill, the 3-year and 5-year bonds, were introduced.

The conduct of monetary policy during the first half of 2006 will primarily focus on contributing to further lowering inflation. In this regard, the Bank of Zambia will aim at an annual overall inflation rate of 10.1% at end-June 2006, which is consistent with an end-year annual overall inflation of 10.0%. This will entail limiting reserve and broad money growth to 2.7% and 5.4%, respectively. Consistent with these targets, private sector credit will be expected to expand by 10.3% in order to allow for economic growth. It is also expected that fiscal performance will be supportive of these objectives and remain within the programmed level notwithstanding the holding of the national elections during the year.

Further, in the next two years to end-December 2007, the conduct of monetary policy will continue to be guided by market-based principles.

1.0 Introduction

This monetary policy statement reviews the performance of monetary policy over the period July to December 2005 and outlines the formulation of monetary policy during the first half of 2006. The statement also discusses the major challenges, which may impact on the conduct of monetary policy during the first half of 2006, and then outlines the policy actions that the Bank of Zambia is likely to take. An outline of the principles that will guide the Bank of Zambia's monetary policy formulation and implementation over the next two years up to December 2007 are discussed in the final part of this Statement.

Given that inflationary pressures were rising at the end of the first half of 2005, to meet the end-year annual overall inflation target of 15.0% during the second half of the year, monetary policy was tightened. To this end, the projected overall inflation rate for end-December 2005 was revised downwards to 5.8% from the initial projection of 8.9%. In this vein, reserve money and broad money growth rates were to be lowered to no more than 9.8% and 9.9%, respectively as was envisaged in the economic reform programme (see Table 1 and Appendix II Table 6). The attainment of these objectives was to be supported by an appropriate fiscal policy, coupled with relative stability of the exchange rate.

TABLE 1: SELECTED MONETARY INDICATORS, DEC 2003 DEC 2005 (PERCENT CHANGE)

	2003	2004	2005		Jul - Dec 2005*	
	Actual	Actual	Programmed	Actual	Programmed	Actual
Overall Inflation	17.2	17.5	15.0	15.9	5.8	6.6
Non-food Inflation	*21.7*	*18.9*	*16.0*	*14.0*	*7.8*	*4.0*
Food Inflation	*13.5*	*16.3*	*14.0*	*17.5*	*3.8*	*8.9*
Reserve Money	26.5	21.6	10.5	16.2	9.8	22.7
Broad Money	23.4	30.3	14.8	3.6	9.9	-4.1
Domestic Credit	38.4	20.5	18.0	2.3	8.0	-10.6
Government	*40.4*	2.6	*13.6*	*-8.3*	*8.7*	*-8.0*
Public Enterprises	*24.1*	*72.4*	*30.0*	*-1.7*	*-15.5*	*-12.3*
Private Sector Credit	*36.4*	*47.2*	*22.3*	*16.3*	*10.0*	*-12.9*
Domestic Financing (% of GDP)	5.1	1.9	2.0	2.5	1.3	1.8

Source: Central Statistical Office and Bank of Zambia

Notes: *Broad money and domestic credit figures for 2005 are as at end-November.

With tightening of monetary policy during the second half of 2005, broad money growth was lower than the targeted levels although reserve money was higher than the target. In addition, the exchange rate appreciated, largely due to the continued favourable performance of the external sector, especially after attainment of the enhanced HIPC Initiative Completion Point in April 2005. Accordingly, inflation pressures eased during the review period, as reflected in the fall in the annual overall, non-food and food inflation rates.

Furthermore, commercial banks' nominal lending interest rates although still remaining high declined slightly during the second half of 2005, explained mainly by the slow down in inflation,. However, the nominal savings rate, which had been fairly static since 2004 increased, while the deposit rate remained unchanged during the review period (see Section 2.1.15 and Appendix III).

2.0 Assessment of Monetary Policy Outcome, July December 2005

The conduct of monetary policy during the second half of 2005 focussed on achieving the end-December 2005 annual overall inflation rate of 15.0%, with annual food inflation and non-food inflation projected to decline to 14.0% and 16.0%, respectively. To achieve the end-December 2005 annual overall inflation objective:

- Reserve money growth was to be limited to 9.8% in the second half of 2005, consistent with the projection of 10.5% for the year as a whole;
- Broad money growth was to be limited to 9.9% over the second half of 2005, consistent with the programmed 14.8% growth in 2005;
- Private sector credit expansion was projected at 10.0%, consistent with the decline in the domestic financing of the budget and hence supportive of the economic growth objective; and
- Gross international reserves were, at a minimum, to be maintained at 1.3 months of import cover of merchandise goods and non-factor services by end-December 2005.

  In order to contribute towards the attainment of the end-year inflation objective and realise the envisaged growth rates in monetary aggregates and external sector targets, the Bank of Zambia was expected to continue to rely mostly on indirect instruments of monetary policy. To complement monetary policy, it was expected that:

- Government fiscal operations would continue as programmed; and
- The exchange rate of the Kwacha against other currencies would be relatively stable, owing to

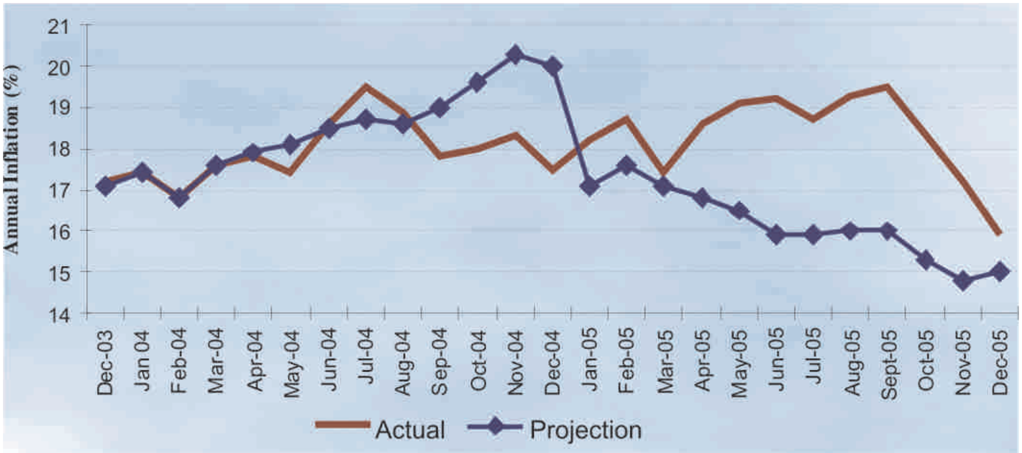
the continued anticipated favourable performance of the external sector and increased balance of payments support inflows following the approval of the second review of the PRGF arrangement by the IMF. In addition, the attainment of the enhanced HIPC Initiative Completion Point in April 2005 as well as the pledged additional debt relief on multilateral debt owed to the World Bank, the IMF and the African Development Bank (AfDB) under the Multilateral Debt Relief Initiative (G8 Initiative), were expected to contribute to the relative stability of the exchange rate.

However, there were some negative factors that were expected to contribute to a rise in inflationary pressures. These included, increases in world oil prices mainly driven by demand arising from economic expansion in China and India and threats of flaring instability in the Middle East (due to political problems), secondary effects of the 11.0% increase in electricity tariffs during the first half of 2005 on prices of other goods and services in the economy, and effects of the maize output shortfall.

2.1 Overall Inflation

In spite of the inflationary pressures alluded to above, annual overall inflation declined in the second half of 2005 to 15.9% and was broadly in line with the annual overall inflation target of 15.0% under the economic reform programme (see Chart 1 and Appendix II, Table 1). This outturn was on account of the slow down in both annual non-food and food inflation to 14.0% and 17.5% at end-December 2005 from 19.2% and 19.3% at end-June 2005, respectively.

CHART 1: ANNUAL OVERALL INFLATION, DECEMBER 2003 - DECEMBER 2005



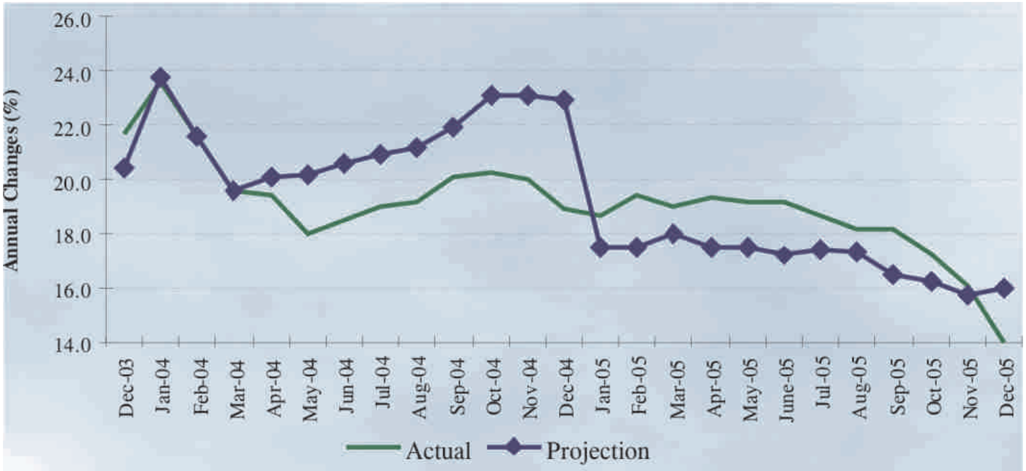
Source: Central Statistical Office and Bank of Zambia

Note: In the second half of 2004, the inflation targets were pessimistic on account of the fact that the PRGF arrangement had gone off-track. This explains the hump in the projected inflation rates.

2.1.1 Non-food Inflation

The annual non-food inflation rate declined by 5.2 percentage points to 14.0% at end-December 2005 from 19.2% at end-June 2005. This was 2.0 percentage points lower than the projected annual non-food inflation rate of 16.0% for the period (see Chart 2). The favourable outturn in non-food inflation was mainly attributed to the decline in broad money growth and the appreciation of the Kwacha against major currencies. This drop was also explained by the fall in crude oil prices on the world market. Consequently, the average prices of petrol, diesel and kerosene dropped by 10.3%, 6.5% and 16.7% to K5,124, K4,739 and K3,490 per litre in the second half of 2005, respectively. In addition, the appreciation of the exchange rate of the Kwacha against major currencies resulted in downward adjustments in Kwacha prices of airfares, hotel meals, new motor vehicles, as well as accommodation charges. In the following sections, some factors explaining non-food inflation developments are discussed further.

CHART 2: ANNUAL NON-FOOD INFLATION, DECEMBER 2003 - DECEMBER 2005

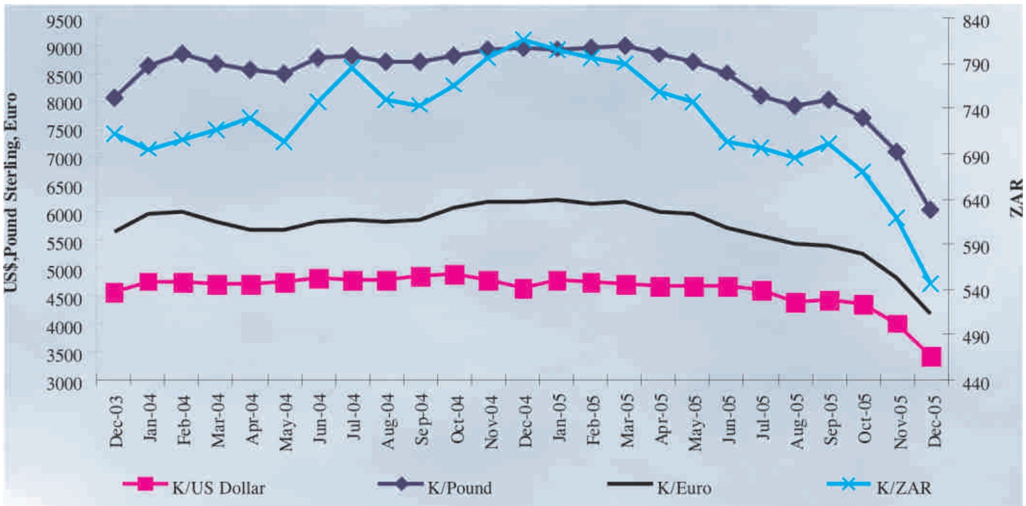


Source: Central Statistical Office and Bank of Zambia

2.1.1.1 Exchange Rate Developments

The performance of the Kwacha against major international currencies was particularly stronger in the second half of 2005 than during the first half of the year. The Kwacha's robust performance against major foreign currencies was due to the increased supply of foreign exchange on the market relative to demand. Backed by favourable external sector performance, actual inflows of foreign direct investments and the consolidation of positive sentiments following the country's attainment of the enhanced HIPC Initiative Completion Point in April 2005 (see Appendix 1A), the Kwacha appreciated by 27.0 % and 29.4 % to K3,427.53 and K6,040.67 against the US dollar and British Pound Sterling, respectively. Similarly, the Kwacha strengthened against the Euro and the South African Rand by 27.2 % and 21.5 % to end the second half of 2005 at K4,165.58 and K546.67, respectively (see Chart 3).

CHART 3: AVERAGE NOMINAL EXCHANGE RATES, DECEMBER 2003 - DECEMBER 2005

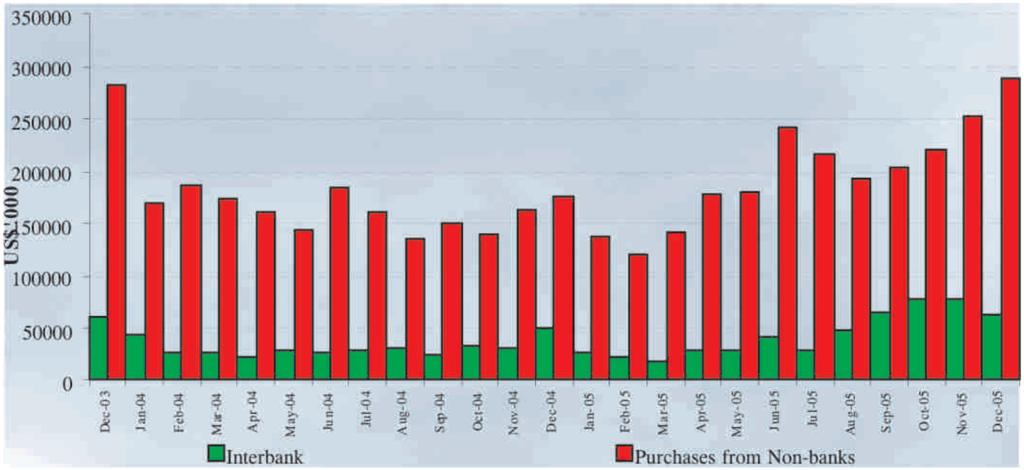


Source: Bank of Zambia

The increased supply of foreign exchange in the market was reflected by increased volumes of foreign exchange transactions. The volume of foreign exchange traded in the inter-bank market more than doubled to US $357.9 million in the second half of 2005 from US $164.0 million in the first half of 2005. Similarly, commercial banks purchases of foreign exchange from the non-bank public increased to US $1,372.2 million during the review period from total purchases of US $1,000.0 million recorded between January and June 2005 (see Chart 4).

Foreign portfolio investments into Government securities and domestic corporate stocks also contributed to the increase in the supply of foreign exchange on the market as non-residents attempted to lock-in the high yield rates and benefit from capital gains arising from the appreciation of the exchange rate of the Kwacha against major international currencies. Non-residents holdings of Government securities increased to K312.2 billion at end-December 2005 from K5.6 billion in July 2005. This represents 7.7% of the total outstanding Government securities. As a share of outstanding Treasury bills, non-residents held 17.0% while for Government bonds, the amount held by non-residents was 1.1%. However, although domestic corporate equities continued to attract a net inflow of foreign portfolio investments, the amount declined to US$2.9 million in the second half of 2005 from US$6.6 million during the first six months of the year. The net inflow of foreign portfolio investments was underpinned by heightened confidence among foreign investors in the Zambian economy.

CHART 4: COMMERCIAL BANKS FOREIGN EXCHANGE TRANSACTIONS



Source: Bank of Zambia

2.1.1.2 International Trade Developments

Preliminary data indicate that the trade balance narrowed to minus US $51.7 million during the second half of 2005 from minus US $135.8 million during the first half (see Appendix II, Table 2). This followed a larger increase in merchandise exports of 19.4% to US $1,204.8 million than the 9.7% increase in imports to US$1,256.5 million. The increase in both merchandise export receipts and import bill were attributed to increased economic activity in the economy.

The 19.4% growth in export earnings in the second half of 2005 was due to the increase in both traditional (metal) and non-traditional (non-metal) exports. Traditional export earnings rose to US $887.9 million during the second half of 2005 from US $734.4 million in the first half of 2005. Similarly, non-traditional export earnings increased to US $316.9 million from US $274.7 million over the same period.

There was an increase in both the estimated volume of copper exports and realised prices. It is estimated that the volume of copper exports increased to 230,359 metric tons in the second half of 2005 from 200,767 metric tons in the first six months of 2005. The average realised copper price increased to 160.5 US cents per pound in the second half of 2005 from 145.0 US cents per pound in the first half of 2005. Consequently, estimated copper earnings increased to US $816.8 million in the review period from US $644.9 million in the first half of 2005.

However, cobalt export earnings are estimated to have declined to US $71.0 million over the review period from US $89.5 million over the first half of 2005. This was on account of the decline in the realised price to US $11.23 per pound from US $14.58 per pound. This was despite estimated cobalt export volumes increasing to 2,858 metric tons in the review period from 2,781 metric tons in the first half of 2005.

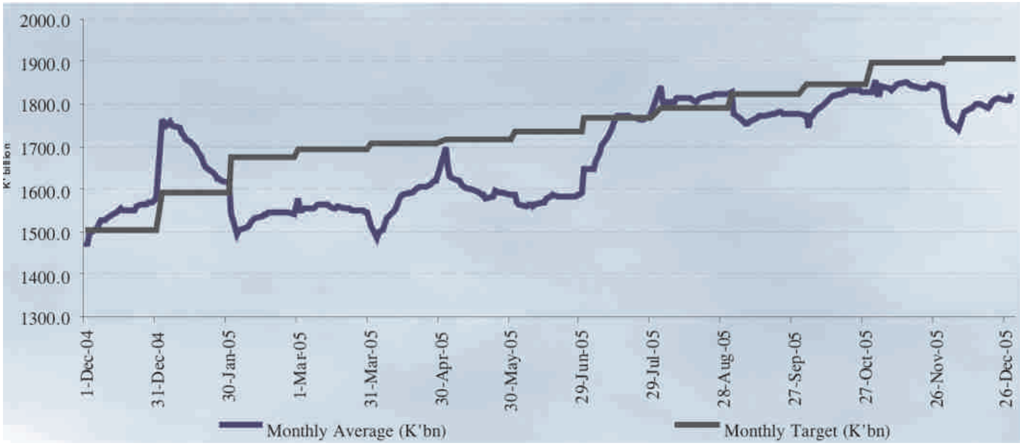
The rise in imports was largely attributed to an increase in the value of imports of petroleum products to US $192.7 million from US $57.3 million following increases in both prices and volume of products. The increase in volumes imported was attributed to the need to build reserves as Indeni Petroleum Company Refinery was increasing its production following closure for maintenance. In addition, fertiliser imports rose to US $106.5 million from US $32.5 million largely due to the seasonal nature of demand for fertiliser. Further, imports of industrial boilers and equipment, and chemicals increased to US $198.7 million and US $120.2 million from US $172.3 million and US $102.3 million, respectively (see Appendix II, Table 3).

2.1.1.3 Monetary and Credit Developments[1]

During the second half of 2005, reserve money performance was favourable, reflecting the implementation of tight monetary policy. Consequently, average reserve money for the third and fourth quarters at K1,774.2 billion and K1,829.8 billion was below the quarterly targets of K1,822.5 billion and K1,908.0 billion under the economic reform programme, respectively (see Chart 5).

[1] Data available up to end-November 2005.

CHART 5: MOVEMENTS IN AVERAGE RESERVE MONEY AND TARGET PATH, DECEMBER 2004 - DECEMBER 2005



Source: Bank of Zambia

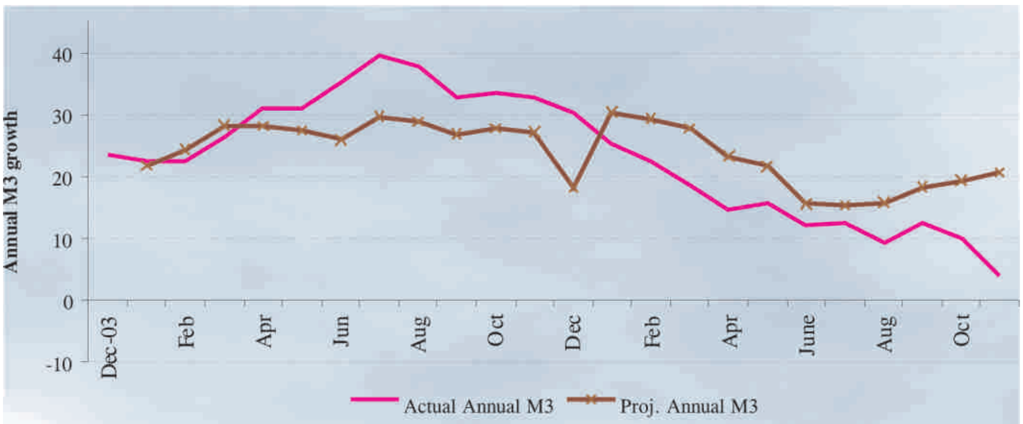
However, monetary conditions eased in December 2005 following donor inflows for budget support, which BoZ converted to Kwacha for government expenditure. This resulted in reserve money growth rising sharply during the last week of December 2005. Consequently, although average reserve money remained within the programmed target, reserve money stock increased by 22.7% to K2,006.6 billion at end-December 2005 from the end-June 2005 level of K1,635.2 billion (see Appendix II, Table 4). In order to neutralise the adverse effects of this liquidity injection, the Bank of Zambia stepped up the conduct of open market operations thereby withdrawing K865.5 billion during the period under review compared with an injection of K251.7 billion in the first half of the year. In addition, net sales of Government securities amounting to K383.9 billion helped in containing the growth in reserve money.

Relative to the economic reform programme, monetary conditions during the second half of 2005 remained tight, as broad money[2] growth continued being contained below programmed levels. Preliminary data show that broad money (M_3) growth decelerated to negative 4.1% in the second half of 2005 from a growth of 4.1% recorded during the first half of 2005, and was lower than the target of 9.9%. In absolute terms, broad money fell to K5,653.3 billion in November 2005 from K5,898.0 billion in June 2005.

The slow down in broad money growth was explained by the 25.1% decline in net domestic assets and contributed negative 38.2 percentage points to the growth. The decline in net Domestic assets was due to the fall in other items net largely owing to revaluation effects arising from the appreciation of the Kwacha against major international currencies during the period under review. In addition, a decline in domestic credit of 10.6% contributed to the contraction in net domestic assets. However, net foreign assets which increased by 65.2%, contributed 34.1 percentage points to broad money growth during the review period.

On an annual basis, broad money growth slowed down to 3.6% at end-November 2005 from 12.1% in June 2005 (see Chart 6). This was well below the projected annual growth of 14.8% at end-December 2005, thus contributing to the easing of inflationary pressures during the review period.

CHART 6: ANNUAL GROWTH IN BROAD MONEY, DECEMBER 2003 - DECEMBER 2005 (%)



Source: Bank of Zambia

On a semi-annual basis and consistent with the fall in broad money growth, domestic credit contracted by 10.6% in the second half of 2005 compared to the 16.8% growth in the first half of 2005, and was less than the projected 8.0% growth for the second half. The decline in domestic credit was attributed to the reduction in the banking system's lending to the Government (8.0%) and the private sector (12.8%). The fall in credit to the private sector was partly due to the valuation effects of the appreciation of the Kwacha against major international currencies which reduced the dollar denominated loans in Kwacha terms and seasonal fall in lending to the agricultural sector. However, on an annual basis, domestic credit grew by 2.3% though still lower than the projected expansion of 14.8%.

A review of commercial banks loans and advances shows that there was a decline of 13.2% in the second half of 2005. In terms of credit by sector, there was a decline in lending to the agriculture (20.0%), energy (17.4%), restaurants and hotels (16.1%), real estate (13.7%), mining (12.7%) and construction (6.6%) sectors. Similarly, lending to household fell by 19% during the period under review [see Appendix II, Chart 1]. Conversely, lending increased to financial services (27.8%), community services (22.5%) and transport and communications (3.2%) during the period under review. However, loans and advances increased by 45.8% during the second half of 2005 compared to the same period in 2004.

Notwithstanding the decline in credit to agriculture, an analysis of the composition or structure of domestic credit by the commercial banks shows that the agricultural sector continued to receive the leading share of total loans and advances (27.7%), followed by wholesale and retail trade (14.9%), the manufacturing sector (12.1%) and personal loans (16.3%) and. Other shares of loans and advances went to transport and communications (6.7%), energy (5.1%), mining and quarrying (3.9%), real estate (3.3%), and restaurants and hotels (2.6%) sectors (see Appendix II, Charts 2 ,3 and 4, and Table 5).

2.1.1.4 Fiscal Developments

Preliminary data indicate that the domestic budget recorded a deficit of K645.5 billion, on a cash basis, compared with the programmed deficit of K492.1 billion during the review period. The higher than projected fiscal deficit was largely explained by lower domestic revenue (see Appendix II, Table 7).

Total domestic revenue at K2,963.3 billion was 2.9% below the programmed domestic revenue of K3,052.7 billion, mainly attributed to poor performance in non-tax revenue. Non-tax revenue at K51.3 billion was lower than the projected revenue of K119.8 billion, largely as a result of unsatisfactory recoveries of fertiliser loans. However, tax revenue at K2,912.0 billion was broadly in line with the projected level of K2,932.9 billion, although the suspension of duty on maize and petroleum imports during the review period to prevent sharp increases in prices of these commodities contributed to a slight reduction in tax revenue.

On the expenditure side, total domestic expenditure at K3,608.8 billion was also broadly in line with the programmed expenditure of K3,544.8 billion for the review period. Nonetheless, expenditures on personal emoluments and recurrent departmental charges at K1,365.5 billion and K1,318.9 billion were above their targets by 3.5% and 3.2%, owing to salary increments and payment of domestic arrears, respectively. Consistent with developments in revenue and expenditure, total domestic financing during the second half was K565.7 billion compared with the programmed domestic financing of K403.0 billion for the same period.

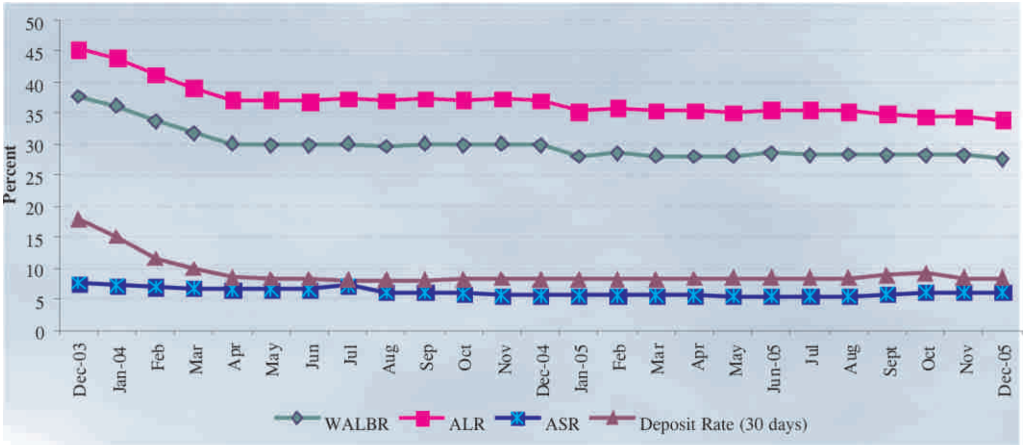
2.1.1.5 Interest Rates Developments

Commercial Banks Interest rates

Commercial banks nominal lending interest rates continued to decline during the second half of 2005, albeit, slowly. The weighted average lending base rate (WALBR) declined by 1.4 percentage points to 27.1% in December 2005 while the average lending rate (ALR) fell by 1.9 percentage points to 33.4%. The decline in the commercial banks' lending interest rates partly reflected the drop in annual overall inflation during the review period, especially in the fourth quarter of 2005. Conversely, savings rates which had remained virtually constant since 2004 edged upwards during the second half of 2005 while deposit rates remained unchanged. The average savings rate (ASR) for amounts above K100,000 increased to 6.1% from 5.5% in June 2005 while the 30-day deposit rate for amounts above K20 million remained unchanged at 8.4% at end-December 2005 (see Chart 7).

Following a decline in the nominal average lending interest rate and a rise in the average savings interest rate, the spread between them declined to 27.8 percentage points at end-December 2005 from 30.1 percentage points in June 2005. The spread between lending rates and the 30-day deposit rates although still high declined to 25 percentage points in December 2005 from 27.1 percentage points in June 2005.

CHART 7: COMMERCIAL BANKS INTEREST RATES, DECEMBER 2003 - DECEMBER 2005



Source: Bank of Zambia

Yield Rates on Government Securities

After trending downwards in the first half of 2005, yield rates on Government securities bottomed up and trended upwards in the latter part of the year. The composite weighted average Treasury bills yield rate rose from 14.7% at the end of June 2005 to 16.2% at the end of December 2005. Similarly, the composite yield rate for Government bonds, which closed the first half of the year at 17.0%, rose to 23.0% in December 2005. The rise in Government securities yield rates is attributed to the advent of longer term securities that debuted at higher yield rates (see Box) as well as increased issuance of securities for purposes of reducing Government domestic arrears.

Box: Introduction of Longer-dated Government Securities

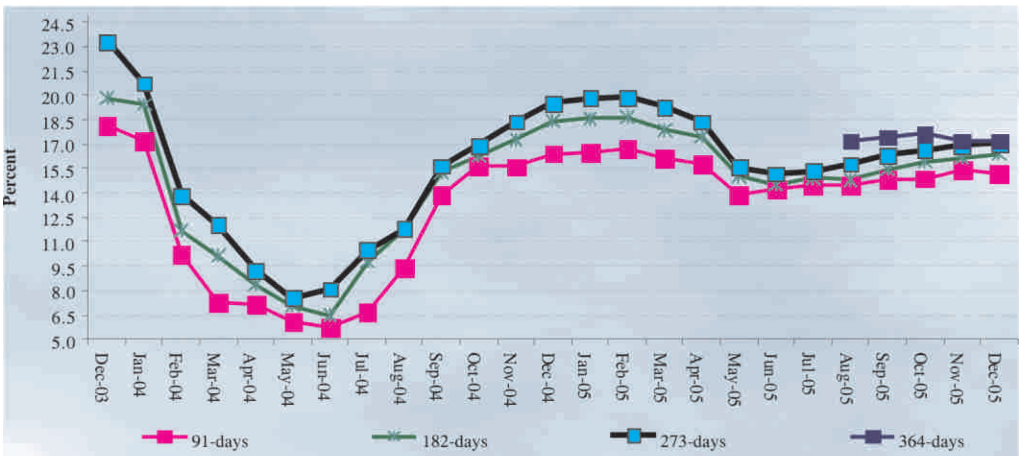
In recognition of the progress made and commitment towards macroeconomic stability along with the identified need to further develop the Zambian financial system, Government decided to introduce long term securities. It is expected that the introduction of these securities would provide the much needed additional investment channels for institutional and other investors as well as provide a benchmark for pricing other long term instruments.

In view of this, in August 2005, Government added the 364-day Treasury bill portfolio, and 3- and 5-year Government bond portfolios to its debt security issues. The 12- and 18-month Government bonds were phased out. The introduction of these additional securities was meant to have a pricing benchmark for the issuance of other private capital market instruments as well as to extend the Government securities yield curve to enable Government to restructure and efficiently manage its domestic debt.

The stock of Government securities further increased by 13.6% to K5,256.2 billion at the end of December 2005. The increase recorded during the review period was higher than the increase of 3.5% recorded during the first half of 2005. The expansion in the stock of Government securities is largely a reflection of the Government's financing requirement for the second half of the year. In terms of the distribution, most of the increase in the stock of Government securities emanated from an expansion of 25.5% in the amount of outstanding Treasury bills to K2,021.8 billion. In addition, the stock of Government bonds rose by 6.9% to K3,234.4 billion.

A general upward trend in yield rates on individual Government securities was recorded during the review period with the 91-day yield rate increasing to 15.6% in December from 14.2% in June, while the yield rate on the 182-day tenor rose by 2.1 percentage points to 16.6% over the same period. Similarly, the yield rate on the 273-day portfolio was 1.7 percentage points higher at 16.9% in December from 15.2% in June 2005. However, the yield rate on the newly introduced 364-day portfolio declined marginally by 0.2 percentage points from the rate recorded at its debut to 17.0% in December (see Chart 8).

CHART 8: TREASURY BILL YIELD RATES, DECEMBER 2003 - DECEMBER 2005 (% PER ANNUM)



Source: Bank of Zambia

Note: The 364-day Treasury bill portfolio was introduced in August 2005.

As regards Government bonds, the 2-year bond yield rate increased to 18.9 % by December 2005

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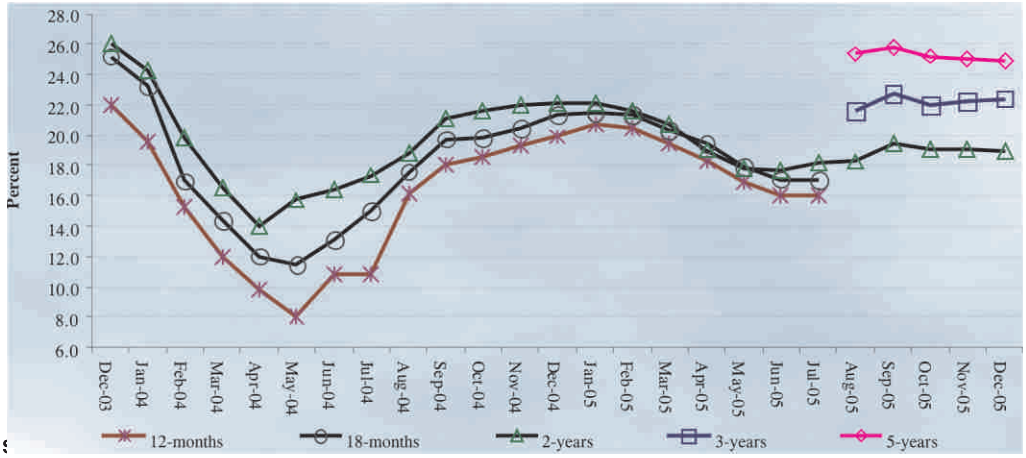
from 17.6 % in June. The yield rate on the 3-year bond also closed the review period 0.8 percentage points higher at 22.4 % from 21.6 % when it was first issued. However, the yield rate on the 5-year bond was 0.5 percentage points lower at 24.9 % in December from 25.4 % at its first issue in August 2005 (see Chart 9).

The positive yield curve that characterised the securities market in the first half of 2005 was maintained in the second half of the year. However, the yield gap between the short- and long-dated Treasury bill maturities narrowed while the gap between short- and long-dated Government bonds widened. The yield gap between the short and long-dated Treasury bill portfolios narrowed to 1.4 % during the review period from 1.6 % in the preceding period. With regard to Government bonds, the yield gap between instruments with short and long maturity periods widened to 6.0 % from 1.6 %, following a switch to long term instruments, reflecting higher inflation expectations over the longer horizon.

CHART 9: GOVERNMENT BOND YIELD RATES, DECEMBER 2003 - DECEMBER 2005 (% PER ANNUM)



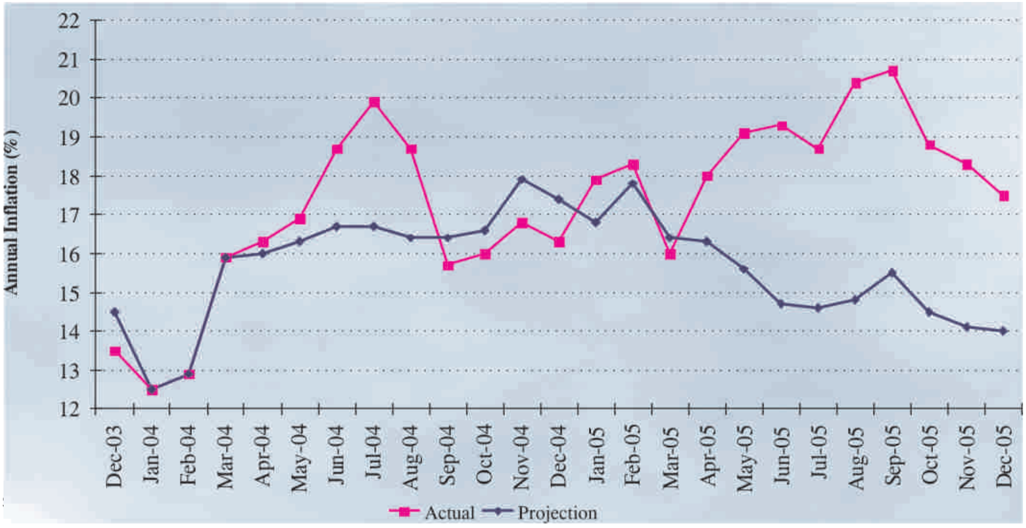
Notes: 1. The 3-year and 5-year Government bond portfolios were introduced in August 2005.
2. The 12-month and 18-month Government bond portfolios were discontinued in August 2005.

2.1.2 Food Inflation

The annual food inflation rate declined to 17.5% in December 2005 from 19.3% in June 2005 and exceeded the target by 3.5 percentage points (see Chart 10 and Appendix II, Table 1). The outturn in annual food inflation was largely attributed to increases in maize grain and maize meal prices arising from the shortfall in maize output due to the 2004/2005 prolonged dry spell. The maize shortfall was reflected by the country's estimated maize import requirement of 200,000 metric tons, to fill the supply-consumption gap. As a consequence of the maize shortfall, prices of maize meal edged upwards partly putting upward pressures on prices of maize grain and maize products. For instance, the indicative millers' maize grain price of a 50kg bag went up by 18.8% to K44,956.00 from K37,835.95 at end-June 2005 while the price of a 25kg of maize meal increased by 6.5% from K35,524.91 in the first half of 2005. In addition, the higher cost of production and transportation due to the pass-through effects of increased fuel prices during most of the year, although they declined during the fourth quarter, contributed to the build up of food inflationary pressures.

However, towards the end of 2005, increases in food prices slowed down following the reduced cost of transport as a result of the decline in the prices of petroleum products. Further, the Government allowed millers to import 200,000 mt of maize duty free to alleviate the maize grain shortfall.

CHART 10: ANNUAL FOOD INFLATION, DECEMBER 2003 - DECEMBER 2005



3.0 Monetary Policy Objectives and Instruments for the period January - June 2006

In view of the reduction in inflation in 2005 and the need to further lower inflation to 10.1% at end-June 2006, in line with the end-year target of 10.0%, the Bank of Zambia will implement appropriately tight monetary policy to ensure that broad money growth remains within the programmed path (see Appendix I, Table 1). In this vein, it is expected that during the first half of 2006:-

- Reserve money growth will not exceed 2.7%;
- Broad money growth will be no more than 5.4%; and
- Domestic credit expansion will be limited to 16.9% while private sector credit expansion of up to 10.3% would be allowed to support the envisaged economic growth.

The Bank recognises that the 22.7% growth in end of period reserve money stock in the second half of 2005 was mainly driven by a sharp increase in the last week of December 2005. If this liquidity is sustained in the banking system, it could contribute to inflationary pressures. It is against this background that monetary operations in the period January to June 2006 will aim at limiting reserve money growth to no more than 2.7%. This will be complemented by the expected reduction in programmed domestic budget financing while aiming at accommodating the expansion in domestic credit that will largely go to the private sector to allow for increased economic activity.

To achieve the above projections, the Bank of Zambia will continue to rely mainly on indirect instruments of monetary policy that include open market operations (OMO). The use of the above instruments of monetary policy will be expected to be effective provided:-

- The Government budget performs within the programmed level, in spite of national elections during the year;
- The exchange rate of the Kwacha against major foreign currencies remains stable during the following six months due to the continued strong external sector performance arising from the high copper prices and production, realisation of expected benefits of reaching the enhanced HIPC Initiative Completion Point, and the receipt of additional debt relief provided by the G8 countries under the Multilateral Debt Relief Initiative (MDRI);
- Production and availability of food improves; and
- Energy prices remain generally stable.

However, there are some challenges to the achievement of these objectives during the first half of 2006 include the following:

- Contending with possible increases in the price of oil on the world market, inflationary pressures may increase;
- Minimising volatility in the exchange rate; and
- Containing additional liquidity pressures that may arise from possible increased demands on the budget due to the general elections to be held during the year.

4.0 Monetary Policy Principles for January 2006 December 2007

Over the next two years, January 2006 to December 2007, lowering inflation further to single digit levels remains the Bank of Zambia's highest priority. Accordingly, monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies, as spelt out in the Poverty Reduction and Growth Facility (PRGF) arrangement (see Appendix IB) and the Medium Term Expenditure Framework for 2006 2008. The Government's broad macroeconomic policies and objectives over the medium term include the following:

(i) Achieving a real GDP growth rate of at least 6.0% in 2007 and beyond. The sectors to support the envisaged growth objective will continue to be agriculture, mining, manufacturing, tourism and construction;

(ii) Reducing the rate of inflation to 5.0% by end-December 2007. In this vein, the Bank of Zambia will continue to harness further the gains made in reducing inflation in 2005;

(iii) Increasing official gross international reserves from the current 1.5 months of import cover to a minimum of 2.0 months of import cover by 2007. The increase in gross international reserves will result from the strong external sector performance, reduced debt service following the attainment of the enhanced HIPC Initiative Completion Point, and the receipt of additional debt relief from the G8 countries; and

(iv) The exchange rate will continue to be market-determined.

The free market principles, which the Government has continued to pursue, will continue to guide the Bank of Zambia's formulation and implementation of monetary policy. Consistent with this, the Bank of Zambia will employ market-based instruments of monetary policy to limit the growth in reserve and broad money and thus contribute to the achievement of the inflation objective.

Appendix IA: Attainment of Enhanced HIPC Initiative Completion Point, April 2005

As a highly indebted poor country, Zambia was eligible for debt relief under the enhanced HIPC

Initiative and reached the Decision Point in December 2000. At this point creditors provided interim debt relief and were committed to irrevocable further debt relief once Zambia met the agreed triggers or conditions. These included, among others, the preparation and implementation of a Poverty Reduction Strategy Paper (PRSP) and certain macroeconomic and structural reforms, which included stabilizing the macroeconomic environment under the PRGF arrangement supported by the IMF and progress on the delivery of quality services in the social sectors principally health and education. By December 2004, Zambia made satisfactory progress in meeting the HIPC triggers and which enabled her to attain the enhanced HIPC Completion Point in April 2005.

As at end-2004, Zambia's debt stock was estimated at US $7.1 billion. Of this amount, about 56 percent (US $3.9 billion) was owed to multilateral creditors, 43 percent (US $2.7 billion) to bilateral creditors and a small balance of 1 percent (US $ 0.5 billion) to commercial creditors.

On reaching completion point, the total debt relief due to Zambia under the enhanced HIPC Initiative was estimated at US $3.9 billion in nominal terms and this is the amount by which the external debt stock of the country will be reduced over time. In May 2005, Zambia's Paris Club creditors agreed to cancel US $1.403 billion which represents the Paris Club share in the enhanced HIPC Initiative. The creditors also committed on a bilateral basis to grant additional debt relief to Zambia so that the stock of debt owed to the Paris Club would be reduced by a further US $393 million. Therefore, the total debt write-off is US $1.8 billion, which will leave a balance of US $124 million post cut-off debt that is owed to the Russian Federation.

Paris Club

In line with the Paris Club Agreed Minute of 2005 the Zambian Government held negotiations with the Russian Federation in December 2005 and signed a bilateral agreement on the settlement of the outstanding debt. In this Agreement, 100 percent of the pre cut-off debt was cancelled while 50 percent of the maturities of principal and interest on the post cut-off debt falling due from 2005 2007 were deferred (US $43.6 million). These amounts will be paid from 2009-2011 and will attract a lower interest rate. The remaining 50% of the principal and interest falling due in the same period 2005 - 2007 and the outstanding maturities due in 2008 2009 (US $84.7 million) shall be paid on due dates as agreed in the 2001 bilateral agreement.

In addition, as at 31 December 2005, the Government of the Republic of Zambia had concluded and signed bilateral agreements for implementation of 100 per cent bilateral debt cancellation with the governments of Japan, France and the United States of America, as agreed in the May 2005 Paris Club Agreed Minute.

Multilateral Debt Relief Initiative (MDRI)

In July 2005, the Group of 8 (G-8) major industrial countries at their summit held at Gleneagles in Scotland proposed that the International Monetary Fund (IMF), the World Bank and the African Development Bank should cancel 100 percent of their debt claims on 18 countries that had reached their Completion Point under the enhanced HIPC Initiative. The purpose of the G-8 proposal now termed the Multilateral Debt Relief Initiative (MDRI) is for these multilateral institutions to provide full debt relief to these low-income countries in order to free up additional resources for these countries to advance towards the United Nations Millennium Development Goals (MDGs) which are focused on halving poverty by 2015. The costs of debt relief to the three multilateral institutions would be met by bilateral contributions from the G-8 countries and other donors.

On December 22, 2005, the IMF Executive Board completed an assessment and determined that 19 countries, which included Zambia, had qualified for debt relief under what is now termed the Multilateral Debt Relief Initiative (MDRI). On January 5, 2006, the Executive Board of the IMF approved grant assistance for Zambia from the MDRI-II Trust and modified the HIPC delivery schedule to enable the repayment of Zambia's outstanding eligible debt to the Fund. Therefore, on 6th January, 2006, the Fund as Trustee disbursed SDR 398,472,701 and SDR 4,119,299 from the MDRI-II Trust and the Umbrella Account bringing the total to SDR 402,592,000 to repay Zambia's eligible debt to the PRGF Trust. This relief clears the bulk of the outstanding PRGF loans which stood at SDR 413,596,400, as at 31 December 2005 leaving a balance of SDR 11,004,400 representing the disbursements under the PRGF in 2005.

Given the above developments, the outlook for 2006 is that Zambia's external debt stock will be reduced substantially and there should therefore be reduced debt service payments going forward. This will help to further stabilise the exchange rate of the Kwacha against other currencies and allow the Government to use saved resources for development and poverty reducing programmes.

Appendix IB: The Poverty Reduction and Growth Facility (PRGF) Arrangement

During the review period, an IMF staff mission visited the country in July and October 2005. The July mission participated in discussions on Zambia's 5th National Development Plan for 2006-2010 and performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The mission observed that economic performance had continued to improve despite the adverse effects of the drought in 2004/2005 agricultural season and high prices for imported petroleum products. However, higher than expected copper prices and the increase in non-traditional exports assisted in strengthening the external sector, thus mitigating the effects of high fuel prices. It was noted that the main challenge remained that of bringing inflation down which had persistently remained above target.

Satisfactory assessment of performance under the PRGF by the July 2005 mission led to the Fund's disbursement of SDR 5.5 million (equivalent to US $7.9 million). The IMF disbursement triggered further disbursements of balance of payments support to Zambia. During the review period, Zambia received a total of US $113.7 million from its cooperating partners, namely; the World Bank (US $22.6 million), African Development Bank (US $ 8.9 million), European Union (US $64.7 million), United Kingdom (US $10.6 million), Sweden (US $0.5 million) and Norway (US $6.0 million) compared to US $ 41.3 million received in the first half of 2005. This was against debt service payments, excluding IMF debt service, of US $ 133.0 million paid to various creditors.

The October mission carried out the third review of performance under the PRGF arrangement and undertook Article IV consultations. The mission also discussed the 2006 PRGF arrangement. The IMF observed that satisfactory performance under the PRGF arrangement had continued through end-September 2005 despite the supply side shocks (high oil prices and poor rainfall) that contributed to higher inflation outturn. Despite this, the Zambian authorities decided to maintain the end December 2005 inflation target at 15.0% in order to safeguard credibility of policies (see Appendix IB, Table 1). This decision was supported by the IMF.

Following the October mission, the IMF Board completed the third review of performance under the PRGF arrangement and approved US $15.9 million disbursement on 11 January 2006. The satisfactory performance will lead to the enhancement of investor confidence in the Zambian economy.

TABLE 1: MACROECONOMIC OUTTURN AND TARGETS IN 2005, AND TARGETS FOR 2006

	End-December 2005 Targets	End-December 2005 Outturn (Preliminary)	End-December 2006 Targets
Real GDP growth rate (%)	5.0	4.3	6.0
CPI Inflation, end period (%)	15	15.9	10.0
CPI Inflation, annual average (%)	16.2	18.3	14.4
Gross Official Reserves (in months of imports)	1.3	1.8	1.5
Broad Money growth (%)	14.8	1.3	14.3
Domestic budget deficit (% of GDP)	1.8	2.9	3.1
Domestic financing of the Budget (% of GDP)	2.0	2.5	1.6

Source: Bank of Zambia and Ministry of Finance and National Planning

Performance against Programme Benchmarks at end-December 2005

Regarding the quantitative benchmarks, preliminary data indicate that all the benchmarks for December 2005 were met. The floor on Gross International Reserves (GIR), the ceiling on both the Net Domestic Assets (NDA) of the Bank of Zambia and the Net Domestic Financing of Government were met. The Unencumbered International Reserves were above the end-December 2005 adjusted floor by US $137.5 million while the NDA was below the adjusted ceiling by K443.7 billion. The NDF of Government was met by K76.0 billion. As for the structural benchmarks, the performance criteria were observed and most benchmarks implemented.

In 2006, Government aims at implementing a macroeconomic framework that will support strong economic growth and a substantial reduction in poverty. The broad macroeconomic objectives for 2006, include: (i) attaining real GDP growth of at least 6 percent; (ii) containing inflation to no more than 10 percent; (iii) limiting domestic borrowing to 1.6 percent of GDP; (iv) increasing gross international reserves to no less than 1.5 months of import cover and (v) remaining current with foreign debt service.

Appendix II: Statistical Tables and Charts

TABLE 1: PROJECTED AND ACTUAL INFLATION, JUNE 2004 - DECEMBER 2005 (%)

	Annual Overall		Annual Food		Annual Non-Food	
	Actual	Projection	Actual	Projection	Actual	Projection
Jun 04	18.6	18.5	18.7	16.7	18.5	20.6
Jul	19.5	18.7	19.9	16.7	19.0	20.9
Aug	18.9	18.6	18.7	16.4	19.2	21.2
Sep	17.8	19.0	15.7	16.4	20.1	21.9
Oct	18.0	19.6	16.0	16.6	20.3	23.1
Nov	18.3	20.3	16.8	17.9	20.0	23.1
Dec	17.5	20.0	16.3	17.4	18.9	22.9
Jan 05	18.2	17.1	17.9	16.8	18.7	17.5
Feb	18.7	17.6	18.3	17.8	19.4	17.5
Mar	17.4	17.1	16.0	16.4	19.0	18.0
Apr	18.6	16.8	18.0	16.3	19.3	17.5
May	19.1	16.5	19.1	15.6	19.2	17.5
Jun	19.2	15.9	19.3	14.7	19.2	17.2
Jul	18.7	15.9	18.7	14.6	18.7	17.4
Aug	19.3	16.0	20.4	14.8	18.2	17.3
Sep	19.5	16.0	20.7	15.5	18.2	16.6
Oct	18.3	16.3	18.8	14.5	17.8	16.2
Nov	17.2	14.8	18.3	14.1	16.1	15.7
Dec	15.9	15.0	17.5	14.0	14.0	16.0

TABLE 2: TRADE DATA (US $ MILLION)

	Jan-June 2004	July-Dec 2004	Jan-June 2005	July-Dec 2005
Trade Balance	**(146.7)**	**(208.8)**	**(135.8)**	**(51.7)**
Exports, c.i.f	**858.5**	**945.0**	**1,009.1**	**1,204.8**
Metals	**634.6**	**685.8**	**734.4**	**887.9**
Copper	481.3	532.7	644.9	816.8
Cobalt	153.3	153.1	89.5	71.0
Non Metals	**223.9**	**259.2**	**274.7**	**316.9**
EBZ export audit	7.4	7.4	7.4	7.4
Total	216.5	251.8	267.3	309.6
Copper Wire	25.8	30.8	49.5	53.2
White Spoon Sugar	20.1	22.2	44.8	23.2
Burley Tobacco	12.4	23.9	19.9	50.0
Cotton Lint	16.1	27.9	14.2	52.6
Electric Cables	14.1	18.7	22.7	23.4
Fresh Flowers	11.4	9.0	15.6	15.4
Cotton Yarn	12.8	12.4	12.7	10.7
Fresh Fruit/Vegetables	9.9	14.1	10.5	10.6
Gemstones	6.0	8.8	7.6	12.28
Gas oil	15.9	15.8	7.2	3.0
Electricity	1.9	2.4	2.4	2.4
Others	70.2	65.7	60.3	62.4
Imports c.i.f /1	**(1,005.2)**	**(1,153.8)**	**(1,144.9)**	**(1,256.5)**

Source: Bank of Zambia

Note: * = Figures for November and December 2005are preliminary

Monetary Policy Statement

TABLE 3: MAJOR IMPORT GROUPS, US $ MILLIONS

Description	2005 Jan-June	2005 July-Dec *	Percentage Change
Food Items	11.5	11.4	-0.9
Petroleum Products	57.3	192.7	236.3
Fertilisers	32.5	106.5	227.7
Chemicals	102.3	120.2	17.5
Plastic and Rubber Products	131.7	68.0	-48.4
Paper and Paper Products	187.4	95.8	-48.9
Iron and Steel	58.8	78.7	33.8
Nuclear Reactors and Equipment	172.3	198.7	15.3
Electrical Machinery and Equipment	94.4	75.6	-19.9
Vehicles	100.0	100.5	0.5
Other Imports	196.7	207.3	5.4
Total Imports	**1,144.9**	**1,256.5**	**9.7**

Source: Central Statistical Office and Zambia Revenue Authority
Note: * = Figures for July - December 2005 are preliminary

TABLE 4: SOURCES OF RESERVE MONEY GROWTH

	Jan - Jun 2005		Jul - Dec 2005	
	Total (K'bn)	**Contribution to Reserve Money Growth (%)**	**Total (K'bn)**	**Contribution to Reserve Money Growth (%)**
1/ Net Foreign Assets (a+b+c+d)	**424,873**	**24.7**	**341,634**	**20.9**
a) Net Purchases from Govt	0.0	0.0	0	0.0
b) Net Purchases from non-Government	437,099	25.4	216,828	13.3
c) Bank of Zambia own use of foreign exchange	0.0	0.0	0.0	0.0
d) Change in stat. reserve deposits foreign exchange balances	-12,226	(0.7)	124,806	7.6
2/ Net Domestic Credit (a+b)	**-508,851**	**(29.6)**	**29,804**	**1.8**
a) Autonomous influences	**-272,083**	**(15.8)**	**848,755**	**51.9**
Maturing Open Market Operations	251,730	14.6	650,915	39.8
Direct Govt Transactions	-147,214	(8.6)	568,674	34.8
TBs and Bonds Transactions	-370,577	(21.6)	-383,874	(23.5)
Claims on non-banks (Net)	-6,022	(0.3)	13,041	0.8
b) Discretionary influences	**-236,768**	**(13.8)**	**-818,951**	**(50.1)**
Open Market Operations	-237,050	(15.9)	-865,540	(52.9)
i. Repos entered into (+ve)	52,000	3.0	0.0	0.0
ii. Treasury bills outright sale (-ve)	-35,700	(2.1)	0.0	0.0
iii. Term Deposits Taken (-ve)	-253,350	(14.7)	-865,540	(52.9)
Treasury bill Rediscounts	1,188	0.1	40,838	2.5
Other claims (Floats, Overdrafts)	-906	(0.1)	5,751	0.4
Change in Reserve Money	**-83,978**	**(4.9)**	**371,438**	**22.7**

Source: Bank of Zambia

TABLE 5: PERCENTAGE SHARE OF LOANS AND ADVANCES BY SECTOR (SIX-MONTH AVERAGE)

	2003	2004		2005	
	Dec	Jun	Dec	Jun	Dec
Agriculture, forestry, fishing and hunting	22	26	29	27	28
Mining and quarrying	4	5	4	4	4
Manufacturing	16	14	14	12	12
Energy and Water	1	5	5	6	5
Construction	2	2	2	2	2
Wholesale and retail trade	15	14	14	13	15
Restaurants and hotels	4	3	4	3	3
Transport, storage and communications	8	10	8	7	7
Financial services	2	2	1	1	2
Community, social and personal services	2	4	5	3	2
Real estate	1	2	2	3	3
Personal Loans	13	7	10	16	16
Other sectors	7	2	2	3	1
Total	100	100	100	100	100

Source: Bank of Zambia

TABLE 6: SELECTED MONETARY INDICATORS (PERCENT CHANGE)

	2003	2004	2005	
	Actual	Actual	Actual	Programmed
Overall Inflation	17.2	17.5	15.9	15.0
Non-food Inflation	*21.7*	*18.9*	*14.0*	*16.0*
Food Inflation	*13.5*	*16.3*	*17.5*	*14.0*
Reserve Money	12.2	21.6	16.2	10.5
Broad Money	23.4	30.3	3.6	14.8
Domestic Credit	38.4	20.5	2.3	18.0
Government	40.4	2.6	*-8.3*	*13.6*
Public Enterprises	24.1	72.4	*-1.7*	*30.0*
Private Sector Credit	36.4	47.2	*16.3*	*22.3*
Domestic Financing (% of GDP)	5.1	1.9	2.5	2.0

Source: Central Statistical Office and Bank of Zambia

TABLE 7: SECOND HALF 2005 DOMESTIC FISCAL OUTTURN

	Target	Prelim.	% Change
	K' billion	K' billion	
Total Domestic Revenue	**3,052.7**	**2,963.3**	**(2.9)**
Tax Revenue	2,932.9	2,912.0	(0.7)
Non-Tax Revenue	119.8	51.3	(57.2)
Total Domestic Expend.	**3,544.8**	**3,608.8**	**1.8**
Current Expenditure	**3,290.2**	**3,352.9**	**1.9**
Wages and Salaries	1,318.9	1,365.5	3.5
PSRP	18.2	27.5	51.1
RDCs	889.8	918.5	3.2
O/w Arrears	101.0	191.4	89.5
Transfers and Pensions	396.0	414.2	4.6
Domestic Debt Interest	411.3	372.9	(9.3)
External Debt Interest	99.0	110.7	11.8
Other Current Exp.	151.6	140.0	(7.7)
Contingency	5.4	3.6	(33.3)
Domestic Capital Exp.	**353.6**	**366.6**	**3.7**
Domestic Balance	**(492.1)**	**(645.5)**	**(31.2)**
Financing	403.0	565.7	40.4

Source: Ministry of Finance and National Planning

CHART 1: COMMERCIAL BANKS LOANS AND ADVANCES BY SECTOR (JUNE 2004 - DECEMBER 2005)

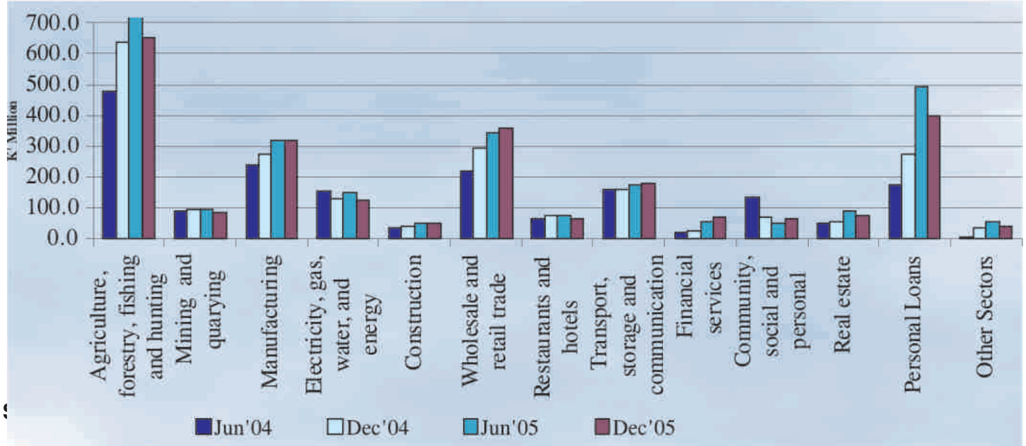


CHART 2: STRUCTURE OF LOANS AND ADVANCES (MONTHLY AVERAGE, JULY - DECEMBER 2005)

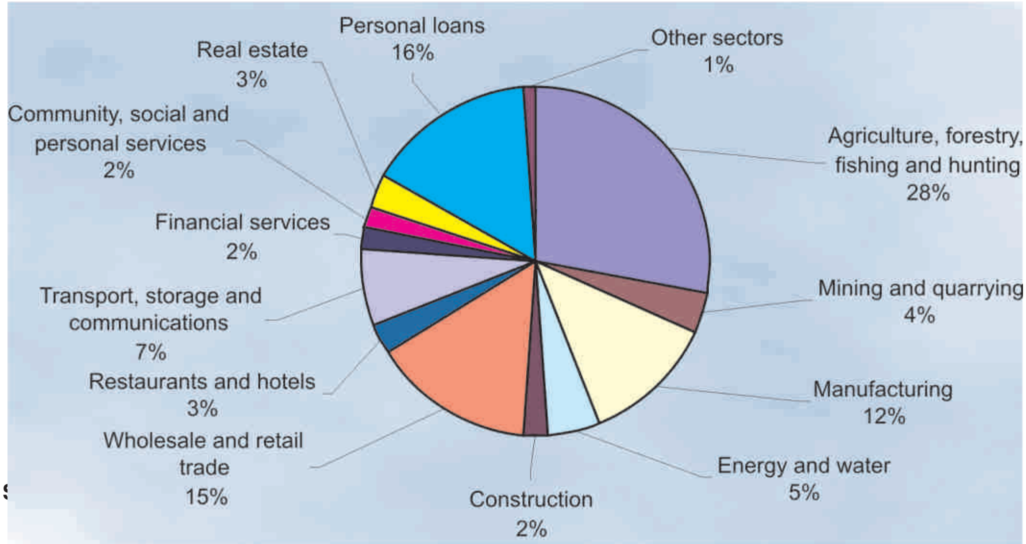
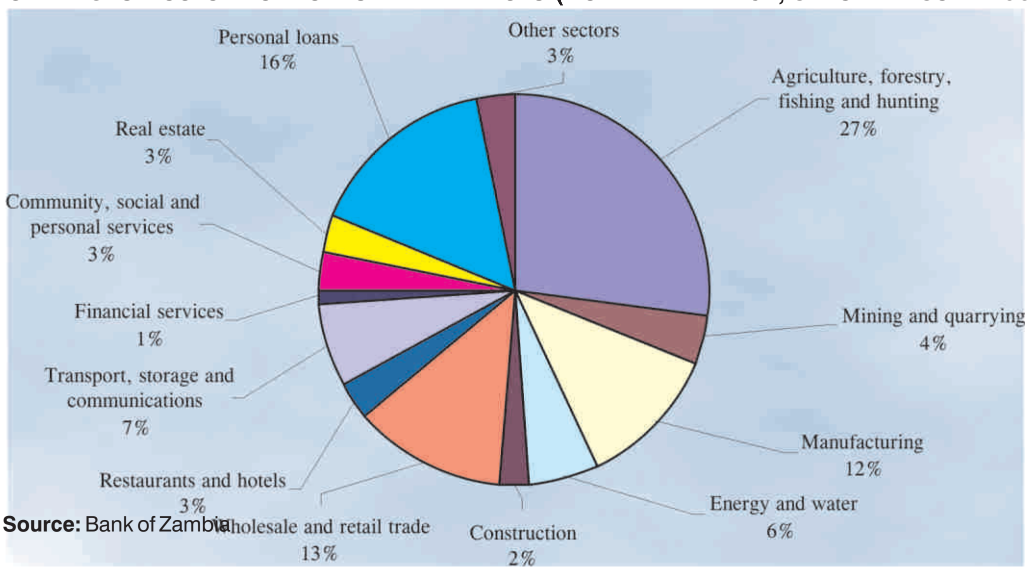
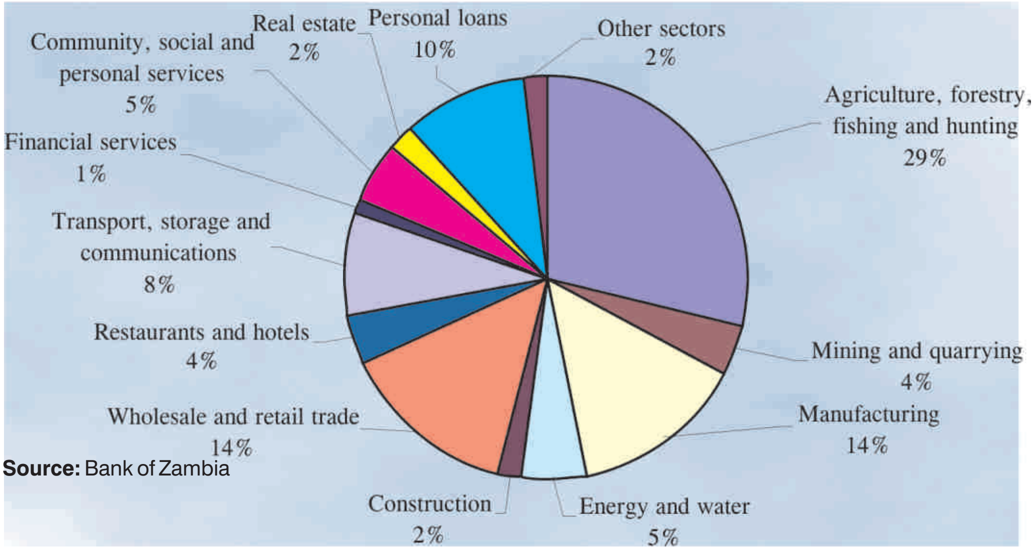


CHART 3: STRUCTURE OF LOANS AND ADVANCES (MONTHLY AVERAGE, JANUARY - JUNE 2005)



Source: Bank of Zambia

CHART 4: STRUCTURE OF LOANS AND ADVANCES (MONTHLY AVERAGE, JULY - DEC 2004)



Source: Bank of Zambia

Appendix IV: Composition of the Monetary Policy Advisory Committee (MPAC)

1. Dr Caleb Fundanga Governor

APPENDIX III: SELECTED MACROECONOMIC INDICATORS

	2000 December	2001 December	2002 December	2003 December	2004 Dec	2005 Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monetary Aggregates (K'bn)													
Reserve money*	555..8	805.4	1,118.6	1,444.4	1,727.1	1,522.7	1,635.2	1,894.7	1,804.9	1,748.1	1,847.3	1,746.6	1,898.6
Broad money*	2,503.0	2,752.5	3,619.7	4,467.9	5,819.9	5,497.0	5,898.0	6,029.6	5,915.0	6,060.1	5,957.1	5,653.3	-
Net Claims on Government	13,366.9	1,793.6	1,998.9	2,474.6	2,523.1	2,570.2	2,626.7	2,504.2	2,680.8	2,730.6	2,658.1	2,378.4	2,645.3
Real GDP Growth	3.9	4.9	3.3	5.1	5.4	-	-	-	-	-	-	-	5.1
Nominal GDP (in K' Billion)	10,071.9	13,132.7	16,260.4	20,481.0	25,997.4	-	-	-	-	-	-	-	32,648.6
Nominal GDP (in US $' million)***	3,237.5	3,637.0	3,775.4	4,318.0	5,409.0	-	-	-	-	-	-	-	9,649.0
GDP per capita (in Kwacha)	977,855.0	1,245,135.0	1,505,549.0	1,969,326.9	2,458,500.0	-	-	-	-	-	-	-	2,941,315.3
GDP per capita (in US dollars)	314.3	346.4	349.6	415.2	515.1	-	-	-	-	-	-	-	869.3
Population (in millions)	10.3	10.5	10.8	10.4	10.5	-	-	-	-	-	-	-	11.1
Prices (%)													
Inflation	30.1	18.7	26.7	17.2	17.5	17.4	19.2	18.7	19.3	19.5	18.3	17.2	15.9
Nominal Interest and yield rates (aver. %)													
Commercial banks' weighted lending base rate	37.5	46.7	42.4	37.7	29.8	28.1	28.6	28.2	28.3	28.2	28.2	28.2	27.4
Average Savings rate (>K100,000)	9.7	8.7	8.1	7.6	5.6	5.6	5.5	5.5	5.5	5.7	6.1	6.1	6.1
Deposit rate (30 days, over K20 million)	17.9	19.8	19.3	17.9	8.2	8.2	8.4	8.4	8.5	8.9	9.2	8.6	8.4
Treasury bill yield rates													
Weighted TB rate	33.8	48.2	31.7	19.7	17.8	17.8	14.7	14.8	15.4	16.2	16.8	16.6	16.4
28-day	11.5	41.5	25.3	-	-	-	-	-	-	-	-	-	-
91-day	34.1	50.5	32.0	18.2	16.3	16.2	13.9	14.5	14.4	14.9	14.9	15.4	15.2
182-day	36.7	50.4	32.9	19.8	18.3	18.0	14.4	14.9	14.8	15.6	15.9	16.1	16.4
273-day	38.6	46.4	33.2	21.0	19.4	19.4	15.0	15.3	15.6	16.4	16.6	16.8	17.0
Government bonds													
12 months	38.7	54.1	41.0	22.0	19.6	20.0	16.7	16	-	-	-	-	-
18 months	43.3	54.9	41.5	25.2	20.8	21.0	17.7	17.1	-	-	-	-	-
24 months	45.8	55.4	41.6	26.1	22.0	21.2	17.8	17.8	18.2	18.7	19.2	19.1	17.0
3 year									21.6	22.1	22.2	22.0	19.1
5 year									25.3	25.5	25.4	25.2	22.0
Real Rates (%)													
Commercial banks' weighted lending rate	7.4	28.0	15.7	20.5	12.3	10.7	9.4	9.5	9.0	8.7	9.9	11.0	11.5
Average savings rate	(20.4)	(10.0)	(18.6)	(9.6)	(11.9)	(11.8)	(13.7)	(13.2)	(13.8)	(13.8)	(12.2)	(11.1)	(9.8)
Deposit rate (30 days, over K20 million)	(12.2)	1.1	(7.4)	0.7	(9.3)	(9.2)	(10.8)	(10.3)	(10.8)	(10.6)	(9.1)	(8.6)	(7.5)
Treasury bill yield rates													
Weighted TB rate	3.7	29.5	5.0	2.5	0.3	0.4	(4.5)	(3.9)	(3.9)	(3.3)	(1.5)	(0.6)	0.5
28-day	(18.6)	22.8	(1.4)	-	-	-	-	-	-	-	-	-	-
91-day	4.0	31.8	5.3	1.0	(1.2)	(1.2)	(5.3)	(4.2)	(4.9)	(4.6)	(3.4)	(1.8)	(0.7)
182-day	6.6	31.7	6.2	2.6	0.8	0.6	(4.8)	(3.8)	(4.5)	(3.9)	(2.4)	(1.1)	0.5
273-day	8.5	27.7	6.5	3.8	1.9	2.0	(4.2)	(3.4)	(3.7)	(3.1)	(1.7)	(0.4)	1.1
Government bonds													
12 months	8.6	35.4	14.3	4.8	2.1	2.6	(2.5)	(2.7)	-	-	-	-	-
18 months	13.2	36.2	14.8	8.0	3.3	3.6	(1.5)	(1.6)	-	-	-	-	-
24 months	15.7	36.7	14.9	8.9	4.5	3.8	(1.4)	(0.9)	(1.1)	(0.8)	0.9	1.9	1.1
3 year	-	-	-	-	-	-	-	-	2.3	2.6	3.9	4.8	3.2
5 year	-	-	-	-	-	-	-	-	6.0	6.0	7.1	8.0	6.1
Exchange rates (average K/US $)													
Commercial banks' weighted selling rate	4,209.79	3,890.73	4,842.02	4,598.38	4,670.94	4,730.60	4,713.33	4,647.78	4,432.64	4,468.08	4,376.52	4,049.31	3,449.49
Bank of Zambia mid rate	4,108.75	3,820.33	4,740.05	4,645.48	4,651.51	4,710.58	4,685.77	4,624.46	4,401.83	4,439.67	4,346.08	4,026.68	3,383.63
Real sector													
Mining output (tonnes)													
Copper	259,573.0	298,150.0	27,513.0	33,369.0	34,961.0	32,110.0	37,857.6	37,027.00	37,593.0	38,685.0	43,664.0	44,551.0	42,300.0
Cobalt	4,373.0	4,375.0	230.0	184.0	443.0	567.7	485.5	474.7	432.3	481.6	470.7	484.2	478.8
Metal Earnings (US $mn)													
Copper	425.2	506.7	41.6	59.0	100.7	104.5	134.0	118.2	140.1	137.9	138.2	141.0	139.0
Cobalt	72.2	82.9	2.6	7.7	14.6	16.5	14.5	10.5	11.1	14.1	11.7	11.1	12.3
Total	497.4	589.6	44.2	66.7	115.3	121.0	148.5	128.7	151.2	152.0	149.9	152.1	151.3
External sector (US $ mn)													
Trade Balance	-350.5	-389.5	11.9	-10472.4	-43.7	-34.9	-16.0	-39.3	(22.2)	0 (53.90)	(131.50)	(30.20)	(23.60)
Exports, c.i.f.	735.8	901.4	94.2	1074.8	145.7	145.9	152.5	180	206.50	213.60	200.70	208.30	205.40
Imports, c.i.f.	-1086.3	-1290.8	-82.3	-11547.2	-189.4	180.8	168.5	219.2	228.70	267.50	332.20	238.50	229.00
Gross Official Reserves (US $'mn)	268.3	116.5	464.8	272.2	312.2	311.9	431.2						

Source: Bank of Zambia
** Reserve money is narrowly defined.
*** Based on BoZ annual average mid-exchange rate
- Not available.

2. Dr Denny H Kalyalya	Deputy Governor - Operations
3. Mr Felix Mfula	Deputy Governor - Administration
4. Mrs Petronela N Mwangala	Permanent Secretary, BEA
5. Dr Situmbeko Musokotwane	Member
6. Dr Chiselebwe Ngandwe	Member
7. Dr Mwene Mwinga	Member
8. Mr Dale Mudenda	Member, Economics Department, University of Zambia
9. Mr Dennis Chileshe	Member, School of Business, Copperbelt University
10. Mr Charles Chabala	Member
11. Ms Elfrida Chulu	Member