



Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JANUARY - JUNE 2009



Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to “formulate and implement monetary and supervisory policies that achieve and maintain price stability and promote financial system stability in the Republic of Zambia”.

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Executive Summary

During the second half of 2008 monetary policy remained focused on attaining the inflation target of 7.0%. To this effect, liquidity in the banking system was to be contained to limit broad money growth within the programmed path. To achieve this, the Bank of Zambia (BoZ) were to rely mainly on the auctioning of Government securities and Open Market Operations (OMO). These monetary policy actions were to be complemented by prudent fiscal management.

In the period under review, the deepening of the global financial crisis and the subsequent global economic slowdown exerted unfavourable effects on the domestic economy. This was reflected in a reduction in demand and prices for commodities and hence reduced earnings from copper exports by mining companies. Further, the supply of foreign exchange by foreign portfolio investors for the purchases of Kwacha financial assets, such as Government securities and domestic company equities, significantly declined as most non-residents liquidated their investments and took foreign exchange out of the economy. Consequently, these actions exerted pressure on the exchange rates, hence the depreciation of the Kwacha against major foreign currencies. In this regard, the recent rapid depreciation of the Kwacha against major trading currencies has had adverse implications on the macro-economic stability that the country achieved over the past few years. However, the Bank of Zambia continues to take necessary measures in an effort to minimise volatility in the foreign exchange market and remain committed to achieving and maintenance of price and financial system stability in the economy.

Overall annual inflation rose to 16.6% in December 2008 from 12.1% in June 2008 and was well above the end-year inflation target of 7.0%. This was due to the rise in both food and non-food inflation to 20.5% and 12.9% in December 2008 from 15.6% and 8.8% in June 2008, respectively.

This outturn was attributed to an increase in food prices driven by low supply and higher production costs arising from increased transport costs and electricity load shedding. In addition, domestic fuel prices rose by 11.6% during the third quarter, due to high petroleum prices on the world market and the subsequent upward adjustment of transport costs coupled with pass-through effects of the weakening of the Kwacha against major currencies.

Foreign exchange market was characterised by increased volatility as the Kwacha depreciated by 50.0% against the United States dollar to an average of K4,882.16/US\$ at end-December 2008 from an average of K3,253.84/US\$ in June. Similarly, the Kwacha depreciated by 12.9%, 26.9% and 15.6% against the Pound Sterling, Euro and the South African Rand, respectively. The outturn was due to a number of factors; including the political uncertainty surrounding the illness and eventual passing on of President Mwanawasa, the worsening of the global financial crisis, decline in the supply of foreign exchange amid rising demand, sharp decline in the copper prices, and the subsequent global economic slump.

Preliminary data indicate that Zambia recorded a merchandise trade deficit (c.i.f) of US \$1,016.7 million during the second half of 2008 from a merchandise trade surplus of US \$407.0 million recorded during the first half of 2008. This was mainly explained by a 21.0% increase in the merchandise imports bill coupled with a 33.2% decline in merchandise export earnings.

Reserve money increased by 24.1% to K3,213.7 billion at end-December 2008, which was 9.6 percentage points higher than the projected end-period stock. The increase in reserve money recorded during the review period was significantly higher than the increase of 1.8% recorded in the preceding period, and mainly reflects an expansion in net domestic credit. Similarly, M3 growth increased to 20.6% in the second half of 2008 from 1.2% registered in the first half of 2008. This was 10.0 percentage points above the projection of 10.6% for end-December 2008. In the period under review, the M3 growth emanated from increase in both net domestic assets (NDA) and net foreign assets (NFA). NDA rose by 22.8%, which contributed 13.1 percentage points to M3 growth. Similarly, NFA edged up by 17.5% and contributed 7.4 percentage points to the growth in M3.

Preliminary data indicate that the Government budget recorded a deficit of K762.5 billion during the second half of 2008 (first half; K246.7 billion deficit), 17.4% higher than the programmed deficit of K649.6 billion. This was mainly attributed to the fall in line ministry balances at Bank of Zambia by K827.0 billion against the programmed increase of K637.1 billion. The higher deficit was despite favourable revenue and expenditure performance.

During the second half of 2008, the deficits recorded on Government securities auctions pushed up yield rates on both Treasury bills and Government bonds. Similarly, commercial banks lending and deposit interest rates marginally increased while savings rate remained unchanged. The relatively high inflationary expectations also contributed to the general upward trend on interest rates.

The primary objective of monetary policy in the first half of 2009 is to achieve an end-year inflation target of 10.0% at end-December 2009. However, there are challenges to the achievement of the inflation objective and money supply targets which include pass-through effects of the depreciation of the Kwacha against major currencies; continued electricity outages; and the expected decline in food production due to inadequate support services and high production costs.

For the two year period to December 2010, the Bank of Zambia will aim at reducing annual inflation further to 7.0% at the end of 2010. In this regard, monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the Fifth National Development Plan (FNDP) and the 2008/2010 Medium-Term Expenditure Framework, which are broadly in line with the Vision 2030.

In the next two years, the Bank of Zambia will continue to formulate and implement monetary policy in line with the market-based principles that are consistent with broad Government policies, thereby contributing to the achievement of the inflation objective. To achieve macroeconomic stability in view of the global financial meltdown and the resulting economic recession, the monetary policy framework will continue to be reviewed to take account of developments in the domestic and global financial markets and to enhance the efficacy of monetary policy.

1.0 Introduction

This Monetary Policy Statement reviews the global financial crisis and the performance of monetary policy over the period July to December 2008 and outlines the formulation of monetary policy during the first half of 2009. The statement also discusses the major challenges, which may impact on the conduct of monetary policy during the first half of 2009, 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 2010 are discussed in the final part of this Statement.

2.0 Global Financial Crisis and Economic Situation in Zambia

The genesis of the current global financial crisis started between 2002 and 2006 when lending to the household sector in the United States of America (USA) was growing at rate far beyond the overall economic growth. In 2002, the USA interest rates fell to as low as 1.75%. This led to increase in borrowing whose repayments could not have been met at higher interest rates. When the initial interest rate periods expired and the interest rates on the loans adjusted to higher levels, many borrowers were unable to service their debts. This led to high loan defaults, foreclosures and a decline in demand for homes. Consequently, signs that the sub-prime lenders were in trouble began to emerge in early 2007. Although the financial crisis started in the USA, its impact has already been felt in the rest of the financial markets of the world economies.

In this regard, the deepening of the global financial crisis and the subsequent global economic slowdown is having a significant effect on the domestic economy. The slump in global economic growth has resulted in a reduction in demand for commodities including copper, thereby exerting downward pressure on the prices of most of the commodities in international markets. Since the worsening of the global financial crisis, copper prices at the London Metal Exchange (LME) have declined by 207.9% to US\$2,850.50 per tonne on 23 December, 2008 from US\$8,775.50 per tonne at the end of June 2008. The sharp decline in the price of copper entails reduced earnings from copper exports by mining companies. For instance, the supply of foreign exchange to the market by mining companies has declined to an average of US \$71.3 million in the fourth quarter compared with averages of US \$108.5 million and US \$117.8 million in the third and second quarters, respectively. In the first quarter, mining companies supplied US \$98.8 million on average. In an environment of reduced earnings from the country's major foreign exchange earner, activities in the mining sector are likely to be slowed down, thereby impacting negatively on the overall economic situation in Zambia.

Further, due to the global financial crisis, the supply of foreign exchange by foreign portfolio investors for the purchases of Kwacha financial assets, such as Government securities and domestic company equities, has significantly declined, with most non-residents preferring to liquidate their investments and taking foreign exchange out of the economy. The increased demand for foreign exchange has consequently exerted pressure on the exchange rates, hence the depreciation of the Kwacha against major foreign currencies. The net outflow of foreign exchange through the activities of foreign portfolio investors is reflected in net foreign exchange purchases by offshore institutions amounting to US \$128.3 million in the fourth quarter so far, up from net purchases of US \$88.6 million in the third quarter. In the second quarter, these institutions net purchases were US \$71.1 million while in the first quarter, foreign banks were net suppliers of US \$87.8 million.

To this effect, the rapid depreciation of the Kwacha against major trading currencies during the second half of 2008 has had adverse implications on the macro-economic stability that the country achieved over the past few years. However, the Bank of Zambia continues to take necessary measures in an effort to stabilise the external value of Kwacha and remain committed to ensuring price and financial system stability in the economy.

In responding to the crisis, the US Government through the US Treasury recently announced a US \$700 billion bailout plan to be implemented by the Federal Reserve System to ease market worries, improve liquidity situation and to enhance confidence in the US economy. Further, mortgage lending standards and requirements have been tightened. Similarly, other central banks such as in the United Kingdom and Europe have also announced bailout packages akin to the USA rescue plan aimed at making liquidity available and building confidence in these economies.

3.0 Targets and Challenges

In order to achieve the end-year inflation target of 7.0%, it was envisaged that in the second

half of the year, reserve money growth was to be no more than 11.5% while broad money growth was not to exceed 11.6% (see Table 1).

Table 1: Selected Monetary Indicators, Dec 2006 Dec 2008 (percent change)

	2006	2007		Jan - Jun 2008*		Jul - Dec 2008*	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	8.2	9.0	8.9	2.3	7.6	7.0	16.6
<i>Non-food Inflation</i>	<i>18.1</i>	<i>10.7</i>	<i>11.9</i>	<i>2.4</i>	<i>4.5</i>	<i>8.3</i>	<i>12.9</i>
<i>Food Inflation</i>	<i>-0.2</i>	<i>7.3</i>	<i>5.9</i>	<i>2.7</i>	<i>10.9</i>	<i>6.0</i>	<i>20.5</i>
Reserve Money	29.6	6.0	9.2	0.8	1.0	11.5	24.3
Broad Money*	45.1	6.0	26.3	0.9	-3.4	11.6	25.5
Domestic Credit*	25.7	-	20.3	-	19.8	5.8	15.9
<i>Government</i>	<i>-0.8</i>	<i>-</i>	<i>-20.2</i>	<i>-</i>	<i>-15.8</i>	<i>34.0</i>	<i>11.2</i>
<i>Public Enterprises</i>	<i>-2.6</i>	<i>-</i>	<i>68.7</i>	<i>-</i>	<i>-53.9</i>	<i>22.2</i>	<i>29.3</i>
<i>Private Sector Credit</i>	<i>54.7</i>	<i>-</i>	<i>41.5</i>	<i>-</i>	<i>-2.8</i>		
Domestic Financing (% of GDP)	2.4	1.2	1.0	-	0.4	0.1	38.5

Source: Central Statistical Office-The Monthly and Bank of Zambia-Statistics Fortnightly
 - Indicates no target under the economic programme
 * Preliminary estimates for December 2008

The Bank faced a number of challenges in implementing monetary policy and sustaining lower inflation during the second half of 2008. These included:

- High production costs due to electricity load shedding;
- An increase in Government expenditure arising from the Presidential elections, on October 30th 2008, which increased liquidity in the banking system;
- Lower seasonal supply of fresh vegetables, maize, cereals and tubers which is typical during the last quarter of the year;
- Pass-through effects of the depreciation in the exchange rate of the Kwacha against major foreign currencies; and
- Effects of recession in global economy emanating from the global financial crisis.

However, these inflationary pressures were partly mitigated by the fall in the price of oil on the international market and the reduction of the domestic prices of petroleum products.

Further, to contain the effects of the afore-stated challenges, and achieve the inflation objective the BoZ continued implementing appropriate monetary policy to keep money supply growth within the programmed path. To this end, the BoZ largely relied on indirect instruments of monetary control, notably, Open Market Operations (OMO). This was to be complimented by prudent fiscal management.

4.0 Assessment of Monetary Policy Outcome, July December, 2008

Overall annual inflation rose to 16.6% in the second half of 2008, and was more than double the projection of 7.0%. Similarly, both reserve money and money supply edged up reflecting mainly an expansion in net domestic credit. Owing to increasing inflation, yield rates on Government securities generally maintained an upward trend. Correspondingly, commercial banks lending and deposit interest rates increased marginally while savings rate remained virtually unchanged. Foreign exchange market was characterised by increased volatility as the Kwacha depreciated by 50.0% against the United States dollar to an average of K4,882.16/US\$ at end-December 2008 from an average of K3,253.84/US\$ in June 2008.

4.1 Overall inflation

Overall annual inflation rose to 16.6% in December 2008 from 12.1% in June 2008. This outturn was attributed to an increase in food prices (maize grain, maize meal, cereal products, fish, fresh vegetables, processed food products) driven by low supply and higher production costs arising from increased transport costs and electricity load shedding. In addition, domestic fuel prices rose by 11.6% during the third quarter, due to high petroleum prices on the world market and the subsequent upward adjustment of transport costs coupled with pass-through effects of the weakening of the Kwacha against major currencies. This inflation outturn was well above the end-year inflation target of 7.0%.

The increase in inflation observed during the second half of the year was due to the rise in both food and non-food inflation to 20.5% and 12.9% in December 2008 from 15.6% and 8.8%, respectively in June 2008 (see Chart 1 and Table 2).

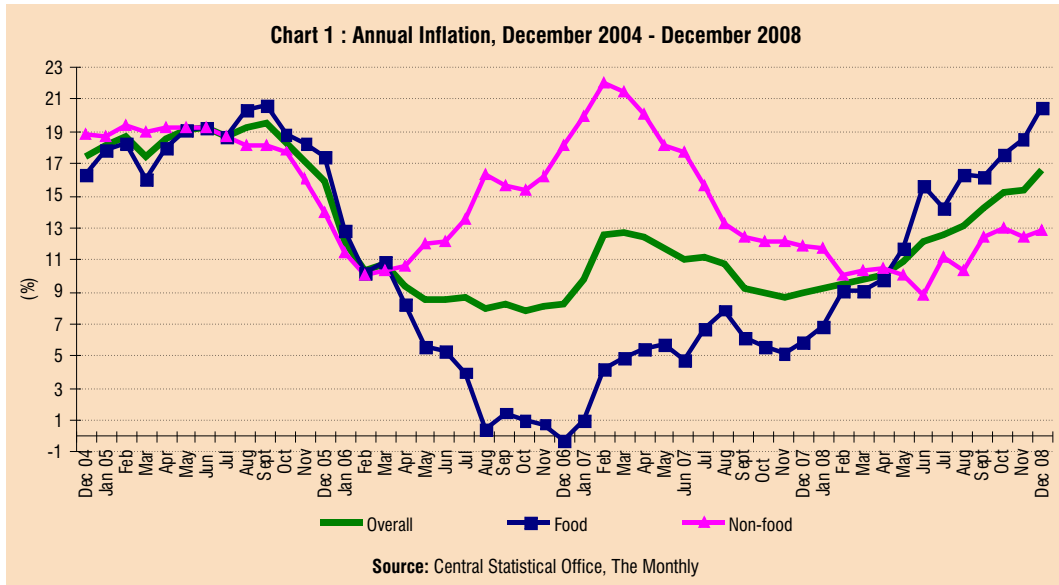


Table 2: Inflation Outturn [%] - Dec 2004 - Dec 2008

Description	Monthly			Annual			Year-to-date		
	Overall	Food	Non-food	Overall	Food	Non-food	Overall	Food	Non-food
Dec 04	2.2	3.0	1.3	17.5	17.5	18.9	17.5	16.3	18.9
Dec 05	1.0	2.4	-0.6	15.9	15.9	14.0	15.9	17.5	14.0
Jan 06	-0.1	-0.5	0.5	12.2	12.8	11.5	-0.1	-0.5	0.5
Feb 06	-0.2	-1.0	0.8	10.3	10.2	10.1	-0.3	-1.6	1.3
Mar 06	0.8	0.6	0.9	10.7	10.9	10.4	0.5	-1.0	2.2
Apr 06	0.2	-1.1	0.5	9.4	8.3	10.6	0.7	-2.0	3.8
May 06	0.4	-1.4	2.4	8.6	5.6	12.0	1.1	-3.4	6.3
Jun 06	0.8	0.1	1.5	8.5	5.3	12.1	1.9	-3.3	7.9
Jul 06	0.3	-1.1	1.8	8.7	4.3	13.6	2.1	-4.4	9.9
Aug 06	0.8	-1.5	3.0	8.0	0.4	16.4	3.0	-5.8	13.2
Sept 06	1.6	1.9	1.4	8.2	1.5	15.7	4.7	-4.0	14.8
Oct 06	0.7	0.7	0.7	7.9	1.0	15.4	5.5	-3.3	15.5
Nov 06	1.5	1.9	1.2	8.1	0.8	16.2	7.0	-1.5	16.9
Dec 06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Jan 07	1.4	0.7	2.1	9.8	1.0	20.0	1.4	0.7	2.1
Feb 07	2.3	2.0	2.6	12.6	4.2	22.1	3.7	2.8	4.7
Mar 07	0.8	1.3	0.4	12.7	4.9	21.5	4.6	4.1	5.1
Apr 07	-0.1	-0.5	0.4	12.4	5.5	20.1	4.6	3.6	5.5
May 07	-0.2	-1.3	0.8	11.8	5.7	18.2	4.3	2.3	6.3
Jun 07	0.2	-0.7	1.1	11.1	4.8	17.7	4.7	1.5	7.5
Jul 07	0.3	0.6	0.0	11.2	6.7	15.6	4.9	2.2	7.5
Aug 07	0.4	-0.3	1.0	10.7	7.9	13.3	5.3	1.9	8.5
Sept 07	0.4	0.3	0.6	9.3	6.2	12.4	5.7	2.2	9.2
Oct 07	0.3	0.2	0.5	9.0	5.6	12.2	6.1	2.3	9.8
Nov 07	1.3	1.4	1.2	8.7	5.2	12.2	7.5	3.8	11.1
Dec 07	1.3	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Jan 08	1.8	1.7	1.9	9.3	6.9	11.7	1.8	1.7	1.9
Feb 08	2.5	4.1	1.1	9.5	9.1	10.0	4.3	5.9	2.9
Mar 08	1.0	1.3	0.8	9.8	9.1	10.4	5.4	7.2	3.7
Apr 08	0.3	0.1	0.4	10.1	9.8	10.5	5.7	7.4	4.2
May 08	0.4	0.4	0.5	10.9	11.7	10.1	6.2	7.9	4.7
Jun 08	1.3	2.8	-0.1	12.1	15.6	8.8	7.6	10.9	4.5
Jul 08	0.8	-0.6	2.3	12.6	14.2	11.2	8.5	10.2	6.9
Aug 08	0.9	1.5	0.3	13.2	16.3	10.4	9.4	11.9	7.2
Sept 08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Oct 08	1.2	1.4	1.0	15.2	17.6	13.0	12.2	13.6	10.9
Nov 08	1.4	2.2	0.7	15.3	18.5	12.4	13.8	16.2	11.6
Dec 08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9

Source: Central Statistical Office Press Release

4.2 Non-Food Inflation

Annual non-food inflation rose to 12.9% in December from 8.8% recorded in June 2008 and was 4.6 percentage points above the target of 8.3% (see Chart 1 and Table 2). This reflected pass-through effects of the depreciation of the Kwacha against major currencies (50.0% against the US dollar) during the second half of the year. In addition, domestic fuel prices rose by 11.6% during the third quarter, due to high petroleum prices on the world market and resulted in the subsequent upward adjustment of transport costs.

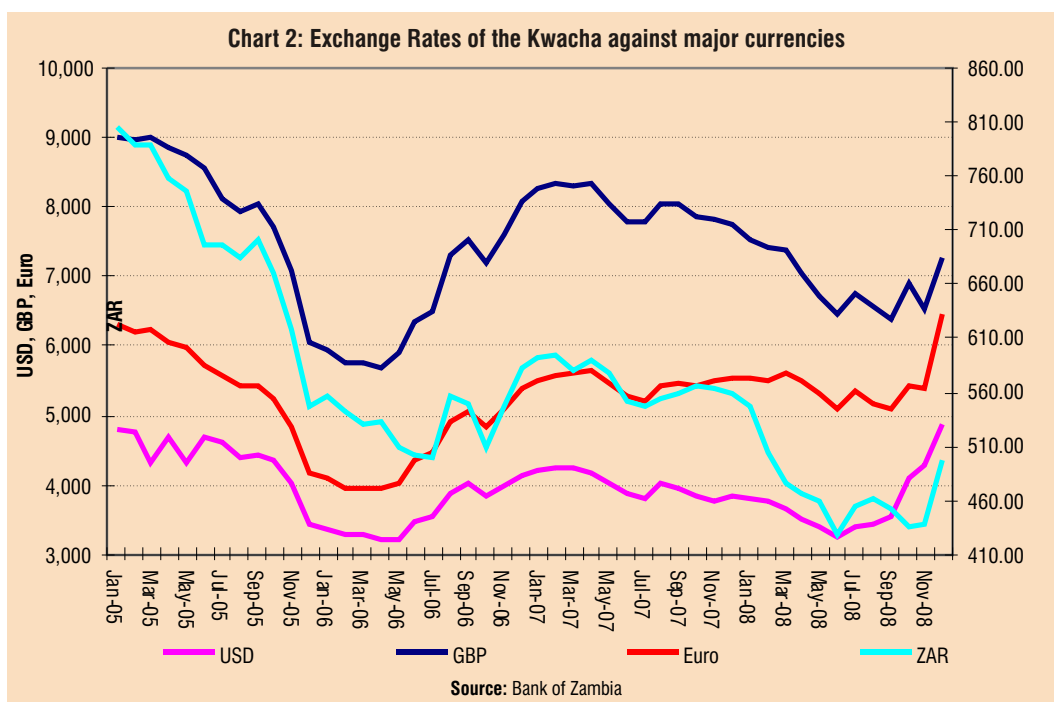
4.3 Food Inflation

Annual food inflation rose to 20.5% in December 2008 from 15.6% in June 2008. The rise in food inflation was attributed to high prices of most food commodities (maize, maize products, wheat, cereals and cereal products, kapenta, fish, fresh vegetables, tubers, dried beans and other processed food items) aggravated by unforeseen short supply of grain on the local market. In addition, increased production costs associated with transport costs and electricity load shedding resulted in higher prices of processed food items.

4.4 Foreign Exchange Market

In the second half of 2008, the foreign exchange market was characterised by increased volatility. The volatility that characterised the market arose from a number of factors, including the political uncertainty surrounding the illness and eventual passing on of President Mwanawasa, the worsening of the global financial crisis, decline in the supply of foreign exchange amid rising demand, sharp decline in the copper prices, and the subsequent global economic slump. These factors exerted significant pressure on the Kwacha, resulting in a sharp depreciation of the domestic currency against the major foreign currencies.

In this regard, the Kwacha depreciated by 50.0% against the United States (US) dollar to an average of K4,882.16/US\$ from an average of K3,253.84/US\$ in June. In the first half of the year, the Kwacha appreciated by 15.2% against the US dollar. Against the South African rand, the Kwacha depreciated by 15.6% compared with an appreciation of 23.1% recorded in the first half of 2008. Consequently, the exchange rate of the Kwacha against the South African currency averaged K4892.72/ZAR in December 2008 from an average of K429.78/ZAR in June. The Kwacha also weakened by 12.9% and 26.9% against the Pound Sterling and euro compared to appreciations of 16.8% and 7.9% recorded against the British Pound and Euro in the previous period, respectively. In this regard, the Kwacha/Sterling and Kwacha/euro exchange rates averaged K7,260.61/£ and K6,462.35/€ in December compared with respective average rates of K6,444.21/£ and K5,092.35/€ in June 2008 (see Chart 2).



The main factor accounting for the weakening of the local currency against major foreign currencies was the decline in the supply of foreign exchange amid rising demand. In this regard, increased risk aversion to emerging market financial assets, attributed to the deepening of the global financial crisis impacted negatively on the supply of foreign exchange by foreign portfolio investors wishing to purchase Kwacha financial assets, such as Government securities and domestic company equities. It has been observed that most non-residents preferred to liquidate their investments in Kwacha assets such as the Treasury bills and take foreign exchange out of the economy. In this regard, non-resident holdings of Treasury bills declined by 32.8% from K541.5 billion at the end of the first half of 2008 to K363.4 billion at the close of the second half of the year.

The increase in demand for foreign exchange was reflected in the net outflow of foreign exchange through the activities of foreign portfolio investors. To this effect, the net outflow of foreign exchange attributed to net purchases by offshore financial institutions amounted to US \$126.1 million (as at 18 December) in the second half of the year compared with the net inflow of US \$16.6 million in the first half of the year. The supply of foreign exchange by mining companies also declined as the deepening global economic slowdown led to a sharp reduction in copper prices, which consequently impacted negatively on the revenues of mining companies. In this regard, the supply of foreign exchange on the market by mining

companies declined to US \$563.7 million (as at 18 December) in the second half of the year from US \$649.9 million in the first half of 2008.

The increase in demand for foreign exchange was reflected in higher commercial banks' sales of foreign exchange to the non-bank sector while purchases of foreign exchange by banks from non-banks declined. In this regard, commercial banks sales of foreign exchange increased to US \$2,750.1 million in the period under review from US \$2,441.3 million in the previous period. However, commercial banks purchases of foreign exchange from non-banks declined to US \$2,805.7 million from US \$2,825.9 million over the same period. On a net basis, commercial banks' purchases from non-banks declined to US \$55.7 million from US \$384.6 million.

In response to increased demand for foreign exchange and the need to mitigate volatility in the market, the Bank of Zambia intervened in the market, mainly supplying foreign exchange. To this effect, Bank of Zambia's sales of foreign exchange to the market rose to US \$180.0 million in the second half of 2008 from US \$37.5 million in the first half of the year. However, purchases of foreign exchange by the Bank from the market declined to US \$24.5 million from US \$53.0 million over the same period. Hence, the Bank recorded net foreign exchange sales worth US \$155.5 million (as at 22 December) during the period under review compared with purchases of US \$15.5 million in the preceding period.

With regard to transactions in other major foreign currencies, the turnover in the South African rand continued to be high, with commercial banks continuing to be net sellers of the South African currency to non-banks. During the review period, commercial banks sales rose to ZAR3,409.6 million from ZAR2,642.8 million. The volume of commercial banks' purchases of the South African rand from non-banks also increased to ZAR1,868.7 million from ZAR1,486.6 million. Overall, commercial banks recorded net sales of ZAR1,540.9 million, up from net sales of ZAR1,156.2 million in the first half of 2008.

In the euro and pound sterling markets, domestic transactions continued to be low. As regards transactions in the euro, commercial banks' purchases from the non-banks rose to €125.2 million in the period under review from €82.3 million in the previous period while banks sales to non-banks declined to €56.5 million from €60.3 million. With regard to the pound sterling, commercial banks sales to non-banks increased to £55.2 million from £26.0 million while purchases from non-banks rose to £27.8 million from £23.0 million.

4.5 International Trade Developments

Preliminary data indicate that Zambia recorded a merchandise trade deficit (c.i.f) of US \$1,016.7 million during the second half of 2008 from a merchandise trade surplus of US \$407.0 million recorded during the first half of 2008. This was mainly explained by a 21.0% increase in the merchandise imports bill coupled with a 33.2% decline in merchandise export earnings (see Appendix III, Table 1).

During the period under review, merchandise export earnings declined to US \$ 1,858.8 million compared with US \$2, 783.8 million registered during the first half of 2008. This was mainly explained by a decline in metal export earnings despite an increase in non-traditional exports. Copper export earnings, at US \$1,245.7 million, were 42.4% lower than US \$2,161.6 million recorded during the first half of 2008. This was largely on account of a sharp decline in the average realised copper price. The average realised price of copper declined by 36.2% to US \$2.20 per pound from US \$3.45 per pound recorded in the first half of 2008. The decline in the average realised copper price was mainly attributed to weaker global demand as global economic growth decelerated.

Cobalt export earnings declined by 50.3% to US \$100.3 million during the second half of 2008 from US \$201.8 million the previous period following a 45.4% decline in cobalt average realised prices despite a 9.4% increase in export volumes. The average realised price of cobalt declined to US \$ 5.10 per pound from US \$ 81.06 per pound recorded in the first half of 2008 (see Appendix III, Table 2).

Non-traditional export earnings, at US \$515.1 million were 22.5% higher than US \$420.4 million recorded in the first half of 2008. The products which contributed to the increase were copper wire, cane sugar, burley tobacco, cotton lint and gemstones (see Appendix III, Table 1)

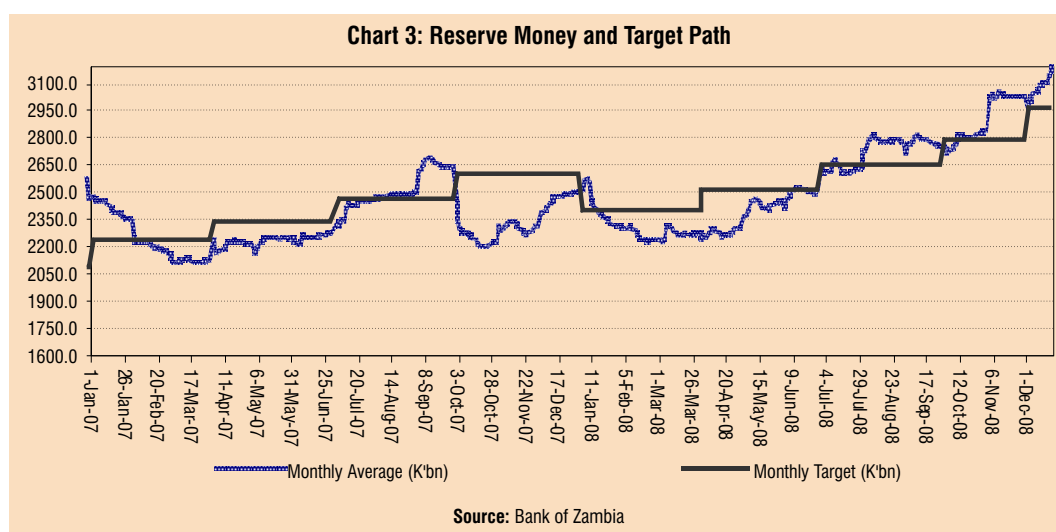
4.6 Monetary and Credit Developments

Reserve Money Developments

Reserve money was expected to increase by 14.5% in the second half of 2008 to K2,964.8 billion from K2,588.7 billion at the end of June. To achieve the projected growth in reserve

money, the Bank of Zambia intended to use auctions of Term deposits and repurchase agreements (repos) under open market operations (OMO). The Bank's open market operations were expected to be supplemented by auctions of Government securities. The statutory reserve and core liquid assets ratios were maintained at 8% and 9%, respectively.

Reserve money increased by 24.1% to K3,213.7 billion, which was 9.6 percentage points higher than the projected end-period stock. The increase in reserve money recorded during the review period was significantly higher than the increase of 1.8% recorded in the preceding period (see Chart 3), and mainly reflects an expansion in net domestic credit. The expansion of K1,572.5 billion in net domestic credit was on account of the draw down in Government accounts and the deficits on Government securities auctions, which resulted in the net injection of K1,380.7 billion and K329.0 billion, respectively. However, the expansion in reserve money was partially mitigated by a contraction in net foreign assets of K947.5 billion (Appendix III, Table 4).



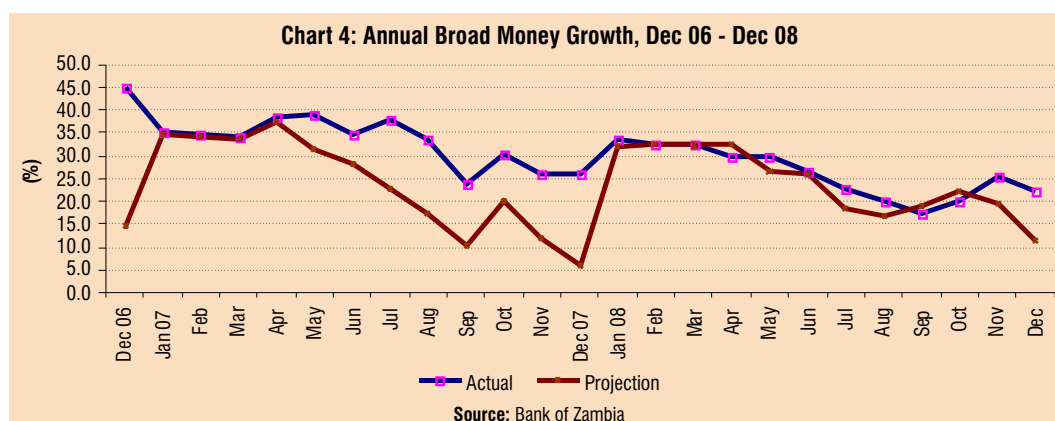
During the second half of 2008, broad money (M3) growth, comprehensively defined to include foreign currency deposits, edged up and was above the projected growth path. M3 growth increased to 20.6% in the second half of 2008 from 1.2% registered in the first half of 2008. This was 10.0 percentage points above the projection of 10.6% for end-December 2008. In absolute terms, M3 growth rose to K13,072.2 billion at end-December 2008 from K10,840.1 billion at end-June 2008. In the period under review, the M3 growth emanated from increase in both net domestic assets (NDA) and net foreign assets (NFA). NDA rose by 22.8%, which contributed 13.1 percentage points to M3 growth. Similarly, NFA edged up by 17.5% and contributed 7.4 percentage points to the growth in M3. Excluding foreign exchange deposits that increased by 32.8%, mainly reflecting valuation effects of the depreciation in the exchange rate of the Kwacha, broad money grew by 15.4% in the period under review compared to 6.1% increase recorded in the first half of 2008.

On an annual basis, M3 growth fell to 22.1% (target, 19.4%) from 26.7% in June 2008. The decreased growth was due to the slowdown in NFA in the month under review. Annual NFA growth in November 2008 fell to 6.8% compared with the 16.6% growth in June 2008 and contributed 3.2 percentage points to M3 expansion. However, annual NDA growth rose to 35.8% in December 2008 from 35.3% in June 2008 and contributed 18.9 percentage points to M3 expansion. When compared with the programme target, annual M3 growth was 10.9 percentage points above the target. Excluding foreign currency deposits that rose by 21.3% in local currency, annual money supply expanded to 22.5% from the 38.0% recorded during the first half of 2008 (see Table 3).

Table 3: Broad Money Developments (in K' bn unless otherwise stated), Dec 2006 - Dec 2008

Description	Dec 2006	Jun 2007	Dec 2007	Jun 2008	Dec 2008
Broad Money (M3)	8,476.8	8,557.2	10,707.0	10,840.1	13,072.2
o/w Foreign Exchange Deposits	2,714.0	3,044.6	3,538.4	3,232.1	4,293.5
M3 (excl. Foreign Exchange Deposits)	5,762.8	5,512.6	7,168.6	7,608.0	8,778.7
6-Month Change in M3 (%)	34.8	1.0	25.1	1.2	20.6
6-Month Change in Foreign Exchange Deposits (%)	35.2	12.2	16.2	-8.7	32.8
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	34.6	-4.3	30.0	6.1	15.4
Annual Change in M3 (%)	45.1	36.1	26.3	26.7	22.1
Annual Change in Foreign Exchange Deposits (%)	34.0	51.6	30.4	6.2	21.3
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	49.3	28.8	24.4	38.0	22.5

Source: Bank of Zambia



Total domestic credit, comprehensively defined to include foreign currency loans, rose by 32.3% in second the half of 2008 compared with a 1.7% increase in the first half of 2008. The outturn in domestic credit was due to an expansion in credit to both the Government and private sector (including the public enterprises). In the period under review, net claims on central government, which rose by 92.0% compared with negative 35.0% registered in the first half of 2008, contributed 11.0 percentage points to the growth in domestic credit. Similarly, lending to the private sector increased by 21.0% from 13.3% recorded in the first half of 2008 and accounted for 21.3 percentage points to the increase in total domestic credit. While the foreign currency denominated loans increased by 80.6%, the Kwacha denominated loans rose by 68.0% compared to a 3.7% registered in the first half of 2008.

On an annual basis, domestic credit growth increased to 34.0% compared with 28.3% recorded in June 2008. The increase in domestic credit growth was largely due to a 37.1% increase in lending to the private sector (including public enterprises), which contributed 27.9 percentage points to annual credit growth. Similarly, credit to Government rose to 24.7% from negative 17.5% and contributed 6.1 percentage points to annual credit expansion. Excluding foreign currency denominated credit, which expanded by 71.8%, annual local currency denominated domestic credit growth slowed down to 22.9% from 35.7% in June 2008 (see Table 4).

Table 4: Domestic Credit Developments (in K' bn unless otherwise stated)

Description	Dec 06	Jun 07	Dec 07	Jun 08	Dec 08
Domestic Credit (DC)	6,358.1	6,039.1	7,616.6	7,749.3	10,252.0
O/w Foreign Exchange Credit	1,346.4	1,553.3	1,747.7	1,661.8	3,001.7
DC (Excl. FX Credit)	5,011.7	4,485.8	5,868.9	4,316.8	7,250.3
6-Month Change in Domestic Credit	8.0	-5.0	26.1	1.7	32.3
6-Month Change in Foreign Exchange Credit	16.5	15.4	12.5	-4.9	80.6
6-Month Change in DC (Excl. Foreign Exchange Credit)	6.0	-10.5	30.8	3.7	68.0
Annual Change in Domestic Credit	25.8	2.6	19.8	28.3	34.0
Annual Change in Foreign Exchange Credit	74.0	34.4	29.8	7.0	71.8
Annual Change in DC (Excl. Foreign Exchange Credit)	17.1	-5.2	17.1	35.7	22.9

Source: Bank of Zambia

In terms of sectoral distribution, preliminary estimates show that credit to households (personal loans category) continued to be the largest, accounting for 27.2% at the close of

second half of 2008 (26.0%). This was followed by the agricultural sector at 15.4% (15.7%), while the wholesale and retail trade, manufacturing, and transport and communications sectors had 10.1% (10.0%), 10.9% (10.8%) and 7.4% (7.6%), respectively (see Appendix III, Table 6 and Charts 1 to 4).

4.7 Fiscal Developments

Preliminary data indicate that the Government budget recorded a deficit of K762.5 billion during the second half of 2008 (first half, K246.7 billion deficit), 17.4% higher than the programmed deficit of K649.6 billion (see Table 7). This was mainly attributed to the fall in line ministry balances at Bank of Zambia by K827.0 billion against the programmed increase of K637.1 billion. The higher deficit was despite favourable revenue and expenditure performance. For the year as a whole, the deficit was registered at K1,009.2 billion against a target of K947.1 billion.

Total revenue and grants were K5,826.6 billion during the second half of 2008, 7.4% above the programmed outturn of K5,424.2 billion. This outturn was largely explained by a favourable tax performance. Tax revenue at K5,529.5 billion was 10.1% above the target of K5,023.7 billion, mainly attributed to higher than programmed income tax, especially corporate income tax. In addition, grants were K174.6 billion, 153.8% higher than the target of K68.8 billion, largely explained by higher than programmed project grants. Nevertheless, non-tax revenue at K122.5 billion was 63.1% below the target of K331.7 billion, mainly on account of lower than programmed user fees and charges.

Total expenditure during the review period was K5,762.0 billion, 14.1% below the target of K6,710.9 billion. This was mainly due to lower than programmed expenditures on other expenses, subsidies, and grants and other payments. In addition, expenditure on non-financial assets was below target following mainly lower disbursements to the road fund. The lower than planned other expenses were mainly due to lower than programmed payments to suppliers of goods and services, and for financial restructuring of ZESCO and Nitrogen Chemicals of Zambia. The lower subsidies were mainly explained by below target expenditure on the fertiliser support programme while lower grants and other payments were mainly explained by less than targeted expenditure on domestic grants.

Total financing during the second half was K762.5 billion, 17.4% above the programmed financing of K649.6 billion. Of the total financing, K872.4 billion was through domestic borrowing while amortisation of external loans amounted to K109.9 billion.

4.8 Money and Capital Markets Developments

4.8.1 Money Markets

Government Securities Market

Demand for Government securities declined significantly in the second half of 2008, partly due to the availability of alternative high earning assets for domestic investors and increased risk aversion among foreign investors following the worsening of the global financial crisis. The fall in demand was particularly remarkable in the Government bond market as mounting uncertainty pushed investors toward short-dated Government securities. In the Treasury bills market, the fall in demand was reflected in the reduction in average subscription to 60.9% from 102.9% in the first half of 2008. In the Government bond market, the average subscription rate plummeted to 47.5% from 288.9% in the preceding period (see Appendix III, Table 5).

During the review period, the total amount of Treasury bills offered on a cumulative basis remained unchanged at K2,600.0 billion, but the cumulative amount of bids at K1,651.4 billion was 36.5% below the amount on offer. Hence, a cumulative deficit of K1,139.1 billion was recorded during the review period compared with a cumulative excess demand of K73.2 billion recorded in the previous period. With regard to Government bonds, the cumulative amount on offer also remained unchanged at K720.0 billion. However, cumulative bids received from the market were only worth K356.6 billion, thereby falling short of the amount on offer by K363.4 billion on a cumulative basis. In the previous review period, a cumulative excess demand of K106.9 billion was recorded on Government bond auctions.

A review of the investors preference for Government securities depict a shift toward short-dated instruments, though the amounts of bids on each of the Treasury bill tenors fell below the amounts on offer (see Appendix III, Table 5). In this regard, the 91 and 364-day Treasury bill portfolios attracted most bids relative to other portfolios as evidenced by relatively lower

average shortfalls of K6.9 billion and K14.8 billion, respectively. In the bonds market, average subscriptions fell short of average amounts on offer on all the portfolios, except for the 7-year bond. The 10-year Government bond attracted the least amount of bids as reflected in an average deficit of K8.1 billion relative to the average amount on offer. On the whole, the decline in demand for long-dated instruments is a reflection of investors' expectation of a higher inflationary environment and hence the need to invest in relatively shorter term instruments given the uncertainty surrounding the inflationary environment in the medium to long-term.

The Stock of Government Securities

In the second half of 2008, the deficits recorded on Government securities auctions resulted in a reduction of 2.8% in the total stock of outstanding Government securities to K8,021.8 billion. In the previous period, the amount of outstanding Government securities rose by 8.8%. The decline in the amount of outstanding Government securities emanated mainly from the reduction in amount of outstanding Treasury bills while Government bonds declined marginally. In this regard, the total stock of outstanding Treasury bills declined by K227.6 billion (6.5%) to K3,280.4 billion, thereby contributing 2.8% to the reduction in the overall stock of outstanding Government securities. Similarly, Government bonds declined by K7.1 billion (0.1%) to K4,741.4 billion, and contributed a negligible amount of 0.08% to the reduction in the total amount of outstanding Government securities.

As regards the composition of Government securities holdings, domestic investors holdings of Treasury bills declined by 9.8% to K2,824.7 billion from K3,102.2 billion in June 2008. However, as a share of the outstanding stock of Treasury bills in circulation, domestic investors' holdings rose marginally to 88.6% from 88.4%. As for foreign investors, their holdings of Treasury bills declined by a further 10.4% to K363.4 billion (11.4% of the total stock) from K405.8 billion (11.6% of the total stock) at the end of the first half of year. With regard to Government bonds, domestic investors' holdings declined while foreign investors' holdings rose. In this regard, domestic investors holdings declined to K3,060.4 billion, representing 64.9% of the outstanding stock, from K3,140.2 billion (66.2% of total stock). However, Government bond holdings of non-residents rose to K452.4 billion (9.6% of the total stock) from K402.7 billion (8.6% of the total stock) over the same period.

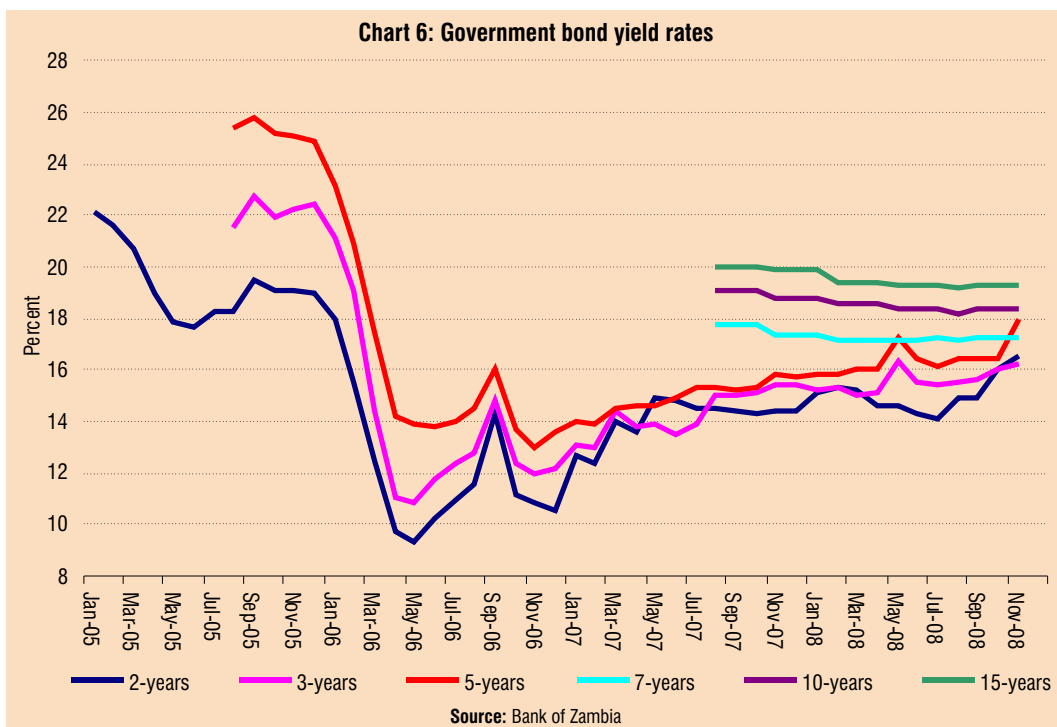
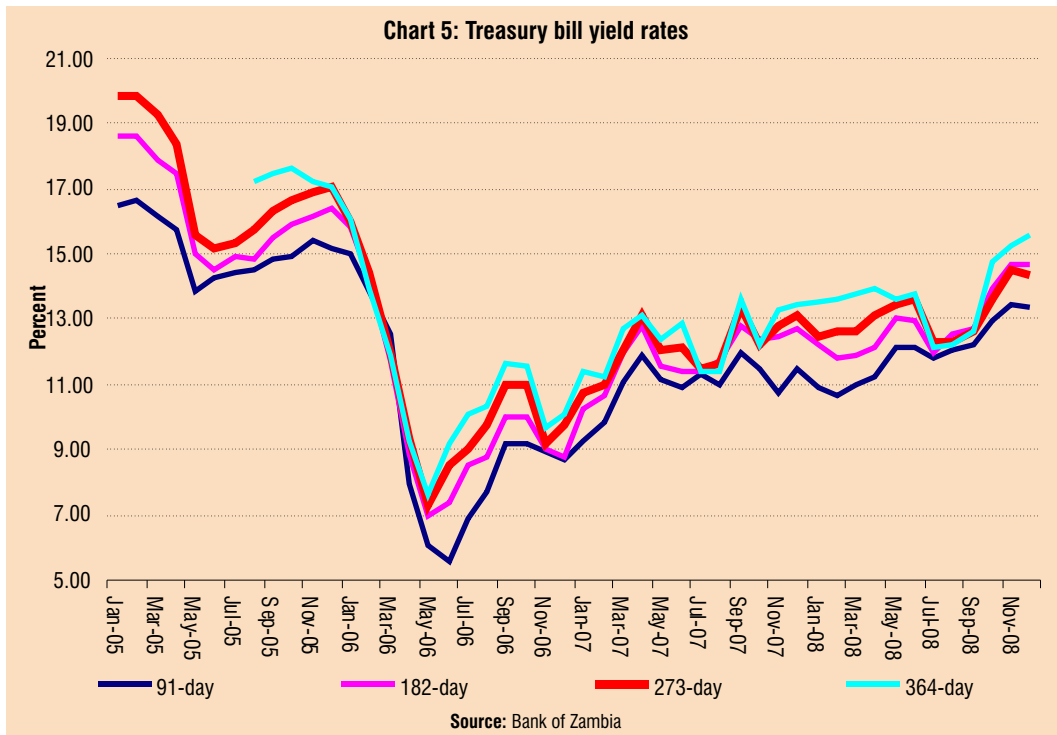
4.8.2 Capital Market Developments

The performance of the equity market was rather dismal as the global financial crisis, and the subsequently global economic slowdown impacted negatively on demand for domestic company equities by both domestic and foreign investors. The decline in demand for equities was reflected in the reduction in the volume of shares traded to 298.9 million in the second half of 2008 from 1,294.0 million in the previous period. However, the turnover of shares traded rose to K323.9 billion from K236.4 billion over the same period. Overall, the decline in demand for equities, which subsequently pushed lower the prices of most stocks, resulted in a fall in both market capitalisation and the Lusaka Stock Exchange All Share Index (LASI). In this regard, market capitalisation declined by 15.6% to K21,495.3 million (as November) while the LASI (excluding Zambia Consolidated Copper Mines Investment Holding (ZCCM-IH) fell by 32.9% to 2,802.01.

4.9 Interest Rates

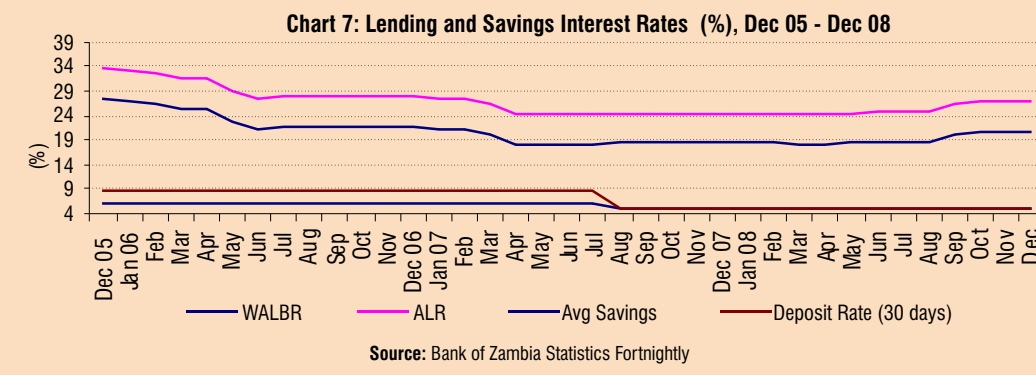
4.9.1 Government Securities Interest rates

The deficits recorded on Government securities auctions following weak demand pushed up yield rates on both Treasury bills and Government bonds. The relatively high inflationary environment also contributed to the general upward trend on Government securities yield rates. In this regard, the weighted average Treasury bill yield rate rose to 16.8% at end December from 13.4% at the end of the June 2008. The composite yield rate for Government bonds also increased to 16.7% in December from 15.7% in June (see Chart 5 and 6).



4.9.2 Commercial Banks Interest Rates

Commercial banks nominal interest rates generally edged up during the second half of 2008. The weighted average lending base rate (WALBR) and average lending rate (ALR) rose to 20.6% and 26.9%. Similarly, the 30-day deposit rate for amounts exceeding K20 million increased to 5.1% from 5.0%. However, the average savings rate (ASR) for amounts above K100,000 remained unchanged at 4.8% (see Chart 7).



With annual overall inflation increasing to 16.6% in December 2008 from 12.1% in June 2008, the real interest rates fell. The real WALBR and ALR fell to 4.0% and 10.3% from 6.4% and 12.5% in June 2008. The real 30-day deposit rate for amounts above K20 million and the real ASR for amounts above K100,000.00 declined to negative 11.5% and negative 11.8% from negative 7.1% and negative 7.3%, respectively.

5.0 Monetary Policy Objectives and Instruments for January June 2009

The primary objective of monetary policy in the first half of 2009 is to achieve an end-year inflation target of 10.0% at end-December 2009. Consistent with the end-year target, the end-June annual inflation is projected at %. To achieve this objective, the Bank of Zambia will implement appropriate monetary policy to ensure that reserve money and consequently broad money remain within their programmed path in order to dampen inflationary pressures (see Appendix II, Table 1). Consistent with the inflation target, it is planned that during the period January June 2009:-

- o reserve money growth will be at the most 2.6%, and
- o broad money growth will be no more than 2.6%.

However, there are challenges to the achievement of the inflation objective and money supply growth targets that include:

- pass-through effects of the depreciation of the Kwacha against major currencies;
- expected increase in utility charges and continued electricity load shedding. The increase in utility charges are likely to cause cost push inflationary pressures while the effect of electricity load shedding will be a decline in output for manufactured goods with a like consequence of an increase in the prices of manufactured goods;
- a likely decline in food production due to inadequate support services and high production costs. This will continue to cause upward pressure on food prices;
- lag effect of increase in money supply partly due to the increase in the drawdown of Government deposits in the last weeks of the year 2008; and
- continued weak demand for Government securities especially by domestic investors. This may have adverse effect on liquidity in the economy, which may increase inflationary pressures.

To minimise the inflationary pressures that may arise from the challenges stated above, the Bank of Zambia will continue to implement appropriate monetary policy in the period January June 2009 so as to maintain money supply growth within the programmed path and thereby achieve the inflation objective. The Bank will continue to actively use indirect instruments for monetary operations, namely open market operations and auctioning of Government securities. This is expected to be complemented by prudent fiscal operations. In this regard, coordination of fiscal and monetary operations will continue to be maintained and strengthened through information sharing and dialogue. Further, maintaining relative stability in the foreign exchange market will contribute to mitigation of inflationary pressures emanating from pass-through effects.

6.0 Monetary Policy Principles for the Period January 2009 to December 2010

For the two year period to December 2010, the Bank of Zambia will aim at reducing annual inflation to 7.0% at the end of 2010. In this regard, monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the Fifth National Development Plan (FNDP) and the 2008-2010 Medium-Term Expenditure Framework, which are broadly in line with the Vision 2030. Consistent with Government's broad macroeconomic policies and objectives over the medium-term that are aimed at enhancing economic gains and growth as well as impacting favourably on poverty reduction, it is expected that over the period:

- (i) real GDP growth rate of at least 5.0% in 2009 and 5.5% in 2010 will have to be realised. This growth is expected to be largely driven by the agricultural, mining, manufacturing, tourism and construction sectors;
- (ii) end-year inflation will be reduced to 10.0% at end-December 2009 and further down to 7.0% at end-December 2010;
- (iii) domestic financing will be limited to no more than 1.6% of GDP in 2009 and 0.9% of GDP in 2010; and
- (iv) gross international reserves amounting to not less than 2.6 months of import cover in 2009 and not less than 2.8 months of import cover in 2010 will have to be accumulated.

In the next two years, the Bank of Zambia will continue to formulate and implement monetary policy in line with the market-based principles that are consistent with broad Government policies. In view of this, the Bank of Zambia will maintain the use of market-based instruments of monetary policy to manage liquidity and control the growth of reserve and broad money, thereby contributing to the achievement of the inflation objective. To achieve macroeconomic stability in view of the global financial meltdown and the resulting economic recession, the monetary policy framework will continue to be reviewed to take account of developments in the domestic and global financial markets and to enhance the efficacy of monetary policy.

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

During the second half of 2008, an IMF Mission visited Zambia from 17th to 26th September 2008 and from 2nd to 10th December 2008 to conduct the first review of the Poverty Reduction and Growth Facility (PRGF) arrangement approved in June 2008 to assist the Zambian authorities in achieving the Fifth National Development Plan's (FNDP) objectives of boosting economic growth and reducing poverty.

The untimely and tragic death of H.E. President Levy Patrick Mwanawasa S.C. (MHSRIP) in August 2009 meant that a presidential bi-election had to be held in October 2008. Further, in the fourth quarter of the year the global financial crisis worsened significantly, with precipitous falls in all the major stock markets and commodity prices. These unprecedented events severely disrupted the implementation of the Government's budget and meant that the first review under the PRGF could not be completed. In addition, agreement on the PRGF framework for 2009 could not be concluded. However, there was broad agreement on the outlook for 2008 for which adjustments to the end year targets under the economic programme were discussed and agreed. The Zambian authorities and the IMF mission also agreed on the macroeconomic targets for the medium term.

With regard to donor inflows, Zambia received a total of US \$37.9 million from the European Union during the second half of 2008 compared to receipts of US \$75.6 million in the second half of 2007. On the other hand, debt service made to various creditors, excluding IMF debt service, amounted to US \$33.3 million compared with US \$36.5 million paid in the second half of 2007.

With regard to performance against the indicative quantitative benchmarks, preliminary data indicate that as at end-December 2008, the benchmarks on Net Domestic Assets (NDA) of the Bank of Zambia and the Unencumbered International Reserves (UIR) were not observed except the Net Domestic Financing of Government (NDF). The NDA was above the adjusted ceiling by K399.2 billion whilst the NDF was below the adjusted ceilings by K78.8 billion. The UIR were US \$1,066.9 million as at end-December 2008, and were below the adjusted floor by US \$32.5 million. In terms of performance under the structural programme, most benchmarks and performance criteria were observed.

The benchmark on UIR was not met largely due to the Bank of Zambia sales of foreign exchange to the market amounting to US \$69.5 million. The NDA benchmark was not met on account of a decline in the net foreign assets (NFA) of the Bank and an increase in the reserve money as a result of an increase in Government spending.

The macroeconomic framework for 2008-2011 is set within the framework of the Fifth National Development Plan (FNDP), which is focused on boosting economic growth and reducing poverty levels and takes into account the World financial and economic developments. The broad macroeconomic objectives for 2009 include: (i) attaining real GDP growth of at least 5.0%; (ii) achieving end-year inflation of no more than 10.0%; (iii) limiting domestic financing to 1.2% of GDP; and (iv) increasing gross international reserves to not less than 2.9 months of import cover (see Table 1).

Table 1: Macroeconomic Outturn and Targets in 2008, and Targets for 2009

Description	End-December 2008 T Argets	End-December 2008 Outturn	End-December 2009 Targets
Real GDP growth rate (%)	5.8		5.0
CPI Inflation, end period (%)	7.0	16.6	10.0
CPI Inflation, annual average (%)	8.2		11.2
Gross Official Reserves (in months of imports)	3.2	2.7	2.6
Broad Money growth (%)	11.6		15.8
Budget deficit, excluding grants (% of GDP)	6.5		7.2
Domestic financing of the Budget (% of GDP)	1.4		1.6

Source: Bank of Zambia, IMF Government Aide Memoir Dec 2008, Macroeconomic Framework Dec 2008

* Preliminary

Appendix III: Statistical Tables and Charts

Table 1: Trade Data in US \$ million (c.i.f), Jan 2007 Dec 2008

	Jan-June, 2007	Jul-Dec, 2007	Jan-Jun, 2008	*Jul-Dec 2008
Trade Balance	277.0	205.5	407.1	(1,016.7)
Exports, c.i.f	2,018.2	2,476.0	2,783.8	1,858.8
Metals	1,635.3	2,032.3	2,363.4	1,346.0
<i>Copper</i>	1,520.2	1,886.3	2,161.6	1,245.7
<i>Cobalt</i>	115.1	146.0	201.8	100.3
Non Metals	382.9	443.7	420.4	515.1
Export Audit Adjustment	(45.5)	(45.5)	(13.2)	(13.2)
Total	428.4	489.2	433.5	526.0
Copper Wire	90.3	105.1	86.8	87.3
Cane Sugar	28.4	46.1	15.8	56.9
Burley Tobacco	29.4	33.8	26.0	50.8
Cotton Lint	14.5	22.6	12.8	20.5
Electric Cables	73.0	77.4	35.2	18.8
Fresh Flowers	19.0	19.2	12.7	11.2
Cotton Yarn	7.6	4.8	6.6	1.7
Fresh Fruit/Vegetables	12.5	12.0	14.8	11.2
Gemstones	17.0	11.6	6.9	19.4
Gas oil	11.9	9.0	16.1	9.0
Electricity	5.1	2.3	1.4	1.8
Others	119.7	145.2	198.3	237.6
<i>Of Which</i>				
<i>Maize & Maize Seed</i>	34.0	29.1	40.0	16.3
<i>Wheat & Insulin</i>	10.0	12.9	17.7	15.8
<i>Cement & Lime</i>	14.4	6.5	11.6	24.5
Imports c.i.f./1	(1,741.2)	(2,270.5)	(2,376.7)	(2,825.5)

Source: Bank of Zambia Statistics Fortnightly

Table 2: Metal Production, Export Volumes and Prices; Jan 2006 Dec 2008

Period	Copper					Cobalt				
	Sales Tonnes	Production Tonnes	Sales US \$'000	Price US\$/Tonne	Price US\$/ pound	Sales Tonnes	Production Tonnes	Sales US \$ '000	Price US\$/Tonne	Price US\$/ pound
Jan-June 2006	249,425	264,252	1,470,437	5,895.31	2.67	2,348	2,393	64,307	27,392.71	12.43
Quarter 1, 2006	119,665	125,880	555,810	4,644.71	2.11	1,203	1,184	29,843	24,805.28	11.25
Quarter 2, 2006	129,760	264,252	1,470,437	5,895.31	2.67	2,348	2,393	64,307	27,392.71	12.43
Jul - Dec 2006	226,680	234,014	1,467,600	6,474.33	2.94	2,315	2,266	81,771	35,316.29	16.02
Jan-June 2007	216,101	236,43	1,427,892	6,607.52	3.00	2,075.30	2,121	113,599	54,738.64	24.83
Quarter 1, 2007	114,590	114,913	657,468	5,737.58	2.60	859	906	42,704	49,722.79	22.55
Quarter 2, 2007	114,957	124,926	862,746	7,504.94	3.40	1,279	1,282	72,439	56,627.66	25.69
Jul-Dec 2007	261,393	282,145	1,886,322	7,216.41	3.27	2,671	2,697	146,042	54,679.25	24.43
Quarter 1, 2008	120,824	130,852	968,157	8,012.95	3.63	1,121	1,107	105,477	94,131.43	42.70
Quarter 2, 2008	120,909	132,244	967,605	8,002.76	3.63	1,137	1,156	104,434	91,856.70	41.67
Jan-Jun 2008	284,248	288,057	2,161,568	7,604.50	3.45	2,252	2,230	201,813	178,715.56	81.06
Quarter 3, 2008	127,284	141,734	856,224	6,726.87	3.05	1,235	1,296	69,418	56,187.00	25.49
Quarter 4, 2008	129,467	141,808	389,435	3,007.98	1.36	1,228	1,208	30,855	25,124.46	11.40
Jul- Dec 2008*	256,751	283,542	1,245,659	4,851.61	2.20	2,463	2,504	100,274	11,234.61	5.10

Source: Bank of Zambia Statistics Fortnightly

*Figures are preliminary.

Table 3: Imports by Commodity Groups in US \$ millions (CIF); Jan 2007 - Dec 2008

Description	2007		2008*		% Change (Jul- Dec 2008/July- Dec 2007)
	Jan-June	July-Dec	Jan-June	Jul-Dec*	
Food Items	84.3	129	134.1	166.7	29.2
Petroleum Products	223	266.6	238.3	591.7	121.9
Fertilizers	58.2	57.3	66.3	151.9	165.1
Chemicals	208.6	227.3	291.9	353.1	55.3
Plastic and Rubber Products	91	115.8	98.7	119.6	3.3
Paper and Paper Products	28.2	37.6	43.8	57.7	53.5
Iron and Steel	134.6	213.2	144.4	189.6	-11.1
Industrial Boilers & Equipment	396	548.5	435.5	427.7	-22.0
Electrical Machinery & Equipment	151.2	225.1	177.6	160.2	-28.8
Vehicles	167.1	214.2	260.5	234.5	9.5
Other Imports	199.0	235.9	485.5	372.8	58.0
Total Imports	1,741.20	2,270.50	2,376.60	2,825.50	24.4

Source: Central Statistical Office, The Monthly

*Figures are preliminary.

Table 4: Sources of Reserve Money Growth

	Jan - Jun 2008		Jul - Dec 2007	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a + b + c + d)	591.5	23.2	(947.5)	(36.6)
a) Net Purchases from Govt	699.5	27.5	(146.9)	(5.7)
b) Net Purchases from non-Government	73.1	2.8	(770.7)	(29.8)
c) Bank of Zambia own use of forex	(37.0)	(1.5)	(4.9)	(0.2)
d) Change in stat. reserve deposits forex balances	(144.0)	(5.7)	(24.9)	(0.9)
2/ Net Domestic Credit (a + b)	(545.3)	(21.4)	1,572.5	60.7
a) Autonomous influences	7,756.6	304.5	15,989.1	617.6
Maturing Open Market Operations	8,499.6	333.6	14,263.9	551.0
Direct Govt Transactions	(336.2)	(13.2)	1,380.7	53.3
TBs and Bonds Transactions	(571.1)	(22.4)	329.0	12.7
Claims on non-banks (Net)	164.4	6.5	15.4	(0.6)
b) Discretionary influences	(8,301.9)	(325.9)	(14,416.5)	(556.9)
Open Market Operations	(8,342.2)	(327.5)	(14,442.7)	(557.9)
i. Short term loans	0.0	0.0	0.0	0.0
ii. Repos/Outright TB sales	(1,340.5)	(52.6)	(1,100.1)	(42.5)
iii. Term Deposits Taken	(7,001.7)	(274.8)	(13,342.6)	(515.4)
Treasury bill Rediscounts	0.9	0.0	7.0	0.3
Other claims (Floats, Overdrafts)	39.3	1.5	19.2	0.7
Change in Reserve Money	46.2	1.8	625.1	24.1

Source: Bank of Zambia

Table 5: Indicators of Bidding Behaviour in the Government Securities Market¹

	Annual Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns) ²		Average Subscription Rate (%) ³	
	Jan - June, 08	Jul - Dec, 08	Jan - Jun, 08	Jul - Dec, 08	Jan - Jun, 08	Jul - Dec, 08	Jan - Jun, 08	Jul - Dec, 08
91-day bills	16.0	17.9	13.2	10.9	-2.8	-6.9	82.5	61.3
182-day bills	22.3	19.8	20.7	10.2	-1.6	-9.6	92.8	51.5
273-day bills	18.8	16.8	16.7	9.2	-2.1	-7.7	88.8	54.4
364-day bills	42.9	45.4	52.3	30.6	9.4	-14.8	121.9	67.4
TOTAL	100.0	100.0	102.9	60.9	2.9	-39.0	102.9	60.9
2-year bond	26.7	24.0	41.9	9.4	15.2	-14.6	156.9	39.2
3-year bond	33.2	31.0	26.9	6.0	-6.3	-25.0	81.0	19.4
5-year bond	41.7	40.0	39.8	23.1	-1.9	-16.9	95.4	57.8
7-year bond	6.7	9.0	33.7	10.7	27.0	1.7	502.9	118.9
10-year bond	6.7	9.0	33.3	0.9	26.6	-8.1	497.0	10.0
15-year bond	5.0	7.0	20.0	6.9	15.0	-0.1	400.0	98.6
TOTAL	120.0	120.0	195.6	57.0	79.4	-63.0	288.9	47.5

Source: Bank of Zambia Statistics Fortnightly

¹ Treasury bills are offered weekly while Government bonds are offered monthly

² Average Excess Demand = Average Amounts Bid less Average Amounts Offered, (-ve = shortfall, +ve = excess)

³ Average Subscription Rate = Average bid amounts as percentage of average amount offered

Table 6: Shares of Total Loans & Advances by Sector, Jun 2006- Dec 2007

Sector	Jun-06	Dec-06	Jun-07	Dec-07
Agriculture, forestry, fishing and hunting	26.2	27.2	23.4	21.0
Mining & Quarrying	4.1	4.3	5.1	4.0
Manufacturing	12.5	13.3	11.2	10.7
Electricity, Gas, Water & Energy	5.5	3.2	2.9	4.9
Construction	1.9	2.2	3.4	3.5
Wholesale & Retail Trade	14.8	14.5	13.8	10.8
Restaurants & Hotels	2.3	2.0	1.8	1.2
Transport, Storage & Communications	7.1	8.0	10.0	7.2
Financial Services	4.7	4.7	7.3	4.2
Community, Social and Personal Services	2.4	2.5	1.8	1.6
Real Estate	4.2	4.8	1.9	2.2
Personal Loans	11.3	11.2	14.3	14.7
Others	3.0	2.2	3.1	14.0

Source: Bank of Zambia Statistics Fortnightly

Table 6a: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), Jun 2006 - Dec 2007

Sector	Jun-06	Dec-06	Jun-07	Dec-07
Agriculture, forestry, fishing and hunting	25.0	26.5	22.5	17.6
Mining & Quarrying	3.7	3.9	4.6	1.1
Manufacturing	12.2	12.9	10.9	8.4
Electricity, Gas, Water & Energy	5.9	3.2	3.0	2.5
Construction	2.0	2.3	3.5	4.2
Wholesale & Retail Trade	15.0	14.8	13.5	10.0
Restaurants & Hotels	2.3	1.9	1.8	1.1
Transport, Storage & Communications	7.4	8.2	10.4	8.3
Financial Services	4.4	4.4	7.5	3.7
Community, Social and Personal Services	2.4	2.5	1.8	0.7
Real Estate	4.4	5.0	1.8	2.2
Personal Loans	12.6	12.2	15.5	21.6
Others	2.9	2.1	3.1	18.6

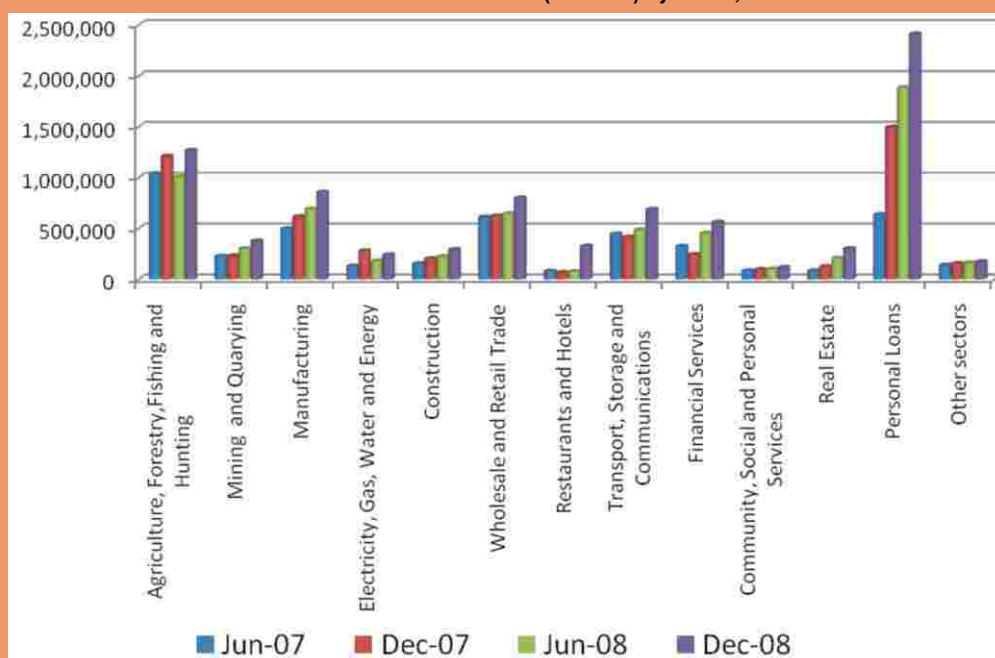
Source: Bank of Zambia Statistics Fortnightly

Table 7: Central Government Fiscal Operations, Second Half 2008 (in K'billion)

	First Half		Second Half			2008	
	Target	Prelim.	Target	Estimated	% Change	Target	Target
Total Revenue and Grants	5,138.3	5,357.9	5,424.2	5,826.6	7.4	10,562.5	10,562.5
Tax Revenue	4,248.3	4,509.8	5,023.7	5,529.5	10.1	9,272.0	9,272.0
Non-Tax Revenue	225.5	183.9	331.7	122.5	-63.1	557.2	557.2
Grants	664.5	664.2	68.8	174.6	153.8	733.3	733.3
Total Expenditure	5,421.5	5,561.5	6,710.9	5,762.0	-14.1	12,132.4	12,132.4
Current Expenditure	4,578.5	4,742.1	5,965.3	5,182.4	-13.1	10,543.8	10,543.8
Personal Emoluments	2,072.7	2,119.4	2,363.2	2,282.2	-3.4	4,435.9	4,435.9
PSRP	24.0	20.0	58.5	12.0	-79.5	82.5	82.5
Use of Goods and Services	857.3	868.2	735.1	981.7	33.5	1,592.4	1,592.4
Interest	360.5	455.3	396.0	488.4	23.3	756.5	756.5
Subsidies	64.8	94.9	573.0	298.2	-48.0	637.8	637.8
Grants and Other Payments	712.0	651.0	882.3	643.9	-27.0	1,594.3	1,594.3
Social Benefits	89.1	84.5	102.4	84.0	-18.0	191.5	191.5
Other Expenses	398.1	448.8	854.8	392.0	-54.1	1,252.9	1,252.9
Capital Expenditure	843.0	819.4	745.6	579.6	-22.3	1,588.6	1,588.6
Non Financial Assets	806.6	787.3	712.9	564.4	-20.8	1,519.5	1,519.5
Financial Assets	36.4	32.1	32.7	15.2	-53.4	69.1	69.1
Change in Balances	-14.3	-43.1	637.1	-827.0	-229.8	622.8	622.8
Fiscal Balance	-297.5	-246.7	-649.6	-762.5	-17.4	-947.1	-947.1
Financing	293.8	246.7	649.6	762.5	17.4	943.4	943.4
Domestic	225.0	179.6	629.7	872.4	38.5	854.7	854.7
Foreign	68.8	67.1	19.9	-109.9	652.4	88.7	88.7

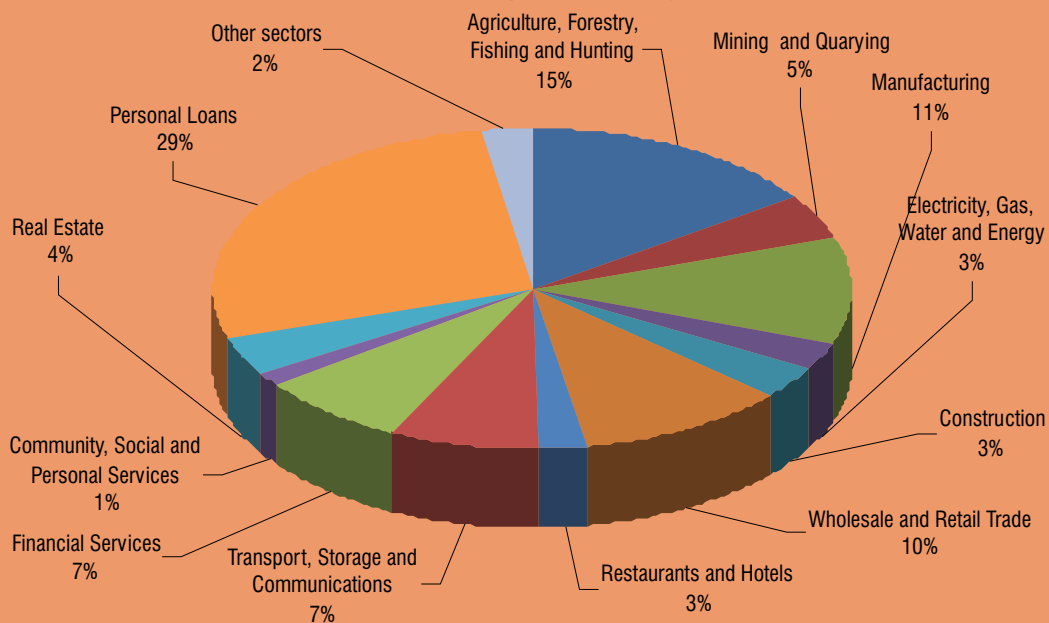
Source: Ministry of Finance and National Planning

Chart 1: Commercial Banks Loans and Advances (K' Billion) by Sector, Jun 2007 Dec 2008



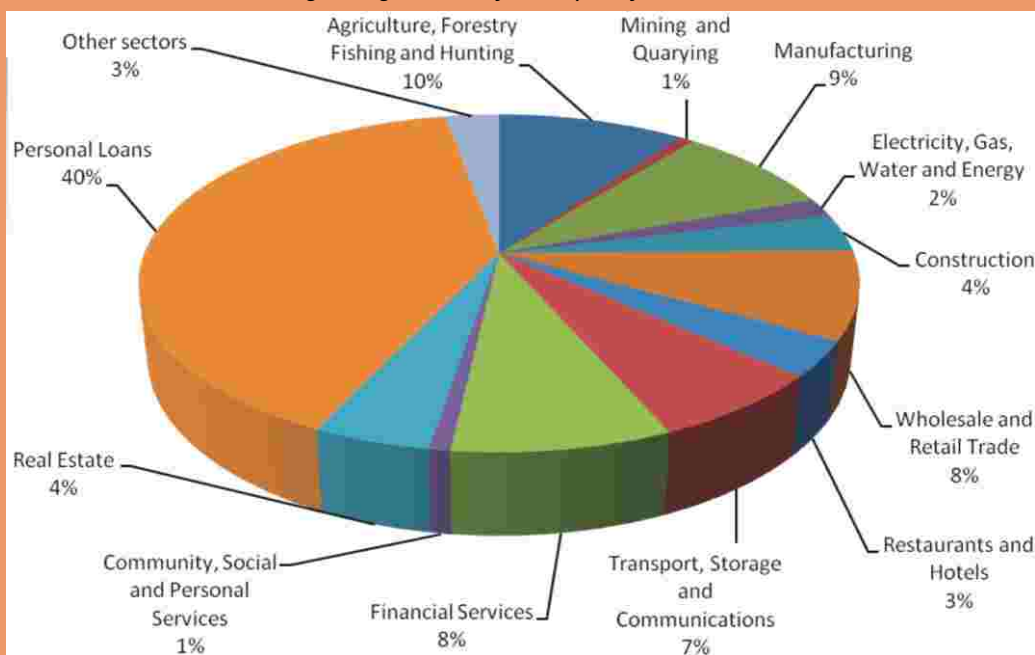
Source: Bank of Zambia Statistics Fortnightly

Chart 2: Structure of Loans and Advances (Monthly Average, July 2008 – December 2008)



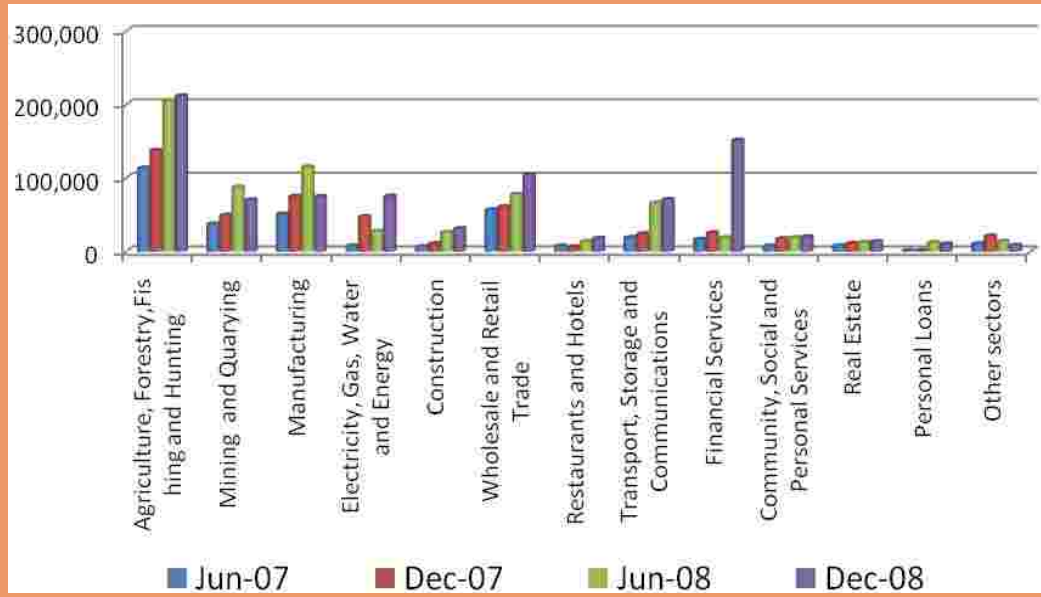
Source: Bank of Zambia Statistics Fortnightly

Chart 3: Structure of Loans and Advances (Monthly Average) Excluding Foreign Currency Loans), July 2008 – December 2008



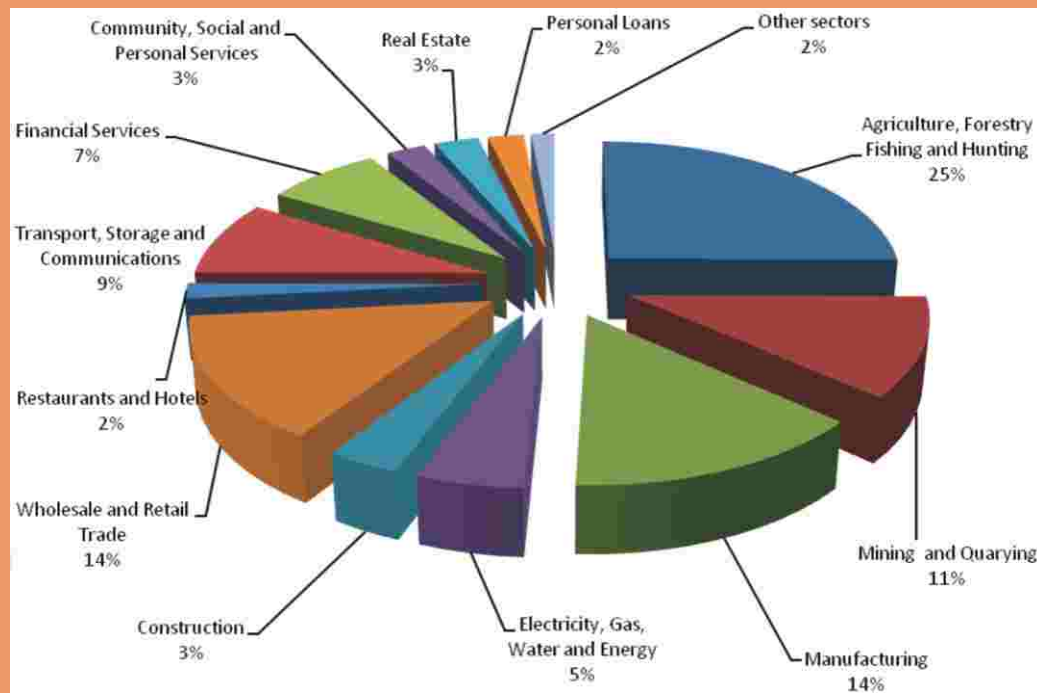
Source: Bank of Zambia Statistics Fortnightly

Chart 4: Commercial Banks Foreign Currency Loans and Advances (US \$ Million) by Sector, Jun 2007 Dec 2008



Source: Bank of Zambia Statistics Fortnightly

Chart 5: Structure of Forex Loans and Advances (Monthly Average, July 2008 December 2008)



Source: Bank of Zambia Statistics Fortnightly

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

- | | |
|-----------------------------|------------------------------------|
| 1. Dr Caleb M. Fundanga | Governor |
| 2. Dr Denny H. Kalyalya | Deputy Governor - Operations |
| 3. Dr Tukiya Kankasa-Mabula | Deputy Governor - Administration |
| 4. Mr Likolo Ndalamei | Secretary to the Treasury |
| 5. Ms Justina Wake | Member |
| 6. Ms Beatrice Nkanza | Member |
| 7. Mr Dale Mudenda | Member, University of Zambia |
| 8. Prof. John Lungu | Member, Copperbelt University |
| 9. Mr Romance C. Sampa | Member |
| 10. Mr Peter Mukuka | Member, Central Statistical Office |
| 11. Dr Anthony Mwanaumo | Member |

