Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JULY - DECEMBER 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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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

During the first half of 2009, monetary policy was focused on achieving the end-year inflation target of 10.0%. It was envisaged that in the first half of the year, both reserve and broad money were to grow by no more than 2.6%. To achieve this, the Bank of Zambia (BoZ) was to rely mainly on the use of Open Market Operations (OMO). This was to be complemented by the auctioning of Government securities and prudent fiscal management.

In the period under review, overall annual inflation declined by 2.2 percentage points to 14.4% in June 2009 from the 16.6% recorded in December 2008. However, this was above the end-June 2009 projection of 12.2%. The underlying inflationary pressures emanated largely from the increase in non-food inflation. This in turn was mainly driven by the pass-through effects of the weakening of the Kwacha against the US dollar. On the other hand, food inflation declined due in part to the maize price stabilisation programme in the first quarter of 2009 and improved supply of many food items from domestic sources, following the onset of the 2009/10 crop marketing season.

Average reserve money declined by 2.7% to K3,213.7 billion at end-June 2009, which was 5.3 percentage points lower than the projected end-period growth of 2.6%. The decline in reserve money was mainly driven by the increase in net sale of foreign exchange. Similarly, M3 growth declined to 0.2% in the first half of 2009 from the 20.3% growth registered in the second half of 2008 and was 2.4 percentage points below the projection of 2.6% for end-June 2009. The slowdown in M3 growth largely arose from the decline in the growth of net domestic assets (NDA) as net foreign assets (NFA) grew in the period under review. NDA fell by 14.5%, contributing negative 8.3 percentage points to M3 growth whilst NFA increased by 19.8%, contributing 8.5 percentage points to M3 expansion, as a result of the increase in the gross international reserves with the disbursement of US $162.2 million by the International Monetary Fund in May 2009.

The IMF disbursement followed the completion of the first and second reviews of Zambia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and was aimed at cushioning the domestic economy from the impact of the global financial crisis. Following the global commodity price increase and later the global financial and economic crisis, Zambia's program implementation and economic performance were adversely affected. In particular, the international food and fuel price impulses in the first half of 2008 pushed inflation above the program target, while a steep fall in copper prices related to the current global economic and financial crisis severely reduced export earnings and government revenue.

In the foreign exchange market, demand pressures, which had led to the Kwacha depreciate during the second half of 2008, continued into the first four months of 2009. The reversal of portfolio flows in Government securities and the stock market continued. These, with the combined demand for food imports and servicing the financing facility for oil procurement, particularly during the first four months of the year, exerted significant pressure on the exchange rate of the Kwacha against major currencies to depreciate during the first quarter of 2009. Consequently, the Kwacha recorded a broad-based depreciation against the major trading currencies in the first quarter of the year. This development was despite the Bank of Zambia's active participation in the foreign exchange market through the sale of foreign exchange. Against the US dollar, the Kwacha depreciated by 16.0%, to settle at a monthly-average of K5,660.35 per US dollar, by April 2009. Similarly, the Kwacha depreciated by 14.6%, 15.2%, and 26.2% against the Pound sterling, euro, and South African rand to K8,319.35, K7,441.26, and K626.62 per unit of these currencies, respectively.

However, over the second quarter of 2009, the Kwacha recorded some recovery, reflecting improved investor sentiments following the progressive recovery in copper prices from the beginning of the year. The recovery was also supported by the Bank of Zambia's aggressive policy response of increasing net sales of foreign exchange. The Bank's net sales of foreign exchange during the first six months of 2009 rose to US $256.5 million from US $184.0 million in the last half of 2008. Further, the Bank acted to curb speculative currency trades by issuing a directive to commercial banks to desist from lending local currency with a maturity period of less than one year to non-residents. These interventions also helped restore stability in the foreign exchange market in the last quarter of the period under review. Hence, the exchange rate appreciated to a monthly-average of K5,281.64/US$ in June 2009 from K5,660.35/US$ as at April 2009. Against the Pound sterling, euro, and South African rand, the Kwacha recovered by recording appreciations of 2.0%, 4.7% and 1.2% to K8,150.33, K7,095.00, and K618.92, respectively.

Preliminary data indicate that Zambia recorded a merchandise trade surplus (c.i.f) of US $ 58.5 million during the first half of 2009 compared with a merchandise trade deficit of US $535.8 million recorded during the second half of 2008. This was mainly explained by a 37.8% decline in the merchandise imports bill that more than offset the 19% decline in export earnings. Zambia's current account deficit narrowed to US $207.2 million from US $1,184.5 million in the second half of 2008.

The fiscal sector is one other area apart from the external sector where the adverse impact of the global financial crisis and economic recession has been significant as reflected in the reduced Government revenues. Revenues from key sectors such as mining, tourism and manufacturing have plummeted since the advent of the crisis. Further, revenues from trade in general and in particular imports have also been adversely affected. Accordingly, fiscal performance was weak during the first half of 2009. Tax revenues were significantly below projections, largely reflecting lower trade taxes and donor inflows. Notwithstanding this, the central Government recorded a lower budget deficit than programmed, mainly achieved through a substantial compression of expenditures, with likely adverse effects on the implementation of various social and infrastructural programmes envisaged in the 2009 budget. Total domestic financing, thus remained under control during the first half of the year.

During the review period, yield rates on Government securities were generally stable but commercial banks lending and deposit interest rates increased marginally while savings rate remained unchanged.

Over the second half of 2009, monetary policy will remain focused on achieving the end-year inflation target of 10%. In this regard, the Bank of Zambia will take appropriate measures to ensure that the end-year growths in reserve money and money supply are within the programmed limits of 14%. Nonetheless, significant challenges remain to the achievement of the inflation and money supply targets. The second round effects of the global financial and economic crisis are still impacting the Zambian economy: these effects include, lower fiscal revenues that present increased pressures for higher than programmed domestic financing of the budget; the lagged effects of the sharp depreciation in the exchange rate and the potential upward adjustment in inflation expectations; and shocks to the domestic economy arising from higher electricity and fuel costs. There are, however, countervailing factors which, if they materialise, will support the monetary policy objective. These include: the improved outlook for copper prices, which should support increased copper earnings; the stabilisation of the exchange rate of the Kwacha against the major global currencies; and the likelihood of a significant augmentation in foreign exchange reserves from the proposed allocation of Special Drawing Rights (SDRs) by the IMF. In the second half of 2009, the Bank of Zambia will introduce the overnight lending facility (OLF) to operate on a repo or collateralised (secured) basis. The OLF will be a Bank of Zambia's overnight lending facility to commercial banks with adequate collateral to back the loans obtained on an overnight basis. The proposed collateral for use on the facility will be Government securities, that is, Treasury bills and Government bonds with less than 180-days to maturity. The OLF facility once fully implemented, is expected to improve the commercial banks management of short term liquidity, enhance monetary policy implementation, contribute to money market development, and provide a mechanism that can act as an early warning system to detect emerging liquidity problems in the banking sector.

Monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the new Medium-Term Expenditure Framework (MTEF) for the period 2010-2012, which is broadly in line with the Vision 2030. For the two year period to December 2011, the Bank of Zambia will aim at reducing annual inflation to no more than 9.0% at the end of 2011.

Further, the monetary policy framework will continue to be reviewed to enhance the efficacy of monetary policy, taking into account the current developments in the global financial markets and their implication on the domestic economy. In this regard, the Bank of Zambia will review its monetary policy framework in the period ahead in light of the recent impact of external shocks on inflation outturn and macroeconomic stability in general. The broad thrust of this review is to assess the costs and benefits of moving from the strict use of a monetary aggregate as the anchor of monetary policy to a short term interest rate.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy over the first half of 2009 and outlines the formulation of monetary policy during the period July to December 2009. The statement also discusses the major challenges which may impact on the conduct of monetary policy during the second half of 2009, and then outlines the policy actions that the Bank of Zambia is likely to take. The summary of the principles that will guide the Bank of Zambia's monetary policy formulation and implementation over the next two years up to December 2011 are discussed in the final part of this Statement.

2.0 Targets and Challenges

In order to achieve the 2009 end-year inflation target of 10.0%, it was envisaged that in the first half of the year, reserve and broad money would both grow by no more than 2.6% (see Table 1).

Table 1: Selected Monetary Indicators, Dec 2007 Jun 2009 (percent change)

	2007	Jan Jun 2008		Jul Dec 2008		Jan Jun 2009*	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	**8.9**	**2.3**	**7.6**	**7.0**	**16.6**	**12.2**	**14.4**
Non-food Inflation	***11.9***	***2.4***	***4.5***	***8.3***	***12.9***	***13.6***	***14.7***
Food Inflation	***5.9***	***2.7***	***10.9***	***6.0***	***20.5***	***10.8***	***14.1***
Reserve Money	9.2	0.8	1.0	11.5	24.3	2.6	-3.9
Broad Money*	26.3	0.9	-3.4	11.6	20.3	2.6	0.2
Domestic Credit*	20.3	-	19.8	-	36.0	-	2.4
Government	*-20.2*	-	*-15.8*	-	*88.0*	-	*28.5*
Public Enterprises	*68.7*	-	*-53.9*	-	*-9.4*	-	-5.0
Private Sector Credit	*41.5*	-	*-2.8*	-	33.9		
Domestic Financing (% of GDP)	1.0	0.6	0.4	0.1	1.2	1.9	

Source: Central Statistical Office-The Monthly and Bank of Zambia-Statistics Fortnightly
- Indicates no target under the economic programme
*** Preliminary estimates for June 2009**

During the first half of 2009, the Bank faced some challenges in implementing monetary policy aimed at lowering inflation. These included:

- Higher prices of cereals (maize and maize products) in April, following the end of the maize price stabilisation programme by the Food Reserve Agency (FRA), coupled with lower supply of the commodity in the first quarter of the year;
- Lower seasonal supply of fish and fresh vegetables and consequently higher prices during the last month of the first part of the year;
- Pass-through effects of the depreciation in the exchange rate of the Kwacha against major foreign currencies;
- Increased spending by Government line ministries and agencies in the latter half of the period; and
- Continued adverse effects of the global recession on the government revenues, foreign exchange earnings, the exchange rate, and inflation expectations.

However, these inflationary pressures were partly mitigated by the stability of the domestic prices of petroleum products, net sale of foreign exchange to the markets that minimised liquidity pressures, and improved supply of food in the market during the latter part of the period under review.

From the monetary operations perspective, the Bank of Zambia continued implementing appropriate monetary policy to keep money supply growth within the programmed path in order to contain the effects of the afore-stated challenges. To this end, the Bank of Zambia largely relied on indirect instruments of monetary control, notably, Open Market Operations (OMO). This was to be complimented by prudent fiscal operations and significant net sales of foreign exchange to the market between January and April, 2009.

3.0 Assessment of Monetary Policy Outcome, January June, 2009

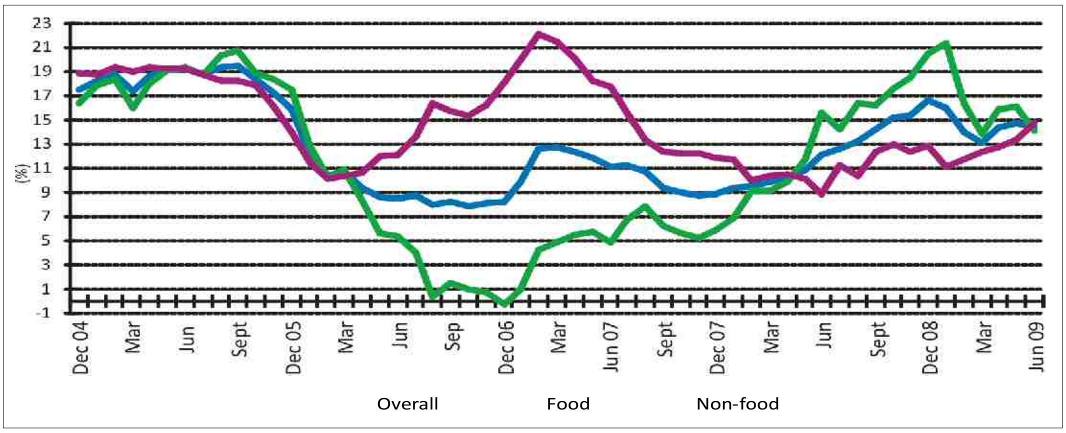
Overall annual inflation declined by 2.2 percentage points to 14.4% in the first half of 2009.

Similarly, both reserve money and broad money supply declined and were both below their end period growth limits. During the review period, yield rates on Government securities were generally stable but commercial banks lending and deposit interest rates increased marginally while savings rate remained unchanged. The period under review broadly continued to be characterised by depreciating pressures of the Kwacha, an aftermath of the global financial crisis of the last half of 2008. Consequently, the Kwacha recorded a broad-based depreciation against the major trading currencies in the first half of the year.

3.1 Overall inflation

Overall annual inflation declined by 2.2 percentage points to 14.4% in June 2009 from the 16.6% recorded in December 2008 but was above the 12.2% projection. The underlying inflationary pressures emanated largely from the increase in non-food inflation (see Chart 1 and Table 2). The latter was, in turn, mainly driven by the pass-through effects of the weakening of the Kwacha against the US dollar. On the other hand, food inflation declined due in part to the Government's maize price stabilisation programme in the first quarter of 2009 and improved supply of many food items from domestic sources, following the onset of the 2009/10 crop marketing season.

Chart 1 : Annual Inflation, December 2004 - June 2009



Source: Central Statistical Office, The Monthly

3.2 Non-Food Inflation

Annual non-food inflation rose to 14.7% from the 12.9% recorded in December 2008. This outturn was 1.1 percentage points above the target of 13.6%, accounting for 7.4 percentage points to annual overall inflation performance. The unfavourable non-food inflation outturn was largely due to price increases on furniture and household goods, contributing 2.5 percentage points; transport sub-group, contributing 1.6 percentage points; and rent and household energy, contributing 1.1 percentage points.

3.3 Food Inflation

Annual food inflation declined to 14.1% from the 20.5% recorded in December 2008 partly as a result of the Government's maize price stabilisation programme in the first quarter of 2009 and favourable global and domestic food prices resulting from the improved supply. This development was however, 3.3 percentage points above the end June target of 10.8% and accounted for 7.0 percentage points to annual overall inflation outturn. Accounting for this were price declines on tubers, mealie meal, vegetables and groundnuts due to improved supply of the commodities on the market in the latter part of the period under review. Other price declines recorded were on both fresh and dry fish as a result of improved supply after lifting the annual fish ban that was effected in the period December 2008 to March 2009.

Table 2: Inflation Outturn [%] - Dec 2004 Jun 2009

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
Jan 09	1.3	2.4	0.3	16.0	21.3	11.1	1.3	2.4	0.3
Feb 09	0.7	-0.2	1.6	14.0	16.3	11.7	2.0	2.2	1.8
Mar 09	0.3	-0.8	1.3	13.1	13.9	12.3	2.3	1.4	3.2
Apr 09	1.3	1.9	0.8	14.3	15.9	12.7	3.7	3.3	4.0
May 09	0.8	0.6	1.0	14.7	16.1	13.3	4.5	3.9	5.0
Jun 09	1.1	1.0	1.2	14.4	14.1	14.7	5.6	5.0	6.2

Source: Central Statistical Office Press Release

3.4 Monetary and Credit Developments

Reserve Money Developments

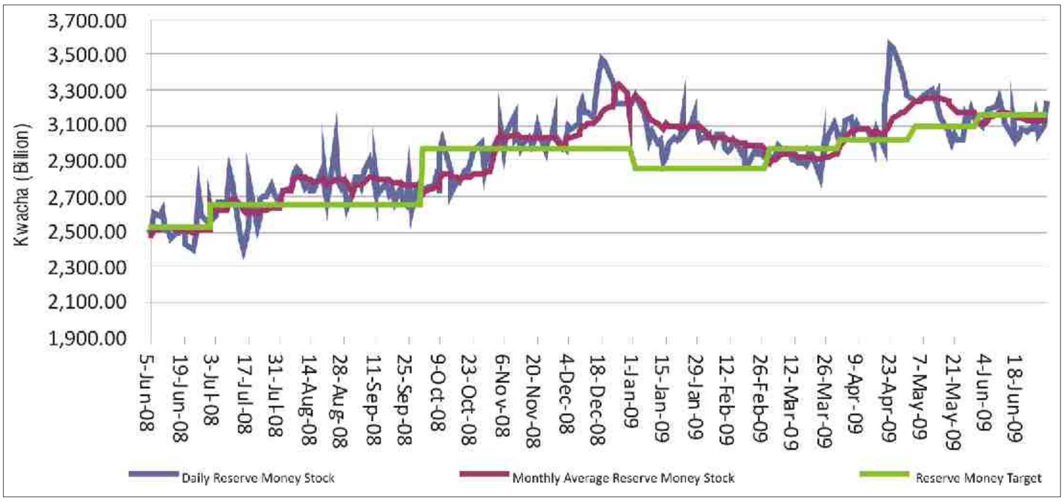
During the first half of 2009, reserve money stock was expected to decline by at least 2.0% to K3,151.1 billion from a stock of K3,213.7 billion. Although open market operations remained the mainstay of liquidity control, the effect of stronger net sales of foreign exchange by the BoZ was the main factor absorbing liquidity. The statutory reserve ratio was maintained at 8.0% while the core liquid assets ratio remained unchanged at 9.0%.

Average reserve money declined by 2.7% to K3,213.7 billion at end of June 2009, which was 5.3 percentage points lower than the projected end-period growth of 2.6%. This decline in reserve money was mainly driven by the increase in net sale of foreign exchange.

During the first quarter of the period under review, reserve money declined rapidly to a monthly-average low of K2,905.1 billion in March 2009 largely on account of stronger net sales of foreign exchange by BoZ. Following a continuation of the instability in the foreign exchange market arising from the global financial crisis in the last quarter of 2008, a total of K1,408.3 billion worth of foreign exchange was sold to commercial banks for the purpose of restoring orderliness in the financial markets. In order to finance their foreign exchange purchases from the BoZ, commercial banks drew down their deposits held under open market operations to a low of K359.0 billion by April 2009 from K927.5 billion at end-December 2008 (Appendix III, Table 4).

The declining trend in reserve money was however, reversed in the latter half of the reviewed period largely on account of increased spending by Government line ministries and agencies. In order to keep reserve money growth in check, the BoZ conducted withdrawing Open Market Operations (OMO), leading to a moderate increase in funds held under OMO to K576.5 billion at end-June 2009. Consequently, the monthly-average reserve money ended the period at K3,127.6 billion, slightly below the target of K3,151.1 billion (see Chart 2).

Chart 2: Reserve Money



Source: Bank of Zambia

On the uses side, the reduction in reserve money was largely reflected by declining commercial banks' deposits at the BoZ. Commercial banks' current accounts and statutory reserve deposits fell by a total of K15.6 billion to K1,278.4 billion. However, the amount of currency in circulation moderately rose to K1,943.9 billion by the end of June 2009 from K1,931.9 billion recorded at end-December 2008, reflecting seasonal demand for transaction cash.

Broad Money Developments

During the first half of 2009, broad money (M3) growth, comprehensively defined to include foreign currency deposits, declined by 20.1 percentage points to 0.2% from the 20.3% recorded in the second half of 2008. This outcome was 2.4 percentage points below the end-June 2009 growth target of 2.6%. The source of slow growth in M3 in the first half of 2009 was the decline in the growth of net domestic assets (NDA) as net foreign assets (NFA) grew in the period under review. NDA fell by 14.5%, contributing negative 8.3 percentage points to M3 growth, on account of the decline in credit to the private sector (including parastatals). However, NFA increased by 19.8% as a result of the increase in the gross international reserves (GIR) and valuation effects arising from the depreciation of the Kwacha against global currencies. NFA growth contributed 8.5 percentage points to the growth in M3. Excluding foreign exchange deposits that increased by 11.1%, mainly reflecting valuation effects of the depreciation in the exchange rate of the Kwacha, broad money declined by 5.1% in the period under review compared with the 15.0% increase recorded in the second half of 2008.

On an annual basis, M3 growth slowed down to 20.6% (June 2008, 26.7%) from the 21.8% recorded in December 2008 and remained below the annual growth projection for end-June of 24.5% (see Table 3 and Chart 3). This outturn was largely due to the fall in the NDA growth as the NFA increased. The NDA growth declined to negative 2.0% (December 2008, 31.9%), contributing 1.1 percentage points to annual M3 growth. The NFA increased by 45.9% (June 2008, 16.6%) compared with the 10.7% recorded in December 2008, largely on account of valuation effects due to the depreciation of the Kwacha against global currencies as the gross international reserves (GIR) increased by 3.3%, and contributed 19.5 percentage points to M3 expansion. Excluding foreign currency deposits that rose by 47.5% in local currency as result of the impact of the depreciation of the Kwacha against major currencies, annual money supply growth slowed down to 9.2% from the 22.1% recorded during the second half of 2008.

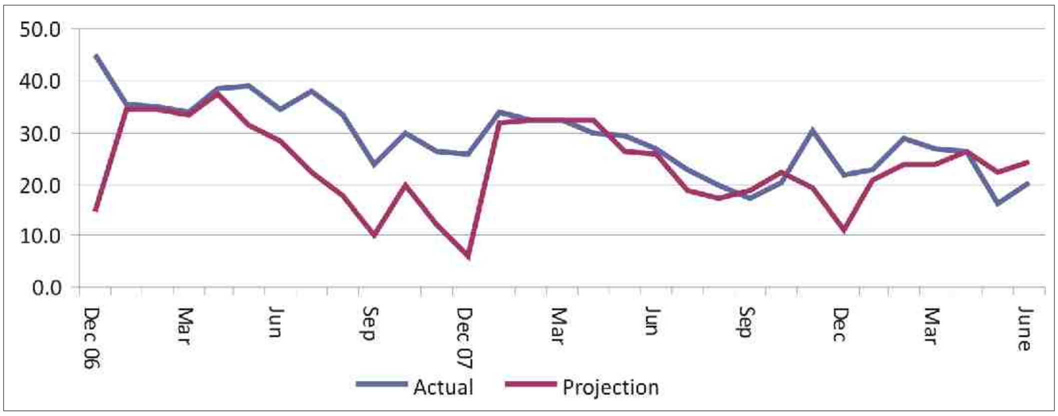
The increase in the GIR in the reviewed period was partly as a result of the disbursement of US $162.2 million by the International Monetary Fund in May 2009. The IMF disbursement followed the completion of the first and second reviews of Zambia's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and was aimed at cushioning the domestic economy from the impact of the global financial crisis. Following the global commodity price increase and later the global financial and economic crisis, Zambia's program implementation and economic performance were adversely affected. In particular, the international food and fuel price impulses in the first half of 2008 pushed inflation above the program target, while a steep fall in copper prices related to the current global economic and financial crisis severely reduced export earnings and government revenue.

Table 3: Broad Money Developments (in K' bn unless otherwise stated), Jun 2007 Jun 2009

Description	Jun 2007	Dec 2007	Jun 2008	Dec 2008	Jun 2009
Broad Money (M3)	8,557.2	10,707.0	10,840.1	13,044.3	13,075.5
o/w Foreign Exchange Deposits	3,044.6	3,538.4	3,232.1	4,293.5	4,768.9
M3 (excl. Foreign Exchange Deposits)	5,512.6	7,168.6	7,608.0	8,750.8	8,306.6
6-Month Change in M3 (%)	1.0	25.1	1.2	20.3	0.2
6-Month Change in Foreign Exchange Deposits (%)	12.2	16.2	-8.7	32.8	11.1
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	-4.3	30.0	6.1	15.0	-5.1
Annual Change in M3 (%)	36.1	26.3	26.7	21.8	20.6
Annual Change in Foreign Exchange Deposits (%)	51.6	30.4	6.2	21.3	47.5
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	28.8	24.4	38.0	22.1	9.2

Source: Bank of Zambia

Chart 3: Annual Broad Money Growth, Dec 2006 - Jun 2009



Source: Bank of Zambia.

Monetary Policy Statement

Domestic Credit Developments

Growth of domestic credit, comprehensively defined to include foreign currency loans slowed down to 5.4% in the first half of 2009 from the 36.0% increase in the second half of 2008. This outturn was due to a relative lower growth in credit to the private sector (including public enterprises) as well as a slowdown in credit growth to the Government. Private sector credit growth declined to 4.2% from the 26.2% recorded in the second half of 2008, contributing 3.3 percentage points to domestic credit. This fall was as a result of the tightened lending conditions, in turn explained by higher risk assessment levels amidst the global economic recession and the fall in domestic economic activities. However, net claims on central government grew by 9.7% compared with the 88.0% recorded in the second half of 2008 and contributed 2.1 percentage points to domestic credit growth. Excluding foreign currency denominated loans that declined by 3.1% partly due to exchange rate risk aversion by borrowers, domestic credit growth slowed down to 8.8% from the 74.5% recorded in December 2008.

On an annual basis, domestic credit growth increased to 43.3% (June 2008, 28.3%) from the 38.3% recorded in December 2008. The increase in domestic credit growth was due to the rise in both private sector credit and net claims on Government. Credit growth to the private sector (including public enterprises) increased by 31.5% (December 2008, 42.9%) and accounted for 26.5 percentage points to annual credit growth. The net claims on Government rose by 106.1% and contributed 16.8 percentage points to annual credit expansion. Excluding foreign currency denominated credit, which expanded by 75.1% partly due to valuation effects of the depreciation of the Kwacha against major currencies, annual local currency denominated domestic credit growth increased to 89.9% from 28.4% in December 2008 (see Table 4).

Table 4: Domestic Credit Developments (in K' bn unless otherwise stated), Jun 2007 - Jun 2009

Description	Jun 07	Dec 07	Jun 08	Dec 08	Jun 09
Domestic Credit (DC)	6,039.1	7,616.6	7,749.3	10,536.2	11,107.8
O/w Foreign Exchange Credit	1,553.3	1,747.7	1,661.8	3,001.7	2,909.9
DC (Excl. FX Credit)	4,485.8	5,868.9	4,316.8	7,534.5	8,197.9
6-Month Change in Domestic Credit	-5.0	26.1	1.7	36.0	2.4
6-Month Change in Foreign Exchange Credit	15.4	12.5	-4.9	80.6	-3.1
6-Month Change in DC (Excl. Foreign Exchange Credit)	-10.5	30.8	3.7	74.5	8.8
Annual Change in Domestic Credit	2.6	19.8	28.3	38.3	43.3
Annual Change in Foreign Exchange Credit	34.4	29.8	7.0	71.8	75.1
Annual Change in DC (Excl. Foreign Exchange Credit)	-5.2	17.1	35.7	28.4	89.9

Source: Bank of Zambia, Economics Department

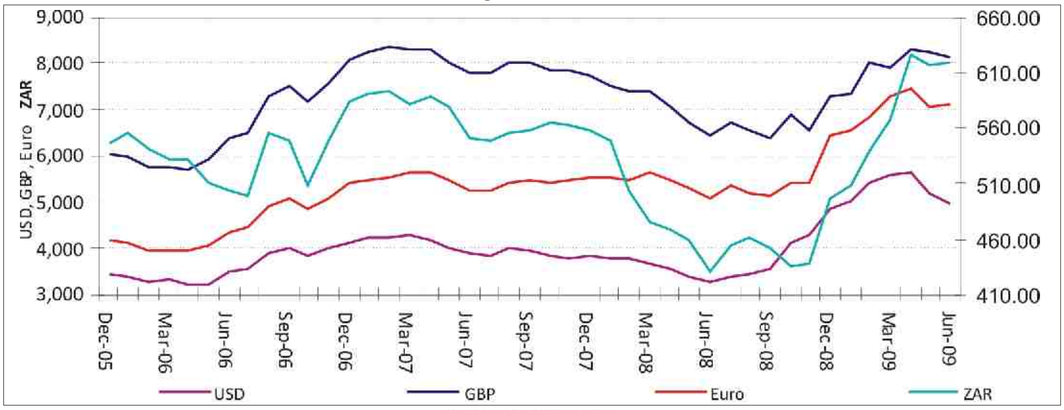
On sectoral basis, households (personal loans category) continued to be the largest recipient of credit, accounting for 21.6% (25.4%) in June 2009. Agricultural sector again was second at 18.4% (16.2%), followed by manufacturing, 11.0% (10.8%); wholesale and retail trade, 9.1% (9.7%), financial services, 8.1% (7.8%); and transport and communications, 7.9% (7.0%) (see Appendix III, Table 5a).

3.5 Foreign Exchange Market

In the foreign exchange market, demand pressures, which had seen the Kwacha depreciate during the second half of 2008, continued into the first four months of 2009. The reversal of portfolio flows in Government securities and the stock market continued. These, with the combined demand for food imports and servicing the financing facility for oil procurement, particularly during the first four months of the year, exerted significant pressure on the exchange rate of the Kwacha against major currencies to depreciate during the first quarter of 2009. Consequently, the Kwacha recorded a broad-based depreciation against the major trading currencies in the first quarter of the year. This development was despite the Bank of Zambia's continued presence in foreign exchange market through the sale of foreign exchange. Against the US dollar, the Kwacha depreciated by 16.0%, to settle at a monthly-average of K5,660.35 per US dollar, by April 2009. Similarly, the Kwacha depreciated by 14.6%, 15.2%, and 26.2% against the Pound sterling, euro, and South African rand to K8,319.35, K7,441.26, and K626.62 per one unit of these currencies, respectively.

However, over the second quarter of 2009, the Kwacha recorded some recovery, reflecting improved investor sentiments following the progressive recovery in copper prices from the beginning of the year. The recovery was also supported by the Bank of Zambia's aggressive policy response of increasing net sales of foreign exchange. To this end, the Bank's net sales of foreign exchange during the first six months of 2009 rose to US $256.5 million from US $184.0 million in the last half of 2008. Further, the Bank acted to curb speculative currency trades by issuing a directive to commercial banks to desist from lending local currency with a maturity period of less than one year to non-residents. These interventions also helped restore stability in the foreign exchange market in the last quarter of the period under review. Hence, the exchange rate appreciated to a monthly-average of K5,281.64/US$ in June 2009 from K5,660.35/US$ as at April 2009. Against the Pound sterling, euro, and South African rand, the Kwacha recovered by recording appreciations of 2.0%, 4.7% and 1.2% to K8,150.33, K7,095.00, and K618.92, respectively.

Chart 4: Exchange Rates , Dec 05 - Jun 09



Source: Bank of Zambia.

In the interbank market, trading activities between commercial banks increased with trade volumes amounting to US$3,443 million from US$2,813.5 million recorded in the six months to December 2008. In contrast, commercial banks reported lower trade volumes of foreign exchange with the rest of the market. Banks' purchases of foreign exchange from the public decreased to US$2,392.6 million from US$2,879.1 million whereas their sales fell to US$2,375.8 million from US$2,775.8 million. Consequently, banks recorded net purchases from the public of US$16.8 million compared with net purchases of US$103.3 million recorded in the previous quarter.

With regard to the South African rand, commercial banks continued to be net sellers of the currency as demand by the public remained in excess of supply. During the period under review, the banks made net sales of ZAR1,506.6 million compared with net sales of ZAR1,611.3 million recorded during the previous period. With respect to the euro, commercial banks recorded net outflows of €0.1 million compared with net inflows of €74.5 million in the previous review period. Further, the pound sterling net sales of £10.4 million were recorded compared with net sales of £29.5 million during the previous period.

3.6 International Trade Developments

Preliminary data indicate that Zambia recorded a merchandise trade surplus (c.i.f) of US $58.9 million during the first half of 2009 from a merchandise trade deficit of US $535.8 million recorded during the second half of 2008 (see Appendix III, Table 1). This was mainly explained by a 26.0% decline in the merchandise imports bill. The import bill decreased to US $1,986.7 million from US $2,683.7 million registered during the second half of 2008. This followed reduced imports of food items (26.5%), fertiliser (41.4%), petroleum products (33.6%), chemicals (27.5%), plastic and rubber products (32.6%), paper and paper products (25.7%), and iron and steel (53.2%), industrial boilers and equipment (37.1%), electrical machinery and equipment (36.2%),vehicles (40.3%) and other imports (48.8%) (see Appendix III, Table 2).

During the period under review, merchandise export earnings declined by 19.5% to US $1,728.8 million compared with US $2,147.9 million registered during the second half of 2008. This was explained by a decline in both metal and Non-Traditional Exports (NTEs).

Box 1: An Update on the Global Financial Crisis and Economic Situation in Zambia

The world economic outlook, as projected by the International Monetary Fund (IMF) in its July 2009 World Economic Outlook report, indicates that the world economy is stabilising, as a result of the unprecedented macroeconomic and financial policy intervention. However, the report states that the global recession is not over and it is expected that the global economic recovery will probably be sluggish.

Despite a disappointing first quarter, during which the global economy contracted almost as fast as during the fourth quarter of 2008, the IMF projections in the report shows that the global economic outlook point to a return to modest growth at the global level. Nonetheless, projections for the advanced economies as a group still show a sluggish growth in economic activities until the second half of 2010. Consequent to this, global activity is forecast to contract by 1.4% in 2009 and to expand by 2.5% in 2010. The higher annual average growth rate for 2010 is said to largely reflect a carryover from a markup in growth during the final half of 2009.

On the domestic front,

- Zambia's growth prospects in 2009 have moderated in view of the global developments. As a result of this, the projected gross domestic product has been revised downwards to 4.0% from the 5.0% announced in the budget speech in February 2009. The projections for 2010 are that the economy is expected to record real GDP growth of 4.5%.
  - o This reduction has implications for the domestic revenues, with both corporate and income taxes likely to reduce. Consistent with this, fiscal performance in the first half of 2009 was weak primarily due to poor revenue outturn.
- Export earnings declined by 25.8% in the first half of 2009 compared to the performance in the second half of 2008. This was due to the decline in earnings for both metal and non-traditional exports. However, the trade deficit narrowed on account of a relatively larger decline on imports.
- Additionally, there was relative volatility in the exchange rate in reviewed period and there was an increase in inflation in the months of April and May 2009, although there have been some improvements in the last part of the half year period.
- Production of copper, Zambia's major export, increased by 30.1% in the first half of 2009 (First half 2008, 8.7%) from the 26.4% decline recorded in the second half of 2008.

Copper export earnings, at US $1,349.2 million, were 11.6% lower than US $1,526.0 million recorded during the second half of 2008. This was largely on account of a 24.5% fall in average realised prices to US $1.73 per pound from US $2.29 per pound recorded in the second half of 2008. The decline in the average realised copper price was mainly attributed to weaker global demand resulting from the global economic recession. However, volumes of copper export increased by 17.1% to 354.5 mt from the 302.9mt recorded in the second half of 2008.

Cobalt export earnings declined by 72.7% to US $31.3 million during the first half of 2009 from US $114.7 million the previous period following a 64.5% decline in cobalt average realised prices as well as a 23.3% fall in export volumes. The average realised price of cobalt declined to US $7.83 per pound from the US $22.07 per pound recorded in the second half of 2008, while cobalt export volume declined to 1,809.6 metric tons from 2,358.06 metric tons in the second half of 2009 (see Appendix III, Table 3).

Non-traditional export earnings at US $348.3 million were 31.3% lower than the US $507.3 million realised during the second half of 2008. This was explained by a decline in earnings from the exports of copper wire, cane sugar, burley tobacco, cotton lint, cotton yarn, fresh fruit and vegetables, and gemstones. In addition, exports of wheat and maize declined thereby contributing to the recorded fall in NTEs.

Merchandise imports declined to US $1,986.7 million from US $2,683.7 million in the second half of 2009. This was due to lower imports bill associated with commodity groups such as food items, petroleum products, fertiliser, chemicals, paper and paper products, iron and steel products, industrial boilers and equipment, electrical machinery, vehicles and other imports. The decline in imports in part reflected the slowdown in activities in the mining sector, as investment expenditure slowed and firms responded to the global economic crisis by rationalising their costs and in some cases slowing or closing down production.

3.7 Fiscal Developments

The fiscal sector is one other area apart from the external sector where the adverse impact of the global financial crisis and economic recession has been significant as reflected in the reduced Government revenues. Revenues from key sectors such as mining, tourism and manufacturing have plummeted since the advent of the crisis. Further, revenues from trade in general and imports in particular have also been adversely affected. Accordingly, fiscal performance was weak during the first half of 2009. Tax revenues were significantly below projections, largely reflecting lower trade taxes and donor inflows. Notwithstanding this, the central Government recorded a lower budget deficit than programmed, mainly achieved through a substantial compression of expenditures, with likely adverse effects on the implementation of various social and infrastructural programmes envisaged in the 2009 budget. Total domestic financing, thus remained under control during the first half of the year.

Preliminary data indicate that the central Government recorded a budget deficit of K751.7 billion during the first half of 2009, 4.4% lower than the programmed deficit of K786.6 billion. The lower deficit was made possible mainly through expenditure reductions, as revenue performance was less than satisfactory (see Appendix III, Table 6).

The total revenue and grants during the first half of the year at K5,095.0 billion was below the programmed outturn of K6,870.8 billion by 25.8%. This was on account of both the delayed disbursement of donor support and the global financial crisis and resulted in lower than programmed grants, at K523.4 billion, against the projection of K1,861.6 billion.

Moreover, both tax and non-tax revenues were below their respective targets, albeit by different margins, on account of the slowdown in economic activity in the face of the global economic recession. Tax revenue at K4,395.9 billion was 8.9% below the target of K4,823.4 billion mainly reflected in the lower than programmed outturn in import VAT, and excise and customs duties, which were below programmed levels by K257.2 billion, K256.0 billion and K134.9 billion, respectively. Non-tax revenue was below the target of K185.8 billion by K10.1 billion on account of lower than programmed fees and fines.

Total expenditure at K5,846.7 billion was below the programmed level of K7,657.4 billion by K1,810.7 billion. The need to reduce expenditure arose mainly as a result of the lower than programmed revenue outturn. Major expenditure cutbacks were recorded on non-financial assets, use of goods and services, and grants and other payments, which were below target by K783.9 billion, K529.5 billion and K406.4 billion, correspondingly. This may adversely affect implementation of various social and infrastructural programmes envisaged in the 2009 budget and would consequently have negative implications on the achievement of some social and economic objectives for 2009.

Total financing during the first half of 2009 was K455.8 billion, 40.3% below the programmed financing of K763.6 billion. This outturn was attributed to the lower actual expenditure than programmed. Total financing comprised of domestic financing of K485.0 billion and amortisation of K29.2 billion.

3.8 Money and Capital Markets Developments

3.8.1 Money Markets

3.8.1.1 Demand for Government Securities Market

Despite a continuing absence of foreign portfolio investors, demand for Treasury bills improved. With an unchanged K100.0 billion worth of Treasury bills on offer per week, investors submitted an average of K107.3 billion compared with an average of K68.0 billion worth of bids in the previous period.

Perhaps reflecting expectations of falling interest rates, investors preferred the 364-day term as it recorded an oversubscription rate of 33.3%. However, investor demand for Government bonds continued to be weak. Investors bid an average of K64.2 billion against K120.0 billion offered on each auction in the period under review (see Appendix III, Table 7).

3.8.1.2 Stock of Government Securities

Despite a weak demand for Government securities relative to supply, the overall stock of outstanding Government securities increased. The stock of Treasury bills at cost rose by 10.3% to K3,178.2 billion while Government bonds at cost decreased by 1.3% to K4,287.4 billion. At face value, the stock of Treasury bills rose by 11.3% to K3,662.3 billion while the stock of bonds fell by only 0.3% to K4,727.2 billion, partly on account of relatively high interest rates obtaining during the review period.

All outstanding Treasury bills at the end of the review period were held by domestic investors while foreign investors' holdings worth K372.4 billion (11.4% of the total stock) as at end-December 2008 were redeemed by the end of June 2009. With regard to Government bonds, foreign investors' holdings decreased to K444.7 billion (12.9% of the total marketable stock) from K497.7 billion (14.0%) during the period under review. Domestic investors however increased their holdings to K3,161.1 billion from K3,120.3 billion held at end-December 2008.

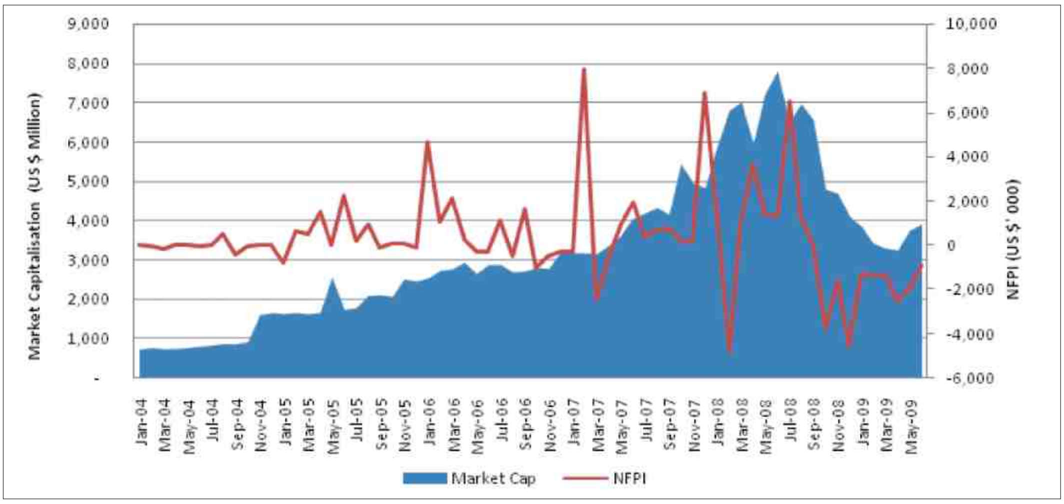
3.8.2 Capital Market Developments

During the period under review, trading activities at the Lusaka Stock Exchange (LuSE) reflected the effects of the global financial crisis. Similar to the performance of many global equity markets, the LuSE All-share index recorded a decline, particularly in the first part of the review period. The LuSE All share index fell from 2,505.9 to 2,143.4 in April 2009, before recovering to 2,744.6 at end-June 2009. Similarly, market capitalisation fell to K18,583.4 billion but recovered to K20,718.7 billion and was 1.0% higher than the end-December 2008 level (see Chart 5).

Foreign participation on the stock market was generally characterised by continued risk aversion. Foreign portfolio investors trading behaviour on the net basis resulted into negative portfolio flow albeit with signs of improvement (see Chart 5).

Net foreign portfolio investments in the equity market declined to negative US $0.9 million at end-June 2009 from negative US $4.6 million at end-December 2008.

Chart 5: LuSE Indicators, Jan 2004 - Jun 2009



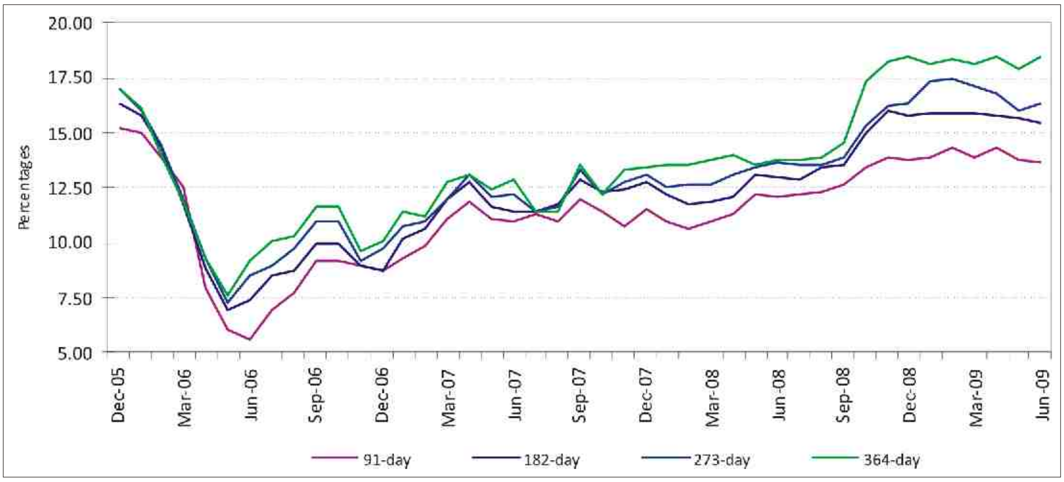
Source: Bank of Zambia

3.9 Market Interest Rates

3.9.1 Government Securities Interest rates

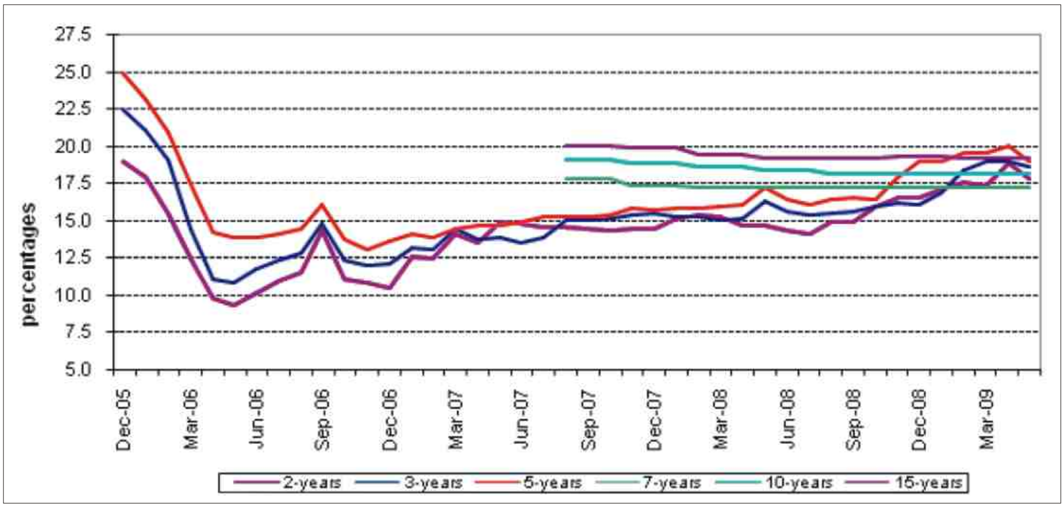
During the review period, developments in yield rates on Government securities were generally high. The composite average yield rate on the Treasury bills portfolio was little changed at a monthly average of 17.2% in June 2009 from 17.1% in December 2008 while the composite yield rate on the Government bonds portfolio closed at 15.7% compared with 15.6% over the period (see Charts 6 and 7).

Chart 6: Treasury Bills Yield Rates, Dec 05 - Jun 09



Source: Bank of Zambia, Statistics Fortnightly

Chart 7: Government Bonds Yield Rates' Dec 2005- Jun 2009



Source: Bank of Zambia, Statistics Fortnightly.

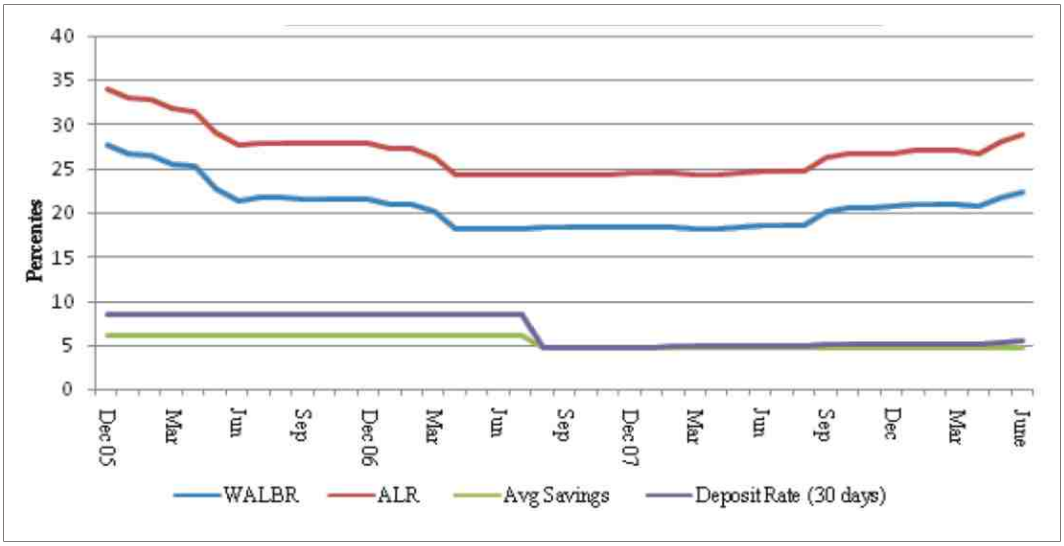
Note: The 7, 10 and 15 years bonds were introduced in August 2007

3. 9.2 Commercial Banks Interest Rates

All the reported commercial banks' nominal interest rates increased in June 2009 except the Average Savings Rate (ASR). The Weighted Average Lending Base Rate (WALBR), the Average Lending Rate (ALR) and the 30-day deposit rate for amounts exceeding K20 million increased to 22.4% (20.8%), 28.9% (26.7%) and 5.6% (5.1%), in that order. The ASR for amounts above K100,000 remained at 4.8% (see Chart 8).

Owing to the increase in the nominal interest rates and the decline in annual overall inflation to 14.4% in June 2009, real interest rates increased. To this effect, the real WALBR, real ALR and the real ASR for amounts above K100,000.00 increased to 8.0% (4.2%), 14.5% (10.1%) and negative 8.8% (negative 11.8%). Similarly, the real 30-day deposit rate for amounts above K20 million rose to negative 9.7% from negative 11.6%.

Chart 8: Lending and Savings Rates, Dec 2005 - Jun 2009



Source: Bank of Zambia, Statistics Fortnightly

3.9.3 Non-Bank Financial Institutions Lending Rates

In the first half of 2009, developments in the average annual interest rates for non-bank financial institutions were mixed. While the average annual interest rates for building societies increased to 26.2% from 25.3% recorded in the second half of 2008, the average annual interest rates for leasing sub-sector declined to 46.8% from 51.0% recorded in the second half of 2008. There was also a marginal decline in the average annual interest rates for the micro finance subsector to 114.0% from the 114.3% observed in the second half of 2008. However, there was no change in the interest rates for the Development and the Savings and credit finance institutions (see Table 5).

Among the factors explaining higher lending rates among NBFIs, particularly the micro financial institutions and leasing companies, is the expensive source of finance, which is mainly sourced from commercial banks through various lines of credit provided by a consortium of different financial institutions. There is also lack of competition in certain market segments particularly those which are rural based.

Table 5: Average Annual Interest Rates (%)

Description	Second Half 2008	First Half 2009
Development Finance Institutions	20.0*	20.0*
Building Societies	25.3	26.2
Leasing Companies	51.0	46.8
Micro Finance Institutions	114.3	114.0
Savings and Credit Institution	30.0	30.0

Source: Bank of Zambia
* Base Rate, however a margin of 1.0-10.0% is added to the base rate.

During the period under review, lending rates by both commercial banks and non-bank financial institutions continued to be generally high. This, in turn continued to constrain access to loanable funds needed for investment in the economy.

4.0 Monetary Policy Objectives and Instruments for July December 2009

Over the second half of 2009, monetary policy will remain focused on achieving the end-year inflation target of 10%. In this regard, the Bank of Zambia will take appropriate measures to ensure that the end-year growths in reserve money and money supply are within the programmed limits (see Appendix II, Table 1). Consistent with the inflation target, it is planned that during the period July December 2009:-

i. reserve money growth will be at the most 16.2%, and
ii. broad money growth will be no more than 10.2%.

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

i. pass-through effects of the depreciation of the Kwacha against major currencies;
ii. the increase in utility charges that is likely to cause cost push inflationary pressures; and
iii. The increase in oil prices in the global market may lead to an upward adjustment of domestic pump prices and induce cost push inflationary pressures.

To reduce the inflationary pressures that may arise from the challenges stated above, the Bank will continue to employ indirect instruments for monetary operations, namely open market operations and auctioning of Government securities. This is expected to be supported 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 easing inflationary pressures emanating from the pass-through effects.

In the second half of 2009, the Bank of Zambia will introduce the overnight lending facility (OLF) to operate on a repo or collateralised (secured) basis. The OLF will be a Bank of Zambia's overnight lending facility to commercial banks with adequate collateral to back the loans obtained on an overnight basis. The proposed collateral for use on the facility will be Government securities, that is, Treasury bills and Government bonds with less than 180-days to maturity. The OLF facility is expected to, once fully implemented, among others,

i. help improve the commercial banks management of short term liquidity by providing an extra channel where they can obtain an overnight credit subject to the provision of adequate collateral.
ii. enhance monetary policy implementation since it is expected that the rate on the facility would be used in signalling the monetary policy stance through adjustments in the rates prevailing on the facility. It is further expected that the standing facility will contribute to

inducing banks to hold lower levels of precautionary balances, thereby enhancing the Bank's open market operations (OMO).

iii. contribute to money market development through enhanced stability of the inter-bank money market and increased liquidity; and

iv. provide a mechanism that will be used as an early warning system to detect liquidity problems of particular banks at an early stage

5.0 Monetary Policy Principles for the Period January 2010 to December 2011

Monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the new Medium-Term Expenditure Framework (MTEF) for the period 2010-2012, which is broadly in line with the Vision 2030. For the two year period to December 2011, the Bank of Zambia will aim at reducing annual inflation to no more than 9.0% at the end of 2011. The Government's broad macroeconomic policies and objectives over the medium-term are aimed at enhancing economic growth as well as impacting favourably on poverty reduction. Over this period it is expected that:

(i) real GDP growth rate of at least 5.0% in 2010 and 5.5% in 2011 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 no more than 10.0% at end-December 2010 and further down to no more than 9.1% at end-December 2011;

(iii) domestic financing will be limited to no more than 2.1% of GDP in 2010 and 1.0% of GDP in 2011; and

(iv) gross international reserves amounting to not less than 3.1 months of import cover in 2010 and 2011 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.

In this regard, the Bank of Zambia is in the process of reviewing its monetary policy framework in the light of the external sector shocks experienced and their impact on inflation outturn and macroeconomic stability in general. The broad thrust of this review is to assess the costs and benefits of moving from the strict use of a monetary aggregate as the anchor of monetary policy to a short term interest rate.

Appendix I: Selected Macroeconomic Indicators

Description/Years	2007 Dec	2008 Mar	Jun	Sep	Dec	2009 Jan	Feb	Mar	Apr	May	June
Monetary Aggregates (K'bn)											
Reserve money (in K'billion)*	2,501.3	2,221.4	2,547.59	2,771.10	3,213.7	3,022.0	2,883.2	3065.0	3269.2	3136.0	3,151.1
Growth Rate	5.0	0.6	4.5	5.3	7.7	-6.3	-4.6	6.3	6.7	-4.1	0.5
Broad money (in K'billion)**	10,674.9	10,286.3	10,840.10	11,193.4	13,044.3	13,080.3	13,263.4	13,046.5	12,941.0	12,604.4	13,067.1
Growth Rate	1.6	-0.2	-4.8	-2.1	1.8	0.3	1.4	-2.9	-0.8	-2.6	3.7
Net Claims on Government (in K'billion)	1,988.9	1,246.0	1,290.5	1,000.1	2,741.2	2,190.6	2,624.0	2,350.7	2,608.7	2,703.4	2970.1
Prices (%)											
Inflation	8.9	9.8	12.1	14.2	16.6	16.0	14.0	13.1	14.3	14.7	14.4
Nominal Interest and yield rates (aver. %)											
Commercial Banks' rates											
Commercial banks' weighted lending base rate	18.3	18.2	18.5	20.1	20.8	20.9	20.9	20.9	20.8	21.7	22.4
Average Savings rate (>K100,000)	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Deposit rate (30 days, over K20 million)	4.8	5.0	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.4	5.6
Treasury bill yield rates											
Weighted TB rate	12.9	12.9	13.4	13.4	17.2	17.0	16.9	16.8	17.1	16.5	17.4
91-day	11.5	11.0	12.1	12.7	13.8	13.9	14.3	14.0	14.3	13.8	13.6
182-day	12.7	12.7	13.0	13.6	15.6	15.9	16.1	15.9	14.6	15.6	15.4
273-day	13.1	11.9	13.6	13.9	16.3	17.3	17.5	17.2	16.7	16.0	16.4
364-day	13.4	13.8	13.8	14.9	18.4	18.2	18.4	18.2	18.4	17.9	18.6
Government bonds Yield Rates											
Weighted Bond Yield Rate	15.6	15.1	15.7	17.2	16.7	18.9	18.7	18.4	19.5	18.5	18.7
24 months	14.4	15.2	14.3	14.9	16.6	17.1	17.5	17.3	18.8	17.9	18.5
3 year	15.5	15.1	15.6	15.6	16.2	16.9	18.4	18.4	19.0	18.6	18.4
5 year	15.7	16.0	16.4	16.5	18.2	19.0	19.5	19.5	20.0	19.0	19.0
7 year	17.8	17.2	17.3	17.2	17.3	17.3	17.3	17.3	17.2	17.2	17.2
10 year	19.1	18.6	18.4	18.2	18.4	18.4	18.4	18.4	18.2	18.2	18.2
15 year	20.0	19.4	19.3	19.2	19.3	19.3	19.3	19.3	19.2	19.2	19.2
Real Interest and Yield Rates (%)											
Commercial Banks' rates											
Commercial banks' weighted lending rate	9.4	8.4	6.4	5.9	4.0	4.9	6.9	7.8	6.5	7.0	8.0
Average savings rate	(4.1)	(4.7)	(7.3)	-9.4	-11.8	-11.2	-9.2	-8.3	-9.5	-9.9	-9.6
Deposit rate (30 days, over K20 million)	(4.1)	(4.8)	(7.1)	-9.1	-11.5	-10.9	-8.9	-8.0	-9.2	-9.3	-8.8
Treasury bill yield rates											
Weighted TB rate	4.0	3.1	1.3	-0.8	0.2	1.0	4.7	5.3	2.8	1.8	3.0
91-day	2.6	1.2	0	-1.5	-2.7	-2.1	3.5	4.2	0.0	-0.9	-0.8
182-day	3.8	2.9	0.9	-0.6	-0.8	-0.1	4.4	5.3	0.3	0.9	1.0
273-day	4.2	2.1	1.5	-0.3	-0.5	1.3	5.5	6.4	2.4	1.3	2.0
364-day	4.5	4	1.7	0.7	1.8	2.2	3.3	4.2	4.1	3.2	4.2
Government bonds Yield Rates											
Weighted Bond rate	6.7	5.3	3.6	3.0	0.1	2.9	4.7	5.3	5.2	3.8	4.3
24 months	5.5	5.4	2.2	0.7	0.0	1.1	3.5	4.2	4.5	3.2	4.1
3 year	6.6	5.3	3.5	1.4	-0.4	0.9	4.4	5.3	4.7	3.9	4.0
5 year	6.8	6.2	4.3	2.3	2.4	3.0	5.5	6.4	5.7	4.3	4.6
7 year	8.9	7.4	5.2	3.0	0.7	1.3	3.3	4.2	2.9	2.5	2.8
10 year	10.2	8.8	6.3	4.0	1.8	2.4	4.4	5.3	3.9	3.5	3.8
15 year	11.1	9.6	7.2	5.0	2.7	3.3	5.3	6.2	4.9	4.5	4.8
Exchange rates (average K/US $)											
Commercial banks' weighted selling rate	3,845.77	3,688.11	3,253.84	3,549.12	4,884.00	4,979.69	5,409.11	5,568.40	5,661.80	5,191.49	5,078.50
Bank of Zambia mid rate***	3,836.88	3,668.91	3,249.70	3,539.85	4,832.26	5,017.32	5,621.79	5,562.71	5,631.55	5,165.88	5166.9
Real sector											
Mining output (tonnes)											
Copper	49,251.10	43,892.30	43,540.50	42,302.30	68,274.90	58,727.80	52,173.70	48412.10	62,182.60	59,524.50	64,910.1
Cobalt	396.3	429.00	363.9	372.4	291.6	250.70	114.40	118.60	395.70	215.80	218.1
Metal Earnings (US $mn)											
Copper	290.8	341.0	374.9	238.2	201.8	176.2	161.5	175.7	208.3	242.1	247.1
Cobalt	26.8	37.0	24.4	13.7	8.1	5.2	2.5	3	6.7	5.4	5.9
Total	317.6	378	399.3	251.9	209.9	181.4	164.0	178.7	215	247.5	253
External sector (US $ mn)											
Trade Balance	28.7	112.6	33.0	-198.1	-7.6	-42.1	-23.2	-28.0	-15.0	40.8	5.4
Exports, c.i.f.	390.0	569.4	498.4	333.0	256.5	228.4	216.3	227.1	261.6	310.5	308.6
Imports, c.i.f.	(361.3)	-334.0	-447.6	-531.0	-264.1	-270.5	-239.6	-255	-278.5	-351.3	-313.9
Gross Official Reserves (US $'mn)	1,080.2	1,088.0	1,388.6	1,267.8	1,085.0	1,048.3	934.5	973.9	921.9	1,107.8	1,146.2

Source: Bank of Zambia Statistics Fortnightly

* Reserve money is narrowly defined.

** Estimated Figure for the month under Review

***Based on BoZ average mid-exchange rate

– Not available.

Monetary Policy Statement

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

During the first half of 2009, an International Monetary Fund (IMF) Mission visited Zambia from 18th February to 4th March 2009 to discuss with the Zambian Authorities the First and Second Review of the Poverty Reduction and Growth Facility (PRGF) arrangement approved in June 2008. The mission reached an agreement with the Zambian Authorities on the 2009 Macroeconomic framework and structural measures to complement the macroeconomic framework. The structural program continued to focus on improving public financial management, advancing financial sector development and implementing policies to ensure reliable electricity supply.

The IMF completed the first and second reviews under the PRGF arrangement and the Executive Board approved US $160.1million (SDR 106.91 million) disbursement. The board further approved US $256.4 million (an equivalent of SDR 171.185 million) increase in financial support to help Zambia cope with the global economic meltdown. A total amount of US $162.2 million was disbursed in the period under review.

During the period under review, the IMF Executive Board also made some changes to the IMF's lending policies including, changes which relate to the structural conditionality which mainly apply to low income countries accessing the PRGF. The IMF resolved that in line with streamlining the structural conditionality, with effect from 1st May 2009, progress on structural reforms would be assessed through program reviews rather than against the attainment of structural performance criteria, which were eliminated. Two structural performance criteria (on the preparation of a strategy for the establishment of a single treasury account by end-June 2009 and on raising the electricity tariff by end-June 2009) were thus converted into structural benchmarks. In addition, two structural benchmarks (on transferring the supervision of NAPSA and on cabinet approval of a new grid code) were removed.

With regard to donor inflows, Zambia received a total of US $ 90.8 million from the United Kingdom, Netherlands, Norway, and the African Development Bank as Poverty Reduction Budget Support (PRBS) during the first half of 2009 compared to receipts of US $75.8 million in the first half of 2008. Out of the total disbursement of US $ 90.8 million, US $79.5 million was disbursed in the first quarter and the balance in the second quarter. A total of US $105.5 million was programmed for the 2nd quarter. About US $20.1 million PRBS was expected from DFID, US $6.0 million from Finland, US $41.1 million from the European Union, US $18.3 million from Sweden and US $19.2 million from the African Development Bank. A further US $11.6 million sector budget support funds from the European Union, budgeted for 2nd quarter was not disbursed. The PRBS disbursement schedule has been revised and funds not disbursed in the second quarter are now expected to be disbursed in the 3rd quarter of 2009. On the other hand, debt service made to various creditors, excluding IMF debt service, amounted to US $8.7 million compared with US $10.0 million paid in the first half of 2008.

With regard to performance against the indicative quantitative benchmarks, preliminary data indicate that all the quantitative benchmarks were observed and that the structural benchmarks were generally on track. The average Net Domestic Assets (NDA) was K25.6 billion below the end-June programme ceiling of minus K907.4 billion largely due to a reduction in the average reserve money following net OMO withdrawals and Government revenue inflows while the Net Domestic Financing (NDF) was K373.9 billion below the end-June programme ceiling of K5,882.6 billion. The Unencumbered International Reserves were US $1.9 million above the end-June programme floor of US $989.7 million, largely on account of receipt of the PRBS amounting to US $11.3 million from the African Development Bank, PRGF disbursement amounting to US $162.2 million and Bank of Zambia purchases of foreign exchange amounting to US $2.0 million from the market.

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 4.5% (revised from 5.0%); (ii) achieving end-year inflation of no more than 10.0%; (iii) limiting domestic financing to 1.9% of GDP; and (iv) increasing gross international reserves to not less than 3.1 months of import cover (see Appendix II, Table 1).

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

Description	End-December 2008 Targets	End-December 2008 Outturn	End-December 2009 Targets
Real GDP growth rate (%)	5.8	6.0	4.0
CPI Inflation, end period (%)	7.0	16.6	10.0
CPI Inflation, annual average (%)	8.2	12.4	12.5
Gross Official Reserves (in months of imports)	3.2	2.7	3.1
Broad Money growth (%)	11.6	22.0	13.8
Budget deficit, excluding grants (% of GDP)	6.5	5.6	7.6
Domestic financing of the Budget (% of GDP)	0.1	1.2	1.9

Source: Bank of Zambia, IMF Country Report No.09/188 June 2009

Appendix III: Statistical Tables and Charts

Table 1: Trade Data in US $ million (c.i.f), June 2007 June 2009

Trade Balance	*June-Dec, 2007*	*Jan-Jun, 2008*	*Jun-Dec, 2008*	*Jan-Jun 2009**
Exports, c.i.f	***205.5***	***407.1***	***-535.8***	***58.5***
Metals	***2,476.00***	***2,783.70***	***2,147.9***	***1,728.8***
Copper	***2,032.40***	***2,363.30***	***1,640.6***	***1,380.5***
Cobalt	*1,886.30*	*2,161.50*	*1,526.0*	*1,349.2*
Non Metals	*146*	*201.8*	*114.7*	*31.3*
Export Audit Adjustment	***443.7***	***420.4***	***507.3***	***348.3***
Total	*-45.5*	*-13.2*	*-13.2*	*-13.2*
Copper Wire	*489.2*	*433.5*	*520.4*	*361.5*
Cane Sugar	*105.1*	*86.8*	*76.7*	*37.2*
Burley Tobacco	*46.1*	*15.8*	*44.8*	*36.2*
Cotton Lint	*33.8*	*26*	*48.6*	*41.5*
Electric Cables	*22.6*	*12.8*	*22.6*	*15.1*
Fresh Flowers	*77.4*	*35.2*	*21.1*	*25.4*
Cotton Yarn	*19.2*	*12.7*	*10.9*	*11.5*
Fresh Fruit/Vegetables	*4.8*	*6.6*	*0.9*	*0.1*
Gemstones	*12*	*14.8*	*12.2*	*7.4*
Gas oil	*11.6*	*6.9*	*25.5*	*13.5*
Electricity	*9*	*16.1*	*9.8*	*15.2*
Others	*2.3*	*1.4*	*1.9*	*5.6*
Of Which	*145.2*	*198.3*	*245.4*	*220.3*
Maize & Maize Seed	*29.1*	*40*	*11.4*	*6.3*
Wheat & Insulin	*12.9*	*17.7*	*15.5*	*9.9*
Cement & Lime	*6.5*	*11.6*	*22.1*	*23.4*
Imports c.i.f./1	***-2,271.0***	***-2,376.60***	***-2,683.7***	***-1,986.7***

Source: Bank of Zambia
*Figures for July Dec 2009 are preliminary.

Table 2: Imports by Commodity Groups in US $ millions (CIF); Jan 2007 - Dec 2008

	2007		**2008***			
Description	**Jan-Jun**	**Jul-Dec**	**Jan-Jun**	**Jul-Dec**	**Jan-Jun***	**% Change**
Food Items	84.3	127.0	132.4	162.3	117.3	(27.7)
Petroleum Products	223.0	267.7	287.4	528.2	291.6	(44.8)
Fertilizers	58.2	90.9	68.0	136.1	84.8	(37.7)
Chemicals	208.6	259.3	292.1	351.3	267.2	(23.9)
Plastic and Rubber Products	9.0	114.9	102.5	110.2	76.6	(30.5)
Paper and Paper Products	28.2	38.7	42.7	55.5	41.2	(25.8)
Iron and Steel	134.7	208.0	159.2	169.6	81.8	(51.8)
Industrial Boilers & Equipment	396.0	551.7	436.6	403.5	254.1	(37.0)
Electrical Machinery & Equipment	151.3	220.2	170.1	151.6	98.0	(35.3)
Vehicles	167.2	229.4	264.1	228.8	139.4	(39.1)
Other Imports	198.6	187.3	421.7	386.5	199.7	(48.3)
Total Imports	**1,741.2**	**2,315.0**	**2,376.7**	**2,683.7**	1,651.8	(38.4)

Source: Central Statistical Office, The Monthly
*Figures are preliminary.

Table 3: Metal Production, Export Volumes, Values and Prices; Jan 2007 June 2009

	Copper					Cobalt				
Period	Sales	Production	Sales	Price	Price	Sales	Production	Sales	Price	Price
	Tonnes	Tonnes	US $'000	US$/Tonne	US$/ pound	Tonnes	Tonnes	US $ '000	US$/Tonne	US$/ pound
Jan-June 2007	229,547	239,839	1,520,214	6,622.67	3.00	2,348	2,393	64,307	27,392.71	12.43
Quarter 3, 2007	137,869	141,068	1,027,927	7,455.80	3.38	1,422	1,444	66,922	47,031.79	21.33
Quarter 4, 2007	123,524	141,077	858,395	6,949.22	3.15	1,248	1,253	79,121	63,398.43	28.76
Jul - Dec 2007	261,393	282,145	1,886,322	7,216.41	3.27	2,671	2,697	146,043	54,679.25	24.80
Quarter 1, 2008	140,768	138,922	1,035,481	7,355.94	3.34	1,172.34	1,144.49	111,685.44	95,267.14	43.21
Quarter 2, 2008	143,481	149,135	1,126,087	7,848.37	3.56	1,080	1,086	90,129	83,448	37.85
Jan-June 2008	284,249	288,057	2,161,568	7,604.50	3.45	2,253	2,230	201,814	89,599.65	40.64
Quarter 3, 2008	127,284	141,734	856,224	6,726.87	3.05	1,236	1,296	69,418	56,187.00	25.49
Quarter 4, 2008	175,592	182,149	669,670	3,813.79	1.73	1,123	1,090	45,309	40,362.16	18.31
Jul-Dec 2008	302,876	323,883	1,525,895	5,038.01	2.29	2,358	2,386.31	114,728	48,653.49	22.07
Quarter 1, 2009	166,148	180,117	562,903	3,387.97	1.54	1,164	1081	12,907	11,086.57	5.03
Quarter 2, 2009	188,391	194,730	688,648.45	4,045.66	1.84	645	655	18,350	28,431.63	12.90
Jan- Jun 2009*	354,538	373,873	1,349,193	3,805.49	1.73	1,810	1,736	31,257	17,272.57	7.83

Source: Bank of Zambia Statistics Fortnightly
*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)	-1,068.5	-38.9	-780.3	-24.1
a) Net Purchases from Govt	-185.0		511.5	
b) Net Purchases from non-Government	-770.7		-1,408.3	
c) Bank of Zambia own use of forex	-21.1		-0.7	
d) Change in stat. reserve deposits forex balances	-91.7		117.3	
2/ Net Domestic Credit (a+b)	1,572.5	57.1	775.6	23.9
a) Autonomous influences	15,997.2		6,994.0	
Maturing Open Market Operations	14,263.9		6,841.2	
Direct Govt Transactions	1,418.8		259.3	
TBs and Bonds Transactions	282.8		-108.2	
Claims on non-banks (Net)	31.5		1.6	
b) Discretionary influences	-14,430.0		-6,218.4	
Open Market Operations	-14,442.7		-6,233.9	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-1,100.1		-1,494.0	
iii. Term Deposits Taken	13,342.6		-4,739.9	
Treasury bill Rediscounts	7.0		14.7	
Other claims (Floats, Overdrafts)	5.7		0.7	
Change in Reserve Money	498.6		-4.7	-0.1

Source: Bank of Zambia

Table 5a: Shares of Total Loans & Advances by Sector, Dec 2007- Jun 2009

Sector	Dec-07	Jun-08	Dec-08	Jun-09
Agriculture, forestry, fishing and hunting	21.0	15.7	16.2	18.4
Mining & Quarrying	4.0	4.7	4.7	4.9
Manufacturing	10.7	10.8	10.8	11.0
Electricity, Gas, Water & Energy	4.9	2.8	2.4	2.3
Construction	3.5	3.5	4.0	2.9
Wholesale & Retail Trade	10.8	10.0	9.7	9.1
Restaurants & Hotels	1.2	1.2	3.1	1.9
Transport, Storage & Communications	7.2	7.6	7.0	7.9
Financial Services	4.2	7.1	7.9	8.1
Community, Social and Personal Services	1.6	1.6	1.3	2.2
Real Estate	2.2	3.2	4.9	7.0
Personal Loans	14.7	29.4	25.4	21.6
Others	14.0	2.5	2.6	2.9

Source: Bank of Zambia Statistics Fortnightly

Table 5b: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), Dec 2007- Jun 2009

Sector	Dec 07	Jun-08	Dec-08	Jun-09
Agriculture, forestry, fishing and hunting	17.6	8.4	8.7	11.8
Mining & Quarrying	1.1	0.5	0.5	1.8
Manufacturing	8.4	7.7	10.4	11.0
Electricity, Gas, Water & Energy	2.5	2.2	0.0	0.8
Construction	4.2	3.3	3.8	3.0
Wholesale & Retail Trade	10.0	9.4	7.7	6.8
Restaurants & Hotels	1.1	0.8	4.6	1.6
Transport, Storage & Communications	8.3	6.6	7.0	8.6
Financial Services	3.7	9.4	4.3	6.5
Community, Social and Personal Services	0.7	1.0	0.4	1.8
Real Estate	2.2	4.0	6.6	8.9
Personal Loans	21.6	44.0	43.3	33.8
Others	18.6	2.8	2.7	3.5

Source: Bank of Zambia Statistics Fortnightly

Table 5c: Shares of Foreign Exchange Loans & Advances by Sector, Dec 2007- Jun 2009

Sector	Dec 07	Jun-08	Dec-08	Jun-09
Agriculture, forestry, fishing and hunting	28.1	29.5	26.6	29.5
Mining & Quarrying	10.1	12.6	10.5	10.1
Manufacturing	15.4	16.5	11.3	11.0
Electricity, Gas, Water & Energy	9.7	4.0	5.9	4.7
Construction	2.2	3.7	4.2	2.6
Wholesale & Retail Trade	12.5	11.2	12.5	12.9
Restaurants & Hotels	1.3	2.0	1.2	2.5
Transport, Storage & Communications	4.9	9.5	6.9	6.7
Financial Services	5.2	2.7	12.8	10.7
Community, Social and Personal Services	3.6	2.7	2.7	2.7
Real Estate	2.2	1.8	2.6	4.0
Personal Loans	0.3	3.8	2.9	2.6
Others	4.5	1.8	0.6	0.8

Source: Bank of Zambia Statistics Fortnightly

Table 6: Central Government Fiscal Operations, First Half 2009 (in K'billion)

	2009	Quarter 1	Quarter 2	First Half		
	Approved	Prelim.	Prelim.	Target	Prelim.	% Change
Total Revenue and Grants	**13,681.2**	**2,620.40**	**2,474.6**	**6,870.8**	**5,095.0**	**-25.8**
Tax Revenue	10,194.5	2,219.40	2,176.5	4,823.4	4,395.9	-8.9
Non-Tax Revenue	454.2	111.10	64.6	185.8	175.7	-5.4
Grants	3,032.5	289.9	233.5	1,861.6	523.4	-71.9
Total Expenditure	**15,248.4**	**2,977.0**	**2,869.7**	**7,657.4**	**5,846.7**	**-23.6**
Current Expenditure	**12,272.5**	**2,641.8**	**2,524.0**	**6,214.8**	**5,165.8**	**-16.9**
Personal Emoluments	5,056.9	1,160.0	1,270.8	2,488.9	2,430.8	-2.3
PSRP	43.0	0.0	10.0	20.0	10.0	-50.0
Use of Goods and Services	3,317.1	621.2	461.0	1,611.7	1,082.2	-32.9
Interest	1,068.5	267.0	248.3	544.6	515.3	-5.4
Grants and Other Payments	1,938.4	418.0	250.2	1,074.6	668.2	-37.8
Social Benefits	245.8	31.2	30.0	111.1	61.2	-44.9
Other Expenses	251.2	66.8	131.9	195.5	198.7	1.6
Liabilities	351.6	77.6	121.8	168.4	199.4	18.4
Assets	**2,975.9**	**335.2**	**345.7**	**1,442.6**	**680.9**	**-52.8**
Non Financial Assets	2,885.9	315.6	331.2	1,430.7	646.8	-54.8
Financial Assets	90.0	19.6	14.5	11.9	34.1	186.6
Fiscal Balance	**-1,567.2**	**-356.6**	**-395.1**	**-786.6**	**-751.7**	**4.4**
Financing	1,567.2	295.7	160.1	763.6	455.8	-40.3
Domestic	1,170.4	285.0	200.0	800.0	485.0	-39.4
Foreign	396.8	10.7	-39.9	-36.4	-29.2	-19.8

Source: Ministry of Finance and National Planning

Table 7: Indicators of Bidding Behaviour in the Government Securities Market[1]

	Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns)[2]		Average Subscription Rate (%)[3]	
	Jul - Dec, 08	Jan - Jun, 09	Jul - Dec, 08	Jan - Jun, 09	Jan - Jun, 08	Jan - Jun, 09	Jan - Jun, 08	Jan - Jun, 09
91-day bills	17.9	21.0	10.9	19.3	-6.9	-1.7	61.3	-8.3
182-day bills	19.8	18.4	10.2	14.3	-9.6	-4.1	51.5	-22.3
273-day bills	16.8	14.8	9.2	12.7	-7.7	-2.1	54.4	-14.3
364-day bills	45.4	45.8	30.6	61.1	-14.8	15.3	67.4	33.3
TOTAL	**100.0**	**100.0**	**60.9**	**107.3**	**-39.0**	**7.3**	**60.9**	**7.3**
2-year bond	24.0	26.7	9.4	17.8	-14.6	-8.9	39.2	-33.3
3-year bond	31.0	33.3	6.0	16.2	-25.0	- 17.1	19.4	-51.3
5-year bond	40.0	41.7	23.1	29.8	-16.9	-11.8	57.8	-28.4
7-year bond	9.0	6.7	10.7	0.4	1.7	-6.3	118.9	-94.6
10-year bond	9.0	6.6	0.9	-	-8.1	-6.7	10.0	-100.0
15-year bond	7.0	5.0	6.9	0.0	-0.1	- 5.0	98.6	-99.5
TOTAL	**120.0**	**120.0**	**195.6**	**64.2**	**79.4**	**-63.0**	**288.9**	**-46.5**

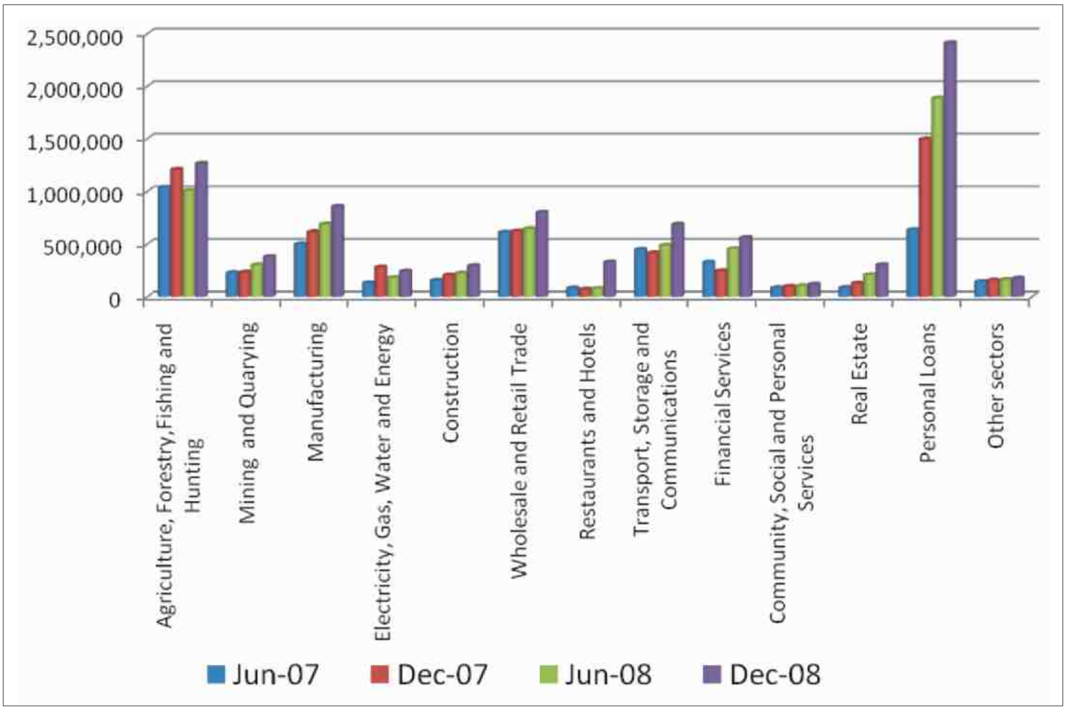
Source: Bank of Zambia Statistics Fortnightly

[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)*

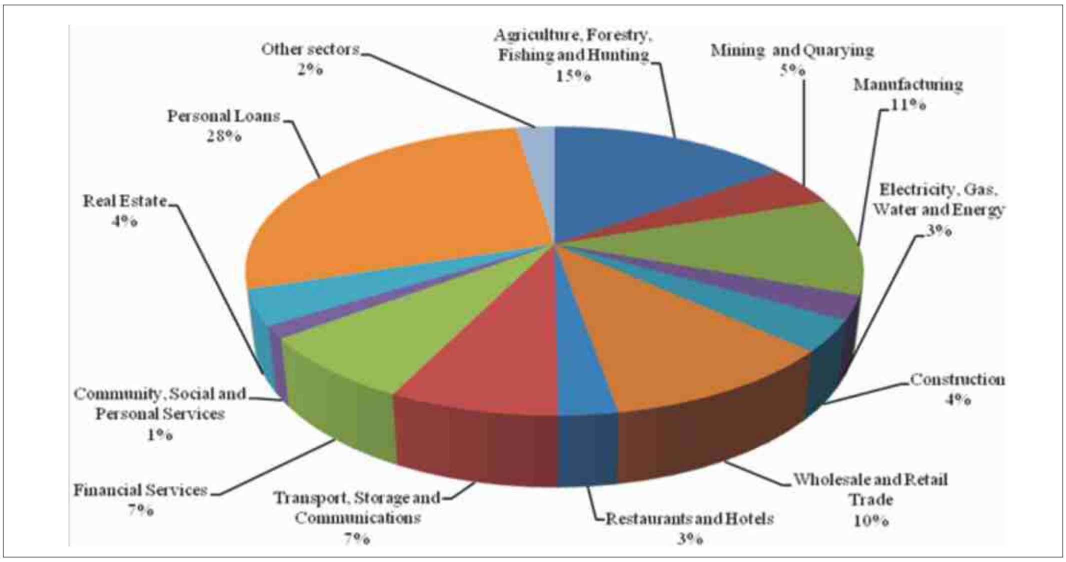
[3]*Average Subscription Rate = Average bid amounts as percentage of average amount offered*

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



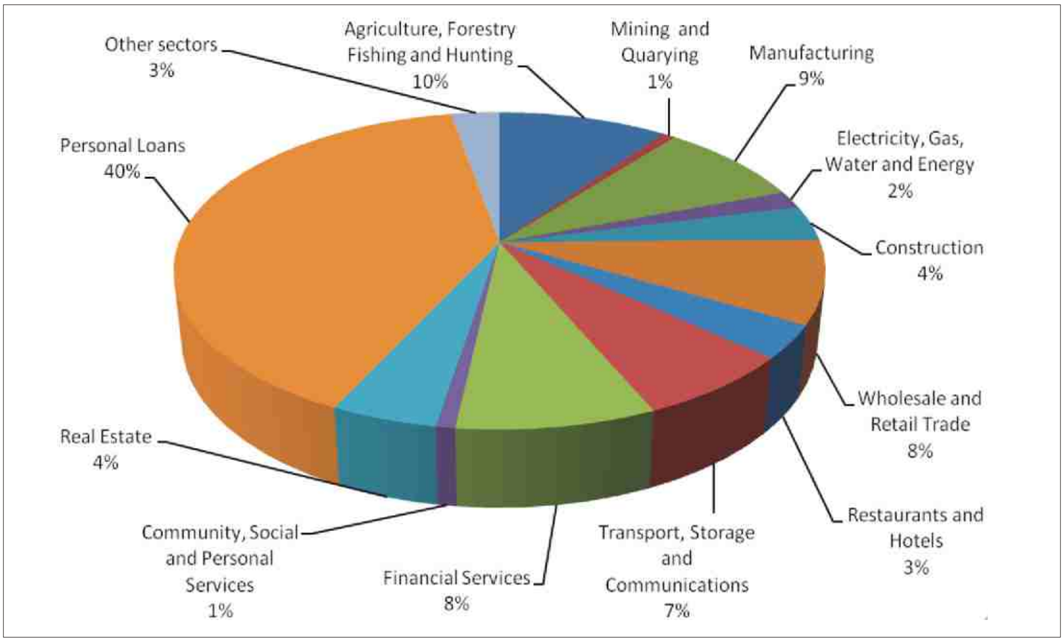
Source: Bank of Zambia Statistics Fortnightly

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



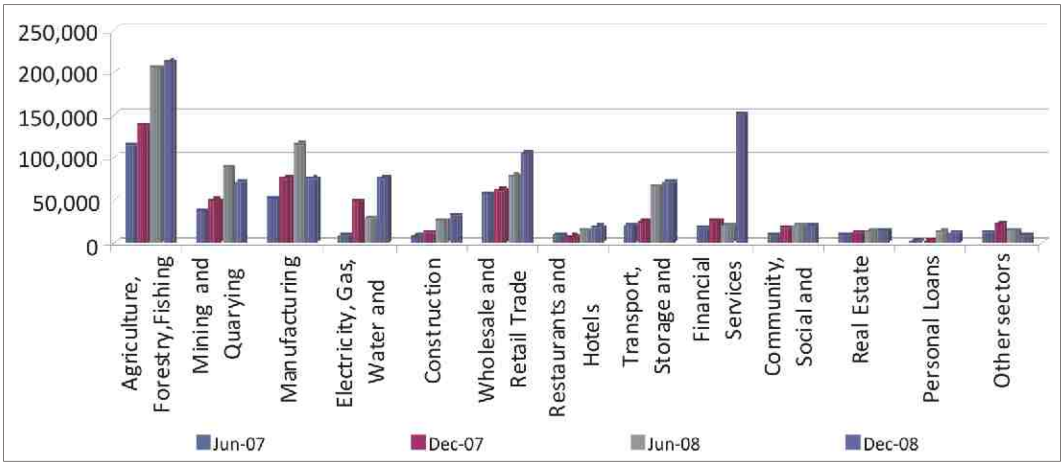
Source: Bank of Zambia Statistics Fortnightly

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



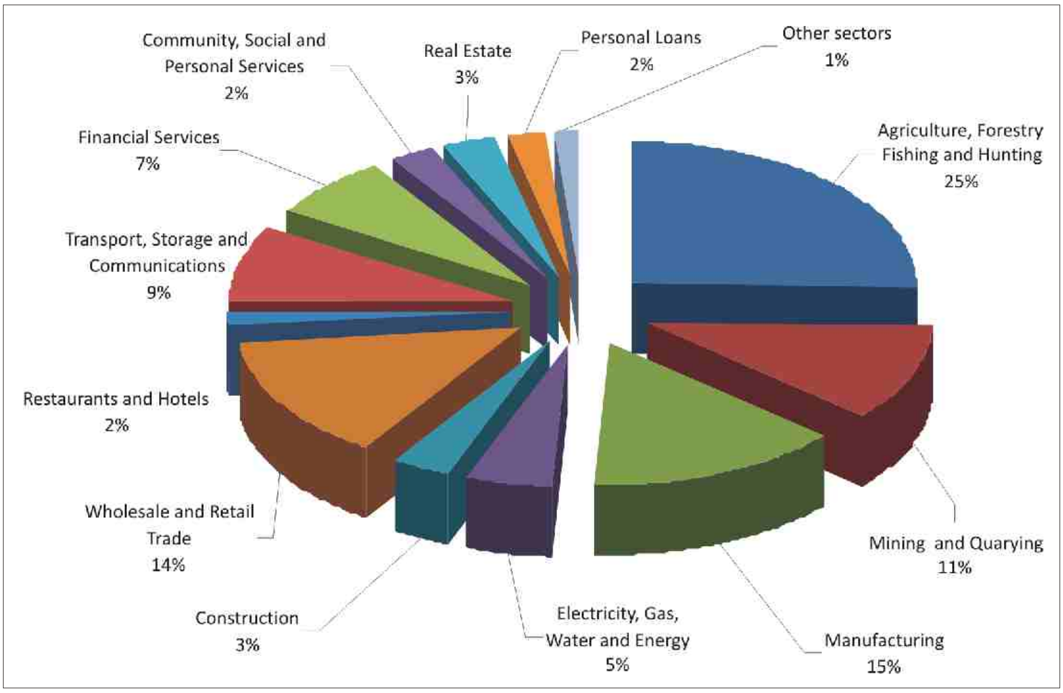
Source: Bank of Zambia Statistics Fortnightly

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