Bank Of Zambia

Monetary Policy Statement

JUL - DEC 2017

Bank of Zambia

MISSION STATEMENT

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

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

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Executive Summary

During the second half of 2017, the Bank of Zambia will continue to strengthen the forward looking monetary policy framework, anchored on the Policy Rate as the key signal for the monetary policy stance. This strategy is intended to improve the transmission of price signals and reduce reliance on non-price tools in the conduct of monetary policy.

Monetary policy will therefore focus on achieving the 9.0% end-year inflation target and the 6-8% target range in the medium-term. Although inflation is projected to rise moderately, from 6.8% in June 2017 to 7.0% at end-December 2017, it will remain well within the medium-term target range. Underlying this projection is relative stability in the exchange rate of the Kwacha against major trading partner currencies on the back of the recovery in commodity prices, especially for copper, and improvements in food supply following a strong agricultural output during the 2016/17 farming season. However, Government's containing the budget deficit and overall debt, as well as reducing domestic arrears to planned levels remain critical to consolidating macroeconomic stability.

The domestic economic outlook has improved, with GDP growth for 2017 and 2018 projected to rise to 4.3% and 5.1% from 3.9% and 4.6%, respectively. The optimistic outlook is premised on the strong performance of the agriculture sector, recovery in electricity generation, and higher mining output supported by increased prices and electricity supply. In addition, there has been strengthening confidence in Zambia's medium to long-term economic prospects as reflected by the participation of non-resident investors in the Government securities markets. Further, results from surveys of business opinion indicate that business conditions are expected to improve in the medium term.

In the first half of 2017, monetary policy focused on consolidating the slowdown in inflation and attaining the end-year target of 9.0%. In view of the continued decline in actual inflation and the projected inflation remaining well within the target, the Bank of Zambia eased the monetary policy stance by lowering both the Policy Rate and statutory reserve ratio to 12.5% from 15.5% and 18.0%, respectively. These policy measures were aimed at reducing the cost of funds and promoting credit growth in order to support economic growth, which has been sluggish for over four years. To improve the clarity of the policy stance and enhance the effectiveness of monetary policy, the Policy Rate corridor was narrowed to +/- 1 percentage point from +/- 2 percentage points.

The continued appreciation of the Kwacha against the US dollar and the seasonal increase in the supply of some food items contributed to the declining trend in annual inflation to an average of 6.7% in the first half of 2017 from 14.5% in the second half of 2016. Underlying the appreciation of the Kwacha against the US dollar was mostly net supply of foreign exchange from mining companies and increased demand for Government securities by non-resident investors.

Interest rates trended downwards in the first half of 2017 as inflation decelerated and monetary conditions eased following two successive reductions in the Policy Rate and statutory reserve ratio in February and May 2017. Net Government spending and purchase of foreign exchange by the Bank, to build-up international reserves, added more liquidity to the money market and contributed to the easing of liquidity conditions. The latter, coupled with appropriate open market operations by the Bank of Zambia, resulted in the interbank rate declining to 12.2% in the first half of 2017 from 15.8% in the last half of 2016 and ending the first half of the year well within the Policy Rate corridor. Similarly, the weighted average Treasury bills and Government bond yield rates declined to 14.9% and 18.1% from 23.7% and 25.0%, respectively. Lending rates, however, remained high at 26.6% at end–June 2017, a slight movement down from 29.5% at end-December 2016 and continued to constrain consumer and investment spending and ultimately economic growth.

Demand for Government securities continued to be high in the first half of 2017, largely driven by eased liquidity conditions and higher participation by non-resident investors. This helped Government meet much of its financing needs. The fiscal deficit though lower than programmed, largely reflected constrained expenditure during the period under review. As lending to Government increased, both broad money and domestic credit expanded in the first half of 2017. However, credit to the private sector remained constrained, with credit to households and private enterprises contracting. Banks' risk appetite also remained subdued amidst rising non-performing loans.

The trade deficit narrowed during the review period to US$37.2 million from US$504.6 million in the second half of 2016. This was mainly on account of a strong export performance, mostly driven by copper.

During the first half of 2017, economic activity picked up, evidenced by the 3.0% growth in GDP in the first quarter, increases in electricity generation, and modest expansions in health, education, arts, transport and public administration. In addition, output in selected sectors, such as mining, energy, and manufacturing rose in the second quarter.

1.0 Introduction

This Monetary Policy Statement provides an outlook for global economic growth, domestic economic growth and inflation, and outlines monetary policy objectives for the second half of 2017. The Statement also reviews the performance of monetary policy during the first half of 2017. Selected macroeconomic indicators are presented in the Appendix.

2.0 Global Economic Outlook: 2017 - 2018

2.1 Economic Growth

Global growth is projected at 3.5% and 3.6% for 2017 and 2018, respectively (IMF World Economic Outlook (WEO) Update, July 2017). The projections are based on strong growth outlook for emerging market and developing economies (EMDEs), premised on the recovery in commodity prices and stronger demand in China.

GDP growth in most of Zambia's major trading partner countries[1] is projected to rise over the 2017-18 period. In China, a 6.9% growth in GDP is projected for 2017, reflecting the effects of expansionary fiscal policy, public investment growth, and the recovery in exports as global demand picks up. Strong demand for copper by China is projected in the near-term based on the growth projection of the electricity sector. This is expected to strengthen the recovery in copper prices.

In the Democratic Republic of Congo (DRC), GDP growth is projected to rise to 2.8% in 2017, up from 2.4% in 2016. A further rise in growth to 3.5% is expected in 2018. A recovery in the country's extractive sectors on the back of higher commodity prices and improving external demand is expected to drive growth. Nevertheless, the outlook is closely linked to domestic political developments, which may affect inward investment in the economy. GDP growth for South Africa for 2017 and 2018 was revised downward in July from 1.0% and 1.5% to 0.5% and 1.2%, respectively. The downgrade was mainly due to weak consumer and business confidence, elevated political risk, and uncertainty of the impact of Brexit negotiations on trade and financial flows.

2.2 Commodity Prices

The projected pick-up in global economic growth and strong demand for copper by China are expected to support the recovery in copper prices, which are projected to average US$5,669.59 and US$5,894.07 per ton in 2017 and 2018, respectively. In addition, modest increases in agricultural commodity prices, including for Zambia's non-traditional exports (i.e. maize, sugar, wheat and soya beans) are projected, mainly on account of less favourable weather conditions (concerns about La Niña) in some other countries and rising costs of energy. Further, lower crude oil prices, averaging US$55.89/barrel and US$57.97/barrel in 2017 and 2018, respectively, are projected mainly on account of robust supply.

3.0 Domestic Economic Outlook for 2017 – 2018

Over the medium-term, domestic economic growth prospects are expected to improve. The GDP growth forecast for 2017 and 2018 have been revised upward from 3.9% and 4.6% to 4.3% and 5.1%, respectively. The upward revision reflects mainly increased agricultural output, recovery in electricity generation as well as higher mining output supported by increased prices and electricity supply[2]. The increase in electricity generation is expected to support growth across all sectors. In addition, easing monetary conditions are expected to lower lending rates and thereby spur domestic credit and ultimately economic growth. The anticipated improvements in external sector performance premised on higher export earnings will provide a conducive environment for supporting industrialisation and diversification in line with the Economic Growth and Stabilization Programme – "Zambia Plus" and the 7th National Development Plan.

However, challenges to growth and the financial sector remain. These include high interest rates, low credit growth, high non-performing loans, and structural weaknesses in the financial sector. In addition, Government containing the budget deficit and overall debt levels, as well as reducing domestic arrears to planned levels remain critical to consolidating macroeconomic stability.

[1]Major trading partners, as defined in the real effective exchange rate (REER) Index, with trade weights in brackets are: South Africa (0.426), Switzerland (0.319), Euro area (0.093), China (0.077), United Kingdom (0.069), and the United States of America (0.016). The Democratic Republic of Congo (DRC) is the major market for most of Zambia's non-traditional exports as well as imports of copper concentrates. Although included in the REER Index, the USA is not a major trading partner in terms of goods and services. However, the bulk of Zambia's financial transactions with the rest of the world are denominated in US dollars.

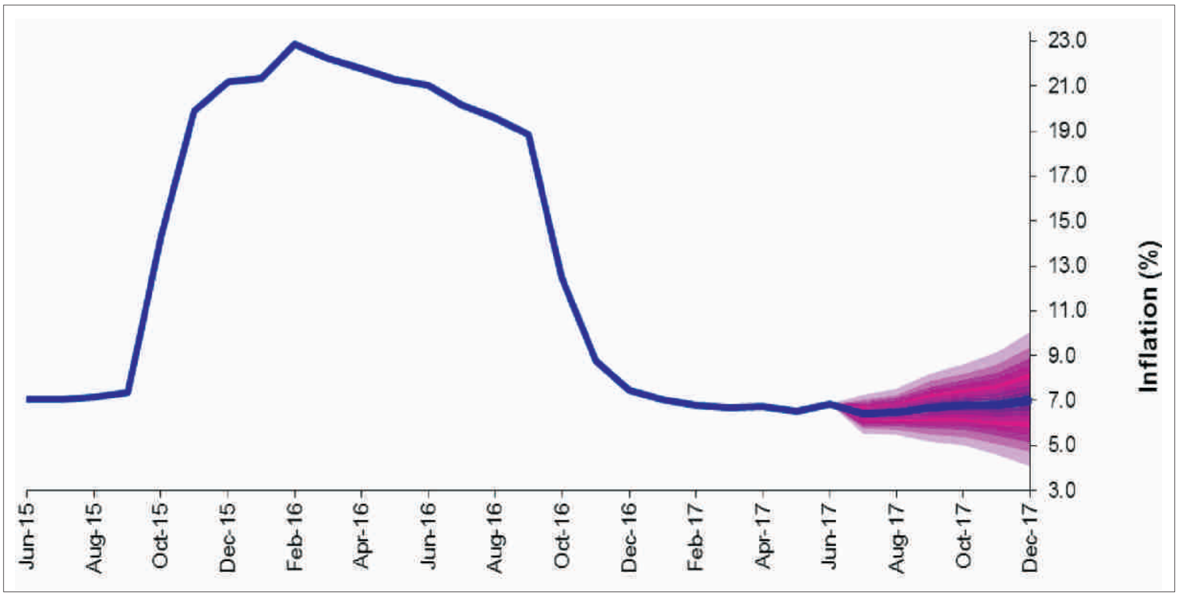
[2]Sources of electricity supply include hydroelectricity, solar, heavy fuel oils and coal.

4.0 Inflation Projections for the Second Half of 2017

In the second half of 2017, annual overall inflation is projected to remain below the 9.0% target for 2017, at an average of 6.7%. For end-year, inflation rate is projected at 7.0%, slightly higher than the 6.8% recorded at end-June 2017 (Chart 1 and Table 1 - Appendix).

The projected inflation takes into account the recent reduction in fuel prices, the announced increase in electricity tariffs in September 2017 as well as the easing in the monetary policy stance over the first half of the year. It is also predicated on the implementation of fiscal consolidation measures over the forecast horizon. Risks to inflation are, on balance, currently assessed to favour low and stable inflation. The bumper maize harvest during the 2016/17 farming season, and relative stability in the exchange rate of the Kwacha, on the back of the recovery in commodity prices, especially for copper, are all expected to support low inflation.

Chart 1: Actual and Projected Inflation: Jun 2015 – Dec 2017



Source: Central Statistical Office and Bank of Zambia Compilations

5.0 Monetary Policy Objectives and Instruments for the 2nd Half of 2017 to 2018

Monetary operations during the second half of 2017 and in 2018 will continue to focus on anchoring inflation expectations in single digits over the medium-term. Consistent with this objective, the Bank will continue to strengthen the forward looking monetary policy framework, anchored on the Policy Rate as the key signal for monetary policy implementation. This is intended to improve the transmission of monetary policy and reduce reliance on non-price tools. The Bank of Zambia will also closely monitor domestic and external developments and stands ready to take appropriate monetary policy measures to support price and financial system stability that supports the diversification and growth of the economy.

Monetary policy formulation and implementation will also remain supportive of Government's broader macroeconomic objectives (Table 2 - Appendix) outlined in the 2017 Budget Address. These include:

i. Achieving a real GDP growth rate of at least 3.4% (revised to 4.3%);
ii. Attaining an end-year inflation rate of no more than 9.0% in 2017 and 6 - 8% over the medium term;
iii. Containing domestic borrowing to no more than 2.0% of GDP in 2017 (revised to 4.6%); and
iv. Increasing international reserves to at least 3 months of import cover.

[3] The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector, based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The indicators derived from monthly surveys of private sector companies. Markit Group, which conducts PMI for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States, are the principal producers of PMI.

6.0 Review of Global Developments in the First Half of 2017

6.1 Economic Growth

Global growth in the first half of 2017 was driven by trade, services and manufacturing in large advanced economies as well as emerging markets and developing economies (based on the PMI[3]). The main sectors of the US economy and the UK manufacturing sector remained strong. In the Eurozone, economic activity expanded, supported by new investments. In response to rising inflation, strong labour market conditions and improved growth outlook, the US Federal Reserve raised the Federal funds rate in June 2017 by 25 basis point to a range of 1.0-1.25%.

Growth in some of Zambia's major trading partner countries, particularly China, showed signs of recovery in the first half of 2017. GDP growth in China was supported by industrial output, strong investment growth, robust activities in manufacturing and construction, and the recovery in exports. However, in South Africa, the manufacturing sector remained subdued as political uncertainty continued to affect consumer and investor confidence, ultimately weighing on growth prospects and remaining a threat to the inflation outlook. Consequently, the South African Reserve Bank cut the repo rate by 25 basis points to 6.75% in July 2017.

6.2 Commodity Prices

The price of copper declined to US$5,719.7/mt in June 2017 from US$5754.6/mt in December 2016, mainly due to the increase in inventories and lower import demand from China. The price of crude oil price also declined to US$46.4/barrel from US$53.4/barrel over the same period, underpinned largely by strong inventory levels in the US and Iran, and a pick-up in supply due to non-compliance to OPEC's production-cutting deal by some OPEC Members. Further, the prices of selected agricultural commodities declined due to the rise in supply as a result favourable weather conditions. For instance, the price of maize declined to US$157.9/mt in June 2017 from US$159.9/mt in December 2016 while that for sugar fell from US$0.45/kg to US$0.31/kg. The price of soya beans declined to US$380.0/mt from US$425.3/mt. However, the price of wheat increased to US$189.6/mt from US$153.2/mt.

7.0 Review of Domestic Developments in the First Half of 2017

7.1 Assessment of Monetary Policy Implementation

Monetary policy in the first half of 2017 was focused on consolidating the slowdown in inflation towards the 6-8% medium-term range. In view of the continued decline in actual inflation and projected inflation remaining well within the target, the Bank of Zambia eased the monetary policy stance in February and May 2017. For the first time since its launch in April 2012, the Policy Rate was lowered from 15.5% to 14.0% in February 2017. At the same time, the statutory reserve ratio was reduced from 18.0% to 15.5%. At the May 2017 Monetary Policy Committee, both the Policy Rate and statutory reserve ratio were further reduced to 12.5%.

These monetary policy measures were aimed at reducing the cost of funds and promoting credit growth in order to support economic growth which has been sluggish for over four years. The reduction in the statutory reserve ratio was also part of the efforts by the Bank to strengthen the current monetary policy framework that focuses on the Policy Rate as the anchor for signalling the policy stance.

To improve the clarity of the policy stance and enhance the effectiveness of monetary policy, the Policy Rate corridor was narrowed in May 2017 to +/- 1 percentage point from +/- 2 percentage points.

7.2 Challenges to Monetary Policy Implementation

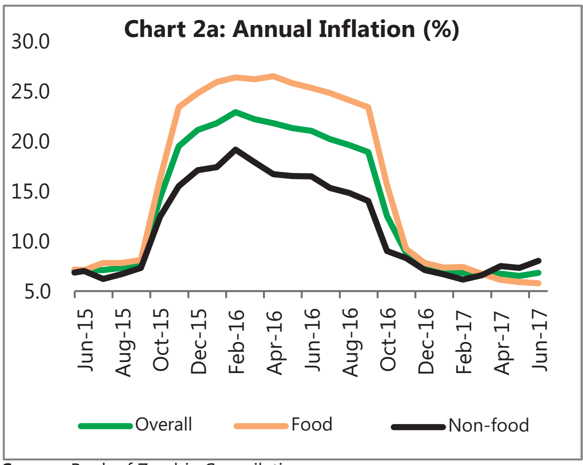
Fiscal imbalances continue to present a challenge to the ability of monetary policy to achieve its objectives. Therefore, Government’s containing the budget deficit and overall debt accumulation as well as reducing domestic arrears to planned levels remains critical to consolidating macroeconomic stability. In addition, concerted efforts in addressing challenges of the underdeveloped financial market – characterized by low secondary trading in Government securities, limited financial inclusion, illiquid and thin capital market, as well as money market segmentation – will enhance the effectiveness of monetary policy. In particular, the concentration of liquidity in few banks amid improved liquidity levels negatively impacts the transmission mechanism of monetary policy and the efficient functioning of the interbank market which the BoZ seeks to influence. Further, high frequency data on GDP, though currently available at quarterly interval, is significantly lagged and continues to limit rigorous assessment of economic conditions under the adopted forwarding looking monetary policy framework.

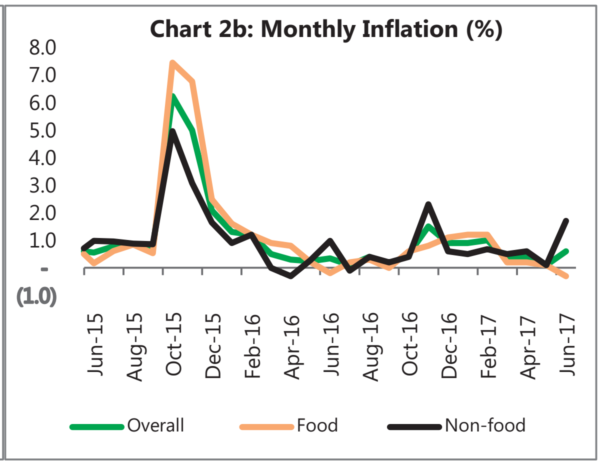
7.3 Macroeconomic Developments

Inflation Outturn

Annual overall inflation declined to an average of 6.8% in the first half of 2017 from 14.5% in the second half of 2016. Over the same period, both food and non-food inflation fell to averages of 6.5% and 7.0% from 16.0% and 11.4%, respectively. Inflation ended the period under review at 6.8% in June 2017 from 7.5% in December 2016 (Chart 2a). Further, month-on-month overall inflation declined to 0.6% in June 2017 from 0.9% in December 2016 (Chart 2b).

The slowdown in inflation was largely due to the pass-through from the continued appreciation of the Kwacha against the US dollar and the seasonal increase in the supply of some food items particularly vegetables, the lifting of the fish ban in March and the onset of the maize harvest season.



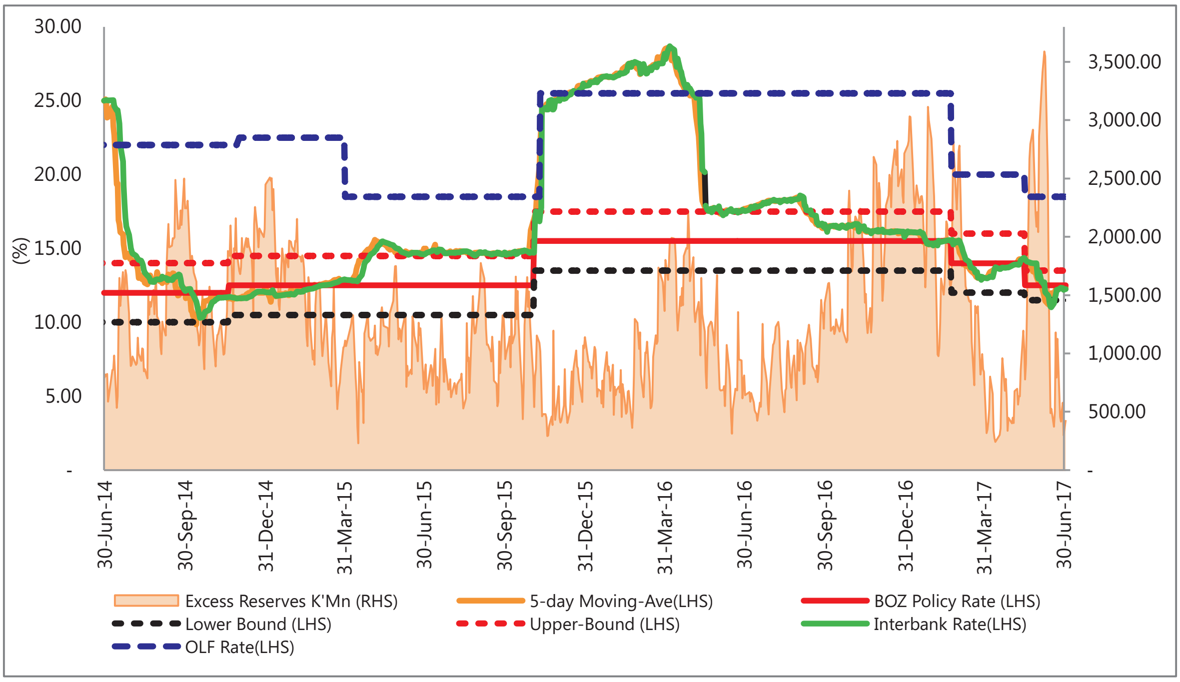


Source: Bank of Zambia Compilations

Interbank Rate and Money Market Liquidity

Following the reduction in the Policy Rate and the statutory reserve ratio in February and May 2017, the overnight interbank rate declined to 12.2% at end-June 2017 from 15.8% at end-December 2016, as liquidity conditions eased (Chart 3 and Table 3 - Appendix). Net Government spending and BoZ purchases of foreign exchange to build-up international reserves contributed to the easing of liquidity conditions during the review period. To maintain the interbank rate within the Policy Rate corridor, BoZ conducted appropriate open market operations which moderated money market liquidity together with net sales of Government securities.

Chart 3: Market Liquidity and Interbank Rate



Source: Bank of Zambia Compilations

Government Securities Market

Demand for Government securities continued to be high in the first half of 2017, supported by eased liquidity conditions and higher participation by non-resident investors amid relatively high yields and a stable exchange rate. The total funds raised from both Treasury bills and Government bonds rose by 20.0% to K13.9 billion (at cost). As a result, the stock of Government securities increased by 27.0% to K42.0 billion. The stock of Government securities held by non-residents also increased by 14.0% to K7.7 billion. Non-resident investors were predominantly in Government bonds, signalling confidence in Zambia's medium to long-term economic prospects as well as reduced risks from any sudden reversal in short-term flows.

Foreign Exchange Market

The Kwacha appreciated in real terms by 2.1% against a basket of major trading partner currencies during the period under review (Table 4 - Appendix). This was largely due to the nominal appreciation of the Kwacha against most of the major trading partner currencies. The Kwacha gained by 3.7% against the US dollar to an average of K9.54 in the first half of 2017 and by 5.1% against the British Pound to K11.99. Against the euro, the Kwacha appreciated by 5.1% to K10.32. However, the Kwacha depreciated by 1.8% against the South African rand to an average of K0.72 due to the latter's strengthening against the US dollar amid relatively higher rates.

Underlying the nominal appreciation of the Kwacha was mainly net foreign exchange inflows from the mining sector and non-resident investors' demand for Government securities. The supply of foreign exchange continued to outstrip demand as a net of US$567.7 million was traded, albeit lower than US$603.8 million traded during the second half of 2016.

Capital Markets

The Lusaka Securities Exchange (LuSE) All Share Index gained following more positive sentiments from improvements in economic activity, especially in the manufacturing, energy, and banking sectors. The LuSE All-Share index (LASI) rose 13.0% to 4,759.6 while market capitalisation grew by 4.0% to K60.0 billion. The recovery in the manufacturing, energy and banking sectors was driven by improved electricity supply and a stable exchange rate, increased revenues and higher interest rate spreads. The LuSE also recorded a net inflow of foreign portfolio investment of US$1.9 million by end-June 2017 compared to US$0.03 million recorded in December 2016.

Interest Rates

Interest rates trended downwards in the first half of 2017 as inflation decelerated and monetary conditions eased (Table 5 - Appendix). The weighted average Treasury bills and Government bond yield rates declined to 14.9% and 18.1% from 23.7% and 25.0%, respectively. The average 180-day deposit rate for amounts exceeding K20,000 also fell to 11.0% from 12.7%. Similarly, the savings rate on amounts exceeding K100 dropped to 2.7% from 3.2%. The average commercial bank lending rate edged downwards to 26.6% in June 2017 from 29.5% in December 2016. The non-bank financial institutions' sector average effective lending rate, however, increased to 43.7% from 40.7% in the second half of 2016, reflecting an increase in operating costs for microfinance institutions (Table 6 - Appendix). Generally, lending rates remained too high to stimulate aggregate demand and ultimately economic growth.

Domestic Credit

Domestic credit grew faster in the first half of 2017 than the second half of 2016 mostly due to increased lending by banks to Government. Total credit increased by 13.4% to K55.5billion compared to a growth of 6.1% registered during the second half of 2016 (Table 7 - Appendix). Credit to Government grew by 67.6% year-on-year in June 2017 compared to a growth of 22.6% in December 2016. Excluding Government, domestic credit contracted by 1.6% after shrinking by 7.0% during the second half of 2016. Commercial banks' credit to private enterprises contracted due to continued low risk appetite by banks in light of the rising non-performing loans in preference for risk free Government securities.

Further, Kwacha denominated credit contracted by 1.5% as lending to manufacturing and wholesale and retail trade declined. Commercial banks' foreign currency loans, however, grew by 6.9% against a contraction of 8.1% registered in second half of 2016, reflecting mainly increased lending to the agriculture, forestry and fishing; and the manufacturing sectors.

In terms of sectoral shares, the household (personal loans) category continued to account for the largest share of total credit from banks, representing 27.2% (27.5% in Dec 2016) followed by agriculture, forestry and fishing sector at 19.6% (17.2% in Dec 2016) as shown in Table 9 – Appendix.

Broad Money

Broad money (M3) expanded by 7.2% in the first half of 2017 to K47.8 billion after recording a growth of 1.0% in the second half of 2016 (Table 8 - Appendix). The growth in M3 was mainly on account of increased lending to Government. On an annual basis, M3 grew by 8.3% in June 2017 against a contraction of 5.7% in December 2016.

International Trade[4]

The trade deficit narrowed to US$37.2 million in the first half of 2017 from US$504.6 in the second half of 2016 due to the higher growth in exports relative to the growth in imports over the same period (Tables 10 and 11 - Appendix).

Merchandize export earnings rose by 16.5% to US$3.9 billion due to higher earnings from copper, which increased by 28.8% to US$2.9 billion. Higher volumes and realised prices accounted for the increase in copper earnings (Table 12 – Appendix). However, cobalt, gold and non-traditional export earnings declined. Cobalt earnings dropped by 15.2% to US$61.0 million following a reduction in export volumes by 59.2% to 1,108.5 mt, despite average realised prices rising to US$55,036.7 per mt from US$26,228.0 per mt[5]. Gold earnings registered a 3.4% decline to US$84.4 million due to a reduction in export volumes by 9.5% to 72,397.0 ounces. Further, non-traditional export earnings fell by 10.3% to US$811.7 million on account of lower earnings from gemstones, industrial boilers and equipment, cement and lime, and tobacco. Imports increased by 2.2% to US$3.9 billion mostly on account of fertiliser, iron and steel products, industrial boilers and equipment.

[4] Export volumes refer to gross volumes exported which include, but not restricted to, production from Zambian mines.
[5] The sharp contraction in cobalt export volumes is attributed to low production as mines stopped treating the cobalt carbonate (COB) material from DRC due to challenges in sourcing materials.

Domestic Economic Activity

During the first half of 2017, economic activity picked up, evidenced by the 3.0% growth in GDP in the first quarter. The growth was attributed to increases in electricity generation, health, education, arts, transport and public administration[6]. In addition, capacity utilisation and output in selected sectors such as mining, energy and manufacturing increased in the second quarter of 2017[7].

Fiscal Balance

Preliminary data indicate that the fiscal deficit, on cash basis, at K6.0 billion, was lower than the budget of K8.8 billion (Table 13 - Appendix). This largely reflected constrained capital spending as external financing remained low. In order to meet most of its financing needs, the Government utilised domestic sources, mostly Government securities, to raise funds[8]. The higher than projected budget deficits, accumulation of arrears, and increases in debt levels remain a challenge to fiscal policy and the effectiveness of monetary policy.

8.0 Conclusion

In the first half of 2017, the Bank of Zambia eased the monetary policy stance by reducing the Policy Rate from 15.5% to 12.5% and the statutory reserve ratio from 18.0% to 12.5%. Inflation continued to slowdown, monetary conditions improved, and the Kwacha exchange rate was relatively stable.

Economic activity picked up in the first half on the back of a good agricultural harvest and improved electricity supply. This trend is expected to continue for the rest of the year and to strengthen further over the medium-term. The recovery in commodity prices is expected to provide impetus for export growth and diversification, stability of the foreign exchange market and accumulation of foreign reserves.

However, challenges in the productive sector such as the high cost of production, power supply shortages, high lending rates, and increased cost of imported intermediate inputs continue to threaten the effectiveness of monetary policy in containing inflation. Although power supply is expected to improve, the increase in the cost of energy generally may continue to constrain economic growth.

Although interest rates have declined over the first half of 2017, the cost of lending still remains high. The recent easing of monetary policy is intended to support conditions for lowering the cost of credit and to support higher growth.

Large budget deficits financed through borrowing from the domestic financial sector have the potential of limiting access to credit by private enterprises. This may result in private enterprises failing to increase supply of goods and services to enable further stability in prices. The Government's fiscal consolidation measures are critical for overall macroeconomic stability and the rebalancing of fiscal and monetary policy.

The Bank of Zambia will continue to monitor domestic and external developments and stands ready to take appropriate monetary policy measures to support price and financial system stability that facilitates the diversification and growth of the economy.

[6]The Monthly Central Statistical Office, Vol. 170, June 2017.

[7]Bank of Zambia Quarterly Survey of Business Opinions and Expectations, August 2017.

[8]As at end-June 2017, the outstanding stocks of Treasury bills and Government bonds were K19.8 billion and K22.2 billion against debt ceilings of K30.0 billion and K40.0 billion, respectively.

Appendix

Table 1: Actual and Projected Inflation: Jan 2015 – Dec 2017

	Projection (a)	Actual (b)	Forecast Error (b-a)
Jan 2015	8.0	7.7	-0.3
February	7.8	7.4	-0.4
March	7.6	7.2	-0.4
April	7.3	7.2	-0.1
May	7.2	6.9	-0.3
June	7.1	7.1	0.0
July	7.2	7.1	-0.1
August	7.2	7.3	0.1
September	7.5	7.7	0.2
October	7.9	14.3	6.4
November	19.9	19.5	-0.4
December	20.3	21.1	0.8
Jan 2016	21.9	21.8	-0.1
February	21.7	22.9	1.2
March	21.5	22.2	0.7
April	21.6	21.8	0.2
May	21.2	21.3	0.1
June	21.5	21.0	-0.5
July	20.3	20.2	-0.1
August	19.8	19.6	-0.2
September	19.2	18.9	-0.3
October	13.9	12.5	-1.4
November	9.8	8.8	-1.0
December	9.4	7.5	-1.9
Jan 2017	7.7	7.0	-0.7
February	6.8	6.8	0.0
March	7.0	6.7	-0.3
April	7.1	6.7	-0.4
May	7.3	6.5	-0.8
June	7.4	6.8	-0.6
July	6.6	6.6	0.0
August	6.5		
September	6.7		
October	6.8		
November	6.8		
December	7.0		

Source: Central Statistical Office and Bank of Zambia Compilations

Table 2: Macroeconomic Outturn and Targets: 2015 -2017

	2015 Target	2015 Outturn	2016 Target	2016 Outturn	2017 Target
Real GDP growth rate (%)	7.0	2.9	3.4	3.6	4.3
CPI Inflation, end period (%)	7.0	21.1	7.7	7.5	9.0
Gross Official Reserves (months of imports)	4.0	3.7	4.0	3.3	3.0
Broad Money growth (%)	15.2	35.2	18.0	-5.7	17.9
Budget deficit (on cash basis, excluding grants), % of GDP	4.6	8.1	3.6	5.8	7.0
Domestic financing of Budget (% of GDP)	2.0	1.9	1.2	3.8	4.6

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

Table 3: Liquidity Influences (K' billion): Jan 2015 – Jun 2017

	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2016	Jan-Jun 2017
Opening balance	2.4	0.7	1.1	0.8	2.7
Net Government spending	1.6	4.4	-1.3	4.4	2.5
BoZ foreign exchange influence	-1.4	-6.3	-0.1	3.5	2.4
Change in currency in circulation	0.6	-1.0	0.1	-0.2	0.1
Change in statutory reserve deposits	-2.2	-2.0	-1.7	-2.2	-0.8
Overnight Lending Facility	0.1	-7.7	-0.2	-0.2	0.02
Net Government securities influence	-1.7	3.5	1.6	4.3	-5.3
Open market operations	0.0	0.2	-0.3	0.3	-1.7
Closing balance	0.7	1.1	0.8	2.7	0.3

Source: Bank of Zambia Compilations

Table 4: Exchange Rate: Jan 2015 – Jun 2017

Bilateral Nominal Exchange Rate (period average)					
	Jan-Jun 2015	**Jul-Dec 2015**	**Jan-Jun 2016**	**Jul-Dec 2016**	**Jan-Jun 2017**
ZMW/USD	7.1010	10.2021	10.7140	9.9026	9.5393
ZMW/GBP	10.8221	15.6168	15.3506	12.6561	11.9949
ZMW/EUR	7.9151	11.2504	11.9499	11.7472	10.3230
ZMW/ZAR	0.5951	0.7461	0.6943	0.7072	0.7218
Real Trade-weighted Exchange Rate (end-period)					
	Jun 2015	**Dec 2015**	**Jun 2016**	**Dec 2016**	**Jun 2017**
Domestic CPI (2005=100)	224.7	261.4	271.7	281.9	291.0
Weighted Foreign CPI (2005=100)	130.9	132.6	137.1	138.6	238.4
NEER	2.33	3.09	3.07	2.83	2.81
REER Index (2005=100)	105.0	120.0	118.6	106.6	105.0

Source: Bank of Zambia Compilations

Table 5: Interest Rates (%, period average): 2014 – 2017

	2014	**2015**		**2016**		**2017**
	Second Half	First Half	Second Half	First Half	Second Half	First Half
BoZ Policy Rate (end-period)	12.5	12.5	15.5	15.5	15.5	12.5
Overnight Lending rate (end-period)	22.1	20.5	20.0	25.5	25.5	18.5
Overnight interbank rate	13.6	13.4	17.7	24.3	17.2	12.2
Average commercial banks' lending rate	19.8	20.4	21.7	27.1	29.0	28.2
Savings rate						
more than K100	3.5	3.4	3.4	3.3	3.2	2.7
above K20,000 (180 days)	9.8	10.5	10.5	12.4	12.8	11.9
Treasury bills yield rates						
composite yield rate	16.4	18.5	19.5	24.6	23.7	14.9
91days	10.4	13.6	15.0	21.6	20.9	15.7
182 days	17.4	18.8	19.9	24.4	23.8	17.4
273 days	17.4	19.4	20.8	26.3	25.1	17.9
364 days	20.4	22.1	22.5	26.3	25.0	19.3
Government bond yield rates						
composite yield rate	18.2	20.3	22.6	25.4	25.0	18.1
2 years	15.4	15.4	20.8	24.5	25.0	21.4
3 years	16.2	18.1	23.2	24.3	23.9	20.9
5 years	19.1	23.1	25.5	28.3	26.3	21.0
7 years	19.3	21.4	23.6	28.5	26.6	21.6
10 years	19.5	21.7	20.3	23.4	24.6	21.4
15 years	19.9	22.5	22.5	23.5	23.3	23.3

Source: Bank of Zambia Compilations

Table 6: Average Annual Non-Banks' Effective Interest Rates (%): 2016 – 2017

	First Half 2016	Second Half 2016	First Half 2017
Microfinance Institutions	63.3	72.6	73.4
Leasing Finance Institutions	54.9	61.7	59.1
Building Societies	41.8	46.2	39.5
Development Bank of Zambia	27.6	28.9	25.2
National Savings and Credit Bank	36.5	31.0	31.0
Financial Businesses	35.5	35.5	33.8
Overall for the sector	**43.3**	**40.7**	**43.7**

Source: Bank of Zambia Compilations

Table 7: Domestic Credit (K' billion unless otherwise stated): Jun 2015 – Jun 2017

	Jun 2015	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Domestic Credit (DC)	44.3	47.6	46.1	48.9	55.5
o/w foreign currency denominated	6.9	9.8	8.9	8.2	8.1
DC (excl. FX denominated credit)	37.4	37.8	37.2	40.7	47.4
6-month % change in DC	12.7	7.5	-3.1	6.1	13.4
6-month % change in Forex Credit	-1.4	42.0	-9.2	-7.9	-1.2
6-Month Change in DC (Excl. Forex Credit)	15.8	1.1	-1.5	9.4	16.5
Annual Change in Domestic Credit	18.2	21.2	4.1	2.8	20.4

Source: Bank of Zambia Compilations

Table 8: Broad Money (K' billion unless otherwise stated): Jun 2015 – Jun 2017

	Jun 2015	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Broad Money (M3)	36.7	47.3	44.1	44.6	47.8
Foreign Exchange (FX) Deposits	12.2	20.8	18.4	17.1	16.7
M3 (excl. Foreign Exchange Deposits)	24.7	26.5	25.8	27.5	31.1
6-month change in M3 (%)	5.4	28.2	-6.6	1.0	7.1
6-month % change in Forex deposits	22.3	70.8	-11.5	-7.2	-1.9
6-Month % change in M3 (excl. Forex deposits)	-1.3	7.3	-2.8	6.8	12.9
Annual % change in M3 (%)	12.8	28.2	19.7	-5.7	8.3
Annual % change in Forex deposits	21.7	108.2	51.2	-17.9	-8.9
Annual % change in M3 (excl. Forex Deposits)	8.8	3.5	4.2	3.8	20.6

Source: Bank of Zambia Compilations

Table 9: Shares of Total Loans and Advances by Sector (%): Jun 2015 – Jun 2017

	Jun-15	Dec-15	Jun 2016	Dec 2016	Jun 2017
Agric, forestry, fishing & hunting	16.3	17.3	17.4	17.2	19.6
Mining & Quarrying	5.0	6.4	5.6	6.3	6.4
Manufacturing	11.4	13.5	12.4	12.7	10.6
Electricity, Gas, Water & Energy	1.6	1.7	1.5	2.2	2.2
Construction	3.0	3.4	3.8	3.9	3.8
Wholesale & Retail Trade	9.6	10.8	10.7	10.3	10.2
Restaurants & Hotels	1.5	1.6	1.5	1.6	1.4
Transport, Storage & Communications	5.4	5.1	5.2	4.6	4.5
Financial Services	2.7	2.7	2.8	1.8	2.3
Community, Social & Personal	1.9	1.7	2.1	1.7	4.3
Real Estate	2.6	2.9	3.0	3.5	3.7
Personal Loans	33.2	29.0	27.3	27.5	27.2
Others	5.7	4.0	6.7	6.8	3.9

Source: Bank of Zambia Compilations

Table 10: Trade Data (c.i.f - US$ million): Jul 2014 – Jun 2017

	Jul-Dec 2014	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2016	Jan-Jun 2017
Trade Balance	273.3	-231.7	-743.2	-316.42	-504.6	-37.2
Total Exports, c.i.f. (including Gold)	5,200.1	3,615.4	3,690.2	3,095.3	3,348.8	3,900.7
General Exports, f.o.b	5,135.9	3,547.7	3,605.2	2,991.4	3,261.4	3,816.3
Metals	3,977.9	2,642.1	2,662.2	2,155.9	2,356.8	3,004.6
Copper	3,914.5	2,605.6	2,628.1	2,114.3	2,284.9	2,943.6
Cobalt	63.4	36.5	34.2	41.6	72.0	61.0
Non -Traditional Exports	1,158.0	905.6	942.9	835.5	904.6	811.7
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	-13.2	-13.2
Sub Total	1,171.2	918.8	956.1	848.6	913.4	824.9
Gemstones	86.9	44.6	66.6	13.0	15.4	1.7
Sulphuric acid	109.5	32.1	25.2	18.0	21.1	24.9
Industrial Boilers and Equipment	73.5	48.7	46.9	74.5	43.4	36.5
Cane Sugar	123.2	72.1	74.5	58.4	61.6	68.0
Gasoil/Petroleum Oils	11.5	8.3	3.9	3.1	6.2	21.4
Cement & Lime	49.2	34.9	30.3	30.8	40.8	32.5
Electricity	36.6	39.0	0.0	0.0	13.6	17.5
Raw hides, Skins & Leather	7.5	5.7	6.8	7.5	4.1	4.2
Sulphur, sublimed or precipitated; colloidal	23.7	15.0	4.6	2.5	0.2	0.0
Tobacco	93.8	38.5	67.9	43.6	46.0	44.4
Copper Wire	43.4	34.3	24.3	29.9	37.4	47.4
Scrap of precious metals	30.0	25.0	24.1	0.1	0.1	0.2
Maize & Maize Seed	35.3	72.0	143.9	79.7	108.9	22.7
Electrical Cables	27.3	10.2	10.5	7.0	7.3	8.5
Cotton Lint	46.4	8.2	45.9	19.5	45.0	12.1
Soap, Active Agents, Washing Preps.	51.7	24.6	26.9	17.5	27.9	20.2
Fresh Fruits & Vegetables	7.8	5.6	6.9	4.7	9.2	6.0
Manganese Ores/Concentrates	1.8	1.3	0.1	0.4	6.2	9.2
Wheat & Meslin	8.6	6.7	5.4	3.6	3.6	0.4
Fresh Flowers	5.3	8.6	4.7	4.6	6.2	6.7
Other	295.8	383.4	336.6	430.1	409.4	440.4
Gold	64.2	67.7	85.0	103.9	87.4	84.4
Imports c.i.f./1	-4,926.8	-3,847.1	-4,433.4	-3,411.7	-3,853.3	-3,937.9

Source: Bank of Zambia Compilations

Table 11: Imports by Commodity Groups (c.i.f - US$ million): Jan 2015 – Jun 2017

	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	July-Dec 2016	Jan-Jun 2017	% Change
Food Items	243.2	251.6	210.6	254.6	223.8	-12.1
Petroleum Products	560.6	975.8	697.8	664.4	573.3	-13.7
Fertilizer	155.9	205.5	105.5	187.2	291.2	55.6
Chemicals	428.1	611.1	440.7	515.3	483.5	-6.2
Plastic and Rubber Products	190.4	173.3	139.6	173.7	171.4	-1.3
Paper and paper products	64.8	57.8	47.0	58.0	60.8	4.8
Iron and Steel and items thereof	302.3	225.1	146.9	171.0	171.2	0.1
Industrial Boilers and Equipment	639.0	588.2	452.3	531.9	578.9	8.8
Electrical Machinery & Equipment	282.6	258.4	365.3	320.0	216.3	-32.4
Vehicles	271.2	272.5	233.4	227.3	211.0	-7.2
Other Imports	709.2	814.1	567.3	749.9	956.6	27.6
Total	**3,847.1**	**4,433.4**	**3406.4**	**3853.3**	**3,937.9**	**2.2**

Source: Bank of Zambia Compilations

Table 12: Metal Export Volumes, Values and Prices: Jul 2014 – Jun 2017

	Copper				Cobalt			
	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound
Quarter 3	292,302.2	1,978,838.4	6,769.8	3.1	1,999.0	33,154.8	27,652.1	12.5
Quarter 4	296,559.1	1,935,638.7	6,527.0	3.0	1,089.0	30,234.7	27,763.7	12.6
Jul-Dec 2014	588,861.2	3,914,477.1	6,647.5	3.0	2,288.0	63,389.5	27,705.2	12.6
Quarter 1	232,587.5	1,277,217.6	5,491.3	2.5	990.0	26,090.6	26,345.1	12.0
Quarter 2	232,660.9	1,328,336.3	5,709.3	2.6	396.8	10,426.7	26,278.6	11.9
Jan-Jun 2015	465,248.3	2,605,553.8	5,600.4	2.5	1,386.8	36,517.3	26,332.5	11.9
Quarter 3	275,944.6	1,374,487.0	4,981.0	2.3	573.0	14,288.4	24,936.1	11.3
Quarter 4	280,905.5	1,253,574.2	4,462.7	2.0	1,019.0	19,899.4	19,528.4	8.9
Jul-Dec 2015	556,848.2	2,628,061.2	4,719.5	2.1	1,592.0	34,187.8	21,474.7	9.7
Quarter 1	237,636.6	1,043,080.2	4,389.4	2.0	1,241.2	22,037.1	17,754.4	8.1
Quarter 2	225,653.5	1,055,918.3	4,679.4	2.1	1,102.8	20,587.8	18,668.9	8.5
Jan–Jun 2016	463,290.1	2,098,998.5	4,530.6	2.1	2,344.0	42,624.9	18,184.6	8.2
Quarter 3	221,929.8	1,031,762.2	4,649.1	2.1	1,326.0	33,396.8	25.186.1	11.4
Quarter 4	246,147.8	1,253,097.0	5,090.8	2.3	1,392.0	37,891.0	27,220.6	12.3
Jul-Dec 2016	468,077.6	2,284,859.2	4,881.4	2.2	2,718.0	71,287.8	26,228.0	11.9
Quarter 1	262,448.9	1,469,128.2	5,597.8	2.5	622.5	36,086.8	57,973.1	26.3
Quarter 2	258,049.6	1,474,485.3	5,714.0	2.6	486.0	24,920.1	51,275.9	23.3
Jan-Jun 2017	520,498.5	2,943,613.5	5,655.4	2.6	1,108.5	61,006.9	55,036.8	25.0

Source: Bank of Zambia Compilations

Table 13: Government Budget (K'bn): 2016 to Jun 2017

	Budget Performance (K'bn)					
	2016		Second Half 2016		First Half 2017	
	Proj	% of GDP	Target	Prel	Target	Prel
Total Revenue & Grants	**42.7**	**20.0**	**20.7**	**17.2**	**21.2**	**20.4**
Tax Revenue	30.4	14.3	15.8	14.4	16.2	17.0
Non-Tax Revenue	11.7	5.5	6.4	2.6	3.9	3.1
Grants	0.5	0.3	0.3	0.2	1.1	0.3
Total Expenditure	**53.1**	**24.9**	**26.7**	**28.8**	**30.1**	**26.4**
Current Expenditure	40.5	19.0	20.4	22.5	23.2	23.3
Personal Emoluments	19.1	9.0	10.6	9.6	10.2	10.6
Use of Goods & Services	6.2	2.9	2.9	2.7	2.8	2.6
Interest	7.1	3.5	3.6	3.8	4.4	4.6
Grants & Other Payments	6.1	2.9	2.4	5.4	4.0	4.2
Social Benefits	1.1	0.5	0.6	0.3	1.5	1.1
Other Expenses	0.8	0.4	0.4	0.7	0.4	0.3
Liabilities	0.1	0.1	0.0	0.0	0.6	0.0
Assets	9.8	4.6	4.8	4.9	6.3	3.1
Non- Financial Assets	8.8	4.1	4.3	4.9	6.2	3.0
Financial Assets	0.9	0.5	0.4	0.0	0.1	0.0
Change in Balances & Statistical discrepancy	0.0	0.0	0.0	0.0	1.3	-1.9
Fiscal Balance	**-7.8**	**-3.6**	**-2.7**	**-10.3**	**-8.8**	**-6.0**
Financing	**7.8**	**3.6**	**2.7**	**10.2**	**7.5**	**7.9**
Domestic	2.5	1.2	1.1	6.1	3.2	6.6
Foreign (net)	6.0	2.8	2.0	2.0	5.0	1.3

Source: Ministry of Finance