Bank Of Zambia

Monetary Policy Statement

JUL - DEC 2015

Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to achieve and maintain price and financial system stability for balanced macro-economic development.

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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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Monetary Policy Statement

Executive Summary

1. This statement presents an economic outlook for the second half of 2015 and outlines macroeconomic objectives for 2015 and 2016. It also reviews the performance of monetary policy during the first half of 2015.

2. The International Monetary Fund (IMF) World Economic Outlook (WEO) July 2015 edition indicates a downward revision of the global economic growth forecast in 2015 to 3.3% from the April 2015 forecast of 3.5%. This revision was largely on account of a slowdown in the United States (US) economy following harsh winter weather and a cut in capital expenditure in the oil sector during the first quarter with negative spill over effects to North America. Further, oil prices and sovereign bond yield rates (in the US and euro area excluding Greece) rose higher than earlier anticipated, while output and domestic demand in emerging and developing economies broadly weakened.

3. Increased financial market volatility and disruptive asset price shifts, coupled with lower potential output growth, remain important medium-term risks in both advanced and emerging market economies. Lower commodity prices also pose risks to the outlook in low-income developing economies. Further, the appreciation of the US dollar poses balance sheet and funding risks, especially in some emerging market and developing economies.

4. With respect to the Zambian economy, the Minister of Finance, in the Medium Term Expenditure Framework (MTEF) for 2016-2018, revised downwards the gross domestic product (GDP) growth target for 2015 to 5.0%, which was later projected at 4.6% in the 2016 Budget from the earlier target of 7.0%. The revision to GDP growth reflects deterioration in the performance of the agriculture sector given adverse weather conditions, as well as low mining production owing to the decline in copper prices and uncertainties surrounding the mining tax regime earlier in the year. In addition, the power supply challenges and the increase in fuel prices and related transport costs are expected to raise production costs, thereby further constraining economic growth.

5. Downside risks to Zambia's growth projection stem from the expected decline in copper demand and lower commodity prices on the international market due to the slowdown in the Chinese economy. In addition, a strong US dollar with expectations of the United States Federal Reserve increasing short-term interest rates before end-2015, is exerting pressure on the external position and has contributed to volatility in the exchange rate.

6. The Bank of Zambia projections indicate that annual inflation will average11.7% in the second half of 2015. This projection is based on adverse developments in both domestic and external environment. The Kwacha exchange rate depreciation, power rationing (electricity load shedding) and the increase in fuel prices are expected to feed adversely into the inflationary process. Moreover, the deterioration in the global economy, reflected in falling commodity prices, is expected to adversely affect foreign exchange earnings and inflation developments in the second half of the year.

7. Over the second half of 2015, monetary policy formulation and implementation will face challenges in meeting the Government's end-year inflation target of no more than 7.0% as inflation is projected to be above the end-year target. However, gross international reserves are forecast to be above the 4.0 months of import cover by the end of the year. The Government's broad economic objectives set at the beginning of the year are also likely to be missed with a revised fiscal deficit of 6.9% of GDP and lower growth of 4.6% for 2015.

8. With regard to developments during the first half of 2015, monetary policy continued to focus on achieving the end-year inflation target of 7.0%. Thus, monetary operations aimed at maintaining the 5-day weighted average interbank rate within a corridor of +/- 2 percentage points of the Bank of Zambia (BoZ) Policy Rate, which stood at 12.5%. To address rising volatility in the exchange rate and the anticipated inflationary pressures, the statutory reserve ratio was revised upwards to 18.0% from 14.0% effective 8th April 2015.

9. Annual overall inflation slowed down to 7.1% in June 2015 from 7.9% in December 2014 following a reduction in both food and non-food inflation to 7.1% and 7.0% from 7.9% and 8.4%, respectively. The decline in food inflation was on account of Food Reserve Agency (FRA) sales of maize grain at lower than market prices to moderate mealie meal prices, as well as increased seasonal availability of fresh food items. The slowdown in non-food inflation was mainly attributed to the reduction in fuel pump prices effected in January 2015 which resulted in a fall in transport and production costs. The tight monetary policy stance also helped to dampen inflationary pressures, particularly those emanating from volatility in the exchange rate.

10. Money market liquidity conditions were generally tight during the first half of 2015, with the

commercial banks' aggregate current account balance falling by 71.7% to K693.0 million following the statutory reserve ratio hike. Consequently, the weighted average overnight interbank rate rose by 2.6 percentage points to 14.6% from 12.0% at end-December 2014.

11. Broad money (M3)[1] increased by 5.4% to K36,862.9 million in June 2015 from K34,959.1 million in December 2014. This was explained by the 11.6% increase in net domestic assets (NDA) which offset the 0.1% decline in net foreign assets (NFA). The rise in NDA was attributed to domestic credit[2] growth of 14.7% (28.8% growth in December 2014) to K36,686.3 million in June 2015 from K31,986.7 million in December 2014, mainly due to lending to Government and households.

12. The commercial banks' average lending rate rose slightly to 20.6% from 20.5%, while average savings rate for amounts above K100 remained unchanged at 3.4%. However, the average 30-day deposit rate for amounts exceeding K20,000 declined marginally to 6.4% from 6.6% previously.

13. With respect to Government security yields, the Treasury bills and Government bond composite rates increased by 3.7 and 2.7 percentage points to 21.2% and 23.8%, respectively, following higher financing requirements amidst tight liquidity conditions.

14. The foreign exchange market was characterised by increased volatility compared to the relative stability observed in the previous period. The Kwacha came under extreme pressure largely due to fiscal developments and adverse sentiments emanating from both domestic and international factors.

15. The fallout in the mining sector as a result of the new mining tax policy for fiscal year 2015 (which was later revised) and the power rationing towards the end of June worsened the sentiments. Internationally, worries about Zambia's credit rating downgrade by Fitch and falling global copper prices following China's economic slowdown, and the Greek debt crisis seemed to have weighed on the local unit.

16. Consequently, the Kwacha depreciated by 18.0% and 19.0% against the US dollar and the British Pound sterling to end the first half of 2015 at K7.5117/USD and K11.8459/GBP, respectively. With respect to the euro and the South African rand, the Kwacha depreciated by 9.0% and 12.0%, respectively. The Bank of Zambia sold a total of US$230.5 million on a net basis to minimise volatility in the exchange rate.

17. Preliminary data indicate that Zambia recorded a trade deficit of US$231.7 million compared to a surplus of US$273.3 million during the second half of 2014. This performance was attributed to a higher decline in goods exports relative to goods imports.

18. On the fiscal side, preliminary data indicate that the Central Government budget recorded a deficit of K4,018.5 million (on cash basis) during the first half of 2015. This outturn was 13.2% higher than the projected deficit of K3,551.2 million, reflecting higher than projected expenditures. The deficit was 2.2% of projected GDP.

[1]Comprehensively defined to include foreign currency deposits.
[2]Comprehensively defined to include foreign currency loans

1.0 Introduction

1. This Monetary Policy Statement provides an economic outlook, inflation projection and monetary policy objectives for the second half of 2015. The macroeconomic objectives that will guide monetary policy for the year 2015 and 2016 are presented in this statement. The statement also reviews the performance of monetary policy during the first half of 2015.

2.0 Economic Outlook for 2015

2.1 Global Economic Growth

2. The World Economic Outlook (WEO) July 2015 edition indicates a downward revision of the global growth forecast in 2015 to 3.3% from the April 2015 forecast of 3.5%. This revision was made largely on account of a slowdown in the US economy following harsh winter weather and a cut in capital expenditure in the oil sector during the first quarter of 2015, with negative spill over effects to North America. Further, oil prices and sovereign bond yield rates (in the United States and euro area excluding Greece) rose higher than earlier anticipated, while output and domestic demand in emerging and developing economies broadly weakened.

3. Growth in advanced economies is now projected to increase to 2.1% in 2015 from 1.8% in 2014, lower than the 2.4% forecast in the April 2015 WEO edition, with the United States (US) growth projection lowered to 2.5% from the earlier 3.1%. However, the growth projection for the euro area remains unchanged at 1.5% from 0.8% in 2014, premised on neutral fiscal policy, a recovery in domestic demand and rising inflation in most euro area economies, apart from Greece. Growth in the Japanese economy is expected to remain modest at 0.8% from -0.1% in 2014, supported by higher capital investments.

4. Growth in emerging market and developing economies is expected to remain moderate, reflecting several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors particularly in the Commonwealth of Independent States and some countries in the Middle East and North Africa. Therefore, the IMF projections show a lower growth of 4.2% down from 4.6% in 2014. In Sub-Saharan Africa (SSA), growth is projected to fall to 4.4% in 2015 compared to 5.0% in 2014, largely reflecting the drop in commodity prices.

5. Downside risks to the growth outlook include: increased financial market volatility and disruptive asset price shifts; lower commodity prices; increased geopolitical tensions in Ukraine, the Middle East, and North Africa; appreciation of the US dollar; and balance sheet and funding risks for US dollar debtors, especially in some emerging market economies.

Inflation

6. A rebound in inflation in the second half of 2015 is expected in a number of advanced economies, such as the United States and United Kingdom, from relatively low levels in the first half as base effects from oil prices fade, coupled with better economic growth and tightening capacity. In most emerging market and developing economies, inflation is projected to rise due to external vulnerabilities and expectations of the US Federal Reserve Bank increasing short term interest rates.

Commodity Prices

7. Generally, commodity prices are expected to remain subdued in the medium term. Crude oil prices are projected to remain weak in 2015, with modest increases forecast for 2016 owing to large inventories and rising output. Metal prices are also expected to remain flat due to continued slow demand, especially in China. However, agricultural commodity prices are expected to trend upwards on account of supply concerns after heavy rains in the United States.

2.2 Zambia's Economic Outlook for the Second Half of 2015

8. Zambia's real GDP growth projection for 2015 has been revised downwards to 4.6% from the earlier target of 7.0% by the Minister of Finance. This is on account of potential risks emanating from external and domestic challenges.

9. The lower performance of the agriculture sector given adverse weather conditions, and lower mining sector production on account of the decline in copper prices and uncertainties surrounding the mining tax regime earlier in the year, are expected to constrain economic growth. In addition, power rationing and increase in fuel prices in July 2015 are expected to raise production costs.

10. The slowdown in agriculture and mining may also affect related productive sectors, such as services and manufacturing, which may further constrain output. In addition, power rationing will potentially constrain productivity as electricity is a major input in all economic sectors.

11. In the external sector, the continued weaknesses in global grow this expected to adversely impact on demand for commodities including copper, which is Zambia's main export. This will negatively affect foreign exchange earnings and exert pressure on the Kwacha exchange rate to depreciate further, thus raising the costs for imported inputs and production costs more broadly.

3.0 Monetary Policy Objectives and Instruments for July – December 2015

12. Monetary policy in the second half of 2015 will continue to focus on achieving the end-year annual inflation rate target of 7.0%. To achieve this objective, the Bank of Zambia (BoZ) will rely mainly on open market operations that are directed at maintaining the interbank rate within a corridor of +/- 2 percentage points around the BoZ Policy Rate.

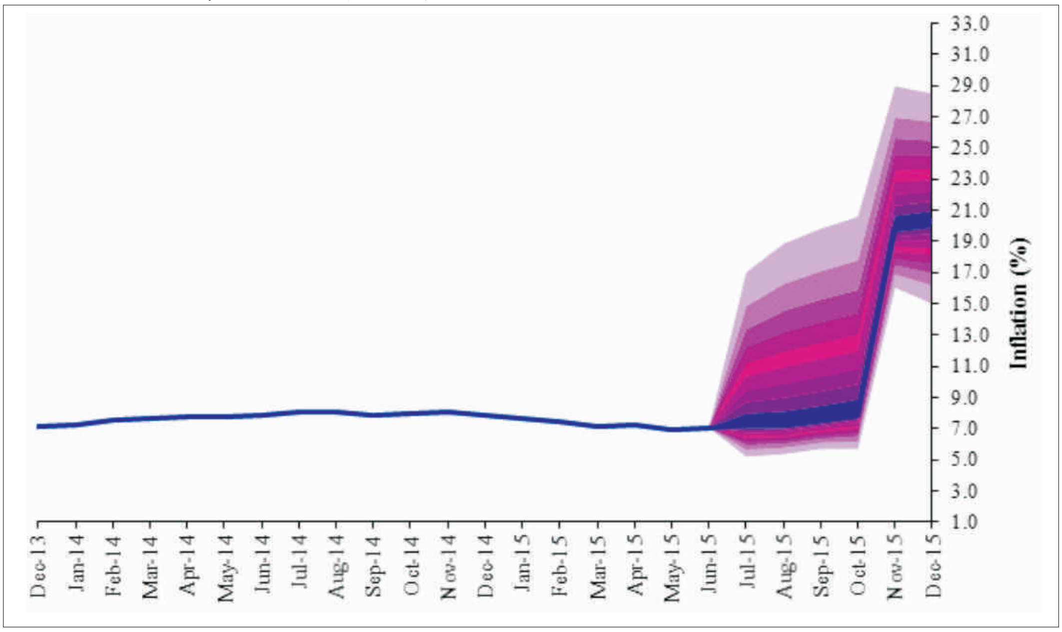
4.0 Inflation Projections

13. Inflation is projected to average 11.7% during the second half of 2015, up from an average outturn of 7.3% in the first half of 2015. The inflation outlook for the second half of 2015 reflects rising inflationary pressures induced by the depreciation of the Kwacha against major currencies, higher production costs arising from electricity load shedding as well as elevated food prices.

14. Monthly inflation forecasts in the second half of the year suggest that inflation will range between 7.2% and 20.3%, with the December 2015 projection at 20.3%. (Chart 1 and Table 1). Higher costs of production partly arising from increased electricity rationing and the pass-through effects of the sharp depreciation in the exchange rate mainly account for the projected end-year inflation of 20.3%. During the forecast horizon, additional inflationary pressures are expected to emanate from upward adjustments in electricity tariffs and fuel pump prices.

15. However, inflationary pressures are likely to be mitigated by the tight monetary policy stance, which will continue to moderate the growth in credit. Sales of maize grain by Food Reserve Agency below market prices will also help in moderating the prices of maize grain and products (mealie meal and feedstock). In addition, lower crude oil prices in international markets will help to contain the oil import bill in US dollar terms, thereby moderating the demand for foreign exchange.

Chart 1: Actual and Projected Inflation, Dec 2013 – Dec 2015



Source: Bank of Zambia Computations

[2]In time-series analysis, a fan chart is a chart that joins a simple line chart for observed past data, by showing ranges for possible values of future data together with a line showing a central estimate or most likely value for the future outcomes. As predictions become increasingly uncertain the further into the future one goes, these forecast ranges spread out, creating distinctive wedge or "fan" shapes, hence the term.

Table 1: Actual Inflation and Projections, Jan 2014 – Dec 2015

Month	Projection (a)	Actual (b)	Forecast Error (b-a)
Jan 2014	7.2	7.3	0.1
February	7.4	7.6	0.2
March	7.1	7.7	0.6
April	7.0	7.8	0.8
May	6.9	7.8	0.9
June	6.8	7.9	1.1
July	7.8	8.0	0.2
August	8.1	8.0	-0.1
September	8.0	7.8	-0.2
October	7.9	7.9	0.0
November	7.8	8.1	0.3
December	8.3	7.9	-0.4
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		
December	20.3		

Source: Bank of Zambia, Central Statistical Office (CSO)
Note: A positive number implies that actual inflation outturn was above the projection and the opposite is true

5.0 Macroeconomic Objectives for Period ending December 2015 and December 2016[3]

16. During the periods ending 2015 and 2016, monetary policy formulation and implementation will support Government's economic objectives outlined in the MTEF 2016-2018 which include:

i. Achieving a real GDP growth rate of at least 5.0% in 2015 and 6.0% in 2016;

ii. Achieving an end year inflation rate of no more than 7.0% in 2015 and 7.7% in 2016;

iii. Containing domestic borrowing to no more than 2.0% of GDP in 2015 and 1.2% in 2016; and

iv. Increasing international reserves to at least 4 months of import cover.

17. The Bank of Zambia will maintain a tight monetary policy stance and continue to use market based instruments of monetary policy to steer the overnight interbank rate within the policy rate corridor.

6.0 Review of Global Developments: January – June 2015

Economic Growth

18. Growth in the global economy during the first half of 2015 was modest and uneven. The IMF WEO update of July 2015 indicates that in the first quarter of 2015, the world economy grew by 2.2%, 0.8 percentage point short of the forecasts in the April 2015 WEO.

19. Growth in emerging market and developing economies continued to slow down due to several factors, including lower commodity prices and tighter external financial conditions. China's economic output slowed down to 6.8% year-on-year in the first half of 2015 from 7.4% recorded in 2014, as the authorities sought to rebalance their economy towards a greater reliance on domestic consumption and away from investment and export led growth.

20. In sub-Saharan Africa, growth was largely driven by domestic demand as external demand remained mostly subdued because of weakening export markets in advanced countries and to a lesser extent in emerging economies. Export values of goods were also depressed by relatively lower commodity prices on the international market.

Inflation

21. Headline inflation in most advanced economies remained low in the first quarter of 2015 but rose in the second quarter largely due to a rebound in oil prices. In many emerging market and developing economies, headline inflation declined mainly due to weak domestic demand and low oil and food prices. However, in other emerging markets, including Brazil and South Africa, currency depreciation and unfavourable weather conditions, pushed inflation high.

Commodity Prices

22. Commodity prices of energy, metals and food generally remained subdued in the first half of 2015 due to continued low global demand, particularly from China, as well as excess supply. The average price of copper fell to US$5,848.1 per metric tonne (mt) in June 2015 from US$6,387.1 per mt in December

[3] **Source**: Mid-Term Expenditure Framework 2016-2018

2014. The World Bank food price index declined by just under 1.0% largely due to falling dairy and sugar prices. However, the average price of crude oil (Dubai) recovered, rising to US$62.3 per barrel in June 2015 from US $61.4 per barrel in December 2014.

7.0 Review of Domestic Developments: January – June 2015

7.1 Objectives of Monetary Policy, January - June 2015

23. Throughout the first half of 2015, monetary policy was focused on achieving the end-year inflation target of 7.0%. Monetary operations were aimed at maintaining the interbank interest rate within a corridor of +/- 200 basis points of the BoZ Policy Rate, which was maintained at 12.5% throughout the review period.

7.2 Challenges to Monetary Policy

24. During the review period, the implementation of monetary policy was mainly faced with the following challenges:

   i. Volatility in the exchange rate of the Kwacha following weaknesses in the international environment;

   ii. Increase in fuel prices in June 2015; and

   iii. Higher than projected fiscal deficit.

7.3 Assessment of Monetary Policy Implementation: January - June 2015

25. In view of the rising volatility in the exchange rate and inflationary pressures, the Bank of Zambia tightened monetary policy by adjusting the statutory reserve ratio upwards to 18% from 14%, effective 8th April 2015. Open market operations were conducted to provide short-term loans to commercial banks in order to relieve pressure off the interbank money market. The weighted average interbank rate was 14.6% at end-June 2015 from 11.9% recorded at end-December 2014.

7.4 Inflation Outturn

Overall Inflation

26. In the first half of 2015, overall inflation was projected to average 7.5%, down from the average outturn of 8.0% recorded during the second half of 2014. This forecast was premised on an anticipated decline in domestic fuel pump prices due to low crude oil prices as well as a relatively tight monetary policy. Upside risks to this projection included the pass-through from the depreciation of the Kwacha and elevated food prices on account of lower production of maize grain due to poor rainfall during the 2014/2015 farming season.

27. In terms of the outcome, annual overall inflation declined to an average of 7.2% during the first half of 2015, from an average of 7.9% recorded in the second half of 2014. This outturn was attributed to the slowdown in non-food inflation. In terms of end-period developments, overall inflation declined to 7.1% in June 2015 from 7.9% in December 2014 (see Chart 2).

28. On a year to date basis, overall inflation was 3.0% as at end-June 2015 compared to the 4.7% during the same period in 2014. This outturn mainly reflected base effects stemming from the reduction in fuel prices earlier in the year, resulting in lower non-food inflation of 3.8% compared to 5.1% as of June 2014.

Non-Food Inflation

29. In the first half of 2015, average annual non-food inflation declined by 1.7 percentage points to 7.2% from the 8.9% recorded during the second half of 2014. The decline in non-food inflation was mainly on account of the significant reduction in the fuel pump prices effected in December 2014 and January 2015, which translated into a fall in transport costs. Other components of non-food inflation that contributed to the reduction were alcoholic beverages and tobacco; housing, water, electricity, gas and other fuels; communication; and education.

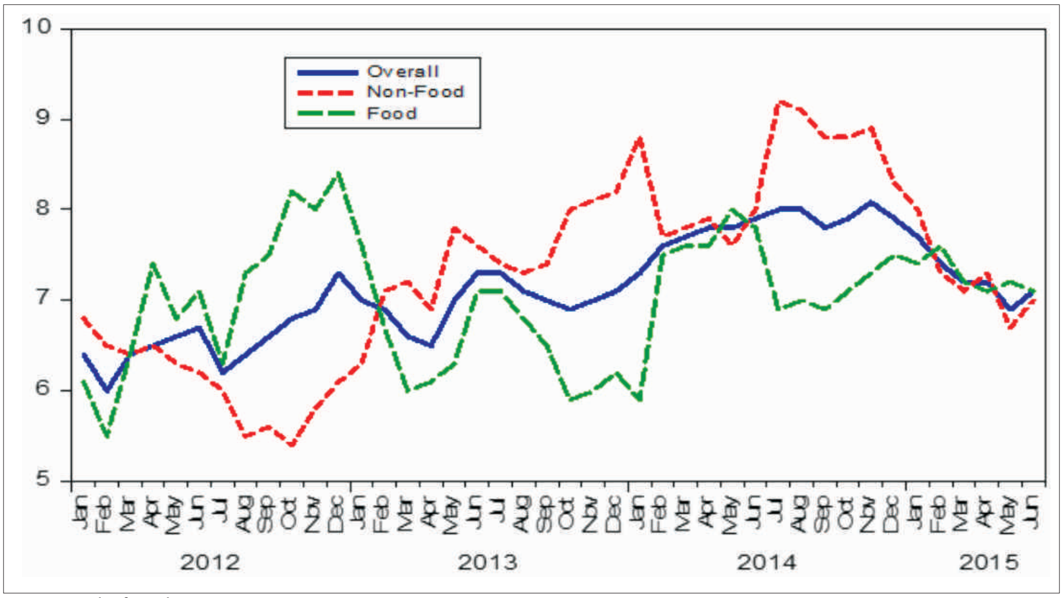
30. In terms of end-period developments, annual non-food inflation declined to 7.0% in June 2015 from 8.4% in December 2014. On a year-to-date basis, non-food inflation as of June 2015 was 3.7% compared to 5.1% during the same period in 2014.

Food Inflation

31. Food inflation edged up to an average of 7.3% during the first half of 2015 from an average of 7.1% during the second half of 2014. This was mainly due to increases in prices of breakfast and roller meal as well as other food items such as fresh vegetables. The increment in prices of fresh vegetables could be attributed to variations in seasonal effects between year 2014 and 2015.

32. However, in terms of end-period developments, annual food inflation slowed down to 7.1% in June 2015 from 7.5% in December 2015. On a year-to-date basis, food inflation was 4.3% as of June 2015 compared to 4.4% as of June 2014.

Chart 2: Annual Inflation Developments, Jan 2012 - Jun 2015



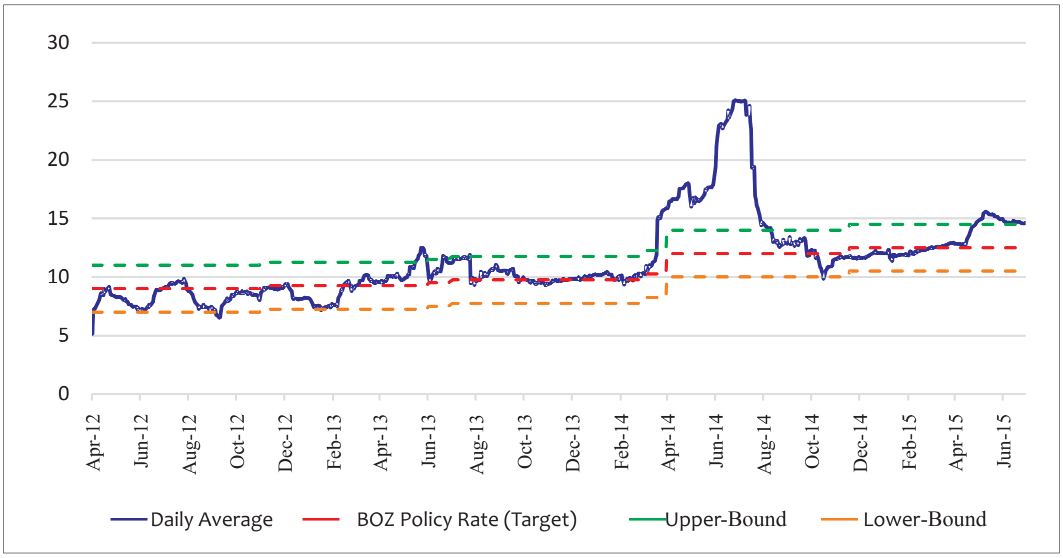
Source: Bank of Zambia

7.5 Financial Markets, Monetary and Credit Developments

Overnight Interbank Rate

33. The overnight interbank interest rate came under substantial strain following the increase in the statutory reserve ratio during the first half of the year. Consequently, open market operations (OMO) were more oriented to providing commercial banks short-term loans in order to relieve pressure off the interbank money market. These operations resulted in a net supply of K799.0 million in short-term loans to commercial banks, with the weighted average interbank rate rising to 14.6% from 11.9% recorded at end-December 2014. Although ending slightly above the upper bound of the Policy Rate corridor of 14.5%, the interbank rate hovered within the corridor for most part of the review period (see Chart3).

Chart 3: 5-Day Average Interbank Rate and Policy Rate (%), Apr 2012 – Jun 2015



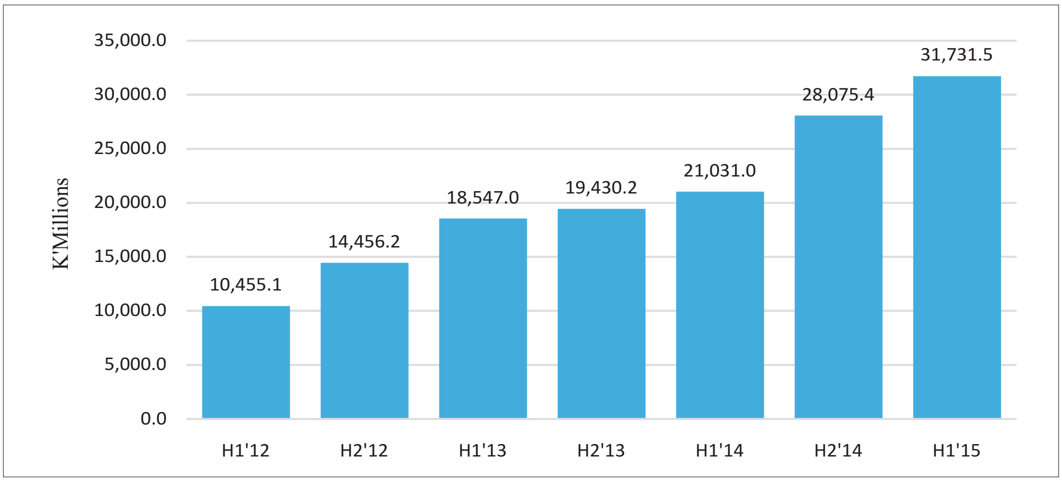
Source: Bank of Zambia

Money Market Liquidity and the Interbank Market Rate

34. Money Market liquidity was generally tighter mainly on account of the increase in the statutory reserve ratio. The aggregate commercial banks' current account balance at the BoZ fell to K693.0 million at end-June 2015 from K2,447.9 million at end-December 2014, mainly due to net outflows of statutory reserve payments amounting to K1,803.6 million, purchases of foreign exchange from BoZ totalling K1,381.3 million, and purchases of Government securities amounting to K1,721.8 million. These outflows were partially offset by receipts due to net Government spending worth K1,609.7 million.

35. In light of the tight liquidity conditions, commercial banks' volumes of trades in the interbank money market increased to K31,731.5 million during the first half of 2015 from K28,075.4 million in the second half of 2014 (see Chart 4).

Chart 4: Interbank Money Market Activity, Jan 2012 –Jun 2015

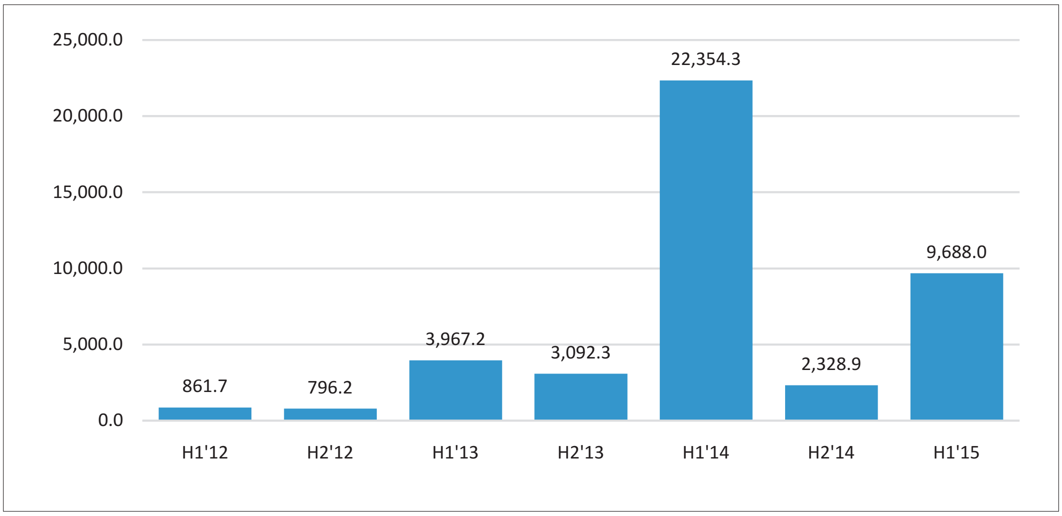


Source: Bank of Zambia

Overnight Lending Facility (OLF)

36. Besides the increase in interbank trade volumes, commercial banks also increased their reliance on the Overnight Lending Facility window. A total of K9,647.3 million was accessed during the first half of 2015 compared with K2,328.0 million in the second half of 2014 to regain liquidity (see Chart 5).

Chart 5: Overnight Lending Facility (OLF), Jan 2012– Jun 2015

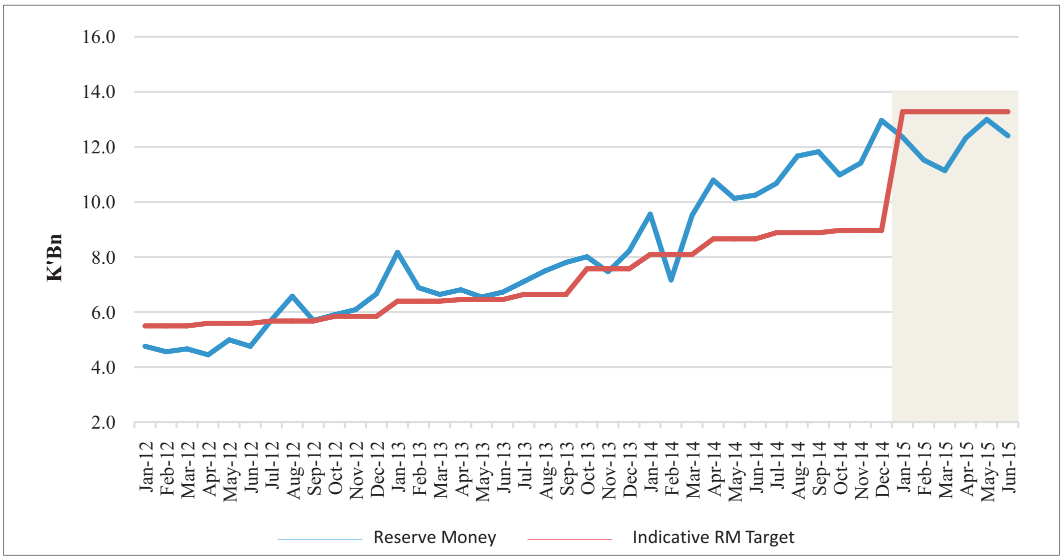


Source: Bank of Zambia

Reserve Money

37. Following the developments in the money market, reserve money increased by 14.7% to K12,412.0 million (see Chart 6).

Chart 6: Reserve Money, Jan 2012 – Jun 2015



Source: Bank of Zambia

Broad Money

38. Broad money (M3), comprehensively defined to include foreign currency deposits, increased by 5.4% to K36, 862.9 million in June 2015 compared to 7.0% growth recorded in December2014. This was on account of the 11.6% increase in net domestic assets (NDA) mainly arising from higher lending to Government and private enterprises. Net foreign assets (NFA) however, fell by 0.1% due to the decline in gross international reserves. Excluding foreign currency deposits which grew by 22.3%, M3 declined by 1.3% compared to the 10.2% growth in December 2014 (see Table 2).

Table 2: Broad Money (in K' million unless otherwise stated), Dec 2012 – Jun 2015

Description	Dec 2012	Jun 2013	Dec 2013	Jun 2014	Dec 2014	Jun 2015
Broad Money (M3)	25,698.8	27,795.7	31,136.6	32,685.7	34,959.1	36,862.9
Foreign Exchange Deposits	6,185.4	7,377.1	7,626.9	9,987.01	9,938.8	12,156.1
M3 (excl. Foreign Exchange Deposits)	19,513.4	20,418.6	23,509.8	22,698.7	25,020.4	24,706.8
6-Month Change in M3 (%)	11.7	8.2	12.0	5.0	7.0	5.4
6-Month Change in Foreign exchange deposits(%)	- 22.0	19.3	3.4	30.9	-0.5	22.3
6-Month Change in M3 (excl. Foreign exchange deposits) [%]	29.4	4.6	15.1	-3.4	10.2	-1.3
Annual Change in M3 (%)	17.9	20.8	21.2	17.6	12.3	12.8
Annual Change in Foreign exchange deposits (%)	-24.5	-7.0	23.3	35.4	30.3	21.7
Annual Change in M3 (excl. Forex Deposits) (%)	43.3	35.4	20.5	10.7	6.4	8.8

Source: Bank of Zambia

Domestic Credit

39. Domestic credit, comprehensively defined to include foreign currency loans, rose by 14.7% to K36,686.3 million in June 2015 compared to a growth of 28.8% toK31,986.7 million in December 2014 (see Table 3). This was mainly due to the increase in lending to Government, private enterprises and households by 31.8%, 10.4% and 4.5%, respectively. Excluding foreign currency denominated credit which fell by 0.5%, domestic credit went up by 18.9% to K29,768.8 million compared to 29.3% growth in December 2014.

Table 3: Domestic Credit (in K' billion unless otherwise stated), Dec 2012 – Jun 2015

Description	Dec 12	Jun 13	Dec 13	Jun 14	Dec 2014	Jun 2015
Domestic Credit (DC)	19,738.5	25,126.8	28,728.2	24,842.1	31,986.7	36,686.3
O/w Foreign Exchange Credit	4,830.2	4,751.3	4,916.2	5,479.2	6,951.9	6,917.4
DC (Excl. FX Credit)	14,908.3	20,375.5	23,812.0	19,363.0	25,034.8	29,768.8
6-Month Change in Domestic Credit	7.3	27.3	14.3	-13.5	28.8	14.7
6-Month Change in Forex Credit	-2.0	-1.6	3.5	11.5	26.9	-0.5
6-Month Change in DC (Excl. ForexCredit)	10.7	36.7	16.9	-18.7	29.3	18.9
Annual Change in Domestic Credit	17.3	36.6	45.5	-1.1	11.3	47.7

Source: Bank of Zambia

Sectoral Distribution of Commercial Bank Credit to Private Sector

40. The household (personal loans) category continued to account for the largest share of commercial bank credit at 33.2% in June 2015 compared with 34.9% in December 2014 as shown in Appendix II, Table 4. The agricultural sector remained second at 16.3% (16.6%), followed by manufacturing at 11.4% (11.5%).

7.6 Government Securities Market

Stock of Government Securities

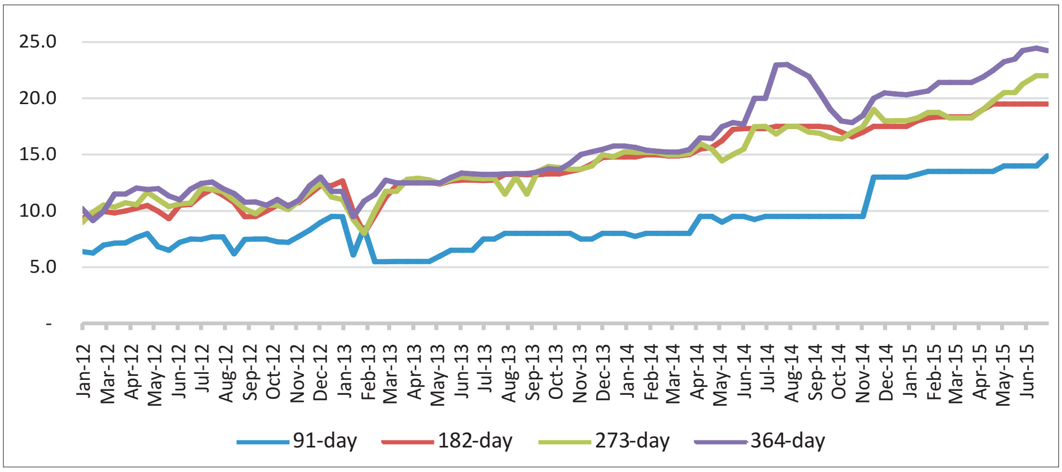
41. The amount of funds raised through Government securities fell in the first half of 2015. As a result, the outstanding balance of the Government's domestic debt at cost was recorded at K21,941.7 million, compared with K22,571.8 million at end-December 2014. Treasury bills accounted for 51.3% of the total outstanding Government securities with Government bonds accounting for 48.7%.

Government Securities Yield Rates

42. Government securities yields generally trended upwards reflecting investors' knowledge of increased financing requirements as well as the prevailing liquidity conditions at auction times.

43. Yields on all Treasury bill maturities registered gains, with the 273-day recording the highest increase of about 4.0 percentage points to 22.0% at end-June 2015. Similarly, the 364-day maturity rose by 3.9 percentage points to 24.2%, while yields on the 91-day and 182-day maturities rose 1.9 and 2.0 percentage points to 14.9% and 19.5%, respectively (see Chart 7).Consequently, the average composite Treasury bill yield rate went up to 21.2% from 19.3% in the previous period.

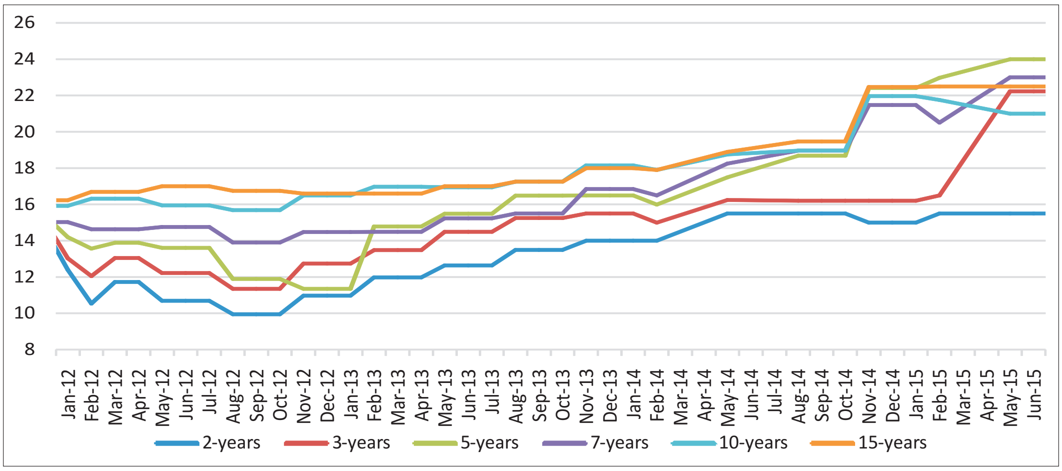
Chart 7: Treasury Bills Weighted Average Yield Rates, Jan 2012 – Jun 2015



Source: Bank of Zambia

44. Government bond yields in the first half of 2015 remained somewhat mixed, with the 3-year maturity rising the most, while yields on the 2-year and 15-year papers were little changed at 15.5% and 22.5%, respectively. Yields on the 3-year, 5-year and 7-year maturities rose by 6.0, 1.6 and 1.5 percentage points to 22.2%,24.0% and 23.0%, respectively. Conversely, the yield on the 10-year paper dropped to 21.0% from 22.0% at the end-December 2014 (see Chart 8). As a result of these movements, the weighted average Government bond yield rate rose to 23.8% from 19.5% during the second half of 2014.

Chart 8: Government Bond Yield Rates, Jan 2012 – Jun 2015

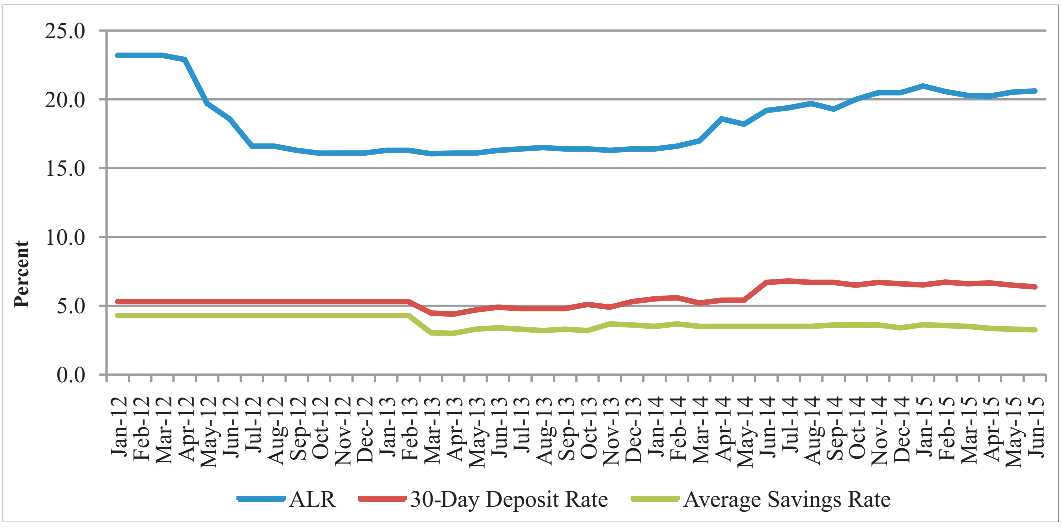


Source: Bank of Zambia

7.7 Commercial Banks Interest Rates

45. Commercial banks' nominal interest rates were mixed during the first half of 2015. The average lending rate (ALR) rose to 20.6% from 20.5%, while the average savings rate (ASR) for amounts above K100.0 remained unchanged at 3.4%. However, the average 30-day deposit rate for amounts exceeding K20,000.0 declined marginally to 6.4% from 6.6% previously (see Chart 9).

Chart 9: Nominal Lending and Saving Rates, Jan 2012- Jun 2015

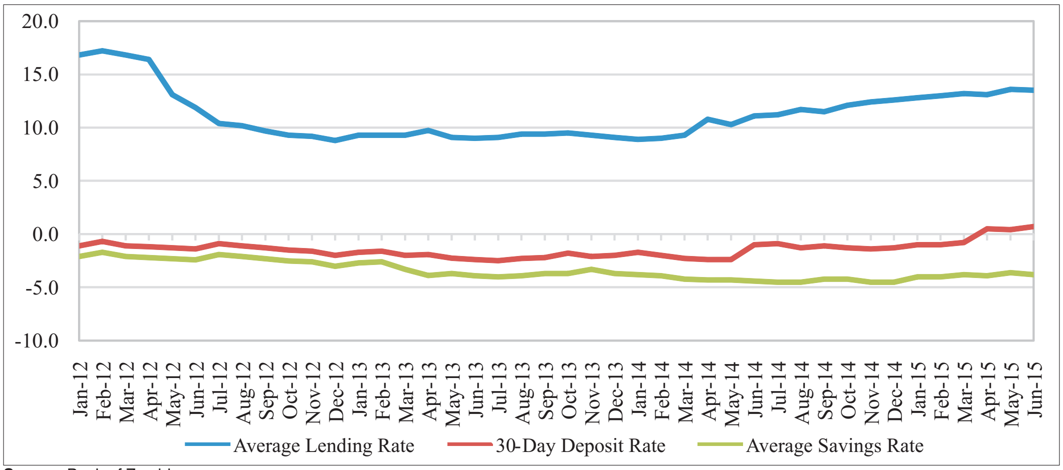


Source: Bank of Zambia

Commercial Banks Real Interest Rates

46. With inflation falling, real interest rates rose. The real average lending rate increased to 13.5% in June 2015 from 12.6% in December 2014. However, the real deposit and savings rates remained negative, with the real average 30-day deposit rate for amounts above K20,000.0 and the real ASR for amounts exceeding K100.0 recorded at -0.7% (-1.3%) and -3.7% (-4.5%), respectively (see Chart 10).

Chart 10: Real Interest Rates, Jan 2012 –Jun 2015



Source: Bank of Zambia

Non-Bank Financial Institutions Lending Rates

47. In the first half of 2015, the total cost of credit in the non-bank financial institutions (NBFIs) sector (measured as the average effective annual interest rate) increased by 3.9 percentage points to 32.3% per annum (p.a) from 28.4% per annum in the second half of 2014 (see Table 4). The increase in the cost of credit was mainly attributed to a general rise in the cost of funds.

Table 4: Average Annual Effective Interest Rates (%)

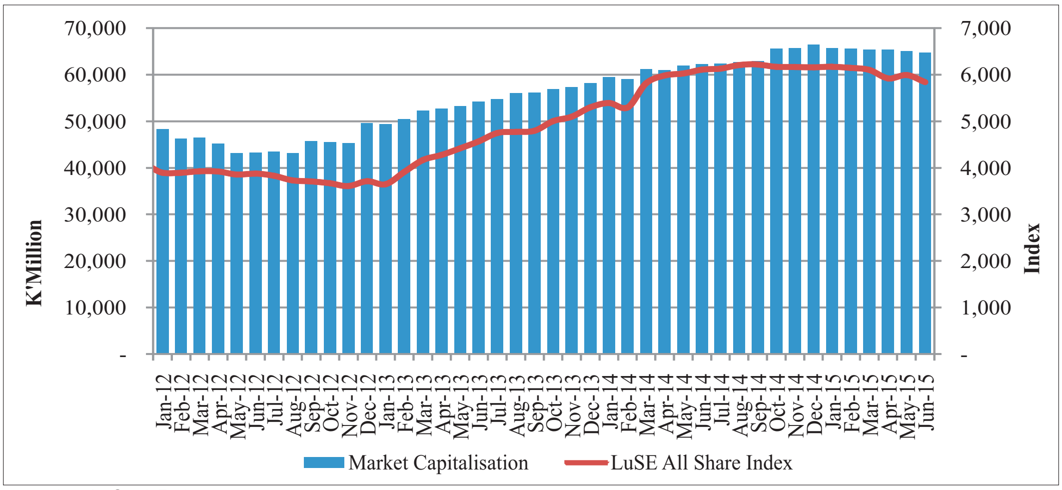
Description	Second Half 2014	First Half 2015
Microfinance Institutions	38.6	45.9
Leasing Finance Institutions	32.1	34.1
Building Societies	26.1	30.1
Development Bank of Zambia	18.2	19.6
National Savings and Credit Bank	27.0	31.8
Overall for the sector	28.4	32.3

Source: Bank of Zambia

7.8 Capital Market

48. The level of activity at the Lusaka stock exchange declined in the first half of the year as evidenced by the fall in both market capitalization and the All-share index. The market capitalization fell by 2.6% to K64,723.0 million while the index dropped by 5.1% to 5,842.1 as at end-June 2015. This was mainly on account of the fall in share prices of institutions like Puma, Lafarge, Stanchart and ZCCM-Investment holdings (see Chart 11).

Chart 11: LUSE Indicators, Jan 2012 – Jun 2015



Source: Lusaka Stock Exchange

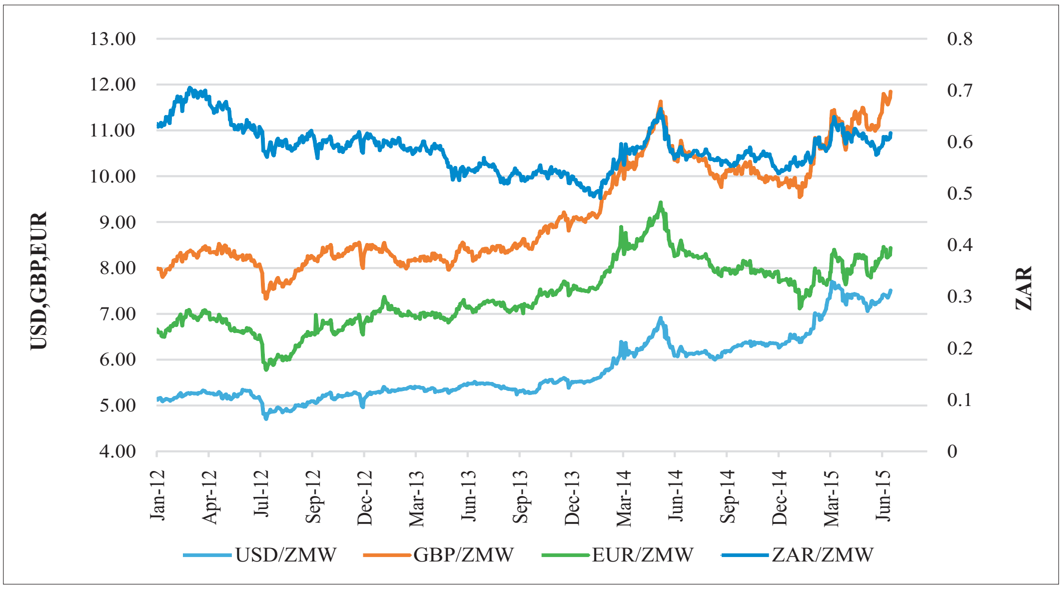
7.9 Foreign Exchange Market

49. Compared to the relative calmness experienced during the second half of 2014, increased volatility in the foreign exchange market was the main theme during the first half of 2015. The Kwacha exchange rate against the four major trading currencies (USD, GBP, Euro and ZAR) was placed under pressure largely due to adverse sentiments emanating from both domestic and international factors.

50. On the domestic front, the challenges in the mining sector regarding mining tax policy for fiscal year 2015 (which was later revised) and the power deficit towards the end of June worsened the sentiments. Internationally, worries about Zambia's credit rating downgrade by Fitch and falling copper prices on the back of China's economic slowdown, and the Greek debt crisis all weighed on the local currency.

51. Consequently, the Kwacha's exchange rate depreciated by 18.0% and 19.0% against the US dollar and the pound to end the first half of 2015 at K7.5117/$ and K11.8459/£, respectively. With respect to the euro and the South African rand, the Kwacha depreciated by 9.0% and 12.0% to close the period at K8.4397/€ and K0.6172/ZAR, respectively (see Chart 12). The Bank supplied a total of US$230.5 million in direct market support during this period.

Chart 12: Kwacha Exchange Rate against Major Currencies, Jan 2012 –Jun2015

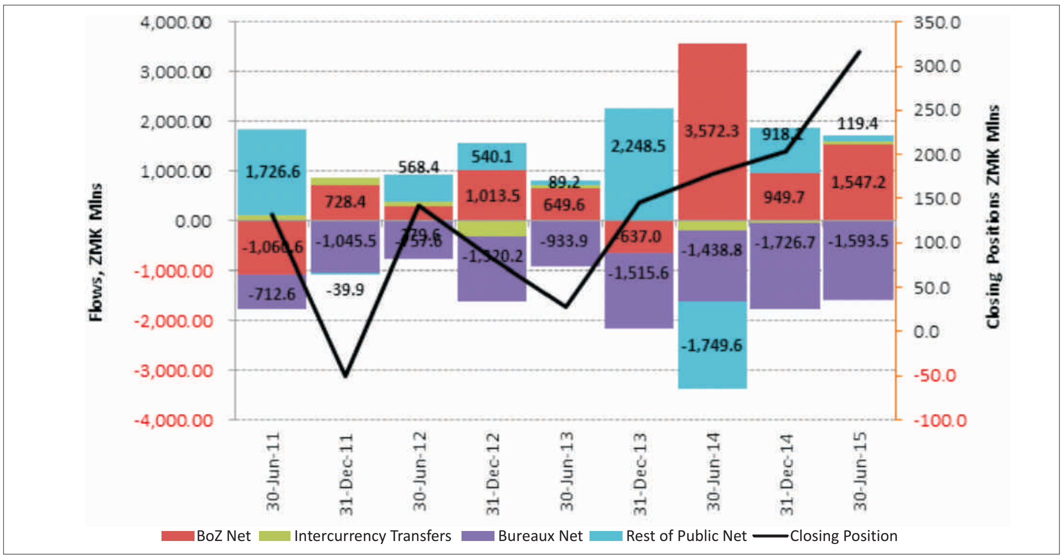


Source: Bank of Zambia

Monetary Policy Statement

52. Commercial bank's net purchases of foreign currency from the non-bank public declined to ZMW 119.4 million (US$15.9 million) compared with ZMW918.1 million (US$143 million) in the last half of 2014, largely due to reduced dollar liquidity on the market. In the review period sales of US dollars to the bureaux-de-change sector fell to US$223.8 million from US$275.1 million in the last half of 2014. Similarly, banks traded a lower amount of US$544.2 million in inter-currency transactions compared with US$689.4 million in the last half of 2014 (see Chart 13). These sales continued to be largely accounted for by the continued high levels of demand for the South African rand although demand declined to ZAR5,930.2 million compared to ZAR6,575.2 million, previously.

Chart 13: Commercial Banks' Sources of Foreign ExchangeJan 2012 -Jun 2015



Source: Bank of Zambia

53. Mining companies and foreign financial institutions continued to be the main suppliers of foreign exchange, selling about US$1,268.9 million (representing 27.7% of the total market funding) and US$1,054.8 million (about 22.9%), respectively. On the demand side, foreign financial institutions led with purchases of US$867.1 million (22.1%) compared to US$559.9 million in the second half of 2014. This was followed by the Government sector with US$555.5 million accounting for 14.1%.

Nominal and Real Effective Exchange Rate

54. Preliminary data shows that the real effective exchange rate (REER) depreciated by 9.4% compared to an appreciation of 9.4% during the second half of 2014 (see Table 5). This depreciation was largely driven by the 12.6 % depreciation of the nominal effective exchange rate (NEER) (of which the South African Rand, the Swiss Franc and the Euro accounted for 3.2, 6.2 and 0.3 percentage points, respectively). In addition, relative prices (foreign prices relative to domestic prices) rose by 4.0% contributing to the depreciation of the REER.

Table 5: Real Effective Exchange Rate, Dec 2012 - June 2015

	Dec 2012	Jun 2013	Dec 2013	Jun 2014	Dec 2014	Jun 2015	% Change (Dec-14/Jun-14)	% Change (Jun-15/Dec-14)
Domestic CPI(2005=100)	186.8	194.28	200.13	209.68	215.93	224.65	3.0	4.0
Weighted Foreign CPI(2005=100)	124.21	126.06	127.44	129.72	130.17	131.86	0.3	1.3
NEER Index	1.98	1.92	1.98	2.23	2.07	2.33	-7.2	12.6
REER Index (2005=100)	100.89	95.69	96.54	105.84	95.89	104.86	-9.4	9.4

Source: Bank of Zambia

55. The real depreciation recorded during the first half of 2015 made imports relatively expensive and could partly explain the observed decline in imports recorded during the period.

7.10 International Trade Developments[4]

56. Preliminary data for the first half of 2015 indicate that Zambia recorded a trade deficit of US$231.7 million compared to a surplus of US$273.3 million during the second half of 2014. This followed a higher decline in goods exports relative to goods imports (see Appendix II, Table 1).

57. Merchandise export earnings fell by 30.5% to US$3,615.4 million from US$5,200.1 million recorded during the second half of 2014, explained by lower earnings from the export of copper, cobalt and non-traditional exports.

[4]Export volumes refer to Gross volumes exported which include, but is not restricted to production from Zambian mines.

58. Copper export earnings declined by 33.4% to US $2,605.6million from US $3,914.5million due to both lower export volumes and realised prices. Copper export volumes fell by 21.0% to 465,248.3 metric tonnes (mt), from 588,861.2mt recorded during the second half of 2014, partly on account of lower production associated with the mining tax impasse early in the year. Further, the average realised price of copper, at US $5,600.4 per tonne, was 15.8% lower than US $6,647.5 per tonne recorded in the previous period, reflecting the drop in LME copper prices (see Appendix II, Table 2).

59. Similarly, cobalt export earnings fell by 42.4% to US $36.5 million from US $63.4 million registered during the second half of 2014, largely due to a 39.4% decline in export volumes. The average realised price of cobalt also marginally declined to US $26,332.5 per tonne from US $26,602.2 per tonne (see Appendix II, Table 2).

60. However, gold export earnings, at US $66.7 million were 4.2% higher, driven by an increase in export volumes by 4.0% to 63,489.0 ounces. In addition, the realised Gold prices, at US $1,050.1 per ounce, were 0.8% higher than US $1,041.9 recorded during the previous period.

61. Non-traditional export earnings declined by 21.8% to US $905.6 million, from US $1,158.0 million realised during the second half of 2014. This was on account of lower earnings from the export of nearly all major products such as sulphuric acid, cane sugar, copper wire, electric cables, burley tobacco, cotton lint (see Appendix II, Table 1). The general decline observed in most non-traditional exports was partly attributed to lower prices on the international market. This was despite an increase in earnings from the export of electricity, fresh flowers, scrap, and soap products.

62. Merchandise imports (fob) at US $3,847.1 million, were 21.9% lower than the US $4,926.8 million recorded during the second half of 2014. This decline was driven by lower import bills of commodity groups such as petroleum products, industrial boilers and equipment, iron and steel, plastic and rubber products, fertiliser and motor vehicles. The decline in imports was partly attributed to a relatively weak Kwacha, coupled with the suspension of some investment projects during the first quarter, due to the mining tax impasse (see Appendix II, Table 3).

7.11 Fiscal Developments

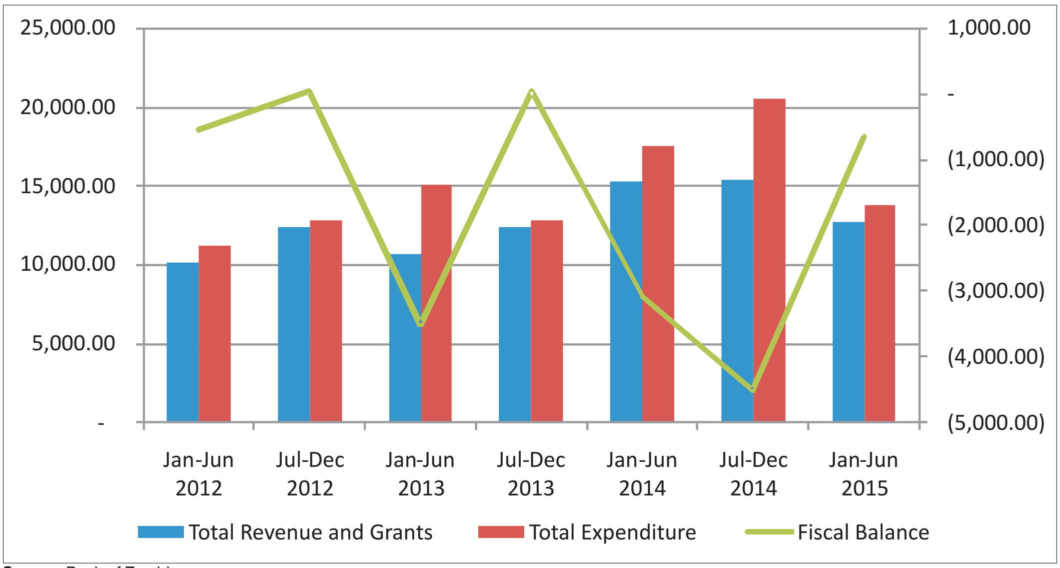
63. Preliminary data indicate that the Central Government budget recorded a deficit of K4,018.5 million during the first half of 2015. This outturn was 13.2% higher than the projected deficit of K3,551.2 million, explained by both lower than projected revenues and higher than projected expenditures. The deficit was 2.2% of GDP.

64. Total revenue and grants at K16,212.4 million were 3.3% lower than the programmed revenue and grants of K16,772.2 million. This was mainly as a result of lower than programmed non-tax revenues and grants. Non-tax revenues at K3,220.7 million were 19.0% below the programmed level of K3,978.6 million, largely attributed to the weak performance in mineral royalty revenues. At K1,559.6 million, mineral royalty revenues were 41.3% below the projected K2,203.1 million. In addition, total grants at K114.3 million were 81.2% lower than the programmed level of K606.8 million. However, tax revenue was 5.7% above the target of K12,186.7 million, on account of higher than projected income tax, of which mining sector was higher by 32.0%, and value added tax (VAT).

65. Total expenditure during the first half of 2015 was K20,528.0 million, 1.0% higher than the programmed amount of K20,323.3 million. This outturn was largely attributed to the higher than programmed expenditure on personal emoluments, interest payments, grants and other payments, and other expenses.

66. Total financing during the period under review was K4,018.5 million, which was 13.2% higher than the programmed financing of K3,551.2 million. Total financing comprised domestic financing of K3,242.0 million, which was 154.5% above the programmed level and net foreign financing of K776.5 million, 65.9% lower than earlier projected (see Chart 14).

Chart 14: Fiscal Performance, Jan 2012 – Jun 2015



Source: Bank of Zambia

67. The Government's continued high financing needs may lead to a higher deficit and crowding out of private sector credit, which is likely to negatively affect local investment potential and real economic activity in 2015. When combined with the already tight monetary conditions and negative developments in the energy sector with the associated costs, consumer demand may also decline in the ensuing period.

8.0 Conclusion

68. Inflation remained generally stable in the first half, slowing down to 7.1% in June 2015 from 7.9% in December 2014. This followed steady supply of food items on the market, the decline in fuel pump prices effected in January 2015 and the tightening of monetary policy.

69. However, significant risks remain in achieving the end-year inflation and growth targets, which with the recent external and domestic shocks are now unlikely to be met. The key risks include the depreciation of the Kwacha exchange rate following deteriorating terms of trade due to developments in the global economy. Further, the slowdown in agriculture production, the fiscal deficit, and the reduced power supply is likely to negatively affect the productive sectors of the economy in the short term.

70. The unfolding challenges provide a clear signal for the need to diversify the economy away from mining, which has dominated as Zambia's main export earner. In addition, fiscal realignment, as indicated in the MTEF 2016-2018, will be necessary to help moderate macroeconomic imbalance.

71. The Bank will continue to monitor domestic and international developments, and endeavour to undertake necessary monetary policy interventions as conditions dictate.

AppendixI: Selected Macroeconomic Indicators: Dec 2012 – Jun 2015

Description/Years	Dec 2012	Dec 2013	Dec 2014	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
Monetary Aggregates (K'bn)									
Reserve money (end-period in K 'mn)*	6,740.7	8,218.7	12,963.5	12,359.6	11,608.0	10,922.9	11,193.0	12,493.9	12,579.1
Growth Rate	10.6	10.1	13.5	-4.7	-6.1	-5.9	2.5	11.6	0.7
Broad money (in K'million)	25,699.0	31,136.6	34,959.1	35,840.3	35,800.6	37,475.6	36,536.1	37,500.6	36,862.9
Growth Rate	3.5	5.7	3.4	2.5	-0.1	4.7	-2.5	2.6	-1.7
Net Claims on Government (in K'mn)	3,242.2	10,350.9	9,181.5	10,050.0	10,655.7	11,816.6	11,838.2	11,621.0	12,099.5
Prices (%)									
Inflation	7.3	7.1	7.9	7.7	7.4	7.2	7.2	6.9	7.1
Nominal Interest and yield rates (aver. %)									
Commercial Banks ' rates									
Average lending rate	16.1	16.4	20.5	20.5	20.4	20.4	20.5	20.5	20.4
Average Savings rate (>K100)	4.3	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.3
Deposit rate (30 days, >K20,000)	5.3	5.3	6.6	6.7	6.7	6.4	6.7	6.6	6.4
Treasury bill yield rates									
91-day	9.4	8.0	13.0	13.2	13.5	13.5	13.5	13.9	14.0
182-day	12.4	14.8	17.5	17.9	18.3	18.3	19.0	19.5	19.5
273-day	11.4	15.0	18.0	18.3	18.6	18.2	19.0	20.4	21.6
364-day	12.1	15.8	20.4	20.5	21.2	21.4	21.9	23.2	24.4
Government bonds Yield Rates									
2 year	11.0	14.0	15.0	15.0	15.3	15.5	15.5	15.5	15.5
3 year	12.8	15.5	16.2	16.2	16.4	16.5	16.5	18.8	22.2
5 year	13.5	16.5	22.4	22.4	22.7	23.0	23.0	23.4	24.0
7 year	14.5	16.9	21.5	21.5	21.0	20.5	20.5	21.5	23.0
10 year	16.5	18.2	22.0	22.0	21.9	21.8	21.8	21.5	21.0
15 year	16.6	18.0	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Real Interest and Yield Rates (%)									
l Commercial Banks' rates									
Average lending rate	8.8	9.3	12.6	12.8	13.0	13.2	13.3	13.6	13.3
Average savings rate	(3.0)	(3.5)	(4.5)	(4.3)	(4.0)	(3.8)	(3.8)	(3.5)	(3.8)
Deposit rate (30 days, > K20 million)	(2.0)	(1.8)	(1.3)	(1.0)	(0.7)	(0.8)	(0.5)	(0.3)	(0.7)
Treasury bill yield rates									
91-day	2.1	0.9	5.1	5.5	6.1	6.3	6.3	7.0	6.9
182-day	4.9	7.7	9.6	10.2	10.9	11.1	11.8	12.6	12.4
273-day	3.9	8.1	10.1	10.6	11.2	11.0	11.8	13.5	14.5
364-day	4.4	8.7	12.5	12.8	13.8	14.2	14.7	16.3	17.3
Government bonds Yield Rates									
2 year	3.7	6.9	7.1	7.3	7.9	8.3	8.3	8.6	8.4
3 year	5.5	8.4	8.3	8.5	9.0	9.3	9.3	11.9	15.1
5 year	6.2	9.4	14.5	14.7	15.3	15.8	15.8	16.5	16.9
7 year	7.2	9.8	13.6	13.8	13.6	13.3	13.3	14.6	15.9
10 year	9.2	11.1	14.1	14.3	14.5	14.6	14.6	14.6	13.9
15 year	9.3	10.9	12.5	14.8	15.1	15.3	15.3	15.6	15.4
Exchange rates (average K/US $)									
Bank of Zambia mid-rate	5,222.6	5.5	6.3	6.5	6.7	7.3	7.4	7.3	7.3
Real sector									
Metal Earnings (US $'000)									
Copper	536, 700.0	558,515.3	698,763.5	437,278.2	421,160.5	418,778.8	457,650.0	448,260.0	422,423.0
Cobalt	31, 300.0	6,410.9	10,697.5	10,560.4	5,050.5	10,479.7	5,307.5	4,160.0	959.4
Total	568, 000.0	564,926.2	709,461.1	447,838.6	426,211.0	429,258.5	462,957.5	452,420.0	423,382.4
External sector (US $ mn)									
Trade Balance(including Gold)	281.0	50.9	21.8	34.1	25.0	13.5	(47.1)	(90.8)	(166.3)
Exports (including gold),fob	1,024.9	887.7	865.4	618.8	642.4	609.6	577.7	603.3	563.6
Imports, c.i.f.	743.9	(836.7)	(843.6)	(584.7)	(617.4)	(596.1)	(624.9)	(694.1)	(729.9)

Source: Bank of Zambia
*Reserve Money is narrowly defined

Appendix II: Statistical Tables and Charts

Table 1: Trade Data in US $ million (c.i.f), Jul 2013 – Jun 2015

	Jul - Dec	Jan-Jun	Jul-Dec	Jan-Jun	% Change
Trade Balance	2013	2014	2014	2015	-184.8
Total Exports,c.i.f. (including Gold)	128.0	347.6	273.3	-231.7	-30.5
General Exports, c.i.f.	5,369.7	4,966.6	5,200.1	3,615.4	-30.9
Metals	5,283.9	4,878.6	5,135.9	3,547.7	-33.6
Copper	3,501.9	3,764.5	3,977.9	2,642.1	-33.4
Cobalt	3,434.3	3,704.0	3,914.5	2,605.6	-42.4
Non -Traditional Exports	67.6	60.5	63.4	36.5	-21.8
Exporter Audit Adjustor	1,782.0	1,114.0	1,158.0	905.6	0.0
Sub Total	-13.2	-13.2	-13.2	-13.2	-21.6
Gemstones	1,795.1	1,127.2	1,171.2	918.8	-48.6
Sulphuric acid	79.4	69.2	86.9	44.6	-70.6
Industrial Boilers and Equipment	167.9	111.4	109.5	32.1	-33.7
Cane Sugar	84.7	87.1	73.5	48.7	-41.5
Gasoil/Petroleum Oils	98.9	97.0	123.2	72.1	-27.7
Cement & Lime	54.0	16.8	11.5	8.3	-29.1
Electricity	107.5	59.8	49.2	34.9	6.6
Raw hides, Skins & Leather	36.6	42.2	36.6	39.0	-23.8
Sulphur, sublimed or precipitated; colloidal	1.6	47.6	7.5	5.7	-36.8
Burley Tobacco	31.2	33.7	23.7	15.0	-58.9
Copper Wire	136.0	47.8	93.8	38.5	-21.0
Scrap of precious metals	51.0	40.9	43.4	34.3	-16.7
Maize & Maize Seed	39.9	27.5	30.0	25.0	104.2
Electrical Cables	47.2	30.2	35.3	72.0	-62.7
Cotton Lint	24.5	25.2	27.3	10.2	-82.4
Soap, Active Agents, Washing Preps etc	51.8	21.2	46.4	8.2	-52.5
Fresh Fruits & Vegetables	17.5	16.6	51.7	24.6	-28.8
Manganese Ores/Concentrates	8.6	9.2	7.8	5.6	-26.9
Wheat & Meslin	17.6	9.7	1.8	1.3	-22.8
Fresh Flowers	8.3	7.8	8.6	6.7	63.2
Other	6.0	8.6	5.3	8.6	29.6
Gold	724.8	317.9	295.8	383.4	5.5
Imports c.i.f./1	85.8	88.0	64.2	67.7	-21.9

Table 2: Metal Export Volumes, Values and Prices; Jul 2013 – Jun 2015

Period	Copper				Cobalt			
	Export Volumes (MT)	Exports US $' 000	Price/Tonne	Price/Pound	Export Volumes (MT)	Exports US $' 000	Price/Tonne	Price/Pound
Quarter 3	36,459.5	1,628,977.8	6,889.0	3.1	1,349.4	32,952.2	24,419.4	11.1
Quarter 4	261,488.2	1,805,354.2	6,904.2	3.1	1,400.2	34,610.5	24,717.6	11.2
June-Dec 2013	497,947.7	3,434,332.0	6,897.0	3.1	2,749.7	67,562.7	24,571.2	11.2
Quarter 1	279,899.0	1,873,456.0	6,693.3	3.0	1,193.6	30,682.6	25,706.4	11.7
Quarter 2	277,555.2	1,830,578.7	6,595.4	3.0	1,080.6	29,815.5	27,591.7	12.5
Jan-June 2014	557,454.1	3,704,034.7	6,644.6	3.0	2,274.2	60,498.1	26,602.2	12.1
Quarter 3	292,302.2	1,978,838.4	6,769.8	3.1	1,199.0	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
July-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	26,354.1	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-June 2015	465,248.3	2,605,553.8	5,600.4	2.5	1,386.8	36,517.3	26,332.5	11.9

Source: Bank of Zambia

Table 3: Imports by Commodity Groups in US $ millions (c.i.f.); Jul 2013 – Jun 2015

Description	July - Dec 2013	Jan-June 2014	July-Dec 2014	Jan-June 2015	% Change
Food Items	229.3	225.6	253.6	243.2	(4.1)
Petroleum Products	616.7	648.4	773.3	560.6	(27.5)
Fertiliser	225.3	158.1	175.9	155.9	(11.4)
Chemicals	583.5	346.3	403.3	428.1	6.2
Plastic and Rubber Products	244.3	201.9	222.3	190.4	(14.4)
Paper and paper products	65.9	56.2	69.9	64.8	(7.4)
Iron and Steel and items thereof	466.6	386.9	353.6	302.3	(14.5)
Industrial Boilers and Equipment	915.6	711.8	768.3	639.0	(16.8)
Electrical Machinery & Equipment	319.1	266.8	437.9	282.6	(35.5)
Vehicles	395.0	370.8	430.7	271.2	(37.0)
Other Imports	1,180.3	1,246.2	1,037.9	709.2	(31.7)
Total	5,241.6	4,619.1	4,926.8	3,847.1	(21.9)

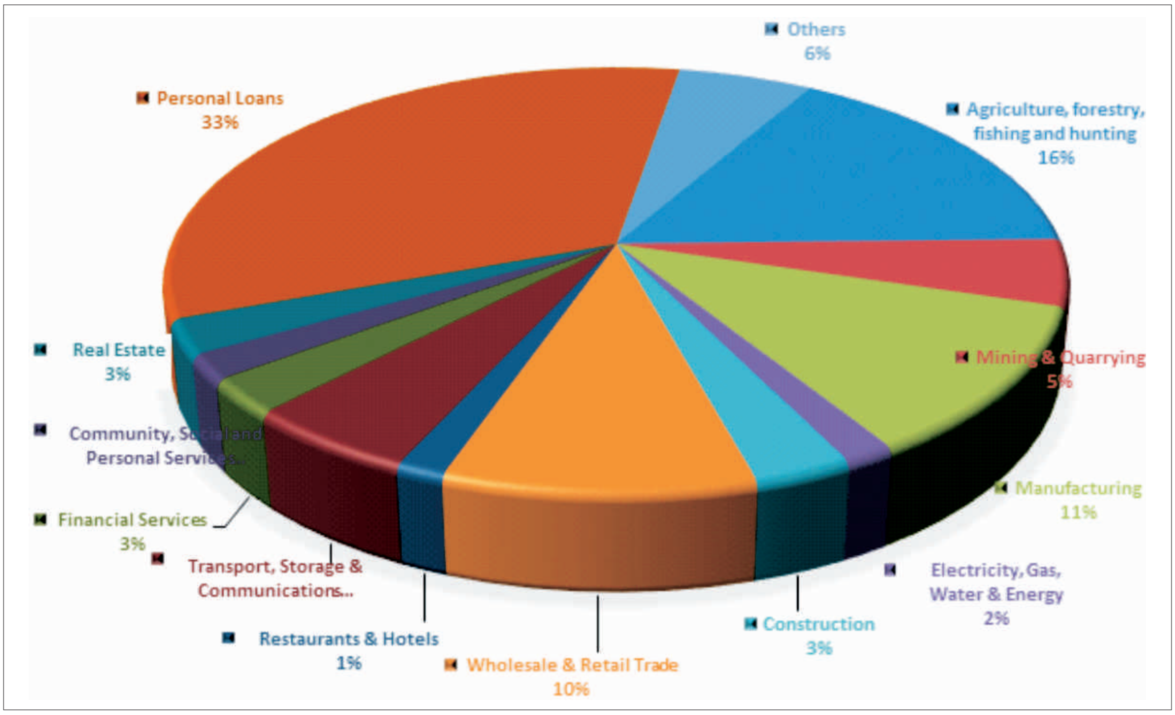
Source: Bank of Zambia

Table 4: Shares of Total Loans and Advances by Sector, Dec 2012 – Jun 2015 (%)

Sector	Dec-12	Jun-13	Dec-13	Jun-14	Dec-14	Jun-15
Agriculture, forestry, fishing and hunting	21.1	20.5	19.7	17.6	16.6	16.3
Mining & Quarrying	1.4	5.8	6.4	5.8	5.0	5.0
Manufacturing	6.8	11.1	9.2	10.5	11.5	11.4
Electricity, Gas, Water & Energy	1.5	1.7	1.6	1.9	2.2	1.6
Construction	3.1	3.5	3.4	3.2	3.4	3.0
Wholesale & Retail Trade	6.7	7.8	9.0	9.3	7.8	9.6
Restaurants & Hotels	0.9	1.7	1.7	1.8	1.6	1.5
Transport, Storage & Communications	4.4	4.5	4.4	5.0	5.6	5.4
Financial Services	1.9	2.0	2.0	2.0	2.5	2.7
Community, Social and Personal Services	2.3	2.3	2.0	2.9	2.1	1.9
Real Estate	1.9	2.1	2.1	3.0	2.3	2.6
Personal Loans	43.9	32.9	34.5	34.5	34.9	33.2
Others	4.0	4.2	3.8	2.4	4.5	5.7

Source: Bank of Zambia

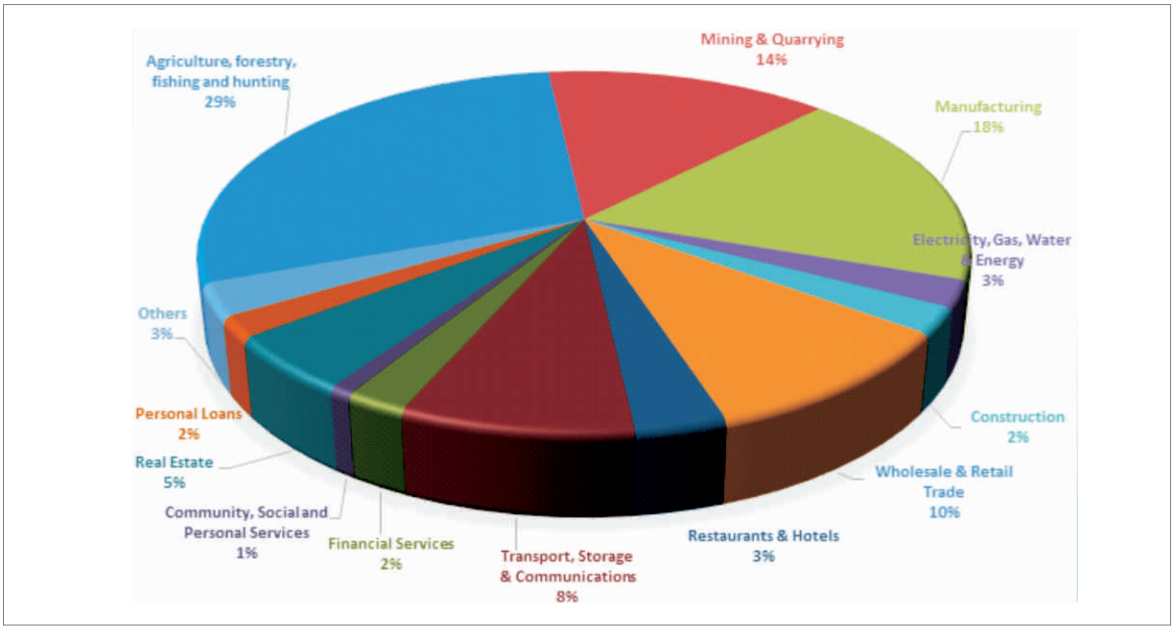
Chart 1: Structure of Loans and Advances as at June 2015



Source: Bank of Zambia

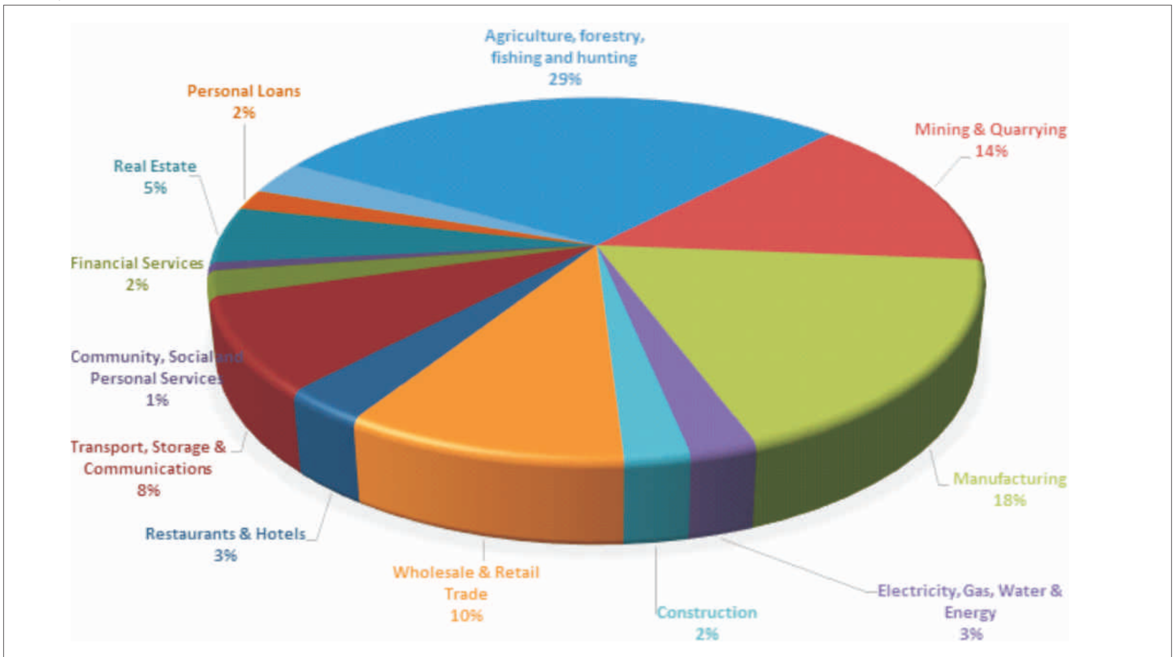
Monetary Policy Statement

Chart 2: Structure of Loans & Advances (Excluding Foreign Currency Loans) June 2015



Source: Bank of Zambia

Chart 3: Structure of Forex Loans and Advances as at June 2015



Source: Bank of Zambia

Table 5: Central Government Fiscal Operations, Second Half 2014 (K'mn, unless otherwise stated)

	2015 Budget		First Half		
	Projection	% of GDP	Target	Prelim	% Var
Total Revenue and Grants	36,317.8	19.5	16,772.2	16,212.4	-3.3
Tax Revenue	25,344.8	13.6	12,186.7	12,877.4	5.7
Non-Tax Revenue	9,759.4	5.2	3,978.6	3,220.7	-19.0
Grants	1,213.6	0.7	606.8	114.3	-81.2
Total Expenditure	44,815.0	24.1	20,323.3	20,528.0	1.0
Current Expenditure	33,649.0	18.1	15,964.2	17,451.2	9.3
Personal Emoluments	16,549.0	8.9	8,132.2	8,362.1	2.8
Use of Goods and Services	6,266.3	3.4	2,474.0	2,160.7	-12.7
Interest	3,436.3	1.8	1,797.6	2,042.9	13.6
Grants and Other Payments	5,005.0	2.7	2,534.3	3,748.9	47.9
Social Benefits	999.9	0.5	500.0	435.4	-12.9
Other Expenses	1,042.9	0.6	325.0	497.9	53.2
Liabilities	349.5	0.2	201.1	203.3	1.1
Assets	11,166.0	6.0	4,359.1	3,076.8	-29.4
Non- Financial Assets	10,552.4	5.7	4,091.1	2,830.3	-30.8
Financial Assets	613.6	0.3	268.0	246.5	-8.0
Fiscal Balance	-8,497.2	-4.6	-3,551.2	-4,018.5	-13.2
Financing	8,497.2	4.6	3,551.2	4,018.5	13.2
Domestic	3,071.9	1.7	1,273.6	3,242.0	154.5
Foreign	5,425.3	2.9	2,277.5	776.5	-65.9

Source: Ministry of Finance