Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JANUARY - JUNE 2011

Bank of Zambia

MISSION STATEMENT

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

REGISTERED OFFICES

Head Office
Bank of Zambia, Bank Square, Cairo Road
P. O. Box 30080 Lusaka, 10101, Zambia
Tel: + 260 211 228888/228903-20
Fax: + 260 211 221764/237070
E-mail:pr@boz.zm
Website: www.boz.zm

Regional Office
Bank of Zambia, Buteko Avenue,
P. O. Box 71511 Ndola, Zambia
Tel: +260 212 611633-52
Fax: + 260 212 614251
E-mail:pr@boz.zm
Website: www.boz.zm

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

TABLE OF CONTENTS

CONTENTS **Page**

Executive Summary

The main focus of monetary policy in the second half of 2010 was to achieve the end-year inflation target of 8.0%. In this regard, it was envisaged that in the second half of the year, reserve money and broad money growth would not exceed 4.0% and 5.5%, respectively. To this end, the Bank continued to rely principally on Open Market Operations (OMO) to maintain reserve money within the programmed growth path. This was supported by the primary auction of Government securities.

Annual overall inflation increased marginally to 7.9% in December 2010 from the 7.8% recorded in June 2010, but was in line with the 8.0% end-year target. This outturn was explained by a rise in annual food inflation to 4.4% from 3.8% in June 2010 following seasonal low supply of beef products, selected vegetables and fish to the market. Annual non-food inflation, however, slowed down to 11.3% from 11.8% in June 2010, reflecting the pass-through effects of the Kwacha exchange rate appreciation against the US dollar during the second half of the year.

Average reserve money increased by 18.2% to K4,887.0 billion in December from K4,133.5 billion in June 2010. This was 13.2% higher than the target of K4,318.0 billion. The main sources of reserve money growth were net Government spending, BoZ's net purchases of foreign exchange from commercial banks and net claims on the non-bank public, which injected K1,163.7 billion, K792.3 billion and K250.3 billion, respectively. Notwithstanding this, the full impact of these liquidity injections was moderated by net withdrawal of funds through open market operations and Government securities.

Preliminary data show that broad money (M3) growth declined to 10.7% in the second half of 2010 from 18.4% in the previous period, mainly driven by the expansion in both net domestic assets (NDA) and net foreign assets (NFA). NDA rose by 13.2% on account of the increase in both net claims on central government and credit to the private sector. Similarly, NFA increased by 6.8% as a result of a rise in gross international reserves. Excluding foreign currency deposits that grew by 41.7%, mainly reflecting the growth in reserves, money supply decreased by 1.8% in the period under review compared with 32.0% recorded in the first half of 2010.

On an annual basis, M3 growth increased to 30.8% in December 2010 from 27.7% in June 2010 and was above the annual growth projection for end-December 2010 of 24.2% (see Chart 3). This outturn was on account of the rise in both the NDA and NFA by 25.6% and 40.1%, respectively. Excluding foreign currency deposits that rose by 32.7% in local currency terms, annual money supply growth decreased to 29.8% from 49.0% recorded during the first half of 2010.

Growth of domestic credit, comprehensively defined to include foreign currency loans was lower at 8.6% during the second half of 2010 compared with 13.1% recorded in the first half of 2010. This outturn was largely a result of increased lending to Government and the private sector (including public enterprises). Excluding foreign currency denominated loans which declined by 1.5%, domestic credit growth slowed down to 11.7% from the 16.1% increase in June 2010.

During the second half of 2010, preliminary data indicate that Zambia continued to record strong international trade gains as evidenced by an overall merchandise trade surplus (c.i.f) of US $1,284.2 million from US $814.3 million during the first half of the year. This was on account of an increase in merchandise export earnings which exceeded the growth in the merchandise imports bill.

Merchandise export earnings rose by 20.0 % to US $3,998.3 million, reflecting an increase in copper and non-traditional export earnings (NTEs) by 23.7% and 9.9 %, respectively. The increase in copper export earnings was on account of a rise in the average realised price and export volumes by 8.8 % and 13.7 %, respectively. The increase in realised prices was explained by the rise in global demand for metals following the recovery in the global economy while that of export volumes was mainly attributed to higher production due to increased capacity utilisation at various mines.

During the same period, NTEs earnings increased by 9.9 % to US $659.6 million from the level recorded during the first half of 2010. The rise in the value of NTEs was explained by the increase in earnings from the export of copper wire, cane sugar, burley tobacco, cotton lint, grains, cement and lime, following increased production and an improvement in international commodity prices.

The merchandise imports bill grew by 7.7 % to US $2,714.1 million from the level registered during the first half of 2010, mainly explained by increased imports of electrical machinery and equipment, food items, vehicles, plastic and rubber products, iron and steel and items thereof and chemicals.

Fiscal performance improved during the second half of 2010. Preliminary data indicate that the Government budget recorded a deficit of K811.8 billion, 65.3% lower than the programmed deficit of K2,338.0 billion, largely due to higher than programmed revenues. Moreover, expenditures were marginally below the target.

Total revenues and grants at K8,783.0 billion were 8.4% higher than the programmed amount, mainly explained by the buoyant tax outturn following higher than programmed collections of domestic value added tax (VAT) as well as corporate tax, particularly from the mines. Similarly, non-tax revenues at

K397.7 billion were 26% higher than programmed, mainly explained by higher than programmed fertiliser support recoveries. However, as a result of delayed disbursements of donor support, grants were 64.7% below the programmed amount of K1,430.4 billion.

Total expenditures at K10,316.2 billion were 0.1% lower than programmed, mainly due to lower expenditure on road infrastructure. Consistent with the relatively lower deficit during the second half of 2010, financing requirements decreased to K811.8 billion from the programmed level of K2,338.0 billion.

In the interbank money market, the demand for adjustment funds rose sharply triggered mainly by the concentration of funds in a few banks, which were unwilling to trade actively in the interbank market. Accordingly, commercial banks exchanged a total of K11,732.2 billion in the last half of the year, nearly double the K6,103.1 billion traded in the preceding period. Consistent with the temporary shortage of interbank liquidity, the proportion of collateralised funds was higher than in the previous period. The average interbank rate rose to 2.5% in the second half from 2.3% in the first six months of 2010.

Despite relatively high demand for Treasury bills during the second half of 2010, yield rates rose due to market correction. The composite weighted average Treasury bill yield rate ended the period at 8.2%, 214 basis points higher at the close of June 2010, reflecting strengthening of individual yield rates. Similarly, the composite weighted average yield rate for Government bonds rose by 173 basis points to 11.3% at the end of the review period, although individual yield rate movements were characterised by a mixed pattern. For commercial banks' nominal interest rates, developments were mixed, with lending rates increasing while savings rates remained unchanged.

During the second half of 2010, the International Monetary Fund (IMF) conducted two mission visits to conclude the fifth review of the Three –Year Arrangement under the Extended Credit Facility (ECF) from 2nd to 15th September 2010 and 28th October to 3rd November 2010. The mission had fruitful discussions with the Zambian authorities and reached agreement on a set of macroeconomic policies and structural measures for the remainder of 2010 and for 2011. Following the review, the IMF Executive Board meeting was held on 10th December 2010 and completed the fifth review of Zambia's economic performance. Completion of the review triggered the immediate disbursement of an amount equivalent to SDR 18.395 million (about US$28.3 million), bringing total disbursements under the ECF Arrangement to SDR 201.7 million (about US$310.3 million).

Preliminary data at end-December 2010 indicate that the performance criteria relating to Net Domestic Assets (NDA) and the Unencumbered International Reserves (UIR) were observed, while the benchmark on Net Domestic Financing (NDF) of Government was not. The structural performance criteria were also on track.

Monetary policy during the first half of 2011 will be directed towards achieving an end-year inflation target of 7.0%. To achieve this, the Bank of Zambia will primarily use indirect instruments in its operations in order to realise the first half growth targets for both reserve money and broad money. It is programmed that reserve money and broad money growth should not exceed 7.3% and 10.3%, respectively.

In the two year period from 2011 to 2012, monetary policy programming and operations will focus on realising Government's broad macroeconomic policies consistent with the Vision 2030 and include attaining end-year inflation targets of no more than 7.0% at end-December 2011 and 6.0% at end-December 2012. During this period, the Bank of Zambia will continue to use market-based principles in its formulation and implementation of monetary policy. Consequently, the Bank will maintain the use of market-based instruments of monetary policy in managing liquidity.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy during the period July to December 2010. The statement also outlines the formulation of monetary policy during the first half of 2011 and discusses major challenges which may impact on the conduct of monetary policy during this period. It further outlines policy actions that the Bank of Zambia may take to address the challenges. A summary of the principles that will guide the Bank of Zambia's monetary policy formulation and implementation over the next two years up to December 2012 are discussed in the final part of the Statement.

2.0 Targets and Challenges

In the second half of 2010, monetary policy remained focused on achieving the end-year inflation target of 8.0%. This outturn was expected to be achieved by consolidating the gains made in the first half of the year when the overall inflation was recorded at 7.8% in June 2010. In this regard, it was envisaged that in the second half of the year, reserve and broad money growth rates would not exceed 4.0 % and 5.5 %, respectively (see Table 1).

Table 1: Selected Monetary Indicators, Jan 2009 – Dec 2010 (percentage change)

	2008	Jul - Dec 2009		Jan - Jun 2010		Jul - Dec 2010	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	16.6	10.0	9.9	8.2	7.8	8.0	7.9
Non-food Inflation	12.9	9.0	11.8	10.0	11.8	12.2	11.3
Food Inflation	20.5	11.3	8.0	5.6	3.8	4.6	4.4
Reserve Money*	24.3	17.6	16.8	5.5	1.2	4.0	18.2
Broad Money*	20.3	11.7	7.4	9.9	18.2	5.5	15.4
Domestic Credit	36.0	-	-4.0	-	9.9	-	15.9
Government	88.0	-	-17.1	-	32	-	29.7
Public Enterprises	-9.4	-	42.5	-	34.2	-	7.1
Private Sector Credit	33.9	-	-6.4	-	2.4	-	
Domestic Financing (% of GDP)	1.2	0.5	1.6	1.2	1.0	1.4	3.1

Source: Central Statistical Office, The Monthly; and Bank of Zambia
- Indicates no target under the PRGF Programme
- Inflation figures are on annual basis
* Projections for Jul – Dec 2010 are preliminary figures

During the second half of 2010, the Bank faced the following challenges in implementing monetary policy aimed at achieving its inflation target:

- Higher production costs due to the upward adjustment in electricity tariffs in August 2010 of an average of 25.5%;
- Increased transportation costs arising from higher fuel prices after the price adjustments following the implementation of the Uniform Petroleum Pricing (UPP) mechanism in September 2010 and the increase in global oil prices;
- Higher than programmed growth in reserve money and broad money on account of higher Government borrowing and spending largely to finance maize purchases following the bumper harvest; and
- Seasonal price increases of beef products, kapenta, fresh fish and fresh vegetables due to low seasonal supply.

The above challenges were partially mitigated by improved supply of maize and other foodstuffs in the second quarter of 2010 and the pass-through effects of the appreciation of the Kwacha against the US dollar during the second half of the year.

In terms of monetary operations, the Bank of Zambia continued to rely principally on Open Market Operations (OMO) to maintain reserve money within the programmed growth path so as to meet its inflation objectives. This was supported by the primary auction of Government securities.

Box 1: Summary of Economic Developments in 2010

The overall assessment of economic and financial sector developments in 2010 was that real GDP growth remained strong, the annual inflation target was met, with end year annual inflation declining to 7.9% in 2010 against the target of 8.0%, and the financial sector remained stable.

- Preliminary estimates indicate that real GDP growth was 7.1% in 2010, affirming that Zambia's recent growth momentum has been sustained and was not derailed by the global financial crisis. The key drivers of growth included the Agriculture, mining, tourism, construction and manufacturing sectors.
  - The record agriculture output saw the Government provide additional support for crop marketing, with the Food Reserve Agency purchasing just under 900,000 metric tonnes of maize.
  - In the mining sector, preliminary data indicate that copper and cobalt production increased by 18.3% and 47.0% in 2010, with output estimated at 825,437.6 metric tonnes, and 8,644.8 metric tonnes, respectively.
- The external sector also showed a marked improvement for the year with the trade surplus rising to US $2,098.5 million compared with US $503.0 million in 2009. In addition Non-Traditional Exports (NTEs) at US $ 1,279.3 million were approximately 34.3% above the US $ 952.5 million recorded over the corresponding period in 2009.
- Although the fragility in the global financial markets continues to present challenges in the foreign exchange market, the Kwacha strengthened over the second half of 2010 but registered a 3.4% depreciation for the year as a whole.
- Credit provision improved during the year with domestic credit expanding by 22.9% in 2010. Much of this credit growth reflected lending to Government which grew by 46.3% compared to private sector credit which expanded by 11.3%.
- In the financial sector, the Bank of Zambia took possession of two financial service providers and the financial system remained stable.

3.0 Assessment of Monetary Policy Outcome, July – December 2010

During the second half of 2010, annual overall inflation increased marginally to 7.9% in December 2010 from the 7.8% recorded in June 2010, but was in line with the 8.0% end-year target. However, both reserve money and broad money increased by 16.5% and 15.4% during the review period, and were above their growth targets.

Despite relatively high demand for Treasury bills during the second half of the year, yield rates rose, reflecting a market correction from the steep fall witnessed during the first half of 2010. The composite weighted average Treasury bills yield rate ended the period at 8.2%, 214 basis points higher than 6.1% at the close of June 2010. Similarly, the composite weighted average yield rate for Government bonds edged up by 173 basis points to 11.3%from 9.6% at the end of the review period.

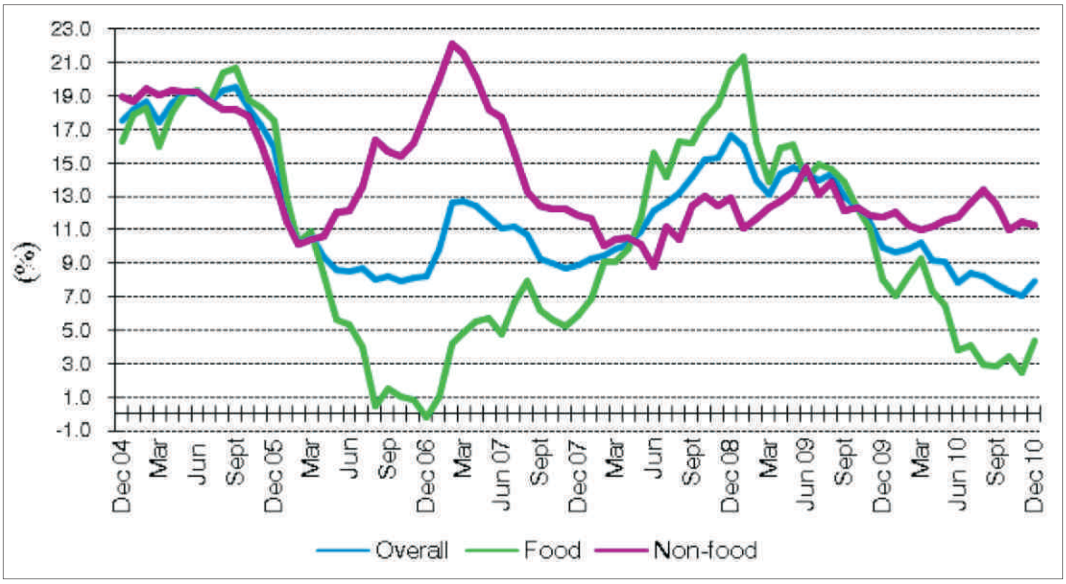
Developments in commercial banks nominal interest rates were mixed. The weighted average lending base rate (WALBR) and the average lending rate (ALR) decreased to 19.4% [20.9%] and 26.4% [27.9%], respectively. However, the average savings rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts exceeding K20 million were unchanged at 4.7% and 5.6%, respectively.

The foreign exchange market was influenced by favourable domestic and external sector developments, including increased supply of foreign exchange and signs of recovery in major advanced economies. Foreign exchange transactions over the last half of 2010 increased over the previous period. Similarly, commercial banks' purchases of foreign exchange from the non-bank public went up to US$2,523.3 million compared with US$1,912.3 million in the first half of the year due to improved supply. To this effect, the Kwacha gained by 7.6% against the US dollar at end-December 2010 with the interbank rate ending the period at an average of K4,731.52/US$ from the end-June 2010 position of K5,078.49/US$.

3.1 Overall inflation

Annual overall inflation increased marginally to 7.9% in December 2010 from the 7.8% recorded in June 2010, but was in line with the end-year projection of 8.0%. While annual non-food inflation slowed down to 11.3% from the 11.8% recorded in June 2010, annual food inflation rose to 4.4% from 3.8% in June 2010 thus leading to an increase in overall inflation (see Chart 1 and Table 2).

Chart 1: Annual Inflation, December 2004 - December 2010



Source: Central Statistical Office Bulletin, The Monthly

3.2 Non-Food Inflation

The slow-down in annual non-food inflation to 11.3% from the 11.8% recorded in June 2010 largely reflected the pass-through effects of the appreciation of the Kwacha. Lower annual inflation rates were recorded in the following sub-groups: recreation and education, 3.5% [10.8%]; medical care, 7.6% [14.4%]; and other goods and services, 7.6% [12.8%]. Higher annual inflation rates were, however, recorded on clothing and footwear, 10.1% [9.9%]; furniture and household goods, 12.9% [10.1%]; rent, fuel and lighting, 16.4% [15.7%]; and transport and communications, 11.2% [11.1%] sub-groups. Non-food inflation accounted for 5.7 percentage points of the total 7.9% annual inflation outturn.

3.3 Food Inflation

The annual food inflation rate rose to 4.4% [3.8%] and accounted for 2.2 percentage points of the 7.9% annual overall inflation outturn. This was largely attributed to an increase in prices of cereals, selected vegetables, beef products, dairy products and fish due to low seasonal supply factors.

Table 2: Inflation Outturn, December 2004 – December 2010 (in percent)

	Monthly			Annual			Year-to-date		
	Overall	Food	Non-food	Overall	Food	Non-food	Overall	Food	Non-food
Dec 04	2.2	3.0	1.3	17.5	16.3	18.9	17.5	16.3	18.9
Dec 05	1.0	2.4	-0.6	15.9	17.5	14.0	15.9	17.5	14.0
Aug 06	0.8	-1.5	3.0	8.0	0.4	16.4	3.0	-5.8	13.7
Sep 06	1.6	1.9	1.4	8.2	1.5	15.7	4.7	-4.0	14.8
Oct 06	0.7	0.7	0.7	7.9	1.0	15.4	5.4	-3.3	15.5
Nov 06	1.5	1.9	1.2	8.1	0.8	16.2	7.0	-1.5	16.9
Dec 06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Aug 07	0.4	-0.3	1.0	10.7	7.9	13.3	5.3	1.9	8.5
Sep 07	0.4	0.3	0.6	9.3	6.2	12.4	5.7	2.2	9.2
Nov 07	1.3	1.4	1.2	8.7	5.2	12.2	7.5	3.8	11.1
Dec 07	1.4	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Aug 08	0.9	1.5	0.3	13.2	16.3	10.4	9.4	11.9	7.2
Sep 08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Oct 08	1.2	1.4	1.5	15.2	17.6	13.0	12.2	13.7	10.5
Nov 08	1.4	2.2	0.7	15.3	18.5	12.4	13.8	16.2	11.6
Dec 08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9
Aug 09	1.1	1.3	1.0	14.3	14.6	13.9	7.3	6.4	8.2
Sep 09	0.1	-0.5	0.7	13.0	13.9	12.1	7.4	5.9	8.9
Nov 09	0.8	1.2	0.4	11.5	11.1	11.9	8.9	7.1	10.6
Dec 09	1.0	0.8	1.1	9.9	8.0	11.8	9.9	8.0	11.8
Jan 10	1.0	1.5	0.4	9.6	7.1	12.0	1.0	1.5	0.4
Feb 10	0.9	0.8	1.0	9.8	8.2	11.3	1.9	2.3	1.4
Mar 10	0.7	0.3	1.0	10.2	9.3	11.0	2.5	2.6	2.5
Apr 10	0.4	0.0	0.9	9.2	7.3	11.2	3.0	2.6	3.4
May 10	0.7	-0.1	1.4	9.1	6.5	11.6	3.7	2.5	4.8
Jun 10	-0.1	-1.6	1.3	7.8	3.8	11.8	3.6	0.8	6.2
Jul 10	1.0	0.5	1.6	8.4	4.1	12.6	4.7	1.3	7.9
Aug 10	0.9	0.0	1.7	8.2	2.9	13.4	5.6	1.4	9.7
Sept 10	-0.3	-0.6	-0.1	7.7	2.8	12.5	5.3	0.8	9.6
Oct 10	0.2	0.5	-0.1	7.3	3.4	11.0	5.5	1.3	9.5
Nov 10	0.6	0.3	0.8	7.1	2.5	11.5	6.1	1.7	10.3
Dec 10	1.7	2.7	0.9	7.9	4.4	11.3	7.9	4.4	11.3

Source: Central Statistical Office Bulletin, The Monthly and Bank of Zambia

3.4 Monetary and Credit Developments

3.4.1 Reserve Money

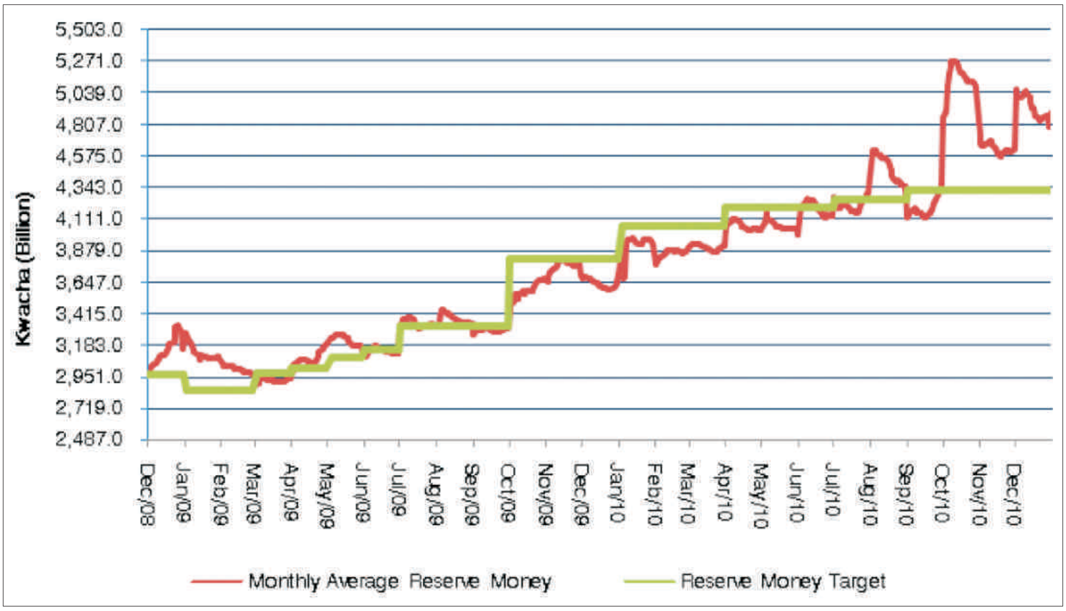
The reserve money target for end-December 2010 was adjusted upwards to K4,318 billion from K4,277.0 billion at the end of June 2010. This revision was to accommodate the higher than anticipated growth in the economy. Reserve money grew by 18.2%, bringing the December 2010 average to K4,887.0 billion compared with K4,133.5 billion in June 2010. This growth represented a positive variance of K569.0 billion over the target (see Chart 2).

The main contributing factor to reserve money growth was net Government spending totalling K1,163.7 billion. An additional K792.3 billion was injected into the market through Bank of Zambia's net purchases of foreign exchange from commercial banks. The Bank of Zambia's net claims on the non-banks contributed K250.3 billion to reserve money growth.

However, the full impact of these liquidity injecting operations on reserve money growth was negated by net sales of funds through open market operations, which withdrew K842.8 billion with the bulk of these withdrawals occurring in the third quarter. A further K306.5 billion was withdrawn through net sales of Government securities. Consequently, at end-December 2010, the reserve money stock was recorded at K5,063.5 billion.

The inability of OMO to constrain growth in the monetary base, particularly in the fourth quarter, stemmed largely from heavy concentration of funds in a few banks that did not actively participate in the OMO window, as they were holding these funds for operational reasons.

Chart 2: Reserve Money, Dec 2008 – Dec 2010



Source: Bank of Zambia

3.4.2 Broad Money

During the second half of 2010, preliminary data show that broad money (M3) growth declined to 10.7% in the second half of 2010, from the 18.4% recorded in the previous period. This outturn was driven by the expansion in both net domestic assets (NDA) and net foreign assets (NFA), contributing 8.0 percentage points and 2.7 percentage points to M3 growth, respectively. NDA rose by 13.2% on account of the increase in both net claims on central government and credit to the private sector. Similarly, NFA increased by 6.8%, as a result of an increase in gross international reserves. Excluding foreign currency deposits that grew by 41.7%, mainly reflecting the growth in reserves, money supply decreased by 1.8% in the period under review compared with 32.0% recorded in the first half of 2010.

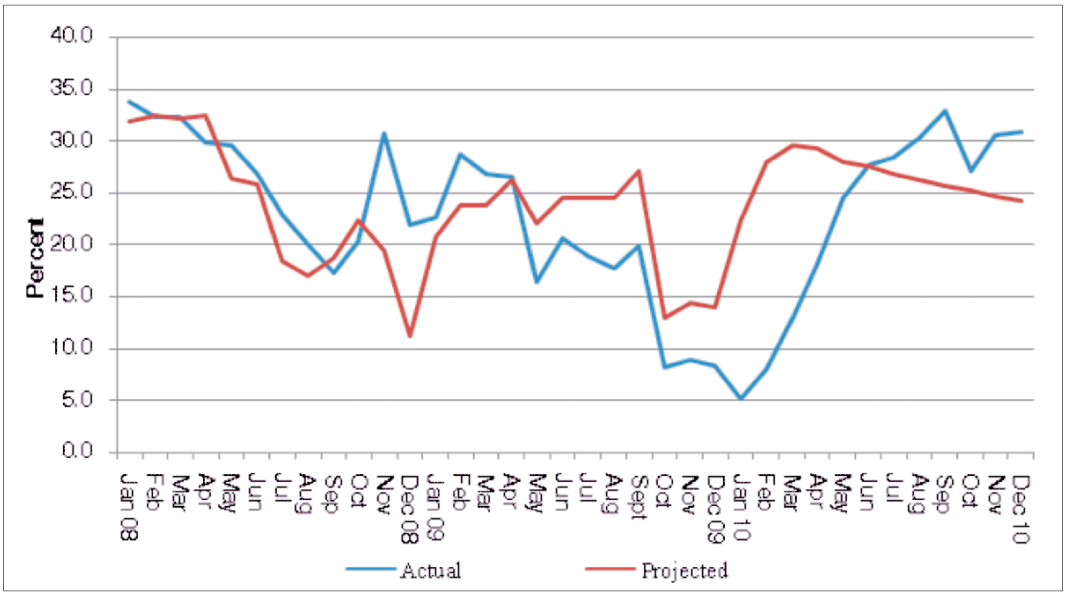
On an annual basis, M3 growth increased to 30.8% in December 2010 from 27.7% in June 2010 and was above the annual growth projection for end-December 2010 of 24.2% (see Chart 3). This outturn was on account of the rise in both the NDA and NFA growth rates. The NDA increased by 25.6% (June 2010, 58.2%), contributing 16.5 percentage points to annual M3 growth. NFA rose by 40.1% compared with a decrease of 1.2% recorded in June 2010, contributing 14.3 percentage points to M3 expansion. This development largely reflected a rise in reserves. Excluding foreign currency deposits that rose by 32.7% in local currency terms, annual money supply growth decreased to 29.8% from the growth of 49.0% recorded during the first half of 2010.

Table 3: Broad Money Developments (in K' billion unless otherwise stated), Dec 2008 – Dec 2010

Description	Dec 2008	Jun 2009	Dec 2009	Jun 2010	Dec 2010
Broad Money (M3)	13,044.3	13,075.5	14,125.5	16,698.3	18,476.9
o/w Foreign Exchange Deposits	4,371.9	5,068.3	5,095.8	4,769.9	6,759.8
M3 (excl. Foreign Exchange Deposits)	8,672.4	8,007.3	9,029.7	11,928.4	11,878.9
6-Month Change in M3 (%)	20.3	0.2	8.0	18.2	10.7
6-Month Change in Foreign Exchange Deposits (%)	25.7	15.9	0.5	-6.4	41.7
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	17.8	-7.7	12.8	32.1	-1.8
Annual Change in M3 (%)	21.8	20.6	8.3	27.7	30.8
Annual Change in Foreign Exchange Deposits (%)	11.9	45.7	16.6	-5.9	32.7
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	27.5	8.8	4.1	49.0	29.8

Source: Bank of Zambia
* Estimate

Chart 3: Annual Broad Money Growth, Jan 08 - Dec 2010



Source: Bank of Zambia

3.4.3 Domestic Credit

Growth of domestic credit, comprehensively defined to include foreign currency loans was lower at 8.6% during the second half of 2010 compared with 13.1% recorded in the first half of 2010. This outturn was largely as a result of increased lending to the government by 10.8% and contributed 4.2 percentage points to domestic credit growth. Similarly, credit to the private sector rose by 4.5% during the reviewed period, up from 3.8% recorded in the first half of 2010, contributing 4.4 percentage points to domestic credit growth. Excluding foreign currency denominated loans that declined by 1.5%, domestic credit growth slowed down to 11.7% from the 16.1% increase in June 2010.

On an annual basis, domestic credit growth decreased to 22.9% from 23.6% recorded in June 2010. The rise in annual domestic credit growth was due to the growth in net claims on central government. Net claims on central government grew by 46.3% (June 2010, 108.9%) (December 2009, 73.7%) and contributed 15.3 percentage points to annual credit growth. The private sector credit increased by 11.3% and contributed 7.6 percentage points to annual credit expansion. Excluding foreign currency denominated credit, which increased by 23.0% partly due to an increase in reserves, annual local currency denominated domestic credit growth rose to 22.8% compared with 32.5% in June 2010 (see Table 4).

3.4.4 Overnight Lending Facility

There was increased activity on the overnight lending facility (OLF) window during the second half of the year. This was due to the concentration of funds in a few banks, which were not made available in the interbank market. In this regard, the Bank of Zambia provided a cumulative K1,499.7 billion at the OLF window to enable banks meet their settlement obligations. The funds were advanced at rates ranging from 8.5% to 14.6%.

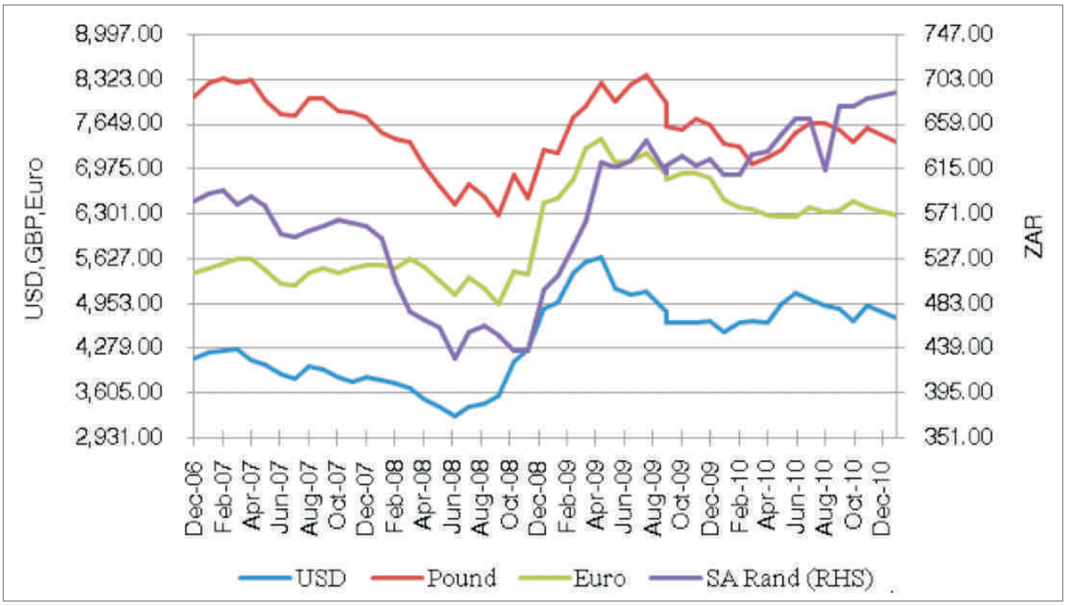
3.5 Foreign Exchange Market

The foreign exchange market continued to take a cue from a combination of domestic and external conditions. On the domestic front, the market was characterised by an increase in the supply of foreign exchange, which exceeded demand. This was further supported by broad based strengthening of macroeconomic fundamentals and favourable assessment of the policy environment under the Extended Credit Facility (ECF) which saw the release of US$310.3 million by the International Monetary Fund (IMF). Internationally, signs of economic recovery in the United States of America and surging commodity demand by China and other consumers of hard metals lifted market sentiment. In particular, the demand for copper coupled with a fall in inventories pushed the price of the commodity nearly 50% higher to an all-time high of $9,687 per metric tonne at end-December 2010 from US$6,515.0 per metric tonne at end-June 2010.

Following these developments, the Kwacha gained by 7.6% against the US dollar to an average interbank rate of K4,731.52/US$ in December 2010 from the June average of K5,078.49/US$. The adverse effect of the Irish debt crisis and the threat of contagion to neighbouring Britain placed the pound sterling under pressure to depreciate against the Kwacha. In this regard, the domestic currency appreciated by 10.6% against the British currency ending at an average of K7,378.95/£. The Kwacha was relatively stable against the euro, posting a marginal appreciation of 0.2% to an average of K6,277.82/€ at end-December 2010.

Conversely, the Kwacha depreciated by 4.0% over the six months to an average of K691.22 against the South African Rand (ZAR) in December 2010. This was due to a combination of reduced policy uncertainty and strong commodity performance in South Africa, which provided support to the rand (see Chart 4).

Chart 4: Exchange rates (Kwacha per foreign currency), Dec 2006 – Dec 2010



Source: Bank of Zambia

Transactions in the US dollar in the last half of 2010 increased relative to the previous period. Accordingly, commercial banks' purchases of foreign exchange from the non-bank public stood at US$2,523.3 million compared with US$1,912.3 million recorded in the first half of the year. The banks sold US$2,284.8 million to the non-bank public in the second half of the year, up from US$1,888.7 million during the first half of the year. These transactions entailed a net supply of US$238.5 million onto the market, indicating improved liquidity of foreign exchange for the review period. The major providers of foreign exchange with fund placements in excess of US$10.0 million comprised of both local corporate firms and non-resident financial institutions.

With regard to other major currencies, banks recorded net sales of both rand and pound sterling although at reduced amounts. For the South African rand, banks' net sales amounted to ZAR1,582.4 million compared with ZAR2,873.0 million recorded in the first half of 2010. Net sales of pound sterling decreased to £2.2 million from £11.9 million. Conversely, banks recorded net purchases of Euro amounting to €23.0 million compared with €7.1 million during the preceding period.

Foreign exchange transactions in the interbank market also increased, underscoring the buoyancy of funding in the market. Commercial banks traded a total of US$2,231.6 million in the second half of 2010, up from US$1,805.4 million traded for the period ending June 2010. The rate at which these funds were traded stood at an average of K4,731.52/US$.

3.6 International Trade Developments

Preliminary data indicate that Zambia continued to record strong external sector performance in the second half of 2010, evidenced by an overall merchandise trade surplus (c.i.f) of US $1,284.2 million compared to US $814.3 million during the first half of the year (see Table AIII.1). This was on account of the sharp increase in merchandise export earnings, which outweighed the increase in the merchandise imports bills. Merchandise export earnings grew by 20.0 % to US $3,998.3 million from US $3,333.3 million registered during the first half of

2010, reflecting an increase in both metal (copper and cobalt) and non-traditional export earnings.

Copper export earnings, at US $3,189.2 million, were 23.7% higher than US $2,578.7 million recorded during the first half of 2010. This was largely on account of an increase in both the average realised price and export volumes by 8.8 % and 13.7 %, respectively. The increase in realised prices was explained by the rise in global demand for metals following the recovery in the global economy. Export volumes rose mainly on account of higher production arising from increased capacity utilisation at various mines. In contrast, cobalt export earnings declined marginally to US $149.5 million from US $154.3 million due to a 15.2 % drop in the average realised price despite the increase in export volumes by 14.3 % (see Table AIII.2).

During the same period, non-traditional export (NTEs) earnings increased by 9.9 % to US $659.6 million from US $600.4 million recorded during the first half of 2010. A rise in earnings from the export of copper wire, cane sugar, burley tobacco, cotton lint, fresh fruits and vegetables, maize and maize seed, wheat and insulin, and cement and lime, explained this outturn. Increased production of these products, coupled with an improvement in international commodity prices, explained this outturn.

Similarly, the merchandise imports bill grew by 7.7 % to US $2,714.1 million from US $2,519.0 million registered during the first half of 2010. This was mainly explained by increased imports of electrical machinery and equipment (25.9%), food items (48.3%), vehicles (17.3%), plastic and rubber products (20.9%), iron and steel and items thereof (16.0%) and chemicals (4.3%) (see Table AIII.3).

3.7 Fiscal Developments

During the second half of 2010, fiscal performance improved from the level attained during the first half of 2010. Preliminary estimates indicate that the Government budget recorded a deficit of K811.8 billion, 65.3% lower than the programmed deficit of K2,338.0 billion. This deficit was 6.9% lower than the deficit of K871.6 billion recorded in the first half 2010. This outturn was largely attributed to the higher than programmed revenues. Moreover, expenditures were marginally below the target (see Table AIII.6).

Total revenues and grants were K8,783.0 billion, 8.4% higher than the programmed amount of K8,100.9 billion. This performance was mainly explained by the buoyant tax outturn, which was 24.0% above the programmed level, following higher than programmed collections of domestic value added tax (VAT) as well as corporate tax, particularly from the mines.

Similarly, non-tax revenues at K397.7 billion were 26% higher than the programmed amount of K315.6 billion, mainly explained by higher than programmed fertiliser support recoveries. However, as a result of delayed disbursements of donor support, grants at K504.7 billion during the review period were 64.7% below the programmed amount of K1,430.4 billion.

Total expenditures during the second half amounted to K10,316.2 billion, 0.1% lower than the programmed expenditures of K10,328.7 billion. This outturn was mainly due to lower than programmed expenditure on non-financial assets, especially roads. Expenditures on grants and other payments were also lower than programmed mainly due to lower disbursements for road works.

Consistent with the relatively lower deficit during the second half of the year, financing also decreased. Total financing at K811.8 billion was below the programmed level of K2,338.0 billion by K1,526.2 billion. Total financing comprised domestic financing of K791.5 billion and foreign financing of K20.3 billion.

3.8 Money and Capital Markets Developments

3.8.1 Money Markets

Interbank market

The volume of funds traded in the interbank money market rose sharply in the second half of the year. Thus, commercial banks exchanged a total of K11,732.2 billion in the last half of the year, nearly double the K6,103.1 billion traded in the preceding period. Consistent with the concentration of liquidity in a few banks, two thirds of the funds traded were backed by collateral compared with slightly more than half in the first half of 2010. Equally, the average cost of funds rose to 2.5% in the second half from 2.3% in the first six months of 2010.

In recent years, non-residents have been participating in the local interbank market on both legs of trading. For the review period, the turnover of funds received by non-residents stood at

US$6,347.8 million against US$1,552.8 in the previous period. On the lending side, the volume of funds made available amounted to US$41.4 million down from US$67.5 million in the first half of the year. For domestic currency denominated funds, the turnover was recorded at K1,472.3 billion on the lending side, down from K1,640.5 billion in the previous period. However, there was no activity on the borrowing side in the second half.

Government Securities Market

During the period under review, the tender size for Treasury bills was increased to K3,170.0 billion from K2,600.0 billion offered in the first half of the year. This increase translated into an average weekly tender size of K116.2 billion, up from K100.0 billion in the preceding period. In response, investors tendered a total of K5,124.6 billion at the auction, representing an average bid amount of K190.4 billion per week. The high demand for Treasury bills reflected high levels of liquidity in the interbank market and a rebound in yield rates as investors searched for positive returns on their investments. Consequently, the rate of subscription for the entire Treasury bill portfolio was recorded at 163.9%, with the long-dated instruments receiving the most interest. In this regard, the subscription rate for the 364-day paper was pegged at 175.9% while that for the 273-day tenor stood at 169.0%. The 91-day security recorded the subscription rate of 159.3% while the 182-day tenor was the least subscribed instrument, recording a rate of 138.0%.

The average size of the Government bonds auction was raised to K135.0 billion in the second half of the year from K120.0 billion in the first six months of 2010. This translated into a total offered amount of K730.0 billion for the six months to December 2010 compared with K720.0 billion auctioned in the first half of the year. The demand for Government bonds was equally strong, underpinning investors' appetite for Government paper, particularly for short-dated tenors. Total bids submitted at the auction amounted to K1,054.6 billion, representing an average subscription rate of 127.1% with the bias of investor preference recorded at the short-end of the bond maturity spectrum. Accordingly, subscription rates for the 2- and 3-year bond tenors were recorded at 173.0% and 180.8%, respectively, while rates of subscription for the 5- and 7- year tenors stood at 92.6% and 85.6%, respectively. Due to low investor interest in the long-dated tenors of 10- and 15-year bonds, subscription rates for these maturities stood at 12.5% and 10.6%, respectively (see Table AIII.7).

Stock of Government Securities

For the period under review, a surplus of K274.4 billion was realised through transactions involving Treasury bills while K175.8 billion was recorded in net sales of Government bonds. As a result, Government securities outstanding increased by 3.6% to K9,941.0 billion at the end of the review period. Of this amount, Treasury bills accounted for K4,501.5 billion, representing an increase of 5.0% at the end of June 2010. The outstanding Government bonds grew by 2.4% to K5,439.4 billion from K5,311.5 billion held at the end of June 2010.

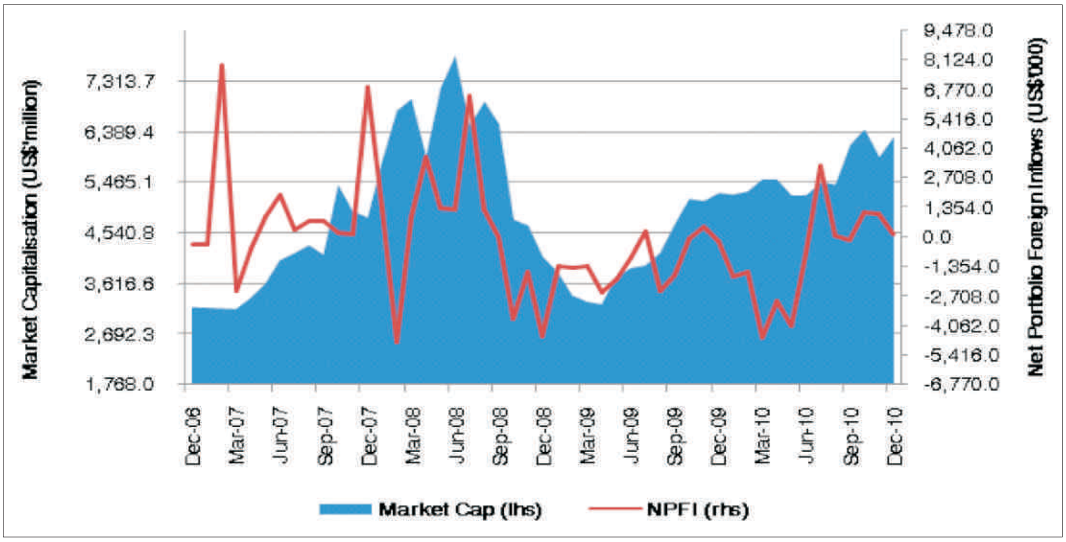
In terms of investor distribution, commercial banks stake in overall securities outstanding shrunk by 7.0% to K5,140.3 billion. In spite of this, commercial banks' share of the total stock of Government securities outstanding remained the highest at 51.7%. Total Government securities held by the non-bank public at the end of the second half of 2010 stood at K3,485.2 billion, representing an increase of 26.1% over the preceding period's position. By ratio, this figure was 35.1% of the total stock of Government securities in circulation. The amount of Government securities accruing to the Bank of Zambia grew marginally by 0.3% to K1,315.5 billion, which accounted for 13.2% of the total stock in circulation.

Favourable yield rates across all securities coupled with a relatively stable exchange rate and falling inflation helped lift the non-resident holdings of Government securities. Consequently, total holding of Government securities by foreign investors more than doubled to K625.3 billion at the end of the second half of 2010 from K208.5 billion at the end of June 2010. This figure represented 7.5% of total securities outstanding compared with 4.8% recorded at the end of the first half of 2010.

3.8.2 Capital Market

The Lusaka Stock Exchange (LuSE) extended its gains into the second half of 2010, yielding improvements in most performance indicators. Market capitalisation increased by 12.1% to K30,911.6 billion at the end of the period, buoyed by a rise in the average price of shares. In foreign currency terms, the value of the stock market rose by 20.4% to US$6,302.0 million. Foreign portfolio inflows also increased, marked by a rebound in global equity markets, which signalled reduced risk aversion and the search for better yields in emerging markets. Thus, the market recorded net portfolio inflows of US$116.2 million (see Chart 5). Consequently, the All Share LuSE index (excluding ZCCM) rose by 286.1 points to 3,302.9 at end-December from 3,017.9 at end-June.

Chart 5: LUSE Indicators, Dec 2006-Dec 2010



Source: Lusaka Stock Exchange

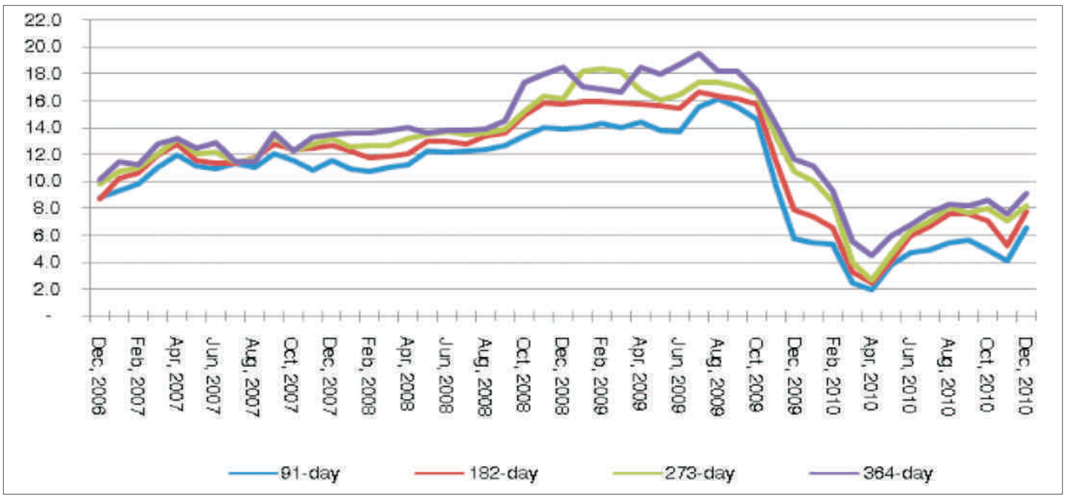
The LuSE recorded a broad based increase in share prices with market leaders gaining the most. The stock price for ZAMEFA rose by more than 120% to close at K600.00 in December. Other significant share price gains were recorded for African Explosives Limited by 50.8% to K1,810.00; Zanaco, 36.8% to K821.00; and Zambian Breweries, 32.2% to K2,500.00. The main losing companies were ZCCM-IH and Cavmont Capital Holdings whose share prices fell by more than 60% and 38.5% to K10,000.00 and K4.00, respectively.

3.9 Interest Rates

3.9.1 Government Securities Interest rates

Despite relatively high demand for Treasury bills during the second half of the year, yield rates rose due to market correction. The composite weighted average Treasury bills yield rate ended the period at 8.2%, 214 basis points higher than 6.1% at the close of June 2010. This increase reflected an across the board strengthening of individual yield rates led by the 364-day paper, which gained 230 basis points to 9.0%. The rise in yield rates on other Treasury bills exceeded 180 basis points, with the 91-day tenor ending the year at 6.6% from 4.7% in June 2010. Yield rates for the 182- and 273-day securities were recorded at 7.8% and 8.2% from 6.0% and 6.3%, respectively (see Chart 6).

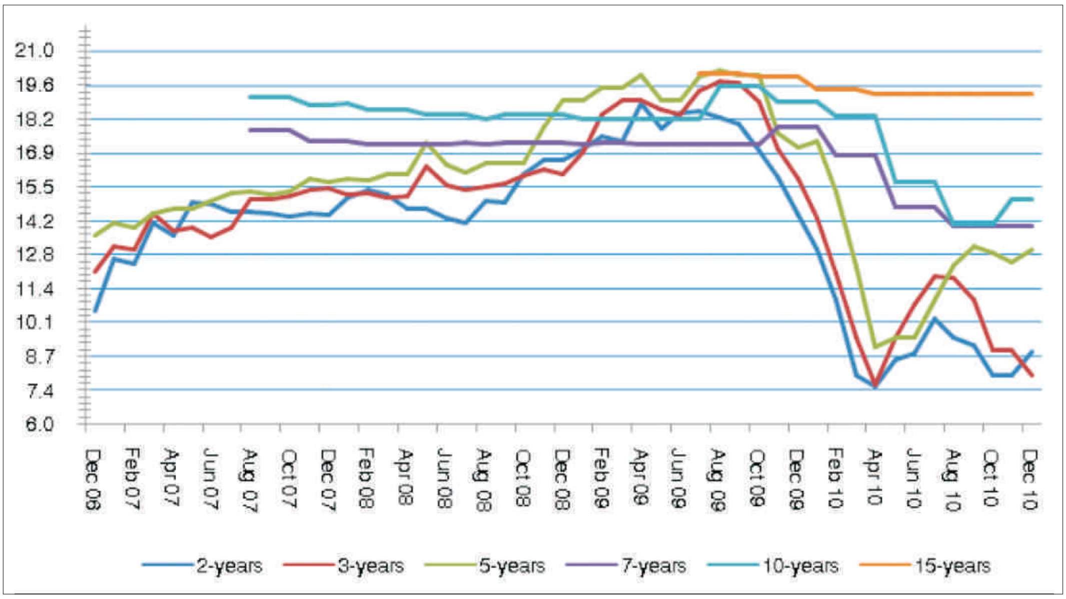
Chart 6: Treasury bill yield rates (% p.a.), Dec 2006 – Dec 2010



Source: Bank of Zambia

Yield rate movements for Government bonds were characterised by a mixed pattern. The composite weighted average yield rate rose by 173 basis points to 11.3% at the end of the review period from 9.5%. This was mainly driven by the yield rate on the 5-year paper, which rose to 13.0% from 9.5% in June 2010. The yield rate on the 2-year paper recorded a marginal increase of 6.2 basis points to 8.9%. However, all other yield rates declined, with the sharpest fall of 281 basis points recorded on the 3-year tenor to 8.0% from 10.8% (see Chart 7).

Chart 7: Government bond yield rates (% p.a.), Dec 2006 – Dec 2010

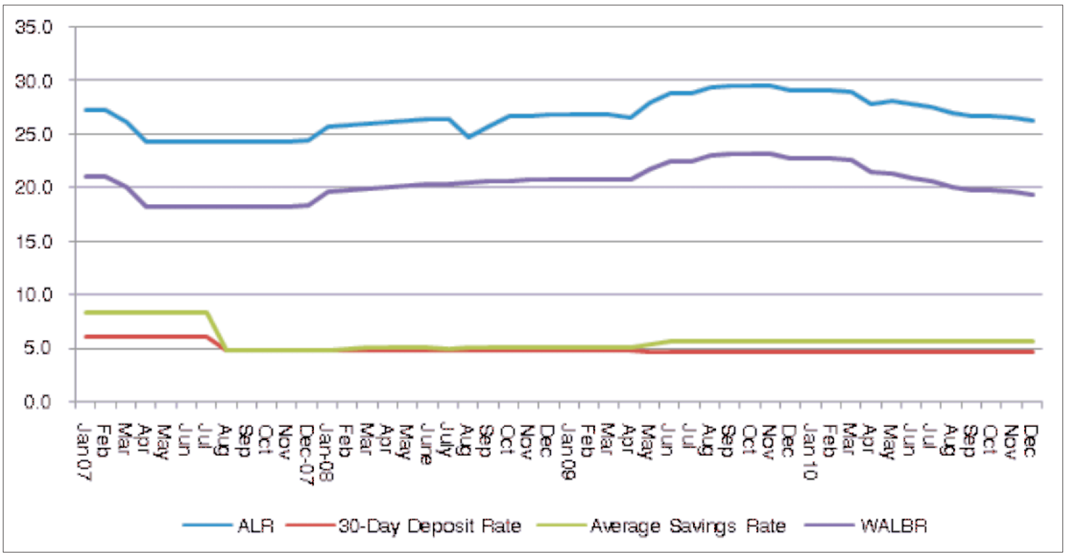


Source: Bank of Zambia
Note: The 7, 10 and 15 years bonds were introduced in August 2007

3. 9.2 Commercial Banks Interest Rates

Developments in commercial banks' nominal interest rates were mixed in the second half of 2010. The weighted average lending base rate (WALBR) and the average lending rate (ALR) decreased to 19.4% [20.9%] and 26.4% [27.9%] in December 2010, respectively. However, the average savings rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts exceeding K20 million remained unchanged at 4.7% and 5.6%, respectively (see Chart 8).

Chart 8: Lending and Saving Rates (% p.a.), Jan 2007 – Dec 2010



Source: Bank of Zambia

In real terms, interest rates declined during the review period, on account of the fall in nominal rates as well as the marginal increase in annual overall inflation. The real WALBR and the real ALR fell to 11.5% [13.2%] and 18.5% [19.9%], respectively. Similarly, the real ASR for amounts above K100,000.00 and the real 30-day deposit rate for amounts above K20 million declined to negative 3.2% [negative 3.1%] and negative 2.3% [negative 2.2%], respectively.

3.9.3 Non-Bank Financial Institutions Lending Rates

In the second half of 2010, average annual interest rates declined in all sub-sectors of the non-bank financial institutions sector. The overall average interest rate for the non-bank financial institutions sector declined by 9.2 percentage points to 34.7% from the average rate of 43.9% in the first half of 2010 (see Table 4). The significant declines in interest rates were recorded in the building societies sub-sector, Development Bank of Zambia, and National Savings and Credit Bank.

The decline in the average annual interest rate was supported by the bi-annual publication of comparative interest rates in the print media that fostered interest rate competition among the lenders.

However, interest rates of the micro-finance and leasing finance institutions remained relatively high. This is because most of these institutions mainly fund their loans using commercial banks lines of credit, which tend to be a more expensive source of finance compared to public deposits.

Table 4: Average Annual Interest Rates (in percent)

Description	Second Half 2010	First Half 2010
Microfinance Institutions	92.1	97.4
Leasing Finance Institutions	34.4	40.0
Building Societies	15.6	26.1
Development Bank of Zambia	14.6	26.0
National Savings and Credit Bank	17.0	30.0
Overall for the sector	34.7	43.9

Source: Bank of Zambia

4.0 Monetary Policy Objectives and Instruments for January – June 2011

In the first half of 2011, monetary policy will be directed towards achieving an end-year inflation target of 7.0%. In this regard, the Bank of Zambia will primarily use indirect instruments in its operations to realise the first half targets for both reserve and broad money growth of 7.3% and 10.3%, respectively.

4.1 Inflation Projection for January – June 2011

During the first half of 2011, inflation is anticipated to rise modestly on the back of high global commodity prices and low seasonal supply of food items in the first quarter. Consumer price inflation (CPI) is projected at 8.5 % in June 2011 versus 7.9% in December 2010 (see Table 5 and Chart 9).

- The primary source of inflationary pressures during the first half is expected to be rising food prices, largely due to the low seasonal supply of food items, particularly in the first quarter. The low supply of vegetables and fish is expected, with the reduced supply of the latter being as a result of the annual fishing ban. At the same time, a modest increase in domestic maize prices is anticipated until April 2011, as high global prices of maize and wheat may induce domestic suppliers to raise prices, as compensation for the opportunity cost of exports. In addition, the export of agricultural commodities by some suppliers, in order to take advantage of rising global prices, may also raise domestic food security risks, and in turn, raise domestic prices.
- The food inflationary pressures are, however, expected to be moderated by a relatively stable exchange rate, despite pressures on the domestic currency to weaken in view of the recovery of the US economy and the uncertainties in the Euro sovereign bond market. A stable exchange rate during the first 6 months of 2011 is anticipated due to the recent record copper price gains, as well as increased foreign exchange inflows from maize exports and other non-traditional exports (NTEs) as well as foreign portfolio investments. CPI inflation is anticipated to peak at 8.7% at the end of March.
- The easing of inflationary pressures are likely to be observed at the beginning the second quarter following the seasonal increase in food supply, with CPI inflation slowing down in April. By the end of the quarter, however, further inflation risks may arise as an upward

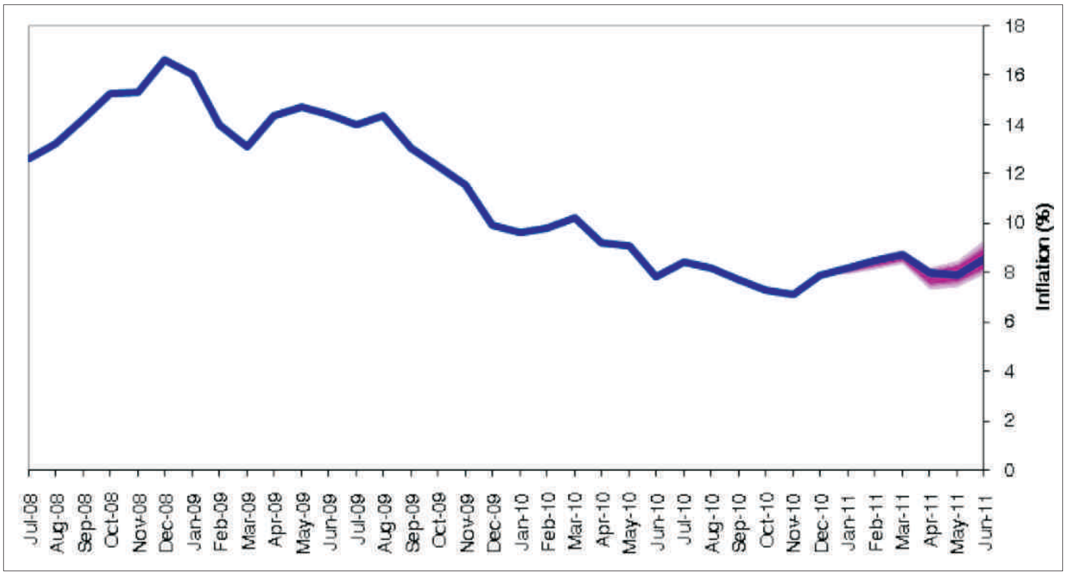
adjustment in domestic pump prices is anticipated in the early part of the second quarter. High pump prices of fuel will thus exert upward pressure on transport and energy costs, which will feed into the cost of other goods and services. The second round effects of higher fuel prices are anticipated in June, leading to inflation reaching 8.5%.

Table 5: Inflation Forecast and Actual, January 2010 – June 2011

Month	Projection (a)	Actual (b)	Forecast Error (b-a)
January 2010	10.1	9.6	-0.5
February	10.5	9.8	-0.7
March	10.8	10.2	-0.6
April	9.5	9.2	-0.3
May	8.7	9.1	0.4
June	8.2	7.8	-0.4
July	7.2	8.4	1.2
August	7.0	8.2	1.2
September	7.3	7.7	0.4
October	7.4	7.3	-0.1
November	7.8	7.1	-0.7
December	7.3	7.9	0.6
January 2011	8.2		
February	8.5		
March	8.7		
April	7.9		
May	8.0		
June	8.5		

Note: A positive number implies that actual inflation outturn was above the projection and the opposite is true.

Chart 9: Actual Inflation and Projection, July 2008 - June 2011



Source: Lusaka Stock Exchange

5.0 Monetary Policy Principles for the Period January 2011 - December 2012

In the two year period 2011 - 2012, monetary policy programming and operations will focus on realising the Government's broad macroeconomic objectives that are consistent with the Vision 2030 that include:

(i) End-year inflation targets of no more than 7.0% at end-December 2011 and no more than 6.0% at end-December 2012;

(ii) Realising real GDP growth rate of at least 6.4% in 2011 and 6.6% in 2012 to be underpinned by favourable growths in agricultural, mining, manufacturing, tourism and construction sectors;

(iii) Limiting domestic financing to no more than 1.4% of GDP in 2011 and 0.9% of GDP in 2012; and

(iv) Accumulating international reserves amounting to no less than 3.6 months of import cover in 2011 and 3.7 in 2012.

In this two year period, the Bank of Zambia will continue to rely on market-based principles in its formulation and implementation of monetary policy. In this regard, the Bank will continue to use Open Market Operations, in managing liquidity.

Appendix I: Selected Macroeconomic Indicators

Description/Years	Dec-09	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Monetary Aggregates (K'bn)								
Reserve money (end-period in K'billion)*	4,633.7	4,133.5	4,309.6	4,331.1	4,902.2	4,891.9	4,643.2	4,887.0
Growth Rate	1.7	2.2	4.3	0.5	13.2	-0.2	-5.1	5.3
Broad money (in K'billion)	14,125.7	16,698.3	17,327.8	17,463.5	18,018.4	17,585.9	18,184.1	18,477.0
Growth Rate	1.4	6.5	3.8	0.8	3.2	-2.4	3.4	1.6
Net Claims on Government (in K'billion)	4,013.4	5,296.9	5,306.3	5,670.8	5,615.0	6,131.4	5,541.9	5,870.3
Prices (%)								
Inflation	9.9	7.8	8.4	8.2	7.7	7.3	7.1	7.9
Nominal Interest and yield rates (aver. %)								
Commercial Banks ' rates								
Commercial banks' weighted lending base rate	22.7	21.0	20.6	20.1	19.8	19.7	19.6	19.4
Average Savings rate (>K100,000)	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Deposit rate (30 days, over K20 million)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Treasury bill yield rates								
Weighted TB rate	9.5	6.1	6.7	7.6	7.8	7.5	6.6	8.2
91-day	6.3	4.7	4.8	5.5	5.6	4.9	4.1	6.6
182-day	8.5	6.0	6.7	7.6	7.5	7.1	5.3	7.8
273-day	11.0	6.3	7.1	8.1	7.6	8.0	7.1	8.2
364-day	11.7	6.7	7.6	8.3	8.1	8.5	7.6	9.0
Government bonds Yield Rates								
Weighted Bond Yield Rate	15.9	9.5	11.2	12.1	11.2	10.3	10.8	11.2
24 months	15.5	8.9	10.2	9.5	9.2	8.0	8.0	8.9
3 year	16.8	10.8	12.0	11.9	11.0	9.0	9.0	8.0
5 year	17.5	9.5	11.0	12.4	13.1	12.9	12.5	13.0
7 year	17.9	14.7	14.7	13.9	13.9	13.9	14.0	14.0
10 year	18.9	15.7	15.7	14.0	14.0	14.0	15.0	15.0
15 year	18.9	16.2	16.2	15.1	15.1	15.1	15.5	15.5
Real Interest and Yield Rates (%)								
Commercial Banks' rates								
Commercial banks' weighted lending base rate	12.8	13.2	12.2	11.9	12.1	12.4	12.5	11.5
Average savings rate	-5.2	-3.1	-3.7	-3.5	-3.0	-2.6	-2.4	-3.2
Deposit rate (30 days, over K20 million)	-4.3	-2.2	-2.8	-2.6	-2.1	-1.7	-1.5	-2.3
Treasury bill yield rates								
Weighted TB rate	-0.4	-1.7	-1.7	-0.6	0.1	0.2	-0.5	0.3
91-day	-3.6	-3.1	-3.6	-2.7	-2.1	-2.4	-3.0	-1.3
182-day	-1.4	-1.8	-1.7	-0.6	-0.2	-0.2	-1.8	-0.1
273-day	1.1	-1.5	-1.3	-0.1	-0.1	0.7	0.0	0.3
364-day	1.8	-1.1	-0.8	0.1	0.4	1.2	0.5	1.1
Government bonds Yield Rates								
Weighted Bond rate	6.0	1.7	2.8	3.9	3.5	3.0	3.7	3.3
24 months	5.6	1.1	1.8	1.3	1.5	0.7	0.9	1.0
3 year	6.9	3.0	3.6	3.7	3.3	1.7	1.9	0.1
5 year	6.0	1.7	2.6	4.2	5.4	5.6	5.4	5.1
7 year	8.0	6.9	6.3	5.7	6.2	6.6	6.9	6.1
10 year	9.0	7.9	7.3	5.8	6.3	6.7	7.9	7.1
15 year	9.0	8.4	7.8	6.9	7.4	7.8	8.4	7.6
Exchange rates (average K/US $)								
Commercial banks' interbank mid-rate	4,687.82	5,122.9	5,021.62	4,921.63	4,869.21	4,697.3	4,702.7	4,732.5
Bank of Zambia mid rate**	4,640.56	5,098.50	4,903.25	4,959.46	4,848.13	4,653.2	4,727.4	4,749.5
Real sector								
Mining output (tonnes)								
Copper	65,822.7	67747.7	80,215.2	78,634.6	69,519.9	59,488.0	72,178.9	65,833.4
Cobalt	514.11	587.5	705.84	860.43	800.99	800.8	800.4	800.6
Metal Earnings (US $mn)								
Copper	394.50	396.3	504.7	519.7	510.5	509.1	532.8	541.1
Cobalt	16.00	21.0	22.4	26.8	26.1	29.5	22.9	24.8
Total	410.50	398.5	527.1	546.5	536.6	538.6	555.7	565.9
External sector (US $ mn)								
Trade Balance	89.3	143.10	297.9	213.9	186.4	154.4	209	200.5
Exports, c.i.f.	484.4	539.50	647.3	663.7	647.5	655.8	658.8	676.1
Imports, c.i.f.	-397.7	-396.4	-349.4	-449.8	-461.1	-501.5	-449.8	-475.6
Gross Official Reserves (US $'mn)	1,715.3	1,704.8	1,899.2	1,891.1	1,972.0	1,975.4	1,993.9	1,968.1

Source: Bank of Zambia Statistics Fortnightly

* Reserve money is narrowly defined to include currency in circulation, required statutory reserves, current accounts of comm. Banks and non-government deposits

**Based on BoZ end of period mid-exchange rate

Appendix II: The Extended Credit Facility (ECF) Arrangement

During the second half of 2010, an International Monetary Fund (IMF) Mission visited the country to conduct the fifth review of the Three –Year Arrangement under the Extended Credit Facility from 2nd to 15th September 2010. However, the discussions were not conclusive as some outstanding issues in the fiscal sector had remained unresolved. Consequently, a follow-up mission visited the country from 28th October to 3rd November 2010 to conclude the discussions. The mission had fruitful discussions with the Zambian authorities and reached agreement on a set of macroeconomic policies and structural measures for the remainder of 2010 and for 2011.

Following the review, the IMF Executive Board meeting was held on 10th December 2010 and completed the fifth review of Zambia's economic performance. Completion of the review triggered the immediate disbursement of an amount equivalent to SDR 18.395 million (about US$28.3 million), bringing total disbursements under the ECF arrangement to SDR 201.7 million (about US$310.3 million).

Regarding programme support, total disbursed Poverty Reduction Budget Support (PRBS) in the second half of 2010 amounted to US $142.9 million compared with the projection of US $128.4 million. A total of US $19.5 million was received from the World Bank, African Development Bank (US $49.8 million), European Union (US $43.8 million), Sweden (US $9.9 million) and Germany (US $9.9 million). Explaining the difference in the projected versus actual amounts disbursed was largely exchange rate variations.

Preliminary data at end-December 2010 indicate that the performance criteria Net Domestic Assets (NDA) and the Unencumbered International Reserves (UIR) were all observed except the Net Domestic Financing (NDF) of Government benchmarks. The structural performance criteria were also on track. As at end-December 2010, the average NDA was K244.1 billion below the end-December programme ceiling of K92.1 billion while the NDF was K1,379.6 billion above the end-December 2010 programme ceiling of K8,606.4 billion. The UIR were US $44.3 million above the end-December floor of US $1,923.8 million.

The broad macroeconomic objectives for 2011 include: (i) attaining real GDP growth of at least 6.4%; (ii) achieving end-year inflation of no more than 7.0%; (iii) limiting domestic financing to 1.4% of GDP; and (iv) increasing gross international reserves to not less than 3.6 months of prospective import cover (see Appendix II, Table 1).

Table AII.1: Macroeconomic Outturn and Targets in 2010, and Targets for 2011

Description	End-December 2010 Targets	End-December 2010 Outturn	End-December 2011 Targets
Real GDP growth rate (%)	6.6	**7.1**	6.4
CPI Inflation, end period (%)	8.0	7.9	7.0
CPI Inflation, annual average (%)	8.5	8.5	8.8
Gross Official Reserves (in months of imports)	3.4	4.7	3.6
Broad Money growth (%)	23.5	8.3	15.0
Budget deficit, excluding grants (% of GDP)	6.1	3.7	5.0
Domestic financing of the Budget (% of GDP)	2.6	2.0	1.4

Source: Bank of Zambia, IMF Staff Report for 2011 Article IV Consultation

Appendix III: Statistical Tables and Charts

Table AIII.1: Trade Data in US $ million (c.i.f), Jan 2009 – Dec 2010

	Jan-Jun 2009	Jul-Dec 2009	Jan-Jun 2010	Jul-Dec 2010*	% Change
Trade Balance	-111.2	614.2	814.3	1,284.2	57.7
Exports, c.i.f	1,558.0	2,737.7	3,333.3	3,998.3	20.0
Metals	1,201.8	2,141.3	2,733.0	3,338.7	22.2
Copper	1,164.3	2,014.9	2,578.7	3,189.2	23.7
Cobalt	37.5	126.4	154.3	149.5	-3.1
Total NTEs	356.2	596.3	600.4	659.6	9.9
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	0.0
Copper Wire	37.2	73.2	84.6	85.6	1.2
Cane Sugar	26.6	71.5	67.2	80.9	20.4
Burley Tobacco	29.7	59.9	48.2	69.3	43.8
Cotton Lint	15.5	30.2	17.9	31.5	76.5
Electrical Cables	17.7	20.5	21.8	19.9	-8.5
Fresh Flowers	10.7	12.0	11.1	11.0	-1.0
Cotton Yarn	0.1	0.0	0.0	0.0	0.0
Fresh Fruits & Vegetables	6.5	15.5	4.7	6.4	36.8
Gemstones	13.4	25.6	29.0	20.8	-28.3
Gasoil/Petroleum Oils	13.5	17.2	18.1	9.5	-47.6
Electricity	4.3	6.2	4.8	3.2	-33.2
Other	194.2	277.8	306.0	334.5	9.3
Of which Maize & Maize Seed	3.4	18.5	5.2	28.1	443.2
Wheat & Insulin	9.4	11.9	15.4	16.7	8.9
Cement & Lime	17.6	23.6	0.4	15.2	3,632.9
Imports c.i.f.	-1,669.2	-2,123.5	-2,519.0	-2,714.1	7.7

Source: Bank of Zambia
*Figures for Jul - Dec 2010 are preliminary

Table AIII.2: Metal Production, Export Volumes, Values and Prices; Jan 2009 – Dec 2010

	Copper					Cobalt				
Period	Export Volume Tonnes	Production Tonnes	Value US $'000	Price US$/ Tonne	Price US$/ pound	Export Volume Tonnes	Production Tonnes	Value US $ '000	Price US$/ Tonne	Price US$/ pound
Quarter 1, 2009	151,754	170,948	497,502	3,278.35	1.49	1,071	1,081	12,559	11,728.82	5.32
Quarter 2, 2009	160,179	168,424	666,838	4,163.07	1.89	878	887	24,902	28,372.58	12.87
Jan- Jun 2009	311,933	339,372	1,164,340	3,732.66	1.69	1,949	1,968	37,461	19,225.67	8.72
Quarter 3, 2009	184,706	178,140	947,828	5,131.55	2.33	2,037	2,015	67,427	33,104.50	15.02
Quarter 4, 2009	177,458	180,188	1,067,118	6,013.37	2.73	1,882	1,896	58,973	31,328.05	14.21
Jul-Dec 2009	362,164	358,328	2,014,946	5,563.63	2.52	3,919	3,912	126,400	32,251.26	14.63
Quarter 1, 2010	191,024	188,008	1,274,659	6,672.78	3.03	1,943	1,961	77,951	40,108.10	18.19
Quarter 2, 2010	181,367	175,950	1,192,559	6,575.40	2.98	2,074	2,029	79,108	38,133.40	17.30
Jan-Jun 2010	372,390	363,958	2,467,217	6,625.35	3.01	4,018	3,990	157,059	39,088.56	17.73
Quarter 3, 2010	222,035	228,370	1,534,916	6,912.96	3.14	2,245	2,367	75,297	33,467.08	15.18
Quarter 4, 2010*	224,129	203,779	1,654,274	7,380.92	3.35	2,308	2,265	74,238	32,165.02	14.59
Jul-Dec 2010*	446,163	432,148	3,189,190	7,148.04	3.24	4,558	4,632	149,536	32,807.75	14.88

Source: Bank of Zambia Statistics Fortnightly

Table AIII.3: Imports by Commodity Groups in US $ millions (c.i.f.); Jan 2009 – Dec 2010

Description	2009		2010		% Change Jul-Dec 2010/ Jan-Jun 2010
	Jan-Jun	July -Dec	Jan-Jun	Jul-Dec*	
Food Items	130	126	106	158	48.3
Petroleum Products	289	247	341	220	-35.5
Fertilizers	85	113	91	85	-6.9
Chemicals	190	234	291	304	4.3
Plastic and Rubber Products	77	110	103	125	20.9
Paper and Paper Products	41	61	40	40	-0.4
Iron and Steel	84	142	135	156	16.0
Industrial Boilers & Equipment	256	328	424	375	-11.5
Electrical Machinery & Equipment	99	109	97	122	25.9
Vehicles	139	143	155	181	17.3
Other Imports	279	510	735	948	28.9
Total Imports	1,669	2,123	2,519	2,714	7.7

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

Table AIII.4: Sources of Reserve Money Growth

	Jul - Dec 2008		Jul - Dec 2009	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a+b+c+d)	**-537.7**	**-13.4**	**792.3**	**15.6**
a) Net Purchases from Govt	-881.2		-539.6	
b) Net Purchases from non-Government	69.0		1,236.7	
c) Bank of Zambia own use of forex	0.1		0.1	
d) Change in stat. reserve deposits forex balances	274.5		95.2	
2/ Net Domestic Credit (a+b)	**584.2**	**14.5**	**249.6**	**4.9**
a) Autonomous influences	5,818.7		19,325.6	
Maturing Open Market Operations	4,994.9		18,218.2	
Direct Govt Transactions	988.8		1,163.7	
TBs and Bonds Transactions	-144.3		-306.5	
Claims on non-banks (Net)	-20.8		250.3	
b) Discretionary influences	-5,234.5		-19,076.0	
Open Market Operations	-5,229.6		-19,061.0	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-2,087.4		-1,681.0	
iii. Term Deposits Taken	-3,142.3		-17,380.1	
Treasury bill Rediscounts	**0.0**		**0.0**	
Other claims (Floats, Overdrafts)	**-4.8**		**-15.0**	
Change in Reserve Money	46.50	1.2	1,041.9	20.6

Source: Bank of Zambia

Table AIII.5a: Shares of Total Loans & Advances by Sector, December 2008- December 2010 (in percent)

Sector	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10
Agriculture, forestry, fishing and hunting	16.2	18.4	19.3	18.7	17.6
Mining & Quarrying	4.7	4.9	4.2	4.2	3.2
Manufacturing	10.8	11.0	12.3	13.0	12.7
Electricity, Gas, Water & Energy	2.4	2.3	1.7	1.4	1.6
Construction	4.0	2.9	3.2	4.1	5.8
Wholesale & Retail Trade	9.7	9.1	10.2	11.7	10.8
Restaurants & Hotels	3.1	1.9	1.5	1.9	1.9
Transport, Storage & Communications	7.0	7.9	6.3	5.4	4.7
Financial Services	7.9	8.1	5.2	3.8	2.6
Community, Social and Personal Services	1.3	2.2	3.5	2.5	3.7
Real Estate	4.9	7.0	8.4	5.2	6.2
Personal Loans	25.4	21.6	22.1	26.2	26.8
Others	2.6	2.9	2.1	2.0	2.3

Source: Bank of Zambia

Table AIII.5b: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), December 2008 - December 2010 (in percent)

Sector	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10
Agriculture, forestry, fishing and hunting	8.7	11.8	11.5	9.8	12.1
Mining & Quarrying	0.5	1.8	0.8	1.3	1.4
Manufacturing	10.4	11.0	9.8	12.0	10.9
Electricity, Gas, Water & Energy	0.0	0.8	1.4	1.1	1.5
Construction	3.8	3.0	2.6	3.8	6.8
Wholesale & Retail Trade	7.7	6.8	10.9	9.5	8.0
Restaurants & Hotels	4.6	1.6	1.0	1.1	1.3
Transport, Storage & Communications	7.0	8.6	7.1	5.5	4.2
Financial Services	4.3	6.5	3.5	3.5	2.3
Community, Social and Personal Services	0.4	1.8	4.7	3.1	4.1
Real Estate	6.6	8.9	9.8	5.4	5.5
Personal Loans	43.3	33.8	34.1	41.1	39.6
Others	2.7	3.5	2.8	2.7	2.3

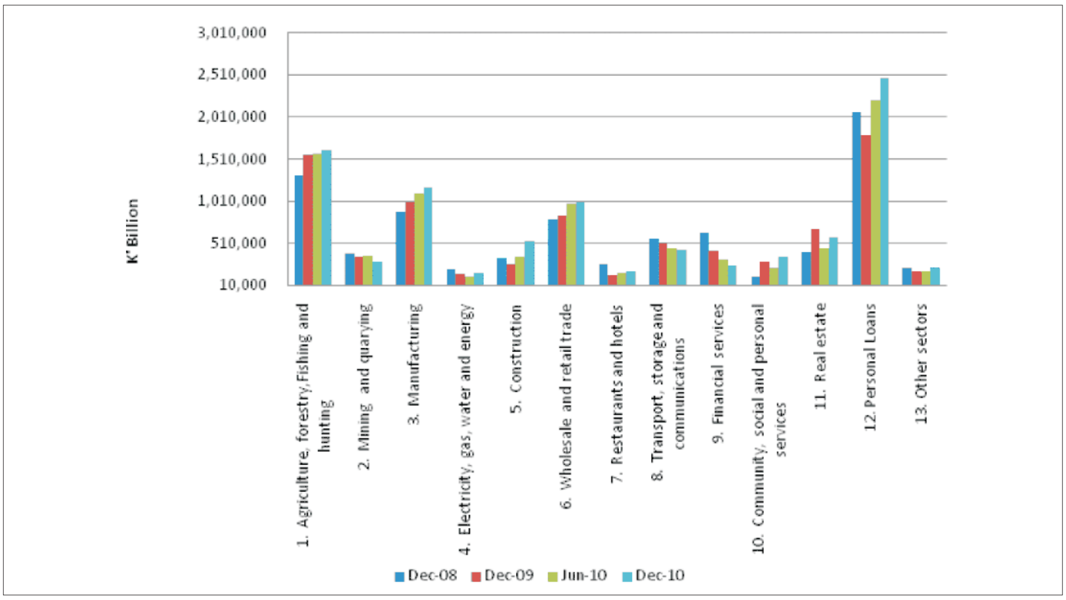
Source: Bank of Zambia

Table AIII.5c: Shares of Foreign Exchange Loans & Advances by Sector, December 2008 - December 2010

Sector	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10
Agriculture, forestry, fishing and hunting	26.6	29.5	33.7	34.1	28.8
Mining & Quarrying	10.5	10.1	9.9	8.8	6.9
Manufacturing	11.3	11.0	16.2	14.9	16.3
Electricity, Gas, Water & Energy	5.9	4.7	1.8	1.9	1.9
Construction	4.2	2.6	4.4	4.5	3.7
Wholesale & Retail Trade	12.5	12.9	12.0	15.1	16.0
Restaurants & Hotels	1.2	2.5	2.4	3.2	2.9
Transport, Storage & Communications	6.9	6.7	5.1	5.2	5.8
Financial Services	12.8	10.7	8.2	4.3	3.3
Community, Social and Personal Services	2.7	2.7	2.8	1.2	2.6
Real Estate	2.6	4.0	3.9	5.0	7.8
Personal Loans	0.6	0.8	0.5	1.0	1.7
Others	2.9	2.6	1.6	1.8	2.2

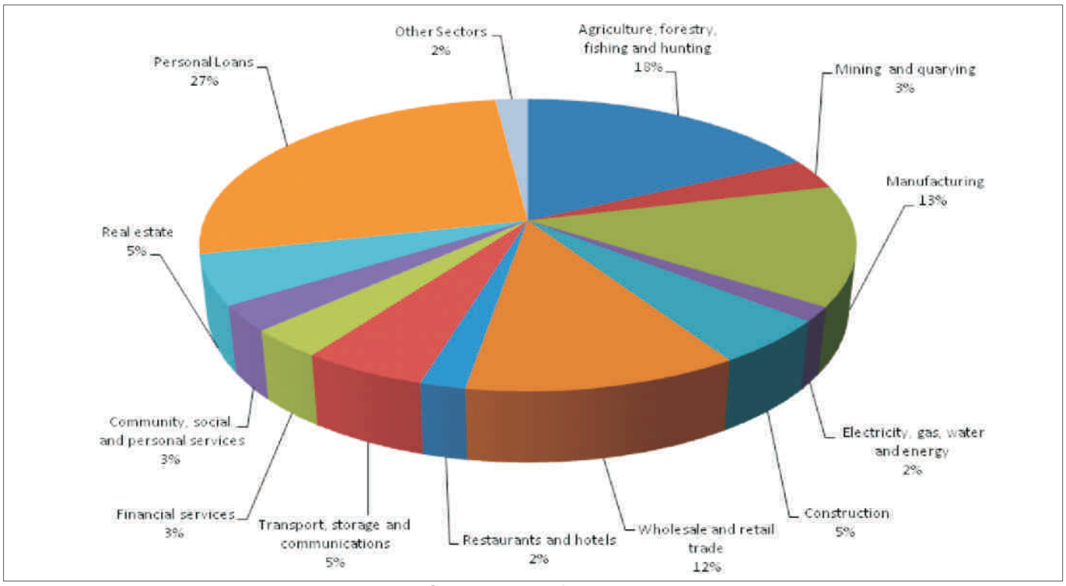
Source: Bank of Zambia

Chart AIII.1: Commercial Banks Loans and Advances by Sector, December 2008 - December 2010



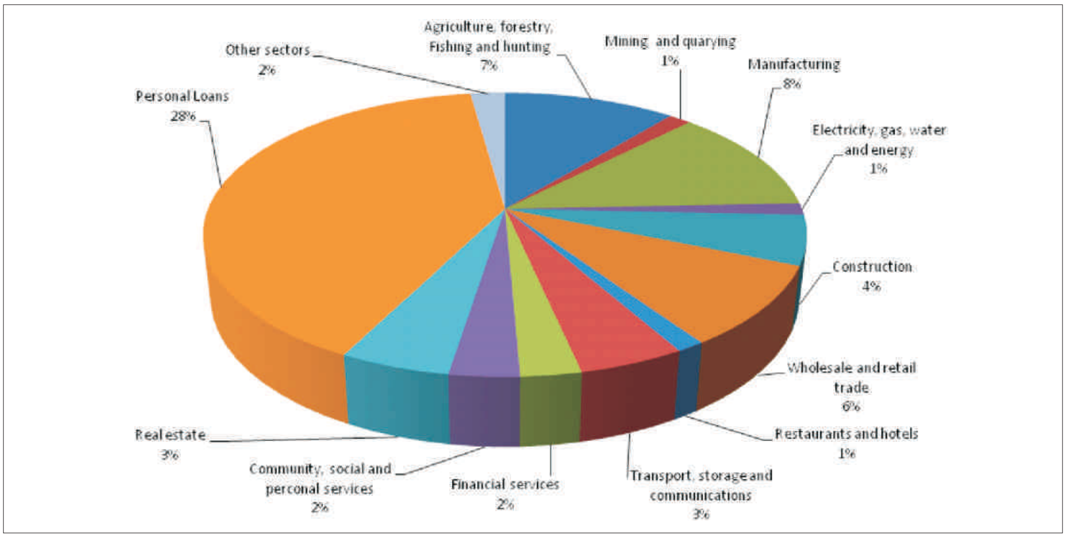
Source: Bank of Zambia

Chart AIII.2: Structure of Loans and Advances (Monthly Average), July - December 2010



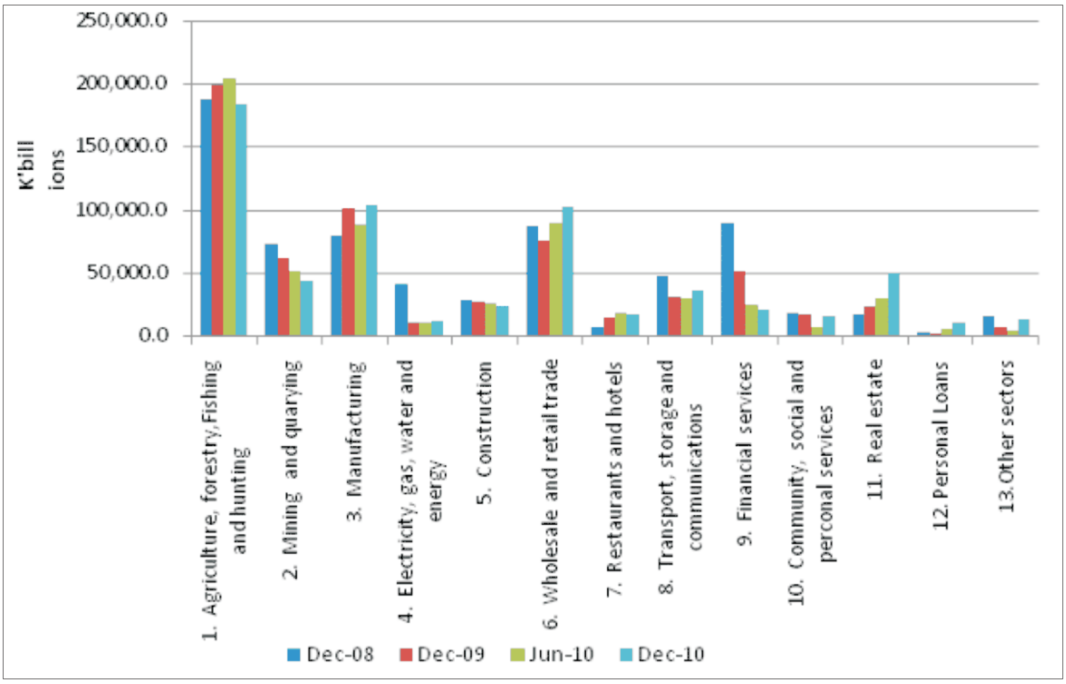
Source: Bank of Zambia

Chart AIII.3: Structure of Loans and Advances (Monthly Average Excluding Foreign Currency Loans), July - December 2010



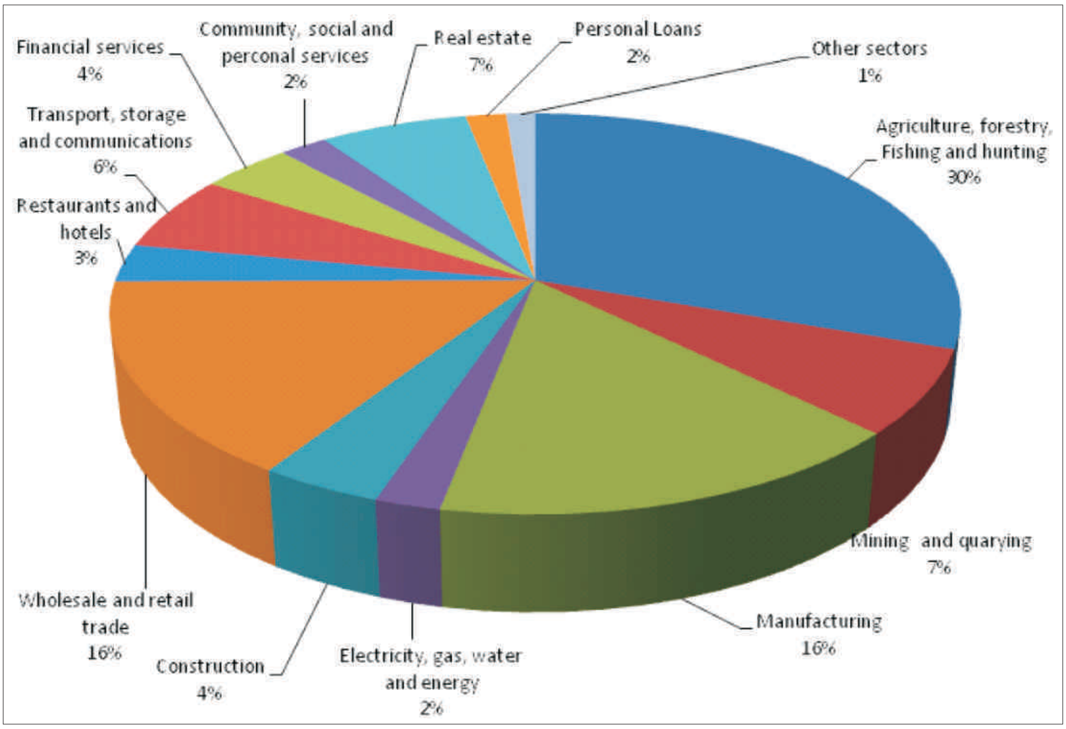
Source: Bank of Zambia

Chart AIII.4: Commercial Banks Foreign Currency Loans and Advances by Sector, December 2008 - December 2010



Source: Bank of Zambia

Chart AIII.5: Structure of Forex Loans and Advances (Monthly Average), July - December 2010



Source: Bank of Zambia

Table 6: Central Government Fiscal Operations, Second Half 2010 (in K' billion)

	2010	First Half	Second Half 2010			Year-to-date	
	Approved	Prelim.	Target	Prem.	% Change	Target	Prelim.
Total Revenue and Grants	14,533.7	6,185.2	8,100.9	8,783.0	8.4	15,152.9	14,968.2
Tax Revenue	11,385.2	5,028.9	6,354.9	7,880.6	24.0	11,722.5	12,909.5
Non-Tax Revenue	721.8	464.1	315.6	397.7	26.0	722.0	861.8
Grants	2,426.7	692.2	1,430.4	504.7	-64.7	2,708.4	1,196.9
Total Expenditure	**16,421.9**	**6,761.2**	**10,328.7**	**10,316.2**	**-0.1**	**18,813.6**	**17,077.3**
Current Expenditure	13,391.2	5,870.4	7,786.6	8,976.3	15.3	14,757.0	14,846.6
Personal Emoluments	6,004.9	2,947.7	3,369.0	3,290.4	-2.3	6,463.4	6,238.1
PSRP	20.0	0.0	30.0	5.0	-83.3	35.0	5.0
Use of Goods and Services	3,555.9	1,210.5	1,410.5	1,585.9	12.4	3,274.8	2,796.4
Interest	1,284.5	475.3	502.7	1,045.7	108.0	1,079.3	1,521.0
Grants and Other Payments	1,512.7	640.7	1,344.1	1,156.9	-13.9	2,119.9	1,797.6
Social Benefits	217.8	53.5	157.1	106.1	-32.4	211.6	159.6
Other Expenses	526.2	415.5	792.0	1,714.8	116.5	1,241.1	2,130.3
Liabilities	269.2	127.2	181.0	71.4	-60.6	331.7	198.6
Assets	3,030.7	890.8	2,542.2	1,339.9	-47.3	4,056.7	2,230.7
Non Financial Assets	2,947.6	861.9	2,493.3	1,303.1	-47.7	3,967.1	2,165.0
Financial Assets	83.1	28.9	48.8	36.8	-24.6	89.5	65.7
Statistical discrepancy & Change in balances	0.0	-295.6	-110.2	721.3	-754.8	293.7	425.7
Change in Balances	0.0	-185.8	-134.7	-951.5	606.6	242.6	-1,137.3
Statistical discrepancy	0.0	-109.8	24.5	1,672.8	6,727.8	45.3	1,563.0
Fiscal Balance	**-1,888.2**	**-871.6**	**-2,338.0**	**-811.8**	**65.3**	**-3,367.0**	**-1,683.4**
Financing	1,888.0	871.5	2,338.0	811.8	-65.3	3,367.0	1,683.3
Domestic	1,487.0	729.3	1,632.0	791.5	-51.5	2,496.0	1,520.8
Foreign	401.0	142.2	706.0	20.3	97.1	871.0	162.5

Source: Ministry of Finance and National Planning

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

	Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns)[2]		Average Subscription Rate (%)[3]	
	Jan – Jun, 10	Jun – Dec, 10	Jan – Jun, 10	Jul – Dec, 10	Jan – Jun, 10	Jul – Dec, 10	Jan – Jun, 10	Jul – Dec, 10
91-day bills	20.0	22.7	28.1	36.2	7.8	13.5	39.0	159.3
182-day bills	20.0	22.7	25.2	31.3	5.2	8.6	25.8	138.0
273-day bills	20.0	22.7	34.9	38.3	14.9	15.7	74.5	169.0
364-day bills	40.0	48.1	67.0	84.5	27.0	36.5	81.3	175.9
TOTAL	**100.0**	**116.2**	**154.8**	**190.4**	**57.9**	**74.2**	**54.8**	**163.9**
2-year bond	26.7	30.8	69.3	53.4	42.6	22.5	159.7	173.0
3-year bond	33.3	37.5	68.3	67.8	34.9	30.3	104.8	180.8
5-year bond	41.7	45.8	84.0	42.5	42.4	-3.4	101.7	92.6
7-year bond	6.7	7.5	12.8	6.4	6.2	-1.1	92.5	85.6
10-year bond	6.7	7.5	10.4	0.9	3.8	-6.6	56.5	12.5
15-year bond	5.0	5.8	6.2	0.6	1.2	-5.2	23.6	10.6
TOTAL	**120.0**	**135.0**	**251.0**	**175.8**	**131.0**	**36.6**	**109.2**	**127.1**

Source: Bank of Zambia

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

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

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

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

1.	Dr Caleb M. Fundanga	Governor
2.	Dr Austin Mwape	Deputy Governor - Operations
3.	Dr Tukiya Kankasa-Mabula	Deputy Governor - Administration
4.	Mr Likolo Ndalamei	Secretary to the Treasury
5.	Ms Justina Wake	Member
6.	Mrs Beatrice Nkanza	Member
7.	Prof. Manenga Ndulo	Member, University of Zambia
8.	Prof. John Lungu	Member, Copperbelt University
9.	Mr Romance C. Sampa	Member
10.	Mr Peter Mukuka	Member, Central Statistical Office
11.	Dr Anthony Mwanaumo	Member
12.	Dr Dennis Chiwele	Member, Bank of Zambia Board