BANK *of* ZAMBIA

MONETARY POLICY STATEMENT

JANUARY - JUNE 2013

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*".

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

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Executive Summary

In the second half of 2012, monetary policy continued to focus on the attainment of end-year annual inflation target of 7.0%. The BoZ Policy Rate was maintained at 9.0%, until effective November 2012 when the Monetary Policy Committee at its sitting in October raised the Rate to 9.25%, on concerns of strong inflationary pressure. Inflationary concerns were premised on higher liquidity explained by the increase in net Government spending and OMO. Consequently, the interbank rate declined to 6.7% in September and hence crawled out of the Policy Rate corridor of 7% to 11%. In response, the Bank of Zambia undertook pre-emptive OMO to influence an upward movement in the interbank rate towards the revised Policy Rate target of 9.25%, and mop up excess liquidity. As a consequence, the 5-day moving average interbank rate closed at 8.2% at end December 2012.

The performance of monetary policy during the reviewed period was favourable, as inflation outcome was broadly in line with the end-year target of 7%. This was despite annual overall inflation rising to 7.3% in December 2012 from 6.7% in June 2012. Increasing food inflation was the main driver while non-food inflation had a moderating influence as it slowed down during the reviewed period.

Over the last six months of 2012, reserve money increased by 66.7%, mainly on account of maturing OMO funds and net Government spending. These influences were however partially offset by sales of Government securities and net sales of foreign exchange to the market. Further, broad money (M3) growth was higher at 7.9% compared with 5.5% in the first half of 2012. This outturn in M3 was due to a 30.6% growth in *net foreign assets* as *net domestic assets* declined by 7.6%.

Total domestic credit declined slightly by 0.1% during the second half of 2012 compared with an increase of 9.4% recorded in the first half of 2012. This was primarily as a result of a fall in lending to central government by 62.1%. Meanwhile, lending to the private sector rose by 20.6% during the same period.

In the Government securities market, both the weighted average Treasury bill yield rate and weighted average bond yield rate for the six month period increased. On the other hand, the average lending rate declined to 16.1% in December 2012 from 16.6% in June 2012.

The performance of the Kwacha against major international currencies was mixed. The local currency gained against the US dollar and rand while it depreciated against the euro and the Pound. The appreciation of the Kwacha was explained by steady supply of foreign exchange to the market while the depreciation against the euro and pound was on account of international developments in Europe and United States of America.

Preliminary data show that in the second half of 2012, Zambia's external sector performance continued to be favourable, with the overall merchandise trade surplus rising by 79.9% to US $308.7 million from US $171.6 million registered during the first half of the year. This outturn was explained by a higher increase in the merchandise export earnings relative to the merchandise imports bill.

Preliminary data indicated that the Central Government budget recorded a surplus of K40.9 billion against the programmed deficit of K3,258.4 billion. This performance during the second half of 2012 was due to lower than programmed expenditure, as revenues were below target.

With regard to the performance of the economic programme, preliminary data indicated that only the Net Domestic Assets of the Bank of Zambia performance criteria was on track, whilst the Net Domestic Financing of Government and the Unencumbered International Reserves quantitative performance criterion were off track.

During the first half of 2013, inflation is expected to slow down to 6.4% in June from 7.3% in December 2012 despite expected inflationary pressures in the first quarter. The upward risks to inflation are likely to emanate from the seasonal low supply of fish (following the annual fishing ban); selected vegetables as a result of unfavourable conditions during the rainy season); beef; and beef products. This is in addition to cost-push pressures arising from the pass-through effects of the depreciation of the exchange rate in much of the latter part of the second half of 2012. However, inflationary pressures are anticipated to be moderated by a steady supply of maize to the millers by the Food Reserve Agency coupled with the tightening of monetary policy in the first quarter of 2013, through the increase in the reserve requirement to 8% from 5%. As a result of the above developments, inflation is likely to decline marginally to 7.1% in March 2013.

During the second quarter 2013, inflation is anticipated to decelerate further on the back of seasonal improvement in food supply such as fish, selected vegetables and grain. The annual fishing ban will be lifted in March while an improvement in weather conditions should boost supply of vegetables to the market and consequently subdue prices. An increase in grain stocks is expected as the 2013 agricultural marketing season commences during this quarter.

In the two- year period ending 2014, monetary policy formulation and implementation will be geared towards attaining Government’s broad economic objectives, which include reducing inflation to 5.0% by 2014; achieving real GDP growth rate of at least 7% in 2013 and 7.8% in 2014; limiting overall fiscal deficit to 4.3% of GDP in 2013 and 2.4% in 2014; limiting domestic borrowing to at most 1.5% of GDP in 2013 and 1.2% in 2014; and accumulating foreign reserves to at least 4 months of import cover in 2013 and 3.9 months in 2014.

The Bank of Zambia will continue to use market-based instruments of monetary policy to steer the average interbank rate towards the Policy Rate.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy during the period June to December 2012 and outlines the objectives of monetary policy for the first half of 2013. The Statement also discusses major challenges, which may influence the conduct of monetary policy during the review period. A summary of the principles that will guide monetary policy formulation and implementation from January 2013 to December 2014 are outlined in the final part of the Statement. In this regard, sections 2 to 4 reviews the performance of monetary policy during the period June to December 2012 while section 5 outlines the objectives of monetary policy, economic outlook and inflation projection for the first half of 2013. The Statement closes with monetary policy principles for the period January 2013 to December 2014.

2.0 Conduct of Monetary Policy

At the beginning of the second half of 2012, monetary policy was aimed at maintaining the 30-day moving average of the overnight interbank rate around 9.0%, but within a corridor of 7% and 11%. However, during October this was revised as monetary policy aimed at the 5-day moving average of the overnight interbank rate of 9.25% but an allowable corridor of 7.25% and 11.25%. In order to smooth the interbank rate towards the BoZ Policy Rate, the Bank offered repos and term deposits through Open Market Operations (OMO) to align the overnight interbank rate towards the policy rate.

The response of commercial banks to the policy rate continued to be satisfactory during the last six months of 2012, as the average interbank rate remained within the corridor for most of the review period.

However, increased net maturity Government securities and OMO contributed to higher money market liquidity and the consequent decline in the interbank rate particularly in September when the rate crawled out of the corridor to 6.7%. In response, the Bank undertook pre-emptive OMO to influence an upward movement in the interbank rate towards the Bank of Zambia Policy Rate target of 9.25%.

3.0 Targets and Challenges

During the second half of 2012, monetary policy remained focused on attaining the end-year inflation target of 7.0%, albeit a number of challenges. The major challenges included:

- Rising prices of maize and maize products, particularly in the last two months of 2012 coupled with higher global food prices

- The pass-through effects of the depreciation of the Kwacha following the protracted debt crisis in the Eurozone and the pessimistic global growth outlook;

- Sustained increase in beef and beef product prices attributed to rising cost of livestock feed; and

- Seasonal increase in prices of fresh fish.

Given these challenges, the Monetary Policy Committee was of the view that these posed notable threats to the attainment of the end-year inflation target. In this regard, the BoZ Policy Rate was raised by 0.25 percentage points to 9.25% in October 2012 effective November 2012. The Committee also committed to mopping up excess liquidity through the use of other market-based instruments (see **Table 1).**

Table 1: Selected Monetary Indicators, 2010 – 2012 (%)

	2010	2011		Jul – Sep 2012		Nov – 2012	2012 (Annual))
	Actual	Prog.	Actual	Prog.	Actual	Actual	Actual
Overall Inflation	7.8	7.0	7.2	6.7	6.7	6.8	7.3
Non-food Inflation	11.8	5.5	10.2	9.7	10.2	5.8	6.1
Food Inflation	3.8	9.7	-3.9	4.8	3.9	8.0	8.4
BoZ Policy Rate (%)	n.a	n.a	n.a	9.0		9.25	n.a
Overnight Interbank Rate	2.4	-	5.2	-	8.0**	9.1	8.2*
Reserve Money	1.2	-5.6	6.3	1.1	6.5		66.7***
Broad Money	18.2	9.3	22.4	0.0	9.5	1.8	7.9***
Domestic Credit	9.9	-	19.0	-	12.2	7.5	0.1***
Government	32	-	-6.3	-	14.0	59.3	-62.1***
Public Enterprises	34.2	-	70.8	-	11.6		
Private Sector Credit	2.4	-	30.8	-		3.4	20.6***
Domestic Financing (% of GDP)	1.0	1.4	3.0	0.6	1.2		

Source: Central Statistical Office - The Monthly; and Bank of Zambia

Notes: n.a not applicable

-Indicates no target under the ECF Programme

- Inflation figures are on annual basis

*5-day moving average

** 30-day moving average

*** Last half of 2012

4.0 Assessment of Monetary Policy Outcome, July - December 2012

The performance of monetary policy during the second half of 2012 was favourable, as it was broadly in line with the end-year inflation target of 7%. Annual overall inflation rose to 7.3% in December 2012 from 6.7% in June 2012. Increasing food inflation was the main driver while non-food inflation had a moderating influence as it slowed down during the reviewed period.

During the reviewed period, an increase in net Government spending and net maturities of Government securities and OMO contributed to an increase in money market liquidity and the consequent decline in the interbank rate, particularly in September when the rate crawled out of the corridor to 6.7%. Reserve money increased by 66.7%. To this end, the Bank of Zambia undertook pre-emptive OMO to influence an upward movement in the interbank rate towards the Policy Rate target of 9.25%, and mop up excess liquidity. As a consequence, the 5-day moving average interbank rate closed at 8.2% at end December 2012.

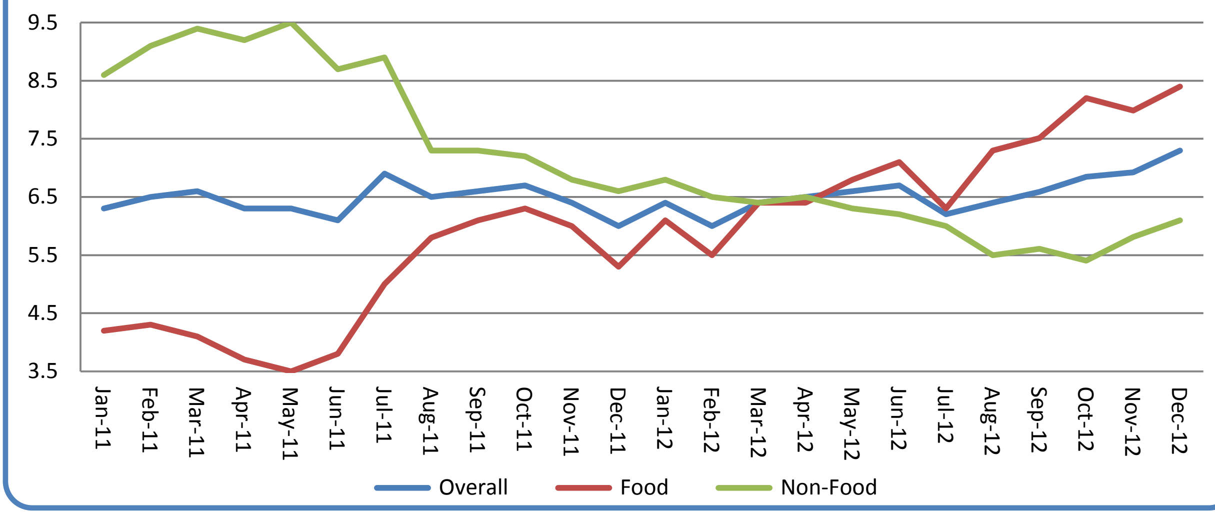
In the Government securities market, both the weighted average Treasury bill yield rate and weighted average bond yield rate increased. On the other hand, the average lending rate declined to 16.1% in December 2012 from 16.6% in June 2012.

The performance of the Kwacha against major international currencies was mixed. The local currency gained against the US dollar and rand while it depreciated against the euro and the Pound. The appreciation of the Kwacha was explained by steady supply of foreign exchange to the market while the depreciation against the euro and pound was on account of international developments in Europe and United States of America.

4.1 Overall Inflation

In the second half of 2012, inflationary pressures increased, mainly driven by food prices. Annual overall inflation rose to close at 7.3% as at end-December 2012 from 6.7% in June 2012, but was broadly in line with the 7.0% end-year target for 2012. Average annual inflation was 6.7% in the second half, 0.3 percentage points higher than the 6.4% average for the first half of 2012. The rise in inflation was accounted for by the impact of higher food prices, particularly mealie meal, beef products and some vegetables. Annual food inflation rose to 8.4% from 7.1% in June 2012. However, non-food inflation slowed down to 6.1% from 6.2% during the same period (see **Chart 1** and **Table 2**). Of the 7.3% annual overall inflation, food products accounted for 4.4 percentage points, while non-food products contributed 2.9 percentage points.

Chart 1: Annual Inflation Rates, Jan 2011 - Dec 2012



Source: *Bank of Zambia*

4.1.1 Non-Food Inflation

Annual non-food inflation remained moderate in the second half of the year, and edged down to 6.1% in December 2012 from 6.2% in June 2012. Similarly, average annual non-food inflation was lower at 5.7% in the review period compared to 6.5% in the first half. The lower outturn in non-food inflation was on account of the fall in annual inflation rates in the following sub-groups: Transport, 3.3% [7.3%][1]; Recreation and culture, 4.2% [8.1%], Furnishings, household equipment and routine house maintenance, 6.5% [7.9%]; and Housing, water, electricity, gas and other fuels, 7.0% [7.2%]. Annual inflation for the miscellaneous goods and services category remained unchanged at 6.6%. This was explained largely by stability in prices of most items in the non-food basket such as costs of electricity, communication and fuel. In addition, the relative stability in the exchange rate of the Kwacha in the second half of the year had moderating effects on non-food inflation.

However, higher inflation rates were recorded for Restaurants and hotels, 5.0% [2.1%]; Clothing and footwear, 6.5% [5.4%]; Health, 5.1% [4.5%]; Communication, 1.4% [1.0%] and Education,

[1] Refers to June 2012

8.8% [8.5%]. The higher inflation outturn for these categories partly reflected the impact of the rise in labour costs following the upward adjustment in the minimum wage.

4.1.2 Food Inflation

Inflationary pressure from food prices continued to mount in the second half of the year despite the relative abundance of food items on the market, particularly maize, following consecutive maize bumper harvests the country recorded. Annual food inflation rose to 8.4% in December 2012 from 7.1% in June 2012. This outturn was mainly on account of higher prices of mealie meal, pork, fresh kapenta and selected vegetables (tomatoes, rape, cabbage, okra and beans). The rise in prices of mealie meal resulted mainly from higher demand in some neighbouring countries, particularly DR Congo, where the commodity was fetching higher prices. This scenario saw the increase in exports of the commodity to these markets, thereby putting pressure on domestic prices. This was coupled by the impact of the rise in labour costs induced by the revision of the minimum wage. Further, prices of fresh kapenta and vegetables rose on account of low seasonal supply. The rise in domestic food prices was also partly attributed to the rise in global prices of staple foods, such as maize, wheat and rice, due to sustained demand. This upward trend in food inflation was also experienced in other countries in the region, driven mainly by the maize grain deficit experienced in the region.

Table 2: Inflation Outturn, January 2011 – December 2012 (%)

Month	Monthly			Year-to-date			Annual		
	Overall	Food	Non-Food	Overall	Food	Non-Food	Overall	Food	Non-Food
Jan-11	0.7	1.2	0.2	0.7	1.2	0.2	6.3	4.2	8.6
Feb-11	0.7	0.5	0.9	1.4	1.6	1.1	6.5	4.3	9.1
Mar-11	1.1	1.0	1.1	2.4	2.6	2.2	6.6	4.1	9.4
Apr-11	0.6	0.5	0.6	3.0	3.2	2.8	6.3	3.7	9.2
May-11	0.3	-0.1	0.8	3.3	3.1	3.6	6.3	3.5	9.5
Jun-11	0.0	-0.6	0.6	3.3	2.5	4.2	6.1	3.8	8.7
Jul-11	1.2	1.5	0.9	4.5	3.9	5.2	6.9	5.0	8.9
Aug-11	0.6	0.2	1.1	5.2	4.1	6.3	6.5	5.8	7.3
Sep-11	0.4	0.4	0.3	5.5	4.5	6.7	6.6	6.1	7.3
Oct-11	-0.2	-0.3	-0.1	5.4	4.2	6.6	6.7	6.3	7.2
Nov-11	0.1	0.4	-0.2	5.5	4.7	6.3	6.4	6.0	6.8
Dec-11	0.5	0.6	0.3	6.0	5.3	6.6	6.0	5.3	6.6
Jan-12	1.1	1.9	0.2	1.1	1.9	0.2	6.4	6.1	6.7
Feb-12	0.3	-0.1	0.7	1.4	1.8	0.9	6.0	5.5	6.5
Mar-12	1.4	1.9	1.1	2.8	3.7	2.0	6.4	6.4	6.4
Apr-12	0.7	0.5	0.7	3.5	4.2	2.7	6.5	6.4	6.5
May-12	0.4	0.3	0.6	3.9	4.6	3.3	6.6	6.8	6.3
Jun-12	0.0	-0.4	0.5	4.0	4.1	3.8	6.7	7.1	6.2
Jul-12	0.7	0.8	0.7	4.8	4.9	4.5	6.2	6.3	6.0
Aug-12	0.9	1.1	0.6	5.7	6.1	5.2	6.4	7.3	5.5
Sep-12	0.5	0.5	0.4	6.2	6.6	5.6	6.6	7.5	5.6
Oct-12	0.1	0.4	-0.3	6.3	7.0	5.3	6.8	8.2	5.4
Nov-12	0.2	0.2	0.1	6.4	7.3	5.5	6.9	8.0	5.8
Dec-12	0.8	1.0	0.6	7.3	8.4	6.1	7.3	8.4	6.1

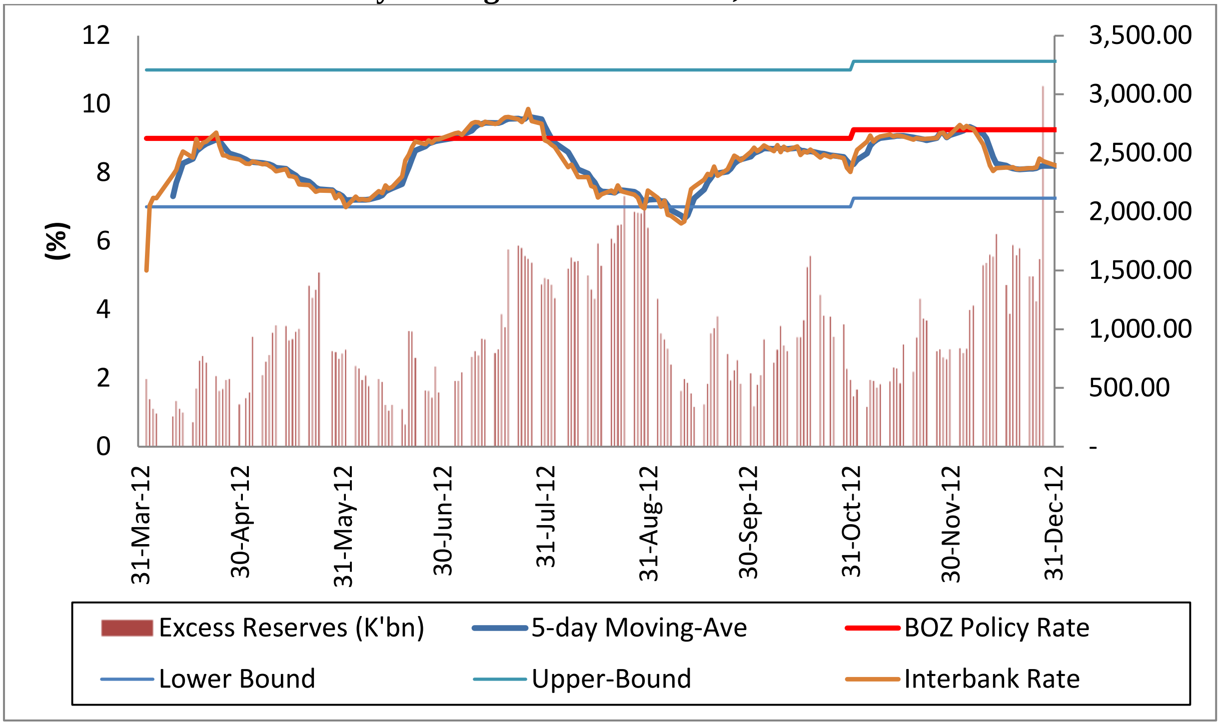
Source: *Central Statistical Office Bulletin - The Monthly*

4.2 Interbank Rate, Monetary and Credit Developments

4.2.1 Overnight Interbank Rate

During the second half of 2012, monetary policy was initially aimed at maintaining the 30-day moving average of the overnight interbank rate around the policy rate of 9.0%, but within a corridor of 7% and 11%. This was revised in October with the monetary policy aimed at keeping the 5- day moving average of the overnight interbank rate around 9.25% but within a corridor of 7.25% and 11.25%. In order to smooth the interbank rate towards the BoZ Policy Rate, the Bank offered repos and term deposits through Open Market Operations (OMO) to align the overnight interbank rate towards the policy rate. The average interbank rate remained within the corridor for most of the review period. However, the increase in net Government spending and net maturities of Government securities and OMO contributed to an increase in money market liquidity and the consequent decline in the interbank rate particularly in September when the rate crawled out of the corridor to 6.7%. In response, the Bank of Zambia undertook pre-emptive OMO to influence an upward movement in the interbank rate towards the Bank of Zambia Policy Rate target of 9.25%. To this effect, total OMO amounted to K15,502.0 billion for the second half of 2012. At end-December, the 5-day moving average interbank rate closed at 8.2% (see **Chart 2**).

Chart 2: 5-Day Average Interbank Rate, Mar 2012 – Dec 2012

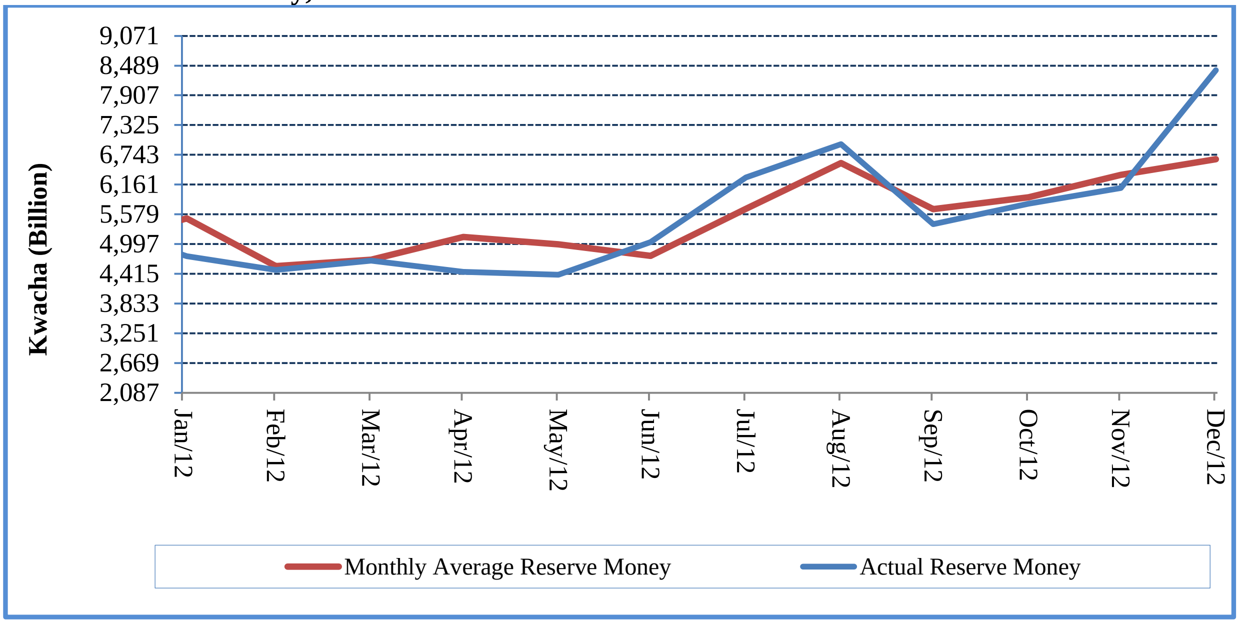


Source: Bank of Zambia

4.2.2 Reserve Money

Over the last six months of 2012, reserve money increased by 66.7% to K8,396.0 billion from K5,035.2 billion in the preceding half of 2012 (against end-December target K5,845.0 billion). This outturn was mainly influenced by maturing OMO funds and net Government spending amounting to K15,502.0 billion and K2,729 billion, respectively with the bulk of government spending disbursed in the fourth quarter. These influences were however partially offset by sales of Government securities amounting to K239.5 billion and net sales of foreign exchange worth K798.2 billion (see **Chart 3**).

Chart 3: Reserve Money, Jan 2012 – Dec 2012



Source: Bank of Zambia

4.2.3 Broad Money

Broad money (M3) comprehensively defined to include foreign currency deposits, rose by 11.7% to K25,699.0 billion as at end-December 2012 from K23,004.6 billion at end-June 2012 (Projected growth: -2.8%). This outturn was largely due to a 27.4%, increase in *net foreign assets* (NFA) which contributed 11.1 percentage points to M3 growth. In addition, *net domestic assets* (NDA) grew by 1.0%, contributing 0.6 percentage points to M3 growth. The rise in NFA was attributed to a 24.9% increase in gross international reserves to US $3,044.0 million at end-December 2012 from US $2437.0 million at end-June 2012, following receipt of the Eurobond proceeds. Excluding foreign currency deposits that fell by 10.1%, money supply rose by 22.9% in the period under review compared with 7.6% growth recorded in the first half of 2012 (see **Table 3**).

Table 3: Broad Money Developments (in K' billion unless otherwise stated), Dec 2010 – Dec 2012

Description	Dec 2010	Jun 2011	Dec 2011	Jun 2012	Dec 2012
Broad Money (M3)	17,916.6	20,340.3	21,804.8	23,004.6	25,699.0
Foreign Exchange Deposits	6,639.0	8,680.9	7,695.2	7,822.5	7,036.1
M3 (excl. Foreign Exchange Deposits)	11,277.6	11,659.3	14,109.6	15,182.1	18,662.9
6-Month Change in M3 (%)	11.5	13.5	7.2	5.5	11.7
6-Month Change in Foreign Exchange Deposits (%)	39.2	30.8	-11.4	1.7	-10.1
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	-0.2	3.4	21.0	7.6	22.9
Annual Change in M3 (%)	26.8	26.6	21.7	13.1	17.9
Annual Change in Foreign Exchange Deposits (%)	30.3	82.0	15.9	-9.9	-8.6
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	24.9	3.2	25.1	30.2	32.3

Source: Bank of Zambia

4.2.4 Domestic Credit

Domestic credit, comprehensively defined to include foreign currency loans, rose by 7.2% during the second half of 2012 compared with an increase of 9.4% recorded in the first half of 2012. In absolute terms, domestic credit rose to K19,726.8 billion in December 2012 from K18,396.3 billion as at end-June 2012. This was on account of the increase in lending to private enterprises and households by 19.1% and 25.9% contributing 8.1 and 6.4 percentage points, respectively, to domestic credit growth. In addition, lending to public enterprises rose by 506.1% and contributed 3.1 percentage points to domestic credit growth. However, credit to government fell by 37.1%, contributing negative 10.4 percentage points to the domestic credit outturn Excluding foreign currency denominated loans that decreased by 5.5%, domestic credit rose by 12.1% compared with 8.3% growth recorded in June 2012 (see **Table 4**).

Table 4: Domestic Credit Developments (in K' billion unless otherwise stated), Dec 2010 – Dec 2012

Description	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12
Domestic Credit (DC)	14,682.9	14,538.7	16,822.6	18,396.3	19,726.8
O/w Foreign Exchange Credit	4,538.4	4,051.8	4,538.4	5,090.0	4,808.2
DC (Excl. FX Credit)	10,144.5	10,486.9	12,284.2	13,306.3	14,918.6
6-Month Change in Domestic Credit	7.6	-1.0	15.7	9.4	7.2
6-Month Change in Foreign Exchange Credit	42.6	-10.7	12.0	12.2	-5.5
6-Month Change in DC (Excl. Foreign Exchange Credit)	-3.0	3.4	17.1	8.3	12.1
Annual Change in Domestic Credit	21.0	6.6	14.6	26.5	17.3
Annual Change in Foreign Exchange Credit	23.0	27.3	44.8	25.6	5.9
Annual Change in DC (Excl. Foreign Exchange Credit)	5.8	0.3	21.0	26.9	21.4

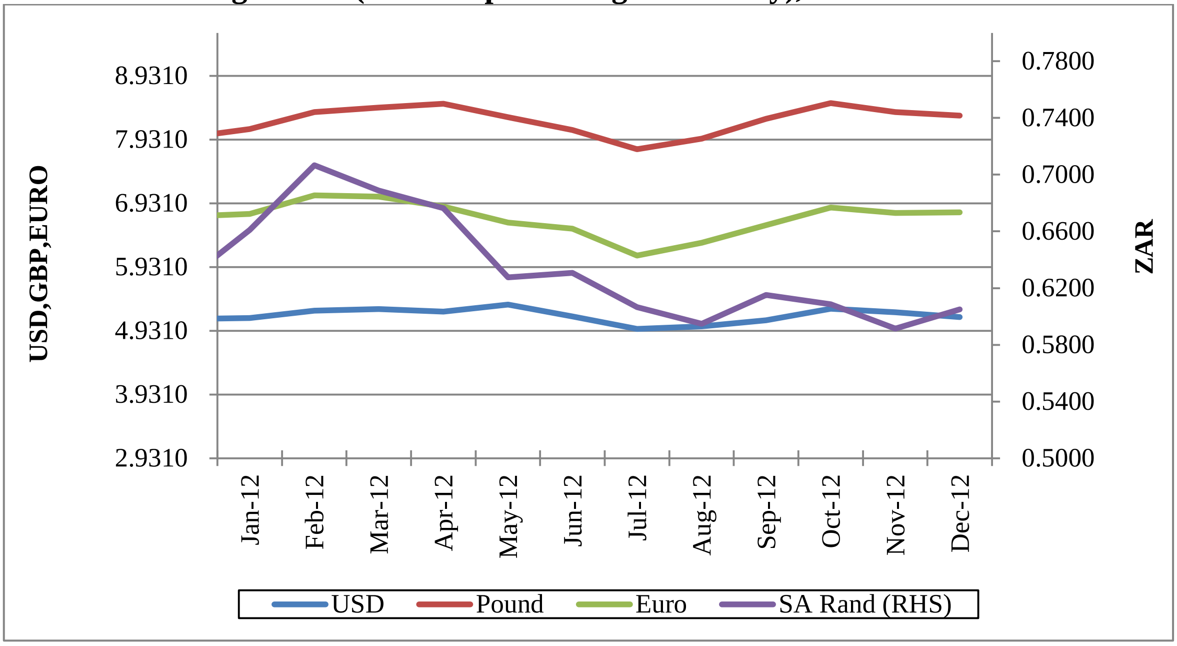
Source: Bank of Zambia

In terms of credit by sector, households (personal loans category) continued to hold the largest share of outstanding credit, accounting for 32.4% in December 2012 compared with 31.9% in June 2012. The agricultural sector was second at 22.6% (15.9%), followed by Manufacturing 11.3% (12.8%), Wholesale and Retail Trade 6.7% (9.0%), Mining and Quarrying 5.7% (5.5%), and Transport, Storage and Communications 4.6% (5.2%) (see **Appendix III, Table 5a**).

4.3 Foreign Exchange Market

In the latter half of 2012, the foreign exchange market was characterised by mixed developments attributed to a combination of domestic and international factors. The Kwacha appreciated against the US dollar and rand while it depreciated against the euro and the Pound. The Kwacha posted an appreciation of 0.2% against the US dollar to close the period at K5,146.61/US$ in December 2012 from K5,154.54/US$ in June 2012. Against the South African rand, the Kwacha gained by 4.1% to close at K605.04/ZAR from K630.84/ZAR, previously. However, the Kwacha depreciated by 3.8% and 2.8% against the euro and pound to close at K6,534.41/€ and K8,306.63/£, respectively (see **Chart 4**)

Chart 4: Exchange Rates (Kwacha per Foreign Currency), Jan – Dec 2012



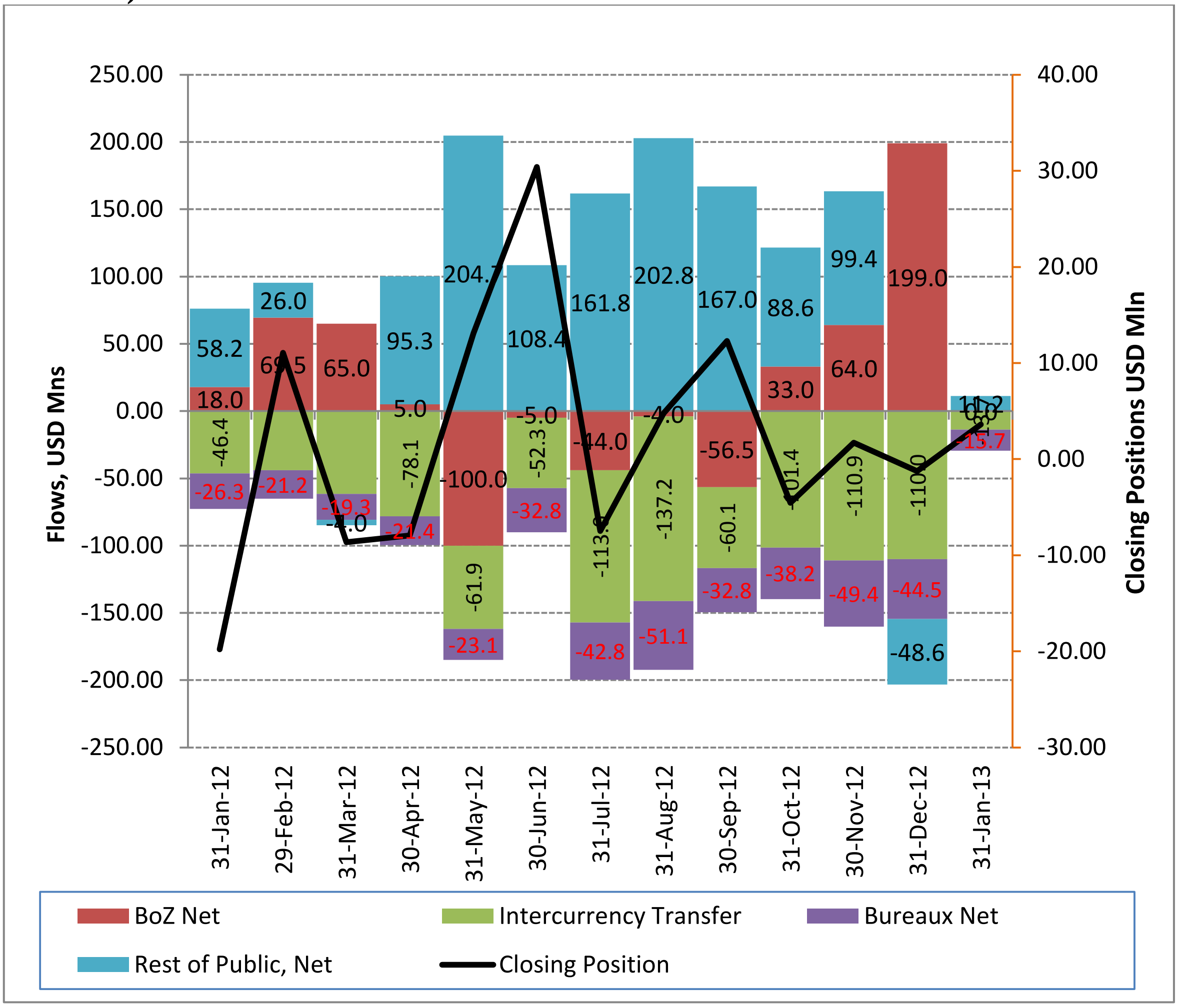
Source: Bank of Zambia

The appreciation of the Kwacha against the dollar and rand was on account of steady supply of foreign exchange by corporates, in particular from the mining companies and foreign financial firms coupled with the favourable effects of Statutory Instrument Number 33. In addition, the Bank of Zambia made net sales of foreign exchange amounting to US$194.5 million (first half 2012;US$51.5 million) to the market to stem volatility partly arising from increased demand for foreign exchange for purchases of petroleum products and agricultural inputs. The high volatility was reflected in the Six-month moving standard deviation of K153.15 compared to K65.46 in the first half of 2012.

In the review period, there was net foreign exchange supply into the market as volumes supplied to commercial banks increased. Banks recorded net purchases of US$671.1 million from the public compared with US$489.1 million in the first half of 2012. Sales to the bureaux-de-change sector increased sharply to US$256.3 million from US$144.1 million. Commercial banks increasingly sold US dollars in exchange for other non-Kwacha currencies (inter-currency transactions). In this regard, banks gave up an increased amount of US$632.7 million in inter-currency transactions compared with US$344.1 million in the first half of 2012 (see **Chart 5**).

In contrast, the Kwacha depreciated against the euro and pound, which gained in December as the dollar faltered on account of progress on the fiscal cliff talks which raised concerns of potential economic recession in the United States of America.

Chart 5: Commercial Banks' Sources of Foreign Exchange, Jan 2012 – Dec 2012 (US $'million)



Source: Bank of Zambia

4.4 International Trade Developments

Preliminary data show that in the second half of 2012, Zambia's external sector performance continued to be favourable, with the overall merchandise trade surplus (c.i.f) rising by 79.9% to US $308.7 million from US $171.6 million registered during the first half of the year (see Appendix III, Table 1). This outturn was explained by a higher increase in the merchandise export earnings relative to the merchandise imports bill.

Merchandise export earnings grew by 16.5% to US $5,040.5 million from US $4,327.7 million recorded during the first half of 2012, following increased metal and non-traditional export earnings. Metal export earnings grew by 14.9% to US $3,523.1 million during the second half of 2012 from US $3,065.1 million registered during the first half of the year. Increased exports of both copper and cobalt explained this outturn. Copper export earnings grew by 12.5% to US $3,353.8 million from US $2,981.0 million recorded during the first half of the year, largely on account of a rise in export volumes. Copper export volumes, increased by 21.9% to 496,124.2 metric tons (mt) from 407,013.2 mt recorded in the first half of 2012. The realised average prices of copper, however, declined by 7.7% to US $6,759.99 per ton (US $3.07 per pound) from US $7,324.10 per ton (US $3.32 per pound) realised during the first six months of the year.

Continued concerns of the euro-region debt crisis that threatened demand partly explained the drop in copper prices (see Appendix III, Table 3).

During the period under review, cobalt export earnings more than doubled to US $169.3 million from US $84.1 million, on account of a rise in both the average realised price and export volumes. The average realised price of cobalt increased by 8.7% to US $25,998.28 per ton (US $11.79 per pound) from US $23,913.98 per ton (US $10.85 per pound) recorded during the first half of 2012. Similarly, cobalt export volumes, surged by 85.2% to 6,512.2 mt from 3,517.2 mt recorded in the first half of 2012 (see Appendix III, Table 2).

Non-traditional export earnings rose by 20.2% to US $1,517.4 million during the last six months of 2012, from US $1,262.6 million registered during the first half of 2012. This was explained by increased earnings from the export of cotton lint, fresh fruits and vegetables, cane sugar, copper wire, gemstones, electrical cables, burley tobacco and other exports.

Over the same period, merchandise import bills grew by 13.9% to US $4,731.8 million from US $4,156.1 million recorded during the first six months of 2012, explained by increased import bills of commodity groups such as, petroleum products (49.9%), motor vehicles (45.7%), food items (25.3%), fertilisers (20.7%), electrical machinery and equipment (12.8%), industrial boilers and equipment (10.7%), plastic and rubber products (4.6%), iron and steel (4.2%) and other imports (1.5%).

4.5 Fiscal Developments

During the last half of 2012, preliminary data indicate that the Central Government budget recorded a surplus of K40.9 billion during the second half of 2012 against the programmed deficit of K3,258.4 billion (see Appendix III, Table 5). This performance was due to lower than programmed expenditure, as revenues were below target.

Total revenues and grants at K12,414.8 billion were 0.9% below the programmed amount of K12,531.5 billion, largely explained by the delayed disbursement of external grants, particularly project support. Total grants were K199.8 billion, thus 82.1% below the programmed level of K1,113.6 billion.

Notwithstanding the above, tax revenues at K11,422.2 billion were 3.4% above target, mainly reflecting higher than programmed income tax, both corporate and personal income tax. In addition, non-tax revenues at K792.8 billion were also above the target of K376.5 billion, mainly due to favourable collections under road user fees and charges.

Total expenditures during the review period were K12,852.4 billion and were accordingly 26.9% lower than the programmed amount of K17,584.2 billion. This was mainly due to lower expenditure on capital projects, notably ZESCO power rehabilitation and road maintenance.

During the second half of 2012, the Government made some repayments towards foreign debt. Accordingly, a net amortisation of K40.9 billion was made against the programmed financing of K3,258.3 billion. This comprised domestic financing of K1,028.9 billion and foreign debt service of K1,069.8 billion.

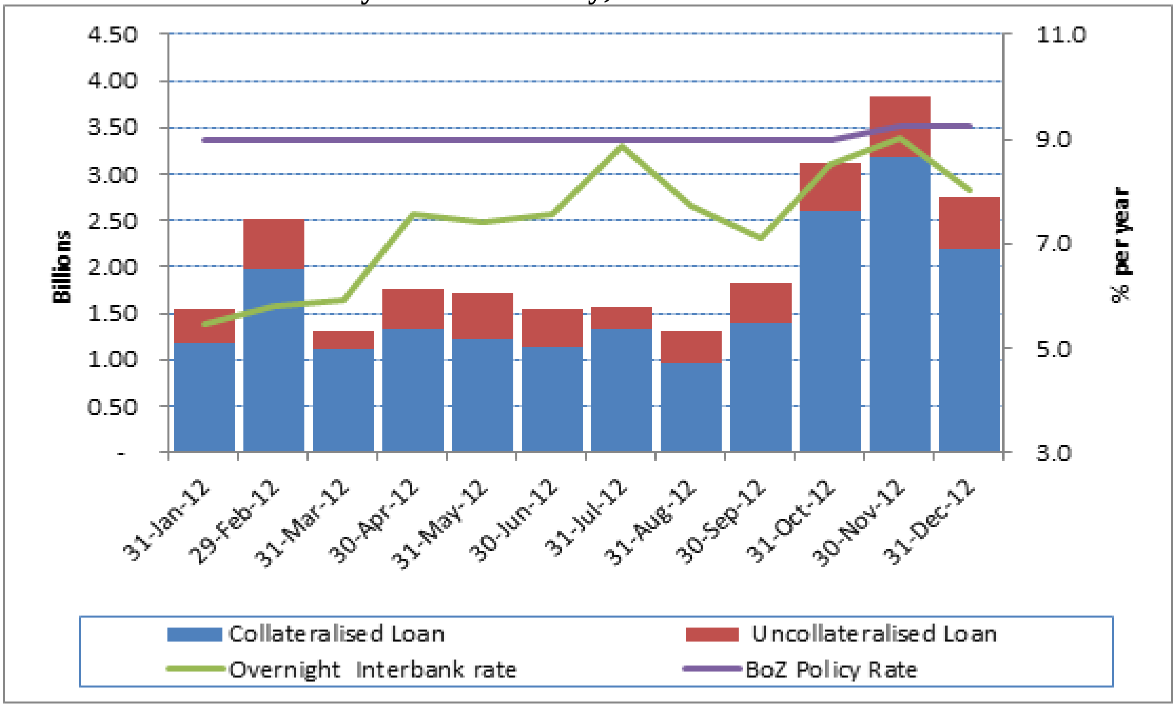
4.6 Money and Capital Markets Developments

4.6.1 Money Markets

Interbank market

During the second half of 2012, the volume of funds traded in the interbank money market increased to K26,337.7 billion from K13,648.5 billion in the first half of 2012. The market remained most active at the shortest maturity with K18,931.9 billion of the total funds traded on an overnight basis. However, liquidity was concentrated in a few big banks which placed an upward pressure on the cost of interbank loans. This was reflected by an increase in interbank rate to an average rate of 8.5% from an average of 8.0% in the first half of 2012. However, at the close of December 2012, the overnight interbank rate declined to close at 8.3% compared to 8.9% at close of June 2012. This was attributed to the continued build-up of liquidity in the money market (see **Chart 6**).

Chart 6: Interbank Money Market Activity, Jan 2012 – Dec 2012



Source: Bank of Zambia

Overnight Lending Facility

In the review period, banks reduced their borrowings at the overnight lending facility window, due to the improvement in the distribution of liquidity in the money market. A total of K736.2 billion in short-term relief funds was borrowed from the Bank of Zambia, compared with K860.2 billion previously borrowed in the first half of 2012. These funds were advanced at rates ranging from 11.5% to 11.75%.

Government Securities Market

In the period under review, the total value of Treasury bills placed on offer was K4,900.0 billion compared to K4,240.0 billion during the first half of 2012. In response to the tender invitations, investors submitted bids amounting to K6,948.5 billion, higher than K5,391.3 billion submitted in the preceding period. This translated into an over-subscription by 41.8% compared with 27.0% obtained in the first half of 2012. Total sales to the market were recorded at K3,813.9 billion against maturities of K1,886.6 billion.

With regard to Government bonds, securities worth K1,200.0 billion was placed on offer, similar to the amount offered previously. Investors placed bids worth K1,928.9 billion, which translated into a subscription rate of 160.7%, which was higher than the 158.2% recorded in the first half of 2012 (see Table AIII.6). Out of the bids received, K789.3 billion was accepted against a maturity of K224.3 billion.

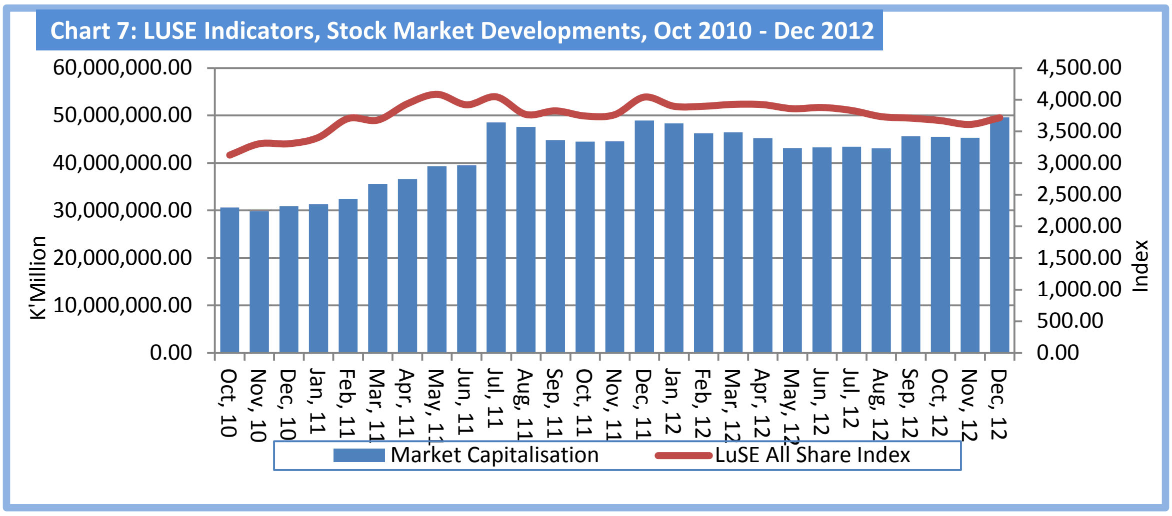
Stock of Government Securities

As a result of the net sales of Government securities in the primary market, the total stock of Government securities in circulation rose by 0.2% to K14,357.7 billion from K14,326.7 billion recorded at end-June 2012. The stock of Treasury bills in circulation decreased by 1.6% to K6,840.8 billion compared with a growth of 8.7% in the first half of 2012. The reduction in Treasury bill holding is as a result of diminishing demand for short term securities in preference for long term securities. However, the stock of marketable Government bonds outstanding rose by 2.0% to K7,516.9 billion compared with an increase of 9.6% previously to K7,371.0 billion.

Of this total value of outstanding securities, commercial banks accounted for the largest proportion, with a holding of K7,752.0 billion (54.0%). The non-bank public accounted for K4,686.4 billion (32.6%) while the Bank of Zambia accounted for K1,919.3 billion (13.4%) of the total outstanding securities.

4.6.2 Capital Market

The stock market posted gains over the last six months of 2012. Market capitalisation increased by 14.7% to K49,624.7 billion (equivalent of US$9,327.0 million) from the end-June 2012 position of K43,265.6 billion (US$8,241.0 million). However, the Lusaka Stock Exchange (LuSE) All Share Index declined by 4.2% to 3,714.6 from 3,876.4 (see **Chart 7**). The decline in the index was as a result of a fall in share prices of the major market players notably ZAMEFA, Bata and Zambia Sugar Plc. Preliminary data shows that net foreign portfolio outflows from the market totalled US$1.3 million for the period, compared to net outflows amounting to US$6.1 million in the first half of the year.

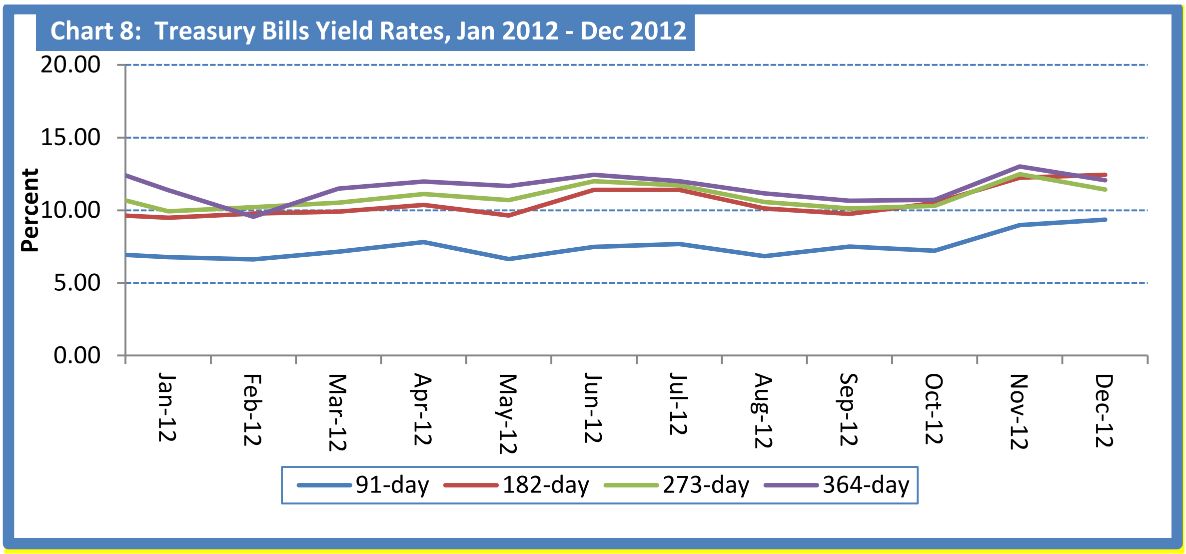


Source: Lusaka Stock Exchange

4.7 Interest Rates

4.7.1 Government Securities Interest rates

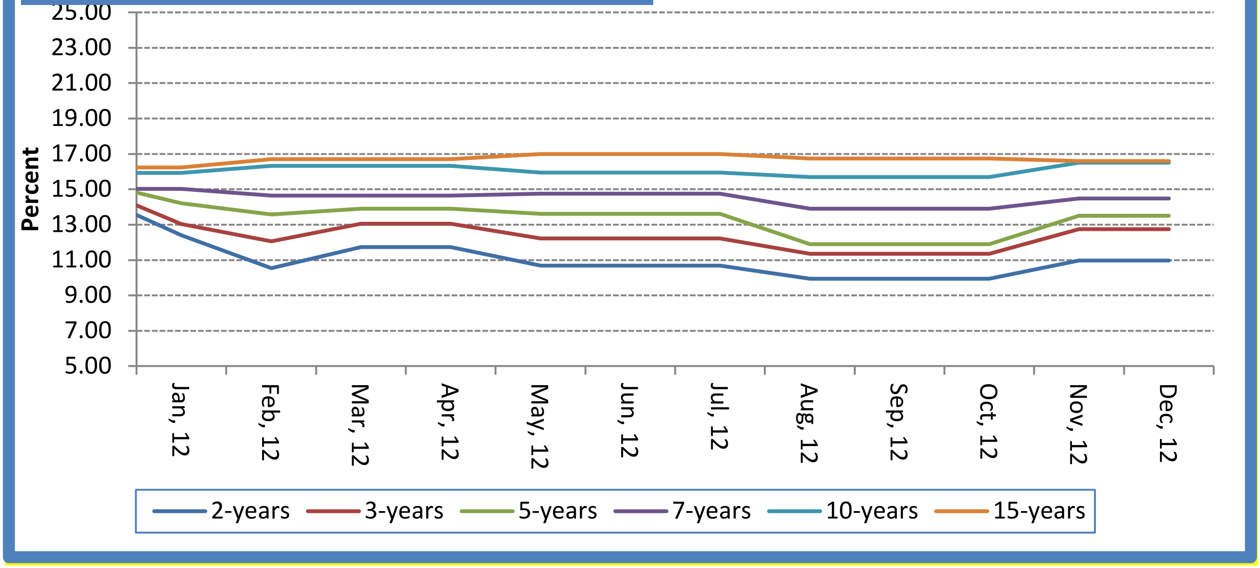
During the review period, yield rates on Treasury bills had mixed performance. The yield rates for the 91- and 182-day bills increased to 9.4% and 12.6% from 7.1% and 10.0%, respectively, while the yield rates for the 273- and 364-day bills both declined by over 9 and 2 basis points to 11.0% and 11.7% mainly due to higher demand. The weighted average Treasury bill yield rate for the six month period nonetheless increased to 11.9% from 10.5% in the previous period (see **Chart 8**).



Source: Bank of Zambia

Similarly, the yield rates on Government bonds had a mixed performance in the second half of 2012. The yield on the 2-year paper increased by 30 basis points to 11.0% while yield rates for the 3 and 10 year tenors increased by 50 and 60 basis points to 12.8% and 16.5%, respectively. On the other hand, yield rates for 5, 7 and 15 year bills shed 11, 30 and 40 basis points to 13.5%, 14.98% and 16.6%, respectively. Notwithstanding, the weighted average bond yield rate closed higher at 13.5% from 12.9% (see **Chart 9**).

Chart 9: Govt Bonds Yield Rates, Jan 2012 - Dec 2012

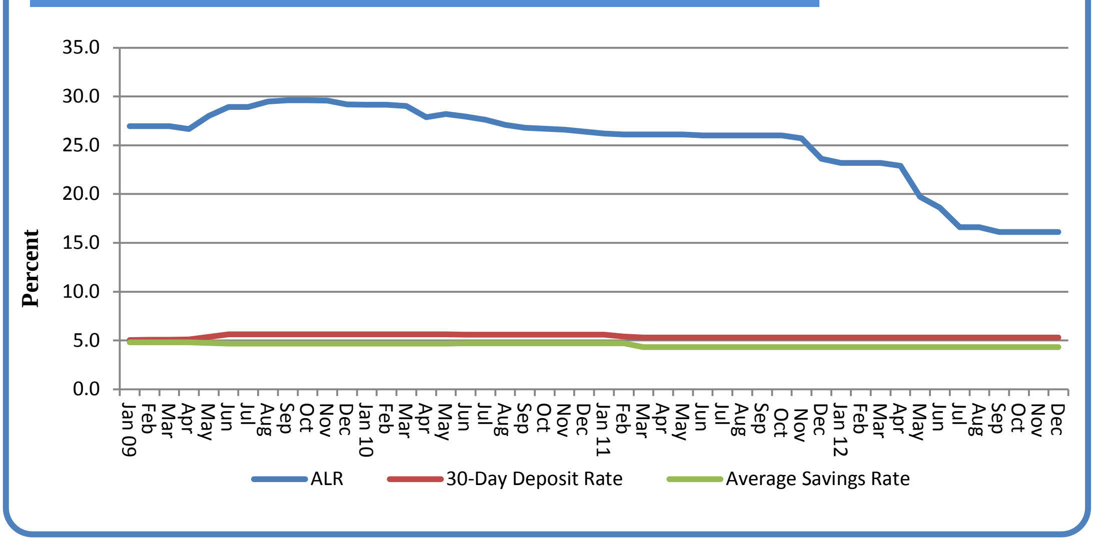


Source: Bank of Zambia

4.7.2 Commercial Banks Interest Rates

The Average Lending Rate (ALR) decreased to 16.1% in December 2012 from 16.6% in June 2012. However, both the Average Savings Rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts exceeding K20.0 million remained unchanged at 4.3% and 5.3%, respectively (see **Chart 10**).

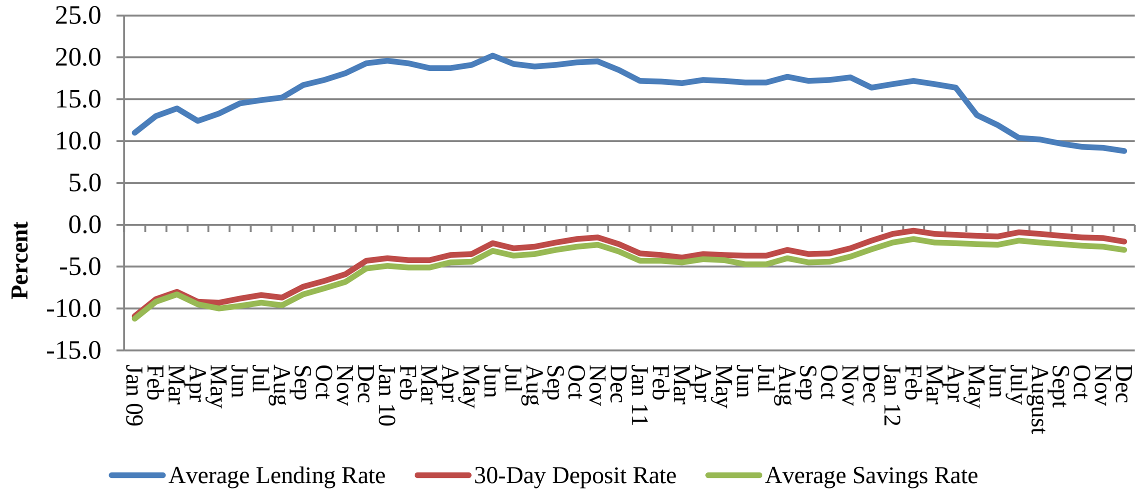
Chart 10: Lending and Saving Rates, Jan 2009- Dec 2012



Source: *Bank of Zambia*

In real terms, interest rates declined during the review period due to an increase in annual overall inflation to 7.3% from 6.7% in June 2012. The real ALR fell to 8.8% in December 2012 from 9.4% in June 2012. Similarly, the real ASR for amounts above K100,000.00 and the real 30-day deposit rate for amounts above K20.0 million declined to -3.0% [-2.4%] and -2.0% [-1.4%], respectively (see **Chart 11**).

Chart 11: Real Interest Rates (%), Jan 2009- Dec 2012



Source: Bank of Zambia

4.7.3 Non-Bank Financial Institutions Lending Rates

In the second half of 2012, the total cost of credit as measured by the average effective annual interest rates declined in two sub-sectors of the non-bank financial institutions sector, namely, microfinance and leasing finance. However, interest rates remained stable in the building societies, development finance and savings and credit sub-sectors. The interest rate declines led to a decrease of 5.3 percentage points in the overall average effective annual interest rate for the non-bank financial institutions sector to 50.3% as at the end of the second half of 2012 from the average rate of 55.6% for the first half of 2012 (see **Table 5**).

The decline in the average effective annual interest rate is attributable to a combined effect of the introduction of the BoZ policy rate in the first half of 2012 which is an anchor for the determination of lending rates on credit. A number of commercial banks, which are major sources of finance for most non-bank financial institutions, announced reductions in base rates after the introduction of the policy rate which contributed to the reduction in the average effective annual interest rate for the NBFIS sector. The continued publication of comparative interest rates in the print media also contributed to the reduction in the lending rates by fostering interest rate competition.

Despite the reduction, the lending rates of the micro-finance and leasing finance institutions remained relatively high.

Table 5: Average Annual Effective Interest Rates (%)

Description	**Second Half 2012**	**First Half 2012**
Microfinance Institutions	115.5	120.8
Leasing Finance Institutions	63.0	78.4
Building Societies	25.3	25.3
Development Bank of Zambia	20.6	26.6
National Savings and Credit Bank	27.0	27.0
Overall for the sector	***50.3***	***55.6***

Source: Bank of Zambia

5.0 Monetary Policy Objectives and Instruments for January - June 2013

The objective of monetary policy during the period is to sustain single digit annual inflation. The Bank of Zambia will manage liquidity through OMO and Government securities auctions to influence the 5-day moving average interbank in order to keep it as close as possible to the Policy Rate. The Bank will also continue to use market based instruments to mop up the excess liquidity and thereby influence money supply in line with the end-year inflation target of 6.0%.

5.1 Economic Outlook for the First Half of 2013

Zambia's economic prospects for the first half of 2013 remain favourable. This is underpinned by expected good domestic performance driven by the agricultural, and construction sectors. In this regard, GDP is expected to be in line with the projected annual GDP growth rate of 7% while inflation is expected to slow down to 6.4% at end June 2013 on the back of improved food supply in the latter part of the period. Further, the expansionary fiscal policy reflected in 2013 budget deficit projection of 4.3% of GDP will support increased economic activities particularly with respect to infrastructure development. Recent Government initiatives aimed at lowering the cost of borrowing should also boost national output. With the expected recovery in the global economy, Zambia's external sector is projected to improve supported by continued growth of non-traditional exports. The World Bank's Commodity Market Outlook for January 2013, indicate an easing of most commodity prices, including those of crude oil, maize and copper. It forecasts a fall in crude oil average spot prices per barrel to US $102 in 2013 from US $105 in 2012. Similarly, the average price of copper per metric ton is forecasted to decline to US $7,800 from US $7,962 in 2012. A fall in crude oil prices should have a positive bearing on the cost of production as it will have an effect of moderating any significant increases in the domestic fuel pump prices, and therefore support growth.

However, there are challenges to this outlook which include fiscal cliff in the United States of America yet to be fully resolved; spending cuts by some of the developed economies; and weak consumer and business confidence in most of the developed economies. Further, a fall in the price of copper may reduce export earnings, particularly if this is not marched by an increase in export volume, with consequences on the country's current account and the exchange rate. Furthermore, there are potential threats to the achievement of end year inflation target of 6% arising from high global food prices, despite the easing of most global food prices in the last few months of 2012, and the liquidity overhang from 2012.

Box 1: The US Fiscal Cliff - Fiscal cliff is a term used to describe a series of enacted legislature which if unchanged will result in tax increases, spending cuts and corresponding reduction in the US budget deficit. This would also affect the growth of the US economy. All these measures were to take effect at the end of December 2012. The measures are also referred to as the Budget Control Act or the Bush Tax Cuts.

Among the measures were:

- the end of 2011 temporary payroll tax cuts (resulting in a 2% tax increase for workers);
- the end of certain tax breaks for businesses;
- shifts in the alternative minimum tax that would take a larger bite;
- a rollback of the "Bush tax cuts" from 2001-2003, and;
- the beginning of taxes related to President Obama's health care law.

Before the midnight deadline of January 1, 2013, some deal was reached which saw increases in some taxes particularly for higher income earners. Analysts contend that the crucial part yet to be resolved is the America's debt load.

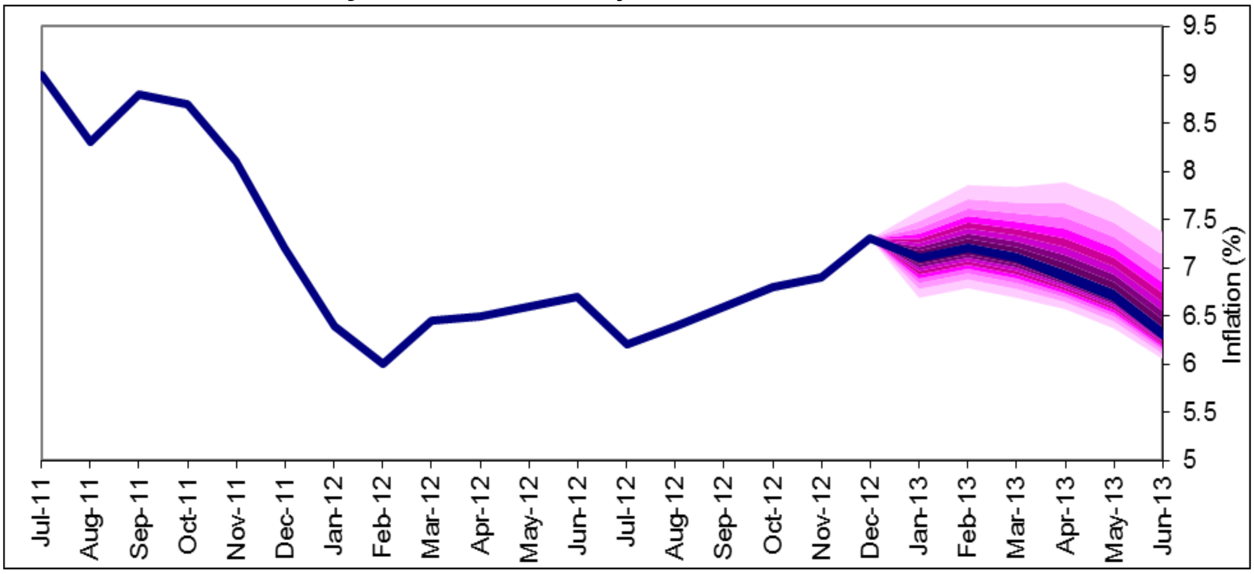
5.2 Inflation Projection for January - June 2013

During the first half of 2013, annual overall consumer price inflation is expected to slow down to 6.4% in June from 7.3% in December 2012 despite expected inflationary pressures in the first quarter (see **Chart 12 Fan Chart**)[2]. The upward risks to inflation are likely to emanate from the seasonal low supply of fish (following the annual fishing ban); selected vegetables (tomato, onion, rape and cabbage as a result of unfavourable conditions during the rainy season); beef; and beef products. This is in addition to cost-push pressures arising from the pass-through effects of the depreciation of the exchange rate in much of the latter part of the second half of 2012. However, these inflationary pressures are anticipated to be moderated by a steady supply of subsidised maize to the millers by the Food Reserve Agency. The other moderating factor is the tightening of monetary policy in January, through the increase in the reserve requirement to 8% from 5%. As a result, inflation is likely to decline marginally to 7.1% in March.

During the second quarter, inflation is anticipated to decline on the back of seasonal improvement in food supply. The supply of fish will improve following the lifting of the annual fishing ban in March, while that of vegetables is expected to increase as weather conditions improve. Further, despite the recent challenges in agriculture which included prevalence of army worms in some parts of the country, food supply is expected to increase on account of the new crop harvest as the 2013 agricultural marketing season commences during this quarter.

[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.

Chart 12: Actual and Projected Inflation, July 2011 – June 2013



Source: Bank of Zambia

Table 6: Actual Inflation and Projections, July 2011 – June 2013

Description		Projection (a)	Actual (b)	Forecast Error (b-a)
Second Half of 2011	July	8.6	9.0	0.4
	August	7.4	8.3	0.9
	September	8.1	8.8	0.7
	October	7.9	8.7	0.8
	November	8.1	8.1	0.0
	December	8.3	7.2	-1.1
	Average	***8.1***	***8.4***	**0.3**
First Half of 2012	January	6.5	6.4	-0.1
	February	6.5	6.0	-0.5
	March	5.6	6.4	0.8
	April	6.1	6.5	0.4
	May	5.9	6.6	0.7
	June	6.5	6.7	0.2
	Average	***6.2***	***6.4***	***0.3***
Second Half of 2012	July	5.8	6.2	0.4
	August	6.4	6.4	0.0
	September	6.7	6.6	-0.1
	October	6.7	6.8	0.1
	November	6.8	6.9	0.1
	December	7.2	7.3	0.1
	Average	**6.6**	***6.7***	**0.1**
First Half of 2013	**January**	7.1	7.0	-0.1
	February	7.2		
	March	7.1		
	April	6.9		
	May	6.7		
	June	6.4		
	Average	**6.9**		

Source: *Bank of Zambia*
Note: A positive number implies that actual inflation outturn was above the projection and the opposite is true

5.3 Monetary Policy Principles for the Period January 2013 - December 2014

In the two- year period ending 2014, monetary policy formulation and implementation will be geared towards attaining Government's broad economic objectives, which include:

i. Reducing inflation to 5.0% by 2014;
ii. Achieving real GDP growth rate of at least 7% in 2013 and 7.8% in 2014;
iii. Limiting overall fiscal deficit to 4.3% of GDP in 2013 and 2.4% in 2014;
iv. Limiting domestic borrowing to at most 1.5% of GDP in 2013 and 1.2% in 2014; and
v. Accumulating foreign reserves to at least 4 months of import cover in 2013 and 3.9 months in 2014.

The Bank of Zambia will continue to use market-based instruments of monetary policy to steer the average interbank rate towards the policy rate.

Appendix I: Selected Macroeconomic Indicators

Description/Years	Dec-10	Dec-11	Mar-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Monetary Aggregates (K'bn)										
Reserve money (end-period in K'billion)*	5,064.1	5,385.4	4,670.9	5,035.2	5,713.0	6,579.8	5,694.3	5,907.5	6,093.1	6,740.7
Growth Rate	9.1	11.6	2.4	0.9	13.5	15.2	-13.5	3.7	3.1	10.6
Broad money (in K'billion)	18,476.96	21,804.78	22,260.1	23,881.0	24,577.9	23,186.6	22,726.2	24,379.2	24,830.4	25,699.0
Growth Rate	1.6	1.4	2.1	1.2	2.9	-5.7	-2.0	7.3	1.9	3.5
Net Claims on Government (in K'billion)	5,870.27	5,200.10	5,098.76	5,155.94	4,387.44	5,390.16	1,666.03	1,227.22	1,955.00	3,242.00
Prices (%)										
Inflation	7.9	7.2	6.4	6.7	6.2	6.4	6.6	6.8	6.9	7.3
Nominal Interest and yield rates (aver. %)										
Commercial Banks ' rates										
Commercial banks' weighted lending base rate	19.4	16.6	16.2	11.6	9.6	9.6	9.6	9.3	9.1	8.8
Average Savings rate (>K100,000)	4.7	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Deposit rate (30 days, over K20 million)	5.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Treasury bill yield rates										
Weighted TB rate	7.4	11.7	10.3	10.7	11.7	10.3	10.2	10.5	11.6	11.8
91-day	6.3	7.1	7.1	7.2	7.6	7.0	7.5	7.3	8.3	9.5
182-day	7.6	9.8	9.9	10.3	11.7	10.8	9.6	10.4	11.4	12.2
273-day	8.0	11.4	10.5	10.6	12.0	11.1	10.0	10.6	11.7	11.2
364-day	9.0	13.4	10.9	11.4	12.5	11.6	10.7	10.7	12.2	11.7
Government bonds Yield Rates										
Weighted Bond Yield Rate	11.3	15.0	13.1	12.9	12.9	12.9	12.1			
24 months	8.9	14.7	11.7	10.7	10.7	10.7	10.0	10.0	10.8	11.0
3 year	8.0	15.1	13.1	12.2	12.2	12.2	11.4	11.4	12.8	12.6
5 year	13.0	15.4	13.9	13.6	13.6	13.6	11.9	11.9	13.5	13.5
7 year	14.0	15.0	14.6	14.8	14.8	14.8	13.9	13.9	14.5	14.5
10 year	15.0	15.9	16.3	16.0	16.0	16.0	15.7	15.7	16.5	16.5
15 year	15.5	16.2	16.7	17.0	17.0	17.0	16.8	16.8	16.6	16.6
Real Interest and Yield Rates (%)										
Commercial Banks' rates										
Commercial banks' weighted lending base rate	11.5	9.4	9.8	4.9	3.4	3.2	3.0	2.5	2.2	1.5
Average savings rate	-3.2	-2.9	-2.1	-2.4	-1.9	-2.1	-2.3	-2.5	-2.6	-3.0
Deposit rate (30 days, over K20 million)	-2.3	-1.9	-1.1	-1.4	-0.9	-1.1	-1.3	-1.5	-1.6	-2.0
Treasury bill yield rates										
Weighted TB rate	-0.5	4.5	3.9	4.0	5.5	3.9	3.6	3.7	4.7	4.5
91-day	-1.6	-0.1	0.7	0.5	1.4	0.6	0.9	0.5	1.4	2.2
182-day	-0.3	2.6	3.5	3.6	5.5	4.4	3.0	3.6	4.5	4.9
273-day	0.1	4.2	4.1	3.9	5.8	4.7	3.4	3.8	4.8	3.9
364-day	1.1	6.2	4.5	4.7	6.3	5.2	4.1	3.9	5.3	4.4
Government bonds Yield Rates										
Weighted Bond rate	3.4	7.8	6.7	6.2	6.7	6.5	5.5			
24 months	1.0	7.5	5.3	4.0	4.5	4.3	3.4	3.2	3.9	3.7
3 year	0.1	7.9	6.7	5.5	6.0	5.8	4.8	4.6	5.8	5.3
5 year	5.1	8.2	7.5	6.9	7.4	7.2	5.3	5.1	6.6	6.3
7 year	6.1	7.8	8.2	8.1	8.6	8.4	7.3	7.1	7.6	7.2
10 year	7.1	8.7	9.9	9.3	9.8	9.6	9.1	8.9	9.6	9.2
15 year	7.6	9.0	10.3	10.3	10.8	10.6	10.2	10.0	9.7	9.3
Exchange rates (average K/US $)										
Commercial banks' interbank mid-rate	4732.5	5118.5	5,285.4	5,250.0	4,868.56	4915.6304	5033.1979	5171.8795	5, 200.49	5,208.46
Bank of Zambia mid rate**	4735.7	5117.3	5,280.2	5,247.6	4,863.5	4,908.0	5,026.9	5,169.9	5,221.0	5,146.6
Real sector										
Mining output (tonnes)										
Copper	72,111.8	64,866.4	78,546.5	65,807.6	62,328.4	61,043.4	60,772.2	59,895.5	74,638.2	69,617.2
Cobalt	663.5	534.6	530.9	423.7	470.7	391.9	381.2	386.6	383.9	385.3
Metal Earnings (US $'000)										
Copper	612.4	463.4	498.0	483.9	541,284.7	595,090.9	642,742.7	676,650.5	488,387.1	536, 700.00
Cobalt	21.8	15.0	19.2	10.1	17,225.3	35,833.2	27,941.6	32,629.3	24,396.6	31, 300.00
Total	634.2	478.4	517.2	494.0	558,510.0	630,924.0	670,684.2	709,279.8	512,783.7	568, 000.00
External sector (US $ mn)										
Trade Balance	222.5	15.5	12.9	20.5	76.4	100.1	87.6	153.1	-36.6	-58.2
Exports, c.i.f.	725.1	614.0	677.5	712.1	781.6	816.7	867.7	887.1	697.4	792.2
Imports, c.i.f.	-502.6	-598.5	-664.6	-691.6	-705.3	-716.6	-780.1	-924.6	-734.0	-734.0

Source: Bank of Zambia Statistics Fortnightly

* Reserve money is narrowly defined.

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

Appendix II: Zambia's Economic Programme

An International Monetary Fund (IMF) mission, led by Mr John Walkeman-Linn, Mission Chief, visited Lusaka, Zambia from 25th October to 6th November 2012 to review Zambia's economic developments in 2012 and prospects for 2013. The mission also conducted initial discussions on the nature and content of a possible new IMF-supported program for Zambia. In addition, the Fund presented to Government, the global downside risks, as seen by the IMF and published in the IMF's latest *World Economic Outlook*, and discussed the likely impacts these might have on Zambia, and how the authorities could best prepare for these possibilities. The Mission concluded that Zambia's overall economic performance in 2012 was impressive given the uncertainty in the global environment although the increase in imports posed a threat to the external current account balance.

Regarding foreign exchange inflows received in the 2nd half of 2012, the Poverty Reduction Budget Support (PRBS) received amounted to US $79.6 million compared to US $93.0 million disbursed in the first half of 2012. These funds came from European Union (US $60.1 million) and the United Kingdom (US $19.4 million). Further, a total of US $322.2 million as tax revenue from some mines was received compared to US $234.2 million received in the first half of 2012. The Bank of Zambia foreign exchange purchases from the market amounted to US $134.0 million and a total of US $735.0 million proceeds of the Eurobond came through during the period under review.

The above receipts were against major foreign exchange outflows including payments to PTA Bank for oil procurement arrears (US $69.6 million), Bank of Zambia sales to the market (US $290.5 million) and debt service payments to various creditors, including the IMF (US $255.5million). The debt service payments included a US $150.0 million payment to Deutche Bank, being a short-term debt obtained in 2011 for financing of roads development.

With regards performance of the economic programme, preliminary data indicate that only the Net Domestic Assets (NDA) of the Bank of Zambia performance criteria was on track, whilst the Net Domestic Financing (NDF) of Government and the Unencumbered International Reserves (UIR) quantitative performance criterion were off track. The average NDA was K4,519. 9 billion and was K2,531.2 billion below the end-December 2012 programme ceiling whilst the NDF stood at K10,713.1 billion and was K244.1 billion above its end-December adjusted ceiling of K9,972.8 billion. The UIR at US $2,418.7 million were US $61.8 million below the end-December 2012 adjusted floor of US $2,480.5 million, and thus were off track, largely affected by Bank of Zambia foreign exchange sales to the market.

Table AII.1: Macroeconomic Outturn and Targets in 2012, and Targets for 2013

Description	End – December 2012 Targets	End-December 2012 Outturn	End-December 2013 Targets
Real GDP growth rate (%)	7.0	6.8	7.0
CPI Inflation, end period (%)	7.0	7.3	6.0
CPI Inflation, annual average (%)	5.6	6.6	
Gross Official Reserves (in months of imports)	4.0	4.2	4.0
Broad Money growth (%)	12.2	31.4	
Budget deficit, excluding grants (% of GDP)	5.8		4.3
Domestic financing of the Budget (% of GDP)	1.1		1.5

Source: Bank of Zambia, Budget Speech, 2012, IMF Aide Memoire 2012

Appendix III: Statistical Tables and Charts

Table AIII.1: Trade Data in US $ million (c.i.f), Jan 2011 – Dec 2012

	Jan-Jun 2011	**Jul-Dec 2011**	**Jan-Jun 2012**	**Jul-Dec 2012***	**% Change**
Trade Balance	**977.4**	**430.8**	**171.6**	**308.7**	**79.9**
Exports, c.i.f	**4,200.5**	**4,379.2**	**4,327.7**	**5,040.5**	**16.5**
Metals	3,534.2	3,381.5	3,065.1	3,523.1	14.9
Copper	3,376.9	3,282.8	2,981.0	3,353.8	12.5
Cobalt	157.3	98.7	84.1	169.3	101.3
Total NTEs	**666.3**	**997.7**	**1,262.6**	**1,517.4**	**20.2**
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	0.0
Total	679.4	1,010.9	1,275.8	1,530.6	20.0
Copper Wire	77.8	92.0	67.8	103.0	52.0
Cane Sugar	77.6	87.4	49.8	93.7	88.0
Burley Tobacco	38.0	62.6	76.7	82.8	7.9
Cotton Lint	16.9	101.3	22.9	111.4	387.3
Electrical Cables	20.8	20.9	16.9	20.0	18.5
Fresh Flowers	10.8	10.0	12.3	11.7	-4.7
Cotton Yarn	0.0	0.0	0.0	0.0	0.0
Fresh Fruits & Vegetables	4.2	5.0	4.3	13.0	202.4
Gemstones	30.3	5.4	94.9	133.3	40.5
Gasoil/Petroleum Oils	26.2	10.6	65.3	33.9	-48.2
Electricity	14.8	2.1	24.0	19.7	-18.0
Other	362.1	613.6	840.9	908.1	8.0
Of which Maize & Maize Seed	49.2	138.4	335.9	120.4	-64.2
Wheat & Meslin	16.0	15.1	15.6	20.5	31.2
Cement & Lime	41.2	40.7	21.8	4.8	-77.9
Imports, c.i.f.	**-3,223.0**	**-3,948.4**	**-4,156.1**	**-4,731.8**	**13.9**

Source: Bank of Zambia
*Figures are preliminary.

Table AIII.2: Metal Production, Export Volumes, Values and Prices; Jan 2011 – Dec 2012

Period	Cobalt							
	Export Volume	Production	Value	Price	Export Volume	Production	Value	Price
	Tonnes	Tonnes	US $'000	US$/Tonne	Tonnes	Tonnes	US $ '000	US$/Tonne
Quarter 1, 2011	203,267.7	236,008.5	1,751,089.3	8,614.70	2,395.5	2,375.1	86,462.6	36,093.93
Quarter 2, 2011	195,661.3	227,226.2	1,625,809.4	8,309.31	2,015.2	1,996.5	70,850.1	35,157.02
Jan - Jun 2011	398,929.0	463,234.6	3,376,898.7	8,464.91	4,410.7	4,371.7	157,312.7	35,665.86
Quarter 3, 2011	239,490.9	214,461.2	1,821,758.5	7,606.80	1,743.6	1,726.1	53,903.8	30,915.19
Quarter 4, 2011	193,724.3	201,749.2	1,461,554.0	7,544.51	1,676.3	1,603.8	44,792.8	26,720.81
Jul - Dec 2011	433,215.2	416,210.4	3,283,312.5	7,578.94	3,419.9	3,329.9	98,696.6	28,859.26
Quarter 1, 2012	200,834.2	217,524.1	1,510,969.5	7,523.47	2,034.7	1,596.4	43,775.0	21,514.29
Quarter 2, 2012	206,179.0	203,756.2	1,470,037.5	7,129.91	1,482.5	1,438.8	40,334.8	27,207.53
Jan - Jun 2012	407,013.2	421,280.3	2,981,007.0	7,324.10	3,517.2	3,035.2	84,109.8	23,913.98
Quarter 3, 2012	249,524.2	192,309.7	1,779,118.2	7,130.04	3,098.5	1,243.9	81,000.0	26,141.31
Quarter 4, 2012*	246,600.1	211,386.6	1,574,677.7	6,385.55	3,413.6	1,155.8	88,304.5	25,868.44
Jul - Dec 2012*	496,124.2	403,696.3	3,353,795.9	6,759.99	6,512.1	2,399.6	169,304.6	25,998.28

Source: Bank of Zambia Statistics Fortnightly
*Figures are preliminary

Table AIII.3: Imports by Commodity Groups in US $ millions (c.i.f.); Jan 2011 – Dec 2012

Description	Jan-Jun 2011	Jul-Dec2011	Jan-Jun 2012	Jul-Dec 2012*	% Change
Food Items	172.0	209.6	231.7	290.4	25.3
Petroleum Products	161.8	368.8	373.4	559.7	49.9
Fertilizers	153.9	176.2	136.7	165.0	20.7
Chemicals	363.4	413.1	456.1	449.4	-1.5
Plastic and Rubber Products	144.6	205.9	213.8	223.7	4.6
Paper and Paper Products	49.5	66.3	70.0	63.8	-8.9
Iron and Steel	193.0	283.0	280.2	291.9	4.2
Industrial Boilers & Equipment	581.5	718.3	733.2	811.5	10.7
Electrical Machinery & Equipment	196.8	269.8	238.9	269.5	12.8
Vehicles	279.4	334.5	369.5	538.5	45.7
Other Imports	927.1	902.9	1,052.6	1,068.6	1.5
Total Imports	**3,223.1**	**3,948.4**	**4,156.1**	**4,731.8**	**13.9**

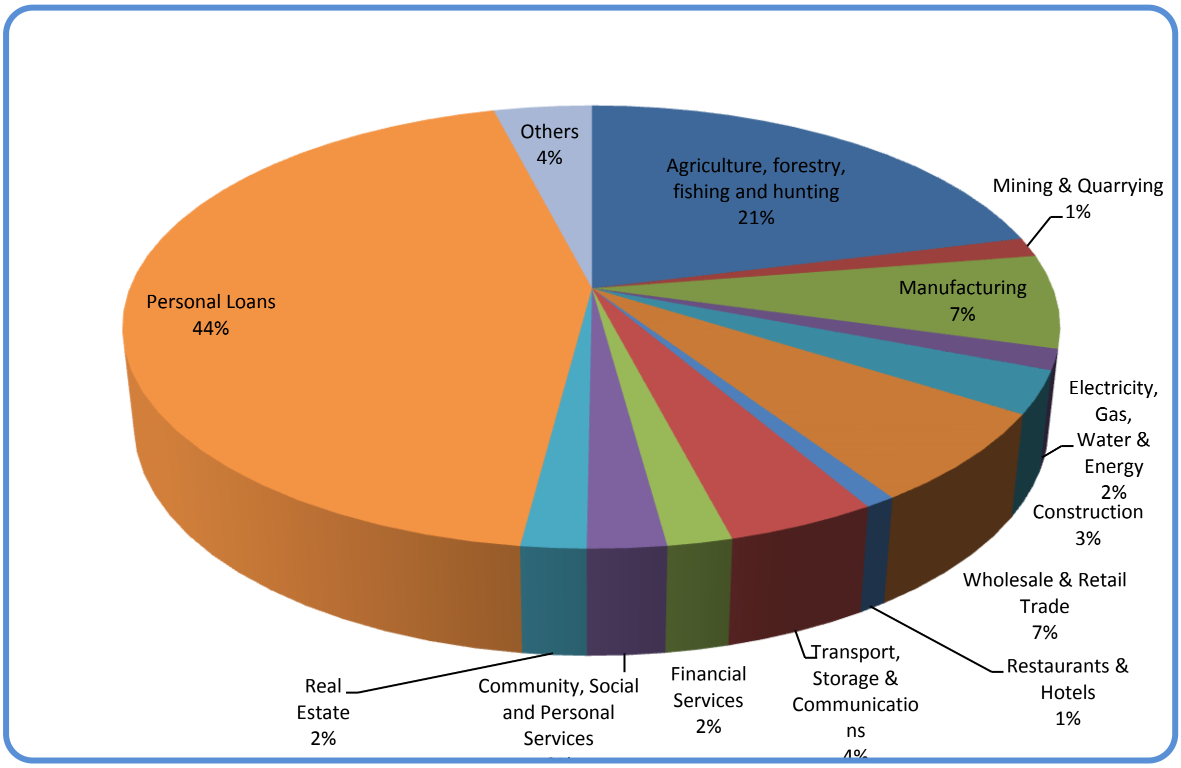
Source: *Bank of Zambia*
*Figures are Preliminary.

Table AIII.4: Shares of Total Loans and Advances by Sector (Excluding Foreign Currency Loans), Jun 2010 - Dec 2012 (%)

Sector	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12
Agriculture, forestry, fishing and hunting	9.8	12.1	12.0	13.1	9.4	21.1
Mining & Quarrying	1.3	1.4	1.5	0.9	1.2	1.4
Manufacturing	12.0	10.9	10.5	6.9	7.0	6.8
Electricity, Gas, Water & Energy	1.1	1.5	1.2	1.7	2.3	1.5
Construction	3.8	6.8	5.8	3.3	3.3	3.1
Wholesale & Retail Trade	9.5	8.0	10.4	9.7	9.2	6.7
Restaurants & Hotels	1.1	1.3	1.7	1.5	1.4	0.9
Transport, Storage & Communications	5.5	4.2	5.8	4.0	4.1	4.4
Financial Services	3.5	2.3	2.0	2.9	2.9	1.9
Community, Social and Personal Services	3.1	4.1	4.2	2.4	2.5	2.3
Real Estate	5.4	5.5	5.6	1.7	1.8	1.9
Personal Loans	41.1	39.6	37.0	47.8	50.7	43.9
Others	2.7	2.3	2.4	4.1	4.2	4.0

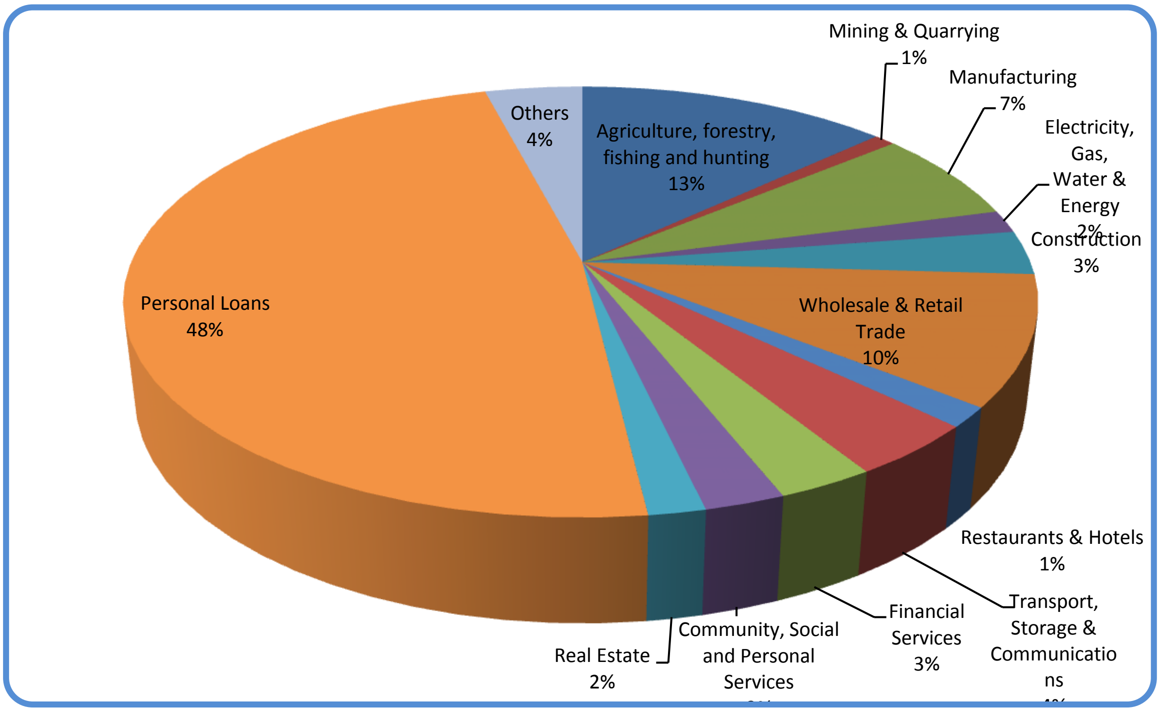
Source: Bank of Zambia

Chart AIII.1: Structure of Loans and Advances, (Excluding Foreign Currency Loans) December 2012



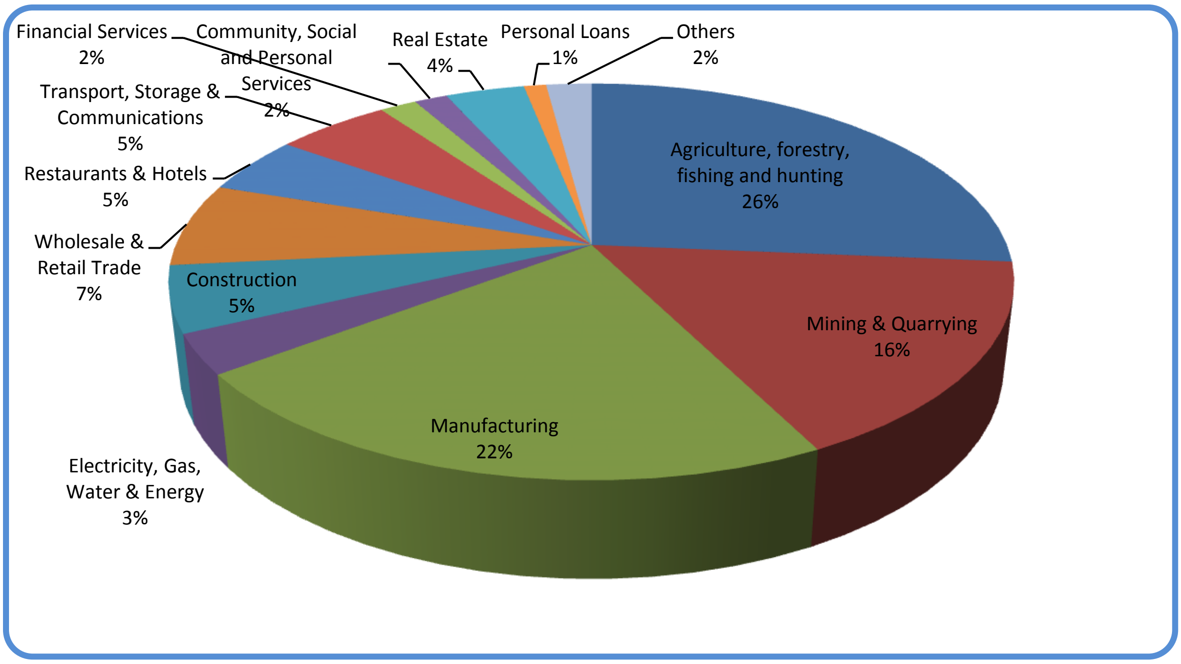
Source: Bank of Zambia

Chart AIII.2: Structure of Loans and Advances, (Excluding Foreign Currency Loans) December 2011



Source: Bank of Zambia

Chart AIII.3: Structure of Forex Loans and Advances December 2012



Source: Bank of Zambia

Table AIII.5: Central Government Fiscal Operations, Second Half 2012 (K'billion)

	2012	First Half	Second Half		
	Approved	Prelim.	Target	Prelim.	% Change
Total Revenue and Grants	**21,870.0**	**10,315.0**	**12,531.5**	**12,414.8**	**-0.9**
Tax Revenue	19,267.7	9,828.5	11,041.4	11,422.2	3.4
Non-Tax Revenue	708.3	220.8	376.5	792.8	110.6
Grants	1,894.0	265.8	1,113.6	199.8	-82.1
Total Expenditure	**27,014.5**	**11,344.6**	**17,584.2**	**12,852.4**	**-26.9**
Current Expenditure	**19,158.5**	**9,991.3**	**10,395.7**	**11,236.9**	**8.1**
Personal Emoluments	9,308.0	4,277.9	5,186.2	5,025.7	-3.1
PSRP	15.0	3.1	7.5	0.0	-100.0
Use of Goods and Services	4,265.9	2,315.8	1,426.6	2,315.2	62.3
Interest	1,708.3	771.7	1,491.0	1,191.1	-20.1
Grants and Other Payments	2,481.2	1,080.7	1,290.5	1,244.9	-3.5
Social Benefits	549.7	252.5	270.2	270.4	0.1
Other Expenses	494.1	1,151.9	575.5	579.8	0.8
Liabilities	336.3	137.8	148.2	591.5	299.1
Assets	**7,856.0**	**1,353.3**	**7,188.5**	**1,615.6**	**-77.5**
Non-Financial Assets	7,702.7	1,308.3	7,132.0	1,612.5	-77.4
Financial Assets	153.3	45.0	56.5	3.0	-94.6
Statistical discrepancy & Change in balances	675.2	679.2	1,794.3	478.6	-73.3
Change in Balances	0.0	689.7	-244.0	-1,480.8	506.9
Statistical discrepancy	675.2	-10.5	2,038.3	1,959.4	-3.9
Fiscal Balance	**-4,469.3**	**-350.4**	**-3,258.4**	**40.9**	**101.3**
Financing	4,469.3	350.4	3,258.3	-40.9	-101.3
Domestic	1,324.3	240.0	771.9	1,028.9	33.3
Foreign	3,145.0	110.4	2,486.5	-1,069.8	143.0

Source: Ministry of Finance and National Planning

Table AIII.6: Indicators of Bidding Behaviour in the Government Securities Market[1]								
	Amts Offered (K blns)		Bid Amts (K blns)		Excess Demand (K blns)[2]		Subscription Rate (%)[3]	
	Jan – Jun, 12	Jul - Dec, 12	Jan– Jun, 12	Jul - Dec, 12	Jan– Jun, 12	Jul-Dec, 12	Jan– Jun, 12	Jul - Dec, 12
91-day bills	**750.0**	**570.0**	**561.9**	**379.2**	**-188.1**	**-190.8**	**74.9**	**66.53**
182-day bills	**840.0**	**1,070.0**	**927.6**	**1,335.8**	**87.6**	**265.8**	**110.4**	**124.84**
273-day bills	**960.0**	**1,120.0**	**1,378.2**	**1,768.4**	**418.2**	**648.4**	**143.6**	**157.89**
364-day bills	**1,690.0**	**2,140.0**	**2,523.6**	**3,465.1**	**833.6**	**1325.1**	**149.3**	**161.92**
TOTAL	**4,240.0**	**4,900.0**	**5,391.3**	**6,948.5**	**1,151.3**	**2,048.5**	**127.2**	**141.81**
2-year bond	**200.0**	**200.0**	**404.6**	**193.6**	**204.5**	**-6.4**	**202.3**	**96.80**
3-year bond	**280.0**	**280.0**	**540.1**	**540.5**	**260.1**	**260.5**	**192.9**	**193.04**
5-year bond	**480.0**	**480.0**	**732.4**	**821.6**	**252.4**	**341.6**	**152.6**	**171.17**
7-year bond	**80.0**	**80.0**	**143.8**	**201.8**	**63.8**	**121.8**	**179.7**	**252.25**
10-year bond	**80.0**	**80.0**	**25.0**	**158.9**	**-55.0**	**78.9**	**31.3**	**198.63**
15-year bond	**80.0**	**80.0**	**53.1**	**12.5**	**-27.0**	**-67.5**	**66.3**	**15.63**
TOTAL	**1,200.0**	**1,200.0**	**1,898.9**	**1,928.9**	**698.9**	**728.9**	**158.2**	**160.74**

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.