BANK *of* ZAMBIA

MONETARY POLICY STATEMENT

JULY – DECEMBER 2012

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

During the first half of 2012 monetary policy continued to focus on the attainment of the end-year annual inflation target of 7.0%. In line with the objective of improving the conduct of monetary policy, the Bank in April 2012, introduced the debut BoZ Policy Rate, whose objective is to better anchor inflation expectations and influence commercial banks' decisions on pricing credit products. The BoZ Policy Rate was set and maintained at 9.0% during the second quarter.

The performance of monetary policy during the first half of 2012 was favourable. Following the introduction of the Policy Rate, the operational target of monetary policy changed from reserve money to the overnight interbank rate. During that period, 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%.

Despite annual overall inflation rising to 6.7% in June 2012 from 6.0% in December 2011, this inflation outcome was broadly in line with the June 2012 projection of 6.5%. This outturn was attributed to the rise in food inflation to 7.1% in June 2012 from 5.3% in December 2011 as non-food inflation declined to 6.2% from 6.6% during the same period.

The response of commercial banks to the introduction of the policy rate was generally in line with the expected outcome. This was reflected in the overnight interbank rate which remained within the interest rate corridor of 7% to 11% throughout the second quarter.

Over the first half of 2012, reserve money declined by 6.5% to K5,035.2 billion in June 2012 from K5,385.4 billion in December 2011. This outturn was mainly influenced by net sales of Government securities and net OMO borrowings amounting to K942.9 billion and K771.4 billion, respectively. These influences were however partially offset by net Government spending amounting to K1,454.9 billion, most of which was disbursed in the second quarter. As a result, reserve money remained below the reserve money ceiling throughout the review period.

Preliminary data show that broad money (M3) grew by 5.5% to K23,004.6 billion from K21,804.80 billion at end-second half of 2011. This outturn was driven by growth in both net domestic assets (NDA) and net foreign assets (NFA) by 9.4% and 9.6%, respectively. NDA rose on account of the rise in both credit to the private sector (including public enterprises) and net claims on central government, while NFA increased due to growth in gross international reserves by 4.5% to US $2,437.0 million.

Developments in the domestic foreign exchange market continued to be largely influenced by international factors. The Kwacha came under pressure as international investors sought refuge in safe bet currencies owing to the sovereign debt crisis in the euro zone and due to the reduced copper export earnings. Against this background, the Kwacha traded with a depreciation bias against major currencies.

During the period under review, yield rates on Government securities declined, except for the 7- and 10-year bonds. With regard to commercial banks' lending rates, a number of measures meant to lower the cost of borrowed funds were put into effect. These included a 5 percentage points reduction in commercial banks' corporate tax and the introduction of a

BoZ Policy Rate. Consequently, commercial banks' nominal lending rates decreased with the weighted average lending base rate falling to 11.6% in June 2012 from 16.6% in December 2011. Further, the average lending rates declined to 18.6% from 23.6 &while savings rates remained unchanged during the review period.

Fiscal performance during the review period was strong, owing mainly to the satisfactory tax revenue outturn. Preliminary data indicate that the Central Government budget recorded a deficit of K350.4 billion during the first half of 2012, which was 45.0% lower than programmed.

The country's external sector performance continued to be favourable, although the overall merchandise trade surplus (c.i.f) narrowed to US $140.1 million compared with US $431.3 million recorded during the last half of 2011. This outturn was explained by an increase in the merchandise imports bills relative to export earnings that slowed down in the first six months of 2012.

Preliminary data indicate that the Net Domestic Assets (NDA) of the Bank of Zambia, and the Net Domestic Financing (NDF) of Government performance criteria were on track, while the Unencumbered International Reserves (UIR) quantitative performance criterion was not met. The structural benchmarks were also generally on track.

Inflation in the second half of the year is projected to be moderate, slowing down to 6.2% in the third quarter before rising to an estimated 7.4% in the fourth quarter. The Bank of Zambia will continue to employ the recently introduced BoZ policy rates and other market-based instruments of monetary policy to influence the average interbank rate and manage liquidity.

In the two-year period ending 2014, monetary policy formulation and implementation will be geared towards attaining broad Government's economic objectives, which include: sustaining single digit inflation at 5.0% from 2013 - 2014; achieving real GDP growth rate of at least 8.3% in 2013 and 7.8% in 2014; limiting overall fiscal deficit to 2.5% of GDP in 2013 and 2.4% in 2014; limiting domestic borrowing to at most 1.4% of GDP in 2013 and 1.2% of GDP in 2014, and accumulating foreign reserves to at least 3.5 months of import cover in 2013 and 3.9 months in 2014.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy during the period January to June 2012 and outlines the objectives of monetary policy for the second half of 2012. 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 2015 are outlined in the final part of the Statement.

2.0 Shift in the Conduct of Monetary Policy

During the first quarter of 2012, monetary policy continued to be focussed on keeping reserve money within the programmed path. However, in line with the objective of improving the conduct of monetary policy, the Bank in April 2012, introduced the debut BoZ Policy Rate. This signalled a shift in the monetary policy framework from targeting monetary aggregates (quantities) to targeting interest rates (prices).

The overall objective of the policy rate is to better anchor inflation expectations and enhance the credibility of the central bank. Policy rates work by affecting interest rates in the inter-bank market, and in turn, interest rates in the economy. The ultimate impact is on money supply and inflation developments while striving to allow the economy to continue on its growth path. Further, the policy rate is expected to influence commercial banks' decisions on pricing credit products. Following the introduction of the policy rate, banks no longer set their own base rates but instead use the BoZ Policy Rate as their reference rate in determination of their actual lending rates.

The use of the policy rate presents several important advantages for macroeconomic management. Key among them is the clarity with which Bank of Zambia can communicate to the public changes in the stance of monetary policy as an interest rate change is easier to understand by the public than changes in monetary aggregates.

The response of commercial banks in the interbank market since the introduction of the policy rate has generally been in line with the expected outcome, with the overnight interbank rate remaining within the policy rate corridor of 7% to 11% throughout the second quarter. Going forward, it is expected that lending rates shall continue to align themselves with the low inflation environment that has been attained in Zambia, thereby supporting lending to the productive sectors of the economy.

3.0 Targets and Challenges

In the first half of 2012, monetary policy remained focused on achieving the end-year inflation target of 7.0%. During the review period, the Bank faced a number of challenges in keeping within the desired inflation path. The major ones were the following:

- 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 escalation in beef and beef product prices attributed to rising cost of livestock feed; and
- Seasonal increase in prices of fresh fish and selected vegetables due to low supply;

Despite these challenges, the Monetary Policy Committee was of the view that these were not significant threats to the attainment of the end-year inflation. This view was mainly based on the expected positive impact of lower mealie-meal and other maize products prices following the seasonal improvement in maize supply and continued stability in energy prices. Consequently, the BoZ Policy Rate was set and maintained at 9.0% during the second quarter and monetary policy was aimed at influencing the overnight interbank rate towards the policy rate on a monthly average basis. Further, reserve and broad money growth rates were projected to grow by no more than 1.1% and 0.0%, respectively (see **Table 1)**

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

	2010	2011		Jan – Jun 2012		2012 (Actual)		
	Actual	Prog.	Actual	Prog.	Actual	Apr	May	Jun
Overall Inflation	7.8	7.0	7.2	6.7	6.7	6.5	6.6	6.7
Non-food Inflation	11.8	5.5	10.2	9.7	10.2	6.5	6.3	6.2
Food Inflation	3.8	9.7	-3.9	4.8	3.9	6.4	6.8	7.1
BoZ Policy Rate	n.a	n.a	n.a			9.0	9.0	9.0
Overnight Interbank Rate**	2.4	-	5.2	-	8.0	8.2	8.1	7.8
Reserve Money	1.2	-5.6	6.3	1.1	6.5	4.0	4.5	13.7
Broad Money	18.2	9.3	22.4	0.0	9.5	24.7	18.9	17.4
Domestic Credit	9.9	-	19.0	-	12.2	15.6	15.4	29.8
Government	32	-	-6.3	-	14.0	-3.0	-4.9	-
Public Enterprises	34.2	-	70.8	-	11.6	-22.1	-18.4	-
Private Sector Credit	2.4	-	30.8	-		15.0	16.1	-
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
* Projections for Jul – Dec 2012 are preliminary figures
** 30-day moving average

4.0 Assessment of Monetary Policy Outcome, January – June 2012

The performance of monetary policy during the first half of 2012 was favourable. Despite annual overall inflation rising to 6.7% in June 2012 from 6.0% in December 2011, this inflation outcome was consistent with the June 2012 projection of 6.5%. The source of inflationary pressures during the review period was food inflation, which increased. However, non-food inflation had some moderating influence, as it fell during the period.

Liquidity conditions tightened, mainly on account of Open Market Operations (OMO) and net sales of Treasury bills. The Bank of Zambia intervened in the money market to counter the combined effect of its purchases of foreign exchange from banks and an increase in net Government spending on the 30-day moving average. At end-June 2012, the 30-day moving average interbank rate trended upwards and closed at 7.8%. Reserve money declined by 6.5% while broad money increased by 5.5%.

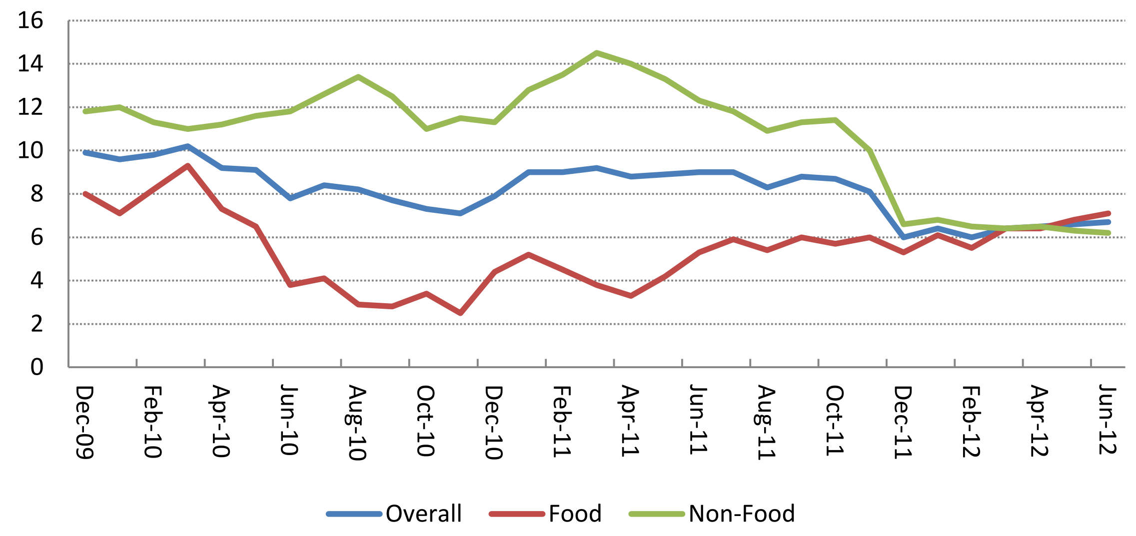
In contrast to the second half of 2011, yield rates on Government securities declined. Similarly, commercial bank lending rates fell, while saving rates remained generally stable.

In the foreign exchange market, an interaction of both domestic and international factors had a bearing on the performance of the Kwacha. Strong domestic demand for foreign exchange, the Eurozone debt crisis and the resultant concerns about the prospects of the global economy, exerted pressure on the local currency. However, steady supply of foreign exchange mitigated the weakening of the Kwacha.

4.1 Overall Inflation

As at end-June 2012, annual overall inflation increased to 6.7% from 6.0% in December 2011, and was consistent with the June 2012 projection of 6.7%. This outturn was attributed to the rise in food inflation to 7.1% from 5.3% in December 2011, as non-food inflation declined to 6.2% from 6.6% in December 2011 (see **Chart 1** and **Table 2**). Of the 6.7% annual overall inflation, food products accounted for 3.6 percentage points, while non-food products contributed 3.1 percentage points.

Chart 1: Annual Inflation, Dec 2009 - Jun 2012 (%)



Source: *Bank of Zambia*

4.1.1 Non-Food Inflation

The decline in annual non-food inflation to 6.2% in June 2012 from 6.6% in December 2011 was on account of lower annual inflation rates in the following sub-groups: restaurants and hotels, 2.1% [3.9%]; health, 4.5% [5.5%]; clothing and footwear, 5.4% [8.3%]; transport, 7.3% [9.2%] and education, 8.5% [9.0%]. Partly explaining lower inflation rates for clothing and footwear, and transport was the lower depreciation of the local currency given the high import contents of these items, during the review period. Further, pricing of most products provided in the restaurants and hotels category, which are mostly indexed to the US dollar, benefited from the Kwacha's relative stability. However, higher inflation rates were recorded for: housing, water, electricity, gas and other fuels, 7.2% [6.1%]; recreation and culture, 8.1% [7.6%]; furnishings, household equipment and routine house maintenance, 7.9% [6.3%]; communication, 1.0% [0.5%] and miscellaneous goods and services, 6.6% [4.8%].

4.1.2 Food Inflation

Despite the relative abundance of food items on the market, particularly maize, annual food inflation pressure has continued to build up, and rose to 7.1% in June 2012 from 5.3% in December 2011. This outturn was mainly on account of higher prices of beef products, chicken, dried kapenta, selected vegetables, onion and tomatoes. The rise in prices of beef products and chicken was due to the high cost of livestock feed, particularly soya bean meal prices, while that of dried kapenta and vegetables was due to seasonal factors. Soya bean meal together with maize bran, which form an important component of livestock and poultry feed has had a sustained rise in its prices. Local livestock and poultry farmers have faced high and rising import parity prices for soya bean meal. For instance, average global prices for soya bean meal rose to US $503 per mt in June 2012 from an average of US $357 per mt during October – December 2011. This trend has been on a backdrop of supply shortfalls in some major producing regions relative to global demand. In addition, prices of some imported food items, such as rice increased mainly on account of the increase in global prices, and consequently import prices. The average price of (Thai) rice on the global market rose to US $601.3 per mt in June 2012 from an average of US $542.5 per mt over the period January – March 2012. Noteworthy is that higher food prices are being experienced in other countries in the SADC region.

Table 2: Inflation Outturn, January 2011 – June 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	6.7	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	0.5	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

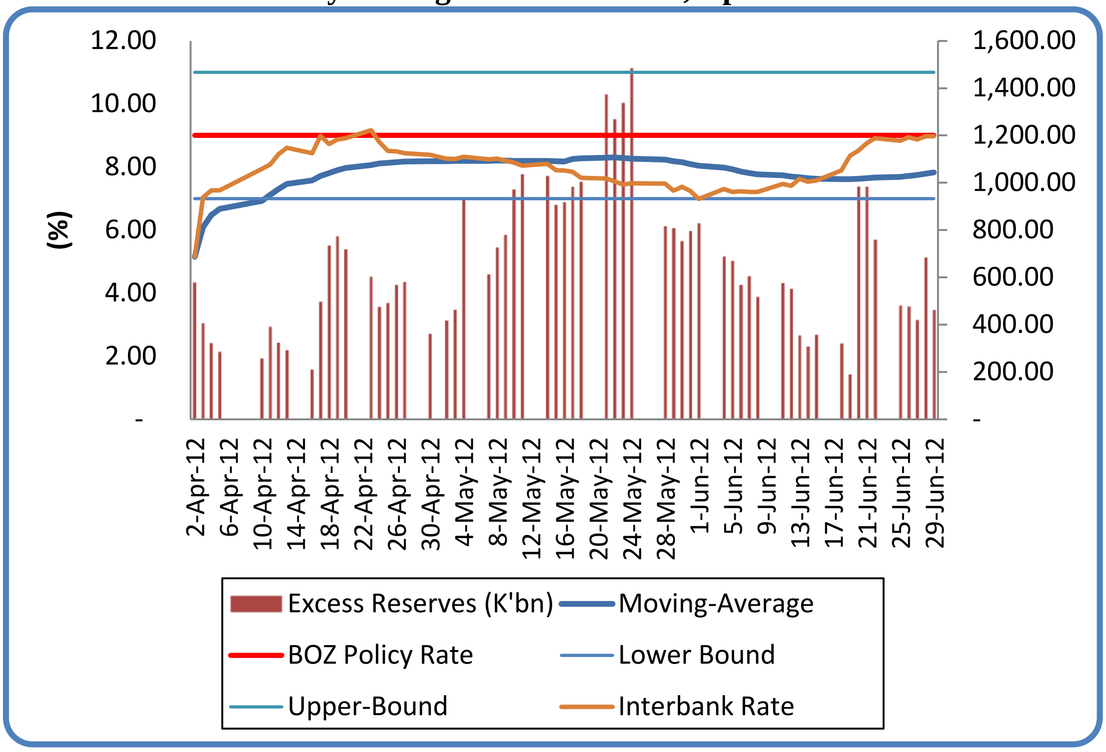
Source: *Central Statistical Office Bulletin - The Monthly; and Bank of Zambia*

4.2 Interbank Rate, Monetary and Credit Developments

4.2.1 Overnight Interbank Rate

Following the introduction of the Bank of Zambia Policy Rate in the second quarter of 2012, the operational target of monetary policy changed from reserve money to the overnight interbank rate. During that quarter, monetary policy was aimed at maintaining the 30-day moving average of the overnight interbank rate within a corridor of 7% and 11%. Early in the quarter, the Bank of Zambia undertook contractionary Open Market Operations (OMO) to raise the overnight interbank rate from its opening position of 5.2% into the policy rate corridor. Though the average interbank rate remained within the corridor from that point, the increase in net Government spending and net purchases of foreign currency by BoZ contributed to an increase in liquidity and the consequent decline in the interbank rate. 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 9.0%. The total OMO amounted to K3,148.0 billion. At end-June, the 30-day moving average interbank rate trended upwards and closed at 7.8% (see **Chart 2**).

Chart 2: 30-Day Average Interbank Rate, Apr 2012 – Jun 2012

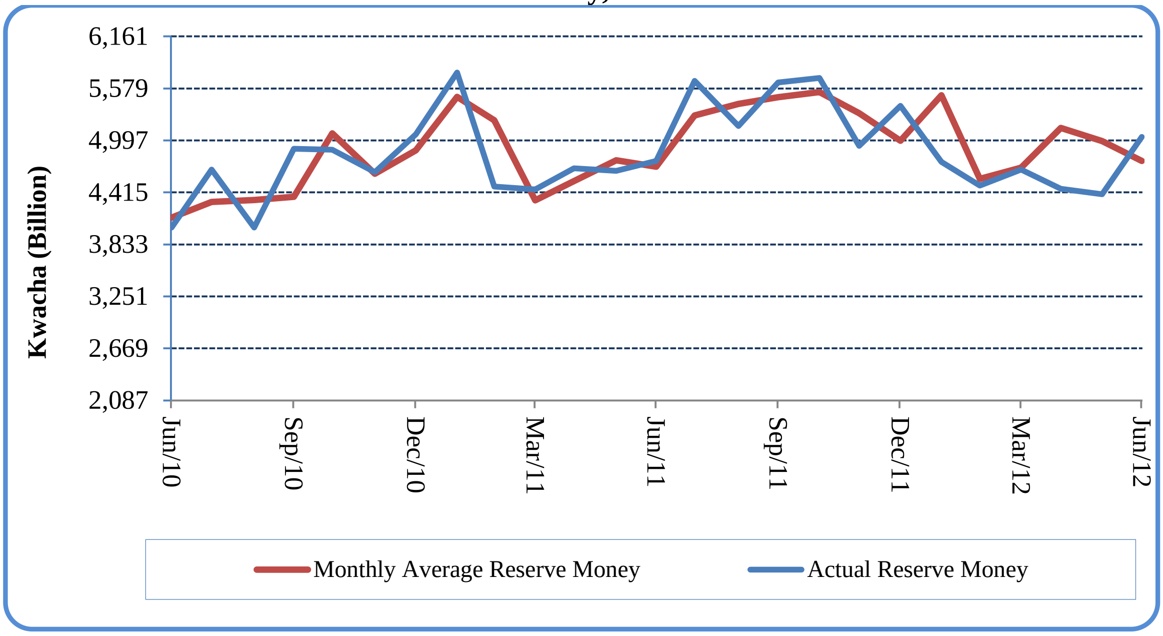


Source: Bank of Zambia

4.2.2 Reserve Money

Over the first six months of 2012, reserve money declined by 6.5% to K5,035.2 billion from K5,385.4 billion. This outturn was mainly influenced by net sales of Government securities and net OMO borrowings amounting to K942.9 billion and K771.4 billion, respectively. These influences were however partially offset by net Government spending amounting to K1,454.9 billion, most of which was disbursed in the second quarter (see Chart 3).

Chart 3: Reserve Money, Jun 2010 – Jun 2012



Source: Bank of Zambia

4.2.3 Broad Money

During the first half of 2012, broad money (M3)[1] grew by 5.5% to K23,004.6 billion from K21,804.80 billion at end-second half of 2011, compared with a 7.2% growth recorded in the previous period. This outturn in M3 was due to growth in both *net domestic assets* (NDA) and *net foreign assets* (NFA) contributing 5.2 percentage points and 0.3 percentage points to M3 growth, respectively. NDA rose by 9.1% on account of the increase in credit to private enterprises and households. Similarly, NFA increased by 0.7% due to a rise in gross international reserves by 4.5% to US $2,437.0 million. Excluding foreign currency deposits that grew by 1.7%, money supply increased by 7.6% in the period under review compared with 21.0% recorded in the second half of 2011 (see **Table 3**).

[1] defined to include foreign currency deposits

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

Description	Jun 2010	Dec 2010	June 2011	Dec 2011	Jun 2012
Broad Money (M3)	16,065.6	17,916.6	20,340.3	21,804.8	23,004.6
Foreign Exchange Deposits	4,769.9	6,639.0	8,680.9	7,695.2	7,822.5
M3 (excl. Foreign Exchange Deposits)	11,295.7	1,277.6	11,659.3	14,109.6	15,182.1
6-Month Change in M3 (%)	13.7	11.5	13.5	7.2	5.5
6-Month Change in Foreign Exchange Deposits (%)	-6.4	39.2	30.8	-11.4	1.7
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	25.1	-0.2	3.4	21.0	7.6
Annual Change in M3 (%)	24.5	26.8	26.6	21.7	13.1
Annual Change in Foreign Exchange Deposits (%)	-5.9	30.3	82.0	15.9	-9.9
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	44.6	24.9	3.2	25.1	30.2

Source: Bank of Zambia

4.2.4 Domestic Credit

Domestic credit, comprehensively defined to include foreign currency loans, grew by 9.4% during the first half of 2012 compared with 15.7% recorded in the second half of 2011. In absolute terms, domestic credit increased to K18,396.3 billion in June 2012 from K16,822.6 billion in December 2011. This outturn was largely as a result of increased lending to private enterprises and households by 22.5% and 10.2%, contributing 4.3 percentage points and 5.0 percentage points, respectively to the growth in domestic credit. Net claims on Government declined by 0.8% compared with a growth of 29.2% in the second half of 2011, and contributed -0.3 percentage points to domestic credit growth. Excluding foreign currency denominated loans that increased by 12.2%, domestic credit rose by 8.3% compared with 17.1% increase in December 2011 (see **Table 4**).

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

Description	Jun 10	Dec 10	Jun 11	Dec 11	Jun 12
Domestic Credit (DC)	13,639.8	14,682.9	14,538.7	16,822.6	18,396.3
O/w Foreign Exchange Credit	3,182.2	4,538.4	4,051.8	4,538.4	5,090.0
DC (Excl. FX Credit)	10,457.6	10,144.5	10,486.9	12,284.2	13,306.3
6-Month Change in Domestic Credit	12.4	7.6	-1.0	15.7	9.4
6-Month Change in Foreign Exchange Credit	24.9	42.6	-10.7	12.0	12.2
6-Month Change in DC (Excl. Foreign Exchange Credit)	9.0	-3.0	3.4	17.1	8.3
Annual Change in Domestic Credit	23.6	21.0	6.6	14.6	26.5
Annual Change in Foreign Exchange Credit	9.4	23.0	27.3	44.8	25.6
Annual Change in DC (Excl. Foreign Exchange Credit)	28.7	5.8	0.3	21.0	26.9

Source: *Bank of Zambia*

On a sectoral basis, households (personal loans category) continued to account for the largest share of outstanding credit, accounting for 31.9% in June 2012 from 29.4% in December 2011. The agricultural sector was second at 16.5% (17.7%)[2], followed by manufacturing 12.3% (12.2%), wholesale and retail trade, 9.0% (10.4%), mining and quarrying 5.4% (4.2%) and transport, storage and communications 5.1% (5.4%) (see **Appendix III, Table 5a**).

4.3 Foreign Exchange Market

Developments in the domestic foreign exchange market continued to be influenced mainly by international factors. The Kwacha came under pressure as international investors sought refuge in safe bet currencies owing to protracted debt crisis in the euro zone and due to the reduced copper export earnings. The Eurozone debt crisis and concerns about the prospects of the global economy caused sharp depreciations in the euro in contrast to an appreciation of the US dollar against major currencies. The murky outlook for the Eurozone and fears that the crisis could derail the global economy prompted investors to place their funds in safe-haven assets, such as US denominated assets. In addition, the price of copper on international markets was suppressed in the first half of the year. The copper price closed the period 1.1% lower to a six-month average of US$8,067.17 per tonne in 2012 from US$8,269.85 per tonne.

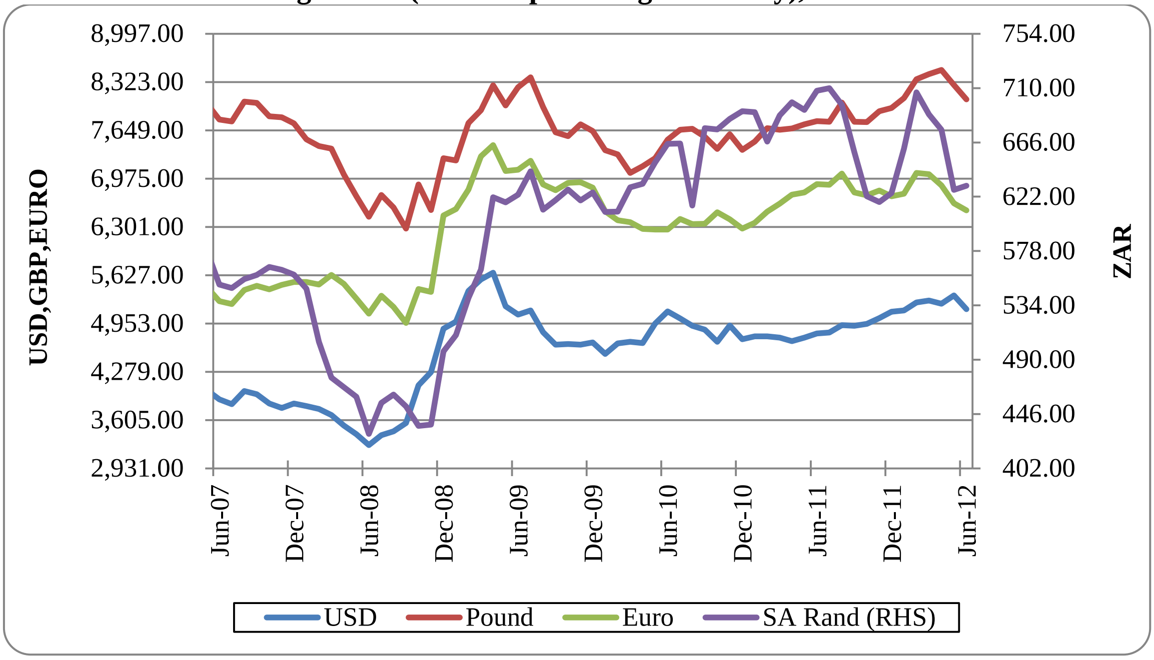
However, the steady supply of foreign exchange, underpinned by inflows from mining companies and foreign financial firms mitigated the pressure on the Kwacha. The Bank of Zambia also intervened in the market to smoothen volatility as well as for gross international reserves build up.

Against this background, the Kwacha traded with a depreciation bias against major currencies. The Kwacha posted a depreciation of 0.7% against the US dollar to close the

[2] December 2011

period at K5,154.54/US$ in June 2012 from K5,087.69/US$ at end-December 2011. The Kwacha also posted losses against the pound sterling and South African rand, shedding 1.5% and 0.9% to close period at K8,080.72/£ and K630.84/ZAR, respectively. In contrast, the Kwacha gained against the euro, which took most losses in global market. The Kwacha appreciated by 2.8% against the euro to close at K6,534.41/€ (see **Chart 4**).

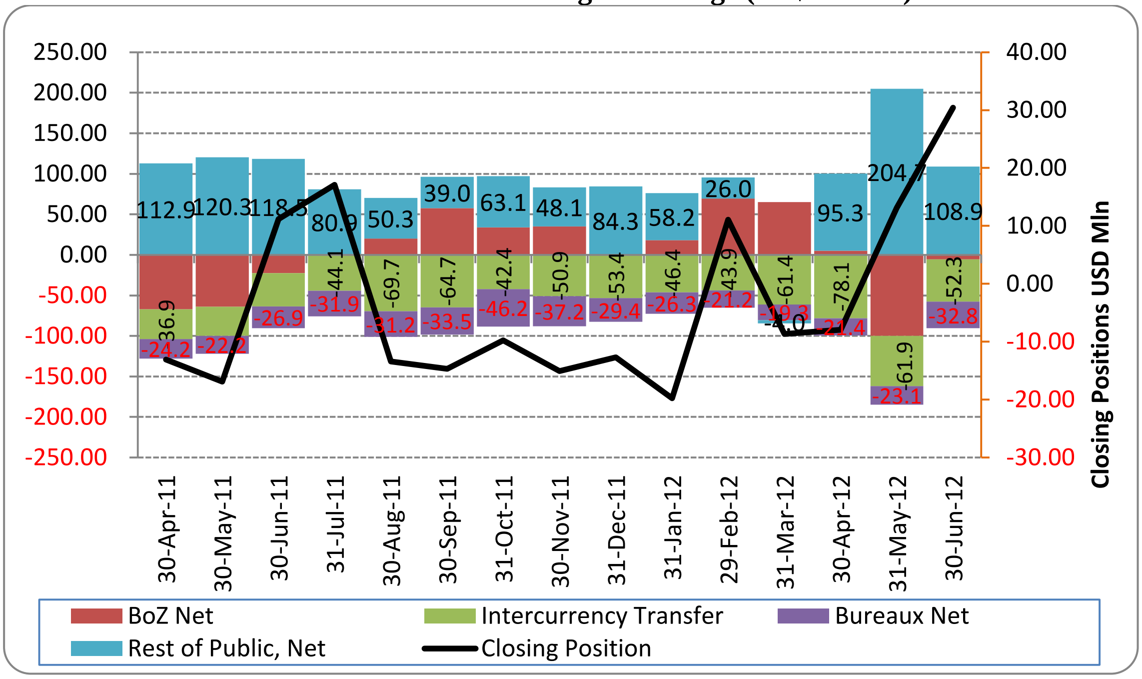
Chart 4: Exchange Rates (Kwacha per foreign currency), Jun 2007 – Jun 2012



Source: Bank of Zambia

Although there was a depreciation trend in the exchange rate, there was favourable foreign exchange supply into the market as volumes supplied to commercial banks increased. Banks recorded net purchases of US$489.1 million from the public compared with US$355.5 million in the second half of 2011. However, sales to the bureaux-de-change sector declined to US$144.1 million from US$210.5 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$344.1 million in inter-currency transactions compared with US$329.3 million in the second half of 2011 (see **Chart 5**). This could be attributed to the increase in non-US$ denominated merchandise imports.

Chart 5: Commercial Banks' Sources of Foreign Exchange (US$ million)



Source: Bank of Zambia

In first half of 2012, volatility in the domestic exchange rate was lower compared to second half of 2011, with the six-month moving standard deviation at K65.46 compared with K106.42. The BoZ intervened in the market to minimise volatility in the exchange rate. On a net basis, the BoZ sold a total of US$51.5 million compared with net sales of US$146.5 million recorded during the second half of 2011. Due to improved liquidity in the foreign exchange market, commercial banks' US dollar net position improved to US$30.4 million long position at end June 2012 from US$12.7 million short position in December 2011.

4.4 International Trade Developments

Preliminary data indicate that in the first half of 2012, Zambia's external sector performance continued to be favourable, although the overall merchandise trade surplus (c.i.f) narrowed to US $140.1 million from US $431.3 million recorded during the last half of 2011 (see Appendix III, Table 1). This outturn was explained by an increase in the merchandise imports bills relative to export earnings that slowed down in the first six months of 2012.

Merchandise import bills grew by 6.5% to US $4,205.6 million compared with US $3,948.4 million recorded during the last half of 2011. This was driven by increases of import bills of commodity groups such as, chemicals (13.6%), petroleum products (12.6%), paper and paper products (10.6%), food items (9.1%), plastic and rubber products (5.6%), motor vehicles (3.3%), and industrial boilers and equipment (0.9%) (see Appendix III, Table 3).

However, merchandise export earnings declined by 0.8% to US $4,345.7 million from US $4,379.7 million registered during the last half of 2011, mainly explained by a decrease in metal exports. Copper export earnings declined by 8.3% to US $3,009.7 million from US $3,283.3 million recorded during the last half of 2011, following a decline in both realised average prices and export volumes. The realised average copper prices declined by 3.7% to US $7,295.57 per ton (US $3.31 per pound) from US $7,577.77 per ton (US $3.44 per pound). Concerns of the European debt crisis threatening global growth and a fall in global demand for the metal explained the slide in copper prices. Similarly, copper export volumes, declined by 4.8% to 412,530.9 metric tons (mt) from 433,215.2 mt recorded in the last six months of 2011.

During the same period, cobalt export earnings declined by 17.2% to US $81.7 million from US $98.7 million, due to a decline in the average realised price. The price slid by 20.2% to US $22,985.55 per ton (US $10.43 per pound) from US $28,859.26 per ton (US $13.09 per pound). Cobalt export volumes, however, grew by 3.9% to 3,554.4 mt compared with 3,419.9 mt registered in the last half of 2011 (see Appendix III, Table 2).

Non-traditional export earnings, however, surged by 25.7% to US $1,254.3 million during the first six months of 2012, from US $997.7 million recorded during the last half of 2011. Increased earnings from the export of gemstones, gas oil and petroleum products, burley tobacco, fresh flowers and electricity explained this outturn.

4.5 Fiscal Developments

Fiscal performance during the first half of 2012 was strong, owing mainly to the satisfactory tax revenue outturn. Preliminary data indicate that the Central Government budget recorded a deficit of K350.4 billion during the first half of 2012, which was 45.0% lower than the programmed deficit of K637.3 billion (see Appendix III, Table 6). This was largely attributed to the higher than programmed revenues and lower expenditure than programmed.

Total revenues and grants were K10,315.0 billion, 7.7% higher than the programmed amount of K9,581.4 billion, attributed to the higher outturn in tax revenues. Tax revenues at K9,828.5 billion were above the target by K1,153.5 billion, largely explained by higher than programmed collections of mining income tax, personal income tax (PAYE), import VAT, and excise duty.

However, total grants at K265.8 billion were 60.3% below the programmed level of K669.5 billion. This was mainly attributed to the delayed disbursement of project support by some co-operating partners. In addition, non-tax revenues at K220.8 billion were 6.8% lower than the target of K236.9 billion. Explaining this outturn was mainly the lower road user fees and fines.

Total expenditures, on the other hand, at K11,344.6 billion were 2.1% below the programmed level of K11,584.5 billion, mainly reflecting lower non-financial assets and social benefits.

Following mainly higher revenues during the period under review, financing requirements were scaled down. Accordingly, total financing was K350.4 billion, out of which domestic financing was K240.0 billion while net foreign financing was K110.4 billion.

4.6 Money and Capital Markets Developments

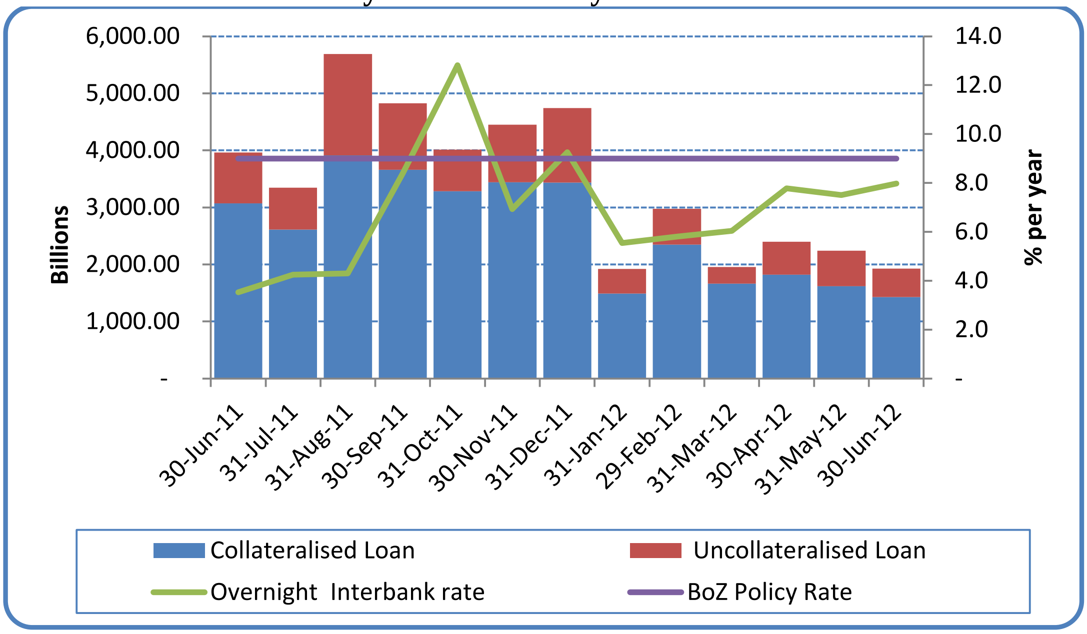
4.6.1 Money Markets

Interbank market

The volume of funds traded in the interbank money market declined to K13,648.5 billion from K27,072.0 billion in the second half of 2011. The decrease was reflective of the improved distribution of liquidity among banks. During the review period, the market remained most active at the shortest maturity, with K12,886.0 billion of the total funds traded being exchanged on an overnight basis.

The lower demand for interbank funds placed downward pressure on the cost of interbank loans and resulted in a decline in the interbank rate to an average of 6.9% in the first half of 2012 from an average of 7.7% in the latter half of 2011. This decline in the interbank rate continued during the first three months of the review period and closed on average at 5.8%. As a consequence, money market liquidity was fairly distributed among market participants. However, after the introduction of the interest rate based targeting framework in April 2012 and consequent interventions by the Bank of Zambia to maintain the interbank rate around 9.0%, the interbank rate edged upwards to close at the six-month average of 6.9% (see **Chart 6**).

Chart 6: Interbank Money Market Activity



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 K860.2 billion in short-term relief funds was borrowed from the Bank of Zambia, compared with K2,739.5 billion borrowed in the second half of 2011. These funds were advanced at rates ranging from 6.5% to 11.5%.

Government Securities Market

During the review period, the frequency of Government securities auctions was reduced to encourage secondary market trading and tender sizes reduced to reflect lower government borrowing requirements. The frequency of Treasury bill auctions was reduced from weekly to fortnightly, while auctions of Government bonds was cut to quarterly from monthly. The reduction in the tender sizes reflected a levelling off, of the higher Government borrowing in 2011 to finance crop marketing.

The total value of Treasury bills placed on offer was K4,240.0 billion compared with K6,360.0 billion during the last half of 2011. In response to the tender invitations, investors submitted bids amounting to K5,391.3 billion, down from K6,004.7 billion in the preceding period. This translated into an over-subscription of 27.0% compared with an under-subscription of 6.0% in the last half of 2011. Total sales to the market were recorded at K3,400.7 billion against maturities of K1,559.7 billion.

With regard to Government bonds, securities worth K1,200.0 billion were placed on offer from K1,800.0 billion previously. Investors placed bids worth K2,175.0 billion, which translated into a subscription rate of 181.2%, up from 83.2% in the second half of 2011 (see Table AIII.7). Out of the bids received, K1,011.5 billion was accepted against a maturity of K256.7 billion.

Stock of Government Securities

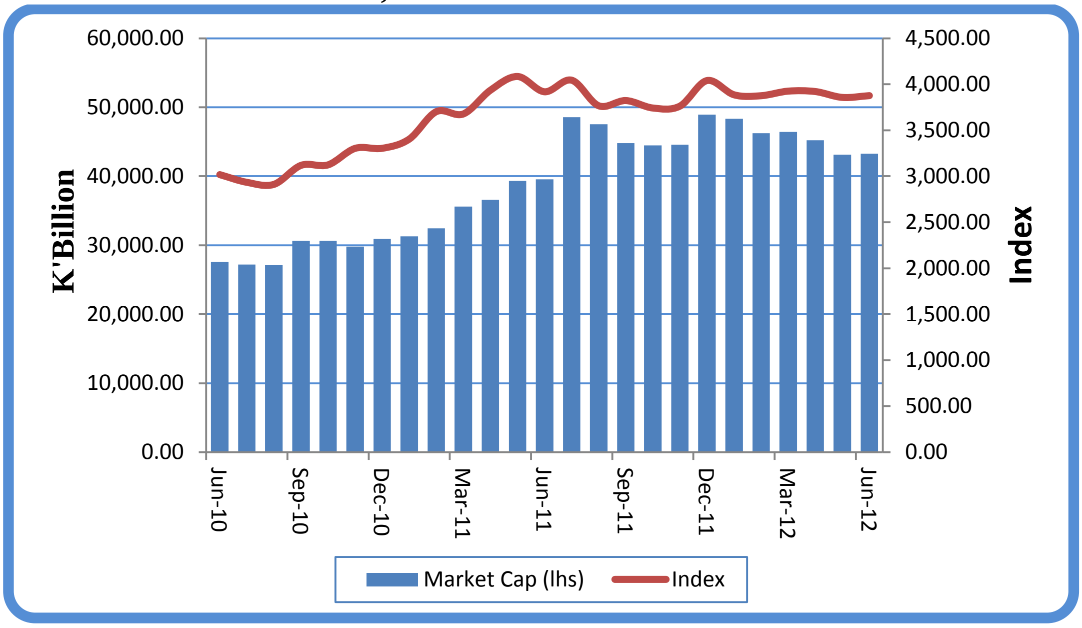
As a result of the net sales of Government securities in the primary market, the total stock of Government securities in circulation rose by 9.2% to K14,326.7 billion from K13,122.4 billion recorded at end-December 2011. The total amount of Treasury bills in circulation increased by 8.7% to K6,955.1 billion compared with a growth of 3.8% in the second half of 2011. Similarly, the stock of marketable Government bonds outstanding rose by 9.6% to K7,371.6 billion from K6,724.0 billion compared with an increase of 16.1% previously.

Of this total value of outstanding securities, commercial banks accounted for the largest proportion, with a holding of K8,692.0 billion (60.7%). The non-bank public accounted for K4,121.6 billion (28.8%) while the Bank of Zambia accounted for K1,513.2 billion or 10.6% of the total outstanding securities.

4.6.2 Capital Market

The stock market posted losses over the first six months of 2012. Market capitalisation declined by 11.6% to K43,265.6 billion (equivalent of US$8,241.0 million) from the end-December 2011 position of K48,929.2 billion (US$9,409.0 million). Despite most share prices increasing during this period, the Lusaka Stock Exchange (LuSE) All Share Index declined by 4.1% to 3,876.4 from 4,040.4 (see **Chart 7**). Moreover, preliminary data show that net foreign portfolio inflows to the market totalled US$0.2 million for the period, down from US$13.3 million in the first half of the year.

Chart 7: LUSE Indicators, Jun 2010 - Jun 2012



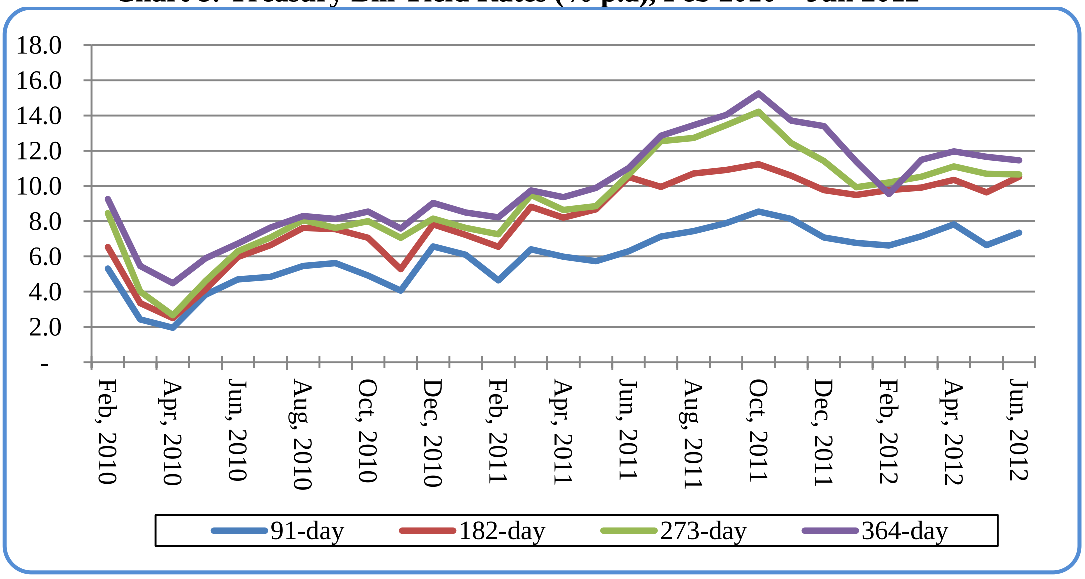
Source: *Lusaka Stock Exchange*

4.7 Interest Rates

4.7.1 Government Securities Interest rates

Yield rates on Government securities declined in the review period as a result of the oversubscriptions on the auctions. The oversubscriptions reflected higher demand for Government securities. The yield rates for the 91- and 182-day bills declined to 7.1% and 10.0% from 7.7% and 10.5%, respectively, while the yield rates for the 273- and 364-day bills both declined by over 200 basis points to 10.5% and 11.26%. As a consequence, the weighted average Treasury bill yield rate for the six month period declined by 200 basis points to 10.5% (see **Chart 8**).

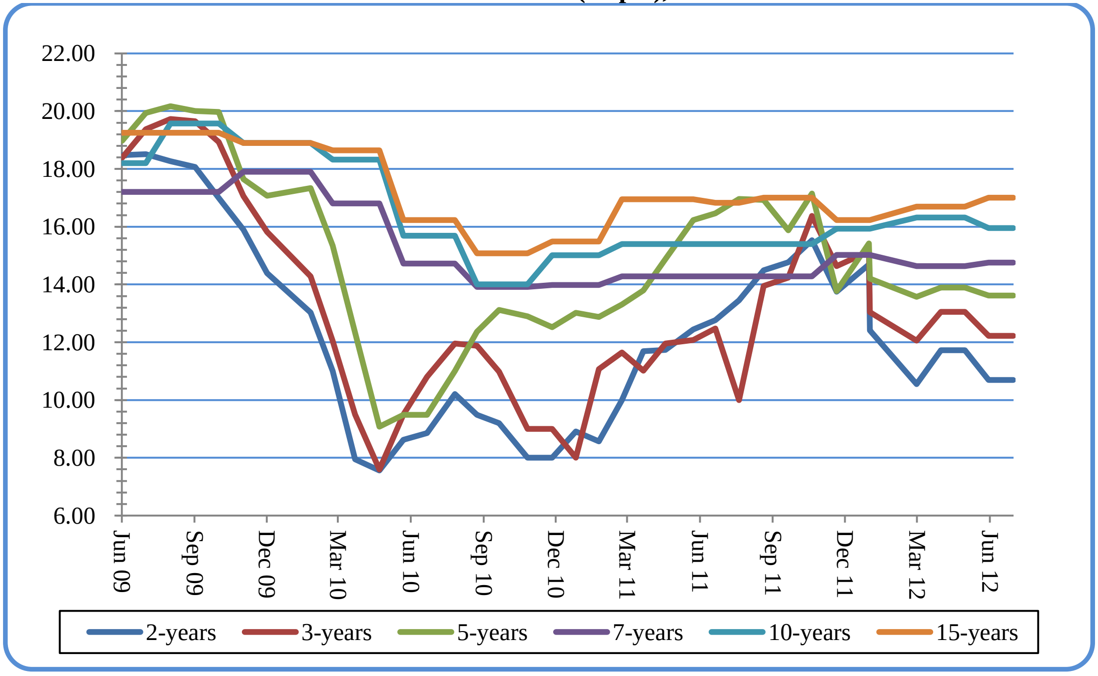
Chart 8: Treasury Bill Yield Rates (% p.a), Feb 2010 – Jun 2012



Source: Bank of Zambia

For similar factors alluded to above, most yield rates on Government bonds declined in the first half of 2012. The 2-year paper shed off 315 basis points to 11.3% while yield rates for the 3- and 5-year tenors were lower by 145 and 222 basis points, ending the period at averages of 12.6% and 13.8%, respectively. However, yield rates for the 7- and 10-year tenors increased modestly, rising by 21 and 55 basis points to 14.7% and 16.1%, respectively, while the yield rate for the 15-year bond remained flat at 16.7%. As a result, the weighted average bond yield rate declined by 246 basis points to 13.1% (see **Chart 9**).

Chart 9: Government Bond Yield Rates (% p.a), Jun 2009 – Jun 2012



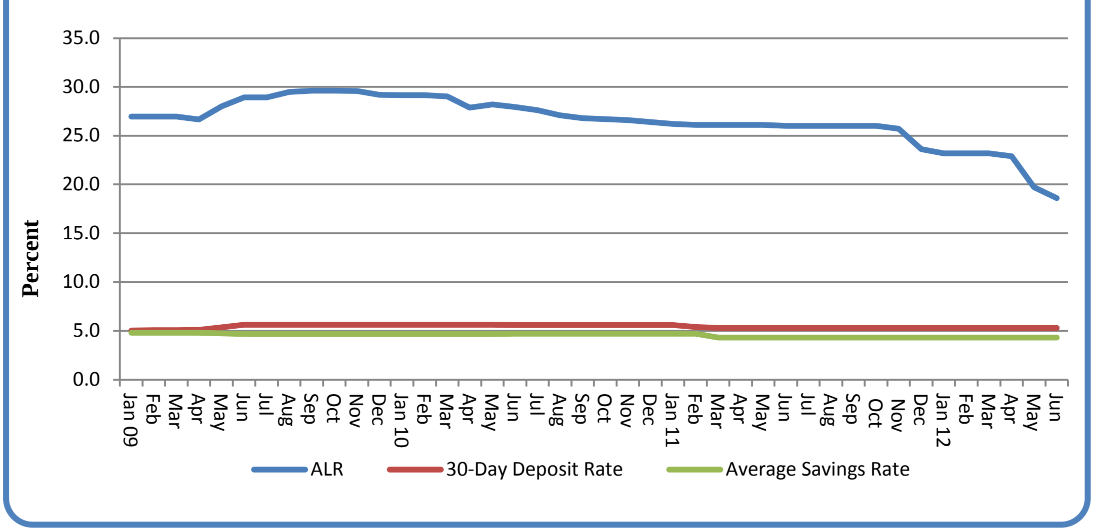
Source: Bank of Zambia

4.7.2 Commercial Banks Interest Rates

During the last quarter of 2011 and the period under review, the Government and the Bank of Zambia, put into effect measures meant to lower the cost of borrowed funds. These measures included a reduction in the statutory reserve ratios on all deposits to 5% from 8%, effective April 2012, a 5 percentage points reduction in commercial banks' corporate tax to 35% and the introduction of a BoZ Policy Rate. These measures contributed to a fall in commercial banks' lending rates, though savings rates remained unchanged.

The Average Lending Rate (ALR) decreased 18.6% in June 2012 from 23.6% in December 2011. 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**).

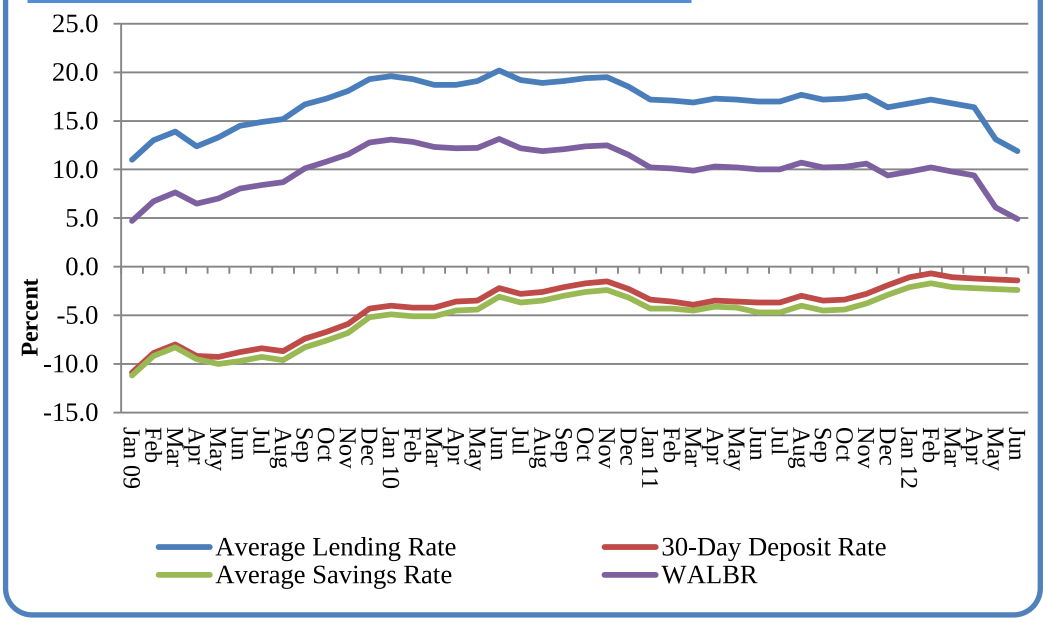
Chart 10: Lending and Saving Rates, (%), Jan 2009- Jun 2012



Source: *Bank of Zambia*

In real terms, lending interest rates declined during the review period due to a reduction in nominal interest rates and an increase in annual overall inflation. The real ALR fell to 11.9% in June 2012 from 17.6% in December 2011. 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 -2.4% (-1.7%) and negative 1.4% (-0.7%), respectively, due to the rise in inflation (see Chart 11).

Chart 12: Real Interest Rates (%), Jan 2009- Jun 2012



Source: *Bank of Zambia*

4.7.3 Non-Bank Financial Institutions Lending Rates

In the first quarter of 2012, the total cost of credit as measured by the average effective annual interest rates declined in all the sub-sectors of the non-bank financial institutions (NBFIs) sector with the exception of Development Bank of Zambia, and National Savings and Credit Bank. Significant declines in interest rates were recorded in the microfinance sub-sector. This led to a decrease of 6.8 percentage points in the average effective annual interest rate for the non-bank financial institutions sector to 50.9% as at end-June 2012 from 57.7% registered during the second half of 2011 (see **Table 5**).

The decline in the average effective annual interest rate was largely attributed to the publication of comparative interest rates in the print media that fostered interest rate competition among the lenders. This was coupled with the Bank of Zambia's initiative to engage all non-bank financial institutions in the last quarter of 2011, aimed at finding ways to further reduce the cost of credit. Further, the fall in the NBFIs' lending rates could have benefited from reduced lending rates among commercial banks. Despite the decline in interest rates, the lending rates charged by the micro-finance and leasing finance institutions remained relatively high.

Table 5: Average Annual Effective Interest Rates (%)

Description	First Quarter 2012[3]	Second Half 2011
Microfinance Institutions	109.2	131.5
Leasing Finance Institutions	65.0	69.5
Building Societies	17.8	24.7
Development Bank of Zambia	29.6	29.6
National Savings and Credit Bank	33.0	33.0
Overall for the sector	50.9	57.7

Source: Bank of Zambia

Going forward, lending rates for both commercial banks and non-bank financial institutions sectors, are expected to further trend downwards as these institutions fully adjust to the Government's initiatives alluded to earlier.

5.0 Monetary Policy Objectives and Instruments for July – December 2012

The objective of monetary policy during the period is to sustain single digit annual inflation. Having, in April 2012, shifted the conduct of monetary policy from targeting monetary aggregates to targeting interest rates, the Bank of Zambia will mainly use its monthly policy rate to influence the 30-day moving average overnight interbank rate. However, since this is a transition period, the Bank will also continue to use market based instruments to influence both reserve and broad money consistent with the end-year inflation target of 7.0%.

5.1 Economic Outlook of the Second Half of 2012

Zambia's positive economic prospects remain on course supported by continued favourable performance in agriculture, construction, mining, and transport and communication. With a slight tightening of monetary policy, inflation is projected to be around 7% in the second half of 2012. This should be supported by favourable supply of foodstuffs such as maize and maize products during the coming period as the crop marketing season picks up. Further, stable energy prices and the recent strengthening of the Kwacha are expected to support lower inflation.

[3] The due date for submission of the second quarter cost of borrowing returns by NBFIs is 11 July 2012. In this regard, the effective annual rate of interest for the NBFIs sector for the first half of 2012 will only be established after 11 July 2012.

At the end of 2012, real GDP is projected to rise by 7.7% on an annual basis, reflecting strong growth in copper production and crop output; pick-up in construction activities; and continued steady growth in transport and communications. This will be leveraged by an expansionary fiscal policy reflected in the 2012 budget deficit projection of 4.1% of GDP. The falling lending rates are expected to support increased economic activities, and therefore help sustain growth in the economy.

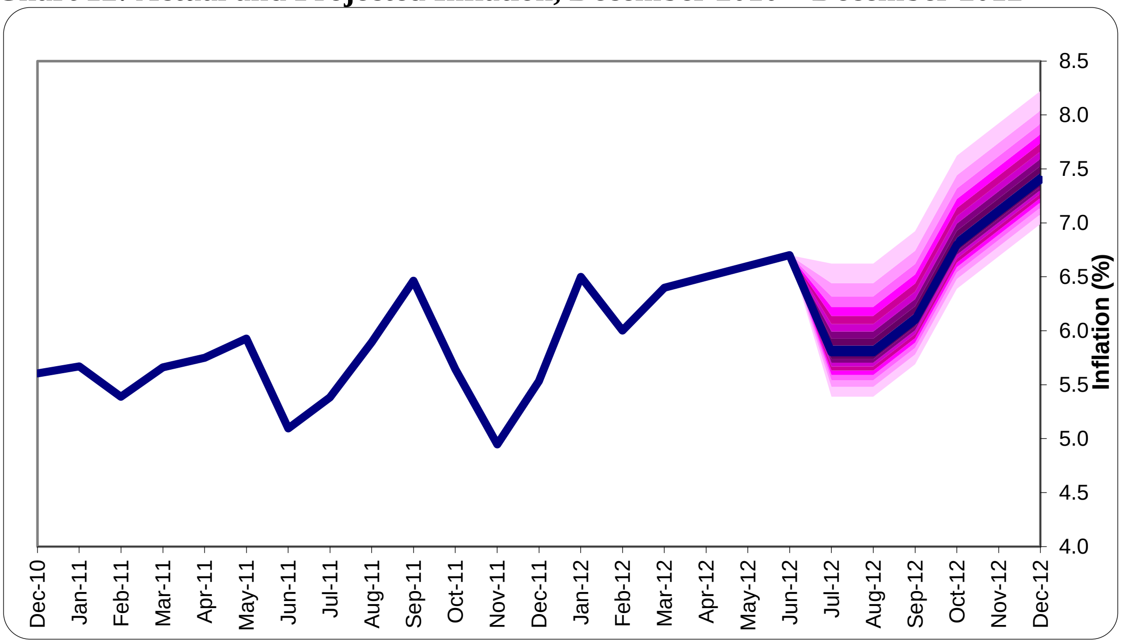
Nevertheless, threats to the positive economic outturn still lie in the uncertain outlook for the global economy in 2012. The unresolved euro debt crisis, slow economic growth in the United States and a slowdown in most emerging-market economies, in particular China point to a slowdown in global economic activities and consequently demand for commodities, including copper.

5.2 Inflation Projection for June – December 2012

The consumer price index (CPI) inflation in the second half of the year is projected to be around 7% (see Chart 12 and Table 6). In the third quarter, it is projected to slow down to an average of 6.2% before rising to an estimated 7.4% in the fourth quarter.

The projection for the second half of the year assumes a fall in mealie-meal prices following the seasonal improvement in maize supply and continued stability in energy prices, in particular those of fuel and electricity. However, the sustained increases in the prices of fish and meat products pose threats to the inflation outcome. Further, the protracted sovereign debt crisis affecting the Eurozone economies may pose risks to the inflation outlook for the second half of the year.

Chart 12: Actual and Projected Inflation, December 2010 – December 2012



Source: *Bank of Zambia*

Table 6: Actual Inflation and Projections, December 2010 – December 2012

Description		Projection (a)	Actual (b)	Forecast Error (b-a)
	December 2010	7.3	7.9	0.6
First Half of 2011	January	8.2	9.0	0.8
	February	8.6	9.0	0.4
	March	9.4	9.2	-0.2
	April	8.6	8.8	0.2
	May	8.5	8.9	0.4
	June	8.4	9.0	0.6
	Average	*8.6*	*9.0*	0.4
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	6.6		
	August	*6.6*		
	September	*6.2*		
	October	*6.4*		
	November	*6.7*		
	December	*7.4*		
	Average	*6.7*		

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. Sustaining single digit inflation at 5.0% from 2013 - 2014;
ii. Achieving real GDP growth rate of at least 8.3% in 2013 and 7.8% in 2014;
iii. Limiting overall fiscal deficit to 2.5% of GDP in 2013 and 2.4% in 2014;
iv. Limiting domestic borrowing to at most 1.4% of GDP in 2013 and 1.2% in 2014; and
v. Accumulating foreign reserves to at least 3.5 months of import cover in 2013 and 3.9 months in 2014.

The Bank of Zambia will, in this regard, continue to employ the recently introduced BoZ policy rates and other market-based instruments of monetary policy to influence the average interbank rate and manage liquidity.

Appendix I: Selected Macroeconomic Indicators

Description/Years	Dec-09	Dec-10	Jun-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Monetary Aggregates (K'bn)										
Reserve money (end-period in K'billion)*	3,649.4	5,064.1	4,761.9	5,385.4	4,756.1	4,562.2	4,670.9	4,454.2	4,991.5	5,035.2
Growth Rate	-1.3	9.1	2.3	11.6	-11.7	-4.1	2.4	-4.6	12.1	0.9
Broad money (in K'billion)	14,125.7	18,477.0	20,340.28	21,804.78	21,506.5	21,807.1	22,260.1	23,062.1	23,598.5	23,881.0
Growth Rate	1.4	1.6	7.8	1.4	-1.4	1.4	2.1	3.6	2.3	1.2
Net Claims on Government (in K'billion)	4,100.0	5,870.27	4,589.90	5,200.10	4,121.91	4,422.31	5,098.76	4,274.53	4,547.23	
Prices (%)										
Inflation	9.9	7.9	9.0	7.2	6.4	6.0	6.4	6.5	6.6	6.7
Nominal Interest and yield rates (aver. %)										
Commercial Banks ' rates										
Commercial banks' weighted lending base rate	22.7	19.4	19.0	16.6	16.2	16.2	16.2	15.9	13.1	11.6
Average Savings rate (>K100,000)	4.7	4.7	4.7	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Deposit rate (30 days, over K20 million)	5.6	5.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Treasury bill yield rates										
Weighted TB rate	9.5	7.4	10.1	11.7	10.2	9.5	10.3	10.7	10.5	10.7
91-day	6.3	6.3	6.0	7.1	7.0	6.3	7.1	7.6	7.0	7.2
182-day	8.5	7.6	10.0	9.8	9.6	9.5	9.9	10.2	9.9	10.3
273-day	11.0	8.0	10.4	11.4	10.4	9.4	10.5	10.9	11.0	10.6
364-day	11.7	9.0	10.7	13.4	12.0	9.7	10.9	11.9	11.8	11.4
Government bonds Yield Rates										
Weighted Bond Yield Rate	15.9	11.3	15.7	15.0	13.5	13.3	13.1	13.1	13.1	12.9
24 months	15.5	8.9	12.8	14.7	12.4	10.5	11.7	11.7	11.7	10.7
3 year	16.8	8.0	12.5	15.1	13.0	12.1	13.1	13.1	13.1	12.2
5 year	17.5	13.0	16.5	15.4	14.2	13.6	13.9	13.9	13.9	13.6
7 year	17.9	14.0	14.3	15.0	15.0	14.6	14.6	14.6	14.6	14.8
10 year	18.9	15.0	15.4	15.9	15.9	16.3	16.3	16.3	16.3	16.0
15 year	18.9	15.5	16.8	16.2	16.2	16.7	16.7	16.7	16.7	17.0
Real Interest and Yield Rates (%)										
Commercial Banks' rates										
Commercial banks' weighted lending base rate	12.8	11.5	10.0	9.4	9.8	10.2	9.8	9.4	6.5	4.9
Average savings rate	-5.2	-3.2	-4.3	-2.9	-2.1	-1.7	-2.1	-2.2	-2.3	-2.4
Deposit rate (30 days, over K20 million)	-4.3	-2.3	-3.7	-1.9	-1.1	-0.7	-1.1	-1.2	-1.3	-1.4
Treasury bill yield rates										
Weighted TB rate	-0.4	-0.5	1.1	4.5	3.8	3.5	3.9	4.2	3.9	4.0
91-day	-3.6	-1.6	-3.0	-0.1	0.6	0.3	0.7	1.1	0.4	0.5
182-day	-1.4	-0.3	1.0	2.6	3.2	3.5	3.5	3.7	3.3	3.6
273-day	1.1	0.1	1.4	4.2	4.0	3.4	4.1	4.4	4.4	3.9
364-day	1.8	1.1	1.7	6.2	5.6	3.7	4.5	5.4	5.2	4.7
Government bonds Yield Rates										
Weighted Bond rate	6.0	3.4	6.7	7.8	7.1	7.3	6.7	6.6	6.5	6.2
24 months	5.6	1.0	3.8	7.5	6.0	4.5	5.3	5.2	5.1	4.0
3 year	6.9	0.1	3.5	7.9	6.6	6.1	6.7	6.6	6.5	5.5
5 year	6.0	5.1	7.5	8.2	7.8	7.6	7.5	7.4	7.3	6.9
7 year	8.0	6.1	5.3	7.8	8.6	8.6	8.2	8.1	8.0	8.1
10 year	9.0	7.1	6.4	8.7	9.5	10.3	9.9	9.8	9.7	9.3
15 year	9.0	7.6	7.8	9.0	9.8	10.7	10.3	10.2	10.1	10.3
Exchange rates (average K/US $)										
Commercial banks' interbank mid-rate	4,687.82	4,732.5	4801.3	5118.5	5,131.4	5,219.7	5,285.4	5,249.9	5,213.6	5,250.0
Bank of Zambia mid rate**	4,640.56	4,735.7	4811.9	5117.3	5,128.6	5,217.1	5,280.2	5,241.0	5,212.4	5,247.6
Real sector										
Mining output (tonnes)										
Copper	65,822.7	72,111.8	73,387.8	64,866.4	68,903.8	71,645.1	78,546.5	70,673.2	67,275.4	65,807.6
Cobalt	514.11	663.5	588.0	534.6	532.7	532.8	530.9	577.3	437.8	423.7
Metal Earnings (US $mn)										
Copper	394.50	612.4	507.4	463.4	541.1	529.5	498.0	538.6	497.6	483.9
Cobalt	16.00	21.8	20.1	15.0	14.9	21.8	19.2	18.7	15.5	10.1
Total	410.50	634.2	527.5	478.4	556.0	551.3	517.2	557.3	513.1	494.0
External sector (US $ mn)										
Trade Balance	86.7	222.5	81.2	15.5	2.4	6.9	12.9	62.7	27.7	20.5
Exports, c.i.f.	484.4	725.1	696.5	614.0	780.2	692.4	677.5	737.7	697.5	712.1
Imports, c.i.f.	-397.7	-502.6	-615.3	-598.5	-777.8	-685.5	-664.6	-675.0	-669.8	-691.6

Source: Bank of Zambia Statistics Fortnightly
* Reserve money is narrowly defined.
**Based on BoZ end of period mid-exchange rate

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

An International Monetary Fund (IMF) Mission, led by Mr. Trevor Alleyne, was in the country from 29th February to 13th March 2012 for Article IV consultations with the Zambian Authorities. The IMF held bilateral discussions with Zambian officials on the country's economic developments and policies. The IMF mission also collected information on economic and financial issues. The IMF Executive Board considered the Country Staff and Debt Sustainability Reports at a meeting held in June 2012 in Washington D.C. The documents have since been approved and published.

The IMF concluded that Zambia's macroeconomic performance in 2011 was positive and was expected to remain robust in 2012. The mission, however, cautioned on some downside risks that could arise from domestic policies and global developments, risks that could squeeze trade credit lines, reduce demand for Zambian exports and lower copper prices. The IMF advised government to maintain a positive investment climate for current and potential investors and to implement and communicate a consistent set of policies. The IMF further advised government to implement policies to diversify the economy and ensure that growth is more inclusive.

Total disbursed Poverty Reduction Budget Support (PRBS) in the first half of 2012 amounted to US $93.0 million. About US $29.4 million was received from the World Bank, US $11.0 million from the European Union, US $22.9 million from ADB, US $19.6 million from the UK, US $8.7 million from Norway and US $1.3 million from Germany .

Further, a total of US $234.2 million mining tax revenue was received from First Quantum Mining Plc and Kansanshi Mining Plc, for the benefit of Government. The Bank of Zambia foreign exchange purchases from the market amounted to US $110.0 million during the period under review. The above receipts were against payments to PTA Bank, being arrears for oil procurement (US $77.0 million), Bank of Zambia sales to the market (US $157.5 million) and debt service payments to various creditors including the IMF (US $58.8 million).

Preliminary data indicate that the Net Domestic Assets (NDA) of the Bank of Zambia, and the Net Domestic Financing (NDF) of Government, performance criteria were on track while the Unencumbered International Reserves (UIR) quantitative performance criterion was not met. The structural benchmarks were generally on track, as at 29th June 2012. The average NDA was K646.1 billion below the end-June 2012 programme ceiling of K1,433.0 billion whilst the NDF was K1,024.7 billion below the end-June adjusted ceiling of K10,628.9 billion. The UIR were US $23.3 million below the end-June 2012 adjusted floor of US $2,314.2 million, and thus were off track, largely affected by Bank of Zambia foreign exchange sales to the market.

The broad macroeconomic objectives for 2012 include: (i) attaining real GDP growth of at least 7.7%, (ii) achieving end-year inflation of no more than 6.0%; (iii) limiting domestic financing to 1.1% of GDP; and (iv) increasing gross international reserves to not less than 4.0 months of import cover (see Appendix II, Table 1).

Table A II.1: Macroeconomic Outturn and Targets in 2011, and Targets for 2012

Description	End – December 2011 Targets	End-December 2011 Outturn	End-December 2012 Targets
Real GDP growth rate (%)	6.8	6.6	7.0
CPI Inflation, end period (%)	7.0	7.2	7.0
CPI Inflation, annual average (%)	9.0	8.7	5.6
Gross Official Reserves (in months of imports)	3.4	3.0	4.0
Broad Money growth (%)	9.3	21.7	12.2
Budget deficit, excluding grants (% of GDP)	4.6	4.5	5.8
Domestic financing of the Budget (% of GDP)	1.3	1.5	1.1

Source: Bank of Zambia, Budget Speech, November 2011, IMF Country Staff Report 2012

Appendix III: Statistical Tables and Charts

Table AIII.1: Trade Data in US $ million (c.i.f), Jul 2010 – Jun 2012

	Jul - Dec 2010	**Jan - Jun 2011**	**Jul - Dec 2011**	**Jan – Jun 2012***	**% Change**
Trade Balance	**1,284.2**	**977.4**	**431.3**	140.1	-67.5
Exports, c.i.f	**3,998.3**	**4,200.5**	**4,379.7**	4,345.7	-0.8
Metals	**3,338.7**	**3,534.2**	**3,382.0**	3,091.4	**-8.6**
Copper	3,189.2	3,376.9	3,283.3	3,009.7	-8.3
Cobalt	149.5	157.3	98.7	81.7	-17.2
Total NTEs	**659.6**	**666.3**	**997.7**	**1,254.3**	**25.7**
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	0.0
Copper Wire	85.6	77.8	92.0	64.8	-29.6
Cane Sugar	80.9	77.8	92.0	54.2	-38.0
Burley Tobacco	69.3	77.6	87.4	98.6	57.5
Cotton Lint	31.5	38.0	62.6	23.1	-77.2
Electrical Cables	19.9	16.9	101.3	15.2	-27.4
Fresh Flowers	11.0	20.8	20.9	12.7	27.0
Cotton Yarn	0.0	10.8	10.0	0.0	-100.0
Fresh Fruits & Vegetables	6.4	0.0	0.0	4.5	-10.3
Gemstones	20.8	4.2	5.0	112.1	1,956.8
Gasoil/Petroleum Oils	9.5	30.3	5.4	72.2	581.7
Electricity	11.7	26.2	10.6	18.1	771.7
Other	326.1	14.8	2.1	792.1	29.1
Of which Maize & Maize Seed	*31.1*	49.2	138.4	340.2	145.9
Wheat & Meslin	*16.7*	16.0	15.1	15.7	4.3
Cement & Lime	*15.2*	41.2	40.7	17.5	-56.9
Imports c.i.f.	**-2,714.1**	**-3,223.0**	**-3,948.4**	**-4,205.6**	**6.5**

Source: Bank of Zambia
*Figures are preliminary.

Table AIII.2: Metal Production, Export Volumes, Values and Prices; Jul 2010 – Jun 2012

	Copper					Cobalt				
Period	**Export Volume**	**Production**	**Value**	**Price**	**Price**	**Export Volume**	**Production**	**Value**	**Price**	**Price**
	Tonnes	Tonnes	US $'000	US$/Tonne	US$/ pound	Tonnes	Tonnes	US $ '000	US$/Tonne	US$/ pound
Quarter 1, 2010	198,247.20	196,466.24	1,311,518.89	6,615.57	3.00	1,977.06	1,988.96	78,204.89	39,556.12	17.94
Quarter 2, 2010	194,195.29	202,595.76	1,267,152.58	6,525.15	2.96	2,009.53	2,023.84	76,077.06	37,858.20	17.17
Jan - Jun 2010	392,442.49	399,062.00	2,578,671.46	6,570.83	2.98	3,986.59	4,012.80	154,281.95	38,700.24	17.55
Quarter 3, 2010	222,034.57	228,708.30	1,534,916.01	6,912.96	3.14	2,278.48	2,348.02	75,297.42	33,047.21	14.99
Quarter 4, 2010	215,272.63	224,796.00	1,654,274.09	7,684.55	3.49	2,375.84	2,287.23	74,238.28	31,247.22	14.17
Jul - Dec 2010	437,307.19	453,504.30	3,189,190.11	7,292.79	3.31	4,654.32	4,635.25	149,535.70	32,128.39	14.57
Quarter 1, 2011	203,267.69	236,008.46	1,751,088.96	8,614.69	3.91	2,395.49	2,375.13	86,462.63	36,093.93	16.37
Quarter 2, 2011	195,661.28	227,226.14	1,625,809.25	8,309.31	3.77	2,015.25	1,996.55	70,850.06	35,157.02	15.95
Jan - Jun 2011	398,928.97	463,234.60	3,376,898.20	8,464.91	3.84	4,410.74	4,371.68	157,312.69	35,665.86	16.18
Quarter 3, 2011	239,490.93	214,461.22	1,821,252.87	7,604.68	3.45	1,743.60	1,726.10	53,903.82	30,915.19	14.02
Quarter 4, 2011	193,724.27	201,749.18	1,461,554.02	7,544.51	3.42	1,676.33	1,603.80	44,792.78	26,720.81	12.12
Jul - Dec 2011	433,215.20	416,210.40	3,282,806.89	7,577.77	3.44	3,419.93	3,329.89	98,696.60	28,859.26	13.09
Quarter 1, 2012	200,834.17	217,524.07	1,510,969.50	7,523.47	3.41	2,034.69	1,596.42	43,275.00	21,514.29	9.76
Quarter 2, 2012*	211,696.76	203,756.20	1,498,680.72	7,079.37	3.21	1,499.30	1,438.79	38,425.79	25,629.20	11.63
Jan - Jun 2012*	412,530.94	421,280.27	3,009,650.22	7,295.57	3.31	3,533.99	3,035.21	81,700.79	23,260.04	10.55

Source: *Bank of Zambia Statistics Fortnightly*
*Figures are preliminary.

Table AIII.3: Imports by Commodity Groups in US $ millions (c.i.f.); Jul 2010 – Jun 2012

Description	**Jul - Dec 2010**	**Jan - Jun 2011**	**Jul - Dec 2011**	**Jan - Jun 2012***	**% Change**
Food Items	157.63	171.96	209.65	228.73	9.1
Petroleum Products	235.97	161.82	368.80	415.32	12.6
Fertilizers	84.76	153.87	176.18	147.61	-16.2
Chemicals	328.11	363.44	413.13	469.47	13.6
Plastic and Rubber Products	125.02	144.64	205.87	217.43	5.6
Paper and Paper Products	40.14	49.52	66.34	73.37	10.6
Iron and Steel	156.18	192.99	283.01	279.11	-1.4
Industrial Boilers & Equipment	375.49	581.54	718.28	724.67	0.9
Electrical Machinery & Equipment	121.63	196.80	269.81	249.08	-7.7
Vehicles	181.34	279.44	334.50	345.56	3.3
Other Imports	907.86	927.09	902.86	1,055.24	16.9
Total Imports	**2,714.14**	**3,223.10**	**3,948.44**	**4,205.61**	**6.5**

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

Table AIII.4: Sources of Reserve Money Growth

	Jan – June 2011		Jul – Dec 2011	
	Total (K'bn)	**Contribution to Reserve Money Growth (%)**	**Total (K'bn)**	**Contribution to Reserve Money Growth (%)**
1/ Net Foreign Assets (a+b+c+d)	**-1,685.1**	**-35.4**	**-928.72**	**-17.2**
a) Net Purchases from Govt	-678.1		-412.4	
b) Net Purchases from non-Government	-732.0		-479.9	
c) Bank of Zambia own use of forex	-8.5		-0.1	
d) Change in stat. reserve deposits forex balances	-284.6		-36.3	
2/ Net Domestic Credit (a+b)	**2,303.5**	**48.4**	**577.7**	**10.7**
a) Autonomous influences	**7,147.3**		**3372.6**	
Maturing Open Market Operations	5,819.4		2312.1	
Direct Govt Transactions	2,183.3		2244.0	
TBs and Bonds Transactions	-765.3		-1167.2	
Claims on non-banks (Net)	-90.0		-16.2	
b) Discretionary influences	**-4,843.9**		**-2794.9**	
Open Market Operations	**-4,843.9**		**-2965.6**	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-1,291.8		-1239.0	
iii. Term Deposits Taken	-3,543.1		-1726.6	
Treasury bill Rediscounts	**0.0**		**153.7**	
Other claims (Floats, Overdrafts)	**-9.0**		**17.0**	
Change in Reserve Money	**618.3**	**13.0**	**-351.0**	**-6.5**

Source: *Bank of Zambia*

Table AIII.5b: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), June 2010 - June 2012 (in percent)

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

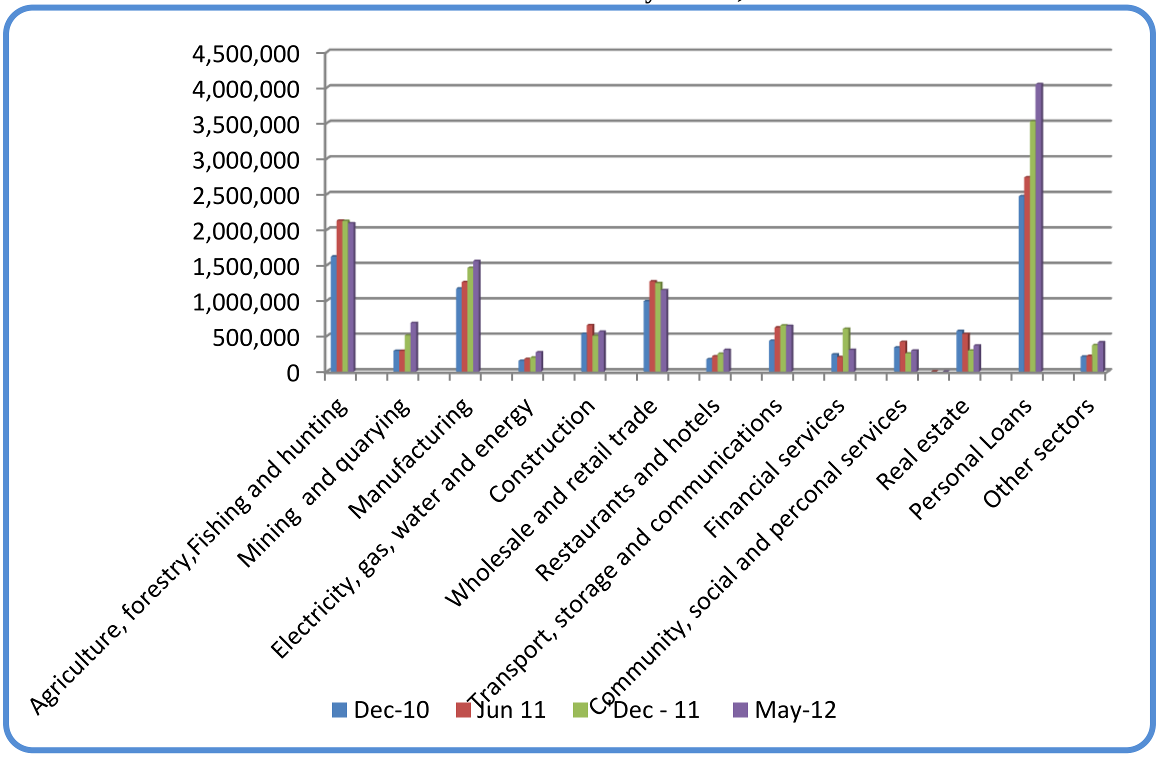
Source: *Bank of Zambia*

Table AIII.5c: Shares of Foreign Exchange Loans & Advances by Sector, Jun 2010 – Jun 2012

Sector	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12
Agriculture, forestry, fishing and hunting	34.1	28.8	36.9	24.9	28.2
Mining & Quarrying	8.8	6.9	5.5	9.4	12.1
Manufacturing	14.9	16.3	14.3	20.3	21.1
Electricity, Gas, Water & Energy	1.9	1.9	2.8	1.6	1.9
Construction	4.5	3.7	6.7	5.7	6.3
Wholesale & Retail Trade	15.1	16.0	14.8	11.6	8.9
Restaurants & Hotels	3.2	2.9	2.5	2.8	3.8
Transport, Storage & Communications	5.2	5.8	5.9	7.6	6.7
Financial Services	4.3	3.3	1.8	8.4	1.6
Community, Social and Personal Services	1.2	2.6	3.2	1.6	2.0
Real Estate	5.0	7.8	3.6	3.7	4.7
Personal Loans	1.0	1.7	0.6	1.0	1.0
Others	1.8	2.2	1.3	1.6	1.7

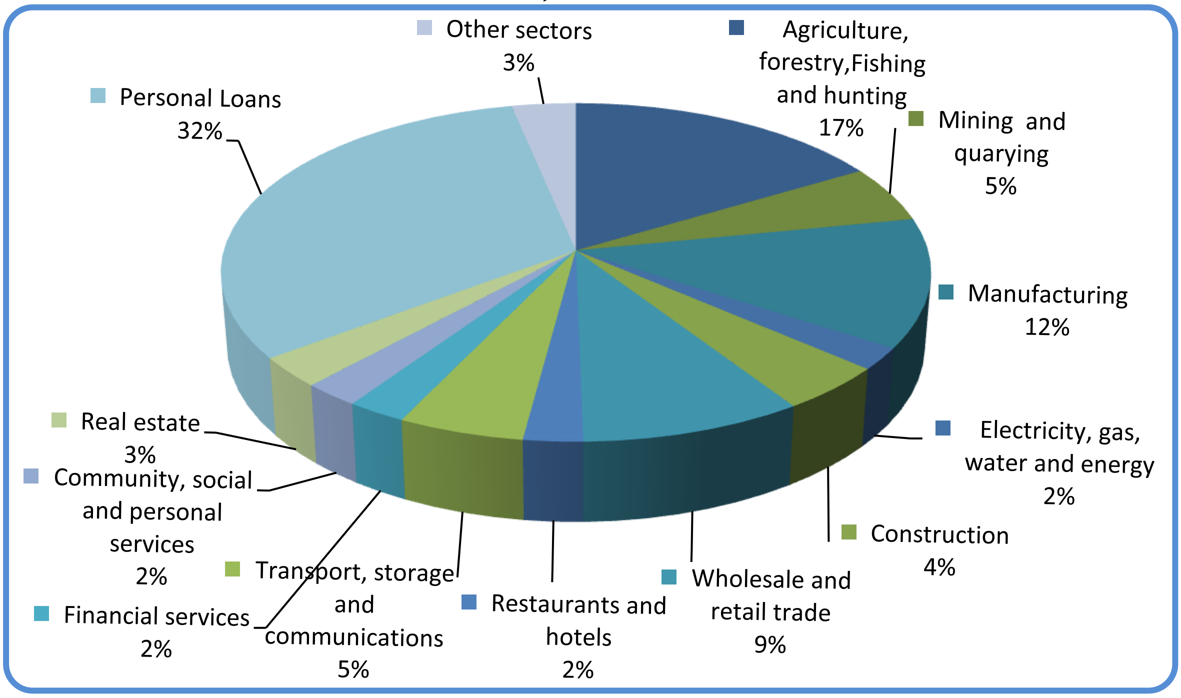
Source: *Bank of Zambia*

Chart AIII.1: Commercial Banks Loans and Advances by Sector, Dec 2010 – June 2012



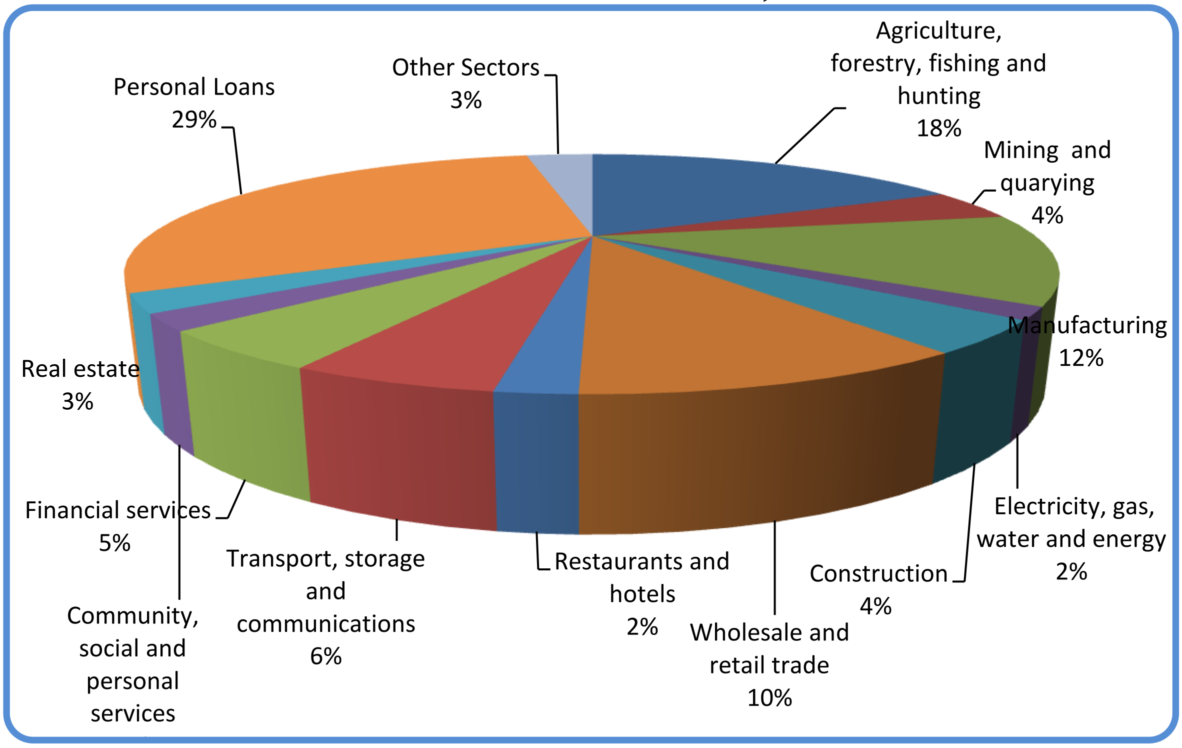
Source: *Bank of Zambia*

Chart AIII.2: Structure of Loans and Advances, June 2012



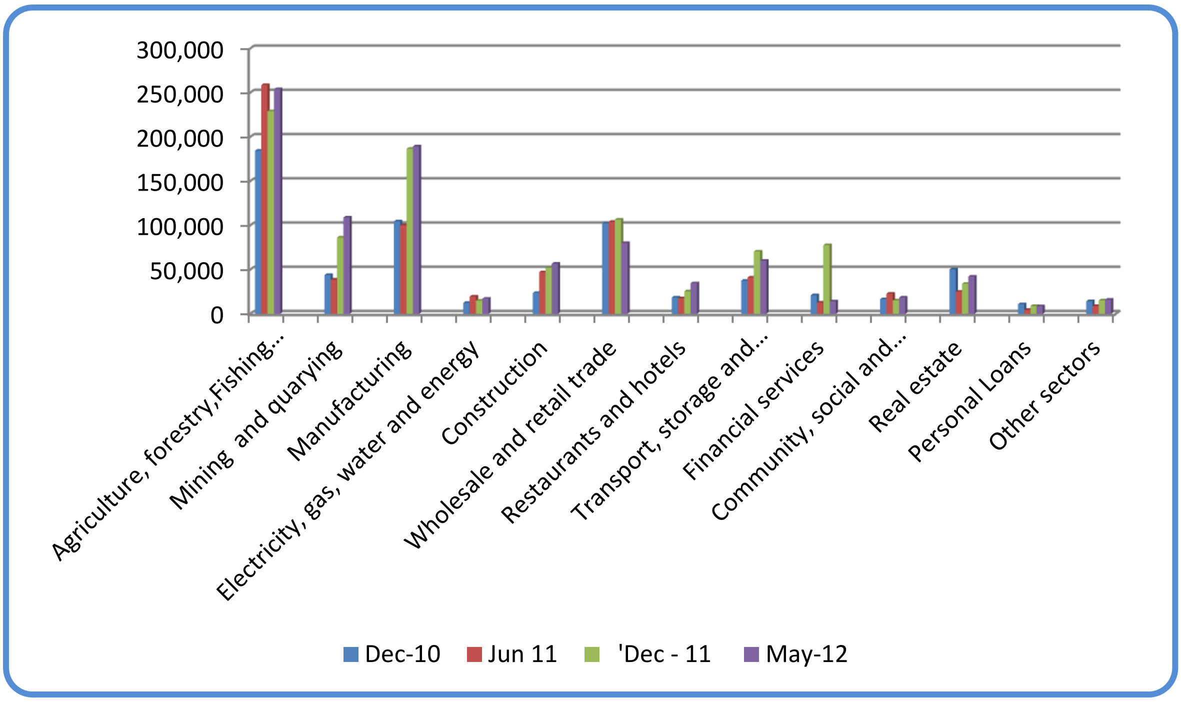
Source: *Bank of Zambia*

Chart AIII.3: Structure of Loans and Advances, December 2011



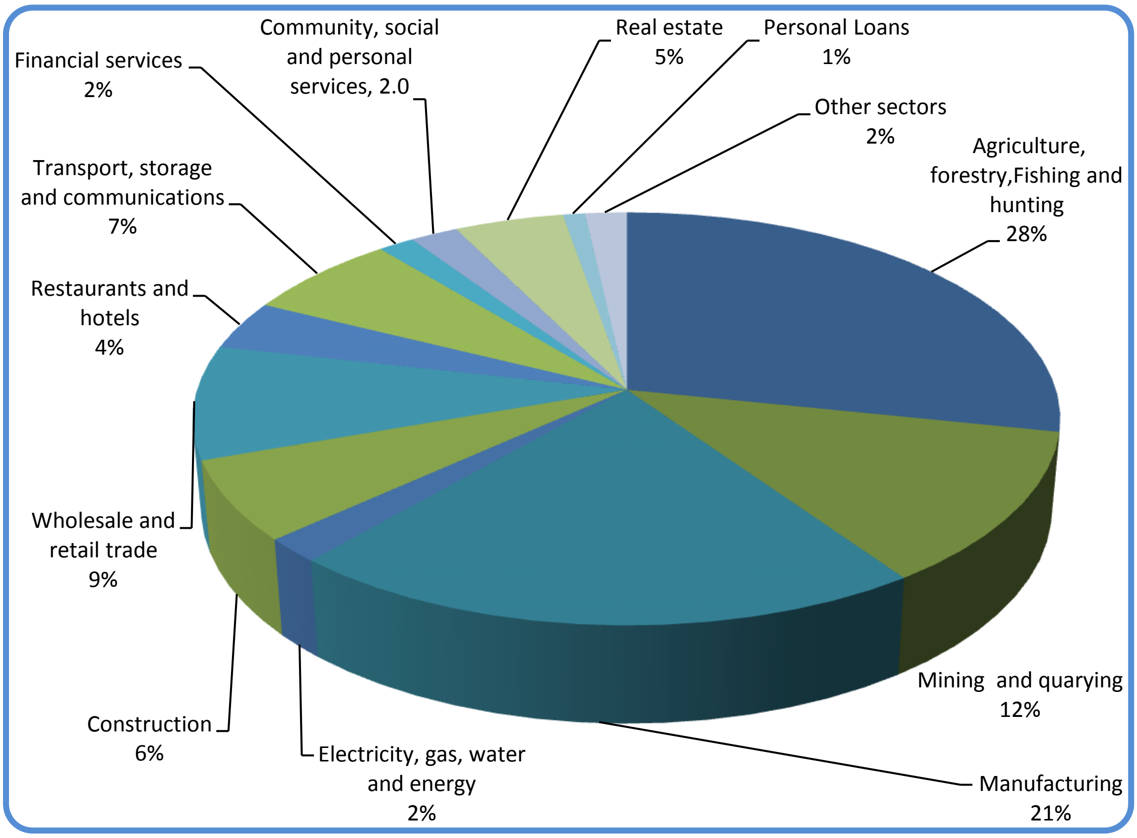
Source: *Bank of Zambia*

Chart AIII.4: Commercial Banks Foreign Currency Loans and Advances by Sector, Dec 2010 – June 2012



Source: *Bank of Zambia*

Chart AIII.5: Structure of Forex Loans and Advances June 2011



Source: *Bank of Zambia*

Table AIII.6: Central Government Fiscal Operations, First Half 2012 (K' billion)

	2012	Quarter 1	Quarter 2	First Half		
	Approved	Prelim.	Prelim.	Target	Prelim.	% Change
Total Revenue and Grants	**21,870.0**	**4,992.0**	**5,323.0**	**9,581.4**	**10,315.0**	**7.7**
Tax Revenue	19,267.7	4,672.0	5,156.5	8,675.0	9,828.5	13.3
Non-Tax Revenue	708.3	107.4	113.4	236.9	220.8	-6.8
Grants	1,894.0	212.6	53.2	669.5	265.8	-60.3
Total Expenditure	**27,014.5**	5,042.1	**6,302.5**	**11,584.5**	**11,344.6**	**-2.1**
Current Expenditure	**19,158.5**	4,347.1	**5,644.2**	**8,433.5**	**9,991.3**	**18.5**
Personal Emoluments	9,308.0	1,929.9	2,348.0	4,101.6	4,277.9	4.3
PSRP	15.0	2.5	0.6	7.6	3.1	-59.0
Use of Goods and Services	4,265.9	1,068.0	1,247.8	2,086.4	2,315.8	11.0
Interest	1,708.3	418.7	353.0	691.7	771.7	11.6
Grants and Other Payments	2,481.2	514.7	566.0	934.9	1,080.7	15.6
Social Benefits	549.7	128.3	124.2	271.3	252.5	-6.9
Other Expenses	494.1	242.9	909.0	171.8	1,151.9	570.7
Liabilities	336.3	42.1	95.7	168.1	137.8	-18.1
Assets	**7,856.0**	695.0	**658.3**	**3,151.0**	**1,353.3**	**-57.1**
Non-Financial Assets	7,702.7	671.5	636.8	3,098.9	1,308.3	-57.8
Financial Assets	153.3	23.5	21.5	52.1	45.0	-13.6
Statistical discrepancy & Change in balances	675.2	-60.6	739.8	1,365.8	679.2	-50.3
Change in Balances	0.0	-60.5	750.2	1,365.8	689.7	49.5
Statistical discrepancy	675.2	-0.1	-10.4	0.0	-10.5	0.0
Fiscal Balance	**-4,469.3**	-110.7	**-239.7**	**-637.3**	**-350.4**	**45.0**
Financing	4,469.3	110.7	239.7	637.3	350.4	-45.0
Domestic	1,324.3	0.0	240.0	637.3	240.0	-62.3
Foreign	3,145.0	110.7	-0.3	0.0	110.4	0.0

Source: Ministry of Finance and National Planning

Table AIII.7: Indicators of Bidding Behaviour in the Government Securities Market[1]								
	Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns)[2]		Average Subscription Rate (%)[3]	
	Jul – Dec, 11	Jan – Jun, 12	Jul – Dec, 11	Jan – Jun, 12	Jul – Dec, 11	Jan – Jun, 12	Jul – Dec, 11	Jan – Jun, 12
91-day bills	1,140.0	750.0	608.8	561.9	-531.2	-188.1	53.4	74.9
182-day bills	1,270.0	840.0	1,709.9	927.6	439.9	87.6	134.6	110.4
273-day bills	1,400.0	960.0	1,008.4	1,378.2	-391.6	418.2	72.0	143.6
364-day bills	2,550.0	1,690.0	2,677.6	2,523.6	127.6	833.6	105.0	149.3
TOTAL	**6,360.0**	**4,240.0**	**6,004.7**	**5,391.3**	**-355.3**	**1151.3**	**94.4**	**127.2**
2-year bond	460.0	200.0	325.5	404.6	-134.6	204.5	70.8	202.3
3-year bond	560.0	280.0	365.2	540.1	-194.8	260.1	65.2	192.9
5-year bond	660.0	480.0	722.3	732.4	62.3	252.4	109.4	152.6
7-year bond	40.0	80.0	41.7	143.8	1.7	63.8	104.3	179.7
10-year bond	40.0	80.0	30.1	25.0	-9.9	-55.0	75.3	31.3
15-year bond	40.0	80.0	12.3	53.1	-27.7	-27.0	30.8	66.3
TOTAL	**1,800.0**	**1,200.0**	**1,497.0**	**1,898.9**	**-303.0**	**698.9**	**83.2**	**158.2**

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.