Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JANUARY - JUNE 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".

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

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Executive Summary

During the second half of 2011 monetary policy continued to focus on the attainment of the end-year annual inflation target of 7.0%. To this end, broad money (M3) was projected to grow by no more than 4.2% to K19,582 billion at end-December 2011 from the end-June projection of K18,792 billion. Similarly, reserve money was projected to end the year at K4,891 billion. To achieve this, the Bank of Zambia (BoZ) was to rely largely on Open Market Operations (OMO). These actions were expected to be supported by prudent fiscal management.

The performance of monetary policy during the second half of 2011 was satisfactory. Annual overall inflation declined to 7.2% in December 2011 from 9.0% in June 2011 and was broadly in line with the end-year target of 7.0%.This favourable out turn was attributed to the fall in both food and non-food inflation to 3.9% and 10.2% from 5.3% and 12.3% in June 2011, respectively.

However, reserve money increased by 13%to K5,385.4billion as at end-December 2011 from K4,766.0 billion at end-June 2011 and was above the end-year target of K4,891 billion. This was largely on account of Government's net spending and redemption of BoZ's OMO liabilities, which injected a total of K2,183.3 billion and K984.5 billion, respectively. The impact of this liquidity injection was partly offset by net sales of foreign exchange worth K1,410.1 billion and net sales of Government securities worth K765.3 billion.

Preliminary data show that broad money (M3) grew by4.6% to K22,564.1billionat end-December 2011 and was 0.4 percentage points above the 4.2% target. This was on account of increases in both the Net Foreign Assets (NFA) due to depreciation of the Kwacha against US dollar and Net Domestic Assets (NDA) largely reflecting an expansion in net claims on Government.

In terms of interest rates, yield rates on Government securities edged upwards on all tenors, except for the 15-year bond, while commercial banks' nominal interest rates declined. In November 2011, the Bank of Zambia reduced both the statutory and core liquid asset ratios by three percentage points to 5% and 6%. This was aimed at easing the cost of credit to productive sectors.

With regard to fiscal performance, preliminary data indicate that Government recorded a budget deficit of K1,702.9 billion during the second half of 2011. This was against the programmed deficit of K1,521.2 billion, attributed to higher than programmed expenditure.

Zambia's external performance remained favourable in the latter half of the year. Preliminary data indicate that an overall merchandise trade surplus (c.i.f) of US $588.3 million was recorded. However, this was lower than US $1,032.1 million recorded during the first half of 2011, on account of a higher increase in the merchandise import bills relative to merchandise export earnings. The merchandise imports bill grew by 23.5% to US $3,964.3 million, while merchandise export earnings grew by 7.3% to US $4,552.6 million.

Preliminary data at end-December 2011 indicate that target relating to Net Domestic Financing (NDF) of Government was observed, while the targets for Net Domestic Assets (NDA) and the Unencumbered International Reserves (UIR) were not met. However, the structural performance criteria were on track.

In view of the developments in the second half of 2011 and the outlook for the first half of 2012, inflation is projected to rise marginally to 7.3% in June 2012 from 7.2%in December 2011. The Bank will continue to rely on the use of market based instruments of monetary operations to influence both reserve and broad money towards the set targets of 1.1% and 8.7%,respectively. These projections are in line with the end-year inflation target of 7.0%.

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 (2013: 6.0%; and 2014: 5.0%); achieving real GDP growth rate of at least 7.0%; limiting overall fiscal deficit to 3.7% in 2013 and attain a surplus of 1.3% in 2014; limiting domestic borrowing to at most 1.3% of GDP; and accumulating foreign reserves to at least 4 months of import cover. In this regard, the Bank of Zambia will continue to use market based instruments of monetary policy to manage liquidity in the banking system.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy during the period July to December 2011 and outlines the objectives of monetary policy for the first 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 2014 are outlined in the final part of the Statement.

2.0 Targets and Challenges

In the second half of 2011, monetary policy remained focused on achieving the end-year inflation target of 7.0%. To this end, reserve and broad money growth rates were projected to grow by no more than 4.1% and 4.2%, respectively (see **Table 1**).

Table 1: Selected Monetary Indicators, 2010 - Dec 2011 (% change)

	2010	Jan - June 2011		July - Dec 2011	
	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	7.8	8.0	9.0	7.0	7.2
Non-food Inflation	11.8	12.2	12.3	9.7	10.2
Food Inflation	3.8	4.6	5.3	4.8	3.9
Reserve Money	1.2	-4.0	- 8.0	4.1	13.0
Broad Money	18.2	4.9	17.1	4.2	4.6
Domestic Credit	9.9	-	2.3	-	18.1
Government	32.0	-	-19.5	-	35.0
Public Enterprises	34.2	-	90.0	-	-10.1
Private Sector Credit	2.4	-	20.8	-	8.2
Domestic Financing (% of GDP)	1.0	1.4	3.1	1.5	1.2

Source: Central Statistical Office - The Monthly; and Bank of Zambia
- Indicates no target under the ECF Programme
- Inflation figures are on annual basis
* Projections for Jul - Dec 2011 are preliminary figures

During the second half of 2011, the Bank faced a number of challenges in attaining inflation target. The major ones were the following:

- The pass-through effects of the depreciation of the Kwacha following the protracted debt crisis in the Euro Zone and the pessimistic global growth outlook;
- Seasonal increase in prices of some food items such as fresh vegetables due to low supply; and
- Excess liquidity arising from increased Government expenditure on maize purchases and general elections.

The above challenges were partially mitigated by lower production and transport costs due to the reduction in the pump prices of petroleum products and improved supply of food items, in particular maize grain and its by-products.

In addition, the Bank of Zambia continued to rely largely on Open Market Operations (OMO) to maintain reserve money within the programmed growth path. This was supported by the primary auction of Government securities.

3.0 Assessment of Monetary Policy Outcome, July - December 2011

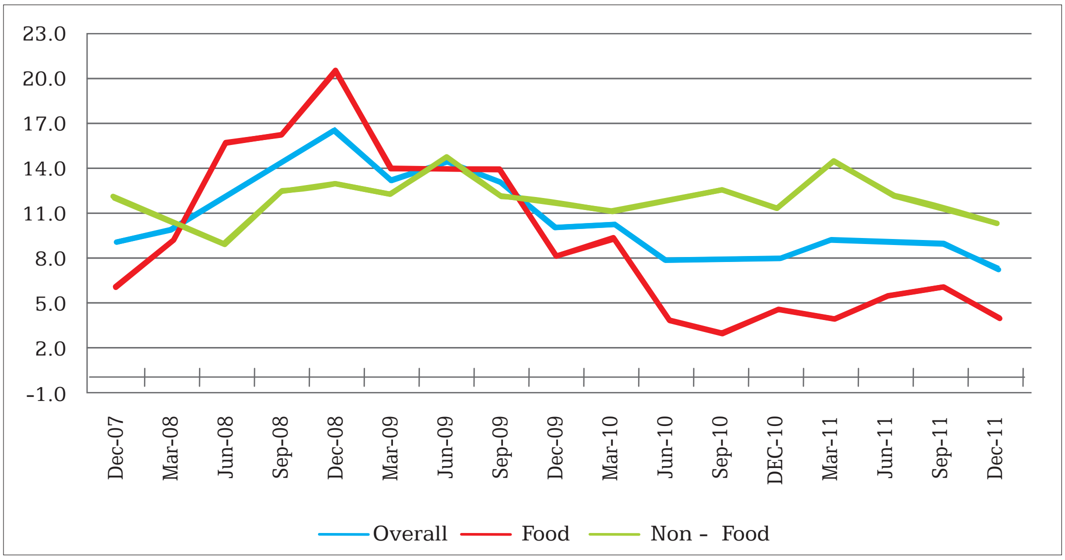
The performance of monetary policy during the second half of 2011 was favourable. The annual overall inflation declined to 7.2% in December 2011 from the 9.0% in June 2011 and was broadly in line with the end-year target of 7.0%. This favourable out turn was attributed to the fall in both food and non-food inflation to 3.9% and 10.2% from 5.3% and 12.3% in June 2011, respectively. However, both reserve money and broad money were above the targets and increased by 13.0% and 4.6%, respectively. Developments in interest rates were mixed with yields on Government securities rising while commercial banks' interest rates decreased.

In the foreign exchange market, the Kwacha depreciated against major traded currencies. This was due to the adverse sentiments emanating from the prolonged debt crisis in the Euro zone. The stock market continued to post gains, with all major indicators in positive territory.

3.1 Overall Inflation

As at end-December 2011, annual overall inflation declined to 7.2% from 9.0% in June 2011 and was broadly in line with the end-year target of 7.0%. This favourable out turn was attributed to the fall in both food and non-food inflation to 3.9% and 10.2% from 5.3% and 12.3% in June 2011, respectively (see Chart 1 and Table 2). Of the 7.2% annual overall inflation in December 2011, food products accounted for 1.9 percentage points, while non-food products contributed 5.3 percentage points.

Chart 1: Annual Inflation, Dec 2007 - Dec 2011 (%)



Source: *Bank of Zambia*

3.1.1 Non-Food Inflation

The decline in annual non-food inflation to 10.2% in December 2011 from the 12.3% in June 2011 reflected lower production costs largely induced by the reduction in the pump prices of fuel during the fourth quarter of the year. Lower annual inflation rates were recorded in the following sub-groups: rent, fuel and lighting, 17.4% [23.6%][1] ; clothing and footwear, 8.7% [10.6%]; and furniture and household goods, 6.2% [12.0%]. However, higher annual inflation rates were recorded on recreation and education, 10.3% [3.5%]; medical care, 8.2% [7.9%]; and other goods and services, 9.8% [6.2%].

3.1.2 Food Inflation

The annual food inflation rate slowed down to 3.9% in December from 5.3% in June 2011 due to lower prices of maize grain, mealie meal, onion and tomatoes. The fall in the prices of maize grain and mealie meal was explained by the high supply of maize grain on the market following the record bumper harvest during the 2010/11 agricultural season, while that of onions and tomatoes was due to improved seasonal supply.

[1]The figures in square brackets relate to the previous period

Table 2: Inflation Out turn, December 2007 - December 2011 (%)

Month	Monthly			Annual			Year -to-date		
	Overall	Food	Non-Food	Overall	Food	Non-Food	Overall	Food	Non-Food
Dec-07	1.3	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Mar-08	1.0	1.3	0.8	9.8	9.1	10.4	5.4	7.2	3.7
Jun-08	1.3	2.8	-0.1	12.1	15.6	8.8	7.6	10.9	4.5
Sep-08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Dec-08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9
Mar-08	0.3	-0.8	1.3	13.1	13.9	12.3	2.3	1.4	3.2
Jun-09	1.1	1.0	1.2	14.4	14.1	14.7	5.6	5.0	6.2
Sep-09	0.1	-0.5	0.7	13.0	13.9	12.1	7.4	5.9	8.9
Dec-09	1.0	0.8	1.1	9.9	8.0	11.8	9.9	8.0	11.8
Jan-10	1.0	1.5	0.4	9.6	7.1	12.0	1.0	1.5	0.4
Feb-10	0.9	0.8	1.0	9.8	8.2	11.3	1.9	2.3	1.4
Mar-10	0.7	0.3	1.0	10.2	9.3	11.0	2.5	2.6	2.5
Apr-10	0.4	0.0	0.9	9.2	7.3	11.2	3.0	2.6	3.4
May-10	0.7	-0.1	1.4	9.1	6.5	11.6	3.7	2.5	4.8
Jun-10	-0.1	-1.6	1.3	7.8	3.8	11.8	3.6	0.8	6.2
Sep-10	-0.3	-0.6	-0.1	7.7	2.8	12.5	5.3	0.8	9.6
Dec-10	1.7	2.7	0.9	7.9	4.4	11.3	7.9	4.4	11.3
Jan-11	2.0	2.3	1.8	9.0	5.2	12.8	2.0	2.3	1.8
Feb-11	0.9	0.0	1.6	9.0	4.5	13.5	2.9	2.4	3.4
Mar-11	0.8	-0.4	1.9	9.2	3.8	14.5	3.8	2.0	5.4
Apr-11	0.0	-0.5	0.5	8.8	3.3	14.0	3.8	1.5	5.9
May-11	0.7	0.7	0.8	8.9	4.2	13.3	4.6	2.2	6.7
Jun-11	0.0	-0.5	0.4	9.0	5.3	12.3	4.6	1.7	7.2
Jul-11	1.0	1.0	1.1	9.0	5.9	11.8	5.7	2.7	8.4
Aug-11	0.3	-0.4	0.9	8.3	5.4	10.9	6.0	2.3	9.3
Sep-11	0.1	0.0	0.3	8.8	6.0	11.3	6.2	2.3	9.7
Oct-11	0.1	0.3	-0.1	8.7	5.7	11.4	6.2	2.6	9.6
Nov-11	0.0	0.6	-0.5	8.1	6.0	10.0	6.3	3.2	9.0
Dec-11	0.9	0.7	1.1	7.2	3.9	10.2	7.2	3.9	10.2

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

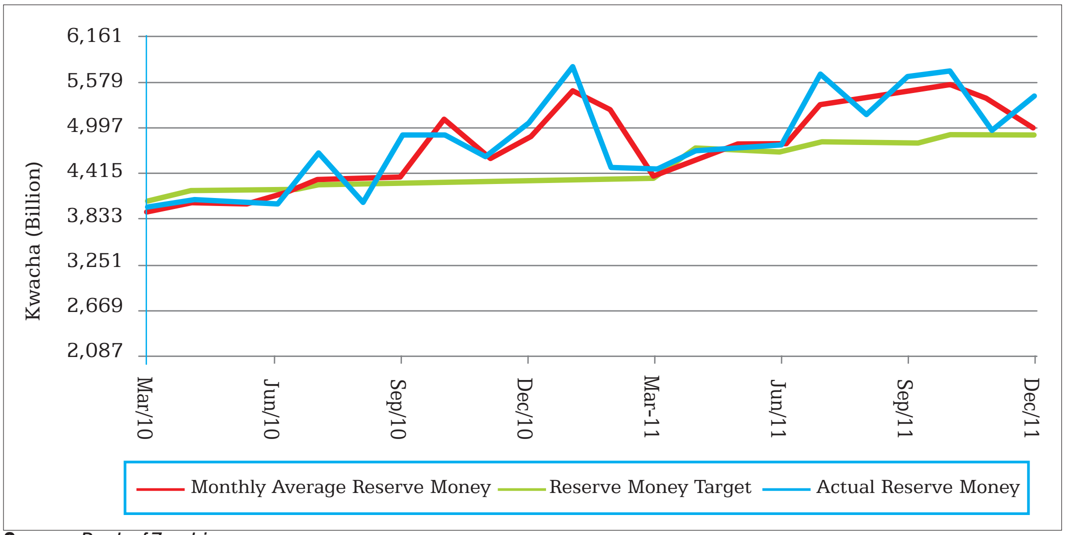
3.2 Monetary and Credit Developments

3.2.1 Reserve Money

Over the review period, reserve money increased by 13% to K5,385.4 billion largely on account of Government's net spending and redemption of OMO liabilities. Government operations injected a total of K2,183.3 billion through net spending, while K984.5 billion was added to the banking system liquidity as maturing OMO funds. The impact of this liquidity injection was partly offset by net sales of foreign exchange worth K1,410.1 billion and net sales of Government securities worth K765.3 billion.

In November 2011, the Bank of Zambia reduced both the statutory and core liquid asset ratios by 3 percentage points to 5% and 6%, respectively, to ease the cost of credit and support lending to productive sectors. In support of this policy stance, the Bank of Zambia remained out of the market during the latter part of the year. As a result, OMO withdrawals for the review period declined to K4,843.9 billion, down from K7,902.1 billion in the first six months of 2011. Consequently, monthly average reserve money increased by 6.6% to K5,013.6 billion, exceeding the target of K4,891.0 billion by K122.6 billion (see Chart 2).

Chart 2: Reserve Money, Mar 2010 - Dec 2011



Source: *Bank of Zambia*

3.2.2 Broad Money

Preliminary data show that broad money (M3) grew by 4.6% to K22,564.1 billion at end-December 2011. This was on account of increases in the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) which grew 6.6% and 3.1%, respectively. The increase in the NFA was attributed to 5.7% depreciation in the exchange rate of the Kwacha against the US Dollar during the period under review. Similarly, the rise in the NDA was due to an 18.1% increase in domestic credit resulting largely from increases in Net Claims on Central Government. In terms of contributions to M3 growth, the NDA and NFA contributed 1.7 and 2.8 percentage points, respectively. Excluding foreign currency deposits that declined by 11.4%, money supply increased by 15.3% in the period under review compared with minus 16.3% recorded in the first half of 2011.

On an annual basis, M3 grew by 22.5% during the period under review compared to 29.2% in the previous period. This was on account of increases in both the NFA (39.3%) and NDA (11.9%). The increase in the NFA was attributed to a 1.5% increases in Gross International Reserves and 6.6% depreciation of the exchange rate of the Kwacha against US dollar. The rise in the NDA was mainly due to the expansion in lending to the private sector. Excluding foreign currency deposits, growth increased to 26.8% in the second half of 2011 (see Table 3 and Chart 3).

Table 3: Broad Money Developments (in K' billion unless otherwise stated), Dec 2009 - Dec 2011

Description	Dec 2009	Jun 2010	Dec 2010	Jun 2011	Dec 2011*
Broad Money (M3)	14,125.5	16,698.3	18,427.2	21,573.7	22,564.1
o/w Foreign Exchange Deposits	5,095.8	4,769.9	6,759.0	8,680.9	7,695.2
M3 (excl. Foreign Exchange Deposits)	9,029.7	11,928.4	11,717.2	12,892.8	14,868.9
6-Month Change in M3 (%)	8.0	18.2	2.5	17.1	4.6
6-Month Change in Foreign Exchange Deposits (%)	-2.5	-6.4	1.8	28.4	-11.4
6-Month Change in M3 (excl. Foreign Exchange Deposits) (%)	13.1	32.1	3.3	10.0	15.3
Annual Change in M3 (%)	20.6	27.7	30.8	29.2	22.5
Annual Change in Foreign Exchange Deposits (%)	47.5	-5.9	32.7	82.0	13.8
Annual Change in M3 (excl. Foreign Exchange Deposits) (%)	9.2	49.0	29.8	8.1	26.8

Source: *Bank of Zambia *Estimate*

Chart 3: Annual Broad Money Growth, Dec 2007 - Dec 2011

Source: *Bank of Zambia*

3.2.3 Domestic Credit

Domestic credit[2] grew by 18.1% to K17,958.2 billion during the second half of 2011 compared with 2.3% in the first half of 2011 (see Table 4). This out turn was largely as a result of the increase in net claims on central Government by 35.0% compared to a contraction of 19.5% in the previous period and contributed 7.6 percentage points to domestic credit. Credit to the private sector rose by 8.2% during the review period, down from 20.8% recorded in the first half of 2011, contributing 2.5 percentage points to domestic credit growth. Excluding foreign currency denominated loans which increased by 12.0%, domestic credit grew by20.3% compared to a decline of 4.9% in the first half of 2011.

On an annual basis, domestic credit growth was 20.8%, largely due to the rise in private sector credit by 30.8% and contributed 11.2 percentage points to the annual growth rate. Credit to the central Government increased to 8.7% in the review period, contributing3.4 percentage points to annual growth.

Table 4: Domestic Credit Developments (in K[1] billion unless otherwise stated), Dec 2009 - Dec 2011

Description	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
Domestic Credit (DC)	12,137.6	13,732.5	14,865.3	15,208.7	19,958.2
O/w Foreign Exchange Credit	2,956.4	3,182.2	3,134.4	4,051.8	4,538.4
DC (Excl. FX Credit)	9,181.2	10,550.3	11,731.0	11,156.9	13,419.8
6-Month Change in Domestic Credit	9.3	13.1	2.0	2.3	18.1
6-Month Change in Foreign Exchange Credit	1.6	33.0	4.5	29.3	12.0
6-Month Change in DC (Excl. Foreign Exchange Credit)	11.9	9.3	1.3	-4.9	20.3
Annual Change in Domestic Credit	15.2	23.6	22.5	10.7	20.8
Annual Change in Foreign Exchange Credit	-1.5	9.4	23.0	27.3	44.8
Annual Change in DC (Excl. Foreign Exchange Credit)	21.9	28.7	22.3	5.7	14.4

Source: *Bank of Zambia*

[2]Comprehensively defined to include foreign currency loans

On a sectoral basis, households (personal loans category) continued to account for the largest share of outstanding credit of 29.4% in December 2011 compared to 25.5% in June 2011. The agricultural sector was second at 17.7% [19.8%], followed by manufacturing 12.2% [11.7%], wholesale and retail trade, 10.4% [11.9%], transport and communications 5.4% [5.8%], Financial Services, 5.0% [1.9%], construction 4.2% [6.1%], and mining and quarrying 4.2% [2.7%] (see Appendix III, Table 5a).

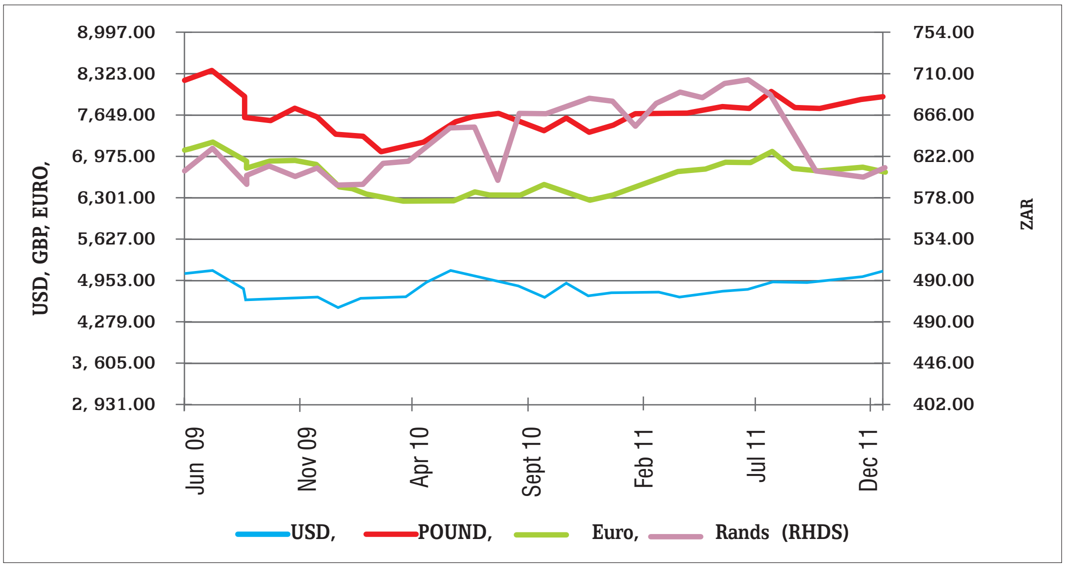
3.3 Foreign Exchange Market

Developments in the domestic foreign exchange market continued to be influenced by a combination of domestic and international factors. On the domestic front, supply of foreign exchange decreased, underpinned by lower inflows from the mining companies and foreign financial firms.

On the international front, adverse sentiments emanating from the prolonged debt crisis in the Euro zone caused an appreciation in the US dollar against major currencies. The debt overhang in the Euro zone sparked concerns about an economic recession and knock-on effects on emerging countries as the year approached its end. As a result, the price of copper on international markets continued to fall in the second half of the year. The copper price closed the year 12.1% lower to a six-month average of US$8,269.85 per tonne from US$9,404.57 per tonne, as China, the single largest consumer of the metal, began to register cuts in its orders and shipments. Consequently, the Kwacha came under pressure as international investors sought refuge in the US dollar and copper export earnings reduced.

Despite this background, the Kwacha's performance against major currencies was mixed. The Kwacha posted a depreciation of 5.7% against the US dollar to close the period at K5,087.69/US$ in December 2011 from K4,841.67/US$ at end-June 2011. The Kwacha also posted losses against the pound sterling, shedding 2.2% to K7,923.99/£. In contrast, the Kwacha gained against the rand and euro, which suffered the most from the debt crisis on the international market. The Kwacha appreciated by 11.4% and 5.5% against the South African rand and the euro to close the year at K631.72/ZAR and K6,501.81/€, respectively (see Chart 4).

Chart 4: Exchange Rates (Kwacha per foreign currency), Jun 2009 - Dec 2011



Source: *Bank of Zambia*

Although the exchange rate levels attained during the quarter continued to attract foreign exchange suppliers into the market, volumes supplied to commercial banks reduced. Banks recorded net purchases of US$355.5 million from the public compared with US$592.1 million in the first half of 2011, while sales to the bureaux-de-change sector increased to US$210.5 million from US$149.2 million. However, the rising demand for US dollar assets as a safehaven for investors in the international market dominated trading behaviour in the domestic market, with commercial banks increasingly selling US dollars in exchange for other non-Kwacha currencies (so-called inter-currency transactions). In this regard, banks gave up an increased amount of US$329.3 million in inter-currency transactions compared with US$213.9 million in the first half of 2011.

Faced with increased volatility as a result of these events, the BoZ intervened to offset some of the adverse fallout on the domestic economy. On a net basis, the BoZ sold a total of US$146.5 million compared with net purchases of US$224.0 million recorded during the first half. Consequently, commercial banks' US dollar net position fell by US$22.7 million to US$22.5 million short in December 2011 from US$11.2 million long at the end of June 2011.

3.4 International Trade Developments

Preliminary data indicate that Zambia continued to record favourable external sector performance in the second half of 2011, evidenced by an overall merchandise trade surplus (c.i.f) of US $588.3 million. This was however, lower than US $1,032.1 million recorded during the first half of 2011 (see Appendix III, Table 1). This out turn was explained by a higher increase in merchandise imports relative to merchandise export earnings.

The merchandise imports bill grew by 23.5% to US $3,964.3 million from US $3,210.9 million registered during the first half of 2011. This was mainly explained by increased imports of petroleum products (140.6%), iron and steel and items thereof (42.8%), electrical machinery and equipment (41.1%), plastic and rubber products (40.7%), paper and paper products (36.6%), fertiliser (24.2%), industrial boilers and equipment (22.2%), food items (18.0%), chemicals (13.0%), vehicles (12.8%) and other imports (2.5%) (see Appendix III, Table 3).
Merchandise export earnings grew by 7.3% to US $4,552.6 million from US $4,243.0 million registered during the first half of 2011, mainly explained by an increase in non-traditional exports. Non-traditional export earnings surged by 54.2% to US $1,093.0 million from US $708.7 million recorded during the first half of 2011. An increase in the earnings from the export of copper wire, cane sugar, burley tobacco, cotton lint, electrical cables, fresh fruits and vegetables, gemstones, and wheat and meslin, explained this out turn.

During the same period, copper export earnings, marginally declined to US $3,360.6 million from US $3,376.9 million recorded during the first half of 2011, largely on account of a decline in the average realised price by 16.9%. Concerns of the European debt crisis threatening global growth and slowing demand for metals in China, explained the slide in the copper prices. Copper export volumes, however, grew by 19.7%. Cobalt export earnings declined by 37.1% to US $99.0 million from US $157.3 million, due to a drop in both export volumes and the average realized price. Export volumes and the average realised price of cobalt fell by 22.5% and 18.9%, respectively (see Appendix III, Table 2).

3.5 Fiscal Developments

Fiscal performance weakened during the second half of 2011. Preliminary data indicate that the central Government recorded a budget deficit of K1,702.9 billion during the second half of 2011against the programmed deficit of K1,521.2 billion (see Appendix III, Table 6). This out turn was due to higher than programmed expenditure, despite revenues being higher than the target.

Total revenue and grants at K11,447.0 billion were 14.2% higher than the programmed level of K10,021.1 billion, mainly explained by the buoyant tax out turn coupled with higher than programmed grants. Tax revenue was K9,981.8 billion, 12.1% above the programmed level of K8,905.7 billion. The out turn in tax revenue was largely explained by the favourable performance in income tax, particularly mining corporate tax. Similarly, total grants were K1,236.5 billion, 52.0% above the programmed level of K813.4 billion. Total grants were mainly due to higher disbursements of direct budget support. However, non-tax revenue, at K228.7 billion was 24.3% below the programmed level of K335.9 billion, largely driven by lower than programmed recoveries of fertiliser support loans.

Total expenditure during the second half of 2011 at K14,278.1 billion was 2.7% above the programmed level of K13,907.9 billion. This was largely driven by higher than programmed expenditures on maize marketing and tripartite elections. In addition, the changes in line ministry balances were K723.1 billion against the programmed K2,365.7 billion, implying higher expenditure than programmed during the review period.

In terms of financing, the Government borrowed K1,702.9 billion against the programmed financing of K1,521.2 billion. Total financing comprised domestic financing of K1,794.8 billion and net foreign debt amortisation of K91.8 billion.

3.6 Money and Capital Markets Developments

3.6.1 Money Markets

Interbank market

The volume of funds traded in the interbank money market nearly doubled in the review period to K27,042.0 billion from K15,825.6 billion in the first half of 2011. The increase in adjustment funds traded was largely due to a continued concentration of liquidity in a few banks. The strong demand for short-term funds pushed the weighted average interbank rate up to an average of 7.7% from 2.8% in the first six months of the year.

Non-resident participation in the interbank money market was evidenced by the turnover of funds traded in foreign currency assets. Non-residents lent US$310.2 million to local institutions compared with US$8.0 million previously. Non-residents' borrowing from local participants amounted to US$4,403.0 million, down from US$6,946.5 million received in the first half of 2011. For the Kwacha assets, no transactions were recorded in the review period.

Overnight Lending Facility

Banks increased their borrowings at the overnight lending facility window, despite an increase in interbank liquidity during the second half of 2011. This reflected the skewed distribution of funds in the interbank market. Banks borrowed a total of K2,739.5 billion in short-term relief funds from the Bank of Zambia, which was nearly 70% higher than the total of K1,616.8 billion borrowed in the first half the year. These funds were advanced at rates ranging from 7.8% to 18.8%.

Government Securities Market

The amount of Government securities offered to the market was increased in order to meet immediate government funding needs and absorb excess liquidity resulting from maturing OMO funds.

The auction size for Treasury bills was increased to K6,360.0 billion from K5,700.0 billion recorded in the previous period. On a weekly basis, the amount offered translated into an average tender size of K244.6 billion, up from K219.2 billion offered in the first half of 2011. However, demand weakened in latter half of the year, particularly among non-resident investors. Investors submitted bid amounting to K4,975.8 billion, which represented an average weekly demand of K191.4 billion. This compares against the bids of K6,901.6 billion, or weekly demand of K265.4 billion, submitted in the preceding period. Total sales to the market were recorded at K3,945.9 billion against maturities of K3,820.3 billion, resulting into a surplus of K125.6 billion.

Similarly, the amount offered for Government bonds increased to K2,100.0 billion from K1,700.0 billion in the previous review period. This represented a monthly tender size of K350.0 billion compared with K283.3 billion posted in the last half of 2010. Investors placed bids worth K2,372.6 billion, which translated into an average subscription rate of 113%. Out of the bids received, K1,267.6 billion was accepted against a maturity of K501.9 billion (see Table A III.7).

Stock of Government Securities

Against the background of weak demand for short-term securities, the total amount of Treasury bills in circulation increased by 3.8% to K6,398.4 billion, compared to a growth of 36.9% in the first half of 2011. Similarly, the stock of outstanding Government bonds rose by 16.1% to K5,603.0 billion from K4,826.4 billion compared to an increase of 11.8% previously.

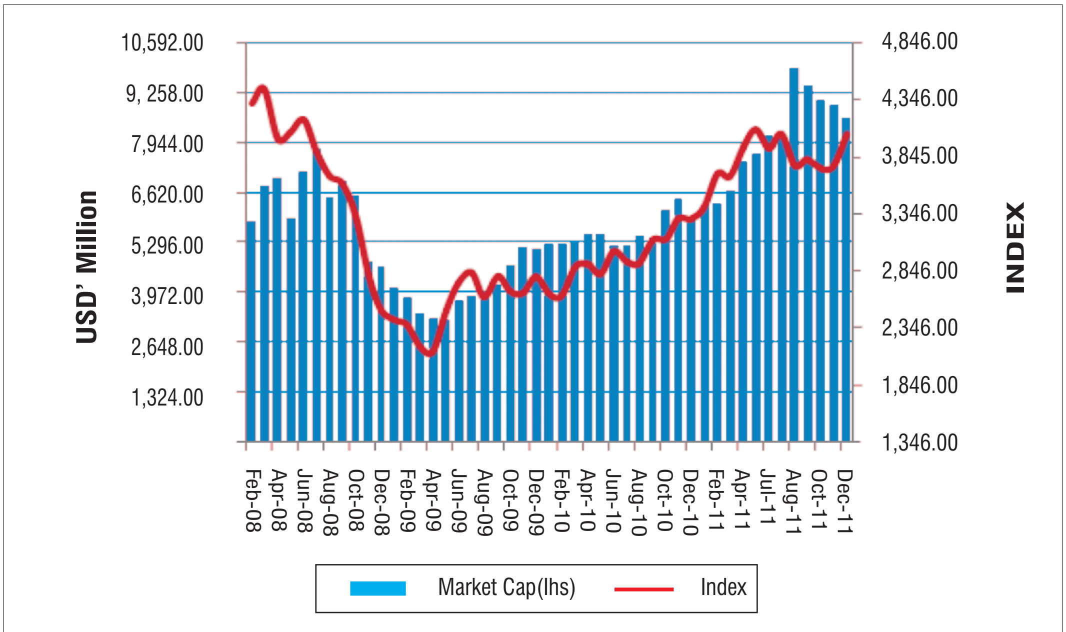
In view of the foregoing, the total amount of Government securities in circulation rose by 8.4% to K13,122.4 billion from K10,988.3 billion recorded at end-June 2011. Commercial banks accounted for the largest proportion, with a holding of K7,466.9 billion (56.9%). The non-bank public accounted for K3,583.3 billion (27.3%) of the total government securities outstanding. The Bank of Zambia accounted for K2,072.3 billion, which was 15.8% of the total outstanding securities."

Non-resident investment in Government securities declined in the latter half of 2011. Total foreign holdings of Government securities, which initially rose to a peak of K1,029.4 billion in August, declined by 24.8% to K707.1 billion from K939.8 billion at end-June 2011. Non-residents' holdings of Government securities at end of the year represented 5.4% of the total stock of Government paper outstanding. Their portfolio continued to mainly consist of Treasury bills which accounted for 68.0% of non-resident holdings of Government securities.

3.6.2 Capital Market

The capital market continued to post gains, with all major indicators in positive territory. Market capitalisation rose by 23.7% to K48,929.2 billion (equivalent of US$9,409.0 million) from the end-June 2011 position of K39,540.1 billion (US$8,135.0 million). With most share prices increasing during this period, the LuSE All share index increased 3.1% to 4,040.4 from 3,918.7 (see Chart 5). However, the 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 5: LUSE Indicators, Feb 2008-Dec 2011



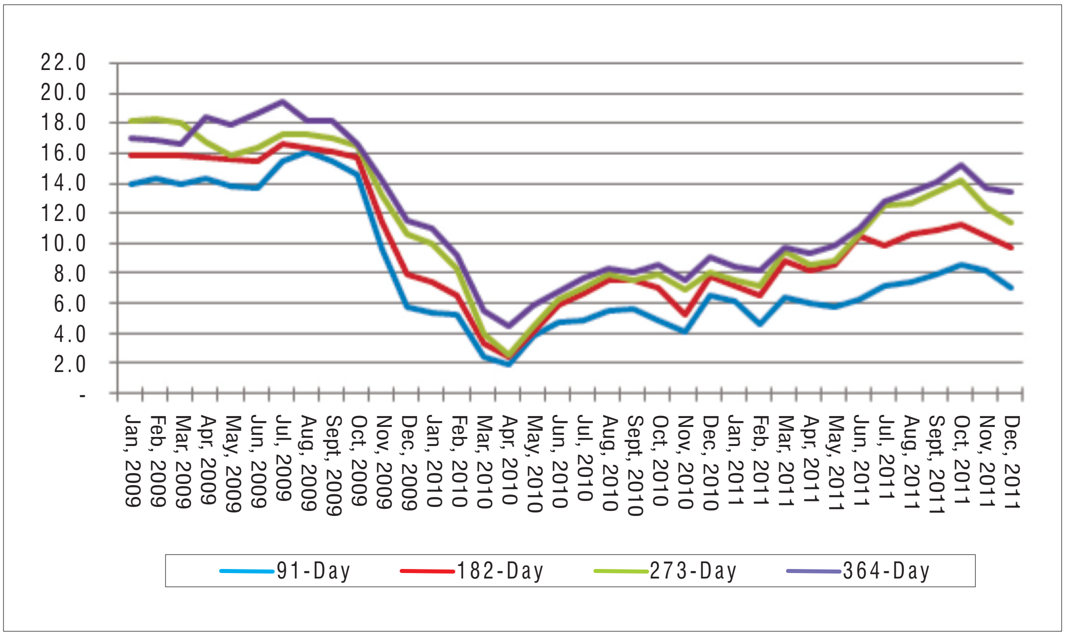
Source: Lusaka Stock Exchange

3.7 Interest Rates

3.7.1 Government Securities Interest rates

Yield rates on Government securities edged upwards on all tenors, except for the 15-year bond on account of the depressed demand. The weighted average Treasury bill yield rate rose by 400 basis points, ending the period at an average of 12.4% from 8.5% at end June 2011. The main drivers of this composite rate were yield rates on the 273- and 364-day papers that gained 407 and 433 basis points to averages of 12.8% and 13.8%, respectively. The yield rates for the 91- and 182-day securities ended the period 185 and 223 basis points higher at averages of 7.7% and 10.5%, respectively (see Chart 6).

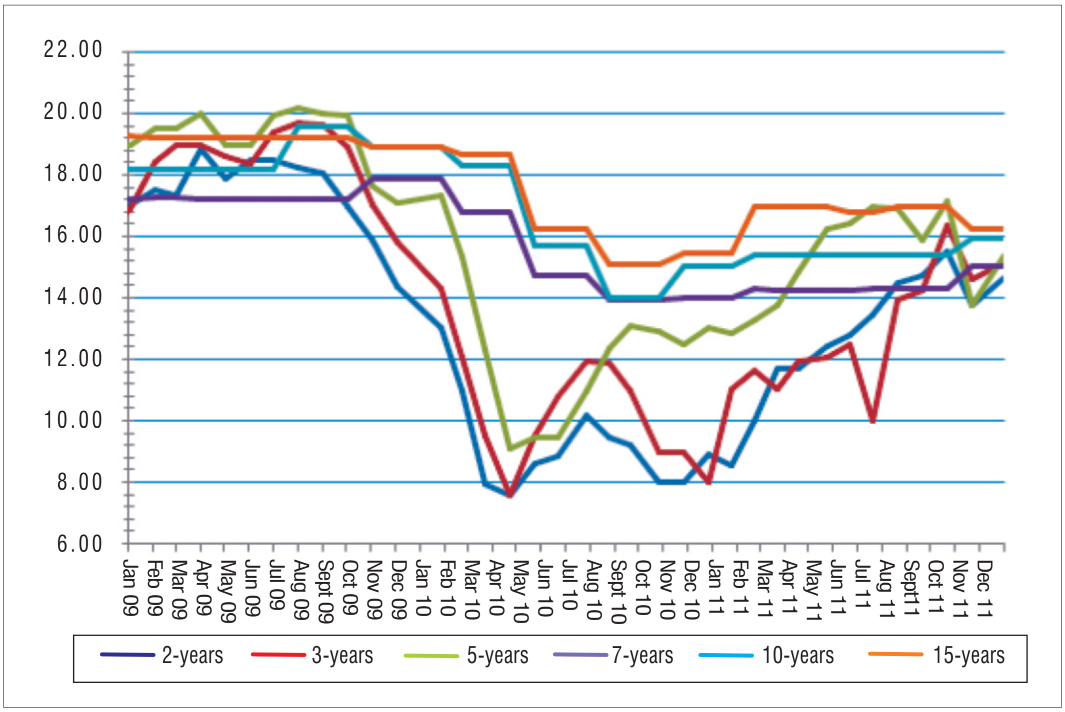
Chart 6: Treasury bill yield rates (% p.a), Jan 2009 - Dec 2011



Source: *Bank of Zambia*

Similarly, most yield rates on government bonds increased in the second half of 2011. The yield on the 2-year paper increased by 301 basis points to 14.2% while yield rates for the 3-and 5-year tenors were higher by 212 and 149 basis points, ending the period at averages of 13.8% and 16.1%, respectively. Yield rates increased modestly for the 7- and 10- year tenors, rising by 26 and 22 basis points to 14.3% and 15.1%, respectively, while the yield rate for the 15-year bond declined by 3 basis points to 16.7%. As a result, the weighted average bond yield rate rose by 73 basis points to 15.0% (see Chart 7).

Chart 7: Government bond yield rates (% p.a), Jan 2009 - Jun 2011

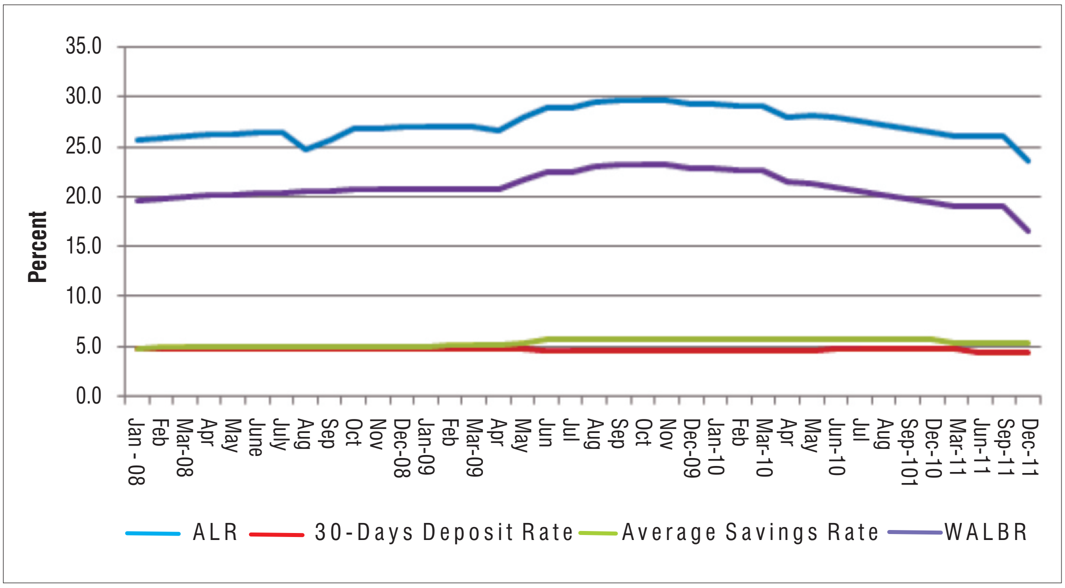


Source: *Bank of Zambia*

3.7.2 Commercial Banks Interest Rates

During the second half of 2011, all reported commercial banks' nominal interest rates declined. The Weighted Average Lending Base Rate (WALBR) and the Average Lending Rate (ALR) decreased to 16.6% (19.0%) and 23.6% (26.4%), respectively, in December 2011. However, the Average Savings Rate (ASR) for amounts above K100,000.00 and the 30-day deposit rate for amounts exceeding K20 million remained constant at 4.3% and 5.3% respectively (see Chart 8).

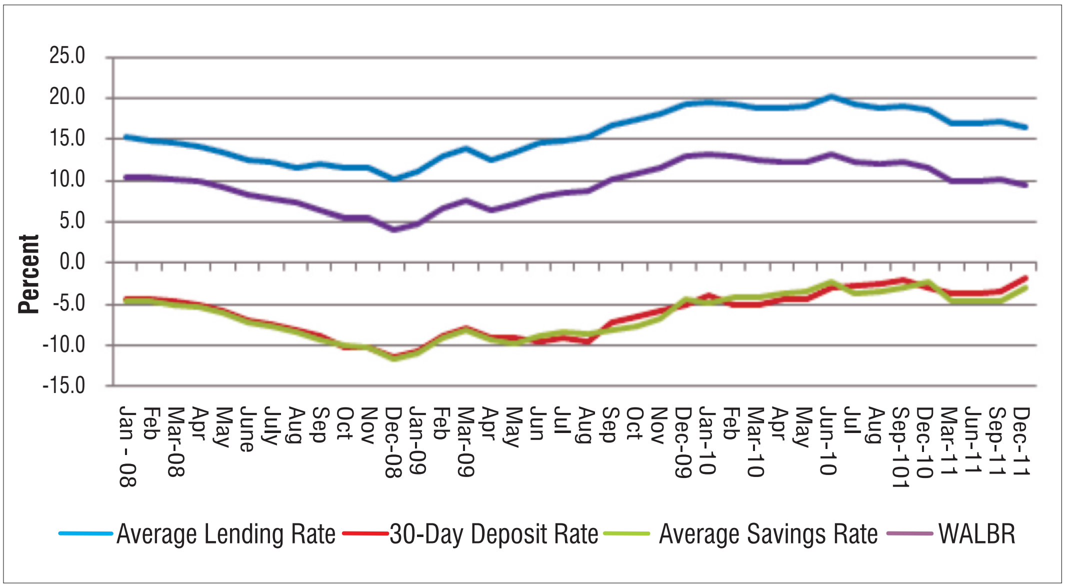
Chart 8: Lending and Saving Rates, (%), Jan 2008 - Dec 2011



Source: *Bank of Zambia*

During the review period the movement in real interest rates was mixed. This was due to the fall in annual inflation and the decline in nominal interest rates. The real WALBR and the real ALR declined to 9.4% [10.0%] and 16.4% [17.0%], respectively. On the other hand, the real ASR for amounts above K100,000.00 and the real 30-day deposit rate for amounts above K20 million rose to negative 2.9% [negative 4.7%] and negative 1.9% [negative 3.7%], respectively(see Chart 9).

Chart 9: Real Interest Rates (%), Jan 2008 - December 2011



Source: *Bank of Zambia*

3.7.3 Non-Bank Financial Institutions Lending Rates

In the second half of 2011, the average annual interest rates declined in all sub-sectors of the non-bank financial institutions sector due to increased competition encouraged by the bi-annual publication of comparative interest rates in the print media. The overall average effective annual interest rate declined by 5.5 percentage points to 57.7% from 63.1% in the first half of 2011 (see Table 5).Significant declines in interest rates were recorded in the leasing finance sub-sector.

Furthermore, in the last quarter of the year 2011, the Bank of Zambia engaged all non-bank financial institutions in discussions aimed at finding ways to further reduce the cost of credit. Some of the non-bank financial institutions indicated willingness to review the cost of credit downwards. In this regard, it is expected that the average effective annual rate of interest for the non-bank financial institutions sector might decrease further in the first half of 2012.

However, interest rates of the micro-finance and leasing finance institutions remained relatively high largely due to expensive sources of their funding. These institutions mainly fund their loans using commercial banks lines of credit, which tend to be a more expensive source of finance compared to public deposits.

Table 5: Average Annual Interest Rates (in percent)

Description	Second Half 2011	First Half 2011
Microfinance Institutions	131.5	138.1
Leasing Finance Institutions	69.5	88.1
Building Societies	24.7	37.6
Development Bank of Zambia	29.6	29.6
National Savings and Credit Bank	33.0	22.3
Overall for the sector	57.7	63.1

Source: *Bank of Zambia*

4.0 Monetary Policy Objectives and Instruments for January - June 2012

The objective of monetary policy during the period is to sustain single digit annual inflation. The Bank of Zambia will, in this regard, continue to rely on the use of market based instruments to influence both broad and reserve money towards the set targets of 8.7% and 1.1%, respectively, which are consistent with Government's end-year inflation target of 7.0%.

4.1 Economic Outlook of the First Half of 2012

Zambia's economic prospects will be adversely affected by the poor rain pattern in six regions of Zambia in the southern part of the country. The agricultural sector accounts for the bulk of output in the first half of the year. In addition, mining and road construction will continue with their seasonal low level of activities due to wet conditions during the most part of the period.

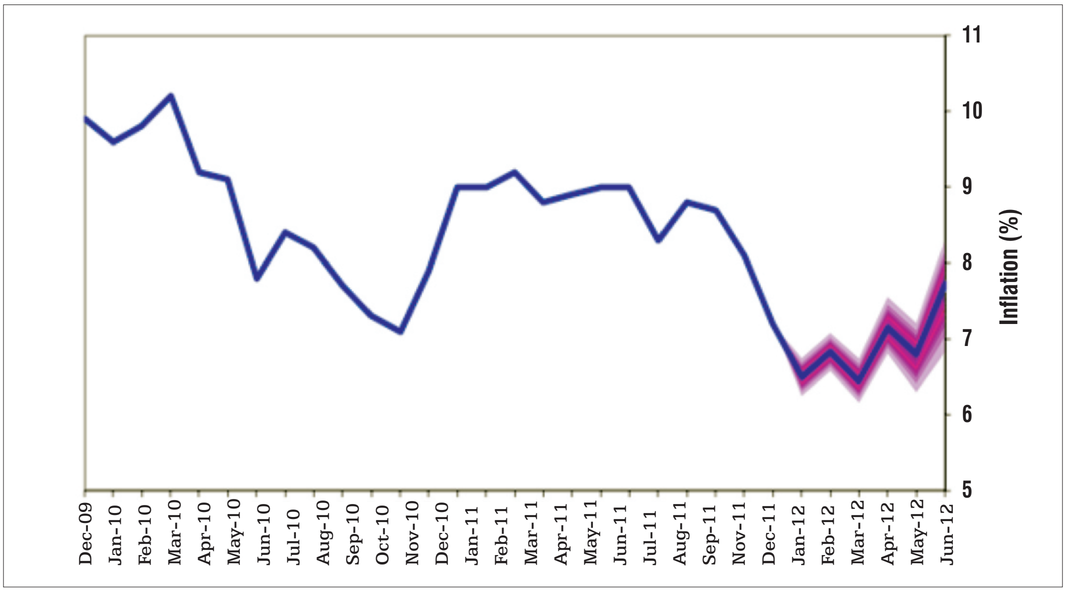
The outlook for the global economy in 2012 points to a decline in global economic activities and consequently demand, reflecting adverse effects of the euro debt crisis; slow economic growth in the United States and a slowdown in most emerging-market economies, in particular China. Other down side risks to the global economy includes Latin America's exposure to lower commodity prices as both China and the advanced economies slow down; Central and Eastern Europe exposure to the Euro zone debt crisis that has protracted; and the turmoil in the Middle East that is causing downside economic risks and thus high oil prices that are likely to constrain global growth.

4.2 Inflation Projection for January - June 2012

Consumer price index (CPI) Inflation in the first half of the year 2012 is projected to be around 7% (see Chart 10 and Table 6). In the first quarter, it is projected to decline to 6.4% before rising to 7.7% in the second quarter.

The projection for the first half of the year assumes stability in the maize prices as the Food Reserve Agency continues supplying subsidised maize to the market. This is despite the likely inflationary pressures arising from the seasonal low supply of beef and beef products and fish, as a result of the annual fish ban. Rising oil prices, in view of the supply concerns following the ban of Iran exports to the European Union and the US by the respective authorities also pose risks to the inflation outlook for the first half of the year.

Chart 10: Actual and Projected Inflation, December 2009 - June 2012



Source: *Bank of Zambia*

Table 6: Actual Inflation and Projections, July 2010 - June 2012.

Description		Projection (a)	Actual (b)	Forecast Error (b-a)
Second Half of 2010	July	7.2	8.4	1.2
	August	7.0	8.2	1.2
	September	7.3	7.7	0.4
	October	7.4	7.3	-0.1
	November	7.8	7.1	-0.7
	December	7.3	7.9	0.6
	Average	***7.3***	***7.8***	**0.5**
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**		
	February	**6.8**		
	March	**6.4**		
	April	**7.1**		
	May	**6.8**		
	June	**7.7**		
	Average	***6.8***		

Source: *Bank of Zambia*

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

5.0 Monetary Policy Principles for the Period January 2012 - December 2014

In the two year period ending2014, monetary policy formulation and implementation will be geared towards attaining broad Government's economic objectives, which include:

i. Sustaining single digit inflation (2013: 6.0%; and 2014: 5.0%);
ii. Achieving real GDP growth rate of at least 7.0% ;
iii. Limiting overall fiscal deficit to 3.7% in 2013 and attain a surplus of 1.3% in 2014;
iv. Limiting domestic borrowing to at most 1.3% of GDP; and
v. Accumulating foreign reserves to at least 4 months of import cover.

The Bank of Zambia will, in this regard, continue to employ market based instruments of monetary policy to manage liquidity.

Appendix I: Selected Macroeconomic Indicators

Description/Years Monetary Aggregates (K'bn)	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Reserve money (end-period in K'billion)*	5,064.1	5,755.6	4,581.1	4,449.5	4,784.1	4,656.3	4761.9	5307.3	5610.1	5,647.7	5,696.4	4,824.4	5,385.4
Growth Rate	9.1	13.7	-20.4	-2.9	7.5	-2.7	2.3	11.5	5.7	0.7	0.9	-15.3	11.6
Broad money (in K'billion)	18,477.0	19,234.2	19,020.0	17,905.6	18,400.4	20,317.6	21573.7	21573.9	21809.5	22032.6	22491.1	22246.0	22698.1
Growth Rate	1.6	4.1	-1.1	-5.9	2.8	10.4	6.2	0.0	1.1	1.0	2.1	-1.1	2.0
Net Claims on Government (in K'billion)	5,870.27	5,038.17	5,750.19	5,543.58	4,760.54	5,342.48	4,589.90	4,426.59	5,428.66	5,249.32	7,468.51	5,218.83	6,360.14
Prices (%)													
Inflation	7.9	9.0	9.0	9.2	8.8	8.9	9.0	9.0	8.3	8.8	8.7	8.1	7.2
Nominal Interest and yield rates (aver. %)													
Commercial Banks ' rates													
Commercial banks' weighted lending base rate	19.4	19.2	19.1	19.1	19.1	19.1	19.0	19.0	19.0	19.0	19.0	18.6	17.0
Average Savings rate (>K100,000)	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.3	4.3	4.3	4.3	4.3	4.3
Deposit rate (30 days, over K20 million)	5.6	5.6	5.4	5.3	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	7.8	6.8	9.5	8.2	8.6	10.1	9.9	11.9	13.1	14.2	11.7	11.7
91-day	6.3	6.7	4.2	5.8	6.1	5.8	6.0	7.1	7.5	7.7	8.6	8.4	7.1
182-day	7.6	7.5	6.2	8.1	8.4	8.6	10.0	10.1	10.8	10.9	11.2	10.8	9.8
273-day	8.0	8.0	6.7	9.2	8.8	8.6	10.4	12.0	12.7	13.6	14.2	12.8	11.4
364-day	9.0	8.8	7.5	9.8	9.4	9.8	10.7	12.6	13.4	13.9	15.3	13.8	13.4
Government bonds Yield Rates													
Weighted Bond Yield Rate	11.3	11.2	13.1	15.7	13.7	16.0	15.7	16.9	16.0	15.1	16.2	14.3	15.0
24 months	8.9	8.6	10.0	11.7	11.7	12.4	12.8	13.5	14.5	14.8	15.5	13.7	14.7
3 year	8.0	11.1	11.6	11.0	12.0	12.1	12.5	10.0	13.9	14.2	16.4	14.6	15.1
5 year	13.0	12.9	13.3	13.8	14.9	16.2	16.5	17.0	16.9	15.9	17.2	13.8	15.4
7 year	14.0	14.0	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	15.0	15.0
10 year	15.0	15.0	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.9	15.9
15 year	15.5	15.5	17.0	17.0	17.0	16.8	16.8	16.8	17.0	17.0	17.0	16.2	16.2
Real Interest and Yield Rates (%)													
Commercial Banks' rates													
Commercial banks' weighted lending base rate	11.5	10.2	10.1	9.9	10.3	10.2	10.0	10.0	10.7	10.2	10.3	10.5	9.8
Average savings rate	-3.2	-4.3	-4.3	-4.5	-4.1	-4.2	-4.3	-4.7	-4.0	-4.5	-4.4	-3.8	-2.9
Deposit rate (30 days, over K20 million)	-2.3	-3.4	-3.6	-3.9	-3.5	-3.6	-3.7	-3.7	-3.0	-3.5	-3.4	-2.8	-1.9
Treasury bill yield rates													
Weighted TB rate	-0.5	-1.2	-2.2	0.3	-0.6	-0.3	1.1	0.9	3.6	4.3	5.5	3.6	4.5
91-day	-1.6	-2.3	-4.8	-3.4	-2.7	-3.1	-3.0	-1.9	-0.8	-1.1	-0.1	0.3	-0.1
182-day	-0.3	-1.5	-2.8	-1.1	-0.4	-0.3	1.0	1.1	2.5	2.1	2.6	2.7	2.6
273-day	0.1	-1.0	-2.3	0.0	0.0	-0.3	1.4	3.0	4.4	4.8	5.5	4.7	4.2
364-day	1.1	-0.2	-1.5	0.6	0.6	0.9	1.7	3.6	5.1	5.1	6.6	5.7	6.2
Government bonds Yield Rates													
Weighted Bond rate	3.4	2.2	4.1	6.5	4.9	7.1	6.7	7.9	7.7	6.3	7.5	6.2	7.8
24 months	1.0	-0.4	1.0	2.5	2.9	3.5	3.8	4.5	6.2	6.0	6.8	5.6	7.5
3 year	0.1	2.1	2.6	1.8	3.2	3.2	3.5	1.0	5.6	5.4	7.7	6.5	7.9
5 year	5.1	3.9	4.3	4.6	6.1	7.3	7.5	8.0	8.6	7.1	8.5	5.7	8.2
7 year	6.1	5.0	5.3	5.1	5.5	5.4	5.3	5.3	6.0	5.5	5.6	6.9	7.8
10 year	7.1	6.0	6.4	6.2	6.6	6.5	6.4	6.4	7.1	6.6	6.7	7.8	8.7
15 year	7.6	6.5	8.0	7.8	8.2	7.9	7.8	7.8	8.7	8.2	8.1	8.1	9.0
Exchange rates (average K/US $)													
Commercial banks' interbank mid-rate	4,732.5	4,773.5	4,774.1	4,760.5	4,708.4	4,753.2	4801.3	4831.0	4931.6	4924.4	4956.1	5031.8	5118.5
Bank of Zambia mid rate**	4,735.7	4,769.9	4,769.5	4,755.4	4,699.5	4,749.9	4811.9	4827.8	4927.5	4919.2	4950.8	5027.5	5117.3
Real sector													
Mining output (tonnes)													
Copper	72,111.8	73,667.8	63,334.7	70,278.9	71,539.3	69,041.4	59,500.8	64,332.5	77,168.4	81,175.4	79,171.9	80,173.6	
Cobalt	663.5	753.8	745.9	875.4	801.0	607.5	588.0	653.2	543.9	529.0	536.5	532.7	
Metal Earnings (US $mn)													
Copper	612.4	597.6	510.9	642.6	599.9	518.6	507.4	565.2	682.8	573.7	485.0	504	549
Cobalt	21.8	27.9	31.5	27.1	25.1	25.6	20.1	19.0	17.7	17.2	20.4	12.27	12.30
Total	634.2	625.5	542.4	669.6	625.0	544.2	527.5	584.2	700.5	590.9	505.4	516.7	561.8
External sector (US $ mn)													
Trade Balance	222.5	272.1	150.4	194.1	201.6	132.6	81.2	80.8	240.7	71.3	35.7	60.8	99.0
Exports, c.i.f.	725.1	710.9	647.8	784.8	719.9	683.1	696.5	732.6	857.4	751.0	679.2	761.3	771.0
Imports, c.i.f.	-502.6	-438.7	-497.4	-590.7	-518.3	-550.5	-615.3	-651.8	-616.8	-679.8	-643.4	-700.6	-671.9

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

The International Monetary Fund (IMF) and World Bank (WB) Annual Meetings were held in Washington DC, United States of America from 21 to 25 September 2011. The Zambian delegation comprised staff from Bank of Zambia and Ministry of Finance and National Planning. The Zambian team provided updates to staff of the IMF African Department on the latest economic developments including inflation and monetary developments. An update on the sovereign bond issuance was also provided and the Fund advised that this may not be the appropriate time to issue the bond as the financial markets were too volatile. The IMF also advised that there was need for Article IV consultations at a time convenient to Zambia. It should be noted that Zambia is currently not on an IMF Economic Programme, however, Government discussions are underway to discuss the way forward on this matter following the election of a new government.

The IMF Staff from the Finance and Capital Markets Department informed the Zambian delegation that safeguard assessments are usually carried out each time there was a new arrangement (or augmentation) such as an Extended Credit Facility (ECF) or Policy support Instrument (PSI). They were further informed that the ECF requires an assessment but for the PSI, it was up to the country to decide whether to ask for an assessment and that the assessment is supposed to be done before the first review of the arrangement which is usually after 6 months. In the case of Zambia, therefore, it would be advisable and helpful to have a safeguards assessment whatever arrangement the country goes into with the IMF. The Zambian delegation provided a status on the last safeguards assessment report especially on the draft Bank of Zambia Act and indicated that comments on the draft were being expected from the IMF to strengthen the draft Act.

The World Bank Country Team officials made a presentation to the Zambian delegation on what it meant to graduate to middle income status in terms of financing. The presentation highlighted the fact that a country would first graduate to Blend status which involved a combination of both IDA and IBRD financing and then finally graduate from Blend to IBRD. The cut-off per-capita income is US$1,175. It was also noted that, once a country starts accessing Blend funds, then even the IDA funds will be accessed at the IBRD terms. For instance, charges would rise from 0.75% and no interest under IDA to 1.25% interest and the repayment period is shorter under IBRD

Total disbursed Poverty Reduction Budget Support (PRBS) in the second half of 2011 amounted to US $92.0 million. About US $45.1 million was received from the European Union, US $15.5 million from Norway, US $13.0 million from Germany, US $11.5 million from Sweden, and US $6.8 million came from Finland.

Further, a total of US $339.9 million mining tax revenue was received from First Quantum Mining Plc and Kansanshi Mining PLC, for the benefit of Government and Bank of Zambia foreign exchange purchases from the market only amounted to US $3.0 million during the period under review. The above receipts were against payments to PTA Bank (US $375.0 million) for oil procurement, Bank of Zambia sales to the market (US $152.5 million) and debt service payments to various creditors (US $34.1 million).

Preliminary data indicate that the Net Domestic Assets (NDA) of the Bank of Zambia, and the Unencumbered International Reserves (UIR) were off track except the Net Domestic Financing (NDF) of Government quantitative performance criteria under the Economic Programme. The structural benchmarks were generally on track as at 30th December 2011. The average NDA was K144.0 billion above the end-December programme ceiling of K1,804.6 billion while the UIR were US $198.7 million below the end-December 2011 adjusted floor of US $2,480.6 million. The NDF was K379.3 billion below the end-December adjusted ceiling of K9,937.4 billion.

The broad macroeconomic objectives for 2012 include: (i) attaining real GDP growth of at least 7.0%, (ii) achieving end-year inflation of no more than 7.0%; (iii) limiting domestic financing to 1.3% 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 Out turn 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		7.0
CPI Inflation, end period (%)	7.0	7.2	7.0
CPI Inflation, annual average (%)	9.0	8.7	
Gross Official Reserves (in months of imports)	3.4	3.7	3.7
Broad Money growth (%)	9.3	22.5	
Budget deficit, excluding grants (% of GDP)	4.7		7.7
Domestic financing of the Budget (% of GDP)	1.3	1.2	1.3

Source: Bank of Zambia, Budget Speech, November 2011

Appendix III: Statistical Tables and Charts

Table AIII.1: Trade Data in US $ million (c.i.f), Jan 2010 - Dec 2011

	Jan - Jun 2010	Jul - Dec 2010	Jan - Jun 2011	Jul - Dec 2011*	% Change
Trade Balance	**814.3**	**1,284.2**	**1,032.1**	**588.3**	**-43.0**
Exports, c.i.f	**3,333.3**	**3,998.3**	**4,243.0**	**4,552.6**	**7.3**
Metals	**2,733.0**	**3,338.7**	**3,534.2**	**3,459.6**	**-2.1**
Copper	2,578.7	3,189.2	3,376.9	3,360.6	**-0.5**
Cobalt	154.3	149.5	157.3	99.0	**-37.1**
Total NTEs	**600.4**	**659.6**	**659.6**	**1,093.0**	**65.7**
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	**0.0**
Copper Wire	84.6	85.6	77.8	86.3	**10.9**
Cane Sugar	67.2	80.9	77.6	95.7	**23.4**
Burley Tobacco	48.2	69.3	38.0	56.7	**49.3**
Cotton Lint	17.9	31.5	11.0	106.4	**866.2**
Electrical Cables	21.8	19.9	20.8	24.3	**16.9**
Fresh Flowers	11.1	11.0	10.8	10.4	**-3.4**
Cotton Yarn	0.0	0.0	0.0	0.0	**289.1**
Fresh Fruits & Vegetables	4.7	6.4	4.2	5.7	**35.3**
Gemstones	29.0	20.8	30.3	57.4	**89.2**
Gasoil/Petroleum Oils	18.1	9.5	26.2	10.2	**-61.1**
Electricity	11.6	11.7	14.6	3.2	**-77.8**
Other	299.2	326.1	410.7	649.8	**58.2**
Of which Maize & Maize Seed	*5.2*	*31.1*	*49.2*	*36.3*	**-26.2**
Wheat &Meslin	*15.4*	*16.7*	*16.0*	*53.5*	**233.6**
Cement & Lime	*0.4*	*15.2*	*41.2*	*18.4*	**-55.3**
Imports c.i.f.	**-2,519.0**	**-2,714.1**	**-3,210.9**	**-3,964.3**	**23.5**

Source: Bank of Zambia
*Figures are preliminary

Table AIII.2: Metal Production, Export Volumes, Values and Prices; Jul 2009 - Dec 2011

	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 3, 2009	184,706.0	178,140.0	947,828.0	5,131.55	2.33	2,037.0	2,015.0	67,427.0	33,104.50	15.02
Quarter 4, 2009	177,458.0	180,188.0	1,067,118.0	6,013.37	2.73	1,882.0	1,896.0	58,973.0	31,328.05	14.21
Jul-Dec 2009	362,164.0	358,328.0	2,014,946.0	5,563.63	2.52	3,919.0	3,912.0	126,400.0	32,251.26	14.63
Quarter 1, 2010	198,247.2	196,466.2	1,311,518.9	6,615.57	3.00	1,977.1	1,989.0	78,204.9	39,556.12	17.94
Quarter 2, 2010	194,195.3	202,595.8	,267,152.6	6,525.15	2.96	2,009.5	2,023.8	76,077.1	37,858.20	17.17
Jan-Jun 2010	392,442.5	399,062.0	2,578,671.5	6,570.83	2.98	3,986.6	4,012.8	154,282.0	38,700.24	17.55
Quarter 3, 2010	222,034.6	228,708.3	1,534,916.0	6,912.96	3.14	2,278.5	2,348.0	75,297.4	33,047.21	14.99
Quarter 4, 2010	215,272.6	224,796.0	1,654,274.1	7,684.55	3.49	2,375.8	2,287.2	74,238.3	31,247.22	14.17
Jul-Dec 201	437,307.2	453,504.3	3,189,190.1	7,292.79	3.31	4,654.3	4,635.3	149,535.7	32,128.39	14.57
Quarter 1, 2011	203,267.7	207,281.4	1,751,089.0	8,614.69	3.91	2,395.5	2,375.1	86,462.6	36,093.93	16.37
Quarter 2, 2011	195,661.3	200,081.5	1,625,809.2	8,309.31	3.77	2,015.2	1,996.5	70,850.1	35,157.02	15.95
Jan-Jun 201	398,929.0	407,362.9	3,376,898.2	8,464.91	3.84	4,410.7	4,371.7	157,312.7	35,665.86	16.18
Quarter 3, 2011	239,562.4	222,676.3	1,821,754.0	7,604.51	3.45	1,743.6	1,726.1	53,903.8	30,915.19	14.02
Quarter 4, 2011*	238,063.2	239,018.2	1,538,886.4	6,464.19	2.93	1,676.3	1,603.8	45,047.2	26,872.58	12.19
Jul-Dec 201 *	477,625.6	461,694.5	3,360,640.4	7,036.14	3.19	3,419.9	3,329.9	98,951.0	28,933.65	13.12

Source: Bank of Zambia *Figures are preliminary

Table AIII.3: Imports by Commodity Groups in US $ millions (c.i.f.); Jan 2010 - Dec 2011

Description	Jan - Jun 2010	Jul-Dec 2010	Jan - Jun 2011	Jul - Dec 2011*	% Change Jul-Dec 2011/Jan-Jun 2011
Food Items	106.3	157.6	172.0	203.0	18.0
Petroleum Products	341.0	220.0	148.6	357.5	140.6
Fertilizers	91.0	84.8	153.9	191.1	24.2
Chemicals	291.5	304.0	364.0	411.5	13.0
Plastic and Rubber Products	103.4	125.0	144.6	203.5	40.7
Paper and Paper Products	40.3	40.1	50.1	68.5	36.6
Iron and Steel	134.6	156.2	192.8	275.4	42.8
Industrial Boilers & Equipment	424.2	375.5	580.4	709.0	22.2
Electrical Machinery & Equipment	96.6	121.6	196.9	277.8	41.1
Vehicles	154.6	181.3	280.2	316.0	12.8
Other Imports	735.4	947.9	927.3	950.9	2.5
Total Imports		2,714.1	3,210.9	3,964.3	23.5

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)	**46,208.5**	**912.5**	**-1,685.1**	**-35.4**
a) Net Purchases from Govt	45,069.8		-678.1	
b) Net Purchases from non-Government	1,047.2		-732.0	
c) Bank of Zambia own use of forex	-3.1		-8.5	
d) Change in stat. reserve deposits forex balances	94.6		-284.6	
2/ Net Domestic Credit (a+b)	**-46,506.7**	**-918.4**	**2,303.5**	**48.4**
a) Autonomous influences	**-38,587.4**		**7,147.3**	
Maturing Open Market Operations	8,958.6		5,819.4	
Direct Govt Transactions	-45,620.4		2,183.3	
TBs and Bonds Transactions	-1,830.3		-765.3	
Claims on non-banks (Net)	-95.2		-90.0	
b) Discretionary influences	**-7,919.4**		**-4,843.9**	
Open Market Operations	**-7,902.1**		**-4,843.9**	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-1,585.3		-1,291.8	
iii. Term Deposits Taken	-6,316.8		-3,543.1	
Treasury bill Rediscounts	**0.0**		**0.0**	
Other claims (Floats, Overdrafts)	**-17.3**		**-9.0**	
Change in Reserve Money	**-298.3**	**-5.9**	**618.3**	**13.0**

Source: *Bank of Zambia*

Table AIII.5a: Shares of Total Loans and Advances by Sector, December 2009- December 2011 (in percent)

Sector	Dec - 09	Jun-10	Dec-10	Jun -11	Dec -11
Agriculture, forestry, fishing and hunting	19.3	18.7	17.6	19.8	17.7
Mining & Quarrying	4.2	4.2	3.2	2.7	4.2
Manufacturing	12.3	13.0	12.7	11.7	12.2
Electricity, Gas, Water & Energy	1.7	1.4	1.6	1.7	1.6
Construction	3.2	4.1	5.8	6.1	4.2
Wholesale & Retail Trade	10.2	11.7	10.8	11.9	10.4
Restaurants & Hotels	1.5	1.9	1.9	2.0	2.1
Transport, Storage & Communications	6.3	5.4	4.7	5.8	5.4
Financial Services	5.2	3.8	2.6	1.9	5.0
Community, Social and Personal Services	3.5	2.5	3.7	3.9	2.1
Real Estate	8.4	5.2	6.2	4.9	2.4
Personal Loans	22.1	26.2	26.8	25.5	29.4
Others	2.1	2.0	2.3	2.1	3.1

Source: Bank of Zambia

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

Sector	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11
Agriculture, forestry, fishing and hunting	11.5	9.8	12.1	12.0	13.1
Mining & Quarrying	0.8	1.3	1.4	1.5	0.9
Manufacturing	9.8	12.0	10.9	10.5	6.9
Electricity, Gas, Water & Energy	1.4	1.1	1.5	1.2	1.7
Construction	2.6	3.8	6.8	5.8	3.3
Wholesale & Retail Trade	10.9	9.5	8.0	10.4	9.7
Restaurants & Hotels	1.0	1.1	1.3	1.7	1.5
Transport, Storage & Communications	7.1	5.5	4.2	5.8	4.0
Financial Services	3.5	3.5	2.3	2.0	2.9
Community, Social and Personal Services	4.7	3.1	4.1	4.2	2.4
Real Estate	9.8	5.4	5.5	5.6	1.7
Personal Loans	34.1	41.1	39.6	37.0	47.8
Others	2.8	2.7	2.3	2.4	4.1

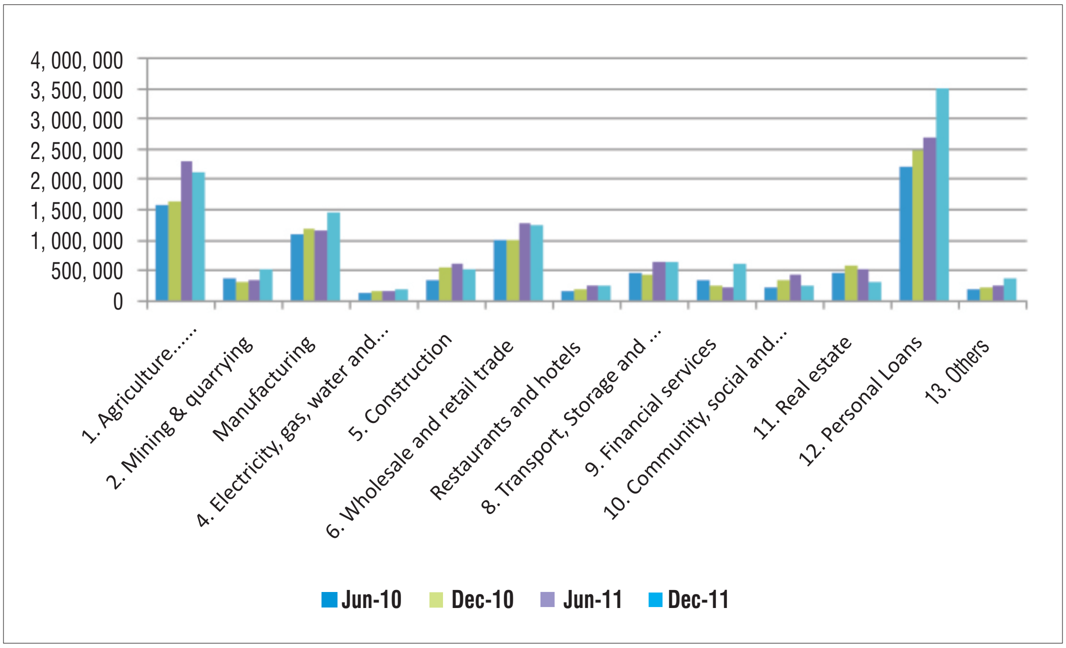
Source: Bank of Zambia

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

Sector	Dec-09	Jun-10	Dec-10	Jun -11	Dec-11
Agriculture, forestry, fishing and hunting	33.7	34.1	28.8	36.9	24.9
Mining & Quarrying	9.9	8.8	6.9	5.5	9.4
Manufacturing	16.2	14.9	16.3	14.3	20.3
Electricity, Gas, Water & Energy	1.8	1.9	1.9	2.8	1.6
Construction	4.4	4.5	3.7	6.7	5.7
Wholesale & Retail Trade	12.0	15.1	16.0	14.8	11.6
Restaurants & Hotels	2.4	3.2	2.9	2.5	2.8
Transport, Storage & Communications	5.1	5.2	5.8	5.9	7.6
Financial Services	8.2	4.3	3.3	1.8	8.4
Community, Social and Personal Services	2.8	1.2	2.6	3.2	1.6
Real Estate	3.9	5.0	7.8	3.6	3.7
Personal Loans	0.5	1.0	1.7	0.6	1.0
Others	1.6	1.8	2.2	1.3	1.6

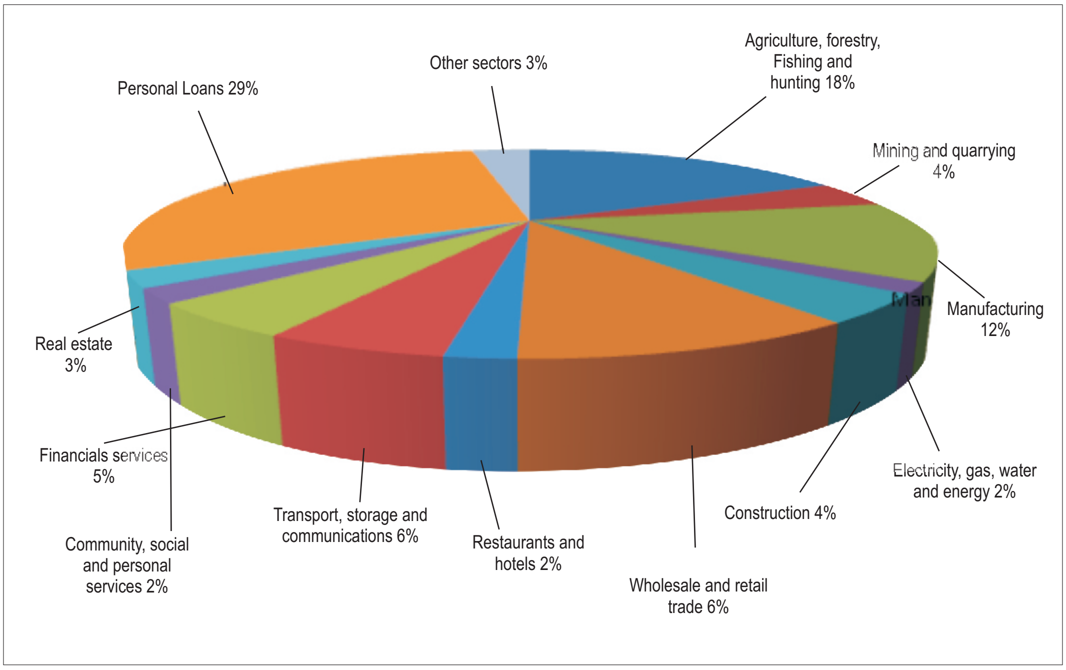
Source: Bank of Zambia

Chart AIII.1: Commercial Banks Loans and Advances by Sector, Jun 2010 - December 2011



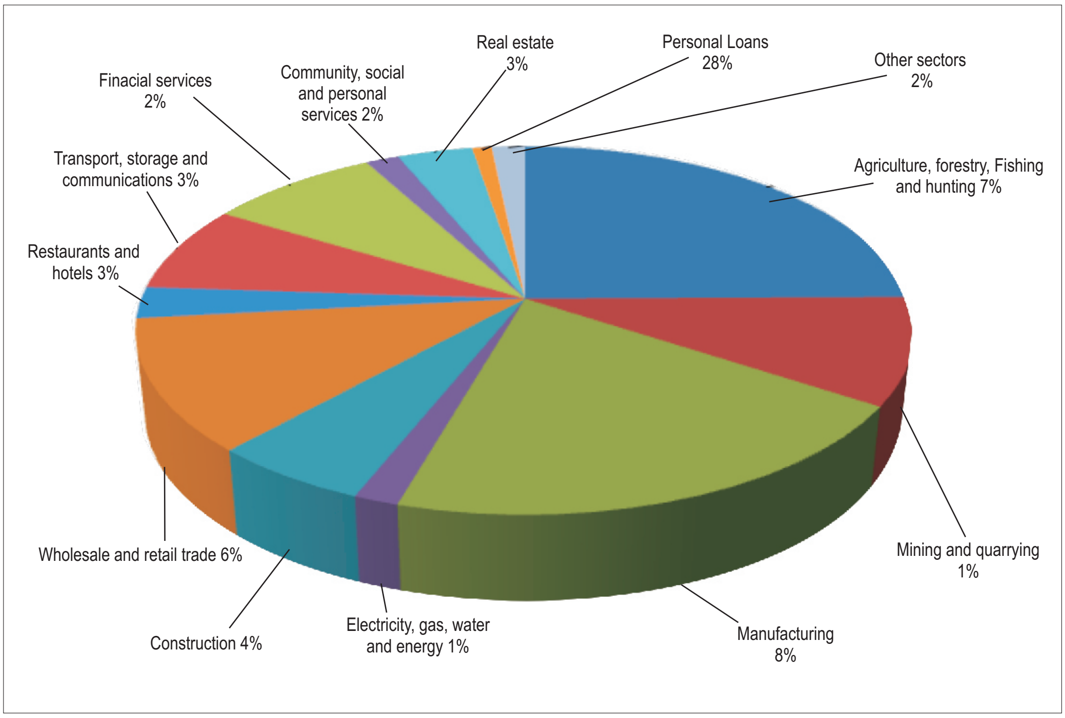
Source: Bank of Zambia

Chart AIII.2: Structure of Loans and Advances, December 2011



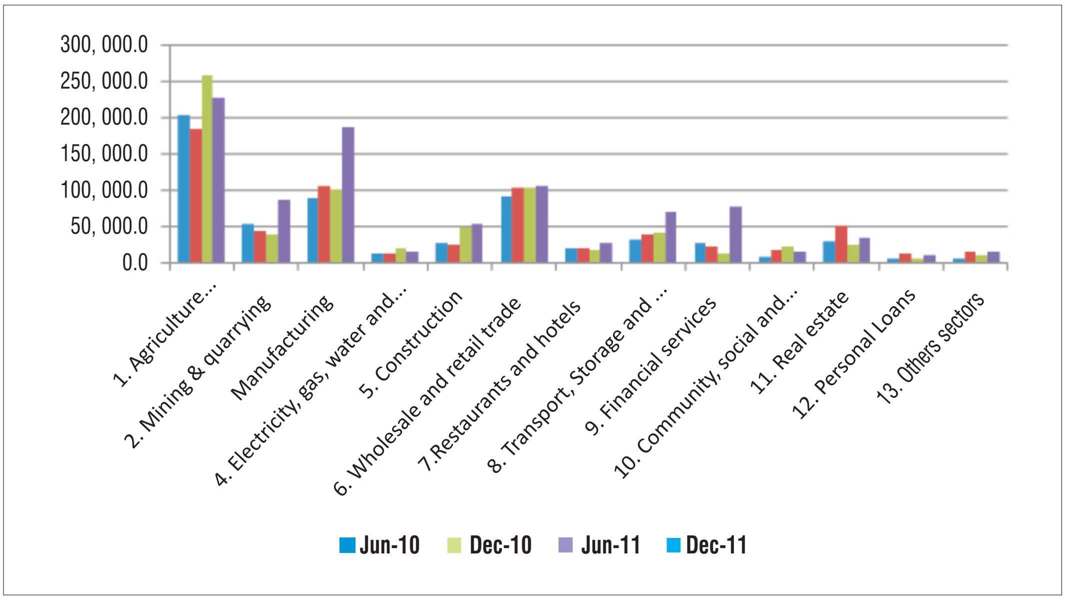
Source: Bank of Zambia

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



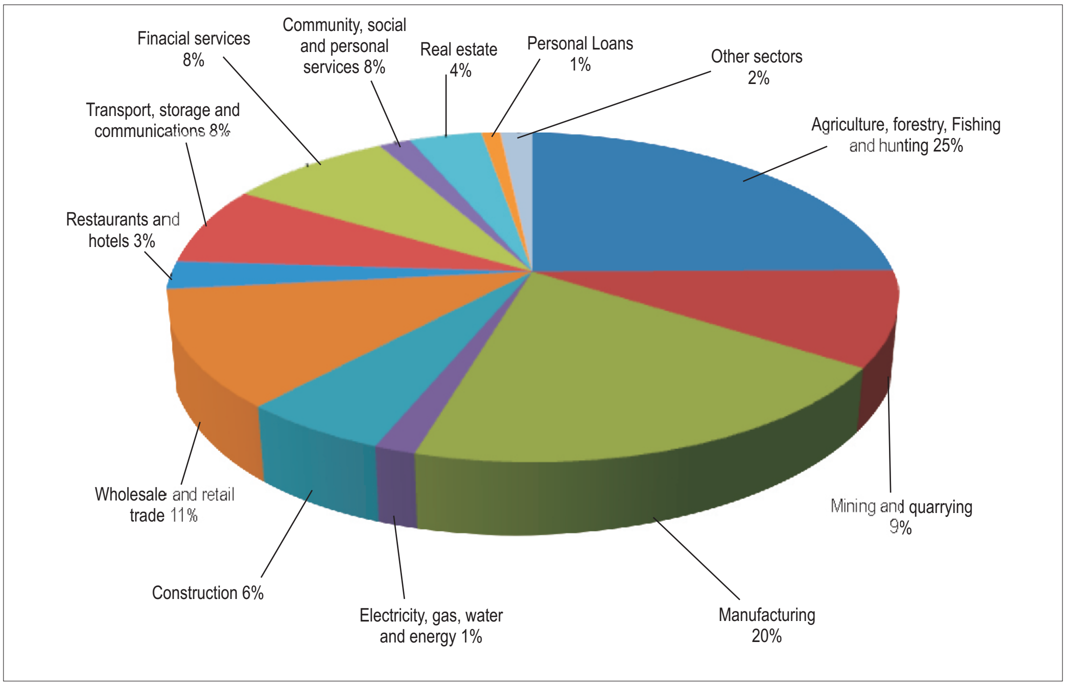
Source: Bank of Zambia

Chart AIII.4: Commercial Banks Foreign Currency Loans and Advances by Sector, Jun 2010 - December 2011



Source: Bank of Zambia

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



Source: Bank of Zambia

Table AIII.6:Central Government Fiscal Operations, Second Half 2011 (K' billion)

	Annual	Year-to-date		First Half	Second Half		
	Approved	Target	Prelim.	Prelim.		Approved	Target
Total Revenue and Grants	**17,356.8**	**18,521.7**	**20,110.7**	**8,663.7**	**10,021.1**	**11,447.0**	**14.2**
Tax Revenue	15,230.1	16,350.2	18,061.7	8,079.9	8,905.7	9,981.8	12.1
Non-Tax Revenue	539.0	531.8	418.3	189.6	302.1	228.7	-24.3
Grants	1,587.7	1,639.8	1,630.7	394.2	813.4	1,236.5	52.0
Total Expenditure	**20,235.0**	**23,944.4**	**24,400.1**	**10,122.0**	**13,907.9**	**14,278.1**	**2.7**
Current Expenditure	**15,052.0**	**16,741.4**	**19,699.7**	**8,729.7**	**9,405.4**	**10,970.0**	**16.6**
Personal Emoluments	7,406.2	7,972.4	7,395.6	3,537.8	**4,446.5**	**3,857.8**	-13.2
PSRP	15.0	10.5	10.0	10.0	**3.4**	**-**	-100.0
Use of Goods and Services	3,409.6	3,601.4	4,580.7	2,301.6	1,919.0	2,279.1	18.8
Interest	1,250.2	1,353.1	1,211.6	666.1	**747.7**	**545.5**	-27.0
Grants and Other Payments	1,803.6	1,964.3	2,650.3	1,426.1	**1,106.8**	**1,224.2**	10.6
Social Benefits	443.1	608.6	582.1	424.0	337.2	158.1	-53.1
Other Expenses	328.9	899.1	2,949.5	215.1	697.1	2,734.4	292.3
Liabilities	395.4	332.0	319.9	149.0	147.8	170.9	15.6
Assets	**5,183.0**	**7,203.0**	**4,700.4**	**1,392.3**	**4,502.5**	**3,308.1**	**-26.5**
Non-Financial Assets	5,085.4	7,068.6	4,589.5	1,337.0	4,422.0	3,252.5	-26.4
Financial Assets	97.6	134.3	110.9	55.3	80.4	55.6	-30.9
Stats. Discr. & Change in Balance	112.8	2,188.6	3,278.5	2,150.4	2,365.6	1,128.1	-52.3
Change in Balances	-	2,538.6	1,303.9	580.8	2,365.7	723.1	-69.4
Fiscal Balance	**-2,765.4**	**-3,234.0**	**-1,010.8**	**692.1**	**-1,521.2**	**-1,702.9**	**-11.9**
Financing	2,765.4	3,234.1	1,010.9	-692.2	1,521.2	1,703.1	12.0
Domestic	1,219.8	1,661.9	1,109.8	-685.0	821.6	1,794.8	118.5
Foreign	1,545.6	1,572.2	-99.0	-7.2	699.6	-91.8	113.1

Source: Ministry of Finance and National Planning
Key: - = zero or not available

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]	
	Jan-Jun, 11	Jul-Dec, 11	Jan-Jun, 11	Jul-Dec, 11	Jan-Jun, 11	Jul-Dec, 11	Jan-Jun, 11	Jul-Dec, 11
91- day bills	38.3	43.8	52.5	23.4	14.3	-20.4	137.3	53.4
182-day bills	43.8	48.8	52.1	22.3	8.3	-26.5	118.8	45.7
273-day bills	48.5	53.8	53.1	40.0	4.6	-13.8	109.6	74.3
364-day bills	88.7	98.1	107.7	105.6	19.1	7.5	121.5	107.7
TOTAL	**219.2**	**244.6**	**265.4**	**191.4**	**46.2**	**-53.2**	**121.1**	**78.2**
2-year bond	71.7	90.0	52.4	92.6	-19.1	-19.3	73.3	73.1
3-year bond	88.3	110.0	57.3	100.4	-31.0	-31	64.9	64.9
5-year bond	103.3	130.0	109.4	182.1	6.0	6.1	105.8	105.9
7-year bond	6.7	6.3	6.3	13.2	-0.4	-0.4	94.1	94.0
10-year bond	6.7	4.6	4.6	6.2	-2.1	-2.1	69.1	68.7
15-year bond	6.7	1.8	1.8	0.9	-4.5	-4.9	26.5	26.9
TOTAL	**283.3**	**350.0**	**231.9**	**395.5**	**-51.4**	**-51.4**	**81.8**	**81.9**

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.