Bank Of Zambia

Bank of Zambia Monetary Policy Statement

July - December 2006

Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to "formulate and implement monetary and supervisory policies that will ensure price and financial system stability".

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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

To further reduce overall inflation to 10.0% at end-December 2006 from 15.9% at end-December 2005, the inflation target for end-June 2006 was set at 10.1%. This was premised on a number of factors, which included appropriate monetary policy being conducted, lower food prices, following favourable output during the 2005/06 agricultural season, and a stable exchange rate. The latter largely reflected strong external sector performance, driven by high copper prices and production as well as the continued benefits of reaching the enhanced Highly Indebted Poor Countries (HIPC) Initiative completion point in April 2005.

To achieve the inflation objective, the implementation strategy for monetary policy, over the period January to June 2006, entailed limiting the annual growth rates for reserve money and broad money (money supply) to no more than 2.7% and 5.4%, respectively. To this end, the Bank of Zambia employed principally indirect instruments of monetary control, notably open market operations and auctions of Government securities. To be fully effective, these instruments were to be complemented by supportive fiscal performance.

Achievement of monetary policy objectives was not without challenges. Notable among these were mitigating the shortfall in maize supply during the 2005/2006 consumption year, contending with the exceptionally high retail prices of petroleum products, and fostering exchange rate stability.

The above challenges notwithstanding, monetary policy outturn during the period under review was favourable. Overall inflation, which stood at 15.9% in December 2005, declined to a single digit in April 2006 (9.4%), for the first time in 30 years. A month later, it further slowed down to 8.6% and subsequently to 8.5% in June. On a year-to-date basis, overall inflation reached 1.9% in June 2006, well below the 8.7% recorded during the corresponding period the previous year. This unprecedented performance largely reflected lower food inflation, despite the build up in non-food inflationary pressures.

Government action to allow importation of maize duty free and the increased food output during the 2005/2006 agricultural season, underscored by the maize surplus of 160,000 metric tons, combined to push annual food inflation from 17.5% in December 2005 down to a single digit of 8.3% in April 2006. By end-June 2006, annual food inflation had declined further to 5.3%. On a year-to-date basis, annual food inflation, at 3.3% was well below the 7.9% recorded during the corresponding period the previous year. Government reversal of Value Added Tax on agricultural products in March in 2006 also assisted in subduing food inflationary pressures.

With the continued surge in world prices for crude oil, Zambia's retail prices of petroleum products, especially, petrol and diesel were in March through June 2006 adjusted upwards. Consequently, annual non-food inflation that had been slowing down from 18.2% in September 2005 to 10.6% in April 2006, edged upwards to 12.1% at end-June 2006. However, it should be noted that non-food inflation would have been higher had it not been for the direct and lagged pass-through effects of the appreciation of the Kwacha against major currencies, particularly towards the end of 2005 and first quarter of 2006 and the lagged effects of monetary contraction in January, March and April 2006.

In the first half of 2006, the performance of the Kwacha against major currencies was mixed. After appreciating in the first quarter of 2006, the Kwacha depreciated against major currencies except the South African rand during the second quarter. Overall, these developments resulted in the Kwacha depreciating against the US dollar (1.6%), the British Pound Sterling (5.3%) and the Euro (4.5%) in the first half of 2006. However, it appreciated by 7.9% against the South African rand.

Preliminary data indicate that a trade surplus of US $486.6 million was recorded during the first half of 2006 compared to a deficit of US $179.4 million during the second half of 2005. This was due to the increase in merchandise exports, coupled with a lower import bill.

Growth in domestic credit, comprehensively defined to include foreign currency loans, increased by 15.9% from negative 9.2% in the second half of 2005. On the fiscal front, preliminary data show that domestic fiscal performance was generally favourable during the first half of 2006.

A domestic budget deficit of K374.6 billion, on a cash basis, was recorded against the programmed deficit of K582.0 billion, mostly on account of expenditure restraint as revenues were below programmed levels.

Developments in interest rates were encouraging, with yield rates on Government securities and lending interest rates of commercial banks falling, largely reflecting the drop in overall inflation.

In the second half of 2006 monetary policy aims at maintaining annual inflation within the single digit levels. However, there are a number of challenges to this goal. The first challenge relates to the cost-push effects of higher prices for petroleum products, anticipated due to supply uncertainties amid continued high demand for the commodity, particularly from Asian countries. The impending closure of Indeni Oil Refinery Ltd for maintenance works in September 2006, if not handled properly, would also put upward pressure on domestic cost of petroleum products. Anticipated increased Government spending, associated with the coming elections and crop marketing, have the potential to expand liquidity levels beyond programmed levels. The huge maturities of portfolio investments in Government securities in the third and fourth quarters of 2006 could also exert liquidity and exchange rate pressures, thus causing some inflationary pressures.

In order to mitigate the adverse effects of the above anticipated shocks on inflation and to keep money supply growth within programmed levels, the Bank of Zambia will monitor developments closely and stand ready to implement an appropriately tight monetary policy during the second half of 2006. At any rate, the Bank of Zambia will focus its monetary operations on limiting the growth in reserve and broad money to 9.3% each. Consistent with these monetary growth rates, private sector credit is expected to expand by 10.1% so as to continue supporting economic growth. To achieve these targets, the Bank of Zambia will be relying heavily on indirect instruments of monetary control, notably, open market operations.

In the next two years to end-June 2008, the conduct of monetary policy will continue to be guided by market-based principles, which have contributed to the unprecedented favourable inflation performance in over three decades.

1.0 Introduction

This monetary policy statement for July-December 2006, first outlines the targets and the challenges faced during the first half of 2006 and thereafter assesses the performance of monetary policy. How the Bank of Zambia intends to achieve its target during the next 6 months follows. It concludes with the Bank of Zambia's intentions on formulating and implementing monetary policy in the next 2 years.

There were several challenges to monetary policy implementation during the period January to June 2006. First, the shortfall in maize supply during the 2005/2006 consumption year. Second, the increase in the price of oil on the world market.This was triggered by high oil demand, particularly from China and India, and supply uncertainties attributed to policy conflicts in some of the major oil producing countries, caused upward adjustments in Zambia's retail prices of petroleum products, particularly petrol and diesel, from March to June. In view of the strong Kwacha helping in lowering inflation in the last part of 2006, reversal of these gains, in part, to minimise exchange rate volatility, was the third challenge.

Notwithstanding these limitations, monetary policy outturn was favourable during the first half of 2006. Overall inflation at 15.9% in December 2005, declined to single digit of 9.4%, in April, for the first time in 30 years. A month later, it further slowed down to 8.6% and subsequently to 8.5% in June. On a year-to-date basis, it reached 1.9%, well below the 8.7% recorded during the corresponding period the previous year. This unprecedented performance largely reflected lower food inflation, despite the build up of non-food inflation pressures. Due to importation of maize duty free and the increased food output during the 2005/2006 agricultural season, underscored by the maize surplus of 160,000 metric tons, annual food inflation at 17.5% in December 2005, slowed down to single digit of 8.3% in April 2006. At end-June 2006, it declined further to 5.3%. On a year to-date basis, it settled at 3.3%, well below the 7.9% recorded during the corresponding period the previous year. What also assisted in subduing food inflationary pressures was the reversal of VAT on agricultural products in March.

Cost-push pressures induced by high petroleum prices, led annual non-food inflation, which slowed down from 18.2% in September 2005 to 10.6% in April, to edge up to 12.1% at end-June 2006. Non-food inflation would have been higher without the following mitigation factors. First, the lagged pass-through effects of the Kwacha appreciation during the last part of 2005. Second, lower import cost, as a result of the direct and lagged effects of the Kwacha appreciating during the first three months. In addition, the lagged effects of monetary contraction in January, March and April.

2.0 Assessment of Monetary Policy Outcome, January-June 2006

To further reduce overall inflation to 10.0% at end-December 2006 from 15.9% at end-December 2005, monetary policy aimed at attaining an overall inflation rate of 10.1% at end-June 2006. This also implied food and non-food inflation respectively declining to 15.0% and 7.9% from 17.5% and 14.0%. Lower expectations of food inflation were premised on improved domestic food supply, the product of favourable weather conditions and timely delivery of agricultural inputs during the 2005/06 agricultural season and exchange rate stability. The latter reflected strong external sector performance mainly driven by the high copper prices and production and the continued benefits of reaching the enhanced Heavily indebted Poor Countries (HIPC) Initiative completion point in April 2005, besides the debt relief by the G8 under the Multilateral Debt Relief Initiative (MDRI) [see Appendix IA] formed the basis for the slow down in non-food inflation, despite challenges posed by high world oil prices.

To achieve the set goals, the implementation strategy for monetary policy over a period January to June 2006 entailed (see also Appendix II, Table 1):

- Reserve money growth not to exceed 2.7%;
- Broad money growth not to be more than 5.4%;
- Domestic credit expansion limited to 16.9%; and
- Private sector credit expansion of up to 10.3% to support the anticipated annual real gross domestic product (GDP) growth of 6.0%.

Recognising that the 22.7% end-December 2005 reserve money growth mainly reflected sharp increases in the last week of 2005, an appropriately tight monetary policy was envisaged to mitigate inflationary pressures induced by lagged liquidity effects. The bi-annual reserve money growth was thus restricted to no more than 2.7%, achievable through employing principally indirect instruments of monetary control, notably open market operations (OMOs). The effectiveness of these instruments to manage liquidity was to be supported by the Government budget performing within programmed levels, notwithstanding spending pressures due to the general elections to be held during the year and maize marketing season commencing in the second quarter.

2.1 Overall Inflation

Overall annual inflation has exhibited a downward trend since September 2005. Largely following lower food prices, on account of improved supply, overall inflation at 15.9% at end-December 2005, declined to single digit 9.4% in April 2006, for the first time in 30 years. A month later, it further slowed down to 8.6% and subsequently to 8.5% in June. On a year-to-date basis, it reached 1.9% in June 2006 compared to the 8.7% recorded during the corresponding period the previous year and the forecast of 3.3%. This unprecedented outturn was despite the build up of non-food inflationary pressures. Non-food inflation, which declined in the first two months of the year, has been on the rise since March, largely induced by the surge in gasoline prices.

2.2 Food Inflation

The downward trend in food inflation that commenced in October 2005, in part, on account of improved supply associated with Government action to allow importation of maize duty free, continued during the first half of 2006. Reflecting improved domestic supply, underscored by maize surplus of 160,000 metric tones of the favourable 2005/06 agricultural season, annual food inflation rate of 17.5% at end-December 2005, reached single digit of 8.3% in April 2006, and at the end of the first half of the year declined further to 5.3%. What further assisted in subduing food-inflationary pressures was the reversal of Value Added Tax (VAT) on agricultural products in March 2006. On a year-to date basis, it was recorded at negative 3.3%, well below the 7.9% registered over the corresponding period in 2005 and the forecast of 5.6%.

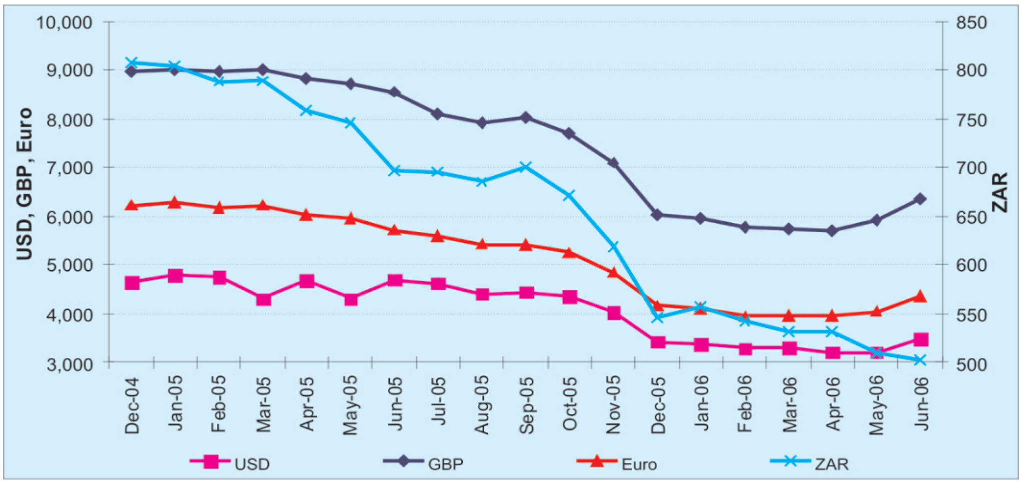
2.3 Non-Food Inflation

Unlike food inflation, the slow down in non-food inflation, which also started in October 2005, was short lived during the first half of 2006. Low cost-push pressures arising from the Kwacha appreciation, in turn causing reductions in pump energy prices (both petrol and diesel by 7.0%) in January, pushed down non-food inflation to 10.1% in February from 14.0% in December 2005. With Diesel, Kerosene and Jet A1 fuel raised by 5.1%, 4.5% and 4.4%, respectively, in mid-March 2006, precipitated by the surge in demand for oil from Japan and China in the midst of the nuclear row in Iran and threats of attack by militants on oil installations in Nigeria, non-food inflation edged up to 10.4% in March. With a continued surge in world crude oil prices, the retail prices of petrol and diesel were hiked by 4.9% each in April and in May by 8.2%. Again, a month later, they were raised by 4.8% each. Consequently, non-food inflation increased to 12.1% at the end of the second quarter of 2006. However, the year-to-date rate at 7.8% was lower than the 9.7% recorded during the corresponding period the preceding year. However, it should be noted that non-food inflation would have been higher had it not been for the money supply growth that had remained well within the projected levels and direct and lagged pass-through effects of the appreciation of the Kwacha against major currencies, particularly towards the end of 2005 and first quarter of 2006.

2.4 The Foreign Exchange Market

In the first half of 2006, developments in the exchange rate of the Kwacha against major currencies were mixed. After appreciating in the first quarter of 2006, the Kwacha depreciated against major currencies except the South African rand during the second quarter. Overall, these developments resulted in the Kwacha depreciating by 1.6% against the US dollar to a monthly average of K3,480.67/US$ in June, whereas it weakened by 5.3% and 4.5% against the British Pound Sterling and the Euro to monthly averages of K6,363.01/£ and K4,354.96/€, respectively (see Chart 1). The relative weakening of the Kwacha was attributable to increased demand for foreign exchange, partly explained by the maturities of Government securities held by portfolio investors most of whom are not rolling over their investments. At the same time, vis-à-vis the South African rand, however, it appreciated by 7.9% moving to a monthly average of K503.05/ZAR largely due to the broad based weakening of the rand against major currencies during the period January to June 2006.

Chart 1: Exchange Rates: Kwacha Against Major Currencies, December 2004 - June 2006



2.5 **International Trade Developments**

Preliminary data indicate that a trade surplus of US $447.6 million was recorded during the first half of 2006 compared to a deficit of US $2.5 million during the second half of 2005 (see Appendix II, Table 3). This was due to the 35.2% increase in merchandise exports, to US $1,696.0 million. Higher export earnings largely reflected metal export receipts rising by 47.5%, to US $1,395.1 million from US $945.6 million (first half 2005: US $670.1 million). High copper prices, despite the decline in export volumes, spurred higher metal proceeds. The volume of copper exports fell to 229,248 metric tons from 234,754 metric tons. With the continued increased demand for copper, especially from China, the average realised copper price reached a record high of 340 US cents per pound in May, and increased to 261 US cents per pound in June from 169 US cents per pound, six months earlier. Metal export receipts would have been higher if cobalt export earnings did not decline to US $60.8 million from US $69.1 million, on account of both lower export volume and price. Cobalt export volumes at 2,429 metric tons were 9% lower than the 2,669 metric tons recorded in the second half of 2005, in part due to lower prices. The average realised price of cobalt fell to US $11.36 per pound from US $11.74 per pound in the second half of 2005 (see Appendix II, Table 4).

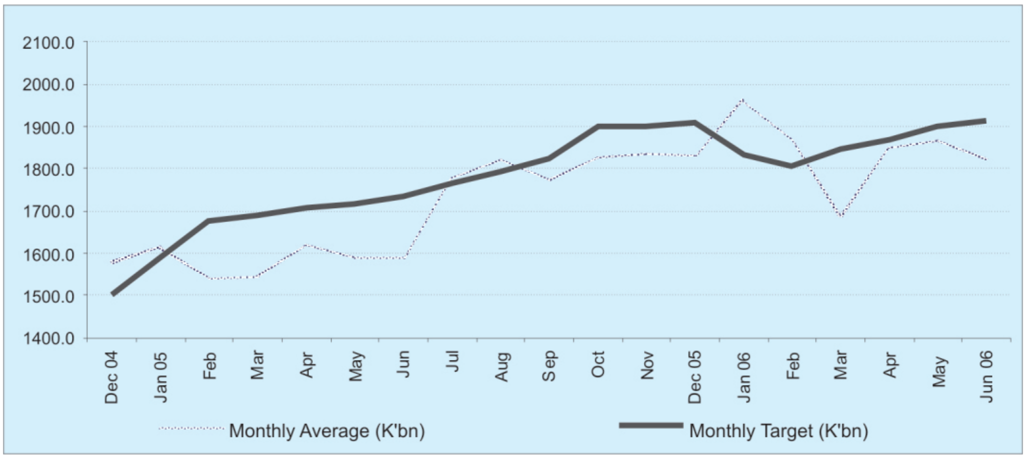
The first half of 2006 witnessed a lower import bill at US $1,248.4 million (second half of 2005 US $1,256.5 million), for the most part, attributable to a decline in imports of plastic and rubber products by 70.0%; fertiliser by 67.4%; and petroleum products by 23.0% (see Appendix II, Table 5). The trade balance would also have improved further without non-traditional export earnings declining to US $300.9 million from US $308.4 million mainly due to the seasonal nature of export of products such as sugar, tobacco and cotton lint.

2.6 **Monetary and Credit Developments**

During the first half of 2006, reserve money performance remained generally favourable after surging above the indicative targets in January and February, attributable to the liquidity overhang following the purchase of foreign exchange from donor inflows for Government expenditure in December 2005. Average reserve money for end of first and second quarters at K1,688.0 billion and K1,823.1 billion was below the quarterly targets of K1,796.4 billion and K1,914.7 billion, respectively, under the economic reform programme (see Chart 2). At end-June, vis-à-vis the growth target of 2.7%, it expanded by 1.7% to K1,930.7 billion from K1,898.6 billion in December 2005.

This development (in reserve money) was mainly on account of an increase in *net foreign assets* (NFA) by K292.2 billion, induced by the Bank's purchases of foreign exchange from the market for reserve build up. The contraction of K260.1 billion in *net domestic credit*, however, partially offset the increase in NFA, thereby toning down the rate of growth in reserve money. *Net domestic credit* declined because of the net withdrawal of K807.6 billion through Government securities sales. The sales of Government securities completely offset the net injection of K514.3 billion and K39.8 billion through Government spending and open market operations (OMO) maturities, respectively (see Appendix II, Table 6).

Chart 2: Reserve Money and Target Path



Growth in broad money (M3), comprehensively defined to include foreign currency deposits, was also kept within projected growth levels. Preliminary data show that though M3 growth rose to 7.7% (between June 2006 and December 2005) from negative 0.1% in the second half of 2005, it was lower than the target of 5.4%. In absolute values, it increased to K6,289.4 billion in June 2006 from K5,841.1 billion at end-December 2005. This was mostly explained by expansion in *net foreign assets* (contributed 33.4 percentage points to the growth in M3), following purchase of foreign exchange. M3 would have expanded more if *net domestic assets* did not decline by 24.5% and contributed negative 25.7 percentage points to its growth. The contraction in *net domestic assets* was attributed to the fall in *other items net*. Excluding foreign exchange deposits, which grew by 1.4%, six-month money supply growth was 10.9% as at end-May 2006.

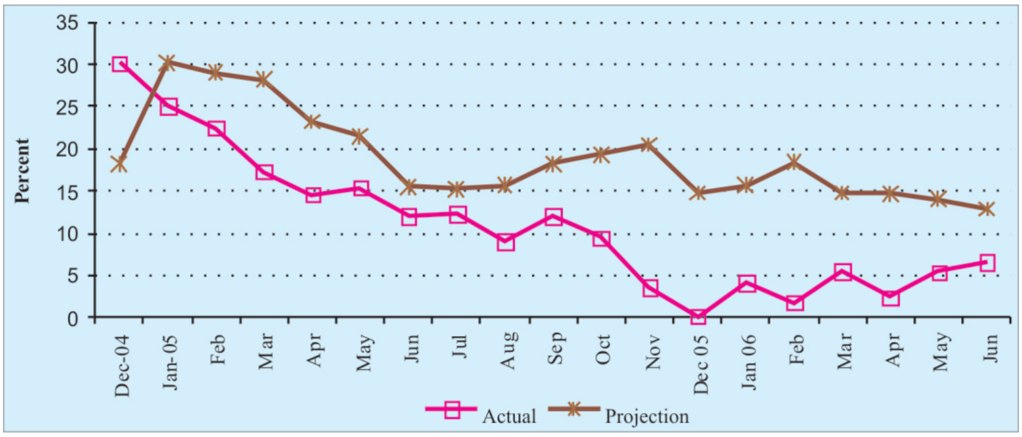
On an annual basis, although M3 growth was 6.6%, up from 0.4% at end-December 2005, it was below the forecast of 16.6% for end-June 2006. Similarly, growth in money supply excluding foreign exchange deposits (which grew by negative 9.6% compared to negative 18.8%) rose to 16.5% from 14.2% (see Table 1 and Chart 3).

Table 1: Broad Money Developments (in K' bn unless otherwise stated)

	Jun, 2005	Dec, 2005	Jun, 2006
Broad Money (M3)	5,898.0	5,841.1	6,289.4
o/w Foreign Exchange (FE) Deposits	2,221.6	1,981.2	2,008.0
M3 (excl. FE Deposits)	3,676.4	3,859.9	4,281.4
6-Month Change in M3 (%)	1.3	-1.0	7.7
6-Month Change in FE Deposits (%)	-8.9	-10.8	1.4
6-Month Change in M3 (excl. FE Deposits) [%]	8.8	5.0	10.9
Annual Change in M3 (%)	12.1	0.4	6.6
Annual Change in FE Deposits (%)	8.2	-18.8	-9.6
Annual Change in M3 (excl. FE Deposits) [%]	14.5	14.2	16.5

Source: Bank of Zambia

Chart 3: Annual Changes in Broad Money



During the review period, total domestic credit comprehensively defined to include foreign currency loans, increased by 16.4%, up from negative 9.2% in the second half of 2005. This outturn, which was higher than the projected growth of 7.8%, was due to an increase in the banking system's lending to the private sector and public enterprises contributing 10.9, and 6.5 percentage points, respectively. This was despite the decline in lending to households and Government, which contributed negative 0.9 and negative 0.1 percentage points to domestic credit growth. Both Kwacha and foreign currency denominated loans increased, by 10.4% and 49.3%, respectively.

On annual basis, domestic credit growth was 12.5% compared to 6.0% at end-December 2005 and was above the projection of 7.8%. Excluding foreign currency loans, which fell by 11.0%, largely due to the effects of exchange rate appreciation, growth in domestic credit denominated in Kwacha rose to 10.7% from 9.8% in the last half of 2005 (see Table 2).

Table 2: Domestic Credit Developments (in K' bn unless otherwise stated)

	Jun, 2005	Dec, 2005	Jun, 2006
Domestic Credit (DC)	5,569.4	5,054.4	5,883.7
O/w Foreign Exchange (FE) Credit	1,297.7	773.6	1,155.6
DC (Excl. FE Credit)	4,271.7	4,280.8	4,728.1
6-Month Change in Domestic Credit	16.8	-9.2	16.4
6-Month Change in FE Credit	49.4	-40.4	49.3
6-Month Change in DC (Excl. FE Credit)	9.6	0.2	10.4
Annual Change in Domestic Credit	18.4	6.0	5.6
Annual Change in FE Credit	49.0	-10.9	-11.0
Annual Change in DC (Excl. FE Credit)	11.5	9.8	10.7

Source: Bank of Zambia

Loans and advances of commercial banks increased by 23.4% in the first half of 2006, up from negative 9.7% in the second half of 2005. The largest increase was to the financial services sector which more than doubled, reflecting growth and development in the sector. Other major increases were to real estate (71.6%), mining (31.7%) wholesale and retail trade (28.4%), manufacturing (26.2%), construction (20.3%) and agricultural (19.0%) sectors, which are among major sources of economic growth. In addition, commercial banks lending increased to community services (27.6%), restaurants and hotels (23.8%), transport and communications (16.7%) and energy (16.2%) sectors. However, lending to households fell by 2.0%.

In terms of shares, commercial banks' loans and advances to the agricultural sector declined, from 27.2% at end-December 2005 to 26.2% at end-May 2006 largely due to seasonal factors, as major agricultural activities are undertaken during the second half of the year. Nevertheless, this sector still accounts for the largest share of loans and advances. The second largest share went to the wholesale and retail trade sector at 14.8%, as most loans to this sector are short-term and is considered to be less risky relative to other sectors. Other shares were to: manufacturing (12.5%), transport and communications (7.1%), energy (5.5%), financial services (4.7%), real estate (4.2%), mining (4.1%), community services (2.4%), construction (1.9%) and restaurants and hotels (2.2%). The share to the household sector was 11.3% (see Appendix II, Tables 7 to 9, and Charts 1 to 12).

2.7 Fiscal Developments

A domestic budget deficit of K374.6 billion, on a cash basis, was recorded against the programmed deficit of K582.0 billion. This was mostly on account of expenditure restraint as revenues were below expectation (see Appendix II, Table 10).

Total domestic expenditure at K3,254.2 billion was 8.6% below the forecast of K3,561.5 billion, mainly reflecting expenditure on transfers and pensions, domestic debt interest, personal emoluments and recurrent departmental charges (RDCs), below their programmed levels by 31.8%, 10.1%, 7.7%, and 5.2%, respectively. It is noted that the lower than programmed expenditure on domestic debt interest was driven by relatively lower interest rates. Further contributing to expenditure restraint was domestic capital expenditure at K244.2 billion vis-à-vis the programmed K298.2 billion, reflecting lower spending on poverty reduction programmes following lower than programmed revenues.

With tax revenue of K2,717.2 billion, 3.0% below the target of K2,800.6 billion, and non-tax revenue at K162.5 billion, 27.2% higher than the target (K127.8 billion), in the first half of 2006, total domestic revenue recorded at K2,879.7 billion fell short of the target K2,928.4 billion, by 1.7%.

Total domestic budget financing during the first half at K226.0 billion was well within the programmed domestic financing of K439.0 billion. This financing was through a draw-down on the Treasury bill sterilisation account amounting to K226.0 billion.

2.8 Interest Rates Developments

Government Securities Interest rates

The Government securities market continued to attract enormous interest from investors, both local and foreign, making demand for the securities to remain way above amounts on offer. Over the first six months of 2006, K2,210.0 billion worth of Treasury bills was on offer versus investors submitting bids worth K2,872.5 billion, an oversubscription rate of 29.9% was thus reported. The demand for Government bonds also remained high as total bids exceeded the amount on offer by K496.0 billion. With this high demand (for Government securities), alongside lower inflation, January-June 2006 was characterized by a general reduction in yields, with the reduction somewhat steep over January to May. That is why despite a slight upward adjustment in yield rates noticeable at end-June, the composite weighted average yield rate on Treasury bills declined by 8.5 percentage points to 7.7%. In the same vein, the composite yield rate for Government bonds declined by 11.1 percentage points to 11.9%.

In terms of individual portfolios, the yield rate on the 91-day tenor declined by a bigger margin, 9.5 percentage points to 6.1% at end-June 2006. Yield rates on the 182- and 273-day portfolios declined by 9.2 percentage points and 9.0 percentage points to 7.2% and 8.0%, respectively. Furthermore, the yield rate on the 364-day portfolio lost 7.1 percentage points to close the review period at 9.9%. Similarly, the yield rate on the 2-year bond recorded 8.7 percentage points decline to 10.2% whereas yield rates on the 3-and 5-year bonds declined to 11.8% and 13.8% from 22.4% and 24.9%, respectively (see Charts 4 and 5). The slow down in inflation coupled with the active participation of portfolio investors which increased the demand largely explained the downward trend in yield rates on government securities.

Although the yield curve remained essentially positive in the first half of 2006, the yield gap between short and long-dated Treasury bill portfolios widened while that between the short and long-dated Government bonds narrowed. Specifically, the yield gap between the short-and long-dated Treasury bill portfolios widened to 3.8% during the review period from 1.4% in the preceding period. Conversely, the yield gap between short and long-term Government bonds narrowed to 3.6% from 6.0% over the same period.

Chart 4: Yield Rates on Treasury bills, % per annum.

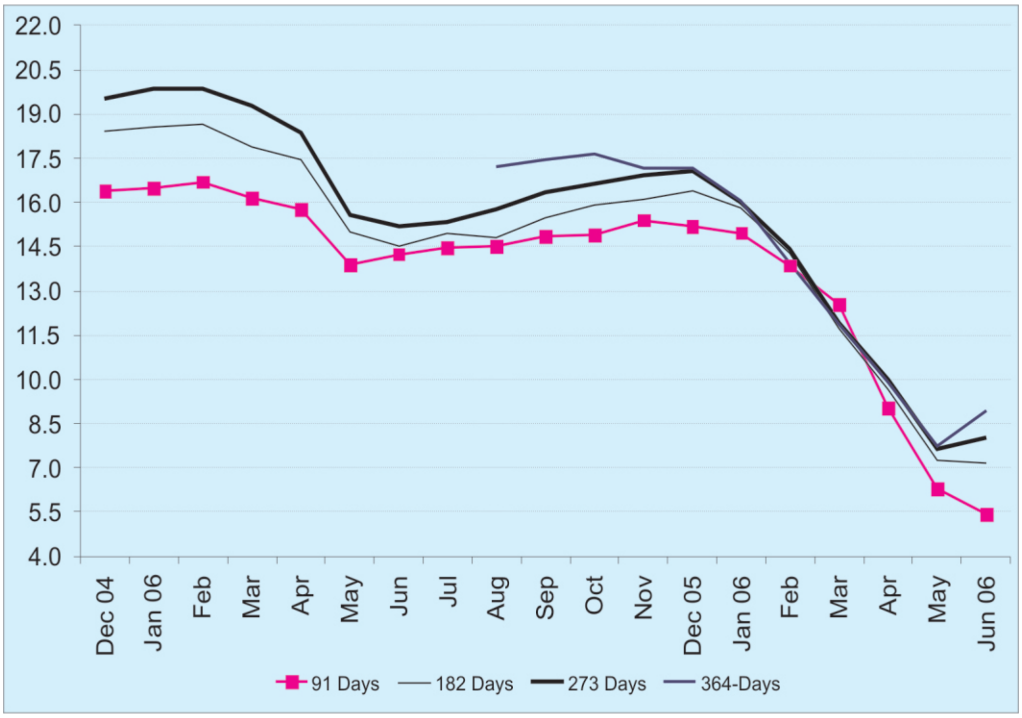
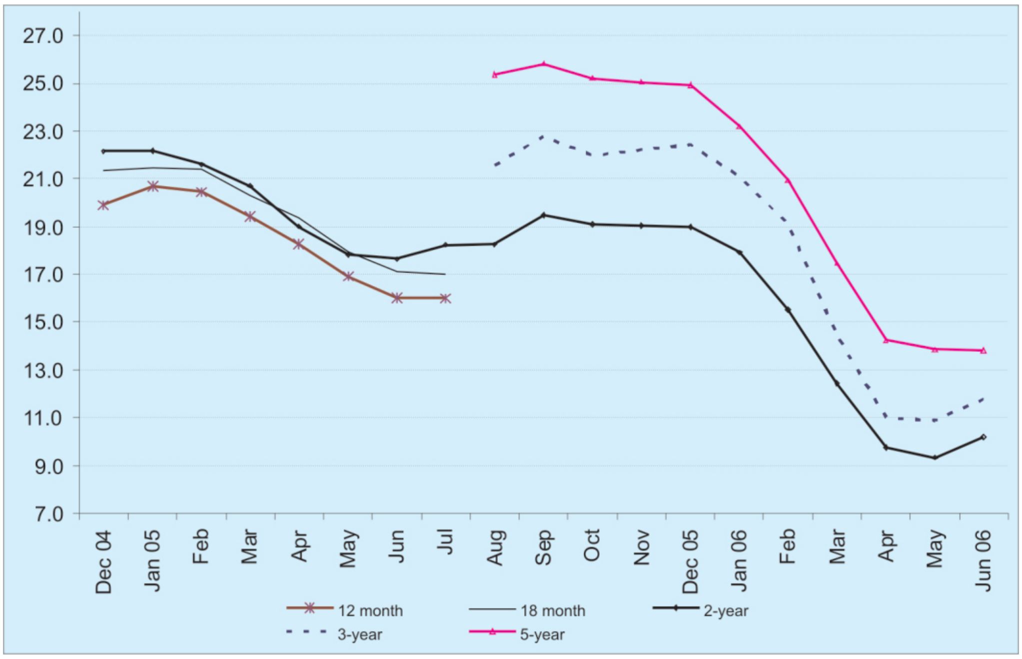


Chart 5: Yield Rates on Government bonds, % per annum.

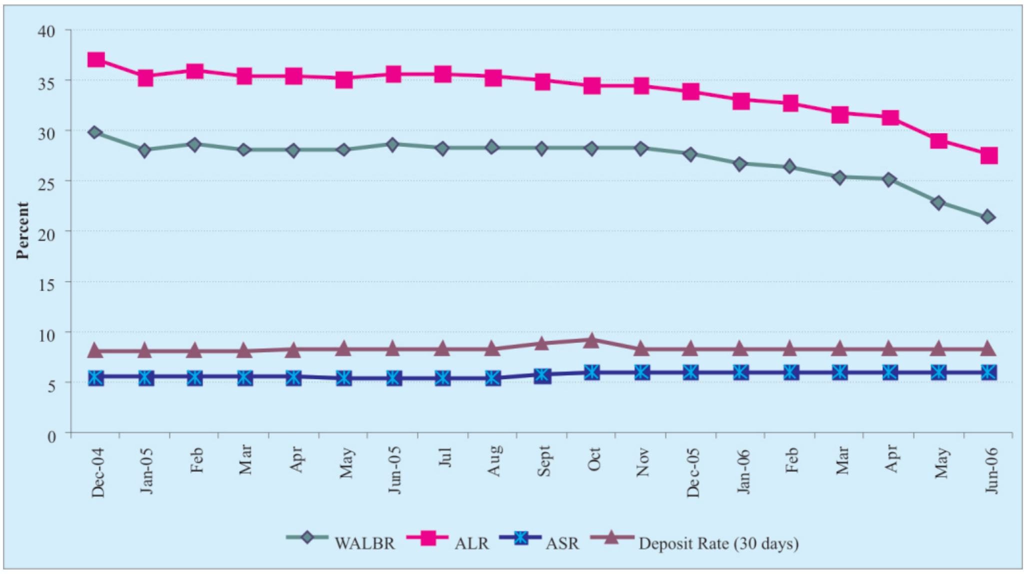


Commercial Banks Interest rates

Developments in commercial banks interest rates were mixed during the first half of 2006. While lending interest rates continued to decline the savings and deposit rates remained unchanged. In line with lower inflation and yields on Government securities, the average lending rate (ALR) declined to 27.6% from 33.9%. This development was also due to the reduction of commercial banks corporate tax in the 2006 national budget to 40% from 45%. Savings and deposit rates remained stable since October and November 2005, respectively. The average savings rate (ASR) for amounts above K100,000 remained at 6.1% while the 30-day deposit rate for amounts above K20 million remained unchanged at 8.4% (see Chart 6).

Subsequent to the decline in the nominal average lending interest rate and average savings interest rate remaining constant, the spread between them declined to 21.5 percentage points in June 2006 from 27.8 percentage points in December 2005, although it remained relatively high. Similarly, the spread between lending rates and the 30-day deposit rates declined to 19.2 percentage points from 25.5 percentage points.

Chart 6: Commercial Banks Interest Rates, Dec 2003 - June 2006



3.0 Monetary Policy Objectives and Instruments for July - December 2006

To sustain the single digit inflation achieved during the first half, and attain the revised end-December 2006 overall inflation target of 9.0% (with non-food inflation target at 13.9% and food inflation at 4.7%), the Bank of Zambia will continue implementing appropriate monetary policy to mitigate any inflationary pressures by keeping broad money growth within the programmed path (see Appendix IB, Table 1). Specifically, it is expected that during the period July to December 2006:-

- Annual reserve money growth will be no more than 9.3%;
- Annual broad money growth will not exceed 9.3%;
- Annual domestic credit expansion will be limited to 5.4%; and
- Credit to the private sector will be allowed to expand by up to 10.1% to support the envisaged economic growth.

In June 2006, the Bank of Zambia reduced the Core Liquid Assets Ratio to 9% from 35% effective in July 2006 to provide an additional incentive for commercial banks to adjust their lending rates downwards. This is expected to make credit more affordable for the private sector during the second half of 2006. To complement monetary policy, domestic budget financing will be limited to 0.9% of GDP to release more loanable funds to the private sector at affordable interest rates to support increased economic activity.

There are a number of challenges to achieving the inflation goal. The first challenge relates to the cost-push effects of higher prices for petroleum products. This is anticipated due to supply and uncertainties amid continued high demand for the commodity, particularly from Asian countries. The impending closure of Indeni Oil Refinery Ltd for maintenance works in September 2006, if not handled properly, may also put pressure on domestic prices of petroleum products. Increased Government spending, associated with the coming elections and crop marketing, have the potential to expand liquidity beyond programmed levels. The huge maturities of portfolio investments in Government securities in the third and fourth quarters of 2006 could also exert liquidity and exchange rate to pressures, thus inducing some inflationary pressures. This is because some maturing securities may not be rolled over, as investors or fund managers take a wait-and-see stance owing, to expected increased political activities related to the impending general elections.

In order to mitigate the adverse of the above anticipated shocks on inflation and keep money supply within programmed levels, the Bank of Zambia will monitor developments closely and stand ready to implement an appropriately tight monetary policy during the second half of 2006, to keep money supply growth within programmed levels. This will be accomplished by continuing relying on indirect instruments of monetary control, notably, open market operations (OMO).

4.0 Monetary Policy Principles for the Period July 2006 to June 2008

Having attained single digit inflation since April 2006 for the first time in three decades, for the two year period ending June 2008, Bank of Zambia will focus on maintaining annual inflation within the single digit levels. To this end, monetary policy formulation and implementation will continue to be guided by the Government's broad macroeconomic policies as outlined in the forthcoming Fifth National Development Plan (FNDP), expected to be launched in the second half of 2006, and the medium-term macroeconomic framework under the Poverty Reduction and Growth Facility (PRGF) arrangement (see Appendix IB) and the Medium Term Expenditure Framework for 2006 to 2008. To support strong economic growth and a substantial reduction in poverty, Government's broad macroeconomic policies and objectives over the medium term include the following:

(i) Achieving a real GDP growth rate of at least 6.0% per year. This growth is expected to be largely driven by the agricultural, mining, manufacturing, tourism and construction sectors;

(ii) Reducing end-year inflation to no more than 9% in 2006 and 5% in 2007 and 2008;

(iii) Increasing the coverage of official gross international reserves to at least 1.7 months of imports in 2006, 2.0 months in 2007, and 2.4 months in 2008. The increase in gross international reserves will emanate from continued strong external sector performance and the receipt of additional debt relief Under the Multilateral Debt Relief Initiative (MDRI) following attainment of the Enhanced HIPC Initiative Completion Point in April 2005; and

(iv) The exchange rate will continue to be market-determined.

Free market principles, which the Government has continued to pursue, will continue to guide the Bank of Zambia's formulation and implementation of monetary policy. Accordingly, the Bank of Zambia will largely rely on market-based instruments of monetary policy to limit the growth in reserve and broad money, thus contribute to the achievement of the inflation objective.

Appendix IA: Multilateral Debt Relief Initiative (MDRI)

During the first quarter of 2006, the IMF delivered relief to Zambia under the Multilateral Debt Relief Initiative amounting to SDR 403 million. As a result, US60.9 million became available for Government's use. It is expected that the debt owed to the World Bank and African Development Bank will be cancelled under the MDRI later this year. Savings arising from MDRI debt relief granted by the World Bank and AfDB would occur directly on the fiscal budget as debt service payments to the two institutions falls due, as debt service to these institutions is included in the budget.

Debt relief under the MDRI would substantially reduce external debt obligations and thus accord Zambia an opportunity to enhance growth, reduce poverty and speed up the achievement of the Millennium Development Goals (MDGs). Table 1 shows potential debt service savings from the MDRI.

Table 1: Zambia: Potential Debt Service Savings from the MDRI and HIPC (in millions of U.S. Dollars)

	2006	2007	2008
MDRI	**38.0**	**69.4**	**101.3**
AfDF	6.1	6.1	6.5
World Bank	11.0	21.9	22.9
IMF	20.9	41.4	71.9
HIPC	**96.0**	**142.0**	**153.0**
Total (external debt service savings)	**134.0**	**211.4**	**254.3**

Source: IMF / World Bank estimate

Since delivery of debt relief under the enhanced HIPC Initiative and MDRI, the Zambian economy has posted favourable economic performance, as reflected in the performance of key macroeconomic indicators. The indicators show lower inflation levels, a downward trend in interest rates coupled with relative stability in the exchange rate. The appreciation of the Kwacha has benefited the economy through increased investment, lower inflation and interest rates, although there have been concerns of loss of competitiveness among non- traditional exporters. Inflation, has for instance, taken a downward trend, declining to 15.9% in December 2005 and 8.6% in May 2006 from 30.1% in 2000, while the exchange rate has appreciated significantly against most major foreign currencies. Positive real GDP growth was also recorded in 2005 and is expected to increase in 2006. In addition, there has been a significant increase in portfolio investment.

Whilst there has been substantial debt relief to Zambia following the attainment of the HIPC Initiative and qualification to the MDRI, there still remain some major challenges for Government which includes maintenance of macroeconomic stability through the implementation of sound fiscal and monetary policies and maintenance of long-term debt sustainability to ensure that there is no return to unsustainable debt levels. Government should therefore continue pursuing appropriate policies with a view to consolidating on the gains so far attained for sustained economic growth, employment creation and poverty reduction. Prudent management of the economy can not therefore be over-emphasised in meeting these challenges.

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

During the second quarter of 2006, an IMF Mission visited Zambia from 25th April to 10th May 2006 for the fourth review of performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and to carry out 2005 Article IV consultations.

During the mission, revisions were made to the 2006 Macroeconomic Framework in view of the economic developments in the first quarter of the year. The mission observed that economic prospects continued to improve in 2006 with real GDP projected to grow by 6%, supported by high copper output and prices, a recovery in agricultural production, and sustained growth in construction and tourism. The increase in export earnings and the debt relief provided by the IMF in January under the Multilateral Debt Relief Initiative (MDRI) substantially improved the economy's external position. These factors contributed to the appreciation of the Kwacha during the period which coupled with the implementation of appropriate monetary and fiscal policies led to the decline in inflation to 8.5% in June 2006 from 15.9% in December 2005.

Table 1: Macroeconomic Outturn and Targets in 2005, and Targets for 2006

	End-Dec 2005 Targets	End-Dec 2005 Outturn (Preliminary)	End-Dec 2006 Targets
Real GDP growth rate (%)	6.0	5.0	6.0
CPI Inflation, end period (%)	15	15.9	10.0
CPI Inflation, annual average (%)	16.2	18.3	9.2
Gross Official Reserves (in months of imports)	1.3	1.8	1.7
Broad Money growth (%)	14.8	1.3	14.3
Domestic budget deficit (% of GDP)	1.8	2.9	3.6
Domestic financing of the Budget (% of GDP)	2.0	2.5	1.8

Source: Bank of Zambia and Ministry of Finance and National Planning

The mission also observed that the appreciation of the Kwacha underscored the need for measures to improve productivity and reduce costs to maintain external competitiveness. In this respect, the Government should expeditiously undertake the required infrastructure investment and structural reforms to reduce the cost of doing business as outlined in the Private Sector Development Plan.

Satisfactory performance under the PRGF in 2005 led to the Fund's disbursement of SDR11.0 million (equivalent to US $16.0 million) during the review period. In addition, Zambia received a total of US $43.4 million from its cooperating partners, namely; the United Kingdom (US $28.2 million), the Netherlands (US $0.4 million), Sweden (US $6.8 million) and Norway (US $7.9 million) compared to US $114.8 million received in the second half of 2005. This was against debt service payments, excluding IMF debt service, of US $32.6 million paid to various creditors.

Performance against Programme Benchmarks at end-June 2006

Regarding the quantitative benchmarks, preliminary data indicate that the Net Domestic Financing of Government (NDF) and the Unencumbered International Reserves as at end-June 2006 were missed, except for the Net Domestic Assets (NDA) of the Bank of Zambia. The Unencumbered International Reserves were US $392.6 million as at end- June 2006, 10.0% above the end-December 2005 level. However, these reserves were below the end-June 2006 adjusted floor by US $5.5 million as a result of an upward revision to the end-June benchmark during the April IMF mission. The NDA, on the other hand, was below the adjusted ceiling by K77.1 billion while the NDF of Government was missed by K103.4 billion. To this end, the Bank of Zambia and Government will take necessary measures required to meet the end-September and end-year ceilings on the Unencumbered International Reserves and Net Domestic Financing. With regard to performance under the structural programme, most benchmarks and performance criteria were observed.

In 2006, the macroeconomic framework will focus on reducing poverty levels by achieving a high rate of economic growth through the implementation of prudent fiscal, monetary and structural policies that strengthen governance and improve the environment for private sector development. The broad macroeconomic objectives for 2006 include: (i) attaining real GDP growth of at least 6%; (ii) containing inflation to no more than 10%; (iii) limiting domestic borrowing to 1.8% of GDP; (iv) increasing gross international reserves to not less than 1.7 months of import cover and (v) remaining current with foreign debt service.

Appendix II: Statistical Tables and Charts

Table 1: Selected Monetary Indicators, Dec 2004 June 2006 (annual percent change)

	2004	2005	2006	Jan-June 2006*	
	Actual	Actual	Programmed	Programmed	Actual
Overall Inflation	17.5	15.9	10.0	3.3	1.9
Non-food Inflation	*18.9*	*14.0*	*8.3*	*3.8*	7.8
Food Inflation	*16.3*	*17.5*	*10..0*	*5.6*	-3.3
Reserve Money	21.6	16.2	4.4	2.7	1.7
Broad Money	30.3	0.4	14.6	5.4	3.1
Domestic Credit	20.5	2.3	10	7.8	15.9
Government	*2.6*	*-8.3*	*5.2*	*5.7*	6.2
Public Enterprises	*72.4*	*-1.7*	*4.2*	*1.7*	130.7
Private Sector Credit	*47.2*	*16.3*	*15.4*	*10.3*	14.6
Domestic Financing (% of GDP)	1.9	1.6	1.8	1.1	0.6

Table 2: Projected and Actual Inflation, January 2005 - June 2006 (%)

	Annual Overall		Annual Food		Annual Non-Food	
	Actual	Projection	Actual	Projection	Actual	Projection
Jan 05	18.2	17.1	17.9	16.8	18.7	17.5
Feb	18.7	17.6	18.3	17.8	19.4	17.5
Mar	17.4	17.1	16.0	16.4	19.0	18.0
Apr	18.6	16.8	18.0	16.3	19.3	17.5
May	19.1	16.5	19.1	15.6	19.2	17.5
Jun	19.2	15.9	19.3	14.7	19.2	17.2
Jul	18.7	15.9	18.7	14.6	18.7	17.4
Aug	19.3	16.0	20.4	14.8	18.2	17.3
Sep	19.5	16.0	20.7	15.5	18.2	16.6
Oct	18.3	16.3	18.8	14.5	17.8	16.2
Nov	17.2	14.8	18.3	14.1	16.1	15.7
Dec	15.9	15.0	17.5	14.0	14.0	16.0
Jan 06	12.2	14.3	12.8	15.1	11.5	13.6
Feb	10.3	14.0	10.2	14.9	10.1	13.1
Mar	10.7	14.3	10.9	15.8	10.4	13.5
Apr	9.4	12.5	8.3	14.8	10.6	11.8
May	8.6	11.2	5.6	14.5	12.0	10.1
Jun	8.5	10.1	5.3	15.0	12.1	7.9

Source: Central Statistical Office and Bank of Zambia

Table 3: Trade Data (US $ million)

	July-Dec, 2004	Jan-June, 2005	July-Dec, 2005	Jan-June, 2006
Trade Balance	**(184.8)**	**(209.3)**	**(2.5)**	**447.6**
Exports, c.i.f	**954.3**	**938.5**	**1,254.0**	**1,696.0**
Metals	**687.0**	**670.1**	**945.6**	**1,395.1**
Copper	555.8	581.0	876.6	1,334.3
Cobalt	131.2	89.2	69.1	60.8
Non Metals	**267.4**	**268.4**	**308.4**	**300.9**
EBZ export audit	1.0	1.0	1.0	1.1
Total	266.3	267.4	307.2	299.8
Copper Wire	34.2	49.5	57.0	72.8
White Spoon Sugar	13.3	44.9	22.9	13.6
Burley Tobacco	27.0	19.9	40.3	20.8
Cotton Lint	35.4	14.2	41.7	21.9
Electric Cables	18.6	22.7	25.8	32.4
Fresh Flowers	14.0	15.6	16.6	16.0
Cotton Yarn	11.1	12.7	11.3	9.7
Fresh Fruit/Vegetables	13.3	10.5	10.9	10.2
Gemstones	10.3	7.6	11.9	11.5
Gas oil	8.5	7.2	2.6	3.0
Electricity	2.5	2.4	2.4	2.4
Others	78.1	60.3	63.9	85.4
Imports c.i.f./1	**(1,139.1)**	**(1,147.8)**	**(1,256.5)**	**(1,248.4)**

Source: Bank of Zambia .

Table 5: Major Import Groups, US $ millions

	Copper					Cobalt				
Period	Sales	Production	Sales	Price	Price	Sales	Production	Sales	Price	Price
	Tonnes	Tonnes	US $'000	US$/Tonne	US$/ pound	Tonnes	Tonnes	US $ '000	US$/Tonne	US$/ pound
Quarter 1, 2005	82,799	91,138	251,847	3,041.67	1.38	1,406	1,517	49,973	35,554.52	16.13
Quarter 2, 2005	105,429	110,855	329,186	3,122.35	1.42	1,358	1,361	39,163	28,843.19	13.08
Quarter 3,2005	114,031	114,244	393,283	3,448.91	1.56	1,419	1,389	37,121	26,159.74	11.87
Quarter 4, 2005	120,723	129,313	483,251	4,002.98	1.82	1,251	1,270	31,966	25,562.76	11.60
Jul - Dec 2005	234,754	243,557	876,535	3,733.84	1.69	2,670	2,659	69,087	25,880.09	11.74
Quarter 1, 2006	118,743	122,940	553,928	4,664.95	2.12	1,202	1,184	29,404	24,460.64	11.10
Quarter 2, 2006	110,506	127,804	765,157	6,924.15	3.14	1,227	1,242	31,421	25,607.93	11.62
Jan - June 2006	229,248	250,744	1,319,085	5,753.97	2.61	2,429	2,426	60,825	25,040.16	11.36

Source: Bank of Zambia

Table 6: Sources of Reserve Money Growth

	Jun-Dec 2005 Total (K'bn)	Contribution to Reserve Money Growth (%)	Jan- Jun 2006 Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a+b+c+d)	**341,634**	**20.9**	**292,205**	**15.4**
a) Net Purchases from Govt	0	0.0	0	0.0
b) Net Purchases from non-Government	216,828	13.3	242,046	12.7
c) Bank of Zambia own use of forex	0.0	0.0	-7	(0.04)
d) Change in stat. reserve deposits forex balances	124,806	7.6	50,167	2.6
2/ Net Domestic Credit (a+b)	**29,804**	**1.8**	**-260,121**	**(13.7)**
a) Autonomous influences	**848,755**	**51.9**	**711,293**	**37.5**
Maturing Open Market Operations	650,915	39.8	1,009,421	53.2
Direct Govt Transactions	568,674	34.8	514,307	27.1
TBs and Bonds Transactions	-383,874	(23.5)	-807,616	(42.5)
Claims on non-banks (Net)	13,041	0.8	-4,819	(0.3)
b) Discretionary influences	**-818,951**	**(50.1)**	**-971,414**	**(51.2)**
Open Market Operations	-865,540	(52.9)	-969,600	(51.0)
i. Repos entered into (+ve)	0.0	0.0	0.0	0.0
ii. Treasury bills outright sale (-ve)	0.0	0.0	0.0	0.0
iii. Term Deposits Taken (-ve)	-865,540	(52.9)	-969,600	(51.0)
Treasury bill Rediscounts	40,838	2.5	0.0	0.0
Other claims (Floats, Overdrafts)	5,751	0.4	-1,814	(0.09)
Change in Reserve Money	**371,438**	**22.7**	**32,084**	**1.7**

Source: Bank of Zambia

Table 7: Shares of Total Loans & Advances by sector, Dec 2004 June 2006

Sector	***Dec 2004***	***Jun 2005***	***Dec 2005***	***Jun 2006***
Agriculture	30.3	29.5	27.2	26.2
Mining & Quarrying	4.4	3.5	3.9	4.1
Manufacturing	13.0	11.5	12.2	12.5
Electricity, gas, water & energy	6.2	5.4	5.8	5.5
Construction	2.0	1.9	2.0	1.9
Wholesale and retail trade	13.9	12.5	14.3	14.8
Restaurants & hotels	3.6	2.7	2.3	2.3
Transport, storage and communications	7.6	6.3	7.5	7.1
Financial services	1.1	1.9	2.4	4.7
Community, social and personal services	3.4	1.9	2.3	2.4
Real Estate	2.5	3.2	3.0	4.2
Personal Loans	10.3	17.8	14.2	11.3
Other	1.7	2.0	3.0	3.0

Source: Bank of Zambia

Table 8: Shares of Loans & Advances by sector (excluding Foreign Exchange) Dec 2004 June 2006

Sector	Dec 2004	Jun 2005	Dec 2005	Jun 2006
Agriculture	29.0	28.8	27.0	25.2
Mining & Quarrying	4.4	3.3	3.8	3.0
Manufacturing	12.6	11.1	12.0	11.7
Electricity, gas, water & energy	6.6	5.7	6.2	5.8
Construction	1.9	1.9	2.0	2.1
Wholesale and retail trade	14.3	12.8	13.3	15.6
Restaurants & hotels	3.3	2.6	2.1	2.0
Transport, storage and communications	8.0	6.7	7.5	7.6
Financial services	1.1	1.9	2.4	4.4
Community, social and personal services	3.4	1.8	2.3	2.1
Real Estate	2.6	3.4	3.2	4.4
Personal Loans	10.3	17.8	14.2	11.5
Other	2.6	2.1	4.2	4.6

Source: Bank of Zambia

Table 9: Percentage of Foreign Exchange Loans & Advances by sector Dec 2004 - June 2006

Sector	Dec 2004	Jun 2005	Dec 2005	Jun 2006
Agriculture	43.6	35.8	29.2	36.2
Mining & Quarrying	5.1	4.9	4.6	7.4
Manufacturing	17.1	15.6	14.1	14.9
Electricity, gas, water & energy	2.5	1.9	1.8	1.8
Construction	2.5	1.2	2.0	1.7
Wholesale and retail trade	9.5	9.2	24.1	13.8
Restaurants & hotels	6.5	3.6	5.0	3.1
Transport, storage and communications	3.8	3.2	7.7	4.1
Financial services	0.9	1.8	2.9	7.7
Community, social and personal services	3.6	2.0	2.8	2.7
Real Estate	1.6	1.6	1.8	2.9
Other	3.3	19.3	4.2	3.7

Source: Bank of Zambia

Table 10: Central Government Domestic Fiscal Operations, First Half 2006 (K' billion)

	Quarter 1		Quarter 2		First Half		
	Target	Actual	Target	Prelim	Target	Prelim	Variance (%)
Total Domestic Revenue	**1,369.2**	**1,367.0**	**1,559.2**	**1,510.0**	**2,928.4**	**2,877.0**	**(1.8)**
Tax Revenue	1,311.0	1,310.0	1,489.6	1,407.3	2,800.6	2,717.3	(3.0)
Non-Tax Revenue	58.2	57.0	69.6	102.7	**127.8**	**159.7**	**(25.0)**
Total Domestic Expend.	**1,496.5**	**1,512.0**	**2,021.1**	**1,714.6**	**3,517.6**	**3,226.6**	**(8.3)**
Current Expenditure	**1,466.7**	**1,447.0**	**1,795.7**	**1,552.7**	**3,262.4**	**2,999.7**	**(8.1)**
Wages and Salaries	620.5	621.0	764.1	682.3	1,384.6	1,303.3	(5.9)
PSRP	0.0	0.0	22.5	5.0	22.5	5.0	(77.8)
RDCs	328.7	319.0	456.9	425.4	785.6	744.4	(5.2)
O/w Arrears	*35.5*	*36.0*	*54.4*	*52.8*	*89.9*	*88.8*	*(1.2)*
Transfers and Pensions	263.3	223.0	276.7	145.0	540.0	368.0	(31.9)
Domestic Debt Interest	156.0	156.0	191.8	156.8	347.8	312.8	(10.1)
External Debt Interest	19.7	10.0	23.4	8.6	43.1	18.6	(56.8)
Other Current Exp.	78.5	118.0	55.1	122.7	133.6	240.7	80.2
Contingency.	0.0	0.0	5.2	6.9	5.2	6.9	32.7
Domestic Capital Expend.	**49.4**	**75.0**	**248.8**	**170.5**	**298.2**	**245.5**	**(17.7)**
O/W: PRPs	*53.5*	*53.5*	*245.2*	*122.1*	*298.7*	*175.6*	*(41.2)*
Domestic Balance	**(127.2)**	**(145.0)**	**(461.9)**	**(204.6)**	**(589.1)**	**(349.6)**	**40.7**
Domestic Financing	136.0	136.0	303.0	90.0	439.0	226.0	(48.5)

Chart 1: Commercial Banks Loans and Advances by Sector, December 2004 to June 2006

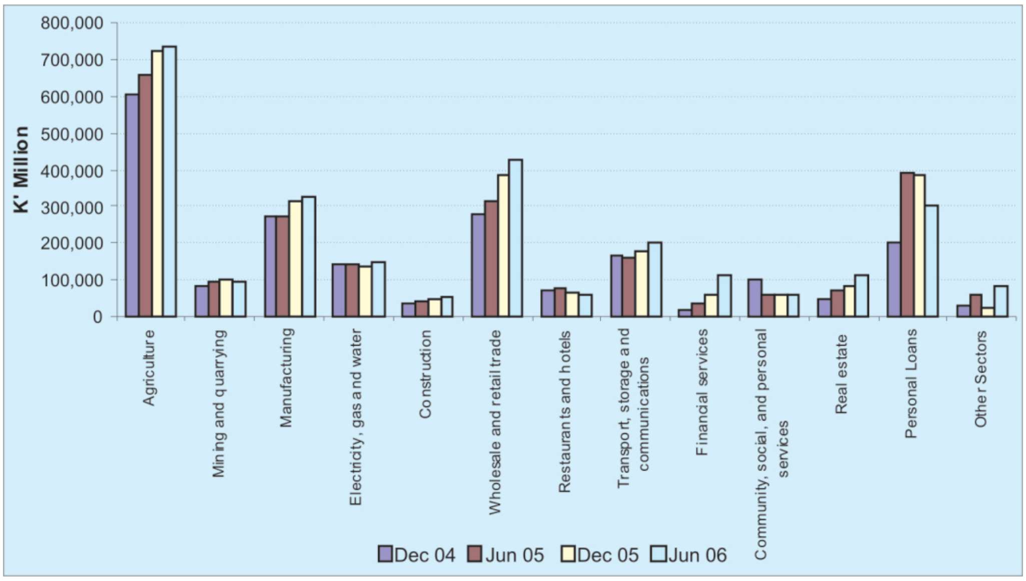


Chart 2: Commercial Banks Loans and Advances by Sector (Monthly Average, January to June 2006)

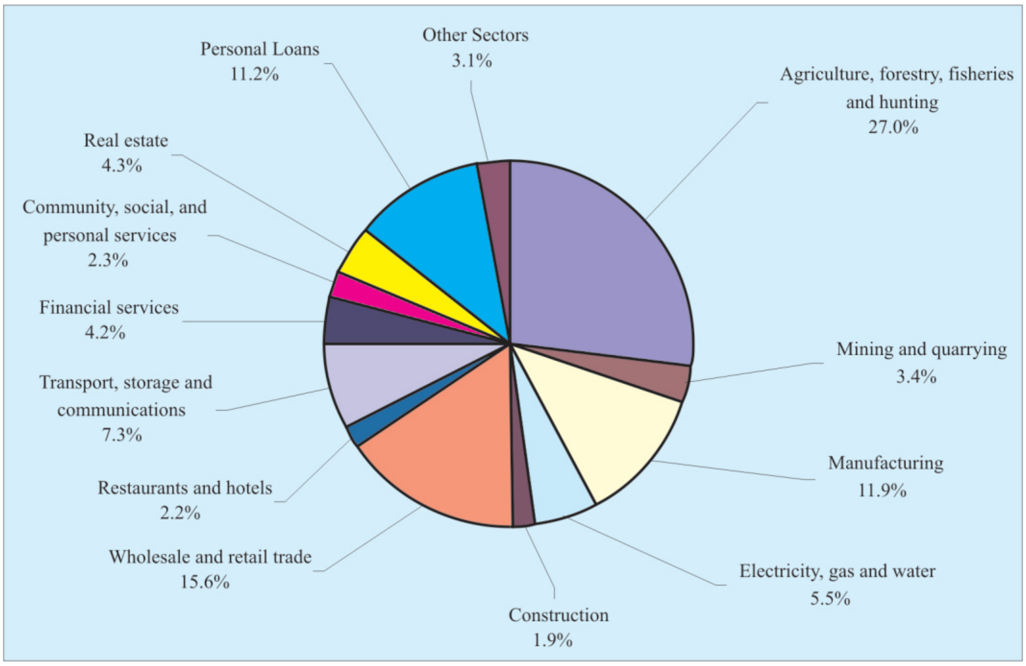


Chart 3: Commercial Banks Loans and Advances by Sector (Monthly Average, July to December 2005)

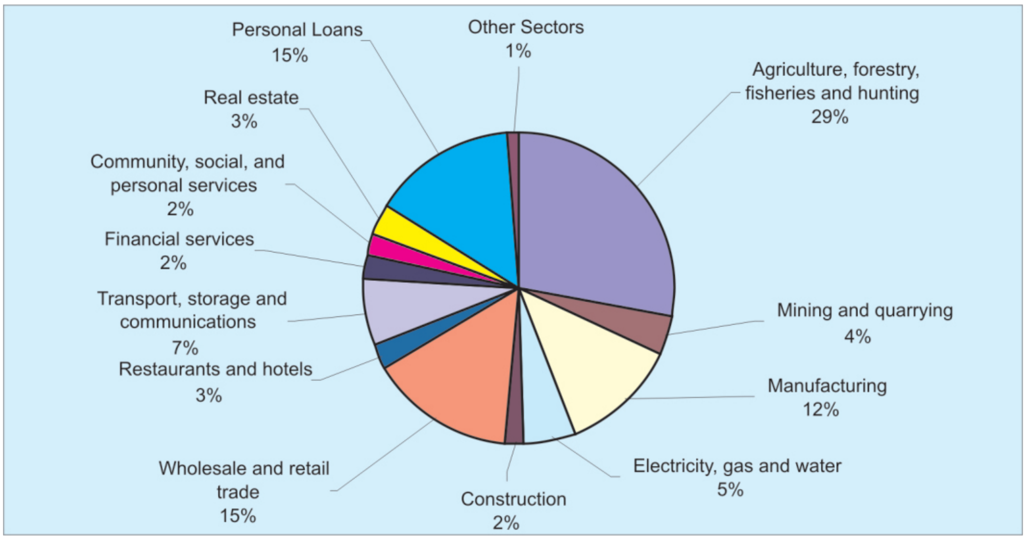


Chart 4: Commercial Banks Loans and Advances by Sector (Monthly Average, January to June 2005)

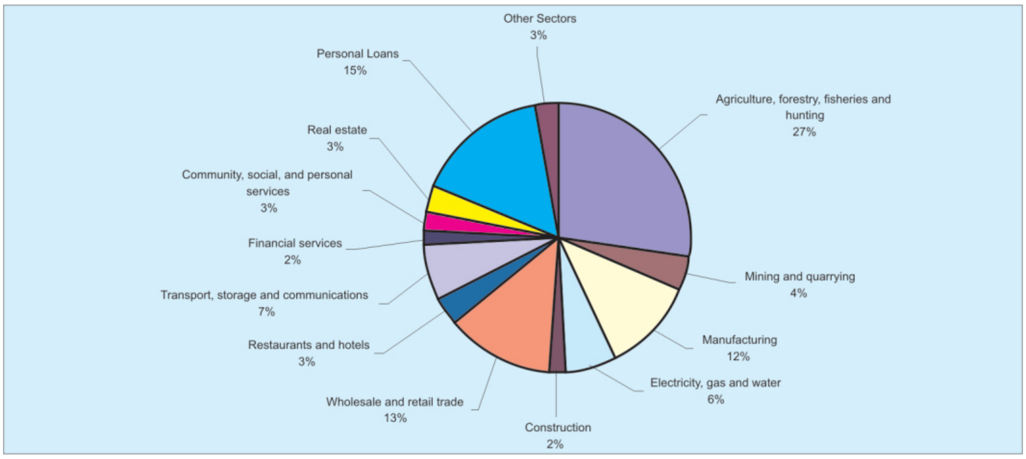


Chart 5: Loans & Advances (Excluding Foreign Currency Loans), December 2004 to June 2006

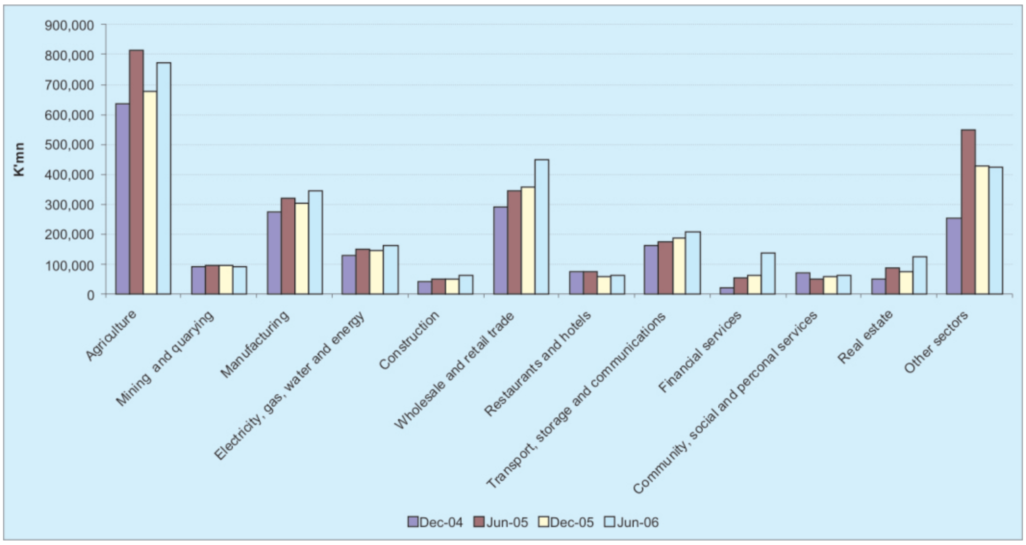


Chart 6: Loans & Advances (Excluding Foreign Currency Loans), Monthly Average, January to June 2006

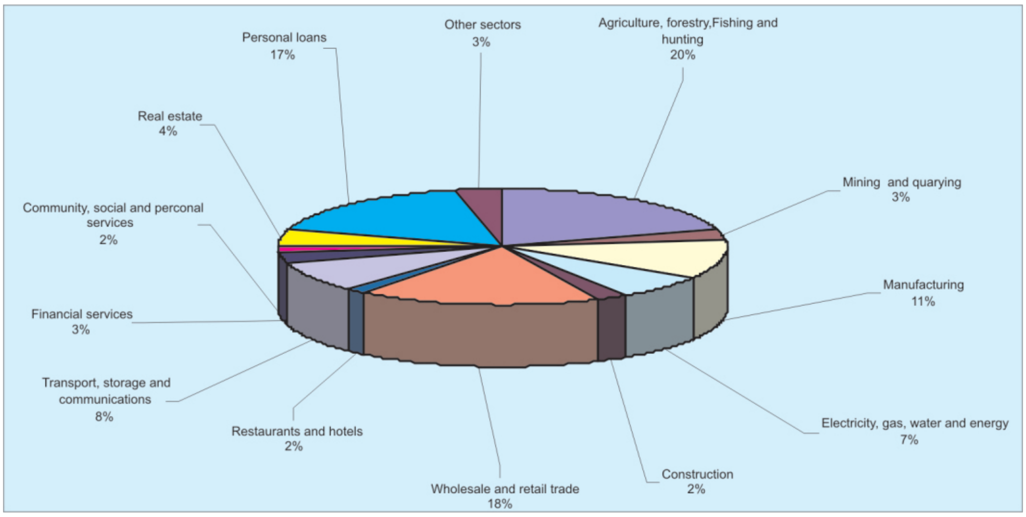


Chart 7: Loans & Advances (Excluding Foreign Currency Loans), Monthly Average, July to December 2005

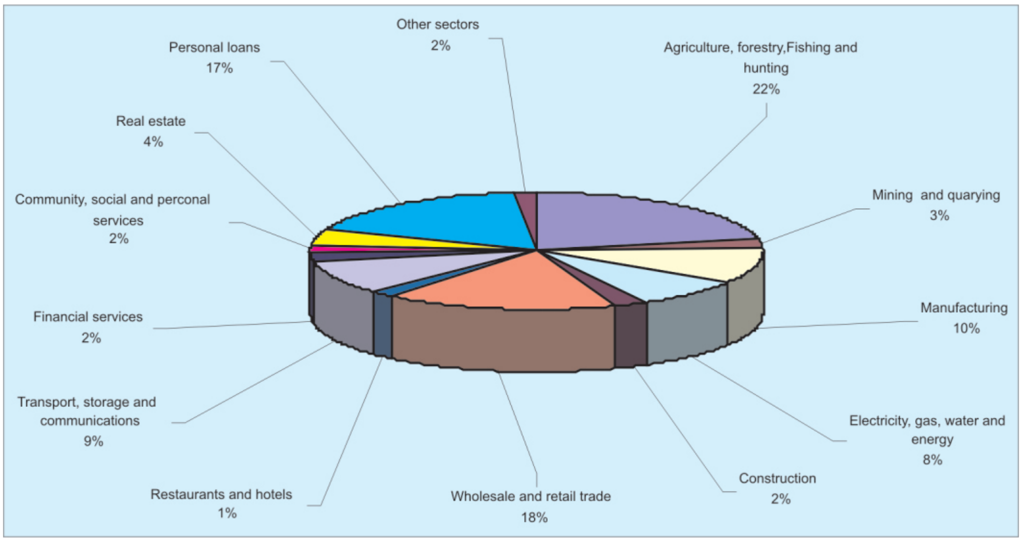


Chart 8: Loans & Advances (Excluding Foreign Currency Loans), Monthly Average, January to June 2005

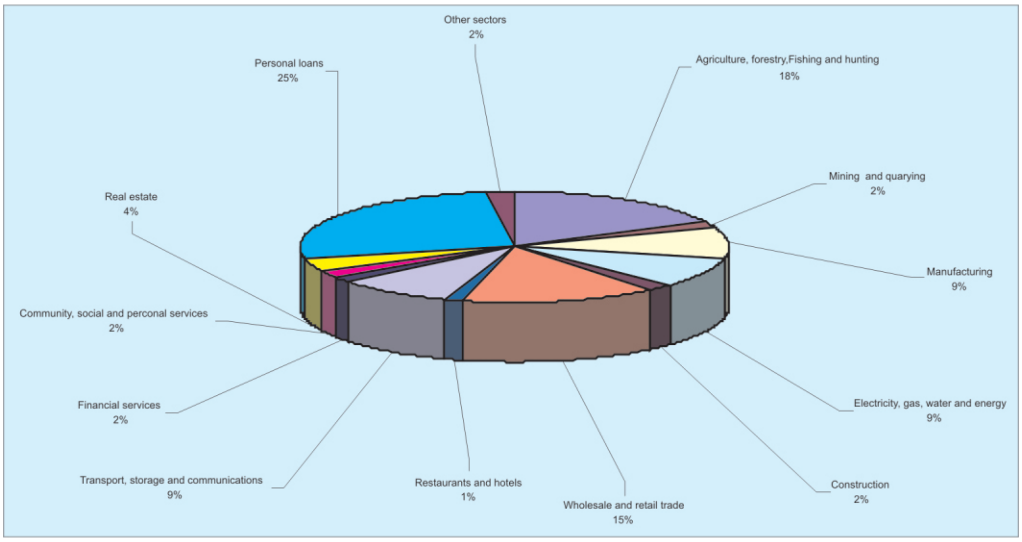


Chart 9: Foreign Currency Loans & Advances, December 2004 to June 2006

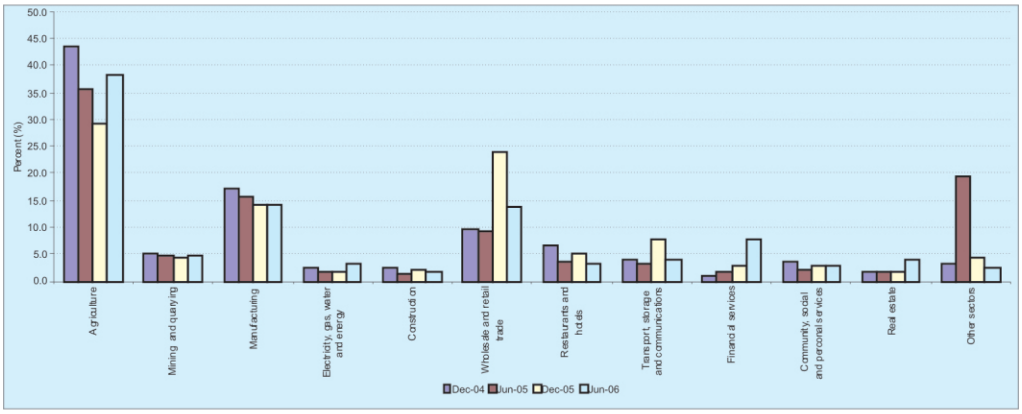


Chart 10: Foreign Currency Loans and Advances, Monthly Average, January to June 2006

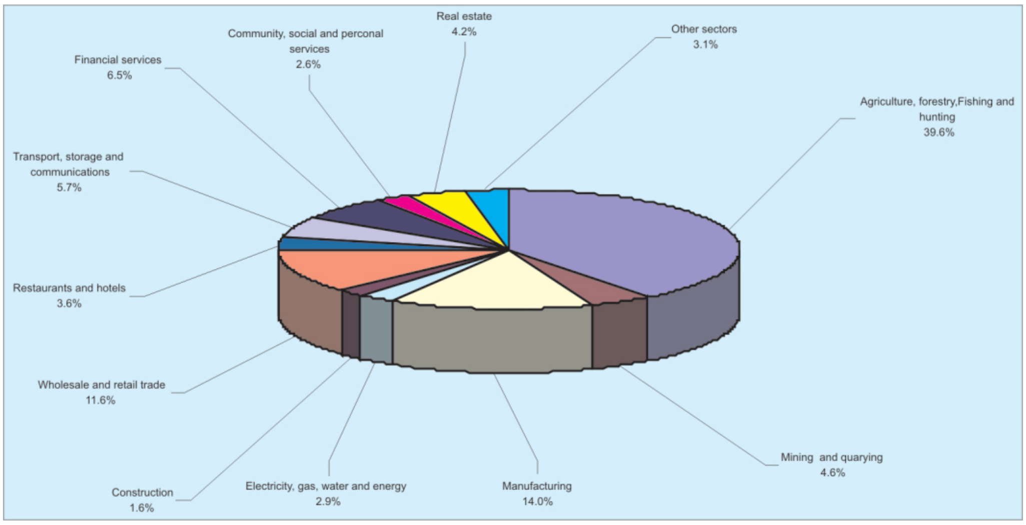


Chart 11: Foreign Currency Loans and Advances, Monthly Average, July to December 2005
Foreign Exchange Loans & Advances, Jul-Dec 2005

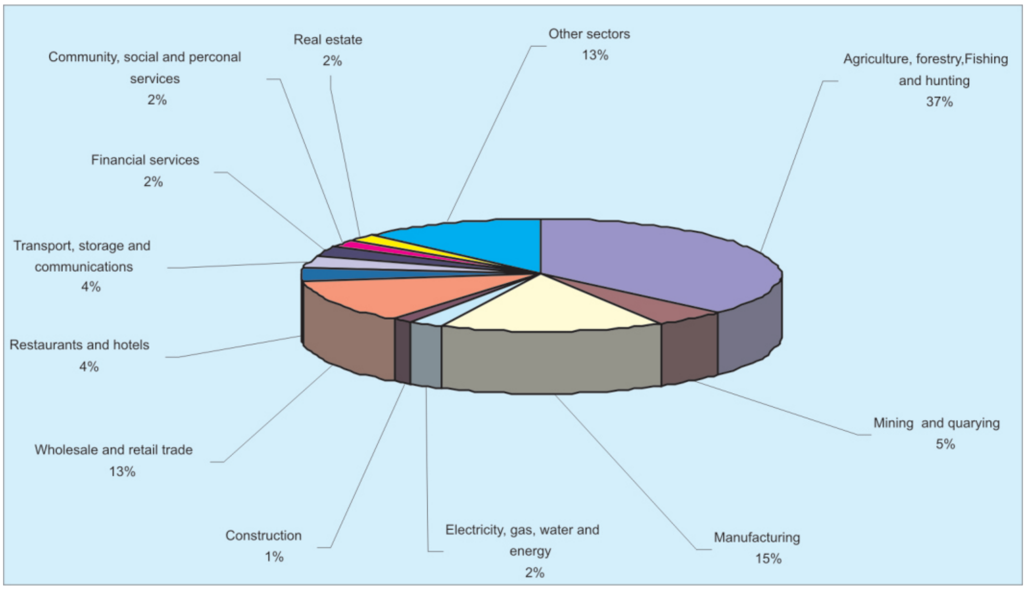
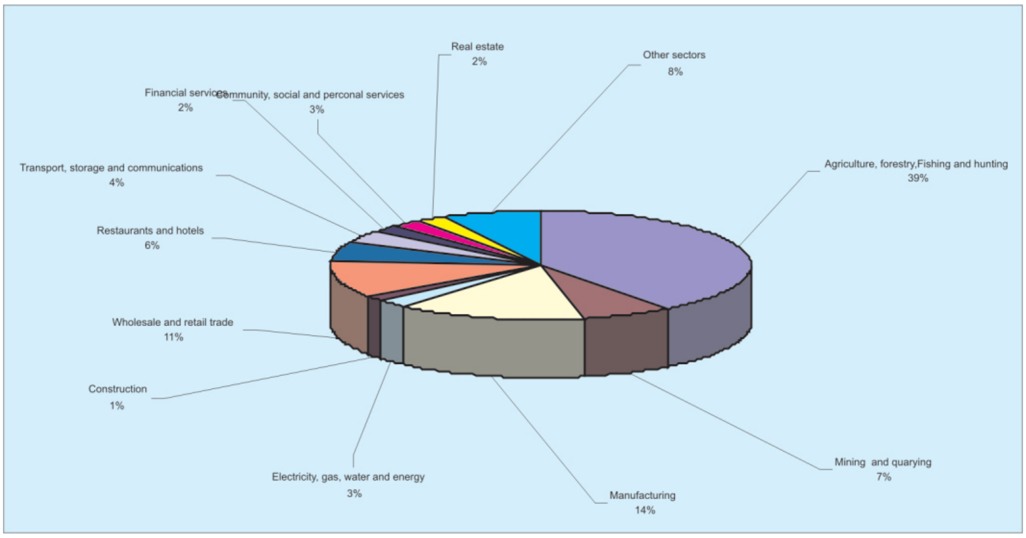


Chart 12: Foreign Currency Loans and Advances, Monthly Average, January to June 2005



APPENDIX III: SELECTED MACROECONOMIC INDICATORS

	2004 Dec	2005 Jan	Feb	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2006 Jan	Feb	Mar	Apr	May	Jun
Monetary Aggregates (K'bn)																	
Reserve money (in K'billion)*	1,727.1	1,512.4	1,507.7	1,522.7	1,633.0	1,892.5	1,803.1	1,747.2	1,845.5	1,746.6	2,006.4	2,086.0	1,777.1	1,662.0	1,962.6	1,818.8	1,930.5
Broad money (in K'billion)	5,819.9	5,668.1	5,559.9	5,497.0	5,898.0	6,029.6	5,915.0	6,060.1	5,957.1	5,653.3	5,841.1	5,900.2	5,818.4	5,812.8	5,690.1	6,020.6	6,289.4
Net Claims on Government (in K'billion)	2,523.1	2,567.7	2,591.3	2,570.2	2,626.7	2,504.2	2,680.8	2,730.6	2,658.1	2,378.4	2,645.3	2,654.1	2,594.3	2,481.4	2,490.8	2,559.8	2,370.7
Real GDP Growth	5.4	-	-	-	-	-	-	-	-	-	5.0						
Nominal GDP (in K' Billion)	25,814.0	-	-	-	-	-	-	-	-	-	32,648.6	-	-	-	-	-	-
Nominal GDP (in US $' million)**	5,409.0	-	-	-	-	-	-	-	-	-	7,269.0	-	-	-	-	-	-
GDP per capita (in Kwacha)	2,458,500.0	-	-	-	-	-	-	-	-	-	2,941,315.3	-	-	-	-	-	-
GDP per capita (in US dollars)	515.1	-	-	-	-	-	-	-	-	-	654.9	-	-	-	-	-	-
Population (in millions)	10.5	-	-	-	-	-	-	-	-	-	11.1	-	-	-	-	-	-
Prices (%)																	
Inflation	17.5	18.2	18.7	17.4	19.2	18.7	19.3	19.5	18.3	17.2	15.9	12.2	10.3	10.7	9.4	8.6	8.5
Nominal Interest and yield rates (aver. %)																	
Commercial banks' weighted lending base rate	29.8	28.0	28.6	28.1	28.6	28.2	28.3	28.2	28.2	28.2	27.4	26.7	26.4	25.4	25.2	22.8	21.6
Average Savings rate (>K100,000)	5.6	5.6	5.6	5.6	5.5	5.5	5.5	5.7	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Deposit rate (30 days, over K20 million)	8.2	8.2	8.2	8.2	8.4	8.4	8.5	8.9	9.2	8.6	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Treasury bill yield rates																	
Weighted TB rate	17.8	18.1	18.3	17.8	14.7	14.9	15.4	16.1	16.3	16.4	16.4	15.9	14.6	12.3	9.6	7.4	7.2
28-day	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
91-day	16.3	16.4	16.8	16.2	13.9	14.5	14.4	14.9	14.9	15.4	15.2	15.1	14.1	12.7	9.0	6.4	5.5
182-day	18.3	18.5	18.7	18.0	14.4	14.9	14.8	15.6	15.9	16.1	16.4	15.9	14.7	12.1	9.6	7.4	7.0
273-day	19.4	19.8	19.9	19.4	15.0	15.3	15.6	16.4	16.6	16.8	17.0	16.1	14.9	12.3	10.0	7.8	7.9
364-day							17.0	17.5	17.8	17.2	17.0	16.3	14.5	12.1	9.9	7.9	8.6
Government bonds																	
12 months	19.6	20.5	20.6	20.0	16.7	16	16.0	16.0	16.0	16.0	-	-	-	-	-	-	-
18 months	20.8	21.4	21.4	21.0	17.7	17.1	17.0	17.0	17.0	17.0	17.0	-	-	-	-	-	-
24 months	22.0	22.2	22.0	21.2	17.8	17.8	18.2	18.7	19.2	19.1	19.0	17.9	15.5	12.5	9.8	9.3	10.2
3 year							21.6	22.1	22.2	22.0	22.3	21.1	19.1	14.5	11.0	10.9	11.8
5 year							25.3	25.5	25.4	25.2	25.0	23.2	20.9	17.5	14.2	13.9	13.8
Real Interest and Yield Rates (%)																	
Commercial banks' weighted lending rate	12.3	9.8	9.9	10.7	9.4	9.5	9.0	8.7	9.9	11.0	11.5	14.5	16.1	14.7	15.8	14.2	13.1
Average savings rate	(11.9)	(12.6)	(13.1)	(11.8)	(13.7)	(13.2)	(13.8)	(13.8)	(12.2)	(11.1)	(9.8)	(6.1)	(4.2)	(4.6)	(3.3)	(2.5)	(2.4)
Deposit rate (30 days, over K20 million)	(9.3)	(10.0)	(10.5)	(9.2)	(10.8)	(10.3)	(10.8)	(10.6)	(9.1)	(8.6)	(7.5)	(3.8)	(1.9)	(2.3)	(1.0)	(0.2)	(0.1)
Treasury bill yield rates																	
Weighted TB rate	0.3	(0.1)	(0.4)	0.4	(4.5)	(3.8)	(3.9)	(3.4)	(2.0)	(0.8)	0.5	3.7	4.3	1.6	0.2	(1.2)	(1.3)
28-day	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
91-day	(1.2)	(1.8)	(1.9)	(1.2)	(5.3)	(4.2)	(4.9)	(4.6)	(3.4)	(1.8)	(0.7)	2.9	3.8	2.0	(0.4)	(2.2)	(3.0)
182-day	0.8	0.3	-	0.6	(4.8)	(3.8)	(4.5)	(3.9)	(2.4)	(1.1)	0.5	15.9	14.7	12.1	9.6	7.4	7.0
273-day	1.9	1.6	1.2	2.0	(4.2)	(3.4)	(3.7)	(3.1)	(1.7)	(0.4)	1.1	(10.6)	(11.5)	(13.1)	(15.2)	(15.0)	(13.8)
364-day							(2.3)	(2.0)	(0.5)	0.0	1.1	10.2	8.4	6.0	3.8	1.8	2.5
Government bonds																	
12 months	2.1	2.3	1.9	2.6	(2.5)	(2.7)	(3.3)	(3.5)	(2.3)	(1.2)	na	n/a	n/a	n/a	n/a	n/a	n/a
18 months	3.3	3.2	2.7	3.6	(1.5)	(1.6)	(2.3)	(2.5)	(1.3)	(0.2)	1.1	n/a	n/a	n/a	n/a	n/a	n/a
24 months	4.5	4.0	3.3	3.8	(1.4)	(0.9)	(1.1)	(0.8)	0.9	1.9	3.1	5.7	5.2	1.8	0.4	0.7	1.7
3 year		-	-	-	-	-	2.3	2.6	3.9	4.8	6.4	8.9	8.8	3.8	1.6	2.3	3.3
5 year		-	-	-	-	-	6.0	6.0	7.1	8.0	9.1	11.0	10.6	6.8	4.8	5.3	5.3
Exchange rates (average K/US $)																	
Commercial banks' weighted selling rate	4,670.94	4,807.00	4,777.64	4,730.60	4,713.33	4,647.78	4,432.64	4,468.08	4,376.52	4,049.31	-	3,394.95	3,311.22	3,315.66	3,227.19	3,216.25	3,499.21
Bank of Zambia mid rate	4,651.51	4,785.12	4,758.50	4,710.58	4,685.77	4,624.46	4,401.83	4,439.67	4,346.08	4,026.68	-	3,363.72	3,289.61	3,294.74	3,201.50	3,172.60	3,470.61
Real sector																	
Mining output (tonnes)																	
Copper	34,961.0	30,452.0	27,826.0	32,110.0	37,857.6	37,027.00	37,593.0	38,685.0	43,664.0	44,551.0	42,300.0	40,019.5	39,301.5	43,618.5	42,808.0	41,782.8	43,213.3
Cobalt	443.0	204.2	238.9	567.7	485.5	474.7	432.3	481.6	470.7	484.2	478.8	367.7	360.0	456.0	393.0	424.5	424.5
Metal Earnings (US $mn)																	
Copper	100.7	91.8	73.1	104.5	134.0	118.2	140.1	137.9	138.2	141.0	139.0	153,996.43	160,743.87	239188.0	251,458.37	268,375.22	245,323.16
Cobalt	14.6	7.3	7.1	16.5	14.5	10.5	11.1	14.1	11.7	11.1	12.3	8,683.93	8,947.90	11,772.30	9,745.58	10,916.40	10,758.94
Total	115.3	99.1	80.2	121.0	148.5	128.7	151.2	152.0	149.9	152.1	151.3	162,680.36	169,691.77	250,960.25	261,203.95	279,291.62	256,082.10
External sector (US $ mn)																	
Trade Balance	-43.7	-18.6	-13.7	-34.9	-16.0	-39.3	-22.20	-53.90	-131.50	-30.20	-23.60	13.90	35.40	64.60	103.80	107.30	107.10
Exports, c.i.f.	145.7	146.0	127.0	145.9	152.5	180	206.50	213.60	200.70	208.30	205.40	210.20	220.70	298.20	313.50	331.60	306.70
Imports, c.i.f.	-189.4	-164.6	140.8	180.8	168.5	219.2	228.70	267.50	332.20	238.50	229.00	-196.20	-185.30	-233.60	-209.70	-224.30	-199.60
Gross Official Reserves (US $'mn)	312.2	308.5	296.3	311.9	431.2	477.41	469.99	458.43	463.04	491.60	425.68	438.95	436.69	437.40	481.20	-	-

Source: Bank of Zambia
* Reserve money is narrowly defined.
** Based on BoZ annual average mid-exchange rate
\- Not available.

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

1. Dr Caleb Fundanga	Governor
2. Dr Denny H Kalyalya	Deputy Governor – Operations
3. Mr Felix Mfula	Deputy Governor – Administration
4. Mrs Petronela N Mwangala	Permanent Secretary, Budget and Economic Analysis
5. Dr Situmbeko Musokotwane	Member
6. Dr Chiselebwe Ngandwe	Member
7. Dr Mwene Mwinga	Member
8. Mr Dale Mudenda	Member, University of Zambia
9. Mr Dennis Chileshe	Member, Copperbelt University
10. Mr Charles Chabala	Member
11. Ms Elfrida Chulu	Member