



Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JULY - DECEMBER 2010



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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Executive Summary

During the first half of 2010, monetary policy was focussed on the achievement of the end-year inflation target of 8.0% while the end-June inflation was projected at 8.2%. Reserve and broad money growth were expected to be within the targets of 5.5% and 9.9%, respectively. To this end, the Bank of Zambia (BoZ) was to continue to employ indirect instruments for monetary operations, namely Open Market Operations (OMO) and auctioning of Government securities. This was to be supported by prudent fiscal operations.

The annual overall inflation rate declined by 2.1 percentage points to 7.8% in June 2010 from the 9.9% recorded in December 2009, and was below the 8.2% projection for the period. This outturn was mainly attributed to the slow-down in food inflation following improved supply of most food items, particularly cereals and vegetables. However, annual non-food inflation remained high, reflecting higher fuel prices coupled with the pass-through effects of the depreciation of the Kwacha against the US dollar and other major currencies.

During the period under review, reserve money grew by 1.2%, which was within the programmed growth path of 5.5%, to end the period at K4,020.3 billion, up from K3,973.8 billion recorded at end-December 2009.

The main sources of liquidity growth emanated from net Government spending which injected K988.9 billion into the banking system. However, net sales of foreign exchange constrained the banks' liquidity growth by K537.7 billion while net open market operations withdrew K234.7 billion from the banking system. In addition, net sales of Government securities withdrew K144.3 billion.

Preliminary data show that broad money (M3) growth, defined to include foreign currency deposits, increased to 18.2% in the first half of 2010, from the 8.0% recorded in the previous period. The growth in M3 was mainly driven by growth in both net foreign assets (28.4%) and net domestic assets (11%), contributing 11.2 percentage points and 7.0 percentage points to M3 growth, respectively.

The European debt and banking crisis affected the commodities market while concerns that China was contemplating steps to contain the threat of an overheating economy added to an already depressed global environment. This dampened the demand for industrial metals. As a result, the price of copper fell by 11.7% to US\$6,515.0 per tonne at end-June 2010 from US\$7,375.0 per tonne at end-December 2009. This in turn led to a steep depreciation of the Kwacha against the US Dollar by 9.3%, from K4,687.89/US\$ recorded in December 2009 to K5,122.89/US\$ at end-June 2010.

Preliminary data indicate that Zambia recorded a merchandise trade surplus of US \$632.5 million during the first half of 2010, up from a surplus of US \$614.2 million in the second half of 2009. This was as a result of a rise in merchandise export earnings which exceeded the increase in the merchandise imports bill. Merchandise export earnings grew by 16.8% to US \$3,198.9 million from US \$2,737.7 million registered during the second half of 2009. Both exports of copper and cobalt increased, by 22.4% and 24%, respectively, largely on account of an increase in the average realised prices and export volumes. Non-traditional export (NTE) earnings, however, declined following a seasonal decline in earnings from the export of cane sugar, burley tobacco, cotton lint and fresh flowers. However, relative to the corresponding period in 2009, NTEs showed a strong growth of 61.9%, further underlying the recovery in exports after the crisis. During the same period, the merchandise imports bill grew by 20.9% to US \$2,566.3 million mainly due to increased imports of industrial boilers and equipment, petroleum products, chemicals and motor vehicles.

Budget performance during the first half of 2010 was generally weak mainly on account of the poor revenue outturn experienced over the period. However, the budget deficit at K669.6 billion was favourable, being 36.6% lower than the programmed deficit of K1,055.6 billion. This outturn was on account of lower than programmed expenditures as revenue performance was unsatisfactory.

Total revenues and grants were K6,185.2 billion, 12.3% lower than the programmed amount of K7,052.0 billion. This was attributed to the lower outturn in tax revenues and grants. Consequent to the lower than programmed revenues, significant cutbacks in expenditures were implemented during the review period. Total expenditures at K6,761.2 billion were 20.3% lower than the programmed level of K8,484.9 billion. Consistent with this development, financing was scaled down. Total financing was recorded at K748.3 billion, which was 16.8% lower than programmed.

During the first half of the year, activity in the interbank money market was subdued, mainly due to high liquidity levels in the banking system. The high levels of liquidity in the market led to high demand for Government securities, with total bids submitted at the primary auctions exceeding the tender invitation. As a result, the composite weighted average yield rates for Treasury bills and Government bonds fell to 6.0% and 9.5%, from 9.5% and 15.9%, respectively.

During the first quarter of 2010, an International Monetary Fund (IMF) Mission visited the country to conduct the fourth review of the Three Year Arrangement under the Extended Credit Facility (ECF). In

the second quarter, the IMF Executive Board completed its review of the ECF on 25th June 2010 and immediately approved disbursement of SDR 18.4 million (equivalent to US \$27.1 million). Once disbursed, this will bring the total disbursements under the ECF to SDR 183.3 million (US \$270.5 million).

A total of US\$94.5 million was disbursed under the Poverty Reduction Budget Support (PRBS) in the first half of 2010. This was below the projected amount of US\$193.2 million, due to the non-receipt of funds from some cooperating partners.

Performance against the quantitative benchmarks at end-June 2010 was satisfactory as all quantitative benchmarks were observed and the structural benchmarks were on track.

During the second half of 2010, monetary policy will continue to focus on the achievement of an end-year inflation target of 8.0%. Consequently, the Bank of Zambia will deploy its instruments to keep end-year growth rates for both reserve and broad money consistent with the end-year inflation target. In this regard, it is envisaged that during the period July to December 2010, reserve and broad money growth will not exceed 4.0% and 5.5%, respectively.

In the next two years, the formulation and implementation of monetary policy will continue to be in tandem with Government's broad macroeconomic policies for the period 2010-2012 that are in line with the Vision 2030. For the two year period to 2012, the Bank of Zambia will aim at reducing annual inflation to no more than 6.0% at the end of 2012.

The Bank of Zambia will continue to rely on market-based principles in its formulation and implementation of monetary policy. In this regard, the Bank will maintain the use of market-based instruments of monetary policy, such as Open Market Operations, in managing liquidity.

1.0 Introduction

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

2.0 Targets and Challenges

In order to achieve the end-year 2010 inflation target of 8.0%, it was envisaged that in the first half of the year, reserve money and broad money growth would not exceed 5.5% and 9.9%, respectively (see Table 1).

Table 1: Selected Monetary Indicators, December 2008 - June 2010 (percentage change)

	2008	Jan - Jun 2009		Jul - Dec 2009		Jan - Jun 2010	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	16.6	12.2	14.4	10.0	9.9	7.7	7.8
<i>Non-food Inflation</i>	<i>12.9</i>	<i>13.6</i>	<i>14.7</i>	<i>9.0</i>	<i>11.8</i>	<i>10.0</i>	<i>11.8</i>
<i>Food Inflation</i>	<i>20.5</i>	<i>10.8</i>	<i>14.1</i>	<i>11.3</i>	<i>8.0</i>	<i>5.6</i>	<i>3.8</i>
Reserve Money	24.3	2.6	-3.9	17.6	16.8	5.5	1.2
Broad Money	20.3	2.6	0.2	11.7	7.4	9.9	18.2
Domestic Credit	36.0	-	2.4	-	-4.0	-	9.9
<i>Government</i>	<i>88.0</i>	-	<i>28.5</i>	-	<i>-17.1</i>	-	<i>32</i>
<i>Public Enterprises</i>	<i>-9.4</i>	-	<i>-5.0</i>	-	<i>42.5</i>	-	<i>34.2</i>
<i>Private Sector Credit</i>	<i>33.9</i>	-	<i>1.1</i>	-	<i>-6.4</i>	-	<i>2.4</i>
Domestic Financing (% of GDP)	1.2	1.9	0.9	0.5	1.6	1.2	1.0

Source: Central Statistical Office, The Monthly; and Bank of Zambia
- Indicates no target under the PRGF Programme
- Inflation figures are on annual basis

However, the Bank faced the following challenges in achieving its inflation target:

- Increases in transport charges following the 15% upward adjustment in domestic fuel prices effected in January 2010 and the ensuing knock-on effects this had on prices of services and manufactured goods;
- Seasonal price increases on maize grain, mealie meal and various fresh vegetables due to lower supply in the first quarter; and,
- Pass-through effects of the Kwacha's depreciation against the US dollar in the second quarter.

These inflationary pressures were partially mitigated by improved supply of maize and other food stuffs in the second quarter of 2010 and the appreciation of the Kwacha in the first quarter.

In terms of monetary operations, the Bank continued to implement monetary policy to keep money supply growth within the programmed path so as to contain the effects of the above challenges. Accordingly, the Bank largely relied on indirect instruments of monetary control, notably, Open Market Operations (OMO). This was complemented by prudent fiscal operations.

3.0 Assessment of Monetary Policy Outcome, January - June, 2010

During the first half of 2010, annual overall inflation declined by 2.1 percentage points to 7.8% in June 2010 from the 9.9% recorded in December 2009. Broad money and reserve money increased by 18.4% and 2.4% respectively, during the review period.

The high and competitive demand for Government securities continued to drive yield rates of Government securities downwards. The composite weighted average Treasury bill yield rate

declined to 6.0% in June 2010 from 9.5% in December 2009. Similarly, the Government bonds' composite weighted average yield rate declined to 9.5% in June 2010 from 15.9% in December 2009.

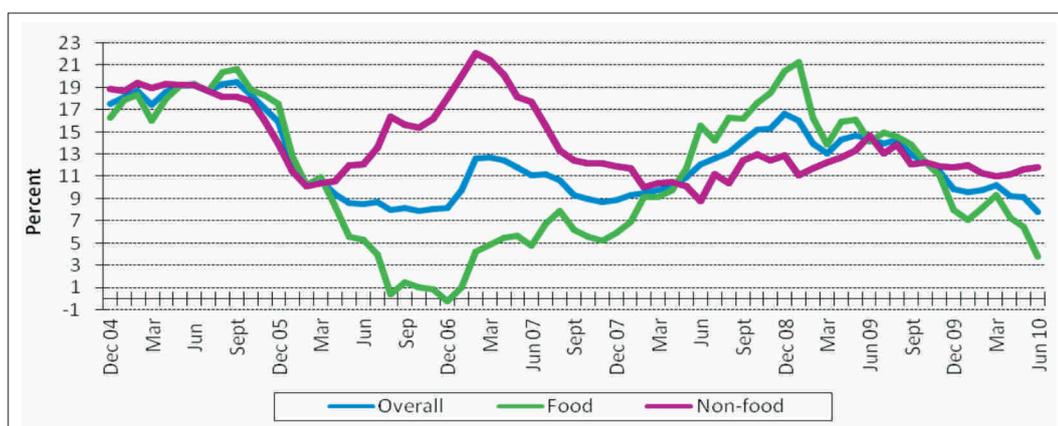
Developments in commercial banks' nominal interest rates were varied in the first half of 2010. The Weighted Average Lending Base Rate (WALBR) and the Average Lending Rate (ALR) decreased to 21.0% (22.7%) and 27.7% (29.2%) in June 2010, respectively. However, the Average Savings Rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts exceeding K20 million both remained unchanged at 4.7% and 5.6%, respectively.

The foreign exchange market recorded a decrease in the volume of funds traded during the first half of the year, on account of low inflows from the large corporate sector. The low inflows were mainly on account of VAT refunds, which reduced the need to unwind foreign exchange holdings to meet domestic payment obligations. In view of the reduction in the supply of foreign exchange, there was pressure on the Kwacha causing it to depreciate by 9.3% to a monthly average of K5,122.89/US\$ in June 2010, from K4,687.89/US\$ recorded in December 2009.

3.1 Overall inflation

The annual overall inflation rate declined by 2.1 percentage points to 7.8% in June 2010 from the 9.9% recorded in December 2009, and was below the 8.2% projection for the period. This outcome was mainly attributed to the slow-down in food inflation following improved supply of most food items, particularly cereals and vegetables. However, annual non-food inflation remained high, reflecting higher fuel prices coupled with the pass-through effects of the depreciation of the Kwacha against the US dollar and other major currencies (see Chart 1 and Table 2). Of the total 7.8% annual inflation outcome, food products accounted for 1.9 percentage points while non-food products accounted for 5.9 percentage points.

Chart 1 : Annual Inflation, December 2004 - December 2009



Source: Central Statistical Office, The Monthly

3.1.1 Non-Food Inflation

The annual non-food inflation rate slowed down to 11.0% in March 2010 from the 11.8% recorded in December 2009, and then rose to 11.8% in June 2010. This was mainly due to an increase in fuel prices coupled with pass-through effects of the Kwacha's depreciation against the US dollar during the first half of the year. Higher annual inflation rates were recorded in the following sub-groups: Rent, fuel and lighting 15.7% [11.4%]; Transport and communication 11.1% [-3.4%]; and Recreation and education 10.8% [10.6%]. Lower annual inflation rates were noted on Clothing and footwear 9.9% [15.8%]; Furniture and household goods 10.1% [17.6%]; Medical care 14.4% [15.9%]; and Other goods and services 12.8% [26.0%].

3.1.2 Food Inflation

The annual food inflation rate slowed down to 3.8% (8.0%) and accounted for 1.9 percentage points of the annual overall inflation outcome. This favourable development was attributed to decreases in the prices of cereals, breakfast and roller meal, various fresh vegetables, beef products and dried kapenta, following improved seasonal supply of the commodities on the market.

Table 2: Inflation Outturn, December 2004 - June 2010 (in percentages)

	Monthly			Annual			Year-to-date		
	Overall	Food	Non-food	Overall	Food	Non-food	Overall	Food	Non-food
Dec 04	2.2	3.0	1.3	17.5	17.5	18.9	17.5	16.3	18.9
Dec 05	1.0	2.4	-0.6	15.9	15.9	14.0	15.9	17.5	14.0
Dec 06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Jun 07	0.2	-0.7	1.1	11.1	4.8	17.7	4.7	1.5	7.5
Jul 07	0.3	0.6	0.0	11.2	6.7	15.6	4.9	2.2	7.5
Aug 07	0.4	-0.3	1.0	10.7	7.9	13.3	5.3	1.9	8.5
Sept 07	0.4	0.3	0.6	9.3	6.2	12.4	5.7	2.2	9.2
Oct 07	0.3	0.2	0.5	9.0	5.6	12.2	6.1	2.3	9.8
Nov 07	1.3	1.4	1.2	8.7	5.2	12.2	7.5	3.8	11.1
Dec 07	1.3	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Jan 08	1.8	1.7	1.9	9.3	6.9	11.7	1.8	1.7	1.9
Feb 08	2.5	4.1	1.1	9.5	9.1	10.0	4.3	5.9	2.9
Mar 08	1.0	1.3	0.8	9.8	9.1	10.4	5.4	7.2	3.7
Apr 08	0.3	0.1	0.4	10.1	9.8	10.5	5.7	7.4	4.2
May 08	0.4	0.4	0.5	10.9	11.7	10.1	6.2	7.9	4.7
Jun 08	1.3	2.8	-0.1	12.1	15.6	8.8	7.6	10.9	4.5
Jul 08	0.8	-0.6	2.3	12.6	14.2	11.2	8.5	10.2	6.9
Aug 08	0.9	1.5	0.3	13.2	16.3	10.4	9.4	11.9	7.2
Sept 08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Oct 08	1.2	1.4	1.5	15.2	17.6	13.0	12.2	13.7	10.5
Nov 08	1.4	2.2	0.7	15.3	18.5	12.4	13.8	16.2	11.6
Dec 08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9
Jan 09	1.3	2.4	0.3	16.0	21.3	11.1	1.3	2.4	0.3
Feb 09	0.7	-0.2	1.6	14.0	16.3	11.7	2.0	2.2	1.8
Mar 09	0.3	-0.8	1.3	13.1	13.9	12.3	2.3	1.4	3.2
Apr 09	1.3	1.9	0.8	14.3	15.9	12.7	3.7	3.3	4.0
May 09	0.8	0.6	1.0	14.7	16.1	13.3	4.5	3.9	5.0
Jun 09	1.1	1.0	1.2	14.4	14.1	14.7	5.6	5.0	6.2
Jul 09	0.5	0.1	0.8	14.0	14.9	13.1	6.1	5.1	7.1
Aug 09	1.1	1.3	1.0	14.3	14.6	13.9	7.3	6.4	8.2
Sept 09	0.1	-0.5	0.7	13.0	13.9	12.1	7.4	5.9	8.9
Oct 09	0.6	0.0	1.2	12.3	12.3	12.3	8.1	5.9	10.2
Nov 09	0.8	1.2	0.4	11.5	11.1	11.9	8.9	7.1	10.6
Dec 09	1.0	0.8	1.1	9.9	8.0	11.8	9.9	8.0	11.8
Jan 10	1.0	1.5	0.4	9.6	7.1	12.0	1.0	1.5	0.4
Feb 10	0.9	0.8	1.0	9.8	8.2	11.3	1.9	2.3	1.4
Mar 10	0.7	0.3	1.0	10.2	9.3	11.0	2.5	2.6	2.5
Apr 10	0.4	0.0	0.9	9.2	7.3	11.2	3.0	2.6	3.4
May 10	0.7	-0.1	1.4	9.1	6.5	11.6	3.7	2.5	4.8
Jun 10	-0.1	-1.6	1.3	7.8	3.8	11.8	3.6	0.8	6.2

Source: Central Statistical Office The Monthly

3.2 Monetary and Credit Developments

3.2.1 Reserve Money

In the first half of the year, liquidity conditions in the banking system were expected to improve. In view of this, the target for end-June 2010 was revised upwards from the end-December target of K3,821.0 billion to K4,277.0 billion, to accommodate the maturity of open market operations (OMO) liabilities contracted from the preceding period. This was also meant to stimulate banks' lending to the private sector following the global financial crisis.

The main sources of liquidity growth emanated from net Government spending which injected K988.9 billion into the banking system. However, net sales of foreign exchange constrained the banks' liquidity growth by K537.7 billion, while net open market operations withdrew K234.7 billion from the banking system. In addition, net sales of Government

securities withdrew K144.3 billion. In spite of these withdrawing influences, the level of liquidity remained high. This prompted the Bank to conduct OMOs. Consequently, a total of K5,229.6 billion was withdrawn from the banking system. As a result, reserve money grew by 1.2% to end the period at K4,020.3 billion. This was a rise from K3,973.8 billion recorded at end-December 2009. Nonetheless, this growth outturn was within the programmed growth rate of 5.5% (see Chart 2).

Chart 2: Reserve Money, June 2008 - June 2010



Source: Bank of Zambia

3.2.2 Broad Money

During the first half of 2010, preliminary data show that broad money (M3) growth¹ increased to 18.2% in the first half of 2010, from the 8.0% recorded in the previous period. The growth in M3 was mainly driven by growth in both net foreign assets (NFA) and net domestic assets (NDA), contributing 11.2 percentage points and 7.0 percentage points to M3 growth, respectively. The NFA rose by 28.4%, largely as a result of the depreciation of the Kwacha against major trading currencies. Similarly, NDA increased by 11.0% on account of the increase in net claims on central government. Excluding foreign currency deposits that contracted by 6.4%, money supply increased by 32.1% in the period under review, compared with 12.8% recorded in the second half of 2009.

On an annual basis, M3 growth increased to 27.7% in June 2010, from 20.6% in June 2009, and was above the annual growth projection for end-December 2010 of 16.0% (see Chart 3). This outturn was largely due to the rise in the NDA growth as the NFA growth declined. The NDA increased by 58.2% (December 2009, 21.9%), contributing 28.3 percentage points to annual M3 growth. However, the NFA decreased by 1.2% compared with the decline of 9.8% recorded in December 2009 contributing negative 0.6 percentage points to M3 expansion. This development largely reflected the continued strong growth in credit to Government. Excluding foreign currency deposits that declined by 5.9% in local currency terms, annual money supply growth increased to 49.0% in June 2010, from 8.8% recorded in June 2009.

¹Defined to include foreign currency deposits.

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

Description	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jun 2010*
Broad Money (M3)	10,840.1	13,044.3	13,075.5	14,125.5	16,698.3
o/w Foreign Exchange Deposits	3,478.2	4,371.9	5,068.3	5,095.8	4,769.9
M3 (excl. Foreign Exchange Deposits)	7,361.9	8,672.4	8,007.3	9,029.7	11,928.4
6-Month Change in M3 (%)	1.2	20.3	0.2	8.0	18.2
6-Month Change in Foreign Exchange Deposits (%)	-11.0	25.7	15.9	0.5	-6.4
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	8.2	17.8	-7.7	12.8	32.1
Annual Change in M3 (%)	26.7	21.8	20.6	8.3	27.7
Annual Change in Foreign Exchange Deposits (%)	14.2	11.9	45.7	16.6	-5.9
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	33.5	27.5	8.8	4.1	49.0

Source: Bank of Zambia

Chart 3: Annual Broad Money Growth, December 2006 - June 2010



Source: Bank of Zambia

3.2.3 Domestic Credit

Growth of domestic credit, comprehensively defined to include foreign currency loans, rose to 13.1% during the first half of 2010 compared with 9.3% recorded in the second half of 2009. This outturn was mainly on account of an increase in credit to the Government. Lending to the Government increased by 32.0% compared with a growth of 58.3% in the last half of 2009, and contributed 10.6 percentage points to domestic credit growth. Further, credit to the private sector (including public enterprises) rose by 3.8% during the reviewed period, up from negative 5.2% recorded in the second half of 2009, thus contributing 2.5 percentage points to domestic credit growth. Excluding foreign currency denominated loans that rose by 3.8%, domestic credit growth rose to 16.1% from the 14.1% increase during the second half of 2009.

On an annual basis, domestic credit growth increased to 23.6% in June 2010 from the 15.2% growth rate recorded in December 2009. The increase in annual domestic credit growth was due to lending to Government, which contributed 24.9 percentage points to annual domestic credit growth. However, annual credit to the private sector (including public enterprises) fell by 1.6% and contributed negative 1.2 percentage points to annual domestic credit growth. Excluding foreign currency denominated credit, which increased by 0.3%, local currency denominated domestic credit growth rose to 32.5% from 30.3% in December 2009 (see Table 4).

Table 4: Domestic Credit Developments (in K' billion unless otherwise stated), June 2008 - June 2010

Description	Jun 08	Dec 08	Jun 09	Dec 09	Jun 10
Domestic Credit (DC)	7,749.3	10,536.2	11,107.8	12,137.6	13,732.6
O/w Foreign Exchange Credit	2,271.6	3,487.5	3,060.6	2,956.4	3,068.8
DC (Excl. FX Credit)	5,477.7	7,048.7	8,047.1	9,181.2	10,663.8
6-Month Change in Domestic Credit	1.3	36.0	5.4	9.3	13.1
6-Month Change in Foreign Exchange Credit	20.9	53.5	-12.2	-3.4	3.8
6-Month Change in DC (Excl. Foreign Exchange Credit)	-5.1	28.7	14.2	14.1	16.1
Annual Change in Domestic Credit	28.3	37.8	43.3	15.2	23.6
Annual Change in Foreign Exchange Credit	69.0	85.6	34.7	-15.2	0.3
Annual Change in DC (Excl. Foreign Exchange Credit)	16.7	22.2	46.9	30.3	32.5

Source: Bank of Zambia

On a sectoral basis, Households (personal loans category) continued to account for the largest share of outstanding credit, accounting for 26.2% (21.6%)² in June 2010. The Agricultural sector was second at 18.7% (19.5%), followed by Manufacturing 13.0% (12.3%), Wholesale and Retail trade, 11.7% (10.5%), Transport, Storage and Communications, 5.4% (6.3%) and Real Estate, 5.2% (7.5%) (see Appendix III, Table 5a).

3.2.4 Overnight Lending Facility

The overnight lending facility (OLF) was introduced in December 2009 to facilitate liquidity provision to commercial banks in need of short-term funding at their own initiative. In so doing, the OLF was to improve the effectiveness of monetary policy. However, given that liquidity was generally high during the first half of the year, banks had no incentive to seek recourse to the OLF window. As a result, there were no transactions under the facility.

3.3 Foreign Exchange Market

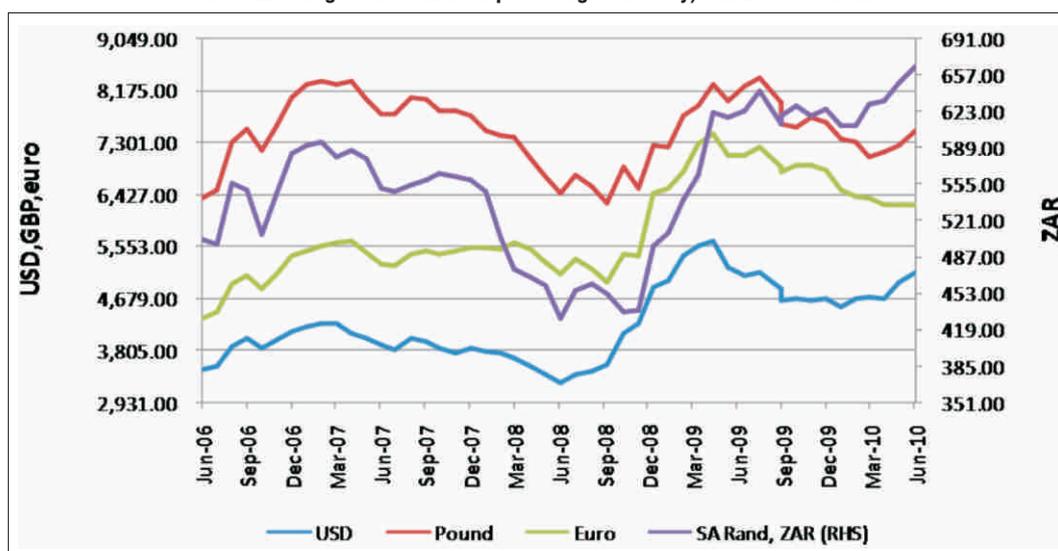
Developments in the foreign exchange market were driven largely by external factors. Available data show that domestic supply of foreign exchange was favourable relative to demand. However, the sovereign debt crisis in Greece and the banking crisis in Spain drastically changed the international financial landscape during the period under review. In particular, concerns that the debt crisis could spread to other countries in Europe and hamper economic growth in the region shook market confidence and reduced investors' risk appetite. This increased risk aversion towards the emerging economies and developing countries, resulting in the sell-off of risky assets.

The European debt and banking crisis also affected the commodities market, while concerns that China was contemplating taking steps to contain their overheating economy, added to an already depressed global environment. This dampened the demand for industrial metals. As a result, the price of copper fell by 11.7% to US\$6,515.0 per tonne at end-June 2010 from US\$7,375.0 per tonne at end-December 2009.

Against this background, the Kwacha depreciated sharply by 9.3% at end-June 2010 from its closing level in December 2009. On an average basis, the Kwacha closed at K5,122.89/US\$ in June 2010 compared with the average of K4,687.89/US\$ recorded in December 2009. Similarly, the Kwacha depreciated by 6.3% against the South African rand to K664.76/ZAR in June 2010 from K625.39/ZAR in December 2009. However, as the debt crisis weighed on the euro zone, this provided support to the Kwacha, which appreciated by 8.5% to K6,264.20/€. The Kwacha also appreciated against the pound sterling, gaining by 1.6% to an average of K7,518.57/£ at end June 2010 (see Chart 4).

²Number in bracket is at end-December 2009

Chart 4: Exchange Rates Kwacha per foreign currency) Jun 2006 - Jun 2010



Source: Bank of Zambia

The foreign exchange market recorded a decrease in the volume of funds traded during the first half of the year on account of low inflows from the large corporate sector. The receipt of VAT refunds by the non-bank corporate sector bolstered their local currency positions. Accordingly, there was less incentive to liquidate their foreign exchange holdings to meet domestic currency spending obligations. Thus, sales of foreign exchange to the banking system totalled US\$1,910.0 million, down from US\$2,094.4 million recorded for the period from July-December 2009. While supply of foreign exchange decreased over the review period, the level of demand was marginally lower, as measured by the banks' sales of foreign exchange to the rest of the market totalling US\$1,889.2 million, down from US\$1,916.7 million in the last half of 2009.

Transactions recorded in other major currencies showed a general increase in the volume of trade in the first half of 2010. For the South African rand, the commercial banks recorded net sales of ZAR2,873.0 million compared with ZAR1,352.7 million for the previous period. Similarly, the banks' net sales of pound sterling more than doubled in the first half of 2010 to £11.9 million from £5.1 million recorded in the second half of 2009. On the other hand, commercial banks recorded net purchases of euro worth €7.1 million compared with net sales of €7.3 million posted during the July-December 2009 period.

In the interbank market, trading activity was lower in the first half of the year relative to the previous review period in 2009. Commercial banks exchanged a total of US\$1,805.4 million from US\$2,218.9 million. The funds were traded at an average interbank rate of K4,805.81/US\$, reflecting a marginal depreciation of 0.3% over the previously recorded interbank rate of K4,792.85/US\$.

3.4 International Trade Developments

Preliminary data indicate that Zambia's merchandise trade surplus (at cost, insurance and freight) increased by 3.0% to US \$632.5 million during the first half of 2010 from US \$614.2 million recorded during the second half of 2009 (see Appendix III, Table 1). This was as a result of a rise in merchandise export earnings which exceeded the increase in the merchandise imports bill. Merchandise export earnings grew by 16.8% to US \$3,198.9 million from US \$2,737.7 million registered during the second half of 2009, reflecting a 22.5% increase in metal (copper and cobalt) export earnings.

Copper export earnings, at US \$2,467.2 million, were 22.4% higher than US \$2,014.9 million recorded during the second half of 2009. This was largely on account of the 19.1% and 2.8% increase in the average realised price and export volumes, respectively. The recovery in global demand for metals following the recovery from the global economic and financial crisis, explained the rise in realised prices. The rise in export volumes was mainly attributed to increased production arising from enhanced capacity utilisation at various mines.

Similarly, cobalt export earnings grew by 24.0% to US \$156.8 million during the first half of 2010 from US \$126.4 million recorded the previous period. The rise in the realised price and export volumes by 21.2% and 2.5%, respectively, explained this outturn (see Appendix III, Table 2).

Non-traditional export (NTE) earnings, however, declined to US \$574.8 million from US \$596.3 million recorded during the second half of 2009. A seasonal decline in earnings from the export of cane sugar, burley tobacco, cotton lint and fresh flowers largely explained this downturn. However, relative to the corresponding period in 2009, NTEs showed a strong growth of 61.9%, further underlying the recovery in exports after the crisis.

During the same period, the merchandise imports bill grew by 20.9% to US \$2,566.3 million from US \$2,123.5 million registered during the second half of 2009. This was mainly explained by increased imports of industrial boilers and equipment (38.8%), petroleum products (33.7%), chemicals (23.9%) and motor vehicles (7.2%) (see Appendix III, Table 3). This was a reflection of the recovery in the domestic economy consistent with the recovery in the global economy.

3.5 Fiscal Developments

Budget performance during the first half of 2010 was generally weak mainly on account of the poor revenue outturn experienced over the period. However, the budget deficit at K669.6 billion was favourable, being 36.6% lower than the programmed deficit of K1,055.6 billion. This outturn was on account of lower than programmed expenditures as revenue performance was unsatisfactory (see Appendix III, Table 6).

Total revenues and grants at K6,185.2 billion, were 12.3% lower than the programmed amount of K7,052.0 billion, attributed to the lower outturn in tax revenues and grants. Tax revenues at K5,028.9 billion were below target by K338.7 billion, largely on account of the lower than programmed collections of personal income taxes, customs duties and domestic VAT by 11.8%, 15.2% and 61.5%, respectively.

Similarly, total grants at K692.2 billion were 45.8% below the programmed level of K1,278.0 billion. This was mainly attributed to the delayed disbursement of donor support by some co-operating partners, especially for projects.

However, non-tax revenues at K464.1 billion were 14.2% higher than the target of K406.4 billion. Explaining this performance was mainly the higher than programmed exceptional revenues, following debt swaps by Government with ZESCO and Zambia National Building Society.

Consequent to the lower than programmed revenues, significant cutbacks in expenditures were implemented during the review period. Total expenditures at K6,761.2 billion were 20.3% lower than the programmed level of K8,484.9 billion, mainly reflecting cuts on expenditures on the use of goods and services as well as non-financial assets. These expenditures were below their targeted levels by K653.8 billion and K611.9 billion, respectively, largely due to the delayed disbursement of some programmed donor support.

Other expenditure cuts were recorded on personal emoluments, grants and other payments, and interest payments by K146.7 billion, K135.1 billion and K101.3 billion, respectively. The lower expenditures on grants and other payments were mainly due to the lower disbursement of funds for the farmer input support programme while interest payments were affected by the decline in interest rates during the first half of 2010.

Following the substantial cutbacks in expenditures during the review period, financing requirements were scaled down. Accordingly, total financing was K748.3 billion, 16.8% below the programmed financing of K898.9 billion. Of the total financing, domestic financing was K729.3 billion while net foreign financing was K19.0 billion.

3.6 Money and Capital Markets Developments

3.6.1 Money Markets

Interbank market

Activity in the interbank money market was subdued, mainly due to high liquidity levels in the banking system. Total funds traded in the first half of 2010 amounted to K6,103.1 billion compared with K8,222.4 billion during the second half of 2009. The proportion of collateralised borrowing stood at 55.7%, up from 52.0% recorded in the last half of 2009.

The weighted average interbank rate for the first six months to June 2010 declined to 2.2% from 9.1% during the second half of 2009. This reflected the abundance of liquidity in the banking sector.

Government Securities Market

Total bids submitted at the primary auctions of Government securities exceeded the tender

invitation. In the Treasury bill market, the total amount offered was unchanged at K2,600.0 billion. This represented an average tender size of K100.0 billion per week. In response, investors submitted bids worth K4,162.6 billion, representing an average weekly bid amount of K160.1 billion. The rate of subscription for the 91-day tenor was recorded at 139.0% while that for the 182-day paper was 125.8%. The subscription rates for the 273- and 364-day tenors were recorded at 174.5% and 181.3%, respectively.

With regard to Government bonds, the average size of the monthly auction was maintained at K120.0 billion, bringing the total amount for the whole period to K720.0 billion. Investors' bids amounted to K1,506.0 billion, up from K801.2 billion recorded during the second half of 2009, representing an average rate of subscription of 109.2%. For individual tenors, subscription rates were recorded at 160%, 105% and 102% for the 2-year, 3-year and 5-year securities, respectively. In contrast, the 7-, 10- and 15-year bonds were undersubscribed with subscription rates of 92.5%, 56.5%, 23.6%, respectively (see Appendix III, Table 7).

Stock of Government Securities

The total stock of Government securities increased by 1.0% to K9,600.1 billion at the end of the first half of 2010. This was due to the surplus of K292.3 billion, realised from transactions involving Government bonds. Total Government bonds outstanding at K5,311.5 billion represented an increase of 4.6% over the end-December 2009 position. Total Treasury bills in circulation amounted to K4,288.6 billion, a reduction of 3.0% over the previous period.

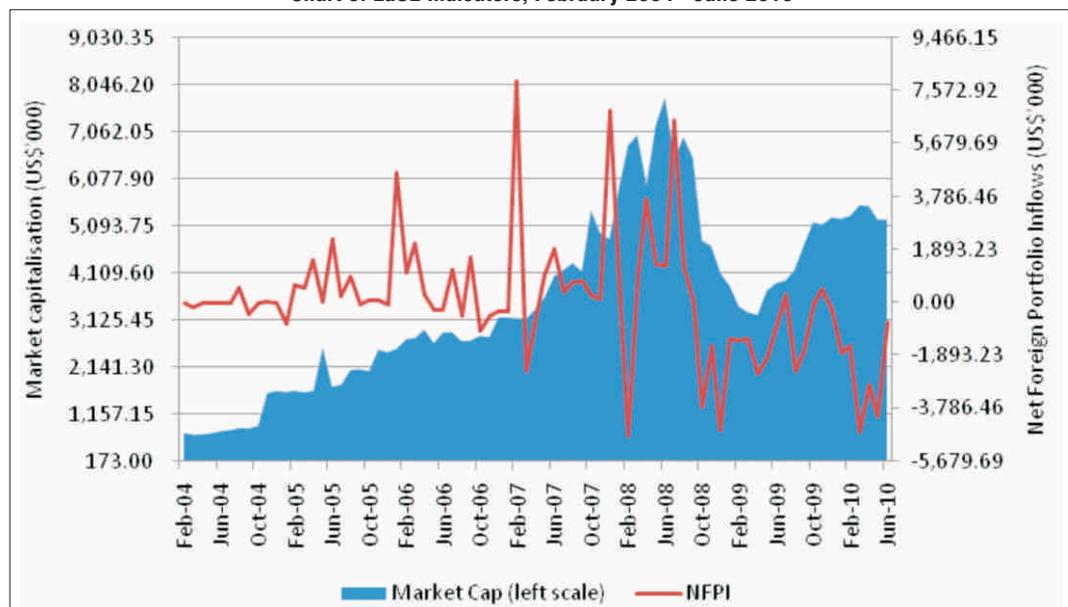
Commercial banks remained the dominant holders of domestic debt, accounting for 57.6% of the total stock of Government securities. The share of securities held by the non-bank public stood at 28.8% while the Bank of Zambia held 13.7%.

Non-resident investment in the domestic debt market decreased sharply following a complete redemption of the 91- and 182-day Treasury bills and the 2-year bond. Thus, at end June 2010, foreign investment holdings of Government securities stood at K255.4 billion, representing 4.8% of total securities outstanding.

3.6.2 Capital Market

Capital market activity at the Lusaka Stock Exchange (LuSE) improved over the first half of 2010 relative to the second half of 2009. Available data show that the LuSE All Share Index (including ZCCM) rose by 135 points to 2,211.2. Similarly, market capitalisation increased by 10.5% to K27,564.1 billion in the first half of 2010. However, in US dollar terms, market capitalisation fell by 0.7% to US\$5,235.0 million mainly due to depreciation effects of the exchange rate. Sales turnover by local investors was recorded at K12,393.5 billion in June 2010 compared with K7,038.1 billion recorded at the end of the second half of 2009 while the equivalent for non-residents stood at K10,531.8 billion, up from K1,714.2 billion in the second half of 2009. Non-resident investors withdrew a net US\$15.7 million from the stock exchange compared with US\$0.7 million recorded in the second half of 2009 (see Chart 5).

Chart 5: LuSE Indicators, February 2004 - June 2010



Source: Lusaka Stock Exchange

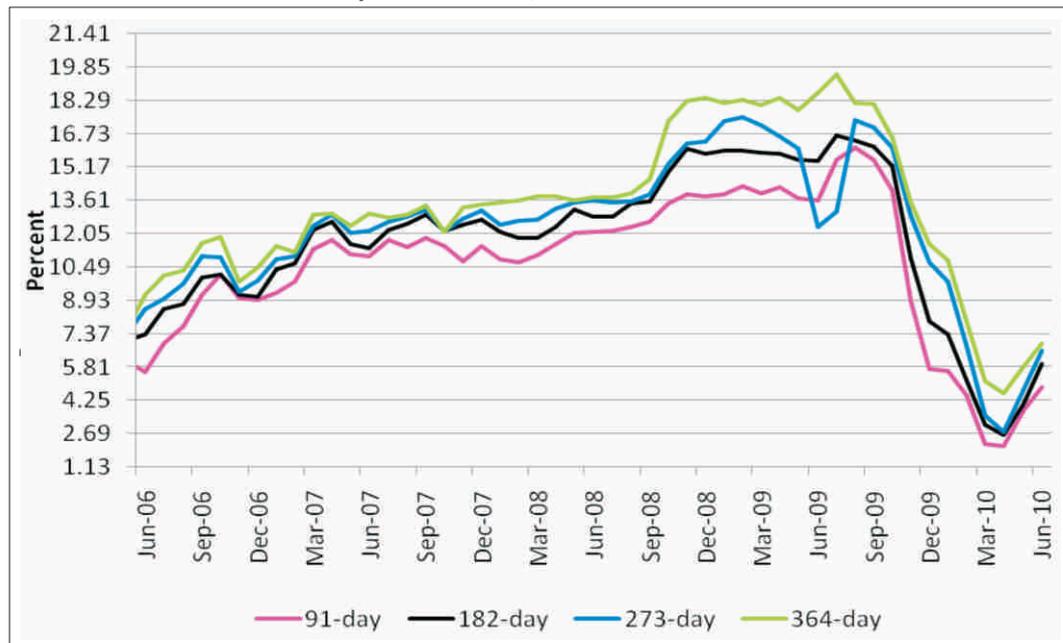
The best performing shares on the stock market were Celtel (Zain), Zambia Metal Fabricators Limited, and British American Tobacco, whose share prices rose by more than 20%. The main losers were Bata, Zambia Sugar and Cavmont Capital Holdings with share price falls in excess of 15%.

3.7 Interest Rates

3.7.1 Government Securities Interest rates

The high and competitive demand for Government securities, continued to drive yield rates of Government securities downwards. The composite weighted average Treasury bill yield rate declined to 6.0% in June 2010 from 9.5% recorded in December 2009 (see Chart 6).

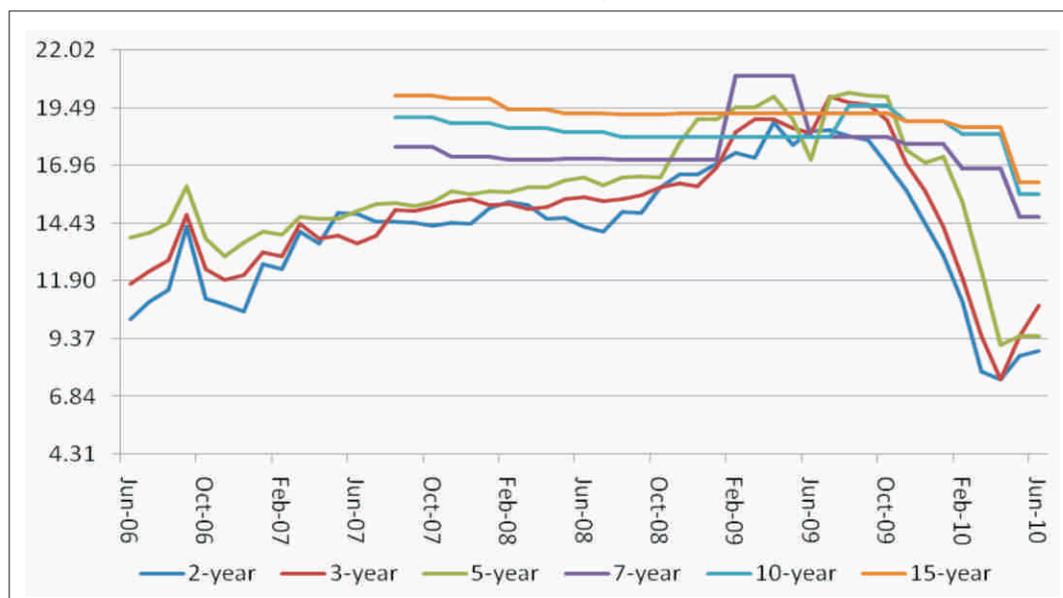
Chart 6: Treasury Bills Yield Rates, June 2006 - June 2010



Source: Bank of Zambia

With regard to Government bonds, the composite weighted average yield rate declined to 9.5% in June 2010 from 15.9% in December 2009 (see Chart 7).

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



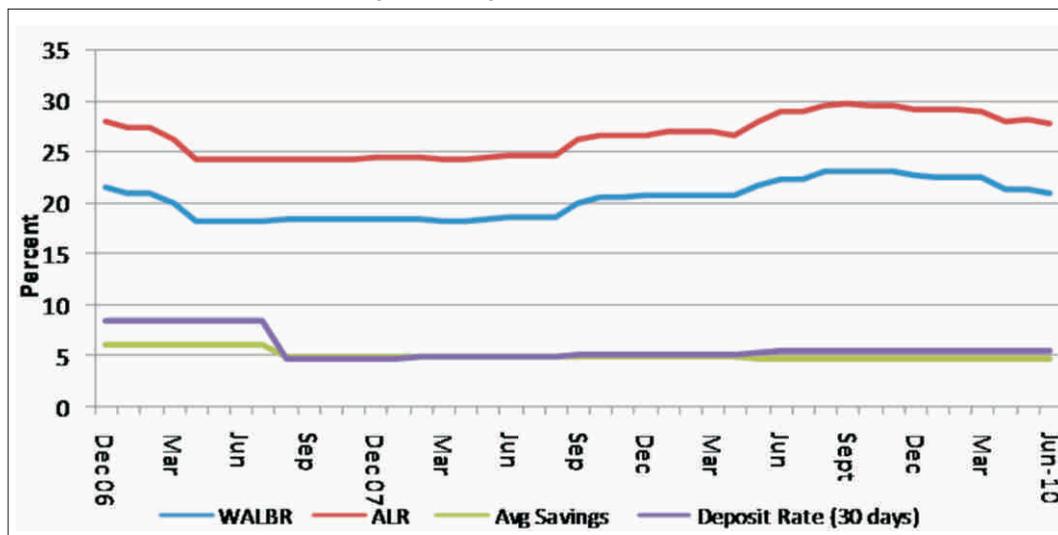
Source: Bank of Zambia

Note: The 7, 10 and 15 years bonds were introduced in August 2007

3.7.2 Commercial Banks Interest Rates

The developments in commercial banks' nominal interest rates were mixed in the first half of 2010. The Weighted Average Lending Base Rate (WALBR) and the Average Lending Rate (ALR) decreased to 21.0% (22.7%) and 27.7% (29.2%) in June 2010, respectively. However, the Average Savings Rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts exceeding K20 million both remained unchanged at 4.7% and 5.6%, respectively (see Chart 8)

Chart 8: Lending and Savings Rates, December 2006 - June 2010



Source: Bank of Zambia

In real terms, interest rates increased during the review period mainly on account of the decline in annual overall inflation. The real WALBR and the real ALR increased to 13.2% (12.8%) and 19.9% (19.3%), respectively. Likewise, the real ASR for amounts above K100,000.00 and the real 30-day deposit rate for amounts above K20 million rose to negative 3.1% (negative 5.2%) and negative 2.2% (negative 4.3%), respectively.

3.7.3 Non-Bank Financial Institutions Lending Rates

In the first half of 2010, developments in the average annual interest rates varied within the various sub-sectors of the non-bank financial institutions. There was no change in the interest rates for the savings and credit finance institutions while the average annual interest rates for the leasing sub-sector decreased to 40.0% from 48.5% recorded in the second half of 2009. There was also a decline in the average annual interest rates for the micro finance sub-sector to 97.4% from the 113.8% observed in the second half of 2009. The probable cause of the decrease was the availability of comparative interest rates through bi-annual publication of interest rates in the press that fostered interest rate competition. However, the average annual interest rates for building societies changed little at 26.1% from 26.0% recorded in the second half of 2009 (see Table 5).

The leasing finance and micro-finance institutions interest rates were relatively higher as they mainly source their funds from commercial banks through various lines of credit which tend to be an expensive source of finance.

Table 5: Average Annual Interest Rates (in Percentages)

Description	Second Half 2009	First Half 2010
Development Finance Institutions	27.0	26.0
Building Societies	26.0	26.1
Leasing Companies	48.5	40.0
Micro Finance Institutions	113.8	97.4
Savings and Credit Institution	30.0	30.0

Source: Bank of Zambia

* Base Rate, however a margin of 1-10% is added to the base rate.

4.0 Monetary Policy Objectives and Instruments for July - Dec 2010

During the second half of 2010, monetary policy will continue to focus on the achievement of an end-year inflation target of 8.0%. Consequently, the Bank of Zambia will deploy its instruments to keep end-year growth rates for both reserve and broad money consistent with the end-year inflation target. In this regard, it is envisaged that during the period July December 2010, reserve and broad money growth will not exceed 4.0% and 5.5%, respectively.

4.1 Inflation Projection

Inflation Projection July - December 2010

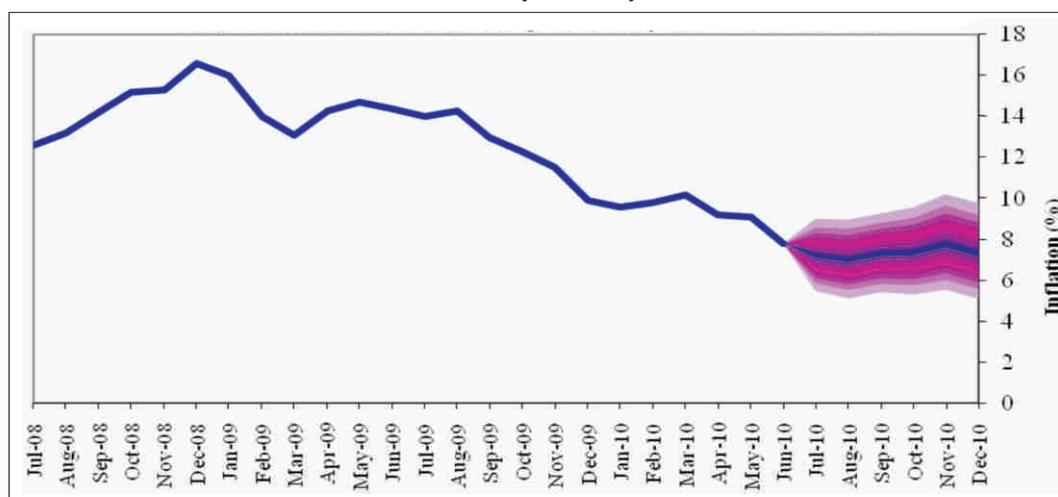
During the second half of the year, overall inflation is anticipated to be consistently below end-year target of 8.0% (see Table 6 and chart 9). This favourable outlook is guided by the assumptions that:

- The rate of depreciation of domestic currency will slow down from the 10% experienced in the first half. This is largely due to the anticipated foreign exchange inflows arising from some equity transactions and corporate tax payments by mining companies.
- Following the bumper harvest, maize prices declined sharply by 16% over the first six months of 2010 and this trend will continue but on a moderated pace during the rest of the year.
- Broad money (M2) will grow by less than the 18% growth recorded in the first half of the year.

Table 6: Inflation Forecast and Actual, January - December 2010

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

Chart 9 Actual Inflation and Projection: July 2008 - December 2010



Source: Bank of Zambia

Notwithstanding the above, there may be inflation risks arising from:

- i. Second round effects of the increase in electricity tariffs during the period, and
- ii. Lagged effects of the exchange rate depreciation experienced during the first half of 2010.

To mitigate these pressures, the Bank will rely on open market operations and auctioning of Government securities to ensure that reserve money is within target and consequently ensure that broad money does not feed unfavourably into the inflationary process. This is expected to be complimented by prudent fiscal operations.

5.0 Monetary Policy Principles for the Period July 2010 - December 2012

In the next two years, the formulation and implementation of monetary policy will continue to be in tandem with Government's broad macroeconomic policies for the period 2010-2012 that are in line with the Vision 2030, which include the following:

- (i) end-year inflation will be reduced to no more than 7.0% at end-December 2011 and further down to no more than 6.0% at end-December 2012;
- (ii) real GDP growth rate of at least 5.8% in 2010, 6.0% in 2011 and 6.2% in 2012 will have to be realised. This growth is expected to be largely driven by the agricultural, mining, manufacturing, tourism and construction sectors. Recent developments suggest that the economy could perform better than these projections;
- (iii) domestic financing will be limited to no more than 2.0% of GDP in 2010, 1.3% of GDP in 2011 and 2012; and
- (iv) gross international reserves amounting to no less than 4.1 months of import cover in 2010 and 2011 and 4.2 months of import cover in 2012 will have to be accumulated.

The Bank of Zambia will continue to rely on market-based principles in its formulation and implementation of monetary policy. In this regard, the Bank will maintain the use of market-based instruments of monetary policy, such as Open Market Operations, in managing liquidity.

Appendix I: Selected Macroeconomic Indicators

Description/Years	2006 Dec	2007 Dec	2008 Dec	2009 Dec	2010 Jan	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Monetary Aggregates (K'bn)										
Reserve money (in K'billion)*	2,457.4	2,501.3	3,213.7	3,213.7	3,596.5	3,937.2	51.3	4,066.3	4,015.0	4,020.3
Growth Rate	11.81	5.0	7.7	-15.0	11.9	9.5	-98.7	3.2	-4.3	1.2
Broad money (in K'billion)	7,936.6	10,674.9	13,044.3	14,125.7	13,855.2	14,188.5	14,732.6	15,443.5	16,148.8	16,698.3
Growth Rate	8.98	1.6	1.8	1.4	-1.9	4.2	2.7	4.8	4.6	6.5
Net Claims on Government (in K'billion)	2457.8	1,988.9	2,741.2	4,100.0	4,072.4	4,432.6	4,515.5	4,499.2	4,541.3	5,296.9
Prices (%)										
Inflation	8.2	8.9	16.6	9.9	9.6	9.8	10.2	9.2	9.1	7.8
Nominal Interest and yield rates (aver. %)										
<i>Commercial Banks' rates</i>										
Commercial banks' weighted lending base rate	21.6	18.3	20.8	22.7	22.7	22.6	22.6	21.5	21.3	21.0
Average Savings rate (>K100,000)	6.1	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Deposit rate (30 days, over K20 million)	8.4	4.8	5.1	5.6	5.6	5.6	5.6	5.6	5.6	5.6
<i>Treasury bill yield rates</i>										
Weighted TB rate	9.2	12.9	17.2	9.5	9.5	5.4	3.5	3.5	5.6	6.2
91-day	8.7	11.5	13.8	6.3	5.4	5.2	2.5	1.9	3.7	4.6
182-day	8.7	12.7	15.6	8.5	7.2	5.7	3.5	2.5	3.9	5.8
273-day	9.6	13.1	16.3	11.0	9.5	7.2	4.2	2.6	4.5	6.0
364-day	9.9	13.4	18.4	11.7	10.3	8.0	5.2	4.4	5.7	6.7
<i>Government bonds Yield Rates</i>										
Weighted Bond Yield Rate		15.6	16.7	15.9	15.3	17.6	10.3	8.3	13.3	9.5
24 months	10.6	14.4	16.6	15.5	14.1	12.5	10.5	7.7	8.6	8.9
3 year	12.1	15.5	16.2	16.8	15.4	13.7	11.4	8.4	9.5	10.8
5 year	13.5	15.7	18.2	17.5	17.1	16.8	14.6	10.4	9.5	9.5
7 year	-	17.8	17.3	17.9	17.9	17.6	16.8	16.8	14.7	14.7
10 year	-	19.1	18.4	18.9	18.9	18.8	18.3	18.3	15.7	15.7
15 year	-	20.0	19.3	18.9	18.9	18.8	18.6	18.6	16.2	16.2
<i>Real Interest and Yield Rates (%)</i>										
Commercial Banks' rates										
Commercial banks' weighted lending rate	13.4	9.4	4.0	12.8	13.1	12.8	12.4	12.3	12.2	13.2
Average savings rate	(2.1)	(4.1)	-11.8	-5.2	-4.9	-5.1	-5.5	-4.5	-4.4	-3.1
Deposit rate (30 days, over K20 million)	0.2	(4.1)	-11.5	-4.3	-4.0	-4.2	-4.6	-3.6	-3.5	-2.2
<i>Treasury bill yield rates</i>										
Weighted TB rate	1.0	4.0	0.2	-0.4	-0.1	-4.4	-6.7	-5.7	-3.5	-1.6
91-day	0.5	2.6	-2.7	-3.6	-4.2	-6.6	-7.7	-7.3	-5.4	-3.2
182-day	0.5	3.8	-0.8	-1.4	-2.4	-5.5	-6.7	-6.7	-5.2	-2.0
273-day	1.4	4.2	-0.5	1.1	-0.1	-3.9	-6.0	-6.6	-4.6	-1.8
364-day	1.7	4.5	1.8	1.8	0.7	-3.2	-5.0	-4.8	-3.4	-1.1
<i>Government bonds Yield Rates</i>										
Weighted Bond rate		6.7	0.1	6.0	5.7	7.8	0.1	-0.9	4.2	1.7
24 months	2.4	5.5	0.0	5.6	4.2	2.6	0.6	-2.2	-1.3	-1.0
3 year	3.9	6.6	-0.4	6.9	5.8	2.2	-0.1	-3.1	-2.0	-0.7
5 year	5.3	6.8	2.4	6.0	5.6	5.3	3.1	-1.1	-2.0	-2.0
7 year	-	8.9	0.7	8.0	8.0	7.7	6.9	6.9	4.8	4.8
10 year	-	10.2	1.8	9.0	9.0	8.9	8.4	9.1	7.9	7.9
15 year	-	11.1	2.7	9.0	9.0	8.9	8.7	8.7	6.3	6.3
Exchange rates (average K/US \$)										
Commercial banks' weighted selling rate	4,142.75	3,845.77	4,884.00	4,687.82	4,529.9	4,676.2	4,695.8	4,677.9	4,948.9	5,122.9
Bank of Zambia mid rate**	4,127.83	3,836.88	4,832.26	4,640.56	4,585.94	4,744.48	4,704.17	4,741.81	5,001.88	5,155.63
Real sector										
<i>Mining output (MT)</i>										
Copper	204,373.5	508,423.0	569,567.5	65,822.7	54,836.3	61,647.1	71,524.7	64,908.0	68,216.36	58650.0
Cobalt	2,097.1	4,619.8	4,581.5	514.11	734.13	546.91	679.68	606.27	642.98	676.3
<i>Metal Earnings (US \$mn)</i>										
Copper	1,160.5	3,159.7	3,161.0	394.50	377.90	373.20	452.30	451.20	346.91	374.1
Cobalt	62.1	251.6	278.7	16.00	22.30	22.20	23.70	22.40	28.86	24.4
Total	1,222.6	3,411.3	3,439.7	410.50	400.20	386.60	476.00	473.60	375.77	398.5
External sector (US \$ mn)										
Trade Balance	343.6	322.2	-599.4	82.7	103.5	65.1	145.0	148.5	52.3	55.6
Exports, c.i.f.	1,518.4	4,330.6	4,275.0	480.4	482.1	459.3	496.6	574.4	489.5	495.4
Imports, c.i.f.	1,174.7	3,647.1	4,799.4	-397.7	-378.6	-394.2	451.6	425.9	-437.2	-439.8
Gross Official Reserves (US \$mn)	706.4	1,080.2	1,085.0	1,715.3	1,766.0	1,735.9	1,736.6	1,808.2	1,777.3	1,704.8

Source: Bank of Zambia Statistics Fortnightly

* Reserve money is narrowly defined.

**Based on BoZ average mid-exchange rate

Appendix II: Extended Credit Facility (ECF)

During the first half of 2010, an International Monetary Fund (IMF) Mission visited the country to conduct the fourth review of the Three Year Arrangement under the Extended Credit Facility (ECF) from 18th February 2010 to 2nd March 2010.

In the second quarter of 2010, the IMF Executive Board completed its review of the ECF on 25th June 2010 and immediately approved disbursement of SDR 18.395 million (equivalent to US \$27.1 million). Once disbursed, this will bring the total disbursements under the ECF to SDR 183.3 million (US \$270.5 million). The IMF Board granted a waiver to Zambia for non-observance of the end-December 2009 performance criterion on the non-concessional debt ceiling.

Regarding programme support, total disbursed Poverty Reduction Budget Support (PRBS) in the first half of 2010 amounted to US \$94.5 million compared with the projection of US \$193.2 million. A total of US \$48.0 million was received from the United Kingdom, US \$27.7 million from Norway, US \$6.6 million from Finland and US \$12.2 million from the Netherlands. Explaining the difference in the projected versus actual amounts disbursed was largely non receipt of funds from some cooperating partners.

Preliminary data indicate that the benchmarks for the Net Domestic Assets (NDA), Net Domestic Financing (NDF) of Government and the Unencumbered International Reserves (UIR) were all observed. The structural benchmarks were also on track. As at end-June 2010, the average NDA was K108.4 billion below the end-June programme ceiling of K633.6 billion while the NDF was K93.3 billion below the end-June programme ceiling of K7,687.9 billion. The UIR were US \$21.8 million above the end-June floor of US \$1,683.1 million.

The broad macroeconomic objectives for 2010 include: (i) attaining real GDP growth of at least 5.8%; (ii) achieving end-year inflation of no more than 8.0%; (iii) limiting domestic financing to 1.9% of GDP; and (iv) increasing gross international reserves to not less than 4.3 months of import cover (see Appendix II, Table 1).

Table 1: Macroeconomic Outturn and Targets in 2009, and Targets for 2010

Description	End-December 2009	End-December 2009	End-December 2010
	Targets	Outturn	Targets
Real GDP growth rate (%)	5.3	6.3	5.8
CPI Inflation, end period (%)	10.0	9.9	8.0
CPI Inflation, annual average (%)	12.5	13.4	8.2
Gross Official Reserves (in months of imports)	4.5	5.1	4.3
Broad Money growth (%)	19.0	8.2	16.0
Budget deficit, excluding grants (% of GDP)	7.1	6.7	5.9
Domestic financing of the Budget (% of GDP)	2.1	2.0	1.9

Source: Bank of Zambia, IMF Staff Report for 2010 Article IV Consultation, Fourth Review Under the PRGF Arrangement June 2010

Appendix III: Statistical Tables and Charts

Table 1: Trade Data in US \$ million (at cost, insurance and freight), July 2008 - June 2010

	Jul-Dec 2008	Jan-Jun 2009	Jul-Dec 2009	Jan-Jun 2010*	% Change
Trade Balance	-535.8	-111.2	614.2	632.5	3.0
Exports, c.i.f	2,147.9	1,558.0	2,737.7	3,198.9	16.8
Metals	1,640.6	1,201.8	2,141.3	2,624.0	22.5
<i>Copper</i>	1,526.0	1,164.3	2,014.9	2,467.2	22.2
<i>Cobalt</i>	114.7	37.5	126.4	156.8	24.0
Total NTEs	507.3	356.2	596.3	576.8	-3.6
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	0.0
Copper Wire	71.2	37.2	73.2	84.6	15.6
Cane Sugar	44.8	26.6	71.5	54.7	-23.6
Burley Tobacco	48.6	29.7	59.9	40.8	-31.9
Cotton Lint	22.6	15.5	30.2	16.5	-45.4
Electrical Cables	21.1	17.7	20.5	21.8	6.6
Fresh Flowers	10.9	10.7	12.0	9.7	-19.2
Cotton Yarn	0.9	0.1	0.0	0.0	0.0
Fresh Fruits & Vegetables	12.2	6.5	15.5	3.9	-75.1
Gemstones	25.5	13.4	25.6	25.5	-0.1
Gasoil/Petroleum Oils	9.8	13.5	17.2	18.7	9.1
Electricity	1.9	4.3	6.2	4.8	-22.3
Other	250.9	194.2	277.8	307.0	10.5
<i>Of which Maize & Maize Seed</i>	<i>11.4</i>	<i>3.4</i>	<i>18.5</i>	<i>3.6</i>	<i>-80.4</i>
<i>Wheat & Insulin</i>	<i>15.5</i>	<i>9.4</i>	<i>11.9</i>	<i>16.7</i>	<i>40.1</i>
<i>Cement & Lime</i>	<i>22.1</i>	<i>17.6</i>	<i>23.6</i>	<i>0.1</i>	<i>-99.4</i>
Imports c.i.f.	-2,683.7	-1,669.2	-2,123.5	-2,566.3	20.9

Source: Bank of Zambia

*Figures for January - June 2010 are preliminary.

Table 2: Metal Production, Export Volumes, Values and Prices, July 2008 - June 2010

Period	Copper					Cobalt				
	Export Volume Tonnes	Production Tonnes	Value US \$'000	Price US\$/Tonne	Price US\$/pound	Export Volume Tonnes	Production Tonnes	Value US \$ '000	Price US\$/Tonne	Price US\$/pound
Quarter 3, 2008										
Quarter 4, 2008	127,284	141,734	856,224	6,726.87	3.05	1,236	1,296	69,418	56,187.00	25.49
Jul-Dec 2008	175,592	182,149	669,670	3,813.79	1.73	1,123	1,090	45,309	40,362.16	18.31
Quarter 1, 2009	302,876	323,883	1,525,895	5,038.01	2.29	2,358	2,386	114,728	48,653.49	22.07
Quarter 2, 2009	151,754	170,948	497,502	3,278.35	1.49	1,071	1,081	12,559	11,728.82	5.32
Jan- Jun 2009	160,179	168,424	666,838	4,163.07	1.89	878	887	24,902	28,372.58	12.87
Quarter 3, 2009	311,933	339,372	1,164,340	3,732.66	1.69	1,949	1,968	37,461	19,225.67	8.72
Quarter 4, 2009	184,706	178,140	947,828	5,131.55	2.33	2,037	2,015	67,427	33,104.50	15.02
Jul-Dec 2009	177,458	180,188	1,067,118	6,013.37	2.73	1,882	1,896	58,973	31,328.05	14.21
Quarter 1, 2010	362,164	358,328	2,014,946	5,563.63	2.52	3,919	3,912	126,400	32,251.26	14.63
Quarter 2, 2010*	191,024	188,008	1,274,659	6,672.78	3.03	1,943	1,961	77,951	40,108.10	18.19
Jan-Jun 2010*	181,367	175,950	1,192,559	6,575.40	2.98	2,074	2,029	79,108	38,133.40	17.30
	372,390	363,958	2,467,217	6,625.35	3.01	4,018	3,990	157,059	39,088.56	17.73

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

Table 3: Imports by Commodity Groups in US\$ millions (c.i.f), July 2008 - June 2010

Description	2008	2009		2010	% Change Jan - Jun /July - Dec
	July - Dec	Jan - Jun	July - Dec	Jan - Jun*	
Food Items	162	130	126	103	-17.9
Petroleum Products	528	289	247	330	33.7
Fertilizers	136	85	113	96	-14.9
Chemicals	351	190	234	290	23.9
Plastic and Rubber Products	110	77	110	106	-4.0
Paper and Paper Products	56	41	61	40	-33.6
Iron and Steel	170	84	142	136	-4.4
Industrial Boilers & Equipment	403	256	328	455	38.8
Electrical Machinery & Equipment	152	99	109	93	-15.1
Vehicles	229	139	143	154	7.2
Other Imports	387	279	510	764	49.5
Total Imports	2,684	1,669	2,123	2,566	20.9

Source: Central Statistical Office, The Monthly

*Figures are preliminary.

Table 4: Sources of Reserve Money Growth

	Jul - Dec 2009		Jan - Jun 2010	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a + b + c + d)	1,178.5	29.6	1,514.2	0.4
A) Net Purchases from Govt	1,160.9		-927.6	
b) Net Purchases from non-Government	-49.5		69.0	
c) Bank of Zambia own use of forex	-16.2		-0.1	
d) Change in stat. reserve deposits forex balances	83.3		275.8	
2/ Net Domestic Credit (a + b)	-441.5		630.6	
a) Autonomous influences	5,076.0	-11.1	5,865.1	14.6
Maturing Open Market Operations	5,953.8		4,994.9	
Direct Govt Transactions	-29.6		1,035.2	
TBs and Bonds Transactions	-911.0		-144.3	
Claims on non-banks (Net)	62.8		-20.8	
b) Discretionary influences	-5,517.5		-5,234.5	
Open Market Operations	-5,534.9		-5,229.6	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-855.6		-2,087.4	
iii. Term Deposits Taken	-4,679.3		-3,142.3	
Treasury bill Rediscounts	26.0		0.0	
Other claims (Floats, Overdrafts)	-8.5		-4.9	
Change in Reserve Money	737.0	18.51	47.8	

Source: Bank of Zambia

Table 5a: Shares of Total Loans & Advances by Sector, December 2007- June 2010 (in percentages)

Sector	Dec-07	Dec-08	Jun-09	Dec-09	Jun-10
Agriculture, forestry, fishing and hunting	21.0	16.2	18.4	19.5	18.7
Mining & Quarrying	4.0	4.7	4.9	4.5	4.2
Manufacturing	10.7	10.8	11.0	12.3	13.0
Electricity, Gas, Water & Energy	4.9	2.4	2.3	1.6	1.4
Construction	3.5	4.0	2.9	3.3	4.1
Wholesale & Retail Trade	10.8	9.7	9.1	10.5	11.7
Restaurants & Hotels	1.2	3.1	1.9	1.6	1.9
Transport, Storage & Communications	7.2	7.0	7.9	6.3	5.4
Financial Services	4.2	7.9	8.1	5.1	3.8
Community, Social and Personal Services	1.6	1.3	2.2	4.0	2.5
Real Estate	2.2	4.9	7.0	7.5	5.2
Personal Loans	14.7	25.4	21.6	21.6	26.2
Others	14.0	2.6	2.9	2.2	2.0

Source: Bank of Zambia

Table 5b: Shares of Total Loans & Advances by Sector (Excluding Foreign Currency Loans), December 2007 - June 2010 (in percentages).

Sector	Dec 07	Dec-08	Jun-09	Dec-09	Jun-10
Agriculture, forestry, fishing and hunting	17.6	8.7	11.8	11.5	9.8
Mining & Quarrying	1.1	0.5	1.8	0.8	1.3
Manufacturing	8.4	10.4	11.0	9.8	12.0
Electricity, Gas, Water & Energy	2.5	0.0	0.8	1.4	1.1
Construction	4.2	3.8	3.0	2.6	3.8
Wholesale & Retail Trade	10.0	7.7	6.8	10.9	9.5
Restaurants & Hotels	1.1	4.6	1.6	1.0	1.1
Transport, Storage & Communications	8.3	7.0	8.6	7.1	5.5
Financial Services	3.7	4.3	6.5	3.5	3.5
Community, Social and Personal Services	0.7	0.4	1.8	4.7	3.1
Real Estate	2.2	6.6	8.9	9.8	5.4
Personal Loans	21.6	43.3	33.8	34.1	41.1
Others	18.6	2.7	3.5	2.8	2.7

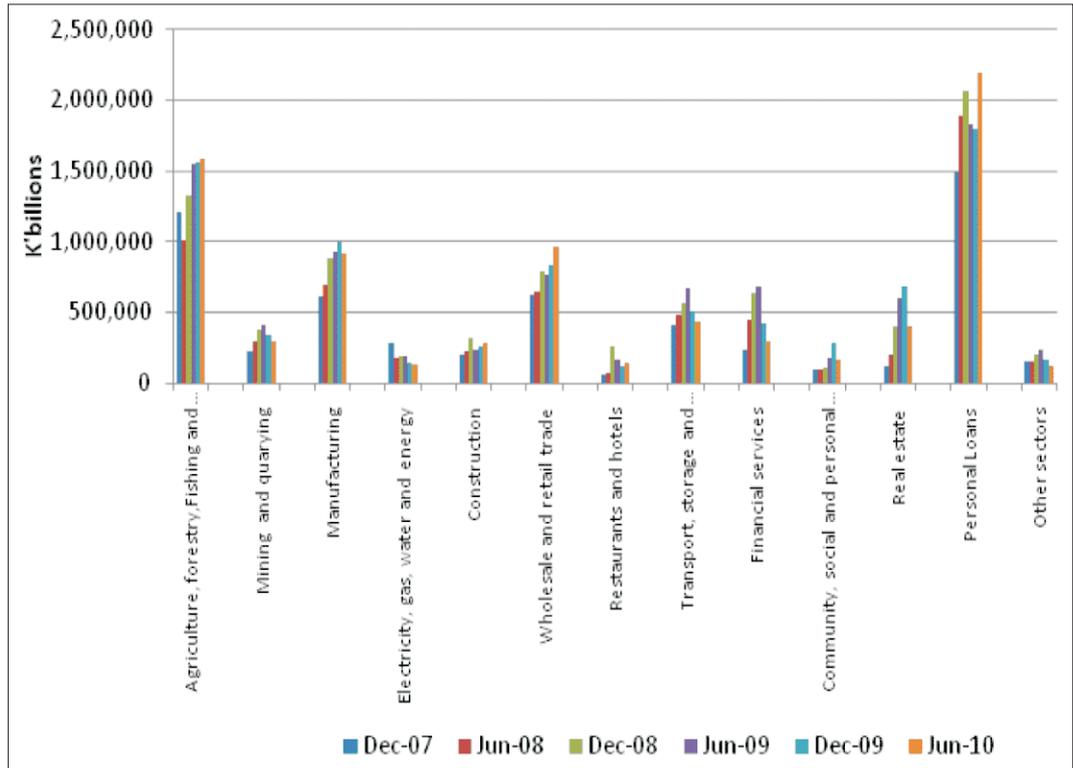
Source: Bank of Zambia

Table 5c: Shares of Foreign Exchange Loans & Advances by Sector, December 2007 - June 2010

Sector	Dec 07	Dec-08	Jun-09	Dec-09	Jun-10
Agriculture, forestry, fishing and hunting	28.1	26.6	29.5	33.1	34.1
Mining & Quarrying	10.1	10.5	10.1	10.9	8.8
Manufacturing	15.4	11.3	11.0	16.5	14.9
Electricity, Gas, Water & Energy	9.7	5.9	3.3	1.8	1.9
Construction	2.2	4.2	2.6	4.4	4.5
Wholesale & Retail Trade	12.5	12.5	12.9	9.8	15.1
Restaurants & Hotels	1.3	1.2	2.5	2.7	3.2
Transport, Storage & Communications	4.9	6.9	8.0	4.9	5.2
Financial Services	5.2	12.8	10.7	7.8	4.3
Community, Social and Personal Services	3.6	2.7	2.7	2.8	1.2
Real Estate	2.2	2.6	4.0	3.6	5.0
Personal Loans	0.3	2.9	0.8	0.5	1.0
Others	4.5	0.6	1.8	1.1	0.8

Source: Bank of Zambia

Chart 1: Commercial Banks Loans and Advances by Sector, December 2007- June 2010



Source: Bank of Zambia

Chart 2: Structure of Loans and Advances (Monthly Average), December 2009 - Jun 2010

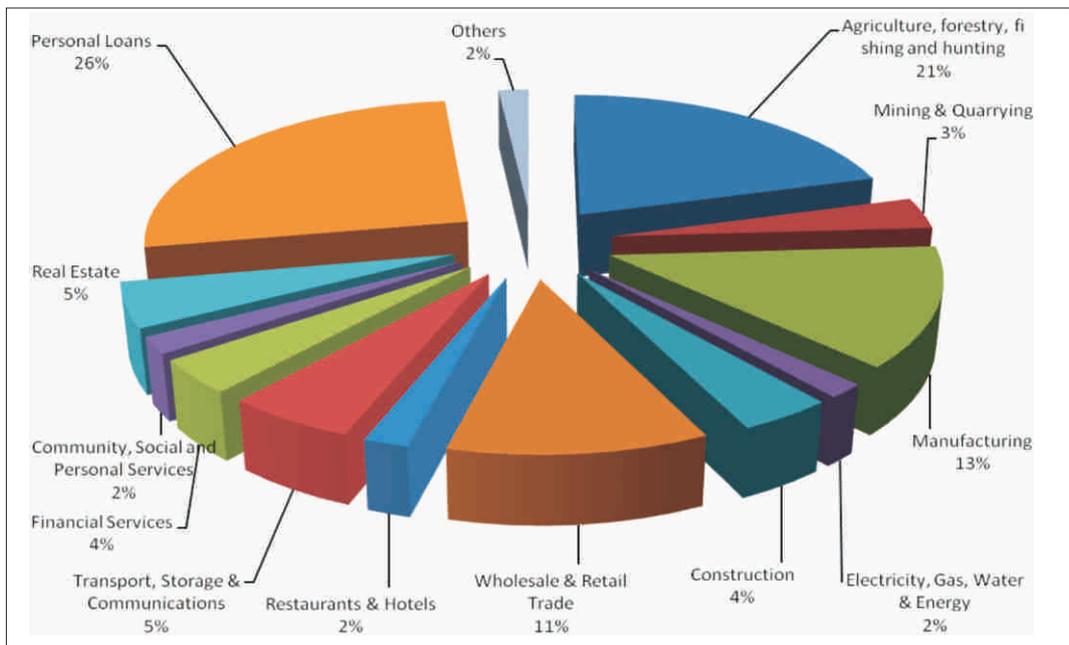


Chart 3: Structure of Loans and Advances (Monthly Average Excluding Foreign Currency Loans), Jan - Jun 2010

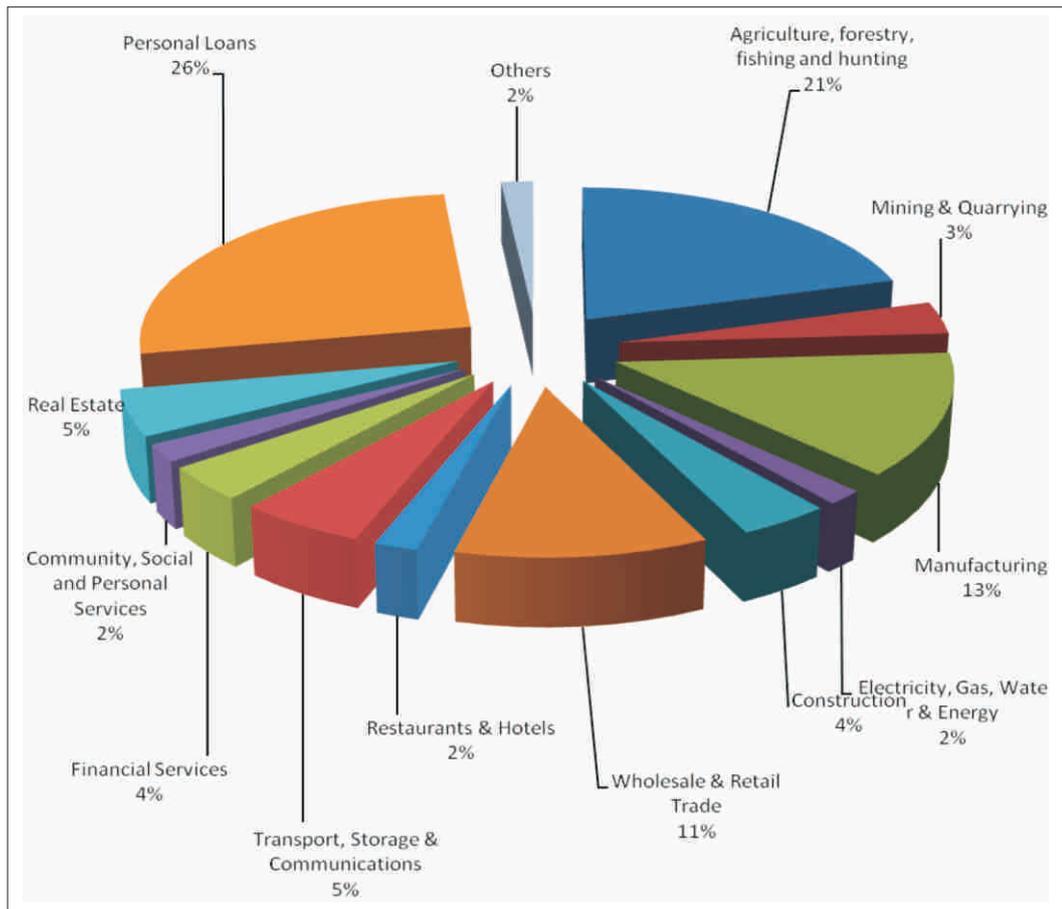


Chart 4: Commercial Banks Foreign Currency Loans and Advances by Sector, December 2007-June 2010

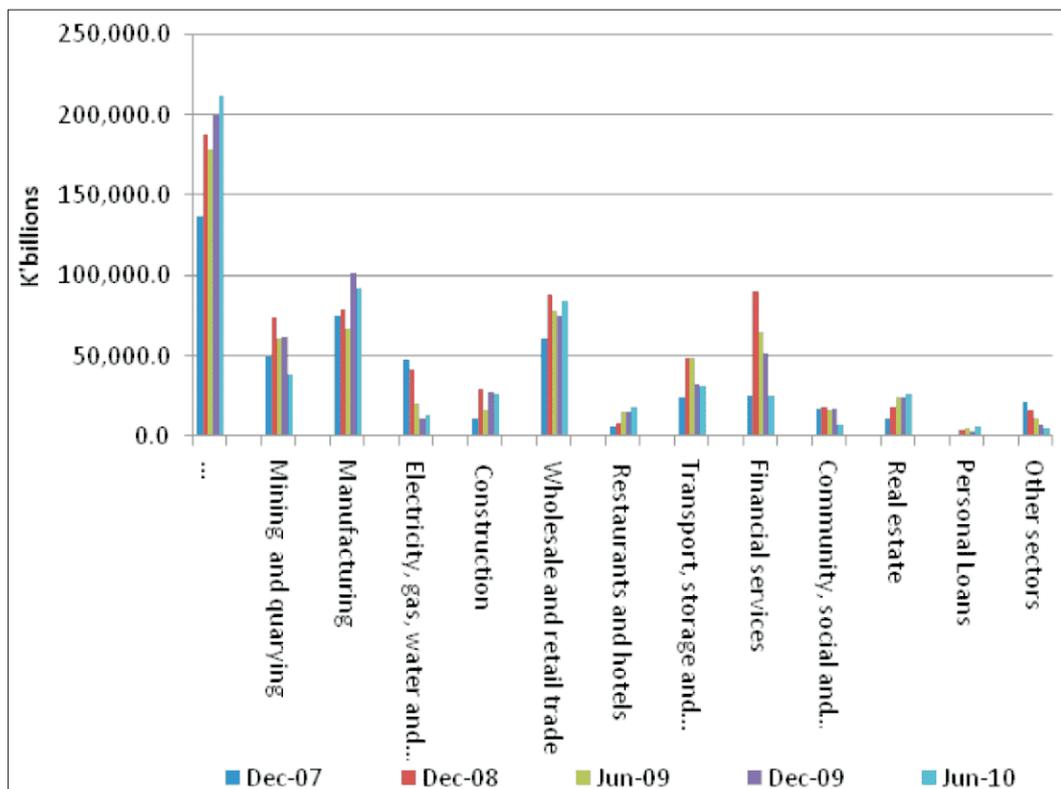


Chart 5: Structure of Forex Loans and Advances (Monthly Average), Jan - Jun 2010

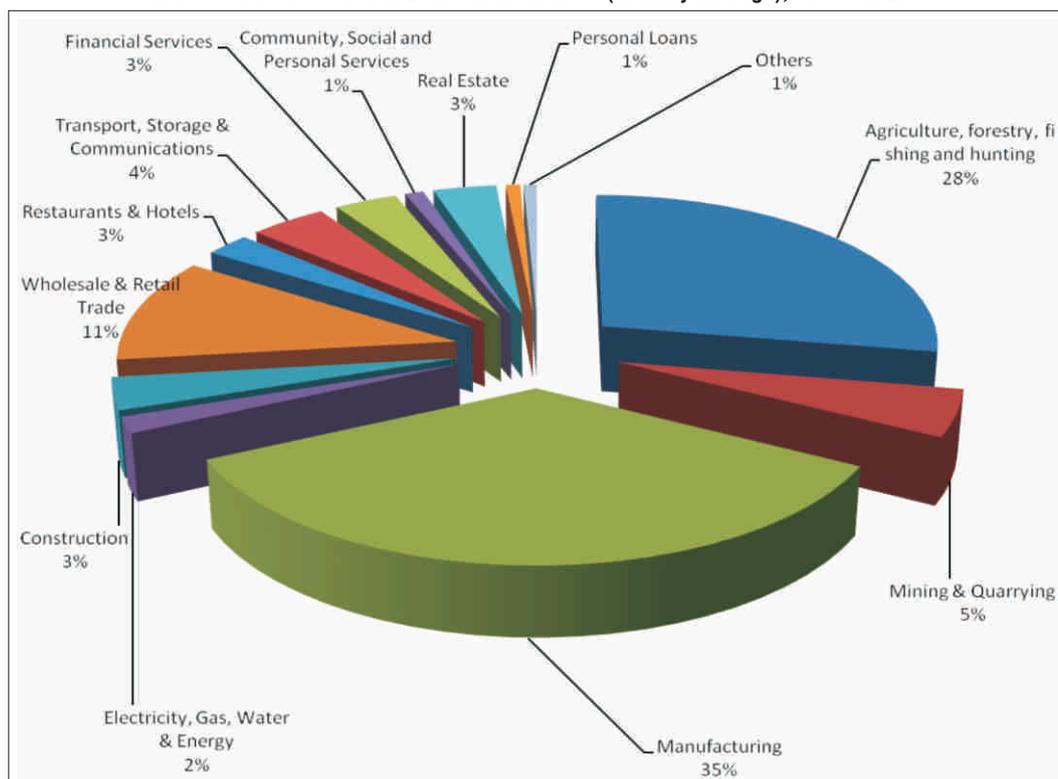


Table 6: Central Government Fiscal Operations, Second Half 2010 (in K' billion)

	Annual	Quarter 1	Quarter 2	First Half		
	Approved	Prelim.	Prelim.	Target	Prelim.	% Change
Total Revenue and Grants	14,533.7	2,958.9	3,226.3	7,052.0	6,185.2	-12.3
Tax Revenue	11,385.2	2,312.5	2,716.4	5,367.6	5,028.9	-6.3
Non-Tax Revenue	721.8	124.1	340.0	406.4	464.1	14.2
Grants	2,426.7	522.3	169.9	1,278.0	692.2	-45.8
Total Expenditure	16,421.9	3,260.8	3,500.4	8,484.9	6,761.2	-20.3
Current Expenditure	13,391.2	2,832.2	3,038.2	6,970.4	5,870.4	-15.8
Personal Emoluments	6,004.9	1,383.6	1,564.1	3,094.4	2,947.7	-4.7
PSRP	20.0	0.0	0.0	5.0	0.0	-100.0
Use of Goods and Services	3,555.9	634.9	575.6	1,864.3	1,210.5	-35.1
Interest	1,284.5	280.2	195.1	576.6	475.3	-17.6
Grants and Other Payments	1,512.7	397.1	243.6	775.8	640.7	-17.4
Social Benefits	217.8	19.7	33.8	54.5	53.5	-1.9
Other Expenses	526.2	46.2	369.3	449.1	415.5	-7.5
Liabilities	269.2	70.5	56.7	150.7	127.2	-15.6
Assets	3,030.7	428.6	462.2	1,514.5	890.8	-41.2
Non Financial Assets	2,947.6	413.9	448.0	1,473.8	861.9	-41.5
Financial Assets	83.1	14.7	14.2	40.7	28.9	-29.0
Change in Balances	0.0	39.4	-133.0	377.3	-93.6	124.8
Fiscal Balance	-1,888.2	-262.4	-407.1	-1,055.6	-669.6	36.6
Financing	1,888.0	341.2	407.1	898.9	748.3	-16.8
Domestic	1,487.0	331.3	398.0	733.9	729.3	-0.6
Foreign	401.0	9.9	9.1	165.0	19.0	-88.5

Source: Ministry of Finance and National Planning

Table 7: Indicators of Bidding Behaviour in the Government Securities Market¹

	Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns) ²		Average Subscription Rate (%) ³	
	Jul -Dec, 09	Jan -Jun, 10	Jul- Dec, 09	Jan- Jun, 10	Jul - Dec, 09	Jan - Jun, 10	Jul - Dec, 09	Jan - Jun, 10
91-day bills	22.3	20.0	33.5	27.8	11.2	7.8	50.2	39.0
182-day bills	19.6	20.0	27.6	25.2	8.0	5.2	40.8	25.8
273-day bills	17.3	20.0	27.5	34.9	10.2	14.9	59.0	74.5
364-day bills	40.8	36.9	72.4	67.0	31.6	30.0	77.5	67.4
TOTAL	100.0	96.9	160.9	154.8	61.0	57.9	61.0	54.8
2-year bond	26.7	26.7	43.2	69.3	21.5	42.6	80.5	159.7
3-year bond	33.3	33.3	41.7	68.3	8.3	34.9	24.9	104.8
5-year bond	41.7	41.7	32.1	84.0	-4.9	42.4	-11.8	101.7
7-year bond	6.7	6.7	6.7	12.8	0.0	6.2	0.0	92.5
10-year bond	6.7	6.7	5.9	10.4	-0.7	3.8	-10.4	56.5
15-year bond	5.0	5.0	4.0	6.2	-1.0	1.2	-20.0	23.6
TOTAL	120.0	120.0	133.6	251.0	-81.6	131.0	-68.0	109.2

Source: Bank of Zambia

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

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

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

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

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

