



*Bank Of Zambia*

# Bank of Zambia Monetary Policy Statement

**JULY - DECEMBER 2004**



# 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 systems 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

Monetary policy in the first half of 2004 aimed at achieving an overall inflation rate of 18.5% as at end-June 2004 by realising non-food and food inflation rates of 20.6% and 16.7% at the end of the first half of 2004, respectively. In line with these objectives, reserve money and broad money were each programmed to grow by 11.7% during this period.

An assessment of performance for the first half of 2004 revealed that monetary policy outcomes were favourable, as the overall inflation rate at 18.6% was consistent with the projection of 18.5%.

- Non-food inflation was below the end-June projection by 2.1 percentage points, whilst food inflation exceeded the projection by 4.2 percentage points. The favourable outturn in overall inflation was therefore largely on account of the slow down in non-food inflation. This reduction in non-food inflation was attributed to the improved performance in the external sector, coupled with appropriate monetary and fiscal policies over the review period. Consequently, the trade deficit narrowed by about 23% and the exchange rate remained relatively stable on account of improved inflows of foreign exchange and good performance of the Inter-bank Foreign Exchange Market system.
- On the monetary side, reserve money grew by 4.5% and was well within the projection of 11.7%. In addition, the money market continued to be characterised by declining commercial banks' lending and Government yield rates, as liquidity and Government domestic financing were kept within the projected ceilings.

During the second half of 2004, monetary policy will aim at attaining the end-December annual overall inflation of no more than 20.0% by achieving food inflation of 14.4% and non-food inflation of 26.7% as at end-December 2004. In this regard, reserve money and broad money growth will be limited to no more than 5.7% and 18.2% for the year as a whole, respectively. To meet these targets, the Bank of Zambia will continue to rely on indirect instruments of monetary policy. Over the next two years ending in June 2006, the Bank of Zambia will be guided by free market principles in the formulation and implementation of monetary policy.

## 1.0 Introduction

Monetary policy in the first half of 2004 aimed to achieve an overall inflation rate of 18.5% as at end-June 2004. This was premised on achieving non-food and food inflation rates of 20.6% and 16.7% at the end of the first half of 2004, respectively. Consistent with these objectives, reserve money and broad money were each programmed to grow by 11.7% during this period (see Table 1). In addition, net domestic financing of the Government budget was programmed not to exceed 1.7% of GDP, with net domestic credit and net private sector credit set to expand by no more than 22.3% and 10.9% at end-June 2004 over the end-December 2003 levels, respectively.

**TABLE 1: TABLE 1: ACTUAL PERFORMANCE AGAINST PROJECTIONS (PERCENT CHANGE)**

	As at end-June 2004	
	Projection	Actual
Overall Inflation	18.5	18.6
<i>Non-food Inflation</i>	20.6	18.5
<i>Food Inflation</i>	16.7	18.7
Reserve Money	11.7	4.5
Broad Money	11.7	17.8
Domestic Credit	22.3	18.9
Net Domestic Financing (% of GDP)	1.7	1.7

Source: Central Statistical Office and Bank of Zambia

An assessment of monetary policy performance during the first half of 2004 shows the outcome of monetary policy as largely favourable. The overall inflation rate at 18.6% in June 2004 (December 2003; 17.2%) was in line with the projection of 18.5%. Reserve money grew by 4.5% during the first half of 2004 (December 2003; 20%) compared with a projection of 11.7% for the first half of 2004. In addition, the money market continued to be characterised by declining Commercial banks' lending and Government yield rates, as Government domestic financing remained within the projected ceilings. Further, the foreign exchange market continued to be stable.

However, preliminary data indicate that broad money grew by 17.8% in the first half of 2004 (December 2003; 14.6%) and was 6.1 percentage points higher than the projection of 11.7% for the first half of 2004. The increase in broad money was higher than the increase in reserve money, indicating that the money multiplier increased during the review period<sup>1</sup>.

This monetary policy statement reviews the conduct of monetary policy during the first half of 2004 and outlines the likely challenges in the conduct of monetary policy in the second half of 2004. Further, the statement provides the measures that the Bank of Zambia will take during the second half of 2004. Furthermore, the statement gives the principles that the Bank of Zambia intends to follow to guide monetary policy formulation and implementation over the next two years up to June 2006.

<sup>1</sup>The money multiplier increased to 3.6% at end-June 2004 from 3.1% at end-December 2003.

## 2.0 Assessment of Monetary Policy Outcome during January - June 2004

During the first half of 2004, it was anticipated that:

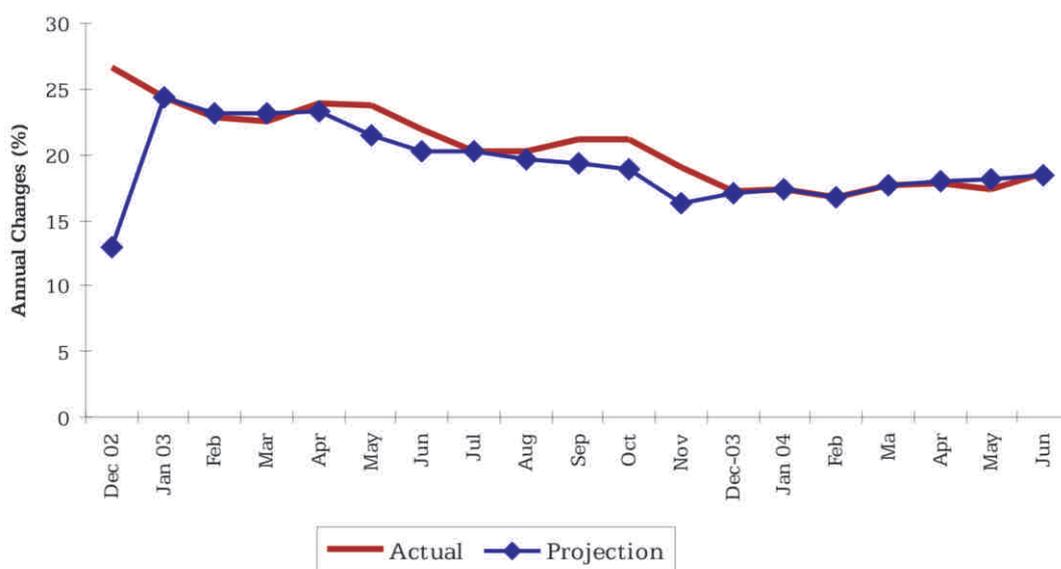
- The overall inflation rate would not exceed 18.5% at end-June 2004;
- The exchange rate would remain relatively stable on account of improved foreign exchange supply on the market arising from favourable export receipts due to higher metal prices;
- The Government net domestic financing would be within the projected ceilings. This was expected to contribute to the anticipated drop in non-food inflation; and
- The continued drop in commercial banks' lending interest rates would further contribute to the reduction in the cost of production, and hence contribute to the general stability of prices of goods and services.

However, it was also anticipated that increases in the prices of petroleum products would give rise to inflationary pressures, which were expected to adversely affect the inflation outcome. In view of these anticipated developments, monetary policy was to contain the growth of reserve money to keep inflation within the projected path. To do that, the Bank of Zambia was to employ indirect instruments of monetary policy.

### 2.1 Overall Inflation

The outturn in overall inflation is determined by a combination of the developments in food and non-food inflation. Food inflation rose by 5.0 percentage points to 18.7% in June 2004 and was 4.2 percentage points over the projection as at end-June 2004. In contrast, non-food inflation slowed down by 3.2 percentage points to 18.5% over the same period. Over the period under review, the annual overall inflation of 18.6% at end-June 2004 (December 2003; 17.2%) was in line with the projection of 18.5%, notwithstanding that food inflation exceeded the projection and non-food inflation fell below its projected end-June level (see Chart 1 and Appendix II Table 1).

CHART 1: ANNUAL OVERALL INFLATION

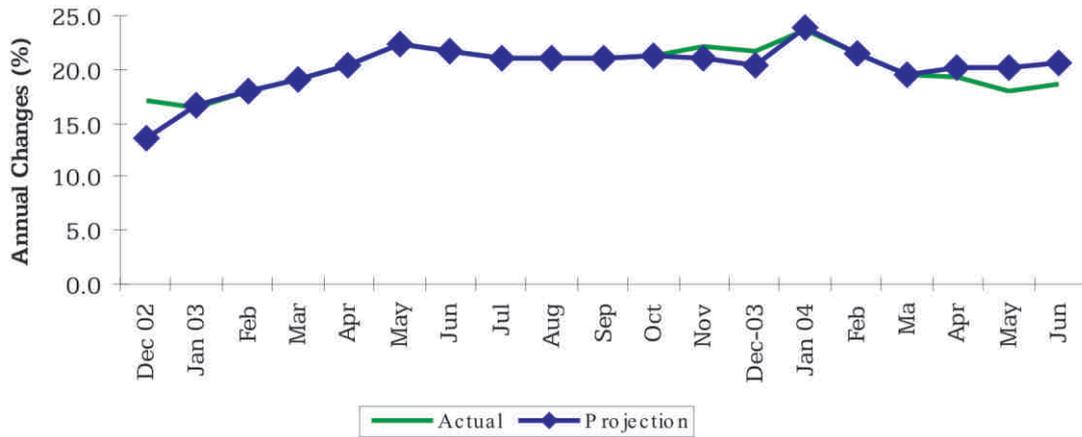


Source: Central Statistical Office and Bank of Zambia

#### 2.1.1 Non-food Inflation

The outturn in non-food inflation was favourable, as it was below the end-June 2004 projected annual non-food inflation of 20.6% by 2.1 percentage points (see Chart 2).

CHART 2: ANNUAL NON-FOOD INFLATION



Source: Central Statistical Office and Bank of Zambia

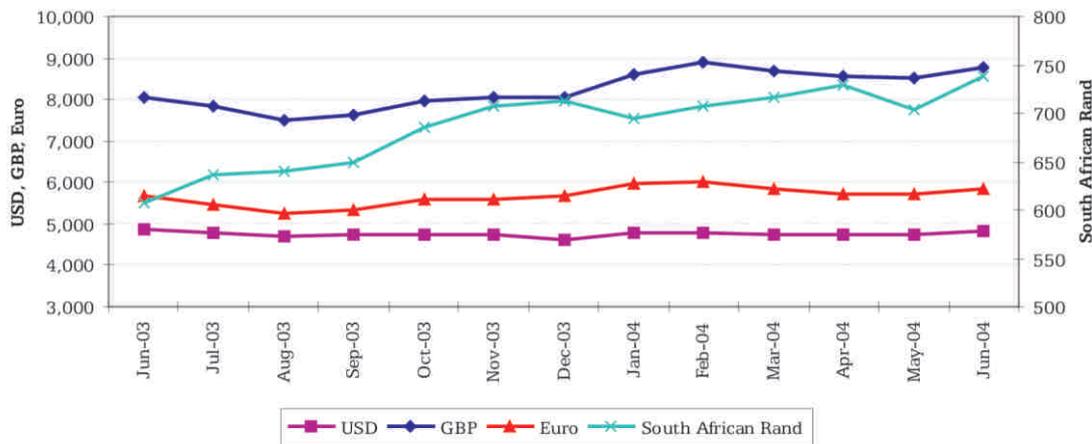
The factors responsible for the favourable outcome in non-food inflation were largely the improved performance of the external sector and the appropriate monetary and fiscal policies over the period. These factors contributed to the relative stability of the Kwacha against major foreign currencies, and the decline in interest rates.

### Exchange Rate Developments

The exchange rate remained relatively stable during the first half of 2004, largely on account of increased export earnings and good performance of the Inter-bank Foreign Exchange Market (IFEM) system. During the year through June 2004, the depreciation of the Bank of Zambia nominal mid-exchange rate slowed down to 5.4% compared with 12.5% over the same period last year. The monthly average Bank of Zambia mid-exchange rate moved to K4,841.07 per US dollar in June 2004 from K4,592.21 per US dollar in December 2003 (see Chart 3). The stability in the exchange rate contributed to the favourable outcome in non-food inflation.

With regard to other major currencies, the Kwacha depreciated by 3.1% against the euro, 9.1% against the UK pound and 3.6% against the South African rand. Consequently, the monthly average exchange rate of the Kwacha against the euro moved to K5,827.23 in June 2004 from K5,654.11 per euro in December 2003. The exchange rate against the UK pound moved to K8,789.04 from K8,058.52 per pound. Against the South African rand, the exchange rate moved to K738.15 from K712.83 per rand.

CHART 3: EXCHANGE RATES, KWACHA AGAINST MAJOR CURRENCIES



Source: Bank of Zambia

### International Trade

Preliminary data indicate that despite an increase in merchandise imports, the deficit on the trade account narrowed to US \$168.3 million during the first half of 2004 from US \$270.2 million during the second half of 2003. While merchandise imports increased by 22.7% to US \$932.4 million during the first half of 2004 from US \$759.9 million during the second half of 2003, export

earnings increased to US \$764.1 million during the first half of 2004 from US \$489.7 million in the second half of 2003. The improvement in export earnings emanated from both metal and non-traditional exports.

Metal export earnings increased to US \$534.7 million during the first half of 2004 from US \$302.7 million in the second half of 2003 while earnings from non-traditional exports grew to US \$229.4 million from US \$187.0 million over the same period (see Appendix II Table 2). Copper exports increased to US\$ 475.1 million in the first half of 2004 from US\$ 329.0 million in the second half of 2003. The increase in copper export earnings resulted from both increased production as well as a rise in the realised prices. The volume of copper exports increased to 192,798 metric tons in the first six months of 2004 from 184,010 metric tons in the last six months of 2003, while the realised copper prices increased to 113.0 US cents per pound at the end-of June 2004 from 81 US cents per pound at end-December 2003. With regard to cobalt, despite a decline in export volumes to 1,169 metric tons in the first half of 2004 from 1,760 metric tons in the second half of 2003, cobalt earnings increased to US \$59.7 million over the review period from US \$24.7 million over the same period in 2003 due to increased prices. The realised cobalt prices rose to US \$23.17 per pound in the first half of 2004 from US \$9.57 per pound in the last half of 2003.

The increase in imports was largely attributed to a rise in imports of petroleum products by 59.7%, plastic and rubber products (5.5%), and paper and paper products (272.3%). Imports of iron and steel, boilers and equipment, electrical machinery and equipment, and vehicles also increased (see Appendix II Table 3).

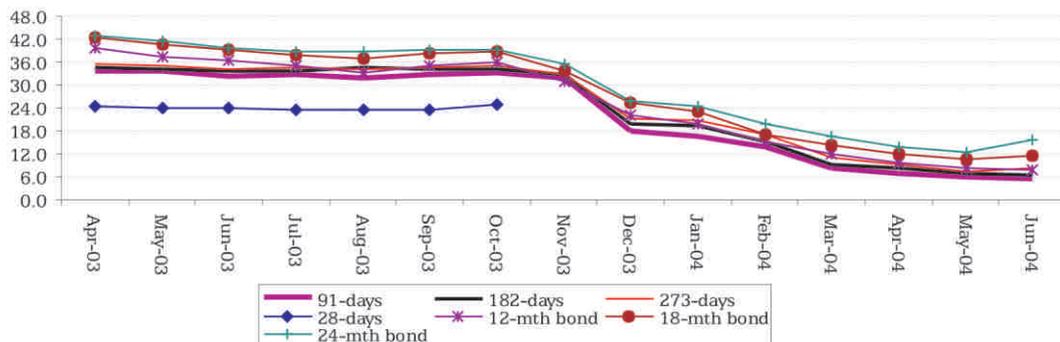
In the area of tourism services, during the first half of 2004, total international arrivals increased by 19.5% to 116,894 from 97,856 arrivals recorded during the same period in 2003. The increase in tourist arrivals was another factor that contributed to the improvement in the supply of foreign exchange to the market.

**Interest Rates Developments**

Interest rates continued to trend downwards, as Government domestic financing was kept within the programmed levels. This was coupled with the easing of monetary policy in the last quarter of 2003. These policy actions contributed to the expansion in credit to the private sector, in particular agriculture.

Yield rates on all maturity tenors continued to fall in the first half of 2004, and declined to their lowest levels in 10 years. The weighted average yield rate on Treasury bills fell to 7.0% in June 2004 from 15.1% in December 2003 while the weighted average yield rate on Government bonds declined to 11.9% from 24.8% over the same period (see Chart 4). Consistent with Government financing requirements, the growth in the stock of Treasury bills slowed down by 3.1% to K1,367.0 billion from 16.5% in the previous period while the stock of Government bonds increased by 2.3% to K3,119.3 billion compared with 9.6% increase in the previous period.

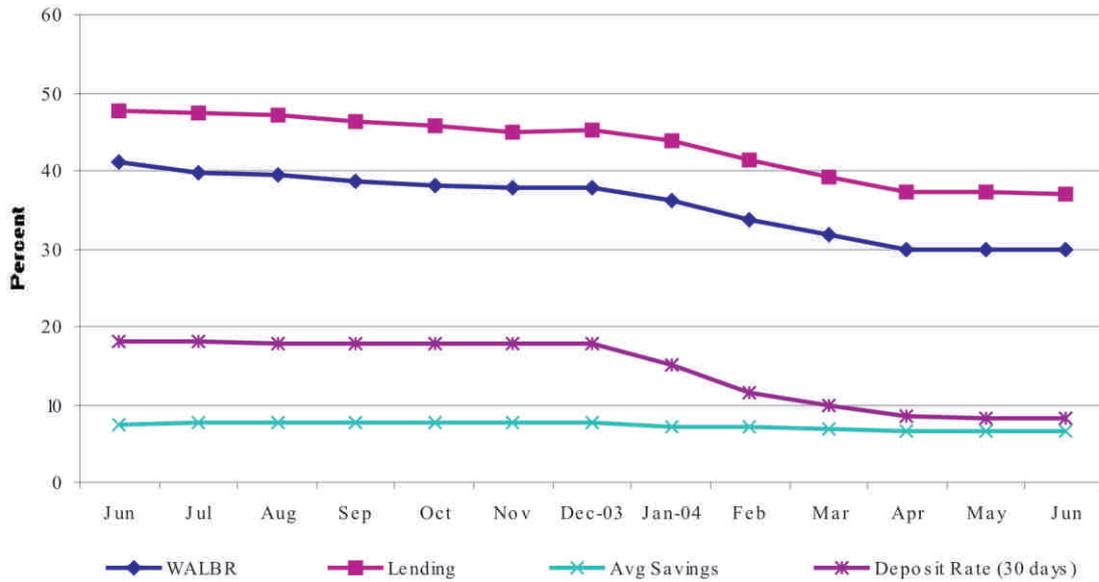
**CHART 4: GOVERNMENT SECURITIES YIELD RATES**



Source: Bank of Zambia

Commercial banks' lending interest rates also exhibited a downward trend during the review period, which was in line with the decline in yield rates on Government securities. The commercial banks' weighted average lending base rate (WALBR) and the average lending rate (ALR) declined to 29.8% and 36.9% in June 2004 from 38.0% and 45.6% in December 2003, respectively. Similarly, savings and deposit rates moved downwards during the first half of 2004. The average savings rate (ASR) for amounts above K100,000 and the 30-day deposit rate for amounts of more than K20 million declined to 6.6% and 8.3% at end-June 2004 from 7.6% and 17.9% in December 2003, respectively (see Chart 5).

CHART 5: NOMINAL INTEREST RATES



Source: Bank of Zambia

**Fiscal Developments**

Domestic fiscal performance was largely favourable during the first half of 2004. Preliminary data indicate that the domestic budget recorded a deficit of K313.0 billion, on a cash basis, in the first half of 2004, which was 21.8% lower than the projected deficit of K400.0 billion for the first half of 2004. Consequently, net domestic financing of the budget during the first half of 2004 was K434.0 billion, which was in line with the projected domestic budget financing of K434.0 billion.

**Monetary Developments**

Preliminary data show that broad money<sup>2</sup> (M<sub>3</sub>) increased by 17.8% to K5,263.6 billion in June 2004 from K4,467.9 billion in December 2003. The increase in broad money was due to the improvement in net foreign assets by 31.1% following an increase in commercial banks' foreign assets and the increase in domestic credit by 18.9%. The improvement in the net foreign assets position was consistent with the improved performance of the external sector. On an annual basis, broad money growth rose to 35.0% from 23.4% in December 2003 (see Chart 6).

CHART 6: DEVELOPMENTS IN BROAD MONEY



Source: Bank of Zambia

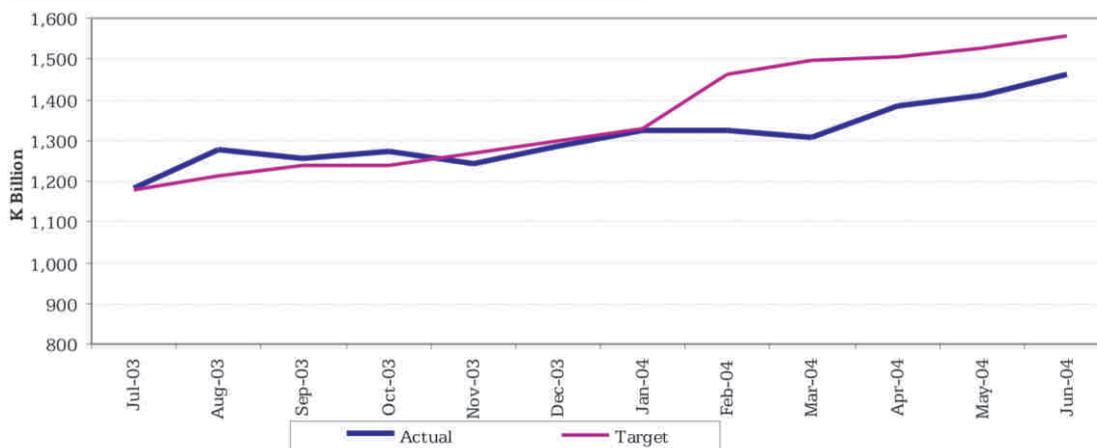
In the first half of 2004, domestic credit increased by 18.9% to K4,702.0 billion following increased lending to private enterprises, public enterprises and Government by 40.7%, 45.6% and 13.6%, respectively. The expansion in domestic credit was 3.4 percentage points below the projected expansion of 22.3% in the first half of 2004.

<sup>2</sup>Broad Money (M<sub>3</sub>) is equal to M<sub>2</sub> + Foreign Currency Deposits, where M<sub>2</sub> is equal to M<sub>1</sub> (i.e. the sum of currency outside banks, demand deposits at BoZ and demand deposits at banks) + local currency savings and time deposits.

The share of Government borrowing in domestic credit declined to 60.2% in June 2004 from 64.5% in December 2003. However, the share remained high, hence the need for Government to continue reducing its borrowing from the banking sector to increase loanable funds to the private sector, thereby contributing to lowering of lending interest rates. This would in turn contribute to the achievement of the growth objective.

In line with the increase in broad money, reserve money grew by 4.5% (December 2003; 20.2%) on account of Bank of Zambia's net purchases of foreign exchange for international reserves build up. Compared with the target, the developments in average reserve money were favourable, as it continuously remained below the indicative ceiling of K1,558 billion (see Chart 7). This performance was largely due to adequate sterilisation through net sales of Government securities, which moderated the foreign exchange effects by 16.0% (see Appendix II Table 4).

**CHART 7: AVERAGE RESERVE MONEY PERFORMANCE**



Source: Bank of Zambia

On a sectoral basis, there was an improvement in lending to agriculture, mining and quarrying, energy and water, construction, and transport and communications sectors during the first half of 2004 compared with the second half of 2003 (see Appendix II Chart 1). However, there was a marginal reduction in lending to manufacturing, restaurants and hotels sectors and a sharp drop to the other sectors' category.

The largest share of loans and advances during the first half of 2004 continued to be extended to the agricultural sector with 26% of total loans and advances [22%; first half of 2003] and was followed by the manufacturing sector (14%), and wholesale and retail trade sector (14%), [16% and 15% in the second half of 2003, respectively]. Other significant shares of loans and advances went to the transport and communications sector (10%), [8%; second half of 2003]. Further, advances and loans were extended to, among others, mining and quarrying sector (5%), [4%; second half of 2003], and restaurants and hotels sector (3%), [4%; second half of 2003] (see Appendix II Chart 2 and Appendix II Table 5).

The share of loans and advances to other sectors fell during the period January to June 2004 to 13% from 23% in the second half of 2003 [23%; first half of 2003] following repayments of loans obtained earlier. Other sectors category represents lending to individuals for various reasons and is thus not included in the main sectors.

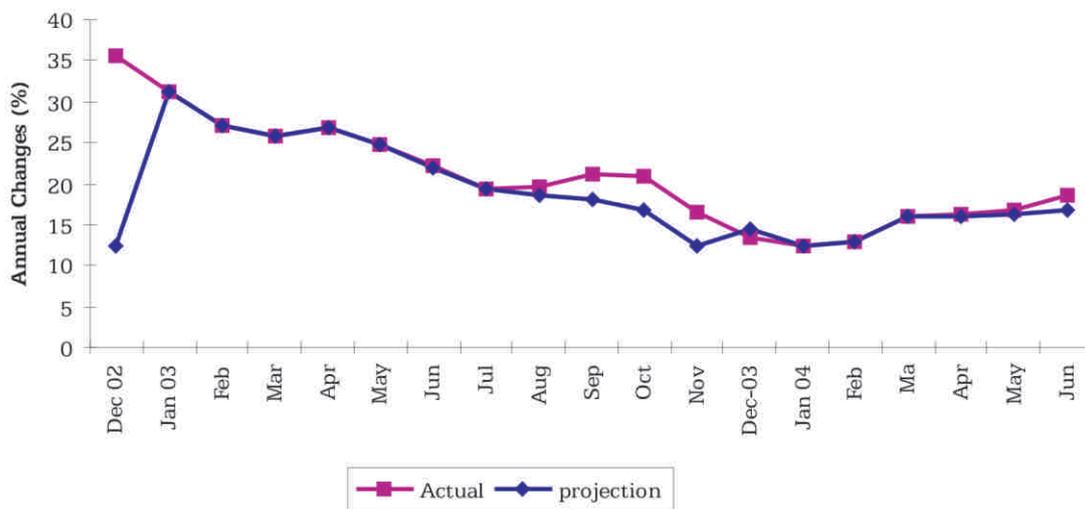
### 2.1.2 Food Inflation

Contrary to projections, the outturn in the food inflation during the first half of 2004 was unfavorable. The annual food inflation rate rose by 5.0 percentage points to 18.7% in June 2004 (13.5% in December 2003). This outcome was 4.2 percentage points above the projected annual food inflation of 14.5% for June 2004 (see Chart 8 and Appendix II Table 1). The increase in food inflation was attributed to increases in prices of fish, dried kapenta, fresh vegetables, fresh fruits, salt and other processed foods. This was despite lower prices on some food items, particularly maize grain, maize meal and other cereals.

The observed price increases in some food items were largely attributed to the upward adjustments in the prices of petroleum products owing to the increase in the price of crude oil on the international market. The prices of petrol and diesel were increased by an average of 3.2% in May to K4,355 per litre (before May; K4,218) and K3,774 (before May; K3,661), respectively. In

June 2004, the Energy Regulation Board allowed a further increase of 5.5% in the prices of petrol and diesel to K4,595 per litre and K3,982 per litre from May 2004 levels, respectively. These increases contributed to the increase in the cost of production and transportation, leading to increased prices of most items in the basket.

CHART 8: ANNUAL FOOD INFLATION



Source: Central Statistical Office and Bank of Zambia

### 3.0 Monetary Policy Objectives and Instruments for the period July - December 2004

During the second half of 2004, monetary policy will be geared towards achieving the end-December 2004 annual overall inflation of no more than 20.0%. This is premised on achieving food inflation of 14.4% and non-food inflation of 26.7% as at end-December 2004. To achieve this:

- Reserve money growth will be limited to no more than 5.7% for the year as a whole;
- Broad money growth will be limited to no more than 18.2% in 2004;
- Domestic credit expansion will be no more than 43.0% in 2004;
- Private sector credit expansion will be no more than 26.2%, which is supportive of the economic growth objective and consistent with the fiscal framework; and
- International reserves accumulation to reach at least 1.7 months of import cover at end-December 2004.

In this regard, the Bank of Zambia will continue to rely on indirect instruments of monetary policy to meet the set targets. Further, in order for monetary policy to be effective, it is expected that:

- Government fiscal operations will remain as programmed;
- The exchange rate will remain relatively stable on account of continued good performance of the external sector and improved balance of payments support following approval of a new PRGF arrangement by the IMF Board; and
- There will be continued adequate food supply following favourable weather conditions in the 2003/2004 agricultural season.

However, the higher than expected increases in world oil prices is a major downside to the inflation outlook for the rest of the year. If oil prices continue to rise, the achievement of the projected inflation rate for 2004 may be threatened. In addition, if the South African rand continues strengthening, it equally poses a threat to the achievement of the inflation target. Further, if the Food Reserve Agency's involvement in the procurement of maize exceeds the targeted 6% of maize on the market, coupled with the announced floor price of K36,000 per bag of maize, food inflation pressures could arise and hence make it difficult to achieve the inflation target.

#### 4.0 Monetary Policy Principles for the Next Two Years

The Government has adopted the PRGF arrangement covering the period July 2004 to July 2007 (see Appendix I). This spells out Government's broad policies and objectives. Consistent with the Poverty Reduction and Growth Facility (PRGF) arrangement, over the next two years, key macroeconomic objectives include:

- (i) increasing real GDP growth from 3.5% in 2004 to 5.0% in 2006 and beyond;
- (ii) reducing the rate of inflation to around 10% in 2006 and to single digit levels thereafter; and
- (iii) increasing the international reserves of the Bank of Zambia to about 2 months of import cover by 2007.

The principles that will guide the Bank of Zambia in the formulation and implementation of monetary policy will be consistent with the Government's medium term economic programme. In this regard, the Bank of Zambia will continue to rely on market-based instruments of monetary policy to achieve the inflation objective and ensure that the exchange rate is market-determined.

## Appendix I

### Economic Reform Programme

During the first half of 2004, consultations were held between Zambia and the International Monetary Fund (IMF) to review the performance of the economy under the Staff Monitored Programme (SMP), as this was key to reaching agreement on a new arrangement under the Poverty Reduction and Growth Facility (PRGF). In addition, Article IV Consultations<sup>3</sup> were held, as well as the review of progress on the development of the Financial Sector Development Plan (FSDP), preparation of the Poverty Reduction Strategy Paper (PRSP) progress report, privatisation of the Zambia National Commercial Bank and commercialisation of ZESCO. The Fund Staff also held discussions with the Zambian authorities on the 2004 budget.

Following a record of good performance in the first half of 2004, measured through the observance of structural and quantitative benchmarks agreed in the SMP, a three-year PRGF arrangement was agreed upon in mid-June 2004. The decision to place Zambia back on a PRGF arrangement culminated in, among other things, the IMF deciding to advance Zambia a loan of US \$320 million for Balance of Payments support for the period 2004 to 2007. It is also projected that new programme aid inflows from donors will resume, starting with euro 10 million from the European Union in July 2004 and a further euro 100 million over the three-year period of the PRGF. In addition, the World Bank will provide an adjustment credit of at least US \$100 million during the PRGF period. Being on a PRGF arrangement will facilitate Zambia to reach the HIPC completion point by the end of the year. Furthermore, the PRGF arrangement contains policies that, if successfully implemented, will ensure the continuation of the positive macroeconomic achievements of recent years.

It is Government's commitment to continue implementing sound macroeconomic policies and observe the performance criteria that have been outlined and agreed upon in the PRGF arrangement. Fulfilment of the performance criteria under the PRGF for the next six months will make it easy to reach the Heavily Indebted Poor Countries (HIPC) initiative completion point at the end of December 2004 (see Appendix Table 6).

### Performance against Programme Quantitative and Structural Criteria and Benchmarks

Progress in implementing the country's economic programme under the SMP is monitored on the basis of quantitative and structural performance criteria and benchmarks. The quantitative benchmarks include the Net Domestic Assets (NDA) of the Bank of Zambia, Net Domestic Financing (NDF) of the Government, and Gross International Reserves (GIR) of the Bank of Zambia.

Preliminary data indicate that the end-June, 2004 programme performance criteria on the NDA, NDF and GIR were observed. In addition, the targets on domestic arrears and external debt servicing obligations were met. However, the programmed balance of payments support of US \$29.0 million for the review period was not disbursed. This was largely due to lack of a PRGF arrangement with the IMF during the year through mid-June 2004.

<sup>3</sup>Article IV consultations are regular discussions between the IMF and Member Countries on macroeconomic issues.

## Appendix II

**TABLE 1: PROJECTED AND ACTUAL INFLATION, DECEMBER 2002 - JUNE 2004 (IN PERCENT)**

	Annual Overall		Annual Food		Annual Non-Food	
	Actual	Projection	Actual	Projection	Actual	Projection
Dec 02	26.7	16.0	35.5	13.7	17.2	18.1
Jan 03	21.9	20.3	22.1	26.0	21.8	21.8
Jul	20.2	20.2	19.3	19.4	21.1	21.1
Aug	20.3	19.6	19.7	18.7	21.0	21.0
Sept	21.1	19.3	21.2	18.0	21.0	21.0
Oct	21.1	18.9	21.0	16.9	21.3	21.3
Nov	19.1	16.3	16.6	12.5	22.1	22.1
Dec 03	17.2	17.1	13.5	14.5	21.7	21.7
Jan 04	17.4	17.4	12.5	12.5	23.8	23.8
Feb	16.8	16.8	12.9	12.9	21.6	21.6
Mar	17.6	17.6	15.9	15.9	19.6	19.6
Apr	17.8	17.9	16.3	16.0	19.4	20.1
May	17.4	18.1	16.9	16.3	18.0	20.2
June	18.6	18.5	18.7	16.7	18.5	20.6

Source: Central Statistical Office and Bank of Zambia

**TABLE 2: TRADE DATA (US \$ MILLION)**

	2002 July-Dec	2003 Jan-June	2003 July-Dec	2004 Jan-June
<b>Trade Balance</b>	<b>(66.8)</b>	<b>(270.2)</b>	<b>(202.2)</b>	<b>(168.3)</b>
Exports, c.i.f	499.0	489.7	585.2	764.1
<b>Metals</b>	<b>279.6</b>	<b>302.7</b>	<b>366.5</b>	<b>534.7</b>
Copper	258.0	278.0	329.0	475.1
Cobalt	21.6	24.7	37.5	59.7
Non Metals	219.4	187.0	218.7	229.4
EBZ export audit	18.9	18.9	18.9	18.9
<b>Total</b>	<b>200.5</b>	<b>168.1</b>	<b>199.8</b>	<b>210.5</b>
Burley tobacco	13.7	9.2	10.1	11.8
Cement	2.9	2.8	3.9	3.9
Cotton yarn	10.9	11.6	10.6	13.1
Cotton lint	22.8	9.5	19.1	13.8
Copper rods	0.1	0.0	0.0	0.0
Fresh flowers	13.0	9.0	14.0	9.6
Gasoil	5.0	7.2	9.4	15.5
Gemstone	23.8	13.2	10.1	6.6
Soyan beans	1.4	0.6	0.3	0.1
Spoon sugar	16.2	19.8	10.8	21.6
Electricity	3.5	4.2	4.2	4.2
Others	87.4	80.9	107.2	100.9
<b>Imports c.i.f./1</b>	<b>(565.8)</b>	<b>(759.9)</b>	<b>(787.3)</b>	<b>(941.7)</b>

Source: Bank of Zambia

Note: \* = Figures for June 2004 are preliminary

**TABLE 3: MAJOR IMPORT GROUPS, US \$ MILLIONS**

Description	2003 July-Dec	2004 Jan-June*	Percentage Change
Food Items	76.5	67.7	-11.4
Petroleum Products	71.8	114.6	59.7
Fertilisers	41.3	25.5	-38.3
Chemicals	88.6	79.3	-10.4
Plastic and Rubber Products	50.3	53.1	5.5
Paper and Paper Products	37.0	137.6	272.3
Iron and Steel	49.4	66.2	33.8
Nuclear Reactors and Equipment	121.6	161.8	33.1
Electrical Machinery and Equipment	59.9	66.1	10.2
Vehicles	63.3	69.1	9.2
Other Imports	127.8	100.8	-21.1
<b>Total Imports</b>	<b>787.3</b>	<b>941.7</b>	<b>19.6</b>

SOURCE: CENTRAL STATISTICAL OFFICE AND ZAMBIA REVENUE AUTHORITY

Note: \* = Figures for June 2004 are preliminary

**TABLE 4: SOURCE OF RESERVE MONEY GROWTH**

	Jul 2003 - Dec 2003		Jan 2004 - Jun 2004	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a+b+c+d)	86,122	7.4	354,251	25.3
		0.0		
a) Net Purchases from Govt	0	0.0	0	0.0
b) Net Purchases from others	124,461	10.7	310,607	22.2
c) Bank of Zambia own use of forex	0	0.0	0	0.0
d) Change in stat. Reserve deposits forex balances	(38,339)	-3.3	43,644	3.1
2/ Net Domestic Credit (a+b)	149,142	12.8	(235,223)	-20.8
a) Autonomous influences	384,175	33.0	(179,283)	-16.8
Maturing Open Market Operations	360,082	31.0	88,805	6.3
Direct Govt Transactions	312,620	26.9	(108,164)	-7.7
TBs and Bonds Transactions	(297,214)	-25.5	(223,481)	-16.0
Claims on nonbanks (Net)	8,688	0.7	7,618	0.5
b) Discretionary influences	(235,033)	-20.2	(55,628)	-4.0
Open Market Operations	(285,689)	-24.6	(88,000)	-6.3
i. Repos entered into (+ve)	0	0.0	0	0.0
ii. Treasury bills outright sale (-ve)	(44,789)	-3.8	(45,700)	-3.3
iii. Term Deposits Taken (-ve)	(240,900)	-20.7	(42,300)	-3.0
Treasury bill Rediscounts	51,271	4.4	32,525	2.3
Other claims (Floats, Overdrafts)	(614)	-0.1	(153)	0.0
Change in Reserve Money	235,264	20.2	63,401	4.5

SOURCE: BANK OF ZAMBIA

**TABLE 5: PERCENTAGE SHARE OF LOANS AND ADVANCES BY SECTOR (SIX-MONTH AVERAGE)**

	Dec 02	June 03	Dec 03	June 04
Agriculture, forestry, fishing and hunting	22	26	22	26
Mining and quarrying	4	3	4	5
Manufacturing	14	14	16	14
Energy and Water	2	4	1	5
Construction	1	1	2	2
Wholesale and retail trade	18	12	15	14
Restaurants and hotels	5	4	4	3
Transport, storage and communications	6	8	8	10
Financial services	2	2	2	2
Community, social and personal services	2	2	2	4
Real estate	1	1	1	2
Other sectors	23	23	23	13
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

SOURCE: BANK OF ZAMBIA

**TABLE 6: MACROECONOMIC OUTTURN IN 2003 AND TARGETS FOR 2004**

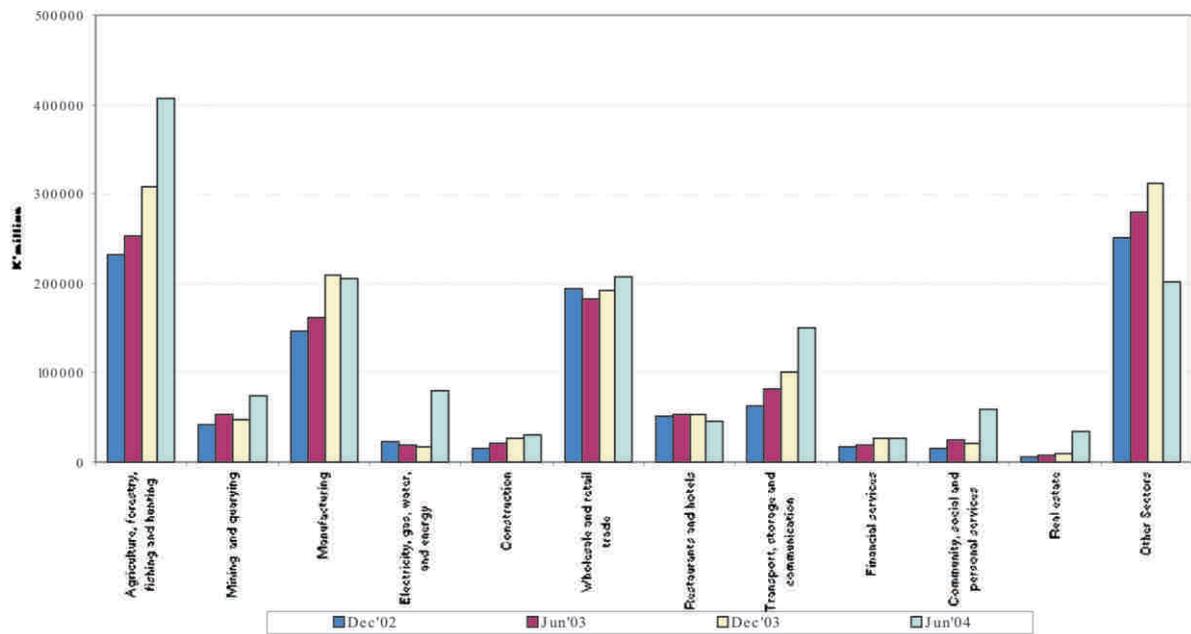
	2003		2004
	Outturn	SMP*	Projection**
Real GDP growth rate (%)	5.1	3.5	3.5
CPI inflation, end-period (%)	17.2	20.0	20.0
CPI inflation, annual average (%)	21.5	18.5	18.5
Gross official reserves (in months of imports)	1.3	1.5	1.7
Broad money growth (%)	23.4	18.2	18.2
Domestic budget deficit (% of GDP)	(3.5)	(1.3)	(1.0)
Domestic financing of the budget (% of GDP)	5.1	2.0	2.2

SOURCE: MINISTRY OF FINANCE AND NATIONAL PLANNING AND BANK OF ZAMBIA

**Notes:** \* Projections in the Staff Monitored Programme (SMP), March 2004.

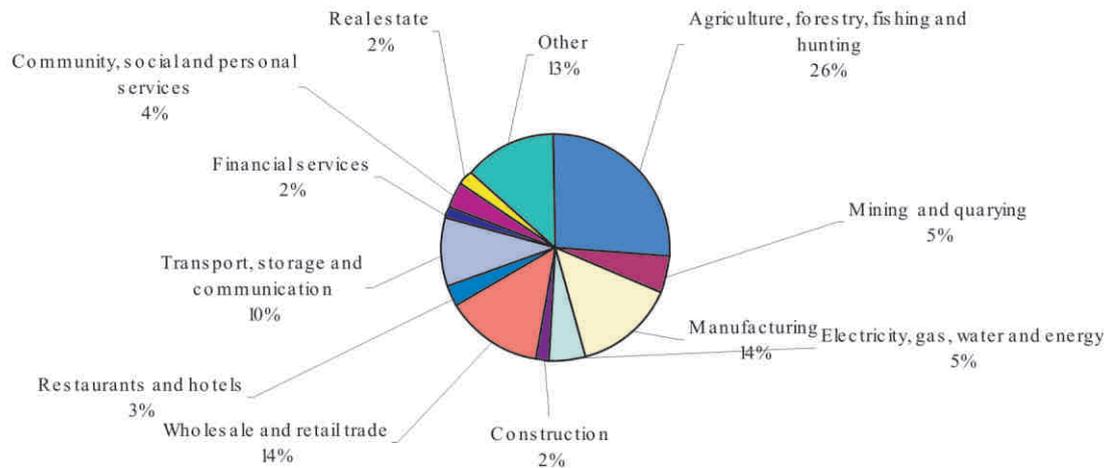
\*\* Projections under the PRGF arrangement, June 2004.

**CHART 1: COMMERCIAL BANKS LOANS AND ADVANCES BY SECTOR (DECEMBER 2002 - JUNE 2004)**



SOURCE: BANK OF ZAMBIA

**CHART 2: STRUCTURE OF LOANS AND ADVANCES (MONTHLY AVERAGE JAN-JUN 2004)**



SOURCE: BANK OF ZAMBIA

## Appendix III

**TABLE 1: SELECTED MACROECONOMIC INDICATORS**

	2000 December	2001 December	2002 December	2003 December	2004 Jan	Feb	Mar	Apr	May	June
<b>Monetary Aggregates (K'bn)</b>										
Reserve money*	555.8	805.4	1,118.6	1,415.2	1,329.7	1,315.8	1,360.0	1,386.1	1,468.0	1,480.9
Broad money*	2,503.0	2,752.5	3,619.7	4,467.9	4,530.7	4,539.4	4,635.6	4,849.1	4,930.6	5,263.6
Net Claims on Government	13,366.9	1,793.6	1,998.9	2,708.9	2,762.3	2,827.5	2,643.2	2,623.5	2,754.4	2,792.3
<b>GDP Growth</b>										
	3.9	4.9	3.3	5.1	-	-	-	-	-	-
<b>Prices (%)</b>										
Inflation	30.1	18.7	26.7	17.2	17.4	16.8	17.6	17.8	17.4	18.6
<b>Nominal Interest and yield rates (%)</b>										
Commercial banks' weighted lending base rate	37.5	46.7	42.4	37.7	36.2	33.7	31.8	30.0	29.8	29.8
Average Savings rate (>K100,000)	9.7	8.7	8.1	7.6	7.2	7.0	6.8	6.6	6.6	6.6
Deposit rate (30 days, over K20 million)	17.9	19.8	19.3	17.9	15.1	11.5	9.9	8.5	8.3	8.3
<b>Treasury bill yield rates</b>										
Weighted TB rate	33.8	48.2	31.7	19.7	19.1	14.6	9.0	8.4	6.9	7.0
28-day	11.5	41.5	25.3	-	-	-	-	-	-	-
91-day	34.1	50.5	32.0	18.2	16.8	13.9	8.3	7.1	6.1	5.7
182-day	36.7	50.4	32.9	19.8	19.6	15.41	9.27	8.36	7.1	6.5
273-day	38.6	46.4	33.2	21.0	21.0	17.3	11.0	9.2	7.6	8.1
<b>Government bonds</b>										
12 months	38.7	54.1	41.0	22.0	19.6	15.2	12.0	9.8	8.3	8.0
18 months	43.3	54.9	41.5	25.2	23.2	17.0	14.4	12.0	10.7	11.5
24 months	45.8	55.4	41.6	26.1	24.3	20.0	16.6	14.0	12.3	15.7
<b>Real Rates (%)</b>										
Commercial banks' weighted lending rate	7.4	28.0	15.7	20.5	18.8	16.9	14.2	12.2	12.4	11.2
Average savings rate	-20.4	-10.0	-18.6	-9.6	-10.2	-9.8	-10.8	-11.2	-10.8	-12.0
Deposit rate (30 days, over K20 million)	-12.2	1.1	-7.4	0.7	-2.3	-5.3	-7.7	-9.3	-9.1	-10.3
<b>Treasury bill yield rates</b>										
Weighted TB rate	3.7	29.5	5	2.5	1.7	-2.2	-8.6	-9.4	-10.5	-11.6
28-day	-18.6	22.8	-1.4	-	-	-	-	-	-	-
91-day	4.0	31.8	5.3	1.0	-0.6	-2.9	-9.3	-10.7	-11.3	-12.9
182-day	6.6	31.7	6.2	2.6	2.2	-1.39	-8.33	-9.44	-10.3	-12.12
273-day	8.5	27.7	6.5	3.8	3.6	0.4	-6.6	-8.6	-9.9	-10.5
<b>Government bonds</b>										
12 months	8.6	35.4	14.3	4.8	2.2	-1.6	-5.6	-8.0	-9.1	-10.6
18 months	13.2	24.8	11.4	-4.9	-6.9	-13.1	-15.8	-18.1	-19.4	-18.7
24 months	15.7	36.7	14.9	8.9	6.9	3.2	-1.0	-3.8	-5.1	-2.9
<b>Exchange rates (K/US \$)</b>										
Commercial banks' weighted selling rate	4,209.79	3,890.73	4,842.02	4,598.38	4,785.95	4,783.57	4,740.20	4,753.71	4,771.79	4,850.40
Bank of Zambia mid rate	4108.75	3,820.33	4,740.05	4,645.48	4,765.00	4,731.31	4,721.78	4,742.50	4,779.05	4,789.29
<b>Real sector</b>										
<b>Mining output (tonnes)</b>										
Copper	259,573	298,150	27,513	33,369	31,764	29,235	35,789	34,295	32,051	34,770
Cobalt	4,373	4,375	230	184	172	150	209	172	194	174
<b>Metal Earnings (US \$mn)</b>										
Copper	425.2	506.7	41.6	59.0	63.8	62.9	87.9	83.5	96.4	80.8
Cobalt	72.2	82.9	2.6	7.7	6.4	9.3	16.4	8.0	10.8	8.7
Total	497.4	589.6	44.2							
<b>External sector (US \$ mn)</b>										
Trade Balance	(350.45)	(389.45)	11.9	(10,472.4)	(26.0)	(11.7)	(32.6)	(23.9)	(50.4)	(63.6)
Exports, c.i.f.	735.84	901.38	94.2	1,074.8	101.2	111.6	138.9	135.9	145.7	130.2
Imports, c.i.f.	(1086.29)	(1290.83)	-82.3	(11,547.2)	(127.2)	(123.3)	(171.5)	(159.8)	(196.1)	(193.8)
Gross Official Reserves (US \$mn)	268.34	116.50	464.8	272.2	269.5	242.8	250.3	259.6	272.9	243.2

SOURCE: BANK OF ZAMBIA

\* 2004 monetary aggregate figures are based on preliminary Monetary Survey and daily tables.

\*\* Reserve money is narrowly defined.

- Not available.



