Bank Of Zambia

Monetary Policy Statement

JAN - JUN 2017

Bank *of* Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to "achieve and maintain price and financial system stability to foster sustainable economic development".

This Monetary Policy Statement is made pursuant to Part II, section 9 of the Bank of Zambia Act No. 43 of 1996 Chapter 360 of the Laws of Zambia.

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Executive Summary

During the first half of 2017, the Bank of Zambia will continue to strengthen the forward-looking monetary policy framework, anchored on the Policy Rate as the key signal for the monetary policy stance. This strategy is intended to improve the transmission of price signals and reduce reliance on non-price tools in the conduct of monetary policy. The Bank of Zambia will also closely monitor domestic and external developments and stands ready to take appropriate monetary policy measures to support price and financial system stability that facilitates the diversification and growth of the economy.

In this regard, monetary policy will focus on anchoring inflation expectations in single digit level in 2017 consistent with the end-year target of inflation being no more than 9%. Inflation is projected to decline marginally to 7.4% at end-June 2017 from 7.5% registered at end-December 2016, well within the medium-term target range of 6- 8%. Underlying this favourable inflation projection is the predicted normal to above normal rainfall, execution of the budget as planned, and the projected pick-up in global growth to 3.4% in 2017, led by emerging market economies. The positive global growth outlook will provide a boost to commodity prices, including copper, and help support export growth, stability of the foreign exchange market and accumulation of foreign reserves. Domestic economic prospects are also expected to improve, with GDP growth for 2017 forecasted at 3.9%. This growth will be underpinned by expected higher mineral production and improved performance of the agriculture sector due to better weather conditions as well as easing energy constraints.

With regard to the second half of 2016, monetary policy was focused on achieving the end- 2016 target of 7.7%. The BoZ Policy Rate of 15.5%, which was set when inflation rose sharply in the last half of 2015, was maintained in order to restrain aggregate demand. However, with excessive volatility in the foreign exchange market largely contained, some quantitative restrictions on commercial bank's liquidity were removed in November 2016. Commercial banks were allowed to access the Overnight Lending Facility (OLF) more than once a week, roll-over intra-day credit to overnight loans, and banks' compliance to statutory reserve requirement was reverted to weekly from daily average.

Annual inflation decelerated sharply in the second half of 2016 to an average of 14.5% from 21.8% in the first half of 2016. This was mainly due to the dissipation of base effects, continued appreciation of the Kwacha against the U.S. dollar, seasonal increase in the supply of some food items, and the continued tight monetary policy stance which assisted in curtailing domestic demand. The Kwacha appreciated by 7.6% against the U.S. dollar to K9.9026, supported by improved copper prices, inflows from non-resident investors to purchase Government securities and exporter-led foreign currency conversions to meet domestic obligations.

The interbank rate fell sharply into the Policy Rate corridor and towards the Policy Rate as liquidity conditions in the money market eased, mostly on account of net Government spending and BoZ accumulation of international reserves. The demand for Government securities also picked-up as liquidity rose further and non-resident investors renewed their participation in Government securities, particularly bonds. The yield rates on both Treasury bills and bonds edged downwards, albeit marginally. However, commercial banks' nominal lending rates remained relatively high, rising marginally to 29.2% from 29.0% on average, despite a sharp fall in inflation. This contributed to the contraction in credit to households and private enterprises as banks' risk appetite remained subdued due to weak short-term domestic economic growth prospects. Nonetheless, broad money continued to expand modestly as the Bank of Zambia purchased foreign exchange to build international reserves.

The trade deficit widened to US$504.6 million in the second half of 2016 from US$316 million in the first half of the year due to a strong growth in imports relative to exports. Gross international reserves stood at US$2.4 billion at end-December 2016, representing 3.3 months of import cover. The fall in reserves was due debt service payments and payment for fuel arrears.

Indications are that the real sector continued to face challenges, compounded by the reduction in private sector credit. However, Government spending exceeded the target mainly as a result of the importation of emergency power and payments for fuel, electricity and agricultural input subsidies.

1.0 Introduction

This Monetary Policy Statement provides an outlook for global economic growth, domestic inflation projections and describes monetary policy objectives for the first half of 2017. The statement also reviews the performance of monetary policy during the second half of 2016. Selected macroeconomic indicators are presented in the appendix.

2.0 Global Economic Outlook: 2017 - 2018

2.1 Economic Growth

Global growth is projected at 3.4% and 3.6% in 2017 and 2018, respectively, an improvement from 3.1% in 2016 (IMF WEO, January 2017). Underlying this projection is mainly strong growth in emerging markets and developing economies (EMDEs) of 4.5% and 4.8% in 2017 and 2018, respectively. Growth in EMDEs is premised on anticipated business investments, supported by stimulus policies in the U.S, recovery in commodity exporting countries as commodity prices pick-up, rebalancing[1] of the Chinese economy gaining momentum, and a gradual normalisation of conditions in some economies (i.e. Brazil, Nigeria and Russia) which have been under stress. Advanced economies are projected to grow by 1.9% in 2017 and 2.0% in 2018, led by developments in the U.S[2]. This is expected to boost global economic recovery. However, the forecast for advanced countries is uncertain in light of potential changes in the policy stance of the U.S. under the new administration.

The major downside risks to global growth in the medium-term include projected higher interest rates in the U.S. This may lead to increased capital outflows from emerging markets and developing economies and subsequently weaken their currencies and ultimately contribute to inflationary pressures. Further, the rise in the Fed rates may have adverse effects on some emerging market and developing economies that rely on external financing as this will increase their debt servicing costs. Heightened policy uncertainty in major economies and geopolitical tensions, particularly in the Middle East pose additional risks to the global growth outlook.

The growth forecast for Zambia's major trading partner[3] for 2017 and 2018 is mixed. GDP growth for the U.S. growth is projected at 2.3% and 2.5% in 2017 and 2018 due to the anticipated fiscal stimulus by the new administration and a pick-up in energy prices as well as manufacturing activity.

Growth in the Euro area is projected to decline to 1.6% in both 2017 and 2018. The anticipated decline in growth is mostly due to the macroeconomic repercussions of the continued uncertainty surrounding the impact of Brexit, which may affect the Euro zone's growth outlook through heightened volatility in the financial markets, along with pressure on the euro and weak investor confidence. Further, a rebound in oil prices from their low in early 2016 implies diminished support to real income and private consumption and ultimately GDP growth. The elevated non-performing loans in some countries, for instance Italy, could continue to negatively affect Euro area credit and contribute to market volatility.

UK growth is projected at 1.5% and 1.4% in 2017 and 2018 respectively, down from 2.0% recorded in 2016. The slowdown in growth is largely attributed to the uncertainty surrounding the impact of Brexit which is likely to affect investment decisions in the economy. There may be a reduction in trade and financial flows between the UK and the rest of the EU and a further depreciation of the sterling could raise the cost of imported capital goods thereby constraining capital-intensive investments and ultimately growth.

In China, growth is expected to moderate to 6.5% in 2017 and 6.0% in 2018 from 6.7% recorded in 2016, reflecting weak external demand, heightened uncertainty about global trade prospects, and slower private investment. Rebalancing from industry to services and from investment to

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[1] China's economy's transition away from reliance on investment and exports in favour of consumption and services which has implications for commodity and machinery exporters. China has reduced her reliance on manufacturing, encouraging the service sector as the export sector continues to struggle.

[2] The new US administration has signalled intentions to pursue more expansionary fiscal policies, including tax cuts and measures to upgrade infrastructure, which could lead to stronger growth in the short-term. Changes in business regulations could also support private-sector activity.

[3] The major trading partners are as defined in the real effective exchange rate (REER)index, comprising the United States of America, Euro area, United Kingdom, China, South Africa, and the Democratic Republic of Congo.

consumption is anticipated to moderate growth. Further, the medium-term outlook is uncertain due to the rapidly rising non-performing corporate and real estate loans. External demand is also expected to remain subdued in 2017, with net exports dragging growth, coupled with uncertain prospects and rising geopolitical tensions in several emerging markets.

Growth in South Africa is forecast to rise to 0.8% in 2017 and 1.6% in 2018 from 0.3% recorded in 2016. The pick-up in growth is premised on high household consumption and investment, and the recovery in commodity prices. Further, the manufacturing sector is expected to expand in 2017 and 2018 as the improvement in electricity production will ease energy constraints thereby boosting confidence and investment. With the current La Niña conditions, there is optimism for food prices to drop later in 2017 to 2018. However, the possibility of rising global interest rates and weak Chinese demand will continue to weigh on domestic growth prospects over the medium-term. The uncertainty surrounding the impact of Brexit may further raise risks, as there are extensive financial linkages between the UK and South Africa as well as sizable trade linkages with the EU as a whole. In addition, the ongoing political risks and the dire state of the labour market may dampen growth prospects in the medium-term.

2.2 Commodity Prices

Commodity prices are projected to rise in the next two years. According to the World Bank's January 2017 Commodity Markets Outlook, crude oil prices are projected to rise to average US$55.0/barrel and US$60.0/barrel in 2017 and 2018, respectively from US$49.0/barrel in 2016. This follows agreements among some OPEC and non-OPEC producers to limit output in the first half of 2017. As growth in the global economy gains momentum, copper prices are expected to further recover in 2017 and 2018, rising to an average of US$5,344.5 per ton and US$5,360.2 per ton in 2017 and 2018, respectively (World Bank, Commodity Markets Outlook, January 2017). In addition, the current direction of U.S. policies of greater emphasis on infrastructure could lead to higher metal consumption in the United States, thus putting upward pressure on prices. It is important that Zambia leverage improvements in copper prices and mining sector performance to promote diversification in th economy.

A modest increase in agricultural commodity prices is projected over the 2017-18 period. Upside risks to agricultural price forecasts include the likely intensification of La Niña that may reduce production of food commodities such as maize in the United States and wheat in Australia resulting in higher prices. However, demand may be subdued by a generally sluggish recovery of the global economy.

3.0 Domestic Economic Outlook for 2017 – 2018

Over the medium-term, economic growth prospects are expected to improve with GDP growth for 2017 and 2018 forecasted at 3.9% and 4.6%, respectively. Growth will be driven by expected increase in mineral production and improved performance of the agriculture sector due to better weather conditions and increased energy supply. A further rise in productivity in the transport and storage, construction, and accommodation and food services sectors will also support growth. The anticipated improving external sector will provide for conducive environment in supporting industrialisation and diversification efforts under the Stabilisation, Growth and Job Creation Programme – "Zambia Plus". Nonetheless, Government's fiscal consolidation measures are critical to the realization of the projected growth outcomes and the consolidation of macroeconomic stability.

4.0 Inflation Projections for the First Half of 2017

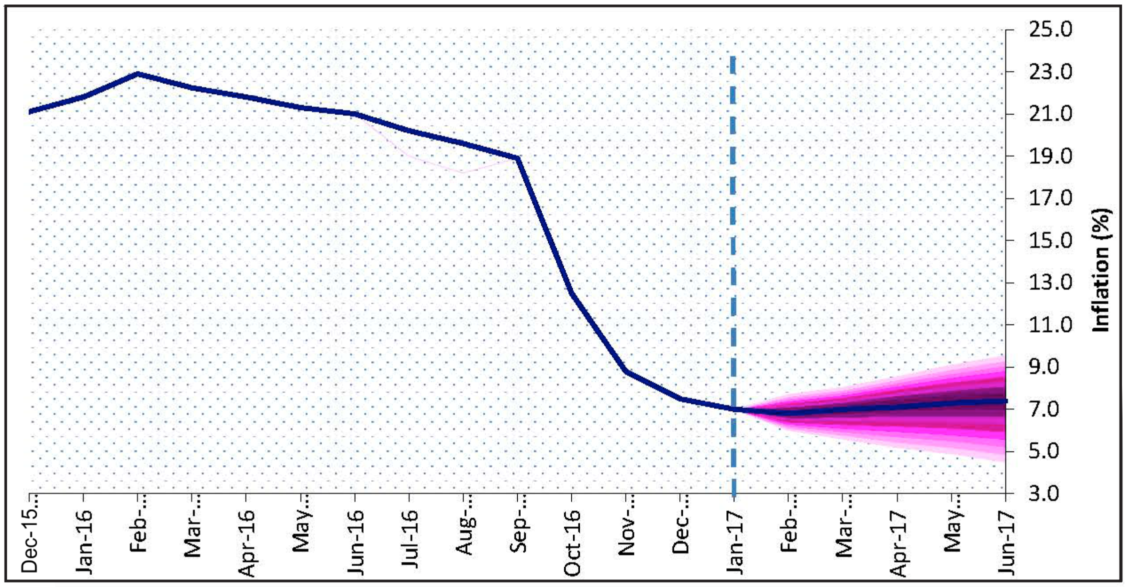
In the first six months of 2017, inflation is projected to remain relatively stable, slowing down to an average of 7.1% from an outturn of 14.6% in the last half of 2016. At end-June 2017, inflation is expected to decline marginally to 7.4% from 7.5% registered at end-December 2016 (Chart 1 and Table 1 – Appendix).

The key downside factors underlying the projected inflation include relative stability in the exchange rate, supported by the recovery in copper prices arising from the pickup in global growth, and the predicted normal to above normal rainfall during the 2016/2017 rainy season which is expected to result in a surplus of food, thus lower food inflation. Further, higher rainfall will also result in increased water levels in the major bodies used for hydropower generation, boosting electricity production and lowering the cost of production associated with the use of expensive diesel or petrol generated power. The Government's commitment to fiscal consolidation in the 2017 Budget is also expected to help in restoring macroeconomic stability, boost investor confidence and enhance overall productivity in the economy. The dominance of these factors point to inflation outcomes that may be lower than projected.

However, there are some upside risks to the inflation outlook that may result in inflation being higher than projected. These include uncertainty regarding the economic policy mix of the new U.S. administration which may adversely affect trade and global growth if the U.S. pursues protectionist and inward-looking policies. The projected increase in crude oil prices may lead to higher domestic prices for petroleum products. Higher crude oil prices may result in increased demand for foreign exchange, potentially leading to the depreciation of the exchange rate with adverse inflationary consequences. Further, the impending upward adjustments in electricity tariffs towards cost reflective levels will also exert inflationary pressures. The increased use of electricity instead of higher priced diesel might, however, temper inflationary pressures.

Overall, the balance of risks to the inflation prospects is judged to be weighed more to the downside over the medium-term. By and large, if the aforementioned downside risks pan out as anticipated, inflation outcomes may be lower than 7.5%.

Chart 1: Actual and Projected Inflation: Dec 2015 – Jun 2017



Source: Central Statistical Office and Bank of Zambia Compilations

5.0 Monetary Policy Objectives and Instruments for the First Half of 2017

Monetary operations over the first half of 2017 will continue to focus on anchoring expectations on single digit inflation over the medium-term. Consistent with this objective, BoZ will continue to strengthen the *forward-looking monetary policy framework*, anchored on the Policy Rate as the key signal for monetary policy implementation. This is intended to improve the transmission of price signals and reduce the reliance on non-price tools in the conduct of monetary policy. The Policy Rate is expected to influence the overnight interbank rate (operating target) which in turn impacts on inflation through changes in market interest rates which are transmitted via the expectations, exchange rate and/or credit channels.

The Bank of Zambia will also closely monitor domestic and external developments and stands ready to take appropriate monetary policy measures to support price and financial system stability that supports the diversification and growth of the economy.

Monetary policy formulation and implementation will also remain supportive of Government's broader macroeconomic objectives (Table 2 - Appendix) outlined in the 2017 Budget Address. These include:

i. Achieving a real GDP growth rate of *at least 3.4%* in 2017;
ii. Attaining an end-year inflation rate of *no more than 9.0%* in 2017;
iii. Containing domestic borrowing to *no more than 2.0% of GDP in 2017*; and
iv. Increasing international reserves to at least 3 months of import cover.

6.0 Review of Global Developments in the Second Half of 2016

6.1 Economic Growth

Global economic growth in the second half of 2016 was driven by emerging markets and developing economies (EMDEs), in particular Brazil and Russia. China's growth was supported by fiscal and credit-based stimulus measures which focused on infrastructure investment and efforts to stimulate household credit. Further, India's economy continued to recover benefiting from improved terms of trade and stronger external buffers that supported investor sentiment. There was also a slight pick-up in the U.S economy, partly reflecting increased domestic demand as labour market conditions improved. In the Euro area, domestic demand lost momentum, but the weak euro assisted in boosting the volume of exports thus positively affecting the current account balance. Confidence in the Euro area continued to improve, so were labour market and credit conditions.

Growth in the Sub-Saharan Africa region was largely negatively affected by the strong U.S. dollar, poor trade flows due to weak external demand and lower foreign direct investment flows. The continued weak economic performance in South Africa[4], the region's second largest economy and one of Zambia's major trading partners, also contributed to weaker economic activity in the region.

6.2 Commodity Prices

The price of copper increased to US$5,660.4/mt in December 2016 from US$4,641.9/mt in June 2016, largely due to strong demand, partly from China's stimulus to the property and construction sectors. The price of crude oil also rose to US$51.8/barrel in December 2016 from US$45.8/barrel in June as both OPEC and non-OPEC producers, most notably Russia, agreed to freeze oil production. However, the prices of most agricultural commodities declined due to the rise in supply as a result of favarouble weather conditions. For instance, the price of maize declined to US$152.5/mt in December 2016 from US$179.8/mt in June 2016. Over the same period, the price of wheat fell to US$141.p/mt from US $172.9/mt while that of soya beans declined to US$420/mt from US$457/mt.

7.0 Review of Domestic Developments in the Second Half of 2016

7.1 Assessment of Monetary Policy Implementation

Monetary policy during the second half of 2016 was focused on achieving single digit inflation in line with the end-2016 set target of 7.7%. The BoZ Policy Rate of 15.5%, set when inflation rose sharply in the last half of 2015, was maintained in order to contain aggregate demand. However, with stability in the foreign exchange market restored, some quantitative restrictions on commercial bank's liquidity were removed in November 2016. Commercial banks were allowed to access the Overnight Lending Facility (OLF) more than once a week as well as roll-over intra-day credit to overnight loan. In addition, banks' compliance to statutory reserve requirement was reverted to weekly average from daily.

7.2 Challenges to Monetary Policy Implementation

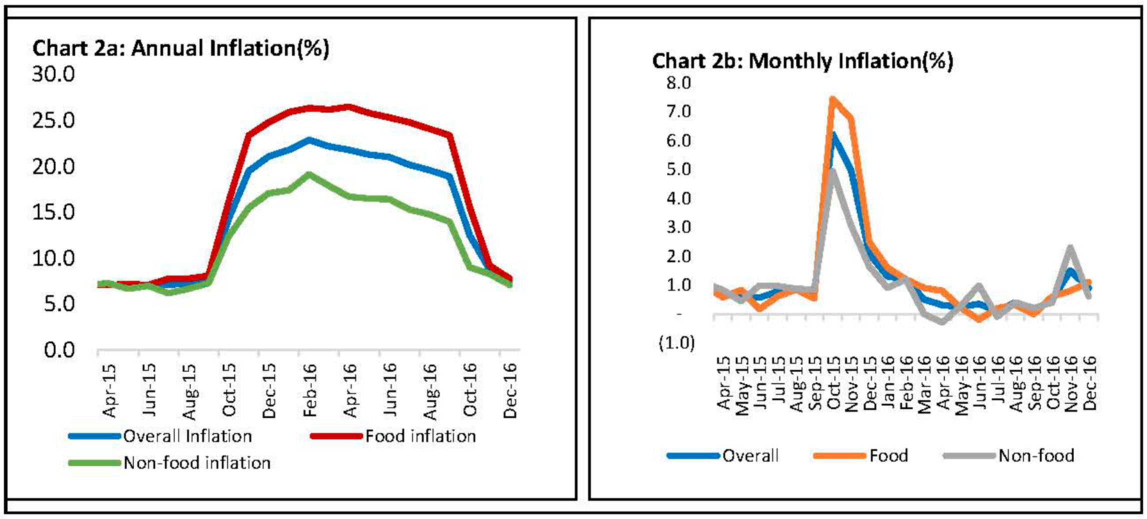
The development of a forward looking monetary policy framework requires continuous work to strengthen the transmission mechanism of monetary policy. The forward looking monetary policy framework would be more effective if low secondary trading in Government securities, limited financial inclusion, illiquid and thin capital market, as well as money market segmentation that characterise the financial market were addressed. In particular, the concentration of liquidity in few banks amid improved liquidity levels negatively impacts the transmission mechanism of monetary policy and the efficient functioning of the interbank market which the BoZ seeks to influence. Further, the time availability of high frequency data on GDP at quarterly interval will significantly improve the in-depth assessment of economic conditions under the adopted forwarding looking monetary policy framework. Finally, the high budget deficits in recent years if addressed will improve the ability of monetary policy to achieve its objective.

7.3 Inflation and Market Developments

Inflation Out turn

Overall annual inflation rate declined to an average of 14.5% in the second half of 2016 from 21.8% in the first half of 2016. Both food and non-food inflation fell to averages of 16.0% and 11.4% from 26.0% and 17.3%, respectively over the same period. Inflation ended the period at 7.5% in December 2016 from 21.0% in June 2016 (Chart 2a).

The sharp decline in inflation during the second half of 2016 was mainly due to the dissipation of the base effect following the significant increase in inflation in October 2015. The decline in inflation could also be attributed to maintenance of a tight monetary policy stance, which supported relative stability in the exchange rate as well as subdued domestic demand. However, month-on-month overall inflation rose to 0.9% in December 2016 from 0.34% in June 2016, reflecting the seasonal effect of lower maize grain stocks as well as the increase in fuel prices, by an average of 32.1%, effected in October 2016 (Chart 2b).



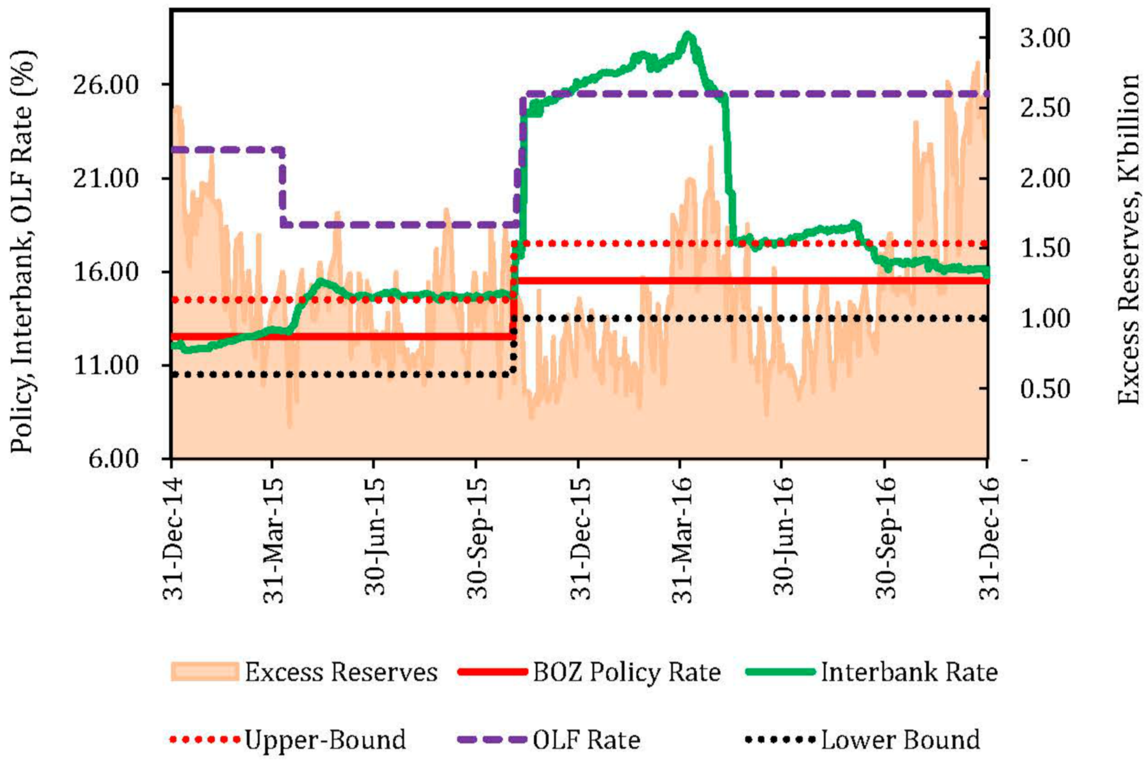
Source: Bank of Zambia Compilations

Money Market Liquidity and Interbank Trading

Market liquidity, as measured by the aggregated current account balance of banks, increased significantly to K2.7 billion in December 2016 from K0.8 billion in June 2016 (Chart 3 and Table 3 - Appendix). The rise in market liquidity was largely attributed to net Government spending and Bank of Zambia purchase of foreign exchange for international reserves build-up. As a result, the volume of funds traded in the interbank market declined by over 50% to K27.4 billion. The interbank rate also fell further towards the Policy Rate and was well entrenched within the Policy Rate corridor as it declined to 15.8% at end-December from 17.6% at end-June (Chart 3). To assist in stemming volatility in the exchange rate and its consequent impact on inflation, the interbank rate was deliberately allowed to remain above the Policy Rate corridor following the tightening of monetary policy in November 2015. However, the Bank was committed to allowing the interbank rate to gradually revert towards the Policy Rate corridor as monetary conditions eased.

[4] Weak demand from China, a weaker currency and political uncertainty which affected business and investor confidence continued to affect growth in South Africa.

Chart 3: Market Liquidity and Interbank Rate



Source: Bank of Zambia Compilations

Government Securities Market

The demand for Government securities picked up in the second half of 2016 as liquidity conditions eased. A total of K10.3 billion was raised through Treasury bills (K7.2 billion) and Government bond (K3.1 billion). Increased demand, the upward adjustment in tender sizes, and higher frequency of Government bond auctions, resulted in the stock of Government securities rising to K32.9 billion at end-December 2016 from K22.9 billion at end-June 2016. In addition, there was higher participation by non-resident investors in response to the attractive yield rates, relative stability in the exchange rate and reduced uncertainty following the conclusion of the August 2016 General Elections.

Foreign Exchange Market

The Kwacha appreciated further in real terms by 10.1% against a basket of major trading partner currencies during the period under review (Table 4 - Appendix). This was largely due to the nominal appreciation of the Kwacha against most of the major trading partner currencies. Improved copper prices, strong non-resident investors' appetite for Government securities, exporter-led foreign currency conversions to meet domestic obligations, and the continued relatively tight monetary policy stance supported the Kwacha. The Kwacha appreciated by 7.6% against the U.S. dollar to K9.9026. It also gained by 17.6% and 1.7% against the British pound sterling and euro to K12.6561 and K11.7472, respectively. However, the Kwacha depreciated by 1.9% against the South African rand to K0.7072.

Capital Markets

Trading activity at the Lusaka Securities Exchange fell as market capitalisation declined to K57.7 billion from K60.3 billion in the first half of 2016. The All-share Index also declined to 4,195.9 from 4,753.3 at end-June 2016. The fall in market activity was largely attributed to the reduction in share prices of some companies due to reported losses.

Interest Rates

With the exception of commercial bank lending rates, interest rates generally declined in the second half of 2016 as liquidity conditions eased. Yield rates on both Treasury bills and Government bonds declined albeit marginally by 0.9 and 0.4 percentage points to 23.7% and 25.0%, respectively (Table 5 – Appendix). However, the average commercial bank lending rate maintained an upward trend, rising to 29.0% from 27.1% despite a sharp fall in inflation (Table 5 - Appendix). The non-bank financial institutions' sector average effective lending rate also increased to 39.5% from 38.8% in the second half of 2015 (Table 6 - Appendix). The rising trend in lending rates reflected the preference by banks to lock-up funds in Government securities thereby reducing the amount of loanable funds available to households and private enterprises. It also reflected lending institutions' response to rising non-performing loans stemming from shocks to the economy. The savings rate for amounts more than K100 but less than K20,000 was relatively unchanged at 3.2%. The average 180-day deposit rate for amounts exceeding K20, 000 also remained unchanged at 12.8% (Table 5 - Appendix).

Broad Money

Broad money (M3) registered a marginal growth of 1.0% in the second half of 2016 to K44.6 billion against a contraction of 6.6% in the first half of 2016 (Table 7 - Appendix). The growth in M3 was driven by the rise in lending to Government. M3 contracted by 5.7% year-on-year in December 2016 compared with a growth of 19.7% in June, mostly due to the decline in gross international reserves as a result of debt service. Gross international reserves stood at US$2.4 billion at end-December 2016, representing3.3 months of import cover.

Domestic Credit

Domestic credit grew by 6.1% to K48.9 billion in the second half of 2016 against a contraction of 3.1% during the first half of 2016 (Table 8 - Appendix). The growth in domestic credit in the second half of 2016 was mainly driven by lending to Government.

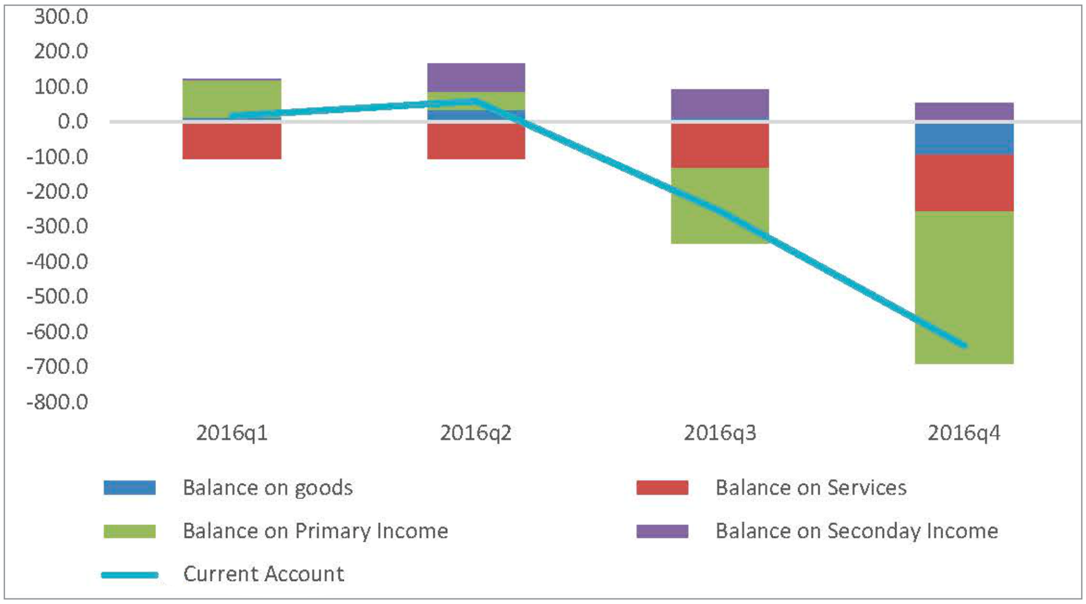
Commercial banks' credit to private enterprises contracted further by 6.7% as reduced risk appetite by banks persisted. Foreign currency loans shrunk by 8.1% against a growth of 2.3% recorded the first half of 2016, reflecting mainly reduced lending to agriculture, forestry and fishing; and manufacturing. The Kwacha denominated credit also contracted further by 6.4% as lending to households, wholesale and retail trade and agriculture, forestry and fishing industries declined. Nonetheless, the household (personal loans) category continued to account for the largest share of total credit from banks representing 27.5% (27.3% in June 2016) followed by agriculture, forestry and fishing sector at 17.2% (17.4% in June 2016) as shown in Table 9 – Appendix.

Current Account

Preliminary data show a current account deficit of US$895.5 million in the second half of 2016 from a surplus of US$75.8 million in the first half of the year (see figure 1). An increase in retained earnings resulted in a primary income account deficit of US$650.3 million from a surplus of US$160.8 million. The balance on goods account also recorded a deficit of US$79.6 million from a surplus of US$45.6 million, explained by a sharp rise in imports relative to export earnings. The rise in imports was largely on account of an increase in the importation of machinery and equipment by mining and mining related firms.

The current account deficit in the second half was mostly financed by foreign direct investment inflows that increased to US$1.1 billion from US$533.7 million. The FDI largely consisted of debt contraction by direct investment enterprises as well as an increase in retained earnings.

Figure 1: Current Account 2016Q1 to 2016Q4



Fiscal Balance

Preliminary data indicate that the fiscal deficit (on cash basis) in the second half of 2016, at K10.3. billion, was higher than programmed (K2.7 billion) as shown in Table 13 in the appendix. This largely reflected the higher cost of emergency power importation and spending on fuel, electricity and agricultural input subsidies. In addition, unlike in the previous review period, revenue collections were lower than the target mainly due to a decline in VAT and trade tax out turn

8.0 Conclusion

Inflation fell sharply in the second half of 2016 and is expected to remain in single digits in 2017. On balance, risks to inflation are currently assessed to be favouring low and stable inflation over the period 2017-18 mainly due to the predicted normal to above-normal rainfall, fiscal consolidation, and the projected pick-up in global growth.

The external sector is expected to improve in 2017 and strengthen further over the medium-term. The recovery in commodity prices should help support export growth, the stability of the foreign exchange market and accumulation of foreign reserves.

Over the medium-term, economic growth prospects are expected to improve with GDP growth for 2017 and 2018 forecasted at 3.9% and 4.6%, respectively. Growth will be underpinned by expected improved performance of the agriculture sector due to better weather conditions, increased energy supply and minerals production. A further rise in productivity in the transport and storage, construction, and accommodation and food services sectors will also support growth. Government's fiscal consolidation measures are critical to the realization of the projected growth outcomes. The improving external sector will provide a conducive environment in supporting industrialisation and diversification efforts under the Stabilisation, Growth and Job Creation Programme – "Zambia Plus".

However, challenges on the supply side of the economy threaten the effectiveness of monetary policy in containing inflation. Although power supply is expected to improve, the high cost of production, high lending rates, and increased cost of imported intermediate inputs may hamper productivity.

The Bank of Zambia, therefore, remains committed to maintaining macroeconomic stability and will continue to implement prudent monetary policies to support and promote economic growth. A stable macroeconomic environment will generally be associated with low and stable inflation, lower interest rates, which in turn will encourage households and businesses to borrow for investment purposes, thereby boosting production levels and building a more resilient economy.

Appendix

Table 1: Actual and Projected Inflation: Jan 2015 - Jun 2017

	Projection (a)	Actual (b)	Forecast Error (b-a)
Jan 2015	8.0	7.7	-0.3
February	7.8	7.4	-0.4
March	7.6	7.2	-0.4
April	7.3	7.2	-0.1
May	7.2	6.9	-0.3
June	7.1	7.1	0.0
July	7.2	7.1	-0.1
August	7.2	7.3	0.1
September	7.5	7.7	0.2
October	7.9	14.3	6.4
November	19.9	19.5	-0.4
December	20.3	21.1	0.8
Jan 2016	21.9	21.8	-0.1
February	21.7	22.9	1.2
March	21.5	22.2	0.7
April	21.6	21.8	0.2
May	21.2	21.3	0.1
June	21.5	21.0	-0.5
July	20.3	20.2	-0.1
August	19.8	19.6	-0.2
September	19.2	18.9	-0.3
October	13.9	12.5	-1.4
November	9.8	8.8	-1.0
December	9.4	7.5	-1.9
Jan 2017	7.7	7.0	-0.7
February	6.8	6.8	0.0
March	7.0		
April	7.1		
May	7.3		
June	7.4		

Source: Bank of Zambia Compilations

Table 2: Macroeconomic Outturn and Targets: 2015 and 2016

	2015 Target	2015 Outturn	2016 Target	2016 Outturn
Real GDP growth rate (%)	7.0	2.9	3.4	3.4*
CPI Inflation, endperiod (%)	7.0	21.1	7.7	7.5
Gross Official Reserves (months of imports)	4.0	3.7	4.0	3.3
Broad Money growth (%)	15.2	35.2	18.0	-5.7
Budget deficit (on cash basis, excluding grants), % of GDP	4.6	8.1	3.9	5.7*
Domestic financing of Budget (% of GDP)	2.0	1.9	1.2	2.8*

Source: Bank of Zambia Compilations, Central Statistical Office, Ministry of Finance
*preliminary

Table 3: Liquidity Influences (K' billion): 2014 – 2016

	Jul-Dec 2014	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2016
Opening balance	0.8	2.4	0.7	1.1	0.8
Net Government spending	4.8	1.6	4.4	-1.3	4.4
BoZ foreign exchange influence	-0.9	-1.4	-6.3	-0.1	3.5
Change in currency in circulation	-0.7	0.6	-1.0	0.1	-0.2
Change in statutory reserve deposits	-0.4	-2.2	-2.0	-1.7	-2.2
Overnight Lending Facility	-0.2	0.1	-7.7	-0.2	-0.2
Net Government securities influence	-0.3	-1.7	3.5	1.6	4.3
Open market operations	0.0	0.0	0.2	-0.3	0.3
Closing balance	2.4	0.7	1.1	0.8	2.7

Source: Bank of Zambia Compilations

Table 4: Exchange Rate: Jun 2014 – Dec 2016

Bilateral Nominal Exchange Rate (period average)					
	Jul-Dec 2014	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2016
ZMW/USD	6.2362	7.1010	10.2021	10.7140	9.9026
ZMW/GBP	10.1381	10.8221	15.6168	15.3506	12.6561
ZMW/EUR	8.0241	7.9151	11.2504	11.9499	11.7472
ZMW/ZAR	0.5677	0.5951	0.7461	0.6943	0.7072
Real Trade- weighted Exchange Rate (end-period)					
	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016
Domestic CPI (2005=100)	215.9	224.7	261.4	271.7	281.9
Weighted Foreign CPI (2005=100)	130.2	130.9	132.6	137.1	138.6
NEER Index (2005=100)	2.07	2.33	3.09	3.07	2.83
REER Index (2005=100)	95.9	105.0	120.0	118.6	106.6

Source: Bank of Zambia Compilations

Table 5: Interest Rates (%, period average): 2014 – 2016

	2014	2015		2016	
	Second Half	First Half	Second Half	First Half	Second Half
BoZ Policy Rate (end -period)	12.5	12.5	15.5	15.5	15.5
Overnight Lending Facility rate (end-period)	22.1	20.5	20.0	25.5	25.5
Overnight interbank rate	13.6	13.4	17.7	24.3	17.2
Average commercial banks' lending rate	19.8	20.4	21.7	27.1	29.0
Savings rate					
more than K100 but less than K20,000	3.5	3.4	3.4	3.3	3.2
above K20,000 (180 days)	9.8	10.5	10.5	12.4	12.8
Treasury bills yield rates					
composite yield rate	16.4	18.5	19.5	24.6	23.7
91days	10.4	13.6	15.0	21.6	20.9
182 days	17.4	18.8	19.9	24.4	23.8
273 days	17.4	19.4	20.8	26.3	25.1
364 days	20.4	22.1	22.5	26.3	25.0
Government bond yield rates					
composite yield rate	18.2	20.3	22.6	25.4	25.0
2 years	15.4	15.4	20.8	24.5	25.0
3 years	16.2	18.1	23.2	24.3	23.9
5 years	19.1	23.1	25.5	28.3	26.3
7 years	19.3	21.4	23.6	28.5	26.6
10 years	19.5	21.7	20.3	23.4	24.6
15 years	19.9	22.5	22.5	23.5	23.3

Source: Bank of Zambia Compilations

Table 5.4: Balance of Payments (Quarterly Change - US$ million)

	Jan-Jun 2016	Jul-Dec 2016
Curr Acc Bal	**75.8**	**-895.5**
Balance on Goods	45.8	-79.6
Total Exports	3,116.3	3,388.4
Copper	2,114.3	2,284.9
Cobalt	41.6	71.3
Gold	103.9	87.4
NTEs	835.5	904.6
Total Imports	3,070.5	3,468.0
Primary Income	160.5	-650.3
Secondary Income	80.9	131.0
Services Account	-211.7	-296.6
Capital Acc	**27.5**	**27.5**
Financial Acc	**308.0**	**-872.1**
Net Errors/Omissions	1.5	11.5
Overall Balance	**-15.7**	**203.2**
Change in Reserve Assets and Related items	**-237.7**	**-12.0**

Source: Bank of Zambia Compilations

Note: A negative/positive value in the Financial Account and Overall Balance denotes a surplus/deficit

Table 6: Average Annual Non-Banks' Effective Interest Rates (%): 2015 and 2016

	Second Half 2015	First Half 2016	Second Half 2016
Microfinance Institutions	56.1	53.9	59.8
Leasing Finance Institutions	34.4	54.9	46.2
Building Societies	34.3	41.8	39.7
Development Bank of Zambia	27.0	27.6	28.9
National Savings and Credit Bank	36.5	36.5	31.0
Financial Businesses	0.0	17.8	35.5
Overall for the sector	37.7	38.8	39.5

Source: Bank of Zambia Compilations

Table 7: Broad Money (K' billion unless otherwise stated): Dec 2014 – Dec 2016

	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016
Broad Money (M3)	35.0	36.7	47.3	44.1	44.6
Foreign Exchange (FX) Deposits	9.9	12.2	20.8	18.4	17.1
M3 (excl. Foreign Exchange Deposits)	25.0	24.7	26.5	25.8	27.5
6-month change in M3 (%)	7.0	5.4	28.2	-6.6	1.0
6-month % change in Forex dep osits	-0.5	22.3	70.8	-11.5	-7.2
6-Month % change in M3 (excl. Forex deposits)	10.2	-1.3	7.3	-2.8	6.8
Annual % change in M3 (%)	12.3	12.8	28.2	19.7	-5.7
Annual % change in Forex deposits	30.3	21.7	108.2	51.2	-17.9
Annual % change in M3 (excl. Forex Deposits)	6.4	8.8	3.5	4.2	3.8

Source: Bank of Zambia Compilations

Table 8: Domestic Credit (K' billion unless otherwise stated): Dec 2014 – Dec 2016

	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016
Domestic Credit (DC)	39.3	44.3	47.6	46.1	48.9
o/w foreign currency denominated	7.0	6.9	9.8	8.9	8.2
DC (excl. FX denominated credit)	32.3	37.4	37.8	37.2	40.7
6-month % change in DC	4.8	12.7	7.5	-3.1	6.1
6-month % change in Forex Credit	27.3	-1.4	42.0	-9.2	-7.9
6-Month Change in DC (Excl. Forex Credit)	0.9	15.8	1.1	-1.5	9.4
Annual Change in Domestic Credit	11.2	18.2	21.2	4.1	2.8

Source: Bank of Zambia Compilations

Table 9: Shares of Total Loans and Advances by Sector (%): Dec 2014 – Dec 2016

	Dec -14	Jun-15	Dec-15	Jun-16	Dec-16
Agric, forestry, fishing & hunting	16.6	16.3	17.3	17.4	17.2
Mining & Quarrying	5.0	5.0	6.4	5.6	6.3
Manufacturing	11.5	11.4	13.5	12.4	12.7
Electricity, Gas, Water & Energy	2.2	1.6	1.7	1.5	2.2
Construction	3.4	3.0	3.4	3.8	3.9
Wholesale & Retail Trade	7.8	9.6	10.8	10.7	10.3
Restaurants & Hotels	1.6	1.5	1.6	1.5	1.6
Transport, Storage & Communications	5.6	5.4	5.1	5.2	4.6
Financial Services	2.5	2.7	2.7	2.8	1.8
Community, Social & Personal	2.1	1.9	1.7	2.1	1.7
Real Estate	2.3	2.6	2.9	3.0	3.5
PersonalLoans	34.9	33.2	29.0	27.3	27.5
Others	4.5	5.7	4.0	6.7	6.8

Source: Bank of Zambia Compilations

Table 10: Trade Data (c.i.f - US$ million): Jun 2014 – Dec 2016

	Jun-Dec 2014	Jan-Jun 2015	Jul-Dec 2015	Jan-Jun 2016	Jul-Dec 2016
Trade Balance	**273.3**	**-231.7**	**-743.2**	**-316.42**	**-504.6**
Total Exports, c.i.f. (including Gold)	**5,200.1**	**3,615.4**	**3,690.2**	**3,095.3**	**3,348.8**
General Exports, f.o.b	**5,135.9**	**3,547.7**	**3,605.2**	**2,991.4**	**3,261.4**
Metals	3,977.9	2,642.1	2,662.2	2,155.9	2,356.8
Copper	3,914.5	2,605.6	2,628.1	2,114.3	2,284.9
Cobalt	63.4	36.5	34.2	41.6	72.0
Non -Traditional Exports	**1,158.0**	**905.6**	**942.9**	**835.5**	**904.6**
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	-8.8
Sub Total	1,171.2	918.8	956.1	848.6	913.4
Gemstones	86.9	44.6	66.6	13.0	15.4
Sulphuric acid	109.5	32.1	25.2	18.0	21.1
Industrial Boilers and Equipment	73.5	48.7	46.9	74.5	43.4
Cane Sugar	123.2	72.1	74.5	58.4	61.6
Gasoil/Petroleum Oils	11.5	8.3	3.9	3.1	6.2
Cement & Lime	49.2	34.9	30.3	30.8	40.8
Electricity	36.6	39.0	0.0	0.0	13.6
Raw hides, Skins & Leather	7.5	5.7	6.8	7.5	4.1
Sulphur, sublimed or precipitated;colloidal	23.7	15.0	4.6	2.5	0.2
Burley Tobacco	93.8	38.5	67.9	43.6	46.0
Copper Wire	43.4	34.3	24.3	29.9	37.4
Scrap of precious metals	30.0	25.0	24.1	0.1	0.1
Maize & Maize Seed	35.3	72.0	143.9	79.7	108.9
Electrical Cables	27.3	10.2	10.5	7.0	7.3
Cotton Lint	46.4	8.2	45.9	19.5	45.0
Soap, Active Agents, Washing Preps.	51.7	24.6	26.9	17.5	27.9
Fresh Fruits & Vegetables	7.8	5.6	6.9	4.7	9.2
Manganese Ores/Concentrates	1.8	1.3	0.1	0.4	6.2
Wheat & Meslin	8.6	6.7	5.4	3.6	3.6
Fresh Flowers	5.3	8.6	4.7	4.6	6.2
Other	295.8	383.4	336.6	430.1	409.4
Gold	64.2	67.7	85.0	103.9	87.4
Imports c.i.f./1	**-4,926.8**	**-3,847.1**	**-4,433.4**	**-3,411.7**	**-3,853.3**

Source: Bank of Zambia Compilations

Table 11: Imports by Commodity Groups (c.i.f - US$ million): Jun 2014 – Dec 2016

	Jul-Dec 2014	Jan-Jun 2015	Jul -Dec 2015	Jan-Jun 2016	July-Dec 2016	% Change
Food Items	253.6	243.2	251.6	210.6	254.6	20.9
Petroleum Products	773.3	560.6	975.8	697.8	664.4	-4.8
Fertilizer	175.9	155.9	205.5	105.5	187.2	77.4
Chemicals	403.3	428.1	611.1	440.7	515.3	16.9
Plastic and Rubber Products	222.3	190.4	173.3	139.6	173.7	24.4
Paper and paper products	69.9	64.8	57.8	47.0	58.0	23.4
Iron and Steel and items thereof	353.6	302.3	225.1	146.9	171.0	16.4
Industrial Boilers and Equipment	768.3	639.0	588.2	452.3	531.9	17.6
Electrical Machinery & Equipment	437.9	282.6	258.4	365.3	320.0	-12.4
Vehicles	430.7	271.2	272.5	233.4	227.3	2.6
Other Imports	1,037.9	709.2	814.1	567.3	749.9	32.2
Total	**4,926.8**	**3,847.1**	**4,433.4**	**3406.4**	**3853.3**	**13.1**

Source: Bank of Zambia Compilations

Table 12: Metal Export Volumes, Values and Prices: Jun 2014 – Jun 2016

	Copper				Cobalt			
	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound	Export Volumes (mt)	Export US $'000	Price/ Tonne	Price/ Pound
Quarter 3	292,302.2	1,978,838.4	6,769.8	3.1	1,999.0	33,154.8	27,652.1	12.5
Quarter 4	296,559.1	1,935,638.7	6,527.0	3.0	1,089.0	30,234.7	27,763.7	12.6
Jun-Dec 2014	**588,861.2**	**3,914,477.1**	**6,647.5**	**3.0**	**2,288.0**	**63,389.5**	**27,705.2**	**12.6**
Quarter 1	232,587.5	1,277,217.6	5,491.3	2.5	990.0	26,090.6	26,345.1	12.0
Quarter 2	232,660.9	1,328,336.3	5,709.3	2.6	396.8	10,426.7	26,278.6	11.9
Jan-Jun 2015	**465,248.3**	**2,605,553.8**	**5,600.4**	**2.5**	**1,386.8**	**36,517.3**	**26,332.5**	**11.9**
Quarter 3	275,944.6	1,374,487.0	4,981.0	2.3	573.0	14,288.4	24,936.1	11.3
Quarter 4	280,905.5	1,253,574.2	4,462.7	2.0	1,019.0	19,899.4	19,528.4	8.9
Jun-Dec 2015	**556,848.2**	**2,628,061.2**	**4,719.5**	**2.1**	**1,592.0**	**34,187.8**	**21,474.7**	**9.7**
Quarter 1	237,636.6	1,043,080.2	4,389.4	2.0	1,241.2	22,037.1	17,754.4	8.1
Quarter 2	225,653.5	1,055,918.3	4,679.4	2.1	1,102.8	20,587.8	18,668.9	8.5
Jan-Jun 2016	**463,290.1**	**2,098,998.5**	**4,530.6**	**2.1**	**2,344.0**	**42,624.9**	**18,184.6**	**8.2**

Source: Bank of Zambia Compilations

Table 13: Central Government Fiscal Operations: 2016

	Budget (K'bn)					
	2016		First Half 2016		Second Half 2016	
	Proj	% of GDP	Target	Prel	Target	Prel
Total Revenue & Grants	**42.7**	**20.0**	**20.1**	**22.2**	**20.7**	**17.2**
Tax Revenue	30.4	14.3	14.6	13.6	15.8	14.4
Non-Tax Revenue	11.7	5.5	5.3	8.3	6.4	2.6
Grants	0.5	0.3	0.3	0.3	0.3	0.2
Total Expenditure	**53.1**	**24.9**	**26.2**	**29.7**	**26.7**	**28.8**
Current Expenditure	40.5	19.0	19.8	20.8	20.4	22.5
Personal Emoluments	19.1	9.0	9.5	9.2	10.6	9.6
Use of Goods & Services	6.2	2.9	2.1	2.1	2.9	2.7
Interest	7.1	3.5	3.6	3.6	3.6	3.8
Grants & Other Payments	6.1	2.9	3.7	5.5	2.4	5.4
Social Benefits	1.1	0.5	0.6	0.2	0.6	0.3
Other Expenses	0.8	0.4	0.4	0.2	0.4	0.7
Liabilities	0.1	0.1	0.0	0.0	0.0	0.0
Assets	9.8	4.6	5.0	3.5	4.8	4.9
Non-Financial Assets	8.8	4.1	4.5	3.3	4.3	4.9
Financial Assets	0.9	0.5	0.5	0.2	0.4	0.0
Change in Balances & Statistical discrepancy	0.0	0.0	-0.3	-0.1	0.0	0.0
Fiscal Balance	**-7.8**	**-3.6**	**-4.8**	**-2.1**	**-2.7**	**-10.3**
Financing	**7.8**	**3.6**	**5.0**	**2.2**	**2.7**	**10.2**
Domestic	2.5	1.2	1.4	0.6	1.1	6.1
Foreign (net)	6.0	2.8	4.0	2.3	2.0	2.0