

MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2024

GOVERNOR'S PRESENTATION TO THE MEDIA

FEBRUARY 12, 2025



Bank of Zambia

OUTLINE OF PRESENTATION



- 1. Decision of the Monetary Policy Committee**
- 2. Inflation Outturn and Outlook**
- 3. Foreign Exchange Market**
- 4. Gross International Reserves**
- 5. Credit Developments**
- 6. Economic Activity**
- 7. Conclusion**

DECISION OF THE MONETARY POLICY COMMITTEE



At its February 10-11, 2025 Meeting, the Monetary Policy Committee decided to *increase the Monetary Policy Rate by 50 basis points to 14.5 percent.*

- This is intended to steer inflation back to the 6-8 percent target band and help anchor inflation expectations, which are observed to have persisted.

INFLATION OUTTURN



- In the fourth quarter of 2024, average inflation rose to 16.3 percent from 15.5 percent in the third quarter (Table 1).
- The implementation of higher emergency electricity tariffs in November 2024, triggered by the drought in the 2023/2024 rainy season, has had a substantial impact, particularly on non-food inflation, which rose to 14.1 percent from 12.2 percent in October (Charts 1 and 2).
- Furthermore, the reduced supply of vegetables and fish as well as the depreciation of the exchange rate have contributed to higher inflation.
- In January, annual inflation was unchanged from the December reading of 16.7 percent.

INFLATION OUTTURN



Table 1: Quarterly Average and end-Period Inflation Rate (percent)

Average	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Overall Inflation	12.9	13.5	14.6	15.5	16.3
Food Inflation	13.8	14.5	16.2	17.6	18.3
Non-food Inflation	11.6	12.1	12.3	12.5	13.5

End Period	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Overall Inflation	13.1	13.7	15.2	15.6	16.7
Food Inflation	14.2	15.6	16.8	17.9	18.6
Non-food Inflation	11.6	11.2	13.0	12.4	14.2

INFLATION OUTLOOK



- **Over the next eight quarters, inflation is still projected to remain outside the 6-8 percent target band. It is expected to average 14.6 percent in 2025 compared to 13.9 percent reported in the November 2024 MPC Statement (Chart 3 and Table 2).**
- **The relatively higher profile for 2025 is largely influenced by the recent increase in inflation and persistent depreciation of the exchange rate. Survey data on inflation expectations also indicate that inflation will remain elevated and well above the target band. In 2026, although inflation is projected to decline to 10.6 percent, it will still be above the target band.**
- **Looking ahead, the balance of risks to the inflation outlook is now tilted to the downside. This suggests that inflation outcomes over the forecast horizon could be lower than is currently projected.**
- **The shift in the balance of risks is mostly influenced by the expected improvement in food supply, particularly maize grain, and electricity generation in view of the current favourable rainfall. That notwithstanding, the external environment remains a source of upside risk to inflation as the shift in global trade policies evolve and geopolitical tensions rise.**

INFLATION OUTLOOK



Chart 3: Inflation – Outcome and Projection (percent)

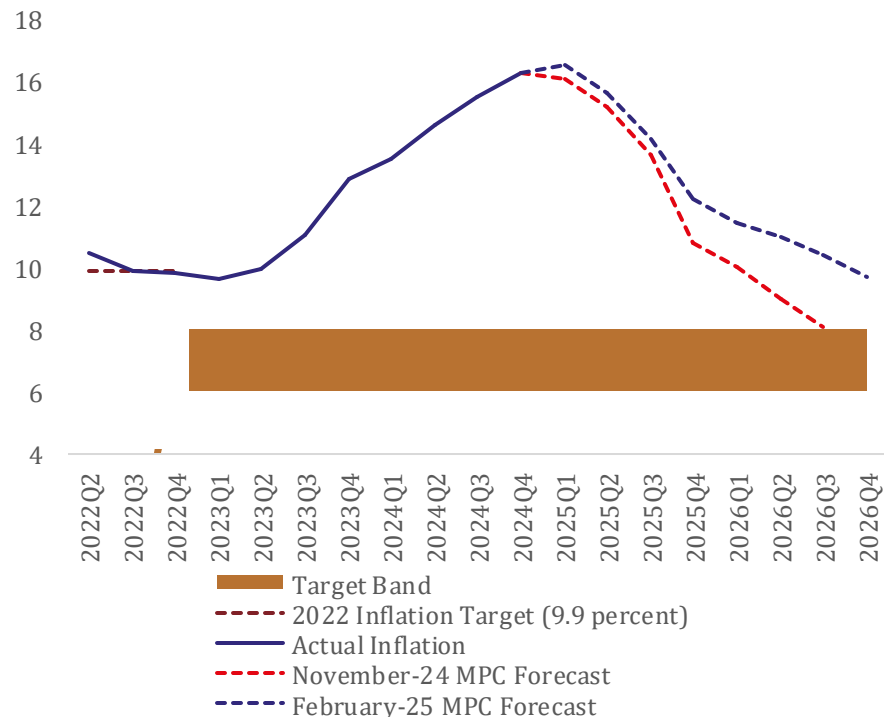


Table 2: Projected Average Inflation (percent)

	2025	2026
Feb-2025 Projection	14.6	10.6
Nov-2024 Projection	13.9	9.0*

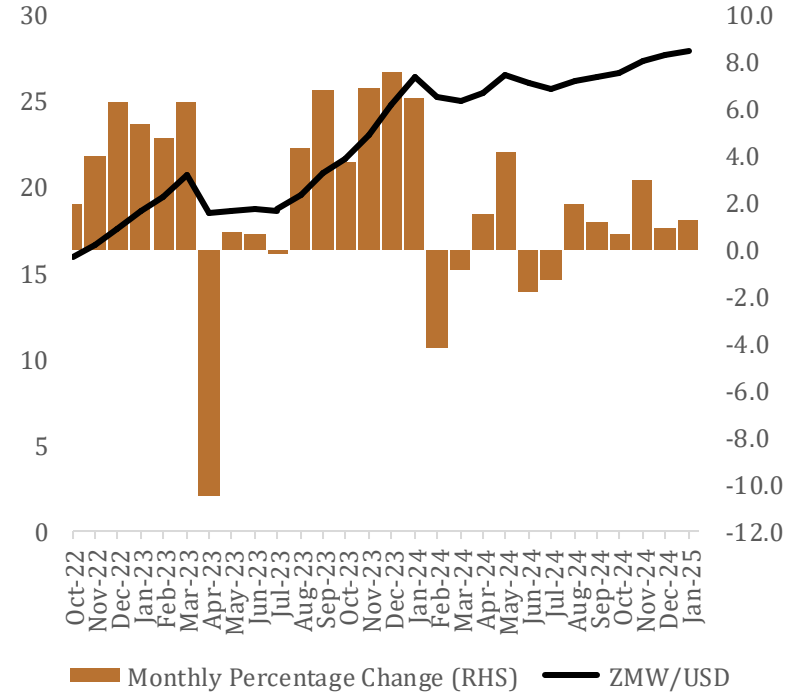
Note: *Projection for Q1 – Q3 2026.

FOREIGN EXCHANGE MARKET



- In the fourth quarter of 2024, the depreciation of the Kwacha against the US dollar picked up to 4.5 percent from 1.7 percent in the third quarter (Chart 4).
- This was attributed to subdued supply amid elevated demand pressures exacerbated by higher imports of food and energy following reduced output due to the drought.
- In addition, a broad appreciation of the US dollar contributed to a weaker Kwacha.

Chart 4: Nominal K/US Dollar Exchange Rate



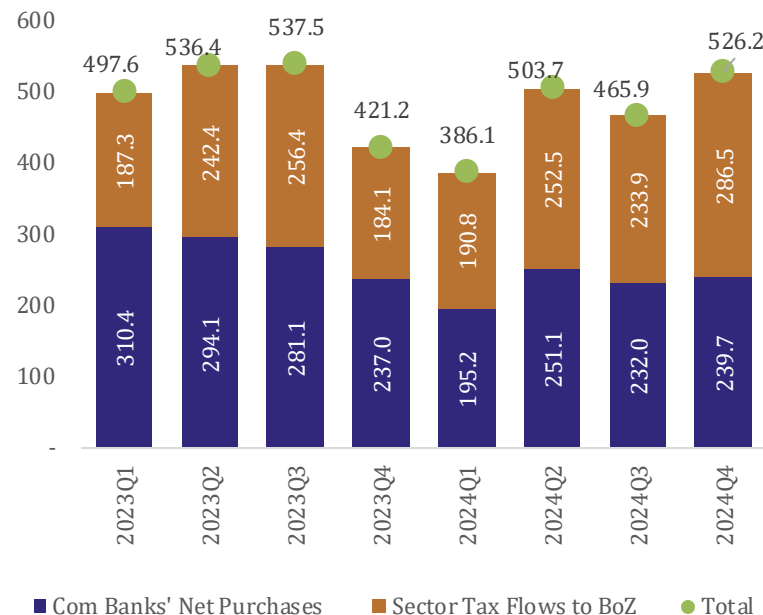
FOREIGN EXCHANGE MARKET



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- The main source of foreign exchange supply continued to be the mining sector, with supply increasing by US\$60.1 million to US\$526.2 million, reflecting rising production.
- Of this amount, commercial banks absorbed US\$239.7 million (US\$232.0 million in the previous quarter) by way of direct net purchases from the sector while US\$286.5 million was remitted to the Bank of Zambia for the payment of taxes, an increase from US\$233.9 million in the third quarter (Chart 5).
- On a net basis, market support by the Bank declined to US\$197.8 million from US\$230.8 million in the preceding quarter.

Chart 5: Foreign Exchange Supply by the Mining Companies (US\$ million)

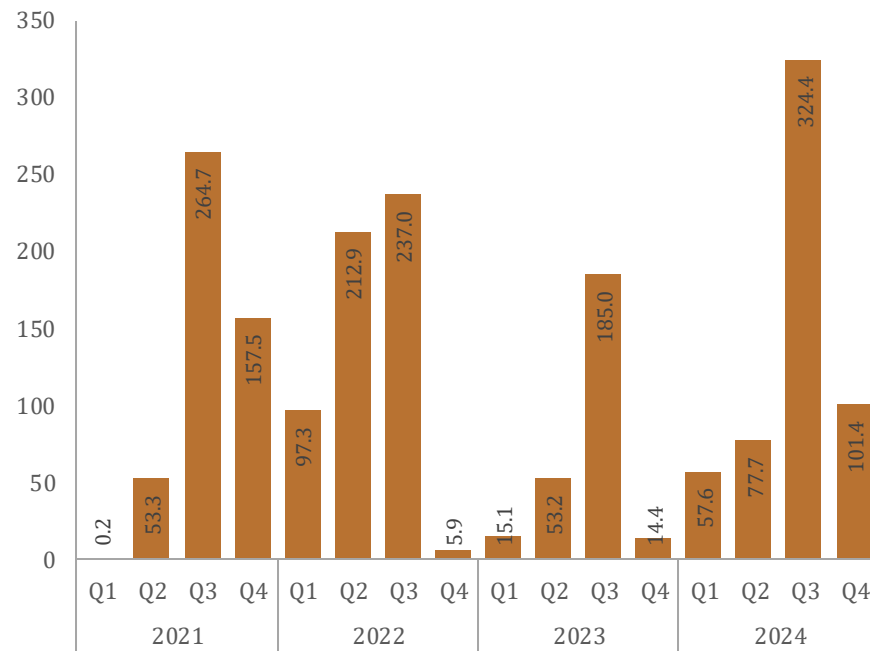


FOREIGN EXCHANGE MARKET



- Due to intermittent foreign exchange supply, activity in the interbank foreign exchange market reduced significantly to US\$101.4 million from US\$324.4 million in the previous quarter (Chart 6).

Chart 6: Turnover in Interbank Foreign Exchange Market (US\$ million)

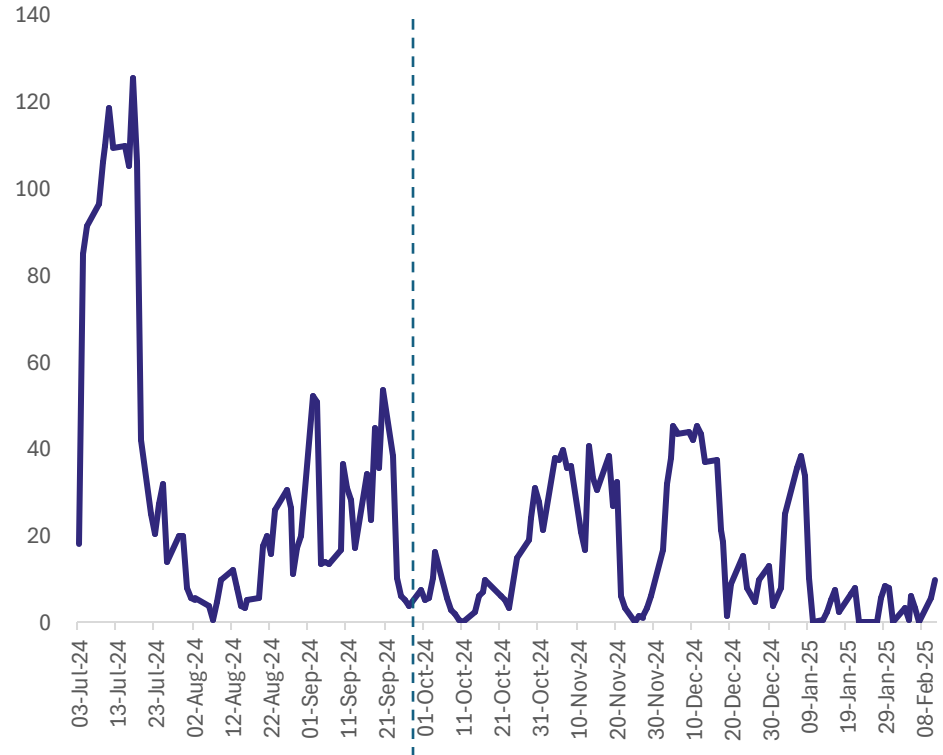


FOREIGN EXCHANGE MARKET



- **Outstanding demand for foreign exchange rose to a high of US\$52.7 million on November 4 from US\$7.4 million at end-September. However, outstanding demand declined to US\$3.7 million at end-December.**
- **In the first quarter of 2025, outstanding demand has been moderate, averaging US\$8.0 million. As of February 10, outstanding demand was US\$5.5 million.**
- **Consequently, the Kwacha has been relatively stable, depreciating by only 0.7 percent to K28.08 as of February 10.**

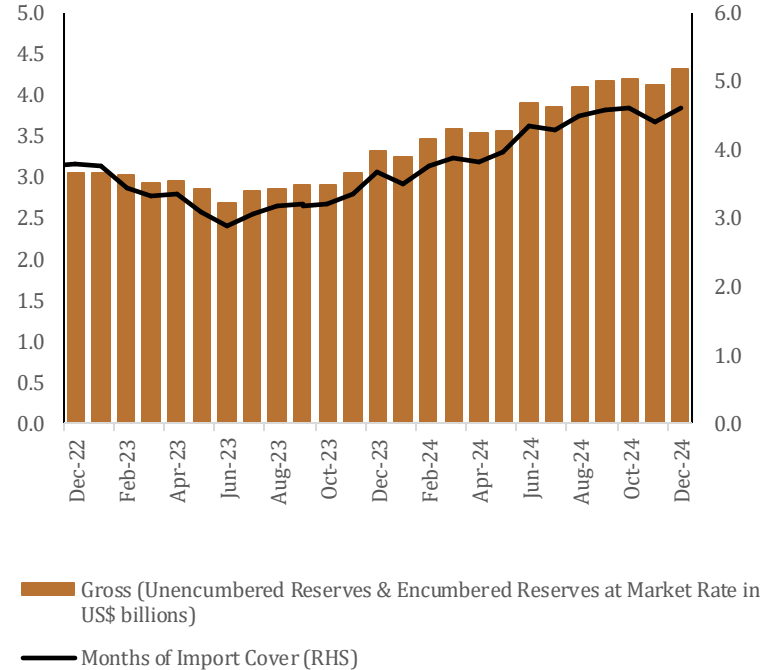
Chart 7: Outstanding Demand for Foreign Exchange (US\$ million)



GROSS INTERNATIONAL RESERVES

- **Gross international reserves increased to US\$4.31 billion (equivalent to 4.6 months of import cover) at end-December 2024 from US\$4.15 billion (equivalent to 4.6 months of import cover) at end-September 2024 (Chart 8).**
- **This was on account of project inflows from the World Bank and African Development Bank, disbursement by the IMF under the Extended Credit Facility (ECF) arrangement and net purchases of mining taxes.**
- **In the fourth quarter of 2024, gold purchases amounted to US\$7.9 million. This brings the market value of the total holdings to US\$225.1 million since the Bank started purchasing locally produced gold in December 2020.**

Chart 8: Gross International Reserves



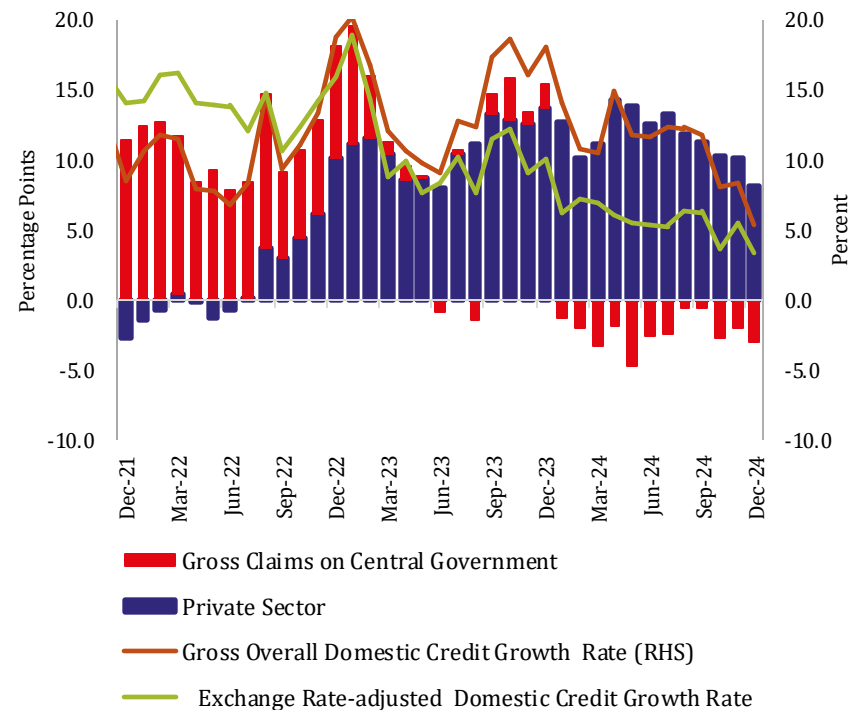
CREDIT DEVELOPMENTS



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- Overall domestic credit growth slowed to 5.4 percent, year-on-year (y/y), in December 2024 from 11.8 percent, y/y, in September 2024 (Chart 9).
- Over the same period, private sector credit growth (in nominal terms) reduced further to 20.7 percent from 29.7 percent in view of subdued economic activity associated with the impact of the drought.
- Lending to Government through Government securities also reduced despite broadly better liquidity conditions.

Chart 9: Contribution to y/y Domestic Credit Growth



Government Securities Market



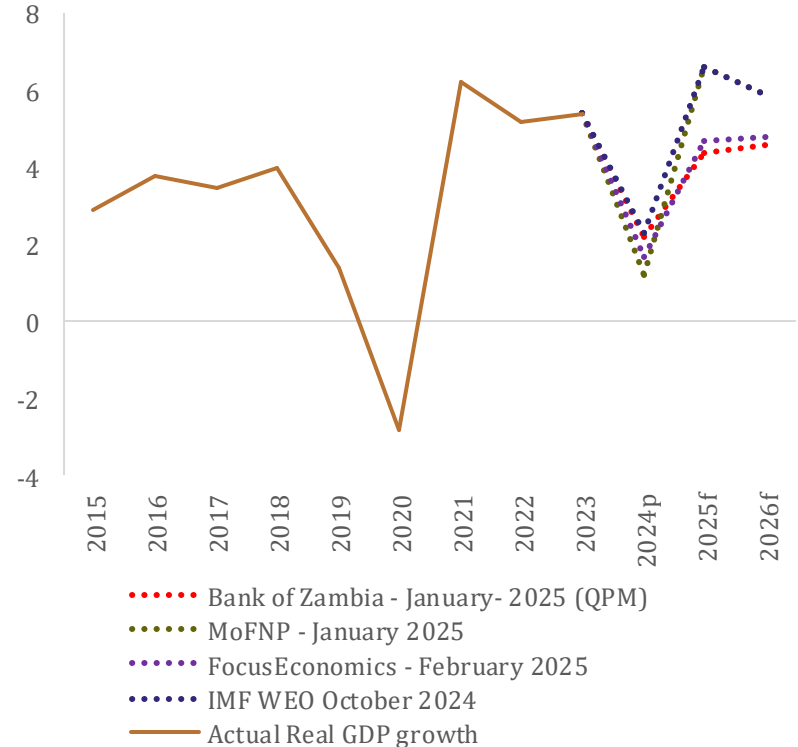
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- **Total outstanding stock of Government securities stood at K229.37 billion at end-December 2024. Out of this, non-resident holdings were K57.64 billion or 25.1 percent.**

ECONOMIC ACTIVITY



- **Sluggish economic activity continued in the fourth quarter of 2024 as business conditions for the private sector deteriorated further due to the severe impact of the drought.**
- **Consequently, real GDP growth for 2024 is expected to be significantly lower, at 1.2 percent, than the 2023 outturn of 5.4 percent.**
- **However, a rebound in growth to 6.6 percent in 2025 is projected. This is on account of the anticipated recovery of the agriculture and energy sectors as well as sustained growth in ICT, financial and insurance, and wholesale and retail trade sectors.**

Chart 10: Real GDP Growth – Actual and Projected (percent)



CONCLUSION



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- Given that inflation remains higher than the 6-8 percent medium-term objective and that inflation expectations are elevated, the Committee decided to **raise the Policy Rate by 50 basis points to 14.5 percent.**
 - This is expected to anchor inflation expectations and steer inflation back to the target range.

**THANK YOU FOR YOUR
ATTENTION.**

GOD BLESS...