

MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2023

GOVERNOR'S PRESENTATION TO THE MEDIA

MAY 15, 2024



Bank of Zambia

OUTLINE OF PRESENTATION



- 1. Decision of the Monetary Policy Committee**
- 2. Inflation Outturn and Outlook**
- 3. Foreign Exchange Market**
- 4. Credit Developments**
- 5. Economic Activity**
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DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on May 13-14, 2024, the Monetary Policy Committee (MPC) decided to increase *the Policy Rate by 100 basis points to 13.5 percent.*

- **The decision was informed by:**
 - **continued movement of inflation away from the 6-8 percent target;**
 - **persistent rise in inflation expectations, which if left unchecked, are poised to undermine macroeconomic stability and efforts toward robust and sustained growth; and**
 - **inflation projection indicating it will average 13.7 percent in 2024, higher than the February forecast of 12.9 percent.**
- **This decision, therefore, augments earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange rate channel, and addressing rising inflation expectations.**

INFLATION OUTTURN



- **Average inflation rose to 13.5 percent in the first quarter of 2024 from 12.9 percent in the last quarter of 2023 (Table 1). In April, annual inflation increased to 13.8 percent from 13.7 percent in March.**
- **The underlying factors have largely been persistent depreciation of the Kwacha against major currencies and rising prices of food (maize grain, maize products, and vegetables) and energy (fuel) (Charts 1 and 2).**

INFLATION OUTTURN



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

Average	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Overall Inflation	9.6	9.9	11.0	12.9	13.5
Food Inflation	11.7	11.5	12.7	13.8	14.5
Non-food Inflation	6.8	7.9	8.8	11.6	12.1
End Period	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Overall Inflation	9.9	9.8	12.0	13.1	13.7
Food Inflation	11.8	11.2	13.4	14.2	15.6
Non-food Inflation	7.3	7.8	10.1	11.6	11.2

Source: Zambia Statistics Agency and Bank of Zambia Compilations

INFLATION OUTTURN



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Chart 1: Contribution to Overall Inflation by Product in the First Quarter of 2024 (percentage points)

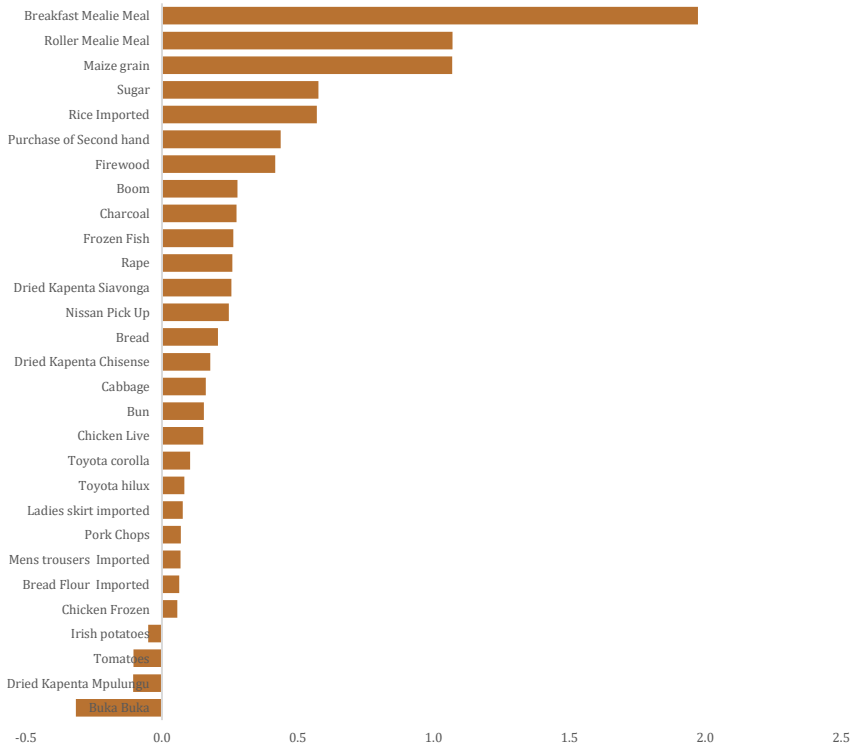
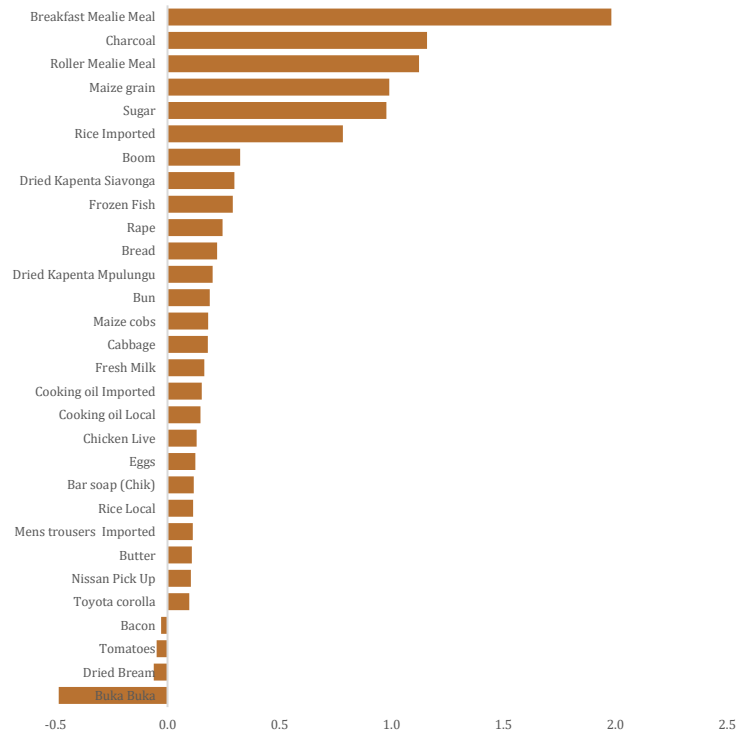


Chart 2: Contribution to Overall Inflation by Product in April 2024 (percentage points)



INFLATION OUTLOOK

- **At the last MPC Meeting in February, inflation was projected to remain above the 6-8 percent target band. The current forecast for 2024 points to inflation moving further away from the target band, but move into the band in the last quarter of 2025 (Chart 3 and Table 2).**
- **For 2024, inflation is now projected at 13.7 percent from 12.9 percent in February. Sustained depreciation of the Kwacha as well as the adverse impact of the drought on food and energy prices mainly account for the increased deviation from the band in 2024.**
- **In 2025, inflation will average 9.8 percent from 9.9 percent while in the first quarter of 2026 it will average 7.4 percent. The projected moderation in inflation is mostly due to the expected recovery in output, declining global food prices, and a more favourable external sector environment.**
- **A weaker Kwacha, rising prices of maize grain and fuel, geopolitical tensions, and prolonged tight global financial conditions remain key upside risks to the inflation outlook.**

INFLATION OUTLOOK



Chart 3: Inflation – Outcome and Projection (percent)

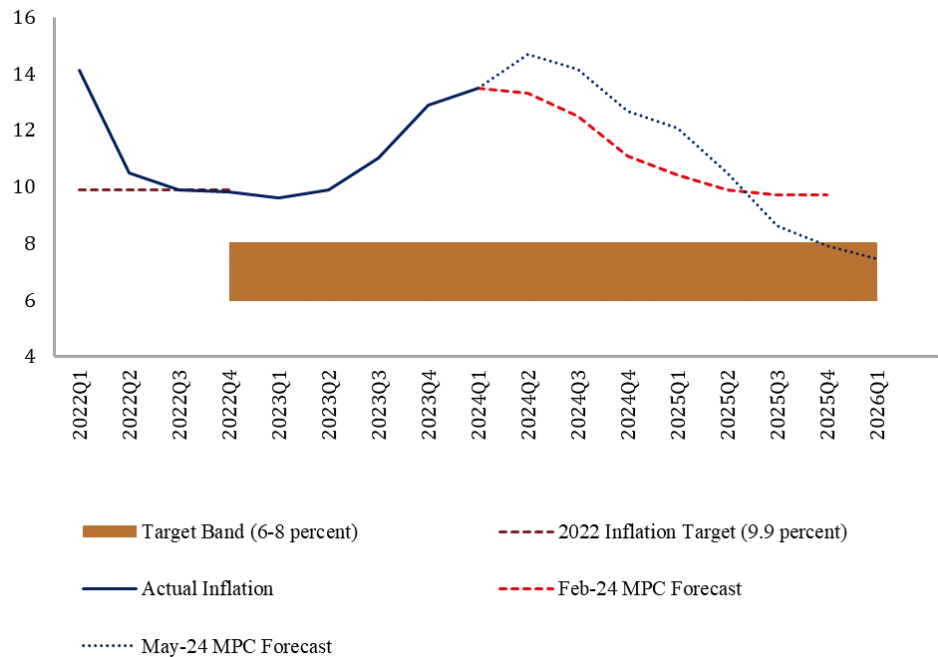


Table 2: Projected Average Inflation (percent)

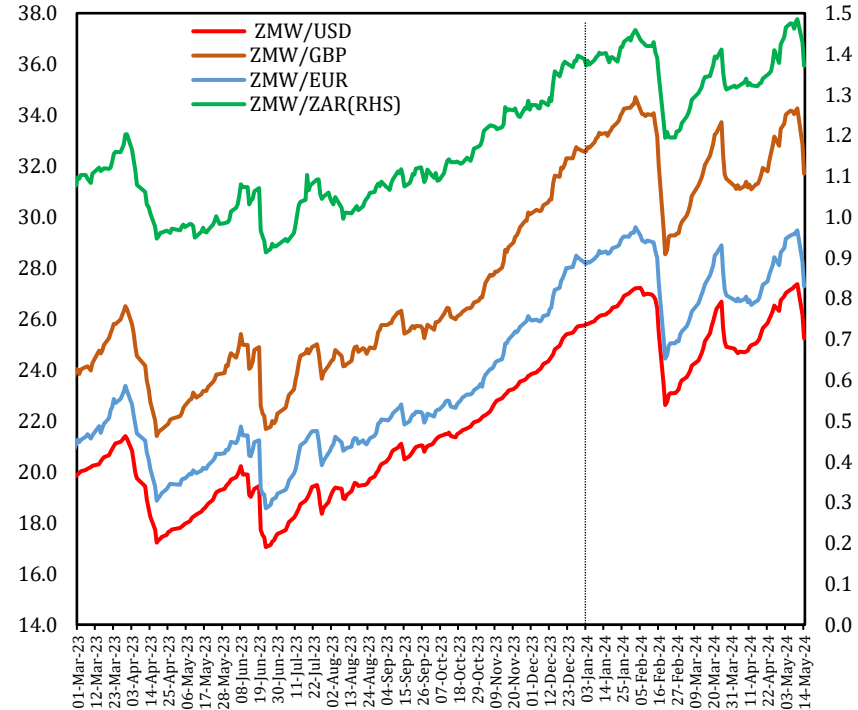
	2024	2025	2026 Q1
May-2024 Projection	13.7	9.8	7.4
Feb-2024 Projection	12.5	9.9	n/a

FOREIGN EXCHANGE MARKET



- In the first quarter of 2024, the rate of depreciation of the Kwacha against the US dollar moderated to 10.6 percent from 17.5 percent in the last quarter of 2023 (Chart 4).
- Pressure on the Kwacha to depreciate at a faster pace has re-emerged in the second quarter with the exchange rate depreciating by 10.2 percent to K27.37 as at May 10, 2024. Sustained low supply of foreign exchange amid elevated demand accounted for this depreciation (Chart 5).
- However, the Kwacha appreciated by 7.8 percent to K25.24 during May 10 – 14 due to improved supply, especially by foreign financial institutions, and positive sentiments following news of progression in external debt restructuring (circulation of Eurobond Consent Solicitation).

Chart 4: Nominal Exchange Rates



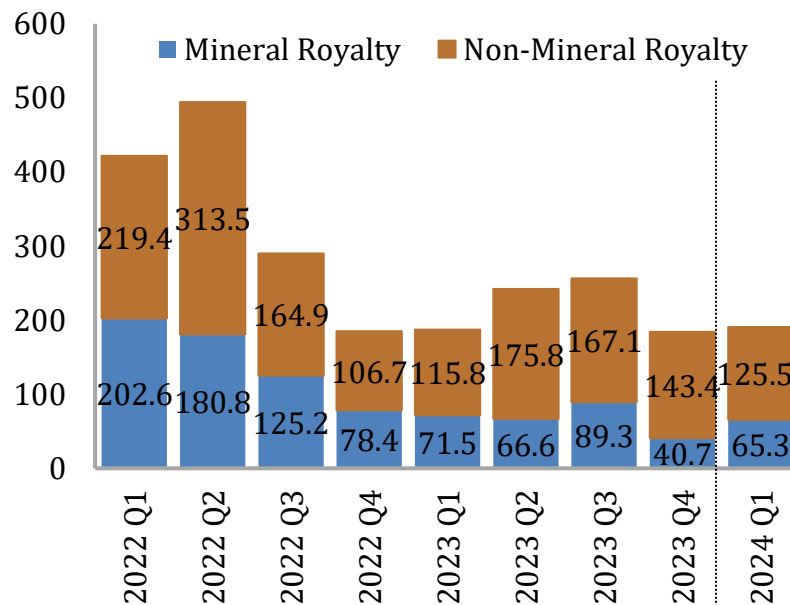
FOREIGN EXCHANGE MARKET



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- To moderate volatility and broadly support the importation of critical commodities, the Bank provided market support of US\$369 million.

Chart 5: Mining Taxes Paid Directly to BoZ in US Dollars (US\$ million)



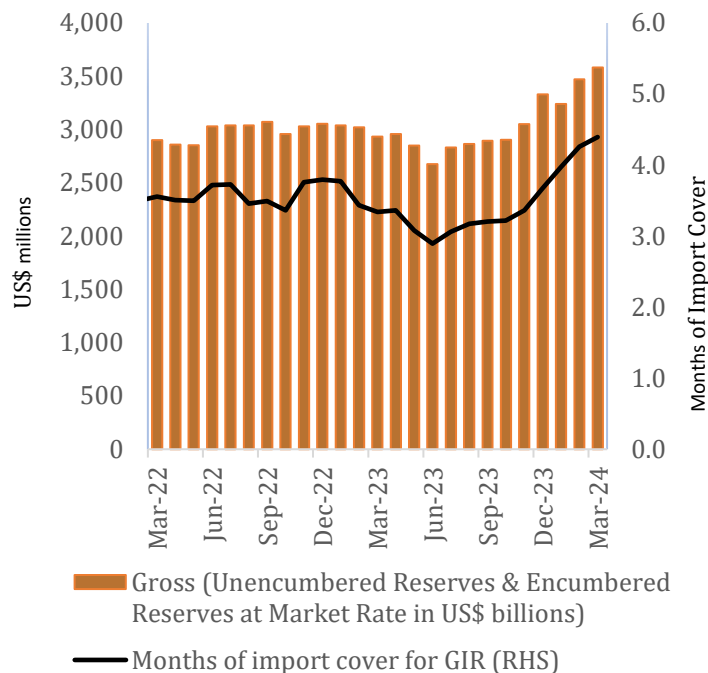
FOREIGN EXCHANGE MARKET



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- Notwithstanding market support, gross international reserves increased to US\$3.6 billion (equivalent to 3.9 months of import cover) at end-March 2024 from US\$3.3 billion (3.7 months of import cover) at end-December 2023 (Chart 6). This was mainly attributed to net statutory reserves.
- In the first quarter of 2024, gold purchases amounted to US\$10.6 million. This brings the total value to US\$168.1 million since the Bank started purchasing gold locally.

Chart 6: Gross International Reserves



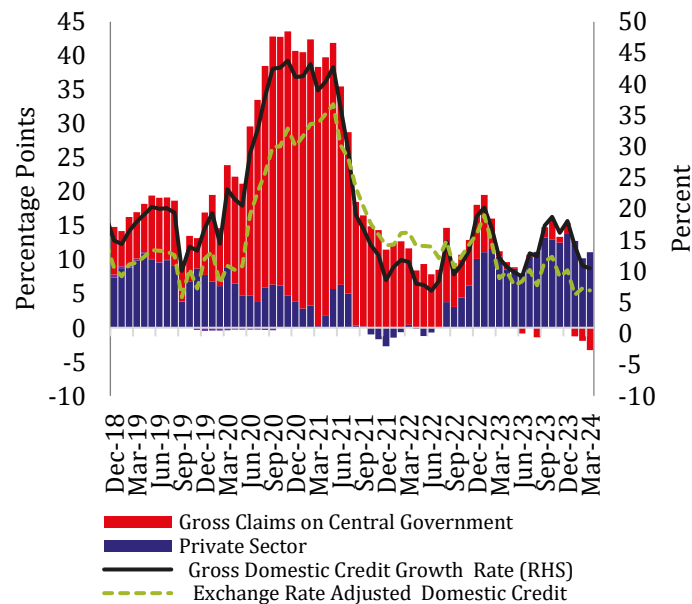
CREDIT DEVELOPMENTS



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- Domestic credit growth slowed down in March 2024 to 10.5 percent from 18.1 percent in December 2023 due to reduced lending to both Government and the private sector (Chart 7).
- Lending to Government has continued to decline in line with fiscal consolidation efforts (Chart 7). In addition, tight money market liquidity contributed to the reduction in the accumulation of Government securities by commercial banks.

Chart 7: Contribution to y/y Domestic Credit Growth

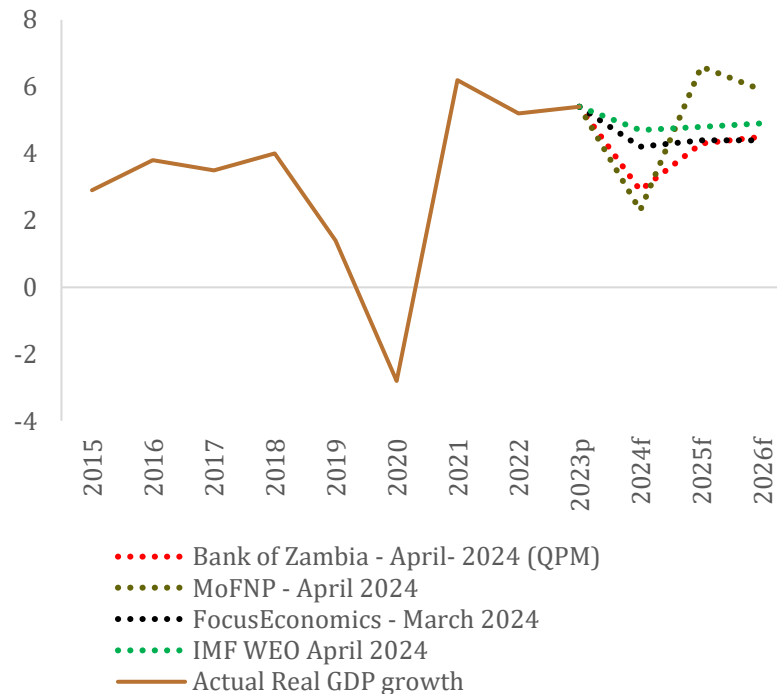


ECONOMIC ACTIVITY



- Economic activity reduced in the first quarter due to the escalation of inflationary pressures induced by a weaker exchange rate and the drought, which weighed on output for firms especially, in manufacturing and agriculture sectors.
- Growth prospects for 2024 are not as bright with growth significantly downgraded to 2.3 percent from the earlier projection of 4.4 percent on account of the expected impact of the current drought, with agriculture and energy (electricity supply) being the most adversely affected sectors (Chart 8).
- Growth is expected to rebound in 2025, attributed to the recovery in mining and agriculture sectors, and sustained expansion of ICT, financial and insurance, as well as wholesale and retail trade sectors.

Chart 8: Real GDP Growth – Actual and Projected (percent)



CONCLUSION



- The MPC decided to raise the Monetary Policy Rate by ***100 basis points to 13.5 percent*** to augment earlier actions aimed at steering inflation towards the 6-8 percent target band and anchor inflation expectations.
- The Committee noted that the current drought has led to a significant downgrade of domestic growth forecast for 2024 with agriculture and energy (electricity supply) being the most adversely affected sectors.
- However, uncontrolled inflation and failure to address persistent inflationary pressures will undermine macroeconomic stability and all other efforts being taken to address the current economic shocks the country faces, maintaining financial stability, and creating an environment that promotes productive lines of investment.

**THANK YOU FOR YOUR
ATTENTION.**

GOD BLESS...