

MONETARY POLICY COMMITTEE STATEMENT FOR THE FIRST QUARTER OF 2025

GOVERNOR'S PRESENTATION TO THE MEDIA

MAY 23, 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 May 21-22, 2025 Meeting, the Monetary Policy Committee decided to **maintain the Monetary Policy Rate at 14.5 percent.***

- **Maintaining the current stance of monetary policy is deemed appropriate considering the recent decline in inflation to 16.5 percent in April from 16.8 percent in February, the balance of risks that are still tilted to the downside, and the stability of the financial system.**

INFLATION OUTTURN

- **Inflation slowed down to 16.5 percent in March 2025 from 16.7 percent in December 2024, having peaked at 16.8 percent in February. The increase in food inflation by 0.3 percentage points to 18.9 percent was offset by the reduction in non-food inflation of 1.0 percentage point to 13.2 percent (Table 1).**
- **The moderation in air fares as well as prices of motor vehicles and detergents were the main factors contributing to the decrease in non-food inflation.**
- **In April, annual inflation was unchanged from the March outcome of 16.5 percent.**

INFLATION OUTTURN



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

	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Average					
Overall Inflation	13.5	14.6	15.5	16.3	16.7
Food Inflation	14.5	16.2	17.6	18.3	19.6
Non-Food Inflation	12.1	12.3	12.5	13.5	12.7
End Period					
Overall Inflation	13.7	15.2	15.6	16.7	16.5
Food Inflation	15.6	16.8	17.9	18.6	18.9
Non-Food Inflation	11.2	13.0	12.4	14.2	13.2

INFLATION OUTTURN

Chart 1: Contribution to Non-Food Inflation by Sub-Groups (percentage points)

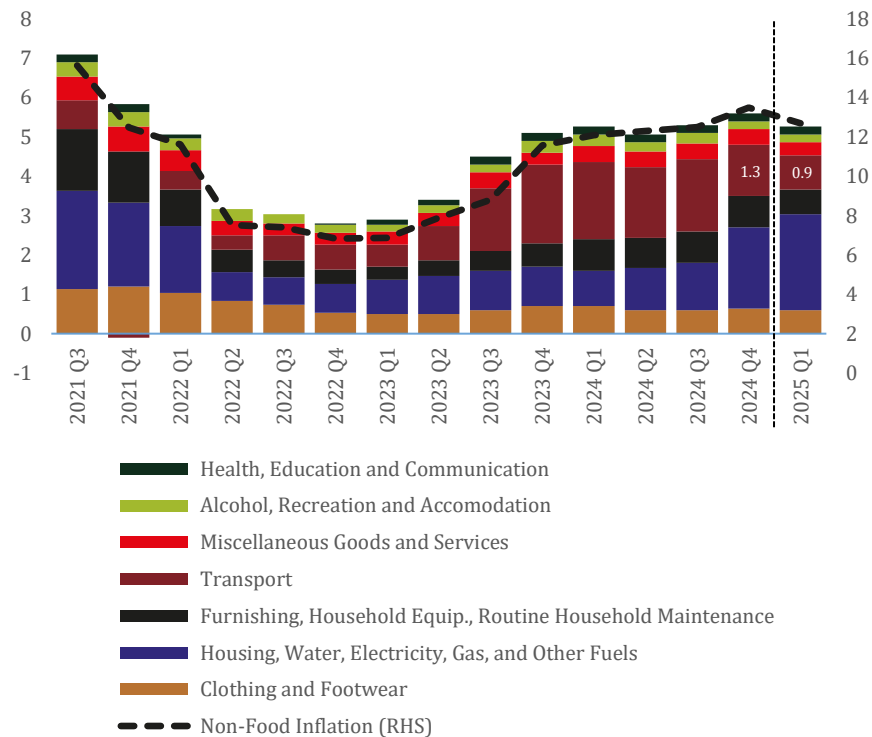
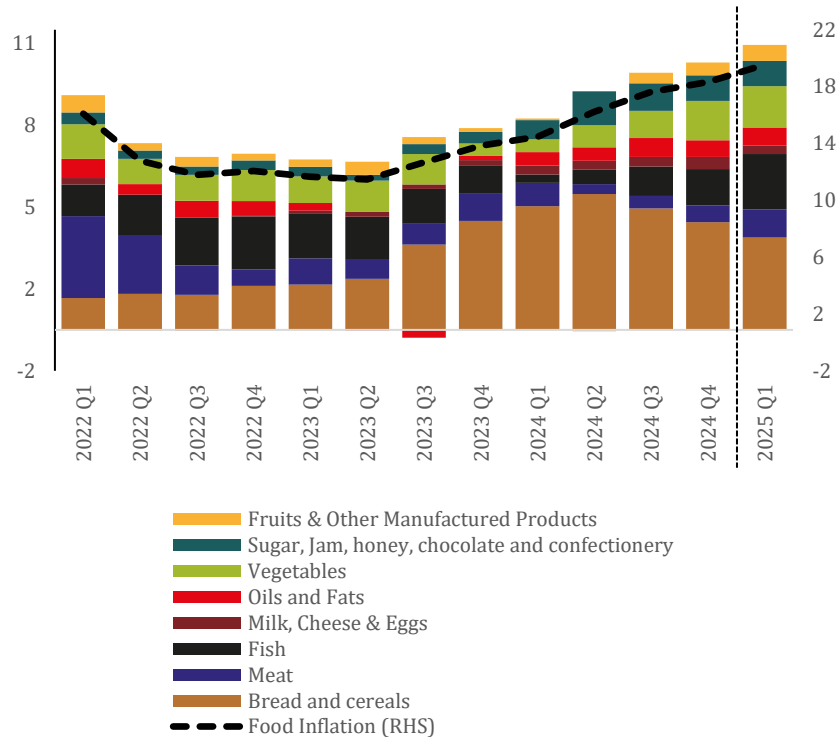


Chart 2: Contribution to Food Inflation by Sub-Groups (percentage points)



INFLATION OUTLOOK



- The forecast over the next eight quarters shows that inflation will decline faster towards the 6-8 percent target band than projected in February (Chart 3 and Table 2).
- Inflation is now anticipated to average 13.8 percent in 2025 compared to 14.6 percent. In 2026, it is projected to decline to 8.8 percent and fall further to 7.5 percent in the first quarter of 2027, which is within the target band. Data from Bank of Zambia surveys on inflation expectations in the first quarter of 2025 also point to a moderation in inflationary pressures.
- The projection is based on the expected decline in market prices of maize grain and crude oil. The bumper maize harvest forecast of 3.6 million metric tonnes for the 2024/25 farming season compared to the drought-induced production of 1.5 million metric tonnes in 2023/24 is expected to drive prices of maize grain and its products lower. The anticipated increase in the supply of crude oil and weak overall global demand also point to a reduction in prices.
- These factors constitute downside risks and could drive inflation even lower than currently projected. Despite this positive outlook, the Committee was mindful of the evolving global economic landscape and the extreme uncertainty it has created on global macroeconomic stability.

INFLATION OUTLOOK



Chart 3: Inflation – Outcome and Projection (percent)

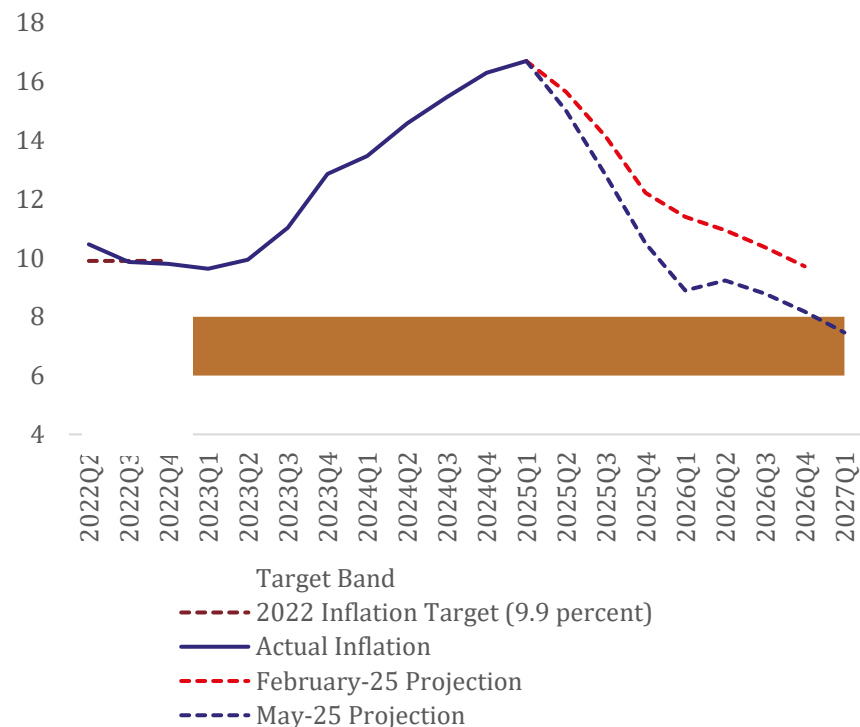


Table 2: Projected Average Inflation (percent)

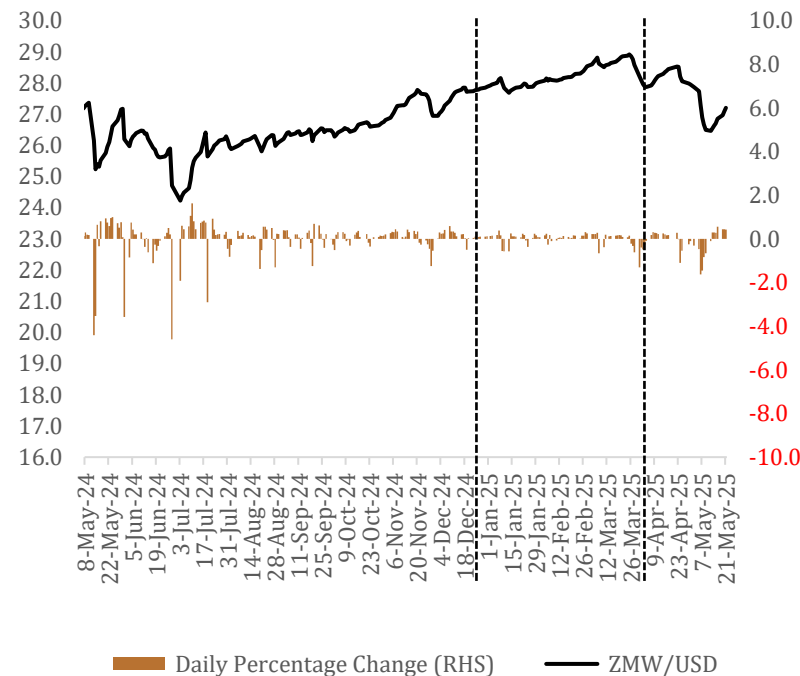
	2025	2026	2027Q1
May-25 Projection	13.8	8.8	7.5
Feb-25 Projection	14.6	10.6	n/a

FOREIGN EXCHANGE MARKET



- In the first quarter of 2025, the depreciation of the Kwacha against the US dollar moderated to 4.0 percent from 4.5 percent in the fourth quarter of 2024 (Chart 4).
- The moderation in the pace of depreciation was due to improved foreign exchange supply, particularly by the mining sector.
- To minimise volatility in the exchange rate as well as to meet critical imports, the Bank of Zambia provided US\$233.5 million in market support.

Chart 4: Nominal K/US Dollar Exchange Rate



FOREIGN EXCHANGE MARKET

- The mining sector remained the main source of foreign exchange with supply increasing further by 5.8 percent to US\$556.8 million due to improved production (Charts 5 and 6).
- Of this amount, US\$281.1 million was directly remitted to the Bank of Zambia for tax payments.

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

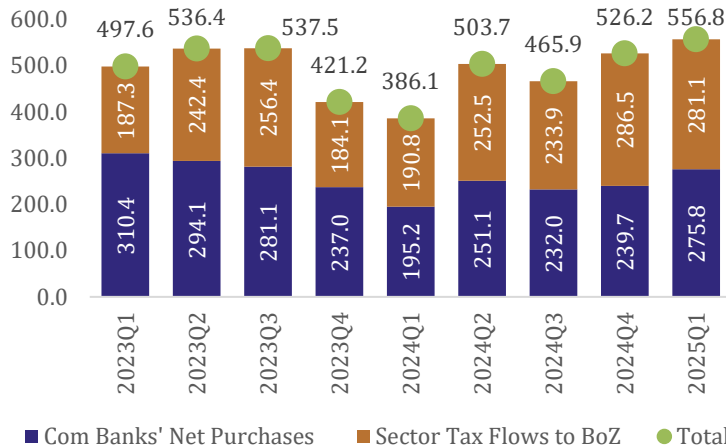
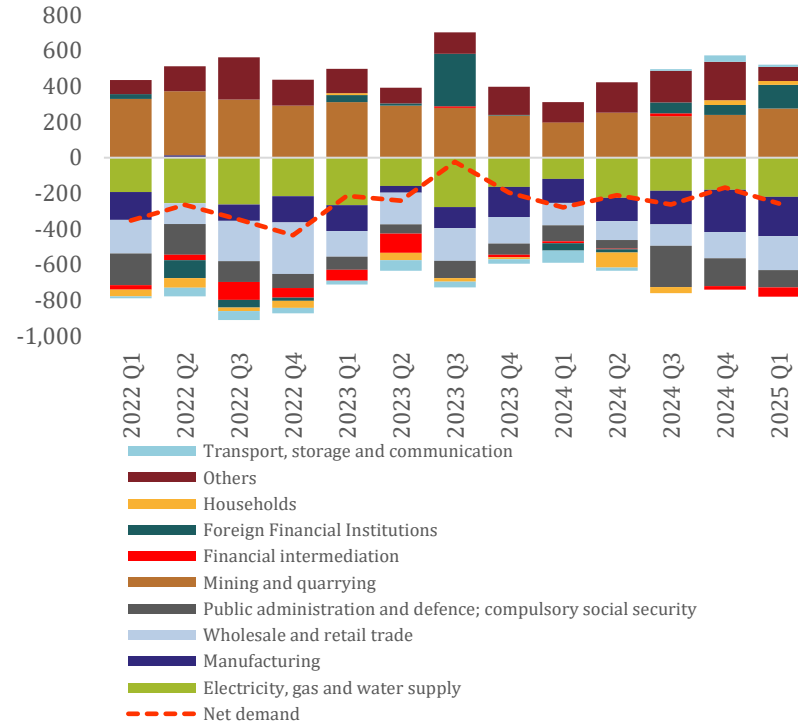


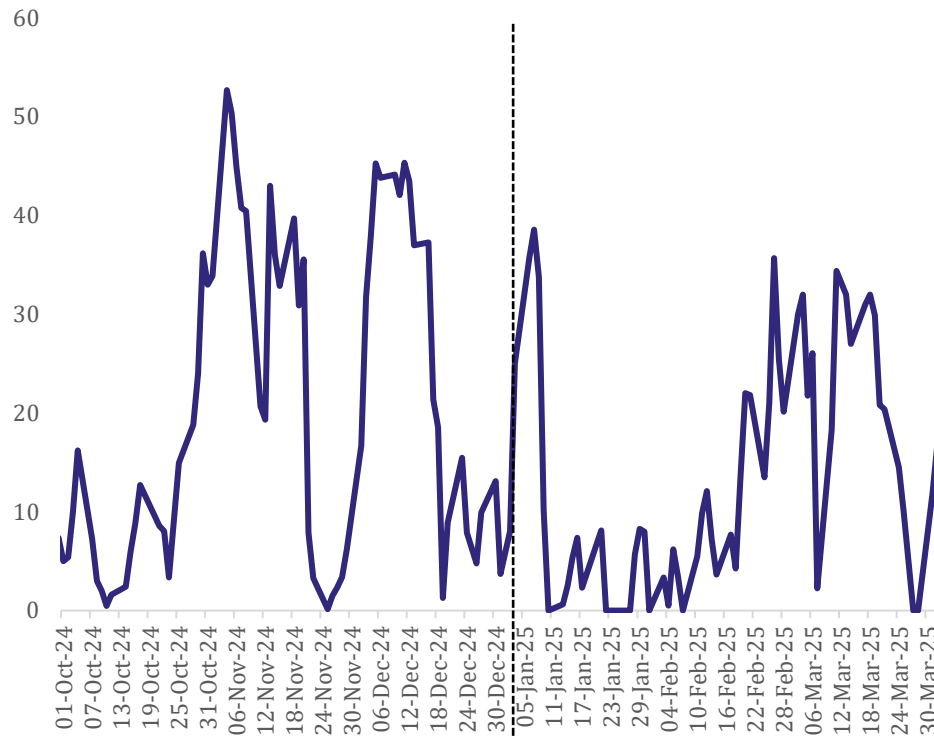
Chart 6: Sectoral Net Sales (+)/Purchases (-) of Foreign Exchange (US\$ million)



FOREIGN EXCHANGE MARKET

- Outstanding demand for foreign exchange rose and peaked at US\$38.6 million in early January before declining to US\$11.9 million at end-March 2025 (Chart 7).
- In the second quarter, the Kwacha has appreciated by 3.3 percent to K27.80 against the US dollar as at May 22, 2025, attributed to improved foreign exchange supply by the mining sector and foreign financial institutions.
- However, there has been a build-up in outstanding demand orders to US\$28.6 million as of May 21, which has led to renewed pressure on the Kwacha to depreciate.

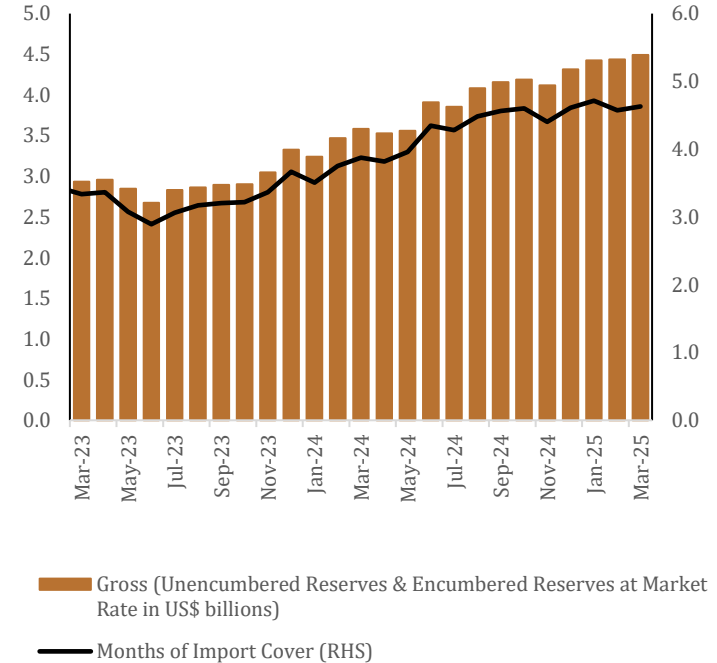
Chart 7: Outstanding Demand for Foreign Exchange (US\$ million)



GROSS INTERNATIONAL RESERVES

- Gross international reserves increased to US\$4.5 billion (equivalent to 4.6 months of import cover) at end-March 2025 from US\$4.3 billion (equivalent to 4.6 months of import cover) at end-December 2024 (Chart 8).
- This was mostly due to net Bank of Zambia purchases, non-tax Government receipts, project receipts, interest earned on reserves, and monetary gold purchases.
- During the first quarter of 2025, gold purchases amounted to US\$8.5 million. This brings the market value of the total holdings to US\$233.6 million since the Bank embarked on purchasing locally produced gold in December 2020.

Chart 8: Gross International Reserves

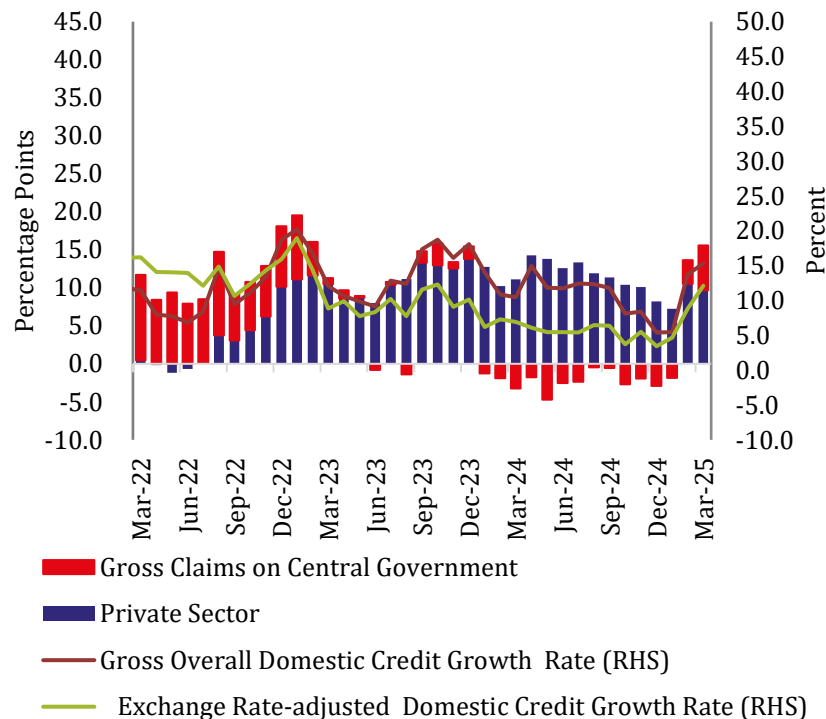


CREDIT DEVELOPMENTS



- Overall domestic credit growth rebounded in March 2025, growing by 15.3 percent, year-on-year (y/y), compared to 5.4 percent, y/y, in December 2024 (Chart 9).
- Over the same period, private sector credit grew (in nominal terms) by 23.0 percent on account of lending to the manufacturing, mining, agriculture, as well as wholesale and retail trade sectors.
- Lending to Government recovered on account of strong demand for Treasury bills and bonds, reflecting elevated liquidity levels at the start of the quarter.

Chart 9: Contribution to y/y Domestic Credit Growth



GOVERNMENT SECURITIES MARKET

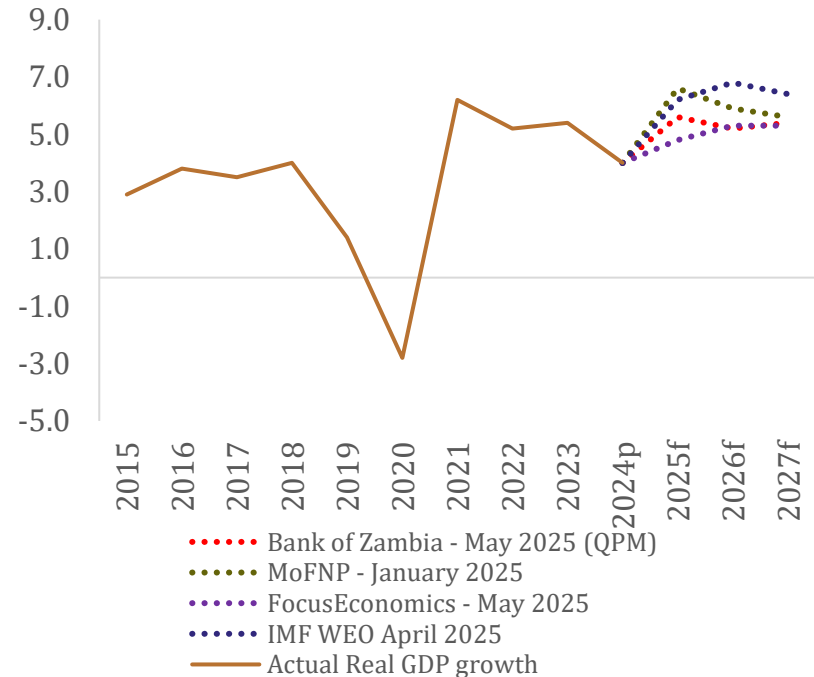


- **Total outstanding stock of Government securities stood at K235.67 billion at end-April. Out of this, non-resident investor holdings were K59.21 billion or 25.12 percent.**

ECONOMIC ACTIVITY

- Economic activity picked up in the first quarter of 2025 as business conditions for the private sector improved, as revealed by the Stanbic Bank Zambia Purchasing Managers Index (PMI).
- Domestic growth prospects are brighter given the better-than-expected real GDP performance in 2024 as well as the expected recovery of the agriculture and energy sectors (Chart 10).
- In addition, sustained growth in ICT, financial and insurance, and wholesale and retail trade sectors are anticipated to support growth.

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



CONCLUSION

- At its May 21-22, 2025 Meeting, the Monetary Policy Committee decided to **maintain the Monetary Policy Rate at 14.5 percent.**
- **Maintaining the current stance of monetary policy is deemed appropriate considering the recent decline in inflation to 16.5 percent in April from 16.8 percent in February, the balance of risks which are still tilted to the downside, and the stability of the financial system.**

**THANK YOU FOR YOUR
ATTENTION.**

GOD BLESS...