

MONETARY POLICY COMMITTEE STATEMENT FOR THE SECOND QUARTER OF 2024

GOVERNOR'S PRESENTATION TO THE MEDIA

AUGUST 14, 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**
- 6. Conclusion**

DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on August 12-13, 2024, the Monetary Policy Committee (MPC) decided to maintain *the Policy Rate at 13.5 percent.*

- **While actual and projected inflation remain elevated relative to the 6-8 percent target band, the Committee judged that the current monetary policy stance is appropriate.**
- **This decision took into account the impact of the drought as well as that of the past successive increases in the Policy Rate, upward adjustments in the statutory reserve ratio, and recent reforms in the foreign exchange market.**
- **In taking the decision to maintain the Policy Rate as opposed to raising it, the Committee also took into account the impact on the stability of the financial system and growth, particularly in 2024, in the wake of the drought.**

INFLATION OUTTURN



- **Average inflation rose further to 14.6 percent in the second quarter of 2024 from 13.5 percent in the first quarter of 2024 (Table 1). In July, annual inflation increased to 15.4 percent from 15.2 percent in June.**
- **The persistent depreciation of the Kwacha against major currencies, as well as rising prices of food (maize grain, maize products, and vegetables) and energy, particularly fuel, due to constrained supply continued to drive inflation in the second quarter (Charts 1 and 2).**

INFLATION OUTTURN



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

Average	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Overall Inflation	9.9	11.0	12.9	13.5	14.6
Food Inflation	11.5	12.7	13.8	14.5	16.2
Non-food Inflation	7.9	8.8	11.6	12.1	12.3

End Period	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024
Overall Inflation	9.8	12.0	13.1	13.7	15.2
Food Inflation	11.2	13.4	14.2	15.6	16.8
Non-food Inflation	7.8	10.1	11.6	11.2	13.0

INFLATION OUTTURN



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

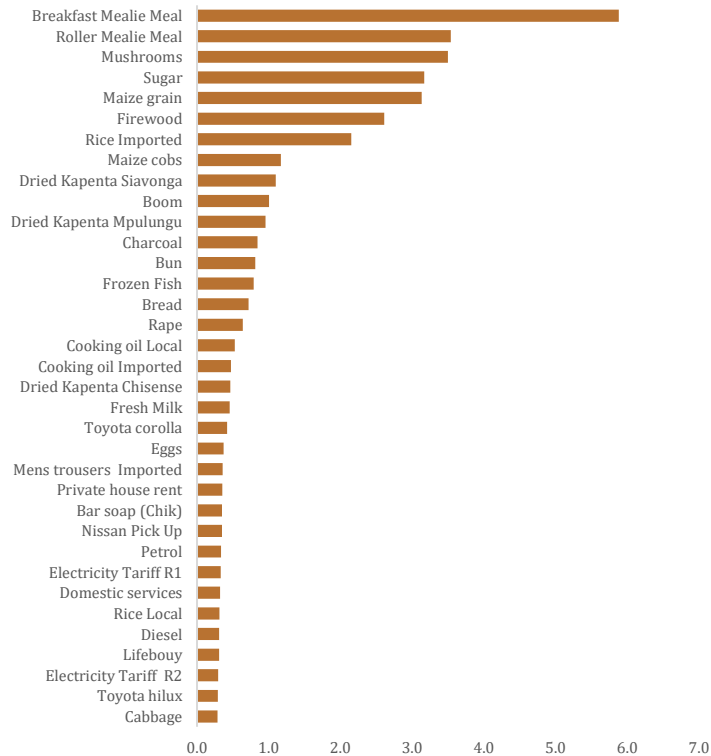
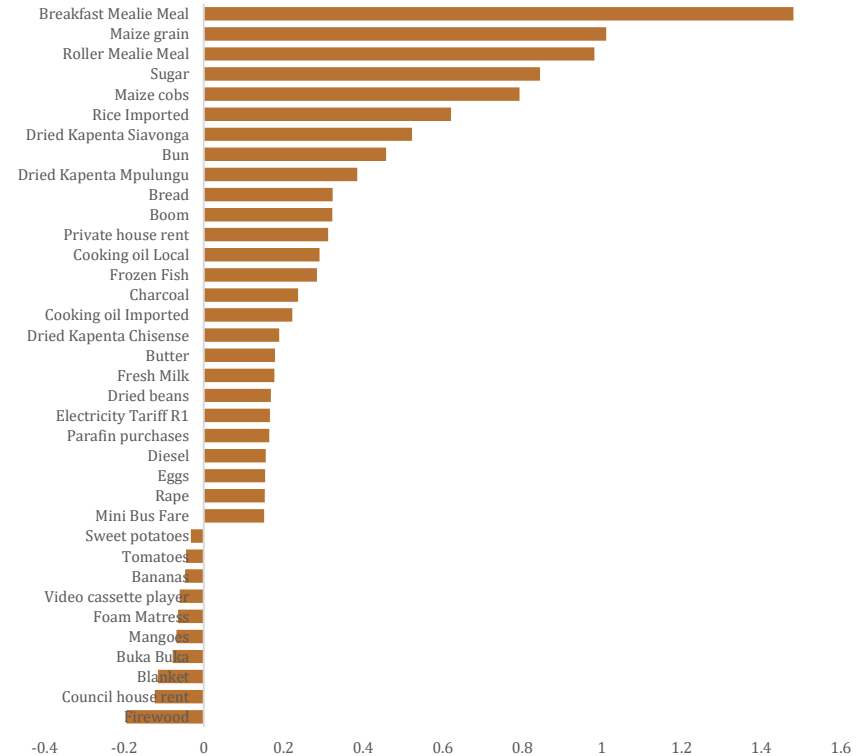


Chart 2: Contribution to Overall Inflation by Product in July 2024 (percentage points)



INFLATION OUTLOOK



- **At the May MPC Meeting, inflation was projected to move into the 6-8 percent target band in the last quarter of 2025. The current forecast, however, points to inflation staying above the target band throughout the forecast horizon (Chart 3 and Table 2).**
- **Inflation for 2024 is now projected at 15.3 percent compared to 13.7 percent in May, largely reflecting the persistent depreciation of the Kwacha and the adverse impact of the drought on food and energy.**
- **Inflation is, however, forecast to moderate to 12.7 percent in 2025, albeit higher than the 9.8 percent reported in the May 2024 MPC Meeting. In the first half of 2026, inflation is expected to be 10.8 percent. The moderation in inflation is mainly on account of expected improvement in external sector performance and declining world food prices.**
- **Key upside risks to the inflation outlook remain broadly unchanged from May, but exacerbated by extended hours of electricity load management, as well as continued geopolitical conflicts and tight global financial conditions.**

INFLATION OUTLOOK



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Chart 3: Inflation – Outcome and Projection (percent)

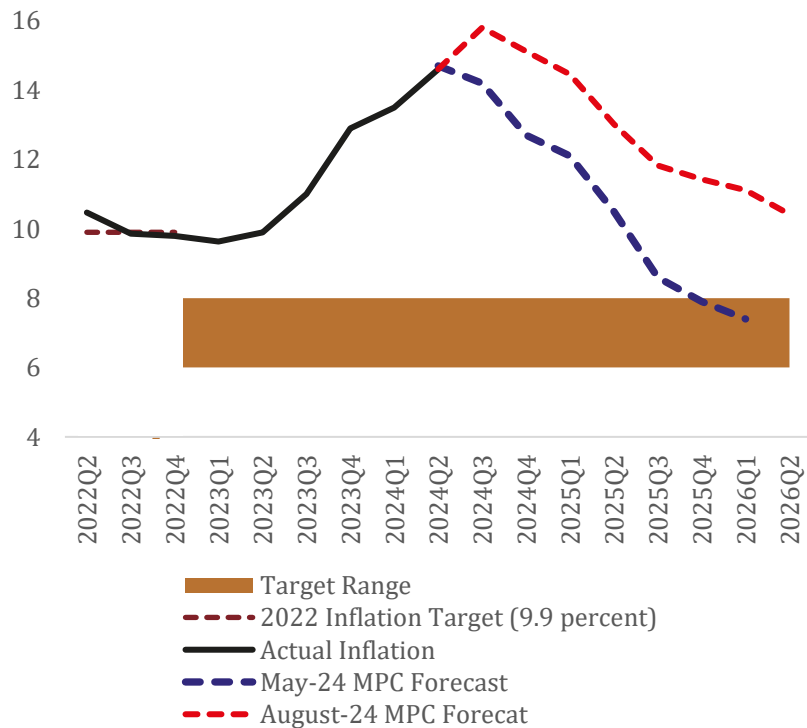


Table 2: Projected Average Inflation (percent)

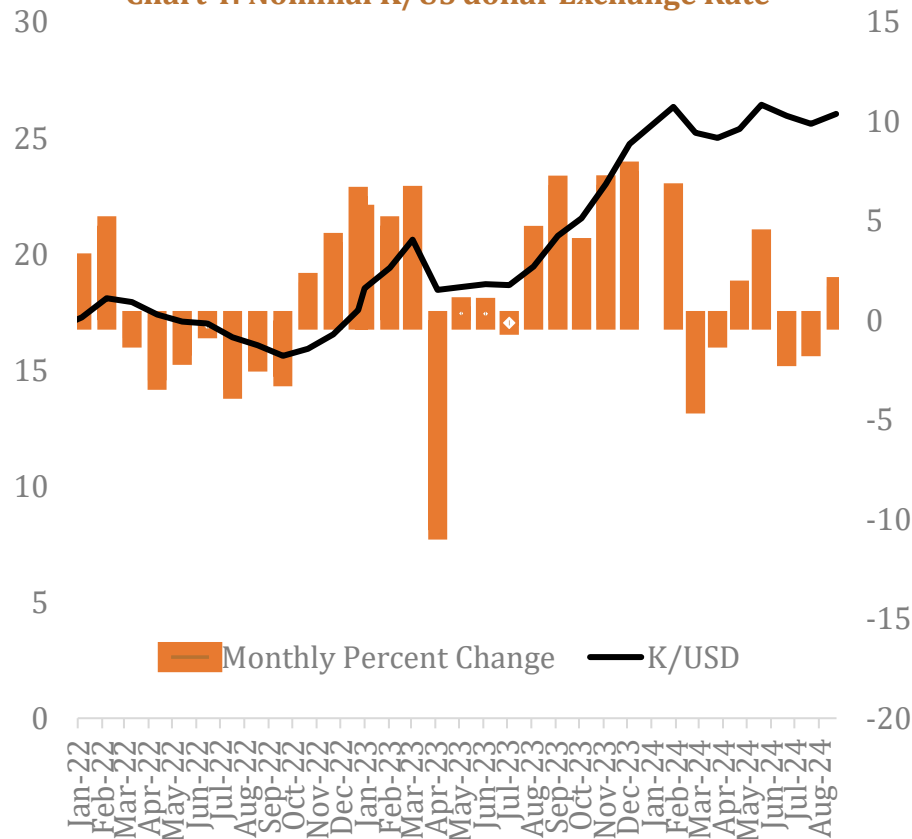
	2024	2025	2026 H1
August-2024 Projection	15.3	12.7	10.8
May-2024 Projection	13.7	9.8	n/a

FOREIGN EXCHANGE MARKET



- In the second quarter of 2024, the depreciation of the Kwacha against the US dollar moderated further to 3.8 percent from 10.6 percent in the first quarter (Chart 4).
- The slowdown was attributed to improved supply of foreign exchange, particularly from the mining sector and moderation in demand.
- In addition, the Kwacha was supported by positive market sentiments following further progress on external debt restructuring and the successful Third Review of the ECF Arrangement by the IMF Board on June 26.
- However, in the third quarter, the Kwacha has depreciated by 6 percent against the US dollar to K26.19 as at August 13 (Chart 4).

Chart 4: Nominal K/US dollar Exchange Rate



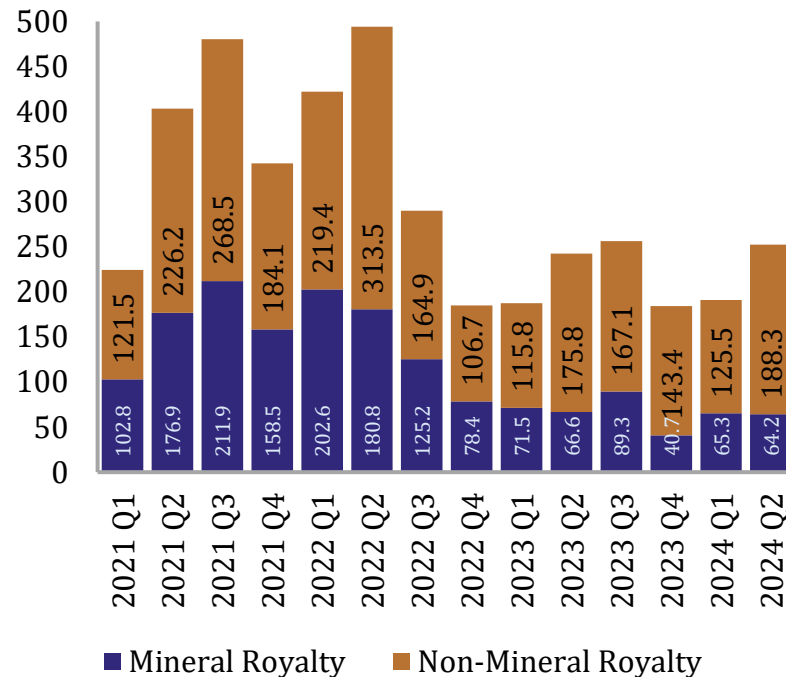
FOREIGN EXCHANGE MARKET



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- Mining tax receipts remitted directly to the Bank increased to US\$252.5 million in the second quarter from US\$190.8 million in the first quarter.
- Due to improved supply, the Bank scaled down market support to US\$275.0 million from US\$369 million in the first quarter.

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

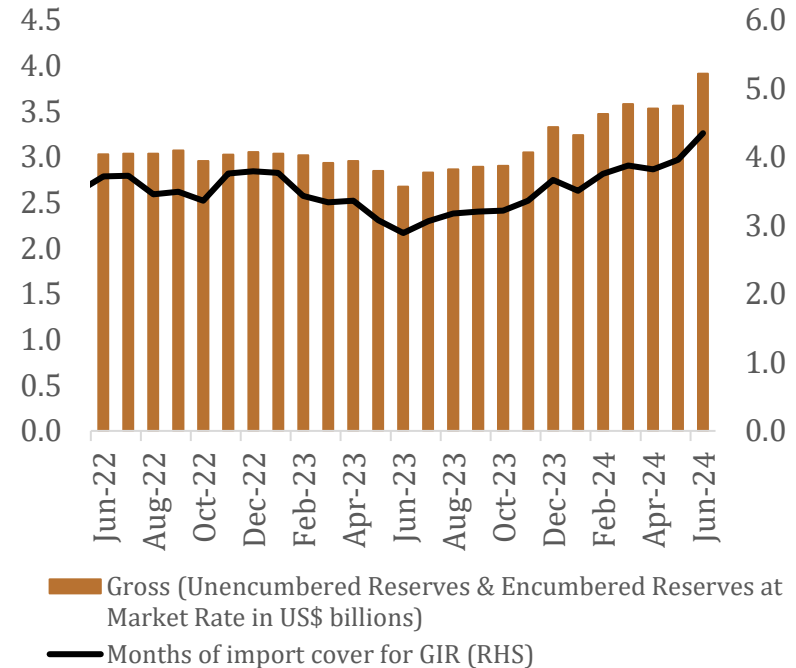


FOREIGN EXCHANGE MARKET



- **Gross international reserves increased to US\$3.9 billion (equivalent to 4.3 months of import cover) at end-June from US\$3.6 billion (equivalent to 3.9 months of import cover) at end-March (Chart 6). This was mainly on account of the US\$569.6 million disbursement by the IMF under the ECF arrangement.**
- **In the second quarter of 2024, gold purchases amounted to US\$8.6 million. This brings the total holdings to US\$176.7 million since the Bank started purchasing gold locally.**

Chart 6: Gross International Reserves



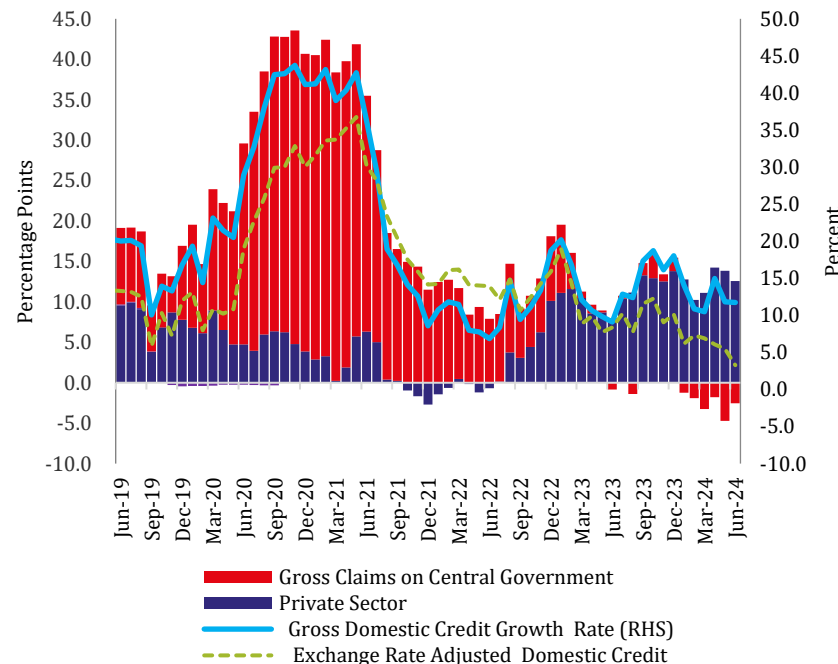
CREDIT DEVELOPMENTS



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- Domestic credit growth picked up to 11.7 percent at end-June from 10.5 percent at end-March mostly due to increased lending to the private sector (Chart 7).
- Private sector credit expanded by 35.8 percent in June in nominal terms compared to 30.5 percent in March.
- Lending to Government through Government securities contracted further as liquidity conditions remained broadly tight (Chart 7).

Chart 7: Contribution to y/y Domestic Credit Growth



Non-Resident Holdings of Government Securities



Chart 7: Non-resident holdings of Government securities

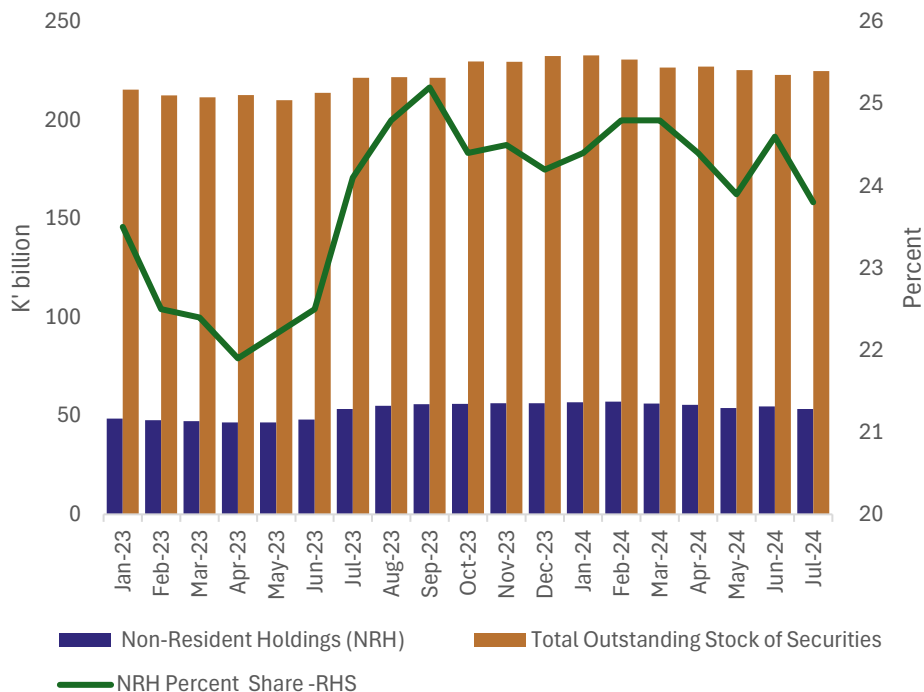


Table 3: Non-Resident Holdings per Tenor as at end-June 2024

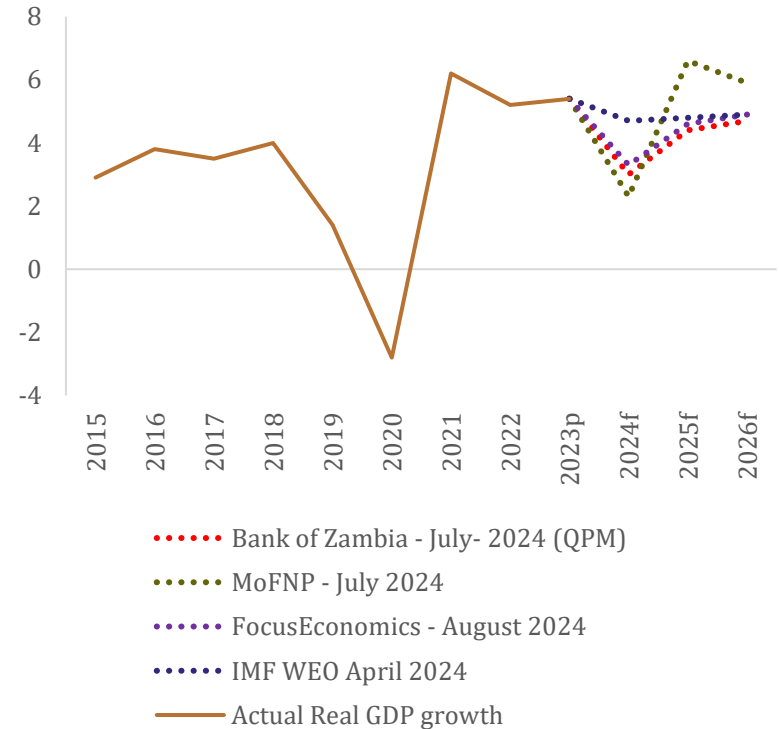
Tenor	Holdings Per Tenor (K' billion)	Percentage
3 Years	1.5	2.8
5 Years	9.4	17.2
7 Years	7.1	13.0
10 Years	26.4	48.2
15 Years	10.3	18.8

ECONOMIC ACTIVITY



- **Economic activity remained weak in the second quarter as business conditions deteriorated in the wake of the adverse impact of the drought.**
- **Growth prospects for 2024 remain pessimistic with growth projected at 2.3 percent on account of the adverse impact of the drought on agriculture and energy 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 maintain the Monetary Policy Rate at 13.5 percent.**
- **While actual and projected inflation remain elevated relative to the 6-8 percent target band, the Committee judged that the current monetary policy stance is appropriate**
- **This decision took into account the impact of the drought as well as that of the past successive increases in the Policy Rate, upward adjustments in the statutory reserve ratio, and recent reforms in the foreign exchange market.**
- **In taking the decision to maintain the Policy Rate as opposed to raising it, the Committee also took into account the impact on the stability of the financial system and growth, particularly in 2024, in the wake of the drought.**
- **The continued implementation of fiscal consolidation measures, including completion of the external debt restructuring, and structural reforms remains critical to lowering inflation, maintaining financial stability, and creating an environment that promotes growth and resilience of the economy against shocks.**
- **In this regard, there is need for concerted effort and strengthened collaboration among all stakeholders to effectively address current and emerging shocks to safeguard macroeconomic stability.**

**THANK YOU FOR YOUR
ATTENTION.**

GOD BLESS...