



Bank of Zambia

**MONETARY POLICY COMMITTEE
STATEMENT FOR
FOURTH QUARTER 2018**

Governor's Presentation to the Media

20th February, 2019

INTRODUCTION



2

The presentation is structured as follows:

- 1. Decision of the Monetary Policy Committee**
- 2. Overview**
- 3. Global economic developments**
- 4. Domestic economic developments**
- 5. Macroeconomic outlook**
- 6. Conclusion**

MONETARY POLICY DECISION



3

At its Meeting held on 18 – 19 February 2019, Monetary Policy Committee decided to maintain the Policy Rate at 9.75%.

In arriving at the decision, the Committee took into account the following factors:

- **Inflation projections which suggest that inflation will remain within the 6-8% target range, although close to the 8% upper bound of the range;**
- **Continued subdued economic activity, with heightened downside risks;**
- **Sluggish private sector credit growth;**

MONETARY POLICY DECISION



4

- **Slow progress towards fiscal consolidation as reflected in rising domestic arrears, public debt and external debt service payments; and,**
- **Weak asset quality in the financial sector as reflected in high non-performing loans.**

OVERVIEW



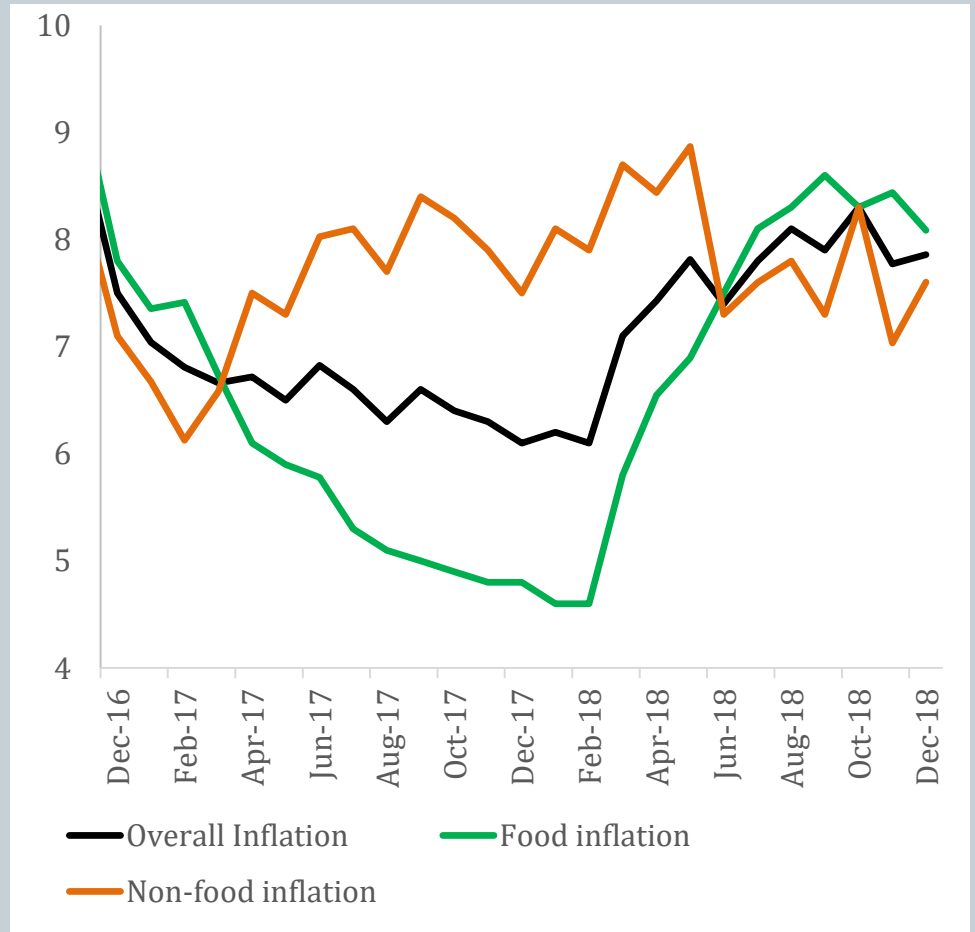
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Inflationary pressures persisted in the fourth quarter of 2018, with inflation rising to an average of 8.0% from 7.9% in the third quarter.

Increase in fuel prices, the depreciation of the Kwacha against major foreign currencies and reduced supply of selected food items kept inflation at elevated levels.

In January 2019, inflation was recorded at 7.9%, same level as in December 2018.

Figure 1: Inflation (Annual Change, %)



Source: Central Statistical Office and Bank of Zambia

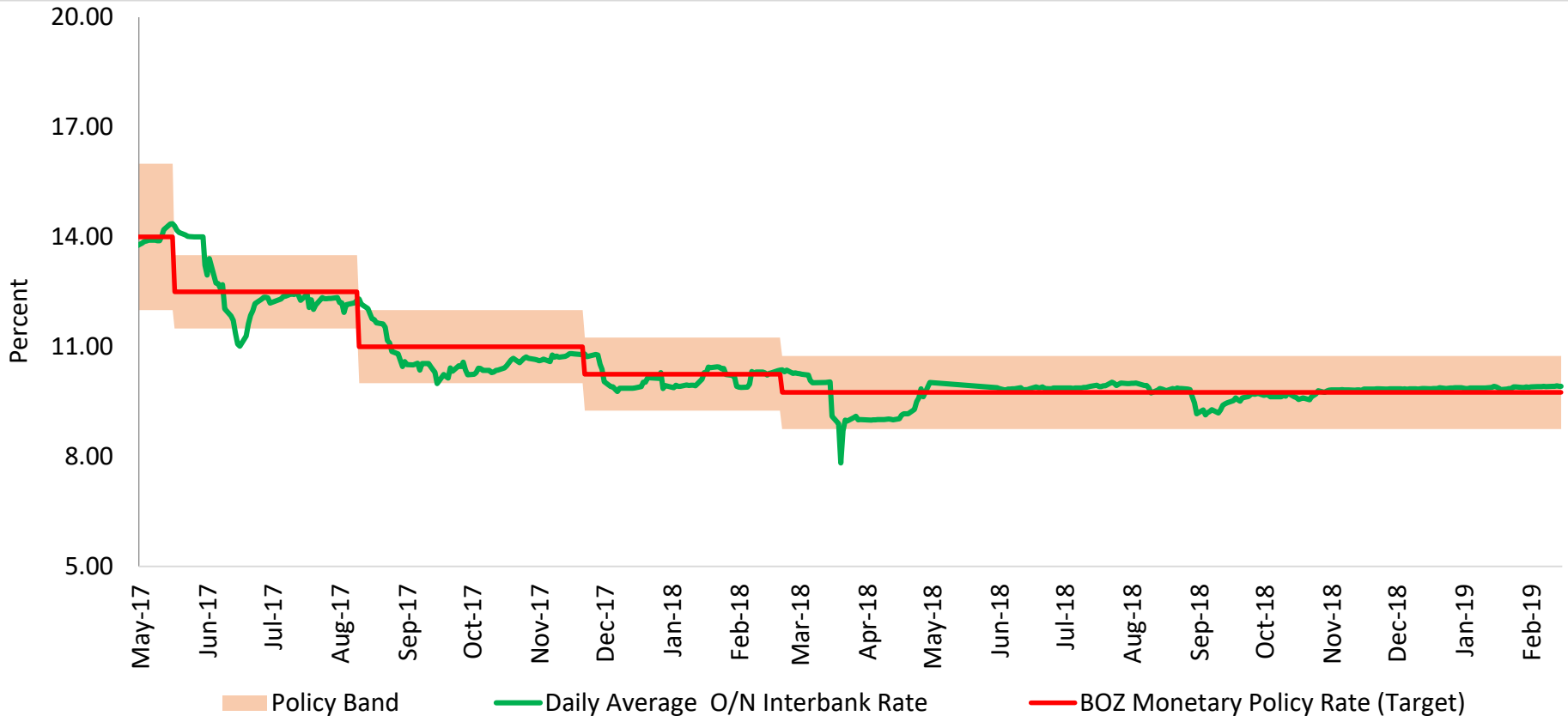
OVERVIEW



6

During the quarter, the overnight interbank rate remained close to the Policy Rate of 9.75%, and averaged 9.79%.

Figure 2: BOZ Policy Rate and the Interbank rate (%)



Source: Bank of Zambia

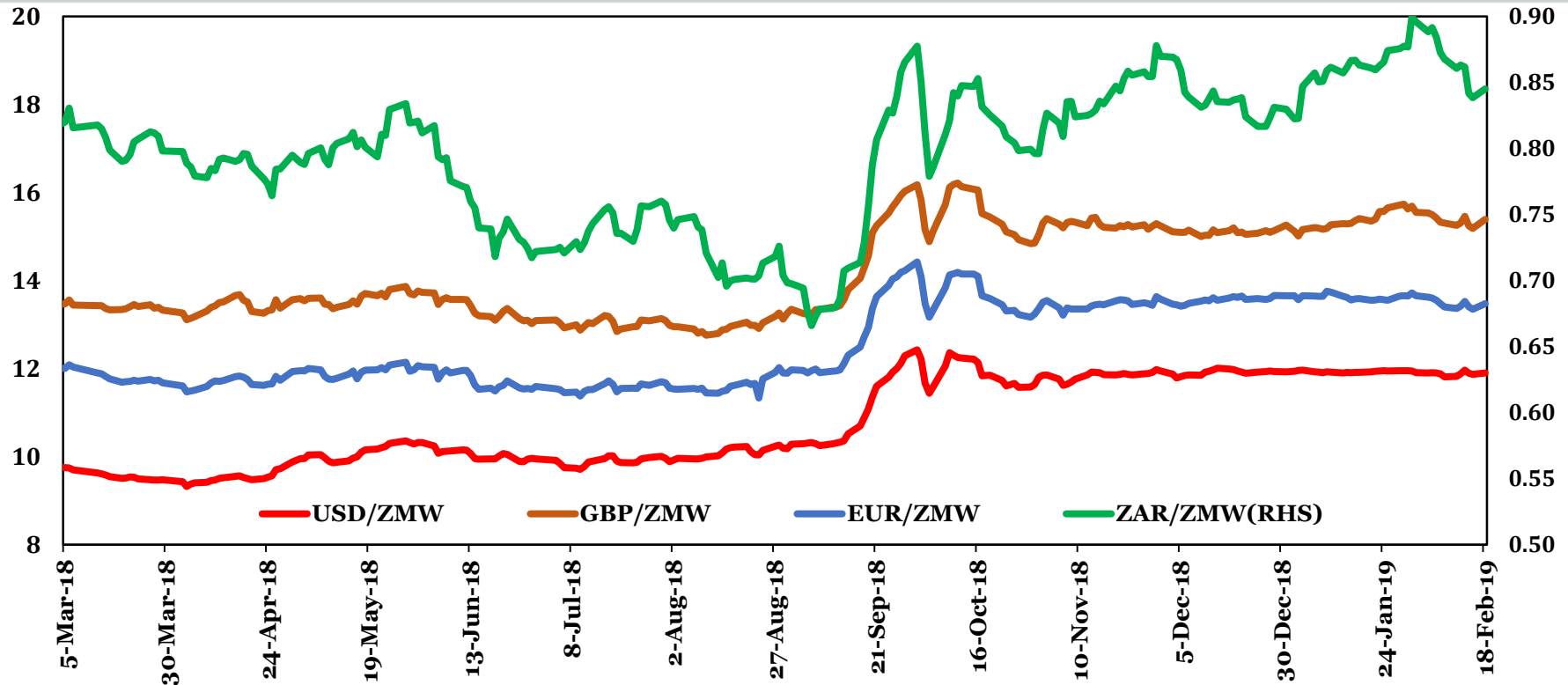
OVERVIEW



7

The Kwacha depreciated by 15.3% against the US dollar, mainly on account of sustained demand for procurement of petroleum products, VAT refunds and a relatively strong US dollar.

Figure 3: Exchange rate developments



Source: Bank of Zambia

GLOBAL ECONOMIC DEVELOPMENTS



8

In 2018, global growth is estimated to have slowed down to 3.7% from 3.8% in 2017.

In 2019, global growth is projected to decline to 3.5%; in 2020, growth is projected to be 3.6% (WEO January 2019 Update). These projections are lower than the previous 3.9% for both years (WEO, October 2018).

- **Underlying the slowdown in global growth in 2018 were:**
 - **Faster than anticipated slowdown in advanced and emerging economies;**
 - **Slow down in global trade; and**
 - **Uncertainties surrounding Brexit negotiations.**

GLOBAL ECONOMIC DEVELOPMENTS



9

In the fourth of 2018, copper prices held steady, but crude oil prices declined by 9.7%. The price of maize grain rose.

Table 1: Commodity Prices

	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Copper Price (US\$/ton)	6,823.0	6,957.0	6,881.0	6,118.0	6,164.0
Oil Price (Dubai) (US\$/barrel)	59.2	64.0	71.8	74.0	66.8
Wheat (US\$/ton)	175.1	189.3	204.9	208.8	221.6
Maize Price (US\$/ton)	148.8	163.7	173.3	157.9	162.8
Cotton (US\$/kg)	1.8	2.0	2.1	2.1	1.91
Sugar (US\$/kg)	0.3	0.3	0.3	0.3	0.3
Soya beans (US\$/ton)	416.0	426.0	436.0	370.0	374.0

Source: World Bank

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



10

Monetary policy continued to focus on maintaining inflation within the 6-8% target range.

This was to be achieved by keeping the interbank rate close to the Policy Rate of 9.75%.

During the quarter, the overnight interbank rate remained within the Policy Rate corridor, averaging 9.79%, up from 9.73%.

During the quarter, market liquidity declined to K1.4 billion from K2.5 billion mainly on account of:

- **Transfers to statutory reserves;**
- **Currency withdrawals related to the festive season; and,**
- **Repayments on the overnight loan facility (Table 2).**

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



11

Table 2: Key Liquidity Influences (K'billion)

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Opening balance	1.4	0.8	1.1	2.5
Net Govt. spending	0.7	1.9	-0.9	-0.1
BoZ FX influence	0.6	1.9	1.0	0.4
Currency in Circulation	0.8	-1.0	0.2	-0.7
Change in SR deposits	-1.8	-4.2	-1.0	-1.0
Overnight Lending Facility	-0.9	-1.9	-0.7	-0.6
Net Government securities influence	0.7	2.3	2.2	0.4
Open market operations	-1.0	1.1	0.4	0.0
Miscellaneous	0.0	0.0	0.2	0.6
Closing balance	0.8	1.1	2.5	1.4

Source: Bank of Zambia

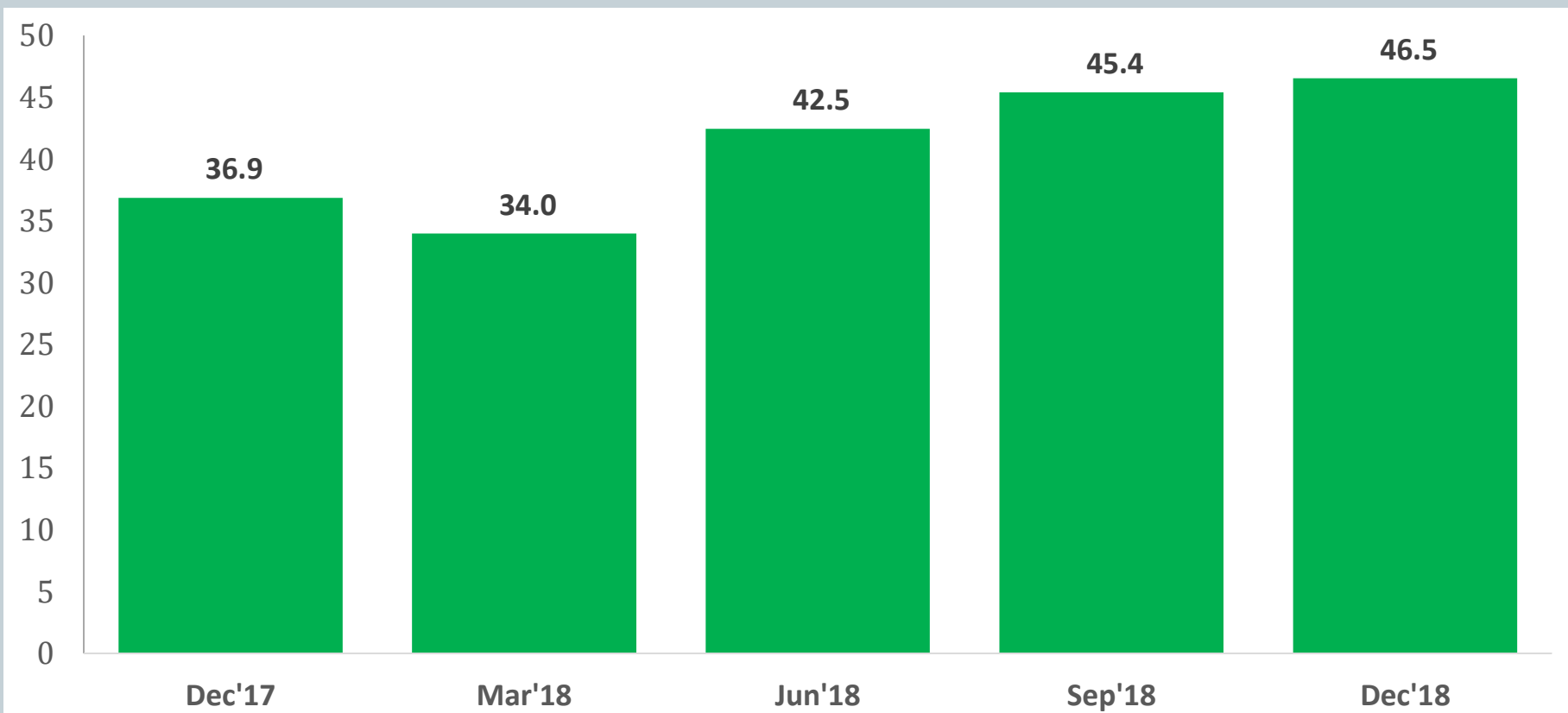
DOMESTIC ECONOMIC DEVELOPMENTS

Money Market



Following a reduction in liquidity levels, the volume of funds traded in the interbank market rose to K46.5 billion from K45.4 billion.

Figure 4: Interbank Trading Activity (K'billion)



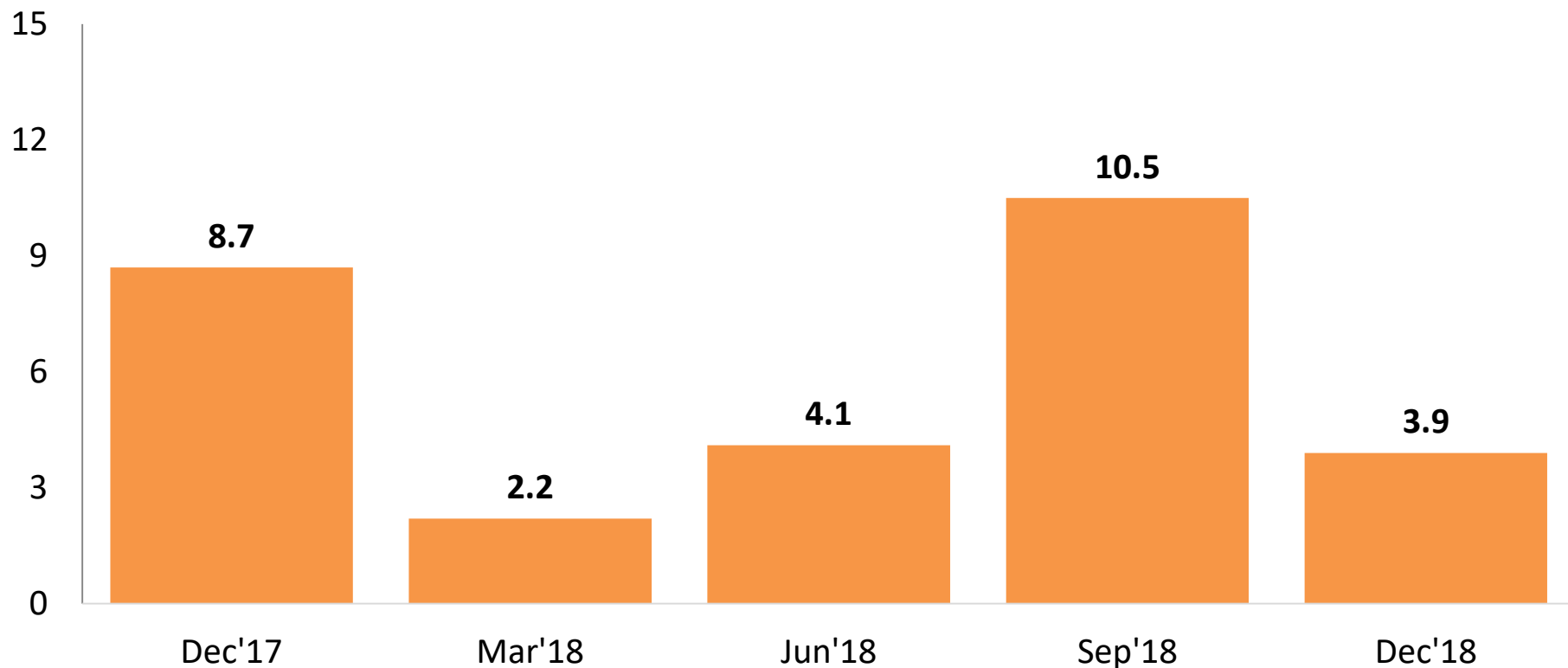
DOMESTIC ECONOMIC DEVELOPMENTS

Money Market



However, the volume of funds accessed through the Overnight Lending Facility declined to K3.9 billion from K10.5 billion in the previous quarter.

Figure 5: Volume of Funds accessed at the OLF (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



14

Demand for Government securities picked up, mainly driven by commercial banks and institutional investors increased appetite for Treasury bills.

Table 3: Government Securities Auctions

	Amount on offer	Amount Received	Subscription rate (%)
Treasury bills			
2018Q3	6.7	4.5	68
2018Q4	6.7	5.9	88
Government Bonds			
2018Q3	1.7	0.5	32
2018Q4	3.3	1.1	33

Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

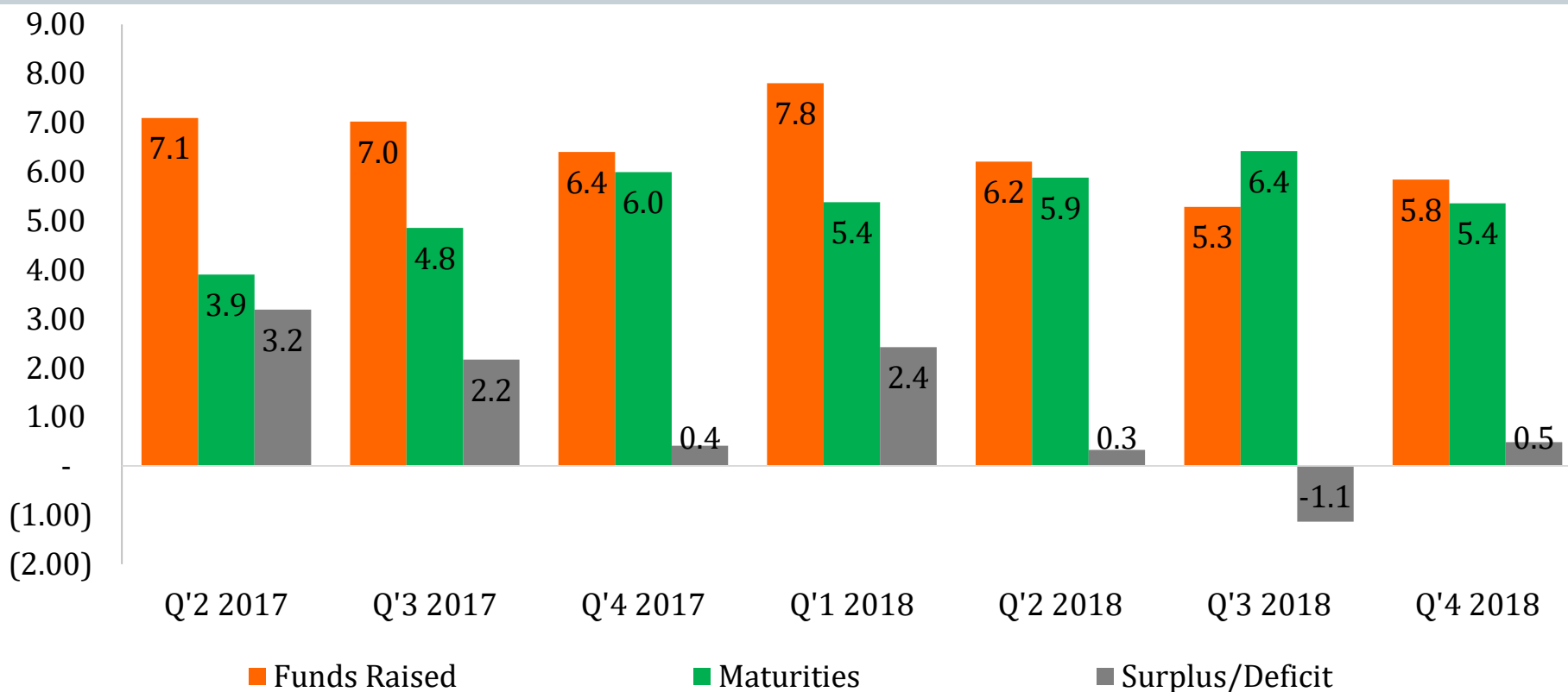
Government securities market



15

Funds raised through Government Securities auctions rose to K5.8 billion (at cost) from K5.3 billion (at cost) in previous quarter. This was against maturities of K5.4 billion compared with K 6.4 billion in Q3.

Figure 6: Government Securities (K'billion)



Source: Bank of Zambia

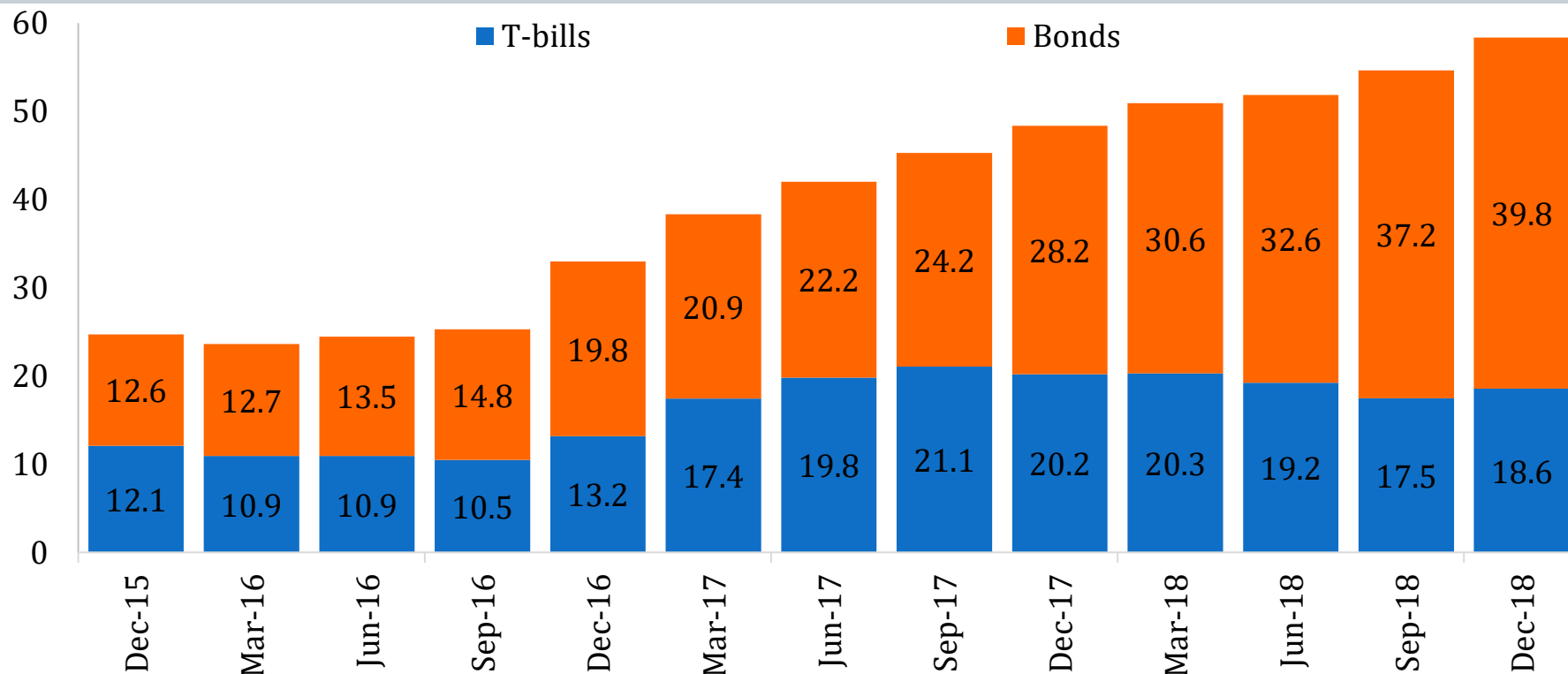
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



The total outstanding stock of Government securities increased further to K58.4 billion from K54.7 billion, driven the stock of Government bonds.

Figure 7: Total Outstanding Government Securities (K'billion)



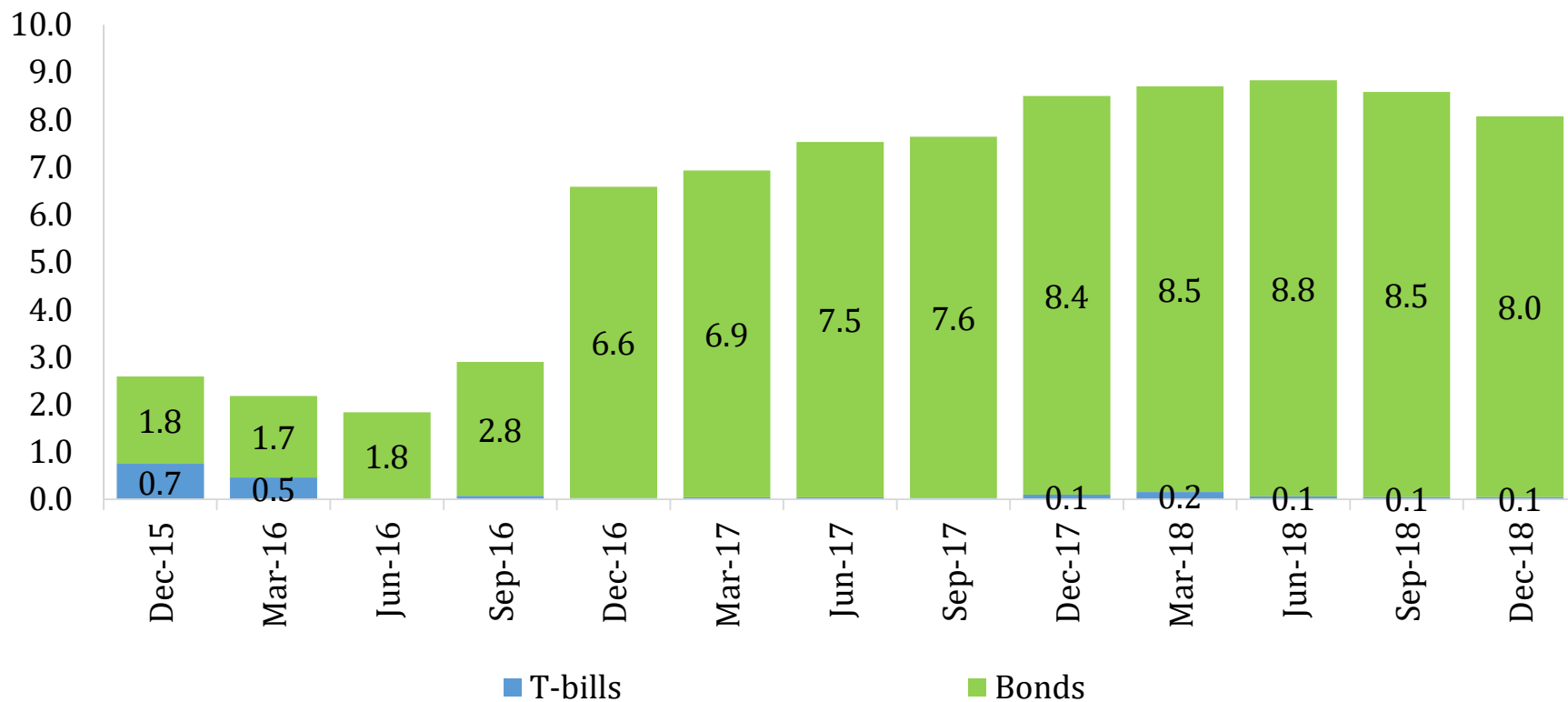
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



However, non-resident investor holdings of Government Securities declined to K8.0 billion from K8.5 billion as demand for bonds fell.

Figure 8: Non-resident Holdings of Government Securities (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

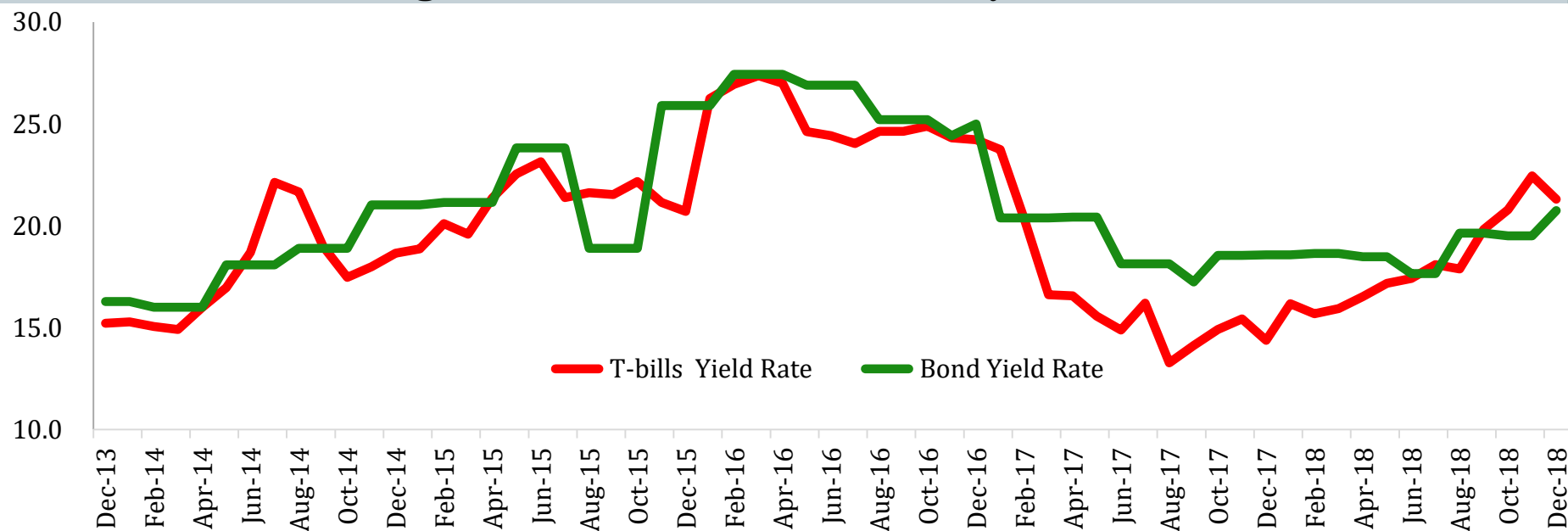


18

Yield rates for both the Treasury bills and Government bonds edged up to quarterly averages of 21.51% and 19.92% from third quarter averages of 18.45% and 19.64%, respectively.

The increase was due to tight liquidity conditions and higher risk premium mainly related to the sovereign credit rating downgrade.

Figure 9: Government securities yield rates (%)



Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

Banks' Nominal Interest Rates



19

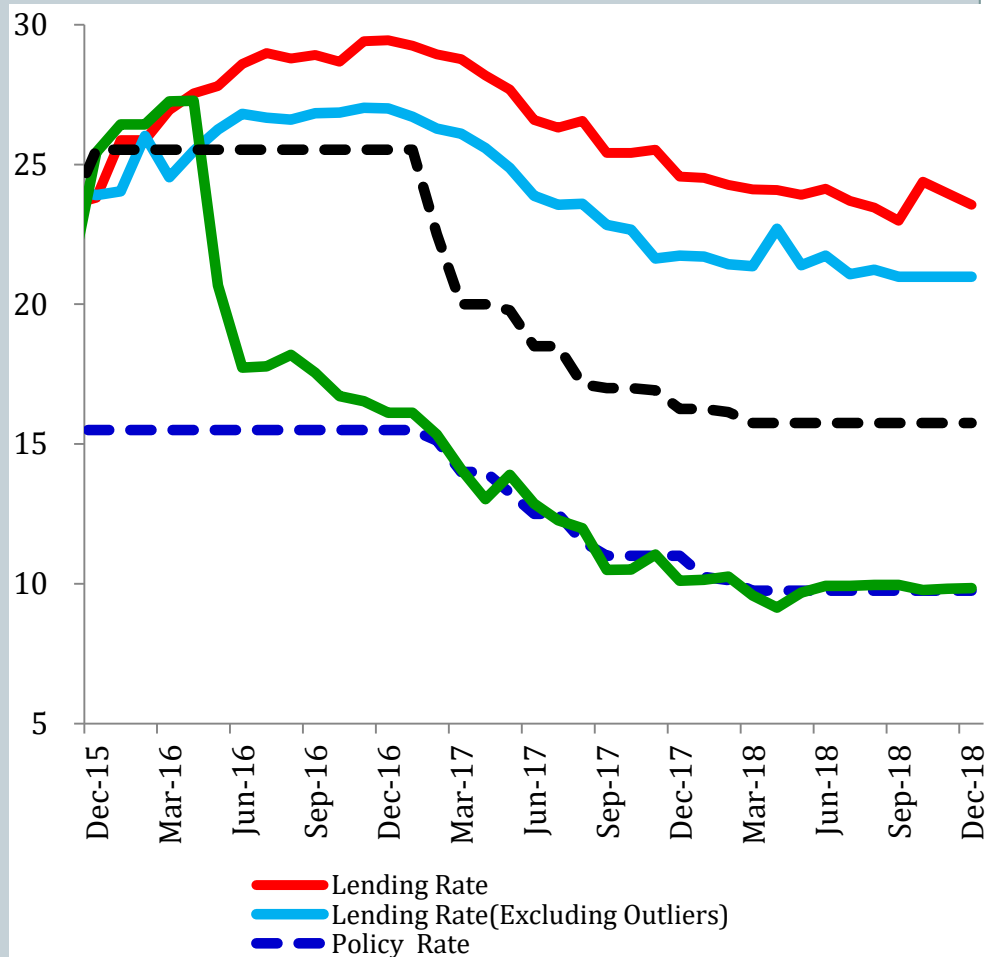
Commercial banks' average nominal lending rates edged up to 23.6% in December 2018 from 23.0% in September.

Excluding outliers, the average lending rate also rose to 21.8% in December 2018 from 21.2% in September.

The average savings rate for 180-day deposit rose 9.1% in December 2018 from 8.3% in September 2018.

High lending rates continue to constrain the private sector's access to credit.

Figure 10: Nominal Interest Rates (%)



Source: Bank of Zambia

Credit growth and money supply



Total credit grew by 1.3%, down from a growth of 9.9% in the third quarter as lending to private enterprises contracted and lending to Government slowed down (Table 4).

Excluding Government, growth in credit contracted by 0.9% compared to a growth of 14.3% in the previous quarter.

Growth in credit to Government fell to 3.3% in the fourth quarter from 6.2% in the preceding quarter.

Credit growth to private enterprises contracted by 4.6% from an increase of 19.2% while growth in credit to households fell to 2.3% from 7.5%.

Continued sluggish growth in credit to private enterprises remains a challenge to supporting strong private sector-led economic activity.

DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit



21

Table 4: Domestic Credit Growth, Quarterly percent changes)

% change	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Total Credit (Incl.Govt)	4.9	0.3	2.9	9.9	1.3
Total -(Excl. Govt)	4.5	-1.3	5.0	14.3	-0.9
Public Enterprises	-15.6	-18.7	9.7	8.6	22.4
Government	5.3	1.7	1.3	6.2	3.3
Private Enterprises	8.3	-3.5	4.7	19.2	-4.6
Households	1.3	3.1	5.3	7.5	2.3
NBFIs	-30.1	-13.6	1.4	20.4	80.1

Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

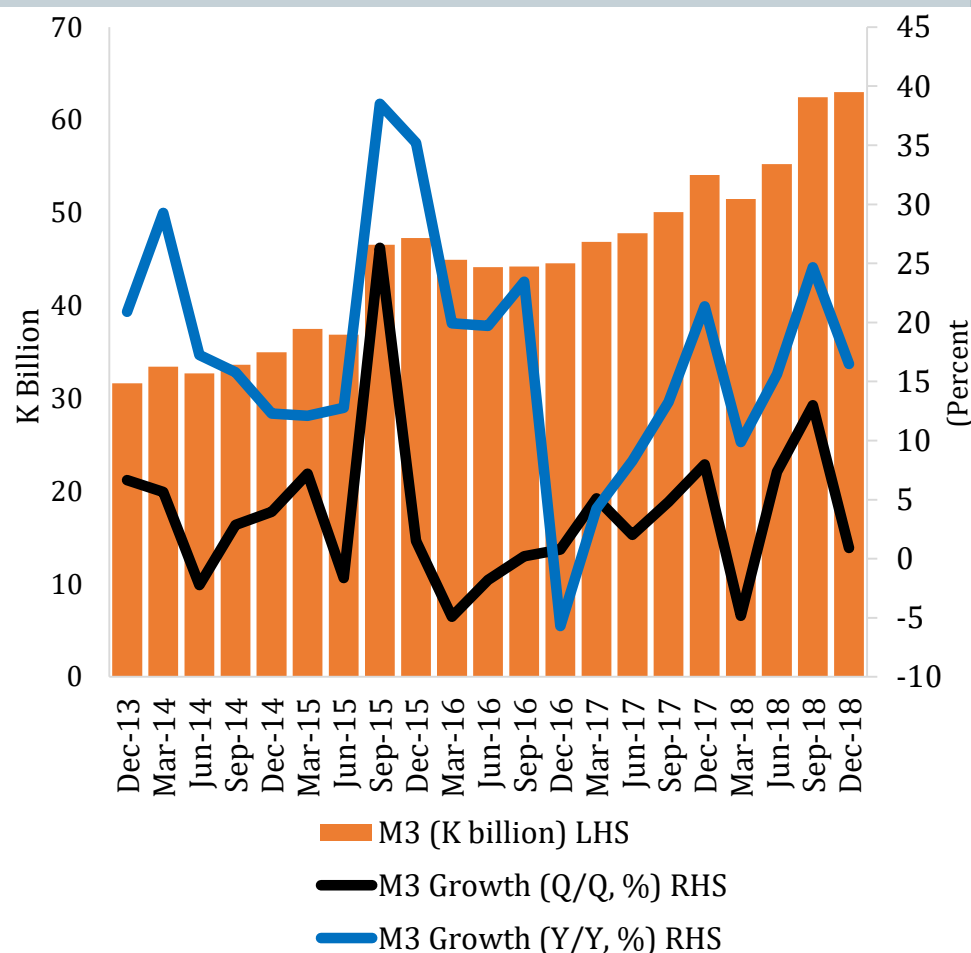
Money supply and credit



22

- **Growth in money supply (M3) slowed down to 0.9% in the fourth quarter from a growth of 13% in the third quarter.**
- **Slow down in growth was on account of decline in foreign assets.**
- **On a year-on-year basis, money supply growth slowed down to 8.0% from 15.5% in the third quarter.**
- **Low money supply growth rates are indicative of continuing challenges in sustaining strong economic activity.**

Figure 11: Money Supply



Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market



23

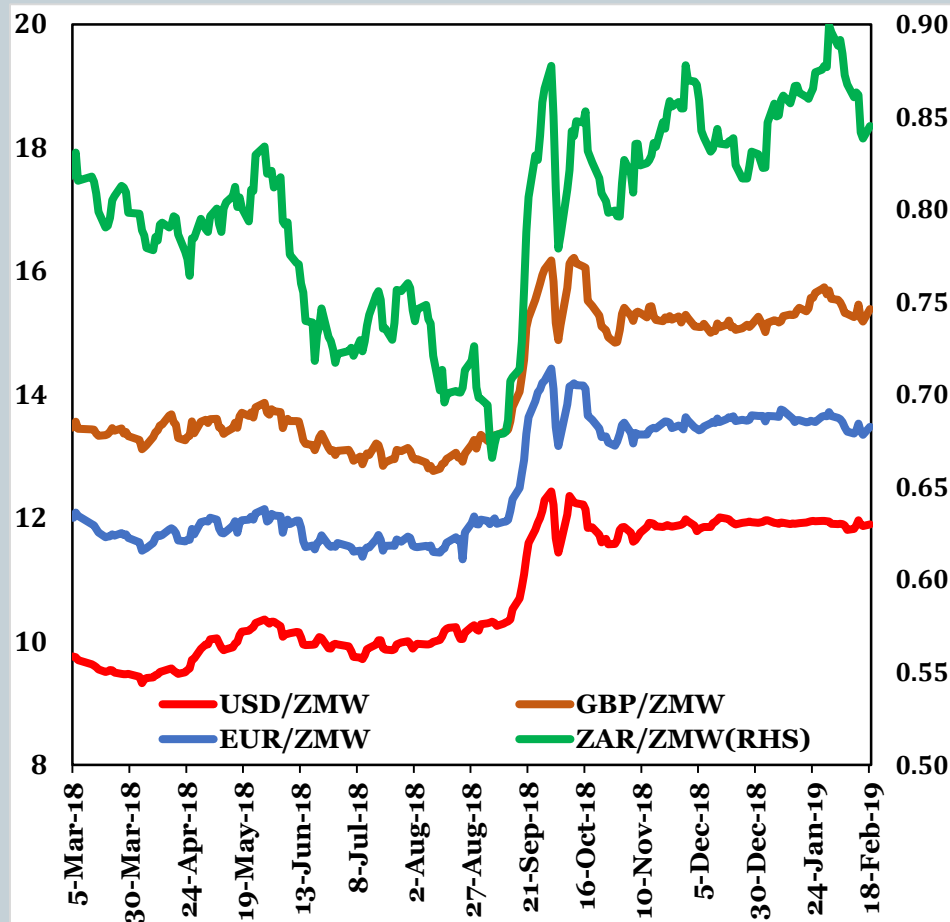
In nominal terms, the Kwacha depreciated by 15.3% against the US dollar due to:

Sustained demand for foreign exchange, particularly for procurement of petroleum products; a strong US dollar; and, negative market sentiment following credit rating downgrades.

The Kwacha also depreciated against the Euro, British pound and South African rand by 13.2%, 13.9% and 13.7%, respectively.

The depreciation was largely attributed to the currencies relatively lower depreciation against the US dollar.

Figure 12: Exchange rate developments



Source: Bank of Zambia

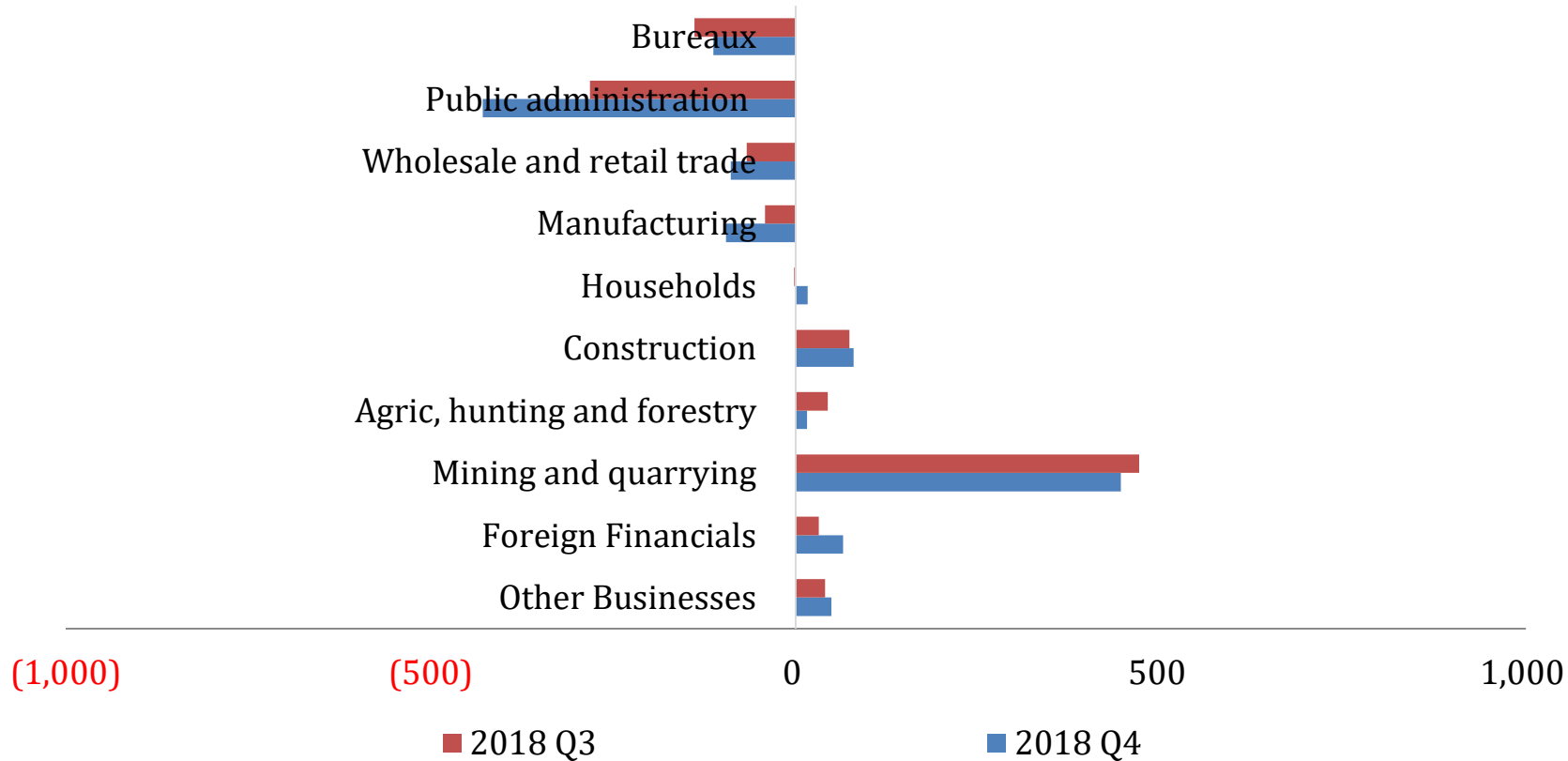
DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market



Net supply of foreign exchange reduced to US \$92.1 million in the fourth quarter from US \$304.5 million in the preceding quarter

Figure 13: Supply and Demand (US\$'million)



Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



25

Preliminary estimates indicate over the three quarters of 2018, real GDP growth averaged 3.9%, slightly higher than 3.6% recorded during the same period in 2017.

Low frequency economic indicators suggest positive year-on-year growth while high frequency indicators show that growth remains fragile:

Copper production remained almost unchanged at 220,039.3 mt in the fourth quarter of 2018 compared to 220,130.7 mt recorded in the third quarter;

Year-on-year, copper production grew by 4.4% in the fourth quarter 2018 compared to a year-on-year growth of 8.8% recorded the corresponding quarter of 2017.

Production of cement declined by 9.5% in the fourth quarter compared to the 24% increase in the third quarter.

DOMESTIC ECONOMIC DEVELOPMENTS

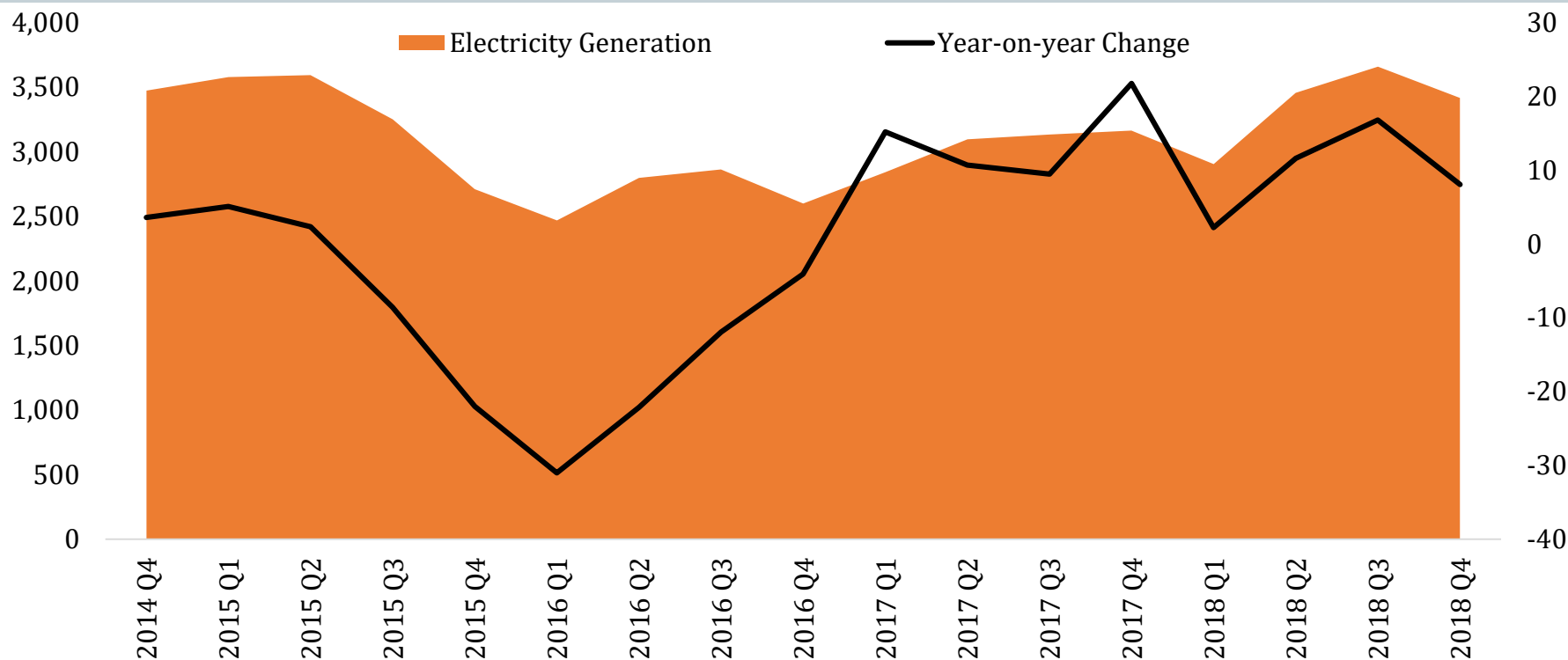
Real Sector Activity



26

Electricity generation declined by 6.6% to 3,415.5 GWh from 3,656.1 GWh in the fourth quarter. The decline was on account of on-going maintenance works at Kafue Gorge Power Station which commenced.

Figure 13: Electricity Generation



Source: Zambia Electricity Supply Corporation

DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



27

In the fourth quarter, manufacturing sector production generally deteriorated with a few exceptions such as wood and wood products as well as non-metallic minerals.

Table 5: Selected Manufactured Products (Quarterly, Metric Tons)

Product	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q/Q % change
Chemicals, Rubber & Plastics	591	576	723	715	661	-8%
Leather	8,063	7,445	9,911	10,084	9,060	-10%
Basic Metals	5,949	5,200	6,900	7,835	7,122	-9%
Fabricated Metal Products	15,426	12,101	15,117	18,826	16,265	-14%
Wood & Wood Products	5,747	5,718	6,195	6,518	6,841	5%
Paper & Paper Products	553	558	559	514	250	-51%
Non-metallic Minerals	4,880	5,411	5,666	4,367	4,743	9%
Textile & Clothing	110	118	155	110	80	-27%

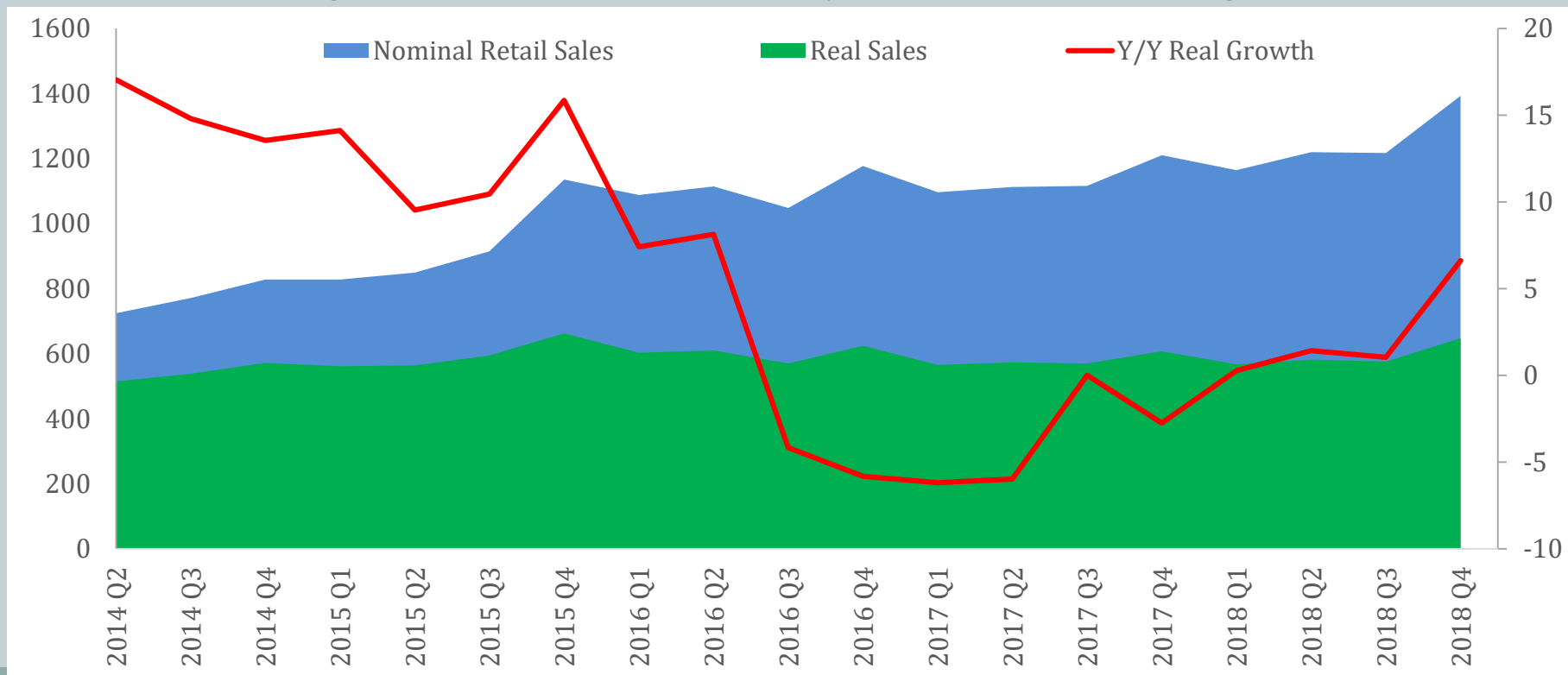
DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



Real consumer spending grew by 6.6% on a year-on-year basis in the fourth quarter, up from a growth rate of 1% in the third quarter. Pick-up in spending is linked to the festive period.

Figure 14: Retail Sales (Quarterly, K'million and annual growth)



Source: Bank of Zambia

DOMESTIC ECONOMIC DEVELOPMENTS

External Sector



29

A deficit of US \$328.1 million was recorded on the current account against a surplus of US \$160.8 million in the third quarter of 2018. This was mainly driven by unfavorable performance in the primary income, services and the balance on goods.

Table 6: Balance of Payments (US\$'million)

	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Current Account Balance	-267.7	-272.6	160.8	-328.1
Balance on Goods	330.0	88.0	194.6	-98.7
Total Exports	2,414.2	2,230.8	2,289.7	2,094.6
Copper	1,907.6	1,641.2	1,628.6	1,480.9
Cobalt	32.3	38.2	28.7	17.5
Gold	42.2	37.5	31.3	36.9
NTEs	414.6	496.3	583.5	541.7
Total Imports	2,084.3	2,142.9	2,095.1	2,193.3
Primary Income	-430.4	-271.8	53.8	-117.8
Secondary Income	68.9	67.9	68.9	70.2
Services Account	-236.1	-156.8	-156.5	-181.9
Capital Account	16.3	17.2	16.3	16.4
Financial Account	30.0	-345.5	360.5	-260.4
Net Errors/Omissions	1.8	14.6	13.6	7.8
Overall Balance	279.5	-104.6	169.4	43.5
Change in Reserve Assets	-283.4	78.3	-172.0	-72.0

Source: Bank of Zambia



Preliminary data for 2018 indicate that the fiscal deficit, on a cash basis, is likely to be slightly lower than the 2017 Budget outturn of 7.8% of GDP.

However, the outturn will still be higher than the 2018 target.

To support sustainable macroeconomic stability and achieve higher growth, prompt and effective implementation of fiscal adjustment measures remains critical.



During the quarter, inflation rose to a high of 8.3% in October 2018, breaching the upper bound of the target range, but reverted back into the target range in November.

Inflation outcome was 0.1 percentage points higher than the average of 7.9% recorded in the preceding quarter.

- **At end-December 2018, inflation was 7.9%, unchanged from its end-third quarter outturn (Figure 16).**
- **Food inflation stood at 8.3% in December 2018, unchanged from its September level.**
 - **Food inflation remained elevated on account of reduced supply of selected food items, particularly maize grain and meat products.**
- **Non-food inflation at 7.6% in December 2018 also remained unchanged from the September outturn.**

DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



32

- **Month-on-month inflation rose to 0.8% in December 2018 from 0.2% in September (Figure 17).**
- **Both monthly food and non-food inflation increased to 0.8% and 0.7% from 0.1% and 0.3% in September 2018, respectively.**
- **Reduced supply of selected food items and the depreciation of the Kwacha against major foreign currencies explains the rise in monthly food and non-food inflation, respectively.**
- **In January 2019, inflation remained unchanged at the December 2018 level of 7.9%, despite marginal increases in both food and non-food inflation to 8.2% and 7.7% from 8.1% and 7.6%, respectively.**

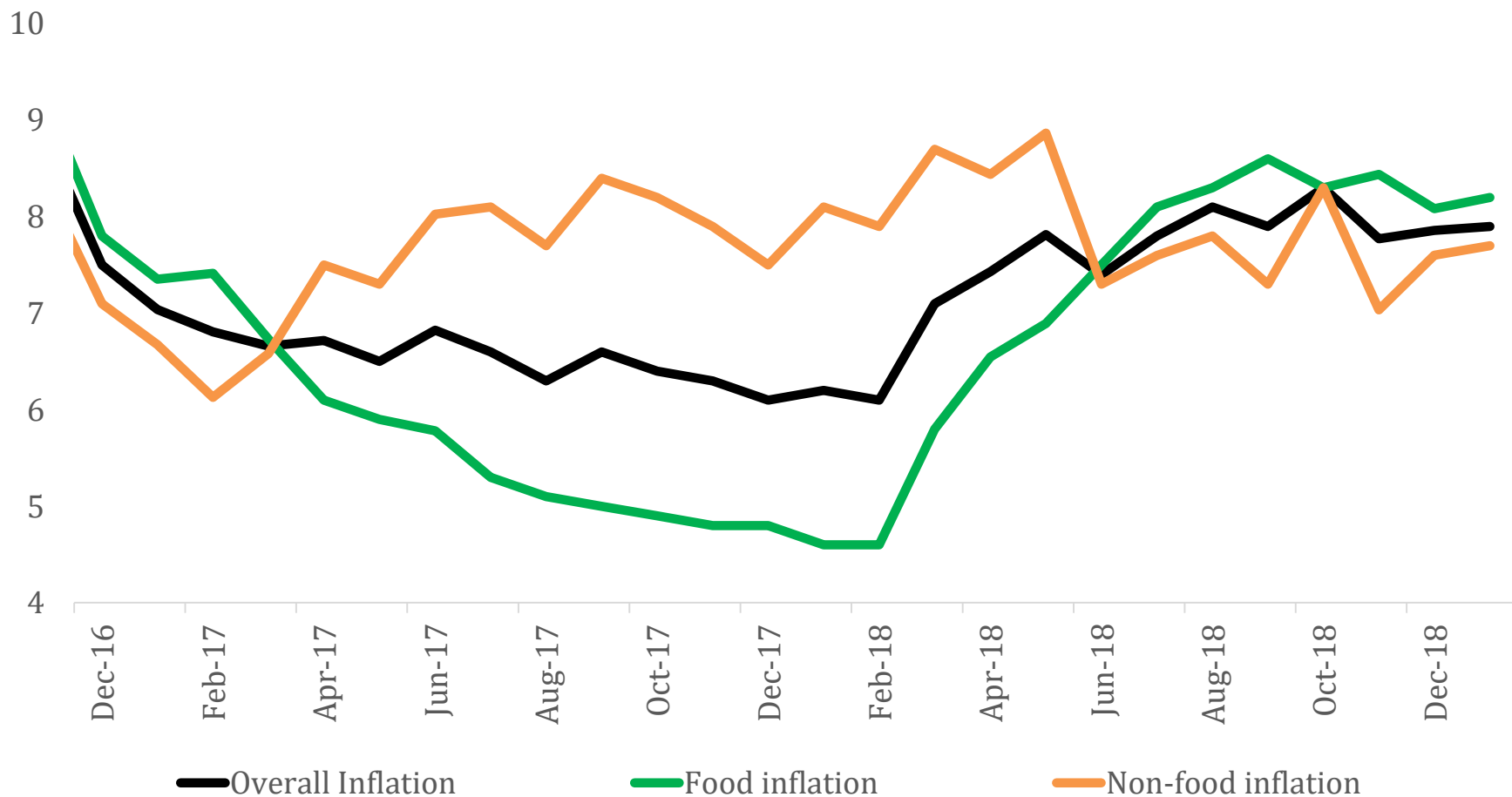
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



33

Figure 15: Inflation Developments, y-o-y



Source: Bank of Zambia

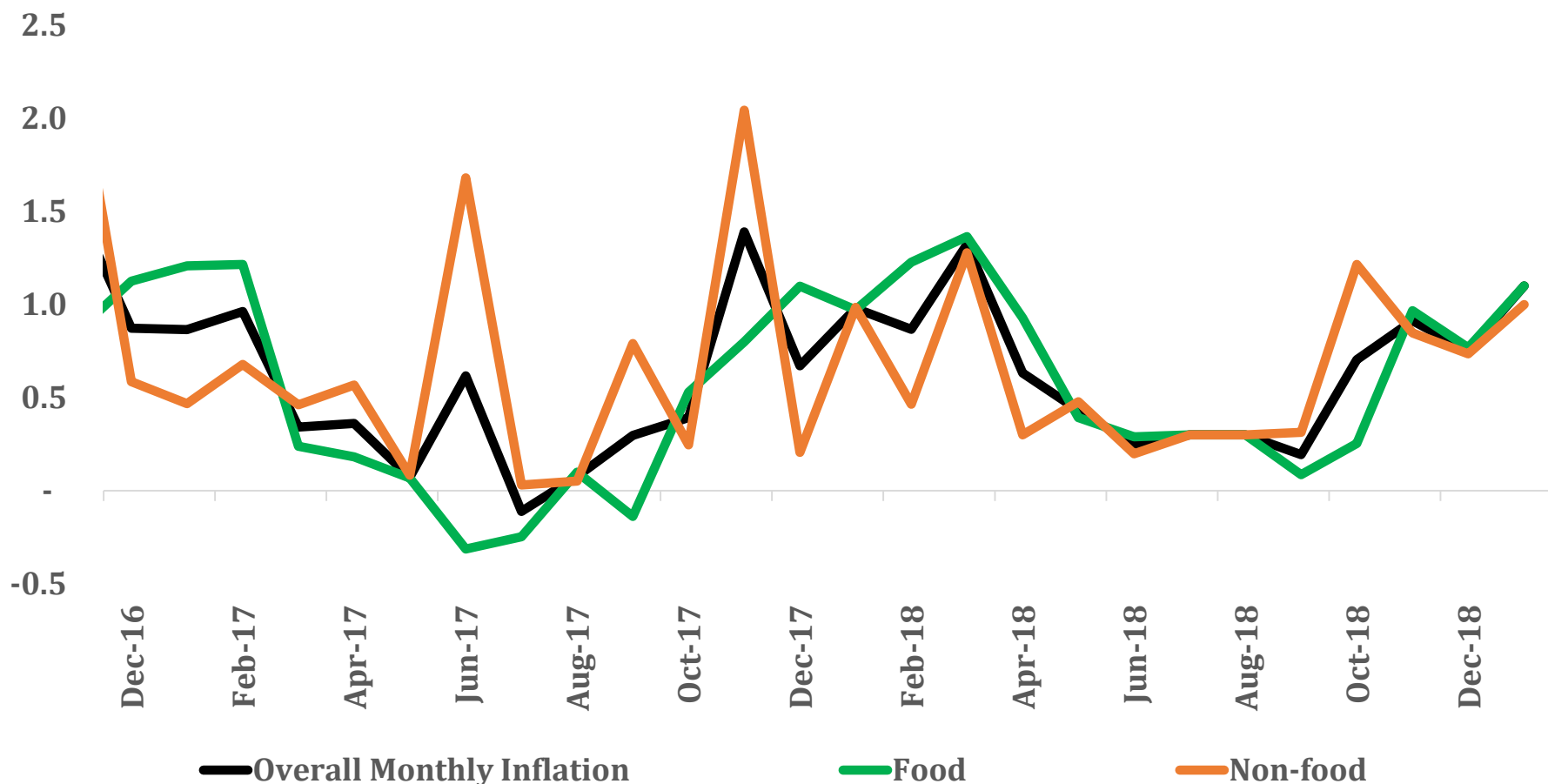
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



34

Figure 16: Inflation Developments, m-o-m



Source: Bank of Zambia

MACROECONOMIC OUTLOOK

Real GDP growth



35

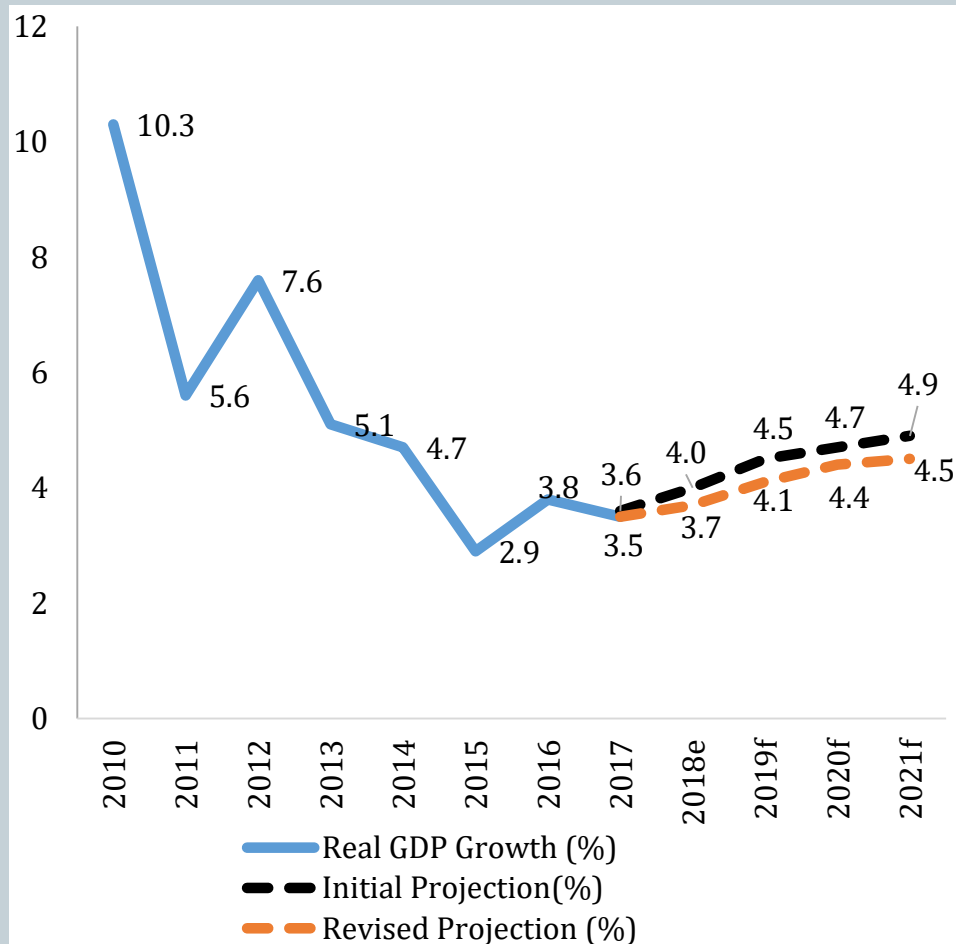
Preliminary estimates indicate real GDP growth averaged 3.9% over the three quarters of 2018, 0.3 percentage points higher than 3.6% recorded during the same period in 2017.

In 2019, growth is projected to be about 4.0%.

Growth will be driven by mining, manufacturing, construction, and wholesale and retail trade sectors and supported by relatively stable power supply.

Downside risks to growth include delayed implementation of fiscal adjustment, weak credit growth and delays in dismantling domestic arrears.

Figure 17: Real GDP Growth (%)



MACROECONOMIC OUTLOOK

Inflation



36

Over the forecast period (first quarter of 2019 to the fourth quarter of 2020), inflation is projected to remain within the 6-8% target range although at an elevated level.

Upside risks to inflation outlook include:

- **Higher than programmed budget deficits;**
- **Rising external debt service payments;**
- **Deterioration in the current account balance; and,**
- **Decline in international reserves.**

These risks are likely to impact inflation through the exchange rate and expectations channels.

CONCLUSION



37

The MPC observed that over the forecast period, inflation is projected to remain within the 6-8% target range, though close to the 8% upper bound of the target range.

Heightened upside risks judged to dominate the inflation outlook include:

- slower than anticipated fiscal consolidation;**
- increased external debt service payments;**
- elevated domestic arrears;**
- liquidity challenges; and,**
- lower than anticipated copper prices due to a slowdown in global growth momentum.**

CONCLUSION



38

Further, the Committee's decision was influenced by the continuing low growth, subdued credit growth to the private sector and continuing fragilities in the financial sector.

Overall, the Committee concluded that by maintaining the Policy Rate at 9.75%, monetary policy remains supportive of financial sector stability and economic growth.

However, to support sustainable macroeconomic stability and achieve higher growth, prompt and effective implementation of fiscal adjustment measures remains critical.

Should the upside risks to inflation materialise and push inflation above the target range, the Committee may adjust the Policy Rate upward.



THANK YOU AND GOD BLESS...