



**MONETARY POLICY COMMITTEE STATEMENT
FOR
FOURTH QUARTER 2017**

Governor's Presentation to the Media

21st February, 2018



INTRODUCTION

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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**



MONETARY POLICY DECISION

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At the Meeting held on 19 – 20 February 2017, Monetary Policy Committee decided to:

- 1. Reduce the Policy Rate by 50 basis points to 9.75% from 10.25%**
- 2. Lower the Statutory Reserve Ratio by 300 basis points to 5.0% from 8.0%.**



MONETARY POLICY DECISION

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The Committee took into account the following factors in arriving at its decisions:

- **Reduction in inflation to the 6% lower bound of the target range;**
- **Inflation projections which point to inflation remaining on the lower bound of 6-8% target range;**
- **High lending rates and subdued credit growth to the private sector;**
- **Elevated level of non-performing loans, which continue to pose risks to financial stability; and,**
- **Weak economic growth.**

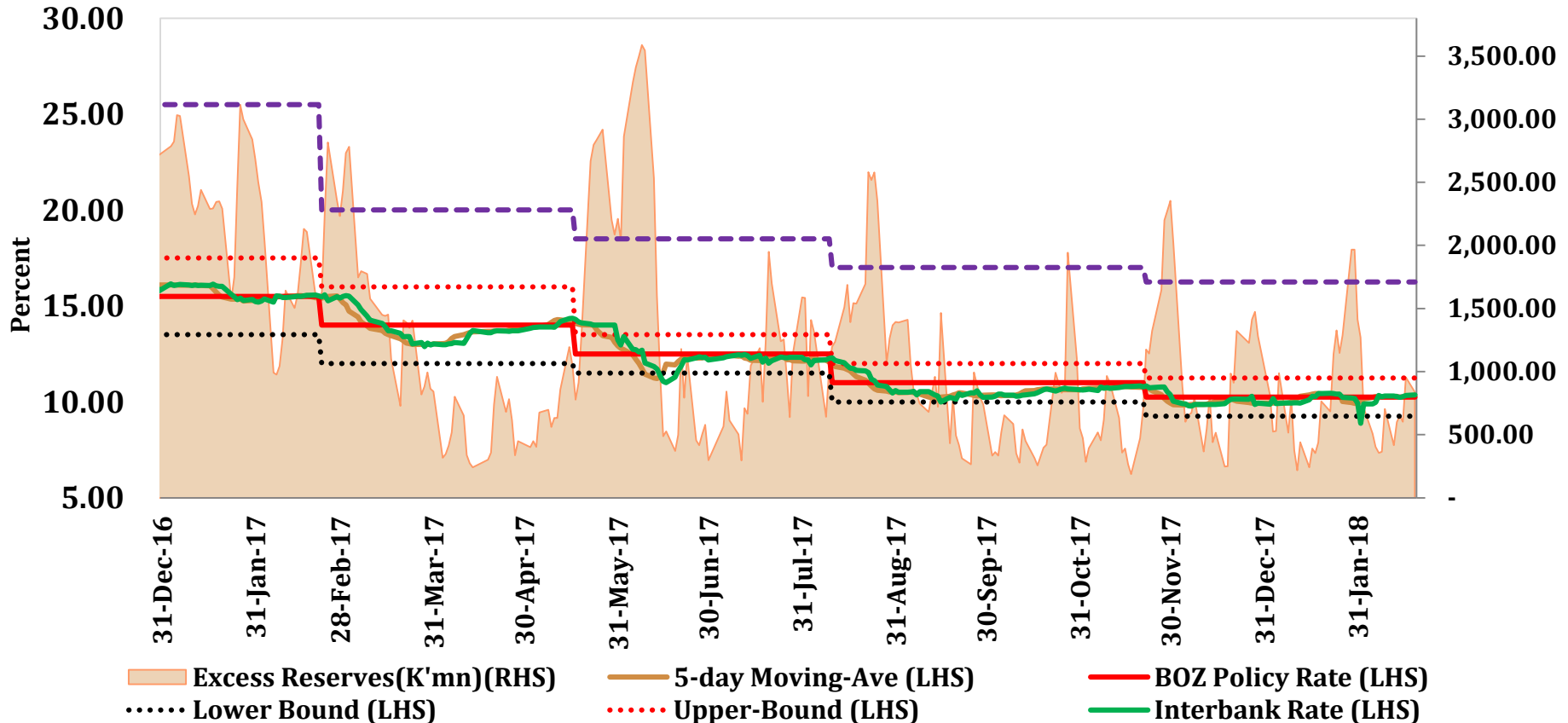


OVERVIEW

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In the fourth quarter, the Policy Rate was reduced to 10.25% from 11.0%. In line with this, the overnight interbank rate declined to 9.94% from 10.2%, and was maintained within the Policy Rate corridor.

Figure 1: Interest Rates and Excess Reserves



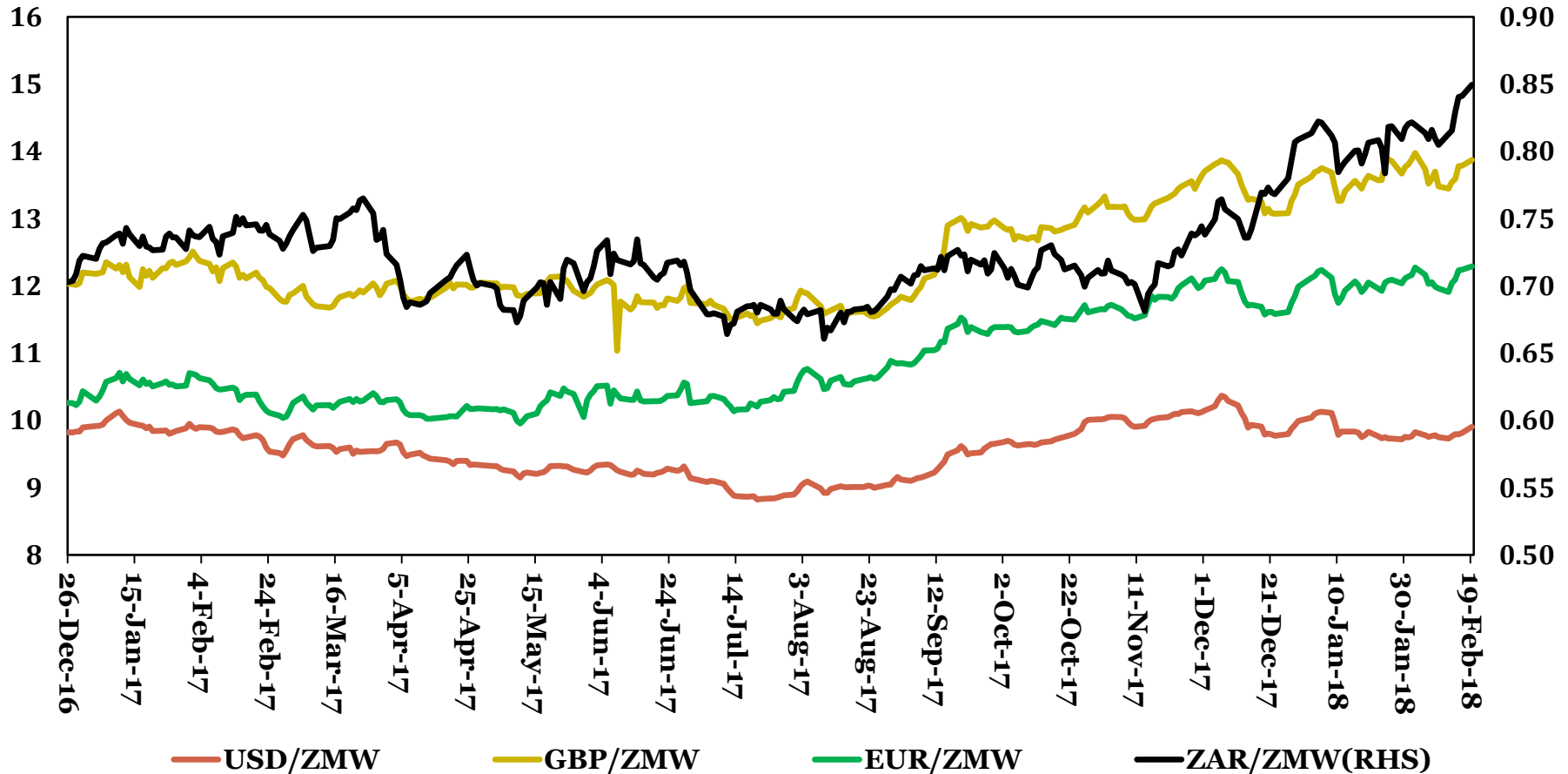


OVERVIEW

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The Kwacha depreciated against major foreign currencies, mainly due to negative market sentiments and increased demand for crude oil imports.

Figure 2: Exchange rate developments



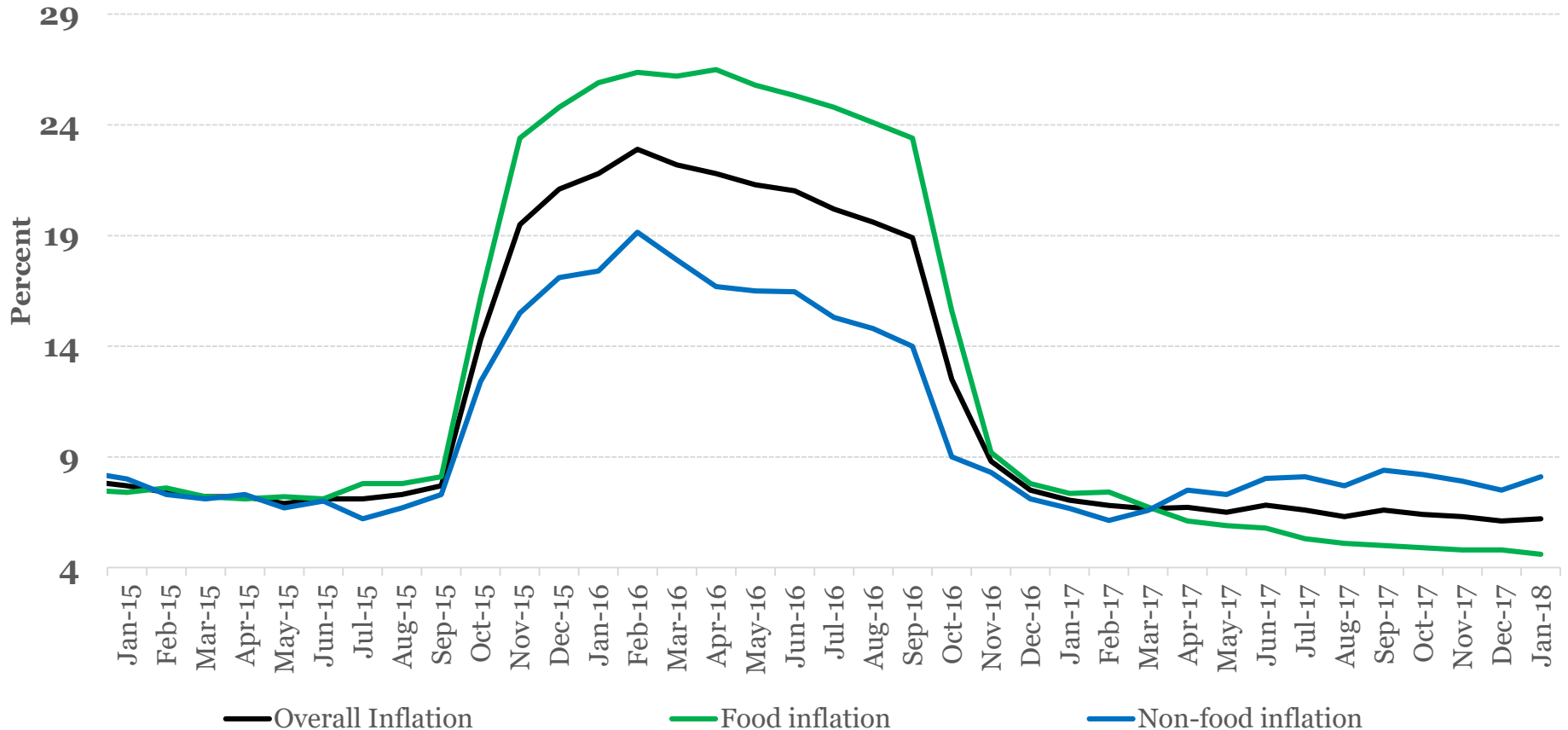


OVERVIEW

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During the quarter, inflation declined to an average of 6.3% from 6.5% in the third quarter. In December 2017, inflation was recorded at 6.1%, but rose marginally to 6.2% in January 2018.

Figure 3: Inflation developments





GLOBAL ECONOMIC DEVELOPMENTS

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- **In the fourth quarter, global economic growth continued with the global economy ending 2017 on a strong footing.**
- **Factors explaining continued growth include:**
 - **improved global trade and manufacturing output;**
 - **continued higher global commodity prices;**
 - **increased global demand;**
 - **strong growth in the US, driven by robust consumer spending;**
 - **strong growth in China; and,**
 - **stronger consumer sentiments**

Commodity prices were mixed in the fourth quarter of 2017, but copper and crude oil prices continued to rise (Table 1).



GLOBAL ECONOMIC DEVELOPMENTS

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Table 1: Selected Global Commodity Prices

	Q2 2017	Q3 2017	Q4 2017
Copper Price (US\$/ton)	5,668.0	6,349.0	6,823.0
Oil Price (Dubai) (US\$/barrel)	49.7	50.6	59.2
Wheat (US\$/ton)	176.8	183.8	175.1
Maize Price (US\$/ton)	157.7	151.1	148.8
Cotton (US\$/kg)	1.9	1.8	1.8
Sugar (US\$/kg)	0.3	0.3	0.3
Soya beans (US\$/ton)	386.0	398.0	400



DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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- **The focus of monetary policy operations remained on containing the overnight interbank rate within the Policy Rate corridor and anchoring inflationary expectations.**
- **Market liquidity increased following net Government spending and Bank of Zambia's purchases of foreign exchange for international reserves (Table 2).**
- **Following the further easing of monetary policy in November 2017, the interbank rate declined to 9.94% at the end-December 2017 from 10.2% at end-September 2017 (Figure 1).**
- **To keep the interbank rate within the Policy Rate corridor, the Bank withdrew K8.8 billion through open market operations, which was lower than K20.0 billion in the third quarter.**



DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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Table 2: Key Liquidity Influences (K' billion)

	2017 Q2	2017 Q3	2017 Q4
Opening balance	0.8	0.3	0.7
Net Govt. spending	1.3	1.5	2.6
BoZ FX influence	1.8	1.1	1.0
CIC	-0.7	0.1	-0.4
Change in SR deposits	-0.4	-0.9	-2.2
OLF	0.0	-0.7	-0.9
Net Govt securities influence	-2.4	-1.1	-0.5
Open market operations	-0.3	0.3	1.0
Miscellaneous	0.0	0.0	0.0
Closing balance	0.3	0.7	1.4



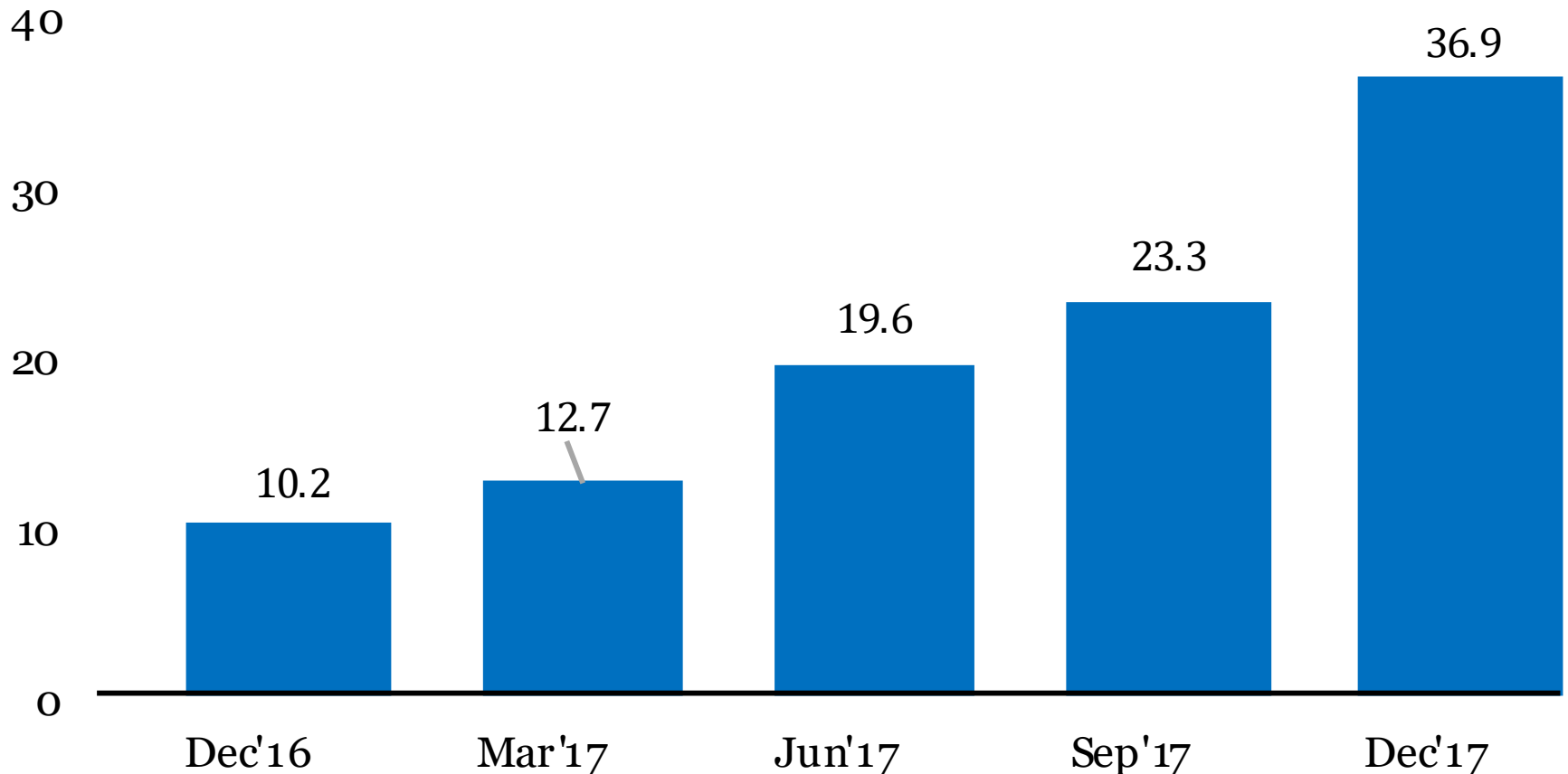
DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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The volume of interbank trading activity continued to rise due to concentration of funds in a few banks coupled with limited credit lines among commercial banks

Figure 4: Interbank Trading Activity (K' billion)





DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Demand for Government securities moderated on account of reduced appetite by non-resident investors.

Table 3: Government Securities

	Amount on offer (K'bln)	Amount Received (K'bln)	Subscription rate (%)
Treasury bills			
2017Q3	5.4	5.7	106.0
2017Q4	6.3	5.8	92.0
Government Bonds			
2017Q3	2.0	3.7	185.0
2017Q4	3.0	4.5	150.0

* More Tbill and bond auctions were conducted in Q4, but auction size remained the same.



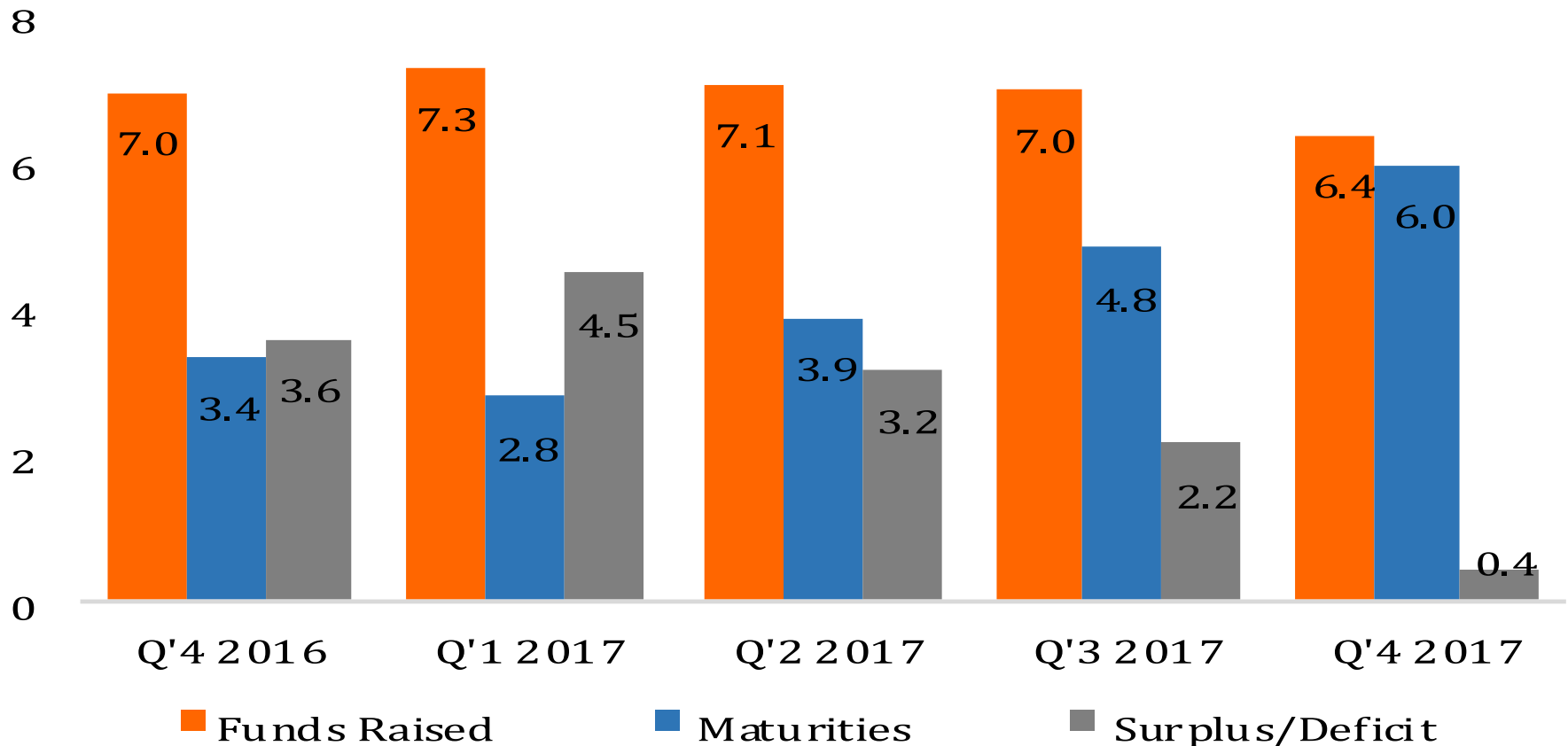
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Funds raised from the auctions amounted to K6.4 billion against the maturity of K6.0 billion, resulting in a surplus of K0.4 billion.

Figure 5: Government Securities (K'billion)





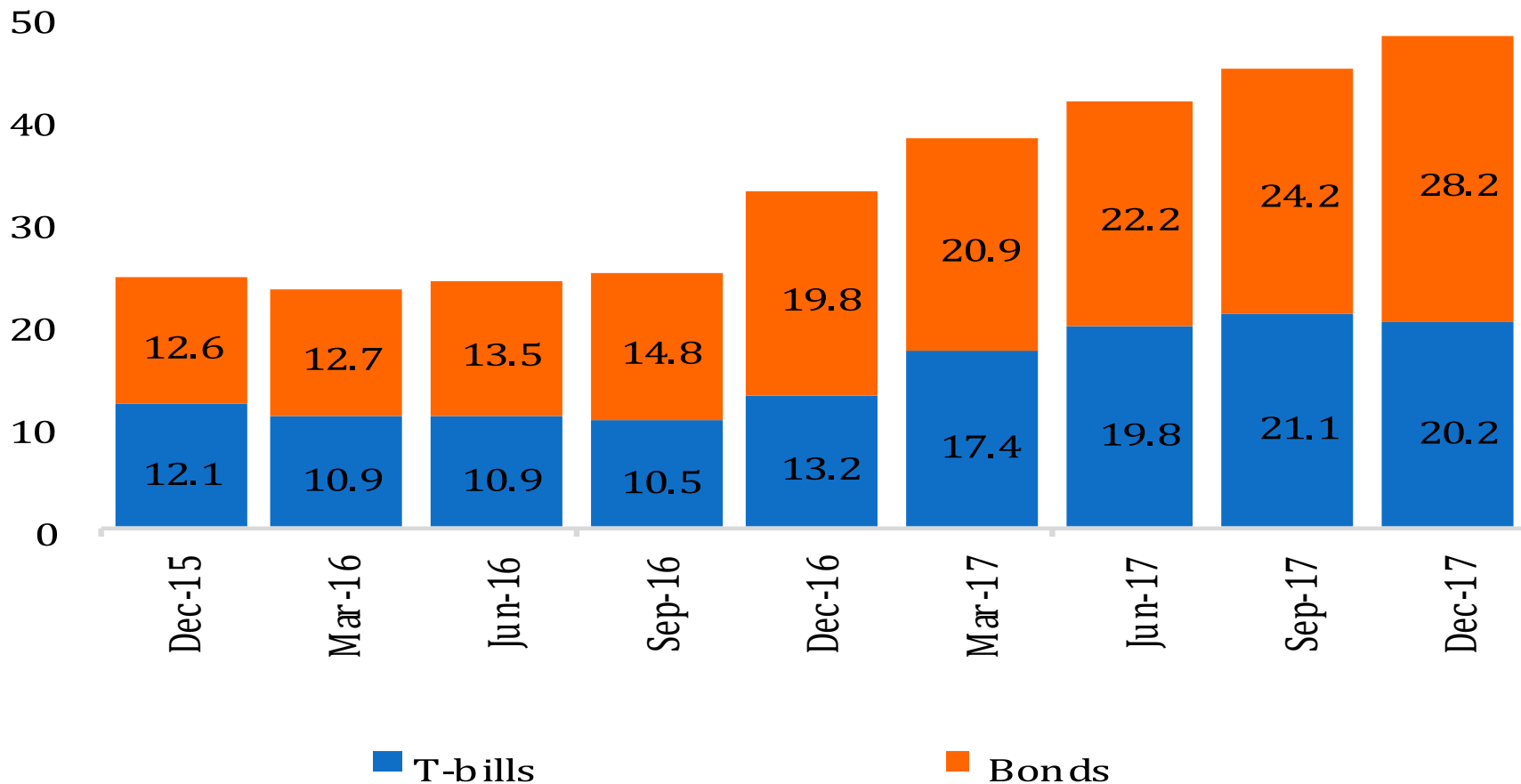
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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The outstanding stock of Government securities rose by 6.7% to K48.4 billion from K45.3 billion due to net sales.

Figure 6: Total Outstanding Government Securities (K'billion)





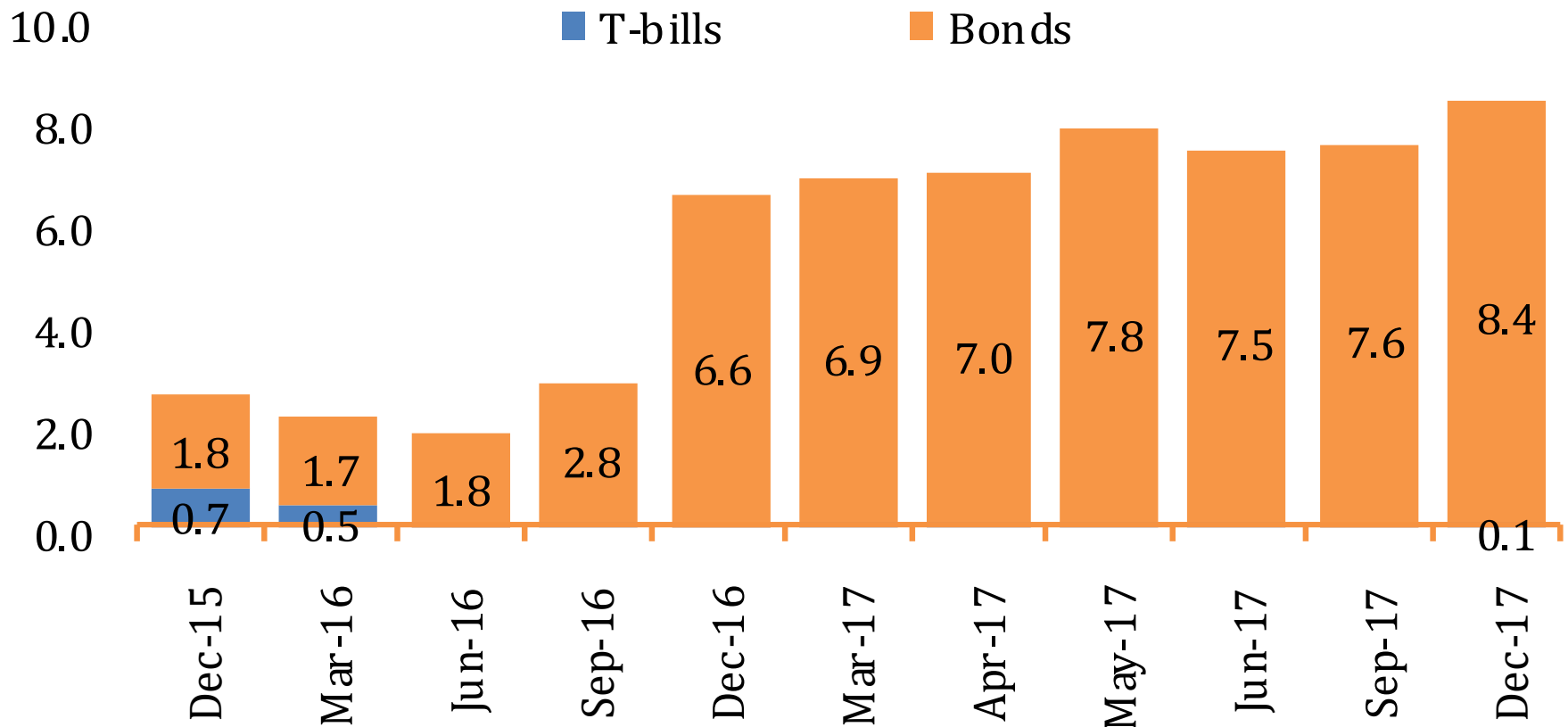
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Non-resident investors holdings increased by 10.3% in the fourth quarter to K8.4 billion, which is 17.4% total stock of Government securities.

Figure 7: Non-resident Holdings of Government Securities (K'billion)





DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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- **Movements in yield rates on Government securities were mixed in the fourth quarter, with yield rates on Treasury bills remaining virtually unchanged while yield rates on Government bonds edged upwards (Figure 8).**
- **The weighted average Treasury bills yield rate closed the fourth quarter at 15.0%, same level as at end-September 2017.**
- **However, the weighted average yield rate on Government bonds rose to 18.6% from 17.2%.**

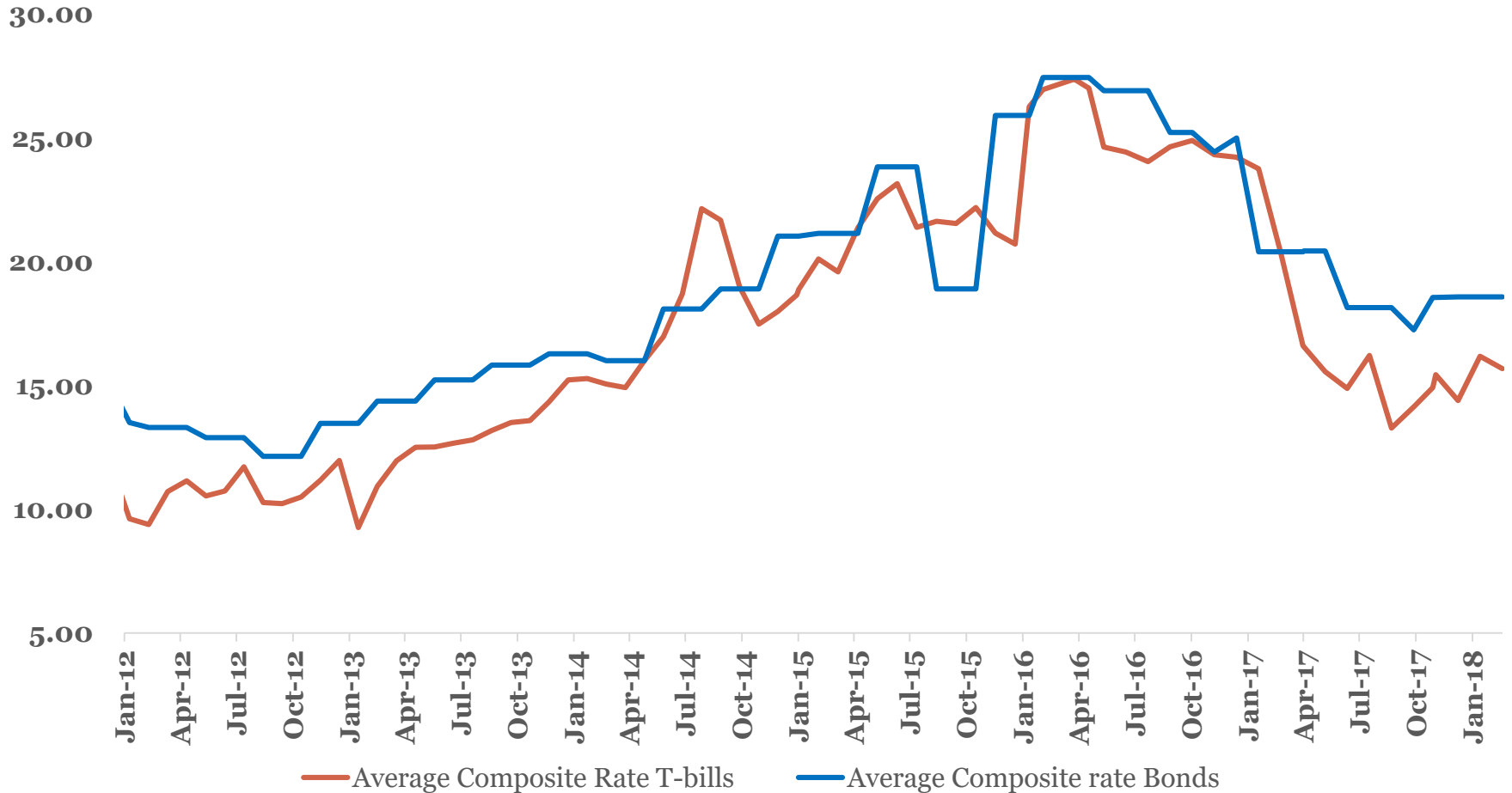


DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Figure 8: Government securities yield rates (%)





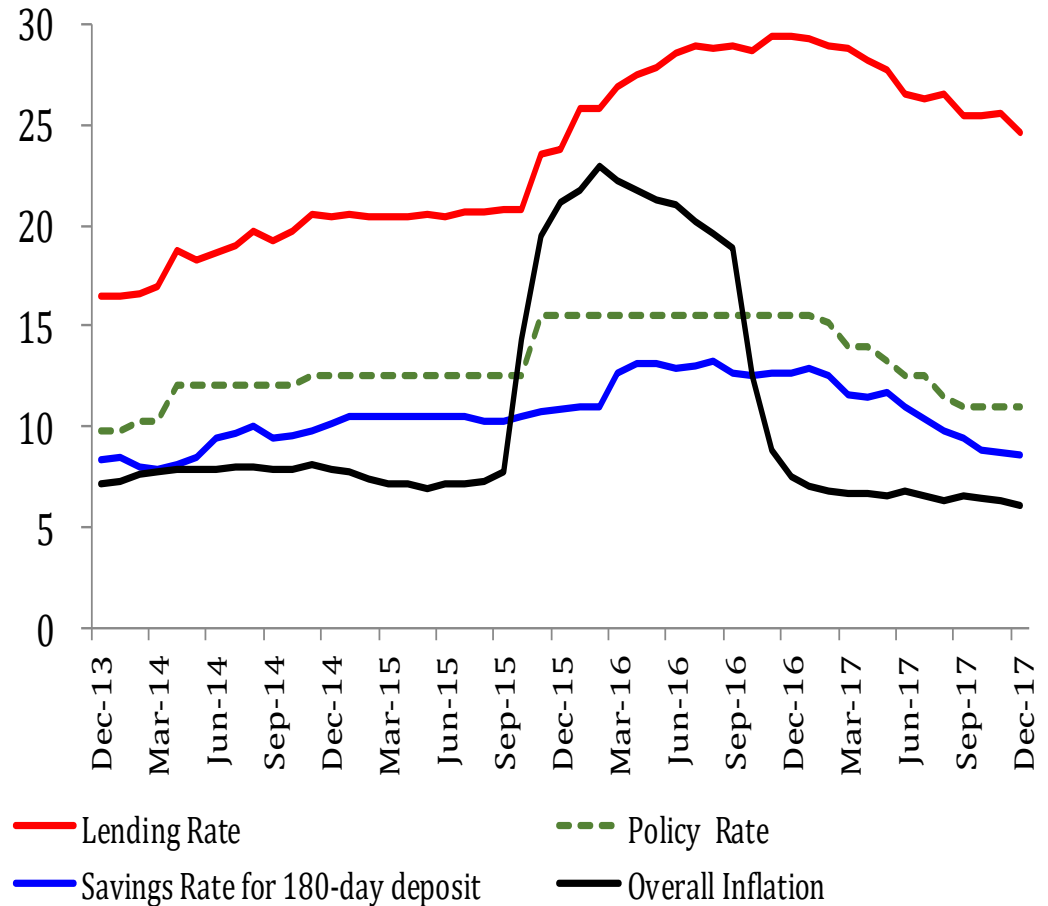
DOMESTIC ECONOMIC DEVELOPMENTS

Banks' Nominal Interest Rates

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- Lending rates remained sticky downwards, with the average rate marginally declining to 24.6% in December from 25.4% in September 2017.
- The range for the lowest and highest lending rates declined to 4.7 – 35.8% from 8 – 39.5%.
- Similarly, the range for savings rates on negotiated deposits declined to 4.0 – 25% from 7.5 - 27% in the third quarter.

Figure 9: Nominal Interest Rates (%)





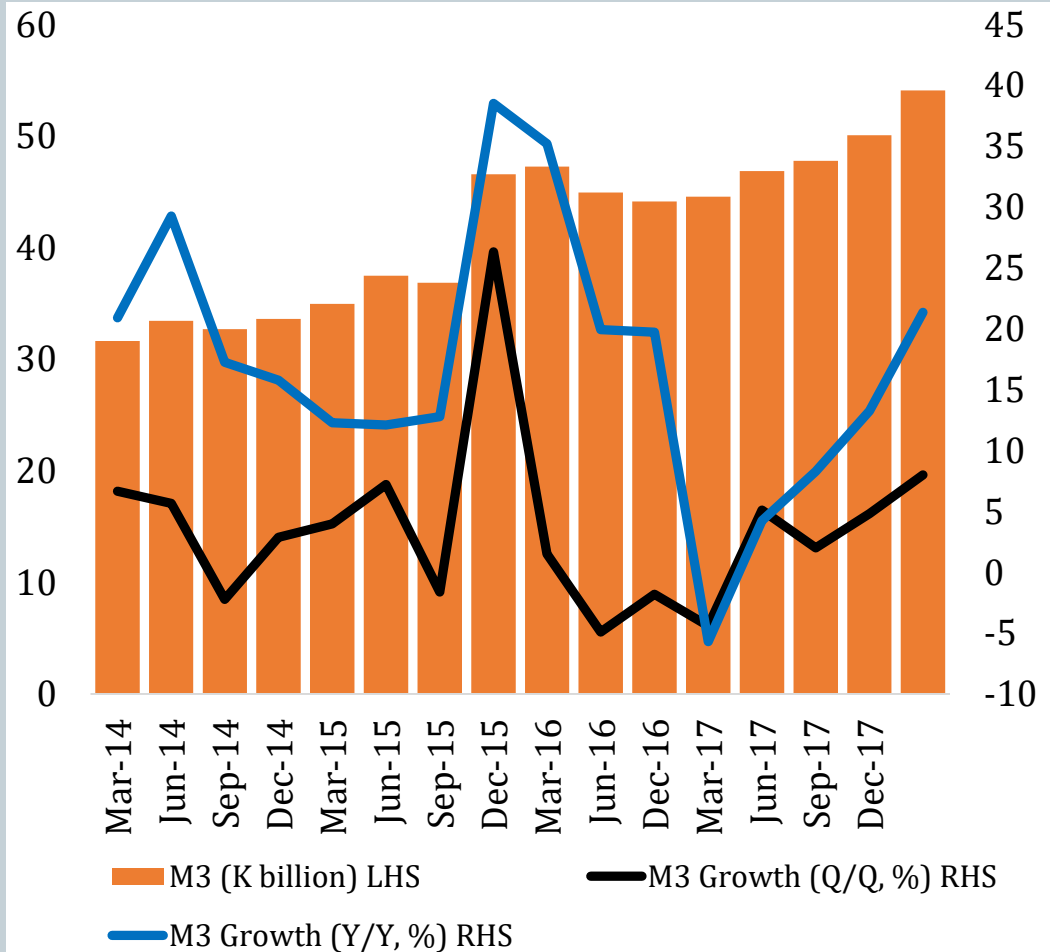
DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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- **Growth in money supply rose to 8% in the fourth quarter from 4.8% in the preceding quarter.**
- **Expansion in domestic credit and increased accumulation of foreign currency deposits abroad by banks accounted for this growth.**
- **On an annual basis, money supply grew by 21.4% in December compared to a growth of 13.8% in September 2017.**
- **The strengthening annual growth in money supply is positive as it is supportive to economic activity.**

Figure 10: Money Supply





DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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- **Total domestic credit continued to expand in the fourth quarter, albeit at a slower pace, growing by 4.9% compared to 6.1% in the third quarter (Table 4).**
- **Growth in credit to Government further slowed down to 5.3% from 8.9%.**
- **Credit to private enterprises grew by 8.3%, reversing a contraction of 2.2% in the third quarter.**
- **However, growth in credit to households slowed down to 1.3% in the fourth quarter from a growth of 7.6% recorded in the third quarter.**
- **Despite a pick up in growth in private sector credit, this growth remains below the levels required for sustaining strong private sector economic activity.**



DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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Table 4: Credit growth

% change	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Contribution Q4 2017
Total Credit (Incl. Govt)	6.5	6.5	6.1	4.9	4.9
Total -(Excl. Govt)	-3.2	1.6	3.0	4.5	2.4
Public Enterprises	-10.0	28.9	89.3	-15.6	-0.1
Government	18.1	11.3	8.9	5.3	2.5
Private Enterprises	-4.8	1.4	-2.2	8.3	2.5
Households	-0.3	1.3	7.6	1.3	0.3
NBFIs	-7.9	5.9	49.4	-30.1	-0.2



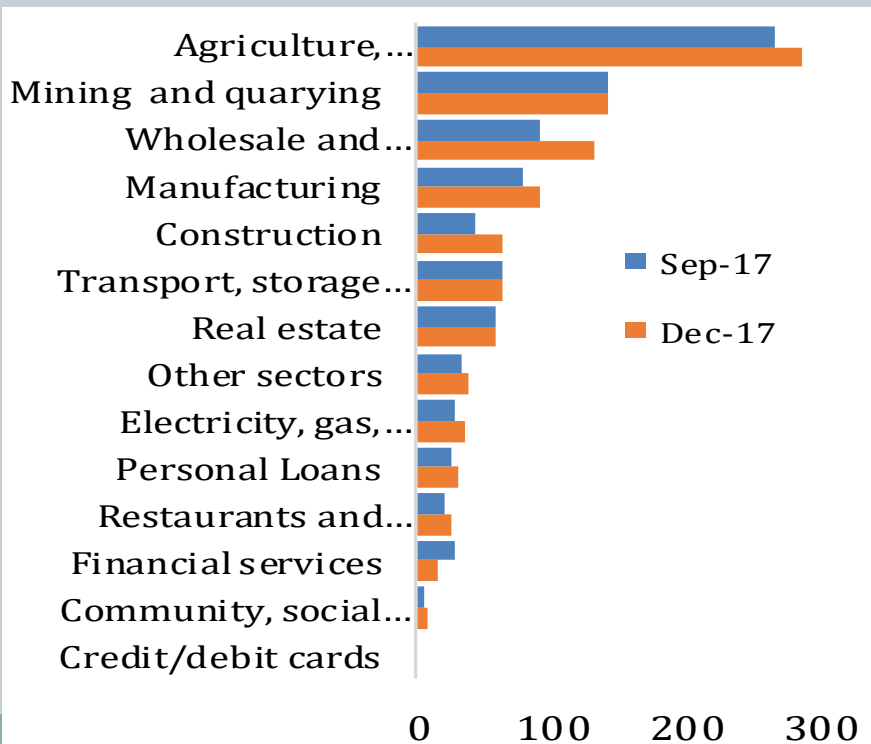
DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

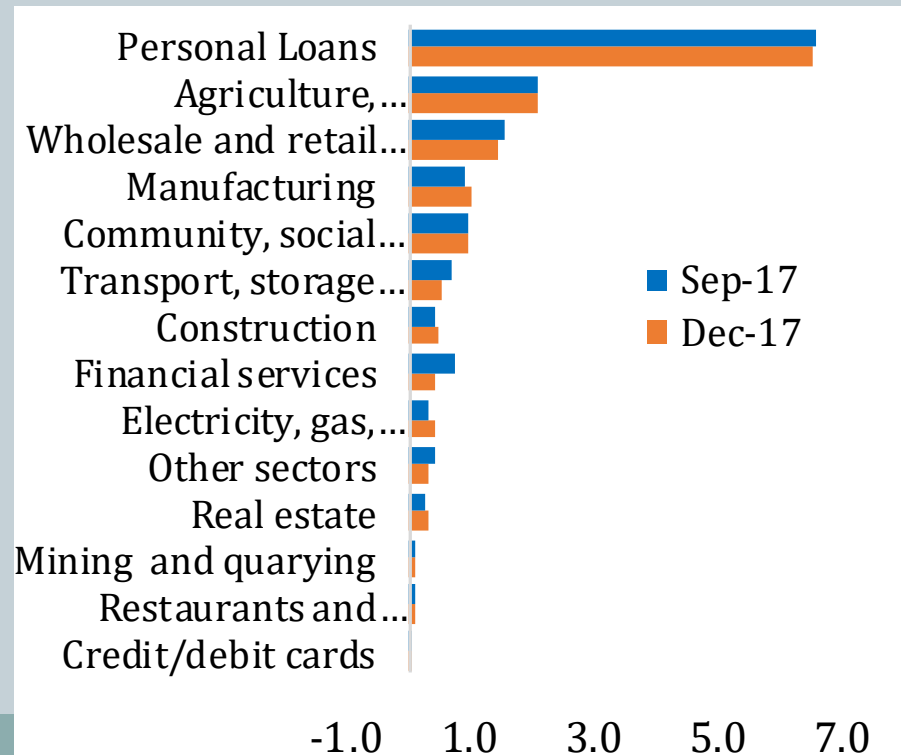
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Agriculture, mining and wholesale were continued to be the major recipients of foreign currency loans while domestic currency loans continued to be dominated by personal loans (Figure 11).

Foreign currency loan



Kwacha loans





DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market

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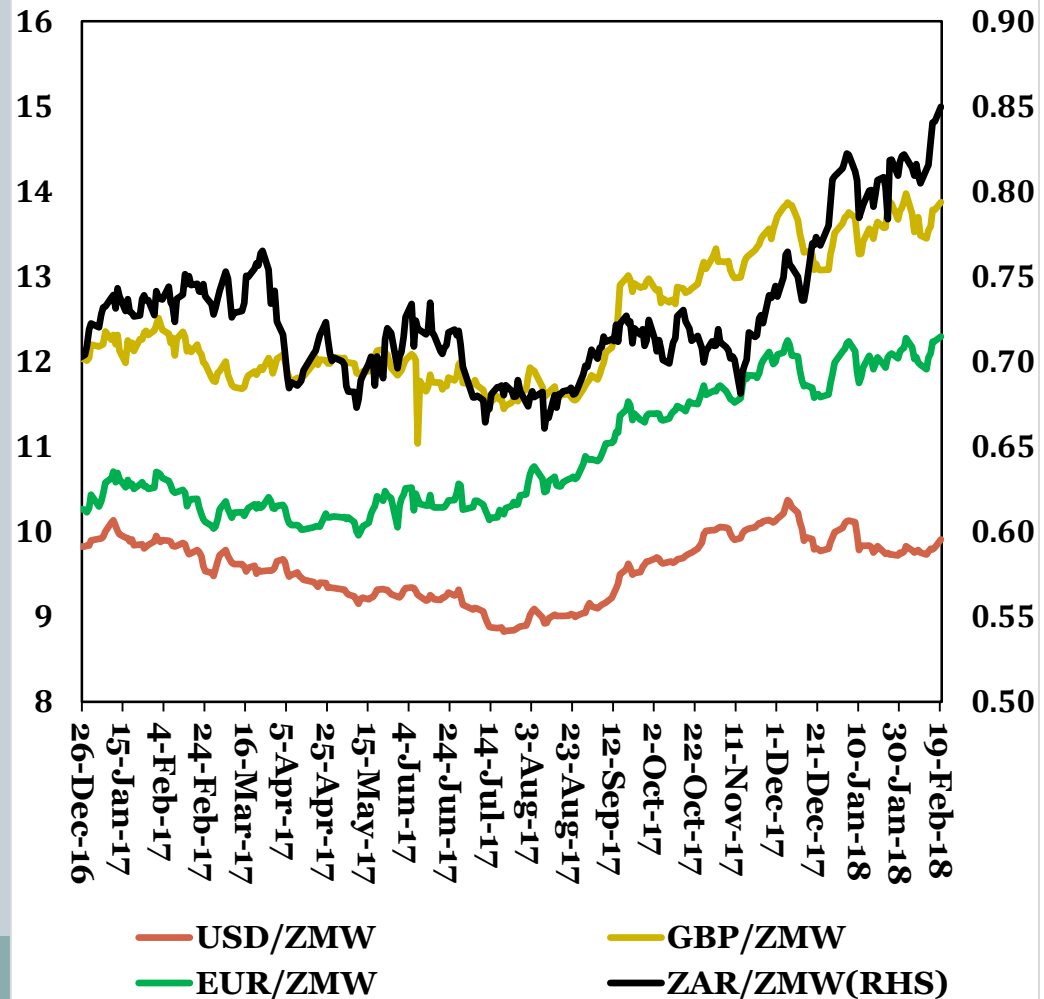
The Kwacha depreciated against major foreign currencies on the back of increased demand for oil imports and negative market sentiments (Figure 12).

Against the US dollar, the Kwacha depreciated by 6.4% compared to an appreciation of 3.5% in the third quarter.

Demand for oil imports rose to US \$277 million from US \$251.8 million (Figure 13) .

However, the net supply of foreign exchange rose to US\$318.3 million from US\$222.3 million.

Figure 12: Exchange rate developments

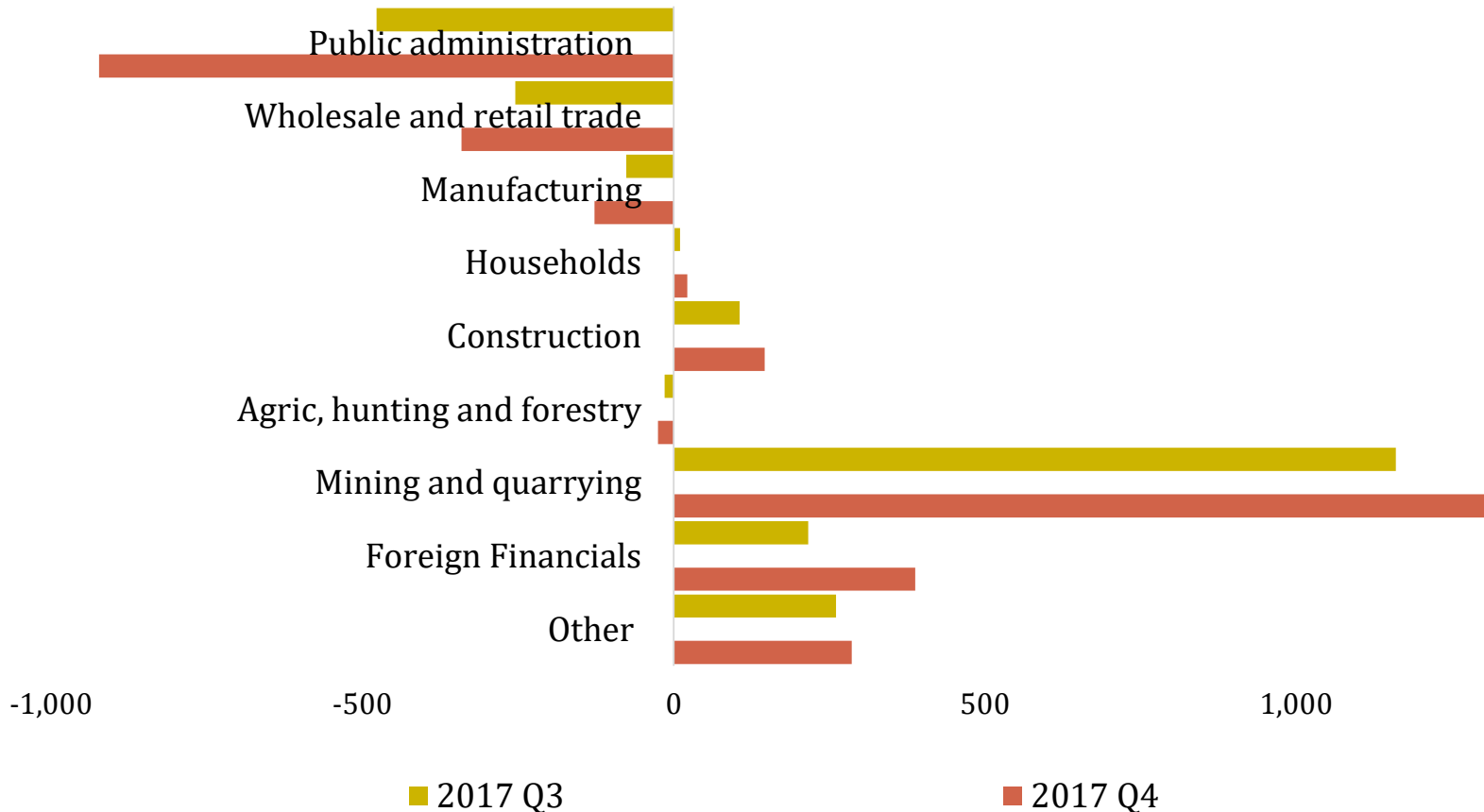




DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market

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





DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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GDP is estimated to have grown by 3.3% in Q3 (3.2% in Q2), driven by agriculture, education, and construction sectors.

Growth in 2017 has been slower than 2016 largely due to sluggish growth in construction and ICT sectors.

- However, production of some manufactured products (food and beverages, leather, chemicals, plastic and rubber basic and fabricated metals) rose in the fourth quarter (Figure 14).**
- In addition, copper output at 786,731mt is estimated to have been 2% higher in 2017 than in 2016 (Figure 15).**

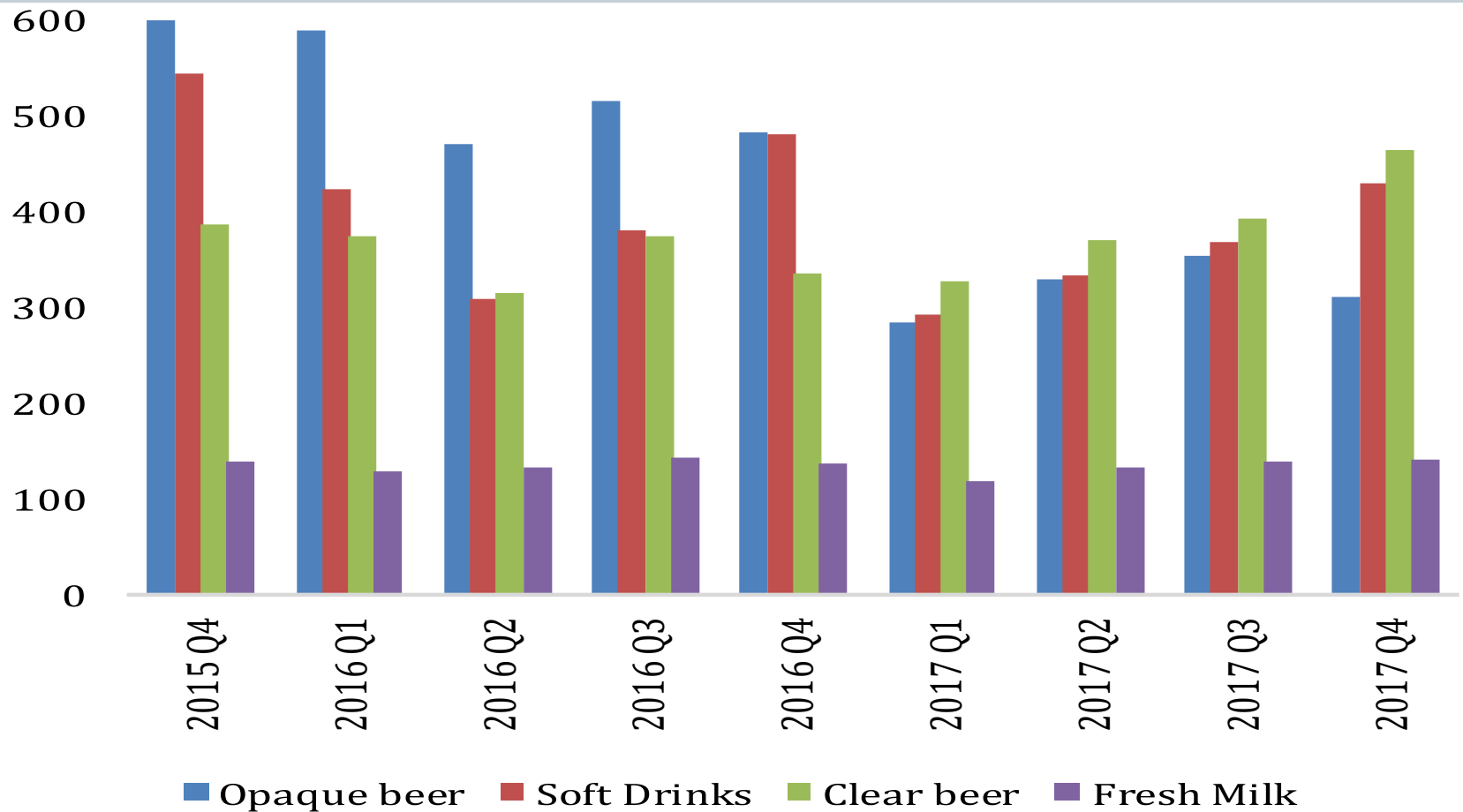


DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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Figure 14: Production of Selected Manufactured products (Quarterly, Hectolitres)



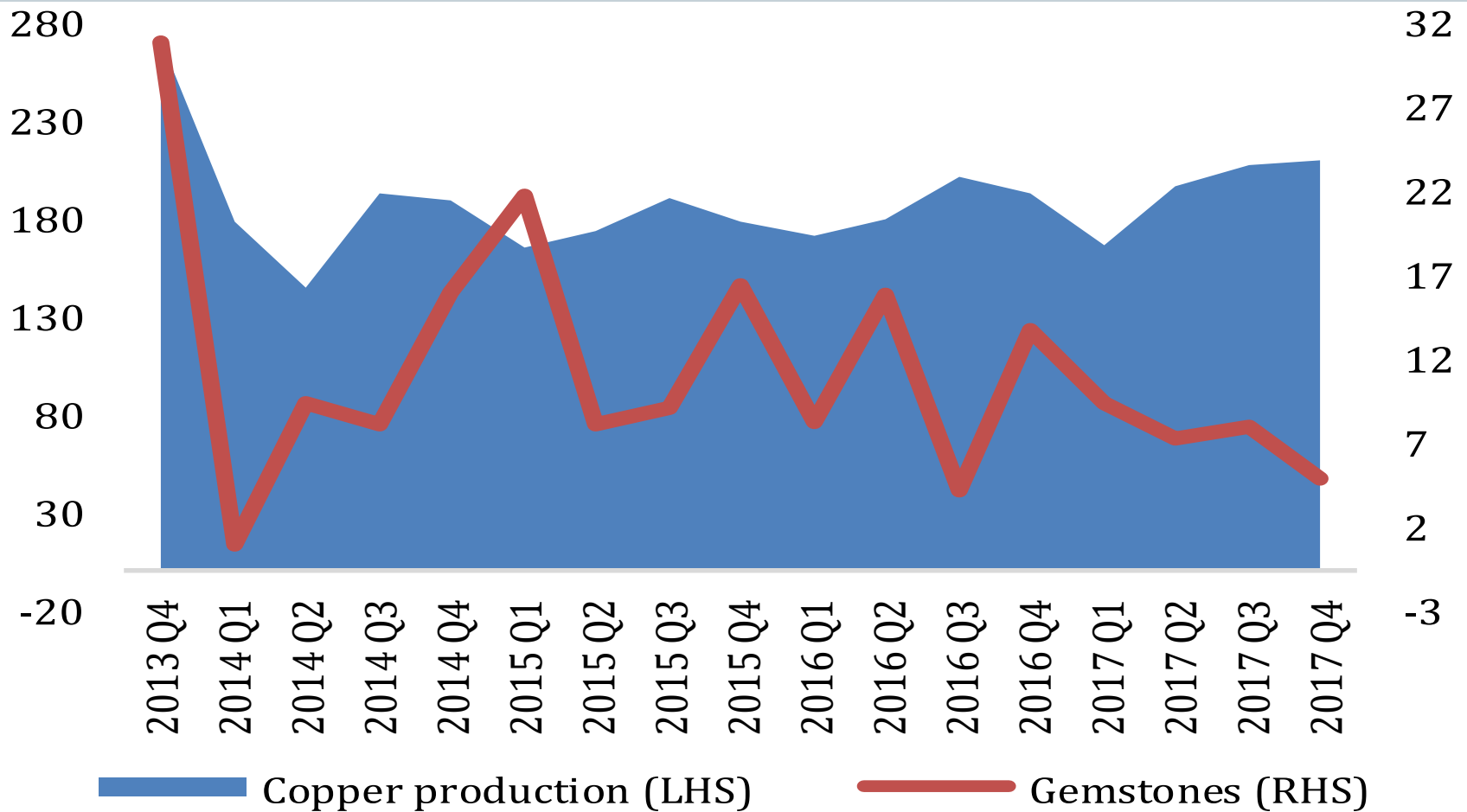


DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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Figure 15: Mining Sector Output





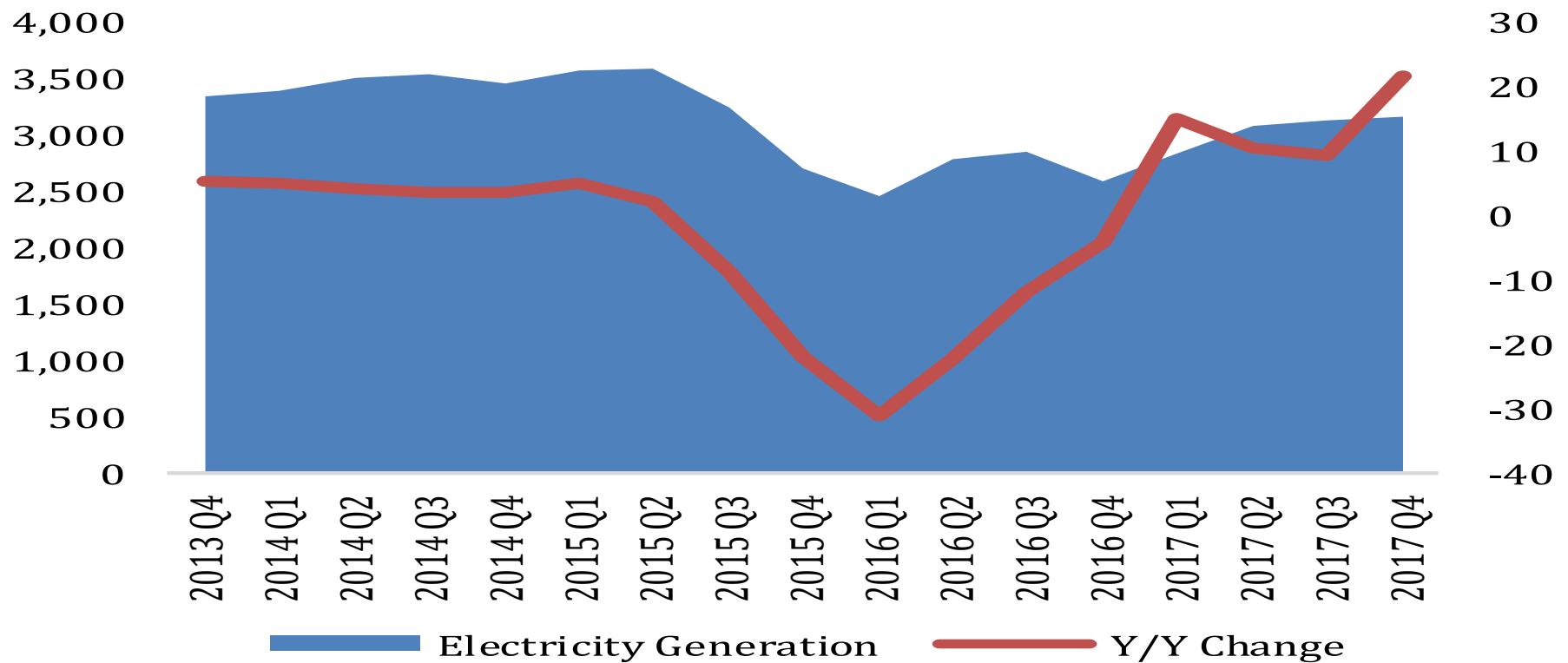
DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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Electricity generation continued to improve and was 14.1% higher in the fourth quarter than the same period in 2016.

**Figure 16: Electricity Generation
(Quarterly, Megawatt Hours and annual percentage change)**





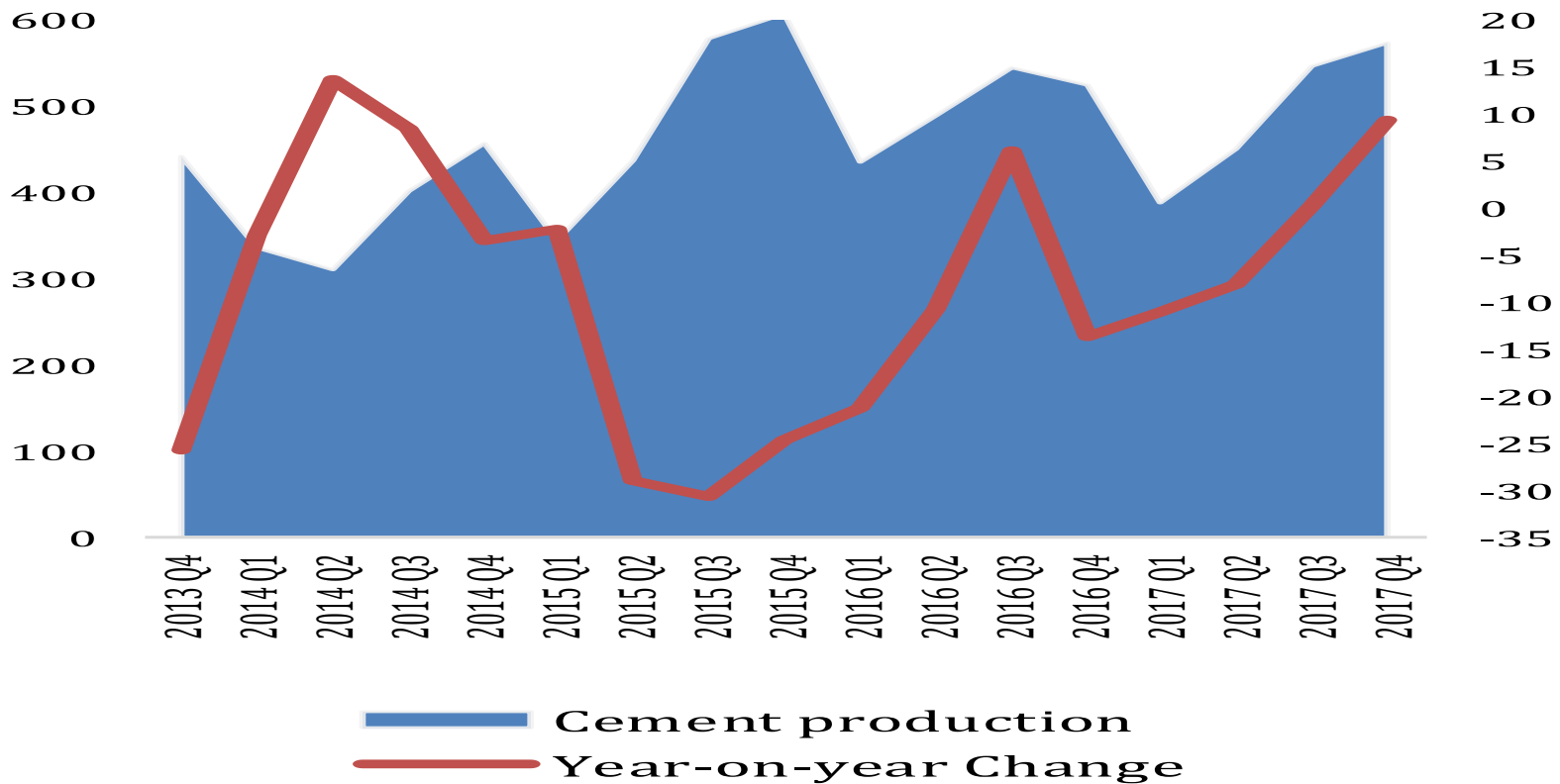
DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

30

Cement production increased by 11.0% in the quarter under review compared to an increase of 11.1 in the preceding quarter.

Figure 17: Cement Production
(Quarterly, Metric tonnes and annual percentage change)





DOMESTIC ECONOMIC DEVELOPMENTS

External Sector

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The current account deficit significantly narrowed to US\$18.5 million from US\$554.2 million in Q3 mainly due to improvements in the balance of goods.

Table 5: Balance of Payments (US\$'million)

	Q2 2017	Q3 2017	Q4 2017
Current Account Balance	-338.7	-554.2	-18.8
Balance on Goods	21.1	-70.3	252.3
Total Exports	1,888.7	1,995.6	2,429.7
Copper	1,409.8	1,396.5	1,864.4
Cobalt	24.9	37.5	37.1
Gold	38.9	38.9	37.1
NTEs	399.2	511.2	513.9
Total Imports	1,867.6	2,065.9	2,177.4
Primary Income	-277.0	-398.0	-194.0
Secondary Income	66.6	101.6	100.1
Services Account	-149.4	-187.5	-177.2
Capital Account	14.7	14.8	14.8
Financial Account	-507.4	-378.9	-49.3
Net Errors/Omissions	5.4	5.9	6.6
Overall Balance	-188.8	154.5	-52.2
Change in Reserve Assets and Related items	174.1	-167.6	15.7



DOMESTIC ECONOMIC DEVELOPMENTS

Fiscal performance

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Preliminary data indicate that Government spending remained lower than budgeted in the fourth quarter due to shortfalls on net external financing.

The deficit continued to be domestically financed through Government securities.

In the fourth quarter, net domestic financing through issuance of Government securities amounted to K2.5 billion, a decline from K3.0 billion in the third quarter.



DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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- **During the fourth quarter, inflation declined to an average of 6.3% from 6.5% in third quarter of 2017.**
- **In December, inflation was 6.1%, 0.5 percentage point lower than the September 2017 outturn of 6.6%. In January 2018, inflation marginally rose to 6.2% (Figure 18).**
- **During the review period, both food and non-food inflation declined to averages of 4.8% and 7.8% from 5.1% and 8.1% in the third quarter.**
- **Abundant supply of food items and subdued demand in the economy accounted for the reduction in inflation in the fourth quarter of 2017.**

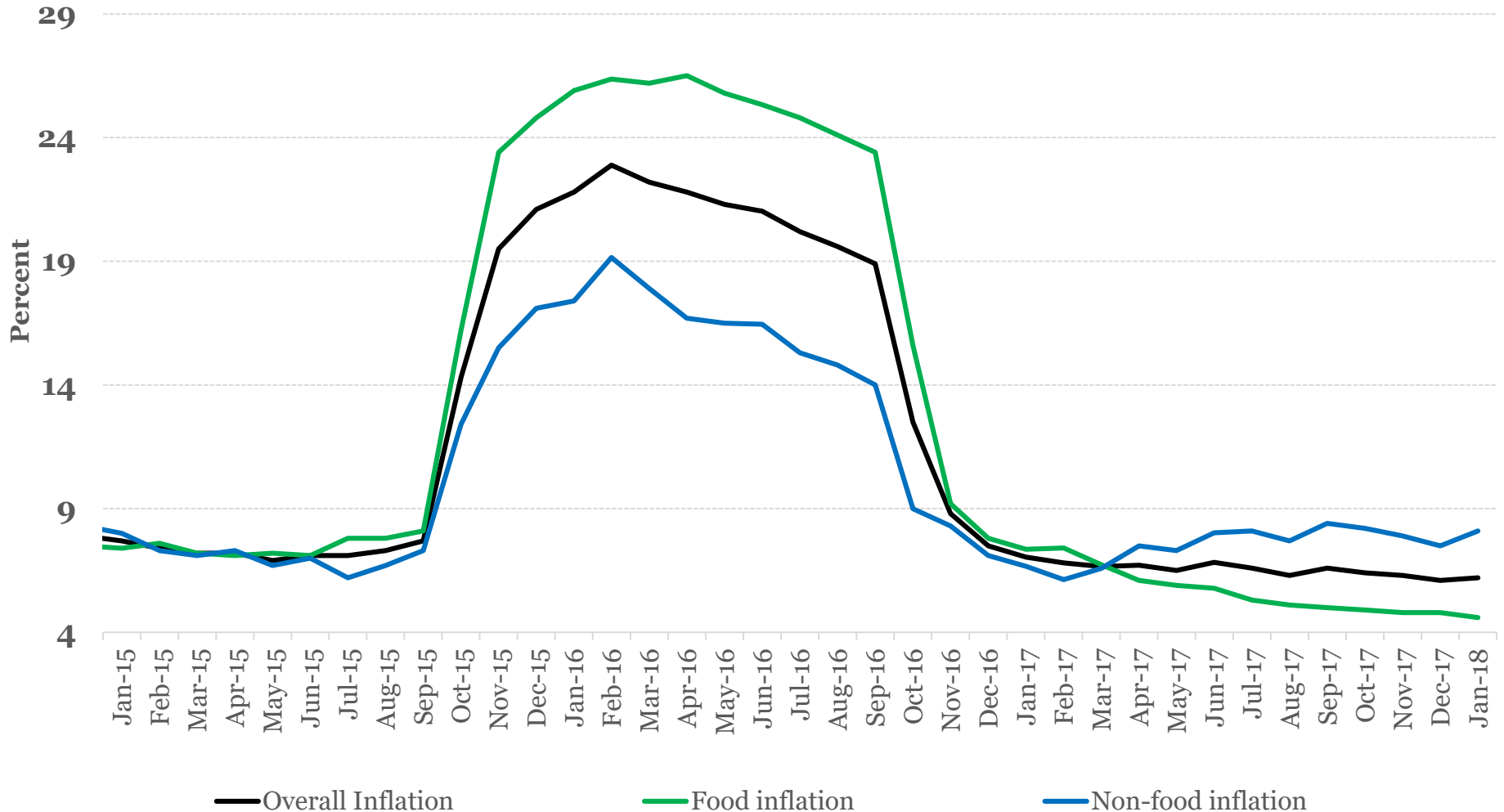


DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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Figure 18: Year-on-year Inflation rate





DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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- **However, month-on-month inflation rose to an average of 0.8% from an average of 0.1% in the third quarter of 2017 (see Figure 19).**
- **In December 2017, monthly inflation was recorded at 0.7%, up from 0.3% in September 2017 reflecting a rise in both food and non-food inflation.**
- **seasonal factors accounted for the increase in food inflation while increase in the prices of petroleum products was the main driver of non-food inflation.**

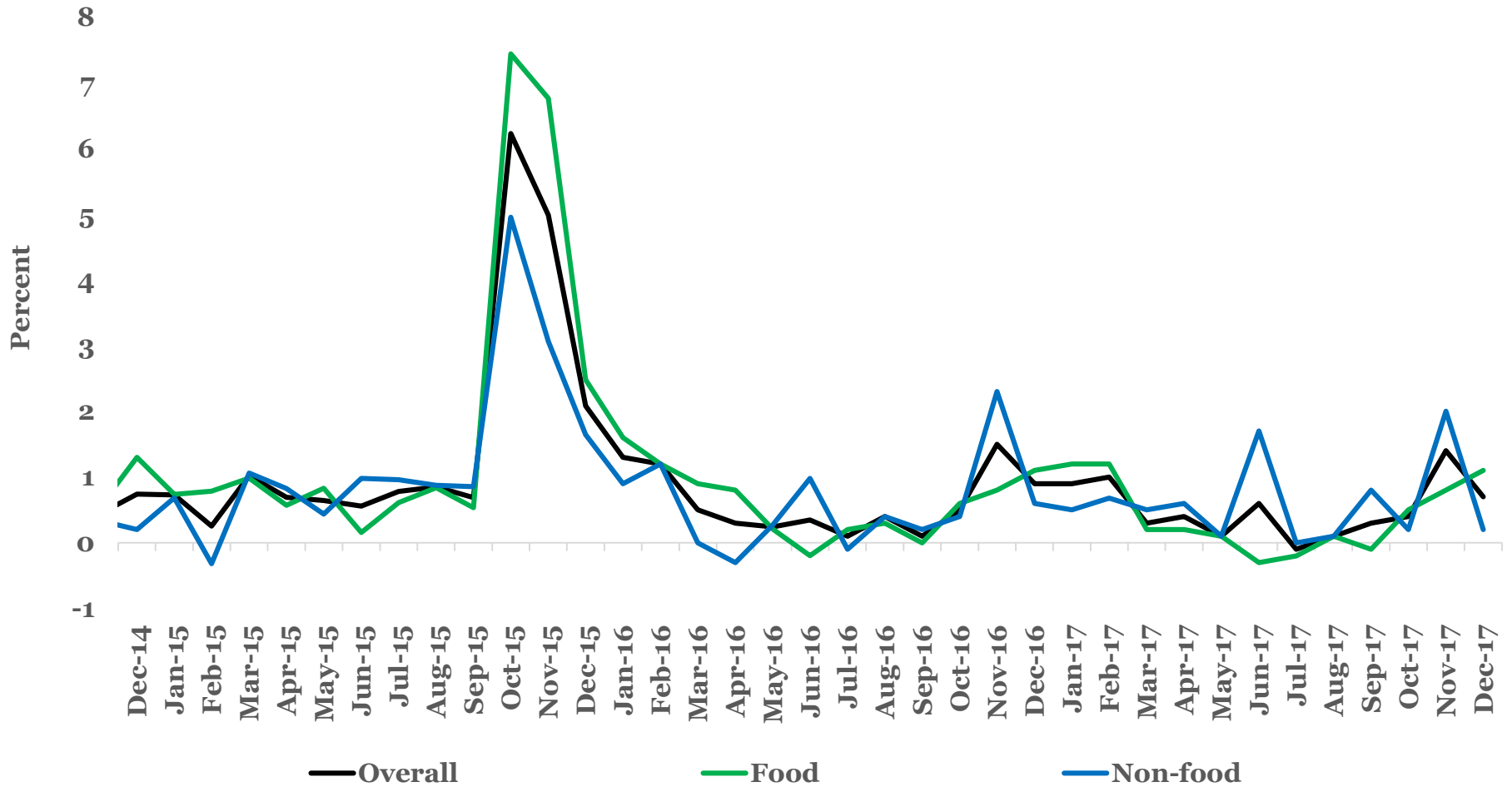


DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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Figure 19: Month-on-month Inflation rate





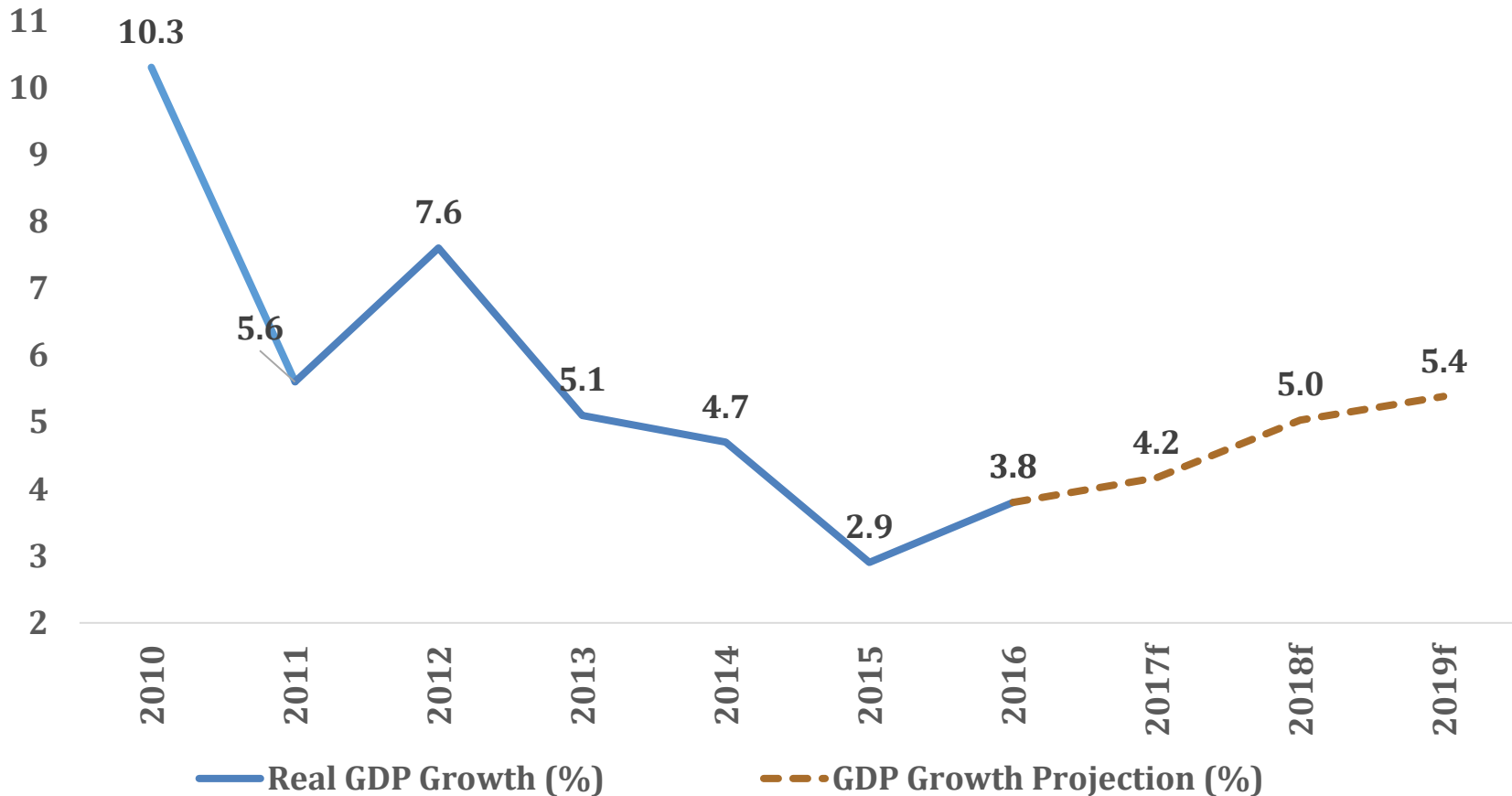
MACROECONOMIC OUTLOOK

GDP growth

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GDP growth is projected to gradually pick-up over the next two years, driven by mining, agriculture, manufacturing and tourism.

Figure 20: GDP Growth





MACROECONOMIC OUTLOOK

Inflation Outlook

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Inflation is projected to remain low over the next eight quarters, around the 6% lower bound of the inflation target range.

However, risks to inflation are assessed to be on the upside, and these include the projected higher crude oil prices and potentially lower agriculture production.

Despite these risks, inflation is projected to remain anchored within the target range of 6-8% over the next two years.



MACROECONOMIC OUTLOOK

Inflation Outlook

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In closing, the MPC noted that inflation has been declining since March 2016 following significant tightening of monetary policy in the fourth quarter of 2015.

Inflation projections have consistently been pointing to low inflation, and this gave an opportunity to the MPC to commence the loosening of monetary policy in February 2017.

This policy stance was and is still intended to support growth and promote financial stability.

The latest decision to further easy monetary policy should be seen in this context.



THANK YOU AND GOD BLESS...