MONETARY POLICY COMMITTEE STATEMENT FOR FIRST QUARTER 2018

Governor's Presentation to the Media

16th May, 2018

INTRODUCTION

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

At its Meeting held on 14 – 15 May, 2018, the Monetary Policy Committee (MPC) decided to maintain the Policy Rate at 9.75%.

The MPC assessed that the Policy Rate at the current level is appropriate. In arriving at this decision, the Committee took into account the following factors:

- Recent increase in inflation to around the mid-point of the 6-8% inflation target range;
- Projected increase in inflation in the second and third quarters of 2018, though it will remain within the target range;
- Subdued credit growth, particularly to private enterprises;

MONETARY POLICY DECISION

- **Elevated lending rates, which continue to hinder access to credit;**
- **Continued fragility in the financial sector, reflected in high non-performing loans;**
- **Elevated fiscal deficits, rising public debt and slow fiscal consolidation; and**
- **Sluggish economic growth.**

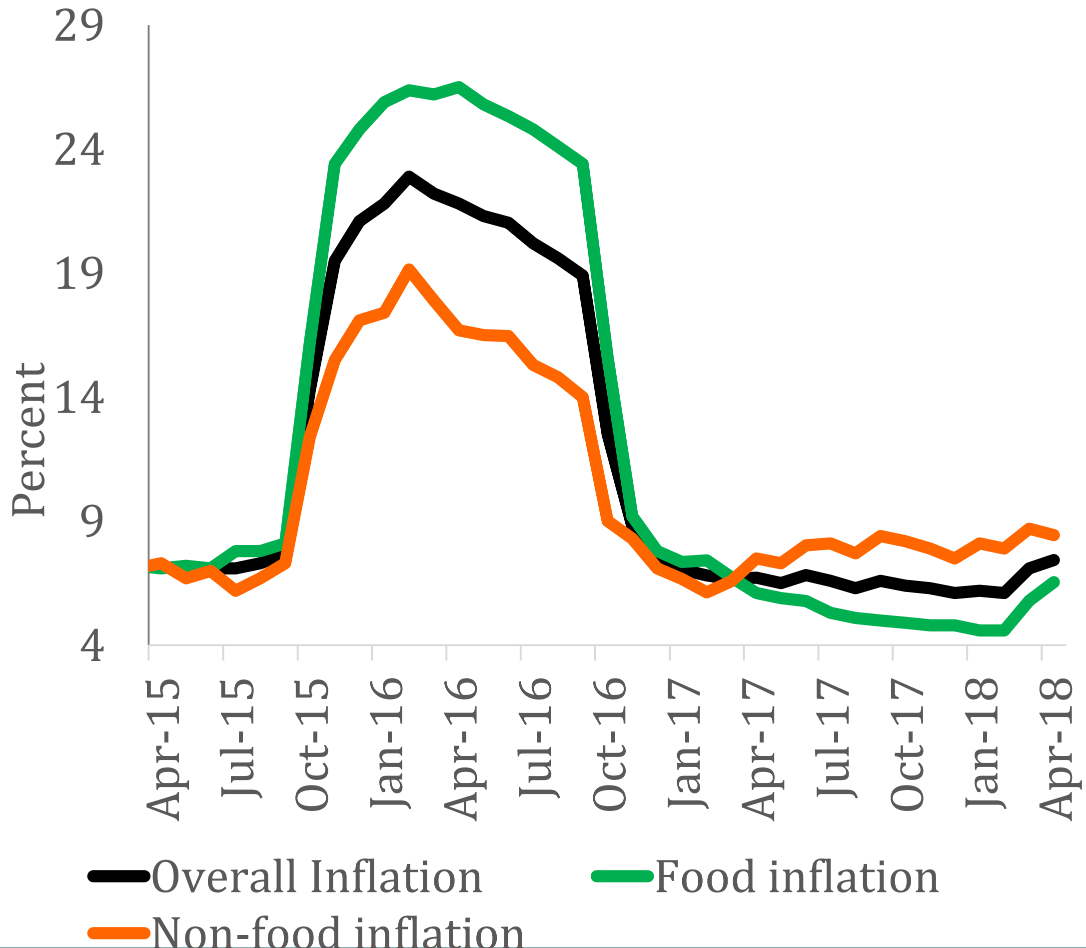
OVERVIEW

Inflation rose to an average of 6.5% in the first quarter of 2018 from 6.3% in the fourth quarter of 2017.

- **Upward adjustment in fuel prices and the subsequent increase in transportation costs as well as the seasonal reduction in supply of some food items were key drivers of inflation.**

- **In April 2018, inflation increased further to 7.4% from 7.1% in March, driven by the rise in food inflation.**

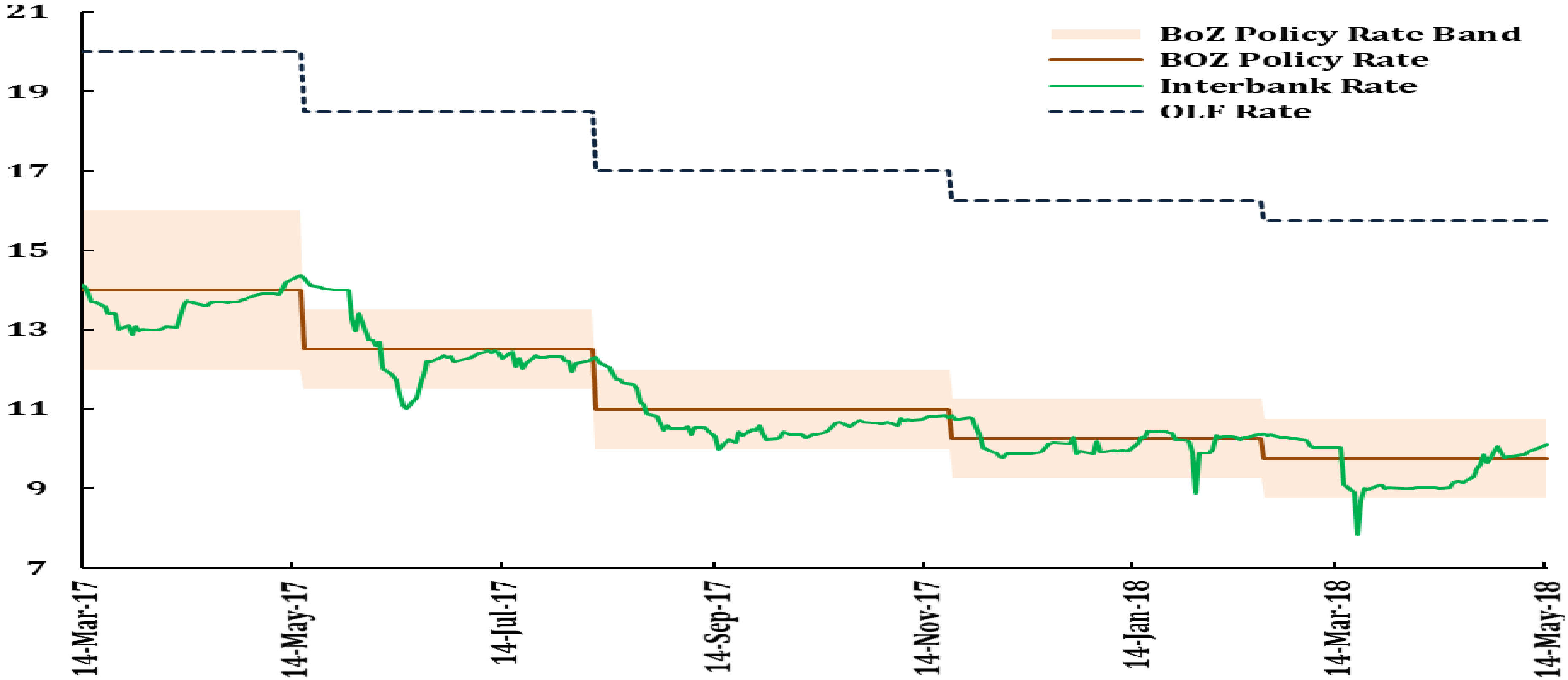
Figure 1: Inflation (Annual Change, Percent)



OVERVIEW

Following further easing of monetary policy in February 2018, the interbank rate declined to 9.01%, but remained within the Policy Rate Corridor.

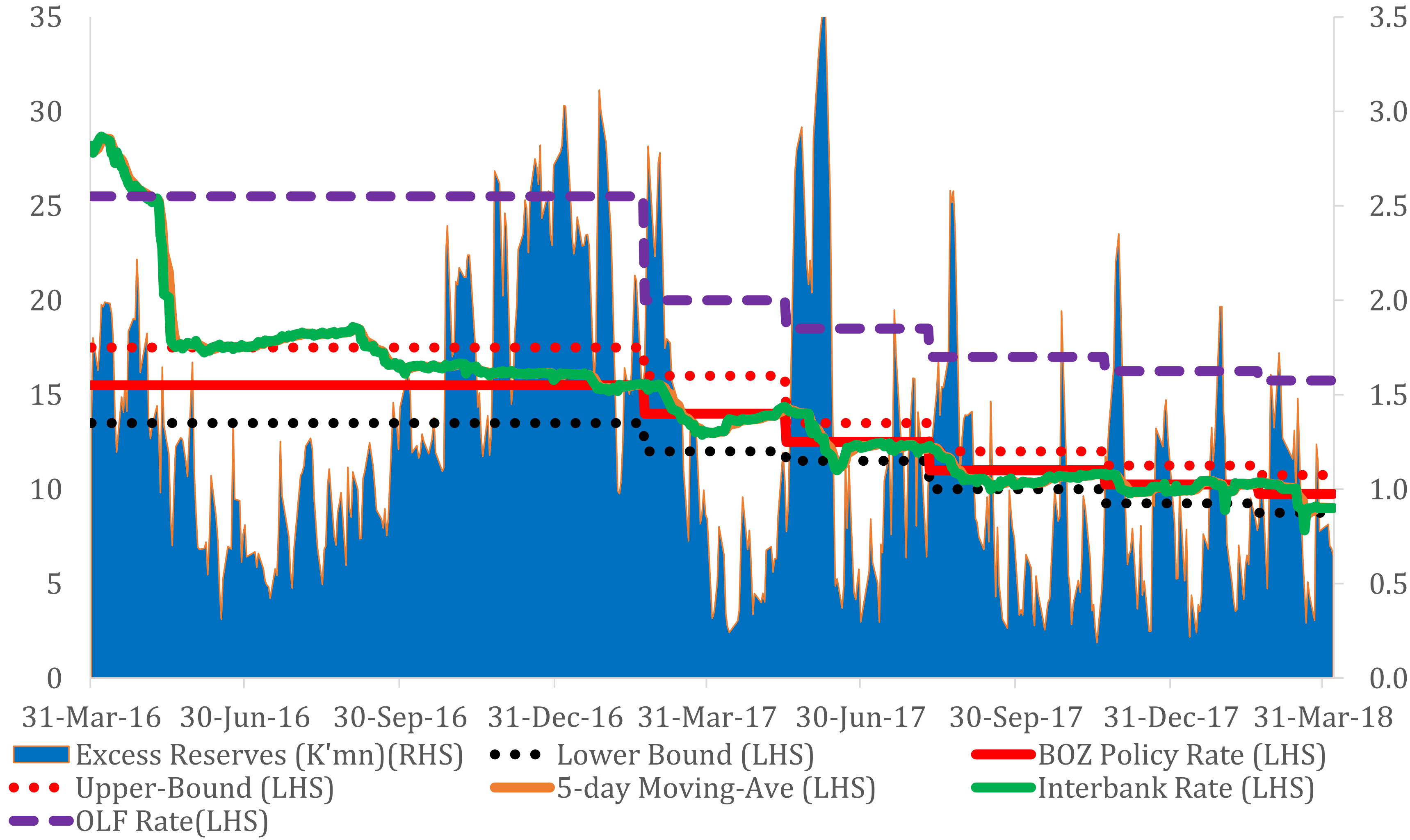
Figure 2: BoZ Policy Rate and the interbank rate



Note: The BoZ Policy rate band or corridor is the range within which the overnight interbank rate is allowed to float. The lower and upper bounds are currently 100 basis points below and above the Policy rate.

OVERVIEW

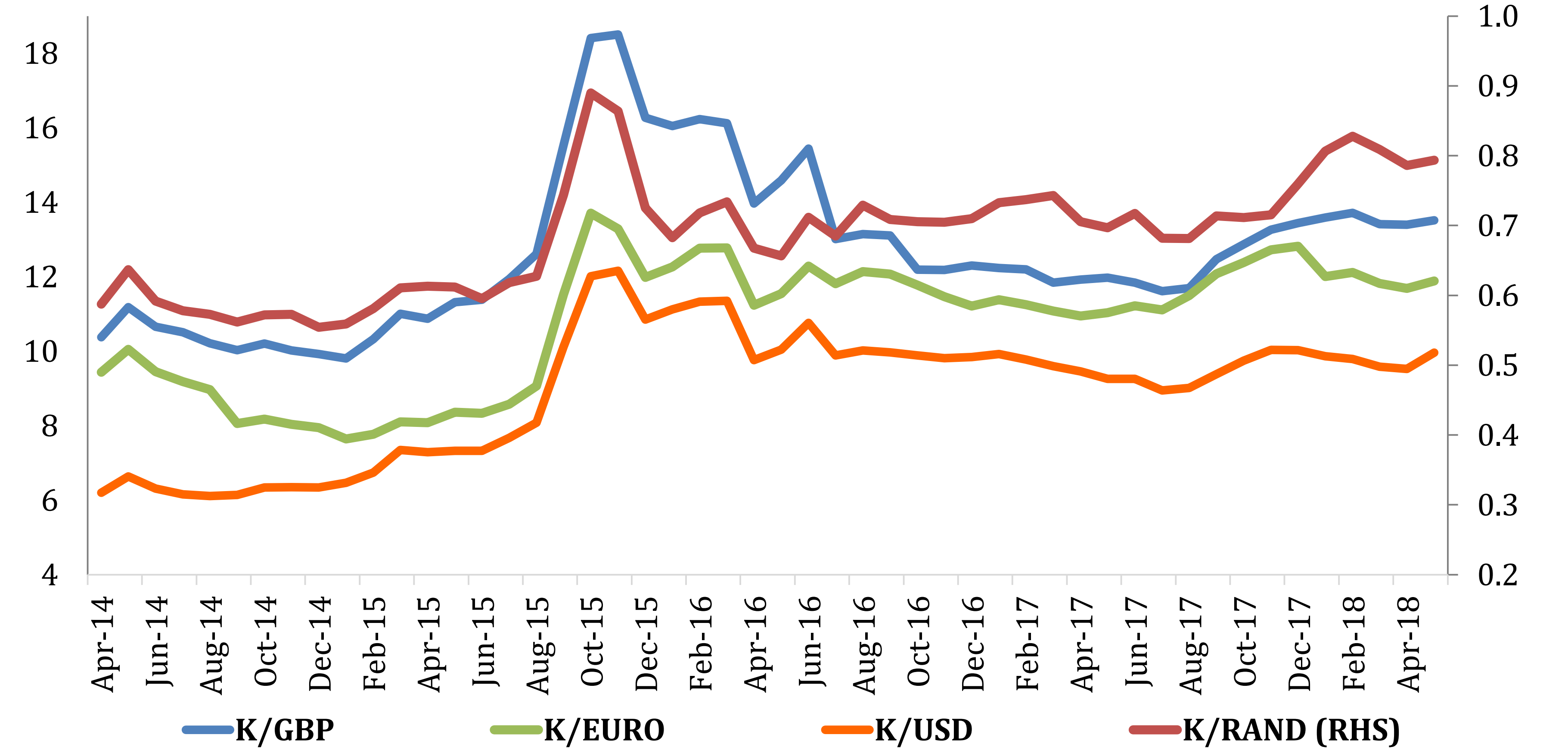
Figure 3: BoZ Policy Rate, interbank rate and Excess Reserves



OVERVIEW

The Kwacha appreciated against the US dollar due to net supply of foreign exchange, but depreciated against the South African rand the British Pound.

Figure 4: Nominal bilateral Exchange rates



GLOBAL ECONOMIC DEVELOPMENTS

- **In the first quarter of 2018, the global economy maintained its growth momentum and commodity prices further edged upwards.**
- **Factors underlying growth were:**
  - Continued stronger market sentiments in advanced and emerging market economies;
  - Accommodative financial conditions in most major economies;
  - Continued higher global commodity prices, which is supportive of growth in commodity exporting countries; and,
  - Strong growth in the US on the back of expansionary fiscal policy.
- **Commodity prices maintained an upward as average copper prices increased by 2.1% to US$6,998.3 per ton while crude oil increased by 7.0% to US$63.36 per barrel (Table 1).**

GLOBAL ECONOMIC DEVELOPMENTS

Table 1: Selected Global Commodity Prices

	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	10-May-2018
Copper Price (US$/ton)	5,840.0	5,668.0	6,349.0	6,823.0	6,957	6,918
Oil Price (Dubai) (US$/barrel)	52.9	49.7	50.6	59.2	64.0	73.41
Wheat (US$/ton)	177.0	176.0	183.8	175.1	189.3	213.8
Maize Price (US$/ton)	160.6	157.7	151.1	148.8	163.7	175.6
Cotton (US$/kg)	1.87	1.9	1.8	1.8	2.0	2.0
Sugar (US$/kg)	0.43	0.3	0.3	0.3	0.29	0.3
Soya beans (US$/ton)	419.0	386.0	398.0	400	418	442

DOMESTIC ECONOMIC DEVELOPMENTS
Monetary Policy Operations

- **In line with the eased monetary policy stance, monetary operations continued to focus on maintaining the interbank rate within the Police Rate corridor.**

- **Following the reduction in the Policy Rate to 9.75%, the overnight interbank rate declined to 9.01% at end-March 2018 from 9.94% at end-December 2017.**

- **To maintain the overnight interbank rate within the Policy Rate corridor, the Bank withdrew K9.5 billion from the market, up from K8.8 billion withdrawn the fourth quarter of 2017.**

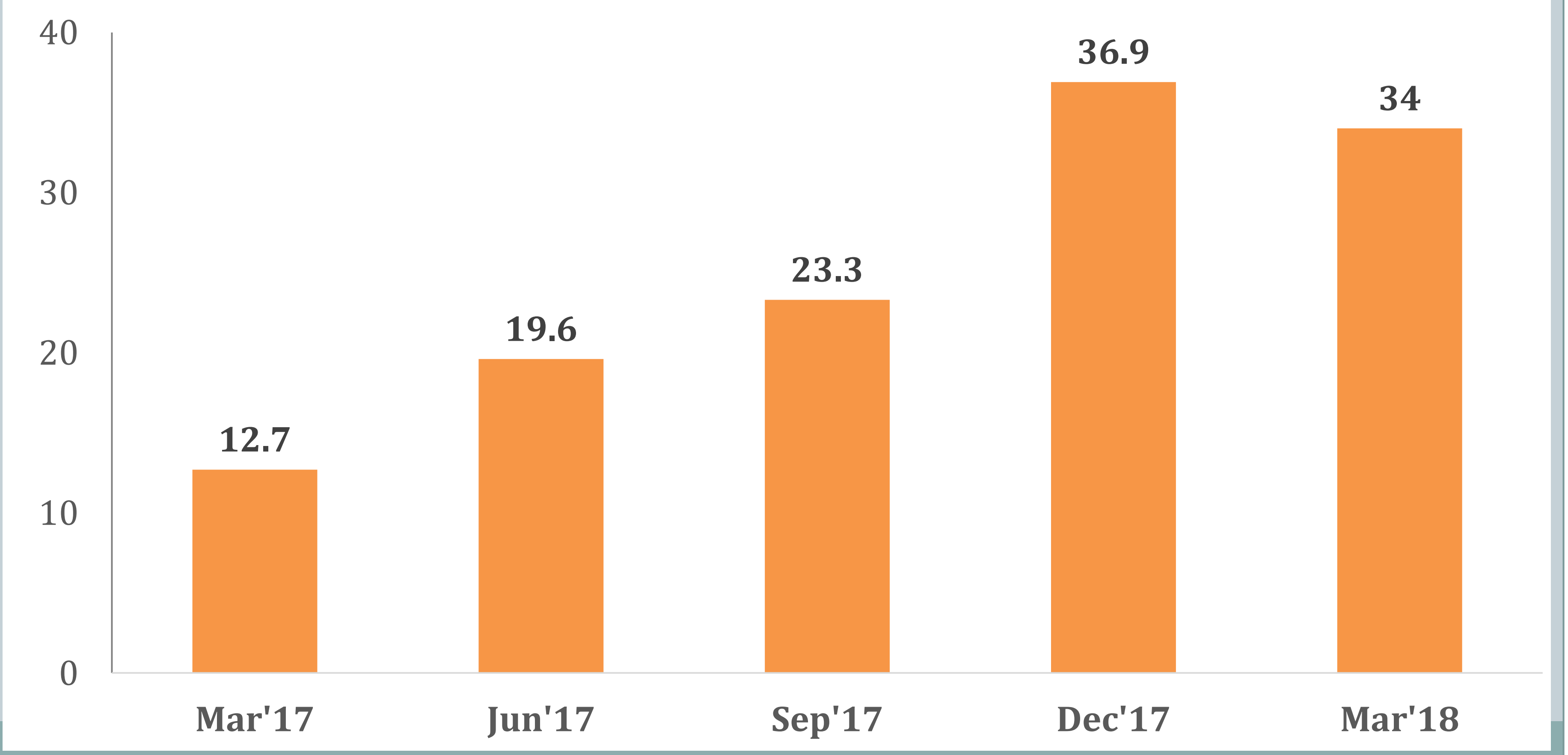
- **Overall, market liquidity declined during the quarter under review due to transfers to statutory reserve accounts and net OMO withdrawals (see Table 2).**

Table 2: Key Liquidity Influences (K' billion)

	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Opening balance	**0.8**	**0.3**	**0.7**	**1.4**
Net Govt. spending	1.3	1.5	2.6	0.7
BoZ FX influence	1.8	1.1	1.0	0.6
Currency in circulation	-0.7	0.1	-0.4	0.8
Change in SR deposits	-0.4	-0.9	-2.2	-1.8
OLF	0.0	-0.7	-0.9	-0.9
Net Govt securities influence	-2.4	-1.1	-0.5	0.7
Open market operations	-0.3	0.3	1.0	-1.0
Miscellaneous	0.0	0.0	0.0	0.0
Closing balance	**0.3**	**0.7**	**1.4**	**0.8**

During the review period, the volume of funds traded in the interbank market declined by K2.9 billion to K34 billion.

Figure 5: Interbank Trading Activity (K' billion)



DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

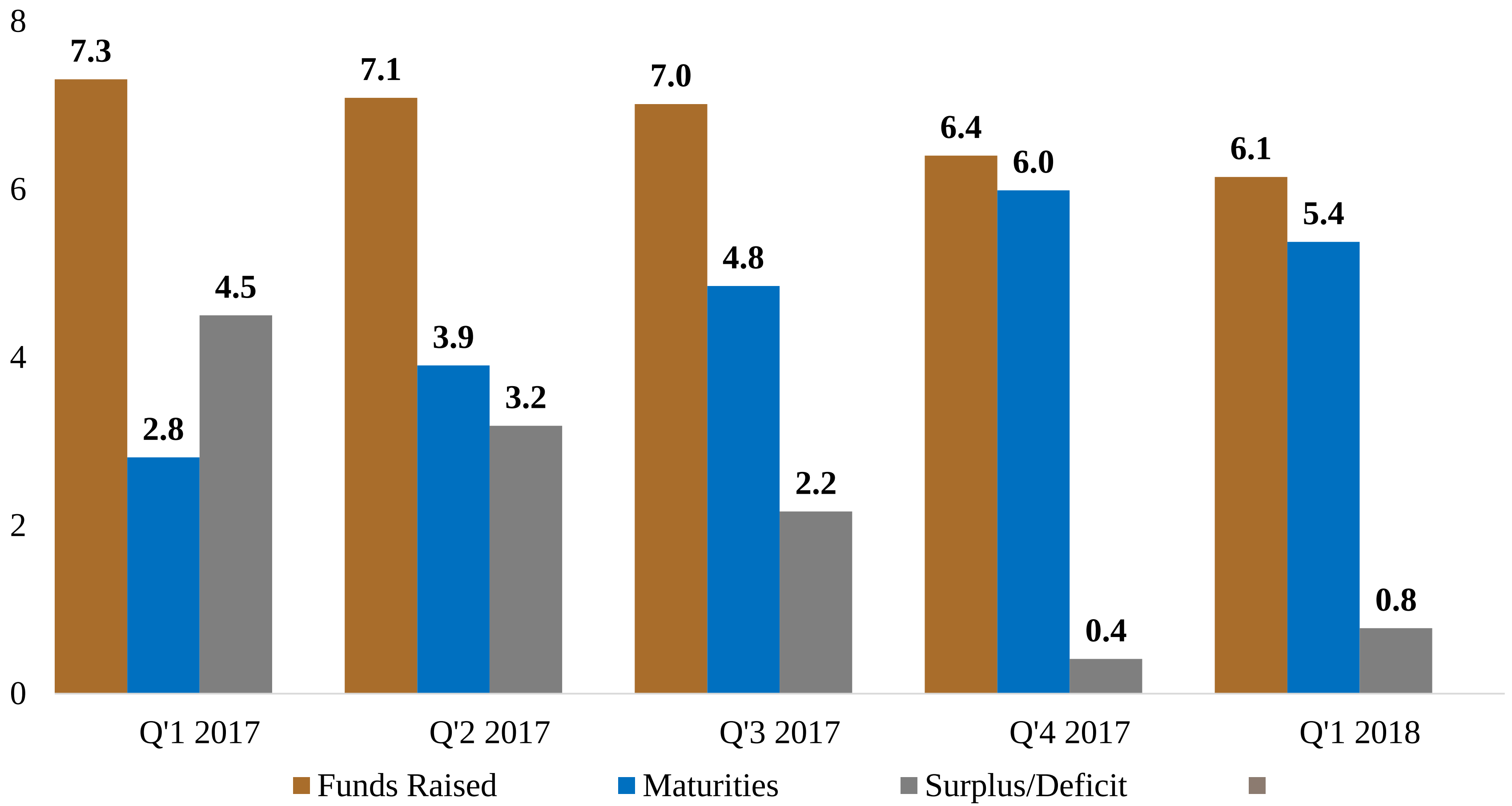
Demand for Government securities increased, driven by high participation of non-resident investors.

Table 3: Government Securities

	Amount on offer (K'bln)	Amount Received (K'bln)	Subscription rate (%)
Treasury bills			
2017Q4	6.30	5.16	81.9
2018Q1	5.70	5.30	92.9
Government Bonds			
2017Q4	2.00	2.18	108.8
2018Q1	1.65	2.38	144.2

Total funds raised from the auctions amounted to K6.1 billion against total maturities of K5.4 billion, resulting in a surplus of K0.8 billion.

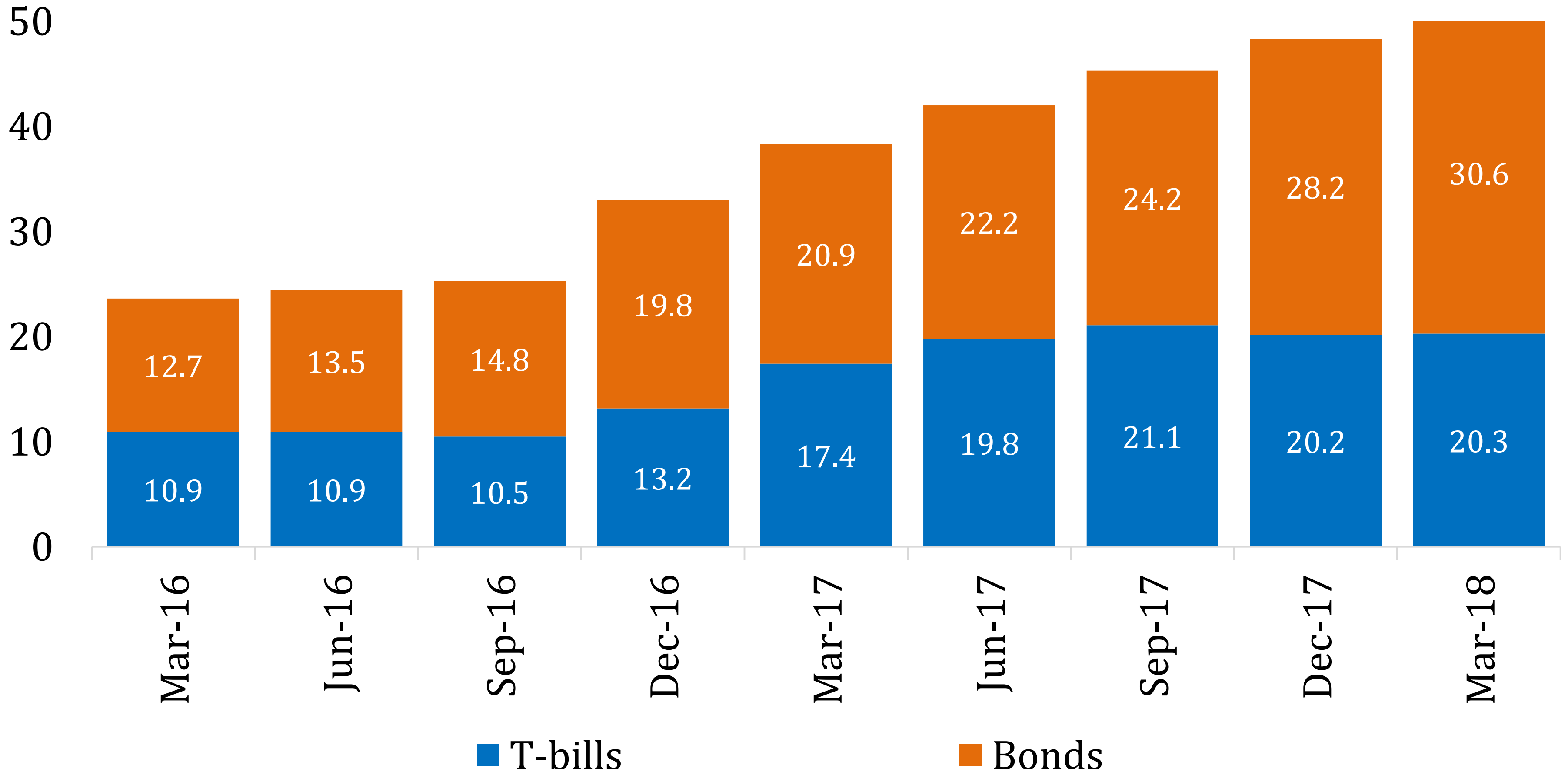
Figure 6: Government Securities (K'billion)



Government securities market

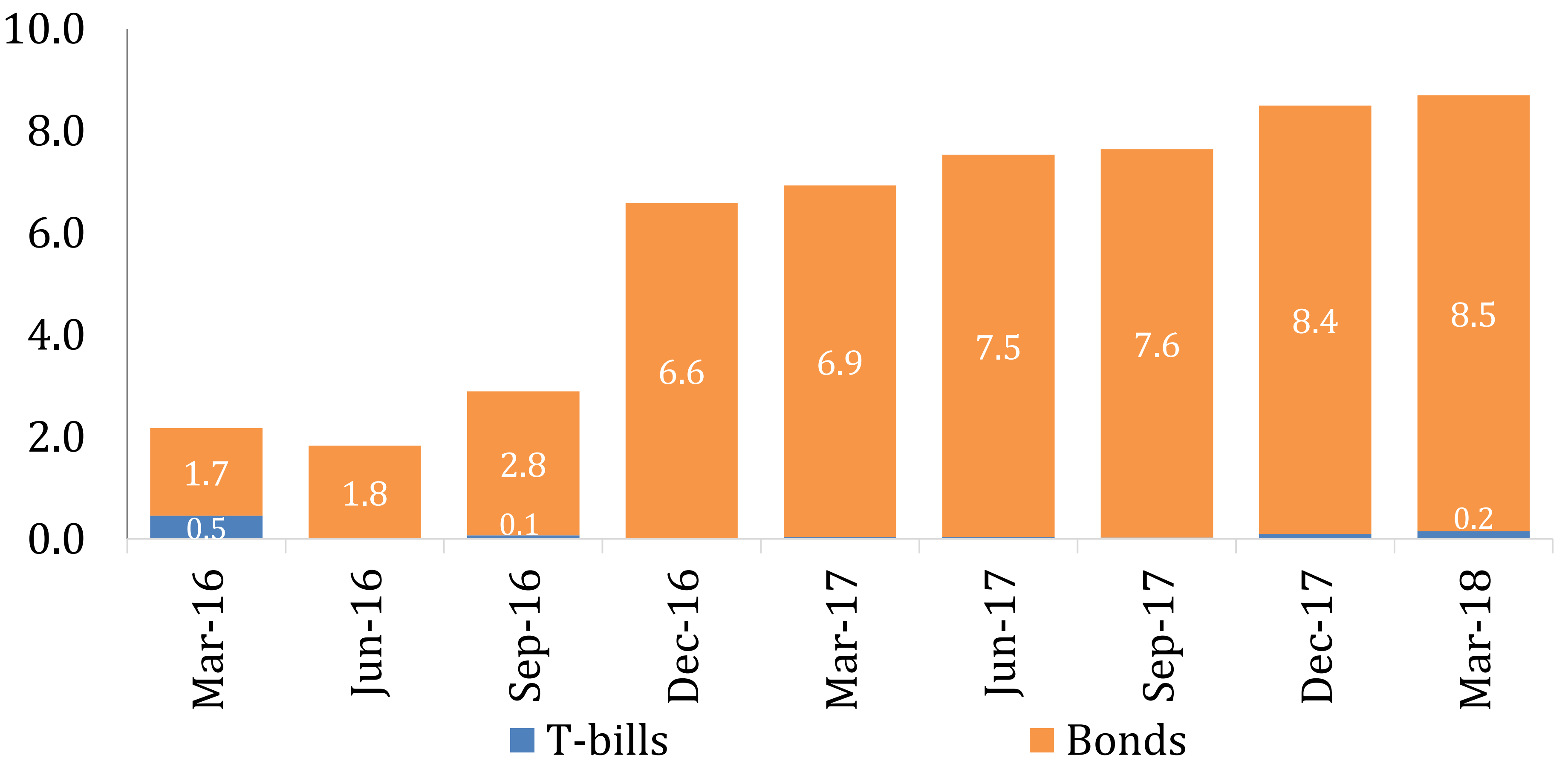
The outstanding stock of Govt. securities increased to K50.9 bln from K48.4 bln due on account of the surplus.

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



Non-resident investors holdings rose by 2.4% to K8.7 bln, dominated by Government bonds.

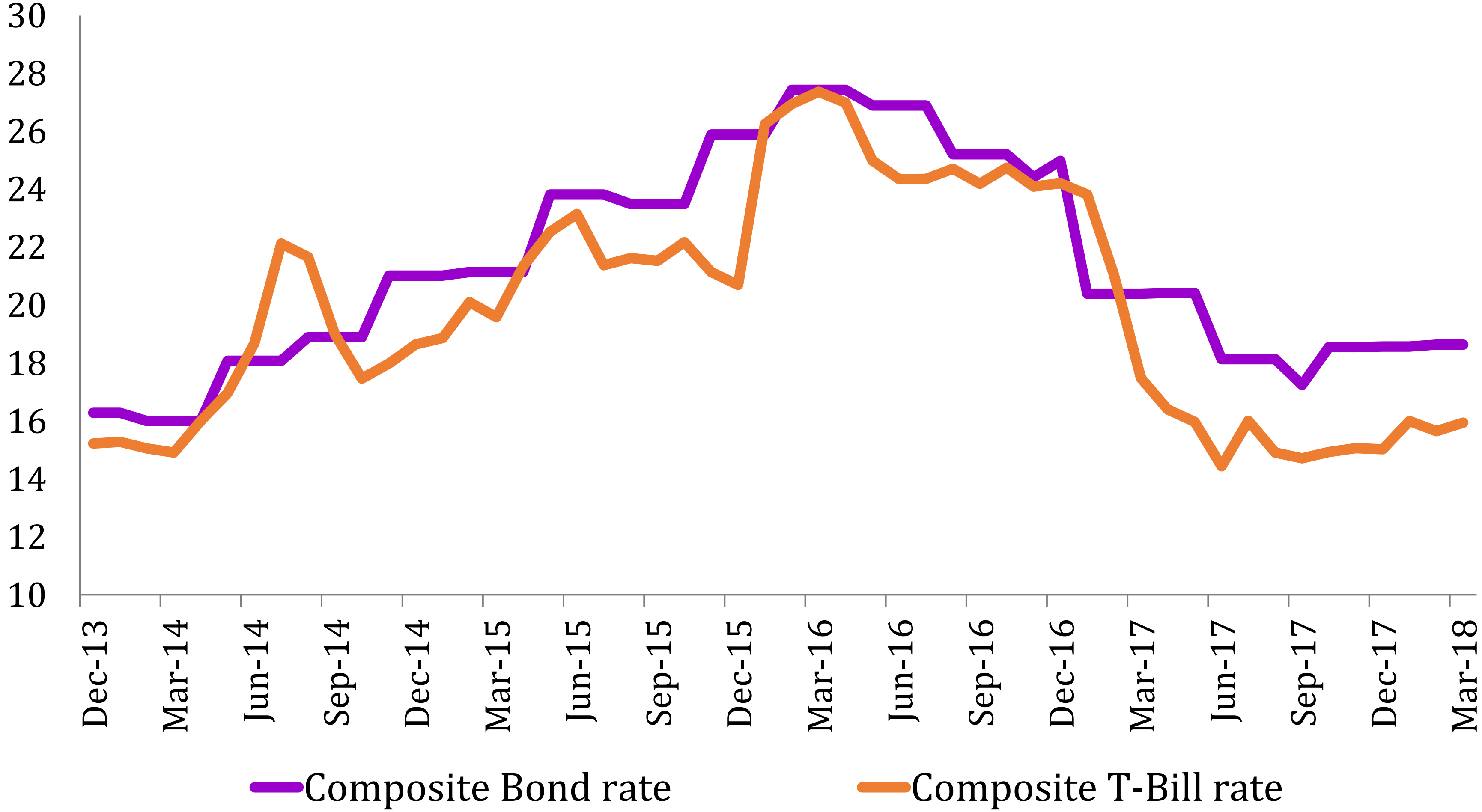
Figure 8: Non-resident Holdings of Government Securities (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

- **Yield rates on Treasury bills edged up, driven by aggressive biding by non-resident investors while yield rates on Government bonds remained relatively stable.**
- **The weighted Treasury bill yield rate close at 15.9% in March 2018 from 15.0% in December 2017.**
- **However, the composite bond yield rate remained unchanged at 18.6%.**

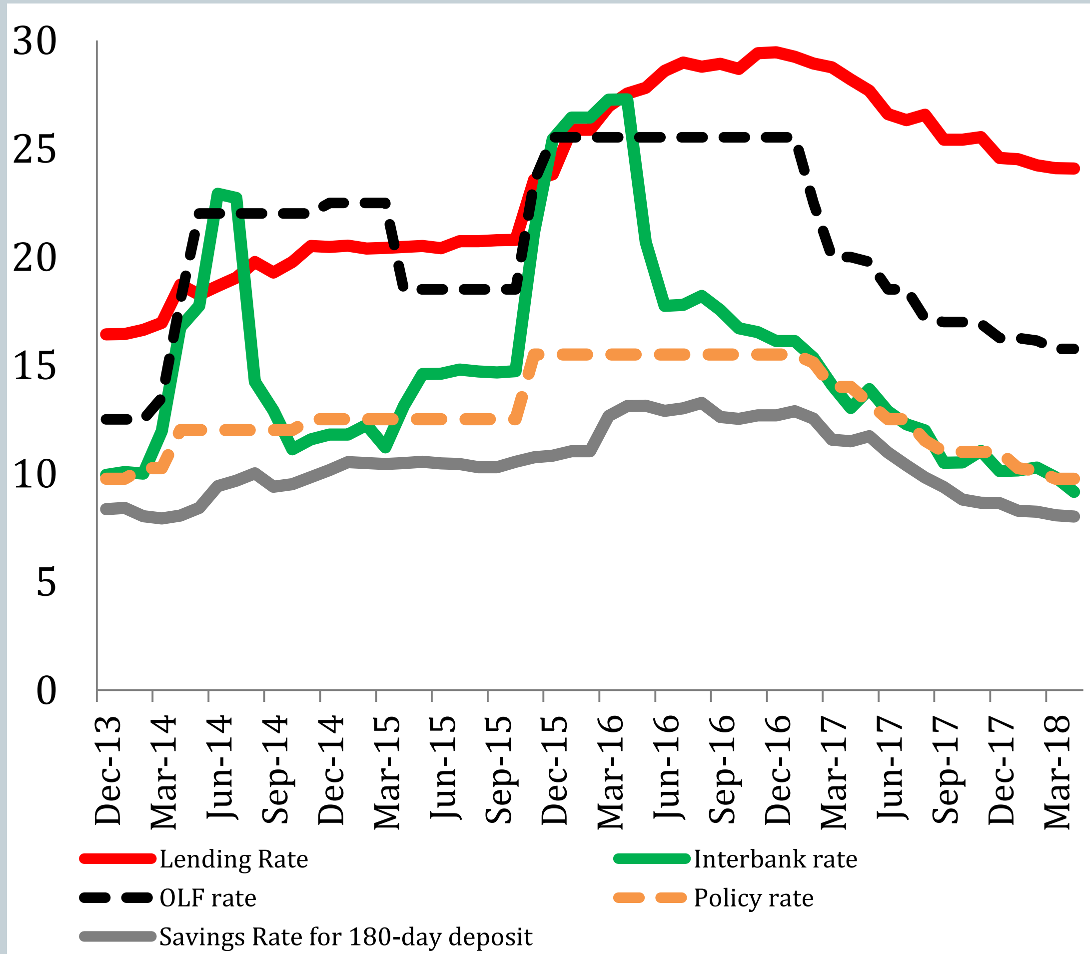
Figure 9: Government securities yield rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS
Banks' Nominal Interest Rates

- Commercial Banks Nominal lending rates declined to 24.1% in March 2018 from 24.6% in December 2017.
- The average savings rate for 180-day deposits declined to 8.1% from 8.6%.
- While elevated lending rates remain a challenge to credit growth, the positive real average savings rate is supportive of savings mobilisation.

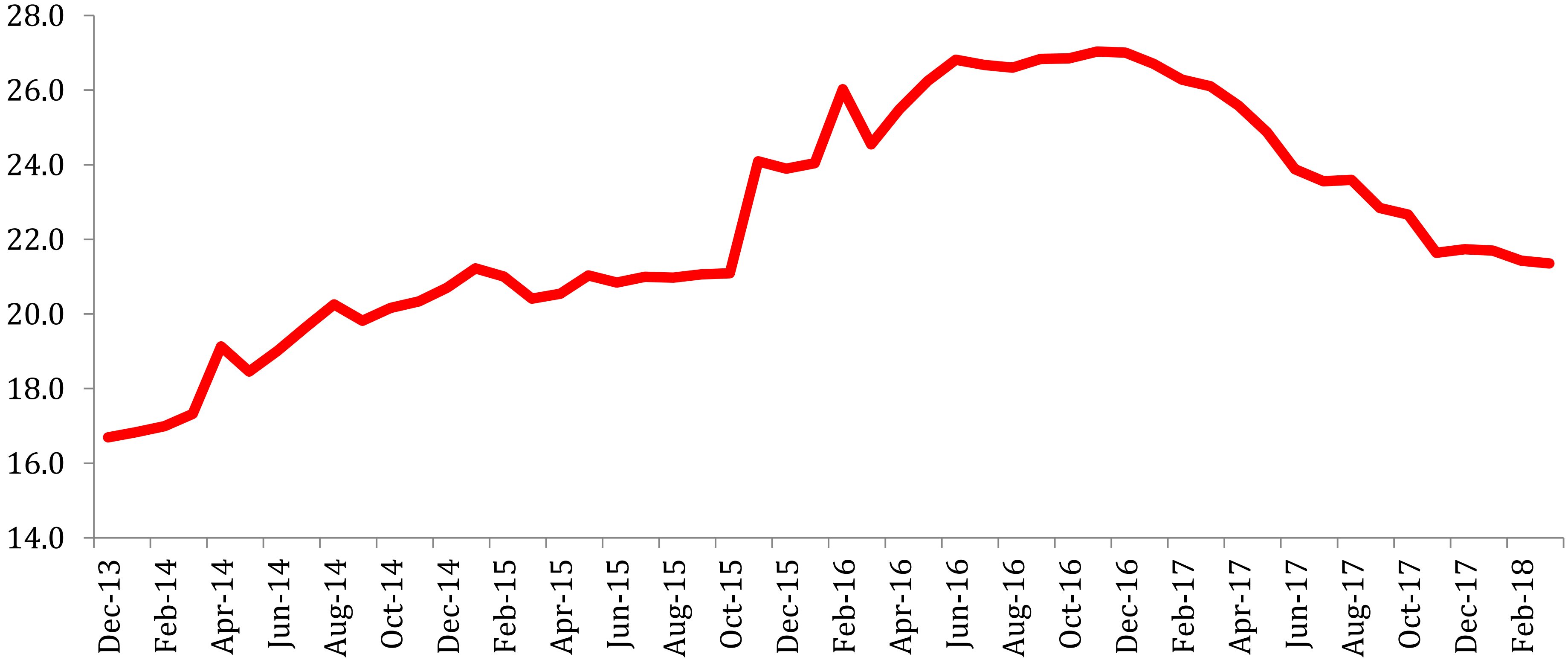
Figure 10: Nominal Interest Rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS
Banks' Nominal Interest Rates

- **The average lending rate, excluding outliers (those banks with the highest and lowest lending rates) was recorded at 21.4% in March 2018, down from 21.7% in December 2017.**

Figure 11: Nominal Interest Rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

- **Total domestic credit growth declined to 0.3% in the first quarter of 2018 from 4.9% in the last quarter of 2017 (Table 4).**
- **The decline reflects a slowdown in credit growth to Government to 1.7% from 5.3% in the previous quarter; credit growth to households increased to 3.1% from 1.3% over the same period.**
- **However, credit growth to private enterprises contracted by 3.5% compared with a positive growth of 8.3% recorded in the fourth quarter of 2017 (see Table).**
- **A contraction or low credit growth to private enterprises presents a challenge to sustained private sector-led economic growth and diversification efforts.**

DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

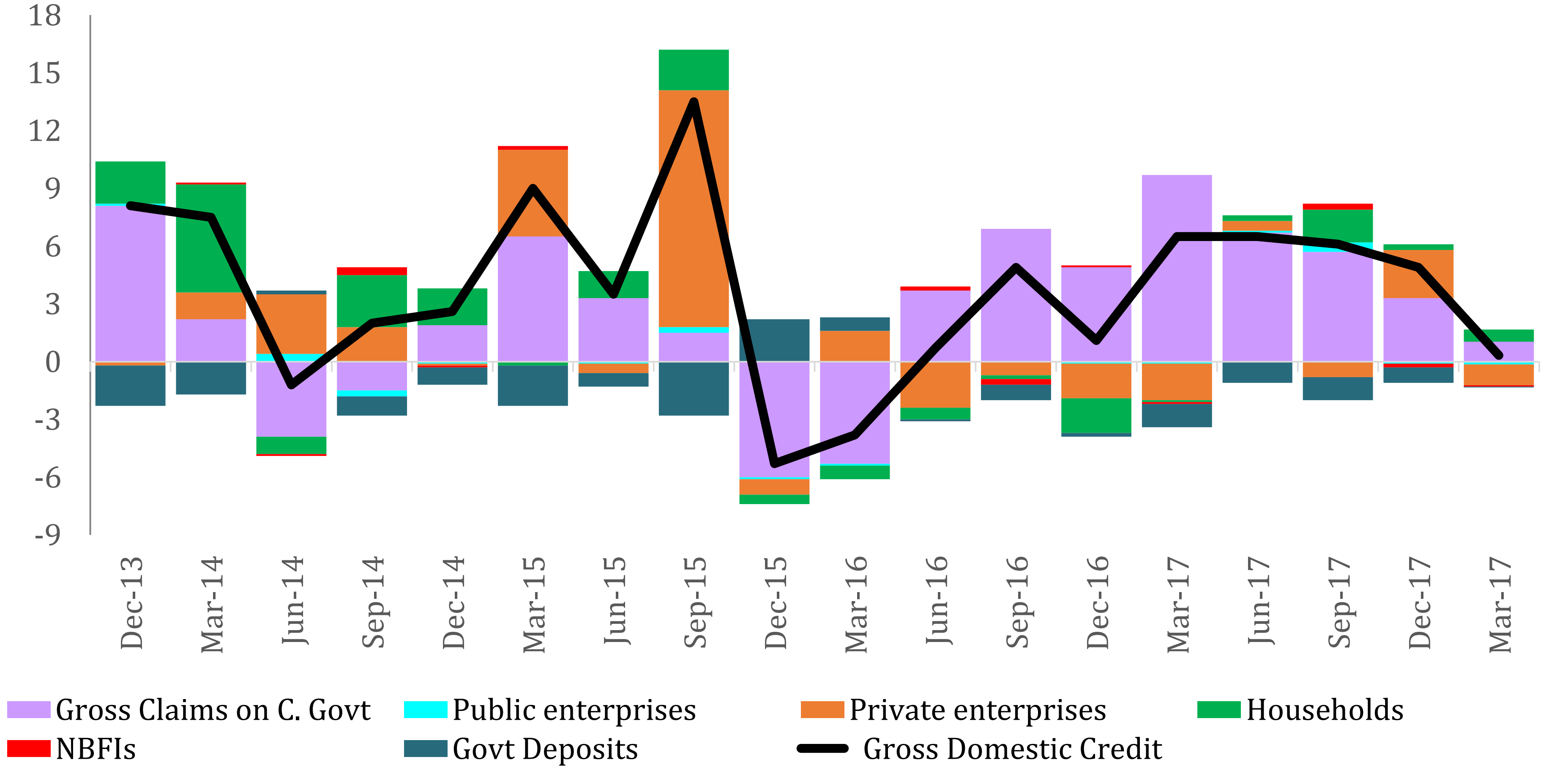
Table 4: Credit growth

% change	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Total Credit (Incl. Govt)	6.5	6.5	6.1	4.9	0.3
Total -(Excl. Govt)	-3.2	1.6	3.0	4.5	-1.3
Public Enterprises	-10.0	28.9	89.3	-15.6	-18.7
Government	18.1	11.3	8.9	5.3	1.7
Private Enterprises	-4.8	1.4	-2.2	8.3	-3.5
Households	-0.3	1.3	7.6	1.3	3.1
NBFIs	-7.9	5.9	49.4	-30.1	-13.6

DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

- **Lending to Government continues to dominate domestic credit growth.**

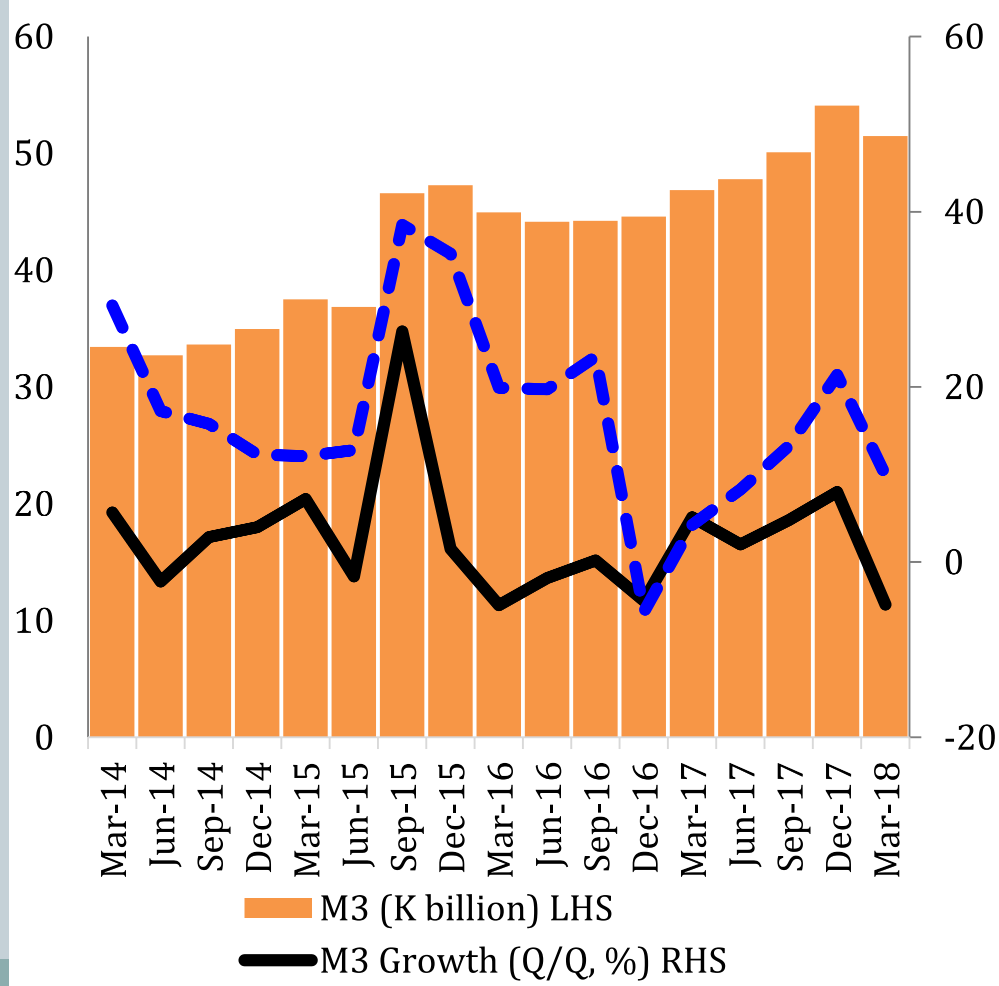
Figure 12 Contribution to Credit Growth (Quarterly, Percentage)



DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

- **Money supply contracted by 4.8% to K51.5 billion from K54.5 billion following a reduction in net foreign assets.**
- **The contraction in money supply was primarily attributed to a reduction in net foreign assets, mainly due to external debt service.**
- **The contraction in money supply is a challenge as strong growth is required to support economic activity on a more sustainable basis.**

Figure 13: Money Supply



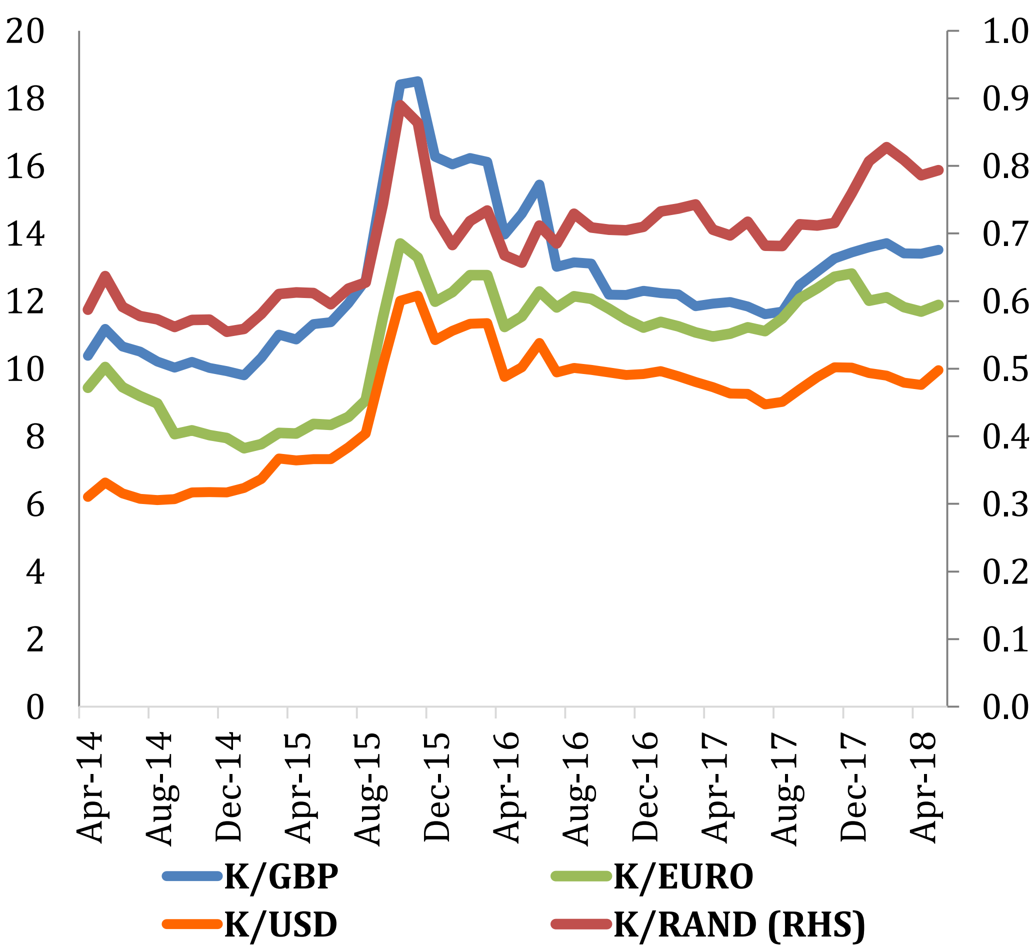
DOMESTIC ECONOMIC DEVELOPMENTS
Foreign Exchange Market

The Kwacha appreciated by 2.4% against the US dollar to K9.79 at end-March 2018 following high inflows of foreign exchange from corporates and a weaker US dollar.

However, the Kwacha depreciated by 1.9% and 9.0% against the British Pound and the South African rand.

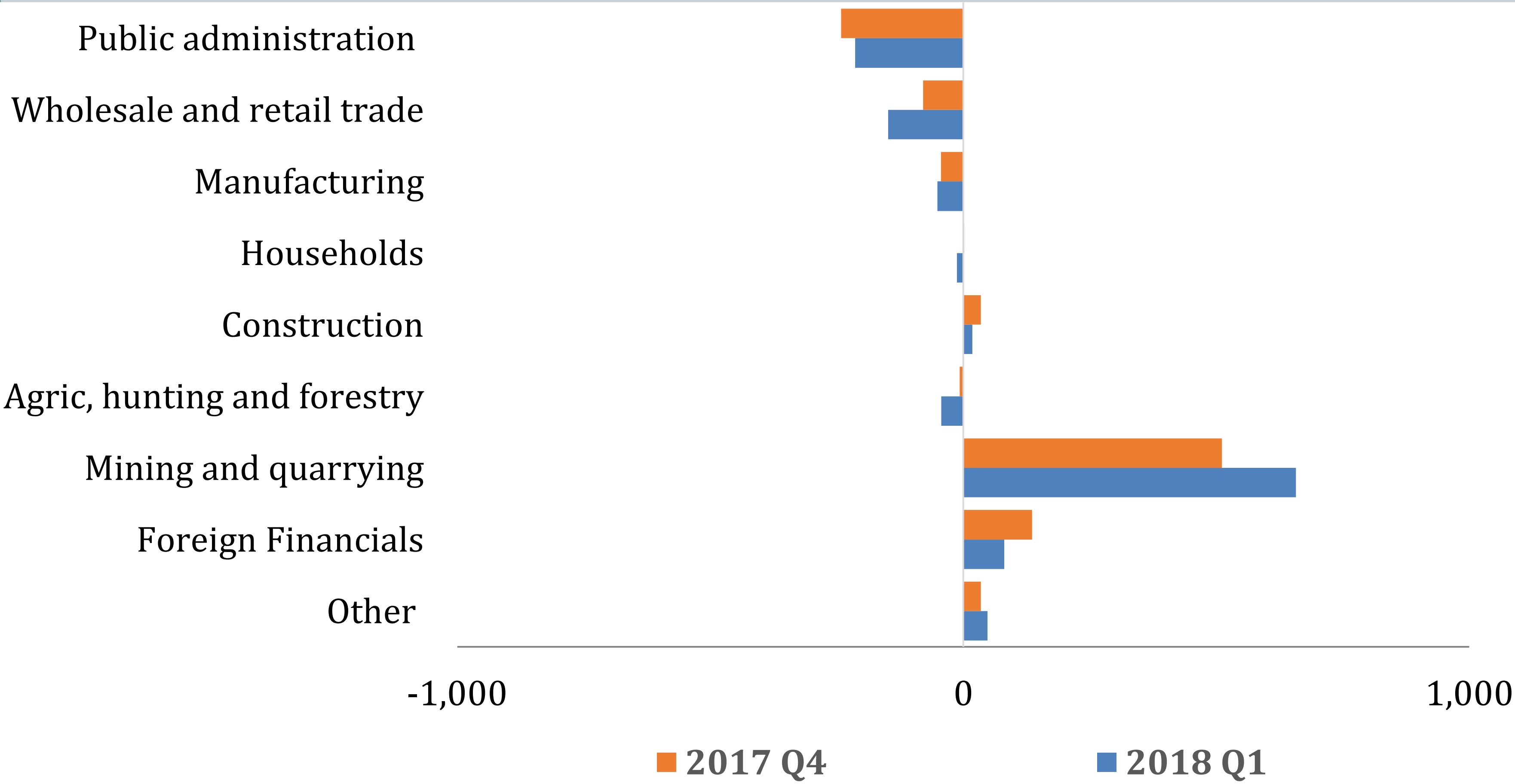
In terms of supply, mining firms sold US $657.5 million in the first quarter, up from US $511.0 million in the last quarter of 2017 (see Figure)

Figure 14: Exchange rate developments



Mining companies and foreign financials continued to be the major suppliers, while the Government was the lead buyer.

Figure 15: Supply and Demand (US$'million)



DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

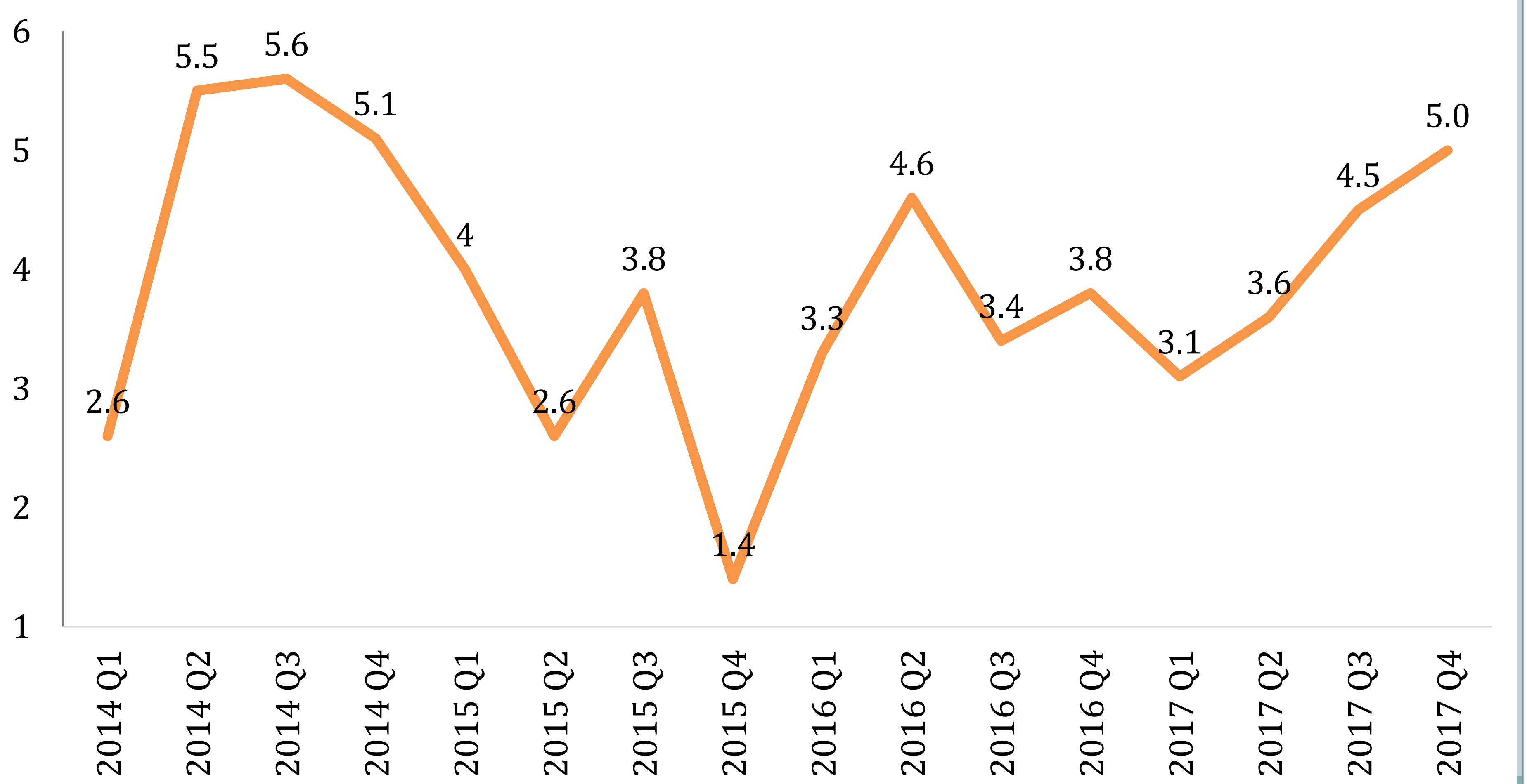
- **According to the Central Statistical Office, real GDP is estimated to have grown by 5.0% in the fourth quarter of 2017, up from 4.5% in the third quarter (Figure 15) .**

- **Key drivers of growth were agriculture, mining, wholesale and retail trade, and manufacturing.**

- **For 2017, real GDP growth is estimated at 4.1% (3.8% in 2016).**

DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

Figure 16: Quarterly GDP (Y/Y growth, Percent)



DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

- **Selected indicators of economic activity show increased output in non-mining and mining sectors in the first quarter of 2018 on a y/y basis.**

- **Electricity generation grew by 2.2% year-on-year to 13,117 GWh.**
- **Cement production grew by 27.8% year-on-year;**
- **Copper production increased by 20.2% on a year-on-year basis.**
- **Real consumer spending increased by 0.3% year-on-year.**
- **However, on a quarterly, basis most indicators suggest a slow down in production in most sectors due to seasonal factors.**

Figure 17: Cement Production (Quarterly, '000 Metric tonnes and annual percentage change)

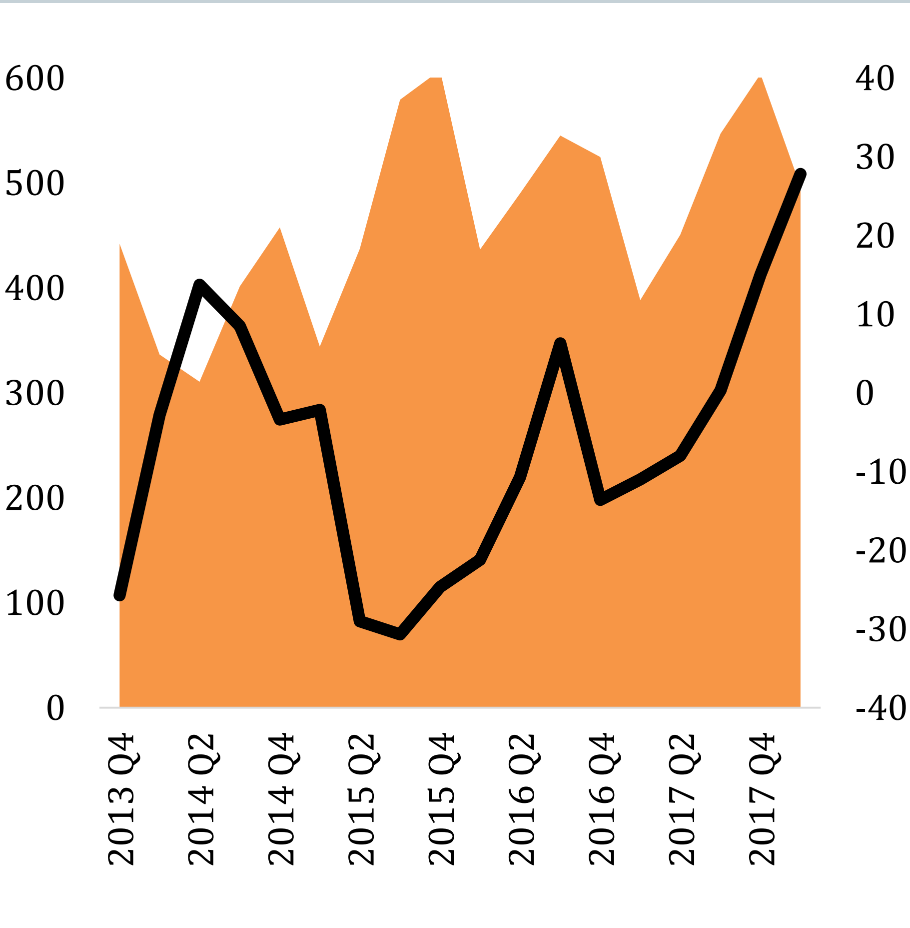
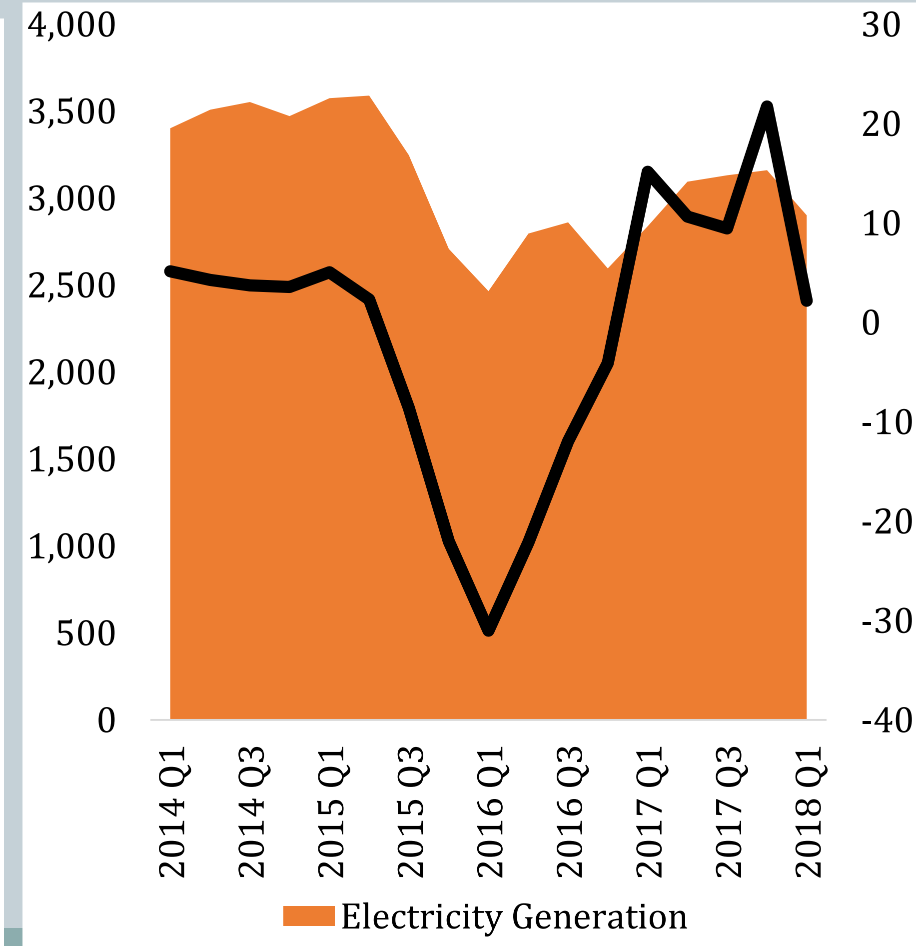
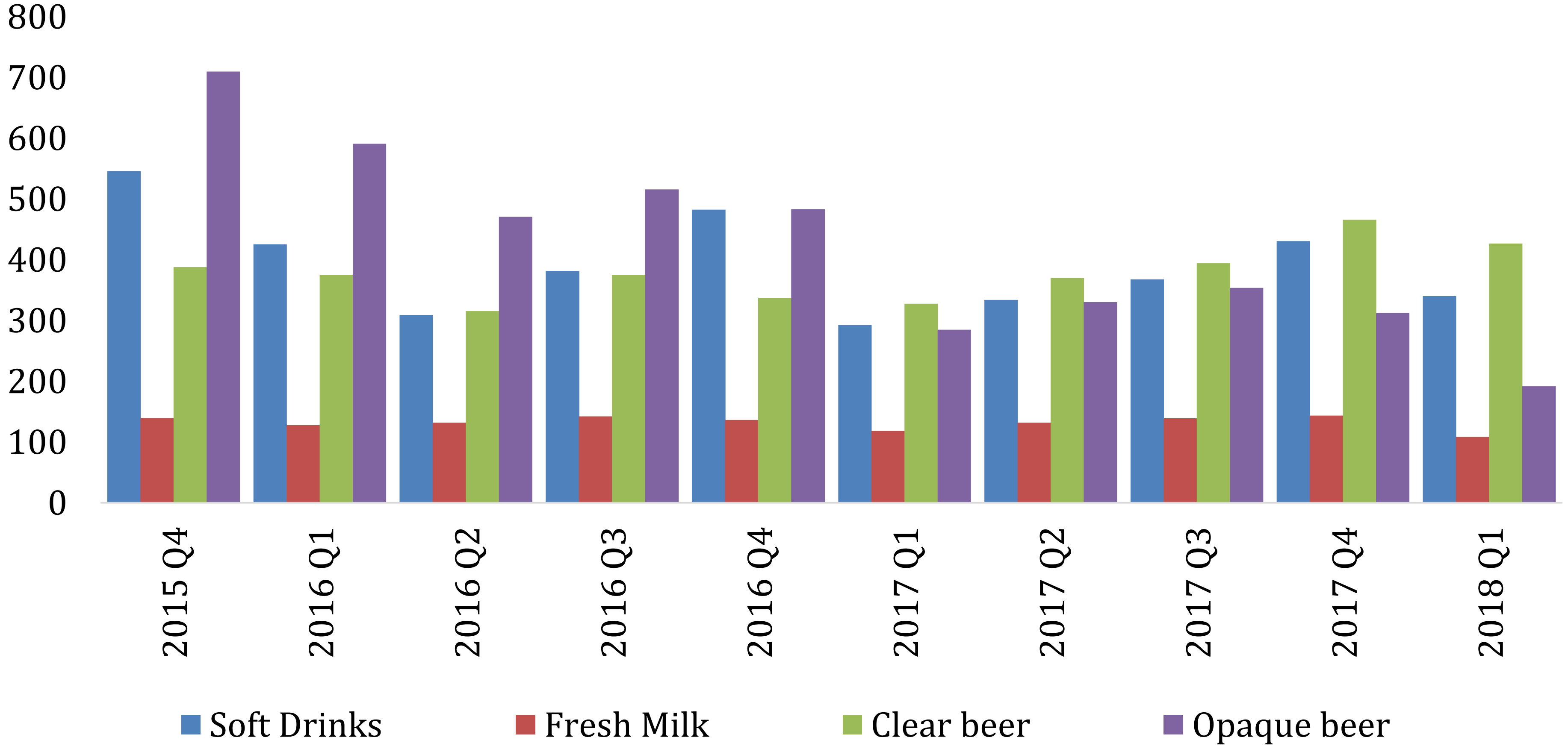


Figure 18:Electricity Generation (Quarterly, '000 Megawatt Hours and annual percentage change)



In the manufacturing sector, the production of selected food and non-food items declined in the first quarter of 2018.

Figure 19: Production of food and Beverages (Quarterly, Hectolitres)



Preliminary data indicate that the current account deficit narrowed to US $139.2 million in the first quarter of 2018 from US $241.5 million in the fourth quarter of 2017.

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

	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Current Account Balance	**-294.1**	**-424.8**	**-241.5**	**-139.2**
Balance on Goods	1.3	-70.3	252.3	266.8
Total Exports	**1,903.1**	**1,995.6**	**2,429.7**	**2,550.9**
Copper	1,428.3	1,396.5	1,864.4	2,049.8
Cobalt	23.5	37.5	37.1	32.3
Gold	38.9	34.5	37.1	42.2
NTEs	396.6	511.2	475.3	409.1
Total Imports	**1,901.75**	**2,065.85**	**2,177.39**	**2,284.17**
Primary Income	-226.8	-268.6	-416.7	-266.5
Secondary Income	83.6	101.6	100.1	89.7
Services Account	-152.2	-187.5	-177.2	-229.2
Capital Account	14.7	14.8	14.8	16.3
Financial Account	-460.4	-255.2	-274.5	157.4
Net Errors/Omissions	1.5	6.6	4.4	2.5
Overall Balance	**-182.4**	**148.1**	**-52.2**	**277.8**
Change in Reserve Assets and Related items	167.7	-161.2	15.7	-281.7

DOMESTIC ECONOMIC DEVELOPMENTS
Fiscal performance

The preliminary fiscal deficit of 6.1% of GDP for 2017 is now likely to be revised upwards following the recent Debt Sustainability Analysis (DSA) exercise.

In line with this, the 2018 Budget estimates are also likely to undergo some revisions.

Worth noting, higher than programmed fiscal outcomes in 2018 would heighten risks to macroeconomic stability.

The preliminary data for the first quarter of 2018 indicate that the budget deficit, on a cash basis, at approximately 1.5% of GDP, is in line with the programmed target.

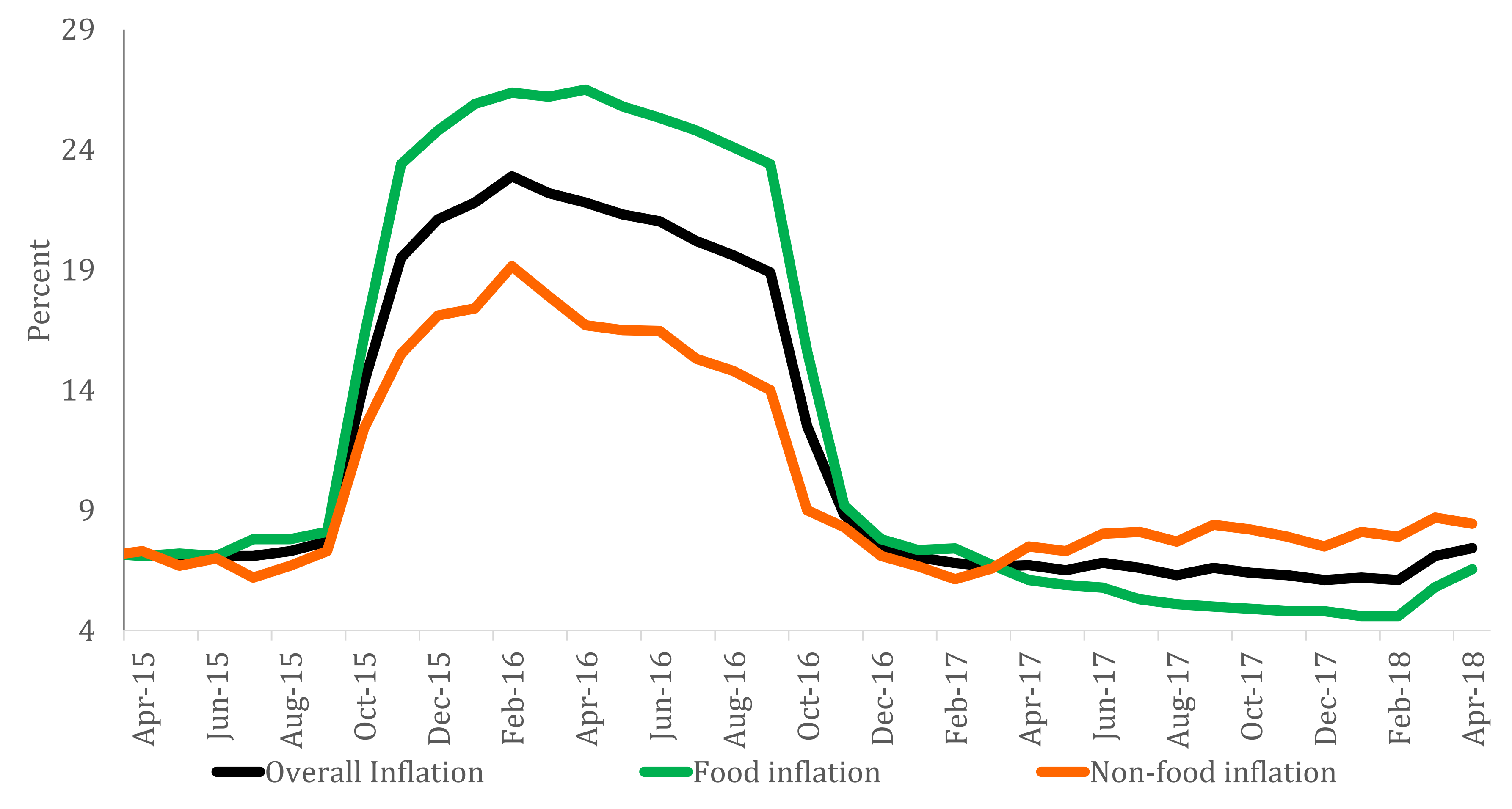
DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

Inflation increased to an average of 6.5% in the first quarter of 2018 from 6.3% in fourth quarter of 2017.

- **At end-March 2018, inflation was recorded at 7.1%, 1.0 percent higher than the end-December 2017 outturn of 6.1% (see chart 1).**
- **Both food and non-food inflation accelerated to averages of 5.0% and 8.2% in the quarter under review from 4.8% and 7.9% in the preceding quarter.**
- **The rise in food inflation was on account of reduced supply of some food items, which is characteristic of the lean period while increase in non-food inflation is mainly on account of upward adjustment in petroleum prices, which raised transportation costs.**
- **In April 2018, inflation rose further to 7.4% as food inflation increased to 6.5% while non-food inflation declined to 8.4% from 8.7%.**

DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

Figure 20: Year-on-year Inflation rate

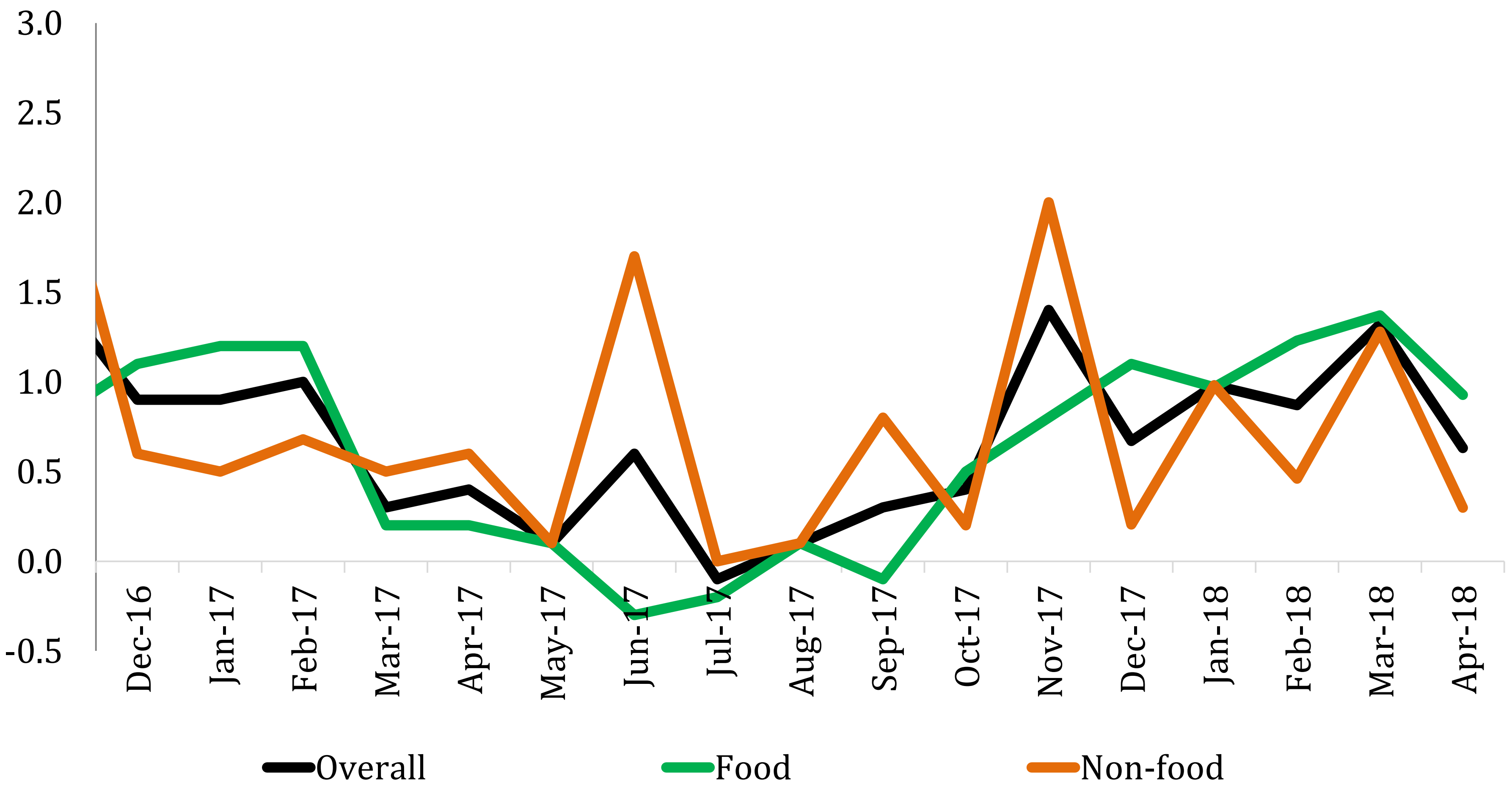


DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

- **Month-on-month inflation rose sharply to 1.3% in March 2018 from 0.7% in December 2017.**
- **Reduced supply of some food items and increase in fuel prices accounted for the increase in month-on-month inflation.**
- **In April 2018, month-on-month inflation declined to 0.6%**

DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

Figure 21: Month-on-month Inflation rate (%)



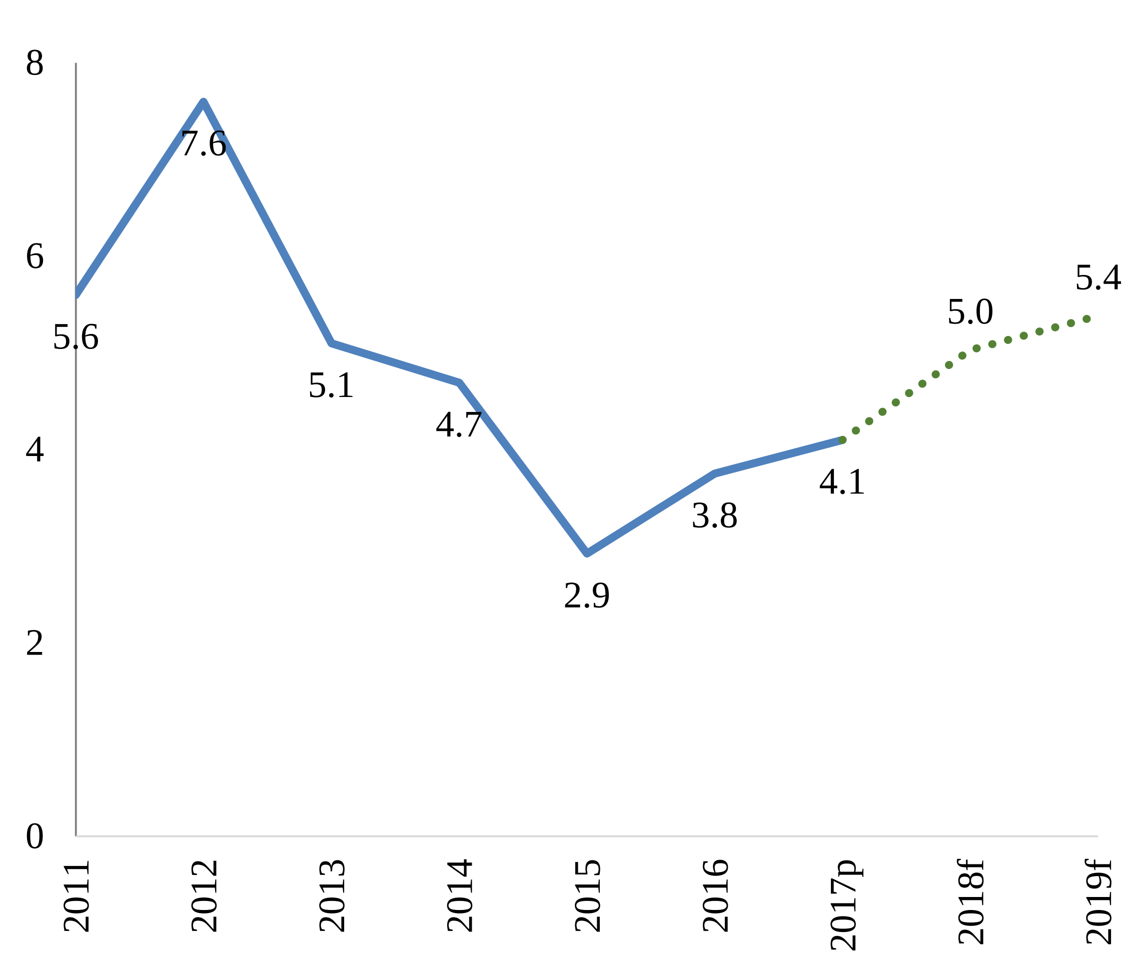
MACROECONOMIC OUTLOOK
Real GDP growth

- **Real GDP is projected to continue on the upward trajectory over the medium-term.**

  Growth is projected to rise to 5% in 2018 and 5.4% in 2019.

  Mining, agriculture, manufacturing, construction and tourism sectors are expected to be the key drivers of growth.

Figure 22: Real GDP Growth (%)



MACROECONOMIC OUTLOOK
Inflation Outlook

- **Although inflation is projected to rise above 7% in the second and third quarters of 2018, it will remain within the inflation target range of 6-8%.**

- **In the latter part of the forecast period, inflation is projected to trend toward the lower bound of the target range.**

- **Risks to inflation are assessed to be on the upside, and include elevated fiscal deficits; lower crop production during the 2017/18 agriculture season; the tightening of monetary policy in the United States; and, higher than anticipated crude oil prices.**

MACROECONOMIC OUTLOOK
Inflation Outlook

In conclusion, the MPC noted although there are rising inflationary pressures in the next two quarters of the forecast period and as reflected in the recent rise in inflation, it will remain within the target range over the medium-term.

Challenges remain in the credit market, particularly regarding credit extension to private enterprises.

Elevated fiscal deficits are of concern and economic growth remain below the levels required to significantly reduce poverty levels.

Given these factors, the MPC considers the current Policy Rate to be at an appropriate level.

The MPC views this policy stance to be supportive of growth and will contribute to promoting financial stability.

THANK YOU AND GOD BLESS…