

# **MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2023**

## **GOVERNOR'S PRESENTATION TO THE MEDIA**

**FEBRUARY 14, 2024**



Bank of Zambia

# OUTLINE OF PRESENTATION

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- 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 February 12-13, 2024, the Monetary Policy Committee (MPC) decided to increase *the Policy Rate by 150 basis points to 12.5 percent.*

- **The decision was informed by:**
  - **A further increase in inflation in the fourth quarter of 2023; and**
  - **The current forecast showing inflation moving even further away from the 6-8 percent target band.**
- **The increase in the Policy Rate is, therefore, aimed at steering inflation to the target band and help anchor inflation expectations.**
- **In raising the Policy Rate, the Committee took into account the stability of the financial sector and the importance of robust growth over the medium- to long-term.**

- **The persistent depreciation of the Kwacha against major currencies as well as elevated food (maize and maize products) and energy (fuel) prices continued to push inflation up in the fourth quarter of 2023.**
- **Inflation rose to an average of 12.9 percent from 11.0 percent in the third quarter of 2023 (Table 1). Inflationary pressures continued in January, with annual inflation rising to 13.2 percent from 13.1 percent in December 2023.**

# INFLATION OUTTURN



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

<b>Average</b>	<b>Q4 2022</b>	<b>Q1 2023</b>	<b>Q2 2023</b>	<b>Q3 2023</b>	<b>Q4 2023</b>
Overall Inflation	9.8	9.6	9.9	11.0	12.9
Food Inflation	12.1	11.7	11.5	12.7	13.8
Non-food Inflation	6.8	6.8	7.9	8.8	11.6
<b>End Period</b>	<b>Q4 2022</b>	<b>Q1 2023</b>	<b>Q2 2023</b>	<b>Q3 2023</b>	<b>Q4 2023</b>
Overall Inflation	9.9	9.9	9.8	12.0	13.1
Food Inflation	11.9	11.8	11.2	13.4	14.2
Non-food Inflation	7.3	7.3	7.8	10.1	11.6

Source: Zambia Statistics Agency and Bank of Zambia Compilations

# INFLATION OUTLOOK

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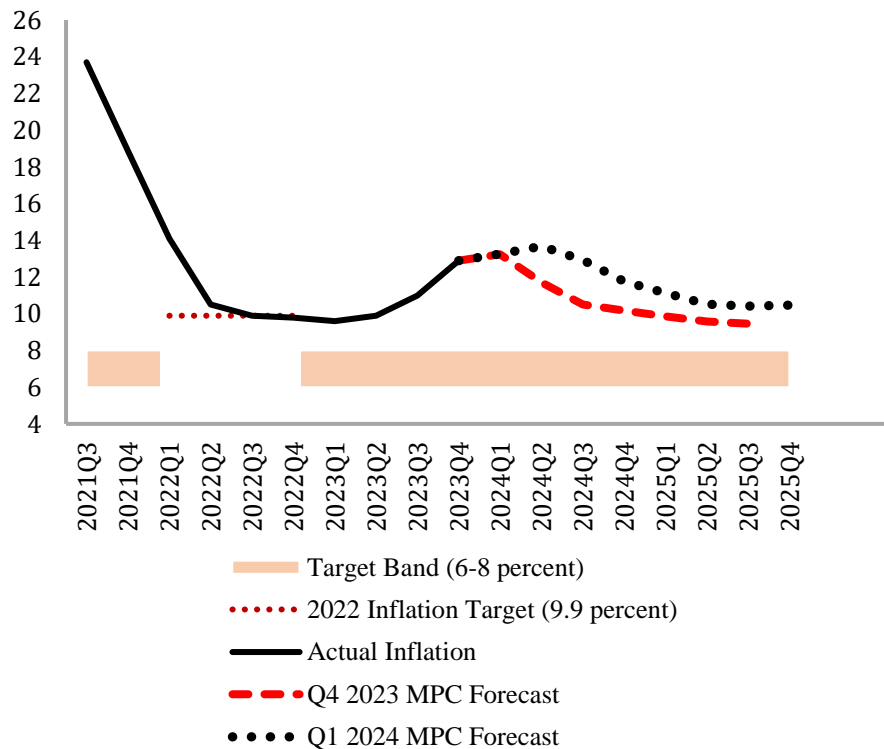
- **At the last MPC Meeting in November, inflation was forecast to remain above the 6-8 percent target band. The current forecast shows that inflation is moving even further away from the target band (Chart 1 and Table 2).**
- **The increased deviation from the band is driven primarily by the persistent depreciation of the exchange rate and the effects of adverse weather conditions on food prices. The Committee noted that these factors do actually remain key upside risks to the inflation outlook.**

# INFLATION OUTLOOK



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**Chart 1: Inflation – Outcome and Projection (Percent)**



**Table 2: Projected Average Inflation (percent)**

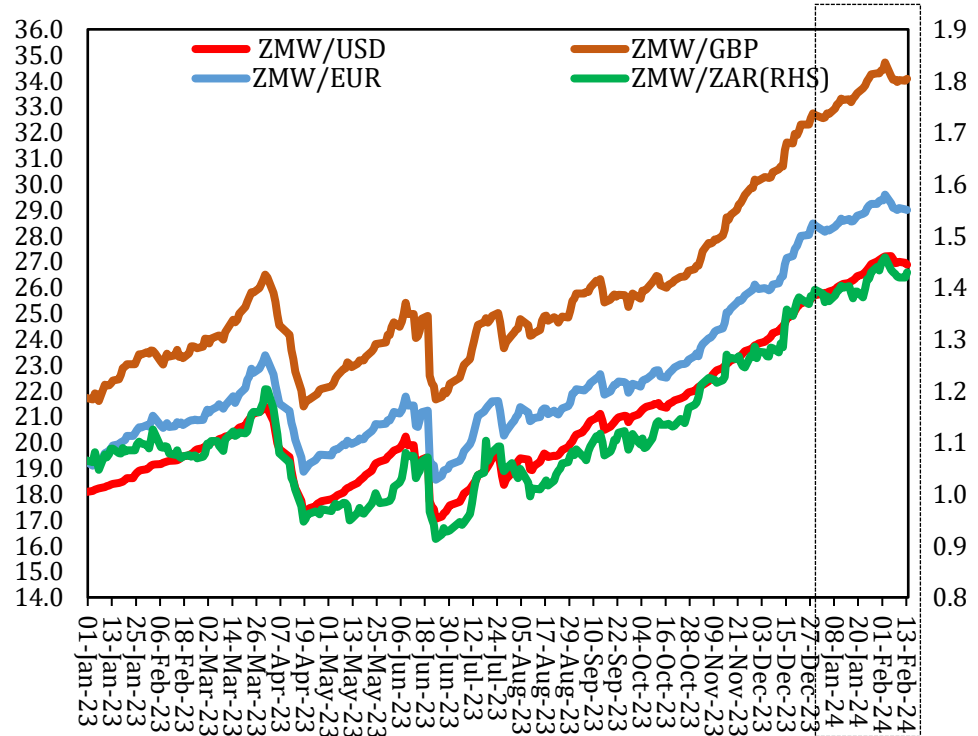
	2024	2025
Q1 2024 Projection	12.5	9.9
Q4 2023 Projection	11.4	9.6

# FOREIGN EXCHANGE MARKET



- In the fourth quarter of 2023, the Kwacha depreciated by 17.5 percent against the US dollar to an average of K24.75 (Chart 2).
- Pressure on the Kwacha to depreciate has persisted in 2024 with the exchange rate depreciating by 4.6 percent as at February 13, 2024.
- Constrained supply of foreign exchange amid high demand underpin the depreciation of the exchange rate.

Chart 2: Nominal Exchange Rates

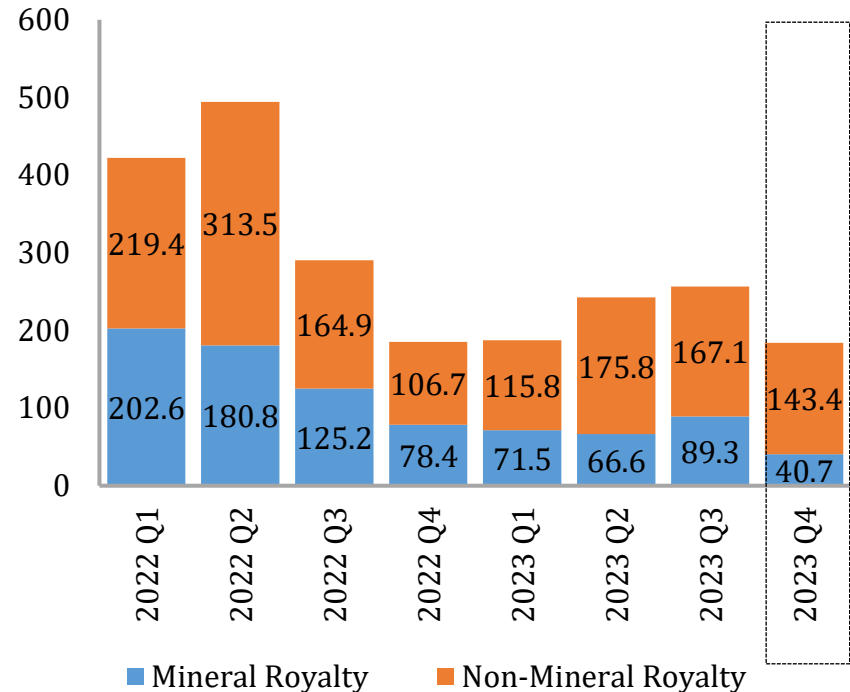




# FOREIGN EXCHANGE MARKET

- To moderate volatility and broadly support the importation of critical commodities, the Bank provided market support of US\$215.5 million (US\$184.1 million in mining taxes paid directly into the Bank and US\$31.4 million from reserves) (Chart 3).
- In response to the on-going challenges in the foreign currency market, the *statutory reserve ratio* was revised by 900 basis points to 26.0 percent effective February 5, 2024 from 17.0 percent in November 2023.

**Chart 3: Mining Taxes Paid Directly to BoZ in US Dollars (US\$ million)**



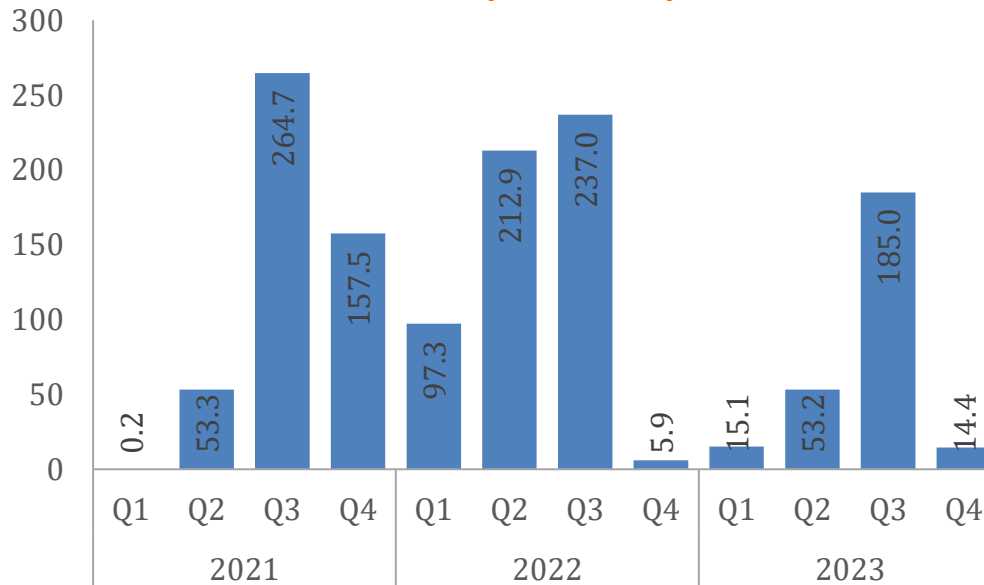
# FOREIGN EXCHANGE MARKET



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- Turnover in the interbank foreign exchange market reduced significantly to US\$14.4 million from US\$185 million in the previous quarter due to low supply (Chart 4).

**Chart 4: Turnover in Interbank Foreign Exchange Market (US\$ million)**

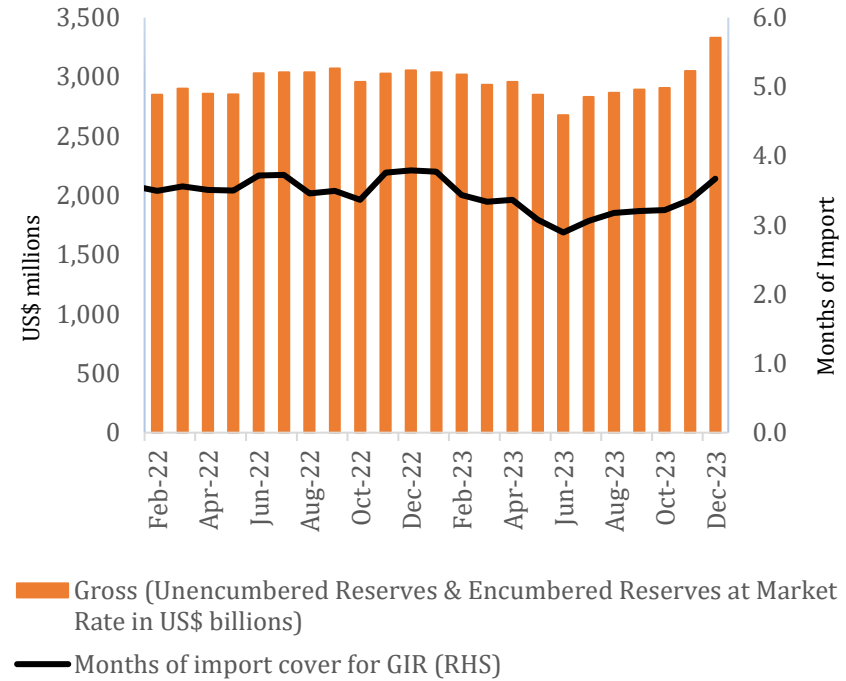


# FOREIGN EXCHANGE MARKET



- Notwithstanding support to the market, gross international reserves increased to US\$3.3 billion (equivalent to 3.7 months of import cover) at end-December 2023 from US\$2.9 billion (3.2 months of import cover) at end-September 2023 (Chart 5).
- The rise in reserves was due to disbursements by the International Monetary Fund and the World Bank after a successful Second Review under the Extended Credit Facility in December 2023.
- In 2023, gold purchases amounted to US\$43.2 million, bringing the total to US\$150.5 million (in market value) since the Bank started purchasing gold.

Chart 5: Gross International Reserves



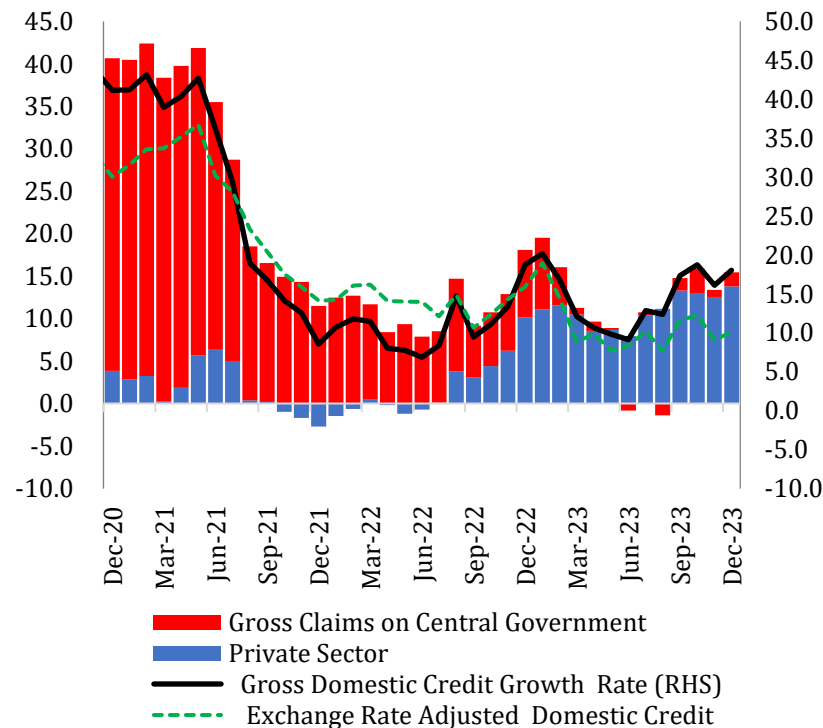
# CREDIT DEVELOPMENTS



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- Domestic credit grew further by 18.1 percent, y/y, in December compared to 17.3 percent in September mostly due to increased lending to the private sector (Chart 6).
- However, lending to Government has been generally declining in line with fiscal consolidation efforts (Chart 7).

Chart 6: Contribution to Y/Y Domestic Credit growth



# CREDIT DEVELOPMENTS



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- Notwithstanding the growth in credit, financial intermediation has been declining overtime (Chart 8)

Chart 7: Fiscal Deficit – Cash Basis (percent of GDP)

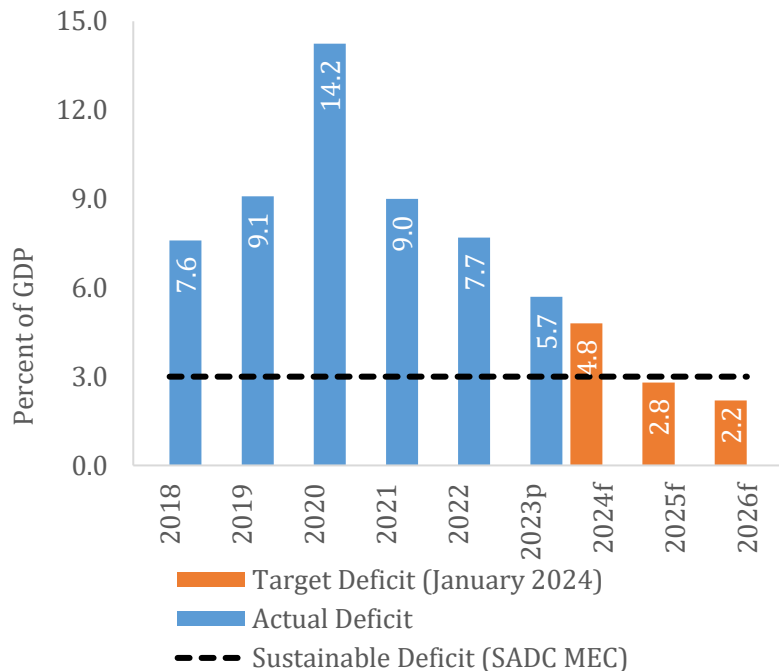


Chart 8: Loan-to-Deposit Ratio (percent)

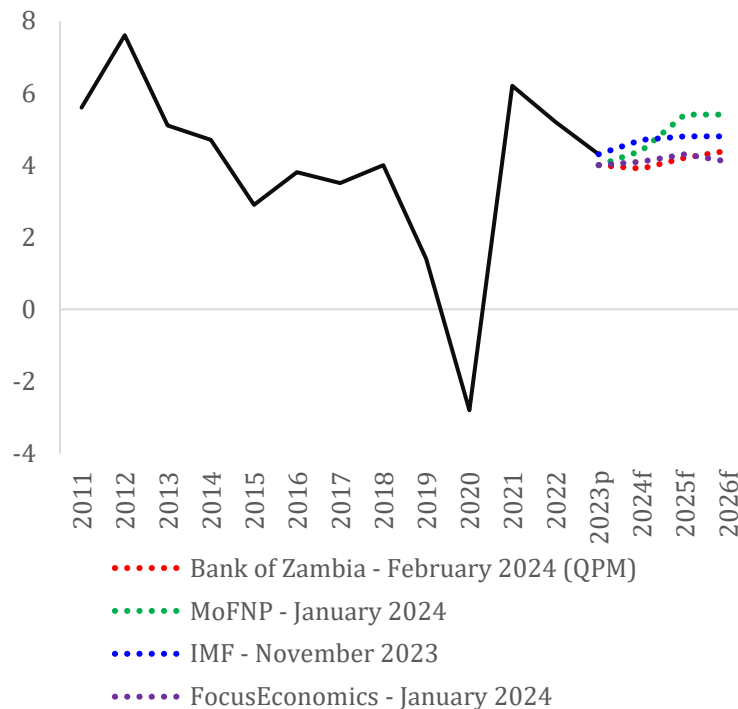


# ECONOMIC ACTIVITY



- **Economic activity increased in the fourth quarter of 2023 owing to seasonal demand which boosted sales and output in some sectors.**
- **Growth prospects are more optimistic over the medium-term relative to the November projection (Chart 9). This mainly reflects projected recovery in mining, agriculture as well as wholesale and retail sectors.**

**Chart 9: Real GDP Growth – Actual and Projected (Percent)**



## CONCLUSION

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- **The MPC decided to raise the Monetary Policy Rate by *150 basis points to 12.5 percent* to steer inflation towards the target band and anchor inflation expectations.**
- **In raising the Policy Rate, the Committee took into account the stability of the financial sector and the importance of robust growth over the medium- to long-term.**
- **Meanwhile, the Committee is encouraged by the continued fiscal consolidation efforts, progress on external debt restructuring, and improved prospects of increased investments, which are critical for the attainment and maintenance of sustainable macroeconomic stability.**

**THANK YOU FOR YOUR  
ATTENTION.**

**GOD BLESS...**