

MONETARY POLICY COMMITTEE STATEMENT FOR THE SECOND QUARTER OF 2023

GOVERNOR'S PRESENTATION TO THE MEDIA

AUGUST 23, 2023



Bank of Zambia

OUTLINE OF PRESENTATION



- 1. Decision of the Monetary Policy Committee**
- 2. Inflation Outturn and Outlook**
- 3. Foreign Exchange Market**
- 4. Current Account**
- 5. Interest Rates, Domestic Credit and Money Supply**
- 6. Domestic Economic Activity and Outlook**
- 7. Conclusion**

DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on August 21-22, 2023, the Monetary Policy Committee decided to raise the Monetary Policy Rate by 50 basis points to 10.00 percent.

- **The decision was informed by the movement of current and projected inflation away from the 6–8 percent target band and the need to contain inflation expectations.**
- **The Committee also took into account financial sector stability and sluggish growth in its decision.**

- **After declining for six consecutive quarters, inflation rose in Q2 2023 to an average of 9.9 percent from 9.6 percent in Q1 2023, moving away from the 6-8 percent target band (Table 1 and Chart 1).**
- **The lagged pass-through from the depreciation of the Kwacha against the US dollar, higher maize grain and meat prices, reduced supply of vegetables, and the upward adjustment in electricity tariffs explain this outturn.**
- **In July, inflation accelerated to 10.3 percent from 9.8 percent in June as some of the identified risks identified in the May Meeting materialised in Q2 2023.**

INFLATION OUTTURN

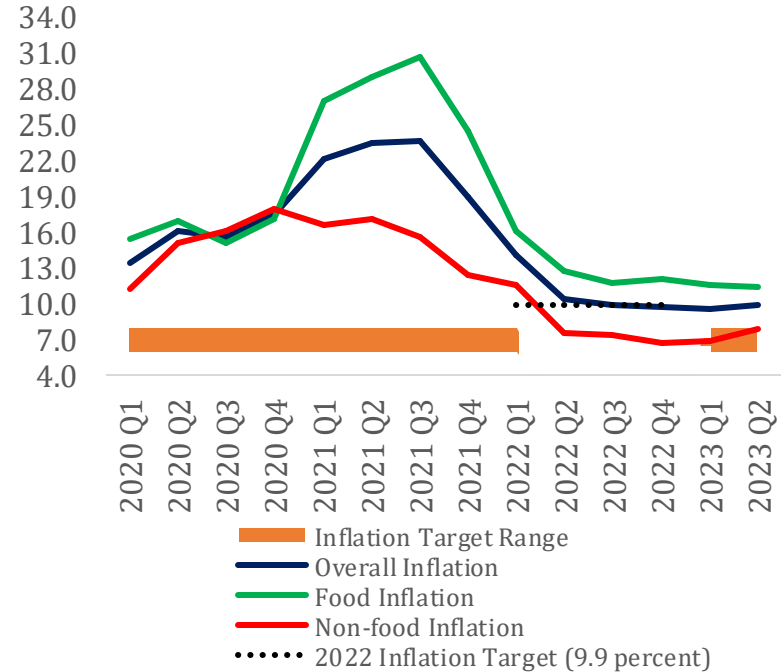


Table 1: Quarterly Average and end-Period Inflation Rate (percent)

Average	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Overall Inflation	10.5	9.9	9.8	9.6	9.9
Food Inflation	12.8	11.8	12.1	11.7	11.5
Non-food Inflation	7.5	7.4	6.8	6.8	7.9
End Period	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Overall Inflation	9.8	9.9	9.9	9.9	9.8
Food Inflation	11.9	12.1	11.9	11.8	11.2
Non-food Inflation	6.9	7.2	7.3	7.3	7.8

Source: Zambia Statistics Agency

Chart 1: Inflation and its Components (Percent)



INFLATION OUTLOOK

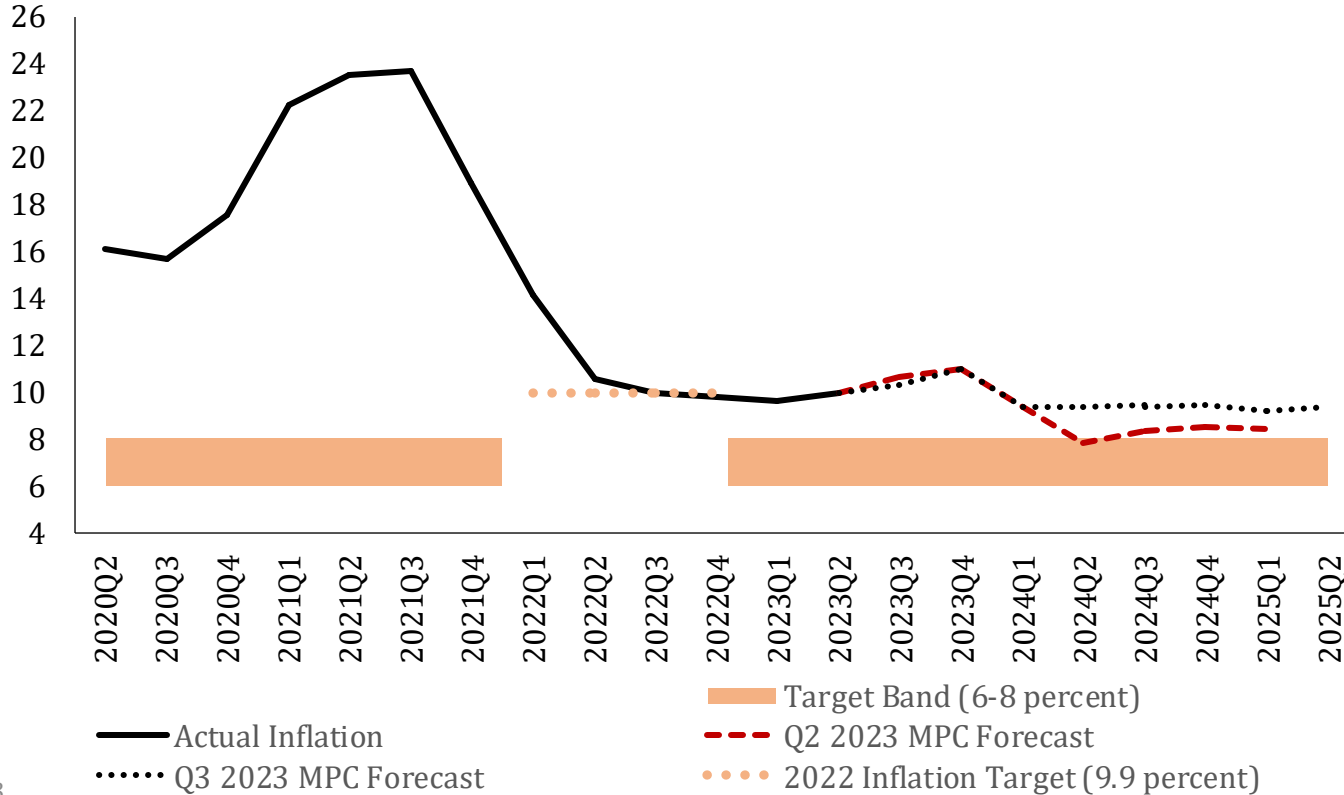


- **Inflationary pressures are expected to persist over the forecast horizon with inflation projected to remain above the 6-8 percent target band.**
- **In 2023, inflation is projected to average 10.2 percent, marginally lower than the 10.3 percent in the May forecast (Chart 2). However, in 2024, inflation is projected to average 9.3 percent, higher than the 8.4 percent projected in May 2023. In the first half of 2025, inflation is projected to remain unchanged at 9.3 percent.**
- **Elevated maize grain prices and tight global financial conditions are the key factors underlying the current inflation outlook.**
- **The foregoing factors as well as higher global food and energy prices due to the prolonged Russia-Ukraine war remain key upside risks to the inflation outlook.**

INFLATION OUTLOOK



Chart 2: Inflation Profiles (%)



FOREIGN EXCHANGE MARKET

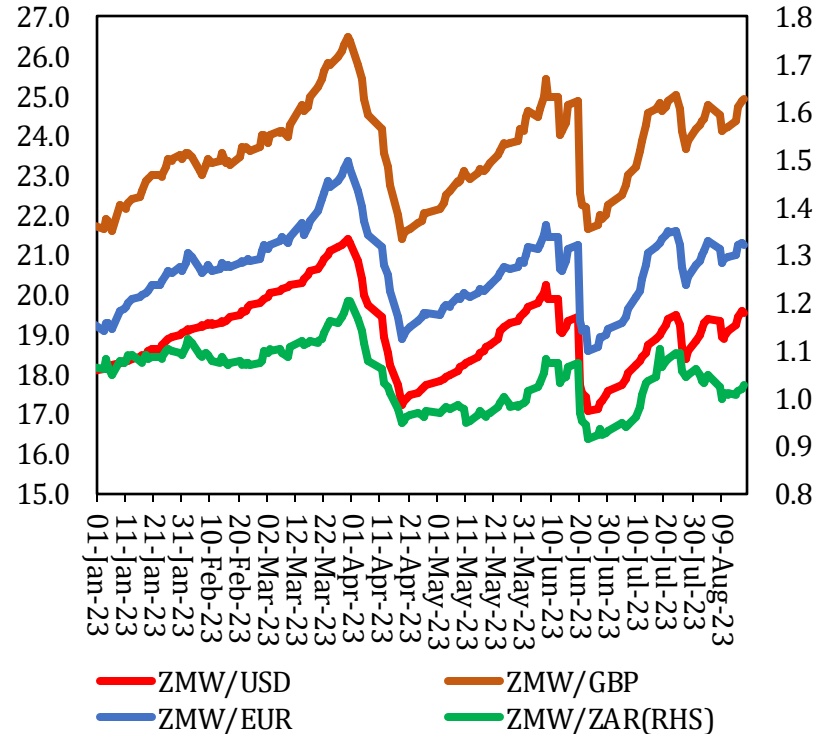


Whilst the Kwacha appreciated by 4.8 percent against the US dollar in the second quarter, it depreciated by 11.0 percent to K19.48 between end-June and August 22, 2023 (Chart 3).

Positive market sentiments related to external debt restructuring agreement reached with the Official Creditors to Zambia under the G20 Common Framework notwithstanding, the market has continued to be characterised by low supply of foreign exchange amid rising demand for foreign exchange as the economy recovers post-COVID-19 pandemic.

To moderate exchange rate volatility and support critical imports, the Bank continued to provide liquidity to the market. In this regard, US\$300 million was provided to the market, largely from mining sector tax receipts (US\$242 million).

Chart 3: Nominal Exchange Rates

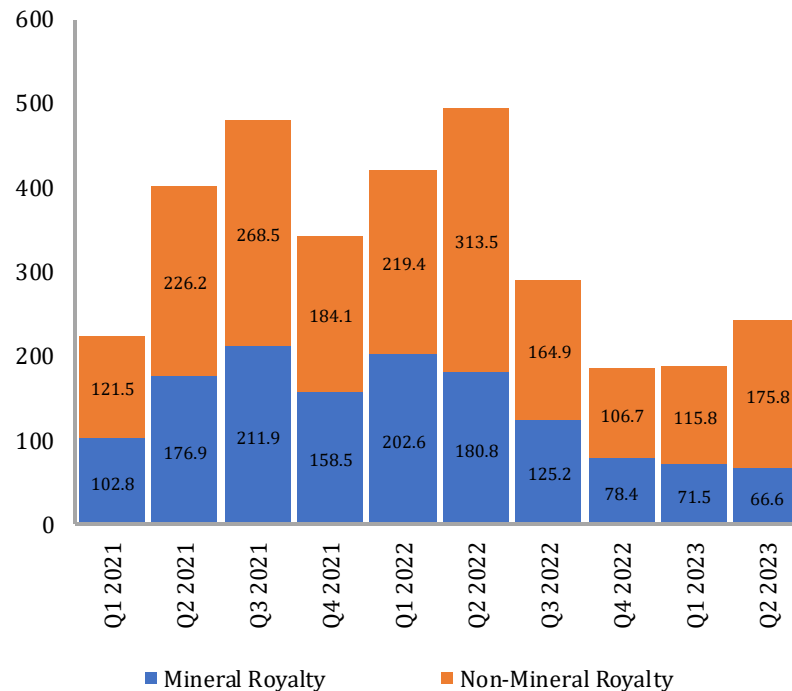


FOREIGN EXCHANGE MARKET



- In Q2 2023, mining tax receipts rose to US\$242.4 million from US \$187.3 million (Chart 4). These were, however, lower than in 2021 and 2022.
- Commercial banks' purchases of foreign exchange from the non-bank public rose by 7.3 percent to US \$1.8 billion.
- Commercial banks sold almost the same amount purchased from non-banks (Chart 5).

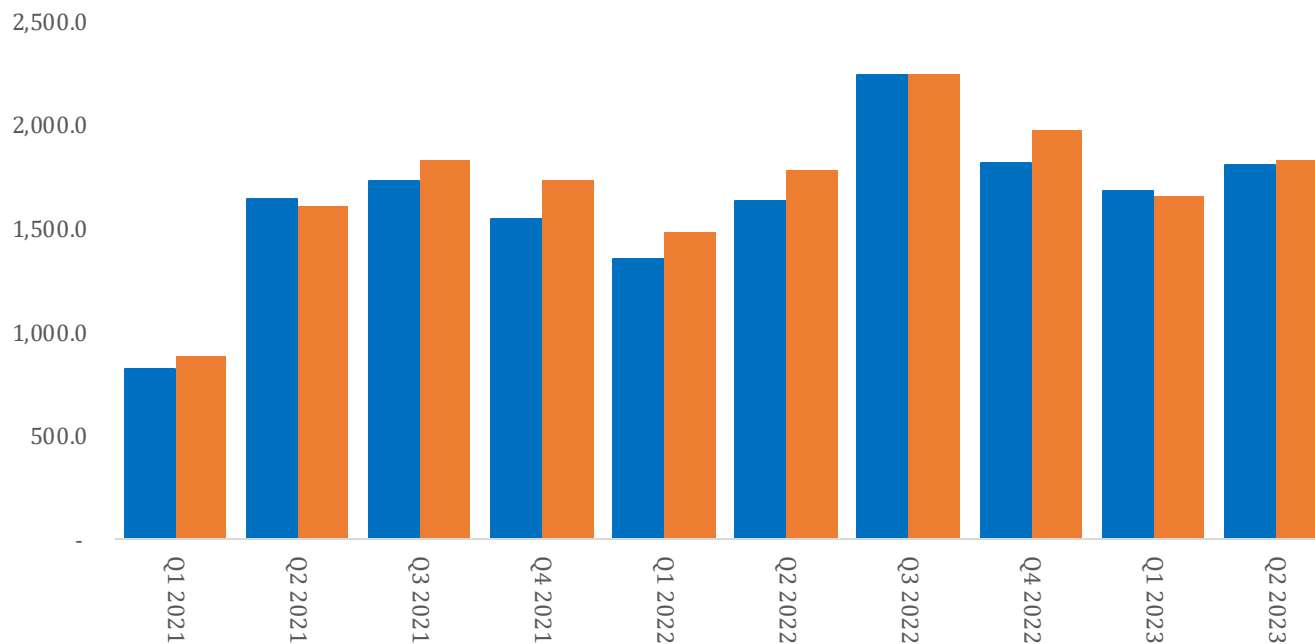
Chart 4: Mining Taxes Paid Directly to BoZ in US Dollars (US\$ million)



FOREIGN EXCHANGE MARKET



Chart 5: Commercial Banks' Purchases from and Sales to the Non-Bank Public (US\$' million)



■ Comm. Banks' purchases of foreign exchange ■ Comm. Banks' sales of foreign exchange

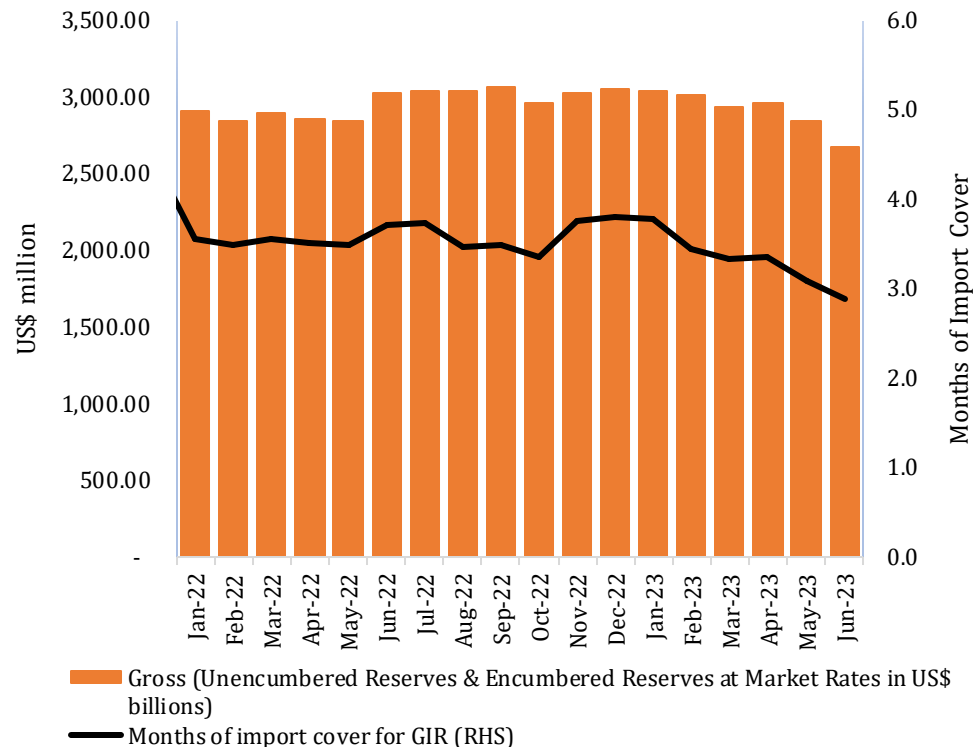
FOREIGN EXCHANGE MARKET



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- Bank of Zambia support to the market, coupled with Government uses of foreign exchange and external debt servicing, led to the decline in gross international reserves to US\$2.7 billion (equivalent to 2.9 months of import cover) at end-June 2023 from US\$2.9 billion (equivalent to 3.3 months of import cover) at end-March 2023 (Chart 6).

Chart 6: Gross International Reserves

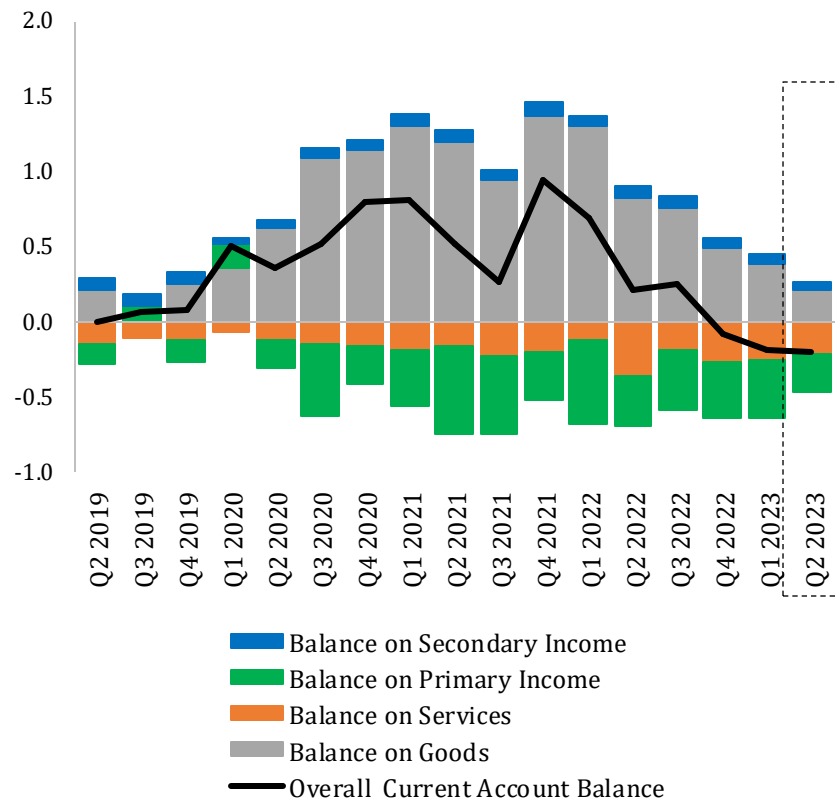


CURRENT ACCOUNT



- The *current account* deficit widened slightly to US\$198.1 million (3.1 percent of GDP) from US\$188.7 million (2.9 percent of GDP) in Q1 2023 (Chart 7).
- This was largely driven by the rise in imports as exports declined and credit on income attributable to financial corporations, non-financial corporations, and households reduced.
- For 2023, the *current account* is projected to record a deficit of US\$0.9 billion, mostly due to a sharp decline in export earnings, while imports continue to recover post-COVID-19 pandemic. However, the current account is projected to recover in the medium-term as net exports rebound.

Chart 7 : Current Account Balance



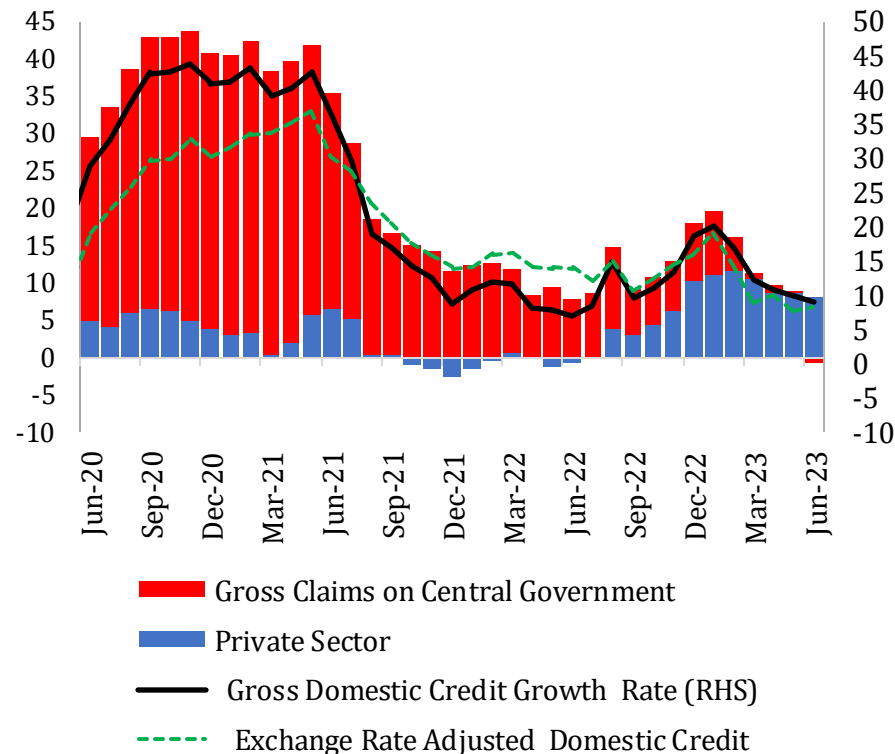
INTEREST RATES, DOMESTIC CREDIT AND MONEY SUPPLY



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- In Q2 2023, interest rates rose broadly in line with the upward adjustment in the Monetary Policy Rate in May 2023.
- The overnight interbank rate marginally increased to 9.39 percent at end-June from 9.26 percent at end-March. Over the same period, commercial banks' average lending rate edged upward to 25.7 percent from 25.5 percent.
- Growth in domestic credit and money supply slowed down to 9.1 percent and 17.5 percent, year-on-year, in June from 12.1 percent and 30.0 percent in March, respectively (Charts 8 and 9). This largely reflected the lower Kwacha value of foreign currency deposits following the appreciation of the exchange rate of the Kwacha against the US dollar (valuation effects).

Chart 8: Contribution to Y/Y Domestic Credit growth

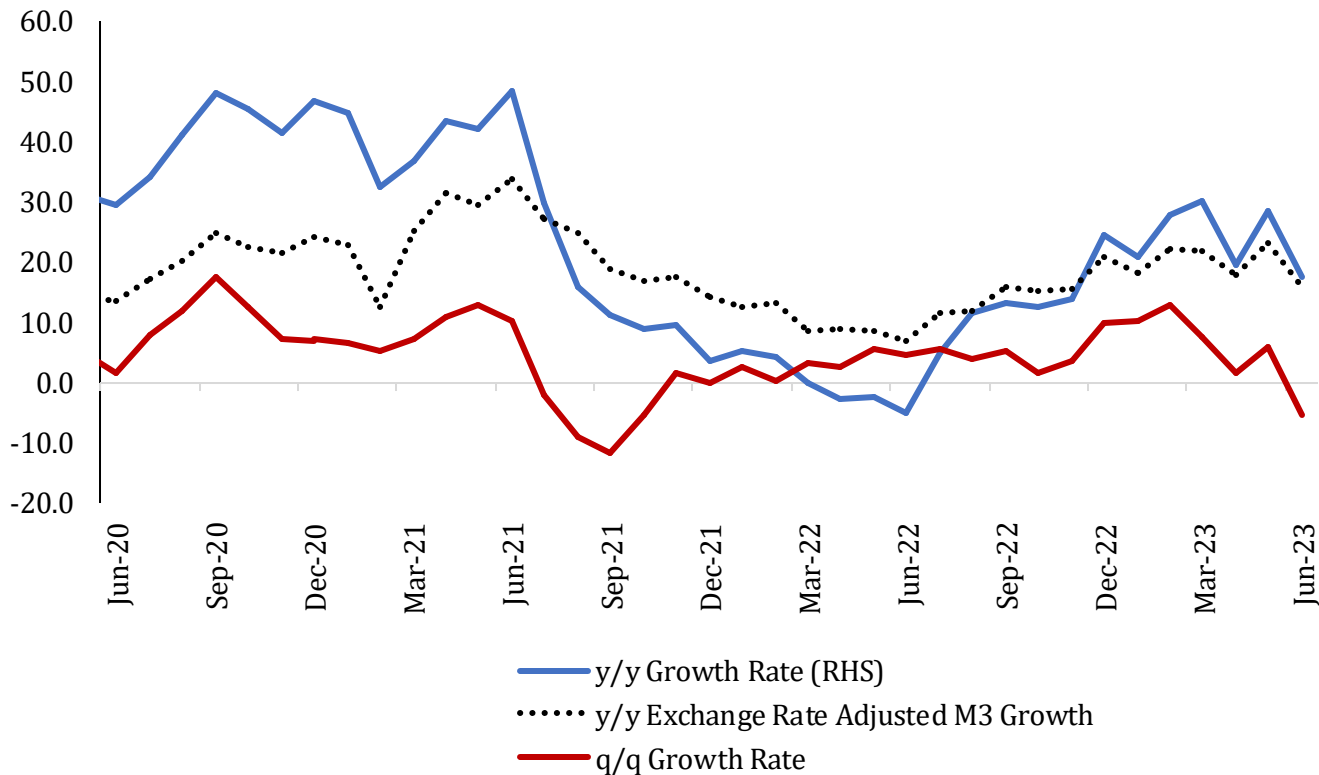


INTEREST RATES, DOMESTIC CREDIT AND MONEY SUPPLY



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Chart 9: Money Supply Growth Rate (percent)



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



- Preliminary information from the *August 2023 Bank of Zambia Quarterly Survey of Business Opinions and Expectations* (Chart 10) and the *Stanbic Bank Zambia PMI* (Chart 11) point to improved economic activity in the second quarter of 2023. However, the QSBOE and PMI suggests a potential slowdown in economic activity in Q3 due to the decline in output in some sectors.

Chart 10 : Business Opinions Survey Responses

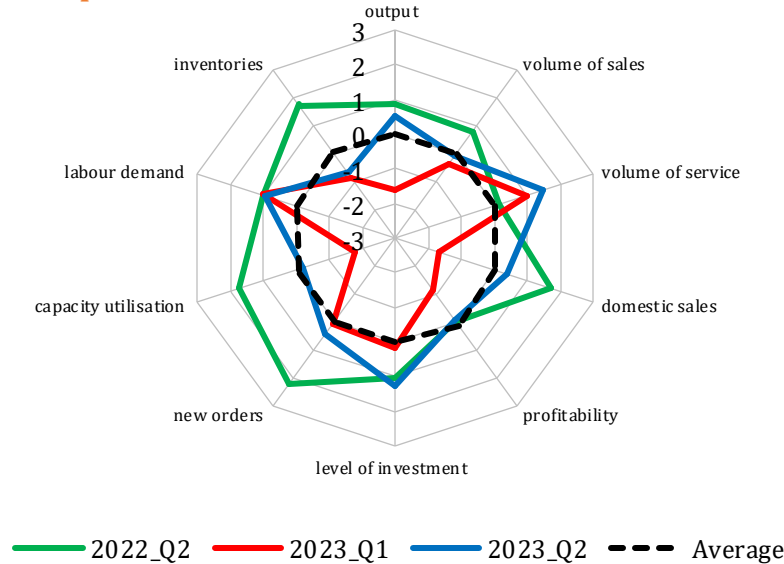
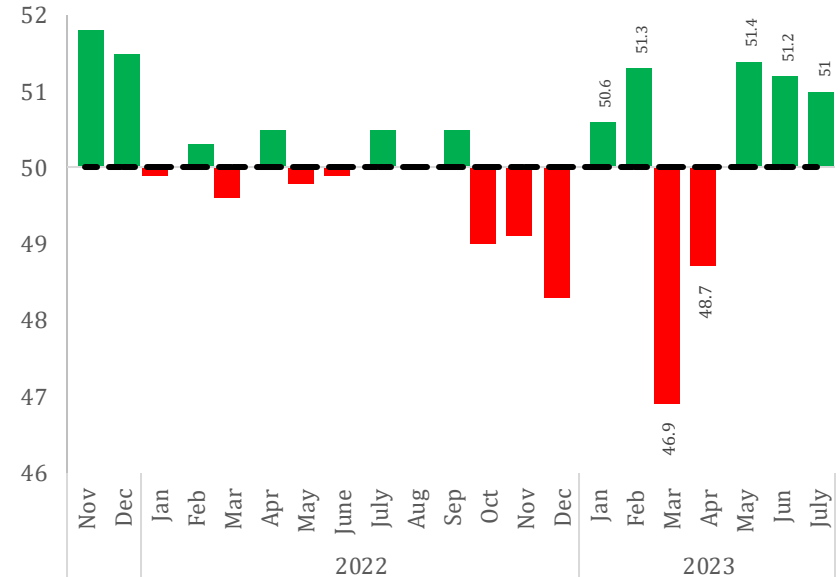


Chart 11: Purchasing Managers Index

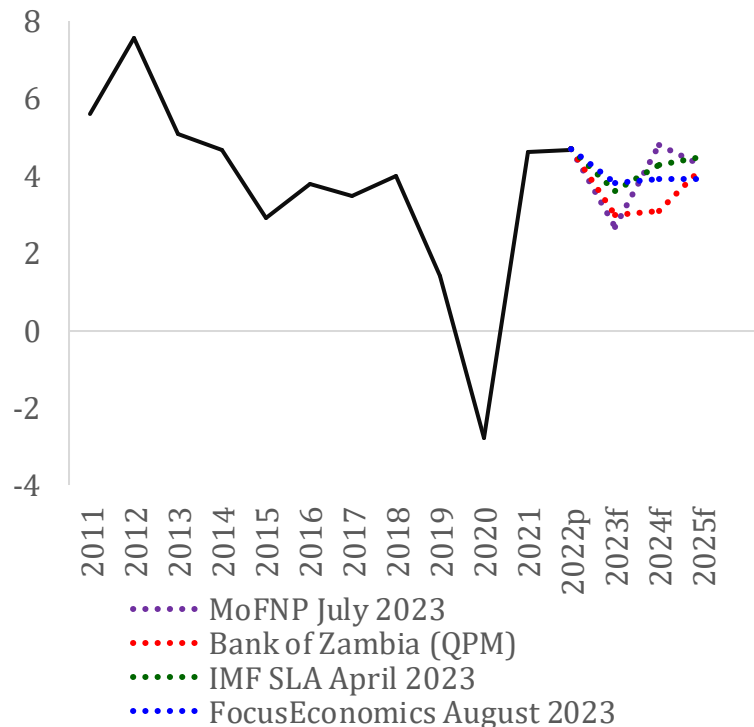


DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



- In 2023, GDP growth is projected to be lower due to a further contraction in the mining sector as well as the slowdown in the education and electricity sectors (Chart 12).
- However, growth is expected to pick-up over the medium-term (2024-2025), underpinned by the projected recovery in the mining sector and sustained growth in the information and communications, financial and insurance as well as wholesale and retail trade sectors.

Chart 12: Real GDP Growth – Actual and Projected (percent)



CONCLUSION



- **To reiterate, the MPC decided to raise the Monetary Policy Rate by *50 basis points to 10 percent*. This is in recognition that inflation not only persisted above the 6 - 8 percent target band during the second quarter, but moved further away from the target in July 2023.**
- **It is currently projected to remain above the target band over the forecast horizon. Left unchecked, this would undermine the gains already made in restoring macroeconomic stability.**
- **The Committee recognises the significant structural reforms undertaken by the Government, which are reflected in lower fiscal deficits, external debt restructuring, and broader efforts to promote investment and private sector led growth.**
- **Monetary policy can best support these efforts by steering inflation back to the target band and anchoring inflation expectations. This is consistent with the Bank of Zambia mandate to achieve and maintain price and financial system stability.**
- **The Committee noted that the financial sector exposure to systemic risk is moderate, and it will remain relatively well capitalised. Further, the Bank is undertaking financial sector reforms that will support financial intermediation and inclusion. These measures will support the entrenchment of macroeconomic stability and the structural reforms being undertaken by the Government.**

Decisions on the Policy Rate will continue to be guided by inflation outcomes, forecasts, and identified risks, including those associated with financial stability and external debt restructuring.

THANK YOU...

GOD BLESS...