

MONETARY POLICY COMMITTEE STATEMENT FOR THE THIRD QUARTER OF 2022

GOVERNOR'S PRESENTATION TO THE MEDIA

NOVEMBER 23, 2022



Bank of Zambia

OUTLINE OF PRESENTATION



- 1. Decision of the Monetary Policy Committee**
- 2. Global Economic Growth**
- 3. Domestic Economic Activity and Outlook**
- 4. Inflation Outturn and Outlook**
- 5. Interest Rates**
- 6. Domestic Credit**
- 7. Money Supply**
- 8. Government Securities Market**
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DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on November 21-22, 2022, the Monetary Policy Committee decided to maintain the Policy Rate at 9.0 percent.

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

- **projected continued downward trend in inflation and its eventual return to the 6-8 percent target range in the first quarter of 2024;**
- **progress made on debt restructuring under the G-20 Common Framework that paved way for the IMF approval of the Extended Credit Facility (ECF) which is expected to lead to conclusion of debt restructuring negotiations over the first half of 2023. This will have a significant positive impact on the budget, market sentiments, and mitigate upside risks to the inflation outlook; and**
- **sluggish growth and some vulnerabilities in the financial sector.**

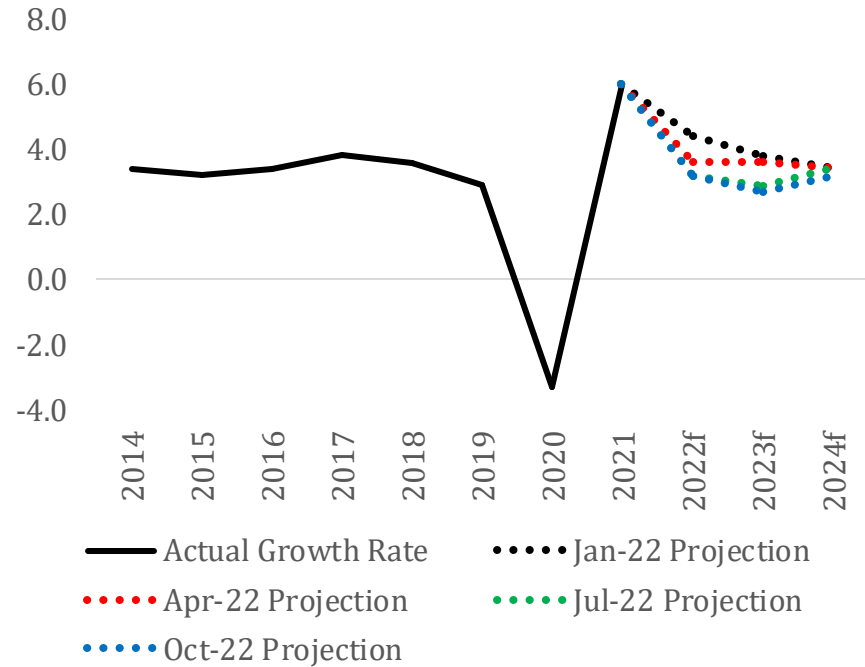
GLOBAL ECONOMIC GROWTH

In October, while the IMF maintained global growth for 2022 at 3.2 percent, it further revised growth for 2023 downward by 0.2 percentage points to 2.7 percent.

The downward revision was due to:

- high cost-of-living occasioned by persistent inflationary pressures;
- tighter global financial conditions following contractionary monetary policies by central banks in major economies;
- adverse impact from the prolonged Russia-Ukraine conflict; and
- recurring COVID-19 containment measures and the real estate downturn in China.

Chart 1: Pre- and Post-COVID-19 Global GDP Growth Projections (annual, percent)



Source: IMF World Economic Outlook, October 2022

COMMODITY PRICES

Commodity prices recorded broad-based declines in the third quarter (Table 1).

Weak demand arising from slowing global growth, a stronger US dollar and improved supply of some agricultural commodities weighed on prices.

Table 1: Commodity Prices (Quarterly averages)

	Q3 2021	Q4 2021	Q4 2022	Q2 2022	Q3 2022
Copper (US\$ per ton)	9,381.9	9,703.1	9,985.5	9,521.0	7,758.6
Crude Oil (US\$ per barrel)	71.4	77.9	96.5	108.9	96.4
Maize (US\$ per tone)	256.9	251.0	301.6	342.9	308.4
Wheat (US\$ per ton)	318.8	370.3	417.0	492.4	394.4
Cotton (US\$ per kg)	2.2	2.7	3.0	3.5	2.7
Soybeans (US\$ per ton)	581.3	552.4	662.8	727.3	671.1
Sugar (US\$ per kg)	0.42	0.42	0.41	0.43	0.40

Source: World Bank Pink Sheet

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



The *[Stanbic Purchasing Manager's Index \(PMI\)](#)* signalled an improvement in the business environment for the private sector as it averaged 50.5 during the quarter compared to 50.0 in the previous period (Chart 2).

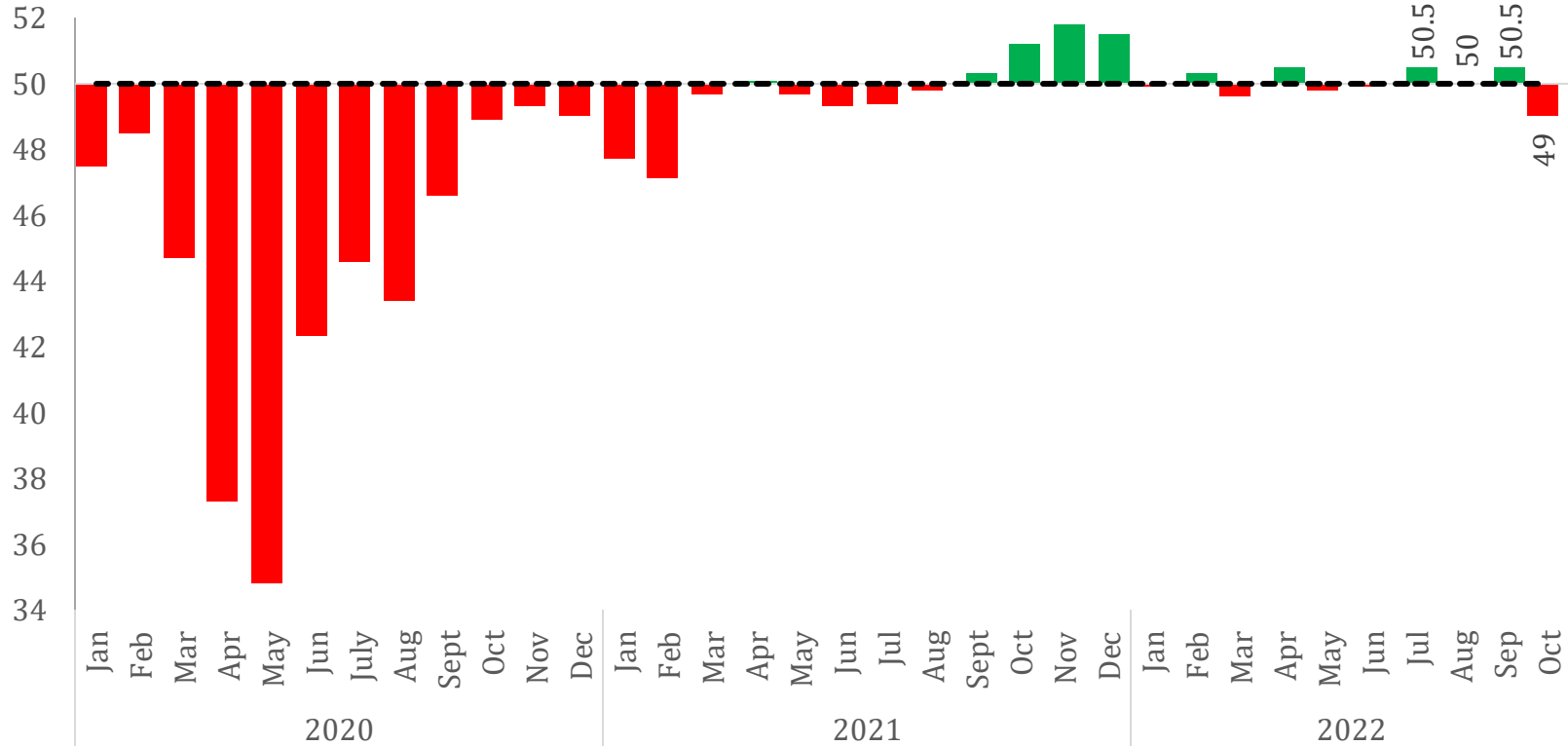
In October 2022, however, the PMI reduced to 49.0 reflecting a deterioration in the business environment.

Further, the November 2022 *[Bank of Zambia Quarterly Survey of Business Opinion and Expectations](#)* points to a sluggish performance in economic activity in the third quarter, as most firms reported a decline in *output, domestic sales, new orders, capacity utilisation*, and level of investment on account of high borrowing costs (Chart 3).

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 2: Purchasing Manager's Index for Zambia

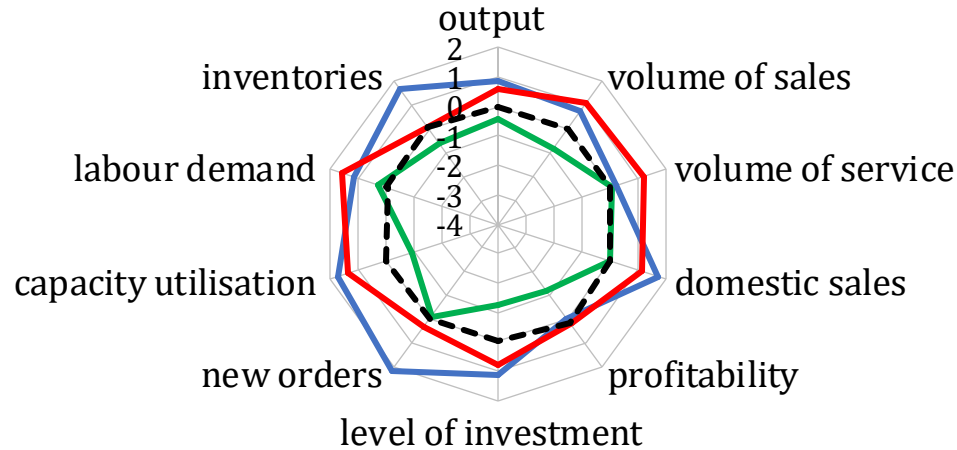


DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 3: Business Opinions Survey Responses

— 2021_Q3 — 2022_Q2 — 2022_Q3 - - - Average



*Note: The Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black dotted circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



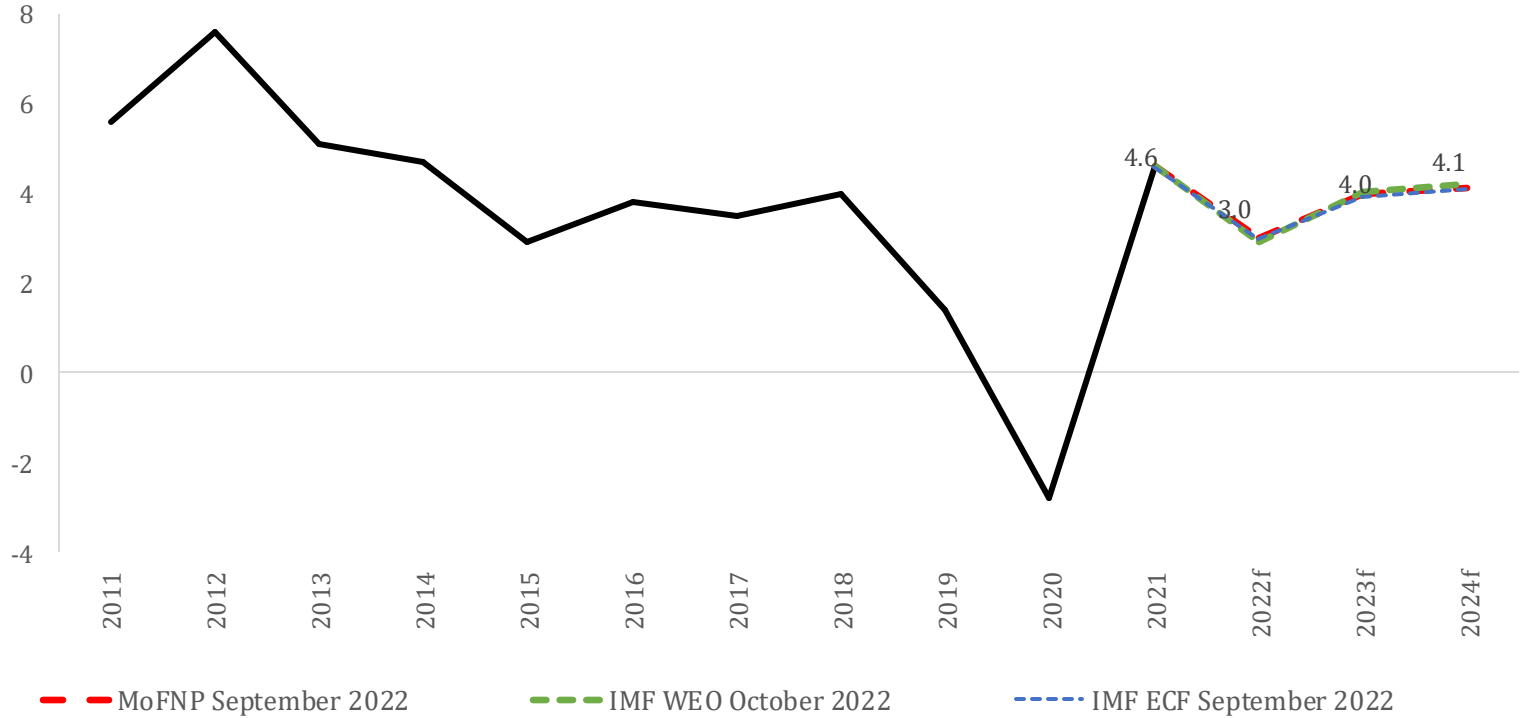
For 2022 as a whole, the economy is expected to expand by 3.0 percent. In 2023 and 2024, the economy is projected to grow by 4.0 percent and 4.1 percent, respectively (Chart 4).

The financial and insurance, information and communications, wholesale and retail trade, mining and quarrying, agriculture, as well as education sectors underpin the projected growth.

The key downside risks to the growth outlook, include tighter global financial conditions, increases in energy and food prices, mainly induced by the Russia-Ukraine conflict, and lingering adverse effects of the COVID-19 pandemic.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Chart 4: Actual Annual Real GDP Growth and Forecast (percent)



Source: : Ministry of Finance and National Planning, Zambia Statistics Agency and IMF

INFLATION OUTTURN AND OUTLOOK



- **Annual average overall inflation declined to 9.9 percent in the third quarter from 10.5 percent in the second quarter (Table 2).**
 - **The pass-through from the appreciation of the Kwacha against the US dollar and improved supply of food, particularly meat products, largely explain the slowdown in inflation (Chart 5).**
- **Average food and non-food inflation declined to 11.8 percent and 7.4 percent from 12.8 percent and 7.5 percent, respectively (Chart 6).**
- **In October, inflation declined to 9.7 percent from 9.9 percent in September. This was largely due to the lagged impact of the appreciation of the Kwacha against the US dollar on prices of several non-food products and the dissipation of base effects from solid fuels.**

INFLATION OUTTURN AND OUTLOOK



Table 2: Inflation outcomes (%)

Quarterly Average	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Overall Inflation	23.7	18.9	14.1	10.5	9.9
Food Inflation	30.8	24.5	16.1	12.8	11.8
Non-food Inflation	15.6	12.5	11.6	7.5	7.4
Quarterly End Period	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Overall Inflation	22.1	16.4	13.1	9.7	9.9
Food Inflation	29.6	19.9	15.3	11.9	12.1
Non-food Inflation	13.6	12.1	10.3	6.9	7.2

INFLATION OUTTURN AND OUTLOOK



Chart 5: Top 11 CPI Sub-groups with Largest Reduction in Contribution to Overall Inflation (Percentage points)

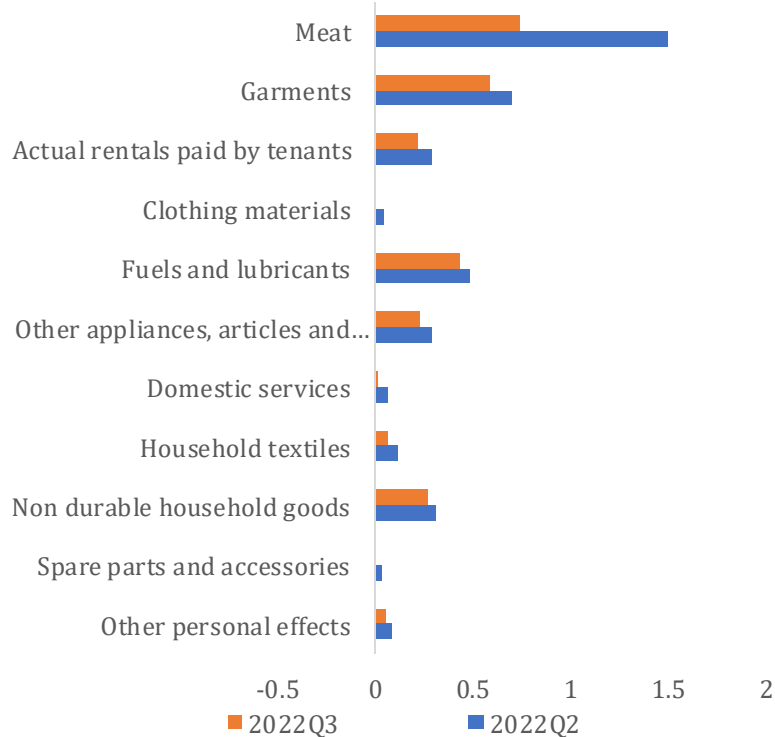
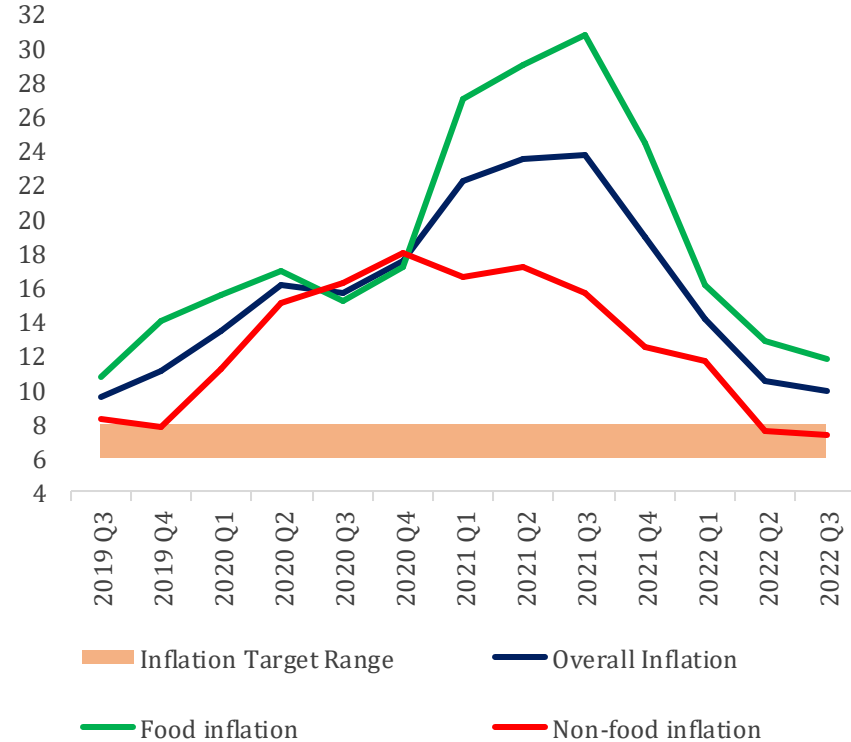


Chart 6: Inflation and its Components, y-o-y (%)



INFLATION OUTTURN AND OUTLOOK

Inflation is projected to maintain its downward trend and return to the target range of 6-8 percent in the first quarter of 2024. However, the current projection shows a slightly higher inflation path than was anticipated at the August MPC Meeting. The deterioration in the global economic environment has adversely affected copper prices, export earnings, and capital flows. All these have exerted pressure on the exchange rate, which in turn is contributing to the elevated projected inflation.

In 2022 and 2023, inflation is expected to average 11.3 percent and 8.5 percent, respectively. In the first three quarters of 2024, inflationary pressures are expected to recede with inflation averaging 7.9 percent.

Key upside risks to the inflation outlook include:

- **tighter global financial conditions;**
- **adverse impact from the prolonged Russia-Ukraine conflict, including on copper prices;**
- **possible increase in electricity tariffs following publication of the Cost of Service Study;**
- **higher domestic maize prices heightened by regional demand; and**
- **lingering COVID-19 effects.**

INTEREST RATES

- **The commercial banks' lending rate and 180-day deposit rate for amounts exceeding K20,000 were broadly unchanged at 25.2 percent and 7.0 percent, respectively (Chart 7).**
- **However, yield rates on Government Securities increased to 14.1 percent and 24.1 percent from 13.1 percent and 22.1 percent for Treasury bills and Government bonds, respectively.**
- **With regard to the average interbank rate, it was maintained within the Policy Rate Corridor and remained unchanged at 8.9 percent (Chart 8).**

INTEREST RATES



Chart 7: Nominal Interest Rates (Percent)

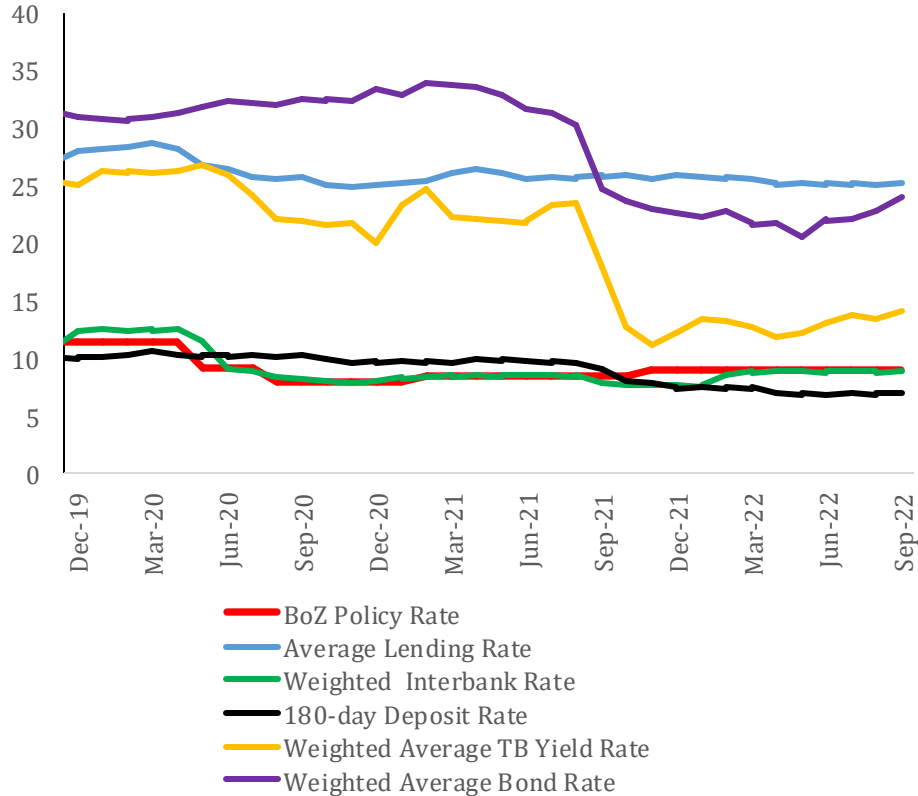
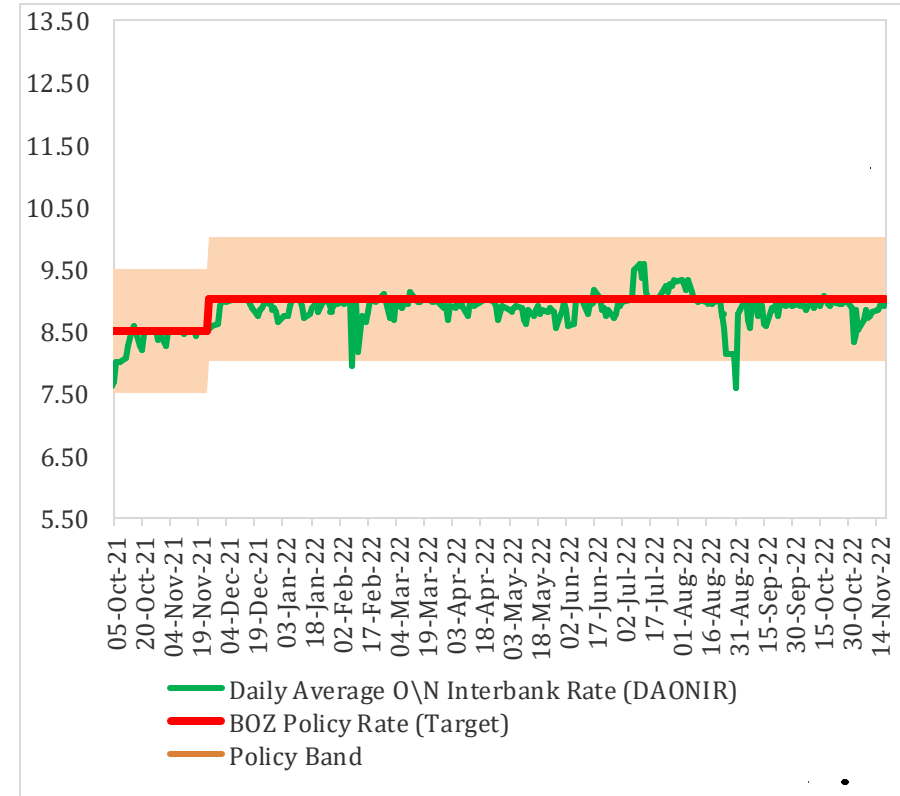


Chart 8: Interbank Rate and BoZ Policy Rate (Percent)



Source: Bank of Zambia

DOMESTIC CREDIT



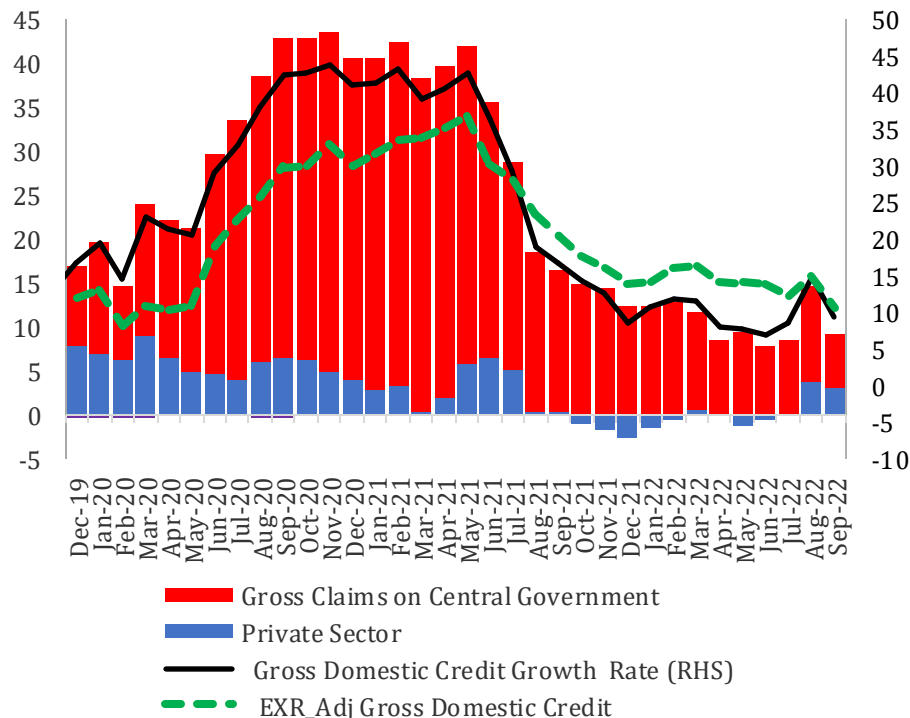
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In September, domestic credit grew by 9.5 percent, year-on-year, compared to 6.8 percent in June (Chart 9).

This was largely attributed to some recovery in lending to the private sector, particularly in foreign currency.

The latter was primarily driven by increased capital investments in the manufacturing and mining sectors.

Chart 9: Contribution to Y/Y Domestic Credit growth



Source: Bank of Zambia

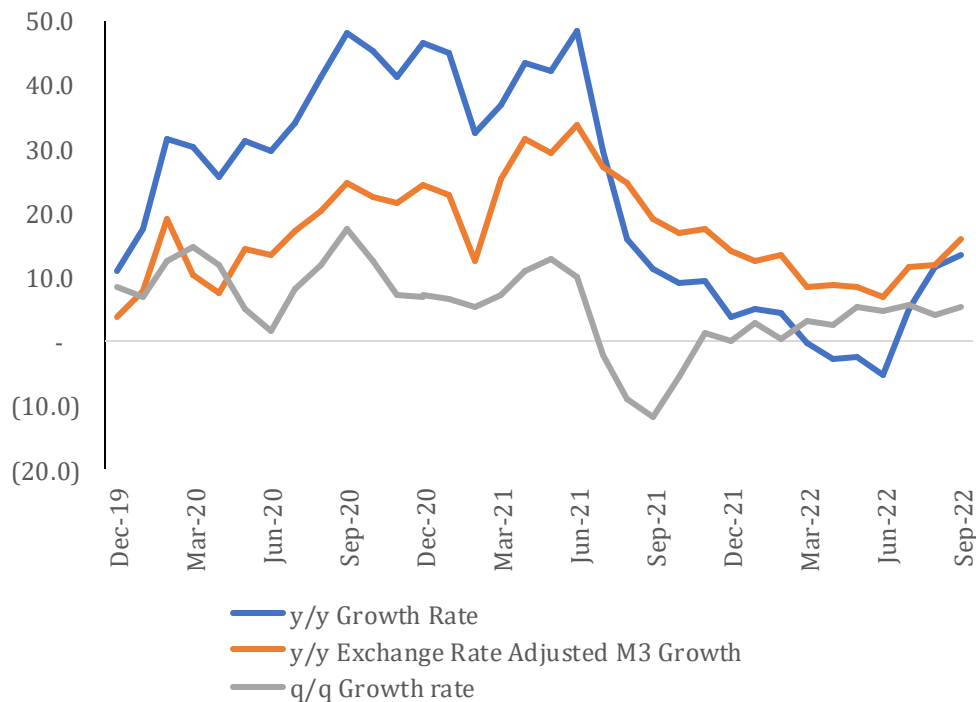
MONEY SUPPLY



Money supply (M3) growth rebounded, rising by 13.3 percent, year-on-year, in September compared to a contraction of 5.2 percent, year-on-year, in June (Chart 10).

This was mainly on account increased credit to the private sector.

Chart 10: Money Supply Growth (y/y), Percent



Source: Bank of Zambia

GOVERNMENT SECURITIES MARKET

Demand for treasury bills moderated on account of lower liquidity levels.

The subscription rates for Government bonds and Treasury bills were 115 percent and 71.8 percent compared to 90 percent and 73.4 percent in the previous quarter, respectively.

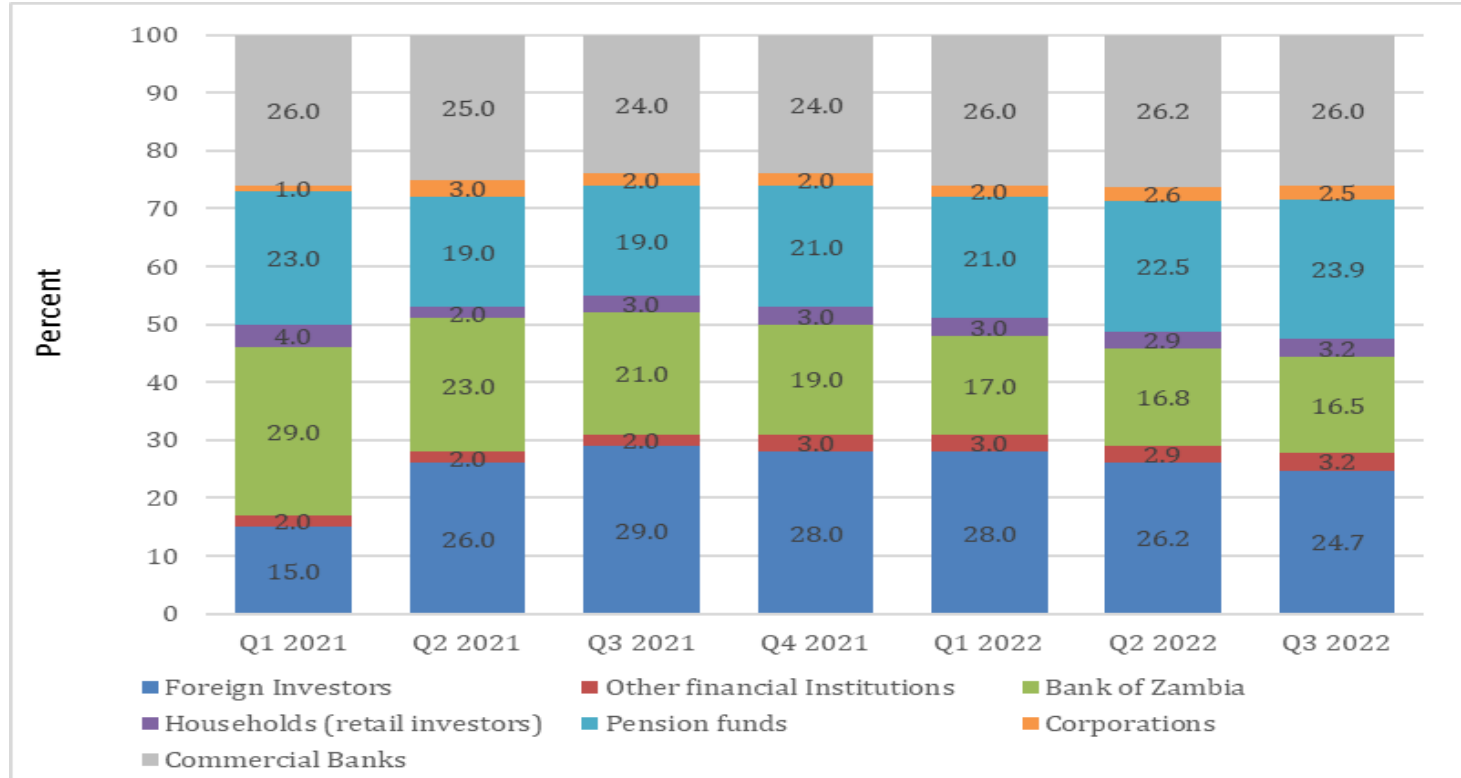
The stock of outstanding Government securities increased to K207.5 billion from K203.3 billion in the previous quarter

Non-resident holdings of Government securities fell further to 24.7 percent from 26.2 percent of the outstanding stock in the previous quarter (Chart 11).

GOVERNMENT SECURITIES MARKET



Chart 11: Government Securities Holdings by Investor (percent)



- **Preliminary data indicate that both revenue and expenditure were lower than projected in the third quarter. Falling copper prices negatively affected revenue while expenditure was lower mainly due to the standstill on external debt servicing.**
- **In the medium-term significant fiscal risks remain, particularly on revenue performance. These include lower copper prices and weak global demand. Maintaining fiscal discipline will continue to be a strong anchor for macroeconomic stability and sustainable growth.**

CURRENT ACCOUNT



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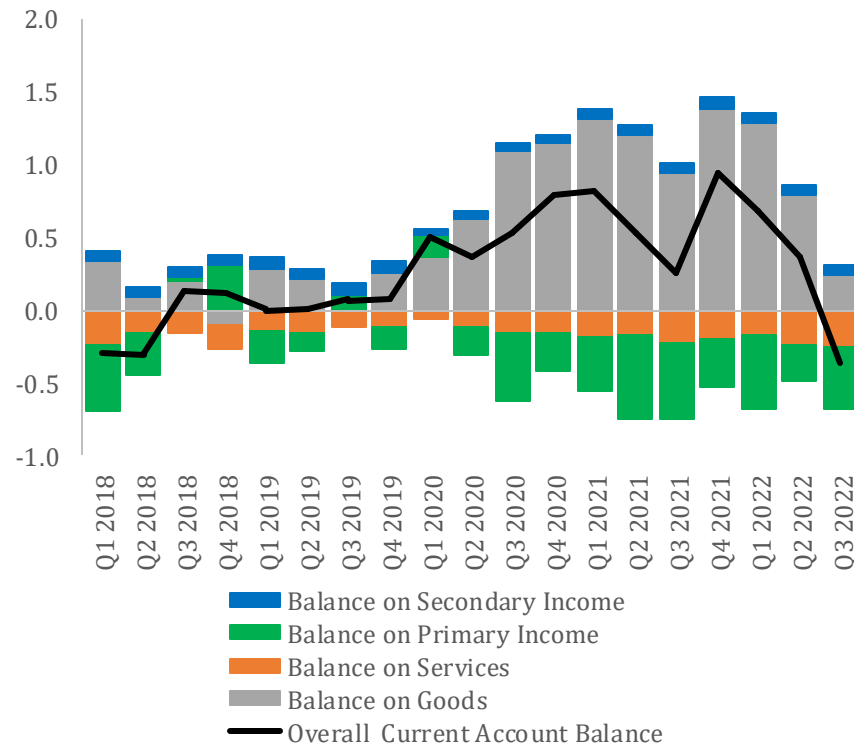
For the first time since the second quarter of 2018, a *current account* deficit of US\$0.4 billion (4.9 percent of GDP) was recorded in Q3 2022 from a surplus of US\$0.2 billion (2.6 percent of GDP) in the previous quarter (Chart 12).

This reflected a significant reduction in net merchandise exports as well as expansion of deficits in the *services and primary income accounts*.

Exports declined by 19.3 percent to US\$2.3 billion while imports decreased by a marginal 0.7 percent to US\$2.1 billion.

The *services account* deficit widened on account of increased expenditure on transportation.

Chart 12 : Current Account Balance



Source: Bank of Zambia

GROSS INTERNATIONAL RESERVES

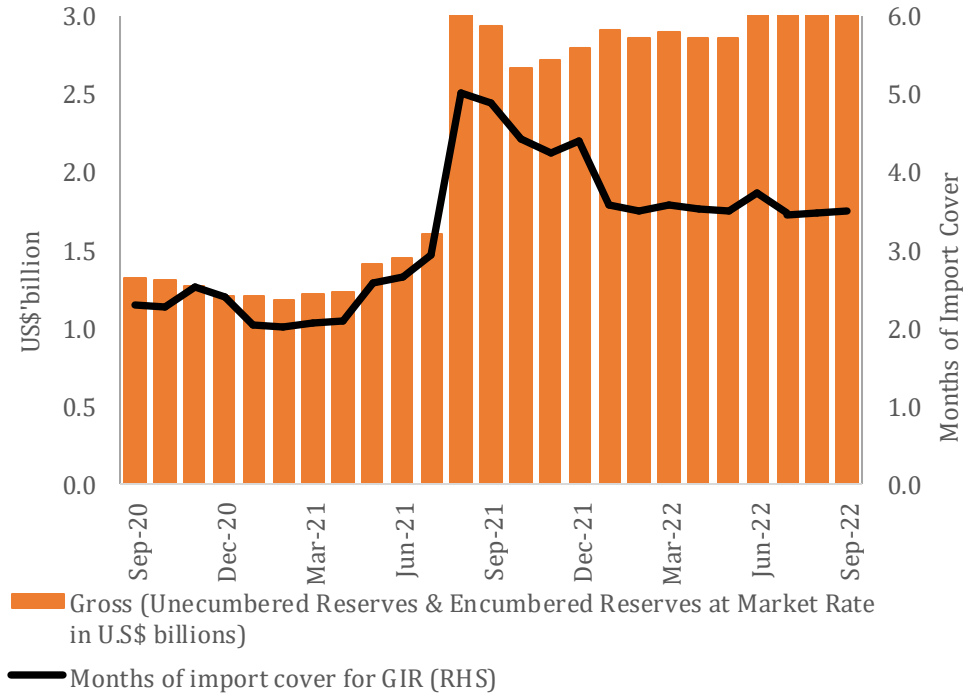


Gross International Reserves marginally rose to US\$3.1 billion at end-September from US\$3.0 billion at end-June (Chart 13).

Mining tax payments and receipt of project funds were the primary sources of foreign exchange inflows.

In terms of import cover, however, the months of import cover was lower at 3.5 in September compared to 3.7 in June following the upward revision to prospective imports for 2022.

Chart 13 : Gross International Reserves

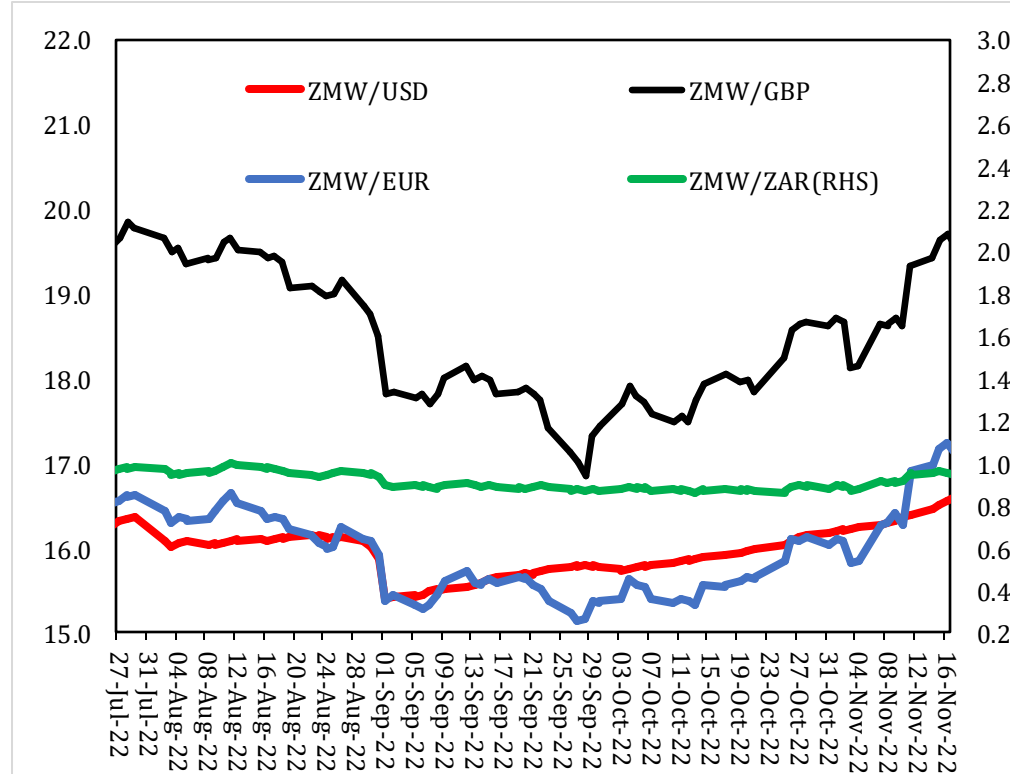


Source: Bank of Zambia

FOREIGN EXCHANGE MARKET

- The Kwacha appreciated by 6.6 percent against the US dollar to an average of K16.02 (Chart 14).
- The appreciation was on account of positive market sentiments stemming from the approval of the IMF Extended Credit Facility on August 31, 2022.
- However, demand pressures that emerged in September for the procurement of agricultural and petroleum products have intensified in the fourth quarter. This has led to the depreciation of the Kwacha against the US dollar to K16.69 as at November 22, 2022.
- To address the underlying volatility and support importation of critical agricultural and petroleum products, the Bank of Zambia has had to provide US\$333.5 million to the market, primarily from the mining tax receipts. For the year-to-date, a total of US\$1.3 billion of the mining receipts has been provided to the market.

Chart 14: Nominal Exchange Rates



CONCLUSION



- **The MPC decided to maintain the Monetary Policy Rate at 9.0 percent. This decision was arrived at after a careful consideration of either to raise the Policy Rate or to maintain it at 9.0 percent.**
- **Inflation is still projected to remain above the target range until the first quarter of 2024. The tightening in global financial conditions as well as the precipitous fall in copper prices and earnings have contributed to a slightly higher inflation path over the forecast horizon than was anticipated in the August MPC meeting. Under these circumstances, the MPC pondered on raising the Policy Rate in order to bring inflation within 6-8 percent by the end of 2023.**
- **However, progress is being made on Zambia's debt restructuring efforts, under the G-20 Common Framework, albeit slower than desired. The IMF approved the Extended Credit Facility (ECF) in August 2022. Since then, there has been intensified engagements with the Official Creditor Committee and the private creditors with the goal of completing the debt restructuring by the first quarter of 2023. This is expected to have a significant positive impact on the budget, market sentiments, and mitigate some of the identified upside risks to the inflation outlook, such as, tighter global financial conditions, the adverse impact of the Russia-Ukraine conflict, and lingering COVID-19 effects.**
- **It is against this background that the Committee decided to maintain the Policy Rate at 9.0 percent. In addition, the Committee took into account the sluggish growth and some vulnerabilities in the financial sector.**

THANK YOU...

GOD BLESS...