



NATIONAL SYMPOSIUM ON THE 2025 BUDGET

KEY MONETARY POLICY HIGHLIGHTS

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Deputy Governor
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Bank of Zambia

Key Tasks set out in the 2025 Budget Speech for the Bank Of Zambia



- Reduce inflation to the 6-8 percent medium-term target band;
- Establish a deposit protection fund to safeguard depositors in the event of insolvency;
- Roll-out a Credit Guarantee Scheme to enhance SME access to affordable finance;
- Introduce a Bank of Zambia Facility to mitigate impact of the drought on agriculture and energy sectors;
- Maintain a flexible exchange rate regime;
- Maintain international reserves above 3 months of import cover (4 months end-2024 and 5 months end-2025);
- Issue currency regulations to reinforce the role of the Kwacha as legal tender in domestic transactions in line with the provisions of the Bank of Zambia Act, 2022;
- Enhance the Export Proceeds Tracking Framework including services and imports; and
- Pilot of extension of operating hours of the RTGS for 6 months, beginning October 2024. This is aimed at supporting a 24-hour economy.

Is the inflation, exchange rate and cost of money trajectory consistent with the governments desire to build resilience for inclusive growth and improved livelihood in 2025?



- One of the key policy macroeconomic objectives in the 2025 National Budget is to reduce inflation to the 6-8 percent target band in the medium-term.
- The current inflation rate is high relative to the desired target of 6-8 percent. To bring inflation back to target has entailed tightening monetary policy by raising the Policy Rate and statutory reserve ratio. This has contributed to the rise in lending rates. This is inevitable in the short-term to contain inflationary pressures and bring inflation back to the 6-8 percent target band in the medium-term.
- In 2023 and 2024, the Bank implemented the following measures to curb inflationary pressures which began mounting in February 2023:
 - a) Raised the Monetary Policy Rate (MPR) by 250 basis points to 13.5 percent; and
 - b) Increased the statutory reserve ratio by 18.5 percentage points to 26.0 percent.

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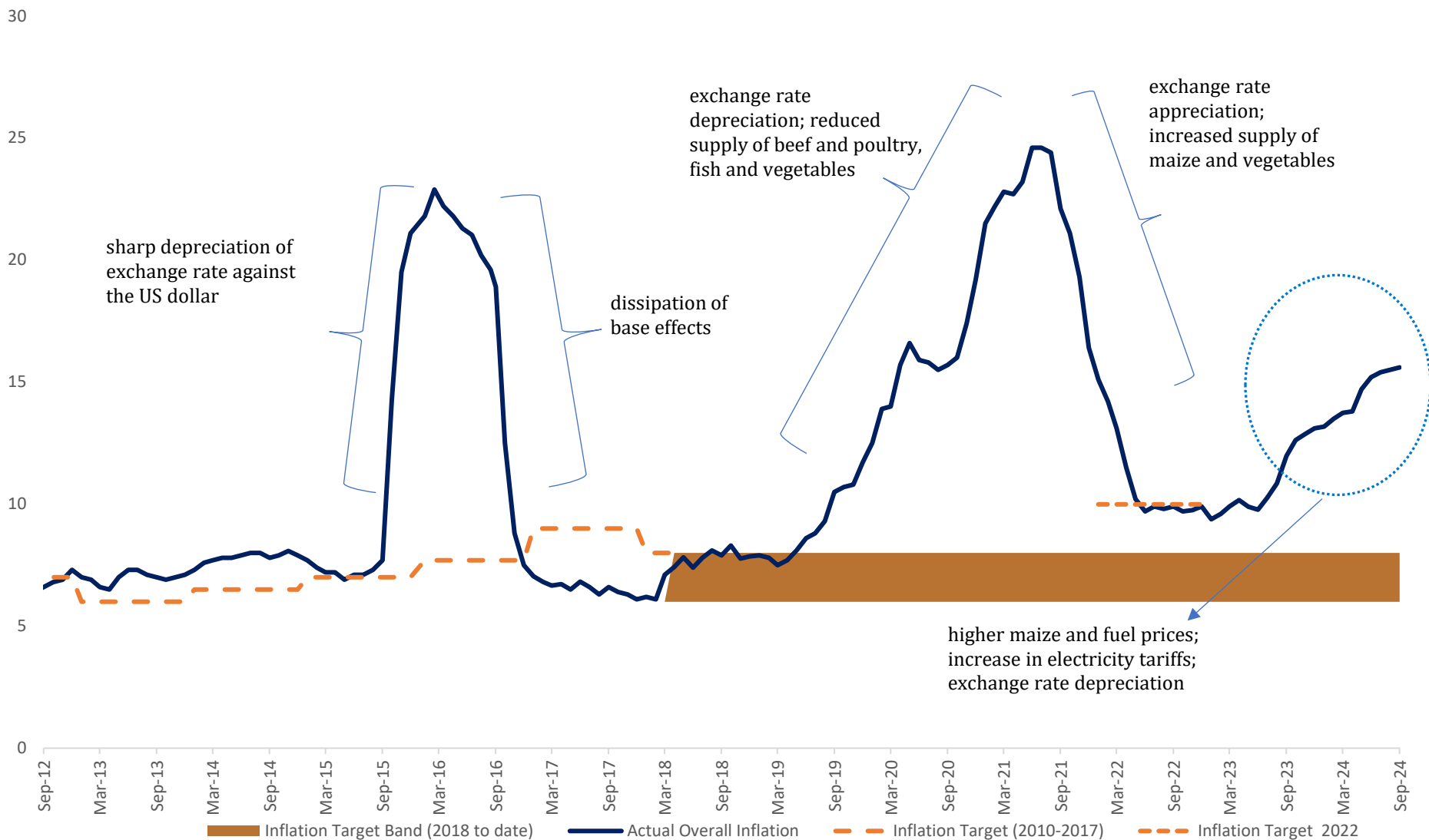


- Furthermore, the Bank issued Foreign Exchange Market Guidelines in May 2024 and amended the Interbank Foreign Exchange Market rules in June 2024 to promote price discovery, transparency, and efficiency in the domestic foreign exchange market.
- Given the tight monetary policy stance and improved foreign exchange supply from the mining sector, the depreciation of the Kwacha against the US dollar has moderated significantly in 2024. Between December 2023 and August 2024, the Kwacha depreciated by 5.4 percent to K26.09 per US dollar. Progress in external debt restructuring and recent reforms in the foreign exchange market have supported the exchange rate.
- The drought continues to pose risks to the Kwacha's performance as demand for foreign exchange to meet food and energy imports could increase.

Inflation: mostly driven by food prices because of the drought. The exchange rate has also contributed by exchange rate pressures.

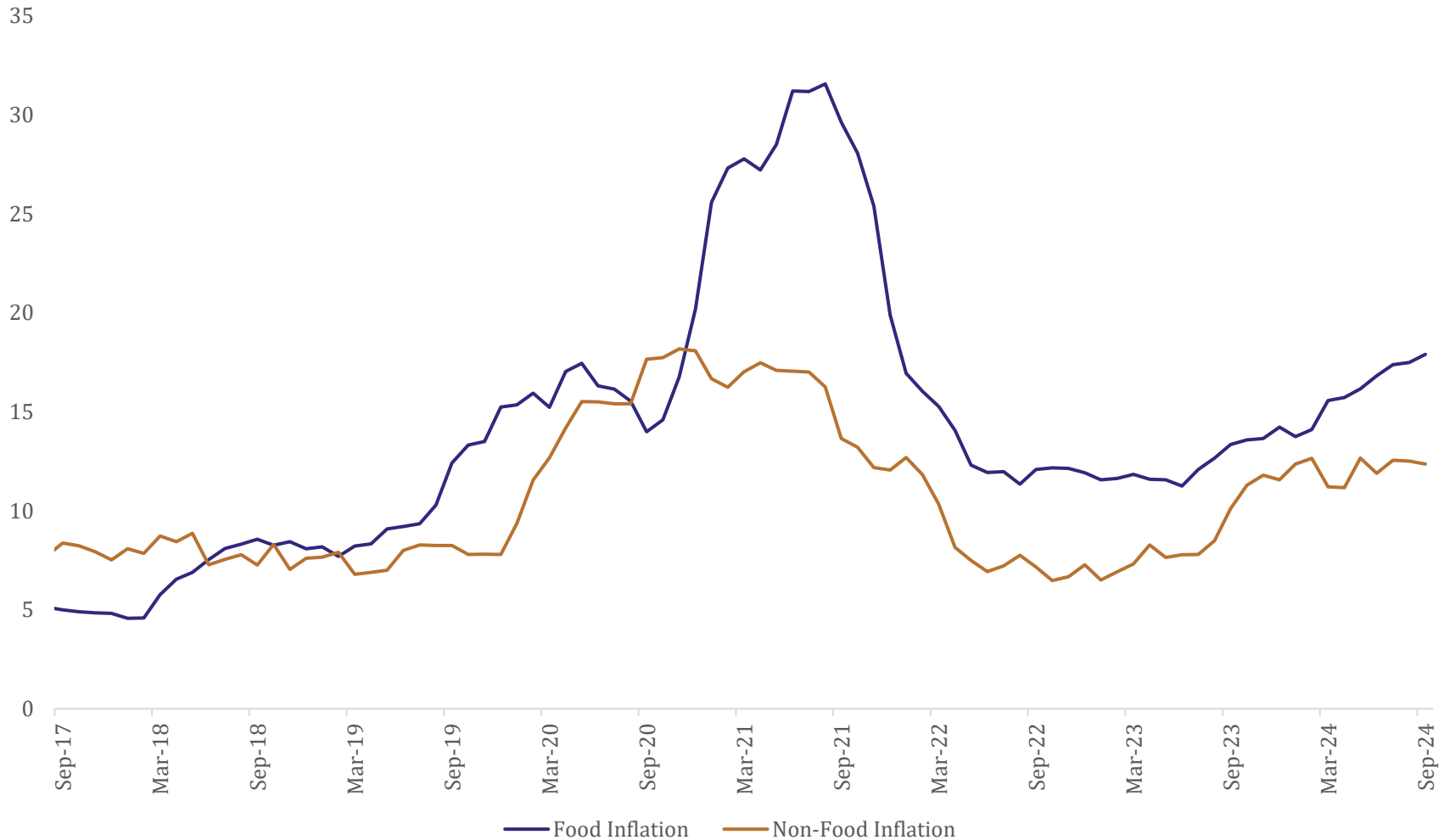


Figure 1: Actual Annual Inflation Rate (percent)



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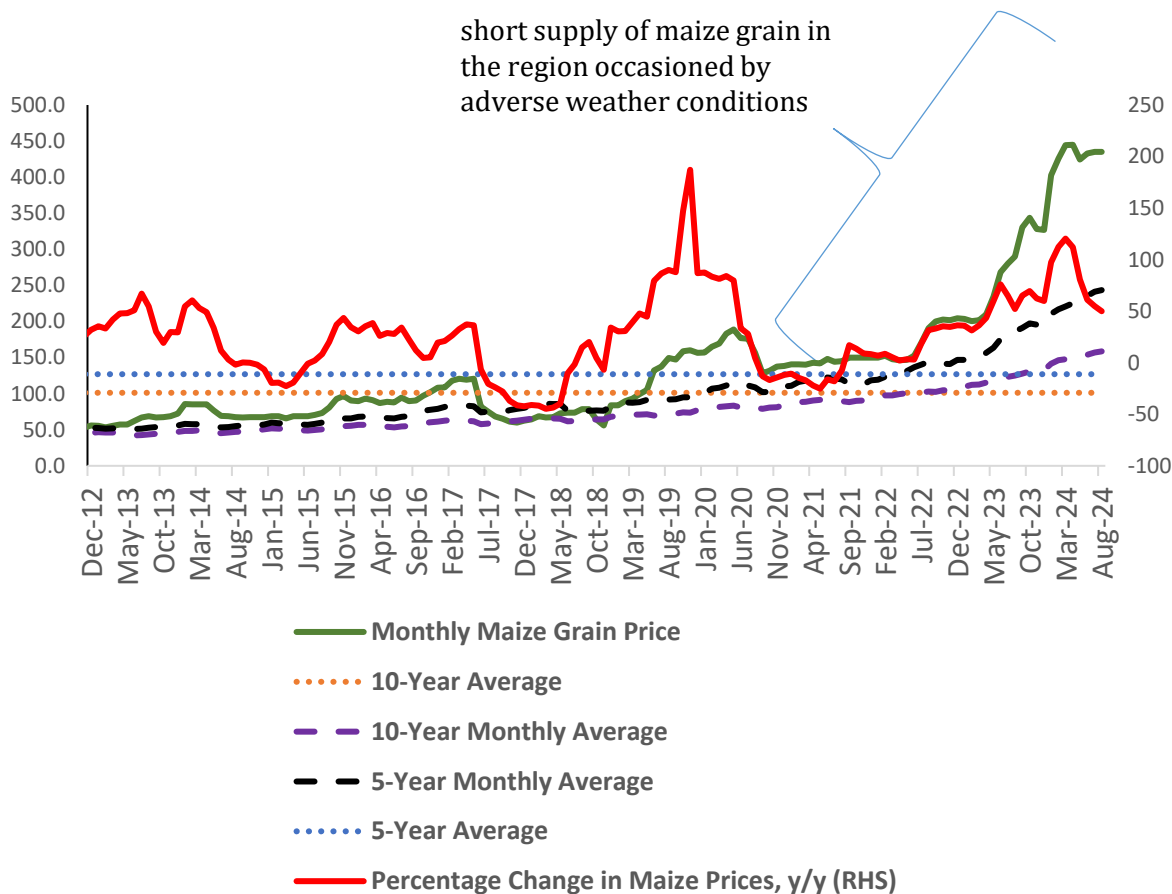
Figure 2: Actual Annual Inflation Rate (percent)



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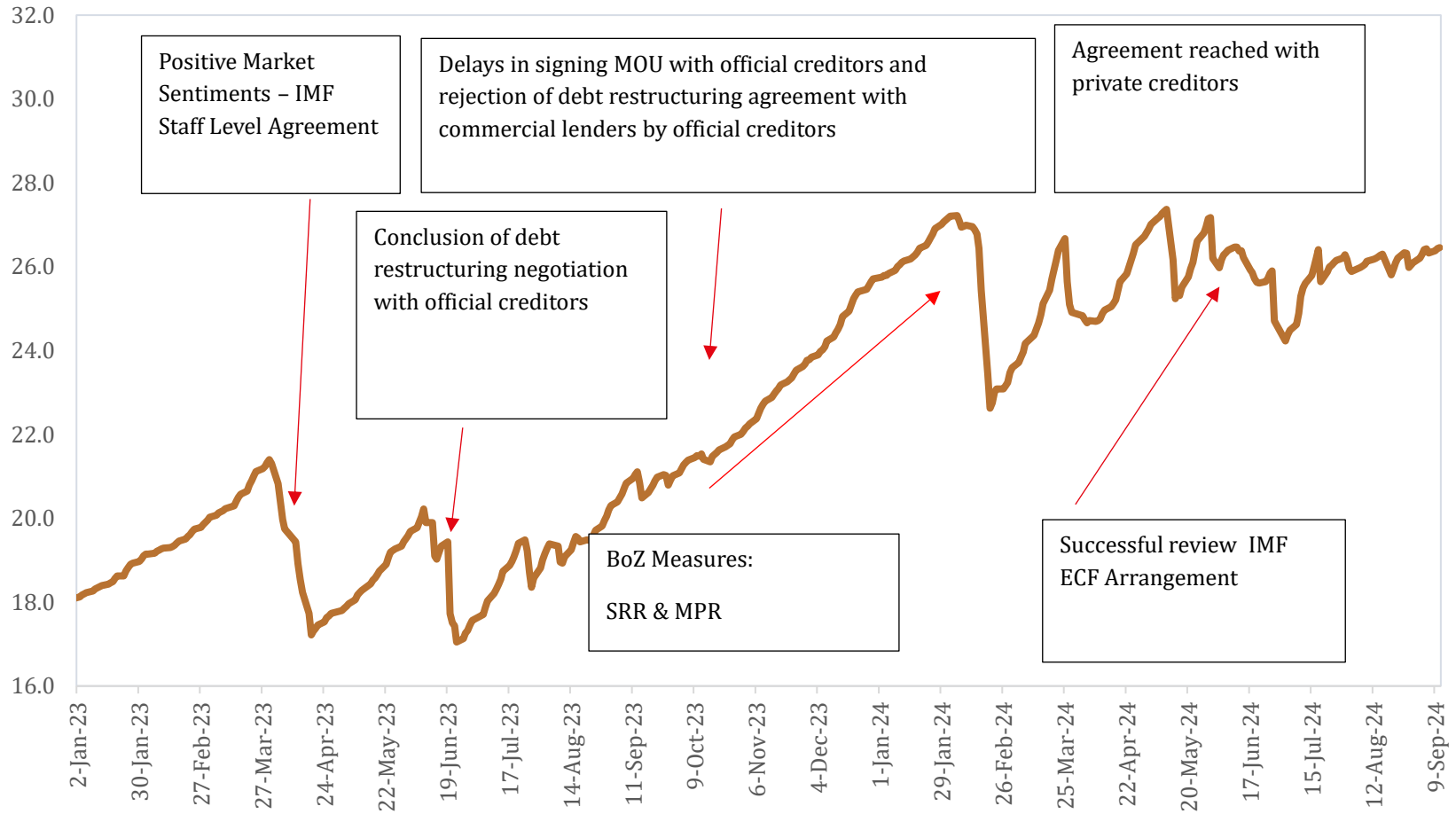
Figure 3: Maize Prices (K/50kg)



- The drought experienced during the 2023/24 season resulted in a net maize deficit estimated at 1.3 million metric tonnes for the 2023/2024 agricultural season.
- An estimated 1.0 million of 2.2 million hectares planted area for maize had been affected with 84 districts in Lusaka, Central, Copperbelt, Eastern, North-Western, Western and Southern Provinces severely affected by the drought.
- This has necessitated the importation of 650, 000 metric tonnes of maize grain.
- Maize prices averaged K435.00 per 50kg bag in July 2024 from K280.53 in July last year.

... exchange rate

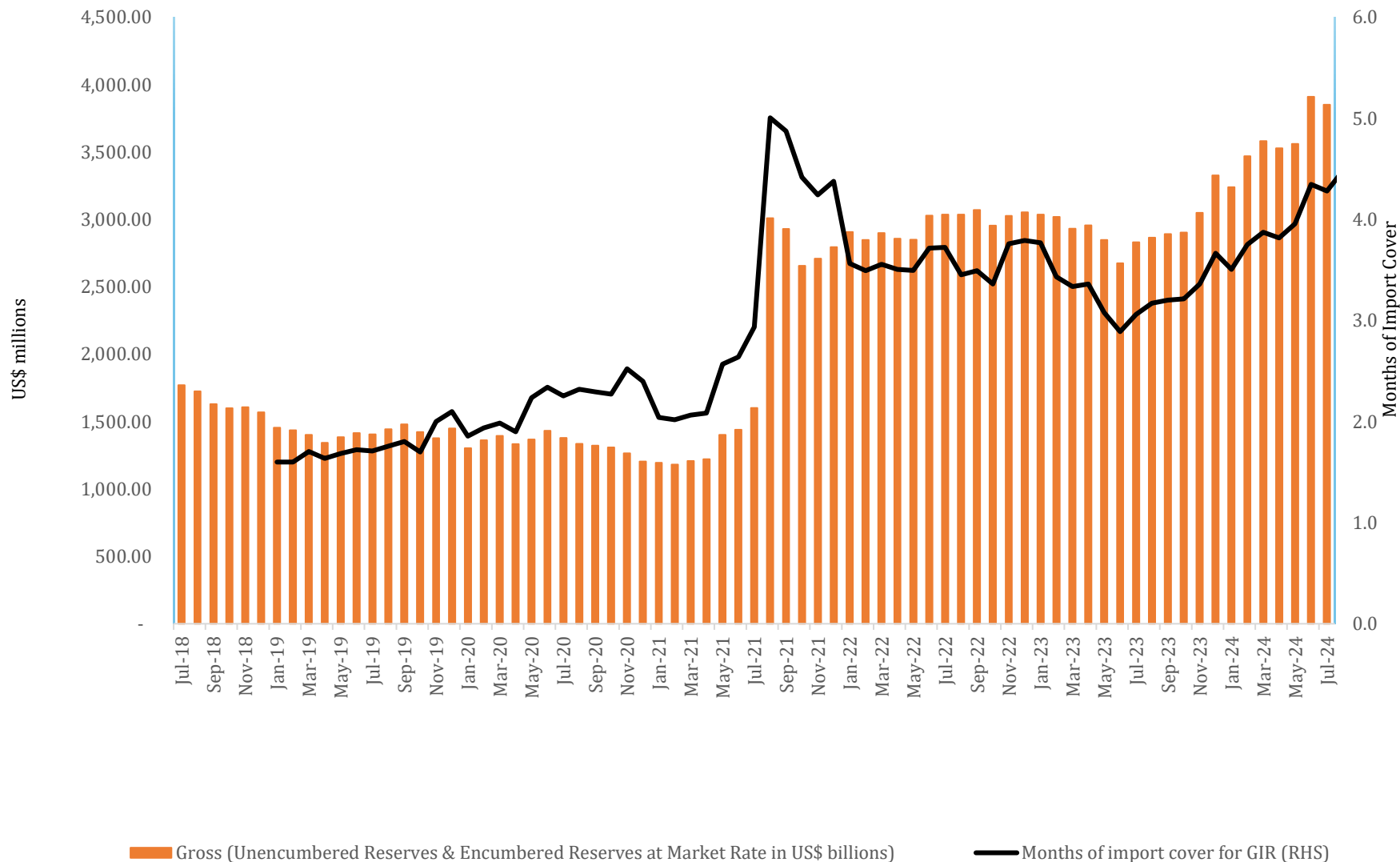
Figure 4: Exchange Rate (K/US\$)



... Gross International Reserves



Figure 5: Exchange Rate (K/US\$)



Interest Rates

Figure 6 : Average Lending Rate (percent)



- Movements in lending rates have largely been in line with changes in the Monetary Policy Rate.
- Recent tight monetary policy stance to rein in inflationary pressures has contributed to the increase in lending rates.

Exports Proceeds Tracking Framework



- The Bank has made progress in improving the quality of balance of payments statistics by strengthening the regulatory framework requiring the submission of statistics, conducting the private capital flows survey, and implementing the Electronic Balance of Payment (e-BoP) Monitoring System.
- As indicated in the 2024 National Budget, implementation of the Export Proceeds Tracking Framework took effect on January 1, 2024, and so far, we have noted the following:
 - Estimated total export cumulative value was US\$7,959.75 million as of September 27, 2024. Previously this information was not available, but this is now being tracked daily.
 - On the system, total export receipt value of US\$5.5 billion has been recorded, out of which US\$2.5 billion has been reconciled.
- Overall, the Framework is robust and generates valuable information that was not previously available.
- Since implementing the Framework, a net international financial inflow position has been recorded, reflecting increased recording of export proceeds (see chart).

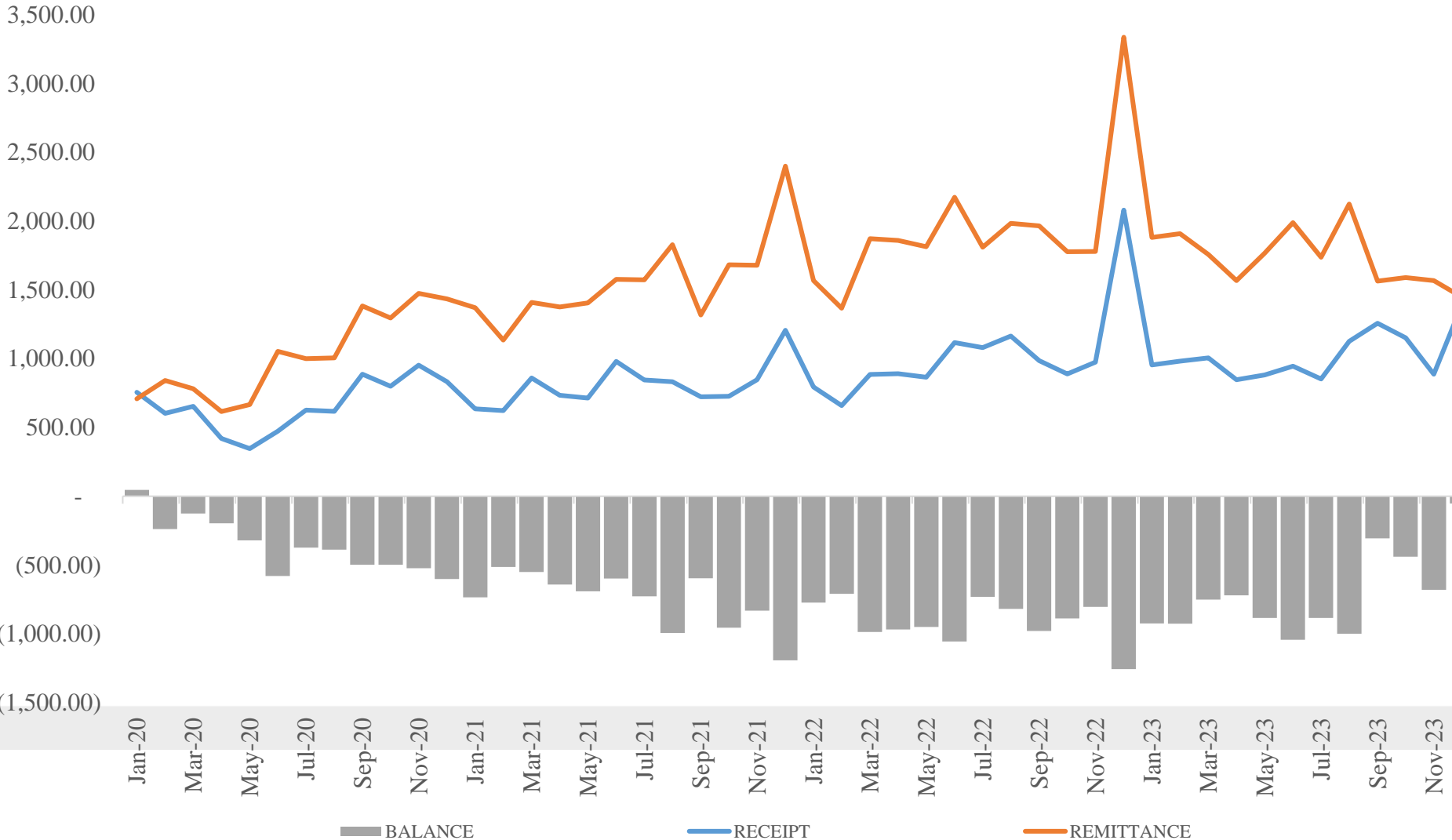
Going forward, the following enhancements are planned: Sensitisation sessions with relevant stakeholders are ongoing to ensure all stakeholders fully appreciate the Framework capturing of service exports; and

- tracking of import, which will lead to accurate linkages between trade and financial flows to fully understand Zambia's trade balance.

Prior to the Framework- Net Outflows

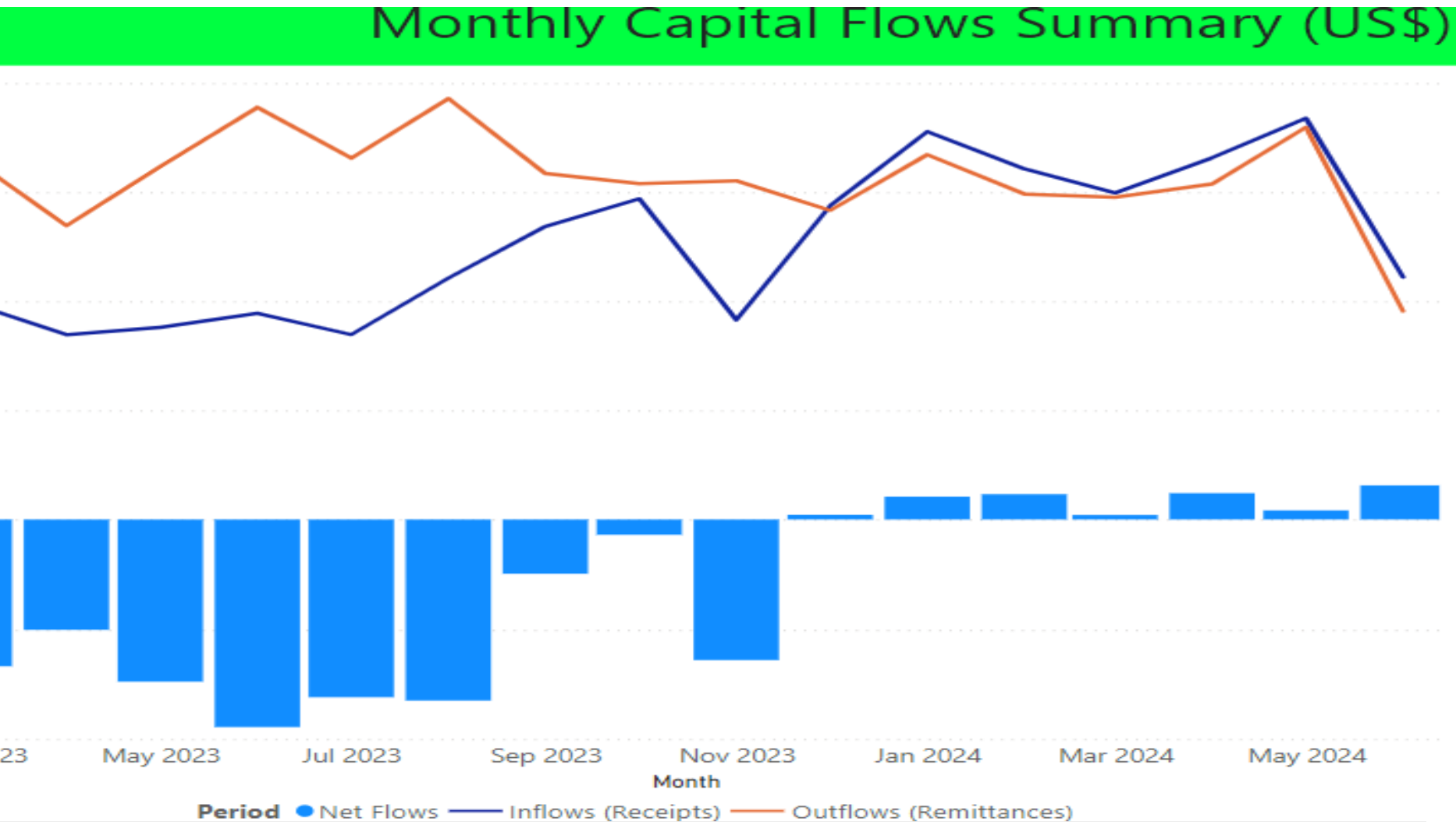


Figure 7 : International Financial Flows

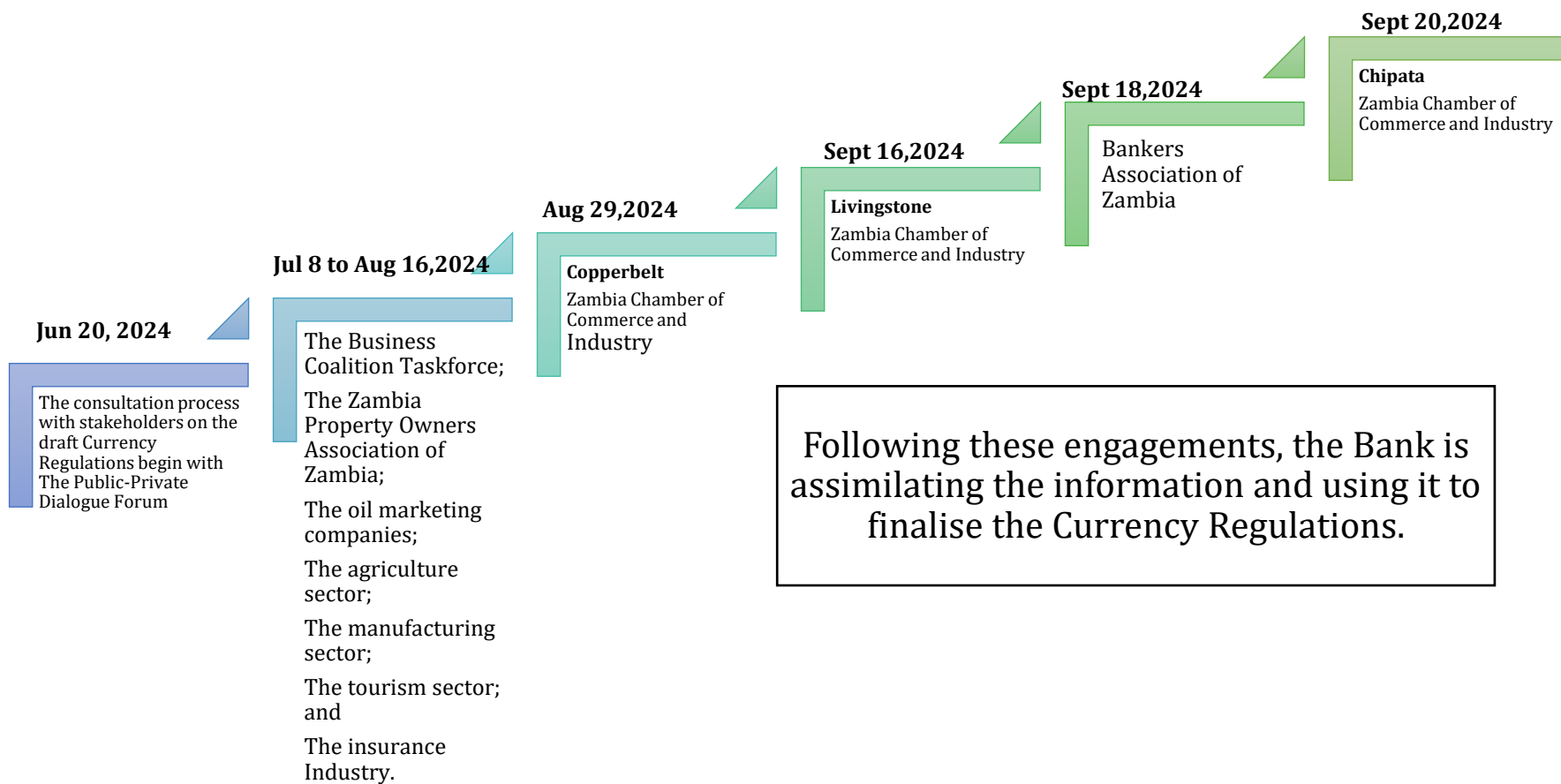


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Figure 8 : Monthly Capital Flows Summary

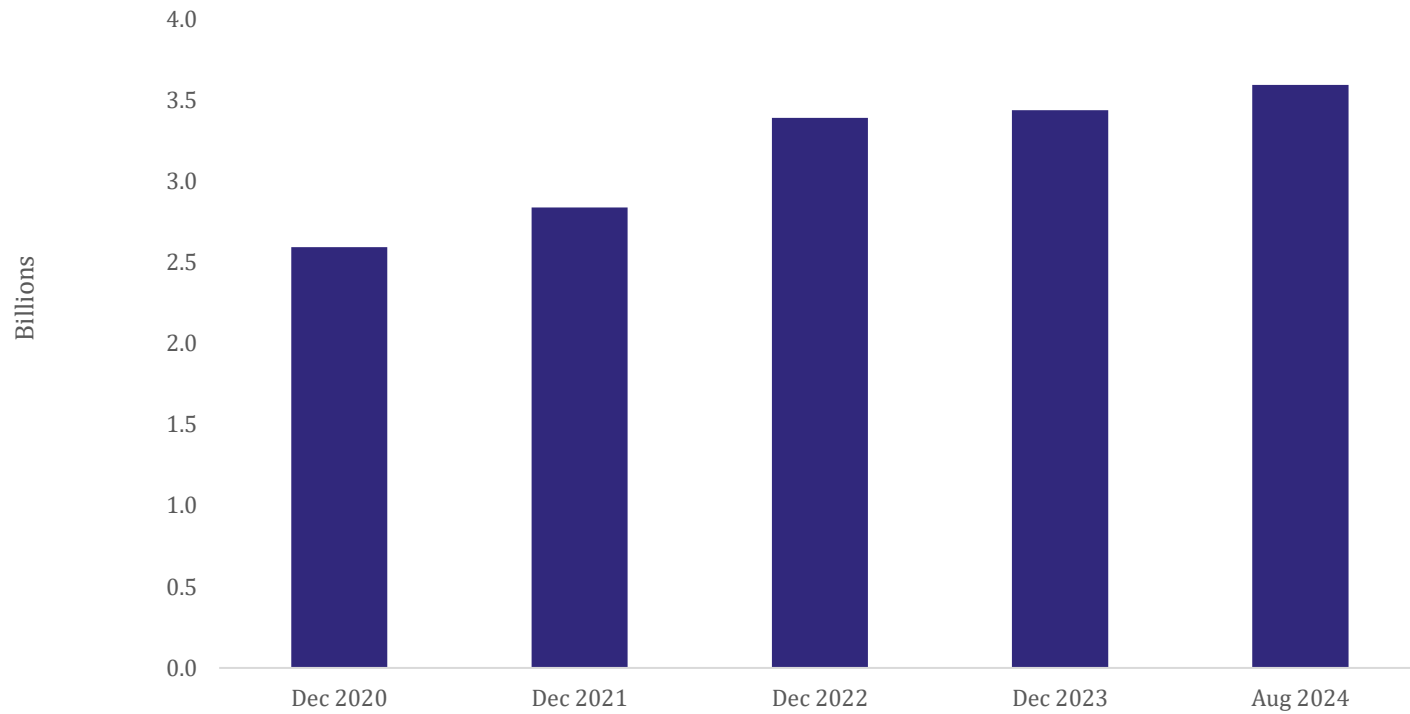


Currency Regulations-Stakeholder Consultations

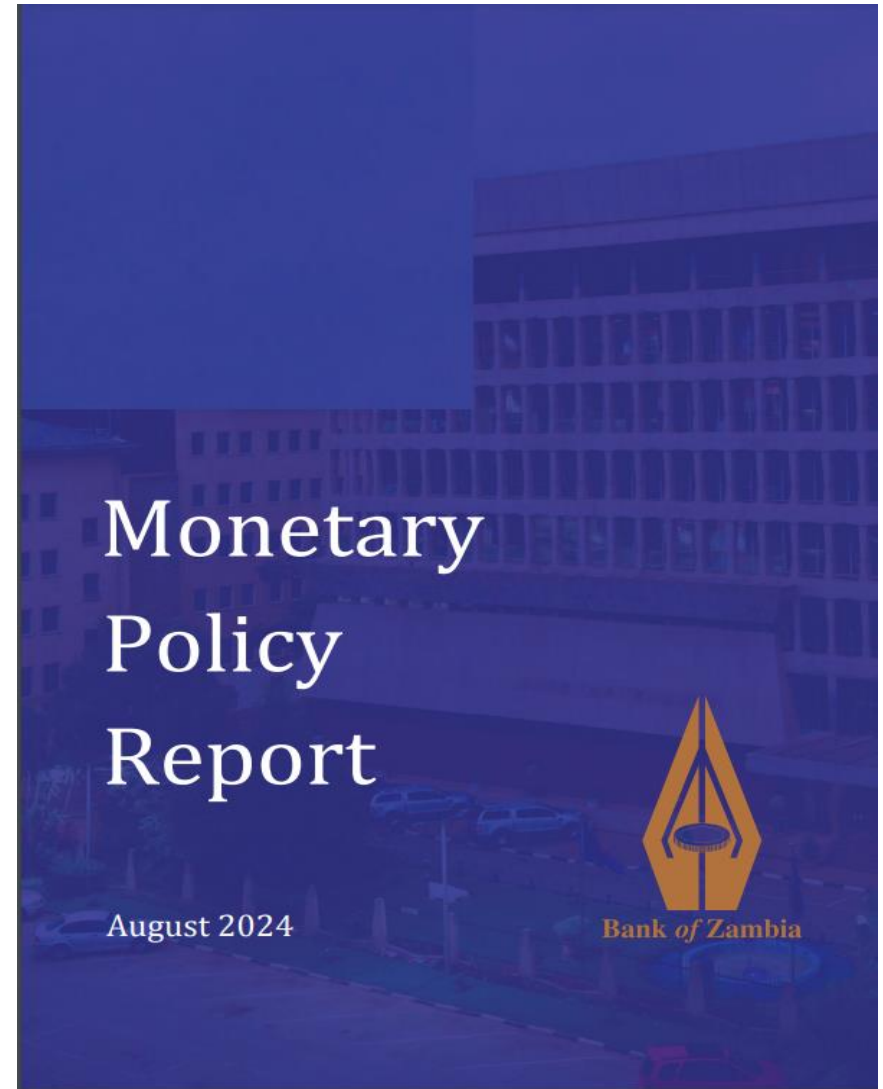


Foreign Exchange Deposits

Figure 10: Foreign Exchange deposits (US\$)



General Information



Thank you...