

# Monetary Policy Report

May 2024



**Bank of Zambia**



## **REGISTERED OFFICES**

### **Head Office**

Bank of Zambia, Bank Square, Cairo Road

P. O. Box 30080, Lusaka, 10101, Zambia

Tel: (+260) 211 399300

E-mail: [info@boz.zm](mailto:info@boz.zm)

Website: [www.boz.zm](http://www.boz.zm)

### **Regional Office**

Bank of Zambia, Buteko Avenue,

P. O. Box 71511, Ndola, Zambia

Tel: (+260) 212 399600

E-mail: [info@boz.zm](mailto:info@boz.zm)

Website: [www.boz.zm](http://www.boz.zm)



# **Bank of Zambia**

This *Monetary Policy Report* (MPR) is made pursuant to Section 29(2) of the Bank of Zambia Act, 2022.

This MPR was approved by the Monetary Policy Committee on May 13, 2024 and contains the information available as of May 7, 2024.

Composition of the Monetary Policy Committee constituted pursuant to Section 28(1) of the Bank of Zambia Act, 2022:

1. Governor – Chairperson (Dr Denny H. Kalyalya);
2. Deputy Governor responsible for operations – Vice Chairperson (Dr Francis Chipimo);
3. Deputy Governor responsible for administration (Mrs Rekha C. Mhango);
4. Bank of Zambia senior management staff responsible for research (Dr Jonathan M. Chipili);
5. Bank of Zambia senior management staff responsible for monetary policy operations (Mr Isaac Muhanga);
6. Bank of Zambia senior management staff responsible for financial stability (Mr Goodson Kataya);
7. External Member appointed by the Bank of Zambia Board (Professor Munacinga C. Simatele); and
8. External Member appointed by the Bank of Zambia Board (Mr Alex Chakufyali).

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# Preface

In line with Article 213(2) (b) of the Constitution of Zambia (Amendment) Act, 2016, the Bank of Zambia determines monetary policy. The nine-member Monetary Policy Committee (MPC) formulates monetary policy to achieve and maintain price stability in line with section 27(2) of the Bank of Zambia Act, 2022. The Committee meets every second month of the quarter in February, May, August and November to decide on the monetary policy stance. In doing so, the Committee reviews macroeconomic developments in the previous quarter and prospects for inflation over the forecast horizon currently eight quarters ahead. This information is published in the Monetary Policy Report (MPR) to strengthen transparency and accountability of the MPC.

The stance of monetary policy is reflected in changes to the Policy Rate introduced in April 2012. This is guided by inflation outcomes, forecasts from inflation models and identified risks, including those associated with growth and financial stability. The MPC relies on a forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the policy stance. The Policy Rate also provides a credible and stable anchor to financial market participants in setting their own interest rates as well as guides the Bank in its implementation of monetary policy. The Bank may use non-price (quantitative) monetary policy instruments, such as, the statutory reserve ratio in its conduct of monetary policy.

The Bank influences the overnight interbank rate (operating target) which in turn impacts on inflation through changes in market interest rates transmitted via the expectations, exchange rate and/or credit channels. To effectively manage the overnight interbank rate, the Bank conducts open market operations to either supply or withdraw liquidity from the banking system to keep the overnight interbank rate within the corridor of +/- 1 percentage points around the Policy Rate. There are, however, exceptional circumstances where the interbank rate may be allowed to drift outside the Policy Rate Corridor.

The monetary policy decision is publicly announced in the Monetary Policy Committee Statement issued via a press release a day after each quarterly MPC meeting. The MPR is published soon after the MPC Meeting. This is intended to provide detailed information used by the MPC in arriving at a Policy Rate decision.

# Executive Summary

The Monetary Policy Committee, at its May 13-14 2024 Meeting, decided to raise the Monetary Policy Rate by 100 basis points to 13.5 percent. The decision was guided by the need to contain inflationary pressures and anchor inflation expectations as inflation continues to move further away from the target band of 6-8 percent. If left unchecked, macroeconomic stability and efforts towards robust and sustained growth could be undermined. The decision augmented earlier actions taken to contain persistent inflationary pressures, acting mostly through the exchange rate channel, and addressing rising inflation expectations.

In making this decision, the Committee considered external and domestic economic developments during the first quarter of 2024. It was noted that the global economy remained resilient although challenges related to the restrictive monetary policy stance, tight global financial conditions and geopolitical tensions continued to weigh on domestic inflation and growth.

Inflation rose to 13.5 percent in the first quarter of 2024 from 12.9 percent in the last quarter of 2023 mainly due to rising food and energy prices as well as sustained depreciation of the exchange rate. While the depreciation of the Kwacha against the US dollar continued to contribute to inflationary pressures, the pace of depreciation moderated owing to tight monetary policy and positive market sentiments as significant progress was made on external debt restructuring. Inflation is expected to remain above the target band of 6-8 percent in 2024 and 2025, but return to the target band in the first quarter of 2026 as global food prices decline further and the external sector environment improves. The recent trend in exchange rate depreciation as well as the adverse impact of the drought on food and energy prices will keep inflation elevated in 2024.

Interest rates have broadly increased following the tightening of monetary policy in February. Consequently, lending to both Government and the private sector reduced in the first quarter resulting in a slowdown in credit and money supply growth.

During the first quarter of 2024, preliminary estimates indicate that revenue was broadly in line with the target despite lower tax collections from the mining sector. However, Government spending was lower than planned largely due to constrained domestic financing.

Real GDP is estimated to have slowed down in the first quarter of 2024 to 3.5 percent from 8.0 percent in the last quarter of 2023 mainly on account of slower growth in construction and tourism sectors. For 2024 as a whole, domestic growth has been significantly downgraded to 2.3 percent from the earlier 4.4 percent projection mostly due to the adverse impact of the drought. The most affected sectors are agriculture and energy. The current account is also projected to deteriorate in 2024 as the drought has necessitated the importation of significant amounts of the staple food (maize grain) and electricity. However growth is expected to rebound over the medium-term as mining and agriculture sectors recover.



# 1. Macroeconomic Outlook

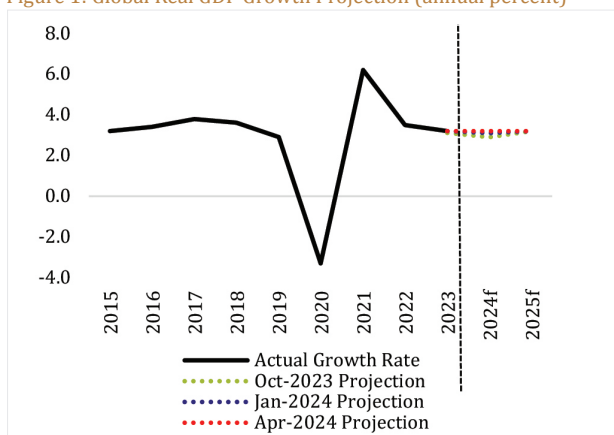
- Global growth to improve on stronger US growth supported by consumer spending.
- Copper prices to rally on tight supply and heightened demand for green energy transition; sustained geopolitical tensions in the Middle East and supply cuts by OPEC+ to support higher crude oil prices.
- Current account to deteriorate as drought necessitates importation of significant amounts of staple food (maize grain) and electricity.
- Domestic growth for 2024 significantly downgraded due to the drought, but strong rebound projected in 2025 as mining sector recovers.
- Cash fiscal deficit expected to expand in 2024 to accommodate impact of drought.
- Inflation to remain above the target band of 6-8 percent in 2024, but moderate in 2025 and return to target band in the first quarter of 2026.

## 1.1 External Sector Outlook

### ... global growth improving

Global economic growth is projected to improve further to 3.2 percent<sup>1</sup> in 2024 from the 3.1 percent reported in January (Figure 1). The projection for 2025 remains the same at 3.2 percent.

Figure 1: Global Real GDP Growth Projection (annual percent)



Source: IMF WEO, April 2024; Bank of Zambia Compilations

The modest upgrade of the 2024 growth forecast largely reflects an upward revision to the US economic outlook<sup>2</sup> underpinned by the tight labour market, which has continued to support consumer spending. Nonetheless, global growth remains below the pre-pandemic (2000–2019) average of 3.8 percent. This is mainly due to elevated interest rates to contain inflationary pressures, heightened geopolitical tensions, withdrawal of fiscal incentives, rising geoeconomic fragmentation<sup>3</sup>, and weak productivity growth. The lingering negative impact of the COVID-19 pandemic and the prolonged war in Ukraine are expected to continue weighing on growth.

<sup>1</sup>IMF World Economic Outlook, April 2024.

<sup>2</sup>Growth projection for the US for 2024 was adjusted upward to 2.7 percent from 2.1 percent in January.

<sup>3</sup>Rising geoeconomic fragmentation through trade barriers or tensions could segment the global economy into blocs resulting in restrictions in trade and reduced foreign direct investment.

Similar to the *February 2024 Monetary Policy Report*<sup>4</sup>, the risks to global growth outlook are assessed to be balanced. The downside risks include geopolitical tensions, a higher-for-longer interest rate environment and sticky inflation, deeper-than-anticipated crisis in the property sector in China, and rising geoeconomic fragmentation. On the upside, the risks relate to a faster-than-projected decline in global inflation, rapid growth in artificial intelligence, and general elections<sup>5</sup> in some countries

### ... economic activity in major trading partner countries to improve further

Growth in major trading partner countries of Zambia is projected to expand further, albeit at a marginal pace. This is based on a slightly higher export-weighted GDP (GDP-9) Index<sup>6</sup> than the February projection (Table 1 and Figure 2).

<sup>4</sup>[https://www.boz.zm/Monetary\\_Policy\\_Report\\_February\\_2024.pdf](https://www.boz.zm/Monetary_Policy_Report_February_2024.pdf)  
<sup>5</sup><https://www.forbes.com/sites/siladityarav/2024/01/03/2024-is-the-biggest-election-year-in-history-here-are-the-countries-going-to-the-polls-this-year/?sh=47afd90565f9>

<sup>6</sup>The GDP-9 Index is used to assess external demand conditions in Zambia's key trading partner countries. It is computed as a Fisher Ideal Index and constructed based on nine countries: China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi and Tanzania. In 2020, these countries accounted for 86.9 percent of Zambia's exports, excluding Switzerland—a predominantly invoicing country for copper exports.

Table 1: Change in GDP-9 Index and Country Contributions, 2022 – 25

	Weight	2022	2023p	2024f	2025f
GDP-9 Index (percent change)					
– May 2024		4.92	0.12	4.10	3.84
GDP-9 Index (percent change)					
–Feb 2024		4.92	0.29	4.14	3.79
Country Contributions to the Change in GDP-9 Index					
China	0.49	2.15	0.07	1.81	1.70
DRC	0.30	1.19	0.05	1.01	0.95
South Africa	0.12	0.72	0.01	0.59	0.56
Singapore	0.00	0.31	-0.02	0.24	0.22
UK	0.07	0.21	0.01	0.19	0.17
UAE	0.00	0.11	-0.01	0.08	0.08
Tanzania	0.00	0.08	0.00	0.07	0.06
Malawi	0.02	0.09	-0.00	0.07	0.06
Hong Kong	0.00	0.05	-0.00	0.04	0.04

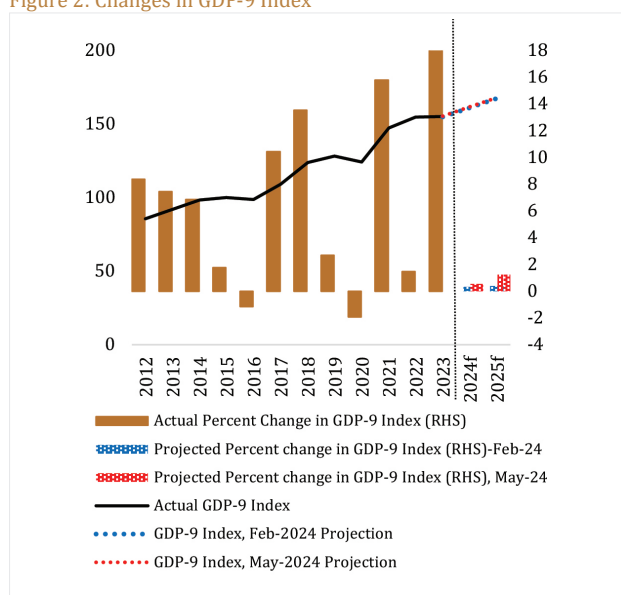
Source: Bank of Zambia Calculations

DRC = Democratic Republic of the Congo, UK = United Kingdom,

UAE = United Arab Emirates

p = preliminary, f = forecast

Figure 2: Changes in GDP-9 Index



Source: Bank of Zambia

The positive outlook is mostly on account of sustained robust growth in China and DRC (Table 2).

Table 2: Trading Partner Growth Rates (percent), 2022-2025

	Weight	2022	2023	2024	2025
China	0.5	3.0	5.2	4.6	4.1
DRC	0.3	8.8	6.1	4.7	5.7
South Africa	0.1	1.9	0.6	0.9	1.2
Singapore	0.0	3.8	1.1	2.1	2.3
UK	0.1	4.3	0.1	0.5	1.5
UAE	0.0	7.9	3.4	3.5	4.2
Malawi	0.0	0.8	1.6	3.3	3.8
Tanzania	0.0	4.7	5.0	5.5	6.0
Hong Kong	0.0	-3.7	3.2	2.9	2.7

Source: IMF WEO, April 2024 and Bank of Zambia Compilations.

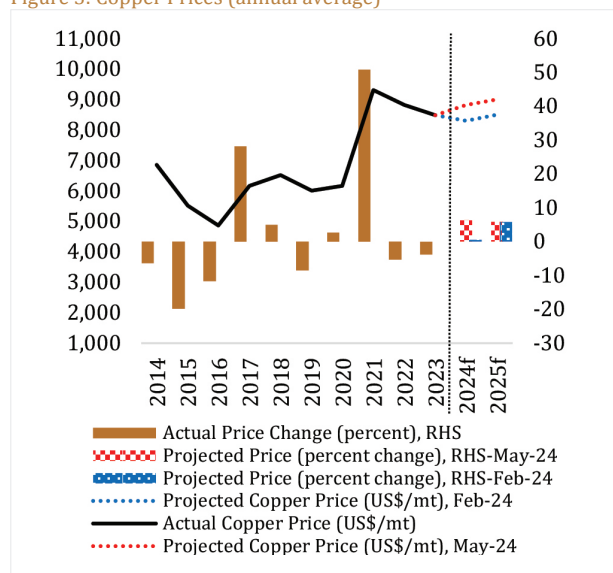
In China, growth will be supported by stimulus measures<sup>7</sup> targeted at the ailing property sector, robust growth in high-tech manufacturing<sup>8</sup>, and recovery in both domestic and external demand. For the DRC, growth is premised on increased government spending on infrastructure development<sup>9</sup>, and higher mining production that coincides with buoyant commodity prices.

The risks to the growth outlook in trading partner countries remain skewed to the downside as highlighted in the *February 2024 Monetary Policy Report*.

### ... copper prices to rally

Copper prices<sup>10</sup> are projected to rise further to US\$8,834.73 per metric in 2024 and to US\$9,009.00 per metric tonne in 2025 (Figure 3). This is 6.4 percent and 5.9 percent higher than the February projection.

Figure 3: Copper Prices (annual average)



Source: IMF, World Bank, Bloomberg, Reuters Futures, and Bank of Zambia Compilations

Underlying the increase in copper prices is tight supply, rising demand for green energy transition and rapid growth in artificial intelligence. Recovery in global manufacturing activity, additional stimulus measures to the property sector in China and the anticipated easing of monetary policies in the US and Europe will further support copper prices. Copper prices could

<sup>7</sup>Economic stimulus measures include reduced reserve requirement ratio, direct credit support to ‘qualified’ property developers, use of state-owned investment funds to stabilise capital markets, and changes to some unfavourable regulations governing the technology sector (Reuters, People’s Bank of China, and Bloomberg).

<sup>8</sup>The manufacturing of electric vehicles (EVs), solar panels and lithium batteries, commonly referred to as the “new three” industries is expected to drive the surge in export growth and broader Chinese economy due to the growing need for decarbonisation.

<sup>9</sup><https://www.mining.com/web/congos-7-billion-infrastructure-deal-with-china-will-depend-on-copper-prices/>

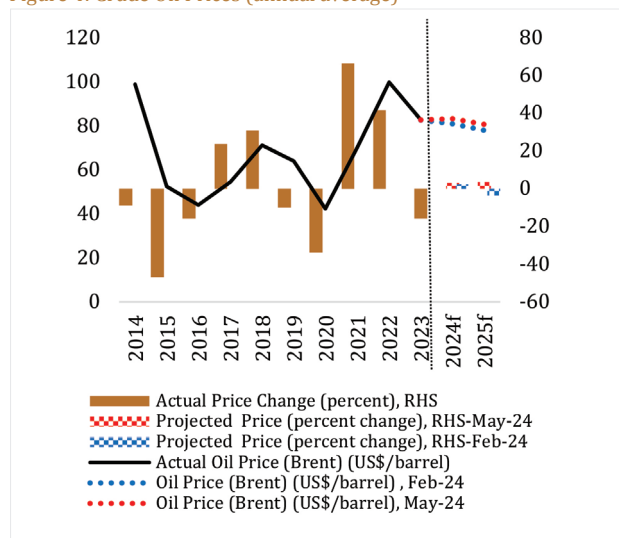
<sup>10</sup>Copper prices are averages of Bloomberg, FocusEconomics, Reuters, World Bank and IMF projections.

rally further if some key upside risks highlighted in the *February 2024 Monetary Policy Report* materialised.

### ... crude oil prices to rise

Crude oil prices<sup>11</sup> are also projected to rise, albeit slightly, by 2.9 percent and 3.5 percent to US\$83.25 per barrel and US\$80.65 per barrel in 2024 and 2025, respectively (Figure 4).

Figure 4: Crude Oil Prices (annual average)



Source: World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilations

Constrained global supply occasioned by the escalating conflict in the Middle East, extension of supply cuts by OPEC+ and slowdown in US oil production<sup>12</sup> underpin the projected rise in oil prices. Stronger-than-anticipated growth in China and India is also expected to boost demand for oil<sup>13</sup>. The foregoing remain upside risks to the projected crude oil prices.

### ... downward trend in maize and wheat prices to continue

Maize prices are projected to ease further in 2024 and 2025 to US\$200.00 per metric tonne and US\$196.00 per metric tonne, respectively (Figure 5). This is 13.0 percent and 10.9 percent lower than the February forecast. The lower maize price outlook largely reflects the expected increase in global supply.

Similarly, wheat prices are projected to be lower by 13.4 percent and 10.9 percent to US\$290.00 per metric tonne and US\$285.00 per metric tonne in 2024 and 2025, respectively than reported in February (Figure 5). This is mainly on account of improved global supply and falling export prices in Russia<sup>14</sup>.

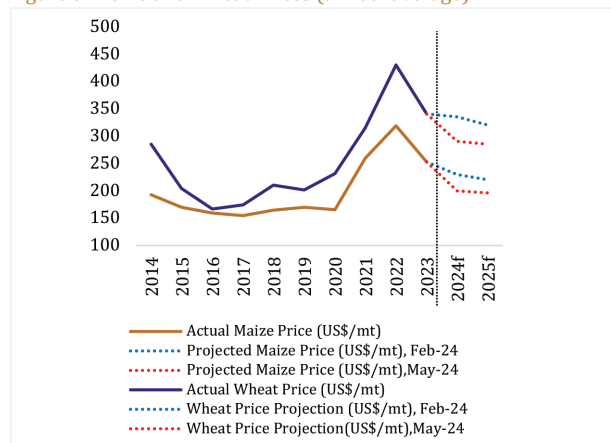
<sup>11</sup>Copper prices are averages of Bloomberg, FocusEconomics, Reuters, World Bank and IMF projections.

<sup>12</sup>The market expects restrained growth in US oil production in 2024 on account of the slowdown in shale oil output growth and rig count, which serves as an early indicator of future output:

<sup>13</sup><https://business.inquirer.net/448021/global-oil-demand-seen-to-grow-by-1-9-million-bpd-in-2024>

<sup>14</sup><https://www.agriculture.com/wheat-falls-on-weak-demand>

Figure 5: Maize and Wheat Prices (annual average)



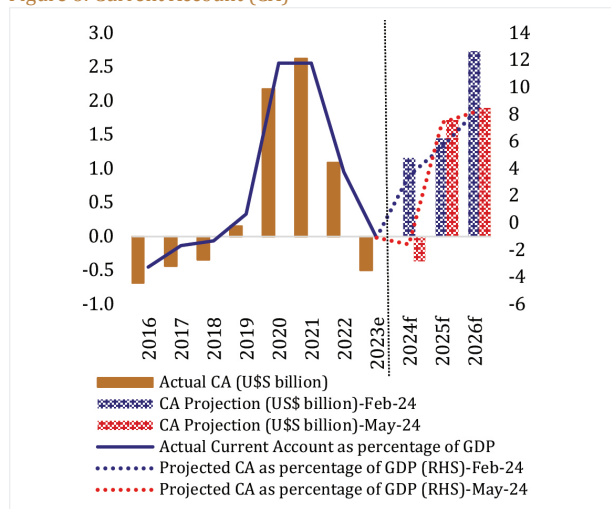
Source: World Bank Pink Sheet and Commodity Markets Outlook, April 2024, and Bank of Zambia Compilations

Reduced production on account of extreme weather conditions, trade restrictions, and escalation in geopolitical tensions remain key upside risks to the maize and wheat price projections.

### ... current account to deteriorate

The *current account* is now projected to deteriorate due to the impact of the severe drought the country is facing. A deficit of US\$0.4 billion is projected for 2024 compared to a surplus of US\$1.2 billion reported in February (Figure 6).

Figure 6: Current Account (CA)



Source: Bank of Zambia

The drought has necessitated the importation of significant amounts of the staple food (maize grain) and electricity. This will have a negative bearing on the *current account* amid a projected decline in exports mostly non-traditional exports (NTEs) by 27.0 percent to US\$3.4 billion. Lower export earnings from NTEs reflects the fall in electricity generation due to the drought.

The deficit on the *primary income* will widen further due to lower profitability associated with higher

[lower-russian-prices-8557357](https://www.agriculture.com/wheat-falls-on-weak-demand)

operational costs induced by the energy crisis mitigation measures through the imports of electricity. However, the *current account* is projected to recover in 2025 to US\$1.7 billion and strengthen to US\$1.9 billion in 2026 as growth in exports outweighs imports. This will be largely underpinned by the anticipated rebound in mining production and buoyant copper prices.

## 1.2 Prospects for Domestic Economic Growth

### ... weaken for 2024

Real GDP growth for 2024 has been significantly downgraded largely due to the impact of the drought, particularly on the agriculture and energy sectors (Table 3 and Figure 7). However, growth is expected to rebound in 2025 as mining, agriculture and energy sectors recover. Sustained expansion of the information and communication, financial and insurance, as well as wholesale retail trade sectors is expected to support growth.

Compared to the 3.9 percent growth projection for 2024 reported in the *February 2024 Monetary Policy Report*, the Bank of Zambia now expects the economy to grow by 2.9 percent (Table 3 and Figure 7). The economy will rebound to 4.3 percent in 2025 and grow further by 4.5 percent in 2026.

The Ministry of Finance and National Planning (MoFNP) and the IMF also forecast economic growth to slowdown in 2024, but at a significantly lower rate of 2.3 percent compared to the earlier 4.4 percent projection (Table 3; Figures 7 and 8). The economy is expected to rebound strongly in 2025 and grow at 6.6 percent and further by 5.9 percent in 2026.

However, FocusEconomics has maintained the growth projection of 4.2 percent for 2024 while the 2025 and 2026 forecasts are broadly in line with the Bank of Zambia and MoFNP (Table 3 and Figure 7).

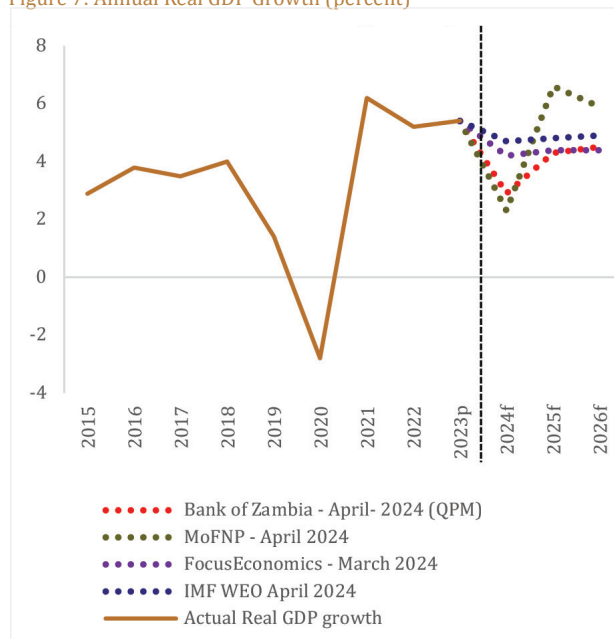
Table 3: Annual Real GDP Growth Projections

	2023p	2024p	2025f	2026f
<b>Bank of Zambia QPM</b>				
BoZ April 2024	5.4	2.9	4.3	4.5
BoZ January 2024	4.8	3.9	4.2	4.4
<b>Ministry of Finance and National Planning</b>				
MoFNP April 2024	5.4	2.3	6.6	5.9
MoFNP January 2024	4.0	4.4	5.5	5.4
<b>International Monetary Fund</b>				
IMF May 2024	5.4	2.3	6.6	5.9
IMF December 2023	4.3	4.7	4.8	4.8
IMF WEO April 2024	4.3	4.7	4.8	4.8
IMF WEO October 2023	3.6	4.3	4.5	4.7
<b>FocusEconomics</b>				
FocusEconomics May 2024	5.8	4.2	4.6	4.8
FocusEconomics January 2024	4.0	4.2	4.4	4.4

Source: Bank of Zambia, Ministry of Finance and National Planning, IMF WEO, FocusEconomics.

Note: p=preliminary estimate, f=forecast.

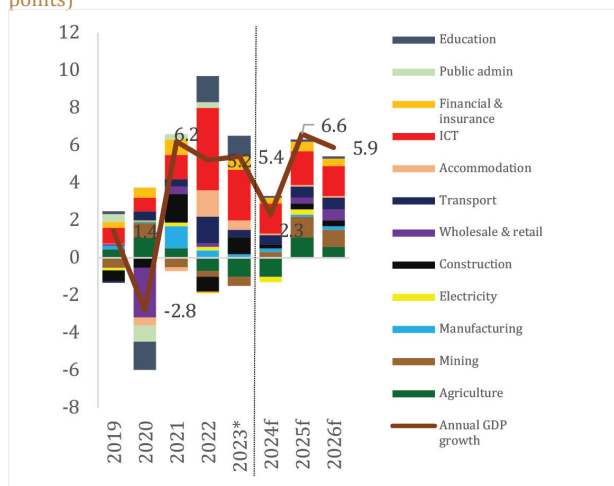
Figure 7: Annual Real GDP Growth (percent)



Source: Zambia Statistics Agency, Bank of Zambia (BoZ), Ministry of Finance and National Planning (MoFNP), IMF, Focus Economics.

Note: p=preliminary, f=forecast.

Figure 8: Sectoral Contribution to Real GDP Growth (percentage points)

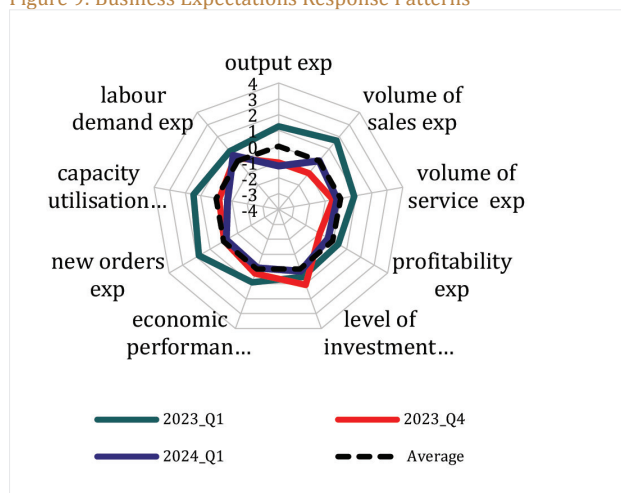


Source: Ministry of Finance and National Planning, Zambia Statistics Agency

Note: f=forecast.

Respondents to the *May 2024 Quarterly Survey of Business Opinions and Expectations* expressed pessimism about economic growth prospects for 2024 (Figure 9). They based their opinion on the negative effects of a persistently weaker Kwacha, rising fuel prices, electricity shortages, and surge in operating costs induced by the drought. However, there is optimism that growth will rebound in view of the anticipated increase in mining production and exports, increased foreign direct investment inflows, and completion of debt restructuring.

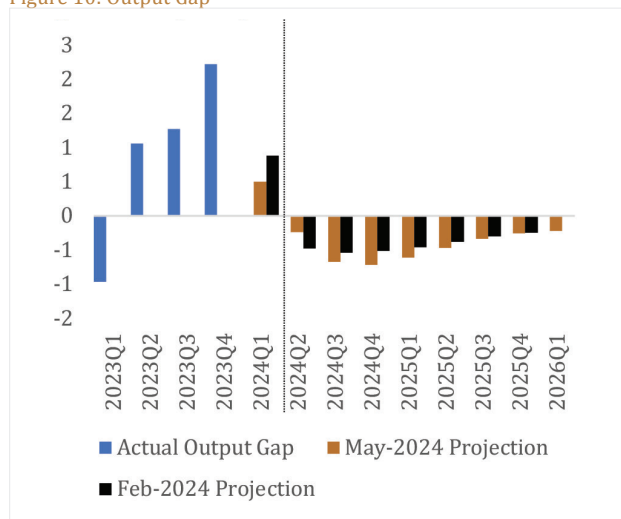
Figure 9: Business Expectations Response Patterns<sup>15</sup>



Source: Bank of Zambia

As a result of the current growth outlook, the output gap<sup>16</sup> will remain negative throughout the forecast horizon of 2024Q2 to 2026Q1 (Figure 10).

Figure 10: Output Gap



Source: Bank of Zambia

Over the medium-term, copper output is projected to rebound mostly on the back of the resolution of challenges at Mopani Copper Mines Plc and Konkola Copper Mines Plc as well as the start-up and increase in output at new mines.

The agriculture sector will be supported by the implementation of short and long-term measures by Government that include investment in irrigation facilities, improvement in water harvesting systems and precision farming, as well as the provision of soft agricultural loans to support mechanisation and higher output.

<sup>15</sup>Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than the historical average and a value outside the black line signifies an improvement over the historical average.

<sup>16</sup>The Bank of Zambia real GDP growth and output gap estimates are based on an overall assessment of domestic economic conditions using the Quarterly Projection Model (refer to section 1.4 for details on the model).

Increased generation capacity through new investments in solar, thermal and wind energy remain critical to the recovery and growth of the energy sector in the medium-term.

Adverse weather conditions, persistent electricity shortages, prolonged tight global financial conditions, geopolitical tensions, and persistently high domestic inflation are likely to continue to constrain growth. However, spillovers from the recent external debt restructuring could support growth.

### 1.3 Fiscal Outlook

#### ... higher fiscal deficit anticipated in 2024

Preliminary indications point to a higher fiscal deficit in 2024 than the 4.8 percent reported in February. This is in view of the need to accommodate the impact of the drought<sup>17</sup>, which was declared a national disaster and emergency by the Republican President on February 29. The extent of the fiscal deficit will be clear once the revised Budget is presented to the National Assembly in June.

According to the *Statement on the Drought Response Appeal*, additional fiscal resources of about K23.5 billion (equivalent to US\$940.6 million) are required to execute the Drought Response Plan spanning over a two-year period. Of this amount, K1.3 billion is available leaving a financing gap of K22.2 billion. Nonetheless, Government remains committed to implementing fiscal consolidation measures<sup>18</sup>.

The major upside risk to the fiscal outlook in 2024 relates to failure to cover the financing gap occasioned by the drought. In the medium-term, fluctuations in copper prices and geopolitical tensions remain upside risks to the Budget as highlighted in the *February 2024 Monetary Policy Report*.

### 1.4 Inflation Outlook: Second Quarter 2024 – First Quarter 2026

#### ... inflationary pressures to persist in 2024, but moderate in 2025

Initial domestic and foreign conditions have important implications for the future path of inflation. Their assessment is conducted using the Quarterly Projection Model (QPM)<sup>19</sup>. Since the February MPC Meeting,

<sup>17</sup>[Statement on the Drought Response Appeal](#).

<sup>18</sup>These include mobilising revenue by migrating more services onto the Government Service Bus as well as broadening the tax base, including the recent introduction of a levy on mobile money transactions, and lifting import duty exemption on Government vehicles. Government will also continue to remove inefficient subsidies, strengthen and adhere to legislative provisions on expenditure, improve procurement procedures and focusing capital spending on priority projects.

<sup>19</sup>The QPM is structured around four behavioral equations: aggregate demand function for output, expectations-augmented Phillips curve

initial external conditions have slightly improved while domestic conditions remain broadly unfavourable.

Inflation forecasts for the first two quarters are generated using trend and autoregressive models deemed to have relatively better forecasting ability at a shorter interval. Forecasts for the remaining quarters are derived from nine models<sup>20</sup>.

The key assumptions underpinning the current inflation projection over the 2024Q2–2026Q1 forecast horizon and how they have changed since the February MPC Meeting are provided in Table 4 and briefly discussed.

Table 4: Key Assumptions Underlying Inflation Projection (mostly exogenous)

Variable	2024	2025	2026
Average inflation-US (percent)	2.1 (2.4)	2.0 (2.1)	2.0 n/a
Fed funds rate (percent)	4.6 (4.6)	3.9 (3.9)	3.1 n/a
Treasury bill rate-US (percent)	5.0 (5.1)	3.8 (3.9)	3.0 n/a
Treasury bill rate - Zambia (percent)	9.50 (9.50)	9.50 (9.50)	9.50 n/a
Average inflation - South Africa (percent)	5.1 (5.0)	4.6 (4.5)	4.5 n/a
Producer price index - South Africa	173.3 (172.8)	181.3 (180.6)	189.5 n/a
Average copper price/tonne (US\$)	8,834.73 (8,306.87)	9,009.00 (8,507.73)	8,904.00 n/a
Average crude oil Price/barrel (US\$)	83.25 (80.88)	80.65 (77.91)	79.00 n/a
Reserve money growth (percent)	5.8 <sup>21</sup> (6.4)	0.6 (9.6)	-6.9 n/a
Fiscal deficit*	1.21 (1.21)	1.11 (1.14)	1.10 n/a
BoZ Policy Rate (percent)	12.5 (11.0)	12.5 (11.0)	12.5 n/a
World food price index	118.5 (129.1)	113.6 (124.7)	113.6 n/a
Maize grain price - Zambia (K/50Kg)	444.50 (365.00)	444.50 (365.00)	444.50 n/a
Diesel price - Zambia (K/litre)	30.36 (32.38)	30.36 (32.38)	30.36 n/a

Source: IMF, World Bank, Bloomberg, FocusEconomics Consensus, Reuters, US Federal Reserve, SARB, Bank of Zambia

Note: numbers in parenthesis () represent projections in the previous forecasting period.

\*Computed as a ratio of expenditure. A value in excess of 1 implies a deficit and vice versa.

for inflation, uncovered interest rate parity for the exchange rate, and a monetary policy reaction function for the interest rate (Vlcek et al., 2020; Laxton et al., 2009; Adrain, Laxton and Obstfeld (eds), 2018). The model is built in gaps—deviations of variables from long-run equilibrium values—thus also referred to as a gap model.

<sup>20</sup>The models are Quarterly Projections Model (QPM), Zambian Quarterly Models (fiscal and non-fiscal), three variants of macroeconomic quarterly models (MQM, MQM+1, MQM+2), a combination of the Zambia Quarterly Model and Macroeconomic Quarterly Model (ZQM-MQM), autoregressive model (AR+) and trend model.

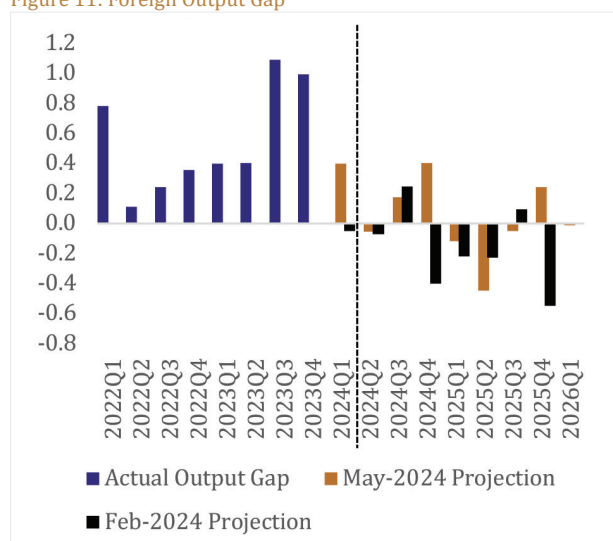
<sup>21</sup>2024 Q2 - Q4.

## External Conditions

Global demand, proxied by the US output gap, is estimated to have slowed down in the first quarter of 2024 relative to the last quarter of 2023 (Figure 11). Slower growth in consumer spending due to tight financial conditions continued to drag demand.

Over the forecast horizon, especially in 2024, growth prospects for the United States are slightly more optimistic than projected in the *February 2024 Monetary Policy Report*. This is primarily due to the tight labour market, rising wages and lower inflation. This notwithstanding, real GDP is expected to remain below potential as a restrictive monetary policy stance continues to dampen demand.

Figure 11: Foreign Output Gap<sup>22</sup>

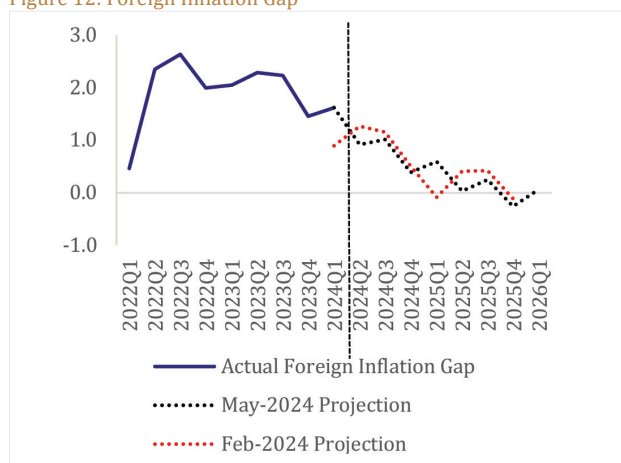


Source: Bank of Zambia Computations

US inflation, representing foreign inflation, remained above the 2.0 percent Federal Reserve target in the first quarter of 2024 (Figure 12). It averaged 3.3 percent, up from 3.2 percent in the previous quarter. The uptick was attributed to higher energy prices and rental housing costs, coupled with a tight labour market, which fuelled robust economic activity.

<sup>22</sup>The foreign output gap is the difference between observed US GDP and the potential. A negative foreign output gap implies slack in demand while a positive gap reflects excess demand.

Figure 12: Foreign Inflation Gap<sup>23</sup>



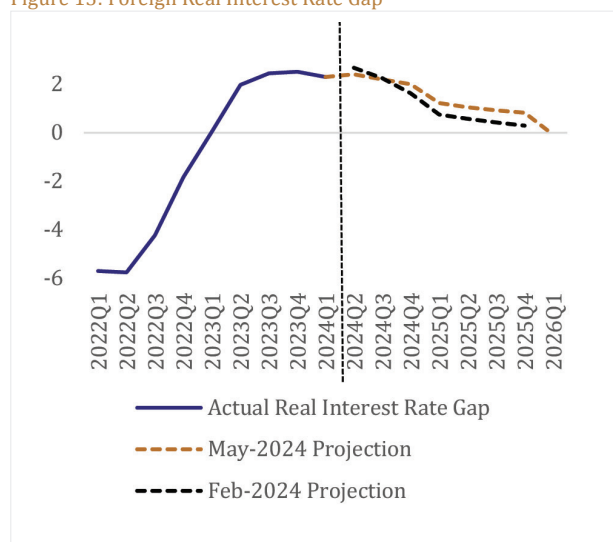
Source: Bank of Zambia Staff Computations

For the 2024-2026 period, inflation is projected to decline at a slower pace than forecasted in February, but remain above the Federal Reserve target. The persistence in inflation is underpinned by expectations of stronger economic activity, supported by higher growth in wages and employment as well as the heightened risk of higher energy prices.

The current inflation profile for South Africa is slightly higher than assumed in February (Table 4). This is due to increases in food prices, higher services inflation, elevated inflation expectations and a weaker exchange rate. Inflation is now anticipated to return to the target range at the end of 2025.

Policy interest rates in major economies were held steady in the first quarter of 2024 by most central banks except for the Bank of Japan<sup>24</sup>, that raised the benchmark interest rate (Figure 13). There are indications of the Federal Reserve, Bank of England (BoE) and European Central Bank (ECB) keeping interest rates elevated for longer citing the need to sustainably slowdown inflation towards medium-term targets.

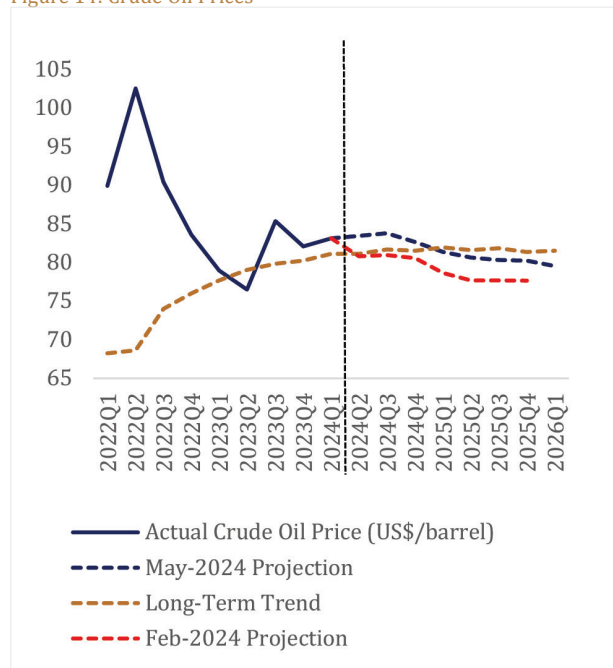
Figure 13: Foreign Real Interest Rate Gap<sup>25</sup>



Source: Bank of Zambia Staff Computations

Crude oil and copper prices rose in the first quarter of 2024 on account of supply constraints (refer to section 2.1). Over the next eight quarters, crude oil prices are projected to rise slightly higher than assumed in the *February 2024 Monetary Policy Report* (Table 4 and Figure 14), supported by improvements in demand amid tight supply.

Figure 14: Crude Oil Prices



Source: Bank of Zambia Staff Computations

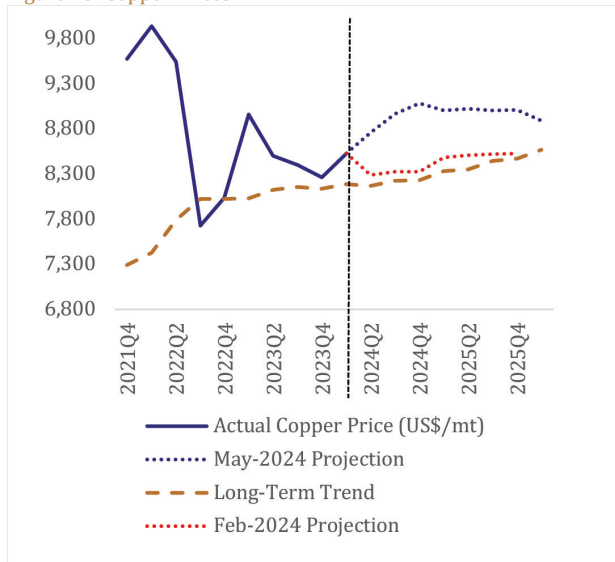
Copper prices are projected to be higher and above the long-term trend compared to the February forecast (Table 4 and Figure 15) mainly underpinned by tight supply.

<sup>23</sup>Foreign inflation gap is the difference between observed US inflation and the inflation target. A negative foreign inflation gap implies inflation below its target while a positive gap reflects the converse.

<sup>24</sup>Japan increased the benchmark interest rate for the first time in 17 years owing to the rise in wages induced by relatively higher inflation.

<sup>25</sup>This is the difference between the prevailing foreign interest rate and the long-run equilibrium real interest rate. In the QPM, foreign real interest rates are important for determining the risk premium. A rising foreign real interest rate gap signifies increases in the risk premium, which implies a depreciation of the nominal exchange rate. Like the foreign output gap, the foreign real interest rate gap is exogenously determined and taken as given in the model.

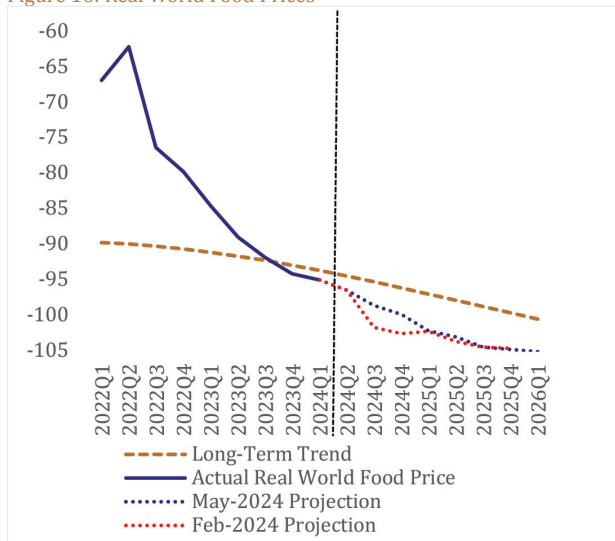
Figure 15: Copper Prices



Source: Bank of Zambia Staff Computations

World food prices<sup>26</sup> declined in the first quarter mainly on account of ample supply by major exporting economies. Over the forecast horizon, the FAO Food Price Index is projected to continue declining and remain below the long-term trend (Figure 16).

Figure 16: Real World Food Prices



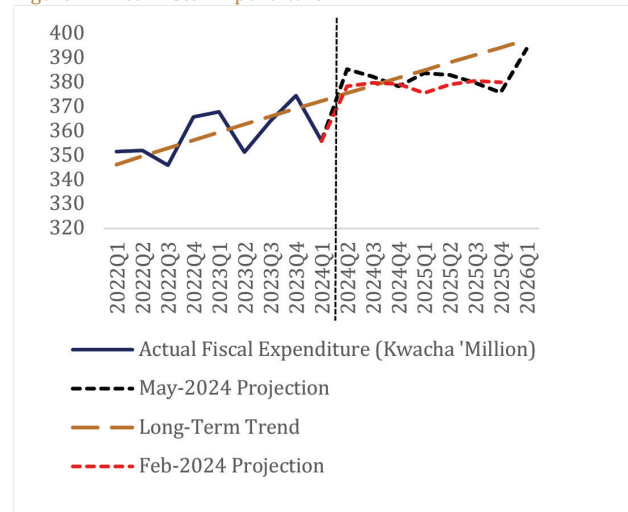
Source: Bank of Zambia Computations

## Domestic Conditions

The fiscal deficit is projected to continue narrowing over the forecast horizon (Table 4). Real fiscal expenditures are expected to remain broadly below the long-term trend as fiscal consolidation efforts continue (Figure 17) as indicated in the *February 2024 Monetary Policy Report*. Therefore, fiscal impulses are expected to continue being disinflationary, particularly in 2025 and 2026.

<sup>26</sup>World food prices are measured by the FAO Food Price Index, a weighted average of five commodity sub-indices, with the weight of the cereals sub-index being the second largest ([https://www.fao.org/fileadmin/templates/worldfood/Reports\\_and\\_docs/FO-Expanded-SF.pdf](https://www.fao.org/fileadmin/templates/worldfood/Reports_and_docs/FO-Expanded-SF.pdf)). This is relevant to our inflation forecast as the CPI basket is dominated by cereals (mostly maize) as a single product.

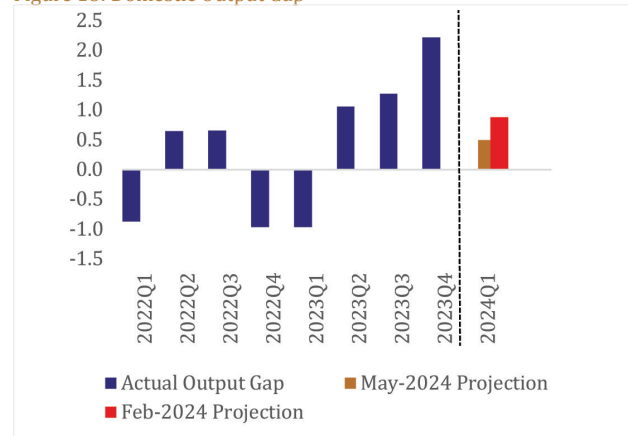
Figure 17: Real Fiscal Expenditure



Source: Bank of Zambia Computations

The domestic output gap is projected to be positive in the first quarter of 2024, but is lower than the February forecast (Figure 18). For the entire forecasting period, the domestic output gap is projected to be negative similar to the February forecast (Figure 10).

Figure 18: Domestic Output Gap<sup>27</sup>



Source: Bank of Zambia Staff Computations

*Monetary conditions*<sup>28</sup> continued to be loose in the first quarter of 2024 because of the sustained depreciation of the real exchange rate. The real Monetary Policy Rate (MPR) remained negative and contributed to loose monetary conditions.

In the first quarter of 2024, marginal costs of production for importing firms rose further, sustaining elevated inflation levels, due to the persistent depreciation of the nominal exchange rate.

<sup>27</sup>The domestic output gap estimates the deviation of aggregate demand from its potential. Negative output gap implies slack in demand while positive output gap implies excess demand. The output gap is endogenously determined by expectations, monetary conditions, foreign demand, terms of trade and fiscal policy.

<sup>28</sup>The monetary conditions index is computed as a weighted average of interest rate and real exchange rate gaps based on the calibrations of the QPM. Positive values imply tight monetary conditions—constrain aggregate demand—while negative values imply loose monetary conditions—boost aggregate demand.

Reserve money is now projected to grow by 5.8 percent during the last three quarters of 2024 and further by 0.6 percent in 2025, but contract by 6.9 percent in 2026. The growth in reserve money in 2024 and 2025 is on account of net Government spending while the contraction in 2026 is mostly due to net Government securities sales.

In this forecasting round, maize grain prices are higher than assumed in February, but diesel prices are lower (Table 4). The respective current average market prices of maize grain and diesel of K444.50/50kg bag and K30.36 per litre are assumed and held constant for each quarter throughout the forecast horizon.

Overall, external initial conditions have improved somewhat compared to the *February 2024 Monetary Policy Report* while domestic initial conditions remain unfavourable. Thus, inflation is projected to stay above the target band under a **no policy change scenario**.

This projection takes into account the 9.0 percent increase in electricity tariffs that was effected on May 1 and the expected 15.0 percent hike in the second quarter of 2025 similar to the February forecast.

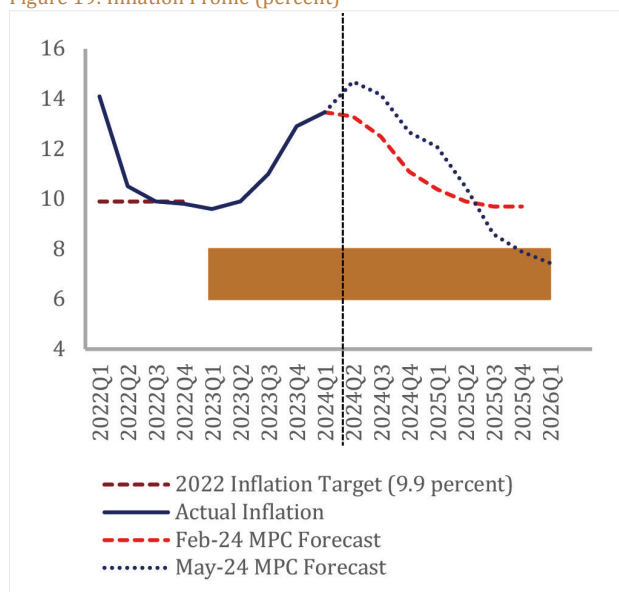
The current inflation projection is slightly higher in 2024 than the February forecast due to the sustained depreciation of the Kwacha against the US dollar as well as the adverse impact of food and energy prices (Table 5). However, inflation is expected to moderate in 2025 and 2026 as output recovers, global food prices decline further and the external sector environment improves.

Table 5: Projected Average Inflation (percent)

	2024	2025	2026Q1
May -2024 Projection	13.7	9.8	7.4
Feb -2024 Projection	12.5	9.9	n/a

Source: Bank of Zambia Compilations

Figure 19: Inflation Profile (percent)



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

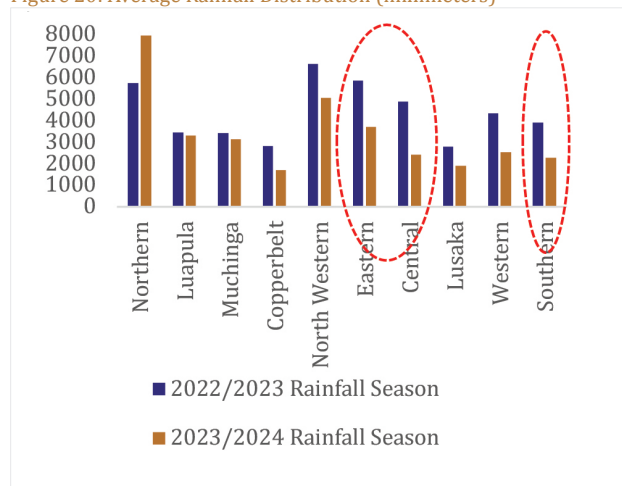
## Assessment of Risks to the Inflation Outlook

Since the February 2024 MPC Meeting, some risks have materialised while others are persisting. These are as follows:

### a) Higher maize grain prices due to reduced supply amid prevailing adverse weather conditions in the region.

While part of this risk has materialised, reflected in higher maize grain prices than assumed during the *February 2024 Meeting*, the impact of the drought being experienced in the Southern Africa region<sup>29</sup> could be much more than envisaged. In Zambia, key agricultural production areas—Eastern, Central and Southern Provinces—received lower rainfall this season than in the same period last year (Figure 20). Maize output is expected to be significantly lower than the 2022/2023 season, requiring importation of about 650, 000 metric tonnes. In addition, a deficit<sup>30</sup> of white maize grain is anticipated in the SADC region for the 2024/2025 season. This will intensify regional demand and push domestic maize grain prices higher;

Figure 20: Average Rainfall Distribution (millimeters)



Source: Zambia Meteorology Department and Bank of Zambia Compilations

Top maize producing provinces

### b) Higher cost of production associated with extended hours of electricity load management.

With the continued decline in water levels at Kariba Dam and possible increase in the number of daily loadshedding hours to more than eight (8) hours, the cost of production is likely to rise further due to extended usage of expensive alternative sources of energy. As a result, prices of goods and services could rise higher than projected as firms pass on production costs to consumers;

### c) Higher energy prices due to the escalation of conflict in the Middle East.

This risk has partially materialised with crude oil prices rising as high as US\$92 per barrel in the week ending April 12. The

<sup>29</sup>South Africa, Lesotho, Swaziland, Botswana, Namibia, Malawi and Zambia.

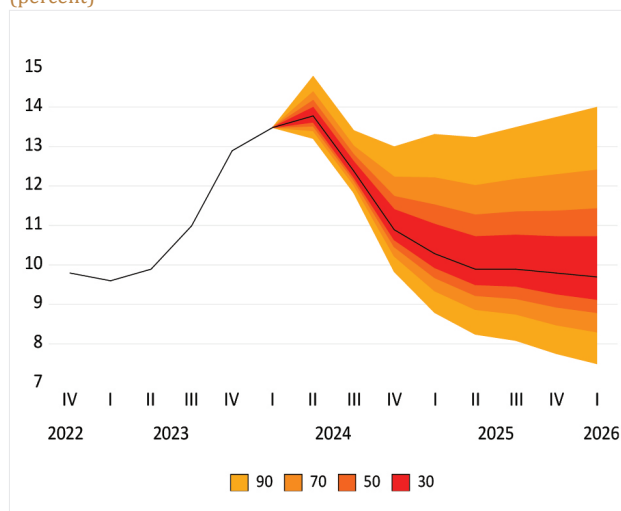
<sup>30</sup>Volop Africa Limited.

Israeli-Hamas conflict remains a risk as there are indications of further escalation. This could result in higher-than-projected crude oil prices due to supply chain disruptions and elevated shipping costs; and

**d) Tighter global financial conditions.** Unlike in the *February 2024 Monetary Policy Report* when expectations of policy rate cuts in advanced economies, particularly the US, were relatively high, there has been a shift in expectations as inflation remains above medium to long-term targets for most countries. Further escalation of geopolitical conflict risks could result in renewed inflationary pressures and lead to central banks in advanced economies keeping interest rates at elevated levels for a longer-than-expected period or tightening monetary policy further.

As depicted in Figure 21 and Table 6, the risks to the inflation outlook are broadly skewed to the upside. This implies that the probability of inflation outcome exceeding the baseline projection is higher.

Figure 21: Inflation – Actual and Projected: Q4 2022 – Q1 2026 (percent)



Source: Bank of Zambia and Zambia Statistics Agency

Table 6: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
9.5– 14.0	30
9.2– 14.2	50
8.8 – 14.4	70
8.1 – 14.8	90

Source: Bank of Zambia

## 1.5 Monetary Policy Decision

### ... Policy Rate raised further

The Monetary Policy Committee noted the continued movement of inflation away from the target band of 6-8 percent and persistent rise in inflation expectations, which if left unchecked, could undermine macroeconomic stability and efforts towards robust and sustained growth.

Further, the Committee noted that the current drought has led to a significant downgrade of domestic growth forecast for 2024 to 2.3 percent from the earlier projection of 4.4 percent. The drought has also necessitated the importation of significant amounts of the staple food (maize grain) and electricity leading to a projected deterioration in the current account. Additional fiscal resources are also required to accommodate the adverse impact of the drought, notably the threatened food security and livelihoods for a significant proportion of the population.

Notwithstanding the adverse impact of the drought, the Committee decided to **raise the Monetary Policy Rate by 100 basis points to 13.5 percent**. The decision augmented earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange rate channel, and addressing rising inflation expectations.

Decisions on the Policy Rate will continue to be guided by inflation outcomes, forecasts, and identified risks, including those associated with financial stability. The Bank stands ready to take appropriate action should inflation persist above the 6-8 percent target band.



BANK OF ZAMBIA

## 2. Current Economic Developments

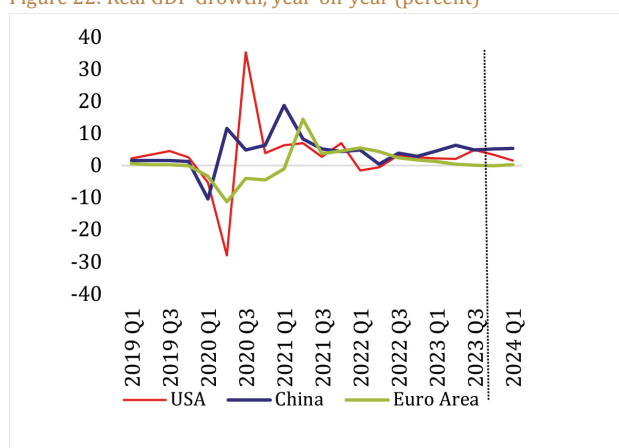
- *Global growth remains positive despite moderation in the US.*
- *Global financial conditions remain tight as relatively high policy rates are maintained to push inflation back to target.*
- *Current account deficit narrows further on improvement in net exports and secondary income transfers.*
- *Interest rates broadly increase, domestic credit and money supply growth slowdown as monetary policy is tightened.*
- *Economic activity slows down on escalating inflationary pressures partly induced by a weaker exchange rate.*
- *Budget performance constrained by domestic financing.*
- *Inflation rises further mostly on sustained exchange rate depreciation as well as rising maize grain and fuel prices.*

### 2.1 External Sector

#### ... global growth remains positive

In the first quarter, real GDP grew steadily in China, recovered in the euro area, but slowed down in the US<sup>31</sup> (Figure 22).

Figure 22: Real GDP Growth, year-on-year (percent)



Source: Federal Reserve Bank of St. Louis, National Bureau of Statistics & Eurostat, and Bank of Zambia Compilations

The 0.1 percentage point increase in real GDP growth in China to 5.3 percent was driven by the sustained expansion of the services sector, recovery in manufacturing activity and policy measures<sup>32</sup> directed at supporting the property sector.

The recovery in GDP growth in the euro area to 0.3 percent after contracting by 0.1 percent in the previous quarter largely reflected strengthening external demand, easing inflation and a steady pick-up in real wages.

<sup>31</sup>Economic activity in the US, euro area and China is used as a proxy for global growth.

<sup>32</sup>Economic stimulus measures include reduced reserve requirement ratio, direct credit support to 'qualified' property developers, use of state-owned investment funds to stabilise capital markets, and changes to some unfavourable regulations governing the technology sector (Reuters, People's Bank of China, and Bloomberg).

The slowdown in growth in the US to 1.6 percent from 3.4 percent was primarily due to slower growth in both consumer and government spending amid a widening trade deficit as imports surged while exports declined.

#### ...positive growth in major trading partner countries sustained

The GDP-9 Index rose by 11.0 percent in the first quarter of 2024 compared to 1.3 percent in the previous quarter (Table 7 and Figure 23).

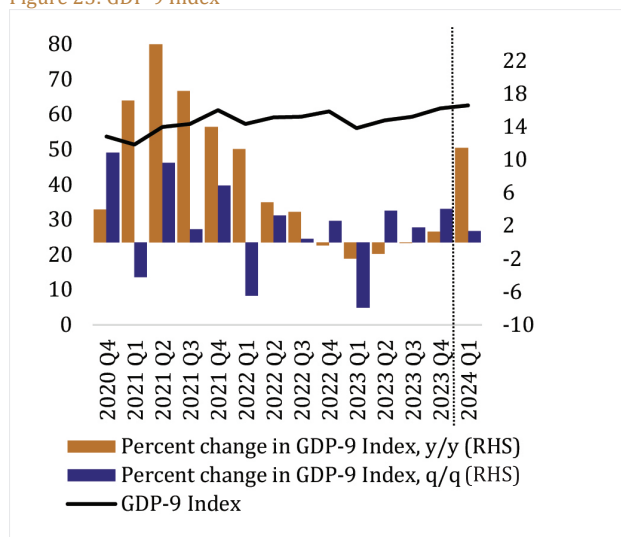
Table 7: Quarterly Changes in GDP-9 Index and Country Contributions

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
percent change					
GDP-9 Index	-1.93	-1.40	-0.08	1.33	10.96
Contribution to the GDP-9 IndexChange					
China	-0.86	-0.60	-0.03	0.60	2.89
DRC	-0.48	-0.32	-0.02	0.34	0.61
S/Africa	-0.28	-0.21	-0.01	0.19	5.13
Singapore	-0.11	-0.11	-0.01	0.06	0.17
UK	-0.09	-0.05	0.00	0.07	1.64
UAE	-0.04	-0.04	0.00	0.02	0.00
Tanzania	-0.03	-0.02	0.00	0.02	0.21
Malawi	-0.03	-0.03	0.00	0.02	0.11
H/Kong	-0.02	-0.02	0.00	0.01	0.19

Source: Bank of Zambia Compilations

DRC = The Democratic Republic of the Congo, S/Africa = Republic of South Africa, H/Kong = Hong Kong

Figure 23: GDP-9 Index



Source: Bank of Zambia Compilations

The expansion in economic activity in South Africa, China (explained earlier), UK and DRC mostly underpin the increase in the Index.

In South Africa, growth was largely supported by reduced load shedding as well as improvement in the rail system and port services. Growth in the UK was driven by falling inflation, which boosted real disposable income, and sustained expansion of the services sector. For the DRC, growth continued to be underpinned by increased investments and output in the mining sector.

### ... copper and crude oil prices rise

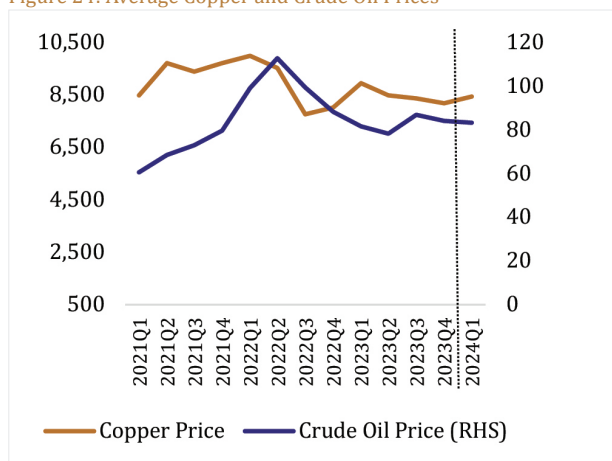
In the first quarter of 2024, copper prices picked up by 3.2 percent to US\$8,528.27 per metric tonne after declining for four consecutive quarters (Figure 24). The increase was primarily driven by tighter-than-expected global supply<sup>33</sup> due to disruptions at some major mines and smelters, recovery in manufacturing activity in China and the US<sup>34</sup>, as well as the provision of additional stimulus measures to the property sector in China<sup>35</sup>.

<sup>33</sup><https://www.mining.com/web/coppers-run-continues-with-surge-to-highest-since-june-2022/>

<sup>34</sup><https://www.livemint.com/market/stock-market-news/metals-rebound-in-global-manufacturing-driving-prices-highs-indian-stocks-including-vedanta-hindustan-zinc-soar-11712905858845.html>

<sup>35</sup>In February, the People's Bank of China (PBoC) cut the required reserve ratio by 50 basis points to boost liquidity in the banking system and support the struggling property sector and the broader economy.

Figure 24: Average Copper and Crude Oil Prices



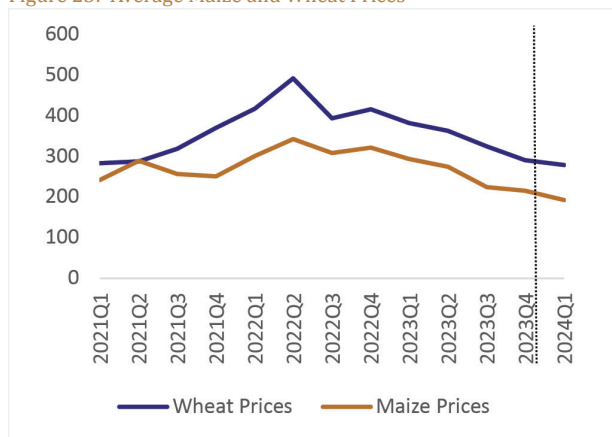
Source: World Bank Pink Sheet and Bank of Zambia Compilations

Similarly, crude oil prices rose by 1.3 percent to US\$83.13 per barrel on account of constrained supply following an extension of supply cuts by OPEC+, attacks on Russian energy infrastructure by Ukraine, and escalation of conflict in the Middle East.

### ... maize and wheat prices maintain a downward trend

Maize and wheat prices declined by 10.8 percent and 4.1 percent to US\$192.77 per metric tonne and US\$279.08 per metric tonne, respectively in the first quarter of 2024 (Figure 25).

Figure 25: Average Maize and Wheat Prices



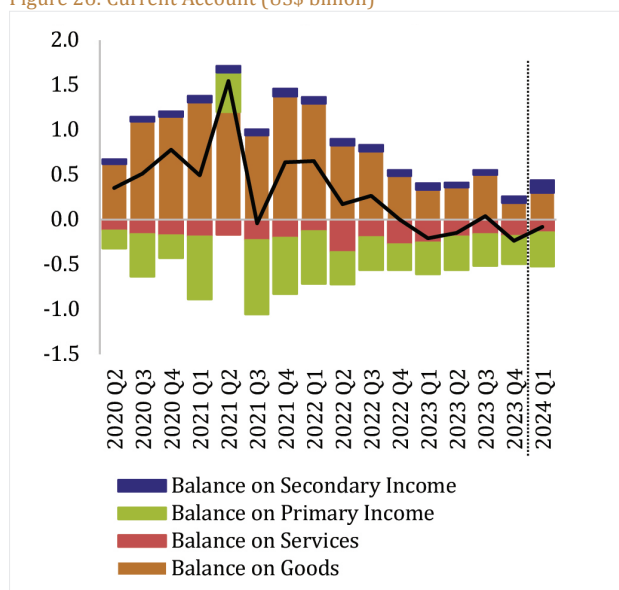
Source: World Bank Pink Sheet Data and Bank of Zambia Compilations

Increased supply by major exporting countries led to a further decline in maize and wheat prices during the quarter.

### ... current account deficit narrows further

The current account deficit narrowed further in the first quarter of 2024 to US\$0.1 billion (1.2 percent of GDP) from US\$0.2 billion (3.4 percent of GDP) in the fourth quarter of 2023 (Figure 26). The increase in net exports (balance on goods) and secondary income transfers largely explain the reduction in the current account deficit.

Figure 26: Current Account (US\$ billion)



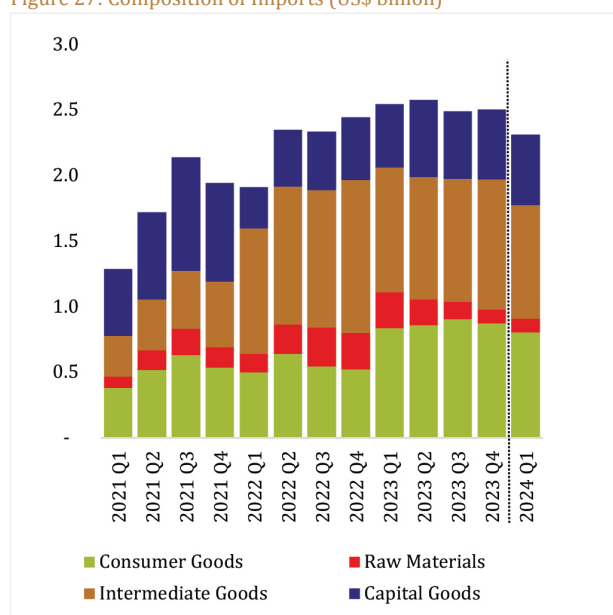
Source: Bank of Zambia

The balance on goods increased by almost 60.0 percent to US\$0.3 billion as imports declined more than exports. Merchandise imports declined by 7.7 percent to US\$2.1 billion (Figure 27) mostly due to the sustained depreciation of the exchange rate. The most affected goods were fertilisers, paper and paper products, chemicals, motor vehicles, iron and steel, food, as well as electrical machinery and equipment.

Merchandise exports fell by 2.5 percent to US\$2.4 billion due to lower copper and non-traditional export (NTEs) earnings (Figure 28). Copper export earnings fell marginally by 0.2 percent to US\$1.5 billion, reflecting reduced volumes despite soaring prices<sup>36</sup>. Similarly, NTEs declined by 6.6 percent to US\$0.9 billion. This was attributed to lower receipts from maize and maize seed, fresh fruits and vegetables, and electricity owing to the impact of the drought that has adversely affected agricultural production and energy generation.

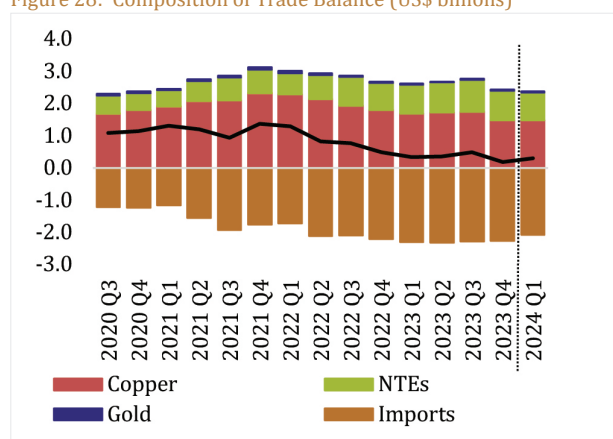
The secondary income account surplus increased following receipt of grants from Cooperating Partners.

Figure 27: Composition of Imports (US\$ billion)



Source: Bank of Zambia

Figure 28: Composition of Trade Balance (US\$ billions)



Source: Bank of Zambia

## 2.2 Global Financial Conditions

### ... remain tight

Central banks in advanced economies were expected to begin easing monetary policy in the first quarter of 2024. This was on the back of sustained decline in inflation and expectations of a weaker economic environment. However, inflation remained above the 2.0 percent target<sup>37</sup> in the US, UK and the euro area and growth emerged resilient, particularly in the US<sup>38</sup>. As a result, central banks in the US, UK and the euro area kept interest rates unchanged (Figure 29). In the case of China, the central bank maintained the policy rate to support domestic economic activity, which has been adversely affected by a weak property sector<sup>39</sup>.

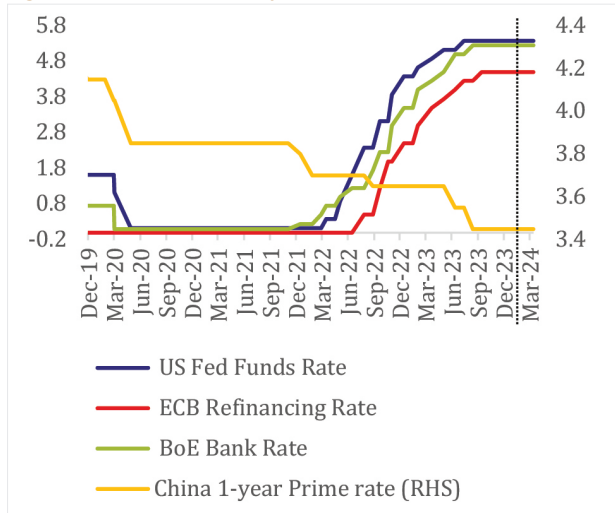
<sup>37</sup>In March 2024, inflation was 3.5 percent, 3.4 percent and 2.4 percent in the US, UK and euro area, respectively.

<sup>38</sup>This was reflected in strong labour market data, indicating creation of more jobs in 2024Q1 (829,000) than in 2023Q4 (637,000): [https://data.bls.gov/timeseries/ces0000000001?output\\_view=net\\_1mth](https://data.bls.gov/timeseries/ces0000000001?output_view=net_1mth)

<sup>39</sup>The PBoC maintained an accommodative monetary policy stance to boost domestic economic activity. In this regard, the policy rate

<sup>36</sup>Copper export volumes declined to 171,645.9 metric tonnes from 184,708.5 metric tonnes in the fourth quarter of 2023. In contrast, realised copper prices rose to US\$8,541.88 per metric tonne from US\$8,260.24 per metric tonne.

Figure 29: Central Bank Policy Rates in Selected Economies

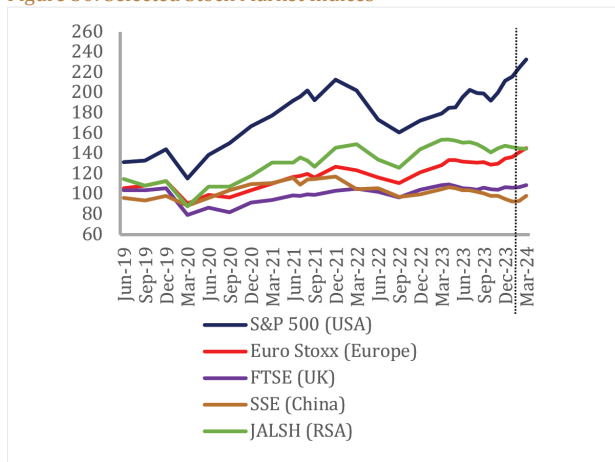


Source: Reuters and Bank of Zambia Compilations

... financial assets rally except for bonds

As expectations of interest rate cuts persisted, despite central banks keeping them unchanged, global risk sentiment and demand for higher return on assets, such as equities, improved. As a result, the S&P 500, Euro Stoxx 50 and FTSE 100 rose by 10 percent, 7.6 percent and 2.2 percent, respectively (Figure 30).

Figure 30: Selected Stock Market Indices

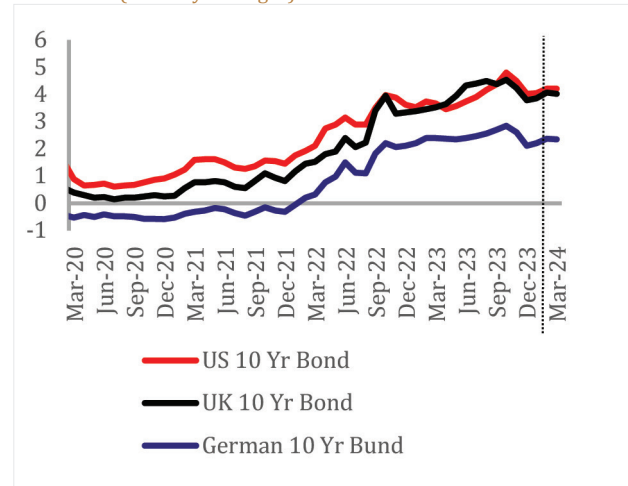


Source: Reuters and Bank of Zambia Compilations

Improved risk appetite led to the decline in demand for bonds. Consequently, yield rates on 10-year Government bonds in the US, UK and Germany rose by 18, 22 and 24 basis points to 4.21 percent, 4.01 percent and 2.36 percent, respectively in the quarter (Figure 31).

was unchanged in the first quarter, but the required reserve ratio was reduced by 50 basis points.

Figure 31: US, UK, and German Average 10-Year Benchmark Bond Yield Rates (monthly averages)

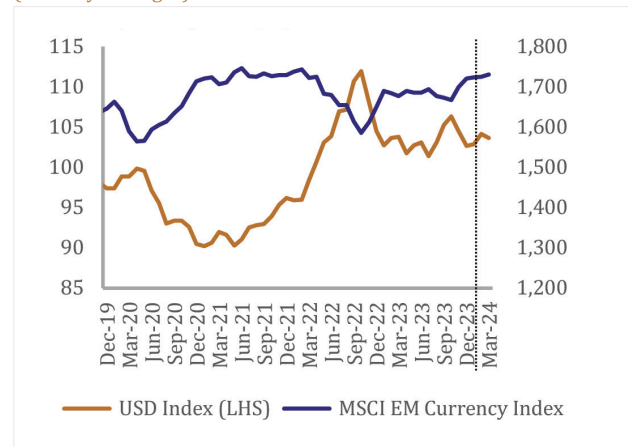


Source: Reuters and Bank of Zambia Compilations

Higher global risk appetite also supported demand for emerging market equities in general. Thus, the MSCI Emerging Market Equity Index gained 4.8 percent in the first quarter of 2024 compared to a 3.2 percent decline in the last quarter of 2023. For instance, share prices in China rose by 3.0 percent (Figure 30). This was also underpinned by an improved economic outlook following stimulus measures. However, in South Africa, domestic factors outweighed the impact of stronger global risk appetite as structural constraints, particularly persistent power outages despite some reduction, undermined investor demand. Consequently, the Johannesburg All-Share Index fell by 2.2 percent.

Positive sentiments also supported currencies in emerging markets despite a marginal gain in the US dollar index (Figure 32). Thus, the MSCI Emerging Market Currency Index rose by 0.5 percent. Notable gains were recorded for the Chinese renminbi and Indian rupee, which constitute approximately 45 percent<sup>40</sup> of the Index.

Figure 32: US Dollar and MSCI Emerging Market Currency Indices (monthly averages)

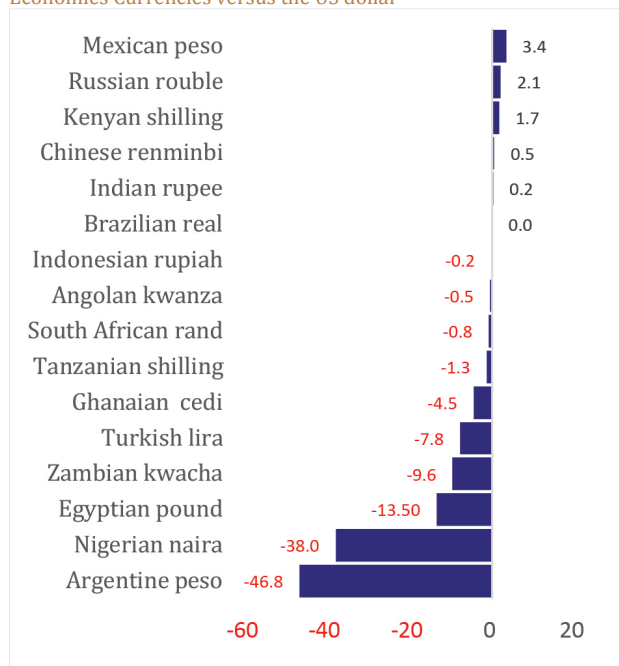


Source: Reuters and Bank of Zambia Compilations

<sup>40</sup>The weight of the Chinese renminbi is 30 percent while that of the Indian rupee is around 10-15 percent.

However, the Argentine peso, Nigerian naira, Egyptian pound and Turkish lira depreciated significantly due to high inflation coupled with other country-specific factors<sup>41</sup> (Figure 33).

Figure 33: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar\*



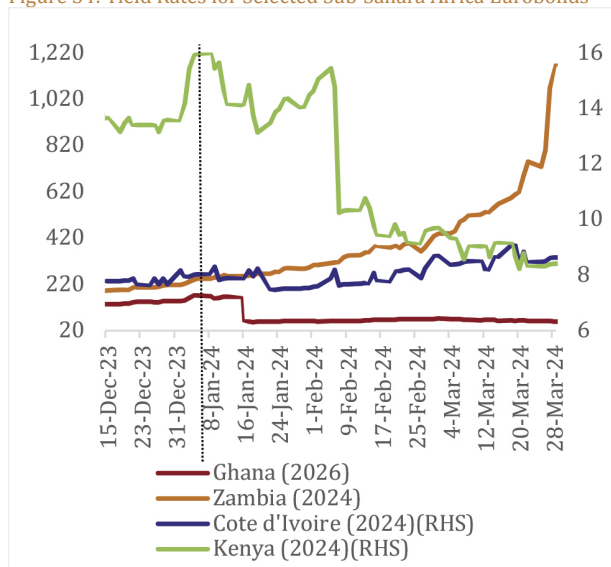
Source: Reuters and Bank of Zambia Computations

\*Negative numbers indicate a depreciation while positive numbers show an appreciation against the US dollar.

### ... SSA Eurobond yield rates fall

Eurobonds for sub-Saharan Africa (SSA) countries also benefitted from higher global risk appetite. This created a relatively conducive environment for some SSA countries, such as Kenya and Côte d'Ivoire to issue bonds<sup>42</sup> for the first time since April 2022<sup>43</sup>. Consequently, yield rates for the 2024 Kenya and Côte d'Ivoire Eurobonds fell to 11.5 percent and 8.1 percent from 14.9 percent and 8.3 percent, respectively (Figure 34). The Ghana 2024 Eurobond yield rate also declined by 39 percentage points to 8.1 percent mostly supported by positive sentiments following a debt restructuring agreement with official creditors in January.

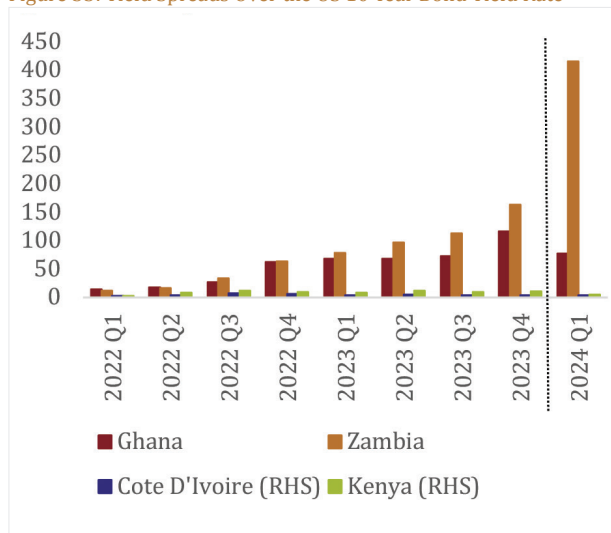
Figure 34: Yield Rates for Selected Sub-Sahara Africa Eurobonds



Source: Reuters and Bank of Zambia Staff Computations

In contrast, the yield rate for the Zambia 2024 Eurobond increased by 253 percentage points to 419.9 percent. This arose from increasing concerns about delayed debt restructuring, particularly the previously rejected agreement with Eurobond creditors (*February 2024 Monetary Policy Report*, page 17). Consequently, the spread between the Zambia 2024 Eurobond and US 10-year Treasury widened (Figure 35)<sup>44</sup>. However, the yield on the Eurobond maturing in 2027 declined to 18.7 percent from 20.4 percent after an agreement with Eurobond holders was reached in March.

Figure 35: Yield Spreads Over the US 10-Year Bond Yield Rate



Source: Reuters and Bank of Zambia Staff Computations

\*Spreads above 1,000 basis points put a bond into the junk bond category.

<sup>41</sup>Argentine Government decision to devalue the currency in late 2023; US dollar shortages in Nigeria; floating of the Egyptian pound as part of the economic reform programme; and a weak economy in Turkey.

<sup>42</sup>Kenya and Côte d'Ivoire raised US\$1.5 billion and US\$2.6 billion from Eurobond issuances during the quarter.

<sup>43</sup>World Bank Africa Pulse: <https://openknowledge.worldbank.org/server/api/core/bitstreams/11e850d1-50ca-4d49-b4bf-f717d3a-d47a8/content>

<sup>44</sup>A fall in spreads signals more favourable refinancing conditions for borrowers as their credit risk is generally perceived to have fallen.

## 2.3 Domestic Financial Conditions

### ... tighten

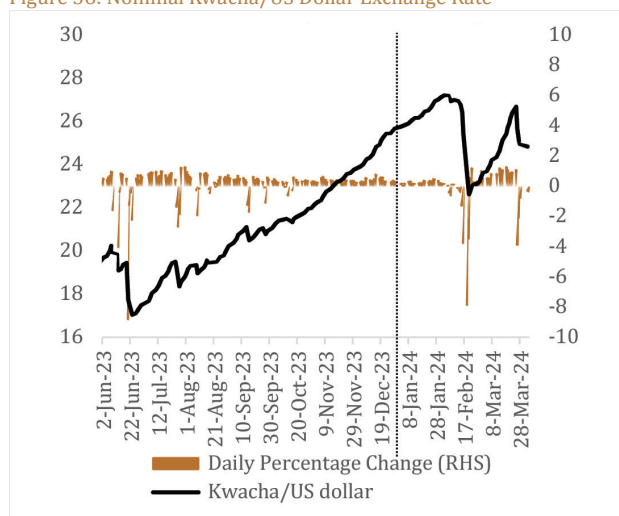
Domestic financial conditions tightened as the Bank took measures to moderate volatility in the exchange rate to contain inflationary pressures. These were complemented by cash consolidation measures by the Government.

### ... exchange rate depreciation slows down

The nominal depreciation of the Kwacha against major currencies moderated in the first quarter owing to the tightening of monetary policy and positive sentiments as significant progress was made on external debt restructuring. However, it appreciated in real terms due to relatively higher domestic inflation.

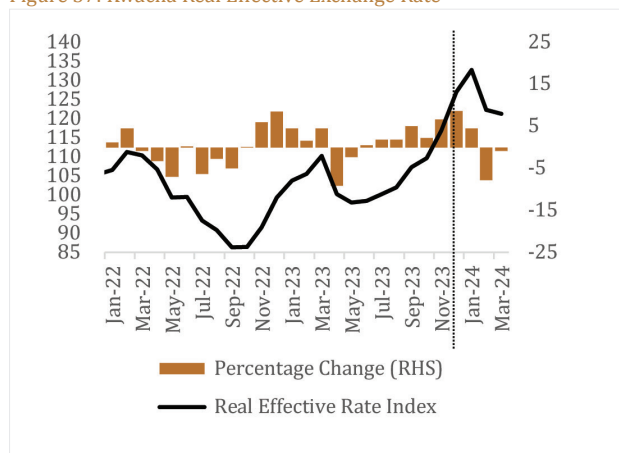
Against the US dollar, the Kwacha depreciated by 10.6 percent compared to 17.5 percent in the last quarter of 2023 (Figure 36). In contrast, it appreciated against a basket of major trading partner currencies reflected in a 4.5 percent decline in the real effective exchange rate (Figure 37).

Figure 36: Nominal Kwacha/US Dollar Exchange Rate



Source: Bank of Zambia

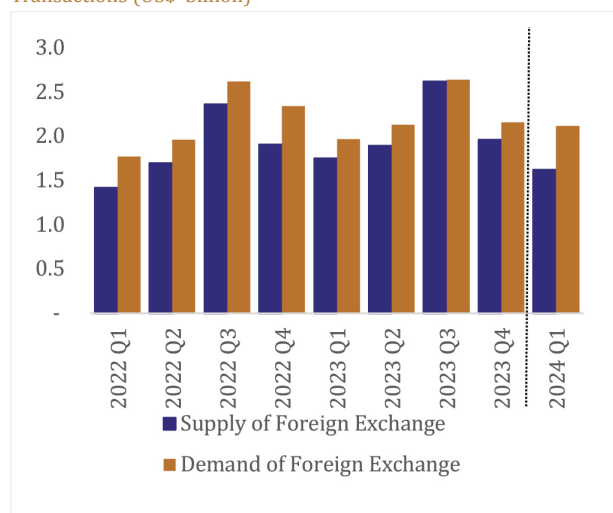
Figure 37: Kwacha Real Effective Exchange Rate



Source: Bank of Zambia

The supply of foreign exchange remained low in the quarter while relatively high demand persisted. Supply declined by 17.3 percent to US\$1.6 billion while demand marginally reduced by 1.8 percent to US\$2.1 billion (Figure 38). The reduction in supply was notably from the mining sector (Figure 39). To support the market, the Bank sold US\$369.0 million, on a net basis, consisting of mining taxes (US\$190.8 million) paid directly in US dollars to the Bank (Figure 40) and reserves.

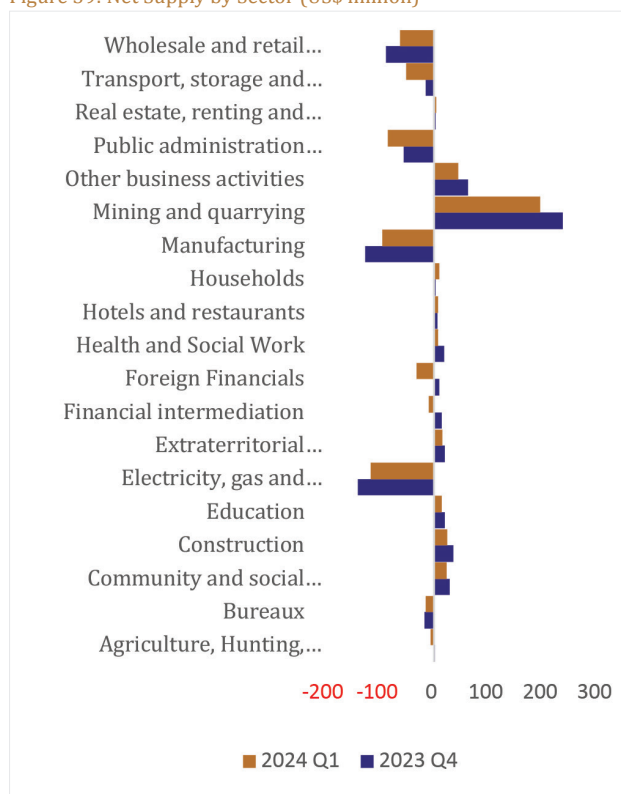
Figure 38: Commercial Banks' Overall Foreign Exchange Transactions (US\$' billion)



Source: Bank of Zambia

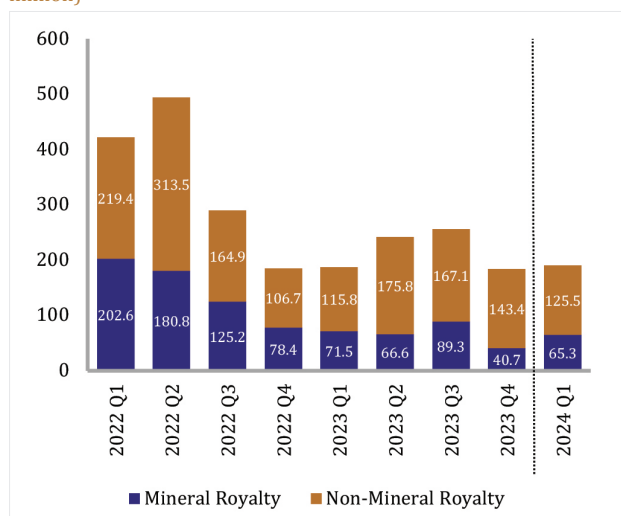
Note: All spot purchases and sales of respective foreign currencies against the Kwacha are converted into the local currency (Kwacha) using exchange rates at which they were executed and then converted into US dollar using the monthly average Kwacha/US dollar exchange rate.

Figure 39: Net Supply by Sector (US\$ million)



Source: Bank of Zambia

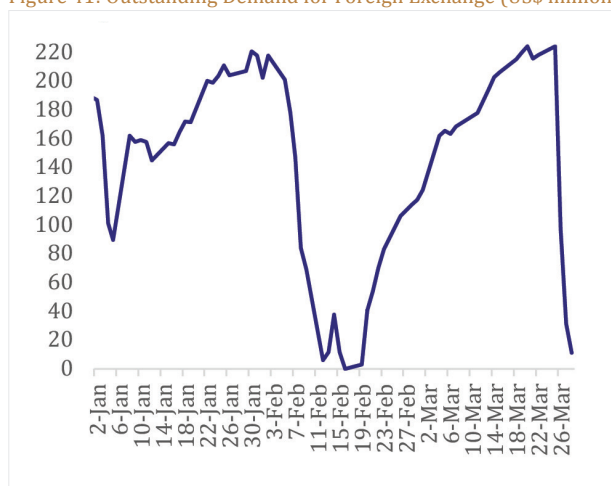
Figure 40: Mining Taxes Paid Directly to BoZ in US Dollars (US\$ million)



Source: Bank of Zambia

Demand backlog peaked at US\$217.9 million by February 2 (Figure 41) mostly from manufacturing; electricity, gas and water supply; foreign financials (non-resident financial institutions); and households. As a result, the Kwacha weakened to an all-time low of K27.22 per US dollar on February 5 (Figure 36).

Figure 41: Outstanding Demand for Foreign Exchange (US\$ million)



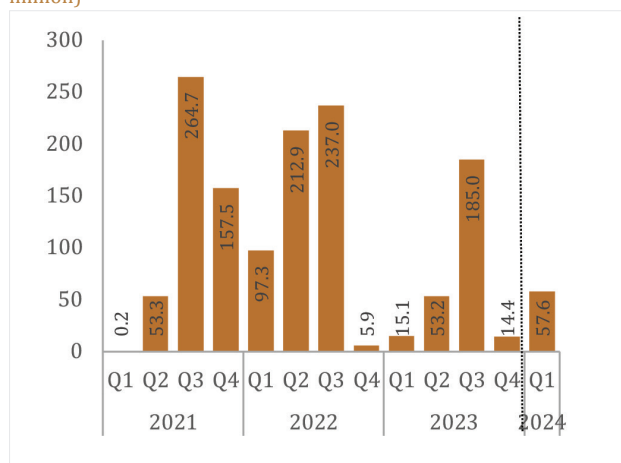
Source: Bank of Zambia

While the Bank continued to support the market to meet critical imports and moderate volatility in the exchange rate, demand remained unabated. In this regard, the statutory reserve ratio(SRR) was raised by 900 basis points to 26.0 percent on February 5 and the Monetary Policy Rate (MPR) by 150 basis points to 12.5 percent on February 14. Government also announced measures to streamline its cash management by transferring unutilised balances held in commercial bank accounts to the Bank of Zambia. The resulting tight liquidity conditions led to a sharp, but short-lived appreciation of the Kwacha against the US dollar by 20.3 percent to K22.63 over a 15-day period (Figure 36).

Market participants responded by withdrawing demand orders resulting in outstanding demand dropping to US\$38.0 million by mid-February (Figure 41). However, demand re-emerged as the strengthening of the Kwacha created buying opportunities. This led to a 35-day continuous depreciation of the Kwacha as supply remained subdued.

News that Government had reached a new agreement with Eurobond holders on March 25 triggered another sharp reversal in the exchange rate as investor sentiments turned positive and foreign exchange inflows improved, although momentarily. Over this period, activity in the interbank market picked up, resulting in a turnover for the quarter rising to US\$57.6 million from US\$14.4 million in the last quarter of 2023 (Figure 42).

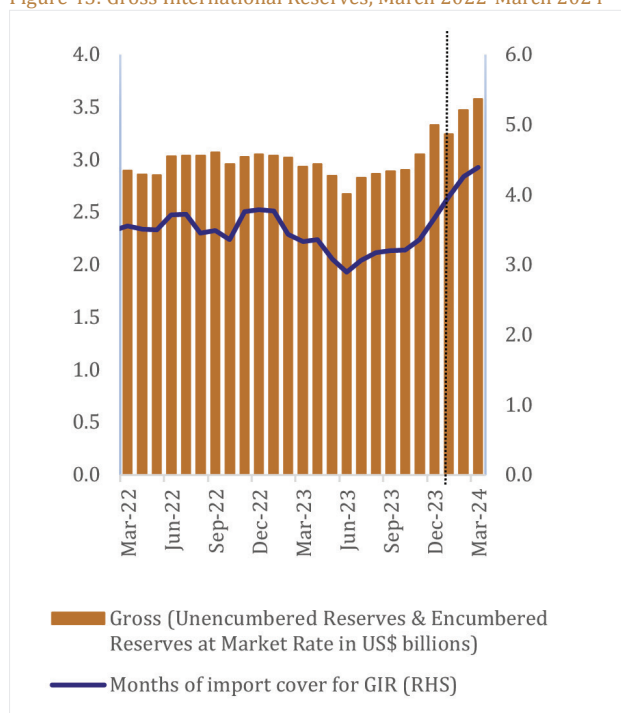
Figure 42: Turnover in Interbank Foreign Exchange Market (US\$ million)



Source: Bank of Zambia

Despite market support by the Bank, gross international reserves (GIR) increased to US\$3.6 billion (equivalent to 3.9 months of import cover) at end-March 2024 from US\$3.3 billion (equivalent to 3.7 months of import cover) at end-December 2023 (Figure 43). This was mainly due to net statutory reserve deposits.

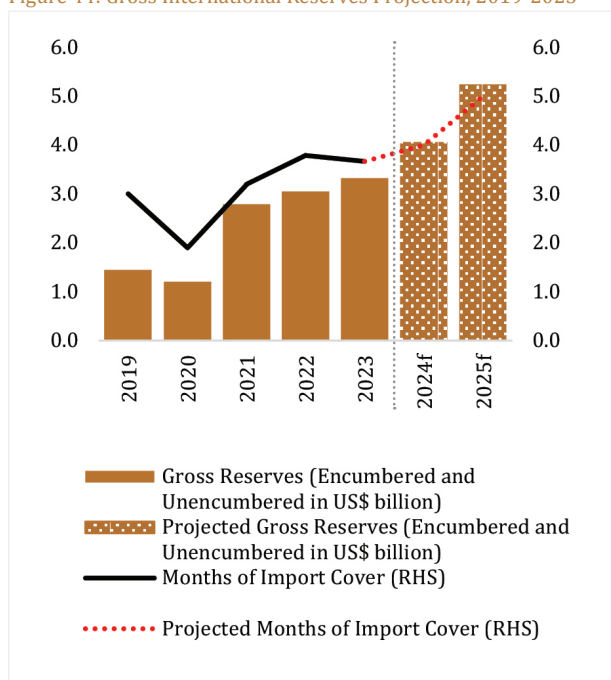
Figure 43: Gross International Reserves, March 2022-March 2024



Source: Bank of Zambia

The GIR is projected to rise to US\$4.1 billion (equivalent to 4.0 months of import cover) at end-December 2024 and further to US\$5.3 billion (equivalent to 5.0 months of import cover) at end-December 2025 (Figure 43). This is based on expected balance of payments and budget support.

Figure 44: Gross International Reserves Projection, 2019-2025



Source: Bank of Zambia

### ... monetary policy operations contractionary

In the first quarter, monetary policy operations were aimed at tightening liquidity conditions in the money market<sup>45</sup> mostly to stabilise the exchange rate. As a result, contractionary open market operations (OMO) with tenors of up to 28 days were conducted in January (Figure 45). This was despite the overnight interbank rate being aligned to the Policy Rate (Figure 46). However, low subscription by commercial banks for tenors beyond overnight constrained OMOs.

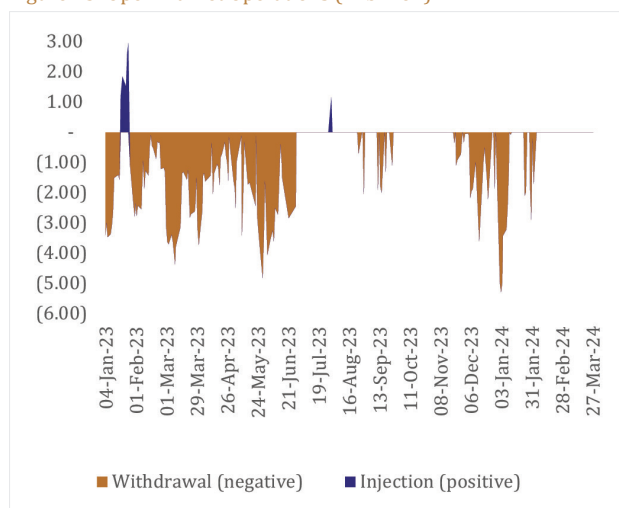
To effectively tighten liquidity, the SRR was raised resulting in a withdrawal of K8.1 billion from the banking system. The new Government cash management arrangement, net sales of foreign exchange for market support by the Bank, and Government revenue absorbed additional liquidity from the system.

As the market faced a cash deficit, the overnight interbank rate rose sharply and exceeded the Policy Rate Corridor (Figure 44). The interbank rate peaked at 21.5 percent on February 20<sup>46</sup>.

<sup>45</sup>This is approximated by current account Kwacha balances of commercial banks held at the Bank of Zambia also referred to as excess reserves.

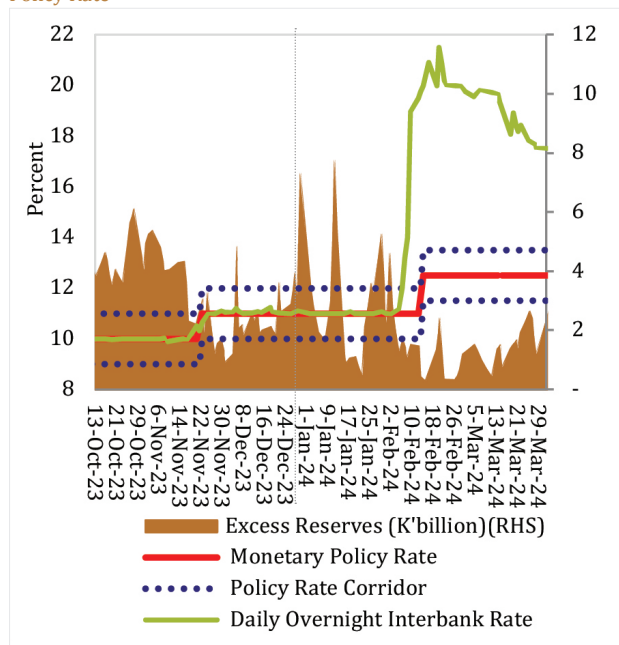
<sup>46</sup>This is akin to the March-August 2014 and November 2015-May 2016 periods when the interbank rate was deliberately allowed to stay above the Policy Rate Corridor in the quest to contain persistent depreciation of the exchange rate.

Figure 45: Open Market Operations (K' billion)



Source: Bank of Zambia

Figure 46: Excess Reserves, Overnight Interbank Rate and Monetary Policy Rate

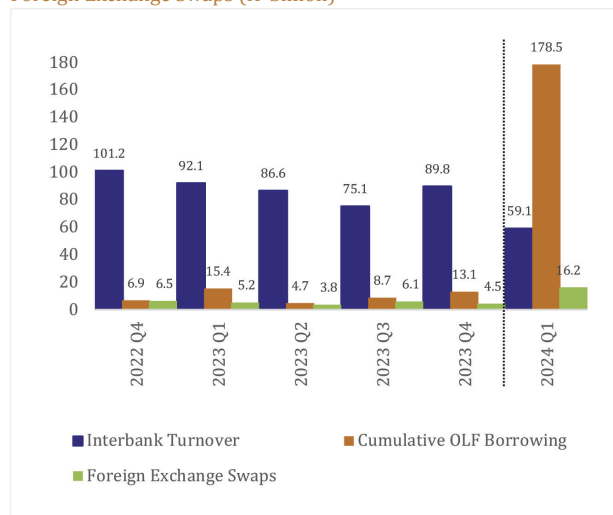


Source: Bank of Zambia

The system-wide shortage of liquidity constrained interbank trading leading to a decline in the turnover to K59.1 billion from K89.8 billion in the last quarter of 2023 (Figure 47). Consequently, commercial banks relied heavily on the Overnight Lending Facility (OLF)<sup>47</sup> and borrowed a cumulative K178.5 billion to meet settlement obligations (Figure 47). Commercial banks also obtained funds from the overnight foreign exchange swap market, pushing up the turnover to K16.2 billion from K4.5 billion in the previous quarter.

<sup>47</sup>The Bank utilizes the Overnight Lending Facility (OLF) to provide short-term liquidity assistance to commercial banks that experience temporary liquidity needs.

Figure 47: Interbank Turnover, Overnight Lending Facility and Foreign Exchange Swaps (K' billion)



Source: Bank of Zambia

### ... interest rates rise

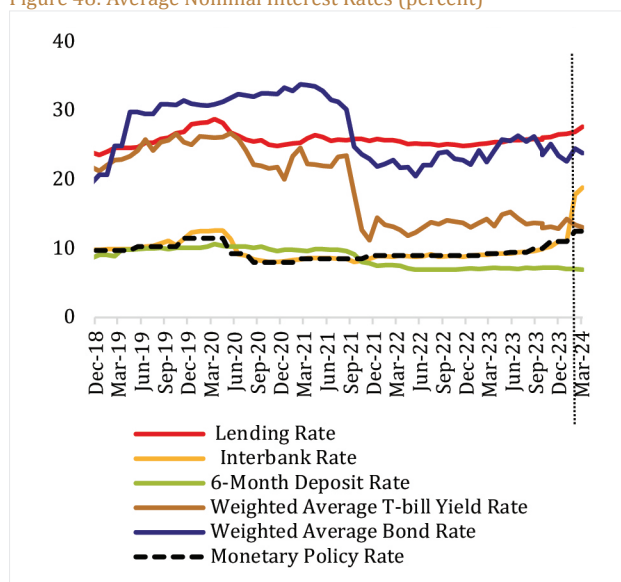
Market interest rates rose in the first quarter, mostly reflecting the tight monetary policy stance.

The overnight interbank rate rose sharply to 18.86 percent in March 2024 from 11.10 percent in December 2023 as money market liquidity conditions tightened and the Monetary Policy Rate (MPR) was hiked (Figures 46 and 48).

Similarly, commercial banks' average nominal lending rate (ALR) rose to 27.7 percent from 26.6 percent<sup>48</sup> in part due to the increase in the Policy Rate (Figure 48). This pushed up the real ALR (Figure 49). Yield rates on Government securities also rose on account of subdued demand in the primary market mainly occasioned by tight liquidity conditions. This was reflected in a substantial decline in subscription rates for Treasury bills and Government bonds to 38.5 percent and 87.0 percent from 115.4 percent and 153.8 percent, respectively. Consequently, the weighted average yield rate for Treasury bills and Government bonds increased to 13.1 percent and 23.9 percent from 12.9 percent and 23.5 percent, respectively (Figure 48). The 6-month deposit rate was broadly unchanged at 7.0 percent (Figure 48).

<sup>48</sup>Lending rates on Kwacha loans ranged from 11.0 percent to 35.0 percent while the deposit rate was between 1.5 percent and 19.5 percent. Lending rates on US dollar denominated loans were between 8.0 percent and 14.0 percent while the deposit rate ranged from 0.1 percent to 9.4 percent.

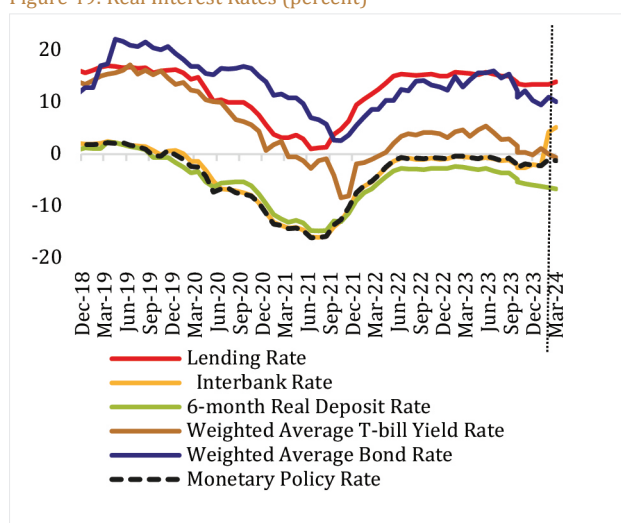
Figure 48: Average Nominal Interest Rates (percent)



Source: Bank of Zambia

The real 6-month deposit rate, Treasury bill rate and MPR remained negative (Figure 49). However, the real interbank rate turned positive in February after liquidity conditions significantly tightened.

Figure 49: Real Interest Rates (percent)



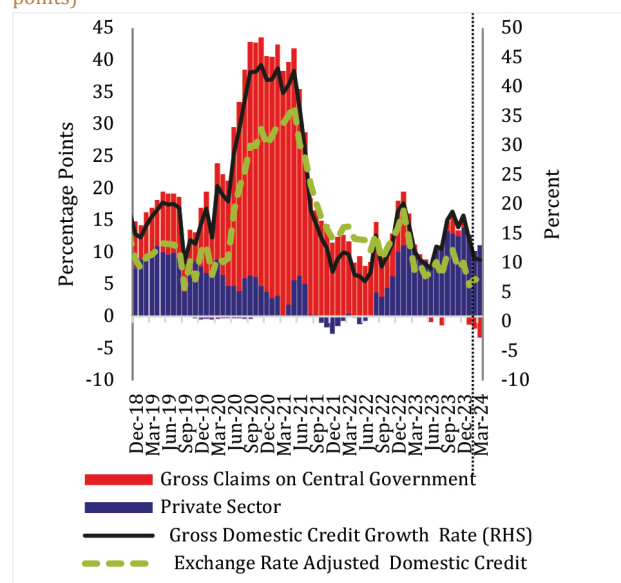
Source: Bank of Zambia

Respondents to the *May 2024 Credit Conditions Survey* and the *May 2024 Quarterly Survey of Business Opinions and Expectations* expect high lending rates to be maintained in the second quarter mostly on account of further tightening of liquidity conditions and hike in the Policy Rate to rein in rising inflation. This will drive borrowing costs further up and lower demand for loans.

... domestic credit growth slows down

Domestic credit<sup>49</sup> growth decelerated in March 2024 to 10.5 percent from 18.1 percent in December 2023 (Figure 50). Adjusted for the exchange rate depreciation<sup>50</sup>, domestic credit growth was 6.9 percent in March (10.1 percent in December 2023). This was mostly due to reduced lending by banks to both Government and the private sector. Consequently, the contribution to domestic credit by Government contracted to 3.3 percentage points (+1.7 percentage points in December 2023) while the private sector's reduced to 11.1 percentage points from 13.8 percentage points in December 2023.

Figure 50: Contribution to Credit Growth (year-on-year, percentage points)



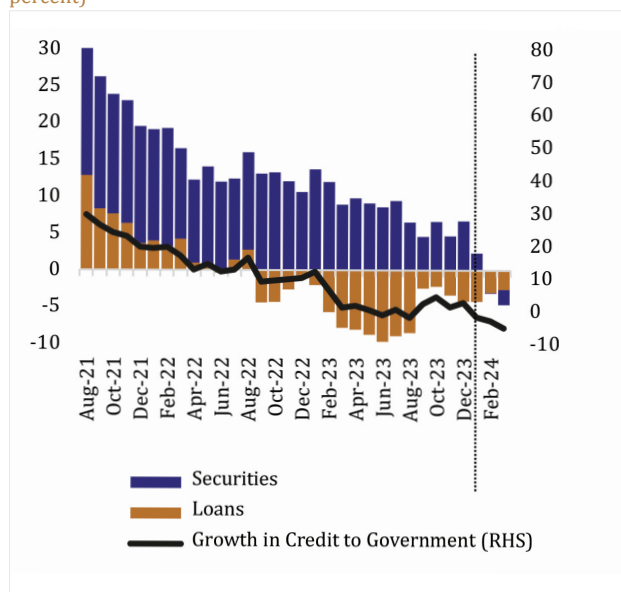
Source: Bank of Zambia

Lending to Government continued to decline broadly in line with the fiscal consolidation programme (Figure 51). Tight money market liquidity conditions contributed to the reduction in the accumulation of Government securities by commercial banks and lending by banks more broadly.

<sup>49</sup>Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign currency.

<sup>50</sup>Exchange rate adjusted domestic credit is calculated by multiplying the current US dollar amount by the exchange rate in the same month a year ago to eliminate valuation effects. A depreciation magnifies credit growth through the valuation effects on foreign currency credit. The opposite is true for an appreciation.

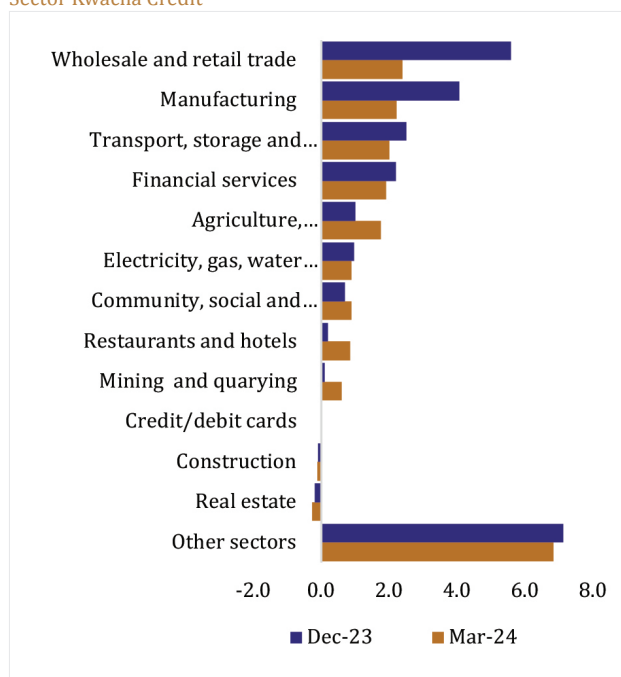
Figure 51: Credit to Government by Instrument (year-on-year, percent)



Source: Bank of Zambia

Growth in private sector credit reduced to 30.5 percent in March 2024 from 41.3 percent in December 2023 mainly on account of lower lending in Kwacha to the wholesale and retail; manufacturing; as well as transport, storage and communication sectors (Figure 52). Respondents to the *May 2024 Credit Conditions Survey* reported a reduction in the utilisation of overdraft facilities by some small and medium enterprises (SMEs) as well as large corporations due to elevated prices of imported raw materials and goods for resale induced by the persistent depreciation of the exchange rate. Adequate cash flows by some exporting firms contributed to the lower use of overdraft facilities.

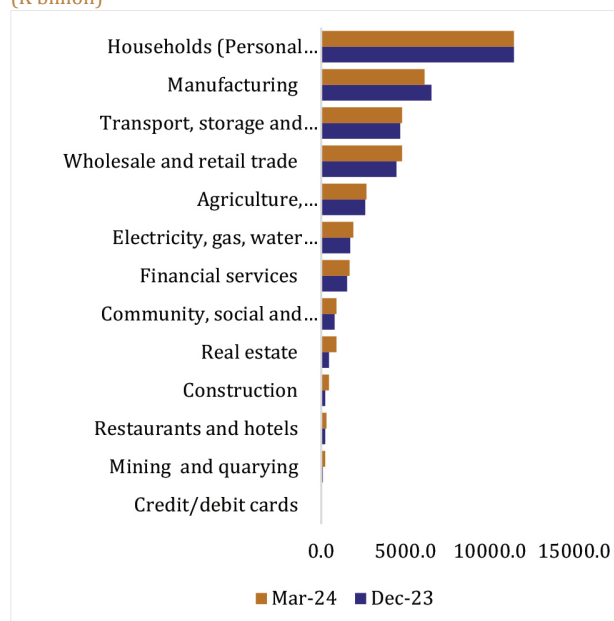
Figure 52: Sectoral Contribution to Annual Percent Change in Private Sector Kwacha Credit



Source: Bank of Zambia

As shown in figure 53, households (personal loans) continued to account for the largest proportion of credit in Kwacha followed by manufacturing as well as transport, storage and communication sectors.

Figure 53: Stock Distribution of Private Sector Kwacha Credit (K'billion)



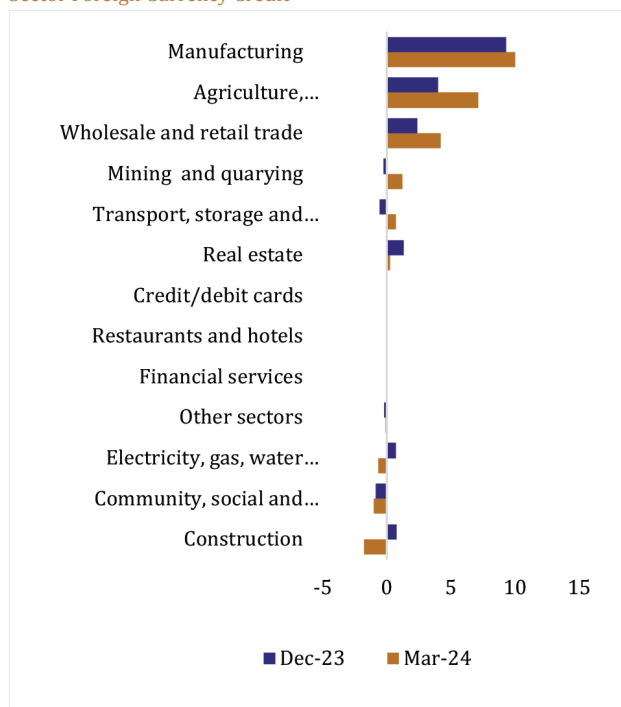
Source: Bank of Zambia

According to the *May 2024 Credit Conditions Survey*, high demand for personal loans<sup>51</sup> was sustained in the first quarter to supplement income to meet household obligations (school fees and other personal expenses) and mitigate the effects of the rising cost of living. Most respondents expect high demand for personal loans to be sustained in the second quarter on account of a further rise in the cost of living due to high inflation and a weaker currency.

Lower lending was observed in foreign currency. Notable declines were in the construction; real estate; and electricity, gas, water and energy sectors due to high input costs induced by a weaker currency (Figure 54).

<sup>51</sup> Demand for personal loans refers to the number of commercial banks that report willingness of clients to acquire personal loans measured in terms of applications and not value or loan amount.

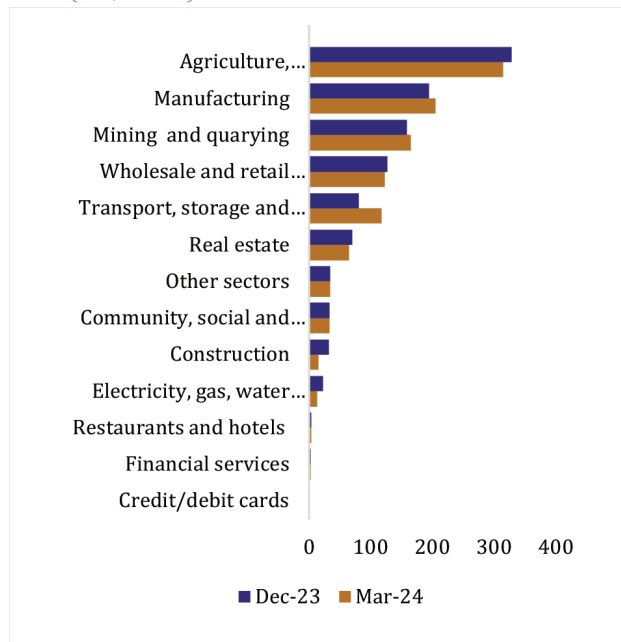
Figure 54: Sectoral Contribution to Annual Percent Change in Private Sector Foreign Currency Credit



Source: Bank of Zambia

The agriculture sector continued to account for the largest share of foreign currency loans followed by the manufacturing and mining sectors (Figure 55).

Figure 55: Stock Distribution of Private Sector Foreign Currency Credit (US\$, million)



Source: Bank of Zambia

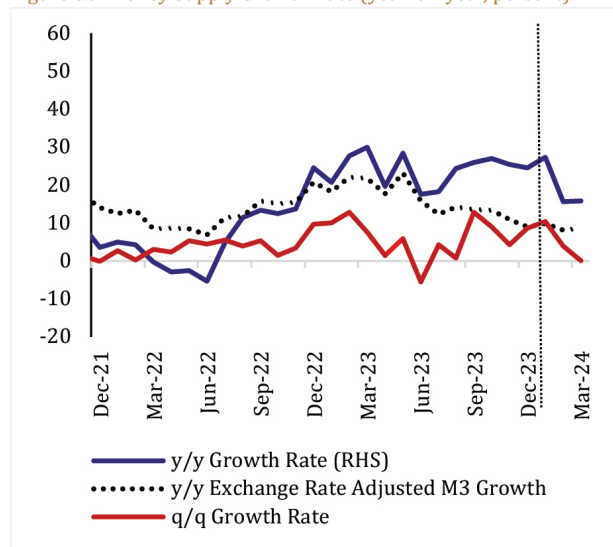
Respondents to the *May 2024 Credit Conditions Survey* remain optimistic that demand for credit by the private sector will be sustained on account of positive economic outlook underpinned by significant progress made towards the conclusion of external debt restructuring and resolution of challenges in the mining sector. In addition, SMEs and large corporations

will maintain demand for credit to meet high operating costs induced by rising fuel prices and weak currency. Nevertheless, tight liquidity conditions, occasioned by the increase in the statutory reserve ratio and new cash management measures by Government, are expected to moderate demand for credit. The expected further increase in the MPR may constrain credit expansion through higher lending rates.

### ... money supply growth decelerates

Money supply (M3)<sup>52</sup> growth slowed down to 15.8 percent in March 2024 from 24.6 percent in December 2023 (Figure 56). Adjusted for exchange rate depreciation, M3 growth was 8.6 percent compared to 9.0 percent in December 2023. The reduction in domestic credit contributed significantly to the lower growth in M3.

Figure 56: Money Supply Growth Rate (year-on-year, percent)

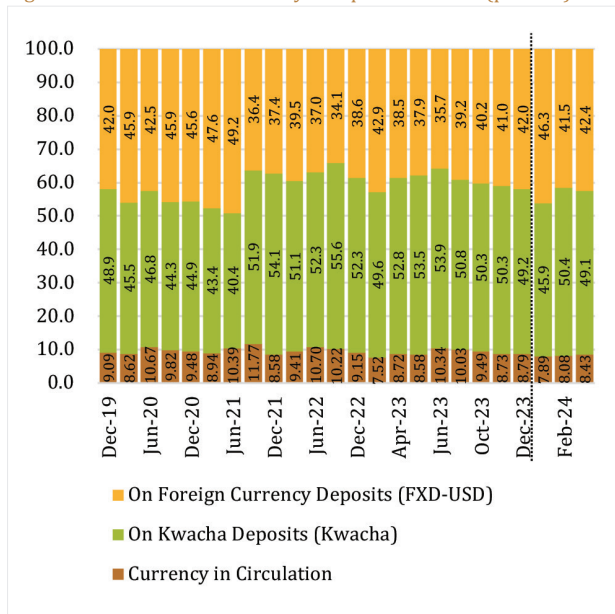


Source: Bank of Zambia

The share of Kwacha deposits and currency held by the non-bank public in money supply marginally declined to 49.1 percent and 8.4 percent from 49.2 percent and 8.8 percent, respectively (Figure 57). In contrast, the share of foreign currency deposits marginally increased to 42.4 percent from 42.0 percent.

<sup>52</sup>M3 stock remained stable at K166.9 billion at end-March 2024.

Figure 57: Share of Broad Money Components in M3 (percent)



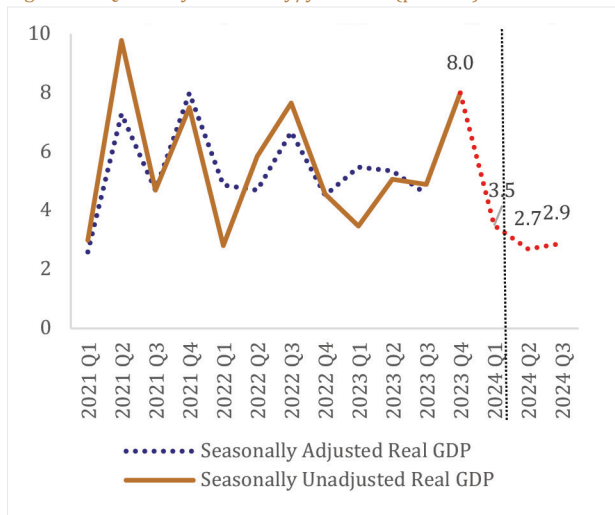
Source: Bank of Zambia

## 2.4 Domestic Economic Activity

*... growth estimated to have slowed down in the first quarter*

According to the BoZ near-term estimate, real GDP growth slowed down in the first quarter of 2024 to 3.5 percent from 8.0 percent in the last quarter of 2023 (Figures 58 and 59). The reduction in cement production and tourist arrivals weighed on growth<sup>53</sup>.

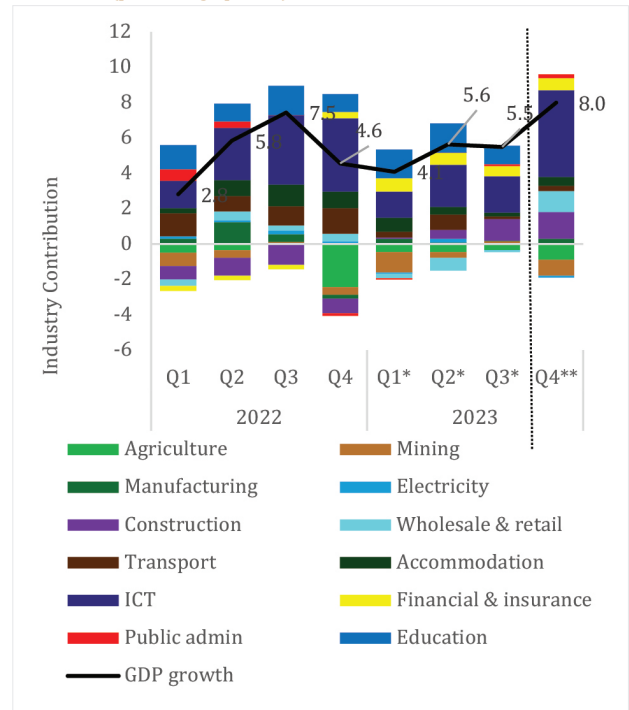
Figure 58: Quarterly Real GDP y/y Growth (percent)



Source: Bank of Zambia

<sup>53</sup>Cement production and international airport arrivals proxy construction and tourism sectors, respectively.

Figure 59: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)

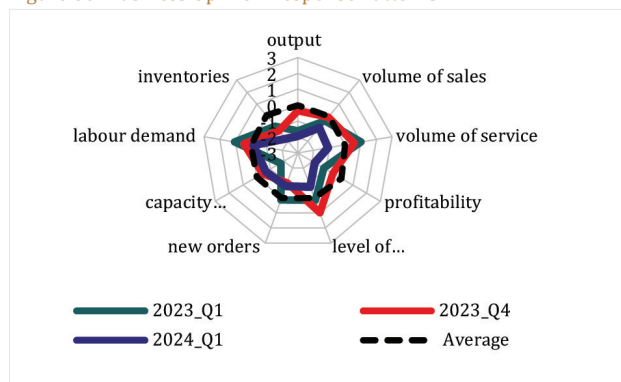


Source: Zambia Statistics Agency and Bank of Zambia  
\* = revised \*\* = preliminary

Respondents to the May 2024 *Quarterly Survey of Business Opinions and Expectations* and the Stanbic Bank Zambia<sup>54</sup> PMI™ revealed sluggish economic activity in the first quarter owing to the escalation in inflationary pressures induced by a weaker exchange rate (Figures 60 and 61). Notably, output, new orders, volume of sales, volume of service, profitability, capacity utilisation and level of investment declined. The drought also weighed on output for firms in the manufacturing and agriculture sectors while higher prices of goods and services constrained consumer demand.

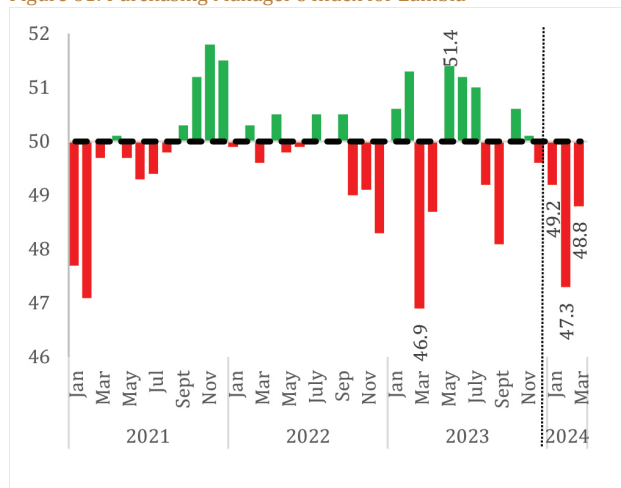
<sup>54</sup>The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: new orders, output, employment, suppliers' delivery times and stocks of purchases. A reading below 50 means business conditions deteriorated and above 50 reading means an improvement while 50 means no change in the business environment.

Figure 60: Business Opinion Response Patterns<sup>55</sup>



Source: Bank of Zambia

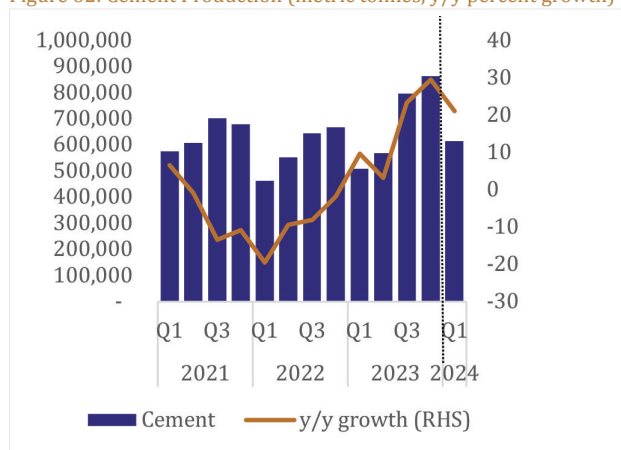
Figure 61: Purchasing Manager’s Index for Zambia



Source: Stanbic Zambia and Bank of Zambia Compilations

Cement production grew at a slower rate of 21.2 percent compared to 29.5 percent in the previous quarter (Figure 62). The slowdown was due to relatively weaker demand.

Figure 62: Cement Production (metric tonnes, y/y percent growth)



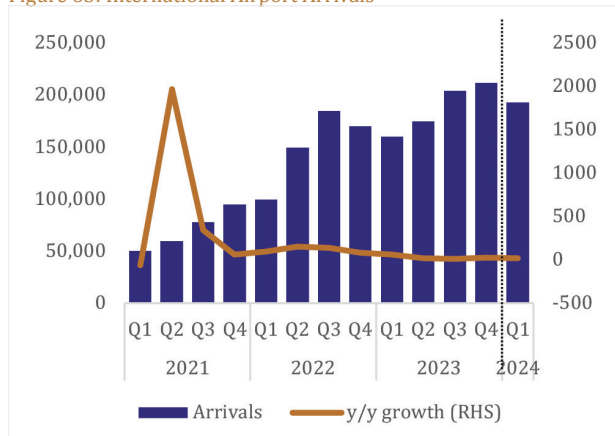
Source: Bank of Zambia

International airport arrivals increased, but at a slower pace of 20.4 percent, in the first quarter compared to 24.2 percent in the fourth quarter of 2023 (Figure

<sup>55</sup>Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than the historical average and a value outside the black line signifies an improvement over the historical average.

63). This was mostly due to the normalisation of tourist arrivals after removing COVID-19 related travel restrictions.

Figure 63: International Airport Arrivals



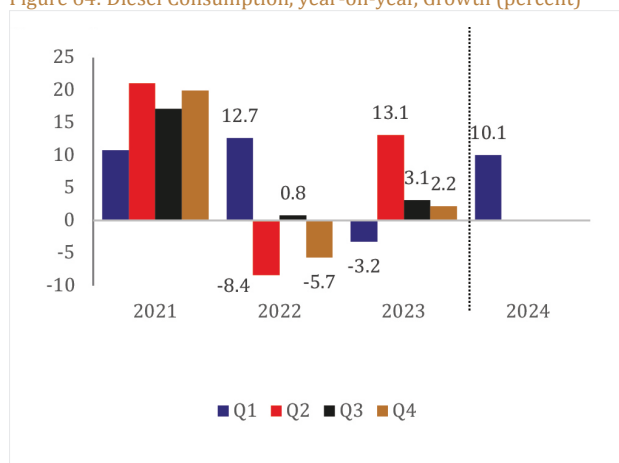
Source: Zambia Airports Corporation Limited, Bank of Zambia Compilations

However, the transport sector expanded at a faster pace while mining and electricity sectors recovered.

Diesel consumption, proxy for the transport sector, rose by 10.1 percent compared to a contraction of 3.2 percent a year ago (Figure 64). This was mainly driven by consumption in the wholesale and retail trade as well as mining sectors. The rebound in output at selected mines led to higher year-on-year growth in copper production, hence the recovery in the mining sector (Figure 65). In the case of the electricity sector, higher water levels at the Kariba Dam in the first quarter of 2024 relative to the corresponding period in 2023 (Figure 66) pushed up generation. Despite the pick-up, electricity generation was constrained by reduced water allocation to 8.0 billion cubic litres for 2024 from 15 billion cubic litres in 2023 by the Zambezi River Authority<sup>56</sup>.

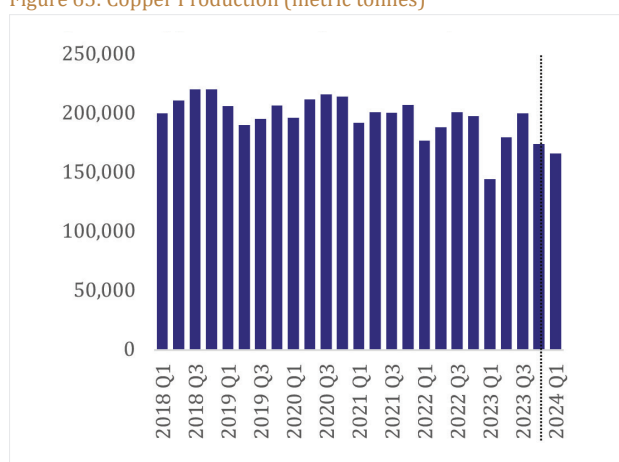
<sup>56</sup>The 2024 water allocation was informed by the 2023/2024 rainfall forecast made by the Southern Africa Climate Outlook Forum-27 (SARCOF-27) and the corresponding downscaled projections by the National Metrological Agencies of Zambia and Zimbabwe, which showed a high probability of a normal-to-below-normal 2023/2024 rainfall season for the Kariba Lower Catchment and normal-to-above-normal rainfall season for the Kariba Upper catchment.

Figure 64: Diesel Consumption, year-on-year, Growth (percent)



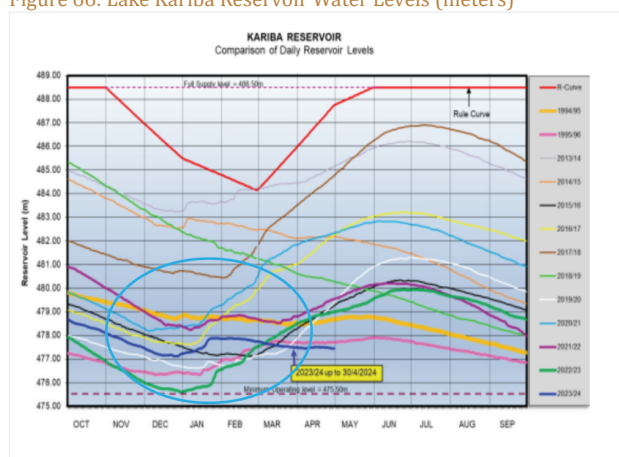
Source: Energy Regulation Board, Bank of Zambia Compilations

Figure 65: Copper Production (metric tonnes)



Source: Ministry of Mines and Mineral Development and Bank of Zambia Compilations

Figure 66: Lake Kariba Reservoir Water Levels (meters)



Source: Zambezi River Authority, Bank of Zambia Compilations

## 2.5 Budget Performance

... constrained by domestic financing

Revenue was broadly in line with the target of K32.3 billion according to preliminary estimates. This was despite lower tax collections from the mining sector. Sustained higher value added tax, mostly from petrol and diesel imports, was a key contributor to this

outturn. Project grants also augmented revenue. However, Government spending was lower than planned largely due to constrained domestic financing. This was reflected in the decline in demand for Government securities in primary auctions<sup>57</sup>.

## 2.6 Domestic Prices

... upward trend sustained

Inflation continued to rise in the first quarter of 2024, moving up to 13.5 percent from 12.9 percent in the last quarter of 2023 (Figure 67). This outturn was higher than the February 2024 MPC projection of 13.2 percent mainly because actual crude oil prices as well as inflation in both South Africa and the US were higher than assumed (Table 8).

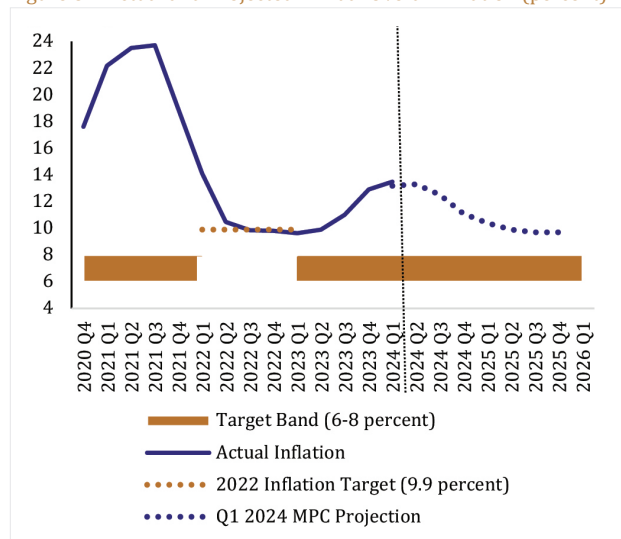
Table 8: Assumptions underlying Inflation Projection in Q1 2024

	2024 Q1 Assumed Value	2024 Q1 Actual Value
Average inflation-US (percent)	2.5	3.3
Federal funds rate (percent)	5.5	5.3
Average inflation-South Africa (percent)	4.6	5.4
Average copper price/tonne (US\$)	8,287.9	8,528.3
Average crude oil price/barrel (US\$)	81.2	83.1
Reserve money growth (percent)	1.6	26.9
Fiscal deficit (ratio of expenditure to revenue)	1.2	1.1
World food price index	129.1	116.5
Monetary Policy Rate - Bank of Zambia (percent)	11.0	12.5

Source: Bank of Zambia Compilations, Reuters, South African Reserve Bank, World Bank Pink Sheet and Survey of Professional Forecasters

<sup>57</sup>Refer to the discussion on interest rates under section 2.3 for more details.

Figure 67: Actual and Projected Annual Overall Inflation (percent)



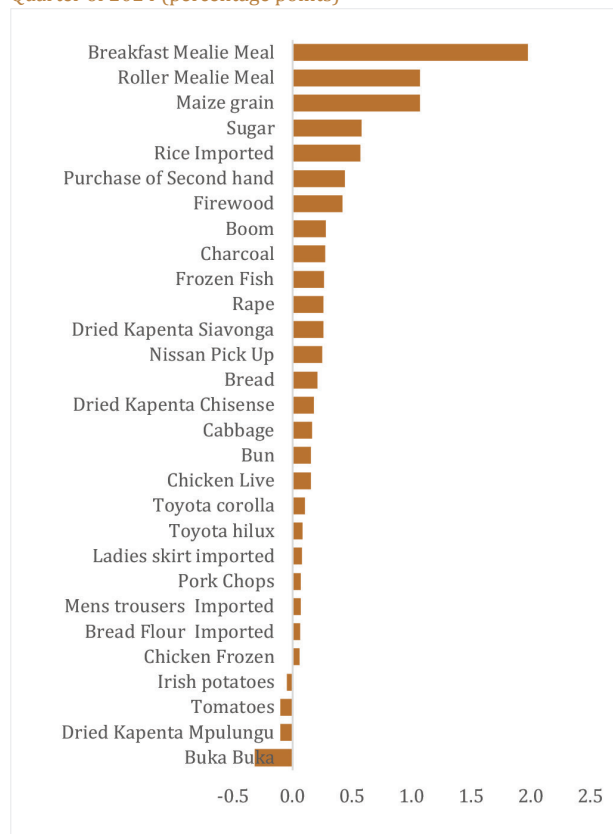
Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

Respondents to the *February 2024 Bank of Zambia Quarterly Survey of Business Opinion and Expectations (QSBOE)* anticipated inflation to average 13.8 percent in the first quarter of 2024. This was based on a weaker exchange rate and expected increases in food prices owing to the impact of the drought occasioned by El Niño.

Rising maize grain prices, sustained depreciation of the Kwacha against the US dollar, higher demand for solid fuels (charcoal and firewood), low supply of vegetables, and increases in fuel prices<sup>58</sup> were the key drivers of inflation in the first quarter.

As shown in figure 68, notable price increases were observed in breakfast and roller meal (maize meal), maize grain, sugar, imported rice, second hand vehicles, firewood, washing soap (boom), charcoal, frozen fish, rape, dried kapenta, Nissan pick-up and bread.

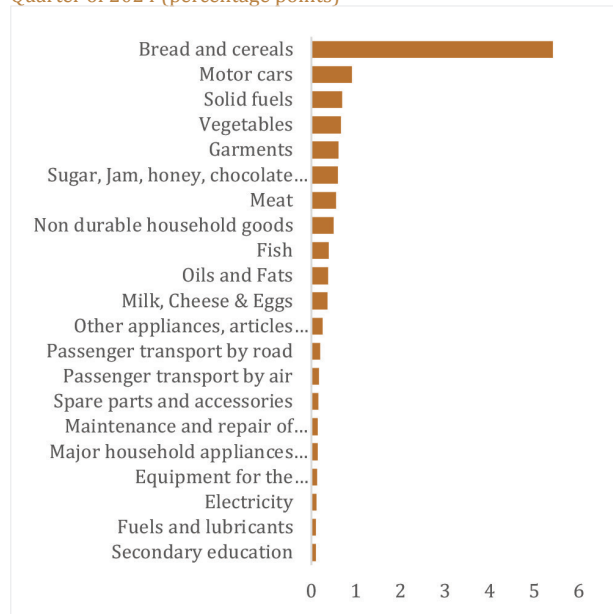
Figure 68: Contribution to Overall Inflation by Product in the First Quarter of 2024 (percentage points)



Source: Bank of Zambia Compilations

The contribution of bread and cereals to overall inflation was substantial (Figure 69). This was followed by motor vehicles, solid fuels, vegetables, garments, sugar, meat products, non-durable household goods and fish sub-groups.

Figure 69: Contribution to Overall Inflation by Sub-Group in the First Quarter of 2024 (percentage points)



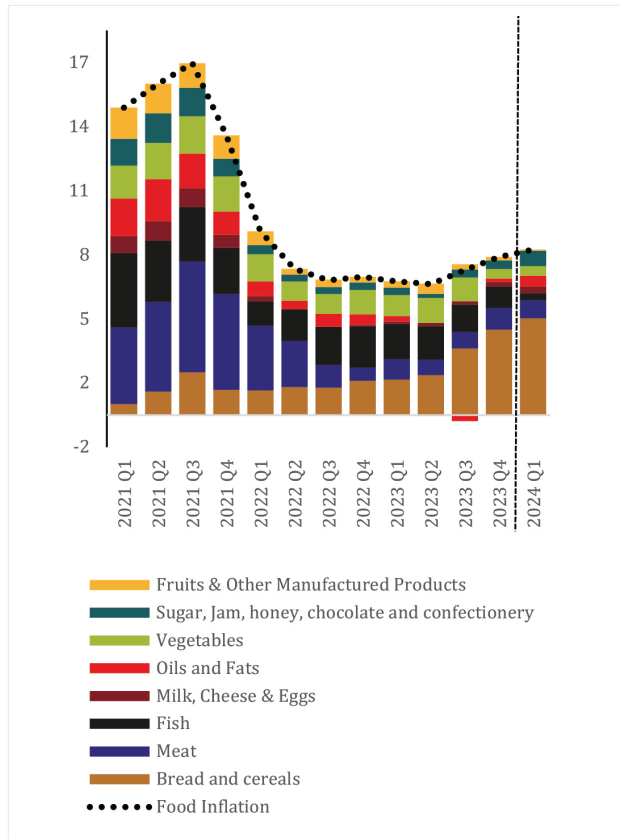
Source: Bank of Zambia Compilations

<sup>58</sup>The price of petrol increased to K31.12 per litre in March 2024 from K29.98 per litre in December 2023 while the price of diesel reduced to K28.78 per litre from K29.96 per litre.

As a result, both food and non-food inflation maintained their proportional contribution to overall inflation: 8.4

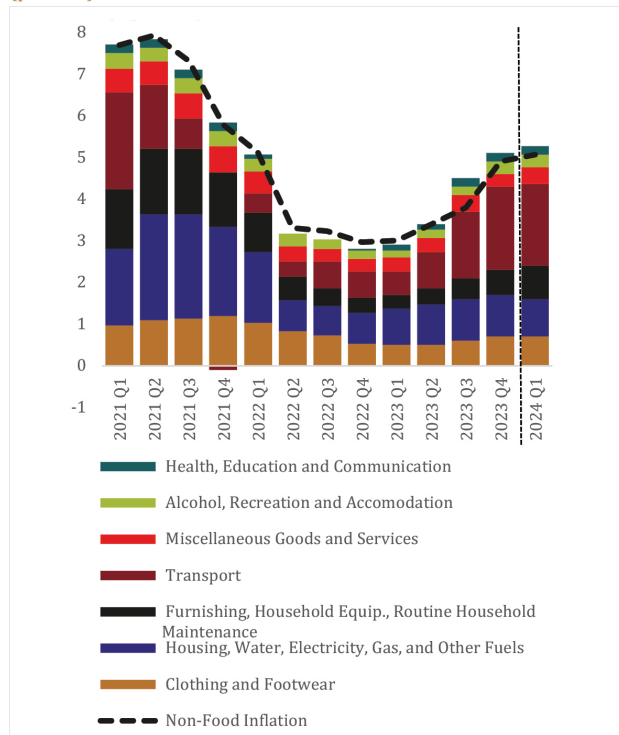
percentage points and 5.1 percentage points from 8.0 percentage points and 4.9 percentage points in the fourth quarter of 2023, respectively (Figures 70, 71 and 72).

Figure 70: Contribution to Overall Inflation by Food Sub-Group (percent)



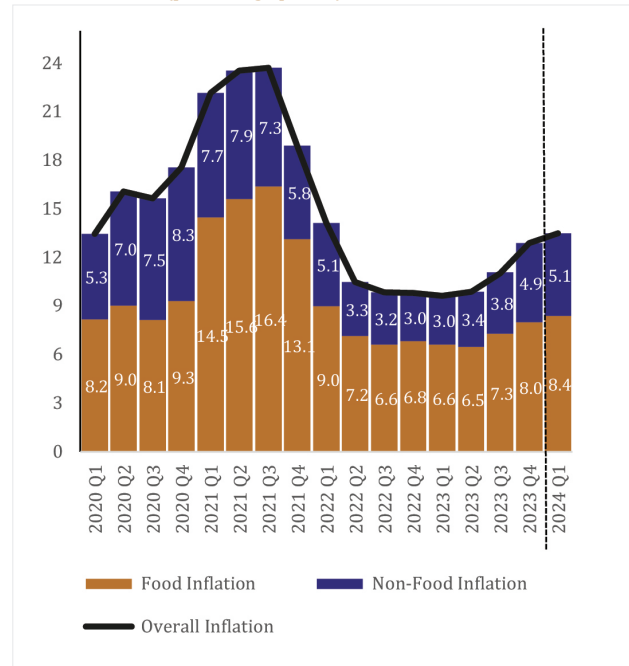
Source: Zambia Statistics Agency, Bank of Zambia Compilations

Figure 71: Contribution to Overall Inflation by Non-Food Sub-Group (percent)



Source: Zambia Statistics Agency, Bank of Zambia Compilations

Figure 72: Contribution by Food and Non-Food Sub-Components to Overall Inflation (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Compilations

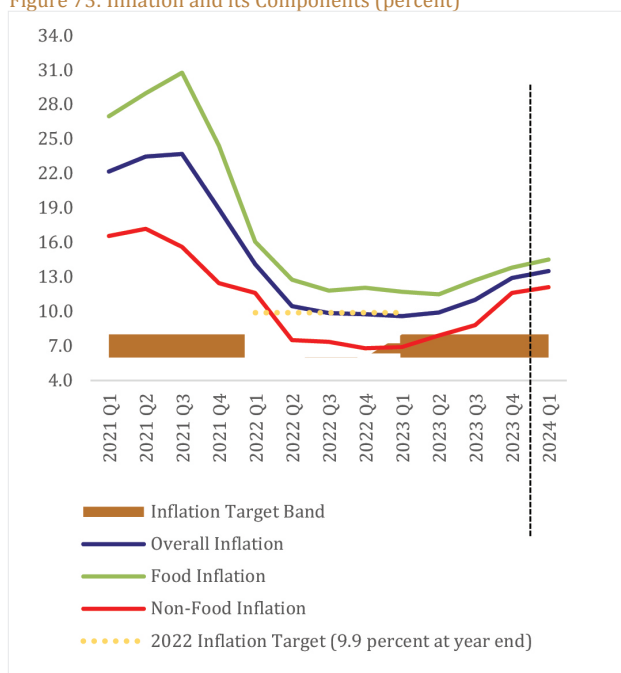
Consequently, food and non-food inflation rose to 14.5 percent and 12.1 percent from 13.8 percent and 11.6 percent, respectively (Table 9 and Figure 73).

Table 9: Quarterly Average and end-Period Inflation Rate (percent)

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
<b>Average</b>					
Overall Inflation	9.6	9.9	11.0	12.9	13.5
Food Inflation	11.7	11.5	12.7	13.8	14.5
Non-food Inflation	6.8	7.9	8.8	11.6	12.1
<b>End Period</b>					
Overall Inflation	9.9	9.8	12.0	13.1	13.7
Food Inflation	11.8	11.2	13.4	14.2	15.6
Non-food Inflation	7.3	7.8	10.1	11.6	11.2

Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 73: Inflation and its Components (percent)

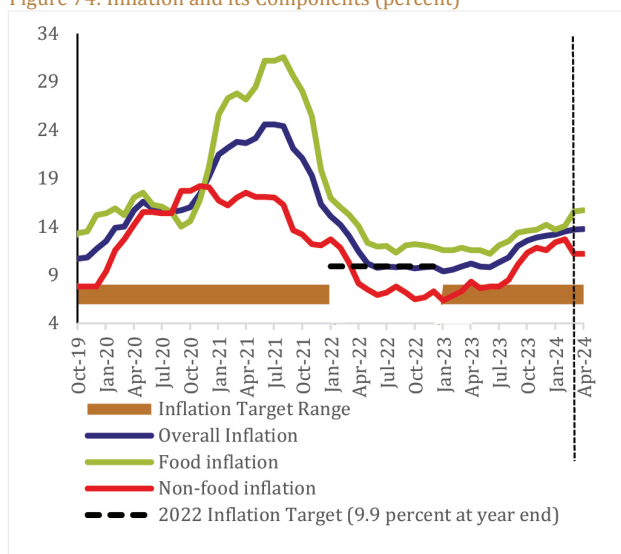


Source: Zambia Statistics Agency, Bank of Zambia Compilations

**... inflation rises in April**

Inflationary pressures persisted in April as inflation rose, albeit marginally, to 13.8 percent from 13.7 percent in March (Figure 74).

Figure 74: Inflation and its Components (percent)

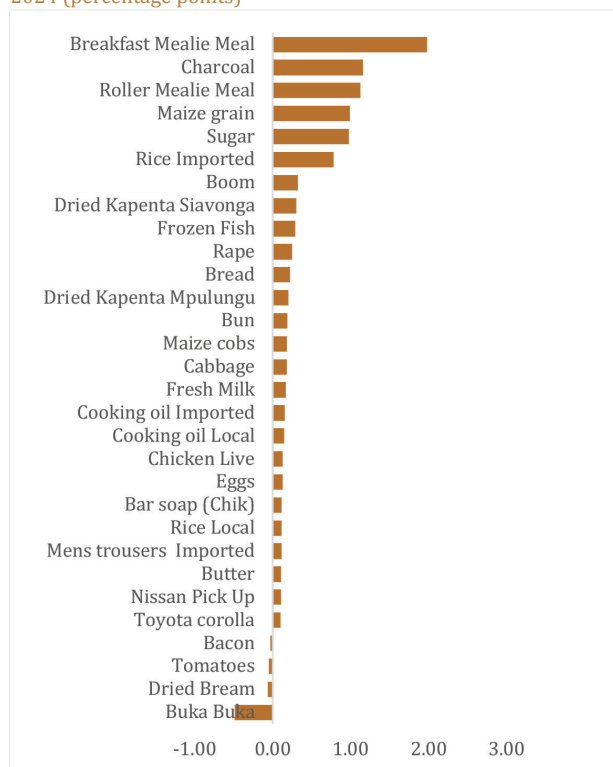


Source: Zambia Statistics Agency, Bank of Zambia Compilations

Higher maize grain prices, increased demand for solid fuels and sustained depreciation of the Kwacha against the US dollar continued to drive inflation in April.

Notable items whose prices increased, as shown in figure 75, were breakfast and roller meal (maize meal), charcoal, maize grain, sugar, imported rice, washing soap (boom), dried kapenta, frozen fish and rape.

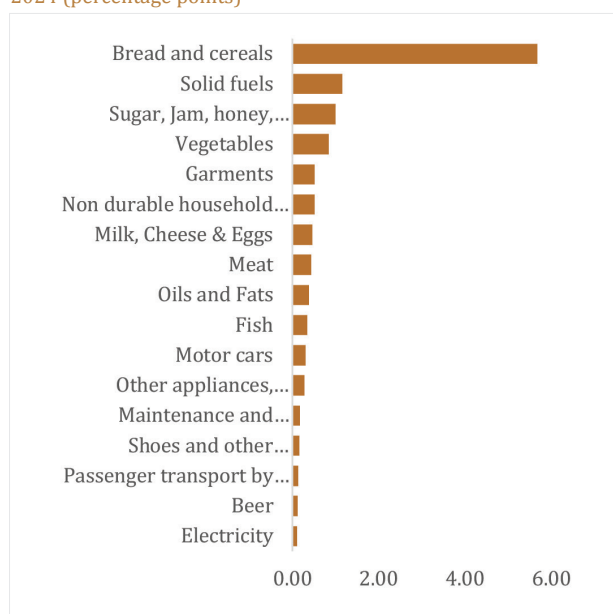
Figure 75: Contribution to Overall Inflation by Product in April 2024 (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Compilations

The contribution of bread and cereals to overall inflation remained dominant (Figure 76). This was followed by solid fuels, sugar, vegetables, garments, non-durable household goods, milk, cheese and eggs, meat products, oils and fats, fish, and motor vehicle sub-groups.

Figure 76: Contribution to Overall Inflation by Sub-Group in April, 2024 (percentage points)

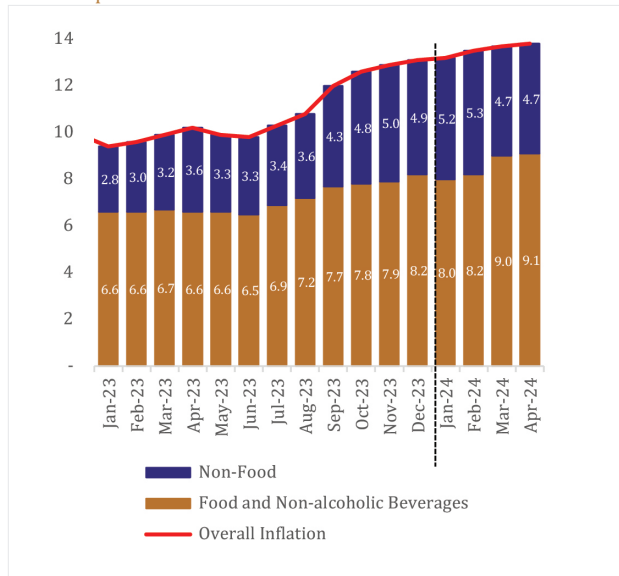


Source: Zambia Statistics Agency, Bank of Zambia Compilations

The food component continued to contribute more to overall inflation (9.1 percentage points) while that of the non-food component remained at 4.7 percentage points (Figure 77). Consequently, food inflation rose

to 15.7 percent from 15.6 percent while non-food inflation remained unchanged at 11.2 percent (Figure 74).

Figure 77: Contribution to Overall Inflation by Food and Non-Food Sub-Groups



Source: Zambia Statistics Agency, Bank of Zambia Compilations

# Appendix

## Monetary and Foreign Exchange Measures since April 2012

Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate	March 19, 2014	To address excess liquidity in the money market and its impact on inflation
Access to OLF window restricted to once a week		
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US\$0.5m-US\$1m from US\$1m	March 28, 2014	To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01		To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves	May 30, 2014	
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate		
Policy Rate raised to 12.5 percent		
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent	March 20, 2015	
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points		
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote	October 5, 2015	To improve order, stability, and transparency in the foreign exchange market
BoZ to publish individual commercial banks' exchange rates on Reuters platform		
Commercial banks to update board exchange rates three times a day as prescribed		
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed, and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures
Access to OLF Window restricted to once a week	November 18, 2015	To contain inflationary pressures
Roll-over of intra-day loan into an overnight loan discontinued		
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth

Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.

Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.
Policy Rate raised to 13.5 percent from 12.5 percent	May 15, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.





