



**MONETARY POLICY COMMITTEE STATEMENT
FOR
SECOND QUARTER 2018**

Governor's Presentation to the Media

22nd August, 2018

INTRODUCTION



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The presentation is structured as follows:

- 1. Decision of the Monetary Policy Committee**
- 2. Overview**
- 3. Global economic developments**
- 4. Domestic economic developments**
- 5. Macroeconomic outlook**
- 6. Conclusion**

MONETARY POLICY DECISION



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At its Meeting held on 20 – 21 August 2018, Monetary Policy Committee decided to maintain the Policy Rate at 9.75%.

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

- **Inflation projections which suggest that inflation will remain within the 6-8% target range, though at an elevated level relative to the May 2018 projections;**
- **Continued subdued and sluggish economic growth;**
- **Elevated lending rates, partly attributed to high yield rates on Government securities;**
- **Low private sector credit growth;**

MONETARY POLICY DECISION



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- **Sustained high fiscal deficits and rising public debt; and,**
- **Fragilities in the financial sector, partly reflected in high non-performing loans.**

OVERVIEW



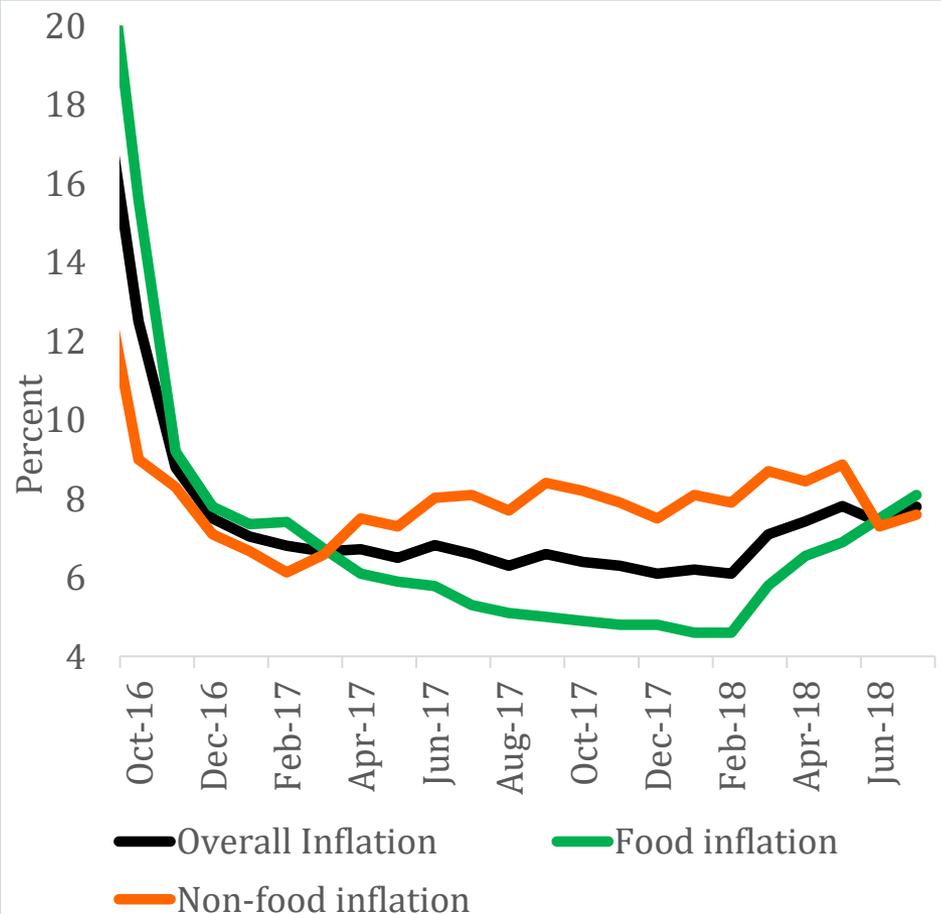
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Inflation rose to an average of 7.5% in the second quarter from 6.5% in the first quarter.

Reduction in the supply of selected food items, the depreciation of the exchange rate of the Kwacha against the US dollar and the rise in transportation costs were the main reasons for the rise in inflation.

In July, inflation rose to 7.8% from 7.4% in June 2018.

Figure 1: Inflation (Annual Change, %)



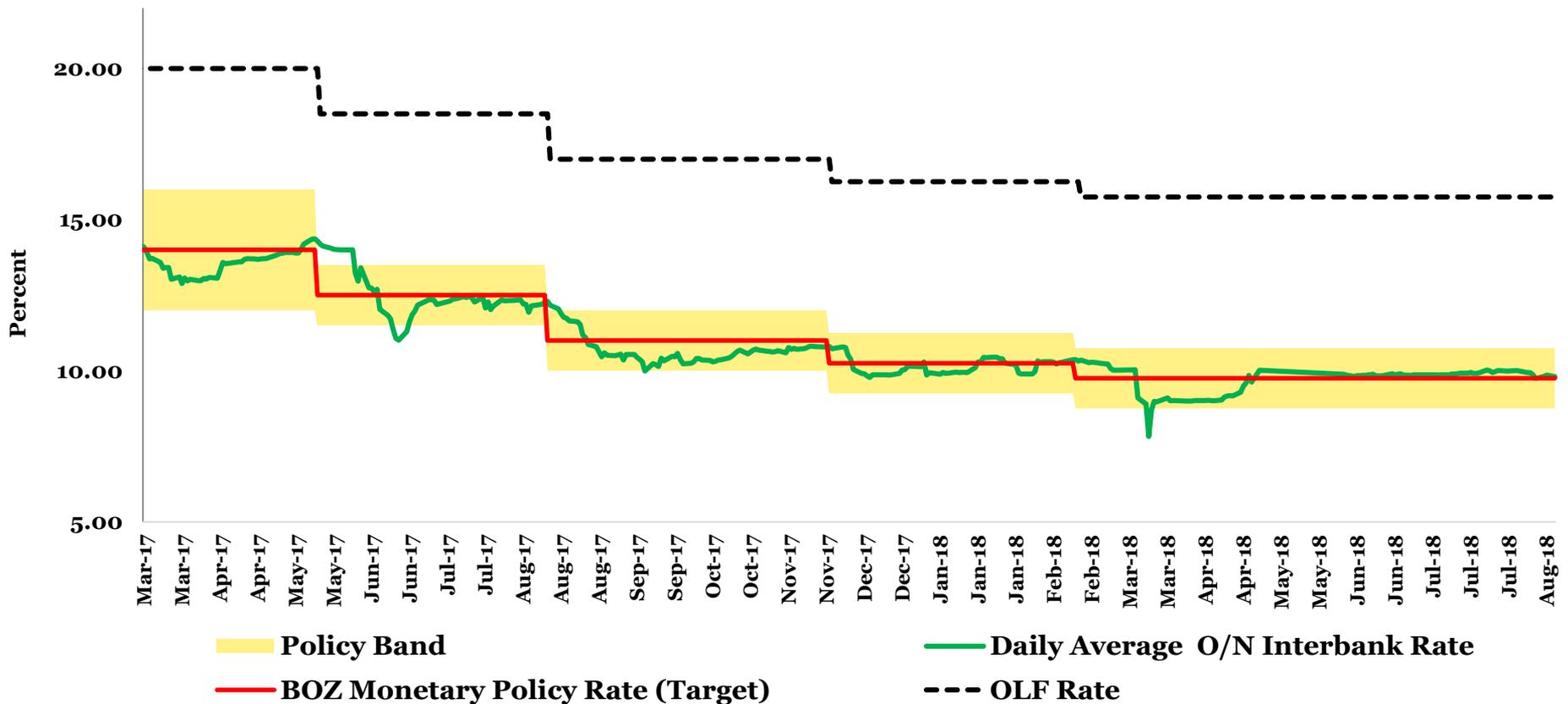
OVERVIEW



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In line with the monetary policy stance, the average overnight interbank rate was contained within the Policy Rate corridor, closing the second quarter at an average of 9.67%, just below the Policy Rate of 9.75%.

Figure 2: BOZ Policy Rate and the Interbank rate



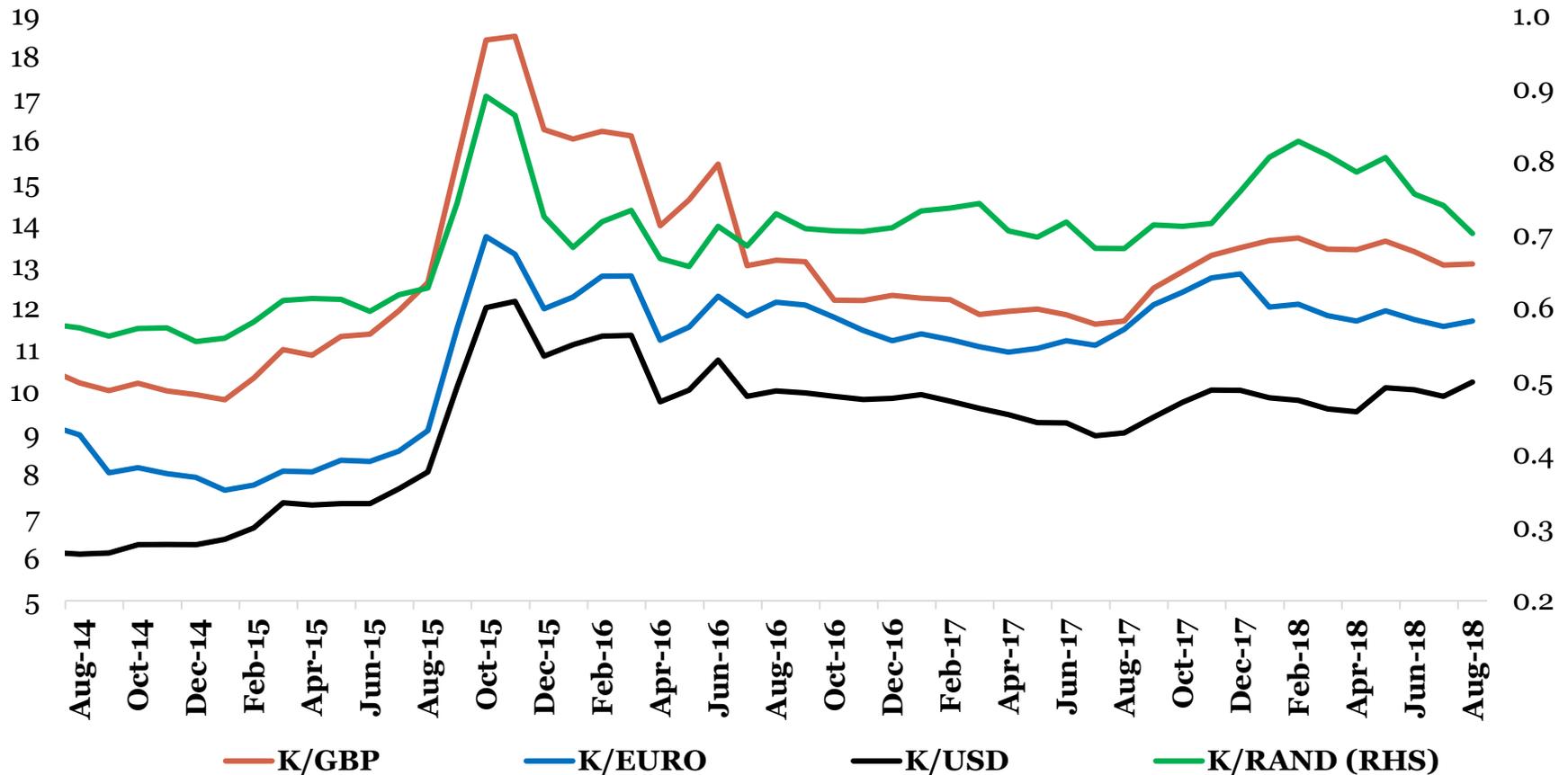
OVERVIEW



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The Kwacha depreciated by 1.4% against the US dollar, but strengthened against the British pound, the Euro and the South African rand.

Figure 3: Exchange rate developments



GLOBAL ECONOMIC DEVELOPMENTS



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Global growth is projected to strengthen from 3.8% in 2017 to 3.9% in 2018 and 2019, premised on;

- **continued recovery in commodity prices;**
- **better growth prospects in emerging market and developing economies;**
- **resilient and strong growth in advanced economies, particularly the United States;**
- **favorable global financial conditions - although gradually tightening across regions; and,**
- **Strong global demand.**

GLOBAL ECONOMIC DEVELOPMENTS



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Commodity prices generally rose in the second quarter. However, copper prices declined by 1.9%, while crude oil prices rose by 15.2%.

Table 1: Commodity Prices

	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	14Aug -2018
Copper Price (US\$/ton)	5,668.0	6,349.0	6,823.0	6,957.0	6,825.0	6,031.0
Oil Price (Dubai) (US\$/barrel)	49.7	50.6	59.2	64.0	73.7	70.6
Wheat (US\$/ton)	176.0	183.8	175.1	189.3	195.3	214.2
Maize Price (US\$/ton)	157.7	151.1	148.8	163.7	169.1	179.9
Cotton (US\$/kg)	1.9	1.8	1.8	2.0	2.0	2.3
Sugar (US\$/kg)	0.3	0.3	0.3	0.3	0.3	0.3
Soya beans (US\$/ton)	386.0	398.0	400.0	418.0	425.4	425.4



- **Monetary policy operations continued to focus on keeping the interbank rate within the Policy Rate corridor.**
- **To this effect, the average overnight interbank rate was contained within the Policy Rate corridor, closing the second quarter at an average of 9.67%.**
- **Market liquidity rose to K1.1 billion from K0.8 billion due to:**
 - **net Government securities maturities;**
 - **net Government spending;**
 - **BoZ foreign exchange purchases; and,**
 - **net open market operations (OMO) maturities (Table 2).**

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



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Table 2: Key Liquidity Influences (K'billion)

	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Opening balance	0.3	0.7	1.4	0.8
Net Govt. spending	1.5	2.6	0.7	1.9
BoZ FX influence	1.1	1.0	0.6	1.9
CIC	0.1	-0.4	0.8	-1.0
Change in SR deposits	-0.9	-2.2	-1.8	-4.2
OLF	-0.7	-0.9	-0.9	-1.9
Net Government securities influence	-1.1	-0.5	0.7	2.3
Open market operations	0.3	1.0	-1.0	1.1
Miscellaneous	0.0	0.0	0.0	0.0
Closing balance	0.7	1.4	0.8	1.1

DOMESTIC ECONOMIC DEVELOPMENTS

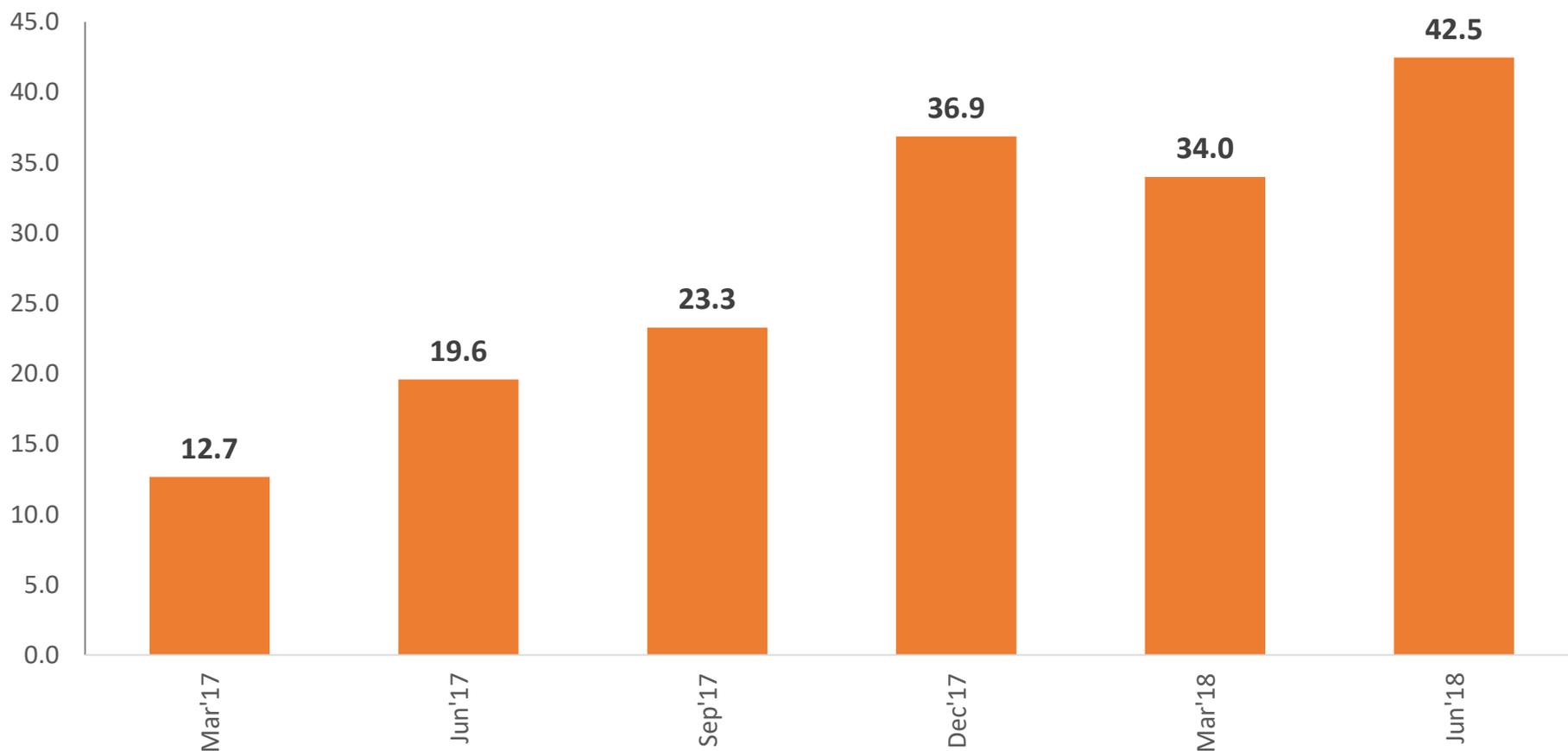
Money Market



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Interbank trading rose by 25%, mainly on account of sustained liquidity concentration in a few banks.

Figure 5: Interbank Trading Activity (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



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Demand for Treasury bills declined in the second quarter while that for Government bonds moderated.

Table 3: Government Securities Auctions

	Amount on offer	Amount Received	Subscription rate (%)
	Treasury bills		
2018Q1	5.7	5.6	98.0
2018Q2	6.7	2.9	43.0
	Government bonds		
2018Q1	1.7	2.6	153.0
2018Q2	3.3	4.1	124.0

DOMESTIC ECONOMIC DEVELOPMENTS

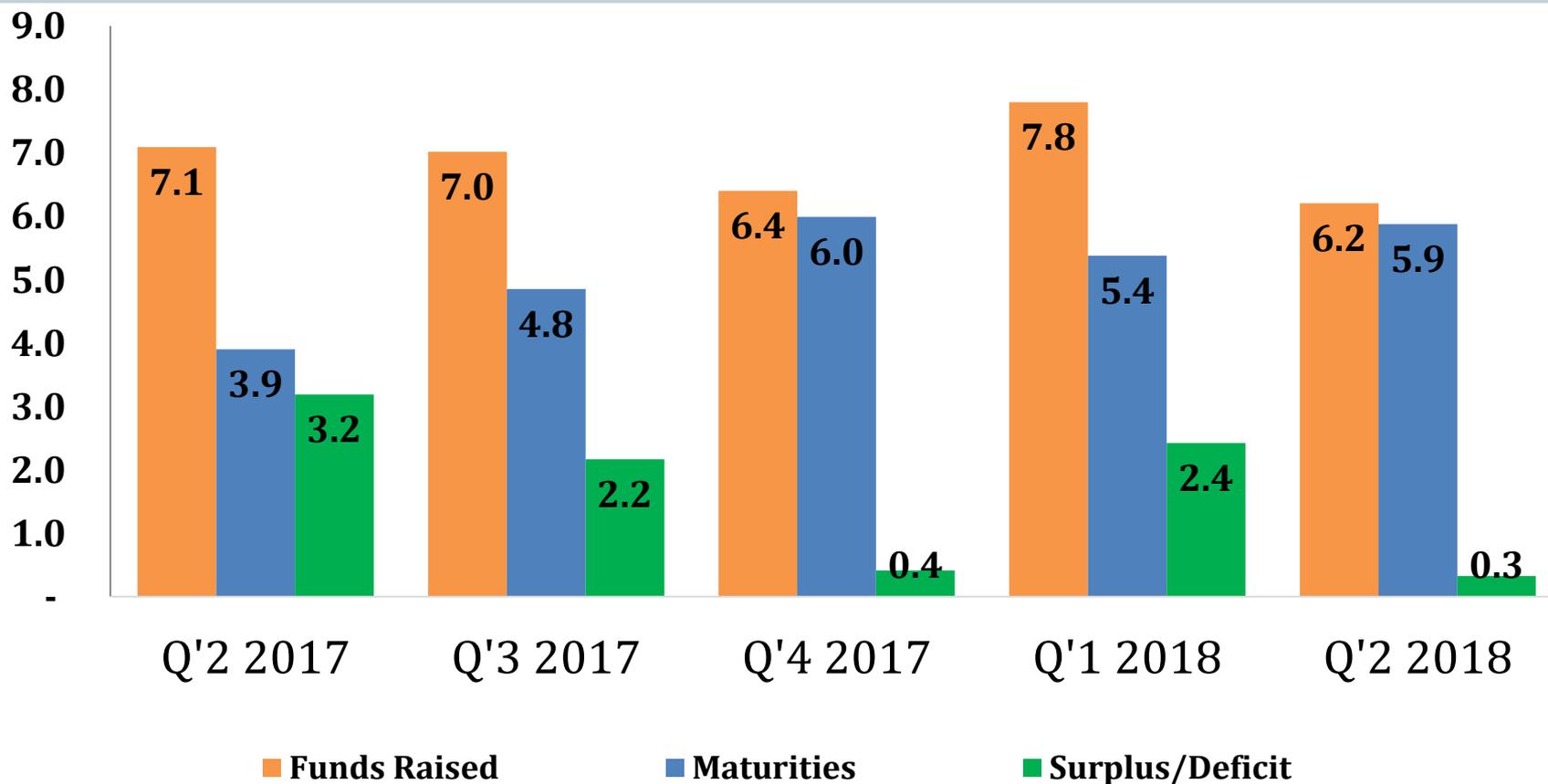
Government securities market



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Total funds raised through Government Securities declined to K6.2 billion from K7.8 billion. This was against maturities of K5.9 billion compared to maturities of K 5.4 billion in the first quarter.

Figure 6: Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS

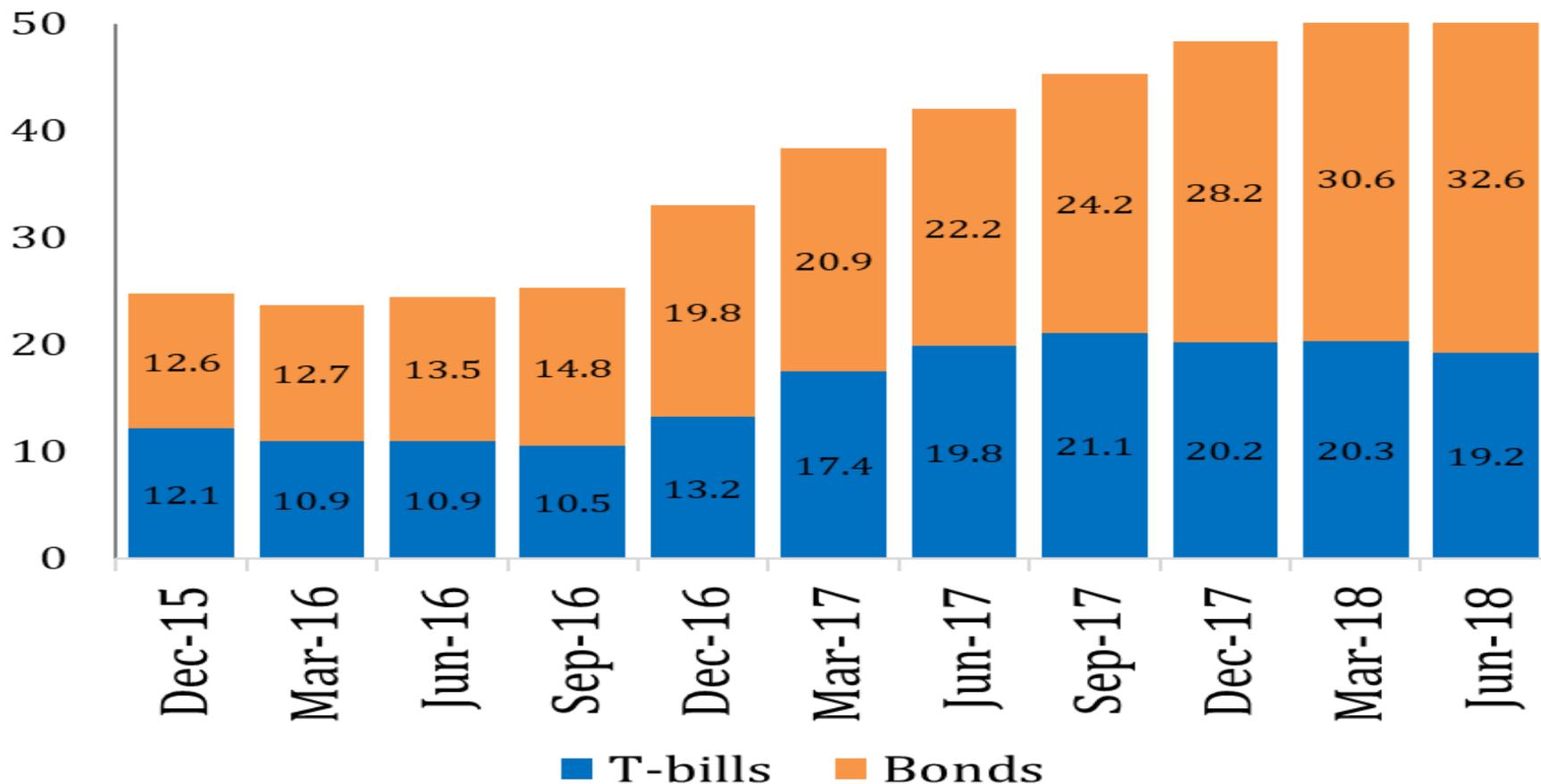
Government securities market



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Despite a fall in funds raised, the outstanding stock of Government securities increased to K51.8 billion from K50.9 billion.

Figure 7: Total Outstanding Government Securities (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

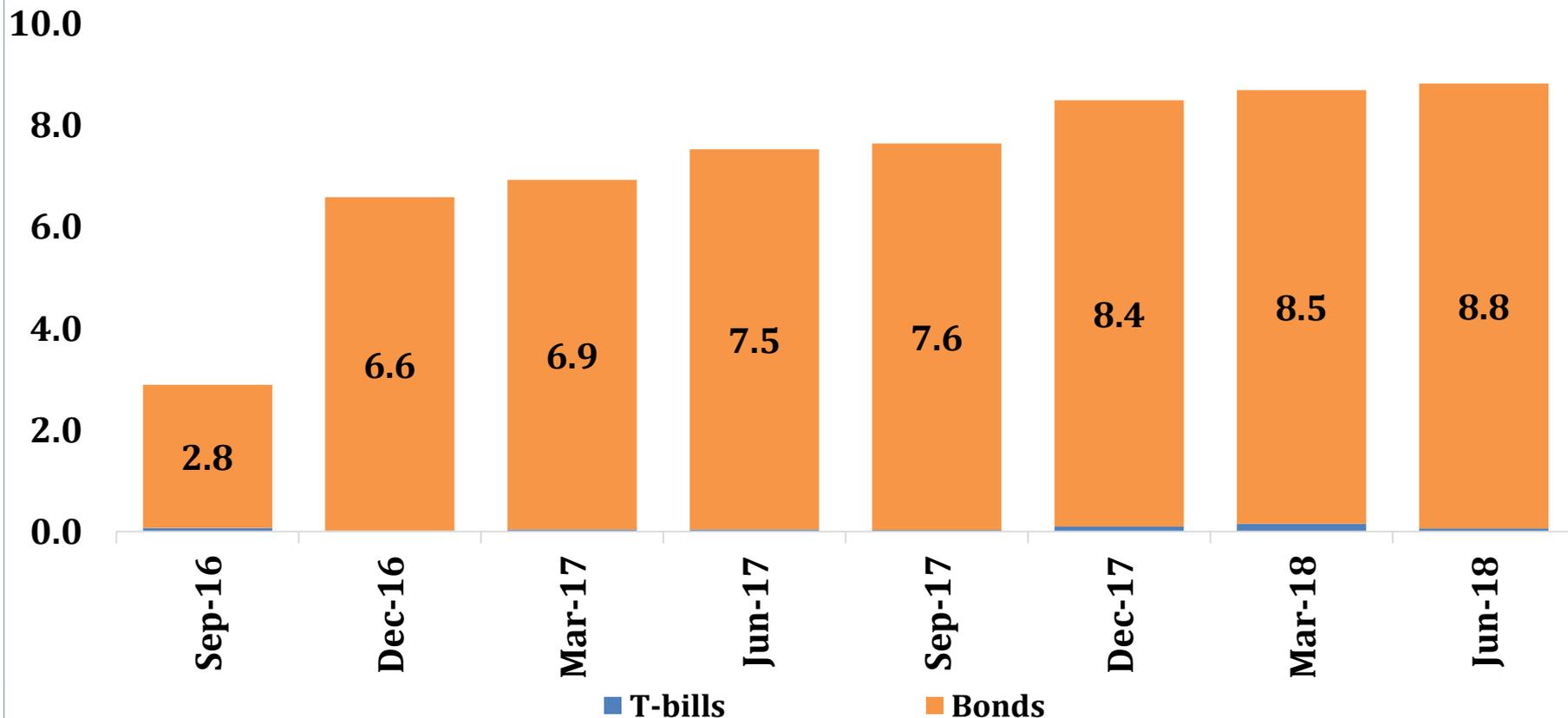
Government securities market



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Non-resident investor holdings of Government Securities increased to K8.8 billion from K8.5 billion.

Figure 8: Non-resident Holdings of Government Securities (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

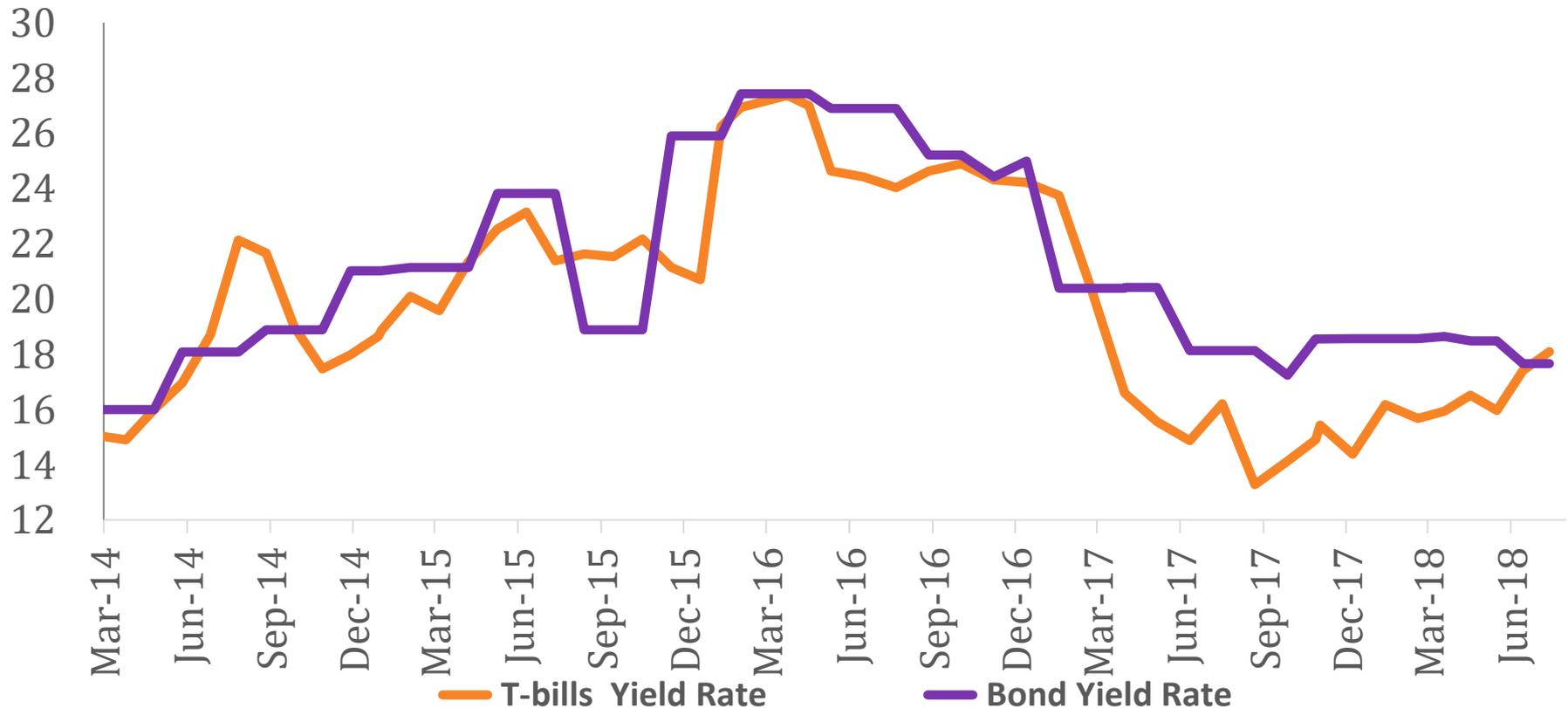
Government securities market



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The weighted average Treasury bills yields rate rose to 16.96% from 15.87% while the composite yield rate on Government bonds declined marginally to 18.07% from 18.64%.

Figure 9: Government securities yield rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS

Banks' Nominal Interest Rates



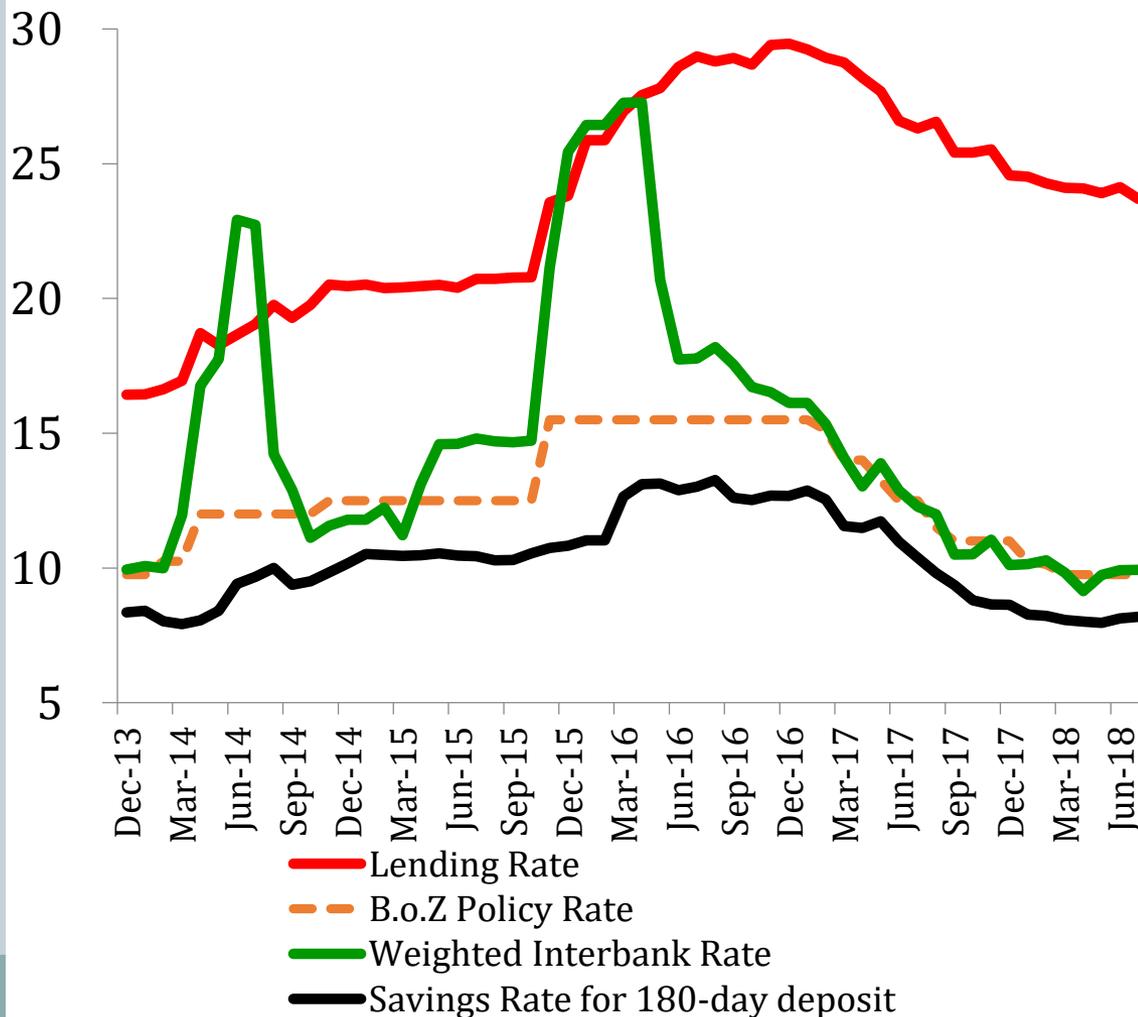
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The commercial banks average lending rate inched up to 24.3% from 24.1% in March 2018.

High yield rates of Government securities and high non-performing loans (12.4% as end-June) continue to keep lending rates at elevated levels.

The average savings rate for 180-day deposits remained unchanged at 8.2%.

Figure 10: Nominal Interest Rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS

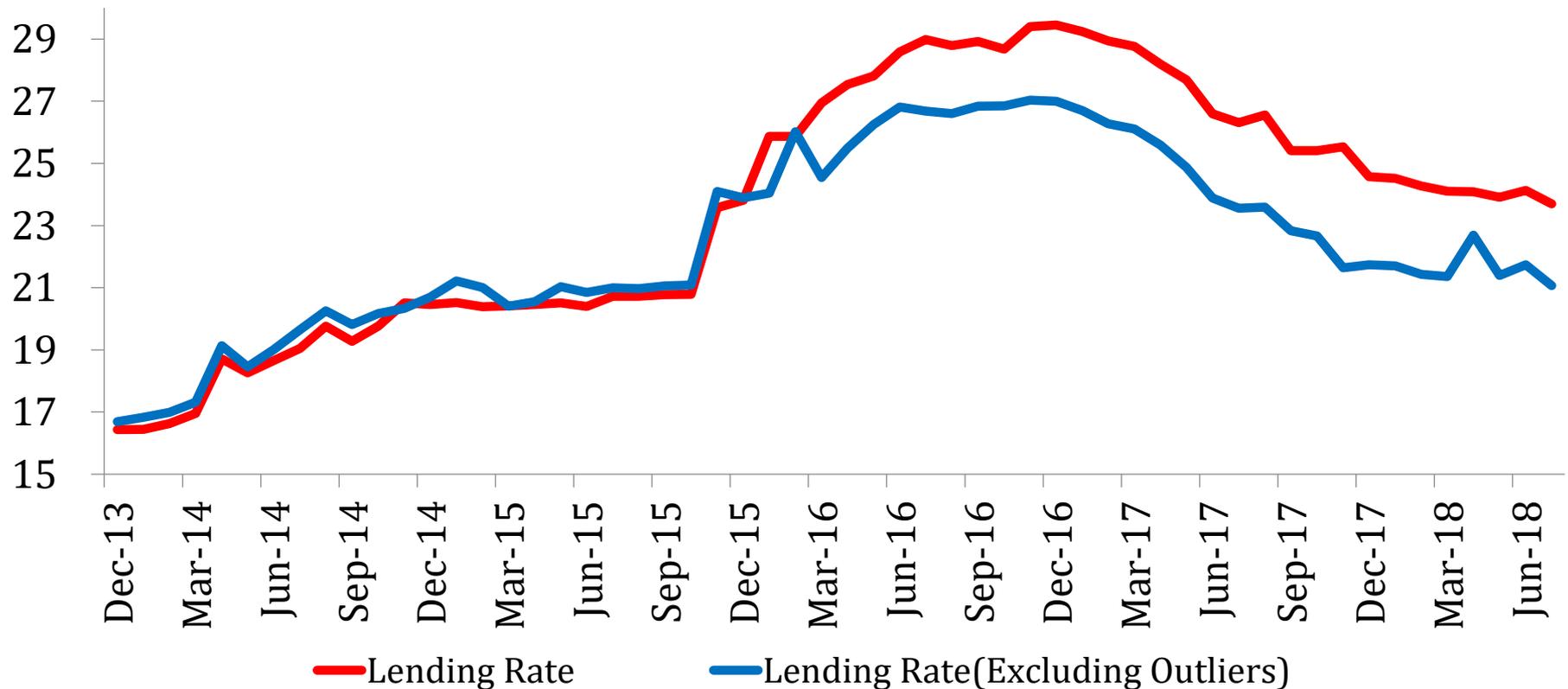
Banks' Nominal Interest Rates



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Excluding banks with the highest and lowest lending rates, the average lending rate rose to 21.7% from 21.4%, reflecting a rise in yield rates on Treasury bills.

Figure 11: Nominal Interest Rates (%)



Money supply and credit



Growth in total credit rose to 2.9% from a decline of 0.3% following a pick-up in lending to private enterprises and households (Table 4).

Excluding Government, credit grew by 5.0% compared to a contraction of 1.3% in the first quarter.

Credit to private enterprises grew by 4.7% from a contraction of 3.5% while growth in credit to households rose to 5.3% from 3.1%.

Though positive, growth in credit to private enterprises remain below the levels required to support robust private sector-led economic activity.

DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit



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Table 4: Domestic Credit Growth, Quarterly percent changes)

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Total Credit (Incl. Govt)	6.5	6.0	4.9	0.3	2.9
Total -(Excl. Govt)	1.6	3.0	4.5	-1.3	5.0
Public Enterprises	28.9	89.3	-15.6	-18.7	9.7
Government	11.3	8.9	5.3	1.7	1.3
Private Enterprises	1.4	-2.2	8.3	-3.5	4.7
Households	1.3	7.6	1.3	3.1	5.3
NBFIs	5.9	49.4	-30.1	-13.6	1.4

DOMESTIC ECONOMIC DEVELOPMENTS

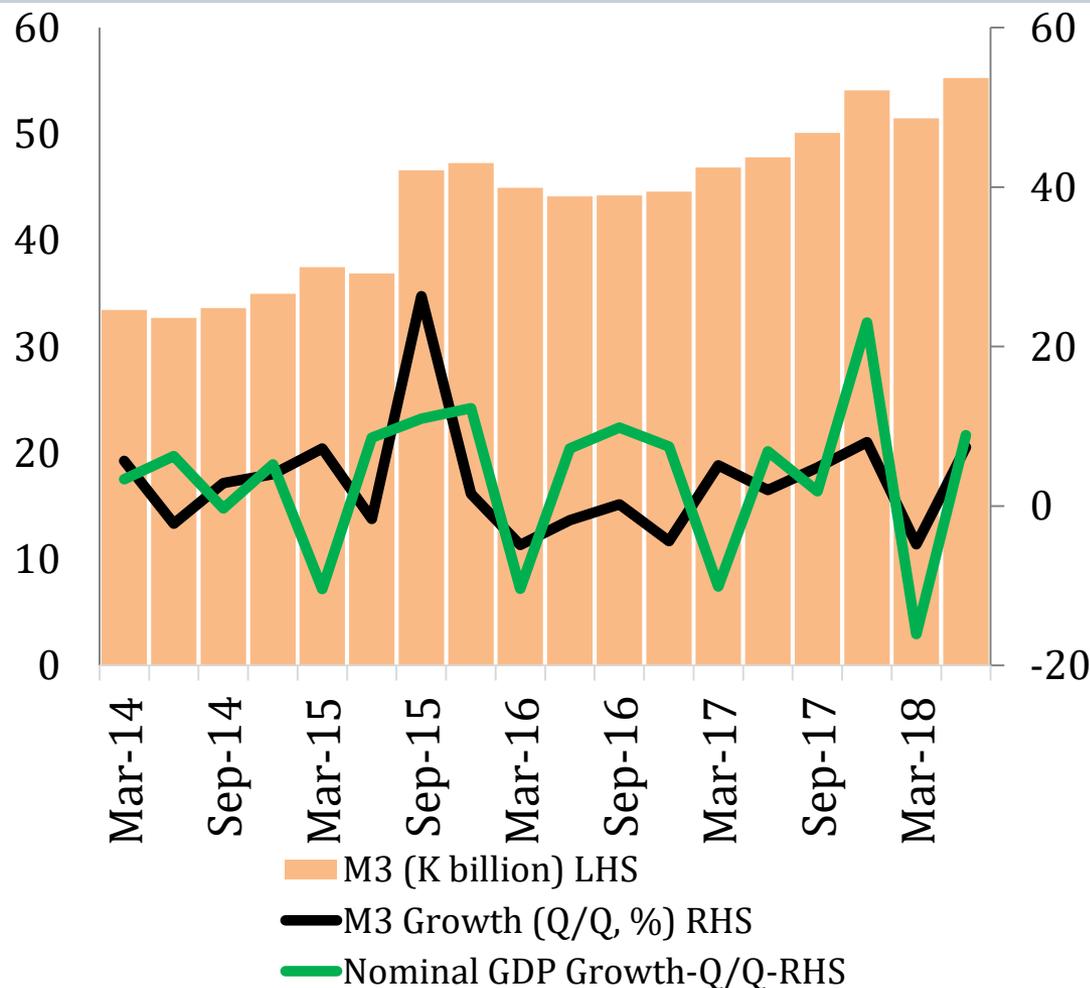
Money supply and credit



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- Money supply grew 7.3% compared to a contraction of 4.8% in the first quarter.
- The growth was due to a build-up in commercial banks foreign assets and BoZ purchases of foreign currency.
- On a year-on-year basis, money supply grew by 15.6% in the quarter under review from 9.9% in the first quarter.
- However, growth in money supply still remains below the levels required to support strong economic activity.

Figure 11: Money Supply



DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market



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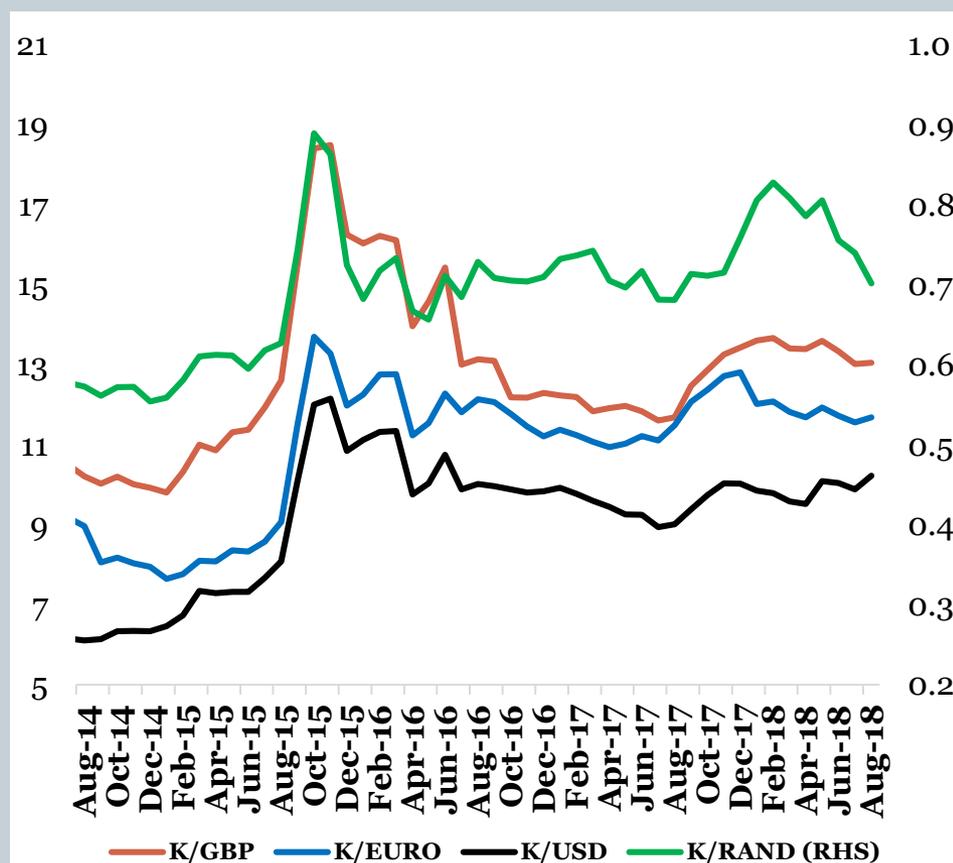
Despite an improvement in the supply of foreign exchange, the Kwacha depreciated by 1.4% against the US dollar compared to an appreciation of 1.9% in the first quarter.

A stronger US dollar and negative market sentiment explains the depreciation of the Kwacha/US dollar exchange rate.

The Kwacha continued to depreciate against the US dollar in July and August, with the exchange rate weakening by close to 2% since the end of June.

However, the Kwacha appreciated by 3.9%, 1.7% and 0.9% against the South African rand, British pound and euro, respectively.

Figure 12: Exchange rate developments



DOMESTIC ECONOMIC DEVELOPMENTS

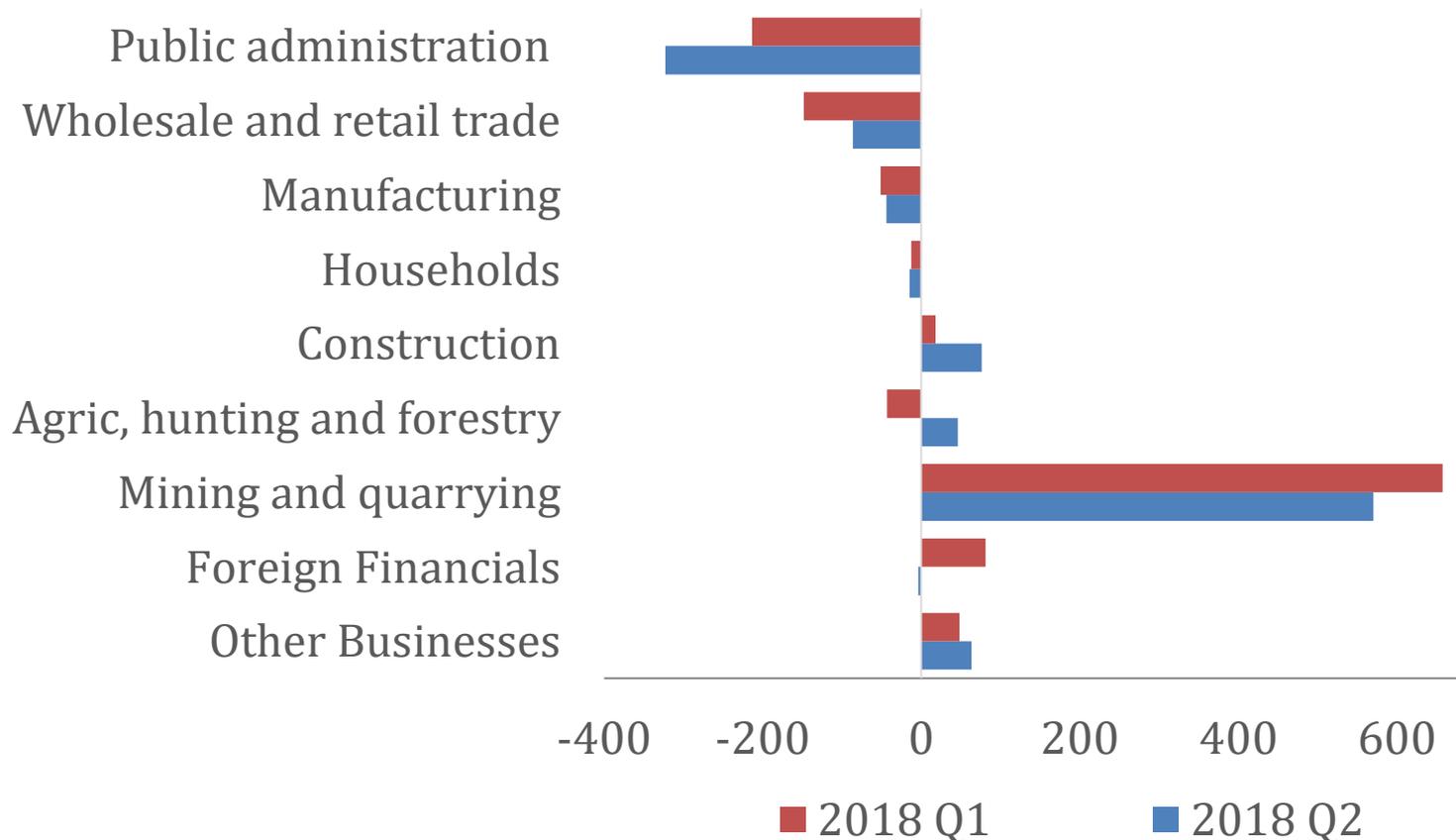
Foreign Exchange Market



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The supply of foreign exchange rose to a net US \$334.2 million in the second quarter from a net US \$264.2 million.

Figure 13: Supply and Demand (US\$'million)





Selected indicators of real sector activity suggest a pick-up in economic activity.

Copper production rose by 0.8% to 201,882.8 metric tons from 200,338.9 in the first quarter; on a year-to-date basis, copper production at 402,221.7 mt was 10.6% higher than produced in the first half of 2017.

Cement production rose by 2.3% to 505,872.5 metric tons, recovering from a decline of 17.8% in the first quarter. On a year-to-date basis, cement production at 1,004,386 metric tons was 19.7% higher than the corresponding period in 2017.

DOMESTIC ECONOMIC DEVELOPMENTS

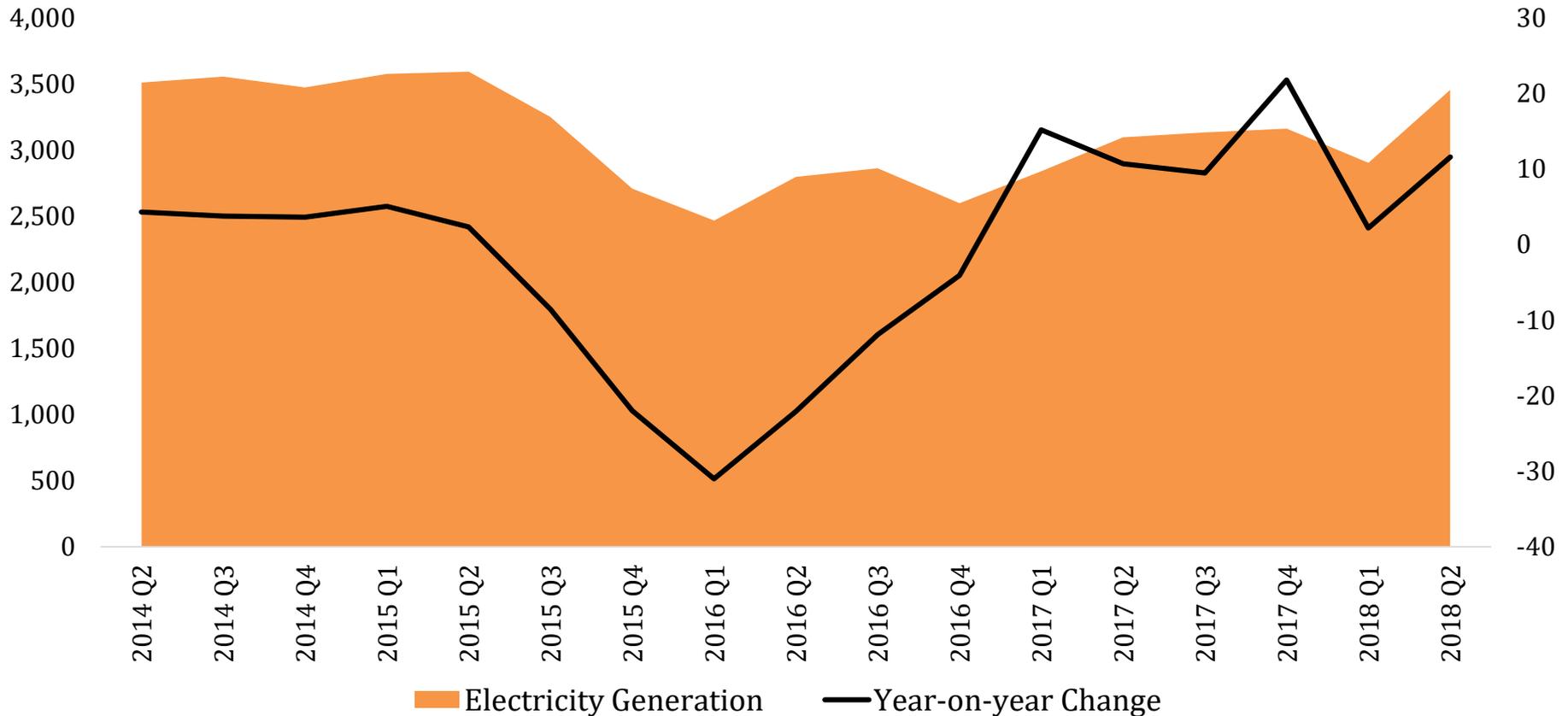
Real Sector Activity



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Electricity generation rose by 19.0% in the second quarter to 3,453.1 GWh; On a year-on-year basis, electricity generation was 11.6% higher.

Figure 14: Electricity Generation and Diesel Consumption



DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



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The production of manufactured products generally improved in the second quarter.

Table 5: Selected Manufactured Products (Quarterly, Metric Tons)

Product	Q3 17	Q4 17	Q1 18	Q2 18	Q-o-Q % change
Chemicals, Rubbers & Plastics	733.0	591.4	576.2	722.5	25.4
Leather	8,001.0	8,063.0	7,444.7	9,911.0	33.1
Basic Metal Industries	6,821.8	5,949.2	5,199.9	6,899.9	32.7
Fabricated Metal Products	18,812.9	15,426.1	12,101.1	15,117.1	24.9
Wood & Wood Products	5,836.0	5,747.5	5,718.1	6,194.5	8.3
Paper & Paper Products	556.5	553.2	558.4	558.7	0.1
Non-metallic Mineral Products	7,018.0	4,880.4	5,410.8	5,665.8	4.7
Textile & Clothing	135.9	110.3	117.8	154.8	31.4

DOMESTIC ECONOMIC DEVELOPMENTS

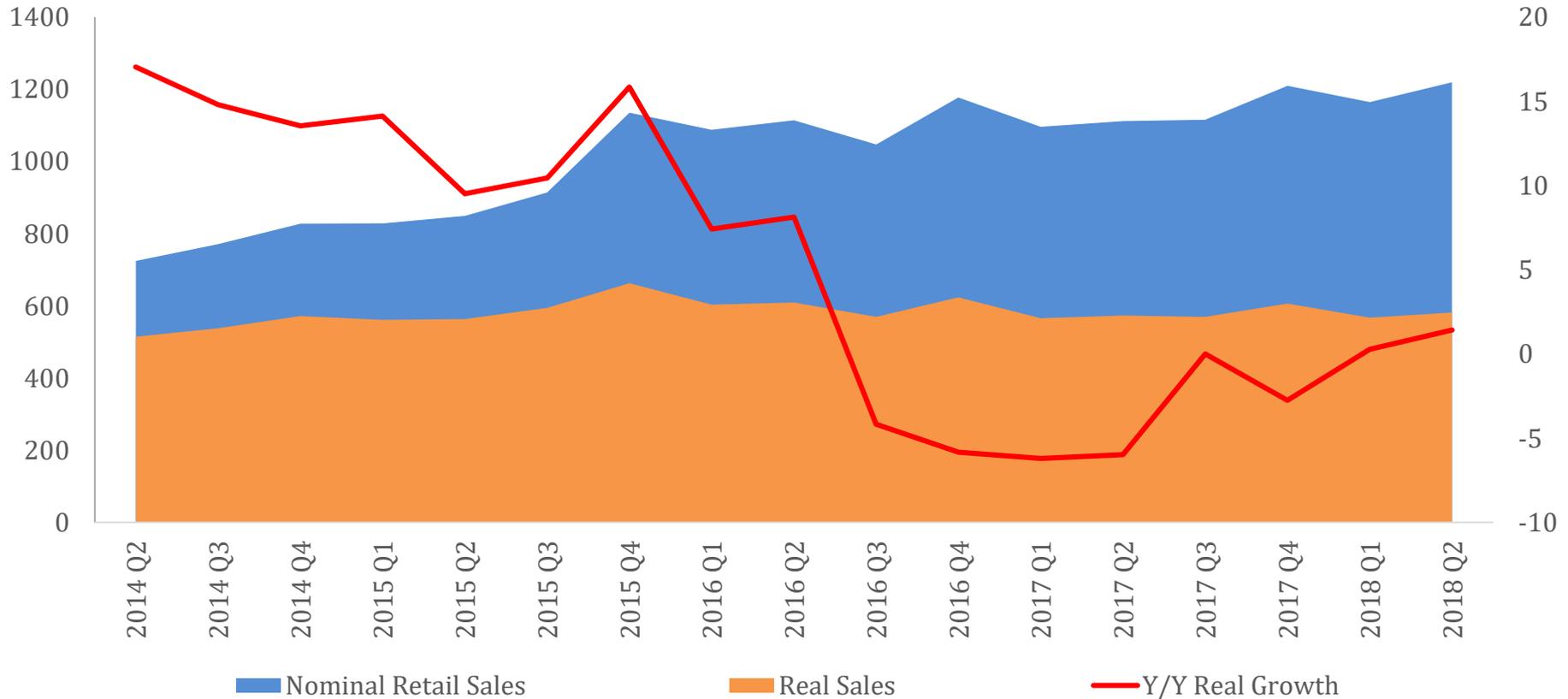
Real Sector Activity



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Consumer spending rose by 4.7% in the second quarter compared a decline of 1.7% in the first quarter; compared to the same quarter in 2017, real consumer spending increased by 1.4%.

Figure 14: Retail Sales (Quarterly, K'million and annual growth)



DOMESTIC ECONOMIC DEVELOPMENTS

External Sector



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Preliminary data indicated the widening of the current account deficit to US\$453.8 million from US\$302.7 million due to a deficit on the trade balance.

Table 6: Balance of Payments (US\$'million)

	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Current Account Balance	-424.8	-241.5	-302.7	-453.8
Balance on Goods	-70.3	252.3	121.0	-135.7
Total Exports	1,995.6	2,429.7	2,404.2	2,169.9
Copper	1,396.5	1,864.4	1,907.6	1,602.9
Cobalt	37.5	37.1	27.7	28.1
Gold	34.5	37.1	42.2	37.5
NTEs	511.2	475.3	409.1	483.8
Total Imports	2,065.85	2,177.39	2,283.2	2,305.6
Primary Income	-268.6	-416.7	-288.7	-218.6
Secondary Income	101.6	100.1	90.7	89.7
Services Account	-187.5	-177.2	-225.7	-189.2
Capital Account	14.8	14.8	16.3	17.2
Financial Account	-255.2	-274.5	-2.2	-555.6
Net Errors/Omissions	6.6	4.4	6.5	16.3
Overall Balance	148.1	-52.2	277.8	-135.3
Change in Free Reserve Assets	-161.2	15.7	-281.7	109.0



- **Budget execution remained under strain in the second quarter, with both revenue and expenditure being lower than programmed.**
- **The fiscal deficit (on a cash basis) for 2017 was revised to 7.8% from 6.1%; in 2018, the fiscal deficit is likely to remain above 7.0%.**
- **Arrears rose to K13.9 billion in March 2018 from K12.7 billion in December 2017.**
- **These developments have adverse effects on the economy; and full implementation of the austerity measures announced by the Government is critical to maintaining macroeconomic stability.**



Inflation rose to an average of 7.5% in the second quarter of 2018 from 6.5% in the preceding quarter.

- **At end-June, inflation was 7.4%, up from 7.1% in March 2018 (Figure 15).**
- **Food inflation increased to an average of 7.0% from 5.0% in first quarter.**
- **However, non-food inflation remained unchanged at an average of 8.2%.**
- **In July 2018, inflation rose to 7.8% from 7.4% in June, as both food and non-food inflation increased to 8.1% and 7.6% from 7.5% and 7.3%.**

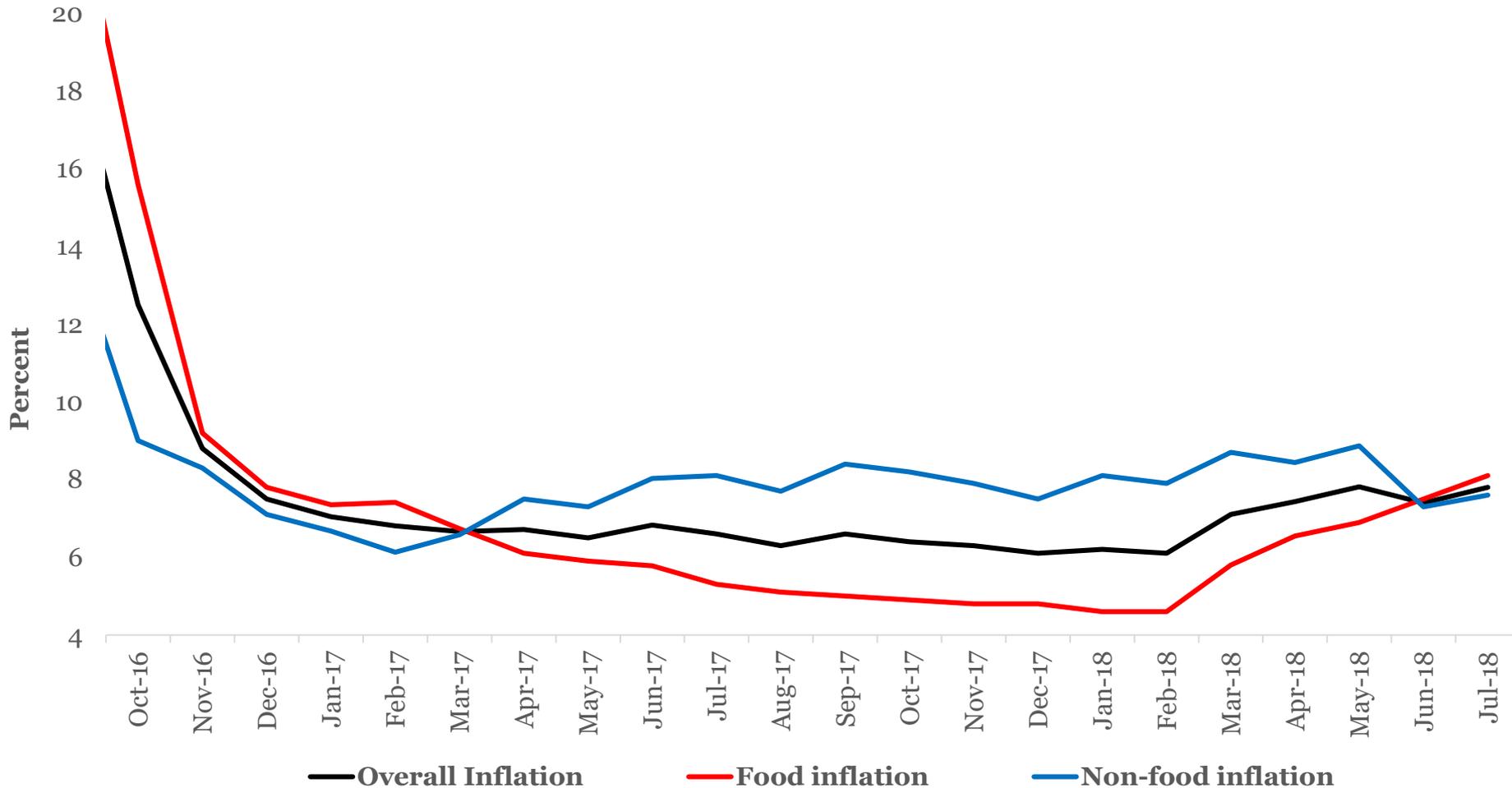
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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Figure 15: Year-on-year Inflation rate



DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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- **Rise in overall annual inflation was due to relatively higher prices of maize grain and its products and reduced supply of selected food items.**
- **The slight depreciation of the exchange rate of the Kwacha against the US dollar also exerted upward pressure on food and non-food items during the review period.**
- **However, month-on-month inflation declined in the second quarter to 0.2% in June 2018 from 1.3% in March (Figure 16).**
- **In July, monthly inflation rose to 0.3%, reflecting an increase in non-food inflation to 0.3% from 0.2% while food inflation remained unchanged at 0.3%.**

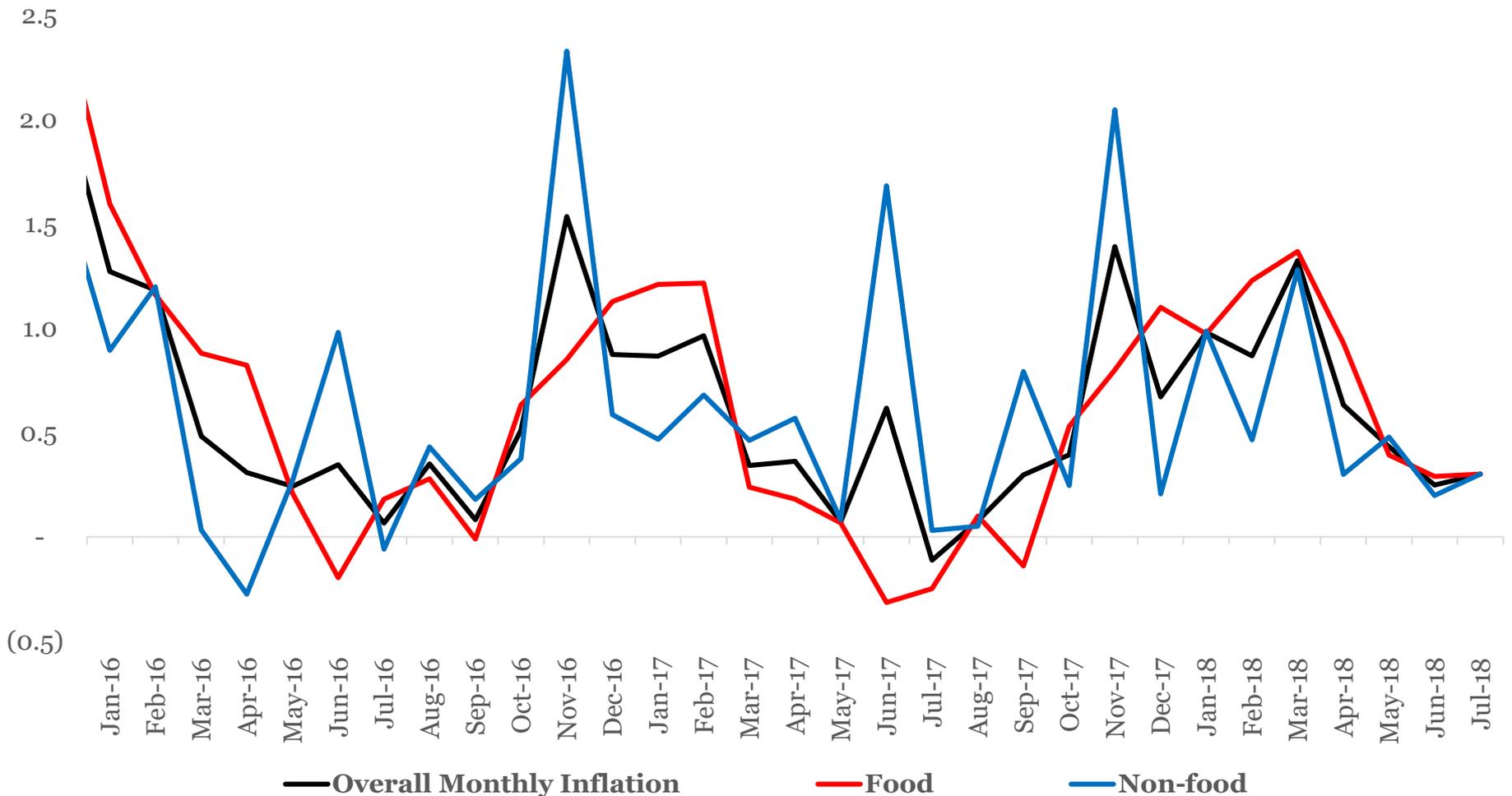
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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Figure 16: Month-on-month Inflation rate



MACROECONOMIC OUTLOOK

Real GDP growth



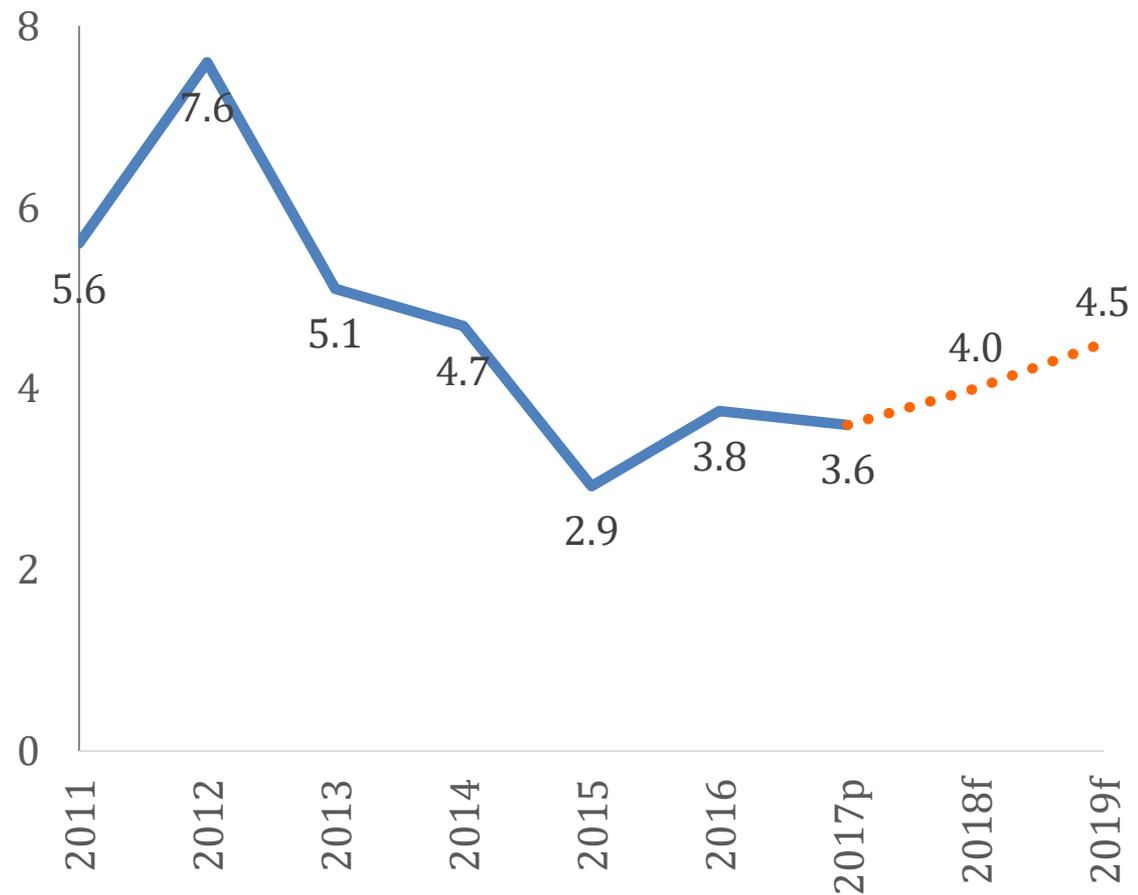
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Real GDP growth prospects remain positive, to be driven by pick-up in:

- **manufacturing;**
- **Construction;**
- **Tourism; and,**
- **Mining.**

Increased electricity supply will support growth in these sectors.

Figure 17: Real GDP Growth (%)



MACROECONOMIC OUTLOOK

Inflation



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Inflation is projected to remain above 7.5% in the third and fourth quarters of 2018, and around the mid-point of the target range (7%) thereafter.

The general strengthening of the US dollar against most currencies, including the Kwacha, and the continued elevated fiscal deficit as well as external debt account for the projected inflation profile over the next eight quarters.

CONCLUSION



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The MPC observed that although the latest inflation profile is higher than in the May 2018 forecast, inflation will broadly remain within the 6-8% target range.

The Committee also noted that containing the fiscal deficits within programmed levels remain a challenge; and rising external debt and the associated debt servicing costs presents additional challenges.

Further, it was noted that growth remains sluggish, partly on account of subdued credit growth to the private sector.

Financial fragility was also noted as an on-going concern as non-performing loans remain high.

On the whole, the Committee judged risks to the inflation outlook to be on the upside, and stands ready to change the policy stance should inflation rise above the upper bound of the 6-8% target range.



THANK YOU AND GOD BLESS...