MONETARY POLICY COMMITTEE STATEMENT FOR THE SECOND QUARTER OF 2022

GOVERNOR'S PRESENTATION TO THE MEDIA

AUGUST 17, 2022

Bank of Zambia

OUTLINE OF PRESENTATION

Bank of Zambia

1. Decision of the Monetary Policy Committee
2. Global Economic Growth
3. Domestic Economic Activity and Outlook
4. Inflation Outturn and Outlook
5. Government Securities Market
6. Interest Rates
7. Domestic Credit
8. Money Supply
9. Fiscal Policy
10. Current Account
11. Gross International Reserves
12. Foreign Exchange Market
13. Conclusion

DECISION OF THE MONETARY POLICY COMMITTEE

Bank *of* Zambia

At its Meeting held on August 15-16, 2022, the Monetary Policy Committee (MPC) decided to maintain the Monetary Policy Rate at 9.0 percent.

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

- **the sharp deceleration in inflation in the second quarter and a further projected decline into the 6-8 percent target range during the first quarter of 2024;**
- **lingering vulnerabilities in the financial sector;**
- **relatively tight domestic liquidity conditions; and**
- **weak domestic growth.**

GLOBAL ECONOMIC GROWTH

Bank *of* Zambia

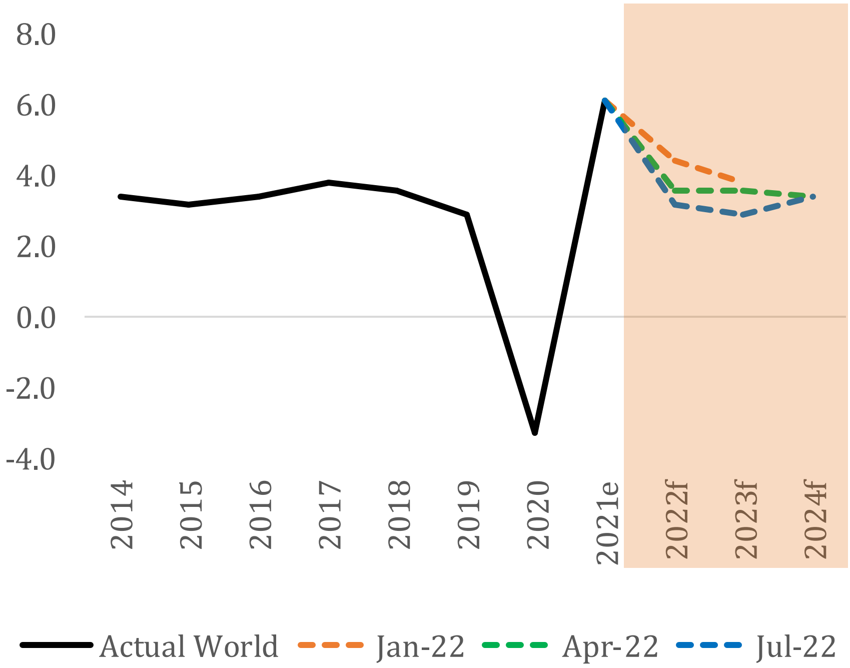
In July, the IMF revised global growth downwards by 0.4 and 0.7 percentage points for 2022 and 2023 to 3.2 percent and 2.9 percent, respectively (Chart 1).

The revisions were necessitated by:

- **Tighter global financial conditions following contractionary monetary policies by major central banks;**
- **higher food and energy prices stemming from the Russia-Ukraine conflict;**
- **stringent containment measures associated with new COVID-19 variants;**
- **the real estate crisis in China; and**
- **lower consumer spending.**

Persistence of these factors present downside risks to global growth.

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



Source: IMF World Economic Outlook Update, July 2022

COMMODITY PRICES

Commodity prices rose except for copper prices which declined by 4.7 percent in the second quarter (Table 1).

Crude oil prices rose by 12.5 percent on account of demand and supply imbalances induced by the Russia-Ukraine conflict.

Prices for agricultural commodities also registered notable increases.

Table 1: Commodity Prices Q2 2022 (Quarterly averages)

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Copper (US$ per ton)	9,706.1	9,381.9	9,703.1	9,985.5	9,521.0
Crude Oil (US$ per barrel)	66.4	71.4	77.9	96.5	108.9
Maize (US$ per tone)	288.7	256.9	251.0	301.6	342.9
Wheat (US$ per ton)	271.9	264.8	331.2	370.4	415.2
Cotton (US$ per kg)	2.0	2.2	2.7	3.0	3.5
Soybeans (US$ per ton)	619.5	581.3	552.4	662.8	727.3
Sugar (US$ per kg)	0.37	0.42	0.42	0.41	0.43

Source: World Bank Pink Sheet

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Bank *of* Zambia

High frequency indicators point to a pick-up in economic activity in the second quarter. According to the *Bank of Zambia Quarterly Survey of Business Opinions and Expectations*, the *volume of sales* and *service, domestic sales, profitability and level of investment* (Chart 2).

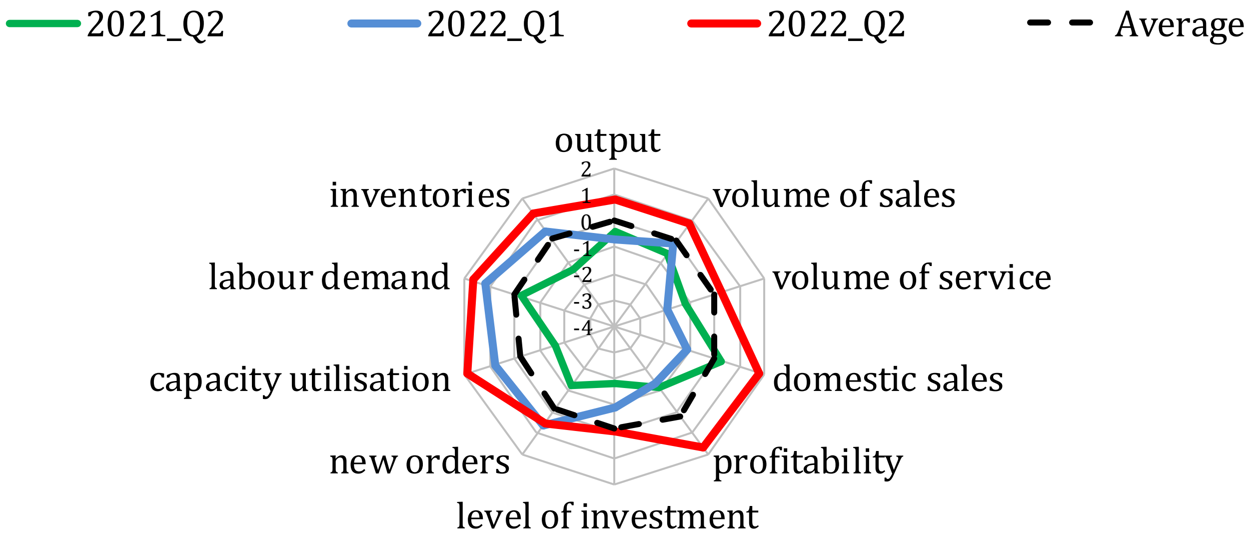
Similarly, the *Stanbic Bank Zambia PMI* Purchasing Managers' Index (PMI) rose to a quarterly average of 50.1 from 49.9 in the previous period, signalling improved business conditions for the private sector as *output* and *employment* went up (Chart 3).

In July, the PMI rose to 50.5 from 49.9 in June, indicating improvement in private sector business conditions as customer demand rose.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Bank of Zambia

Chart 2: Business Opinions Survey Responses

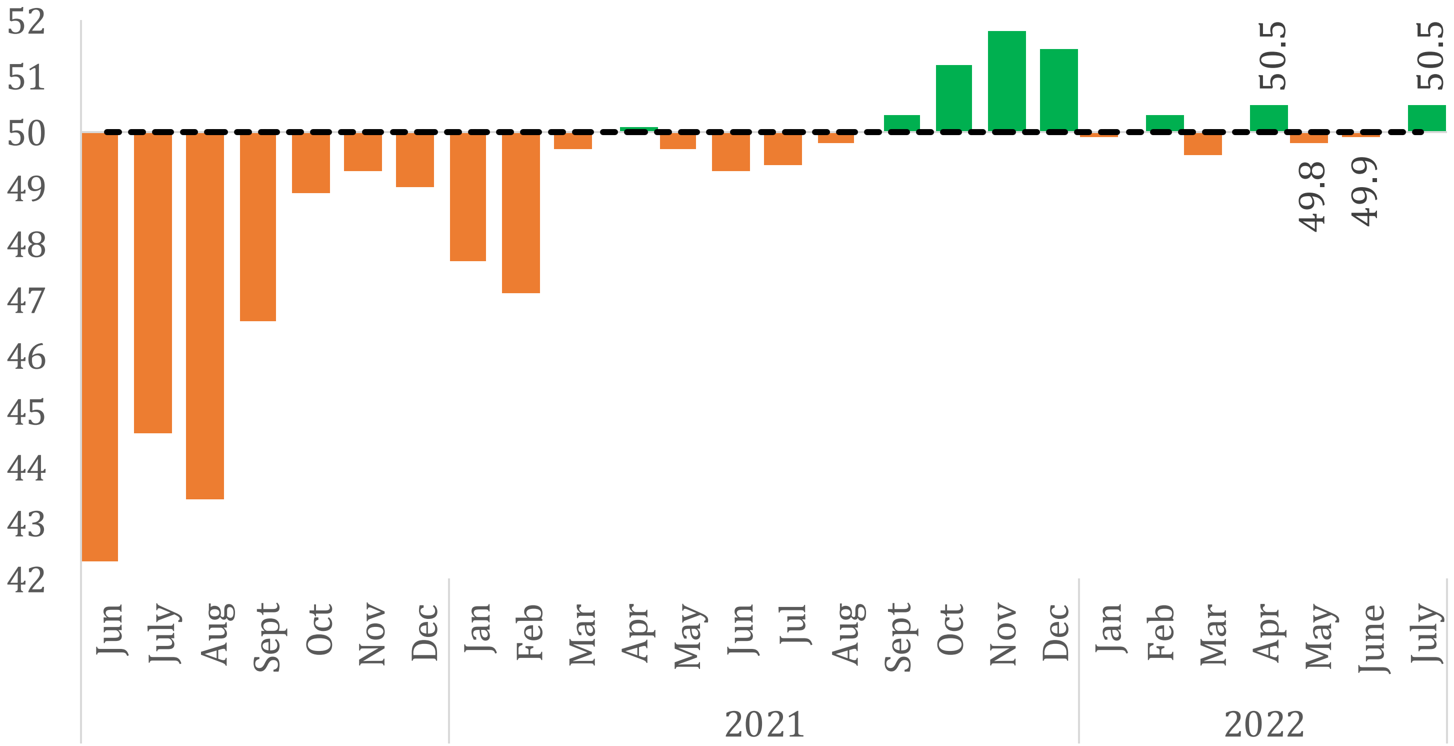


*Note: The Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Bank of Zambia

Chart 3: Purchasing Manager's Index for Zambia



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Bank of Zambia

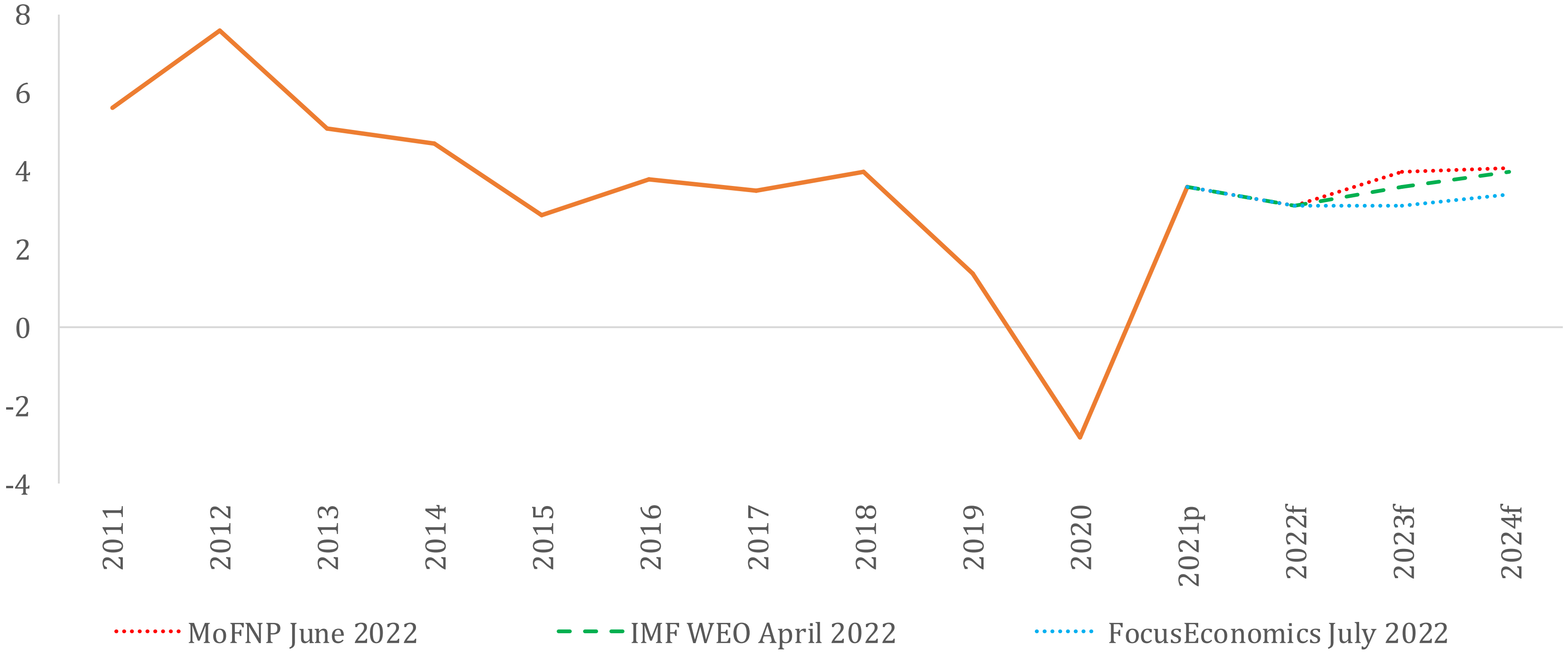
Real GDP growth is projected to gradually pick-up in the medium-term. The economy is forecast to expand by 3.1 percent, 4.0 percent, and 4.1 percent in 2022, 2023 and 2024, respectively (Chart 4).

The growth over the period is expected to come from the financial and insurance, information and communications, wholesale and retail trade, mining and quarrying, agriculture, as well as education sectors.

Nonetheless, the impact of the Russia-Ukraine conflict, resurgence of the COVID-19 pandemic, tighter domestic and global financial conditions, as well as slow recovery in trade partner countries remain key downside risks to the growth outlook.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Chart 4: Annual Real GDP Growth Forecast (percent)



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

INFLATION OUTTURN AND OUTLOOK

Bank of Zambia

Inflation declined for the third consecutive quarter to an average of 10.5 percent from 14.1 percent in the previous quarter (Table 2).

Dissipation of base effects to prices of chicken and charcoal (Chart 5), the appreciation of the Kwacha against the US dollar, and improved supply of vegetables accounted for the decline in inflation.

Average food and non-food inflation declined to 12.8 percent and 7.5 percent from 16.1 percent and 11.6 percent, respectively (Table 2 and Chart 6).

Following the increase in fuel pump prices on June 30 and subsequent rise in transportation costs, annual overall inflation ticked up to 9.9 percent in July from 9.7 percent in June.

INFLATION OUTTURN AND OUTLOOK

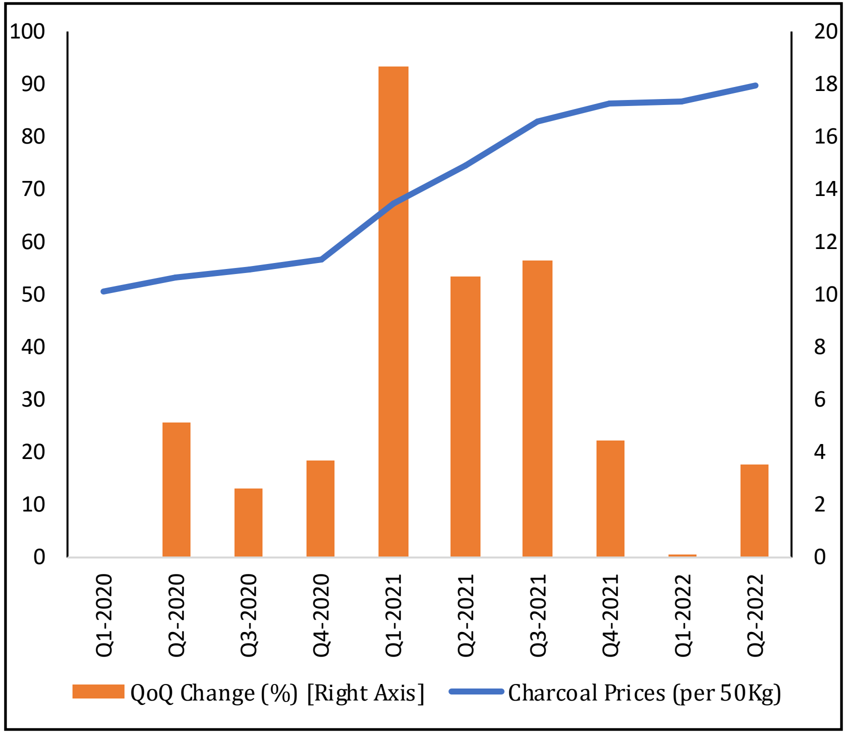
Bank of Zambia

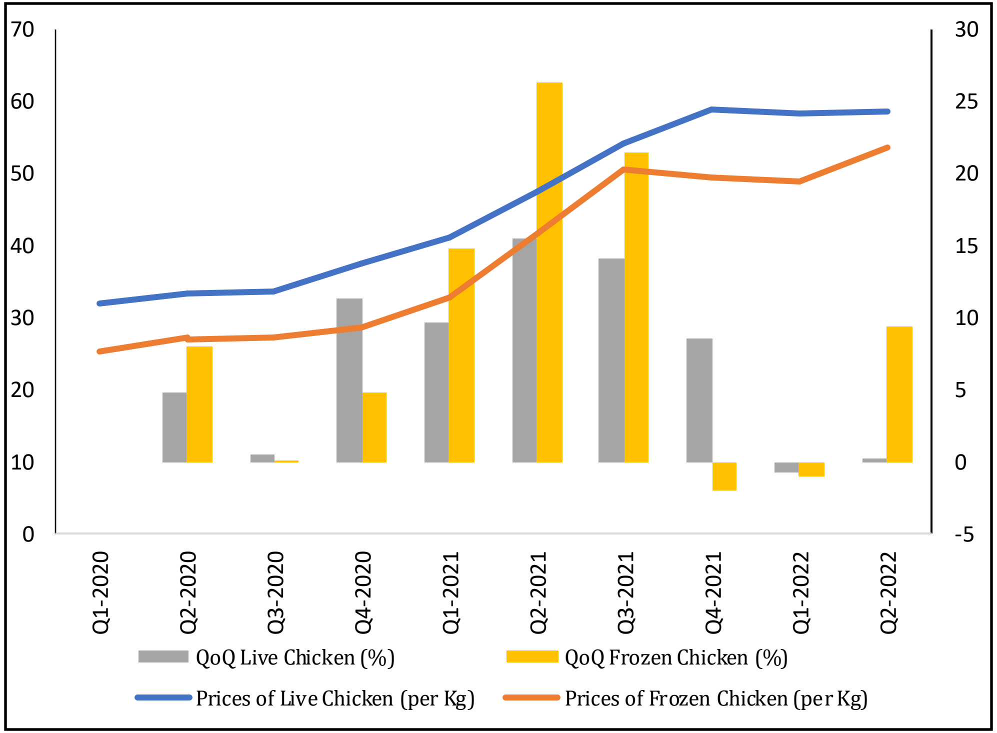
Table 2: Inflation outcomes (percent)

Quarterly Average	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**
Overall Inflation	23.5	23.7	18.9	14.1	10.5
Food Inflation	29.0	30.8	24.5	16.1	12.8
Non-food Inflation	17.2	15.6	12.5	11.6	7.5
Quarterly End Period	**June 2021**	**Sept 2021**	**Dec 2021**	**Mar 2022**	**June 2022**
Overall Inflation	24.6	22.1	16.4	13.1	9.7
Food Inflation	31.2	29.6	19.9	15.3	11.9
Non-food Inflation	17.1	13.6	12.1	10.3	6.9

INFLATION OUTTURN AND OUTLOOK

Chart 5: Base effect for Chicken and Charcoal Prices

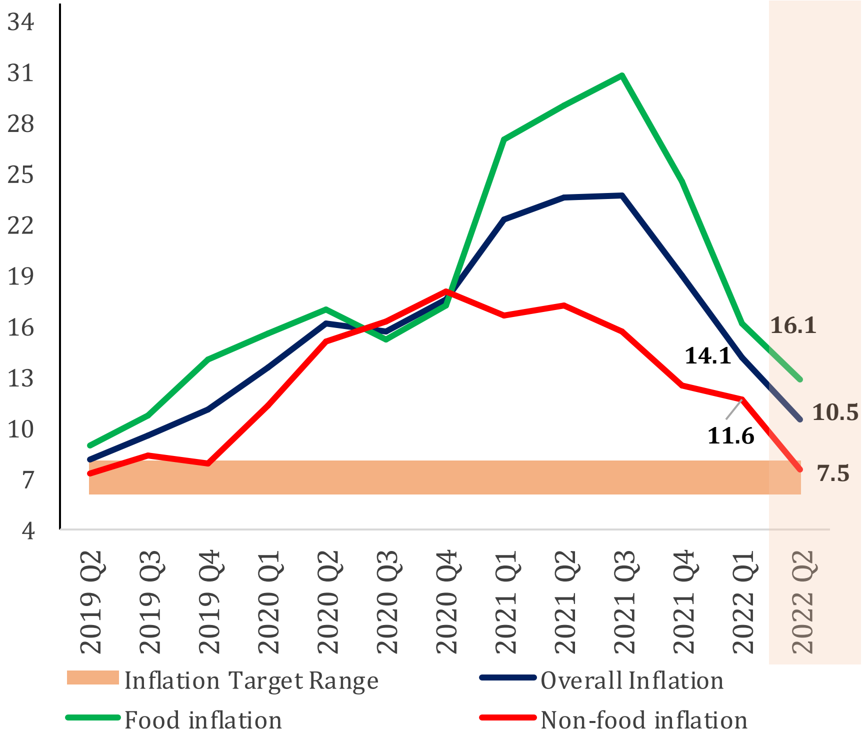


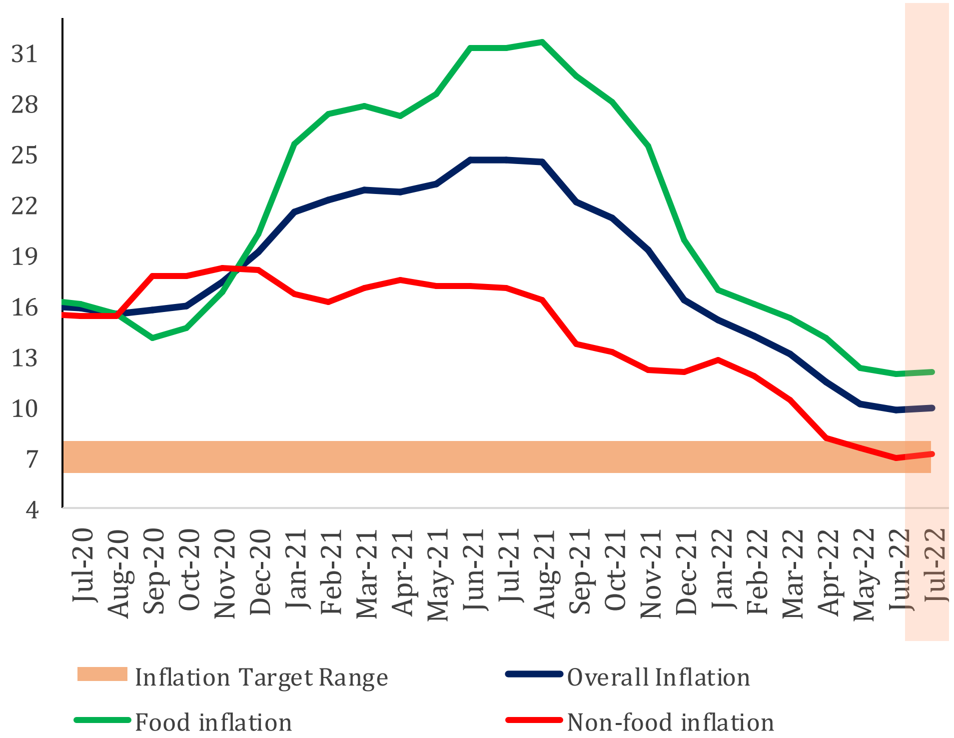


INFLATION OUTTURN AND OUTLOOK

Bank of Zambia

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





Source: Zambia Statistics Agency

INFLATION OUTTURN AND OUTLOOK

Bank of Zambia

- **Over the forecast horizon, inflation is projected to decline to averages of 11.4 percent and 8.4 percent in 2022 and 2023, respectively, from the outturn of 22.1 percent in 2021. In the first half of 2024, inflation is expected to average 7.0 percent.**

- **The projection is underpinned mainly by sustained implementation of fiscal consolidation and structural reform measures as well as the benefits associated with securing an IMF Extended Credit Facility.**

- **Working through the exchange and interest rates channels, these factors are also anticipated to boost market confidence and anchor inflation expectations. This will in turn foster a stable macroeconomic environment, essential for sustainable growth.**

INFLATION OUTTURN AND OUTLOOK

However, there are upside risks to the inflation outlook, which include:

- **persistently elevated energy and food prices due to the prolonged Russia-Ukraine conflict;**
- **higher domestic maize prices due to the short supply of this staple grain in some neighbouring countries;**
- **spillovers from intensified COVID-19 pandemic containment measures in other countries;**
- **weakening global growth amid higher inflation; and**
- **tight global financial conditions.**

GOVERNMENT SECURITIES MARKET

Demand for Government securities weakened on account of low money market liquidity levels.

The subscription rates for Government bonds and Treasury bills were 90 percent and 73.4 percent compared to 148 percent and 91.7 percent in the previous quarter, respectively.

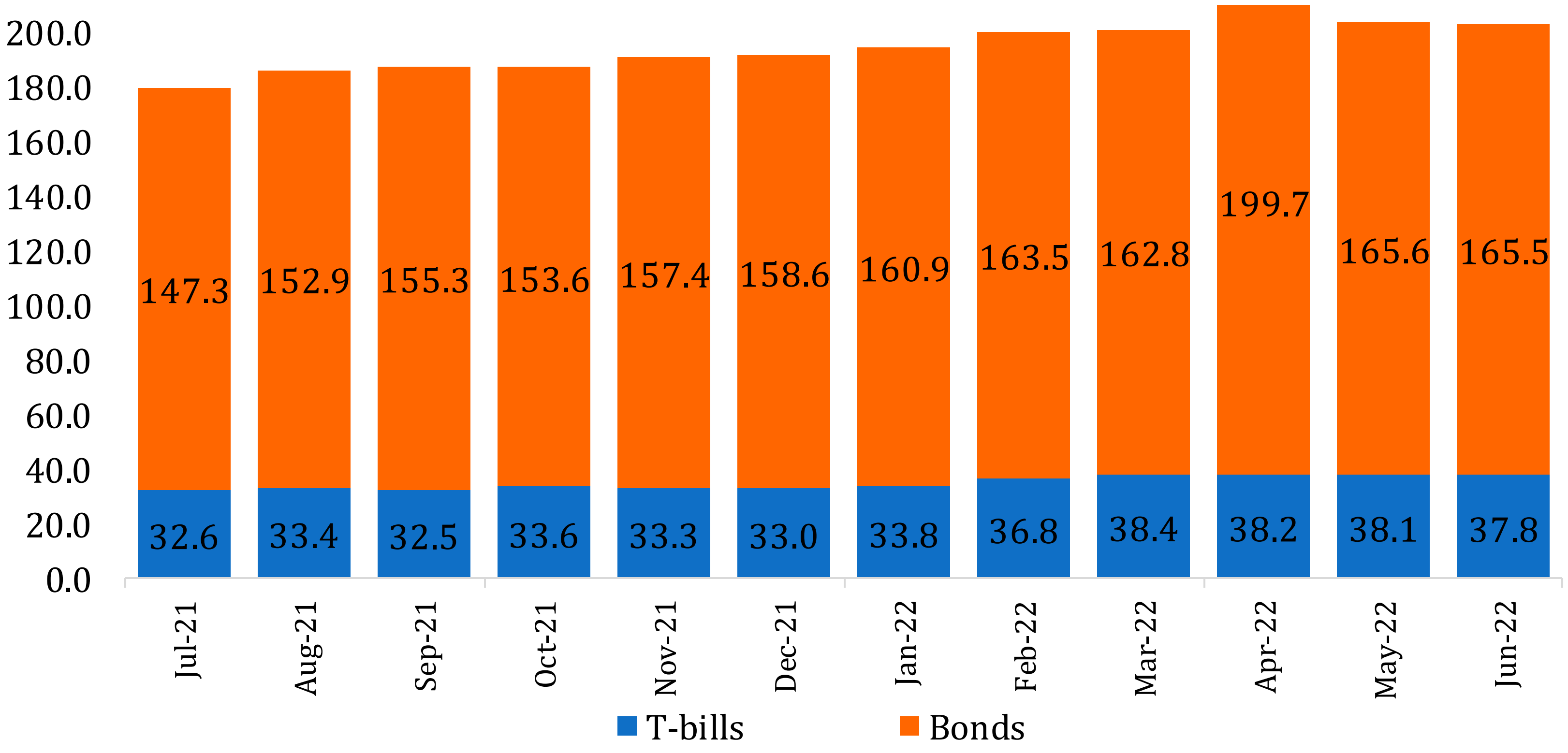
The outstanding stock of Government securities increased by 1 percent to K203.3 billion (Chart 7).

Government bonds accounted for 81.4 percent of the outstanding stock.

Non-resident holdings of Government securities declined to 26 percent of the outstanding stock from 28 percent in the previous quarter.

GOVERNMENT SECURITIES MARKET

Chart 7: Stock of Govt Securities (K' billion)



INTEREST RATES

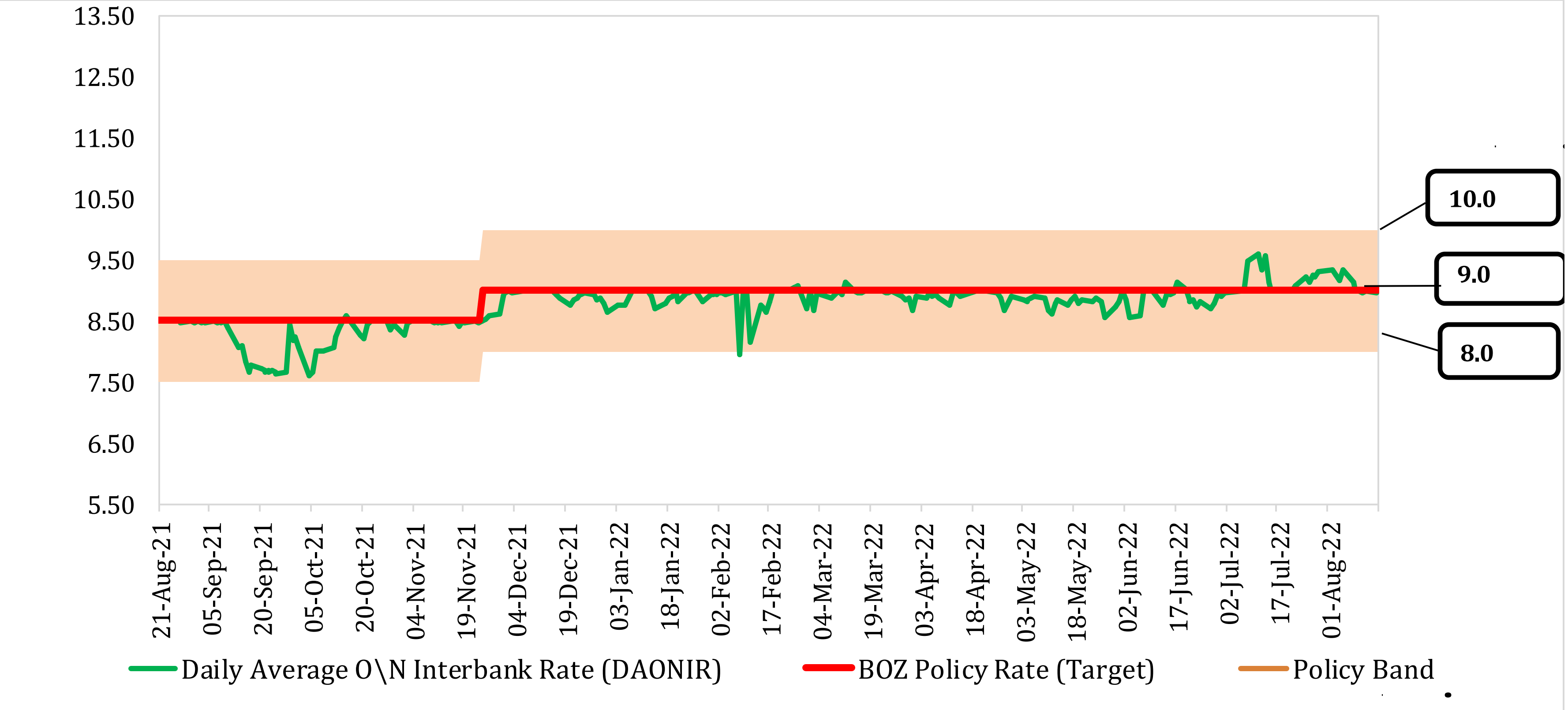
- **The average interbank rate remained virtually unchanged at 8.9 percent and was maintained within the Monetary Policy Rate Corridor of 8-10 percent throughout the quarter (Chart 8).**

- **The commercial banks' average nominal lending rate was also broadly unchanged at 25.2 percent. In contrast, the 180-day deposit rate for amounts exceeding K20,000 declined to 6.8 percent from 7.5 percent.**

- **The weighted average Treasury bill and Government bond yield rates, however, rose by 0.3 and 0.4 percentage points to 13.0 percent and 22.1 percent, respectively (Chart 9). The rise in yield rates largely reflected reduced demand as liquidity conditions tightened.**

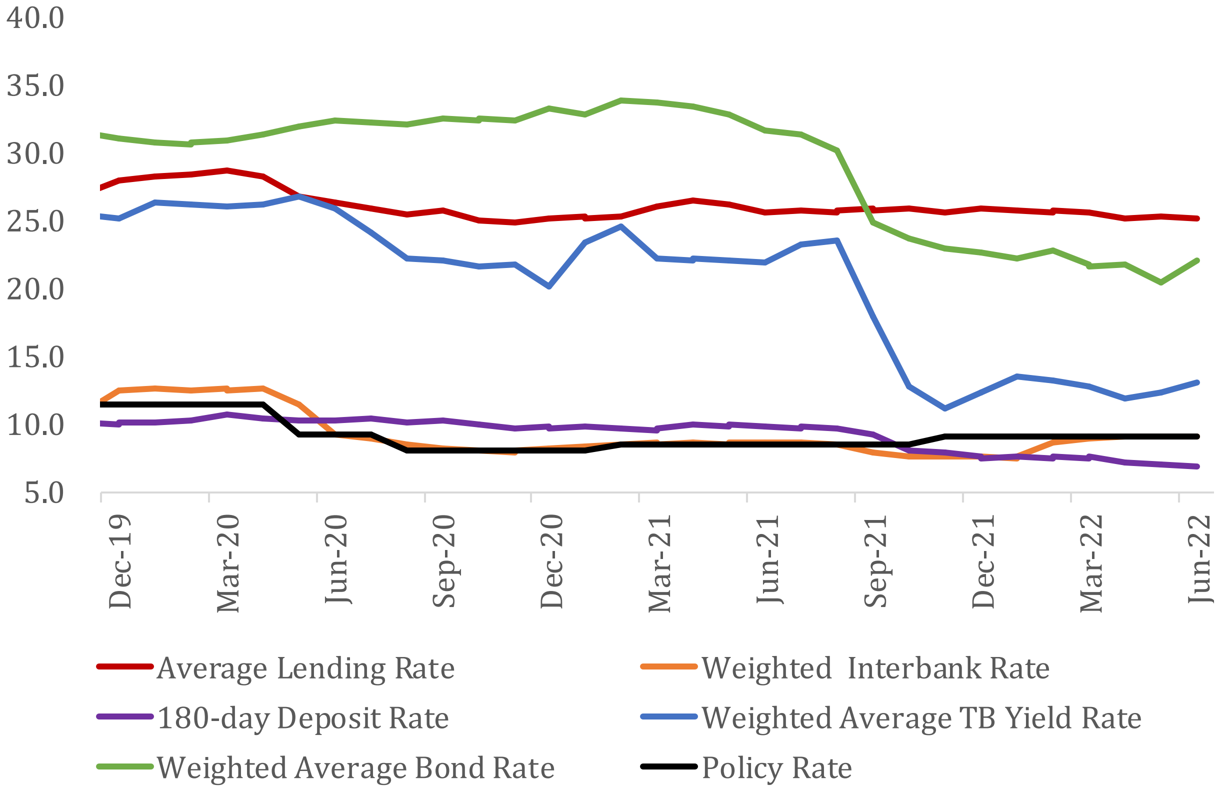
INTEREST RATES

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



INTEREST RATES

Chart 9: Nominal Interest Rates (percent)



DOMESTIC CREDIT

Bank *of* Zambia

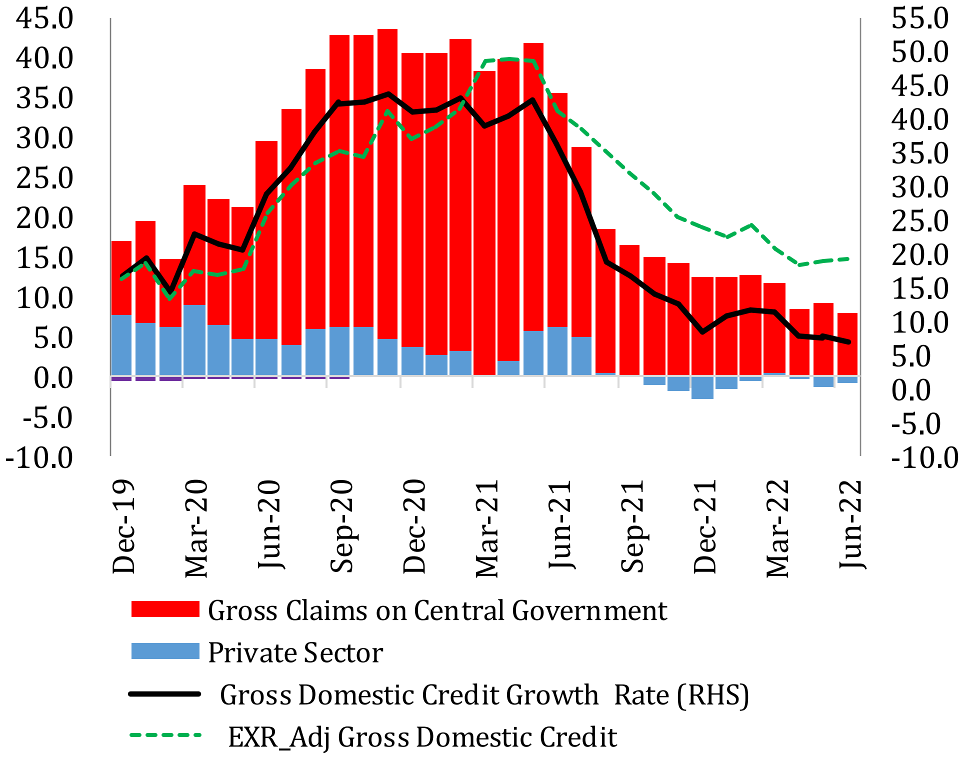
In June, domestic credit growth slowed to 6.8 percent, year-on-year, compared to 11.5 percent in March (Chart 10).

This was largely attributed to the reduction in lending to Government and contraction in private sector credit.

In June, growth in credit to Government decelerated to 12.0 percent, year-on-year, against 16.8 percent in March.

Furthermore, credit to the private sector contracted by 2.1 percent, year-on-year, relative to the 1.3 percent growth over the same period. The contraction was primarily due to valuation effects on foreign currency loans, which offset the moderate growth in Kwacha denominated credit.

Chart 10: Contribution to Y/Y Domestic Credit growth

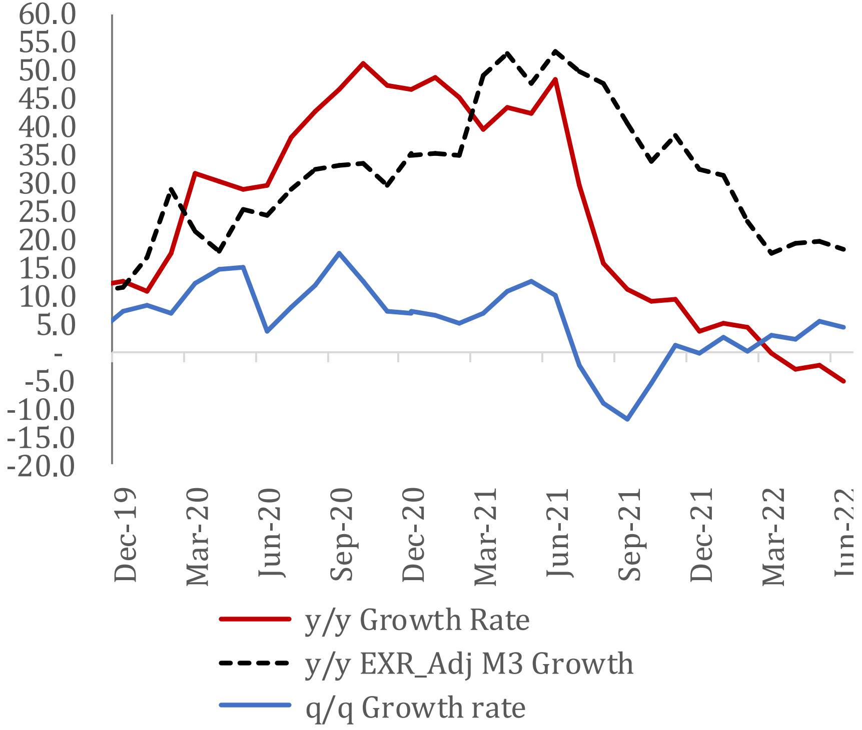


MONEY SUPPLY

Chart 11: Money Supply Growth (y/y), Percent

Money supply (M3) contracted further by 5.2 percent, year-on-year, during the quarter under review (Chart 11).

This was largely due to the slowdown in total domestic credit and valuation effects following the appreciation of the Kwacha against the US dollar.



FISCAL POLICY

Preliminary data indicate a lower cash fiscal deficit in the second quarter largely on account of reduced expenditure amid strong revenue performance. A standstill on external debt service, principally to non-multilateral creditors, and lower spending on capital projects underlie this outturn. In contrast, revenue exceeded the target due to relatively higher realised copper prices and improved tax payments by the non-mining sector.

However, significant fiscal risks remain, including the Russia-Ukraine conflict and subsequent unprecedented rise in energy and food prices, and unfavourable weather conditions.

CURRENT ACCOUNT

Bank *of* Zambia

Preliminary data indicate a narrowing current account surplus to US$0.2 billion in the second quarter from US$0.5 billion in the preceding quarter (Chart 12).

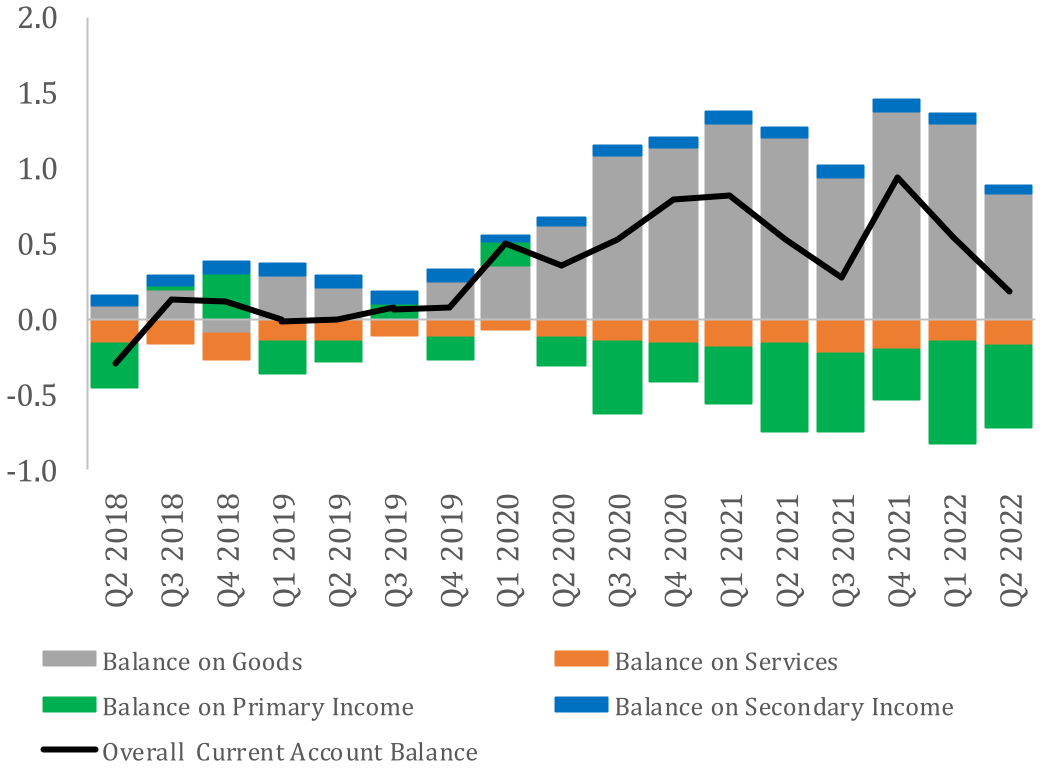
This was attributed to the decline in net exports of goods and widening deficit on the *services account*.

Imports grew by 23.3 percent to US$2.1 billion, driven by a pick-up in economic activity and appreciation of the Kwacha against the US dollar.

In contrast, exports declined by 2.2 percent to US$2.9 billion owing to the moderation in copper earnings due to the reduction in both volume and average realised prices.

The *service account* deficit widened on account of higher transportation expenditures as imports recovered.

Chart 12 : Current Account Balance



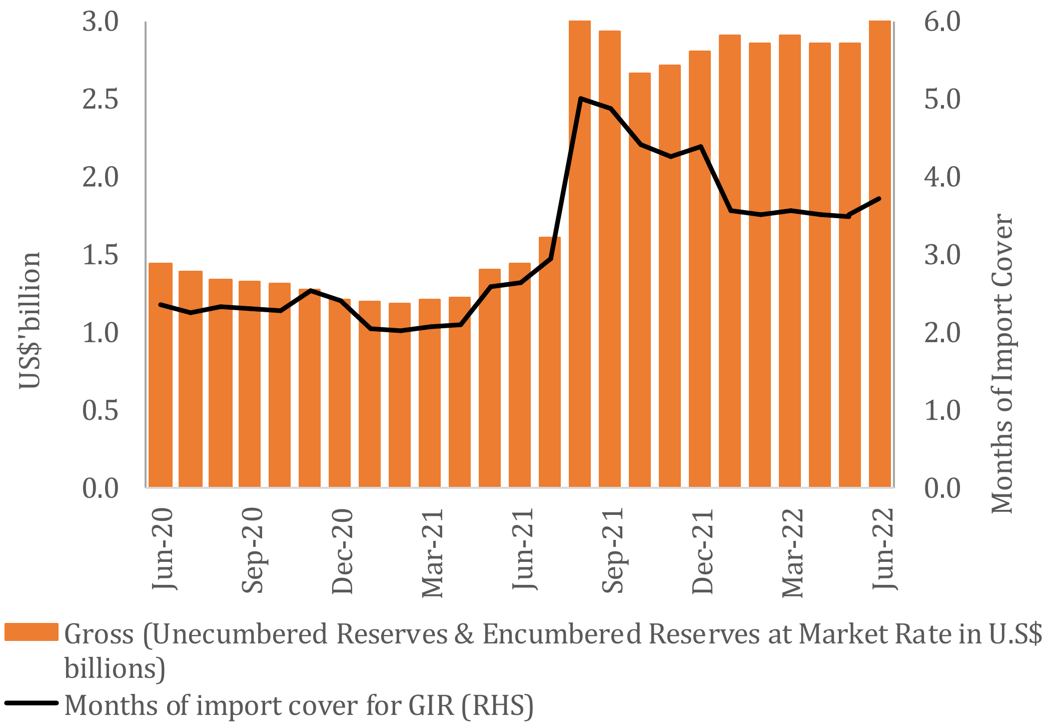
GROSS INTERNATIONAL RESERVES

Bank of Zambia

Gross international reserves marginally increased to US$3.0 billion (3.7 months of import cover; US$9.8 billion of imports) at end-June 2022 from US$2.9 billion (3.6 months of import cover; US$9.4 billion of imports) at end-March (Chart 13).

The primary sources of inflows were mining tax payments and receipt of project funds.

Chart 13 : Gross International Reserves

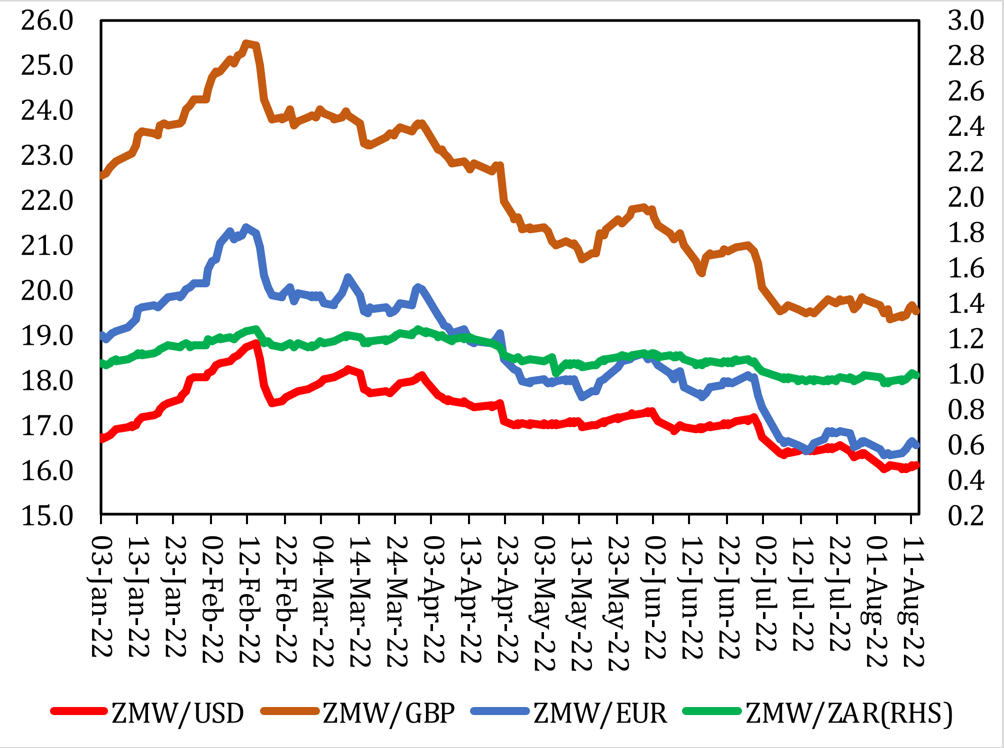


FOREIGN EXCHANGE MARKET

During the quarter under review, the Kwacha appreciated by 3.4 percent against the US dollar to an average of K17.15 (Chart 14). The Kwacha's strength arose mainly from:

- increased supply of foreign exchange; and
- positive market sentiments arising from stronger prospects of securing an IMF Extended Credit Facility following the meeting of the Official Creditor Committee on external debt restructuring under the G20 Common Framework (CF).

Chart 14: Nominal Exchange Rates

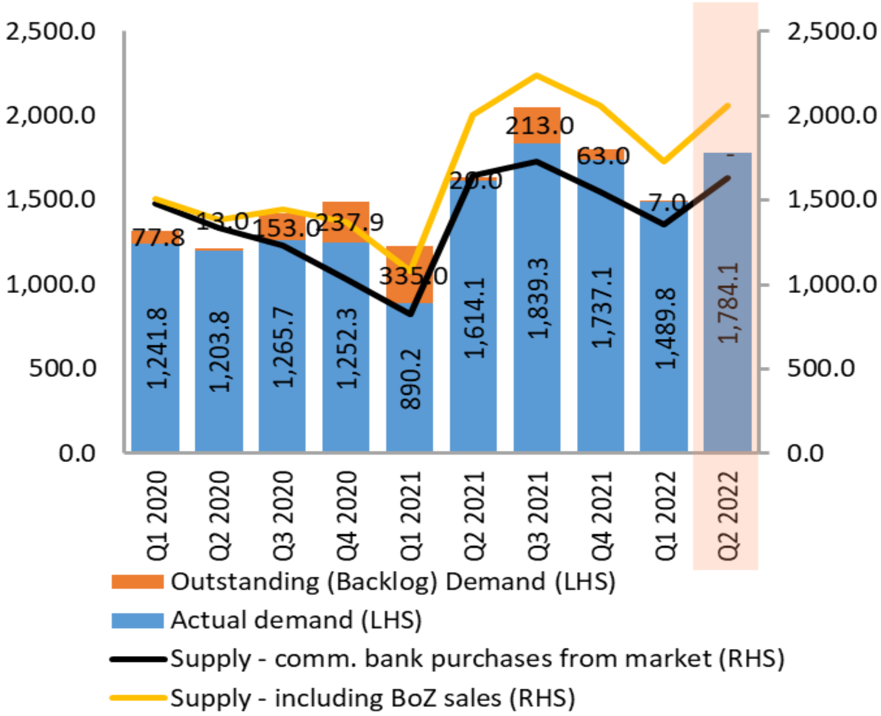


FOREIGN EXCHANGE MARKET

- **Total supply of foreign exchange to the market was US$2,128.3 million, out of which the Bank of Zambia received US$494.0 million (23.2 percent) through mining taxes (Chart 15).**

- **In order to manage periodic exchange rate volatility and render support to market stability in the face of increased prices of petroleum and fertilizer following the Russia-Ukraine conflict, the Bank provided US$424.0 million back to commercial banks.**

Chart 15: Supply and Demand for Foreign Exchange (US$' million)



CONCLUSION

The MPC decided to maintain the Monetary Policy Rate at 9.0 percent.

- **The Committee considered the sharp decline in inflation in the second quarter and a further projected deceleration into the 6-8 percent target range during the first quarter of 2024.**
- **Lingering vulnerabilities in the financial sector, relatively tight domestic liquidity conditions, and weak domestic growth were also noted.**
- **Finally, the MPC took into account upside risks to the inflation outlook from both domestic and global factors.**

Bank of Zambia

THANK YOU…

GOD BLESS…