



**MONETARY POLICY COMMITTEE STATEMENT
FOR
FOURTH QUARTER 2016**

Governor's Presentation to the Media

22nd February, 2017

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**

MONETARY POLICY DECISION



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At the Meeting held on 20 – 21 February 2017, Monetary Policy Committee decided the following:

- **Reduce the BOZ Policy Rate by 150 basis points to 14.0% from 15.5%;**
- **Restore the Overnight Lending Facility Rate to 600 basis points from 1,000 basis points above the Policy Rate.**
- **Reduce the Statutory Reserve Ratio by 250 basis points to 15.5% from 18.0%; and,**

MONETARY POLICY DECISION



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In the November 2016 MPC Statement, Committee made a commitment that changes in the Policy Rate would be guided by inflation outcomes and forecasts as well as progress in fiscal consolidation.

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

- decline in inflation to single digits, and projected to trend below the 2017 target of 9.0% and to be within the medium-term target range of 6-8% by end 2018;**
- better anchored inflation expectations given the current relative macroeconomic stability, return of investor confidence and anticipated good agricultural season;**

MONETARY POLICY DECISION



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- **relative stability in the foreign exchange market as exhibited by a relatively stable exchange rate for more than a year;**
- **signs of recovery in the external sector as global economic growth is projected to gain momentum over the next two years;**
- **the prevailing high lending rates, which are discouraging access to credit by the productive sector of the economy, as reflected in contraction of credit to the private sector in most of 2016;**
- **deterioration in commercial banks' assets, with non-performing loans rising to 10.0% in December 2016 from 7.0% in December 2015; and**
- **sluggish economic growth over the past two years, with modest recovery projected over the next two years.**

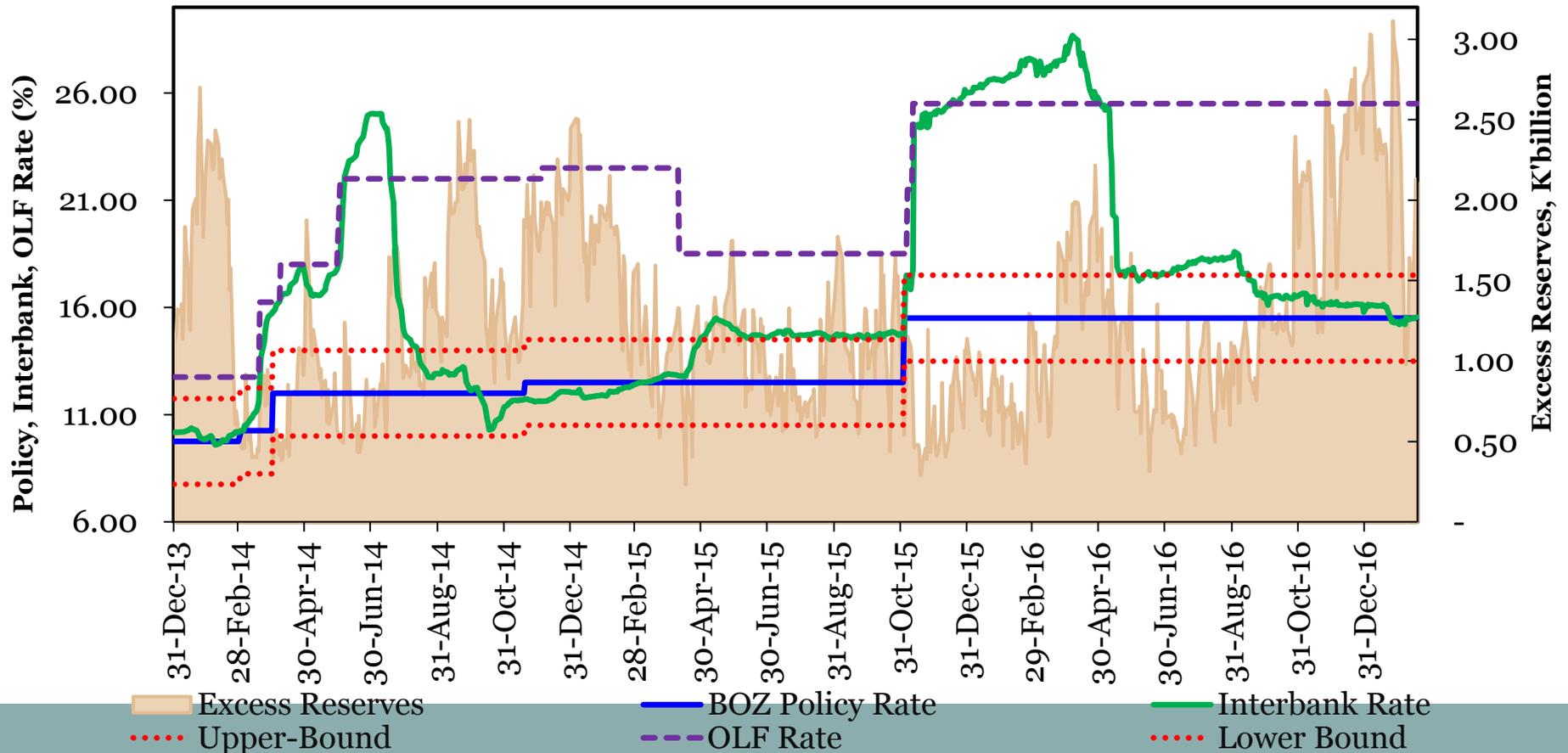
OVERVIEW



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- In Q4, liquidity levels (excess reserves) in the market increased further, pushing the average overnight interbank rate closer towards the Policy Rate.

Figure 1: Interest Rates and Excess Reserves



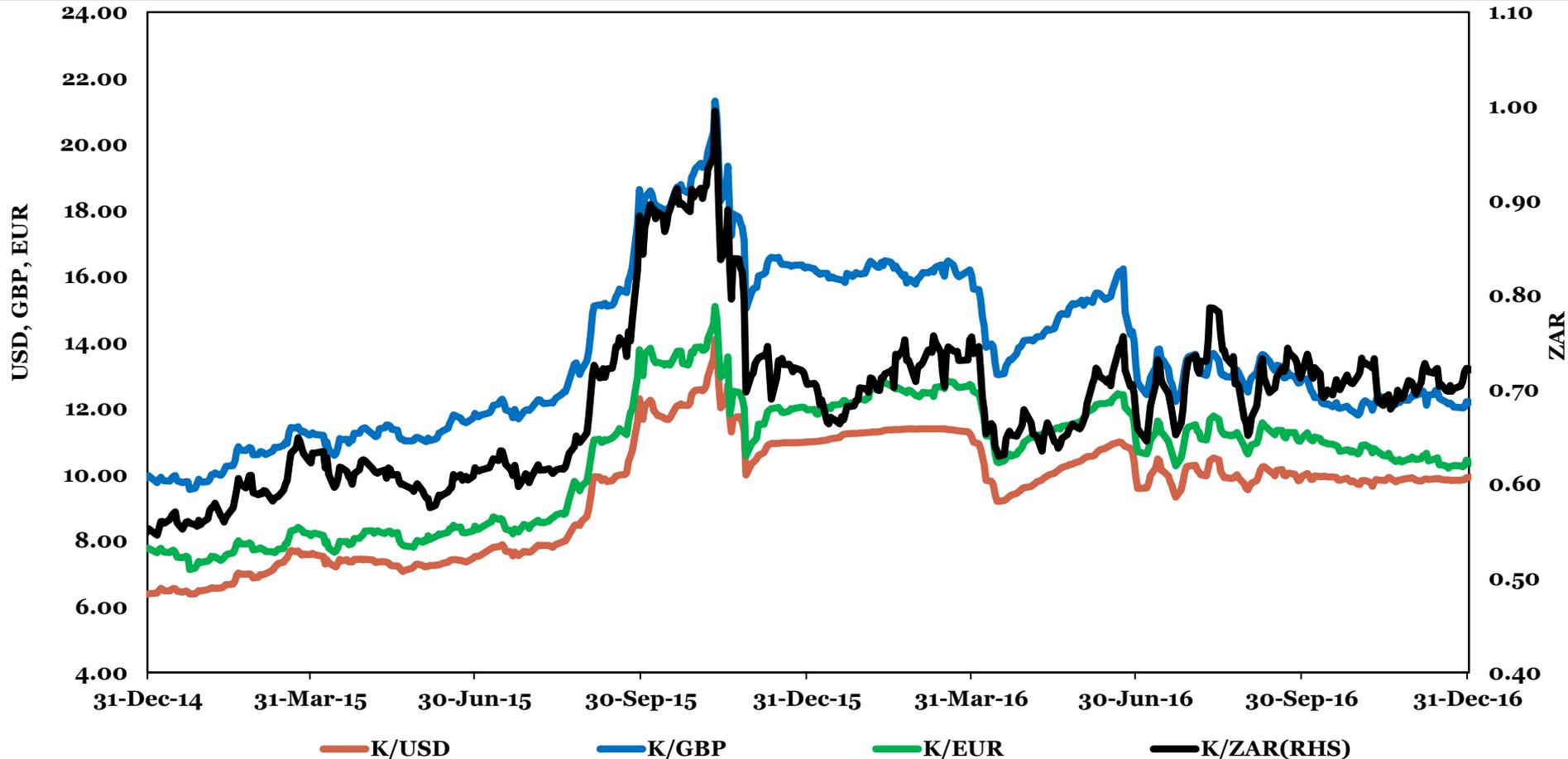
OVERVIEW



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The Kwacha appreciated in Q4, drawing support from rising copper prices and renewed non-resident investors interest in Government securities.

Figure 2: Exchange rate developments



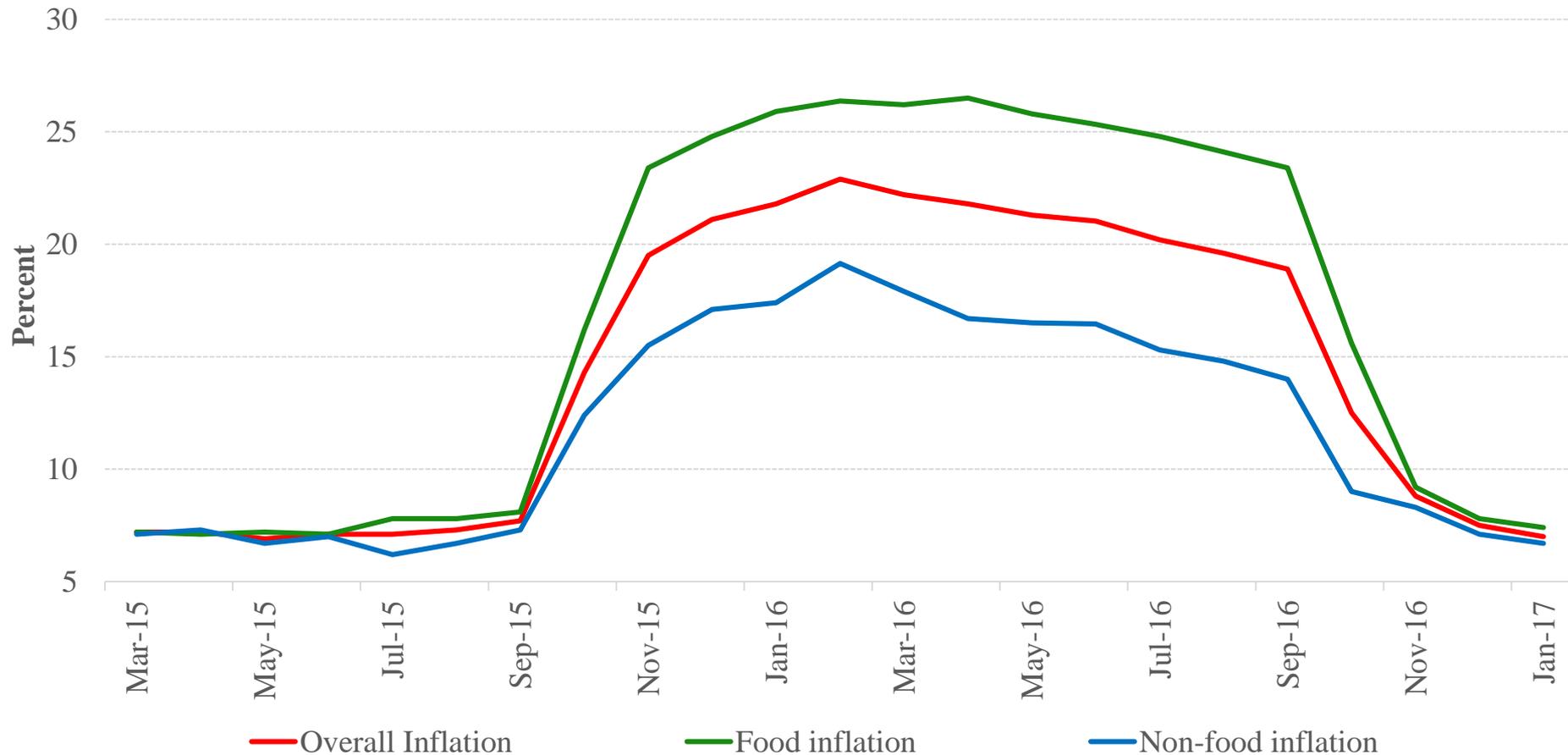
OVERVIEW



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**Annual inflation decline to 7.5% in December 2016 from 18.9% at end-Q3.
In January 2017, inflation declined further to 7.0%.**

Figure 3: Inflation developments



GLOBAL ECONOMIC DEVELOPMENTS



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Global growth remained subdued in Q4 as downside risks persisted. It is estimated to have grown by 3.1% in 2016, down from 3.2% in 2015 (IMF WEO, January 2017).

Slowdown in growth mainly reflects:

- lower economic activity in advanced countries, mainly attributed to the uncertainty surrounding the impact of Brexit; and
- weaker than expected economic growth in the US.

Growth was driven by emerging market and developing economies, which grew by 4.1% (same as in 2015).

Global commodity prices exhibited mixed performance in Q4 (Table 1).

GLOBAL ECONOMIC DEVELOPMENTS



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Table 1: Commodity Prices

	2016 Q3	2016 Q4
Copper Price (US\$/ton)	4,778.0	5,281.0
Oil Price (Dubai) (US\$/barrel)	43.4	47.9
Wheat (US\$/ton)	161.1	164.3
Maize Price (US\$/ton)	153.4	152.2
Cotton (US\$/kg)	1.76	1.74
Sugar (US\$/kg)	0.45	0.45
Soya beans (US\$/ton)	417.0	412.0

- ✦ **Copper prices rose by 10.5%, driven by plans for fiscal stimulus for infrastructure development in the US and pick-up in Chinese economy.**
- ✦ **Crude oil prices rose by 10.4% on account of the agreement to reduce supply by oil producers.**
- ✦ **Prices for most agricultural commodities declined due to increased supply.**

GLOBAL ECONOMIC DEVELOPMENTS



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According to the IMF WEO (January, 2017), world GDP growth is projected to expand to 3.4% in 2017 and 3.6% in 2018, premised on:

- Strong growth in emerging markets and developing economies due to:
 - Recovery in commodity prices;
 - Rebalancing of the Chinese economy gaining momentum;
 - Normalization of economic conditions in Brazil, Nigeria and Russia; and
 - Increased investments supported by the US stimulus policies.

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



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- **Monetary policy operations continued to focus on reducing inflationary pressures and anchoring inflationary expectations.**
- **Market liquidity increased further with the banks' aggregate current account almost doubling to K2.7 billion (Table 2 below).**
- **Net Government spending and net foreign exchange purchases by the Bank of Zambia boosted liquidity levels (Table 2)**
- **With increased liquidity levels, the average overnight interbank rate trended lower to close the Q4 at 15.8% from 16.6% at end-Q3 (Figure 1).**
- **Notwithstanding the increase in liquidity levels, the Bank scaled down OMO, withdrawing only K1.4 billion compared to K13.5 billion in Q3 (Figure 4).**

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



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Table 2: Key Liquidity Influences (K'billion)

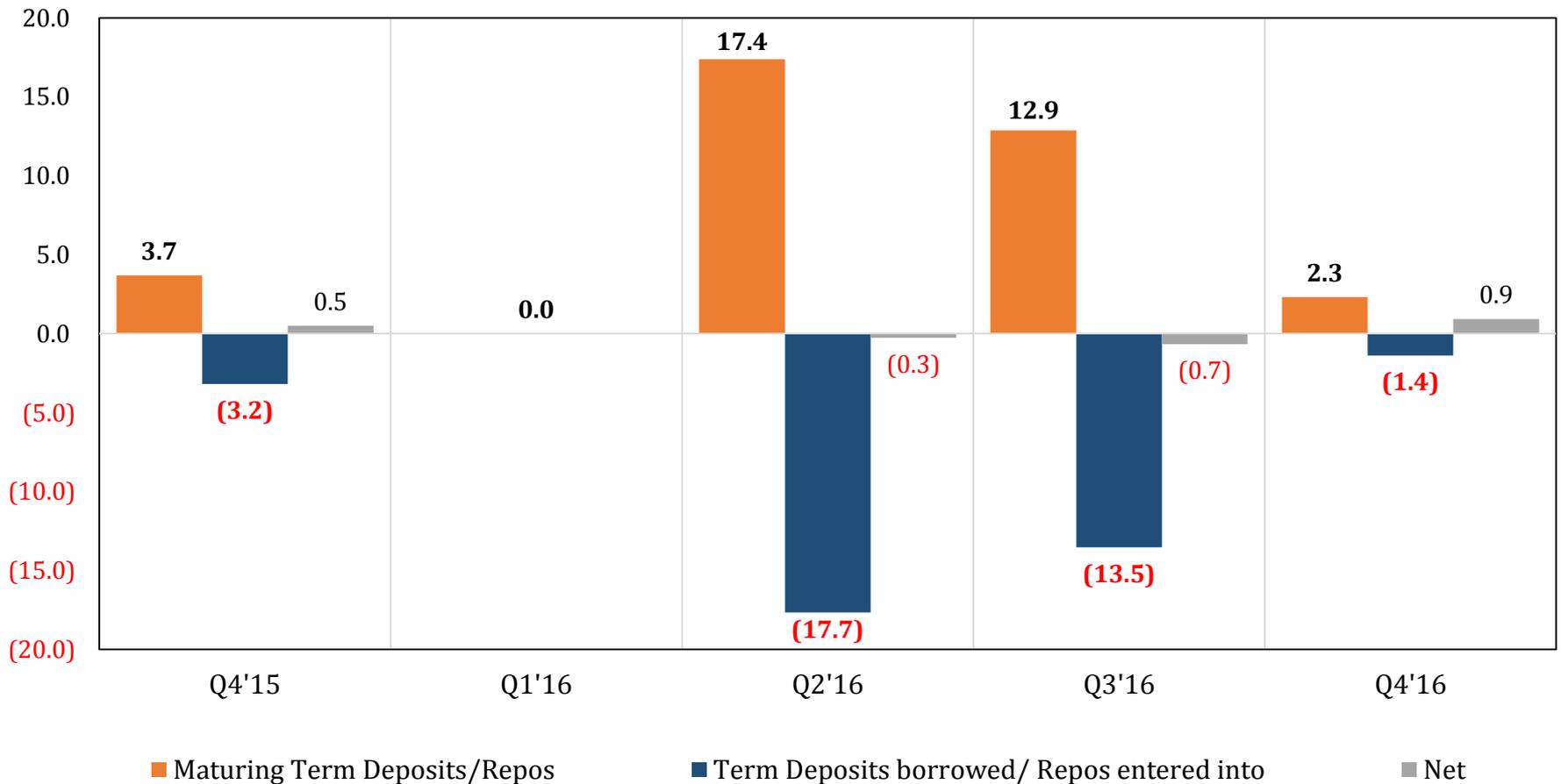
	2016Q3	2016Q4
Opening balance	0.8	1.4
Net Govt spending	0.5	4.1
BoZ FX influence	1.2	2.4
BoZ operations	-0.4	-2.1
change in CIC	0.4	-0.6
change in SR deposits	-0.7	-1.5
OLF	-0.1	-0.01
Net Govt Sec Influence	0.4	-4.7
Open market operations	-0.6	0.9
Closing balance	1.4	2.7

DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations



Figure 4: OMO Withdrawals, Quarterly (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

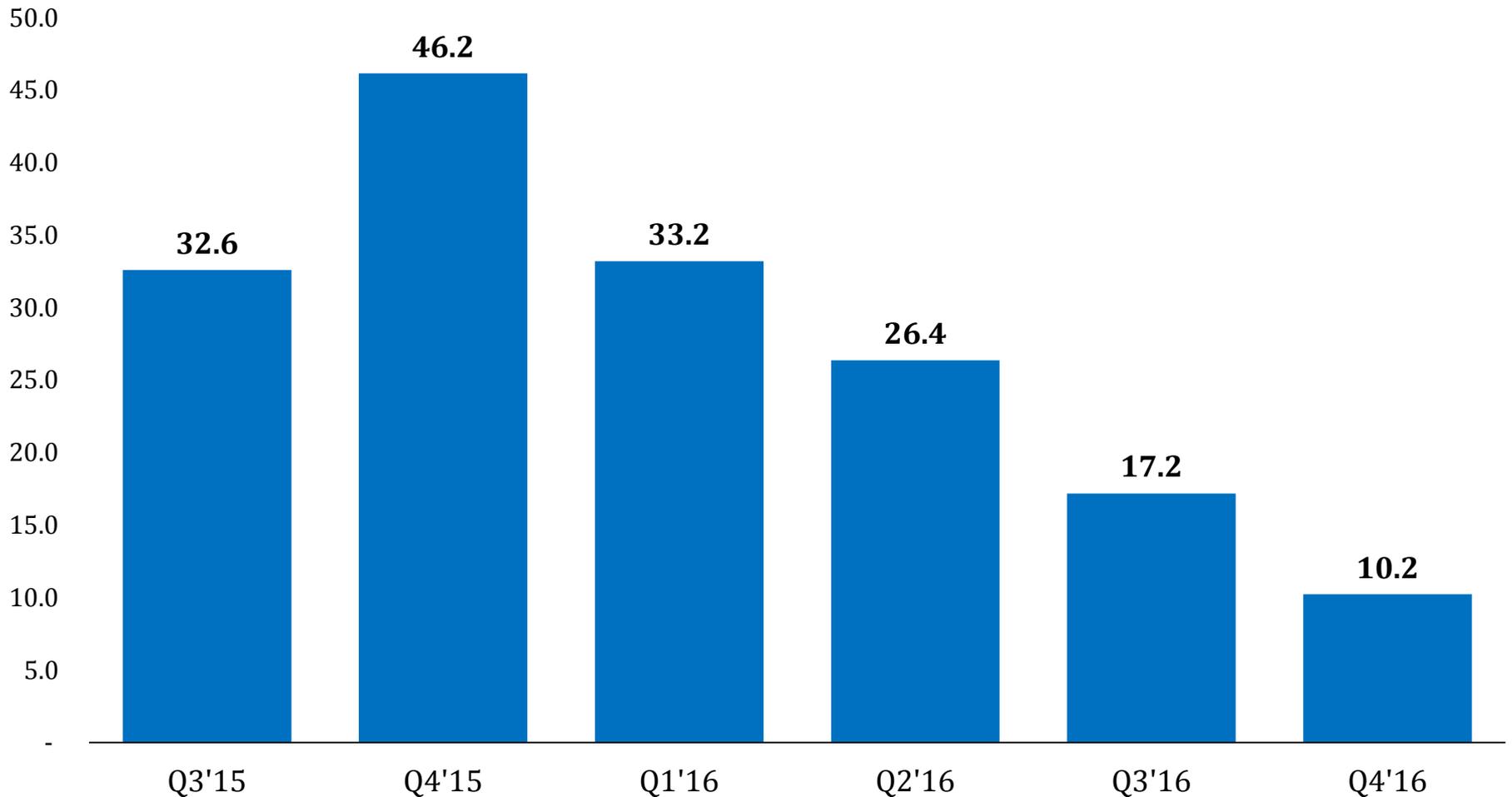
Money Market



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Interbank trading reduced further...

Figure 5: Interbank Trading Activity (K'billion)



DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



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Demand for Government securities rose further, with strong participation from foreign investors.

Table 3: Government Securities Auctions

	Amount on offer	Amount Received	Subscription rate (%)
T-bills			
2016Q3	4.2	2.6	62.0
2016Q4	5.3	5.8	109.0
Bonds			
2016Q3	0.8	2.5	313.0
2016Q4	1.8	5.4	300.0

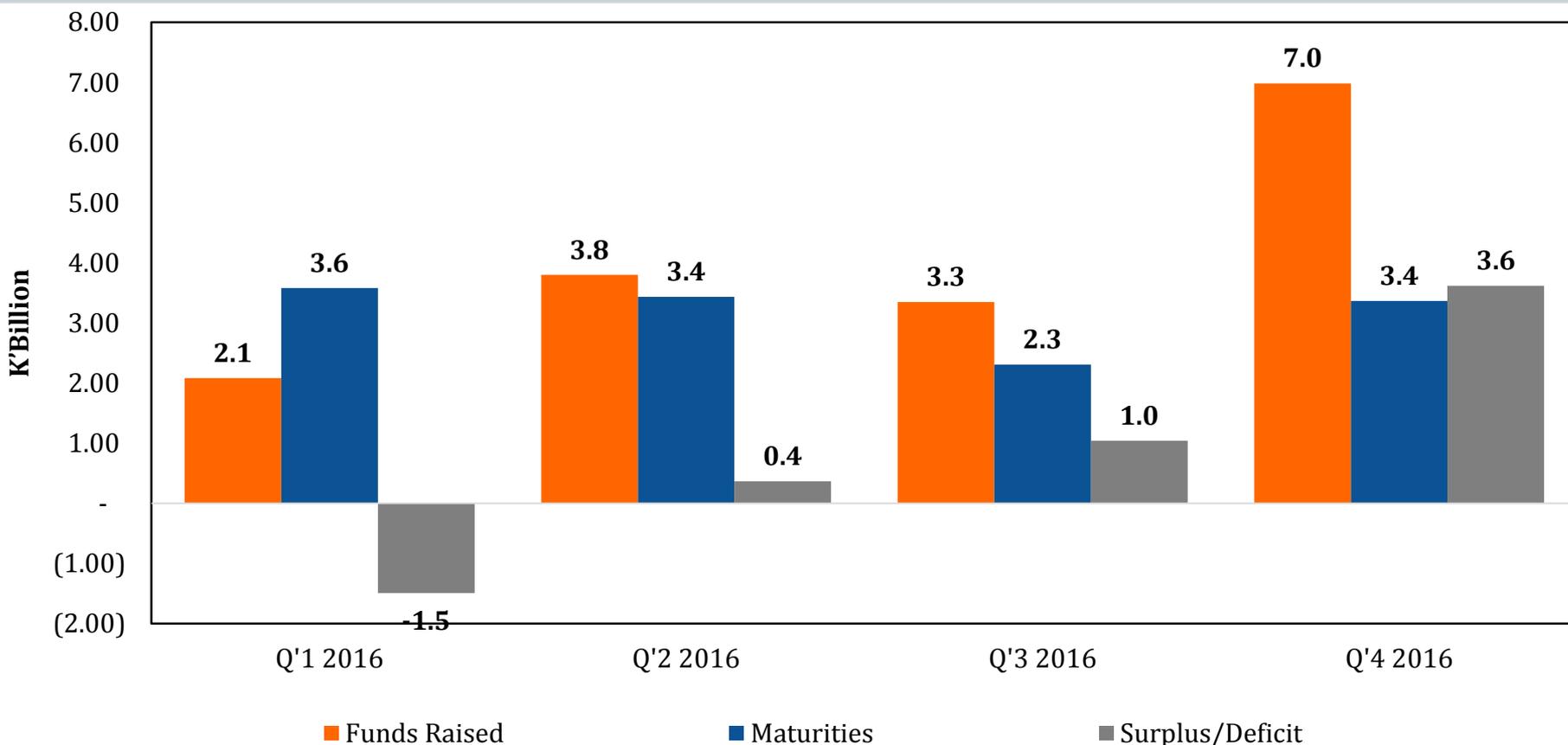
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



Funds raised from auctions amounted to K7.0 billion against the maturity of K3.4 billion, resulting in a surplus of K3.6 billion.

Figure 6: Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS

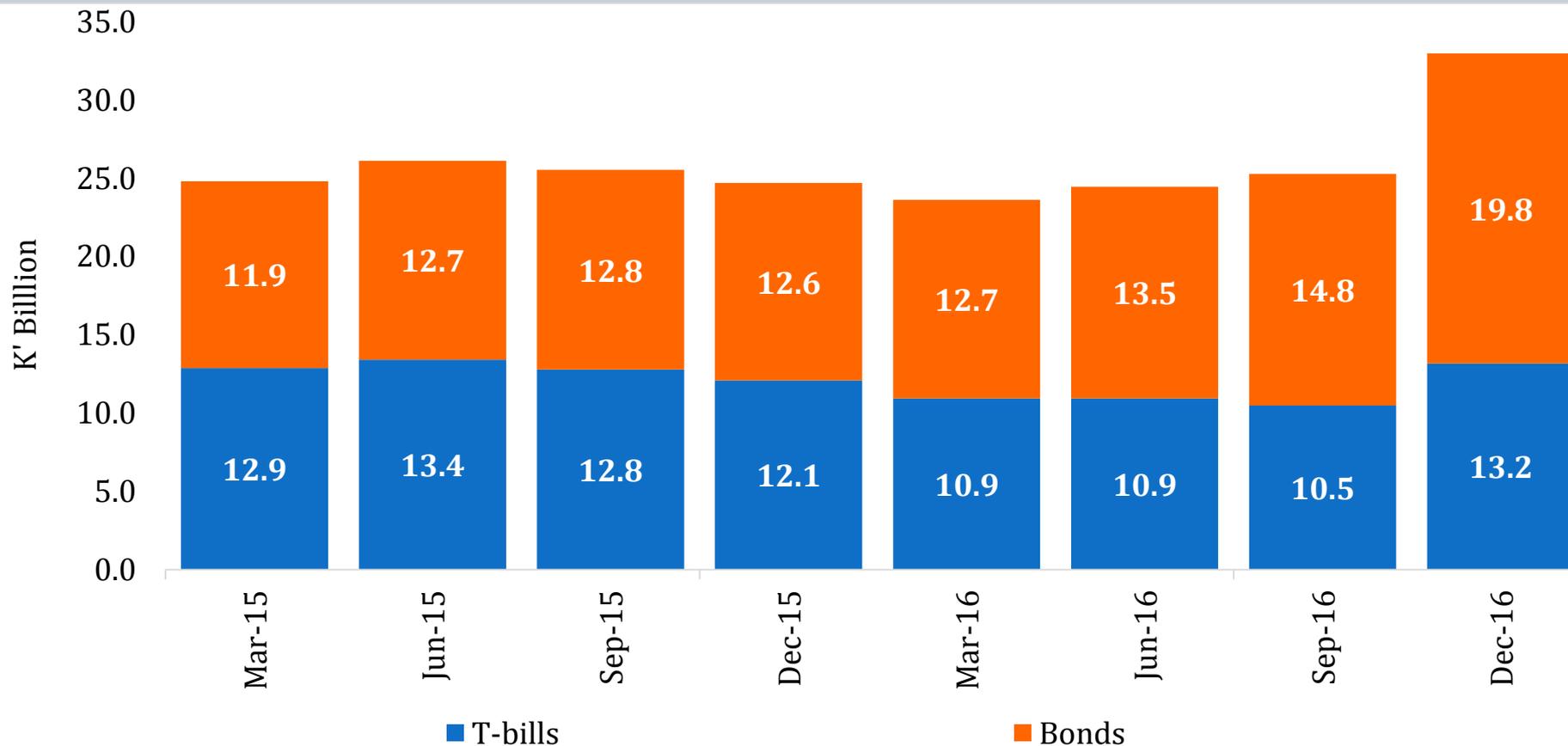
Government securities market



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✦ **Due to net sales, the total outstanding stock of Government securities increased by 30.4% to K32.9 billion.**

Figure 7: Total Outstanding Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS

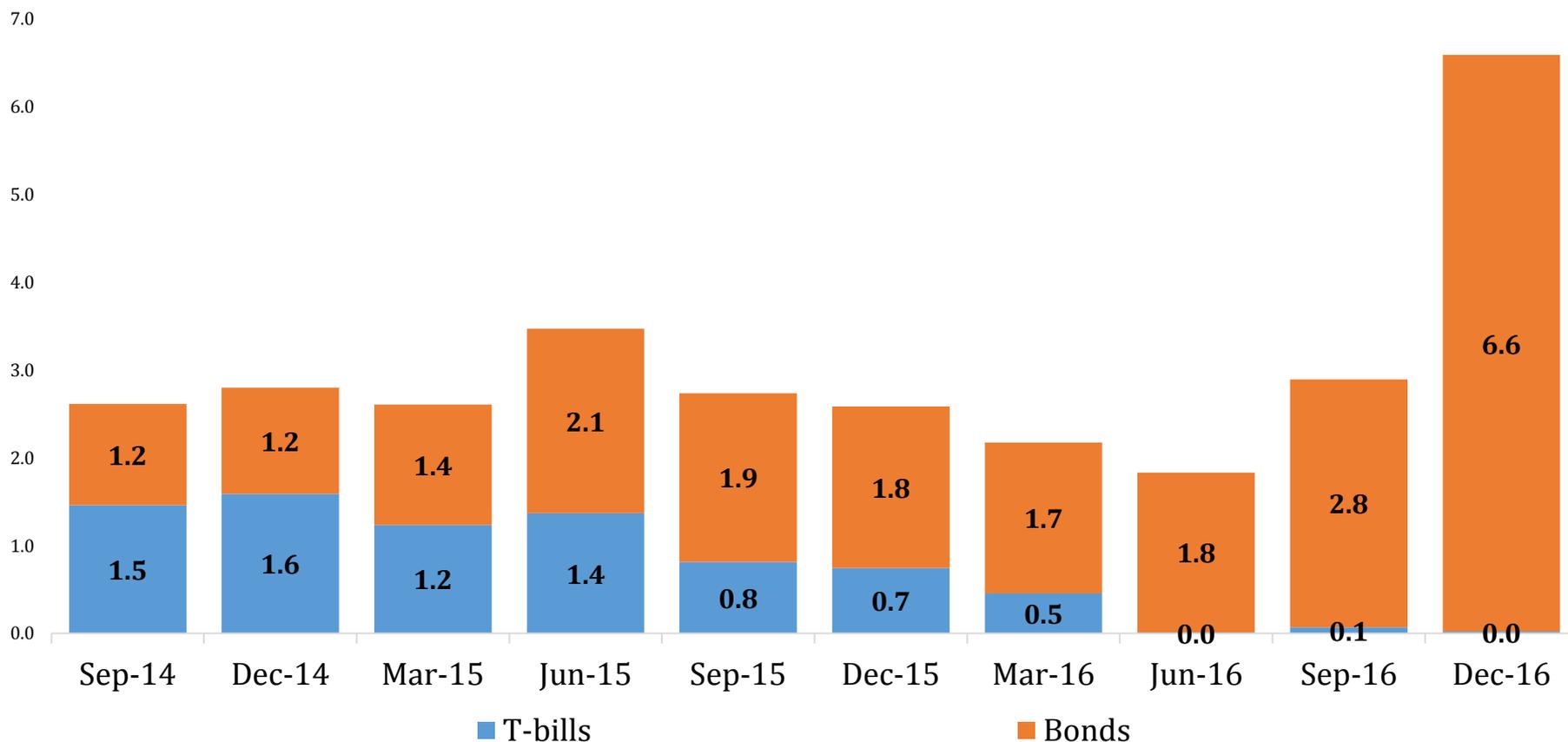
Government securities market



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Non-resident investors' holdings of Government securities more than doubled in Q4 to K6.6 billion from K2.9 billion in Q3

Figure 8: Non-resident Holdings of Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



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Yield rates on Government securities edged downwards in Q4 on the back of improved demand for securities (Figure 9).

- The weighted average Treasury bill yield rate decline to 23.2% in December 2016 from 24.2% in September 2016.**
- The weighted average Government bond yield rate fell to 24.6% from 25.2%.**

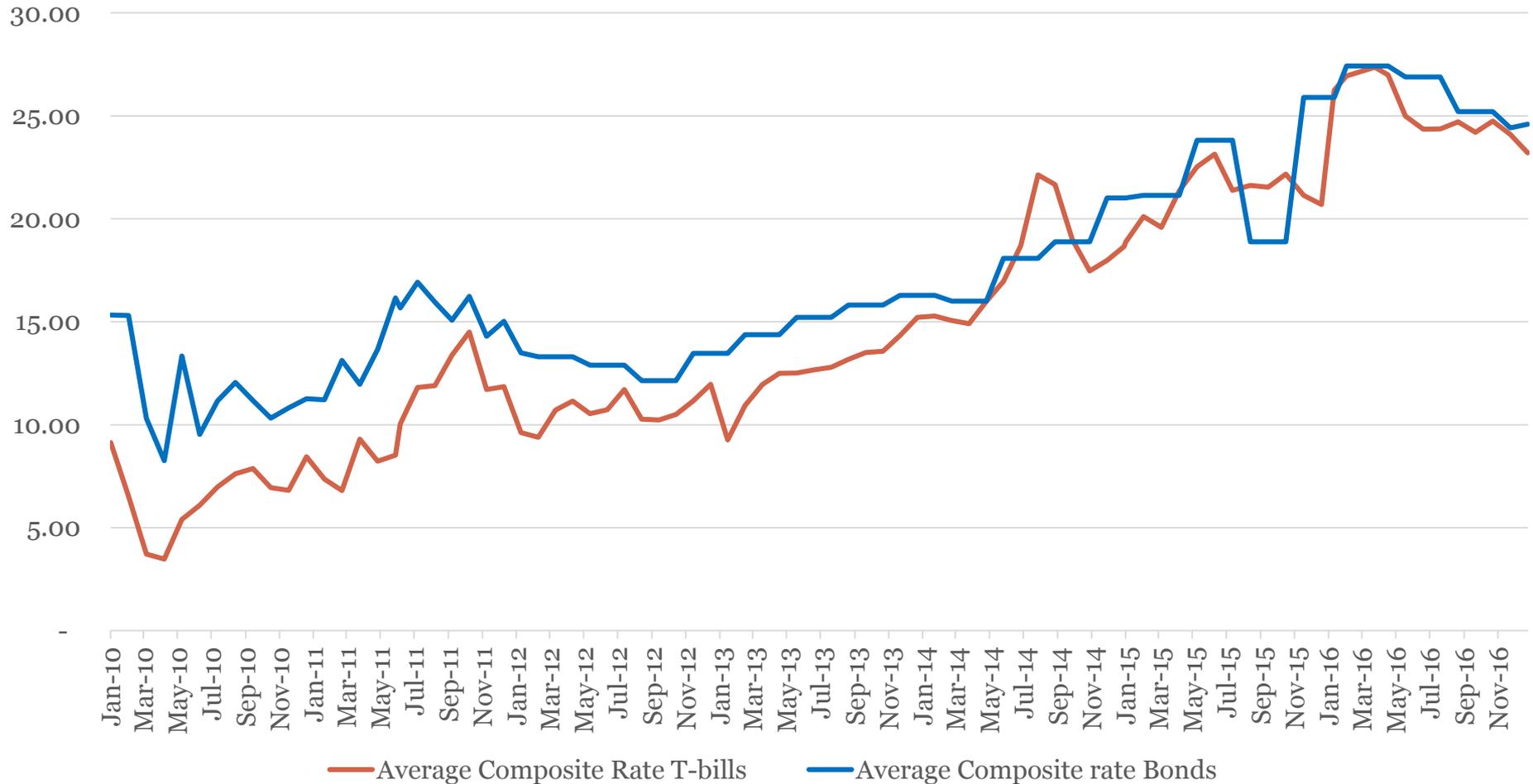
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market



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Figure 9: Government securities yield rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS

Banks' Nominal Interest Rates

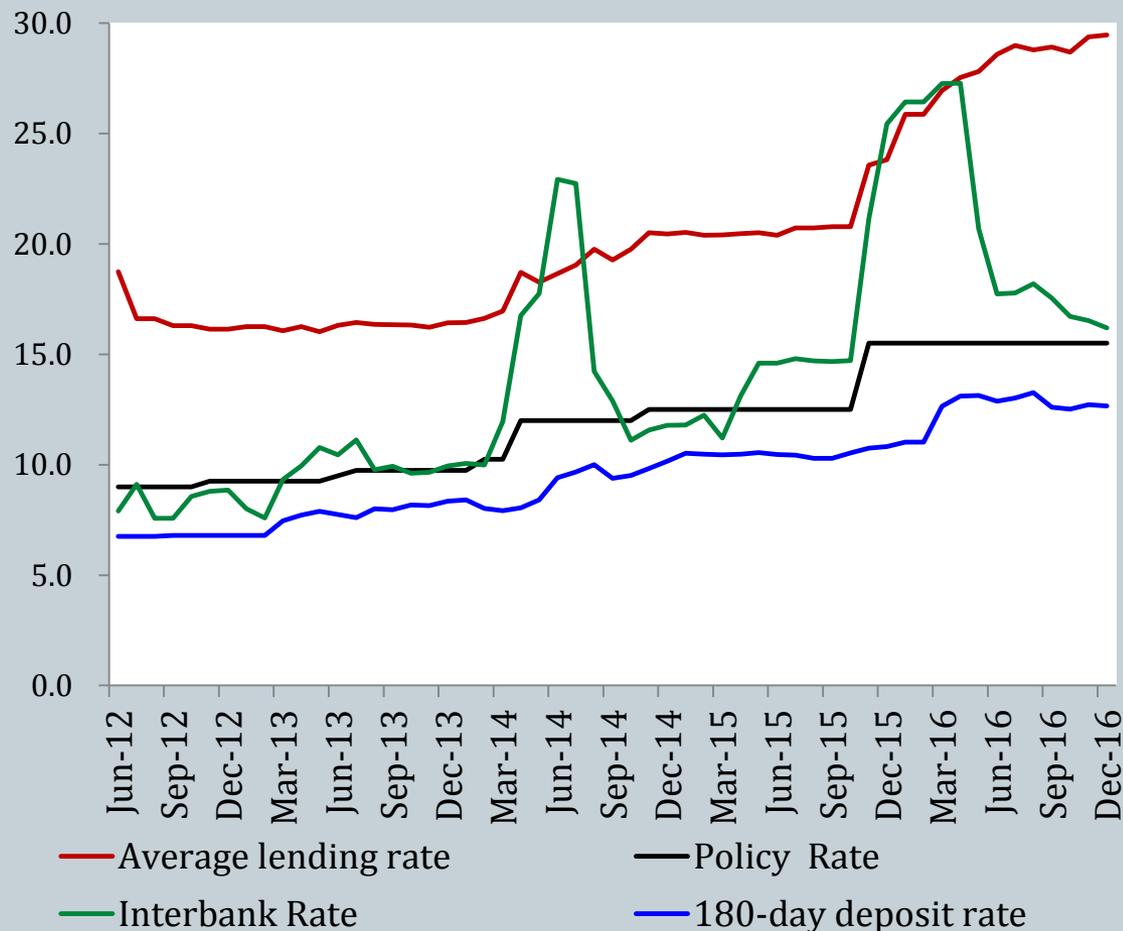


The average lending rate edged up to 29.2% in Q4 from 28.9% in Q3.

Lending rates ranged from 10% – 41% (9.0%-40.0% in Q3);

However, savings rates on negotiated deposits declined slightly (18.5%-36% in Q4; 25%-40% in Q3).

Figure 10: Nominal Interest Rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS

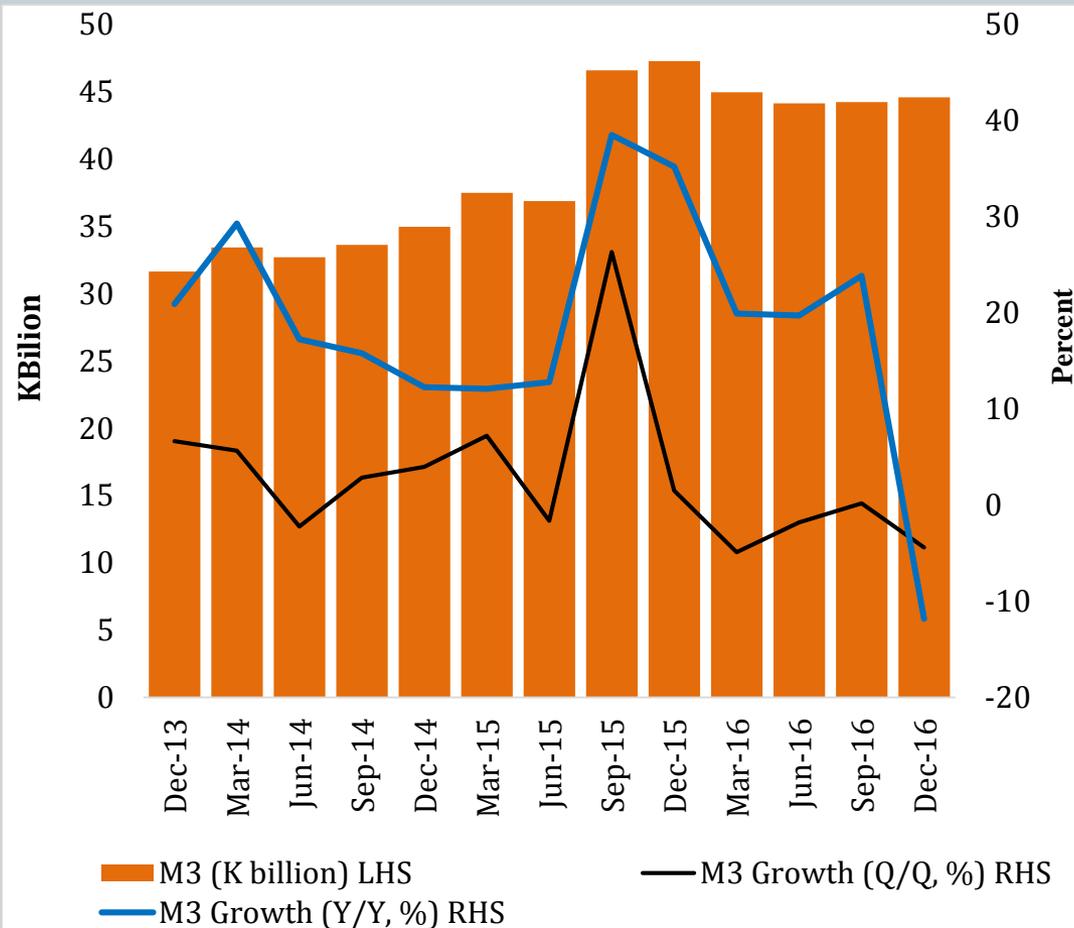
Money supply and credit



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- Money supply grew further by 0.8% in Q4, up from a growth rate of 0.2% in Q3.
- Growth mainly driven by the Bank's accumulation of international reserves.
- On a year-on-year basis, money supply contracted by 11.8% in Q4 compared to 5.0% in Q3.

Figure 11: Money Supply



DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit



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Growth in total credit slowed down to 1.1% in Q4 from 4.9% in Q3 (Table 4).

Excluding Government, credit contracted further by 5.4% following a 1.7% contraction in Q3.

Credit to private enterprises continued to decline, falling by 4.6% compared to a decline of 1.3% in Q3.

Possible reasons for contraction in credit growth to the private sector include:

- **high funding cost;**
- **high lending rates; and**
- **low risk appetite by banks.**

DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit



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Table 4: Credit growth

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Total Credit (Incl. Govt)	-5.3	-3.8	0.7	4.9	1.1
Total -(Excl. Govt)	-1.7	1.1	-3.7	-1.7	-5.4
Public Enterprises	-12.1	-11.0	-0.3	-3.1	-9.2
Government	3.3	-11.8	9.0	15.7	10.2
Private Enterprises	-0.2	3.6	-5.2	-1.3	-4.6
Households	5.7	-2.4	-2.1	-0.9	-7.1
NBFIs	3.7	-1.8	10.3	-0.1	17.6

DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market

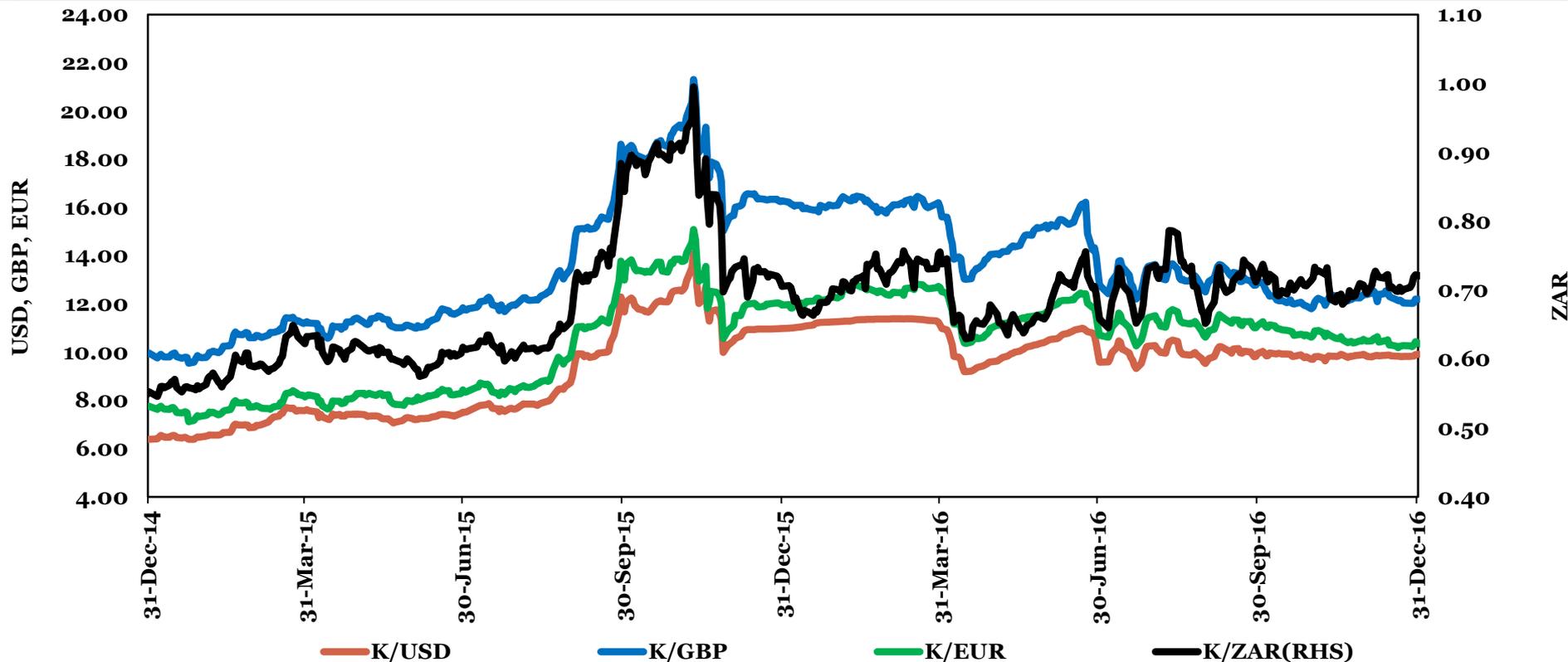


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The Kwacha appreciated in Q4 due to increased supply of foreign exchange (Figure 12).

Supply of foreign exchange by mines and foreign financial institutions increased in Q4 relative to Q3 (Figure 13)

Figure 12: Exchange rate developments

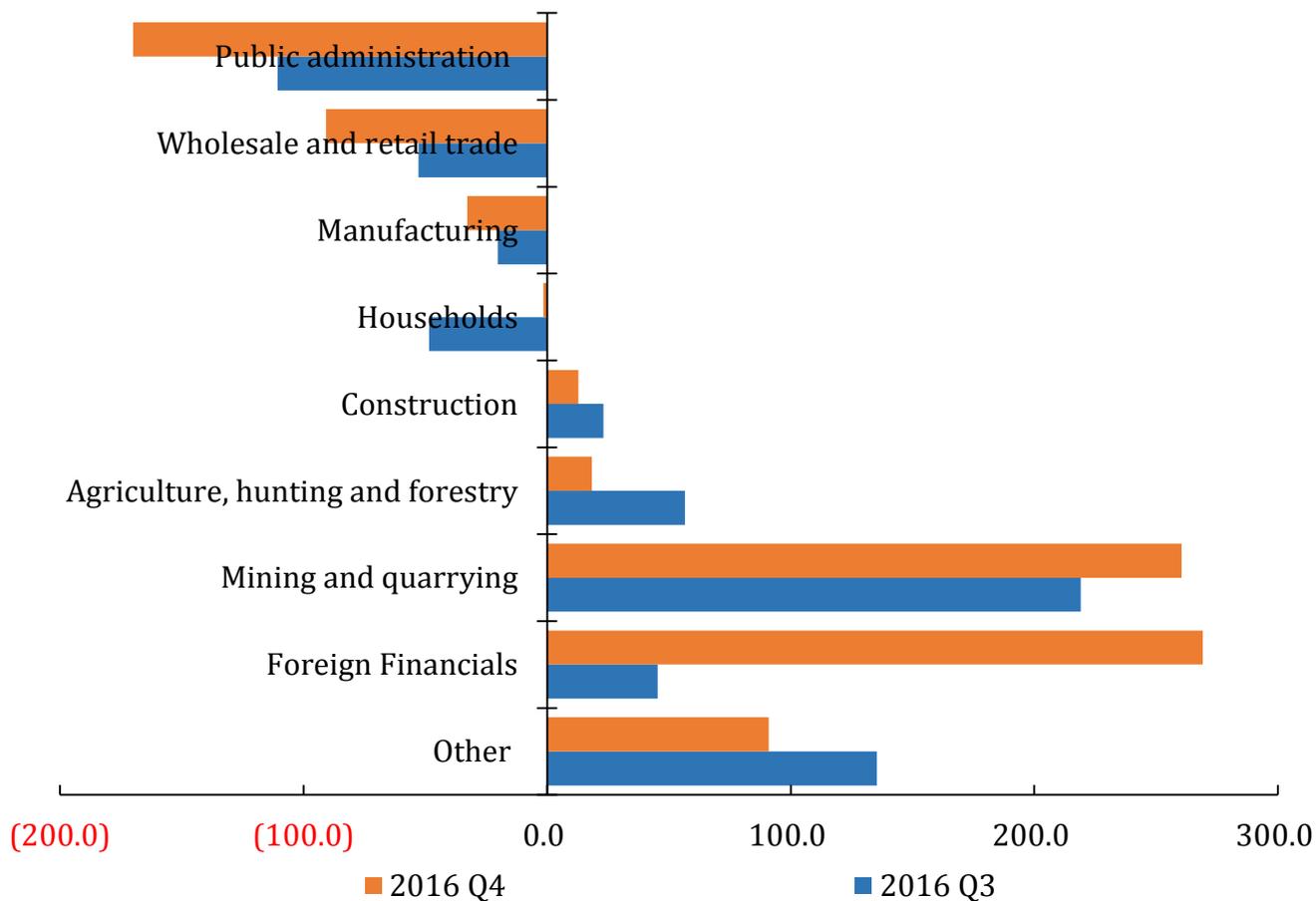


DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market



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





In Q4, the production of copper, cement and selected manufactured products and electricity generation declined.

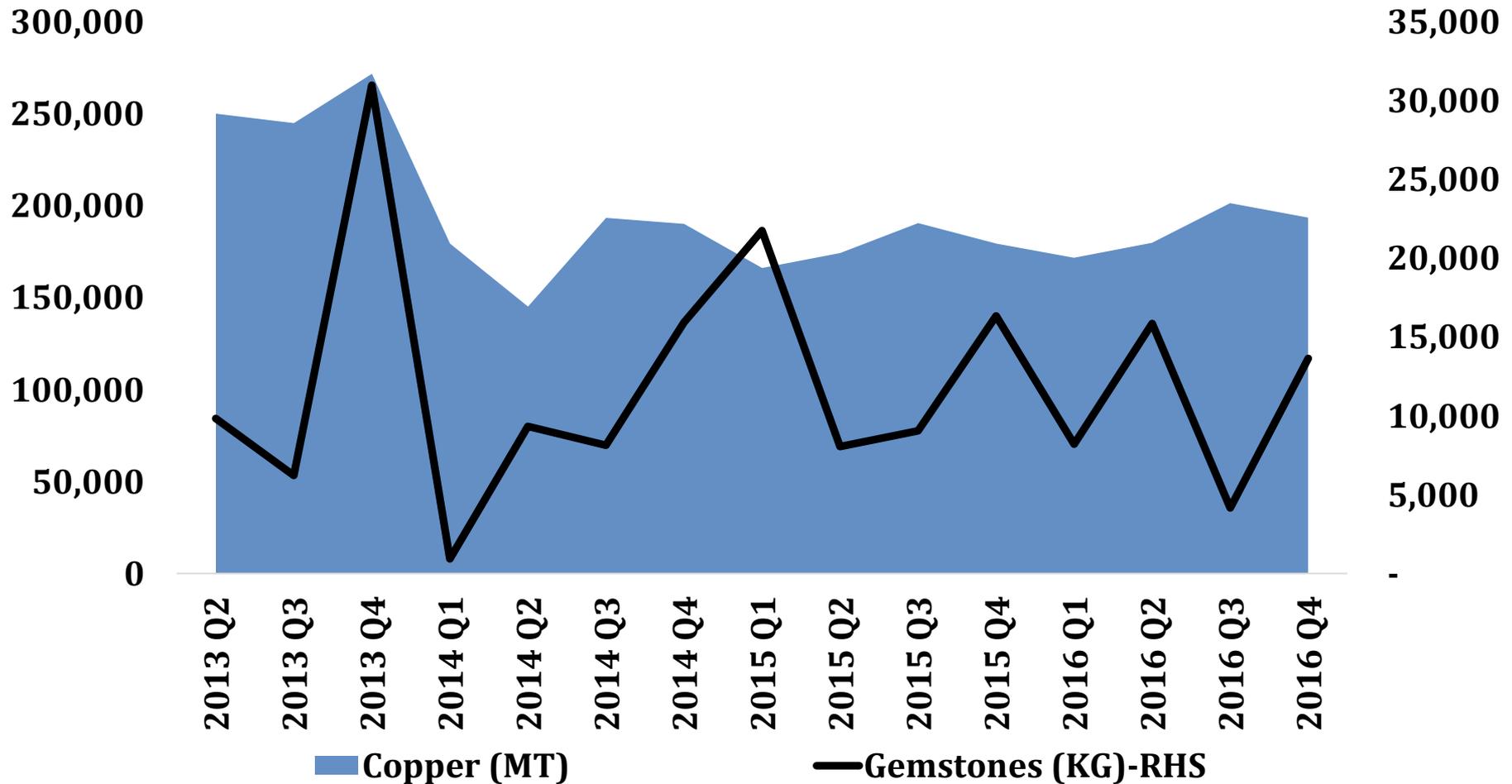
- **copper production declined by 3.8% to 193,667.4 metric tons due to reduced output at some mines (Figure 14); but gemstone production increased on account of high mineralisation stock.**
- **Cement production declined by 3.7% due to temporary shutdown of some plants for routine maintenance.**

DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



Figure 14: Mining Sector Output



DOMESTIC ECONOMIC DEVELOPMENTS

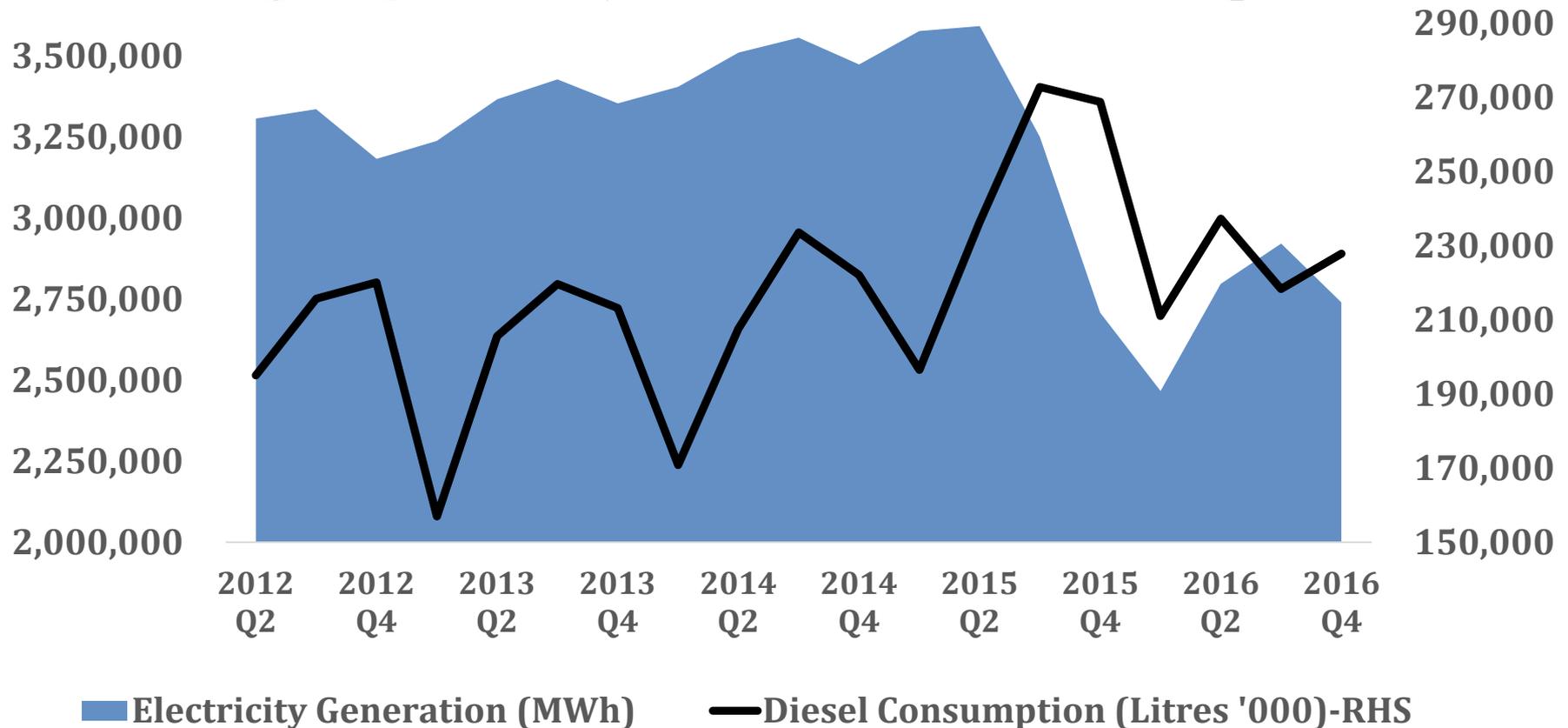
Real Sector Activity



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- **electricity generation fell by 9.2% due to low water levels in reservoirs; imports also declined; diesel consumption picked-up**

Figure 15: Electricity Generation and Diesel Consumption



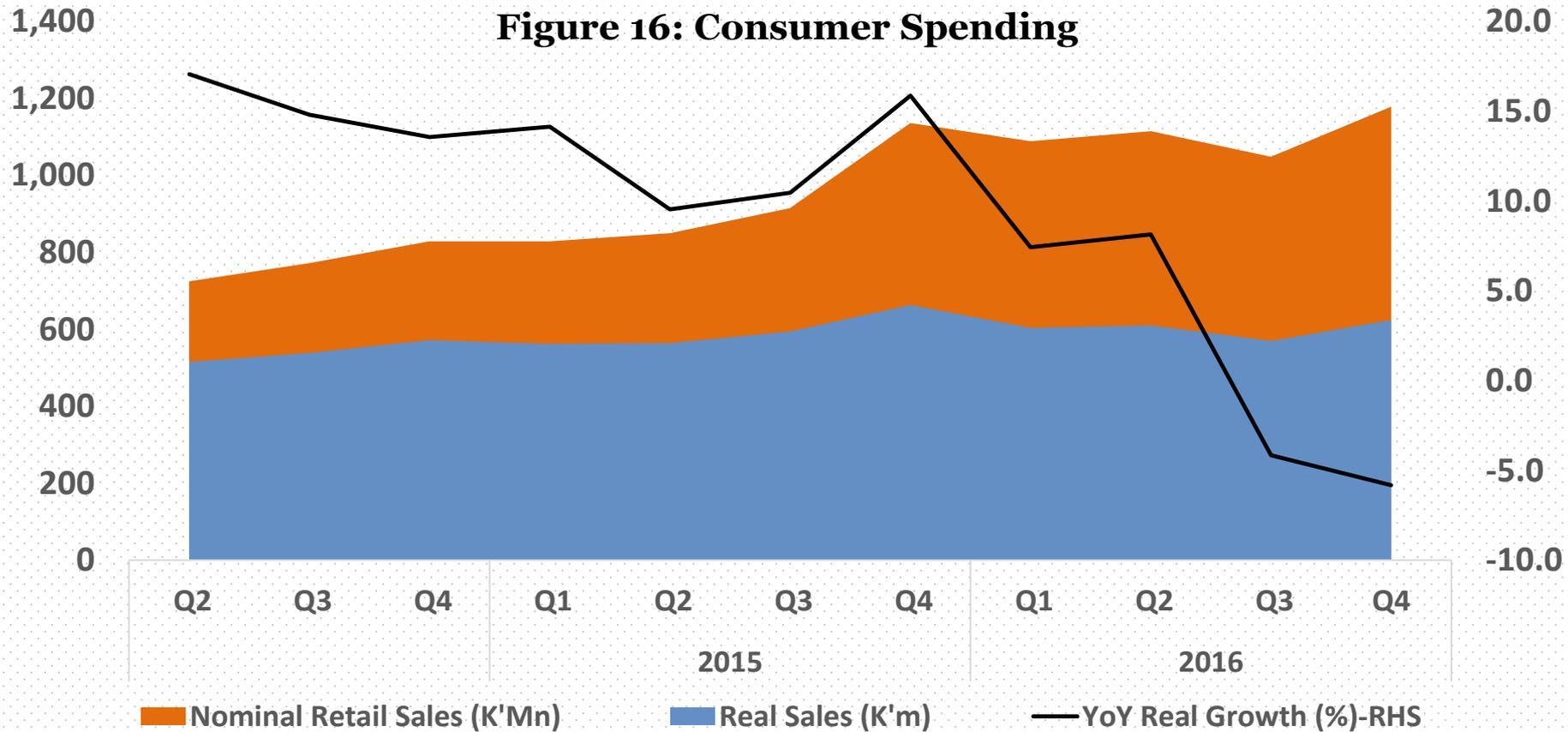
DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity



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• **Consumer spending rebounded in Q4 as retail sales rose by 9.5% compared to a decline of 6% in Q3.**



DOMESTIC ECONOMIC DEVELOPMENTS

External Sector



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The current account deficit widened to US\$190.5 million from US\$162.7 million due to higher imports growth relative to growth in export earnings.

Table 5: Balance of Payments (US\$'million)

	Q3 2016	Q4 2016
Curr Acc Bal	-162.7	-190.5
Balance on Goods	13.9	-93.5
Total Exports	1,578.2	1,810.1
Copper	1,031.8	1,253.1
Cobalt	33.4	37.9
Gold	52.4	35.0
NTEs	440.5	464.0
Total Imports	1,564.4	1,903.7
Primary Income	-121.4	13.4
Secondary Income	78.4	52.6
Services Account	-133.6	-163
Capital Acc	13.8	13.8
Financial Acc	-10.4	-332.0
Net Errors/Omissions	-0.5	-0.5
Overall Balance	139.1	-154.8
Change in Reserve Assets and Related items	-143.3	131.3



- **In December 2016, the 2017 National Budget was approved by Parliament.**
- **As indicated in the November MPC Statement, the aim for 2017 is to reduce the deficit to 7% of GDP. The Budget appropriately focuses on addressing the challenges to fiscal sustainability, economic diversification and growth.**
- **Effective implementation of the Budget presents a good base for rebalancing fiscal and monetary policies going forward.**



- **Inflation declined to an average of 9.6% from 19.6% in Q3 2016.**
- **At end-Q4, inflation was 7.5%, 11.4 percentage points lower than the end-Q3 outturn of 18.9% (Figure 17).**
- **food inflation decelerated to 7.8% from 23.4% while non-food inflation declined to 7.1% from 14.0%.**
- **deceleration in overall inflation was mostly driven by food inflation (contributed 6.7 percentage points); non-food contributed 3.3 percentage points.**

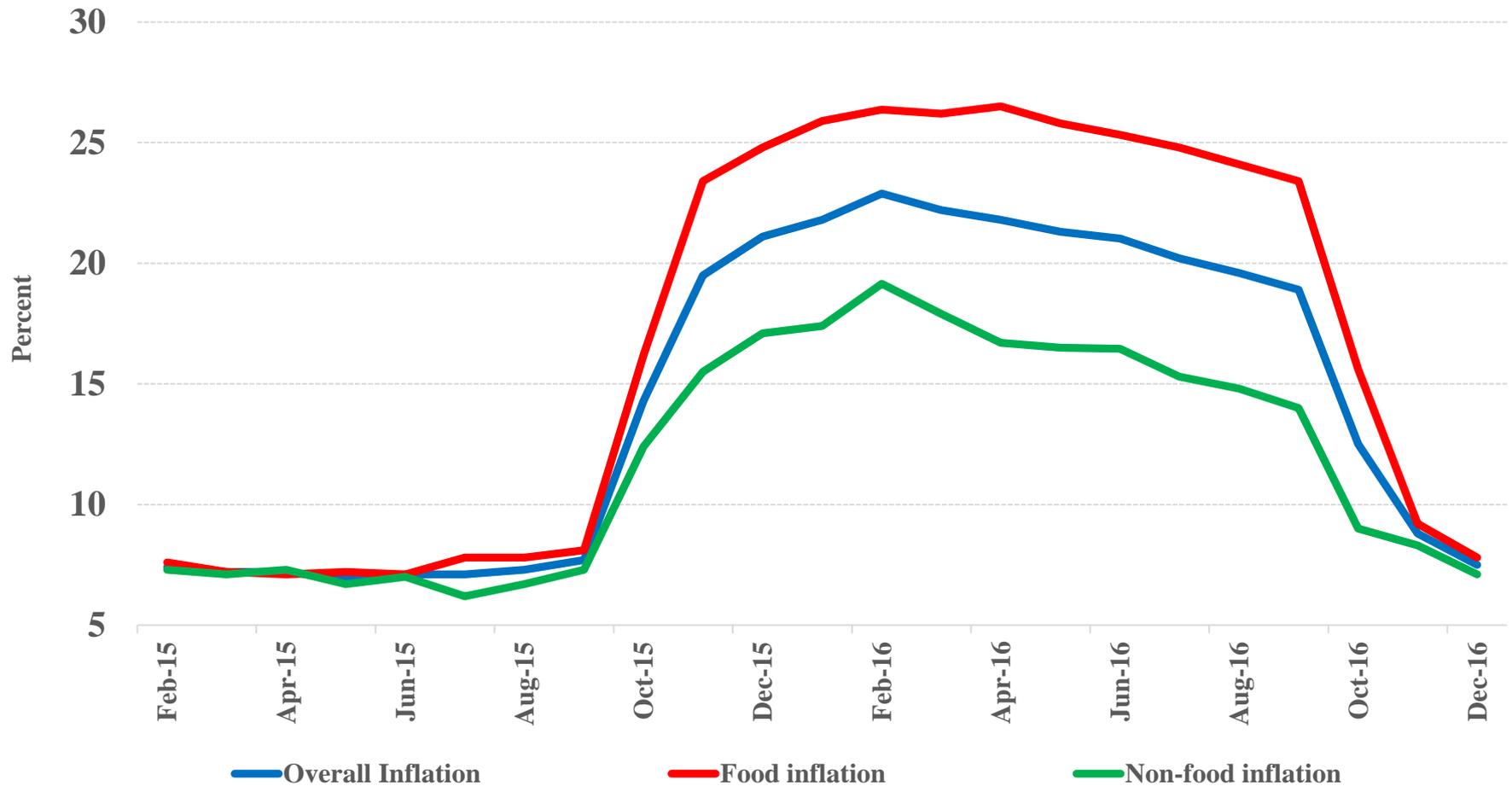
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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Figure 17: Year-on-year Inflation rate



DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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- **Sharp decline in inflation in Q4 was mainly the result of the dissipation of the base effect.**
- **Decline was also due to improved supply of some food items and the appreciation of the exchange rate.**
- **However, month-on-month inflation rose in Q4, ending at 0.9% in December 2016 from 0.1% in September 2016 (Figure 18), mainly due to:**
 - (a) seasonal pattern associated with the increase in food prices in Q4; and**
 - (b) increase in fuel prices.**

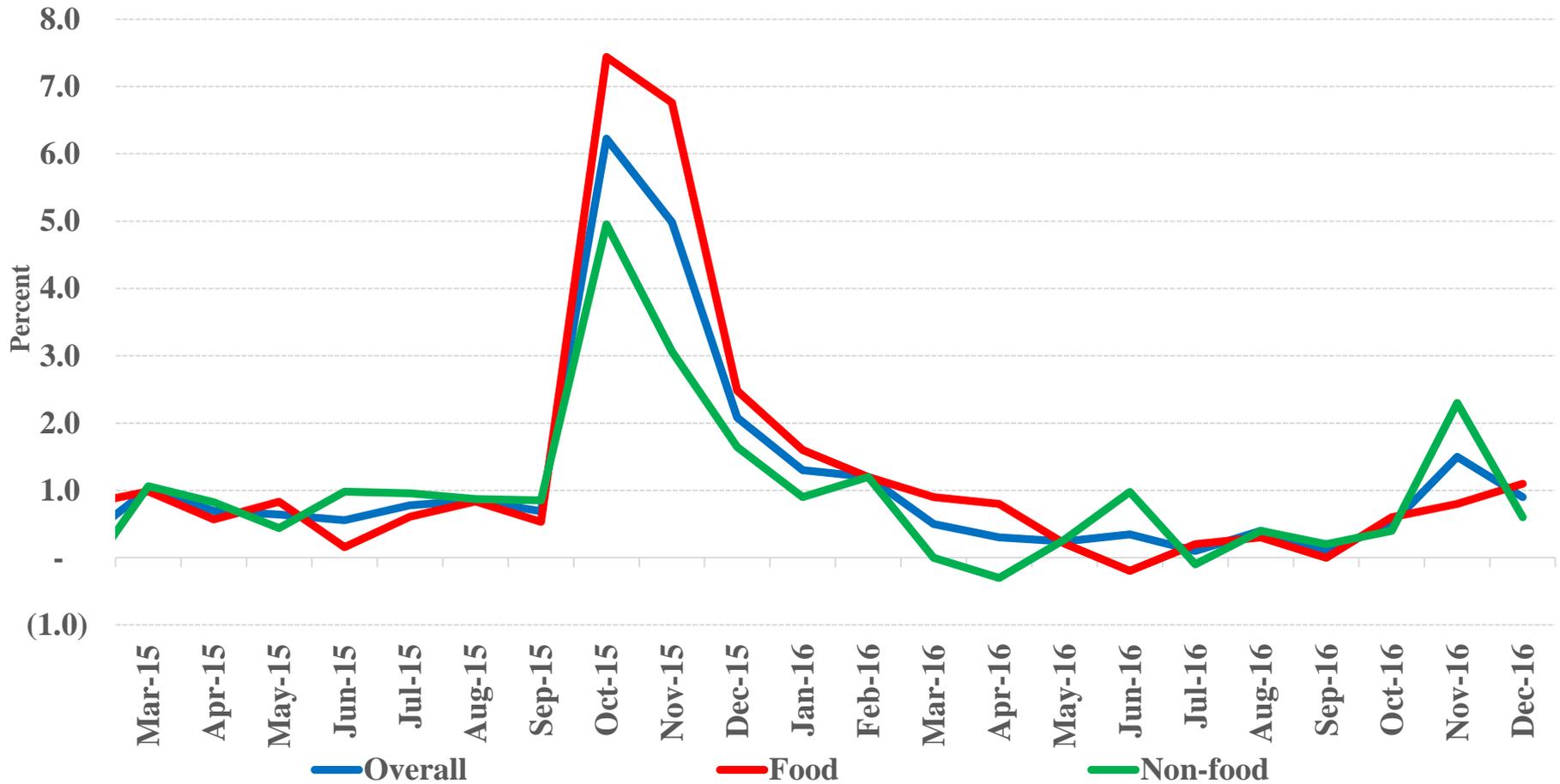
DOMESTIC ECONOMIC DEVELOPMENTS

Inflation



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Figure 18: Month-on-month Inflation rate



MACROECONOMIC OUTLOOK

Inflation



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Inflation is projected to remain relatively stable in 2017, fluctuating around the 7% level and to be within the 6-8% inflation target range in 2018.

MACROECONOMIC OUTLOOK

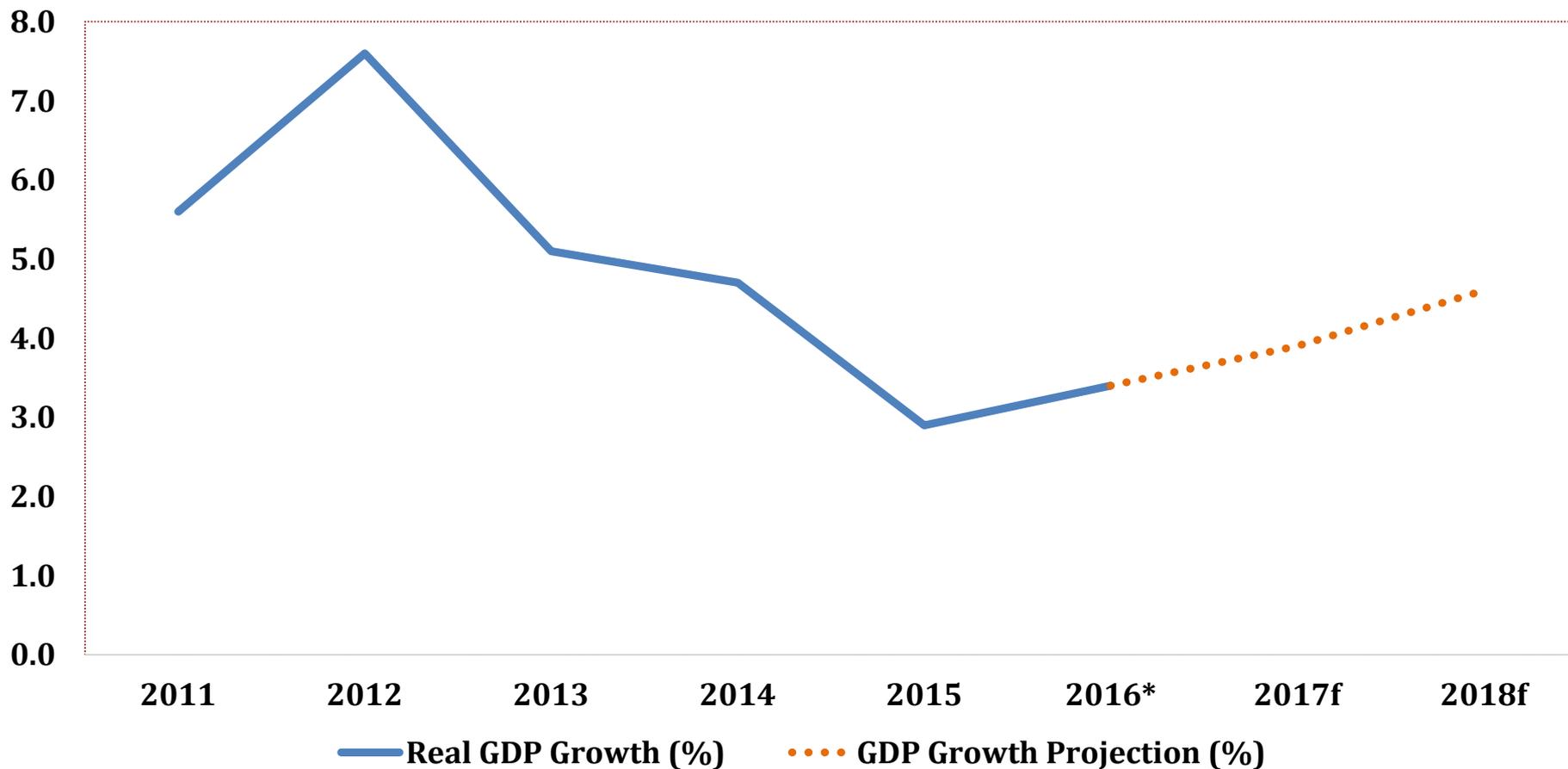
GDP growth



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GDP growth projected at 3.9% for 2017 and 4.6% for 2018. In 2016, growth is estimated to be 3.4% (preliminary).

Figure 19: GDP Growth



MACROECONOMIC OUTLOOK

GDP growth



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Over the next two years, growth is expected to emanate from

- **agriculture**
- **mining**
- **recovery in energy and construction**
- **manufacturing**
- **accommodation and food services (tourism).**



THANK YOU AND GOD BLESS...