



**MONETARY POLICY COMMITTEE STATEMENT
FOR
THIRD QUARTER 2017**

Governor's Presentation to the Media

22nd November, 2017



INTRODUCTION

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The presentation is structured as follows:

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



MONETARY POLICY DECISION

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At the Meeting held on 20 – 21 November 2017, Monetary Policy Committee decided to:

- 1. Reduce the Policy Rate by 75 basis points to 10.25% from 11.0%**
- 2. Lower the Statutory Reserve Ratio by 150 basis points to 8.0% from 9.5%.**



MONETARY POLICY DECISION

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The Committee took into account the following factors in arriving at its decisions:

- **Continued decline in inflation over the last ten months;**
- **Inflation projections, which indicate that inflation will remain within the medium-term target range of 6-8%, with a bias toward the lower bound of the inflation target range;**
- **High cost of credit, which have been sluggish downwards;**
- **Weak growth in credit to the private sector;**
- **Risks to financial stability as reflected in elevated Non-performing loans; and,**
- **Sluggish economic growth.**



GLOBAL ECONOMIC DEVELOPMENTS

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- **Global economic growth continued to exhibit signs of recovery in the third quarter of 2017**
- **Underlying growth was**
 - **increased economic activities in China**
 - **increased investor confidence in advanced countries**
 - **loose monetary conditions in advanced countries –resulting in increased employment levels and output.**
 - **rebound in commodity prices**

Commodity prices generally increased in Q3, 2017 (Table 1).



GLOBAL ECONOMIC DEVELOPMENTS

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Table 1: Selected Global Commodity Prices

	Q2 2017	Q3 2017
Copper Price (US\$/ton)	5,668.0	6,617.2
Oil Price (Dubai) (US\$/barrel)	49.7	54.1
Wheat (US\$/ton)	176.0	183.8
Maize Price (US\$/ton)	157.7	151.1
Cotton (US\$/kg)	1.9	1.8
Sugar (US\$/kg)	0.3	0.3
Soya beans (US\$/ton)	386.0	398.0



DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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- **Monetary policy operations continued to focus on containing the overnight interbank rate within the Policy Rate corridor and anchoring inflationary expectations.**
- **Market liquidity increased following net Government spending and purchase of foreign exchange by BoZ for international reserves build-up (Table 2).**
- **With the further easing of monetary policy in August 2017, the interbank rate declined to 10.4% at end-September from 12.2% at end-June 2017 (Figure 1).**
- **To keep the interbank rate within the Policy Rate corridor, the Bank withdrew K20.0 billion through open market operations, up from K10.8 billion in the second quarter.**



DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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Table 2: Key Liquidity Influences (K' billion)

	Q2 2017	Q3 2017
Opening balance	0.8	0.3
Net Govt. spending	1.3	1.5
BoZ FX influence	1.8	1.1
Change in CIC	-0.7	0.1
Change in SR deposits	-0.4	-0.9
Overnight Lending Facility	0.03	-0.7
Net Govt securities influence	-2.4	-1.1
Open market operations	-0.3	0.3
Miscellaneous	0.0	0.0
Closing balance	0.3	0.7



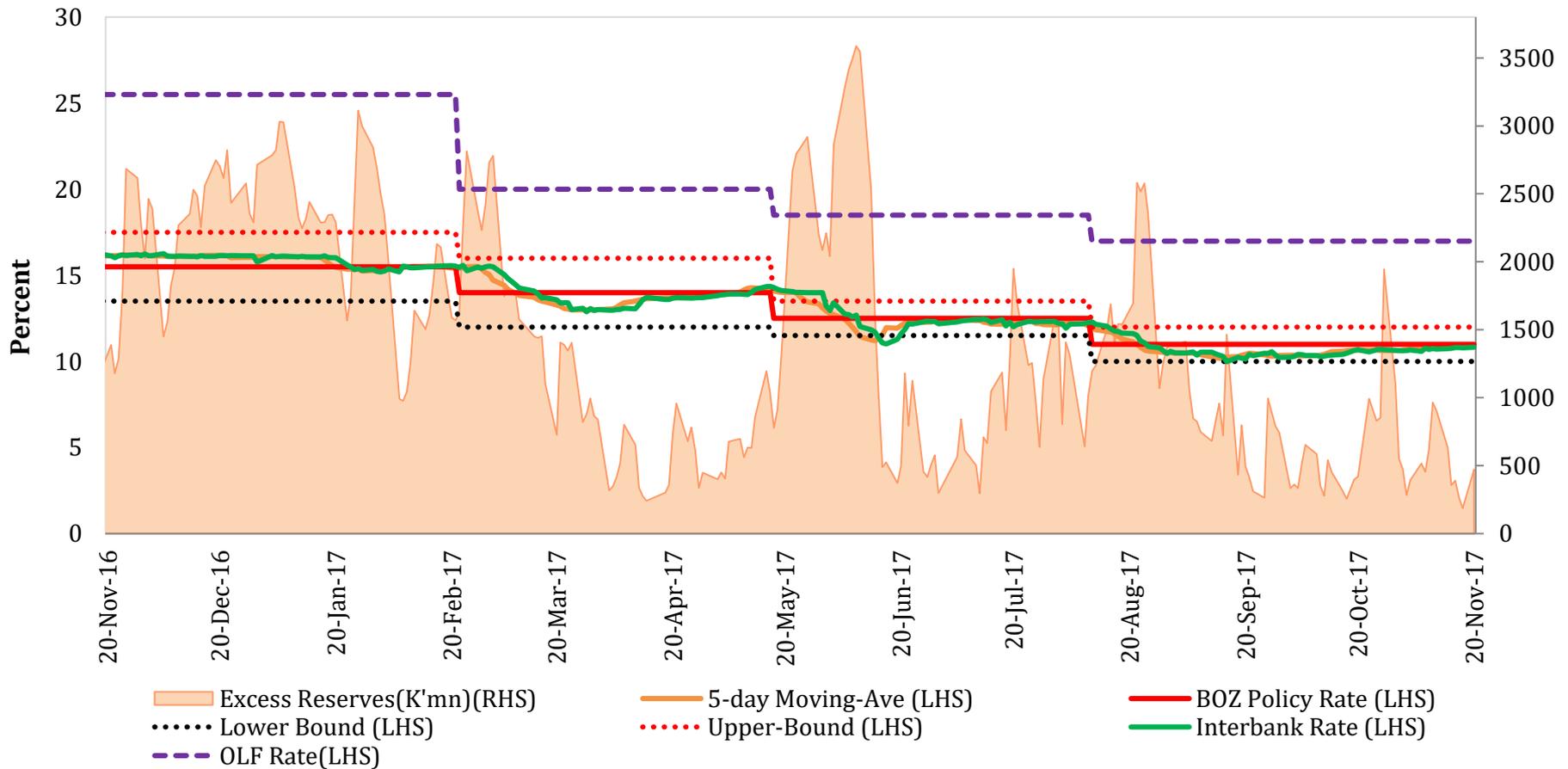
DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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Following the easing of monetary policy stance, the overnight interbank rate declined to 10.4% at end-Q3 from 12.2% at end-Q2 2017.

Figure 1: Interest Rates and Excess Reserves





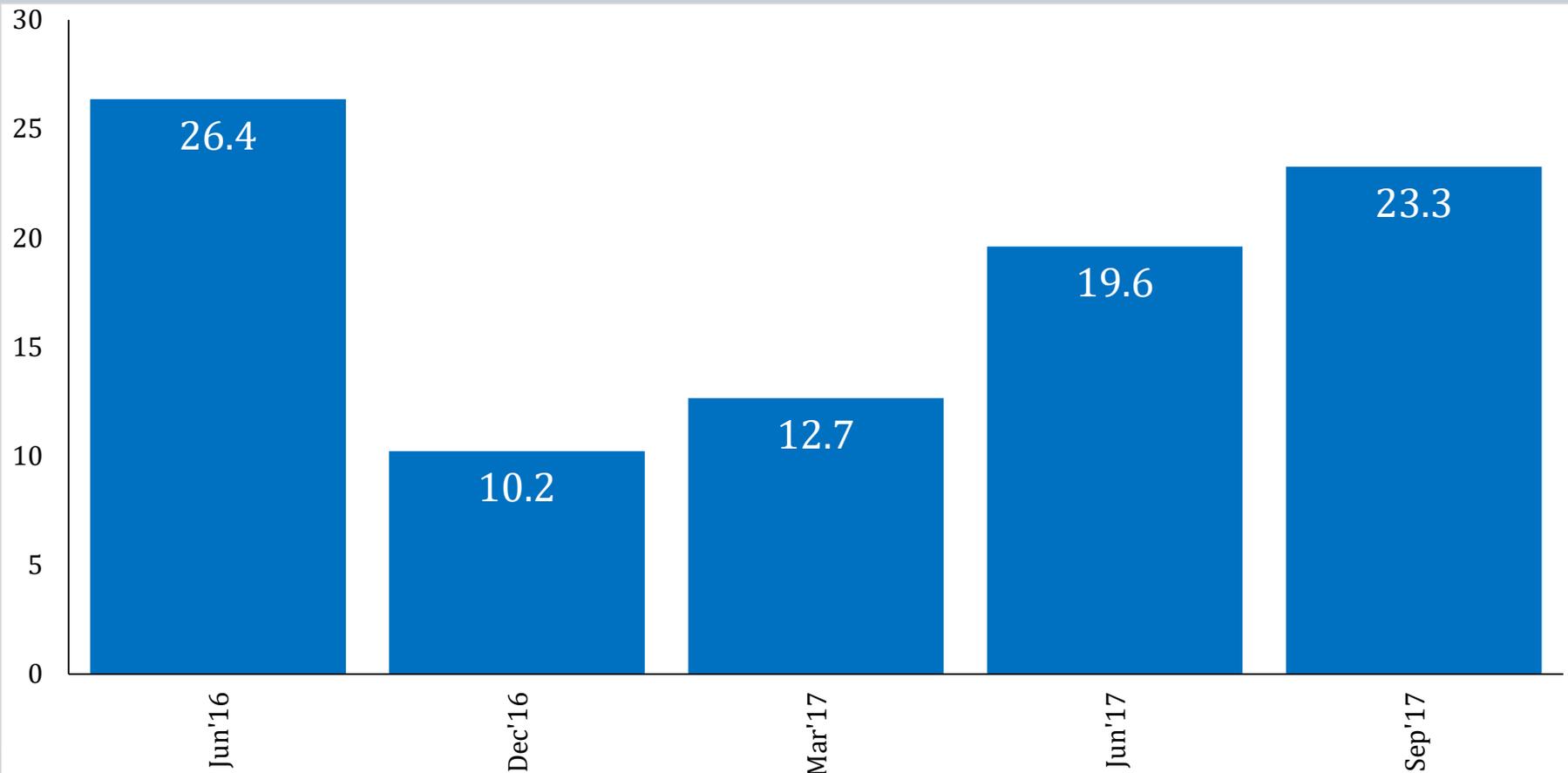
DOMESTIC ECONOMIC DEVELOPMENTS

Monetary Policy Operations

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Volume of interbank trading rose despite higher market liquidity

Figure 2: Interbank Trading Activity (K' billion)





DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Demand for Government securities remained strong with subscription rates for Bonds and T-bills above 100 percent.

Table 3: Government Securities Auctions

	Amount on offer (K' Billion)	Amount Received (K' Billion)	Subscription rate (%)
T-bills			
2017Q2	6.3*	7.7	122
2017Q3	5.4	5.7	106
Bonds			
2017Q2	1.0	1.7	170
2017Q3	2.0	3.7	185

* More Tbill auctions were conducted in Q2, but auction size remained the same.



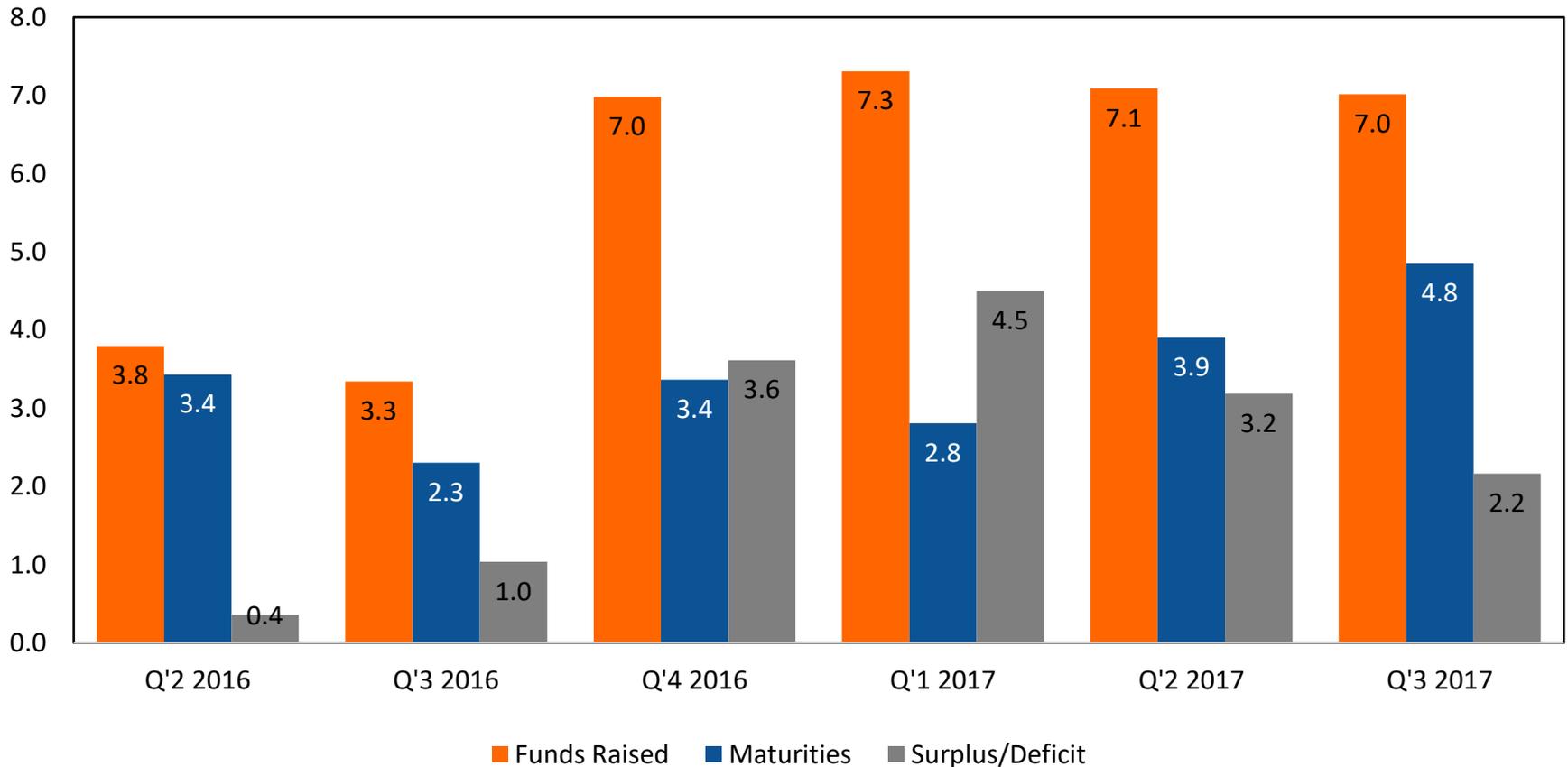
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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A total of K7.0 billion was raised from auctions against the maturity of K4.8 billion, resulting in a surplus of K2.2 billion.

Figure 3: Government Securities (K'billion)





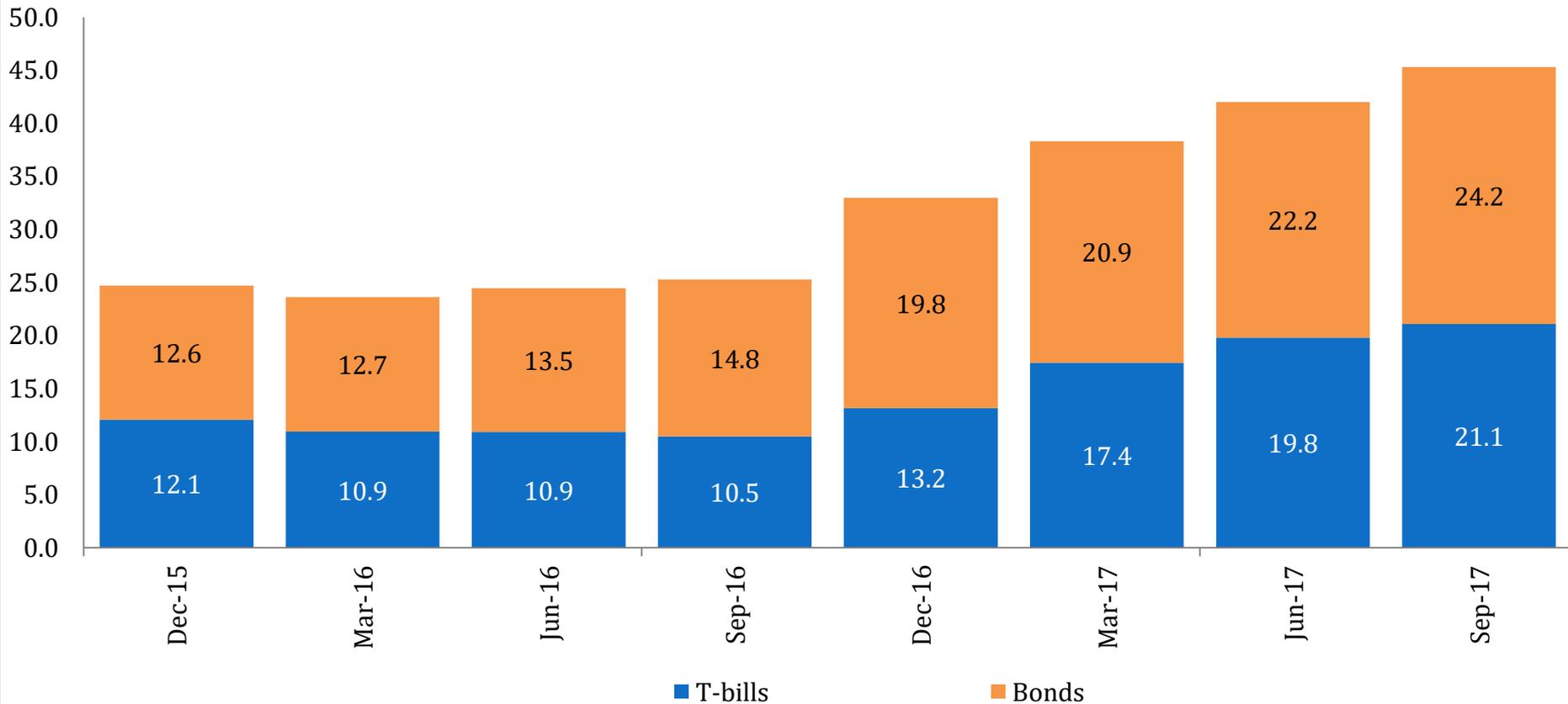
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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The total outstanding stock of Government securities increased by 7.8% to K45.3 billion.

Figure 4: Total Outstanding Government Securities (K'billion)





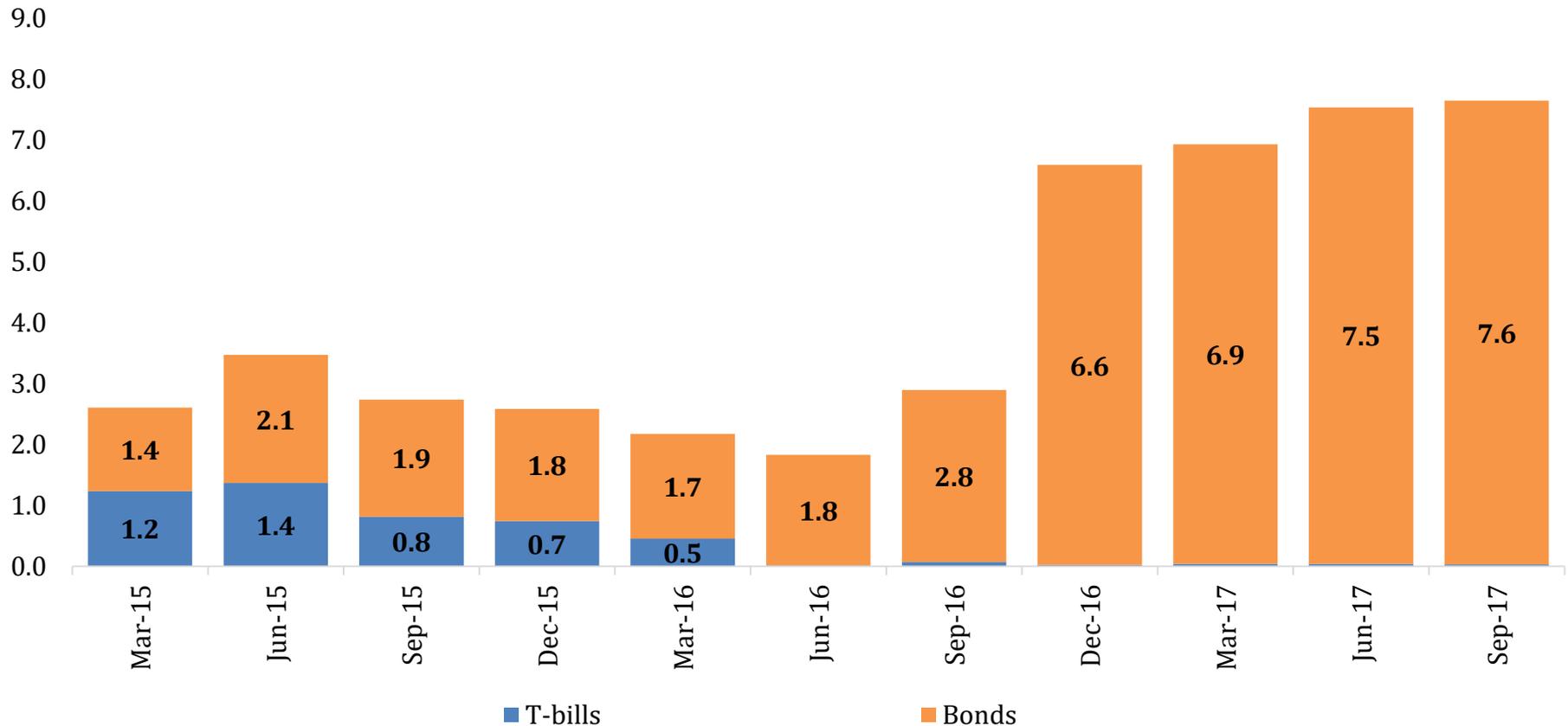
DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Non-resident investors' holdings of Government securities increased to K7.6 billion in Q3 from K7.5 billion in Q2 2017.

Figure 5: Non-resident Holdings of Government Securities (K'billion)





DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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- **Yield rates on Government securities continued to trend downwards in the third quarter due to high liquidity conditions and sustained demand (Figure 6).**
- **The weighted average Treasury bills yield rate fell to 15.3% in September from 15.7% in June 2017.**
- **The weighted average Government bond yield rate fell to 17.7% from 19.3%.**

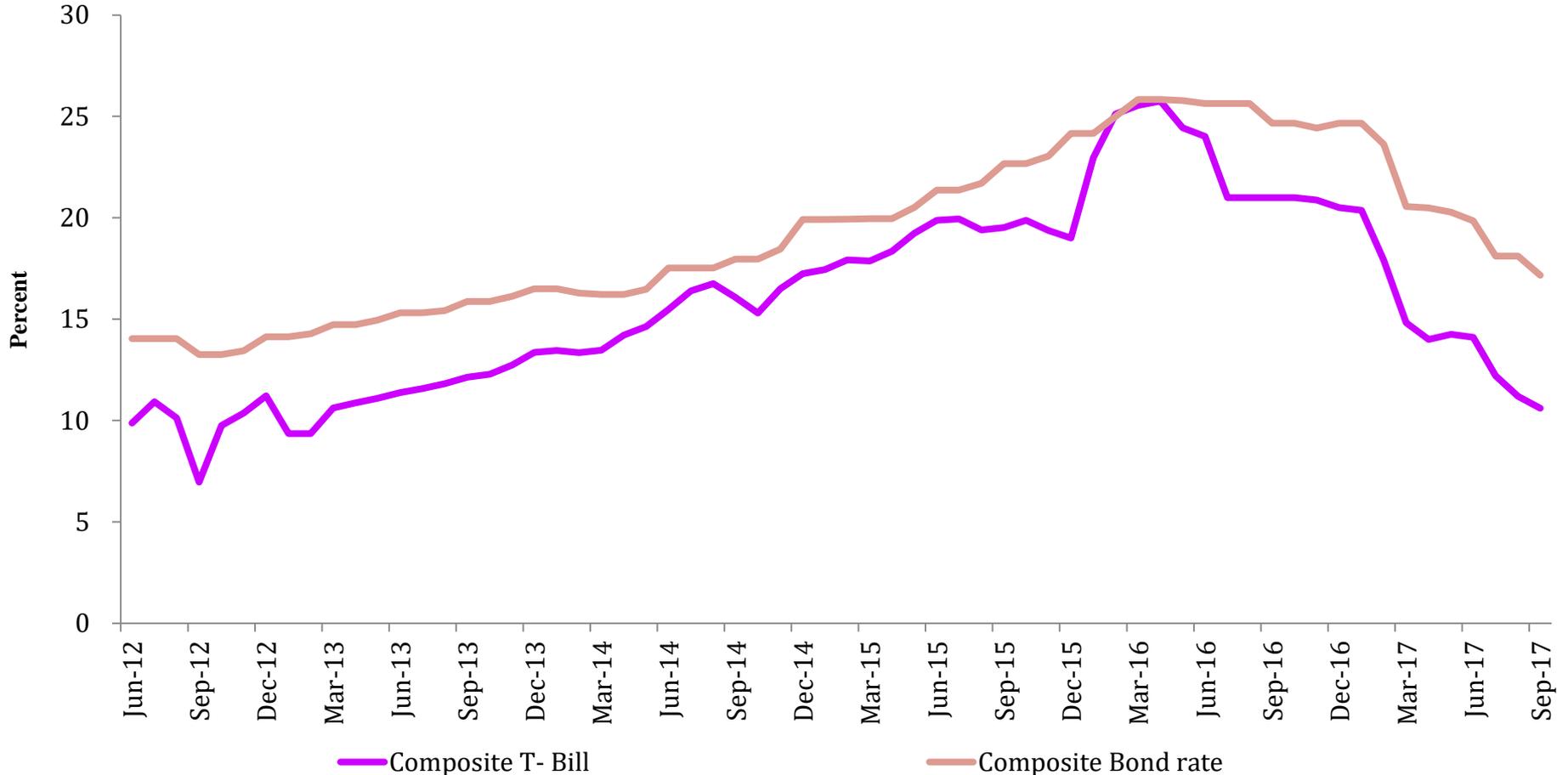


DOMESTIC ECONOMIC DEVELOPMENTS

Government securities market

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Figure 8: Government securities yield rates (%)





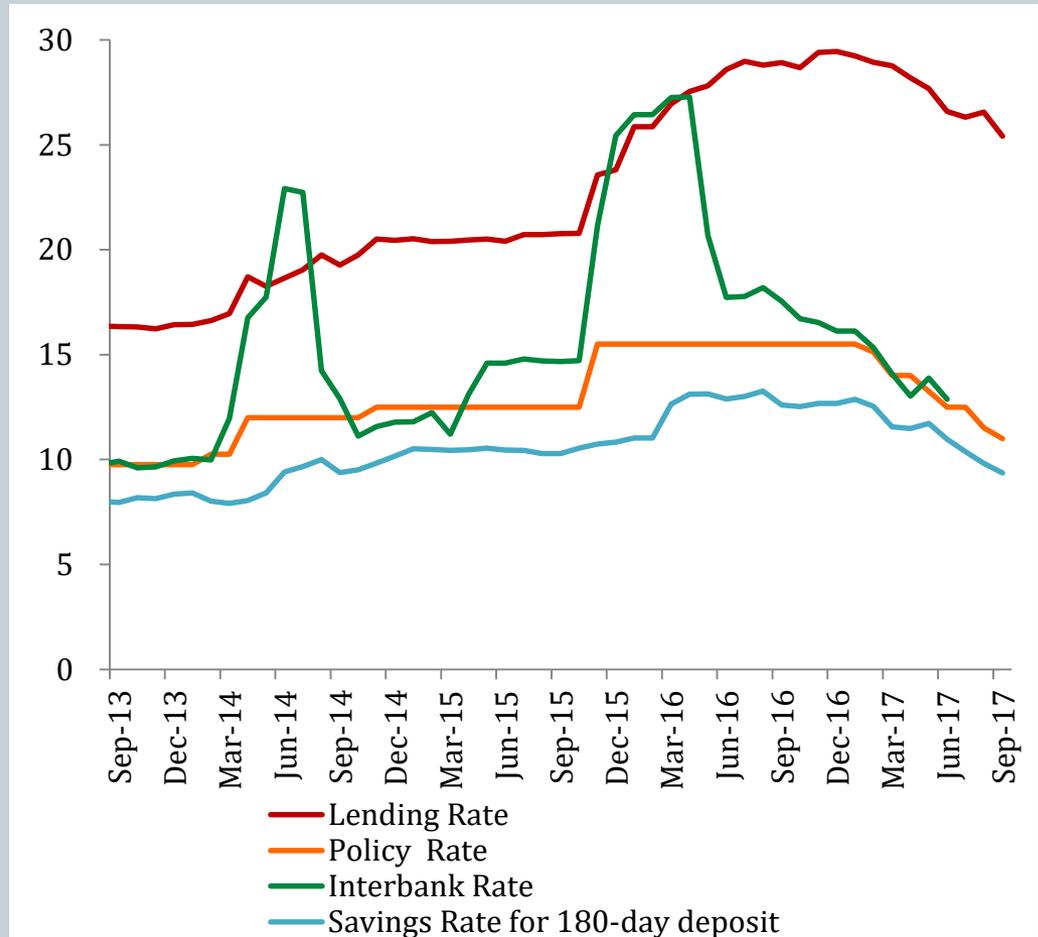
DOMESTIC ECONOMIC DEVELOPMENTS

Banks' Nominal Interest Rates

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- The average lending rate declined to 25.4% in September from 26.6% in June 2017.
- Range for lending rates widened to 8 – 39.5% from 8 – 37% in Q2.
- Savings rates on negotiated deposits rose to a range of 7.5-31.0% from 6-29.5% in Q2.

Figure 7: Nominal Interest Rates (%)





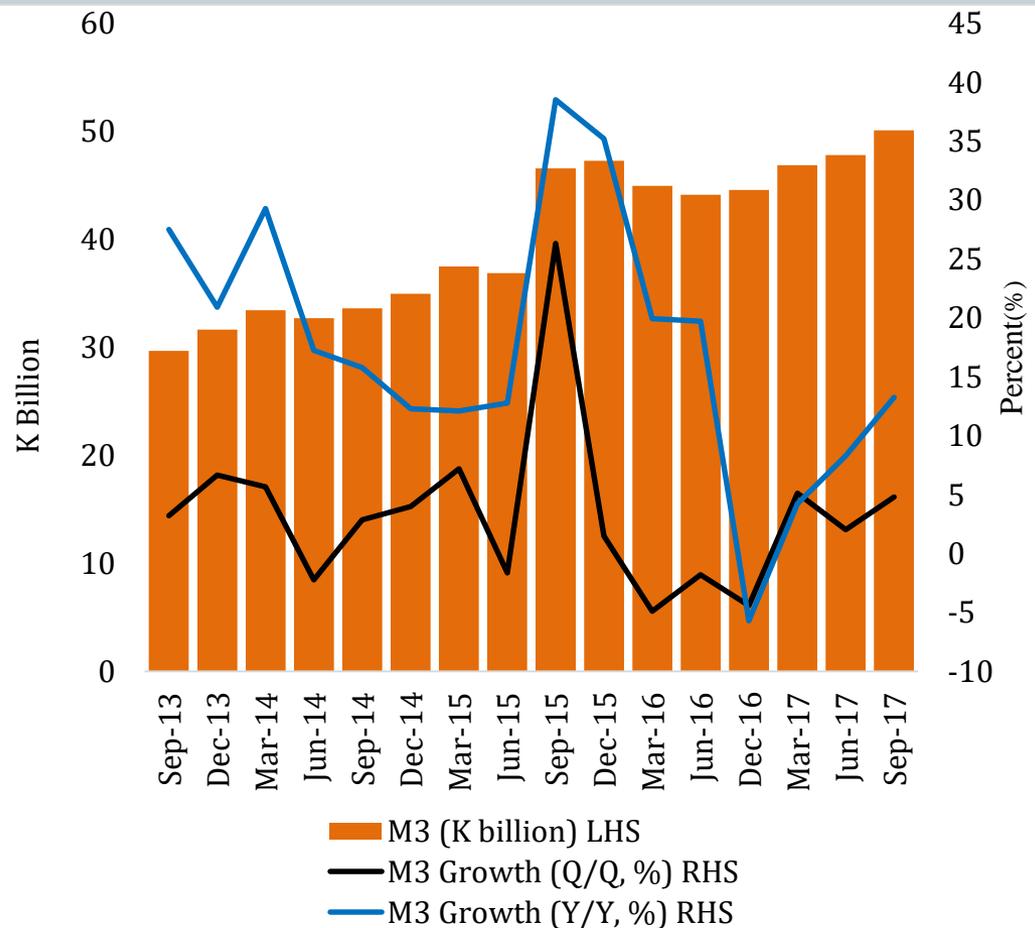
DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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- **Money supply grew further by 4.8%, up from a growth rate of 2.0% in Q2 2017.**
- **Growth mainly driven by expansion of domestic credit to Government and the private sector.**
- **On a year-on-year basis, money supply grew by 13.8% in September, up from a growth of 8.3% in June 2017.**
- **The increase in year-on-year growth in money supply is positive as it is supportive to economic activity.**

Figure 8: Money Supply





DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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- **Total credit grew by 6.1% in Q3 compared with 6.5% growth recorded in Q2 2017 (Table 4).**
- **Growth in credit to Government slowed down to 8.9% from 11.3% in Q2 2017.**
- **Credit to households grew by 7.6%, up from a growth of 1.3% in Q2 2017.**
- **However, credit to private enterprises contracted by 2.2% from a growth of 1.6% in Q2.**
- **Although there are signs of growth in credit to the private sector, sustained credit growth to private enterprises is critical for sustaining private sector driven economic activity.**



DOMESTIC ECONOMIC DEVELOPMENTS

Money supply and credit

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Table 4: Credit growth

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Total Credit (Incl. Govt)	4.9	1.1	6.5	6.5	6.1
Total -(Excl. Govt)	-1.7	-5.4	-3.2	1.6	3.0
Public Enterprises	-3.1	-9.2	-10.0	28.9	89.3
Government	15.7	10.2	18.1	11.3	8.9
Private Enterprises	-1.3	-4.6	-4.8	1.4	-2.2
Households	-0.9	-7.1	-0.3	1.3	7.6
Non Bank Financial Institutions	-0.1	17.6	-7.9	5.9	49.4



DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market

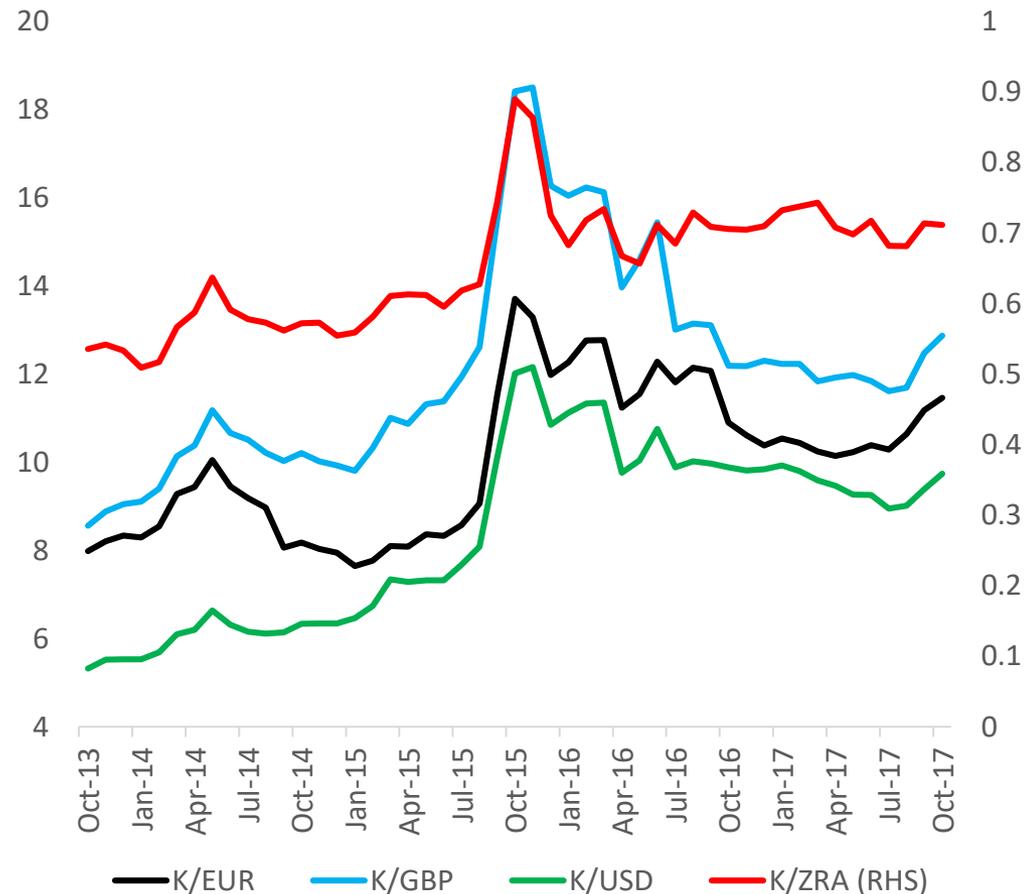
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The Kwacha continued to appreciate in Q3 due to increased supply of foreign exchange and positive sentiment from higher copper prices (Figure 9).

Against the US dollar, the Kwacha appreciated by 3.5% compared an appreciation of 5.0% in Q2 2017.

Mining companies' and foreign financial institutions and remained the major suppliers, while the Government continued to be the lead buyer (Figure 10)

Figure 9: Exchange rate developments



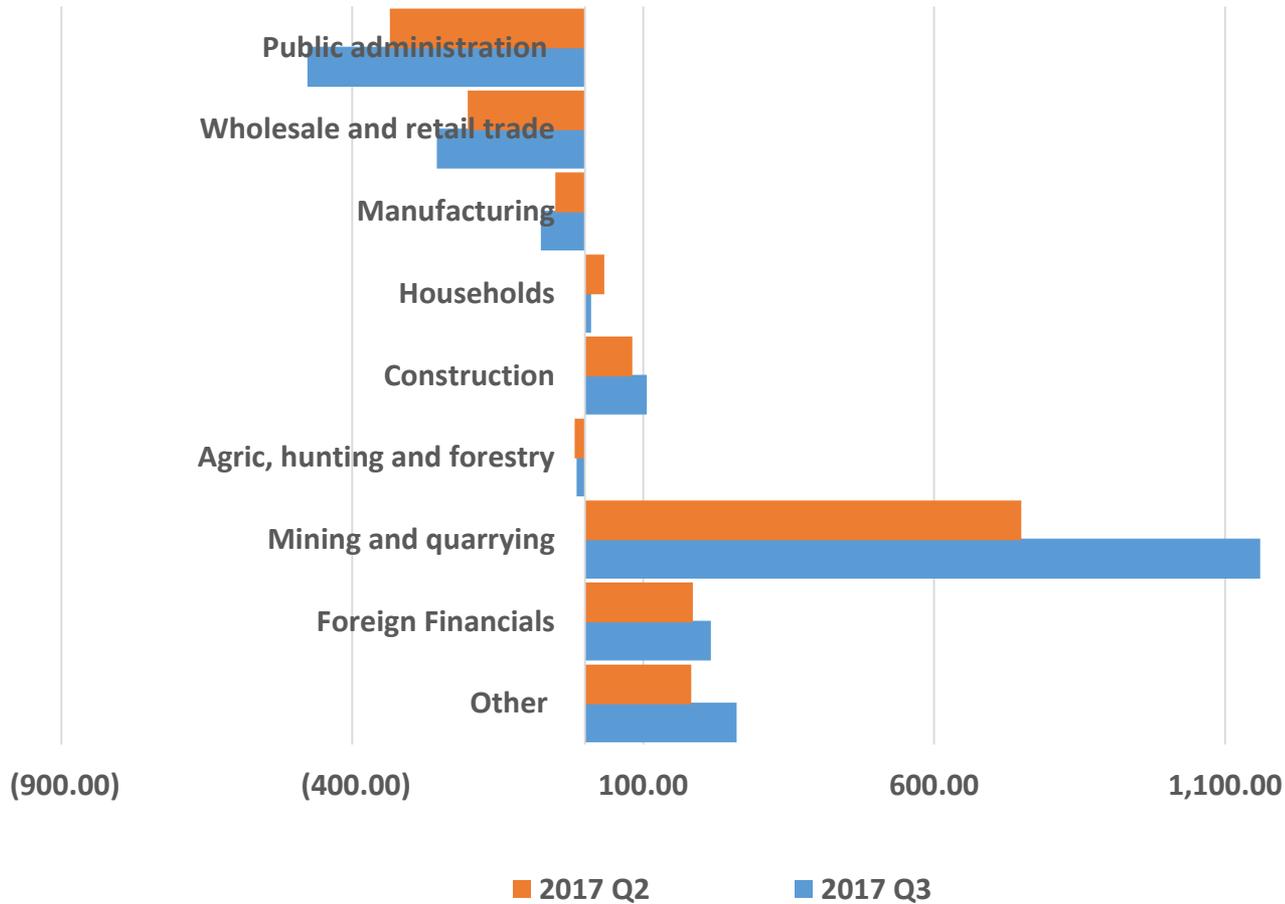


DOMESTIC ECONOMIC DEVELOPMENTS

Foreign Exchange Market

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Figure 10: Supply and Demand (US\$'million)





DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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- **Available real sector data indicate an improvement in economic activity during Q3 2017.**
- **Higher output was recorded in both the mining and non-mining sectors.**
- **copper production rose 7.8%, bringing total production in the year to September 2017 to 576,128.1 metric tons (mt). This output of is 4.2% higher than the corresponding period last year (Figure 11).**
- **In the non-mining sector, electricity generation continued to improve, supported by adequate water levels in the major reservoirs (Figure 12).**
- **production of cement also increased by 11.1% to 193,068.1 mt on account of the continued rise in demand attributed to continued construction activities (Figure 13).**

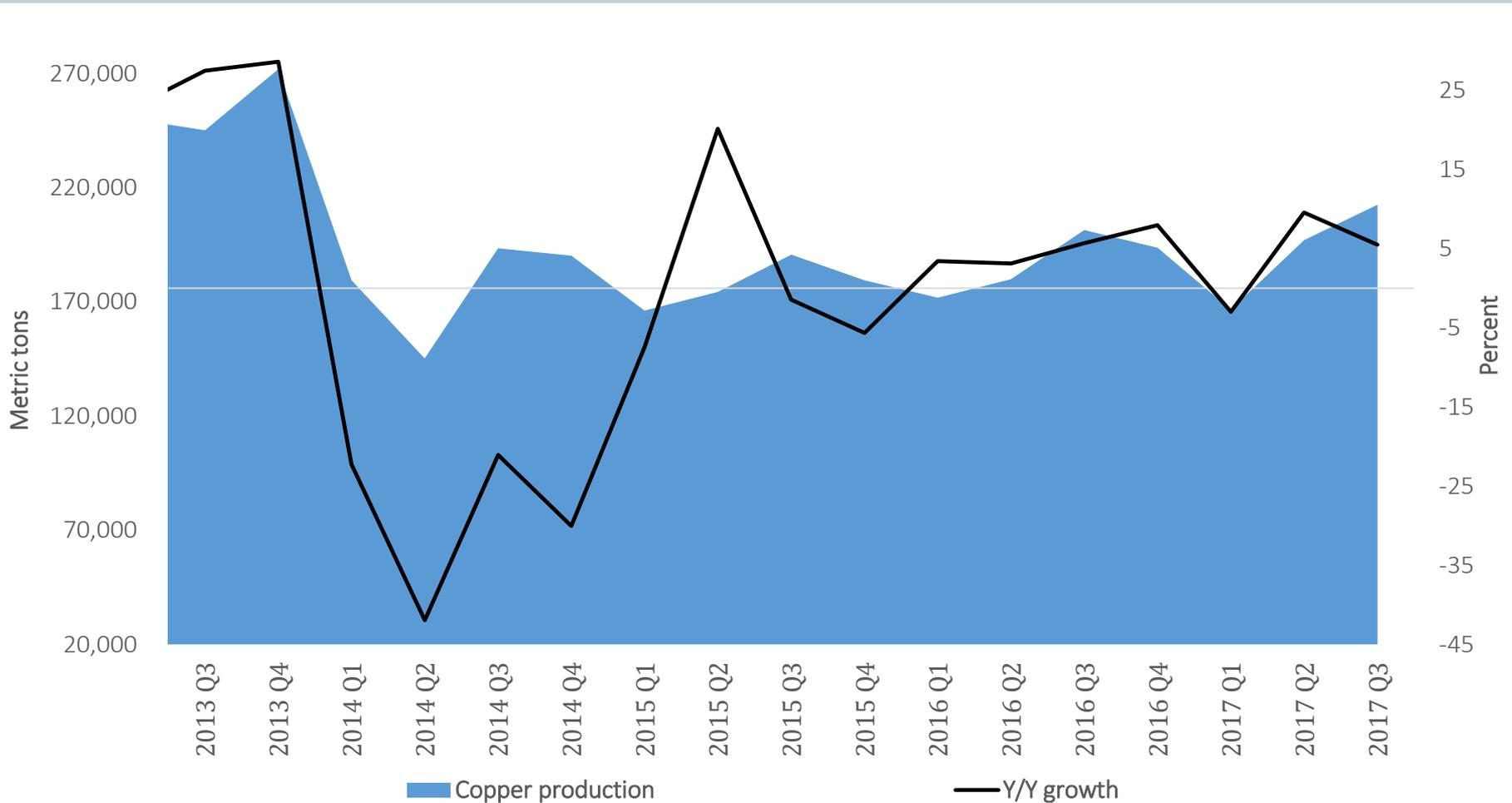


DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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Figure 11: Mining Sector Output



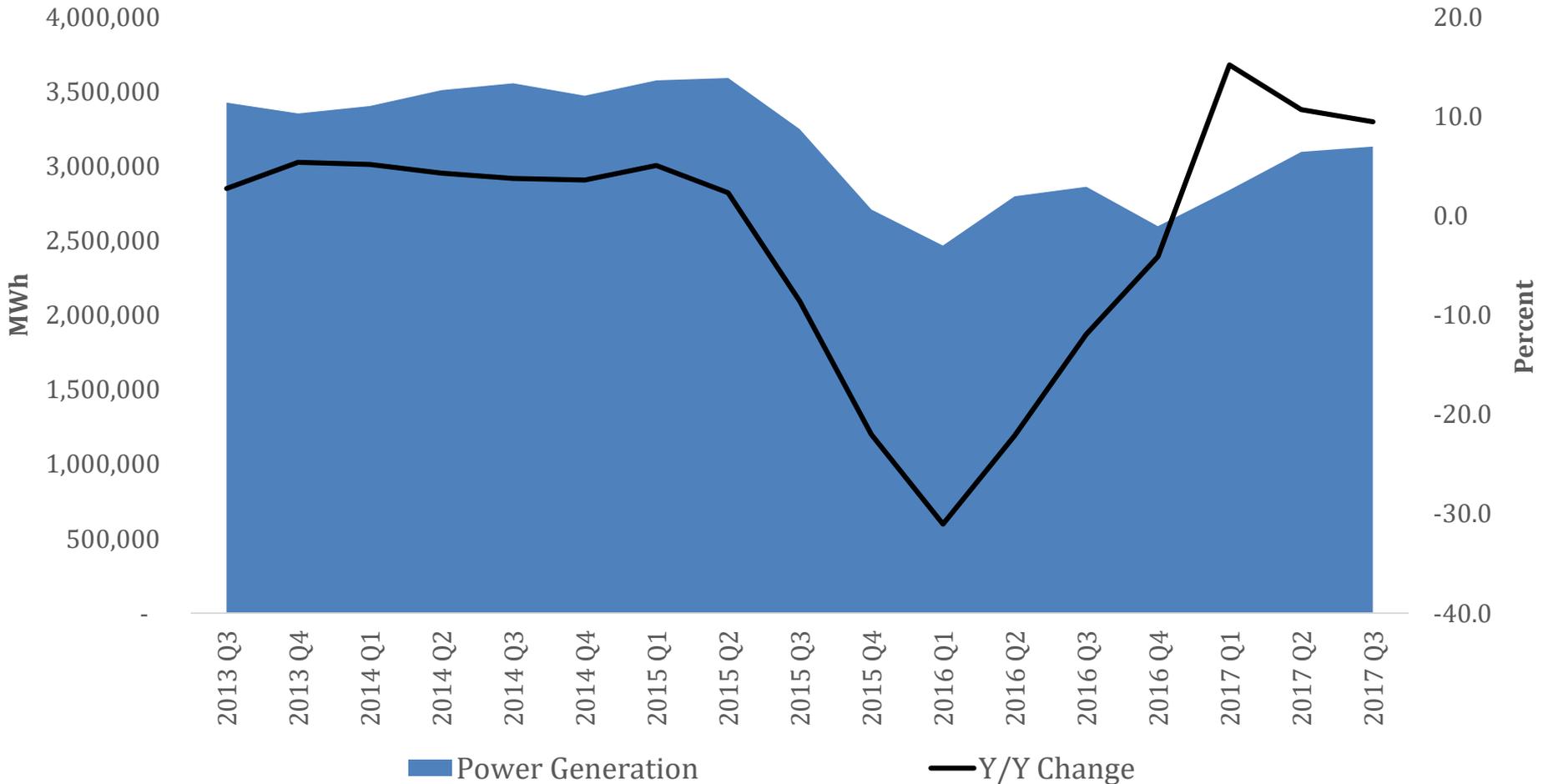


DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

25

**Figure 12: Electricity Generation
(Quarterly, Megawatt Hours and annual percentage change)**



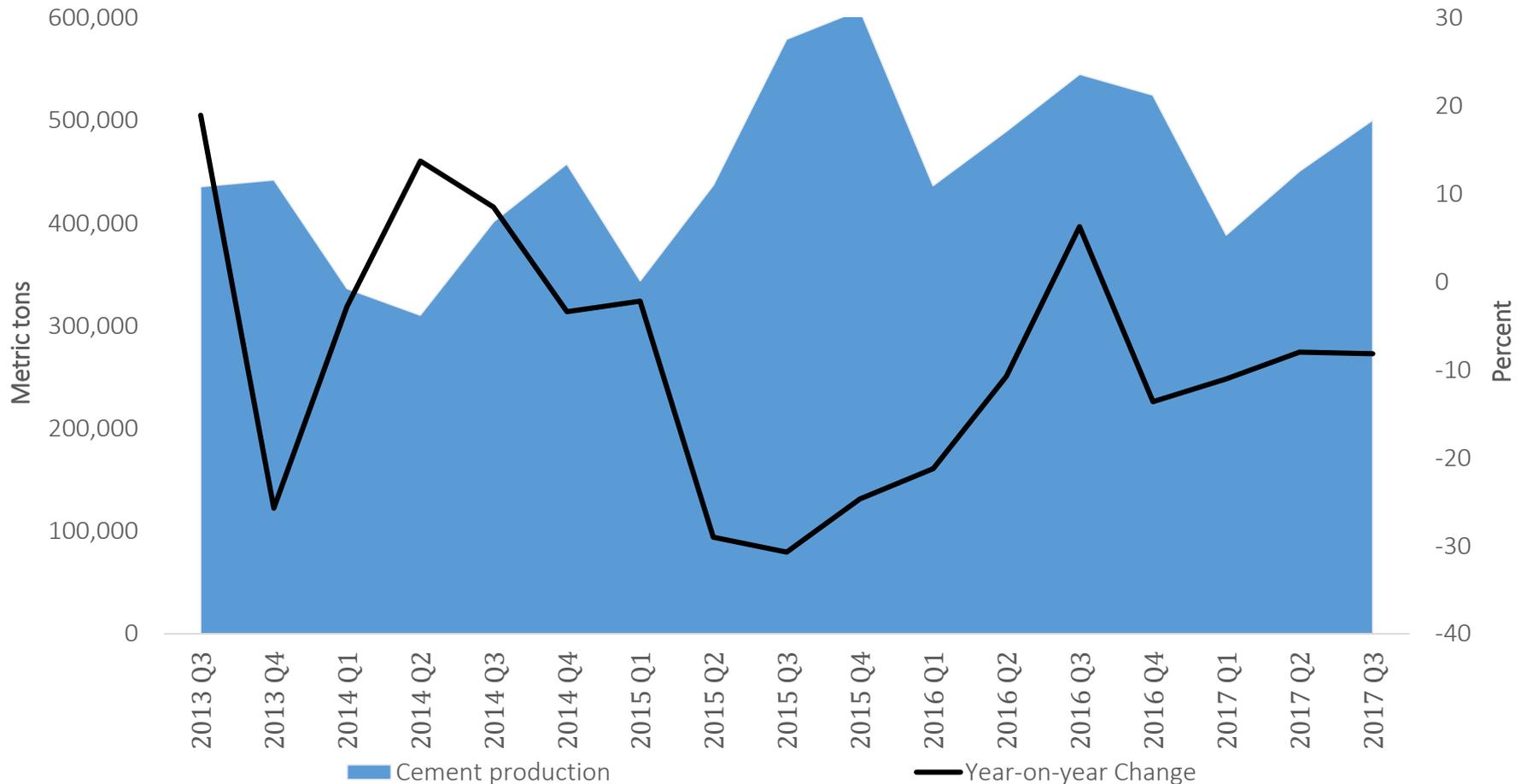


DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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**Figure 13: Cement Production
(Quarterly, Metric tonnes and annual percentage change)**





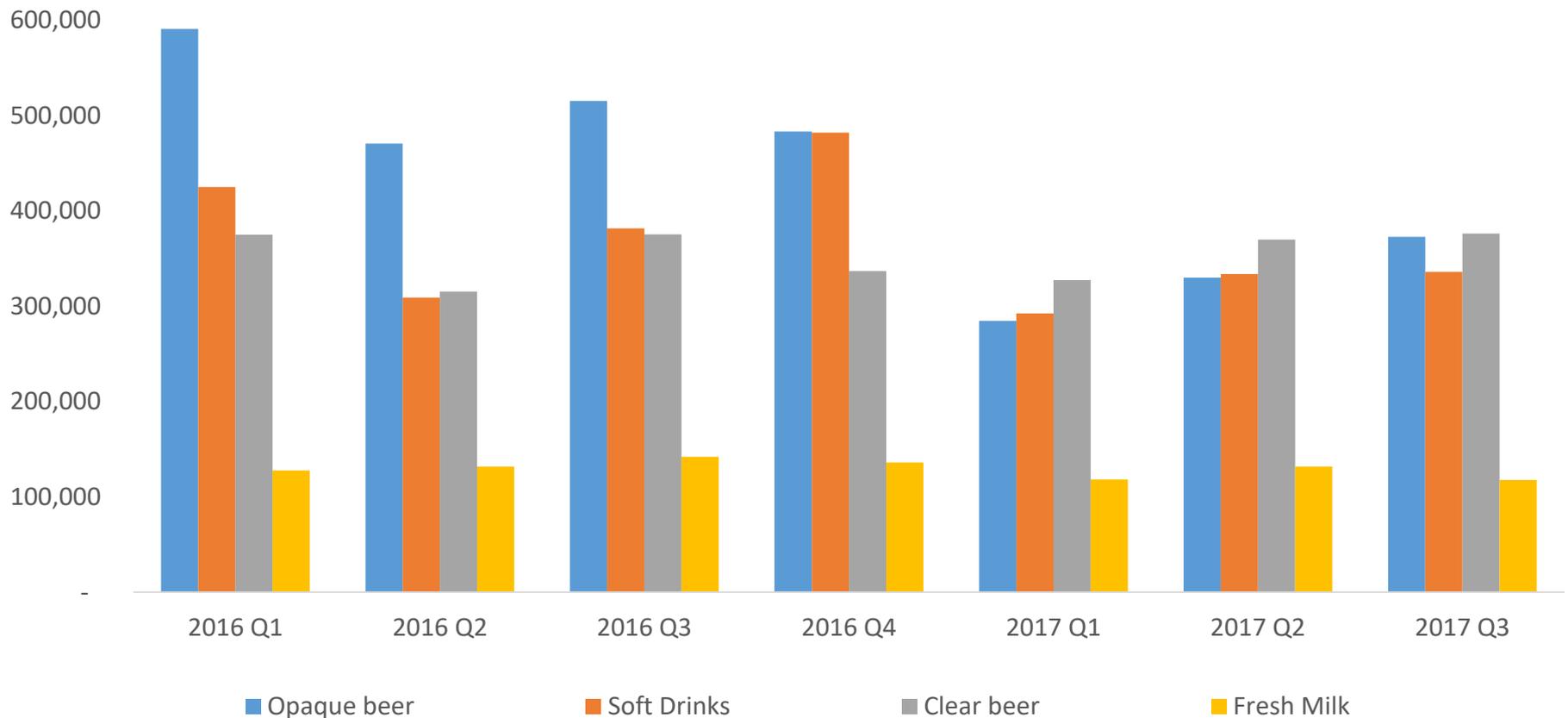
DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Activity

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Further, production of some manufactured products such as food and beverages increased.

Figure 14: Output of Food and Beverages (Quarterly, Hectolitres)





DOMESTIC ECONOMIC DEVELOPMENTS

External Sector

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The current account deficit narrowed to US\$237.5 million in Q3 from US\$338.7 million in Q2, largely explained by an increase in exports relative to imports.

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

	Q2 2017	Q3 2017
Current Account Balance	-338.7	-237.5
Balance on Goods	21.1	64.0
Total Exports	1,888.7	2,108.5
Copper	1,409.8	1,503.2
Cobalt	24.9	41.1
Gold	38.9	34.5
NTEs	399.2	513.9
Total Imports	1,867.6	2,044.4
Primary Income	-277.0	-182.7
Secondary Income	66.6	66.2
Services Account	-149.4	-185.0
Capital Account	14.7	14.8
Financial Account	-507.4	-67.0
Net Errors/Omissions	5.4	1.1
Overall Balance	-188.8	154.5
Change in Reserve Assets and Related items	174.1	-167.6



DOMESTIC ECONOMIC DEVELOPMENTS

Fiscal performance

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Preliminary data indicate that the fiscal deficit of 1.4% of GDP on a cash basis was recorded in Q3. This was 1.3 percentage points lower than the target

The deficit continued to be financed through domestic financing due to low inflows from external financing.

In Q3, net domestic financing through issuance of Government securities amounted to K3.0 billion, down from K3.3 billion in Q2 2017.



DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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- **In Q3, inflation declined to an average of 6.5% from 6.7% in Q2 2017.**
- **In terms of end-period developments, inflation declined to 6.6% in September 2017 from 6.8% in June 2017. In October, inflation declined further to 6.4% (Figure 15).**
- **Annual food inflation declined to 5.0% in September 2017, a level last seen in July 2011, from 5.8% in June 2017.**
- **However, annual non-food inflation rose to 8.4% in September from 8.0% in June 2017, driven by increase in electricity tariffs.**
- **Appreciation of the Kwacha and improved supply of food items, particularly maize grain and products, accounted for the decline in inflation.**

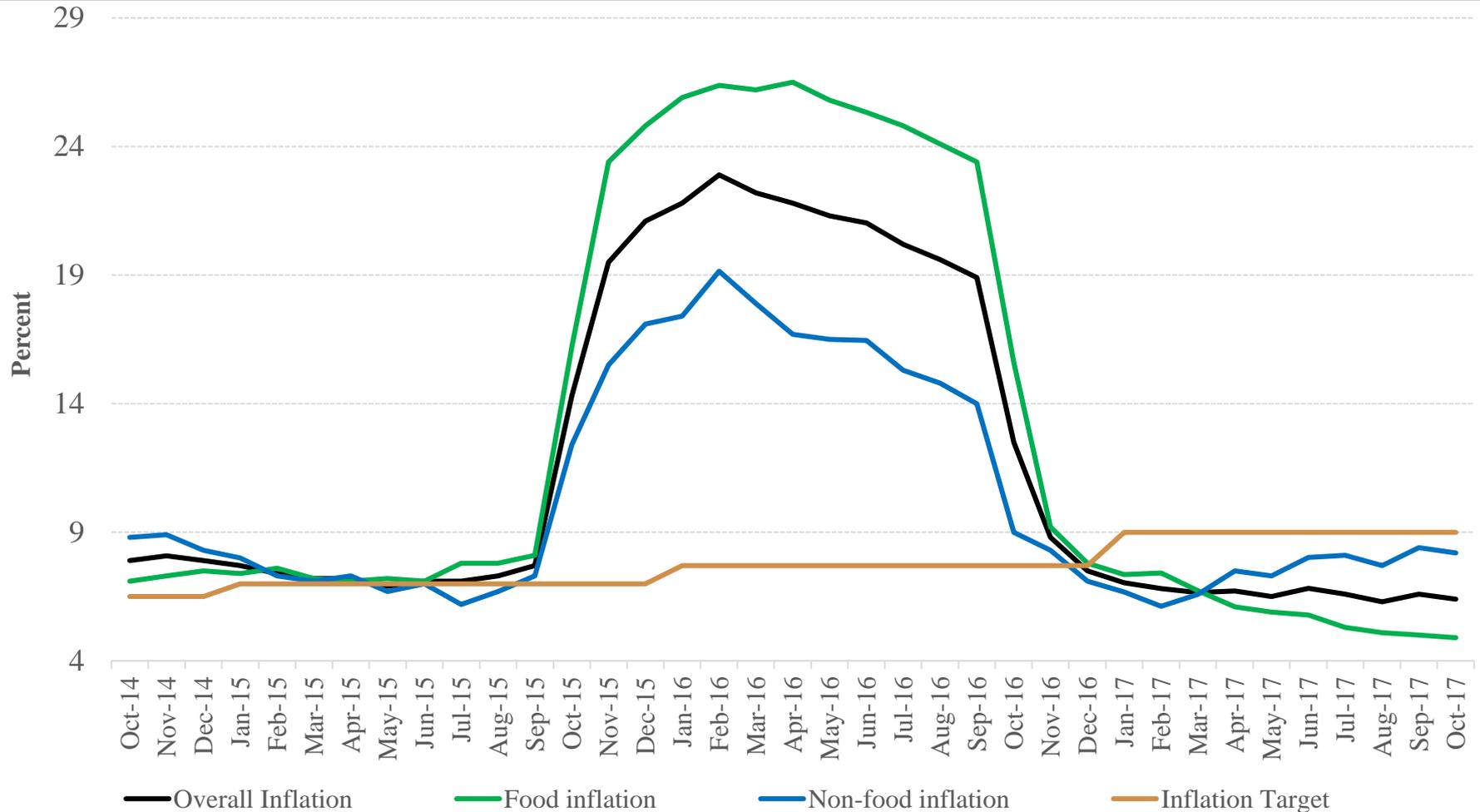


DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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Figure 15: Year-on-year Inflation rate





DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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- **Month-on-month inflation declined to 0.3% in September from 0.6% in June 2017, but rose marginally to 0.4% in October (Figure 16).**
- **Food inflation ended Q3 at negative 0.1% compared with negative 0.3% in June.**
- **Likewise, non-food inflation declined to 0.8% from 1.7% over the same period.**
- **Year to October inflation was 3.9%**

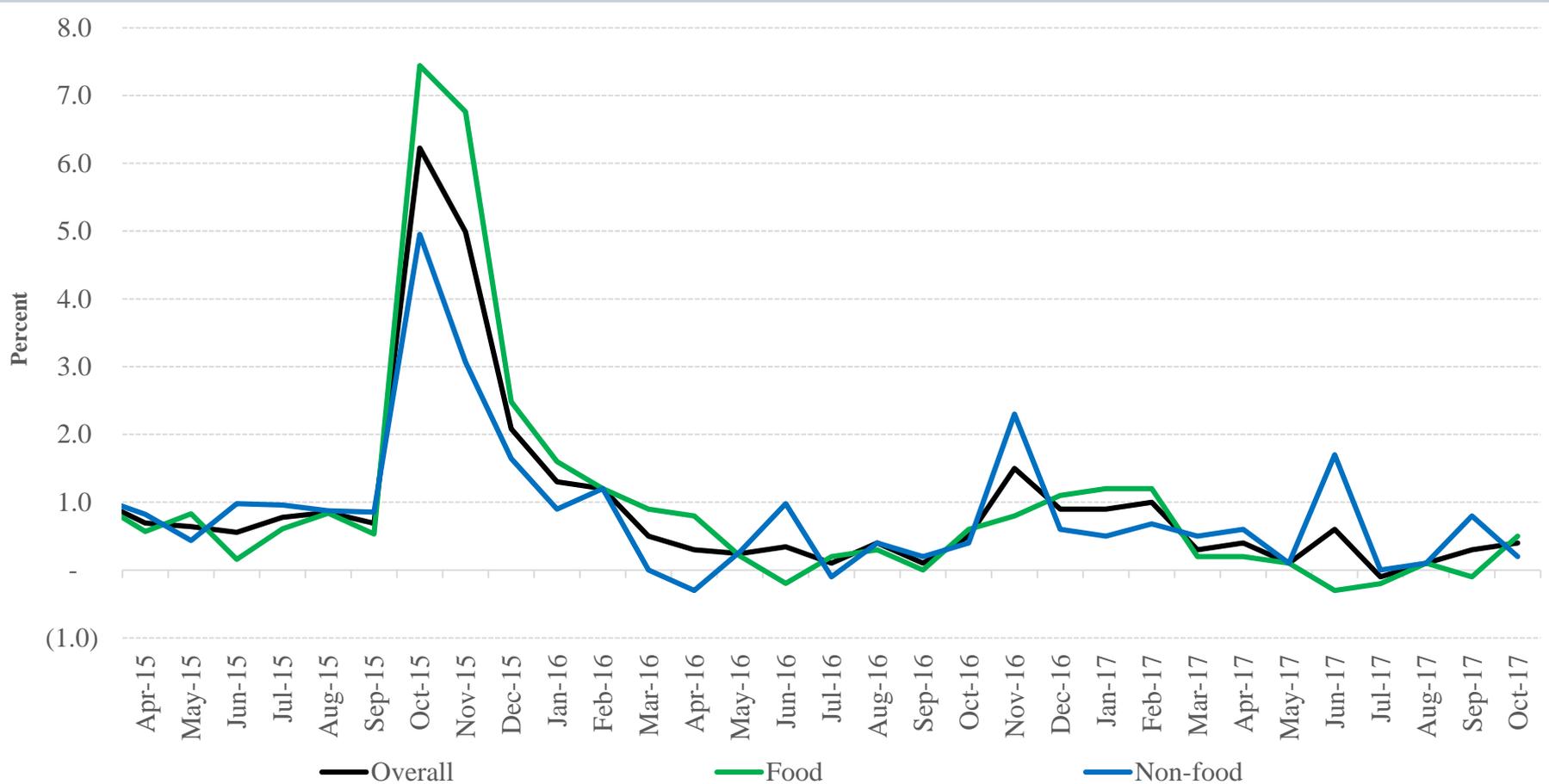


DOMESTIC ECONOMIC DEVELOPMENTS

Inflation

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Figure 16: Month-on-month Inflation rate





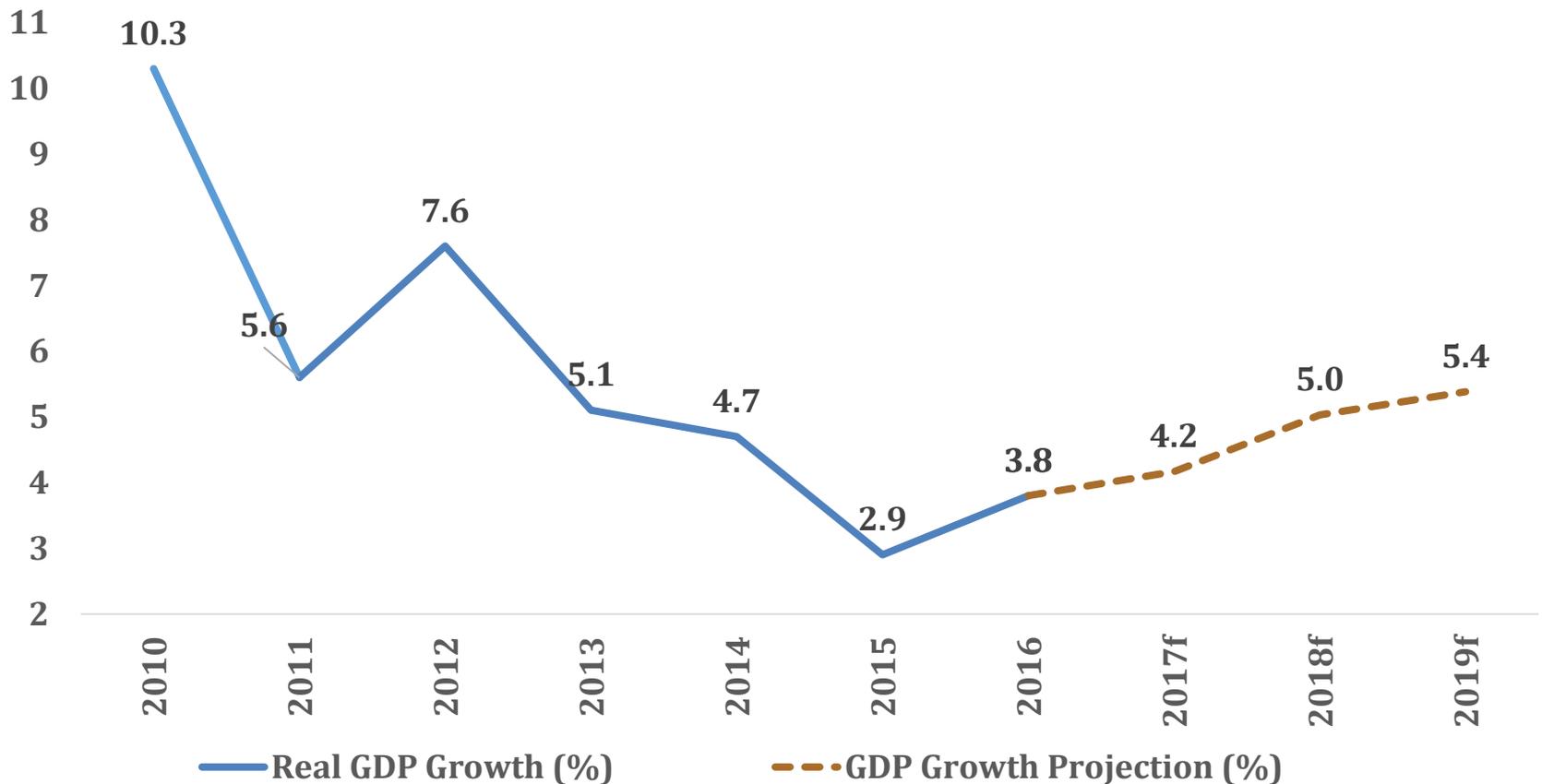
MACROECONOMIC OUTLOOK

GDP growth

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Gradual pick-up in domestic GDP growth expected (though still below 7% average:2011-14), driven by mining, agriculture, manufacturing and tourism.

Figure 17: GDP Growth





MACROECONOMIC OUTLOOK

Inflation Outlook

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Low inflationary pressures are projected over the next 8 quarters, with inflation forecast to remain around the lower bound of the inflation target in 2019.

The upside risks include the following:

- 1. Currently relatively high fiscal deficit and debt levels; and**
- 2. The second round effects of the proposed tax measures in the 2018 budget address.**



MACROECONOMIC OUTLOOK

Inflation Outlook

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The downside risks include the following:

- 1. Increase in copper price which will support relative stability to the exchange rate;**
- 2. Excess supply of maize grain which will moderate food prices; and**
- 3. Increased supply of electricity which will keep the cost of production relatively low.**

For the rest of 2017, inflation is projected to remain at current levels, though with a downward bias.



THANK YOU AND GOD BLESS...