MONETARY POLICY COMMITTEE STATEMENT FOR THE THIRD QUARTER OF 2024

GOVERNOR'S PRESENTATION TO THE MEDIA

NOVEMBER 13, 2024

Bank *of* Zambia

OUTLINE OF PRESENTATION

1. Decision of the Monetary Policy Committee
2. Inflation Outturn and Outlook
3. Foreign Exchange Market
4. Credit Developments
5. Economic Activity
6. Conclusion

DECISION OF THE MONETARY POLICY COMMITTEE

At its November 11-12, 2024 Meeting, the Monetary Policy Committee (MPC) decided to *increase the Monetary Policy Rate by 50 basis points to 14.0 percent*.

- **The increase in the Policy Rate has been necessitated by actual and projected inflation continuing to remain above the 6-8 percent target band.**

- **The decision to raise the Policy Rate is aimed at steering inflation back towards the target band and anchoring inflation expectations.**

- **In arriving at the decision, the Committee also took into account (i) complementary liquidity management measures; (ii) foreign exchange market reforms underway; (iii) the fragility of the economy in the wake of the severe impact of the recent drought; and (iv) the stability of the financial system.**

INFLATION OUTTURN

- **Annual overall inflation continued to rise in the third quarter of 2024, averaging 15.5 percent from 14.6 percent in the second quarter of 2024 (Table 1). In October, annual inflation rose to 15.7 percent from 15.6 percent in September.**

- **The key drivers of inflation were low supply of maize grain, fish and vegetables; increased demand for solid fuels due to sustained electricity load management; and depreciation of the Kwacha against major currencies (Charts 1 and 2).**

INFLATION OUTTURN

Table 1: Quarterly Average and end-Period Inflation Rate (percent)

Average	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3
Overall Inflation	11.0	12.9	13.5	14.6	15.5
Food Inflation	12.7	13.8	14.5	16.2	17.6
Non-food Inflation	8.8	11.6	12.1	12.3	12.5

End Period	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3
Overall Inflation	12.0	13.1	13.7	15.2	15.6
Food Inflation	13.4	14.2	15.6	16.8	17.9
Non-food Inflation	10.1	11.6	11.2	13.0	12.4

INFLATION OUTTURN

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Chart 1: Contribution to Overall Inflation of Food Sub-Groups (percentage points)

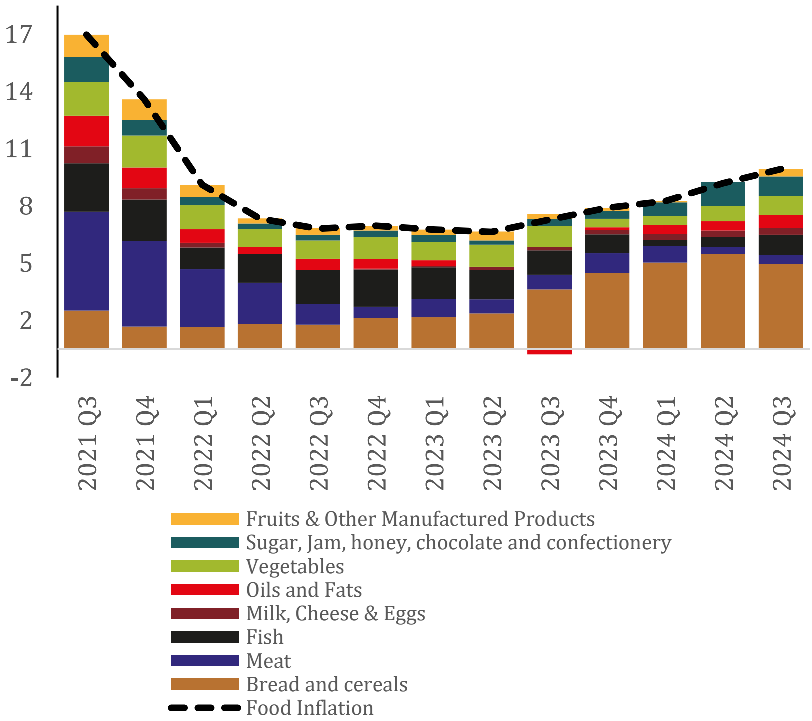
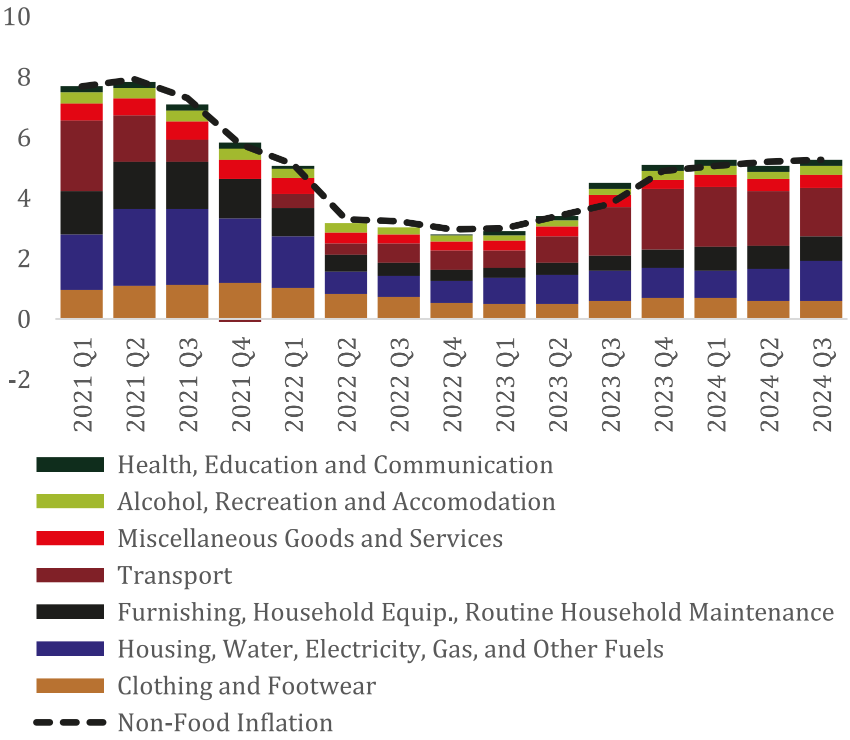


Chart 2: Contribution to Overall Inflation by Non-Food Sub-Groups (percentage points)



INFLATION OUTLOOK

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- The current outlook points to inflation remaining above the 6-8 percent target band, throughout the forecast horizon (Chart 3 and Table 2).

- While inflation is projected to remain at an annual average rate of around 15.0 percent in 2024, the projection for 2025 is now higher at 13.9 percent than the 12.7 percent reported in August. The elevated inflation profile in 2025 is largely due to the recent depreciation of the exchange rate and increase in electricity tariffs, occasioned by the higher-than-expected impact of the drought on electricity generation.

- In the first three quarters of 2026, inflation is expected to decline to 9.0 percent, which will still be outside the 6-8 percent target band.

- The risks to the inflation outlook are still heavily weighed to the upside and include higher maize grain prices and persistent exchange rate depreciation.

INFLATION OUTLOOK

Chart 3: Inflation – Outcome and Projection (percent)

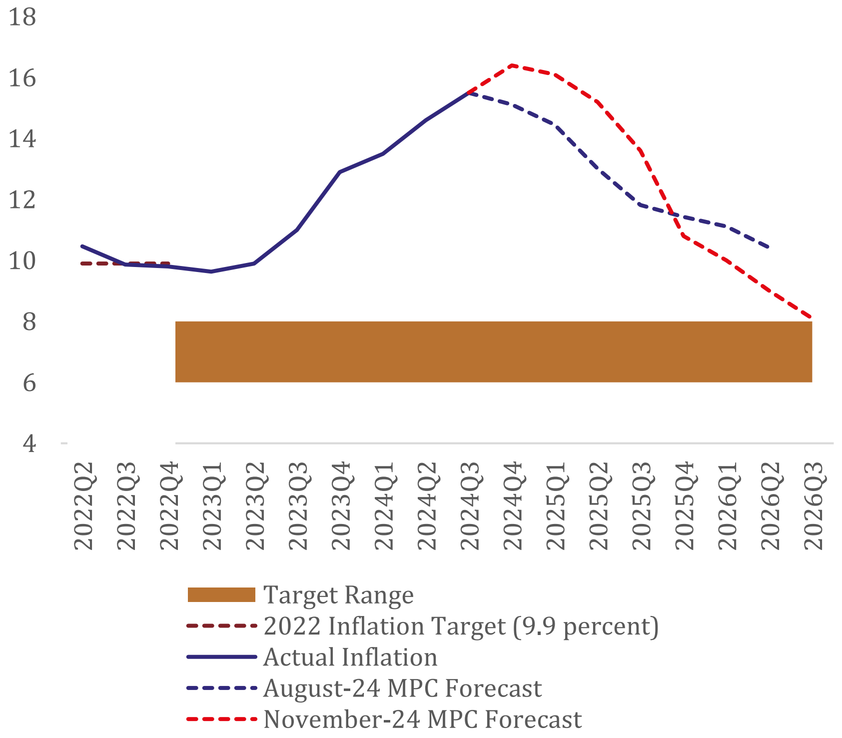


Table 2: Projected Average Inflation (percent)

	2024	2025	2026
November-2024 Projection	15.0	13.9	9.0*
August-2024 Projection	15.3	12.7	10.8**

Note: *Projection for Q1 – Q3 2026.
****Projection for the first half of 2026**

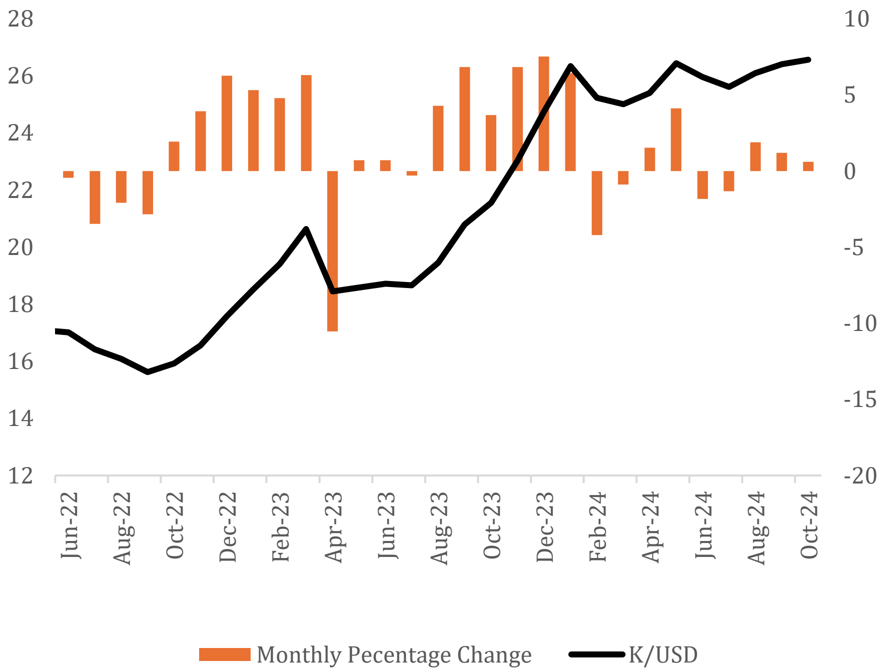
FOREIGN EXCHANGE MARKET

- **In the third quarter of 2024, the depreciation of the Kwacha against the US dollar moderated further to 1.7 percent from 3.8 percent in the second quarter (Chart 4).**

- **This was attributed to the reduction in demand backlog (Chart 7) due to continued improved supply of foreign exchange and a relatively weaker US dollar induced by heightened expectations of the interest rate cut by the US Federal Reserve.**

- **In addition, the reforms in the operations of the foreign exchange market implemented in May and June contributed to stability in the foreign exchange market.**

Chart 4: Nominal K/US dollar Exchange Rate



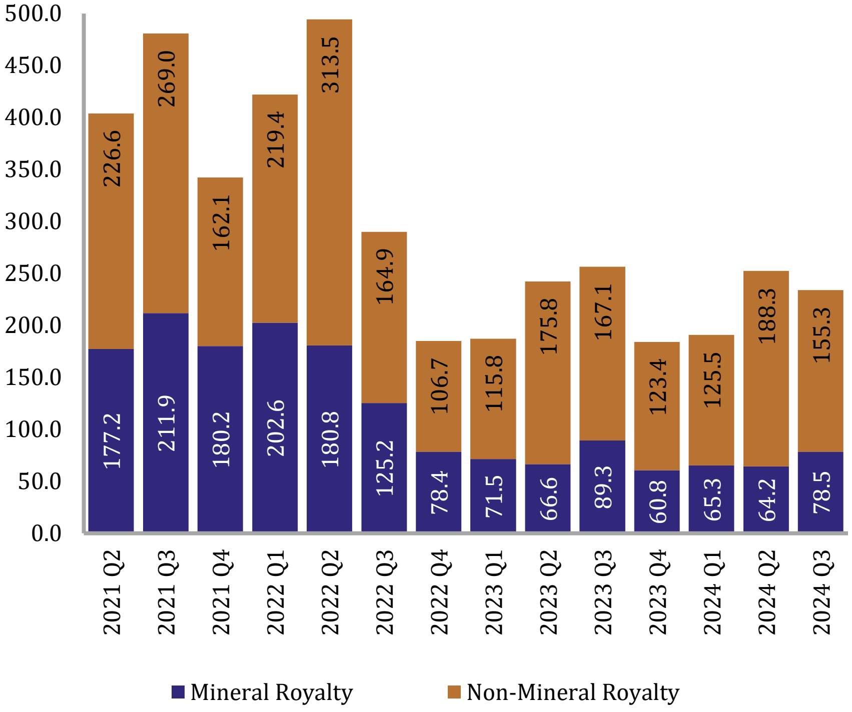
FOREIGN EXCHANGE MARKET

- The source of most supply of foreign exchange was the mining sector (US$232.1 million), foreign financial institutions (US$61.6 million) and construction sector (US$49.0 million).

- However, mining tax receipts remitted directly to the Bank were US$233.8 million in the third quarter, down from US$252.5 million in the second quarter (Chart 5). This was on account of lower copper export earnings as realized prices and volumes declined.

- Due to the increase in foreign exchange supply, market support by the Bank reduced to US$230.8 million from US$275.0 million in the second quarter.

Chart 5: Mining Taxes Paid Directly to BoZ in US Dollars (US$ million)

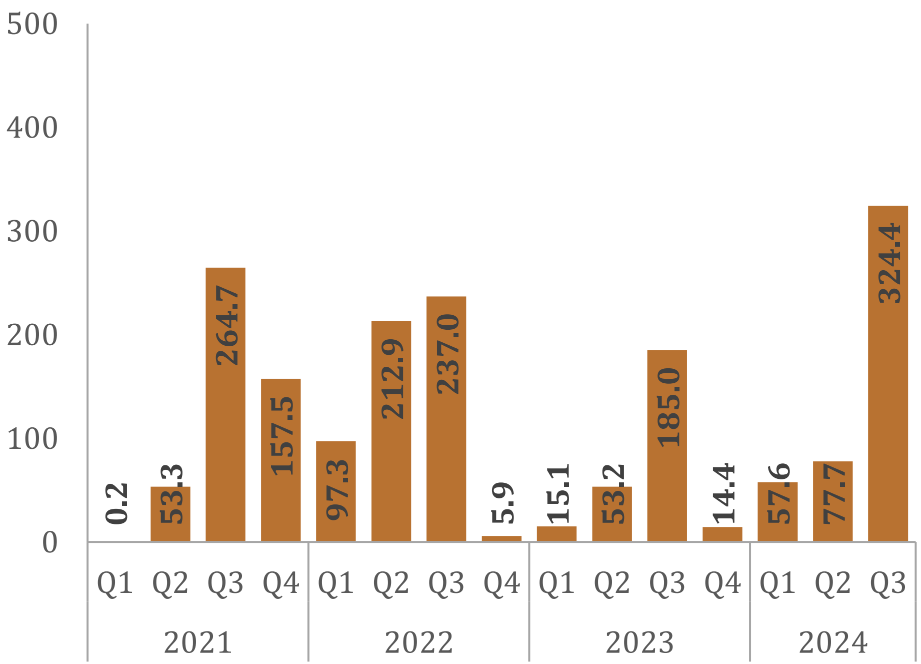


FOREIGN EXCHANGE MARKET

- **Activity in the interbank foreign exchange market increased markedly in the third quarter, supported by improved inflows.**

- **As a result, the turnover rose to US$324.4 million from US$77.7 million in the second quarter, marking the highest level of activity since the first quarter of 2021 (Chart 6).**

Chart 6: Turnover in Interbank Foreign Exchange Market (US$ million)



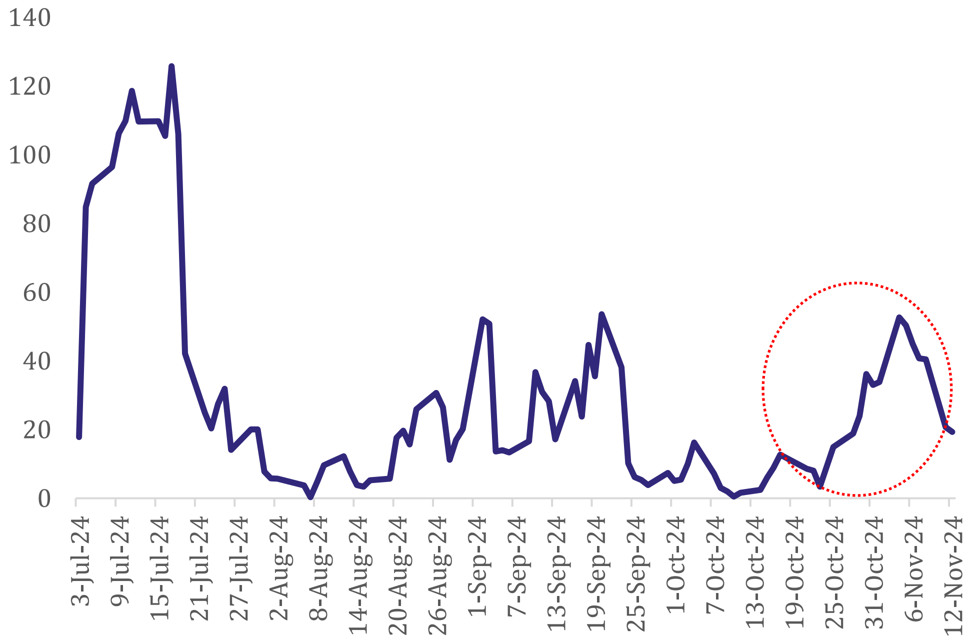
FOREIGN EXCHANGE MARKET

- **Outstanding demand for foreign exchange peaked at US$126.0 million on July 17 from US$17.9 million on July 3, but fell to US$7.4 million at end-September.**

- **However, in the fourth quarter, demand has re-emerged, rising to a high of US$52.70 million as at November 4.**

- **As a result, the Kwacha depreciated by 3.1 percent against the US dollar to K27.29 as at November 12.**

Chart 7: Outstanding Demand for Foreign Exchange (US$ million)



FOREIGN EXCHANGE MARKET

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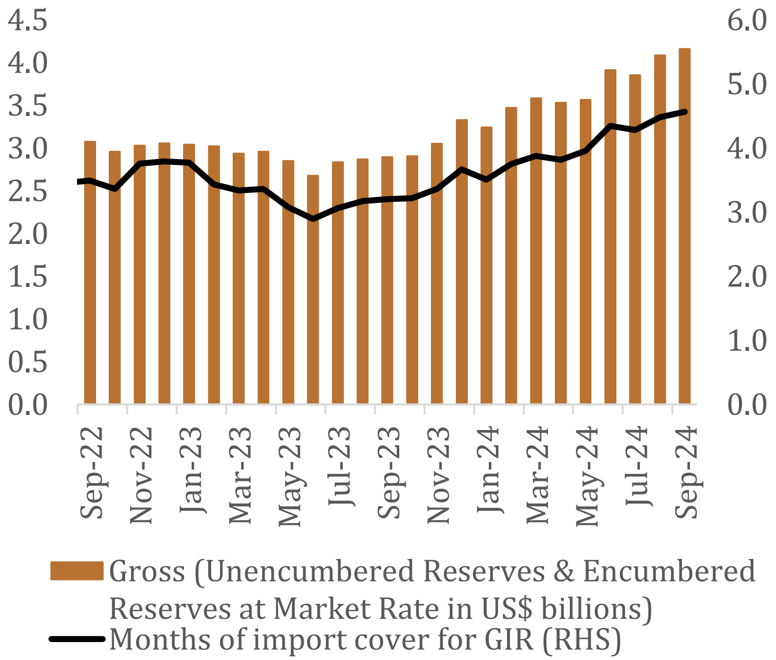
- Gross international reserves increased to US$4.15 billion (equivalent to 4.6 months of import cover) at end-September from US$3.91 billion (equivalent to 4.3 months of import cover) at end-June (Chart 8). This was mostly due to project disbursements by the World Bank and net purchases of mining taxes.

- In the third quarter of 2024, gold purchases amounted to US$7.3 million. This brings the market value of the total holdings to US$217.2 million since the Bank started purchasing gold locally in December 2020.

Chart 8: Gross International Reserves



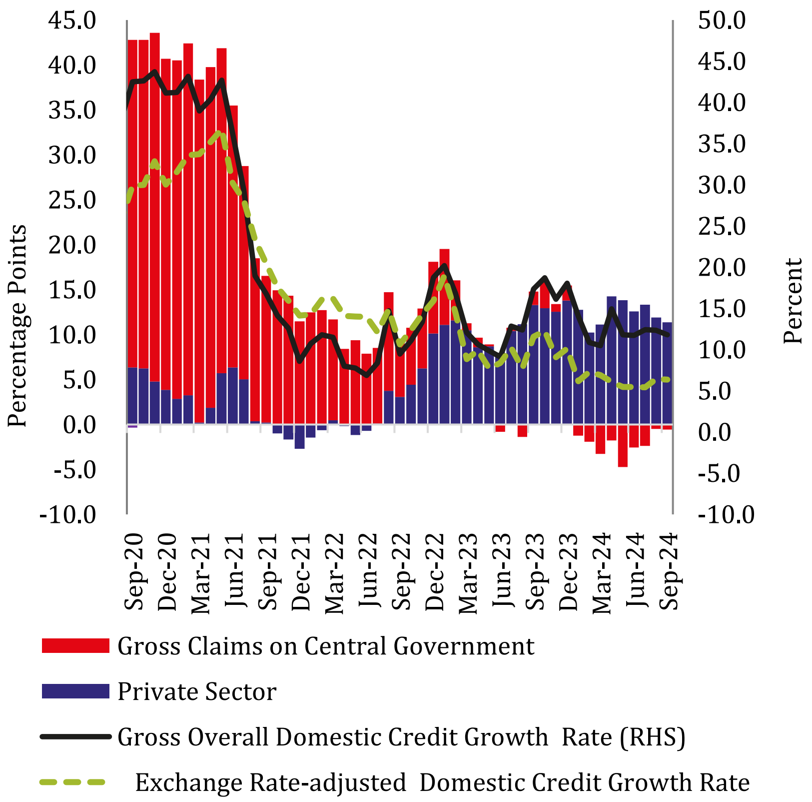
CREDIT DEVELOPMENTS

- **Overall domestic credit growth in nominal terms was broadly steady in September, at 11.8 percent, year-on-year (y/y) as depicted in Chart 8.**

- **Private sector credit growth (in nominal terms) slowed down in September to 29.7 percent, y/y, from 35.8 percent, y/y, in June, largely reflecting reduced economic activity.**

- **Lending to Government, through Government securities, increased as liquidity conditions broadly improved.**

Chart 9: Contribution to y/y Domestic Credit Growth



Government Securities Market

- **Total outstanding stock of Government securities stood at K225.03 billion at end-September. Out of this, the non-resident holdings were K53.92 billion or 23.9 percent.**

ECONOMIC ACTIVITY

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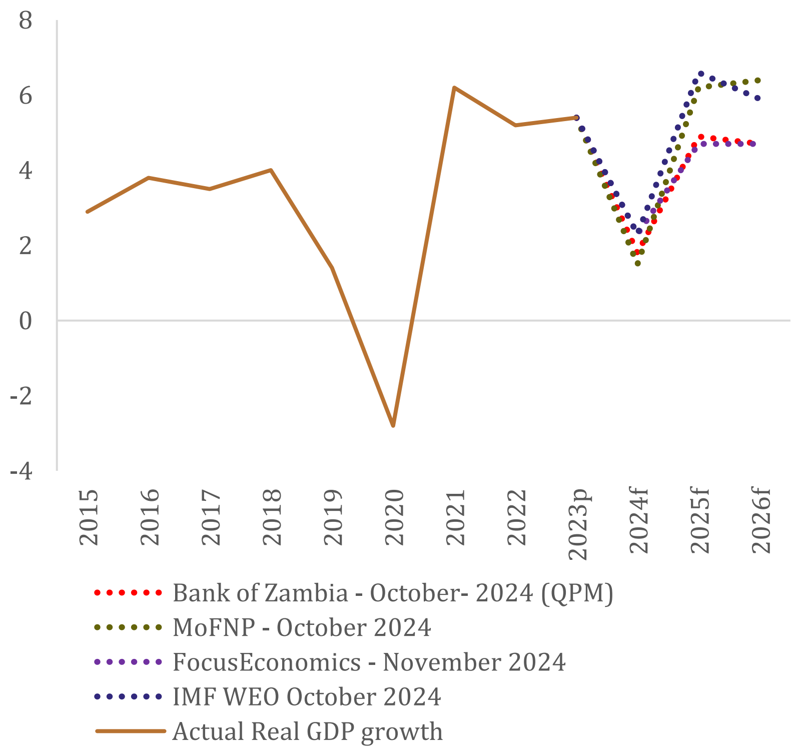
- **Economic activity weakened further in the third quarter as business conditions for the private sector continued to deteriorate. This is attributed to the deeper-than-anticipated impact of the drought on electricity generation, which had spillovers to other sectors.**

- **The drought has resulted in real GDP growth projection for 2024 being significantly revised downwards to 1.2 percent from 2.3 percent in July (Chart 10).**

- **However, growth prospects for 2025 and 2026 remain bright on account of the expected recovery of the mining and agriculture sectors, and sustained expansion of ICT, financial and insurance, as well as wholesale and retail trade sectors.**

Chart 10: Real GDP Growth – Actual and Projected (percent)



CONCLUSION

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- **The MPC decided to increase the Monetary Policy Rate by 50 basis points to 14.0 percent.**

- **This increase has been necessitated by actual and projected inflation continuing to remain above the 6-8 percent target band.**

- **The decision is aimed at steering inflation back towards the target band and anchoring inflation expectations.**

- **In arriving at the decision, the Committee also took into account the fragility of the economy in the wake of the severe impact of the recent drought and the stability of the financial system.**

- **The Policy Rate will be complemented by liquidity management measures and ongoing reforms in the operations of the foreign exchange market.**

THANK YOU FOR YOUR ATTENTION.

GOD BLESS…