MONETARY POLICY COMMITTEE STATEMENT FOR THE THIRD QUARTER OF 2023

GOVERNOR'S PRESENTATION TO THE MEDIA

NOVEMBER 22, 2023

Bank *of* Zambia

OUTLINE OF PRESENTATION

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DECISION OF THE MONETARY POLICY COMMITTEE

At its Meeting held on November 20-21, 2023, the Monetary Policy Committee (MPC) decided to increase the Policy Rate by 100 basis points to 11.0 percent.

The decision was informed by the current and projected inflation moving further away from the 6-8 percent target band.

If left unchecked, inflation could become anchored at elevated levels, thereby making it harder to achieve macroeconomic stability.

The Committee took note of the brighter growth prospects than projected in August and is of the view that growth will be sustained, stability in the financial sector and sustained progress on fiscal consolidation in arriving at its decision.

INFLATION OUTTURN

- **Inflationary pressures have persisted since the last MPC Meeting in August. Inflation rose to an average of 11.0 percent in the third quarter from 9.9 percent in the second quarter (Table 1). In October, inflation increased to 12.6 percent from 12.0 percent in September.**

- **Higher food (mostly maize and its products) and retail fuel prices as well as the depreciation of the Kwacha against the US dollar have been the major drivers of these inflationary pressures.**

- **Constrained supply due to adverse weather conditions (climate change) amid high regional demand largely explains the sustained rise in maize grain price. As for the increase in retail fuel prices, high international crude oil prices and a weaker exchange rate have been the two key factors.**

INFLATION OUTTURN

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

Average	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**
Overall Inflation	9.9	9.8	9.6	9.9	**11.0**
Food Inflation	11.8	12.1	11.7	11.5	**12.7**
Non-food Inflation	7.4	6.8	6.8	7.9	**8.8**
End Period	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**
Overall Inflation	9.9	9.9	9.9	9.8	**12.0**
Food Inflation	12.1	11.9	11.8	11.2	**13.4**
Non-food Inflation	7.2	7.3	7.3	7.8	**10.1**

Source: Zambia Statistics Agency

INFLATION OUTLOOK

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- **Inflationary pressures are expected to intensify over the forecast horizon covering the fourth quarter of 2023 to the third quarter of 2025 (Chart 1). Inflation is projected to average 10.9 percent, 11.4 percent and 9.6 percent in 2023, 2024, and 2025, respectively, compared to 10.2 percent in 2023 and 9.3 percent in both 2024 and 2025 reported at the August MPC Meeting (Table 2).**

- **The effects of tightening global financial conditions, working through the exchange rate and expectations channels, as well as elevated food and fuel prices are expected to drive inflation during the forecast horizon and push it further away from the 6-8 percent target band.**

- **The build-up in geopolitical tensions, including the protracted Russia-Ukraine war and the recent Israel-Hamas war, further tightening in global financial conditions as inflation remains elevated, and weather-related shocks are the key upside risks to the inflation outlook.**

INFLATION OUTLOOK

Chart 1: Inflation – Outcome and Projection (Percent)

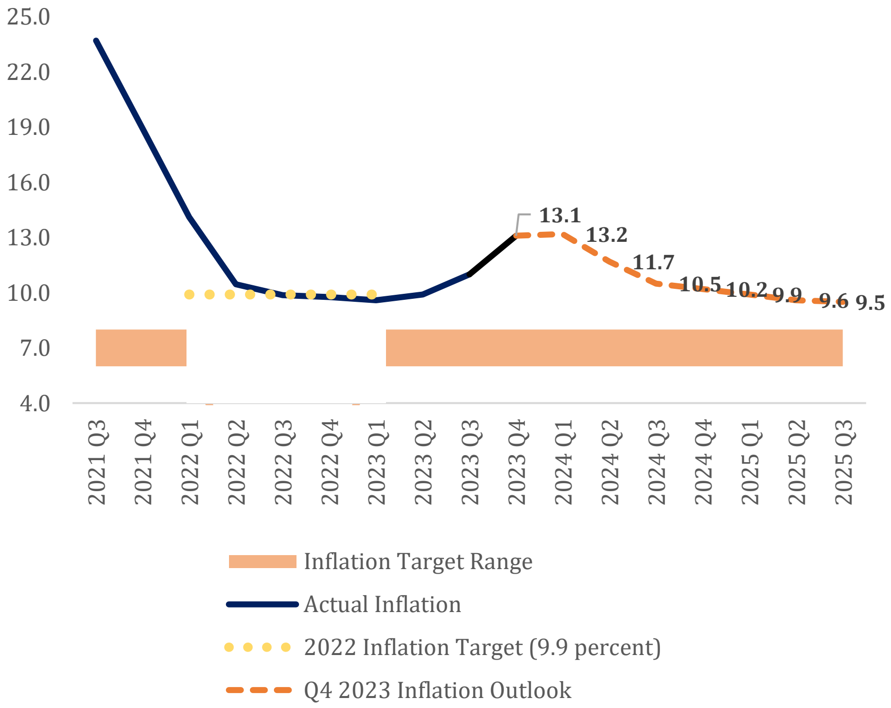


Table 2: Projected Average Inflation (Percent)

	Q4 2023	2024	2025
Q4 2023 Projection	13.1	11.4	9.6
Q3 2023 Projection	10.2	9.3	9.3

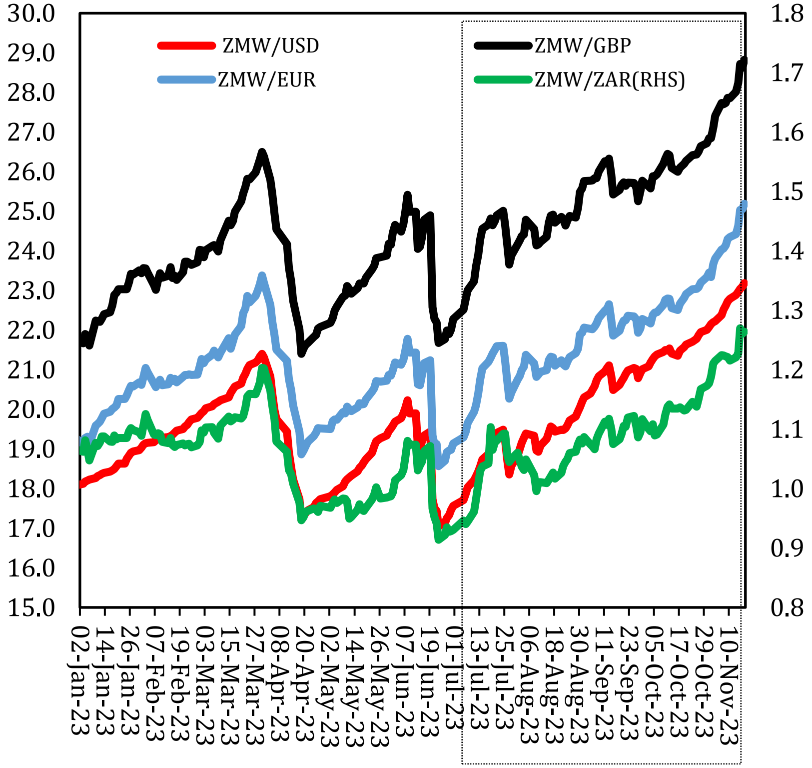
FOREIGN EXCHANGE MARKET

- **In the third quarter, the Kwacha depreciated by 5.8 percent against the US dollar and the pressure has persisted in the fourth quarter. Between end-September and November 21, 2023, the Kwacha depreciated by 10.9 percent to K23.30 per US dollar (Chart 2).**

- **Sustained excess demand for foreign exchange, mostly by the energy and manufacturing sectors, amid low supply, especially from the mining sector, and the strengthening of the US dollar on the international market, have been the key factors for the observed depreciation of the Kwacha against major currencies.**

- **To moderate volatility and help meet critical import requirements, the Bank had to sell a large proportion of the foreign exchange from mining taxes paid directly into the Bank in US dollars.**

Chart 2: Nominal Exchange Rates



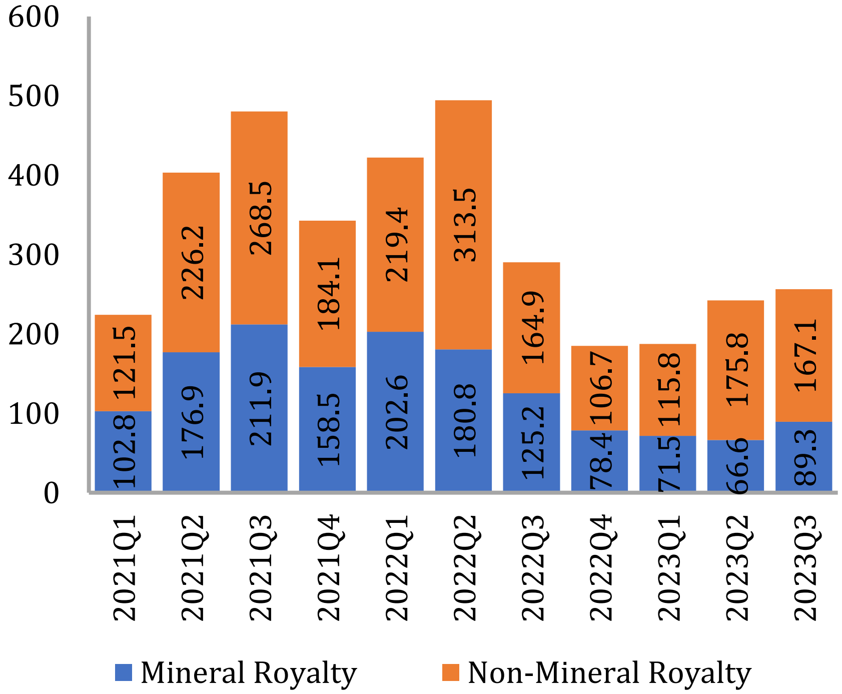
FOREIGN EXCHANGE MARKET

- **In the third quarter, US$173.0 million was sold against the US$256.4 million received as mining taxes (Chart 3).**

- **In addition to these sales of foreign exchange to the market, on November 13, 2023, the Bank increased the *statutory reserve ratio* by 300 basis points to 14.5 percent.**

- **Noting the persistence of pressures in the foreign exchange market, on November 21, 2023, the *statutory reserve ratio* was adjusted by a further 250 basis points to 17.0 percent, effective November 27, 2023.**

Chart 3: Mining Taxes Paid Directly to BoZ in US Dollars (US$ million)

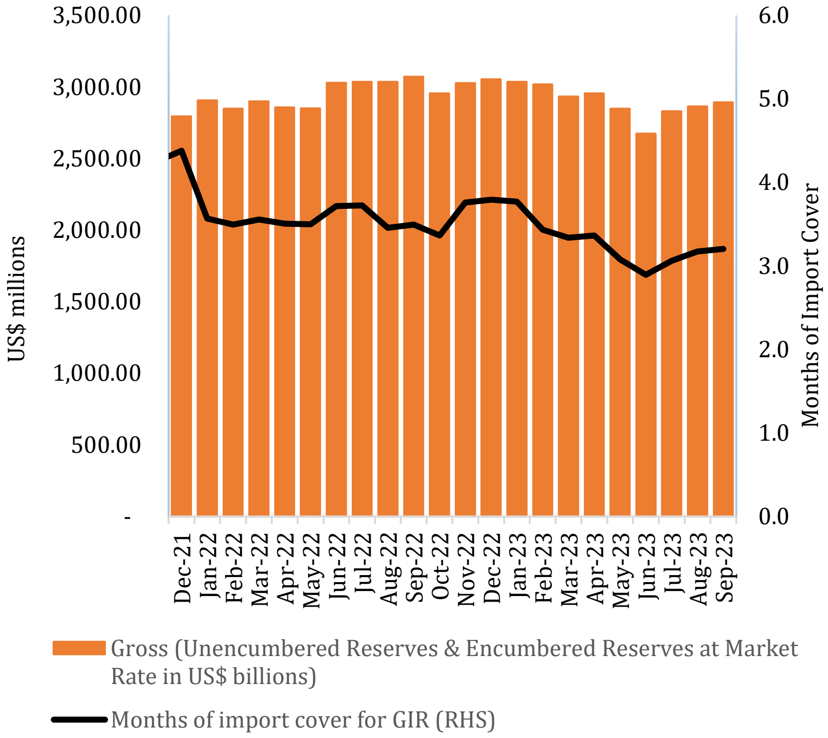


FOREIGN EXCHANGE MARKET

- **In spite of the referred to pressures, the sales to the market and debt service, there was a modest build up in gross international reserves in line with the ECF arrangement. In this regard, reserves increased to US$2.9 billion (equivalent to 3.2 months of import cover) at end-September from US$2.7 billion (2.9 months of import cover) at end-June (Chart 4).**

- **This was made possible by the second disbursement under the IMF Extended Credit Facility, project inflows, mining tax receipts, and some market purchases.**

Chart 4: Gross International Reserves



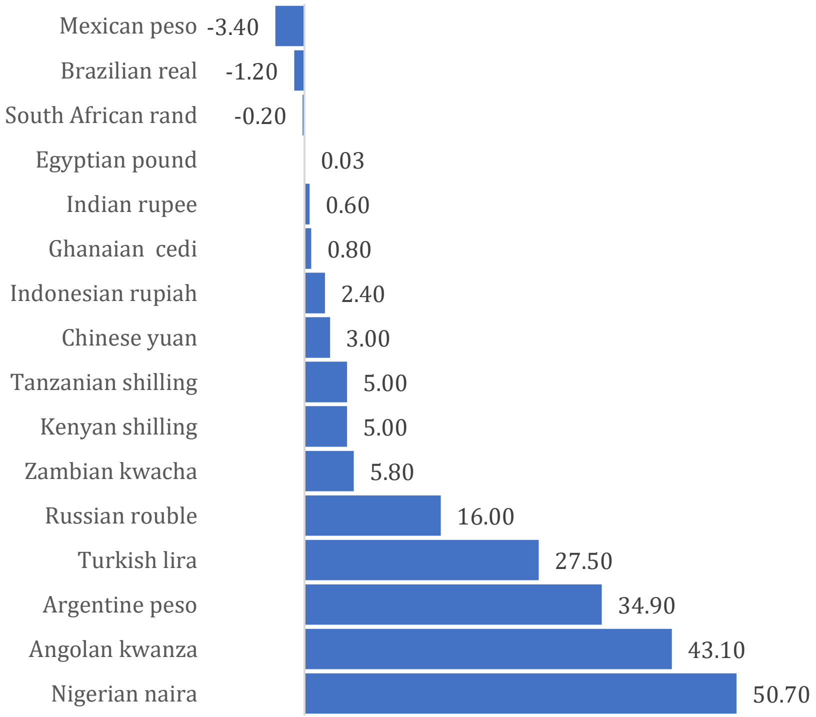
GLOBAL ECONOMIC DEVELOPMENTS

- **Current global economic developments have also had adverse effects on domestic inflation. Global growth has remained subdued and inflation in most advanced economies is above target despite some moderation.**

- **Elevated inflation has prompted most central banks in advanced economies to continue raising interest rates. The ensuing tighter financial conditions, coupled with weaker growth prospects, have been exerting depreciation pressures on currencies in frontier and emerging economies, including in Zambia (Chart 5).**

- **Weaker global growth is also dampening demand for and price of copper, thus contributing to the current low supply of foreign exchange on the domestic market.**

Chart 5: Performance of Selected Currencies against the US dollar (Q3 2023 percentage change in exchange rates)

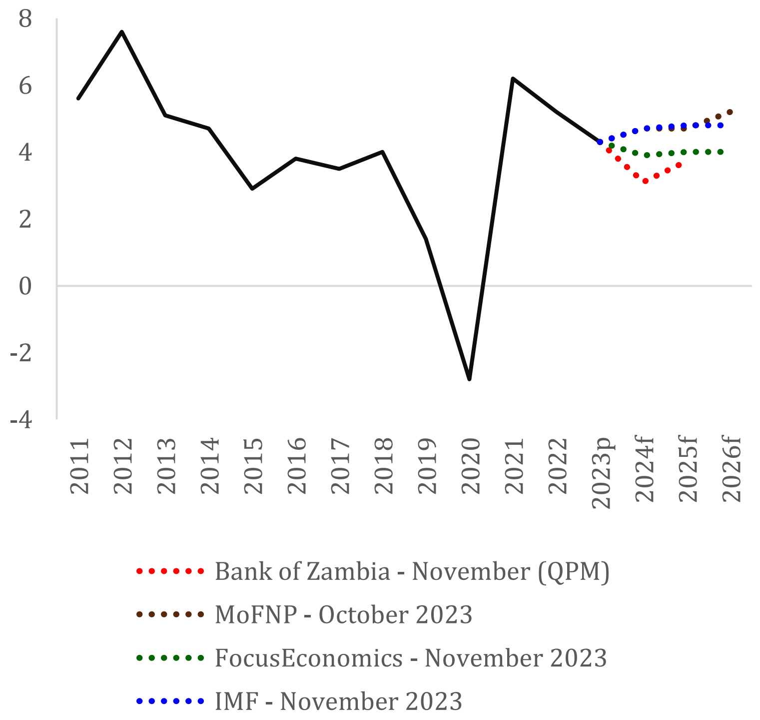


DOMESTIC ECONOMIC OUTLOOK

- **Domestic growth prospects are brighter than projected in August. This follows an upward revision to real GDP growth for 2023 because of higher-than-expected growth mostly in the ICT, education, transport, and tourism sectors during the first nine months of the year.**

- **The economy is now projected to grow faster at 4.3 percent in 2023 than the previous forecast of 2.7 percent (Chart 6). A further expansion by 4.7 percent in both 2024 and 2025 is projected, supported by the expected recovery in the mining and agriculture sectors.**

Chart 6: Real GDP Growth – Actual and Projected (percent)



CONCLUSION

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- **The MPC decided to raise the Monetary Policy Rate by *100 basis points to 11.0 percent* due to the current and projected inflation moving further away from the 6-8 percent target band.**

- **The Committee judged that, if left unchecked, inflation could become anchored at above target levels thereby making it harder to achieve macroeconomic stability. Therefore, in the environment we have found ourselves in, a much stronger policy response is warranted to anchor inflation expectations and bring inflation back into the 6-8 percent target band.**

- **The Committee also considered stability in the financial sector and sustained progress on fiscal consolidation in arriving at its decision. The positive spillovers from reaching a Staff-Level Agreement on the second review of the IMF Extended Credit Facility on November 20, 2023, and progress on external debt restructuring are essential for macroeconomic stability.**

Decisions on the Policy Rate will continue to be guided by inflation outcomes, forecasts, and identified risks, including those associated with financial stability and external debt restructuring. The Bank stands ready to take appropriate action should inflation persist above the 6-8 percent target band.

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THANK YOU…

GOD BLESS…