

# **MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2022**

## **GOVERNOR'S PRESENTATION TO THE MEDIA**

### **FEBRUARY 15, 2023**



Bank of Zambia

# OUTLINE OF PRESENTATION

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- 1. Decision of the Monetary Policy Committee**
- 2. Inflation Outturn and Outlook**
- 3. Foreign Exchange Market**
- 4. Current Account**
- 5. Interest Rates, Credit, Money Supply and Economic Activity**
- 6. Fiscal Policy**
- 7. Conclusion**

# DECISION OF THE MONETARY POLICY COMMITTEE



**At its Meeting held on February 13-14, 2023, the Monetary Policy Committee decided to increase the Policy Rate by 25 basis points to 9.25 percent.**

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

- **inflation projection showing a build-up in inflationary pressures with inflation remaining above the 6-8 percent target band throughout the forecast horizon. This is in sharp contrast to the earlier projection in November 2022 that inflation would return to the target range in the first quarter of 2024;**
- **the overall impact of the recent increase in the statutory reserves ratio to mitigate volatility in the foreign exchange market;**
- **the moderation in vulnerabilities in the financial sector;**
- **positive growth prospects in the medium-term; and**
- **progress made in the implementation of the much needed fiscal reforms for macroeconomic stability and sustainable growth.**

# INFLATION OUTTURN

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**Overall inflation continued to decline in the fourth quarter of 2022, albeit at a slower pace. Average overall inflation declined to 9.8 percent from 9.9 percent in third quarter (Table 1, Chart 1).**

**The decline arose from non-food inflation, which reduced to 6.8 percent from 7.4 percent, largely due to the lagged pass-through from the appreciation of the Kwacha against the US dollar. Nonetheless, food inflation increased to 12.1 percent from 11.8 percent, mainly driven by higher prices of bread and cereals.**

**In January 2023, inflation declined further to 9.4 percent from 9.9 percent in December 2022. This follows the dissipation of base effects across a number of items in the CPI basket.**

# INFLATION OUTTURN



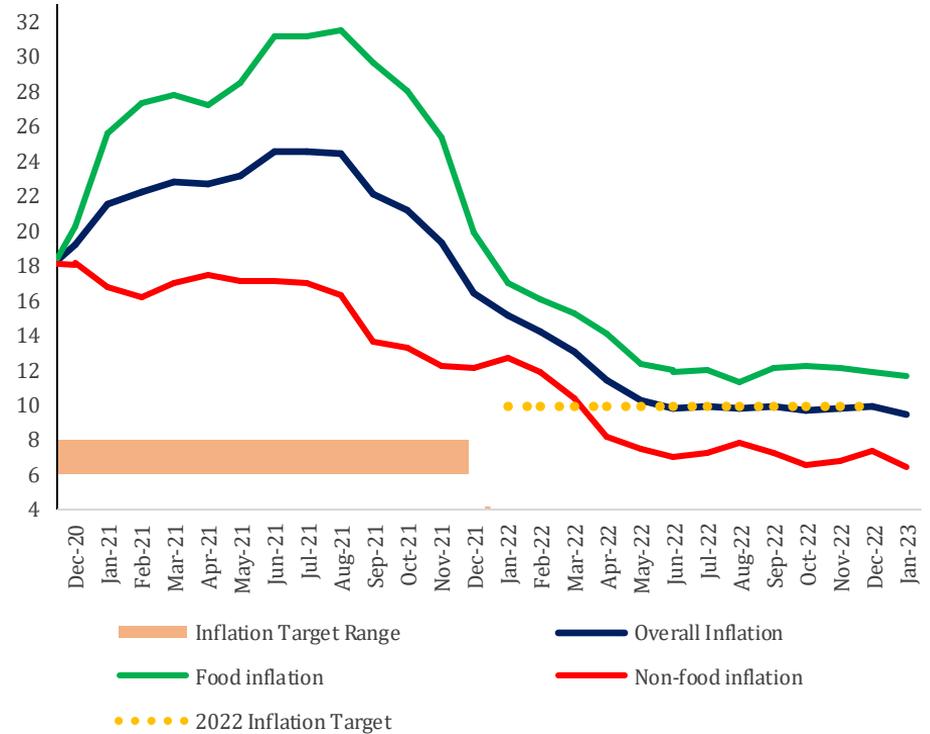
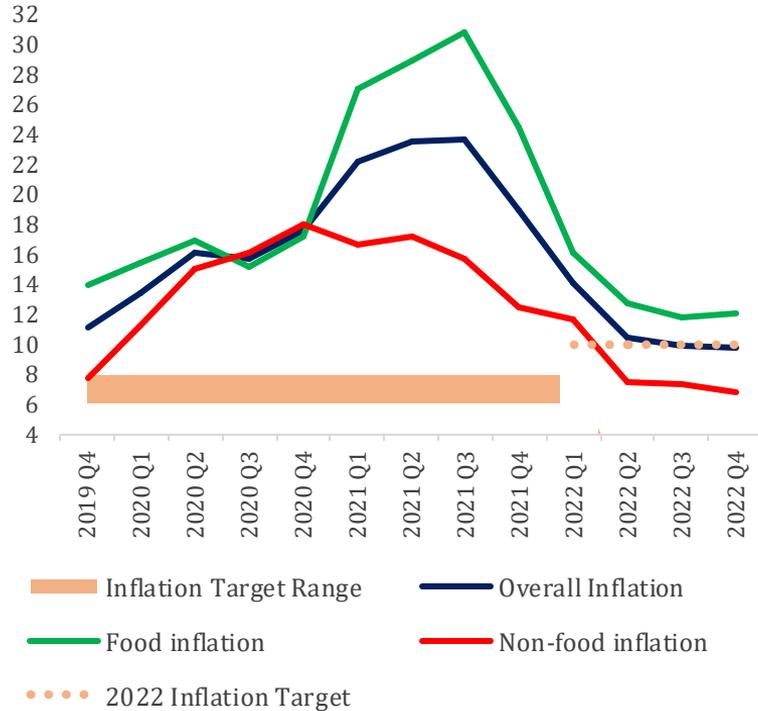
**Table 1: Inflation Outcomes (percent)**

<b>Average</b>	<b>Q4 2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022</b>	<b>Q4 2022</b>
Overall Inflation	18.9	14.1	10.5	9.9	9.8
Food Inflation	24.5	16.1	12.8	11.8	12.1
Non-food Inflation	12.5	11.6	7.5	7.4	6.8
<b>End Period</b>	<b>Q4 2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022</b>	<b>Q4 2022</b>
Overall Inflation	16.4	13.1	9.7	9.9	9.9
Food Inflation	19.9	15.3	11.9	12.1	11.9
Non-food Inflation	12.1	10.3	6.9	7.2	7.3

# INFLATION OUTTURN



Chart 1: Inflation and its Components, y-o-y (percent)



# INFLATION OUTLOOK

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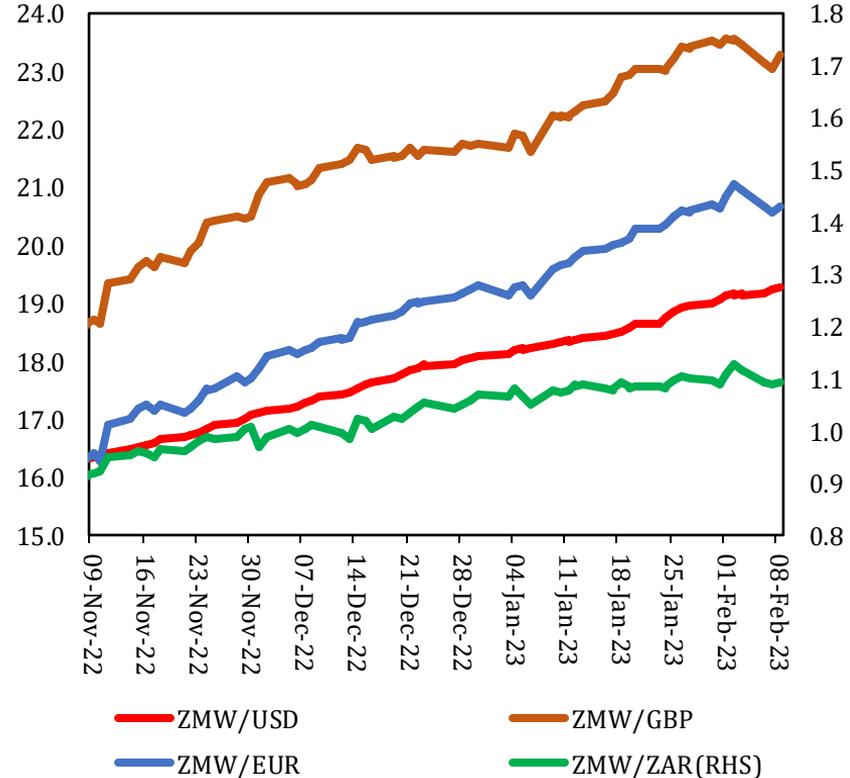
- However, over the forecast horizon, inflation is projected to increase and remain above the 6 – 8 percent target range. This is in sharp contrast to the earlier projection in November 2022 that inflation would return to the target range in the first quarter of 2024.
- Inflation is now projected to average 11.1 percent in 2023 compared to the November 2022 forecast of 8.5 percent. In 2024, inflation is forecast to average 10.1 percent.
- The factors underlying the forecast include the recent rapid depreciation of the Kwacha against the US dollar, the anticipated increase in electricity tariffs to cost reflective levels, and the possible reduction in maize production due to, among other factors, adverse weather conditions and crop infestation by Fall Armyworms.
- Further, the continued tightening in global financial conditions and negative sentiments arising from the protracted debt restructuring negotiations, working through the exchange rate channel, are expected to add to inflationary pressures. The foregoing factors remain potential upside risks to the inflation outlook.

# FOREIGN EXCHANGE MARKET



- After a cumulative appreciation of 10.0 percent in the previous two quarters, the Kwacha depreciated by 4.3 percent against the US dollar to an average of K16.71 in the fourth quarter of 2022 (Chart 2).
- The depreciating trend in the Kwacha has persisted in 2023, with the Kwacha trading at K19.33 per US dollar as at February 14.
- Low foreign exchange supply, particularly from the mining sector (Chart 3), amidst high demand by market players for various purposes, including critical imports of fuel, medicines, and agricultural inputs are among the key drivers of the depreciation.
- In addition, foreign financial institutions, that had typically been suppliers of foreign exchange, are now more pronounced on the demand side as they are divesting from the domestic market. This is principally due to tighter global financial conditions, negative sentiments associated

Chart 2: Nominal Exchange Rates



# FOREIGN EXCHANGE MARKET

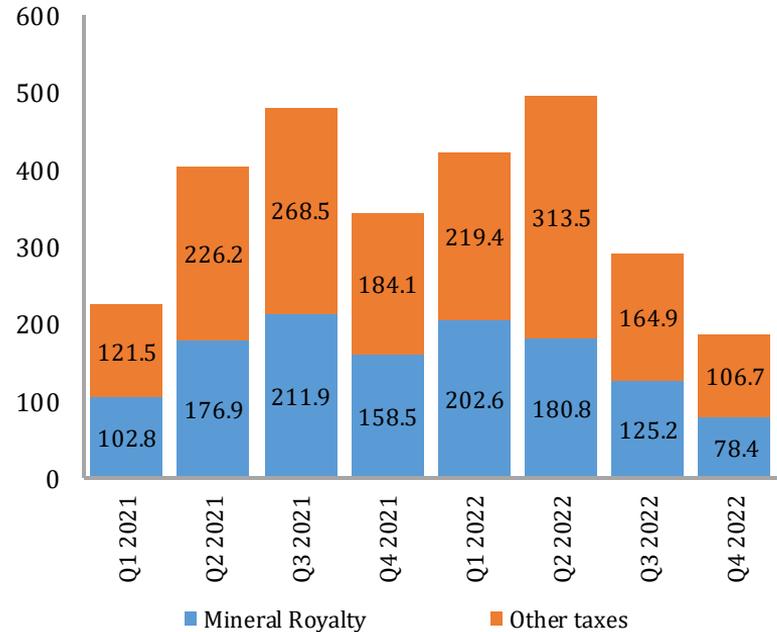


- In an effort to stabilise the foreign exchange market, the Bank augmented its support and provided US\$443.5 million, largely from mining tax receipts, compared to the provision of US\$333.5 million in the third quarter.

- However, gross international reserves held steady at US\$3.1 billion, while import cover increased to 3.8 months at end-December 2022 from 3.5 months at end-September 2022 (Chart 4). The improvement in import cover followed the downward revision of prospective imports.

- On February 1, 2023, the Bank raised the statutory reserve ratio on commercial banks' deposit liabilities by 2.5 percentage points to 11.5 percent as an additional measure to mitigate exchange rate volatility. The assessment is that if left unchecked, the current depreciation in the exchange rate has far reaching effects on inflation.

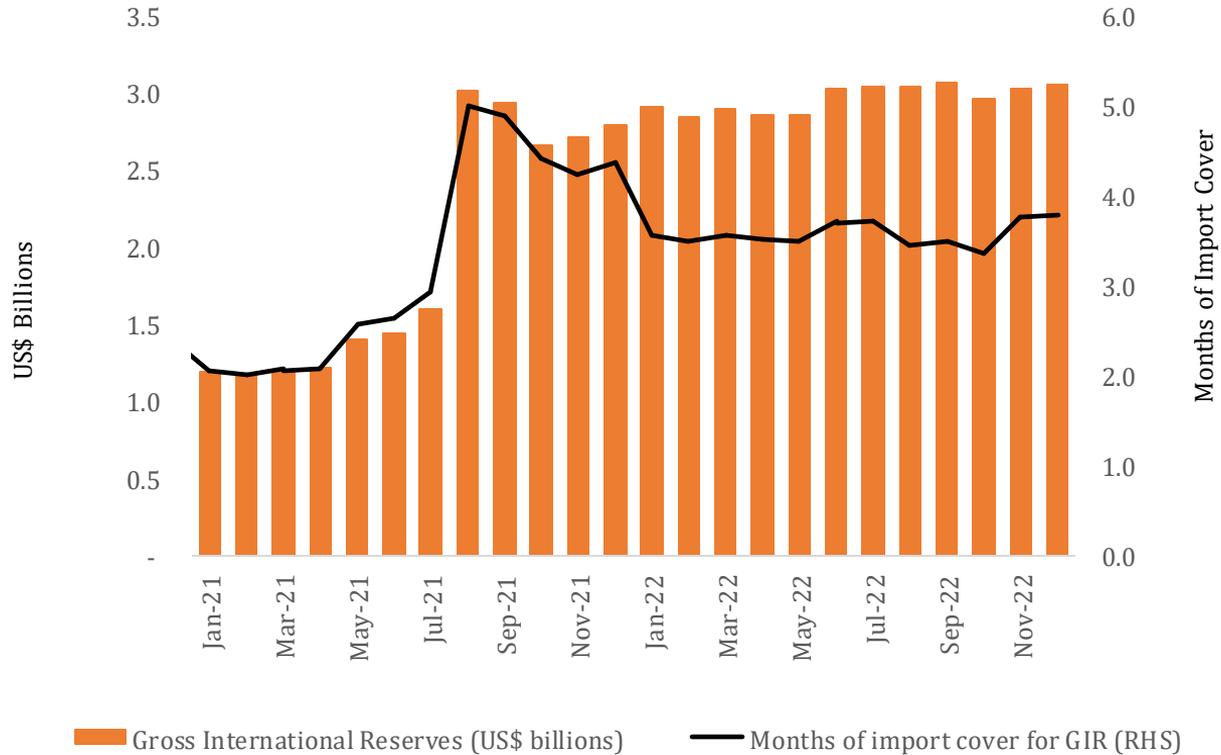
**Chart 3: Mining Tax Payment Directly in US Dollars (US\$' millions)**



# FOREIGN EXCHANGE MARKET



### Chart 4 : Gross International Reserves



# CURRENT ACCOUNT

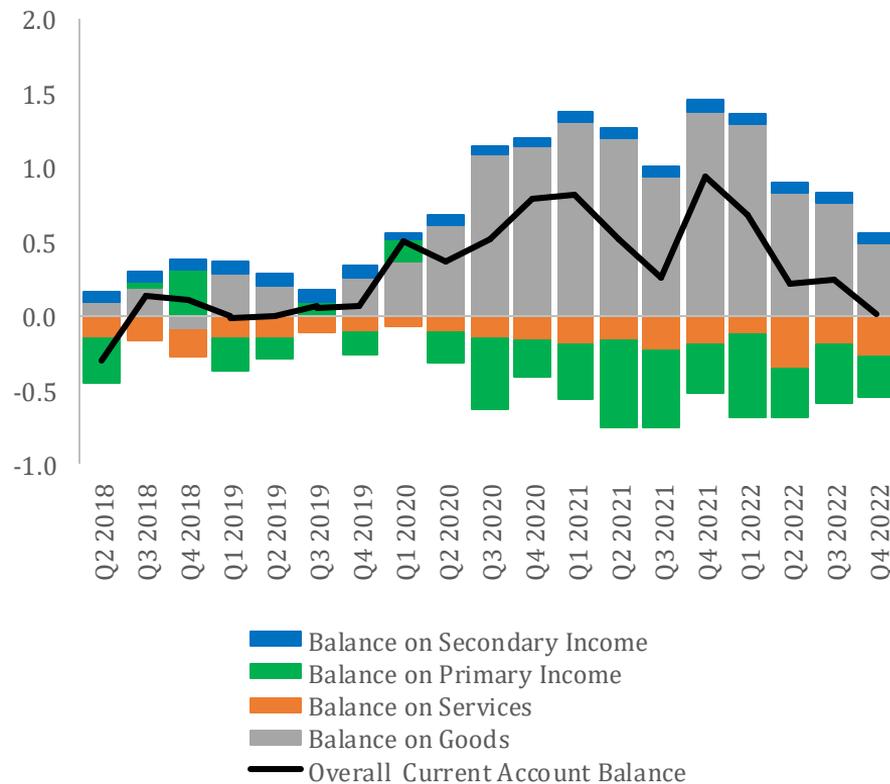


The *current account*, which had recently been robust, has now weakened, with adverse implications on the foreign exchange market.

Preliminary data indicate a sharp decline in the current account surplus to US\$18.3 million in the fourth quarter of 2022 from US\$245.0 million in the previous quarter (Chart 5). The revision to the current account for the third quarter of 2023 mainly reflects changes in the trade balance following an update to export earnings.

This was largely driven by a significant reduction in net merchandise exports and an expansion in the services account deficit.

Chart 5 : Current Account Balance



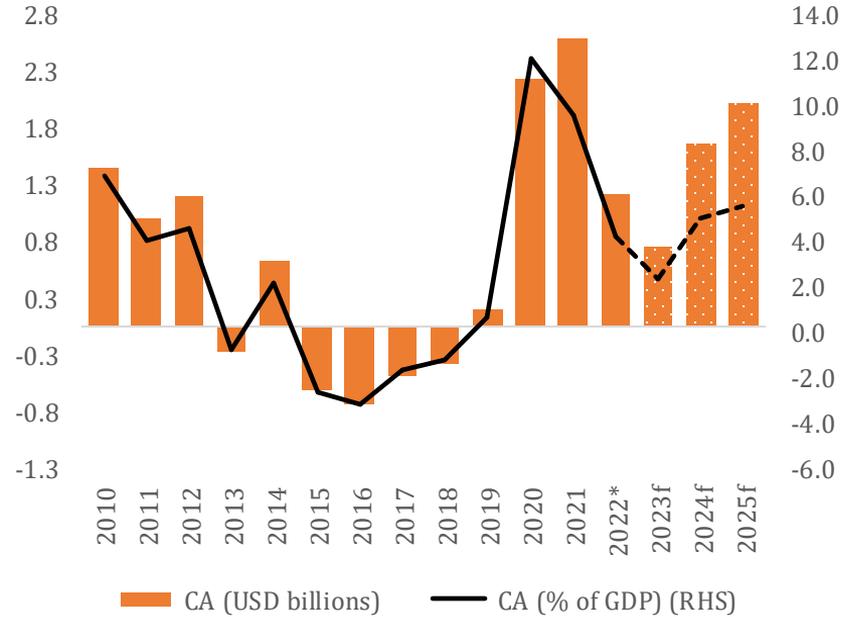
# CURRENT ACCOUNT



However, the *current account* is expected to rebound in the medium-term (Chart 6).

This will be largely due to higher copper export volumes on account of anticipated increase in production.

Chart 6 : Current Account



# INTEREST RATES , CREDIT, MONEY SUPPLY AND ECONOMIC ACTIVITY

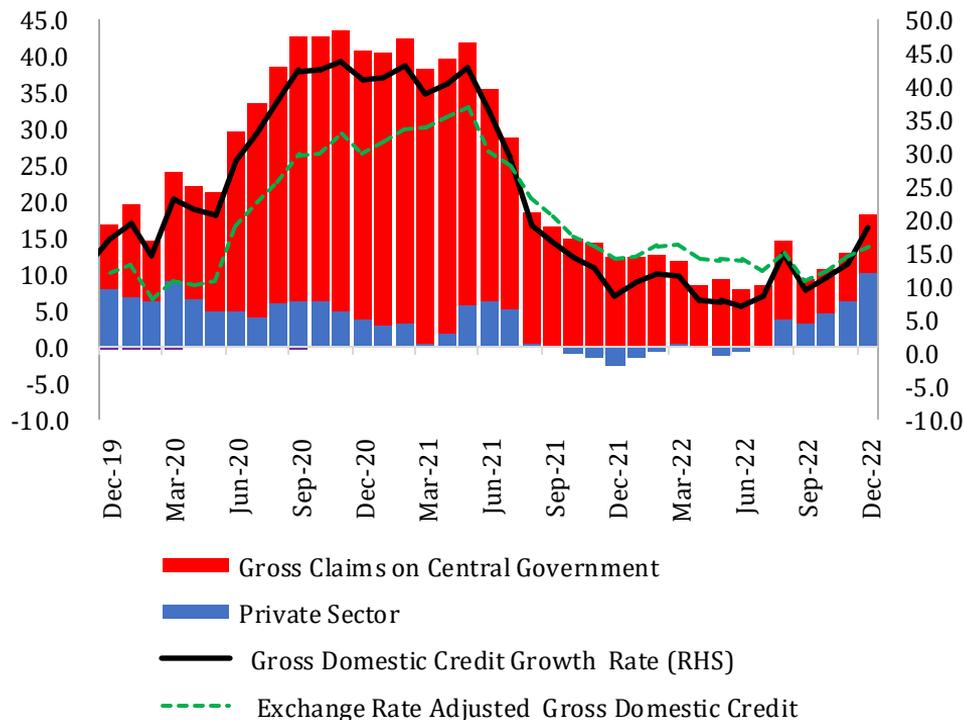


Bank of Zambia

In December 2022, domestic credit growth more than doubled to 18.7 percent, year-on-year, with 10.1 percentage points accounted for by the private sector (Chart 7).

The expansion in private sector lending also contributed to stronger growth in money supply, which grew by 24.5 percent in December from 13.3 percent in September.

Chart 7: Contribution to y/y Domestic Credit Growth



# INTEREST RATES , CREDIT, MONEY SUPPLY AND ECONOMIC ACTIVITY



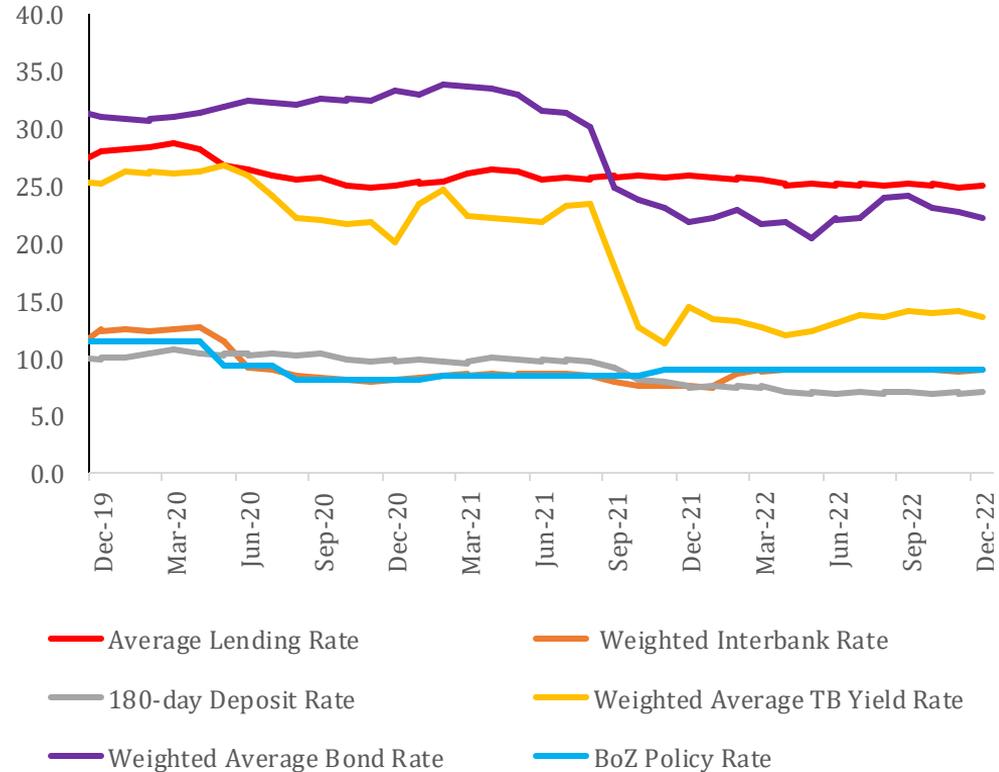
On the other hand, lending rates remained sticky at 25 percent (Chart 8).

According to the *Bank of Zambia Quarterly Survey of Business Opinion and Expectations* and *Stanbic Purchasing Manager's Index (PMI)*, economic activity moderated in the fourth quarter of 2022.

However, in the medium-term, domestic growth prospects are optimistic, underpinned by the anticipated recovery in the mining, agriculture, and construction sectors.

In addition, the financial and insurance, information and communications, wholesale and retail trade sectors will continue supporting growth.

Chart 8: Nominal Interest Rates (percent)



# INTEREST RATES , CREDIT, MONEY SUPPLY AND ECONOMIC ACTIVITY



**The Committee is cognisant of the implications of the upward adjustment in the Policy Rate and the recent increase in the statutory reserve ratio on credit and money supply growth, lending rates, and economic activity.**

**However, the Committee had to strike a delicate balance between taking and not taking these measures. Taking these measures was deemed necessary as not doing so would amplify the adverse impact of the current depreciation of the exchange rate on inflation and in turn negatively affect the aforementioned variables and macroeconomic stability in general.**

# FISCAL POLICY

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- **Preliminary data indicated a further reduction in the cash fiscal deficit in 2022 to 8.1 percent of GDP from 9.0 percent in 2021.**
- **The deficit is projected to continue on a declining trend over the 2023-2025 period due to the expected improvement in revenue performance, improved fiscal management underpinned by expedited external debt resolution, and essential structural reforms, particularly in the energy, agriculture, health, and education sectors. The measures taken by the Bank will contribute to the achievement of fiscal sustainability, which is critically important to macroeconomic stability.**

# CONCLUSION



- **The MPC decided to raise the Monetary Policy Rate by 25 basis points to 9.25 percent. The decision was underpinned by the projection that inflation will remain above the 6-8 target range. This is in sharp contrast to the November 2022 projection that inflation would return to the target range in the first quarter of 2024.**
- **The underlying factors in the current projection include: the recent rapid depreciation of the Kwacha against the US dollar; the anticipated increase in electricity tariffs to cost reflective levels; the possible reduction in maize production; continued tightening in global financial conditions; and negative sentiments arising from the protracted debt restructuring negotiations and uncertainty over how Government securities held by non-residents will be treated.**
- **In arriving at this decision, the Committee took account of the overall impact of the recent increase in the statutory reserves ratio to mitigate volatility in the foreign exchange market. The Committee also took into account the moderation in vulnerabilities in the financial sector, positive growth prospects in the medium-term, and progress made in the implementation of the much needed fiscal reforms for macroeconomic stability and sustainable growth.**

# CONCLUSION

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- **Further, the Committee reaffirmed its call for continued effective implementation of fundamental structural reforms, including the diversification of the export base, and adoption of climate change mitigation measures supportive of a stable exchange rate necessary to achieve low and stable inflation.**

**THANK YOU...**

**GOD BLESS...**