

# **MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2019**

## **Governor's Presentation to the Media**

**February 19, 2020**



**Bank of Zambia**

# OUTLINE OF PRESENTATION

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1. **Decision of the Monetary Policy Committee**
2. **Inflation Outturn and Outlook**
3. **GDP Growth Prospects**
4. **Monetary Operations**
5. **Government Securities Market**
6. **Interest Rates**
7. **Domestic Credit**
8. **Money Supply**
9. **Fiscal Policy**
10. **Foreign Exchange Market**
11. **Global Economic Growth**
12. **Selected Commodity Prices**
13. **Current Account**
14. **Gross International Reserves**
15. **Conclusion**

# DECISION OF THE MONETARY POLICY COMMITTEE



**At its Meeting held on February 17-18, 2020, the Monetary Policy Committee decided to maintain the Policy Rate at 11.50%.**

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

- **Inflation is expected to remain high in the earlier part of the forecast period, but decline towards the upper bound of the target range thereafter as food supply improves;**
- **Inflation could decline faster than currently projected on account of the anticipated improvement in agricultural output due to the favourable rainfall pattern observed so far during the 2019/2020 crop season;**
- **Subdued economic activity with growth prospects remaining weak over the period 2020-2021;**
- **Persistent liquidity challenges; and**
- **Risks to financial stability.**

# INFLATION OUTTURN AND OUTLOOK



**Inflationary pressures heightened further in Q4 2019, driven by a sharp increase in the prices of maize grain and its products and the depreciation of the Kwacha.**

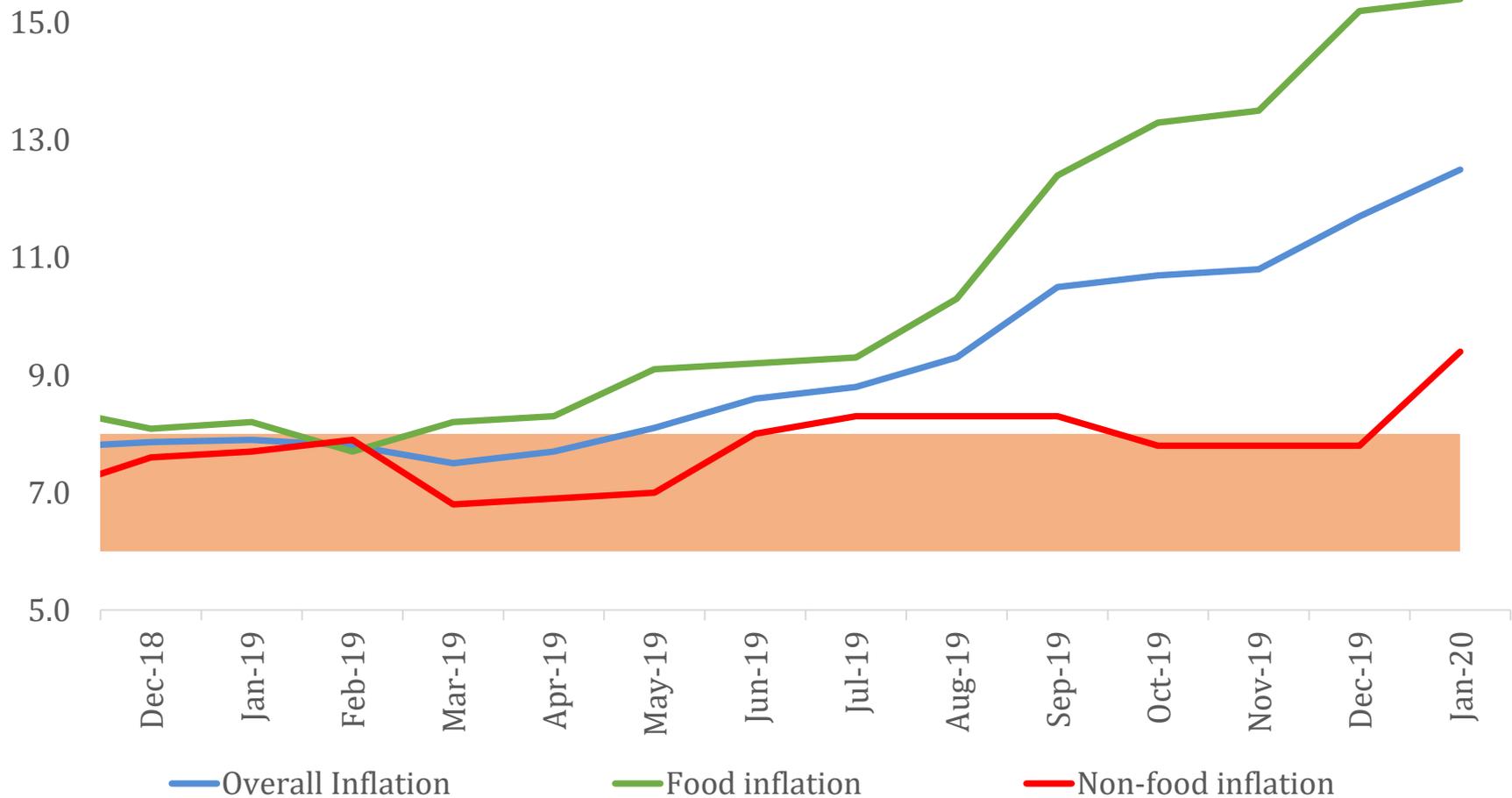
**Figure 1: Inflation projections and outcomes (%)**

	Q4 Outcome (Quarterly Averages)	Q3 Outcome (Quarterly Averages)	Q4 End-period	Q3 End-period
<b>Overall Inflation</b>	<b>11.1</b>	9.5	11.7	10.5
<b>Food Inflation</b>	<b>14.0</b>	10.7	15.2	12.4
<b>Non-Food Inflation</b>	<b>7.8</b>	8.3	7.8	8.3

**In January, inflation rose to 12.5% following the upward adjustment in electricity tariffs and fuel prices.**

# INFLATION OUTTURN AND OUTLOOK

**Figure 2: Inflation Developments, y-o-y (%)**



Source: Zambia Statistics Agency (ZSA)

## **INFLATION OUTTURN AND OUTLOOK**

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- **Inflation is projected to remain elevated in the earlier part of the forecast period and decline thereafter towards the upper bound of the target range.**
  
- **Upside risks to the inflation outlook include:**
  - **Further increase in maize grain prices;**
  - **Slow progress on fiscal consolidation; and**
  - **Second round effects of the increases in electricity tariffs and fuel prices.**

# REAL GDP GROWTH



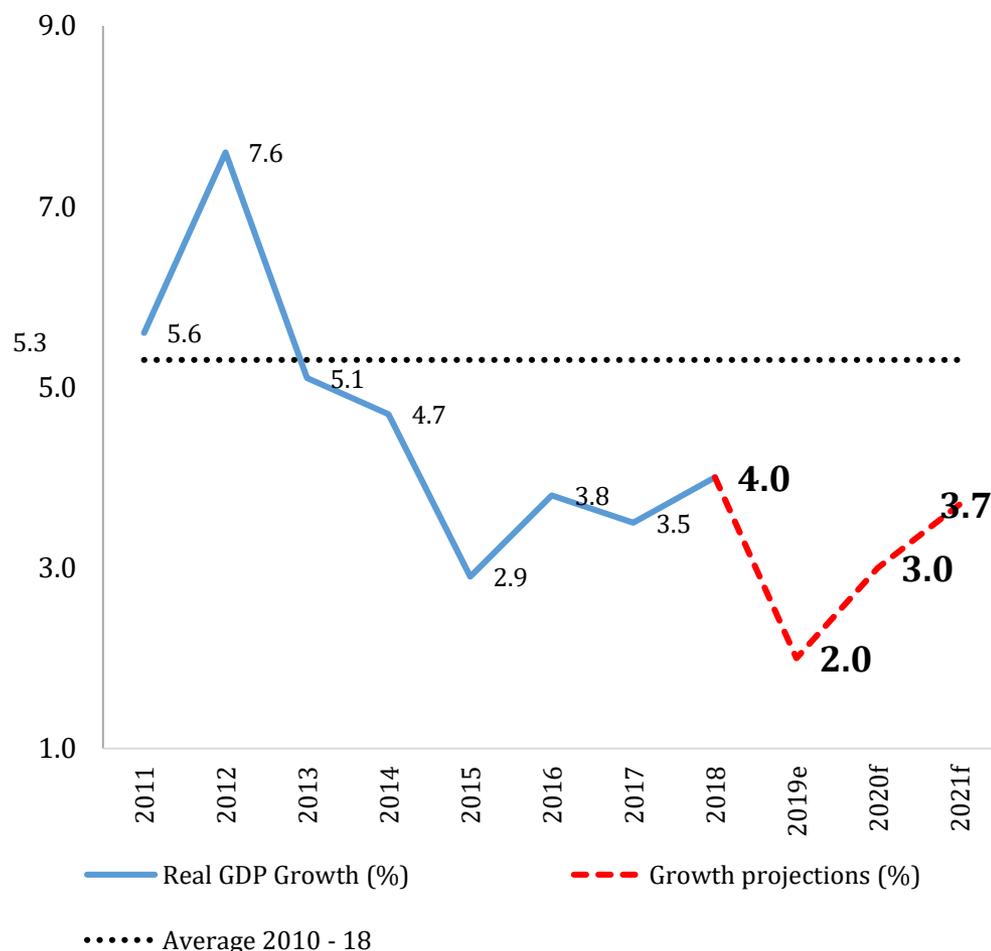
**In Q4 2019, indicators of economic activity suggest further slowdown in growth due to contraction in mining output, electricity generation, cement production and consumer spending.**

**Growth is estimated at 2.0% in 2019, down from 4.0% in 2018.**

**In 2020, growth is projected to pick-up to 3.0% and further rise to 3.7% in 2021.**

**The projected growth is premised on expected improved performance in agricultural and mining output, as well as electricity generation.**

**Figure 3: Annual Real GDP – Actual and Forecast (%) 2010-2021**



## **MONETARY OPERATIONS**

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**In November 2019, the Policy Rate was increased to 11.5% from 10.25%.**

**In December 2019, the statutory reserve ratio was increased to 9.0% from 5.0%, and the period of compliance on statutory reserve requirement reduced to daily from weekly.**

**These measures were aimed at addressing emerging exchange rate pressures in order to rein in inflationary pressures.**

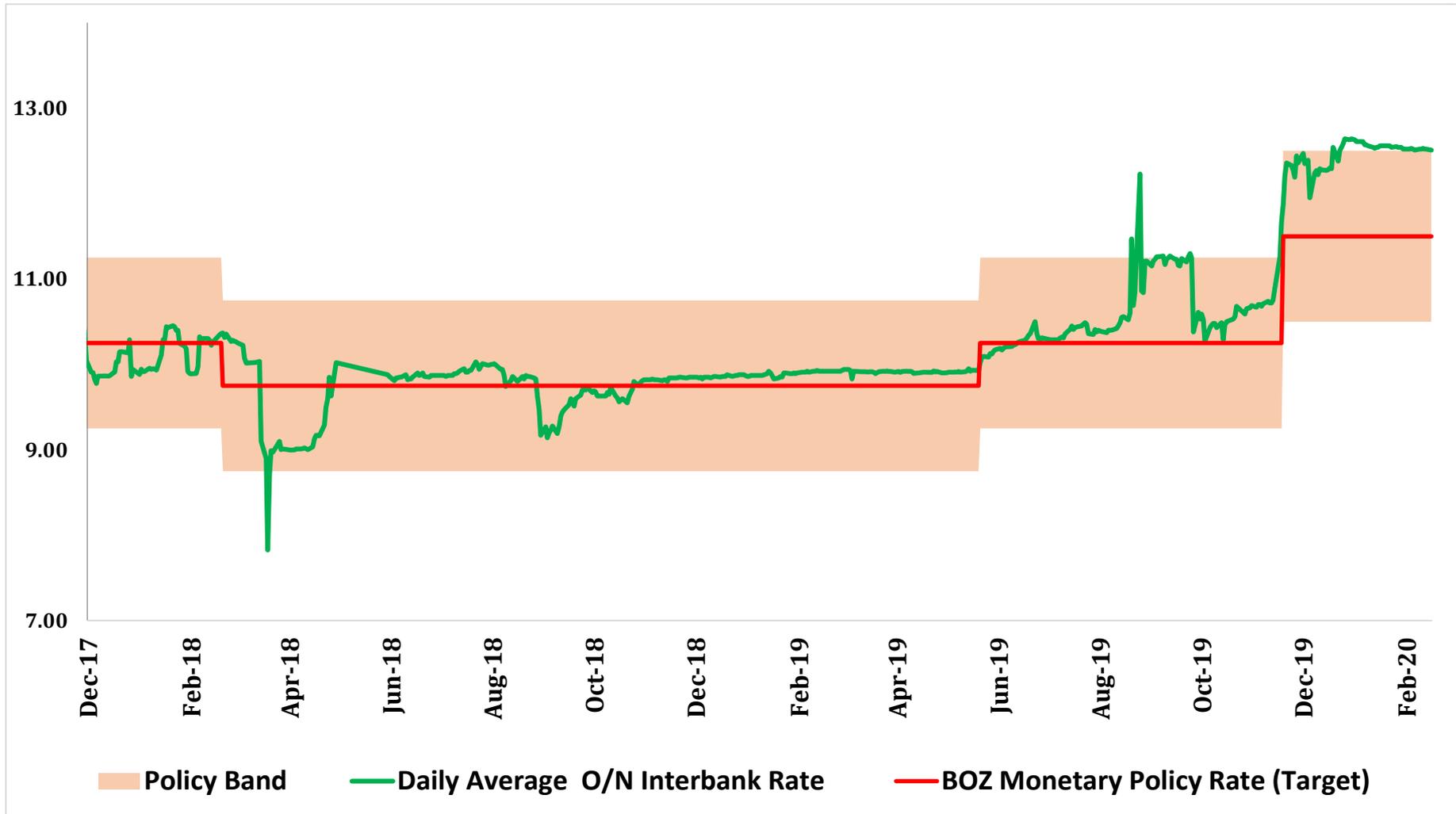
**The average overnight interbank rate rose to an average of 11.44% in Q4 2019 from 10.76% in Q3 2019, but remained broadly within the Policy Rate Corridor of 10.50% - 12.50%.**

**The interbank rate was consistently around the upper bound of the corridor due to tight liquidity conditions.**

# MONETARY OPERATIONS



Figure 4: Interbank Rate and BoZ Policy Rate (%)



# MONETARY OPERATIONS



The banks' aggregate current account balance rose slightly mainly due to net Government maturities.

**Figure 5: Liquidity Influences (K' billion)**

	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Opening balance</b>	<b>1.4</b>	<b>2.2</b>	<b>0.9</b>	<b>1.8</b>
<b>Net Govt. spending</b>	<b>-3.8</b>	<b>-4.2</b>	<b>-2.7</b>	<b>-1.1</b>
<b>BoZ FX influence</b>	<b>1.3</b>	<b>1.9</b>	<b>4.1</b>	<b>0.1</b>
<b>CIC</b>	<b>1.0</b>	<b>-1.2</b>	<b>0.0</b>	<b>-0.3</b>
<b>Change in SR deposits</b>	<b>-0.5</b>	<b>0.2</b>	<b>-0.5</b>	<b>-1.0</b>
<b>OLF</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.6</b>	<b>0.1</b>
<b>Net Government securities influence</b>	<b>2.4</b>	<b>0.0</b>	<b>1.0</b>	<b>2.4</b>
<b>Open market operations</b>	<b>0.0</b>	<b>1.5</b>	<b>-1.5</b>	<b>0.0</b>
<b>Miscellaneous Transactions</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>	<b>0.0</b>
<b>Closing balance</b>	<b>2.2</b>	<b>0.9</b>	<b>1.8</b>	<b>2.0</b>

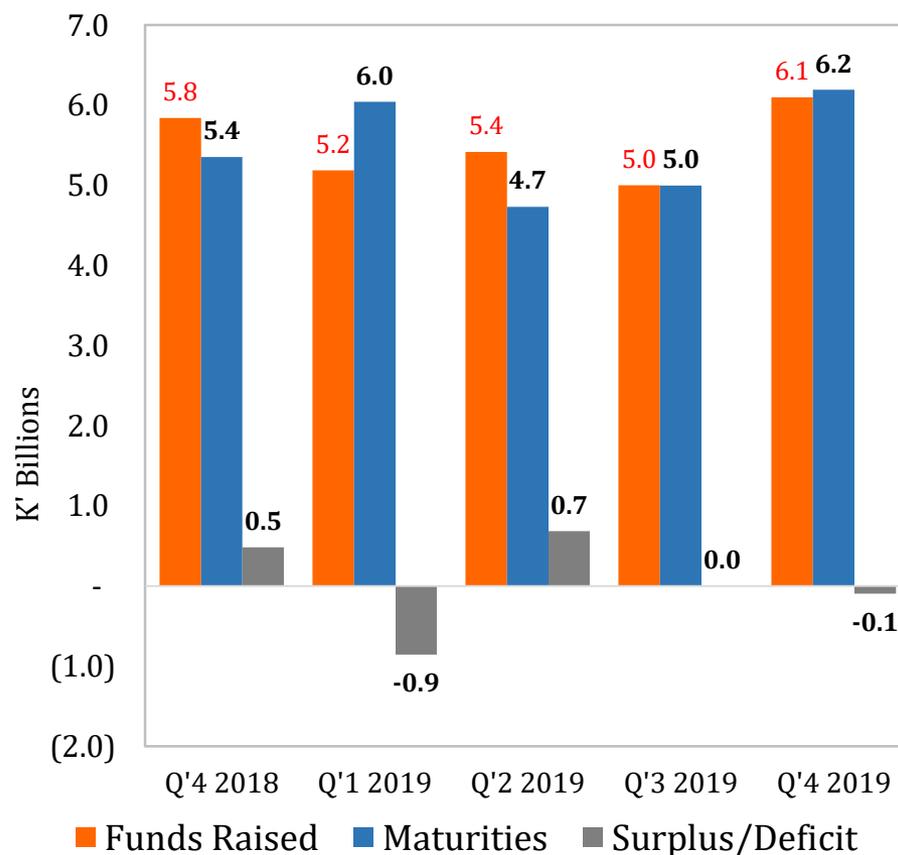
# GOVERNMENT SECURITIES MARKET

**Demand for Government securities improved in Q4 2019, but remained subdued with respect to financing needs.**

**Figure 6: Demand for Govt. Securities (K' bn)**

	Amount on Offer	Amount Received	Subscription Rate (%)
<b>T-bills</b>			
2019Q3	6.7	5.0	75
2019Q4	5.7	5.2	91
<b>Bonds</b>			
2019Q3	1.7	0.6	35
2019Q4	3.3	1.4	42

**Figure 7: Funds raised and maturities**



# GOVERNMENT SECURITIES MARKET

The stock of outstanding Government securities rose to K80.2 billion from K72.3 billion mainly on account of issuances of securities through private placements.

Non-resident investor holdings of Government securities rose by 18.9% to K8.8 billion (11% of the total stock).

Figure 8: Govt Securities Holdings (K 'bln)

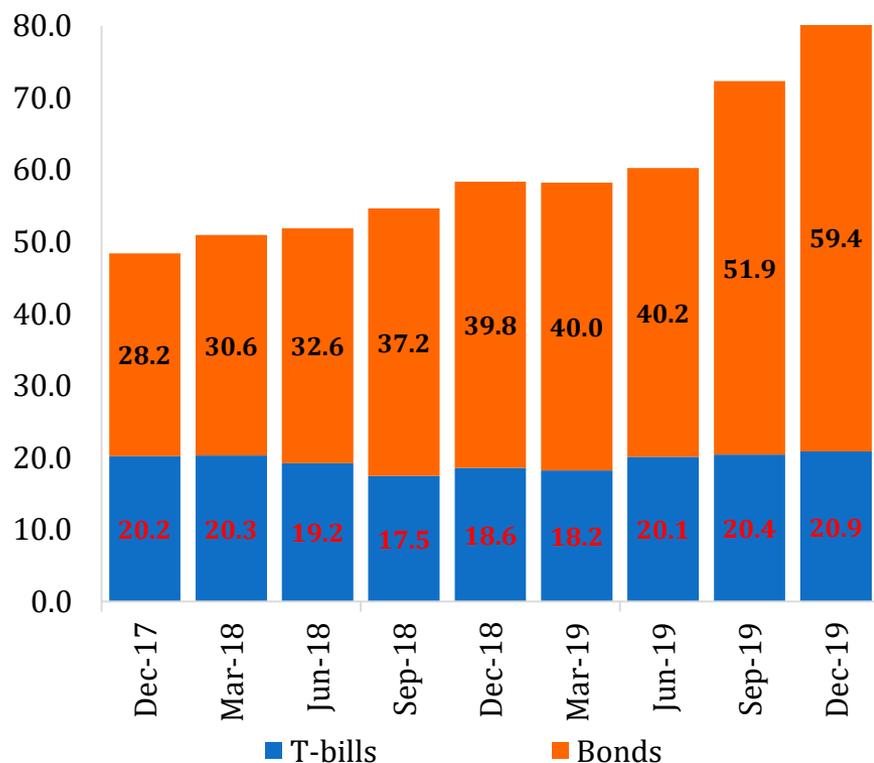
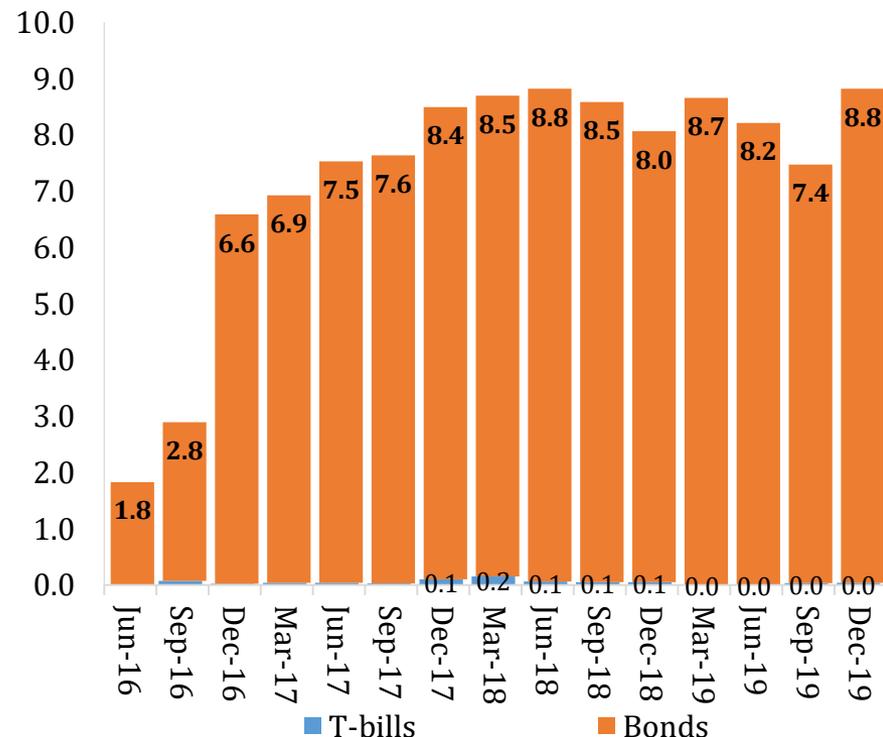


Figure 9: Holdings of Government Securities by Non-Residents (K' bln)



# INTEREST RATES



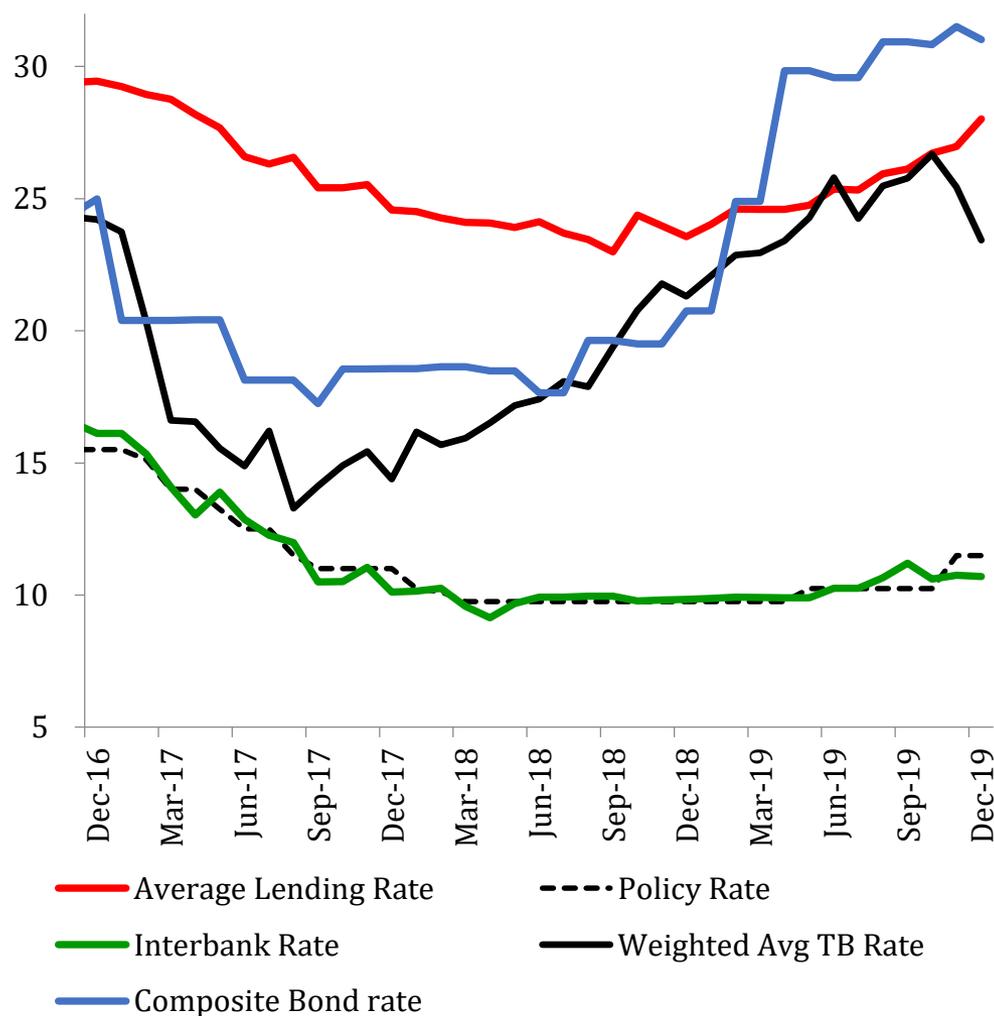
**Interest rates remain high, reflecting elevated Government financing needs and tight liquidity conditions.**

**Yield rates on Treasury bills and Government bonds at 25.2% and 31.1% were relatively unchanged in Q4 2019 from 25.1% and 30.5% in Q3 2019, respectively.**

**Commercial banks' average lending rate rose to 28.0% in December 2019 from 26.1% in September 2019.**

**Savings rates for 180-day deposits rose to 10.1% in December 2019 from 9.9% in September 2019.**

**Figure 10: Nominal Interest Rates (%)**



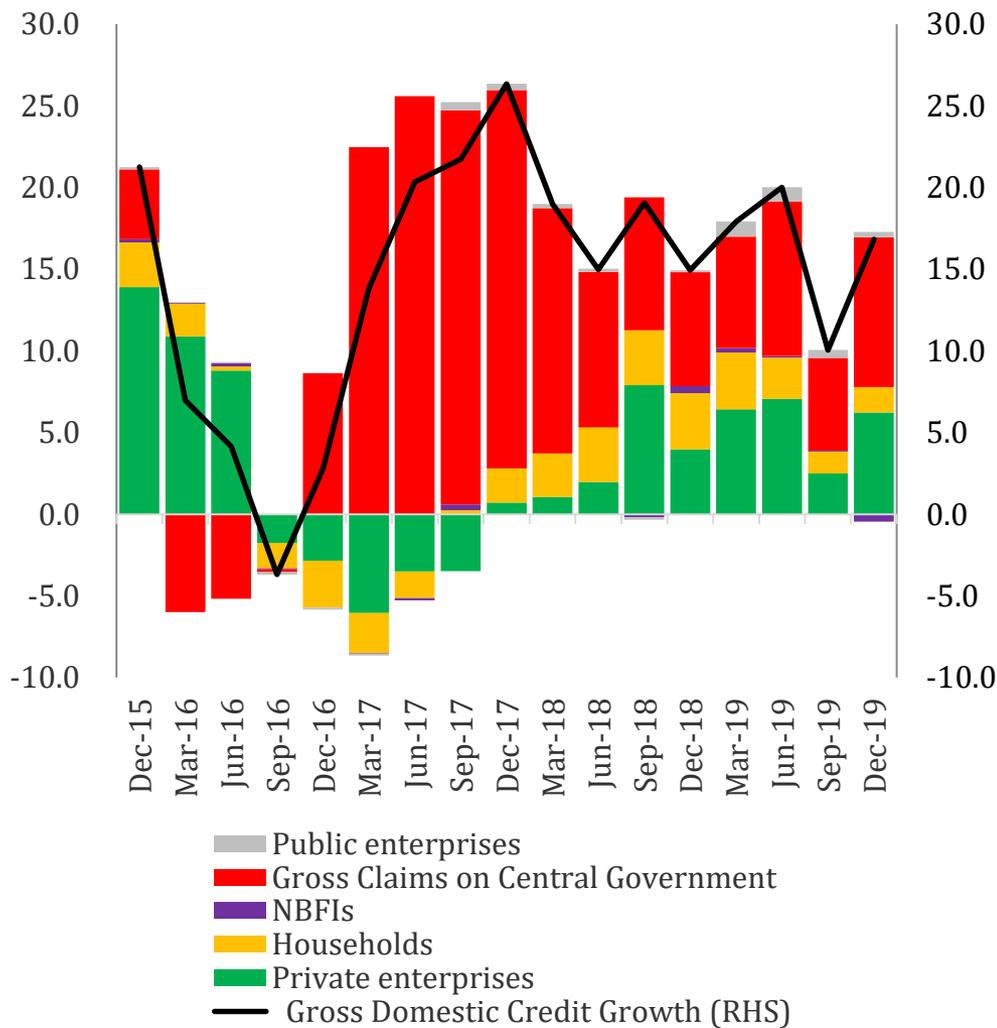
# DOMESTIC CREDIT

**In nominal terms, growth of credit to the private sector rose to 17.2% in Q4 2019 from 8.2% in Q3 2019.**

**The increase in credit growth to the private sector was driven by high demand for working capital by firms to bridge the liquidity gap created by delayed payment for goods and services supplied to Government.**

**Credit to Government also grew to 17.2% from 10.8% mainly in form of Government securities to meet financing needs.**

**Figure 11: Contribution to Y/Y Domestic Credit growth**

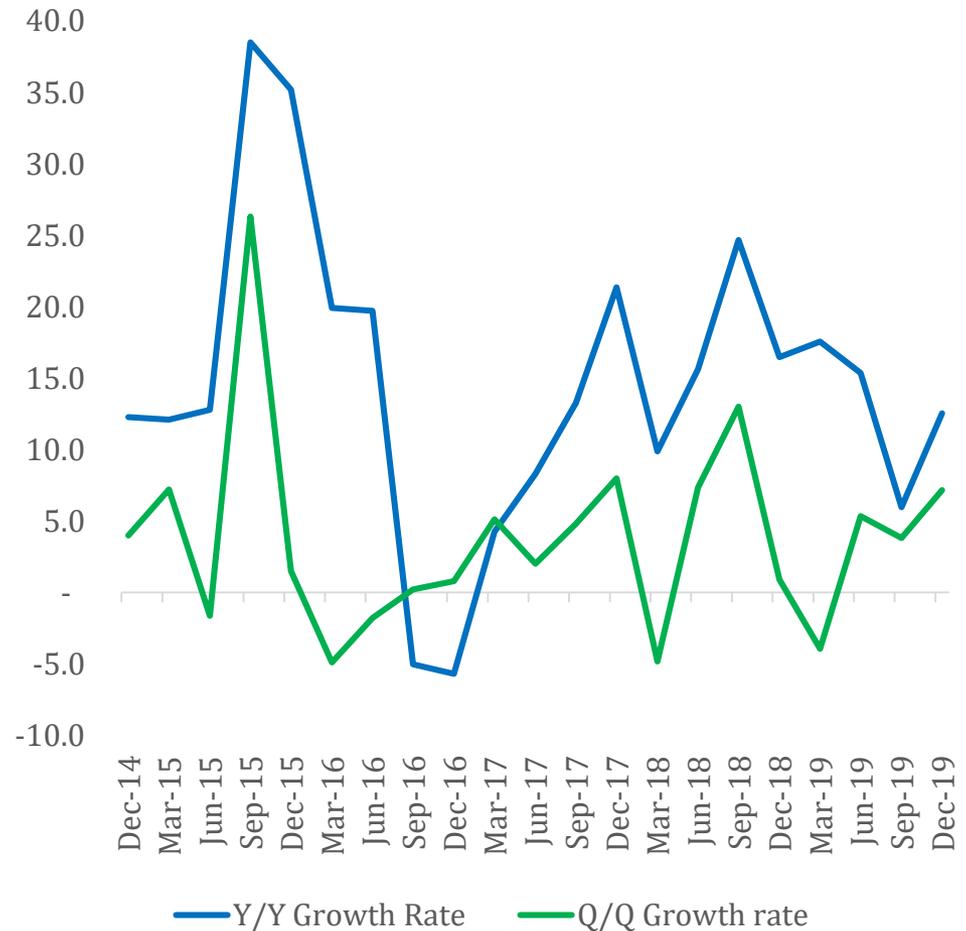


# MONEY SUPPLY

**Money supply growth rose to 12.5%, y-o-y, in December 2019 from 6.0% in September 2019.**

**The growth in money supply was mainly on account of the expansion in domestic credit to Government.**

**Figure 12: Money Supply Growth**



## **FISCAL POLICY**

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**Preliminary estimates indicate a cash fiscal deficit of 8.2% of GDP in 2019 against a budget target of 6.5%.**

**The outturn largely reflects higher than programmed spending on capital projects and the Farmer Input Support Programme, as well as external debt service payments. The depreciation of the Kwacha against the US dollar compounded expenditure pressures.**

**The continued accumulation of domestic arrears is constraining working capital for the private sector and pose risks to the stability of the financial sector through high non-performing loans.**

**Effective and sustained implementation of fiscal adjustment measures therefore remains critical to restoring macroeconomic stability as well as promoting robust and sustained growth.**

## FOREIGN EXCHANGE MARKET

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**The Kwacha depreciated by 6.8% against the US dollar to a quarterly average of K13.86 on account of subdued supply of foreign exchange amidst increased demand for the importation of farming inputs, petroleum products and electricity.**

**Pressure on the Kwacha mounted towards the end of November and in December resulting in the Kwacha reaching the K14 and K15 levels, respectively. To moderate exchange rate pressures, the Central Bank raised the statutory reserve ratio to 9.0% from 5.0% and changed compliance of the statutory reserve requirement to daily from weekly.**

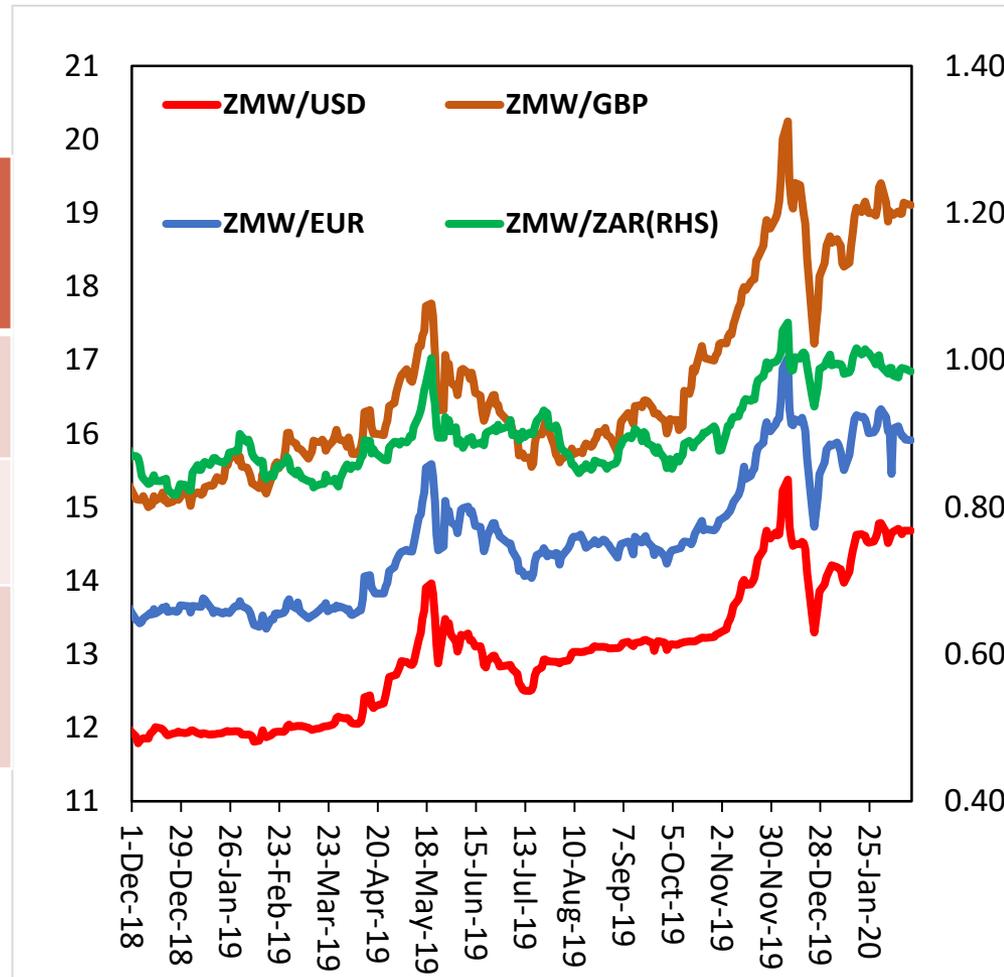
**Since then, the Kwacha has stabilised around K14.70 against the US dollar.**

# FOREIGN EXCHANGE MARKET

**Figure 13: Quarterly Average Exchange Rates**

Period	ZMW/ USD	ZMW/ GBP	ZMW/ EUR	ZMW/ ZAR
Q3	12.97	15.98	14.41	0.88
Q4	13.86	17.84	15.34	0.94
% Chg	6.8	11.6	6.4	6.4

**Figure 14: Nominal Exchange Rates**

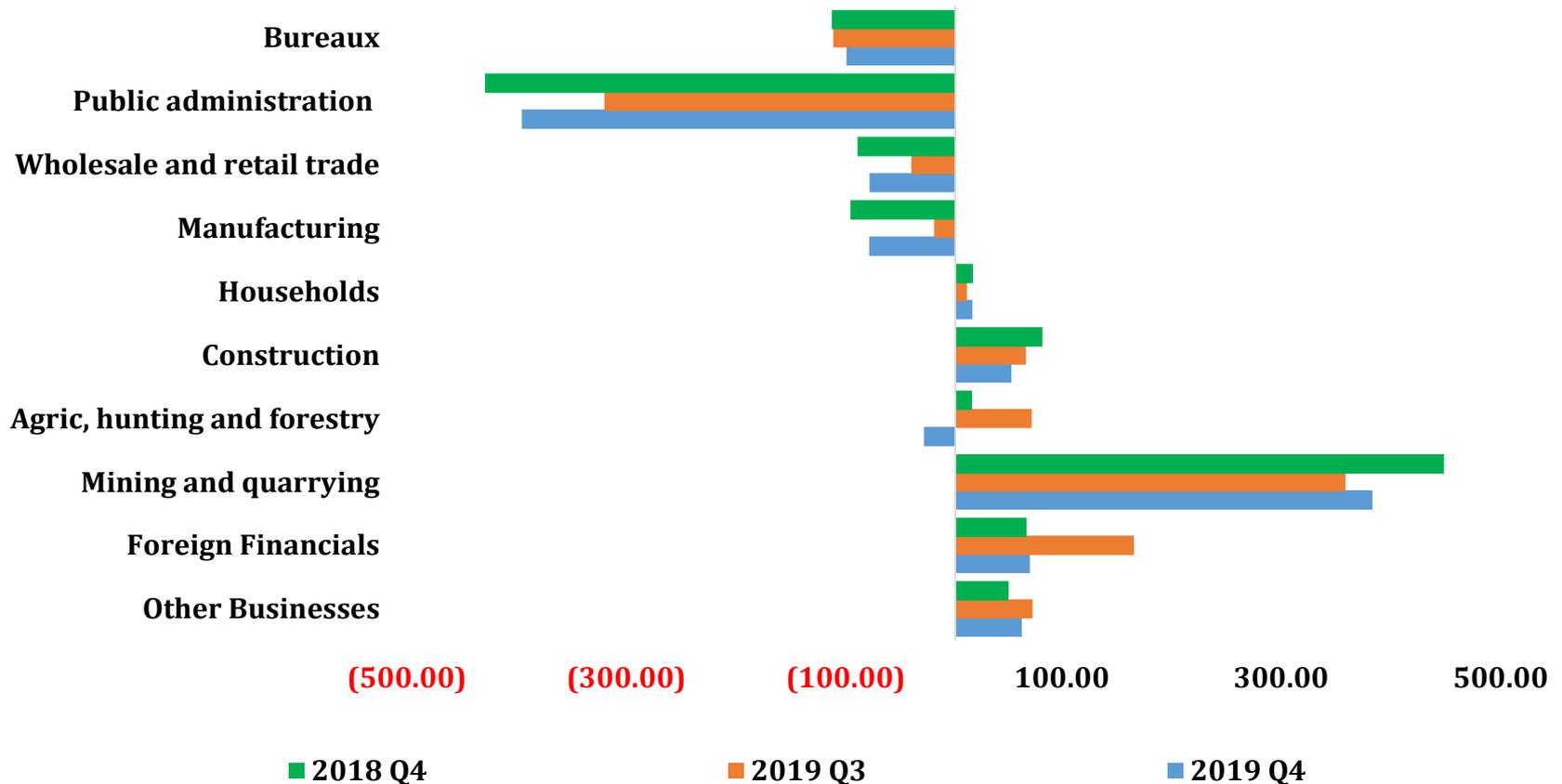


# FOREIGN EXCHANGE MARKET



**Demand for foreign exchange by the public sector rose in Q4 2019. Mining sector remains the major source of foreign exchange.**

**Figure 15: Foreign Exchange Net Supply by Sector (US\$')**



## GLOBAL ECONOMIC GROWTH

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- **The global economy is estimated to have grown by 2.9% in 2019, down from 3.6% in 2018, reflecting:**
  - Trade policy uncertainty;
  - Geo-political tensions; and
  - Weather related disasters.
- **In 2020 and 2021, growth is projected at 3.3% and 3.4% , respectively, supported by:**
  - Reduced uncertainty relating to trade tensions;
  - Recovery in manufacturing, business confidence, investment and global trade; and
  - Loose monetary policy stance adopted by central banks across the regions.

### **Downside risks to growth include:**

- Possibility of a re-escalation of trade tensions;
- Renewed geopolitical tensions in the Middle East;
- Lower commodity prices; and
- Recent outbreak of the Coronavirus (COVID-19).

# SELECTED COMMODITY PRICES

**Both copper and crude oil prices rose in Q4 2019 by 1.6% and 0.8%, respectively.**

**Figure 16: Commodity Prices**

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Copper Price (US\$/ton)</b>	<b>6,118.0</b>	<b>6,164.0</b>	<b>6,226.0</b>	<b>6,113.0</b>	<b>5,803.0</b>	<b>5,898.0</b>
<b>Oil Price (Dubai) (US\$/barrel)</b>	<b>74.0</b>	<b>66.8</b>	<b>63.4</b>	<b>67.0</b>	<b>60.9</b>	<b>61.4</b>
<b>Wheat (US\$/ton)</b>	<b>208.8</b>	<b>209.4</b>	<b>211.5</b>	<b>201.7</b>	<b>189.0</b>	<b>204.5</b>
<b>Maize Price (US\$/ton)</b>	<b>157.9</b>	<b>162.8</b>	<b>167.5</b>	<b>175.9</b>	<b>170.1</b>	<b>166.8</b>
<b>Cotton (US\$/kg)</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>
<b>Sugar (US\$/kg)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>Soya beans (US\$/ton)</b>	<b>370.0</b>	<b>374.0</b>	<b>377.0</b>	<b>353.0</b>	<b>366.0</b>	<b>378.0</b>

## CURRENT ACCOUNT DEVELOPMENTS

In Q4 2019, the current account surplus expanded to US\$166.1 million (0.7% of GDP) from US\$76.9 million (0.3% of GDP) in Q3 2019 as net exports of goods improved. Exports increased by 11.9% while imports contracted by 3.0%.

For 2019, current account surplus was US\$241.6 million (1.0% of GDP) against a deficit of US\$341.5 million in 2018 (1.3% of GDP).

**Figure 17: Balance of Payments (Quarterly Change - US\$ million)**

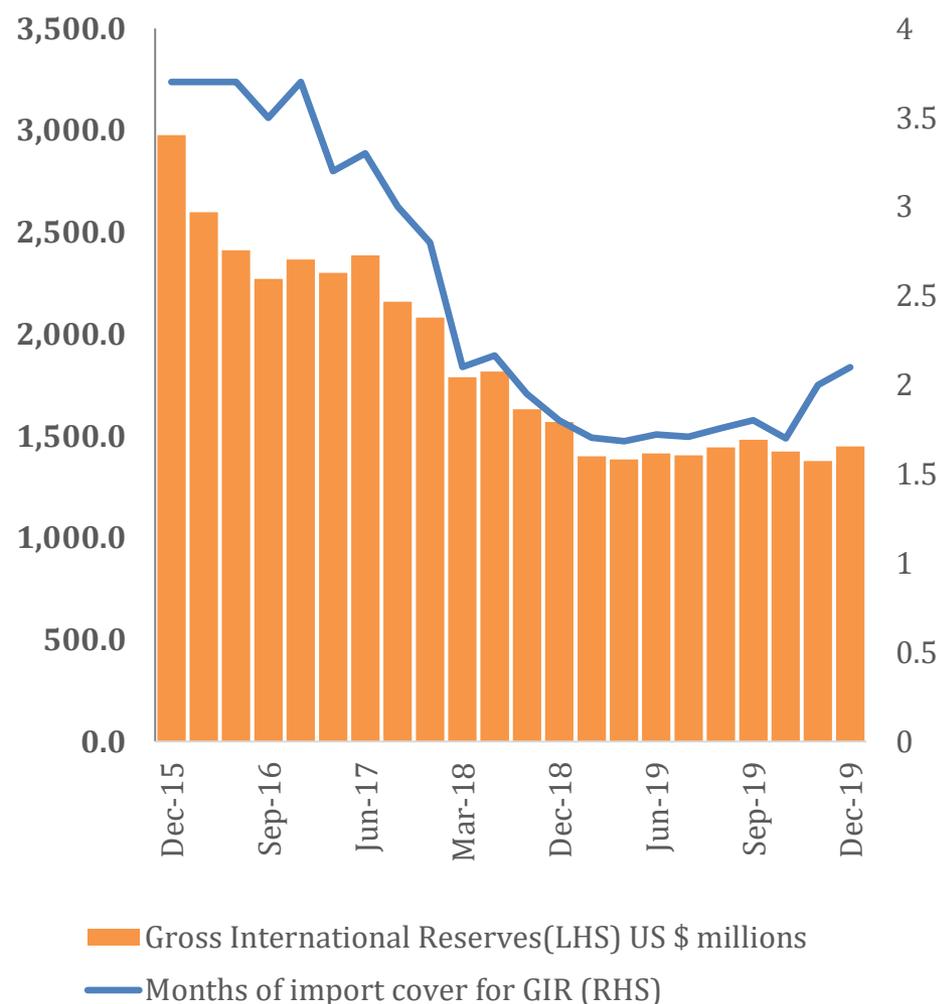
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Current Account Balance</b>	<b>112.2</b>	<b>-5.0</b>	<b>3.6</b>	<b>76.9</b>	<b>166.1</b>
<b>Balance on Goods</b>	-98.7	348.3	281.7	92.4	238.4
<b>Total Goods Exports</b>	<b>2,094.6</b>	<b>1,926.6</b>	<b>1,884.3</b>	<b>1,612.3</b>	<b>1,804.9</b>
Copper	1,480.9	1,431.9	1,320.3	1,013.7	1,228.6
Cobalt	17.5	3.3	0.0	0.0	39.4
Gold	36.9	43.2	46.0	50.1	57.1
NTEs	541.7	429.4	499.2	529.7	461.1
<b>Total Imports</b>	<b>2,193.3</b>	<b>1,638.5</b>	<b>1,679.2</b>	<b>1,615.01</b>	<b>1,566.53</b>
<b>Primary Income</b>	309.3	-225.2	-131.8	100.3	-41.5
<b>Secondary Income</b>	70.2	79.2	83.7	84.8	83.2
<b>Services Account</b>	-168.7	-147.2	-153.4	-105.6	-113.9
<b>Capital Account</b>	16.3	17.9	39.9	19.5	19.3
<b>Financial Account</b>	112.5	157.5	-3.7	19.8	290.1
<b>Net Errors/Omissions</b>	-59.5	-16.7	11.5	-0.9	29.2
<b>Overall Balance</b>	<b>43.5</b>	<b>161.3</b>	<b>-58.7</b>	<b>-75.6</b>	<b>75.5</b>
<b>Change in Reserve Assets</b>	-72.0	-163.9	31.8	73.1	-87.6

## GROSS INTERNATIONAL RESERVES

**At end-December 2019, Gross International Reserves declined slightly to US\$1.45 billion (equivalent to 2.1 months of import cover - this followed downward revision to projections of imports to reflect subdued economic activity) from US\$1.48 billion (equivalent to 1.8 months of import cover) at end-September 2019.**

**Relative stability in foreign reserves was largely due to Bank of Zambia net purchase of US\$812 million, of which US\$285 million were mineral royalties.**

**Figure 18: Gross International Reserves (US\$ mln)**



## CONCLUSION

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**The MPC held the Policy Rate at 11.50%. In arriving at the decision, the Committee took into account:**

- Expected persistence in inflation in the earlier part of the forecast period and the decline in inflation toward the upper bound of the target range thereafter as food supply improves;
- The possibility of faster decline in inflation than currently projected on account of the anticipated improvement in agricultural output due to the favourable rainfall pattern observed so far during the 2019/2020 crop season;
- Continued weak economic activity and persistent liquidity challenges, which continue to pose risks to financial stability; and
- the need to allow measures effected in the fourth quarter of 2019 to take effect.

**The Committee reiterates the need to implement effective and sustained fiscal and structural adjustment measures to address elevated debt levels, debt service, rapid accumulation of arrears and liquidity challenges in order to restore macroeconomic stability as well as promote robust and sustained economic growth.**

**THANK YOU**  
**GOD BLESS...**



**Bank of Zambia**