

# **MONETARY POLICY COMMITTEE STATEMENT FOR THE THIRD QUARTER OF 2021**

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

### **NOVEMBER 24, 2021**



Bank of Zambia

# OUTLINE OF PRESENTATION

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

# INTRODUCTION

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**Welcome you all to the last Media brief of 2021 where I will share with you the decision of the Monetary Policy Committee.**

**Let me start by thanking my predecessor, Governor Christopher Mvunga for his contribution to the Bank and the financial sector in general.**

**I would also like to take this opportunity to thank the Deputy Governor – Operations, Dr. Chipimo for holding the fort since the departure of Governor Mvunga and my ratification.**

# DECISION OF THE MONETARY POLICY COMMITTEE



**At its Meeting held on November 22-23, 2021, the Monetary Policy Committee decided to increase the Policy Rate by 50 basis points to 9.0 percent from 8.5 percent.**

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

- Actual inflation, which has persistently remained above the 8 percent upper bound of the target range since the second quarter of 2019;**
- Inflation projections which indicate that although inflation will decelerate, it will remain outside the target range over the forecast horizon; and**
- The need to steer inflation toward single digits by end-2022 and into the target range by mid-2023 as stated in the *2022 Budget Address*.**

# DECISION OF THE MONETARY POLICY COMMITTEE

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**The Committee was also mindful of the need to continue supporting the economy and maintaining financial stability as the Government embarks on key reforms aimed at restoring macroeconomic stability, economic growth, and uplifting people's lives.**

**Further, the Committee noted that effective implementation of fiscal reforms will significantly complement the achievement of a low and stable inflation objective.**

# GLOBAL ECONOMIC GROWTH

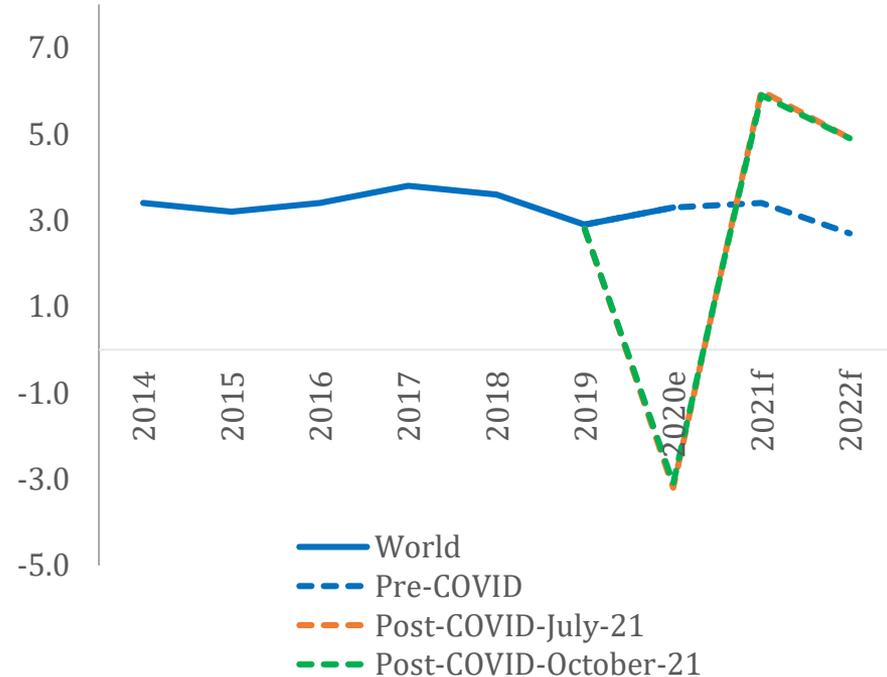
Global growth recovery slowed down in the third quarter of 2021 due to persistent COVID-19 pandemic disruptions.

This largely reflects supply chain disruptions following the re-introduction of lockdown measures to contain the spread of the highly transmittable Delta variant of COVID-19 in some emerging markets and developing economies.

For the year as a whole, and on account of expansionary fiscal policies, particularly in advanced economies, and further traction in COVID-19 vaccinations, growth is projected at 5.9 percent. In 2022, growth is projected to ease to 4.9 percent due to dissipation of base effects.

11/24/2021

**Chart 1: Pre- and Post-COVID-19 Global GDP Growth Projections (annual, percent)**



# DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

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**Real GDP grew by 8.1 percent in the second quarter of 2021 against a contraction of 5.9 percent in the corresponding quarter of 2020.**

**Construction, wholesale and retail trade, information and communication, as well as education sectors contributed to the recovery.**

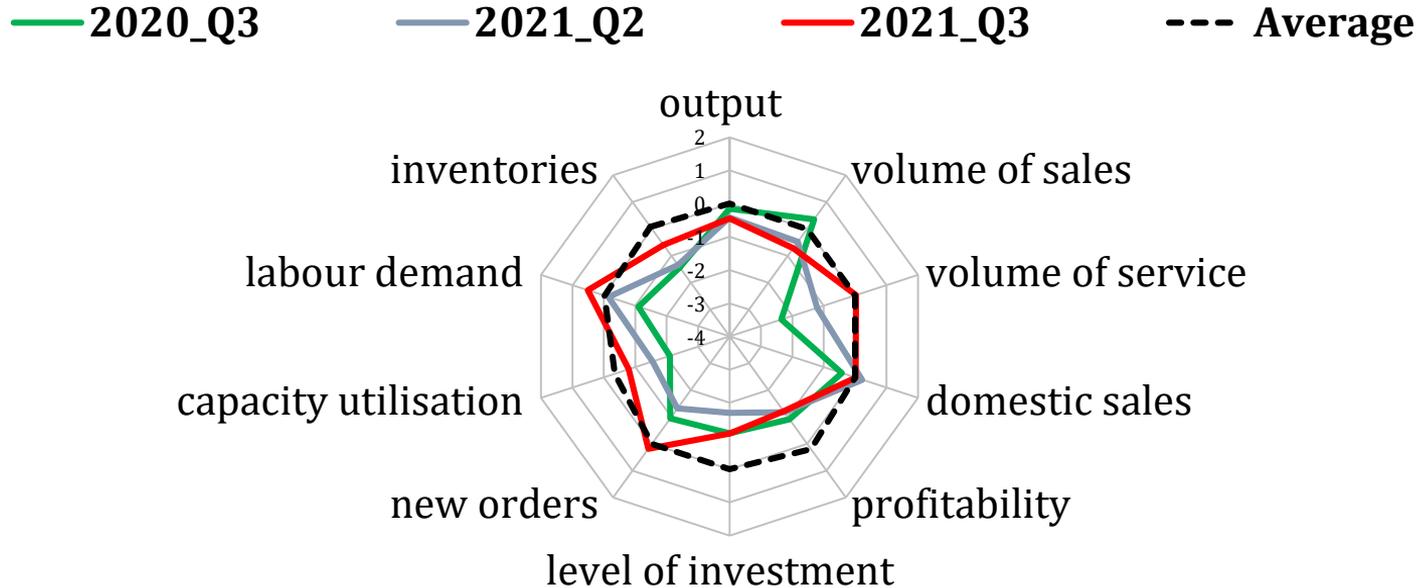
**Results from the Third Quarter 2021 [\*Bank of Zambia Quarterly Survey of Business Opinion and Expectations\*](#) point to weak economic activity due to the emergency of the third wave of COVID-19 and General Elections uncertainty (Chart 2).**

**Similarly, the [\*Stanbic Purchasing Manager's Index \(PMI\)\*](#) also signalled a weak business environment for the private sector. However, in October the PMI signalled strong improvement in business conditions (Chart 3).**

# DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



## Chart 2: Business Opinions Survey Responses

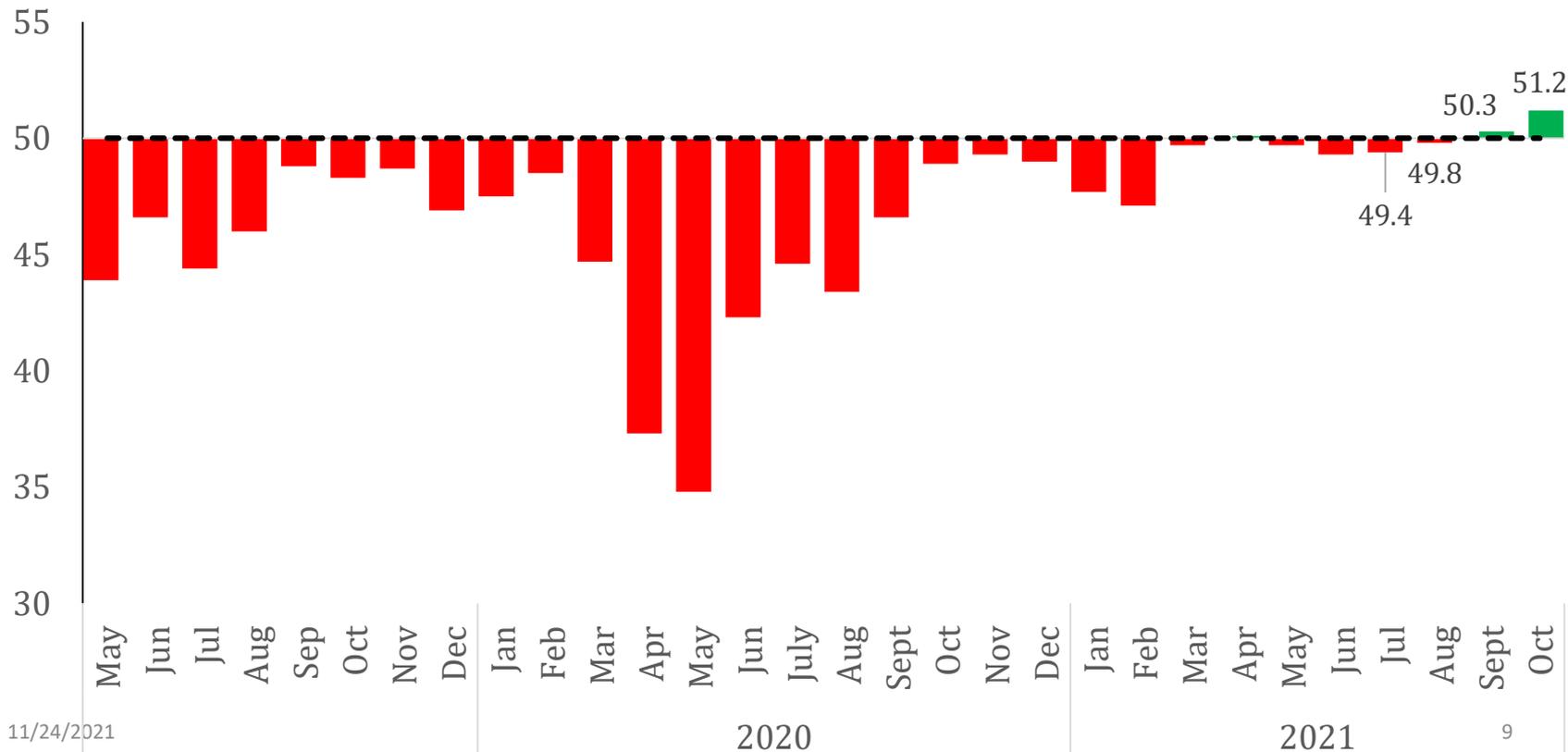


\*Note: The Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

# DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



## Chart 3: Purchasing Manager's Index for Zambia



# DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

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**For 2021, the economy is projected to rebound, growing by 3.3 percent on the back of strong performance in the agriculture, information and communication, as well as wholesale and retail trade sectors (Chart 4).**

**In 2022 and 2023, growth is expected to rise to 3.5 percent and 3.7 percent, respectively. This will be underpinned by strong performance in finance and insurance, information and communication, wholesale and retail trade, as well as mining sectors.**

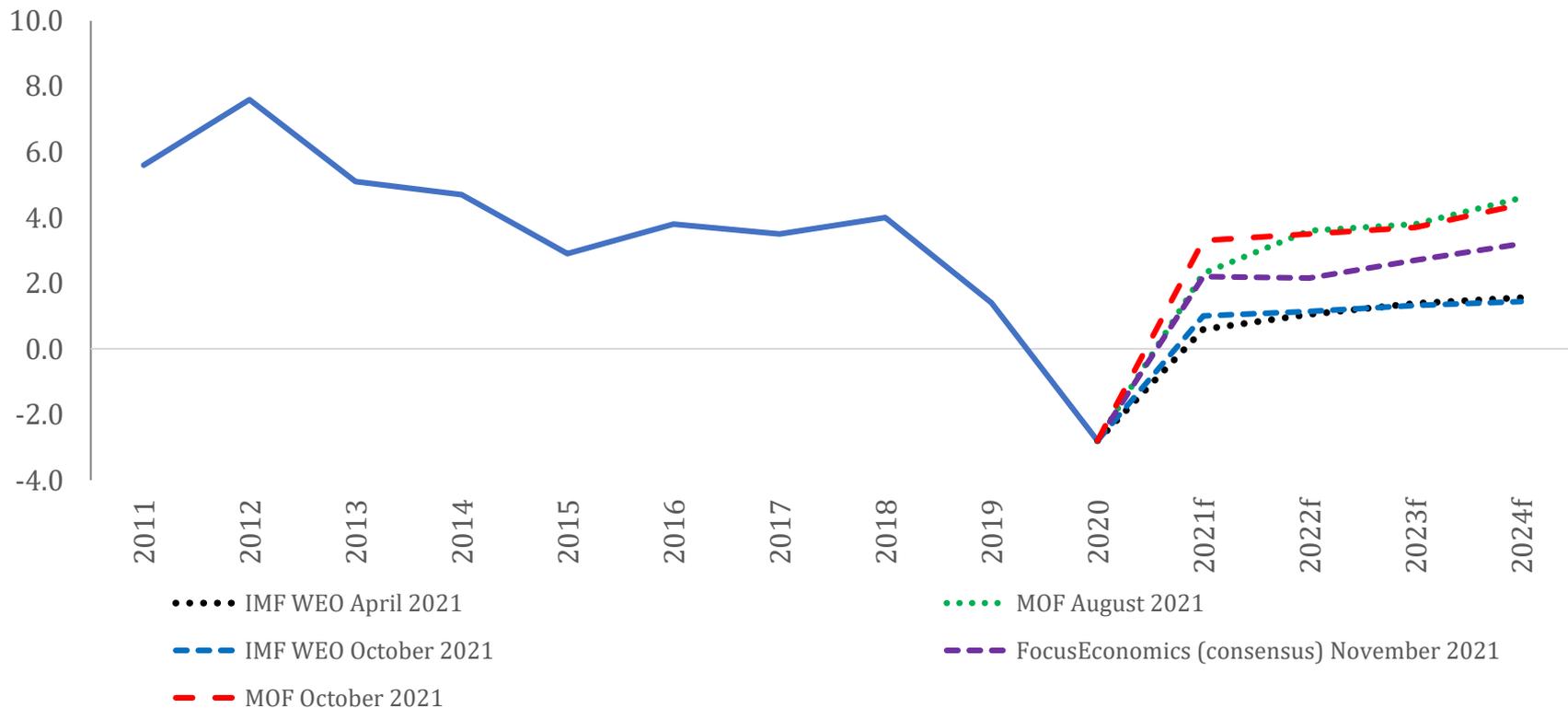
**The new waves of COVID-19, amidst the low vaccination rate, are a key downside risks to the growth outlook.**

# DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Bank of Zambia

## Chart 4: Annual Real GDP Growth Forecast ( percent)



## INFLATION OUTTURN AND OUTLOOK

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**Inflation rose by 0.2 percentage points to 23.7 percent from 23.5 percent in the second quarter of 2021 (Table 1, Chart 5).**

**Food inflation increased to an average of 30.8 percent from 29.0 percent due to constrained supply of some food items, notably, meat and poultry products.**

**However, non-food inflation declined to 15.6 percent from 17.2 percent on account of the appreciation of the Kwacha against the US dollar.**

**In October 2021, inflation declined to 21.1 percent from 22.1 percent due to a relatively stronger Kwacha.**

# INFLATION OUTTURN AND OUTLOOK

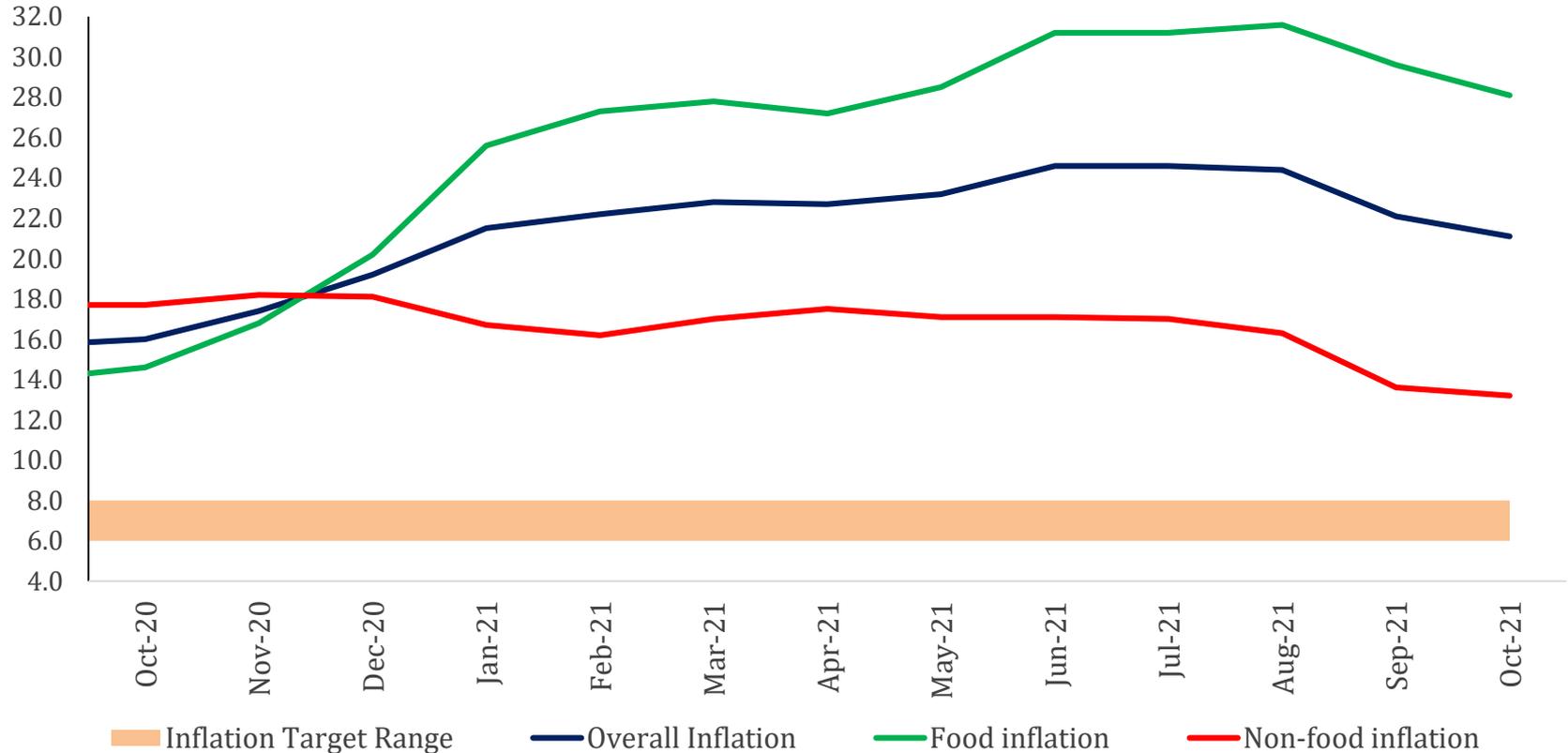


**Table 1: Inflation outcomes (%)**

Average	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
<b>Overall Inflation</b>	15.7	17.6	22.2	<b>23.5</b>	<b>23.7</b>
<b>Food Inflation</b>	15.2	17.2	27.0	<b>29.0</b>	<b>30.8</b>
<b>Non-food Inflation</b>	16.2	18.0	16.6	<b>17.2</b>	<b>15.6</b>
<b>End Period</b>	Q3 2020	Q4 2020	Q1 2021	<b>Q2 2021</b>	<b>Q3 2021</b>
<b>Overall Inflation</b>	15.7	19.2	22.8	<b>24.6</b>	<b>22.1</b>
<b>Food Inflation</b>	14.0	20.2	27.8	<b>31.2</b>	<b>29.6</b>
<b>Non-food Inflation</b>	17.7	18.1	17.0	<b>17.1</b>	<b>13.6</b>

# INFLATION OUTTURN AND OUTLOOK

## Chart 5: Inflation and its Components, y-o-y (%)



## INFLATION OUTTURN AND OUTLOOK

- **Although inflation is projected to decline sharply over the forecast horizon due the dissipation of base effects, lagged impact of the appreciation of the Kwacha, and anticipated stronger fiscal consolidation, it will remain above the upper bound of the 6-8 percent target range.**
  
- **Inflation is projected to average 22.6 percent in 2021, decline to 15.0 percent in 2022, and to 9.3 percent during the first three quarters of 2023**
  
- **Key drivers:**
  - **dissipation of base effects from prices of some food items (meat and fish);**
  - **recent appreciation of the Kwacha; and**
  - **stronger fiscal consolidation.**

# INFLATION OUTTURN AND OUTLOOK

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- **Upside risks to the inflation outlook include possible increase in fuel pump prices and electricity tariffs to restore fiscal sustainability and the predicted fourth wave of the COVID-19 pandemic, which could disrupt supply chains and trigger price increases.**
  
- **However, the expected decline in maize prices arising from the 2020/21 bumper harvest and the forecasted normal to above normal rainfall during the coming farming season could lower inflation in the short-term.**

# GOVERNMENT SECURITIES MARKET

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**Demand for Government securities, particularly for bonds, remained strong.**

**Subscription rates for bonds and Treasury bills rose to 278.3 percent and 138.0 percent from 163.0 percent and 100 percent in the previous quarter, respectively.**

**Underlying the strong demand were high yields, positive sentiments following pronouncement by Government to accelerate discussions for an IMF Programme, and the increase in domestic liquidity.**

**In addition to auctioned securities, Government issued other securities through private placements to pay arrears to fuel and agricultural input suppliers.**

## GOVERNMENT SECURITIES MARKET

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**As a result, the outstanding stock of Government securities increased by 5.3 percent to K 189.7 billion (Chart 6).**

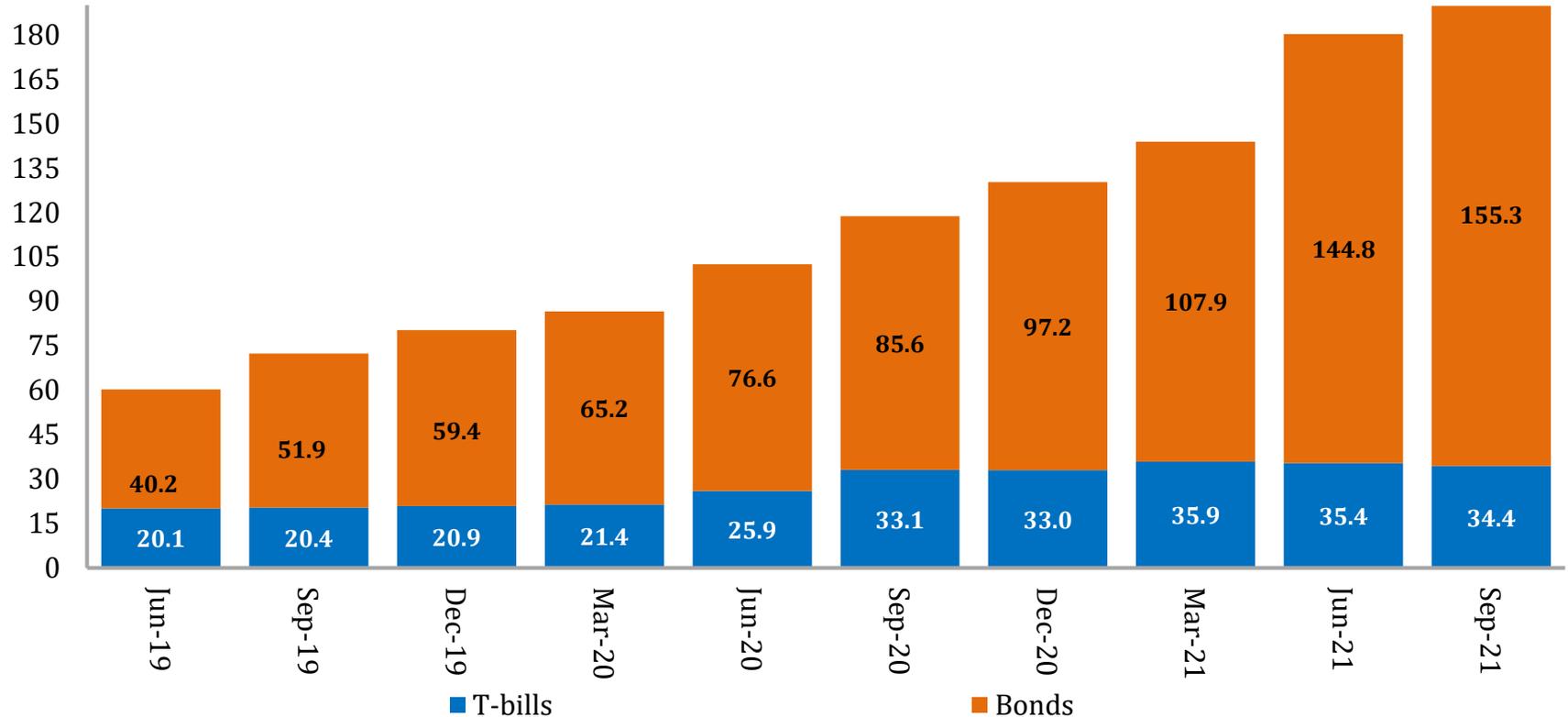
**Non-resident holdings of Government securities rose to 31 percent of the outstanding stock from 24.9 percent in the previous quarter.**

**In October, the subscription rate for Treasury bills remained high averaging 315.0 percent while that for bonds fell to 89.0 percent, reflecting reduced participation by non-resident investors in the Government bond auctions.**

# GOVERNMENT SECURITIES MARKET



Chart 6: Stock of Govt Securities (K'bln)



# INTEREST RATES

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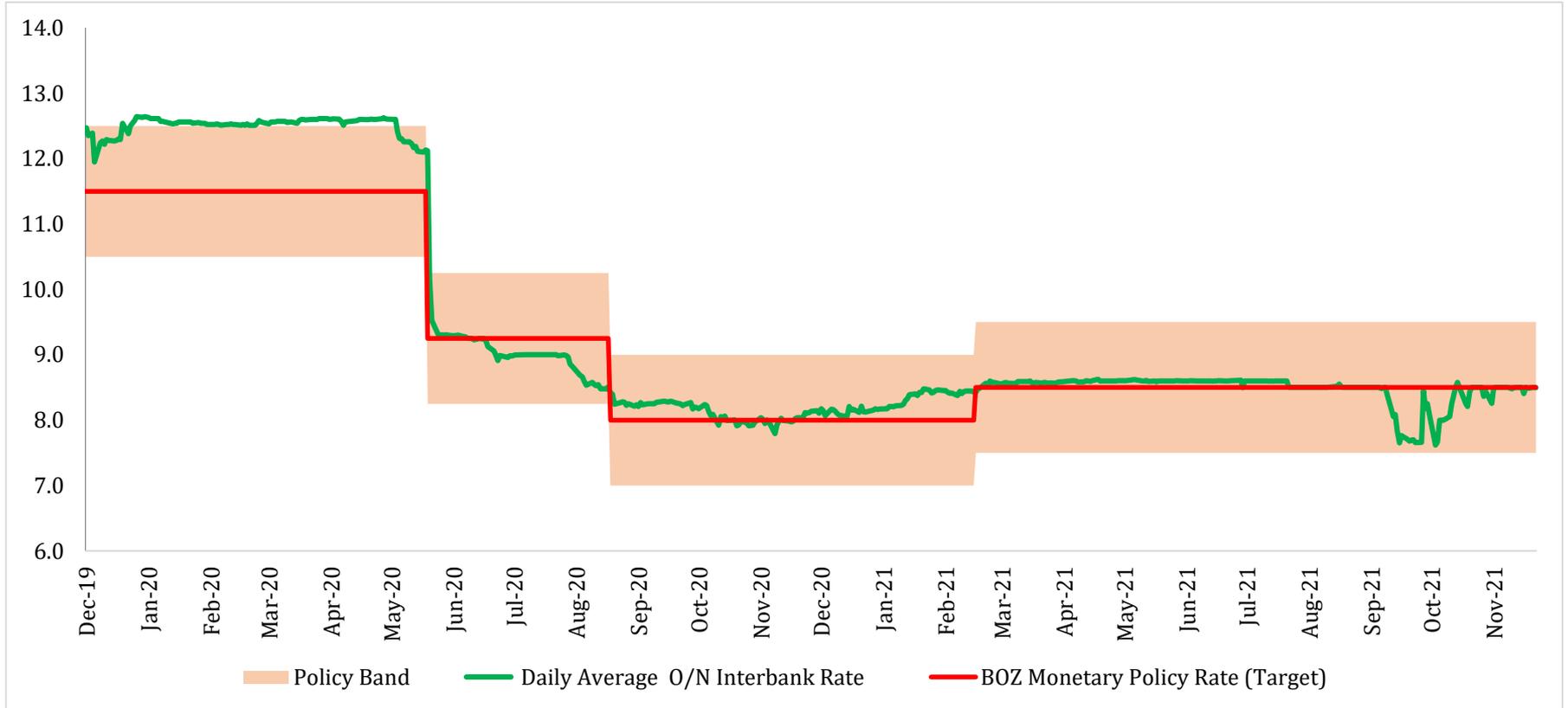
**The overnight interbank rate declined to 8.10 percent from 8.60 percent and was maintained within the Policy Rate Corridor of 7.5 - 9.5 percent throughout the quarter (Chart 7).**

- The decline largely reflects increased liquidity flows to the banking system dominated by net Government spending, Government securities maturities, and Bank of Zambia liquidity through the Targeted Medium-Term Refinancing Facility (TMTRF).**
- To maintain the overnight interbank rate within the Policy Rate Corridor, the Bank of Zambia undertook contractionary open market operations.**

# INTEREST RATES



## Chart 7: Interbank Rate and BoZ Policy Rate (%)



# INTEREST RATES

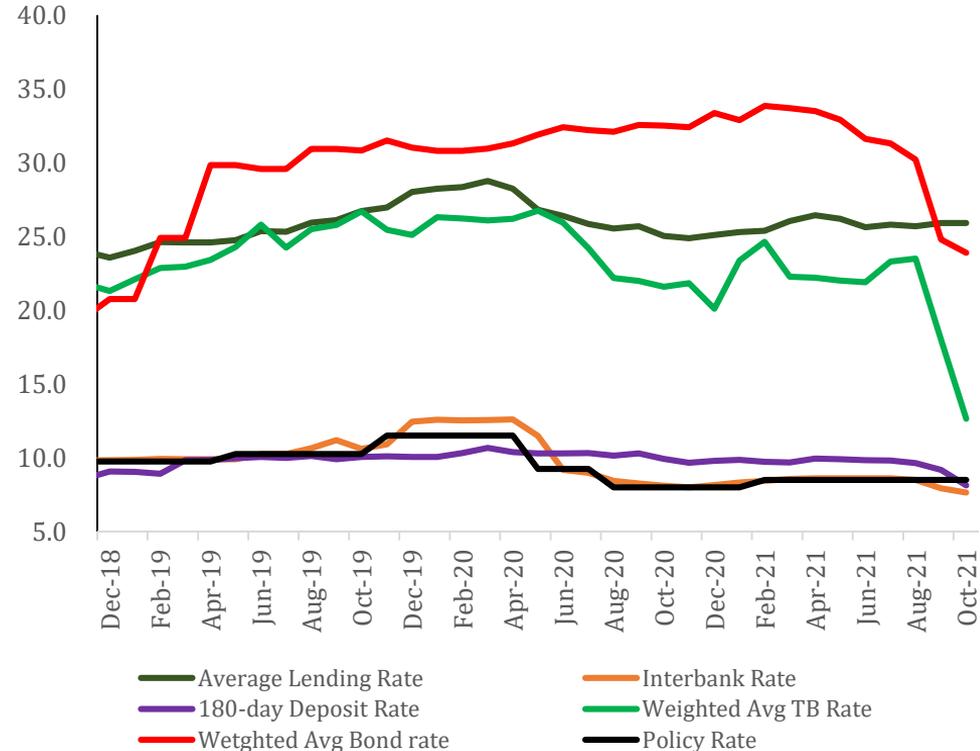
Yield rates on both Treasury bills and Government bonds fell sharply to 18.0 percent and 24.8 percent from 21.9 percent and 31.6 percent, respectively.

This was due to increased liquidity and heightened demand, particularly from non-resident investors.

However, commercial banks' lending rates remained broadly unchanged at 25.9 percent in September.

In October, the weighted average yield rates on Government securities declined further to 14.2 percent and 23.9 percent for Treasury bills and Government bonds, respectively.

**Chart 8: Nominal Interest Rates (%)**



# DOMESTIC CREDIT

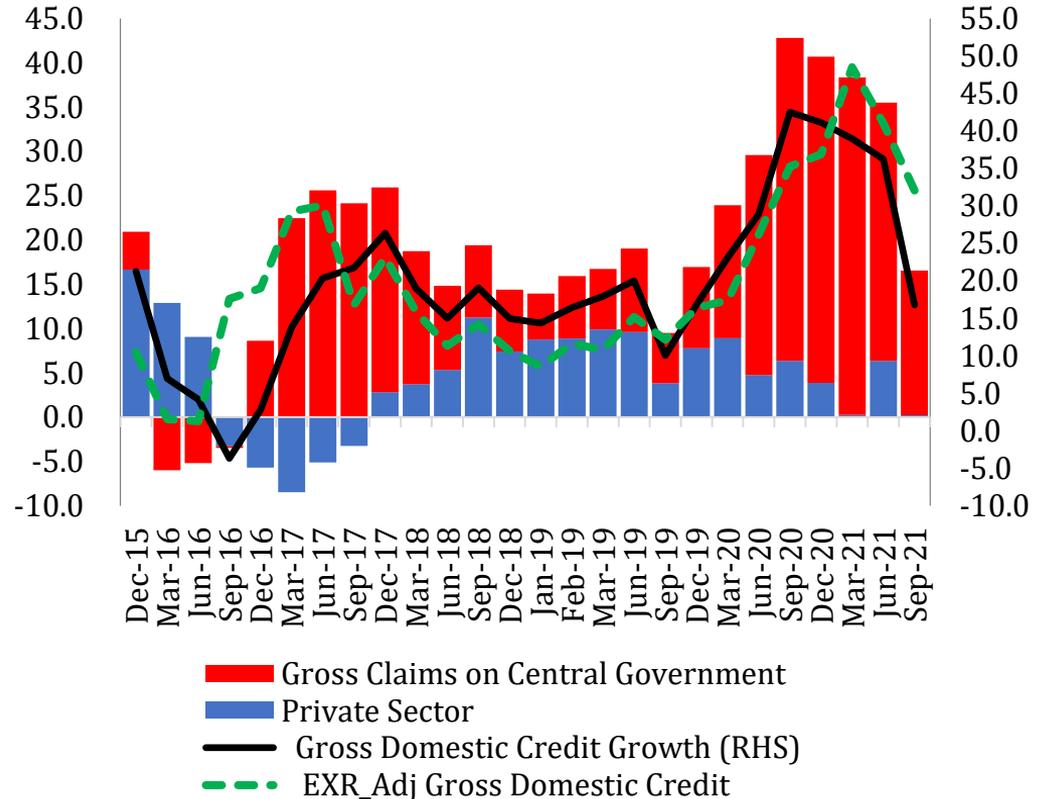


**Kwacha denominated credit to the private sector grew by 35.9 percent in September, year-on-year, compared to 33.8 percent in June.**

**This was largely driven by further disbursements from TMTRF and drawdowns on overdraft facilities to meet working capital needs.**

**In contrast foreign currency denominated credit to the private sector contracted further by 30.8 percent due to conversions to Kwacha loans.**

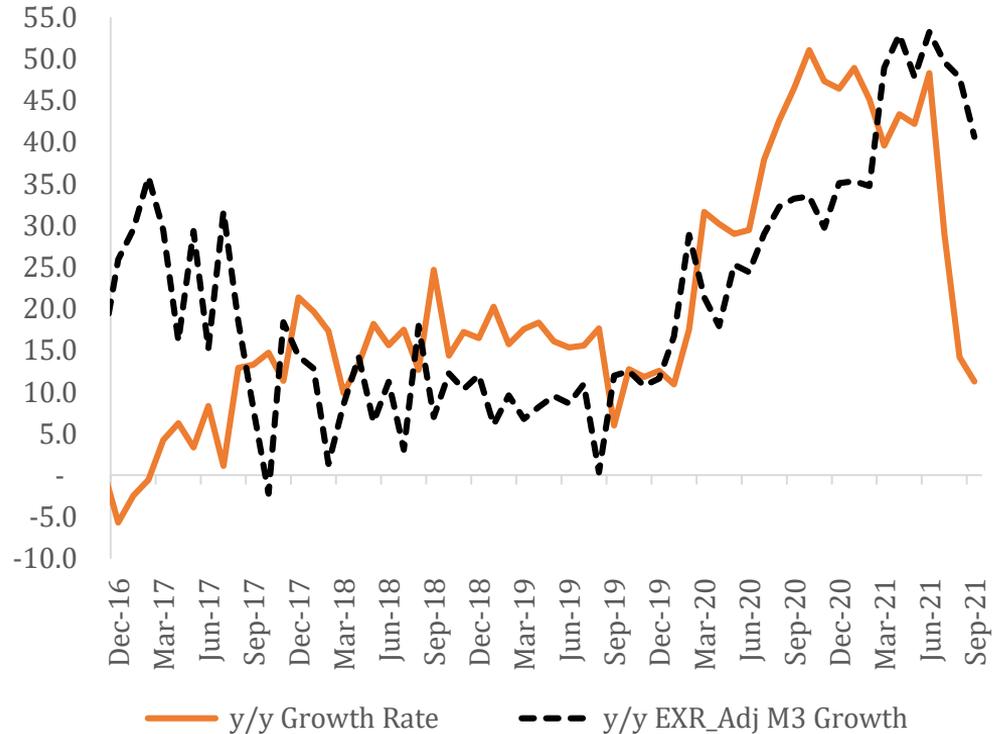
**Chart 9: Contribution to Y/Y Domestic Credit growth**



**MONEY SUPPLY**  
**Growth in money supply (M3)**  
 declined sharply to 11.2 percent, year-on-year, from 48.3 percent in June 2021.

The slow down in growth was explained mainly by the reduction in foreign foreign currency deposits, valuation effects arising from the appreciation of the Kwacha, and slow down in domestic credit.

**Chart 10: Money Supply Growth (y/y), Percent**



# FISCAL POLICY

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- **The fiscal deficit is expected to narrow to 10.4 percent of GDP in 2021 from the outturn of 14.2 percent in 2020.**
- **This is mainly due to strong revenue collections from the mining sector and a dividend payment from Bank of Zambia.**
- **A further decline in the deficit is expected in 2022, at 6.7 percent of GDP, largely underpinned by significant reduction in spending on subsidies and capital projects.**
- **Adhering to domestic financing plans will contribute to reducing borrowing costs for the private sector and support economic growth. Securing a funded International Monetary Fund (IMF) Programme is key to minimising adverse effects of domestic financing on the credit market and management of external debt to sustainable levels.**

# FISCAL POLICY

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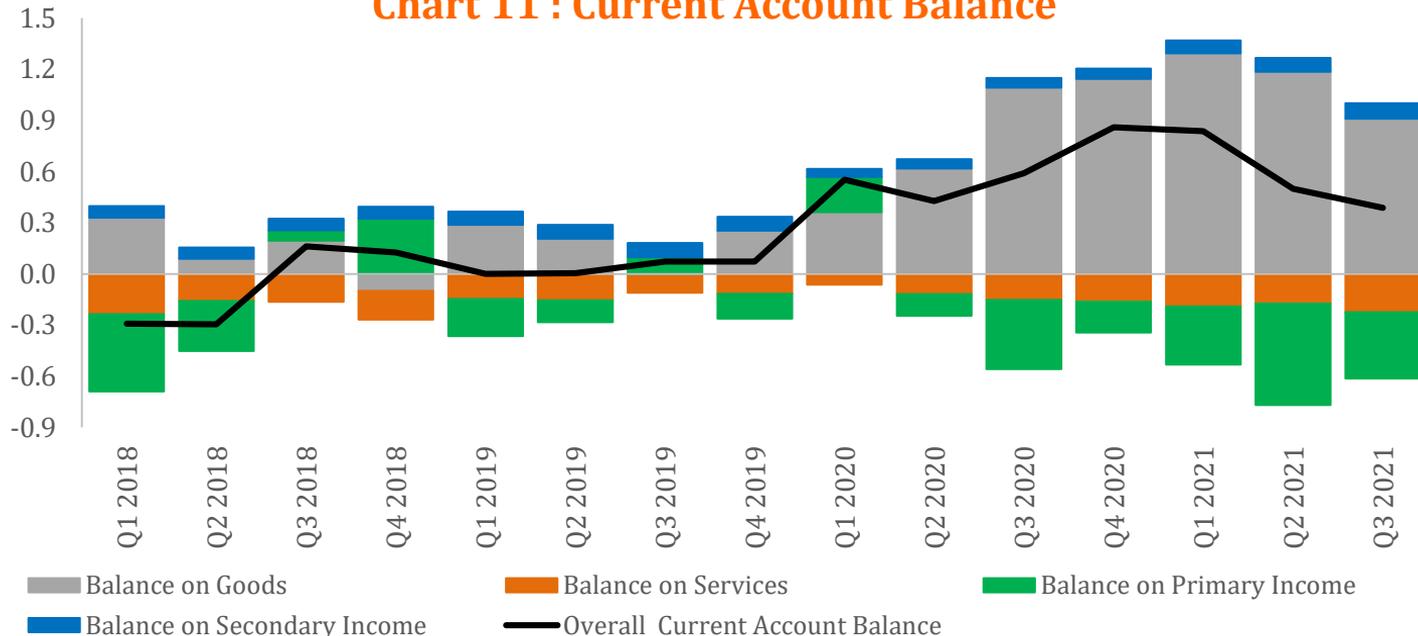
- **Key risks to fiscal outlook include ineffective implementation of fiscal consolidation measures and possible emergence of new waves of COVID-19, which could stifle economic growth and constrain revenue mobilisation.**

# CURRENT ACCOUNT



Preliminary data indicate that the current account surplus narrowed to US\$0.4 billion (7.6 percent of GDP) from US\$0.5 billion (9.8 percent of GDP) as imports expanded faster than exports.

Chart 11 : Current Account Balance



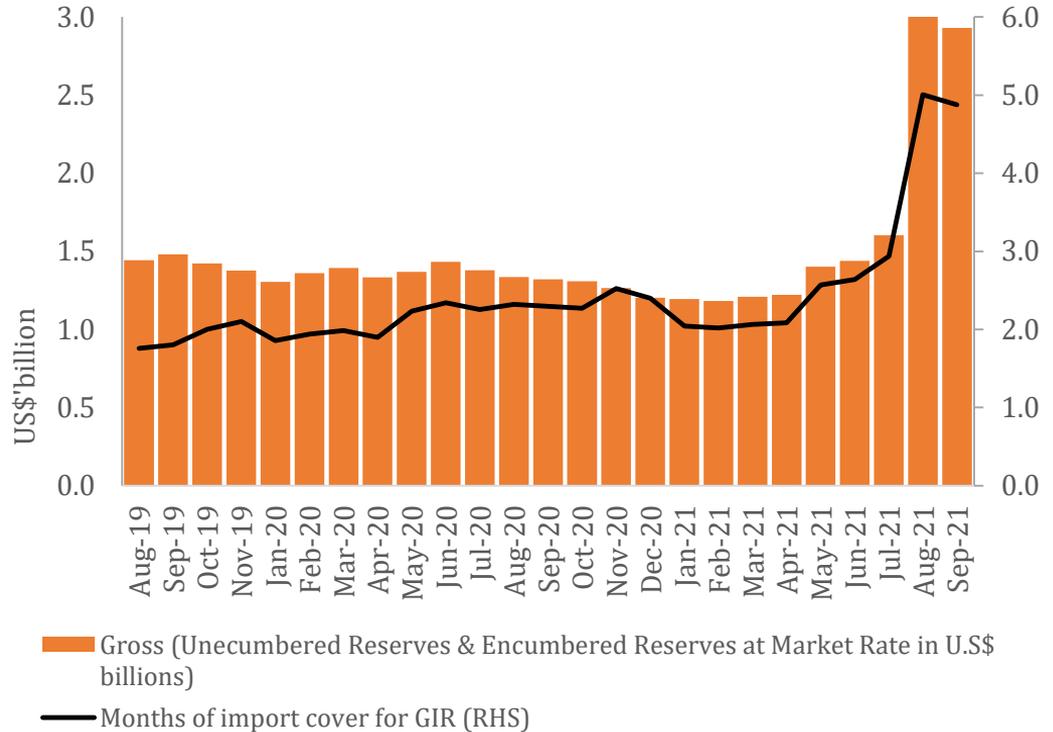
# GROSS INTERNATIONAL RESERVES



Gross international reserves rose to US\$2.9 billion (equivalent to 4.9 months of import cover) at end-September 2021 from US\$1.4 billion (equivalent to 2.6 months of import cover) at end-June 2021.

This followed the receipt of SDR937.5 million allocation (US\$1.33 billion) from the IMF.

Chart 12 : Gross International Reserves

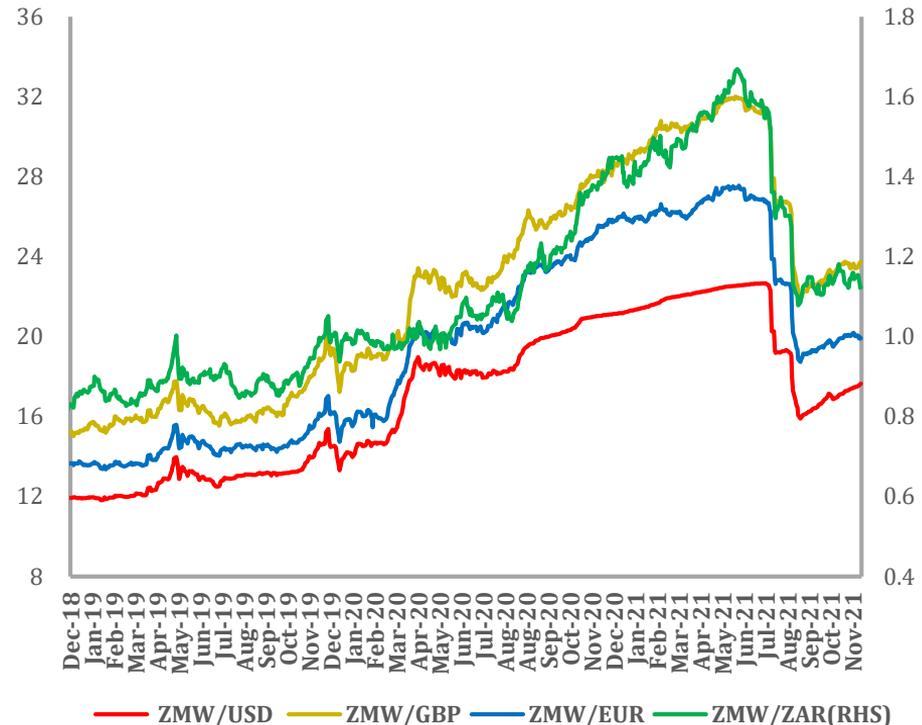


# FOREIGN EXCHANGE MARKET



- The Kwacha, which had been on a depreciating trend, weakening by 7.1% in the first half of 2021, appreciated by 25.9% between July 1 and September 30 to K16.78 per US dollar.
- This followed improved market sentiments and foreign portfolio interest in Government securities.
- Demand persisted, reflecting payments relating to fuel arrears and procurement of agricultural inputs under FISP, as supply diminished in the latter part of the quarter (Chart 15).

Chart 13: Nominal Exchange Rates

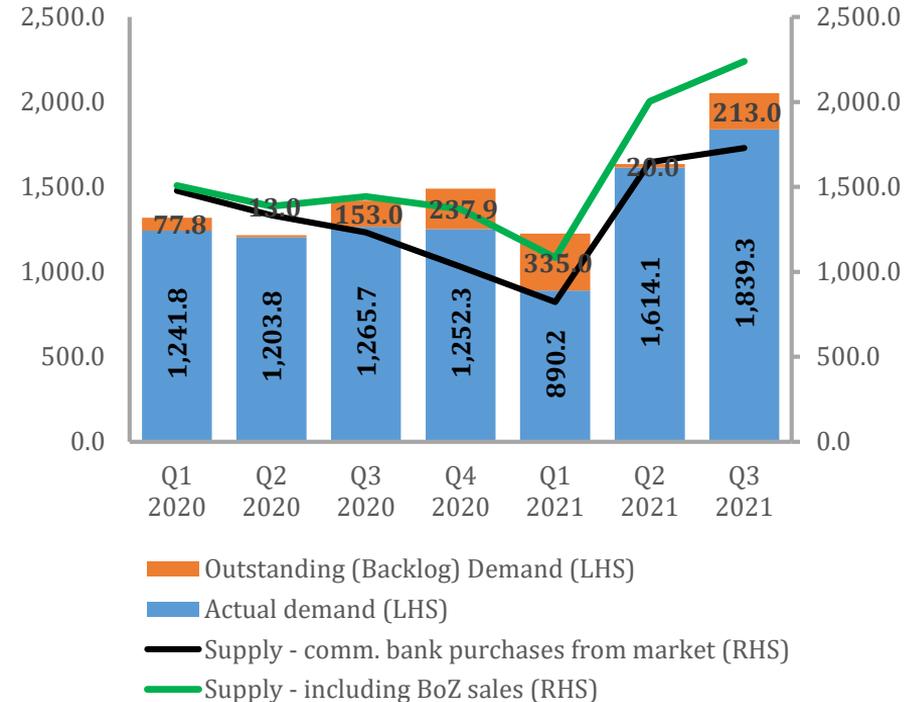


# FOREIGN EXCHANGE MARKET



- To moderate volatility while maintaining flexibility in the exchange rate, the Bank of Zambia intervened selling back receipts from the mining sector amounting to US\$510 million compared to US\$358.2 million in the second quarter.

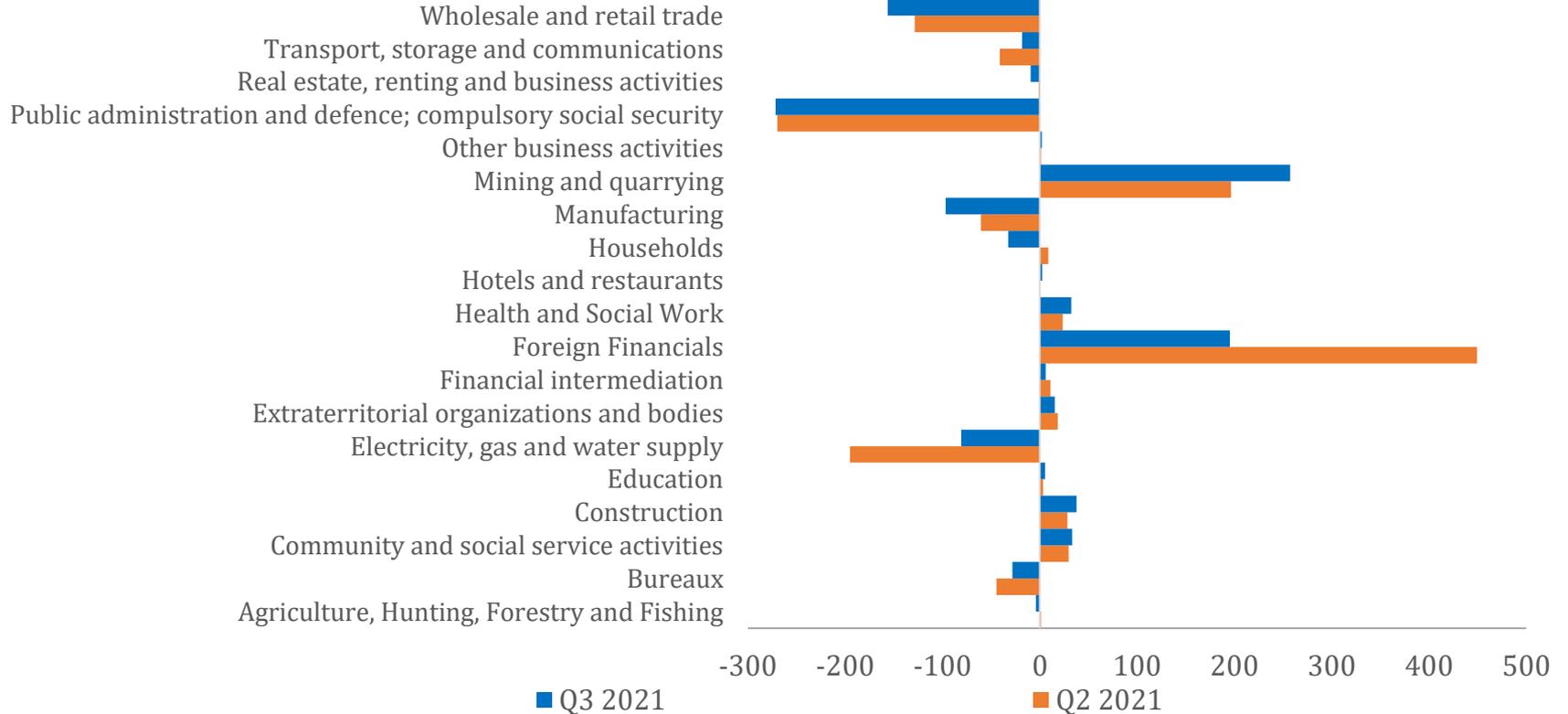
Chart 14: Supply and Demand for Foreign Exchange (US\$' million)



# FOREIGN EXCHANGE MARKET



**Chart 15: Sectoral Net Demand for Foreign Exchange (US\$' million)**



# CONCLUSION

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**The MPC decided to raise the Policy Rate by 50 basis points to 9.0 percent to contain persistent inflationary pressures and to steer inflation to single digits in 2022 and within the 6-8 percent target range by mid-2023.**

**This decision is also consistent with the Bank's move toward the normalisation of the monetary policy stance.**

**In addition, the modest adjustment in the Policy Rate took into account the need to continue supporting economic activity and maintain financial stability.**

**Further, the Committee calls for effective implementation of fiscal reforms to complement the achievement of a low and stable inflation.**

**THANK YOU...**

**GOD BLESS...**