Monetary Policy Report

February 2025

Bank *of* Zambia

Bank *of* Zambia

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This *Monetary Policy Report* (MPR) is made pursuant to Section 29(2) of the Bank of Zambia Act, 2022.

The MPR was approved by the Monetary Policy Committee (MPC) on February 12, 2025 and contains information available as of February 12, 2025.

Composition of the Monetary Policy Committee constituted pursuant to Section 28(1) of the Bank of Zambia Act, 2022:

1. Governor – Chairperson (Dr Denny H. Kalyalya);
2. Deputy Governor – Vice Chairperson (Dr Francis Chipimo);
3. Deputy Governor responsible for administration (Mrs Rekha C. Mhango);
4. Bank of Zambia senior management staff responsible for research (Dr Jonathan M. Chipili);
5. Bank of Zambia senior management staff responsible for monetary policy operations (Mr Isaac Muhanga);
6. Bank of Zambia senior management staff responsible for financial stability (Mr Goodson Kataya);
7. External Member appointed by the Bank of Zambia Board (Professor Munacinga C. Simatele); and
8. External Member appointed by the Bank of Zambia Board (Mr Alex Chakufyali).

TABLE OF CONTENTS

Preface

In line with Article 213(2) (b) of the Constitution of Zambia (Amendment) Act, 2016, the Bank of Zambia determines monetary policy. The nine-member Monetary Policy Committee (MPC) formulates monetary policy to achieve and maintain price stability in line with section 27(2) of the Bank of Zambia Act, 2022. The Committee meets every second month of the quarter in February, May, August and November to decide on the monetary policy stance. In doing so, the Committee reviews macroeconomic developments in the previous quarter and prospects for inflation over the forecast horizon currently eight quarters ahead. This information is published in the Monetary Policy Report (MPR) to strengthen transparency and accountability of the MPC.

The stance of monetary policy is reflected in changes to the Policy Rate introduced in April 2012. This is guided by inflation outcomes, forecasts from inflation models and identified risks, including those associated with growth and financial stability. The MPC relies on a forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the policy stance. The Policy Rate aims to provide a credible and stable anchor to financial market participants in setting their own interest rates as well as guides the Bank in its implementation of monetary policy. The Bank may use non-price (quantitative) monetary policy instruments, such as, the statutory reserve ratio in its conduct of monetary policy.

The Bank influences the overnight interbank rate (operating target) which in turn impacts on inflation through changes in market interest rates transmitted via the expectations, exchange rate and/or credit channels. To effectively manage the overnight interbank rate, the Bank conducts open market operations to either supply or withdraw liquidity from the banking system to keep the overnight interbank rate within the corridor of +/- 1 percentage points around the Policy Rate. There are, however, exceptional circumstances where the interbank rate may be allowed to drift outside the Policy Rate Corridor.

The monetary policy decision is publicly announced in the Monetary Policy Committee Statement issued via a press release a day after each quarterly MPC meeting. The MPR is published soon after the MPC Meeting. This is intended to provide detailed information used by the MPC in arriving at a Policy Rate decision.

Executive Summary

The drought continued to impact macroeconomic conditions in the fourth quarter of 2024. Inflation accelerated while domestic credit growth and money supply slowed down. However, the adverse effect on real GDP growth appears to be less than anticipated.

Average inflation rose to 16.3 percent from 15.5 percent in the third quarter. The implementation of higher emergency electricity tariffs in November, triggered by the drought in the 2023/2024 rainy season, had a substantial impact, particularly on non-food inflation, which rose to 14.1 percent from 12.2 percent in October. Further, the reduced supply of vegetables and fish as well as the depreciation of the exchange rate contributed to higher inflation. Over the forecast horizon covering the first quarter of 2025 to the fourth quarter of 2026, inflation is projected to remain outside the 6-8 percent target band. It is expected to average 14.6 percent in 2025, higher than the 13.9 percent projected in November 2024 . This is largely influenced by the recent increase in inflation and persistent depreciation of the exchange rate. In addition, survey data on inflation expectations indicate that inflation will remain elevated and well above the 6-8 percent target band. In 2026, inflation is projected to decline to 10.6 percent but will remain above the target band.

The balance of risks to the inflation outlook is now tilted to the downside suggesting that inflation outcomes over the forecast horizon could be lower than projected. The shift in the balance of risks is mostly prompted by the expected improvement in food supply, particularly maize grain, and electricity generation in view of the current favourable rainfall. That notwithstanding, the external environment remains a source of upside risk to inflation as the shift in global trade policies evolve and geopolitical tensions rise. Thus, to steer inflation back to the 6-8 percent target band and help anchor inflation expectations, the Monetary Policy Committee decided to increase the Monetary Policy Rate by 50 basis points to 14.5 percent.

With regard to credit growth, the pick-up observed in the third quarter was reversed in the fourth quarter as the declining trend was sustained mostly by subdued economic activity occasioned by the drought. Consequently, money supply growth slowed down. By and large, borrowing costs remained elevated partly due to the tight monetary policy stance.

The current estimate of GDP growth for 2024 is more optimistic than the subdued projection reported in November last year. Underlying the expected better performance is a pick-up in copper production and sustained strong performance of ICT and financial sectors. A strong rebound in real GDP growth is still projected in 2025 as both agriculture and energy sectors recover, mineral production expands and the positive growth in ICT and financial sectors is sustained.

The *current account* deficit narrowed in the fourth quarter due to the reduction in retained earnings by foreign-owned entities as they imported more electricity to sustain operations. A favourable *current account* balance is projected for 2025 and 2026 on anticipated faster growth in exports than imports as mining production expands.

Over the medium-term, a declining trend in fiscal deficits towards sustainable levels is projected from 2025. This is mostly based on strengthened domestic revenue mobilisation coupled with sustained expenditure rationalisation.


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1. Macroeconomic Outlook

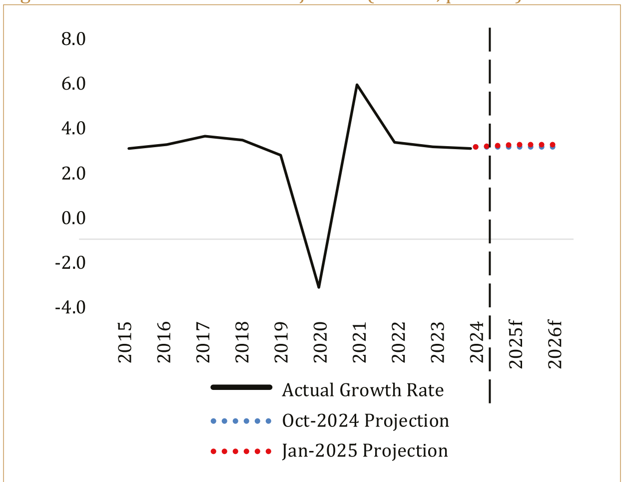
- *Global growth to expand on easing global inflation and strong US growth.*
- *Copper and crude oil prices to decline on stronger US dollar, shift in global trade policies and weak demand by China.*
- *Current account to remain positive on anticipated faster growth in exports than imports as mining production expands despite moderation in copper prices.*
- *Real GDP growth for 2024 to be significantly lower than the 2023 outturn but to rebound in 2025.*
- *Cash fiscal deficit to narrow in 2025 on strengthened revenue mobilisation and sustained expenditure rationalisation.*
- *Inflationary pressures to ease but inflation to remain above target.*

1.1 External Sector Outlook

... global growth to remain stable

Global growth projection for 2025 has been upgraded by 0.1 percentage point from the October forecast. Thus, the global economy is projected to expand by 3.3 percent in both 2025 and 2026[1] from an estimated 3.2 percent outturn in 2024 (Figure 1).

Figure 1: Global GDP Growth Projection (annual, percent)



Source: IMF WEO, January 2025; Bank of Zambia Compilations

The modest upgrade of the 2025 growth forecast is based on easing global inflation and stronger-than-expected growth in the US[2]. Growth in the US is expected to be bolstered by business investment and strong consumer spending as labour markets have remained broadly resilient.

The risks to global growth remain skewed to the downside. They mostly relate to the evolving shift in global trade policies, escalation in geopolitical tensions and weaker-than-expected growth in China due to persistent weaknesses in the property market.

... economic activity in major trading partner countries to strengthen

According to preliminary data, real GDP growth in Zambia's key trading partners is projected to strengthen over the 2025-26 period. This is reflected in a relatively higher Export-Weighted GDP (GDP-9) Index[3] than the November 2024 projection (Table 1 and Figure 2).

Table 1: Changes in GDP-9 Index and Country Contributions, 2023 – 26[4]

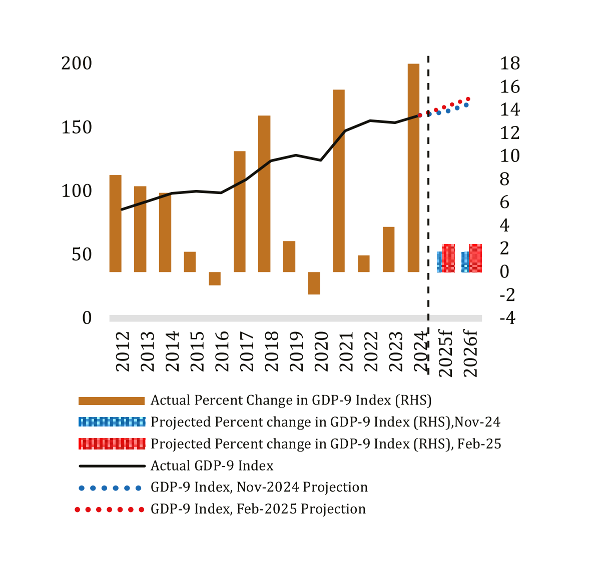
	Weight	2023	2024p	2025f	2026f
GDP-9 Index (percent change) – Feb 2025		2.06	1.34	4.01	4.09
GDP-9 Index (percent change) –Nov 2024		2.17	0.64	3.69	3.85
Country Contributions to the Change in GDP-9 Index					
China	0.49	1.07	0.47	1.77	1.81
DRC	0.30	0.67	0.21	0.98	1.01
South Africa	0.12	0.23	0.24	0.58	0.59
Singapore	0.00	-0.07	0.22	0.24	0.24
UK	0.07	0.16	0.01	0.18	0.19
UAE	0.00	-0.02	0.07	0.08	0.08
Tanzania	0.00	0.04	0.02	0.07	0.07
Malawi	0.02	-0.02	0.06	0.06	0.07
Hong Kong	0.00	-0.00	0.03	0.04	0.04

Source: Bank of Zambia Staff Calculations
DRC = Democratic Republic of the Congo, UK = United Kingdom, UAE = United Arab Emirates p = preliminary, f = forecast

[1]IMF World Economic Outlook (WEO), January 2025.
[2]The IMF has raised the 2025 growth forecast, reflecting strong performance in the US economy, which has been upgraded by 0.5 percentage points to 2.7 percent, offsetting weaker growth in other major advanced economies. However, growth for 2026 is expected to moderate to 2.1 percent due to the slower increase in consumer spending as labour markets soften and investment in private non-residential structures reduce.

[3]The GDP-9 Index is used to assess external demand conditions in Zambia's key trading partner countries. It is computed as a Fisher Ideal Index and constructed based on nine countries: China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi and Tanzania. In 2020, these countries accounted for 86.9 percent of Zambia's exports, excluding Switzerland—a predominantly invoicing country for copper exports.
[4]The data reported in the *November 2024 Monetary Policy Report* has been revised to reflect recently released GDP numbers.

Figure 2: Changes in GDP-9 Index



Source: Bank of Zambia

The optimistic growth outlook is based on the upward revision of growth projections for China and the UK[5] by the IMF (Table 2).

Table 2: Trading Partner Growth Rates (percent), 2022-2025

	Weight	2022	2023	2024	2025
China	0.5	3.0	5.2	4.8	4.6
DRC	0.3	8.8	8.4	4.7	5.0
South Africa	0.1	1.9	0.7	0.8	1.5
Singapore	0.0	3.8	1.1	2.6	2.5
UK	0.1	4.8	0.3	0.9	1.6
UAE	0.0	7.5	3.6	4.0	5.1
Tanzania	0.0	4.7	5.1	5.4	6.0
Malawi	0.0	0.9	1.5	1.8	4.0
Hong Kong	0.0	-3.7	3.3	3.2	3.0

Source: IMF WEO, January update 2025 and Bank of Zambia Compilations.

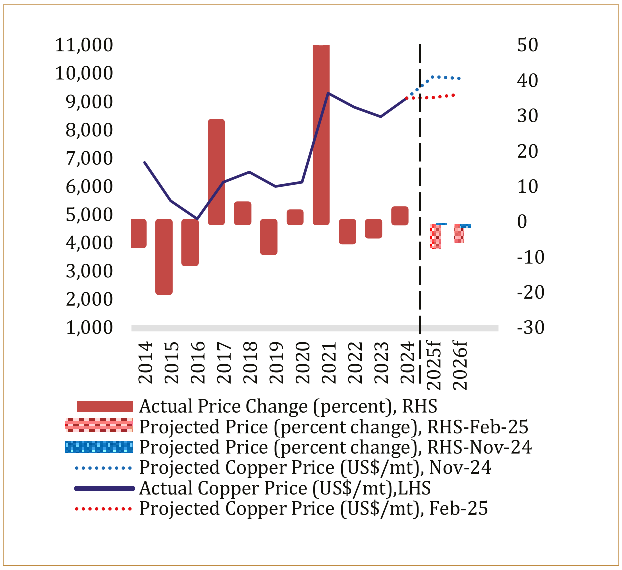
The IMF upgraded the growth forecast for China following the implementation of fiscal and monetary stimulus policies in September last year to shore up the ailing property sector and the broader economy. A significant portion of this growth will be driven by the services sector with manufacturing playing a more supportive role. This reflects a gradual shift from the traditional reliance on manufacturing as the key driver of economic growth towards a greater emphasis on services. Higher consumer spending, supported by easing inflation and interest rate cuts, along with increased government and business spending influenced the revision to the UK growth forecast.

While the growth outlook is generally positive in major trading partner countries, the risks are still skewed to the downside as reported in the November 2024 Monetary Policy Report. They include higher borrowing costs, volatility in commodity markets and weaker-than-expected growth in China. Other risks relate to possible escalation in regional conflicts; occurrence of extreme weather conditions, which could affect both food and energy security; and supply-chain disruptions due to the potential escalation of conflict in the Middle East and the war in Ukraine.

... copper, crude oil, wheat and maize prices to decline

Copper prices are projected to be 7.5 percent and 5.8 percent lower than the November forecast, averaging US$9,155.75 per metric tonne in 2025 and US$9,271.88 per metric tonne in 2026, respectively(Figure 3).

Figure 3: Copper Prices (annual average)

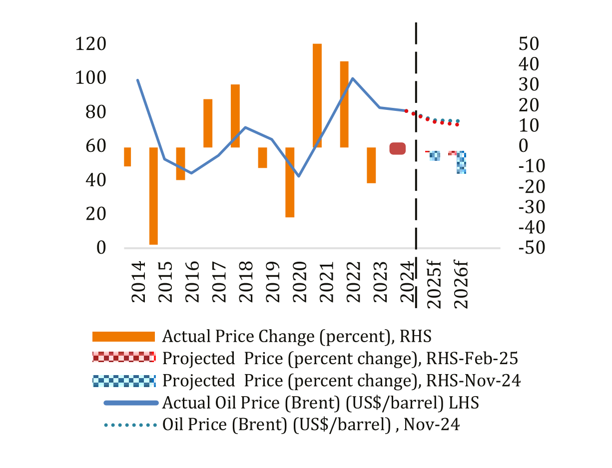


Source: IMF, World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilation

Over the same period, crude oil prices are projected to decline further to US$74.37 per barrel and to US$72.49 per barrel (Figure 4).

[5]The IMF raised the UK 2025 growth forecast by 0.1 percentage points to 1.6 percent from the October forecast but maintained the 2026 forecast at 1.5 percent. This performance is expected to surpass that of other major European economies such as Germany, France and Italy over the next two years.

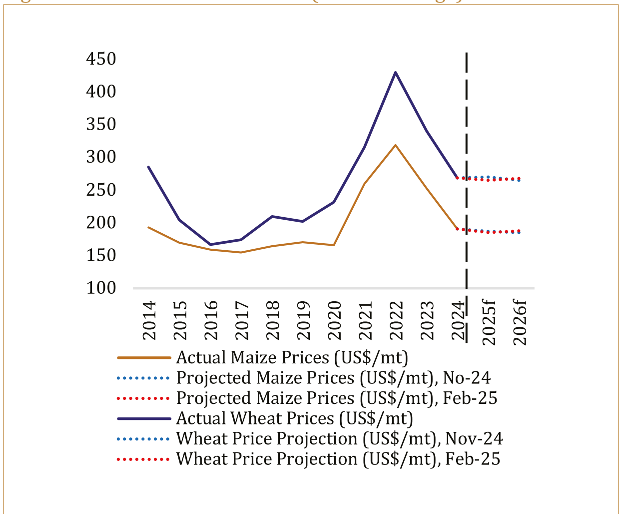
Figure 4: Crude oil Prices (annual average)



Source: World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilation

Maize prices are forecast to decline to US$185.0 per metric tonne in 2025 but marginally rise to US$188.0 per metric tonne in 2026 (Figure 5). Similarly, wheat prices are projected to fall to US$265.0 per metric tonne in 2025 then rise in 2026 to US$ 268.0 per metric (Figure 5).

Figure 5: Maize and Wheat Prices (annual average)



Source: World Bank Pink Sheet and Commodity Markets Outlook October 2024, and Bank of Zambia Compilation

The anticipated stronger US dollar, enforcement of new US tariffs[6] and weak demand by China[7] are the key factors underlying the current commodity price projections. Other factors include likely higher global production by leading producers of copper[8], maize and wheat, as well as non-OPEC[9] oil producers led by the US.

Specific to crude oil, additional factors include possible rollback of OPEC+ production cuts and moderation in geopolitical tensions in the Middle East after Israel and Hamas signed a ceasefire agreement on January 16, 2025. The growing use of electric vehicles (EVs)[10], increased investment in renewable energy and improvement in energy efficiency across many advanced economies are expected to dampen demand and subsequently crude oil prices.

The pick-up in maize and wheat prices in 2026 is based on expectations of constrained supply due to adverse weather conditions in southeastern Europe, parts of Russia and Ukraine[11].

The risks to the commodity price projections are assumed to be tilted to the downside. These include weaker-than-expected growth in China, persistent stronger US dollar and higher global production.

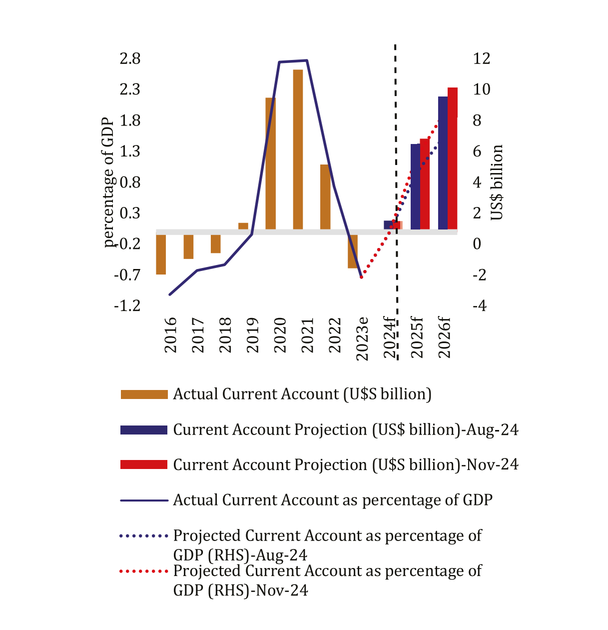
… positive current account balance projected

The November 2024 projection of a positive current account balance remains unchanged. A surplus of US$1.5 billion (5.6 percent of GDP) is projected for 2025 and to widen further to US$2.3 billion (8.4 percent of GDP) in 2026 (Figure 6). This is based on the projected faster growth in exports than imports on anticipated further expansion of mining production despite a moderation in copper prices (refer to section 1.2 for details).

[6]https://www.fitchratings.com/research/corporate-finance/additional-us-tariffs-would-increase-pressure-on-global-commodity-markets-17-12-2024
https://think.ing.com/articles/trump-china-add-to-copper-headwinds-in-2025/
[7]Sluggish demand for commodities by China is mainly due to the persistent crisis in the property sector, sustained deflationary pressures and plans to boost domestic production and supply of key grains:https://www.world-grain.com/articles/20859-china-making-strides-in-grain-self-sufficiency
[8]The International Wrought Copper Council (IWCC) expects refined copper production to reach 27.27 million tonnes in 2025 and rise further to 29.3 million tonnes by 2030: Short-Term Forecasts for Copper - Oct 2024 - International Wrought Copper Council

[9]https://www.iea.org/reports/oil-market-report-january-2025
[10]https://www.iea.org/energy-system/transport/electric-vehicles
https://www.spglobal.com/commodity-insights/en/news-research/latest-news/crude-oil/101624-iea-sees-oil-supply-overhang-emerging-after-cutting-long-term-demand-projection
[11]https://www.syngenta.ca/market-news/igc-lowers-2024-25-global-corn-production-estimate--soybeans-rai

Figure 6: Current Account Projections



Source: Bank of Zambia

1.2 Prospects for Domestic Economic Growth

... rebound in 2025 maintained

Real GDP growth for 2024 is expected to be significantly lower than the 2023 outturn of 5.4 percent due to the severe impact of the drought on agriculture and energy-intensive sectors. This is despite the BoZ revising real GDP growth projection upwards to 2.2 percent from the 1.8 percent reported in November 2024 (Table 3 and Figure 7). The revision is largely underpinned by a higher-than-expected real GDP outturn in the third quarter[12].

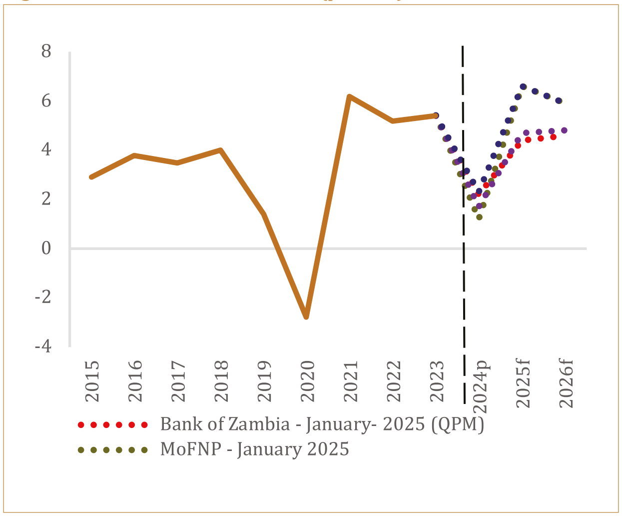
Table 3: Annual Real GDP Growth Projections (percent)

	2023	2024p	2025f	2026f
Bank of Zambia QPM				
BoZ January 2025	5.4	2.2	4.4	4.6
BoZ October 2024	5.4	1.8	4.9	4.7
Ministry of Finance and National Planning				
MoFNP January 2025	5.4	1.2	6.6	5.9
MoFNP October 2024	5.4	1.5	6.2	6.4
International Monetary Fund				
IMF October 2024	5.4	1.2	6.2	6.6
IMF June 2024	5.4	2.3	6.6	5.9
IMF WEO October 2024	5.4	2.3	6.6	5.9
FocusEconomics				
FocusEconomics February 2025	5.4	1.7	4.8	4.9
FocusEconomics November 2024	5.4	3.3	4.6	4.9

Source: Bank of Zambia, Ministry of Finance and National Planning, IMF WEO, Focus Economics.
Note: p=preliminary estimate, f=forecast.

[12]The mining sector output exceeded expectations while construction and ICT sectors remained resilient. The manufacturing sector also grew, particularly in wood and paper products, despite longer electricity load management hours as businesses have adjusted to alternative power sources (refer to subsection 2.4 for more details).

Figure 7: Annual Real GDP Growth (percent)

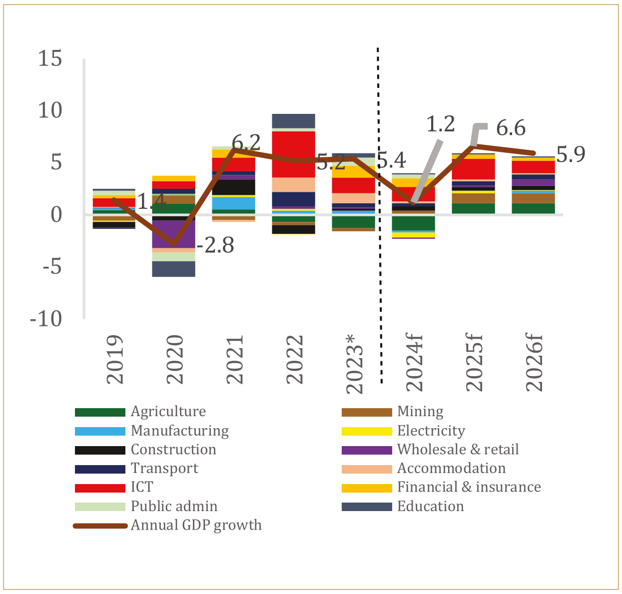


Source: Zambia Statistics Agency, Bank of Zambia (BoZ), Ministry of Finance and National Planning (MoFNP), IMF, Focus Economics.
Note: p=preliminary, f=forecast.

While a rebound in real GDP growth is projected in 2025, the projection, including for 2026, is now lower than the November 2024 forecast. This reflects the lagged effect of the drought, relatively unfavourable terms of trade (faster decline in copper prices than crude oil prices), moderation in foreign demand and lower real fiscal expenditures.

The Ministry of Finance and National Planning (MoFNP) has revised the 2024 growth projection to the IMF's 1.2 percent from 1.5 percent presented in the *November 2024 Monetary Policy Report* (Table 3 and Figures 7 and 8). This accounts for the anticipated greater impact of the drought primarily on electricity generation and agricultural output.

Figure 8: Sectoral Contribution to Real GDP Growth (percentage points)

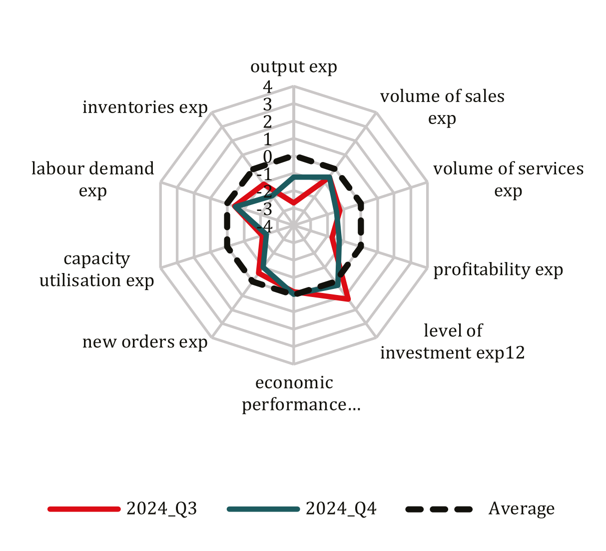


Source: Ministry of Finance and National Planning, Zambia Statistics Agency
Note: p=preliminary, f=forecast.

FocusEconomics has also lowered the growth forecast for 2024 to 1.7 percent from 2.3 percent, broadly in line with the IMF and MoFNP (Table 3 and Figure 7). The downgrade reflects the stronger adverse effects of the drought on agriculture and energy-intensive sectors. Conversely, the real GDP growth projection for 2025 has been slightly revised upward to 4.8 percent from 4.7 percent. This is based on the expectation that the economy will recover from the devastating effects of the drought. Increased rainfall is expected to boost agricultural output and help alleviate the energy crisis over the medium-term. The economy is also projected to continue expanding in 2026, at 4.9 percent, unchanged from the previous forecast.

The respondents to the *February 2025 Bank of Zambia Quarterly Survey of Business Opinions and Expectations* continued to express optimism about economic prospects for 2025. This is based on favourable weather conditions following improved rainfall patterns, which are expected to enhance electricity generation and support the recovery of agricultural production. In addition, respondents anticipate a rise in mining output because of recent investments in the sector (Figure 9).

Figure 9: Business Expectations Response Patterns[13]



Source: Bank of Zambia

Over the medium-term, copper output is expected to continue recovering, supported mostly by the pick-up in production at Mopani Copper Mines Plc and Konkola Copper Mines Plc following resumption of operations. In addition, the start-up and increase in output at major mines is likely to contribute to this growth in the mining sector.

With regard to the agriculture sector, a recovery is anticipated on the back of improved rainfall in the 2024/25 farming season. Thus, maize output is likely to meet domestic demand for both human consumption and industrial use. Further, growth in the sector is expected to be supported by the continued provision of inputs and financial resources to small-scale farmers.

Recovery and growth in the energy sector over the medium-term is underpinned by increased electricity generation capacity via new investments in solar, thermal and wind energy.

The risks to economic growth remain largely negative. These include floodings and lower-than-expected rainfall in key maize producing provinces and the potential return of protectionist trade policies. The protectionist policies could reduce trade flows, foreign direct investment and introduce financial market volatility. On the upside, with the expected normal to above-normal rainfall distribution, electricity generation may improve and lead to reduced electricity load management hours and boost economic activity.

1.3 Fiscal Outlook

... fiscal deficit projected to decline

The fiscal deficit for 2024 is estimated at 4.2 percent of GDP, lower than the revised target of 6.4 percent. Constrained expenditure occasioned by tight financial conditions over the first half of the year contributed to a lower deficit.

Since the November 2024 Meeting, uncertainty associated with the foreign policy pronouncements following the change in administration in the US has emerged as a fiscal risk. This arises from possible cancellation or reduction of official development assistance to low-income countries. The risks to the fiscal outlook articulated in the *2024 Fiscal Risk Statement* remain relevant. These include lower copper prices[14], adverse impact of geopolitical tensions on energy and food prices, volatility in the exchange rate and weather-related shocks.

1.4 Inflation Outlook: First Quarter 2025 – Fourth Quarter 2026

... inflationary pressures to ease

Since the November 2024 MPC Meeting, external initial conditions have remained broadly favourable while domestic conditions have slightly improved though still unfavourable[15] resulting in a higher inflation profile in the initial part of the forecast horizon than earlier forecast. Inflation is thus expected to moderate

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

[14]Copper price fluctuations are expected on the back of uncertain demand by China, robust global production and a stronger US dollar. The prices are projected to be lower than the November 2024 forecast, averaging US$9,155.75 per metric tonne in 2025 and US$9,271.88 per metric tonne in 2026.

[15]In determining the future path of inflation, an assessment of domestic and international conditions is conducted. The assessment of these conditions and methodology used to generate the inflation outlook were outlined in the *February 2024 Monetary Policy Report.*

in the latter part of the forecast period as domestic conditions improve but still remain above the 6-8 percent target band under a no policy change scenario.

The key assumptions shaping the current baseline inflation projection for the period 2025Q1 to 2026Q4 (forecast horizon) are presented in Table 4 and briefly discussed.

Table 4: Key Assumptions Underlying Inflation Projection (Mostly Exogenous)

Variables	2025f	2026f
Average inflation-USA (percent)	2.2 (2.1)	2.1 (2.1)
Fed funds rate (percent)	3.9 (3.4)	3.4 (2.9)
Treasury bill rate-USA (percent)	3.8 (4.1)	3.4 (3.2)
Treasury bill rate - Zambia (percent)	11.49 (10.60)	11.49 (10.60)
Average inflation - South Africa (percent)	4.0 (4.0)	4.6 (4.4)
Producer price index- South Africa	177.9 (179.6)	186.1 (187.4)
Average copper price/ton (US$)	9,155.75 (9,901.13)	9,271.88 (9,847.88)
Average crude oil Price/barrel (US$)	74.37 (75.39)	72.49 (74.76)
Reserve money growth (percent)*	3.9 (3.9)	-6.6 (-6.7)
Fiscal deficit**	1.13 (1.13)	1.12 (1.12)
BoZ Policy Rate (percent)	14.0 (13.5)	14.0 (13.5)
World food price index	110.2 (110.2)	109.8 (109.8)
Maize grain price - Zambia (K/50Kg)	442.50 (410.00)	410.00 (410.00)
Diesel price - Zambia (K/litre)	34.00 (30.36)	34.88 (33.14)

Source: IMF, World Bank, Bloomberg, FocusEconomics Consensus, Reuters, Congressional Budget Office, US Federal Reserve, South African Reserve Bank, Bank of Zambia

Note: the numbers in parenthesis ( ) represent projections in the previous forecasting period.

*Refer to reserve money computation in Table 9.

**Computed as a ratio of expenditure (excluding amortisation) over revenue. A value in excess of 1 implies a deficit.

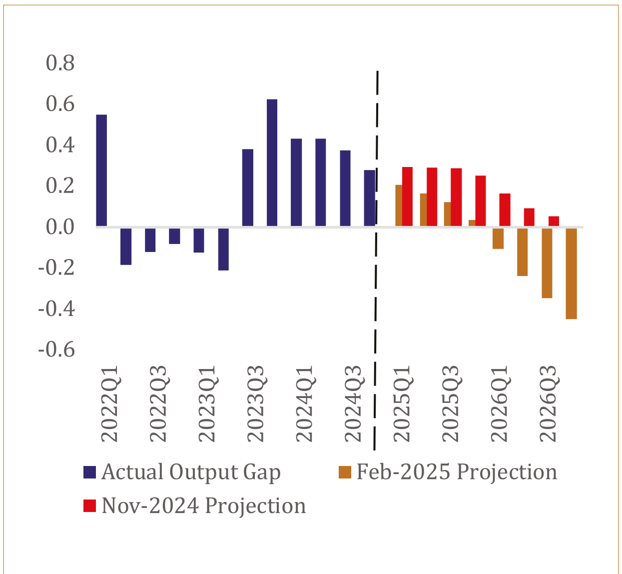
f = forecast

In addition, the 15.0 percent and 10.0 percent electricity tariff increase in the second quarter of 2025 and 2026, respectively, approved by the ERB in 2023 under the Multi-Year Tariff Plan, is incorporated in the baseline projection.

External Conditions

Global demand, proxied by the US output gap, is estimated to have slowed down in the fourth quarter of 2024 (Figure 10). The moderation in consumer spending due to slower growth in wages or real disposable income and employment as the labour market cools largely explain the easing in demand. In addition, household savings accumulated during the COVID-19 period have significantly declined thus contributing to reduced discretionary consumption. In 2025, real GDP growth in the US is projected to remain broadly strong and above potential due to easing financial conditions and a robust labour market, which is likely to continue supporting consumer spending. However, real GDP growth is expected to slowdown in 2026 and likely fall below potential on account of the anticipated impact of the proposed trade tariffs and immigration policies by the new administration.

Figure 10: Global (US) Output Gap[16]

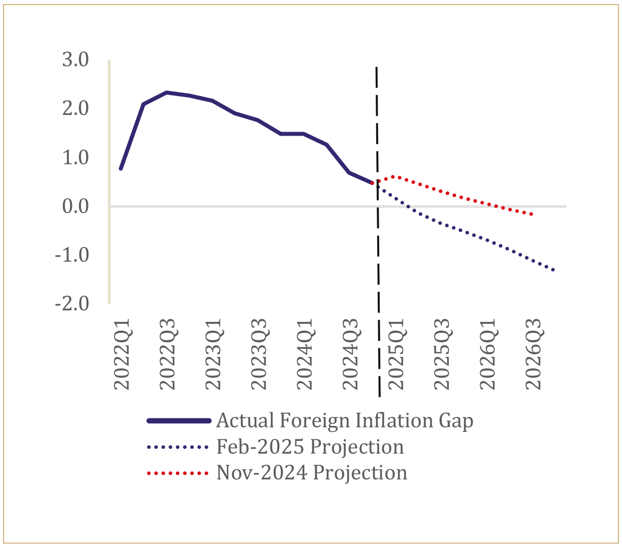


Source: Bank of Zambia Staff Computations

Foreign inflation, proxied by changes in US personal consumption expenditures (PCE), ticked up in the fourth quarter of 2024. Year-on-year, the PCE Index increased to 2.4 percent in November from 2.1 percent in September as prices of services and food rose. Despite the uptick, inflation is projected to decline toward the 2.0 percent Federal Reserve target over the medium-term (Table 4 and Figure 11). Moderation in the growth of wages and employment, easing economic activity, well-anchored long-term expectations and base effects underpin this projection.

[16]The global or foreign output gap is the difference between observed and potential US GDP. A negative foreign output gap implies slack in demand while a positive gap reflects excess demand.

Figure 11: Foreign (US Personal Consumption Expenditure) Inflation Gap[17]



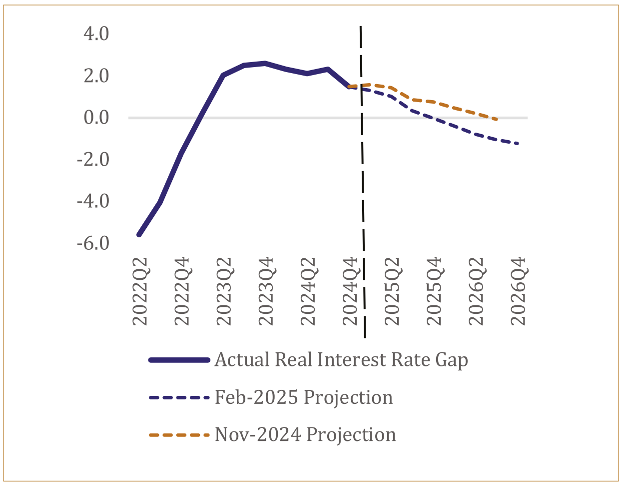
Source: Bank of Zambia staff computations

Inflation in South Africa, at 2.9 percent in November, was below the mid-point of the 3-6 percent target band. This was attributed to a stronger exchange rate and lower oil and food prices. These factors are expected to lower inflation to around 4.0 percent in 2025 compared to the average outturn of 4.5 percent in 2024. However, inflation is forecast to rise slightly above the mid-point in 2026 mainly on account of higher electricity prices (Table 4).

Central banks in major economies continued to cut interest rates in the fourth quarter of 2024 as significant progress in the disinflationary process was made and concerns about slowing economic growth (Canada and Europe) heightened. The Bank of Canada and Bank of England lowered benchmark rates by 100 basis points and 25 basis points, respectively while the European Central Bank and Federal Reserve cut rates by 50 basis points apiece. In 2025 and 2026, monetary policy easing is expected to moderate as some central banks adopt fewer interest rate cuts due to the threat posed by persistent services inflation. For instance, policy guidance by the Federal Reserve and Bank of England points to a slowdown in rate cuts as core inflation remains broadly above target and the November 2024 headline inflation was higher than expected, reflecting elevated risk of inflationary pressures (Figure 12).

[17]Foreign inflation gap is the difference between observed and target US inflation. A negative foreign inflation gap implies inflation falling below the target while a positive gap reflects higher actual inflation than the target.

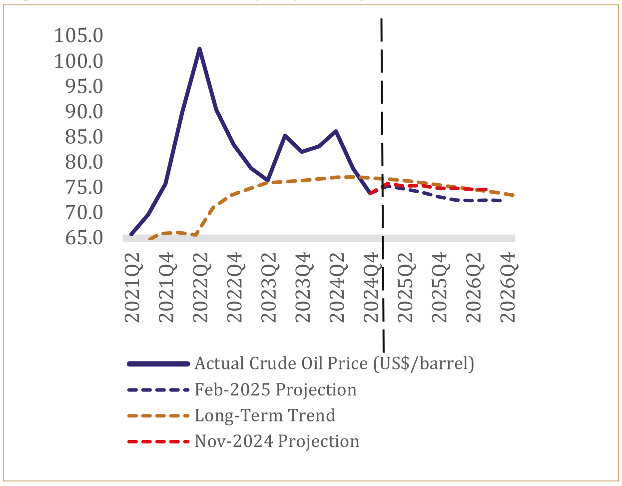
Figure 12: Foreign Real Interest Rate Gap[18]



Source: Bank of Zambia Staff Computations

Crude oil prices declined further in the last quarter of 2024 on account of weaker demand by China, a stronger US dollar and expectations of increased supply by non-OPEC+ producers (Table 4 and Figure13). The agreement[19] reached between Israel and Lebanon on a ceasefire also contributed to the decline in oil prices. In the next eight quarters, crude oil prices are projected to reduce further. Thus, the current profile is lower than the November 2024 forecast (Figure 13). As indicated in the *November 2024 Monetary Policy Report*, improvement in supply by non-OPEC+ producers and weak demand, particularly in China and North America, will keep crude oil prices on a declining trend. In addition, higher production quotas by OPEC+ are expected to take effect after April 2025. This will dampen prices further.

Figure 13: Crude Oil Prices (US$/barrel)

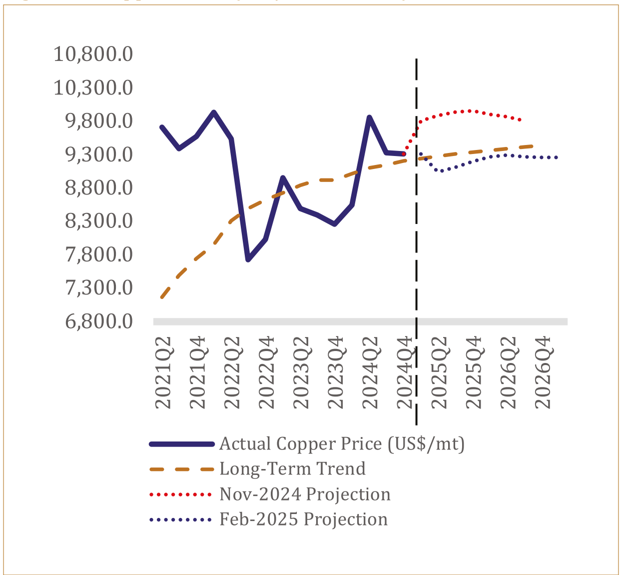


Source: Bank of Zambia Staff Computations

[18]This is the difference between the prevailing foreign interest rate and long-run equilibrium real interest rate. In the QPM, foreign real interest rates are important for determining the risk premium. A rising foreign real interest rate gap signifies increases in the risk premium, which implies a depreciation in the nomimal exchange rate. Like the foreign output gap, the foreign real interest rate gap is also exogenously determined and taken as given in the model.
[19]On November 27, 2024, a ceasefire agreement was signed by Israel, Lebanon and five mediating countries, including the United States. Israel and Hezbollah began fighting on October 8, 2023, and on October 1, 2024, Israel invaded Lebanon.

Copper prices slightly declined in the fourth quarter of 2024 due to higher output by Chile, a stronger US dollar, the Federal Reserve's cautious approach to interest rate cuts and concerns about future demand due to the expected disruptions to trade attributed to the new US administration tariff policies (Table 4 and Figure 14). Unlike the November 2024 forecast, copper prices are now projected to be lower, and fall below the long-term trend, but still maintain a rising trend (Figure 14). In particular, prices are projected to decline in the initial part of the forecast horizon due to the anticipated stronger US dollar and trade disputes associated with the new US administration. However, prices are projected to rise by the end of 2025 and continue in 2026, driven by demand from the rapid expansion in data centres to support AI applications, especially by China as the economy expands with a shift towards promoting the services sector, and global transition to green energy (refer to section 1.1)

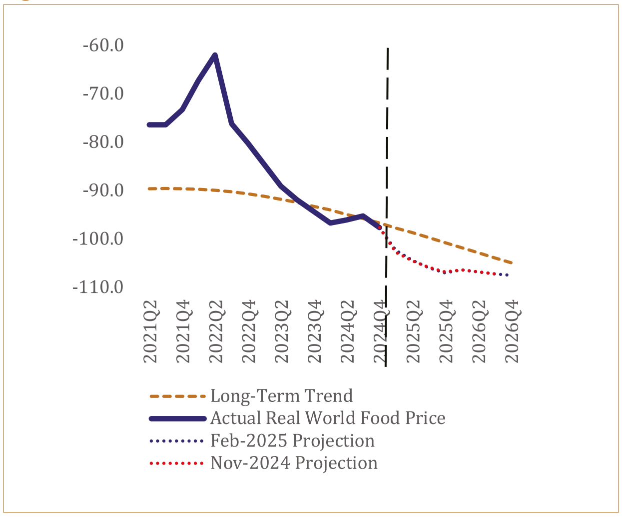
Figure 14: Copper Prices (US$/metric tonne)



Source: Bank of Zambia Staff Computations

World food prices[20] *also declined in the fourth quarter of 2024 on account of subdued demand amid ample supply of wheat following a strong harvest in Argentina and Australia* (Figure 15). Further, lower demand for vegetable oils (soy, rapeseed and sunflower) and dairy products, higher output of sugar in Brazil and brighter prospects for sugarcane crops to be harvested in April 2025 contributed to this outturn. Prospects for lower global food prices remain the same as indicated in the *November 2024 Monetary Policy Report*.

Figure 15: Real World Food Prices

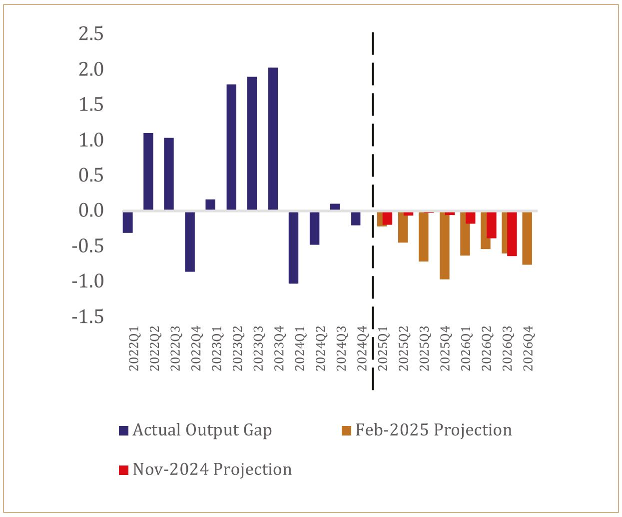


Source: Bank of Zambia Staff Computations

Domestic Conditions

Preliminary estimates indicate a negative domestic output gap in the fourth quarter of 2024 due to the sustained impact of the drought on economic activity and moderation in foreign demand (Figures 16). Despite a projected strong rebound in growth in 2025, relatively unfavourable terms of trade as copper prices decline faster than crude oil prices, further moderation in foreign demand and lower real fiscal expenditures are expected to keep the output gap negative throughout the forecast horizon.

Figure 16: Domestic Output Gap[21]



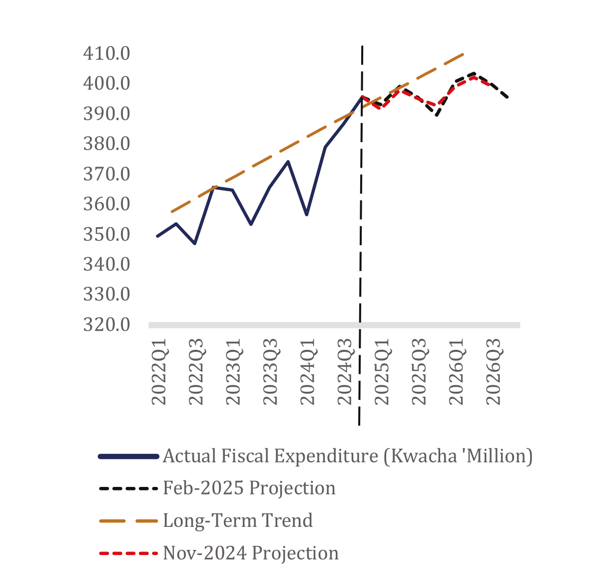
Source: Bank of Zambia Staff Computations

The fiscal deficit is projected to continue declining over the medium-term, unchanged from the November 2024 forecast (Table 4). In line with the discussion under the fiscal outlook, real fiscal expenditures are expected to be below the long-term trend for most part of the forecast horizon as inflation remains elevated (Figure 17).

[20]World food prices are measured by the FAO Food Price Index, a weighted average of five commodity sub-indices, with the weight of the cereals sub-index being the second largest (https://www.fao.org/fileadmin/templates/worldfood/Reports_and_docs/FO-Expanded-SF.pdf). This is relevant to our inflation forecast as the CPI basket is dominated by cereals (mostly maize) as a single product.

[21]The domestic output gap is the deviation of aggregate demand from its potential. Negative output gap implies slack in demand while positive output gap implies excess demand. The output gap is endogenously determined by expectations, monetary conditions, foreign demand, terms of trade and fiscal policy.

Figure 17: Real Fiscal Expenditure



Source: Bank of Zambia Staff Computations

Monetary conditions[22] *loosened further in the fourth quarter of 2024 as the exchange rate depreciated at a faster rate*[23] *than in the preceding quarter and inflation rose further thus keeping the real policy rate negative.*

The reserve money growth projection remains broadly unchanged from the November 2024 forecast (Table 4). Reserve money is projected to grow at 3.9 percent in 2025 due to net Government spending and disbursement from the recently launched Stability and Resilience Facility. However, it is projected to contract by 6.6 percent in 2026 on account of net Government securities sales.

In the first two quarters of 2025, an average market maize grain price of K475/50kg bag, higher than the November projection of K410, is assumed. This was the prevailing price as at December 9, 2024. The increase in maize grain prices is mostly seasonal during the lean period. For the rest of the forecast horizon, K410/50kg bag is assumed on expectation that maize grain prices will decline with improved output in the 2024/25 farming season based on the current favourable rainfall pattern.

Based on the foregoing, the current inflation projection for 2025 is higher than the November 2024 MPC forecast (Table 5 and Figure 18). However, inflation is forecast to decline to an average of 11.5 percent in 2026. This is attributed to the anticipated dissipation of the effects of the drought on agricultural production and decline in world food prices.

[22]Real monetary conditions are measured by the monetary conditions index, computed as a weighted average of real interst rate and real exchange rate gaps based on the calibrations of the QPM. Positive values imply tight monetary conditions—constrain aggregate demand—while negative values imply loose monetary conditions—boosts aggregate demand.

[23]Quarter-on-quarter, the Kwacha depreciated by 4.5 percent against the US dollar compared to 1.7 percent in the third quarter.

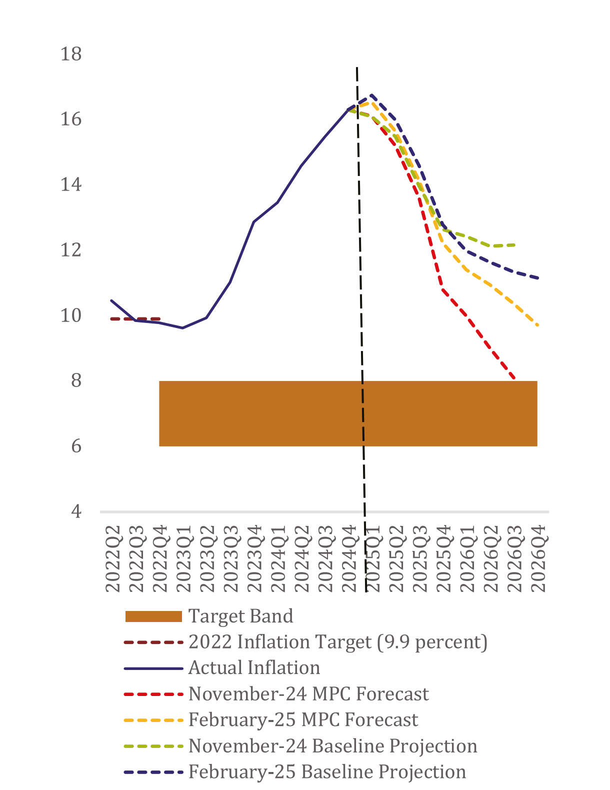
Table 5: Inflation Projection (average percent)

	2025	2026
Feb-25 Baseline	15.0	11.5
Feb-25 MPC Forecast	14.6	10.6
Nov-24 Baseline	14.6	12.3*
Nov-24 MPC Forecast	13.9	9.0*

Source: Bank of Zambia Staff Forecasts

Note: *Projection for Q1 – Q3 2026

Figure 18: Inflation Profiles (percent)



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

Inflation expectations by respondents to the February 2025 Bank of Zambia Quarterly Survey of Business Opinions and Expectations remain elevated. They expect inflation to average 17.8 percent in the first half of 2025 and remain high over a one-year horizon. This is on account of rising production costs because of the intense use of alternative electricity sources, sustained exchange rate depreciation, elevated borrowing costs and fluctuating higher fuel prices.

Assessment of Risks to the Inflation Outlook

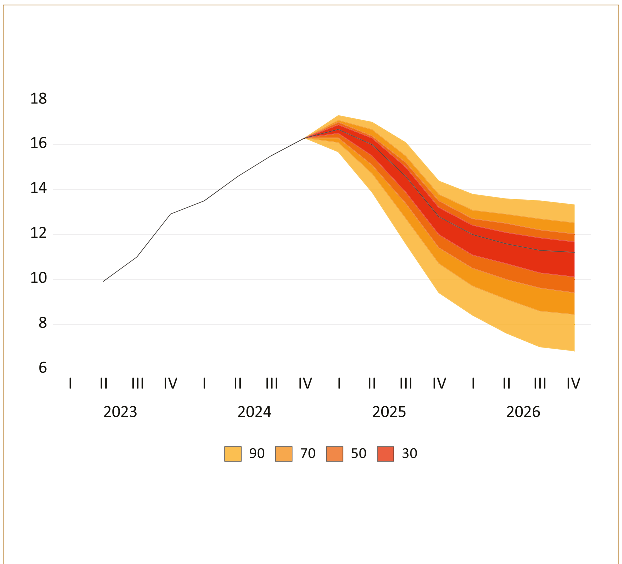
Since the November 2024 MPC Meeting, most of the risks to the inflation outlook have materialised. The identified risks to the current inflation baseline projection are mostly down side:

a) Lower maize grain prices due to the expected improvement in domestic and regional output. The current weather forecast points to a 72.0 percent weak La Niña conditions being experienced in the Southern Africa region. These conditions tend to result in normal to above-normal rainfall. Despite the start of the domestic farming season characterised by delayed rainfall and dry spells[24], continued planting and replanting indicate that maize output in the 2024/25 season is likely to improve and meet domestic demand. In addition, regional supply of maize could increase given the favourable weather forecast. As a result, maize prices are expected to moderate and favourably impact inflation; and

b) Non-extension of emergency electricity tariffs. As some of the alternative energy projects come on board and water levels in major reservoirs at hydropower plants improve, it is expected that electricity generation will begin to recover and reduce the current power deficit. As conditions that led to the imposition of emergency electricity tariffs may no longer hold, the ERB could do away with these tariffs. This has the potential to moderate inflationary pressures.

Broadly, the risks to the inflation outlook are now tilted to the downside. This is reflected in the fan chart in figure 19 and in Table 6. There is a higher chance of the inflation outturn falling below the baseline projection than exceeding it.

Figure 19: Inflation – Actual and Projected: Q1 2023 – Q4 2026 (percent)



Source: Bank of Zambia and Zambia Statistics Agency

Table 6: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
10.7 – 16.9	30
10.0 – 17.0	50
9.1 – 17.1	70
7.6 – 17.3	90

Source: Bank of Zambia

1.5 Monetary Policy Decision

At its February 10-11, 2025 Meeting, the Monetary Policy Committee decided to **increase the Monetary Policy Rate by 50 basis points to 14.5 percent**. This was intended to help steer inflation back to the 6-8 percent target band and help anchor inflation expectations, which are observed to have persisted.

The MPC noted that average inflation rose to 16.3 percent in the fourth quarter of 2024 from 15.5 percent in the third quarter. The implementation of higher emergency electricity tariffs in November, triggered by the drought in the 2023/24 rainy season, had a substantial impact, particularly on non-food inflation, which rose to 14.1 percent from 12.2 percent in October. Furthermore, the reduced supply of vegetables and fish as well as the depreciation of the exchange rate contributed to higher inflation.

Over the next eight quarters[25], inflation was still projected to remain outside the 6-8 percent target band. It was expected to average 14.6 percent in 2025 compared to 13.9 percent reported in the November 2024 MPC Statement. Survey data on inflation expectations also indicated that inflation would remain elevated and well above the target band. In 2026, although inflation was projected to decline to 10.6 percent, it would still be above the target band.

The risks to the inflation outlook were judged to have tilted to the downside. This suggested that inflation outcomes over the forecast horizon could be lower than was projected. The shift in the balance of risks was mostly influenced by the expected improvement in food supply, particularly maize grain, and electricity generation in view of the prevailing favourable rainfall. That notwithstanding, the external environment remained a source of upside risk to inflation as the shift in global trade policies evolved and geopolitical tensions rose.

[24] https://reliefweb.int/report/world/crop-monitor-early-warning-no-100-december-2024

[25] Forecast horizon from the first quarter of 2025 to the fourth quarter of 2026

2. Current Economic Developments

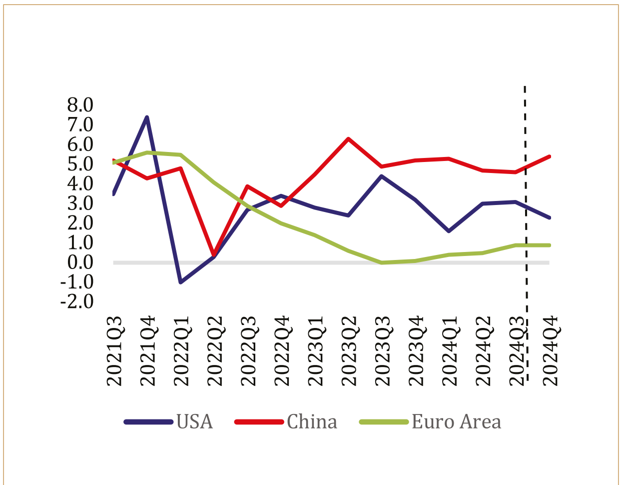
- *Growth in major economies still mixed.*
- *Global financial conditions easing as inflation returns to target in major economies.*
- *Current account deficit narrows on reduction in retained earnings.*
- *Interest rate movements still mixed, domestic credit growth slows and impacts money supply expansion.*
- *Economic activity slows further on power shortages, sustained depreciation of the exchange rate and persistent inflation.*
- *Budget fiscal deficit significantly lower than planned on lower domestic financing.*
- *Inflation rises further as drought affects electricity tariffs and food supply.*

2.1 External Sector

... real GDP growth in major economies still mixed

Real GDP growth was stronger-than-expected in China but slowed down in the US and euro area in the fourth quarter of 2024 (Figure 20).

Figure 20: Real GDP Growth (year-on-year, percent)



Source: Federal Reserve Bank of St. Louis, National Bureau of Statistics & Eurostat, and Bank of Zambia Staff Compilations

In China, a sharp rise in exports and the impact of aggressive stimulus measures implemented by the Government in September to revive the economy supported higher real GDP growth of 5.4 percent in the fourth quarter compared to 4.6 percent recorded in the preceding quarter. The key drivers of growth were services[26] and manufacturing sectors[27]. Despite this improvement, domestic demand remains weak because of persistent deflation and downturn in the property sector.

For the US, real GDP growth slowed down to 2.3 percent from 3.1 percent recorded in the third quarter. This was largely on account of the sharp decline in inventories, moderation in government spending and the reduction in business investment, particularly in building and equipment due to a strike at Boeing that disrupted production.

The euro area recorded no growth in the fourth quarter. In fact, lager economies, Germany and France, contracted due to the prolonged downturn in the manufacturing sector and political instability. This was compounded by weak business confidence, low investment levels and economic uncertainty.

... economic activity in Zambia's major trading partner countries expands further

Preliminary data indicate that growth in economic activity in Zambia's main trading partner countries expanded further in the fourth quarter of 2024, albeit at a slower pace. This is reflected in the year-on-year growth in the GDP-9 Index by 2.39 percent compared to 2.49 percent in the third quarter (Table 7and Figure 21).

[26]In the services sector, strong contribution came from leasing and business services (11.0 percent), information technology (9.6 percent), transport, storage and postal services (7.9 percent), as well as hotels and catering service (6.6percent): https://www.statista.com/statistics/271769/quarterly-gross-domestic-product-gdp-growth-rate-in-china/

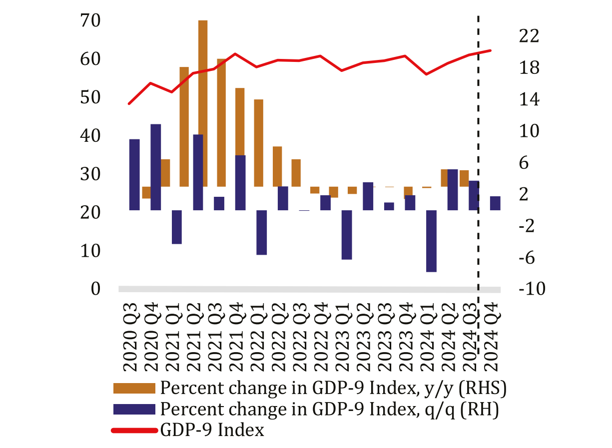
[27]The manufacturing sector grew by 6.1 percent, year-on-year, in December, driven by strong export demand and increased production ahead of the Chinese New Year holiday and anticipation of tariffs under the new US administration. Equipment manufacturing recorded a 7.7 percent expansion while high-tech manufacturing grew by 8.9 percent. Notably, the production of new energy vehicles, integrated circuits and industrial robots saw substantial increases of 38.7 percent, 22.2 percent, and 14.2 percent, respectively.

Table 7: Preliminary Year-on-Year Changes in GDP-9 Index and Country Contributions, 2022-24[28]

	Weight	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
GDP-9 Index (percent Change)		-0.03	-1.73	-0.19	2.49	2.39
		Contribution to the GDP-9 Index Change				
China	0.5	-0.01	-0.75	-0.08	1.10	1.05
DRC	0.3	0.00	-0.42	-0.04	0.61	0.58
South Africa	0.1	-0.01	-0.26	-0.03	0.36	0.35
Singapore	0.0	-0.01	-0.12	-0.01	0.15	0.14
UK	0.1	0.00	-0.07	-0.01	0.11	0.11
UAE	0.0	0.00	-0.04	0.00	0.05	0.05
Tanzania	0.0	0.00	-0.03	0.00	0.04	0.04
Malawi	0.0	0.00	-0.03	0.00	0.04	0.04
Hong Kong	0.0	0.00	-0.02	0.00	0.03	0.02

Source: Bank of Zambia Staff Calculations
DRC=The Democratic Republic of the Congo, S/Africa=Republic of South Africa, UAE= United Arab Emirates

Figure 21: GDP-9 Index



Source: Bank of Zambia Compilation

While economic activity expanded in all the trading partner countries, it was stronger in China, DRC and South Africa (Table 7).

The higher-than-expected growth in China was mainly driven by stimulus measures introduced in September and a surge in exports, which led to a huge trade surplus. Exports were front-loaded in anticipation of higher US tariffs.

Economic activity in the DRC was mainly buoyed by spending on public infrastructure and increased mining production, bolstered by continued expansion of major mines, mostly Kamoa-Kakula Mine[29].

In South Africa, economic activity was mostly underpinned by stable electricity supply and increased consumer spending. Improved real household incomes as inflation and interest rate came down as well as access to the Two-Pot Retirement Fund[30] supported consumer spending.

... copper, crude oil and wheat prices maintain downward trend

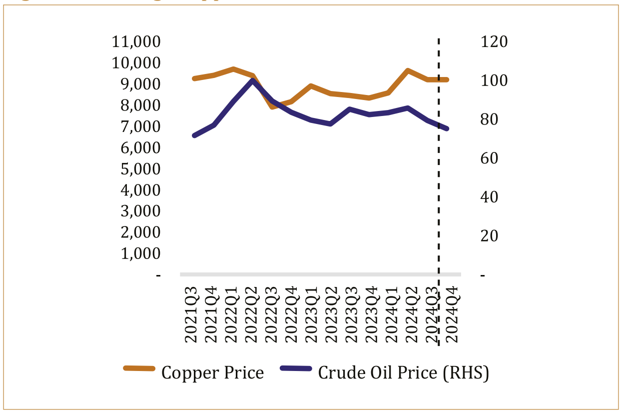
A strong US dollar dampened copper, crude oil and wheat prices. In addition, weak global manufacturing activity and underlying weaknesses in the Chinese economy, mainly linked to the prolonged downturn in the property sector, exerted downward pressure on both copper and crude oil prices. Further, robust growth in global copper production[31] contributed to lower copper prices.

In the case of crude oil prices, additional pressure arose from the rapid penetration of electric vehicles and increased use of trucks powered by liquified natural gas, prospects of higher US tariffs and increased production by non-OPEC countries, as well as the ceasefire agreement[32] between Israel and Lebanon that reduced concerns about supply disruptions.

Competitive pricing by Russia and increased global supply also contributed to the sustained decline in wheat prices.

Consequently, copper and crude oil prices declined further by 0.2 percent and 6.2 percent to US$9,312.50 per metric tonne and US$73.88 per barrel in the fourth quarter of 2024 (Figure 22). Wheat prices declined by 0.3 percent to US$259.59 per metric tonne (Figure 23).

Figure 22: Average Copper and Crude Oil Prices

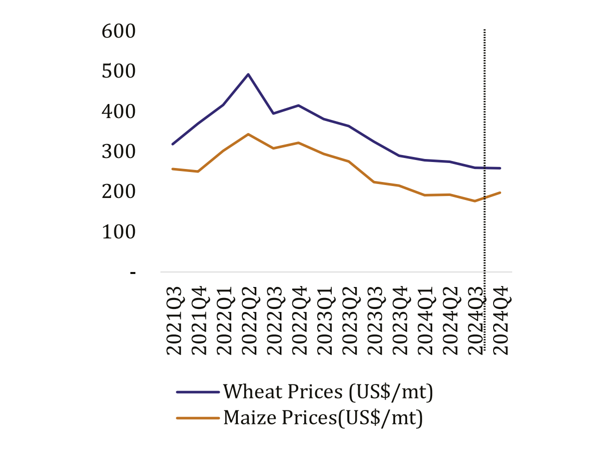


Source: World Bank Pink Sheet and Bank of Zambia Staff Compilations

[28]The data reported in the November 2024 Monetary Policy Report have been revised to reflect recently released GDP numbers.
[29]In November 2024, the Kamoa-Kakula Copper Complex in the DRC set a new monthly record by producing 45,019 tonnes of copper in concentrate:https://www.juniorminingnetwork.com/junior-miner-news/press-releases/397-tsx/ivn/171532-ivanhoe-mines-announces-that-kamoa-kakula-achieved-a-record-45-019-tonnes-of-copper-in-november.html

[30]The Two-Pot Retirement Fund was recently introduced in South Africa to allow households build retirement savings while offering the flexibility to access part of their funds in case of emergency:2024 Two-pot System Updated FAQ August 2024.pdf
[31]Global copper production increased by 3.2 percent to 22.9 million tonnes in 2024, underpinned by the expansion in production in Chile, the DRC, Russia, Zambia and China:https://www.mining-technology.com/analyst-comment/global-copper-production-grow-2024-key-expansions/
[32]https://www.aa.com.tr/en/energy/oil/oil-prices-drop-amid-gaza-cease-fire-agreement-increased-opec-production/46889.

Figure 23: Average Maize and Wheat Prices



Source: World Bank Pink Sheet Data and Bank of Zambia Staff Compilations

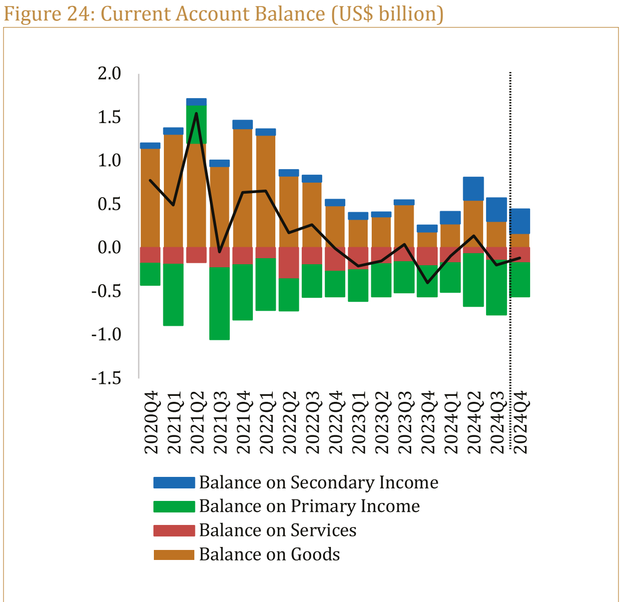
... but fall in maize prices reverses

In contrast, the declining trend in maize prices reversed in the fourth quarter (Figure 23). They rose by 11.6 percent to US$198.09 per metric tonne. This was primarily underpinned by constrained global supply[33] amid rising demand for ethanol production, particularly in Brazil, India and the US[34].

... current account deficit narrows

The *current account* deficit[35] narrowed in the fourth quarter of 2024 to US$0.1 billion from US$0.2 billion recorded in the preceding quarter (Figure 24).

Figure 24: Current Account Balance (US$ billion)

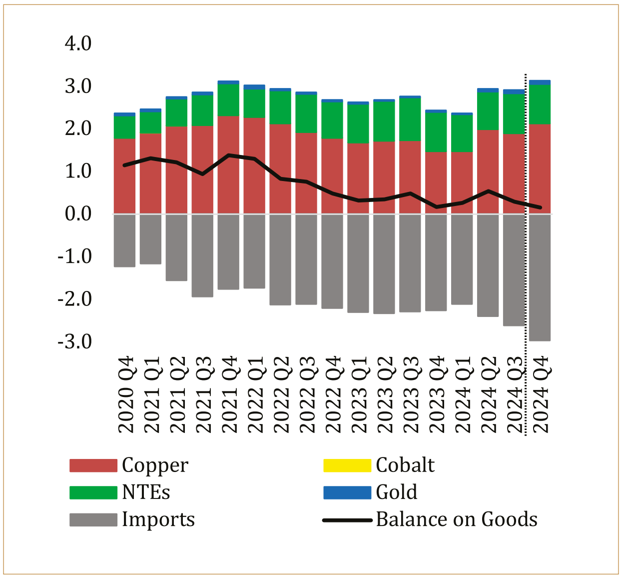


Source: Bank of Zambia

The reduction in retained earnings by foreign-owned entities and receipt of grants from Cooperating Partners accounted for the moderation in the *current account* deficit.

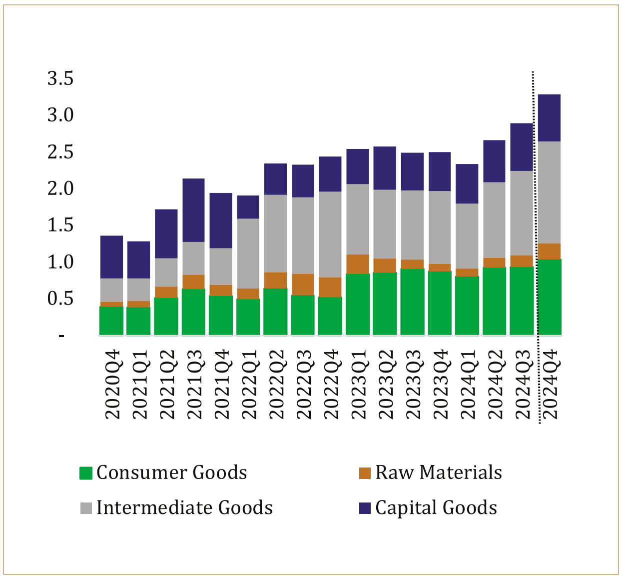
However, the surplus on the *trade account* reduced by 45.2 percent to US$0.2 billion due to a stronger growth in imports than exports (Figure 25). As shown in figure 26, imports grew by 13.4 percent to US$3.0 billion on the back of higher demand for petroleum products and electricity (consumer goods), ore slags, fertilizers (raw materials), plastic and rubber products (intermediate goods), as well as industrial boilers and equipment (capital goods). Export earnings grew less by 7.3 percent to US$3.1 billion mainly on account of copper exports (Figure 25). Copper export earnings increased by 12.5 percent to US$2.1 billion mainly underpinned by export volumes as production at major mines rose (refer to section 2.4).

Figure 25: Composition of Trade Balance (US$ billions)



Source: Bank of Zambia

Figure 26 : Composition of Imports (US$ billion)



Source: Bank of Zambia

[33]Global maize supply remained relatively tight, reflected in lower ending stocks for 2024/25 held by major exporters: https://ahdb.org.uk/news/how-are-maize-prices-driving-the-global-grain-market-grain-market-daily

[34]https://millermagazine.com/blog/grain-market-in-2024-resilience-amid-turbulence-5973

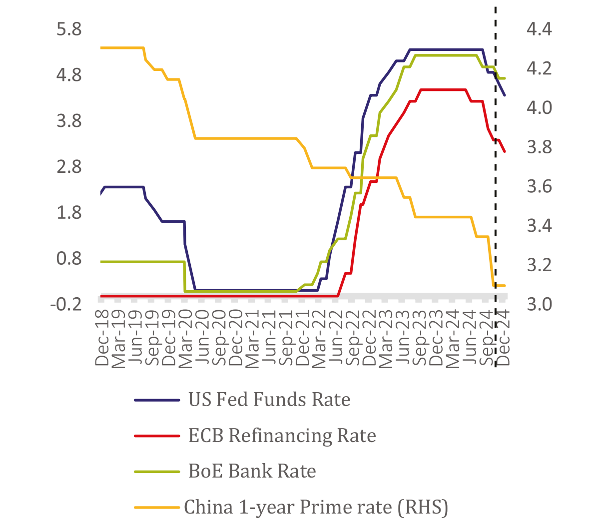
[35]The current account balance for the third quarter was revised to a deficit of US$0.2 billion from a surplus of US$0.2 billion following data updates from the external sector survey.

2.2 Global Financial Conditions

... monetary policies eased further

Central banks in advanced economies cut policy interest rates further during the fourth quarter, citing progress made in reducing inflation towards the 2.0 percent target (Figure 27).

Figure 27: Central Bank Policy Rates in Selected Economies



Source: Reuters and Bank of Zambia Compilations

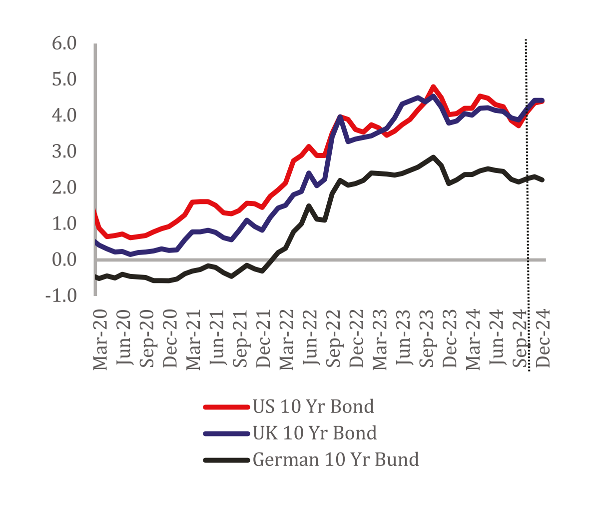
The US Federal Reserve cut the federal funds target by 25 basis points in November and December[36] while the European Central Bank (ECB) effected two interest rate cuts of 25 basis points each in October and December. Similarly, the Bank of England (BoE) reduced the bank rate by 25 basis points in November as external shocks that had precipitated inflationary pressures were judged to have abated. However, the persistence of domestic cost pressures, and inflation rising in November, led the BoE to maintain the rate in December.

The People's Bank of China (PBoC) cut the 1-year prime rate by 25 basis points to 3.10 percent in October to support economic growth. This was after data continued to indicate weak consumer demand, slowing GDP growth and a sluggish property market[37].

... but bond yield rates rose

Benchmark bond yield rates in advanced economies rose despite interest rate reductions by central banks (Figure 28). In the US, the 10-year Treasury yield rate rose by 67 basis points to 4.39 percent due to growing uncertainty regarding the Federal Reserve's future cuts as inflation rose[38]. The UK's 10-year gilt yield rate increased by 54 basis points to 4.43 percent, reflecting investor concerns over increased borrowing after the new Labour Government announced its first budget. The German 10-year bond yield rate rose on heightened political risk following the collapse of the ruling coalition Government in November after the Chancellor fired the finance minister[39].

Figure 28: US, UK, and Germany 10-Year Benchmark Bond Yield Rates (monthly averages)

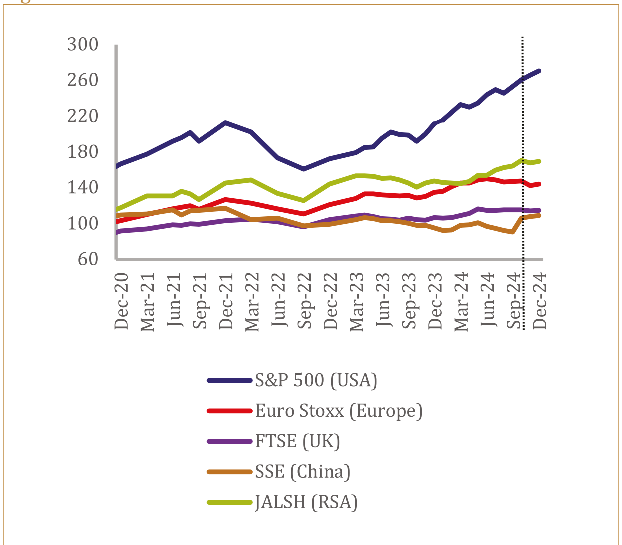


Source: Reuters and Bank of Zambia Compilations

... stock market indices diverge

The S&P 500 Index gained 6.8 percent during the quarter while the FTSE 100 and Euro Stoxx 50 indices fell by 0.5 percent and 1.8 percent, respectively (Figure 29).

Figure 29: Selected Stock Market Indices



Source: Reuters and Bank of Zambia Compilations

[36]There was an uptick in US year-on-year CPI inflation in October to 2.8 percent from 2.4 percent in September but remained flat in November. Despite the increase in inflation, the Federal Reserve judged that easing labour conditions removed much of the upside risk.

[37]Newly built house prices fell by 5.9 percent and 5.7 percent in October and November, respectively. Real estate investment was reported to have fallen by 10.3 percent in the period January-October 2024. Investors viewed policy interventions to revive the property sector as insufficient.

[38]Inflation expectations also increased on the back of President-elect, Mr. Donald Trump's policies that included trade tariffs, anti-immigration laws, de-regulation and tax cuts.

[39]Yields rose to 2.21 percent in December from 2.17 percent in September. In November, the yield averaged 2.35 percent at the height of the political malaise.

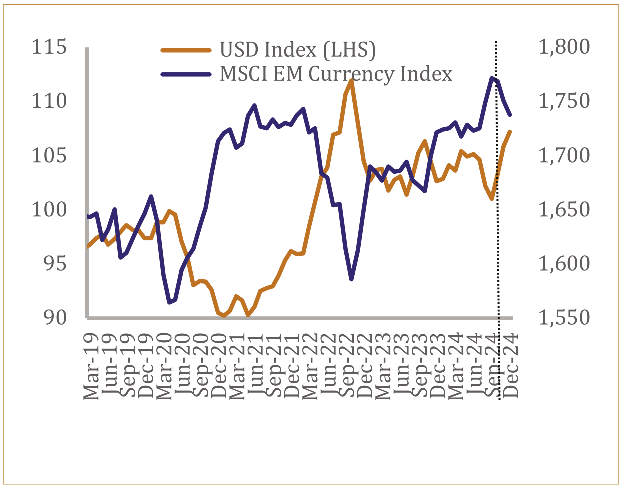
US share prices surged as the economy remained strong and the Federal Reserve lowered interest rates. In addition, the election outcome in November triggered a stock market rally on expectation that the new administration would put in place business-friendly policies.

European shares were weighed down by a combination of political uncertainties[40] and weak economic growth, with investors fearing a recession[41]. Similarly, the UK's stock market fell on growing concerns about the economic outlook[42]. Emerging market shares broadly fell with the MSCI Emerging Market Equity Index down by 0.6 percent owing to rising US bond yield rates[43] and a stronger US dollar (Figure 30). On the other hand, the Shanghai Composite Index rose sharply, gaining 20.4 percent. The surge in equities is attributed to expectations that a series of fiscal and monetary policy measures[44] announced since September would revive the economy. In South Africa, the Johannesburg All-Share Index increased by 2.9 percent due to rising prices of precious metals, receding inflation, lower interest rates and improved investor sentiment.

... US dollar strengthens

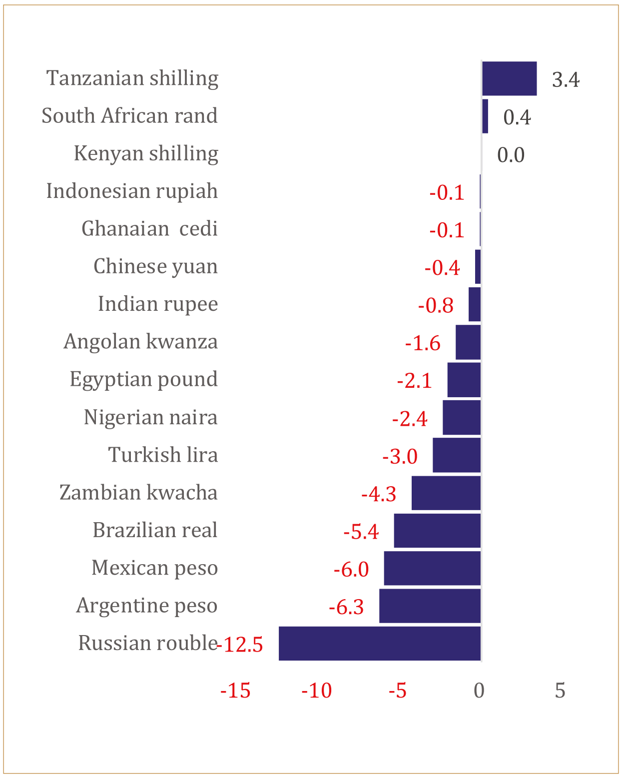
The MSCI emerging market currency index declined by 1.9 percent following a 6.1 percent rise in the US dollar Index (Figure 30). The US dollar strengthened on indications from the Federal Reserve that interest rates could remain high. Currencies that experienced notable depreciations were the Russian rouble, Argentine peso, Mexican peso and Brazilian real (Figure 31).

Figure 30: US Dollar and MSCI Emerging Market Currency Indices (monthly averages)



Source: Reuters and Bank of Zambia Compilations

Figure 31: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar*



Source: Reuters and Bank of Zambia Compilations

*Negative numbers indicate a depreciation while positive numbers show an appreciation against the US dollar.

... Lusaka All-Share Index declines

The Lusaka All-Share Index (LASI) fell by 3.3 percent in the fourth quarter (Figure 32). This was in part due to several listed companies issuing cautionary trading statements to investors.

[40] In France, the Prime Minister was impeached after failing to gain support from Parliament for the budget. Germany's Government faced turmoil after the departure of the minister of finance.

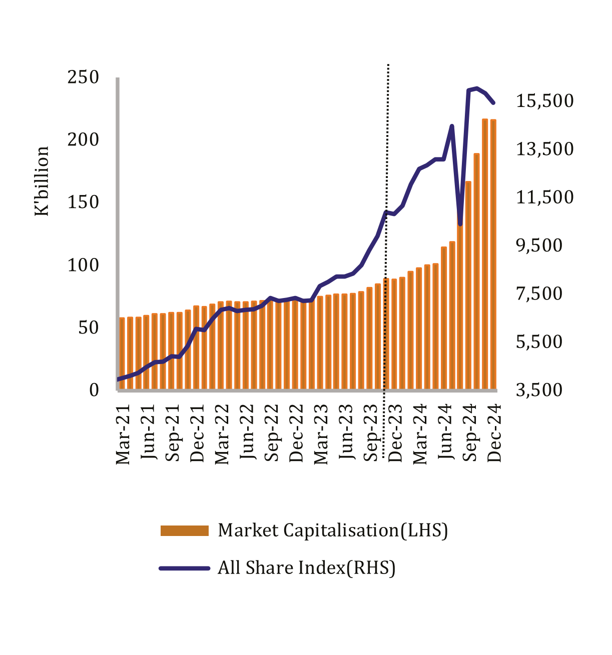
[41] The PMI survey data for December showed that the eurozone private sector ended the year still in contraction despite some improvement.

[42] Data by the Office for National Statistics revealed that the UK economy shrunk in October and revised numbers for the third quarter showed the economy performed worse than previously anticipated.

[43] US bonds are considered safe investments, which usually pay low interest. Hence, investors seeking higher returns turn to emerging markets (EM). However, rising yields in the US tend to stem the flow of capital to riskier EM assets.

[44] See the following for details: https://www.reuters.com/markets/asia/chinas-economic-stimulus-measures-since-september-2025-01-08/

Figure 32: Lusaka All-share Index and Market Capitalisation

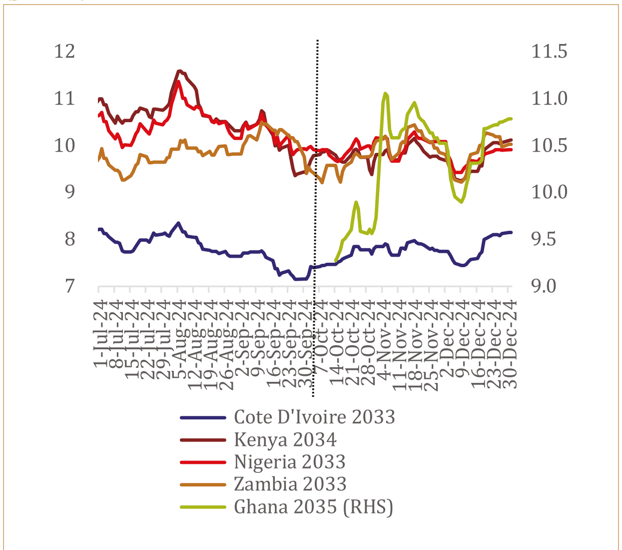


Source: Reuters and Bank of Zambia Compilations

... SSA Eurobond yield rates mixed

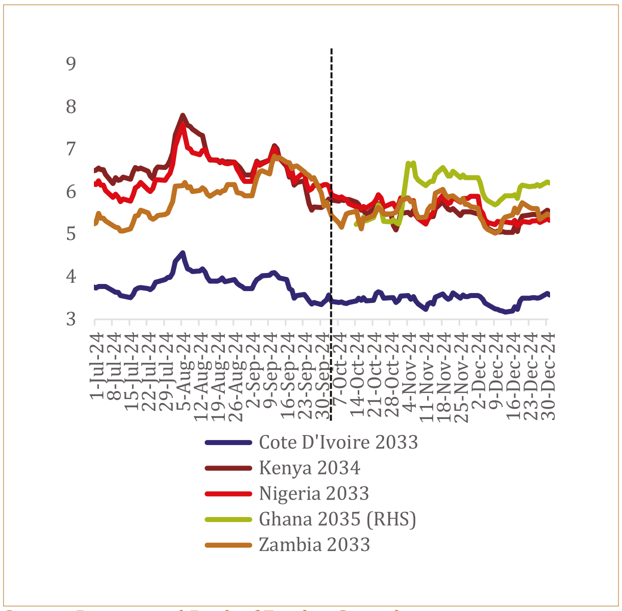
Yield rates on Sub-Saharan Africa (SSA) Eurobonds were mixed in the fourth quarter of 2024 (Figure 33). While some mainly responded to global market developments, others were adversely impacted by country-specific factors. Nonetheless, yield spreads above the US 10-year Treasury narrowed further except for Ghana's that rose (Figure 34).

Figure 33: Yield Rates for Selected Sub-Sahara Africa Eurobonds (percent)



Source: Reuters and Bank of Zambia Compilations

Figure 34: Yield Spreads Over the US 10-Year Bond Yield Rate (percent)



Source: Reuters and Bank of Zambia Compilations

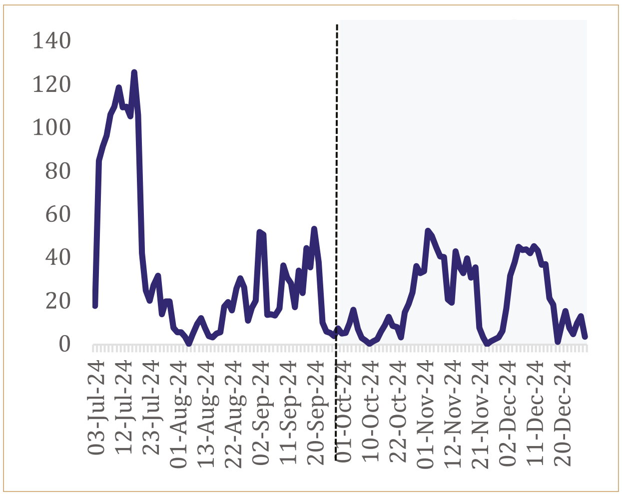
Yield rates on Eurobonds issued by Kenya, Nigeria and Zambia fell by 32, 43 and 30 basis points to 9.80 percent, 9.79 percent and 9.91 percent, respectively, as they benefited from investor demand for high yield investments (Figure 34). In contrast, yield rates on the Côte d'Ivoire and Ghana bonds rose by 40 and 93 basis points to 7.89 percent and 10.50 percent, respectively. The yield rate for the Côte d'Ivoire's bond increased largely on account of the surge in benchmark bond yield rates due to uncertainty around the future path of interest rates in advanced economies. Perception of heightened political risk in the run-up to the general election in December resulted in the increase in Ghana's newly issued 2035 bond yield rate.

2.3 Domestic Financial Condition

... kwacha depreciation picks up

In the foreign exchange market, the Kwacha continued to face strong underlying pressures to weaken. The devastating impact of the drought in much of 2024 resonated in the market as investors still looked for stronger indicators that the worst of the drought impact had subsided. Despite positive growth in the mining sector (see section 2.4), the larger-than-expected drop in electricity generation and subsequent increase in imports consolidated negative market sentiments. Influenced by these headwinds, foreign exchange supply remained sporadic amidst elevated demand pressures from several sectors, particularly manufacturing, oil importers and public sectors (Figure 35) and as presented in the current account discussion in section 2.1.

Figure 35: Outstanding Demand for Foreign Exchange (US$ million)

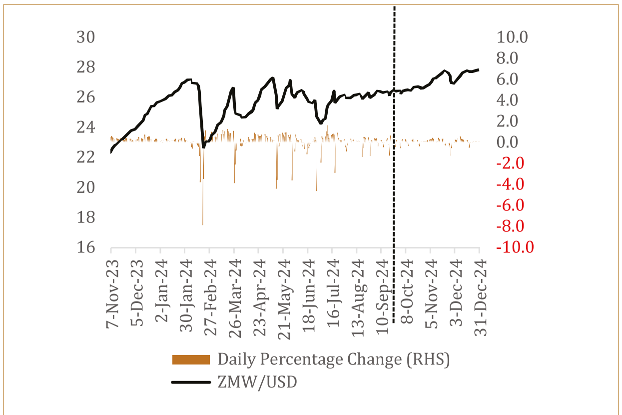


Source: Bank of Zambia

Apart from this, developments in international markets also influenced the performance of the Kwacha. The strengthening of the US dollar resulted in a broad-based reduction in portfolio investor inflows into emerging markets[45] resulted in a broad-based reduction in portfolio investor inflows into emerging markets. This realignment in turn contributed to the weak performance of the Kwacha during the period (see Section 2.2). Reflecting this, some non-resident holders of Zambian Government bonds sold off and converted the proceeds to US dollars, adding further pressure on the exchange rate.

As a result of these developments, the Kwacha weakened further against the US dollar by 4.5 percent compared to 1.7 percent in the third quarter (Figure 36).

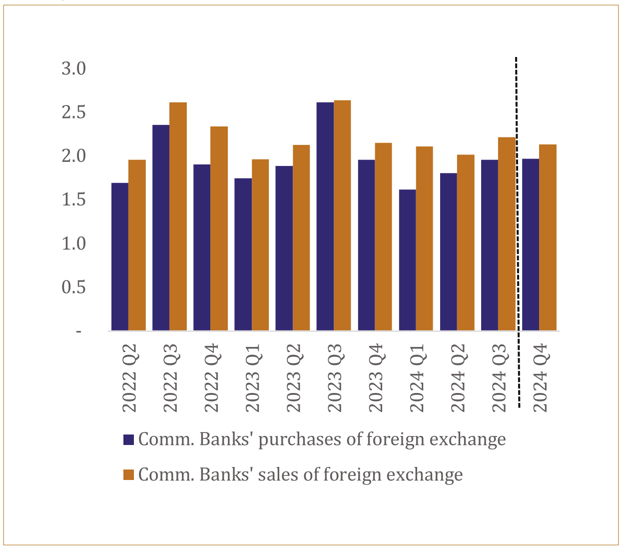
Figure 36: Nominal Kwacha/US Dollar Exchange Rate



Source: Bank of Zambia

In terms of transactions, commercial banks' foreign exchange sales to the non-bank sector remained unchanged at US$2.0 billion in the fourth quarter while purchases declined by 3.7 percent to US$2.1 billion[46] (Figure 37).

Figure 37: Commercial Banks' Foreign Exchange Transactions (US$' billion)

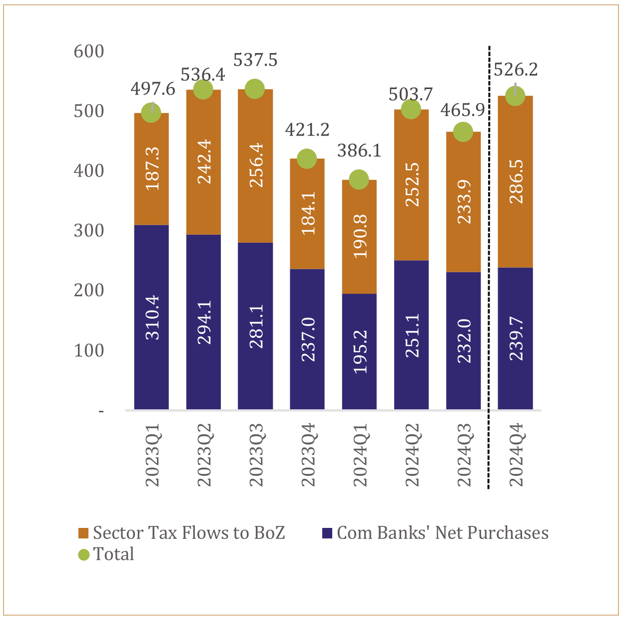


Source: Bank of Zambia

*All spot purchases and sales of respective foreign currencies against the Kwacha are converted into the local currency (i.e. Kwacha) using exchange rates at which they were executed and then back into US dollar using the monthly average Kwacha/US dollar exchange rate.

Foreign exchange supply continued to be dominated by the mining sector and increased by US$60.1 million to US$526.2 million. Of this amount, US$286.5 million was remitted to the Bank of Zambia for the payment of taxes (Figure 38). On a net basis, the Bank sold US$197.8 million to the market to mitigate the lower supply of foreign exchange (Figure 39).

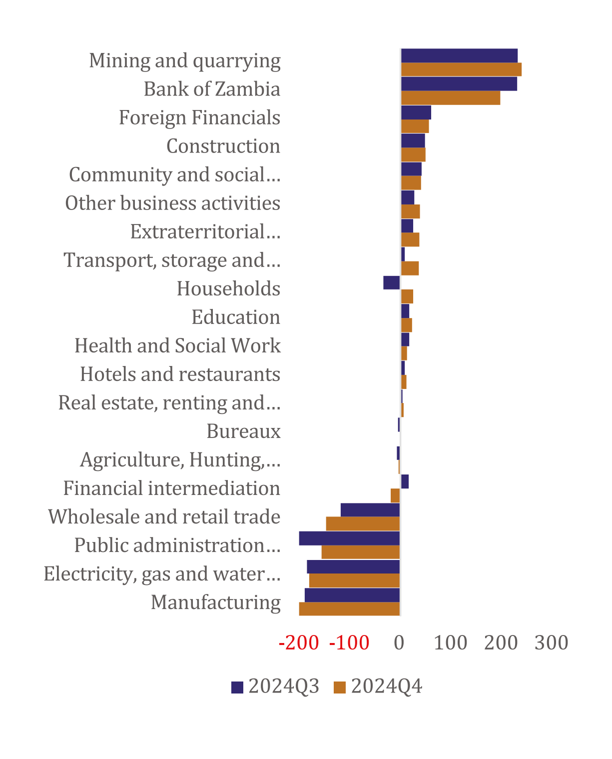
Figure 38 : Mining Sector Net Foreign Exchange Supply (US$ million)



Source: Bank of Zambia

[45]The US Dollar Index increased by 6.1 percent (refer to Figure 30).
[46]Foreign exchange supply is measured as commercial banks' purchases of foreign exchange from the non-bank public while demand by commercial banks refers to sales of foreign exchange to the non-bank public.

Figure 39: Foreign Exchange Net Sales by Sector (US$ million)



Source: Bank of Zambia

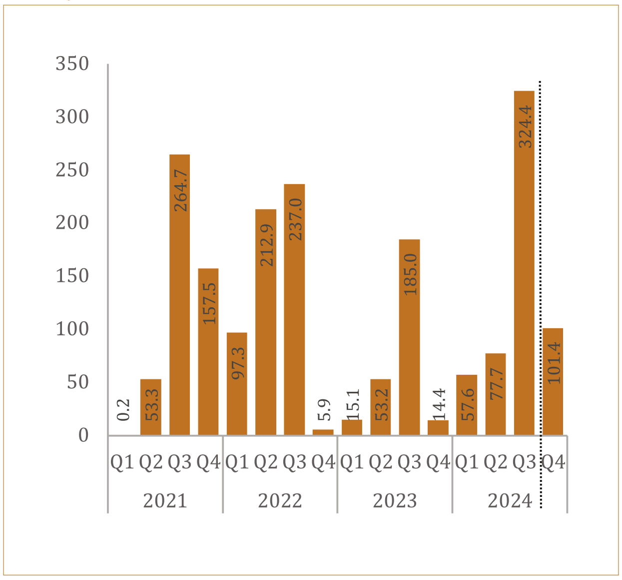
*All spot purchases and sales of respective foreign currencies against the Kwacha are converted into the local currency (i.e. Kwacha) using exchange rates at which they were executed and then converted into US dollar using the monthly average Kwacha/US dollar exchange rate. Negative numbers means sector net purchases and positive numbers mean sector net sales to commercial banks.

Other sectors which contributed notably to net supply include non-resident financial institutions (US$56.8 million), captured as foreign financials, and construction (US$50.0 million) as shown in figure 39.

On the demand side, foreign exchange purchases were mainly dominated by manufacturing (US$236.7 million); and electricity, gas and water supply (US$180.3 million) sectors (Figure 39).

In view of the intermittency in foreign exchange liquidity supply, interbank foreign exchange market activity reduced significantly in the fourth quarter (Figure 40). Compared to the previous quarter, activity was 68.7 percent lower, at US$101.4 million.

Figure 40: Turnover in Interbank Foreign Exchange Market (US$ million)

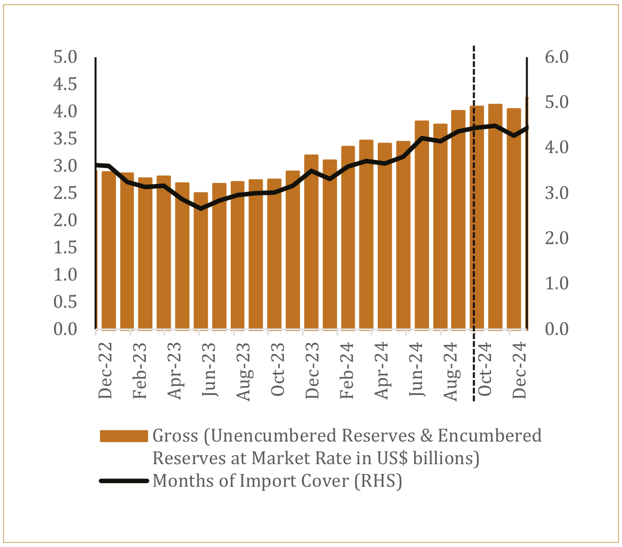


Source: Bank of Zambia

... foreign reserves rise further

Gross international reserves (GIR) increased by about US$0.2 billion to US$4.3 billion (equivalent to 4.6 months of import cover) at end-December 2024 (Figure 41). The increase was due to inflows from the World Bank and African Development Bank, disbursement by the IMF under the Extended Credit Facility (ECF) arrangement and net purchases of mining taxes.

Figure 41: Gross International Reserves, December 2022-December 2024



Source: Bank of Zambia

... liquidity conditions ease further

In the fourth quarter of 2024, money market liquidity conditions eased primarily due to net Government spending and interest payment on Government securities (Table 8). Hence, commercial banks' aggregate current account balance rose sharply to K9.5 billion at end-December from K4.8 billion at end-September.

Table 8: Liquidity Influences (K' billion)

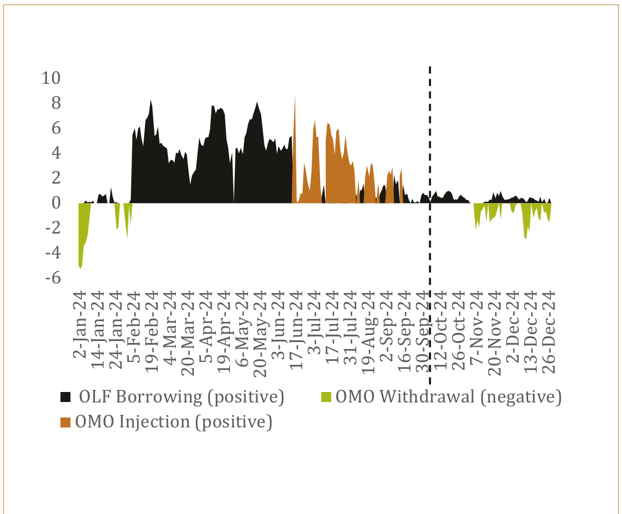
	2024Q3	2024Q4
Opening Balance	6.4	4.8
Net Govt Spending	11.6	13.5
Net BoZ FX Intervention	(7.6)	(7.3)
CIC	(0.1)	(2.3)
Change in SR Deposits	(2.1)	(0.6)
OLF	0.6	(0.6)
Net Govt Securities Transactions	4.6	2.3
Open Market Operations	(7.6)	1.5
TMTRF	(0.5)	(0.7)
Miscellaneous	(0.5)	(1.1)[47]
Closing Balance	4.8	9.5

Source: Bank of Zambia

FX=foreign exchange; CIC=currency in circulation; SR=statutory reserves; OLF=Overnight Lending Facility; TMTRF= Targete Medium-Term Refinancing Facility.

In October, the Bank did not conduct open market operations (OMOs) as the interbank rate remained closely aligned to the Policy Rate due to sufficient liquidity (Figure 43). From mid-November, contractionary OMOs of up to 14 days were conducted to steer the interbank rate to the target following the upward adjustment of the Monetary Policy Rate[48] and also moderate pressure on the exchange rate (Figure 42).

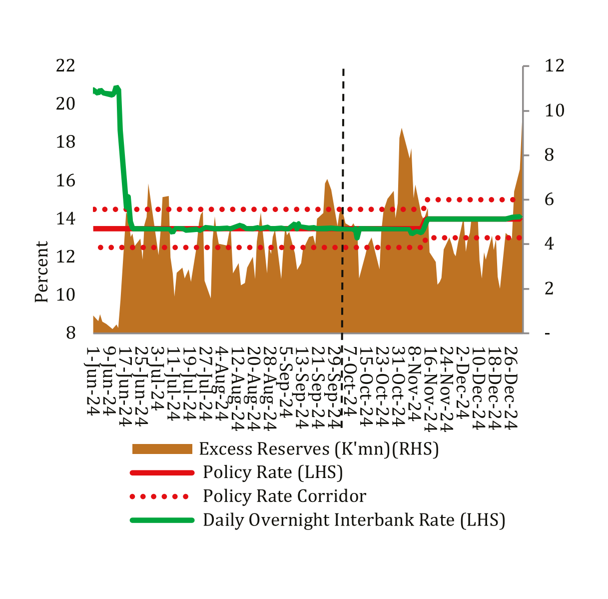
Figure 42: Daily Average Open Market Operations and Overnight Lending Facility (K' billion)



Source: Bank of Zambia

The pricing of overnight funds in the interbank money market rose in line with the 50-basis point hike in the Policy Rate to 14.0 percent. Thus, the interbank rate averaged 14.2 percent in December, up from 13.5 percent in September (Figure 43).

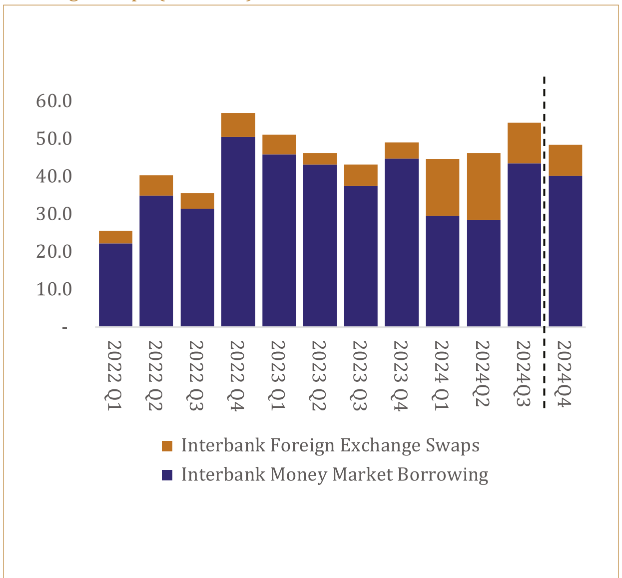
Figure 43: Excess Reserves (Liquidity Levels), Policy Rate and Overnight Interbank Rate



Source: Bank of Zambia

Due to higher system liquidity, funding from the interbank money market declined to K40.2 billion in the fourth quarter from K43.7 billion in the third quarter (Figure 44). Similarly, commercial banks borrowed less from the overnight interbank foreign exchange swap market, at K8.3 billion, down from K10.8 billion (Figure 44). Although the banking system had adequate reserves in aggregate, banks with limited credit lines accessed the OLF and borrowed a cumulative K28.2 billion.

Figure 44: Interbank Money Market Borrowing and Foreign Exchange Swaps (K' billion)



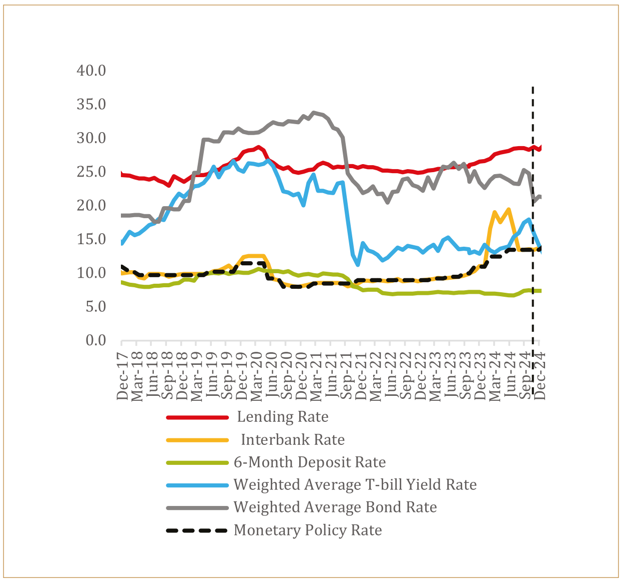
Source: Bank of Zambia

... interest rate movement still mixed

The overnight interbank and lending rates rose while the 6-month deposit rate and yield rates on Government securities declined in the last quarter of 2024 (Figures 45 and 46).

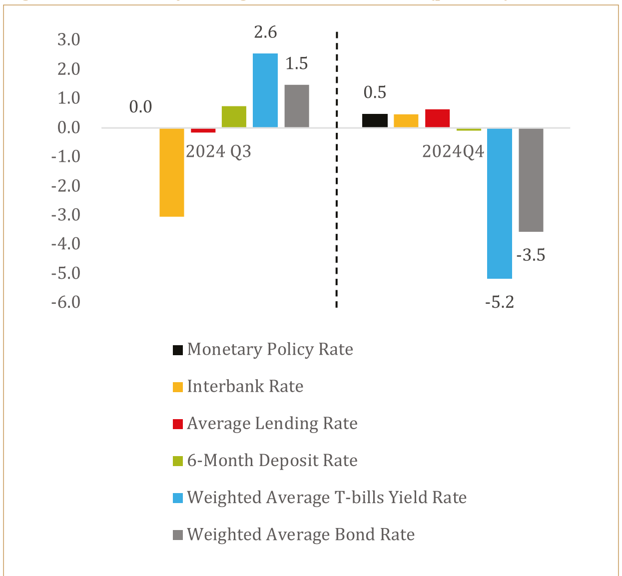
[47]This represents transaction reversals mostly comprising Government funds transferred from commercial banks to the Bank of Zambia as part of Government's effective cash management measures.
[48]The Policy Rate was raised by 50 basis points to 14.0 percent at the November Monetary Policy Committee Meeting.

Figure 45: Average Nominal Interest Rates (percent)



Source: Bank of Zambia

Figure 46: Quarterly Changes in Interest Rates (percent)



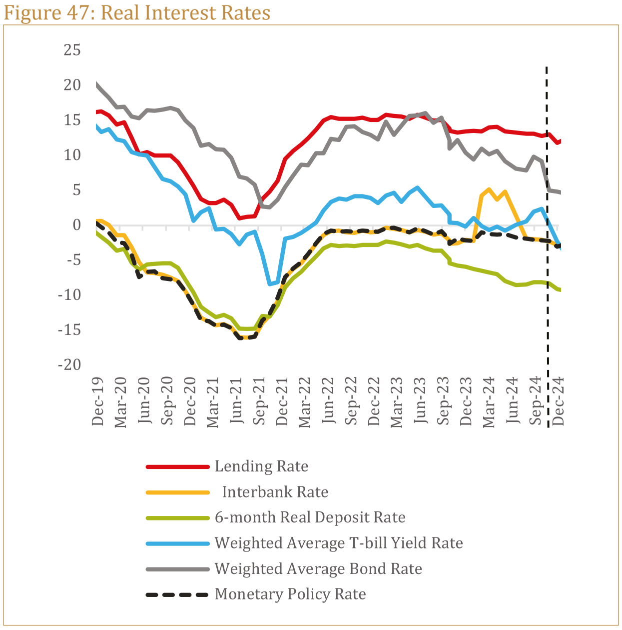
Source: Bank of Zambia

The overnight interbank rate rose to 14.2 percent in December from 13.5 percent in September. This was in line with the 50-basis point hike in the Monetary Policy Rate (MPR) in November to 14.0 percent. Similarly, the average lending rate[49] increased by 0.6 percentage points to 29.0 percent.

Yield rates on Government securities declined across the curve, mostly reflecting strong demand in the primary market on improved money market liquidity conditions. Subscription rates for Treasury bills and Government bonds improved to 135.0 percent and 279.4 percent in the fourth quarter from 108.5 percent and 145.7 percent in the preceding quarter, respectively. The weighted average Treasury bill yield rate fell to 12.8 percent at end-December from 18.2 percent at end-September while the Government bond composite yield rate declined to 21.3 percent from 24.8 percent. The 6-month deposit rate also marginally declined to 7.4 percent from 7.5 percent.

The downward trend in real interest rates continued in the quarter as inflationary pressures persisted (Figure 47). The MPR, overnight interbank rate and savings rate remained negative. The weighted average Treasury bill yield rate also turned negative. By and large, borrowing costs remained high in real terms.

Figure 47: Real Interest Rates



Source: Bank of Zambia

... domestic credit growth slows down

The pick-up in credit observed in the third quarter was reversed in the subsequent period. Overall domestic credit[50], including the exchange rate-adjusted[51] component[52], slowed to 5.4 percent, year-on-year (y/y), in December from 11.8 percent (y/y) in September (Figure 48). In view of this, overall credit diverged from its long-term trend (Figure 49) while the exchange rate-adjusted component returned to trend (Figure 48). The slowdown in overall domestic credit growth was largely underpinned by a sustained decline in credit to the private sector to 20.7 percent, y/y, in December from 29.7 percent, y/y, in September (Figure 49). This reflects subdued economic activity due to the effects of the drought. As a result, both overall and exchange rate-adjusted growth rates diverged further away from their long-term trend (Figures 50 and 51).

[49]Lending rates on Kwacha loans ranged from 9.4 percent to 36.5 percent while the 6-month deposit rate was between 2.0 percent and 21.0 percent. Lending rates on US dollar denominated loans were between 3.0 percent and 22.5 percent while the deposit rate was between 2.0 percent and 19.0 percent.

[50]Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign currency.

[51]Exchange rate adjusted domestic credit is calculated by multiplying the current US dollar amount by the exchange rate in the same month a year ago to eliminate valuation effects. A depreciation magnifies credit growth through the valuation effects on foreign currency credit. The opposite is true for an appreciation.

[52]This declined to 3.4 percent from 6.4 percent.

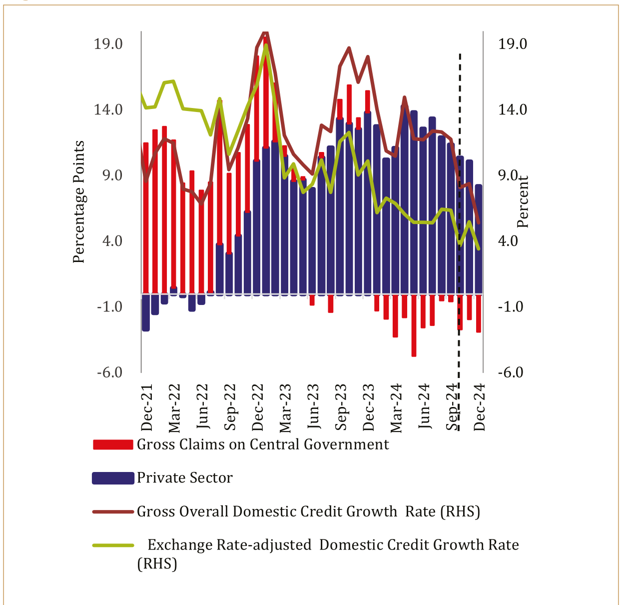
Reduced lending in Kwacha, mostly to the manufacturing sector on account of extended electricity load management occasioned by the drought that has dampened economic activity coupled with exchange rate depreciation (*2025 February Credit Conditions Survey*, page 4 and section 2.4), largely underpin the reduction in private sector credit (Figures 52-56). Lending to the transport sector remained subdued (Figure 55).

Despite remaining below trend, lending in foreign currency picked up in the quarter (Figure 57). Most of the credit was extended to the manufacturing; electricity, gas, water and energy; as well as financial services sectors (Figures 58-59).

Despite demand for Government securities remaining strong in the quarter, supported by better liquidity money market conditions, lending to Government also declined on a year-on-year basis and its contribution to overall credit remained negative (Figure 48).

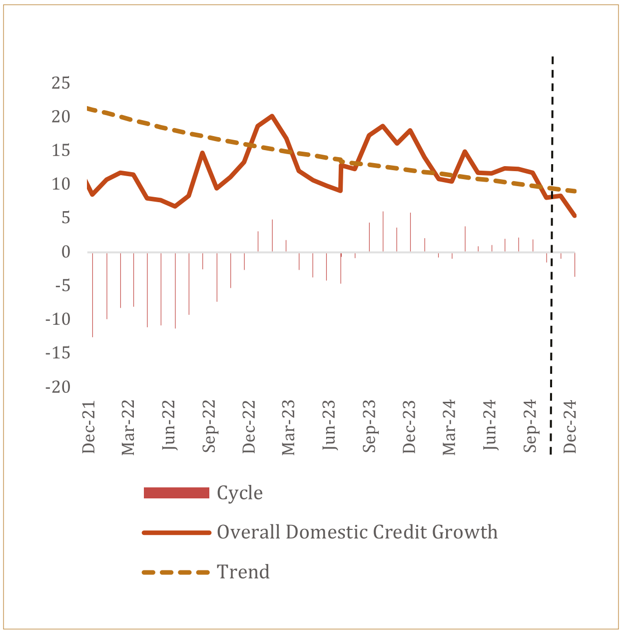
For the second consecutive quarter, respondents to the *2025 February Credit Conditions Survey* expressed optimism about sustained demand for credit by the private sector in view of the high cost of living and the need to mitigate the adverse effects of persistent electricity shortages on business operations.

Figure 48 : Contribution to Credit Growth



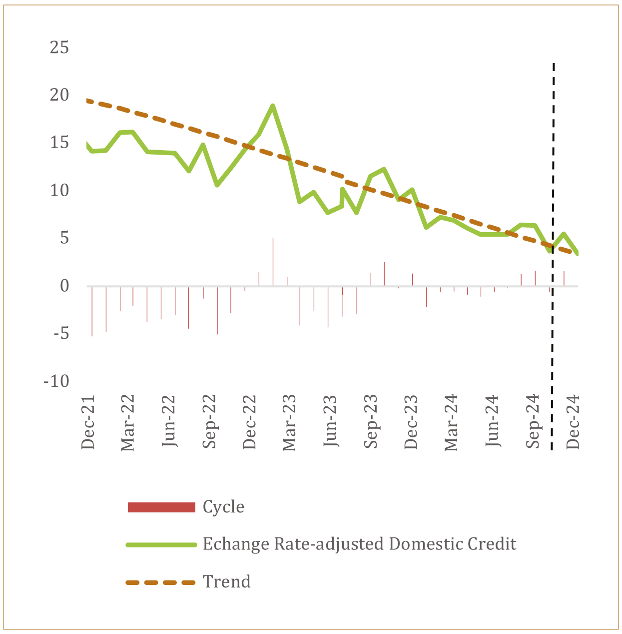
Source: Bank of Zambia

Figure 49 : Trend in Overall Domestic Credit Growth (percent)



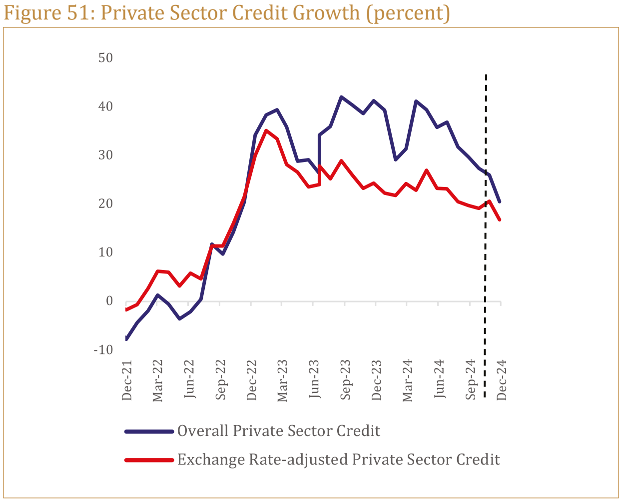
Source: Bank of Zambia

Figure 50: Trend in Exchange Rate-Adjusted Overall Domestic Credit Growth (percent)



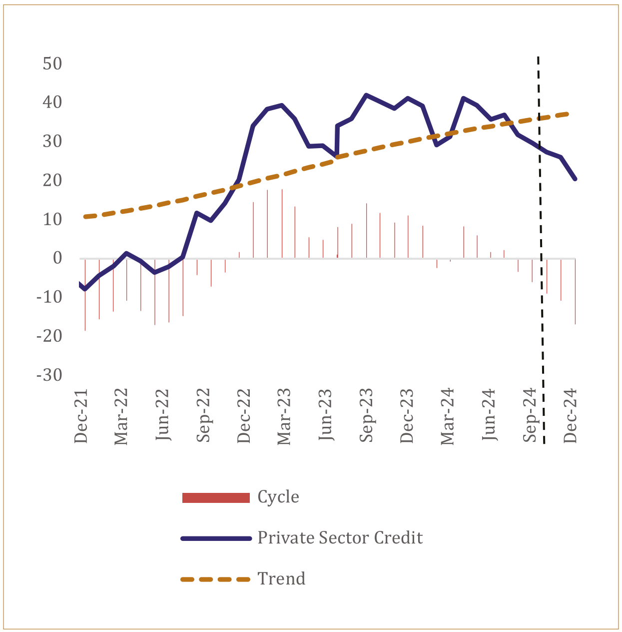
Source: Bank of Zambia

Figure 51: Private Sector Credit Growth (percent)



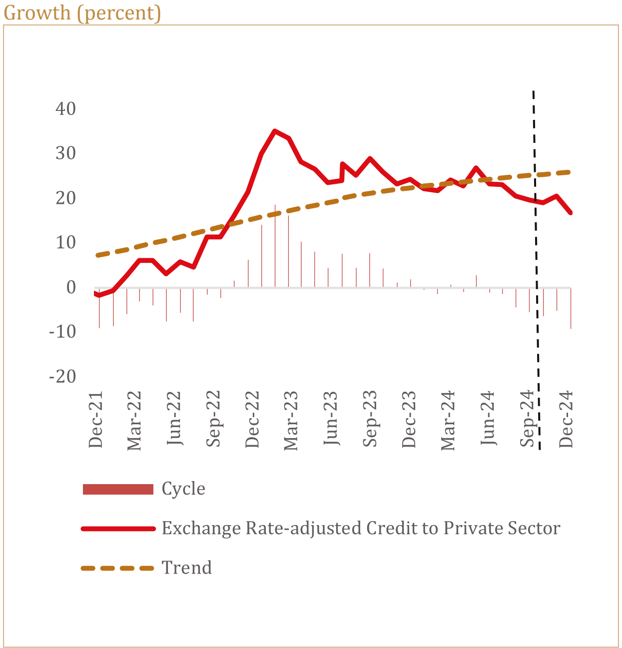
Source: Bank of Zambia

Figure 52 : Trend in Overall Private Sector Credit Growth (percent)



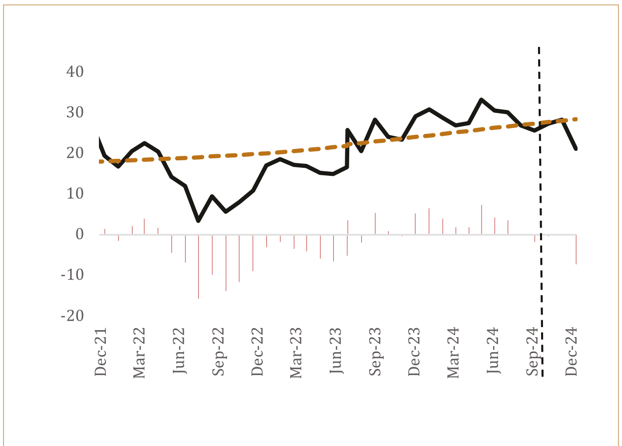
Source: Bank of Zambia

Figure 53: Trend in Exchange Rate-Adjusted Private Sector Credit Growth (percent)



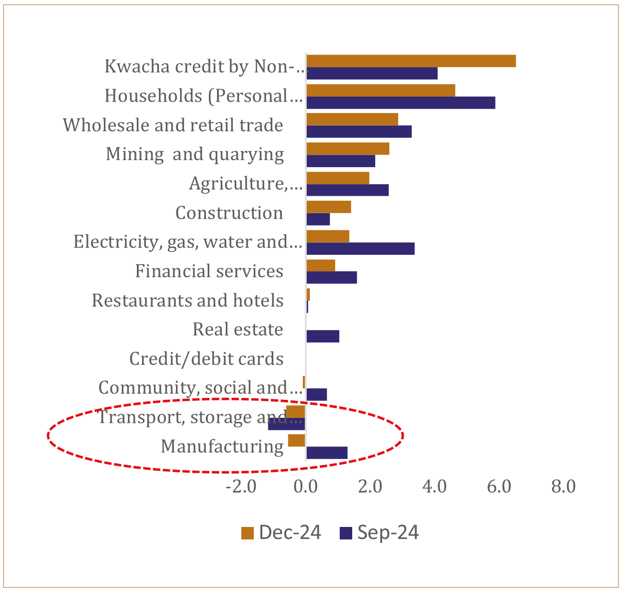
Source: Bank of Zambia

Figure 54: Trend in Kwacha Denominated Private Sector Credit Growth Rate (year-on-year, percent)



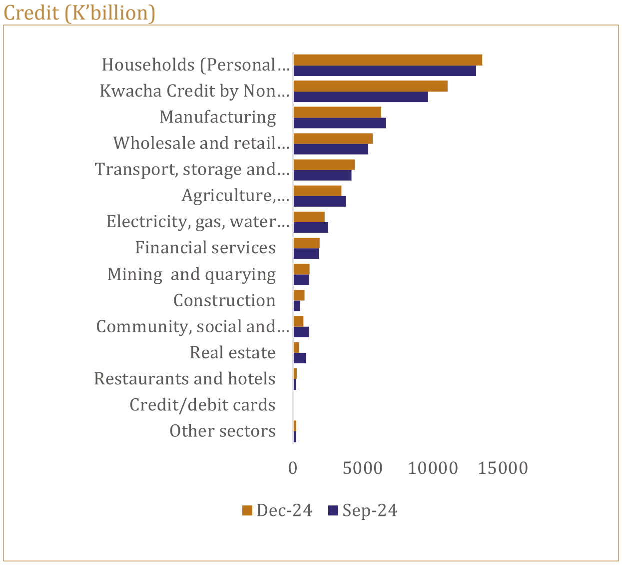
Source: Bank of Zambia

Figure 55: Sectoral Contribution to Annual Percent Change in Kwacha Denominated Private Sector Credit



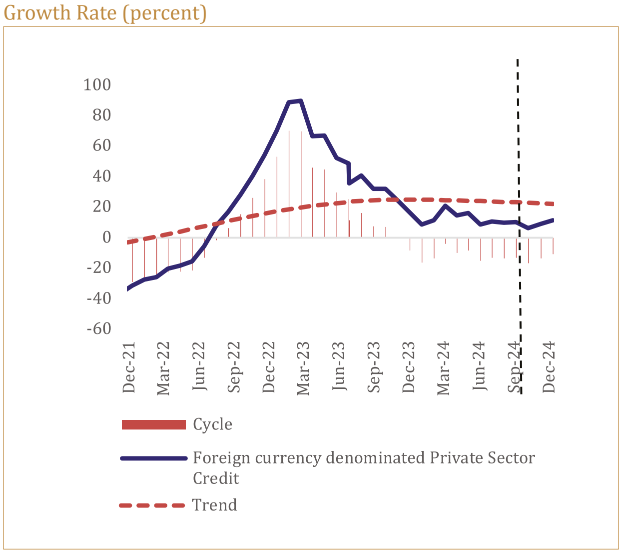
Source: Bank of Zambia

Figure 56: Stock Distribution of Private Sector Kwacha Denominated Credit (K'billion)



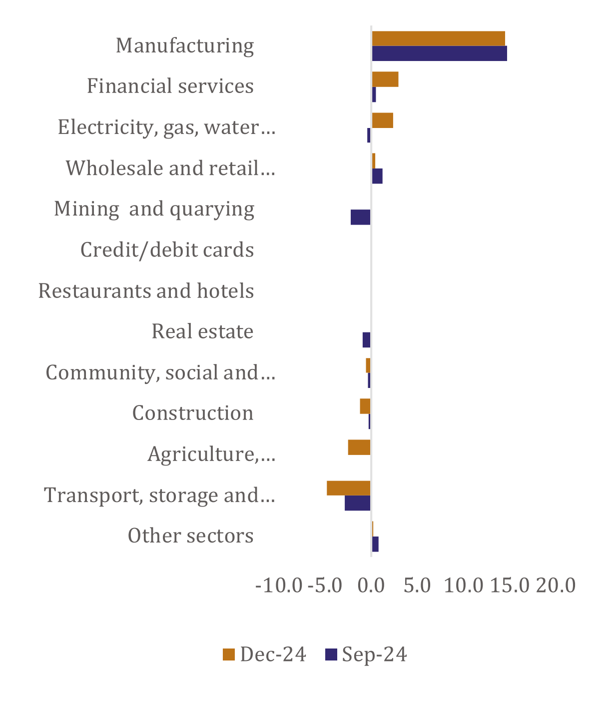
Source: Bank of Zambia

Figure 57: Trend in Foreign Currency Denominated Private Sector Growth Rate (percent)



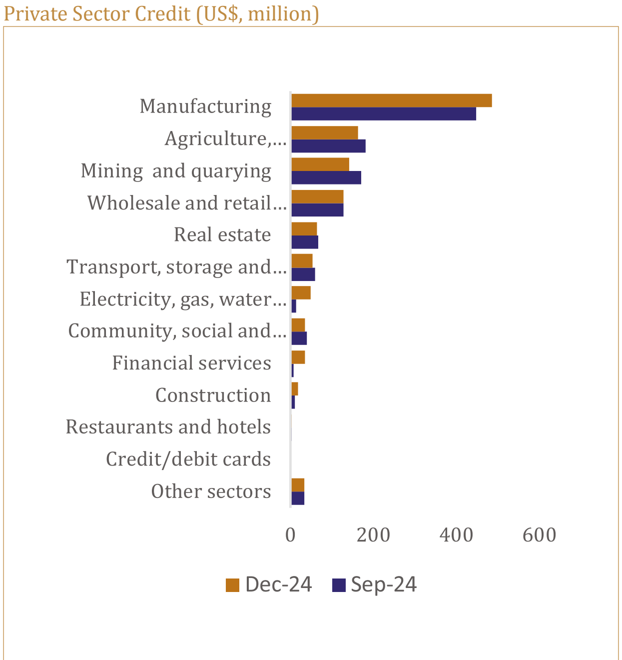
Source: Bank of Zambia

Figure 58: Sectoral Contribution to Annual Percent Change in Foreign Currency Denominated Private Sector Credit



Source: Bank of Zambia

Figure 59: Stock Distribution of Foreign Currency Denominated Private Sector Credit (US$, million)



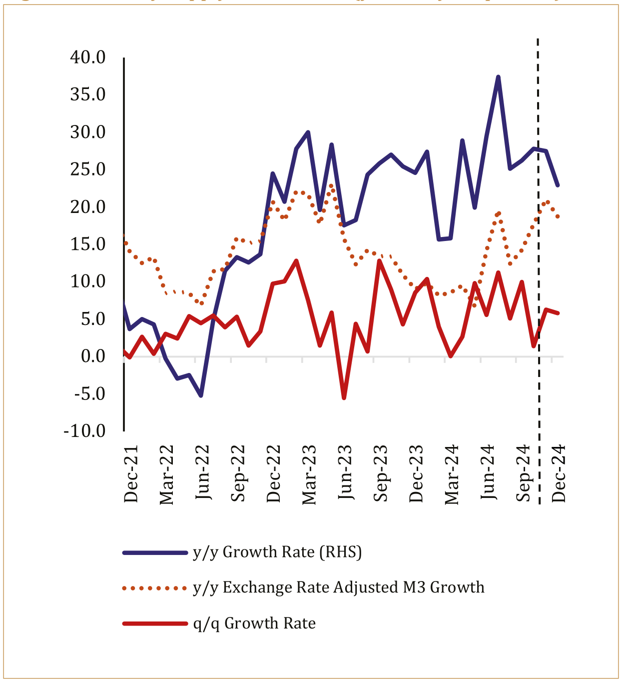
Source: Bank of Zambia

... money supply growth slows down

The slowdown in private sector credit had a bearing on money supply (M3)[53] growth. M3 growth declined further to 23.0 percent in December from 26.2 percent recorded in September and fell below trend (Figures 60-61). Adjusted for exchange rate movement, M3 growth was 18.7 percent in December, up from 14.3 percent in September and remained above trend (Figure 62).

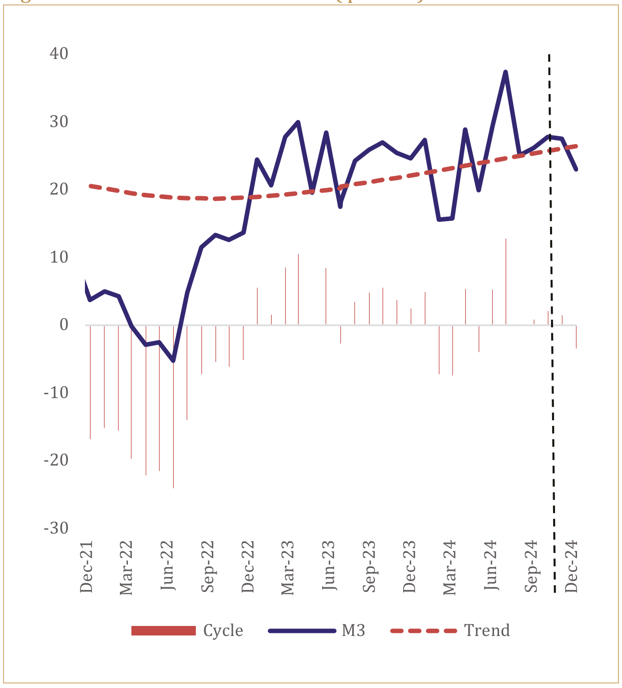
[53]M3 stock was K205.3 billion at end-December 2024.

Figure 60: Money Supply Growth Rate (year-on-year, percent)



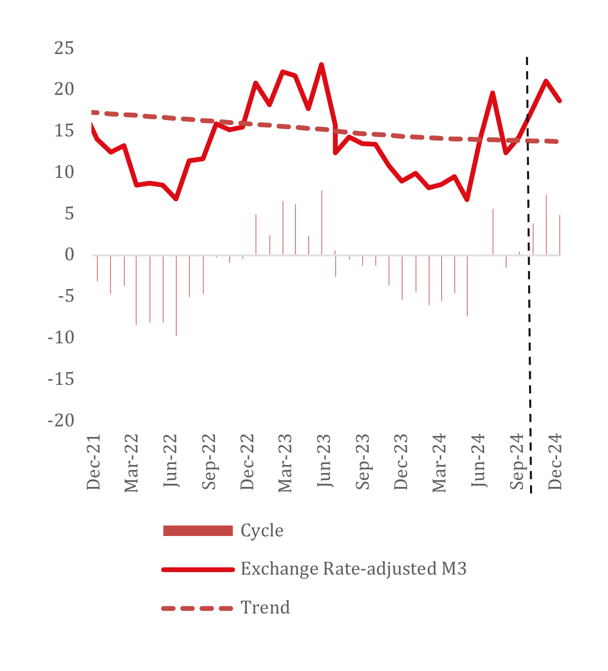
Source: Bank of Zambia

Figure 61: Trend in M3 Growth Rate (percent)



Source: Bank of Zambia

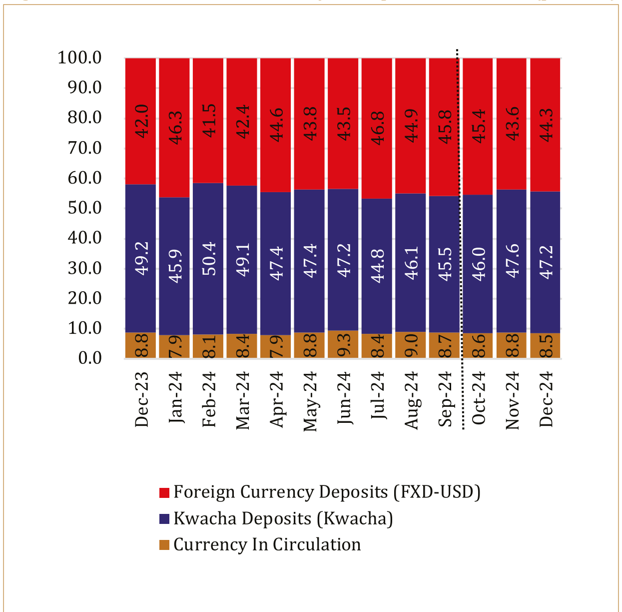
Figure 62: Trend in Exchange Rate-Adjusted M3 Growth Rate (percent)



Source: Bank of Zambia

The share of Kwacha deposits in money supply rose to 47.2 percent from 45.5 percent, respectively (Figure 63). In contrast, the share of foreign currency deposits and currency held by the non-bank public fell to 44.3 percent and 8.6 percent from 45.8 percent and 8.7 percent.

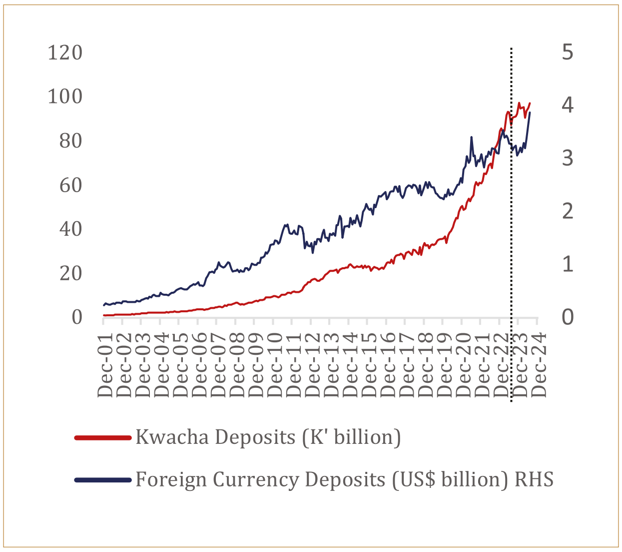
Figure 63: Share of Broad Money Components in M3 (percent)



Source: Bank of Zambia

Kwacha deposit liabilities increased to K105.4 billion at end-December from K104.3 billion at end-September while foreign currency liabilities remained unchanged at US$3.7 billion (Figure 64).

Figure 64: Commercial Bank Deposit Liabilities



Source: Bank of Zambia

2.4 Domestic Economic Activity

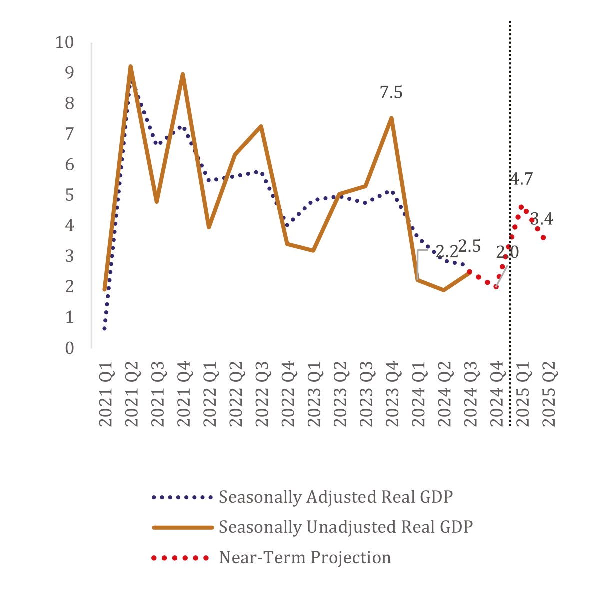
... slows in fourth quarter

The preliminary BoZ near-term estimate and results from the *February 2025 Quarterly Survey of Business Opinions and Expectations* and *Stanbic Bank Zambia*[54] *PMI™* suggest sustained sluggish economic activity in the fourth quarter of 2024.

The Bank of Zambia near-term estimate points to a slowdown in real GDP growth to 2.0 percent, y/y, from 2.5 percent[55] in the third quarter (Figures 65 and 66). The reduction in tourist arrivals and retail sales, as well as contractions in both electricity generation and cement production account for lower growth.

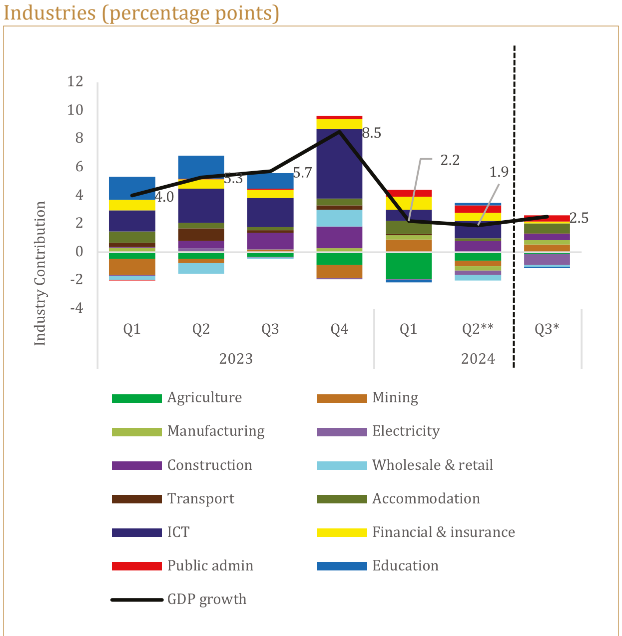
[54]The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: new orders, output, employment, suppliers' delivery times and stocks of purchases. A reading below 50 means business conditions deteriorated and above 50 reading means an improvement while 50 means no change in the business environment.
[55]The third quarter GDP growth was stronger-than-expected, underpinned by mining, construction and ICT sectors. Copper production grew by 1.6 percent, y/y, while emerald production surged by more than 200 percent, y/y, to 14,238 kilograms. In addition, growth was bolstered by strong construction activity with the progression of the 327-Kilometre Lusaka-Ndola Dual Carriage Way and rehabilitation of the Masangano-Fisenge-Luanshya Road project.

Figure 65: Quarterly Real GDP, y/y, Growth Rate (percent)



Source: Bank of Zambia

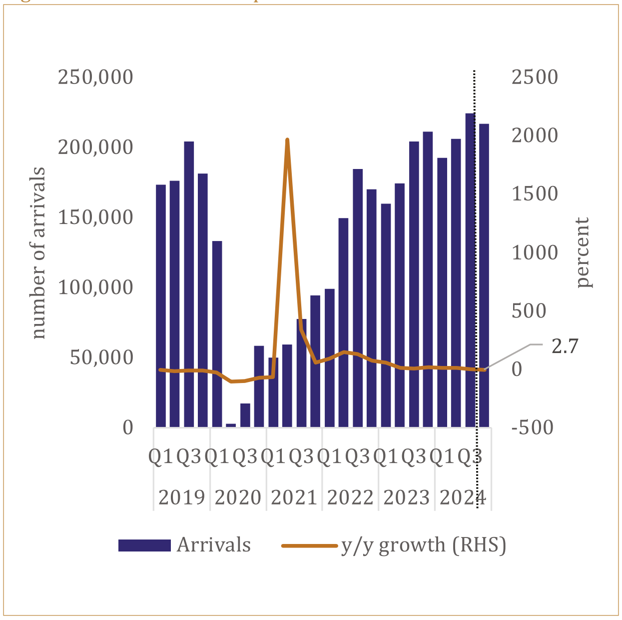
Figure 66: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)



Source: Zambia Statistics Agency and Bank of Zambia
* = revised ** = preliminary

The growth in international airport arrivals—proxy for the tourism sector—slowed to 2.7 percent from 9.8 percent in the preceding quarter (Figure 67). The declining trend continued as tourist arrivals normalise after the relaxation of COVID-19 travel restrictions in June 2020.

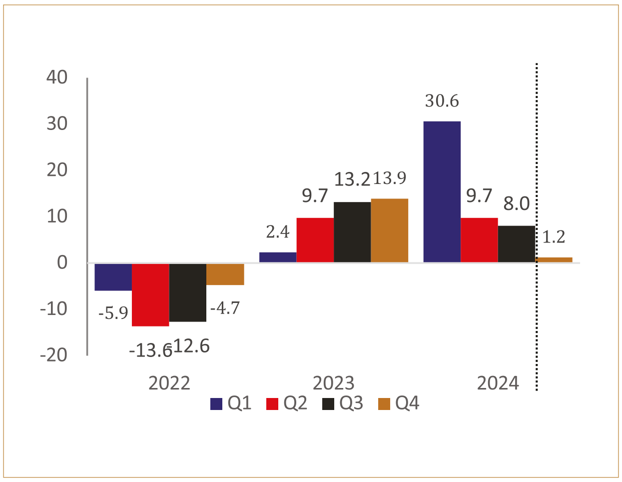
Figure 67: International Airport Arrivals



Source: Zambia Airports Corporation Limited, Bank of Zambia Compilations

Similarly, the growth in retail sales—proxy for wholesale and retail trade sector activity—reduced sharply to 1.2 percent from 8.0 percent in the previous quarter (Figure 68). This was mainly due to weak domestic demand occasioned by persistent inflation.

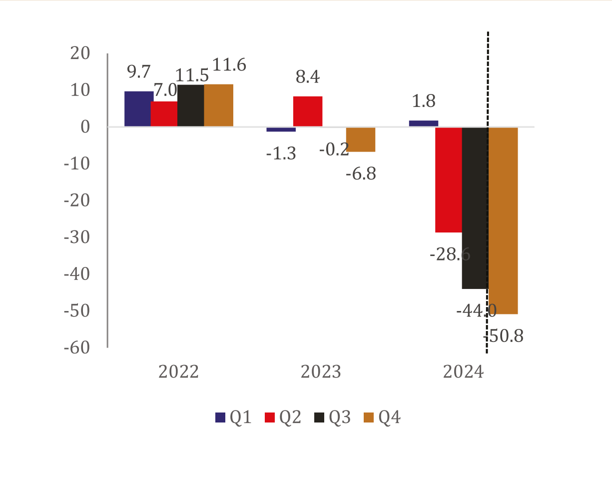
Figure 68: Real Retail Sales, year-on-year, Growth Rate (percent)



Source: Bank of Zambia

Electricity generation recorded a steeper decline of 50.8 percent, y/y, to 2,376 gigawatt hours in the fourth quarter (Figure 69). Severe drought-induced low water levels in major reservoirs continued to constrain electricity generation.

Figure 69: Electricity Generation, year-on-year Growth Rate (percent)

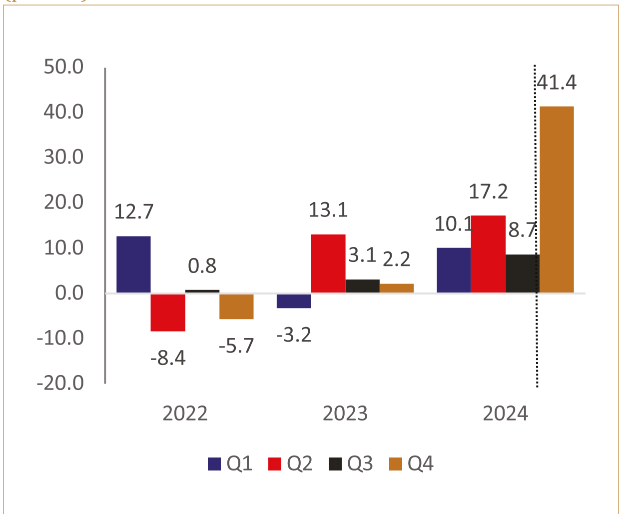


Source: ZESCO, Bank of Zambia Compilations

Conversely, diesel and copper production expanded in the fourth quarter.

Diesel consumption—proxy for the transportation sector— grew substantially by 41.4 percent to 484.4 million litres in the fourth quarter (Figure 70). This was mainly on account of sustained demand and growing reliance on alternative energy sources by some firms as electricity shortages persisted.

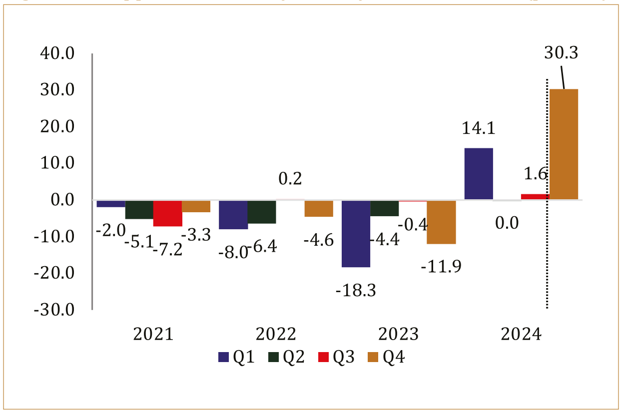
Figure 70: Diesel Consumption, year-on-year, Growth Rate (percent)



Source: Energy Regulation Board, Bank of Zambia Compilations

Copper production—proxy for mining sector activity—rose by 30.3 percent, y/y, to 226,900 metric tonnes in the fourth quarter (Figure 71). This was mostly due to increased production at some major mines, supported by improved ore quality and enhanced grade control.

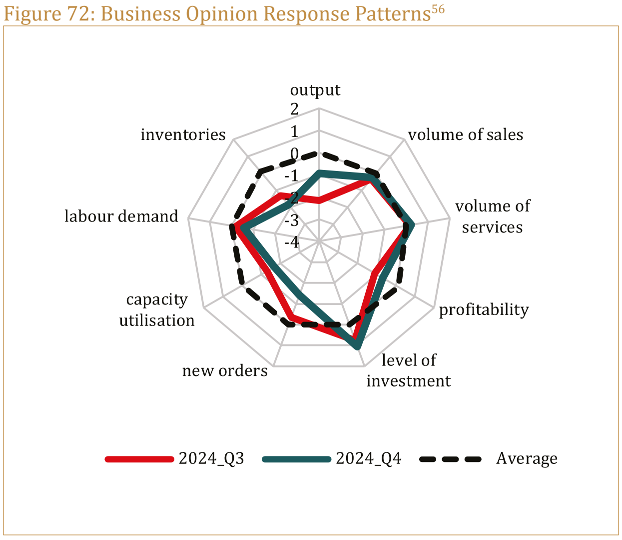
Figure 71: Copper Production, year-on-year, Growth Rate (percent)



Source: Ministry of Mines and Minerals Development, Bank of Zambia Compilation

Respondents to the *February 2025 Quarterly Survey of Business Opinion and Expectations* point to continued weak economic activity in the fourth quarter. This is attributed to the impact of a weaker Kwacha, ongoing power shortages and persistent inflation. As a result, new orders, capacity utilization, labour demand and inventories declined relative to the preceding quarter (Figure 72). This reflects broader challenges faced by businesses due to weak demand and the impact of the drought on productivity with respect to firms' ability to operate at full capacity and expand.

Figure 72: Business Opinion Response Patterns[56]

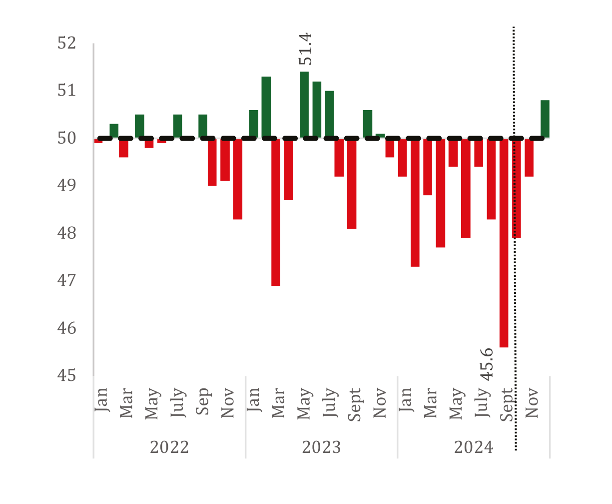


Source: Bank of Zambia

The *Stanbic Bank Zambia PMI™* also points to sustained deterioration in business conditions for the private sector in the fourth quarter despite recording an improvement in December[57]. The PMI remained below the 50 mark, at 49.3 on average (Figure 73). The downturn is largely attributed to sustained power shortages, which disrupted business operations and dampened customer demand leading to reduced production and decline in new orders.

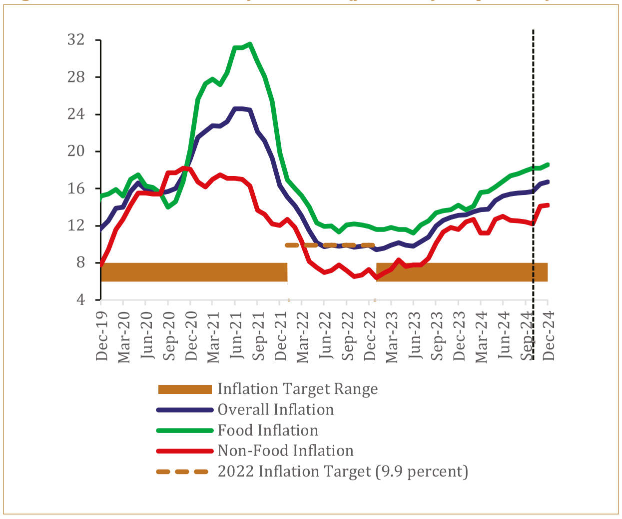
[56]Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than the historical average and a value outside the black line signifies an improvement over the historical average.
[57]This was driven by a significant rise in new orders as demand picked-up during the festive season.

Figure 73: Purchasing Manager's Index for Zambia



Source: Stanbic Zambia and Bank of Zambia Compilation

Figure 74: Trend in Monthly Inflation (year-on-year percent)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

2.5 Budget Performance

... fiscal deficit significantly lower than planned

In the fourth quarter, the cash fiscal deficit was significantly lower than the target on account of constrained financing.

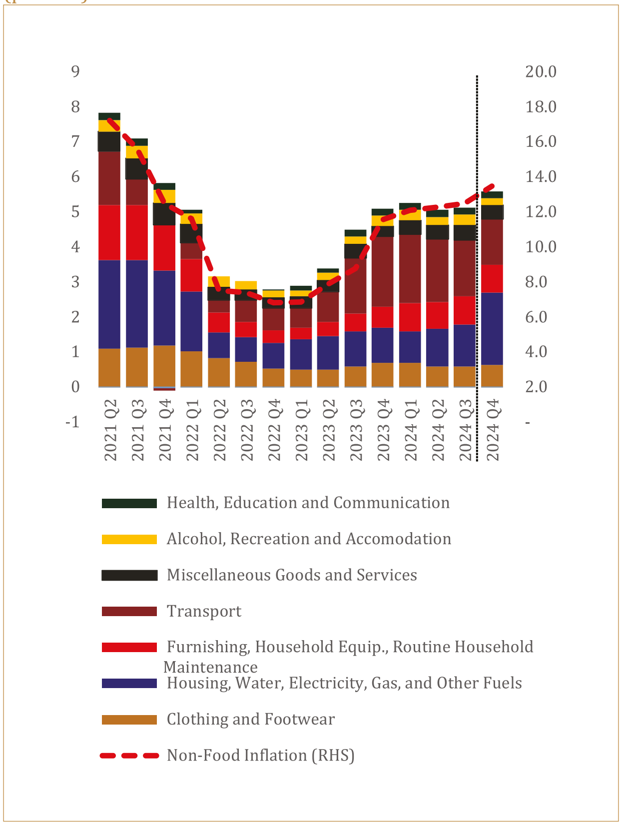
2.6 Domestic Prices

... rise further

The impact of the drought on domestic consumer prices (CPI inflation) continued to be felt in the fourth quarter of 2024. This was particularly reflected in higher electricity tariffs and vegetable prices.

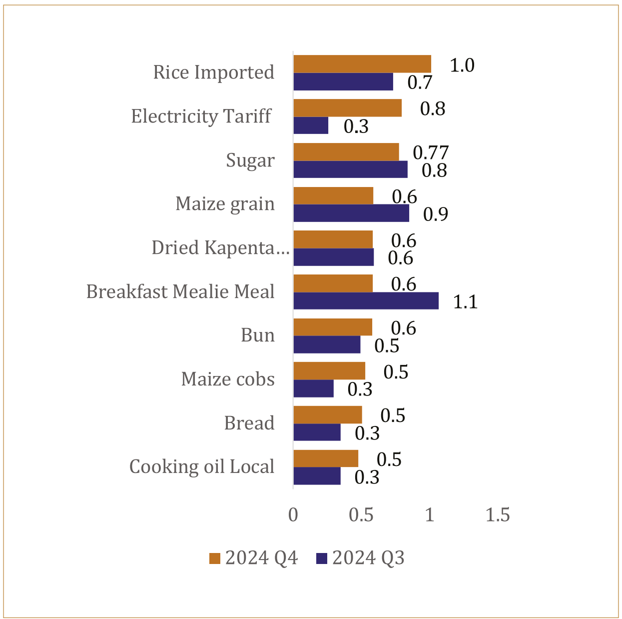
As highlighted in the *November 2024 Monetary Policy Report*, emergency electricity tariffs were implemented on November 1 (85.5 percent on average) to facilitate imports to mitigate extended hours of loadshedding occasioned by the severe drought on hydropower generation. This led to a sharp rise in non-food inflation in November to 14.1 percent from 12.2 percent in October, reversing the declining trend that emerged in July (Figure 74). It's impact on non-food inflation was notable through the housing, water, electricity, gas and other fuels sub-group (Figure 75). The contribution by electricity tariffs, as a single product, to overall inflation in the entire quarter was substantial (Figures 76 and 77).

Figure 75 : Contribution to Non-Food Inflation by Sub- Group (percent)



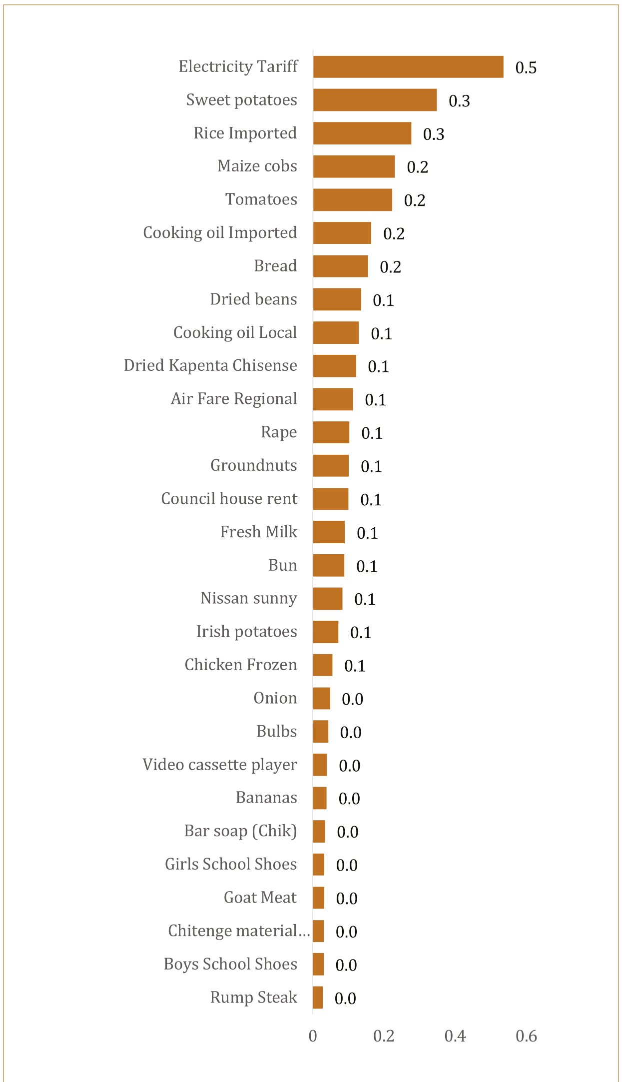
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 76: Contribution to Overall Inflation by Product in the Third and Fourth Quarters of 2024 (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

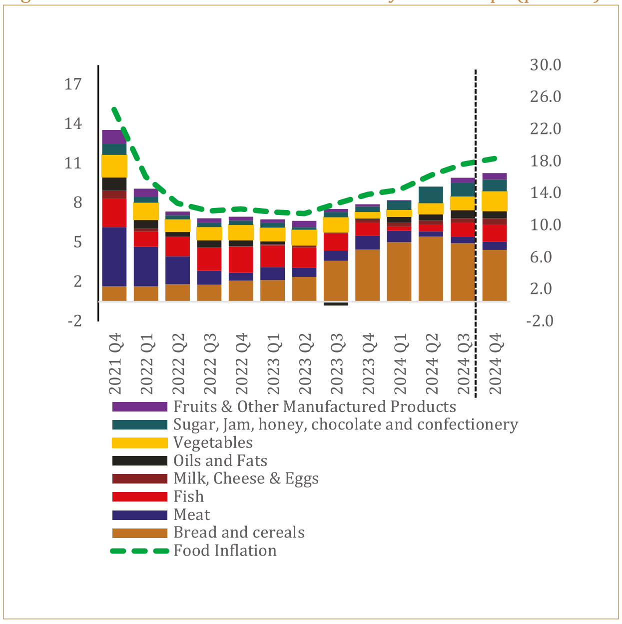
Figure 77: Change in Product Contribution to Overall Inflation between Third and Fourth Quarters of 2024 (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

In the case of vegetables[58], the drought has resulted in water scarcity and drying up of some water points used in production. This reduced output and ultimately led to higher prices.

Figure 78: Contribution to Food Inflation by Sub-Groups (percent)

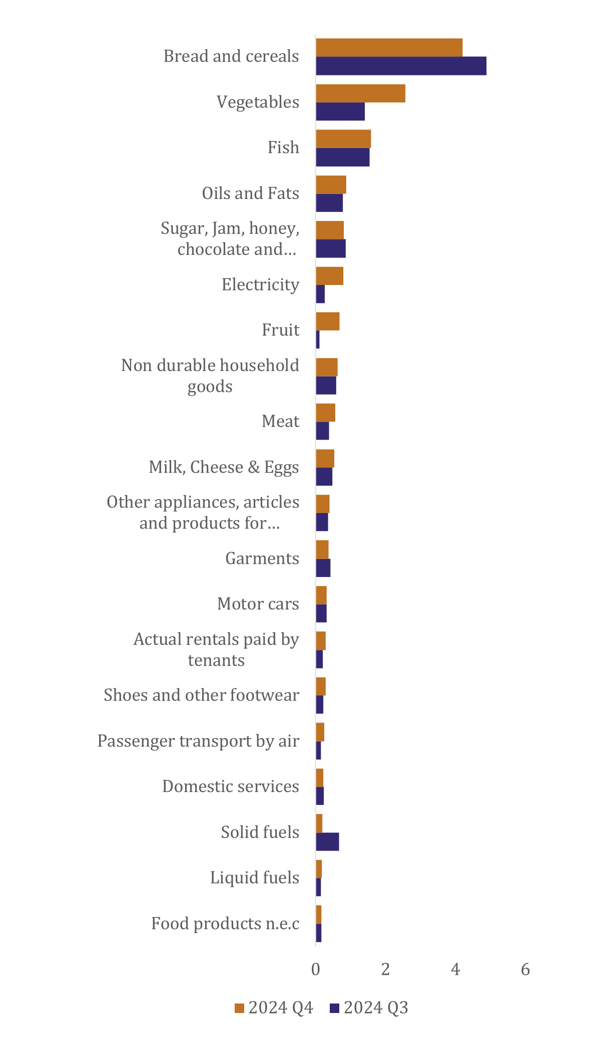


Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Besides electricity tariffs and vegetables, additional inflationary pressures arose from the fish, oils and fats, as well as fruit sub-groups (Figure 79). The bread and cereals sub-group maintained its dominant influence on overall inflation (Figure 79).

[58]According to Zambia Statistics Agency, vegetables include baked beans, cabbage, carrots, cassava leaves, cassava roots, chikanda tubers, chinese cabbage, cucumber, dried beans, eggplant, green beans, green pepper, impwa, irish potatoes, lettuce, maize cobs, mushrooms, okra, onion, peas, potato crisps, pumpkin, pumpkin leaves, rape, spinach, sweet potato leaves, sweet potatoes and tomatoes.

Figure 79: Contribution to Overall Inflation by Sub-Group in the Fourth Quarter of 2024 (percentage points)



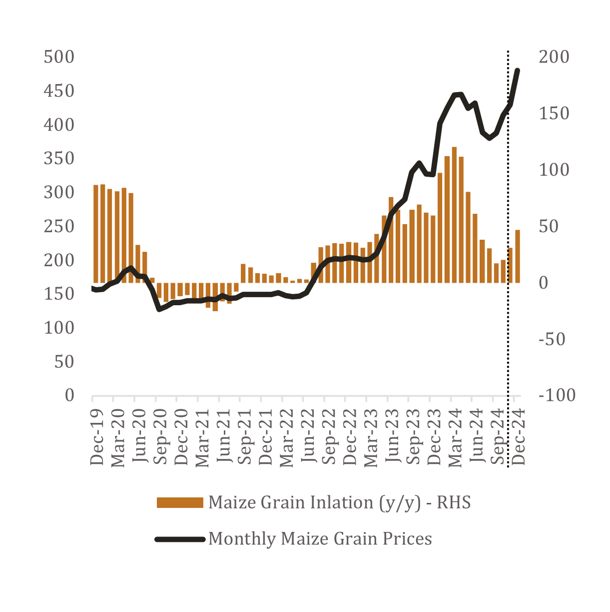
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Increased refrigeration costs due to higher electricity tariffs and the imposition of the annual fishing ban on December 1 largely contributed to reduced supply of fish and subsequently higher prices.

Oils and fats products were mainly impacted by the depreciation of the exchange rate. The notable increase in the fruit sub-group , induced by higher prices of imported bananas, lemons and mangoes, was due to the depreciation of the exchange rate. Low seasonal supply affected the price of groundnuts.

The pick-up in maize grain prices (Figure 80) during the lean period contributed to the dominant influence of the bread and cereals sub-group on food inflation (Figure 78) as well as overall inflation despite some moderation. The depreciation of the exchange rate contributed to increased prices of imported rice.

Figure 80: Domestic Maize Grain Prices (K/50kg)



Source: Bank of Zambia Computation

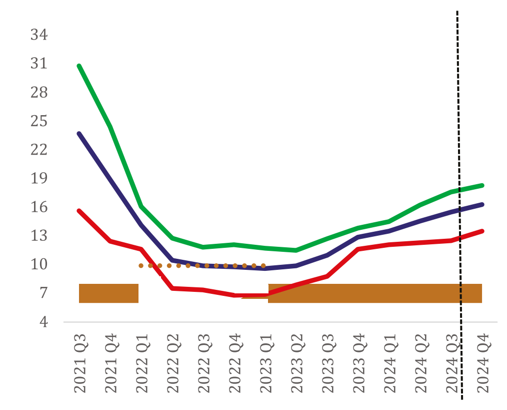
On average, overall inflation rose to 16.3 percent in the fourth quarter from 15.5 percent recorded in the third quarter (Table 9 and Figure 81). Food and non-food inflation increased by 0.7 percentage points and 1.0 percentage point to 18.3 percent and 13.5 percent, respectively (Table 9). The contributions to overall inflation are depicted in figure 82.

Table 9: Quarterly Average and End-Period Inflation Rate (percent)

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Average					
Overall Inflation	12.9	13.5	14.6	15.5	16.3
Food Inflation	13.8	14.5	16.2	17.6	18.3
Non-food Inflation	11.6	12.1	12.3	12.5	13.5
End Period					
Overall Inflation	13.1	13.7	15.2	15.6	16.7
Food Inflation	14.2	15.6	16.8	17.9	18.6
Non-food Inflation	11.6	11.2	13.0	12.4	14.2

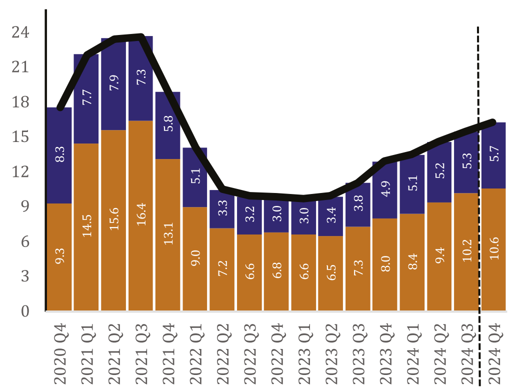
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 81 : Trend in Quarterly Inflation (year-on-year percent)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 82 : Contribution to Overall Inflation by Food and Non-Food Inflation (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

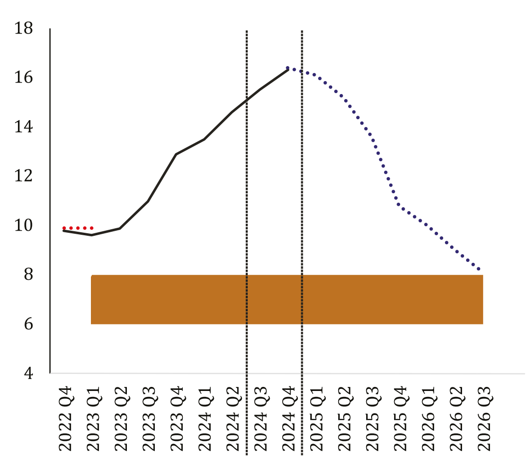
The 16.3 percent inflation outturn was broadly in line with the November 2024 MPC projection of 16.4 percent (Table 10 and Figure 83). However, the baseline projection was lower by 0.4 percentage points mainly on account of understatement of the impact of emergency electricity tariffs.

Table 10: Assumptions underlying Inflation Projection in 2024Q4

	2024 Q4	2024 Q4
	Assumed Value	Actual Value
Average inflation-USA (percent)	2.6	2.7
Fed funds rate (percent)	4.4	4.7
Average inflation-South Africa (percent)	4.6	3.6
Average copper price/ton (US$)	9,342.56	9,312.50
Average crude oil price/barrel (US$)	81.12	73.88
Reserve money growth (percent)	4.7	4.4
Fiscal deficit (ratio of expenditure to revenue)	1.27	1.30
World food price index	114.8	115.9
BoZ monetary policy rate (percent)	13.5	14.0
Inflation projection		
Baseline	15.9	
MPC	16.4	
November 2024 QSBOE expectations	16.2	
SoEE	16.5	
Inflation outturn (percent)		16.3
Inflation estimate using actual values (percent)		16.9
Exchange rate projection (K/US$)		
Baseline	27.07	
MPC	26.83	
Exchange rate outturn		27.16
Exchange rate estimate using actual values		27.35

Source: Bank of Zambia Compilations, Reuters, South African Reserve Bank, World Bank Pink Sheet and Survey of Professional Forecasters

Figure 83: Actual and Projected Annual Overall Inflation (percent)



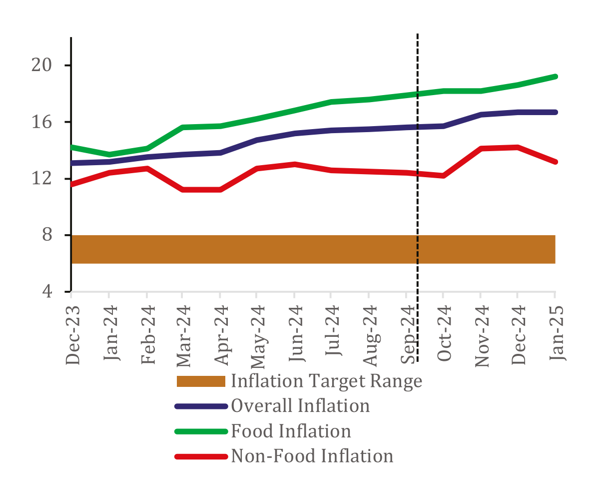
Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

Expectations of inflation by respondents to the *November 2024 Bank of Zambia Quarterly Survey of Business Opinions and Expectations* of 16.5 percent was broadly in line with the outturn (Table 10). Survey respondents based their expectations mostly on rising production costs induced by electricity load management and higher electricity tariffs, a weaker exchange rate, inflation inertia and higher fuel prices.

... inflation holds steady in January

In January 2025, overall (CPI) inflation was 16.7 percent, unchanged from the December 2024 reading (Figure 84).

Figure 84: Inflation and its Components (percent)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The key influences on inflation were bread and cereals, as well as vegetables.

The price of imported rice, one of the key products in the bread and cereals sub-group[59], was impacted by the depreciation of the exchange rate. Low seasonal supply of maize grain during the lean period raised prices of breakfast and roller meal. The prices of bun and bread were largely influenced by elevated production costs due to the prolonged use of relatively expensive alternative sources of energy.

For vegetables, prices of maize cobs, dried beans, sweet potatoes and mushrooms were mostly affected by low seasonal supply. Reduced supply of maize cobs from the irrigated crop coupled with the slow inflow of the crop from the current rainy season have been the main factors pushing prices up. Rising production costs, mostly due to the increased use of pesticides associated with the rainy season, together with transportation difficulties contributed to reduced supply of tomatoes, rape and onions.

[59]The other products are biscuits plain, biscuits with cream, bread, bread flour imported, breakfast mealie meal, bun, cassava meal, cornflakes, fritters, macaroni, maize grain, millet, millet meal, rice local, roller mealie meal, samp, sorghum, spaghetti, wheat plain household flour.

Appendix

Monetary and Foreign Exchange Measures since April 2012

Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate		To address excess liquidity in the money market and its impact on inflation
Access to OLF window restricted to once a week	March 19, 2014	
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US$0.5m-US$1m from US$1m		To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01	March 28, 2014	To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves		
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate	May 30, 2014	
Policy Rate raised to 12.5 percent	November 19, 2014	To contain inflationary pressures
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent		
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points	March 20, 2015	
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote		To improve order, stability, and transparency in the foreign exchange market
BoZ to publish individual commercial banks' exchange rates on Reuters platform		
Commercial banks to update board exchange rates three times a day as prescribed	October 5, 2015	
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed, and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures

Measure	Date Implemented	Rationale
Access to OLF Window restricted to once a week Roll-over of intra-day loan into an overnight loan discontinued	November 18, 2015	To contain inflationary pressures
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.

Measure	Date Implemented	Rationale
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.
Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.
Policy Rate raised to 13.5 percent from 12.5 percent	May 15, 2024	To augment earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange channel, and addressing rising inflation expectations.
Bank of Zambia Foreign Exchange Market Guidelines	May 24, 2024	To enhance transparency, efficiency and effectiveness of domestic foreign exchange market in Zambia.
Government Securities as an Additional Asset Class for Minimum Reserve Requirements	June 5, 2024	To moderate the cost of intermediation and provide flexibility to reserve requirement compliance.
Amendment to the Interbank Foreign Exchange Market Rules	June 11, 2024	To improve transparency and strengthen the operations of the domestic foreign exchange market.
Policy Rate maintained at 13.5 percent	August 15, 2024	The Committee judged that the monetary policy stance was appropriate despite actual and projected inflation remaining above the 6-8 percent target band.

Measure	Date Implemented	Rationale
Policy Rate raised to 14.0 percent from 13.5 percent	November 13, 2024	To steer inflation back towards the 6-8 percent target band and anchoring inflation expectations.
Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate	March 19, 2014	To address excess liquidity in the money market and its impact on inflation
Access to OLF window restricted to once a week		
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US$0.5m-US$1m from US$1m	March 28, 2014	To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01		To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves	May 30, 2014	
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate		
Policy Rate raised to 12.5 percent	November 19, 2014	To contain inflationary pressures
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent	March 20, 2015	
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points		
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote	October 5, 2015	To improve order, stability, and transparency in the foreign exchange market
BoZ to publish individual commercial banks' exchange rates on Reuters platform		
Commercial banks to update board exchange rates three times a day as prescribed		
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed, and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures

Measure	Date Implemented	Rationale
Access to OLF Window restricted to once a week	November 18, 2015	To contain inflationary pressures
Roll-over of intra-day loan into an overnight loan discontinued		
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.

Measure	Date Implemented	Rationale
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.
Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.
Policy Rate raised to 13.5 percent from 12.5 percent	May 15, 2024	To augment earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange rate channel and addressing rising inflation expectations.
Bank of Zambia Foreign Exchange Market Guidelines	May 24, 2024	To enhance transparency, efficiency and effectiveness of domestic foreign exchange market in Zambia.
Government Securities as an Additional Asset Class for Minimum Reserve Requirements	June 5, 2024	To moderate the cost of intermediation and provide flexibility to reserve requirement compliance.
Amendment to the Interbank Foreign Exchange Market Rules	June 11, 2024	To improve transparency and strengthen the operations of the domestic foreign exchange market.
Policy Rate maintained at 13.5 percent	August 14, 2024	The Committee judged that the monetary policy stance was appropriate despite actual and projected inflation remaining above the 6-8 percent target.

Measure	Date Implemented	Rationale
Policy Rate raised to 14.0 percent from 13.5 percent	November 13, 2024	To steer inflation back towards the 6-8 percent target band and anchoring inflation expectations.
Policy Rate raised to 14.5 percent from 14.0 percent	February 12, 2025	To steer inflation back to the 6-8 percent target band and help anchor inflation expectations.