



**MONETARY POLICY COMMITTEE  
STATEMENT FOR  
SECOND QUARTER 2017**

**Governor's Presentation to the Media**

**10<sup>th</sup> August, 2017**



# INTRODUCTION

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**The presentation is structured as follows:**

- 1. Decision of the Monetary Policy Committee**
- 2. Overview**
- 3. Global economic developments**
- 4. Domestic economic developments**
- 5. Macroeconomic outlook**



# MONETARY POLICY DECISION

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**At the Meeting held on 8 – 9 August 2017, Monetary Policy Committee decided to:**

- 1. Lower the Policy Rate by 150 basis points to 11.0% from 12.5%; and**
- 2. Reduce the Statutory Reserve Ratio by 300 basis points to 9.5% from 12.5%.**



# MONETARY POLICY DECISION

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

- **Sustained decline in inflation over the last seven months, with inflation being firmly anchored in single digit levels;**
- **Inflation projections, which suggest that inflation will remain within the medium-term target range of 6-8% over the next 8 quarters;**
- **The prevailing high cost of credit, particularly to the productive sectors of the economy;**
- **Sluggish growth in credit to the private sector;**
- **Deterioration in commercial banks' asset quality as reflected rising non-performing loans; and,**
- **Weak economic growth.**

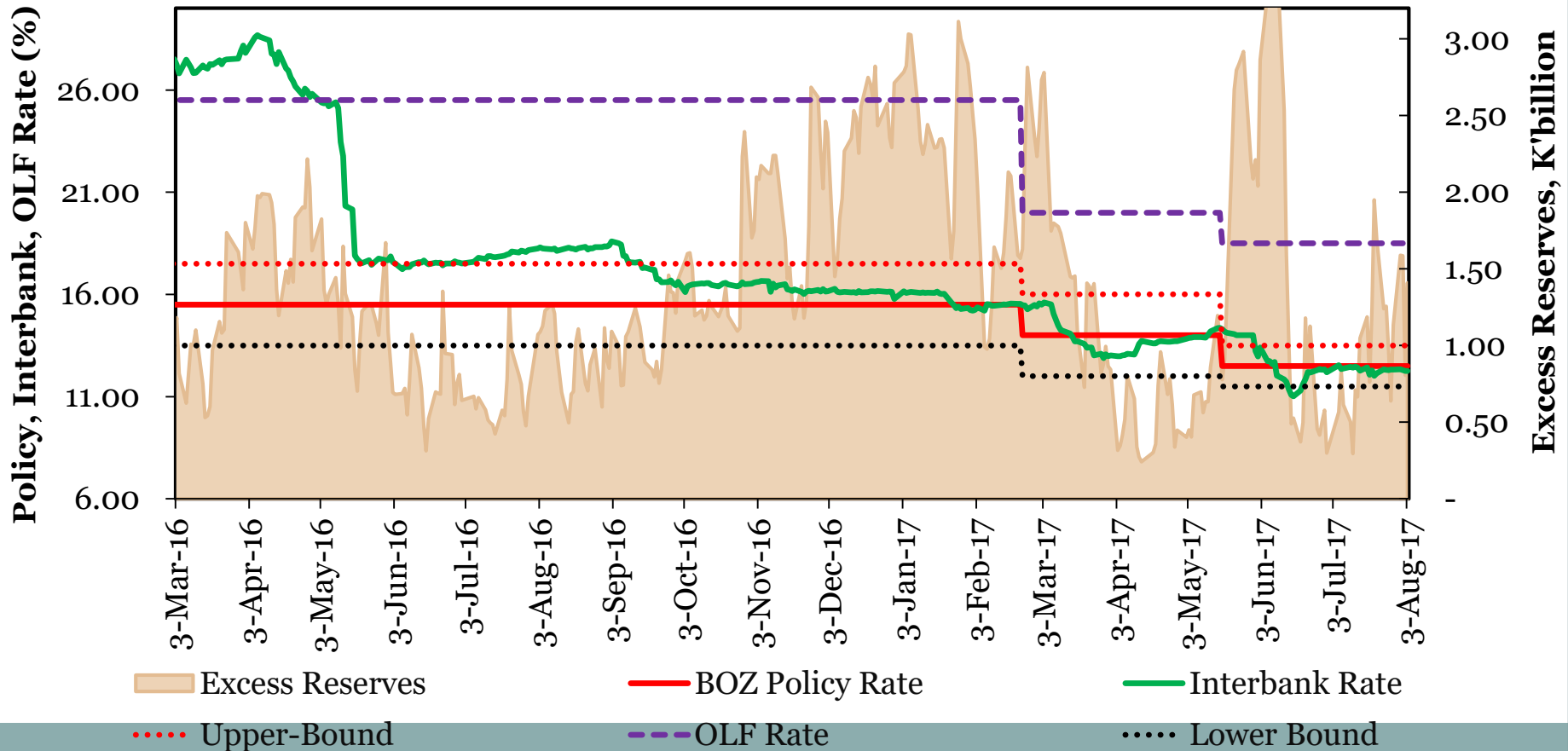


# OVERVIEW

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Following further easing of monetary policy stance, the overnight interbank rate declined to 12.2% at end-Q2 from 13.0% at end-Q1 2017.

Figure 1: Interest Rates and Excess Reserves



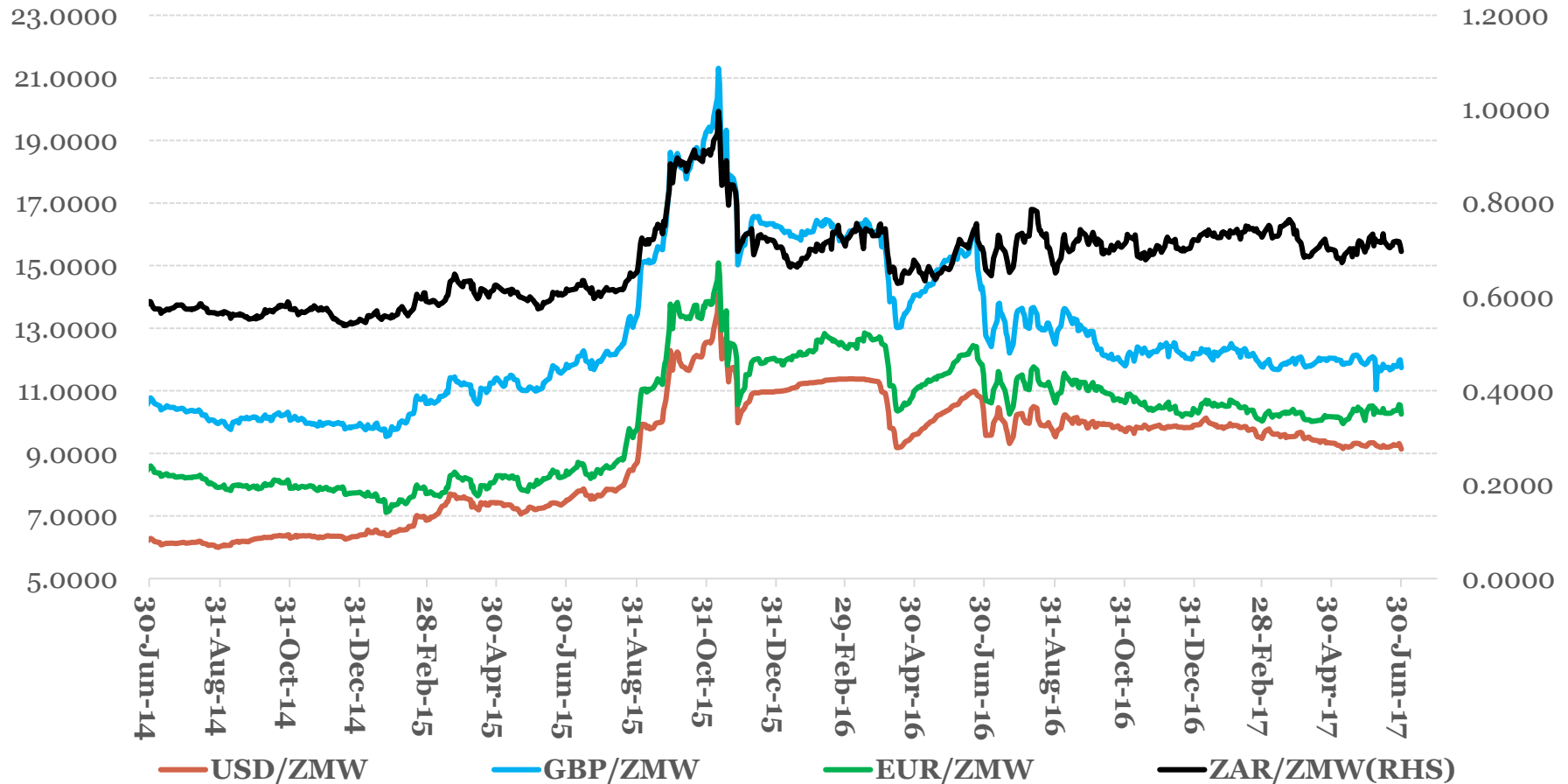


# OVERVIEW

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**The Kwacha appreciated against major foreign currencies, supported by improved supply of foreign exchange and higher copper prices.**

**Figure 2: Exchange rate developments**



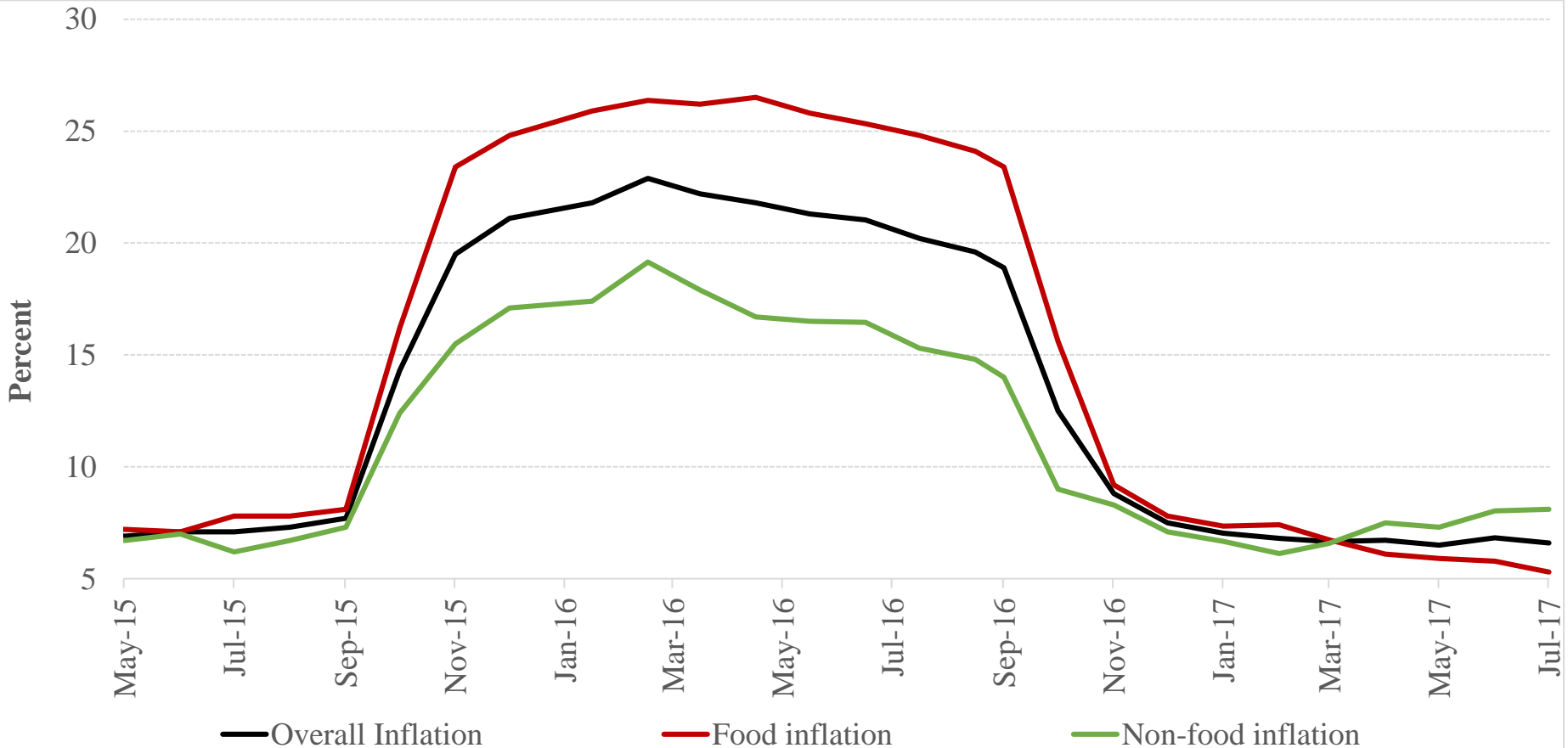


# OVERVIEW

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**Annual inflation rose marginally to 6.8% in June from 6.7% in March 2017 following a hike in electricity tariffs. In July 2017, inflation declined to 6.6%**

**Figure 3: Inflation developments**





# GLOBAL ECONOMIC DEVELOPMENTS

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**The global economy is projected to grow by 3.5% in 2017 from 3.1% in 2016, premised on strong growth outlook in emerging markets and developing economies (EMDEs).**

**Growth in EMDEs is projected at 4.6% in 2017 and 4.8% in 2018, reflecting;**

- **Projected increase in commodity prices**
- **Stronger demand in China - supported by fiscal policy stimulus measures.**

**Global commodity prices generally declined in Q2, 2017 (Table 1).**





# GLOBAL ECONOMIC DEVELOPMENTS

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**Table 1: Selected Global Commodity Prices**

	2017 Q1	2017 Q2
<b>Copper Price (US\$/ton)</b>	<b>5,840.0</b>	<b>5,668.0</b>
<b>Oil Price (Dubai) (US\$/barrel)</b>	<b>52.9</b>	<b>49.7</b>
<b>Wheat (US\$/ton)</b>	<b>177.0</b>	<b>176.0</b>
<b>Maize Price (US\$/ton)</b>	<b>160.6</b>	<b>157.7</b>
<b>Cotton (US\$/kg)</b>	<b>1.9</b>	<b>1.9</b>
<b>Sugar (US\$/kg)</b>	<b>0.4</b>	<b>0.3</b>
<b>Soya beans (US\$/ton)</b>	<b>419.0</b>	<b>386.0</b>

- **Copper prices declined as LME copper stocks increased and imports from China sharply dropped. However, realised copper prices rose.**
- **Oil prices declined, reflecting strong inventory levels in the United States and Iran, and a pick-up in supply.**



# DOMESTIC ECONOMIC DEVELOPMENTS

## Monetary Policy Operations

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- **Monetary policy operations continued to focus on containing the overnight interbank rate within the Policy Rate corridor and anchoring inflationary expectations.**
- **Market liquidity increased further following the reduction in the statutory reserve ratio, net Government spending and purchase of foreign exchange by BoZ for international reserves build-up (Table 2).**
- **With the further easing of monetary policy in May 2017, the interbank rate declined to 12.2% at end-Q2 from 13.0% at end-Q1 (Figure 1).**
- **To keep the interbank rate within the Policy Rate corridor, the Bank withdrew K10.8 billion through OMO, up from K4.0 billion in Q1 (Figure 4).**



# DOMESTIC ECONOMIC DEVELOPMENTS

## Monetary Policy Operations

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**Table 2: Key Liquidity Influences (K' billion)**

	2017Q1	2017Q2
Opening balance	2.7	0.8
Net Govt. spending	1.3	1.3
BoZ FX influence	0.6	1.8
Change in CIC	0.9	-0.7
Change in SR deposits	-0.4	-0.4
Overnight Lending Facility	-0.1	0.03
Net Govt securities influence	-3.1	-2.4
Open market operations	-1.4	-0.3
Miscellaneous	0.3	0.0
Closing balance	0.8	0.3

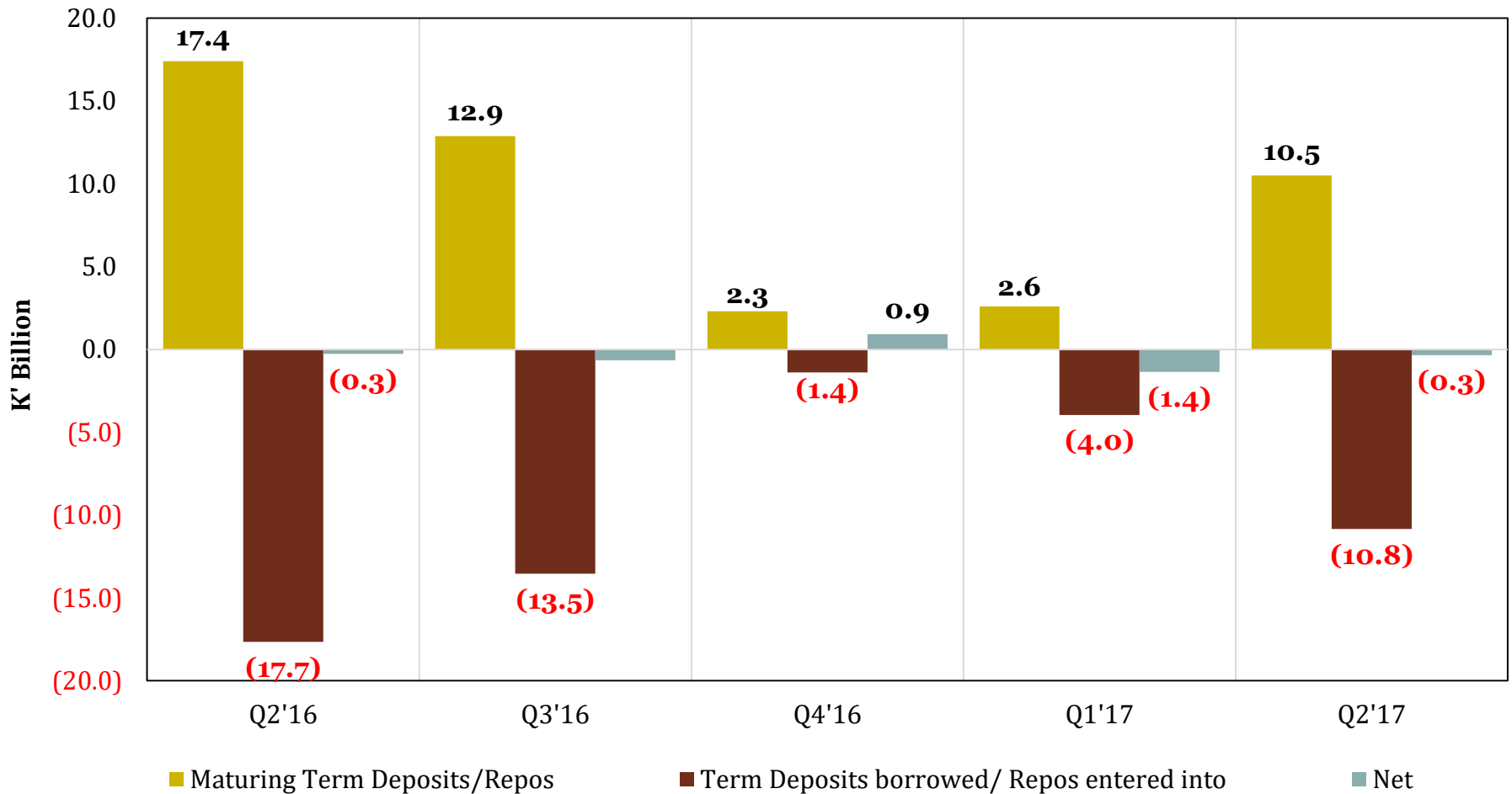


# DOMESTIC ECONOMIC DEVELOPMENTS

## Monetary Policy Operations

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Figure 4: OMO Withdrawals, Quarterly (K' billion)





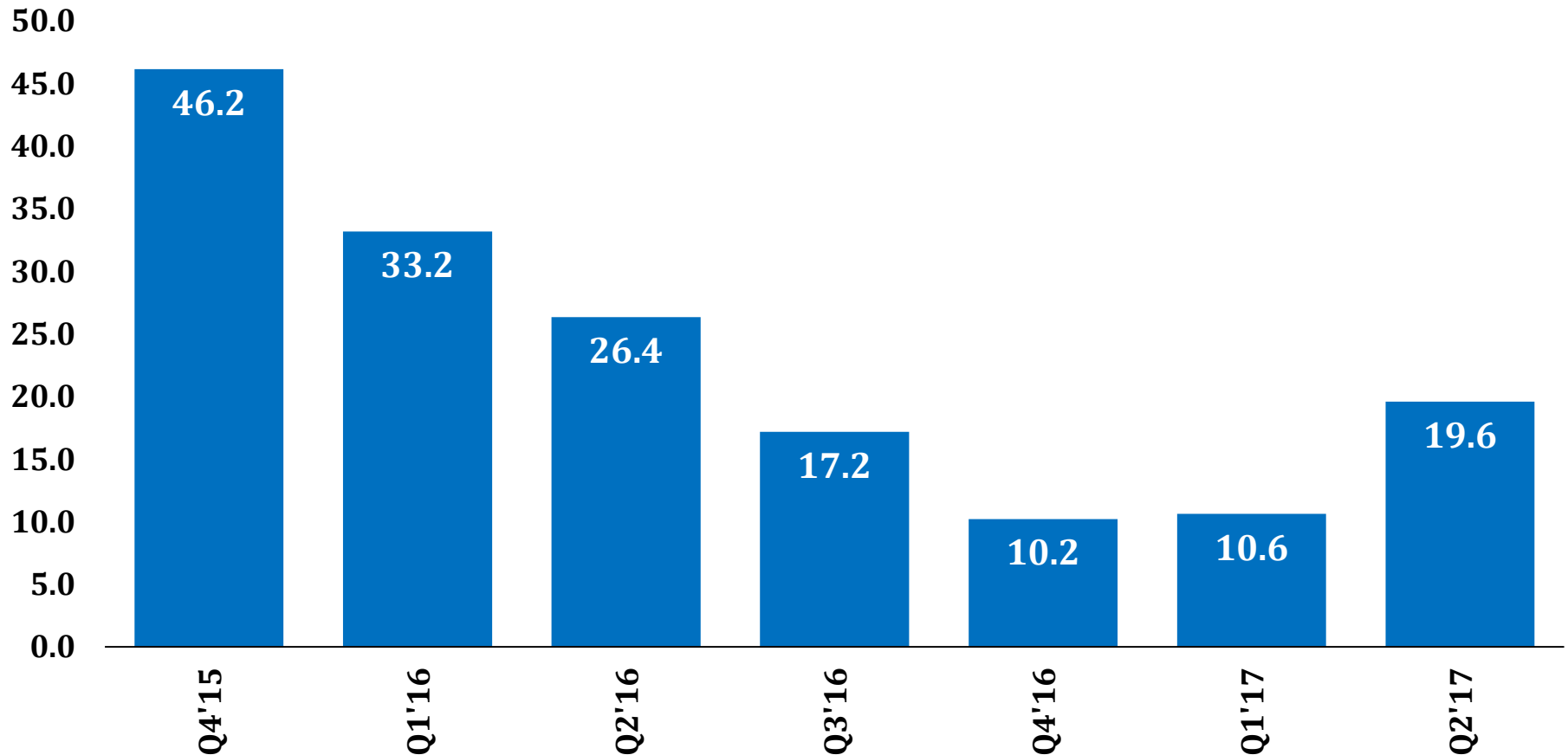
# DOMESTIC ECONOMIC DEVELOPMENTS

## Monetary Policy Operations

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**Volume of interbank trading rose despite higher market liquidity**

**Figure 5: Interbank Trading Activity (K' billion)**





# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

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**Demand for Government securities remained elevated, though subscription rates declined.**

**Table 3: Government Securities Auctions**

	<b>Amount on offer (K' Billion)</b>	<b>Amount Received (K' Billion)</b>	<b>Subscription rate (%)</b>
<b>T-bills</b>			
<b>2017Q1</b>	5.4	7.1	131
<b>2017Q2</b>	6.3*	7.7	122
<b>Bonds</b>			
<b>2017Q1</b>	1.0	5.5	550
<b>2017Q2</b>	1.0	1.7	170

\* More Tbill auctions were conducted in Q2, but auction size remained the same.



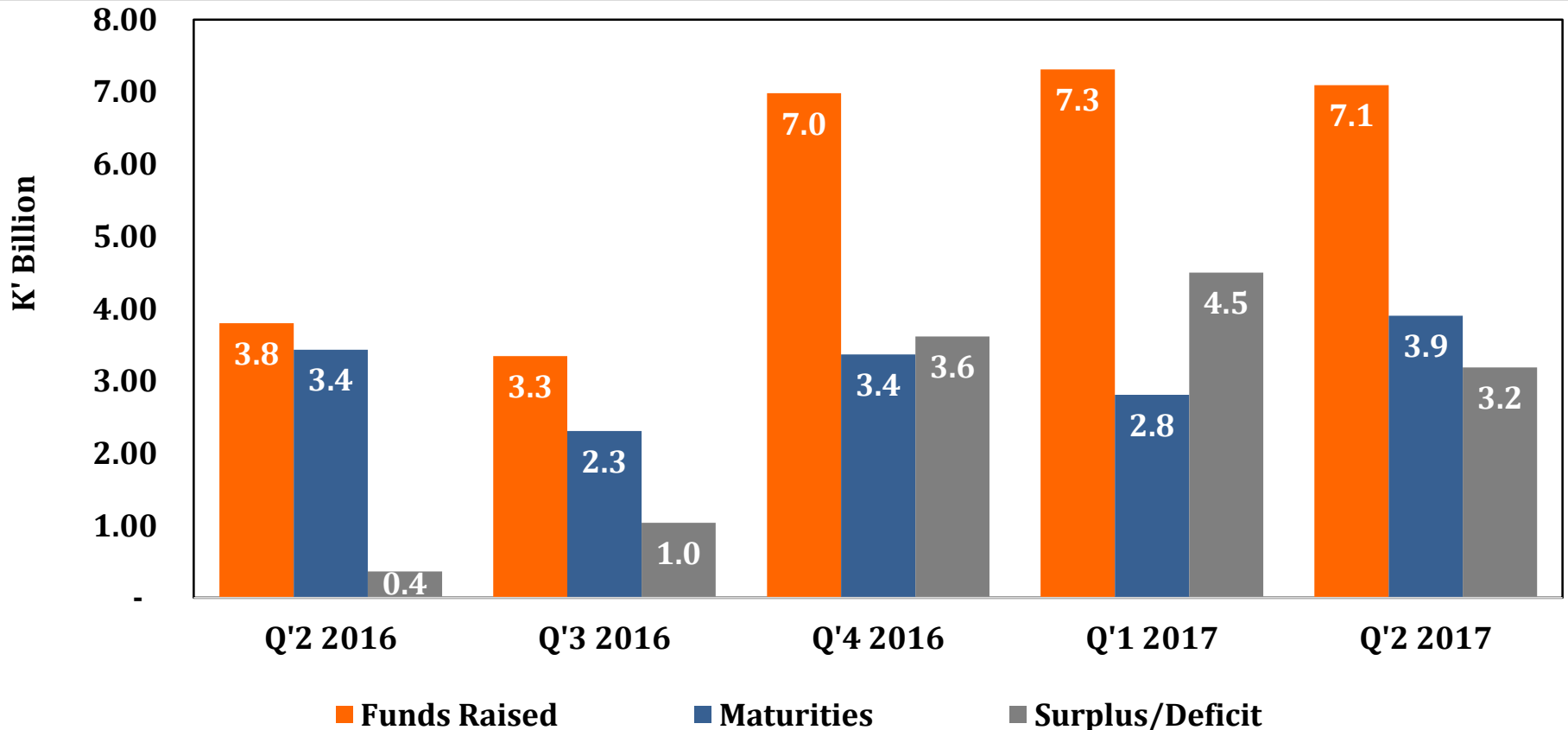
# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

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**A total of K7.1 billion was raised from auctions against the maturity of K3.9 billion, resulting in a surplus of K3.2 billion.**

**Figure 6: Government Securities**





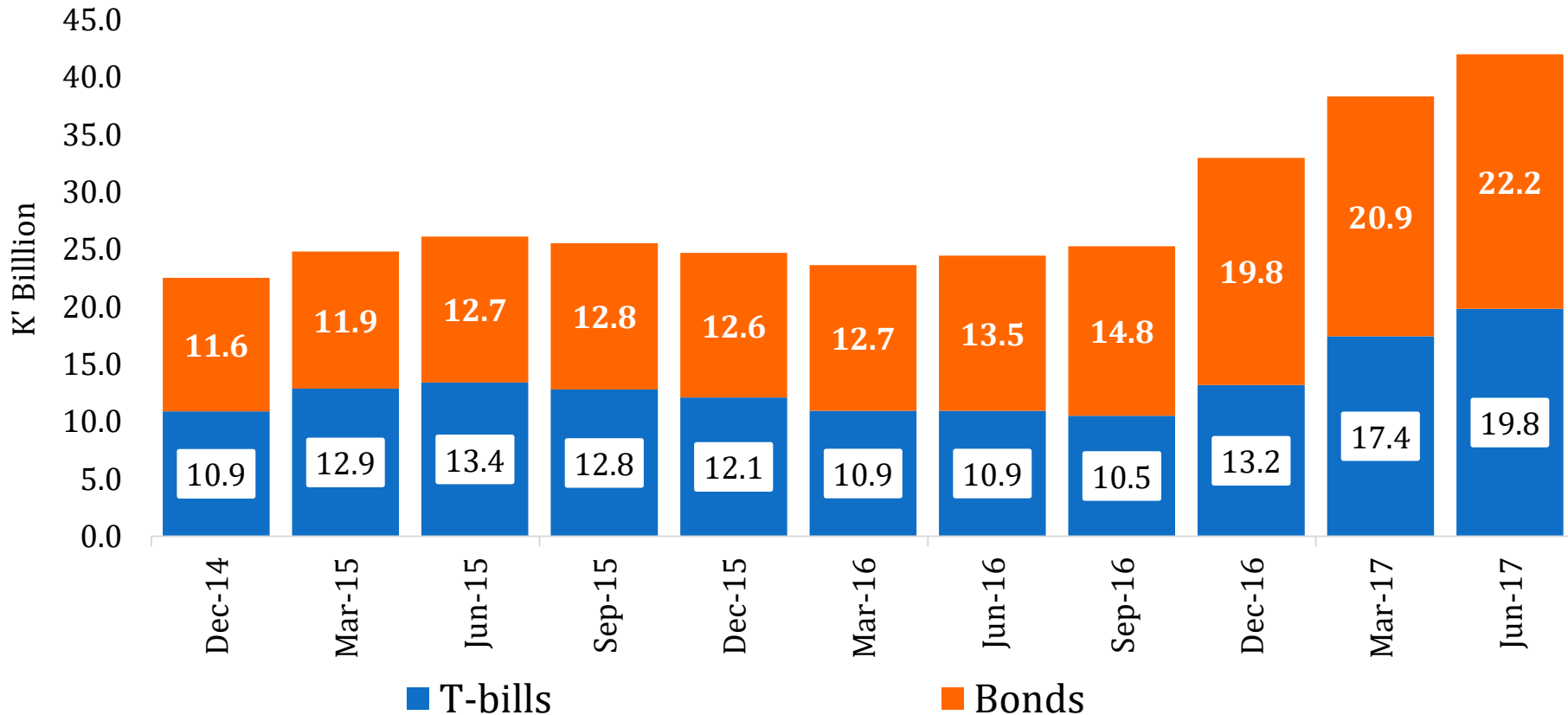
# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

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The total outstanding stock of Government securities increased by 9.7% to K42.0 billion. The increase reflects the switch in financing from foreign to domestic.

Figure 7: Total Outstanding Government Securities







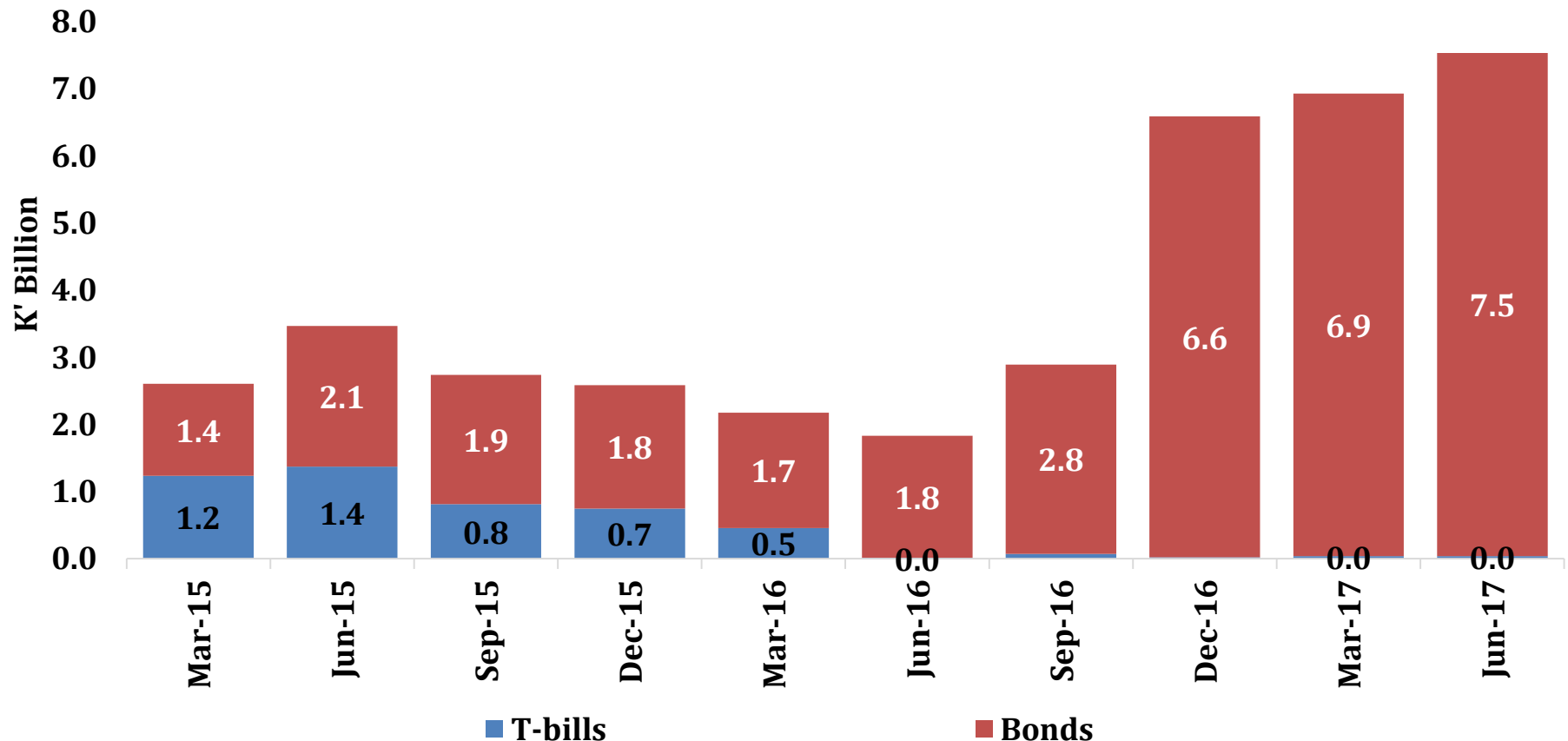
# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

17

**Non-resident investors' holdings of Government securities increased to K7.5 billion in Q2 from K6.9 billion in Q1 2017.**

**Figure 8: Non-resident Holdings of Government Securities**





# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

18

- **Yield rates on Government securities continued to trend downwards in Q2 on the back of easing liquidity conditions (Figure 9).**
- **The weighted average Treasury bills yield rate fell to 15.7% in June 2017 from 20.8% in March 2017.**
- **The weighted average Government bond yield rate declined to 19.3% from 20.4%.**

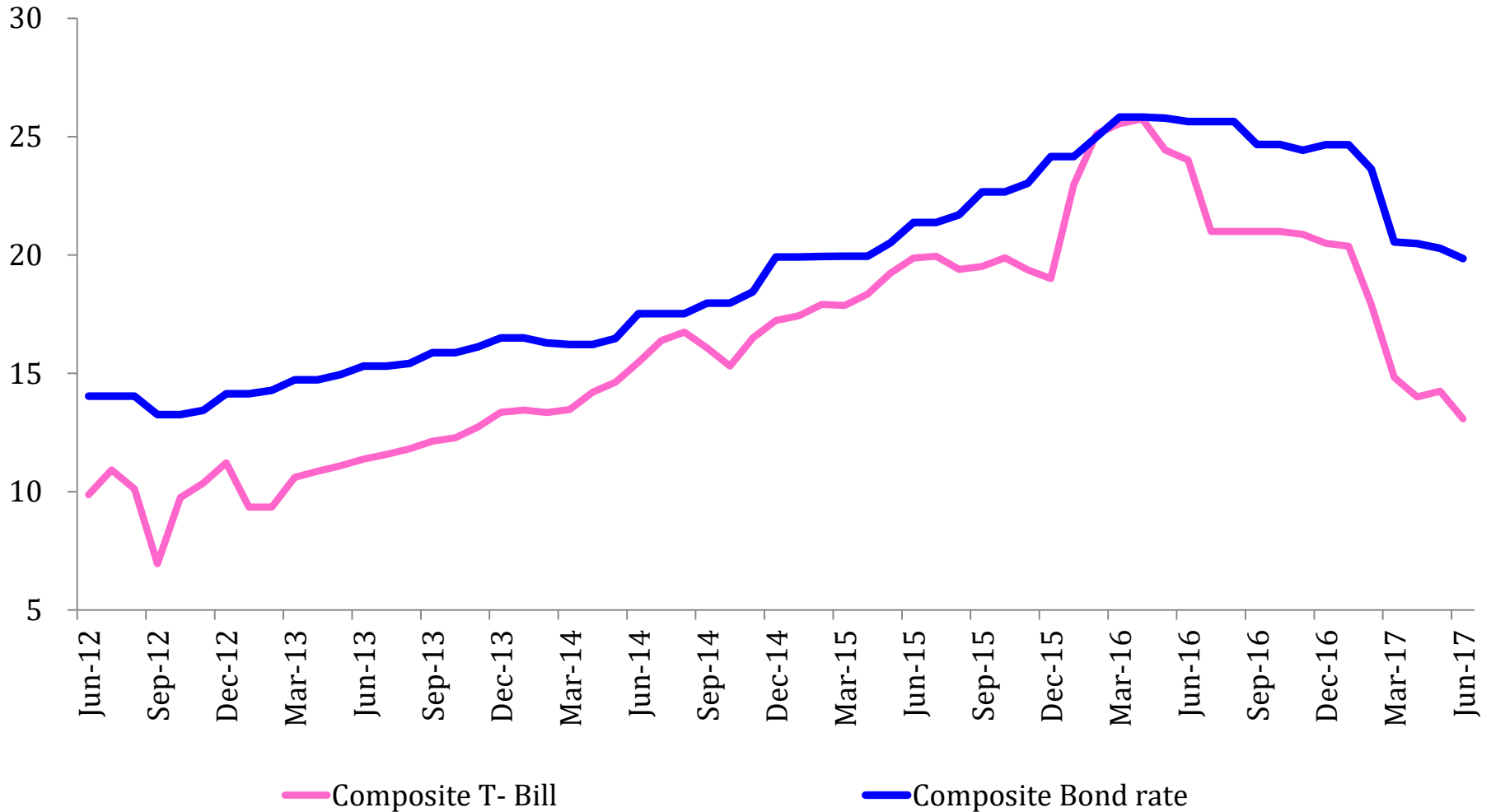


# DOMESTIC ECONOMIC DEVELOPMENTS

## Government securities market

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**Figure 9: Government securities yield rates (%)**





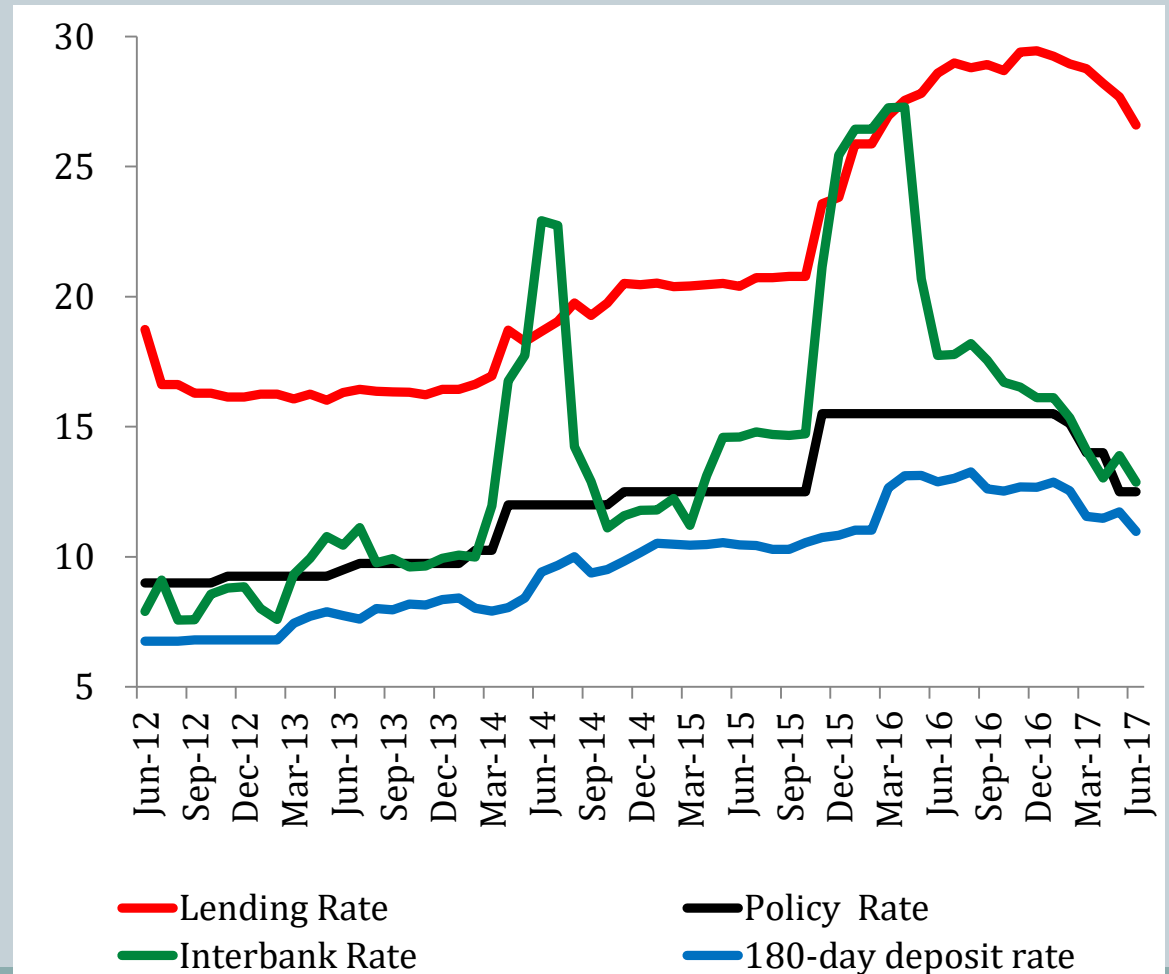
# DOMESTIC ECONOMIC DEVELOPMENTS

## Banks' Nominal Interest Rates

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- The average lending rate declined to 26.6% in June from 28.8% in March 2017.
- Lending rates ranged from 8 – 37% (10% – 38.5% in Q1).
- Savings rates on negotiated deposits declined to a range of 6 – 29.6% (11.0%-31.0% in Q1).

Figure 10: Nominal Interest Rates (%)





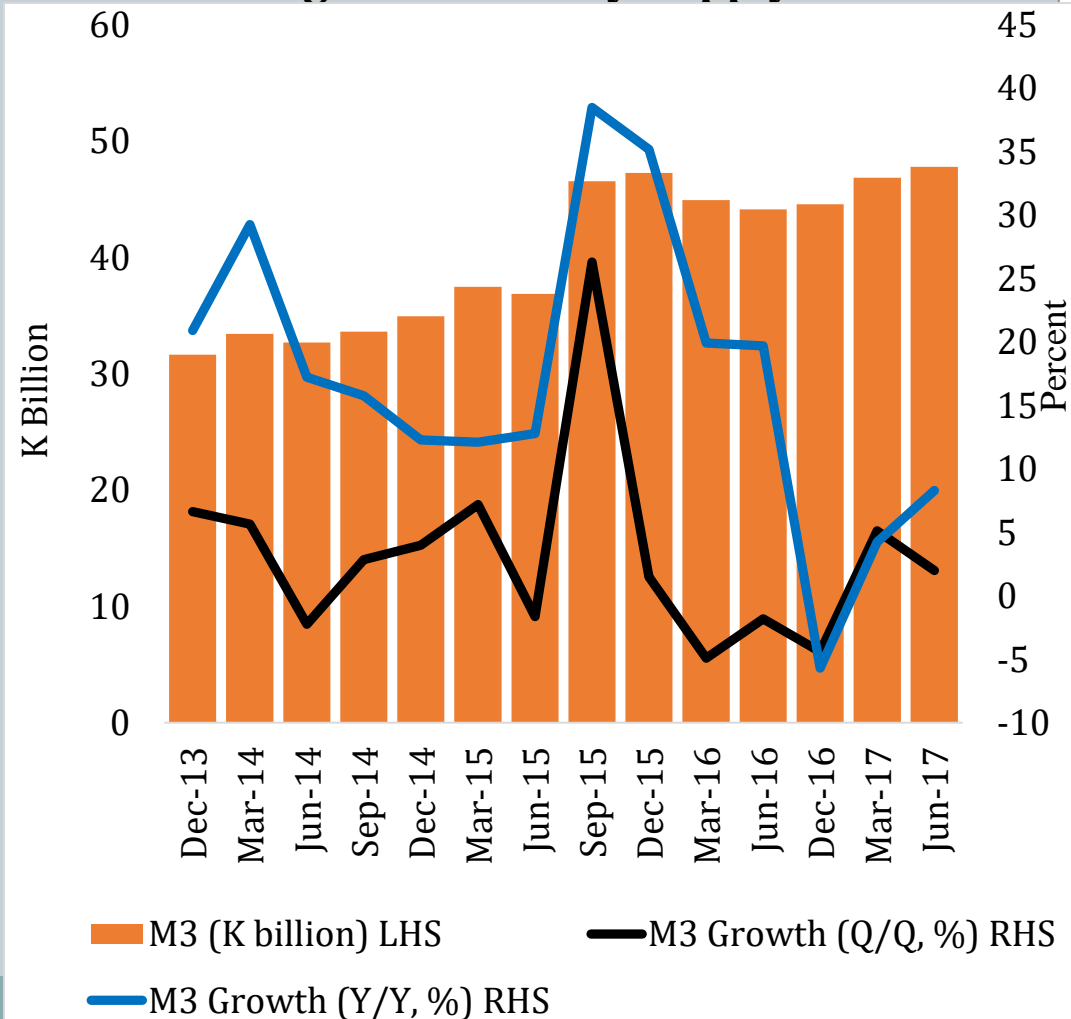
# DOMESTIC ECONOMIC DEVELOPMENTS

## Money supply and credit

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- Money supply grew by 2.0% on a quarterly basis compared with a growth rate of 5.1% in Q1.
- Growth mainly driven by lending to Government and up tick in credit to the private sector.
- On a year-on-year basis, money supply grew by 8.3% in June 2017, up from a growth of 4.2% in March 2017.
- Year-on-year growth in money supply remains low to support strong economic activity.

Figure 11: Money Supply





# DOMESTIC ECONOMIC DEVELOPMENTS

## Money supply and credit

22

- **In Q2, total credit grew by 6.5%, same magnitude as recorded in Q1 2017 (Table 4).**
- **Credit to Government expanded at a slower pace of 11.3% compared with a growth of 18.1% in Q1 2017.**
- **Credit to private enterprises grew by 1.6%, partially reversing a contraction of 4.8% in Q1.**
- **Recovery in credit growth to the private sector was mainly due to improved liquidity conditions, decline in lending rates and banks' willingness to take on more risk as growth prospects brightened.**



# DOMESTIC ECONOMIC DEVELOPMENTS

## Money supply and credit

23

**Table 4: Credit growth**

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
<b>Total Credit (Incl. Govt)</b>	<b>0.7</b>	<b>4.9</b>	<b>1.1</b>	<b>6.5</b>	<b>6.5</b>
<b>Total -(Excl. Govt)</b>	<b>-3.7</b>	<b>-1.7</b>	<b>-5.4</b>	<b>-3.2</b>	<b>1.6</b>
<b>Public Enterprises</b>	<b>-0.3</b>	<b>-3.1</b>	<b>-9.2</b>	<b>-10.0</b>	<b>28.9</b>
<b>Government</b>	<b>9.0</b>	<b>15.7</b>	<b>10.2</b>	<b>18.1</b>	<b>11.3</b>
<b>Private Enterprises</b>	<b>-5.2</b>	<b>-1.3</b>	<b>-4.6</b>	<b>-4.8</b>	<b>1.6</b>
<b>Households</b>	<b>-2.1</b>	<b>-0.9</b>	<b>-7.1</b>	<b>-0.3</b>	<b>1.3</b>
<b>NBFIs</b>	<b>10.3</b>	<b>-0.1</b>	<b>17.6</b>	<b>-7.9</b>	<b>5.9</b>



# DOMESTIC ECONOMIC DEVELOPMENTS

## Foreign Exchange Market

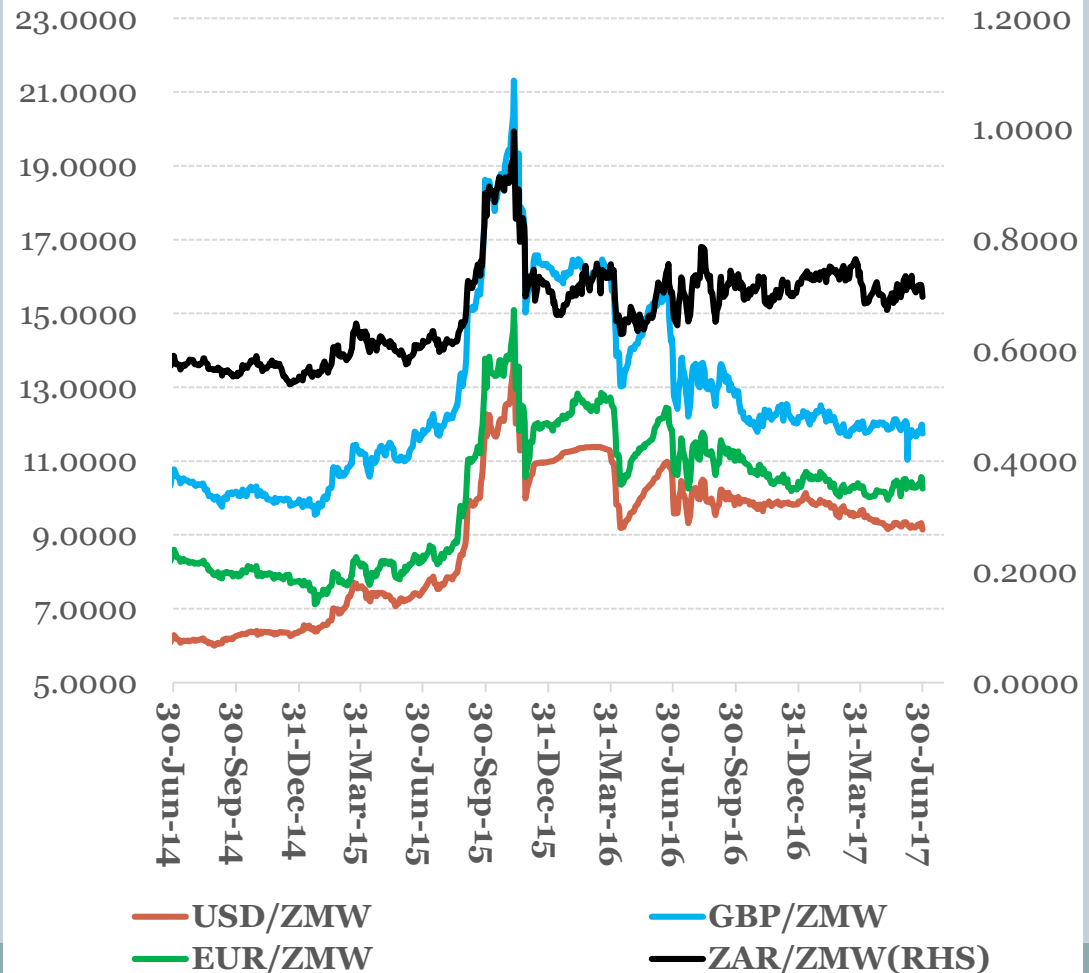
24

The Kwacha appreciated further in Q2 due to increased supply of foreign exchange and higher copper prices (Figure 12).

Against the US dollar, the Kwacha gained by 5.0% to an average of K9.31 in June 2017.

Foreign financials and mining companies' remained the major suppliers, while the Government continued to be the lead buyer (Figure 13)

Figure 12: Exchange rate developments





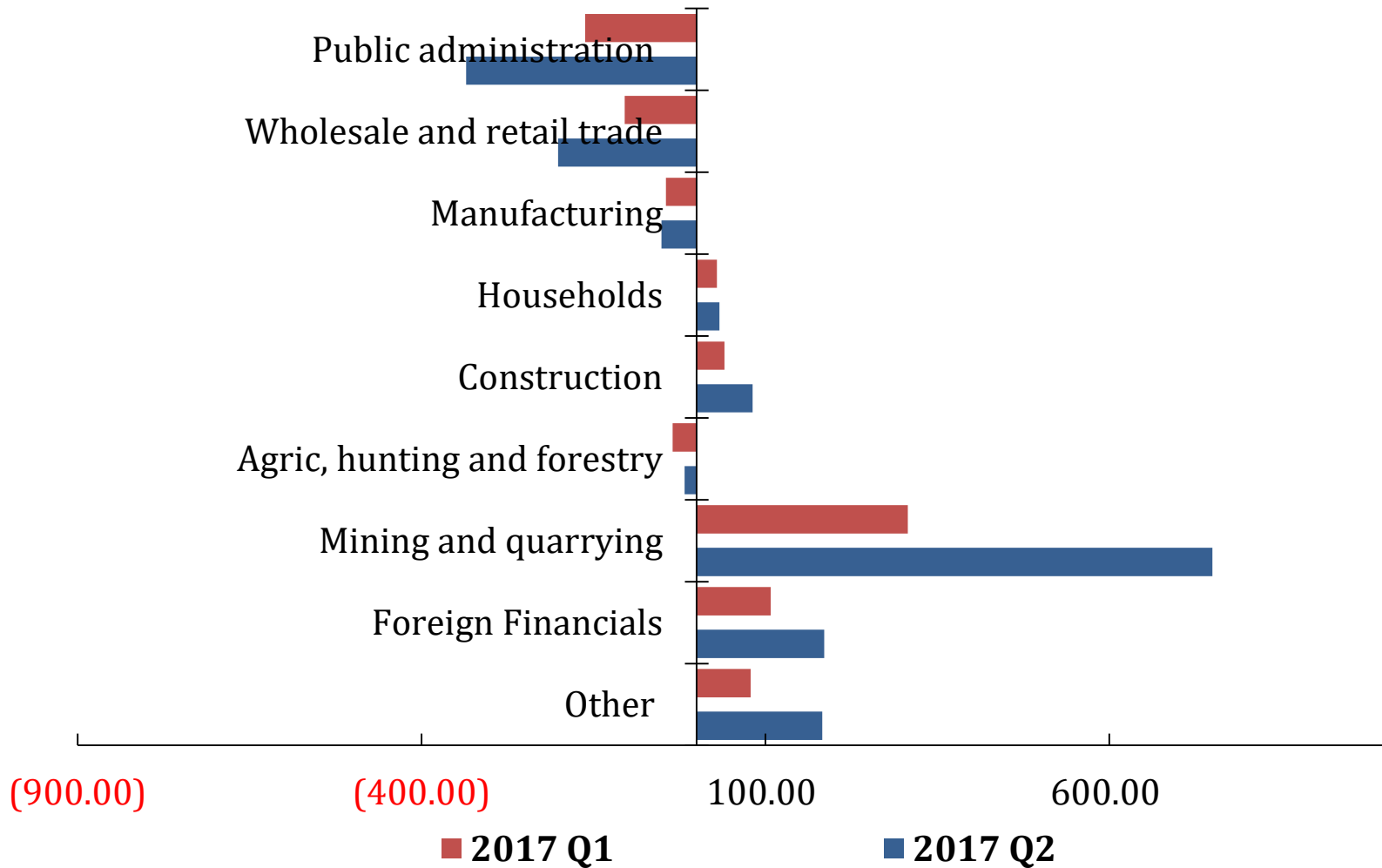


# DOMESTIC ECONOMIC DEVELOPMENTS

## Foreign Exchange Market

25

**Figure 13: Supply and Demand (US\$'million)**





# DOMESTIC ECONOMIC DEVELOPMENTS

## Real Sector Activity

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- **Available real sector data indicate that output in mining, manufacturing, and energy sectors picked up in Q2. Retail sales also picked up.**
- **copper production rose by 18.2% in Q2 to 197,015.2mt, driven by rebound in prices, continued ramp-up of production, and the resumption of operations at Nchanga mine (Figure 14).**
- **However, electricity generation picked up as water levels in reservoirs improved following above normal rainfall during the 2016/17 rainy season.**
- **production of cement increased by 16.2% to 451,529 mt in Q2 on account of the rise in demand occasioned by favourable conditions for construction activities.**

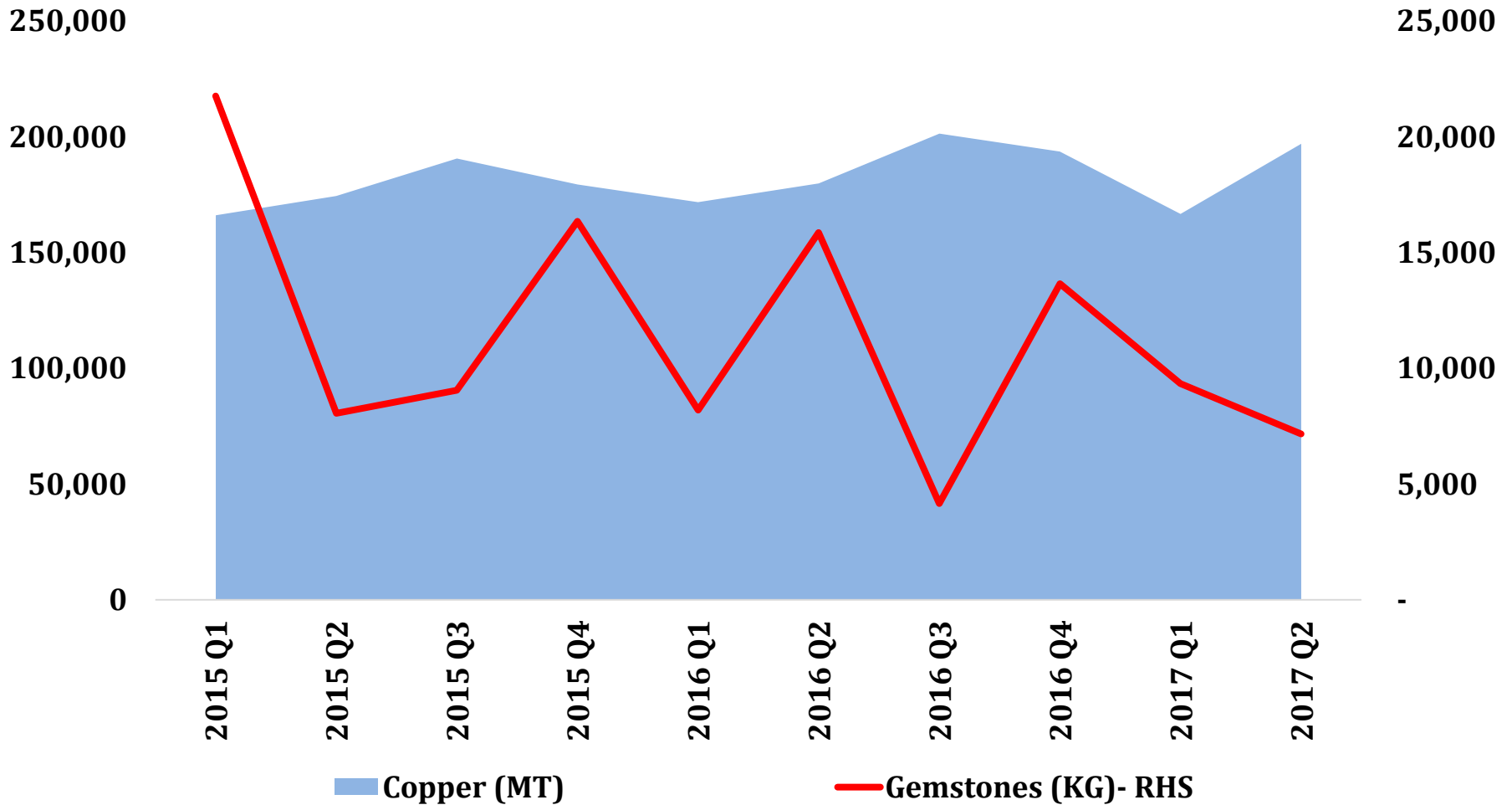


# DOMESTIC ECONOMIC DEVELOPMENTS

## Real Sector Activity

27

**Figure 14: Mining Sector Output**





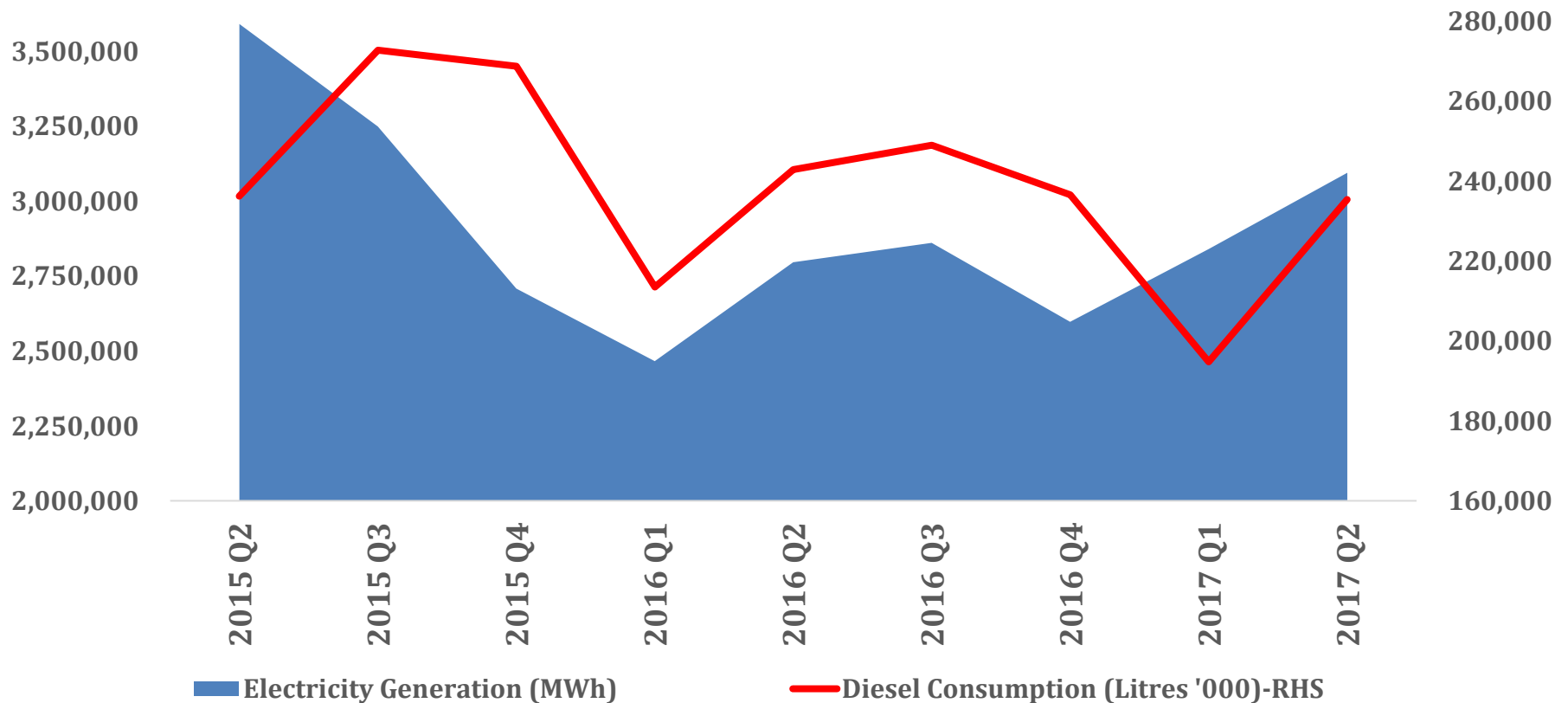
# DOMESTIC ECONOMIC DEVELOPMENTS

## Real Sector Activity

28

**Electricity generation rose further by 9.0% to 3.1 million Mwh due to rise in water levels in reservoirs; imports declined further but diesel consumption increased, attributed to electricity tariff hike**

**Figure 15: Electricity Generation and Diesel Consumption**





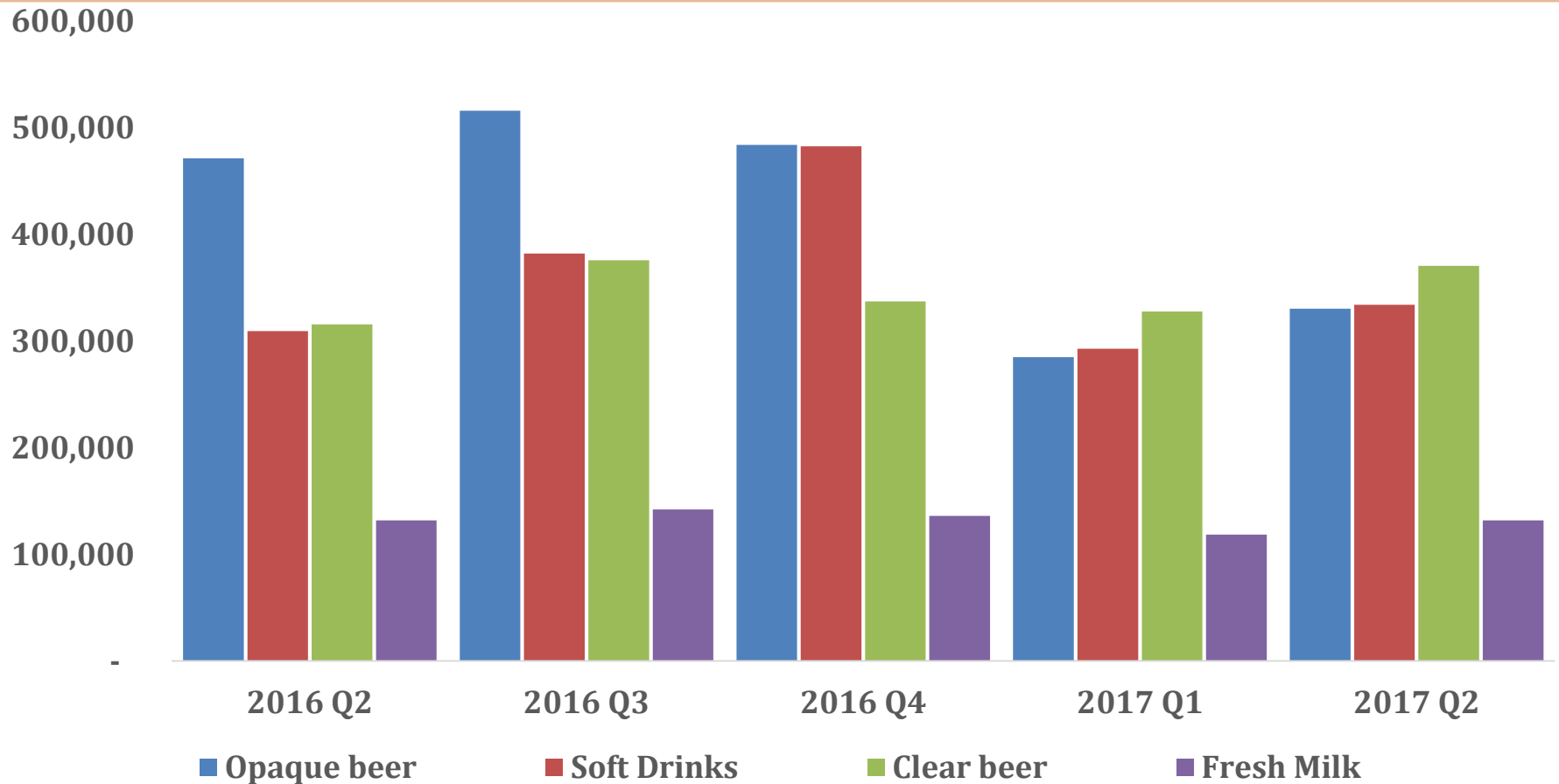
# DOMESTIC ECONOMIC DEVELOPMENTS

## Real Sector Activity

29

**Production of food and beverages increased as electricity supply improved after an extended period of power rationing**

**Figure 16: Manufacturing Activity**





# DOMESTIC ECONOMIC DEVELOPMENTS

## External Sector

30

**Current account deficit widened to US \$274.0 million from US\$146.0 million as export earnings fell while imports expanded.**

	Q1 2017	Q2 2017
<b>Current Account Bal</b>	<b>-146.3</b>	<b>-274.4</b>
<b>Balance on Goods</b>	298.1	90.1
<b>Total Exports</b>	<b>1,997.9</b>	<b>1,934.5</b>
<b>Copper</b>	1,469.1	1,474.5
<b>Cobalt</b>	36.1	24.9
<b>Gold</b>	45.5	38.9
<b>NTEs</b>	431.3	380.4
<b>Total Imports</b>	<b>1,699.7</b>	<b>1,844.4</b>
<b>Primary Income</b>	-353.6	-285.6
<b>Secondary Income</b>	59.6	66.9
<b>Services Account</b>	-150.4	-145.8
<b>Capital Acc</b>	14.8	14.8
<b>Financial Acc</b>	-111.5	-444.9
<b>Net Errors/Omissions</b>	-1.2	3.5
<b>Overall Balance</b>	21.1	-188.8
<b>Change in Reserve Assets and Related items</b>	-30.5	174.1



# DOMESTIC ECONOMIC DEVELOPMENTS

## Fiscal performance

31

**Preliminary data indicate that the fiscal deficit, on a cash basis, at 0.8% of GDP, was lower than the target 2.0% of GDP in Q2.**

**The shortfall in external financing led to a greater reliance on domestic financing, which rose to K3.8 billion in Q2 from K3.2 billion in Q1 2017.**



# DOMESTIC ECONOMIC DEVELOPMENTS

## Inflation

32

- **Inflation declined marginally to an average of 6.7% from 6.8% in Q1 2017.**
- **At end-Q1, inflation was 6.8%, 0.1 percentage points higher than the end-Q1 2017 outturn of 6.7% (Figure 17).**
- **Food inflation decelerated to 5.8% from 6.7% while non-food inflation rose to 8.0% from 6.6%.**
- **In July 2017, overall inflation declined to 6.6% from 6.8% in June; food inflation fell to 5.3% from 5.8% while non-food inflation rose marginally to 8.1% from 8.0% over the same period.**





# DOMESTIC ECONOMIC DEVELOPMENTS

## Inflation

33

- **slowdown in overall inflation in Q2 was largely the result of the increase in the supply of food items and the appreciation of the exchange rate.**
- **However, month-on-month inflation rose to 0.6% at end-Q2 from 0.3% at end-Q1 2017, reflecting the increase in electricity tariffs (Figure 18).**
- **In July 2017, month-on-month inflation declined to 0.1% from 0.6% in June.**
- **Inflation is projected to remain within the target range of 6-8% over the medium-term.**

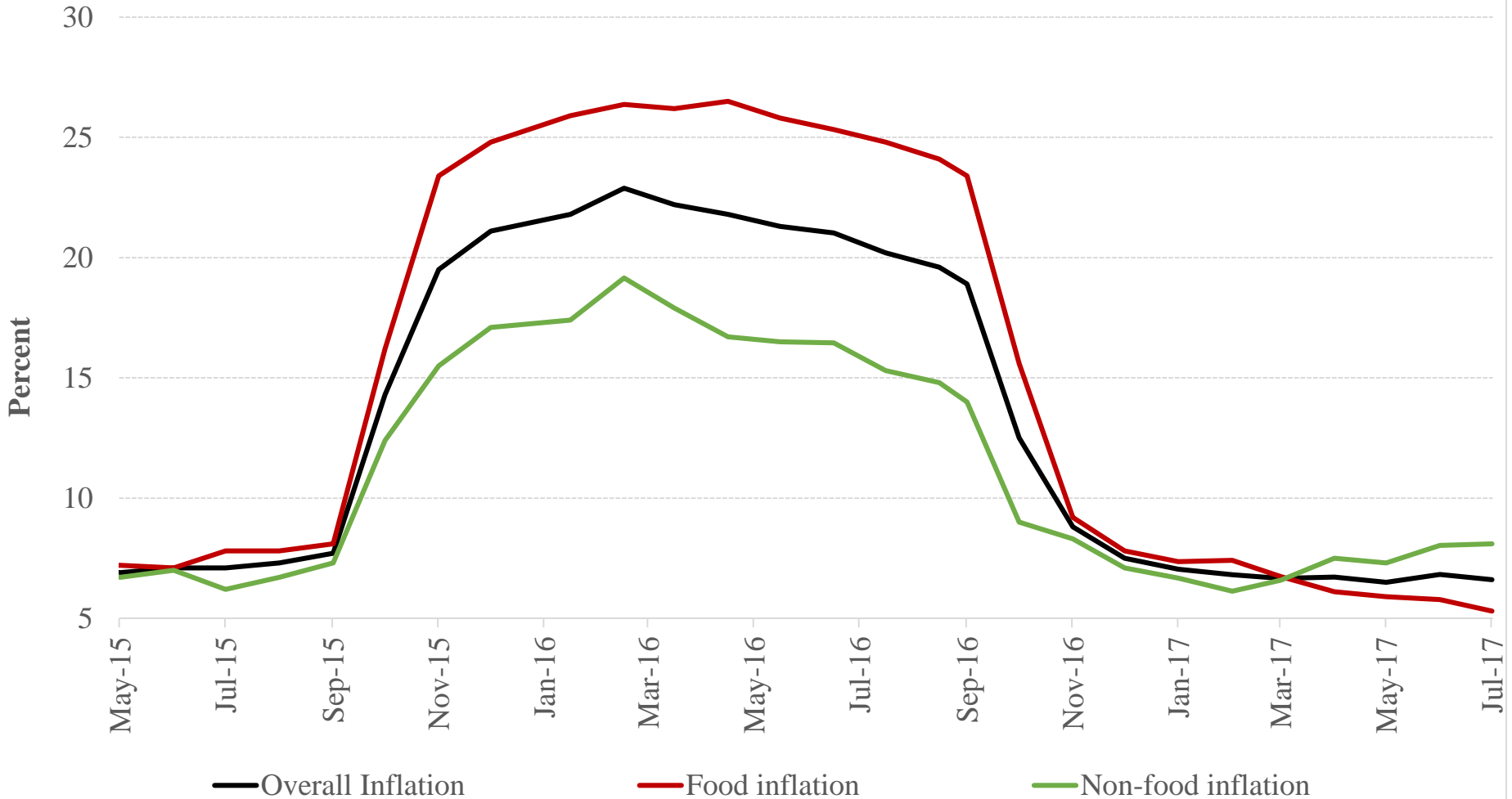


# DOMESTIC ECONOMIC DEVELOPMENTS

## Inflation

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**Figure 17: Year-on-year Inflation rate**



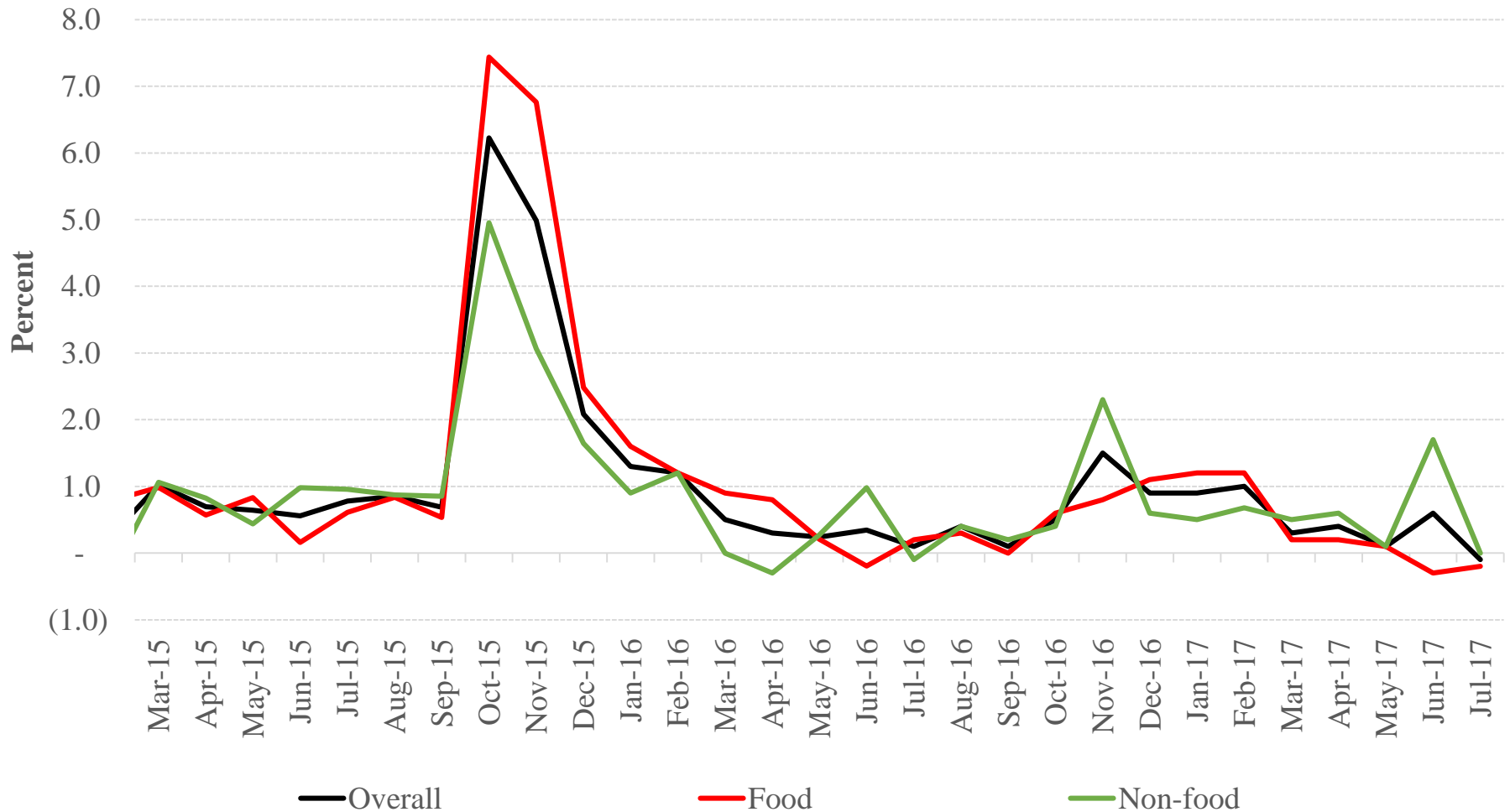


# DOMESTIC ECONOMIC DEVELOPMENTS

## Inflation

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**Figure 18: Month-on-month Inflation rate**





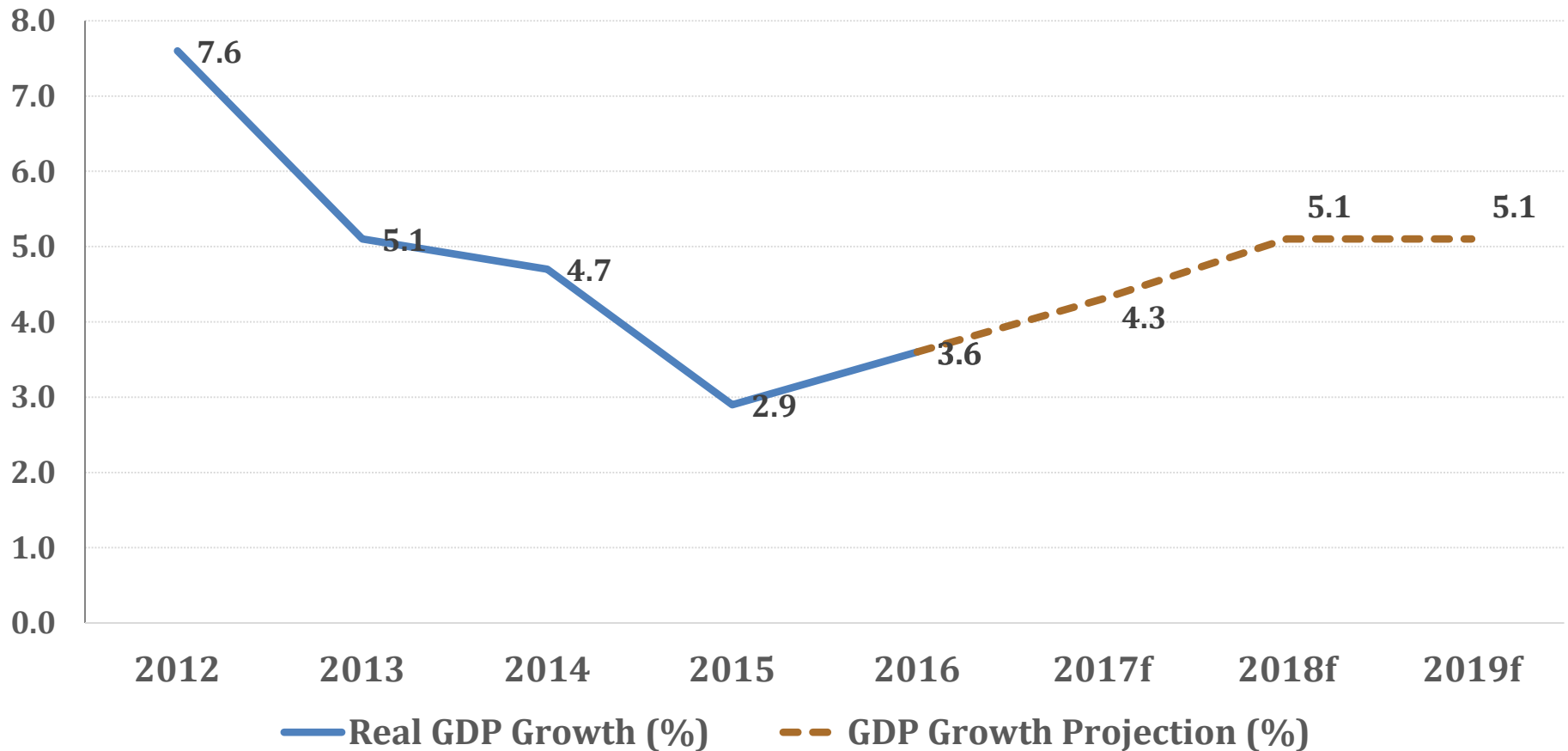
# MACROECONOMIC OUTLOOK

## GDP growth

36

**GDP growth for 2016 revised to 3.6% . For 2017 and 2018, GDP growth has been revised upward to 4.3% (3.9%) and 5.1% (4.6%).**

**Figure 19: GDP Growth**





# MACROECONOMIC OUTLOOK

## GDP growth

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**Growth is expected to emanate from:**

- **increased agricultural output**
- **increased generation of electricity**
- **higher mining output**
- **construction activities**
- **manufacturing activity**



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