

MONETARY POLICY COMMITTEE STATEMENT FOR THE FOURTH QUARTER OF 2021

GOVERNOR'S PRESENTATION TO THE MEDIA

FEBRUARY 16, 2022



Bank of Zambia

OUTLINE OF PRESENTATION



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

DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on February 14-15, 2022, the Monetary Policy Committee decided to hold the Policy Rate at 9.0 percent.

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

- a sharp decline in inflation since the November MPC Meeting and the projection indicating that it will continue to trend towards the 6-8 percent target range over the forecast period; and**
- the need to continue supporting growth and maintaining financial stability.**

GLOBAL ECONOMIC GROWTH

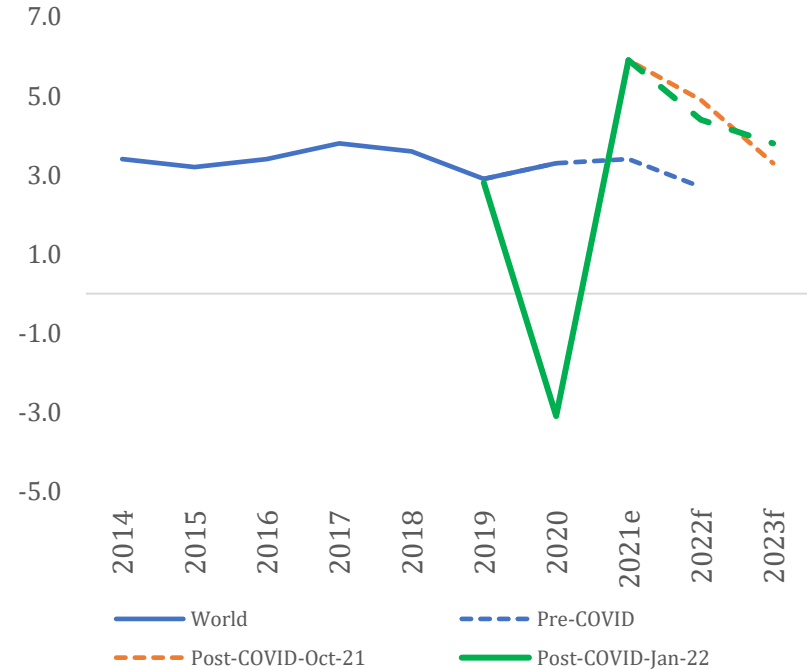
Global economic recovery accelerated in the fourth quarter due to improved vaccinations which allowed for the easing of COVID-19 restrictions.

Most economies benefitted from increased business optimism and consumer confidence, strengthened global demand, and rising international trade.

In 2021, the global economy grew by 5.9 percent.

However, global economic growth is expected to slowdown to 4.4 percent in 2022 and 3.8 percent in 2023 due to weaker prospects for growth in major economies, lingering supply disruptions, and possible emergence of new and highly transmissible COVID-19 strains.

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



Source: IMF World Economic Outlook, January 2022

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Real GDP grew by 3.5 percent in the third quarter of 2021 against a contraction of 3.0 percent in the corresponding quarter of 2020 (Chart 2).

Construction as well as information and communication contributed to the recovery.

Results from the Fourth Quarter 2021 [*Bank of Zambia Quarterly Survey of Business Opinion and Expectations*](#) suggest some recovery in economic activity, driven by increased consumer demand during the festive season and enhanced investor confidence (Chart 3).

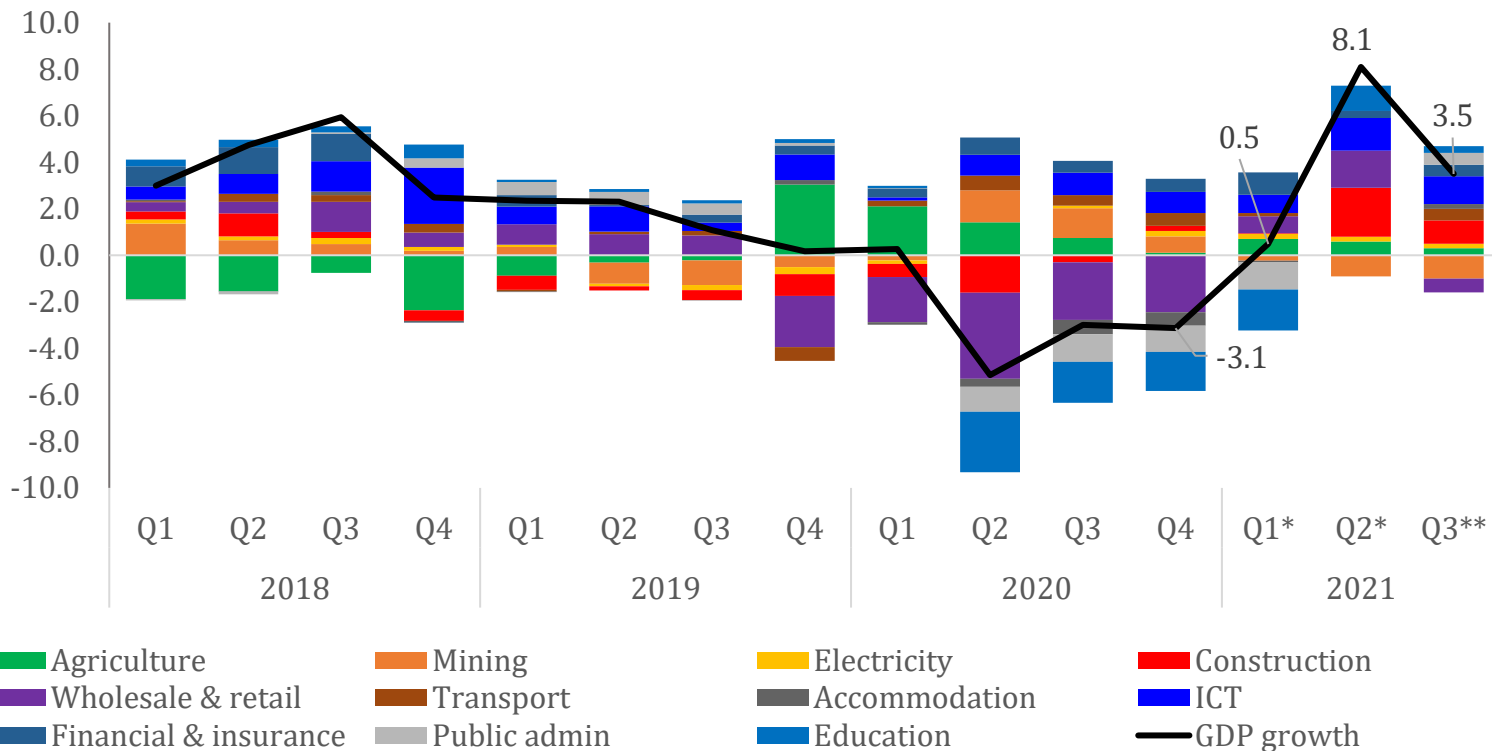
Similarly, the [*Stanbic Purchasing Manager's Index \(PMI\)*](#) signalled a healthier business environment for the private sector (Chart 4).

In January 2022, however, the PMI declined to 49.9 reflecting a deterioration in the business environment occasioned by the fourth wave of the COVID-19 pandemic.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 2: Contribution to Quarterly Real GDP Growth by Selected Industries (percent)

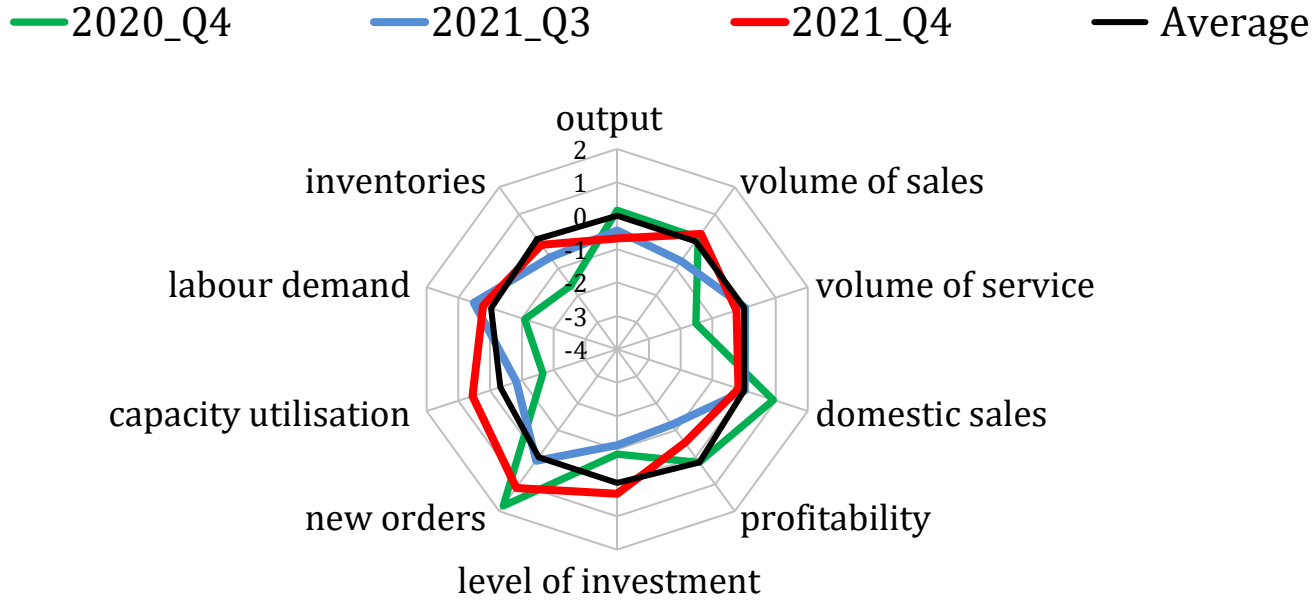


Source: Zambia Statistics Agency

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 3: Business Opinions Survey Responses

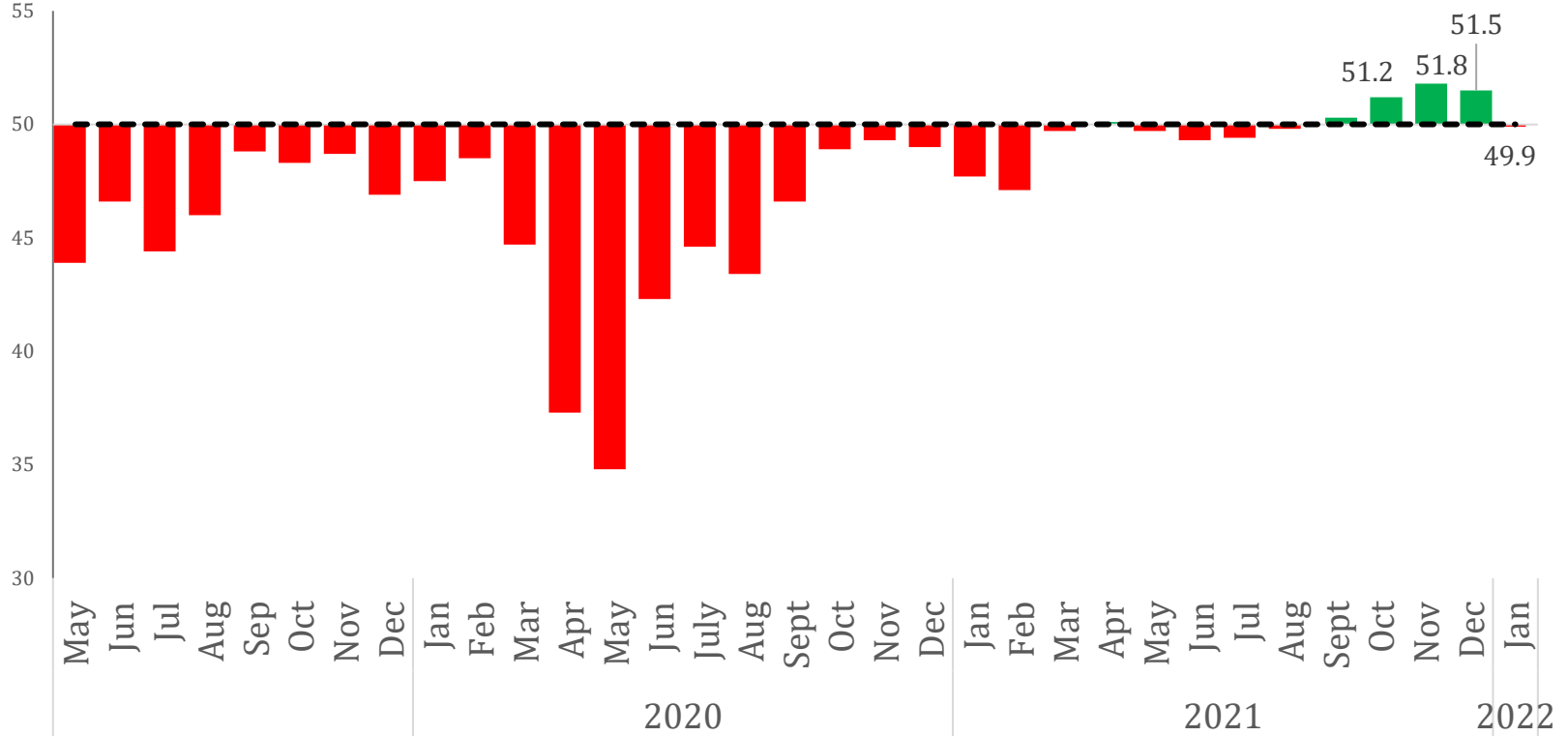


*Note: The Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 4: Purchasing Manager's Index for Zambia



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



For 2021, the economy is projected to have grown by 3.3 percent on account of strong performance in the agriculture, information and communication, as well as wholesale and retail trade sectors.

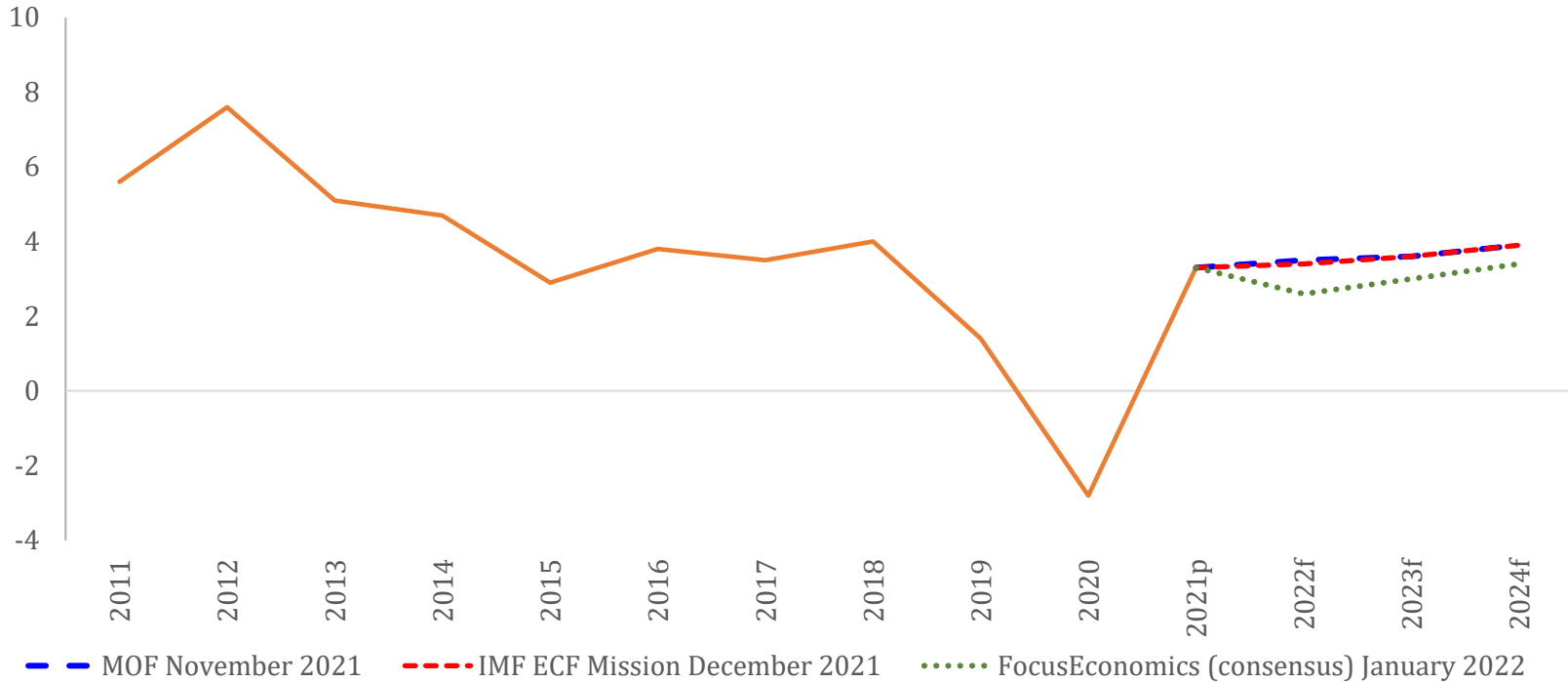
In 2022 and 2023, growth is expected to rise to 3.5 percent and 3.6 percent, respectively (Chart 5). This will be underpinned by strong performance in the financial and insurance, information and communication, wholesale and retail trade, education as well as the mining sectors.

Key downside risks to the growth outlook include uncertainty surrounding the resurgence of new COVID-19 variants, amid low vaccination rates, and lower than anticipated recovery in economies of major trading partner countries.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Chart 5: Annual Real GDP Growth Forecast (percent)



Source : Ministry of Finance and National Planning, Zambia Statistics Agency, IMF, Focus Economics

INFLATION OUTTURN AND OUTLOOK

In the fourth quarter of 2021, inflation declined by 4.9 percentage points to an average of 18.9 percent (Table 1, Chart 6).

The appreciation of the Kwacha against the US dollar and the dissipation of base effects, particularly in prices of meat and poultry products, largely accounted for the decline in inflation.

Food inflation reduced to an average of 24.5 percent from 30.8 percent while non-food inflation declined to 12.5 percent from 15.6 percent.

In January 2022, inflation declined to 15.1 percent from 16.4 percent in December 2021 largely due to continuing base effect as well as increased supply of selected food items, mainly fruits and vegetables.

INFLATION OUTTURN AND OUTLOOK



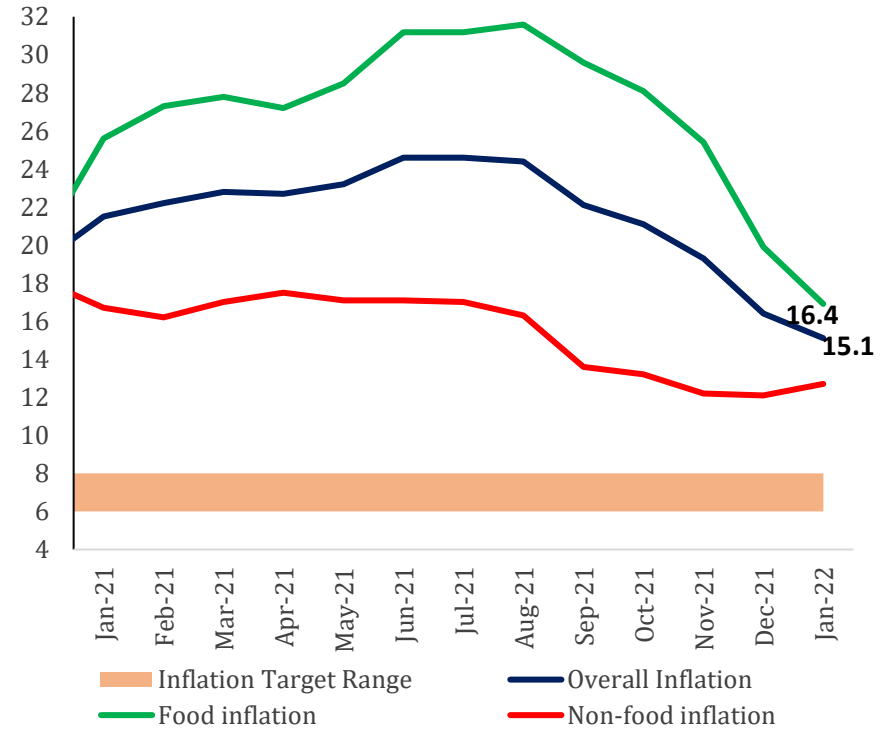
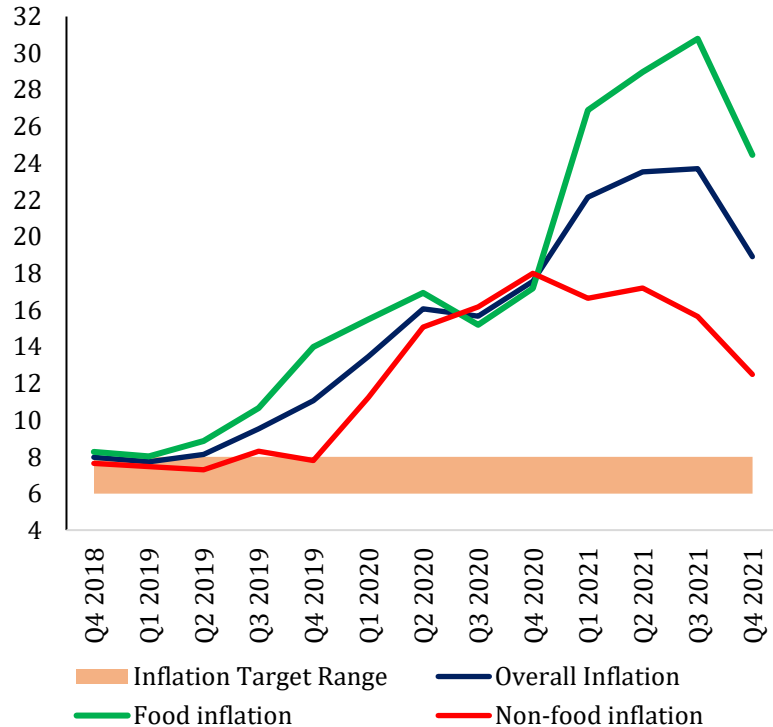
Table 1: Inflation outcomes (%)

Average	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Overall Inflation	17.6	22.2	23.5	23.7	18.9
Food Inflation	17.2	27.0	29.0	30.8	24.5
Non-food Inflation	18.0	16.6	17.2	15.6	12.5
End Period	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Overall Inflation	19.2	22.8	24.6	22.1	16.4
Food Inflation	20.2	27.8	31.2	29.6	19.9
Non-food Inflation	18.1	17.0	17.1	13.6	12.1

INFLATION OUTTURN AND OUTLOOK



Chart 6: Inflation and its Components, y-o-y (%)



INFLATION OUTTURN AND OUTLOOK

- **Inflation is projected to continue trending towards the 6-8 percent target range over the next eight quarter (Q1 2022 – Q4 2023) mainly due catalytic benefits of securing an IMF programme, such as, access to budget support, a reduction of external debt burden through restructuring, and unlocking of investments, as well as the positive impact of higher copper prices, mainly through the exchange rate. The dissipation of base effects will also contribute to the projected fall in inflation.**
- **In 2022, inflation is projected to decline to an average 13.2 percent from 15.0 percent projected during the November 2021 MPC Meeting.**
- **In 2023, inflation is expected to reduce further to an average of 7.3 percent from 9.3 percent predicted in November 2021.**

INFLATION OUTTURN AND OUTLOOK

However, there are upside risks to the inflation outlook, which include:

- **increase in crude oil prices;**
- **possible lower crop production due to adverse weather conditions;**
- **lingering supply chain bottlenecks induced by the COVID-19 pandemic;**
- **tightening of monetary policies in major economies in response to rising inflation in their jurisdictions; and**
- **the transition to cost reflective electricity tariffs may also have short-term effects on inflation although over the medium to long-term, this is expected to have positive economic benefits through, for example, increased investment, supply, access to electricity, and exports.**

GOVERNMENT SECURITIES MARKET

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

The subscription rates for Government bonds and Treasury bills were 185.1 percent and 120.0 percent compared to 278.3 percent and 138.0 percent in the previous quarter, respectively.

Underlying the strong demand were high yields and improved liquidity conditions.

The outstanding stock of Government securities increased by 1.7 percent to K193.0 billion (Chart 7).

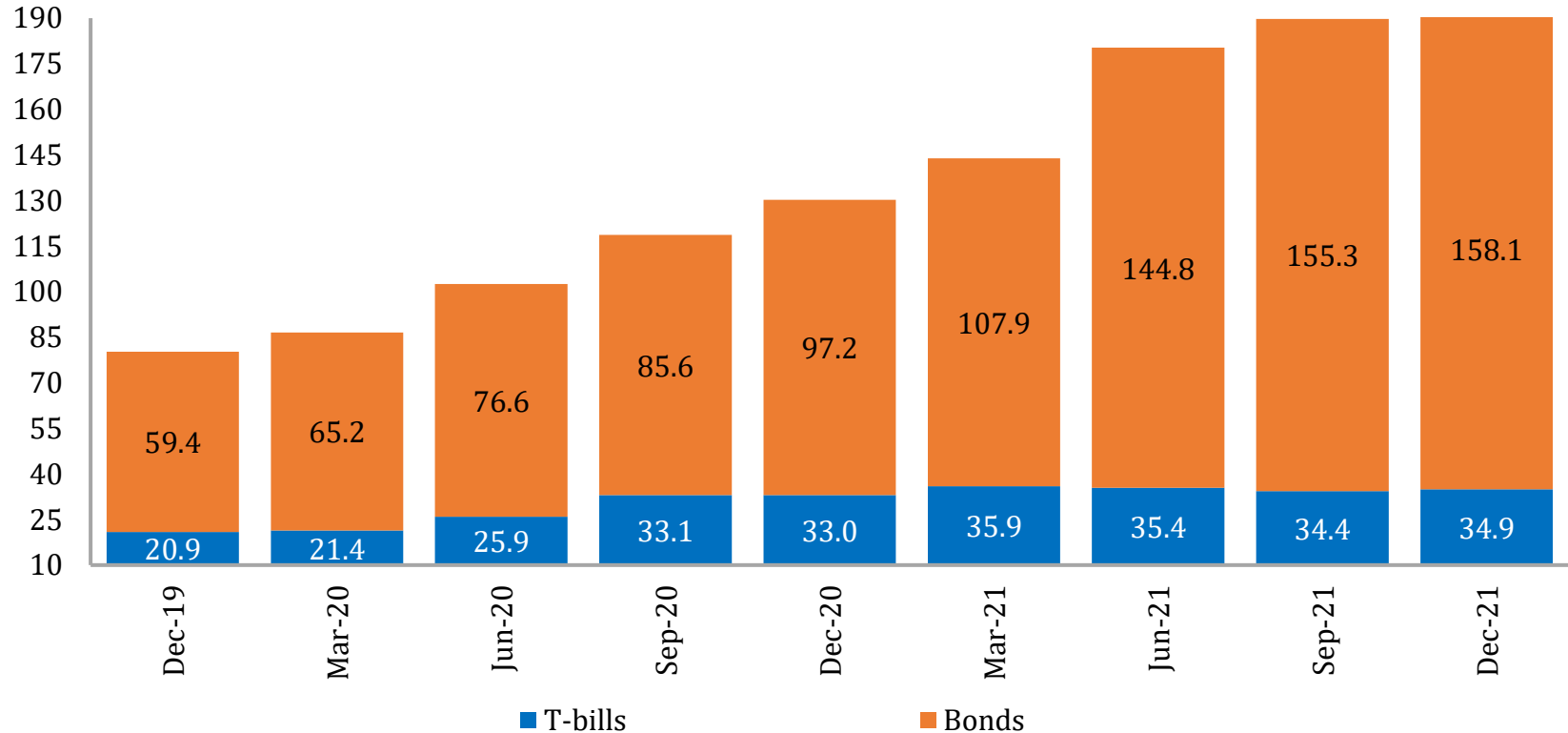
Government bonds accounted for 81.9 percent of the outstanding stock.

Non-resident holdings of Government securities rose to 28.8 percent of the outstanding stock from 25.9 percent in the previous quarter, with 99.4 percent of their holdings in Government bonds.

GOVERNMENT SECURITIES MARKET



Chart 7: Stock of Govt Securities (K'billion)



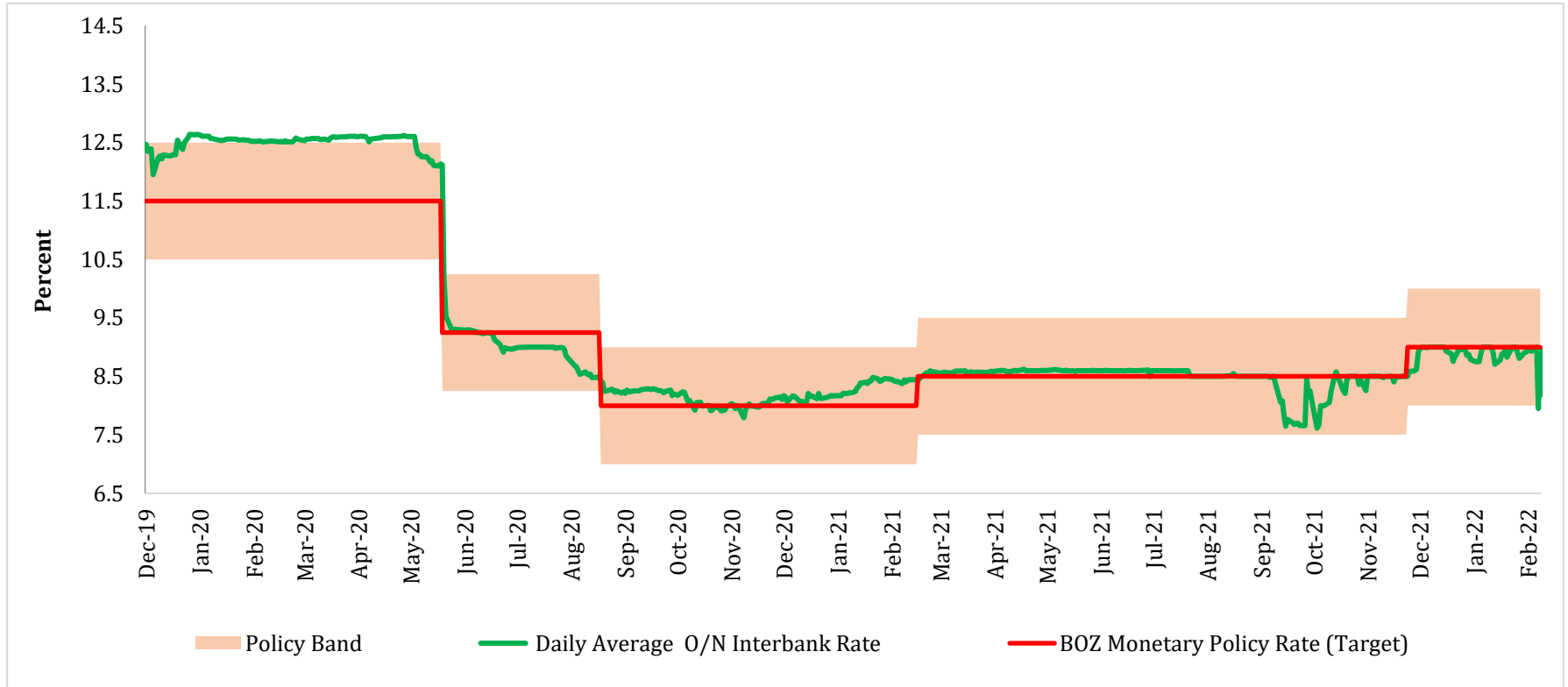
INTEREST RATES

- **Consistent with the increase in the Policy Rate from 8.5 percent to 9.0 percent in November 2021, the overnight interbank rate rose, closing the quarter at 8.93 percent in December from 8.10 percent in September (Chart 8).**
- **However, it was contained within the bounds of the Monetary Policy Rate Corridor throughout the quarter.**
- **Yield rates on Government securities trended downwards for the fourth successive quarter, falling to 13.0 percent and 21.9 percent in December from 15.6 percent and 23.9 percent in September for Treasury bills and Government bonds, respectively (Chart 9).**

INTEREST RATES



Chart 8: Interbank Rate and BoZ Policy Rate (%)

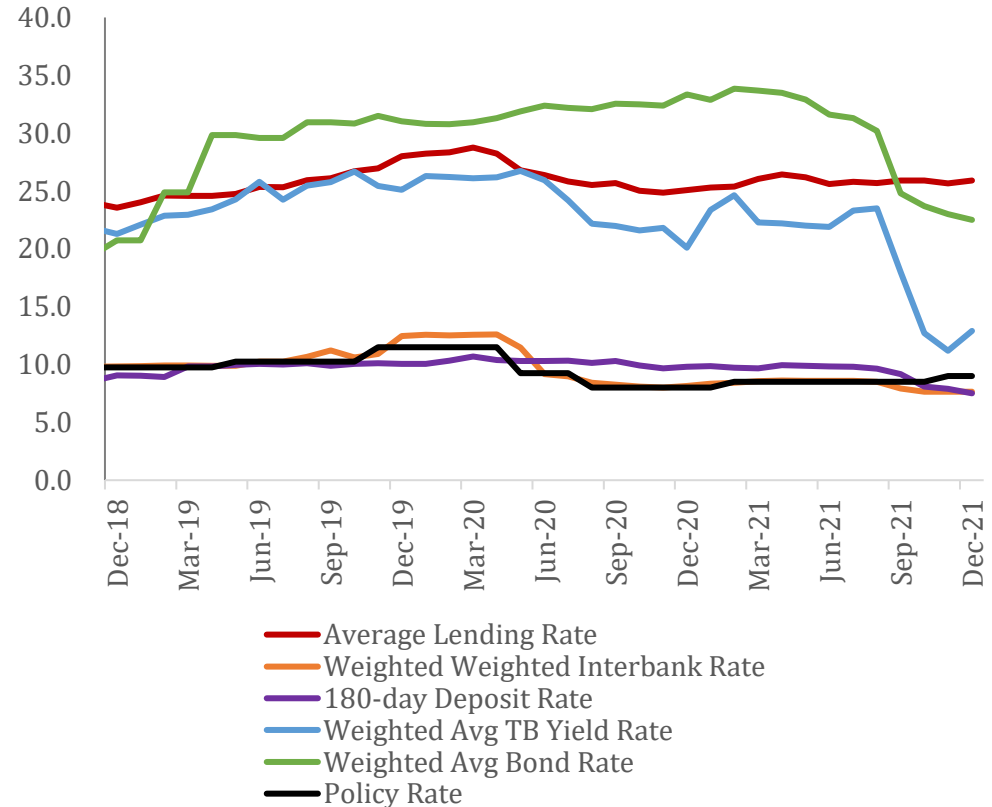


INTEREST RATES

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

In January 2022, the weighted average yield rate on Government bonds further reduced to 22.6 percent while the weighted average yield rate on Treasury bills increase to 15.0 percent.

Chart 9: Nominal Interest Rates (%)



DOMESTIC CREDIT

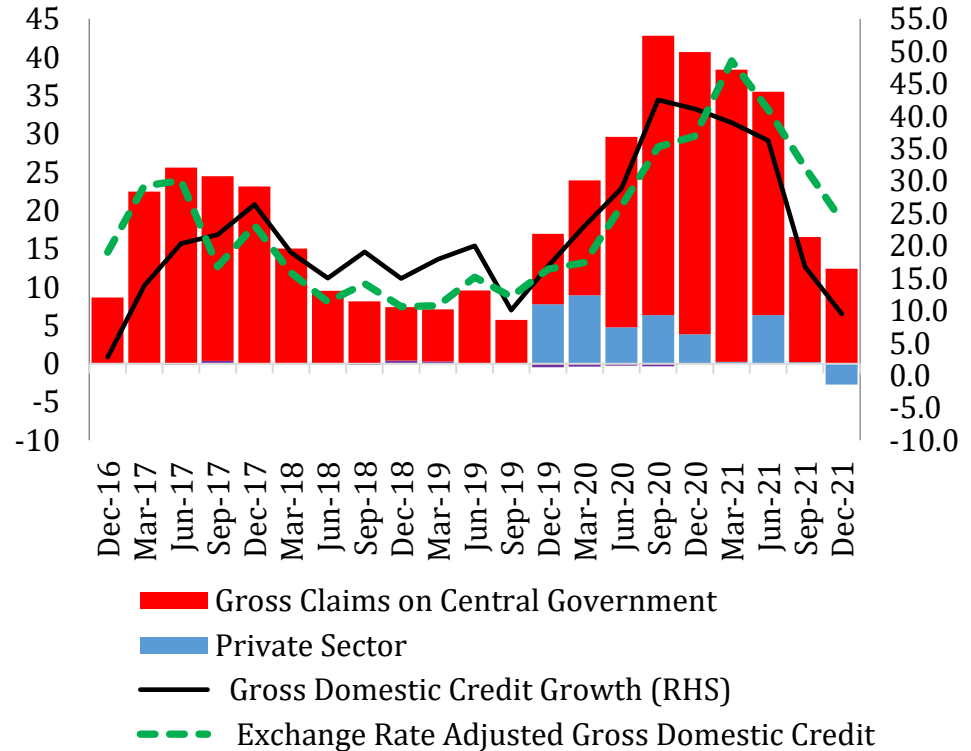


In December growth in Kwacha lending to the private sector moderated to 19.4 percent, year-on-year, from 35.9 percent in September (Chart 10).

This was mainly on account of reduced disbursements under the Targeted Medium Term Refinancing Facility as available funds were nearly exhausted.

Lending to Government increased by 19.4 percent, year-on-year, in December compared to 26.1 percent in September. The slowdown is largely explained by reduced loans and advances to Government.

Chart 10: Contribution to Y/Y Domestic Credit growth



MONEY SUPPLY

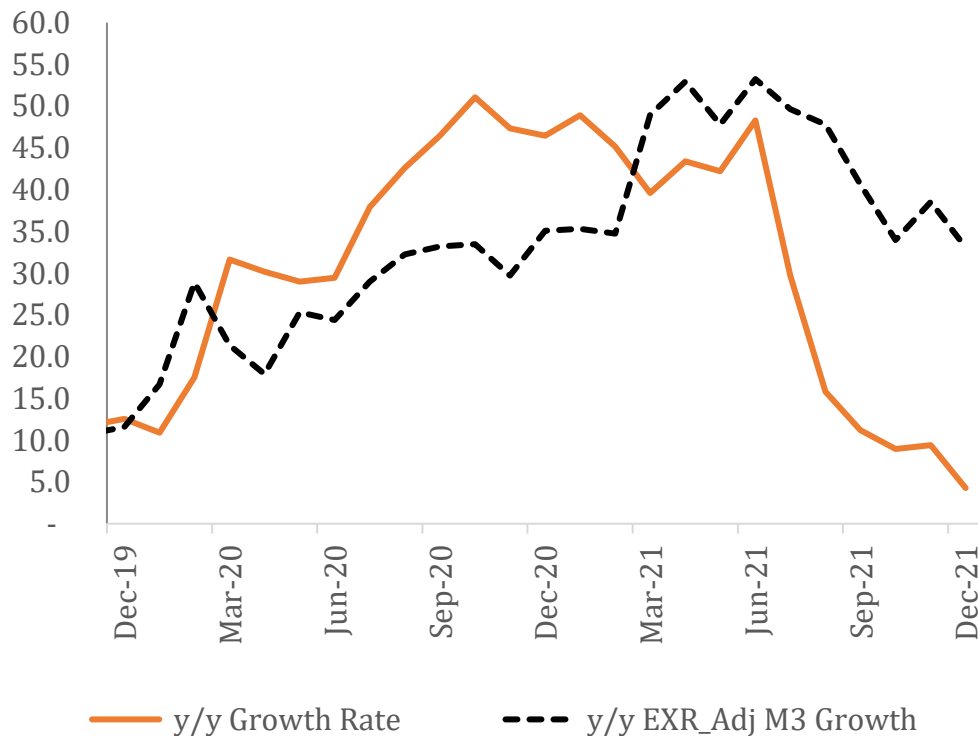


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Growth in money supply (M3) slowed down significantly to 4.3 percent in December 2021, year-on-year, from 11.2 percent in September (Chart 11).

The slow down in growth reflects deceleration in domestic credit and decline in international reserves, driven by net foreign exchange sales to the market and debt service.

Chart 11: Money Supply Growth (y/y), Percent



Preliminary estimates indicate that the fiscal deficit in 2021 was broadly in line with the target due to strong revenue performance despite expenditure (excluding amortisation) exceeding the target.

Total revenue and grants exceeded the target mainly on account of higher tax collections from the mining sector.

The fiscal deficit is projected to narrow to 6.7 percent in 2022, 6.3 percent in 2023, and 5.2 percent in 2024 as revenue performance is enhanced, expenditure controls are strengthened, and an IMF Programme, that catalyses the mobilisation of external budget support, is secured.

Key risks to the fiscal outlook include emergence of stronger variants of COVID-19 and effects of the adverse weather conditions on crop production, infrastructure, and people's livelihoods. These are likely to put pressure on the budget through reduced revenues and higher than planned spending.

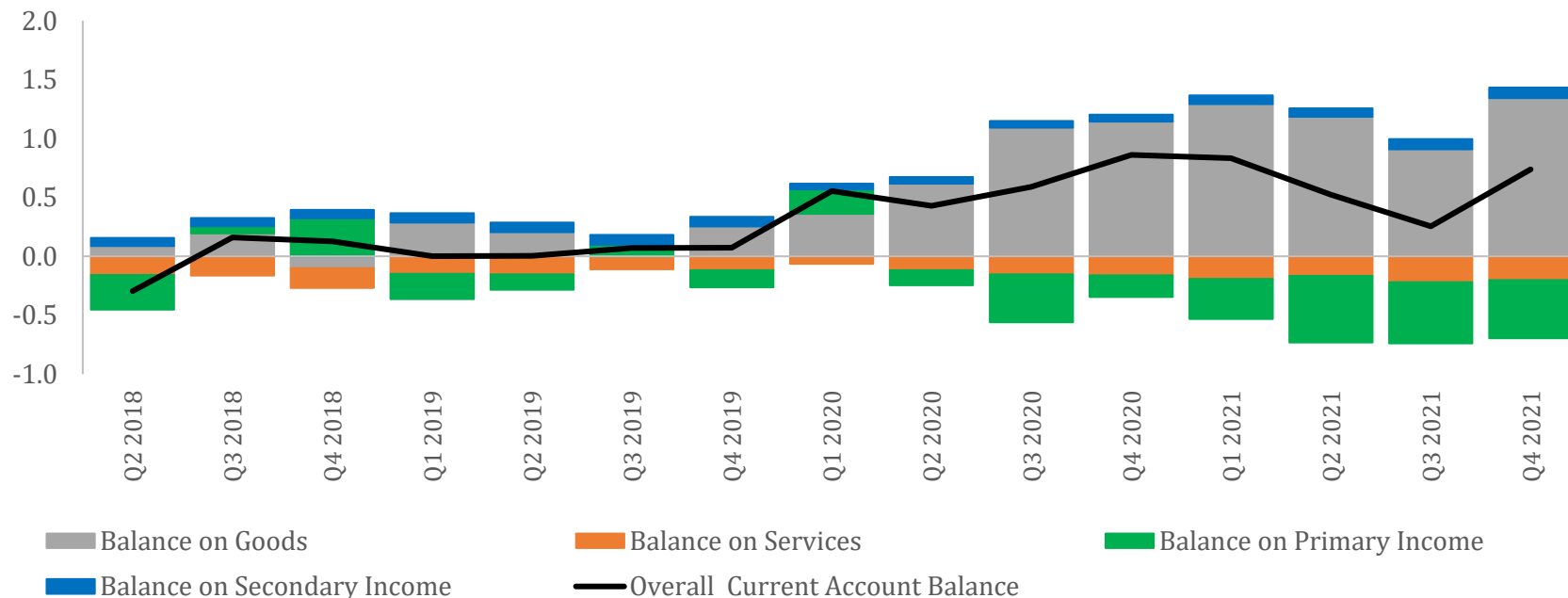
CURRENT ACCOUNT



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Preliminary data indicate that the *current account surplus* widened to US\$0.7 billion (14.5 percent of GDP) from US\$0.3 billion (5.0 percent of GDP) as exports expanded faster than imports.

Chart 12 : Current Account Balance

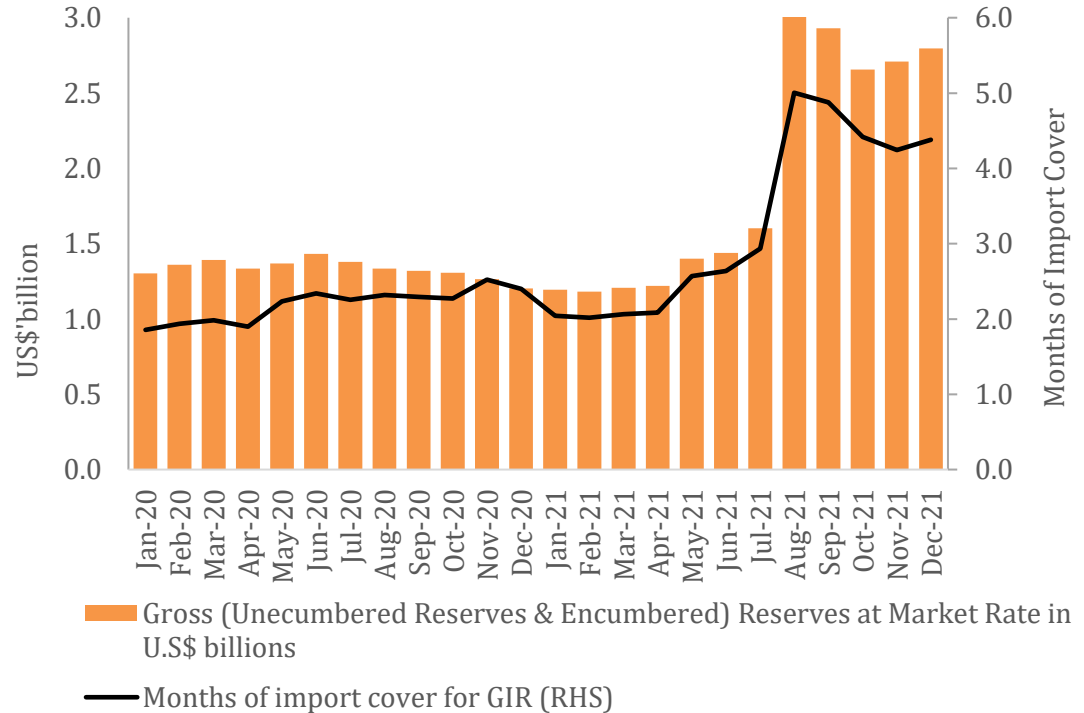


GROSS INTERNATIONAL RESERVES



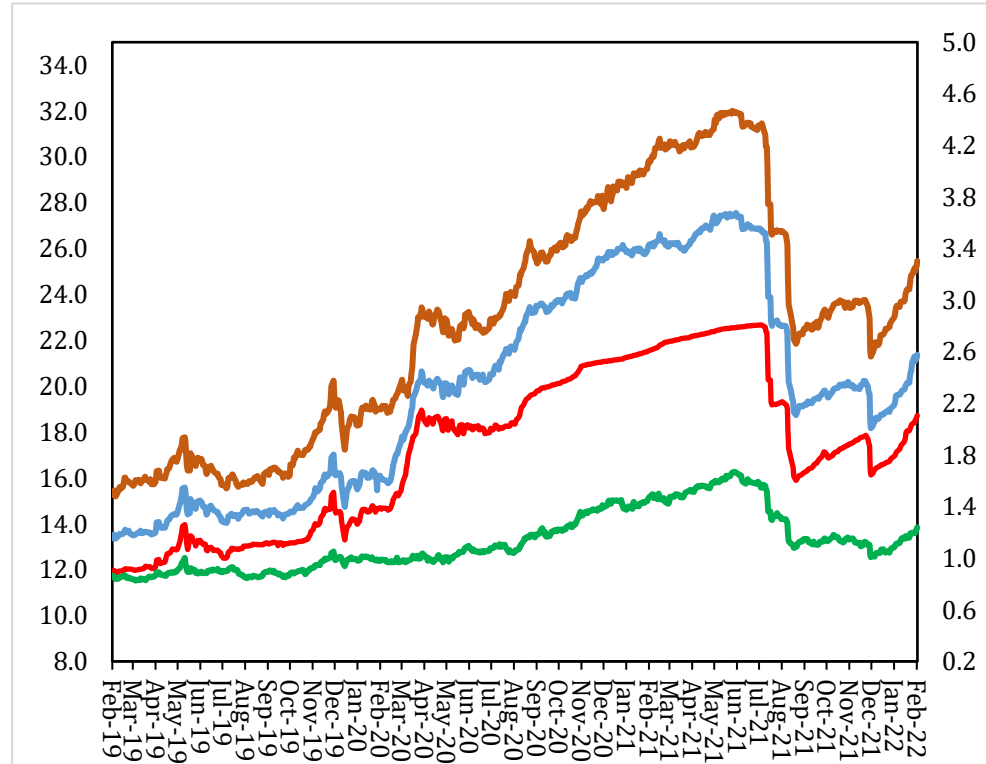
Gross international reserves decrease slightly to US\$2.8 billion (equivalent to 4.4 months of import cover) at end-December 2021 from US\$2.9 billion (equivalent to 4.9 months of import cover) at end-September 2021 (Chart 13).

Chart 13 : Gross International Reserves



FOREIGN EXCHANGE MARKET

Chart 14: Nominal Exchange Rates



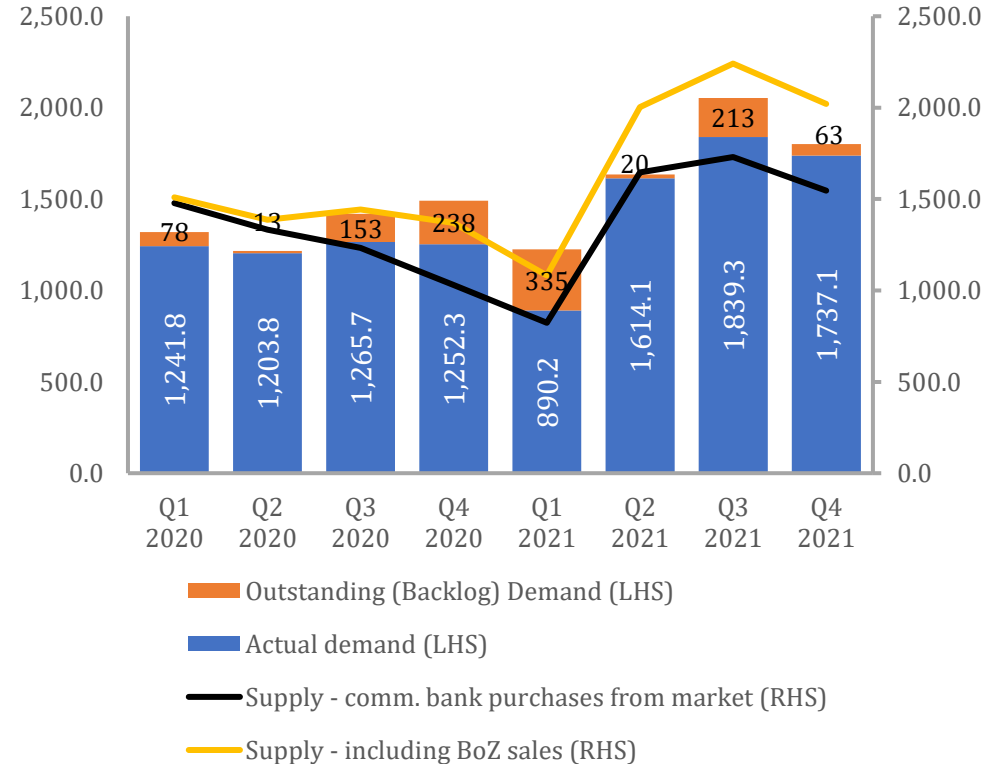
- The Kwacha, which appreciated strongly during the third quarter, came under pressure for most part of the quarter, except in December when it was supported by positive sentiments after a Staff-Level Agreement was reached with the IMF (Chart 14).
- The rate of appreciation reduced to 7.4 percent in the fourth quarter compared to 17.5 percent in the previous quarter.
- Most of the pressure emanated from higher demand for the importation of strategic products such as fuel and farming inputs while supply declined.

FOREIGN EXCHANGE MARKET



- To help meet demand and dampen volatility in the exchange rate, the Bank of Zambia continued to support the market and sold a net of US\$146.0 million (Chart 15).
- In January 2022, increasing demand pressures continued and the Kwacha depreciated by 2.9 percent against the US \$ to a monthly average of K17.27.

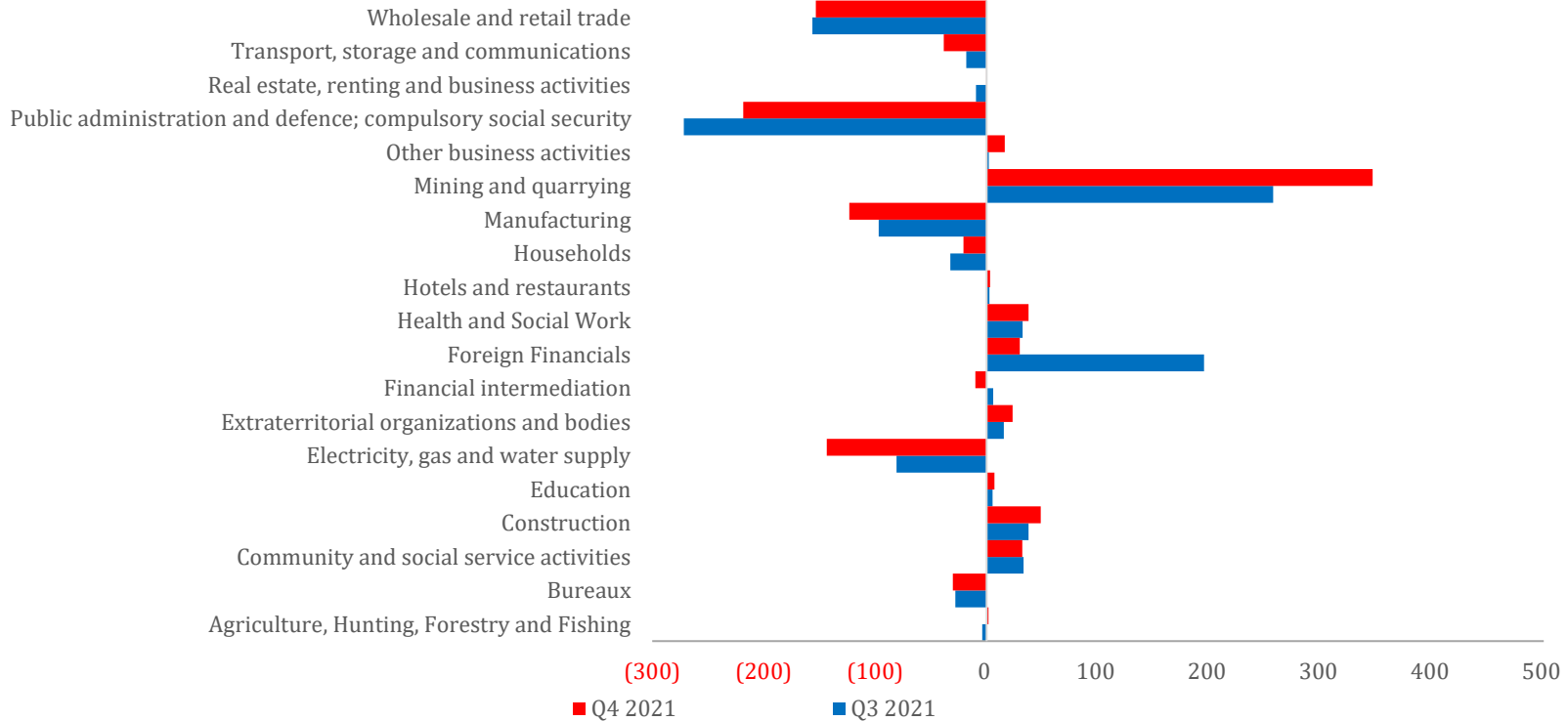
Chart 15: Supply and Demand for Foreign Exchange (US\$' million)



FOREIGN EXCHANGE MARKET



Chart 16: Sectoral Net Demand for Foreign Exchange (US\$' million)



CONCLUSION



The MPC decided to maintain the Monetary Policy Rate at 9.0 percent.

In arriving at this decision, the Committee took into account the sharp decline in inflation since the November 2021 MPC Meeting and the forecast that shows a continued deceleration in inflation towards the 6-8 percent target range.

However, there are upside risks to the inflation outlook that include: increase in crude oil prices; initial effects of implementing the transition to cost reflective electricity tariffs; lower crop production due to adverse weather conditions; lingering supply chain bottlenecks induced by the COVID-19 pandemic; and tightening of monetary policies in major economies in response to rising inflation in their jurisdictions.

The Committee also noted and welcomed the Government's Medium-Term Budget Plan (White Paper). The importance of successful execution of this Plan to the achievement of macroeconomic stability, including low inflation and a stable financial system can hardly be overemphasised.

THANK YOU...

GOD BLESS...