

MONETARY POLICY COMMITTEE STATEMENT FOR THE FIRST QUARTER OF 2023

GOVERNOR'S PRESENTATION TO THE MEDIA

MAY 17, 2023



Bank of Zambia

OUTLINE OF PRESENTATION



- 1. Decision of the Monetary Policy Committee**
- 2. Inflation Outturn and Outlook**
- 3. Foreign Exchange Market**
- 4. Current Account**
- 5. Domestic Credit and Money Supply**
- 6. Domestic Economic Activity and Outlook**
- 7. Conclusion**

DECISION OF THE MONETARY POLICY COMMITTEE



At its Meeting held on May 15-16, 2023, the Monetary Policy Committee decided to increase the Monetary Policy Rate by 25 basis points to 9.50 percent.

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

- **Actual annual average inflation of 9.6% in Q1 2023 and the projection that, although declining, inflation would continue to be above the target band over the forecast horizon.**
- **The Committee also considered:**
 - **Fragile growth;**
 - **Vulnerabilities and risks in the financial sector; and**
 - **Potential benefits from the successful conclusion of external debt restructuring negotiations through the exchange rate channel.**

INFLATION OUTTURN



- **Inflation declined further in Q1 2023, albeit marginally. However, it remained elevated and is projected to remain above the 6-8% target band over the forecast horizon.**
- **In Q1 2023, inflation averaged 9.6% compared to 9.8% in Q4 2022 (Table 1, Chart 1).**
- **Dissipation of base effects in a broad range of items in the consumer basket and sustained reduction in the prices of oils and fats, due to lower costs of imported inputs, were the key drivers. Notable items in the consumer basket in which the base effect dissipated were road passenger transport, fish, fuel, bread and cereals as well as rent.**
- **In April 2023, inflation rose to 10.2% from 9.9% in March. Strong regional demand for maize grain and maize meal as well as the lagged pass-through from the depreciation of the Kwacha against the US dollar were the major drivers.**

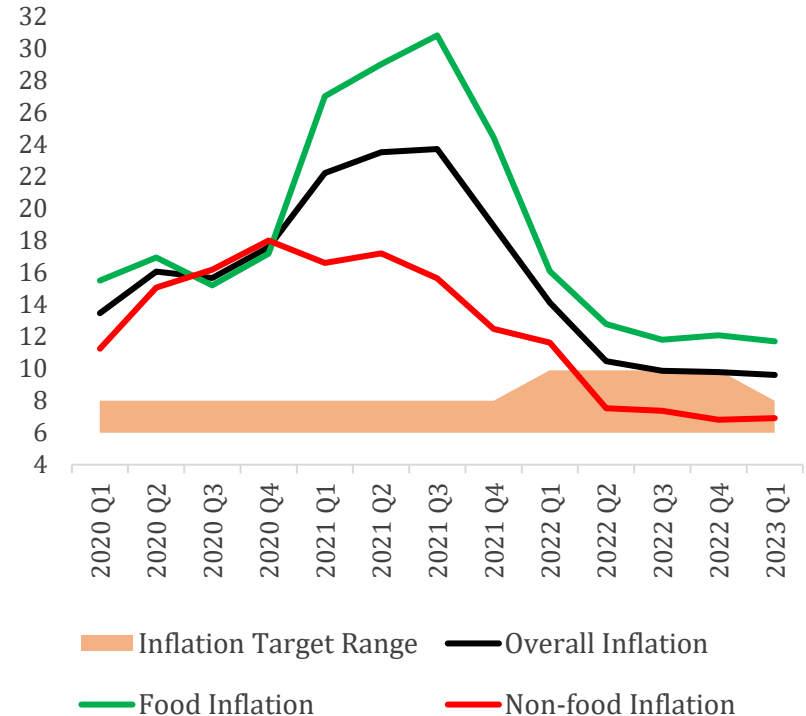
INFLATION OUTTURN



Table 1: Quarterly Average and End-Period Inflation Rate (Percent)

Average	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Overall Inflation	14.1	10.5	9.9	9.8	9.6
Food Inflation	16.1	12.8	11.8	12.1	11.7
Non-food Inflation	11.6	7.5	7.4	6.8	6.8
End Period	Q1 2021	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Overall Inflation	16.4	13.1	9.7	9.9	9.9
Food Inflation	19.9	15.3	11.9	11.9	11.8
Non-food Inflation	12.1	10.3	6.9	7.3	7.3

Chart 1: Inflation and its Components (Percent)



INFLATION OUTLOOK

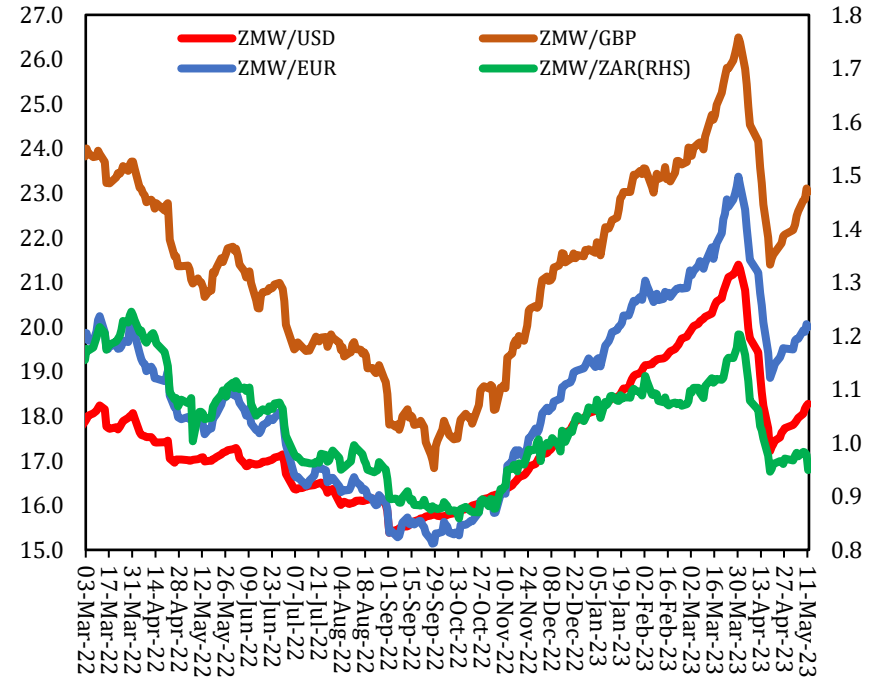


- **The inflationary pressures observed in April are expected to persist over the forecast horizon and keep inflation above the target band of 6-8% despite declining slightly relative to the February 2023 forecast.**
- **Underpinning the current forecast are largely the impact of the recently approved electricity tariffs and elevated maize prices, particularly in 2023, as anticipated in the February 2023 Statement.**
- **Inflation is projected to average 10.5% and 8.4% in 2023 and 2024 compared to 11.1% and 10.1% in February 2023 forecast, respectively. In Q1 2025, inflation is forecast to remain at 8.4%.**
- **Further delays in external debt restructuring negotiations, tighter global financial conditions, higher maize prices, due to the anticipated lower production amid strong regional demand, and the impact of the prolonged Russia-Ukraine war on food and energy prices remain key upside risks to the inflation outlook.**

FOREIGN EXCHANGE MARKET

- The Kwacha depreciated against the US dollar in Q1 of this year by 16.8 percent to an average of K19.52 (Chart 2).
- Key drivers were excess demand amid low supply, adverse market sentiments associated with protracted external debt restructuring negotiations, and tighter global financial markets conditions.
- To support the market in meeting some critical imports, the Bank provided US\$377 million, of which US\$186 million was from mining tax receipts.

Chart 2: Nominal Exchange Rates

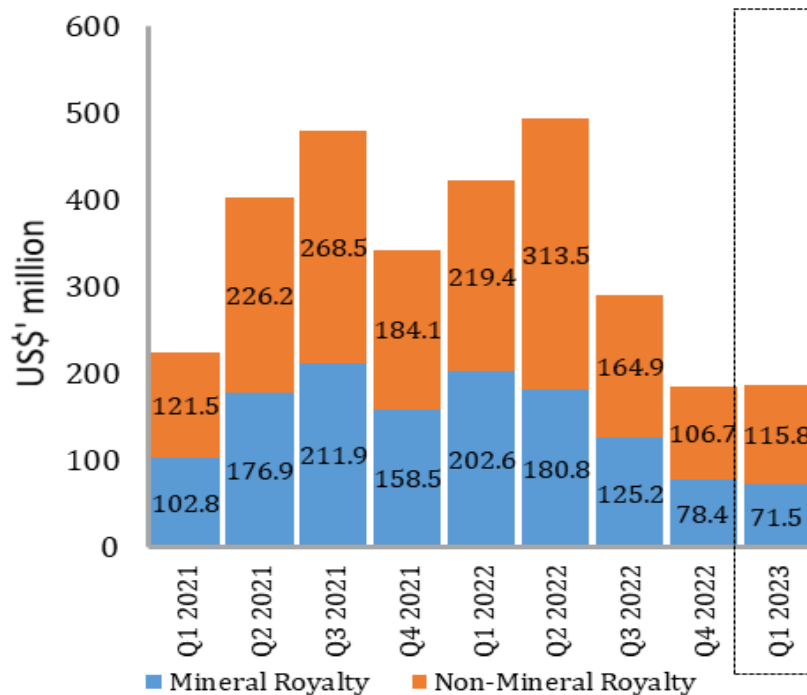


FOREIGN EXCHANGE MARKET



- Mining tax receipts have remained low over the past three quarters (Chart 3).
- In April, the Kwacha appreciated against the US dollar by 16.8% to K17.73, mainly driven by improved supply of foreign exchange from quarterly corporate tax obligations.
- The reaching of the IMF Staff-Level Agreement on the first review of the Enhanced Credit Facility created expectations that external debt restructuring would soon be concluded. This positively changed market sentiments and also contributed to the appreciation of the Kwacha.
- However, pressures in the foreign exchange market have re-emerged mainly due to persistent excess demand. As at May 16, 2023, the Kwacha was trading at K18.45 per US dollar.

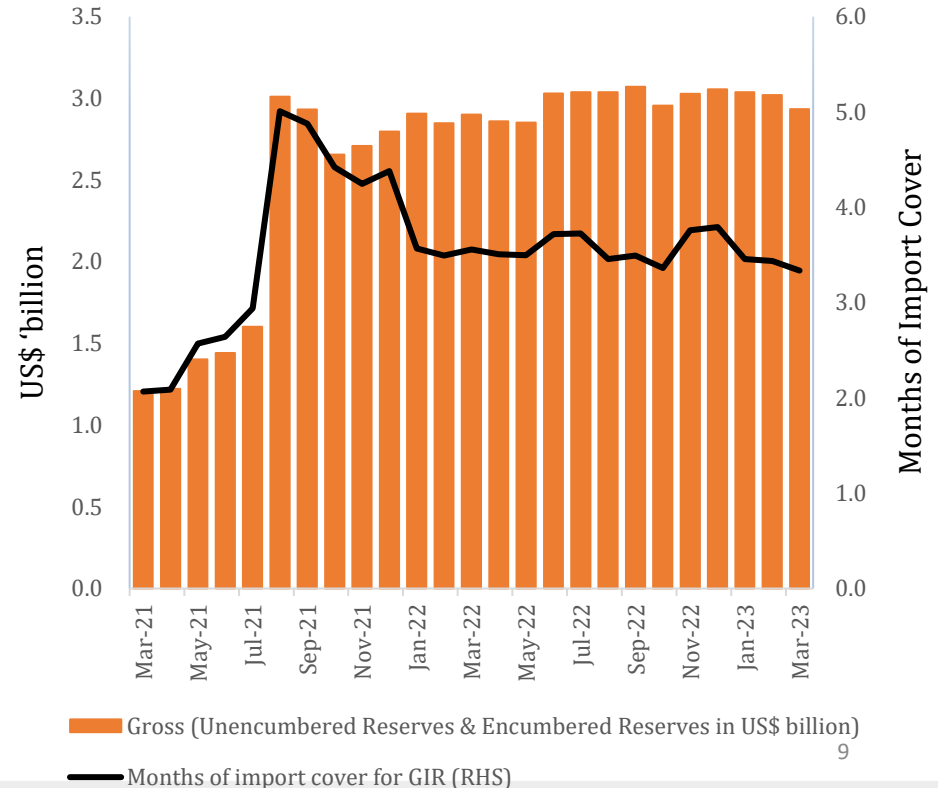
Chart 3: Mining Tax Payment Through Bank of Zambia (US\$' million)



FOREIGN EXCHANGE MARKET

- The support to the market, multilateral debt service, and Government uses contributed to the decline in gross international reserves to US\$2.9 billion (equivalent to 3.3 months of import cover or US\$2.8 billion prospective imports) at end-March 2023 from US\$3.1 billion (equivalent to 3.8 months of import cover or US\$2.7 billion prospective imports) at end-December 2022 (Chart 4).
- The decline in the months of import cover also reflects higher projected prospective imports for 2023.

Chart 4: Gross International Reserves



AFRICAN CURRENCIES



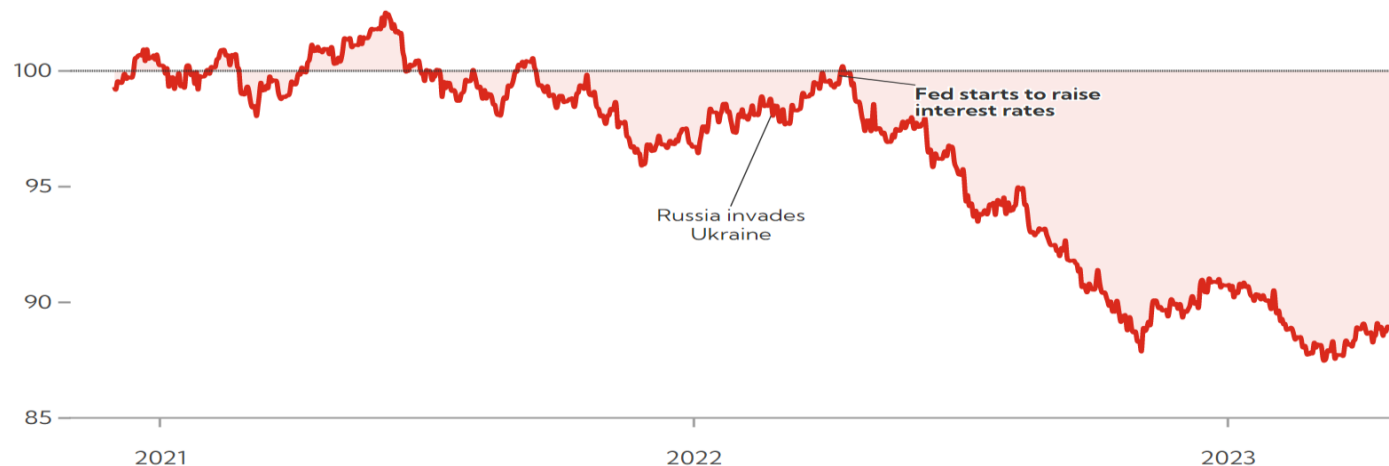
Chart 5: African Currencies under Pressure

Currency pressures

African countries' currencies have weakened against the US dollar, driving up the price of imports.

Exchange rates against US dollar

(index, Sep. 1, 2021 = 100, trade-weighted average across countries)



Source: Bloomberg. · Note: The average nominal exchange rate is weighted by the sum of exports and imports.



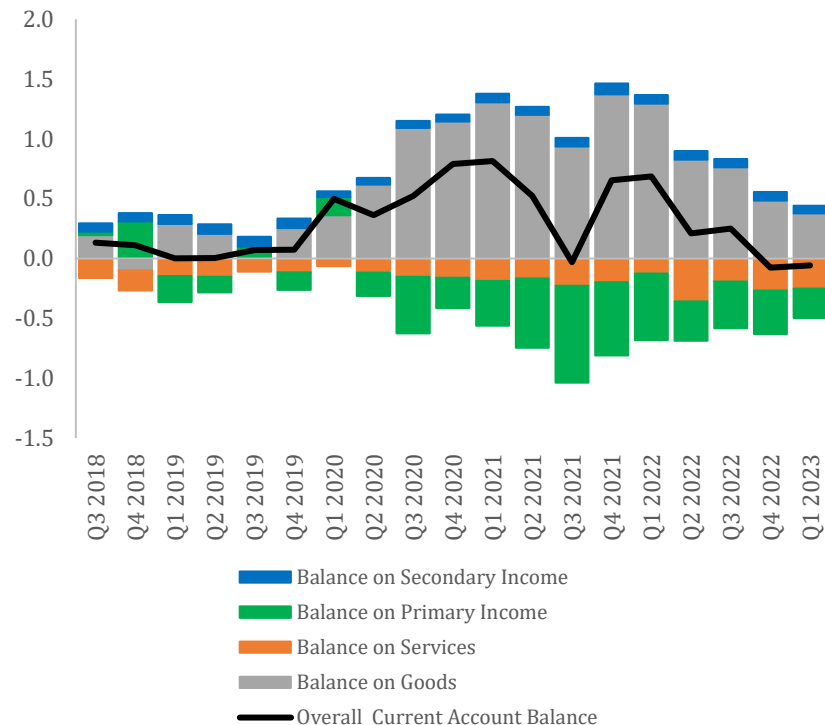
CURRENT ACCOUNT



Bank of Zambia

- The *current account* deficit narrowed to US\$57.2 million in Q1 2023 from US\$75.0 million in Q4 2022 as deficits on *primary and services accounts* reduced (Chart 6).
- The *primary income* deficit reduced due to lower investment income following a decline in dividend payments on direct investment. Similarly, the *services account* narrowed owing to lower expenditure on transportation attributed to passenger travel.
- In the medium term, the *current account* surplus is expected to rebound on improvement in net exports due to a faster rise in exports relative to imports on the back of a pick-up in the global growth.

Chart 6: Current Account Balance



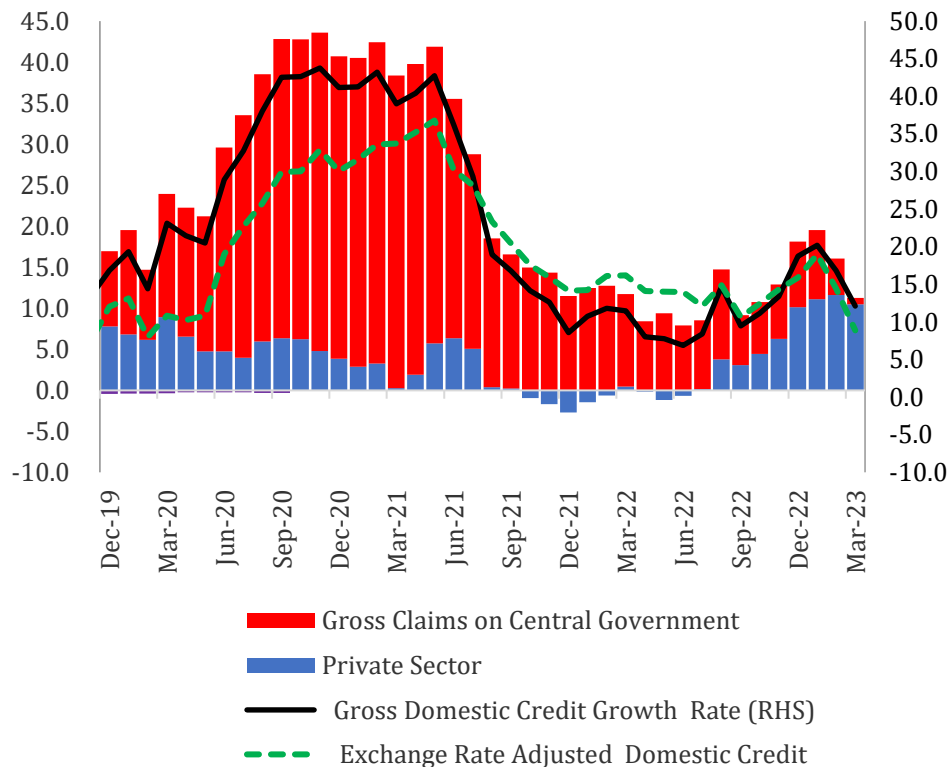
DOMESTIC CREDIT AND MONEY SUPPLY



Bank of Zambia

- In March 2023, growth in domestic credit slowed down to 12.1%, y/y, from 18.7% in December 2022 following reduced lending to Government (Chart 7).
- However, over the same period, credit to the private sector continued to grow — 35.9%, y/y, compared to 34.2%, reflecting marginal increase in Kwacha denominated credit.
- Money supply grew further by 30.0%, y/y, in March 2023 compared to 24.5%, y/y, in December 2022 due to the increase in credit to the private sector and valuation effects.

Chart 7: Contribution to Y/Y Domestic Credit growth



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK



Preliminary data from the [May 2023 Bank of Zambia Quarterly Survey of Business Opinion and Expectations](#) and the [Stanbic Bank Zambia PMITM](#) point to a further moderation in economic activity in the first quarter of 2023 (Charts 8 and 9). This is largely attributed to the depreciation of the exchange rate and increase in fuel pump prices.

Chart 8: Business Opinions Survey Responses

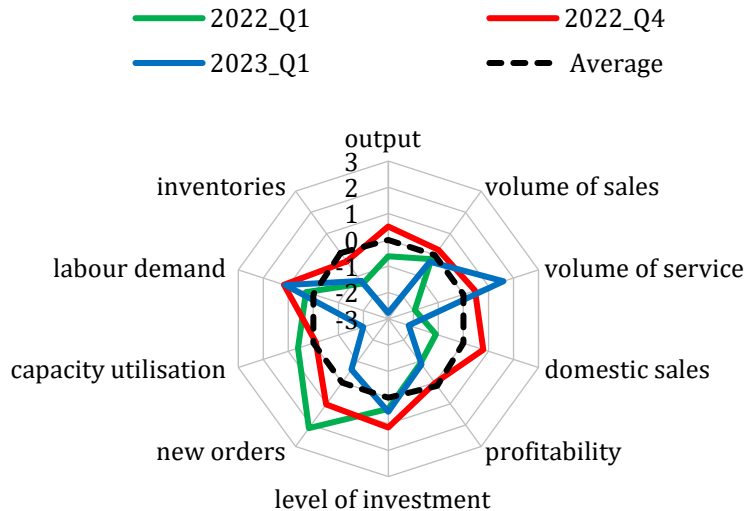
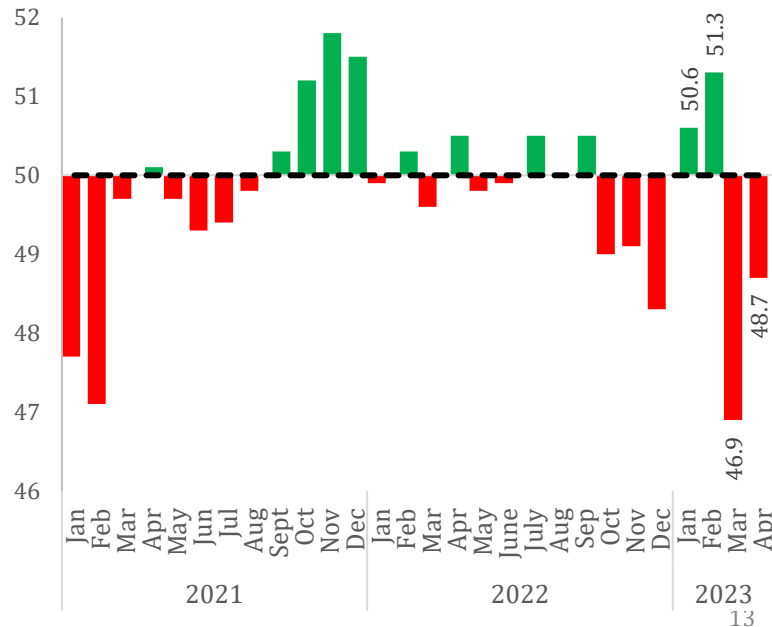


Chart 9: Purchasing Manager's Index for Zambia



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

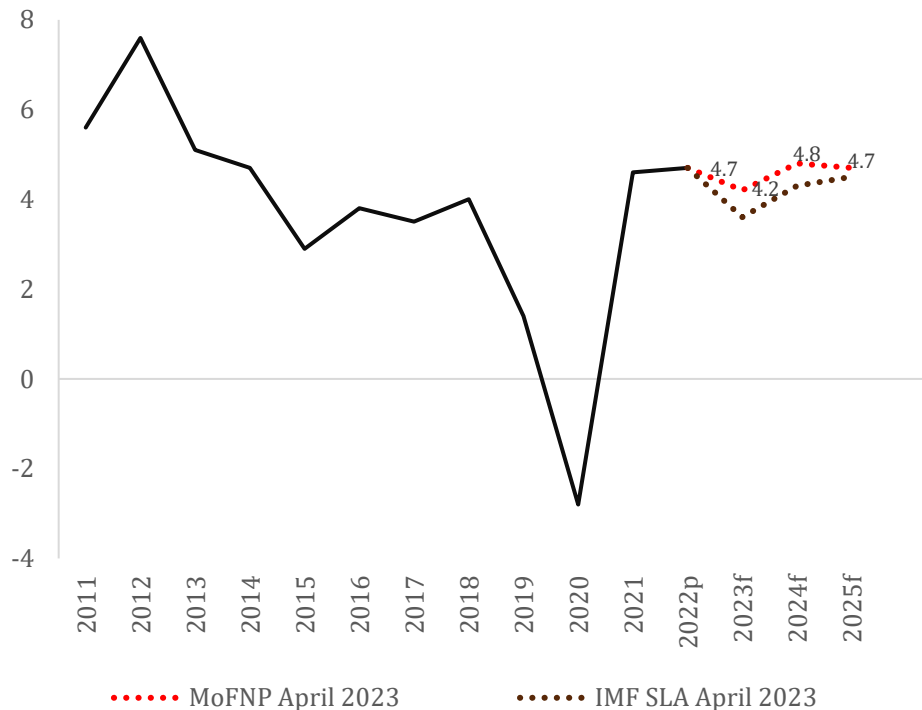


The economy is projected to slowdown in 2023 and rebound in 2024 (Chart 10).

This is underpinned by the recovery in agriculture and mining sectors as well as sustained growth in information and communications, manufacturing, transport and financial and insurance sectors.

Slowdown in global growth, tight global financial conditions, adverse weather conditions due to climate change, and elevated energy and food prices related to the ongoing Russia-Ukraine war continue to be key downside risks to the growth outlook.

Chart 10: Annual Real GDP Growth Forecast (percent)



CONCLUSION

- **The Monetary Policy Committee, at its May 15-16, 2023 Meeting, decided to raise the Monetary Policy Rate by 25 basis points to 9.50 percent.**
- **The decision was informed by the projection that inflation will continue to be above the target over the forecast horizon.**
- **The Committee also took into account fragile growth, and lingering vulnerabilities and risks in the financial sector.**
- **Observed budgetary discipline and continued implementation of fiscal consolidation measures, including broader economic reforms, will remain important anchors to achieving lower inflation and macroeconomic stability.**

Decisions on the Policy Rate will continue to be guided by inflation outcomes, forecasts, and identified risks, including those associated with financial stability and external debt restructuring.

THANK YOU...

GOD BLESS...