



BANK OF ZAMBIA

MONETARY POLICY COMMITTEE STATEMENT

Monetary Policy Rate maintained at 9.0 percent

The Monetary Policy Committee (MPC), at its November 21-22, 2022 Meeting, decided to maintain the Monetary Policy Rate at 9.0 percent. Over the forecast horizon, inflation is projected to maintain a downward trend and return to the target range of 6-8 percent in the first quarter of 2024. The MPC noted progress made on debt restructuring under the G-20 Common Framework that paved way to the IMF approval of the Extended Credit Facility (ECF) in August, and has been followed up by active discussions with the Official Creditor Committee (OCC) as well as the Eurobond creditors. This is expected to lead to the conclusion of debt restructuring negotiations over the first half of 2023 with a significant positive impact on the budget, market sentiments, and mitigate some of the identified upside risks to the inflation outlook. These risks include tighter global financial conditions, adverse spillovers from the prolonged Russia-Ukraine conflict, and lingering COVID-19 effects. In arriving at its decision, the Committee also took into account sluggish growth and some vulnerabilities in the financial sector.

Inflation continues to decelerate

Annual average overall inflation declined to 9.9 percent in the third quarter from 10.5 percent in the second quarter. The pass-through from the appreciation of the Kwacha against the US dollar and improved supply of food, particularly meat products, largely explain the slowdown in inflation. Average food and non-food inflation declined to 11.8 percent and 7.4 percent from 12.8 percent and 7.5 percent, respectively.

In October, inflation declined to 9.7 percent from 9.9 percent in September. This was largely due to the lagged impact of the appreciation of the Kwacha against the US dollar on prices of several non-food products and the dissipation of base effects from solid fuels.

Over the forecast horizon¹, inflation is projected to maintain a downward trend and return to the target range of 6-8 percent in the first quarter of 2024. However, the current projection shows that inflation will follow a slightly higher path than was anticipated at the August MPC Meeting. The deterioration in the global economic environment has adversely affected copper prices, export earnings, and capital flows. All these have exerted pressure on the exchange rate, which in turn is contributing to the elevated projected inflation. In 2022 and 2023, inflation is expected to average 11.3 percent and 8.5 percent,

¹ The forecast horizon is from the fourth quarter of 2022 to the third quarter of 2024.



BANK Of ZAMBIA

respectively. In the first three quarters of 2024, inflationary pressures are expected to recede. As a result, inflation is projected to average 7.9 percent.

Tighter global financial conditions, adverse effects of the prolonged Russia-Ukraine conflict, including on copper prices, and lingering COVID-19 effects are key upside risks to the inflation outlook. Other risks include higher maize prices, driven by heightened regional demand, and the possible increase in electricity tariffs following the publication of the Cost-of-Service Study.

Interest rate movements mixed

The commercial banks' average lending rate and 180-day deposit rate for amounts exceeding K20,000 were broadly unchanged at 25.2 percent and 7.0 percent, respectively. However, Treasury bill and Government bond yield rates increased to 14.1 percent and 24.1 percent from 13.1 percent and 22.1 percent, respectively as liquidity conditions tightened earlier in the quarter.

With regard to the average interbank rate, it was maintained within the Policy Rate Corridor and remained unchanged at 8.9 percent.

Credit and money supply expands

In September, domestic credit grew by 9.5 percent, year-on-year, compared to 6.8 percent in June. This was largely attributed to some recovery in lending to the private sector, particularly in foreign currency. The latter was primarily driven by increased capital investments in the manufacturing and mining sectors.

Money supply (M3) growth rebounded, rising by 13.3 percent, year-on-year, in September compared to a contraction of 5.2 percent, year-on-year, in June. This was mainly on account of increased credit to the private sector.

Domestic economic activity remains fragile

The [*Stanbic Bank Zambia PMITM*](#) Purchasing Managers' Index (PMI) rose to a quarterly average of 50.5 from 50.0 in the previous quarter, signalling an improvement in the business environment for the private sector. This largely reflected growth in *output* and *new orders* as customer demand increased.

In October 2022, however, the PMI reduced to 49.0 reflecting a deterioration in the business environment. Further, the [*November 2022 Bank of Zambia Quarterly Survey of Business Opinions and Expectations*](#) pointed to sluggish economic activity in the third quarter as most firms reported a decline in *output*, *domestic sales*, *new orders*, *capacity utilisation*, and *level of investments* on account of high borrowing costs.



For 2022 as a whole, the economy is expected to expand by 3.0 percent². In 2023 and 2024, the economy is projected to grow by 4.0 percent and 4.1 percent, respectively. The financial and insurance, information and communications, wholesale and retail trade, mining and quarrying, agriculture, as well as education sectors underpin the projected growth. The key downside risks to the growth outlook, include tighter global financial conditions, increase in energy and food prices, mainly induced by the Russia-Ukraine conflict, and lingering adverse effects of the COVID-19 pandemic.

Fiscal risks persist

Preliminary data indicate that both revenue and expenditure were lower than projected in the third quarter. Falling copper prices negatively affected revenue while expenditure was lower mainly due to the standstill on external debt servicing. In the medium-term, significant fiscal risks remain, particularly on revenue performance. These include lower copper prices and weak global demand. Maintaining fiscal discipline will continue to be a strong anchor for macroeconomic stability and sustainable growth.

Global growth remains fragile

In October, while the IMF³ maintained the global growth projection for 2022 at 3.2 percent, the 2023 forecast was downgraded to 2.7 percent. However, growth is expected to rebound to 3.2 percent in 2024. The high cost-of-living, occasioned by persistent inflationary pressures, tighter global financial conditions, following contractionary monetary policies by central banks in major economies, adverse impact of the Russia-Ukraine conflict, as well as recurring COVID-19 containment measures and the real estate downturn in China largely necessitated the revision.

Current account balance turns negative

For the first time since the second quarter of 2018, a *current account* deficit of US\$0.4 billion⁵ was recorded in the third quarter. This reflected a significant reduction in net merchandise exports as well as the expansion of deficits in the *services* and *primary income accounts*. Exports fell by 19.3 percent to US\$2.3 billion on the back of lower copper earnings, while imports marginally decreased by 0.7 percent to US\$2.1 billion, mainly due to a decline in consumer and intermediate goods. The *services account* deficit widened on account of increased expenditure on transportation. The rise in retained earnings explained the expansion in the *primary account* deficit.

² In September, the Ministry of Finance and National Planning downgraded the real GDP growth forecast for 2022 to 3.0 percent from 3.1 percent in June.

³ International Monetary Fund, *World Economic Outlook Update*, October 2022. This was the fourth downward revision of global growth in 2022.

⁴ As a percentage of GDP, the *current account* deficit was 4.9 percent.



BANK OF ZAMBIA

Gross international reserves rose marginally to US\$3.1 billion at end-September from US\$3.0 billion at end-June. Mining tax payments and receipt of project funds were the primary sources of foreign exchange inflows. However, the months of import cover were lower at 3.5 in September compared to 3.7 in June following the upward revision of prospective imports for 2022.

Kwacha appreciates in third quarter, but pressures re-emerge

During the third quarter of the year, the Kwacha appreciated by 6.6 percent against the US dollar to an average of K16.02. The appreciation was on account of positive market sentiments stemming from the approval of the IMF Extended Credit Facility on August 31, 2022.

However, demand pressures that emerged in September for the procurement of agricultural and petroleum products have intensified in the fourth quarter. This has led to the depreciation of the Kwacha against the US dollar to K16.69 as at November 22, 2022. To address the underlying volatility and support importation of critical agricultural and petroleum products, the Bank of Zambia has had to provide US\$333.5 million to the market, primarily from the mining tax receipts. For the year-to-date, a total of US\$1.3 billion of the mining receipts has been provided to the market.

Monetary Policy Committee Decision

The Monetary Policy Committee (MPC), at its November 21-22, 2022 Meeting, **decided to maintain the Monetary Policy Rate at 9.0 percent**. This decision was arrived at after a careful consideration of either to raise the Policy Rate or to maintain it at 9.0 percent.

Inflation is still projected to remain slightly above the target range until the first quarter of 2024. The tightening in global financial conditions as well as the precipitous fall in copper prices and earnings have contributed to a slightly higher inflation path over the forecast horizon than was anticipated in the August MPC Meeting. Under these circumstances, the MPC considered raising the Policy Rate in order to bring inflation within 6-8 percent by the end of 2023. However, progress is being made on Zambia's debt restructuring, under the G-20 Common Framework, albeit slower than desired. The IMF approved the Extended Credit Facility in August 2022. Since then, there has also been intensified engagements with the Official Creditor Committee and private creditors with the goal of completing debt restructuring by the first quarter of 2023. This is expected to have a significant positive impact on the budget, market sentiments, and mitigate some of the identified upside risks to the inflation outlook, such as, tighter global financial conditions, adverse impact of the Russia-Ukraine conflict, and lingering COVID-19 effects. It is against this background that the Committee decided to maintain the Policy Rate at 9.0 percent. In addition, the Committee took into account the sluggish growth and some vulnerabilities in the financial sector.



BANK Of ZAMBIA

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

The next MPC Meeting is scheduled for February 13 and 14, 2023.

Issued by

A handwritten signature in black ink, appearing to be 'D. Kalyalya', is positioned above the printed name of the Governor.

Dr. Denny H. Kalyalya
GOVERNOR

November 23, 2022