

MONETARY POLICY COMMITTEE STATEMENT 15TH FEBRUARY 2023

PREPARED BY

FEBRUARY 2023

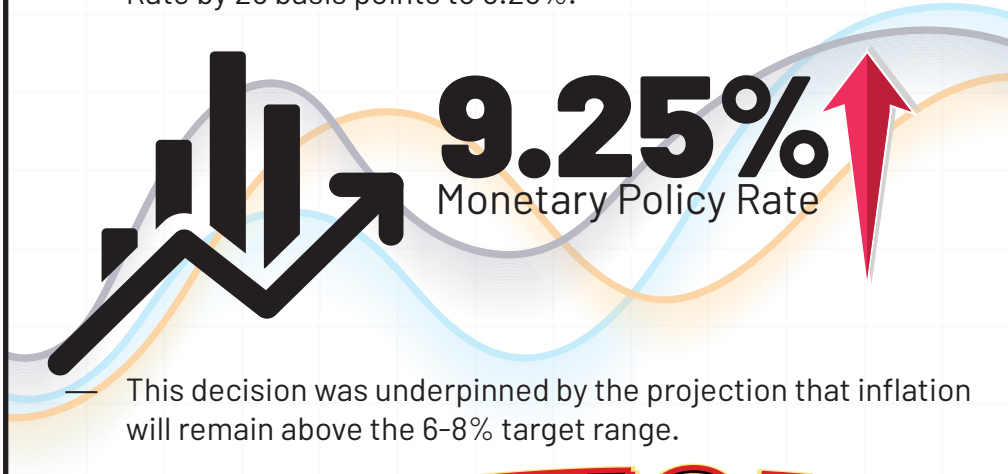


Research & Communications Departments
©2023 Policy Monitoring and Research Centre (PMRC)
info@pmrczambia.net | www.pmrczambia.com



INTRODUCTION

- Following its 13th to 14th February 2023 meeting, the Monetary Policy Committee (MPC) decided to raise the Monetary Policy Rate by 25 basis points to 9.25%.

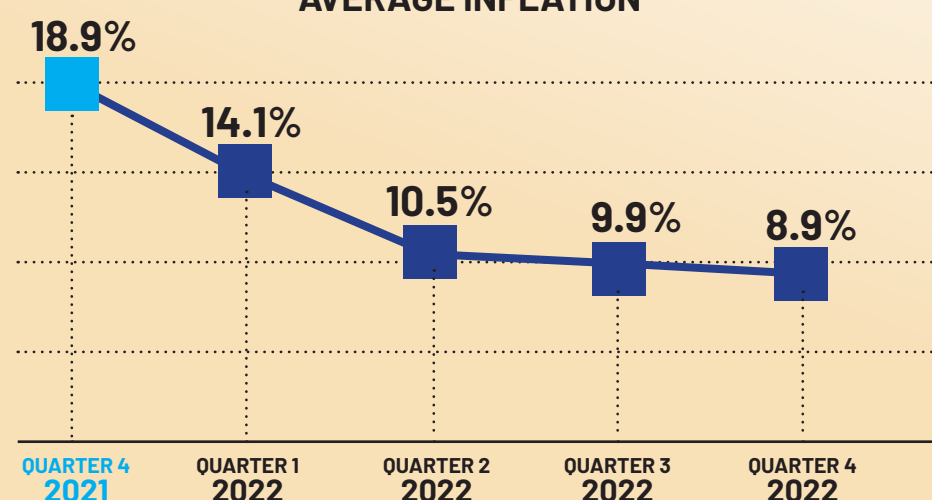


- Inflation is projected to increase and remain above the 6-8% target range.
- Inflation is now projected to average 11.1% in 2023 compared to the November 2022 forecast of 8.5%.
- In 2024, inflation is forecast to average 10.1%.

Key factors underlying the forecast include:

- The rapid depreciation of the Kwacha against the US Dollar.
- Anticipated increase in electricity tariffs to cost-reflective levels.
- Possible reduction in maize production due to adverse weather conditions and crop infestation by Fall Armyworms.

AVERAGE INFLATION



Source: Zamstats

FOREIGN EXCHANGE MARKET

- After a cumulative appreciation of 10% in the previous two quarters, the Kwacha depreciated by 4.3% against the US dollar to an average of K16.71 in the fourth quarter of 2022.

- As at February 14th 2023, the Kwacha was trading at K19.33/USD

trading @
K19.33/USD
as at 14th Feb 2023



Key drivers of the depreciation are:

- Low foreign exchange supply, particularly from the mining sector.
- High demand by market players (for imports of fuel, medicines and agricultural inputs).
- Additionally, foreign financial institutions are now more pronounced on the demand side as they are divesting from the domestic market due to tighter global financial conditions, negative sentiments associated with the protracted debt restructuring negotiations and uncertainty around the treatment of non-resident holders of Government securities.
- On 1st February 2023, the Bank raised the statutory reserve ratio on commercial banks' deposit liabilities by 2.5% points to 11.5% as an additional measure to mitigate exchange rate volatility.

INTEREST RATES, CREDIT, MONEY SUPPLY AND ECONOMIC ACTIVITY

- In December 2022, domestic credit growth more than doubled to 18.7%, year-on-year, with 10.1% accounted for by the private sector.



- The expansion in private sector lending also contributed to stronger growth in money supply which grew to 24.5% in December 2022 from 13.3% in September 2022. Increasing private sector lending means that more money is circulating in the economy that can generate investment and put more money in the hands of consumers.



- Economic activity is assessed to have moderated in the fourth quarter of 2022.
- In the medium term, domestic growth prospects are optimistic and under the anticipated recovery in the mining, agriculture and construction sectors.
- Additionally, the financial and insurance, information and communications, wholesale and retail trade sectors will continue to support growth.
- The upward adjustment in the Policy Rate and the recent increase in the statutory reserve ratio were deemed as necessary actions in order to reduce the impact of the current depreciation of the exchange rate on inflation. It is anticipated that these actions will contribute towards the stabilization of the Kwacha and macroeconomic stability in general.

FISCAL POLICY

- Preliminary data indicated a further reduction in the cash fiscal deficit in 2022 to 8.1% of GDP from 9% in 2021.



This deficit is projected to continue on a declining trend over the 2023-2025 period due to:

- Expected improvement in revenue performance.
- Improved fiscal management underpinned by expedited external debt resolution.
- Structural reforms in the energy, agriculture, health and education sectors.



CONCLUSION

- The Committee reaffirmed its call for the effective implementation of structural reforms, including the diversification of the export base and adoption of climate change mitigation measures supportive of a stable exchange rate necessary to achieve low and stable inflation.
- 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.