Monetary Policy Report

February 2024

Bank of Zambia

Bank of Zambia

REGISTERED OFFICES

Head Office
Bank Square, Cairo Road
P. O. Box 30080, Lusaka, 10101, Zambia
Tel: (+260) 211 399300
E-mail: info@boz.zm
Website: www.boz.zm

Regional Office
Buteko Avenue,
P. O. Box 71511, Ndola, Zambia
Tel: (+260) 212 399600
E-mail: info@boz.zm
Website: www.boz.zm

Bank *of* Zambia

This *Monetary Policy Report* (MPR) is made pursuant to Section 29(2) of the Bank of Zambia Act, 2022.

This MPR was approved by the Monetary Policy Committee on February 13, 2024 and contains information available at the time of approval.

Composition of the Monetary Policy Committee constituted pursuant to Section 28(1) of the Bank of Zambia Act, 2022:

1. Dr Denny H. Kalyalya – Governor – Chairperson;
2. Dr Francis Chipimo – Deputy Governor responsible for Operations – Vice Chairperson;
3. Mrs Rehka C. Mhango – Deputy Governor responsible for Administration;
4. Dr Jonathan M. Chipili – Director responsible for research;
5. Mr Isaac Muhanga – Director responsible for monetary policy operations;
6. Mr Goodson Kataya – Acting Director responsible for financial stability;
7. Professor Munacinga C. Simatele – External Member; and
8. Mr Alex Chakufyali – External Member.

TABLE OF CONTENTS

Preface

In line with Article 213(2) (b) of the Constitution of Zambia (Amendment) Act, 2016, the Bank of Zambia (BoZ or the Bank) determines monetary policy. The nine-member Monetary Policy Committee (MPC) formulates monetary policy to achieve and maintain price stability in line with section 27(2) of the Bank of Zambia Act, 2022. The Committee meets every second month of the quarter in February, May, August and November to decide on the monetary policy stance. In doing so, the Committee reviews macroeconomic developments in the previous quarter and prospects for inflation over the forecast horizon currently eight quarters ahead. This information is published in the Monetary Policy Report (MPR) to strengthen transparency and accountability of the MPC.

The stance of monetary policy is reflected in changes to the Policy Rate introduced in April 2012. This is guided by inflation outcomes, forecasts from inflation models and identified risks, including those associated with financial stability and growth. The MPC relies on a forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the policy stance. The Policy Rate also provides a credible and stable anchor to financial market participants in setting their own interest rates as well as guides the Bank in its implementation of monetary policy. The Bank may use non-price (quantitative) monetary policy instruments, such as, the statutory reserve ratio in its conduct of monetary policy.

The Bank influences the overnight interbank rate (operating target) which in turn impacts inflation through changes in market interest rates transmitted via the expectations, exchange rate and/or credit channels. To effectively manage the overnight interbank rate, the Bank conducts open market operations to either supply or withdraw liquidity from the banking system to keep the overnight interbank rate within the corridor of +/- 1 percentage points around the Policy Rate. There are, however, exceptional circumstances where the interbank rate may be allowed to drift outside the Policy Rate Corridor.

The monetary policy decision is publicly announced in the Monetary Policy Committee Statement issued via a press release a day after each quarterly MPC meeting. The MPR is published soon after the MPC Meeting. This is intended to provide detailed information used by the MPC in arriving at a Policy Rate decision.

Executive Summary

Inflation rose to 12.9 percent in the fourth quarter of 2023 from 11.0 percent in the third quarter, moving further away from the 6-8 percent target band. This outcome was in line with the projection by the Monetary Policy Committee in November 2023. The persistent depreciation of the Kwacha against major currencies as well as elevated food (maize and maize products) and energy (fuel) prices continued to push inflation up.

Inflation has continued to rise in the first quarter of 2024, moving to 13.2 percent in January from 13.1 percent in December last year. Continued depreciation of the exchange rate remains the key driver of inflation. Over the forecast horizon, covering the first quarter of 2024 to the fourth quarter of 2025, inflation is projected to move even further away from the target band. The persistent depreciation of the exchange rate as well as the prevailing high maize grain, maize products and fuel prices are the key drivers of the projected inflation. These factors remain key upside risks to the inflation outlook.

Broadly, interest rates have risen since the November 2023 Monetary Policy Committee Meeting in line with the upward adjustment in the Monetary Policy Rate to 11.0 percent. Domestic credit continued to expand in the fourth quarter of 2023, mostly attributed to sustained lending to the private sector. Growth in money supply continued to grow in the fourth quarter albeit at a slower pace. Private sector credit remained the key driver of money supply growth.

Notwithstanding seasonal demand, preliminary data point to a slowdown in economic activity in the fourth quarter due to the persistent depreciation of the exchange rate, rising inflation and input costs, as well as elevated borrowing costs. On the upside, over the medium-term (2024-26), prospects for real GDP growth remain bright on expected recovery of the mining, agriculture and wholesale and retail trade sectors. However, the slowdown in global growth, heightened geopolitical tensions, extreme weather conditions and delays in concluding external debt restructuring continue to be key downside risks to the growth outlook.

Over the medium-term, the fiscal deficit is projected to continue narrowing on the back of sustained fiscal consolidation through enhanced domestic revenue mobilisation, better targeted subsidies, strengthened and strict adherence to legislative provisions on expenditure, improved procurement procedures, and focused capital spending on priority projects.

The *current account* is expected to recover in 2024 and in surplus over the medium-term on account of strong growth in net exports as copper production improves and prices remain relatively high. This is despite the projected slowdown in global growth and relatively low growth in major trading partner countries.

At its February 12-13, 2024 Meeting, the Monetary Policy Committee (MPC) raised the Policy Rate by 150 basis points to 12.5 percent. The move is aimed at steering inflation towards the 6-8 percent target band and helping anchor inflation expectations. In arriving at the decision, the Committee observed that inflationary pressures had persisted and inflation was projected to remain above the target band over the forecast horizon. Therefore, if unchecked, it could become anchored above the target band making it harder to achieve macroeconomic stability. Accordingly, the Committee resolved that a stronger policy response was warranted. The Committee also took into account the stability of the financial sector and the importance of robust growth over the medium- to long-term.


BANK OF ZAMBIA

1. Macroeconomic Outlook

- *Global growth to improve on falling inflation, eased supply-chain constraints, and improved government and consumer spending.*
- *Copper prices to increase on reduced supply amid robust demand; crude oil prices to fall, reflecting lower global demand and increasing production mostly by the US.*
- *Current account deficit to recover and surplus sustained by robust net exports.*
- *Domestic economic outlook remains bright over the medium-term mostly on recovery of mining and agriculture sectors.*
- *Cash fiscal deficit to narrow on enhanced revenue mobilisation and expenditure rationalisation.*
- *Inflation projected to move further away from the target band on persistent depreciation of the exchange rate as well as prevailing high maize grain, maize products and fuel prices.*

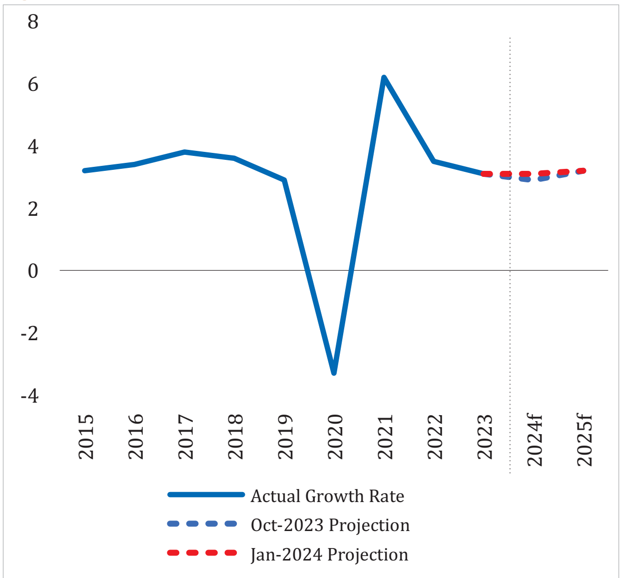
1.1 External Sector Outlook

... global growth to improve slightly

According to the IMF Word Economic Outlook (WEO), the global economy is projected to grow by 3.1 percent in 2024, 0.2 percentage points higher than the October projection (Figure 1). The projection for 2025 remains unchanged at 3.2 percent.

The upward revision to the growth projection reflects growth upgrade for China, United States of America (US), and some large emerging market and developing economies. This is largely based on falling inflation, eased global supply-chain constraints, as well as improved consumer and government spending.

Figure 1: Global GDP Growth Projection (annual, percent)



Source: IMF WEO, January 2024; Bank of Zambia Compilations

Although the current growth projection is better than in the previous period, it is below the pre-COVID (2000-19) annual average of 3.8 percent. This is due to the effects of tight global financial conditions, easing of fiscal stimulus measures and reduced productivity over time.

The risks to global growth are now balanced unlike in the October 2023 WEO when they were assessed to have tilted to the downside.

The upside risks include inflation declining faster than expected prompting central banks to ease monetary policy much earlier and higher growth in China resulting in stronger global demand.

On the downside, risks mostly relate to geopolitical tensions in the Middle East exacerbated by attacks on ships in the Red Sea by the Houthi rebels that could potentially disrupt commodity and supply-chains leading to spikes in commodity prices; core inflation remaining sticky and triggering a more restrictive monetary policy stance; and growth in China faltering if the meltdown in the property sector deepens.

... economic activity in major trading partner countries to improve

Broadly, the export-weighted GDP (GDP-9) Index[1] indicates an improvement in economic activity in Zambia's major trading partner countries over the 2024-25 period (Table 1 and Figure 2).

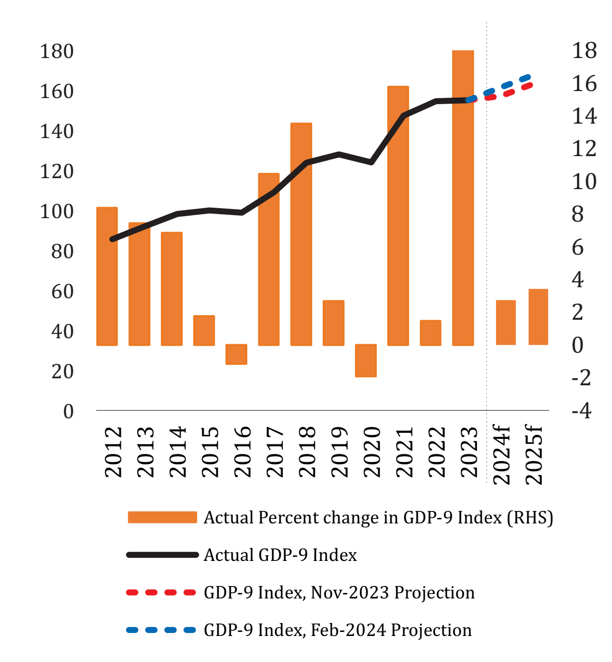
[1]The GDP-9 Index is used to assess external demand conditions in Zambia's key trading partner countries. It is computed as a Fisher Ideal Index and constructed based on nine countries: China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi and Tanzania. In 2020, these countries accounted for 86.9 percent of Zambia's exports, excluding Switzerland—a predominantly invoicing country for copper exports.

Table 1: Changes in GDP-9 Index and Country Contributions, 2022 – 25

	Weight	2022	2023p	2024f	2025f
GDP-9 Index (Percent Change) – Jan 2024		4.92	0.29	4.14	3.79
GDP-9 Index (Percent Change) – Nov 2023		2.17	0.64	3.69	3.85
Country Contributions to the Change in GDP-9 Index					
China	0.49	2.15	0.15	1.83	1.67
DRC	0.30	1.19	0.09	1.02	0.93
South Africa	0.12	0.72	0.03	0.60	0.55
Singapore	0.00	0.31	-0.01	0.24	0.22
UK	0.07	0.21	0.02	0.19	0.17
UAE	0.00	0.11	-0.00	0.08	0.08
Tanzania	0.00	0.08	0.01	0.07	0.06
Malawi	0.02	0.09	-0.00	0.07	0.06
Hong Kong	0.00	0.05	-0.00	0.04	0.04

Source: Bank of Zambia Staff Calculations
DRC = Democratic Republic of the Congo, UK = United Kingdom, UAE = United Arab Emirates

Figure 2: Changes in GDP-9 Index (2020=100)



Source: Bank of Zambia

The optimistic outlook mainly reflects growth in China, DRC and South Africa.

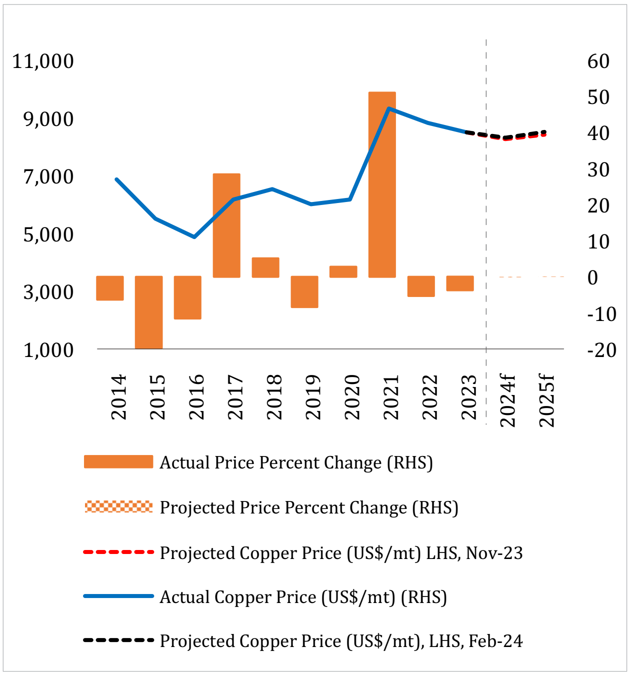
Growth in China is expected to be driven by additional fiscal support to the property sector[2], pick-up in the services sector and increased investment in clean energy. Higher mineral exports in view of increased investments in the mining sector and a pick-up in commodity prices are expected to drive growth in the DRC. In South Africa, growth will be underpinned mainly by the projected decline in inflation and increase in private sector investments.

The risks to the projected economic activity in these economies remain tilted to the downside. They include deepening property sector crisis in China, supply-chain disruptions due to the escalation in geopolitical tension in the Middle East and extreme weather conditions.

... copper prices to marginally increase

Copper prices[3] are projected to improve by 0.6 percent and 1.1 percent to US$8,306.87 per metric tonne and US$8,507.73 per metric tonne in 2024 and 2025, respectively (Figure 3).

Figure 3: Copper Prices (annual average)



Source: IMF, World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilation

The marginal increase in copper prices largely reflects expected disruptions[4] and operational constraints in the mining supply-chain amid robust demand.

Copper prices could increase further if the key upside risks materialise. These include a faster-than-anticipated recovery in the property sector in China, a weaker US dollar and continued production disruptions at major mines on account of labour disputes, operational challenges and severe weather conditions.

[2]Measures include credit support for debt-laden housing developers, financial support to ensure completion and handover of projects to homeowners and assistance for deferred-payment loans for homebuyers. The Chinese authorities have ramped up financing for home projects under the "Project Whitelist" mechanism designed to expedite the issuance of project loans from banks to ease a liquidity squeeze in the sector and boost homebuyer confidence: https://www.theguardian.com/world/2022/nov/14/chinese-authorities-unveil-sweeping-measures-to-rescue-property-sector

[3]Copper prices are averages of Bloomberg, FocusEconomics, Reuters, World Bank and IMF projections.

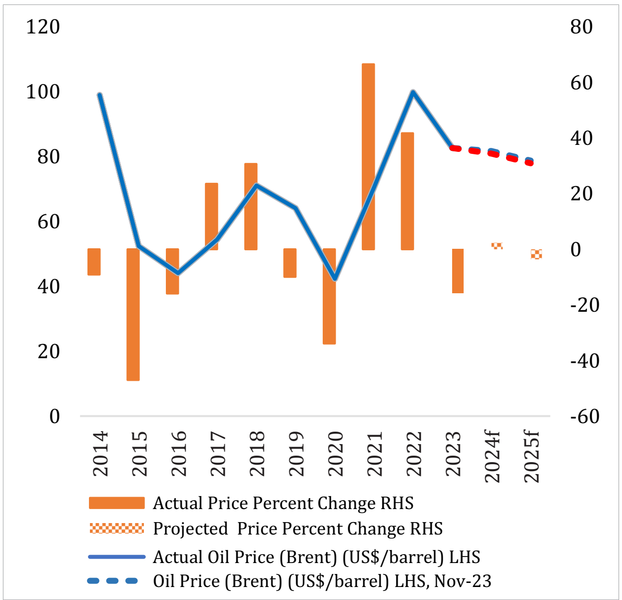
[4]https://www.leaders-mena.com/expectations-that-copper-prices-to-rise-by-more-than-75/

... crude oil prices to decline

Crude oil prices[5] are projected to reduce slightly to US$80.88 and US$77.91 per barrel from US$81.68 and US$78.74 in 2024 and 2025, respectively (Figure 4). The moderation in crude oil prices reflects slowing global demand and higher US production[6].

The key upside risks to the price projection include deeper-than-expected supply cuts by OPEC+, extreme weather events, as well as supply disruptions occasioned by geopolitical tensions.

Figure 4: Crude Oil Prices (annual average)

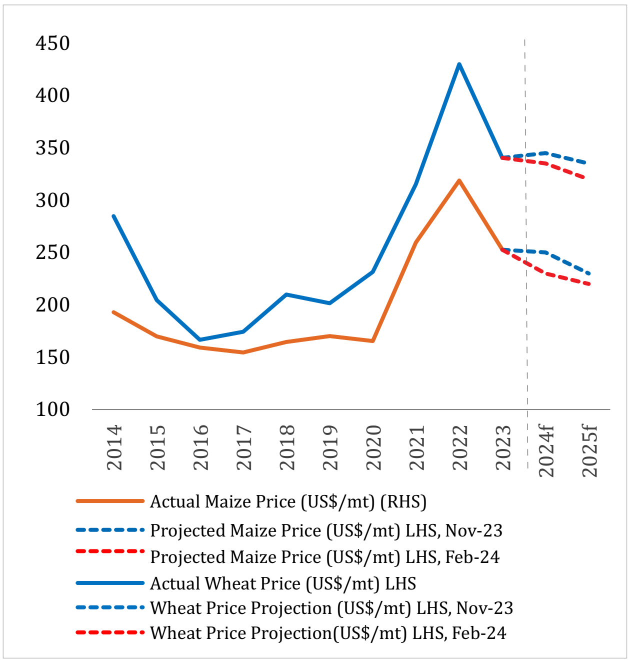


Source: World Bank, Bloomberg, Reuters and Bank of Zambia Compilations

... maize and wheat prices to decline further

Maize prices are expected to continue declining in 2024 and 2025 to US$230.0 per metric tonne and US$220.0 per metric tonne, respectively (Figure 5). Wheat prices are also projected to edge downward to US$335.0 and US$320.0 per metric tonne over the same period (Figure 5). The downward trend in maize and wheat prices is mainly due to the expected improved supply.

Figure 5: Maize and Wheat Prices (annual average)



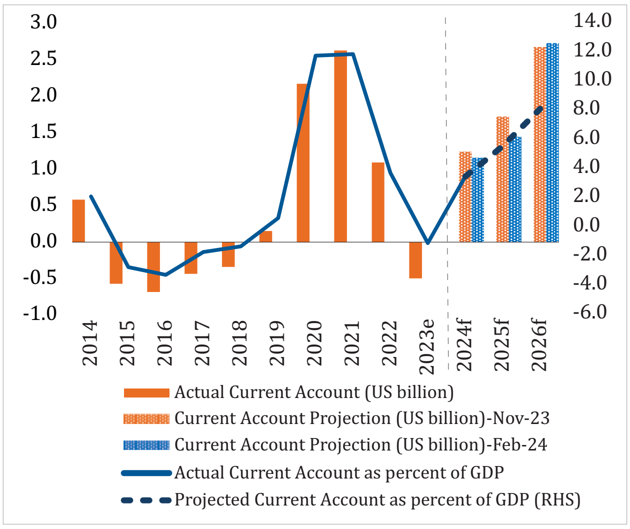
Source: World Bank Pink Sheet and Commodity Markets Outlook, October 2023 and Bank of Zambia Compilations

The major upside risks to the projected maize and wheat prices include lower-than-anticipated production due to adverse weather conditions and heightened geopolitical tensions.

... current account balance to recover

The *current account* is projected to recover in 2024 to a surplus of US$1.2 billion (3.9 percent of GDP) from a deficit of US$0.3 billion in 2023 (1.0 percent of GDP) and expand over the medium-term (Figure 6). A robust growth in net exports underpins the projected turnaround in the *current account*.

Figure 6: Current Account



Source: Bank of Zambia

[5] Crude oil prices are averages of Bloomberg, FocusEconomics, Reuters, World Bank and IMF projections.

[6] https://markets.businessinsider.com/news/commodities/us-oil-production-record-brent-crude-prices-opec-russia-saudi-2023-12.

Net exports are projected to increase to US$3.5 billion, US$3.8 billion and US$4.4 billion in 2024, 2025 and 2026, respectively from a preliminary US$1.4 billion in 2023. This is attributed to the expected recovery of the mining sector and robust broad growth in non-traditional exports (NTEs).

1.2 Prospects for Domestic Economic Growth

... outlook optimistic over the medium-term

The economy is expected to expand over the 2024-26 period mostly on the back of the anticipated recovery in mining and agriculture as well as improvement in the macroeconomic environment (Table 3 and Figure 7). This will be complemented sustained growth in the information and communication, financial and insurance services, accommodation and food services, transport and storage, and manufacturing sectors.

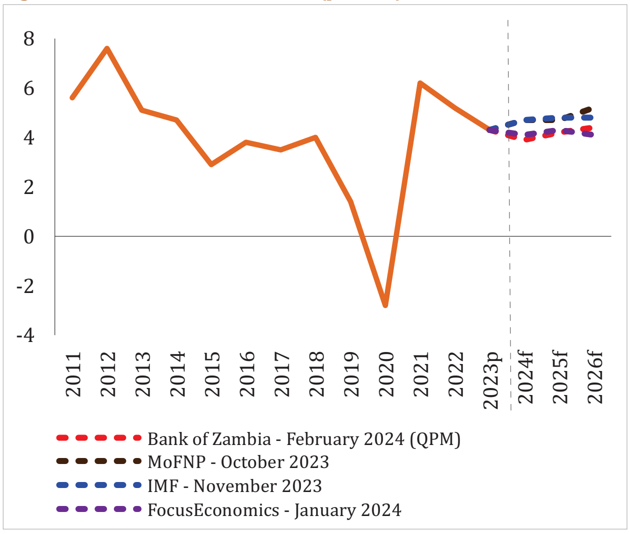
The Bank of Zambia projects[7] real GDP to grow by 3.9 percent in 2024, 4.2 percent in 2025 and further by 4.4 percent in 2026 (Table 2 and Figure 7). The Ministry of Finance and National Planning (MoFNP) projection is higher at 4.4 percent, 5.5 percent and 5.4 percent over the same period (Table 2; Figures 7 and 8). The IMF and FocusEconomics projections are slightly lower than MoFNP, but broadly in line with the Bank of Zambia (Table 2).

Table 2: Annual Real GDP Growth Projections

	2023p	2024f	2025f	2026f
Bank of Zambia				
BoZ January 2024	4.8	3.9	4.2	4.4
BoZ November 2023	4.3	3.1	3.7	
Ministry of Finance and National Planning				
MoFNP February 2024	4.0	4.4	5.5	5.4
MoFNP October 2023	4.3	4.7	4.7	5.2
International Monetary Fund				
IMF December 2023	4.3	4.7	4.8	4.8
IMF April 2023	3.6	4.3	4.5	
IMF WEO October 2023	3.6	4.3	4.5	4.7
FocusEconomics				
FocusEconomics January 2024	3.9	4.1	4.3	4.1
FocusEconomics November 2023	3.8	3.9	4.0	4.0

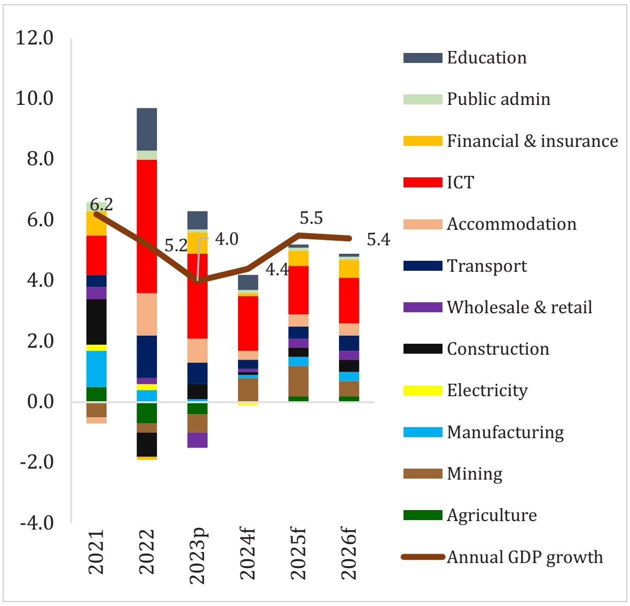
Source: Bank of Zambia, Ministry of Finance and National Planning, IMF WEO, Focus Economics.
Note: p=preliminary estimate, f=forecast

Figure 7: Annual Real GDP Growth (percent)



Source: Zambia Statistics Agency, Bank of Zambia, Ministry of Finance and National Planning, IMF, FocusEconomics.
Note: p=preliminary, f=forecast

Figure 8: Sectoral Contribution to Real GDP Growth (percentage points)

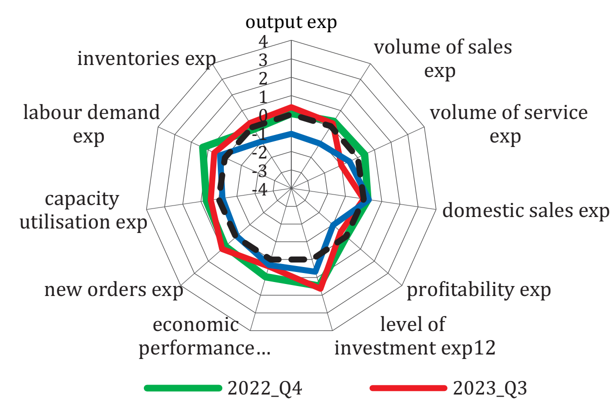


Source: Ministry of Finance and National Planning, Zambia Statistics Agency and Bank of Zambia Compilations
Note: p=preliminary, f=forecast.

The respondents to the [February 2024 Quarterly Survey of Business Opinions and Expectations]() are pessimistic about growth prospects for 2024 (Figure 9). Their pessimism is based on the adverse impact of persistent exchange rate depreciation, rising inflation, El Niño weather effects and delayed external debt restructuring. This notwithstanding, they consider higher copper prices and the resolution of challenges at the Mopani Copper Mines Plc (MCM) and Konkola Copper Mines Plc (KCM) as factors that could spur growth.

[7] The Bank of Zambia real GDP growth estimates are based on an overall assessment of domestic economic conditions using the Quarterly Projection Model (QPM).

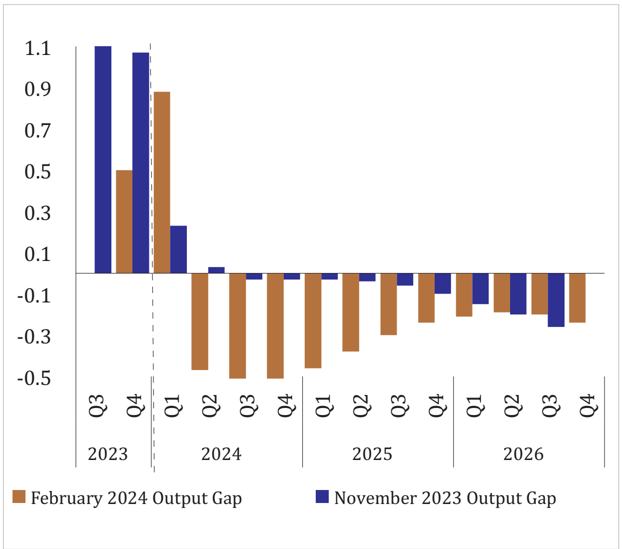
Figure 9: Business Expectations Response Patterns[8]



Source: Bank of Zambia

A higher positive output gap is projected for the first quarter of 2024, but is expected to turn negative in the second quarter (Figure 10). Although actual output remains below potential, the gap narrows as growth picks up in 2025.

Figure 10: Output Gap (percent)



Source: Bank of Zambia

Copper production is expected to recover with the resolution of challenges at MCM and KCM. In addition, investments in new and existing mines are expected to boost production. Major investments are taking place at Kansanshi Mining Plc (S3 Expansion Project), Lumwana Mining Company Limited and China Non-Ferrous Metals Mining Group Company, including in the Fishtie Copper Project.

Over the medium-term, growth in the agriculture sector will be supported by the on-going development of infrastructure in farm blocks, investment in irrigation infrastructure to reduce dependence on rain-fed agriculture and implementation of the Comprehensive Agriculture Transformation Support Programme (CATSP).

The downside risks to the growth outlook include adverse weather conditions, lower-than-expected copper prices, slower global growth, tighter financial conditions and heightened geopolitical tensions. In addition, prolonged conclusion of external debt restructuring, working through sentiments and broad investor confidence, may dampen the growth outlook.

1.3 Fiscal Outlook

…fiscal deficit to continue narrowing

The overall cash fiscal deficit, as a percent of GDP, is projected to narrow to 4.8 percent in 2024, 2.8 percent in 2025 and further to 2.2 percent in 2026 (Table 3; Figures 11 and 12). This is mostly based on Government continuing to implement fiscal consolidation measures by enhancing domestic revenue mobilisation, removing inefficient subsidies, strengthening and strictly adhering to legislative provisions on expenditure, improving procurement procedures and focusing capital spending on priority projects.

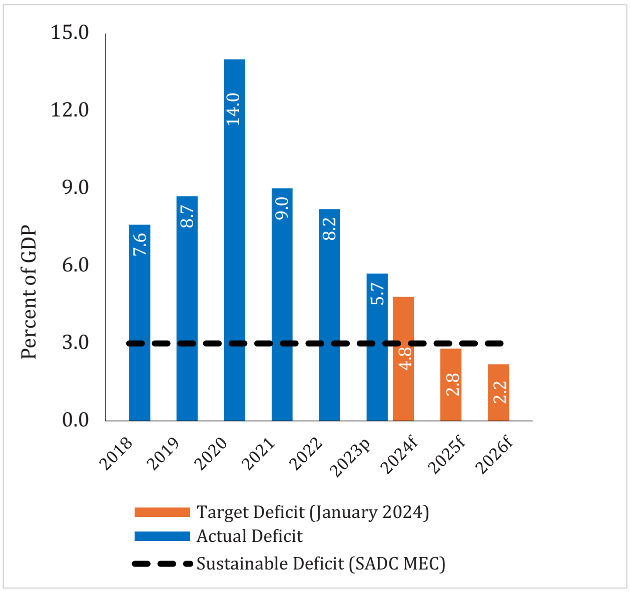
The primary balance[9], which anchors the current fiscal adjustment programme, including placing public debt on a sustainable path, is expected to continue improving as subsidies are better targeted and domestic revenue mobilisation is strengthened (Figure 13).

Table 3: Cash Fiscal Deficit Projection (Percent of GDP)

	2023p	2024f	2025f	2026f
MoFNP MTBP January 2024	5.7	4.8	2.8	2.2
IMF December 2023	6.8	6.1	5.4	6.6

Source: Ministry of Finance and National Planning (Medium-Term Budget Plan - MTBP), IMF Country Report No. 23/439 and Bank of Zambia Compilations
Note: p=preliminary, f=forecast.

Figure 11: Fiscal Deficit – Cash Basis (percent of GDP)

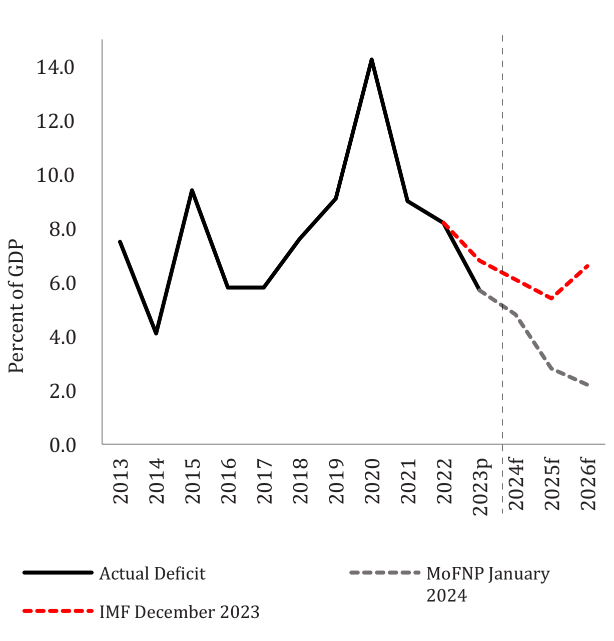


Source: Ministry of Finance and National Planning and Bank of Zambia Compilations

[8]Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than the historical average (2003-23) and a value outside the black line signifies an improvement over the historical average.

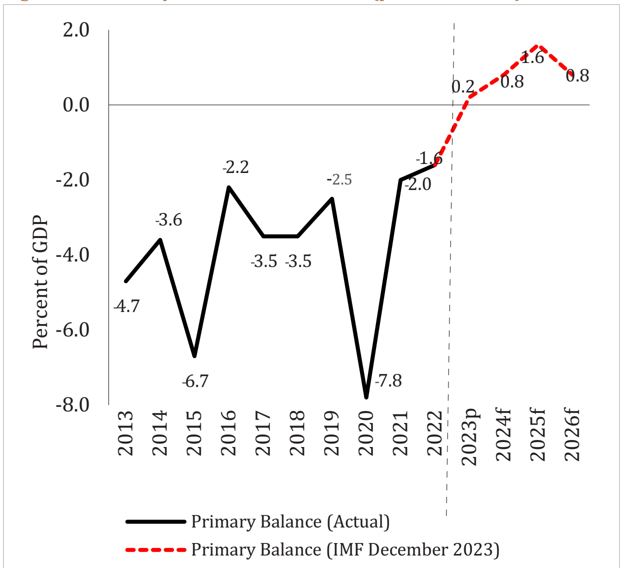
[9]Primary balance is defined as the overall balance excluding net interest payments (interest payments minus interest receipts)

Figure 12: Fiscal Deficit – Cash Basis (percent of GDP)



Source: Ministry of Finance and National Planning, IMF and Bank of Zambia Compilations

Figure 13: Primary Balance – Cash Basis (percent of GDP)



Source: IMF Staff Estimates and Projections and Bank of Zambia Compilations

Revenue, as a percent of GDP, is projected at 22.5 percent, 22.6 percent and 22.7 percent for 2024, 2025 and 2026, respectively (Table 4). The expected recovery in copper production, improvements in tax administration[10] and efficiency gains from increased use of the Government Service Bus[11] underpin the revenue projection.

Table 4: Revenue Projection 2024 – 2026 (K' billion)

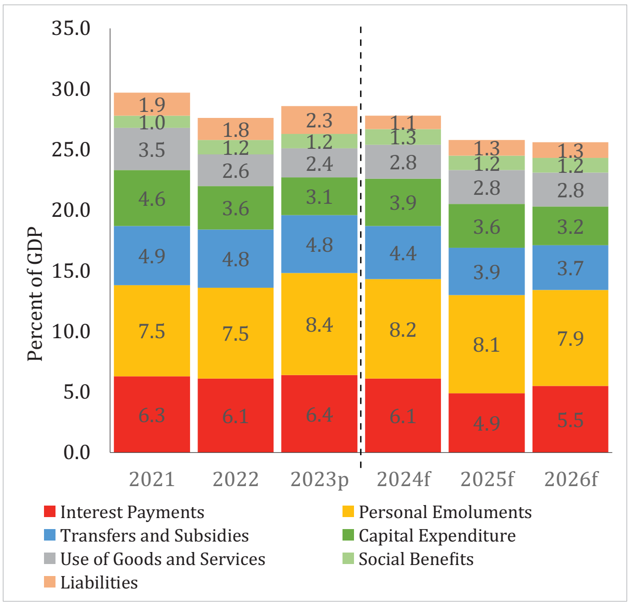
	2024f	2025f	2026f
Income Tax	61.3 (59.5)	68.6 (63.4)	79.0
o/w Mining company	13.8 (12.5)	16.6 (17.3)	20.4
VAT	36.4 (36.8)	41.1 (38.9)	46.7
Customs & Excise Duty	16.8 (16.6)	18.6 (18.3)	20.6
Non-Tax Revenue	26.5 (21.7)	23.7 (21.7)	26.2
o/w MRT	10.0 (9.7)	10.2 (11.1)	11.2
Total Revenue & Grants	144.5 (136.8)	154.7 (145.7)	175.3
Percent of GDP	22.6 (21.3)	21.8 (22.0)	22.2

Source: Ministry of Finance and National Planning and Bank of Zambia Compilation

Note: Numbers in parentheses reflect previous forecast, f = forecast

As a percent of GDP, expenditure is projected to reduce to 25.7 percent in 2026 from 27.8 percent in 2024 (Figure 14). Underpinning the reduction is lower spending on interest payments after external debt is restructured and better targeted subsidies.

Figure 14: Expenditure 2021 – 2026 (percent of GDP)



Source: Ministry of Finance and National Planning and Bank of Zambia Compilations

Net domestic financing is projected to reduce to 2.5 percent of GDP in 2024 and further to 1.7 percent in 2025 and 2026 in line with the fiscal adjustment programme. This is likely to make available more resources to the private sector for investment. In addition, multilateral partners are expected to provide budget support through grants and concessional loans.

The key upside risks to the fiscal outlook that could lead to higher fiscal deficits than projected include:

a)Lower-than-anticipated copper prices leading to revenue falling below the projection resulting in higher fiscal deficits absent corresponding expenditure cuts;

[10] These include developing real time interface of the online tax system with other Government institutions, implementing the Electronic Invoicing System, appointing more tax agents and enhanced taxpayer segmentation.

[11] The Government Service Bus is an integrated electronic system for Government services that allows users to access services and make payments online.

b) Elevated risk of adverse weather-related shocks, such as, floods and drought in the 2023/2024 season. Rainfall amounts are forecast to be normal to below normal with periods of prolonged dry spells and episodes of flash floods. Such shocks could lead to higher expenditure through expanded social assistance, as well as rebuilding damaged public infrastructure, such as, bridges and roads; and

c) The conflict in Gaza and Israel and rising attacks on the Red Sea commercial shipping route by Houthi rebels coupled with the ongoing Russia-Ukraine war. These geopolitical tensions are disrupting supply-chains in the energy and agriculture sectors and could lead to volatile commodities prices, such as, crude oil, fertilisers and grain. Higher commodity prices could induce more spending on fertilisers under the Farmer Input Support Programme (FISP) and lead to expanded fiscal expenditures.

1.4 Inflation Outlook: First Quarter 2024 – Fourth Quarter 2025

... inflation to move further away from the target band

Initial domestic and foreign conditions have important implications for the future path of inflation. Their assessment is conducted using the Quarterly Projection Model (QPM)[12] and are currently judged to be unfavourable to the inflation projection.

The forecasts for the first two quarters are generated using the trend and autoregressive models deemed to have relatively better forecasting ability at a shorter interval. Forecasts for the remaining quarters are derived from nine models[13].

The key assumptions underpinning the current inflation projection over the forecast horizon (2024 Q1–2025 Q4) and how they have changed since the *November 2023 Monetary Policy Committee Meeting* are provided in Table 5 and briefly discussed.

Table 5: Key Assumptions Underlying Inflation Projection

Variables	2024f	2025f
Average inflation-USA (percent)	2.4	2.1
	(2.4)	(2.2)
Fed funds rate (percent)	4.6	3.5
	(5.1)	(3.9)
Treasury bill rate-USA (percent)	5.1	3.9
	(4.8)	(3.5)
Treasury bill rate - Zambia (percent)	9.50	9.50
	(9.45)	(9.45)
Average inflation - South Africa (percent)	5.0	4.5
	(5.1)	(4.5)
Producer price index- South Africa	172.8	180.6
	(173.2)	(178.8)
Average copper price/ton (US$)	8,306.87	8,507.73
	(8,258.47)	(8,413.03)
Average crude oil Price/barrel (US$)	80.88	77.91
	(81.68)	(78.74)
Reserve money growth (percent)	6.4	9.6
	(-3.6)	(2.4)
Fiscal deficit*	1.21	1.14
	(1.21)	(1.14)
BoZ Policy Rate (percent)	11.0	11.0
	(10.0)	(10.0)
World food price index	129.1	124.7
	(129.1)	(124.7)
Maize grain price - Zambia (K/50Kg)	365.00	365.00
	(350.00)	(350.00)
Diesel price - Zambia (K/litre)	32.15	32.15
	(29.96)	(29.96)

Source: IMF, World Bank, Bloomberg, FocusEconomic Consensus, Refinitiv, US Federal Reserve, SARB, Bank of Zambia

Note: the numbers in parentheses () represent projections in the previous period.
*Computed as a ratio of expenditure over revenue. A value in excess of 1 implies a deficit.
Note: f=forecast.

External Conditions

World demand, currently proxied by the US output gap, remained resilient in the fourth quarter of 2023 despite reducing relative to the previous quarter (Figure 15). Tight global financial conditions in view of the lagged impact of the contractionary monetary policy stance mainly accounted for the moderation in demand.

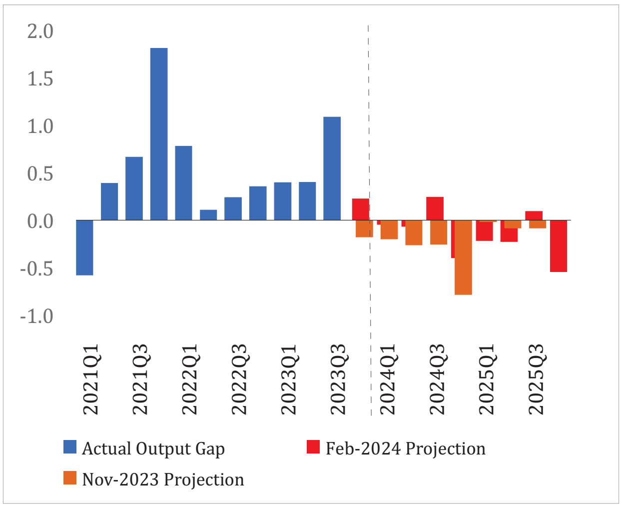
For the period 2024-25, global demand is projected to remain broadly unchanged from the November 2023 MPC Meeting as US real GDP growth remains below its potential. This is primarily due to the impact of prolonged restrictive monetary conditions and slower increase in government and private spending as well as exports[14]. Thus, the anticipated slack in global demand in the November 2023 forecasting round still holds.

[12] The QPM is structured around four behavioral equations: aggregate demand function for output, expectations-augmented Phillips curve for inflation, uncovered interest rate parity for the exchange rate, and a monetary policy reaction function for the interest rate (Vlcek et al., 2020; Laxton et al., 2009; Adrain, Laxton and Obstfeld (eds), 2018). The model is built in gaps—deviations of variables from long-run equilibrium values—and is also referred to as a *gap model*.

[13] The models include the Quarterly Projections Model (QPM), Zambian Quarterly Models (fiscal and non-fiscal), three variants of macroeconomic quarterly models (MQM, *MQM+1, MQM+2*), a combination of the Zambia Quarterly Model and Macroeconomic Quarterly Model (ZQM-MQM), the autoregressive model (AR+) and a trend model.

[14] https://info.focus-economics.com/l/871881/2023-12-21/ncjprt/871881/1703173540zEkiOSM9/FocusEconomics_Consensus_Forecast_Major_Economies__January_2024.pdf.

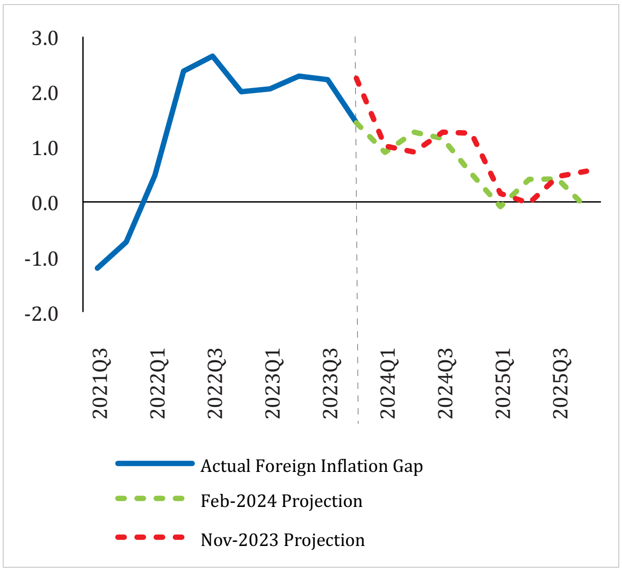
Figure 15: Foreign Output Gap[15]



Source: Bank of Zambia Staff Computations

Foreign inflation eased further in the last quarter of 2023, but remained above the 2.0 percent Federal Reserve target (Figure 16). US inflation marginally slowed down to an average of 3.2 percent compared to 3.5 percent in the previous quarter. The moderation in inflationary pressures was supported by lower energy prices and the impact of the restrictive monetary policy stance, which softened growth in demand for goods and services as well as inflation expectations.

Figure 16: Foreign Inflation Gap[16]



Source: Bank of Zambia Staff computations

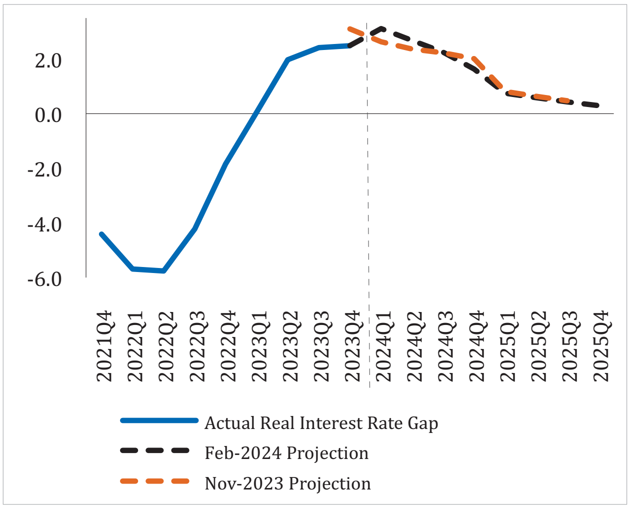
Over the forecast horizon, foreign inflation is projected to decline at a relatively faster pace than the November 2023 forecast, but still remain above the Federal Reserve target. This is on the back of relatively constrained economic activity owing to the impact of past policy rate increases.

In 2024, inflation in South Africa is projected to be 5.0 percent, slightly lower than the 5.1 percent forecast in November (Table 5). This is due to the expected reduction in fuel prices and food inflation as well as slower growth in wages. The 2025 assumption remains broadly unchanged from the November 2023 forecast. Tight monetary conditions are expected to influence inflation towards the mid-point of the 3-6 percent target band.

Broadly, central banks in major economies left interest rates unchanged in the fourth quarter of 2023, reflecting a likely peak in the monetary policy tightening cycle. However, they offered different policy guidance on the future path of interest rates. For instance, the Federal Reserve revealed a possibility of at least three interest rate cuts in 2024 and four additional cuts in 2025 while the Bank of England (BoE) pointed to the likely need for monetary policy to be restrictive for an extended period.

A gradual downward path of foreign interest rates towards the long-term trend is expected to be sustained over the forecast horizon as inflation continues to decline (Figure 17).

Figure 17: Foreign Real Interest Rate Gap[17]



Source: Bank of Zambia Staff Computations

Crude oil and copper prices declined in the fourth quarter of 2023 mainly on the back of softer global demand (refer to section 2.1). Crude oil prices are projected to marginally moderate over the forecast period (Table 5 and Figure 18)[18].

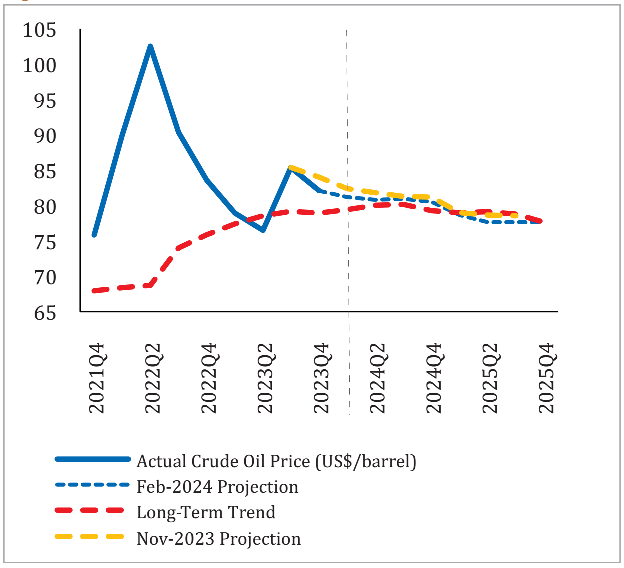
[15] The foreign output gap is the difference between the observed US GDP and potential output. A negative foreign output gap implies slack in demand while a positive gap reflects excess demand.

[16] Foreign inflation gap is the difference between observed US inflation and the inflation target. A negative foreign inflation gap implies inflation below the target. The opposite is true for a positive gap.

[17] This is the difference between the prevailing foreign interest rate and the long-run equilibrium real interest rate. In the QPM, foreign real interest rates are important for determining the risk premium. A rising foreign real interest rate gap signifies increases in the risk premium, which implies a depreciation of the nominal exchange rate.

[18] Refer to section 1.1.

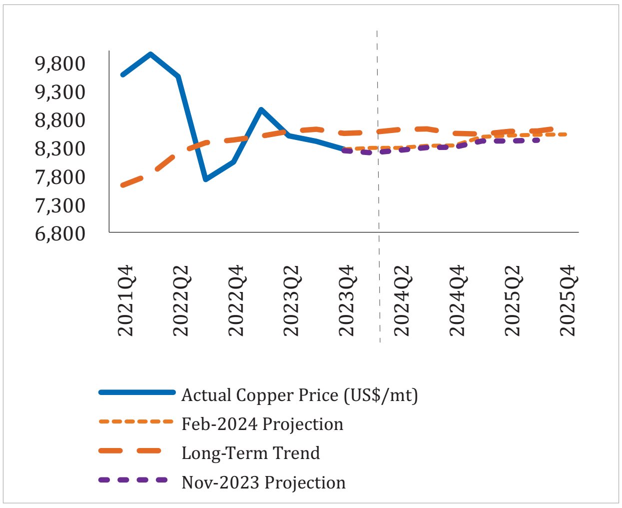
Figure 18: Crude Oil Prices



Source: Bank of Zambia Staff Computations

Copper prices are projected to be slightly higher than the November 2023 forecast (Table 5 and Figure 19)[19].

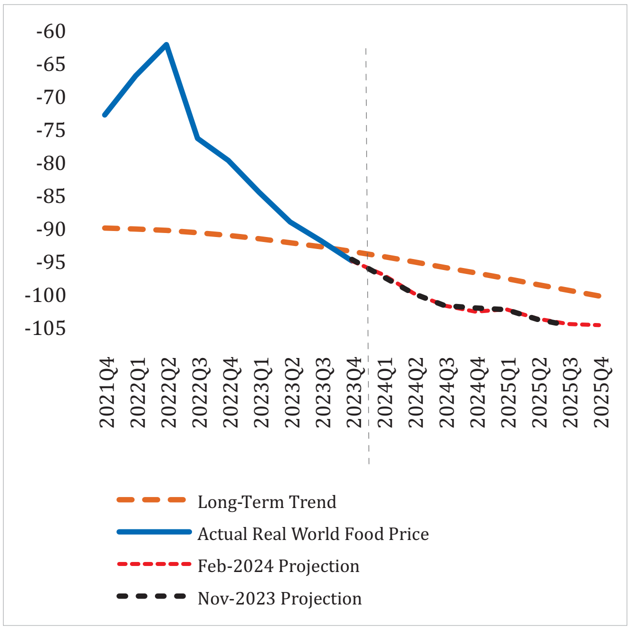
Figure 19: Copper Prices



Source: Bank of Zambia Staff Computations

World food prices eased further in the fourth quarter owing to excess grain supply by major exporting countries. Over the forecast horizon, the are projected to continue on a downward path (Figure 20). The FAO Food Price Index is expected to remain below the long-term trend. This is likely to have a dampening effect on domestic inflation.

Figure 20: Real World Food Prices[20]

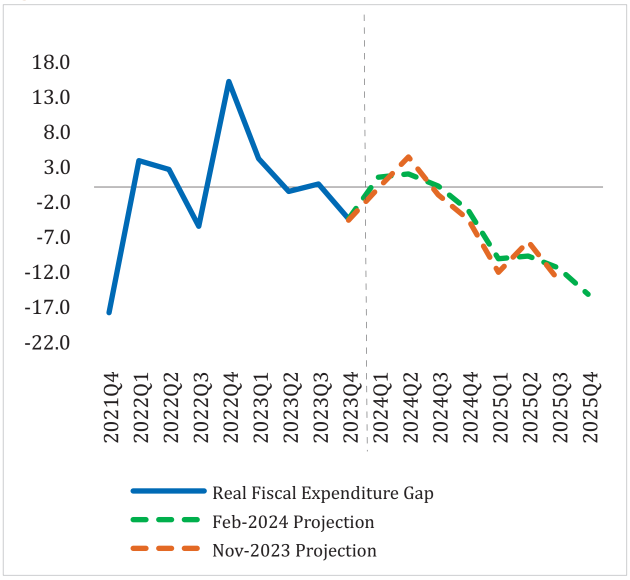


Source: Bank of Zambia Staff Computations

Domestic Conditions

The projection of a slightly narrower fiscal deficit path remains unchanged from the previous forecast (Table 5). The real fiscal expenditure gap is projected to be negative for most part of the forecast horizon, a reflection of continued fiscal consolidation (Figure 21). This is consistent with the objectives of the 2024 National Budget and the 2024-2026 Medium-Term Budget Plan. Thus, fiscal impulses are expected to have a moderating effect on inflation, particularly in 2025.

Figure 21: Real Fiscal Expenditure Gap



Source: Bank of Zambia Staff Computations

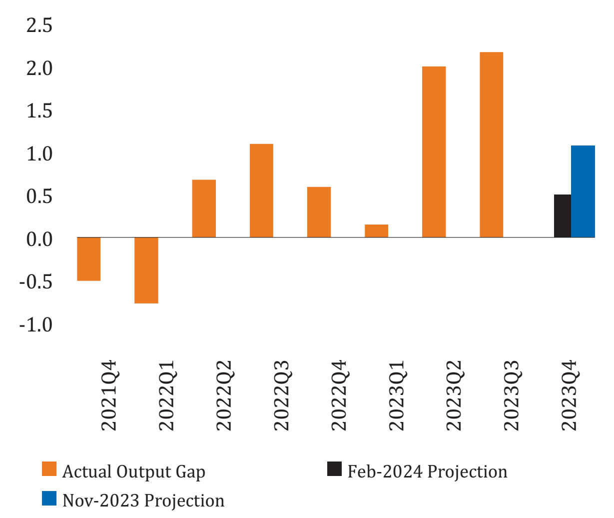
[19] Refer to section 1.1.

[20] World food prices are measured by the FAO Food Price Index, a weighted average of five commodity sub-indices, with the weight of the cereals sub-index being the second largest (https://www.fao.org/fileadmin/templates/worldfood/Reports_and_docs/FO-Expanded-SF.pdf). This is relevant to our inflation forecast as the CPI basket is dominated by cereals (mostly maize) as a single product.

*Consistent with the November 2023 projection, the positive domestic output gap narrowed further in the fourth quarter of 2023 (*Figure 22*).* Preliminary estimates from the near-term forecasting models indicate a moderation in GDP growth in the fourth quarter at a slightly faster pace than earlier projected[21].

As reported in section 1.2, a higher positive output gap is projected for the first quarter of 2024, but turns negative in the second quarter.

Figure 22: Domestic Output Gap[22]



Source: Bank of Zambia Staff Computations

Monetary conditions remained loose in the fourth quarter of 2023 as the depreciation of the real exchange rate persisted. In addition, persistent negative real Policy Rate, as inflation remained above the nominal policy rate, contributed to loose monetary conditions. This is despite a cumulative 200-basis point Policy Rate hike in 2023.

Consistent with the nominal exchange rate depreciation in the last quarter of 2023[23], the marginal cost of production for importing firms rose and contributed to the build-up in inflationary pressures.

Unlike a contraction that was projected in November 2023, reserve money is now expected to grow by 6.4 percent in 2024 and further by 9.6 percent in 2025 (Table 5). The increase is primarily on account of net Government spending.

The maize grain price profile is slightly elevated compared to November 2023 (Table 5). The current maize price of K365/50kg bag is assumed for each quarter throughout the forecast horizon. Similarly, *the current price of diesel is higher than assumed in November 2023* (Table 5). The K32.15 per litre is assumed for each quarter throughout the forecast horizon.

Broadly, external and domestic initial conditions are unfavourable. Consequently, inflation is projected to drift further away from the 6-8 percent target band over the next eight quarters (2024 Q1–2025 Q4) under a **no policy change scenario**.

The inflation forecast takes into account the 9.0 percent and 15.0 percent increase in electricity tariffs[24] expected in the second quarter of 2024 and 2025, respectively. In addition, the forecast incorporates the impact of the 900-basis point increase in the statutory reserve ratio[25] on both local and foreign currency deposits to 26.0 percent that took effect on February 5, 2024.

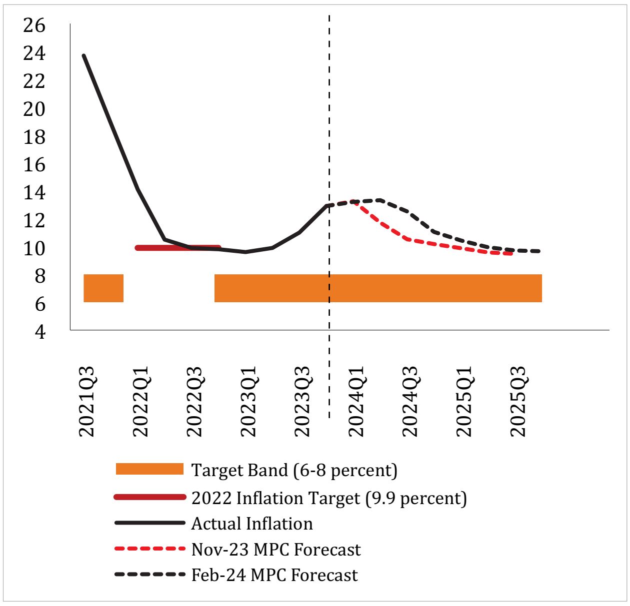
The current inflation projection is higher than the November outlook (Table 6 and Figure 23). It is projected to average 12.5 percent in 2024 and then slowdown to 9.9 percent in 2025. The persistent depreciation of the exchange rate as well as prevailing high maize grain and fuel prices are the key drivers of the projected inflation. The slowdown in inflation in 2025 is attributed to the expected decline in world food prices, moderation in loose monetary conditions and easing domestic demand.

Table 6: Projected Average Inflation (percent)

	2024	2025
Feb 2024 MPC Forecast	12.5	9.9
Nov 2023 MPC Forecast	11.4	9.6

Bank of Zambia Compilations

Figure 23: Inflation Profiles (Percent)



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

[21]The 2023 Q4 growth rate in November 2023 was estimated at 4.1 percent compared to the current 4.0 percent forecast.

[22]The domestic output gap estimates the deviation of aggregate demand from its potential. Negative output gap implies slack in demand while a positive output gap implies excess demand. The output gap is endogenously determined by expectations, monetary conditions, foreign demand, terms of trade and fiscal policy.

[23]Quarter-on-quarter, the Kwacha depreciated by 17.5 percent against the US dollar in 2023 Q4 to an average of K24.75 relative to a 5.5 8 percent depreciation in 2023 Q3.

[24]This is part of the multi-year tariff plan approved by the Energy Regulation Board as part of energy reforms to achieve cost reflective pricing in the sector

[25]CB Circular No. 2/2024

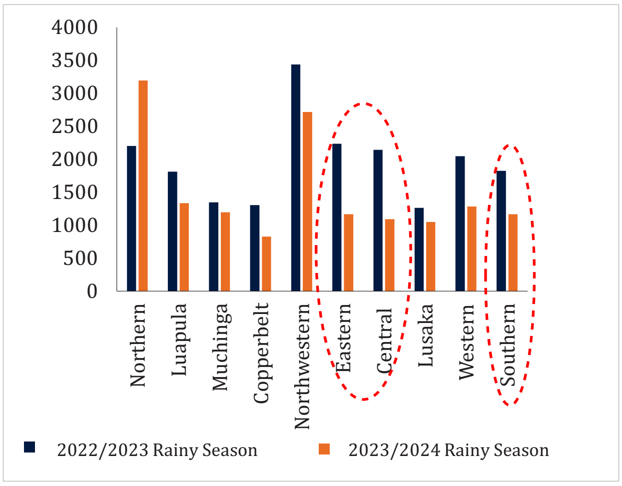
Assessment of Risks to the Inflation Outlook

The main risks associated with the current inflation outlook include the following:

a) **Tighter global financial conditions.** Although there are indications of some central banks in advanced economies reducing interest rates in 2024 in view of falling inflation, tighter global financial conditions remain a key risk to the inflation outlook as core inflation still exceeds long-term targets. Price pressures are still high in many countries and further escalation of geopolitical conflicts could result in renewed increase in inflation, especially from energy prices. Thus, should inflation remain sticky or reverse, tight global financial conditions could persist or intensify and central banks in advanced economies may further tighten monetary policy. This may trigger increased capital outflow from frontier and emerging markets and weaken currencies for a longer period.

b) **Higher maize grain prices due to lower-than-anticipated supply amidst prevailing regional demand.** The El Niño, currently experienced in Southern Africa, could result in below-average rainfall in much of the Region. For instance, in Zambia, key agricultural production areas —Eastern, Central and Southern Provinces—have received lower rainfall so far this season than in the same period last year (Figure 24). This may lead to lower maize production and put pressure on domestic maize prices.

Figure 24: Average Rainfall Distribution (millimeters)



Source: Zambia Meteorology Department and Bank of Zambia Compilation

c) **Further delays in concluding external debt restructuring.** Prolonged delays in concluding negotiations with private creditors may worsen sentiments in the foreign exchange market. This could limit capital in flows and generate more pressure in the foreign exchange market.

d) **Higher energy prices due to protracted conflict in the Middle East.** The Israeli-Hamas conflict in Gaza has the potential to escalate into a wider confrontation that might trigger another round of price increases, especially for energy products. For instance, fears of supply disruptions amid tensions in the Red Sea, which leads to the Suez Canal, could delay the delivery of crude oil and escalate shipping costs and subsequently exert upward pressure on prices, especially in the near-term. In addition, geopolitical risks related to food and energy costs due to the ongoing Russia-Ukraine war remain elevated. Energy prices may soar if these challenges escalate.

e) **Lower-than-projected commodity prices due to weak global demand.** Given the projected sluggish global growth, there is a possibility that demand for commodities, such as, copper could soften and result in lower prices than assumed. Lower copper prices could lead to reduced foreign exchange earnings and revenue for Government. These factors may affect the fiscal position and supply of foreign exchange in the domestic market.

g) **Resolution of challenges at MCM and KCM as well as possible upgrade of Zambia's long-term credit rating after the conclusion of external debt restructuring.** These events are assessed to be a downside risk to the inflation outlook. With the resolution of challenges, the two mines are expected to augment the supply of foreign exchange on the market through increased production and sales of copper. The foreign currency rating may be upgraded once negotiations with creditors are concluded. This is expected to generate sentiments favourable for the foreign exchange market.

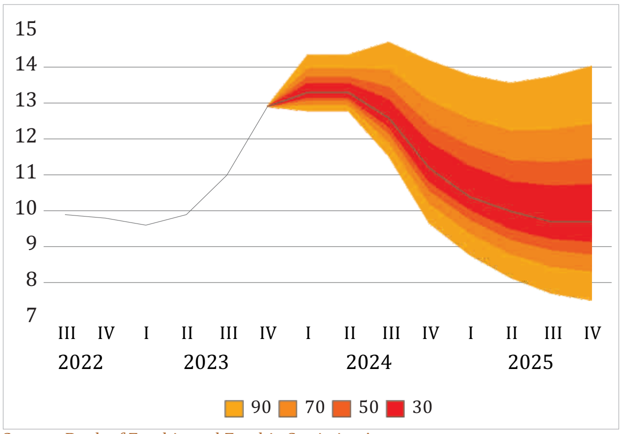
Overall, the risks to the inflation outlook are tilted to the upside. This is reflected in the projected upward skewness of the inflation fan chart (Table 7 and Figure 25). Thus, there is a higher chance of inflation outcomes exceeding the projection.

Table 12: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
9.2– 13.6	30
8.9 – 13.7	50
8.5 – 14.0	70
7.7 – 14.7	90

Source: Bank of Zambia

Figure 25: Inflation – Actual and Projection



Source: Bank of Zambia and Zambia Statistics Agency

1.5 Monetary Policy Decision

... Policy Rate raised

The Monetary Policy Committee **raised the Policy Rate by 150 basis points to 12.5 percent** to steer inflation towards the 6-8 percent target band and help anchor inflation expectations.

In arriving at this decision, the Committee judged that inflationary pressures had persisted and inflation was projected to remain above the target band over the forecast horizon. If unchecked, inflation could become anchored above the target band making it harder to achieve macroeconomic stability. The Committee, therefore, resolved that a stronger policy response was warranted. The Committee also took into account the stability of the financial sector and the importance of robust growth over the medium- to long-term.

The Committee was encouraged by the continued fiscal consolidation efforts, progress on external debt restructuring and improved prospects of increased investments in key sectors of the economy as these are critical to the attainment and maintenance of sustainable macroeconomic stability.

2. Current Economic Developments

- *Growth slows down in the US, but picks up in China and the euro area.*
- *Global financial conditions remain broadly tight.*
- *Current account deteriorates on significant widening of deficits on both primary income and services accounts while balance on goods surplus narrows.*
- *Kwacha depreciates on sustained demand amid low foreign exchange supply.*
- *Interest rate movement mixed: interbank and lending rates rise, yield rates on Government securities decline while 6-month deposit rate remains unchanged.*
- *Domestic credit rises on increased lending to the private sector; money supply growth sustained by private sector lending.*
- *Domestic economic growth estimated to have slowed down mostly on declining copper production.*
- *Budget performance broadly on track with annual target.*
- *Inflation rises further on persistent exchange rate depreciation and increase in maize grain and fuel prices.*

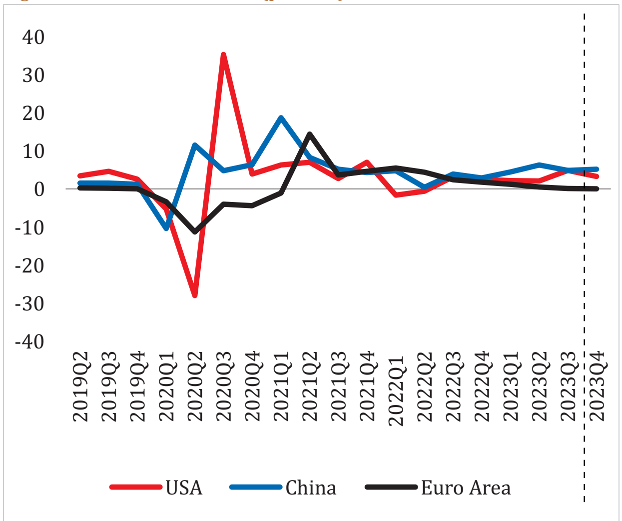
2.1 External Sector

... growth in major economies positive

Global economic activity, proxied by real GDP growth in the US, China and the euro area, was positive in the fourth quarter. Nonetheless, economic activity slowed down in the US.

In the US, real GDP growth eased to 3.3 percent from 4.9 percent in the preceding quarter (Figure 26). This was largely attributed to slowing growth in consumer[26] and government spending.

Figure 26: Real GDP Growth (percent)



Source: Federal Reserve Bank of St. Louis, National Bureau of Statistics & Eurostat and Bank of Zambia Compilations

The euro area expanded by 0.1 percent from a 0.1 percent contraction in the previous quarter, narrowly avoiding a technical recession. Growth was largely supported by falling inflation and the pick-up in consumer spending.

The Chinese economy grew faster at 5.2 percent compared to 4.9 percent in the third quarter. This was underpinned by stimulus measures, rebound in the services sector and growth in industrial output. Growth was also boosted by a surge in investment in clean energy, particularly solar power, electric vehicles, and batteries.

... economic activity in major trading partner countries expands

Economic activity in the major trading partner countries of Zambia expanded for the first time since the fourth quarter of 2022. This is reflected in the 1.2 percent increase in the GDP-9 Index (Table 8 and Figure 27).

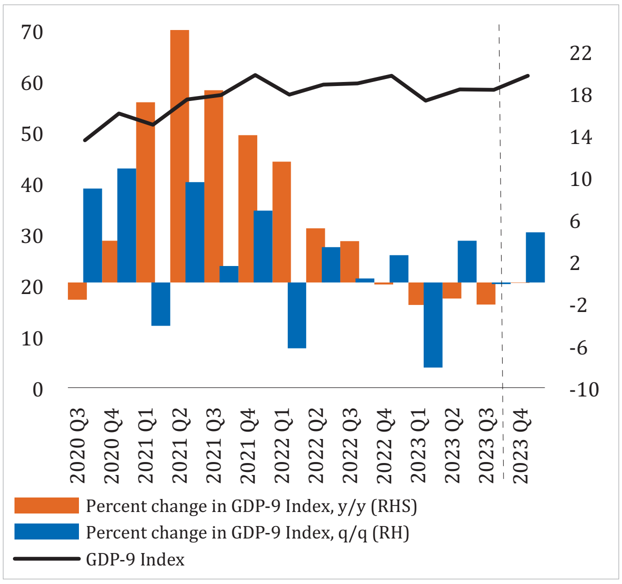
Table 8: Quarterly Changes in GDP-9 Index and Country Contributions

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
GDP-9 Index (percent Change)	-0.17	-2.12	-1.54	-2.09	-0.02
Contribution to the GDP-9 Index Change					
China	-0.09	-0.93	-0.66	-0.92	-0.005
DRC	-0.05	-0.52	-0.36	-0.51	-0.001
S/Africa	-0.02	-0.31	-0.23	-0.30	-0.005
Singapore	0.00	-0.13	-0.11	-0.12	-0.006
UK	-0.01	-0.09	-0.06	-0.09	0.001
UAE	0.00	-0.04	-0.04	-0.04	-0.002
Tanzania	0.00	-0.03	-0.02	-0.03	0.000
Malawi	0.00	-0.04	-0.03	-0.04	-0.002
H/Kong	0.00	-0.02	-0.02	-0.02	-0.001

Source: Bank of Zambia Staff Calculations
DRC=The Democratic Republic of the Congo, S/Africa=Republic of South Africa, H/Kong = Hong Kong

[26]Consumer spending reduced due to a significant decline in excess savings accumulated during the COVID-19 pandemic, credit card use nearing limits and higher borrowing costs.

Figure 27: GDP-9 Index (2020=100)



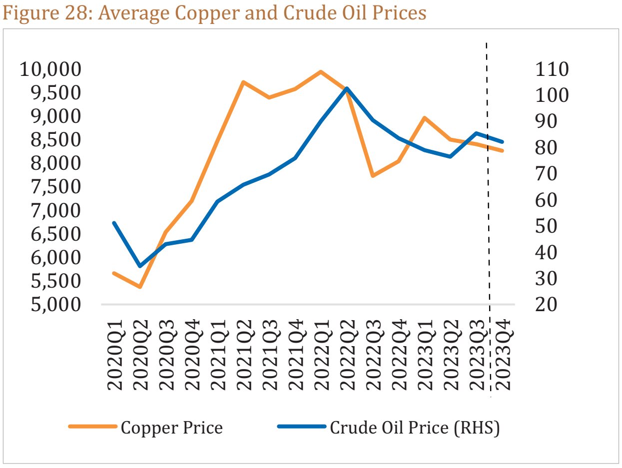
Source: Bank of Zambia Compilation

In addition to the growth observed in China, the increase in the GDP-9 Index reflects expansion in economic activity in DRC and South Africa. In DRC, growth was underpinned by increased mining production, mostly copper, whereas easing inflation and loadshedding supported economic activity in South Africa.

... copper and crude oil prices decline further

Copper prices declined for the fourth consecutive quarter to US$8,175.57 per metric tonne from US$8,367.51 per metric tonne in the third quarter (Figure 28). This was largely attributed to weak global demand. Crude oil prices also eased to US$84.03 per barrel from US$86.75 per barrel. The larger-than-anticipated output by non-OPEC countries, mainly the US[27] and Iran, weighed on prices.

Figure 28: Average Copper and Crude Oil Prices

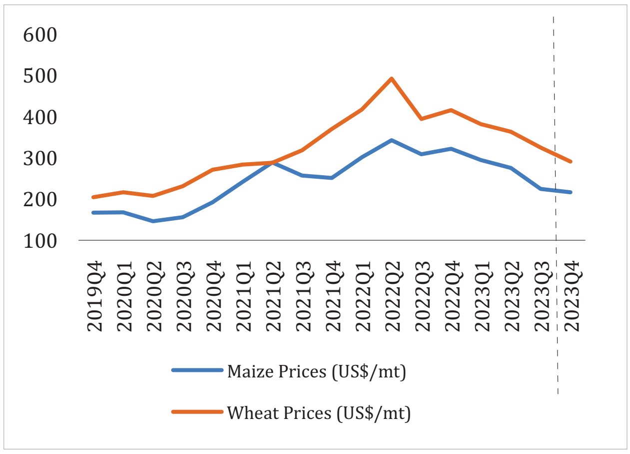


Source: World Bank Pink Sheet and Bank of Zambia Staff Compilations

... maize and wheat prices also decline further

Maize and wheat prices fell by 3.8 percent and 10.6 percent to US$216.17 per metric tonne and US$290.92 per metric tonne, respectively in the fourth quarter (Figure 29).

Figure 29: Average Maize and Wheat Prices



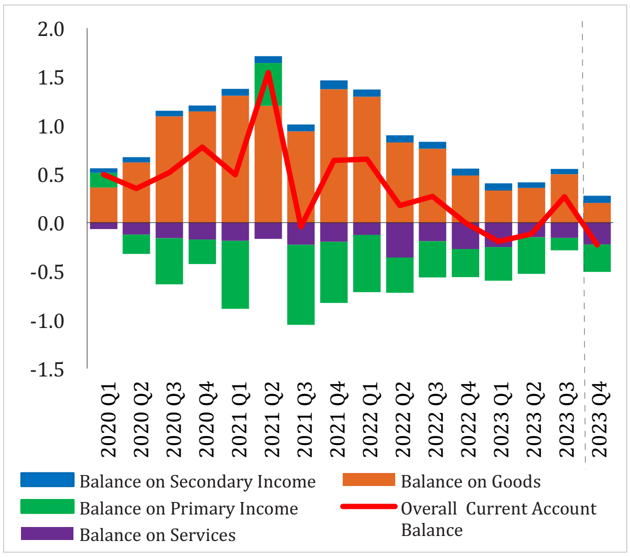
Source: World Bank Pink Sheet Data and Bank of Zambia Compilations

Excess supply by major producers mostly weighed on maize prices. In the case of wheat, prices declined on the back of increased supply by Russia and Ukraine.

... current account balance deteriorates

The *current account* balance recorded a deficit of US$0.2 billion (3.0 percent of GDP) in the fourth quarter from a surplus of US$0.3 billion[28] (3.6 percent of GDP) in the third quarter (Figure 30). Significant widening of deficits on both *primary income* and *services accounts* as well as the narrowing of the surplus on the *balance on goods* led to the turnaround in the *current account* balance (Figure 30).

Figure 30: Current Account (US$ billion)



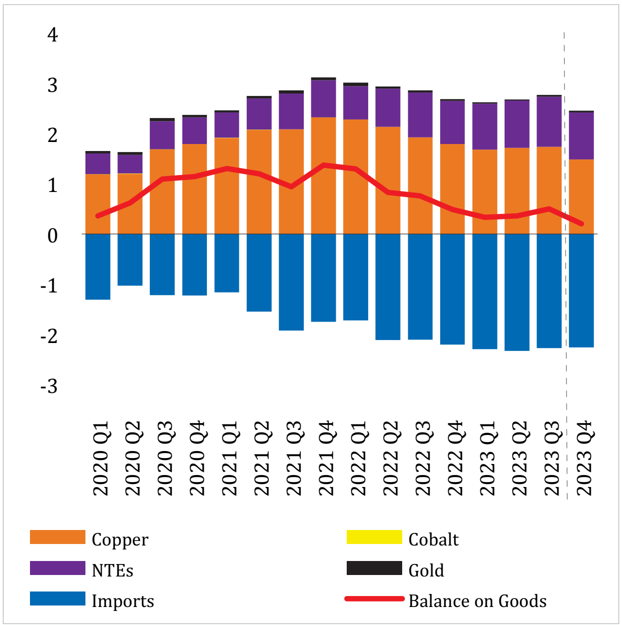
Source: Bank of Zambia

[27] https://markets.businessinsider.com/news/commodities/us-crude-oil-production-hits-record-high-13-million-barrels-2023-12

[28] This is a revision from a preliminary deficit of US$61.9 million reported in November 2023 on account of a change in reinvested earnings initially at US$113.8 million and later revised to negative US$131.5 million.

The *primary income account* deficit widened to US$0.3 billion from US$0.1 billion, largely attributed to increased reinvested earnings as profits recovered. The *services account* deficit expanded by 42.6 percent to US$0.2 billion due to higher expenditure on maintenance and repair services as well as professional and management consulting. The surplus on *balance on goods* reduced by 59.2 percent to US$0.2 billion as exports declined more than imports (Figure 31).

Figure 31: Composition of Trade Balance (US$ billion)

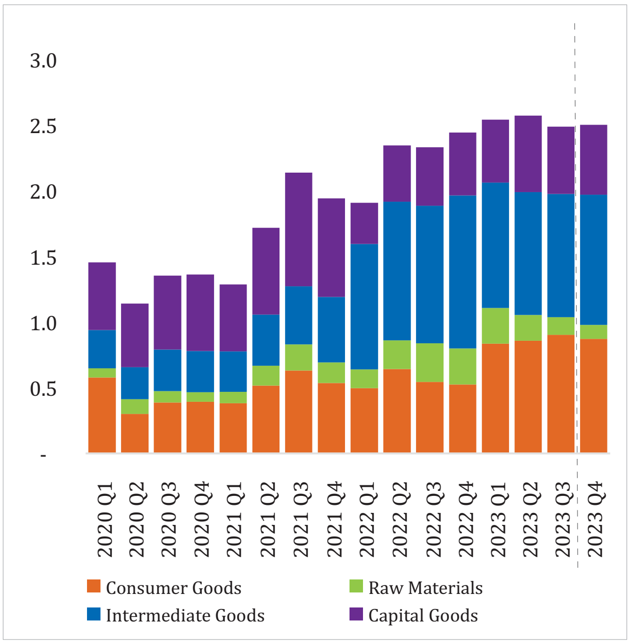


Source: Bank of Zambia

Exports decreased by 11.3 percent to US$2.5 billion largely on account of lower earnings from both copper and non-traditional exports (NTEs). Copper export receipts fell by 14.7 percent to US$1.5 billion due to lower volumes and prices[29]. NTEs decreased by 5.7 percent to US$0.9 billion mainly driven by reduced earnings from gemstones, cane sugar, electrical cables, chemical products and burley tobacco.

Imports declined by 0.8 percent to US$2.3 billion mostly attributed to the sharp depreciation of the exchange rate (Figure 32). The most affected were motor vehicles, food items, as well as industrial boilers and equipment.

Figure 32: Components of Imports (US$ billion)



Source: Bank of Zambia

2.2 Global Financial Conditions

… remain broadly tight

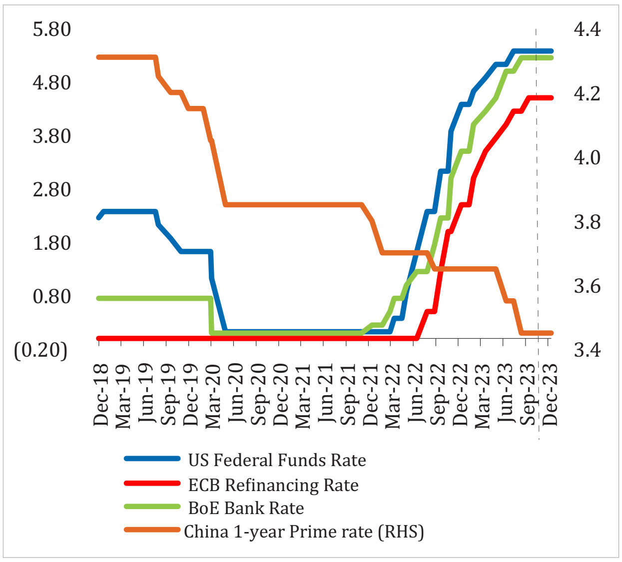
Headline inflation in advanced economies continued to trend downwards in the fourth quarter. Lower energy prices, easing supply-chain constraints and moderation in consumer demand accounted for the slowdown in inflation.

In the US, inflation declined to 3.4 percent in December from 3.7 percent in September. Over the same period, inflation in the UK and euro area fell to 4.0 percent and 2.9 percent from 6.7 percent and 4.3 percent, respectively.

As a result of the decline in inflation, the Federal Reserve, Bank of England and the European Central Bank kept policy rates unchanged (Figure 33). Some central banks in advanced economies appeared amenable to unwind the tight monetary policy stance in 2024 (Refer to section 1.4).

[29]Copper export volumes declined to 184,708.47 metric tonnes from 210,444.74 metric tonnes in the third quarter. Similarly, realised copper prices fell to US$8,260.24 per metric tonne from US$8,400.97 per metric tonne in the preceding quarter.

Figure 33: Central Bank Policy Rates in Selected Economies (percent)



Source: Reuters and Bank of Zambia Compilations

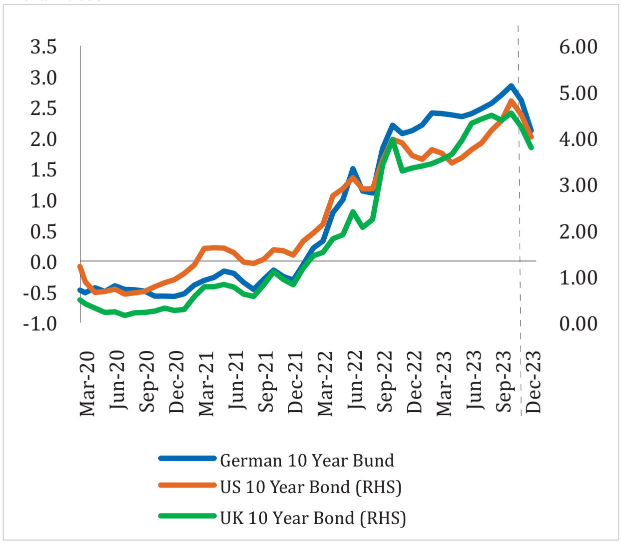
In emerging market and developing economies, central banks, particularly the People's Bank of China (Figure 33), also maintained policy interest rates in the fourth quarter. However, monetary authorities in Indonesia, Argentina and Russia raised interest rates as inflationary pressures intensified. In contrast, the Central Bank of Brazil cut interest rates in response to falling inflation.

… global financial assets broadly gain on prospects of lower interest rates

Benchmark Government bonds gained as yield rates fell on expectations that central banks would unwind the tight monetary policy stance amid declining inflation.

In the US, UK and Germany, 10-year bond yield rates reduced by 35 basis points, 59 basis points and 58 basis points to 4.02 percent, 3.79 percent and 2.12 percent, respectively (Figure 34).

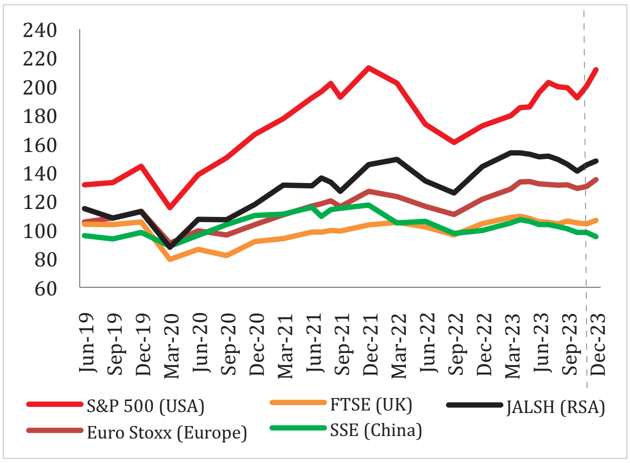
Figure 34: US, UK, and German Average 10-Year Benchmark Bond Yield Rates



Source: Reuters and Bank of Zambia Compilations

Share prices in advanced economies also gained on expectation of lower interest rates, with the S&P 500, Euro Stoxx 50 and FTSE 100 Indices rising by 6.3 percent, 2.7 percent and 0.5 percent, respectively (Figure 35). The MSCI Emerging Market Equity Index, however, declined by 3.2 percent mainly on account of the fall in Chinese equities reflected in the Shanghai Composite Index (Figure 35) as investors remained apprehensive about the performance of the economy.

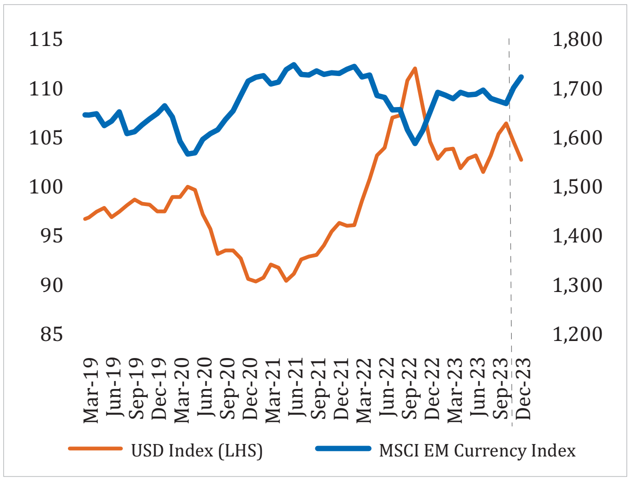
Figure 35: Selected Stock Market Indices



Source: Reuters and Bank of Zambia Compilations

Conversely, the US Dollar Index weakened by 2.5 percent on growing optimism about interest rate reduction by the Federal Reserve (Figure 36). This boosted the MSCI Emerging Market Currency Index and gained by 2.9 percent (Figure 36).

Figure 36: US Dollar and MSCI Emerging Market Currency Indices (monthly average)



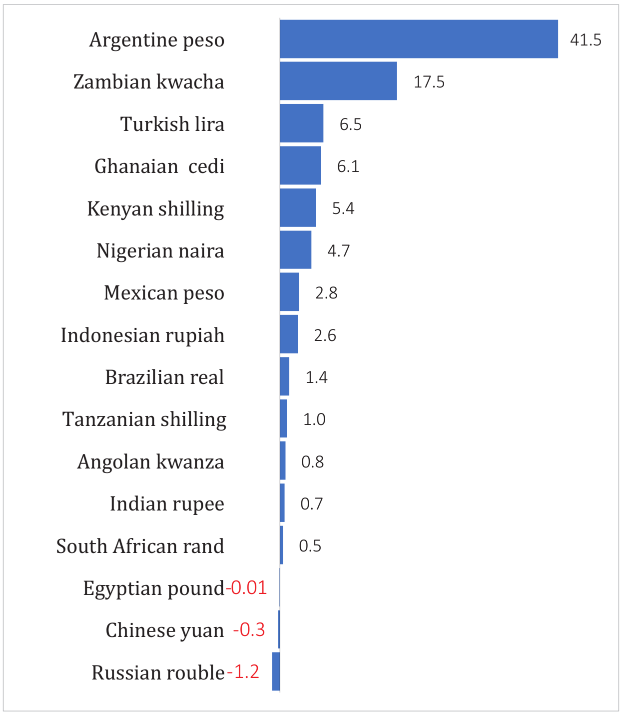
Source: Reuters and Bank of Zambia Compilations

Despite the decline in the US Dollar Index, some currencies in emerging market and developing economies weakened, with the Argentine peso[30] recording the largest depreciation (Figure 37). The exceptions were the Russian rouble, Chinese yuan and

[30]The Argentine peso depreciated significantly during the fourth quarter after the new Government initiated a devaluation of the currency as part of its broader economic reforms.

Egyptian pound due to the dominance of domestic factors.

Figure 37: Performance of Selected Emerging Market and Developing Economies Currencies versus the US Dollar*

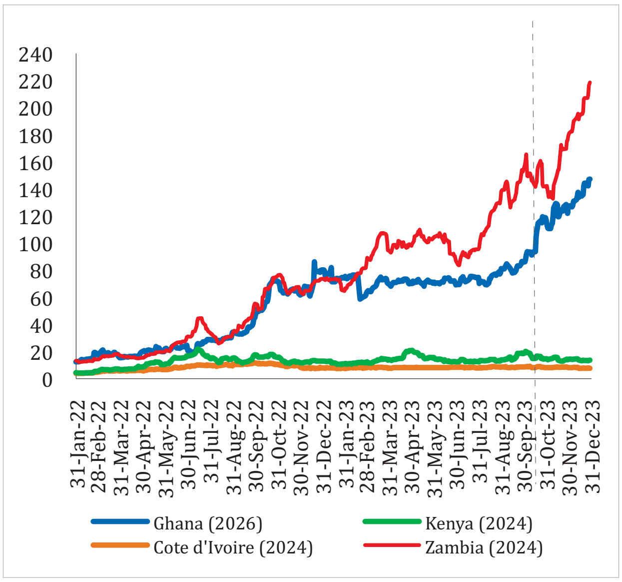


*Negative numbers imply an appreciation while positive numbers indicate a depreciation.
Source: Reuters and Bank of Zambia Computations

... selected sub-Saharan Africa Eurobond yield rates generally rise

Yield rates on bonds for Ghana, Kenya and Zambia rose by 43.6 percentage points , 0.8 percentage points and 50.3 percentage points to 120.1 percent, 14.9 percent, and 166.9 percent, respectively (Figure 38). Conversely, the yield rate on the Côte d'Ivoire bond fell by 10 basis points to 8.3 percent mainly in line with the decline in global benchmark yields.

Figure 38: Yields on Selected SSA Eurobonds (percent)

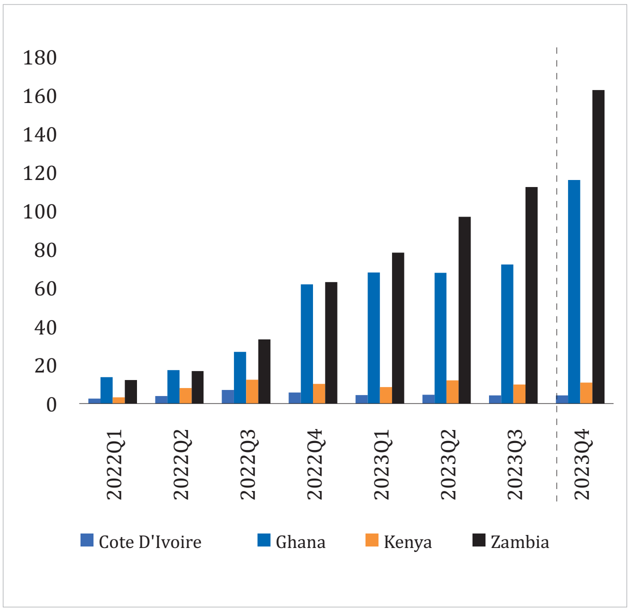


Source: Reuters and Bank of Zambia Staff Computations

The delay in concluding debt restructuring with official creditors[31] accounted for the increase in the bond yield rate for Ghana. Unlike Ghana, Zambia reached an agreement with official creditors in June 2023 and signed a Memorandum of Understanding in October 2023. However, the agreement reached in principle in October with private creditors (Eurobond holders) was not accepted by official creditors on grounds that it did not meet the comparability of treatment criteria. This heightened uncertainty about the conclusion of debt negotiations and contributed to the rise in the yield rate. For Kenya, the yield rate rose as the Government continued to indicate its intentions to buyback half of the US$2 billion bond maturing in June 2024[32].

Spreads over the US 10-year bond yield rate widened for Ghana, Kenya, Côte d'Ivoire and Zambia (Figure 39). This implies increased risk perception and tighter external financing conditions for these countries to access global financial markets.

Figure 39: Yield Spreads Over the US 10-Year Bond Yield Rate



*Spreads above 1,000 basis points put a bond into the junk bond category.
Source : Reuters and Bank of Zambia Computations

2.3 Domestic Financial Conditions

... tighten on the back of local factors

The effect of global financial conditions was muted as developments in the domestic financial markets dominated.

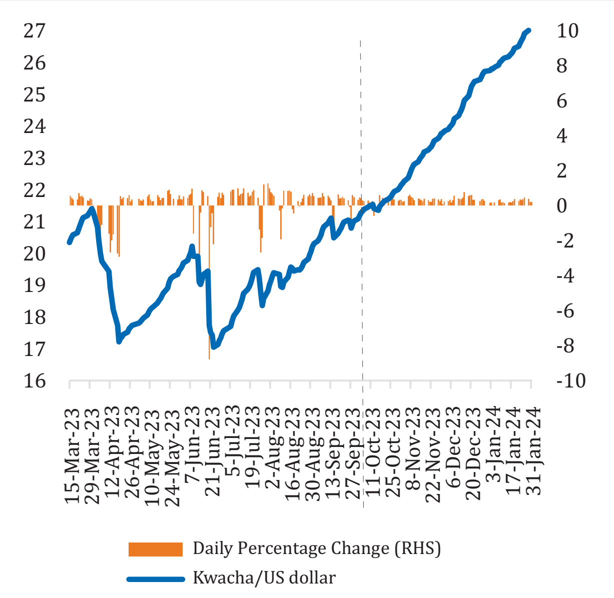
[31]Ghana had pledged to conclude debt negotiations with official creditors by November 2023. However, the debt deal with official creditors was announced on January 12, 2024.

[32]Moody's Rating Agency warned that buying back debt at below par value constitutes a default as investors incur losses. This was not the first time the Government backtracked on the proposal as it had similarly withdrawn the plan in September.

... Kwacha depreciates sharply

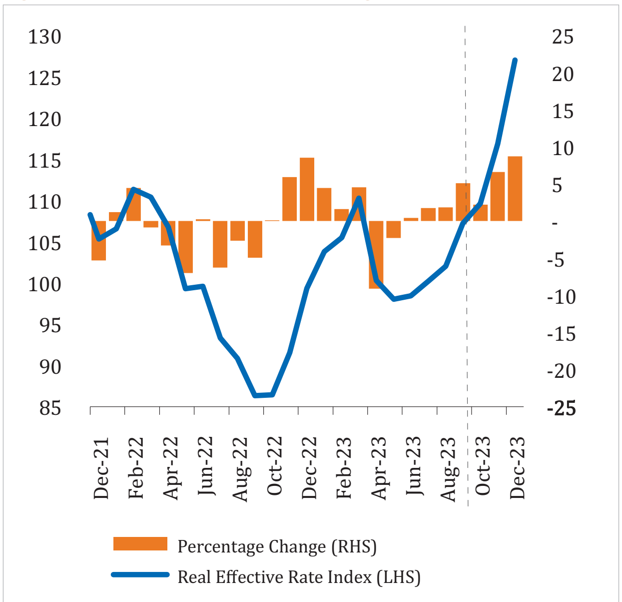
The Kwacha depreciated by 17.5 percent against the US dollar in the fourth quarter compared to 5.8 percent in the third quarter (Figure 40). The Kwacha averaged K24.75 per US dollar. In real terms, the Kwacha depreciated by 18.7 percent against a basket of trading partner currencies[33] (Figure 41).

Figure 40: Daily Average Nominal Kwacha/US Dollar Exchange Rate



Source: Bank of Zambia

Figure 41: Kwacha Real Effective Exchange Rate

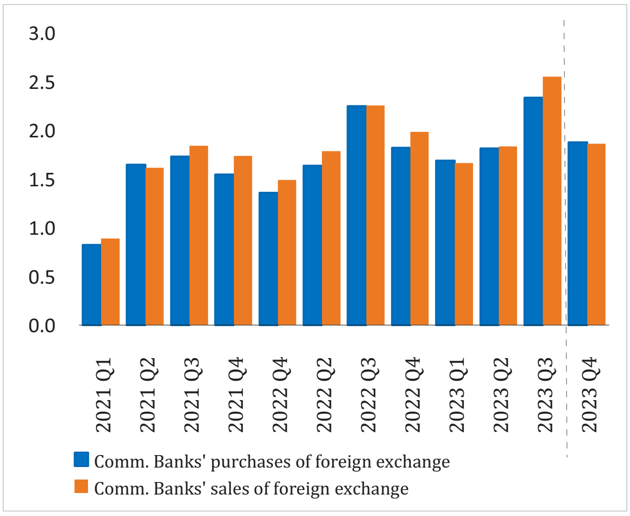


Source: Bank of Zambia

Persistently low supply of foreign exchange amid rising demand, coupled with adverse market sentiments, underpinned the sharp depreciation of the Kwacha. Adverse market sentiments were induced by the rejection of the agreement reached in principle between the Government and Eurobond holders in November by the Official Creditor Committee.

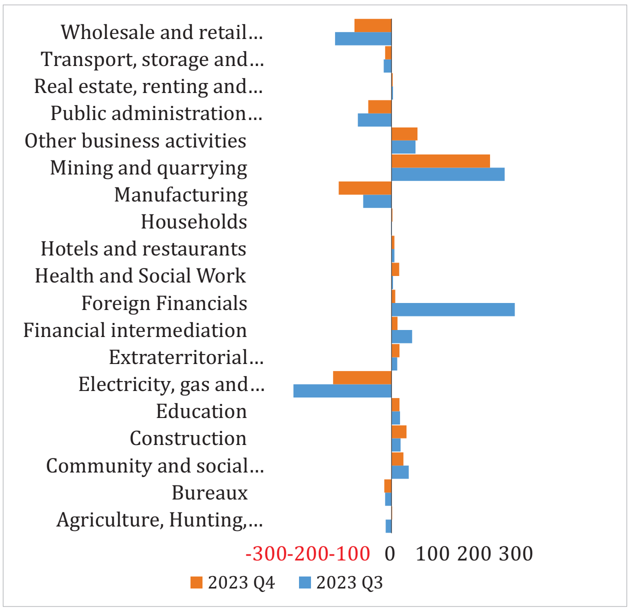
Supply of foreign exchange fell by 19.6 percent to US$1.9 billion (Figure 42). This was mainly on account of a significant decline in net inflows from non-resident investors (foreign financials) as the annual allocation limit of 5.0 percent participation in the primary market for Government securities[34] was exhausted in the previous quarter (Figure 42). In addition, supply by mining firms (mining and quarrying), the main source of foreign exchange, declined due to lower production occasioned mainly by operational challenges (Figure 43).

Figure 42: Commercial Banks' Transactions (US$' billion)



Source: Bank of Zambia

Figure 43: Net Supply by Sector (US$ million)



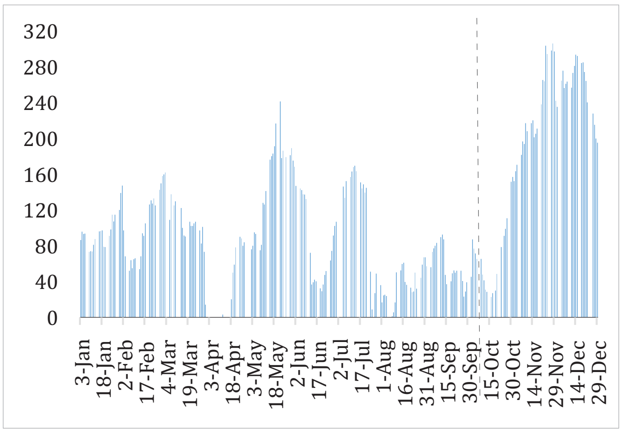
Source: Bank of Zambia

[33]The basket of trading partner currencies constitutes Swiss franc, British pound, South African rand, euro, yuan and the US dollar with respective weights of 0.32, 0.07, 0.43, 0.09, 0.08 and 0.02.

[34]CB Circular No. 14/2023

Limited supply of foreign exchange led to the accumulation of demand, which peaked at US$306 million by end-November from US$39 million at end-September (Figure 44). Demand mainly constituted the importation of petroleum products by oil marketing companies (electricity, gas, water and energy) and agricultural inputs under the Farmer Input Support Programme (wholesale and retail trade, and public administration) as well as plant expansion by some companies in the manufacturing sector (Figure 43).

Figure 44: Outstanding Demand for Foreign Exchange (US$ million)

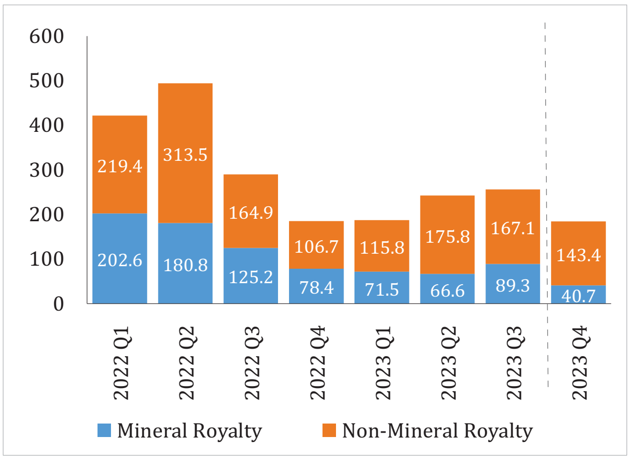


Source Bank of Zambia

To moderate volatility in the exchange rate and support critical imports (petroleum products and agricultural inputs), the Bank of Zambia sold all the mining tax receipts paid directly in US dollars[35] amounting to US$184.1 million (Figure 45), supplemented by US$31.4 million from reserves. This, coupled with conversions by corporates to meet end-year domestic obligations, moderated outstanding demand to US$195.1 million at end-December (Figure 44).

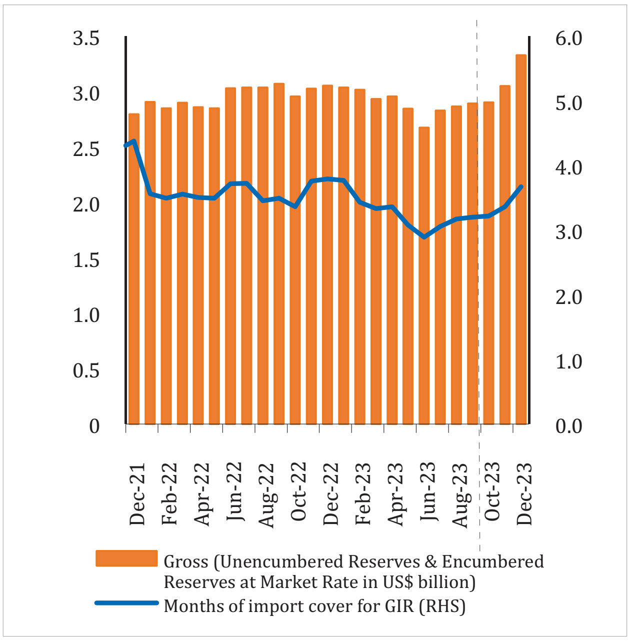
Notwithstanding market support by the Bank, gross international reserves (GIR) increased to US$3.3 billion (equivalent to 3.7 months of import cover) at end-December from US$2.9 billion (equivalent to 3.2 months of import cover) at the close of September (Figure 46). The rise in GIR was largely due to disbursements of SDR139.9 million (equivalent to US$187.3 million) by the International Monetary Fund and US$127.8 million by the World Bank after a successful Second Review under the Extended Credit Facility in December.

Figure 45: Mining Taxes Paid Directly to BoZ in US Dollars (US$ million)



Source: Bank of Zambia

Figure 46: Gross International Reserves (US$ billion)



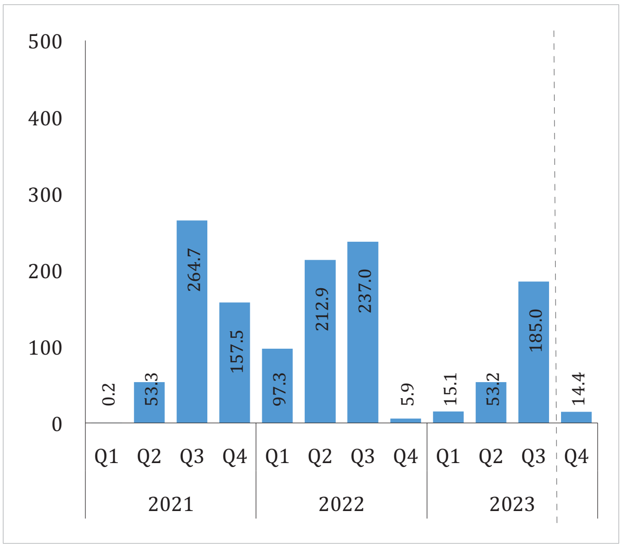
Source: Bank of Zambia

In 2024, the GIR is projected to increase to US$3.9 billion (equivalent to 4.2 months of import cover) and further to US$4.3 billion (equivalent to 4.4 months of import cover) in 2025 mainly on account of balance of payments, and budget support.

The turnover in the interbank foreign exchange market reduced significantly in the fourth quarter to US$14.4 million from US$185 million in the previous quarter due to low supply (Figure 47).

[35]In September 2018 mining companies were required to pay mineral royalty directly in US dollars. Effective June 2020, this requirement was extended to the remaining tax obligations to be paid directly in US dollars. This was intended to shore up declining foreign reserves (2020 Bank of Zambia Annual Report).

Figure 47: Turnover in Interbank Foreign Exchange Market (US$ million)



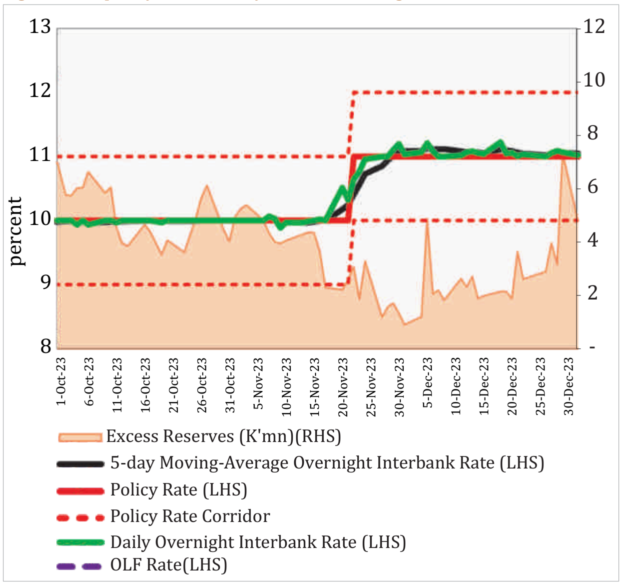
Source: Bank of Zambia

... liquidity in the money market declines

Liquidity in the money market (measured by the aggregate current account balance of commercial banks held at the Bank of Zambia reflected as excess reserves in Figure 48) reduced in the fourth quarter. Excess reserves declined to K7.3 billion at end-December from K8.0 billion at end-September. This was driven by net sales of Government securities, net Government revenue and increase in the statutory reserve ratio[36].

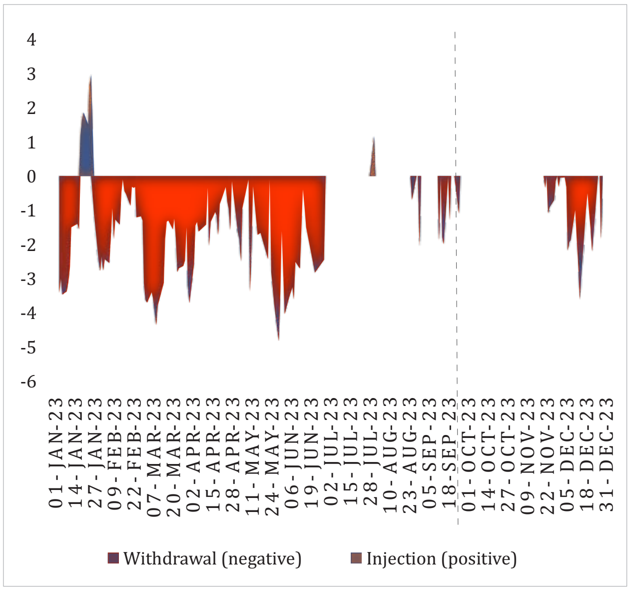
The declining trend in liquidity during the first two months[37] of the quarter was reversed in December following net Government spending and redemption of Government securities. To manage volatility in the exchange rate and keep the overnight interbank rate within the Policy Rate corridor, contractionary open market operations (OMO) were conducted mostly in December (Figure 49). This mostly involved the use of relatively longer term deposits[38] of up to 28 days.

Figure 48: Liquidity Levels, Policy Rate and Overnight Interbank Rate



Source: Bank of Zambia

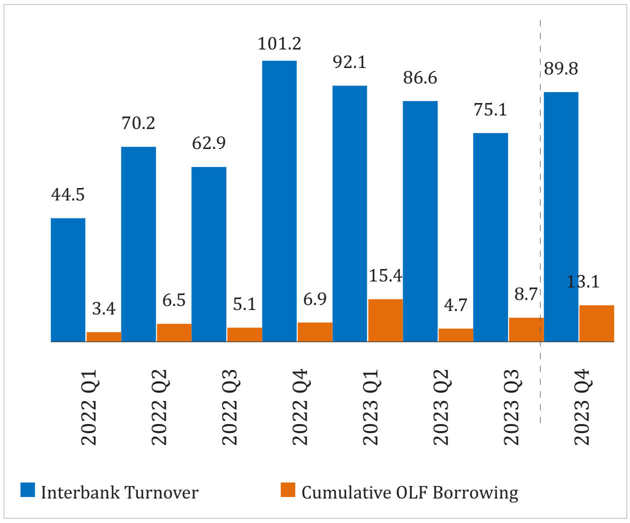
Figure 49: Open Market Operations (K' billion)



Source: Bank of Zambia

The turnover in the interbank market rose to K89.8 billion from K75.1 billion as liquidity conditions tightened in the earlier part of the quarter (Figure 50). Similarly, borrowing by commercial banks from the Overnight Lending Facility (OLF)[39] increased to K13.1 billion from K8.7 billion in the previous quarter.

Figure 50: Interbank Turnover and Overnight Lending Facility (K' billion)



Source: Bank of Zambia

[36] CB Circular No.30/2023 and CB Circular No.31/2023.

[37] In November, sales of foreign exchange by the Bank amounting to US$145.0 million largely accounted for the decline in liquidity.

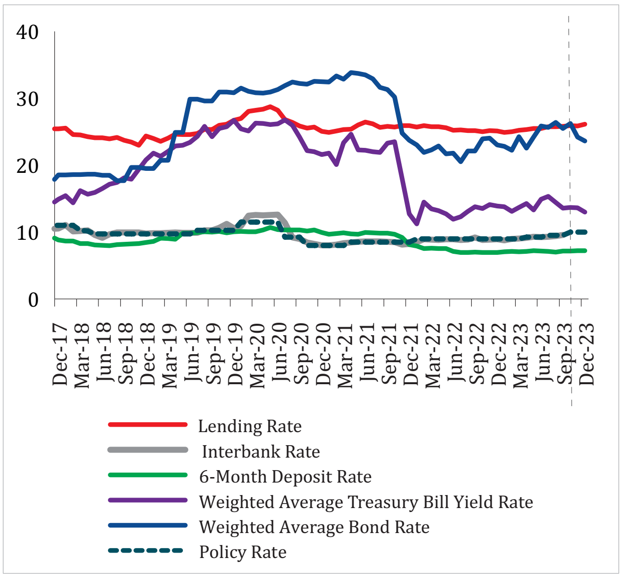
[38] A term deposit is an interest earning deposit placed by commercial banks with the Bank of Zambia for a specified period. The Bank issues term deposits to withdraw funds from the market.

[39] The Bank utilises the Overnight Lending Facility (OLF) to provide short-term liquidity assistance to commercial banks that experience temporary liquidity needs.

… movement in market interest rates mixed

The interbank and commercial banks' average lending rates rose further in the fourth quarter following a 100 basis-point hike in the Policy Rate while yields on Government securities fell due to strong demand (Figure 51). The 6-month deposit rate remained largely unchanged at 7.2 percent.

Figure 51: Monthly Average Nominal Interest Rates



Source: Bank of Zambia

The interbank rate rose by 119 basis points to 11.10 percent in December (Figures 51 and 52). Commercial banks' average nominal lending rate also increased to 26.6 percent from 25.9 percent[40] (Figures 51 and 52).

Figure 52: Quarterly Change in Interest Rates

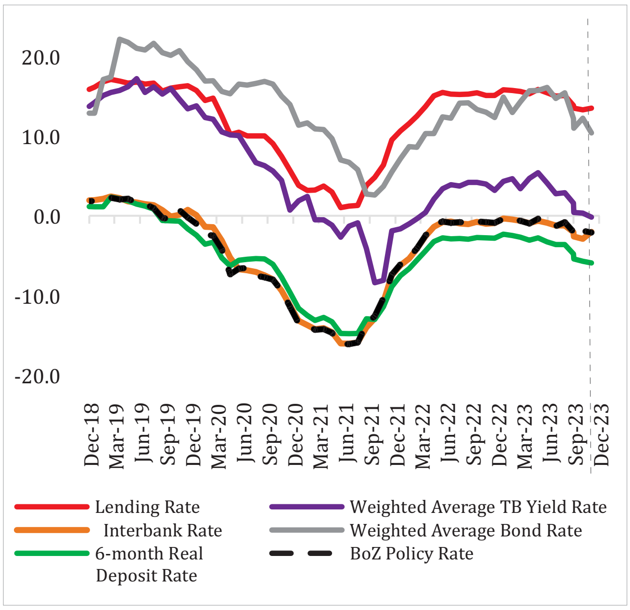
Source: Bank of Zambia

Respondents to the *February 2024 Credit Conditions Survey* and *February 2024 Quarterly Survey of Business Opinions and Expectations* anticipate lending rates to remain high in the first quarter of 2024 in view of rising inflation, which will trigger monetary policy tightening.

In contrast, yield rates on Government securities declined further mainly on account of strong demand mostly by the non-bank public in particular pension funds. The subscription rate for Treasury bills averaged 126.3 percent and 115.4 percent while that for Government bonds was 124.6 percent and 153.8 percent in October and December, respectively. Consequently, weighted average yield rates for Treasury bills and Government bonds declined to 12.8 percent and 23.5 percent in December from 13.6 percent and 24.2 percent in September, respectively (Figure 51).

Real interest rates continued to decline in the fourth quarter as inflation rose further (Figure 53). The Policy Rate, interbank rate and 6-month deposit rate remained negative while the Treasury bill rate turned negative in December.

Figure 53: Real Interest Rates



Source: Bank of Zambia

… growth in domestic credit increases further

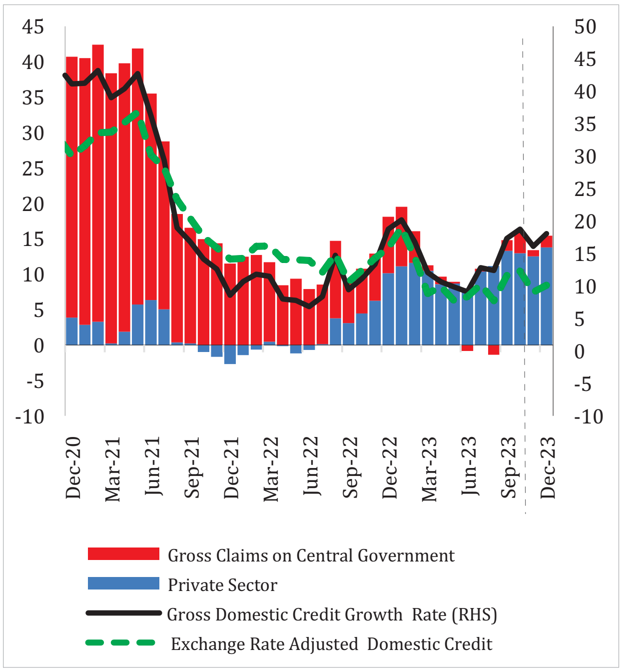
Domestic credit[41] grew by 18.1 percent in December compared to 17.3 percent in September (Figure 54). This was on account of increased lending by banks to the private sector and Government. The contributions to domestic credit by the private sector and Government increased by 13.8 percentage points and 1.7 percentage points, respectively. Adjusted for the exchange rate depreciation[42], domestic credit growth was 10.1 percent compared to 11.6 percent in September.

[40] Lending rates for Kwacha loans ranged from 6.7 percent to 36.5 percent while deposit rates were between 0.1 percent to 17.5 percent. Lending rates for US dollar loans were between 7.47 percent to 13.83 percent.

[41] Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign currency

[42] Exchange rate adjusted domestic credit is calculated by multiplying the current US dollar amount by the exchange rate in the same month a year ago to eliminate valuation effects. A depreciation magnifies credit growth through valuation effects on foreign currency credit. The opposite is true for an appreciation.

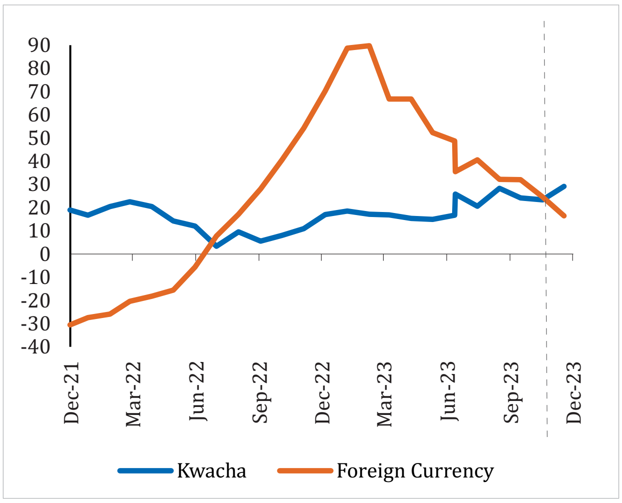
Figure 54: Contribution to Credit Growth (year-on-year, percentage)



Source: Bank of Zambia

Growth in private sector credit was mainly driven by a further increase in Kwacha denominated loans by 29.2 percent in December compared to 28.3 percent in September (Figure 55).

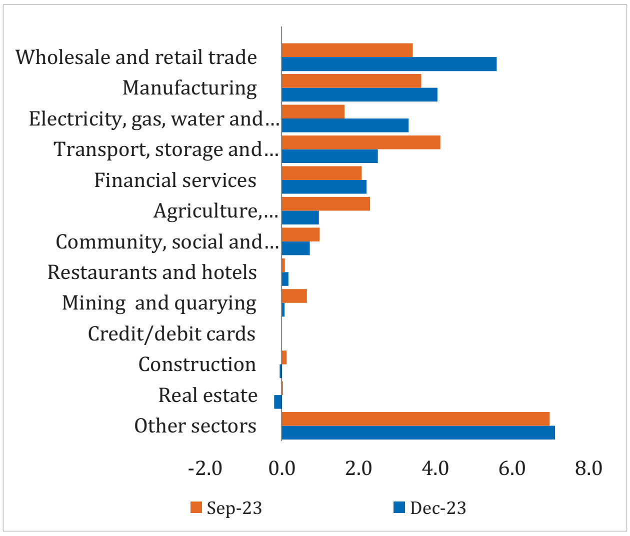
Figure 55: Annual Growth in Kwacha and Foreign Currency Credit to the Private Sector (year-on-year, percent)



Source: Bank of Zambia

The growth in Kwacha loans was mostly due to increased working capital requirements as indicated by respondents to the *February 2024 Credit Conditions Survey*. Notable increases were observed in the wholesale and retail trade; manufacturing; electricity, gas, water and energy; as well as financial services sectors (Figure 56). For instance, oil marketing companies sought additional financing to import petroleum products following a sharp depreciation of the exchange rate. Further, firms sought additional financing to procure raw materials which had become costly due to the depreciation of the Kwacha against the US dollar. They also accessed financing to procure agricultural inputs in readiness for the 2023/2024 farming season.

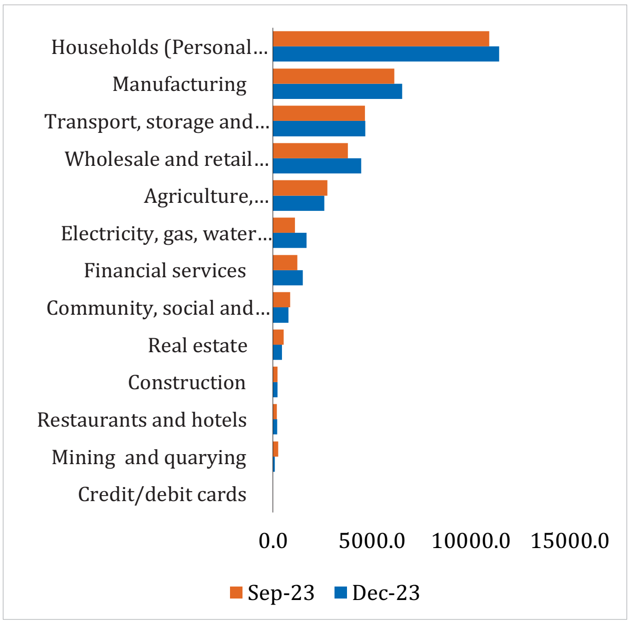
Figure 56: Sectoral Contribution to Annual Percent Change in Private Sector Kwacha Credit



Source: Bank of Zambia

Households (personal loans) continued to account for the largest share of Kwacha denominated credit followed by manufacturing as well as transport, storage and communication sectors (Figure 57).

Figure 57: Stock Distribution of Private Sector Kwacha Credit (K'billion)



Source: Bank of Zambia

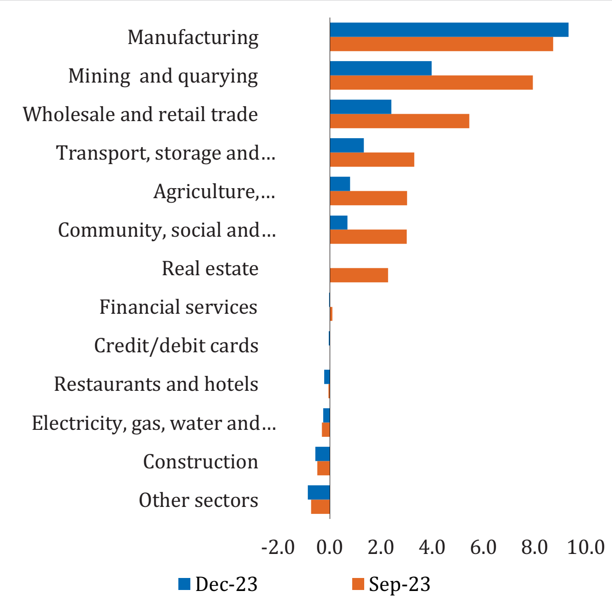
The *February 2024 Credit Conditions Survey* revealed a high demand for personal loans[43] to meet seasonal expenditures during the festive period. The need to

[43]Demand for personal loans refers to the number of commercial banks that report willingness of clients to acquire personal loans measured in terms of applications and not value or loan amount.

cushion the rise in the cost-of-living and the recruitment of public service workers also supported demand. Respondents to the survey expect high demand for personal loans to be sustained in the first quarter of 2024 to supplement disposable income in view of the rising cost-of-living.

The declining trend in foreign currency credit growth continued in the fourth quarter (Figure 55). It fell sharply to 16.5 percent in December from 32.1 percent in September. The reduction was mostly due to loan repayments in the wholesale and retail trade, real estate, mining, transport and agriculture sectors (Figure 58).

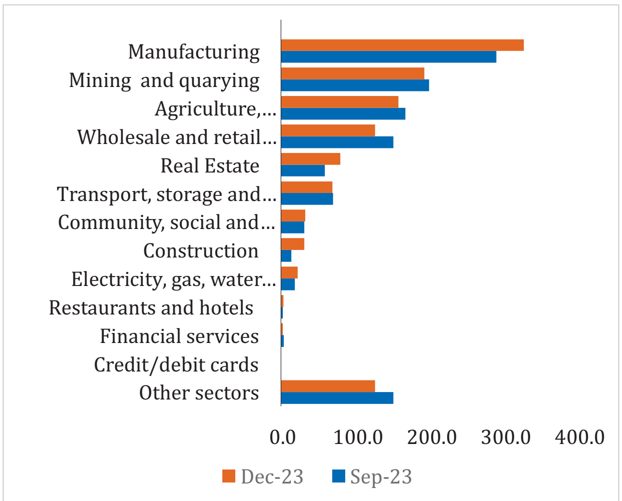
Figure 58: Sectoral Contribution to Annual Percent Change in Private Sector Foreign Currency Credit



Source: Bank of Zambia

Foreign currency denominated loans continued to be dominated by the manufacturing, mining agriculture as well as wholesale and retail trade sectors (Figure 59).

Figure 59: Stock Distribution of Private Sector Foreign Currency Credit (US$, million)

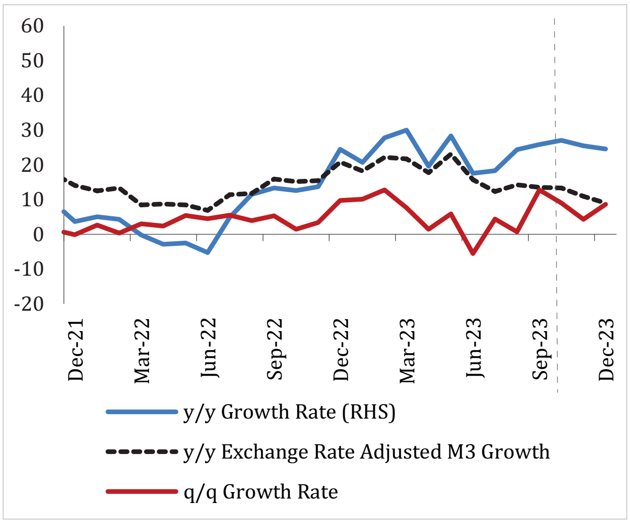


Source: Bank of Zambia

... money supply growth slows down

Money supply (M3)[44] continued to grow in the fourth quarter albeit at a slower pace than in the previous quarter (Figure 60). It grew by 24.6 percent in December compared to 25.9 percent in September. Private sector credit continued to be the key driver of money supply growth.

Figure 60: Money Supply Growth (year-on-year percent)



Source: Bank of Zambia

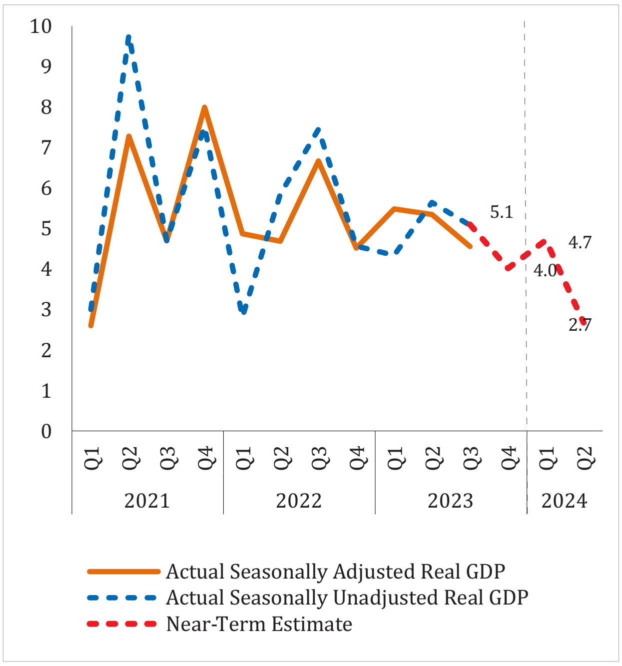
2.4 Domestic Economic Activity

... slowed down in the fourth quarter of 2023

The Bank of Zambia near-term estimate points to a slowdown in real GDP growth in the fourth quarter of 2023 to 4.0 percent from 5.1 percent in the third quarter (Figures 61 and 62). This is premised on the decline in copper production and electricity generation as well as moderation in diesel consumption.

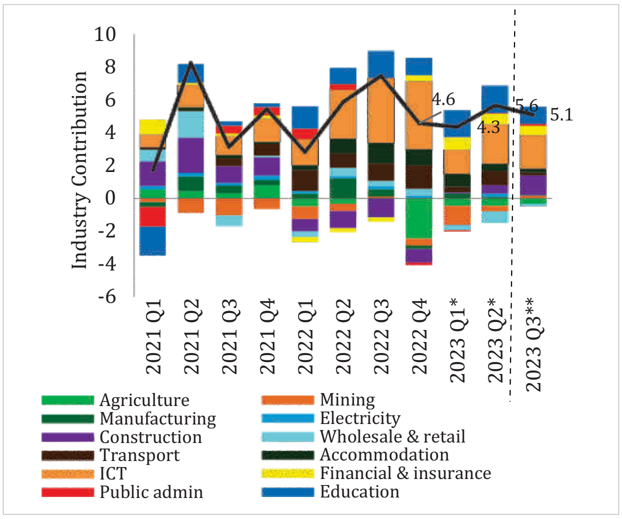
[44] M3 stock was K166.9 billion at end-December 2023 compared to K153.6 billion at end-September 2023.

Figure 61: Year-on-Year Real GDP Growth Rate (percent)



Source: Bank of Zambia

Figure 62: Real GDP Growth and Contribution by Selected Industries (percentage points)

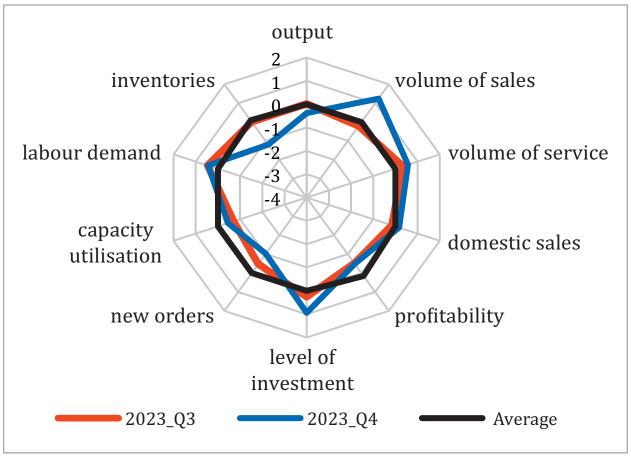


Source: Zambia Statistics Agency and Bank of Zambia Compilations
*=revised **preliminary

The increase in economic activity in the fourth quarter reported by respondents to the *February 2024 Quarterly Survey of Business Opinions and Expectations and the Stanbic Bank Zambia*[45] *PMI*™ is attributed to seasonal demand (Figures 63 and 64). This boosted sales and contributed to profitability as inventories declined. New orders and output also rose in the agriculture sector.

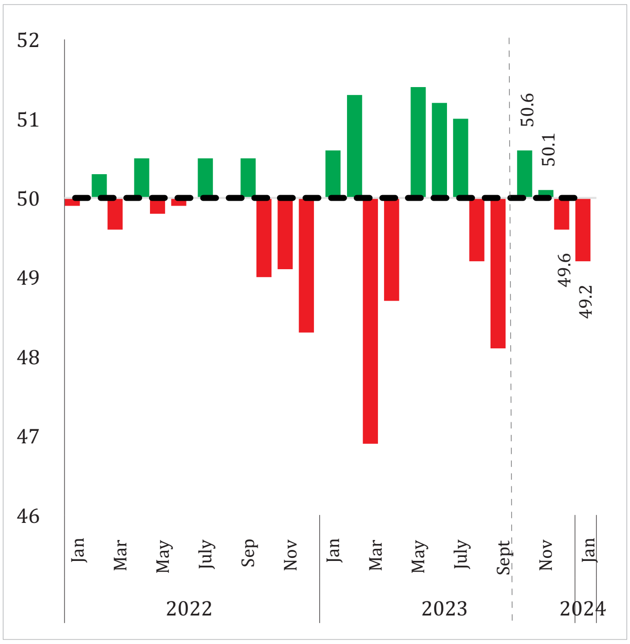
In January 2024, private sector business conditions deteriorated as new orders and output declined due to escalating inflationary pressures, persistent exchange rate depreciation and elevated borrowing costs (Figure 64).

Figure 63: Business Opinion Response Patterns[46]



Source: Bank of Zambia

Figure 64: Purchasing Manager's Index



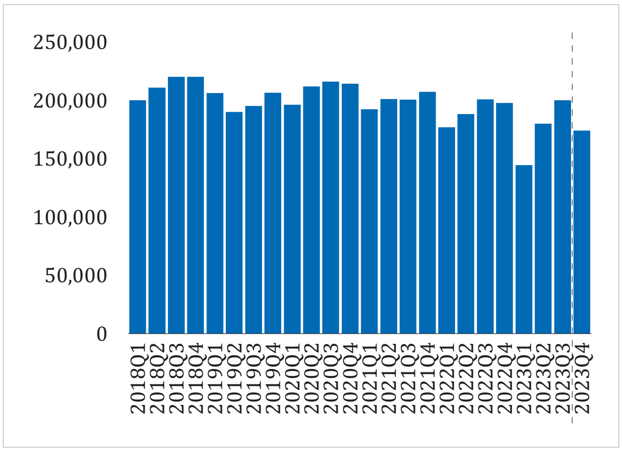
Source: Stanbic Zambia and Bank of Zambia Compilations

Preliminary data indicate a reduction in copper production—proxy for mining sector activity—by 11.9 percent to 174,131 metric tonnes in the fourth quarter (Figure 65). This was largely due to operational challenges at some major mines.

[45]The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: new orders, output, employment, suppliers' delivery times and stocks of purchases. A reading below 50 means business conditions deteriorated and above 50 means an improvement. A reading of 50 means no change in the business environment.

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

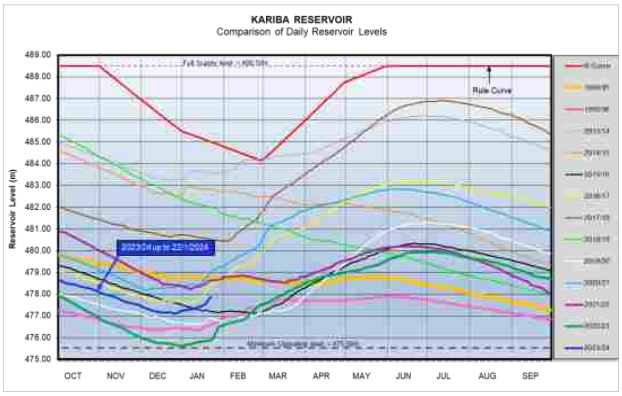
Figure 65: Copper Production (metric tonnes)



Source: Ministry of Mines and Minerals Development and Bank of Zambia Compilations

Electricity generation declined by 6.8 percent, year-on-year, largely due to low water levels at the Kariba Reservoir (Figure 66).

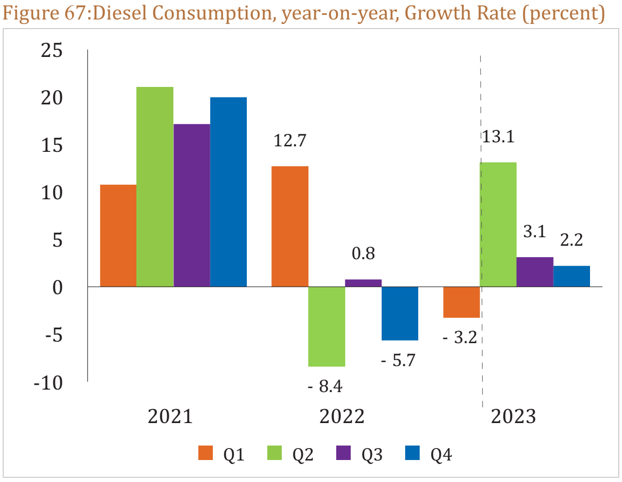
Figure 66: Lake Kariba Reservoir Water Levels (meters)



Source: Zambezi River Authority and Bank of Zambia Compilations

Growth in the transport sector—proxied by diesel consumption—slowed down to 2.2 percent in the fourth quarter from 3.1 percent in the third quarter (Figure 67). The electricity, agriculture and construction sectors accounted for the decrease in diesel consumption.

Figure 67:Diesel Consumption, year-on-year, Growth Rate (percent)

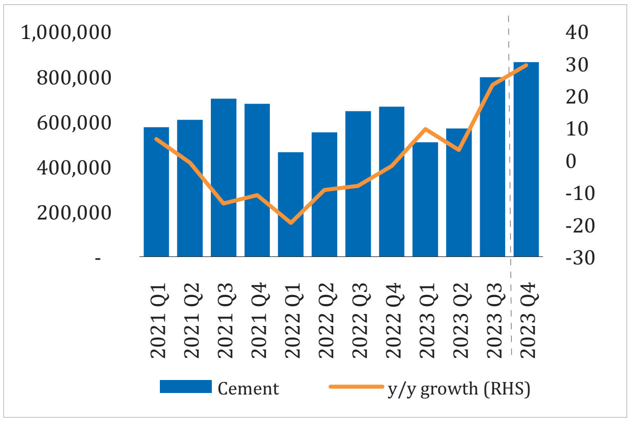


Source: Energy Regulation Board and Bank of Zambia Compilations

Positive sector performance in the construction, tourism, wholesale and retail trade sectors supported growth in the fourth quarter.

Cement production—proxy for construction sector—increased by 29.5 percent compared to 23.4 percent in the previous quarter (Figure 68). This largely reflects the construction of public infrastructure.

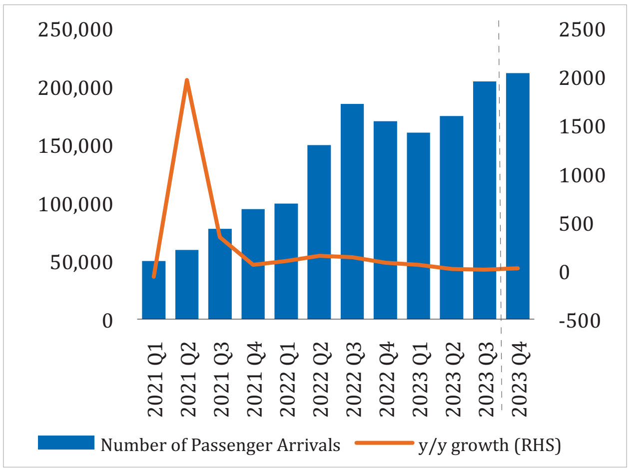
Figure 68: Cement Production (metric tonnes and year-on-year growth)



Source: Bank of Zambia

International passenger arrivals—at major airports proxy for the tourism sector—increased by 24.2 percent in the fourth quarter compared to 10.5 percent a quarter ago (Figure 69). The increase reflects an upsurge in tourism activity, supported by meetings, conferences and exhibitions.

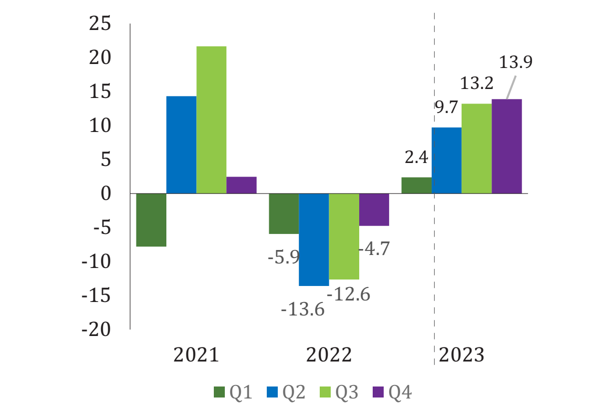
Figure 69: International Passenger Arrivals at Major Airports



Source: Bank of Zambia Compilations

The retail trade sector expanded by 13.9 percent in the fourth quarter compared to 13.2 percent in the previous quarter (Figure 70). This is attributed to increased consumer demand during the festive season.

Figure 70: Real Retail Sales (year-on-year growth rate)



Source: Bank of Zambia

2.5 Budget Performance

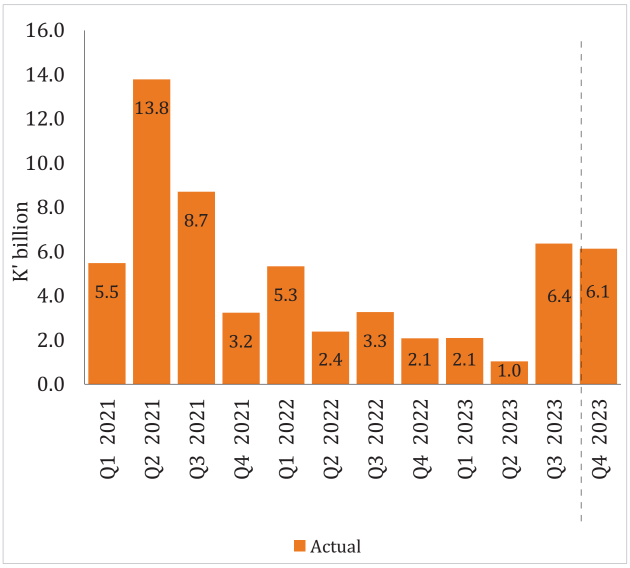
... broadly in line with annual target

According to preliminary estimates, domestic revenue and grants exceeded the target of K31.2 billion by K3.5 billion in the fourth quarter. This was mostly on the back of higher value added tax (VAT) collections as taxable imports, particularly petrol and diesel, increased further. However, taxes from the mining sector continued to underperform mostly due to lower copper output.

Arising from the need for Government to stimulate economic activity, more was spent on the clearance of domestic arrears than planned. This resulted in expenditure exceeding the target. For 2023 as a whole, the deficit is expected to be lower than the target of 7.7 percent. Preliminary estimates indicate a deficit of 5.7 percent for the year.

The budget deficit was mostly financed through the issuance of Government securities in which pension funds contributed significantly (Figure 71).

Figure 71: Domestic Financing of the Budget (K' billion)



Source: Ministry of Finance and National Planning and Bank of Zambia Compilations

2.6 Domestic Prices

...inflationary pressures persist in the fourth quarter

Inflation rose to 12.9 percent in the fourth quarter from 11.0 percent in the third quarter. This outturn was, however, lower than the November 2023 MPC projection of 13.1 percent because the impact of crude oil and world food prices was overstated (Table 9 and Figure 72).

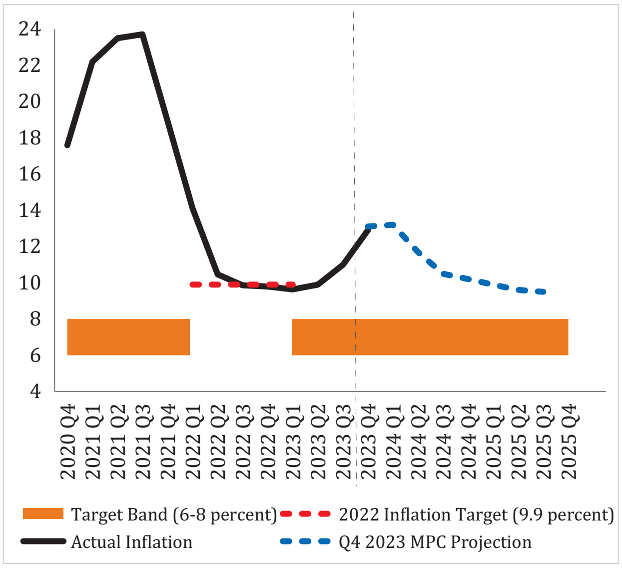
Respondents to the *November 2023 Bank of Zambia Quarterly Survey of Business Opinion and Expectations* (QSBOE) expected inflation to be 12.4 percent in the fourth quarter. Their expectations were based on a weaker Kwacha, higher maize grain prices and potential rise in prices of beef substitutes due to the outbreak of anthrax.

Table 9: Assumptions underlying Inflation Projection in 2023 Q4

	2023 Q3 Assumed Value	2023 Q4 Actual Value
Average inflation-US (percent)	2.8	3.2
Federal funds rate (percent)	5.6	5.3
Average inflation-South Africa (percent)	5.0	5.5
Average copper price/tonne (US$)	8,367.5	8,175.6
Average crude oil price/barrel (US$)	86.8	84.0
Reserve money growth (percent)	4.6	9.7
Fiscal deficit (ratio of expenditure to revenue)	1.4	1.2
World food price index	131.9	122.1
Policy rate-Bank of Zambia (percent)	10.0	11.0

Source: Bank of Zambia Compilations, Reuters, South African Reserve Bank, World Bank Pink Sheet and Survey of Professional Forecasters

Figure 72: Actual and Projected Annual Overall Inflation (percent)

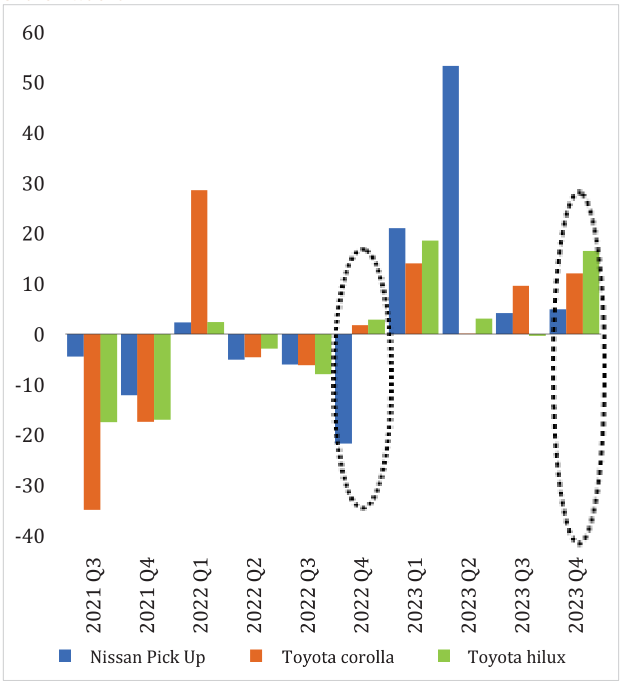


Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

The rise in inflation in the fourth quarter is attributed to the exchange rate depreciation, constrained supply of maize grain and increase in fuel prices.

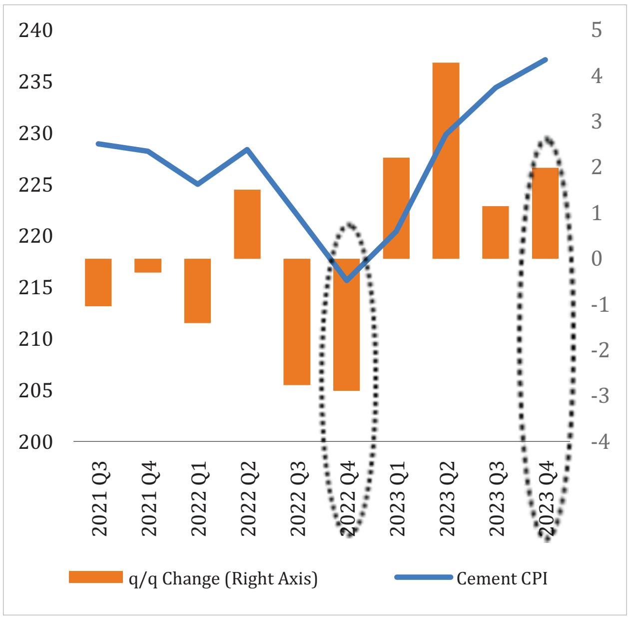
The pass-through from the depreciation of the Kwacha against major currencies to prices of mostly motor vehicles (Figures 73), raw materials for cement and washing soap production (Figures 74 and 75) and air fares (Figure 76) contributed to the rise in inflation. In addition, constrained supply of maize grain, reflected in higher prices of milk products[47] and chicken owing to increased prices of stockfeed (Figures 77 and 78), added to inflationary pressures. The increase in fuel prices in October[48] (Figure 79) and the subsequent rise in transportation costs, partially reflected in increased minibus fares (Figure 80), also pushed inflation up.

Figure 73: Increase in Prices of Motor Vehicles due to Depreciation of the Kwacha



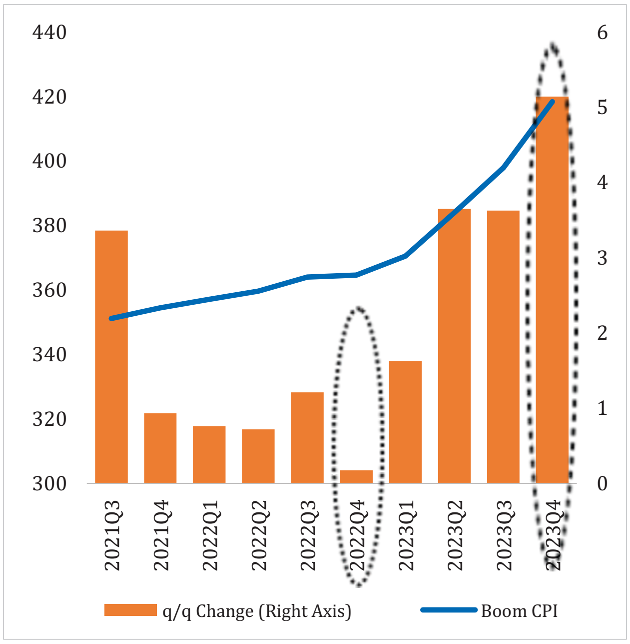
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 74: Increase in Price of Cement due to Depreciation of the Kwacha



Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 75: Increase in Price of Washing Soap due to Depreciation of the Kwacha

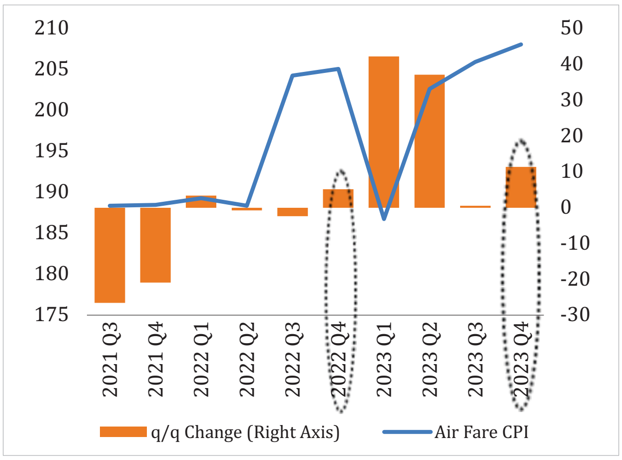


Source: Zambia Statistics Agency and Bank of Zambia Compilations

[47] Increase in the price of maize silage, a major input in milk production in dairy animals, contributed to elevated milk prices.

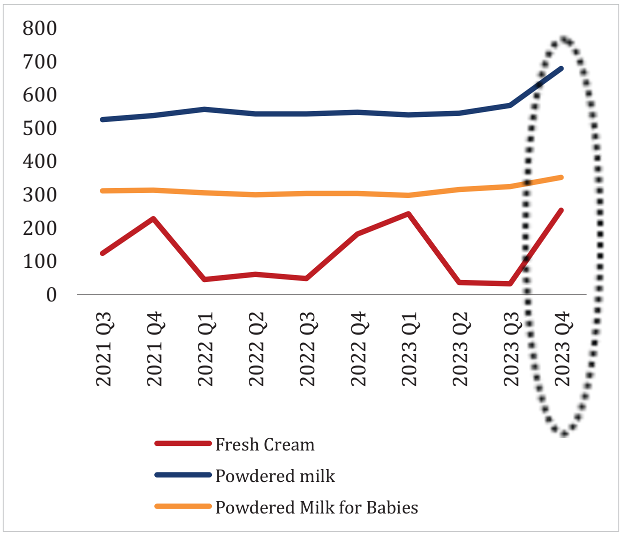
[48] On September 30, the Energy Regulation Board (ERB) raised retail prices of petrol, diesel and jet-A1 fuel by K0.56/litre, K3.68/litre and K2.87/litre, respectively. This was the fourth consecutive increase in the price of petrol and third consecutive increase for diesel and jet A1 fuel prices.

Figure 76: Increase in Air Fares due to Depreciation of the Kwacha



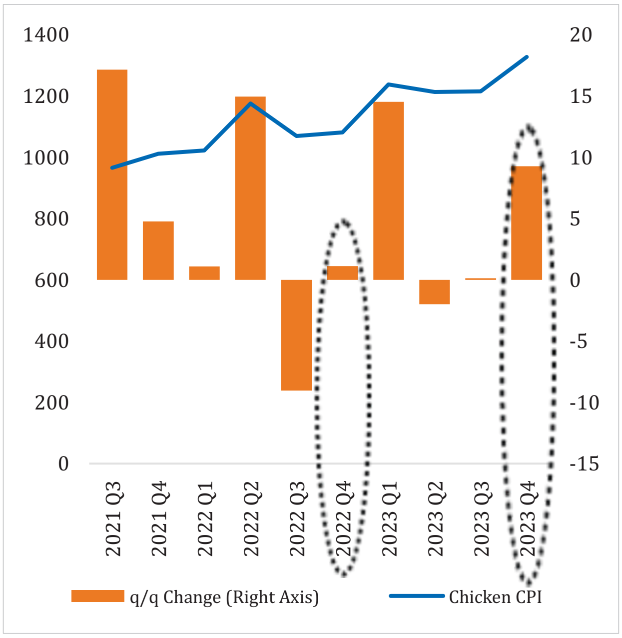
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 77: Increase in Prices of Selected Milk Products due to High Cost of Stockfeed



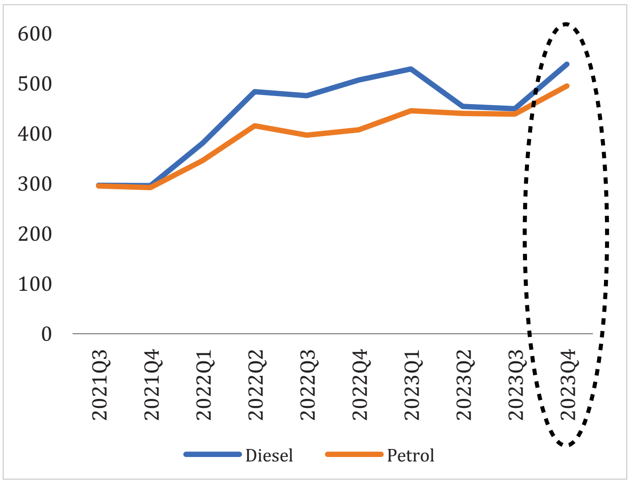
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 78: Increase in Prices of Chicken due to High Cost of Stockfeed



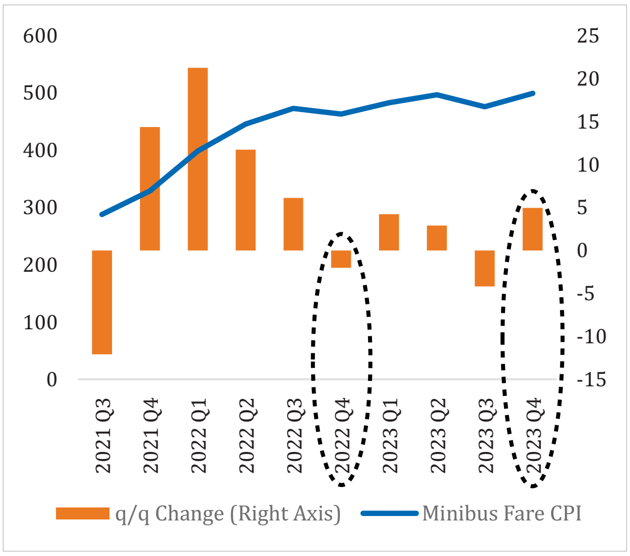
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 79: Increase in Fuel Prices



Source: Zambia Statistics Agency and Bank of Zambia Compilations

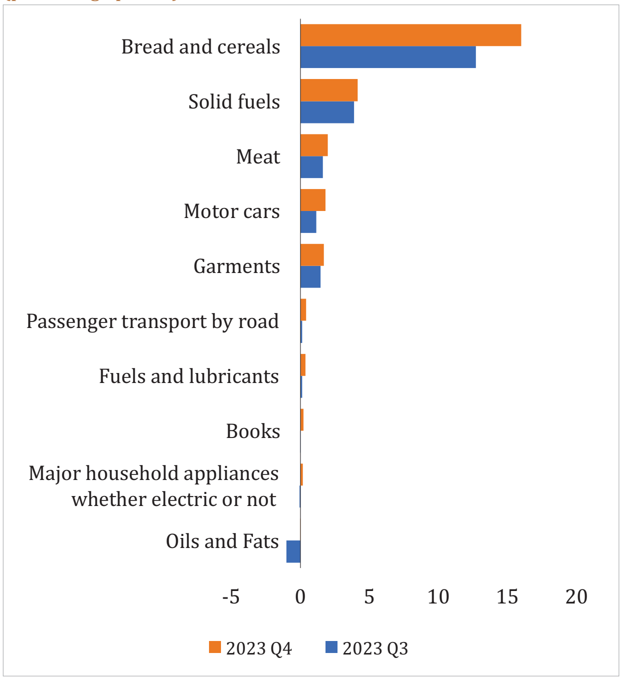
Figure 80: Increase in Minibus Fares owing to Increased Fuel Prices



Source: Zambia Statistics Agency and Bank of Zambia Compilations

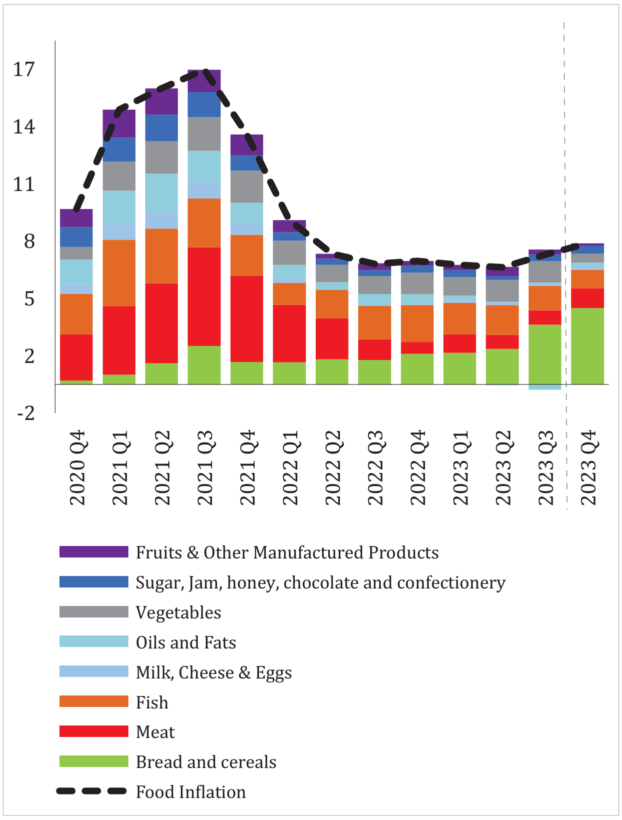
In the food sub-component, bread and cereals, as well as meat sub-groups contributed the most to overall inflation (Figures 81 and 82). In the non-food sub-component, notable contributions to overall inflation were from solid fuels (charcoal and firewood), motor vehicles and garments (Figures 81 and 83).

Figure 81: Top 10 Sub-Groups with Largest Increase in Contribution to Overall Inflation between 2023 Q 4 and 2023 Q3 (percentage points)



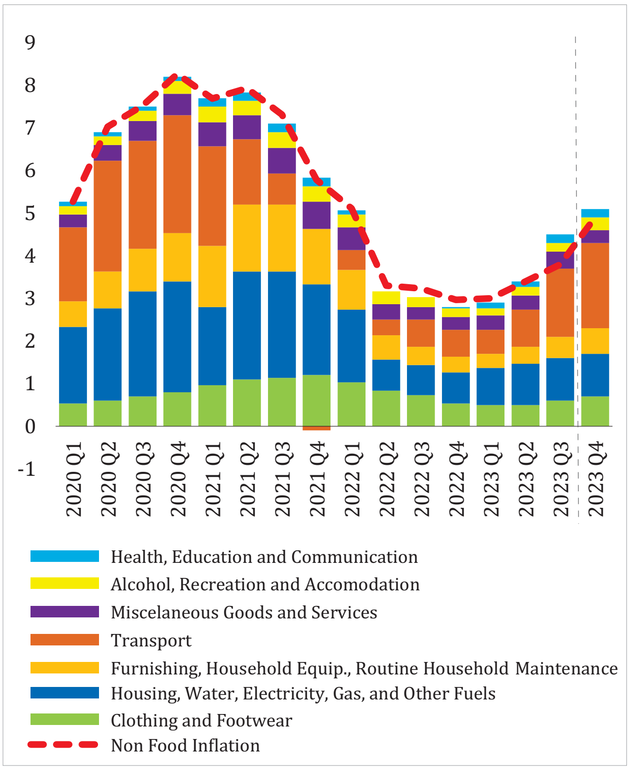
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 82: Contribution to Overall Inflation by Food Sub-Groups (percent)



Source: Zambia Statistics Agency and Bank of Zambia Compilations

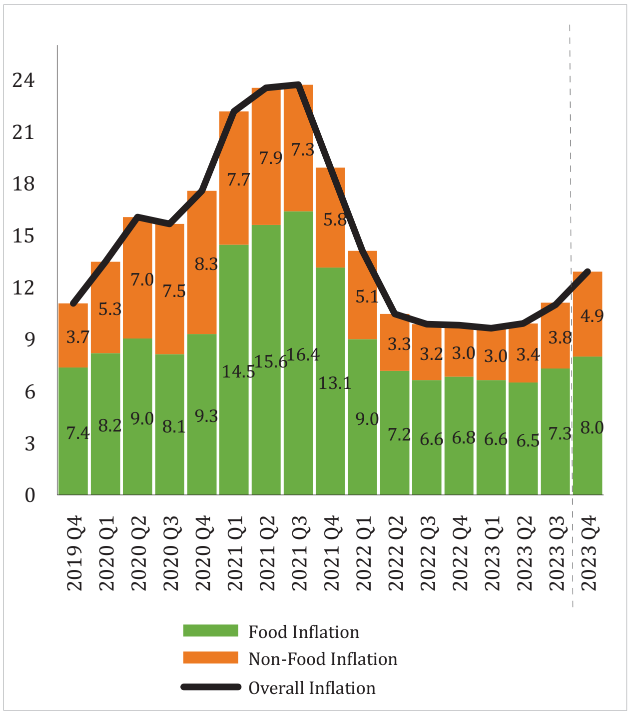
Figure 83: Contribution to Overall Inflation by Non-Food Sub-Groups (percent)



Source: Zambia Statistics Agency and Bank of Zambia Compilations

The contribution by the food and non-food sub-components to overall inflation increased to 8.0 percentage points and 4.9 percentage points in the fourth quarter from 7.3 percentage points and 3.8 percentage points in the previous quarter, respectively (Figure 84).

Figure 84: Contribution by Food and Non-Food Sub-Components to Overall Inflation (percentage points)



Source: Zambia Statistics Agency and Bank of Zambia Compilations

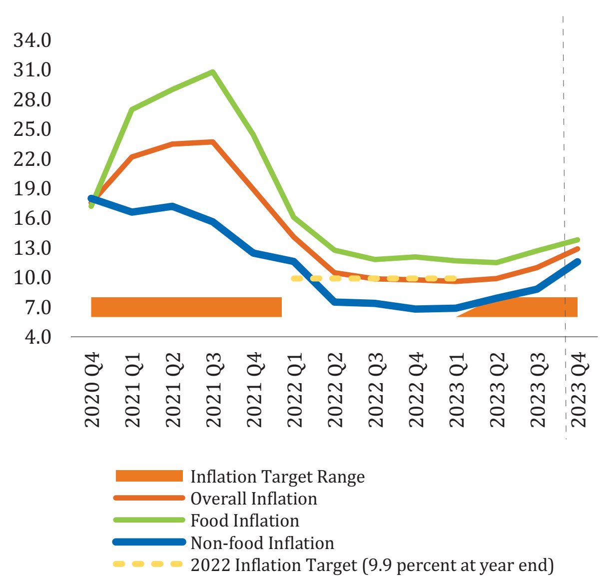
In view of the foregoing, food and non-food inflation rose to 13.8 percent and 11.6 percent in the fourth quarter from 12.7 percent and 8.8 percent in the third quarter, respectively (Table 10 and Figure 85).

Table 10: Quarterly Average and end-Period Inflation Rate (percent)

	2022	2023	2023	2023	2023
Average	Q4	Q1	Q2	Q3	Q4
Overall Inflation	9.8	9.6	9.9	11.0	12.9
Food Inflation	12.1	11.7	11.5	12.7	13.8
Non-food Inflation	6.8	6.8	7.9	8.8	11.6
End Period	2022	2023	2023	2023	2023
	Q4	Q1	Q2	Q3	Q4
Overall Inflation	9.9	9.9	9.8	12.0	13.1
Food Inflation	11.9	11.8	11.2	13.4	14.2
Non-food Inflation	7.3	7.3	7.8	10.1	11.6

Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 85: Inflation and its Components (Percent)

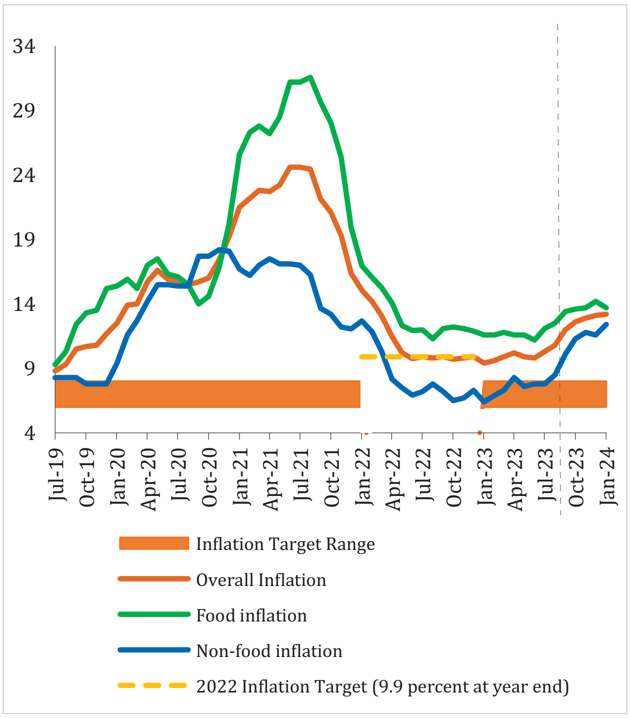


Source: Zambia Statistics Agency and Bank of Zambia Compilations

... inflation persists in January 2024

For the seventh consecutive month, inflation rose to 13.2 percent in January 2024 from 13.1 percent in December 2023 (Figure 86). This was mainly attributed to the persistent depreciation of the Kwacha against major currencies.

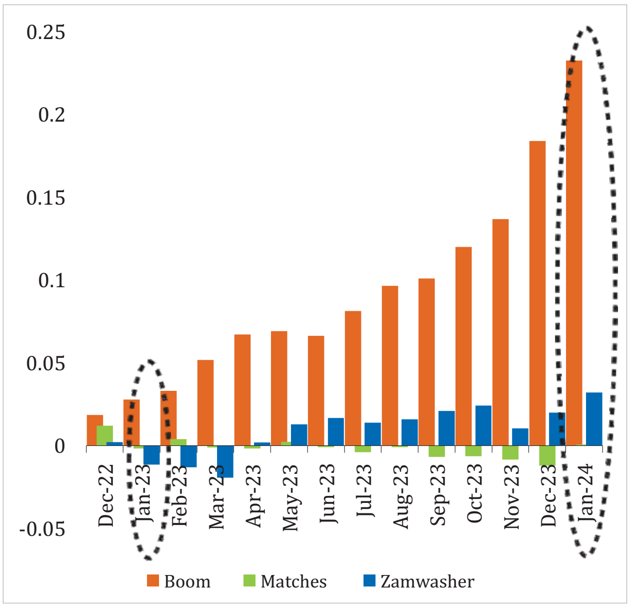
Figure 86: Inflation and its Components (percent)



Source: Zambia Statistics Agency and Bank of Zambia Compilations

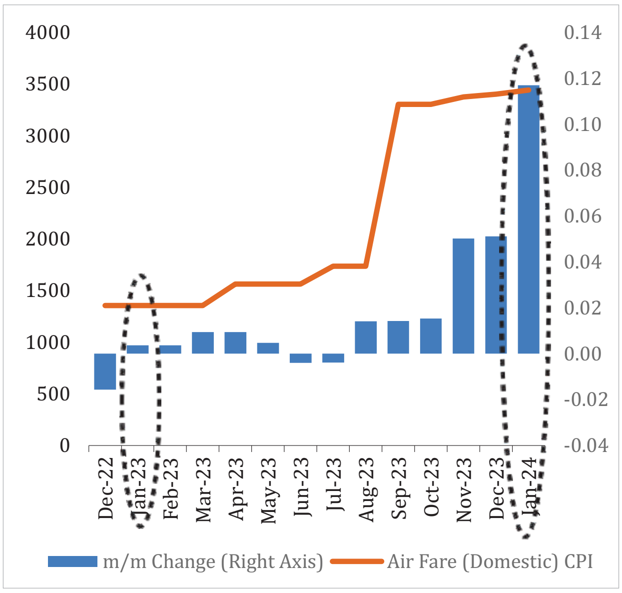
Notable items affected by the exchange rate were non-durable household goods (Figures 87 and 88), appliances, articles and products for personal care; equipment for the reception, recording and reproduction of sound and pictures; air fares; as well as fuels and lubricants (Figure 89).

Figure 87: Increase in Prices of Selected Non-Durable Household Goods due to Depreciation of the Kwacha



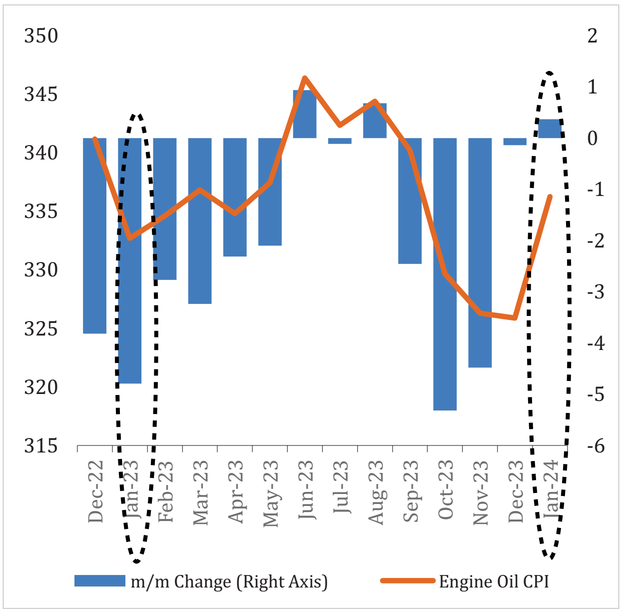
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 88: Increase in Air Fare (Domestic) Cost due to Depreciation of the Kwacha



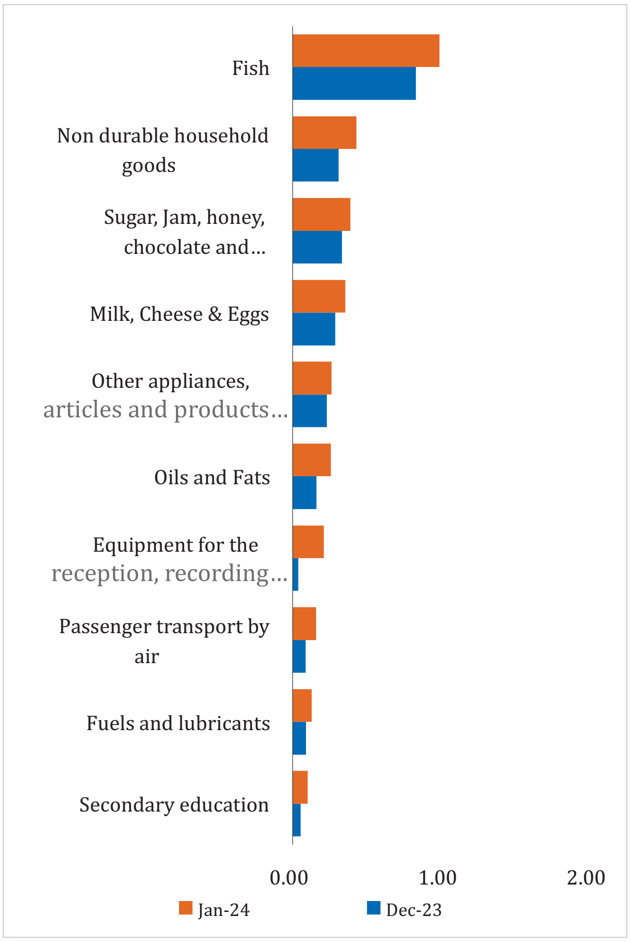
Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 89: Increase in Price of Engine Oil due to Depreciation of the Kwacha



Source: Zambia Statistics Agency and Bank of Zambia Compilations

Figure 90: Top 10 Sub-Groups with Largest Increase in Contribution to Overall inflation between December 2023 and January 2024



Source: Zambia Statistics Agency and Bank of Zambia Compilations

Consequently, non-food inflation rose to 12.4 percent from 11.6 percent, but food inflation slowed down to 13.7 percent from 14.2 percent (Figure 86).

Appendix

Monetary Policy and Foreign Exchange Measures since April 2012

Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate Access to OLF window restricted to once a week	March 19, 2014	To address excess liquidity in the money market and its impact on inflation
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US$0.5m-US$1m from US$1m	March 28, 2014	To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01	March 28, 2014	To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves Daily compliance on statutory reserve ratio re-introduced OLF rate set at 10.0 percentage points above the Policy Rate	May 30, 2014	
Policy Rate raised to 12.5 percent	November 19, 2014	To contain inflationary pressures
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points	March 20, 2015	
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote BoZ to publish individual commercial banks' exchange rates on Reuters platform Commercial banks to update board exchange rates three times a day as prescribed	October 5, 2015	To improve order, stability and transparency in the foreign exchange market
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures
Access to OLF Window restricted to once a week Roll-over of intra-day loan into an overnight loan discontinued	November 18, 2015	To contain inflationary pressures
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth

Measure	Date Implemented	Rationale
Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market

Measure	Date Implemented	Rationale
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.
Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.
Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate		To address excess liquidity in the money market and its impact on inflation
Access to OLF window restricted to once a week	March 19, 2014	
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US$0.5m-US$1m from US$1m		To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01	March 28, 2014	To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves		
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate	May 30, 2014	
Policy Rate raised to 12.5 percent	November 19, 2014	To contain inflationary pressures
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent		
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points	March 20, 2015	
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote		To improve order, stability and transparency in the foreign exchange market
BoZ to publish individual commercial banks' exchange rates on Reuters platform	October 5, 2015	

Measure	Date Implemented	Rationale
Commercial banks to update board exchange rates three times a day as prescribed		
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures
Access to OLF Window restricted to once a week	November 18, 2015	To contain inflationary pressures
Roll-over of intra-day loan into an overnight loan discontinued		
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.

Measure	Date Implemented	Rationale
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.
Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.