PRESENTATION BY DR FRANCIS CHIPIMO

BOZ DEPUTY GOVERNOR - OPERATIONS

INSURERS ASSOCIATION OF ZAMBIA CONFERENCE

November 24, 2022

Bank of Zambia

OUTLINE OF PRESENTATION

Bank of Zambia

1. Introduction
2. Sectoral Contribution
3. Inflation
4. Growth
5. Fiscal Policy
6. Current Account
7. International Reserves
8. Exchange Rate
9. Interest Rate
10. Domestic Credit
11. Conclusion

Introduction

THE BANK OF ZAMBIA'S CORE MANDATE:

- Price Stability;
- Financial System Stability

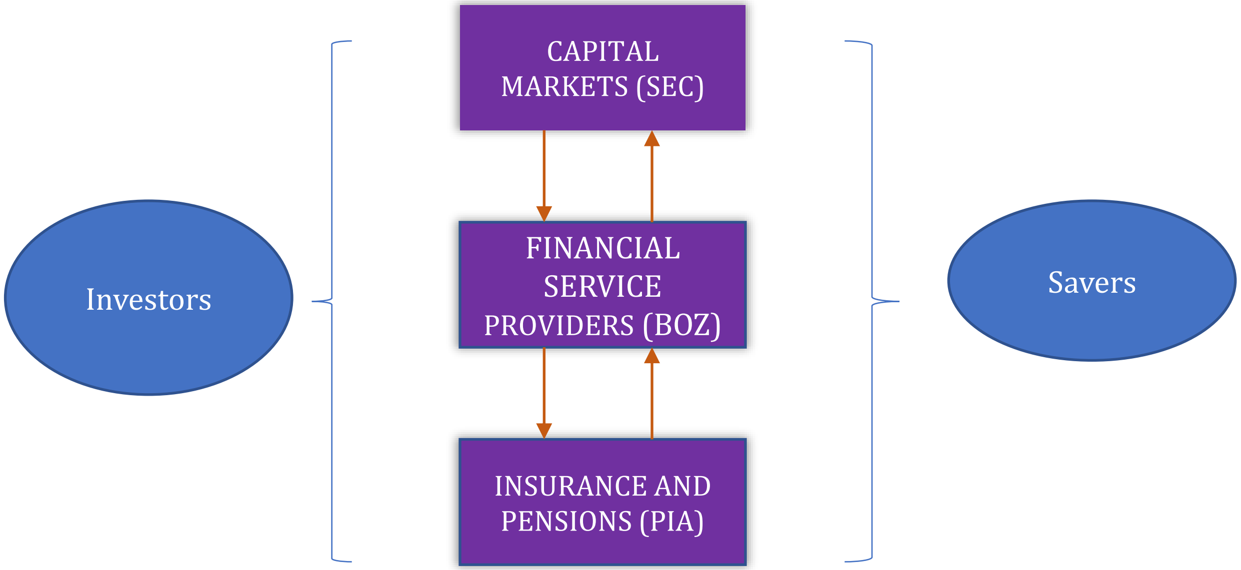
OTHER FUNCTIONS INCLUDE:

- Advisor to the Government;
- Fiscal agent to the Government;
- Managing International Reserves; and
- Printing and managing domestic currency

Source: Bank of Zambia

Introduction

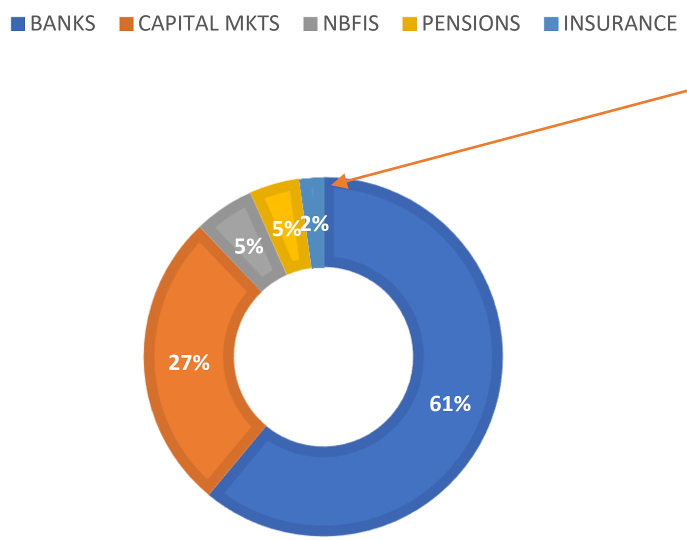
FINANCIAL SECTOR LANDSCAPE



BOZ, PIA AND SEC meet every quarter as part of regulatory Collaboration and information sharing . The meetings are chaired by the Heads of the three institutions on a rotational basis.

Sectoral contributions

FSPs, CAPITAL MKTS, PENSIONS AND INSURANCE

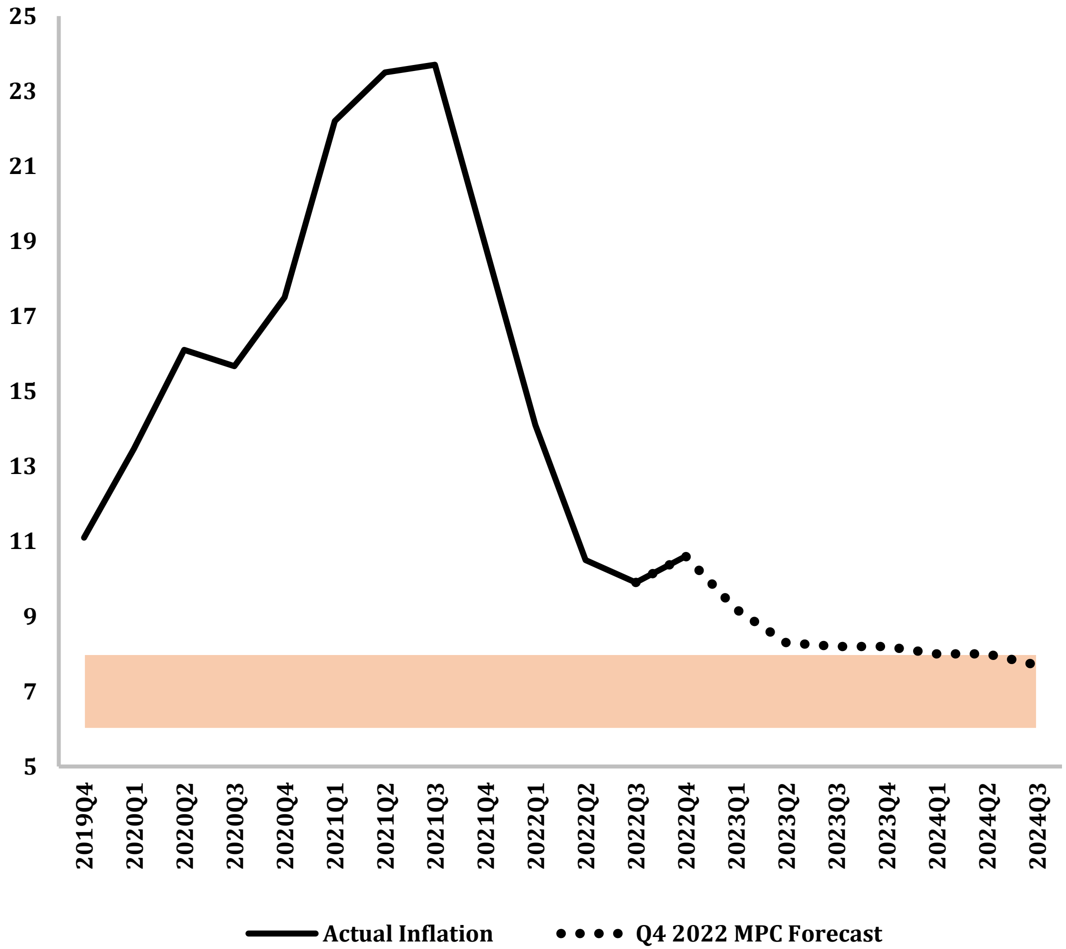


Insurance Sector only accounted for 2% of Total Assets before we factor in Capital Markets.

Institution Type	% of GDP
Banks	39.7
Capital Mkts	17.5
NBFIS	3.5
Pensions	2.9
Insurance	1.4

Inflation

Quarterly Inflation and Projections(Percent)



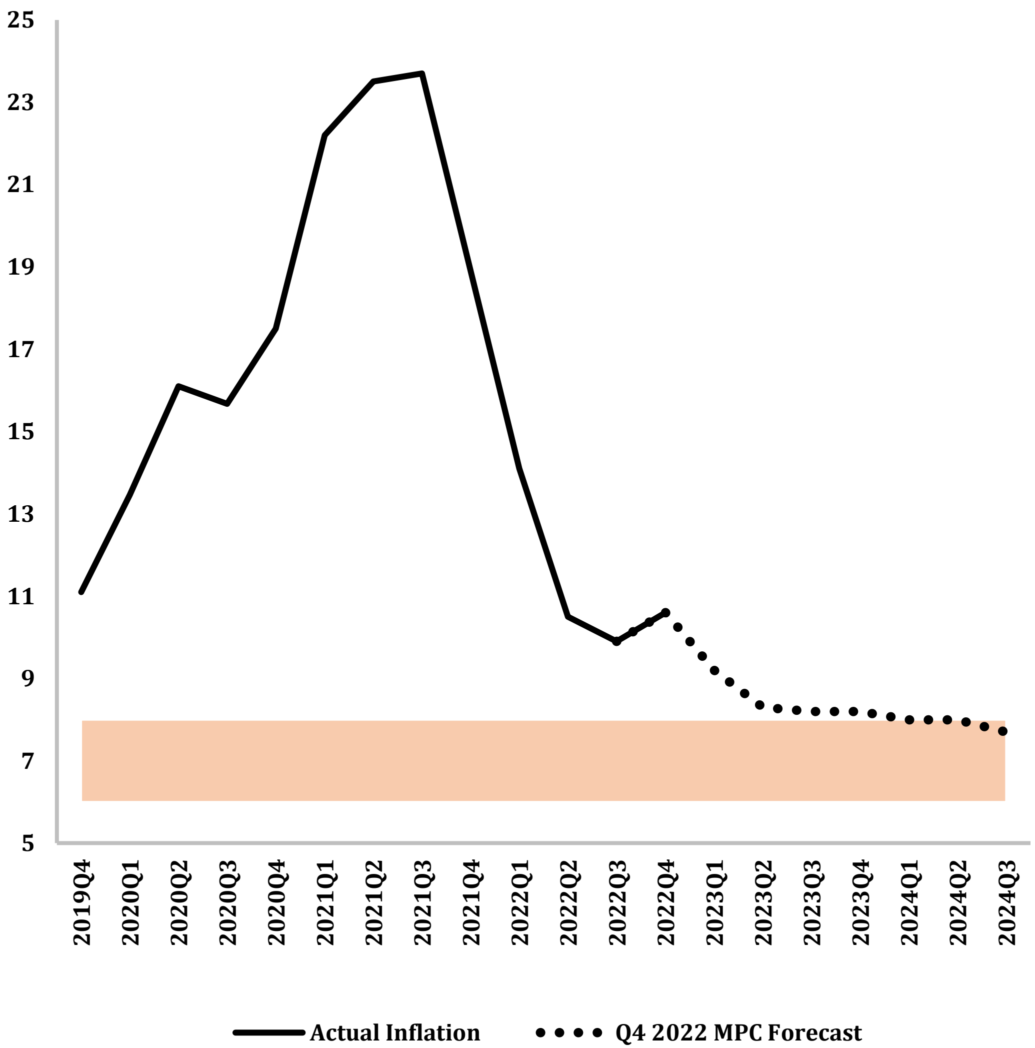
inflation outlook and monetary policy stance

- The Bank of Zambia remains committed to further reducing inflation and into the 6-8 target band by end-2023 as announced in the 2023 National Budget Speech.
- On November 23, the **Monetary Policy Rate was maintained at 9.0 percent** as inflation is projected to maintain a downward trend over Q4 2022 – Q3 2024 forecast horizon and return to the target range of 6-8 percent in the first quarter of 2024. Inflation is expected to follow a slightly higher path than was anticipated at the August MPC Meeting. Inflation is now (November) at 9.7 percent.
- Key drivers of inflation outlook include the deterioration in the global economic environment, which has adversely affected copper prices, export earnings, and capital flows. All these have exerted pressure on the exchange rate, which in turn is contributing to the elevated projected inflation.

... cont'd

Bank of Zambia

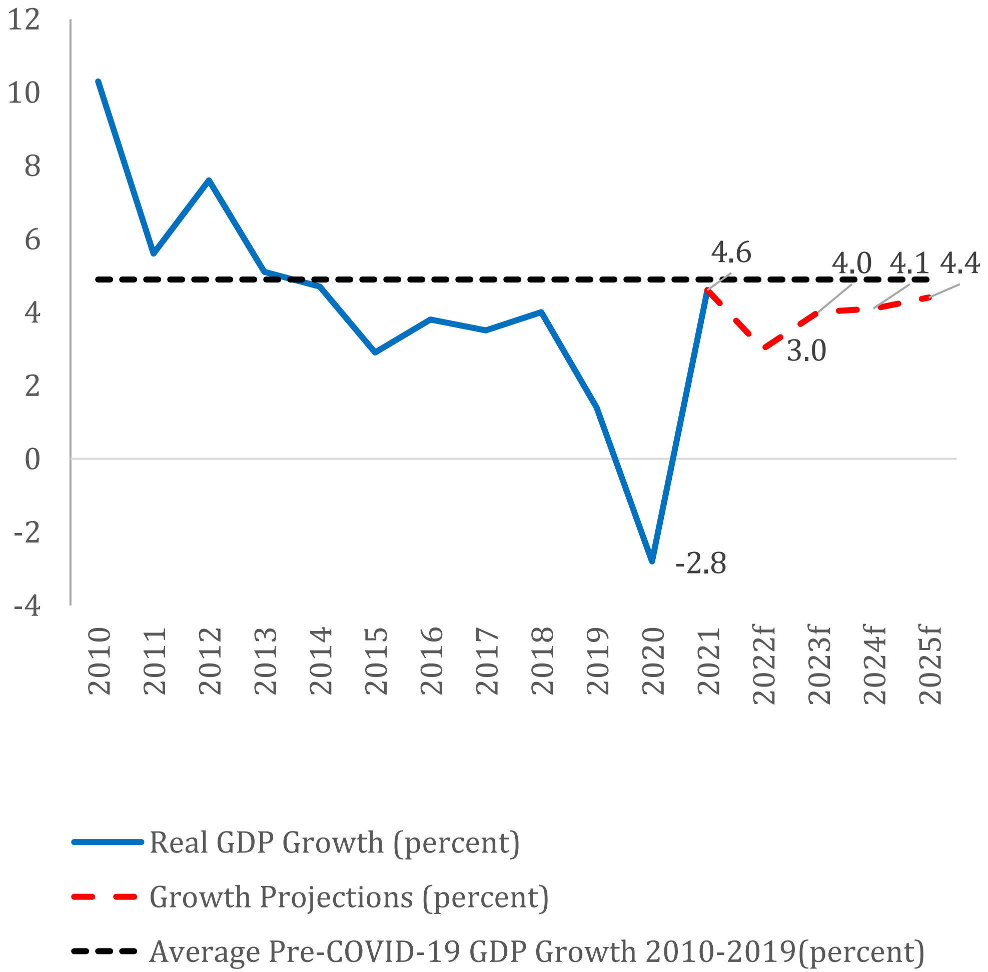
Quarterly Inflation and Projections(Percent)



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

Domestic Economic Activity

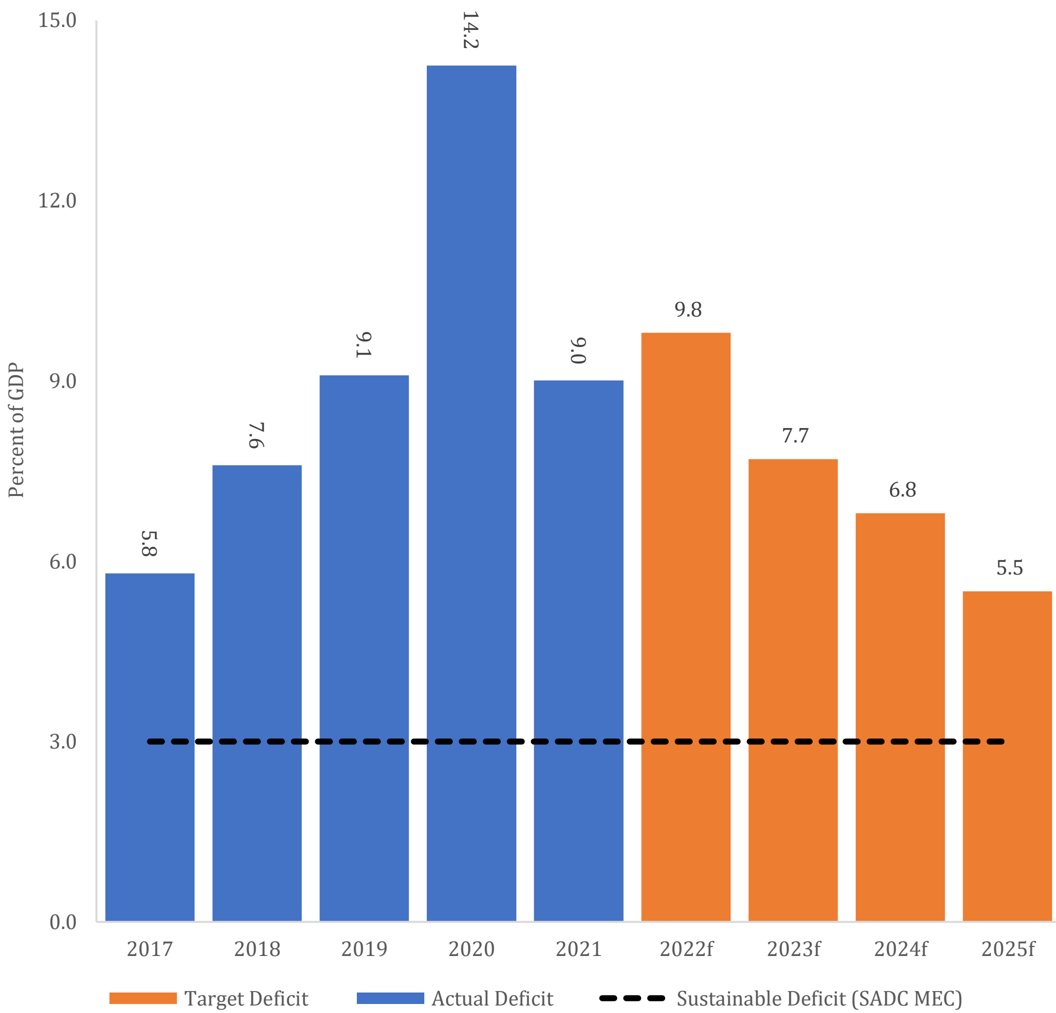
Annual GDP Growth (Percent)



- The economy is projected to grow by 3.0 percent in 2022 and further by 4.0 percent in 2023 and stay on the recovery path in the medium-term.
- The growth outlook is largely premised on the effectiveness of multiple support measures and reforms Government is undertaking in various sectors, particularly mining, agriculture, manufacturing, and tourism. Improvements in electricity supply, following the completion of the power generation units at Kafue Gorge Lower Hydropower Station, is expected to support growth.
- The key downside risks to the growth outlook include tighter global financial conditions, increase in energy and food prices, mainly induced by the Russia-Ukraine conflict, and lingering adverse effects of the COVID-19 pandemic.

Fiscal Policy

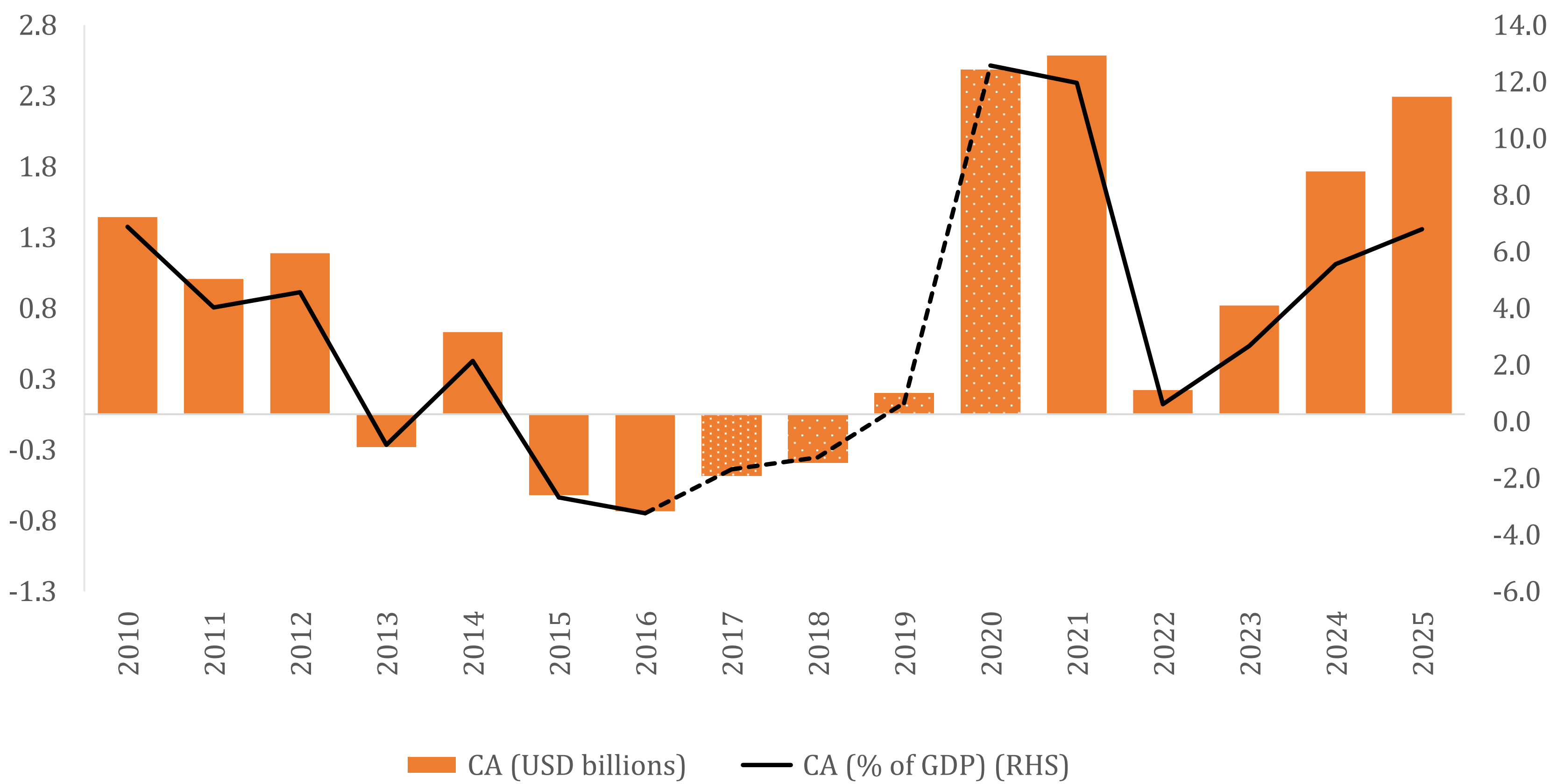
Fiscal Deficits (Percent)



- Government is committed to pursuing fiscal consolidation and restoring macroeconomic stability.
- Government plans to achieve this through a combination of revenue mobilisation and expenditure rationalisation measures and reforms.
- Government has undertaken a comprehensive set of Public Financial Management Reforms that include the enactment of the Public Debt Management Act No. 15 of 2022 and other measures announced in the 2023 Budget.
- This will help to consolidate the positive fiscal outcomes achieved in the recent past and tighten expenditure controls to halt the accumulation of arrears.

Current account

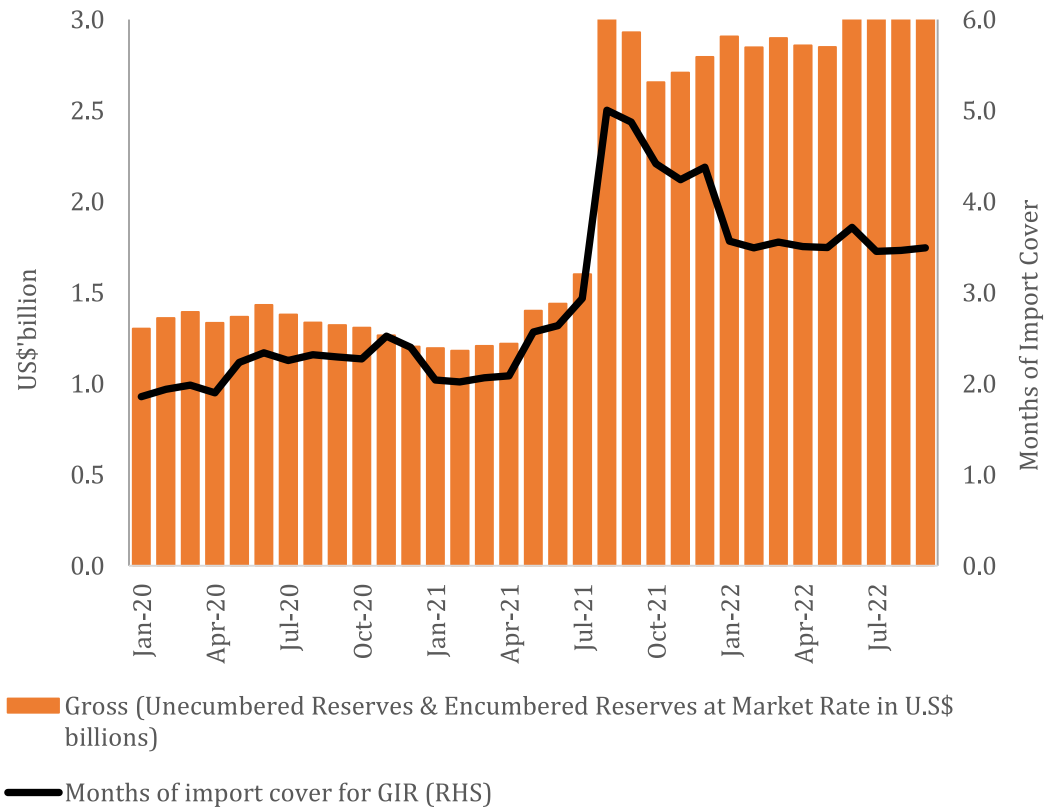
Current account surplus is projected to decline in 2022 but improve over the medium-term. An increase in net merchandise exports due to a faster rise in exports than imports will mainly drive the projected rebound in the current account surplus



Source: Bank of Zambia

International Reserves

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



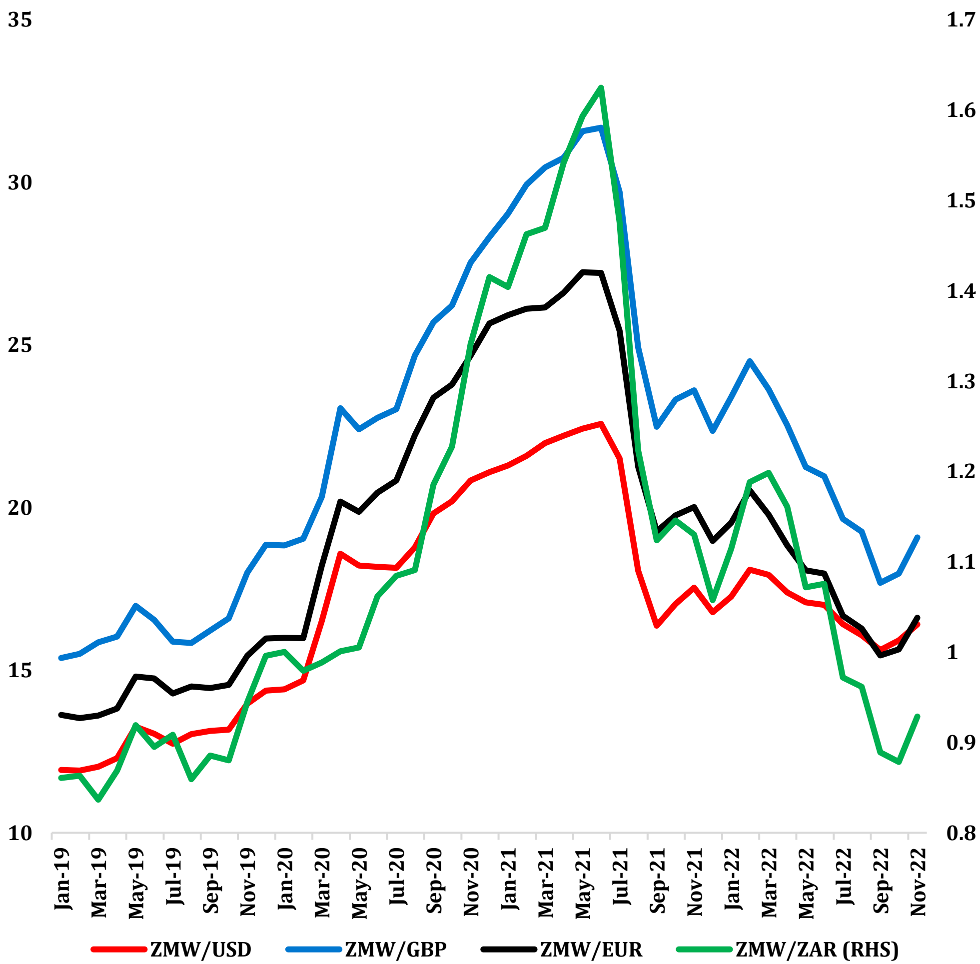
Source: Bank of Zambia

- In 2023, the Government targets to maintain international reserves above three (3) months of import cover.

- To achieve this, the Bank will continue with direct market purchases of foreign exchange, as conditions permit, and the local gold purchase programme.

- Expected donor inflows, announced in the Budget, are also expected to boost foreign exchange reserves.

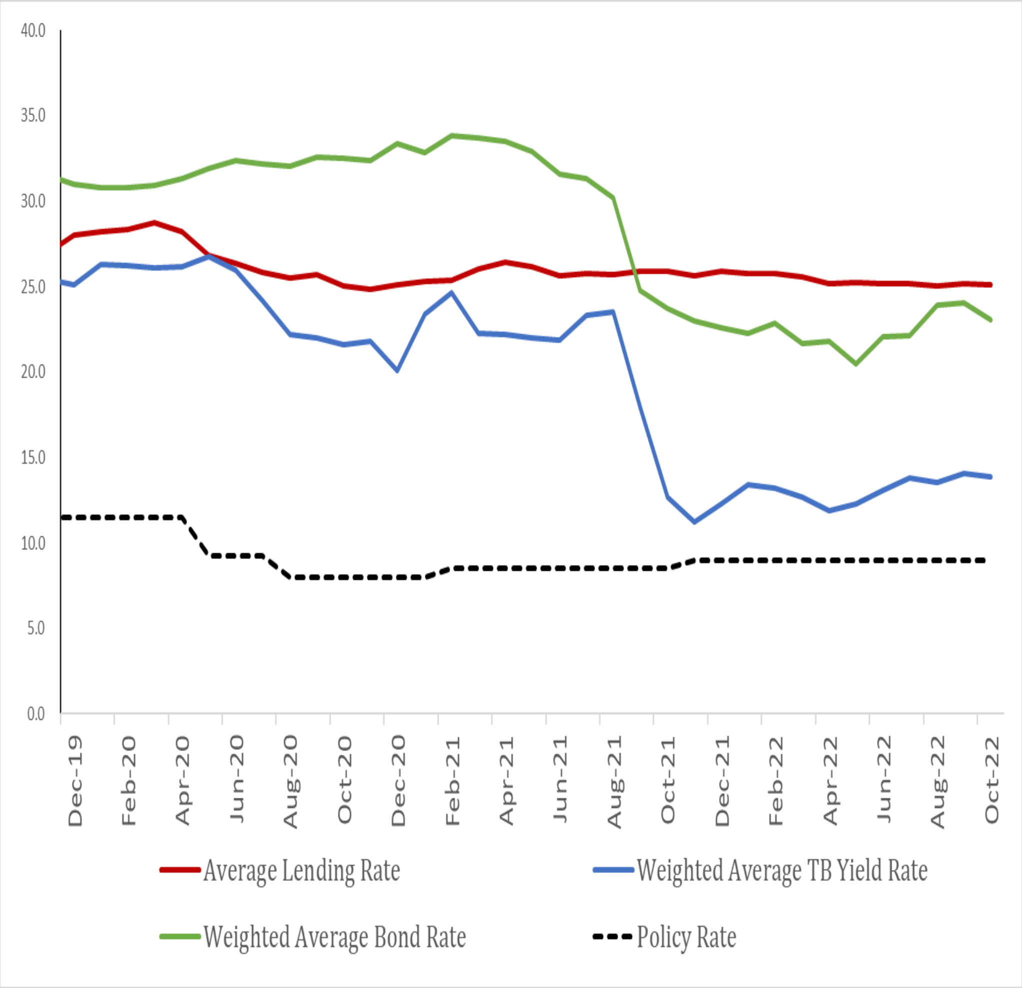
Exchange rate



Source: Bank of Zambia

- Demand pressures have re-emerged for the procurement of agricultural and petroleum products and have intensified in the fourth quarter. This has led to the depreciation of the Kwacha against the US dollar to K16.72 as at November 23, 2022 bring the year-to-date rate of depreciation to 0.3 percent .
- To address the underlying volatility and support importation of critical agricultural and petroleum products, the Bank of Zambia has had to provide US$1.3 billion of the mining receipts to the market this year.

Interest rates



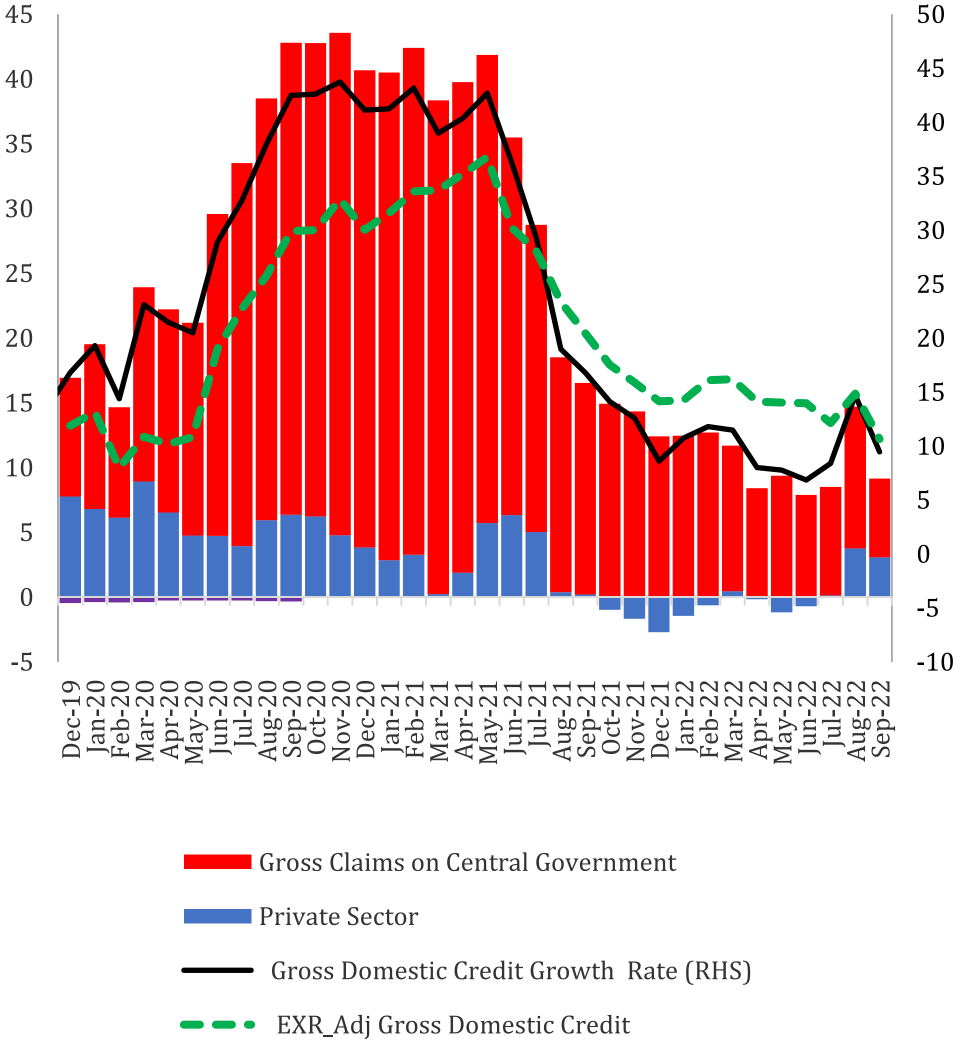
Source: Bank of Zambia

- Treasury bill and Government bond yield rates trended downwards from August 2021 mainly due to the pick-up in demand (high subscription rates) in the primary market. This increased competition among investors.

- However, yield rates on Government securities have recently ticked up on subdued demand largely due to tight liquidity conditions and reduced non-resident investor appetite.

- Despite the decline in yield rates and inflation, commercial banks' average lending rate has remained relatively high at around 25.0 percent.

Domestic credit



Source: Bank of Zambia

- In September, domestic credit grew by 9.5 percent, year-on-year, compared to 6.8 percent in June (Chart 9).
- This was largely attributed to some recovery in lending to the private sector, particularly in foreign currency. The latter was primarily driven by increased capital investments in the manufacturing and mining sectors.
- Credit to the private sector remains subdued as risk appetite is low in part due to high NPLs in the recent past, coupled with relatively low growth prospects as the economy is still recovering from the negative effects of the pandemic. This is despite support by the Bank to the economy at the on-set of the pandemic through Targeted Medium-Term Refinancing Facility (TMTRF).

Conclusion

- The economy is recovering not just from the severe challenges posed by COVID-19, but the longer period of economic decline that preceded the pandemic;

- In this regard, the recent reforms across the economy taken by the Government that have brought relative macroeconomic stability, need to be maintained and enhanced.

- We have a young population and the recovery needs to focus on the creation of employment if it is to be sustainable;

- The financial sector has a central role to play in this process and cooperation among the key regulators will be central to this success. ***The insurance sector, in particular, has an important role to play in helping to not only build resilience of businesses and firms, but in supporting investment and innovation***;

- Insurance can play a significant role in promoting trade, investments and expand opportunities for business to access products and services;

- The role of technology, and innovation more generally, will play an increasingly important role in this process. This will require that we harness technology and innovation for good and that we are able to manage key threats such as cyber security and fraud; and

- Strengthening the regulatory framework and governance of institutions in the financial sector is critical and this will require greater dialogue and consultation between the regulators and the players in the financial sector;

THANK YOU

Bank *of* Zambia