



FOR IMMEDIATE RELEASE

Date: 17/05/21

**CTPD'S EXPECTATIONS ON THE UPCOMING BANK OF ZAMBIA MPC
DECISION ANNOUNCEMENT**

As the Bank of Zambia (BoZ) Monetary Policy Committee (MPC) sets to announce its monetary policy decision on Wednesday 19th May, 2021, the Centre for Trade Policy and Development (CTPD) expects the committee to maintain the Monetary Policy Rate (MPR) at 8.50 percent in order to give more time for the upward adjustment that was made in the first quarter of 2021 to take full effect. Although there has been a slowdown in inflation since the last upwards adjustment, the prevailing rate of inflation at over 22 percent remains well above the 6 – 8 percent target range. Therefore, CTPD does not expect a downward adjustment of the MPR.

CTPD notes that overall inflation rose to a quarterly average of 22.17 percent in the first quarter of 2021 from the previous outturn of 17.53 percent, driven mainly by an increase in food inflation as non-food inflation slowed down. Food Inflation rose substantially, to a quarterly average of 26.90 percent from the previous 17.20 percent while non-food inflation declined to a quarterly average of 16.63 percent from the previous 18.03 percent. Supply-side constraints contributed to the rise in overall inflation over the review period.

Meanwhile, the Zambian Kwacha has continued to lose value against major currencies such as the United States Dollar (USD), depreciating by about 4 percent to an average of K21.60 per USD in the first quarter of 2021 from an average of K20.67 per USD in the last quarter of 2020. The rate of depreciation slowed down to 4 percent from the 9.4 percent recorded from the third to fourth quarter of 2020. This has partly contributed to the slowdown in non-food inflation.

The onset of the second wave of COVID-19 in January, 2021 slowed down economic activity which had begun showing signs of recovery towards the end of 2020. However, on account of reduced uncertainties surrounding the severity of the COVID-19 situation, especially with the news about the vaccines coming into the country, economic activity slightly improved towards the end of the first quarter of 2021. This is consistent with the *Stanbic Bank Zambia Purchasing Manager's Index (PMI)* which posted a downturn in private sector growth for the first two months of the first quarter as the PMI fell to 47.1 in February from 47.7 recorded in January 2021. The PMI increased to 49.7 in March before increasing further to 50.1 in April, 2021, signalling a near stabilization of the private sector and a less severe contraction in business activity.

For the long-term, the MPR alone cannot be seen as the silver bullet to address Zambia's inflation dynamics. Rather, in addition to robust monetary policy interventions, correcting the fiscal situation is of prime importance. This means narrowing the fiscal deficit by enhancing domestic revenue generation while ensuring that public expenditure adheres to sound public financial management practices as well as the austerity measures outlined in the Economic Recovery Program (ERP).

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Editor's Note

The Centre for Trade Policy and Development (CTPD) is a not- for –profit, membership based trade policy and development think tank. The organization was established in 1999 and existed as the civil society trade network (CSTNZ), until 2009 when it was rebranded as the Centre for Trade Policy and Development (CTPD).

The mandate of CTPD is to influence pro-poor trade and investment reforms at national, regional and multilateral levels as well as facilitate the participation of various stakeholders including member organizations in ensuring that trade is used as a tool for poverty eradication.

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