Civil Society for Poverty Reduction

CSPR ZAMBIA

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FOR IMMEDIATE RELEASE

20th February 2025

CSPR STATEMENT - 2025 MONETARY POLICY RATE ADJUSTMENT BY THE BANK OF ZAMBIA

On February 12, 2025, the Governor of the Bank of Zambia issued a significant Monetary Policy Committee (MPC) Statement in accordance with Part 29 (1) of the Bank of Zambia Act, 2022. Notably, the MPC announced a 50-basis point increase in the Monetary Policy Rate (MPR), adjusting it from 14% to 14.5%, alongside the introduction of a new family of currency notes. While the MPR is a pivotal instrument for controlling inflation, its recent increases over the past three years have produced mixed results.

CSPR has continued to question the set ambitious target of maintaining inflation within the 6-8% band. We observe that in pursuit of this objective, the Bank of Zambia (BoZ) has systematically tightened its monetary policy, with the MPR rising from 9.25% in the first quarter of 2023 to 14.5% in the first quarter of 2025. However, we note that there seems to be a shift to Zambia's monetary policy approach from a neutral stance to a contractionary policy approach. This is validated by the fact that, in 2022 for example, the Bank of Zambia maintained the policy rate at 9.00% throughout the year without undertaking any significant adjustments.

Following the recently announced Monetary policy direction, we observe that there are implications for the cost of running loans linked to the MPR. It must be noted that all current running loans for households that are tied to the MPR will experience an upward adjustment which entails reduction of household disposable incomes amidst rising cost of basic needs. This policy measure has a crowding out effect for the private sector and limits capital for Small and Medium Enterprises (SMEs). It stifles SME growth, job creation and their contribution to the economy. Despite the Bank of Zambia's assertion that rising inflation necessitated the further tightening of monetary policy, we have growing concerns regarding the effectiveness of the MPR as a tool to curb what appears to be close to what we can call "hyperinflation" in economics. The repeated justification for the continued increases to the MPR raises questions about the feasibility of maintaining inflation within the desired band through this singular monetary policy approach.

While CSPR acknowledges the detrimental effects of high inflation on the purchasing power and overall well-being of citizens, it is our view that critically evaluating the sufficiency of the MPR as a single instrument to curtail current inflationary pressure is now necessary and imperative.

As CSPR we would like to emphasize that inflation erodes the purchasing power of consumers, resulting in increased costs for basic commodities, and for many, this means inability to afford and access basic needs, worsening the poverty trap. While efforts to lower inflation are commendable, a critical question remains as to whether sustained increase in the MPR over the last three years (2022-2024) has effectively mitigated inflation. Our perspective is that it has not and that infact, there could be negative spillover effects emerging more strongly from such monetary policy decisions.

In the 2025 National Budget, the Ministry of Finance and National Planning emphasized the critical need for coordinated monetary and fiscal policies to ensure macroeconomic stability. CSPR draws on this premise to underscore the necessity of assessing the effectiveness of recent monetary policy directions and the implications of these on our fiscal position.

We observe that there was a consistent upward trajectory in the MPR throughout 2023, with notable increases in each quarter. However, despite these efforts to tighten monetary policy, inflation rates have continued to rise. This is of great concern to CSPR, an organization that advocates for reduction in poverty levels.

CSPR understands that raising the MPR to 14.5% from 14.0% aims to exert control over inflation and stabilize the volatile Kwacha. These objectives are undoubtedly crucial for achieving macroeconomic stability. However, it is vital to recognize that monetary policy measures, including adjustments to the MPR, are often stop-gap solutions. Inflation is influenced by a complex interplay of demand and supply dynamics within the economy, necessitating a more comprehensive approach to address the underlying causes.

The Zambian inflation rate has been closely linked to the performance of the mining sector and influenced by foreign exchange dynamics, particularly the depreciation of the local currency over the past four years.

We observe from studying exchange rate fluctuations that the past three years have seen extreme volatility in Zambia's macroeconomic indicators, particularly the exchange rate. This is partly due to the country's heavy dependance on copper exports making its economy vulnerable to global commodity price fluctuations. Addressing this requires more than just adjustments to the MPR but a drive towards an economic restructuring process that aims to diversify away from copper. It is important to note that the depreciation of the kwacha over the last three years or so by about 55% has contributed to the rise in the cost of living. As an import-dependant country, Zambia is particularly vulnerable to the impacts of currency depreciation, with over 80% of consumed products being imported.

CSPR notes that the application of a contractionary monetary policy has not necessarily changed the trajectory of the inflation rate over the same period but that infact it has maintained an upward trend reaching 16.7 % in January 2025, further away from a target band of 6-8%. The negative effect of consistently applying contractionary monetary policy direction for a developing country experiencing low growth with high unemployment rates could be unbearable for SMEs and households. The continued increase in cost of credit has over the years limited the ability of SMEs to invest in growth, meet operational expenses or create jobs which is key for the attainment of key milestones in the first pillar of the 8th National Development Plan; Economic transformation and job creation. Therefore, CSPR emphasizes that while controlling inflation and stabilizing the currency are vital objectives, relying solely on MPR adjustments could be insufficient for long- term economic stability. A multi-faceted approach, combining monetary and fiscal policy coordination, structural reforms, and addressing supply-side constraints, is essential for effectively tackling the inflation challenges facing Zambia.

As we seek to achieve the macro-economic inflation target of 6-8%, it is critical for policymakers to evaluate the broader economic landscape and consider innovative solutions that address the root causes of inflation in Zambia. It is important for policy makers to be consultative and open to explore alternative viable policy directions that can pave way towards sustainable economic growth and improved living standards for all citizens. To strengthen response that can positively respond to the crisis of inflation the country is currently facing, CSPR recommends the following;

1. The Government should adopt the supply side response measures which include favorable policies to attract both local and international investment in key sectors such as manufacturing, Agriculture, Mining and Energy in order to enhance national output and inflow of forex via exports.

2. The Government should strengthen legislation to curb the rise of the Illicit Financial Flow (IFFs) that continue to take away the much-needed forex for the country.

3. The Government needs to broaden and strengthen the implementation of export proceeds tracking framework.

4. The Government to provide a clear roadmap on the implementation of the de-dollarization policy

CSPR believes these measures are crucial to averting the rapid depreciation of the local currency; a factor which presents as the main driver to the upward movements of the inflation rate.

Issued by:

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EDITOR`S NOTES:

The Civil Society for Poverty Reduction (CSPR) is a civil society network that has been building the voices for poor in the fight against poverty in Zambia. It was established in 2000, primarily to ensure that civil society effectively and meaningfully participated in the design, formulation, and implementation of the National Development Plans (NDPs) and further monitor the NDPs to ensure government provides a means by which Zambia can effectively strategize on reducing the escalating levels of poverty. Since the third quarter of 2000, and in response to an invitation from the Zambian Government, the civil society in Zambia has been participating in the process of formulating and monitoring the NDP for the country, and hence sought the need to form a network that would enhance the effectiveness of this participation. This move was mainly meant to: Strengthen lateral learning among civil society and therefore build financial and technical capacities among civil society and other stakeholders for them to fully engage in Pro – poor development.