

BNNB Statement

15th November, 2021

INCREASE IN THE MONETARY POLICY RATE MAY WORSEN LIVING CONDITIONS

The cost of living for a family of five as measured by the JCTR Basic Needs and Nutrition Basket (BNNB) for November 2021 stood at K8, 145.28. This is a K123.44 decrease from K8, 268.72 in October 2021. The downward movement in the basket is attributed to reduced prices of items such as 1kg Kapenta which went down by K56.76 from K290.63 to K233.87, 40kg bag of vegetables which went down by K14.83 from K438.62 to K423.79. Additional reductions were noted in the prices of 14kg of other fruits which reduced by K204.9 from K314.65 to K109.75. However, the November basket also recorded price increases in items such as 10 litres of milk which increased by K52.84 from K244.26 to K297.1, 1kg pounded groundnuts increased by K13.68 from K34.97 to K48.65, 2kg soya pieces increased from K113.68 to K126.46. Additionally, the non-food but essential items section also recorded an increase in 50kg bag of charcoal from K360 to K378.

In interrogating the November basket, JCTR notes a steady decline in the cost of living as seasonality continues to affect the price movements in selected items on the basket. For instance, the price of other fruits has significantly reduced given the availability of fruits such as mangoes. Other key contributing factors to the reduced cost of living include a slight decrease in the inflation rate. The exchange rate has however hovered around K17 to one US Dollar and possibly continues negatively impacting prices of products dependent on imported inputs such as milk. On the contrary, given the onset of the farming season, groundnuts and soya bean prices have gone up.

A key highlight in November was the adjustment of the Monetary Policy Rate by 50 basis points to nine percent ushering in a contractionary monetary policy rate. The intervention will lead to an increase in bank interest rates, contraction of money supply in the economy and in the process bring down inflation. The nation has since 2019 been plagued with high inflation rates. This policy stance is therefore targeted at curbing the inflation rate, which may result in price stability of commodities. On the downside, contractionary monetary policy gradually slows down economic growth and even increases unemployment. A 2019 study¹ using micro level labour force survey data does indicate that an increase in the Bank of Zambia policy rate increases unemployment. The expected unemployment as a result of an increased MPR would worsen the socio-economic context of recent years that has been characterised by contracted growth and eventually a recession on account of COVID-19.

JCTR emphasises the need to guard against increases in macroeconomic variables such as inflation as it erodes the disposable incomes of households in the long run thereby compromising living standards. Economic growth remains essential to seeing the much needed government revenue and job creation. JCTR reiterates that the increase of the MPR to 9 percent has the potential to increase poverty levels in the country and worsen living conditions. This is in view of some of its trickle-down effects that includes prolongment of the period to repay loans and/or increase in the monthly repayment of loans to banks. This negatively impacts the availability and cost of credit in the economy

¹ Mphuka Chrispin and Kaonga Oliver. Effect of Contractionary Monetary Policy on Gender in Zambia. December, 2019. Bank of Zambia Working Paper Series, WP/2019/3

which makes it more difficult for the private sector to expand and create more jobs. It is imperative that the government actualises social protection interventions set out in the 2022 national budget to cushion households so that poverty does not worsen in view of the expected increase in unemployment.

It is a social justice imperative that government takes serious considerations on uplifting the living standards and conditions of the marginalised, the vulnerable and the poor citizens. Therefore, JCTR implores the government to promulgate pro-poor policies, especially those which will reduce the cost of living, promote the common good and preserve human dignity.

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