***Press Release*** ***14th March 2014***

**CURRENCY INSTABILITY A THREAT TO RISING COST OF LIVING**

The Kwacha has for the last four weeks been depreciating sharply against other convertible international currencies such as the United States Dollar. Various sections of society have expressed fears that the weakening of the Kwacha will push up the cost of production of goods and services. Already the Central Statistics Office has confirmed that inflation has risen from 7.3% in January to 7.6% in February, 2014.

In view of the depreciation of the Kwacha, the Bank of Zambia (BoZ) has tightened the monetary policy by increasing the statutory reserve ratio as well as lending policy rate in order to sustain the local currency. The policy rate was raised to 10.25 per cent from the precious 9.75 per cent, while the reserve ratio was increased from 8 per cent to about 14 per cent. Apart from tightening monetary policy, there have been several assurances that developments in the foreign exchange market are closely being monitored so as to keep track for the attainment of an inflation target of 6.5% this year.

The cost of living for the month of February 2014 as measured by the *JCTR’s Basic Needs Basket* for an average family of five living in Lusaka stood at **K 3,616.28.** This shows an increase of **K11.27** compared to the month of January 2014 when the basic needs basket stood at **K3, 605.01**.The increase in the basic needs basket is mainly due to an increase in the cost of vegetables. The cost of dark green vegetables, tomatoes and onions increased, respectively, from **K2.83** to **K5.21, K4.99** to **K7.54, K4.61** to **K6.12,** per Kilogramme. These increases are because of decreased seasonal availability of vegetables.

The gradual but steady weakening of the Kwacha against major international currencies must be addressed from a comprehensive perspective. While short-term measures to stabilize the Kwacha are welcome, there is need to focus on long-term solutions. In addressing root causes of the Kwacha’s depreciation, a broad range of factors must be comprehensively considered. There is need to continue diversifying the country’s sources of foreign exchange besides traditional exports such as copper. To ensure continued attraction of the economy to investors, government policies must be seen to be consistent and coherent in terms drafting, implementation and adherence to set policies. Zambia being a largely importing economy, the continued depreciation of the Kwacha will increase the already high cost of living as import costs may be transferred to consumers.

**For more information, contact the Social and Economic Development Programme of**

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