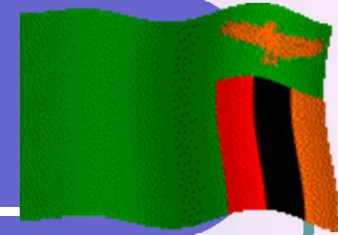




Bank of Zambia



MACROECONOMIC CONDITIONS, MONETARY POLICY, AND THE OUTLOOK FOR THE ZAMBIAN ECONOMY

by

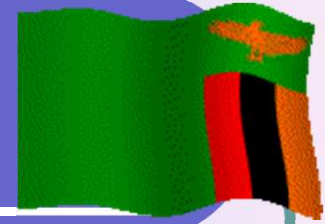
**CALEB M. FUNDANGA
GOVERNOR
BANK OF ZAMBIA**

**Sao Paulo, Brazil
17 November 2010**



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Outline

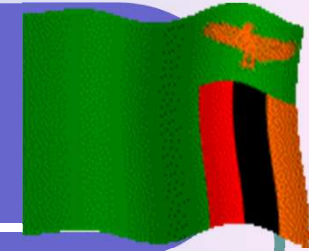


- I. Introduction
- II. Current Macroeconomic Conditions
- III. Monetary and Supervisory Policy
- IV. Financial System Stability
- V. Investments Opportunities
- VI. Outlook for the Zambian Economy
- VII. Conclusion



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I. Introduction



- ❑ Zambian economy liberalised 1992. The policies and structural reforms included removal of price controls; removal of administrative allocations of credit; privatisation of state-owned enterprises and removal of exchange controls.

- ❑ Macro-economic stability and appreciable growth has been achieved over the recent past as reflected in:
 - positive real GDP growth and rising per capita incomes;

 - falling inflation and lower interest rates; and

 - stability and growth in the financial sector.



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II. Current Macroeconomic Conditions

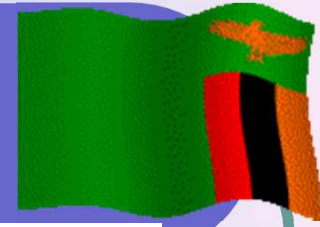


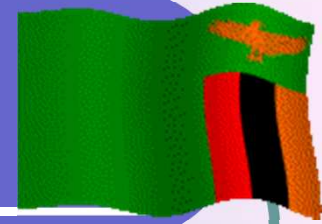
Table 1: Major Macroeconomic Indicators, 2005-2010

	2005	2006	2007	2008	2009	Oct 2010
Real GDP growth (end-year%)	5.3	6.2	6.2	5.7	6.4	6.6
GDP per capita (end-year US \$)	654.9	908.1	949.0	1,174.0	992.9	1,182.2
Annual Inflation end-period (%)	15.9	8.2	8.9	16.6	9.9	7.3
Total Exports (US \$' mn)	2,208.2	3,890.7	4,448.5	4,880.2	4,242.82	5,249.6
Metal Exports (US \$' mn)	1,673.8	3,175.4	3,667.7	4,004.0	3,343.15	4,344.5
Non-Traditional Exports (US \$' mn)	534.4	715.3	780.8	876.2	899.67	905.1



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II. Current Macroeconomic Conditions (cont'd)



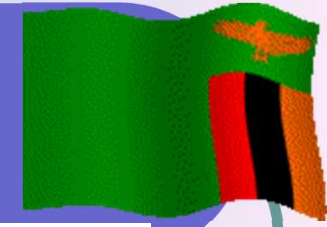
Gross Domestic Product

- ❑ In 2009, real GDP growth was 6.4%, up from 5.7% recorded in 2008.
- ❑ This was despite adverse effects of the global recession of 2008 and was above the 2.2% and 1.6% average growth rates for SADC and Sub-Saharan Africa, respectively in 2009.
- ❑ Real GDP growth is expected to rise further to 6.6% in 2010.



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II. Current Macroeconomic Conditions (cont'd)

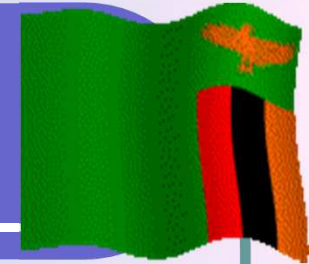


- ❑ The main factors include:
 - Sustained growth and supportive strategies in agriculture.
 - Copper production projected to exceed 720,000 mts, following increased investment in the mines coupled with recovery in demand and prices on the international market;
 - Continued increase of residential, commercial and public infrastructure construction projects throughout the country; and
 - Sustained macro-economic stability.
- ❑ Consistent with real GDP growth, GDP per capita is expected to rise to about US \$1,182.21 in 2010 from US \$992.9 million in 2009.



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II. Current Macroeconomic Conditions (cont'd)



Inflation

- ❑ Attaining low and stable inflation continues to be one of the key challenges to Zambia, which is a small open and net oil importing economy.
- ❑ As at October 2010, annual inflation slowed down to 7.3% from 7.7% in September 2010, 9.9% registered in 2009 and 16.6% recorded in 2008.
- ❑ This was attributed to the improved supply of food commodities such as cereals and vegetables following the 2009/10 bumper crop harvest.
- ❑ In addition, the appreciation of the Kwacha local currency in the third quarter of 2010 by about 4.5% partially off-set the impact of a rise in electricity and fuel prices .



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II. Current Macroeconomic Conditions (cont'd)

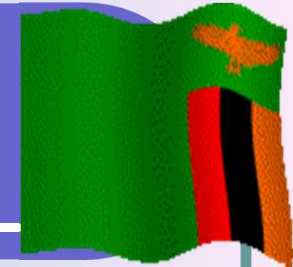
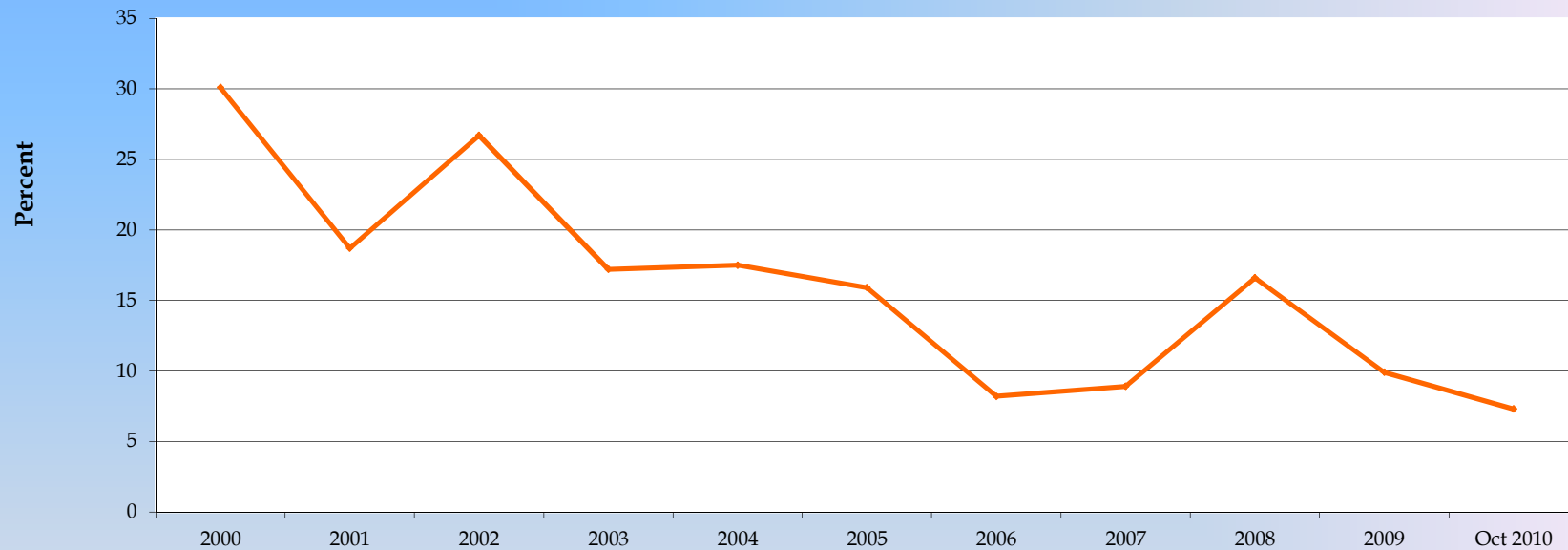


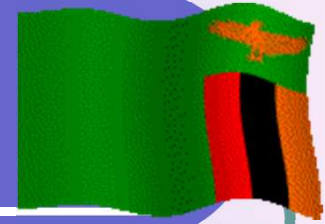
Chart 1: Inflation Developments, 2000 - Oct 2010





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III. Monetary and Supervisory Policy



- ❑ Since 1992, monetary and supervisory policy in Zambia has focussed on:
 - lowering and stabilising inflation and;
 - maintaining a stable financial system.

- ❑ Monetary policy operational framework uses broad money (intermediate target) and reserve money (operational target) to attain a desired level of inflation.

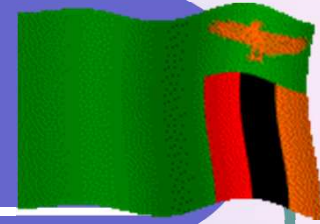
- ❑ Bank of Zambia is reviewing its monetary policy framework with a view to shift from the strict use of monetary aggregates to short-term interest rates as the anchor for monetary policy.

- ❑ This is in view of recent experiences with the global economic crisis and the weakening of the link between money supply growth and inflation.



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III. Monetary and Supervisory Policy (cont'd)

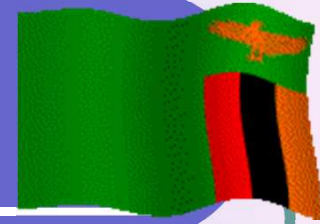


- ❑ BoZ has also introduced a framework to facilitate secondary market trading in Government securities and other debt instruments.
 - *Expected to provide additional liquidity to investors and information that will assist to improve the efficiency of financial market operations.*
- ❑ BoZ has put in place a formal lender of last resort policy with a view to promoting financial stability.



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III. Monetary and Supervisory Policy (cont'd)

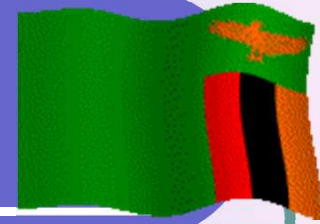


- ❑ Government is also working on a financial sector contingency plan, which aims to address any systemic risks that may arise in the financial sector.
- ❑ On the external sector front, the Zambian Government remains committed to a flexible exchange rate regime.
- ❑ The flexible, yet orderly, response of the exchange rate to negative external shocks enabled the Zambian economy to adjust relatively smoothly to new circumstances particularly at the height of the recent global recession.



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IV. Financial System Stability

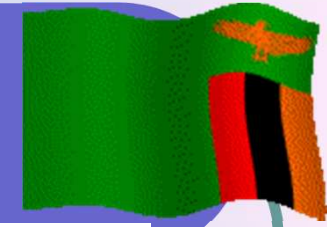


- ❑ Despite the adverse impact of the global financial crisis, the overall financial condition of the banking sector in Zambia as at end September 2010 was satisfactory, and all banks remained adequately capitalised.
- ❑ Capital adequacy ratios remain high at 20.3% and 23.4% for Tier 1 and Total regulatory Capital respectively.
- ❑ Well regulated and supervised financial sector with ownership of financial institution limited to 25% except listed entities.
- ❑ Confidence in Zambia's financial sector continues to improve.
 - Five new commercial banks were granted licenses to operate in 2009, bringing the total of banks operating in Zambia to 18. Non-Bank Financial Institutions Sector also growing .



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IV. Financial System Stability (cont'd)

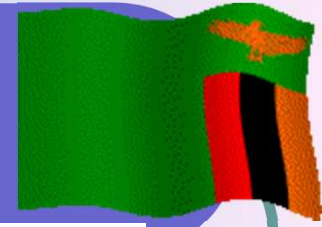


- ❑ Financial Sector Reforms undertaken through FSDP from 2004.
- ❑ A number of positive developments have since been recorded including:
 - ❑ Harmonisation of the financial sector legal framework;
 - ❑ Establishment of the credit reference bureau;
 - ❑ Increase in the number of commercial banks. 5 new banks bringing the total to 18;
 - ❑ Govt. has restructured or re-capitalised most state owned NBFIs;
 - ❑ Micro Finance Institutions increasingly filling the financing gap and notable increase in the usage of money transfer services across the country;
 - ❑ Modernisation of the National Payment System;



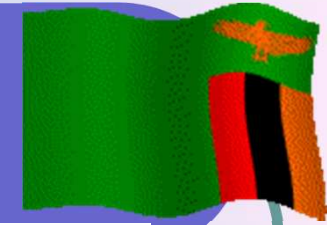
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IV. Financial System Stability (cont'd)



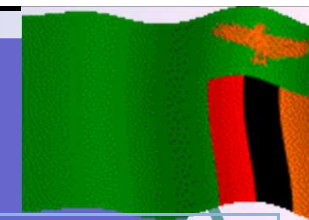
- ❑ Following the success of the FSDP, the programme was extended for a further three (3) years to December 2012.
- ❑ FSDP phase II will focus on 3 main pillars, notably :
 - Enhancing market infrastructure;
 - Increasing competition; and
 - Increasing access to finance.

IV. Financial System Stability (cont'd)



- Institutions under BOZ supervisory Ambit:
 - 18 banks,
 - 11 leasing finance companies,
 - 3 building societies,
 - 48 bureaux de change,
 - 1 savings and credit bank,
 - 1 development finance institution,
 - 24 microfinance institutions and
 - 1 credit reference bureau (CRB).
- Banks dominate financial system owning about 80% of total system assets

Table 2 - Commercial Banks in Zambia



	Foreign Owned Banks	63.7%
1	African Banking Corporation Zambia Limited	1.6
2	Bank of China Zambia Limited	8.4
3	Barclays Bank Zambia Plc	18.3
4	Citibank Zambia Limited	6.9
5	Intermarket Banking Corporation Zambia Limited	0.9
6	Stanbic Bank Zambia Limited	12.2
7	Standard Chartered Bank Zambia Plc	15.6
	Locally Owned Banks	11.6%
8	First Alliance Bank Zambia Limited	1.2
9	Investrust Bank Plc	2.9
10	Finance Bank Zambia Limited	6.5
11	Cavmont Capital Bank Zambia Limited	1.0
	Joint Venture with GRZ	20.1%
12	Indo-Zambia Bank Limited	4.8
13	Zambia National Commercial Bank Plc	15.3
	Newly Licensed Banks(All foreign Owned)	4.6%
14	Access Bank Zambia Limited	1.8
15	Ecobank Zambia Limited	0.6
16	First National Bank Zambia Limited	1.4
17	International Commercial Bank Zambia Limited	0.2
18	United Bank for Africa Zambia Limited	0.6

IV. Financial System Stability (Cont'd)

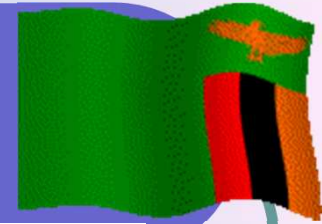
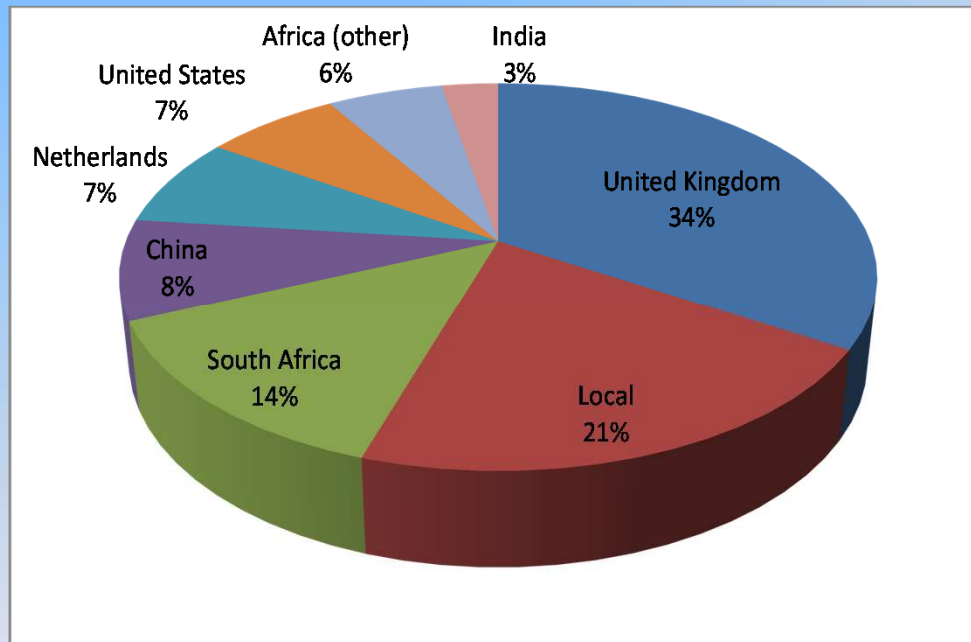


Chart 2: Investments in the Zambian banking sector by country of origin



IV. Financial System Stability (cont'd)

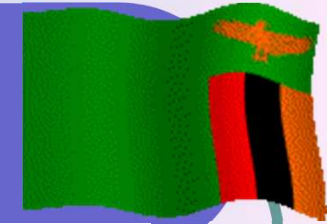
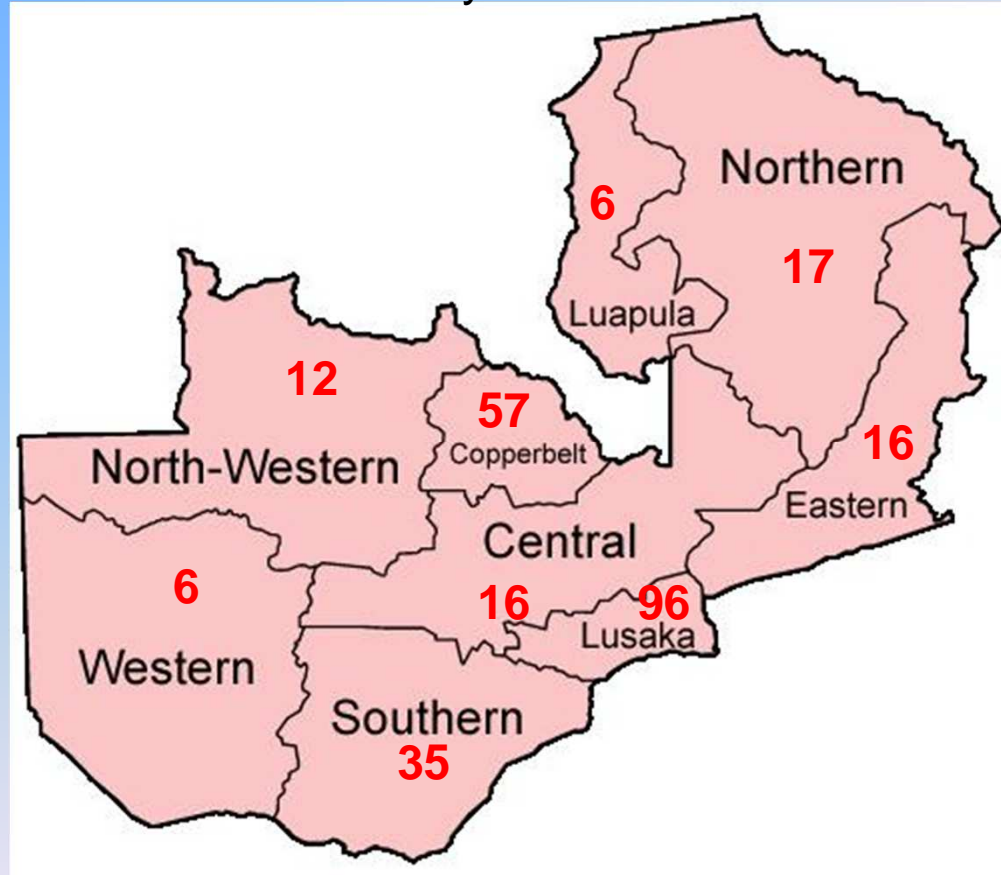
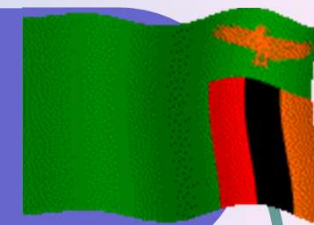


Chart 3 - Bank Branch Distribution by Province as at 31 October 2010



IV. Financial System Stability (cont'd)

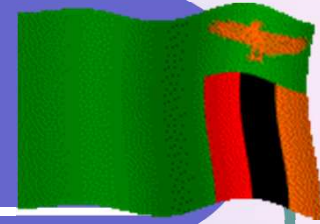


- Sovereign Rating
- The country is in the process of obtaining a sovereign credit rating to be able to access the private capital market and provide a benchmark rate for Zambian firms borrowing externally.
- Government has awarded a contract to two rating agencies, namely, Standard and Poors, and Fitch, to undertake the rating for the country.
- It is expected that the country would have two sovereign ratings by the end of 2010.



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V. Prospects for Investments

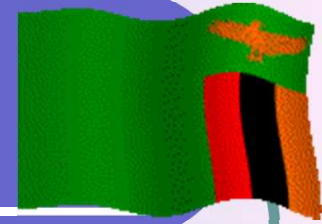


- ❑ Investment opportunities are abundant and cut across sectors in Zambia:
 - **Financial Sector:** Opportunities to extend financial services to the rural unbanked population;
 - **Agriculture:** Zambia boasts of 60 million hectares arable land out of which only 15% is cultivated. Therefore, there are plenty of opportunities in the production of crops, beef and dairy, floricultural and horticultural products for export, canning factories, oil processing plants;
 - **Tourism:** development and construction of accommodation facilities, safaris, game ranching, marinas. Government is developing infrastructure to support tourism;
 - **Mining:** (copper mining, investigation of slag tailing dumps, gold recovery, nickel, iron ore, gemstone and industrial minerals, exploration of oil and gas);
 - **Manufacturing:** Food processing, fertiliser, spare parts and industrial chemicals. Government is developing MFEZs for the private sectors interested in manufacture of exportables; and
 - **Utilities and services:** Such as energy, transportation, and construction.



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VI. Outlook for the Zambian Economy

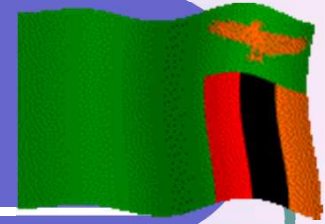


- ❑ As the world economy emerges from recession, medium-term growth prospects for the Zambian economy are bright.
- ❑ GDP growth in 2010 is projected at 6.6%, while inflation is expected to be within the end-year target of 8.0%.
- ❑ The country is expected to continue to attract strong investment flows, therefore the external position should strengthen.



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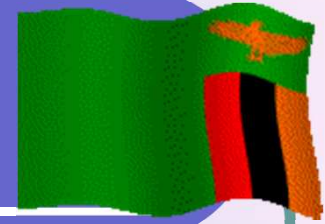
VII. Conclusion



- ❑ Consolidation of wide-ranging economic pro-growth reforms embarked on since 1992, have led to improved macroeconomic performance.
- ❑ Over the years, the country's investment environment has improved and offers abundant opportunities for private sector investment and/or public private partnerships.
- ❑ The Zambian authorities will continue to monitor global developments and take appropriate actions to maintain the macroeconomic gains achieved thus far.
- ❑ Key macroeconomic objectives for 2011 include:
 - Achieving real GDP growth of at least 6.4%;
 - Reducing end-year inflation to 7.0%; and
 - Maintaining international reserves of at least 4 months of import cover.



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THANK YOU