

FINANCIAL STABILITY AND ECONOMIC RECOVERY

The Case of Zambia

by

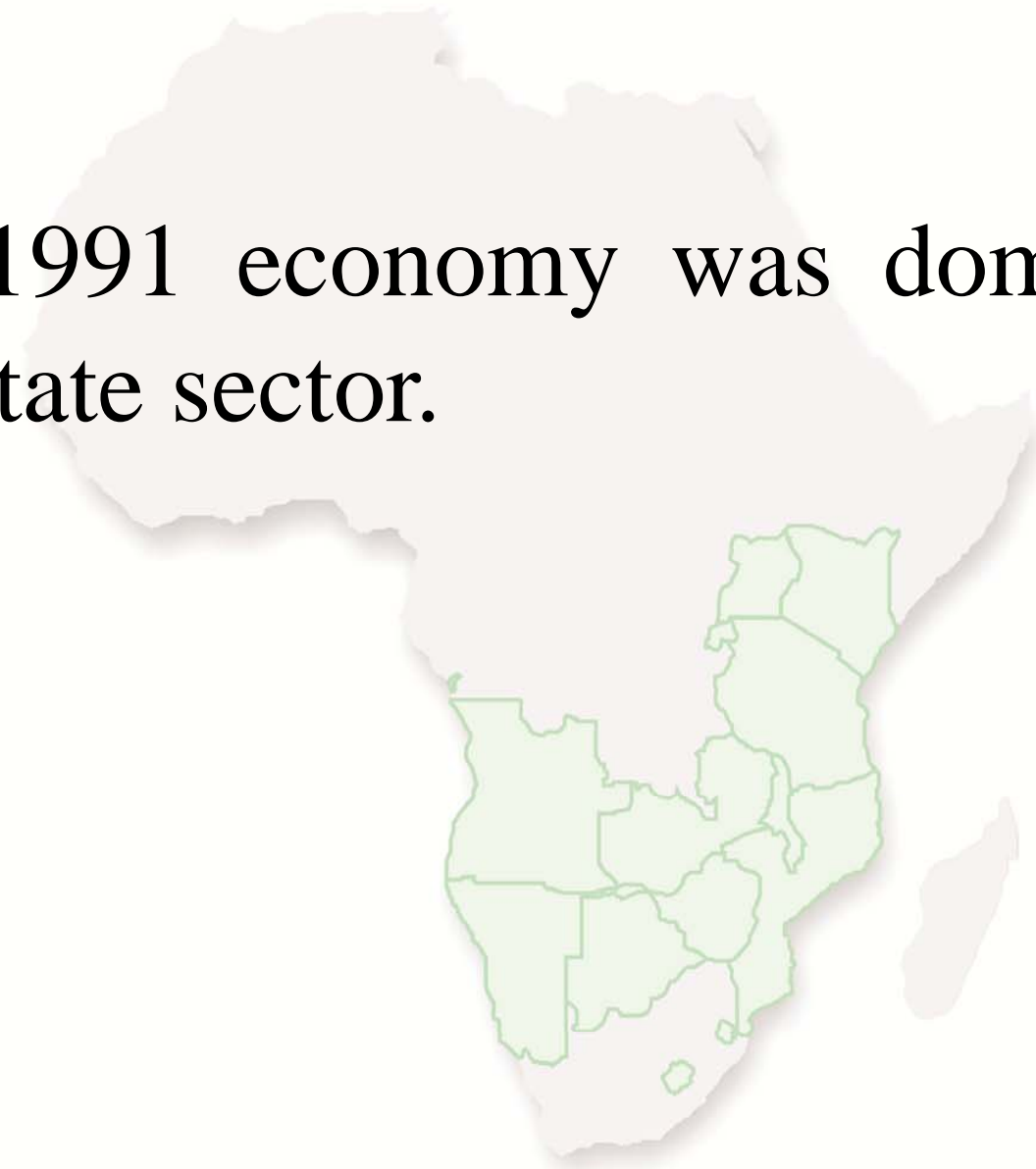
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Zambia – crafted out of the Federation of Rhodesia and Nyasaland. Achieved independence on 24th October 1964.

Economy dominated by export of Copper which has often accounted for over 75% of annual export earnings.

Up to 1991 economy was dominated
by the state sector.



Liberalisation of the economy after 1991 resulted in a lot of imbalances:

- Exchange rate – kwacha rapidly lost value
- Interest rates – rose to triple digit levels
- More banks established but poor supervision

- A large number of companies previously propped up by subsidies closed down upon privatization.
- A back-log of legal reforms to create a level playing field required for a private sector led economy.
- High level of external debt
- High levels of deficit spending
- High level of inflation

2002 – the situation in the Financial sector was well summarised by the FSAP Report:-

- Low financial intermediation
- Lack of financial services in rural areas
- High bank charges and account requirements
- Poor credit culture
- Multiple (and conflicting) roles of government

Weaknesses identified by FSAP continued:

- Lack of long term funds
- Weak regulatory framework for non-bank financial institutions
- Fragmented financial sector laws
- Underdeveloped financial markets
- Limited market knowledge of financial services and products

Response was through formulation of the Financial Sector Development Plan – stakeholder driven initiative to holistically address all identified weaknesses in the Financial Sector.

To address the identified weaknesses eleven working groups were appointed:

- Accounting and Auditing
- Banking
- Financial Markets
- Macro economics
- Legal and Regulatory infrastructure

Working groups continued

- Payment system
- Taxation
- Non-bank Financial Institutions
- Contractual servings
- Human Resources
- Financial Access

Reform process was assisted by:

- International Goodwill to forgive debt through HIPC and MDRI. This helped to create fiscal space for the government.
- Government's resolve to reach the HIPC completion point through undertaking a number of reforms including drastic reductions in Public expenditure (politically unpopular but economically very important).
- Investor friendly policies
- Positive international business environment. Price of copper started to go up after 2003.

KEY FEATURES OF POST 2002 PERIOD

- Exchange rate and interest rates market determined.
- Open conduct of Monetary Policy with regular interface with the media
- Regular (monthly) meetings between the Central Bank and CEOs of Banks.
- Central Bank's complete withdrawal from business operations such as guarantees to parastatals and government. A clear focus on bringing inflation down to single digit. (Achieved in May 2006 after almost 30 years)

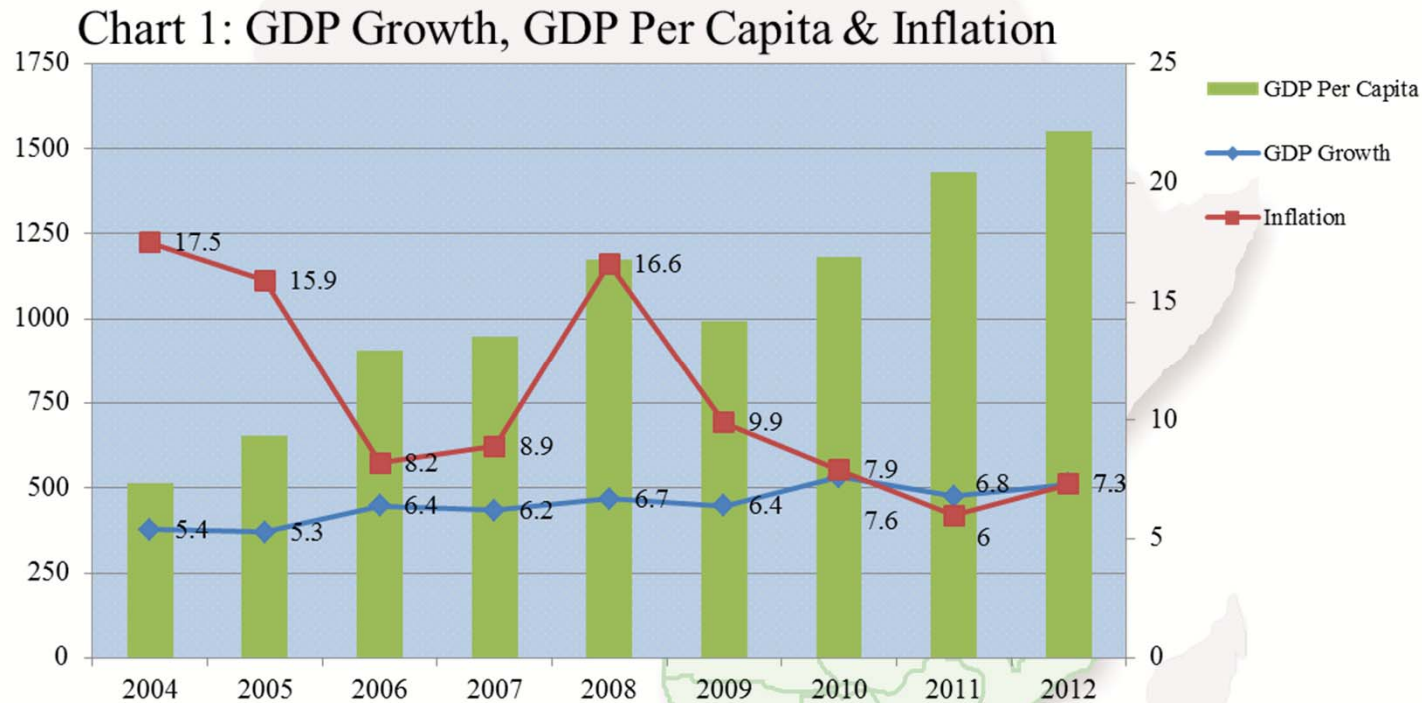
- Food self sufficiency – a major challenge. 2002 grain shortage and challenge of GMO grain led government to adopt policy of agriculture input subsidies for small scale farmers. Policy led to food self-sufficiency in later years – particularly maize.
- Favourable policies have also led to self-sufficiency in wheat production.

THE RESULTS – GDP GROWTH AND INFLATION

	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP (% p.a.)	5.4	5.3	6.4	6.2	6.7	6.4	7.6	6.8	7.3
GDP per capita (US\$)	515	654	908	949	1174	992	1182	1431	1551
Inflation (% p.a.)	17.5	15.9	8.2	8.9	16.6	9.9	7.9	6.0	7.3

Source: Bank of Zambia Annual Reports

THE RESULTS – GDP GROWTH AND INFLATION



Source: Bank of Zambia Annual Reports

ZAMBIA'S EXPORTS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Exports (USD m fob)	746	887	916	1061	1779	2161	3870	4448	4876	4242	7261	8512	9242
Metal Exports (USD m)	497	593	559	669	1322	1616	3175	3667	4000	3343	6071	6659	6219
Non-Traditional Exports (USD m)	249	294	357	392	457	545	715	780	876	899	1190	1596	2712
GDP (USD b)									14.6	12.8	16.1	19.2	21.3



Source: Bank of Zambia Annual Reports

ZAMBIA'S EXPORTS

Chart 2: Zambia Exports 2001 to 2012



Source: Bank of Zambia Annual Reports

ZAMBIA: MAJOR NON-TRADITIONAL EXPORTS (USD-million)

	2010	2011	2012
Copperwire	170.2	169.7	151.4
Cane Sugar	148.1	165.0	141.9
Barley Tobacco	117.5	100.6	158.6
Cotton Lint	49.4	118.2	129.1
Electrical Cables	41.7	41.7	50.9
Fresh Flowers	27.0	20.8	23.7
Fresh Fruits & Vegetables	11.2	9.2	15.7
Gemstones	49.8	35.8	232.3
Gas oil / Petroleum Products	27.6	36.8	97.1
Electricity	23.3	16.9	42.7

Source: Bank of Zambia Annual Reports

DOWNSIDE

1. Huge increase in copper production has created few jobs due to technology.
2. Country still exports raw copper.
3. Manufacturing has not advanced. No agro processing. Dumping ground for SA consumer goods.



THANK YOU