

Caleb M Fundanga: Media relations and key economic development in Zambia during 2003

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of the Bank of Zambia 9th media seminar, Ndola, 4 March 2004.

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The Chairperson,

Distinguished Participants,

Ladies and Gentlemen

Allow me to first welcome you all, to this year's media seminar. It is my pleasure to be with you again and preside over the opening of this important seminar. For those that are attending for the first time, you are more than welcome. I would like to urge you to feel free and actively participate in the discussions.

It is also gratifying that the seminar has been possible this year after skipping 2003 to enable us assess whether or not it was meeting the intended objectives. The Bank of Zambia considers this seminar important and has decided to hold one despite financial constraints that the Bank like other institutions in the country is going through. This is because the Bank attaches a lot of importance to media development and indeed the partnership with the media fraternity. In this vein, I urge all of you to treat this seminar with the seriousness it deserves.

Chairperson, this seminar is one way through which the Bank can contribute to capacity building of the media in order for it to play a meaningful role in the country's quest for economic development and poverty alleviation. A well-informed and balanced media is a key vehicle in our crusade to uplift the standards of living of our people. Further, I share the view that the development of our fledgling democracy goes hand-in-hand with a corresponding healthy growth of a free media. This is crucial for proper expression of the freedom and liberties that our people expect and do enjoy. Even more important to us is the proper interpretation and explanation of Government development programmes and the role of the public in making such programmes attainable.

Ladies and Gentlemen, let me stress here that freedom of the press does not imply abrogation of professional conduct. To the contrary it calls for exemplary professional and ethical conduct. We also look to the media for a supportive approach where issues of national and developmental nature are brought to the attention of policy makers. It is therefore imperative that as journalists you desist from sensational reporting that can only be disruptive to well intended policies. We expect you to be constructive and not to lose your freedom and objectivity in your reporting.

It is my earnest appeal to you, to spend some time reporting on positive developments in our great country in addition to highlighting the various constraints in the implementation of key economic policies. It is also important for the media to highlight the various roles that respective stakeholders must play in order to effectively contribute to the much-needed national development.

Chairperson, the media in Zambia has an even more onerous responsibility, in view of multiparty democracy. This is so because in order to elicit their full participation in the decision making process, the electorate need to be well informed. With a well-informed electorate, policy makers and implementers including the Bank of Zambia will be better placed to develop and implement policies and programmes that are responsive to the needs of the Zambian people. This means that the media needs to disseminate information, while at the same time fulfill its watchdog role of being a mirror of our society.

Having said this, may I generally express my satisfaction at the cooperation we enjoyed with the media and the role you played during 2003. I must commend you the media for having been supportive particularly during the trying times and urge you to continue. We in the Bank will always keep our doors open to be on hand to explain or indeed clarify any issues that will enhance your work. We will also continue to hold quarterly Media Briefings on economic developments in general and monetary and financial sector developments in particular, which are within the mandate of the Bank.

Chairperson, allow me to highlight the key economic developments during 2003. Despite several setbacks at the beginning of 2003, including, food production shortfall, the pullout of Anglo-American

Corporation from Konkola Copper Mines, fiscal difficulties arising from, amongst other things, higher than programmed wages, recurrent departmental charges (RDCs) and payments to ex-RAMCOZ workers, high lending interest rates and delay to reach agreement on a new PRGF arrangement and the consequent failure to reach the Highly Indebted Poor Countries (HIPC) Initiative completion point, several positive and encouraging developments were recorded during the year, particularly in the second half of the year.

Ladies and Gentlemen, some of the positive developments are that, for the fifth consecutive year national output increased, with real gross domestic product (GDP) growing by 4.3 percent, which was higher than the 3.3 percent growth registered in 2002. With a population growth rate of just under 3 percent, this means a positive per capita growth showing some improvement towards poverty reduction. The growth in real GDP was mainly attributed to favourable developments in both the domestic and global economy. In the domestic economy, a recovery in agriculture from the effects of drought in the 2001/2002-season coupled with Government's support in the area of input supply to the small but viable farmers through the Fertiliser Support Programme (FSP) were major factors to the recorded positive growth.

In addition, the recovery of the world economy pushed prices of non-fuel commodities up which assisted in the growth of non-traditional and metal exports leading to an expansion of the growth in mining and quarrying sector. The other key sectors that contributed to the observed growth were tourism, manufacturing, construction and energy.

In addition, annual overall inflation declined to 17.2 percent in December 2003 from 26.7 percent in December 2002 and compared well to the revised target of 17.1 percent. This was mainly attributed to the slow down in food inflation, as food prices continued to fall in 2003, following an improvement in the supply of most food items. The country has come from a position of being a net importer of food to becoming a net exporter of maize and maize products to the countries in the region.

Chairperson, following the increased confidence related to the introduction of the Broad-based Inter-bank Foreign Exchange System on 23rd July 2003, and the weakness of the US dollar in the international markets, the Kwacha was fairly resilient against the US dollar depreciating by only 7.5 percent during 2003 compared with a depreciation of 13.2 percent the previous year. This resilience was also supported by the good performance of the non-traditional exports sector as well as the favourable earnings from copper exports due to the high copper prices, which rose to 100.11 US cents in December 2003 from 72.38 US cents in December 2002.

Relative stability of the Kwacha exchange rate also contributed to the subdued inflation registered in the year. As you may already know, the main objective of introducing the new system was to enhance the efficiency of the foreign exchange market and make price discovery more transparent. This came by way of improving information flows among market players, thereby reducing speculative behaviour among them. I am glad that this system is working well and the Bank will continue to monitor and support its performance with the view to enhance and consolidate the gains so far achieved.

Ladies and Gentlemen, another notable development during 2003 was the decline in commercial banks' lending rates. This was reflected in the weighted average lending base rate, which fell to 37.7 percent in December 2003 from 42.4 percent during the same month in 2002. I am glad to inform you that this trend has continued with the lending base rate falling further to 36.2 percent and 33.7 percent in January and February 2004, respectively. This mainly followed the downward adjustment of the statutory reserve requirement by 3.5 percentage points to 14.0 percent from 17.5 percent on both kwacha and foreign currency deposit liabilities held by commercial banks at end-October 2003. As expected, the downward adjustment in statutory reserve ratios led to an improvement in the availability of liquidity to commercial banks.

It is our expectation that, with time, commercial banks' lending to the productive sector, especially agriculture will increase. The Bank is closely monitoring the developments in credit to the productive sector. I must stress here that lowering of lending rates is not an end in itself. We in the Bank would like to see this development accompanied by an observable increase in loans extended to the growth sectors of our economy for them to thrive, stimulate national output and create employment. It is only through this that our efforts to reduce the current levels of poverty, estimated at 73 percent shall yield positive results.

Chairperson, the Media can also play a role in lowering lending rates through educating the borrowing public on the importance of paying back. You may be aware that part of the explanation to the high lending rates in Zambia has been the high risk premiums supported by a long history of loan

delinquency. Therefore, a change in credit culture underpinned by improved loan repayment will restore confidence to suppliers of loanable funds; thereby reduce risk premiums, which in turn will have a positive bearing not only on lending rates but also on increased lending to the public.

Furthermore, the media has a mammoth task in the country's efforts aimed at reaching the completion point under the HIPC Initiative through explaining to the public, the importance and benefits to the country. I should mention here that the fiscal measures put in place by Government are not primarily for reaching the completion point but are ideal for any country's search for fiscal prudence and macroeconomic stability, which are essential for spurring savings and private sector investments, and hence economic growth. Therefore, with or without HIPC, the country needs to restore prudent budgetary operations.

Ladies and Gentlemen, some favourable developments are also expected during this year. This optimism is premised on the following factors:

- Favourable weather during the 2003/2004 agricultural season supported by continued input supply under the Fertiliser Support Programme, which will support growth of the agriculture sector.
- The exchange rate is expected to remain relatively stable in view of several factors including the confidence market players have continued to show in the broad-based inter-bank foreign exchange system, increased metals production and favourable metals prices on the world market, good performance of the non-traditional exports and less demand for food imports.
- Progress has also been made in the mining sector with the completion of the sale of RAMCOZ and the identification of an equity partner for Konkola Copper Mines. In addition, the new Kansanshi mine owned by First Quantum Metals was commissioned recently and production is expected to commence soon. All these developments are expected not only to improve foreign exchange supply and contribute to exchange rate stability but to the growth in national output and employment.
- It is anticipated that inflationary pressures will be subdued following continued adequate food supply in the first quarter of this year and the expected favourable food output for the 2004/2005 consumption period owing to favourable weather and continued input supply. Further, the anticipated continuation in the exchange rate stability will also contribute to moderating inflationary pressures.
- Government net domestic financing from the banking system is expected to be within the projected level, which is essential to inducing a further downward movement in yield rates on Government securities, and thus in commercial banks' lending interest rates. Such a development will contribute to a drop and stability in prices of goods and services, and hence dampen inflationary pressures.

Ladies and Gentlemen, this year's seminar, like the previous ones, is based on carefully selected topics guided by the need to appraise each other on topical issues such as the operations of the foreign exchange inter-bank system, the need for affordable lending rates and the HIPC. I am confident that my staff and other presenters will do a good job of stimulating discussions of these topics and others for you to have a full appreciation and understanding to be better placed to explain the same to the members of the public and those of your colleagues who for one reason or another could not have the opportunity of being with us.

This year we are also privileged to have Dr. Zulu as one of the resource persons. Dr. Zulu was the first Zambian Governor of the Bank of Zambia. After a distinguished career at home, which also saw him serve as Economic Advisor to the President. Dr. Zulu later went to the IMF where he served for many years as Director, first for the Africa Department and later for the Central Banking Department, which in 1991 was renamed Monetary, and Exchange Affairs Department. In this capacity, Dr. Zulu also served at the United Nations as the IMF Managing Director's liaison officer.

Chairperson, may I remind the participants that in 2003 the Bank of Zambia launched an annual publication called the BoZ Reader. The first publication was entirely based on articles by the Bank staff. In my remarks during the launch of the Reader, I called upon members of the public and indeed the press to subscribe articles to this publication. May I inform you that the Bank has commenced the process of the second publication and therefore I would like to reiterate my invitation to you to submit articles on key or topical developmental issues facing the country.

At this juncture, may I wish you fruitful discussions and officially declare this seminar open.
Thank you