

Caleb M Fundanga: Bank of Zambia's Information Dissemination Programme

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, on the launch of the Bank of Zambia Information Dissemination Programme, Lusaka, 28 May 2007.

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Governor, kindly give brief introductory remarks

On behalf of the Bank of Zambia Board, management and staff, and indeed on my own behalf, I wish to sincerely thank the Zambia National Broadcasting Corporation (ZNBC) for this opportunity to launch the Bank of Zambia Information Dissemination Programme. This programme is part of our comprehensive strategy to inform the general public and all our stakeholders on the role of Bank of Zambia in the economy.

What is the primary role of the Bank of Zambia?

Just to remind the listeners, the Bank of Zambia's primary role is to formulate and implement monetary and supervisory policies that will ensure price and financial system stability. Our vision, in this regard, is to become a World Class central bank.

What is your general assessment of the recent performance of the Zambian economy?

In the past few years, the Zambian economy has performed relatively well, recording positive real Gross Domestic Product (GDP) growth, with inflation and interest rates coming down.

Specifically, what have been the developments in output?

During the period 2001-2005, growth in real GDP averaged 5.0% per annum. More recently, in 2006, it is estimated that the economy grew by close to 6%, marking the eighth consecutive year of positive real growth in output. This positive growth performance has been broad-based, extending beyond the recovery of the mining sector and withstanding adverse shocks, such as droughts and record increases in oil prices. In 2006, real GDP growth was largely driven by the mining, agriculture, construction, transport and tourism sectors.

Last year, Zambia achieved single-digit inflation in 30 years. What were the main contributing factors to this achievement?

Bringing inflation down to single digits has been Government's goal for a long time. It is, therefore, pleasing to note that last year, inflation fell to its lowest level in 30 years. At the end December 2006, the annual rate of inflation had fallen to 8.2 % from 15.9% achieved in 2005 and was well below the target of 10%. This positive development in inflation was due to continued implementation of prudent monetary and fiscal policies, coupled with increased food supply. This was despite the persistent rise in oil prices on the world market.

This year so far, inflation has been in double digits. What are the reasons for such a development? What is the outlook for inflation at end of the second quarter?

During the first quarter of 2007, containing inflation pressures was a challenge. Inflation rose to 12.7% in March 2007, reflecting both higher food and non-food inflation. Higher food inflation was explained by increased cost of most fresh vegetables, typical during this period. The other contributing factor was a rise in the price of beef, following the ban on transportation of cattle from Southern Province, a major supplier, to curb the spread of the cattle disease, Contagious Bovine Pleural Pneumonia (CBPP).

Higher non-food inflation was due to increased household energy and transportation costs, following upward adjustments in prices of petrol and diesel in January 2007.

During the second quarter of 2007, however, inflation is expected to slow down due largely to improved food supply. Already in April, inflation slowed down to 12.4% from 12.7% in March.

What is your assessment of the recent developments in commercial banks lending interest rates?

In line with lower inflation and yields on Government securities, commercial banks nominal average lending rate declined to around 28% in December 2006 from about 34% in December 2005. More recently, in April 2007, it declined further to 24%.

How would you describe the recent performance of the external sector?

The external sector has continued to score remarkable improvement, as reflected in the overall balance of payments surplus of US \$696 million in 2006 compared to a deficit of US \$284 million in 2005. Furthermore, the preliminary assessment is that the current account deficit as a percentage of GDP (excluding grants) reduced to 1.1% from 11.5% in 2005. This improvement has been due to increased export receipts arising from record high copper prices and increased export volumes.

In addition, the historic debt relief under the Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI), as well as the increased budget support from our co-operating partners, further strengthened the external position. Preliminary information indicates that the country's external debt position of US \$7.1 billion as at end-2004 fell to US \$600 million at end-December 2006.

The foreign exchange market, in 2006, was characterised by a general depreciation of the Kwacha against major currencies. In order to moderate exchange rate volatility, the Bank implemented a number of measures, including purchasing and selling foreign exchange.

What is your assessment of the financial sector?

In the banking sector, there have been no bank failures in the recent past, reflecting stability in the financial system. To consolidate this stability, in 2006, Bank of Zambia undertook a number of measures, which included increasing the minimum primary paid-up capital for banks and non-bank financial institutions.

What is the economic outlook for the year 2007 and the long-term vision of the Government?

The Government, on its part, has shown commitment to continuing the economic reform programme. To this end, measures are being taken to ensure that the macroeconomic gains attained so far will be consolidated in 2007. Accordingly the Government is targeting real GDP growth of 7.0% and inflation of 5.0%. Pursuit of these objectives is within the context of the long-term development objectives, well articulated in the national long term Vision, 2030. Part of this vision is enshrined in the Fifth National Development Plan (FNDP) for 2006-2010, whose broad macroeconomic objectives are as follows:

- to accelerate pro-poor economic growth;
- to reduce further and stabilise inflation; and
- to sustain a viable balance of payments as well as external and domestic debt position.

Could you now tell us about the Information Dissemination Programme?

As mentioned in my introductory remarks, the Information Dissemination Programme is part of our strategy to inform the general public on the role of Bank of Zambia in the economy. The other channels through which the Bank shares information with the general public are through:

- Regular meetings with players in the financial sector, e.g. banks and other non-bank financial institutions;
- Seminars for the media;
- Seminars with senior policy makers, such as Members of Parliament;
- Various publications, such as the Statistics Fortnightly, Quarterly Financial and Statistical report, Monetary Policy Statement and Annual report; and
- Bank of Zambia website, among others.

In an attempt to widen this platform for information sharing and dissemination, we have once again embarked on a radio programme, which will discuss topical issues such as:

- Exchange rate movements;
- Cost of banking services;
- Developments in the payments system;
- Micro finance regulations;
- Currency awareness; and

- Establishment of credit reference services, to name a few.

These issues affect all Zambians and it is our duty to be able to discuss them through a wider forum, such as radio to which the majority of our people listen. The Bank also intends to conduct provincial sensitisation visits and to localise these visits by way of disseminating information in local languages and dealing with matters, which are peculiar to those provinces.

Governor, kindly give your closing remarks

It is our hope and desire that through this information dissemination programme and other similar interventions, we shall increase the public's awareness on the role of the Bank of Zambia in the economic development of this country.

It is my honour to launch this information dissemination programme and I urge you all to listen in and actively participate in the live phone-in programme, which we will hold at the end of the radio programme.

I thank you.