

Caleb M Fundanga: Media relations and the Bank of Zambia – a healthy interaction

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of the Bank of Zambia 12th Media Seminar, Ndola, 5 October 2007.

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- The Chairperson
- Distinguished Journalists
- Invited Participants
- Ladies and Gentlemen

On behalf of Bank of Zambia and indeed my own behalf, I am pleased to welcome you all, to this Bank of Zambia sponsored annual seminar, which is the 13th in the series. Further, it is also my great pleasure to welcome you to the City of Ndola.

Ladies and gentlemen, as it is normally the case, some of you are participating for the first time. For those of you that are participating for the first time, let me inform you that this is your seminar and I urge you to participate freely and effectively. I know that your friends who have participated in the seminars before, will agree with me that, every year that we meet at such a forum, we meet as “**partners**” and it is certainly in the interest, of not only us gathered here but the nation at large that this spirit is exhibited through out this seminar, and beyond. In fact, let me thank the media for having embraced this partnership and worked towards maintaining it. The Bank of Zambia-Media relations have been quite healthy, partly due to annual interaction through Media Seminars.

Let me reiterate facets of the media namely, education and information to which the Bank of Zambia attaches a lot of importance, and forms the guiding principles for the formats of all media seminars Organized by the Bank. We in the Bank believe that an effective or indeed a well informed media is key in the country’s development efforts. It is in this regard that the Bank will continue to work towards the provision of quality information and/or education to the media as evidenced by the continued holding of such seminars coupled with quarterly media briefs. Such efforts as you may be aware are not for our own interests but the Zambian stakeholders. This is as it should be.

Distinguished journalists; may I humbly urge you, to actively participate in the deliberations of this seminar. Let me hasten to mention, particularly to those of you that are participating for the first time that you may not be able to completely grasp the materials that will be presented during the seminar. This must not discourage you, as you are free to make follow-ups with the respective departments (and indeed officers) at our offices in Lusaka and our Regional Office here in Ndola. Nevertheless, I am confident that the respective presenters will ensure clarity in their presentations and fully respond to any issues arising there-from.

Ladies and gentlemen, allow me, at this point in time to brief you on the performance of the economy in 2006 and the period January – August 2007. As you may be aware, Zambia has in the recent past recorded macroeconomic stability and growth in the economy, reflected in low and falling inflation, relative stability in the Kwacha exchange rate, falling lending rates and positive real GDP growth rates underpinned by strong private sector investment in all growth or priority sectors. Further, the financial sector has been stable, and continues to post growth.

In 2006, the performance of the Zambian economy continued to be encouraging as it registered a positive growth of 6.2% in real GDP, marking the eighth consecutive year of positive real growth. You will note that over the period 2001-2006 growth in real national output averaged 5.0% per annum and was above the average population growth over the

same period, while inflation declined to 8.2% in December 2006 from 15.9% in December 2005.

Distinguished journalists, it is worth-mentioning that the growth, which has been broad-based has extended beyond the recovery of the mining sector and shown resilience to adverse shocks, such as droughts and record increases in oil prices, Agriculture, construction, transport and communications, and tourism sectors have been the other key contributors to the sustained increase in economic activity.

A lot of progress continue to be made on the inflation front, as shown in September 2007, when inflation declined to 9.3% despite having risen to 12.7% in March. Continued implementation of prudent monetary and fiscal policies, fairly favourable developments in the exchange rate coupled with pro-growth and pro-poor agricultural policies that have led to an increase in food supply and subsequent improvement in the country's food security largely explain the favourable developments in inflation. For instance, the country recorded an increase in maize surplus to 250,000 metric tons (mt) this consumption period from 160,000 mt during the 2006/2007 consumption period.

With respect to the money market, given lower inflation and yield rates on Government securities, commercial banks lending rates have been on the downward path. This can be illustrated by the nominal average lending rates which declined to around 28% in December 2006 from about 34% in December 2005, and further fell to 24.3% in September 2007. This is consistent with Government's desire of making more funds available for priority sectors of our economy at reasonable cost, in line with the objectives the Fifth National Development Plan, 2006-2010. Ladies and gentlemen, testimony to this was the recent lowering of the statutory reserve ratio by the Bank of Zambia to 8% from 14% effective 1st October 2007. We expect this action, will release more funds to the commercial banks for on-ward lending to the priority sectors. Availability of investible funds to sectors such as agriculture, manufacturing, tourism and mining will stimulate further growth in the economy, create more employment and incomes, and contribute to alleviation of poverty. However, it must be noted that the economy desires much lower lending rates than so far recorded to make credit affordable and effectively contribute to expansion of economic activity.

The external sector has continued to score remarkable improvement as lately reflected in the resilience of the Kwacha against major foreign currencies, and the country posting in 2006, an estimated overall balance of payments surplus of US \$696 million compared with a deficit of US \$284 million in 2005. For instance, the Kwacha appreciated by 12.0% against the US dollar while the local currency gained by 10.4% against the South African Rand during the period end-December 2006 to 21st September 2007. This improvement largely occurred due to increased export, which mainly arose from continued high copper prices and complimentary higher export volumes coupled with the buoyant growth in non-traditional export earnings. The maintenance of an appropriate monetary policy, in the wake of a higher than expected inflation outcome in the first quarter of the year, also contributed to the resilience of the Kwacha. The developments in the Kwacha should not only enhance competitiveness of the country's exports, particularly the non-traditional exports but should overall have a positive bearing on inflation developments in the coming months.

Esteemed colleagues, the financial sector has continued to enjoy stability and growth this year, characterised by improved banking services and emergence of new products. The overall financial condition and performance of the banking sector has been assessed as satisfactory. The performance of the non-bank financial institutions has todate been fair as the Bank of Zambia continues to implement measures aimed at maintaining and enhancing the soundness of the financial system.

Chairperson; when we met last year at Fringilla in Chisamba, I informed the participants to the 12th Media Seminar that further expansion in the banking sector was eminent, as some commercial banks had plans to re-open or indeed open more branches across the country, this has come to reality as most of you have seen the establishment of new branches by

several banks. These developments are undoubtably a manifestation of the improving investment environment arising from consistent macroeconomic reforms reflected in enhanced macroeconomic stability. We have also continued to received inquiries from foreign banks that want to establish operations in our country.

Under the Financial Sector Development Plan, implementation of activities has continued key among them being:

a) Sovereign rating for Zambia

The process of obtaining a sovereign rating for Zambia, being spearheaded by Government has made appreciable progress, with the completion of the Terms of Reference for the provision of advisory services and subsequent submission of Cabinet Memorandum for approval. The Sovereign rating is expected to compliment other government initiatives to promote foreign investment in the Zambian private sector and stimulate the development of domestic capital markets and investment by Zambians.

b) Credit Reference Law and Services

Following the issuance of the Credit Reference Services (Licensing) Guidelines and the Credit Data (Privacy) Code, the Bank of Zambia has drafted the Credit Reference Law. The draft law is currently undergoing legal review and is expected to be effected in the course of next year. Meanwhile, the licensed credit reference bureau – Credit Reference Bureau Africa Limited (CRBAL) has not yet commenced operations as some commercial banks are yet to provide the required data to the CRBAL.

c) The National Payment Systems Law

The National Payment Systems Law has been enacted and became effective on 15 June 2007. The Law is intended to mitigate the shortcomings that were in the legal framework and provide legal backing to international best practices in the payment systems.

To all of you gathered here, I would like to implore you, not to only inform the public about these and other developments but to interpret what these mean to ordinary Zambians. It is only when ordinary Zambians, who are the key stakeholders, have an unquestionable understanding of these developments that they shall fully support our developmental policies and strategies.

Ladies and gentlemen, allow me to remind you that our quest for development will in no doubt be without challenges. The continued higher and unstable international oil prices poses one of the strong challenges to our targeted growth of 7% this year and end year inflation of 9%. Another challenge, ladies and gentlemen, to a growing economy such as ours is the need to ensure availability of growth-supporting infrastructure. Inclusive of these are good trunk and feeder roads, communication facilities and sufficient and affordable energy supply, particularly electricity. Furthermore, current regional integration initiatives coupled with globalization, in part entail that Zambia has to appropriately re-position itself in the region. This will be with a view to create greater opportunities for expanded trade in the region and international markets as well as empowering the local business players.

These and other challenges are for all of us as partners, to tackle by playing our respective roles with the aim of achieving stronger economic growth rates that will have a notable bearing on improving the standards of living of our people.

Chairperson, as per the usual tradition, the topics for this Seminar, have been carefully selected aimed at not only educating and informing but also sharing views. Please as you discuss, you are encouraged to be broad not to confine your contribution to the topics

presented you. We will welcome views on various issues within the Bank's mandate. You are further encouraged to interact with members of staff outside the Seminar sessions.

Let me again pay tribute to the Media for the interest it has shown and subsequent active role it has continued to play in the economic affairs of our country and in particular matters related to the mandate and functions of the Bank of Zambia. Let us continue as partners and provide checks and balances to each other for the good of our people.

Let me, once again, welcome you to this Media Seminar and declare the Seminar officially open.

I thank you for your attention.