Caleb M Fundanga: Improved economic and financial developments in Zambia

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the Bank of Zambia/Deutsche Bank workshop on Capital Markets, Lusaka, 15 April 2010.

*   *   *

The Deputy Governor – Operations at Bank of Zambia
Officials from Deutsche Bank
Officials from the Ministry of Finance and National Planning
Distinguished Resource Persons
Colleagues from the Bank of Zambia
Ladies and Gentlemen

I am delighted to officiate at this important workshop on Sovereign Bond Issuance. Let me from the onset express my gratitude to our colleagues from Deutsche Bank who have demonstrated a desire and commitment to share with us their experiences in the area of international capital markets, particularly with respect to sovereign debt issues and ratings. I am particularly delighted that this workshop is a follow up to an earlier meeting with officials from Deustche Bank in December 2009. The willingness of the Deutsche Bank officials to come back four months later to further discuss the issues with a wider audience is truly heartening to us and commendable indeed.

Ladies and Gentlemen, Zambia like many other countries in Sub-Saharan Africa is one of the countries that have for a long time relied on concessional funding and multilateral financial support in implementing her development agenda. Whereas other parts of the world have enjoyed respectable growth rates supported by private capital flows, our region has lagged behind. Several years of debilitating external debt, regional political instability, and doubtful macroeconomic management have all played a role in keeping private capital flows away from our economies. However, with endurance, progress in the region generally and Zambia in particularly is certainly being recorded. A glimmer of hope is finally showing that we are once again being welcomed in the international capital market arena.

As you are aware, the Government has over the years set out programs to reform the country's political and economic platforms. Politically, Zambia has been one of the most stable democracies in Africa boasting peace since independence in 1964. On the economic front, Zambia has made respectable progress in the area of macroeconomic management. Over the recent past, the Zambian economy has performed relatively well. This is reflected in positive growth rates of real Gross Domestic Product (GDP), low inflation, relatively stable exchange rate, stable financial sector and improved banking services. In addition, Zambia's access to the Highly Indebted Poor Country Initiative and the Multi-lateral Debt Relief Initiative resources drastically reduced the country's onerous debt burden from around US $ 7 billion to below US $ 1 billion. The removal of the debt burden also made Zambia more attractive to foreign direct investment and capital flows, that have been an important source of investment financing.

Furthermore, over the recent past, the growth in the real Gross Domestic Product (GDP) has remained positive and above 5% for the last six years. Despite the adverse effects of the recent global economic crisis, the country recorded an impressive real GDP growth of 6.3% in 2009. This is at a time when other countries in the region and world over were posting negative growth rates. The country also attained a single-digit inflation level of 9.9% at end December 2009 while the exchange rate of the Kwacha against major currencies has remained relatively stable. In addition, the financial sector has been stable with improvement in banking services. These impressive economic trends suggest that the reform programmes that the Government has implemented are now bearing fruit. The reforms have focused on the restructuring of the economy, to let markets determine key decisions so as to allow the private sector take the lead in providing investment in the economy.

However, despite the progress noted above, we are still far from achieving many of our developmental objectives. We are alive to the fact that we cannot achieve our development ambitions if we close ourselves from the rest of the world. The economy faces enormous financing needs especially in view of the high levels of poverty among our people. We are also alive to the fact that these challenges do not just end at obtaining a good sovereign rating or raising low-cost finance, but more importantly prudently deploying funds raised to projects with a high rate of both social and economic return. This is the challenge we face.

Ladies and Gentlemen, the importance of obtaining a sovereign rating and issuing a sovereign bond cannot be over-emphasised. By providing access to long term funds, a sovereign bond issue provides wide possibilities for countries to meet financing needs demanded by their growing economies. At the same time, issuers are assured that their financing needs will be met in an orderly and timely manner. This will no doubt result in cost efficient investments in the economy. In a country like ours a sovereign rating and bond issuance will lead to availability of relatively less costly finance for the timely execution of a number of long term projects in sectors like energy, communication, agriculture and mining. The timely execution of such projects would no doubt accelerate economic growth further and impact positively on the high levels of poverty.

This workshop has therefore come at the right time when our countries, which just a few years ago were clearly outsiders in the international capital markets, are also now taking financing decisions to fully participate in the international capital markets. I must admit that international financial markets can be a maze for new entrants, and so updating our skills by consulting others becomes a priority and adds a lot of value. I have little doubt that as you remain deliberating here, the sessions will be very interactive and will provide a lot of food for thought. I am certain that everyone here will find this event beneficial.

Ladies and Gentlemen, with these few remarks I hereby declare this workshop officially open.

I thank you for your attention.