

## **Michael Gondwe: Outline of Zambia's recent macroeconomic performance and projected outlook**

Opening speech by Dr Michael Gondwe, Governor of the Bank of Zambia, at the 15th Bank of Zambia Media Seminar, Siavonga, 1 May 2014.

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**Mr Chairman,**

**Distinguished Colleagues from the Media Fraternity,**

**Senior Director – Monetary Policy,**

**Senior Director – Supervisory Policy,**

**Fellow Bank of Zambia Officials,**

**Ladies and Gentlemen.**

It's my great pleasure and honour to be with you today at this important Seminar for Professional Media Practitioners. Allow me first, on behalf of the Bank of Zambia, and indeed my own behalf, to begin by welcoming you to this very important event, being the 15th in the Bank of Zambia – Media Seminar Series that we have been conducting for Journalists from across the Zambian media fraternity.

**Distinguished Colleagues**, it is simply not possible to overemphasise the importance of the media to matters affecting national development. You are the window through which the world sees us all. Your reporting conveys important information about the economy, as well as the business environment and financial performance of the country, industries, institutions, households and indeed individuals. This information becomes very useful to a wide range of users in making business decisions. Therefore, as Journalists, you bear a great responsibility of keeping the public as well informed as possible and it is imperative therefore, that you report factually and accurately. It is not for us to remind you that one of the attributes of being factual and accurate is to be able to verify information as much as possible.

**Ladies and Gentlemen**, it is for this reason that the Bank of Zambia finds immense pride in organising this event, whose objectives are to interact with the media so as to:

1. Share information on the role and functions as well as operations of the Bank of Zambia in the Zambian economy;
2. Discuss recent developments in the Zambian and global economy; and
3. Provide an outlook on future economic and financial developments.

Through this interaction, we also seek to clarify certain economic and financial terminologies that are frequently used in economic or business reporting.

At this juncture, **Distinguished Colleagues**, allow me to outline the recent macroeconomic performance in Zambia and its projected outlook. The Zambian economy has recorded robust economic growth rates for over a decade now with GDP growth averaging at 6.4% in the last 10 years. This growth has been broad-based, extending beyond the mining sector to the agriculture, forestry and fisheries; manufacturing; construction; transport, storage and communications; and financial intermediaries sectors.

In 2013 Zambia's overall macroeconomic performance was generally buoyant relative to other countries in the region and the world economy in general. Real GDP growth was registered at 6.5 percent in 2013 from 7.3 percent in 2012. The growth was higher than 4.9% and 3.0% growth for sub-Saharan Africa and for the global economy in 2013, respectively. This growth was mainly driven by expansions in the transport, storage and communications;

construction; community, social and personal services; financial institutions and insurance as well as manufacturing sectors.

In line with the expansion in real GDP, per capita GDP has increased from 332 US Dollars in 2000, to 655 US Dollars in 2005 and 1,784 US Dollars in 2013. We are, however, alive to the fact that more growth is required in order to have a lasting dent on high poverty levels and even more important, there is need to do more to make growth more inclusive and equitably distributed among the citizens of our country.

***Distinguished Participants***, to ensure sustainable economic growth, the Government has been pursuing appropriate macro-economic policies. To this effect, inflation has declined from the double digits of the early 2000s to single digit levels as recorded in recent years. Annual inflation slowed down to 7.1% in December 2013 from 7.3 in December 2012, although it was 1.1 percentage points above the end-year target of 6%. This outturn reflected higher non-food inflation which was moderated by lower food inflation. Higher non-food inflation was largely due to higher fuel prices, coupled with pass-through effects of the depreciation of the Kwacha against the US dollar.

During the first four months of 2014 inflation rose to 7.3%, 7.6%, 7.7%, and 7.8% in January, February, March, and April, respectively. This was mainly attributed to the seasonal inflationary pressures associated with food prices during this time of the year, as well as pass-through effects of the exchange rate depreciation.

***Distinguished Media Practitioners***, you will also be interested to note that the Bank of Zambia has been refining its monetary and supervisory tools. The Bank recorded a shift in its Monetary Policy Framework in 2012 from the strict use of monetary aggregates to short-term interest rates, to better anchor inflation expectations. To this effect, the Bank of Zambia introduced a Policy Rate in April 2012 to, among other things, enhance communication of monetary policy direction to the public and introduce transparency in the way commercial banks and other financial institutions price their products.

***Ladies and Gentlemen***, owing to the general decline in the rate of inflation over time, interest rates are expected to decline. However, commercial banks' average lending rate rose to 16.4% in December 2013 from 16.1% in December 2012 largely reflecting upward adjustment in the Bank of Zambia Policy Rate. The adjustment in the Policy Rate was aimed as containing inflationary pressures attributed to removal of fuel and maize subsidies during the year. In 2013, the average lending rate increased to 17.0% at end-March. As the cost of borrowing is a key factor in facilitating sustainable economic growth and enhanced financial inclusion, it is one of Bank of Zambia's objectives to see commercial banks' lending rates eventually trending down significantly.

***Colleagues***, Zambia's external sector has also registered significant improvements over the last ten years, with notable surpluses recorded over the last five years. This was largely on account of higher growth in export earnings relative to import bills. Total merchandise export earnings have more than doubled over the last five years to 10.4 billion US Dollars in 2013 from 4.5 billion US Dollars in 2008. The increase was driven by a rise in earnings from both metal and non-traditional exports. Metal exports rose by 76.1% to 7.0 billion US Dollars in 2013 from 4.0 billion US Dollars in 2008 due to both improved prices and an increase in export volumes. Non-traditional export earnings posted a stronger growth of 283.6 % to 3.4 billion US Dollars from 900 million US Dollars over the same period.

However, the current account surplus narrowed in 2013 as imports grew faster than exports. This is a normal trend in a growing economy as most of the imports are machinery and intermediate goods such as industrial boilers and equipment, petroleum products, chemicals and motor vehicles that are expected to enhance productivity and ultimately increase production.

In the foreign exchange market, the Kwacha has been relatively stable in the last few years. However in 2013, the Kwacha was characterised by a depreciating trend against most major

trade partner currencies, except the rand. The Kwacha depreciated against the US Dollar by 4.9% to an annual average of K5.39/US\$ from K5.14/US\$ in 2012. Similarly, the Kwacha depreciated against the Pound Sterling and Euro by 3.6% and 8.3%, respectively. This was partly on account of the US dollar appreciation following the strengthening of the US economy during the latter part of the year. The Pound and Euro weakness moderated on the back of optimism that their economies would continue to rebound. The Kwacha, appreciated against the rand by 10.7% to an average K0.5596/ZAR, reflecting the slowdown in mining output, following continued labour unrest in the South African mining sector.

In the first quarter of 2014, the Kwacha depreciated by 10.0% to K6.09 per US dollar. This development was largely attributed to a high demand due to a higher growth in imports relative to exports, as well as investor sentiments associated with the tapering of quantitative easing in the United States of America coupled with falling copper prices on the global markets. Similar weakening of currencies was observed in most emerging market economies such as Ghana, South Africa and Turkey.

It should be noted that the Bank of Zambia has continued to implement a market determined exchange rate and has intervened in the market to smooth out volatility and accumulate reserves. According to a recent study conducted by Professor John Weeks of the University of London, there is strong evidence that, the Bank of Zambia's participation in the foreign exchange market to minimise volatility in the exchange rate has in general been effective.

***Distinguished Ladies and Gentlemen***, with regard to the financial sector, the overall financial condition and performance of the banking sector continues to be satisfactory. On aggregate, the banking sector remains adequately capitalised, while the asset quality, earnings performance and liquidity position remain satisfactory. Further, the financial performance and condition of the non-bank financial institutions continues to be rated fair; while leasing finance companies, microfinance institutions and bureaux de change have had adequate regulatory capital, fair asset quality and liquidity position.

***Distinguished Friends***, apart from the growing number of financial institutions, we have seen a number of innovations and product developments in the banking system. These include a modern and advanced electronic payment and clearing system as well as various financial products such as different types of accounts, loans, financial services and payment methods. These include ATMs whose number increased from 133 in 2006 to 724 at end-December 2013. Further, a number of mobile phone and internet banking services have been introduced and continue to be introduced in line with the growing global trends.

These developments have not only increased competitiveness in the financial sector, but also improved financial access and inclusion across the country. You may also wish to note that the Bank of Zambia, as the financial sector licensing authority, continues to receive numerous applications from institutions seeking to establish themselves in Zambia.

***Ladies and Gentlemen***, Zambia's economic prospects for 2014 remain strong with a projected growth of over 7 percent. This growth is expected to be mainly driven by agriculture, manufacturing, construction and mining. Manufacturing and mining are expected to benefit from increased capital imports which should increase capacity utilisation, particularly among most mines.

High construction activities are expected to be sustained in 2014, mainly in roads, commercial structures and housing estates. With increased output in the growth sectors, Zambia's external sector is projected to improve supported by continued growth of non-traditional exports. Inflation is expected to be low at 6.5% at the end of the year.

Given the foregoing, the medium to long-term economic growth prospects for Zambia remain bright. The country is expected to continue attracting Foreign Direct Investment inflows as it grows. As a result of this robust economic performance and bright future prospects, the Zambian economy recently obtained a US \$1.0 billion Eurobond, reflecting continued investor confidence in the country. I am also proud to state that recently, the IMF rated

Zambia as one of the fastest growing African economies with growth projected above 7.0 percent in 2014.

**Ladies and Gentlemen**, as the economy grows and as the business environment remains attractive, the need for accurate, current information and news about the domestic economy and financial markets, the region and wider global market becomes ever more critical. It is imperative, therefore, that your reporting is understandable, relevant, reliable verifiable, and comparable. This, in our humble view, requires the conveying of economic, business and financial developments, including the interpretation and expression of complex figures and technical jargon into simpler language for the easy understanding and assimilation by large sections of the population. To help you achieve this all important task, the Bank of Zambia has found it necessary to continue to engage you through this forum.

**Distinguished Colleagues**, the favourable performance of the economy is partly attributed to prudent monetary and fiscal policy and appropriate regulatory framework. In light of this, the Seminar seeks to also re-emphasise the role of monetary policy in the economy, financial sector reforms as well as key aspects of financial inclusion in Zambia. Accordingly, a number of topics have been lined up, which I hope you will find enticing, interesting and informative. Overall, it is my sincere hope that you will find this Seminar fruitful and relevant to your noble profession.

Let me thank you all for responding positively to our invitation to come and attend this Seminar. I encourage you all to take very keen interest in the proceedings and to be free to seek clarification on any unclear issues in order to be able to maximize your benefit from this Seminar.

With these remarks, allow me to wish you an enjoyable stay and declare this Seminar officially open.

***I thank you***