



## 1.0 GOVERNOR'S OVERVIEW



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In 2007, the global economy grew by 4.9% compared to 5.0% in 2006. While strong growth was maintained in emerging and developing countries, growth in advanced economies slowed down. China, Russia and India were the key drivers of global growth. This mitigated the lower than expected growth in the United States of America (USA). The USA experienced a significant reduction in investment in residential property following the collapse of the sub-prime mortgage market. Emerging and developing countries benefitted from the strong momentum of domestic demand and prudent macroeconomic policies. In commodity exporting countries, growth edged upwards on account of high metal and energy prices. In the advanced economies, inflationary pressures eased, reflecting slowing demand. On the other hand, in emerging and developing countries, inflation rose, mainly on account of higher food and energy prices.



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Economic developments in Africa were encouraging with growth rising to 6.0% from 5.8%, while inflation remained at the same level, 6.3%. Growth in Sub-Saharan Africa rose to 6.1% in 2007 from 5.7% the previous year, while inflation increased to 7.6% from 7.3%, principally on account of by increased oil and food prices.

Favourable developments in the global and domestic economies led to Zambia recording growth in real gross domestic product (GDP) of 5.7%, though it was lower than 6.2% in 2006. This marked the fifth consecutive year of economic growth exceeding 5%. The observed growth in GDP was driven by continued investment in various sectors of the economy, notably, transport and communications, construction, mining, manufacturing, tourism, and agriculture. During the year, the Zambian economy continued to benefit from higher copper prices, which underpinned the continued growth of the mining and other sectors connected to mining. Further, continued confidence in the local economy led to a sustained increase in foreign direct investment. These positive developments culminated into favourable external sector performance and hence increased international reserves to US \$947 million from US \$595 million the previous year.

A further notable achievement in 2007 was the attainment of single-digit inflation, for the second consecutive year. Annual overall inflation at end-December 2007 was recorded at 8.9%. This was on account of a slow down in non-food inflation, which declined to 11.9% in December 2007 from 18.1% in December 2006. Implementation of appropriate monetary and fiscal policies, coupled with the appreciation of the local currency, were the major contributing factors. This was despite high international oil prices and disruptions in domestic supply of petroleum products. On the other hand, food inflation rose to 5.9% from negative 0.2%, reflecting mainly higher prices of beef and dairy products. Lower supply, due to the ban on the movement of livestock to and from the Southern Province, was behind this development. The ban was necessitated by the need to control the spread of livestock diseases, notably, contagious bovine pleural pneumonia (CBPP).

With respect to the external sector, Zambia continued to record positive developments. These were partly reflected in the surplus in the overall balance of payments and an increase in international reserves. This was underpinned by an increase in both metal and non-metal export earnings, which grew by 15.5% and 24.0%, respectively.

The positive outturn in the country's economic fundamentals was also supported by Government's continued strong fiscal performance. The overall Government budget recorded a deficit of 0.2% of GDP compared to the programmed deficit of 3.9%. This development, in part, reflected challenges in budget execution, especially with regard to capital projects.

During the year, overall financial performance and condition of the financial sector were satisfactory. The banking sector was adequately capitalised and its asset quality and earnings performance were satisfactory. Similarly, the non-bank financial sector registered satisfactory performance. Improved regulation and supervision by the Bank of Zambia contributed to the favourable financial sector performance.

During the year under review, implementation of the Financial Sector Development Plan (FSDP) gathered pace with a number of achievements. These included Cabinet approval for obtaining the first sovereign credit rating for Zambia, enactment of the National Payments Systems Act 2007, issuance of the Pensions and Insurance Levy Regulation 2007, introduction of bonds with tenors of 7, 10 and 15 years, and the launch of the first credit reference bureau.

To improve the country's financial architecture further, the Bank, together with other stakeholders in the financial sector, introduced the Zambia Revenue Authority (ZRA) Tax Payment Stream in April 2007. This

allowed tax payments to be made using Zambia Interbank Payment and Settlement System (ZIPSS) or the Real Time Gross Settlement (RTGS) system. Under this arrangement, tax payers issue payment instructions to commercial banks to transfer funds through RTGS to the appropriate ZRA Tax Accounts at Bank of Zambia. The mechanism has enhanced Government's efficiency in collecting tax revenue as payments made to tax accounts are received in real time.

In the area of human resource management and development, the Bank continued to support capacity building programmes through scholarships, tuition and paid study leave for members of staff while it also embarked on a project to revise its Performance Management System. The industrial relations environment in the Bank remained harmonious. During the year, the Bank also intensified its sensitisation campaigns on HIV/AIDS.

During 2008, the main challenge for the Bank will continue to be the maintenance of single-digit inflation at low levels, amidst persistent increases in energy prices, particularly oil. Other challenges, include the management of excess liquidity arising from the unspent Government balances from the 2007 fiscal year, and the adverse weather conditions experienced in the 2007/2008 agricultural season, which may negatively affect food production and supply in the 2008/09 consumption period. Further, electricity power outages may adversely affect supply of goods and services, thus creating inflationary pressures.

Finally, may I also take this opportunity to say thank you and bid farewell to Mr. Berlin Msiska, former Board member, and the former Deputy Governor, Mr Felix N. Mfula, who left the services of the Bank before the end of 2007.



**Dr. Caleb M. Fundanga**  
Governor and Chairman of the Board of Directors