



3.0 DEVELOPMENTS IN THE ZAMBIAN ECONOMY

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Overview

Government macroeconomic objectives in 2008 were to continue on a higher growth path while reducing inflation to single digits. Specific, major macroeconomic objectives during the year were to:

- (i) achieve real GDP growth of at least 7%;
- (ii) bring down end-year inflation to no more than 7%;
- (iii) limit domestic borrowing to 1.2% of GDP; and
- (iv) maintain gross international reserves at no less than 3.6 months of import cover.

Consistent with these objectives, growth in reserve money and broad money were to be limited to 11.5% and 11.6%, respectively.

Although annual overall inflation remained in single digit up to March 2008 at 9.8% from 8.9% in December 2007, it rose to 10.1% in April 2008 and steadily increased since then to 16.6% by December 2008. Increases in the prices of both food and non-food items contributed to the surge in the recorded inflation. However, fiscal performance was favourable as reflected in the deficit (as a proportion of GDP) of 2.5% compared with the programmed deficit of 3.2%. This was largely attributed to the lower than programmed expenditure. Further, the economy posted a growth of 6.0% during the year under review compared with 6.2% in 2007. Mining, manufacturing, construction, transport and communications, and financial intermediaries were among the key sectors that contributed to this positive growth.

An artist's impression of the planned Multi Facility Economic Zone (MFEZ) in Chambishi on the Copperbelt Province of Zambia which is expected to facilitate local and foreign investment



CHAMBISHI MULTI FACILITY ECONOMIC ZONE MODEL

Apart from the negative global economic developments, Zambia also suffered massive floods that led to the destruction of agricultural fields and other infrastructure, threatening the country's economic growth



FLOODED MAIZE FIELD - WESTERN PROVINCE

3.1 MONETARY DEVELOPMENTS AND INFLATION

Monetary Policy Objectives

The main focus of monetary policy in 2008 was to maintain single digit inflation and achieve an end-year target of 7.0%. Consistent with this objective, reserve and broad money growth were to be limited to 11.5% and 11.6%, respectively. These monetary policy actions were to be complemented by prudent fiscal management.

Challenges to Monetary Policy

During 2008, there were some challenges to monetary policy implementation. These included high production costs due to electricity load shedding, an unanticipated increase in Government expenditure, inadequate supply of maize and the pass-through effects of the depreciation of the Kwacha against major foreign currencies, especially in the second half of the year. The other challenge was the unfolding global recession, emanating from the global financial crisis.

Monetary Policy Outcomes

Developments in the monetary sector indicated that monetary policy outcomes in 2008 were mixed, with inflation rising in spite of a slowdown in money supply growth. Annual overall inflation, which remained in single digit level during the first quarter of 2008, rose to 9.8% in March 2008 from 8.9% at end-December 2007. In April 2008, it rose to 10.1% and from then on steadily increased, reaching 16.6% by December 2008. This outturn was 9.6 percentage points above the end-year inflation target of 7.0% (see Table 3). Increases in both food and non-food inflation being the major factors explaining these developments.

Table 3: Actual Performance Against Projections, 2006 - 2008 (%)

Description	End-December 2006		End-December 2007		End-December 2008	
	Projection	Actual	Projection	Actual	Projection	Actual
Overall Inflation	10.0	8.2	9.0	8.9	7.0	16.6
Non-food Inflation	8.3	18.1	10.7	11.9	8.3	12.9
Food Inflation	10.0	-0.2	7.3	5.9	6.0	20.5
Reserve Money	10.5	29.6	6.0	9.2	11.5	25.4
Broad Money*	14.6	45.1	6.0	26.3	11.6	21.8
Domestic Credit*	10.0	25.7	-	20.3	5.8	37.8
Government	5.2	-0.8	-	-20.2	34.0	22.1
Public Enterprises	4.2	-2.6	-	68.7	-	-61.0
Private Sector Credit	15.4	54.7	-	41.5	-	50.2
Domestic Financing (% of GDP)	1.8	2.4	1.2	1.0	1.2	1.5

Source: Central Statistical Office, Bank of Zambia-Statistics Fortnightly

- Indicates no target under the economic programme

* Preliminary estimates for December 2008

Monetary Developments

Reserve Money

Reserve money growth accelerated in 2008 to 25.4% from the 9.2% recorded in 2007. In absolute terms, the stock of reserve money increased to K4,418.6 billion at end-December 2008 from the K3,523.7 billion recorded at end-December 2007 (see Table 4). This was largely due to an increase in Net Foreign Assets (NFA) as Net Domestic Assets (NDA) of the Bank of the Zambia declined.

The NFA increased by 24.1% compared to 35.6% in 2007 contributing 208 percentage points to reserve money growth, while NDA declined by 8.0% compared to a contraction of 167.7% the previous year and contributed negative 0.6 percentage points.

Currency in circulation and commercial banks' positive current account balances grew by 27.6% and 244.2%, contributing 16.7 and 14.1 percentage points, respectively. Foreign currency statutory reserve deposits, which declined by 32.2% in 2008 had a dampening impact on reserve money growth by contributing negative 6.8% percentage points to reserve money expansion during the year under review.

Table 4: Sources and Uses of Reserve Money, 2006-2008 (K' billions)

	2006	2007	2008
Net Foreign Assets	2,807.2	3,807.7	4,725.4
Net Domestic Assets	419.7	-284.0	-306.8
Net claims on government	844.3	-12.6	572.3
Claims on non-government	309.3	234.7	187.4
Other items, net	-734.0	-506.1	-1,066.5
Reserve Money	3,226.9	3,523.7	4,418.6
Of which:			
Currency	1,224.2	1,513.4	1,931.9
With banks	153.0	208.4	314.8
With non-banks	1,071.2	1,305.0	1,617.1
Bank deposits	1,992.7	1,992.9	2,467.9
Required reserves (Kwacha)	568.3	300.1	408.5
Required reserves (forex)	401.4	525.0	355.8
Settlement accounts	256.4	144.2	496.5
Other deposits	766.6	1,023.4	1,207.1
Contribution to Growth in Reserve Money (%)			
Growth in Reserve Money	34.0	9.2	25.4
Of which:			
Net Foreign Assets	159.1	31.0	208
Net Domestic Assets	-125.1	-21.8	-0.5
Domestic Credit	-12.1	-28.9	12.2
Government	-9.4	-26.6	13.2
Public Enterprises	-4.0	0.0	-5.2
Private Enterprises	-0.3	0.4	25.9
Households	-0.1	-0.1	35.1
Banks	1.5	-2.6	0.1
Other Items Net	-113.0	7.1	-12.7

Source: Bank of Zambia

Table 5: OMO Interventions, 2007 - 2008

Instrument Used	2007				2008			
	Amounts Withdrawn, K'bn	Average Rate,%	Amount Supplied, K'bn	Average Rate, %	Amounts Withdrawn, K'bn	Average Rate,%	Amount Supplied, K'bn	Average Rate, %
Term Deposits	6,745.0	12.8	0.0	0.0	4,780.6	12.4	0.0	0.0
Repurchase Agreements(Repos)	858.4	12.8	0.0	0.0	2,897.2	13.7	0.0	0.0
Outright Sales of Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N/A
Secured Loans	0.0	0.0	342.5	113.3	0.0	0.0	0.0	N/A

Source: Bank of Zambia

Domestic Credit

During 2008, growth in domestic credit rose to 37.8% from 19.8% recorded in 2007. In absolute terms, it increased to K10, 536.2 billion in 2008 from K7,648.7 billion in 2007 owing to increased lending to both the private sector and the central Government (see Table 6). Excluding foreign currency denominated credit, which expanded by 71.8%, annual domestic credit growth increased to 22.7% from the 15.8% recorded in 2007.

Private sector credit increased by 50.2% in 2008, compared with 43.0% in 2007, and contributed 35.3 percentage points to the annual credit growth. Credit to households grew the most by 164.4%, while credit to the private enterprises grew by 26.6%. Credit to non-bank financial institutions increased by 3.5%.

Similarly, annual credit to the Government rose by 22.1% in 2008 compared with a contraction of 20.2% recorded in 2007, contributing 5.5 percentage points to annual credit expansion. However, credit to public enterprises declined by 61.0% and accounted for negative 3.0 percentage points to domestic credit expansion.

The share of household credit in domestic credit increased to 23.7% in 2008 from the 12.4% recorded in 2007.

DEVELOPMENTS IN THE ZAMBIAN ECONOMY

In contrast, the share of private enterprises and Government declined to 51.8% and 21.9% from 56.6% and 24.4%, respectively.

Table 6: Developments in Domestic Credit, 2006 - 2008

Description	2006			2007			2008					
	K' bn	%			K' bn	%			K' bn	%		
		A	B	C		A	B	C		A	B	C
Domestic Credit	6,469.0	28.0	28.0	100	7,648.7	19.8	19.8	100	10,536.	37.8	37.8	100
Government	2,474.6	3.7	1.7	38.3	1,861.5	-21.6	-8.0	24.4	2,311.7	22.1	5.7	21.9
Public Enterprises	224.4	2.6	-0.1	3.5	378.5	68.7	2.4	5.0	147.5	-61.0	-3.0	1.4
Private Enterprises	3,054.7	62.6	23.3	47.2	4,309.1	41.5	19.9	56.6	5,455.2	26.6	15.0	51.8
Households	625.4	18.4	1.9	9.7	942.6	50.8	5.0	12.4	2,492.5	164.4	20.2	23.7
Non-bank Fin. Inst.	89.9	200.6	1.2	1.4	124.9	38.9	0.5	1.6	129.2	3.5	0.1	1.2

Source: Bank of Zambia

a: Change, b: Contribution to credit growth, c: Share

During 2008, commercial banks' loans and advances expanded by 41.4% compared with an increase of 46.7% witnessed in 2007. The largest percentage increase to a single sector was to restaurants and hotels by 280.9%, followed by the real estate sector, which grew by 221.3% and the financial services sector, by 163.4%. Other sectors also recorded increases except the gas, energy, and water sector that declined by 30.8%. On a sectoral basis, the share of loans and advances to households continued to be the largest, accounting for 25.4% in December 2008 followed by the agricultural sector at 16.2% (see Table 7 and Charts 1 and 2).

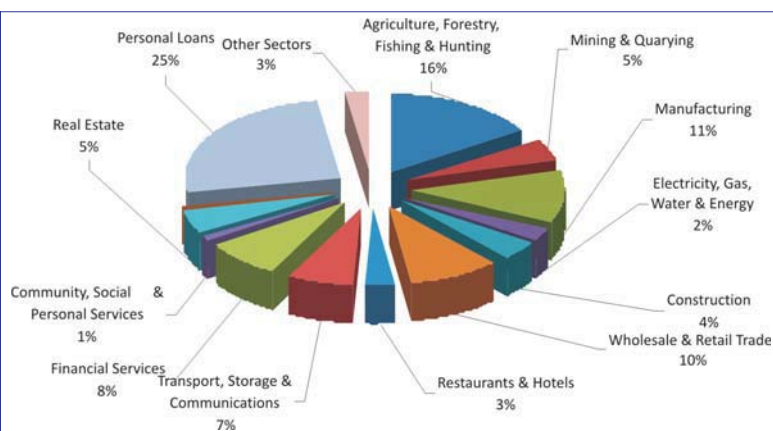
Table 7: Sectoral Shares in Total Loans and Advances, Dec 2006 - Dec 2008 (%)

Sectors	2006		2007		2008	
	K'bn	%Share	K'bn	%Share	K'bn	%Share
Agriculture	1,065.90	27.2	1,210.30	21	1,321.40	16.2
Mining & Quarrying	170.5	4.3	231.2	4	382.1	4.7
Manufacturing	520.3	13.3	615.2	10.7	878.5	10.8
Electricity, gas, water & energy	123.9	3.2	280	4.9	193.7	2.4
Construction	87.4	2.2	203	3.5	324.2	4
Wholesale and retail trade	568.2	14.5	622.2	10.8	789.9	9.7
Restaurants & hotels	78.3	2	67.3	1.2	256.3	3.1
Transport, storage and communications	312.3	8	414.3	7.2	568.2	7
Financial services	186	4.7	243	4.2	639.8	7.9
Community, social and personal services	97.8	2.5	94.8	1.6	107.8	1.3
Real Estate	190	4.8	125.3	2.2	402.4	4.9
Personal Loans	438.4	11.2	1,496.30	26.0	2,070.70	25.4
Others	84.5	2.2	154.3	2.7	207.7	2.6

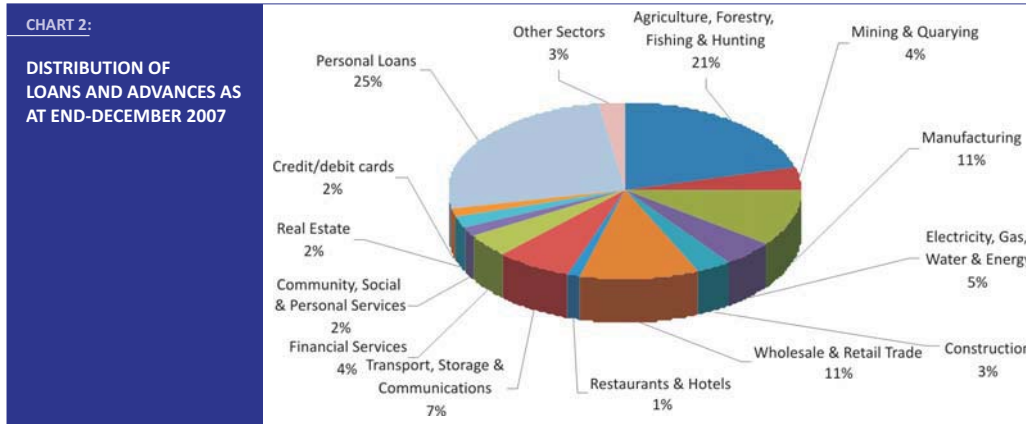
Source: Bank of Zambia

CHART 1:

**DISTRIBUTION OF
LOANS AND ADVANCES¹ AS
AT END-DECEMBER 2008**



¹ Includes mortgages.



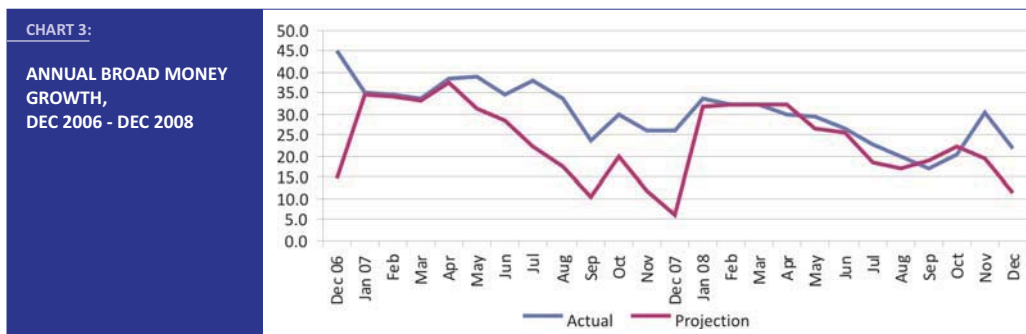
Broad Money

Broad money (M3) growth in 2008 slowed down to 21.8% from 25.9% in 2007. This outturn was 9.2 percentage points above the end-year target of 11.6%. The fall in broad money growth was largely due to the slowdown in the growth in NFA, as NDA growth increased. The growth in NFA slowed down to 10.7% from the 28.1% recorded in 2007, contributing 5.0 percentage points to M3 growth. However, NDA growth rose to 31.9% from 24.7% in 2007 and contributed 16.8 percentage points to M3 expansion (see Table 8 and Chart 3). Excluding foreign currency deposits, whose annual growth slowed down to 21.3% from 30.4% in 2007, money supply growth declined to 22.6% from 23.8% over the same period.

Table 8: Developments in Annual Broad Money, 2006 - 2008 (%)

Description	2006	2007	2008	contributions to ΔM3 (2008)
Broad Money (M3)	45.1	26.3	21.8	21.8
of which:				
Net Foreign Assets	1,503.8	28.1	10.7	5.0
Net Domestic Assets	- 26.1	24.7	31.9	16.8
Domestic Credit	25.8	20.3	37.8	27.0
Net Claims on Gov't.	- 0.5	-20.2	22.1	3.9
Public Enterprises	- 2.6	68.7	-61.0	-2.2
Private Enterprises	62.0	41.5	26.6	10.7
Households	18.4	50.8	164.4	14.5
NBFIs	200.6	38.9	3.5	0.0

Source: Bank of Zambia

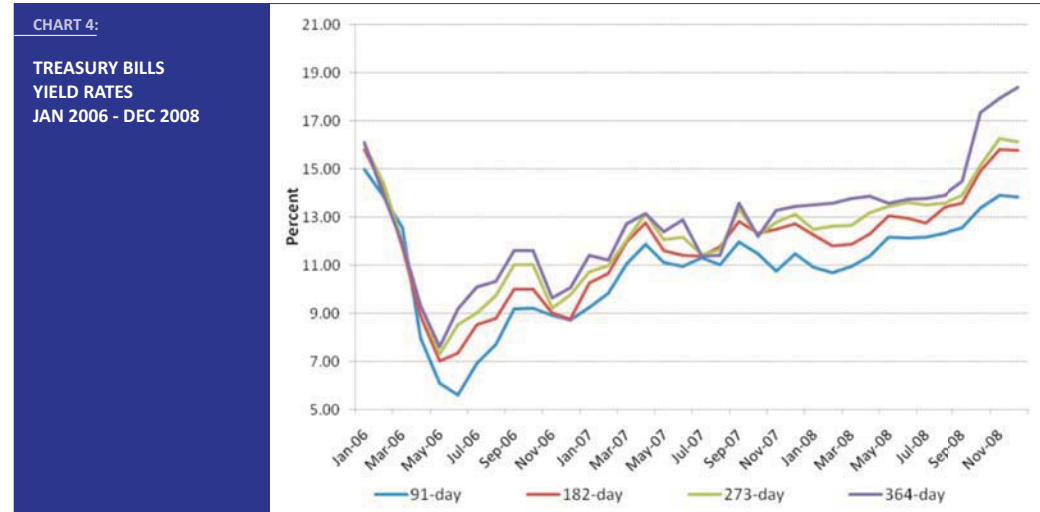


Interest Rates Developments

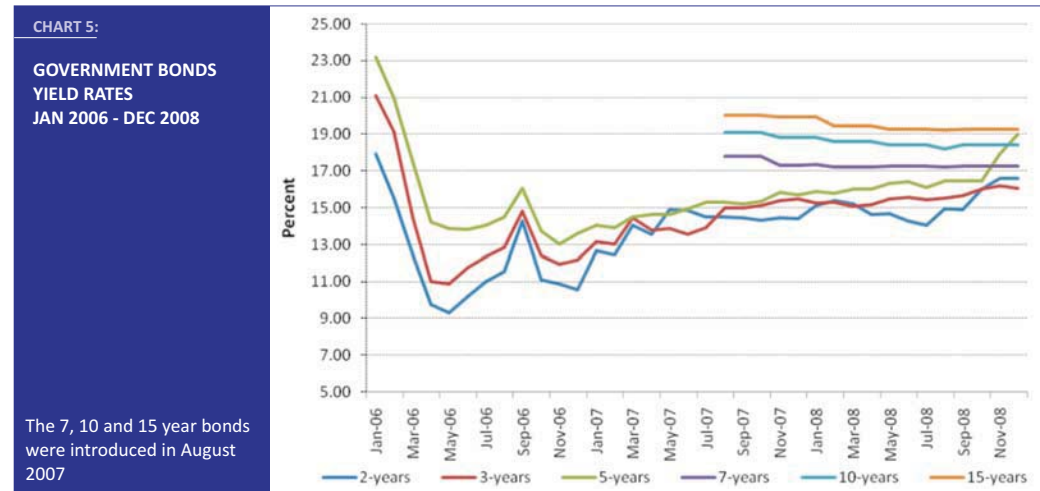
Yield Rates on Government Securities

Yield rates on all Treasury bills portfolios increased and resulted in the weighted average Treasury bill yield rate rising to 16.8% in December 2008 from 12.9% in December 2007 (see Chart 4). The decline in demand for

Government securities, coupled with relatively high inflationary expectations that prevailed for most of 2008, explained the rise in yield rates on Government securities during the year under review.



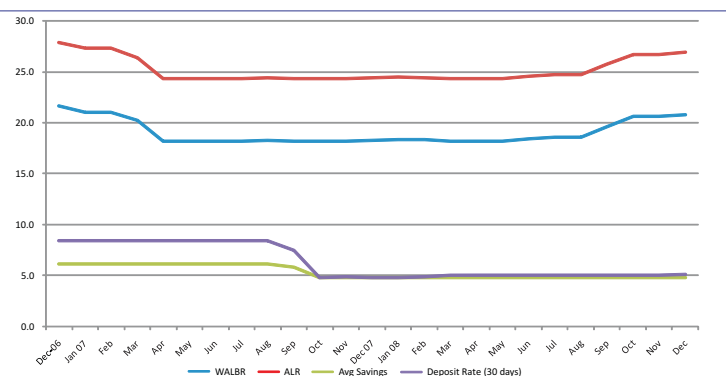
Movements in yield rates on Government bonds portfolios were mixed. Yield rates at the short-end of the market rose while those at the long-end declined. Yield rates on the 2, 3 and 5-year bonds rose to 16.6%, 16.0% and 18.9% in December 2008 from 14.4%, 15.5% and 15.7% in December 2007, respectively. However, the yield rates on the 7, 10 and 15-year bonds declined to 17.3%, 18.4% and 19.3% from 17.7%, 18.8% and 19.9%, respectively. Nonetheless, the composite average yield rate on Government bonds increased to 16.7% from 15.6% (see Chart 5 and Table 9).



Commercial Banks' Nominal Interest Rates

In 2008, all commercial banks' interest rates increased, except the average savings rate (ASR), which remained unchanged at 4.8%. The weighted average lending base rate (WALBR) increased to 20.8% in December 2008 from 18.3% in 2007, while the average lending rate (ALR) went up by 2.5 percentage points to 26.9%. The 30-day deposit rate, for amounts exceeding K20 million, rose to 5.1% from 4.8% (see Chart 6).

CHART 6:

 LENDING AND SAVINGS
 INTEREST RATES (%),
 DEC 2005 - DEC 2008


Commercial Banks' Real Interest Rates

During 2008, all annual real interest rates declined, largely due to the increase in inflation. The real 30-day deposit rate for amounts above K20 million and the real ASR for amounts above K100,000.00 both declined to negative 11.6% and negative 11.8% from the negative 4.1% (for both) recorded at end-December 2007. In addition, the real ALR and the WALBR fell to 10.3% and 2.5% from the 15.7% and 9.4%, recorded at end-December 2007, respectively (see Chart 7).

CHART 7:

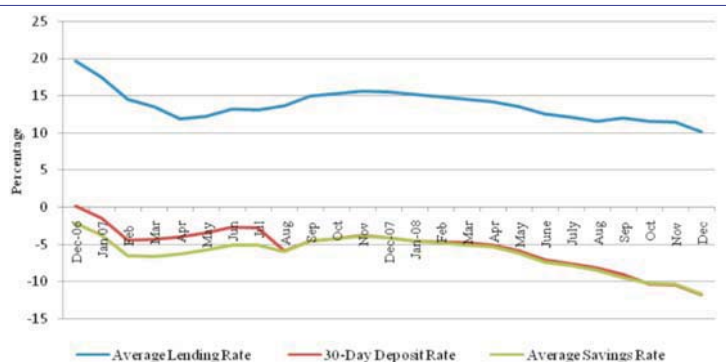
 REAL INTEREST RATES,
 DEC 2006 - DEC 2008


Table 9: Monthly Average Interest and Yield Rates, 2006 - 2008 (%)

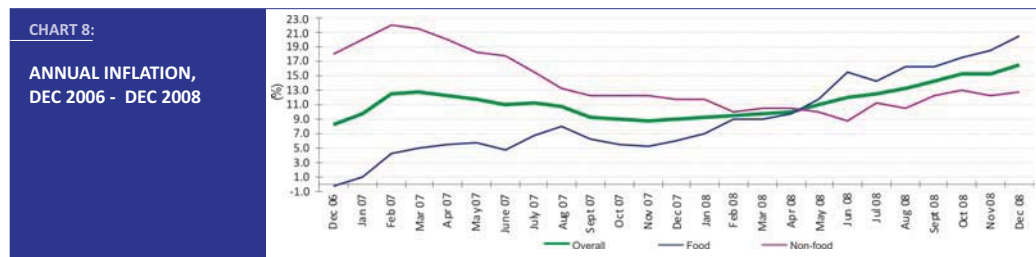
Description	Nominal			Real		
	2006	2007	2008	2006	2007	2008
91-day Treasury bill	8.7	10.7	12.2	0.5	1.8	-4.4
182-day Treasury bill	8.7	11.3	13.5	0.5	2.4	-3.1
273-day Treasury bill	9.6	11.3	13.8	1.4	2.4	-2.8
364-day Treasury bill	9.9	11.2	14.9	1.7	2.3	-1.7
WATBR	9.2	11.1	14.0	1.0	2.2	-2.6
24-month Bond	10.6	14.1	15.2	2.4	5.2	-1.4
3-year Bond	12.1	14.3	15.6	3.9	5.4	-1.0
5-year Bond	13.5	14.9	16.5	5.3	6.0	-0.1
7-year Bond*		17.7	17.3		8.8	0.7
10-year Bond*		19.0	18.5		10.1	1.9
15-Year Bond*		20.0	19.3		11.1	2.7
Composite Yield Rate on Bonds		14.8	16.3		5.9	-0.3
Commercial banks' Weighted Average Lending Base Rate	21.6	18.3	19.1	13.4	9.4	2.5
Commercial banks' Average Lending Rate	27.9	27.9	26.9	19.7	15.7	10.3
Commercial banks' Average Savings Rate	6.1	4.8	4.8	-2.1	-4.1	-11.8
Deposit >K20 m (30 days)	8.4	4.8	5.0	0.2	-4.1	-11.6

Source: Bank of Zambia

*These Government Bonds were introduced in August 2007.

Overall Inflation

The annual inflation rate remained in single digit level during the first quarter of the year, though it rose from 8.9% in December 2007 to 9.8% in March 2008. Annual inflation reverted to double digits of 10.1% in April, rising further to 12.1% in June 2008, and ended the year at 16.6% (see Table 10 and Chart 8). This outturn attributable to increases in both annual food and non-food inflation compared unfavourably to the 8.9% recorded at end-December 2007.



Non-Food Inflation

Developments in non-food inflation during the first half of the year were favourable. It slowed down to 8.8% at end-June 2008 from 11.9% at end-December 2007. This outturn was mainly attributed to the pass-through effects of the appreciation of the Kwacha against the US dollar by 14.4%. However, during the second half of the year, non-food inflation increased, ending the year at 12.9%, reflecting the depreciation of the Kwacha against the US dollar by 50.3%. Non-food inflationary pressures also emanated from domestic fuel prices, which increased by 11.6% during the third quarter due to high petroleum prices on the world market and the weakening of the Kwacha against the US dollar, resulting in the upward movement in transport costs.

Food Inflation

Annual food inflation increased to 11.7% in May 2008 and ended the year at 20.5% from 5.9% in 2007 (see Table 10). The sharp increase in food inflation was attributed to inadequate supply of most food commodities, particularly maize, maize products, wheat, other cereals and cereal products as well as beef and beef products. The supply of grains and beef was constrained by flush floods in most farming areas and the ban on the movement of cattle from and to Southern province in an effort to contain the spread of Contagious Bovine Pleural Pneumonia (CBPP), a cattle disease. In addition, rising production costs, associated with rising transport costs and electricity load-shedding resulted in higher prices of processed food items.

Table 10: Inflation Outturn, Dec 2006 - Dec 2008 (%)

	Monthly			Annual			Year-to-date		
	Overall	Food	Non-food	Overall	Food	Non-food	Overall	Food	Non-food
Dec 06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Dec 07	1.4	1.7	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Jan 08	1.8	1.7	1.9	9.3	6.9	11.7	1.8	1.7	1.9
Feb 08	2.5	4.1	1.1	9.5	9.1	10.0	4.3	5.9	2.9
Mar 08	1.0	1.3	0.8	9.8	9.1	10.4	5.4	7.2	3.7
Apr 08	0.3	0.1	0.4	10.1	9.8	10.5	5.7	7.4	4.2
May 08	0.4	0.4	0.5	10.9	11.7	10.1	6.2	7.9	4.7
Jun 08	1.3	2.8	-0.1	12.1	15.6	8.8	7.6	10.9	4.5
Jul 08	0.8	-0.6	2.3	12.6	14.2	11.2	8.5	10.2	6.9
Aug 08	0.9	1.5	0.3	13.2	16.3	10.4	9.4	11.9	7.2
Sept 08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Oct 08	1.2	1.4	1.0	15.2	17.6	13.0	12.2	13.6	10.9
Nov 08	1.4	2.2	0.7	15.3	18.5	12.4	13.8	16.2	11.6
Dec 08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9

Source: Central Statistical Office and Bank of Zambia

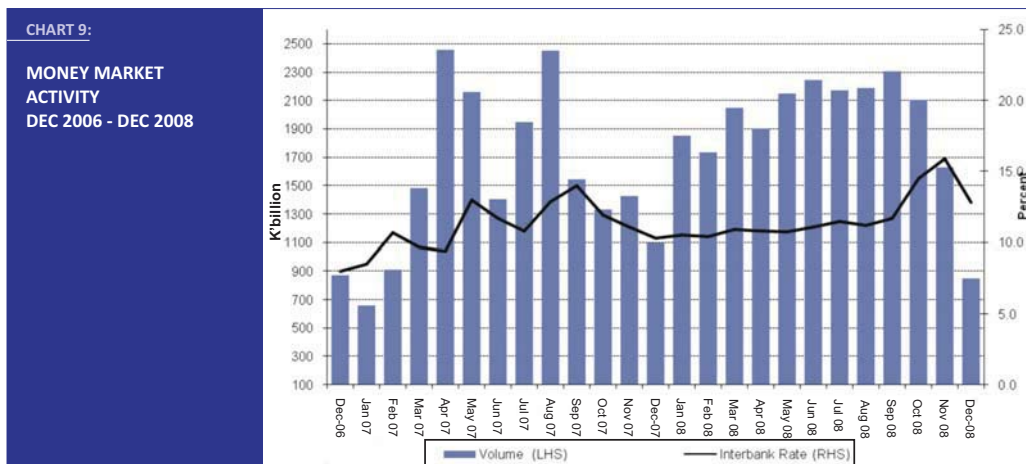
3.2 MONEY AND CAPITAL MARKETS DEVELOPMENTS

Inter-bank Money Market

The turnover of transactions in the inter-bank market rose in 2008, with most of the increase taking place in the second half of the year. Total volume of funds traded in the market rose by 24.8% to K23,836.6 billion in

2008 from K18,851.6 billion in 2007. The increase in the volume of funds traded was partly attributed to the participation of foreign banks in the domestic market following the worsening of the global financial crisis and the subsequent tightening of credit conditions in international markets in the second half of the year. These factors prompted some foreign banks to source funds from the domestic inter-bank market through domestic counterparty banks.

With regard to the volumes of funds traded by tenor, overnight loans increased to K17,736.4 billion from K14,314.4 billion in 2007, while the volume of funds traded for periods exceeding one day increased to K6,100.2 billion from K4,537.2 billion. The participation of foreign banks in the domestic market was reflected in the borrowing of K864.7 billion in overnight loans and K1,489.5 billion for tenors exceeding overnight. The rise in demand for inter-bank loans, which was partly attributed to the foreign banks' participation in the market, was reflected in the increase in the weighted average inter-bank rate, which rose to 11.8% in 2008 from 11.1% in 2007 (see Chart 9). While domestic banks borrowed funds at an average of 12.0%, foreign banks borrowed at 18.6%.



Government Securities Market

The Government securities market continued to be the main source of domestic financing for the Government in 2008. In 2008, the average size of the weekly Treasury bills and the monthly Government bonds auctions remained unchanged at K100.0 billion and K120.0 billion, respectively. However, demand was lower on both Treasury bills and Government bonds. In the Treasury bills market, demand declined to an average of K83.2 billion in 2008 from an average of K97.3 billion in 2007. The reduction in demand for Government bonds was even deeper, falling to an average of K98.6 billion from K219.7 billion. Consequently, average subscription rates on Treasury bills and Government bonds declined to 83.2% and 82.2% from 97.3% and 193.8%, respectively (see Table 11).

Table 11: Government Securities Transactions, 2007 - 2008

	2007			2008		
	Average Offers (K' billion)	Average Bids (K' billion)	Average Subscription Rate (%)	Average Offers (K' billion)	Average Bids (K' billion)	Average Subscription Rate (%)
91-day bills	18.2	15.1	82.9	17.0	12.1	71.2
182-day bills	21.8	18.9	86.7	21.1	15.6	73.9
273-day bills	19.2	17.5	91.1	17.8	13.1	73.6
364-day bills	40.8	45.8	112.3	44.1	42.4	96.1
Total	100.0	97.3	97.3	100.0	83.2	83.2
2-year bond	20.0	28.4	142.0	25.8	27.8	107.8
3-year bond	25.0	33.6	134.4	32.9	18.3	55.6
5-year bond	30.0	50.9	169.7	41.7	30.3	72.7
7-year bond	17.5	50.7	289.7	7.1	10.1	142.3
10-year bond	17.5	32.1	186.9	7.1	5.9	83.1
15-year bond	10.0	24.0	240.0	5.4	6.2	114.8
Total	120.0	219.7	193.8	120.0	98.6	82.2

Source: Bank of Zambia

Stock of Government Securities

The amount of outstanding Government securities, increased by 5.6% to K8,021.8 billion in 2008 from K7,595.3 billion in 2007. The rise in the stock of Government securities emanated from the expansion in the amount of outstanding Government bonds, as the stock of Treasury bills declined. The stock of Government bonds increased by 12.9% to K4,741.4 billion from K4,196.2 billion, thereby contributing 7.2% to the increase in the overall stock of Government securities. The amount of Treasury bills in circulation declined by 3.5% to K3,280.4 billion from K3,399.1 billion, and contributed negative 1.6% to the rise in the overall amount of outstanding Government securities.

Market Bidding Behaviour

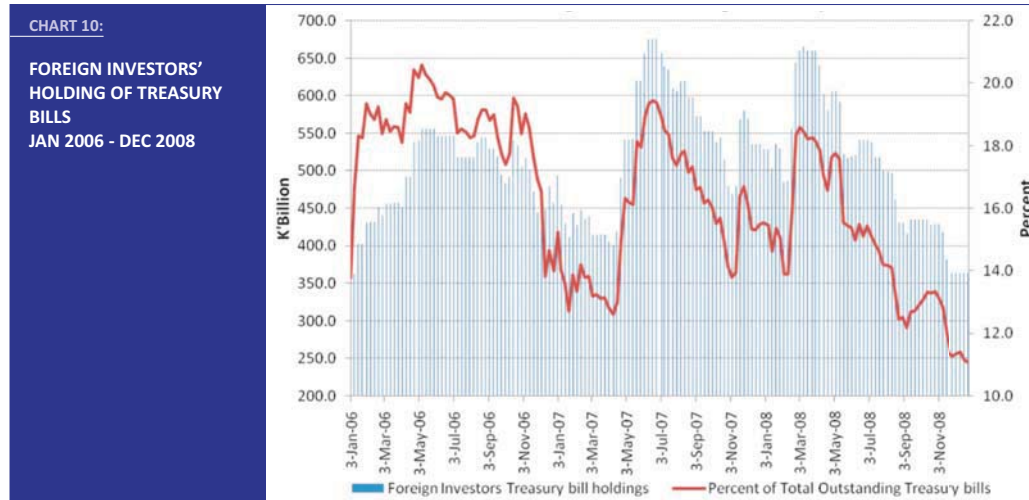
The change in the overall stock of Government securities which was lower than the 13.3% recorded in 2007 reflected the bidding behaviour in the market. The subscription rates on each of the portfolios fell sharply. In the Treasury bills market, the 364-day Treasury bill portfolio continued to be the most preferred, although average subscription fell short of the average amount on offer by 3.9% in 2008 compared with an average over-subscription rate of 12.3% in 2007. Investors' preference for other Treasury bills tenors was even lower, with average subscription rates falling further in 2008. The 273, 182 and 91-day Treasury bills were under-subscribed by an average of 26.4%, 26.1% and 28.8% compared with average under-subscription rates of 8.9%, 13.3% and 17.1% recorded in 2007, respectively.

In the Government bonds market, a mixed pattern was exhibited by investors. The average subscriptions for the 2, 7 and 15-year bonds exceeded the average amounts on offer whilst over-subscription rates declined to 7.8%, 42.3% and 14.8% compared with the corresponding average over-subscription rates of 42.0%, 89.7% and 40.0% in 2007. The 3-year Government bond tenor was the least preferred in 2008 as reflected in an average under-subscription rate of 44.4% compared with an average over-subscription rate of 34.4% in 2007. The average subscription rates on the 5 and 10-year bonds also fell short of the average amounts on offer by 27.3% and 16.9% compared with the average over-subscription rates of 69.7% and 86.9% recorded in 2007, respectively. The overall decline in average subscription rates on Government bonds was attributed to the fall in demand for these securities by foreign investors, who were the main players in the longer term Government securities market. However, the subscription rate for local institutional investors such as National Pension Scheme Authority, remained stable as evidenced by the percentage of Treasury bills and Bond holdings of Pension funds which stood at 9.4% and 9.6% in 2007 and 2008 respectively.

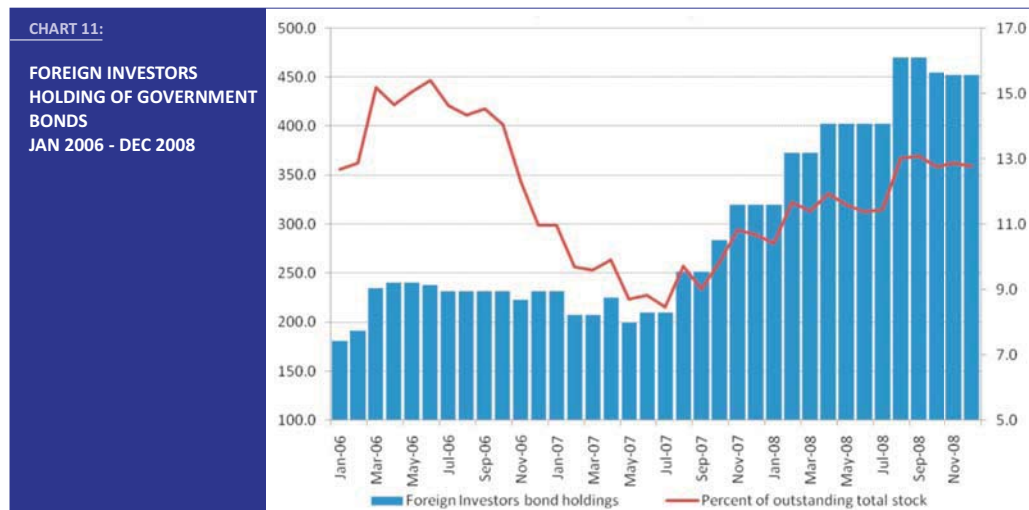
Foreign Investments in Government Securities

During the year under review, investments in Government securities by foreign investors declined on account of the deterioration in global financial conditions and a rise in risk aversion to emerging market assets. Overall, the stock of Government securities held by foreign investors declined by 3.8% to K815.8 billion in 2008 from K847.6 billion in 2007. As a proportion of the total amount of outstanding Government securities worth K8,021.8 billion, foreign investors' holdings declined to 10.2% in 2008 from 11.2% the preceding year.

The reduction in non-residents' holdings of Government securities was attributed to the liquidation of Treasury bills by foreign investors who preferred not to roll-over maturing Treasury bills, particularly in the period following the deepening of the global financial crisis. As a result, the portfolio of Treasury bills held by foreign investors declined by 31.2% to K363.4 billion at the end of 2008. Further, as a proportion of the total amount of Treasury bills in circulation, the foreign investors' holdings declined to 11.1% in 2008 from 15% in 2007 (see Chart 10).



In the Government bonds market, foreign investors continued to add to their Government bonds holdings, which increased by 41.6% to K452.4 billion in 2008. The net purchase of Government bonds by non-residents of K133.0 billion increased the proportion of foreign bond holdings to the total amount of marketable Government bonds to 12.8% at the end of 2008 from 10.7% at the end of 2007 (see Chart 11). Most of the purchases by foreign investors took place during the first half of 2008, prior to the deepening of the global financial crisis in the latter part of the year.



Foreign Exchange Market

During 2008, the foreign exchange market was characterised by an increase in volatility. In the first half of the year, the net inflow of foreign exchange on the market contributed to the strengthening of the Kwacha against major foreign currencies. However, in the second half of the year, adverse developments, domestically and abroad, resulted in the rapid depreciation of the Kwacha. The volatility, particularly in the last six months of the year was attributed to a number of factors, including political uncertainty surrounding the illness and eventual passing on of President Levy Patrick Mwanawasa and the subsequent Presidential elections, the worsening of

the global financial crisis and the sharp decline in copper prices, which impacted negatively on the supply of foreign exchange amid rising demand.

Foreign Exchange Transactions

Despite increased volatility, the turnover of foreign exchange transactions continued to increase in 2008. The increase in the turnover of transactions was reflected in higher amounts of foreign exchange supplied and demanded. The supply to the market, as reflected by commercial banks' purchases of foreign exchange from various sectors of the economy, increased to US \$10,416.8 million from US \$6,711.9 million in 2007. Similarly, demand for foreign exchange, as reflected by commercial banks' sales of foreign exchange to various sectors, increased to US \$10,463.3 million from US \$6,535.5 million in 2007. Hence, commercial banks recorded net sales of US \$46.5 million in 2008 compared with net purchases of US \$176.4 million in 2007.

Of the total supply, mining companies continued to be the major suppliers, supplying a total of US \$1,232.0 million in 2008 compared to US \$850.3 million in 2007. Supply by non-residents also increased to US \$1,166.1 million compared with a total of US \$599.2 million in 2007.

On the demand side, the major buyers of foreign exchange were non-residents, with total purchases of US \$1,252.9 million, up from US \$446.6 million, bringing the net purchases to US \$86.8 million compared with net sales of US \$92.5 million in 2007.

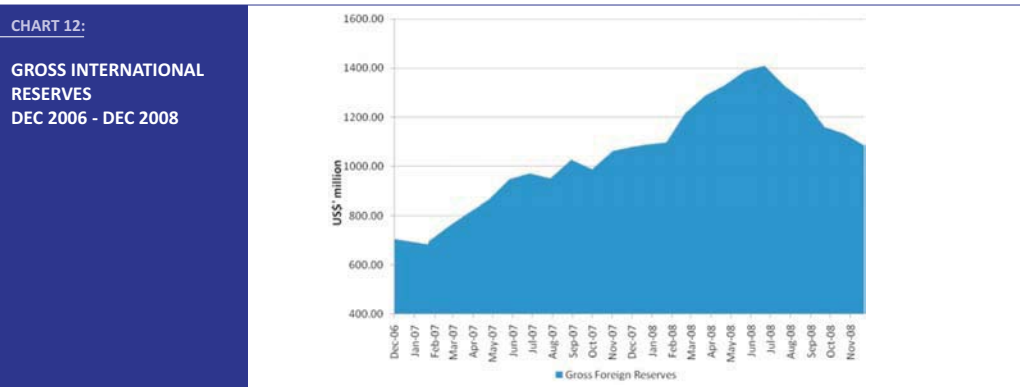
In the inter-bank market, the volume of transactions rose to US \$4,512.3 million from US \$2,821.5 million. There was also an increase in commercial banks' transactions with the non-bank public. Commercial banks' purchases from non-banks rose to US \$5,705.0 billion from US\$3,858.4 million, while their sales to non-banks increased to US \$5,280.5 million from US \$3,355.3 million. However, net purchases from the non-bank public declined to US \$424.6 million in 2008 from US \$503.1 million in 2007.

Activities in other major foreign currencies included Commercial banks' purchases from non-banks of the South African rand, which increased to ZAR3,396.8 million in 2008 from ZAR987.5 million in 2007, while sales rose to ZAR6,164.3 million from ZAR2,954.0 million. In addition, commercial banks' sales of the rand to bureaux increased to ZAR50.9 million from ZAR16.1 million over the same period. However, the level of inter-bank activity in the rand declined to ZAR12.9 million in 2008 from ZAR16.5 million in 2007. Overall, the continued net sale of the South African rand by commercial banks to non-banks was a reflection of the importance of the South African economy as a source for Zambia's imports. Further, commercial banks' purchases of the euro from non-banks rose to €215.7 million in 2008 from €158.6 million in 2007. Similarly, banks' sales of the euro increased to €119.2 million from €96.0 million. Furthermore, commercial banks' purchases and sales of the pound to non-banks rose to £52.2 million and £84.6 million from £44.4 million and £47.0 million, respectively.

In response to demand pressures, and the need to reduce volatility in exchange rate movements, particularly during the second half of 2008, the Bank of Zambia increased the frequency and scale of interventions in the foreign exchange market. The Bank's sales of foreign exchange to the market rose to US \$230.5 million in 2008 from US \$88.5 million in 2007. However, the Bank's purchases of foreign exchange declined to US \$58.5 million from US \$141.9 million. Overall, the Bank recorded net sales of US \$172.0 million in 2008 compared with net purchases of US \$53.4 million in 2007.

Gross International Reserves

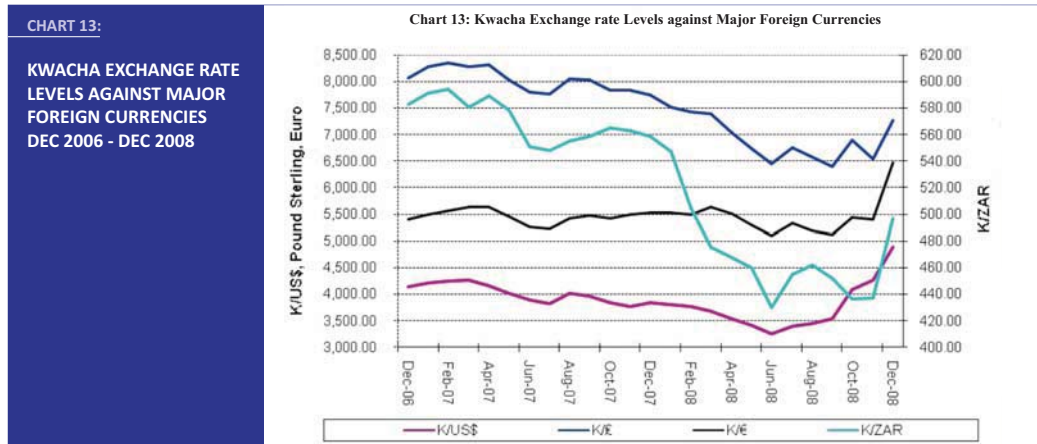
The level of foreign reserves ended the year 0.5% higher, at US \$1,085.0 million, than the US \$1,080.2 million recorded in 2007 (see Chart 12). The main factors that contributed to the increase were balance of payments support, tax receipts from mining companies and receipts of project funds. However, these were moderated by outflows attributed to net Bank of Zambia sales to the market, sales to the Government and external debt service.



Nominal Exchange Rate

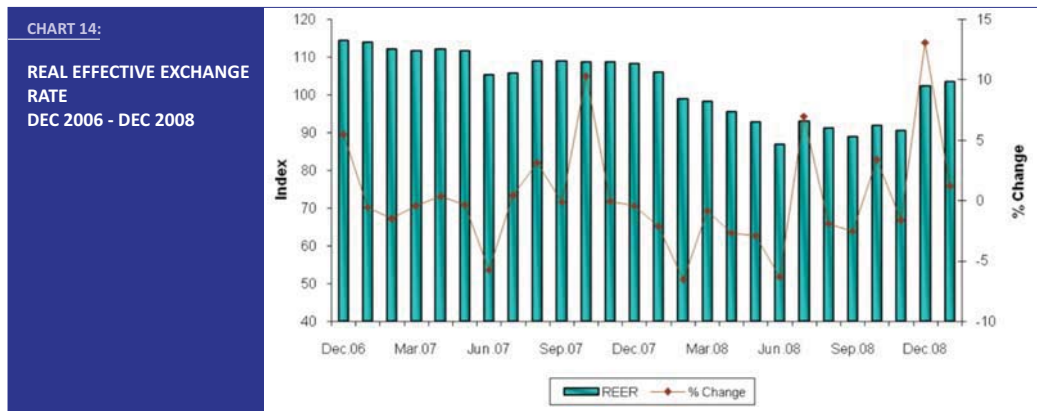
During 2008, the Kwacha depreciated by 27.3% to an average of K4,882.16 per US dollar in December 2008, compared with an appreciation of 7.2% in 2007. The Kwacha also weakened against the euro by 16.8% from a depreciation of 2.3% recorded in 2007. Accordingly, the Kwacha/euro exchange rate closed the year at an average of K6,462.35 per euro from an average of K5,532.27 per euro (see Chart 13). The depreciation of the Kwacha against the US dollar and the euro was mainly due to negative sentiments in view of the falling copper prices and heightened risk aversion to emerging markets following the global financial crisis. These, to some extent, led to the unwinding of portfolio investments in Government securities and equities. The increase in demand for US dollars by foreign participants was reflected by the net outflow of US \$86.9 million from the domestic foreign exchange market in 2008 compared with a net inflow of US \$92.5 million in 2007.

However, the Kwacha ended stronger against the rand and pound sterling, appreciating by 11.1% and 6.3% to averages of K496.72 per rand and K7,260.61 per pound from K558.82 per rand and K7,748.28 per pound, respectively. In 2007, the Kwacha appreciated by 4.2% against the rand and by 4.0% with respect to the pound sterling. The strengthening of the Kwacha against the South African rand and the British pound sterling was attributed to the general weakness in these currencies in international markets, particularly in the period following the worsening of the global financial crisis.



Real Effective Exchange Rate

The real effective exchange rate (REER)² appreciated by 5.5% to 102.35 at end- December 2008 from 108.29 in December 2007 (see Chart 14 and Table 12). This was largely attributed to a 10.5% decline in relative prices (foreign to domestic), which was not fully offset by the 5.6% depreciation of the Nominal Effective Exchange Rate (NEER).



²The Real Effective Exchange Rate (REER) is a trade weighted measure of domestic prices relative to foreign prices, expressed in units of domestic currency. An increase (depreciation) in the REER relative to the base period is indicative of a gain in competitiveness while a decrease (appreciation) in the REER is indicative of loss in competitiveness.

Table 12: End Period Real Effective Exchange Rate, 2006-2008

	2006	2007	2008
Domestic Consumer Price Index	1,378.1	1,501.2	1,749.8
Weighted Foreign Consumer Price Index	173.4	183.2	191.0
NEER Index	1,567.1	1,527.7	1,613.8
REER Index	114.5	108.3	102.3
Percentage Change (Over Previous Year)	14.5	-5.5	-5.5

Source: Bank of Zambia

Capital Markets

Stock Market

Trading activities at the Lusaka Stock Exchange (LuSE) declined in 2008 (see Table 13). The reduction in market activity was reflected in a fall in the volume of shares traded to 1,585.8 million in 2008 from 2,800.3 million in 2007. For most of the year, the market was characterised by bearish sentiments, which were worsened by the deepening of the global financial crisis in the second half of the year. The deepening of the global financial crisis led to increased aversion to emerging market assets, prompting foreign portfolio investors to liquidate their equities listed on LuSE. This resulted in the net negative position of US \$5.7 million following purchases of US \$58.3 million against sales of US \$63.9 million. In 2007, foreign investors' participation on the stock exchange resulted in the net positive position of US \$12.5 million, following purchases of US \$30.6 million and sales of US \$18.1 million.

Market capitalisation rose by 7.9% to K20,361.3 billion in 2008, largely on account of the listing of Copperbelt Energy Corporation, Zambia National Commercial Bank and Celtel (Zain). This was, however, lower than the increase of 13.9% in 2007.

The LuSE All Share Index (LASI) declined by 29.1% in 2008 to close the year at 2,505.88 points compared with an increase of 92.9% in 2007 (see Chart 15). The decline in the LASI reflected a broad decline in share prices of most listed stocks (see Table 14), which underpinned the weakening of economic fundamentals, both domestically and abroad.

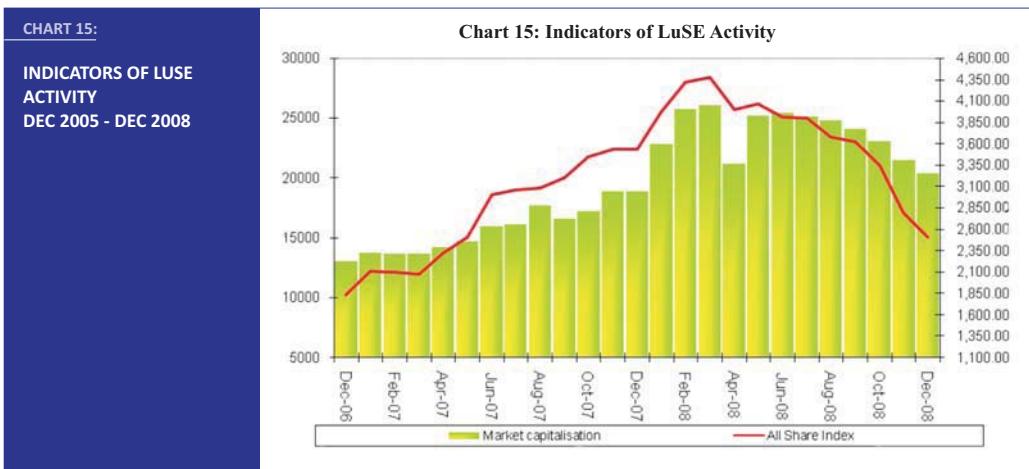


Table 13: Listed Companies Share Price Changes on the Lusaka Stock Exchange

Listed Company	Closing Share Price in 2007	Closing Share Price in 2008	Share Price change (%)
African Explosive (Z) Ltd	2,100.20	1,680.00	-20.0
British American Tobacco	1,550.00	1,450.00	-6.5
British Petroleum	900.00	575.00	-36.1
Copperbelt Energy Corporation ³	-	450.00	2.3
Celtel ⁴	-	300.00	-53.1
Lafarge	6,220.00	6,100.00	-1.9
Farmers House	1,700.00	1,000.00	-41.2
Farmers House Preference	4,280.00	4,280.00	0.00
National Breweries	8,200.00	6,880.00	-16.1
Pamodzi Hotel	171.00	500.00	192.4
Standard Chartered Bank	438.00	379.00	-13.4
Shoprite	18,000.00	16,000.00	-11.1
Zambeef	6,400.00	3,500.00	-45.3
Zamefa	511.64	299.00	-41.6
Zanaco ⁵	-	385.00	-18.1
Zambia Breweries	2,400.00	1,710.00	-28.8
ZCCM-IH	4,500.00	28,000.00	522.2
Zambia Sugar	420.00	268.00	-36.2

Source: Lusaka Stock Exchange

Bonds Market

The secondary trading of Government bonds declined further in 2008, with the number of trades falling drastically to 6 from 25 in 2007. The decline in secondary trading also reflected a decline in the face value of bonds traded in the market to K3.1 billion from K75.6 billion recorded in 2007.

3.3 BALANCE OF PAYMENTS

Zambia's overall balance of payments (BoP) position in 2008, although narrowing, remained positive. International reserves accumulation came down to US \$28.6 million from US \$352.3 million in 2007. The overall balance of payments surplus also reduced significantly to US \$12.7 million compared with US \$310.5 million recorded in 2007 (see Table 14). This decline was attributed to the widening of the current account deficit, coupled with the narrowing of the capital and financial account balance.

To address matters of improving the country's BoP position, the country embarked on various economic activities. In agriculture, farmers in Mkushi Farming Bloc constructed dams collectively to facilitate irrigation



IRRIGATION DAM - MKUSHI

³Copperbelt Energy Corporation was listed in January 2008 with the share price of K440.00

⁴Celtel was listed on June 2008 with a share price of K640.00

⁵Zambia National Commercial Bank was listed in November 2008 with a share price of K470.00

DEVELOPMENTS IN THE ZAMBIAN ECONOMY

Table 14: Balance of Payments, 2006 - 2008, (US \$'million)

	2006	2007	2008*
Current Account	142.8	-754.5	-1,054.9
Merchandise Trade Balance	1,307.0	899.2	401.7
Exports, f.o.b	3,890.7	4,448.5	4,876.9
Metal sector	3,175.4	3,667.7	4,000.8
Copper	3,029.3	3,406.5	3,684.2
Cobalt	146.1	261.2	316.5
Non-traditional	715.3	780.8	876.2
Imports, f.o.b	-2,635.8	-3,610.5	-4,555.2
Metal sector	-520.7	-1,059.1	-1,380.5
Non-metal sector	-2,115.1	-2,551.4	-3,174.7
<i>Of which Petroleum</i>	-454.0	-493.0	-815.6
Goods Procured in ports by carriers	33.6	35.3	37.4
Non-monetary Gold	18.5	26.0	42.6
Services (net)	-358.2	-639.6	-618.1
Services Receipts	228.9	273.4	297.0
Services Payments	-587.1	-913.0	-915.1
Income (net)	-1,168.3	-1,544.6	-1,398.5
Income Receipts	18.4	35.2	29.5
Income Payments	-1,186.7	-1,579.8	-1,428.0
<i>Of which: Income on Equity Payments</i>	-1,107.0	-1,473.6	-1,345
<i>Interest payments</i>	-56.9	-13.3	-54.1
Current Transfers(net)	362.2	530.5	560.0
Private	153.7	227.9	239.0
Official	208.5	302.6	321.0
<i>Commodity, SWAP & Global Fund</i>	92.2	156.0	150.0
<i>Budget Grants</i>	116.3	146.6	171.0
Capital and Financial Account	1,007.4	1,065.4	1,017.5
Capital Account(net)	2,600.4	222.8	230.0
Capital Transfers	2,600.4	222.8	230.0
Project Assistance grants	197.0	222.8	230.0
Financial Account(net)	-1,593.0	842.6	787.5
Direct Investment	615.8	1,323.9	938.6
Portfolio Investment	50.4	41.8	-6.1
Other Investment	-2,259.2	-523.1	-145.0
Assets	-462.3	-1,005.8	-472.1
Increase in NFA - banks(-)	-48.8	-66.7	142.7
Other Short term Deposits	-413.6	-939.1	-614.8
Liabilities	-1,796.9	482.7	327.1
Government	-1,779.3	33.9	67.4
Disbursement of Loans	91.4	82.7	110.8
Project	82.7	82.7	79.0
Budget	8.8	0.0	31.8
Amortization of loans(-)	-1,870.7	-48.8	-43.3
Private Foreign Borrowing(net)	-59.9	448.8	259.6
Errors and Omissions	-328.5	0.0	50.1
Overall balance	821.6	310.5	12.7

Source: Bank of Zambia
* Preliminary

Current Account

During the year under review, the current account deficit widened to US \$1,054.9 million from the US \$754.9 million recorded in 2007, largely on account of a decline in the merchandise trade surplus. The merchandise trade surplus declined by 55.3% to US \$401.7 million from US \$899.2 million. This was attributed to a surge in the merchandise imports bill, which was higher than the increase in merchandise export earnings.

Zambia's merchandise export earnings growth of 9.6 per cent in 2008 was given a boost by increased agricultural activity that saw new investments in the sector and the production of various products like tobacco



CENTRE PIVOT IRRIGATION - MKUSHI



TOBACCO SORTING - MKUSHI

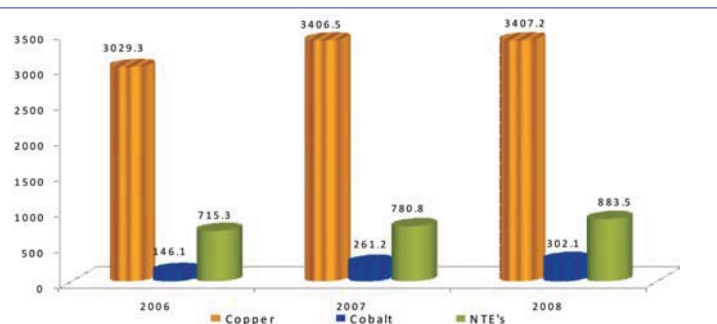
The merchandise imports bill grew by 26.2% to US \$4,555.2 million in 2008 from US \$3,610.5 million in 2007. This was mainly explained by high import bills associated with commodity groups, such as, petroleum products, which increased by 69.0%, fertiliser (47.1%), chemicals (40.1%), paper and paper products (40.4%), food items (38.4%) and motor vehicles (29.2%). The surge in these imports largely reflected the rise in world prices of food, petroleum and agro-inputs, particularly during the first half of 2008.

Merchandise export earnings increased by 9.6% to US \$4,876.9 million in 2008 from the US \$4,448.5 million recorded the previous year. This was attributed to an increase in both metal and non-metal export earnings. Metal export earnings rose by 9.1% to US \$4,000.8 million from US \$3,667.7 million, reflecting an increase in both copper and cobalt export earnings.

Copper export earnings grew by 8.2% to US \$3,684.2 million from the US \$3,406.5 million recorded in 2007 (see Chart 16). Increased copper export volumes, which more than offset the decline in the realised price, explained this outturn. Copper export volumes, at 585,170 metric tonnes (mt), were 19.2% higher than the 490,900 mt in 2007. The average realised price of copper declined by 9.3% to US \$6,371.8 per mt from US \$6,938.8 per mt in 2007. The sharp decline in copper prices on the international market, particularly in the fourth quarter of 2008 following the global economic crisis, explained this outturn.

Similarly, cobalt export earnings increased by 21.2% to US \$316.9 million from US \$261.2 million in 2007. This largely reflected a 26.4% rise in the realised price to US \$68,517.8 per tonne from US \$54,312.4 per tonne the preceding year. An upswing in cobalt prices on the international market, particularly during the first half of the year, explained this outturn. Cobalt export volumes, at 4,625.3 mt, however, were 4.1% lower than the 4,809.0 mt recorded in 2007.

CHART 16:

 EXPORT EARNINGS
 2006 - 2008
 (IN US \$'MILLIONS),


During the same period, non-traditional export earnings, at US \$876.2 million, were 12.2% higher than the US \$780.8 million realised in 2007. Increased earnings from cement and lime exports by 61.5%, wheat and mesulin (45%), gasoil (23.7%), burley tobacco (18.0%), gemstones (13.5%), fresh fruits and vegetables (9.9%), contributed to this outturn. However, products, such as copper wire, electrical cables, cane sugar, fresh flowers, cotton lint, cotton yarn, and electricity, recorded reduced earnings (see Table 15). The decline in earnings from the export of these products was partly attributed to the disruption in production due to electricity load-shedding, particularly during the first quarter of the year.

Table 15: Non-Traditional Exports (C.I.F.), 2006 - 2008, US \$'millions

	2006	2007	2008	Change (%)
Copper Wire	175	195.4	163.5	-16.3
Cane Sugar	54.3	74.4	60.7	-18.5
Burley Tobacco	70.5	63.2	74.6	18.0
Cotton Lint	62.3	37.1	35.4	-4.6
Electrical Cables	103.7	150.5	54.5	-63.8
Fresh Flowers	34.7	38.3	23.7	-38.1
Cotton Yarn	18.9	12.4	7.5	-39.1
Fresh Fruits & Vegetables	25.3	24.6	27.0	9.9
Gemstones	18.1	28.6	32.4	13.5
Gasoil/Petroleum Oils	10.3	20.9	25.9	23.7
Electricity	7.0	7.3	3.3	-54.5
Other	161.5	265.0	445.5	68.1
Exporter Audit Adjustor	15.6	-91.0	-26.3	-71.1
Total	757.2	826.6	927.6	12.2

Source: Bank of Zambia

Capital and Financial Account

In the period under review, the capital and financial account balance narrowed to US \$1,017.5 million from the US \$1,065.4 million recorded in 2007. This stemmed largely from the decline in inflows in the form of foreign direct investment, portfolio investment and private borrowing.

Direction of Trade

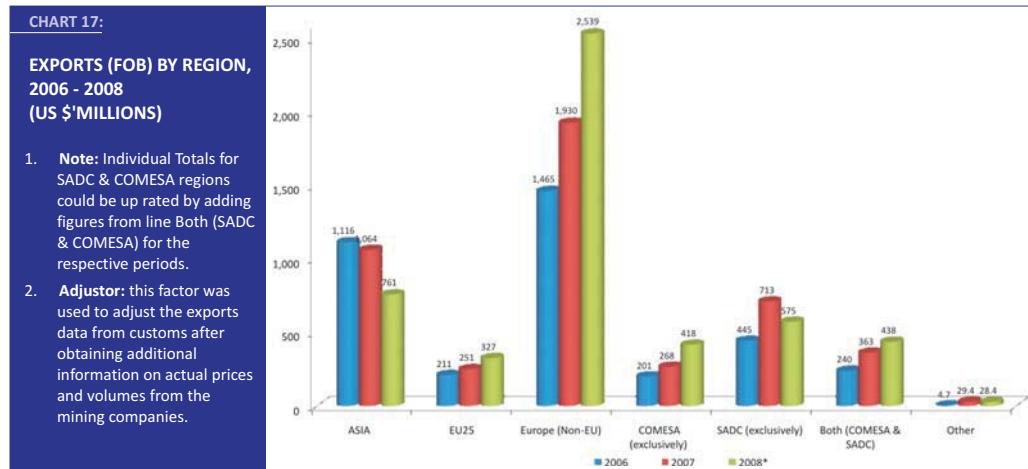
Export Markets by Region

In the period under review, Europe maintained its position as Zambia's major export market, accounting for 58.8% of total exports. Exports to Europe grew by 31.4% to US \$2,866.0 million in 2008 from the US \$2,181.0 million recorded the previous year (see Chart 17). Within Europe, Switzerland and the EU accounted for 52.0% and 6.7% in 2008 from 43.3% and 5.6% in 2007, respectively. Increased copper exports to Switzerland and fresh flowers to the Netherlands accounted for this outturn.

Similarly, exports to the rest of Africa grew by 6.6% to US \$1,433.0 million in 2008 from the US \$1,344.0 million recorded in 2007. Exports to COMESA (exclusively)⁶ increased by 56.0% to US \$418.0 million from US \$268.0 million in 2007, mainly due to increased exports of copper to Egypt. However, exports to SADC (exclusively), declined by 19.4% to US \$575.0 million from US \$713.0 million in 2007. Lower exports of copper

⁶Exclusively in this context refers to those countries that are only members of COMESA and do not belong to SADC. In both regional bodies, there are countries with dual membership. Total exports for either SADC or COMESA could be calculated by adding to either of these regional bodies, exports to countries that are both members of SADC and COMESA.

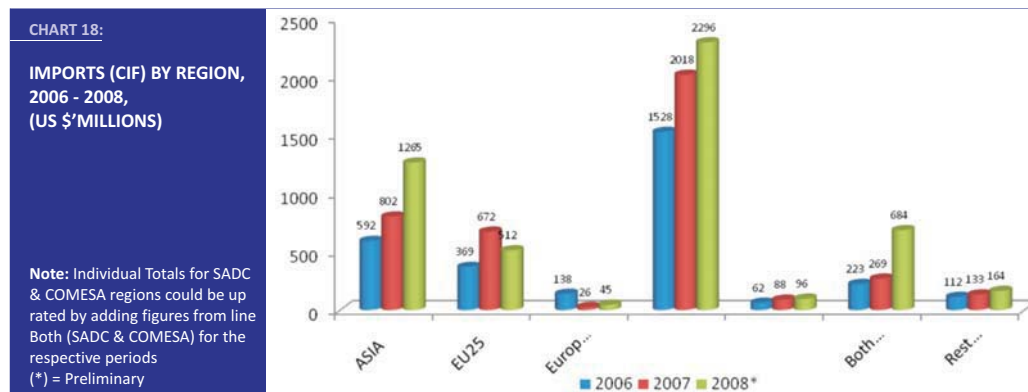
and copper ores to that region accounted for this outturn. Exports to countries that are both members of COMESA and SADC grew by 20.7% to US \$438.0 million from US \$363.0 million the previous year. Exports to Asia declined by 28.5% to US \$761.0 million (15.6%) from the US \$1,064.0 million (23.9%) recorded the previous year. This was largely attributed to the decline in metal exports to China. Exports to the rest of the world fell by 6.9% to US \$27.0 million from US \$29.0 million the preceding year.



Major Sources of Imports by Region

On a regional basis, Africa continued to be the major source of Zambia's imports. Imports from the continent grew by 29.6% to US \$3,078.9 million (accounting for 60.8%) in 2008 from the US \$2,376.3 million recorded in 2007 (see Chart 18). This was largely explained by a rise in imports from COMESA and SADC. Imports from countries which are both members of COMESA and SADC more than doubled to US \$684.3 million from US \$269.3 million in 2007, while imports from the SADC (exclusively) grew by 13.8% to US \$2,296.1 million (accounting for 45.4%) from US \$2,017.6 million in 2007. Similarly, imports from COMESA (exclusively) increased by 9.1% to US \$96.1 million (accounting for 1.9%) from US \$88.1 million the previous year.

The value of Zambia's imports from Asia grew by 57.8% to US \$1,264.7 million (accounting for 25.0% total exports) from US \$801.5 million the previous year. The increase in the value of imports of iron and steel, and rubber products from China and crude oil from Kuwait largely explained this outturn. However, imports from Europe declined by 20.3% to US \$556.6 million from US \$698.1 million the preceding year. Imports from the rest of the world grew by 22.6% to US \$161.1 million (accounting for 3.2%) from US \$131.4 million in 2007.



3.4 EXTERNAL DEBT

External Debt Stock

Preliminary data indicate that Zambia's total stock of outstanding and disbursed external debt increased by 1.0% to US \$2,109.4 million at end-2008 from the US \$2,088.1 million recorded at end-2007 (see Table 16).

An analysis of the structure of Zambia's external debt stock indicates that 56.8% was Government external debt, while 43.2% was external debt contracted by the private sector. The stock of Government external debt increased by 8.3% to US \$1,199.8 million from US \$1,107.4 million, mainly as a result of disbursements from various creditors including the World Bank Group and the International Monetary Fund. Debt owed to multilateral creditors was US \$762.5 million, accounting for 36.1% of total debt, while bilateral creditors accounted for 14.0%.

Total external debt owed by the private sector to various creditors decreased by 7.2% to US \$909.6 million, as at end-2008 from US \$980.7 million at end-2007. This decrease reflected repayment and clearance of outstanding arrears on various loans by the private sector.

Table 16: Zambia's External Debt Stock by Creditor, 2006 - 2008⁷

Creditor	2006		2007		2008*	
	US\$'mn	% share	US\$'mn	% share	US\$'mn	% share
Bilateral	277.4	14.6	286.8	13.8	295.2	14.0
Paris Club	204.2	10.7	212.6	10.2	220.7	10.5
Non Paris Club	73.2	3.9	74.2	3.6	74.5	3.5
Multilateral	588.3	30.9	709.2	34.0	762.5	36.1
IMF	41.4	2.2	86.9	4.2	95.5	4.5
World Bank Group	260.6	13.7	316.9	15.2	436.0	20.7
Others	286.3	15.1	305.4	14.6	230.9	10.9
Suppliers/ Bank	133.4	7.0	111.4	5.3	142.1	6.7
Total Govt. Debt	999.1	52.6	1,107.4	53.1	1,199.8	56.8
Private Sector Debt	901.9	47.4	980.7	46.9	909.6	43.2
Total External Debt	1,901.0	100.0	2,088.1	100.0	2,109.4	100.0

Source: Ministry of Finance and National Planning, and Bank of Zambia
Notes: Total debt stock for 2008 is preliminary*.

External Debt Service

In 2008, Government external debt service amounted to US \$64.0 million, representing an increase of 4.1% from US \$61.5 million actual debt service recorded in 2007 (see Table 17). Principal maturities during the year amounted to US \$43.4 million, while interest and other charges accounted for US \$20.2 million. Of the total debt service for 2008, US \$35.7 million was paid to bilateral creditors and US \$28.0 million to multilateral creditors.

Table 17: Zambia's Official External Debt Service by Creditor, 2006 - 2008 (US \$'million)

Creditor	2006	2007	2008
Bilateral	38.3	35.9	35.7
Paris Club	21.1	3.5	9.2
Others	17.2	32.4	26.5
Multilateral	32.9	24.8	28.0
IDA	13.2	3.0	3.5
IMF	6.7	0.0	3.4
ECU/EIB	4.4	15.2	14.9
Others	8.6	6.6	6.2
Suppliers/Bank	0.7	0.8	0.3
Total	71.9	61.5	64.0

Source: Bank of Zambia

3.5 FISCAL SECTOR DEVELOPMENTS

In 2008, the central Government recorded an overall budget deficit of K1,402.5 billion, on cash basis, 15.3% lower than the programmed deficit of K1,655.4 billion. This outturn was largely attributed to the lower than programmed expenditure. As a proportion of GDP, the deficit represented 2.5%, which was 0.7 percentage points lower than the programmed deficit of 3.2% of GDP. Excluding grants, the deficit stood at 6.3% of GDP against the projection of 8.5% of GDP (see Table 18).

⁷These figures reflect HIPC Initiative relief.

Table 18: Central Government Fiscal Operations, (K' billion)

	2006		2007		2008 Target		2008 (Preliminary)	
	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP
Revenue and Grants	8,320.0	21.6	10,626.0	22.9	12,345.7	23.9	12,186.3	22.0
Domestic Revenue	6,618.0	17.2	8,522.1	18.4	9,602.3	18.6	10,113.6	18.2
Of which:								
Tax Revenue	6,317.0	16.4	8,183.6	17.7	8,907.5	17.3	9,546.3	17.2
Non-tax Revenue	301.0	0.8	338.5	0.7	694.8	1.3	567.3	1.0
Grants	1,702.0	4.4	2,103.9	4.5	2,743.4	5.3	2,072.7	3.7
Total Expenditure	8,955.7	23.2	11,209.5	24.2	13,890.1	26.9	13,280.0	24.0
Of which:								
Current Expenditure	7,414.7	19.2	9,366.5	20.2	11,210.3	21.7	11,313.0	20.4
Capital Expenditure	599.0	1.6	1,083.0	2.3	1,559.6	3.0	1,271.0	2.3
Change in balances	-476.0	-1.2	474.5	1.0	-111.0	-0.2	-308.8	-0.6
Overall bal including grants (Cash)	-1,111.7	-2.9	-109.0	-0.2	-1,655.4	-3.2	-1,402.5	-2.5
Of which:								
Overall bal. excluding grants (Cash)	-2,813.7	-7.3	-2,212.9	-4.8	-4,398.8	-8.5	-3,475.2	-6.3

Source: Ministry of Finance and National Planning

Revenue and Grants

Total revenue and grants, at K12,186.3 billion, were 1.3% below the programmed amount of K12,345.7 billion, despite a favourable posting in domestic revenue. This outturn was largely due to the lower than programmed collections of tax on domestic goods and services, non-tax revenue and grants. Domestic revenue, however, at K10,113.6 billion was 5.3% above the target. As a proportion of GDP, total revenue and grants, at 22.0%, were 1.9 percentage points below the projection of 23.9% (see Table 19).

Tax Revenue

Tax revenue was K9,546.3 billion, 7.2% above the projection of K8,907.5 billion. Explaining this outturn was largely the strong performance in income and international trade taxes, which were above the programmed levels by 16.0% and 23.5%, respectively. The strong performance in income tax was largely attributed to the favourable outturn in personal taxes, namely pay-as-you-earn and withholding taxes, following enhanced enforcement and improved compliance. The favourable outturn in international trade taxes was explained mainly by the higher than projected imports of items, such as, hydrocarbons (fuels), motor vehicles, and parts and accessories for motor vehicles. In addition, export duties were above target following largely higher exports of copper concentrates and scrap metal.

Taxes on domestic goods and services, however, were below target by 43.3%. This was mainly due to lower than programmed collection of domestic value added tax on account of administrative challenges.

Table a: Additional Mining Revenue (K' billion)

Following the introduction of a new fiscal and regulatory regime by the Minister of Finance and National Planning to bring about an equitable distribution of the mineral wealth between the Government and the mining companies, a total of K319.5 billion in additional mining tax revenue was collected, 65.2% lower than the programmed revenue of K917.4 billion. Of this amount, company tax at K22.2 billion was 93.6% below the programmed revenue of K300.5 billion. Similarly, windfall tax at K126.1 billion was 75.9% below target. Mineral royalty, however, at K171.2 billion was 49.1% above target (see Table a).

	2008 (Target)		2008 (Actual)	
	K'bn	% of GDP	K'bn	% of GDP
Total Revenue	917.4	1.8	319.5	0.6
Company Tax	300.5	0.6	22.2	0.0
Windfall Tax	502.1	1.0	126.1	0.2
Mineral Royalty	114.8	0.2	171.2	0.3

Non-Tax Revenue

Non-tax revenue, at K567.3 billion, was 18.4% below the programmed level of K694.8 billion. As a percentage of GDP, non-tax revenue was 1.0% compared with the target of 1.3%. This outturn was mainly explained by the unfavourable performance in user fees and charges. The reduction and delay in implementation of new passport fees and road user charges contributed to the poor performance in fees and charges.

Notwithstanding the above, collections of dividends, medical levy and exceptional revenue were above target, largely due to expansion of financial services and earlier than programmed recoveries of fertiliser loans.

Grants

Total grants in 2008 were K2,072.7 billion, 24.4% lower than the projection of K2,743.4 billion. As a percentage of GDP, grants were 3.7% against the programmed 5.3%. This outturn was mainly due to lower than programmed project receipts, which were 32.3% below the projection of K2,111.4 billion. Programme grants, however, at K643.0 billion, were above the target of K632.0 billion.

Table 19: Central Government Revenue, 2006 - 2008 (K' billion)

	2006		2007		2008* (Target)		2008* (Preliminary)	
	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP
Revenue and Grants	8,320.0	21.6	10,626.0	22.9	12,345.7	23.9	12,186.3	22.0
Domestic Revenue	6,618.0	17.2	8,522.1	18.4	9,602.3	18.6	10,113.6	18.2
Tax Revenue	6,317.0	16.4	8,183.6	17.7	8,907.5	17.3	9,546.3	17.2
Income Tax	2,959.8	7.7	3,831.9	8.3	3,776.3	7.3	4,379.9	7.9
Personal Tax	2,206.6	5.7	2,541.4	5.5	2,352.3	4.6	2,986.0	5.4
Company Tax	694.5	1.8	1,222.9	2.6	1,352.0	2.6	1,327.0	2.4
Extraction Royalty	58.7	0.2	67.6	0.1	72.0	0.1	66.9	0.1
Domestic Goods & Services	1,379.4	3.6	1,231.2	2.7	1,752.0	3.4	993.0	1.8
Excise Taxes	821.1	2.1	1,204.5	2.6	1,394.0	2.7	1,424.0	2.6
Domestic VAT	558.3	1.4	26.7	0.1	358.0	0.7	-431.0	-0.8
International Trade Taxes	1,977.8	5.1	3,120.5	6.7	3,379.2	6.6	4,173.4	7.5
Import Tariffs	742.7	1.9	914.1	2.0	945.2	1.8	1,351.0	2.4
Import VAT	1,233.3	3.2	2,204.1	4.8	2,283.0	4.4	2,632.0	4.7
Export Duties	1.8	0.0	2.3	0.0	151.0	0.3	190.4	0.3
Non-tax Revenue	301.0	0.8	338.5	0.7	694.8	1.3	567.3	1.0
Fees and Charges	98.5	0.3	194.4	0.4	567.7	1.1	388.9	0.7
Dividends	44.7	0.1	29.3	0.1	12.9	0.0	21.1	0.0
Other Receipts	140.6	0.4	114.8	0.2	114.2	0.2	157.3	0.3
Grants	1,702.0	4.4	2,103.9	4.5	2,743.4	5.3	2,072.7	3.7
Programme	423.0	1.1	581.9	1.3	632.0	1.2	643.0	1.2
Projects	1,279.0	3.3	1,522.0	3.3	2,111.4	4.1	1,429.7	2.6

Source: Ministry of Finance and National Planning

Total Expenditure

Total expenditure in 2008, at K13,280.0 billion, was 4.4% below the projection of K13,890.1 billion due to the lower than programmed capital expenditure. As a percentage of GDP, total expenditure was 24.0%, 2.9 percentage points below the projection of 26.9% (see Table 20).

Current Expenditure

Current expenditure, at K11,313.0 billion, was K102.7 billion higher than the projection of K11,210.3 billion. The higher current expenditure was mainly due to overruns on personal emoluments, interest on public debt and subsidies by 4.2%, 55.8% and 90.9%, respectively. As a ratio of GDP, however, current expenditure, at 20.4%, was 1.3 percentage points below the projection of 21.7%.

The higher than programmed personal emoluments were due to the award of a 15% increment on public service wages and salaries against the programmed increase of 9%. The outturn in public debt interest largely reflected the unanticipated increase in yield rates on Government securities and the valuation effects of the depreciation of the Kwacha against major foreign currencies for domestic and external debt interest,

respectively. The overrun on subsidies was necessitated by both the need to increase the number of beneficiaries of the Fertiliser Support Programme and to cushion against the impact of higher fertiliser prices.

Notwithstanding the above, some current expenditure items were below target, notably expenditure on use of goods and services. Expenditure on use of goods and services was below target by 13.4%, largely explained by the lower expenditure on the constitutional review process than projected, following fewer than planned sittings of the National Constitution Conference.

Table 20: Central Government Expenditure, 2006 - 2008 (K' billion)

	2006		2006		2008 (Target)		2008 (Preliminary)	
	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP
Total Expenditure	8,955.7	23.2	11,209.5	24.2	13,890.1	26.9	13,280.0	24.0
Current Expenditure	7,414.7	18.4	9,366.5	16.6	11,210.3	19.1	11,313.0	20.4
Wages and Salaries	2,832.6	7.3	3,530.9	7.6	4,256.5	8.3	4,435.1	8.0
PSRP	15.0	0.0	35.0	0.1	53.0	0.1	30.0	0.1
Use of Goods and Services	1,885.0	4.9	2,437.0	5.3	2,846.1	5.5	2,464.8	4.4
Interest on Public Debt	749.2	1.9	775.6	1.7	706.9	1.4	1,101.7	2.0
Domestic Debt	689.5	1.8	721.3	1.6	650.8	1.3	879.8	1.6
Foreign Debt	59.7	0.2	54.3	0.1	56.1	0.1	221.9	0.4
Subsidies	-	-	409.0	0.9	275.0	0.5	525.0	0.9
Grants and Other Payments	1,610.0	4.2	933.0	2.0	1,967.9	3.8	1,676.0	3.0
Social Benefits	-	-	266.0	0.6	178.8	0.3	168.7	0.3
Other Expenses	322.9	0.8	980.0	2.1	926.1	1.8	911.7	1.6
Capital Expenditure	1,541.0	4.0	1,843.0	4.0	2,679.8	5.2	1,967.0	3.5
Domestically Financed	599.0	1.6	1,083.0	2.3	1,559.6	3.0	1,271.0	2.3
Foreign Financed	942.0	2.4	760.0	1.6	1,120.2	2.2	696.0	1.3

Source: Ministry of Finance and National Planning

Capital Expenditure

In contrast to current expenditure, total capital expenditure, at K1,967.0 billion, was 26.6% below the target of K2,679.8 billion. Government constrained expenditure during the second half of 2008 to accommodate unanticipated expenditures, such as, the enhanced Fertiliser Support Programme and Presidential elections. Further, low absorption by Ministries, Provinces and other Spending Agencies contributed to the slow pace of implementation of projects. As a percentage of GDP, total capital expenditure at 3.5% was below the projection of 5.2%.

Budget Financing

Total financing of the overall fiscal deficit in 2008 was K1,402.5 billion against the projection of K1,655.4 billion. This comprised net external financing of K590.9 billion and domestic financing of K811.6 billion (see Table 21). As a percentage of GDP, total financing was 2.5%, with external and domestic financing at 1.1% and 1.5%, respectively.

Table 21: Budget Deficit Financing, 2006 - 2008 (K' billion)

	2006		2007		2008 (Target)		2008 (Preliminary)	
	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP	K' bn	% of GDP
Total Financing	1,111.7	2.9	109.0	0.2	1,655.4	3.2	1,402.5	2.5
Domestic	944.7	2.4	-36.0	-0.1	602.1	1.2	811.6	1.5
Bank	204.7	0.5	-431.0	-0.9	602.1	1.2	711.6	1.3
Non-bank	740.0	1.9	395.0	0.9	0.0	0.0	100.0	0.2
External	167.0	0.4	145.0	0.3	1,053.3	2.0	590.9	1.1
Programme Loans	36.0	0.1	0.0	0.0	203.3	0.4	118.3	0.2
Project Loans	298.0	0.8	331.0	0.7	832.0	1.6	472.6	0.9
Amortisation	-167.0	-0.4	-186.0	-0.4	-114.5	-0.2	-151.7	-0.3

Source: Ministry of Finance and National Planning

3.6 REAL SECTOR DEVELOPMENTS

National Output

Preliminary data indicate that the economy posted a real growth of 6.0% in 2008 compared with 6.2% in 2007. The slowdown in the growth was mainly on account of the fall in agricultural production and electricity generation. However, mining and quarrying, manufacturing, construction, transport and communications and financial intermediaries were among the key sectors that contributed to the positive growth registered during the year under review (see Tables 22, 24a and 24b).

Zambia's real GDP growth, at about 6 per cent in 2008 was helped mainly by continued massive investment in the mining sector and the support from non-traditional sectors that included the export of day-old chicks to countries in the sub region



SOURCE: KCM PUBLIC RELATIONS

KCM OXYGEN PLANT - CHINGOLA



HYBRID POULTRY FARM - LUSAKA

Table 22: Sectoral Contribution to Real GDP [In Constant 1994 Prices], 2006 - 2008 (Percentage Points)

	2006	2007	2008
Growth in real GDP (%)	6.4	6.2	6.0
Agriculture, forestry and fisheries	0.3	0.1	0.0
Mining and quarrying	0.6	0.3	0.5
Manufacturing	0.6	0.3	0.4
Electricity, gas and water	0.3	0.0	0.0
Construction	1.3	2.0	1.1
Wholesale and retail trade	0.4	0.4	0.5
Restaurants and hotels	0.4	0.3	0.2
Transport, storage and communications	1.4	1.4	1.3
Financial intermediaries	0.3	0.3	0.4
Real estate and business services	0.3	0.3	0.3
Community, social, and personal services	0.7	1.0	1.2
Taxes on products	-0.1	-0.1	0.4
Financial Intermediary Services Indirectly Measured	-0.1	-0.1	-0.1

Source: Adapted from CSO National Accounts

Agriculture, Forestry and Fisheries

Agriculture, forestry and fisheries sector contracted by 0.1% in 2008 compared with a growth of 0.4% in 2007. This outturn was mainly on account of low crop output, which dropped by 4.4%. In particular, maize, sorghum and Virginia tobacco recorded reductions of 11.3%, 21.8% and 40.5%, respectively. Further, output of cassava declined by 2.1% (see Table 23). Persistent heavy rains during the 2007/08 agricultural season, resulting in floods in some parts of the country, mainly explained the fall in crop output.

Table 23: Comparative Summary Results of 2006/07 and 2007/08 Crop Forecast, (Metric Tons)

Crop	2006/07 Output	2007/08 Output	% change
Maize	1,366,158	1,211,566	(11.3)
Cassava	1,185,600	1,160,853	(2.1)
Wheat	185,000	180,000	(2.7)
Sorghum	12,773	9,992	(21.8)
Rice	18,317	24,023	31.2
Sweet Potatoes	75,664	106,522	40.8
Sunflower	8,953	12,662	41.4
Ground nuts	55,215	70,527	27.7
Soy Beans	55,194	56,839	3.0
Irish Potatoes	22,771	10,195	(55.2)
Virginia Tobacco (kg)	21,001,787	12,500,000	(40.5)
Burley Tobacco (kg)	5,382,000	8,000,000	48.6
Cotton	87,000	100,000	14.9

Source: Ministry of Agriculture and Co-operatives

Mining and Quarrying

During the year, the sector grew by 5.9% compared with 3.6% in 2007, thereby increasing its contribution to growth in real GDP to 0.5 percentage points from 0.3 percentage points. This growth was driven by metal mining, which registered a growth of 6.0% compared with 4.4% in 2007. The strong copper output and high copper prices, particularly in the first half of 2008, explained the growth in metal mining. Output of copper rose by 15.8% to 604,735 mt from 521,984 mt. However, cobalt output fell by 5.5% to 4,616 mt from 4,885 mt.

Manufacturing

Manufacturing activities increased during 2008, as the sector posted a real growth of 3.6%, compared with 3.0% in 2007. This increased the sector's contribution to the growth in national output to 0.4 percentage points from 0.3 percentage points. Mainly driving this growth were food, beverages and tobacco, wood and wood products, paper and papers products, and base metal products. However, unfavourable performance continued to characterise the textile and leather subsector as it contracted by 16.7%.

Tourism

Tourism, represented by restaurants, bars and hotels, grew by 5.7% in the year under review, compared with 9.6% in 2007. As a result, the sector contributed 0.2 percentage points to real GDP, slightly lower than 0.3 percentage points in the previous year.

Construction

Growth in the construction sector slowed down to 9.9% in 2008 from 20.0% in 2007 on account of disruptions in the supply of domestic cement due to power outages and rehabilitation of the plant by the leading domestic cement producer. In addition, the slowdowns also reflected the levelling-off of increased investment in construction activities as most key projects neared completion or were completed in 2008.

Transport, Storage and Communications

In 2008, the sector registered a growth of 15.8%, though lower than the 19.2% in 2007. The growth was driven by road, air and communications sub-sectors. Growth in communications was explained by the expansion in the subscriber base in the mobile phone industry. However, rail transport further contracted by 20.2%, mainly on account of operational difficulties facing rail operators. To this end, the sector's contribution to the growth in real GDP was 1.3% compared to 1.4% in 2007.

Disruptions in the production of cement slowed down growth of the construction sector in 2008 but even under the circumstances, many new housing projects were embarked on like the Lilayi Housing project, south of Lusaka



LILAYI HOUSING PROJECT - LUSAKA

Even with the slowed growth in the construction sector, during 2008, Zambia managed to accomplish a long-term project of constructing a bridge over the Luapula River to boost communication



LEVY MWANAWASA BRIDGE - CHEMBE

During the year under review, the mining sector grew by 5.9 per cent compared with 3.7 per cent for 2007. Even with the negative global economic outturn, the investors went ahead with the Konkola Deep Mining Project, whose construction reached an advanced stage



KONKOLA DEEP MINING PROJECT HEADGEAR - CHILILABOMBWE

SOURCE: KCM PUBLIC RELATIONS

Electricity, Gas and Water

During 2008, the electricity, gas and water sector registered a decline in growth of 1.2%, compared to an increase of 1% in 2007. This development was partly due to strong domestic demand for electricity resulting from heightened economic activities, particularly in mining and construction sectors. The stronger demand relative to domestic supply led to load-shedding and sometimes prolonged shutdowns to facilitate rehabilitations and repairs.

Table 24a: GDP by Kind of Economic Activity at Constant 1994 Prices, 2006 - 2008 (K' billion)

KIND OF ECONOMIC ACTIVITY	2006	2007	2008*	Growth in 2008 (%)
Agriculture, Forestry and Fishing	458.2	460.2	459.7	(0.1)
Agriculture	212.3	206.6	198.3	(4.0)
Forestry	167.4	173.6	180.0	3.7
Fishing	78.5	79.9	81.4	1.8
Mining and Quarrying	290.6	301.2	319.0	5.9
Metal Mining	286.2	298.7	316.6	6.0
Other mining and quarrying	4.5	2.4	2.4	0.0
PRIMARY SECTOR	748.8	761.4	778.7	2.3
Manufacturing	354.6	365.2	378.2	3.6
Food, Beverages and Tobacco	224.0	241.1	251.9	4.5
Textile and Leather Industries	48.2	38.8	32.3	(16.7)
Wood and Wood Products	26.5	27.5	31.2	13.5
Paper and Paper Products	9.8	9.9	12.4	25.4
Chemicals, Rubber and Plastic Products	30.9	32.2	34.2	6.3
Non-Metallic Mineral Products	6.5	6.7	6.9	3.3
Basic Metal Products	1.4	1.4	1.8	30.5
Fabricated Metal Products	7.2	7.7	7.5	(2.8)
Electricity, Gas and Water	89.5	90.4	89.3	(1.2)
Construction	328.7	394.4	433.4	9.9
SECONDARY SECTOR	772.7	850.0	900.9	6.0
Wholesale and Retail Trade	588.1	602.4	619.3	2.8
Restaurants, Bars and Hotels	92.8	101.7	107.5	5.7
Transport, Storage and Communications	249.4	297.3	344.2	15.8
Rail Transport	9.2	7.5	5.9	(20.2)
Road Transport	96.5	102.6	116.2	13.2
Air Transport	51.2	63.5	72.2	13.7
Communications	92.6	123.8	149.9	21.1
Financial Intermediaries and Insurance	244.6	254.6	268.2	5.4
Real Estate and Business Services	296.2	305.4	314.8	3.1
Community, Social and Personal Services	257.0	289.1	331.1	14.5
Public Admin. & Defence; Public and Sanitary Service	106.6	122.3	126.5	3.4
Education	104.1	118.3	147.1	24.4
Health	15.5	15.7	18.7	19.5
Recreation, Religious and Culture	15.4	16.4	22.3	32.2
Personal Services	15.4	16.0	16.5	3.5
TERTIARY SECTOR	1,728.2	1,850.5	1,985.2	7.3
Less: FISIM	(141.6)	(146.1)	(148.8)	2.5
TOTAL GROSS VALUE ADDED	3,108.2	3,316.7	3,516.0	6.0
Taxes on Products	243.5	246.4	261.2	6.0
TOTAL GDP AT MARKET PRICES	3,356.1	3,563.1	3,777.2	6.0
Real Growth Rates	6.2	6.2	6.0	

Source: Central Statistical Office

*Preliminary estimates

Table 24b: Gross Domestic Product by Kind of Economic Activity at Current Prices, 2006 - 2008, (K'-billion)

KIND OF ECONOMIC ACTIVITY	2006	2007	2008*	Growth in 2008 (%)
Agriculture, Forestry and Fishing	7,800.2	9,139.5	10,709.3	17.2
Agriculture	1,537.0	1,575.1	1,702.5	8.1
Forestry	5,855.7	7,127.7	8,506.2	19.3
Fishing	407.5	436.7	500.6	14.6
Mining and Quarrying	1,612.5	2,037.2	2,302.0	13.0
Metal Mining	1,597.5	2,027.2	2,291.3	13.0
Other Mining and Quarrying	15.0	9.9	10.6	7.1
PRIMARY SECTOR	9,412.8	11,176.7	13,011.2	16.4
Manufacturing	4,015.7	4,487.4	5,214.7	16.2
Food, Beverages and Tobacco	2,423.5	2,745.1	3,230.7	17.7
Textile, and Leather Industries	630.8	611.4	558.4	(8.7)
Wood and Wood Products	323.2	393.5	513.9	30.6
Paper and Paper products	191.3	226.1	326.2	44.3
Chemicals, rubber and plastic products	331.2	372.4	432.8	16.2
Non-metallic mineral products	55.3	61.1	69.0	12.9
Basic metal products	6.9	8.0	11.1	38.7
Fabricated metal products	53.6	69.9	72.5	3.7
Electricity, Gas and Water	1165.9	1,345.0	1,511.5	12.4
Construction	4,703.7	6,692.7	8,910.6	33.1
SECONDARY SECTOR	9,885.3	12,525.1	15,636.8	24.8
Wholesale and Retail trade	6,524.7	7,395.5	8,494.8	14.9
Restaurants, Bars and Hotels	1,120.1	1,354.2	1,613.2	19.1
Transport, Storage and Communications	1,629.2	2,147.0	2,450.4	14.1
Rail Transport	94.7	110.1	98.1	(10.9)
Road Transport	640.4	755.7	891.8	18.0
Air Transport	356.0	499.4	584.7	17.1
Communications	538.2	781.2	875.8	12.1
Financial Intermediaries and Insurance	3,246.9	3,647.2	4,221.1	15.7
Real Estate and Business services	2,296.4	2,678.2	3,136.3	17.1
Community, Social and Personal Services	3,462.2	4,324.1	5,649.8	30.6
Public Administration and Defence	983.0	1,258.3	1,459.0	15.9
Education	1,842.6	2,335.3	3,244.0	38.9
Health	389.9	445.2	592.3	33.0
Recreation, Religious, Culture	67.1	81.8	120.7	47.5
Personal services	179.6	203.5	233.8	14.9
TERTIARY SECTOR	18,279.4	21,546.1	25,565.6	18.6
Less: FISIM	(1,865.9)	(2,096.0)	(2,425.8)	15.7
TOTAL GROSS VALUE ADDED	35,711.6	43,151.9	51,787.9	20.0
Taxes on Products	2,849.2	3,205.4	3,640.4	13.6
TOTAL GDP AT MARKET PRICES	38,560.8	46,357.3	55,428.3	19.5

Source: Central Statistical Office

*Preliminary estimates

Investment Pledges

Total investment pledges were US \$9,526.3 million in 2008 compared with the US \$1,875.8 million the previous year. On a sectoral basis, mining, energy, manufacturing, tourism, services, financial, real estate and agricultural sectors attracted US \$6,816.0 million, US \$1,139.7 million, US \$1,019.2 million, US \$185.3 million, US \$96.5 million, US \$58.2 million, US \$57.0 million and US \$54.1 million, respectively. Transport, health, construction, engineering, and information and communication technology (ICT) sectors accounted for US \$42.6 million, US \$35.2 million, US \$12.9 million, US \$5.0 million and US \$4.6 million, respectively.

The pledges, when fully executed, were expected to generate 25,767 jobs compared with 12,711 jobs in 2007. The breakdown of jobs expected to be generated were as follows: mining, 7,472; manufacturing, 5,402; financial, 4,349; tourism, 3,195; agriculture, 1,568; services, 1,443; real estate, 693; energy, 509; health, 357; transport, 306; ICT, 265; construction, 183 and engineering, 25.