



1.0 GOVERNOR'S OVERVIEW



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Dr. Caleb M. Fundanga

Governor and Chairman of the Board of Directors

In 2008, global economic growth slowed down to 2.5% from 3.7% in 2007. The downturn was largely on account of the recession in the United States of America, Euro area, Japan, United Kingdom and Canada, partly triggered by the turbulence in the financial markets of these economies, which was associated with the US subprime housing turmoil and a weakening dollar. Growth in some emerging markets, such as, China, India, Russia and Brazil, continued to drive the global economy and mitigated the impact of the decline in economic growth experienced in advanced economies on the global economy. However, growth in these countries was also dampened by the effects of the global financial crisis. The emerging economies benefited from strong domestic demand and improved terms of trade from lower commodity prices, particularly in the second half of the year. Globally, inflation rose in 2008, partly driven by the surge in fuel and food prices. In some emerging and developing countries, there were inflation risks as higher commodity prices and continued pressure on local supply conditions affected wage demands and inflation expectations.

Despite the financial turmoil, economic developments in Africa remained fairly robust as the region grew by 5.9% compared with 6.3% in 2007. In addition, Africa's current account position improved. However, inflation rose on the backdrop of rising global food and oil prices, particularly in the first half of 2008. In Sub-Saharan Africa (SSA), growth, at 6.1% in 2008, continued to be strong compared with 6.9% in 2007, benefiting from terms of trade gains arising from the surge in commodity prices. Similarly, the current account position improved during the period under review. However, inflation rose to 11.7% from 7.1%. This outturn was attributed to most SSA countries experiencing rising food prices, particularly in the first half of 2008.

Notwithstanding the unfavourable global and domestic developments, preliminary estimates indicate that Zambia recorded growth in real gross domestic product (GDP) of 6.0% in 2008. This development extends Zambia's record to six consecutive years of economic growth exceeding 5.0%. This performance was mainly driven by growth in the transport, storage and communication; mining; manufacturing; and construction sectors.

Annual inflation, which was in single digits during the first quarter of the year, reverted to double digit level of 10.1% in April and ended the year at 16.6%, much higher than the 8.9% recorded at end-December 2007. This outturn was mainly attributed to the cost-push effects of high international oil and food prices alongside the pass-through effects of the depreciation of the Kwacha against major currencies.

In the external sector, the country was adversely affected by the global economic crisis as reflected by the significant narrowing of the surplus in the overall balance of payments. This was mainly attributed to the widening of the current account deficit to US \$1,054.8 million in 2008 from US \$754.5 million in 2007.

In spite of the many domestic and external challenges, alluded to above, economic performance was supported by Government's continued prudent fiscal management. In this regard, a favourable budget deficit of 2.7% of GDP in 2008, below the projected deficit of 3.0%, was recorded.

During 2008, the Bank of Zambia continued to exercise effective regulation and supervision of the financial sector. Amidst the unfolding global financial crisis, induced by the credit crunch in advanced economies, the overall performance and condition of the financial sector remained sound during the year under review. The banking sector was adequately capitalised and its asset quality and earnings performance were satisfactory. The issuance of two new bank licences increased the number of registered banks to 15. The non-bank financial institutions also registered satisfactory performance. This sector continued to grow as reflected in the number of micro finance institutions registered with the Bank of Zambia increasing to 76 at the end of 2008 from 61 in 2007.

During the year under review, further progress was recorded in the implementation of the Financial Sector Development Plan (FSDP). Some of the achievements included the selection of a financial advisor for the establishment of a sovereign credit rating for Zambia and the enactment of the Accountants Amendment Bill as part of the process to harmonize various financial sector and business laws and regulations.

During the year, the Bank developed a Strategic Plan for the period 2008 - 2011 to provide a framework for the Bank to effectively meet its challenges in the dynamic global environment. Further, in order to ensure continuous availability of skills and new knowledge, the Bank continued to provide support to employees pursuing various study programmes.

On a sad note, the Bank lost its Director of Economics, Mr. Kellyford Nkalamo who passed away on 24th October, 2008. The late Mr. Nkalamo was a great asset to the Bank and will be deeply missed. May His Soul Rest in Peace.

Finally, the main challenge for the Bank in 2009 will be to curb inflationary pressures and maintain financial stability against the backdrop of a turbulent global economic environment and the ensuing adverse impact on the domestic economy, particularly the mining sector. Therefore, achieving low inflation and a stable exchange rate, with a healthy financial system, will remain the policy focus of the Bank.



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