BANK *Of* ZAMBIA

2018 DISSEMINATION WORKSHOP ON FOREIGN PRIVATE INVESTMENT AND INVESTOR PERCEPTIONS IN ZAMBIA

SPEECH BY

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GOVERNOR – BANK OF ZAMBIA

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TAJ PAMODZI, LUSAKA, ZAMBIA

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Salutations:

- The Permanent Secretary, MCTI, Ms Kayula Siame;
- The Permanent Secretary, MNDP, Mr Chola Chabala;
- The Chief Executive Officer, Zambia Development Agency, represented by the Director of Policy and Planning, Mr Cosam Ngoma;
- The Acting Director, Central Statistical Office, Mr Goodson Sinyenga;
- Ambassadors, High Commissioners and Development Partners, here present;
- Captains of Industry;
- Distinguished Invited Guests;
- Members of the Press; and
- Ladies and Gentlemen.

Let me begin by welcoming you all to this dissemination workshop of the 2018 Survey on Foreign Private Investment Flows and Investor Perceptions in Zambia, the 11th Survey we have conducted so far. At the same time, I wish to thank the Balance of Payments Technical Committee, comprising representatives from the Zambia Development Agency, Central Statistical Office, Bank of Zambia,and other collaborating institutions, for successfully conducting the Survey.

The Bank of Zambia and its collaborating institutions are greatly indebted to the respondents who participated in the Survey for completing the questionnaires. We thank you most sincerely for your cooperation. In particular, we are aware that sometimes we get into the way of the respondents' work as we collect data from the various enterprises. We are working on using technology to improve the conduct of the Survey to, among other things, minimize the inconvenience caused to the respondents. The continued participation of various enterprises in this exercise is extremely important because it generates information that is a critical input to the economic policy-making process. For example, private foreign capital flows are an important source of financing in the balance of payments. The data we collect helps us to develop a more complete picture of developments in both the *current* and *financial accounts* and this has important implications for our views on underlying exchange rate pressures.

We are pleased to note that this year's survey response rate was 89.0%. This points to the solid cooperation that we continue to enjoy with various enterprises and we hope this will remain so going forward.

Ladies and Gentlemen, the 2018 Survey captured the magnitude, types, sources, and direction of foreign private investment for the year 2017 and the first and second quarters of 2018, as well as the investor's perceptions on the investment climate.

Before getting into the highlights of the Survey findings, allow me to briefly comment on monetary policy developments and the macroeconomic environment in general over the period covered by the Survey. This, I hope, will provide some important background to our discussion on the Survey findings.

In 2017, macroeconomic performance improved with relative stability in the exchange rate, achievement of low and stable inflation, and narrowing of the current account deficit. The fiscal deficit, on a cash basis, was lower than programmed, reflecting constrained Government spending due to lower than programmed revenue and grants.

As at September 2018, preliminary data indicate that the current account deficit narrowed by 4.4% to US$277.5 million, mainly on account of the increase in the surplus on the balance on goods, which more than offset the widening of the primary income account deficit. The balance on goods surplus increased following a rise in export earnings and a slight contraction in imports. Higher earnings from non-traditional exports (NTEs) contributed to favourable export earnings. NTEs earnings were higher on account of an increase in earnings from various commodities, while copper earnings were lower on account of a reduction in average realised prices despite an increase in export volumes.

During the same period, lending interest rates declined, although they remained too high to stimulate significant private sector credit growth. Real Gross Domestic Product grew by 3.4%. The growth rate reflected strong performance in agriculture, manufacturing, accommodation and food services, transportation and storage, and electricity supply.

Preliminary estimates by Central Statistical Office (CSO) indicate that the economy grew by 3.9% year-on-year in the second quarter of 2018 compared to 3.4% in the second quarter of 2017. The growth was largely driven by the financial and insurance and information and communication industries. However, the agriculture industry shrunk due to a lower agricultural harvest. In the light of these developments growth for the first half of 2018 was 3.3 % compared to 3.1% in the first half of 2017. Real GDP growth is expected to be 4.0% in 2018.

Clearly, Zambia needs to grow much more strongly if we are to reduce poverty and inequality, and achieve our long term goal of becoming a prosperous middle income country by 2030.

Monetary policy in 2017 continued to focus on maintaining inflation in single digits, with an end-year target of 9.0%. With inflation falling within the target range and projections consistently pointing to low inflation, the Bank eased monetary policy to support economic growth and minimise financial system stability risks. The Bank reduced the Policy Rate to 10.25% by November 2017 from 15.5% in 2016 and lowered the statutory reserve ratio to 8.0% in November 2017 from 18.0% in 2016.

During 2018, monetary policy remained accommodative. In the first quarter of 2018, the Policy Rate was lowered to 9.75% from 10.25%, while the Statutory Reserve Ratio was reduced to 5.0% from 8.0%. The Bank of Zambia has maintained these rates during the year, despite some build-up of inflationary pressures, as projections showed that inflation would remain anchored within the target range of 6-8% in the medium-term. This policy stance was and is still intended to support economic activity and contain some vulnerabilities affecting the financial sector. In addition, the decision took into account the prevailing high lending rates, which continue to constrain access to credit, especially by the productive sectors of the economy.

In the third quarter of 2018, we saw some expansion in total domestic credit, which grew by 9.9% driven by strong growth in lending to private enterprises and households, and a pick-up in credit to Government. Increased demand for working capital by private enterprises and lower interest rates on salary-backed loans to households, partly accounted for growth in credit to these sectors. Money supply grew at a faster rate attributed to an increase in Kwacha deposits and valuation effects on-forex deposits as the nominal exchange rate depreciated.

Let me now turn to the key findings from the Survey, which will be the subject of detailed discussion in the course of this morning. The main finding of the Survey is that Zambia’s net foreign direct investment inflows significantly improved, rising to US $1,179.6 million in 2017 from US$486.1 million in 2016. This was mainly due to a reduction in Foreign Direct Investment assets by US $72.1 million following repayment of debt by non-resident parent companies owed to domestic enterprises. However, Net Foreign Direct Investment liabilities inflows rose by 67.1 percent to US$1,107.5 million.

The other major finding of the Survey is that Zambia’s private sector foreign liabilities inflows declined by 3.1 percent in 2017 to US $1,045.4 million from US $1,078.9 million recorded in 2016. Despite the decline, Foreign Direct Investment liabilities inflows contributed the highest, following a growth of 67.1 percent to US $1,107.5 million from U$ $662.8 million in 2016. This growth was due to increased investment in the mining and quarrying industry, after a rebound in commodity prices on the international market and improvements in electricity supply. Other investment inflows, however, recorded a net outflow of US $71.0 million compared to a net inflow of US $400.9 million recorded in 2016. The significant decrease was due to higher loan repayments, especially in the agriculture, mining and manufacturing sectors during the period. Portfolio Equity Investment recorded a net outflow of US $0.3 million, whilst financial derivatives registered a net inflow of US $ 9.1 million.

Ladies and Gentlemen, these findings are important given the significant role that majority owned foreign affiliates (MOFAs) play in our economy. These companies are resident enterprises with a single foreign enterprise or an associated group of foreign investors owning more that 50% of the ordinary shares or the voting power. The 2017 Survey results revealed that 193 MOFA's were enumerated, compared with 182 in 2016. The performance of these enterprises significantly improved in the year under review as evidenced by an increase in profitability, sales, and value addition. Further, the contribution of these companies to employment creation and taxes paid rose. Profits of the MOFAs increased by 93.8% to US$512.3 million. This profitability was driven mainly by the mining and quarrying sector, whose profits rose to US$411.4 million from the losses of US$85.9 million in 2016. Higher copper prices on the international market and higher export volumes supported overall profitability and particularly that of the mining and quarrying sector.

It is also reassuring to note that the main motivating factors for investing in Zambia remain economic growth prospects and market potential, followed by political stability. Furthermore, the ease of doing business and good governance were also ranked positively as factors for investing in our economy.

As I conclude, let me share with you the major perceptions expressed by the respondents. More generally, several respondents indicated that monetary and fiscal policies were encouraging in 2017. On the monetary policy front, respondents appreciated the efforts made in stabilising the foreign exchange market as well as the upward revision of the electronic fund transfers for direct credits from ZMW100,000.00 to ZMW500,000.00. On the fiscal policy side, the policy to allow 100% increase in capital allowances on equipment and machinery was the most welcome policy measure followed by Government intention to limit the budget deficit. The Survey further revealed that among Government policy measures affecting business operations, road infrastructure development was rated most positively followed by promotion of value addition.

Finally, I wish to thank you all for attending this workshop and hope that you will use this opportunity to delve into Survey findings, the reasons behind the findings, and recommend appropriate response measures that will continue to improve the overall business environment in the country.

It is now my honour and privilege to officially open the workshop and I wish you fruitful deliberations.

Thank you for your kind attention. God bless!