Republic of Zambia

ECONOMIC REPORT

2009

Ministry of Finance and National Planning
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2009 ECONOMIC REPORT

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FOREWORD

The 2009 Annual Economic Report reviews the country's economic performance and future prospects. Among others, the report targets different stakeholders and partners in economic development through policy making and is meant to stimulate discussion and change.

The Zambian economy in 2009 generally performed better than projected amidst the after effects of the global economic crisis. Real Gross Domestic Product (GDP) growth was 1.9 percentage points higher than the earlier projection of 4.5 percent. This growth was largely driven by mining, agriculture and construction sectors. Nonetheless, the macroeconomic performance was mixed, with inflation reverting to single digit level, while lending rates increased and the Kwacha depreciated against major currencies. Additionally, domestic credit shrunk on account of the tightening of lending conditions by financial institutions.

Fiscal performance in 2009 was broadly on track despite a shortfall in revenues and under performance of expenditure. Total revenues and grants were below target by 9.2 percent while expenditures were below target by 3.4 percent. The overall budget deficit in 2009 stood at 2.6 percent of GDP, 0.2 percentage points higher than the projected 2.4 percent.

The overall balance of payments position was in surplus, and was largely aided by a reduction in the import bill. This facilitated a significant narrowing of the current account balance to US$427.4 million from US$1,036.1 million in 2008. The capital and financial account however continued to be positive. As a consequence of these developments and augmentation funds received from the IMF, the international reserves position improved significantly, reaching 5.1 months of import cover.

In order to sustain the economic achievements of the recent past and meet the social aspirations of the Zambian people, the government will continue to pursue policies that will preserve macroeconomic stability through fiscal prudence, maintaining singe digit inflation and ensuring a stable and competitive exchange rate. In addition, real GDP growth is expected to be driven by sectors such as agriculture, mining, manufacturing and tourism among others. Further, Government's near-term agenda includes diversification of the economy, infrastructure development particularly in the energy sector and rural areas.

Likolo Ndalamei

SECRETARY TO THE TREASURY

CHAPTER 1: DEVELOPMENTS IN THE GLOBAL ECONOMY

1.1 Overview

1. Global economic activity showed greater signs of recovery than earlier estimates had suggested, with GDP growth projected to contract by 0.6 percent, compared with initial estimates of a 1.6 percent. Although the projections were significantly worse than the positive growth of 3.0 percent registered in 2008, it is a clear that the worst of the global economic crisis has passed. The improved projection is attributed to a better than expected rise in global production and trade, as well as improved confidence in global financial markets. Continued policy support from the G-8 group of countries also played an important role in preventing the global economy from contracting further.

2. The level of inflation in the global economy declined significantly as a result of weaker economic activity. Average inflation fell to 2.7 percent in 2009 compared to 8 percent in 2008. There was a general decrease in both food and non-food inflation in most economies during 2009.

1.2 Developments in Advanced Economies

3. Advanced economies continued to face the brunt of the economic crisis, with projections indicating a 3.2 percent decline in output in 2009. The economies that faced the worst of the crisis in 2009 were Japan and the United Kingdom, recording contractions of 5.2 and 4.8 percent, respectively. By comparison, growth in the United States and the Euro Area contracted by only 2.4 percent and 4.1 percent, respectively.

4. Inflation in advanced economies was heavily curtailed by weaker domestic demand on account of high levels of unemployment. Average inflation in 2009 stood at 0.9 percent for advanced economies, with US inflation recorded at negative 1.2 percent, and in the Euro Area was 1.1 percent.

Table 1.1: World Economic Outlook Overview

	2007	2008	2009*
World output	5.2	3.0	(0.6)
Advanced economies	2.7	0.5	(3.2)
United States	2.0	0.4	(2.4)
Euro area	2.6	0.6	(4.1)
Germany	2.5	1.2	(4.8)
France	2.2	0.3	(2.3)
Italy	1.5	(1.0)	(4.8)
Spain	3.7	0.9	(3.6)
Japan	2.4	(1.2)	(5.2)
United Kingdom	3.0	0.5	(4.8)
Canada	2.7	0.4	(2.6)
Other advanced economies	4.6	1.7	(1.3)
Newly industrialized Asian Economics	5.6	1.7	(1.2)
Emerging and developing economies	8.3	6.1	2.4
Africa	6.2	5.2	1.9
Sub-Sahara	6.9	5.6	2.1
Central and eastern Europe	5.4	3.1	(3.7)
Commonwealth of Independent States	8.6	5.5	(6.6)
Russia	8.1	5.6	(9.0)
Excluding Russia	9.7	5.3	(3.9)
Developing Asia	10.6	7.9	6.6
China	13.0	9.6	8.7
India	9.3	7.3	5.6
ASEAN-5	6.3	4.7	1.3
Middle East	6.4	5.3	2.2
Western Hemisphere	5.7	4.2	(1.8)
Brazil	5.7	5.1	(0.4)
Mexico	3.2	1.3	(6.8)
Memorandum			
European Union	3.1	1.0	(4.1)
World growth based on market exchange rates	3.8	1.8	(2.1)
World trade volume (goods and services)	7.2	2.8	(12.3)
Imports			
Advanced economies	4.5	0.5	(12.2)
Emerging and developing economies	14.5	8.9	(13.5)
Exports			
Advanced economies	5.9	1.8	(12.1)
Emerging and developing economies	9.6	4.4	(11.7)
Commodity prices			
Oil	10.7	36.4	(36.1)
Nonfuel (average based on world commodity export weights)	14.1	7.5	(18.9)
Consumer prices			
Advanced economies	2.1	3.4	0.1
Emerging and developing economies	6.4	9.2	5.2
London interbank offered rate (percent)			
On U.S. dollar deposits	5.3	3.0	1.1
On euro deposits	4.3	4.6	1.2
On Japanese yen deposits	0.9	1.0	0.7

Source: International Monetary Fund, World Economic Outlook Update, January& April, 2010

1.3 Developments in Sub-Saharan Africa

5. Growth in Sub-Saharan Africa was significantly lower at 1.6 percent in 2009, compared to 5.6 percent in 2008. Botswana and South Africa in particular, were severely hit by the global crisis, with their economies contracting by 12.0 percent and 2.2 percent, respectively. Oil producing countries were also negatively impacted by the global crisis, with oil prices falling sharply from the record highs registered in 2008. Growth in these economies averaged 1.9 percent in 2009, compared with 7.0 percent in 2008.

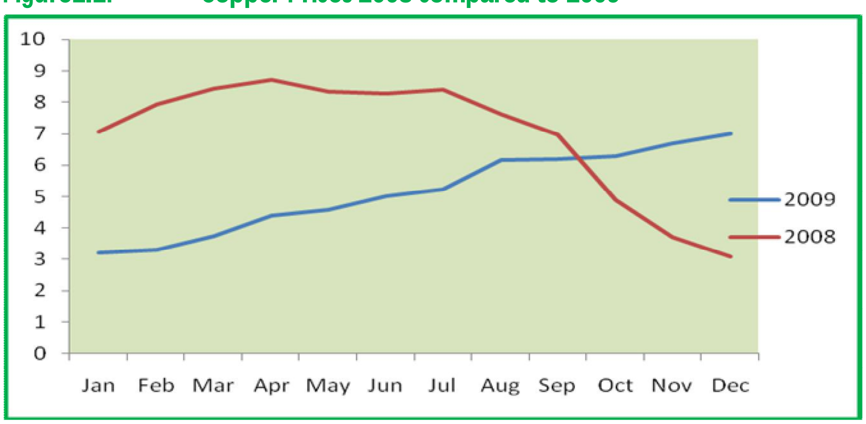
6. Inflation in Sub-Saharan Africa was also moderated in 2009 as a result of weaker internal demand and lower international food and fuel prices. Inflation was projected to reach 10.5 percent in 2009, compared with 11.6 percent in 2008.

1.4 Commodity Price Developments

7. The average price of commodities in 2009 was substantially lower than the record high observed in 2008. The average monthly price of oil started the year at US$35 per barrel, before steadily rising to US$80 by December 2009. Average oil prices in 2009 were 37 percent lower than in 2008, mostly on account of reduced international demand for oil.

8. Non-fuel commodity prices also followed a similar trend. Copper prices, in particular, were significantly lower in the first quarter of 2009, averaging US$ 3,427 per metric tonne during the first three months of the year. Prices then steadily picked up, reaching a high of US$ 6,982 in December 2009. The closing price of copper in December 2009 more than doubled the opening price in January 2009, a clear sign that demand for the commodity had improved significantly since the onset of the global crisis. Figure 1.1 compares international copper prices in 2008 and 2009.

Figure1.1: Copper Prices 2008 compared to 2009



1.4 Outlook for 2010

9. In 2010 world output is projected to rise by 4 percent. The growth is expected to be driven by a pickup in emerging and developing economies on account of higher internal demand. Advanced economies are expected to continue their recovery, although growth will remain sluggish. Global trade is forecast to recover in line with the increase in world output.

10. Inflation is expected to remain within the 2009 range on account of low capacity utilization levels and well anchored inflation expectations. Commodity prices are projected to rise supported by the strength of global demand especially from emerging economies. This presents positive growth prospects for primary commodity exporting countries such as Zambia.

CHAPTER 2: DEVELOPMENTS IN THE DOMESTIC ECONOMY

2.1 Overview

11. The performance of the Zambian economy in 2009 was favourable and was better than projected. Real Gross Domestic Product (GDP) growth was estimated at 6.4 percent, higher than the earlier forecast of 4.5 percent. This growth was largely driven by mining, agriculture and construction sectors.

12. The macroeconomic environment was generally mixed. Although inflation reverted to single digit level, lending rates increased and the Kwacha depreciated against major currencies. Additionally, domestic credit shrunk on account of the tightening of lending conditions by financial institutions.

13. In the external sector, the balance of payments surplus increased, and was aided largely by a reduction in the import bill. This facilitated a significant narrowing of the current account balance. In addition, the capital and financial account continued to be positive. As a result of these developments, the international reserves position improved significantly, reaching 4.8 months of import cover.

2.2 Macroeconomic Performance

Domestic Output

14. Initial estimates indicate that real GDP in 2009 grew by 6.4 percent to K4, 010.0 billion in 2009 from K3,765.4 billion in 2008 (see Table 2.1). This outturn was higher than the conservative growth target of 4.5 percent set against a back-drop of the global economic crisis. The pick-up in copper production and favourable agricultural performance resulted in a 12.4 percent growth in the primary sector that compensated for the slowdown in the tertiary sector in general and the negative growth in tourism in particular.

Table 2.1: Selected Macroeconomic Indicators, 2007-2009

	2007	2008	2009 target	2009 outturn
Real GDP (%)	6.2	5.7	4.5	6.4
Money Supply (% change)	26.3	21.8	14	8.3
Inflation (end year)	8.9	16.6	10	9.9
Lending Interest rates	24.4	26.9	-	29.2
Domestic borrowing (% of GDP)	0.9	1.5	1.9	2.6
Overall budget deficit (% of GDP)	(0.2)	(3.2	2.4	2.6
Current account deficit (% of GDP, excluding grants)	(9.1)	(9.3)	-	(6)
Gross International Reserves (Months of import cover)	2.5	2.1	-	5.1

Source: Ministry of Finance and National Planning

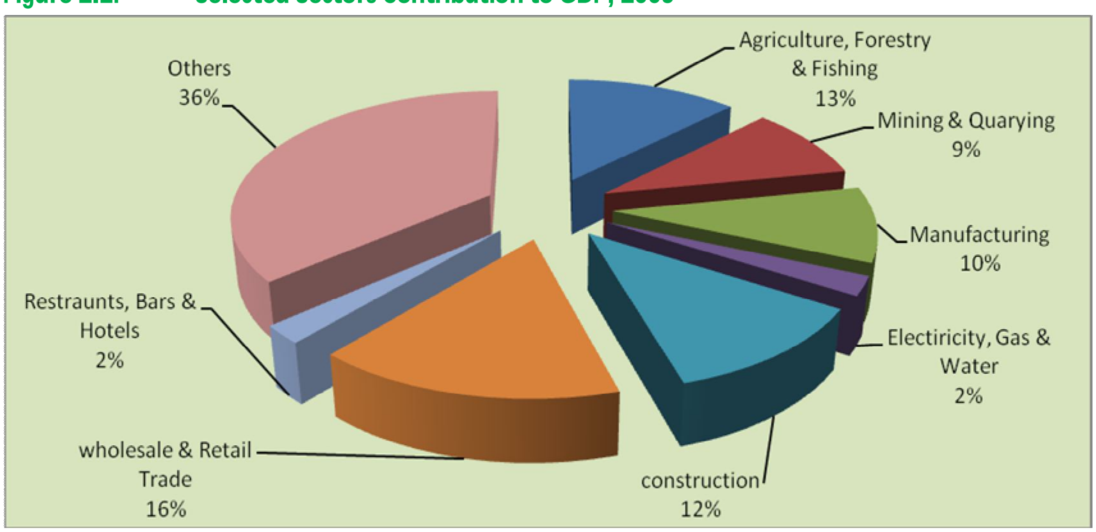
15. Copper production increased by 16.0 percent to 661,178 Mt in 2009 from 569,887Mt in 2008. Lumwana copper mines, the new player in the sector accounted for 16.0 percent of the

total production. The annual average realized copper price for 2009 was 25.8 percent lower at US$4,656.1 per tonne compared to US$6,275.4 per tonne in 2008, on account of lower global demand due to the secondary effects of the global economic crisis. Cobalt production in the review period, declined by 65.0 percent. As a result of these developments, mineral export earnings were 18 percent lower at US $3,283.9 million in 2009 compared to U $4,001.0 million in 2008.

16. In agriculture, the production of major food crops recorded an increase while for cash crops, it was mixed. Maize production increased by 30.6 percent to 1.9 million Mt in the 2008/2009 farming season from 1.4 million Mt in the 2007/2008 farming season. Sorghum, rice and millet recorded increases in output of 90.7 percent, 38.6 percent and 25.0 percent, respectively. The increase in production for these crops was largely due to an increase in area planted, improvements in extension services and favourable weather conditions. With regard to cash crops, Burley tobacco and wheat recorded an increase of 147.5 percent and 72.9 percent, respectively, while Virginia tobacco, seed cotton and paprika recorded negative growth.

17. The performance of the secondary sector in 2009 was positive, with value addition increasing by 6.2 percent compared to 4.7 percent in 2008 (Tables 2.2, 2.3, and 2.4). Favourable outturns in the manufacturing sub-sectors of food, beverages and tobacco, and the non-metallic drove manufacturing growth. Additionally, continued positive performance in construction, and a pick-up in the electricity, water and gas sector further augmented positive performance. Figure 2.1 depicts the percentage contribution to GDP of selected sectors.

Figure 2.1: Selected Sectors Contribution to GDP, 2009



Source: Central Statistics Office

18. The pick-up in the electricity, water and gas sector was on account of 6.8 percent increase in electricity generation. The increase was facilitated by the completion of major rehabilitation works at Victoria Falls and Kafue Gorge Power stations and the partial completion of works at Kariba North Bank Power station.

19. Implementation of electricity tariff migration programme to cost reflective levels continued in 2009 . In this regard, electricity tariffs were adjusted upwards by an average of 35 percent.

20. In the third quarter of 2009, the country experienced erratic supply of petroleum products when Indeni Refinery ran out of the catalyst for processing crude oil. The average national price of petrol was recorded at K5, 815 compared to K7, 693 in 2008, while the price of diesel was K6, 155 compared to K6, 910 in 2008.

21. The growth rate in the tertiary sector decelerated in 2009. This was as a result of poor performance in the tourism, rail and air transport, public administration and defence. The performance of the tourism sector in 2009 was unsatisfactory and declined by 13.4 percent compared to a growth of 5.0 percent in 2008. The decline was on account of the global economic crisis that led to reduced tourist inflows.

Table 2.2: Percentage Change in GDP by Kind of Economic Activity (Constant 1994 Prices), 2007-2009

KIND OF ECONOMIC ACTIVITY	2007	2008	2009*
Agriculture, Forestry and Fishing	0.4	2.6	7.2
Agriculture	(2.7)	1.9	12.4
Forestry	3.7	3.7	3.7
Fishing	1.8	1.8	1.8
Mining and Quarrying	3.6	2.5	20.3
Metal Mining	4.4	2.5	19.7
Other mining and quarrying	(45.5)	(3.5)	99.6
PRIMARY SECTOR	1.7	2.5	12.4
Manufacturing	3.0	1.8	2.2
Food, Beverages and Tobacco	7.6	3.0	4.9
Textile, and leather industries	(19.5)	(23.6)	(20.0)
Wood and wood products	3.7	12.1	2.6
Paper and Paper products	0.7	29.3	6.2
Chemicals, rubber and plastic products	4.2	5.2	(0.3)
Non-metallic mineral products	2.3	5.0	11.7
Basic metal products	(4.8)	23.0	(4.8)
Fabricated metal products	7.8	(2.5)	(3.4)
Electricity, Gas and Water	1.0	(1.2)	6.8
Construction	20.0	8.7	9.5
SECONDARY SECTOR	10.0	4.7	6.2
Wholesale and Retail trade	2.4	2.5	2.3
Restaurants, Bars and Hotels	9.6	5.0	(13.4)
Transport, Storage and Communications	19.2	15.8	7.6
Rail Transport	(18.7)	(20.2)	(23.8)
Road Transport	6.4	13.2	13.3
Air Transport	24.1	13.7	(23.4)
Communications	33.6	21.1	19.4
Financial Institutions and Insurance	4.1	8.7	5.2
Real Estate and Business services	3.1	3.1	2.8
Community, Social and Personal Services	12.5	11.7	8.6
Public Administration & Defence/Public sanitary services	14.8	2.2	0.4
Education	13.6	19.6	15.2
Health	1.0	18.3	7.7
Recreation, Religious, Culture	9.3	26.7	17.7
Personal Services	3.5	3.5	3.5
TERTIARY SECTOR	7.1	7.1	3.9
Less: FISIM	2.5	2.5	3.3
TOTAL GROSS VALUE ADDED	6.7	5.7	6.4
Taxes less subsidies on Products	(0.3)	5.7	6.4
TOTAL G.D.P. AT MARKET PRICES	6.2	5.7	6.4

Source: Central Statistical Office
***Preliminary**

Table 2.3: GDP by Kind of Economic Activity at Constant 1994 Prices (K' Billion), 2007-2009

KIND OF ECONOMIC ACTIVITY	2007	2008	2009*
Agriculture, Forestry and Fishing	460.2	472.0	506.1
Agriculture	206.6	210.5	236.6
Forestry	173.6	180.0	186.7
Fishing	79.9	81.4	82.8
Mining and Quarrying	301.2	308.7	371.3
Metal Mining	298.7	306.3	366.6
Other mining and quarrying	2.4	2.3	4.7
PRIMARY SECTOR	761.4	780.6	877.4
Manufacturing	365.2	371.7	380.1
Food, Beverages and Tobacco	241.1	248.4	260.7
Textile, and leather industries	38.8	29.7	23.7
Wood and wood products	27.5	30.8	31.6
Paper and Paper products	9.9	12.8	13.6
Chemicals, Rubber and Plastic products	32.2	33.9	33.8
Non-metallic mineral products	6.7	7.0	7.8
Basic metal products	1.4	1.7	1.6
Fabricated metal products	7.7	7.5	7.3
Electricity, Gas and Water	90.4	89.3	95.4
Construction	394.4	428.5	469.4
SECONDARY SECTOR	850.0	889.6	944.9
Wholesale and Retail trade	602.4	617.4	637.8
Restaurants, Bars and Hotels	101.7	106.8	92.5
Transport, Storage and Communications	297.3	344.2	370.4
Rail Transport	7.5	5.9	4.5
Road Transport	102.6	116.2	131.7
Air Transport	63.5	72.2	55.2
Communications	123.8	149.9	178.9
Financial Intermediaries and Insurance	254.6	276.6	285.8
Real Estate and Business services	305.4	314.8	323.6
Community, Social and Personal Services	289.1	322.9	350.7
Public Admin. & Defence; Public & Sanitary services	122.3	125.0	125.6
Education	118.3	141.4	163.0
Health	15.7	18.5	20.0
Recreation, Religious,Culture	16.8	21.3	25.1
Personal Services	16.0	16.5	17.1
TERTIARY SECTOR	1,850.5	1,982.8	2,060.8
Less: FISIM	(145.1)	(148.8)	(151.3)
TOTAL GROSS VALUE ADDED	3,316.7	3,504.2	3,731.7
Taxes less subsidies on Products	247.3	261.3	278.2
TOTAL G.D.P. AT MARKET PRICES	3,564.0	3,765.4	4,010.0

Source: Central Statistical Office
***Preliminary**

Table 2.4: GDP by Kind of Economic Activity at Current Prices (K' Billion), 2007-2009

KIND OF ECONOMIC ACTIVITY	2007	2008	2009*
Agriculture, Forestry and Fishing	9,139.5	10,863.8	13,461.4
Agriculture	1,575.1	1,826.4	2,344.3
Forestry	7,127.7	8,531.6	10,528.8
Fishing	436.7	505.8	588.2
Mining and Quarrying	2,037.2	2,227.6	1,682.1
Metal Mining	2,027.2	2,217.4	1,669.3
Other Mining and Quarrying	9.9	10.2	12.9
PRIMARY SECTOR	11,176.7	13,091.4	15,143.5
Manufacturing	4,487.4	5,125.0	6,016.9
Food, Beverages and Tobacco	2,745.1	3,185.4	3,859.0
Textile, and Leather Industries	611.4	506.7	445.2
Wood and Wood Products	393.5	509.2	621.6
Paper and Paper products	226.1	337.3	426.4
Chemicals, rubber and plastic products	372.4	432.6	519.1
Non-metallic mineral products	61.1	70.8	95.1
Basic metal products	8.0	10.4	6.2
Fabricated metal products	69.9	72.7	44.2
Electricity, Gas and Water	1,345.0	1,512.4	1,779.8
Construction	6,692.7	8,811.4	11,819.5
SECONDARY SECTOR	12,525.1	15,448.8	19,616.2
Wholesale and Retail trade	7,395.5	8,523.5	9,984.8
Restaurants, Bars and Hotels	1,354.2	1,604.7	1,545.2
Transport, Storage and Communications	1,984.4	2,248.9	2,355.2
Rail Transport	91.9	79.0	66.2
Road Transport	755.7	891.8	1,052.6
Air Transport	488.6	573.4	453.6
Communications	648.3	704.8	782.7
Financial Intermediaries and Insurance	3,647.2	4,510.3	5,437.6
Real Estate and Business services	2,678.2	3,137.7	3,675.2
Community, Social and Personal Services	4,324.1	5,465.1	6,651.2
Public Administration and Defence	1,258.3	1,446.1	1,647.3
Education	2,335.3	3,092.8	3,890.8
Health	445.2	576.9	690.9
Recreation, Religious,Culture	81.8	114.7	147.4
Personal services	203.5	234.6	274.8
TERTIARY SECTOR	21,383.6	25,490.1	29,649.2
Less: FISIM	(2,096.0)	(2,592.0)	(2,912.3)
TOTAL GROSS VALUE ADDED	42,989.4	51,438.4	61,496.6
Taxes less subsidies on Products	3,205.4	3,640.4	3,359.0
TOTAL G.D.P. AT MARKET PRICES	46,194.8	55,078.8	64,855.6

Source: Central Statistical Office
***Preliminary**

2.3 Budget Performance

22. The fiscal performance in 2009 was broadly on track despite a shortfall in both revenues and lower than programmed expenditure. Total revenues and grants were below target by 9.2 percent while expenditures were less than programmed by 3.4 percent. The overall budget deficit for the year was 2.6 percent of GDP, 0.2 percentage points higher than the projected 2.4 percent.

2.4 Monetary and Financial Sector Developments

23. The performance of the monetary and financial sector in 2009 was satisfactory. Inflation at end December 2009 was recorded at 9.9 percent, a reduction of 6.7 percentage points from the 16.6 percent recorded at end-December 2008. A significant reduction in food inflation compared to the end-December 2008 position accounted for the reduction in inflation.

24. The reduction in inflation notwithstanding, the Kwacha depreciated against major currencies. The depreciation of the Kwacha against major currencies was on account of high demand for foreign exchange and the second round effects of the global economic crisis weighing down on the exchange rate.

25. Lending rates during the year under review continued to be high, despite the reduction in inflation. The average commercial bank lending rates were recorded at 29.2 percent at end 2009, an increase of 2.3 percentage points over the end 2008 position. Lending rates increased on account of tightening of lending standards and conditions by financial institutions. This resulted in a contraction of credit to the private sector by 10.8 percent.

26. In the financial sector, overall financial condition of the banking sector was satisfactory. All but one bank met the minimum capital requirements and their liquidity position remained strong. Similarly, the overall financial performance and condition of the Non Banking Financial Institutions (NBFIs) was rated fair.

2.6 Domestic Debt

27. The stock of domestic debt increased by 23.5 percent to an estimated K10, 520.6 billion by end-December 2009 from K8,517.3 billion at end-December 2008 (see Table 2.5). The increase was primarily on account of a rise in the stock of awards and compensation, domestic arrears and Government securities

Table 2.5: Domestic Debt Position, 2007-2009 (K'Billion)

Debt Category	End-Dec. 2007	End-Dec. 2008	End-Dec 2009	% Change
Total Government Securities	**7,612.52**	**8,026.50**	**9,502.10**	**18.34**
Treasury Bills	3,416.36	3,280.40	4,424.30	**34.87**
GRZ Bonds	4,196.16	4,746.10	5,077.80	**6.99**
Domestic Arrears	**223.1**	**197.9**	**218.9**	**10.63**
(Capital)	132.7	23.9	24.54	**2.49**
(PE's & RDC's)	90.3	174	194.4	**11.75**
Pension Arrears	**302.7**	**149.6**	**66.2**	**-55.75**
(Employer's Contributions)	302.7	149.6	**66.2**	**-55.75**
GRAND TOTAL	**8,138.32**	**8,374.0**	**9,787.20**	**16.9**

Source: Ministry of Finance and National Planning

28. The stock of Government securities increased by 18.3 per cent to K9, 502.1 billion by end-December 2009 from K8, 026.5 at end-December 2008, as Government stepped up domestic borrowing to meet its financial obligations. Net Domestic Financing increased from 1.9 percent of GDP in 2008 to 2.6 percent of GDP in 2009.

29. Government continued to make efforts to reduce the stock of domestic arrears to road contractors and suppliers of goods and services. Notwithstanding the efforts, the stock of arrears increased by 10.6 percent from K197.9 billion in December 2008 to K218.9 billion by end-December 2009 due to new arrears accumulated by Government.

30. The stock of pension arrears reduced by 55 percent from K149.6 billion as at end December 2008 to K66.2 billion by end of December 2009. The decline is due to Government's continued effort in settling arrears to Public Service Pensions Fund (PSPF) through budgetary allocations.

31. The outlook for domestic debt in 2010 will be reducing short term debt while focusing on increasing the stock of long term debt in order to eliminate the refinancing risk. Further, Government will make it mandatory for all MPSA's to develop liquidation plans for dismantling of arrears and ensure the implementation of the plans from allocated funds.

CHAPTER 3: AGRICULTURE, FORESTRY AND FISHING

3.1 Overview

32. Preliminary data indicates that the agriculture, forestry and fishing sector recorded an impressive performance, growing by 7.2 percent in 2009 compared to 2.6 percent growth in 2008. The growth was credited to a bumper harvest recorded in the agriculture sub-sector. This outturn was on account of favourable weather conditions, increase in the number of farmers benefiting from the Farmer Input Support Programme (FSP) as well as improvements in extension services. The relatively attractive prices offered to farmers and improvements in international commodity prices in the previous farming season also contributed to the increase in crop production. In line with the good performance in the Agriculture sub-sector, the country recorded an overall food surplus of 672, 367 Mt.

3.2 Policy Developments

33. In 2009, the Ministry of Agriculture and Co-operatives was split leading to the creation of the Ministry of Livestock and Fisheries Development. The creation of another Ministry was done in order to allocate equal prominence to the development of livestock, veterinary and fisheries services.

34. In the review period, a review process of the current National Agricultural Policy was initiated with a view to taking into account the inherent dynamics of the sector and challenges facing the agricultural sector. Another development in the sector was the approval of the National Co-operatives Development Policy. The policy aims at providing a framework for guiding the promotion and development of co-operatives across some sectors of the economy. In a related development, consultations on the Draft National Fisheries Policy were initiated.

35. Government in the review period abolished council levies in order to reduce costs on intra-district maize trade among the players. In a related development, an imposition of import restriction on wheat and other wheat products was introduced in order to protect the wheat industry.

3.3 Sector Performance

3.3.1 Crop performance

36. Crop production of major subsistence and cash crops such as maize, rice, cassava, sorghum, millet, sweet potatoes, Irish potatoes and wheat increased in 2009 compared to 2008. The increase in crop production in 2009 was largely attributed to favourable weather conditions that were experienced in most parts of the country, increase in area planted and improvements in the extension services. The relatively attractive price offered to farmers in the

previous farming season and improvements in international commodity prices also positively impacted crop production. Sorghum and millet, for example, were sold at good prices due to increased demand by breweries and feed stock manufacturers. Further, the increase in the number of beneficiaries under the Farmer Input Support Programme to 500,000 from 250,000 in the previous season, contributed to the rise in production in the 2008/2009 season.

37. Total maize production during the 2008/2009 agricultural season increased by 30.7 percent to 1.9 million Mt from 1.4 million Mt recorded during the 2007/2008 agricultural season. Other crops that recorded increases included cassava, sorghum, rice, millet, groundnuts, cowpeas and sweet potatoes (see Table 3.1).

38. The area planted for maize marginally increased by 0.07 percent to 1,125,849 hectares during the 2008/2009 agricultural season from 1,125,024 hectares in the 2007/2008 agricultural season. Consistent with the increase in the area planted and crop production, the average yield per hectare also increased. The average yield for maize increased to 30.6 percent to 1.7 Mt per hectare during the 2008/2009 agricultural season from 1.3 Mt per hectare in the previous season.

39. Cash crops such as sunflower, soya beans, Irish potatoes, burley tobacco and wheat also recorded significant increases in production (see Table 3.1). The good performance of cash crops was attributed to improvements in global demand and international commodity prices.

Table: 3.1: Production Estimates Based on 2008/2009 Crop Forecast Survey

Crop	Area Planted (Ha)			Area Harvested (Ha)			Expected Production (MT)			Yield rate (Mt/Ha)		
	2007/2008	2008/2009	% Change	2007/2008	2008/2009	% change	2007/2008	2008/2009	% change	2007/2008	2008/2009	% change
Maize	1,125,024	1,125,849	0.1	663,990	911,876	37.3	1,445,655	1,888,773	30.65	1.28	1.68	30.56
Sorghum	28,614	40,591	41.9	18,851	32,312	71.4	11,446	21,829	90.7	0.4	0.54	34.4
Rice	29,189	31,032	6.3	20,993	25,582	21.9	30,258	41,929	38.6	1.04	1.35	30.3
Millet	52,526	61,586	17.3	40,863	55,911	36.8	39,163	48.967	25.0	0.75	0.8	6.6
Sunflower	40,080	71,293	77.9	33,079	65,420	97.8	15,405	33,657	118.5	0.38	0.47	22.83
Groundnuts	174,021	216,086	24.2	145,896	204.033	39.8	84,598	120,564	42.5	0.49	0.56	14.77
Soya beans	35440	64,683	82.5	33,081	62,880	90.1	59,177	118.799	100.7	1.67	1.84	9.99
Seed Cotton	143,278	103,154	-28.0	104,749	97,144	-7.3	89,106	87,018	-2.3	0.62	0.84	35.64
Irish Potatoes	1,212	1,305	7.7	1,151	1,233	7.1	10,524	21,285	102.3	8.68	16.31	87.81
Burley Tobacco	5,930	11,638	96.3	5,720	11,084	93.8	7,471	18,487	147.5	1.26	1.59	26.1
Virginia Tobacco	6,299	7,785	23.6	6,094	7.727	26.8	15,910	8,758	-44.9	2.53	1.13	-55.5
Mixed Beans	67,493	83,640	23.9	63,129	79,283	25.6	50,488	46,735	-7.4	0.75	0.56	-25.3
Bambara nuts	2,592	4,297	65.8	2,196	4,080	85.8	2,843	4,930	73.4	1.1	1.15	4.57
Cow peas	4,544	12,963	185.3	2,571	11,185	335.1	1,841	7,468	305.6	0.41	0.58	42.17
Sweet Potatoes	38,184	64,341	68.5	34,991	60,638	73.3	124,414	200,450	61.1	3.26	3.12	-4.38
Paprika	476	312	-34.5	462	291	-36.9	1,050	1,020	-2.9	2.2	3.27	48.27
Pineapples	134	392	191.8	52	336	539.8		1,719				
wheat	19,365	34,296	77.1	19,358	34,296	77.2	113,242	195,456	72.9	5.85	5.7	-2.54

Source: Ministry of Agriculture and Cooperatives

40. Notwithstanding the good performance, crops such as mixed beans, Virginia tobacco, seed cotton and paprika recorded a reduction in their production compared to the previous season. This was despite the increase in the area planted in the case of mixed beans and Virginia tobacco.

3.3.2 Food Security Position

41. During the 2008/2009 agricultural season, the country recorded an overall food surplus of 672,367 Mt compared to 564,547 Mt in the 2007/2008 agricultural season. The outturn was consistent with the good performance recorded in the crops such as maize, wheat and cassava. Maize production in particular, was estimated at 1,888,773 Mt compared to 1,445,655 Mt produced in the previous year. This translated into a surplus of 203,271 metric tons in the 2008/2009 agricultural season compared to 43,000 Mt in the 2007/2008 agricultural season (see Table 3.2).

Table 3.2: National Food Balance for the 2009/10 Agricultural Marketing Season

	Maize	Paddy Rice	Wheat	Sorghum & Millet	Sweet & Irish Potatoes	Cassava Flour	Total Maize Equivalent
A. Availability							
(i). Opening stock (As at May,2009)	62,035	178	65,060	1,485	0	0	127,767
(ii). Total Production (2008/2009)	1,888, 773	41,949	195,456	70,796	22,735	1,151,700	3,329,796
Total Availability	1,950,808	42,127	260,516	72,281	22,735	1,151,700	3,457,563
B. Requirements							
(i) Staple food:							
human consumption	1,263,093	52,011	200, 227	68,741	210,648	629,482	2,228,706
food Reserve Stock (net)	110,000	0	0	0	0	0	110,000
(ii) Industrial Requirement							
Stock feed	130,000	0	0	0	0	0	130,000
Breweries	70,000	0	0	0	0	0	70,000
Seed	20,000	0	0	0	0	0	20,000
(iii) Losses	94,439	2,096	9,773	3,540	11,087	57,585	166,490
(iv) Structural cross-border trade	60,000						60000
Total Requirement	1,747,537	54,107	210,000	72,281	221,735	687,067	2,785,196
C. Surplus/deficit (A-B)	203,271	(12,000)	50,516	0	0	464,632	672,367
D. Commercial imports/Exports	(203,271)	12,000	(50,516)	0	0	0	0
E. Food aid import requirement	0	0	0	0	0	0	0

Source: Ministry of Agriculture and Cooperatives

3.3.3 Livestock and Fisheries Sub-sector

42. Government's focus in 2009 in the livestock and fisheries sub-sector was to control livestock diseases, increase livestock production efficiency, support livestock trade, ensure sustainable utilization of fish resources in capture fisheries and promote aquaculture development.

Livestock

43. In 2009, the government continued to undertake livestock disease control measures such as animal vaccination and creation of disease free zones. As a result, Zambia did not record any outbreak of major livestock diseases such as Foot and Mouth Disease (FMD) and Anthrax.

44. The establishment of Livestock Disease Free Zones in Lusaka, Central and parts of Copperbelt provinces continued to progress in 2009. Among the activities undertaken included the establishment and upgrading of livestock check points and breeding centres. Other activities were the rehabilitation and construction of laboratories as well as the creation of the animal identification and traceability system.

45. Monitoring of highly pathogenic avian influenza (bird flu) continued country-wide in 2009. Tsetse fly eradication campaigns were also carried out in 2009 with five aerial sprays conducted over a stretch of 5,000 square kilometres in the area of the Kwando-Zambezi tsetse fly belt in Western Province. This was part of the on-going eradication campaign covering parts of Shangombo and Sesheke districts. The maintenance of a 350 square kilometres tsetse barrier in the Isoka-Chama area bordering Malawi was also done.

Fisheries

46. Aquaculture production increased by 44 percent in 2009 compared to 2008 production figures. Small scale farmers contributed over 50 percent of the output (see Table 3.3). The performance was attributed to improved extension services and increased utilisation of aquaculture research facilities.

Table 3.3: Aquaculture Production, 2007-2009

Aquaculture Product	2007	2008	2009	% Change 2009/2008
Common Kapenta	37	36	52	**44.4**
Nile tilapia	3,486	3,346	4,852	**45.0**
Longfin tilapia	195	187	271	**44.9**
Three spotted tilapia	2,080	1,996	2,894	**45.0**
Red-breasted tilapia	78	75	109	**45.3**
Total	**5,876**	**5,640**	**8,178**	**45.0**

Source: Ministry of Livestock and Fisheries

47. Capture fisheries recorded a 7 percent increase in production in 2009 compared to 2008. Some fisheries areas such as Kariba, Mweru-Luapula, Mweru-Wantipa, Tanganyika and Lusiwasi recorded 24 percent increase in fish production compared to 2008 levels (see Table 3.4). The positive growth was as a result of the improvement in the management of fisheries. Despite this positive growth in some natural water bodies, Kafue, Zambezi Lower and Upper and Itezhi-tezhi recorded decreases in production of about 6 percent each, while Bangweulu recorded a decrease of 23 percent in 2009 compared to 2008.

Table 3.4: Capture Fish Recorded at Various Fisheries (Mt), 2007 – 2009

Fishery	2007	2008	2009	% Change 2009/2008
Bangweulu	15,098	16,301	12,522	-23.2
Mweru-Luapula	9,747	10,524	13,017	23.7
Mweru-Wantipa	3,327	3,592	4,443	23.7
Tanganyika	14,512	15,668	19,380	23.7
Kafue	6,763	7,302	6,864	-6
Kariba	9,776	10,555	13,055	23.7
Lukanga	1,441	1,556	1,599	2.8
Upper-Zambezi	7,421	8,012	7,531	-6
Lusiwashi	2,359	2,547	3,150	23.7
Lower Zambezi	649	701	659	-6
Itezhi-tezhi	2,450	2,646	2,496	-5.7
Total	**73,543**	**79,404**	**84,716**	6.7

Source: Ministry of Livestock and Fisheries

3.3.4 Horticulture and Floriculture sub-sector

48. The horticulture and floriculture sub-sector recorded a decrease in production and export of both cut flowers and fresh vegetables. Total exports in 2009 declined by 29 percent to 6,247 tons compared with 8,819 tons recorded during 2008 production and marketing season (see Table 3.5). The decline in flowers and vegetables were 7 and 47 percent respectively, over the previous year. The vegetable/flower export ratio in 2009 was 42/58 compared to 56/44 in favour of vegetables recorded during the previous season.

Table 3.5: Exports of Horticulture and Floriculture Produce (Tons), 2007 -2009

Produce/Year	2007	2008	2009	% change
Flowers	4,650	3,892	3,635	(0.07)
Vegetables	5,301	4,927	2,612	(0.47)
Total	**9,951**	**8,819**	**6,247**	**(0.29)**

Source: Zambia Export and Growers Association

49. The poor performance of the sub-sector continued in 2009 due to a combination of both external and domestic factors that adversely affected competitiveness of the sub-sector and its sustainability.

50. The domestic factors included comparatively high cost of air freight resulting in some farming enterprises ceasing production for the export markets. The high cost of doing business in the country largely attributed to the high cost of fuel, electricity load-shedding, high cost of

bank loans and volatility of exchange rate against major currencies also impacted negatively on the sub-sector.

51. Among the external factors that contributed to poor performance were difficulties in accessing the European markets in terms of compliance to statutory and marketing standards. In addition, declining prices of products and lower demand for flowers on the European market as a result of the global economic crisis and adverse weather conditions also contributed to poor performance.

3.4 Outlook

52. The agriculture, livestock and fisheries sector are expected to continue registering positive growth in 2010 albeit at a slower pace. The growth in the sector is expected to be aided by the increase in the number of farmers who benefited from the Farmer Input Support Programme during the 2009/2010 agricultural season compared to the 2008/2009 agricultural season. Further, the reduction in prices of fertilizers on the international market is also expected to contribute to the positive performance of the sector.

53. In the area of livestock, productivity in the sub-sector is expected to significantly increase in 2010, with the establishment of livestock service and breeding centres, the ongoing vaccination campaigns throughout the country and the creation of Livestock Disease Free Zones. With these measures, outbreaks of major livestock diseases in 2010 are not expected.

54. With regard to the fisheries sub-sector, the establishment of community fish seed farms and the deployment of fisheries extension officers in 2009 will be expected to contribute positively to fish production in 2010.

55. The floriculture and horticulture sub-sector will strive to survival and maximize its contribution to employment creation and economic growth. This effort requires support by an enabling and business friendly environment. Supportive policies such as the European Development Programme (EDP) Clearing Facility will facilitate the resuscitation of the sector.

CHAPTER 4: MINING AND QUARRYING

4.1 Overview

56. Preliminary data show that the mining and quarrying sector grew by 20.3 percent in the review period, compared to 2.5 percent recorded in 2008. This growth mainly emanated from the increased copper output following the coming on board of Lumwana mine and the rebound in international copper prices.

4.2 Policy Developments

57. In 2009 the Petroleum Act of 1985 was repealed and replaced with the view to increase oil exploration activities by the private sector. In addition, the Statutory Instruments for Petroleum (Exploration and Production), General Regulations and Petroleum Exploration, Production Safety, and Health and Environment Regulations were developed. Other developments were the establishment of the National Petroleum Company and Petroleum Trust Fund.

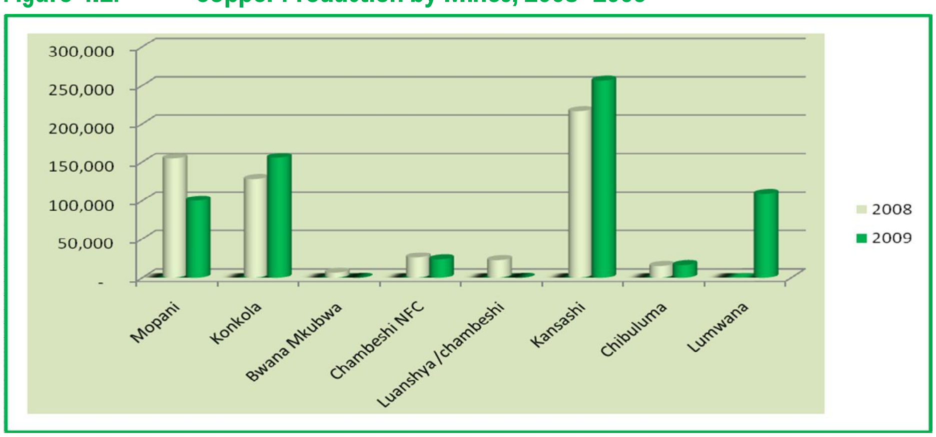
58. The Government also introduced tax concessions which included removal of the windfall tax for the mining sector, increasing capital allowance to 100 percent as an investment incentive and reduction of customs duty on heavy fuel oils.

4.3 Sector Performance

4.3.1 Metal Mining Sub-sector

59. The performance of metal mining sub-sector continued to be favourable in the review year. Copper production increased by 16.0 percent to 661,178 Mt in 2009 from 569,891 Mt in 2008 (see Figure 4.1 and Table 4.1). This outturn was explained by the coming on board of Lumwana Mines which produced about 108,986 Mt and rebound in copper prices which was at US$6,982 per tonne in December 2009.

Figure 4.1: Copper Production by Mines, 2008- 2009



Source: Ministry of Mines and Minerals Development

60. Kansanshi, Konkola and Chibuluma mines recorded increases in copper production whilst Chambeshi NFC and Mopani recorded declines. No production was recorded at Bwana Mkubwa and Luanshya due to the closure of the two mines arising from operational problems.

Table 4.1: Metal Production, 2006-2008

	2007	2008	2009	% change 2009/08
Copper (Mt)	565,550	569,891	661,178	16.0
Cobalt (Mt)	4,414	4,139	1,462	(65)
Gold (Kgs)	-	1,800	2,889	38.0

Source: Ministry of Mines and Minerals Development

61. Cobalt production continued to decline in 2009 with total production of 1,462 Mt representing a 65 percent fall from 4,139 Mt in 2008. The reduction in cobalt production was mainly attributed to the closure of Luanshya Copper mine which was one of the main cobalt producers.

62. Gold production in 2009 increased by 38 percent to 2,889 Kg compared to 1, 800 kg in 2008. Only Kansanshi Copper Mines reported production.

63. Coal production resumed in May, 2009, through a contract given to Oriental Quarries by Maamba Collieries. A total of 77,228 Mt was produced during the year.

4.3.2 Other Developments

64. Major developments in the sector in 2009 included the sinking of the No. 4 Shaft and other auxiliary ventilation and pipe shafts at the Konkola Deep Mining Project, and the expansion of Konkola Concentrator aimed at increasing capacity to handle ore from the Konkola Deep Mining Project.

65. Other developments were the commissioning of the 150,000 tonnes capacity new Chambishi Copper Smelter, and the opening up of new open pits and expanding existing leach plants by Mopani Copper Mines. Further, a new investor was found for Luanshya Copper Mines for resuscitation of operations. Copper exploration in North Western and Copperbelt provinces also commenced. Zambezi Portland Cement was also commissioned during the year under review.

66. As regards exploration activities for oil and gas in 2009, the Government conducted soil sampling in the Zambezi, Luangwa and Kafue Basins. A total of 23 blocks were demarcated out of which 11 were offered to a successful bidder in 2009.

4.4 Outlook

67. The good performance of the mining sector in 2010 is likely to continue due to the expected high investment levels. The resumption of production at Luanshya Copper Mine, Bwana Mkubwa and Munali Hills Nickel Mines, and the ramping up of production at Lumwana Mine, Konkola Copper Mine, new Nchanga Smelter and Chambishi Copper Smelter are expected to positively contribute to the growth of the sector. The continued favourable metal prices on the international market will also give an impetus to the sector.

68. In the gemstone sub-sector, Government's focus will be on both production and marketing to enhance the contribution of the sub-sector to the economy. As regards oil and gas, exploration activities will continue in 2010.

CHAPTER 5: MANUFACTURING SECTOR

5.1 Overview

69. Preliminary data indicates that the manufacturing sector grew by 2.2 percent in 2009 compared to 1.8 percent in 2008. Growth continued to be driven by the food, beverages and tobacco sub-sector. Other sub-sectors that registered significant growth were non-metallic mineral products, paper and paper products, and wood and wood products.

5.2 Policy Developments

70. The first phase of the Private Sector Development Reform Programme (PSDRP) came to an end in March 2009. The second phase of the PSDRP was officially launched in September, 2009.

71. In line with this development, the first phase of the business licensing reform was completed. In this regard, Government approved the business licensing report which recommended that 170 licences be eliminated, 57 reclassified, 99 amalgamated into 21, while 290 licences be retained.

72. In addition, the Micro Small Medium Enterprise (MSME) policy was launched as a response to the limited access to affordable finance. In this regard, the Business Development Services (BDS) Voucher Scheme was set up to increase access of MSMEs to business development services through the scheme at a subsidised cost.

73. In order to expand the manufacturing base, Government continued to offer support to local manufacturers through reductions in customs and exercise duties on certain machinery and inputs. This included zero-rating of dehullers and windmills for value addition tax purposes.

5.3 Sector Performance

74. In 2009, despite the favourable performance of the manufacturing sector, the outturn in the sub-sectors was mixed. The food, beverages and tobacco sub-sector recorded a growth of 4.9 percent compared to 4.5 percent in 2008 (see Table 5.1). This growth was attributed to the rebound in the agriculture sector, especially the increase in the production of sugar.

75. Similarly, growth of 2.6 percent and 6.2 percent was registered in the wood and wood products, and the paper and paper products sub-sectors, respectively. The textiles and leather sub-sector however, declined by 20.0 percent largely on account of reduced investments by the private sector which resulted in significant reduction in the production of cotton and lint. The basic metal industry and fabricated metal sub- sector which is mostly cables, wires and rods, declined by 4.8 and 3.4 percent respectively.

Table 5.1: Index of Industrial Production, 2008-2009

MANUFACTURING									
Period	Total manufacturing	Food, Beverages & Tobacco	Textile, Clothing & Leather	Wood & Wood Products	Paper & Paper Products	Chemicals, Rubbers & Plastics	Non-metallic Mineral Products	Basic Metal Industries	Fabricated Metal Products
WEIGHT	0.511	0.235	0.06	0.006	0.017	0.059	0.025	0.009	0.1
2008 Q1	113.5	131.9	54.8	205.3	107.4	134.2	125.4	80.2	88.8
Q2	125.3	169	37.3	216.8	123.1	98.2	152.7	86.6	82.5
Q3	137.8	189.5	21.7	159.5	88.4	95.0	155.1	84.8	118.3
2008 (Q1+Q2+Q3)	**125.5**	**163.5**	**37.9**	**193.9**	**106.3**	**109.2**	**144.4**	**83.8**	**96.5**
2008 Q4	142.5	196.4	48.7	167.2	135.2	76.3	164.2	68.9	112.0
2008 Total	129.8	171.7	40.6	187.2	113.5	101	149.3	80.1	100.4
2008*	**3.3**	**4.5**	**(16.7)**	**13.5**	**25.4**	**6.3**	**3.3**	**30.5**	**(2.8)**
2009 Q1	114.7	136.9	45.5	219.4	118.8	137.1	136.7	82.1	81.2
2009 Q2	129.2	177.3	29.2	230.3	132.1	98.9	166.6	84.9	81.9
2009 Q3	138.9	196.7	15.2	162.2	96.7	85.9	181.2	76.9	109
2009 (Q1 +Q2+Q3)	**127.6**	**170.3**	**30.0**	**204.0**	**115.8**	**107.3**	**161.5**	**81.3**	**90.7**
2009 Q4	149.6	209.9	40.1	156.2	134.8	80.8	182.9	61.0	116.0
2009 Total	133.1	180.2	32.5	192.1	120.6	100.7	166.9	76.2	97.0
2009*	**2.6**	**4.9**	**(20.0)**	**2.6**	**6.2**	**(0.3)**	**11.7**	**(4.8)**	**(3.4)**

Source: Central statistical Office
***Year on year percentage change**

5.4 Status on implementation of the Multi-facility Economic Zones.

Chambishi MFEZ

76. During the year under review, the Chambishi MFEZ housed 13 enterprises which provided more than 4,500 jobs. Furthermore, infrastructure development commenced with an initial US $100 million investment. Under this investment, a water pipeline and a 330/66KV power sub-station were constructed. Additionally, land levelling of about 1,877,500 square meters was done.

Lusaka South MFEZ

77. In the year under review, the master plan for the Lusaka South MFEZ site was developed by the Malaysian experts from Kulim Technology Park Corporation in conjunction with Japanese experts and a local expert team.

Lusaka East Sub-Zone

78. In 2009, commencement of works for the construction of the Lusaka East sub-zone was launched. This is an extension of the concept for the Chambishi MFEZ and will focus on light manufacturing activities and services such as conference facilities, hotel accommodation and shopping complex.

5.5 Outlook for 2010

79. It is anticipated that the manufacturing sector will continue to grow in 2010. This is premised on Government's continued attraction of investment through the development of infrastructure in these MFEZ and industrial parks. The expected implementation of the master plan for the Lusaka South Economic Zone, will further boost growth.

CHAPTER 6: ENERGY

6.1 Overview

80. The performance of the energy sector in 2009 was favourable with the sector registering 6.8 percent growth compared with a decline of 1.2 percent in 2008. This outturn was largely attributed to the growth in the electricity sub-sector following the completion of the major part of the Power Rehabilitation Programme (PRP). The petroleum sub-sector, however, experienced a major setback in the third quarter when the country ran out of the catalyst for processing crude oil, resulting in erratic supply of petroleum products.

6.2 Policy Developments

81. In 2009, the major policy development was the development of the National Power System Development Plan, aimed at streamlining the development of various identified generation and transmission projects. The plan will guide prospective developers on Government's plans in terms of scheduling the development of backbone infrastructure in electricity generation and transmission.

82. In the renewable energy sub-sector, a draft Renewable Energy Strategy and a Renewable Energy Resource Map were produced. These documents will facilitate the systematic development of renewable energy sources and provide information for easy decision making to prospective investors. As regards bio-fuels, Government issued a statutory instrument recognising bio-fuels as a fuel, thus paving the way for development of regulatory instruments.

6.3 Sector Performance

6.3.1 Electricity Sub-sector

Electricity Generation

83. The total electricity generation from both the hydropower and the diesel power stations amounted to 10,316,950 MWh in 2009, registering an increase of 8.2 percent from a total generation of 9,534,001 MWh in 2008 (see Table 6.1). The increase in electricity generation in 2009 was attributed to the completion of major rehabilitation works at Victoria Falls and Kafue Gorge power stations, and partial completion of rehabilitation and up-rating works at Kariba North Bank Power Station. As a result, an extra 180 MW was added to the existing installed capacity.

Table 6.1: Electricity Generation (Mwh), 2007-2009

	2007	2008	2009	% change 2009/2008
Major hydro	9,670,981	9,438,018	10,212,580	**8.2**
Mini hydro	58,005	84,200	91,577	**8.8**
Diesel	11,921	11,783	12,793	**8.6**
Total	**9,740,907**	**9,534,001**	**10,316,950**	**8.2**

Source: ZESCO

84. Notwithstanding this performance, the completion of the Power Rehabilitation Programme suffered a setback in September, 2009 following the fire that gutted a generator (unit 4) which was under rehabilitation at the Kariba North Bank Power station. This resulted in the extension of the Power Rehabilitation Programme completion period to March 2011.

Electricity consumption

85. Consumption of electricity in the review period increased by 0.3 percent to 6,916,849 MWh in 2009 from 6,897,881 MWh recorded in 2008. The increase was attributed to the rise in consumption in the residential, commercial and social sectors by 12.3 percent, 17.2 percent and 21.6 percent, respectively (see Table 6.2). Electricity consumption in the mining and agriculture sectors, however, declined by 5.1 percent and 12.9 percent, respectively. The decline in consumption for mining was largely attributed to the closure of some mines such as Luanshya and Bwana Mkubwa, while high tariffs or the use of alternative sources of energy may have accounted for the decline for agriculture.

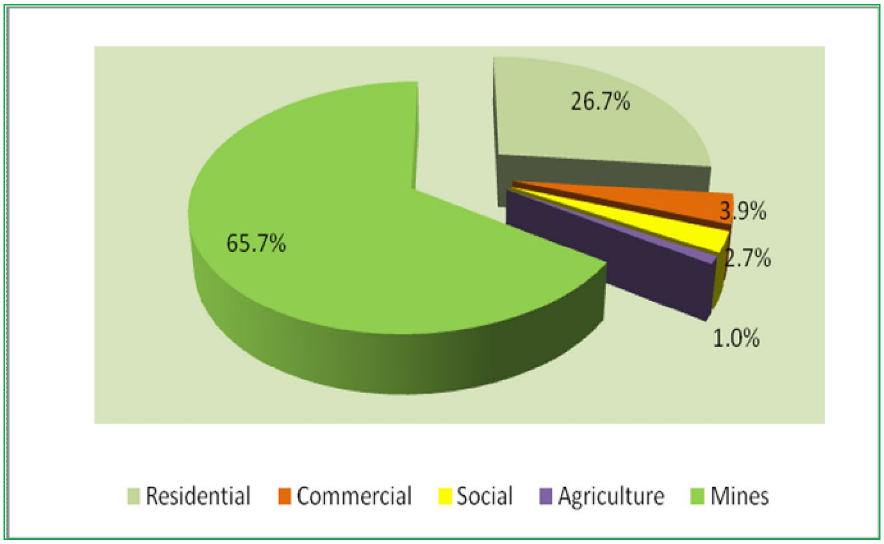
Table 6.2: Electricity consumption by Sector (MWh), 2008-2009

	2008	2009	% change 2009/2008
Residential	1,643,853	1,845,532	12.3
Commercial	227,288	266,362	17.2
Social	152,978	186,011	21.6
Agriculture	82,774	72,091	(12.9)
Mines	4,790,988	4,546,853	(5.1)
Total	**6,897,881**	**6,916,849**	**0.3**

Source: ZESCO

86. In terms of share of electricity consumption, the mines continued to be the largest at 65 percent followed by residential at 26.7 percent while agriculture having the lowest at 1 percent (see Figure 6.1).

Figure 6.1: Electricity Consumption by Sector in 2009

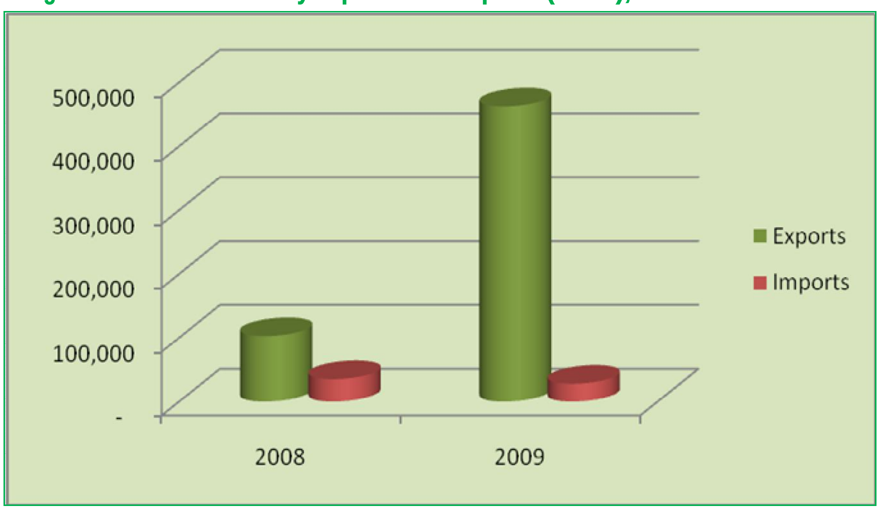


Source: ZESCO

Electricity Exports and Imports

87. Electricity export in 2009 increased by over 330 percent to 462,600 MWh from 102,661 MWh recorded in 2008 while imports declined to 28,047 MWh from 35,225 MWh (see Figure 6.2). This outturn was attributed to the increased generation recorded in the review period.

Figure 6.2: Electricity Exports and Imports (MWh), 2008-2009



Source: ZESCO Limited

Metering Programme

88. In a bid to reduce the number of unmetered electricity consumers, the programme of installing meters continued in 2009. A total of 88,873 meters were installed out of which 57,404 were prepaid meters while 31,469 were credit meters. Nonetheless, as at end December, 2009, an estimated 100,000 customers were still unmetered.

Electricity Tariffs

89. In 2009, Government continued to implement the tariff migration programme to cost reflective levels. In this regard, electricity tariffs were adjusted upwards by an average of 35 percent in 2009 (see Table 6.3).

Table 6.3: Average Electricity Tariffs Adjustment in 2009

Customer Category	Adjustment of tariff	2009 (Actual)	
		ZMK/kwh	Cent/Kwh
Residential	Increase of 40%	170.97	3.45
Large Power (MD3 and MD4)	Increase of 42%	110.19	2.23
Small Power (MD1 and MD2)	Increase of 26%	107.08	2.16
Commercial	Increase of 27%	184.31	3.72
Mining	Increase of 35%	103	4.0
Services	Increase of 25%	128.38	2.59
Average	**increase of 35%**	**109.94**	**2.22**

Source: Energy Regulation Board
Note: Exchange rate used was K4,950

90. In the residential category, the highest adjustment was in the low density residential (R3) category to K289/KWh from K207/KWh. The commercial category was adjusted to K209/KWh from K165/KWh. The lowest adjustment was in the MD4 category which was adjusted to K94/KWh from K66/KWh (see Table 6.4).

Table 6.4: 2009 Approved Electricity Tariffs

CUSTOMER CATEGORY		Tariffs Jan to Aug2008/9 (ZMK)	Tariffs effective Aug 2009/10 (ZMK)
R1 - Consumption up to 100KWh	Energy charge/KWh)	77	107
R2 - Consumption between 101 to 400 KWh	Energy charge/KWh)	127	177
R3 - Consumption above 400 KWh	Energy charge/KWh)	207	289
Pre-paid Tariff	Energy charge/KWh	141	197
	Fixed Monthly Charge	**7,411**	**10,375**
Commercial	Energy charge/KWh)	165	209
	Fixed Monthly Charge	29,607	37,600
Social Services - Schools, Hospital ,Orphanages, churches, water pumping & street lighting	Energy charge K/KWh	144	180
	Fixed Monthly Charge	**24,971**	**31,215**
MD1- Capacity between 16 to 300 kVA	MD charge/kVA/Month	8,068	10,165
	Energy charge /KWh	116	146
	Fixed Monthly Charge	**79,018**	**99,562**
MD2 - Capacity 301 to 2000 kVA	MD charge/kVA/Month	15,094.00	19,018
	Energy charge /KWh	99	125
	Fixed Monthly Charge	**158,035.**	**199,124**
MD3 - Capacity 2001 to 7500kVA	MD charge/kVA/Month	24,973	35,462
	Energy charge /KWh	80	113
	Fixed Monthly Charge	**346,808**	**49,467**
MD4 - Capacity above 7500kVA	MD charge/kVA/Month	25,112	35,659
	Energy charge /KWh	66	94
	Fixed Monthly Charge	**693,615**	**984,933**
MD - Time of Use	MD charge/kVA/Month	MD category, 25% discount on Capacity charge	MD category, 25% discount on Capacity charge
	Energy charge /KWh	MD category, 50% discount on energy charge	MD category, 50% discount on energy charge
	Fixed Monthly Charge	**Applicable fixed charge**	**Applicable fixed charge**

Source: Energy Regulation Board

6.3.2 Petroleum Sub-sector

Feed stock imports

91. In 2009, the importation of fuel feedstock increased by 31.1 percent to 744,750.9 litres from 567, 863.2 litres in 2008. This was due to the increase in demand for finished petroleum products and stability in the supply of feedstock following the signing of a long term supply contract.

Consumption of Petroleum Products

92. During the review period, there was an overall increase in the demand for petroleum products. Consumption of diesel remained the highest at 481.3 million litres with petrol being second at 183.6 million litres. The increase in consumption was due to the growth in the transportation sector largely attributed to the continued importation of motor vehicles.

93. This performance notwithstanding, the country in the last quarter of 2009 experienced critical shortages of petroleum products especially petrol. The shortage was attributed to the

running out of a critical catalyst used in the processing of petroleum products. To avert the problem Government waived duty on imported finished petroleum to allow oil marketing companies to import the products.

Petroleum Products Prices

94. In 2009, domestic fuel prices remained stable at a national average of K5,815 per litre for diesel and K6,155 per litre for petrol. Similarly, the price of kerosene was unchanged at an average of K 3,661.

6.3.3 Other Developments in the Sector

95. In the review period, Government continued to implement measures that were meant to encourage consumers to use energy saving appliances. In this regard, suspension of duty on energy saving devices and appliances such as generators, solar power devices and bulbs was maintained.

96. The Rural Electrification Master Plan also continued to be implemented satisfactorily. A total of 13 projects in Central, Copperbelt, North-Western, Eastern, Luapula and Northern provinces benefited from the rural electrification grid extension in 2009.

97. ZESCO Limited, in partnership with EL Sewedy of Egypt, started local production of transformers and cables in Ndola. The plant also produced prepaid meters.

98. In the Petroleum sub-sector, there was significant infrastructure investment that increased capacity for storage and transportation of petroleum products. By the third quarter of 2009, rehabilitation of a 40,000 Mt TAZAMA storage tank at Ndola Fuel Terminal was completed and will be adequate to store petroleum strategic stocks to last at least 30 days.

Rehabilitation of Mini-Hydro power stations

99. A consultancy contract was entered into in 2009 with Scott Wilson to help ZESCO assess the rehabilitation and up-rating requirements for Chishimba Falls, Lunzua, Lusiwasi and Musonda Falls hydropower stations.

100. In addition, an Engineering Procurement and Construction (EPC) contract was signed in August 2009 with China National Electrical Equipment Corporation (CNEEC) for the development of the Lunzua power project and the Lusiwasi 40 MW Power project including rehabilitation of the two stations. The studies for the rehabilitation and development of the Lunzua power project were being fast tracked, given the investment at Kasaba Bay that will require power.

101. Other mini-hydro projects under development are Kaputa gas fire project in Kaputa and Chisanka Solar mini-Grid Project in Samfya.

Development of New Hydropower Stations

102. Government continued mobilising resources for the development of new hydropower stations. Consequently, a number of agreements were signed with prospective developers and financiers, and progress was made on various projects during 2009 (see Table 6.5).

Table 6.5: Status on Development of New Hydropower Stations

Project	Status
Kafue Gorge Lower	Feasibility Studies under Phase I completed.
Kariba North Bank Extension	Extension Project launched in March 2009 and tunnel excavations commenced. Loan agreement of US$315 million signed with China EXIM Bank in November 2009.
Itezhi Tezhi	Special Purpose Vehicle (SPV) formed by ZESCO and Tata. Engineering Procurement and Construction (EPC) contract signed with Sinohydro in November 2009.
Kalungwishi	Government commenced negotiations with prospective developers.
Shiwang'andu	Contract for the construction of the plant became effective in September 2009 and project officially launched in November 2009.

Source: Ministry of Energy and Water Development

103. Despite the progress recorded in the review period, the sector faced a number of challenges. These included: in the electricity sub-sector, huge amount of resources required to build new power stations, hence there was minimal progress in the development of new projects such as Kafue Gorge Lower, Itezhi-Tezhi and many other projects; in the petroleum sub-sector, inadequate investment in petroleum infrastructure such as refinery and pipeline facilities are still impacting negatively on the sector.

6.4 Outlook

104. The energy sector is poised for growth in 2010 premised on the expected improvements in the electricity sub-sector, arising from the completion of the Power Rehabilitation Project (PRP).

105. The focus in the sector in 2010 will continue to be on mobilising resources for major projects such as Kafue Gorge lower, Kariba North Bank Extension and Itezhi-tezhi through Public-Private Partnerships (PPP).

106. In addition, continued and reliable supply of petroleum products will be enhanced through rehabilitation of the storage facilities for strategic petroleum reserves. Availability of storage infrastructure in the provinces will be ensured so that the huge disparities in petroleum pricing in rural areas is mitigated through bulk transportation of petroleum products to provincial headquarters.

CHAPTER 7: TOURISM

7.1 Overview

101. The tourism sector contracted by 13.4 percent compared to a positive growth of 5.0 percent registered in 2008. This unfavourable performance was largely attributed to the effects of the global economic crisis that impacted negatively on the number of tourists who visited various tourist destinations in the country.

102. In terms of revenue generation for the sector, preliminary data show that there was an increase in revenue of 9.7 percent to US $212 million in 2009 from about US $200 million in 2008. The largest share of revenue was from accommodation arising from the establishment of new hotels and other types of accommodation.

7.2 Policy Developments

103. In 2009, the Tourism and Hospitality Act No. 23 of 2007 was reviewed to enhance the regulatory framework for private sector participation in conformity with the enacted Business and Licensing Act. Similarly, the Zambia Wildlife Authority Act No.12 of 1998 was reviewed.

104. Further, Government finalized the Kasaba Bay Tourism Intergraded Development Plan and the Livingstone Area Action Plan which are aimed at creating improved infrastructure development and boosting investments.

7.3 Sector Performance

106. The number of tourists visiting major tourist destinations measured by passenger traffic movement at both Livingstone and Mfuwe international airports declined in 2009. Passenger traffic movement at Livingstone international airport declined by 26.2 percent to 153,601 in 2009 from 208,112 in 2008. Similarly, at Mfuwe international airport, the arrivals declined by 25.7 percent to 21,218 in 2009 from 28,538 in 2008.

7.3.1 Visits to Victoria Falls

107. The number of tourists visiting the Victoria Falls declined by 26.7 percent in 2009 to 100,394 from 136,979 recorded in 2008. Visits to the fall by local tourists declined by 28.8 percent while those by international tourist declined by 23.9 percent (see Table 7.1). The decline was a result of the impact of the global economic crisis.

Table 7.1: Visitations to the Victoria falls, 2007-2009

	2007	2008	2009	% Change 2009/2008
Zambians	110,790	78,258	55,698	(28.8)
Non-Zambians	45,822	58,721	44,696	(23.9)
Total	**156,612**	**136,979**	**100,394**	**(26.7)**

Source: National Heritage Commission

7.3.2 Visits to the National Parks

108. Total international visits to major national parks of South Luangwa, Mosi-oa-Tunya, Lower Zambezi and Kafue declined by 9.2 percent to 39,751 in 2009 from 43,787 in 2008 (see Table 7.2). The decline in total visits could also be attributed to the effects of the global economic crisis.

Table 7.2: International Tourists at Selected National Parks, 2008-2009

National Park	2008*	2009	% Change 2009/2008
South Luangwa	23488	21,891	-6.8
Mosi-oa-Tunya	9218	9,254	0.4
Lower Zambezi	6930	5,507	-20.5
Kafue	4151	3,099	-25.3
Total	**43,787**	**39,751**	**-9.2**

Source: Zambia Wildlife Authority

7.4 Outlook

109. In 2010, the tourism sector is expected to recover from the effects of the global economic crisis. Further, the sector is likely to benefit from the spill-over effects of visitors coming to the Southern African region during the FIFA World Cup. Additionally, Government will continue developing the Northern Tourism Circuit through provision of infrastructure.

CHAPTER 8: TRANSPORT, STORAGE AND COMMUNICATION

8.1 Overview

110. Preliminary data indicates that growth in the Transport and Communications sector slowed down to 7.6 percent in 2009 from 15.8 percent in 2008. The slow-down was attributed to the contraction in the rail and air transport sub-sectors. The communications sub-sector, however, registered positive growth although at a slower rate.

8.2 Policy Developments

111. In the year under review, the Electronic Communications and Transactions Bill and the Telecommunications Amendment Bill were passed into law. These pieces of legislation will facilitate the implementation of the Information and Communication Technology (ICT) policy, access to ICT products and protect the rights and interests of service providers and consumers.

112. Furthermore, the Postal Services Act, of 1994 was repealed to provide for the regulation of postal and courier services, and the operation of postal banking and financial services.

113. In the meteorology sub-sector, the Meteorology policy was approved in 2009. The policy provides for the establishment of a semi autonomous Meteorological agency, guide and direct meteorological services, utilisation of climate information, and the development of a model legal framework.

8.3 Sector Performance

8.3.1 Rail Transport Subsector

114. The performance of the rail sub-sector continued to decline for the third consecutive year by 31.2 percent compared with 20.2 percent in 2008. The poor performance was a result of the deterioration of rail infrastructure. In this regard, total cargo transported by both TAZARA and Railway Systems of Zambia (RSZ) declined by 24 percent to 1,078,023 Mt in 2009 from 1,420,041 Mt in 2008.

115. A total of 1,316,769 passengers were transported by both TAZARA and RSZ compared to 1,424,728 in 2008, representing a decline of 7.6 percent (see Table 8.1).

Table 8.1: Passenger and Cargo transported by rail, 2007-2009

	No of Passengers				Cargo			
Railway Company	**2007**	**2008**	**2009**	**%Change 2009/2008**	**2007**	**2008**	**2009**	**%Change 2009/2008**
TAZARA	1,090,359	1,047,281	996,548	-4.8	538,530	527,625	383,055	-27.4
RSZ	382,086	377,447	**320,221**	-15.2	862,833	892,416	694,968	-22.1
Total	**1,472,445**	**1,424,728**	**1,316,769**	**-7.6**	**1,401,363**	**1,420,041**	**1,078,023**	-24

Source: Ministry of Transport and Communication

8.3.2 Road Transport

116. The road sub-sector grew marginally by 0.1 percent to 13.3 percent in 2009 from 13.2 percent in 2008. This was largely attributed to an increase in the motor vehicle and trailer population. Motor vehicle population, increased by 10.6 percent to 307,241 in 2009 from 277,870 in 2008 (Table 8.2). The rise was attributed to continued vehicle imports.

Table 8.2: Motor Vehicles Population, 2007-2009

Motor vehicle and Trailer Category	2007	2008	2009	% Change 2009/2008
Motor cycle(less than 3 wheels)	5,896	7,113	7,866	10.6
Motor-tricycle	69	83	92	10.8
Light passenger Vehicle	138,476	167,055	184,713	10.6
Heavy Passenger Vehicle	4653	5615	6,207	10.5
Light Load Vehicle(GVM 3,500KG or less)	47,195	56,935	62,953	10.6
Agriculture Tractors	967	1,167	1,291	10.6
Agriculture Trailers	138	167	184	10.2
Heavy Load Vehicle(GVM Equal or more than 3,500 kg)	28,930	34,900	38,590	10.6
Trailers	4,008	4,835	5,345	10.5
Total	**230,332**	**277,870**	**307,241**	10.6

Source: Road Traffic and Safety Agency

8.3.3 Air transport

117. In the year under review, the airline industry experienced a drop in total domestic and international passengers by 22.7 percent to 912,863 from 1,180,911 registered in 2008. The decline was recorded at all international airports (see Table 8.3). This was attributed to the effects of the global economic crisis.

Table 8.3: Passengers carried by Air (Domestic & International), 2007-2009

Airport	2007	2008	2009	% Change 2009/2008
Lusaka	685,261	773,765	628,401	-18.8
Ndola	138,960	170,496	109,643	-35.7
Livingstone	200,200	208,112	153,601	-26.2
Mfuwe	24,333	28,538	21,218	-25.7
Total	**1,048,754**	**1,180,911**	**912,863**	**-22.7**

Source: National Airports Corporation

118. Aircraft movement also declined by 22.0 percent to 42,874 from 55,363 recorded in 2008 (see Table 8.4). This was partly on account of reduced activity in the tourism sector which led to reduced frequencies by some airline operators such as Ethiopian Airlines and South African Airlink.

Table 8.4: Aircraft Movements (Domestic & International), 2008-2009

Airport	2008	2009	% Change 2009/2008
Lusaka	28,637	24,227	-15.4
Ndola	11,704	8,017	-31.5
Livingstone	10,214	7,293	-28.6
Mfuwe	4,836	3,337	-31
Total	**55,391**	**42,874**	**-22**

Source: National Airports Corporation

8.3.4 Communications sub-sector

119. In 2009, the communications subsector grew by 12.0 percent compared to 21.1 percent in 2008. This was largely on account of an increase in the mobile subscriber base which increased by 7.1 percent to 3.7 million from 3.5 million in 2008 (see Table 8.5).

Table 8.5: Trends in Mobile Phone Segment, 2007-2009

Company	2007		2008		2009		% Change 2009/2008
	Installed Capacity	Subscribers	Installed Capacity	Subscribers	Installed Capacity	Subscribers	
Zain	2,000,000	1,787,457	2,000,000	2,749,070	2,000,000	3,000,000	9.1
Cell Z	300,000	257,595	300,000	116,880	300,000	251,873	115.5
MTN	275,000	194,295	1,000,000	633,336	1,000,000	777,843	22.8
Total	**2,575,000**	**2,239,347**	**3,300,000**	**3,499,286**	**3,300,000**	**3,749,349**	7.1

Source: Ministry of Transport and Communication

120. In line with the growth in the mobile subscriber base, intra-network traffic (minutes) for incoming and outgoing calls increased by 31.0 percent to 816,952,040 from 623,689,194, respectively (see Table 8.6).

Table 8.6: Intra-network traffic (minutes)

Company	2008	2009	% Change 2009/08
MTN	229,225,002	392,467,412	71.2
ZAIN	339,689,254	329,635,639	(-3.0)
CELL Z	54,774,938	94,848,989	73.2
Total	**623,689,194**	**816,952,040**	**31**

Source: Ministry of Transport and Communication

8.3.5 Postal Services

121. During the period under review, Zampost operated 182 outlets countrywide compared to 188 outlets operated in 2008. Domestic mail items handled declined by 54 percent to 3,875,193 compared to 1,769,324 in 2008. This was mainly attributed to the continued preference for electronic mail services. On the international segment, out-going mail items handled increased by 6.6 percent to 1,263,562 in 2009 compared to 1,185,220 in 2008.

8.4 Outlook

122. In 2010, the Electronic Communications and Transactions Bill and the Telecommunications Amendment Bill will be operationalised to facilitate the implementation of the ICT policy which is aimed at promoting private sector investments in ICTs.

123. The air transport sub-sector is expected to perform favourably given the various partnership agreements between the local and foreign airlines. This is expected to increase the number of passengers to be transported into the country. In addition the hosting of 2010 FIFA World Cup by South Africa is envisaged to lead to an increase in the number of passengers transported by air.

CHAPTER 9: HEALTH

9.1 Overview

124. The performance of the health sector in 2009, was unsatisfactory. This was evidenced by the increase in the incidence of most of diseases in the top 10 bracket. In addition, the sector faced a number of challenges in implementing planned activities and providing health care. Among the challenges was the withholding and delayed disbursement of funds by cooperating partners to the Expanded and Human Resources (HR) baskets due to governance issues. Notwithstanding these challenges, malaria, which is one of the leading causes of morbidity and mortality in Zambia, had its incidence rate reduced from 75.0 to 44.7 cases per 1,000 population.

9.2 Policy Developments

125. During the review period, the Health Professions Bill was enacted by Parliament into law. The National Food and Nutrition, and National HIV/AIDS/TB/STI and several policies were adopted, launched and disseminated. The National Drug and National Laboratory policies were evaluated in 2009.

126. In addition, the National Child Health, National Reproductive Health and the National Mental Health policies were adopted for launch and dissemination. Other policies which were drafted included the National Health Research Policy, National Rehabilitation Policy, National Alcohol Policy, National Traditional Medicines Policy, National Palliative Care Policy, National Oral Health Policy, and National Health Policy.

9.3 Sector Performance

9.3.1 Disease Burden

127. During the period under review, an increase was recorded in the disease incidence, total diagnosis and the in-patient death for almost all the diseases in the top 10 bracket (see Table 9.1).

Table 9.1: Top Ten Diseases, based on 2nd Quarter data, 2008 -2009

Diagnosis	Year	Incidence per 1,000 pop.	Total diagnosis	Inpatient deaths
Malaria	Qrt 2, 2008	75	957,878	**1,072**
	Qrt2, 2009	44.7	592,558	**1,181**
Respiratory Infection (non-Pneumonia)	Qrt 2, 2008	51.3	658,175	**213**
	Qrt2, 2009	108	1,430,505	**321**
Respiratory Infection (Pneumonia)	Qrt 2, 2008	8.3	107,024	**682**
	Qrt2, 2009	14.3	190,121	**1,225**
Diarrhoea: Non Bloody	Qrt 2, 2008	17.4	224,207	**468**
	Qrt2, 2009	30	397,555	**798**
Trauma: Accidents, wounds, burns	Qrt 2, 2008	12.4	158,895	**192**
	Qrt2, 2009	22.6	298,818	**267**
Skin Infection	Qrt 2, 2008	8.7	111,465	**69**
	Qrt2, 2009	8.5	112,188	**13**
Muscular Skeletal & Connective Tissues	Qrt 2, 2008	8.4	108,756	**12**
	Qrt2, 2009	18.2	241,170	**31**
Digestive system (non infectious)	Qrt 2, 2008	6.8	87,664	**143**
	Qrt2, 2009	13.1	173,395	**259**
Anaemia	Qrt 2, 2008	2.4	30,738	**467**
	Qrt2, 2009	5.9	78,102	**1,003**
HIV/AIDS	Qrt 2, 2008	3	38,765	**1,285**
	Qrt2, 2009	4.8	63,321	**-**

Source: Ministry of Health

Malaria

128. The total malaria diagnosis reduced to 592,558 cases in 2009 from 957,878 in 2008. Consequently, the incidence of malaria declined from 75 per 1,000 in 2008 to 44.7 per 1,000 in 2009 mainly due to increased advocacy and sensitisation for prevention and control, distribution of insecticide treated mosquito nets, and improved diagnostic skills and equipment. Malaria in-patient deaths, however, increased to 1,181 in 2009 from 1,072 deaths in 2008. In terms of ranking, malaria was the second leading cause of morbidity and mortality from respiratory infections.

Respiratory Infections

129. Respiratory infections (pneumonia and non-pneumonia) were the leading cause of deaths and illness during the period under review, claiming a total number of 1,546 in-patient deaths compared to 895 in 2008. Out of this number, deaths caused by pneumonia were 1,225 while 321 deaths were caused by non-pneumonia respiratory infections. In terms of incidence,

non-pneumonia respiratory infections registered the highest figure at 108 per 1,000 population, up from 51.3 per 1,000 population in 2008.

HIV/AIDS

130. According to the 2007 ZDHS results, the national HIV prevalence rate stood at 14.3 percent compared to 16.0 percent recorded in 2002. This was attributed to the massive awareness and publicity campaigns aimed at reducing the spread of HIV.

131. The HIV incidence increased to 4.8 per 1000 population in 2009 from 3.0 per 1000 population in 2008. The diagnosis also doubled to 63,321 cases in 2009 from 38,765 in 2008. The total number of PMTCT centres marginally increased to 936 in 2009 from 935 in 2008. The number of patients on ART also increased from 219,576 in 2008 to 245,382 in 2009, as at second quarter.

Maternal Health

132. Maternal mortality ratio in Zambia stands at 591 per 100,000 births[1], as revealed by the latest results of the Zambia Demographic Health Survey (ZDHS). In spite of the Government's concerted efforts to increase access to integrated reproductive health and family planning, antenatal coverage in 2009 declined to 86 percent from 92 percent in 2008. Similarly, antenatal care visits averaged 2.6 visits per pregnancy compared to 2.7 visits in 2008.

133. Some of the challenges to maternal health are the acute shortage of skilled staff, fewer health facilities especially in rural areas, weak referral and communication systems, and high malaria and anaemia cases. In addition, traditional beliefs and practices resulted in most mothers delivering at home.

134. As regards maternal health and family planning, supervised deliveries reduced to 56 percent in 2009 from 64 percent in 2008. Both institutional deliveries and those performed by trained Traditional Birth Attendants (tTBAs) declined to 36 percent and 6 percent in 2009 from 44 percent and 14 percent in 2008, respectively. First Postnatal Attendance also declined from 52 percent in 2008 to 33 percent in 2009, see Table 9.2.

[1] This figure has been revised from 449 per 100,000 births reported in 2008

Table 9.2: Maternal Health and Family Planning Indicators

Indicator	2007	2008	2009
First Antenatal Coverage (%)	92	92	86
Average Antenatal Visits	2.8	2.7	2.6
Fully Immunised Children (<1 yr) (%)	81	84	80
Institutional deliveries (%)	43	44	36
Trained traditional birth attendants (tTBAs) (%)	18	14	6
Supervised Deliveries (%)	61	64	56
First Postnatal Attendance (%)	51	52	33

Source: Ministry of Health

9.3.2 Child Health

135. During the period under review, the percentage of fully immunised children (<1 year) declined from 84 percent in 2008 to 80 percent in 2009. During the same period, the number of Paediatrics ART however, increased to 20,912 in 2009 from 18,250 in 2008.

9.3.3 Drugs and Medical Supplies

136. The availability of essential drugs for health centres was at 66 percent in the first half of 2009 compared to 68 percent during the same period of 2008. However, the availability of essential drugs in rural health centres remained the same in the second quarter of 2009 compared to the same period in 2008. With regards to referral hospitals, there was a slight reduction in essential drugs to 78 percent in 2009 from 80 percent in 2008. This was mainly due to financial constraints faced by the sector during the period under review.

137. As regards the Rural Health Centre (RHC) kit, the contract for 2009 was made for 22,500 kits supplied to Medical Stores Limited (MSL) in four (4) lots. The contract was fulfilled as at end 2009.

9.3.4 Human Resources

138. The human resource situation in 2009 remained far below the recommended levels. In an effort to improve the situation, Government recruited a total of 1,610 frontline medical personnel in 2009 against the target of 1,900. Although the number of frontline medical personnel increased to 15,159 in 2009 from 14,626 in 2008, there is still a shortfall of 24,201 workers to meet the recommended establishment of 39,360 (see Table 9.3). The worst hit category of staff continued to be that of nurses, Clinical officers and midwives.

Table 9.3: Trend in Human Resource Situation 2007-2009

Staff Category	2008	2009*	% change	Recommended	Variance
Doctors	795	801	0.8	2,300	1,499
Clinical Officers	1,161	1,376	18.5	4,000	2,624
Nurses	6,691	7,123	6.5	22,332	15,209
Lab Technologists	511	526	2.9	1,560	1,034
Pharmacists	301	306	1.7	347	41
Midwives	2,400	2,374	-1.1	5,086	2,712
Other Paramedics	2,767	2,603	-5.9	3,920	1,317
Total	**14,626**	**15,159**	**3.6**	**39,360**	**24,201**

Source: Ministry of Health
***The 2009 figures are not comparable to 2008**

139. The number of public sector Clinical Health Workers (CHWs) against a population of 1,000 people in 2009 was 0.93 per 1,000 population relative to the recommended 2.5 per 1,000. The worst hit categories were those of Medical Licentiates, Registered Midwife and Doctors (see Table 9.4).

Table 9.4: National Clinical Workers per 1,000 Population, 2009

	CHW,s1	Per 1,000 population
Clinical Officer	1,376	0.11
Doctor	801	0.06
Medical Licentiates	34	0.0
Registered Midwifes	643	0.05
Zambia enrolled Midwifes	1,731	0.14
Registered Nurses	1,913	0.15
Zambia enrolled Nurses	5,210	0.42
Total	**11,708**	**0.93**

Source: Ministry of Health

140. Furthermore, Government embarked on improving the work environment for health workers in rural and remote areas by, among other things, implementing the rural retention scheme and rehabilitating nursing training schools.

9.3.5 Infrastructure Development

141. The health sector in 2009 continued with its programmes of improving health infrastructure across the various levels of care. The construction of Lusaka General Hospital which will provide second level referral services commenced in 2009 and is expected to be completed by February, 2011.

142. A total of sixteen (16) district hospitals were under construction in 2009, whilst upgrading of six urban health centres in Lusaka and Ndola to district hospitals commenced with theatre construction. Construction of 18 Health Posts also commenced in 2009.

143. As regards staff housing, construction of 41 houses commenced in rural districts in 2009 compared to the 70 housing units constructed in 2008. In addition, a total of 224 housing units meant for doctors and nurses at second and third level hospitals also commenced in 2009.

9.4 Outlook

144. Government's focus in 2010 will be to enhance the quality of health care service delivery by recruiting additional medical personnel, improving supply of medical drugs, and rehabilitating and constructing health infrastructure, among others. In 2010, the sector is expected to recruit 750 new healthcare workers, inclusive of clinical and administrative, at a cost of K13 billion. The sector will also focus on the development of the sector strategic plan for the period 2011 to 2015.

CHAPTER 10: EDUCATION

10.1 Overview

145. In 2009, the performance of the education sector was satisfactory measured by the number of children accessing basic, high school and tertiary education. Further, the sector expanded the classroom space through a comprehensive infrastructure development programme. In order to improve the quality of education, recruitment of teachers in basic and high school sub-sectors continued.

10.2 Policy Developments

146. In the year under review, the Government made a policy pronouncement of removing the Grade 9 cut-off points aimed at further increasing access to high school education. In an effort to expand access to quality education, Government commissioned the construction of 2,543 basic school classrooms and the recruitment and deployment of 5,000 new teachers.

147. In addition, the Government commenced the process of reviewing the National Education Policy in order to anchor it to the Vision 2030 and make education provision responsive to the nation's developmental needs. Further, Government commenced the revision of the curriculum so as to design a comprehensive and diversified curriculum that is interlinked throughout all education levels.

10.3 Sector Performance

10.3.1 Basic School Sub-sector

148. The total number of basic schools (Grade 1-9) increased by 4.2 percent from 8,186 schools in 2008 to 8,527 schools in 2009. This was attributed to the increase in the number of Government schools by 441 schools to 5,226 in 2009 from 4,785 in 2008. Private and church run schools also increased by 119 schools to 528 in 2009 from 409 in 2008. Community schools reduced by 219 to 2,773 in 2009 from 2,992 in 2008 (see Table 10.1).

149. The increase in Government schools was as a result of Government's policy of expanding access to education through the construction of classrooms throughout the country. In this regard, a total of 2,543 classrooms were constructed out of which 1,127 were in existing schools, while 814 were in 275 new basic schools commissioned in 2009 and 602 were additions to new schools that were under construction from 2008.

Table 10.1: Number of Basic Schools by Running Agency, 2008-2009

Provider	2007	2008	2009*	% Change 2009/08
GRZ/Grant Aided	4,918	4785	5226	9.2
Private/Church	387	409	528	29.1
Community	2,708	2992	2773	-7.3
Total	**8,471**	**8186**	**8527**	**31**

Source: Ministry of Education
*** Preliminary**

Enrolments

150. Pupil enrolment at basic education level increased by 6.9 percent to 3,291,627 in 2009 from 3,078,937 in 2008. Female enrolments rose by 7.3 percent while male enrolments increased by 6.6 percent (see Table 10.2). Of the total basic school enrolment, 49.0 percent were females.

151. During the year under review, the Gender Parity Index (GPI) stood at 0.961 indicating that for every 1,000 boys enrolled at basic school level in 2009, there were 961 girls enrolled. This was below the GPI target of 1.0 due to higher female dropouts, especially in rural areas.

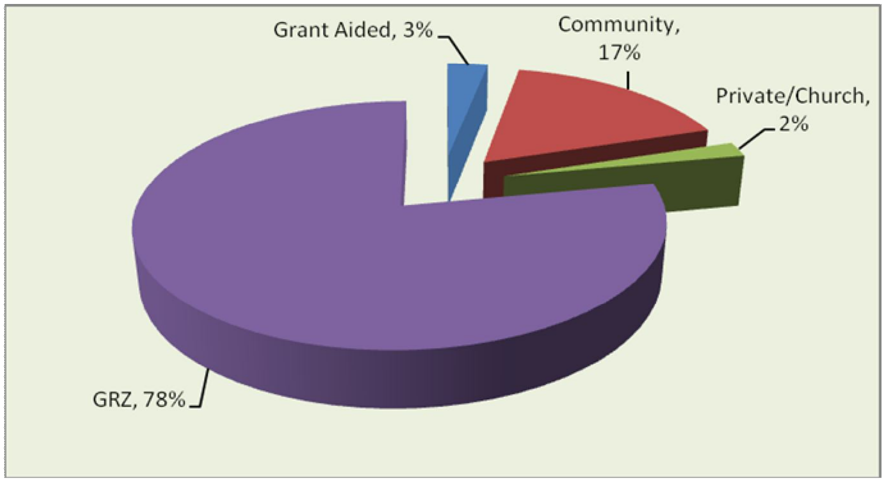
Table 10.2: Enrolments and Gender Parity at Basic School by Gender, 2007-2009

Gender	2007	2008	2009*	% Change 2008/09
Female	1,547,715	1,503,731	1,612,994	7.3
Male	1,618,595	1,575,206	1,678,653	6.6
Total	**3,166,310**	**3,078,937**	**3,291,647**	**6.9**
GPI	**0.956**	**0.955**	**0.961**	

Source: Ministry of Education
*** Preliminary**

152. The majority of pupils who were enrolled at basic education level were in Government schools, representing a proportion of 78 percent, while 17 percent were enrolled in community schools. The enrolments in private/church schools and grant-aided schools were at 2 and 3 percent, respectively (see Figure 10.1).

Figure 10.1: Basic School Enrolment Distributions by Running Agency, 2009



Source: Ministry of Education
***Preliminary**

Completion Rates

153. Completion rates for the middle basic education level (Grades 1-7) declined to 91.7 percent from 94.7 percent in 2008 (see Table 10.3). The decline was attributed to the increase in pupils dropout.

154. On the contrary, the completion rates for grades 8-9 marginally improved to 52 percent from 51.2 percent in 2008. Despite this improvement, the completion rates remained unsatisfactory and below the target rate of 64 percent. This outturn was due to low progression rates from grade 7 to grade 8, high dropout and repetition rates.

Table 10.3: Completion Rates, 2007-2009

Education Level	2007	2008	2009*	
	Actual	Actual	Target	Actual
Grade 1-7	90.7	94.7	90	91.7
Grade 8-9	47	51.2	64	52

Source: Ministry of Education
***Preliminary**

Pupil-Teacher Ratio

155. Pupil-Teacher Ratios (PTR) at all sub-levels of basic education worsened due to the fact that the enrolled number of pupils increased at a faster rate than the number of teachers recruited. At lower basic education level (Grades 1-4), there was an increase in the PTR to 75.6 pupils per teacher from 71.8 in 2008. The PTR for Grades 5-7 stood at 35.4 from 34.9 in 2008, while for Grades 8-9, it was 33.9, increasing from 32.4 in 2008 (see Table 10.4).

Table10.4: Pupil-Teacher Ratio for Basic Education, 2007-2009

Education Level	2007		2008		2009*	
	Target	Actual	Target	Actual	Target	Actual
Grade 1-4	71.5	75	72	71.8	70	75.6
Grade 5-7	38.9	35.8	35	34.9	41.1	35.4
Grade 8-9	33.9	32.6	32	32.4	36.8	33.9

Source: Ministry of Education
*** Preliminary**

Bursary Support

156. The number of Grades 8 and 9 pupils that received bursary support increased to 43,031 in 2009 from 24,009 in 2008, representing an increase of 79.2 percent. This was on account of scaled-up resources allocated to the programme.

10.3.2 High School Sub-Sector

Enrolment

157. In the year under review, total high school (Grades 10-12) enrolment rose by 3.2 percent to 244,204 in 2009 from 236,547 in 2008 (see Table 10.5). This outturn was attributed to the increase in the number of high school places created.

Table 10.5: Enrolments at High School level by Gender, 2007-2009

Gender	2007	2008	2009*	%Change20008/09
Female	99,186	106,565	114,181	7.2
Male	119,946	129,982	130,023	0.03
Total	**219,132**	**236,547**	**244,204**	**3.2**

Source: Ministry of Education
*** Preliminary**

Completion Rates

158. In the year under review, the completion rate at high school level reduced to 19.4 percent in 2009 from 21.9 percent in 2008. High dropout rates largely explained by early marriages, pregnancies, children being orphaned and financial constraints contributed to the unsatisfactory completion rates.

Pupil–Teacher Ratio

159. The national pupil-teacher ratios at high school level worsened to an average of 20.2 pupils per teacher in 2009 from 18.9 in 2008. This was attributed to the higher rates of enrolments of pupils compared to teachers recruited.

Bursary Support

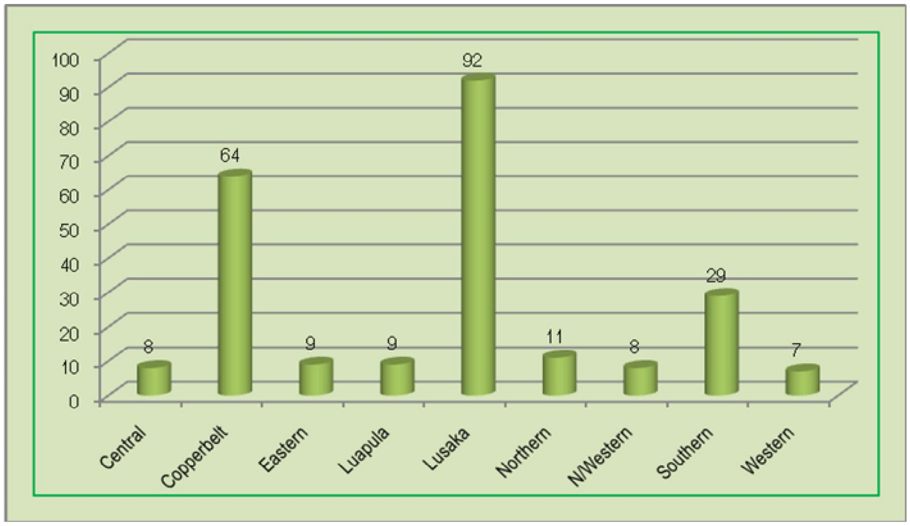
160. Bursary support to pupils in high school increased to 24,907 in 2009 from 22,425 in 2008. This was a result of an increase in budgetary allocation to the bursary programme.

Technical Education, Vocational and Entrepreneurship Training

Sub-sector

161. During the year under review, the number of registered institutions providing technical education, vocational and entrepreneurship training reduced to 237 from 276 in 2008 (see Figure 10.3). This was mainly on account of some institutions not meeting the required registration standards.

Figure 10.2: Number of Registered Institutions by Province in 2009



Source: Technical, Entrepreneurial and Vocational Education and Training Authority

162. Most of the registered institutions were in Lusaka Province at 92, Copperbelt Province, 64, Southern Province, 29 and Northern Province, 11. Central, Eastern, Luapula, North Western and Western provinces each had less than 10 training institutions.

10.3.3 Tertiary Education Sub-Sector

Teacher Education

163. The teacher training sub-sector continued to register positive growth in enrolment. In 2009, the enrolment at teacher training colleges stood at 9,739 students compared to 9,235 in 2008 (see Table 10.6).

Table 10.6: Teacher Education College Enrolment by Gender, 2007-2009

Gender	2007	2008	2009*
Female	4,218	4,523	4,881
Males	4,752	4,712	4,858
Total	**8,970**	**9,235**	**9,739**

Source: Ministry of Education
*** 2009 Preliminary Data**

10.3.4 University Education

164. Enrolment in public universities increased to 17,027 in 2009 from 15,447 in 2008 with coming on board of Mulungushi University. In terms of gender, an increase in both male and female enrolment was recorded at University of Zambia and Copperbelt University. Nonetheless males accounted for the highest proportion of enrolments at the three universities (see Table 10.7).

Table 10.7: Public Universities Enrolments by Gender, 2008-2009

University	2007			2008			2009		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
University of Zambia	4,112	5,995	10,107	4,180	6,112	10,292	4,271	6,243	10,514
Copperbelt University	1,300	2,855	4,155	1,035	4,120	5,155	1,079	4,934	6,013
Mulungushi University	-	-	-	-	-	-	116	384	500
Total	**5,412**	**8,850**	**14,262**	**5,215**	**10,232**	**15,447**	**5,466**	**11,561**	**17,027**

Source: Ministry of Education
2009 Preliminary Data

165. In 2009, the number of students awarded bursaries for both the Copperbelt University and University of Zambia increased by 1.2 percent to 8,915 from 8, 809 in 2008(see Table 10.8).

Table 10.8: Bursary by Category and Gender

Year	CBU			UNZA			Total (CBU + UNZA)				
	Male	Female	Total	Male	Female	Total	Male	%Share	Female	%Share	Total
2007	2,328	529	**2,857**	3,580	2,015	**5,595**	**5,908**	**70**	**2,544**	**30**	8,452
2008	2,298	590	**2,888**	3,573	2,348	**5,921**	**5,871**	**67**	**2,938**	**33**	8,809
2009	2,270	597	**2,867**	3,531	2,517	**6,048**	**5,801**	**65**	**3,114**	**35**	8,915

Source: Ministry of Education
*** 2009 Preliminary Data**

166. The number of female students awarded bursaries increased by 6 percent to 3,114 in 2009 from 2,938 in 2008 while the number for male students declined by 1.2 percent to 5,801 in 2009 from 5,871 in 2008.

10.4 Outlook

167. In 2010, access to education is expected to continue to improve on account of completion and construction of more classrooms. In addition, the continued net recruitment of teachers, and provision of teaching and learning materials is envisaged to contribute to the quality of education. The admission of more students to colleges and universities will also significantly increase the number of students accessing tertiary education.

CHAPTER 11: FISCAL PERFORMANCE

11.1 Overview

168. The performance of the budget in 2009 was broadly satisfactory. This was despite total revenues and grants, and expenditure being below the target by 9.2 percent and 3.4 percent, respectively. The overall budget deficit for 2009 stood at 2.6 percent of GDP and was higher than the projected 2.4 percent.

11.2 Policy Objectives

169. The overall fiscal policy objectives in 2009 were to:

(a) Continue consolidation of fiscal discipline by limiting domestic borrowing to 1.9 percent of GDP while exercising prudent budget execution;

(b) Create more fiscal space for more wealth creating spending and increase resources towards food security programmes; and

(c) Enhance domestic resource mobilisation;

11.3 Revenue Performance

170. Revenues and grants for the period under review amounted to K12,182.2 billion, which was 9.2 percent below the target of K13,414.1 billion. This outturn was equivalent to 18.7 percent of GDP, a reduction from the 22.0 percent of GDP recorded in 2008. Of the total amount collected, K10,315.1 billion or 84.6 percent was from domestic resources, representing 15.8 percent of GDP. External grants amounted to K1,867.1 billion, which was 15.3 percent of the total revenue and grants (see Table11.1).

Tax Revenue

171. In 2009, tax revenue collected amounted to K9,660.8 billion representing 14.8 percent of GDP. The collections were below the projected amount of K10,191.6 billion by K530.8 billion. This deficit is attributed to under performance of withholding tax, excise duty and trade taxes (import VAT and customs duty).

Table 11.1: Central Government Operations in 2009 (Revenue and Grants in K'Billion)

	Projection	Preliminary	Variance	% of Variance
REVENUE AND GRANTS	**13,414.3**	**12,182.2**	**(1,232.1)**	**(9.18)**
REVENUE	**10,645.7**	**10,315.1**	**(330.6)**	**(3.11)**
Tax Revenue	**10,191.6**	**9,660.8**	**(530.8)**	**(5.21)**
A. Income tax	**4,529.9**	**5,072.6**	**542.7**	**11.98**
1.Company Tax	1,104.0	1,375.8	271.8	24.62
Non - mining	846.0	974.6	128.6	15.20
Mining	258.0	401.2	143.2	55.50
2. PAYE	2,692.5	2,923.9	231.4	8.59
3. withholding Tax	579.0	538.0	(41.0)	(7.08)
4.Mineral Royalty	154.4	234.9	80.5	52.14
B. Value Added Tax	**2,549.9**	**2,475.5**	**(74.4)**	**(2.92)**
Domestic VAT	- 454.3	307.1	761.4	(167.60)
Import VAT	3,004.2	2,168.4	(835.8)	(27.82)
C. Customs and Excise Duties	**3,111.8**	**2,112.7**	**(999.1)**	**(32.11)**
Customs duty	**1,423.2**	**1,088.8**	**(334.4)**	**(23.50)**
o/w Import Tariffs	1,281.5	1,072.0	(209.5)	(16.35)
. Export duties	141.7	16.8	(124.9)	(88.14)
o/w Scrap metal	3.4	1.8	(1.6)	(47.06)
Cotton Seed	1.2	0.4	(0.8)	(66.67)
Copper Conc.	137.1	14.6	(122.5)	(89.35)
Excise Duty	**1,688.6**	**1,023.9**	**(664.7)**	**(39.36)**
o/w Rural Electrification Levy	18.0	15.2	(2.8)	(15.56)
Fuel Levy	308.5	200.2	(108.3)	(35.11)
Carbon Tax	6.5	5.9	(0.6)	(9.23)
Other Excises	1,355.6	802.6	(553.0)	(40.79)
Non-tax revenue	**454.1**	**654.3**	**200.2**	**44.09**
User fees & fines	340.0	378.9	38.9	11.43
Dividends and On -Lending	66.1	6.8	(59.3)	(89.71)
Medical Levy	13.2	12.8	(0.4)	(2.86)
Exceptional Revenue	**34.8**	**255.8**	**221.0**	**635.13**
o/w Fertilizer Recoveries	26.3	137.5	111.2	422.81
ERB License Fees	8.5	6.0	(2.5)	(29.11)
Other Revenues	-	112.3	112.3	
GRANTS	**2,768.6**	**1,867.1**	**(901.5)**	**(32.56)**
Programme Grants	**810.1**	**879.4**	**69.3**	**8.55**
o/w General Budget Support	810.1	879.4	69.3	8.55
Project Grants	**1,958.5**	**987.7**	**(970.8)**	**(49.57)**
Swaps	**643.8**	**218.9**	**(424.9)**	**(66.00)**
o/w Education	353.0	168.5	(184.5)	(52.27)
Health	290.8	50.4	(240.4)	(82.67)
Sector Budget Support	**409.6**	**314.7**	**(94.9)**	**(23.17)**
Other Project Grants	**905.1**	**454.1**	**(451.0)**	**(49.83)**

Source: Ministry of Finance and National Planning

Income Taxes

172. Income tax collections were above the target of K4,529.9 billion by 11.98 percent. This performance was mainly attributed to higher collections of company tax, PAYE and mineral royalty. Collections of company tax were above the target of K1,104.0 billion by 24.6 percent. This was due to a rise in payments as some companies adjusted their payments upwards due to increased profitability levels. PAYE was 8.6 percent above target due to net recruitments by both the private and public sectors, increased enforcement on outstanding debt and PAYE audits.

173. The Mineral royalty at K234.9 billion in 2009 was 37.2 percent higher than the 2008 collection of K171.2 billion. This performance was attributed to the increase in copper prices on the world market.

Value Added Tax

174. During the year under review, Value Added Tax (VAT) collections were below the target of K2,549.9 billion by 2.9 percent. A total of K2, 516.5 billion was collected under domestic VAT out of which, K2,209.4 billion was paid out as refunds for both domestic and import VAT. This resulted in a net position of K307.1 billion which was above the target representing an over performance of 167.6 percent.

175. Import VAT collections at K2,168.3 billion were below the target of K3,004.2 billion by 27.8 percent. This outturn was due to the re-inclusion of copper ores and concentrates onto the VAT deferment list which negatively affected the revenue streams from import VAT.

Customs and Excise Duties

176. Under customs and excise duties, K2,112.7 billion was collected, 32.1 percent below the target of K3,111.8 billion. Customs duties accounted for K1,088.0 billion, below target by 23.5 percent while excise duties at K1,023.9 billion were below target by 39.3 percent.

177. Customs duties under performance was attributed to the global economic down turn that resulted in the decline in business volume combined with the depreciation of the kwacha against major foreign currencies that made imports more expensive.

178. The under-performance in excise duties was largely due to the reduction of excise duty on hydrocarbons. Excise duty rates on petroleum products were reduced in order to mitigate the fuel shortage and this negatively affected the performance due to reduced revenue yields . The under-performance was further augmented by the reduced import volumes of

hydrocarbons arising from the slowdown in the economic activities by mines and other consumers in the economy.

179. Export duties at K16.8 billion were below target by 88.1 percent. The underperformance was largely due to the waiver on export duty on copper concentrates through concessions conferred to the various mining firms.

Non-tax Revenue

180. Non-tax revenue at K654.3 billion was 44.0 percent above the target of K454.1 billion. The over performance was mainly due to favourable performance of user fees and charges, and fertilizer recoveries which were above target by K38.7 billion and K111.2 billion, respectively. Other exceptional revenues amounted to K112.3 billion.

Grants

181. Total grants received during 2009 amounted to K1,867.1 billion and were below the projected amount by 32.5 percent. Of this amount, K879.4 billion was for General Budget Support, while K987.7 billion was for project grants.

General Budget Support

182. During the year under review, a total of US $173.2 million was disbursed against a pledged amount of US$158.3million. Total disbursements in dollar terms in 2009 exceeded projections by US $ 14.9 million on account of the depreciation of the US dollar against major international currencies. In Kwacha terms, about K879.4 billion was disbursed during the year under review compared to K938.1 billion in 2008.

Sector Budget Support

183. During 2009, a total of US$ 62.38 million or approximately K314.7 billion was released towards the Public Expenditure Management and Financial Accountability (PEMFA) and to the roads, health, energy (Rural Electrification Authority) and mining sectors, against the total projected K409.6 billion.

General Budget Support loans and Project Loans

184. In 2009, a total of K359.2 billion or US $ 71.2 million was released in form of loans towards General Budget Support and Projects (see Table 11.2).

Table 11.2: General Budget Support and Project Loans

	Project loans (US$' Million)	General Budget Support (US$' Million)	Total (US$'Million)
AfDB	6.3	23.2	29.5
World Bank	39.3	0	39.3
Other	2.4	0	2.4
Total	**48.0**	**23.2**	**71.2**

Source: Ministry of Finance and National Planning

Sector Wide Approaches (SWAPS)

185. A total of K218.9 billion or US$ 43.3 million was disbursed as Sector–Wide Support, for the Health and Education, sectors against a pledge of K643.8 billion. During the year, K353.0 billion or US$ 70 million was pledged to the education sector out of which only K168.5 billion was released. For the Health Sector, K290.8 billion or US$ 50.25million was pledged out of which only K50.4 billion was provided.

Other Project and Programme Grants[2]

186. During 2009, a total of K454.1 billion was disbursed towards various projects undertaken by both bilateral and multilateral donors in different sectors of the economy out of the projected amount of K905.1 billion.

11.3 Expenditure Performance

187. Total expenditure for the fiscal year 2009 indicates that the programmed total expenditure, excluding amortisation, underperformed by 7.6 percent. Total expenditure amounted to K13, 847.5 billion against the projected figure of K14, 978.6 billion (see Table 11.3).

Expenditure by Economic Classification

Current Expenditure

188. Current expenditure releases in 2009 amounted to K11, 556.8 billion and were below the target of K11, 894.7 billion by 2.8 percent. Of the total releases, 45.4 percent was for personal emoluments, 23.0 percent for use of goods and services and 15 percent for grants and other payments. The balance of 16.6 percent went towards payments for interest, social benefits, liabilities and other expenses.

Personal Emoluments

189. The total releases for personal emoluments, including housing allowance, at K5, 251.0 billion were higher than the target of K5,021.5 billion by 4.6 percent. This variance was due to the higher wage award of 15 percent as opposed to the programmed 11.2 percent. The released amount went towards payment of basic personal emoluments, housing allowance, rural hardship allowance, other salary related emoluments and payments for constitutional posts.

Public Service Retrenchment Programme (PSRP)

190. As regards the Public Service Retrenchment Programme (PSRP), a sum of K23.2 billion was released against the target of K43.0 billion. This was below the target by 46.1 percent.

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[2] **These are project and programme grants channelled outside the government financial management system.**

Use of Goods and Services

191. Total releases towards use of goods and services at K2, 656.9 billion were 25.1 percent below the programmed figure of K3, 548.4 billion. This outturn was largely due to the lower than programmed foreign financed expenditures. Foreign financed expenditure at K352.6 billion were 71.9 percent below the programmed level.

192. Domestically financed expenditure at K2, 304.3 billion was, however, 1.7 percent higher than the programmed figure of K2, 268.1 billion. This was largely attributed to the higher than programmed expenditure on by-elections.

Interest on Domestic Debt

193. Interest payments on Government Securities were below the programmed figure of K978.8 billion by 0.4 percent and amounted to K974.6 billion. This was on account of the general downward trend in interest rates on government securities, particularly in the second half of 2009.

External Debt Interest and Amortisation

194. External debt interest payments in the period under review amounted to K58.0 billion. This was against the target of K71.5 billion and was 13.5 percent below the target. Payments on amortization amounted to K210.6 billion which was below the target of K300.5 billion by 29.9 percent. This variance was on account of non-conclusion of loan agreements with Russia and Bulgaria.

Grants and other payments

195. The Government released K1, 729.7 billion towards grants and other payments, 25.1 percent above the target of K1, 382.8 billion. Of these releases, K1, 523.9 billion was domestically financed. The domestically financed releases included K565.1 billion for the Fertiliser Support Programme (Farmer Input Support Programme), which was above target by K137.0 billion.

196. The releases to Zambia Revenue Authority (ZRA) were K210.9 billion, 2.9 percent above target while the K51.3 billion released to the road agencies was 6.5 percent lower than programmed. Further, releases towards the procurement and distribution of agricultural input packs amounted to K10.2 billion which was 2.1 percent above target.

Social Benefits

197. The total releases towards social benefits at K253.5 billion in 2009, were 3.2 percent higher than the target of K245.7 billion. Of the total releases, K174.3 billion was for the Pension Fund as programmed.

Other Expenses

198. Total releases towards other expenses at K332.5 billion were 32.4 percent higher than the programmed amount of K251.2 billion. Of this amount, K105.3 billion was released for financial restructuring and was below the programmed figure of K123.7 billion by 14.9 percent. This funding catered for the restructuring of ZESCO with K24.0 billion, among others. Furthermore, K208.5 billion was released towards the purchase of food reserves and was above the programmed amount of K100 billion indicating an over performance of 108 percent.

Liabilities

199. Releases towards the dismantling of Government liabilities at K277.5 billion, were 21.1 percent below the target of K351.6 billion. Of the released amount, K72 billion went towards pension arrears as programmed. An amount of K88.8 billion was paid to suppliers of goods and services, 49.7 percent below target. The lower than planned outturn was on account of non disbursement of funds to suppliers of goods and services that had pending court cases.

Capital Expenditures

Non-financial Assets

200. An amount of K2, 216.6 billion, was released for the acquisition of non-financial assets, which was 26.0 percent below the programmed figure of K2,993.9 billion. The underperformance was largely on account of the lower than programmed foreign-financed non-financial assets, which was 63.7 percent below the target of K1, 234.5 billion.

201. Releases towards domestically financed non-financial assets stood at K1, 768.4 billion, broadly in line with the target of K1,759.4 billion. These included K46.4 billion for the Rural Electrification Fund (REF) and K776.6 billion for road construction. As a proportion of GDP, releases towards domestically financed non-financial assets increased to 3.7 percent in 2009 from 2.2 percent in 2008.

Financial Assets

202. Total releases towards acquisition of financial assets at K73.9 billion, were 17.9 percent below the target of K90.0 billion. This amount was all domestically financed. Of the total releases K40.0 billion went towards the Citizen's Empowerment Fund.

Table 11.3: Central Government Operations in 2009 (Expenditure in K'Billion)

	2009 Budget	Releases	Variance	% Varaince
TOTAL EXPENDITURE	14,978.60	13,847.40	-1,131.20	-7.6
DOMESTIC EXPENDITURE	12,439.50	12,844.90	405.4	3.3
CURRENT EXPENDITURE	11,894.70	11,556.80	-337.8	-2.8
Expenses	11,894.70	11,556.80	-337.8	-2.8
Personal Emoluments	5,021.60	5,251.00	229.4	4.6
o/w Basic PEs	4,327.70	4,871.20	543.5	12.6
Other Emoluments	684	335	-349	-51
Constitutional Posts	45.2	44.8	-0.4	-0.9
Public Service Retrenchment Programme	43	23.2	-19.8	-46.1
Use of Goods and Services	3,548.40	2,656.90	-891.5	-25.1
Foreign Financed	1,253.30	352.6	-900.7	-71.9
Domestically	2,268.10	2,304.30	36.2	1.6
o/w State Functions	31.1	78.1	47	151.2
Awards and Compensation	173.1	173.1	0	0
Constitutional Review	50	49.9	-0.1	-0.2
By-Elections	4	10.4	6.4	160.1
Ordinary Use of Goods and Services	2,009.90	1,992.80	-17.1	-0.9
Interest	1,050.30	1,032.60	-17.7	-1.7
o/w Domestic Debt	978.8	974.6	-4.2	-0.4
External Debt	71.5	58	-13.5	-18.9
Grants and Other Payments	1,382.80	1,729.70	346.9	25.1
Foreign Financed	51.3	205.7	154.4	301.3
Domestically	1,331.60	1,524.00	192.4	14.5
o/w Zambia Revenue Authority	205	210.9	5.9	2.9
Road Fund Agencies	54.9	51.3	-3.6	-6.5
Fertilizer Support Programme	428.3	565.1	136.8	32
Food Security Pack	10	10.2	0.2	2.1
Ordinary Grants and Other payments	632.9	686.4	53.5	8.5
Social Benefits	245.7	253.5	7.8	3.2
o/w Pension Fund	174.3	174.3	0	0
Other Social Benefits	71.4	79.2	7.8	10.9
Other Expenses	251.2	332.5	81.3	32.4
o/w Food Reserve Agency	100	208.5	108.5	108.5
Contingency	27.5	18.7	-8.8	-32
Financial Restructuring	123.7	105.3	-18.4	-14.9
o/w Ordinary Financial Restructuring	106.9	81.3	-25.6	-23.9
ZESCO	16.8	24	7.2	42.5
Liabilities	351.6	277.5	-74.1	-21.1
Pension Arrears	72	72	0	0
Suppliers of Goods & Services (MoFNP)	176.5	88.8	-87.6	-49.7
Other Liabilities	103.2	116.7	13.5	13.1
VII. ASSETS	3,083.90	2,290.50	-793.4	-25.7
DOMESTIC ASSETS	1,849.40	1,842.20	-7.2	-0.4
Non Financial Assets	2,993.90	2,216.60	-777.3	-26
o/w Foreign Financed	1,234.50	448.3	-786.2	-63.7
Domestically Financed	1,759.40	1,768.40	8.9	0.5
o/w Rural Electrification Programme	46.4	46.4	0	0
GRZ Roads	715.5	776.6	61.1	8.5
o/w Road Fund (including Fuel levy + Road User Charges)	416.1	477.3	61.1	14.7
Ordinary	997.6	945.4	-52.2	-5.2
Financial Assets	90	73.9	-16.1	-17.9
Domestically Financed	90	73.9	-16.1	-17.9
o/w Citizens Economic Empowerment Fund	40	40	0	0
Ordinary	50	33.9	-16.1	-32.2
VIII. FISCAL BALANCE Surplus / Deficit (I -V) Plus Change in Balances	-1,564.10	-1,607.20	-43.2	2.8
Fiscal Balance Surplus (+)/ Deficit (-) on Cash Basis (I-V)	-1,564.10	-1,665.00	-101	6.5
IX. FINANCING = VIII	1,564.10	1,643.20	79.2	5.1
Domestic	1,069.00	1,676.30	607.3	56.8
o/w Banking	869	1,429.00	560	64.4
Non Banking	200	247.3	47.3	23.6
Foreign	495	-33.1	-528.1	-106.7
o/w Programme	215	158.8	-56.2	-26.1
Project	580.5	18.8	-561.7	-96.8
Amortisation	-300.5	-210.6	89.8	-29.9

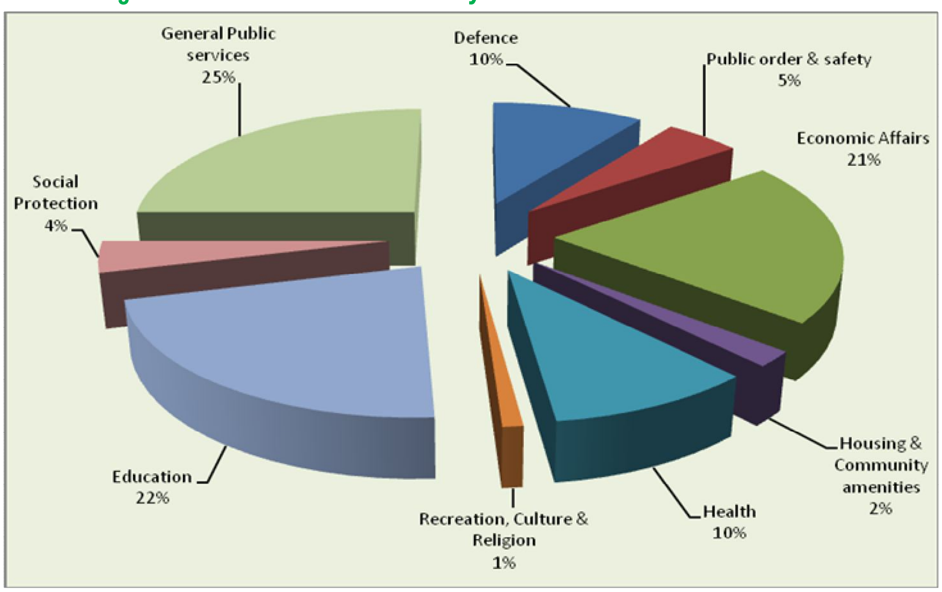
Source: Ministry of Finance and National Planning

Expenditure by Functional Classification

203. Total domestic releases by functions of Government amounted to K12,130.4 billion against the target of K12,739.9 billion. Of the total releases, General Public Services accounted for the largest share at 25.1 percent followed by Education and Economic Affairs at 21.5 percent and 21.4 percent respectively. The Health function accounted for 10.3 percent followed by Defence with 10.1 percent. Public Order and Safety was at 5.3, Social Protection at 3.6 percent and Housing and Community Amenities at 1.8 percent. The balance went towards the Culture, Recreation and Religion and Environment Protection functions (see Figure 11.1).

204. Notable areas of expenditure under Economic Affairs were Agriculture, Forestry and Fishing sub-function at 45.6 percent of total releases, Transport sub-function at 35.5 percent, and Fuel and Energy sub function at 10.6 percent. The higher than projected expenditures were largely due to supplementary releases to the Fertiliser Support Programme, road construction and the Rural Electrification Fund, respectively.

Figure 11.1: 2009 Releases by function



Source: Ministry of Finance and National Planning

General Public Services

205. An amount of K3, 041.8 billion was released to the General Public Services function against the projected K4, 630.9 billion. This represented 23.9 percent of the total domestic budget (see Table 11.4). The lower than projected releases were mainly on account of low funding to dismantling of arrears and Public Service Reform Programme.

Table 11.4: General Public Services Function Releases (K'Billion)

General Public Services	2009 Allocation	2009 Releases	Variance	Releases as % of total budget
Executive	436.4	491.1	54.6	3.9
o/w Local Government Transfers	110.3	110.3	-	0.9
Legislation	437.3	467.5	30.2	3.7
o/w NCC	50	49.9	-0.1	0.4
General Government Services	**3,506.20**	**1,873.60**	**-1,632.60**	**14.7**
o/w Dismantling of arrears	368.7	309.1	-59.6	2.4
Domestic Debt (Interest)	978.8	974.6	-4.2	7.7
External Debt	7.2	58	50.9	0.5
Centralised Administrative Services	251	209.7	-41.4	1.6
o/w Public Service Reform Programme	43	23.2	-19.8	0.2
Class Total	4,631.00	3,041.80	-1,589.10	23.9
Total Domestic Budget	**12,739.90**	**12,130.40**		

Source: Ministry of Finance and National Planning

Defence and Public Order and Safety

206. The Government released K1, 230.5 billion towards the Defence function against the projected K1, 068.0 billion. A total of K608.1 billion was released towards Public Order and Safety against the target of K628.0 billion. Of the released amount, K64.5 billion went towards the construction of police houses.

Economic Affairs

207. Releases to the Economic Affairs function amounted to K2, 592.3 billion against the programmed amount of K2, 128.1 billion. This represented 20.3 percent of the total domestic budget. Among the main activities that accounted for these releases were, Agriculture, Forestry and Fishing, Fuel and Energy, and Transport (see Table 11.5).

Table 11.5: Economic Affairs releases in 2009 (K'Billion)

Economic Affairs	2009 Allocation	2009 Releases	Releases as % of Total Budget
General Economic, Commercial, and Labour Affairs	**155.5**	**139.4**	**1.1**
o/w Citizens Economic Empowerment Fund	40	40	0.3
Agriculture, Forestry and Fishing	**941.2**	**1,181.30**	**9.3**
o/w Fertilizer Support Programme	435	565.1	4.4
Fuel and Energy	**77.7**	**274.8**	**2.2**
o/w Rural Electrification	46.4	65.9	0.5
Mining	**29.8**	**23.6**	**0.2**
Transport	**859.2**	**919.4**	**7.2**
o/w GRZ Roads	715.5	776.6	6.1
Communication	**20.3**	**15**	**0.1**
Tourism	**44.4**	**38.9**	**0.3**
Class Total	**2,128.10**	**2,592.30**	**20.3**
Total Domestic Budget	**12,739.90**		

Source: Ministry of Finance and National Planning

Social Sectors

208. Releases to the social sectors, namely health, education and social protection amounted to K7, 831.3 billion against the projection of K7,285.9 billion. The releases to the social sectors represented 61.5 percent of the total domestic budget. The health function accounted for 9.8 percent of the total domestic budget, education accounted for 20.4 percent while social protection was 3.4 percent (see Table 11.6).

Table 11.6: Social Sectors releases in 2009, (K'Billion)

Function	2009 Allocation	2009 Releases	Releases as %of total budget
Health	**1,151.10**	**1,253.80**	**9.8**
Public Health Services	832.6	932.1	7.3
o/w Capital Expenditure	135.5	150.9	1.2
Education	**2,401.90**	**2,603.60**	**20.4**
Tertiary Education	502.3	489.7	3.8
Education (Other)	1,283.00	1,384.50	10.9
o/w Capital Expenditure	269.2	271.6	2.1
Social Protection	**374.2**	**433.3**	**3.4**
Housing and Community Amenities	**253**	**219.8**	**1.7**
Recreation, Culture and Religion	**83.2**	**92.1**	**0.7**
Total Allocation/Releases	**7,285.90**	**7,831.30**	**61.5**
Total Domestic Budget	**12,739.90**		

Source: Ministry of Finance and National Planning

Budget Deficit

209. The overall fiscal deficit in 2009 stood at K1, 665.0 billion, representing 2.6 percent of GDP and was above the projected deficit of 2.4 percent. The deficit was financed through domestic borrowing of K1, 676.3 billion and foreign financing of K33.0 billion.

CHAPTER 12: EXTERNAL SECTOR DEVELOPMENTS

12.1 Overview

210. The performance of the external sector in 2009 was sound. The overall balance of payments surplus increased, largely on account of the narrowing of the current account deficit. Additionally, augmentation of resources under the International Monetary Fund (IMF) Poverty Reduction Growth Facility (PRGF) resulted in an increase in gross international reserves to 4.8 months of import cover from 2.1 months of cover in 2008.

12.2 Policy Developments

211. Government in 2009 approved the Debt Management Strategy in order to address the debt management objective. The strategy is aimed at effective management of debt portfolio and inherent risks. In this regard, Government's strategy on debt acquisition is to contract highly concessional loans with grant element of at least 35 percent.

12.3 External Debt Position

212. Preliminary data indicates that Government's external debt stock increased by 23.2 percent to US $1,501.5 million at end 2009 from US $1,218.7 million as at end December 2008 (see Table 12.1). The increase was on account of augmentation of resources under the programme with the IMF. The additional financing, which increased the debt to the IMF by 256.9 percent, was required to mitigate the effects of the global economic crisis on the Zambian economy, especially the balance of payments position.

Table 12.1: External Debt Stock (US$'Million), 2007-2009

CREDITOR	2007	2008	2009	% Change 2009/2008
Multilateral	**707.8**	**781.4**	**1061.4**	**35.9**
ADB/ADF	94.0	126.0	119.6	(5.1)
World Bank	315.5	365.0	412.1	12.9
IMF	85.9	96.6	344.7	256.9
Others	212.4	193.8	185.0	(4.5)
Bilateral	**287.0**	**295.2**	**300.4**	**1.8**
Paris Club	212.9	220.7	226.4	2.6
Non-Paris Club	74.1	74.5	74.0	(0.7)
Suppliers Credit	***111.4***	***142.1***	***139.7***	(1.7)
Total Govt. External Debt	***1,106.2***	***1,218.7***	***1,501.5***	***23.2***

Source: Ministry of Finance and National Planning

12.3.1 External Debt Service Payments

213. In 2009, Government debt service payments amounted to US $53.7 million. Of this amount, US $42.2 million was principal payment while US $11.5 million was paid as interest.

12.3.2 New Borrowings

214. Government contracted seven new loans amounting to US$233.3 million (see Table 11.2). The loans were contracted on concessional terms to finance projects in infrastructure, health and the energy sectors.

Table 12. 2: Concessional loans contracted by Central Government in 2009

Creditor	Purpose	US $'million	Interest	Maturity	Grace	Repayment	Commitment fee	Service
			Rate (%)	(Yrs)	Period (Yrs)	Period (Yrs)		Charge
IDA	Road Rehabilitation Project	75.7	0	50	10	40	0.5	0.75
OFID	Kalabo-Sikongo Angola Border Project	10.0	1.5	20	5	15	0	1
EXIM-CHINA	Procurement of non-intrusive scanners	45.8	2	15	5	10	0.5	0.75
EXIM-CHINA	Rehabilitation and Maintenance of storage sheds	11.6	2	15	5	10	0.5	0.75
EXIM-CHINA	Completion of Government Complex Project	25.0	2	15	5	10	0.5	0.75
OFID	Cancer Diseases Hospital Project-II	6.0	1.5	20	5	15	0	1
JICA	Increased Access to Electricity Project	59.2	0.05	30	10	20	0	0
	TOTAL	**233.3**	-	-	-	-		

Source: Ministry of Finance and National Planning

12.4 Balance of Payments

215. The overall balance of payments position improved significantly to US $427.4 million from US $12.7 million in 2008 (see Table 12.3). This outturn was largely explained by the continued positive performance of the capital and financial accounts. The narrowing of the current account deficit further augmented the performance of the external sector.

12.4.1 Current Account

216. During the year under review, the current account deficit narrowed to US $456.6 million from US $1,036.1 million recorded in 2008, largely attributed to a surge in the merchandise trade surplus to US $865.3 million in 2009 from US $404.4 million in 2008. This was explained by a decline in the merchandise imports bill which outweighed the reduction in merchandise export earnings.

217. The merchandise imports bill fell by 25.3 percent to US $3,400.3 million in 2009 from US $4,554.3 million in 2008. This was largely explained by a reduction in imports associated with all commodity groups, except paper and paper products, and fertilizer, which increased by 1.6 percent and 0.7 percent respectively. The slowdown in investment projects, particularly in the

mining sector, coupled with the depreciation of the Kwacha, on the backdrop of the global economic crisis, explained this outturn.

Table 12.3: Balance of Payments (US $ millions), 2007-2009

	2007	2008	2009*
Current Account	**-754.5**	**-1,036.10**	**-456.6**
Balance on goods	899.2	404.4	865.3
Exports , f.o.b	**4,448.50**	**4,877.20**	**4,189.40**
Metal sector	3,667.70	4,001.00	3,283.90
Copper	3,406.50	3,684.50	3,115.40
Cobalt	261.2	316.5	168.5
Nickel			0
Non-traditional	780.8	876.2	905.5
Imports, f.o.b	**-3,610.50**	**-4,554.30**	**-3,400.30**
Metal sector	-1,059.10	-1,380.50	-866
Non-metal sector	-2,551.40	-3,173.80	-2,534.30
Goods Procured in ports by carriers(Bunker Oil)	35.3	37.4	39.6
Nonmonetary Gold	26	44.1	36.6
Services (net)	**-639.6**	**-602**	**-461.6**
Services Receipts	273.4	299.6	240.8
Services Payments	-913	-901.6	-702.4
Balance on goods and services	259.6	-197.6	403.7
Income Net	**-1,544.60**	**-1,398.60**	**-1,333.60**
Income Receipts	35.2	29.5	5.4
Income Payments	-1,579.80	-1,428.10	-1,338.90
Of which: Income on Equity Payments	-1,532.00	-1,345	-1,261.00
Interest payments	-13.3	-54.1	-49.3
Current Transfers (net)	**530.5**	**560.1**	**473.2**
Private	227.9	239	180.5
Official	302.6	321.1	292.7
Commodity, SWAP & Global Fund	156	150.1	79.2
Budget Grants	146.6	171	213.5
Capital and Financial Account	**1,065.40**	**1,046.10**	**879**
Capital Account	**222.8**	**230**	**298.7**
Capital Transfers	222.8	230	298.7
General Government	222.8	230	298.7
Project Assistance grants	222.8	230	298.7
Debt Cancelled/MDRI	0	0	0
Other Sectors	0	0	0
Financial Account	**842.6**	**816.1**	**580.3**
Direct Investment	1,323.90	938.6	694.4
Portfolio Investment	41.8	-6.1	-6.4
Other Investment	-523.1	-116.4	-107.6
Assets	-1,005.80	-443.5	-21.3
Increase in NFA - banks(-)	-66.7	142.7	-80
Other Short term Deposits	-939.1	-586.2	58.6
Liabilities	482.7	327.1	-86.2
Government	33.9	67.4	38.1
Disbursement of Loans	82.7	110.8	38.1
Project	82.7	79	58.3
Budget	0	31.8	20.9
Amortization of loans(-)	-48.8	-43.3	-41.1
Monetary Authorities			627.3
Private Foreign Borrowing(net)	448.8	259.6	-751.6
Errors and Omissions	-0.4	2.6	5
Overall balance	**310.5**	**12.7**	**427.4**
Financing of Overall balance	-310.5	-12.7	-427.4
Change:NIR of Bank of Zambia	-310.5	-12.7	-427.4
Reserve Assets	-352.3	-28.6	-663.2
BoZ Liabilities	0	0	0
Use of Fund Credit and Loans(net)	41.8	15.9	235.8
Disbursements	41.8	15.9	237.3
Repayments	0	0	-1.5
Memorandum Items:			
Current Account, including Grants(% of GDP)	-4.6	-5.5	-1.3
Current Account Excluding Grants (% of GDP)	-9.1	-9.3	-6.0
Copper Exports volume('000 Mt)	490.9	587.1	669.1
Copper Export Price (US$ per pound)	3.1	2.8	2.1
Gross International reserves(Us$ million)	947.4	976	1,639.2
In months of imports	2.5	2.1	4.8
Exports of goods & services (BXG+BXS)	4,783.1	5.258.2	4,506.4
Imports of goods & services(BMG +BMS)	-4,523.5	-5,455.8	-4,102.7
Balance of goods & services (BX +BM)	259.6	-197.6	403.7

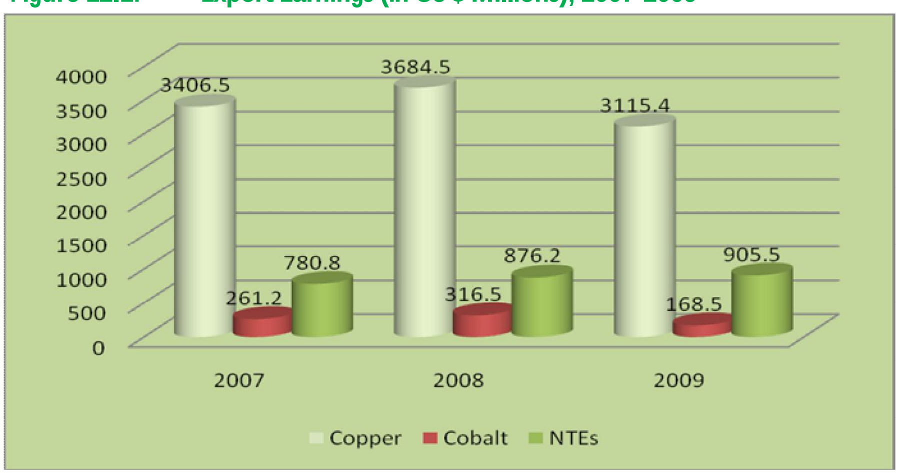
Source: Bank of Zambia
***Preliminary**

218. Similarly, merchandise export earnings at, US $4,189.4 million, were 14.1 percent lower than US $4,877.2 million recorded in 2008, following a decline in metal export earnings. Metal export earnings, at US $3,283.9 million, were 18.0 percent lower than the US $4,001.0 million recorded in 2008 (see Figure 12.1). This outturn was largely on account of the decline in the realised prices of both copper and cobalt.

219. Copper export earnings fell by 15.4 percent to US $3,115.4 million from US $3,684.5 million realized in 2008. This was largely explained by the 25.8 percent decline in the annual average realized price of copper to US $4,656.1 per tonne in 2009 from US $6,275.4 per tonne recorded the previous year. The decline in global demand, as a result of the secondary effects of the global financial crisis, explained this outturn. Copper export volumes, however, grew by 14.0 percent to 669,096.5 Mt in 2009 from 587,124.7 Mt recorded in 2008. This was spurred by the commencement of commercial production at Lumwana Copper Mine, and enhanced processing capacity as a result of the coming on stream of the Chambishi Copper Smelter and a new smelter at Konkola Copper Mines.

220. Similarly, cobalt export earnings fell by 46.8 percent to US $168.5 million from US $316.5 million recorded in 2008. This largely reflected the 58.5 percent reduction in the annual average realised cobalt prices to US $28,474.0 per tonne from US $68,657.4 per tonne the previous year.

Figure 12.1: Export Earnings (in US $ Millions); 2007-2009



Source: Bank of Zambia

221. Notwithstanding the reduction in metal export earnings, Non-Traditional Export (NTE) earnings grew by 3.4 percent to US $905.5 million from US $876.2 million recorded in 2008. A rise in earnings from the export of cane sugar (67.8 percent), cotton lint (37.4 percent), burley tobacco (28.7 percent), gas oil (12.3 percent) and gemstones (11.3 percent) explained this outturn (see Table 12.4. Increased production of these products, coupled with an improvement

in international competitiveness, following the depreciation of the Kwacha, contributed to the increase.

Table12.4: Major Non-Traditional Exports (C.I.F.) US $ Millions, 2007 – 2009

Product	2007	2008	2009	% Change 2009/2008
TOTAL	**917.6**	**953.9**	**978.8**	**2.6**
Copper Wire	195.4	158.0	110.4	(30.1)
Cane Sugar	74.4	60.7	98.1	61.7
Burley Tobacco	63.2	74.6	89.6	20.2
Cotton Lint	37.1	35.4	45.7	29.2
Electrical Cables	150.5	56.3	38.2	(32.2)
Fresh Flowers	38.3	23.7	22.7	(4.2)
Cotton Yarn	12.4	7.5	0.1	(98.7)
Fresh Fruits & Vegetables	24.6	27.0	22.0	(18.5)
Gemstones	28.6	32.4	38.9	19.9
Gas oil	20.9	25.9	30.7	18.5
Electricity	7.3	3.3	10.5	215.1
Other	265.0	449.2	471.9	5.1

Source: Bank of Zambia

12.4.2 Capital and Financial Account

222. In the period under review, the capital and financial account balance narrowed by 16.0 percent to US $879.0 million from US $1,046.1 million in 2008. This was largely driven by the decline in inflows in form of foreign direct investment, private borrowing, and budget and project loans. In addition, increased outflows in form of debt service by the private sector contributed to this outturn. The decline in the capital and financial account was moderated by the allocations of Special Drawing Rights (SDRs) to Zambia by the IMF equivalent to US $627.3 million.

12.5 Outlook

223. In 2010, Zambia's overall balance of payment position is expected to remain favourable. This is premised on the rebound of copper prices on the international market as well as expected increases in copper production, as Lumwana Mine gets close to full production capacity. These gains are, however, expected to be partly moderated by the projected increase in merchandise imports, following the continued strengthening of the Kwacha against other major currencies.

CHAPTER 13: MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

13.1 Overview

224. The monetary and financial sector remained strong despite the effects of the global financial crisis. Accordingly, annual overall inflation returned to single digit in December 2009 compared to the double digit rate recorded at end-December 2008. Consistent with this, broad money (M3) growth slowed down and growth in domestic credit declined. Similarly, yield rates on all Government securities portfolios trended downwards, although developments in commercial banks nominal interest rates were mixed.

225. During the review period, the Kwacha depreciated against all the major currencies. This was on account of high demand for foreign exchange and the secondary effects of the global financial crisis. However, this was moderated by the recovery in copper prices during the last half of the year and the receipt of the IMF SDR allocation.

226. The overall financial condition of the banking sector in the year under review was satisfactory. All but one bank met the minimum capital requirements and their liquidity position remained strong. However, the sector's financial performance significantly weakened compared to the previous year on account of the deterioration in the asset quality as non-performing loans rose sharply. The overall financial performance and condition of the Non Banking Financial Institutions (NBFIs) was rated fair during the period under review.

13.2 Policy Objectives and Developments

227. During 2009, monetary policy was focused on the achievement of the end-year inflation target of 10.0 percent by limiting reserve and broad money growth rates to 19.0 percent. In this regard, the Bank of Zambia (BoZ) continued to employ indirect instruments for monetary operations, which were to be supported by prudent fiscal operations. In the financial sector, the main focus was to maintain system stability by stepping up supervisory efforts to ensure that the second round effects of the global financial crisis were mitigated.

228. During the year under review, the Overnight Lending Facility (OLF) was introduced. The introduction of the OLF was expected to increase liquidity in the money market and improve effectiveness of monetary policy. Amongst the expected benefits of the OLF are improved commercial banks' management of short-term liquidity through the provision of an extra avenue where the banks can obtain overnight credit. This will also provide an early warning system to detect liquidity problems of particular banks.

13.3 Monetary Developments

Broad Money[3]

229. Broad money (M3) growth in 2009 slowed down to 8.3 percent from 21.8 percent recorded in 2008 and was 5.7 percentage points below the end-year target of 14.0 percent. The contraction in broad money growth was largely due to the slowdown in the growth in Net Domestic Assets (NDA) as Net Foreign Assets (NFA) growth increased. NDA growth declined to negative 23.3 percent from the 31.9 percent recorded in 2008, contributing negative 13.3 percentage points to M3 growth. However, NFA growth surged to 50.3 percent in 2009 from 10.7 percent in 2008 and contributed 21.6 percentage points to M3 expansion (see Table 13.1). Excluding foreign currency deposits whose annual growth slowed down to 8.2 percent (21.3 percent in 2008), money supply growth increased to 38.3 percent from the 22.6 percent in 2008.

Table 13.1: Developments in Annual Broad Money (%), 2007 – 2009

Description	2007	2008	2009	Contribution to ΔM3 (2009)
Broad Money (M3)	26.3	21.8	8.3	8.3
of which				
Net Foreign Assets	28.1	10.7	50.3	21.6
Net Domestic Assets	24.7	31.9	-23.3	(13.3)
Domestic Credit	20.3	37.8	0.7	0.6
Net Claims on Govt	-20.2	22.1	7.6	1.3
Public Enterprises	68.7	-60.1	147.7	1.7
Private Enterprises	41.5	26.6	-10.8	(4.5)
Households	50.8	164.4	1.9	0.4
NBFIs	38.9	3.5	171	1.7

Source: Bank of Zambia

Domestic Credit [4]

230. During 2009, domestic credit growth slowed down to 0.7 percent from the 37.8 percent recorded in 2008. The slowdown was mainly attributed to the decline in credit to the private sector by 10.8 percent, thereby contributing negative 5.6 percentage point to annual credit outturn. However, credit to Government, public enterprises and households increased by 7.6 percent, 147.7 percent and 1.9 percent, respectively (see Table 13.2). In absolute terms, domestic credit increased to K10,611.1 billion in 2009 from K10,536.2 billion in 2008.

[3] This is comprehensively defined to include foreign currency deposits
[4] This is comprehensively defined to include foreign currency loans

Table 13.2: Domestic Credit (K'Billion), 2007 – 2009

	2007	2008	2009	% Change 2009/2008
Government	1,861.50	2,311.70	2,486.90	7.6
Public Enterprises	378.5	147.5	365.5	147.8
Private Enterprises	4,309.10	5,455.20	4,867.80	(10.8)
Households	942.6	2,492.50	2,540.70	1.9
Non-bank Fin. Inst.	124.9	129.2	350.2	171.1
Total Domestic Credit	**7,648.70**	**10,536.20**	**10,611.10**	**0.7**

Source: Bank of Zambia

231. During 2009, commercial banks' loans and advances declined by 0.5 percent compared with an increase of 41.4 percent in 2008. The largest decrease was to the restaurants and hotels by 52.1 percent, followed by financial services (34.0 percent), electricity, gas, water and energy (28.9 percent), and construction (20.1 percent). Some sectors, however, recorded an expansion in credit with the largest increase being in community and personal services (160.2 percent), real estate (68.7 percent), followed by agriculture, forestry, fishing and hunting (18.4 percent) and manufacturing (13.2 percent) (see Table 13.3).

Table 13.3: Sectoral Shares in Total Loans and Advances (%), Dec 2007 – Dec 2009

	2007		2008		2009		% Change
Sectors	K'bn	%Share	K'bn	%Share	K'bn	%Share	2008-2009
Agriculture	1,210.30	21	1,321.40	16.2	1,565.10	19.3	18.40
Mining & Quarrying	231.2	4	382.1	4.7	338.2	4.2	(11.50)
Manufacturing	615.2	**10.7**	878.5	10.8	994.2	12.3	13.20
Electricity, gas, water & energy	280	4.9	193.7	2.4	137.8	1.7	(28.90)
Construction	203	3.5	324.2	4	259.1	3.2	(20.10)
Wholesale and retail trade	622.2	10.8	789.9	9.7	829.9	10.2	5.10
Restaurants & hotels	67.3	1.2	256.3	3.1	122.7	1.5	(52.10)
Transport, storage and communications	414.3	7.2	568.2	7	508.7	6.3	(10.50)
Financial services	243	4.2	639.8	7.9	422	5.2	(34.00)
Community, social and personal services	94.8	1.6	107.8	1.3	280.5	3.5	160.20
Real Estate	125.3	2.2	402.4	4.9	678.7	8.4	68.70
Personal Loans	1,495.30	26	2,070.70	25.4	1,789.70	22.1	(13.60)
Others	154.3	2.7	207.7	2.6	171.7	2.1	(17.30)
TOTAL	**5,756**	**100**	**8,143**	**100**	**8,098**	**100**	**(0.50)**

Source: Bank of Zambia

13.4 *Inflation Developments*

Overall Inflation

232. The 2009 end-year inflation was recorded at 9.9 percent from 16.6 percent in 2008. This outturn was attributed to a reduction in both annual food and non-food inflation to 8 percent and 11.8 percent from 20.5 percent and 12.9 percent in 2008, respectively (see Chart 12.3).

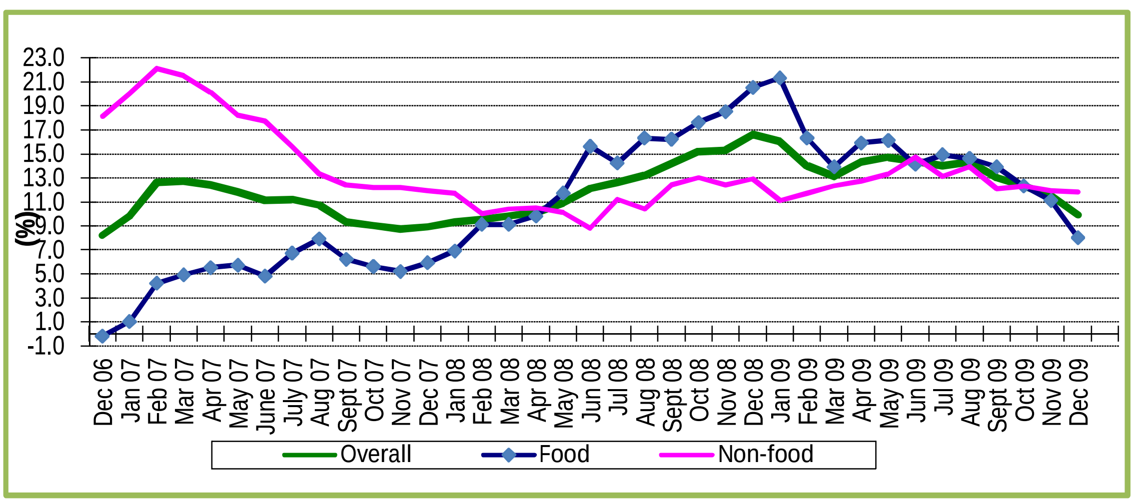
Food Inflation

233. After rising to 21.3 percent in January 2009, annual food inflation slowed down to 14.1percent in June 2009 and continued its downward trend to a single digit level of 8.0 percent in December 2009. The initial sharp increase in food inflation early in the year was attributed to inadequate supply of food commodities such as cereals and cereal products, beef products, fresh vegetables, kapenta and fish. However, this was mitigated by Government's decision to allow the Food Reserve Agency (FRA) to supply subsidised maize to the market and the onset of the 2008/09 crop harvest period.

Non-Food Inflation

234. Annual non-food inflation rose progressively during the first half of the year to 14.7percent in June 2009 from the 12.9 percent recorded in December 2008. This outturn was mainly attributed to the pass-through effects of the 14.6 percent depreciation of the Kwacha against the US dollar during this period. However, during the second half of the year, non-food inflation slowed down, ending the year at 11.8 percent, reflecting the appreciation of the Kwacha.

Figure 13.1: Annual Inflation December 2006- December 2009



Source: Central Statistical Office

Government Securities Yield Rates

235. In 2009, yield rates on all Government securities portfolios trended downwards, mainly due to the high demand for Government securities and declining inflationary pressures, especially towards the end of the year. Accordingly, the weighted average yield rate for Treasury bills averaged 15.9 percent in 2009, down from 16.8 percent recorded in 2008. Similarly, the weighted average yield rate for Government bonds declined to 15.9 percent at the end of 2009 from 17.6 percent recorded at end 2008.

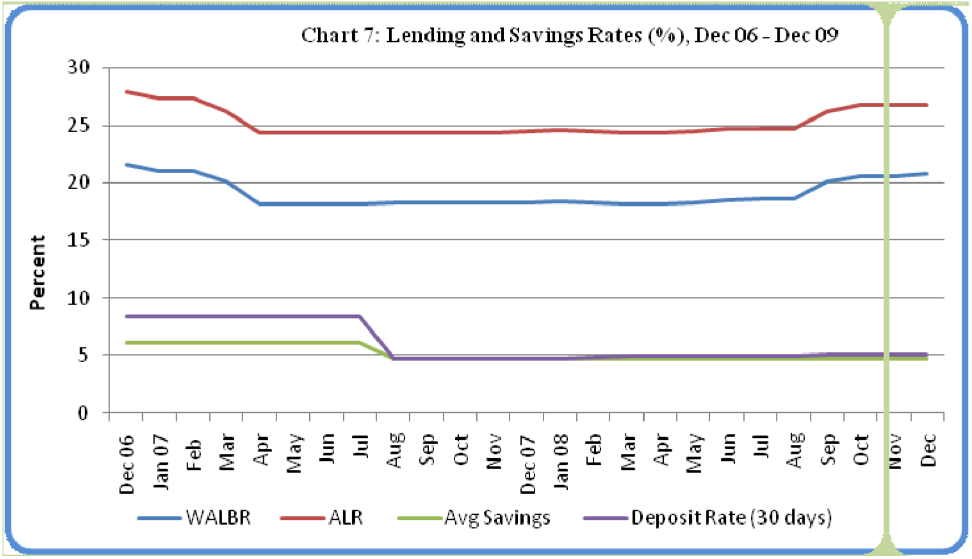
236. In relative terms, the decline in individual yield rates for Treasury bills were more pronounced than for Government bonds. In the Treasury bills market, yield rates on short-term instruments declined more than those for longer dated bills. The yield rates on the 91– and 182– day securities declined to an average of 5.7 percent and 7.9 percent in December 2009 from 13.8 percent and 15.8 percent in December 2008, respectively. The yield rates for the long-dated tenors of 273– and 364– day fell to 10.7 percent and 11.6 percent in December 2009 from 16.1 percent and 18.4 percent in December 2008, respectively.

237. Similarly, yield rates on Government bonds declined, although by lower margins. The yield rate for the 2-year bond, 3-year bond and 5-year bond declined to 14.4 percent, 15.8 percent and 17.1 percent in December 2009 from 16.6 percent, 16.0 percent and 19.1 percent recorded in December 2008, respectively. The 15-year bond yield rate recorded a minimal reduction to 18.9 percent in December 2009 from 19.3 percent in December 2008. On the other hand, yield rates for the 7-year and 10-year tenors increased to 17.9 percent and 18.9 percent in December 2009 from 17.2 percent and 18.2 percent at the end of the previous review period.

Commercial Bank Interest Rates

238. Developments in commercial banks' nominal interest rates were mixed in 2009. The weighted average lending base rate (WALBR) and the average lending rate (ALR) increased to 22.7 percent and 29.2 percent in December 2009 from 20.8 percent and 26.9 percent in 2008, respectively. Similarly, the 30-day deposit rate for amounts exceeding K20 million rose to 5.6 percent from 5.1 percent. However, the average savings rate (ASR) for amounts above K100,000 declined to 4.7 percent from 4.8 percent (see Figure13.2).

Figure 13.2: Lending and savings Rates, Dec 2006-Dec 2009

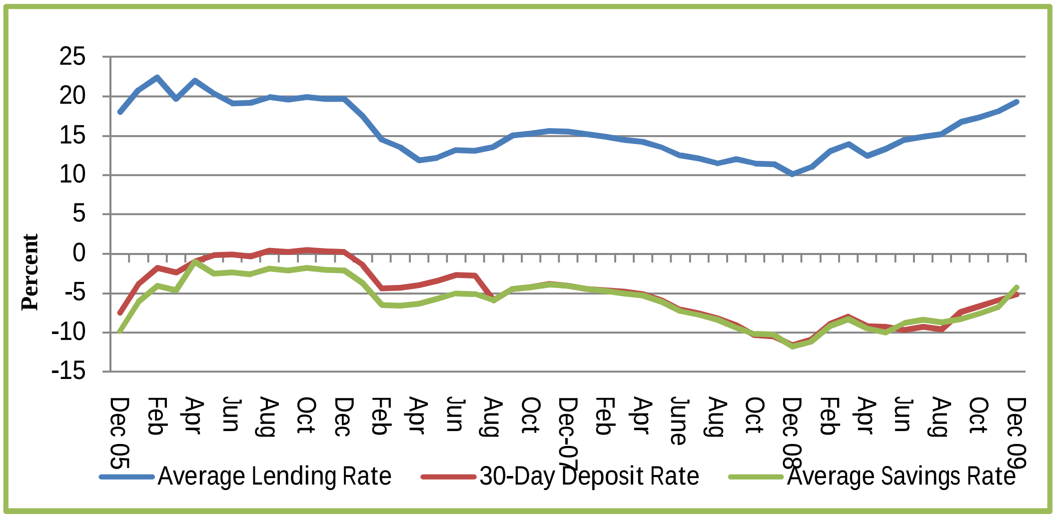


Source: Bank of Zambia

Commercial Banks Real Interest Rates

239. During 2009, all annual real interest rates rose, largely due to the decline in inflation. The real WALBR and ALR edged upwards to 12.8 percent and 19.3 percent from 2.5 percent and 10.3 percent, respectively. Similarly, the real ASR for amounts above K100,000 and real 30-day deposit rate for amounts above K20 million rose to negative 4.3 percent and negative 5.2 percent from negative 11.8 percent and negative 11.6 percent, respectively (see Figure 13.3).

Figure 13.3: Real Interest Rates, Dec 2005-Dec 2009

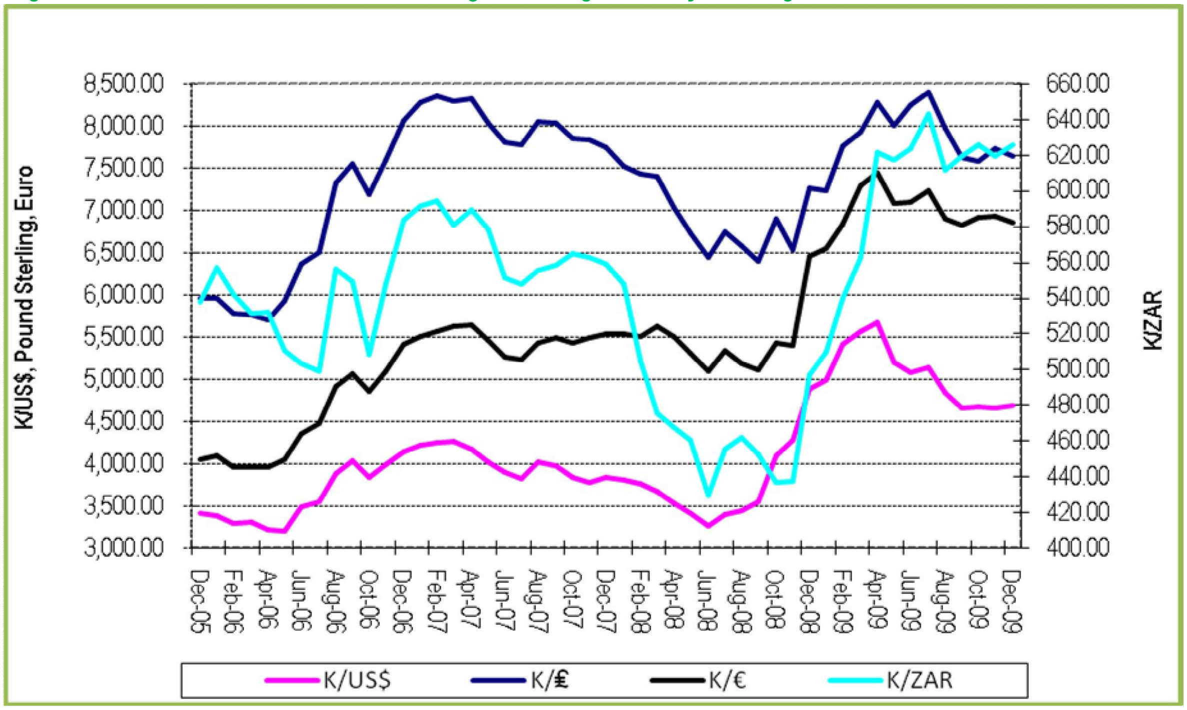


Source: Bank of Zambia

Exchange Rates Developments

240. During the year under review, the Kwacha depreciated against the major traded currencies. It depreciated by 34.4 percent against the US dollar, 28.1 percent against the Euro and 28.3 percent against the South African Rand. The annual average exchange rates were K5,044.64/US$, K6,992.31/€ and K601.57/ZAR. The rate of depreciation was lower against the British pound with the Kwacha losing its value by 13.7 percent to close the year at an average of K7,864.12/£. In relative terms, the rate of depreciation recorded in 2009 against all the four major currencies was steeper than was the case in 2008. High demand for foreign exchange and the carry-over effects of the global economic crisis weighed down on the exchange rate of the Kwacha in the first half of 2009. The depreciation in the first half of the year out-weighed the appreciation facilitated by the recovery of copper prices in the second half of the year(see figure 13.4).

Figure 13.4: Zambian Kwacha Exchange Rates against Major Foreign Currencies



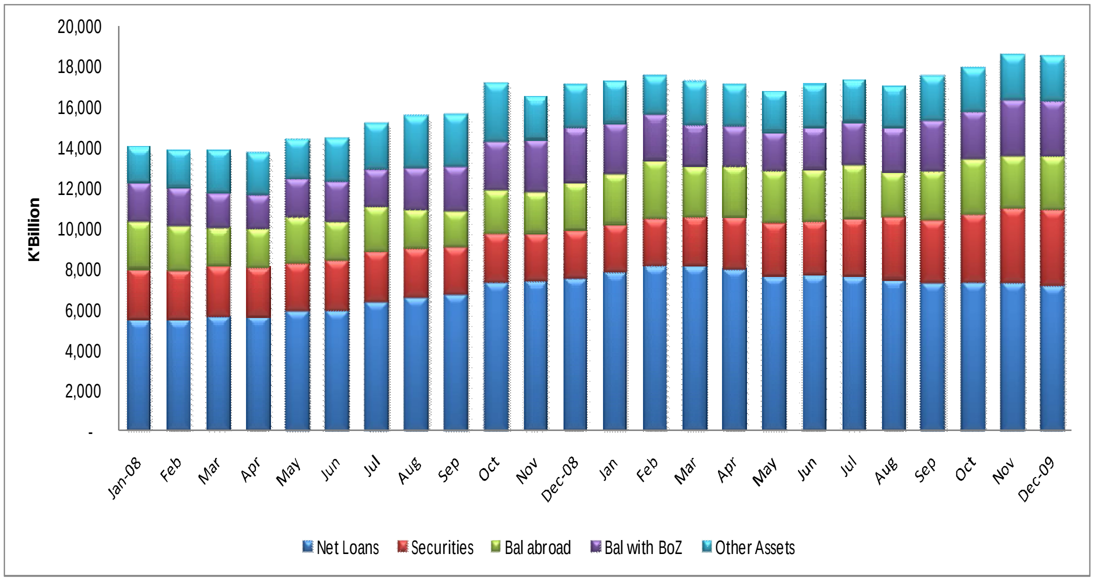
Source: Bank of Zambia

13.5 Financial Sector Developments

13.5.1 Banking Sector Performance

241. Total assets of the banking sector grew by 8.0 percent to K18,525.6 billion in 2009 from K17,146.6 billion at end December 2008. The increase in total assets was largely driven by the growth in investments in Government securities. Government securities increased from 13.2 percent at end December 2008 to 20.4 percent of total assets at end December 2009. Net loans and advances, however, declined to 38.7 percent of total assets as at end December 2009 from 44.3 percent as at end December 2008 (see Figure 13.5).

Figure 13.5: Total Assets, January 2008 – December 2009



242. Total liabilities increased in 2009 by 7.5 percent to K16,648.1 billion from K15,490.3 billion compared to 24.7 percent growth as at end December 2008, largely on account of total deposits, which grew by 9.6 percent to K13,377.8 billion compared to 22.9 percent growth in 2008.

243. As at end December 2009, only 1 of the 16 operating banks in the sector failed to meet the minimum nominal capital requirement of K12.0 billion and the capital adequacy ratios of 5 percent for primary regulatory capital and 10 percent for total regulatory capital. The banking sector's primary regulatory capital and total regulatory capital adequacy ratios increased to 17.8 percent and 21.2 percent from 15.7 percent and 18.6 percent as at end-December 2008, respectively. The improvement in the capital adequacy ratios for the period under review is largely explained by the shift in the banks' balance sheet risk profile to lower-credit risk assets such as Government securities.

244. The asset quality of the banking sector in the year under review deteriorated. The *Gross Non-Performing Loans (NPL) ratio*[5] significantly deteriorated to 12.6 percent at end-December 2009 from 7.2 percent at end-December 2008. Further, the *Net NPL ratio* [6]deteriorated to 1.9 percent from 1.2 percent at end-December 2008. The deterioration in the NPL ratios was on account of an increase in the level of non-performing loans. However, there was an

5 This is the ratio of 'gross non-performing loans to total gross loans'.

6 This is the ratio of 'net non-performing loans to net loans'

improvement in the *NPL coverage ratio*[7] which increased to 86.6 percent from 83.8 percent at end-December 2008.

245. The banking sector earnings performance in 2009 significantly deteriorated compared to 2008. The sector's profit before tax declined to K367.1 billion from K548.6 billion in 2008. In the year under review, the banking sector's liquidity position remained satisfactory. The *liquidity ratio*[8] however decreased to 32.6 percent from 40.4 percent at end-December 2008.

13.4.2 Non-Bank Financial Institutions Performance

246. The overall financial performance and condition of the Non-Bank Financial Institutions (NBFIs) was rated fair during the period under review. The number of NBFIs under the supervisory ambit of the Bank of Zambia increased to 87 in 2009 from 76 in 2008. These included leasing companies, building societies, microfinance institutions, development finance institutions, savings and credit institutions, bureaux de change and a credit reference bureau (see Table 13.4).

Table 13.4: Number of Non-Bank Financial Institutions, 2007 - 2009

NAME	2007	2008	2009
Bureaux de Change	35	39	44
Microfinance Institutions	8	19	25
Leasing Companies	12	12	12
Building Societies	3	3	3
Development Finance Institutions	1	1	1
Savings and Credit Institutions	1	1	1
Credit Reference Bureaux (CRB)	1	1	1
Total	**61**	**76**	**87**

Source: Bank of Zambia

Leasing Sub -Sector

247. The overall financial condition and performance of the leasing sector in 2009 was unsatisfactory. As at end December 2009, the sub-sector regulatory capital was K9.0 billion compared to K34.4 billion the previous year. This represented a capital deficiency of K10.8 billion over the minimum aggregate sub-sector risk weighted capital of K19.8 billion. The decline in sub-sector aggregate regulatory capital was largely due to loan loss provision of K12.4 billion, sub-sector loss for the year of K7.4 billion, dividends pay out of K5.8 billion and other adjustments of K8.3 million. The reduction in the sub-sector aggregate regulatory capital was however, mitigated by capital injection of K8.6 billion in the period under review.

7 This is the ratio of the 'allowance for loan losses to gross non-performing loans'.

8 The ratio of liquid assets to deposits and short-term liabilities

248. The leasing sub-sector's asset quality for the period under review was satisfactory. As at end December 2009, the leasing sub-sector's total assets amounted to K193.1 billion compared to K250.7 billion in the previous year. The 23 percent decrease in total assets was largely attributed to the decrease in net loans and leases by 19 percent to K147.6 billion in 2009 from K182.9 billion in 2008, while other assets decreased by 59 percent to K12.2 billion from K29.5 in 2008. Of the total assets, earning assets amounted to K166.8 billion.

249. The sub-sector registered a decline in earnings during the period under review. The loss-before-tax was K7.3 billion compared to the K3.2 billion recorded in 2008. This was largely attributed to the increase in non-interest expense by 18 percent to K33.3 billion in 2009 from K28.1 billion in 2008, coupled with an increase in loan loss provisions by 116 percent to K9.0 billion in 2009 from K4.2 billion in 2008.

Building Societies

250. The overall financial condition of the building society sub-sector in 2009 was fair. On average, the sub-sector's aggregate regulatory capital increased by K51.1 billion over the 31 December 2008 figure of negative K10.9 billion. The increase was largely due to the capital injection of K24.2 billion and fair value gains on the revaluation of investment properties amounting to K26.4 billion.

251. The building society sub-sector assets increased to K317.2 billion from K271.8 billion at the end of December 2008. The growth in assets was largely financed by equity capital injection of K24.2 billion while fair value gains were recorded on investment properties. Out of the total assets, earning assets amounted to K211.0 billion.

252. The sub-sector recorded profit-before-tax of K2.1 billion in 2009 compared to K11.8 billion recorded in 2008. The decrease in the sub-sector's profit-before-tax was attributed to the increase in loan loss provisions by K4.5 billion and a reduction in non-interest income by 20 percent to K25.0 billion from K31.3 billion in 2008.

253. The sub-sector`s net interest income increased by K2.8 billion due to a 10.7 percent increase in the mortgage interest income. The aggregate mortgages increased by 3 percent to K146.9 billion in 2009 from K143.0 billion in 2008. The increase in mortgages was largely financed through deposits mobilized from members of the building societies and equity capital injections.

Micro Finance Institutions

254. The overall financial condition and performance of the micro-finance sub-sector was satisfactory in the period under review. The sub-sector was adequately capitalised and had satisfactory asset quality and earnings performance.

255. As at 31 December 2009, total assets of the micro-finance sub-sector were K515.6 billion representing an increase of K47.8 billion or 10 percent from the 31 December 2008 position of K467.8 billion. The growth in assets was attributed to an increase in capital and reserves to K230.5 billion from K147.7 billion in 2008 as well as an increase in long term borrowings to K145.9 billion from K101.1 billion in 2008. There was also an increase in the number of microfinance institutions licensed to 25 in 2009 from 19 in 2008.

Bureaux de Change

256. As at end December 2009, all the bureaux de change met their minimum regulatory capital requirement of K40.0 million. The aggregate capital and reserves increased to K30.5 billion in 2009 from K28.3 billion in 2008. The 7.8 percent increase was largely due to profits-after-tax of K1.7 billion coupled with capital injections by the newly licensed bureaux de change.

257. Total assets of the bureau de change sub-sector were K42.1 billion, representing an increase of 7 percent from K39.3 billion in the previous year. The increase in total assets was mainly attributed to the rise in aggregate capital and reserves.

258. The volume of foreign exchange purchased in 2009 was US$415 million, equivalent to K2,039.5 billion, while sales amounted to US$414 million equivalent to K2,050.9 billion. This was a drop from the US$462 million or K2,249.3 billion purchases and sales of US $468 million or K2,280.1 billion in 2008, representing a decrease of 9.7 percent in the volume of transactions.

13.6 Other Developments

259. The first phase of the Financial Sector Development Plan (FSDP) came to an end in June 2009. Subsequently, the Government approved Phase II of the FSDP, which is expected to end in December 2012. Further, the second FinScope Consumer Survey was undertaken in 2009 and the findings of the survey were expected to be disseminated in the first quarter of 2010. The Basle II Accord project document was also updated and a tentative implementation plan formulated.

13.7 Outlook

260. Monetary and supervisory policies in 2010 will continue to focus on achieving stable prices and maintaining financial system stability. The focus of the monetary policy is to achieve an end year inflation target of 8 percent. To achieve this, the Government will ensure that the end-year growth rates for both reserve and broad money are consistent with the end-year inflation target.

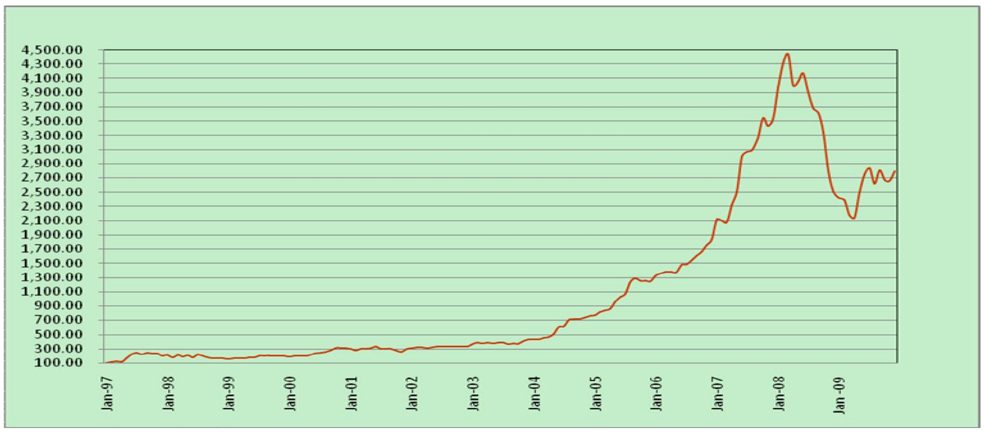
261. In implementing supervisory policy, Government will continue to monitor the financial system and ensure all amendments to the various Acts being proposed are enacted.

CHAPTER 14: CAPITAL MARKET DEVELOPMENTS

14.1 Overview

262. The performance of the capital market during the year under review was depressed. The volume of shares traded and turnover were lower than in 2008, on account of reduced local and foreign participation on the market. However, an increase in stock prices for some securities resulted in adequate capitalization of the market. The overall LuSE All share index closed the year 11.5 percent higher at 2,794.9 points compared with the closing position of 2,505.9 points in 2008 (see Figure 14.1).

Figure 14.1: LuSE All Share Index, January 1997-December 2009



Source: Lusaka Stock Exchange
January 1997=100

14.2 Stock Market Activity

Market Size

263. During the year under review, market capitalization rose by 21.9 percent to K24, 940.7 billion from K20, 468.3 billion in 2008 (see Table14.1). The market remained adequately capitalized largely on account of capital gains for Zain, Farmers House, Shoprite, Zambeef, Zambia Sugar plc, Zambian Breweries, and the newly listed Zanaco which provided impetus for growth in market value.

Table 14.1: Selected Performance Indicators at LuSE, 2006-2009

Market Capitalisation	2006	2007	2008	2009	% Change 2008/09
K' Million	13,072,466	18,872,945	20,468,283	24,940,684	21.9
US $ million	3,188	4,827	4,106	5,273	28.4
Mkt Cap/GDP (%)	40.0	54.6	37.8	38.8	2.5
Turnover/Mkt Cap ratio (%)	0.7	1.6	3.0	0.9	(70.0)
No. of listed companies	15	16	19	20	10.5
No. of quoted companies	11	12	10	9	11.1
Total No. of Companies	**27**	**28**	**29**	**29**	**0**

Source: Lusaka Stock Exchange

264. On account of the increase in market capitalization, the size of the market relative to GDP increased to 38.8 percent in 2009 from 37.8 percent in 2008. On the contrary, market liquidity declined by 70 percent, reflecting the significant fall in turnover relative to market capitalization. In terms of the total number of companies, there was no change between 2008 and 2009, although Bata Shoe Company moved from the quoted tier to the main bourse.

14.3 Trading Activity

Equity Trading

265. Equity trading at the Lusaka Stock Exchange (LuSE) was depressed in 2009, with the number of trades decreasing by 21.1 percent to 6,619 from 8, 384 in 2008. The number of shares traded reduced by 44.8 percent to 875 million from 1.6 billion in 2008. Similarly, turnover decreased by 66.4 percent to K224 billion in 2009 from K614 billion in 2008 (see Table.

266. The general reduction in equity trading activity can be attributed to the pass-through effects of the global economic downturn which made investors more risk averse. Additionally, the lack of new listings on the local bourse, relative to 2008 when three companies listed, further depressed the market.

Table 14.2: Equity Market Trading Activity

	2008	2009
Volume	1,585,765,172	875,014,061
Turnover (K)	614,523,515,621	224,666,410,944
Turnover (US$)	167,835,400	43,778,667
No of trades	8,384	6,619

Source: Lusaka Stock Exchange

Bond Trading

267. In the bond market, secondary trading of Government bonds increased by 168 percent to K57.3 billion in 2009 from K3.1 billion in 2008 (see Table 14.3).

Table 14.3: Bond Market Trading Activity

	2009	2008
No. of trades	11	6
Face value (K)	57,315,000,000	3,055,659,717
(US$)	11,379,328	763,757
Turnover (K)	48,722,881,042	3,135,005,050
(US$)	9,668,370	782,735

Source: Lusaka Stock Exchange

Foreign Portfolio investment

268. During the period under review, foreign portfolio investments were adversely affected by the pass-through effects of the global economic crisis. The LuSE recorded a net outflow of funds amounting to US $13.1 million compared with a net inflow of US $1.7 million recorded in 2008 (see Table 14.4).

Table 14.4: Foreign Portfolio Investment Activity, 2007-2009 (US$'Million)

Period	2007	2008	2009	% Change 2008/09
Buying inflows	30,562,317.00	38,013,095.00	7,954,476.00	(79.07)
Selling outflows	(13,971,581.00)	(36,288,434.00)	(21,053,410.00)	(41.98)
Turnover	44,533,898.00	74,301,529.00	29,007,886.00	(60.96)
Net position	16,590,736.00	1,724,661.00	(13,098,934.00)	(859.51)

Source: Lusaka Stock Exchange

CHAPTER 15: PROSPECTS FOR 2010

269. The global economy is expected to recover in 2010 from the effects of the economic and financial crisis. The recovery is likely to be aided by coordinated fiscal and monetary interventions by the G-7 group of economies. The speedy recovery, however, is expected to vary significantly for individual economies. Global growth is forecast at 4.2 percent, significantly higher than the -0.6 percent observed in 2009, and higher than the 3.0 percent registered in 2008. Advanced and emerging economies are expected to grow at 2.3 percent and 6.3 percent, respectively. Sub-Saharan Africa is projected to grow by 4.7 percent in 2010, which is more than double the 2.1 percent registered in 2009.

270. The key challenge for the global economy in 2010 will be the timing of decisions by advanced economies to unwind from the fiscal and monetary interventions that were taken during the peak of the global crisis in 2008 and 2009. Further, there will be very little room for more interventions, should there be additional risks to the stability of the global economy. The increased Public debt in advanced economies arising from the interventions, is expected to trigger substantial pressure to reduce public debt through fiscal austerity measures, which if not properly done could lead to adverse consequences for their respective economies. Simultaneously, Governments across the world will face pressure to reform financial markets to ensure that such crises are not repeated.

271. Another key threat for the global recovery is the risk of inflationary pressures. Global inflation is expected to increase to 3.9 percent in 2010, from 2.7 percent in 2009. This could be further heightened by higher than expected increases in international oil prices, which are currently forecast to rise by 30 percent from 2009 levels. Poor weather patterns could also affect international food prices, thereby affecting inflation in 2010.

272. On the domestic front, growth in the Zambian economy is expected to remain strong in 2010, though less than the level observed in 2009. Overall growth is expected to be 5.8 percent in 2010, and will be driven by the mining and construction sectors and also expected recovery in tourism sector. Growth in the agriculture sector is expected to be modest, and premised on normal weather patterns and crop yields. The manufacturing sector is also expected to recover in 2010, in line with an expected increase in domestic demand for goods and services, which had fallen in 2009. The transportation and communication sector is also expected to perform well in 2010, with increased copper transport and the launching of '3G' telephony in Zambia.

273. These growth estimates were derived using baseline assumptions, in particular on the assumption that the global economic recovery will be modest in 2010. However, with a

continued period of high copper prices and a strong agricultural harvest, growth could be considerably higher in 2010. Threats to these growth forecasts include a second round of global recession leading to lower demand for copper and tourism, and the threat of flooding which would affect the agricultural harvest in 2010.

274. Inflation in 2010 is expected to remain in single-digit figures as a result of an expected food surplus carried over from the 2008/2009 agricultural season, and relatively stable international fuel prices. Inflationary threats remain a danger to this forecast, with the main challenges being an anticipated rise in domestic energy tariffs, and international events that could affect the price of oil.