



Republic of Zambia

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Foreword

The Zambian economy faced a number of challenges in 2008, arising from both external and domestic sources. With regard to the former, record high international oil and food prices were experienced during the first half of the year, followed by the slump in global commodity prices, including that of copper, which is the country's main export earner. On the domestic front, execution of the budget was difficult arising from unanticipated expenditures.

As a result of these developments, inflation at the close of the year of 16.6 percent was above the target of 7.0 percent in 2008, while international reserves declined to 2.8 months of imports from 3.6 months of imports registered in 2007. The average commercial banks lending rate rose to 26.9 percent at end December 2008 in line with inflationary pressures, compared with 24.4 percent in 2007. Further, the overall balance of payments position narrowed significantly to US \$ 12.7 million in 2008 from US \$310.5 million in 2007, although it remained positive.

Growth, however, remained strong at 6.0 percent, but lower than the target set for the year. This outturn was driven by growth in the mining, transport, storage and communication, construction and manufacturing sectors. Similarly, the budget outturn was favourable measured by the overall budget deficit, despite challenges faced in budget execution. The budget deficit at 2.6 percent of GDP was lower the planned 3.2 percent of GDP.

The challenging environment is expected to continue in 2009 as the global recession deepens and second round effects begin to be felt much more. This is expected to have a dampening effect on prospects for 2009, particularly in the mining, tourism and construction sectors. This brings to the fore the urgency for diversification away from mining. It also underscores the need for the economy to become more internationally competitive. In the coming years, this will be one of the key focus of Government economic policies.



Likolo Ndalamei

SECRETARY TO THE TREASURY

Chapter 1 Developments in the Global Economy

1.1 Overview

1. Global economic growth in 2008 was significantly lower, with initial projections indicating that global real domestic product increased by 3.4 percent, compared with 5.2 percent in 2007 (see Table 1.1). This growth came amidst a strong recessionary environment and was the lowest level recorded since 2001. The sharp fall was a result of most advanced economies registering negative real growth during the final two quarters of 2008. Major emerging economies, such as China, India, Brazil and South Africa, experienced a slowdown in growth.

2. The uncertain global economic climate was the culmination of significant turmoil in global financial markets, beginning with the collapse of the United States sub-prime mortgage market in mid-2007. This was subsequently followed by the global credit crunch that erupted in September 2008. This in turn affected investment and growth in advanced economies, creating a recessionary climate that eventually spread to the rest of the world.

3. Amidst the poor global economic performance, inflation continued to rise unabated for most of 2008, as a result of record high fuel, food, and other commodity prices. Emerging economies, in particular, registered sharp rises in price levels when compared to 2007, with a number of countries across the world recording double-digit inflation.

4. Inflationary pressures, however, began to subside towards the end of the year as a result of a significant shrinkage in global demand. Fuel prices, after reaching record highs during the middle of the year, fell sharply to five year lows as uncertainty over global demand in 2009 grew. Other commodity prices, particularly those of non-precious metals, also dropped significantly from their record highs observed earlier in the year.

1.2 Developments in Advanced Economies

5. Economic growth in advanced economies was negatively impacted in 2008 as a result of the effects of the global financial crisis. Growth slowed down to 1.0 percent compared with 2.7 percent in 2007. This was mainly on account of a freeze in the credit markets of these countries that significantly affected business and investment activity. As a result, demand contracted considerably, leading to a slowdown in economic activity.

6. The highest impact of these developments was felt in the United Kingdom, with growth slowing to 0.7 percent for the year compared with 3.0 percent in 2007. In the Euro area, growth slowed to 1.0 percent compared with 2.6 percent in 2007. The United States also saw a sharp fall in growth of 1.1 percent compared to 2.0 percent in 2007.

7. Inflation in advanced economies increased to 3.5 percent in 2008 compared with 2.2 percent in 2007. This rise was largely on account of the record high fuel

and food prices during the first half of the year. These inflationary pressures, however, subsided during the second half of the year as oil prices fell to five-year lows on the back of reduced global demand. The price level in the United States grew by 4.2 percent in 2008, up from 2.9 percent in 2007. In the Euro area, inflation was 3.5 percent, compared with 2.1 percent in 2007.

1.3 Developments in Sub-Saharan Africa

8. Growth in Sub-Saharan Africa during 2008 slowed to 5.4 percent from 6.5 percent in 2007. This weaker performance was reflective of the challenging macroeconomic environment that faced the region during the review period. The sharp increases in the cost of food and fuel, followed by the turmoil in global financial markets, negatively impacted growth in the region. Notwithstanding, oil-exporting countries continued to experience strong growth, averaging 10.9 percent, while middle-income, low-income and fragile countries averaged 4.0 percent, 6.3 percent, and 5.1 percent growth, respectively.

9. Inflation in the region rose significantly as a result of the higher cost of fuel and food during the year. Prices grew

by 11.7 percent in 2008 compared with 7.1 percent in 2007. The inflationary environment was particularly strong in low-income countries, with average inflation rising to 14.3 percent compared with 8.5 percent in 2007.

1.4 Commodity Price Developments

10. Commodity prices in 2008 were high during the first half of the year and fell sharply during the second half in line with the movements in global demand. In this regard, oil prices increased sharply during the first half of 2008 to a record high of US \$147.0 per barrel in July, rising from US \$83.7 per barrel in January. This sharp rise occurred in expectation of continued strong global demand for oil. However, oil prices in the latter part of the year fell significantly, with prices reaching US \$48.0 at end-2008, as a result of unprecedented shrinkage in global demand.

11. The trend of non-fuel commodity prices also followed a similar pattern in 2008. Copper prices, in particular, were volatile in 2008, with prices reaching a record high of US \$8,985.0 per tonne in July 2008, before falling to a low of US \$2,902.0 per tonne in early-December, representing a fall of over 67 percent from the peak.

Table 1.1. Overview of the World Economic Outlook Projections, 2007-2009

	2007	2008*	2009*
World output	5.2	3.4	0.5
Advanced economies	2.7	1.0	(2.0)
United States	2.0	1.1	(1.6)
Euro area	2.6	1.0	(2.0)
Germany	2.5	1.3	(2.5)
France	2.2	0.8	(1.9)
Italy	1.5	(0.6)	(2.1)
Spain	3.7	1.2	(1.7)
Japan	2.4	(0.3)	(2.6)
United Kingdom	3.0	0.7	(2.8)
Canada	2.7	0.6	(1.2)
Other advanced economies	4.6	1.9	(2.4)
Newly industrialized Asian Economies	5.6	2.1	(3.9)
Emerging and developing economies	8.3	6.3	3.3
Africa	6.2	5.2	3.4
Sub-Sahara	6.9	5.4	3.5
Central and eastern Europe	5.4	3.2	(0.4)
Commonwealth of Independent States	8.6	6.0	(0.4)
Russia	8.1	6.2	(0.7)
Excluding Russia	9.7	5.4	0.3
Developing Asia	10.6	7.8	5.5
China	13.0	9.0	6.7
India	9.3	7.3	5.1
ASEAN-5	6.3	5.4	2.7
Middle East	6.4	6.1	3.9
Western Hemisphere	5.7	4.6	1.1
Brazil	5.7	5.8	1.8
Mexico	3.2	1.8	(0.3)
Memorandum			
European Union	3.1	1.3	(1.8)
World growth based on market exchange rates	3.8	2.2	(0.6)
World trade volume (goods and services)	7.2	4.1	(2.8)
Imports			
Advanced economies	4.5	1.5	(3.1)
Emerging and developing economies	14.5	10.4	(2.2)
Exports			
Advanced economies	5.9	3.1	(3.7)
Emerging and developing economies	9.6	5.6	(0.8)
Commodity prices			
Oil	10.7	36.4	(48.5)
Nonfuel (average based on world commodity export weights)	14.1	7.4	(29.1)
Consumer prices			
Advanced economies	2.1	3.5	0.3
Emerging and developing economies	6.4	9.2	5.8
London interbank offered rate (percent)			
On U.S. dollar deposits	5.3	3	1.3
On euro deposits	4.3	4.6	2.2
On Japanese yen deposits	0.9	1.0	1.0

Source: International Monetary Fund, World Economic Outlook Update, January 2009

* Projections

1.5 Impact of Global Developments on the Zambian Economy

12. Developments in the global economy in 2008 had a significant impact on the domestic economy. The sharp rise in global fuel and food prices in the first half of the year was correspondingly passed on to the domestic economy, creating marked upward pressure on the price level. These pressures led to an upward revision of inflation estimates to double-digit level. Inflation in Zambia closed at 16.6 percent in 2008 against the 7.0 percent target and 8.9 percent recorded in 2007.

13. The high level of copper prices during the first half of the year resulted in

higher export earnings. Subsequently, Zambia recorded strong export performance during this period, and there was a significant build-up of foreign exchange reserves. During the second half, however, the fall in copper prices, led to a decline in both export earnings and the level of foreign exchange reserves.

1.6 Outlook for 2009

14. World output is expected to significantly slowdown in 2009, as a result of the global recession compared with 2008. In line with the global slowdown, commodity prices are expected to remain significantly weak in 2009, which will present a challenge to economic growth in resource-based economies such as Zambia.

Chapter 2 Developments in the Domestic Economy

2.1 Overview

1. Zambia's macroeconomic performance in 2008 weakened, evidenced by rising inflation and interest rates, increased volatility of the exchange rate of the Kwacha, particularly in the latter part of the year, and the widening of the current account deficit. This outturn was largely explained by high food, fuel and fertiliser prices in the first half of the year and the fall in international copper prices, particularly, in the last quarter of the year. Further, budget execution was a challenge arising from the need to accommodate unexpected expenditures such as Presidential elections and augmentation of the Fertiliser Support Programme to mitigate against the rising fertiliser prices.

2. Notwithstanding, output as measured by real Gross Domestic Product remained strong. This was largely driven by

growth in transport, storage and communication, construction, mining, and wholesale and retail trade. Further, there was a modest build-up in Gross International Reserves (GIR).

2.2 Macroeconomic Performance

Domestic Output

3. Preliminary estimates indicate that the economy, in real terms, grew by 6.0 percent to K3,777.2 billion in 2008 from K3,563.1 billion in 2007. This was lower than the growth rate of 6.2 percent in 2007 (see Tables 2.1, 2.3 & 2.4) and the end-year target of 7.0 percent. This outturn was on account of a slowdown in the secondary sector, which outweighed the increased output in the tertiary and primary sectors.

Table 2.1: Selected Macroeconomic Indicators, 2006-2008

	2006	2007	2008 Target	2008 Outturn
Real GDP	6.2	6.2	7.0	6.0*
Money Supply (annual % change)	45.1	26.3	12.0	14.9
Inflation (end year)	8.2	8.9	7.0	16.6
Lending interest rates	27.9	24.4	-	26.9
Domestic borrowing (% of GDP)	1.9	0.9	1.2	1.5
Overall Budget Deficit (% of GDP)	18.6	(0.2)	(3.2)	(2.6)
Current account deficit (% of GDP, excluding grants)	(0.6)	(9.3)	-	(9.1)*
Gross International Reserves (months of import cover)	2.2	2.5	3.6	2.8*

Source: Ministry of Finance and National Planning

* Preliminary

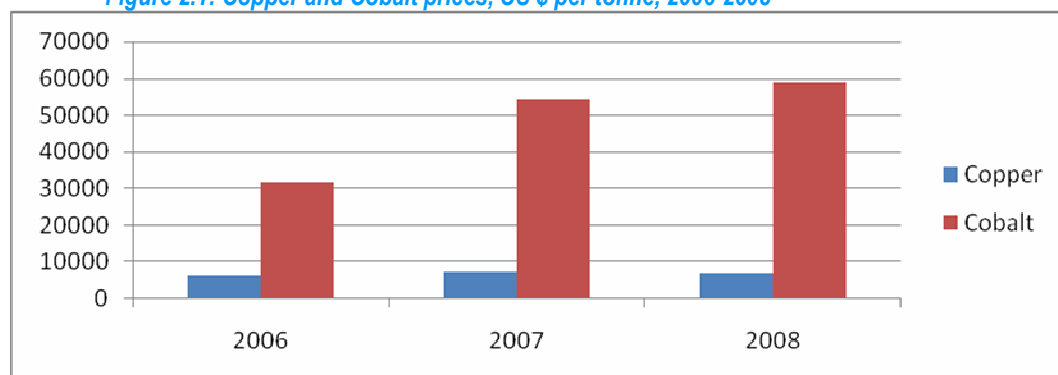
4. The primary sector recorded an increase in value addition of 2.3 percent to K778.7 billion in 2008 from K761.4 billion in 2007. The expansion in the sector was due to the growth in the mining and quarrying sector. Mineral production was buoyant on account of increased capacity utilisation by

Kansanshi Mine, and high copper prices, especially in the first half of the year. Copper prices reached a peak of US \$8,985.0 per tonne in July 2008 before falling to US \$2,902.0 per tonne by the close of the year. Copper production increased by 3.7 percent to 569,892 mt from 549,764 mt

in 2007, despite the fall in prices in the second half of the year. Cobalt production,

however, continued to decline in 2008 (see Chapter 4).

Figure 2.1: Copper and Cobalt prices, US \$ per tonne, 2006-2008

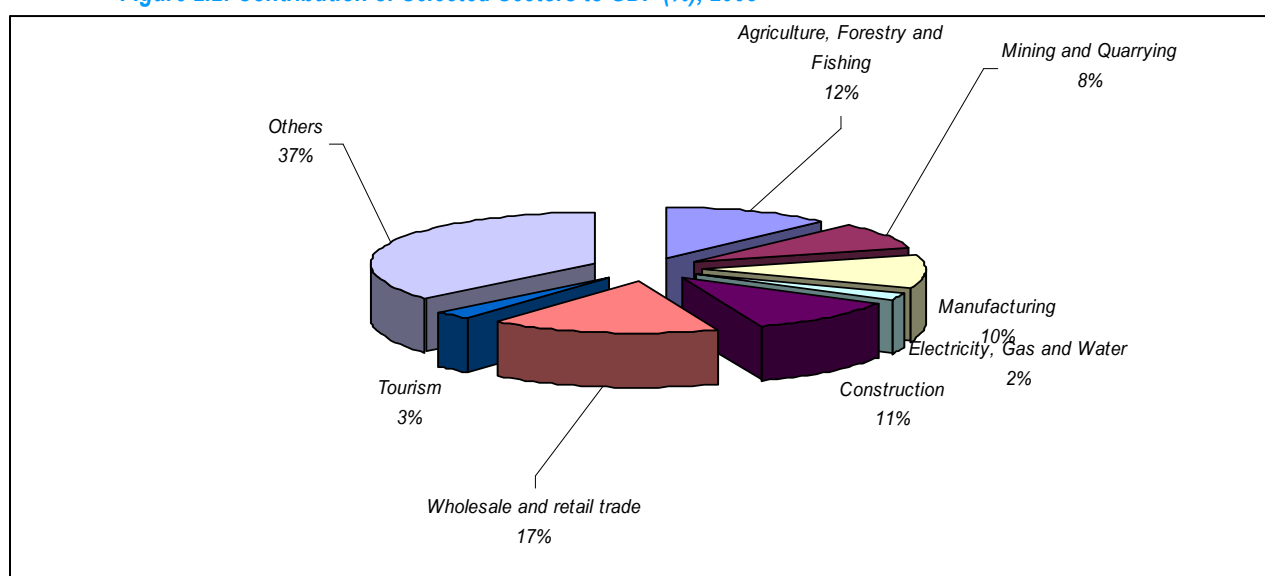


Source: Ministry of Finance and National Planning

5. The agriculture, forestry and fishing sector, however, contracted by 0.1 percent, and as a share of GDP, the contribution of the industry was 12.2 percent (see Table 2.3 and Figure 2.2). This was on account of lower crop production with notable reductions in the production of maize, sorghum and burley

tobacco. Floods in some areas and inadequate supply of inputs such as fertiliser contributed to the poor performance. Consequently, achieving the agricultural sector FNDP targets of enhancing food security and raising the share of agriculture in GDP to over 20 percent were missed.

Figure 2.2: Contribution of Selected Sectors to GDP (%), 2008



Source: Ministry of Finance and National Planning

6. In the secondary sector, the manufacturing, electricity, gas and water, and construction sectors recorded increases in value addition. Manufacturing growth

was recorded at 3.6 percent, marking the fifth consecutive year for which output has been positive. The increase in growth was largely on account of favourable outturns in

the food, beverages and tobacco, wood and wood products, paper and paper products and base metals sub-sectors (see chapter 5).

7. The electricity, gas and water sector recorded a decline in output of 1.2 percent in 2008, largely on account of a decrease in electricity generation. The shutdown of some major generating units to facilitate the ongoing, ZESCO power rehabilitation and up-rating exercise contributed to this outturn. The shutdown resulted in increased load shedding and nationwide disruptions in power supply in 2008.

8. Further, the rising international oil prices impacted negatively on the energy sector for the larger part of 2008. The national average prices of petroleum products in 2008, were K7,693.0 for petrol, K6,910.0 for diesel and K4,925.0 for kerosene (see Table 2.2). Petrol pump prices in Lusaka reached the highest of K9,647.0 in August 2008 from K7,191.0 in January 2008. Consistent with this, the national annual average price of petrol

reached K9,984.0 in August, with Kasama recording the highest price at K 10,358.0. In the third and fourth quarters, however, pump prices of petroleum products in the country edged downwards on account of Government intervention and the fall in international oil prices, particularly, in the last quarter of 2008.

9. Actions taken by the Government included provision of subsidies and reduction of excise duty in June 2008, on diesel from 30.0 percent to 15.0 percent, petrol from 60.0 percent to 45.0 percent while duty on kerosene was reduced to zero. Further, reductions were effected on excise duty in the third quarter with duty on petrol reduced to 36.0 percent, diesel to 7.0 percent and kerosene remained at zero percent. The reduction in excise duty resulted in a fall in pump prices by K1,956.0 for petrol, K 1,091.0 for diesel and K852.0 for kerosene. Furthermore, domestic prices of petroleum products were revised downwards in December by K1,873.0 for petrol, K1,786.0 for diesel and K1,166.0 for kerosene.

Table 2.2: Provincial Pump Price, Kwacha per Litre, 2008

	Q1			Q2			Q3			Q4			Annual Average		
Town	Petrol	Diesel	Kerosene	Petrol	Diesel	Kerosene	Petrol	Diesel	Kerosene	Petrol	Diesel	Kerosene	Petrol	Diesel	Kerosene
Kasama	7,831	6,603	4,874	9,233	8,095	5,813	8,402	7,976	5,613	6,529	6,190	4,447	7,999	7,216	5,187
Livingstone	7,873	6,645	4,910	8,920	7,782	5,543	8,089	7,662	5,613	6,216	5,876	4,177	7,775	6,991	5,061
Chipata	7,920	6,692	4,951	9,094	7,955	5,693	8,262	7,836	5,343	6,389	6,050	4,327	7,916	7,133	5,079
Solwezi	7,607	6,379	4,681	8,741	7,603	5,389	7,910	7,483	5,493	6,037	5,697	4,023	7,574	6,791	4,897
Ndola	7,489	6,261	4,579	8,425	7,286	5,117	7,594	7,167	5,189	5,721	5,381	3,751	7,307	6,524	4,659
Lusaka	7,616	6,388	4,689	8,522	7,383	5,200	7,691	7,264	4,917	5,818	5,478	3,834	7,412	6,628	4,660
Kabwe	7,554	6,326	4,635	8,496	7,357	5,178	7,665	7,238	5,000	5,792	5,452	3,812	7,377	6,593	4,656
Mansa	7,792	6,563	4,840	9,114	7,975	5,710	8,282	7,856	4,978	6,409	6,070	4,344	7,899	7,116	4,968
Mongu	7,900	6,672	4,934	9,187	8,049	5,774	8,356	7,930	5,510	6,483	6,144	4,408	7,982	7,199	5,157
National Average	7,731	6,503	4,788	8,859	7,721	5,491	8,028	7,601	5,295	6,155	5,815	4,125	7,693	6,910	4,925

Source: Energy Regulation Board & Ministry of Finance and National Planning

10. The construction sector registered a significant slowdown, growing by 9.9 percent in 2008 compared with 20.0 percent in 2007. This slowdown was due to supply constraints, especially for cement and related building materials that led to reduced residential and commercial construction activity. In addition, there were reduced construction activities in the mining sector following the completion of major investment projects.

11. In general, there was an expansion in all sub-sectors of the tertiary sector industry, which grew by 7.3 percent to K1,985.2 billion in 2008 from K1,850.5 billion in 2007. Growth was registered in the wholesale and retail trade, road transport, and financial intermediaries and insurance, which expanded by 2.8 percent, 15.8 percent, and 5.4 percent in 2008, compared to 2.4 percent, 6.4 percent and 4.1 percent in 2007, respectively (see Table 2.3).

Table 2.3: Percentage Changes in GDP by Kind of Economic Activity (Constant 1994 Prices), 2006-2008

Kind of Economic Activity	2006	2007	2008*
Agriculture, Forestry and Fishing	2.2	0.4	(0.1)
Agriculture	3.0	(2.7)	(4.0)
Forestry	1.4	3.7	3.7
Fishing	1.8	1.8	1.8
Mining and Quarrying	7.3	3.6	5.9
Metal Mining	9.0	4.4	6.0
Other mining and quarrying	(45.8)	(45.5)	0.3
Primary Sector	4.1	1.7	2.3
Manufacturing	5.7	3.0	3.6
Food, Beverages and Tobacco	8.9	7.6	4.5
Textile, and leather industries	(1.3)	(19.5)	(16.7)
Wood and wood products	0.7	3.7	13.5
Paper and Paper products	0.3	0.7	25.4
Chemicals, rubber and plastic products	4.6	4.2	6.3
Non-metallic mineral products	(5.2)	2.3	3.3
Basic metal products	1.9	(4.8)	30.5
Fabricated metal products	5.0	7.8	(2.8)
Electricity, Gas and Water	10.5	1.0	(1.2)
Construction	14.4	20.0	9.9
Secondary Sector	9.8	10.0	6.0
Wholesale and Retail trade	2.0	2.4	2.8
Restaurants, Bars and Hotels	16.1	9.6	5.7
Transport, Storage and Communications	22.1	19.2	15.8
Rail Transport	(2.6)	(18.7)	(20.2)
Road Transport	6.4	6.4	13.2
Air Transport	33.5	24.1	13.7
Communications	40.5	33.6	21.1
Financial Institutions and Insurance	4.0	4.1	5.4
Real Estate and Business services	3.2	3.1	3.1
Community, Social and Personal Services	9.0	12.5	14.5
Public Administration & Defence/Public sanitary services	(8.7)	14.8	3.4
Education	35.3	13.6	24.4
Health	5.2	1.0	19.5
Recreation, Religious, Culture	22.8	9.3	32.2
Personal Services	3.5	3.5	3.5
Tertiary Sector	6.7	7.1	7.3
Less: FISIM	2.5	2.5	2.5
Total Gross Value Added	7.0	6.7	6.0
Taxes less subsidies on Products	(3.1)	(0.7)	6.0
Total G.D.P. at Market Prices	6.2	6.2	6.0

Source: Central Statistical Office

* Revised estimates

Table 2.4: GDP by Kind of Economic Activity at Constant 1994 Prices (K' Billion), 2006-2008

Kind of Economic Activity	2006	2007	2008*
Agriculture, Forestry and Fishing	458.2	460.2	459.7
Agriculture	212.3	206.6	198.3
Forestry	167.4	173.6	180.0
Fishing	78.5	79.9	81.4
Mining and Quarrying	290.6	301.2	319.0
Metal Mining	286.2	298.7	316.6
Other mining and quarrying	4.5	2.4	2.4
Primary Sector	748.8	761.4	778.7
Manufacturing	354.6	365.2	378.2
Food, Beverages and Tobacco	224.0	241.1	251.9
Textile, and leather industries	48.2	38.8	32.3
Wood and wood products	26.5	27.5	31.2
Paper and Paper products	9.8	9.9	12.4
Chemicals, Rubber and Plastic products	30.9	32.2	34.2
Non-metallic mineral products	6.5	6.7	6.9
Basic metal products	1.4	1.4	1.8
Fabricated metal products	7.2	7.7	7.5
Electricity, Gas and Water	89.5	90.4	89.3
Construction	328.7	394.4	433.4
Secondary Sector	772.7	850.0	900.9
Wholesale and Retail trade	588.1	602.4	619.3
Restaurants, Bars and Hotels	92.8	101.7	107.5
Transport, Storage and Communications	249.4	297.3	344.2
Rail Transport	9.2	7.5	5.9
Road Transport	96.5	102.6	116.2
Air Transport	51.2	63.5	72.2
Communications	92.6	123.8	149.9
Financial Intermediaries and Insurance	244.6	254.6	268.2
Real Estate and Business services	296.2	305.4	314.8
Community, Social and Personal Services	257.0	289.1	331.1
Public Admin. & Defence; Public & Sanitary services	106.6	122.3	126.5
Education	104.1	118.3	147.1
Health	15.5	15.7	18.7
Recreation, Religious, Culture	15.4	16.8	22.3
Personal Services	15.4	16.0	16.5
Tertiary Sector	1,728.1	1,850.5	1,985.2
Less: FISIM	(141.6)	(145.1)	(148.8)
Total Gross Value Added	3,108.2	3,316.7	3,516.5
Taxes less subsidies on Products	248.7	247.0	261.3
Total G.D.P. at Market Prices	3,356.8	3,563.1	3,777.2

Source: Central Statistical Office

* Revised estimates

Table 2.5: GDP by kind of Economic Activity at Current Prices (K' Billions), 2006-2008

Kind of Economic Activity	2006	2007	2008*
Agriculture, Forestry and Fishing	7,800.2	9,139.5	10,709.3
Agriculture	1,537.0	1,575.1	1,702.5
Forestry	5,855.7	7,127.7	8,506.2
Fishing	407.5	436.7	500.6
Mining and Quarrying	1,612.5	2,037.2	2,302.0
Metal Mining	1,597.5	2,027.2	2,291.3
Other Mining and Quarrying	15.0	9.9	10.6
Primary Sector	9,412.8	11,176.7	13,011.2
Manufacturing	4,015.7	4,487.4	5,214.7
Food, Beverages and Tobacco	2,423.5	2,745.1	3,230.7
Textile, and Leather Industries	630.8	611.4	558.4
Wood and Wood Products	323.2	393.5	513.9
Paper and Paper products	191.3	226.1	326.2
Chemicals, rubber and plastic products	331.2	372.4	432.8
Non-metallic mineral products	55.3	61.1	69.0
Basic metal products	6.9	8.0	11.1
Fabricated metal products	53.6	69.9	72.5
Electricity, Gas and Water	1,165.9	1,345.0	1,511.5
Construction	4,703.7	6,692.7	8,910.6
Secondary Sector	9,885.3	12,525.1	15,636.8
Wholesale and Retail trade	6,524.7	7,395.5	8,494.8
Restaurants, Bars and Hotels	1,120.1	1,354.2	1,613.2
Transport, Storage and Communications	1,629.2	2,147.0	2,450.4
Rail Transport	94.7	110.7	98.1
Road Transport	640.4	755.7	891.8
Air Transport	356.0	499.4	584.7
Communications	538.2	781.2	875.8
Financial Intermediaries and Insurance	3,246.9	3,647.2	4,221.1
Real Estate and Business services	2,296.4	2,678.2	3,136.3
Community, Social and Personal Services	3,365.5	4,324.1	5,649.8
Public Administration and Defence	892.5	1,258.3	1,459.0
Education	1,842.6	2,335.3	3,244.0
Health	389.9	445.2	592.3
Recreation, Religious, Culture	60.9	81.8	120.7
Personal services	179.6	203.5	233.8
Tertiary Sector	18,182.8	21,546.1	25,565.6
Less: FISIM	(1,865.9)	(2,096.0)	(2,425.8)
Total Gross Value Added	35,614.9	43,151.9	51,787.9
Taxes less subsidies on Products	2,849.2	3,205.4	3,640.4
Total G.D.P. at Market Prices	38,464.1	46,357.3	55,428.3

Source: Central Statistical Office

* Revised estimates

2.3 Budget Performance

12. Budget performance in 2008 was satisfactory, with the overall budget deficit at 2.6 percent of GDP against the projection of 3.2 percent of GDP, amidst a number of challenges with regard to budget execution. This outturn was attributed largely to lower than planned expenditures. The challenges included, the larger than planned civil service wage award, the Presidential elections, augmentation of resources for the Fertiliser Support Programme (FSP) and the need to finance the ZESCO power rehabilitation project.

2.4 Monetary and Financial Sector Developments

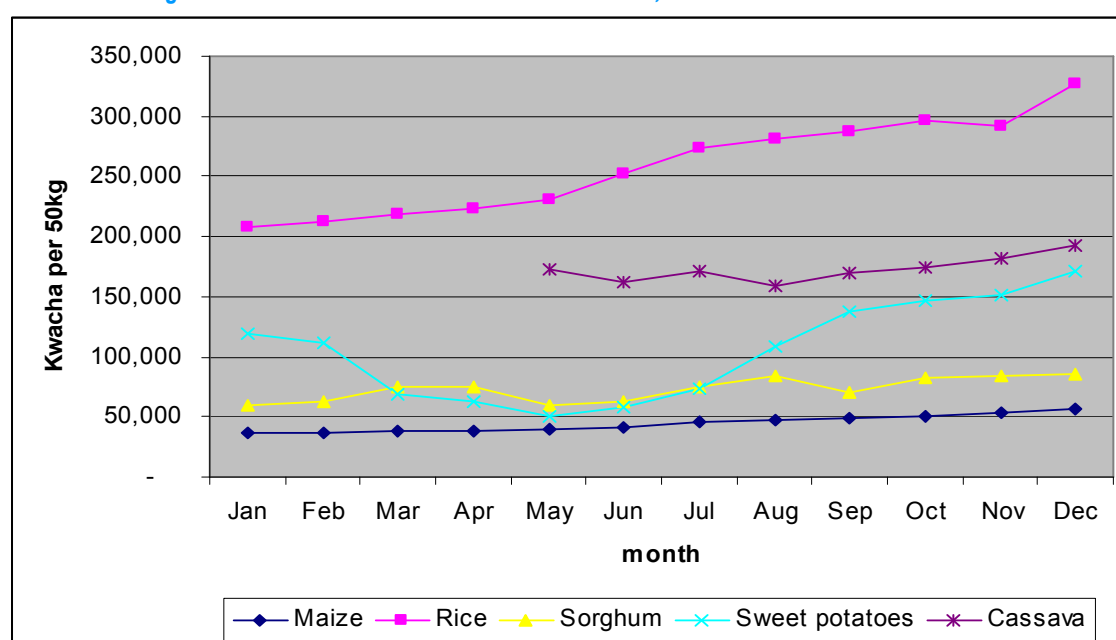
13. Performance in the monetary and financial sector in 2008 was mixed. While inflation and commercial bank interest rates rose and the exchange rate of the Kwacha against major currencies experienced increased volatility, credit to the private

sector expanded and the overall condition and performance of the financial sector was sound.

14. End-year Inflation in 2008 was recorded at 16.6 percent, higher than the target of 7.0 percent and the 8.9 percent attained in 2007. This was largely on account of the rise in food inflation to 20.5 percent in 2008 from 5.9 percent in 2007.

15. The increase in food prices in 2008 emanated from both external and internal sources. Internationally, the rise in inputs, especially fertiliser contributed to an increase in domestic food prices. Domestically, there was a shortage caused by market imperfections, which led to a spike in the prices of maize and its by-products. Consequently, the average price of a 25 Kg bag of maize almost doubled from K38, 360 in January to K60, 442 in December 2008. Further, there was an increase in the price of rice of 56.9 percent (see Figure 2.3).

Figure 2.3: Prices of Selected Food Commodities, 2008



Source: Central Statistical Office

16. During the period under review, interest rates edged upwards. The average commercial bank lending rate rose to 26.9 percent at end-2008 from 24.4 percent in 2007. The inflationary pressure, compounded by the rise in yield rates on Government securities explained the increase.

17. In the foreign exchange market, the exchange rate of the Kwacha against major currencies was volatile, appreciating in the first half of the year and then depreciating during the second half of 2008. For the year, the Kwacha depreciated by 27.3 percent against the US dollar to an average of K4,882.3/US dollar in December 2008 from K3,835.7/US dollar in December 2007. The political uncertainty in September and October 2008 association with the Presidential elections, and the reduction in copper prices in the last quarter of the year, due to the global financial crisis, largely accounted for the depreciation. The Kwacha, however, recorded gains of 5.6 percent and 11.7 percent against the Pound sterling and the South African rand, respectively, on account of the weakening of these currencies against the US dollar.

18. During the review period, domestic credit increased by 37.8 percent in 2008 compared with a growth of 20.3 percent in 2007, largely due to an increase in lending to households and private enterprises. Lending to households increased by 164.4 percent to K2,492.5 billion in 2008 from K942.6 billion in 2007, while lending to private enterprises increased by 26.6 percent to K5,455.2 billion in 2008 from

K4,309.1 billion in 2007. Credit to the Government also increased although at a slower rate of 1.8 percent. (see Chapter 12).

2.5 External Sector Developments

19. The country's external sector position in 2008 was negatively affected by the adverse effects of the global economic crisis. Merchandise export earnings growth slowed down by 9.6 percent to US \$4,876.9 million from US \$4,448.5 million in 2007. Imports, however, grew more than exports at 26.2 percent to US \$4,555.2 million. Consequently, the trade balance worsened. Further, there was deterioration in the services and income account. In view of these developments, the current account deficit including grants widened to US \$1,089.1 million from a deficit of US \$754.9 million in 2007. However, the overall balance of payments remained positive on account of increased inflows into the capital and financial accounts (see Chapter 11). Further, there was a modest build-up in gross international reserves to US \$1,084.9 million from US \$947.4 million in 2007.

2.6 Domestic Debt

20. Total domestic debt stock as at end-2008 was K8,517.7 billion, or 15.4 percent of GDP, representing a 2.5 percent increase from the 2007 stock of K 8,306.9 billion. This was on account of an increase of 5.4 percent in the stock of Government securities to K 8,026.8 billion at end-2008 from K7,612.5 in 2007 (see Table 2.6).

Table 2.6: Domestic Debt Stock (K' Billion), 2006-2008

Debt Category	End-Dec. 2006	End-Dec. 2007	End Dec. 2008	% Change 2007/08
Total Government Securities	6,706.4	7,612.5	8,026.8	5.4
Treasury Bills	3,262.0	3,416.4	3,280.4	(4.0)
GRZ Bonds	3,444.5	4,196.2	4,746.4	13.1
Domestic Arrears *	513.0	233.7	197.9	(15.3)
Capital	333.6	90.3	23.9	(73.5)
PE's and use of goods & services	82.0	65.9	71.1	7.9
Pension Arrears	386.5	302.7	149.6	(50.6)
Awards & Compensations	93.5	158.0	143.3	(9.3)
Grand Total	7,699.4	8,306.9	8,517.7	2.5

Source: Ministry of Finance and National Planning

Note: *Values for domestic arrears are up to 30th September from 2006-2008

21. Domestic arrears declined by 15.3 percent to K197.9 billion in 2008 from K233.7 billion in 2007 largely due to Government's settlement of arrears to road contractors and suppliers of goods and services. Similarly, awards and compensation declined by 9.3 percent

22. Further, pension arrears (employer contribution) also reduced by 50.6 percent to K149.6 billion from K302.7 billion at end-2007, due to increased funding by Government to dismantle the accrued arrears on pension contributions. Personal emoluments and use of goods and services component of domestic arrears, however, increased in the review period.

Chapter 3 Agriculture, Forestry and Fishing

3.1 Overview

1. The performance in the agriculture, forestry and fishing sector during the review period was unsatisfactory, contracting by 0.1 percent. This outturn was attributed to the poor performance of the agriculture sub-sector due to unfavourable weather conditions, late distribution of inputs and livestock diseases.

3.2 Policy Developments

2. As part of the strategy to improve national food security, Government continued to subsidise agricultural inputs to small-scale farmers through the Fertiliser Support Programme (FSP). Further, in line with the aquaculture development strategy, Government continued with the promotion of Community Resource Management (CRM) of captured fisheries and restocking. In the case of livestock development, Government continued to focus on the control of livestock diseases, animal restocking, and increasing its overall productivity.

3.3 Sector Performance

Crop production

3. During the period under review, crop production declined compared with the 2006/07 agricultural season. A notable decline was registered in the production of

maize, sorghum and burley tobacco (see Table 3.1). The decline in production was on account of floods that affected most parts of the country, insufficient supply of fertilizer, and continued low productivity

4. Maize production during the 2007/08 agriculture season declined by 11.3 percent, to 1.2 million mt from 1.4 million mt in the previous season. This is the third year running that maize output has been declining. Similarly, sorghum, cassava and burley tobacco production fell in the review period by 21.5 percent, 2.1 percent and 13.4 percent, respectively. This outturn was consistent with the yields per hectare, which declined to 1.3 mt/ha for Maize in the 2007/08 agriculture season from 1.6 mt/ha in the 2006/07 agriculture season and 0.41 mt/ha for sorghum in the 2007/08 agriculture season from 0.4 mt/ha in the 2006/07 agriculture season.

5. The overall area planted rose by 2.8 percent to 1.7 million hectares during the 2007/2008 agricultural season from 1.6 million hectares in the previous season. The increase in area planted was recorded in maize, seed cotton, millet, sunflower, cassava, mixed beans, and Virginia tobacco production. Nonetheless, the area planted for sorghum, millet, groundnuts, soya beans and burley tobacco declined.

Table 3.1: Area Planted, Yields and Crop Production, 2006-2008

Crop/Year	Area Planted in Hectares			Yield in MT/Ha			Production in Metric Tonnes		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
Maize	784,524	872,812	928,224	1.8	1.6	1.3	1,424,439	1,366,158	1,211,566
Sorghum	43,627	31,596	24,349	0.5	0.4	0.4	21,047	12,773	9,993
Millet	69,529	56,817	45,508	0.7	0.4	0.8	48,159	21,707	33,934
Paddy rice	14,358	20,067	25,177	1	0.9	1	13,964	18,317	24,023
Sunflower	39,416	28,829	32,491	0.4	0.3	0.4	15,003	8,953	12,662
Groundnuts	144,250	147,320	144,201	0.6	0.4	0.5	84,010	55,215	70,527
Soya beans	44,034	38,947	32,404	1.3	1.4	1.8	57,815	55,194	43,715
Seed cotton	152,262	89,312	111,307	0.8	0.6	0.7	118,425	54,886	71,821
Mixed beans	54,532	55,663	59,588	0.5	0.4	0.8	27,697	24,164	44,464
Burley tobacco	6,439	55,508	1,815	1.2	0.4	2.6	7,742	5,382	4,659
Virginia tobacco	8,521	8,265	9,299	1.7	1.9	1.8	14,685	15,562	17,005
Cassava	362,355	391,844	396,874	2.9	3	2.9	1,059,887	1,185,599	1,160,853
Total Area	1,565,146	1,652,159	1,698,115						

Source: Ministry of Agriculture and Cooperatives /Central Statistical Office

Food Security Position

6. The country recorded an overall food surplus of 564,548 Mt maize mealie-meal equivalent despite recording a decline in crop production. This was largely on account of surplus recorded in cassava, wheat and maize (see Table 3.2). However, challenges relating to the purchase, storage

and release of maize on to the market resulted in a shortage during the year. Consequently, maize and mealie-meal prices rose sharply, particularly, in the fourth quarter of the year. In order to correct these market imperfections, Government actively intervened in the market.

Table 3.2: Zambia National Food Balance Sheet for the 2008/2009 Marketing Year, Based on the 2007/2008 Crop Production Estimates (Metric Tonnes)

		Maize	Paddy rice	Wheat	Sorghum & millet	Sweet and Irish potatoes	Cassava flour	Total (Maize mealie-meal equivalent) 12
A.	Availability:							
	(i) Opening stocks (1st May 2008)	390,350	2,799	25,848	2,273	0	2,176	376,327
	(ii) Total production (2007/08)	1,211,566	24,023	180,000	43,926	116,719	1,160,853	2,384,674
	Total availability	1,601,916	26,822	205,848	46,199	116,719	1,163,029	2,761,001
B.	Requirements:							
	(i) Staple food requirements:							
	Human consumption	1,140,560	36,048	189,600	42,975	110,883	670,917	1,879,285
	Food Reserve Stocks (net)	157,000	0	0	0	0	0	141,300
	(ii) Industrial requirements:							0
	Stockfeed	66,843	0	0	0	0	0	60,159
	Breweries	15,425	0	0	0	0	0	13,883
	Seed	18,510	0	0	1,028	0	0	17,557
	(iii) Losses	60,578	1,201	5,400	2,196	5,836	23,217	84,270
	Total requirements	1,458,916	37,249	195,000	46,199	116,719	694,134	2,196,454
C.	Surplus/deficit (A-B)	143,000	(10,427)	10,848	0	0	468,895	564,548
D.	Commercial import requirements		10,427	(10,848)				
E.	Food aid import requirements							

Source: Ministry of Agriculture and Cooperatives

Other Developments

7. In an effort to increase the area under crop production and to attract investment in rural areas, Government continued to secure and develop infrastructure for agricultural farm blocks. In this regard, a total of 165,000 hectares of land was secured in Central, North Western and Central provinces. In addition, Government erected 15 km stretch of electricity power line in Nansanga farm block out of the targeted 60 km.

8. In the area of livestock, over 500,000 cattle were vaccinated against Contagious Bovine Pleuro Pneumonia (CPPB) and foot and mouth disease (FMD) in Southern, Western, Central and Northern provinces in order to control these diseases. This negatively affected the performance of the sub-sector.

9. During the year under review, Government fast tracked the recruitment of 350 agricultural extension officers in an effort to increase productivity in the sector. Further, Government continued to construct and rehabilitate dams and weirs as well as the development of new irrigation schemes across the country.

3.4 Outlook

10. The agriculture sector is expected to register positive growth in 2009. This is on account of favourable weather conditions experienced in the 2008/2009 agricultural season. Additionally, the increased number of beneficiaries from the fertiliser support programme and enhanced provision of extension services are expected to boost production and productivity.

Chapter 4 Mining and Quarrying

4.1 Overview

1. Preliminary data show that the mining and quarrying sector grew by 5.9 percent in the review period, despite the turbulence in the latter part of the year. This growth mainly emanated from the metal sub-sector which grew by 6.0 percent on account of increased mineral production. Notwithstanding the increase in mineral production, the sector was beset by challenges which included apprehension over the new mining fiscal and regulatory regime and the economic crisis that led to a sharp fall in world copper prices.

4.2 Policy Developments

2. During the period under review, the Mines and Minerals Act of 1995 was repealed and replaced with the Mines and Minerals Development Act of 2008. The main thrust of the Act is to streamline the licensing system and provide clarity with regard to the mining of uranium and other radioactive minerals.

3. The Petroleum (Exploration and Production) Act, 1985 was also repealed and replaced by the Petroleum (Exploration

Production) Act of 2008. The Act provides for, among other things, licenses for prospecting and production of oil and gas. Further, it provides for stronger legal provisions on environmental protection and an institutional framework to regulate the industry.

4. A new computerized mining cadastre system was launched in May 2008 in order to streamline the licensing system. This will provide a number of benefits including: fairness in the granting of mining rights; guaranteed exclusivity of a mineral title; and accurate record keeping.

4.3 Sector Performance

Metal Mining Sub-sector

5. The performance of metal mining sub-sector continued to be favourable in the review year. The sub-sector grew by 6.0 percent on account of increased copper production. This outturn was explained by increased capacity utilisation, particularly at Kansanshi Copper Mines, and high metal prices for copper, which hit a record high of US\$ 8,985.0 per tonne in July, 2008. However, copper prices fell to US\$ 2,902.0 per tonne by the end of the year, although this did not substantially affect production.

Table 4.1: Metal Production, 2006-2008

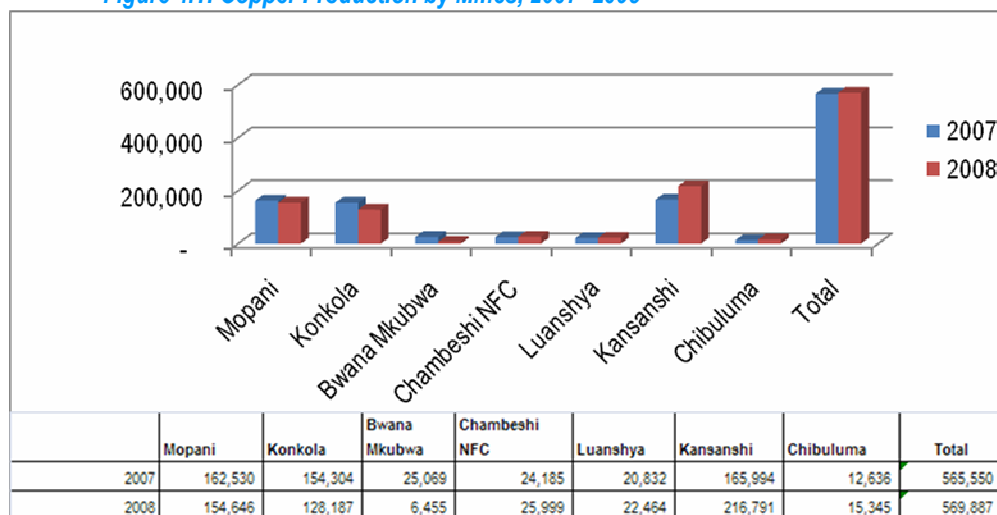
	2006	2007	2008	% change 2007/08
Copper (in tonnes)	508,360	565,550	569,891	0.8
Cobalt (in tonnes)	4,650	4,414	3,453	(21.8)
Gold (Kgs)	-	-	1,800	-

Source: Ministry of Mines and Minerals Development

6. Copper production in 2008 stood at 569,891mt, which was 3.7 percent higher

than production for the corresponding period in 2007 (see Table 4.1 and Figure 4.1).

Figure 4.1: Copper Production by Mines, 2007- 2008



Source: Ministry of Mines and Minerals Development

7. Cobalt production continued to record a decline in 2008. Total cobalt production of 3,453 mt was 21.8 percent lower than the cobalt output for 2007.

8. In the year under review, Kansanshi Copper Mines produced 1,800 kilograms of gold.

10. Nonetheless, Muliashi Copper Project was put on hold indefinitely due to the global economic crisis. Further, Luanshya Copper Mines and Chambishi Metals were closed on account of operational difficulties compounded by the global economic crisis.

Other Developments

9. During the period under review, construction works at Lumwana Copper and Munali Hills Nickel Projects were completed and commercial production commenced in October and August 2008, respectively. In addition, the construction of the Chambishi copper smelter was completed and launched.

4.4 Outlook

11. Growth in the mining sector in 2009 is expected to significantly slow down as a result of the global economic crisis. This slowdown will, however, be moderated by the commencement of commercial production at Lumwana copper mine. Further, the repeal and replacement of the Petroleum Act of 1985 is expected to increase oil exploration activities in the country by private companies.

Chapter 5 Manufacturing Sector

5.1 Overview

1. In 2008, the manufacturing sector registered positive growth for the fifth consecutive year, and grew by 3.6 percent compared to 3.0 percent in 2007. This was attributed to positive growth recorded in the food, beverages and tobacco; wood and wood products; and the paper and paper products sub-sectors. Growth in the textile and leather industries and the non-metallic mineral products, however, declined.

5.2 Policy Developments

2. In order to promote industrial development, the Lusaka South Multi-Facility Economic Zone (MFEZ) master plan was finalised, paving way for development of infrastructure to commence. Furthermore, the Business Licensing Reform process under the Private Sector Development initiative was launched during the review period. The objectives of these reforms are to enhance the competitiveness of the private sector by simplifying the business regulatory and licensing system.

5.3 Sector Performance

3. The food, beverages and tobacco sub-sector grew by 4.5 percent as a result of a rise in the production of grain mill products, opaque beer and tobacco products. This, however, was below the outturn of 7.6 percent recorded in 2007. Growth of 13.4 percent was recorded in the wood and wood products sub-sector compared with 3.7 percent recorded in

2007 (see Table 5.1). This was mainly on account of an increase in domestic demand.

4. The paper and paper products sub-sector grew by 25.4 percent compared to 0.7 percent in 2007. The base metal products sub-sector grew substantially by 30.5 percent from a decline of 4.8 percent registered in 2007. This was on account of an increase in demand for base metal products, arising from the need to meet increased demand from the construction, transport and packaging industries.

5. The textile and leather sub-sector, however, contracted by 16.7 percent compared with a decline of 19.5 percent in 2007. This outturn was mainly on account of the closure of a number of textile companies. The non-metallic mineral products, however, increased by 3.3 from 2.3 percent in 2007 mainly on account of increased production of cement.

Table 5.1: Index of Industrial Production, 2007- 2008

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	0.2345	0.06	0.006	0.017	0.059	0.025	0.009	0.100
2007 Q1	109.9	129	61.1	61.1	92.4	116.6	117.7	64.5	91
Q2	120.8	162.1	42.2	42.2	92.7	95.4	148.3	61.1	85.6
Q3	133.7	178.3	33.1	33.1	69.2	96.2	153.3	67.2	121.3
Q1+Q2+Q3	121.5	156.5	45.5	45.5	84.8	102.7	139.8	64.3	99.3
Q4	143.8	197.1	75.6	75.6	96.9	72	149.6	67.8	114.1
2007 Total	125.9	164.6	51.5	51.5	87.2	96.6	141.7	65	102.2
2008 Q1	113.5	131.9	54.8	54.8	107.4	134.2	125.4	80.2	88.8
Q2	125.3	169	37.3	37.3	123.1	98.2	152.7	86.6	82.5
Q3	137.8	189.5	21.7	21.7	88.4	95	155.1	84.8	118.3
2008 (Q1 +Q2+Q3)	125.5	163.5	37.9	37.9	106.3	109.2	144.4	83.8	96.5
2008* (Q1 +Q2+Q3)	3.3	4.5	(16.7)	13.5	25.4	6.3	3.3	30.5	(2.8)

Source: Central Statistics Office

*Year on year Percentage Change

5.4 Outlook

6. Growth in the manufacturing sector is expected to slowdown as a result of the effects of the global economic crisis. This will, however, be moderated by the commencement of operations at the Chambishi Multi-Facility Economic Zone that is expected to expand the manufacturing base.

Chapter 6 Energy

6.1 Overview

1. The performance of the energy sector in 2008 was unfavourable with the sector contracting by 1.2 percent compared to a growth of 1.0 percent in 2007. This was mainly due to the 2.1 percent decline in electricity generation during the review period. The sector was characterised by increased load shedding and fluctuating petroleum prices as a consequence of volatile international oil prices.

6.2 Policy Developments

2. The major policy thrust in the sector during the year was to ensure the stability of price and supply of electricity and petroleum products. In this regard, Government intervened in the market by, among others, providing subsidy on fuel and reducing excise duty on petroleum products. Further, the Rural Electrification

Master Plan (REMP) was adopted. Furthermore, in a bid to address the electricity deficit, the Government developed an Electricity Strategy Paper.

6.3 Sector Performance

Electricity Sub-sector

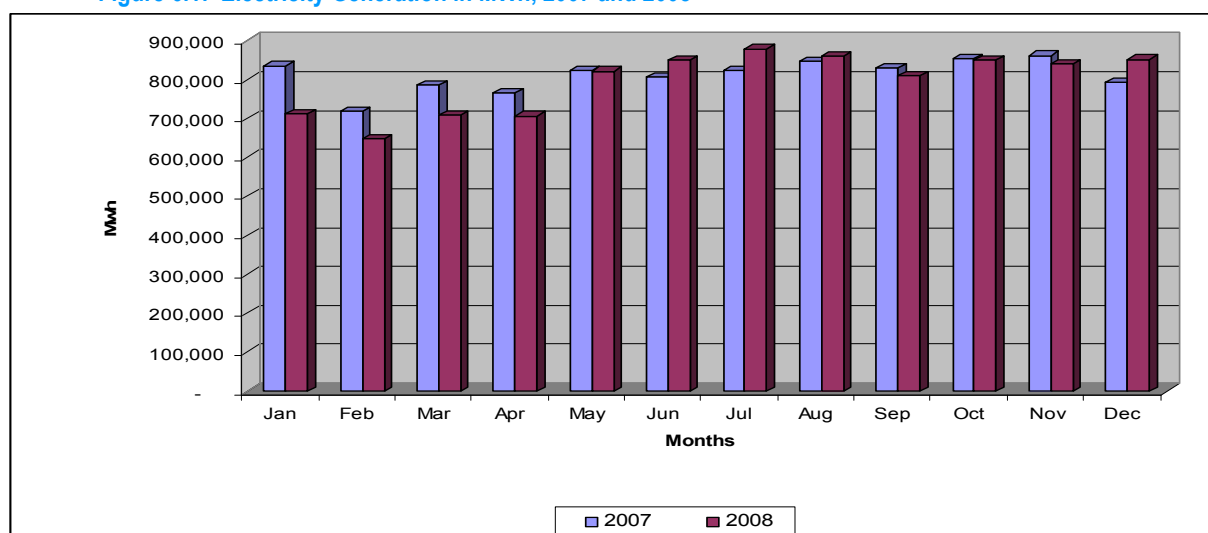
3. During the review period, electricity generation declined by 2.1 percent (see Table 6.1 and Figure 6.1). This outturn was attributed to the shut-down of some generating units to facilitate the on-going rehabilitations and up-rating of the power plants. Notwithstanding these developments, generation by mini-hydro power stations increased by 45.2 percent, arising mainly from increased generation at Lusiwasi and Chishimba Hydro stations. The increase was attributed to improved plant performance as a result of maintenance efforts and plant repair works.

Table 6.1: Electricity Generation (MWh), 2006-2008

	2006	2007	2008	% change 2007/08
Hydro Power station	9,611,531	9,670,981	9,438,018	(2.4)
Mini- Hydro	56,388	58,005	84,200	45.2
Diesel	13,400	11,921	11,783	(1.2)
Total	9,681,319	9,740,907	9,534,001	(2.1)

Source: ZESCO Limited

Figure 6.1: Electricity Generation in MWh, 2007 and 2008



Source: ZESCO Limited

Electricity Exports and Imports

4. In 2008, exports and imports of electricity declined by 77.0 percent and 4.2 percent, respectively (see Table 6.2). The decline was largely explained by the power deficit in the Southern African region. This was compounded by the disruption of the interconnector between Zambia and Zimbabwe during the year

Table 6.2: Electricity Exports & Imports (MWh), 2006 -2008

	2006	2007	2008	% Change 2007/08
Exports	552,283	416,720	95,843	(77.0)
Imports	45,609	274,828	263,706	(4.1)

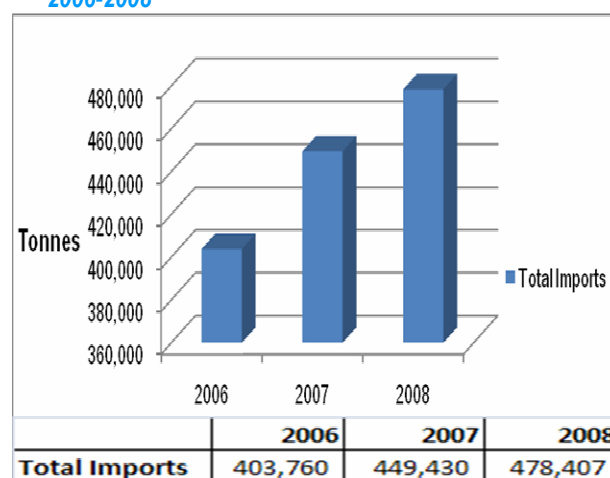
Source: ZESCO Limited

Petroleum sub-sector

Feed stock imports

5. Feed stock imports in the review period increased by 6.5 percent to 478, 407 Mt in 2008 from 449,430 mt in 2007 (see Figure 6.2). The rise in demand for petroleum products was attributed to increased economic activities.

Figure 6.2: Trends in Feedstock Imports, 2006-2008

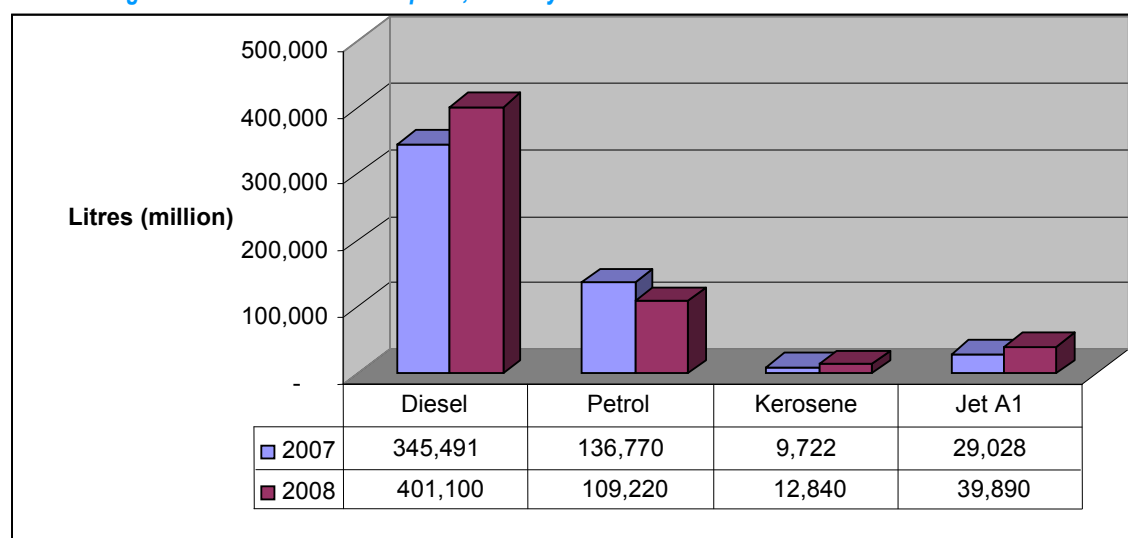


Source: Energy Regulation Board

Consumption of Petroleum Products

6. During the year under review, consumption of petroleum products was mixed. Diesel consumption rose by 16.1 percent partly on account of the use of diesel generators due to the frequent electricity outages. Further, consumption of kerosene and Jet A1 increased by 32.0 percent and 37.4 percent, respectively. Nonetheless, consumption of petrol declined by 20.1 percent (see Figure 6.3).

Figure 6.3: National Consumption, January to October 2007 and 2008



Source: Energy Regulation Board

Other Developments in the Sector

7. In an effort to address the power deficit being experienced in the country, Government disbursed US \$18.0 million for the Power Rehabilitation Project (PRP) in 2008. Rehabilitation and up-rating of the four of the six generators were completed at Kafue Gorge Power Station while at Kariba North Bank Station, works on three of the four generators were completed.

8. With regard to new power generation projects, works on Kariba North Bank extension commenced in the review period and will be completed in 2010. In addition, preparatory work on the development of Itezhi-tezhi hydro-power station commenced in 2008.

9. In a bid to improve service delivery in the sector, Phase II of prepaid metre units installation project was continued in 2008 and 25,000 metre units were installed in Lusaka. Further, there was increased awareness on the use of energy efficient appliances as a mitigation measure in view of the power deficit. In this regard, taxes

and duty on imports of all energy efficient appliances and equipments were waived.

10. In the petroleum sub-sector, the rehabilitation of the 40.0 million litres diesel tank at TAZAMA was completed in an effort to improve storage capacity of petroleum products. Further, leaded petrol was phased out to ensure supply of environmentally safe products.

6.4 Outlook

11. The energy sector is poised for growth in 2009 premised on the expected improvements in the electricity sub-sector, arising from the of completion of the Power Rehabilitation Project (PRP). Further, the expected growth will emanate from increased capacity from the rehabilitation and up-rating of the small hydro-power stations located at Lusiwasi, Musonda Falls, Chishimba Falls and Lunzua.

12. The focus in the sector in 2009, will continue to be on mobilising resources for major projects such as Kafue Gorge lower, Kariba North Bank Extension, Itezhi-tezhi and Maamba Thermal Power Station through public, private and Public-Private Partnerships (PPP). Further, the National Power System Development Plan, aimed at streamlining the development of the various identified generation and transmission projects will be developed.

13. In addition, security of 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 also 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 Transport, Storage and Communication

7.1 Overview

1. The transport, storage and communications sector continued to register positive growth in 2008 albeit lower than 2007. Sectoral growth in 2008 was 15.8 percent compared to a growth of 19.2 percent in 2007. This outturn was attributed to a positive performance in the communications and road and pipeline sub-sectors, which grew by 21.1 percent and 13.2 percent, respectively.

7.2 Policy Developments

2. In the year under review, a Strategic National Information Communication Technology (ICT) Implementation Plan was developed to operationalise the National ICT policy which will provide a framework for the overall development of the ICT sector in Zambia. Consultations on the implementation plan were undertaken with the public sector and will further be extended to the private sector before submission to Cabinet.

3. Additionally, the Transport, Communications and Meteorological Master Plan to guide investment and operations in the sector was developed. Furthermore, the highway code which provides guidelines to motorists on how to

operate on the road, which was revised in 2007, was submitted to Parliament.

7.3 Sector Performance

Railway Sub-sector

4. Value-added in the railway sub-sector declined by 20.2 percent in 2008. This followed another decline of 18.7 percent in 2007.

5. Total passenger traffic decreased by 44.1 percent to 823,329 in 2008 from 1,472,445.0 in 2007. This was due to reduced number of passenger coaches on rail as most of the coaches were withdrawn for rehabilitation and upgrading. Additionally, the quick turn-around time in the road transport contributed to reduced demand for rail transport.

6. Similarly, cargo transported by rail, declined by 19.5 percent to 1,127,765.0 mt compared with 1,401,363.0 mt registered in 2007. This was largely attributed to a reduction in cargo transported by TAZARA by 56.3 percent, arising from a dilapidated rail infrastructure on the TAZARA corridor, rundown locomotives and the rolling stock. However, cargo transported by the Railway Systems of Zambia (RSZ) increased by 3.4 percent to 892,416.0 from 862,833.0 mt recorded in 2007 (see Table 7.1).

Table 7.1: Passenger and Cargo Transported by Rail, 2006-2008

Railway Company	No. of passengers				Cargo			
	2006	2007	2008	% Change 2007/08	2006	2007	2008	% Change 2007/08
TAZARA	1,056,080	1,090,359	445,882	(59.1)	555,291	538,530	235,349	(56.3)
RSZ	354,019	382,086	377,447	(1.2)	1,147,580	862,833	892,416	3.4
Total	1,410,099	1,472,445	823,329	(44.1)	1,702,871	1,401,363	1,127,765	(19.5)

Source: Ministry of Communications and Transport

7. Regarding railway infrastructure, construction of a 22.0 km stretch of the total 27.0 km Chipata-Mchinji railway line project was done.

growth was attributed to a rise in passenger traffic by 12.1 percent to 1,180,911 from 1,053,307 in 2007. This was mainly attributed to increased economic activities including mining and tourism (see Table 7.2).

Air Transport Sub-sector

8. The air transport sub-sector grew by 13.7 percent albeit lower than the growth of 24.1 percent in 2007. The continued

Table 7.2: Domestic and International Air Passenger Movements for both Arrivals and Departures, 2006-2008

Airport	2006			2007			2008			% Change 2007/08
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total	
Lusaka	76,699	510,905	587,604	90,755	594,505	685,260	128,970	644,795	773,765	12.9
Ndola	37,074	55,715	92,789	54,369	89,473	143,842	69,331	101,165	170,496	18.5
L/Stone	14,536	165,780	180,316	19,403	180,469	199,872	33,624	174,488	208,112	4.1
Mfuwe	19,980	2,255	22,235	22,571	1,762	24,333	26,624	1,914	28,538	17.3
TOTAL	148,289	734,655	882,944	187,098	866,209	1,053,307	258,549	922,362	1,180,911	12.1

Source: Ministry of Communications and Transport

9. In order to facilitate the smooth movement of both domestic and international passengers and cargo, rehabilitation works were undertaken. These included the up-grading of facilities at Lusaka, Livingstone and Mfuwe International Airports, and the construction of a new terminal building at Kasama Airport and the control tower at Mansa Airport. Additionally, the upgrading of the departure terminal building for Chipata Airport was completed.

Road Transport Sub-sector

10. Preliminary data indicates that, the road transport sector grew by 13.2 percent in 2008 compared to a growth of 6.4 percent recorded in 2007. This was attributed to an increase in the number of registered motor vehicles.

Stock of Motor Vehicles

11. As at end-2008, the stock of motor vehicle and trailer population increased to 277,870 from 227,950 in 2007, representing, a 21.1 percentage increase. In 2008, a total of

41,708 vehicles entered the country with Nakonde recording the highest entry point of imported motor vehicles and trailers amounting to 21,178 Livingstone recorded an inflow of 7,941 whilst Mwami border recorded 876 (see Table 7.3).

Table 7.3: Inflow of Motor Vehicles and Trailers, 2008

Station	Vehicles imported	% of total
Nakonde	21,178	50.8
Kariba	6,996	16.8
Livingstone	7,941	19.0
Chirundu	4,253	10.2
Mwami	876	2.1
Lusaka	464	1.1
Total	41,708	100.0

Source: Road Transport and Safety Agency

12. In terms of licensing, a total of 174,367 motor vehicles and trailers were licensed, compared with 149,639 licensed in 2007. This resulted in a compliance rate of 62.8 percent and was attributed to the enhanced procedures of motor vehicle and trailer registration.

Road Safety

13. During the year under review, road traffic accidents reduced by 5.5 percent to 19,727 from 20,884 in 2007. This reduction

was attributed to the road safety programmes undertaken such as the establishment of syllabus for driver training, the recruitment and training of school traffic wardens and the adherence to speed limits by public service operators.

14. In terms of casualties, a total of 1,238 fatalities were registered compared to 1,130 in 2007 while 4,339 were slightly injured and 3,132 severely injured.

Communication Sub-sector

15. The communications sub-sector grew by 21.1 percent in 2008 compared with 33.6 percent in 2007. This outturn was as a result of increased number of subscribers and installed capacity in the mobile telecommunications industry.

16. The subscriber base increased by 56.4 percent to 3.2 million in 2008 from 2.2 million in 2007, and the installed capacity of the mobile network rose to 3.3 million in 2008, from 2.6 million in 2007 (see Table 7.4). MTN registered an increase in the subscriber base by 226.0 percent due to the increase in the installed capacity to 1.0 million in 2008 from 275,000.0 in 2007.

Table 7.4: Growth Trends in Mobile Segment, 2006-2008

	2006		2007		2008		Subscriber % Change, 2007/08
	Installed Capacity	Subscribers	Installed Capacity	Subscribers	Installed Capacity	Subscribers *	
Zain	2,000,000	1,325,108	2,000,000	1,785,457	2,000,000	2,749,070	54.0
Cell Z	150,000	149,168	300,000	257,595	300,000	116,880	(54.6)
MTN	275,000	260,000	275,000	194,295	1,000,000	633,336	226.0
Total	2,425,000	1,734,276	2,575,000	2,237,347	3,300,000	3,499,286	56.4

Source: Communications Authority Zambia

*Preliminary

17. In terms of market share, Zain Zambia continued to dominate the mobile phone market at 78.6 percent, compared

with 18.1 percent and 3.3 percent for MTN and Cell Z, respectively.

Public Switched Telephony Network

18. In the year under review, there was a total of 90,600 subscribers for the Public Switched Telephony Network (PSTN) compared with 94,330, representing a 4.0 percent decline (see Table 7.5). This was attributed to reduced demand arising from the competition from mobile and internet service providers.

Table 7.5: Tele-Density for Public Switched Telephony Network (PSTN), 2006-2008

	2006	2007	2008	Growth Rate
Population	11,574,190	11,708,451	11,900,000	1.6
Subscribers	93,427	94,330	90,600	(4.0)
Per 100 persons	8.1	7.8	7.6	(2.6)

Source: Communications Authority

7.4 Outlook

20. Growth in the transport, storage and communication sector is expected to slowdown. This is premised on weaker economic conditions expected in 2009. Growth will, however, be aided by increased investments in communications and transport infrastructure.

Postal Services Segment

19. In the period under review, Zambia Postal services Corporation operated a total of 188 outlets across the country, a decline of 15.7 percent from 223 outlets operated in 2007 (see Table 7.6). Consequently, domestic mail handled declined by 57.0 percent to 1,769,324 in 2008 from 4,114,165 in 2007. The decline was attributed to the continued preference for other private operators and electronic mail services. International mail handled, however, increased by 160.0 percent, attributed to more clients using international mail courier services (see Table 7.6)

Table 7.6: Domestic and International Mail Handled, 2006-2008

Category	2006	2007	2008	% Change 2007/08
Domestic Mail	4,894,306.0	4,114,165.0	1,769,324.0	(57.0)
International Mail	1,183,187.0	1,263,562.0	3,285,232.0	160.0
Total	6,077,493.0	5,377,727.0	5,054,556.0	(6.0)

Source: Ministry of Communications and Transport

Chapter 8

Health

8.1 Overview

1. During the period under review, morbidity and mortality rates for malaria, diarrhoea, pneumonia and anaemia reduced. Additionally, maternal and under-five mortality declined. Further, Acquired Immuno-Deficiency Syndrome (AIDS) related mortality reduced.

2. Notwithstanding the above, the delivery of health services remained a challenge. The availability of essential drugs was below target and human resource requirements remained far below the recommended levels.

8.2 Policy Developments

3. Milestones included the approval of the National Child and Reproductive Health policies. In addition, the National Food and Nutrition Policy was launched, while an evaluation of the implementation of the National Medical Laboratory Policy was conducted.

4. Three draft bills were also prepared, namely, the Traditional Health Practitioners Bill, the Health Professions Bill and the Mental Health Bill. Further, regulations relating to ionizing radiation protection and

radioactive waste management were drafted.

8.3 Sector Performance

Disease Burden

5. During the year under review, there was an increase in disease incidence for all diseases except, malaria, pneumonia and anaemia (see Table 8.1). Nevertheless, malaria registered the highest incidence rate with 75 per 1,000 population followed by non-pneumonia respiratory infections. Similarly, the in-patient death rate increased from the 2007 situation.

Malaria

6. Malaria was the second leading cause of mortality in 2008 and the first in terms of morbidity. Nevertheless, the incidence declined to 75 per 1,000 population in the first half of 2008 from 89.4 per 1,000 population during the same period in 2007. The total diagnosis and number of deaths attributable to malaria reduced.

Non-Pneumonia Respiratory Infections

7. The incidence of non-pneumonia respiratory infections slightly increased from 50.2 per 1,000 population in 2007 to 51.3 per 1,000 population in 2008. Similarly, deaths attributed to these infections rose.

Table 8.1: Top Ten Diseases, January to June, 2007 and 2008

Diagnosis	Year	Incidence per 1,000	Total Diagnosis	In-patient Deaths
Malaria	2007	89.4	1,114,274	1,529
	2008	75	957,878	1,072
Respiratory infections: non pneumonia	2007	50.2	626,407	207
	2008	51.3	658,175	213
Diarrhoea: non bloody	2007	17	216,801	574
	2008	17.4	224,207	468
Trauma: accidents, wounds, burns	2007	12	149,849	121
	2008	12.4	158,895	192
Respiratory infection: pneumonia	2007	8.7	109,629	841
	2008	8.3	107,024	682
Skin infections	2007	8.3	104,541	48
	2008	8.7	111,465	69
Muscular skeletal & connective tissue	2007	6.8	85,731	8
	2008	8.4	108,756	12
Digestive system(non infectious)	2007	6.3	78,528	101
	2008	6.8	87,664	143
Anaemia	2007	2.9	37,354	670
	2008	2.4	30,738	467
AIDS (suspected & confirmed cases)	2007	2.4	30,960	1,417
	2008	3.0	38,765	1,285

Source: Ministry of Health

HIV/AIDS

8. AIDS ranked ninth in terms of morbidity but was the leading cause of deaths in 2008. Deaths attributed to the disease, however, declined to 1,285 in 2008 from 1,417 in 2007. This outturn was largely attributed to the provision of free Anti-retroviral (ARV) drugs and Prevention-of-Mother-to-Child-Transmission (PMTCT). The number of patients on ARVs increased to 206,680 in 2008 from 137,000 in 2007, although it was below the 2008 target of 220,000. The number of PMTCT centres went up to 935 in 2008 from 678 in 2007.

Maternal Health

9. According to the 2007 Zambia Demographic Health Survey (ZDHS), which was released in 2008, maternal mortality declined from 729 deaths per 100,000 live births in 2002 to 449 deaths per 100,000

live births in 2007. However, this rate is still high explained by a number of challenges which included 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. Notwithstanding this, interventions such as recruitment of front-line staff, construction and rehabilitation of health facilities, and an enhanced retention scheme for medical personnel, led to a reduction in maternal mortality, putting Zambia in a better position to attain the MDG on maternal mortality by 2015.

10. With regard to maternal health and family planning, there was an increase in supervised deliveries to 64.0 percent in 2008 from 62.0 percent in 2007 (see Table

8.2). Institutional deliveries and trained Traditional Birth Attendants (tTBAs) however declined marginally between 2007 and 2008.

Table 8.2: Key Maternal and Family Planning Indicators, 2006-2008

Maternal Health and Family Planning Indicators	2006	2007	2008
First Antenatal Coverage (percent)	92	92	92
Average Antenatal Visits	2.9	2.8	5.4
Institutional deliveries (percent)	43	45	44
Trained traditional birth attendants (tTBAs) (percent)	18	17	14
Supervised Deliveries (percent)	61	62	64
First Postnatal Attendance (percent)	51	56	52

Source: Ministry of Health

Child Health

11. Infant and child mortality rates stood at 70 per 1,000 and 119 per 1,000 births according to the 2007 ZDHS, indicating a decline from 95 per 1,000 and 168 per 1,000 from the 2002 ZDHS, respectively. The high rates were largely attributed to neonatal complications, malaria, diarrhoea, pneumonia, anaemia, malnutrition and poor maternal health. Furthermore, only 20.0 percent of mothers attend post-natal care after two weeks, thereby compromising opportunities for child survival. Other factors compromising child health were the high prevalence of HIV and AIDS (14.3 percent), with close to 7,000 new paediatric infections per year.

Drugs and Medical Supplies

13. The availability of essential drugs at health centres remained at 68.0 percent in the first half of 2008 compared to the same period of 2007. The Government procured 22,000 Rural Health Centre kits in 2008. With referral hospitals, there was a slight

reduction in essential drugs to 80.0 percent in 2008 from 81.0 percent in 2007. This outturn was attributed to the effects of the user fee removal policy which led to an increase in people accessing health services hence an increase in essential drug consumption.

Human Resources

14. The human resource situation in 2008 remained far below the recommended levels. There was an estimated 15,349 frontline medical personnel in Government run health institutions against the recommended 39,360. Acute shortages were experienced in the categories of paramedics, nurses and doctors. This, however, was an improvement from 13,691 frontline medical personnel in 2007 (see Table 8.3).

15. In an effort to improve the human resource situation, the Government recruited a total of 1,634 frontline medical personnel in 2008 against the target of 1,900. Further, 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.

Table 8.3: Human Resource Staffing Levels against Recommended Levels, 2006-2008

Staff Category	2006	2007	2008	% change	Recommended	Variance	Staff Ratio
Doctors	718	815	873	7.1	2,300	1,100	16,016
Clinical Officers	1,254	1,386	1,411	1.8	4,000	1,900	9,170
Nurses	8,650	9,190	9,563	4.1	22,332	12,832	12,832
Lab Technologists	432	460	485	5.4	1,560	1,095	26,620
Pharmacists	133	158	250	58.2	162	2	86,466
Other Paramedics	1,396	1,682	2,767	64.5	9,006	7,106	8,237
Total	11,839	13,691	15,349	12.1	39,360	24,035	

Source: Ministry of Health

8.4 Outlook

16. Government's focus in 2009 will continue to be on enhancing the quality of health care service delivery by recruiting additional medical personnel, improving supply of medical drugs, and rehabilitating and constructing health infrastructure.

Chapter 9

Education

9.1 Overview

1. Government continued to provide citizens with opportunities to access and participate in education at basic, high school and tertiary education levels in 2008. Increase in enrolment was registered and was largely attributed to the rise in school places through the construction of new and additional school infrastructure. In terms of quality, there was an improvement in the pupil-teacher ratios at all levels arising from the recruitment and deployment of teachers.

9.2 Policy Developments

2. The Government continued to implement the Free Basic Education (FBE) policy in order to increase access to, and participation in education. In addition to the FBE policy, measures were taken to enrol all children aged 7 years and above without any pre-conditions. This policy was aimed at ensuring that children who attained the official age of admission to school were not denied access. At high school level, measures were taken to increase progression from basic education to high school level by admitting more pupils with full Grade 9 certificates into Grade 10. Furthermore, the Early Childhood Education Policy Framework was finalised and submitted to Cabinet.

3. During the year under review, steps to improve the quality of teachers were undertaken through the commencement of upgrading of Nkrumah and Copperbelt Secondary Teachers' College (COSETCO) to offer degree programmes. In addition, measures were put in place to convert the Zambia Institute of Special Education (ZAMISE) into a centre of excellence for special education.

9.3 Sector Performance

Basic School Sub-sector

4. The total number of basic schools increased by 1.8 percent to 8,621 in 2008 from 8,471 in 2007. This was attributed to an increase in the number of private and church, and community schools (see Table 9.1). In line with Government policy of expanding access to education, development of infrastructure for new and additional classrooms commenced throughout the country. A total of 1,527 classrooms were constructed of which 799 were in existing schools, while 728 were in 231 new basic schools under construction.

Table 9.1: Number of Basic Schools by Running Agency, 2006-2008

Provider	2006	2007	2008*	% Change 2007/08
GRZ/Grant Aided	4,705	4,918	5,099	3.7
Private/Church	355	387	524	35.4
Community	2,575	2,708	2,998	10.7
Total	7,635	8,471	8,621	1.8

Source: Ministry of Education

* Preliminary

Enrolments

5. Pupil enrolment at basic education level (Grade 1-9) increased by 5.4 percent to 3,336,009 from 3,166,310 in 2007. Female enrolments rose by 5.4 percent while male enrolments increased by 5.3 percent (see Table 9.2). Of the total basic school enrolment, 48.9 percent were females.

Table 9.2: Enrolments and Gender Parity at Basic School (Grade 1-9) by Gender, 2006-2008

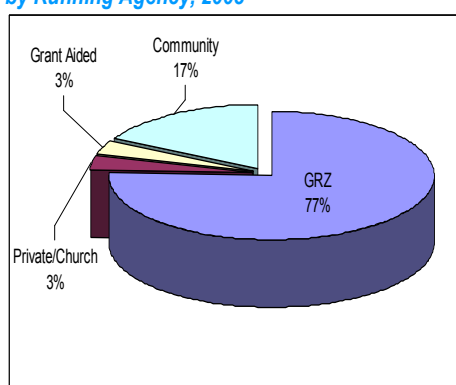
Gender	2006	2007	2008*	% Change 2008/07
Female	1,464,137	1,547,715	1,631,009	5.4
Male	1,522,644	1,618,595	1,704,018	5.3
Total	2,986,781	3,166,310	3,336,009	5.4
GPI	0.962	0.956	0.957	0.1

Source: Ministry of Education

* Preliminary

6. The majority of pupils who were enrolled at basic education level were in Government schools, representing a proportion of 77.0 percent, while 17.0 percent were enrolled in community schools. The enrolments in grant-aided schools and private/church schools were at 3.0 percent each (see Figure 9.1).

Figure 9.1: Basic School Enrolment Distribution by Running Agency, 2008



Source: Ministry of Education

7. During the year under review, the Gender Parity Index (GPI) stood at 0.957, indicating that for every 1,000 boys enrolled at basic school level in 2008, there were 957 girls enrolled. This was below the GPI target of 1.0 due to high female dropouts, especially in rural areas.

Completion Rates

8. Completion rates for Grades 1-7 improved to 94.7 percent from 90.7 percent in 2007 (See Table 9.3). The increase in the number of pupils completing middle basic education (Grades 1-7) was attributed to the continued implementation of the Free Basic Education policy that abolished user fees thereby increasing the levels of participation and retention.

9. However, the completion rates for grades 8-9 did not improve in 2008 compared to 2007 and were lower than the set targets. This was explained by low transition rates (because of low pass rate in Grade 7 examinations) from Grade 7 to Grade 8 as slightly over 50 percent of the school-age population make it into Grade 8. High dropout rates and repetition also contributed to low completion rates at this level. In particular, the dropout rate for girls averaged 5 percent mainly as a result of them falling pregnant or getting married.

Table 9.3: Completion Rates, 2006-2008

Education Level	2006	2007		2008*	
	Actual	Target	Actual	Target	Actual
Grade 1-7	85.2	84.4	90.7	90.0	94.7
Grade 8-9	43.1	50.7	47.0	65.4	51.2
Grade 10-12	17.5	25.3	19.7	29.6	21.9

Source: Ministry of Education

* Preliminary

Pupil-Teacher Ratio

10. In 2008, the sector recorded improvements in Pupil-Teacher Ratios (PTR) at all sub-levels of basic education. At lower basic education level (Grades 1-4), there was an improvement to 71.8 pupils per teacher from 75 in 2007 (see Table 9.4). The PTR for Grades 5-7 stood at 34.9 from 35.8 while for Grades 8-9, it was 32.4, dropping from 32.6 in 2007. This improvement was attributed to the recruitment of more than 15,000 teachers in the last two years.

Table 9.4: Pupil-Teacher Ratio for Basic Education, 2006-2008

Education Level	2006	2007		2008*	
	Baseline	Target	Actual	Target	Actual
Grade 1-4	76.6	71.5	75.0	72.0	71.8
Grade 5-7	36.4	38.9	35.8	35.0	34.9
Grade 8-9	32.3	33.9	32.6	32.0	32.4

Source: Ministry of Education
Note: * Preliminary

Bursary Support

11. The number of underprivileged pupils offered bursary support increased in the year under review. A total of 28,903 pupils in Grades 8 and 9 received bursaries in 2008 compared to 24,009 in 2007, representing an increase of 16.9 percent.

High School Sub-sector

Enrolment

12. In the year under review, total high school (Grades 10-12) enrolment rose by 7.9 percent to 236,547 from 219,132 in 2007 (see Table 9.5). This outturn was attributed to the increase in the number of high school places.

Table 9.5: Enrolments at High School level by Gender, 2006-2008

Gender	2006	2007	2008*	%Change 2007/08
Female	85,980	99,186	106,565	7.4
Male	107,863	119,946	129,982	8.4
Total	193,726	219,132	236,547	7.9

Source: Ministry of Education
Note: * Preliminary

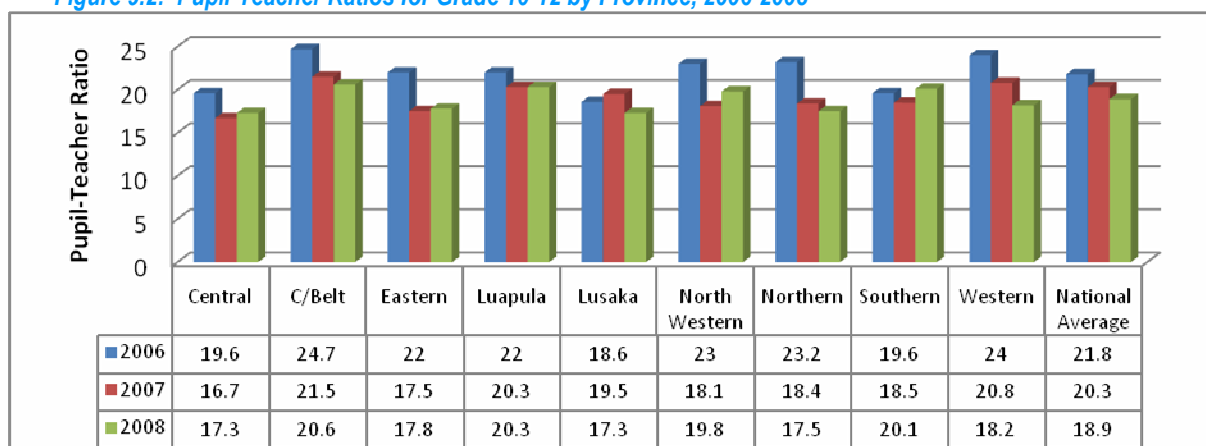
Completion Rates

13. In 2008, the completion rate at high school level increased by 2.2 percentage points from 19.7 percent in 2007 to 21.9 percent in 2008 but remained unsatisfactory. High dropout rates largely explained by early marriages, pregnancies, children being orphaned and financial constraints contributed to the unsatisfactory completion rates.

Pupil-Teacher Ratio

14. The national PTRs for high school level improved to an average of 18.9 from 20.3 in 2007 (see Figure 9.2). This improvement was attributed to the recruitment of teachers. The ratios for North-western, Southern, Luapula and Copperbelt provinces were, however, above the national average of 18.9.

Figure 9.2: Pupil-Teacher Ratios for Grade 10-12 by Province, 2006-2008



Source: Ministry of Education

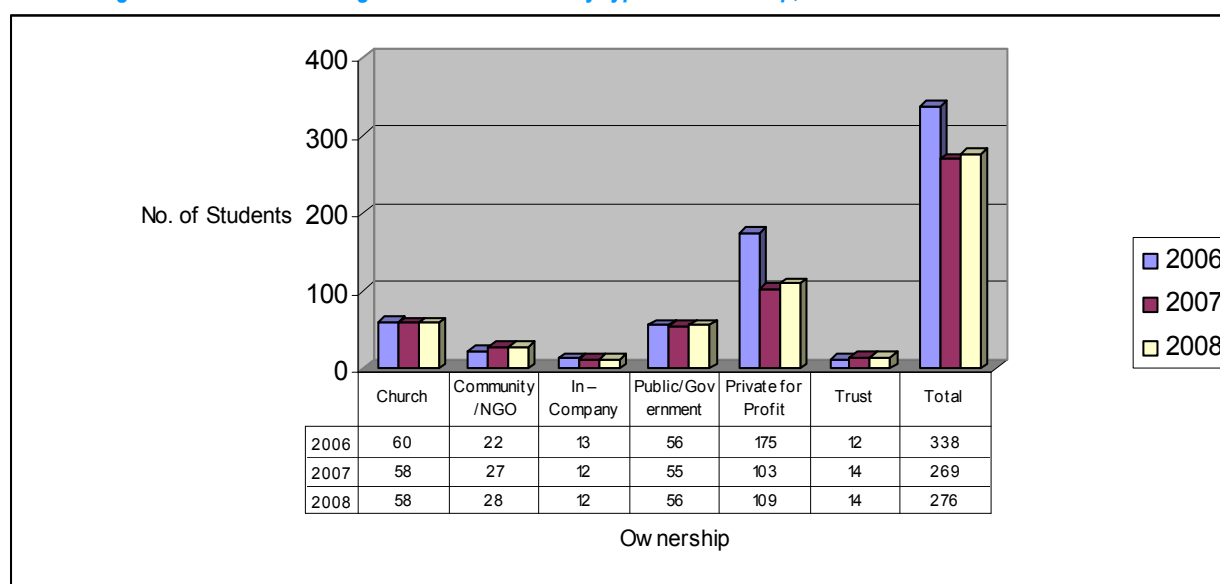
Bursary Support

15. Bursary support to underprivileged children in Grade 10-12 increased to 22,425 in 2008, compared to 19,591 in 2007. This outturn was a result of an increased budgetary allocation to the bursary programme.

Technical Education, Vocational and Entrepreneurship Training Sub-sector

16. During the year under review, the number of registered institutions providing technical, education, vocational and entrepreneurship training increased to 276 from 269 in 2007. This was mainly due to an increase in the registration of private for profit institutions by 2.6 percent (see Figure 9.3)

Figure 9.3: Number of Registered Institutions by type of Ownership, 2006-2008



Source: Technical, Entrepreneurial and Vocational Education and Training Authority

17. Consistent with the increase in the number of registered institutions, enrolments increased by 3.5 percent to 33,399 in 2008 from 32,283 in 2007, with the highest being in Business Studies programmes followed by crafts. In terms of gender disaggregation, there was still

continued gender imbalance in the distribution of students in different programmes. Aviation and technologist programmes continued to be male-dominated while, secretarial programmes were female-dominated. The student completion rate was 65 percent.

Table 9.6 Students Enrolment Numbers by Year, Gender and Training Programme, 2006-2008

Programme	2006			2007			2008		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Business Studies	5,630	5,412	11,042	6,010	5,800	11,810	6,300	5,918	12,218
Secretarial Studies	2	1,626	1,628	5	1,608	1,613	3	1,428	1,431
Hotel and Tourism	875	1,960	2,835	985	2,120	3,105	1,120	2,542	3,662
Media and Applied Arts	869	1,627	2,496	960	1,900	2,860	1,010	1,990	3,000
Paramedical	140	150	290	150	170	320	160	180	340
Aviation	114	89	203	104	6	110	95	7	102
Craft	6,422	829	7,251	6,608	870	7,478	6,702	900	7,602
Advanced Certificate/Diploma	3,644	703	4,347	3,904	630	4,534	4,000	567	4,567
Technologist	420	9	429	440	13	453	460	17	477
Total	18,116	12,405	30,521	19,116	13,117	32,233	19,850	13,549	33,399

Source: Technical, Entrepreneurial and Vocational Education and Training Authority

Tertiary Education Sub-Sector

Teacher Education

18. The teacher training sub-sector continued to register positive growth in enrolment. In 2008, enrolments in all the 14 teacher training colleges stood at 9,690 students compared to 9,235 in 2007 (see Table 9.7).

Table 9.7: Teacher Education College Enrolment by Gender, 2006-2008

Gender	2006	2007	2008*
Female	4,218	4,523	4,848
Males	4,752	4,712	4,742
Total	8,970	9,235	9,590

Source: Ministry of Education

* 2008 Preliminary Data

University Education

19. Enrolments in public universities increased to 15,447 in 2008 from 14,262 in 2007 with the larger increase recorded at Copperbelt University. In terms of gender, males accounted for the highest proportion of enrolments at both universities (see Table 9.8). During the year, a third public university, namely, Mulungushi University was established.

Table 9.8: Public Universities Enrolments by Gender, 2006-2008

University	2006	2007			2008*		
	Baseline	Female	Male	Total	Female	Male	Total
University of Zambia	10,059	4,112	5,995	10,107	4,180	6,112	10,292
Copperbelt University	4,014	1,300	2,855	4,155	1,035	4,120	5,155
Total	14,073	5,412	8,850	14,262	5,115	10,232	15,447

Source: Ministry of Education

* 2008 Preliminary

20. In the year under review, a total of 8,809 students were awarded bursaries for both the Copperbelt University and

University of Zambia compared with 8,452 students in 2007, representing 4.2 percent increase (see Table 9.9).

Table 9.9: Bursary by Institution and Gender, 2006-2008

Year	CBU			UNZA			Total (CBU + UNZA)				
	Male	Female	Total	Male	Female	Total	Male	%Share	Female	%Share	Total
2006	1,934	375	2,309	3,522	1,811	5,333	5,456	71.0	2,186	29.0	7,642
2007	2,328	529	2,857	3,580	2,015	5,595	5,908	70.0	2,544	30.0	8,452
2008	2,298	590	2,888	3,573	2,348	5,921	5,871	67.0	2,938	33.0	8,809

Source: Ministry of Education

* 2008 Preliminary Data

9.4 Outlook

21. Access to and quality of education are expected to continue improving in 2009. This is on account of increased infrastructure development, recruitment of teachers, and provision of teaching and learning materials. The admission of students at Mulungushi University will also significantly increase the number of students accessing tertiary education.

Chapter 10

Fiscal Performance

10.1 Overview

1. Budget performance in 2008 was favourable amid challenges associated with budget execution. Total revenues, including grants but excluding revenues from the new mining tax regime, amounted to K12,008.2 billion against the projection of K12,106.4 billion, representing a shortfall of 0.8 percent. This performance was attributed to lower non-tax revenue collections. Total expenditure, including amortisation, was below target by 2.5 percent. Consequently, the overall budget deficit for 2008, stood at 2.6 percent of GDP and was lower than the projected 3.2 percent of GDP but higher than the outturn of 1.2 percent in 2007.

2. Although the budget deficit was within the planned levels, execution of the budget was challenging on account of a number of unforeseen expenditures. These included, the larger than planned civil service wage award, the need to hold the Presidential elections, and to augment resources to the Fertilizer Support Programme.

10.2 Policy Objectives

3. The overall fiscal policy objectives in 2008 included:

- (a) Consolidating fiscal discipline by maintaining lower levels of borrowing by limiting domestic borrowing to 1.2 percent of GDP and exercising prudent budget execution; and

- (b) Enhancing domestic resource mobilisation.

10.3 Revenue Performance

4. Total Government revenues and grants in 2008, excluding collections from the new mining tax regimes amounted to K12,008.2 billion, representing 22.0 percent of GDP compared to 22.4 percent of GDP in 2007. This was marginally below the 2008 target of K12,106.4 billion by 0.8 percent. Total domestic revenues amounted to K9,918.1 billion accounting for 82.6 percent of the total collections and represented 18.2 percent of GDP compared to 18.7 percent of GDP in 2007. Grants accounted for 17.4 percent of the total compared to 16.2 percent of the revenues and grants in 2007.

Tax Revenue

5. In 2008, tax revenues collected, excluding collections from the new mining tax regime, amounted to K9,350.8 billion, representing 17.2 percent of GDP. This collection was above the target of K9,133.6 billion by K217.1 billion or 2.4 percent.

6. Despite tax revenue collections being above target, company tax, mineral royalties and domestic VAT were below their respective targets by K21.5 billion, K5.1 billion and K788.7 billion. All other tax types recorded higher than programmed outturns. In particular, PAYE, withholding tax, excise duty, import VAT, customs duty and export duty were all above their respective targets (see Table 10. 1).

Table 10.1: Tax Revenue Performance (Without Additional Mining Revenue), 2008

	2008 Budget Estimate	2008 Preliminary	Variance	% of Variance
Tax Revenue	9,133.6	9,350.7	217.1	2.4
A. Income Taxes	4,153.4	4,379.3	225.9	5.4
1. Company tax	1,352.0	1,330.5	(21.5)	(1.6)
2. PAYE	2,352.3	2,531.2	178.9	7.6
3. Withholding tax	377.1	450.7	73.6	19.5
4. Mineral royalty	72.0	66.9	(5.1)	(7.1)
B. Value Added Tax	2,641.0	2,210.0	(431.0)	(16.3)
1. Domestic VAT	358.0	(430.7)	(788.7)	(220.3)
2. Import VAT	2,283.0	2,640.7	357.7	15.7
C. Customs & Excise Duties	2,339.2	2,761.4	422.2	18.0
1. Customs duty	945.2	1,202.6	257.4	27.2
2. Export duties	151.0	190.4	39.4	26.1
o/w Scrap metal	2.3	10.6	8.3	360.9
Cotton	2.9	0.7	(2.2)	(76.2)
Copper conc.	145.8	179.1	33.3	22.8
3. Excise Duty	1,243.0	1,368.4	125.4	10.1
o/w Fuel levy	245.3	378.0	132.7	54.1
Rural Electrification Fund	20.3	20.8	0.5	2.6

Source: Ministry of Finance and National Planning

Income Tax

7. Total income tax collected during the year amounted to K4,379.3 billion against the target of K4,153.4 billion. This was above target by 5.4 percent, mainly due to higher collections of PAYE and withholding taxes. Collections of PAYE were above the target of K2,352.3 billion by 7.6 percent due to enhanced enforcement, while withholding taxes were 19.5 percent above target due to improved compliance. Mineral royalties, however, fell below target by 7.1 percent due to the fall in metal prices during the second half of the year.

Value Added Tax

8. During the year under review, the Government projected to collect a total of K2,641.0 billion from Value Added Tax (VAT). A total of K2,210.0 billion was collected and was below the target by 16.3 percent. This was due to administrative

challenges experienced in collecting this tax.

Customs and Excise Duties

9. Under customs and excise duties, K2,761.4 billion was collected and was 18.1 percent above the target of K2,339.2 billion. Customs duties accounted for K1,202.6 billion, representing 27.2 percent above target. The strong performance of customs duty was largely driven by increased imports of products such as hydrocarbons, motor vehicles and parts and accessories for motor vehicles. Export duty collection was 26.1 percent above target, mainly due to increased exports of copper concentrates and scrap metal.

10. Excise duty collections were above the 2008 estimate by 10.1 percent in spite of a reduction in excise duty rates for hydrocarbons, particularly, on petrol and diesel. This performance was attributed to

increased imports of motor vehicles and sales of beer, talk time and mineral water.

Additional Mining Revenue

11. The Government projected to collect additional revenues of K917.3 billion from the new mining tax regime which came into

effect in April 2008. Total additional mining revenues collected, however, amounted to K319.5 billion, falling below target by 65.2 percent. Of the total amount collected, K22.2 billion was company tax, K126.1 billion was windfall tax and mineral royalty amounted to K171.3 billion (see Table 10. 2)

Table 10.2: Additional Mining Revenue (K'Billions), April to December, 2008

	2008 Estimate	2008 Preliminary	Variance	% of Variance
Additional Mining Revenues	917.4	319.5	(597.9)	(65.2)
1. Company tax*	300.5	22.2	(278.3)	(93.6)
2. Windfall tax	502.1	126.1	(376.0)	(75.9)
3. Mineral royalty**	114.8	171.2	56.4	49.1

Source: Ministry of Finance and National Planning

* Company tax represents 5 percentage points of the new 30 percent rate

** The mineral royalty represents 2.4 percentage points of the new 3 percent tax rate

12. The poor performance was attributed to non-payment of windfall and company tax by some mines. In particular, only three mining companies paid windfall tax while two companies paid company tax under the new regime. All the mining companies, however, paid mineral royalty tax under the new regime, introduced in April 2008.

Non-tax Revenue

13. The Government had projected to collect a total of K694.9 billion as non-tax revenues during 2008. A total of K567.3 billion was collected, which was 18.4 percent below target. The collections were

below target mainly due to under performance of user fees and charges, which fell below target by 31.5 percent. In addition, the reduction and delay in implementation of new passport fees and road user charges, contributed to the poor performance.

14. In spite of the poor performance in non-tax revenues, collection of dividends, medical levy and exceptional revenues were higher than expected by K8.2 billion, K3.6 billion and K39.5 billion, respectively. The higher than expected collections in these revenue types were due to increased supervision of Government investments and expansion of financial services.

Table 10.3: Non-tax Revenue (K'Billion) Performance, 2008

	2008 Budget Estimate	2008 Preliminary	Total Variance	Variance (%)
Non-tax Revenue	694.9	567.3	(127.6)	(18.4)
User Fees and Charges	567.7	388.9	(178.8)	(31.5)
Dividends	12.9	21.1	8.2	63.5
Medical Levy	9.0	12.6	3.6	40.0
Exceptional Revenues	105.2	144.8	39.5	37.5
o/w Fertilizer Recoveries	95.0	129.4	34.4	36.2
ERB License Fees	6.0	7.1	1.1	18.4
Other Revenues	4.2	8.2	4.0	94.2

Source: Ministry of Finance and National Planning

Grants

15. Total grants received during 2008 amounted to K2,090.1 billion and were below target by 23.8 percent. Of this amount,

programme support accounted for K660.4 billion, while Sector Wide Approach Programme Support (SWAPs) for health and education sectors was K429.4 billion. In addition, K1,000.3 billion was for project support (see Table 10.4).

Table 10.4: Foreign Programme and Project Support Received (K'Billion), 2008

	2008 Approved Estimate	Total Preliminary	Total Variance	% Variance
Grants	2,743.4	2,090.1	(653.3)	(23.8)
Programme Grants	632.0	660.4	28.4	4.5
Swaps	484.5	429.4	(55.1)	(11.4)
o/w Education	267.4	268.5	1.1	0.4
Health	217.2	160.9	(56.3)	(25.9)
Project Grants	1,626.9	1,000.3	(626.6)	(38.5)

Source: Ministry of Finance and National Planning

10.4 Total Expenditures

16. Preliminary figures indicate that total expenditure, including amortisation, in 2008 was lower than programmed by 2.5 percent, and amounted to K13,410.7 billion against the target of K13,761.4 billion (see Table 10.5). As a percentage of GDP, releases were 24.2 percent compared with 23.4 percent of GDP in 2007. Of the total releases, 84.4 percent was directed towards the financing of current expenditures, whilst 15.6 percent was for capital expenditures.

Expenditure by Economic Classification

Current Expenditures

17. Current expenditure releases in 2008 amounted to K11,313.2 billion and were above the projection of K11,207.2 billion by K106.0 billion, representing 0.9 percent. Of the total releases, 39.2 percent was for personal emoluments, while use of goods and services, and grants and other payments received 21.8 percent and 14.8 percent, respectively. The balance of 24.1 percent was mainly spent on interest payments, subsidies and other expenses.

Wages and Salaries

18. During the period under review, total releases for wages and salaries amounted to K4,435.1 billion of which K167.9 billion went towards the payment of housing allowance while K24.3 billion was for constitutional post holders.

19. Wages and salaries were higher than programmed by K178.7 billion. This was attributed to the 15.0 percent increment on wages and salaries for public service workers, which was higher than the planned 9.0 percent. As a percentage of GDP, nonetheless, wages and salaries at 8.0 percent were within the Government's target.

Public Service Retrenchment Programme

20. Releases towards the Public Service Retrenchment Programme stood at K30.0 billion, against the projected figure of K53.0 billion, and therefore, fell below target by K23.0 billion.

Use of Goods and Services

21. Total releases towards the use of goods and services in 2008, stood at K2,464.8 billion. Domestically financed expenditure was K1,836.3 billion, which was 2.4 percent higher than the programmed K1,793.2 billion. This outturn was on account of unanticipated expenditures such as the state funeral and the subsequent Presidential election. Consequently, spending on motor vehicles, and foreign and local travel was constrained in the second half of the year.

Interest on Domestic Debt

22. Interest payments on Government securities amounted to K879.8 billion, which was above the approved figure of K650.7 billion by 35.2 percent. This was on account of the higher than anticipated costs arising from the increase in yield rates.

External Debt Interest and Amortisation

23. Interest payments on external debt amounted to K70.2 billion, which was above the approved figure of K56.1 billion by K14.1 billion or 25.1 percent. Payments on amortisation amounted to K151.7 billion, which was above the approved amount of K114.5 billion by 32.4 percent. These variances on both debt interest and amortisation were mainly on account of the depreciation of the Kwacha against major foreign currencies.

Subsidies

24. During the period under review, Government released K435.0 billion against the planned expenditure of K185.1 billion for the Fertiliser Support Programme to

cushion the impact of higher fertiliser prices and to increase the number of beneficiaries. In addition, Government released K80.0 billion for the procurement of strategic food reserves and K10.0 billion for agricultural input packs as programmed.

Grants and Other Payments

25. Total releases for grants and other payments were below target by K291.9 billion at K1,676.0 billion against the programmed figure of K1,967.9 billion. Of the domestically financed grants and other payments, the Government released K1,246.6 billion against the programmed figure of K1,431.2 billion. Of this amount, K209.6 billion was released to the Zambia Revenue Authority and K55.2 billion to the road sector agencies.

Social Benefits

26. The Government released the budgetary allocation of K166.0 billion for the Public Service Pension Fund as planned.

Other Expenses

Liabilities

27. In order to dismantle Government liabilities, the Government released K641.2 billion against the planned K717.5 billion. Of this amount, K269.9 billion and K48.0 billion were released, as planned, for pension arrears and housing allowance arrears, respectively. A total of K275.5 billion released for suppliers of goods and services was, however, below the programmed figure of K350.5 billion.

Financial Restructuring

28. A total of K227.6 billion was released for financial restructuring which

was above the programmed figure of K117.9 billion. The variance was a result of the provision of K98.5 billion to ZESCO and K30.0 billion to Nitrogen Chemicals of Zambia (NCZ) for the Power Rehabilitation Project and recapitalisation of NCZ, which were not budgeted for in 2008.

Capital Expenditure

Non-Financial Assets

29. In the period under review, K2,050.0 billion was released towards non-financial assets and was below the projected level of K2,434.4 billion by 15.8 percent. In comparison to 2007, releases towards domestically financed non-financial assets, as a percentage of GDP, declined by 0.1 percentage points to 2.2 percent.

30. The under-performance of the domestically financed non-financial assets was explained by two factors. Firstly, Government constrained expenditures in the second half of the year to accommodate unanticipated expenditures. Secondly, the low absorption capacity by Ministries, Provinces and Spending Agencies (MPSAs) contributed to the slow pace of implementation of projects.

Financial Assets

31. Total releases for financial assets amounted to K47.6 billion against the programmed figure of K119.8 billion. The lower than programmed releases of funds was attributed to Government constraining expenditures in the second half of the year.

Table 10.5: Summary of Central Government Expenditure in (K'Billions), 2008

	2008 Budget	Preliminary	Variance	% Variance
I. TOTAL EXPENDITURE (III + IV)	13,761.4	13,410.7	(350.7)	(2.5)
II. DOMESTIC EXPENDITURE	11,177.2	11,526.2	349.0	3.1
III. CURRENT EXPENDITURE	11,207.2	11,313.2	106.0	0.9
Expenses	11,207.2	11,313.2	106.0	0.9
Personal Emoluments	4,256.5	4,435.1	178.7	4.2
o/w Housing Allowance	144.5	167.9	23.4	16.2
Constitutional Posts	47.2	24.3	(22.9)	(48.5)
Public Service Retrenchment Programme	53.0	30.0	(23.0)	(43.4)
Use of Goods and Services	2,846.1	2,464.8	(381.3)	(13.4)
Foreign Financed	1,052.9	628.6	(424.3)	(40.3)
Domestically	1,793.2	1,836.3	43.0	2.4
o/w State Functions	42.0	70.0	28.0	66.8
Awards and Compensation	100.0	66.7	(33.3)	(33.3)
Constitutional Review	309.4	52.6	(256.8)	(83.0)
By-Elections	4.0	231.0	227.0	5674.7
Interest	821.4	1,101.8	280.3	34.1
o/w Domestic Debt	650.7	879.8	229.1	35.2
External Debt	170.7	221.9	51.2	30.0
Subsidies	275.1	525.0	250.0	90.9
Strategic Food Reserve	80.0	80.0	0.0	0.0
Fertilizer Support Programme	185.1	435.0	250.0	135.1
Food Security Pack	10.0	10.0	(0.0)	0.0
Grants and Other Payments	1,967.9	1,676.0	(291.9)	(14.8)
Foreign Financed	536.7	429.4	(107.3)	(20.0)
Domestically	1,431.2	1,246.6	(184.6)	(12.9)
o/w Zambia Revenue Authority	210.8	209.6	(1.2)	(0.6)
Road Fund Agencies	54.6	55.2	0.6	1.2
Social Benefits	178.8	168.7	(10.0)	(5.6)
o/w Pension Fund	166.0	166.0	(0.0)	0.0
Other Expenses	926.1	911.7	(14.4)	(1.6)
Liabilities	717.5	641.2	(76.3)	(10.6)
Pension Arrears	269.9	269.9	0.0	0.0
Suppliers of Goods & Services (MoFNP)	350.5	275.5	(75.0)	(21.4)
Housing Allowance Arrears	48.1	48.0	(0.0)	(0.1)
Other Liabilities	49.0	47.7	(1.3)	(2.6)
Financial Restructuring	117.9	227.6	109.7	93.0
Ordinary Financial Restructuring	117.9	99.1	(18.8)	(16.0)
ZESCO		98.5	98.5	
NCZ		30.0	30.0	
Contingency	90.7	42.9	(47.8)	(52.7)
IV. CAPITAL EXPENDITURES	2,554.2	2,097.6	(456.7)	(17.9)
Non Financial Assets	2,434.4	2,050.0	(384.4)	(15.8)
o/w Foreign Financed	978.6	826.6	(152.0)	(15.5)
Domestically Financed	1,455.8	1,223.4	(232.4)	(16.0)
o/w Rural Electrification Programme	20.1	22.1	2.0	10.0
GRZ Road Fund	501.4	490.4	(11.0)	(2.2)
o/w Fuel Levy	340.4	340.4	0.0	0.0
Financial Assets	119.8	47.6	(72.2)	(60.3)
o/w Foreign Financed	16.0	0.0	(16.0)	(100.0)
Domestically Financed	103.8	47.6	(56.2)	(54.2)
o/w Citizens Economic Empowerment Fund	50.0	0.0	(50.0)	(100.0)
V. FISCAL BALANCE Surplus / Deficit	(1,655.0)	(1,402.5)	252.5	(15.3)
VI. FINANCING = V	1,654.0	1,402.5	(251.5)	(15.2)
Domestic	618.7	811.6	192.9	31.2
o/w Banking	618.7	811.6	192.9	31.2
Foreign	1,035.3	590.9	(444.4)	(42.9)
o/w Programme	203.3	118.3	(84.9)	(41.8)
Project	832.0	472.6	(359.4)	(43.2)

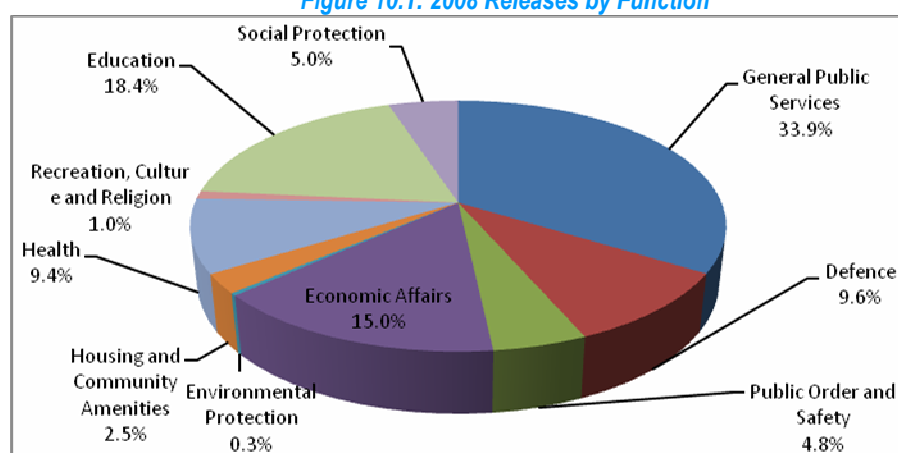
Source: Ministry of Finance and National Planning

10.5 Expenditure By Functional Classification

32. Total domestic releases to the ten functions amounted to K11,656.6 billion against the projected K11,295.2 billion. Represented as a share of total releases, general public services accounted for the highest proportion at 33.9 percent, followed by education and economic affairs

at 18.4 percent and 15.0 percent, respectively (see Figure 10.1). Defence and public order and safety combined accounted for 14.4 percent of total releases while the health function accounted for 9.4 percent. The balance went towards housing and community amenities, social protection and recreation, culture and religion, and environmental protection.

Figure 10.1: 2008 Releases by Function



Source: Ministry of Finance and National Planning

General Public Services

33. Government released K3,947.7 billion to the general public services function against the projected figure of K4,

276.2 billion (see Table 10.6). The higher than anticipated releases on the executive sub-function were on account of the activities leading to the 2008 Presidential election held in October 2008.

Table 10.6: General Public Services Function Releases

General Public Services	2008 Allocation	2008 Releases	Releases as Percentage of Domestic Budget
Executive	361.6	387.2	3.4
o/w Local Government Transfers	105.0	51.6	0.5
Legislation	638.0	377.9	3.3
o/w NCC	309.4	52.6	0.5
General Government Services	2,792.0	2,752.9	24.4
o/w Dismantling of arrears	350.5	275.5	2.4
Domestic Debt (Interest)	650.7	879.8	7.8
External Debt	234.7	204.0	1.8
Centralised Administrative Services	484.7	429.8	3.8
o/w Public Service Retrenchment Programme	53.0	30.0	0.3
Class Total	4,276.2	3,947.7	35.0

Source: Ministry of Finance and National Planning

Defence

34. The Government released K1, 120.1 billion to the function against the projected K981.3 billion. This was primarily attributed to the 15.0 percent salary award to all Government employees against the planned 9.0 percent.

Public Order and Safety

35. The Government released K557.9 billion to this function in the period under review with K43.0 billion released for the construction of police houses.

Economic Affairs

36. In the period under review, Government released K1,749.9 billion to this function against the planned amount of K1,440.9 billion. Of this amount, a total of K1,558.5 billion or 89.1 percent of the function was released to the sub-functions of agriculture, forestry and fishing, and transport (see Table 10.7). The higher than planned expenditures were due to additional releases to the Fertiliser Support Programme.

37. Under the transport sub-function, K765.5 billion or 43.8 percent of the function was released towards the road transport affairs and services. The focus was on the construction and rehabilitation of roads.

Table 10.7: Economic Affairs Releases by Function, 2008

Economic Affairs	2008 Allocation	2008 Releases	Releases as Percentage of Domestic Budget
General Economic, Commercial,	112.5	81.9	0.7
o/w Citizens Economic Empowerment Fund	50.0		0.0
Agriculture, Forestry and Fishing	539.4	793.0	7.0
o/w Fertiliser Support Programme	185.1	435.0	3.9
Fuel and Energy	45.5	43.7	0.4
o/w Rural Electrification	20.1	22.1	0.2
Mining	42.8	28.3	0.3
Transport	658.3	765.5	6.8
o/w GRZ Road	501.4	490.4	4.3
Communication	16.4	12.3	0.1
Tourism	26.0	25.1	0.2
Class Total	1,440.9	1,749.9	15.5
Memorandum item			
Total Domestic Budget	11,295.2		

Source: Ministry of Finance and National Planning

Social Sectors

38. Releases to the social sector function amounted to K4,243.2 billion in the period under review (see Table 10.8). These funds were used in line with government's policy of enhancing the provision of social services through investment in

infrastructure and human capital development.

Health

39. A total of K1,098.9 billion was released to the health function against the projected K996.1 billion. This outturn was partly attributed to the salary increment of 15.0 percent awarded to Government employees above the programmed 9.0 percent.

Education

40. The education function received a total of K2, 146.1 billion, against the projected K1, 857.1 billion. The higher than

planned releases were partly attributed to the salary increment of 15.0 percent awarded to Government employees above the planned 9.0 percent.

Social Protection

41. The Government released K588.1 billion to the social protection function against the projected K577.7 billion. The releases were higher as a result of additional resources for the mitigation of the impact of the floods that occurred during the 2007/2008 rainy season.

Table 10.8: Social Sector Releases by Function

Function	2008 Allocation	2008 Releases	Releases as Percentage of Budget
Health	996.1	1,098.9	9.7
Public Health Services	761.7	841.2	7.4
o/w Capital Expenditure	96.4	97.2	0.9
Education	1,857.1	2,146.1	19.0
Tertiary Education	416.5	438.3	3.9
Education (Other)	893.5	1,066.5	9.4
o/w Capital Expenditure	179.3	171.6	1.5
Social Protection	577.7	588.1	5.2
Housing and Community Amenities	384.0	289.1	2.6
Recreation, Culture and Religion	114.1	121.0	1.1

Source: Ministry of Finance and National Planning

Budget deficit

42. The overall budget deficit in 2008 stood at K1, 402.5 billion, representing 2.6 percent of GDP. This was below the projected deficit of 3.2 percent of GDP. The deficit was financed through domestic borrowing of K811.6 billion and foreign financing of K590.9 billion

10.6 Outlook

43. The focus of Government in 2009 will be to safeguard social sector spending and expand infrastructure development in order to accelerate diversification and enhance competitiveness. In light of constrained revenues, the Government will realign expenditures and increase borrowing.

Chapter 11 External Sector Developments

11.1 Overview

1. During the period under review, the performance of the external sector weakened. The overall balance of payments surplus narrowed and international reserves accumulation slowed down. The external debt stock, however, remained within sustainable levels.

11.2 Policy Developments

2. Government remained committed to prudent management of external debt, by among others, borrowing on concessional terms and meeting payment obligations. This was in line with its objective of ensuring that the country's financing needs were met at lowest possible cost and minimum risk, while maintaining the overall debt stock within sustainable levels.

3. The milestone for 2008 was the development of the debt management strategy which seeks to provide a clear framework for borrowing, and establishing the principles of decision making with respect to currency composition, maturity, interest rates and other debt portfolio risks.

11.3 External Debt Position In 2008

4. Preliminary data indicates that, public external debt stock at end-2008 increased by 8.6 percent to US \$2,267.2 million from US \$2,086.9 million recorded at end-2007. This was ascribed to a rise in the private and parastatal debt, which increased by 16.7 percent to US \$1,048.5 million from US \$980.7 million in 2007, largely due to continued investment in the mining sector, in the first half of the year.

5. The stock of Governments' external debt continued to rise in the review period. Preliminary data indicates the total debt stock as at end-2008 was US \$1,218.7 million, representing an increase of 10.2 percent from US \$1,106.2 million recorded at end-2007. The increase was on account of disbursements on existing loans, in particular the export credits, which were utilized for procurement of the earth moving equipment for infrastructure development, in the road sector.

6. The stock of debt at end-2007 was revised from US \$2,035.2 million to US \$2,267.2 million. The revision was on account of the debt data reconciliation and validation exercise undertaken by Government and its creditors in the review period (see Table 11.1).

Table 11.1: External Debt Stock (US \$ million), 2006-2008

Creditor	2006	2007	2008	% Change 2007/08
Multilateral	562.4	707.8	781.4	10.4
ADB/ADF	72.3	94.0	126.0	34.0
World Bank	257.3	315.5	365.0	15.7
IMF	32.5	85.9	96.6	12.5
Others	200.3	212.4	193.8	(8.8)
Bilateral	395.0	287.0	295.2	2.9
Paris Club	212.0	212.9	220.7	3.7
Non-Paris Club	183.0	74.1	74.5	0.5
Suppliers Creditors	61.6	111.4	142.1	27.6
Total Govt. External Debt	1,019.0	1,106.2	1,218.7	10.2
Private & Parastatal	840.3	980.7	1,048.5	6.9
Total External Debt	1,859.3	2,086.9	2,267.2	8.6

Source: Ministry of Finance and National Planning and Bank of Zambia

External Debt Service

7. During the review period, debt service payments were US \$60.1 million. Of this amount, principal repayment amounted to US \$41.5 million while US \$19.3 million was for interest payments.

Borrowings in 2008

8. Government procured five new loans amounting to US \$132.0 million with disbursements beginning in 2009. The loans were contracted on concessional terms to finance projects in the energy, infrastructure, water and sanitation sectors. Other loans contracted were for budget support (see Table 11.2).

Table 11.2: Concessional Loans Contracted by Central Government, 2008

Creditor	Purpose	Amount in US \$ million	Interest Rate(%)	Maturity (Yrs)	Grace Period(Yrs)	Scheduled Repayments per Yr	Commitment fee	Service Charge
BADEA	Copperbelt Feeder roads project	8.0	1	30	10	2	0	0
IDA	Economic Mgmt & Growth Facility Credit	10.0	0	40	10	2	0.5	0.75
IDA	Increased Access to Electricity	33.0	0	40	10	2	0.5	0.75
ADB	Poverty Reduction Budget Support II	24.0	0	40	10	2	0.5	0.75
ADB	Nkana Water & Sanitation Project	57.0	0	40	10	2	0.5	0.75

Source: Ministry of Finance and National Planning

11.4 Balance of Payments

9. Zambia's overall Balance of Payments (BoP) position in 2008 narrowed although it remained positive. An overall BoP surplus of US \$12.7 million was recorded, notably lower than US \$310.5

million recorded in 2007 (see Table 11.3). This decline was largely, attributed to the widening of the current account deficit, which outweighed the improvements recorded in the capital and financial account.

Table 11.3: Balance of Payments (US \$ millions), 2006-2008

	2006	2007	2008*
Current Account	142.8	(754.9)	(1,089.1)
Merchandise Trade Balance	1,307.0	899.2	401.7
Exports, f.o.b	3,890.7	4,448.5	4,876.9
Metal sector	3,175.4	3,667.7	4,000.8
Copper	3,029.3	3,406.5	3,684.2
Cobalt	146.1	261.2	316.5
Non-traditional	715.3	780.8	876.2
Imports, f.o.b	(2,635.8)	(3,610.5)	(4,555.2)
Metal sector	(520.7)	(1,059.1)	(1,380.5)
Non-metal sector	(2,115.1)	(2,551.4)	(3,174.7)
Goods Procured in ports by carriers	33.6	35.3	37.4
Non-monetary Gold	18.5	26.0	42.6
Services (net)	(358.2)	(639.6)	(618.1)
Services Receipts	228.9	273.4	297.0
Services Payments	(587.1)	(913.0)	(915.1)
Income (net)	(1,168.3)	(1,544.6)	(1,398.5)
Income Receipts	18.4	35.2	29.5
Income Payments	(1,186.7)	(1,579.8)	(1,428.0)
Of which: Income on Equity Payments	(1,107.0)	(1,473.6)	(1,345.0)
Interest payments	(56.9)	(13.3)	(54.1)
Current Transfers(net)	362.2	530.1	525.8
Private	153.7	227.9	233.6
Official	208.5	302.2	292.2
Commodity, SWAP & Global Fund	92.2	155.6	121
Budget Grants	116.3	146.6	171.2
Capital and Financial Account	1,039.8	1,065.4	1,101.70
Capital Account(net)	2,632.8	222.8	264.0
Capital Transfers	2632.8	222.8	264.0
Project Assistance grants	229.4	222.8	264.0
Financial Account(net)	(1,593.0)	842.6	837.7
Direct Investment	615.8	1,323.9	938.6
Portfolio Investment	50.4	41.8	21.7
Other Investment	(2,259.2)	(523.1)	(122.6)
Assets	(462.3)	(1,005.8)	(500.7)
Increase in NFA - banks(-)	(48.8)	(66.7)	142.7
Other Short term Deposits	(413.6)	(939.1)	(643.4)
Liabilities	(1,796.9)	482.7	378.1
Government	(1,779.3)	33.9	118.4
Disbursement of Loans	91.4	82.7	161.8
Project	82.7	82.7	130.0
Budget	8.8	0	31.8
Amortization of loans(-)	(1,870.7)	(48.8)	(43.3)
Private Foreign Borrowing(net)	(17.6)	448.8	259.6
Errors and Omissions	(360.9)	0	0
Overall balance	821.6	310.5	12.7
Financing of Overall balance	(821.6)	(310.5)	(12.7)
Change: NIR of Bank of Zambia	(821.6)	(310.5)	(12.7)
Reserve Assets	(263.9)	(352.3)	(28.6)
Use of Fund Credit and Loans(net)	(557.7)	41.8	15.9
Disbursements	24.3	41.8	15.9
Repayments	(582.0)	0.0	0.0
Memorandum Items:			
Current account, including grants (% of GDP)	3.4	(4.7)	(5.6)
Excluding grants	(0.6)	(9.3)	(9.4)
Copper export volume (thousands of metric tons)	491.7	490.9	585.2
Copper export price (U.S. dollars per pound)	2.8	3.1	2.9
Gross international reserves (in millions of U.S. dollars)	595.1	947.4	976.0
In months of imports	2.2	2.5	2.1
Exports of goods and services (BXG+BXS)	4,171.7	4,783.1	5,253.9
Imports of goods and services (BMG+BMS)	(3,222.9)	(4,523.5)	(5,470.3)
Balance of goods and services (BX+BM)	948.8	259.6	(216.4)
Nominal GDP (\$ millions)	10,892.7	11,411.0	14,689.3

Source: Bank of Zambia

* Preliminary

Current Account

10. During the year under review, the current account deficit widened to US \$1,089.1 million from US \$754.9 million recorded the previous year, largely on account of a decline in the merchandise trade surplus.

11. The merchandise trade surplus declined by 55.3 percent to US \$401.7 million from US \$899.2 million recorded in 2007. This was attributed to a surge in the merchandise imports bill, which was higher than the increase in merchandise export earnings.

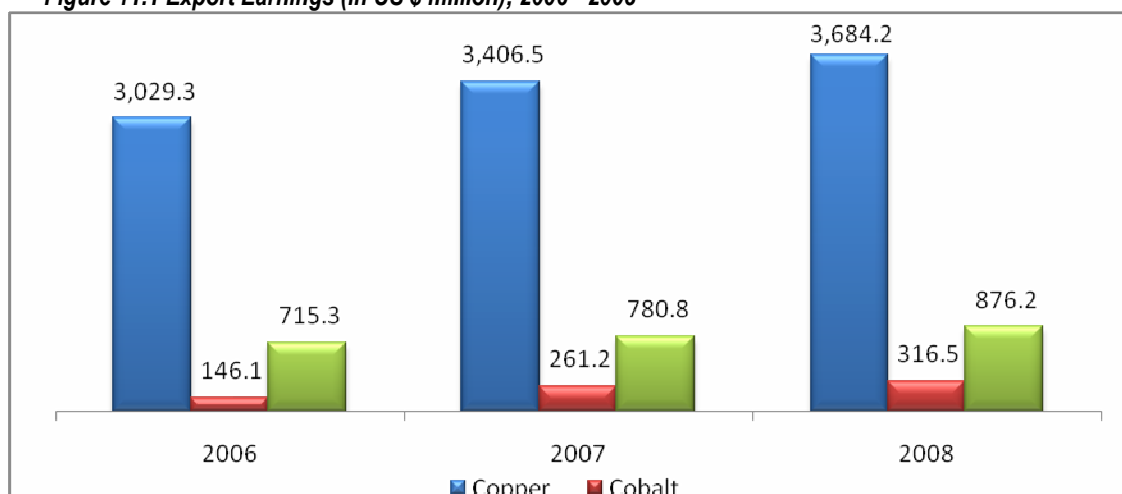
12. The merchandise imports bill grew by 26.2 percent to US \$4,555.2 million in 2008 from US \$3,610.5 million recorded in 2007. This was mainly explained by higher import bills associated with commodity groups such as petroleum products which increased by 69.0 percent, fertiliser (47.1 percent), chemicals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

13. Merchandise export earnings increased by 9.6 percent to US \$4,876.9 million in 2008 from US \$4,448.5 million recorded the previous year. This was

attributed to an increase in both metal and non-metal export earnings. Metal export earnings rose by 9.1 percent to US \$4,000.8 million from US \$3,667.7 million recorded in 2007, reflecting an increase in both copper and cobalt export earnings.

14. Copper export earnings grew by 8.2 percent to US \$3,684.2 million from US \$3,406.5 million recorded in 2007 (see Figure 11.1). Increased copper export volumes, which more than offset the decline in the realised price, explained this outturn. Copper export volumes at 585,170 mt were 19.2 percent higher than 490,900 mt recorded in 2007. The average realised price of copper, however, declined by 9.3 percent to US \$6,371.8 per tonne from US \$6,938.8 per tonne recorded in 2007. The sharp decline in copper prices on the international market, particularly, in the fourth quarter of 2008, due to the global economic crisis, explained this outturn.

15. Similarly, cobalt export earnings increased by 21.2 percent to US \$316.9 million from US \$261.2 million in 2007 (see Figure 11.1). This largely reflected a 26.4 percent rise in the realised price to US \$68,517.8 per tonne from US \$54,312.4 per tonne the preceding year. An upswing in cobalt prices on the international market, particularly during the first half of the year, explained this outturn. Cobalt export volumes, at 4,625.3 mt, however, were 4.1 percent lower than 4,809.0 mt recorded in 2007.

Figure 11.1 Export Earnings (in US \$ million); 2006 - 2008

Source: Bank of Zambia

16. During the same period, non-traditional export earnings, at US \$876.2 million, were 12.2 percent higher than US \$780.8 million realised in 2007. Increased earnings from the export of cement and lime by 61.5 percent, wheat and mesulin (45 percent), gasoil (23.7 percent), burley tobacco (18.0 percent), gemstones (13.5 percent), fresh fruits and vegetables (9.9

percent), contributed to this outturn. However, products such as copper wire, electrical cables, cane sugar, fresh flowers, cotton lint, cotton yarn, and electricity recorded reduced earnings (see Table 11.4). The decline in export earnings of these products was partly attributed to the lagged effects of the appreciation of the Kwacha coupled with electricity load-shedding.

Table 11.4. Non-Traditional Exports (C.I.F.) US \$ Millions and Percentage Share, 2006 – 2008

	2006		2007		2008		Change (2007/087)
	Value	Share	Value	Share	Value	Share	
Copper Wire	175.0	23.1	195.4	23.6	163.5	17.6	(16.3)
Cane Sugar	54.3	7.2	74.4	9	60.7	6.5	(18.5)
Burley Tobacco	70.5	9.3	63.2	7.6	74.6	8.0	18.0
Cotton Lint	62.3	8.2	37.1	4.5	35.4	3.8	(4.6)
Electrical Cables	103.7	13.7	150.5	18.2	54.5	5.9	(63.8)
Fresh Flowers	34.7	4.6	38.3	4.6	23.7	2.6	(38.1)
Cotton Yarn	18.9	2.5	12.4	1.5	7.5	0.8	(39.1)
Fresh Fruits & Vegetables	25.3	3.3	24.6	3	27	2.9	9.9
Gemstones	18.1	2.4	28.6	3.5	32.4	3.5	13.5
Gasoil/Petroleum Oils	10.3	1.4	20.9	2.5	25.9	2.8	23.7
Electricity	7.0	0.9	7.3	0.9	3.3	0.4	(54.5)
Other	161.5	21.3	265	32.1	445.5	48	68.1
Exporter Audit Adjustor	15.6	2.1	(91.0)	(11.0)	(26.3)	(2.8)	(71.1)
Total	757.2	100	826.6	100	927.6	100	12.2

Source: Bank of Zambia

Capital and Financial Account

17. In the period under review, the capital and financial account marginally increased to US \$1,101.7 million from US \$1,065.4 million recorded in 2007. This improvement stemmed largely from increased inflows in form of project grants and loans, and budget loans. In addition, the decline in net foreign assets held by commercial banks contributed to this outturn. Other inflows in form of foreign direct investment, portfolio investment and private borrowing, however, declined.

Export Market Shares by Region

18. Zambia's overall export trade during the period 2006 to 2008 remained highly concentrated in Europe and Africa. Europe was the major destination of Zambia's

exports during the period under review, accounting for an average share of about 50.3 percent. The European Union region had a period average share of 5.9 percent. Within Europe, Switzerland alone accounted for an average market share of 44.3 percent mainly on account of high volumes of copper exports to that country (see Table 11.5).

19. Africa ranked second with an annual average share of 27.5 percent over the last three years. The SADC region dominated as a major destination of Zambia's exports with market shares of 17.6 percent in 2006, 24.0 percent in 2007 and 21.0 percent in 2008. In SADC, South Africa, Congo (DR) and Malawi were the largest export markets for Zambia's products collectively accounting for 27.7 percent.

Table 11.5: Exports Market Percentage Shares by Major Trading Regions, 2006–2008

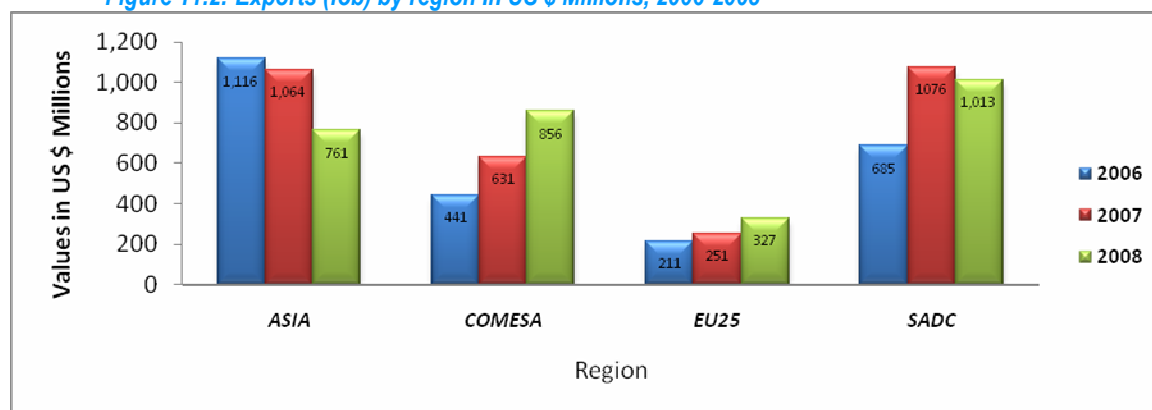
Region	2006		2007		2008*	
	Value (US \$)	% Share	Value (US \$)	% Share	Value (US \$)	% Share
ASIA	1,116	28.7	1,064	23.9	761	15.6
EUROPE Total	1,676	43.1	2,181	49.0	2,866	58.8
Switzerland*	1,463	37.6	1,928	43.3	2,536	52.0
EU ²⁵	211	5.4	251	5.6	327	6.7
Rest of Europe	3	0.1	1	0.0	2	0.0
AFRICA Total	886	22.8	1,344	30.2	1,433	29.4
COMESA (exclusively)	201	5.2	268	6.0	418	8.6
SADC (exclusively)	445	11.4	713	16.0	575	11.8
Both (COMESA & SADC)	240	6.2	363	8.2	438	9.0
Rest of Africa	0.7	0.0	0.4	0.0	1.4	0.0
Rest of the World (ROW)	4.0	0.1	29.0	0.7	27.0	0.6
Adjustor	208.7	5.4	(168.5)	(3.8)	(210.1)	(4.3)
TOTAL WORLD	3,890.7	100	4,448.5	100	4,876.9	100

Source: Central Statistical Office, International Trade Statistics.

* Preliminary

20. The other export markets were Asia and COMESA, whose annual average market share was 22.7 percent and 14.0

percent, respectively. The rest of the world accounted for about 0.4 percent of export trade with Zambia (see Figure 11.2).

Figure 11.2: Exports (fob) by region in US \$ Millions, 2006-2008

Source: Central Statistical Office, International Trade Statistics.

Note: Individual Totals for SADC & COMESA regions could be up rated by adding figures from line Both (SADC & COMESA) for the respective periods.

Import Market Shares by Region

21. Zambia's imports during the period under review were mainly from Africa, Asia and Europe. On average, about 59.3 percent of the imports were from the SADC region. The Asian market had the second largest share of imports after SADC, accounting for an average of 25.0 percent of the total imports. Imports from Europe accounted for 11.0 percent, while the rest of the world contributed an average of 3.2 percent of the total imports.

22. Imports from the European Union grew by 38.6 percent in 2008 to US \$511.7 million from US \$ 369.1 million in 2006. The bulk of imports within the European Union were from the United Kingdom, with a share of about 34.8 percent and the Netherlands with an annual average of 26.6 percent of the total imports (see Table 11.6 and Figure 11.3).

Table 11.6: Import (cif) Market Percentage shares by Major Trading Regions, 2006 – 2008

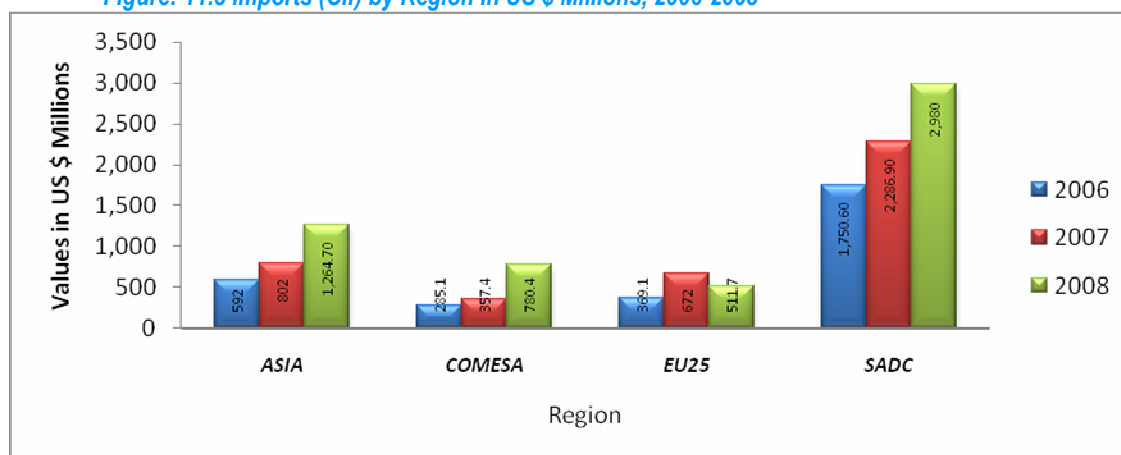
Region	2006		2007		2008*	
	Value (US \$)	% Share	Value (US \$)	% Share	Value (US \$)	% Share
ASIA	592.3	19.6	801.5	20.0	1,264.7	25.0
EUROPE Total	507.2	16.8	698.1	17.4	556.6	11.0
EU ²⁵	369.1	12.2	672.0	16.8	511.7	10.1
Rest of Europe	138.1	4.6	26.1	0.7	44.9	0.9
AFRICA Total	1,813.7	60.0	2,376.3	59.3	3,078.9	60.8
SADC (exclusively)	1,527.9	50.5	2,017.6	50.4	2,296.1	45.4
COMESA (exclusively)	62.4	2.1	88.1	2.2	96.1	1.9
Both (COMESA & SADC)	222.7	7.4	269.3	6.7	684.3	13.5
Rest of Africa	0.7	0.0	1.3	0.0	2.4	0.0
Rest of World	111.2	3.7	131.4	3.3	161.1	3.2
Total World	3,024.0	100.0	4,007.0	100.0	5,060.4	100.0

Source: CSO, International trade statistics

* Preliminary

Note: Individual Totals for SADC & COMESA regions could be up rated by adding figures from line Both (SADC & COMESA) for the respective periods

Figure: 11.3 Imports (Cif) by Region in US \$ Millions, 2006-2008



Source: CSO, International Trade Statistics

11.5 Outlook

23. In 2009, Zambia's external sector is expected to weaken largely on account of the expected decline in export earnings, following the slide in copper prices on the international market, due to the global economic crisis. This is, however, expected to be moderated by the projected increase in metal export volumes, attributed to the commencement of commercial production at Lumwana copper mines.

24. In the area of external debt, Government will continue to contract debt within sustainable levels through borrowing on concessional terms and meeting payment obligations. Further, Government will accommodate non-concessional borrowing for commercially viable infrastructure projects, such as, hydro-power plants, dam construction and telecommunications.

Chapter 12 Monetary and Financial Sector Developments

12.1 Overview

1. Developments in the monetary and financial sector in 2008 were mixed, with inflation rising. In line with the rise in inflation, both Government securities yield rates and commercial banks' lending rates rose. Nonetheless, domestic credit increased largely due to a rise in lending to the private sector.

2. In the foreign exchange market, the exchange rate of the Kwacha against major currencies was characterised by increased volatility, especially in the latter part of the year. The Kwacha appreciated in the first half of the year due to increased inflows of foreign exchange on the market. This, however, reversed in the second half of the year, on account of reduced inflows of foreign currency amid mounting demand. In spite of the pressure on the exchange rate in the second half of the year, the country recorded a modest increase in Gross International Reserves (GIR).

3. In the financial sector, the overall financial condition and performance of the banking sub-sector during the year under review was satisfactory while that of the Non-Bank Financial Institutions (NBFIs) was fair.

12.2 Policy Developments and Objectives

4. The main focus of monetary policy in 2008 was to maintain single-digit inflation at 7.0 percent by the end of 2008. In this regard, liquidity in the banking system was to be contained by limiting

reserve and broad money growth to 12.0 percent each. Monetary policy was to be complemented by prudent fiscal management.

5. In the financial sector, the key objective during the year remained that of maintaining stability, by enforcing the Banking and Financial Services Act (BFSA) and the prudential regulations issued under the Act. In the light of the global financial crisis in the latter part of the year, the Central Bank stepped up its oversight of the financial system in order to maintain public confidence in the sector.

6. During the year, the Bank of Zambia issued Risk Management Guidelines. The guidelines provide minimum standards for banks' risk management frameworks for identifying, measuring, controlling and monitoring the levels and types of risks that banks assume during the normal course of their business.

12.3 Monetary Developments

Broad Money

7. Preliminary data show that in 2008, broad money growth (M3) slowed down to 21.8 percent from 26.3 percent recorded at end-December 2007. This was largely a result of a relatively lower growth in Net Foreign Assets (NFA) in 2008 compared with the growth in 2007. The growth in Net Domestic Assets (NDA), however, was higher in 2008 than in 2007. In absolute terms, broad money increased by K2, 337.2

billion to K13, 044.3 billion in 2008 from the K10, 707.0 billion recorded at end-

December 2007 (see Table 12.1).

Table 12.1: Monetary Developments (K' billion), December 2006 - December 2008

Description	2006	2007	2008*	(%) Change 2007/08
Net Foreign Assets	3,953.1	5,064.0	5,603.8	10.7
Foreign Assets	7,612.9	9,589.9	10,586.8	10.4
Foreign Liabilities	(3,219.5)	(4,525.9)	(4,983.0)	(10.1)
Domestic Assets	4,523.7	5,643.0	7,440.5	31.9
Domestic Credit	6,358.1	7,648.7	10,536.2	37.8
Net Claims on General Government	2,374.0	1,893.5	2,311.7	22.1
Claims on Government	2,439.7	4,441.0	4,520.1	1.8
Government Deposits	(1,634.0)	(2,547.5)	(2,208.5)	(13.3)
Claims on Public Enterprise	224.4	378.5	147.5	(61.0)
Claims on Private Enterprises	3,044.5	4,309.1	5,455.2	26.6
Claims on Households	625.2	942.6	2,492.5	164.4
Claims on Non-Bank Financial Institutions	89.9	124.9	129.2	3.4
Other Items Net	(1,834.4)	(2,005.7)	3,095.7	54.3
Broad Money	8,476.8	10,707.0	13,044.3	21.8
Narrow Money	3,463.7	4,172.5	5,101.4	22.3
Quasi-Money	5,013.1	6,534.5	7,942.8	21.6
Foreign Currency Deposits	2,714.0	3,905.9	4,371.9	11.9
Other Deposits	2,299.1	2,628.6	3,571.0	35.9

Source: Bank of Zambia

* Preliminary

8. The NFA growth slowed down to 10.7 percent in 2008 from 28.1 percent at end-December 2007, mainly due to a relatively lower growth in GIR¹. In 2008, the GIR increased by 8.9 percent compared with the 48.9 percent increase in the year 2007. This was mainly attributed to net foreign exchange sales to the market in the latter part of the year, necessitated by the pressure on the exchange rate of the Kwacha. In terms of contribution to M3 growth, NFA accounted for 5.0 percentage points.

9. The NDA growth increased to 31.9 percent from 24.7 percent at end-December 2007, primarily due to an increase in credit to both the private sector and Government. Accordingly, NDA

contributed 16.8 percentage points to M3 growth.

Domestic Credit

10. Domestic credit grew by 37.8 percent in 2008 compared with 20.3 percent recorded at end-December 2007, largely due to an increase in lending to the private sector. Lending to the private sector increased by 50.2 percent, contributing 35.3 percentage points to domestic credit growth.

11. Credit to households accounted for the largest increase in private sector credit followed by lending to private enterprises. Lending to households increased by 164.4 percent while credit to private enterprises went up by 26.6 percent, with credit to non-bank financial institutions increasing by 3.5 percent. Banking system lending to the

¹ This also includes HIPC Funds and Statutory Reserves

Government increased in the period under review by 22.1 percent and contributed 5.5 percentage points to domestic credit expansion. Lending to public enterprises, however, declined by 61.0 percent.

12. On a sectoral distribution basis, households (personal loans category)

continued to be the largest recipient of credit, accounting for 25.4 percent in December 2008. Agricultural sector continued to be second at 16.2 percent, followed by manufacturing at 10.8 percent while community, social and personal services received the lowest at 1.3 percent (see Table 12.2).

Table 12.2: Sectoral Shares in Total Loans and Advances, December 2006 – December 2008

Description	Dec 2006 (%)	Dec 2007 (%)	Dec 2008 (%)
Agriculture	27.2	21.0	16.2
Mining & Quarrying	4.3	4.0	4.7
Manufacturing	13.3	10.7	10.8
Electricity, gas, water & energy	3.2	4.9	2.4
Construction	2.2	3.5	4.0
Wholesale and retail trade	14.5	10.8	9.7
Restaurants & hotels	2.0	1.2	3.1
Transport, storage and communications	8.0	7.2	7.0
Financial services	4.7	4.2	7.9
Community, social and personal services	2.5	1.6	1.3
Real Estate	4.8	2.2	4.9
Personal Loans	11.2	26.0	25.4
Other	2.1	2.7	2.6
Total	100.0	100.0	100.0

Source: Bank of Zambia

12.4 Inflation Developments

13. The annual overall inflation rate remained in single-digit during the first quarter of 2008, but reverted to double-digit level in April 2008, rising steadily to 16.6 percent in December 2008. This outturn was 9.6 percentage points above the end-year inflation target of 7.0 percent and 7.7 percentage points above the 8.9 percent recorded at end-December 2007. This was largely attributed to an increase in annual food inflation.

14. The annual food inflation rate remained in single digit level during the first quarter at 9.8 percent in March 2008, but

reverted to double-digit level in June, surging to 20.5 percent in December 2008. The sharp increase was attributed to high prices of most food commodities (maize, maize products, wheat, cereals and cereal products, kapenta, fish, fresh vegetables, tubers and dried beans) exacerbated by the short supply of grain on the local market. In addition, rising production costs associated with transport and electricity load shedding contributed to higher prices of processed food items.

15. Annual non-food inflation slowed down to 10.4 percent in March 2008 from 11.9 percent in December 2007, easing further to 8.8 percent at end-June 2008.

This favourable outturn was mainly attributed to the pass-through effects of the appreciation of the Kwacha against the US dollar by 14.4 percent during the first half of the year. This trend, however, reversed in the second half of the year with non-food inflation rising to 12.9 percent at end-December 2008. This reflected pass-through effects of the depreciation of the Kwacha against the US dollar by 50.3 percent during the second half of 2008. In addition, domestic fuel prices rose by 11.6 percent during the third quarter of 2008, due to high petroleum prices on the world market and resulted in the subsequent upward adjustment in transport costs.

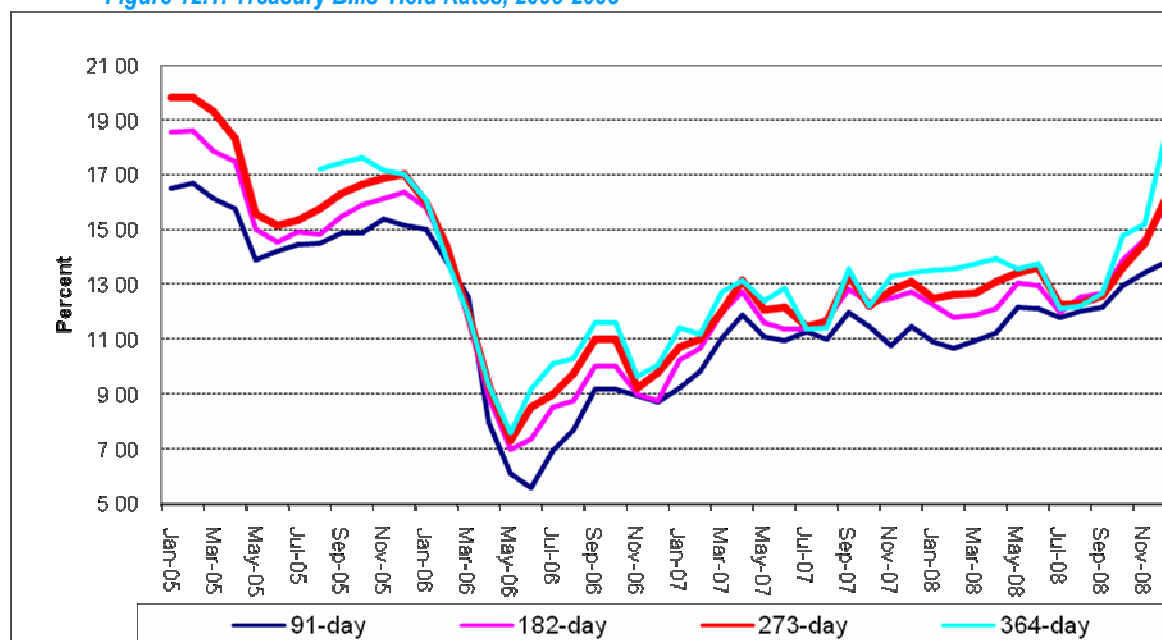
Government Securities Yield Rates

16. In 2008, interest rates on Government securities were high, partly due to inflationary pressures that prevailed for the most part of the year coupled with deficits recorded on Government securities

auctions. The weighted average Treasury bills yield rate increased by 3.9 percentage points to an average of 16.8 percent in December 2008. Similarly, the yield rates on Government bonds rose, with the composite bond yield rate closing the year at an average of 16.7 percent in December 2008 from 15.6 percent in December 2007.

17. As regards developments in yield rates on Treasury bill portfolios, an upward trend was observed during the period under review. Yield rates on the 91 and 182-day Treasury bills rose to monthly averages of 13.8 percent and 15.8 percent in December 2008 from 11.5 percent and 12.8 percent in December 2007, respectively. Similarly, yield rates on the 273 and 364-day portfolios were higher at the end of the year, rising to an average of 16.1 percent and 18.4 percent, from 11.9 percent and 11.8 percent in 2007, respectively (see Figure 12.1).

Figure 12.1: Treasury Bills Yield Rates, 2005-2008

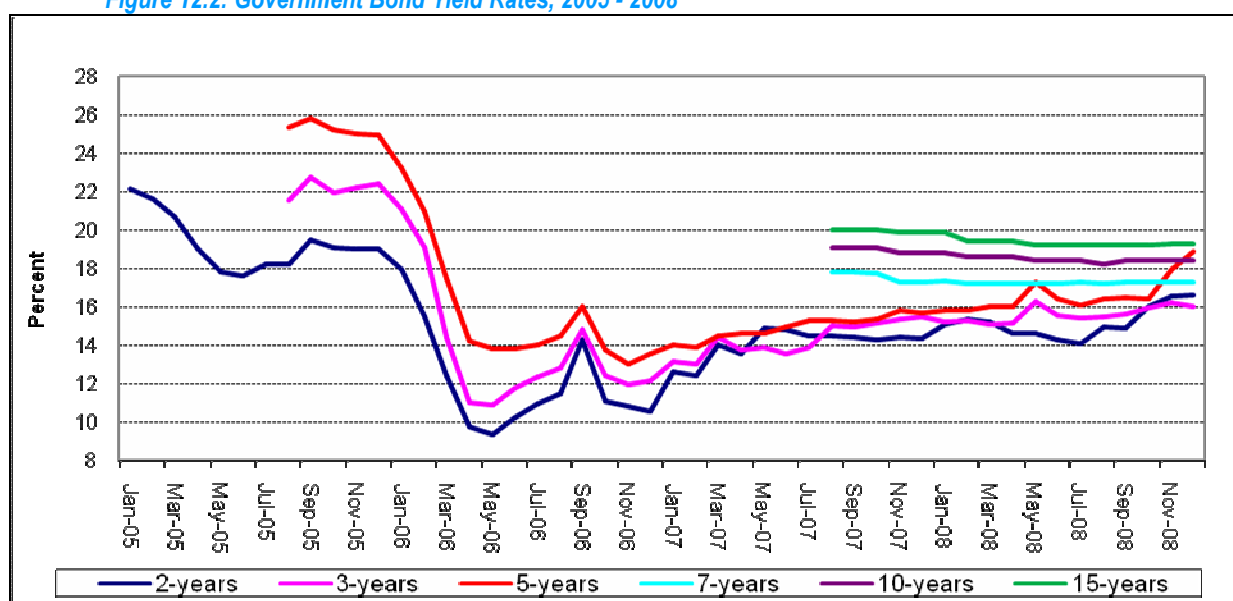


Source: Bank of Zambia

18. Developments in yield rates on individual Government bond portfolios, however, were mixed. At the shorter end of the bond market, yield rates generally rose while at the longer end, yield rates declined. These developments were reflected in yield rates on the 2, 3 and 5-year bonds rising to averages of 16.6 percent, 16.0 percent and 18.9 percent in December 2008 from averages of 14.4

percent, 15.5 percent and 15.6 percent in December 2007, respectively. Nonetheless, yield rates on the 10-year and 15-year bonds declined to averages of 18.4 percent and 19.3 percent at the close of 2008 from 18.8 percent and 19.9 percent, respectively at the end of 2007. The yield rate on the 7-year bond remained relatively unchanged at 17.3 percent (see Figure 12.2).

Figure 12.2: Government Bond Yield Rates, 2005 - 2008



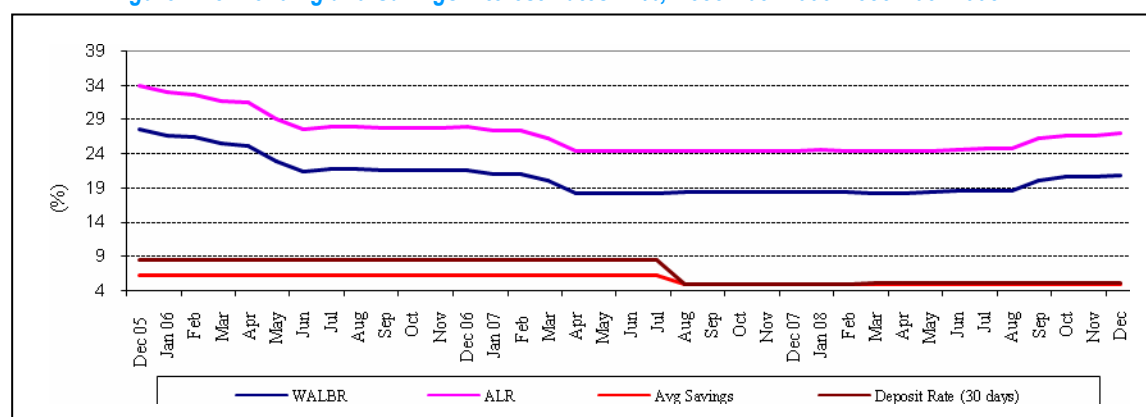
Source: Bank of Zambia

Commercial Banks Interest Rates

19. Nearly all commercial banks nominal interest rates increased in 2008. The weighted average lending base rate (WALBR) and average lending rate (ALR) rose to 20.8 percent and 26.9 percent at end-December 2008 from 18.3 percent and 24.4 percent at end-December 2007, respectively, largely due to the increase in inflation. Similarly, the 30-day deposit rate for amounts exceeding K20 million increased to 5.0 percent at end-December 2008 from 4.8 percent recorded at end

December 2007. However, the average savings rate (ASR) for amounts above K100,000 remained unchanged at 4.8 percent in the period under review (see Figure 12.3)

Figure 12.3: Lending and Savings Interest Rates in %, December 2005-December 2008



Source: Bank of Zambia

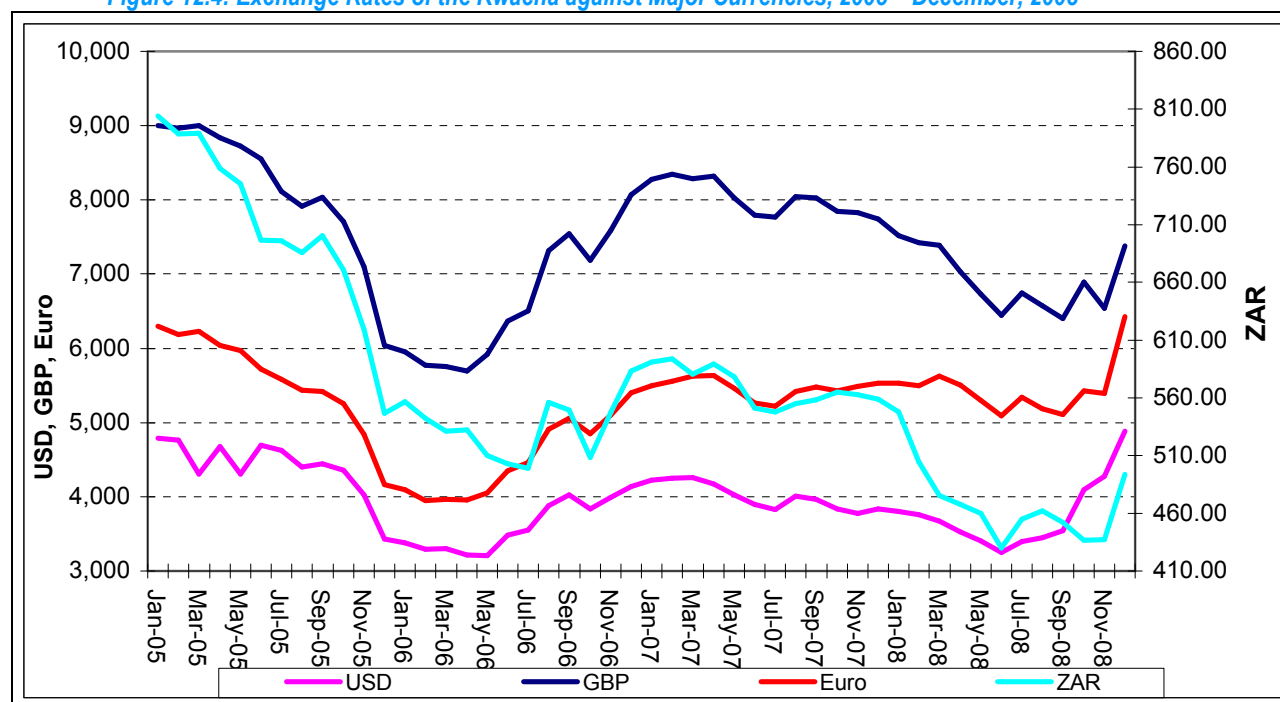
Exchange Rate Developments

20. The exchange rate of the Kwacha against major currencies was characterised by increased volatility in 2008 (see Figure 12.4). In the first half of the year, increased inflows of foreign exchange on the market resulted in a significant appreciation of the exchange rate against major foreign currencies. However, in the second half of the year, the gains of the Kwacha against some major foreign currencies earlier in the year were reversed as the domestic currency weakened on account of reduced inflows of foreign currency amid mounting demand. Pressure on the Kwacha arose from a number of factors, including the political uncertainty surrounding the Presidential election, the worsening of the global financial crisis and the sharp decline in copper prices.

21. The Kwacha depreciated by 27.3 percent and 16.2 percent against the United States dollar and euro to averages of K4,882.34/US\$ and K6,427.20/€ in December 2008 from averages of K3,835.75/US\$ and K5,532.27/€ in

December 2007, respectively. Against the Pound Sterling, the Kwacha appreciated by 5.6 percent to an average of K7,285.11 in December 2008 from an average of K7,748.28 in December 2007. The Kwacha also appreciated against the South African rand by 11.7 percent to an average of K493.60 in December 2008 from an average of K558.82 in December 2007.

Figure 12.4: Exchange Rates of the Kwacha against Major Currencies, 2005 – December, 2008



Source: Bank of Zambia

12.5 Financial Sector Developments

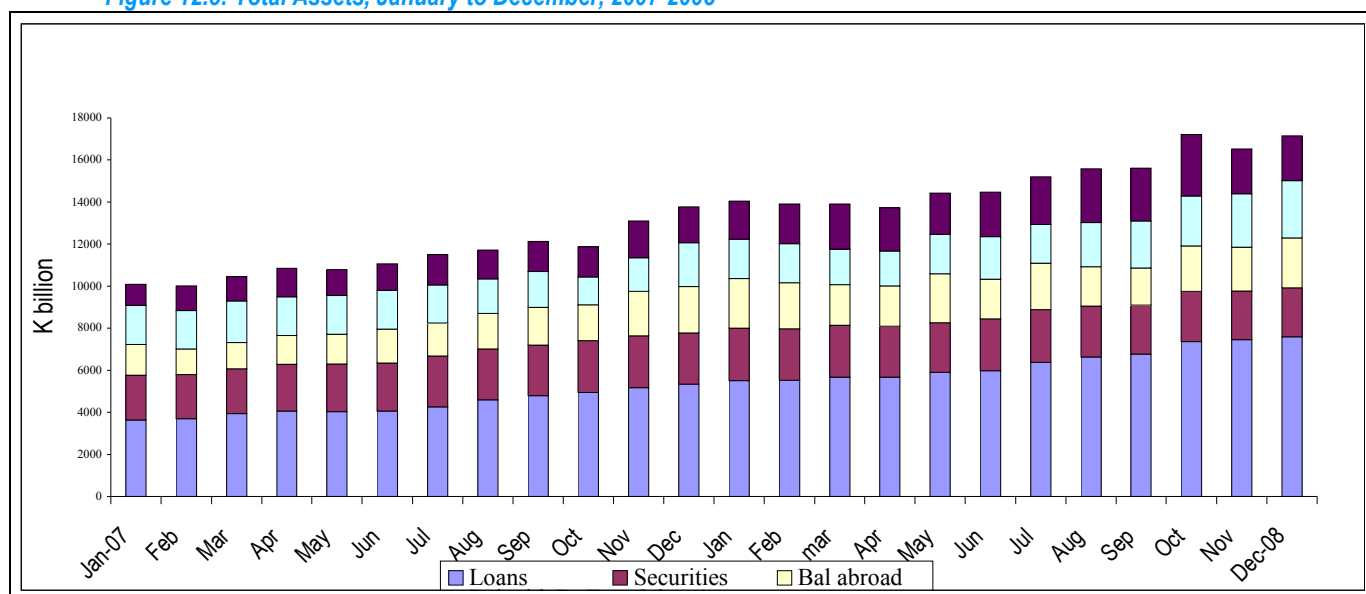
Banking Sector Performance

22. The overall financial condition and performance of the banking sector during the year under review was satisfactory. The sector continued to record positive growth in total assets and earnings; while the capital adequacy and liquidity ratios

remained high, and asset quality showed improvements.

23. Overall, total assets in the banking sector grew by 24.4 percent to K17,146.6 billion from K13,779.3 billion at end-December 2007. The asset structure of the sector continued to be dominated by net loans and leases at 44.3 percent compared with 38.7 percent at end-December 2007 (see Figure 12.5).

Figure 12.5: Total Assets, January to December, 2007-2008



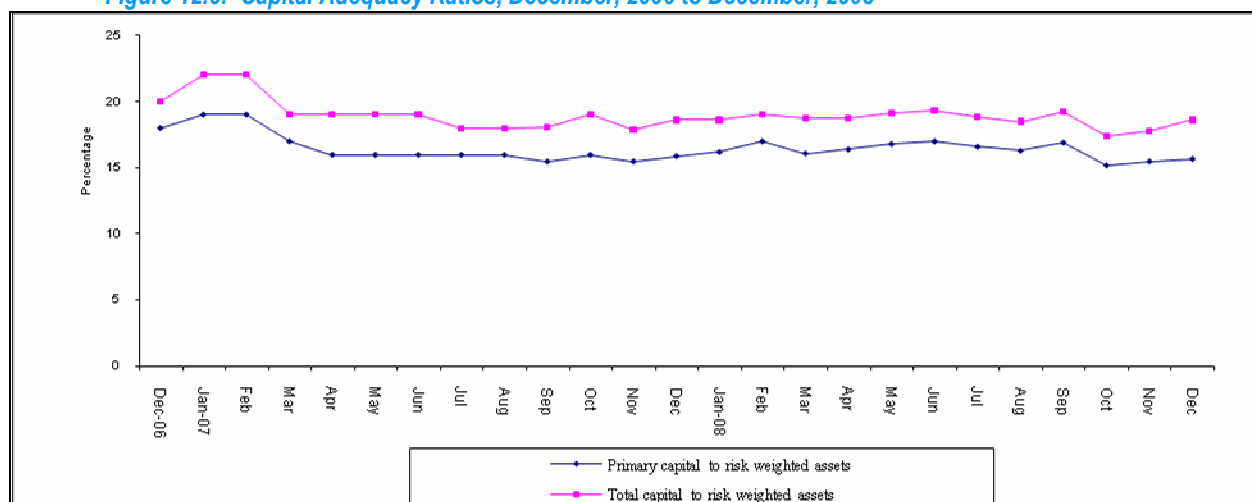
Source: Bank of Zambia

24. Total liabilities increased in 2008 by 24.7 percent to K15,490.3 billion from K12,421.7 billion at end-December 2007. This was largely on account of total deposits, which grew by 22.9 percent to K12,203.5 billion.

25. All banks met the minimum capital adequacy ratios of 5.0 percent and 10.0 percent for primary regulatory capital and total regulatory capital, respectively. The industry's capital adequacy ratios closed at

15.7 percent for primary regulatory capital and 18.6 percent for total regulatory capital compared with 15.9 percent and 18.6 percent at end-December 2007, respectively (see Figure 12.6). The decline in the capital adequacy ratio over the past 24 months is explained by the banks' shift to assets with a higher risk profile dominated largely by net loans and leases to the private sector.

Figure 12.6: Capital Adequacy Ratios, December, 2006 to December, 2008



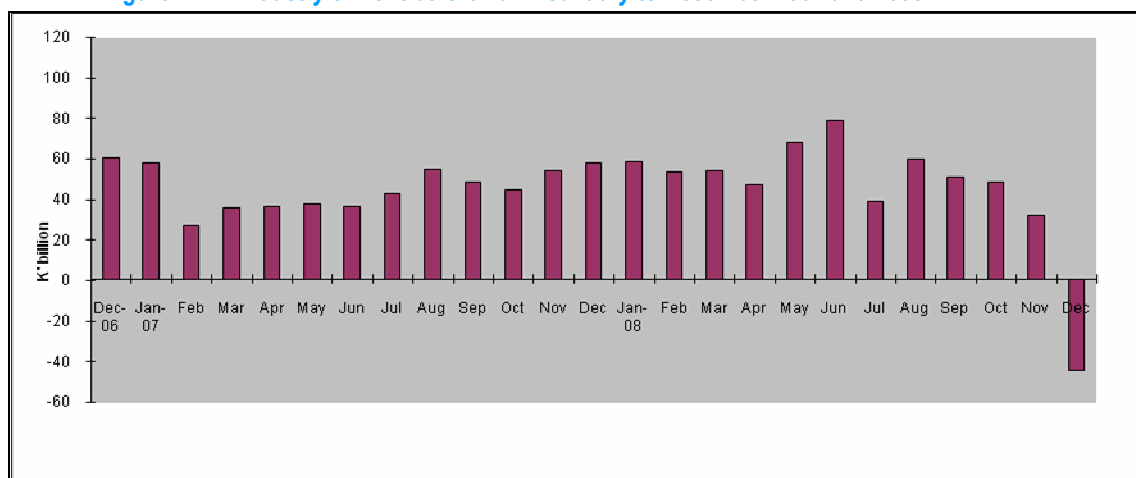
Source: Bank of Zambia

26. The asset quality of the banking sector in the year under review was satisfactory. The gross non-performing loans to total gross loans ratio and net non-performing loans to total regulatory capital ratio, improved to 7.2 percent and 5.2 percent from 8.8 percent and 9.6 percent at end-December 2007, respectively.

K1,254.8 billion and K887.8 billion, respectively (see Figure 12.7).

27. The banking sector's earnings performance was satisfactory, with profit before tax increasing by 1.6 percent to K544.3 billion from K536.0 billion recorded in 2007. The increase in profitability was largely on account of a rise in both net-interest income and total non-interest income by 28.2 percent and 24.2 percent to

Figure 12.7: Industry's Profit before Tax – January to December 2007 and 2008



Source: Bank of Zambia

28. The ratio of liquid assets to deposits and short term liabilities (liquidity ratio) slightly deteriorated to 43.0 percent compared to 46.0 percent at end-December 2007. In spite of the slight deterioration, the industry's liquidity position was rated adequate.

Non-Bank Financial Institutions

Sector Performance

29. In 2008, a total of 76 non-bank financial institutions were under the supervision of the Bank of Zambia compared to 61 in 2007. These included, leasing companies, building societies, micro-finance institutions, bureaux de change and a Credit Reference Bureau (see Table 12.3).

30. The overall financial performance and condition of the NBFIs was satisfactory during the year under review. On average, the NBFIs reported adequate regulatory capital while earnings performance, asset quality and liquidity positions were rated fair. Five deposit-taking NBFIs accounting

for 52.0 percent of total sector assets were rated satisfactory while nine NBFIs accounting for 15 percent of sector total assets were rated fair. In addition, five NBFIs accounting for 33 percent of the sector total assets were rated unsatisfactory.

Table 12.3: Number of Non-Bank Financial Institutions, 2006-2008

Name	2006	2007	2008
Bureaux de Change	31	35	39
Microfinance Institutions	6	8	19
Leasing Companies	8	12	12
Building Societies	3	3	3
Development Bank of Zambia	1	1	1
National Savings and Credit Bank	1	1	1
Credit Reference Bureaux (CRB)		1	1
Total	49	61	76

Source: Bank of Zambia

Leasing Sub-sector

31. The overall financial condition and performance of the leasing sector in 2008 was satisfactory. On average, leasing companies maintained adequate regulatory capital and reserves relative to their risk profiles. As at end-December 2008, the sector regulatory capital was K36.1 billion compared to K42.9 billion the previous year. The decline in regulatory capital was largely due to loan loss provision of K23.3 billion, which were, however, mitigated by capital injection of K21 billion in the period under review, while the sector recorded a loss after tax of K 3.2 billion.

32. The sector's asset quality for the period under review was satisfactory. As at end-December 2008, the leasing sector's total assets decreased to K250.7 billion from K263.8 billion in the previous year. This outturn was largely attributed to the decline in other assets by 31.0 percent to

K29.5 billion in 2008 from K42.9 billion in 2007. Similarly, cash balances with financial institutions declined by 27.0 percent to K14.9 billion from K20.4 billion in 2007.

33. The sector registered an improvement in earnings performance during the period under review. As at end-December 2008, the sector recorded a loss before tax of K3.2 billion compared to a loss before tax of K4.5 billion in 2007. This was largely attributed to the decrease in interest expense by 11.4 percent to K15.5 billion in 2008 from K17.5 billion in 2007 coupled with a reduction in loan loss provisions by 37.9 percent to K4.1 billion in 2008 from K6.6 billion in 2007.

Building Societies

34. The overall financial condition of the building society sector in 2008 improved. On average, the sector's aggregate regulatory capital registered an increase of

K34.2 billion or 106.2 percent, over the end-December 2007 figure of negative K32.2 billion. The improvement was largely due to the capital injection of K25.1 billion and after tax profit of K9.1 billion in the period under review.

35. Sector assets increased to K276.0 billion in 2008 from K222.8 billion at end-December 2007. The growth in assets was largely financed by a combined increase of K21.9 billion in other borrowing and customer deposits, coupled with equity capital injection of K25.1 billion.

36. Total profit before tax increased to K11.8 billion as at end of December 2008 from K9.6 billion in 2007. This improvement was attributed to an increase in mortgage interest income to K42.0 billion in 2008 from K24.9 billion in 2007, largely due to the increase in the mortgage portfolio.

Micro-Finance Institutions

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

38. As at end-December 2008, the total assets of the micro-finance sector stood at K389.6 billion, representing an increase of 64.0 percent over the end-December 2007 position of K237.6 billion. This growth was attributed to an increase in capital and reserves to K124.4 billion from K79.3 billion in 2007 as well as loans amounting to K282.5 billion from K175.3 billion in 2007, largely resulting from an increase in the number of microfinance institutions licensed in 2008.

Bureaux de Change

39. The total assets of the bureaux de change sub-sector at end-December 2008 increased by 84.5 percent to K39.3 billion from K21.3 billion in 2007. The increase in total assets was mainly attributed to the rise in aggregate capital and reserves. As at end-December 2008, the sector's regulatory capital stood at K28.3 billion, representing an increase of K11.8 billion over the December 2007 figure of K16.5 billion. As at end-December 2008, all bureaux de change met the prescribed minimum capital requirement of K40.0 million.

Other Developments

40. One of the major developments during the year was the licensing of two banks namely Access Bank Zambia Ltd and First National Bank Zambia Ltd. Access bank commenced operations in August, whilst First National bank will commence operations in 2009.

41. In addition, the implementation of the Financial Sector Development Plan (FSDP) continued, with the following achievements recorded, among others:

- (i) Dissemination of the results of the FinScope Supply Side Survey (2007) on financial services in Zambia. The major highlights of the survey included, among others, the following:
 - Commercial banks only reached about one million people;

- Spreads between deposit and lending rates were too high;
 - Formal banking sector, commercial micro-lenders, insurance companies and pension funds all served the top 20 percent, mostly the salaried end of the adult population, while the outreach of the social microfinance institutions was extremely limited.
- (ii) Issuance of a directive to compel commercial banks and non-bank financial institutions by the BoZ to submit to the Credit Reference Bureau all credit data, positive and negative, on all new loan applications; and
- (iii) The enactment of the Accountants Bill as part of the harmonization process with the Companies Act.

12.6 Outlook

42. In 2009, inflation is expected to slow-down though it will remain in double-digit levels. This is premised on the recent reduction in domestic fuel prices by about 24.0 percent. This is expected to have a positive impact on transport and production costs. Further, on account of favourable weather conditions, crop production is expected to improve in 2009 contributing to food price stability. In addition, the expected decline in international food prices, arising from a fall in global demand will subdue domestic inflationary pressures.

Chapter 13 Capital Market Developments

13.1 Overview

1. The performance of the equity market was unsatisfactory in 2008 evidenced by the decline in its key indicators. This was attributed to the global financial crisis that negatively affected demand for domestic equities, particularly in the second half of the year. The decline in demand for equities pushed the prices of most stocks lower, resulting in a decline of the Lusaka Stock Exchange (LuSE) All Share Index by 29.08 percent in Kwacha terms to 2,505.88 points in December 2008 from 3,533.52 points in December 2007. In United States dollar terms, the index decreased by 44.0 percent, while market returns were below the annual inflation rate.

13.2 Stock Market Activity

Market Capitalisation

2. Market capitalisation in 2008 grew by 8.5 percent compared to 44.4 percent in 2007. This out-turn was mainly attributed to the listing of Copperbelt Energy Corporation (CEC), Celtel (Zain) and Zanaco. In addition, Zambeef Products increased its number of shares in issue after a rights issue to acquire Zamanita Limited, Amanita Milling Ltd and Master Pork Ltd. Zambeef Products further acquired Nanga Farms which was on the quoted tier. However, in US dollar terms, market capitalisation declined by 15.0 percent compared to a growth of 51.0 percent in 2007. The decline in dollar terms was as a result of the appreciation of the Kwacha (see Table 13.1 and Graph 13.1).

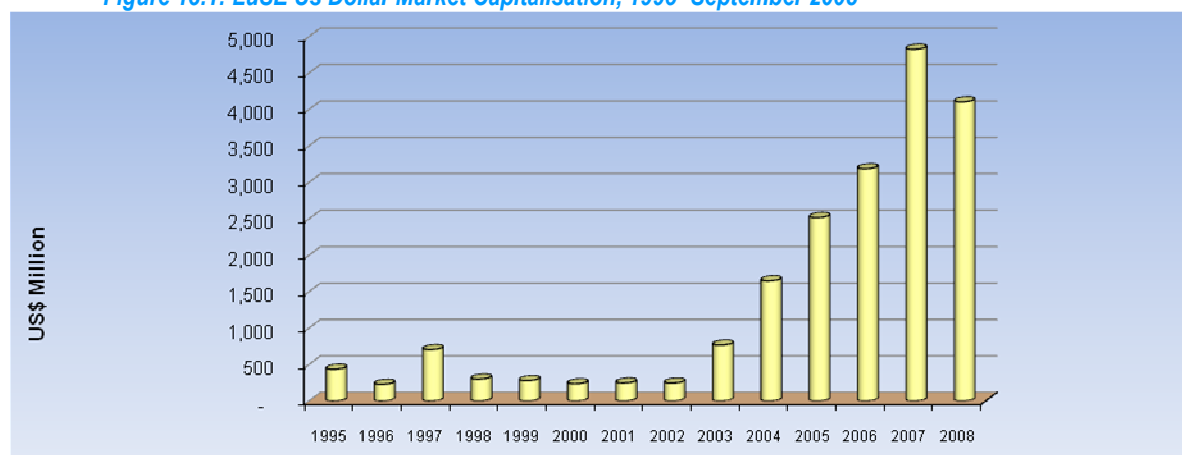
Table 13.1: Selected Performance Indicators at LUSE, 2006-2008

Market Capitalization	2006	2007	2008	% Change 2007/08
K million	13,072,466	18,872,945	20,468,283	8.4
US \$ million	3,188	4,827	4,106	(14.9)
Mkt Cap/GDP ratio (%)	40.0	54.6	37.84	(30.7)
Turnover/Mkt Cap ratio (%)	0.7	1.6	3.0	87.5
No. of listed companies	15	16	19	18.8
No. of quoted companies	11	12	9	(25.0)
Total No. of Companies	27	28	28	0.0

Source: Lusaka Stock Exchange

3. Market size as a percentage of GDP declined to 37.8 percent from 54.6 percent in 2007. Market liquidity, as indicated by trading turnover in relation to market capitalisation, increased to 3.0 percent from 1.6 percent in 2007. This was due to an

increase in turnover resulting from a rise in trades and volumes transacted in stocks such as Zambeef Products, Celtel Zambia (Zain), Copperbelt Energy Corporation (CEC), National Breweries (PDACC).

Figure 13.1: LuSE US Dollar Market Capitalisation, 1995- September 2008

Source: Lusaka Stock Exchange

4. During the period under review, there were three listings and one acquisition. The number of listed companies subsequently increased to 19.0 while the number of quoted companies reduced to nine from 12.0 after CEC and ZANACO listed and Nanga Farms was acquired by Zambeef Products Plc.

13.3 Trading Activity Equity Trading

5. The number of trades increased by 35.2 percent to 8,384 in 2008 from 6,199 in 2007. Turnover more than doubled to

K614.5 billion from K293.0 billion in 2007 (see Table 13.2). Turnover was notably propelled by transactions in Zambeef Products, Celtel (Zain), CEC, National Breweries, Cavmont Capital Holdings, Standard Chartered Bank, Lafarge Cement Zambia, Investrust Bank, Zambian Breweries, British American Tobacco and BP Zambia. However, share volume declined by 43.4 percent to 1.6 billion from 2.8 billion recorded in 2007. This decrease was mainly on account of low demand for shares particularly in the second half of the year.

Table 13.2: Equity Market Trading Activity, 2006-2008

	2006	2007	2008	% Change 2008/07
No. of Trades	3,662	6,199	8,384	35.2
Volume	858,661,187	2,800,247,780	1,585,765,172	(44)
Turnover (K' billion)	86.6	293	614.5	109.7
US\$ (million)	23.9	72.4	167.8	131.8
Trading Days	250	250	252	0.8

Source: Lusaka Stock Exchange

Other Developments in Equity Trading

6. On 29 September 2008 the Government through the Zambia Privatisation Trust Fund (ZPTF), offered 228.6 million exiting ordinary shares in Zanaco for sale to Zambian citizens and eligible Zambian institutions only. In addition, 25.4 million shares were offered as preferential shares for sale to Zambian employees of Zanaco listed on 27 November 2008. This was the largest Initial Public Offer (IPO) ever involving the ZPTF in terms of its IPO size of K 120.0 billion. It was also the first combination IPO in Zambia involving both an offer for sale and a capital

raise via an offer for subscription. This has enabled Zanaco to raise a separate K20.6 billion from the public as fresh capital. Therefore, in total K140 billion was mobilized under the IPO.

Bond Trading

7. The slowdown in secondary trading activity in Government bonds continued as investors adopted a buy and hold strategy. The number of trades declined by 76.0 percent to five in 2008 from 25.0 in 2007. Similarly, turnover declined to K5.6 billion in 2008 from K73.5 billion in 2007 (see Table 13.3).

Table 13.3: GRZ Bond Market Trading Activity, 2006-2008

	2006	2007	2008	% change 2008/07
No. of trades	54	25	6	(76.0)
Turnover (K' billion)	138.9	73.5	5.6	(92.4)
US \$ (million)	43.6	17.0	1.1	(93.5)

Source: Lusaka Stock Exchange

Foreign Portfolio Investment

8. The impact of the global economic crisis was significantly felt in the Foreign portfolio investment that declined significantly by 146.0 percent as a net position from an increase of 52.5 percent in 2007(see Table 13.4).

Table 13.4: Foreign Portfolio Investment Activity, 2006-2008

Period	2006	2007	2008	% change 2008/07
Buying Inflows (US \$ million)	11.7	30.6	58.3	90.5
Selling Inflows (US \$ million)	(3.7)	(18)	(64)	255.6
Total Turnover (US \$ millions)	15.4	48.6	122.3	151.6
Net position (US \$ millions)	7.9	12.5	(5.7)	(145.6)

Source: Lusaka Stock Exchange

Chapter 14 Prospects For 2009

1. Global growth is expected to slow down to 0.5 percent, representing 2.9 percentage points lower than the 3.4 percent growth in 2008. This projection is premised on deepening global economic crisis, with second round effects expected to heighten in 2009. In advanced economies, output is expected to decline by 2.0 percent in 2009.

2. In emerging and developing economies, however, growth is expected to be higher than in advanced economies at 3.3 percent, albeit lower than 6.3 percent recorded in 2008. Expected falling commodity prices and weak external sector explain the basis for this projection. Similarly, Africa's economy is expected to slow down at 3.5 percent compared with 5.2 percent in the previous year. Notably, against a background of falling commodity prices, Sub-Saharan Africa is expected to continue registering positive growth at 3.5 in 2009. The factors that will keep growth positive in the African region include, continued stable macroeconomic environment, registered in the recent past, and the region's limited integration in the global financial architecture.

3. In line with falling output, the volume of exports of goods and services from advanced economies is expected to decline by 3.7 percent compared with a growth of 3.1 percent in 2008. Similarly, exports of goods and services in emerging and developing economies are expected to decline by 0.8 percent in 2009 compared with a growth of 5.6 percent from the previous year.

4. With regard to prices, inflationary pressures are expected to subdue as a result of falling commodity prices. Advanced economies are expected to register inflation of 0.5 percent compared with 3.5 percent in the previous year while emerging and developing economies are expected to register a 5.7 percent inflation rate compared with 9.5 percent in 2008. Some advanced economies are expected to register a fall in consumer prices, which will pose a further challenge to the recovery of the global economy.

5. On the domestic front, the economy is expected to register positive, albeit at a relatively lower rate. This growth is premised on the expected higher output in the mining sector. The commencement of commercial production at Lumwana Copper mines will boost output in the sector. Other sectors that are expected to register positive growth are agriculture, manufacturing, and transport and communications. In agriculture, favourable weather conditions will support increased production while manufacturing sector growth will largely come from the food, beverages and tobacco sub-sector. Favourable performance of the food, beverages and tobacco sub-sector is premised on a good crop harvest.

6. With regard to prices, inflation is expected to slowdown mainly on account of stable food and non-food prices. The expected favourable agricultural output and the reduction in domestic fuel prices form the basis for this expectation.

7. The external sector position in 2009 is expected to weaken, with the overall balance of payments position worsening on account of the deterioration in the current account. Export earnings are expected to decline on account of low copper prices on the international market.

In view of the slowdown in economic activity, Government revenues are expected to weaken in 2009, particularly, from the mining sector. This will pose a challenge to the implementation of Government programmes.