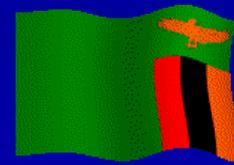




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Managing Capital Flows in Frontier and Emerging Markets: The Case of Zambia

Panel Discussion Points:

Presented By;

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Deputy Governor -Administration

Bank of Zambia

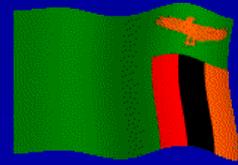
@ the IMF-UK DID Conference on Managing Capital Flows

Mauritius

2nd March 2015



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OUTLINE OF PRESENTATION

1.0 General Overview of Capital Flows in Zambia

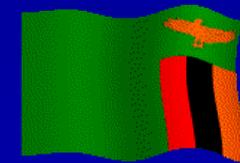
2.0 Source Countries, Recipient Sectors, Costs and Benefits of Capital Flows

3. Future Prospects and Policy Options



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1.0 General Overview of Capital Flows in Zambia



- ❖ Zambia has in recent years recorded a notable increase in capital flows Driven by;
 - Economic liberalization and other institutional reforms implemented since the early 1990's,
 - Positive macroeconomic performance
 - Natural resource endowments
 - Favourable commodity prices on the international market
 - Supportive investment policies.

- ❖ The stock of private capital rose to US \$19.8 billion -Dec 2014 (73.7% of GDP) from US \$7.4 billion in 2006.
 - Annual average growth of 12.5%.
 - Composition :
 - FDI (83.1%), Other investments(14.2%), Portfolio (2.6%), Financial derivatives (0.1%).



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1.0 General Overview of Capital Flows in Zambia (Cont.)

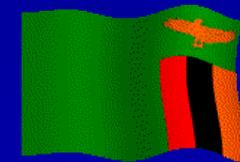
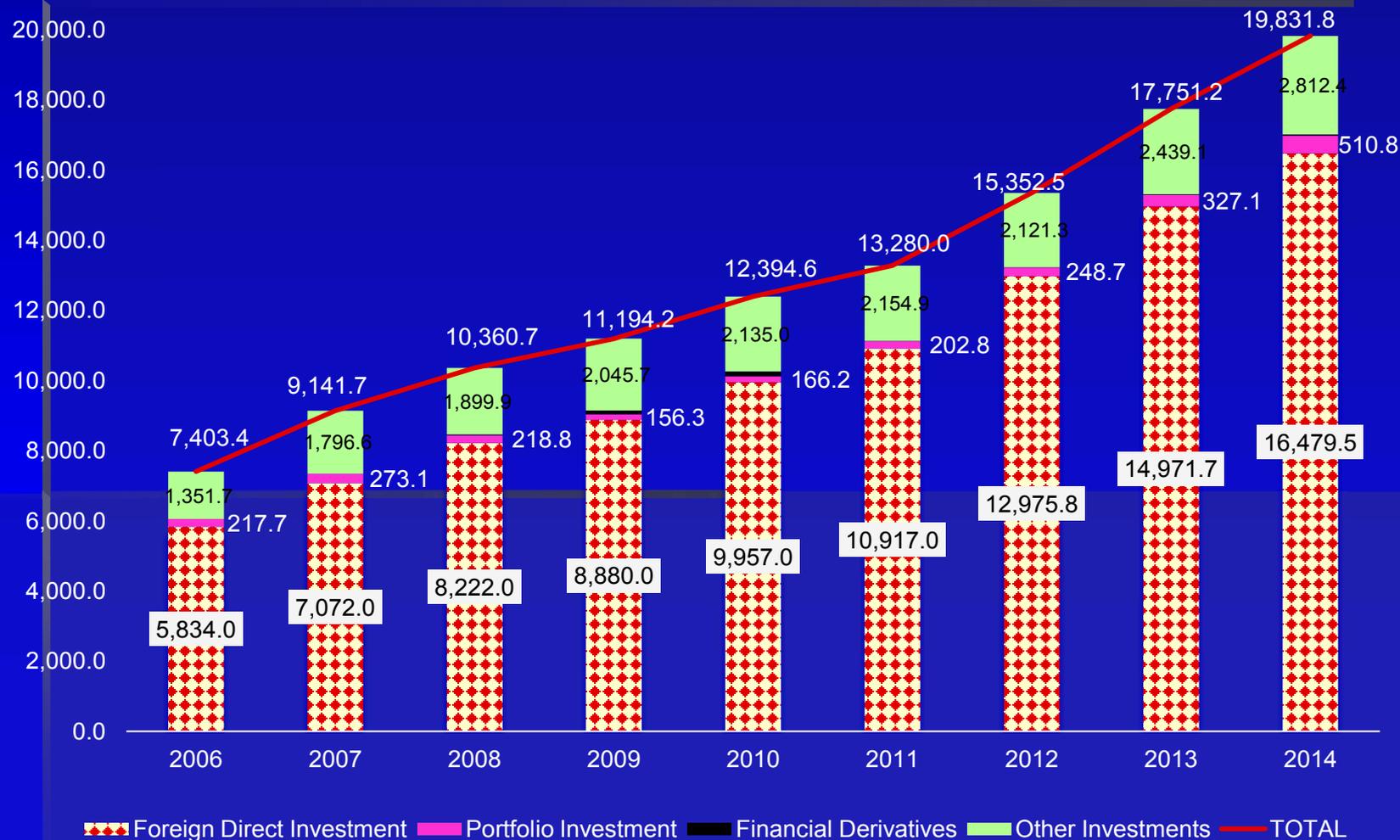


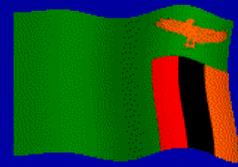
Chart 1: Recent Trends in the Stock of Foreign Private Capital in Zambia, 2006-2014 (US \$ mn.).





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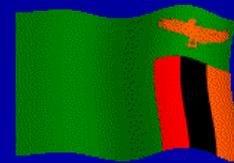
2.0 Source Countries, Recipient Sectors, Costs and Benefits of Capital Flows



- ❖ FDI - largely from Canada, UK, China and RSA, mainly in mining manufacturing, telecom and the financial sector,
- ❖ Portfolio -from UK and the United States of America.
- ❖ Other investments - predominantly from RSA, UK and China, -mainly in mining, manufacturing and the agriculture sectors.
- ❖ Private capital flows have been instrumental in:
 - Providing financing for investments,
 - Stimulating growth,
 - Contributing to exchange rate stability,
 - Creating opportunities for reserves accumulation,
 - Development of our financial market.
- ❖ Macroeconomic and financial-stability challenges include;
 - Increased exchange rate volatility
 - High sterilisation costs associated with withdrawing excess liquidity arising from high reserves accumulation.



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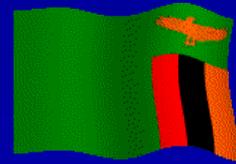
3.0 Future Prospects and Policy Options

- ❖ Private capital flows in Zambia are projected to maintain the recent growth momentum, driven by;
 - Investments in new mining projects which are already in the development stage,
 - Favourable investment climate
 - High interest rates on Government securities which are expected to attract more portfolio investment.



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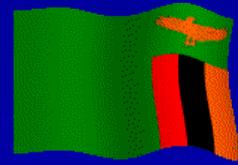
3.0 Future Prospects and Policy Options (Cont.)



- ❖ To maximize gains, and minimize vulnerability to capital flows, there is need to:
 - Improve private capital flows data quality and timeliness
 - Maintaining solid/stable macroeconomic fundamentals through sound monetary, exchange rate and prudent fiscal policy.
 - Maintain a flexible exchange rate system, while minimizing volatility
 - Building adequate international reserves buffers
 - Monitor performance of financial institutions by implement macro-prudential measures that improve the resilience of the financial sector.
 - Promote investments in long term debt securities
 - Closely collaborate with fiscal authorities to minimize adverse effects associated with high fiscal deficits.



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END

Thank You!