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FOREWORD

The Annual Economic Report reviews the country's economic performance and near-term prospects. Among others, the report targets policy makers and is meant to stimulate discussion and change.

The Zambian economy continued to perform well in 2007, amid rising international commodity prices, which on balance, impacted positively on the economy. Real Gross Domestic Product (GDP) continued to be positive at 5.7 percent, largely driven by growth in the transport, storage and communications sector. Inflation for the second-year running was maintained at single digit level and gross international reserves reached a record high of 3.6 months of imports. Domestic credit also grew by 19.8 percent. Commercial banks lending rates edged downwards but still remained high at 24.4 percent as at end December 2007 compared to 27.9 percent in 2006. The overall balance of payments position was in surplus, although the current account recorded a deficit of US \$856.0 million in 2007 compared to a surplus of US \$175.8 million registered in 2006.

The budget outturn was mixed with revenues surpassing the set targets while total expenditures were below projections mainly on account of slow implementation of capital programmes by Ministries, Provinces and Spending Agencies. As a result of the slow implementation of programmes, the overall budget deficit was much lower at 1.2 percent of GDP against the projection of 3.9 percent of GDP.

However, much more needs to be done to stimulate growth in the key sectors of agriculture and mining which recorded negative real GDP growth. Further, in order to sustain the economic achievements of the past five years and meet the social aspirations of the Zambian people, Government's near-term agenda includes accelerating implementation of structural reforms, dismantling domestic arrears and enhancing revenue collection. This is necessary to create the fiscal space required to create wealth for the majority of the Zambian people.


C. Evans Chibiliti
Secretary to the Treasury

CHAPTER 1 DEVELOPMENTS IN THE GLOBAL ECONOMY

Overview

1. World economic growth in 2007 continued to be strong, albeit slower than in 2006. Real Gross Domestic Product grew by 5.2 percent, down by 0.2 percentage points from 2006. China, India and Russia were the main drivers of global activity, jointly accounting for one-half of output. Other emerging and developing countries also experienced robust expansion. In the advanced economies, moderate growth was recorded, largely on account of the slowdown in the United States. In line with the slow down in global output, the volume of world trade decelerated to 6.6 percent in 2007 from 9.2 percent in 2006.
2. Inflation was low in advanced economies in 2007. However, some inflationary pressures were experienced in emerging economies and the developing world on account of pressure from rising food prices. Other developments during the year were the continuing increases in prices of oil and non-fuel commodities.

Developments in Advanced Economies

3. Growth in advanced economies decelerated to 2.5 percent in 2007 from 2.9 percent in 2006. This moderate growth was recorded for almost all advanced economies. In the United States, output grew by 1.9 percent in 2007, down by 1.0 percentage point from 2.9 percent in 2006 (see Table 1.1). Difficulties in the mortgage market, particularly weaker housing prices, high oil prices and sluggish job growth, all contributed to weakening consumption spending and growth.
4. Real Gross Domestic Product (GDP) growth in the Euro area was 2.5 percent in 2007 compared to 2.8 percent in 2006. The appreciation of the Euro, adverse trade spill-overs from the United States and generally difficult financing conditions, resulted in moderate growth. In Japan, slower output in the second half of the year, the decline in global output and a somewhat stronger yen, resulted in a slowing down of growth to 2.0 percent in 2007 from 2.2 percent in 2006. Despite the general slow-down in growth for the advanced economies, the United Kingdom recorded a marginal increase in growth (see Table 1.1).
5. Inflation outturn in advanced economies was largely favourable, projected to decline to 2.1 percent in 2007 from 2.3 percent in 2006. In the United States, core inflation declined to under 2.0 percent on account of the slowing down of housing costs. The same development occurred in the Euro area, with inflation reducing to 2.0 percent from 2.2 percent in 2006. This outturn was particularly remarkable in view of the pressure from rising food and energy prices in the area, especially towards the end of the year.

Table 1.1: Overview of the World Economic Outlook Projections

	2005	2006	2007*
World output	4.8	5.4	5.2
Advanced economies	2.5	2.9	2.5
United States	3.1	2.9	1.9
Euro area	1.5	2.8	2.5
Germany	0.8	2.9	2.4
France	1.7	2.0	1.9
Italy	0.1	1.9	1.7
Spain	3.6	3.9	3.7
Japan	1.9	2.2	2.0
United Kingdom	1.8	2.8	3.1
Canada	3.1	2.8	2.5
Other advanced economies	3.9	4.4	4.3
Newly industrialized Asian economies	4.7	5.3	4.9
Other emerging market and developing countries	7.5	8.1	8.1
Africa	5.6	5.6	5.7
Sub-Sahara	6.0	5.7	6.1
Central and Eastern Europe	5.6	6.3	5.8
Commonwealth of Independent States	6.6	7.7	7.8
Russia	6.4	6.7	7.0
Excluding Russia	6.9	9.8	9.4
Developing Asia	9.2	9.8	9.8
China	10.4	11.1	11.5
India	9.0	9.7	8.9
ASEAN-4	5.1	5.4	5.6
Middle East	5.4	5.6	5.9
Western Hemisphere	4.6	5.5	5.0
Brazil	2.9	3.7	4.4
Mexico	2.8	4.8	2.9
Memorandum			
European union	2.0	3.2	3.0
World growth based on market exchange rates	3.3	3.8	3.5
World trade volume (goods and services)	7.5	9.2	6.6
Imports			
Advanced economies	6.1	7.4	4.3
Other emerging market and developing countries	12.1	14.9	12.5
Exports			
Advanced economies	5.8	8.2	5.4
Other emerging market and developing countries	11.1	11.0	9.2
Commodity prices (US dollars)			
Oil	41.3	20.5	6.6
Non fuel (average based on world commodity export weights)	10.3	28.4	12.2
Consumer prices			
Advanced economies	2.3	2.3	2.1
Other emerging market and developing countries	5.2	5.1	5.9
London interbank offered rate (percent)			
On U.S dollar deposits	3.8	5.3	5.2
On euro deposit	2.2	3.1	4.0
On Japanese yen deposits	0.1	0.4	0.9

Source: International Monetary Fund, World Economic Outlook, October 2007

*Projections

Developments in Asia

6. Growth in developing Asia remained strong at 9.8 percent, with China and India leading with projected growth rates of 11.5 percent and 8.9 percent, respectively. Growth in the two Asian giants was largely investment driven, with consumption and net exports being the other key factors. Economic activity in emerging Asia was also favourable, especially in the Newly Industrialized Economies (NIEs) such as Hong Kong and Singapore. The ASEAN-4 also experienced robust expansion, with real GDP growth accelerating to 5.6 percent in 2007 from 5.4 percent in 2006. The expansion in output was triggered by an increase in the contribution of net exports to output.

7. Inflationary pressures were relatively low across the region, with the exception of China. In August 2007, China recorded headline inflation of 6.5 percent, the highest in 10 years, largely on account of pressure from food prices. Although their effect on inflation was low, food prices were also on the upswing in India, Indonesia, Taiwan and Vietnam. As a result of administrative controls in most Asian economies, the pick up in oil prices had a limited effect on inflation.

8. The performance of the external sector for Asia in 2007 was generally favourable. The current account surplus was projected at 5.0 percent of the region's GDP in the first half of the year. China had the highest outturn with its surplus reaching 11 percent of GDP, on account of a huge trade surplus with Europe and the United States. Although still in deficit, there was a slight reduction in India's current account deficit (see Table 1.2).

Table 1.2: Current Account Balances in Asia, 2005-2007

	2005	2006	2007*
Industrial Asia	2.2	2.3	2.5
Japan	3.6	3.9	4.5
Australia	(5.7)	(5.4)	(5.7)
New Zealand	(8.6)	(8.7)	(8.5)
Emerging Asia	4.8	6.0	7.0
NIEs	5.5	5.6	5.4
Hong Kong SAR	11.4	10.8	11.2
Korea	1.9	0.7	0.1
Singapore	24.5	27.5	72.0
Taiwan POC	4.5	6.8	6.8
China	7.2	9.0	11.7
India	(1.1)	(1.2)	(2.1)
ASEAN-5	1.7	4.7	4.1
Indonesia	0.1	2.7	1.6
Malaysia	14.6	16.3	14.4
Philippines	2.0	5.0	3.8
Thailand	(4.5)	1.1	3.7
Vietnam	(1.0)	(0.5)	(3.2)
Emerging Asia excl. China	3.0	3.7	2.9
Asia	3.4	4.3	5.0

Source: International Monetary Fund, *Regional Economic Outlook, Asia and Pacific, October 2007*

*Projections

Developments in Sub-Saharan Africa

9. In Sub-Saharan Africa, real GDP growth in 2007 was projected at 6.2 percent from 5.5 percent in 2006. The economic expansion was strongest in oil exporters, although the general trend was upward across the region. Oil exporting countries were projected to grow at 7.6 percent, with Angola and Equatorial Guinea being the lead performers on account of the discovery and coming on stream of new oil fields in these countries. The growth in oil exporting countries was also as a result of the increased oil revenues that facilitated an increase in public investment.

10. Middle income, low income and fragile economies in Sub-Saharan Africa were projected to grow by 4.8 percent, 7.0 percent and 5.0 percent, respectively. Key factors contributing to this development included favourable non-fuel commodities, increased capital inflows and debt relief. Structural reforms and a favourable macroeconomic environment in most Sub-Saharan Africa further aided the strong expansion in the region (see Table 1.3).

11. The inflation outturn for 2007 was also favourable across the region. Inflation was projected to average 7.5 percent, with the lowest level recorded in the oil exporting countries, reflecting the stabilization gains in Angola and Nigeria. Inflation in middle income countries was projected around 6.8 percent, largely driven by higher food and energy prices in South Africa during the year. Low income countries were projected to record low inflation, on account of favourable food supply and a monetary policy stance that mitigated inflationary expectations.

Table 1.3: Selected Indicators for Saharan Africa, 2005-2007

	2005	2006	2007*
	Percentage Change		
Real GDP	6.1	5.5	6.2
Of which: Oil exporters	7.7	5.7	7.6
Non-Oil exporters	5.4	5.2	5.4
Real non-oil GDP	6.0	6.7	7.6
Consumer prices (average)	8.1	7.3	7.5
Of which: Oil exporters	14.1	8.2	6.1
Non-Oil exporters	6.6	7.1	7.9
Per capita GDP	4.2	3.5	4.2
	Percent of GDP		
Exports of goods and services	38.4	40.5	40.4
Imports of goods and services	34.8	36.4	38.8
Gross domestic savings	23.3	25.4	23.3
Gross domestic investment	19.7	21.1	21.8
Fiscal balance (including grants)	1.7	5.0	0.8
Of which: Grants	0.8	0.7	0.8
Current account (including grants)	(0.3)	0.6	(2.6)
Of which: Oil exporters	8.8	13.0	3.6
Non-Oil exporters	(4.0)	(5.2)	(5.6)
Terms of trade (percent change)	8.6	12.2	0.7
Of which: Oil exporters	32.5	17.4	1.3
Non-Oil exporters	(1.9)	7.1	(0.3)
Reserves (in months of imports)	4.7	5.6	5.7
Memorandum Items:			
Oil Price (U.S. Dollars per barrel)	53.4	64.3	68.5
Advanced country import growth (in percent)	6.1	7.4	4.3
Real GDP growth in other regions			
Sub-Saharan Africa (including Zimbabwe)	5.9	5.4	6.0
Sub-Saharan Africa (WEO definition)	6.0	5.7	6.1
Developing Asia	9.2	9.8	9.8
Middle East	5.4	5.6	5.9
Commonwealth of Independent States	6.6	7.7	7.8

Source: International Monetary Fund, Regional Economic Outlook, Sub-Saharan Africa, October 2007

* Projections

Commodity Price Developments

12. The prices of oil and non-fuel commodities continued their upward trend in 2007, although at a slower pace.

13. In the period under review, international oil prices continued to rise closing the year at US \$97.92 per barrel. It should be noted that in 2007, oil prices hit a new all time record of US \$ 99.29 per barrel in November surpassing the high record of US \$78.40 per barrel in 2006. The increase in oil prices were on account of, among others, a rise in demand from India, China and the United States of America, geo-political tension in eastern Turkey, Iraq and Nigeria, a slide in

the US dollar against other currencies and OPEC's output cuts and its subsequent refusal to increase production.

14. Non-fuel commodity prices increased by an average of 12.2 percent in 2007 compared to 28.4 percent in 2006. The price of copper increased by 12.6 percent to an average price of US \$6,947.9 per tonne from US \$6,171.0 per tonne in 2006. Continued strong demand from China and supply side factors such as labour disputes in some major copper producers resulted in a rise in price. Similarly, the realised price of cobalt increased by 71.8 percent, on account of strong demand in the face of tight supply.

The Impact of Global Developments on the Zambian Economy

15. The impact of global developments on the Zambian economy was mixed, with oil prices impacting negatively on domestic prices. The impact of oil price increases could have been worse had Government not taken mitigation measures. On the other hand, the rise in non-fuel commodity prices induced an increase in metal export earnings.

Outlook

16. The growth in the global economy is projected to slowdown to 4.8 percent in 2008 on account of lower growth in advanced economies due to the effects of the financial turbulence. In emerging and developing economies, growth is projected to remain strong driven by strong investment and domestic demand. In the commodity market, both oil and non-fuel prices are expected to continue to increase on account of continued growth in China and India.

CHAPTER 2 DEVELOPMENTS IN THE DOMESTIC ECONOMY

Overview

1. The performance of the domestic economy was favourable in 2007. Real Gross Domestic Product (GDP) growth continued to be positive with preliminary figures indicating a growth rate of 5.7 percent, albeit lower than the 6.2 percent growth recorded in 2006. The slow down in output was mainly on account of a decline in mining output. In addition, the key sectors of agriculture, tourism, manufacturing and construction recorded a slow down in growth.
2. The macroeconomic environment was also favourable, with inflation maintained at single digit level. Interest rates were generally falling and the exchange rate was relatively stable. In addition, domestic credit grew, driven by the increase in lending to the private sector.
3. In the external sector, the overall balance of payment surplus narrowed sharply, explained by the deterioration in the current account. Nonetheless, gross international reserves increased substantially in 2007 and the external debt stock remained sustainable.
4. Budget performance during the year was mixed. While revenue collection surpassed the set targets, total expenditures were below target mainly on account of slow implementation of capital programmes. As a result, a much lower budget deficit was recorded.

Macroeconomic Conditions in 2007

5. In 2007, the Government's macroeconomic targets were to: (i) achieve real GDP growth of at least 7.0 percent; (ii) bring down end-year inflation to no more than 5.0 percent; (iii) limit domestic borrowing to 1.2 percent of GDP; and (iv) increase the coverage of gross international reserves to at least 2.5 months of imports.
6. Preliminary estimates indicate that the economy grew by 5.7 percent, which was lower than the 6.2 percent recorded in 2006, and the target of 7.0 percent. The slow down in output was mainly on account of a decline in the mining and quarrying and, agriculture sectors which recorded negative growth of 2.1 percent and 0.6 percent, respectively. In addition, there was a slow down in growth of the key sectors of tourism, manufacturing and construction.
7. The overall macroeconomic environment in 2007 remained sound. For the second consecutive year, end-year inflation was maintained in single digits at 8.9 percent as at end 2007. This inflation outturn was higher than the year target of 5.0 percent, attributed to higher food prices particularly in the first quarter and the effects of high international oil prices. In light of an external shock from high international oil prices, the inflation outturn of 8.9 percent was favourable.
8. With regard to the current account, the narrowing of the trade balance coupled with an increase in both the services and income accounts deficits, resulted in a negative current account balance of US \$856.0 million or 10.2 percent of GDP, excluding grants. However, the overall position of the balance of payments remained positive. In addition, Gross International Reserves

(GIR) increased by US \$318 million to approximately US \$1,060 million or 3.6 months of import cover, which was way above the target of 2.5 months of import cover (see Table 2.1).

9. During the period under review, the average inter-bank mid-exchange rate appreciated by 8.7 percent against the US dollar to K3,775.3 per US dollar in December 2007, from K4,132.0 per US dollar in December 2006. This outturn was aided by favourable external sector performance coupled with the relatively stable macroeconomic environment.

10. Domestic credit in 2007 grew by 19.8 percent to K7,616.6 billion from K6,358.1 billion at end-December 2006. This was a slow down from the growth of 25.8 percent recorded in 2006. The decline in net claims on Government by 21.6 percent, mainly on account of slow implementation of projects and programmes by MPSAs, largely explained the slow down. In addition, private sector credit growth reduced to 43.7 percent from 49.4 percent at end-December 2006. However, lending rates edged downwards to 24.4 percent in 2007 from 27.9 percent in 2006. Despite the reduction, the lending rates remained prohibitive during the review period.

Table 2.1: Selected Macroeconomic Indicators, 2005-2007

	2005	2006	2007 Target	2007 outturn
Real GDP	5.2	6.2	7.0	5.7*
Money Supply (annual % change)	0.4	45.1	15.9	25.9
Inflation (end year)	15.9	8.2	5.0	8.9
Lending Interest rates (end year)	33.9	27.9	-	24.4
Current account deficit (% of GDP, excluding grants)	(10.2)	(0.8)	-	(10.2)*
Gross International Reserves (months of imports)	1.5	2.2	2.5	3.6*

Source: Ministry of Finance and National Planning

** Preliminary*

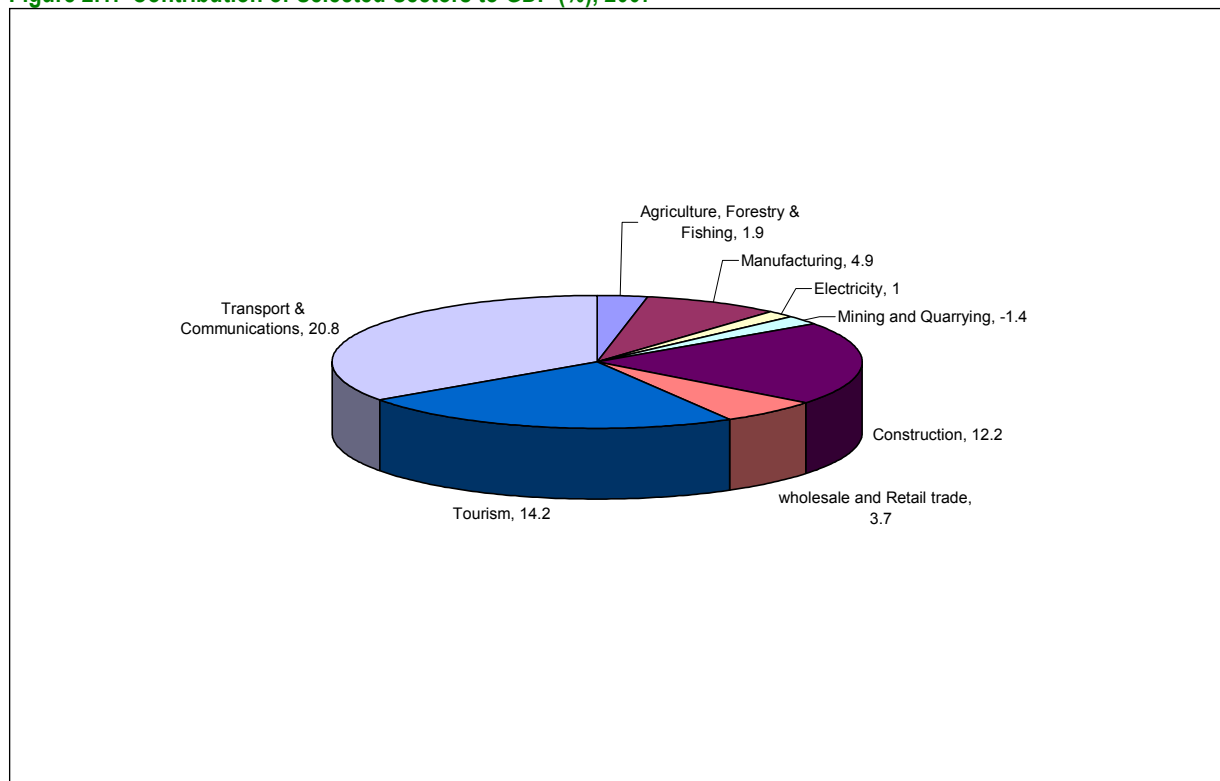
Domestic Output

11. Preliminary data show that real GDP growth in 2007 was positive although lower than in 2006. Value added at constant 1994 prices increased to K3,542.5 billion from K3,351.7 billion, representing a growth rate of 5.7 percent. Growth was driven by the transport, storage and communications, construction, and the community, social and personal services sectors (see Figure 2.1 and Tables 2.2 to 2.4).

12. Overall output growth in the primary sector was recorded at 0.3 percent in 2007 compared to 4.1 percent in 2006. Negative growth in the mining and quarrying sector and the agriculture sub-sector accounted for this outturn (see Table 2.2).

13. In the mining sector, copper production increased by 1.5 percent to 533,435 mt from 515,618 mt in 2006. Unlike copper, cobalt production declined by 9 percent to 4,229 mt from 4,648 mt in 2006. However, due to favourable metal prices, both copper and cobalt export earnings increased, rising by 7.5 and 59.1 percent respectively, over the 2006 values.

Figure 2.1: Contribution of Selected Sectors to GDP (%), 2007



Source: Ministry of Finance and National Planning

14. In agriculture, production of major food and cash crops such as maize, sorghum, groundnuts, cotton and tobacco declined. According to the Crop Forecast Survey, maize production declined by 4.1 percent to 1.37 million mt in the 2006/7 farming season from 1.42 million mt in the 2006/7 farming season. Sorghum and groundnuts production declined by 39.3 percent and 34.3 percent, while cotton and tobacco output fell by 53.7 percent and 11.8 percent, respectively. The reduction in the production levels of these crops was due to the floods that occurred in some parts of the country.

15. The performance of the secondary sector in 2007 was satisfactory. Value added increased by 7.6 percent to K831.2 billion from K772.7 billion in 2006, largely driven by the construction sector, which grew by 12.2 percent. In addition, the manufacturing sector grew by 4.9 percent on account of strong growth in the food, beverages and tobacco sub-sector. However, the textiles and leather sub-sector continued to deteriorate, recording a decline in output of 16.1 percent.

16. With regard to the tertiary sector, positive growth continued at 8.1 percent compared to 6.7 percent in 2006. This outturn was driven by a continued strong growth in transport, storage and communications, and community, social and personal services, which recorded growth rates of 20.8 percent and 12.9 percent, respectively. The tourism sector also registered a positive growth of 14.2 percent with tourist arrivals increasing by 6.4 percent to 805,059 during the year under review.

Table 2.2: GDP by Kind of Economic Activity at Constant 1994 Prices (K' Billion), 2005-2007

KIND OF ECONOMIC ACTIVITY	2005	2006	2007*
Agriculture, Forestry and Fishing	448.3	458.2	467.0
Agriculture	206.0	212.3	211.0
Forestry	165.2	167.4	176.1
Fishing	77.2	78.5	79.9
Mining and Quarrying	270.8	290.6	284.4
Metal Mining	262.5	286.2	282.1
Other mining and quarrying	8.2	4.5	2.2
PRIMARY SECTOR	719.1	748.8	751.4
Manufacturing	335.3	354.6	372.1
Food, Beverages and Tobacco	205.7	224.0	244.9
Textile, and leather industries	48.9	48.2	40.5
Wood and wood products	26.3	26.5	27.9
Paper and Paper products	9.8	9.8	9.7
Chemicals, Rubber and Plastic products	29.5	30.9	33.8
Non-metallic mineral products	6.9	6.5	6.6
Basic metal products	1.4	1.4	1.4
Fabricated metal products	6.8	7.2	7.4
Electricity, Gas and Water	81.0	89.5	90.4
Construction	287.3	328.7	368.6
SECONDARY SECTOR	703.6	772.7	831.2
Wholesale and Retail trade	576.7	588.1	610.0
Restaurants, Bars and Hotels	79.9	92.8	106.0
Transport, Storage and Communications	204.4	249.4	301.4
Rail Transport	9.4	9.2	9.0
Road Transport	90.7	96.5	103.1
Air Transport	38.3	51.2	64.5
Communications	65.9	92.6	124.8
Financial Intermediaries and Insurance	235.1	244.6	254.6
Real Estate and Business services	287.1	296.2	305.7
Community, Social and Personal Services	235.9	257.0	290.2
Public Admin. & Defence; Public & Sanitary services	116.7	106.6	124.7
Education	77.0	104.1	115.8
Health	14.7	15.5	16.2
Recreation, Religious, Culture	12.5	15.4	17.5
Personal Services	14.9	15.4	16.0
TERTIARY SECTOR	1,619.1	1,728.2	1,867.8
Less: FISIM	(138.0)	(141.6)	(145.1)
TOTAL GROSS VALUE ADDED	2,903.7	3,108.2	3,305.3
Taxes on Products	252.2	243.5	237.2
TOTAL G.D.P. AT MARKET PRICES	3,155.9	3,351.7	3,542.5

Source: Central Statistical Office

* Preliminary

Table 2.3: Percentage Changes in GDP by Kind of Economic Activity (constant 1994 prices), 2005-2007

KIND OF ECONOMIC ACTIVITY	2005	2006	2007*
Agriculture, Forestry and Fishing	(0.6)	2.2	1.9
Agriculture	(4.0)	3.0	(0.6)
Forestry	3.6	1.4	5.2
Fishing	0.5	1.8	1.8
Mining and Quarrying	7.9	7.3	(2.1)
Metal Mining	7.1	9.0	(1.4)
Other mining and quarrying	42.9	(45.8)	(49.7)
PRIMARY SECTOR	2.5	4.1	0.3
Manufacturing	2.9	5.7	4.9
Food, Beverages and Tobacco	3.6	8.9	9.3
Textile, and leather industries	(2.9)	(1.3)	(16.1)
Wood and wood products	3.6	0.7	5.2
Paper and Paper products	10.6	0.3	(1.3)
Chemicals, rubber and plastic products	3.2	4.6	9.5
Non-metallic mineral products	7.4	(5.2)	1.7
Basic metal products	(2.0)	1.9	(4.9)
Fabricated metal products	7.4	5.0	3.5
Electricity, Gas and Water	5.4	10.5	1.0
Construction	21.2	14.4	12.2
SECONDARY SECTOR	10.0	9.8	7.6
Wholesale and Retail trade	2.4	2.0	3.7
Restaurants, Bars and Hotels	11.7	16.1	14.2
Transport, Storage and Communications	11.0	22.1	20.8
Rail Transport	(11.6)	(2.6)	(2.2)
Road Transport	6.3	6.4	6.9
Air Transport	10.8	33.5	26.0
Communications	23.2	40.5	34.7
Financial Institutions and Insurance	3.3	4.0	4.1
Real Estate and Business services	3.2	3.2	3.2
Community, Social and Personal Services	11.4	9.0	12.9
Public Administration & Defence/Public sanitary services	6.2	(8.7)	17.0
Education	22.2	35.3	11.2
Health	(2.2)	5.2	4.6
Recreation, Religious,Culture	34.1	22.8	13.7
Personal Services	3.5	3.5	3.5
TERTIARY SECTOR	5.4	6.7	8.1
Less: FISIM	2.5	2.5	2.5
TOTAL GROSS VALUE ADDED	5.8	7.0	6.3
Taxes on Products	(1.5)	(3.5)	(2.6)
TOTAL G.D.P. AT MARKET PRICES	5.2	6.2	5.7

Source: Central Statistical Office

* Preliminary

Table 2.4: Percentage Changes in GDP by Kind of Economic Activity at Current Prices (K' Billion), 2005-2007

KIND OF ECONOMIC ACTIVITY	2005	2006	2007*
Agriculture, Forestry and Fishing	6,723.6	7,800.2	9,275.6
Agriculture	1,421.7	1,537.0	1,608.1
Forestry	4,920.3	5,855.7	7,230.8
Fishing	381.6	407.5	436.7
Mining and Quarrying	1,030.9	1,612.5	1,136.4
Metal Mining	1,011.7	1,597.5	1,131.0
Other Mining and Quarrying	19.1	15.0	5.4
PRIMARY SECTOR	7,754.5	9,412.8	10,412.0
Manufacturing	3,430.2	4,015.7	4,598.6
Food, Beverages and Tobacco	2,121.0	2,423.5	2,788.5
Textile, and Leather Industries	500.4	630.8	637.3
Wood and Wood Products	273.4	323.2	399.2
Paper and Paper products	162.4	191.3	221.6
Chemicals, rubber and plastic products	281.2	331.2	391.4
Non-metallic mineral products	51.8	55.3	60.7
Basic metal products	4.7	6.9	4.7
Fabricated metal products	35.2	53.6	95.3
Electricity, Gas and Water	922.7	1,165.9	1,345.0
Construction	3,728.0	5,462.7	7,128.3
SECONDARY SECTOR	8,080.9	10,644.3	13,071.8
Wholesale and Retail trade	5,868.9	6,524.7	7,489.3
Restaurants, Bars and Hotels	894.0	1,120.1	1,310.1
Transport, Storage and Communications	1,395.6	1,629.2	1,888.6
Rail Transport	93.8	94.7	92.6
Road Transport	543.0	640.4	761.6
Air Transport	243.8	356.0	491.3
Communications	515.0	538.2	543.1
Financial Intermediaries and Insurance	2,771.5	3,246.9	3,647.2
Real Estate and Business services	1,979.4	2,296.4	2,509.0
Community, Social and Personal Services	2,710.0	3,365.5	4,204.7
Public Administration and Defence	909.9	892.5	1,166.4
Education	1,254.2	1,842.6	2,291.3
Health	338.8	389.9	463.1
Recreation, Religious, Culture	45.6	60.9	77.9
Personal services	161.5	179.6	206.1
TERTIARY SECTOR	15,619.5	18,182.8	21,048.8
Less: FISIM	(1,592.8)	(1,865.9)	(2,096.0)
TOTAL GROSS VALUE ADDED	29,862.1	36,373.9	42,436.7
Taxes on Products	2,594.2	2,849.2	3,045.6
TOTAL G.D.P. AT MARKET PRICES	32,456.3	39,223.1	45,482.230

Source: Central Statistical Office

* Preliminary

Domestic Debt

17. The stock of domestic debt increased by 7.5 percent to K8,279.05 billion at end-December 2007 from K7,700.73 billion at end-December 2006. The outturn was mainly on account of a rise in government securities by 13.3 percent to K7,595.28 billion in 2007 from K6,706.44 billion in 2006 (see Table 2.5). The increase in the stock of government securities is

largely due to the expansion in monetary policy operations and the introduction of long term Government bonds.

Table 2.5: Summary of Domestic Debt Stock (K' Billion), 2005 – 2007

Debt Category	End-Dec. 2005	End-Dec. 2006	End-Dec. 2007*	% Change 2007/2006
Government Securities	6,983.70	6,706.44	7,595.28	13.3
Treasury Bills	2,088.64	3,261.98	3,399.12	4.2
GRZ Bonds	4,895.06	3,444.45	4,196.16	32.3
Domestic Arrears	509.26	515.30	223.06	(56.7)
(Capital)	335.45	340.40	132.74	(61.0)
(PE's & RDC's)	173.81	174.90	90.32	(48.4)
Pension Arrears	414.00	386.50	302.70	(21.7)
Awards & Compensations	87.49	92.50	158.01	70.8
TOTAL DOMESTIC DEBT STOCK	8,283.41	7,700.73	8,279.05	7.5

Source: Ministry of Finance and National Planning

* Preliminary

18. In line with the increase in the stock of Government Securities, interest cost payments on Government Securities rose by 4.1 per cent to K697.6 billion in 2007 from K670.0 billion in 2006.

19. Similarly, the stock of debt on awards and compensations increased by 70.8 percent to K158.0 billion despite the Government making settlements of over K80.0 billion. This increase was mainly due to a rise in litigations against the Government.

20. However, domestic arrears recorded a decline of 56.7 percent in 2007, largely due to settlement of all principal amounts by Government. Similarly, pension arrears recorded a decline of 21.7 percent due to increased government funding to settle these arrears.

Structural Reforms

21. Government continued to undertake structural reforms in 2007. Under the Financial Sector Development Programme (FSDP), a key milestone was the formal launch of a Credit Reference Bureau. The Bureau has since commenced data collection from commercial banks. It is expected that once the Bureau is fully operational, the credit culture in the country will improve.

22. Another key milestone under the FSDP in 2007 was the Cabinet approval on obtaining a sovereign credit rating for the country which is expected to increase transparency in pricing of international financial transactions, access to foreign direct investment and other portfolio flows.

23. Under the Public Expenditure Management and Financial Accountability (PEMFA) reforms, the major development during the year included: construction of the IFMIS system; awarding of the contract to the IFMIS solution supplier; and construction of the Auditor General's office in Mongu. The other key structural reform measure during the year was the continued implementation of the Private Sector Development (PSD) programme. Key milestones under the PSD included the reduction in the number of days to start a business at the Patents and Companies Registration Office (PACRO) to three days from 21 days, and establishment of the Citizens Economic Empowerment Commission.

CHAPTER 3 BUDGET PERFORMANCE

Overview

1. The performance of the budget in 2007 was broadly satisfactory. Preliminary figures indicate that total domestic revenues and grants were on target although external grants were below target by 19.6 percent. However, total domestic revenues were above target by 5.0 percent. With regard to expenditure, total expenditure was below the target by 10.3 percent. Consequently, the overall budget deficit for 2007 stood at 1.2 percent of GDP, against the projected deficit of 3.9 percent of GDP.

Policy Objectives

2. The overall fiscal policy objectives in 2007 were to:
- (i) channel more resources towards priority Fifth National Development Plan (FNDP) programmes;
 - (ii) limit domestic borrowing to 1.2 percent of GDP; and
 - (iii) expand the revenue base.

Revenue Performance

3. Total Government revenue and grants for the period under review amounted to K10,176.1 billion, representing 22.4 percent of GDP compared to 21.3 percent in 2006. Measured against the target of K10,175.0 billion, total revenue and grants were above target by K1.0 billion. Of the total amount collected, K8,522.1 billion or 83.8 percent was from domestic resources, representing 18.7 percent of GDP compared to 17.1 percent in 2006. External grants amounted to K1,654.1, which was 16.2 percent of the total revenue and grants (see Tables 3.1 and 3.2).

Table 3.1: Government Revenue and Foreign Grants (K' billions), 2007

	2007 Budget	Preliminary	Variance of Actual Vs Budget	% Variance of Budget
Revenue and Grants	10,175.0	10,176.1	1.0	0.0
1. Revenue	8,117.0	8,522.1	405.0	5.0
Tax revenue	7,799.3	8,183.6	384.3	4.9
Income Tax	3,432.0	3,831.9	399.9	11.6
Company Income Tax	927.1	1,222.9	295.7	31.9
Personal Income Tax	2,427.6	2,541.4	113.9	4.7
o/w PAYE	2,088.3	2,197.7	109.4	5.2
W/holding & Other Income	339.3	343.7	4.4	1.3
Mineral Royalty	77.3	67.6	(9.8)	(12.6)
Domestic Goods & Services	1,772.8	1,231.2	(541.7)	(30.6)
Excise duties	1,103.8	1,204.5	100.7	9.1
o/w Fuel levy	220.8	238.8	18.0	8.2
Rural Electrification Levy	30.6	12.1	(18.5)	(60.4)
Carbon Tax	5.8	6.4	0.6	10.1
Other Excises	846.6	947.1	100.5	11.9
Domestic VAT	669.0	26.7	(642.3)	(96.0)
Trade Taxes	2,594.4	3,120.5	526.1	20.3
Import VAT	1,762.1	2,204.0	441.9	25.1
Import tariffs	830.0	914.1	84.1	10.1
Export Duties	2.3	2.3	0.1	0.8
Non-tax Revenue	317.8	338.5	20.7	6.5
User Fees and Charges	159.1	194.3	35.2	22.1
Dividends	41.2	29.3	(11.9)	(28.8)
Medical Levy	7.0	8.7	1.7	23.8
Exceptional Revenues	110.4	106.1	(4.3)	(3.9)
o/w Fertiliser Recoveries	88.0	73.7	(14.3)	(16.3)
ERB	5.4	8.5	3.1	58.7
o/w Licence Fees	5.4	4.5	(0.9)	(16.1)
Strategic Reserves	-	4.0	4.0	100
Other Revenues	17.0	25.3	8.3	49.1
2. GRANTS	2,058.0	1,654.1	(403.9)	(19.6)
General Budget Support	528.2	581.9	53.7	10.2
SWAPS	513.8	478.2	(35.6)	(6.9)
Project Grants	1,016.0	594.0	(422.0)	(41.5)

Source: Ministry of Finance and National Planning

* Preliminary

Table 3.2: Government Revenue and Foreign Grants as percentage of GDP (K' billions), 2006-2007

	2006		2007	
	Total Actual	% of GDP	Total Actual	% of GDP
Revenue and Grants	8,241.3	21.3	10,176.1	22.4
Revenue	601.2	17.1	522.1	18.7
Tax Revenue	317.0	6.4	183.6	18.0
Non-Tax Revenue	43.6	0.4	338.5	0.7
Grants	640.2	4.3	654.1	3.6

Source: Ministry of Finance and National Planning

Tax Revenue

4. Total tax revenues amounted to K8,183.6 billion or 18.0 percent of GDP up from 16.4 percent in 2006. The collections were above the projected amount of K7,799.3 billion by 4.9 percent, largely reflecting exceptional performance of company tax.

Income Tax

5. Income tax collections were above the target by 11.6 percent. A total of K3,831.9 billion was collected against the target of K3,432.0 billion. This performance was mainly attributed to higher collections of company tax and payment of arrears under company income tax and Pay-As-You-Earn. In addition, increases in the volumes of foreign payments and a higher growth in rentals due to a boom in the real estate industry contributed to higher collections under withholding taxes. However, collections from mineral royalty at K67.6 billion were lower than expected by K9.8 billion or 12.6 percent. This was on account of reduced copper exports by some mining companies during the year.

Taxes on Domestic Goods and Services

6. Taxes on domestic goods and services at K1,231.2 billion were below the target of K1,772.8 billion by 30.6 percent. Of the total collection, K1,204.5 billion was excise duties, which was 9.1 percent above target of K1,103.8 billion. The favourable performance of excise duties was attributed to increased revenue yields from excisable products such as motor vehicles, petroleum products and locally manufactured excisable products such as clear beer and talk time, among others. Domestic VAT collections amounted to K26.7 billion, below target of K669.0 billion by 96.0 percent. The under-performance was as a result of higher than projected VAT refunds.

Trade Taxes

7. With regard to trade taxes, a total of K3,120.5 billion was collected against the projected amount of K2,594.4 billion. The favourable performance was due to increased import VAT attributed to a rise in imports of machinery parts, motor vehicles, motor vehicle parts/accessories, copper ores and concentrates and hydrocarbon oils. Collections of import VAT were above target by 25.1 percent. In addition, collections from custom duties were above the target of K830.0 billion by 10.1 percent.

Non-Tax Revenue

8. During the year under review, non-tax revenue collections at K338.5 billion, or 0.7 percent of GDP up from 0.4 percent in 2006, was 6.5 percent above the targeted figure of K317.8 billion. The over-performance in non-tax revenue was attributed to higher than anticipated collections from road fees and fines and other revenues. The higher collection of K102.5 billion against the projected target of K57.9 billion from road fees explained much of the increase in non-tax revenue. This was attributed to enhanced enforcements and increased accountability by the Road Traffic and Safety Agency.

9. Exceptional revenues amounted to K106.2 billion, below target of K110.4 billion by 3.9 percent. However, collections under the Energy Regulation Board amounted to K8.5 billion, above target by 58.7 percent.

Grants

10. Preliminary figures indicate that total external grants in 2007 amounted to K1,654.1 billion against the projected amount of K2,058.0 billion. Of the K1,654.1 billion, a total of K581.9 billion and K4,782.2 billion was in the form of direct budget support and Sector Wide Approach (SWAPs), respectively. With regard to direct budget support, this was above the projection of K528.2 billion by 10.2 percent indicating the continued confidence by cooperating partners in government public expenditure management.

Total Expenditures

11. Preliminary figures indicate that total expenditure in 2007 was lower than programmed by 10.3 percent amounting to K10,720.1 billion against the target of K11,948.1 billion. As a percentage of GDP, this was 23.4 percent against a target of 26.1 percent of GDP. Expenditure were below target due to several factors including, the low absorption capacity by Ministries, Provinces and other Spending Agencies (MPSAs) explained in part by lengthy tendering procedures and structural factors associated with the budget cycle (implementation period), and the less than anticipated foreign financed expenditures.

12. Of the total releases made during the year, 82.0 percent was directed towards the financing of current expenditures, which represented a decline of 3.0 percentage points compared to 2006. Capital expenditures on the other hand increased by 3 percentage points to 18.0 percent in 2007 from 15 percent.

Expenditure by Economic Classification

Current Expenditures

13. Current expenditure releases in 2007 amounted to K8,794.1 billion and was below the programmed amount of K9,777.2 billion by K983.1 billion or 10.1 percent. Of the total releases made, 69.2 percent went towards wages and salaries, recurrent departmental charges and transfers and pensions, which individually accounted for 32.9 percent, 18.3 percent and 18.0 percent, respectively.

Wages and Salaries

14. During the period under review, total releases for wages and salaries amounted to K3,530.9 billion of which K3,404.6 billion went towards the payment of salaries, wages and other emoluments for the civil service while the balance of K126.3 billion facilitated housing allowance payments.

15. The total releases were higher than programmed for the year by K21.2 billion or 0.6 percent due to Government having granted a higher wage award for the civil service than had originally been anticipated for 2007. Consequently, a supplementary provision was made during the year. However, as a percentage of GDP, wages and salaries were within the target of 8.0 percent at 7.7 percent.

Public Service Retrenchment Programme

16. Releases towards the Public Service Retrenchment programme stood at K35.0 billion against the projected figure of K102.0 billion and, thus, fell below target by K67.0 billion or 65.7 percent. The releases made, reflected the requirements for undertaking the programme during 2007.

Recurrent Departmental Charges

17. Total releases towards recurrent departmental charges (RDCs) in 2007, stood at K1,961.2 billion, which was 32.1 percent lower than the projected expenditure of K2,887.3 billion. This was attributed to lower than programmed expenditures on other items, such as the constitutional and electoral reforms, awards and compensation, domestic arrears clearance and other RDCs. However, releases towards by-elections and state functions were higher than initially programmed for the year.

18. Releases towards by-elections were above the initial approved allocation of K6.0 billion by K1.7 billion or 28.8 percent due to the undertaking of more by-elections than projected for the year. In the case of state functions, the higher than programmed releases of K65.0 billion compared to the approved allocation of K45.0 billion was on account of a scale-up in activities related to state functions following Zambia's taking up of the chairmanship of the Southern Africa Development Community (SADC).

19. The significantly lower releases towards the constitutional and electoral reforms were on account of the change in the mode of adoption of the Constitution which was only operationalised at the end of the fourth quarter of 2007.

Transfers and Pensions

20. The total amount of K1,926.9 billion released towards transfers and pensions was below the programmed level of K111.4 billion or 5.0 percent. The marginal under-performance was mainly due to less than anticipated foreign financed transfers. Domestically financed transfers and pensions were above the programmed level by 1.0 percent.

21. During the period under review, the Government released in full the total allocation of K112.0 billion, for the pension fund arrears and K154.0 billion, as a grant to the Public Service Pension Fund. This was in line with the Government's commitment to liquidate statutory contribution arrears to the Public Service Pension Fund.

Interest on Domestic Debt

22. Total domestic debt interest cost payments for 2007 amounted to K721.3 billion, which was above the approved figure of K649.5 billion by K71.7 billion or 11.0 percent. This was on account of the relatively higher than projected levels of interest rates.

External Debt Interest

23. Releases towards external debt interest during the period under review amounted to K54.3 billion. This was higher than projected for 2007 by K11.3 billion or 26.4 percent necessitated by the need to service external debt which had initially not been programmed for.

Other Current Expenditures

24. Total releases for other current expenditure items were above target by K17.1 billion or 3.2 percent as releases stood at K552.5 billion against the programmed figure of K535.4 billion. This outturn was on account of higher than programmed releases towards the fertilizer support programme and constitutional posts, which were above their projected levels by 35.9 percent and 63.8 percent, respectively.

25. The higher releases towards the fertiliser support programme were made in order to facilitate additional procurement of inputs for the 2007/2008 farming season. In the case of constitutional posts, the higher releases were on account of the need to facilitate the payment of outstanding other personal emoluments, such as gratuities, as well as loans and advances. However, releases towards financial restructuring were below the projected level by 34.5 percent.

Capital Expenditures

26. Total disbursements towards capital expenditures for the year amounted to K1,926.0 billion and were below the projected level of K244.9 billion by 11.3 percent. The under-performance was both in terms of the foreign financed and domestically financed expenditures, which fell below the budgetary allocations by 17.0 percent and 5.8 percent, respectively. In comparison to 2006, releases towards domestically financed capital expenditures, as a percentage of GDP, at 2.3 percent declined by 1.1 percentage points.

27. The under-performance on the domestically financed expenditures was due to lower releases for ordinary capital on account of the slow pace of implementation of projects/programmes by the various MPSAs, thereby resulting in low absorption of funds. Similarly, releases towards the GRZ Road Fund also fell below target by 3.9 percent.

28. Total releases towards recapitalisation of Indeni Oil Refinery were, however, higher than initially projected for the year by 142.3 percent as it was found necessary to accelerate recapitalisation works in order to ensure sustainable fuel supply in the country, which is a fundamental ingredient to the various economic activities.

Table 3.3: Summary of Central Government Expenditure in (K' Billion), 2007

	2007 Budget	Total Preliminary	Variance Total	Variance (%)
TOTAL EXPENDITURES	11,948.1	10,720.1	(1,228.0)	(10.3)
TOTAL DOMESTICALLY FINANCED	9,592.0	9,356.2	(235.8)	(2.5)
1. CURRENT EXPENDITURES	9,777.2	8,794.1	(983.1)	(10.1)
Wages and salaries	3,509.7	3,530.9	21.2	0.6
o/w Centralised Housing allowance	132.5	126.3	(6.2)	(4.6)
Foreign Financed	9.9	-	(9.9)	(100.0)
Public service retrenchment	102.0	35.0	(67.0)	(65.7)
Recurrent departmental charges (RDCs)	2,887.3	1,961.2	(926.1)	(32.1)
Arrears clearance	227.0	209.9	(17.1)	(7.5)
2002 housing allowance	37.9	24.6	(13.4)	(35.2)
2003 housing allowance	48.1	37.9	(10.1)	(21.1)
Suppliers of Goods and Services	140.9	147.4	6.4	4.6
Constitutional and Electoral Reforms	209.6	28.8	(180.8)	(86.3)
o/w Foreign Financed	-	-	-	-
Bye-Elections	6.0	7.7	1.7	28.8
State Functions /Public Affairs and Summits	45.0	65.0	20.0	44.4
Awards and Compensations (Court decision)	71.0	67.3	(3.7)	(5.2)
Other RDCs/1	2,328.8	1,582.6	(746.2)	(32.0)
o/w Foreign Financed	681.2	-	(681.2)	(100.0)
Transfers and Pensions	2,038.3	1,926.9	(111.4)	(5.5)
Public Service Pension Fund	154.0	154.0	-	-
Pension Fund Arrears	112.0	112.0	-	-
Input Pack	10.0	8.9	(1.1)	(10.8)
Road Fund	48.8	48.8	-	-
ZRA	197.0	197.0	-	-
Other Transfers & Pensions	1,516.5	1,406.2	(110.3)	(7.3)
o/w Domestically Financed	918.5	928.0	9.5	1.0
o/w Foreign Financed	598.0	478.2	(119.8)	(20.0)
Domestic Interest	649.5	721.3	71.7	11.0
External Debt Interest	43.0	54.3	11.3	26.4
Other current expenditures	535.4	552.5	17.1	3.2
Financial restructuring	154.3	101.0	(53.2)	(34.5)
Strategic Food Reserve	205.0	205.0	-	-
Fertilizer Support Programme	150.3	204.2	53.9	35.9
o/w Foreign Financed	-	-	-	-
Constitutional posts	25.8	42.2	16.5	63.8
Contingency	12.0	12.0	-	-

Source: Ministry of Finance and National Planning

Table 3.3: Summary of Central Government Expenditure in (K' Billions), 2007 (Cont'd)

	2007 Budget	Total Preliminary	Variance Total	Variance (%)
2. CAPITAL EXPENDITURES	2,170.9	1,926.0	(244.9)	(11.3)
Domestically financed	1,104.0	1,040.3	(63.6)	(5.8)
of which:		1,926.0		(22.8)
Capital Programmes	486.6	493.6	7.0	1.4
O/w GRZ Road Fund	361.4	347.3	(14.1)	(3.9)
o/w Fuel Levy	220.8	220.8	-	-
Recapitalisation of Indeni	42.0	101.8	59.8	142.3
Rural Electrification Fund	23.2	11.7	(11.5)	(49.5)
Sport Infrastructure Development.	30.0	2.8	(27.2)	(90.7)
Youth Empowerment Fund	30.0	30.0	-	-
Ordinary Capital	617.3	546.7	(70.6)	(11.4)
Foreign Financed Capital Programmes	1,067.0	885.7	(181.2)	(17.0)
o/w PEMFA	-	7.9	7.9	-
Road Fund	102.0	-	(102.0)	(100.0)
Change in balances and statistical discrepancy	(1.8)	(91)		
III. Overall balance	(1,773.1)	(634.7)	1,229.1	(69.3)
Domestic balance	(946.8)	(252.3)	694.5	(73.4)
Domestic Primary Balance	(254.3)	523.3	777.5	(305.8)
IV. Financing	1,773.1	634.7	(1,138.4)	(64.2)
1. Domestic	742.5	527.0	(215.6)	(29.0)
Bank	100.0	65.1	(34.9)	(34.9)
Nonbank	443.4	355.7	(87.7)	(19.8)
MDRI Resources	199.1	106.2	(93.0)	(46.7)
2. External	1,030.5	107.7	(922.8)	(89.5)
Programme loans	290.5	34.9	(255.6)	(88.0)
Project loans	826.3	291.7	(534.6)	(64.7)
Amortisation (Paid)	(86.3)	(184.0)	(97.7)	113.2

Source: Ministry of Finance and National Planning

Expenditure by Functional Classification

29. During the period under review, Government released a total of K9,541.0 billion or 98.6 percent of the domestically financed expenditures to achieve different objectives or functions of Government.

30. In terms of releases by function of Government, general public services accounted for the largest share at 36.6 percent, followed by education which accounted for 18.4 percent and economic affairs at 14.5 percent. However, when combined, the releases to the social sector functions were significantly high at 33.8 percent (see Table 3.4)

Table 3.4: Government Expenditure Expressed as a Function in (K' billion), 2007

Government Function	2007 Budget Allocation	2007 Releases	Releases as % of Functional Allocation	Releases as % of Total Budget	Releases as % of Discretionary Budget	Releases as % of GDP
General Public Services	3,729.20	3,487.30	93.5	36.6	45.1	7.7
Defence	798.2	943.1	118.2	9.9	12.2	2.1
Public Order and Safety	457.3	470.9	103	4.9	6.1	1.0
Economic Affairs	1,408.00	1,384.40	98.3	14.5	17.9	3.0
Environmental Protection	38.8	34.3	88.6	0.4	0.4	0.1
Social Sectors						
Education	1,651.30	1,752.00	106.1	18.4	22.7	3.9
Health	859	801.4	93.3	8.4	10.4	1.8
Housing and Community Amenities	286.4	265.5	92.7	2.8	3.4	0.6
o/w Water Supply and Sanitation	37.4	37.5	100.3	0.4	0.5	0.1
Social Protection	343.5	295.7	86.1	3.1	3.8	0.7
o/w National Disaster	8.6	35.9	419.5	0.4	0.5	0.1
Recreation, Culture and Religion	106.7	106.1	99.5	1.1	1.4	0.2
Total Social Sectors	3,246.90	3,220.70	99.2	33.8	41.7	7.1
Total Domestic Budget	9,678.30	9,540.70	98.6			
Total Discretionary Budget	7,725.60					
Gross Domestic Product	45,474.50					

Source: Ministry of Finance and National Planning

General Public Services

31. General public services releases amounted to K3,487.3 billion which represented 93.5 percent of the allocation for this function. Of the total releases made under this function, 57.2 percent went towards general Government services, which are primarily activities of an operational nature for the general running of Government.

32. Releases towards debt and investment management were also significant during the period and accounted for 50.6 percent of releases under this function, reflecting Government's commitment to liquidating its debt obligations and creating more fiscal space for expenditures aimed at improving service delivery and enhancing economic growth.

Economic Affairs

33. A total of K1,384.4 billion or 98.3 percent of the functional allocation for the economic affairs functions was released. Of this amount, a total of K1,175.0 billion or 84.9 percent was directed towards the sub-functions of agriculture, forestry and fishing, and transport. Total releases to the agriculture, forestry and fishing sub-function amounted to K719.7 billion or 52.0 percent of the releases. Among the main activities, which accounted for these releases were the agriculture support programmes, namely, the Fertiliser Support Programme, Strategic Food Reserve Programme and Input Pack as well as the Farm Mechanisation and Irrigation Fund, which now forms part of the Citizens Economic Empowerment Fund.

34. Under the transport sub-function, K419.8 billion or 92.2 percent was released towards the road transport affairs and services. The focus was on the construction and rehabilitation of roads.

Social Sectors

35. Total releases to the social sectors amounted to K3,220.7 billion, which represented 99.2 percent of the functional allocation. As a percent of the national budget, releases to the social sector accounted for 33.8 or 7.1 percent of GDP. In comparison to 2006, there was an improvement in terms of both percentage of functional allocation released and percentage of GDP by 8.0 percentage points and 1.8 percentage points, respectively.

36. The sub-functions of education, health, social protection and housing and community amenities accounted for the largest share of the releases at 54.4 percent, 24.9 percent, 9.2 percent and 8.2 percent, respectively. Total releases towards the education function amounted to K1,752.0 billion, representing 106.1 percent of the functional allocation. With regard to the health function, a total of K801.4 billion was released against a functional allocation of K859.0 billion. This represented 93.3 percent of the functional allocation or 1.8 percent of GDP. Of the releases made, 79.9 percent was directed towards public health services and particularly the remuneration and recruitment of frontline personnel. Regarding social protection, a total of K295.7 billion was released for grants to the Public Service Pension Fund and disaster management, among others.

Poverty Reduction Programmes

37. In 2007, a total of K5,645.7 billion or 46.9 percent of the total budget was allocated to poverty reduction programmes, out of which K3,504.7 billion was released. This performance was on account of slow pace of implementation of capital programmes. Expressed as a percentage of GDP, this was 7.7 percent while as a percent of the PRP budget it was 86.7 percent.

38. The bulk of the releases went towards the education and health function, which together accounted for 52.8 percent, followed by the economic function at 28.0 percent and general public services at 13.7 percent (see Table 3.5). Total releases towards the economic function and social protection were above their budgetary allocations due to supplementary provisions made during the year, particularly, for the fertiliser support programme and disaster management, respectively.

Table 3.5: Poverty Reduction Programmes by Function of Government (K' billion)

Government Function	2007 Total Budget Allocation	2007 Releases	Releases as % of Functional Allocation	Releases as % of GDP
General Public Services	27.9	479.6	65.9	1.1
Defence	-	-	0.0	
Public Order and Safety	17.2	11.5	67.0	0.0
Economic Affairs	958.1	979.7	102.3	2.2
Environmental Protection	10.9	9.8	89.8	0.0
Social Sectors				
Education	1,314.9	1,064.5	81.0	2.3
Health	844.0	786.2	93.1	1.7
Housing and Community Amenities	110.7	93.3	84.3	0.2
o/w Water Supply and Sanitation	28.0	28.0	100.3	0.1
Social Protection	21.7	49.1	226.7	0.1
o/w National Disaster	2.4	30.9	160.1	0.1
Recreation, Culture and Religion	34.7	34.9	89.1	0.1
Total Social Sectors	2,326.0	2,024.1	87.0	4.5
Total Domestic Budget	4,040.1	3,504.7	86.7	7.7
Gross Domestic Product	45,474.5			

Source: Ministry of Finance and National Planning

Budget deficit

39. The overall budget deficit in 2007 stood at K544.0 billion or 1.2 percent of GDP. This was below the projected deficit of 3.9 percent of GDP. The deficit was primarily financed, through domestic financing of K527.0 billion, out of which K106.2 billion was MDRI resources and the balance from domestic borrowing.

Outlook

40. Fiscal policy in 2008, will focus on accelerating the dismantling of domestic arrears and enhancing revenue collection. This is necessary to create fiscal space required to substantially increase the financing of priority programmes in the Fifth National Development Plan (FNDP) in subsequent years.

41. In addition, priority will be given to enhancing budget execution and programme implementation. In this regard, particular effort will be made to address the low absorption capacity by MPSAs by among other things, streamlining tender and procurement procedures.

CHAPTER 4 MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Overview

1. In 2007, monetary and financial sector developments were favourable. Accordingly, inflation was sustained in single digit, lending interest rates declined slightly while domestic credit grew, driven by the increase in lending to the private sector. The build-up of international reserves was also impressive, reflecting Zambia's favourable external sector performance.
2. The overall financial condition and performance of the banking sector during the year was satisfactory. This was reflected in the growth in total assets and earnings, as well as an improvement in capital adequacy, asset quality and liquidity conditions of the banking sector.
3. Similarly, performance of the non-bank financial institutions was satisfactory, with the building society sub-sector recording an improvement in the aggregate regulatory capital. The improvement was largely due to increased after tax profit coupled with capital injection.
4. With regard to the implementation of the Financial Sector Development Plan (FSDP), a major milestone was the formal launch of the Credit Reference Bureau in January 2007. The bureau commenced data mining from commercial banks and it is expected that this will improve the credit culture in the country.

Policy Developments and Objectives

5. The primary objective of monetary and supervisory policies was to achieve price and financial system stability. In this regard, monetary policy targets were to:
 - (i) achieve an end-year inflation target of 5.0 percent;
 - (ii) maintain exchange rate stability; and
 - (iii) increase the coverage of official international reserves to at least 2.5 months of imports.
6. In the area of financial system stability, a law requiring the increase of paid up capital to K12 billion from K2 billion for commercial banks came into effect in 2007. Legal reviews aimed at strengthening corporate governance and harmonizing fees and penalties related to prudential matters among financial institutions were undertaken. Further, the national payment system bill was enacted, aimed at providing statutory support and a regulatory framework for payment systems practices.
7. In addition, in line with Government's policy to reduce the cost of credit and reliance on the use of direct monetary policy instruments, the Bank of Zambia reduced the statutory reserve

requirements on both Kwacha and foreign currency deposits to 8.0 percent from 14.0 percent, respectively.

Monetary Developments

Broad Money

8. Broad Money (M3) growth slowed down to 25.9 percent or K10,674.9 billion at end-December 2007 from 45.1 percent at end-December 2006. The underlying factor explaining this outturn was mainly the fall in growth in the Net Foreign Assets (NFA). Net foreign assets growth slowed down to 28.1 percent (contributing 13.1 percentage points to M3 growth) at end-December 2007 compared to the growth of 1,367.0 percent at the end of 2006. However, the M3 outturn was 18.8 percent or K1,689.4 billion above the projected end-year target of K8,985.5 billion.

9. The increase in the NFA in 2007 was largely due to the build-up in international reserves by 48.9 percent to US \$1,051.4 million at end-December 2007 from US \$706.2 million at end-December 2006. This was complimented by a 36.5 percent or US \$247.9 million increase in foreign currency deposits to US \$927.2 million at end-December 2007 from US \$679.3 million at end-December 2006.

10. The Net Domestic Assets (NDA) grew by 24.0 percent contributing 12.8 percentage points to M3 growth compared to the growth of negative 26.1 percent observed at the end of 2006. The increase in the NDA was mainly due to a rise in domestic credit, which was driven by an expansion in lending to the private sector.

Domestic Credit

11. As at end-December 2007, domestic credit growth slowed down to 19.8 percent (K7,616.6 billion) from 25.8 percent (K6,358.1 billion) at end-December 2006. This was largely due to a decline in net claims on Government by 21.6 percent, mainly on account of slow implementation of projects and programmes by MPSAs. In addition, private sector credit growth reduced to 44.5 percent from 49.4 percent at end-December 2006 (see Table 4.1).

Table 4.1: Monetary Developments (K' Billion), December 2005-December 2007

Description	2005	2006	2007	(%) Change 2007/2006
Net Foreign Assets	(312)	3,953.10	5,064.0	28.1
Foreign Assets	5,776.50	7,612.90	9,589.9	26.0
Foreign Liabilities	(6,268.60)	(3,219.50)	(4,525.9)	(40.6)
Domestic Assets	6,122.70	4,523.70	5,610.9	24.0
Domestic Credit	5,054.30	6,358.10	7,616.6	19.8
Net Claims on General Government	2,386.90	2,374.00	1,861.4	(21.6)
Claims on Government	3,774.00	2,439.70	4,441.0	82.0
Government Deposits	(1,387.00)	(1,634.00)	(2,579.6)	(57.9)
Claims on Public Enterprise	230.3	224.4	378.5	68.7
Claims on Private Enterprises	1,879.10	3,044.50	4,309.1	41.5
Claims on Households	528	625.2	942.6	50.8
Claims on Non-Bank Financial Institutions	29.9	89.9	124.9	38.9
Other Items Net	1,068.40	(1,834.40)	(2,005.7)	(9.3)
Broad Money	5,842.00	8,476.80	10,674.9	25.9
Narrow Money	2,280.10	3,463.70	4,172.5	20.5
Quasi-Money	3,530.60	5,013.10	6,502.4	29.7
Foreign Currency Deposits	1,950.70	2,714.00	3,905.9	43.9
Other Deposits	1,579.90	2,299.10	2,596.5	12.9

Source: Bank of Zambia

12. On a sectoral basis, personal loans dominated the loans and advances in December 2007, accounting for 25.6 percent, followed by the agricultural sector at 23.8 percent. The wholesale and retail trade sector was third with 12.7 percent, followed by the manufacturing sector at 11.7 percent (see Table 4.2). However, for the year as a whole, loans and advances were largely to the agricultural sector, which attracted a monthly average of 25.3 percent of total loans, followed by personal loans, and wholesale and retail trade sectors at 17.0 percent and 14.2 percent, respectively.

Table 4.2: Shares in Total Loans and Advances by Sector (Percent), December 2005-December 2007

Description	2005	2006	2007
Agriculture, forestry, fishing and hunting	27.2	27.2	23.8
Mining and quarrying	3.9	4.3	5.0
Manufacturing	12.2	13.3	11.7
Electricity, gas, water and energy	5.8	3.2	3.2
Construction	2.0	2.2	3.3
Wholesale and retail trade	14.3	14.5	12.7
Restaurants and hotels	2.3	2.0	1.0
Transport, storage and communications	7.5	8.0	6.7
Financial services	2.4	4.7	3.5
Community, social and personal services	2.3	2.5	1.4
Real estate	3	4.8	2.0
Personal loans	14.2	11.2	25.6

Source: Bank of Zambia

Inflation Developments

13. At end-December 2007, the overall inflation rate stood at 8.9 percent, after rising to 12.7 percent in the first quarter of the year. This outturn was 3.9 percentage points above the end-year inflation target of 5.0 percent and 0.7 percentage points above 8.2 percent recorded in 2006, attributed to an increase in both food and non-food inflation.

14. Annual food inflation remained in single digit levels throughout the year, despite rising from negative 0.2 percent in December 2006 to 5.9 percent in December 2007. This outturn was mainly attributed to lower supply of beef, milk and milk products following the ban on the movement of cattle to and from Southern Province to control the Contagious Bovine Pleural Pneumonia (CBPP) cattle disease during the year. In addition, rising production costs resulted in higher prices of other processed food products.

15. Annual non-food inflation slowed down to 11.9 percent in December 2007 from 18.1 percent recorded in December 2006. This slowdown was mainly attributed to the pass-through effects of the appreciation of the Kwacha against the US dollar, during the second half of the year, which moderated the higher world petroleum prices on the domestic market.

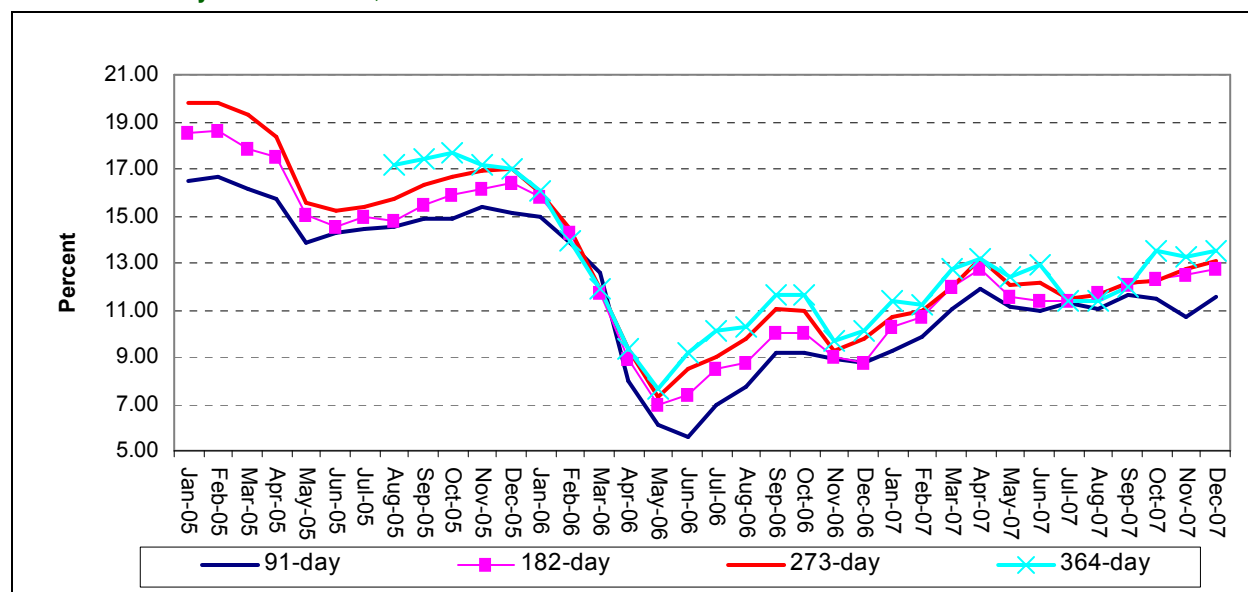
Interest Rates Developments

16. Interest rates on Government securities were broadly higher in 2007 compared with 2006, despite strong demand for Government issues and the reduction in the statutory reserve ratios. Government securities yield rates ended higher, with the weighted average Treasury bill yield rate rising to 12.9 percent in December 2007 from 9.2 percent in December 2006.

17. Similarly, the composite yield rate on Government bonds increased to 15.6 percent in December 2007 from 12.6 percent in December 2006. The increase can be partly attributed to the newly introduced 7, 10 and 15-year bonds, which were issued at relatively higher yield rates. The issuance was due to the Bank of Zambia's liquidity mop-up operations, aimed at withdrawing excess liquidity from the market in order to contain inflationary pressures in the economy. The strong demand for Government securities was also partly supported by the continued interest in domestic securities from foreign portfolio investors.

18. With regard to movements in individual Government securities portfolios, yield rates on the 91-day and 182-day Treasury bills rose to monthly averages of 11.5 percent and 12.8 percent (December 2007) from 8.7 percent and 8.8 percent, in December 2006, respectively (see Chart 4.1).

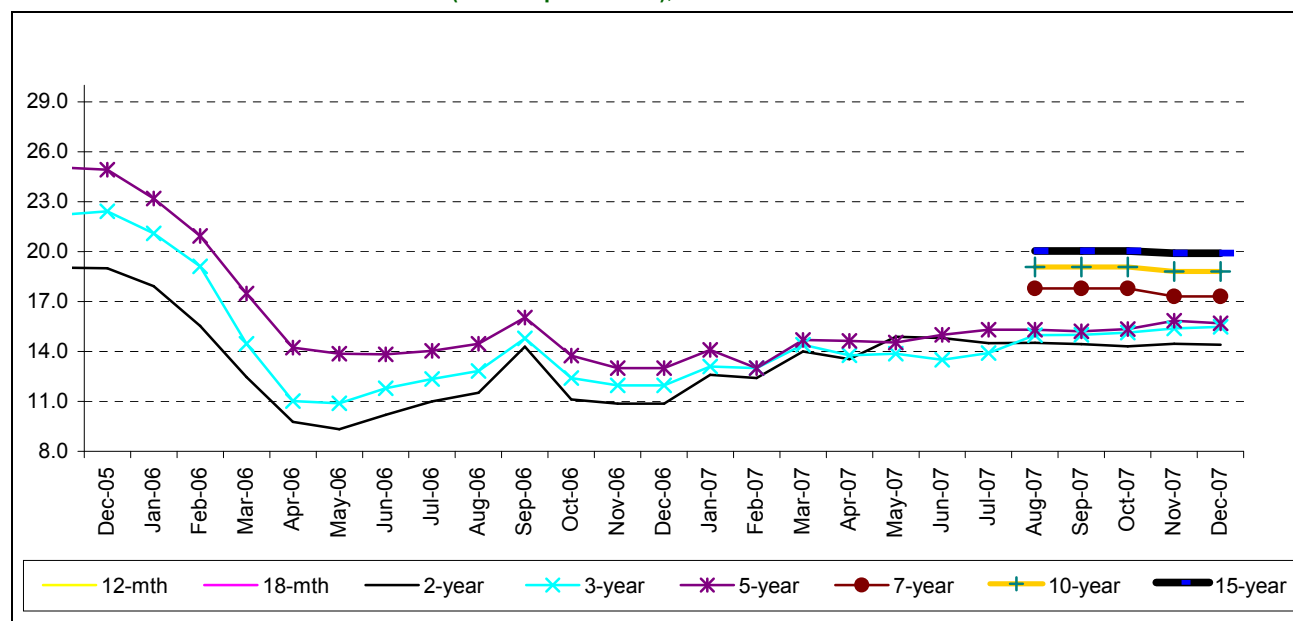
Chart 4.1: Treasury Bill Yield Rates, 2005-2007



Source: Bank of Zambia

19. Correspondingly, yield rates on the 2-, 3- and 5-year Government bonds increased to monthly averages of 14.4 percent, 15.5 percent and 15.7 percent (December 2007) from 10.9 percent, 12.0 percent and 13.0 percent in December 2006, respectively (see Chart 4.2)

Chart 4.2: Government Bonds Yield Rates (Percent per Annum), December 2005-December 2007



Source: Bank of Zambia

20. Despite lowering the cost of doing business for the commercial banks by reducing their corporate tax rate to 40 percent in 2007 from 45 percent and inflation sustained in single digits, lending rates remained high at 24.4 percent at end-December 2007, compared to 27.9 percent at end-December 2006. Further in October 2007, the Bank of Zambia reduced the statutory reserve ratio on both Kwacha and foreign currency deposits from 14.0 percent to 8.0 percent as one of

the measures to make borrowing affordable by reducing the opportunity cost associated with commercial banks' funds held at the central bank as statutory reserves.

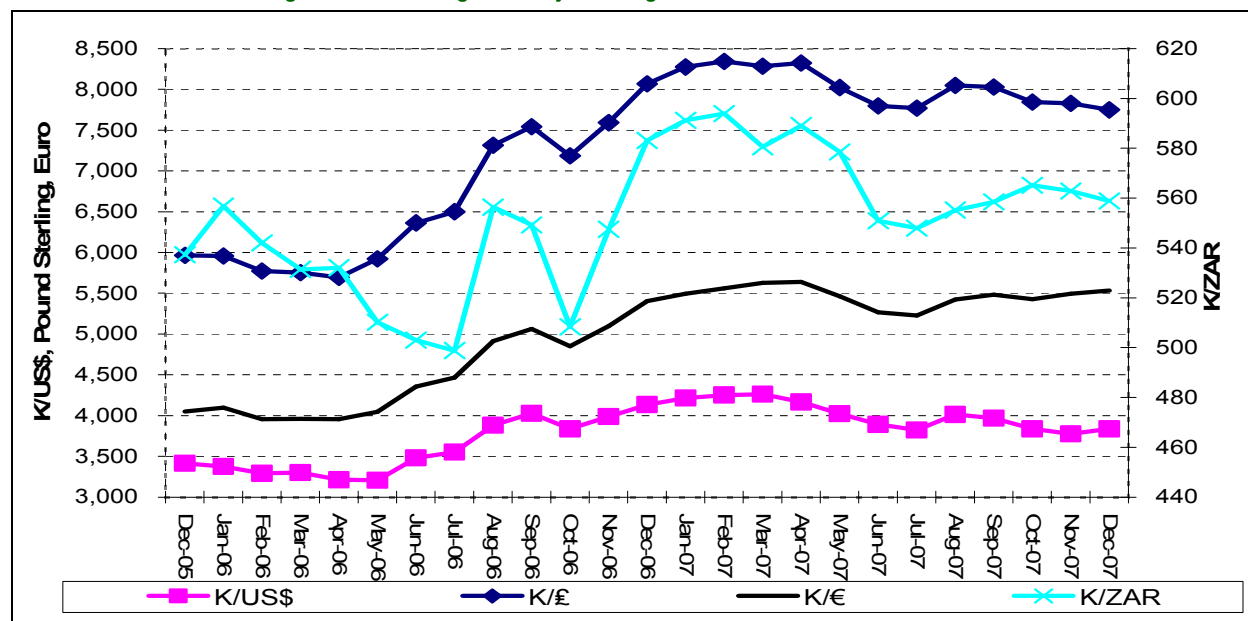
Foreign Exchange Market Developments

21. The performance of the Kwacha against major foreign currencies was relatively stable in 2007. The strong macroeconomic fundamentals, particularly the external sector, resulted in a steady supply of foreign exchange on the market. This was from both traditional exporters and foreign portfolio investors, and supported the Kwacha's performance. Consequently, the Kwacha appreciated against the US dollar, the South African rand, and the Pound Sterling. However, the local currency depreciated against the Euro.

22. The Kwacha appreciated by 7.3 percent against the US dollar to an average of K3,835.75/US dollar in December 2007 compared to a depreciation of 21.1 percent recorded in 2006. With regard to the South African Rand and the Pound Sterling, the Kwacha appreciated by 4.2 percent and 4.0 percent to monthly averages of K558.82/ZAR and K7,7748.28/£, respectively, in December 2007. The appreciation recorded against the South African Rand and Pound Sterling compared favourably to the previous year's depreciation of 8.5 percent and 35.3 percent, respectively.

23. With regard to the Euro, the Kwacha depreciated by 2.3 percent, down from a depreciation of 33.5 percent recorded in 2006. The exchange rate moved to a monthly average of K5,532.27/€ in December 2007. The depreciation of the Kwacha against the European single currency was on the back of a broad-based appreciation of the Euro against most major international currencies, induced by strong economic performance and relatively high interest rates in the Euro area (see Chart 4.3).

Chart 4.3: Kwacha Exchange Rate Levels against Major Foreign Currencies, December 2005-December 2007



Source: Bank of Zambia

24. The volume of foreign exchange transactions continued to increase in 2007. In the inter-bank market, commercial banks exchanged a total of US \$2,821.5 million in 2007, up from US \$1,476.3 million in 2006. The volume of foreign exchange transactions between commercial banks and the non-bank sector also increased to US \$7,213.7 million from US \$6,100.0 million in 2006, reflecting the continued inflow of foreign exchange in the economy, consequently increasing foreign assets. The increase reflected total purchases by banks from non-banks amounting to US \$3,858.4 million against sales to non-banks amounting to US \$3,355.3 million. Overall, commercial banks net purchases of foreign exchange from non-banks amounted to US \$503.2 million compared with net purchases of US \$524.9 million recorded in 2006.

Financial Sector Developments

Banking Sector Performance

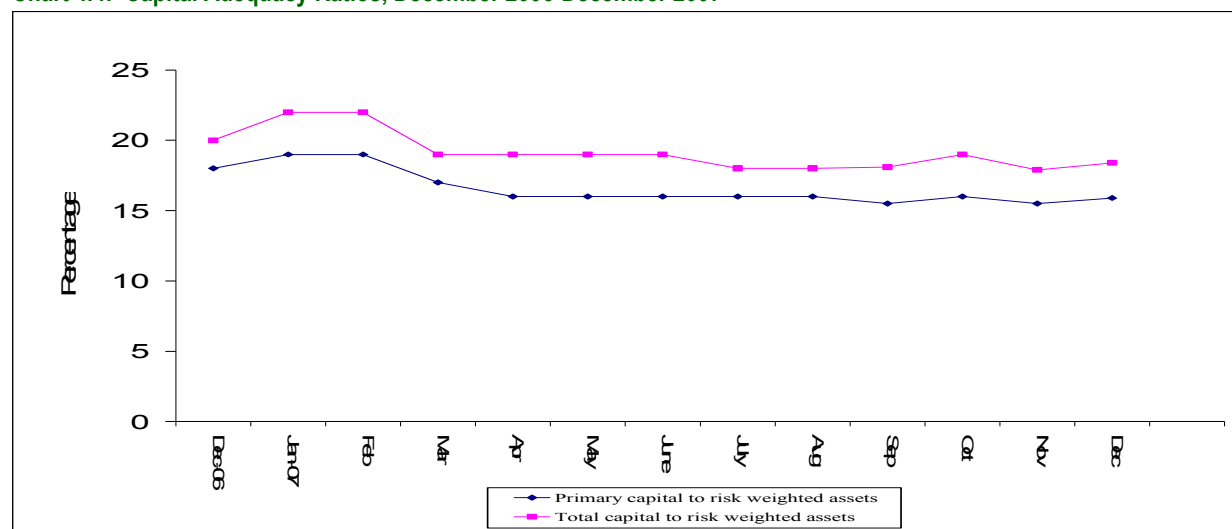
25. The overall financial condition and performance of the banking sector during the year under review was satisfactory. This was evidenced by the growth in total assets and earnings as well as an improvement in capital adequacy, asset quality and the liquidity position of the banking sector.

26. In an effort to strengthen the banking sector, the Bank of Zambia revised the minimum primary paid-up capital requirement from K2 billion to K12 billion with effect from 1 January 2007. Those banks whose capital as at the effective date of the revision fell below the prescribed minimum level of K12 billion were given up to 30 June 2008 to comply with the revised minimum capital level.

27. The sector continued to be adequately capitalised during the year under review. Primary regulatory capital increased by 24.1 percent to K1,183.8 billion compared to K953.6 billion as at 31 December 2006. Total regulatory capital also increased by 27.1 percent to K1,373.3 billion compared to K1,080.2 billion as at 31 December 2006.

28. However, the banking sector's capital adequacy ratios declined to 15.9 percent and 18.4 percent for primary regulatory capital and total regulatory capital, respectively, as at 31 December, 2007 compared to 18.0 percent and 20.4 percent as at 31 December, 2006 (see Chart 4.4). The lower ratios were as a result of an increase in assets with a higher risk profile, such as loans and advances, which attract a higher capital charge. Investments in loans and advances to the private sector increased by 48.1 percent to K5,335.3 billion as at 31 December 2007, which also formed 38.7 percent of total assets compared to 33.7 percent as at 31 December, 2006. The ratios remained above the prudential benchmarks of 5.0 percent, and 10.0 percent for primary and total regulatory capital, respectively.

Chart 4.4: Capital Adequacy Ratios, December 2006-December 2007



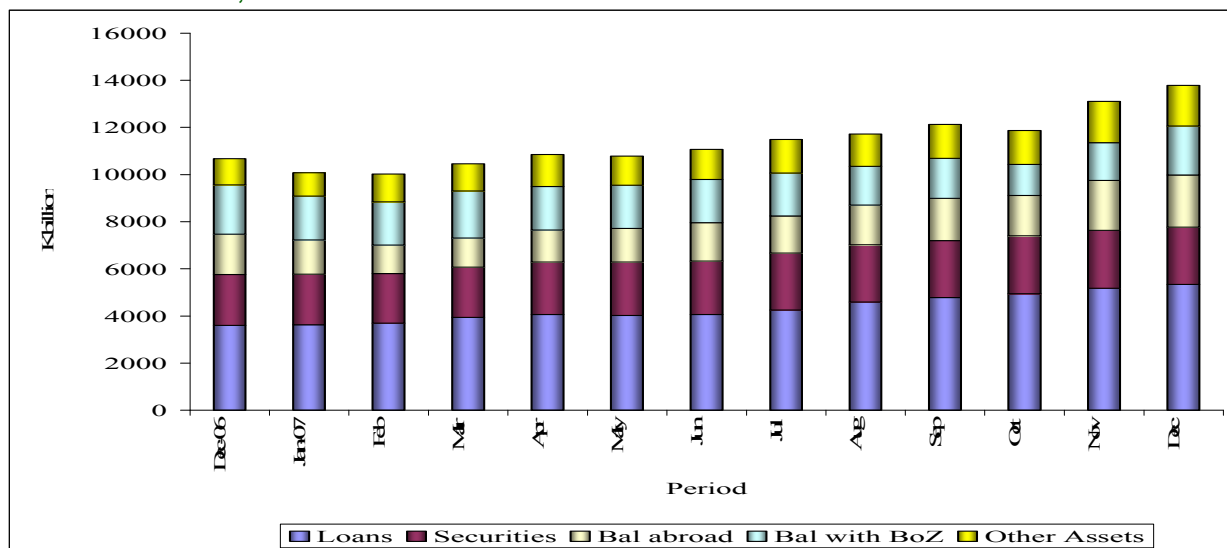
Source: Bank of Zambia

29. Total liabilities increased by 28.8 percent to K12,421.6 billion as at 31 December, 2007 from K9,645.9 billion at 31 December 2006. As a percentage of total liabilities and shareholders funds, total deposits accounted for 72.1 percent, which was a slight reduction from 73.9 percent recorded at 31 December, 2006. Demand deposits continued to be the main source of deposits and as at 31 December, 2007 constituted 67.9 percent of the total deposits compared to 68.5 percent as at 31 December 2006.

30. Total assets for the banking sector registered a growth of 29.1 percent to K13,777.0 billion at end-December 2007 compared to K10,675.2 billion at end-December 2006. The growth in assets was largely driven by the increase in net loans and advances and balances with foreign institutions (see Chart 4.5).

31. The sector's asset quality in the year under review was satisfactory with the proportion of non-performing loans to total loans declining to 8.8 percent at end-December 2007 compared to 11.3 percent at end-December 2006. Further, the allowance for loan losses were also satisfactory at 98.4 percent compared to 83.3 percent as at end-December 2006 implying that, all potential loan losses had been adequately provided for as at end-December 2007. Consequently, the level of credit risk in the industry reduced.

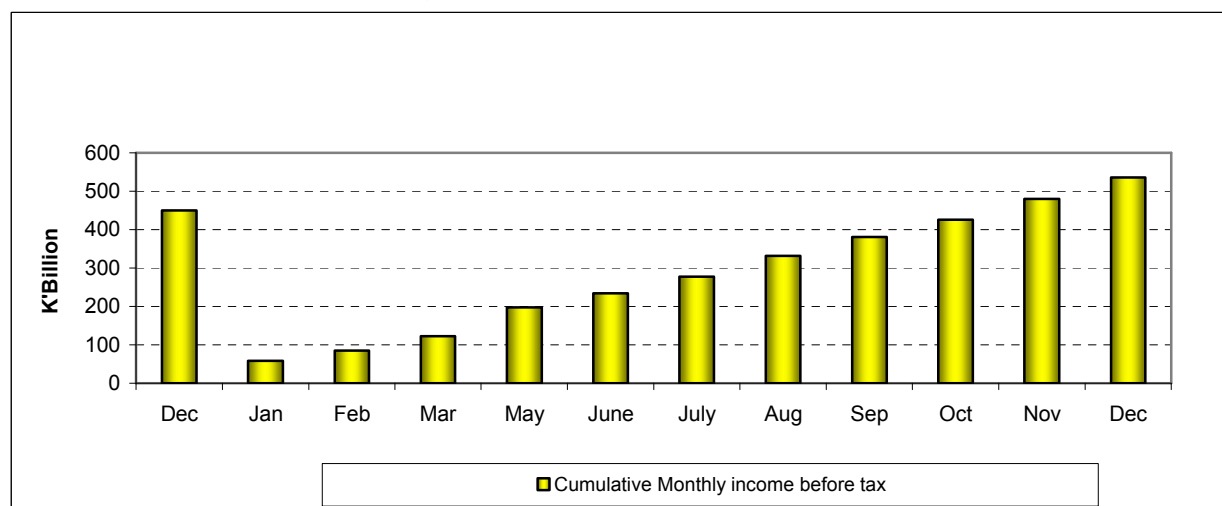
Chart 4.5: Total Assets, December 2006-December 2007



Source: Bank of Zambia

32. In terms of earnings, the banking sector’s performance for the year ended 31 December 2007 was satisfactory, with profit before tax increasing by 19.3 percent to K536.0 billion, compared to K449.2 billion recorded in the year to 31 December 2006 (see Chart 4.6). The largest sources of income for the banking sector were interest on loans and advances at 36.3 percent; commission, fees and service charges (19.7 percent); foreign exchange income (15.8 percent); and interest on Government securities investments (14.6 percent).

Chart 4.6: Cumulative Income before Tax, December 2006-December 2007



Source: Bank of Zambia

33. With regard to returns on assets and equity, the banking sector’s average return on assets declined to 4.6 percent while the average return on equity increased to 34.9 percent, as at end-December 2007, compared to 5.1 percent and 30.6 percent, as at end-December 2006.

34. In terms of liquidity position, the sector’s liquidity remained satisfactory, although the ratio of liquid assets to total deposits and short term liabilities (liquidity ratio) declined to 46.0

percent, and the ratio of liquid assets to total assets fell to 37.6 percent at end-December 2007 compared to 52.5 percent and 43.7 percent, respectively, recorded at end-December 2006.

Non-Bank Financial Institutions

Sector Performance

35. The overall financial condition and performance of the non-bank financial institutions (NBFIs) was satisfactory, with adequate capital and reserves, and sound asset quality. The total number of non-bank financial institutions under the supervision of the Bank of Zambia also increased to 61 in 2007, from 50 in 2006. These included leasing companies, building societies, micro finance institutions and bureaux de change and Credit Reference Bureaux (CRB) (see Table 4.3)

Table 4.3: Number of Non-Bank Financial Institutions, 2005-2007

Name	2005	2006	2007
Bureaux de Change	32	31	35
Microfinance Institutions	4	6	8
Leasing Companies	8	8	12
Building Societies	3	3	3
Development Financial Institutions	1	1	1
Savings and Credit Banks	1	1	1
Credit Reference Bureaux	-	-	1
Total	49	50	61

Source: Bank of Zambia

Leasing Sub-Sector

36. The overall financial condition and performance of the leasing sub-sector in 2007 remained satisfactory. On average, leasing companies maintained adequate regulatory capital and reserves relative to their risk profiles. As at 31 December 2007, the sector's regulatory capital was K42.9 billion compared to K42.6 billion as at the end of 2006. Despite capital injection of K3.8 billion in the year under review, the marginal increase in the sector regulatory capital was due to accumulated losses of K4.9 billion recorded in the year.

37. The sector's asset quality for the period under review continued to be satisfactory. As at 31 December 2007, the leasing sector's total assets amounted to K263.8 billion compared to K267.6 billion in the previous year. The decrease in total assets was largely attributed to the decrease in loans and leases by 8 percent to K178.4 billion in 2007 from K195.5 billion in 2006, while total liabilities decreased by 1.8 percent to K 217.8 billion in 2007 from K221.93 billion in 2006. Out of the total assets, earning assets amounted to K198.9 billion or 66 percent of the aggregate.

38. Similarly, there was a decrease in the sector's earnings during the period under review. As at end-December 2007, the sector recorded a loss before tax of K4.3 billion compared to profit before tax of K12.3 billion in 2006, largely on account of loan loss provisions on non-performing loans, coupled with a reduction in interest income due to the decline in interest rates

in the economy. In 2007, loan loss provisions of K6.6 billion were made compared to loan recoveries of K0.7 billion in 2006.

Building Societies

39. The overall financial condition of the building societies sub-sector in 2007 improved. On average, the sector's aggregate regulatory capital registered an increase of K7.2 billion or 18 percent over the 31st December 2006 figure of negative K39.4 billion. The improvement was largely due to the after-tax-profit of K8.7 billion recorded in the year under review.

40. In addition, total assets increased to K222.8 billion from K140.8 billion at the end of 2006. This growth was largely financed by the increase in customer deposits as well as borrowings from other financial institutions. Customer deposits increased to K123.5 billion from K91.1 billion while borrowings increased to K15.4 billion from K4.9 billion at the end of 2006. Out of the total assets, earning assets amounted to K158.9 billion or 72 percent of the aggregate.

41. With regard to profit, the sub-sector recorded a profit before tax of K9.6 billion as at end-December 2007 compared to K7.9 billion recorded in the previous year. The improvement in the sector's earnings was attributed to the increase in the mortgage portfolio. The aggregate mortgages increased by 23 percent to K103.1 billion as at 31 December 2007 from K39.8 billion as at 31 December 2006. The increase in mortgages was largely financed through deposits mobilised from members of the building societies and borrowings from financial institutions.

Micro-Finance Institutions

42. The overall financial condition and performance of the micro-finance sub-sector was satisfactory in the period under review. The sub-sector was adequately capitalised and had satisfactory asset quality and earnings. As at end-December 2007, the total assets of the micro-finance sub-sector stood at K254.7 billion, representing an increase of 78 percent over the 31 December 2006 position of K143.4 billion. The growth in assets was attributed to an increase in capital and reserves to K79.3 billion from K20.4 billion in 2006 as well as borrowings of K175.3 billion from K98.3 billion in 2006.

Bureaux de Change

43. The total assets of the bureaux de change sub-sector at end-December 2007 stood at K21.3 billion, which was an increase of 15 percent from the figure of K18.6 billion in 2006. The increase in total assets was mainly attributed to the rise in aggregate capital and reserves. As at end-December 2007, the sector's regulatory capital stood at K22.7 billion, representing an increase of K7.6 billion over the December 2006 figure of K15.1 billion. As at end-December 2007, all bureaux de change met the prescribed minimum capital requirement of K40 million.

Financial Sector Development Plan

44. The key milestones on the implementation of the Financial Sector Development Plan in the year under review included:

- the launch of credit referencing services;
- the dissemination of the findings of the FinScope 2005 Market Survey to commercial banks, micro finance institutions and insurance companies;
- conducting the supply-side study on the inclusiveness of Zambia's financial systems;
- enactment of the National Payment Systems Act;
- development of a draft sector-wide HIV/AIDS Policy for financial institutions; and
- legal review of priority pieces of legislation.

Outlook

45. In 2008, inflation is expected to remain within single digit levels, premised on improved food supply and a stable exchange rate. However, there are some challenges to this positive outlook such as the heavy rainfall situation, in the 2007/2008 farming season which may result in a poor crop harvest. In the financial sector, favourable performance is likely to continue, based on the expected buoyant economic growth.

CHAPTER 5 CAPITAL MARKETS DEVELOPMENTS

Overview

1. The performance of the capital markets continued to be favourable, evidenced by the improvement in all the performance indicators at the Lusaka Stock Exchange (LuSE). The LuSE All Share Index (LASI) closed at 3,533.52 points, up by 92.1 percent in 2007 from 1,837.61 points in 2006. In US dollar terms, the Index return increased by 102 percent in 2007 compared to an increase of 26 percent in 2006. The higher return in 2007 was due to the impressive capital gains recorded in most stocks pushed by good results and demand for the shares. The market return as measured by the Index change was significantly above inflation. As a result of the impressive performance, LuSE was ranked as the best performing market on the continent in terms of market return by the Databank Group ranking.

Stock Market Activity

Market Size

2. The size of the market grew by 44.0 percent to K18.9 trillion. In US dollar terms, it grew by 51.0 percent to US \$4.8 billion. This growth in market capitalization was mainly attributed to the gains recorded in most stocks such as Investrust, Zambeef, Lafarge (ex-Chilanga), ZAMEFA, Shoprite and the rights offer by Cavmont Capital Holdings (CCHZ) at a ratio of five new shares for every four.

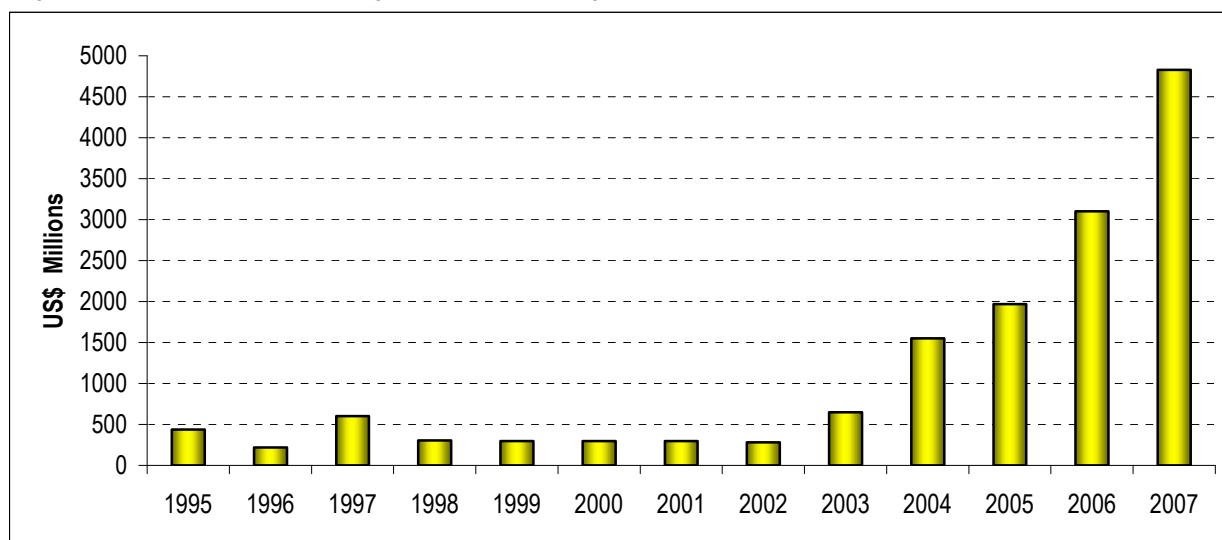
Table 5.1: Selected Performance Indicators at LUSE, 2005-2007

Market Capitalization	2005	2006	2007
K million	8,594,606	13,072,466	18,872,945
US \$ million	2,456	3,188	4,827
Mkt Cap/GDP ratio (%)	28.6	40.0	54.6
Turnover/Mkt Cap ratio (%)	0.7	0.7	1.6
No. of listed companies	13	15	16
No. of quoted companies	12	11	12
Total No. of companies	25	27	28

Source: Lusaka Stock Exchange

3. Market size as a percentage of GDP rose by 14.6 percentage points from the 2006 figure of 40.0 percent. Market liquidity, as indicated by trading turnover in relation to the market capitalisation, increased by almost one percentage point to 1.6 percent. This was augmented by an increase in turnover resulting from increased trades and volumes transacted in stocks such as Zambeef, Investrust, CCHZ rights issue, Chilanga Cement and the ZAMEFA mandatory offer for purchase of 47.0 percent of the issued shares of the company by Phelps Dodge Africa Cable Corporation (PDACC) (see Table 5.1 and Graph 5.1).

Graph5.1: LuSE US dollar Market Capitalisation, 1995- September 2007



Source: Lusaka Stock Exchange

4. During the period under review, there was one listing and quotation. The number of listed companies subsequently increased to 16 while the number of quoted companies increased to 12 from 11 after Investrust Bank graduated to the listed tier in June 2007. In addition, Prima Reinsurance Plc was quoted effective 20 December 2007 by virtue of registration of its shares by the Securities and Exchange Commission (SEC).

Trading Activity

Equity Trading

5. The number of trades increased by 69.3 percent to 6,199 in 2007 from 3,662 in 2006. Consequently, the volume of trade and turnover increased significantly by 226.1 percent and 238.3 percent, respectively, in 2007 (see Table 5.2). The increase in volumes was mainly influenced by the sale down of shares in Investrust and Zambeef. In addition, Cavmont Capital Holdings Zambia conducted a rights issue in the period under review, which also increased volumes transacted.

Table 5.2: Equity Market Trading Activity, 2005-2007

	2005	2006	2007	% Change 2007/2006
No. of Trades	2,519	3,662	6,199	69.3
Volume	215,330,530	858,661,187	2,800,247,780	226.1
Turnover (K' billion)	68.5	86.6	293.0	238.3
US\$ (million)	15.5	23.9	72.4	202.9

Source: Lusaka Stock Exchange

6. Further, ZAMEFA announced a mandatory offer to acquire the 47.0 percent shares held by minority investors. Other active stocks in the year were for Lafarge, Standard Chartered Bank, Zambia Sugar Plc and British American Tobacco.

Bond Trading

7. There was a slow-down in secondary trading activity in Government bonds as investors adopted a buy and hold strategy. The number of trades declined by 53.7 percent to 25 in 2007 from 54.0 in 2006. Similarly, the turnover declined to K69.3 billion in 2007 from K138.9 billion in 2006 (see Table 5.3). To increase awareness on the mechanism of secondary trading of Government bonds, LuSE and the Bank of Zambia were working on means of re-activating and streamlining the operations of the secondary market in Government bonds under the Financial Sector Development Plan (FSDP).

Table 5.3: GRZ Bond Market Trading Activity, 2005-2007

	2005	2006	2007	% change
No. of trades	30	54	25	(53.7)
Turnover (K' billion)	19.1	138.9	69.3	(50.1)
US \$ (million)	4.3	43.6	17.0	(61.0)

Source: Lusaka Stock Exchange

Foreign Portfolio Investment (FPI)

8. Foreign portfolio investment continued to increase. The net position increased by 52.5 percent to US \$12.2 million in 2007 from US \$8.0 million in 2006 (see Table 5.4). Foreign fund managers who had taken keen interest in emerging markets largely drove the increase. The increase in FPI is an indication that LuSE is enjoying more visibility amongst foreign investors.

Table 5.4: Foreign Portfolio Investment Activity, 2005-2007

Period	2005	2006	2007	% change 07/06
Buying Inflows (US \$' million)	7.4	11.7	28.5	143.6
Selling Inflows (US \$' million)	(2)	(3.7)	(16.3)	(340.5)
Total Turnover (US \$ millions)	9.4	15.4	44.8	190.9
Net position (US \$ millions)	5.3	8	12.2	52.5

Source: Lusaka Stock Exchange

Outlook

9. In 2008, it is expected that growth in the capital markets will be sustained, premised on continued awareness campaigns and increased visibility of the Zambian capital markets to the foreign fund managers. In addition, the favourable business climate and economic situation will further enhance performance of the capital market.

10. The implementation of an automated trading system by LuSE in 2008 will improve the efficiency of information generation and delivery in the light of the projected increase in activities in the capital markets.

CHAPTER 6 EXTERNAL SECTOR DEVELOPMENTS

Overview

1. During the year under review, the performance of the external sector was sound. The external debt position remained sustainable, debt service declined, and the overall balance of payments position remained positive. Additionally, Gross International Reserves (GIR) reached a record high of 3.6 months of imports.

External Debt Position in 2007

2. The total external debt stock increased by 9.5 percent to US \$2,035.2 million at end 2007 from US \$1,859.3 million at end 2006. The rise was mainly on account of an increase in the private and parastatal debt, which increased by 16.7 percent to US \$980.7 million from US \$840.0 million in 2006. Borrowing by the mining sector to facilitate investments in plants and machinery was the main reason for the increase in this category of debt.

3. The stock of Government external debt also increased by 3.5 percent to US \$1,054.5 million in 2007 from US \$1,019.0 million in 2006 mainly on account of an increase in export credits by 80.8 percent. These credits were mainly for the Mulungushi Textiles Limited Project debt that Government took over in 2007 as part of the non-performing portfolio of the Development Bank of Zambia (see Table 6.1).

Table 6.1: External Debt Stock (US \$'million), 2005-2007

CREDITOR	2005	2006	2007	% Change 2007/2006
Multilateral	3,715.7	562.4	656.1	16.7
ADB/ADF	377.5	72.3	94.0	30.0
World Bank	2,436.4	257.3	315.5	22.6
IMF	591.1	32.5	34.2	5.2
Others	310.7	200.3	212.4	6.0
Bilateral	408.1	395.0	287.0	(27.3)
Paris Club	117.5	212.0	212.9	0.4
Non-Paris Club	290.6	183.0	74.1	(59.5)
Suppliers Credit	133.8	61.6	111.4	80.8
Total Government External Debt	4,257.6	1,019.0	1,054.5	3.5
Private and Parastatal Debt	404.2	840.3	980.7	16.7
Total External Debt	4,661.8	1,859.3	2,035.2	9.5

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

4. The Multilateral debt stock increased by 16.7 percent to US \$656.1 million at end 2007 on account of disbursements on existing loans. However, the stock of debt owed to the bilateral creditors reduced by 27.3 percent to US \$287.0 million due to debt cancellations by China.

5. During the year under review, the Government contracted six new loans amounting to US \$140.2 million. In line with Government policy, these loans were on concessional terms and

mainly targeted for priority areas identified in the Fifth National Development Plan (FNDP) such as improvement to road infrastructure (see Table 6.2). Of the loans contracted, only the loan from Exim Bank of China had been disbursed by the end of the year.

Table 6.2: Concessional External Loans Contracted in 2007

Creditor	Purpose	Date Signed	US\$ Equivalent
IDA	Road Rehabilitation and Maintenance Project	12-Apr-2007	24,746,240
ADF	Poverty Reduction Budget Support	16-May-2007	30,000,000
ADF	Water Supply and Sanitation	16-May-2007	22,425,000
IDA	Regional Trade Facilitation Project	20-Aug-2007	17,086,690
Exim Bank -China	Earth-Moving Equipment	25-Oct-2007	39,899,000
OFID	Copperbelt Feeder Road Rehabilitation Project	20-Nov-2007	6,000,000
Total			140,156,930.00

Source: Ministry of Finance and National Planning

External Debt Service

6. External debt service payments declined in 2007. A total of US \$60.9 million was paid compared to US \$65.2 million in 2006, a reduction of 6.6 percent. Of the total amount paid, principal repayments amounted to US \$55.0 million or 90.3 percent while the balance was for interest payments. The lower external debt service payments were on account of the significant reduction in the external debt stock as a result of debt relief the country has received over the past three years.

Balance of Payments Developments

7. In 2007, the Balance of Payments (BoP) surplus substantially narrowed to US \$266.3 million from US \$821.6 million recorded in 2006 (see Table 6.3). The decline was largely on account of the deterioration in the current account which was not fully offset by improvements recorded in the capital and financial account. However, the country registered a record high accumulation of Gross International Reserves projected at US \$913.2¹ in 2007 (see Table 6.3)

¹ Refers to encumbered reserves

Table 6.3: Balance of Payments (US \$' Millions), 2005-2007

	2005	2006	2007*
Current Account	(613.8)	175.8	(856.0)
Balance on goods	49.7	1,183.3	686.4
Exports, f.o.b	2,178.5	3,785.6	4,273.4
Metal sector	1,644.2	3,084.1	3,400.3
Copper	1,485.9	2,938.0	3,150.4
Cobalt	158.2	146.1	249.9
Non-traditional	534.3	701.4	873.1
Imports, f.o.b	(2,160.7)	(2,635.8)	(3,622.3)
Metal sector	(357.4)	(520.7)	(865.0)
Non-metal sector	(1,803.3)	(2,115.1)	(2,757.3)
Goods Procured in ports by carriers(Bunker Oil)	32.0	33.6	35.3
Services (net)	(199.3)	(283.6)	(556.3)
Services Receipts	272.0	303.1	360.0
Services Payments	(471.4)	(586.7)	(916.3)
Income (net)	(571.2)	(949.0)	(1,245.1)
Income Receipts	36.5	42.7	51.0
Income Payments	(607.7)	(991.7)	(1,296.1)
Of which: Income on Equity Payments	(461.1)	(912.0)	(1,249.1)
Interest payments	(130.0)	(56.9)	(21.8)
Current Transfers(net)	107.0	225.0	258.9
Private	(24.1)	(35.1)	(48.8)
Official	131.1	260.1	307.7
Commodity, SWAP & Global Fund	0.0	143.8	154.1
Budget Grants	131.1	116.3	153.6
Capital and Financial Account	584.5	957.7	1,122.0
Capital Account	2,080.0	2,576.2	263.5
Capital Transfers	2,080.0	2,576.2	263.5
General Government	287.0	168.1	253.4
Project Assistance grants	287.0	168.1	253.4
Debt Cancelled/MDRI	1,793.0	2,403.4	0.0
Financial Account	(1,495.5)	(1,618.5)	858.5
Direct Investment	380.0	467.4	811.7
Portfolio Investment	122.4	50.4	41.8
Liabilities	122.4	50.4	41.8
Other Investment	(1,997.9)	(2,136.3)	5.0
Assets	(122.7)	(370.3)	(481.6)
Increase in NFA - banks(-)	87.6	(61.7)	16.4
Other Short term Deposits	(210.3)	(308.6)	(498.0)
Liabilities	(1,875.2)	(1,766.1)	486.7
Government	(1,857.8)	(1,785.4)	82.6
Disbursement of Loans	160.2	91.4	138.0
Project	136.2	82.7	135.4
Budget	24.0	8.8	2.6
Amortization of loans(-)	(2,018.0)	(1,876.9)	(55.4)
Private Foreign Borrowing(net)	(17.4)	19.4	404.1
Metal sector	(37.1)	(1.6)	388.1
Non - Metal sector	19.7	21.0	16.0
Errors and Omissions	(115.0)	(311.9)	0.2
Overall balance	(144.3)	821.6	266.3
Financing of Overall balance	144.3	(821.6)	(266.3)
Change: NIR of Bank of Zambia	(335.7)	(821.6)	(266.3)
Reserve Assets	(93.3)	(263.9)	(308.1)
Use of Fund Credit and Loans(net)	(236.2)	(557.7)	41.8
Disbursements	16.0	24.3	41.8
Repayments	(252.2)	(582.0)	0.0
Debt rescheduling	480.0	0.0	0.0
Financing gap	0.0	0.0	0.0

Table 6.3: Balance of Payments (US \$' Millions), 2005-2007, (cont'd)

MEMORANDUM ITEMS	2005	2006	2007*
Current account (in percent of GDP)	(4.5)	3.4	(5.4)
Excluding grants	(10.2)	(0.8)	(10.2)
Copper export volume (thousands of metric tons)	439	476	453
Copper export price (U.S. dollars per pound)	1.5	2.8	3.2
Change in net international reserves	335.6	821.3	266.3
Net international reserves	979.9	1,801.2	2067.5
Gross international reserves (in US \$m)	331.1	595.0	913.2
In months of imports	1.5	2.2	2.4
Exports of goods and services (BXG+BXS)	2,482.6	4,122.3	4,668.7
Imports of goods and services (BMG+BMS)	(2,632.0)	(3,222.5)	(4,538.6)
Balance of goods and services (BX+BM)	(149.4)	899.8	130.1
Export price deflator in USD ("year"=1.0)	130.44	213.96	235.49
Import price deflator in USD ("year"=1.0)	126.36	133.92	139.30

Source: Bank of Zambia

* Preliminary

Current Account

8. A current account deficit of US \$856.0 million was recorded compared to a surplus of US \$175.8 million registered in 2006. This was largely on account of a decline in the merchandise trade surplus coupled with an increase in both the services and income account deficits.

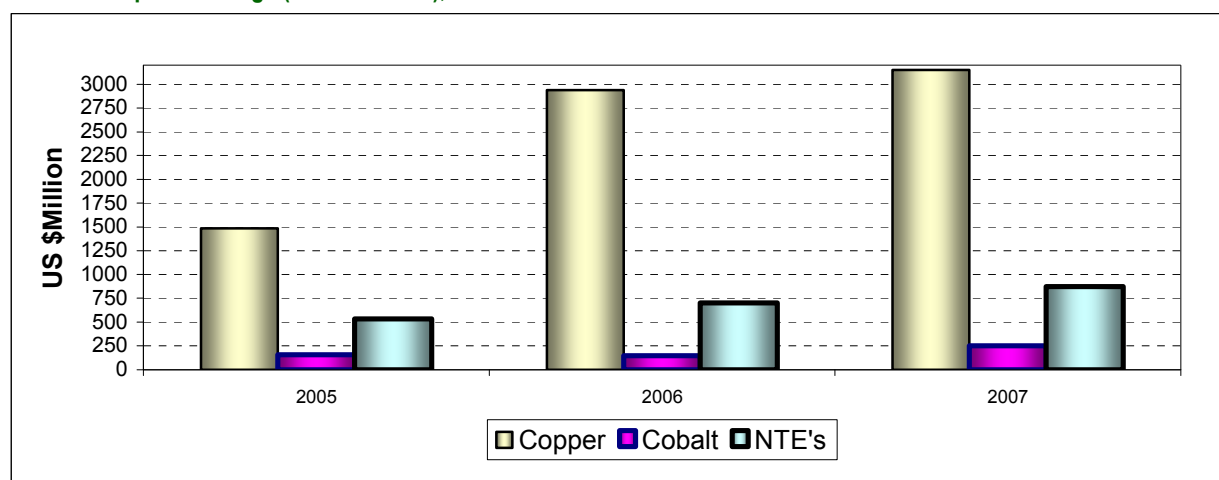
Trade Balance

9. Zambia's merchandise trade surplus narrowed to US \$686.4 million from US \$1,183.3 million recorded in 2006. The decline in the trade surplus was mainly explained by an increase in merchandise imports which outweighed the increase in merchandise exports. Merchandise imports, at US \$3,622.3 million, were 37.4 percent higher than US \$2,635.8 million recorded in 2006 mainly on account of capital imports for the mining sector.

10. Merchandise exports, increased by 12.9 percent to US \$4,273.4 million in 2007 from US \$3,785.6 million recorded in 2006. This was largely attributed to an increase in both metal and non-metal export earnings. Metal export earnings rose by 10.3 percent to US \$3,400.3 million in 2007 from US \$3,084.1 million recorded in 2006, on account of an increase in both copper and cobalt prices.

11. Copper export earnings went up by 7.2 percent to US \$3,150.4 million in 2007, from US \$2,938.0 million recorded in 2006 (see Chart 6.1). The increase largely reflected a 12.6 percent rise in the price of copper to an average of US \$6,947.9 per ton from US \$6,171.0 per ton in 2006. However, copper export volumes marginally declined to 453,437.4 metric tons (mt) from 476,104.9 mt recorded the previous year. The reduction in export volumes was mainly attributed to the decline in copper production during the first half of 2007 due to severe flooding as a result of heavy rains especially at Mopani Copper Mines. In addition, lack of feedstock for copper processing at Bwana Mkubwa copper mines during the first half of the year, contributed to this outturn.

Chart 6.1: Export Earnings (US \$' Millions), 2005-2007



Source: Bank of Zambia

12. Cobalt export earnings at US \$249.9 million were 71.1 percent higher than US \$146.1 million recorded in 2006. This was largely explained by a 71.8 percent rise in the realised price of cobalt following an upswing in cobalt prices on the international market. The sharp increase in the price was due to strong demand in the wake of tight supply. However, cobalt export volumes stood at 4,642.9 mt in 2007, 0.4 percent lower than 4,663.0 mt recorded in 2006.

13. During the same period, non-traditional exports also increased by 24.5 percent to US \$873.1 million from US \$701.4 million recorded in 2006 (see Table 6.4). This was largely driven by favourable commodity prices on the international market. An increase in earnings from the export of copper wire, electric cables and white spoon sugar largely accounted for this outturn. However, products such as burley tobacco, cotton lint, cotton yarn and fresh vegetables recorded reduced earnings due to a decline in production. The decline in production was in response to the anticipated unfavourable prices arising from the appreciation of the Kwacha.

Table 6.4: Ten Major Non-Traditional Exports (C.I.F.) US \$' Millions, 2005-2007

Product	2005	2006	2007	%Change 2007/2006
Copper Wire	106.5	175.0	195.4	11.7
White Spoon Sugar	67.8	54.3	74.4	37.0
Burley Tobacco	60.3	70.5	63.2	(10.4)
Cotton Lint	55.9	62.3	37.1	(40.5)
Electrical Cables	48.5	103.7	150.5	45.0
Fresh Flowers	32.1	34.7	38.3	10.4
Cotton Yarn	24.1	18.9	12.4	(34.4)
Fresh Fruit/Vegetables	21.3	25.3	24.6	(2.8)
Gemstones	19.5	18.1	28.6	58.2
Gas oil	9.8	10.3	20.9	102.9
Electricity	3.8	7.0	9.2	30.8

Source: Bank of Zambia

Services and Income Account

14. The services account deficit widened to negative US \$556.3 million in 2007 from negative US \$283.6 million in 2006 following an upswing in services payments in the mining sector, particularly construction services at Lumwana and Konkola Deep Mining Project (KCMP) and freight and insurance services on metal sector imports.

15. Similarly, the income account deficit widened to negative US \$1,245.1 million in 2007 from negative US \$949.0 million recorded in 2006. This was largely on account of a higher increase in income payments particularly by the mining sector relative to the rise in income receipts.

Capital and Financial Account

16. The capital and financial account balance rose to US \$1,122.0 million from US \$957.7 million recorded in 2006. The improvement stemmed largely from a surge in foreign direct investment to US \$811.7 million, of which, the mining sector accounted for US \$671.5 million. This figure compares favourably to the surplus of US \$467.4 million in the capital and financial account registered in 2006.

Outlook

17. In 2008, Zambia's overall balance of payment position will continue to be favourable on account of an improvement in the current account. Export earnings are expected to continue rising due to increased metal production and higher prices. Imports are expected to grow at a slower pace due to the expected completion of some major mining investments.

18. Government will initiate the process of developing the public debt management policy, which will provide guidelines for borrowing and management of public debt.

CHAPTER 7 AGRICULTURE, FORESTRY AND FISHING

Overview

1. Growth in the agriculture, forestry and fishing sector slowed down to 1.9 percent in 2007 from 2.2 percent in 2006. This was on account of a decline in the agriculture sub-sector following a reduction in the production of major crops and livestock. However, the forestry and fishing sub-sectors registered positive growth of 5.2 percent and 1.8 percent, respectively.
2. Notwithstanding the negative growth in the agriculture sub-sector, the country recorded an overall food surplus of 628,396 mt.

Policy Developments

3. Key policy developments were the formulation of the draft Cooperative Development Policy (CDP), the revision of the legal framework governing the Cooperative Movement under the Cooperative Societies Act of 1998, and the introduction of the Plant Breeder's Rights Bill, in Parliament.
4. Other developments were the approval of the National Irrigation Policy and the launch of the Irrigation Development Fund. Government also reviewed the Fisheries Act in order to bring it in line with the current developments and challenges in the sub-sector. In addition, an Aquaculture (fish farming) Development Strategy aimed at improving and promoting fish farming was developed.

Sector Performance

Crop Production

5. During the 2006/2007 farming season, output for the majority of food and cash crops declined despite an increase in area planted (see Table 7.1). The decline was mainly due to floods experienced in the major agricultural provinces, which resulted in fall in yields.

Table 7.1: Area Planted, Yields and Crop Production, 2005-2007

Crop	Area Planted			Yield (mt/ha)			Crop Production in mt		
	2005/06	2006/07	%	2005/06	2006/07	%	2005/06	2006/07	Percent Change
			Change			Change			
Maize	784,524	872,812	11.3	1.82	1.57	(13.7)	1,424,439	1,366,158	(4.1)
Sorghum	43,627	31,596	(27.6)	0.48	0.4	(16.7)	21,047	12,773	(39.3)
Rice	14,358	20,067	39.8	0.97	0.91	(6.2)	13,964	18,317	31.2
Millet	69,529	56,817	(18.3)	0.69	0.38	(44.9)	48,159	21,707	(54.9)
Sunflower	39,416	28,829	(26.9)	0.38	0.31	(18.4)	15,003	8,953	(40.3)
Groundnuts	144,250	147,320	2.1	0.58	0.37	(36.2)	84,010	55,215	(34.3)
Soyabeans	44,034	38,947	(11.6)	1.31	1.42	8.4	57,815	55,194	(4.5)
Seed Cotton	152,262	89,312	(41.3)	0.78	0.61	(21.8)	118,426	54,886	(53.7)
Mixed Beans	54,532	55,532	1.8	0.51	0.43	(15.7)	27,697	24,164	(12.8)
Burley Tobacco	14,306	10,000	(30.1)	1.00	1.00	0.0	14,306	10,000	(30.1)
Virginia Tobacco	11,765	8,265	(29.7)	1.70	1.88	10.6	14,685	15,562	6.0
Wheat	17,144	19,188	11.9	7.58	6.42	(15.3)	93,482	115,843	23.9
Cassava	362,355	391,844	8.1	2.92	2.92	0.0	1,059,887	1,185,599	11.9

Source: Ministry of Agriculture and Cooperatives

6. Total maize production in the 2006/2007 agricultural season declined by 4.1 percent to 1,366,158 mt from 1,424,439 mt in the 2005/2006 agricultural season explained by a fall in yields. The average maize yield rate decreased by 13.8 percent from 1.82 mt per hectare in the previous season to 1.57 mt per hectare in the 2006/2007 season. The decline in yields was due to floods, low fertiliser application by small scale farmers and use of recycled seed.

7. With regard to sorghum, total production declined by 39.3 percent to 12,773 mt in the 2006/2007 agricultural season from 21,047 mt in the 2005/2006 agricultural season. Similarly, millet production decreased by 54.9 percent.

8. Wheat production also increased by 23.9 percent to 115,843 mt from 93,482 mt recorded in the 2005/2006 agricultural season in the 2006/2007 agricultural season. Rice production increased by 31.2 percent to 18,317 mt over the previous season's production of 13,964 mt. The increase in rice and wheat production was largely due to a rise in area planted and yields per hectare in the 2006/2007 agricultural season compared to the previous agricultural season.

9. Cassava production recorded an increase of 11.9 percent to 1,185,599 mt of flour equivalent in the 2006/2007 agricultural season from 1,059,887 mt in the 2005/2006 agricultural season. This rise was due to an expansion in hectarage and the use of high yielding varieties by many farmers.

10. Production of groundnuts and mixed beans decreased by 34.3 percent and 12.8 percent to 55,215 mt and 24,164 mt, respectively in the 2006/2007 season. Soyabeans production also decreased by 5.4 percent to 55,194 mt from 57,815 mt in the previous season.

11. A six percent increase to 15,562 mt was recorded in Virginia tobacco production. Burley tobacco production, however, decreased by 30.1 percent to 10,000 mt. In overall terms, tobacco production declined by 11.9 percent from 28,991 mt to 25,562 mt. Further, cotton production declined by 54.0 percent to 54,887 mt from 118,425 mt in the previous season.

12. The reduction in production of tobacco and cotton was mainly on account of a sharp reduction in the area planted, following unfavourable prices induced by the appreciation of the Kwacha. Cotton production was also affected by water logging in most parts of the country.

Livestock Sub-sector

13. In the year under review, livestock population was estimated to have declined by 1.5 percent to 5,155,178 from 5,231,364 in 2006. The decrease was mainly explained by the outbreak of Contagious Bovine Pleuro-Pneumonia (CBPP) or “cattle lung” disease.

14. The measures taken to control livestock diseases included immunisation of calves against East Coast Fever disease and the imposition of the ban on cattle movement from Southern Province. As a result of the ban, there was a shortfall in the supply of beef in the local market, particularly in Lusaka and Copperbelt Provinces, leading to an increase in prices.

Food Security Position

15. Despite recording a decline in the production of major food crops, the country recorded an increase in the overall food surplus to 628,396 mt, in 2007 from 413,064 mt in the previous year. This was due to surplus production in the key food crops of maize and cassava as well as large carry-overs from the previous season. Surpluses of 462,396 mt of cassava and 250,000 mt of maize were recorded (see Table 7.2).

Table 7.2: Zambia National Food Balance Sheet for the 2007/2008 Marketing Year

	Maize	Paddy Rice	Wheat	Sorghum /millet	Sweet/ Irish potatoes	Cassava Flour	Total (Maize mealie meal equivalent)
Availability							
(i) Opening stocks (1st May 2007)	433,031	931	0	4,712	0	4,459	398,614
(ii) Total production (2006/07)	1,366,158	18,317	115,843	34,480	75,664	1,185,600	2,476,734
Total availability	1,799,188	19,248	115,843	39,192	75,664	1,190,059	2,875,349
Requirements:							
(i) Staple food requirements							
Human Consumption	1,132,880	30,332	132,708	35,468	71,880	700,442	1,837,314
Food Reserve Stocks (net)	250,000	0	0	1,000	0	2,949	228,609
(ii) Industrial requirements							
Stockfeed	65,000	0	0	0	0	0	58,500
Breweries	15,000	0	0	0	0	0	13,500
Seed	18,000	0	1,500	1,000	0	0	18,183
(iii) Losses	68,308	916	5,792	1,724	3,783	23,712	90,846
Total Requirements	1,549,188	31,248	140,000	39,192	75,664	727,104	2,246,952
Surplus/deficit (A-B)	250,000	(12,000)	(24,157)	0	0	462,956	628,396
Commercial import requirements		12,000	24,157				

Source: Ministry of Agriculture and Cooperatives

Other Developments

16. Government, in the review year, rehabilitated and constructed a number of irrigation infrastructure across the country (see Table 7.3). In addition, Government launched the Irrigation Development Fund (IDF), which is aimed at accelerating the development of irrigation infrastructure.

Table 7.3: Irrigation Projects Completed in 2007

Activity undertaken	Project Name	Location
Construction of new irrigation scheme	Chishamba Irrigation Scheme	Kaoma
Construction of 2.5 Km canal	Chilubula Irrigation Scheme	Kasama
Installation of 40 Ha sprinkler system	Clixby Irrigation Scheme	Kafue
Rehabilitation of irrigation system	Chapula Irrigation Scheme	Kalulushi
Rehabilitation of canals	Kapulurila Irrigation Scheme	Kafue
Construction of siphon	Sefula Irrigation Scheme	Mongu
Rehabilitation of canal	NRDC Irrigation Scheme	Lusaka
Irrigation equipment	Seed Control and Certification Institute Irrigation scheme	Kafue
Irrigation equipment	Namushakende Farmer Training Institute	Mongu
Irrigation equipment	Kasama Farmer Training Institute	Kasama
Irrigation equipment	Chipata Farmer Training Institute	Chipata

Source: Ministry of Agriculture and Cooperatives

Outlook

17. The performance of the agricultural sector is expected to remain weak in 2008. This is premised on the negative impact of the heavy rainfall experienced during the 2007/2008 rainy season. The performance of the livestock sub-sector, however, is expected to improve on account of intensified livestock disease prevention and control measures.

CHAPTER 8 MINING AND QUARRYING SECTOR

Overview

1. The performance in the mining and quarrying sector was unfavourable in 2007, amid high metal prices. Real GDP growth declined by 2.1 percent to K284.4 billion in 2007 from K290.6 billion in 2006, on account of a decline in mineral production. This was the first time in seven years that the mining sector recorded negative growth.

Policy Developments

2. The major policy development was the amendment of the Mines and Minerals Act of 1995 to allow for the revision of the mineral royalty for base metals from 0.6 percent to 3.0 percent. In addition, the Mining Cadastre and Uranium Mining Regulations were finalized. The Mining Cadastre Regulations will provide for the efficient administration of mining rights in the country while the Uranium Mining regulations will provide guidelines for mining, transporting, handling and storage of uranium and other radioactive mineral substances.

Sector Performance

Metal Mining Sub-Sector

3. Value added in the metal mining sub-sector declined by 1.4 percent in 2007 compared to a growth of 9.0 percent registered in 2006. This was on account of a decline in cobalt production and sharp slow-down in copper production.

4. Copper production increased to 523,435 mt in 2007 from 515,618 mt in 2006, representing a 1.5 percent increase. However, this was a slow-down compared to an increase in production of 11.5 percent in 2006. The slow-down was mainly on account of reduced production at Mopani Copper Mines and Bwana Mkubwa during the first quarter of the year. Copper production at Mopani Copper Mine declined due to floods and in the case of Bwana Mkubwa Mine, the reduction was mainly due to the lack of feed of copper ore from its Lonshi Mine in the Democratic Republic of Congo when that country banned export of ores in the first quarter of the year.

5. Cobalt production registered a decline of 9.0 percent, to 4,229 mt from 4,648 mt recorded in 2006 (see Table 8.1). The low cobalt production was due to reduced production at Luanshya Copper Mines.

Table 8.1: Metal Production (in tonnes), 2005-2007

Period	2005	2006	2007	% Change 2007/2006
Copper	461,748	515,618	523,435*	1.5
Cobalt	5,539	4,648	4,229*	(9.0)

Source: Ministry of Mines and Minerals Development

* Preliminary

Other Mining and Quarrying Sub-Sector

6. Performance in the other mining and quarrying sub-sector continued to decline. Real GDP fell by 49.7 percent due to a reduction in coal production. Total coal output reduced by more than 100 percent to 21,651 mt in 2007 from 62,498 mt in 2006. Coal production at Maamba Collieries Limited was affected by the poor state of machinery and lack of operational capital.

Other Developments

7. During the period under review, considerable progress was made in the development of the Lumwana Copper Mines with 75 percent development completion by December 2007. Other developments included the commissioning of the construction of the Munali Hills Nickel Projects, commencement of construction at Muliashi Copper Project and procurement of equipment in readiness for commencement of production at Konkola North Mine in 2008.

Oil and Gas Exploration

8. During the year under review, exploration for oil and gas continued in North Western Province and extended to Luangwa North and Western Province. The area in North Western Province with potential for oil and gas was demarcated into blocks to facilitate for detailed exploration by private companies. The sizes of the blocks range from 900 to 1,600 square kilometres.

Outlook

9. The performance of the mining and quarrying sector in 2008 is expected to improve mainly as a result of a much higher increase in copper production and continued buoyant metal prices. In addition, the expected commencement of commercial production at Munali Hills Nickel Mine will further boost growth in the sector. Further, the completion of the amendment of the Petroleum Act of 1985 is expected to lead to increased oil exploration activities in the country by private companies.

CHAPTER 9

TOURISM

Overview

1. The tourism sector continued to register positive growth. Measured by the performance of restaurants, bars and hotels, the sector grew by 14.2 percent to K106.0 billion in 2007 from K92.8 billion in 2006. In terms of earnings, the sector realised US \$188 million in 2007, compared to US \$176.7 million in 2006. This growth was attributed to an increase in both tourist arrivals and bed occupancy rates. Despite registering positive performance, poor infrastructure continued to constrain higher growth.

Policy Developments

2. During the year under review, the Tourism and Hospitality Act No. 23 and the Zambia Tourism Board Act No. 24 were enacted to provide a regulatory framework for private sector participation in tourism development. In addition, the Environmental Impact Assessment Regulations and the Zambian Wildlife Authority Act No.12 of 1998 were reviewed.

Sector Performance

Tourist arrivals

3. Preliminary estimates indicate that the total number of tourist arrivals increased by 6.4 percent to 805,059 in 2007 from 756,860 in 2006 (see Table 9.1). The highest number of tourists continued to come from Southern Africa.

Table 9.1: International Tourists Arrivals by Country of Origin, 2005-2007

Country of Origin	2005	2006	2007	% Change 2007/2006
Southern Africa	309,110	338,708	357,056	5.4
East Africa	45,735	101,191	114,103	12.8
North Africa	752	1,509	2,001	32.6
West Africa	1,607	5,280	5,502	4.2
Central Africa	61,171	63,588	65,789	3.5
Europe	149,757	143,304	148,085	3.3
America	39,025	52,457	61,287	16.8
Asia and Oceania	42,710	50,829	51,236	0.8
Total	649,867	756,860	805,059	6.4

Source: Ministry of Tourism, Environment and Natural Resources

Bed and Room Occupancy rates

4. Room occupancy rates increased by 2.0 percentage points to 61.1 percent in 2007 from 59.1 percent in 2006. Similarly, bed occupancy rates rose marginally to 53.5 percent in 2007 from 51.0 percent in 2006 (see Table 9.2).

Table 9.2: Employment, Room and Bed Occupancy Rates, 2005-2007

Description	2005	2006	2007
Number of Rooms	5,521	5,682	5,549
Number of Beds	9,417	9,425	9,660
Room Occupancy Rates	57.2	59.1	61.1
Bed Occupancy Rates	49.0	51.0	53.5
Employment	19,652	21,204	22,756

Source: Ministry of Tourism, Environment and Natural Resources

Wildlife Sub-sector

5. During the year under review, the Zambia Wildlife Authority issued a total of 2,100 licenses compared to 1,524 in 2006. This could be attributed to the lifting of the ban on hunting at the end of 2006. As a result, revenue collection from hunting activities increased to K32.6 billion in 2007 from K26.2 billion in 2006 (see Table 9.3).

Table 9.3: Revenue Generation (K' Billion), 2005-2007

Revenue Stream	2005	2006	2007
Safari Hunting			
Hunting License fees (animals)	8.71	7.3	9
Hunting License (Birds)	1.6	0.1	0.2
Hunting Rights fees	0.58	0.3	0.19
Out fitters Safari License	4.12	0.4	0.4
Concession fees	4.2	4.7	4.8
Sub total	13.55	12.47	14.62
Local Hunting			
Hunting License fees (animals)	0.64	0.63	1.68
Hunting License (Birds)	0.55	0.13	0.88
Sub total	1.19	0.76	2.46
Grand Total	28.5	26.2	32.61

Source: Ministry of Tourism, Environment and Natural Resources

Outlook

6. The tourism sector is poised for continued growth in 2008. This is premised on improved marketing, infrastructure and business environment in view of the planned investments and the coming into effect of the Tourism and Hospitality Act No. 23 and the Zambia Tourism Board Act No. 24 in 2008.

CHAPTER 10 ENERGY AND WATER DEVELOPMENT

Overview

1. During the period under review, preliminary estimates indicate that the electricity, gas and water sector grew marginally by 1.0 percent compared to 10.5 percent in 2006. The slowdown was mainly on account of a marginal increase in electricity generation compared to the previous year. The petroleum supply in the review year was generally stable. The Rural Electrification Programme continued, with access rates in rural areas recorded at 3.0 percent compared to 2.0 percent in 2006.

Policy Development

2. In 2007, the revised National Energy Policy (NEP) was adopted by Cabinet. The revised policy took into account objectives on bio-fuels, the setting up of petroleum strategic reserves and the liberalization of the electricity industry.

3. In addition, the National Rural Water Supply and Sanitation programme was launched in review period. The aim of the programme was to increase access to safe and reliable water supply and access to proper sanitation to 66 percent and 50 percent of rural population by 2011, respectively.

Sector Performance

Electricity Sub-sector

4. Total electricity generation in 2007 marginally increased by 0.6 percent to 9,740,907 MWh from 9,681,319 MWh in 2006. This outturn was attributed to the on-going rehabilitation works at the main hydro-power stations. Electricity generation from diesel stations declined by 24.5 percent to 11,921 MWh in 2007 from 13,749 MWh in 2006 (see Table 10.1). This decline was on account of the connection of some diesel power stations such as Kaoma, Kaputa and Kasempa to the national grid.

Table 10.1: Electricity Generation ('000 Mwh), 2005-2007

Station	2005	2006	2007	% Change 2007/2006
Main Hydro Stations	8,920.50	9,611.5	9,671.00	0.6
Mini Hydro station	38.9	57.8	58	0.4
Diesel Station	14.8	13.7	11	(24.5)
TOTAL	8,974.20	9,683.00	9,740.00	0.6

Source: ZESCO Limited

Exports and Imports

5. The volume of electricity exports recorded a decline of 29.7 percent to 337,698 MWh in 2007 from 480,773 MWh in 2006. The decline in exports reflected generation capacity

constraints and the need to meet the increased local demand especially with the opening of new mines. Imports, however, increased by over 400 percent to 232,952 MWh in 2007 from 45,609 MWh in 2006 to meet the shortfall in local supply (see table 10.2).

Table 10.2: Electricity Exports and Imports (MWh), 2005-2007

Service Provider	2005	2006	2007	% change 2007/2006
Exports (MWh)				
RC(SNEL)	4,390	0	0	
Zimbabwe (ZESA)	4,593	287,970	160,100	(44.4)
South Africa (ESKOM)	185,576	192,803	177,598	(7.9)
Total	194,556	480,773	337,698	(29.8)
Imports (MWh)				
Congo DR (SNEL)	7,940	-	-	
Zimbabwe (ZESA)	6,160	3,082	-	
South Africa (ESKOM)	410,580	45,609	232,952	410.8
Total		45,609	232,952	410.8

Source: ZESCO Limited

Hydro-Power Station Rehabilitation Projects

6. The rehabilitation of hydro-power stations continued to progress well in the review period. At Kariba North Bank, 70 percent of the works were completed in the upgrading exercise to 720MW from 600MW. Kafue Gorge power station rehabilitation also reached an advanced stage with 80 percent work done and capacity is expected to increase to 990MW from 900MW. The rehabilitation works at Victoria Falls power station were completed and the station is operating at 108MW.

Rural Electrification

7. During the period under review, 49 projects were completed at a total cost of K44.7 billion while 33 projects were still on going. The key projects completed included the connection of Kaputa, Kaoma and Kasempa districts to the national grid, while Chama district was connected to the Malawi national grid. In addition, Shangombo electrification was completed and the installation of two 800KVA generators in Luangwa was done (see Table 10.3).

Table 10.3: Status on Selected Rural Electrification Projects

Project/Province	Estimated cost (K' million)	Disbursed amount (K' Million)	Progress/ Status
Central			
Electrification of Chisamba/Katuba Farm block	4,982	500	on-going
Electrification of HI-gwalime mine Mkushi	1,200	700	completed
Electrification of Mkushi farm block	10,000		on-going
Electrification of Nansanga Farm Block	10,000	9,144	on-going
Copperbelt			
Electrification of Kafubu farm block	774	100	on-going
Electrification of Lufwanyama Phase II	6,348.90	500	on-going
Electrification of Chibolya-Mufulira	1,231	1,196.30	completed
Electrification of Miengwe	2,172	300	on-going
Eastern			
Connection of Chama to Malawi National Grid	2,500		completed
Electrification of ndake Basic and Health centre	500	425	on-going
Luapula			
Electrification of Chembe	7,600	175	completed
Electrification of chipili Mission	3,856	400	on-going
Electrification of Chabilikila schools	80	68	on-going
Lusaka			
Purchasing and installation of two 800KVA generators in Luangwa	1,800	1,200	completed
Electrification of Palabana		200	completed
North-Western			
Connection of Kasempa to the National grid	15,000		completed
Electrification of chavuma by diesel generators	4,000	3,800	completed
Northern			
connection ofKaputa to the grid	1,200	2,900	on-going
electrification of the Chози- Tazara Railways	4,500	1,500	completed
Mulilansolo-Phase I	2,500	69	on-going
Southern			
Electrification of Gwembe Tonga	12,600	1,150	on-going
Electrification of Sikalango Mission-choma	567	567	completed
Electrification of Itezhi-Tezhi-Namwala(Masasabi Scheme)	365	365	completed
Western			
Connection of Kaoma to national grid	15,000		completed
Electrification of Shangombo	3,500	1,850	on-going
Electrification of Nkeyema(TBZ)-Area Kaoma	8,818	200	on-going

Source: ZESCO Limited

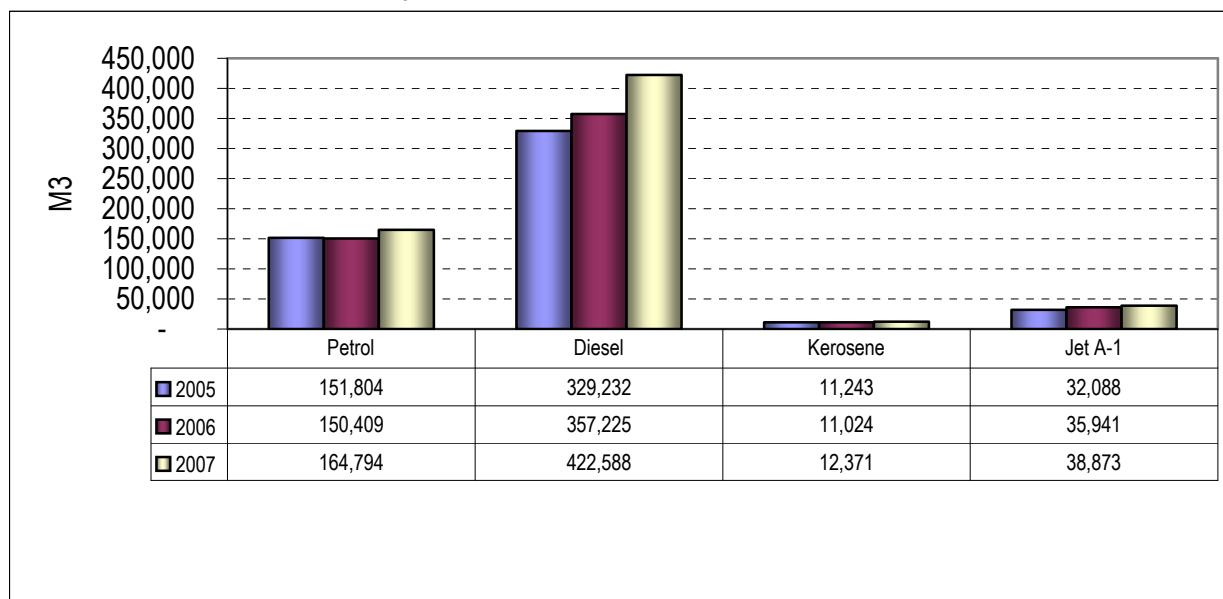
Petroleum Sub-sector

8. During the year under review, the supply of petroleum products was generally stable. However, the country experienced some interruption in the supply of petroleum products arising from four unplanned shutdowns of the INDENI Petroleum Refinery. The shutdowns were attributable to changes in the feedstock procurement arrangements. As a long term strategy to stabilize the supply of feedstock, a contract for 1.44 mt was tendered and negotiated by Government. This resulted in the increase in feedstock received in the country by 11.3 percent in 2007. In addition, Government requested all licensed Oil Marketing Companies to import adequate finished products in order to ensure continuous supply of finished products on the local market.

9. In the period under review, consumption of the major petroleum products continued to rise with the highest recorded in August, 64,402 mt and October, 51,451 mt. Notably, diesel

consumption increased by 18.3 percent to 422,538 mt in 2007 from 357,225 mt in 2006 (see Chart 10.1).

Chart 10.1: Trends in National Consumption, 2005-2007

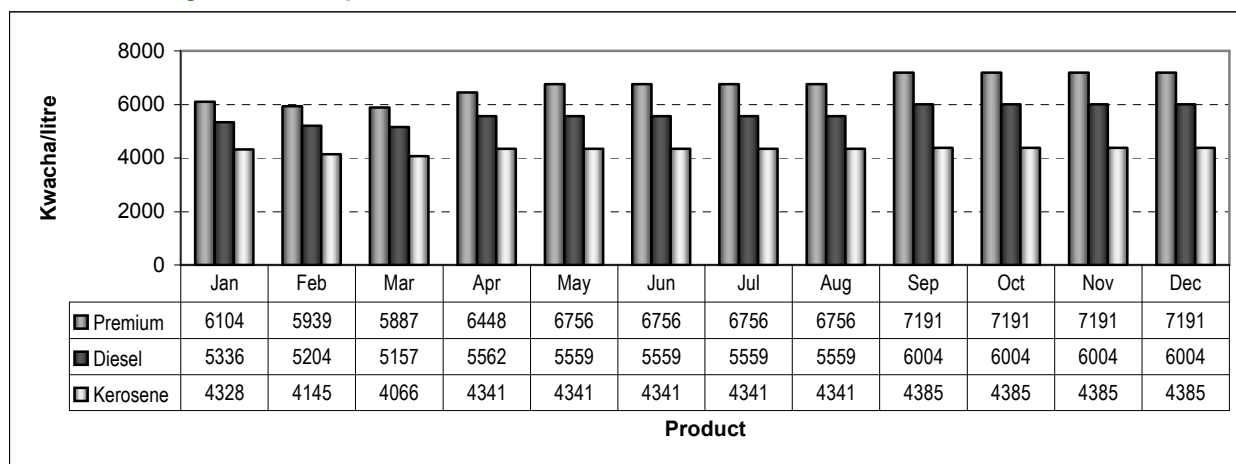


Source: Energy Regulation Board

Domestic Oil Prices

10. Domestic fuel prices increased sharply during the review period. This was due to a rise in international oil prices. For instance, the average pump prices for petrol in Lusaka increased by 33.2 percent to K7,191 in December 2007 from K5,397 in December 2006. Diesel prices increased by 20.9 percent to K6,004 by December 2007 from K4,965 in the same period in 2006 while Kerosene prices rose by 11.9 percent in 2007 (see Chart 10.2).

Chart 10.2: Average Lusaka Pump Prices, 2007



Source: Energy Regulation Board

11. The petroleum market continued to grow with five more new licensed Oil Marketing Companies (OMCs) coming on board in 2007. This brought the total number of licensed OMCs to 23.

12. During the review period, a total of K101.7 billion was released by Government as its contribution in full towards the recapitalization of INDENI. This followed the signing of the Memorandum of Understanding between Government and Total Outré Mer to recapitalize INDENI to the sum of US\$ 65 million.

Outlook

13. The performance of the energy sector is expected to improve in 2008. This is premised on the completion of the rehabilitation of INDENI Petroleum Refinery which should allow for efficient production and supply of petroleum products. With regard to electricity, power outages are expected to continue, arising from generation capacity constraints. The situation is however, expected to improve after rehabilitation and expansion works are completed.

CHAPTER 11 TRANSPORT, STORAGE AND COMMUNICATIONS

Overview

1. During the period under review, the transport, storage and communications sector continued to register positive growth at 20.8 percent compared to 22.1 percent in 2006. This was largely attributed to the communication sub-sector, which grew by 34.7 percent.

Policy Developments

2. During the period under review, the national communication technology policy was launched in order to enhance Information Communications Technology (ICT) in the country. Further, legislation was introduced to compel public service vehicle transport operators plying long distance routes to fix speed limiters on their vehicles. This was aimed at minimizing road traffic accidents attributed to over-speeding. In addition, an amendment to the Law was made to limit alcohol content in the blood to 0.8 milligrams of alcohol in a milliliter of blood for drivers in order to reduce the incidents of road traffic accidents resulting from drunken driving.

Sector Performance

Air Transport Sub-Sector

3. The air transport sub-sector continued to register positive growth at 26.0 percent in 2007 compared to 33.5 percent in 2006. This growth was mainly attributed to the rise in passenger traffic volumes at all airports resulting from increased economic activities.

4. Passenger traffic grew by 19.3 percent to 1,053,307 in 2007 from 882,944 in 2006. This was largely attributed to an increase in mining activities as evidenced by the increase of 55.0 percent in passenger traffic at the Ndola airport (see Table 11.1). In addition, the hosting of the SADC Heads of State Summit in August 2007 contributed to the growth in passenger movements.

Table 11.1: Passenger Movements, 2005-2007

Airport	2005			2006			2007			% Change 2007/2006
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total	
Lusaka	61,620	358,609	420,229	76,699	510,905	587,604	90,755	594,505	685,260	16.6
Ndola	30,763	46,374	77,137	37,074	55,715	92,789	54,369	89,473	143,842	55.0
L/stone	12,613	142,243	154,856	14,536	165,780	180,316	19,403	180,469	199,872	10.9
Mfuwe	19,688	3,015	22,703	19,980	2,255	22,235	22,571	1,762	24,333	9.4
TOTAL	124,684	550,241	674,925	148,289	734,655	882,944	187,098	866,209	1,053,307	19.3

Source: National Airports Corporation Limited and Ministry of Communications and Transport

Infrastructure Development

5. In the year under review, the Government continued to undertake projects aimed at maintaining and developing aviation infrastructure to internationally acceptable standards. In this regard, infrastructure works were undertaken at Lusaka, Livingstone, Ndola and Mfuwe international airports. Additionally, rehabilitation of the transmitter building at Kasama Airport was undertaken (see Table 11.2).

Table 11.2: Infrastructural Developments, 2007

Description of activities	Amount (K)	Status
Lusaka International Airport		
Supply and installation of air conditioning system in the departure finger	334,841,784.90	Completed
Rehabilitation of the public conveniences on the ground, first and second floor in the eastern wing of the terminal building	222,000,000.00	Work in progress
Construction of drop-off zone in front of terminal building	66,000,000.00	Completed
Water-proofing of selected areas on terminal building and control block	150,000,000.00	Work in progress
Alterations to the boardroom office	39,156,875.00	Work in progress
Construction of speed humps at airport driveways	65,881,439.00	Work in progress
Livingstone Airport		
Water proofing of the terminal building	91,732,000.00	Completed
Supply and installation of 11KV switchgears in the main sub-station	218,981,225.00	Work in progress
Mfuwe International Airport		
Remedial works on the runway to enhance aircraft safety and arrest runway surface deterioration	1,274,404,887.78	Completed
Provincial Aerodromes		
Rehabilitation of Transmitter Building at Kasama Airport.	83,433,826.00	Completed

Source: Ministry of Communications and Transport

Road Transport Sub-sector

6. In 2007, value added in the road transport sub-sector was maintained at the 2006 level of 6.4 percent. A total of 44,004,600 passengers were transported with Lusaka and Western provinces accounting for the highest and lowest number of passengers transported, respectively (see Table 11.3).

Table 11.3: Passengers Transported, 2007

Province	Passengers Transported	% of Total
Lusaka	24,462,500	55.6
Southern	6,683,150	15.2
Western	189,800	0.4
Central	759,200	1.7
Eastern	94,900	0.2
Northern	142,350	0.3
Luapula	569,400	1.3
North-Western	94,900	0.2
Copperbelt	11,008,400	25.0
Total	44,004,600	100.0

Source: Road Transport and Safety Agency

7. In the year under review, 44,249 vehicles were registered bringing the total population of active motor vehicles to 227,950 compared to 183,701 vehicles registered in 2006. Of the

registered vehicles, the light passenger vehicles recorded the highest, accounting for 48 percent of the total registered vehicles (see Table 11.4).

Table 11.4: Vehicles Registered, 2007

Type of vehicle	No. of vehicles ²	% of Total
Motorcycles	2,654	6.0
Motor tricycles	1,328	3.0
Light passenger	21,239	48.0
Light Load	9,292	21.0
Heavy Passenger	1,328	3.0
Heavy Load	6,196	14.0
Tractors	2,212	5.0
Total	44,249	100.0

Source: Road Transport and Safety Agency

Incidence of Accidents

8. During the year under review, the total number of road traffic accidents increased to 20,884 from 19,095 in 2006. In terms of casualties, 4,650 were slightly injured and 3,760 seriously injured. The total number of fatalities was estimated at 1,130 compared to 1,170 in 2006.

Communications Sub-sector

9. The growth of the sector remained positive at 34.7 percent, largely on account of expansion in the mobile phone industry. The mobile-phone subscriber base expanded by 34.2 percent to 2,231,283 in 2007 from 1,663,051 in 2006. Accordingly, national mobile tele-density rose to 18.9 percent from 14.0 percent in 2006. The increase was mainly attributed to the roll-out of the Information and Communications Technology (ICT) infrastructure by CellZ.

10. In terms of market share, Celtel Zambia continued to dominate the market with a subscriber base increasing by 80.1 percent to 1,787,457 million in 2007 from 1,325,108 in 2006 (see Table 11.5)

Table 11.5: Growth trends in the Mobile Phone Segment, 2005 - 2007

	2005		2006		2007		Subscriber % change
	Installed capacity	Subscribers	Installed capacity	Subscribers	Installed capacity	Subscribers	
Celtel	1,000,000	700,438	2,000,000	1,325,108	2,000,000	1,787,457	34.9
CellZ	65,000	94,468	150,000	149,168	300,000	257,595	72.7
MTN	200	175,122	275,000	260,000	275,000	194,295	(25.3)
Total	1,065,200	970,028	2,425,000	1,734,276	2,425,000	2,231,283	82.3

Source: Communications Authority of Zambia

²Data available for only 2007 as the Road Transport and Safety Agency only operationalised the Zambia Traffic Information System (ZAMTIS) during the year under review.

Public Switched Telephony Network

11. There was a total of 94,330 Public Switched Telephony Network (PSTN) subscribers during the period under review compared to 93,427 in 2006. A total of 14,915,592 call minutes were sent out from Zambia by ZAMTEL through the International Gateway, while 110,970,588 call minutes were received (see Table 11.6).

Table 11.6: Tele-density for Public Switched Telephony Network (PSTN), 2005-2007

	2005	2006	2007	Growth rate
Population	11,441,469	11,574,190	11,708,451	1.2
Subscribers	94,655	93,427	94,330	1.0
Per 100 persons	8.27	8.07	7.81	(3.2)

Source: Communications Authority

Internet Segment

12. During the period under review, a total of 13 Internet Service Providers (ISPs) were licensed by the Communications Authority of Zambia compared to 14 in 2006. Of the licensed service providers, six were specialized in sole provision of internet services, whilst the remainder diversified into hosting websites, or installing of internet facilities such as Very Small Aperture Terminals (VSATs). The number of registered internet subscribers rose by 7.8 percent to 17,948 in 2007 from 16,646 in 2006.

Infrastructural development

13. A number of infrastructure projects were undertaken during the period under review, which included commencement of the installation of metro-optic fibre network by Zamtel in Lusaka and expansion of the CellZ mobile networks to cover districts and most populated pockets of settlements. Further, the construction of the national backbone (Fibre-Optic) infrastructure, expansion of the wireless network especially in rural areas and enhanced internet provision of points of presence in provincial centers commenced.

Postal Services Segment

14. During the period under review, Zampost operated 119 fully-fledged Post Offices, 46 sub-post offices and 58 postal agencies countrywide. A decline of 15.9 percent in domestic mail items handled was registered to 4,114,165 in 2007 from 4,894,306 in 2006. This decline was mainly attributed to the change in preference for electronic mail services. On the international segment, a total of 1,263,562 out-going mail items were handled in 2007 compared to 1,183,187 mail items in 2006, an increase of 6.8 percent.

Outlook

15. In 2008, positive growth in transport, storage and communications sector is expected to continue premised on increased economic activities in the country. Investment in transport and communication infrastructure will further boost growth in the sector.

Overview

1. Growth in the construction sector slowed down to 12.2 percent in 2007 compared to 14.4 percent in 2006. This was attributed to a reduction in the supply of domestic cement relative to demand resulting in an increase of the domestic price. However, imports of cement facilitated activities in housing, road rehabilitation and maintenance works.

Policy Developments

2. The key policy development during the period under review was the development of the Public-Private Partnership (PPP) policy aimed at providing a legal framework on the procurement of PPP type projects and services. In addition, Part Five of the Public Roads Act No. 12 of 2002 was amended.

Sector Performance

Cement Production and Domestic Sales

3. Cement production marginally declined during the review period by 0.03 percent to 572,309.7 mt from 572,500.0 mt in 2006. Similarly, sales fell by 1.1 percent to 562,350.1 mt from 568,474.9 mt in 2006 (see Table 12.1). This was as a result of the upgrade works that were being undertaken both at Chilanga and Ndola plants. In addition, difficulties in acquisition of coal and gypsum used in the production of cement, poor transport infrastructure, and electricity supply constraints contributed to the reduction. However, the low domestic production levels were supplemented by imports.

Table 12.1: Cement Production and Sales (in mt), 2005-2007

Company	2005	2006	2007	% Change 2007/2006
Production				
Lafarge	571,242	549,870.00	535,610.70	(2.6)
Oriental	490	22,630.00	36,699.00	62.2
Total	571,732	572,500.00	572,309.70	(0.03)
Sales				
Lafarge	577,615	551,481.00	536,454.70	(2.7)
Oriental	3	16,993.90	25,895.40	52.4
Total	577,618	568,474.90	562,350.10	(1.1)

Source: Lafarge Cement Zambia and Oriental Quarries

Roads Sub-sector

4. Government during the period under review continued constructing, rehabilitating and maintaining the road infrastructure network. Consequently, the paved core road network in good and fair condition improved to 93.0 percent in 2007 from 64.0 percent in 2006. Similarly, the

overall condition of the unpaved core road network improved to 52.0 percent good and fair in 2007 from 44.0 per cent in 2006.

Rehabilitation of Paved and Unpaved Roads

5. Rehabilitation of both paved roads and unpaved roads in 2007 was unsatisfactory measured against the target. In this regard, 247.7 km of paved roads was rehabilitated against the target of 565.7 km length of urban, trunk, main and district roads, while that of unpaved roads was 874 km against the target of 1,592 km length of urban, trunk, main and district roads (see Table 12.2).

6. Notwithstanding, the targeted 224.86 km of urban roads were still undergoing procurement procedures by the end of the review period. However, there was good progress achieved under the Accelerated Urban Roads Rehabilitation Programme on Chipata, Mbala, Ndola, and Kitwe urban roads.

Table 12.2: Rehabilitation of Paved and Unpaved Roads

Programme/Project	Province	Length (Km)	Progress to date (Km)
Paved Roads			
Luanshya – Kafulafuta Road	Copperbelt	41	40.1
Lusaka – Chirundu Road	Lusaka	34.7	33
Mongu - Kalabo Road	Western	79	41
Kasama – Luwingu Road	Northern	165	80
Kasempa Turn off – Kabompo	N/Western	235	51.62
Mwinilunga-Jimbe Road(T5)	N/Western	11	2
Total		565.7	247.72
Unpaved Roads			
Luampa - Machile, B lot 2	Western	12.4	12.4
Mwandansengo-Luampa-L1	Western	7	7
Mwandansengo-Luampa-L2	Western	6.8	5
Mwandansengo-Luampa-L3	Western	5	3.2
Muilwe - Nangula-L1	Western	2.5	2.5
Muilwe - Nangula-L2	Western	3.5	3.4
Muilwe - Nangula-L3	Western	4.3	4.3
Mwembeshi-Nampundwe-L1 RD556	Central	9	9
Mwembeshi-Nampundwe-L2 RD556	Central	8.84	8.84
Mayukwayukwa-Namapombwe	Western	63	63
Senanga-Kalongola	Western	18	9
Shoprite to Low Density	N/Western	1.3	1.3
Shiwangandu-Chinsali	Northern	74	74
West lumwana – Kakoma	N/Western	11	11
Zangamene rd lot 1 in Solwezi	N/Western	7.3	7.3
Labor Based-Nyampafuka Lot2	N/Western	6	6
Labor Based-Nyampafuka Lot3	N/Western	6	6
Labor-Based Zangamene Rd Lot2	N/Western	7.3	7.3
Labor-Based Zangamene Rd Lot1	N/Western	7.3	7.3
Labor-Based Chowwe Wamafwa	N/Western	7	7
Labor-Based Kangome rd	N/Western	5	5
Zambezi-Chavuma	N/Western	86	64
Chisaka - Nangoma (lot 2)	Central	9.3	8.3
Simungoma – Mulobezi	Western	15	13
Kalale Njonjolo	Western	21	18.5
Chilombo – Katoya	Western	4	2
Chongwe-Mulalika - Lot 3	Lusaka	39	24
Chibona-Mwachisompola	Central	8	5
Labor-Based Lumwana Kakoma rd	N/Western	11	11
Mpula-Mboroma	Central	55	26
Kaoma – Mongu	Western	263	263
Rehabilitation of Unpaved Roads			
Kalumwange Farm Block	Western	34	16
Chipata Lundazi Road	Eastern	150	40
Chaba-Nsombo-Luwingu	Northern	120	25
Kashiskishi – Luchinda	Luapula	123	32
Kasama-Isoka	Northern	175	28
Bottom Road D499	Southern	81.5	36
Masamba-Kavumbo	Northern	30	2.5
Limulunga Ushaa	Southern	0	0
Mongu-Senanga	Western	0	0
Concrete approaches and filter lanes at Kafue Weighbridge	Lusaka	95	0
Total		1,592.34	874.14

Source: Roads Development Agency

Routine Maintenance

7. With regard to routine maintenance, a total of 5,745.9 km of roads was maintained out of the targeted 12,228.9 km. In addition, light rehabilitation works covering 3,227.8 km against a target of 3,403.8 km were undertaken (see Table 12.3).

Table 12.3: Routine Maintenance and Light Rehabilitation by Province

Programme	Province	Target Length (Km)	Progress to-date (Km)
Routine Maintenance			
Maintenance	Northern	1,286.0	1,286.0
Maintenance	Copperbelt	591.0	267.2
Maintenance	Luapula	1,038.0	0.0
Maintenance	Central	1,912.0	284.0
Maintenance	Southern	585.2	0.0
Maintenance	Lusaka	1,245.0	923.1
Maintenance	Western	584.0	417.0
Maintenance	Eastern	811.0	0.0
Maintenance	N/Western	773.0	0.0
Road D19 at Mporokoso-Bulaya-Kaputa-Nkoshya	Northern	531.6	531.6
Road M1 near Senga Hill-Mporokoso-Kawambwa			
Off Road T1Chisekeshi-Gwembe-Chipepo			
ItezhiTezhi-Namwala	Southern	148.7	148.7
Off T1 near Muzoka-Road D375 at Chisekesi			
Mutanda Mission Kabompo-Zambezi	N/Western	694.9	694.9
Mwinilunga-Road M26			
Off T5-Kansanshi Mine-Congo Border			
Road M9 near Katunda-Sitaka-Lukulu Road D557	Western	271.3	271.3
Off M8-Kabompo River at Watopa to Lukulu D792			
Road M3-Road D96 near Mwewa	Luapula	153.6	0.0
Road D19 near Kawambwa-Mulwe- Junction roads D36 and D77 at Mununga			
Road T2 near Nakonde-Road M1 near Mbala			
Nakonde To Chire River Malawi Border	Northern	415.0	415.0
Mbala Town Boundary-Kawimbe Mission to Tanzania Border			
Lundazi-Chama Road	Eastern	463.7	373.0
M12 near Chipata-Luambe To Lundazi			
Kabulonga Boundary-Road RD151 Leopards Hill Road	Lusaka	134.1	134.1
Off Leopard Road to D481-Chiawa			
Road T2-Kafue River-Road R119-Road RD481 at Chiawa	Copperbelt	495.1	0.0
T3 Kapiri Mposhi-Tug Argan Copperbelt Lufwanyama River-Ingwe			
T3-Road R114			
Lima-Lamba	Western	95.6	0.0
Off T2 To Road M004			
M10-Mulobezi			
Total		12,229.0	5,745.9

Table 12.3: Routine Maintenance and Light Rehabilitation by Province (Cont'd)

Programme	Province	Target Length (Km)	Progress to-date (Km)
Light Rehabilitation			
Road D19 at Mporokoso-Bulaya-Kaputa-Nkoshya	Northern	531.64	531.64
Road M1 near Senga Hill-Mporokoso-Kawambwa			
Road M9 near Katunda-Sitaka- to Lukulu Road D557	Western	271.26	271.26
Off M8-Kabompo River at Watopa to Lukulu D792			
Road M3-Road D96 near Mwewa	Luapula	153.64	153.64
Road D19 near Kawambwa-Mulwe- Junction roads D36 and D77 at Mununga			
Road T2 near Nakonde-Road M1 near Mbala	Northern	415	415
Nakonde To Chire River Malawi Border			
Mbala Town Boundary-Kawimbe Mission to Tanzania Border			
Lundazi-Chama	Eastern	463.74	373.0
Road M12 near Chipata-Luambe To Lundazi			
Kabulonga Boundary-Road RD151 Leopards Hill Road	Lusaka	134.14	134.14
Off Leopards Hill Road to D481 leading to Chiawa.			
Road T2-Kafue River-Road R119-Road RD481 at Chiawa			
T3-near Kapiri Mposhi-Tug Argan	Copperbelt	495.1	426.5
M018-Lufwanyama River-Ingwe			
T3-RoadR114			
Lima-Lamba			
Off T2 To Road M004			
M10-Mulobezi	Western	95.64	79.00
Off Road T1Chisekeshi-Gwembe-Chipepo	Southern	148.73	148.73
Itezhi Tezhi-Namwala			
Off T1near Muzoka-Road D375 at Chisekesi			
Mwinilunga-Road M26	N/Western	694.87	694.87
Off T5-Kansanshi Mine-Congo Border			
Total		3,403.76	3,227.8

Source: Roads Development Agency

Periodic Maintenance

8. During the review period, 1,074.6 km of roads were targeted for periodic maintenance countrywide out of which 602 km were done. Some of the roads completed were Kafue-Mazabuka, Ndola-Mufulira and Kitwe-Kalulushi (see Table 12.4).

Table 12.4: Periodic Maintenance of Paved Roads

Programme/Project	Province	Target length (Km)	Progress to date (Km)
Lusaka-Kabwe Road (Between Makombe to Kabwe Warriors Complex)	Lusaka	59.2	59.2
Kafue-Mazabuka	Southern	68.2	68.2
Ndola-Mufullira	Copperbelt	60	60
Kitwe – Kalulushi	Copperbelt	10	10
T1 Livingstone Weigh Bridge - Zimbabwe Border	Southern	13.1	13.1
Katete-Chipata-Mwami Border	Eastern	110	93.5
Batoka-Maamba road (D775)	Southern	88	67
Zimba-Livingstone (T1) Pothole patching	Southern	87	87
Twin Palm, Ibex Hill - Kabulonga & Avondale - Ibex Hill	Lusaka	17.7	13.7
Kudu Crescent, Fir, Ash & St Ignitius	Lusaka	3.2	1.6
Kasama -Mbala-Mpulungu	Northern	30	6
Lusaka-Kabwe (Between Chisamba-Mukoboto Junction)	Lusaka	42	28.32
Isoka- Nakonde	Northern	50	25
Chitanda-Chiyuni-Ipongo	Central	74	35
Zambezi-Chavuma	North western	40	10
Lumwana-Mwinilunga	Northern	40	10
Mongu-Limulunga	Western	17	5.6
Solwezi-Mutanda-Mwinilunga T5	North-Western	100	3
Sabina - Mufulira Mokambo Road	Copperbelt	42	6
Chimula-Senka Loop-Chilundumuzi	Northern	95	0
Namalundu Road off T2 to Kafue Gorge	Southern	28.2	0
Total		1,074.6	602.2

Source: Roads Development Agency

Bridge/Pontoon Programmes

9. The construction and installation of four bridges was completed during the period under review. These included Kalimansenga, Nkolemfumu and Kanchibiya (see Table 12.5). Works at the Chembe and Momboshi Bridges were at 50.0 percent and 25.0 percent complete, respectively.

Table 12.5: pontoons and Bridges Constructed and Installed.

Planned Activity	Performance Indicator	Status
Nkolemfumu	Construction and installation of bailey bridge	Bailey bridge launched and works completed
Kanchibeya	Construction and installation of bailey bridge	Works completed
Chilubi Island	Construction and installation of bailey bridge	Floating pontoon Bridge installed
Kalimansenga bridge	Construction of a bridge structure	Project completed
Luongo	Construction and installation of bailey bridge	Project Completed
Momboshi Bridge in Chisamba	Construction of a bridge structure	25 percent of works completed
Chembe Bridge	Construction of a bridge structure and approach roads.	50 percent of works completed

Source: Ministry of Works and Supply

Axle Load Control Programme

10. The main target of the programme was to reduce the overloaded vehicles of more than 20.0 percent overload to less than 5.0 percent for axles, and those of more than 55.0 percent to less than 5.0 percent for Gross Vehicle Mass. In this regard, the programme of constructing weighbridges continued with the major project being the Kazungula weighbridge, which was substantially completed.

Building Sub-sector

11. In 2007, Government continued with the construction of One-Stop Border post facilities at Chirundu and Katima-mulilo borders. Progress on the construction of the freight terminal, passenger control building and the customs warehouse reached 98 percent completion. Other developments were the rehabilitation and construction of lodges and other government buildings for different institutions such as technical education, agriculture, health and home affairs (see Tables 12.6 and 12.7).

Table 12.6: Construction and Rehabilitation of Public Buildings

Programme	Progress in %
Public buildings	
Construction of Freight Terminal at Chirundu	96
Construction of customs clearing office block at Chirundu	75
Construction of passenger control building at Chirundu	97
Construction of the residence for the First Republican President	97
Construction of a 2.7km Palisade fence State House compound	30
Proposed replacement of the main gate at Government House	100
Restoration of Old Guest House at State House	-
Refurbishment of Nkwazi Presidential Residence	-
Rehabilitation of the sewerage system and repair works at State House Police compound	40
Extension and alterations to Livingstone Lodge	40
Rehabilitation works at the Chinese Housing Complex	40
New Infrastructure at Katima – Mulilo Border Post	40
Demolition and erection of hoarding of Independence Stadium Grand stand	70
Technical Education Institutions	
Construction of Solwezi Trades Training Institute workshop block	86
Construction of Solwezi Trades Training Institute	
Rehabilitation of Luanshya Trades Training Institute	75
Rehabilitation of Hostels at Evelyn Hone College	70
Alterations to National College and Development Studies Dormitories and Ablution Blocks	55
Rehabilitation of Kabwe Trades Training Institute male hostels	85
Rehabilitation of TEVETA Offices	25
Construction of office block at Kaoma Trades Training Institute	
Construction of office block at Mongu Trades Training Institute	
Construction of Chipata Trades Training Institute	
Construction of Shangombo District Hospital and Kaneya Rural Health Centre	64
Home affairs	
Refurbishment of Kent Building	95
Completion of Mwembeshi Maximum Prison dormitories	100
Construction of Mwembeshi Maximum Prison Kitchen and Dining Hall	100
Construction of boundary fence at National Registration Office	100
Agriculture Institutions	
Petauke District Agricultural Centres	100
Chadiza District Agricultural Centres	100
Katete District Agricultural Centres	60
Lundazi District Agricultural Centres	80
Chama District Agricultural Centres	70
Chipata District Agricultural Centres	70
Other Government Buildings	
Rehabilitation of Disaster Management Unit	95
Construction of Four Storey Office Block	20
Refurbishment of Zambia Development Agency Office Block	95
Rehabilitation of Foreign Affairs Annex Building	100
Construction of Prefabricated Office Block at Department of Energy	70
Extension of Road Development Agency Conference room	99
Construction of New Office Block for CSO	80
Construction of Disaster Recovery and Satellite Server Rooms	37
Refurbishment of Auditor General's offices at HQ.	20

Source: Ministry of Works and Supply

12. With regard to the construction and rehabilitation of public buildings, Chipata, Lundazi and Chadiza Agricultural Centres were completed. Works at Chama and Mambwe Agricultural Centres were at 95.0 percent and 65.0 percent complete, respectively (see Table 12.7).

Table 12.7: Construction and Rehabilitation of Public Buildings

Programme	Progress (% complete)
Health	
Renovation of VCT Centres, TB Ward and Paediatric Ward in Livingstone	95
Construction of CDC Office, Pediatric and Family Care Centre	
Agriculture Public buildings	
Chipata District Agricultural Centres	100
Mambwe District Agricultural Centres	65
Chama District Agricultural Centres	50
Katete District Agricultural Centres	95
Lundazi District Agricultural Centres	100
Chadidza District Agricultural Centres	100
Other Government buildings	
Construction of Primary Schools in Luapula Province	60

Source: Ministry of Works and Supply

Outlook

13. Prospects for the construction sector are bright premised on increased economic activities in the mining, manufacturing, government infrastructure and private housing developments. These prospects will further be enhanced with the new cement plants in Ndola and expansion at Chilanga, and Oriental Quarries in Lusaka that will have an annual capacity of more than 1.2 million mt.

CHAPTER 13 SCIENCE AND TECHNOLOGY SECTOR

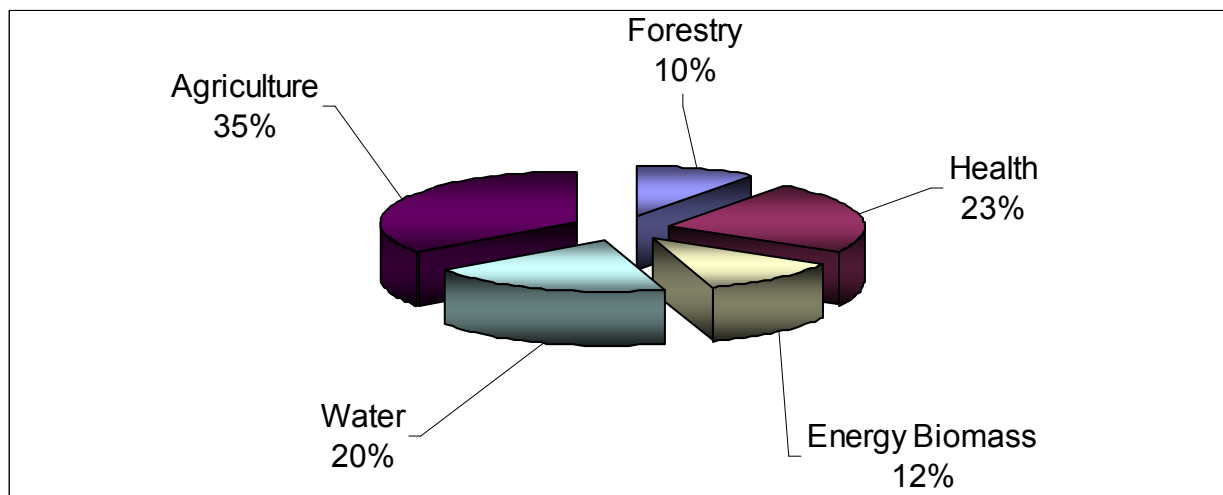
Overview

1. The performance of the sector was favourable compared to the previous year. This was on account of an increase in the investments into actual research and development. Government investments in infrastructure continued with the procurement of equipment and rehabilitation of some laboratories such as the Tree Improvement Centre in Kitwe. This notwithstanding, the sector was constrained in terms of both the human capacity and infrastructure, which generally remained below acceptable international standards.

Sector Performance

2. During the year under review, key researches undertaken were supported by the Strategic Research Fund (SRF) and the Youth Inventors Fund (YIF). Under the Strategic Research Fund, 60 research proposals were considered and 11 proposals awarded grants. The total grants under the SRF were K456 million, for support to research projects in five sectors (see Chart 13.1).

Chart: 13.1: Distribution of Strategic Research Funds by Sector



Source: Ministry of Science, Technology and Vocational Training

3. Key researches undertaken during the year under review included research on the use of Selenium and vitamins as food supplements in boosting immunity in persons living with HIV/AIDS, and research on Mycotoxin Resistant maize was also being conducted, aimed at reducing the loss of post-harvest maize to the mode maize disease (see Table 13.1). This is a fungus that grows on moist maize and is toxic to human beings.

4. Other key researches undertaken during the year included the development of a new tool for detecting malaria at the Macha Malaria Research Centre. The new tool detects malaria using saliva through the identification of anti-bodies specific to malaria parasites in the human body. This innovation is expected to significantly reduce the costs of diagnosis and the deaths resulting from late diagnosis of malaria.

Table 13.1: Research Projects Supported under SRF in 2007

Research	Objective/Nature of the Research	Research Institution
Selenium and Vitamins as food supplements	The research is aimed at supplementing current efforts in mitigating the effects of the HIV/AIDS pandemic. This research is set to assist build immunity in person living with HIV/AIDS	NISIR
Public health impact and control of infections in dogs in urban and rural environments	The research is at determining the impact of toxocara, dipilidium and Ancylostomainsfections in dogs so as to develop relevant interventions	UNZA
Evaluating and screening of <i>Jatropha Curcas</i>	The research is aimed at evaluating the provenance for economical exploitation under different ecological conditions of Zambia.	Zambia Agricultural Research Institute (ZARI)
Nercia rice variety rail in Zambia	Research into the nercia rice variety so as to develop and determine its potential for local consumption	ZARI
Effect of partially acidulated phosphate rock on soil chemicals and crop production	Research on the effect of combining tithonia diversifolia and partially acidulated phosphate rock on soil chemicals and crop production in low P soils	ZARI
Evaluation of local chickens for increased productivity among smallholder producers	Evaluation of local chickens for increased productivity among smallholder producers in Zambia	UNZA
Development of Mycotoxin resistant maize in Zambia	Research aimed at reducing the loss of post-harvest maize to the mode maize disease which is a fungus that grows on moist maize and is toxic to human beings	ZARI
Grafting and budding for rubber trees	Study on the grafting and budding for heavea brasiliensis-rubber tree	Forestry Research Branch
Bush pump and other selected hand pump	Research on the Comparative performance assessment of the bush pump and other selected hand pump	TDAU
Nutritional package for HIV infected people living in Zambia	A study into the nutritional package for HIV-infected people living in Zambia	Prudence Institute
Assessment of drinking water in Kitwe	Assessment of Radionuclide in drinking water in Kitwe so as to mitigate its effects	NISIR

Source: Ministry of Science, Technology and Vocational Training

5. With regard to the YIF, 25 innovation proposals were received and evaluated (see Table 13.2). Of these proposals, 11 were approved for support at a total cost of K743 million. The Fund is aimed at encouraging the youth to develop technological innovations.

Table 13.2: Innovation Projects Supported under the Youth Inventors Fund

Title of Innovation/Invention	Objective
Sheet bending machine for production of doors	This is designed to support the further development of a locally developed machine for bending of metal sheets
Fabrication and field testing of automatic controller for standby diesel generator	Designed to support the further development of an automatic controller for diesel generators
Nshima making machine	This is designed to support the further development of an innovation that is expected to result in an automatic Nshima making machine
Automatic solar projector project	This is designed to support the further development of a solar projector
Potable hydro-power generation	This is designed to support the further development of a hydro power generator developed by a resident of Mporokoso district
Pedalling pressure pump	This is designed to support the improvements to a locally developed pressure pump
Shiamiango 5 rope twisting plant	This is designed to support the further development of an innovation for rope twisting
Development and fabrication of traffic lights	This is designed to support the further development of an innovation to regulate traffic lights
Construction of a hybrid (wind/hydro electricity generator) power station.	The innovation are expected to be benefit rural areas especially those areas currently not on the national grid
Pregnancy Diagnosis	This is designed to support research on the development of a pregnancy diagnosis test. The research taps on indigenous knowledge in which certain animals are used to detect pregnancy through human urine

Source: Ministry of Science, Technology and Vocational Training

Capacity Building

6. During the year under review, investments were made in various infrastructure and equipment programmes. The Tree Improvement Centre in Kitwe was rehabilitated and works at the Chilanga campus of NISIR continued. Local Area Networks were also established at the Airport, Chilanga and Kitwe NISIR campuses, National Science and Technology Council and National Technology Business Centre (NTBC) offices which were linked to one network. This network will form the basic infrastructure for information sharing amongst research institutions, universities and colleges.

Outlook

7. The focus in 2008 will be the review of the science and technology policy to ensure it responds to the developmental needs of the country with the goal being the strengthening of the institutional and legal frameworks that govern the sector. As research activity increases, arising from both local and foreign demand, it is expected that the need for strengthened regulation will be high to protect human life and the environment. Research and development projects will also be undertaken in energy, HIV/AIDS, malaria and other diseases.

CHAPTER 14

EDUCATION

Overview

1. In the year under review, enrolment rates at both basic and high school levels exceeded the 2006 levels. This was largely attributed to the increase in the number of school places arising from the construction and rehabilitation of education infrastructure. Similarly, pupil-teacher ratios at both basic and high school levels increased, arising from the deployment of 6,000 teachers in 2007.

Policy Developments

2. The key policy development in 2007 was the implementation of the Early Childhood Development and Education (ECCDE) policy, aimed at enhancing equity in access to education. Additionally, the statutory instrument for transforming the National College for Management and Development Studies into a public university was approved, leading to the creation of Mulungushi University.

Sector Performance

Basic School Sub-sector

Basic Schools

3. In the year under review, the total number of basic schools increased by 10.9 percent to 8,471 from 7,635 in 2006. The number of Government and grant-aided schools rose by 13.3 percent to 5,331 while private and church schools increased by 37.5 percent to 488. Similarly, the number of community schools increased by 3.0 percent to 2,652 (see Table 14.1).

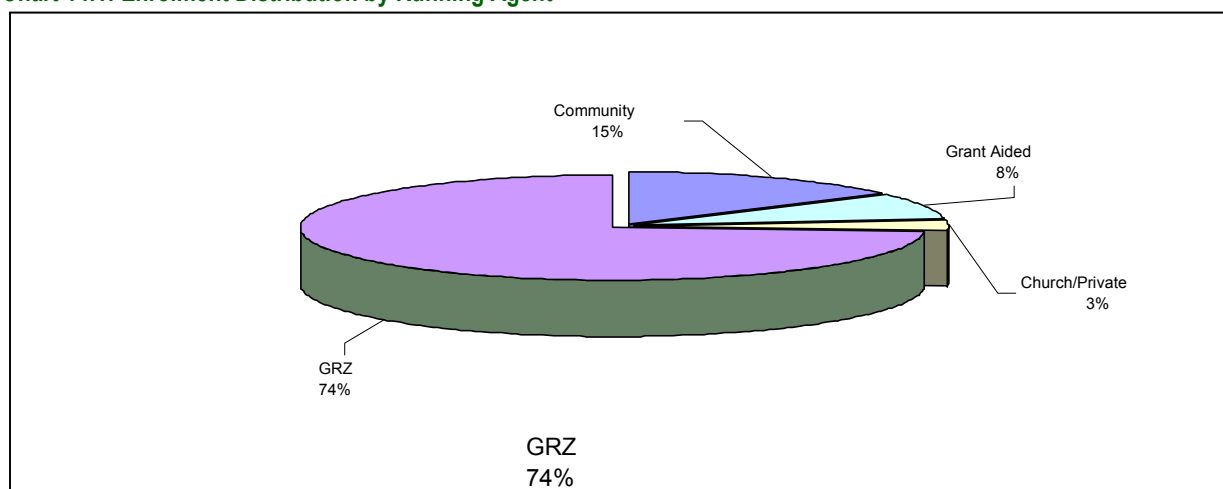
Table 14.1: Basic Schools by Agency, 2005-2007

Provider	2005	2006	2007	% Change 2007/2006
GRZ/Grant Aided	4,622	4,705	5,331	13.3
Private/Church	443	355	488	37.5
Community	2,562	2,575	2,652	3.0
Total	7,647	7,635	8,471	10.9

Source: Ministry of Education

4. The majority of pupils were enrolled in Government schools, representing a proportion of 74.0 percent, while 15.0 percent of pupils were enrolled in community schools. Enrollments at grant-aided schools and private schools stood at 8.0 percent and 3.0 percent, respectively (see Chart 14.1).

Chart 14.1: Enrolment Distribution by Running Agent



Enrolments

5. The total pupil enrolments at basic level (Grades 1-9) increased by 5.1 percent to 3,135,797 in 2007 from 2,982,835 in 2006. Male enrolments increased by 5.4 percent while female enrolments rose by 4.8 percent (see Table 14.2). Of the total enrolments, 48.9 percent were females.

Table 14.2: Enrolments at Basic School Level by Gender, 2005-2007

Gender	2005	2006	2007	% Change 2007/2006
Female	1,390,028	1,462,470	1,532,583	4.8
Male	1,458,329	1,520,365	1,603,214	5.4
Total	2,848,357	2,982,835	3,135,797	5.1

Source: Ministry of Education

Completion Rate

6. During the period under review, completion rates for grades 1-7 improved to 89.8 percent from 85.2 percent in 2006. Similarly, the completion rate for grades 8-9 improved (see Table 14.3). This was attributed to the continued implementation of a free education policy, which abolished user fees and hence resulted in increased enrolments.

7. However, the targets for grades 8-9 were not met, largely explained by the low progression from grades 7-8. High drop-out rates, especially for girls, and repetition, which averaged 3.8 percent and 9.0 percent, respectively, also contributed to this outcome.

Table 14.3 Completion Rates, 2005-2007

Education level	2005	2006		2007	
	Baseline	Target	Actual	Target	Actual
Grade 1 - 7	81.6	82.7	85.2	84.4	89.8
Grade 8 - 9	43.1	46.5	43.1	50.7	46.6

Source: Ministry of Education

Pupil-Teacher Ratio

8. The national pupil-teacher ratio at the basic school level improved to 50.2 from 51.3 in 2006, reflecting an increase in the number of teachers (see Table 14.4). Lusaka and the Copperbelt provinces continued to have the lowest pupil-teacher ratio due to better infrastructure and social amenities. Conversely, Northern and Luapula provinces continued with the highest ratios due to poor infrastructure and social amenities.

Table 14.4: Pupil-Teacher Ratio for Grade 1-9, 2007

Province	Grade 1-4	Grade 5-7	Grade 1-7	Grade 8-9	Grade 1-9
Central	72.8	36.5	53.2	49.7	49.7
Copperbelt	68.1	35.5	49.7	46.0	46.0
Eastern	71.2	32.2	50.8	48.5	48.5
Luapula	91.1	41.9	65.0	61.3	61.3
Lusaka	63.0	32.5	45.4	42.7	42.7
N.Western	80.1	34.8	56.0	52.2	52.5
Northern	91.3	40.9	64.3	61.1	61.1
Southern	73.3	36.6	52.9	49.8	49.8
Western	78.6	32.5	53.6	50.9	50.9
National average	75.0	32.34	53.5	50.2	50.2

Source: Ministry of Education

High School Sub-sector

9. Enrolments at high school level increased by 12.0 percent to 216,897 in 2007 from 193,726 in 2006 (see Table 14.5). The increase was attributed to the upgrading of basic schools into high schools.

Table 14.5: Enrolments at High School Level by Gender, 2007

Gender	2005	2006	2007	% Change 2007/2006
Female	32,517	85,945	98,144	14.2
Male	135,095	107,781	118,753	10.2
Total	167,612	193,726	216,897	12.0

Source: Ministry of Education

Completion Rate

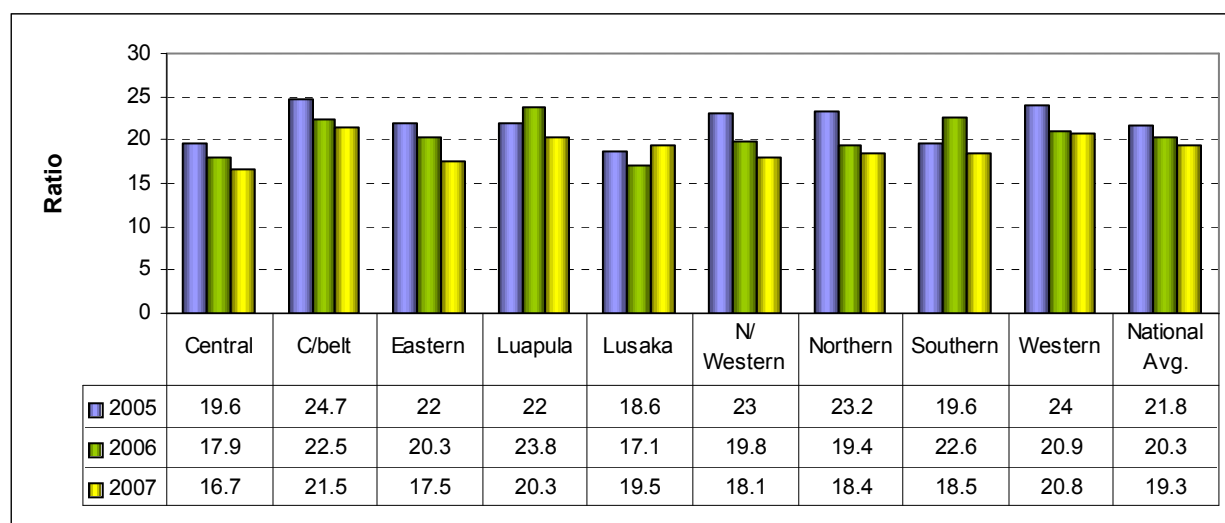
10. In 2007, the completion rate at high school level increased by 2.0 percentage points from 17.5 percent in 2006 to 19.5 percent in 2007. However, the target of 25.3 percent was not achieved, due to high drop-out rates attributed to early marriages, children being orphaned and financial reasons.

Pupil-Teacher Ratio

11. The national pupil-teacher ratio for the high school level averaged 19.3 compared to 20.3 in 2006. The improvement in the ratio was attributed to the recruitment of teachers to fill-up

teaching positions. In addition, limited places at high school level contributed to this outturn. Comparisons at provincial level indicated that the Copperbelt and Central provinces had the highest and lowest ratios, respectively (see Chart 14.2).

Chart 14.2: High School Pupil-Teacher Ratio, 2005-2007



Source: Ministry of Education

Gender Parity Index

12. In the year under review, female access to education improved, with the Gender Parity Index (GPI) rising to 0.83 from 0.80 in 2006 for both basic and high school levels. However, the GPI for grades 1-7 reduced to 0.96 in 2007 from 0.97 in 2006 (see Table 14.6). The outturn was attributed to high drop-outs of girls, as a result of early marriages and pregnancies, particularly from fourth grade.

Table 14.6: Gender Parity Index, 2005-2007

Education level	2005	2006		2007	
	Baseline	Target	Actual	Target	Actual
Grade 1-7	0.96	0.97	0.97	0.97	0.96
Grade 1-9	0.95	0.96	0.96	0.96	0.96
Grade 1-12	0.81	0.81	0.80	0.81	0.83

Source: Ministry of Education

Technical Education Vocational and Entrepreneurship Training Sub-Sector

13. During the year under review, Government scaled up financing towards Technical Education Vocational and Entrepreneurship Training (TEVET). This was evidenced by increased allocation to the TEVET sub-sector to K14.6 billion, representing 0.7 percent of the discretionary budget from 0.3 percent in 2006. Consequently, construction of office blocks, classrooms and workshops commenced at Solwezi, Mongu, Chipata, Ukwimi and Kaoma Trades Training Institutes.

14. During the year under review, the number of registered institutions providing TEVET dropped to 269 from 338 in 2006 (see table 14.7). This was mainly due to a drop in commercial private institutions by 41.1 percent, following the de-registration of some institutions on account of poor quality (see Table 14.7).

Table 14.7: Number of Registered Institutions by type of Ownership, 2005-2007

Ownership	2005	2006	2007	% Change 2007/2006
Church	59	60	58	(3.3)
Community/NGO	20	22	27	22.7
In – Company	13	13	12	(7.6)
Public/Government	56	56	55	(1.8)
Private for Profit	159	175	103	(41.1)
Trust	12	12	14	16.7
Total	319	338	269	(20.4)

Source: TEVETA.

15. In terms of enrolments in TEVET institutions, these increased marginally to 31,108 in 2007 from 30,521 in 2006, with enrolments in the business studies programme highest, followed by the crafts programme. In terms of gender disaggregation, the imbalance continued in favour of males who accounted for 68.4 percent of the total enrolments (see Table 14.8).

Table 14.8: Enrolments by Gender, 2006-2007

Category	2006			2007		
	Male	Female	Total	Male	Female	Total
Business Studies	5,630	5,412	11,042	5,742	5,520	11,262
Secretarial Studies	2	1,626	1,628	6	1,635	1,641
Hotel and Tourism	875	1,960	2,835	892	1,999	2,891
Media and Applied Arts	869	1,627	2,496	886	1,659	2,545
Paramedical	140	150	290	142	153	295
Aviation	114	89	203	116	90	206
Craft	6,422	829	7,251	6,550	845	7,395
Advanced Certificate/Diploma	3,644	703	4,347	3,716	717	4,433
Technologist	420	9	429	428	12	440
Total	18,116	12,405	30,521	18,478	12,630	31,108

Source: TEVETA

16. During the year under review, a total of 2,177 vulnerable students benefited from the bursary scheme compared to 1,683 in 2006 (see Table 14.9). The increase was attributed to a rise in the number of vulnerable students and the introduction of a special bursary scheme. The majority of recipients of the award were male totaling 1,152 compared to 658 females.

Table 14.9: MSTVT Bursaries Award, 2006-2007

Year	Total		Male		Female	
	2006	2007	2006	2007	2006	2007
Main Bursary	1683	1947	1152	1406	531	535
Special Bursary	0	414	0	375	0	39
Additional cases from Evelyn Hone College	0	251	0	107	0	84
Total	1,683	2,616	1,152	1,152	531	658

Source: TEVETA

Outlook

17. The education sector is expected to expand further, with the envisioned recruitment of teachers, and the construction of schools and classrooms. In addition, the planned construction of permanent infrastructure for TEVET at provincial training institutions in North-Western, Western and Eastern provinces is expected to contribute to the growth of the sector.

CHAPTER 15**HEALTH****Overview**

1. During the period under review, the delivery of health service remained a challenge. The availability of essential drugs dropped and the human resource situation remained far below the recommended levels.
2. The incidence of diseases and mortality rates increased with malaria continuing to be the leading cause of morbidity and mortality while AIDS (suspected and confirmed cases) was a second leading cause of death. Maternal mortality also remained high at 729 deaths per 100,000 live births. Notwithstanding, these challenges, the number of people on anti-retroviral therapy increased to 137,000 from 75,000 in 2006. This was, however, below the 2007 target of 370,000. In addition, Government continued to rehabilitate and construct health infrastructure across the country. A key milestone in 2007 was the commissioning of the Cancer Diseases Hospital in Lusaka.

Policy Developments

3. The key policy development in 2007 was the approval of the National Mental Health Policy including the development of the strategic plan for its implementation. Other developments included the review of the Food and Nutrition Policy Act and the National Radiation and the National Health Policy.

Sector Performance**Disease Burden**

4. During the period under review, there was an increase in the disease incidence and number of cases seen at health facilities. However, the overall death rate generally declined from the 2006 situation. The first five causes of death in Zambia in 2007 continued to be malaria, respiratory infection non-pneumonia, diarrhea, anemia, respiratory infection pneumonia and AIDS (suspected and confirmed cases) (see Table 15.1).

Malaria

5. Malaria continued to be the leading cause of morbidity and mortality. The incidence rate increased to 89.4 per 1,000 populations in the first half of 2007 from 76.1 per 1,000 populations during the same period in 2006. However, total diagnosis attributable to malaria declined to 1,114,274 in 2007 from 1,347,504 in 2006. The total number of deaths equally reduced from 1,706 in 2006 to 1,529 in 2007.
6. The increase in malaria incidence (new cases) could be attributed to the rise in the uptake of health services by new patients following the removal of user fees in 54 rural districts. The

reduction in mortality rate was mainly due to the continued scale-up of effective preventive and curative interventions such as use of Insecticide Treated Nets (ITNs), Indoor Residual Spraying (IRS), coartem use and effective use of laboratory results such as the Rapid Diagnostic Tests (RDTs) in health facilities with no microscopy services. The IRS household coverage improved to 87 percent in 2007 from 31 percent in 2006 in the 15 targeted districts.

Respiratory Infections (Non-Pneumonia)

7. In the review period, the incidence rate of respiratory infections (non-pneumonia) increased to 50.2 per 1,000 population in 2007 from 34.5 per 1,000 population in 2006. However, deaths attributed to the disease reduced to 207 in 2007 from 868 in 2006.

Table 15.1: Top Ten Diseases 2006 and 2007 (based on first half data)

Diagnosis	Year	Incidence per 1,000 population	Total Diagnosis	Inpatient Deaths
Malaria	2006	76.1	1,347,504	1,706
	2007	89.4	1,114,274	1,529
Respiratory Infection : non Pneumonia	2006	34.5	125,686	868
	2007	50.2	626,407	207
Diarrhoea –non Bloody	2006	13	230,673	580
	2007	17	216,801	574
Trauma:accidents,injuries,wounds, burns	2006	8.1	143,217	158
	2007	12	149,849	121
Respiratory Infection : Pneumonia	2006	7.19	125,686	868
	2007	8.7	109,629	841
Skin infections	2006	6.5	115,286	48
	2007	8.3	104,541	48
Musculoskeletal and connective tissue	2006	4.2	74,586	18
	2007	6.8	85,731	8
Digestive system(not infectious)	2006	4.0	70,564	115
	2007	6.3	78,528	101
Anaemia	2006	2.3	41,560	615
	2007	2.9	37,354	670
Aids (suspected and Confirmed cases)	2006	1.7	29,515	1,707
	2007	2.4	30,960	1,417

Source: Ministry of Health

HIV/AIDS

8. Acquired Immuno-Deficiency Syndrome (AIDS) (confirmed and suspected cases) remained ranked number 10 in terms of morbidity in 2007, while there was a reversal with regard to mortality with malaria now the leading cause from the position in 2006 (see Table 15.1). This outturn could be largely attributed to the provision of free ARVs which improved to 137,000 patients in 2007 from 75,000 patients in 2006. The estimated number of patients requiring ARVs was 370,000 in 2007 of which 82,825 are children. Prevention of Mother to Child Transmission (PMTCT) centres also increased from 278 in 2006 to 678 in 2007 while the number of Voluntary Counselling and Testing (VCT) sites increased from 600 to 800 during the same period.

Maternal Health

9. Zambia has one of the highest maternal mortality rates in the world at 729 deaths per 100,000 live births based on the 2002 Zambia Demographic and Health Survey. This situation is due to a number of challenges which have continued such as acute shortage of skilled staff and health facilities especially in rural areas, weak referral and communication systems, and traditional beliefs and practices. In view of these challenges and the high maternal mortality rate, Zambia is unlikely to attain the MDG on maternal mortality by 2015.

Child Health

10. According to the Zambia Demographic and Health Survey of 2002, infant and child mortality rates stood at 95/1,000 and 168/1,000 births, respectively. This negative outturn is attributed to neonatal causes, malaria, diarrhoea, pneumonia, anaemia, malnutrition and poor maternal health. Only 20 percent attend post-natal care after two weeks, further compromising opportunity for neonatal care.

11. Other factors compromising child health and development in Zambia are the high prevalence of HIV and AIDS (16 percent), with close to 7,000 new paediatric infections per year. Poverty perpetuates the situation, given that more than 58 percent of the population live on less than a dollar a day, and are unable to provide adequate nutrition.

12. In order to enhance child health, Government continued to implement a number of programmes which included the Expanded Programme on Immunisation (EPI). The EPI is aimed at ensuring full immunization of all the children under the age of one. In this regard, Government scaled up the “Reaching Every District” (RED) Strategy to 37 districts from 20. In addition, Government in 2007 installed vaccine monitoring tools in all the nine provincial health offices and incinerators in 11 of the 22 targeted districts.

Drugs and Medical Supplies

13. The availability of essential drugs for health centres dropped to 68 percent in the first half of 2007 from 74 percent in the same period of 2006. However, the availability of essential drugs in rural health centres improved in the second quarter of 2007 with the arrival of Rural Health Centres (RHC) kits. The Government procured 22,000 RHC kits and a review is underway to increase the allocation of these kits to districts in view of increases in first attendances. With referral hospitals, there was a reduction in essential drugs to 81 percent in 2007 from 86 percent in 2006. This was partly due to the effects of the user fee removal policy which led to an increase in people accessing health services and high drug consumption rates.

Nutrition

14. In 2007, under-nutrition, underweight and wasting levels remained a challenge at 47.0 percent, 20.1 percent and 5.0 percent, respectively. In addition, Vitamin A deficiency prevalence

rates stood at 65.7 percent for children and 21.5 percent among women, while 50.0 percent of the women attending antenatal were anaemic.

Human Resources

15. The frontline human resource situation in 2007 remained far below the recommended levels. There was an estimated 13,691 frontline medical personnel in Government run health institutions as against the recommended 39,360. The worst hit category of staff continued to be that of doctors, nurses and other paramedics (see Table 15.2).

Table 15.2: Human Resources Staffing Levels against Recommended Levels, 2005-2007

Staff Category	2005	2006	2007	% Change	Recommended	Variance	Staff: Population Ratio
Doctors	646	718	815	13.5	2,300	1,485	16,016
Clinical Officers	1,161	1,254	1,386	10.5	4,000	2,614	9,170
Nurses	8,369	8,650	9,190	6.2	22,332	13,142	1,329
Laboratory Technologists	417	432	460	6.4	1,560	1,100	26,620
Pharmacists	108	133	158	18.7	162	4	86,466
Other Paramedics	1,138	1,396	1,682	20.4	9,006	7,324	8237
Total	11,839	12,583	13,691		39,360	25,669	

Source: Ministry of Health

16. In an effort to improve the human resource situation, Government recruited a total of 1,108 frontline medical personnel in 2007 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. In this regard, 65 doctors and 91 nursing tutors were covered under the scheme.

Infrastructure Development

17. In 2007, Government continued to improve health infrastructure through rehabilitation and construction of health facilities. In this regard, 13 health posts were constructed in 2007 bringing the total to 33 out of the target of 58. Procurement of works for the remaining 25 health posts was finalised. Moreover, construction of hospitals in Samfya, Chadiza, Mumbwa, Kapiri-Mposhi, Isoka, and Shang'ombo districts continued in 2007.

Outlook

18. Government's focus in 2008 will 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, among others.

CHAPTER 16

PROSPECTS FOR 2008

1. Global growth in 2008 is projected to be strong at 4.8 percent, driven by the continuing momentum from emerging and developing countries. Strong fundamentals that will counterbalance the effects of the financial turbulence in advanced economies are further expected to spur global growth. Growth in Sub-Saharan Africa is expected to reach 6.8 percent from 6.1 percent in 2007. Increased capital inflows, favourable oil and non-fuel commodity prices and the positive effects of the reform measures in the region will trigger this growth.

2. In the commodity market, the price of oil is expected to continue its upward trend. Strong global demand in the face of lower production by both OPEC and non-OPEC producers will sustain the upward pressure. Non-fuel commodity prices, such as for copper are expected to ease despite continued strong demand from China.

3. These developments in the global economy will, on balance, impact positively on the Zambian economy in 2008. Domestic output in 2008 is expected to exceed 6.0 percent largely premised on recovery in mining output. Although positive growth is expected in the key sector of agriculture, heavy rains in the central and Southern parts of the country may adversely affect production. In addition, electricity supply constraints could affect output across all sectors of the economy.

4. With regard to inflation, this is expected to remain in single digit levels, with prospects for further decline. Improved food supply and a stable exchange rate will dampen inflationary pressures. Furthermore, fiscal performance is expected to remain solid on account of increased domestic revenues and prudent expenditure. The challenge for inflation, though, will be from energy related costs and food prices in the wake of heavy rains in most parts of the country.

5. Continued high metal prices, coupled with increased mineral production, should lead to a favourable performance in the external sector. In the financial sector, stability is expected to be maintained.

