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

Panel Discussion Points:

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@ the IMF-UK DID Conference on Managing Capital Flows
Mauritius
2nd March 2015
OUTLINE OF PRESENTATION

1.0 General Overview of Capital Flows in Zambia

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

3. Future Prospects and Policy Options
1.0 General Overview of Capital Flows in Zambia

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

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

Chart 1: Recent Trends in the Stock of Foreign Private Capital in Zambia, 2006-2014 (US $ mn.).
2.0 Source Countries, Recipient Sectors, Costs and Benefits of Capital Flows

- FDI - largely from Canada, UK, China and RSA, mainly in mining manufacturing, telecom and the financial sector,
- Portfolio - from UK and the United States of America.
- Other investments - predominantly from RSA, UK and China, mainly in mining, manufacturing and the agriculture sectors.
- Private capital flows have been instrumental in:
  - Providing financing for investments,
  - Stimulating growth,
  - Contributing to exchange rate stability,
  - Creating opportunities for reserves accumulation,
  - Development of our financial market.

- Macroeconomic and financial-stability challenges include:
  - Increased exchange rate volatility
  - High sterilisation costs associated with withdrawing excess liquidity arising from high reserves accumulation.
Private capital flows in Zambia are projected to maintain the recent growth momentum, driven by;

- Investments in new mining projects which are already in the development stage,
- Favourable investment climate
- High interest rates on Government securities which are expected to attract more portfolio investment.
3.0 Future Prospects and Policy Options (Cont.)

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

Thank You!