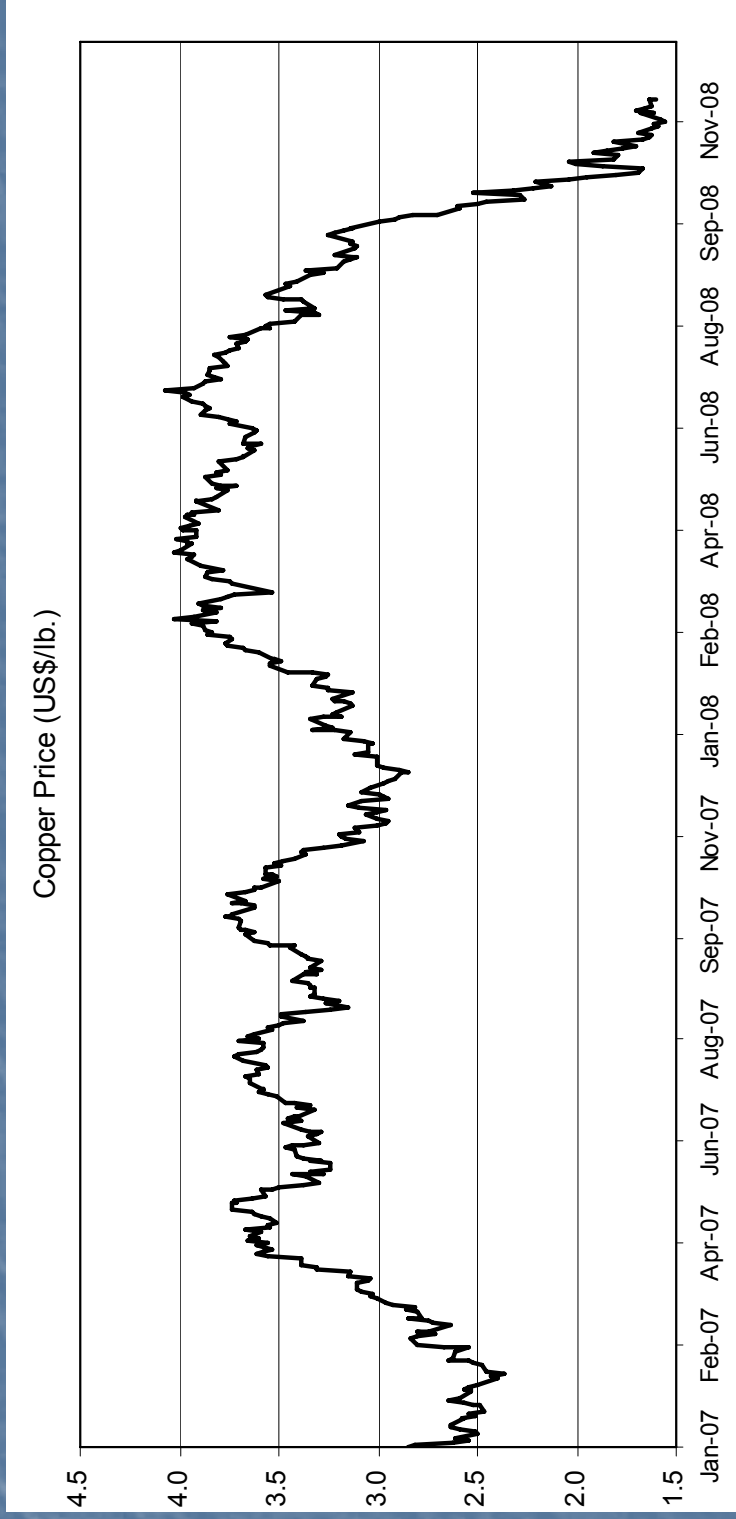


Effects of the Global Financial Crisis on Zambia

World Bank
December 5, 2008

Largest Effect on Copper Prices

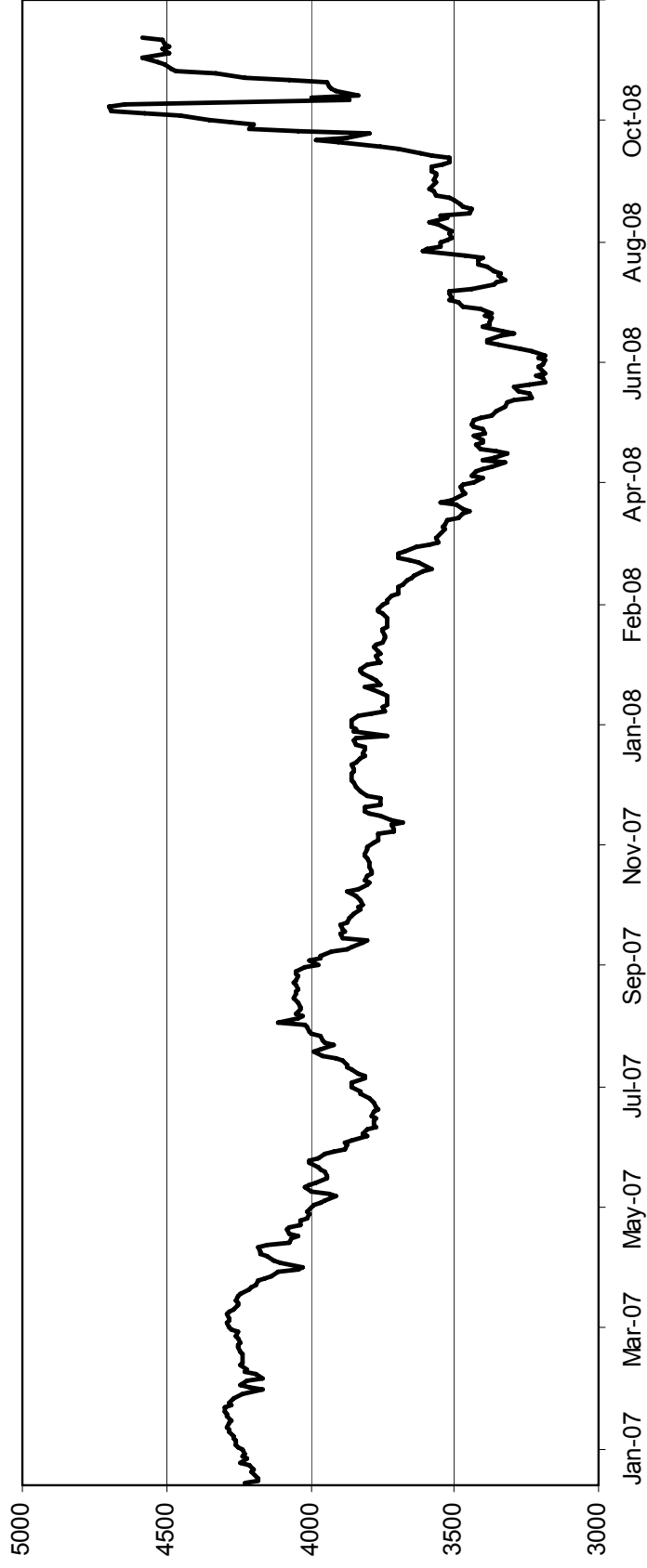


The economy was already decelerating in the second half of the year

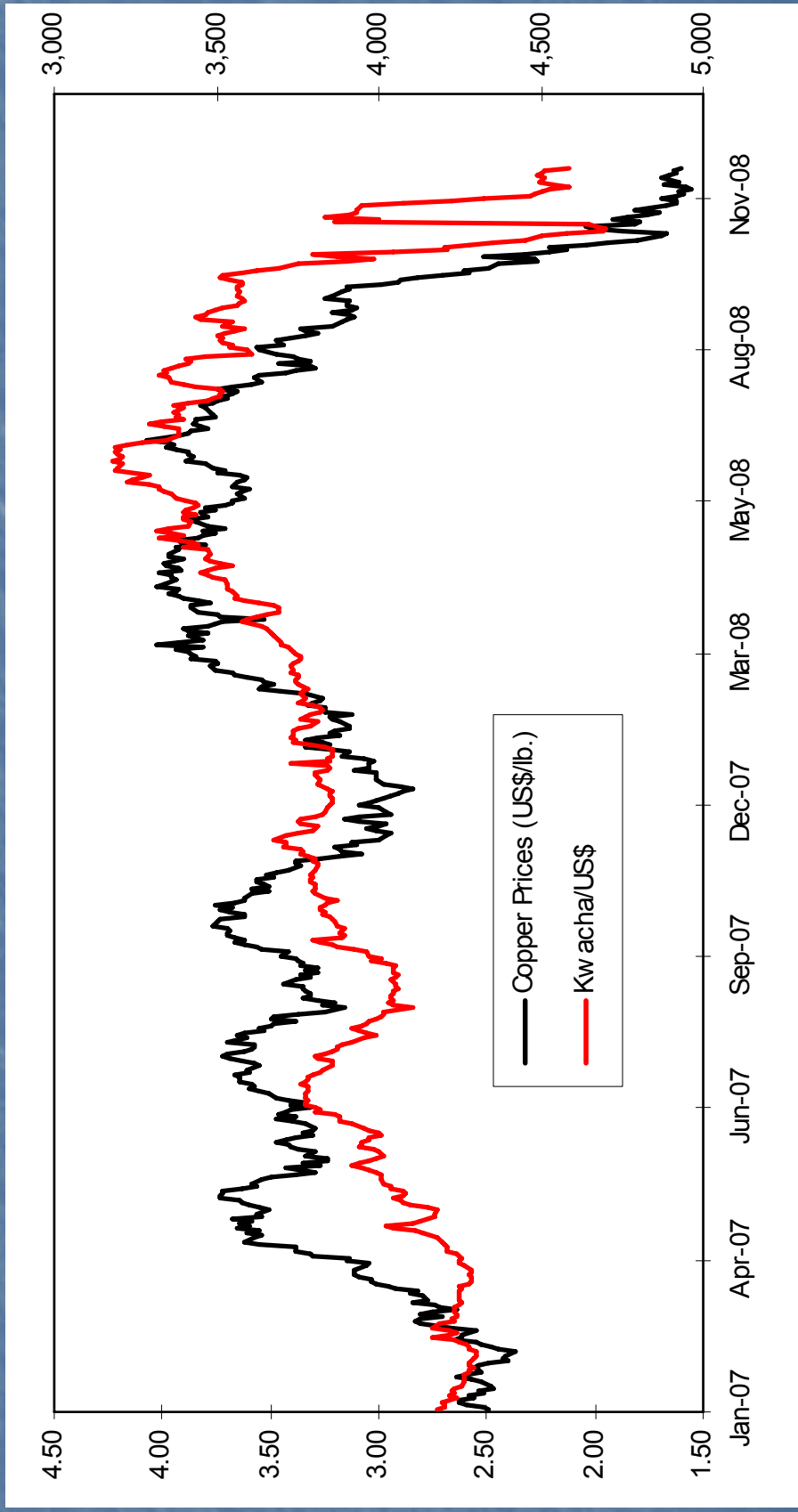
- The mild slowdown was the result of constraints on electricity output and rising food and fuel prices.
- Falling copper prices accelerated its fall in October.
- The largest concern is in the expected fiscal effect (of about 3% of GDP in lower fiscal revenues for 2009).
- And on the sharp increase in the current account deficit, that started in the third quarter of this year.
- Copper exports reached about 70% of total exports in 2007.

The nominal exchange rate has depreciated sharply

Kwachas/US\$



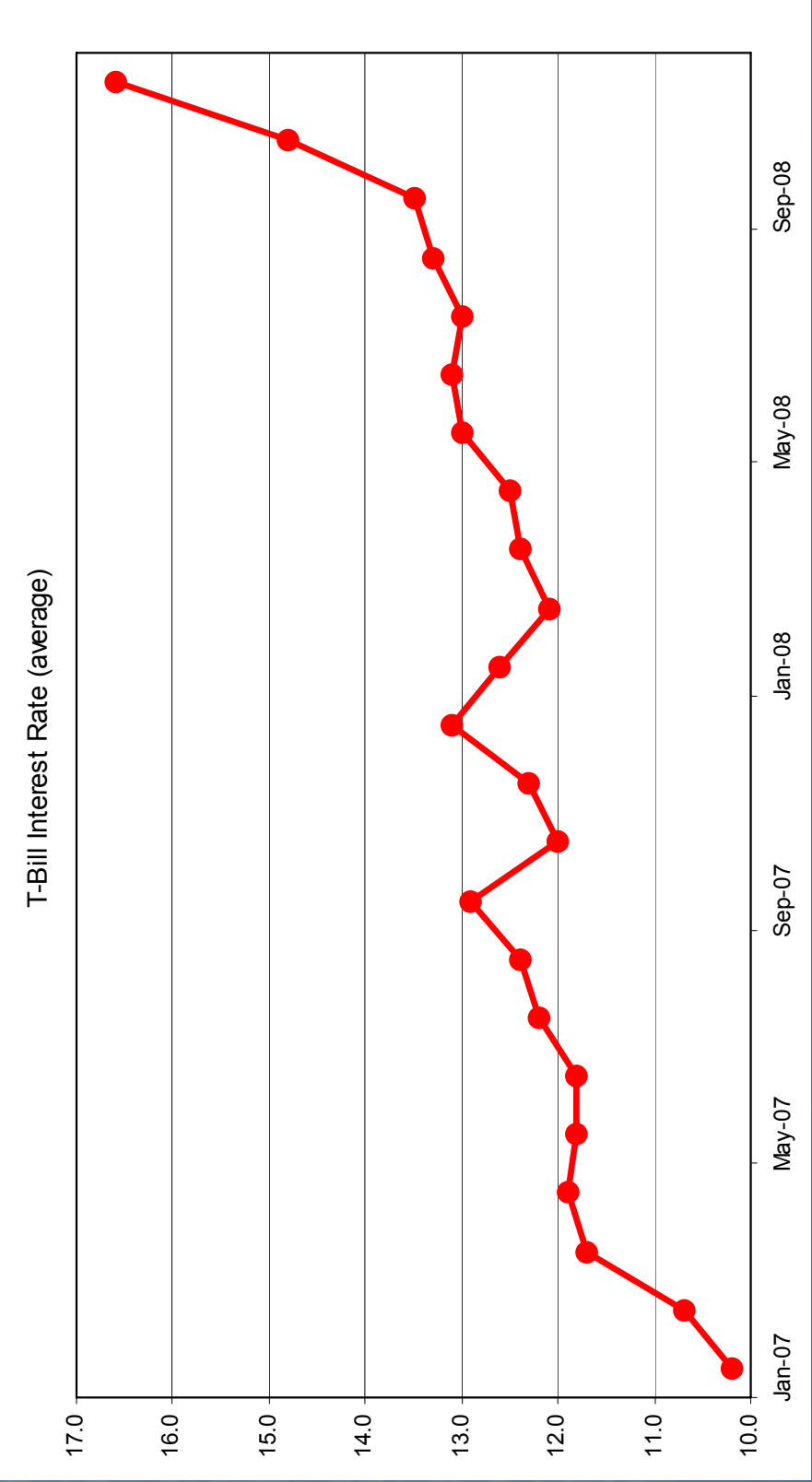
The exchange rate has followed closely changes in copper prices



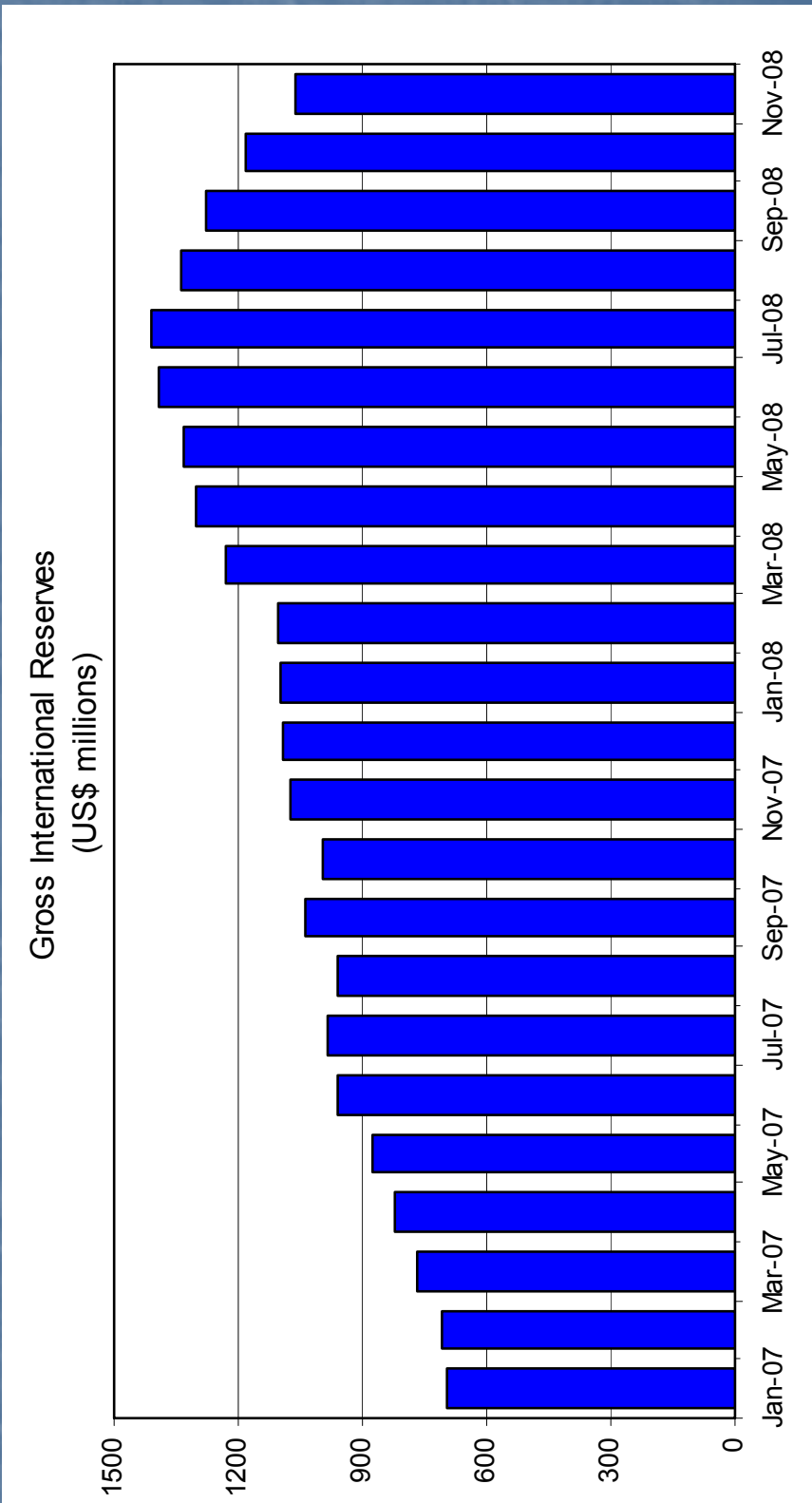
The short term effects have been limited in the financial sector, but are expected to rise

- The effects of the global crisis on the domestic financial sector have been small, in part due to its small size.
- Trade financing mostly in cash.
- Role of subsidiaries could become an issue.
- The central bank has already registered liquidity pressures, and difficulties on its OMO.
- High liquidity preference has already resulted in foreign portfolio outflows and reduced presence of pension funds and institutional investors.

As a result, short term effects non-negligible: capital outflows despite rising interest rates



International Reserves have fallen by 25% since their peak in July 2008



Large negative effects are expected in output, fiscal and external accounts, and the financial sector

- The current account deficit is expected to double in 2008 (to 8% of GDP from 4% in 2007) and to 10% in 2009.
- The fiscal deficit has already worsened in 2008, led by lower copper revenues and to reach 3% of GDP in 2009.
- The government has few policy options (current spending) and no market access.
- Silver lining on non-traditional exports, but limited.
- Financial sector exposed to domestic and international downside risks.