

Caleb M Fundanga: Achievements and accomplishments at the Bank of Zambia during the past forty years

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the 40th anniversary celebrations, Lusaka, 5-6 August 2004.

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Chairperson, Baroness Lynda Chalker of Wallasey

The Guest of Honour, His Excellency, the President of the Republic of Zambia, Mr Levy Patrick Mwanawasa, State Counsel

Honourable Ministers

Honourable Deputy Ministers

Your Excellencies Members of the Diplomatic Corps

Honourable Members of Parliament present

Special Guest, Governor Tito Mboweni, Governor Reserve Bank of South Africa

Distinguished Past Governors of the Bank of Zambia

Senior Government Officials

Distinguished Invited Guests

Ladies and Gentlemen

On behalf of the Bank of Zambia and indeed on my own behalf, it is my singular honour and rare privilege to extend a warm welcome to you all as we commemorate the 40th Anniversary of the establishment of the Bank of Zambia. I would also like to thank, His Excellency, the President of the Republic of Zambia, for accepting our invitation to officiate at this special occasion. Further, special thanks go to Governor Mboweni for accepting to deliver a key note speech and all foreign participants for coming. Mr President may I mention that amidst this gathering are participants from sister central banks in the region that have come to celebrate this anniversary with us as well as Zambians based outside the Republic.

Mr President, Ladies and Gentlemen, this Anniversary marks 40 years of dynamic transformations and achievements accomplished by the Bank. Some of the challenging issues that the Bank has confronted in the past and likely to do so in the future form part of the selected topics of Papers to be presented and discussed at this Conference. This conference is therefore expected to provide a platform for sharing ideas required for practical solutions aimed at improving the Bank's deliverables. In doing so, however, we must be cognisant of global trends in central banking.

Madam Chairperson, since its establishment in 1964, the Bank of Zambia has played an important role in the economy by formulating and implementing monetary, regulatory and supervisory policies in its quest for price stability. Over this period, progress has been made towards the deepening of financial markets, specifically in the areas of monetary policy management, and the foreign exchange market. In addition, substantial improvements to the legislative and regulatory frameworks for banks and financial institutions have been attained.

Ladies and Gentlemen, during the pre-liberalisation period from 1964 to 1991, monetary policy was largely characterised by administrative controls on interest rates and the exchange rate. Although the Banking Act of 1965 was created to enable the implementation of monetary policy, in the pre-liberalization era monetary policy involved multiple objectives, such as, financing agriculture and parastatal companies, and providing guarantees for export marketing, which at times presented the Bank with conflicting roles as a monetary authority.

To the contrary, during the current liberalization period, which commenced with vigor in 1992, the Bank, in conformity with market reforms, has steadily moved towards the use of market-based structures and systems as opposed to direct instruments in the conduct of its monetary policy. In this

regard, and beginning 1993, deregulation of interest rates, removal of capital controls and freeing of the foreign exchange market were implemented as part of the broader financial sector reforms.

As a result, through the use of mainly market-based instruments of monetary policy, the Bank has made several notable achievements. Amongst these, has been its contribution to the reduction of annual inflation to 17.2% in December 2003 from 197.0% at the end of December 1992. Further, inflation has remained just under 20% in the first half of 2004 and it is the Bank's desire to see single digit inflation within the foreseeable future. The benefits of lower inflation in single digits can not be over-emphasized, especially with regard to the fight against poverty.

Madam Chairperson, last October the Bank took a bold stand of effecting a down-ward adjustment in the statutory reserve ratio to 14.0% from 17.5 % on both Kwacha and foreign currency deposit liabilities. This was intended to release funds to commercial banks. The outcome of this policy action has been increased loanable funds being available to commercial banks. This in turn has greatly contributed to the downward trend in lending rates in the economy. For instance, the weighted average lending base rate dropped to 29.8% in June 2004 from 39.6% in August 2003. This action was consistent with Government's objective to ensure increased credit to priority sectors such as agriculture. I am glad to inform the conference participants that a noticeable increase in credit to key growth sectors namely agriculture, tourism, manufacturing and mining has been recorded since this policy action by the Bank. This process has been greatly assisted by a significant reduction in Government borrowing from the banking sector.

In its continued effort to develop a fully functional foreign exchange market, in July last year the Bank established a broad-based inter-bank foreign exchange management (IFEM) system as the new mechanism for determining the exchange rate in Zambia. Under this system market making has been transferred to commercial banks with the Bank performing mainly an oversight role. Coupled with favourable developments in exports, the IFEM has to-date yielded encouraging results as evidenced in the relative stability of the Kwacha against currencies of most major trading partners.

Mr President, Ladies and Gentlemen, one area that has seen remarkable reforms is that of the payment systems in Zambia, for which the Bank has been actively involved. These reforms include the establishment in September 1999 of the Zambia Electronic Clearing House Limited which provides a speedier mechanism of clearing funds to customers. It also reduces the risk of errors during processing of payments. Another development arising out of electronic clearing was the establishment of an electronic funds transfer system called Direct Debits and Credits Clearing (DDACC) in October 2001. The DDACC system provides unparalleled convenience to both payer and payee for processing bulk and small value regular payments such as salaries and utility bills. Owing to its fully electronic nature, funds are cleared within 24 hours.

In a further development, in June 2004, the Bank of Zambia launched the Real Time Gross Settlement (RTGS) system. This system facilitates real time settlement of large value and time critical payments. This is a significant step towards easing the payments side of economic activities in our country.

The above accomplishments notwithstanding, challenges still remain and we in the Bank of Zambia are set to drive the payment system towards one that will be secure, efficient, cost effective and accessible to the majority of Zambians. The rural population and the unbanked majority will have a prominent focus in our reform process.

The Bank has also been instrumental in other reforms in the financial sector which include preparation of the Financial Sector Development Plan (FSDP) whose overall objective is to increase financial intermediation and promote efficiency of the financial system.

Madam Chairperson, the theme "40 years of Central Banking: Facing the Challenges of the 21st Century" during this anniversary is meant to make us reflect on the achievements that the Bank has made so far and then focus our attention to the challenges that lie ahead. This follows from the Mission of the Bank, which states "*To formulate and implement monetary and supervisory policies that will ensure price and financial system stability*".

The Bank of Zambia acknowledges the need for improved terms and conditions under which money and credit are provided to the economy. The increased number of registered domestic and domestically incorporated international banks has led to augmented credit creation to local businesses compared to pre-liberalisation levels. Previously, credit facilities were scarcely availed to local businesses. Efforts are currently being made to establish a Credit Reference Bureau, which should result in reduced information asymmetries and contribute to the further lowering of lending rates. It is also hoped that the bureau will provide an objective assessment of potential private sector borrowers

and improve credit culture. Timely, adequate and affordable credit is required in the economy to effectively facilitate economic growth, create employment and reduce poverty.

Mr President, Ladies and Gentlemen, financial stability which forms part of the Bank's mandate is a critical component of macroeconomic stability. Our banking sector experienced an unprecedented structural evolution during the latter part of the 1990s when new bank entrants and eventual quick exits characterized it. The implications of a volatile banking sector speak for themselves. No doubt, the Bank of Zambia had met yet another daunting challenge in its role as a supervisory authority. Even in the aftermath, the Bank continues to deal with aspects of institutions in liquidation.

However, one welcome outcome from this experience is the consolidation of the banking sector, which is much more aware of the constant need for prudent risk management and good corporate governance. From our end, the Bank has also undergone a significant re-orientation of its supervisory techniques and approaches. These are now largely in line with international best practices and also constitute a platform on which we shall meet the future challenges facing the financial sector in the 21st Century.

Ladies and Gentlemen, from time to time developments are associated with setbacks and the Bank of Zambia is no exception. Here I am referring to the issue of polymer notes which were introduced sometime last year. The introduction of these notes as we have explained at several fora was meant and is still meant to have cleaner notes in the economy and more importantly to have notes with a relatively longer life-span before replacement, than the traditional paper notes. With a relatively longer life-span, the nation would save resources because the frequency of replacing the notes would greatly be reduced. However, due to technical problems experienced by the printer, most of the notes have been fading faster than expected. May I re-assure the nation that we have continued to work with the printer and a solution is being worked out in the quickest time possible. Needless to say that this problem has posed a big challenge for all of us at the Bank of Zambia.

Madam Chairperson, with respect to its organisational and functional structure, the Bank has overtime undergone modifications to suite its role as a monetary and supervisory authority. In addition, structural changes have been necessitated by the continuously changing demands along with changes in the economy and especially in the dynamic financial markets.

From a handful of departments at inception currently, the Bank comprises the following core departments, Economics, Financial Markets, Bank Supervision, Non-bank Financial Institutions Supervision, Banking, Currency and Payment Systems, and the Regional Office in Ndola. The support departments include Procurement and Maintenance, Finance, Bank Secretariat, Human Resources, Information Technology and Internal Audit as well as a Security Division. In order to streamline the operations of the Bank and improve its performance, a performance agreement system for employees was introduced in 1995. This was meant to bring about a new work culture with emphasis on professionalism, based on the philosophy, "The BoZ Way means Action".

Mr President, Ladies and Gentlemen, since the 1996 Bank of Zambia Amendment Act, the Bank has continued to enjoy operational autonomy with regard to the formulation and implementation of monetary policies and attainment of relative financial system stability. The ability of the Bank to continually meet quantitative benchmarks set by Government and cooperating partners, can be attributed to the focus of its monetary policy on creating a stable macroeconomic environment as a precondition for sustainable economic growth.

Ladies and Gentlemen, as we move ahead and look to the next 40 years of central banking in Zambia, the Bank of Zambia will continue to play a catalytic role in facilitating the exchange of ideas among the banking community, the private sector, and all other key stakeholders through such gatherings as this conference. We will continue to carry out our mandate, with the objective of facilitating the work of Government and economic activities of the private sector for the betterment of all Zambians.

Mr President, Madam Chairperson, Ladies and Gentlemen, I would be failing this occasion if I do not recognise that the achievements of the Bank of Zambia over the last 40 years are a result of the hard work by employees, past and present, including the former Governors. Allow me at this point to present the names of the former Governors and also to recognize those that are in our midst.

These are:

- Mr R C H Hallet, 1964-1967;
- Dr Justin Zulu, 1967-1970;
- Mr Valentine S Musakanya, 1970-1972;
- Mr Bitwell R Kuwani 1972-1976 & also 1981-1984;
- Mr Luke Mwananshiku, 1976-1981;
- Mr David A R Phiri, 1984-1986;
- Mr Leonard Chivuno, 1986-1987;
- Mr Francis X Nkhoma, 1987-1989;
- Mr Jacques A Bussieres, 1990-1992;
- Mr Dominic C Mulaisho, 1992-1995; and
- Dr Jacob Mwanza 1995-2002.

May I, at this point, request that we stand and observe a moment of silence in honour of our past late Governors; R C H Hallet, Valentine S Musakanya, Bitwell R Kuwani, Luke Mwananshiku and Leonard Chivuno and many other former employees of the Bank who passed away during the last 40 years.

Thank you.

It is important to mention here that most of the former Governors have continued playing critical roles in the financial sector and I can proudly say that three of them today serve as chairmen of commercial banks.

In conclusion, Ladies and Gentlemen, may I again welcome you all to this conference, and I urge you to be open and constructive during the deliberations.

I thank you.