

Caleb M Fundanga: Local bond market developments in Zambia

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, on the occasion of the Listing of the Development Bank of Zambia Bond, Lusaka Stock Exchange, Lusaka, 4 April 2007.

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- The General Manager – Lusaka Stock Exchange
- The Chairman, DBZ Board of Directors
- The Chairman, Standard Chartered
- The Secretary – Securities and Exchange Commission
- Mr Ade Adebajo, Director, Standard Chartered Africa Debt Capital Markets
- Member of the DBZ Board
- All Senior Government Officials Present
- Acting Managing Director, DBZ
- Managing Director – Zambia State Insurance Corporation
- Chief Executive Officer – Stock Brokers (Z) Limited
- Representative of DBSA
- Distinguished invited guests; and
- Ladies and Gentleman

Today marks another important milestone in financial sector development indicative of the coming of age of the Zambian financial system in general and local bond market in particular. The issue of the K68.620 billion senior unsecured floating rate note under the Development Bank of Zambia (DBZ) K150 billion Medium Term Note Programme and listing of the note on the Lusaka Stock Exchange (LuSE) is a landmark transaction for two key reasons. The first is that this is the first time in the history of the local bond market that a local currency medium term note programme has been established. The second is that this transaction marks the largest single issue ever offered to Zambian fixed-income institutional investors.

Ladies and Gentlemen, the development of the local bond market is central to Government's strategy for diversification of the economy for one key reason. All businesses, including state owned enterprises, require finance, covering both equity and debt, and ranging from short-term to long-term. In the absence of a properly functioning local bond market, those in need of capital and qualified enough have had to turn to international financial markets to finance their local projects with the attendant exchange rate risk. Similarly, those seeking a competitive return on their investments that also meet their maturity preferences but are unable to find these features locally, have always sought out alternative avenues offshore in foreign currency, thereby creating pressures in the foreign exchange market. Therefore, Government's involvement in improving the local bond market has been deliberate.

Ladies and Gentlemen, Government's participation in improving the functioning of the local bond markets has seen the establishment of appropriate market infrastructure that facilitates cost-effective and secure trading, and a transparent price discovery process. Further, Government's decision to bring to market longer term bonds in 2005 have proved to be positive and catalytic for the local bond market as this has resulted in an extended yield curve that has provided a benchmark for pricing longer dated security issues by the private sector and banking industry.

Ladies and Gentlemen, arising from our core responsibility for financial system stability, Bank of Zambia is deeply concerned about the proper functioning of the local bond market, in terms of its security, liquidity, transparency and ability to withstand contagious disruptions emanating from other jurisdictions. In this regard, Bank of Zambia has two broad responsibilities. The first is that of enhancing the price discovery process by promoting transparency in our own policy actions. The second is that of ensuring that the banks, as providers of liquidity, perform their proper role in supporting the trading process by making sound credit decisions. We therefore applaud this initiative from the Development Bank of Zambia and encourage the board and management not to rest on its laurels. The eyes of the outside world – local and international investors and other key stakeholders are paying close attention, and expect Development Bank of Zambia to deliver, and inescapably so, in terms of adherence to world class corporate governance standards and ensuring safe and sound operations. On these two responsibilities, I wish to remind Development Bank of Zambia board and management that the business world and stakeholders out there today do not hold two different sets

of standards for effective corporate performance, a set for private sector businesses and another for state owned enterprises.

Ladies and Gentlemen, we similarly welcome the role of financial advisors and intermediaries such as Standard Chartered played in bringing to market of this initiative. Their participation brought international best practice and standards to this landmark transaction which we expect will have a developmental impact on the local bond market. It is also our expectation that other intermediaries will look to this initiative to motivate them to seek to do more in this area for the benefit of our economy.

So, in conclusion, what we as Bank of Zambia can do is to understand the dynamics of the debt market, how it is evolving, and whether it is sufficiently liquid and transparent. We can also help ensure that banks perform their proper role and enhance the price discovery process by promoting transparency in the conduct of our own monetary policy actions. Finally, and most importantly, we can strive to help create conditions in our economy that will support sustainable, non-inflationary growth and so promote the overall welfare of all citizens. It is this is a role that the Bank of Zambia is committed to playing effectively.

Ladies and Gentlemen, with these remarks, I wish to thank all stakeholders in this important initiative.

Thank you.