

Caleb M Fundanga: Overview of Zambia's banking sector

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, on the occasion of the 10th Anniversary of Bank of China (Zambia) Limited, Lusaka, 13 April 2007.

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- His Excellency – the Chinese Ambassador to Zambia;
- Vice-President of the Bank of China – Head Office;
- Chairman of the Board of the Bank of China (Zambia) Limited;
- Managing Director of the Bank of China (Zambia) Limited;
- Distinguished invited guests; and
- Ladies and gentlemen

Let me first express my sincere gratitude for having been invited to speak on the occasion of the 10th anniversary of the Bank of China (Zambia) Limited.

Ladies and Gentlemen, during the last ten years, the performance of Bank of China has been satisfactory with total assets steadily increasing to K391.4 billion in December 2006 from K6.4 billion in December 1997 and total deposits increasing to K294.2 billion in December 2006 from K2 billion in December 1997. On this basis, Bank of China had grown to become the eighth largest bank in Zambia albeit operating with only one branch. Bank of China (Zambia) is a 100% subsidiary of Bank of China which went through a successful initial public offer (IPO) and has resulted in Bank of China being a top tier globally listed bank.

Over the same period in Zambia, the overall financial performance and condition of the banking sector has been satisfactory. The banking sector has maintained adequate capitalization and all the banks met the minimum capital requirements of 5% for primary capital and 10% for total regulatory capital. However, in January 2007, the Bank of Zambia revised the minimum required capital to start a bank from K2 billion to K12 billion. The Bank of Zambia anticipates increased economic and investment activity in Zambia in the coming years and so banks operating in Zambia need to stand ready to safely provide the required level of financing. It is therefore the expectation of the Bank of Zambia that all banks will comply with this requirement by June 2008.

Ladies and Gentlemen, since our two countries, Zambia and China, established diplomatic ties 43 years ago, the relationship has been both cordial and beneficial as seen by the growth in Chinese investment into Zambia in mining, textile, construction, banking, and agriculture. Currently, China is Zambia's third largest investor, after South Africa and the United Kingdom. The expected creation of the US\$800 million special economic zone on the Copperbelt, the first of its kind in Africa, will show case the significance that the Zambia-China relationship and further strengthening the existing friendship between our two countries. This also provides an opportunity for Bank of China (Zambia) to strategically position itself to take advantage of the immense business opportunities that will arise from this development.

Ladies and gentlemen, the Zambian Government is committed to the implementation of prudent economic policies aimed at economic growth and poverty reduction, and results are beginning to show. For instance, Zambia, has successfully managed to stabilize the key macroeconomic variables. For the first time in 30 years, inflation managed to fall to its lowest levels while the exchange rate has been relatively stable whilst reflecting market fundamentals. Further, the lending interest rates have been declining in response favorable macroeconomic environment.

Notwithstanding the improved macroeconomic environment, the Zambian Government is aware and committed to resolving the remaining challenges facing the banking and financial services industry. Accordingly, Government adopted a 5-year Financial Sector Development Plan (FSDP), which aims, amongst other things, at promoting the development of a stable, sound and market based financial system. One of the key recommendations of the FSDP is establishment of a credit reference bureau in order to improve the credit culture in Zambia. In June 2006, the Bank of Zambia licensed one company to provide credit referencing services and commercial banks are concluding a service level agreement with this company that will allow the bureau to serve as a clearinghouse for credit history information and promote the ability of lending institutions to share both positive and negative data about their borrowing customers.

Ladies and Gentlemen, this development will address one of key structural problems that the banking sector has faced for a long time. I therefore wish to implore Bank of China to continue playing an effective role and stimulate economic activity by providing well structured financial products and services, especially those aimed at boosting growth in key sectors such as mining, energy, tourism, manufacturing and agriculture. However, in order to achieve this, there is need for Bank of China and other commercial banks to do more in terms of reducing lending interest rates and influence the safe expansion of private sector credit and at the same time contribute to the reduction of the cost of doing business in Zambia. The current environment of relatively low inflation and stable exchange rate offer a good opportunity for lowering commercial banks' lending interest rates.

Ladies and Gentlemen, let me conclude by further challenging Bank of China (Zambia) Limited to expand beyond one branch and broaden its customer base and operations swiftly in order to consolidate the gains that have been achieved over the last 10 years.

I thank you.