

Tukiya Kankasa-Mabula: Bank of Zambia's key policy initiatives

Speech by Dr Tukiya Kankasa-Mabula, Deputy Governor (Administration) of the Bank of Zambia, at the Bankers Association of Zambia Bankers Annual Ball, Lusaka, 14 September 2012.

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- The Chairperson, Bankers Association of Zambia, Mr Friday Ndhlovu,
- Managing Directors and Chief Executive Officers of Member Banks,
- Managing Directors and Chief Executive Officers of Various Institutions & Associations,
- Management and Staff of Member Banks,
- Distinguished Invited Guests,
- Members of the Press,
- Ladies and Gentlemen.

Good evening,

Before I deliver my speech this evening, I would like us to observe a minute of silence in honour of the Late Mrs Margaret Ndhlovu, wife of Mr Friday Ndhlovu who passed on late last month. As the saying goes, behind every successful man, there is a woman. Our prayers and thoughts go out to the Ndhlovu family as they come to terms with the loss.

Distinguished invited guests, it is my honour and privilege to officiate at this year's Bankers Annual Ball for the Bankers Association of Zambia. It is also my pleasure to warmly welcome Mr Friday Ndhlovu, the Managing Director of Investrust Bank Plc and the In-coming Chairperson of the Association who is taking over from Ms Charity Lumpa who will be assuming a new role within the Ecobank Group in Lome, Togo. Join me in wishing Mr Ndhlovu well in his new role and I have every confidence that he will perform to distinction. I wish to take this opportunity to thank Ms Lumpa for her able stewardship of the Association and wish her well in her new appointment. I have every confidence that she will excel.

Ladies and gentlemen, the banking industry plays an important role in any economy, particularly the role of intermediating funds between savers and borrowers. It also plays an equally important role in providing payment system platform where economic agents can settle their transactions.

You will also note that the performance of these functions also attracts numerous risks which have potential to compromise the stability and the efficient operations of the banking industry. The regulatory environment therefore requires adjusting appropriately in response to developments in the financial system.

Chairperson, you will note that the Bank of Zambia has, in the most recent past, introduced a number of measures aimed at enhancing stability of the banking industry in Zambia as well as to enhance the transparency and efficiency in the allocation of resource in the economy. Allow me to briefly highlight some of the key policy initiatives that the Bank of Zambia has recently introduced:

- 1) ***Reduction of statutory reserve ratios:*** in the fourth quarter of 2011, the Bank of Zambia reduced both the statutory and core liquid asset ratios by 3 percentage points to 5.0% and 6.0% respectively. The policy measure was intended to loosen liquidity for commercial banks to enable them increase their lending to productive

sectors of the economy. The measure was also aimed at influencing the pricing of the loans especially in light of high lending rates prevailing in the economy;

- 2) ***Increase in capital:*** a robust banking industry is indispensable for supporting investments in the economy. A lower capital base entails limited participation in the financing of investments in addition to increased vulnerability of the banking industry. From the last quarter of 2011, the banking sector saw significant regulatory reform as the capital thresholds for banks were increased. Local owned banks are now required to have a capital base of K104 billion whilst foreign owned banks are required to have a minimum capital base of K520 billion. The revised thresholds are aimed at ensuring that we have the best possible environment in which banks can carry out these key functions. As I stated earlier, banks are specialised institutions and they are fundamental to the working of the economy and linked to all parts of the financial system. But the consequence is that if banks fail, the external effects can have an adverse impact on the financial system and the economy. That is why banks are required to maintain a certain level of minimum capital. In this regard, the central bank provides oversight through prudential supervision.

Therefore, the measures to revise the capital adequacy framework for Zambia enhances the resilience of the sector to both internal and external shocks by improving the quality and quantity of the capital available for commercial banks;

- 3) ***Introduction of the policy rate:*** the policy rate was introduced in order to provide a benchmark rate for the banking industry on which pricing for lending products can be based. It also promotes transparency in the price discovery mechanisms in the banking sector while minimizing information asymmetry particularly that associated with the credit markets;
- 4) ***Statutory Instrument No. 33 on Bank of Zambia currency regulations:*** This measure was introduced with a view to reinforcing the use of the Zambian Kwacha as the legal tender in the Republic of Zambia. The increased use of foreign currency cash in our economy has implications for the effectiveness of the conduct of monetary policy given that foreign currency cash is outside the control of the central bank; and
- 5) ***Currency rebasing:*** Since 2006, (except in 2008 when there were challenges arising from the global financial crisis) Zambia has enjoyed positive economic variables. For instance, overall inflation has been single digit and the country has continued to record favourable balance of payments surplus. During the recent past, inflation has declined to single digit levels such that in December 2011 it closed at 7.2%. This low level of inflation, coupled with favorable macroeconomic conditions, provided an opportune time to rebase the Zambian currency. Given the improved economic performance, it has become necessary to re-align and configure our currency in line with macroeconomic fundamentals. The currency rebasing exercise will have implications on businesses in the economy including changes to accounting software, tax aspects, ATMs, cash registers, etc. The success of the currency rebasing exercise will largely depend on our partnership with the commercial banks.

Ladies and gentlemen, as you will note all these measures are aimed at improving efficiency conduct of business in our economy and commercial banks have a very crucial role to play in all these. The expectation is that all of you represented here will support the central bank to ensure that collectively, we build a financial sector that is modern and responsive to the needs of our economy.

Chairperson, as a central bank, we will continue to foster an environment where dialogue between all key stakeholders can be promoted both at individual bank level as well as at Industry level. Despite the policy changes embarked on, there remains a lot to be done in the areas of financial inclusion, financial education and consumer protection in the banking

industry. In this regard, the Bank of Zambia has developed branchless banking frameworks and a national strategy for financial education in partnership with other stakeholders. As a regulator, we are committed to ensure an open and competitive banking environment. This is, in my view, the best way to allow banks to play their full role in the economy and ensure a fair deal for businesses and consumers.

Recently, we have signed an MOU with the Competition and Consumer Protection Commission aimed at enhancing the competition arrangements in the banking sector. We hope to strengthen capacity to tackle anti-competitive behaviour in the sector.

I would therefore, like to encourage you to start viewing these areas as an intricate part of your overall business strategies in order to enable us as an industry to consolidate the gains so far achieved.

Ladies and gentlemen, let me acknowledge the commitments that the Bankers Association has made in the revised Code of Banking Practice relating to the provision of “**No Frills Account**” to certain segments of our population. As the central bank we will be interested to receive information on how you are performing in this important area for financial inclusion. On our part, we have issued a “*Practice Note*” to assist commercial banks overcome some of the Know Your Customer challenges faced with when dealing with some segments of our society.

Chairperson, let me conclude by reiterating the important role that a healthy and stable financial system plays in an economy. This objective cannot be achieved by the Bank of Zambia alone but through collective efforts including the Government and yourselves. My expectations are that although the role of Chairperson has changed, the Association will remain true and steadfast to its values and objectives. We look forward to continuing working with the Association on many issues that still require attention and on-going dialogue.

I Thank You.