

Michael Gondwe: Developing economic and banking opportunities in Zambia

Speech by Dr Michael Gondwe, Governor of the Bank of Zambia, at the official launch of First Capital Bank Zambia Limited and opening of its Head Office, Lusaka, 26 November 2013.

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The Chairperson, First Capital Bank Zambia Ltd, Mr Bornwell Chiyabi;

The Vice Chairperson and members of the Board

Her Excellency, the High Commissioner of Kenya to Zambia, Professor Rono

His Excellency, the High Commissioner of Malawi to Zambia, Mr Bandawe

His Excellency the Assistant Secretary General of COMESA

The Chief Executive Officer, First Capital Bank Zambia Ltd, Mr. Lalit Tewari;

Management and Staff of First Capital Bank Zambia Ltd;

My Senior Colleagues from the Bank of Zambia

Distinguished Clients and Invited Guests;

Members of the Press;

Ladies and Gentlemen.

It is an honour and privilege to be amongst you at this important occasion this evening. Firstly, allow me to express my gratitude to the Chief Executive Officer of First Capital Bank Zambia Limited for extending an invitation for me to come and officiate at this landmark event.

This evening's occasion marks the official launch of First Capital Bank (FCB) Zambia Ltd as well as the opening of its new head office. Please allow me to congratulate FCB (Z) Ltd on this important occasion. First Capital Bank Zambia Limited, as some of you may be aware, has emerged from the former International Commercial Bank (ICB). This followed a 100% acquisition of the share-holding of ICB from ICB Financial Group holdings AG of Switzerland by a consortium led by First Merchant Bank Ltd (FMB) of Malawi. Afinity Investment Ltd, a Zambian controlled investment holding company, is part of this consortium. I am informed that First Capital Bank will be a local bank with 51% shareholding to be held by Zambians. As a matter of fact, First Capital Bank is among seven foreign owned banks which have sought and received approval from the Bank of Zambia to convert to locally owned banks following the new capital requirements. This is a welcome development as it is in line with our Government's goal of ensuring that Zambians actively participate in the development of the economy.

With the launch of FCB at Kwacha Pension House, the two branches of former ICB situated at the corner of Washama and Great North Roads, and Cairo Road will automatically become part of the First Capital Bank. This means that FCB will evolve with three branches in Lusaka.

Chairperson

I am glad that the transition from ICB to FCB has taken place very smoothly without any loss of jobs. The members of the Board and the new shareholders deserve special commendation for this. I also commend the existing customers of the bank who were steadfast and reposed their confidence in the new shareholders. As I understand, First Capital Bank has plans to increase its foot prints in Zambia and I hope that the bank will open up branches in other districts of

Zambia. This will enable it to enhance financial inclusion, which is among the country's key priorities.

Chairperson

I have been informed that FCB has initiated the process of acquiring new state of the art banking software, and is in the process of introducing a full range of IT related products like internet banking, mobile banking and visa card. This demonstrates the bank's strong and long-term commitment to becoming an important player in the development of our financial sector. This is no doubt driven by the confidence FCB has in the Zambian economy.

Ladies and gentleman

Zambia's economy has continued to show resilience in the midst of a slowdown in the global economy as a result of the on-going Euro zone debt crisis and the sluggish growth in the United States of America and some leading emerging market countries including the BRICS. Economic performance has been strong with GDP growth in 2012 at 7.3%. Inflation has continued to be in single digits and was 6.9% in October this year. Although the exchange rate of the Kwacha against major international currencies has been under pressure, it has remained relatively stable, while the country has maintained a positive account balance over the last four years.

Ladies and gentleman

Investors continue to show heightened confidence in the Zambian economy reflected in stronger performance in foreign direct investment (FDI). For instance, the 2013 Foreign Private Investment and Investor Perceptions Survey report shows that FDI inflows rose to US\$1.7 billion in 2012 from US\$1.1 billion in 2011, the highest in the past 12 years. Similarly, FDI stocks increased to US \$12.4 billion from US\$10.8 billion over the same period. Data for the first two quarters of this year already indicate a strong performance in 2013.

It is therefore, my expectation that the banking sector will continue to take advantage of opportunities arising from the conducive macroeconomic environment in the country to create wealth and contribute to the country's development.

We view increased private investment such as FCB as a stimulus for job creation, technological and skills transfer, as well as wealth creation. This investment by FCB is important given the fact that deposit-taking corporations (banks) have recently become among the top three sectors in the country with respect to FDI. FDI inflows to banks were US\$184.4 million, third to manufacturing and mining at US\$469.6 million and US \$933.7 million in 2012, respectively. Consistently, in terms of FDI stocks, banks were in third place with US\$601.2 million while manufacturing and mining were second and first at US\$1.3 billion and US\$9.0 billion in 2012, respectively.

Distinguished clients and invited guests

Private investment is a critical source of long-term capital for spurring sustained economic growth and diversification while promoting innovation by supporting the micro, small and medium sized enterprises (MSMEs).

Chairperson

In order for the financial sector to fully satisfy the credit demands of the productive sector in Zambia, commercial banks must not be overly conservative in terms of their risk appetite for

MSMEs. Rather, Banks should seek to better understand the risks associated with lending to these enterprises.

Further, it is important that banks better understand the risk associated with lending to specialized and growth sectors such as agriculture, tourism, manufacturing and mining by deliberately developing relevant human resource skills in these sectors.

Ladies and gentlemen

In its quest to see the financial sector take up an active role in financing the productive sector and facilitating the flow of investment into the economy, the Bank of Zambia continues to undertake a number of policy and structural reforms.

Among these reforms is the new increase in the minimum capital requirement for banks to K520 million and K104 million for foreign and local banks respectively. These capital levels are expected among other things to:

- i. Make the banking system strong enough to withstand shocks and instability in the economy should they occur;
- ii. Enable banks to underwrite big ticket transactions;
- iii. Make banks contribute more to the growth of the economy; and
- iv. Improve access to loanable funds among local entrepreneurs and thereby enable them to partner with foreign investors. This should enhance their economic inclusiveness or participation in the development of the country.

Ladies and gentlemen

As I conclude, allow me to remind you of the plight of so many of our people living in rural districts. Despite the high economic and business potential in these areas, financial services are non-existent.

This means that income earning citizens in the informal sector such as fishermen, bee-keepers, handcraft makers and farmers cannot deposit their earnings in a safe savings account due to the absence of bank branches. In addition, those with good business ideas cannot access loans to actualize their projects and create wealth. These people have to devise unconventional means of keeping their money such as hiding it in their homes, burying or indeed moving with the money where ever they go.

Furthermore, civil servants and other citizens in formal employment have to travel long distances and in some instances for a number of days before they can access their salaries. A number of them end up losing their hard earned income in thefts and other calamities. ***This has to change, and banks working in partnership with the Government can make this happen.***

I therefore, wish to challenge Commercial banks including First commercial Bank (Z) Ltd to consider opening branches, in the unbanked districts. Banks should take advantage of the attractive economic opportunities obtaining in Zambia to improve financial inclusion and thereby attract new customers and a higher deposit base. I am certain that over time these places will be their most profitable centers as places like Lusaka will only yield narrow margins due to stiff competition.

Ladies and gentlemen

Allow me to again extend my gratitude to the Chief Executive Officer of the First Capital Bank for inviting me to this auspicious occasion.

It is now my honour and privilege to officially declare the First Capital Bank Zambia Limited and its head office officially opened.

I thank you for your attention.