

Denny H Kalyalya: Keynote speech - Stanbic Bank 4th Banking Industry Symposium

Keynote speech by Dr Denny H Kalyalya, Governor of the Bank of Zambia, at the Stanbic Bank 4th Banking Industry Symposium, Lusaka, 22 May 2026.

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SALUTATIONS

- The Guest of Honour, the Permanent Secretary, Ministry of Finance and National Planning, Mr. Mulele M. Mulele.
- Distinguished central bank representatives from the region - the Governor of the Bank of Lesotho represented by Director Supervision Ms. Tau Puseletso, Governor of the Central Bank of Botswana represented by Director Prudential Authority and Payments Oversight Bank of Botswana Mr. Godfrey Ngidi.
- Board Chairpersons from the various Financial Institutions
- Bankers Association of Zambia Chairperson and Stanbic Bank Zambia Chief Executive Mr. Mwindwa Siakalima.
- Chief Executive Officers and their Proxies from the various financial institutions (Bank & Non-Bank Supervision)
- Esteemed panelists, moderators, and speakers.
- Standard Bank Group representatives.
- Distinguished Guests.
- Ladies and Gentlemen

Good morning.

I greatly appreciate this rare opportunity to address you on matters that are central to the resilience, stability, and long-term sustainability of our financial system and, by extension, the broader Zambian economy.

I also wish to extend my sincere appreciation to Stanbic Bank Zambia Limited and the Bankers Association of Zambia for convening this 4th Banking Industry Symposium.

The theme of today's symposium, "Cross-Border Banking Supervision: A Regional View on How Capital Adequacy and Currency Reform Influence Sovereign Risk and Macroeconomic Stability," is both timely and highly relevant in the current global and regional environment.

The theme is quite broad. However, I will try to highlight a few critical issues in relation to cross-border supervision. I am sure we all agree that the financial landscape has been evolving and the risk

universe has equally expanded. The sector is facing numerous shocks, including geopolitical, climate, cyber-risks, to mention just a few.

In Zambia, banks remain at the core of the financial system. As a result, the operational resilience and soundness of the banking sector are not merely institutional concerns, they are fundamentally systemic in nature. Disruptions within the banking system can impair credit intermediation, weaken public confidence, constrain economic activity, and adversely affect macroeconomic stability and growth.

Ladies and Gentlemen,

The banking sector is also closely interconnected with the sovereign through direct holdings of Government securities, lending exposures, and wider macro-financial linkages. This relationship, commonly referred to as the sovereign-bank nexus, reflects the close interdependence between the health of the public sector and the stability of the financial system.

In Zambia, these interlinkages remain substantial. As noted in the April 2026 Financial Stability Report, banking sector exposure to sovereign assets constitutes approximately one-third of total banking

sector assets. Additional structural vulnerabilities arise from the regulatory treatment of Government securities. These instruments qualify as eligible collateral against corporate exposures, thereby reducing the level of risk-weighted assets used in the calculation of capital adequacy ratios.

In addition, sovereign securities provide regulatory relief under loan provisioning requirements for certain corporate exposures. Collectively, these features may contribute to embedded risk and an overstatement of banks' effective capital strength. In an environment characterised by heightened bank risk aversion, such incentives may also reinforce weak private sector credit intermediation.

While this exposure supports Government financing and domestic debt market development, it also raises vulnerability issues for banks to sovereign risk. A deterioration in sovereign creditworthiness,

whether through sovereign rating downgrades, fiscal stress, or debt distress such as experienced during the COVID-19 period, can transmit directly to the banking system and the broader economy.

This underscores the importance of maintaining macroeconomic stability through sound fiscal management, credible monetary policy, and effective macroprudential oversight. It also reinforces the need for

prudent management of sovereign exposures to preserve financial sector resilience.

From the monetary policy perspective, our current policy stance reflects this balance.

Although the Bank has cautiously adjusted the Policy Rate over the past two quarters in response to improving inflation dynamics, we remain mindful of prevailing geopolitical and global economic uncertainties that continue to pose risks to the inflation outlook and broader financial conditions.

Ladies and Gentlemen,

Capital adequacy rules also play a critical role in facilitating cross border financial flows and international investment by enhancing confidence in the resilience, solvency, and credibility of banks operating across jurisdictions. In an increasingly integrated global financial system, investors, correspondent banks, multinational corporations, and foreign regulators require assurance that financial institutions maintain sufficient capital buffers to absorb losses and remain operational during periods of regional or global financial

stress. The Basel capital framework and related prudential standards were largely designed to support these objectives.

In the context of international banking, capital adequacy requirements form a core pillar of consolidated supervision by ensuring that banking groups allocate capital appropriately across foreign subsidiaries while limiting opportunities for regulatory

arbitrage across jurisdictions. Strong capital positions also promote macro-financial stability, reduce sovereign and country risk premiums, and lower external borrowing costs, thereby improving access to international financing such as Eurobond markets. It is against this backdrop that the Bank of Zambia issued the revised Capital Adequacy Rules in September 2025. The reforms are primarily aimed at strengthening the resilience, soundness, and stability of the banking sector by enhancing both the quality and quantity of regulatory capital. In this regard, the revised framework places greater emphasis on Common Equity Tier 1 (CET1) capital, capital conservation buffers, countercyclical capital buffers, and the leverage ratio.

More broadly, the new Capital Rules have significantly enhanced approaches to risk measurement and risk management. Financial institutions are now required to adopt more risk-sensitive methodologies for assessing credit, market, and operational risks, thereby ensuring that regulatory capital requirements are more appropriately aligned with the underlying risk profile of banks.

Ladies and Gentlemen,

Recently the Bank of Zambia also issued some currency reforms aimed at safeguarding monetary sovereignty, preserving confidence in the domestic currency, and fostering orderly financial intermediation. Since the doing away with exchange controls in early 1990s Zambia has maintained an open and market-oriented foreign exchange regime that has supported private sector development, cross-border investment, and access to international capital. However, this liberalisation has also contributed to significant dollarisation within both the financial system and the wider economy.

High levels of foreign currency usage in domestic transactions can weaken the role of the domestic currency as legal tender and reduce the effectiveness of monetary policy transmission. This creates additional macro-financial vulnerabilities, including currency mismatches and balance sheet risks.

It is against this background that the Bank of Zambia Currency Directives (2025) in December 2025 were issued, aimed at reinforcing the primacy of the Kwacha in domestic transactions while providing appropriate flexibility for sectors with legitimate foreign currency requirements, including mining, tourism, and imports.

The Directives provide clarity on the treatment of cross-border transactions, including external borrowing, and foreign currency denominated debt instruments. They also preserve flexibility for financial markets by permitting specified foreign currency transactions necessary to support access to international finance.

In addition, the reforms strengthen the Electronic Balance of Payments (e-BoP) reporting framework, improve the quality, timeliness, and effectiveness of external sector monitoring and policy responsiveness.

Since the issuance of the Directives, the Bank has already observed tangible adjustments across the economy. A number of major corporates have transitioned domestic supplier payments into Kwacha, while financial institutions are enhancing systems to support real-time currency conversion and strengthened reporting frameworks.

Let me emphasise that these reforms do not restrict legitimate cross border financing arrangements. External borrowing, foreign currency-denominated lending, and structured finance transactions remain permissible within the established regulatory framework.

The Bank of Zambia will continue to monitor developments closely, refine regulatory tools where necessary, and ensure that the policy framework remains responsive to

both domestic and global developments. Continued collaboration between regulators, financial institutions, and market participants will remain essential to the success of these reforms.

Let me conclude by emphasising that strong currency legislation, together with robust capital buffers, forms the foundation of a resilient, stable, and inclusive financial system.

As we deliberate today, I encourage all stakeholders to continue working together to strengthen regulatory frameworks and safeguard financial system's capacity to support sustainable economic growth and resilience in an increasingly uncertain global environment.

I wish you fruitful deliberations.

THANK YOU FOR LISTENING, MAY GOD BLESS US ALL.