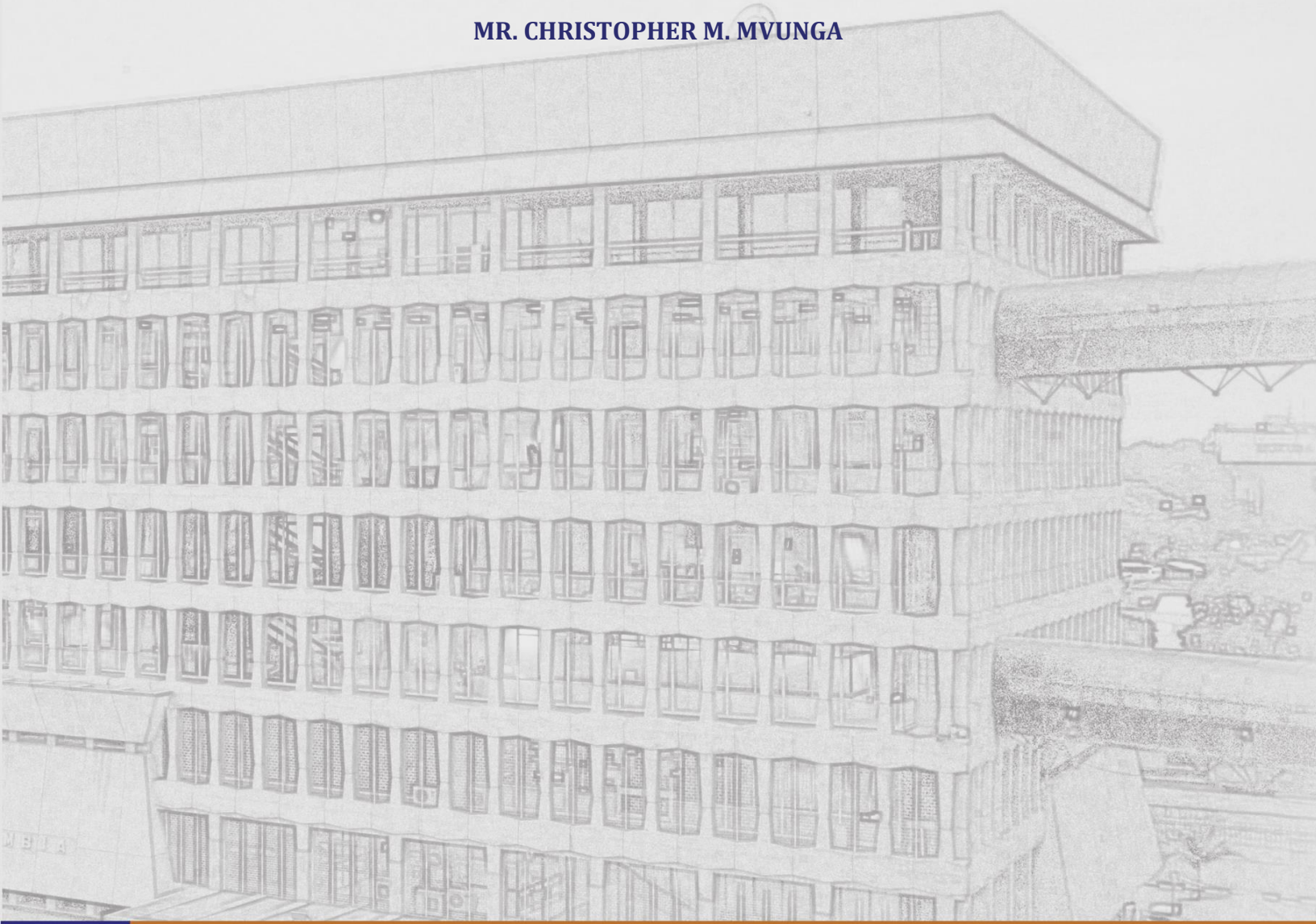


**REMARKS BY THE GOVERNOR OF THE BANK OF ZAMBIA
ON THE LAUNCH OF THE 2020 BANKING AND NON-BANKING INDUSTRY
SURVEY REPORT BY PWC ZAMBIA**

MR. CHRISTOPHER M. MVUNGA



Bank of Zambia

- **Country Senior Partner – PwC Zambia**
- **Members of the Board of Directors for Commercial Banks and Non-Bank Financial Institutions.**
- **Chief Executive Officers of Commercial Banks and Non-Bank Financial Institutions.**
- **Representatives of Financial Sector Regulators.**
- **Distinguished Invited Industry Stakeholders.**
- **Members of the Press and other representatives of the Media.**
- **Ladies and Gentlemen.**

It is a great honour and privilege for me to officiate at this fifth Survey Report on the financial sector by PwC Zambia.

Ladies and Gentlemen let me begin by expressing gratitude on behalf of the Bank of Zambia and indeed on my own behalf, to PwC for the publication of this Report, which provides an independent view of the state of the Zambian banking and non-banking financial sectors. This survey is useful to financial service providers, prospective investors and ourselves as regulators of the financial sector and will undoubtedly add to informing our decisions in the areas of monetary policy and financial system stability.

We are fully aware that PwC has been conducting the Banking Industry survey since 2016 and in 2018 broadened the scope to include Non-Bank Financial Institutions in recognition of the complementary nature of services offered by commercial banks and Non-Bank Financial Institutions. The 2020 Report is the fifth edition and I commend PwC for this effort as well as the respondents to the survey for their continued participation.

Ladies and Gentlemen, the 2020 Survey Report raises a lot of important issues, however, my brief comments this morning will focus on three broader issues raised by respondents:

- State of the local economy;
- High credit risk; and
- The Effectiveness of the Targeted Medium-Term Refinancing Facility.

Firstly, as you are aware the Bank of Zambia has on a number of occasions, particularly during our MPC Press briefings, highlighted the economic challenges faced by our country, and some specific measures we have been taking to address these challenges.

As you may know, the overall economic performance of Zambia in 2020 worsened due mainly to the COVID-19 shock. Inflationary pressures continued to mount, the exchange rate depreciated sharply, fiscal pressures heightened, debt remained elevated, and economic activity deteriorated. To address the adverse effects of the COVID-19 pandemic on the Zambian economy, the Bank of Zambia implemented various measures to safeguard peoples' lives and livelihoods (jobs and incomes) and the stability of the financial sector. Some of the key measures include:

- Easing monetary policy by reducing the Policy Rate by a cumulative 350 basis points to 8.0% in 2020;
- Establishing a 3–5-year tenor K10 billion (2.8% of GDP) Targeted Medium-Term Refinancing Facility (TMTRF) to provide funds to eligible Financial Service Providers (FSPs) for on-lending at relatively low interest rates to clients mainly in priority sectors of the economy;
- Introduction of a Secondary Market Bond Purchase Programme (SMBPP) worth K8.0 billion (2.3% of GDP) for the purpose of providing additional liquidity to the market, promoting bond consolidation, and deepening secondary market trading of Government bonds; and
- Providing liquidity to the banks through open market operations on flexible terms (longer periods beyond previous overnight lending to up to 90 days) to deal with stress in the money and Government securities markets.

Most of these measures have continued to contribute to the relative stability in the financial sector and in the economy generally.

Secondly, Ladies and Gentlemen, the outbreak of the COVID-19 pandemic, compounded by macro-economic challenges of currency depreciation, inflationary pressures, which

factors have led to high cost of doing business, have heightened the adverse impact on borrowers' ability to repay loans.

The ramifications of these developments permeated the financial sector and manifested in heightened credit risk and an increase in non-performing loans (NPLs). Like many other central banks, the Bank of Zambia responded by implementing a number of prudential measures to safeguard financial system stability, key of which were:

- Revision of loan classification and provisioning rules to give relief on provisioning requirements. This was expected to encourage FSPs to better accommodate lending and refinancing to critical economic sectors, such as agriculture.
- Allowing the financial institutions to renegotiate terms and conditions for credit facilities to counterparties negatively impacted by COVID-19 through restructuring or modification of loan agreements. Such renegotiated facilities were to be treated as current and no adverse classification and provisions for loan losses would be required.

Ladies and Gentlemen, despite these challenges, the banking sector remained adequately capitalised with capital adequacy ratios remaining well above the minimum requirements.

The sector continued to generate sufficient income to cover operating costs, fund growth and augment capital. Liquidity conditions also remained generally satisfactory as the Bank of Zambia instituted measures to mitigate the negative impact of the pandemic through initiatives such as the Targeted Medium-Term Refinancing Facility. Asset quality, however, continued to be a source of concern, and the Bank will continue to assess the situation and will institute appropriate measures to ensure minimal disruption to the financial system.

Lastly, let me now turn to the Bank's implementation of the Targeted Medium-Term Refinancing Facility. We are happy to note that overall, the Survey results show that the majority of respondents in the Banking sector believe that the TMTRF has been effective in alleviating the challenges faced by the targeted sectors. We also note a few challenges highlighted by the respondents.

The Bank of Zambia introduced the K10 billion TMTRF in April 2020. The main aim of the facility was to strengthen and enhance financial sector resilience particularly in the wake of the COVID-19 pandemic and its potentially devastating impact on the domestic economy.

The expectation of the Bank under this facility was to provide liquidity to FSPs for onward lending to viable non-financial corporates and households. After publishing the initial Terms and Conditions of the TMTRF on 14th April 2020 and the launch of the Facility on 15th April 2020, the BoZ continued to engage stakeholders to discuss any challenges encountered in accessing the Facility. In this regard, the Bank has on several occasions amended the Terms and Conditions, aimed at addressing the identified challenges and improving the performance of the Facility.

The performance of the TMTRF has continued to improve. As at 30th July 2021, the Bank received and processed 52 TMTRF applications from 13 banks and 19 non-bank financial institutions worth K10.6 billion. A total of 38 applications were successful, while 14 applications did not meet the set criteria. The total approved advances stood at K9.1 billion with actual disbursements at K6.9 billion. It is now slightly over one year since the implementation of the TMTRF, and the Bank is in the process of making further enhancements to the TMTRF, targeting accessibility of the facility by the smaller businesses which have continued to face a number of challenges.

Let me end my remarks by reiterating that this report is a useful source of information to support policy intervention efforts. It is my hope that you will use this opportunity to delve into the detailed Survey findings and recommend appropriate response measures to improve the overall environment in the financial sector.

I THANK YOU