Bank *of* Zambia

ADDRESS TO THE 2020 ECONOMICS ASSOCIATION OF ZAMBIA ANNUAL DINNER GALA

BY

MR. CHRISTOPHER M. MVUNGA

GOVERNOR

BANK OF ZAMBIA

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The Honourable Minister of Finance, Dr Bwalya K.E Ng'andu

Senior Government Officials Present

The Deputy Governor responsible for Operations (at BoZ), Dr Francis Chipimo

The President of the Economics Association of Zambia, Dr Lubinda Haabazoka

Members of the Media

Ladies and Gentlemen

I am delighted to be part of this EAZ annual dinner gala to share a brief perspective on the theme *"Economic Resilience Post COVID-19."* As the focus is on revealing opportunities for self-sustainability, I wish to start with a brief summary of some of the developments in our domestic economy specifically those related to monetary and the financial sector in this Covid-19 era. I will thereafter highlight some opportunities that COVID-19 has presented. As we navigate through the pandemic, it is important to understand that recovery will not come from elsewhere but should be driven by all of us. We should, therefore, support an all-inclusive economic recovery driven by our local industry. As the monetary authority, the role of the Bank of Zambia is cardinal and I will outline some of the interventions that we have put in place to help ease the burden on the economy and the financial sector in particular.

Ladies and Gentlemen,

- As we all know or probably have exprienced, COVID-19 pandemic has stifled economic activity and disrupted peoples' lives and livlihood. This has prompted reactions by both the monetary and fiscal authorities to take swift policy actions. These policy actions are not perculiar to Zambia but are being implemented in both developed and developing economies. For Zambia, domestic economic activity contracted in the first half of 2020 and the economy is posed to shrink for the first time in 20 years. This is not suprising as companies shutdown, job and income losses increased, and business output and consumer demand declined as COVID-19 cases grew exponentially..
- The financial sector has not been spared and has also been adversely affected by the pandemic. In the banking sector, for instance, asset quality has deteriorated with the ratio of NPLs to gross loans remaining elevated at 12.3% as of October 2020. This was less than satisfactory and above the prudential requirement, a demonstration that credit risk has heightened. It is a similar scenario for the Non-bank financial institutions sector whose NPLs ratio is slightly over 25%.
- However, frequency indicators suggest that recovery is on the way as economic activity is slowly picking up reflecting the partial relaxation of COVID-19 restrictions from the third quarter of the year. Mining production

in the year to September 2020 has also improved supported by buoyant copper prices.

Ladies and Gentlemen,

- As I have just alluded, much as the COVID-19 pandemic has had an unprecedented impact on the economy, not all is lost. The pandemic has actually presented opportunities around us. We have adapted to new technologies, new methods of doing business and managing our daily lives in order to overcome the challenges we face. Both businesses and households have shown resilience in an effort to mitigate the negative effects of the pandemic.
- As a country, we must now ensure that we take advantage of some of these opportunities so that our own local industries drive recovery. We must become more self-reliant in terms of food and in other manufactured products; as well as encourage local industries that have shown the capacity to produce what was previously imported.
- In this regard, I note that the Government is providing an enabling environment for local producers to form cooperatives and expand production thereby increasing their market share in supermarkets and chain stores. The people of Zambia are encouraged to buy local goods through the "Buy Zambia Campaign" in order to attain long-term sustainability. Our economic recovery must be more inclusive and driven by local industry.

Ladies and Gentlemen,

- From the Bank of Zambia perspective, we have adopted an accommodative monetary policy stance since the onset of COVID-19. This is to support livelihoods and safeguard the stability of the financial sector while being mindful of the need to bring back inflation to the 6-8% target range in the medium-term.
- The Bank's response primarily focused on easing financial stress, ensuring a smooth flow of credit to the private sector through targeted credit programmes and supporting real economic activity as well as provision of liquidity to the financial system. These actions were accompanied by regulatory relief actions, including loosening of market regulations and activity restrictions in the financial sector.

  In particular, the Bank has instituted the following measures:
- We have reduced the Policy Rate cumulatively by 350 basis points in May and August and maintained it at 8.0% in November. The objective here was to support financial stability resilience and promote economic recovery, among other objectives;
- The introduction of the ***Targeted Medium-Term Refinancing Facility*** (TMTRF) with an initial amount of Zambian Kwacha ten billion. Under this Facility, the Bank is providing liquidity to eligible Financial Service Providers (FSPs) for onward lending to viable businesses. Additional

incentives have been given to identified priority sectors with a view to stimulating private sector led growth. As at November 12, 2020 a total of K3.1 billion has been disbursed and the Bank is currently making revisions to the terms and conditions to enhance accessibility.

- We also embarked on the ***Bond Purchase Programme*** to provide liquidity to the financial sector, promote bond consolidation and subsequently deepening the secondary market. The targeted amount of K8 billion has since been exhausted.
- The Bank also ***introduced short-term liquidity*** support to commercial banks through the BoZ Open Market Operations Window with tenors extended beyond overnight. In addition, the Bank revised the Interbank Foreign Exchange Market Rules aimed at supporting the interbank trading in foreign exchange, ensure market discipline and allow for more measured adjustment in the exchange rate in periods of market stress.
- We also stepped up sensitization on the use of digital channels and contactless mobile payment mechanisms in order to protect human life and ensure convenient and secure banking service in the period of pandemic. Specifically, some of the measures instituted by the Bank included:
    - Upwards revision to the transaction and balance limits for electronic money;
    - Waiver of fees for person-to-person transfers for values of up to K150;

  - Capped the Merchant Discount Rate (MDR) for transactions on the Point of Sale machines to no more than 2% of the value of the transaction for MSMEs;
  - Reduced transaction processing fees for the Real Time Gross Settlement (RTGS) and Electronic Funds Transfer (EFT) systems and urging commercial banks to pass on this benefit to their customers;
  - Facilitated for the purchase of protective equipment for mobile money agents through interest earned on ‘Trust Accounts’; and
  - Interoperability - efforts for push and pull (instant payments) from electronic wallet to electronic wallet bank to bank, bank account to e-wallet and vice versa were increased with the module on the National Financial Switch going live in April 2020. These transactions will reduce person-to-person contact as well as decongest banks.

- The Bank ***revised loan classification and provisioning*** rules to allow financial institutions to better accommodate lending and refinancing to critical sectors. In this regard, the Bank allowed the financial institutions to renegotiate terms and conditions for credit facilities to counterparties negatively impacted by Covid-19 through restructuring or modifying the loan agreements. Such renegotiated facilities shall be treated as current and no adverse classification and provisions for loan losses will be required. In addition, renegotiated facilities will not be reported to the Credit Reference Bureau as delinquent.

- The Bank ***extended the International Financial Reporting Standard 9 (IFRS 9) transitional arrangement*** for financial institutions to amortise the 'Day 1 impact' of the implementation of the International Financial Reporting Standard 9 (IFRS 9) for regulatory capital adequacy purposes on a straight-line basis under the static approach, to 31st December 2022. In addition, financial institutions have been allowed to add back to regulatory capital any expected credit losses arising from COVID-19. Therefore, in the computation of regulatory capital, the add back will not only include the 'IFRS 9 Day 1 impact', but also any increases in provisions on account of the Covid-19 pandemic, and the total will be amortised over a period. This was for a period from April 1, 2020 to December 31, 2022 as per ***CB Circular No. 13/202.***

Together, with supportive fiscal policy and initiatives by different stakeholders, we are beginning to see the positive effect of these measures on the real economy through improved liquidity conditions and relatively lower lending rates. Interest rates have come down broadly in line with the Policy Rate cuts and credit to the private sector has risen slightly while economic activity is showing signs of bouncing back despite pronounced downside risks.

Ladies and Gentlemen

- The above measures are, however, not enough to address the current economic challenges. This requires that we, as Bank of Zambia, strike a right balance between price and financial system stability, and growth.
- The Bank remains committed to its mandate in contributing to the restoration of macroeconomic stability. We remain committed to overcoming the current challenges. The current developments in the economy, however, call for concerted efforts by all stakeholders to restore macroeconomic stability over the medium-term

I thank you.