



# **BANKERS ASSOCIATION OF ZAMBIA PRESENTATION**

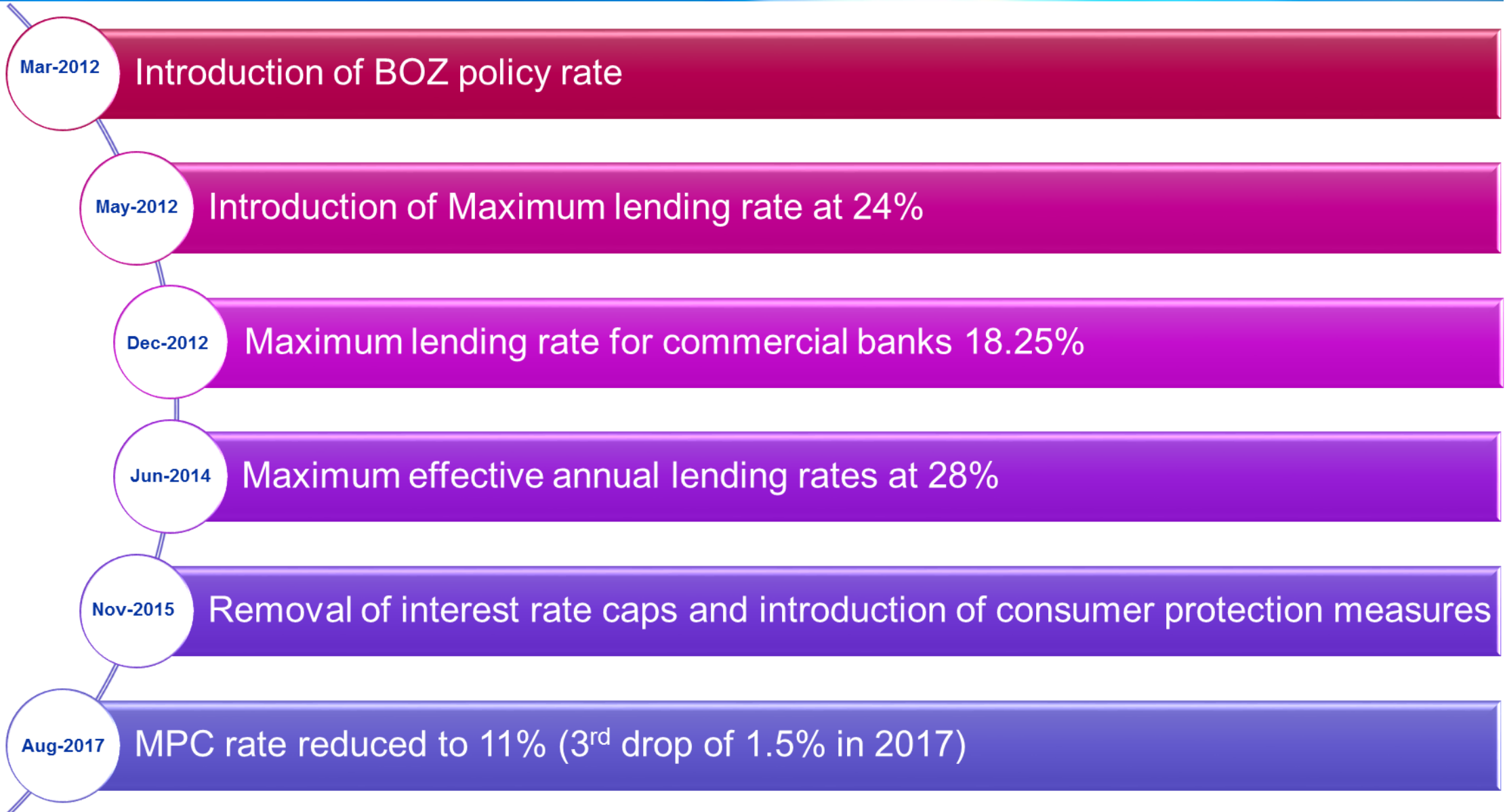
**ZIPAR Debt Management Conference**

**26<sup>th</sup> October, 2017**

**Taj Pamodzi Hotel**

- 1964 • Inherited Financial System consisting of foreign commercial banks
- 1973 • Oil Crisis, Government Imposing credit controls with aim to contain monetary functions without having to raise interest
- 1992 • Financial Sector Reform integrated as part of the SAP
- 1993 • Attractive T-Bills increased nominal interest rates
- 1993 • Banking and Financial services Act enhanced to strengthen financial system supervision
- 1993 • 1993-privatization of public institution and companies
- 1997 • Privatization of mines begun
- 2002 • Financial Sector Assessment Program (FSAP) by World Bank and IMF
- 2004-09 • Financial Sector Development Plan (FSDP)
- 2011 • CCPC investigation of Alleged Concerted Practice Among Banks
- 2012 • Introduction of a Bank of Zambia Policy rate

# Kwacha Interest Rate History | Major Changes



## Key Inputs

- 1) **Bank of Zambia Policy Rate (BPR) or Monetary Policy Rate (MPR)**
- 2) **The “Risk Free” Return:** The Treasury Bill and Government Bond Rates
- 3) **The Cost of Funding:** Savings, Fixed deposit and other funding line interest expenses
- 4) **The Cost of Bad Debt:** Capital charges (write-offs) and loan administration
- 5) **Operating costs:** Cost of running the business
- 6) **Programmed profit motive:** What the shareholders demand for their capital

## Key Challenges to the cost lines

- 1) **The “Risk Free” Return:** “Crowding out” effect
- 2) **The Cost of our Funding:** Deposit rates ranged from 18.5% to 36%
- 3) **The Cost of Bad Debt:** 11.8% of all loans are Non-Performing as at end September 2017.
- 4) **Operating costs:** Strong inflationary effects now moderating and extreme kwacha volatility

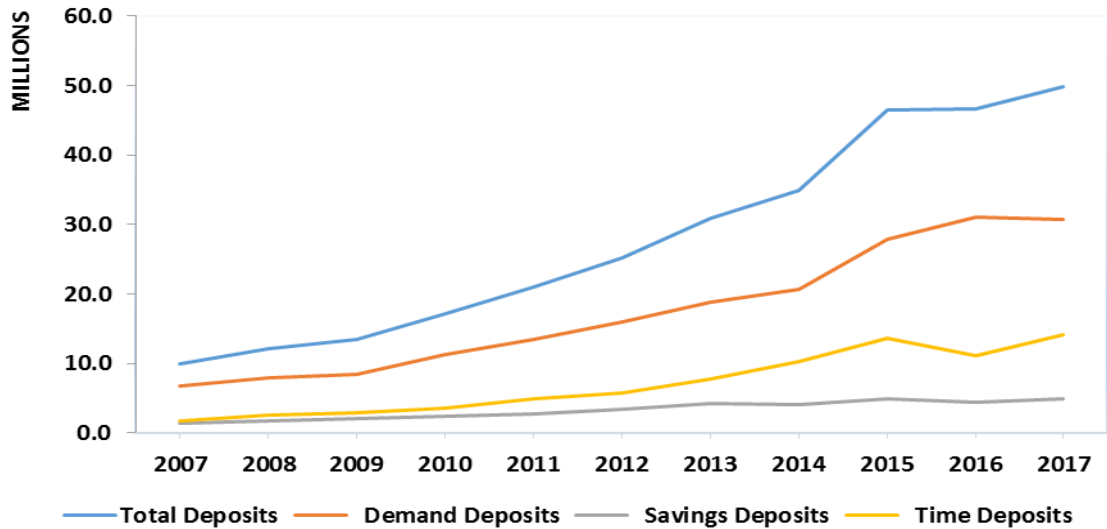
## Other considerations

- 1) **GDP growth rate**
- 2) **Rate of Inflation rate**
- 3) **Amount of the Loan**
- 4) **Credit rating**
- 5) **Collateral** (Parent guarantees)
- 6) **Down payment** (less likely to walk away)
- 7) **Currency of the loan**
- 8) **Other ancillary business with the client**
- 9) **Competition**

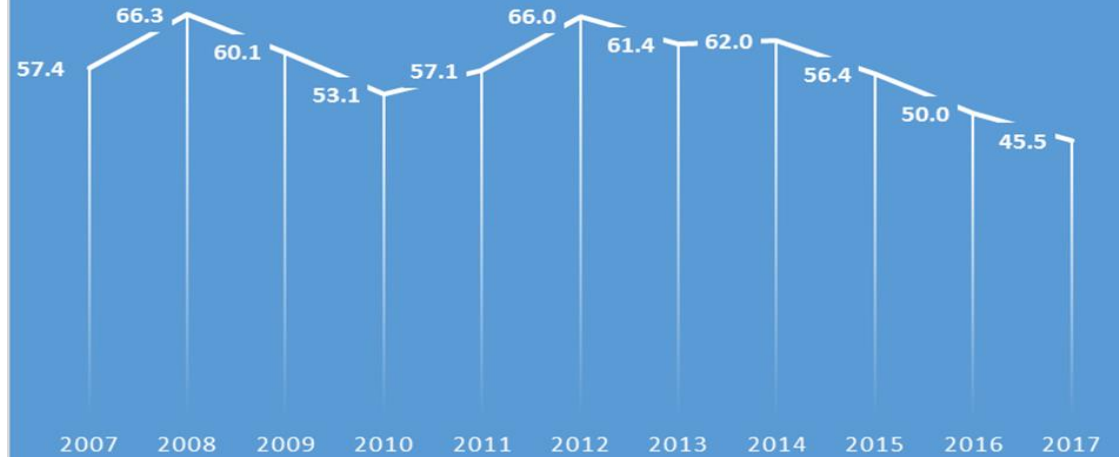
# Industry Trends | 2007 to August 2017



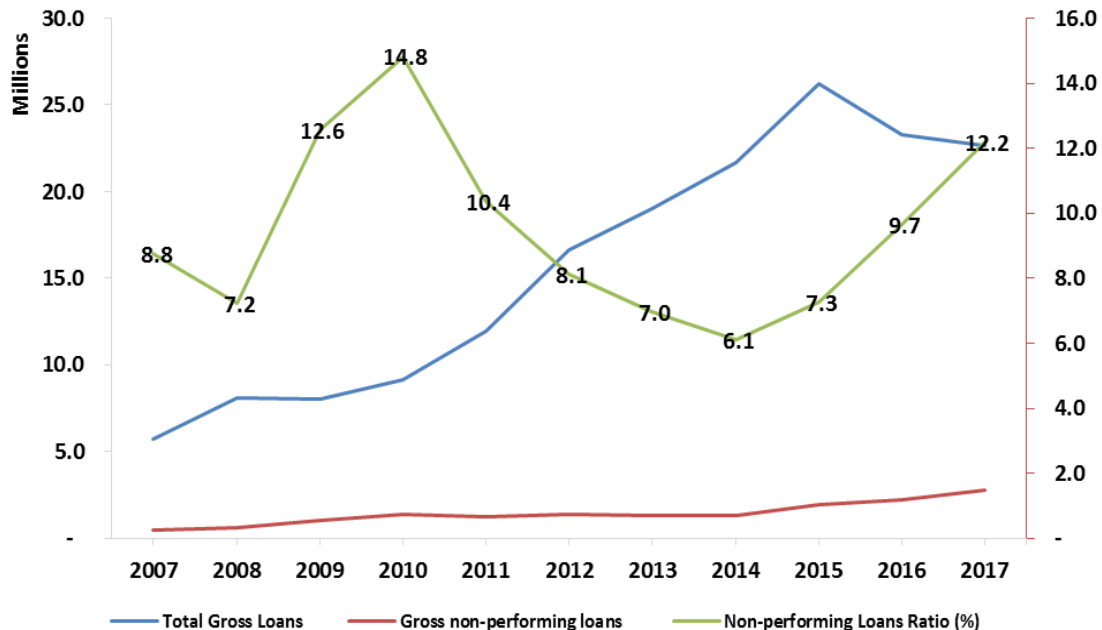
Industry Deposits 2007 - 2017



LOAN TO DEPOSIT RATIO 2007 - AUGUST 2017



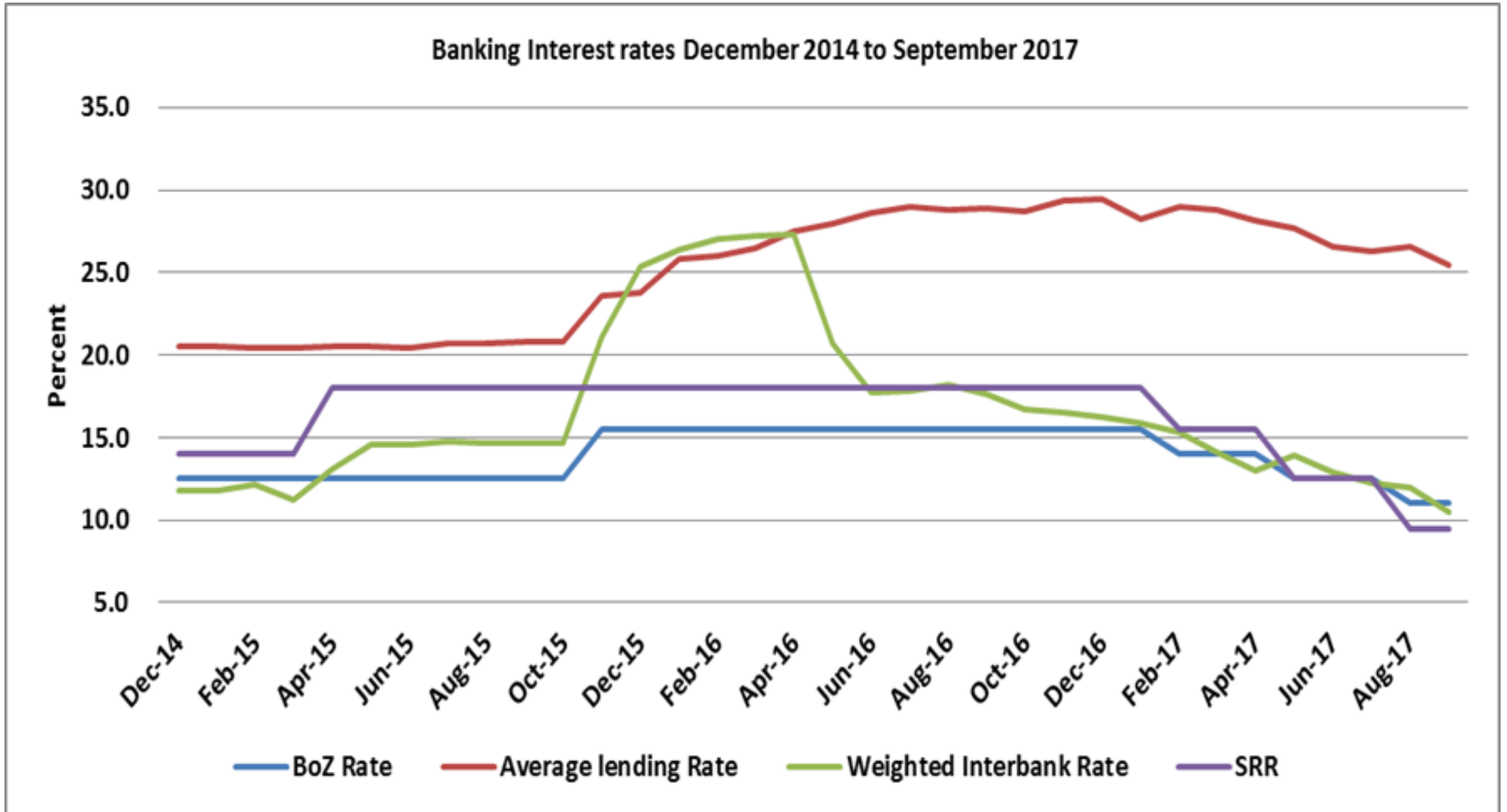
Industry Distribution of Loans and Advances 2007 to 2017



## Key highlights

- Stagnant deposit growth over the last 3 years and impacted by the depreciating of the Kwacha and shift toward term deposit lines.
- Demand deposits account for over 60% of industry total deposits, time deposits at 28% and savings at only about 10%.
- Increase in non-performing loans and a decline in total loans constrained by liquidity, interest and asset quality headwinds.
- Average lending rate at 25.41% and interbank rate at 10.50% .

# Industry Interest rates 2014 to August 2017



# Why slow reduction in interest rates?

## Interest rates | Corrective measures applauded but have strong second round effects

- Legacy of Monetary policy tightening in 2015-2016 mopped up liquidity from the market leading to higher interest rates. As a result, Banks carried high cost fixed deposits from pension houses such as NAPSA that are expected to unwind in Q4-2017.

## Non-performing Loans | Rising beyond sustainable levels posing systemic risk

- Economic conditions and higher Interest Rates have led to failure to meet loan obligations and this has increased non-performing Loans particularly for the MSMEs.
- Increase in NPLs has led to the slow down in credit extensions.
- Deterioration of asset quality in the banking sector.

## Government Arrears | Impacting liquidity and capital supply

- Delayed payment of suppliers by Government has contributed to higher NPLs. The entire banking industry is affected by contagion coming from all unpaid Government contractors and suppliers.

## Low Savings | Improve savings culture to sustain households and the nation

- Total industry savings are below the country's GDP and this is not sustainable to create long term affordable funding.
- Households are unable to absorb unplanned for events.
- Generally Zambia is a cash economy as over K6.4 Billion is estimated to be circulating outside the banking sector.

**Thank you  
for  
your attention**