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PUBLIC NOTICE

CUT -OFF TIME FOR GOVERNMENT SECURITIES AUCTION BIDDING

The Bank of Zambia wishes to advise the General Public and investors in Government securities that the cut-off time for submission of bid applications to the Bank of Zambia for both Treasury bills and Government bond auctions shall be 16.00 hours on the business day prior to the auction. The timeline applies to the submission of both physical and electronic copies. Any bid submitted outside the set cut-off time shall be ineligible for the auction.

The timeline has been set to ensure that bids are received with sufficient time for processing.

The notice is with immediate effect.

For more information and any clarification, kindly contact the following:

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GLOBAL ECONOMIC OUTLOOK FOR 2022-2023

Global economic growth is projected to weaken in 2022 after a strong rebound in 2021. Growth is expected to moderate to 4.4 percent in 2022 and further to 3.8 percent in 2023 from a resilient recovery of 5.9 percent in 2021.

CB EMPOWERS SCHOOLS WITH CHILD BODY SAFETY BOOKS

The Bank of Zambia through its community involvement activities has acquired 250 copies of the Khwima's set of children's body safety books for onward distribution to selected community schools in the country.

ECA AND PARTNERS SUPPORT INTERBANK MARKET DEVELOPMENT IN ZAMBIA

The Economic Commission for Africa (ECA), in collaboration with Bank of Zambia (BoZ), and Stichting Frontclear Technical Assistance Programme (Stichting FTAP), a foundation for money market development initiatives and partner of ECA, organised a 2- day workshop to kick-off the Tradeclear Feasibility Study in Zambia.

INFLATION DYNAMICS IN ZAMBIA

Inflation was relatively stable prior to 1974 except for a spike in 1971. However, inflationary pressures intensified from 1975 and reached 9.1% by 1982. Inflation peaked at 183.3% in 1993.

ISO 20022 BIG BANG MIGRATION

On the 17th of July 2023, the Zambia Interbank Payment, and Settlement System (ZIPSS) will migrate from the SWIFT Message Type (MT) standard to the new ISO 20022 message standard. This transition will take place overnight in what is aptly referred to as a big bang approach.

RISK MANAGEMENT AND THE RUSSIA-UKRAINE CONFLICT

The Russia- Ukraine Conflict hit the world immediately after the COVID-19 pandemic, this prompted risk managers and their firms to reset into the crisis mode once again.

BANK OF ZAMBIA ACT GETS A FACELIFT

By Soi Kaingu

The Central Bank, which is established by Article 213 of the Constitution of Zambia is mandated to issue the currency of the Republic, determine the monetary policy, and regulate banking and financial services, banks, financial and non-banking institutions. The enactment of the Bank of Zambia Act. 5 of 2022 brings with it an enhancement of the role of the Central Bank as highlighted by the Constitution. The Act also introduces new provisions relating to the office of Governor and Deputy Governors; emoluments and other conditions of service for the staff of the Bank, and other provisions incidental to the objectives of the Central Bank. This Article will discuss the changes introduced to the Bank of Zambia Act No. 5 of 2022, with a focus on the provisions aimed at enhancing the autonomy of the Bank as it discharges its role of formulating and implementing monetary and supervisory policies, directed at achieving and maintaining price and financial stability.

Monetary Policy Committee

The Central Bank's role in relation to the maintenance of price and financial stability is not new and was already explicitly recognized in the previous Act. This role is retained in section 5 of the Act. However, the new Act has enhanced provisions relating to this role, notably the establishment of the Monetary Policy Committee (MPC) and the Financial Stability Committee (FSC) in sections 27 and 31 of the Act respectively.

Previously, the MPC existed as a committee of the Bank with 8 members, all of whom were members of staff of the Bank. The composition of the MPC is now provided for by law

as being the Governor as chairperson, the Deputy-Governors, one person appointed by the Minister [of Finance], two persons appointed by the Board and three members of staff in senior management positions appointed by the Governor. The members of the MPC that are appointed by the Minister and the Board should not be members of staff of the Bank, members of the Board or public officers.

The MPC is mandated to formulate the monetary policy of the Republic, which is to be implemented by the Bank in order to achieve and maintain price stability. The formulation and implementation of the monetary policy shall be conducted autonomously and the MPC shall regulate its own procedures.

Financial Stability Committee

Although financial stability objectives are not new to the role of a central bank, the 2008/2009 financial crisis was a great reminder that price stability alone was not sufficient to guarantee financial stability. Many central banks adopted explicit financial stability objectives in response to the financial crisis.

Although the previous Act did include financial system stability as one of the functions of the Bank of Zambia, the establishment of the FSC under section 31 of the Act is a very progressive step in this regard.

The FSC is mandated to formulate the macro-prudential policies of the Republic on behalf of the Bank and publish, at least once a year a Financial Stability Report. The section further provides that the committee shall conduct the formulation and implementation of the macro-prudential policies autonomously and without any influence and will further regulate its own procedure.

The Act further provides for the composition of the FSC, being the Governor as chairperson, the Deputy Governors, a representative of the Secretary to the Treasury, a representative of the authority responsible for regulating and supervising the securities market, a representative of the authority responsible for regulating and supervising the pensions and insurance market; two persons appointed by the Board who are not members of the staff of the Bank, members of the Board of Directors or public officers, three members of staff of the Bank in senior management appointed by the Governor. The FSC may cooperate with other supervisory authorities for the purposes of promoting financial stability.

Governors and Deputy Governors

Under the Bank of Zambia Act no 5 of 2022, the Central Bank Governor will hold office for a term of 6 years, a year longer than under the previous Act.

This is in line with the SADCCentral Bank Model Law, which calls for the tenure of a Governor to be more than 5 years to permit a Governor serve the nation and manage the Bank in that capacity without fear. In addition, the Governor is required to submit his declaration of assets and liabilities, businesses and financial Interests.

A declaration of assets and liabilities, businesses and financial Interest for his/her spouse and his/her children shall also be submitted in a prescribed form.

The declaration is submitted within 30 days of appointment (or operationalisation of the Act) and at termination of employment irrespective of the reason for termination. These provisions apply mutatis-mutandis to Deputy Governors, except that the latter shall

hold office for a term of 5 years.

To ensure security of tenure, Act No. 5 of 2022 has prescribed that the Governor and Deputy Governors may be removed from office by the President upon recommendation of a tribunal appointed to consider the matter.

Such tribunal shall consist of a person who holds or has held the office of Judge of a superior court, as chairperson, and two persons with knowledge and experience in the fields of central banking, economics, banking, finance, law or other discipline relevant to central banking. Further, the grounds upon which the Governors may be removed from office are spelt out in the Act.

Conclusion

The establishment of the MPC and the FSC under the Bank of Zambia Act No. 5 of 2022 is not only a progressive step towards strengthening the autonomy and transparency of the Central Bank but is in line with the SADC Central Bank Model Law. The composition of these committees in having some members appointed from outside the Bank ensures a balanced representation on the committees, while the Act explicitly provides for the committees' proceedings to be autonomous and self-regulating ensuring the independence of the committees. Similarly, the security of tenure accorded to the Governors strengthens the autonomy of the Central Bank in ensuring independence of the officers in the execution of their duties.

The author is Senior Legal Counsel in the Legal Services Department

[1]Soyoung Kim and Aaron Mehrotra, Maintaining price and financial stability by monetary and macroprudential policy – evidence from Asia and the Pacific, BIS Papers No 88

BOZ CONDUCTS MICRO, SMALL AND MEDIUM ENTERPRISE FINANCE SURVEY

By Godwin Sichone

The Bank of Zambia, in collaboration with the Zambia Statistics Agency (ZamStats), German Sparkassenstiftung for International Cooperation (DSIK), Ministry of Finance and National Planning (MoFNP), Ministry of Small and Medium Enterprise Development (MSMED) and the Rural Finance Expansion Programme (RuFEP) conducted a Micro, Small and Medium Enterprises (MSME) Finance Survey in June 2022. The main objective of the survey was to provide data on the landscape of financial access for MSMEs and to inform the development of the first MSME Finance Strategy.

Background

MSMEs are important contributors to financial inclusion and are widely recognised as the engine for job creation and economic growth, especially in developing countries.

Lack of access to affordable finance is one major obstacle that is preventing MSMEs from growing and creating jobs. MSMEs are less likely to access credit from financial institutions, as a result, they rely more on own funds, or cash from friends and family to capitalise and run their enterprises.

The National Financial Inclusion Strategy (2017– 2022) reaffirms the assertion that access to finance for MSMEs is limited due to the presence of structural constraints such as the informality of enterprises and high collateral requirements. Immovable property such as land and buildings are generally the focus of collateral requirements by financial institutions and MSMEs tend not to possess such assets.

In view of the critical role that MSMEs play in the economy, it is important for the country to harness and optimise their potential by implementing strategies that enable MSME growth and development. Strategies or interventions should be evidence based. However, the MSME diagnostic study conducted in 2019 showed that there was need to conduct a detailed study that would provide recent and reliable demand side information about the sector, its characteristics, financial needs and its challenges.

The Survey

The MSME Finance Survey was a nationally representative survey with the four key objectives to:

- assess the size and scope of MSMEs in the country;
- describe the levels and landscape of access to financial products and services by MSMEs;
- identify the main challenges of access to finance for MSMEs;
- and provide data which will inform the development of a National Strategy on MSME Finance, in line with the National Financial Sector Development Policy (2017).

The target population for the Survey Included participants aged 15 years or older who owned and run at least one business. The Survey was conducted on a sample basis across the country and was representative at national and provincial level. The survey collected data on the following thematic areas:

Implementation approach, Survey methodology , Questionnaire design and Training of master trainers.

Implementation approach

A Project Team was constituted with representation from the Bank, ZamStats, DSIK, MoFNP, MSMED and RUFEP.

Survey methodology

The Zambia Statistics Agency drew the sample for the survey and a total of 3,600 participants who own businesses were interviewed across the country. A probability sampling method was used to ensure that each adult in the target population had an equal chance of being selected.

Questionnaire design

The Survey questionnaire was developed by members of the Project Team in March 2022.

Demographic profile of owners of MSMEs	Operational constraints
Economic activities (agriculture, manufacturing, trading, etc.)	Access and usage of financial products & services
Starting a business and barriers to business registration	Perceptions and attitudes towards FSPs
Formality (Formal/Informal)	Financial management
Source of capital	Regulation and compliance
Number of employees	Financial infrastructure
Access to market	Support mechanism
Income and expenditure	Financial capability

Training of master trainers

This training was conducted from 2 – 8 May 2022. The main objective of the training was to build the capacity of Master Trainers who, together with the project team, were responsible for training data collectors and field supervisors in the provinces and make further refinements to the main survey questionnaire.

Training of field staff

The training of data collectors was conducted from 16– 27 May 2022 by members of the Survey Project Team and Master Trainers. A total of 67 data collectors and 20 supervisors were successfully trained.

Data collection

Data collection was conducted from 30th May to 30th June 2022 in all the ten (10) provinces. The survey used Computer Assisted Personal Interviews (CAPI) which involved the use of electronic tablets for data collection. Once an interview was completed, the data collectors submitted a completed questionnaire to the supervisor for verification by IT staff at ZamStats Head Office. Members of the project team conducted spot checks during fieldwork for quality control purposes.

Analysis and Report Writing

These activities will be done by the Project Team and will be completed in the fourth quarter of 2022.

Dissemination of findings

Findings from the Survey will be disseminated in the first quarter of 2023. The dissemination workshop will provide an opportunity for stakeholders to provide feedback on the findings. All financial sector stakeholders, including Chief Executive Officers of banks and other financial institutions will be expected to attend the workshop.

Cost

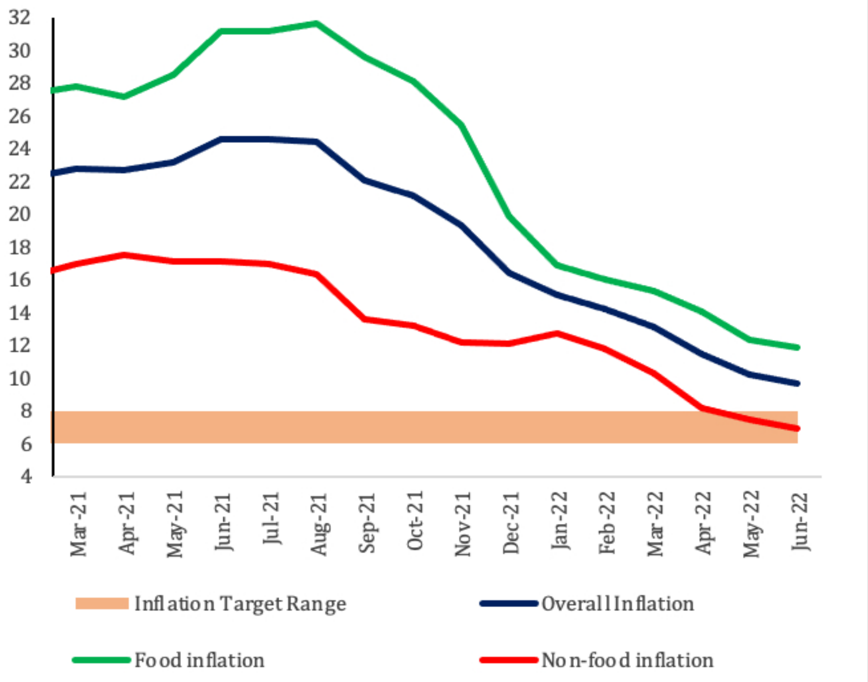
The total cost for the Survey was K6.7 million, of which the Bank covered 82.5% (K5.5 million) of the budget while 17.5% were contributions made by partner institutions, DSIK14.9% (K1.0 million) and Rural Finance Expansion Programme (RuFEP) 2.6% (K177,000).

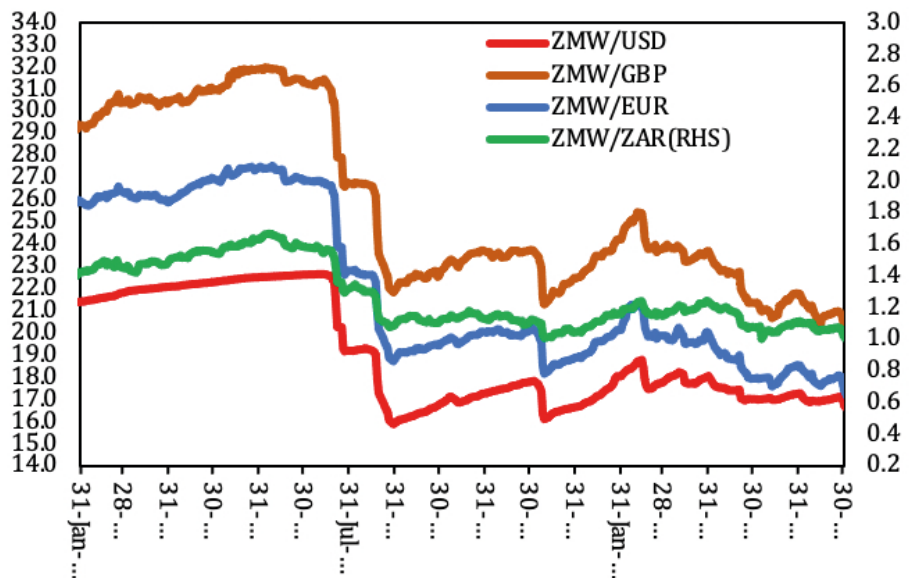
The author is Assistant Manager-Research, Monitoring and Evaluation in the Non-Bank Financial Institutions Supervision Department

ECONOMY REBOUNDS, FACES GLOBAL HEADWINDS

By Zambanker Reporter

Economic performance rebounded in the second quarter of 2022 consistent with expectations, Bank of Zambia Governor, Dr Denny Kalyalya has said. Speaking when he appeared before the Parliamentary Budget Committee on the Review of the 2022 Second Quarter Budget Performance, Dr Kalyalya said domestic economic activity continued to improve in the first quarter of 2022, as inflation trended downwards while the Budget performance was broadly on track. He added that external sector performance remained positive and the exchange rate was relatively stable.





"Nonetheless, the sector remains vulnerable to the adverse macroeconomic developments, especially the effects of the ongoing Russia-Ukraine conflict. Equally important, the fallout from this conflict continues to unleash numerous challenges to the global economy, including our own Zambian economy," he said.

The precipitous rise in inflation in advanced and emerging economies has triggered monetary policy authorities to raise policy interest rates, which is resulting in the tightening of financial conditions generally.

Inflation

Average annual overall inflation fell further to 10.5 percent in the second quarter of 2022 from 14.1 percent in the previous quarter. The dissipation of shocks to the prices of meat products and fish, current and lagged impact of the appreciation of the Kwacha against the US dollar and seasonal supply of vegetables were key in driving inflation down.

Exchange Rate

The Kwacha appreciated by 3.4 percent against the US dollar in the second quarter to an average rate of K17.15 from K17.76 the previous quarter. Similarly, the Kwacha strengthened against the British pound sterling, euro and South African rand by 9.7 percent, 8.4 percent and 5.8 percent, respectively.

The appreciation of the Kwacha against major currencies was mainly on account of improved supply of foreign exchange, mostly from the mining sector. In this regard, and to meet demand for critical imports the Bank of Zambia provided support to the market by selling back foreign

Table 1: Quarterly Average Exchange Rate

	ZMW/USD	ZMW/GBP	ZMW/EUR	ZMW/ZAR
Q1-2022	17.76	23.83	19.94	1.17
Q2-2022	17.15	21.53	18.27	1.10
Percentage	-3.4	-9.7	-8.4	-5.8

exchange purchased directly from the mining companies in tax payments.

Economic Growth

Domestic economic activity improved in the first quarter of 2022, with preliminary data indicating real GDP growth of 2.4 percent, year-on-year, compared to a growth of 1.8 percent a year ago. Public administration, education, as well as the Information and communication Technology (ICT) sectors were the main contributors to this out-turn.

The public administration sector rebounded to 43.6 percent on account of increased contact hours. This reflected both base effects as employees resumed working normal hours post COVID-19 pandemic and the directive by Government for the civil service to return to normal working hours. The education sector also grew by 29.5 percent, largely on account of increased contact hours amongst learners. In the ICT sector a growth of 17.7 percent was recorded driven by continued and increased utilisation of digital platforms.

Real GDP growth was also supported by positive contributions from the electricity, transportation, real estate, and accommodation sectors.

The continued improvement in economic activity in the second quarter of 2022 was also reflected in the Stanbic Bank Zambia PMI™(PMI), which averaged 50.1 compared to 49.9 in the first quarter. This largely reflected returns to growth in output, new orders, and private sector employment in April as customer demand improved. In addition, growth in new orders led to a rise in input buying for the seventh month running while suppliers' delivery times shortened for the first time in nine months.

However, in May and June both output and new orders declined as demand was constrained by increased input costs. This resulted in a drop in output and new orders and led to the index falling to 49.8 and 49.9 in May and June, respectively.

For 2022, real GDP is projected to grow moderately by 3.5 percent from the preliminary out-turn of 3.6 percent in 2021. The impact of the Russia- Ukraine conflict, slow recovery in trade partner countries, uncertainty surrounding the resurgence of new and more contagious COVID-19 variants amid low vaccinations as well as tightening of financial conditions in major economies remain key downside risks to the growth outlook.

Growth may, however, pick-up faster than expected if an IMF Extended Credit Facility (ECF) is secured.

Once approved, the ECF will signal a stronger policy environment and is likely to spur investor, donor, and market confidence leading to investment inflows in key sectors. A Staff-Level Agreement reached on the ECF by the Government and IMF on December 3, 2021 and the first Official Creditor Committee meeting held on June 16, 2022 under the auspices of the Paris Club and the G20, have boosted positive investor sentiments.

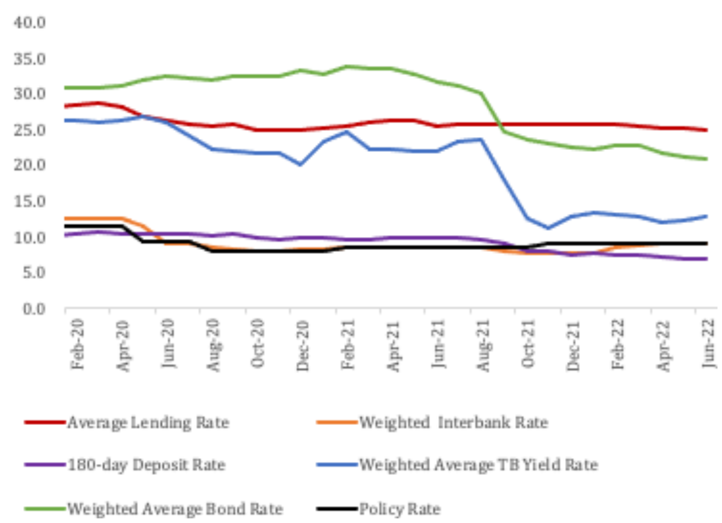
Government Securities Market

Demand for Government securities was subdued in the second quarter on account of relatively low money market liquidity. This was reflected in a lower overall subscription rate of 93.2 percent compared with 126.0 percent in the previous quarter. Nonetheless, the outstanding stock of Government securities rose to K203.3 billion (face value) at end-June from K201.2 billion at end-March 2022 as programmed additional funds were raised to finance the Budget.

Interest Rates

Interest rates were mixed in the second quarter. Commercial banks' average nominal lending rate

Lending Rates and Yield Rates on Government Securities



marginally declined to 25.2 percent in June from 25.6 percent in March. Similarly, the 180-day deposit rate for amounts exceeding K20,000 fell to 6.9 percent from 7.5 percent.

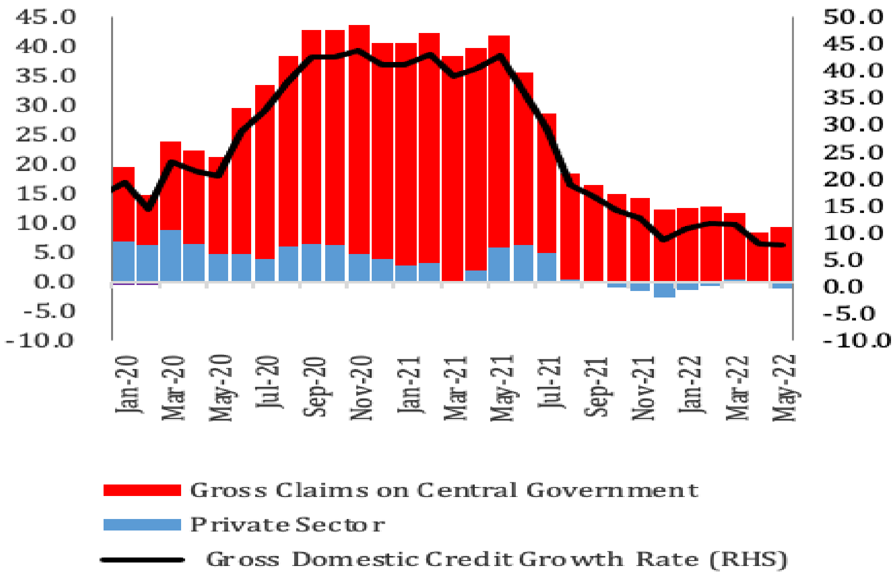
However, over the same period, yield rates on Treasury bills and Government bonds increased to 13.0 percent and 22.1 percent from 12.7 percent and 21.7 percent, respectively.

This was largely due to subdued demand for Government securities. Domestic Credit and Money Supply

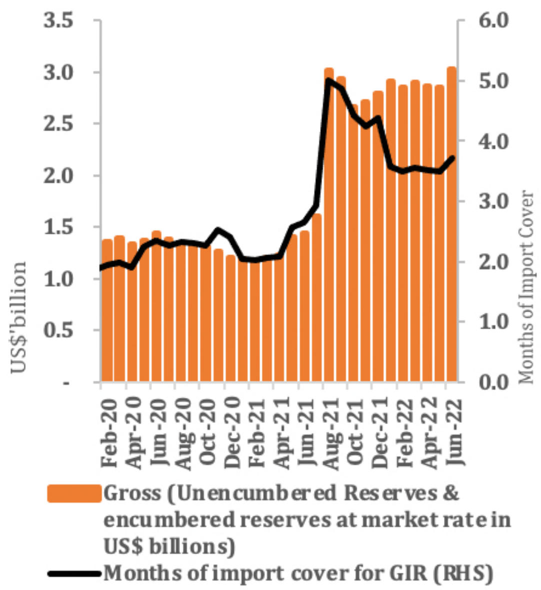
Total domestic credit growth decelerated by 2.2 percent between March and May 2022 compared to 5.8 percent over the same period in 2021. This was largely attributed to reduced Kwacha denominated credit to the private sector, mostly due to loan repayments.

The growth in broad money (M3) also slowed down to 4.5 percent between March and May 2022 compared to 6.9 percent during the same period last year. This was mostly due to the reduction in private sector credit.

Contribution to Annual Gross Domestic Credit Growth (Percentage)



Gross International Reserves (US$ million)



Source: Bank of Zambia

Merchandise Trade

Preliminary data indicate a reduction in the trade surplus to US$431.9 million in the first two months of the second quarter of 2022 compared to US$789.2 in the corresponding period of 2021. This was largely due to a broad-based surge in imports amid a marginal decrease in exports.

Accounting for the increase in imports were petroleum products, vehicles, food items and chemicals. Import demand was boosted by the appreciation of the exchange rate.

Exports marginally increased to US$1,962.1 million from US$1,898.3 million, largely reflecting a rise in Non-traditional exports. Non-traditional exports rose by 36.8 percent to US$485.8 million.

International Reserves

Gross international reserves rose to US$3.0 billion (equivalent to 3.7 months of import cover) at end-June 2022 from US$2.9 billion at end-March 2022 (equivalent to 3.6 months of import cover). This was mainly driven by mining tax and project inflow receipts.

Fiscal Sector

Preliminary data indicate sustained good revenue performance. About K29 billion was collected in tax revenue against a projection of K28 billion. Higher company income tax was key to this positive revenue out-turn. This was mostly driven by higher declarations by major mining companies amid high copper prices. In addition, about K2 billion was received in project grants.

In contrast, preliminary data indicate lower spending in the second quarter. Expenditure was K31.0 billion against the projected K35.0 billion. This was largely due to lower spending on external debt servicing and capital projects.

INFLATION PROJECTED TO CONTINUE TRENDING DOWNWARDS AS MONETARY POLICY RATE IS MAINTAINED AT 9.0 PERCENT

By Zambanker Reporter

Inflation is projected to continue trending downwards towards single digits over the next eight quarters. In 2022, inflation is projected to average 12.5 percent and then drop to 8.9 percent in 2023. Bank of Zambia Governor, Dr Denny Kalyalya, announced during the 2nd Quarter Monetary Policy Committee media briefing that the factors underlying these projections are mostly the effects of enhanced fiscal consolidation, anchored on the resolution of the external debt overhang, supported by an International Monetary Fund Extended Credit Facility.

Annual overall inflation continued to trend downward in the first quarter of 2022, declining to 14.1 percent from 18.9 percent in the last quarter of 2021. The fall in inflation was driven by the dissipation of shocks to prices of meat products and fish, lagged pass-through from the appreciation of the Kwacha against the US dollar, as well as improved supply of fish and fresh maize. Food inflation declined sharply to 16.1 percent from 24.5 percent, while non-food inflation edged down to 11.6 percent from 12.5 percent.

"Annual overall inflation decelerated in April, for the ninth consecutive month, reducing to 11.5 percent from 13.1 percent in March. Increased supply of mostly vegetables and solid fuels was key to the decline in inflation. However, there are upside risks this inflation outlook. These include increases in global energy and food prices, exacerbated by the on-going Russia- Ukraine conflict; outbreaks of more infectious strains of COVID-19; and tighter global financial conditions arising from contractionary monetary policies in advanced economies," he said.

The projected grain deficit in some of the neighbouring countries, coupled with reduced domestic surplus, is likely to push up food prices.

On the domestic front, the Governor said high frequency indicators of economic activity suggest a slowdown in the first quarter of 2022. According to the Bank of Zambia Survey of Business Opinions and Expectations, the volumes of sales and service, domestic sales, profitability, level of investment, as well as new orders declined. Similarly, the Stanbic Bank Zambia PMITM fell below the 50.0 mark signalling weakening business conditions for the private sector as new orders, output, and employment decreased. The slowdown in economic activity is attributed to higher input prices and rising fuel pump prices. However, there were signs of recovery in April, as the PMI rose to 50.5, with output, new orders, and employment posting some growth.

In the medium-term, real GDP is projected to grow moderately as the economy is expected to expand by 3.5 percent in 2022 and by further 3.6 percent and 3.9 percent in 2023 and 2024, respectively. The financial and insurance,information and communications, wholesale and retail trade, education, aswell as mining sectors are expected to drive growth over this period. However, the impact of the Russia-Ukraine conflict, slow recovery in trading partner countries, and uncertainty surrounding the resurgence of new and more contagious COVID-19 variants, amid a low vaccination rate, remain key downside risks to the growth outlook.

Meanwhile, the Monetary Policy Committee (MPC), at its May 16-17, 2022 Meeting, decided to maintain the Monetary Policy Rate at 9.0 percent. The continued deceleration in inflation and its projected further decline towards the target range of 6-8 percent by end-2023 were the two main factors that informed the MPC decision. The underlying factors the Committee considered included the positive efforts in implementing fiscal consolidation measures, relatively weaker growth prospects over the medium-term, as well as lingering vulnerabilities and risks to the financial sector.

GLOBAL ECONOMIC OUTLOOK FOR 2022-2023

Global economic growth is projected to weaken in 2022 after a strong rebound in 2021. Growth is expected to moderate to 4.4 percent in 2022 and further to 3.8 percent in 2023 from a resilient recovery of 5.9 percent in 2021. The slowdown is largely on account of tightening of monetary policies in major economies in response to rising inflation in their jurisdictions and lingering COVID-19 induced supply disruptions. Uneven recovery between developed and emerging markets and developing economies, reflecting disparities in vaccine access and variations in policy space, could contribute to weaker global growth.

The downside risks to the outlook include recurrent COVID-19 infections, persistent supply-chain 5 disruptions, high debt levels, geopolitical tensions, adverse weather conditions, and possible net capital outflows among Emerging Markets and Developing Economies (EMDEs) in view of (expected) interest rate hikes in advanced economies.

Real GDP for the Sub-Saharan Africa region is projected to expand by 3.7 percent in 2022 and further to 4.0 percent in 2023. This is based on continued strengthening domestic demand, recovery in tourism activity as vaccination and international travel improves, and favourable commodity prices. The slowdown in China, renewed COVID-19 infections; currency depreciations; high debt levels; limited policy space; as well as social unrest largely related to rising 6 food insecurity and armed conflicts pose downside risks to the outlook.

The growth outlook in Zambia's major trading partner countries is mixed.

In China, growth is expected to ease substantially to 4.8 percent in 2022 before picking up to 5.2 percent in 2023 from an expansion of 8.1 percent in 2021. This reflects the downturn in the property sector and weak recovery in private consumption amid stringent COVID-19 restrictions in line with the Government's goal of zero new infections. Further, potential new COVID-19 strains, uncertain future of trade relations with the United States of America, and possible protracted financial distress in the property sector could constrain growth.

Real GDP growth for the Democratic Republic of Congo (DRC) is projected at 6.2 percent in 2022 and 5.6 percent in 2023. The positive outlook is premised on stronger mining output, largely dependent on increased production at Kamoa-Kakula Copper Mine, and relatively high copper prices. In addition, the August 2021 Special Drawing Rights allocation and the ongoing Extended Credit Facility under the International Monetary Fund could stimulate stronger growth. Further, improved investment in trade with neighbouring countries is expected to boost 8 investment. However, new COVID-19 infections and political instability ahead of the 2023 General Elections may weigh on growth.

In South Africa, real GDP growth is expected to moderate markedly to 1.9 percent in 2022 and further to 1.4 percent in 2023 from a recovery of 4.6 percent in 2021. Subdued growth is based on weak public investment amid rising Government debt, which continues to constrain policy space; uncertainty regarding the COVID-19 pandemic; persistent electricity supply challenges; and high

unemployment levels. This is despite the gradual easing of containment measures and bolstered recovery in the tourism sector as a result of significant progress towards COVID-19 vaccinations.

Real GDP growth for the United Kingdom (UK) is projected to decelerate to 4.7 percent in 2022 and further down to 2.3 percent in 2023 from 7.2 percent in 2021. This reflects persistent supply constraints, sustained labour market shortages, and the impact of high energy prices on economic activity. Further, continued trade disputes with the European Union (EU) 9 over the Northern Ireland Protocol could limit growth.

For the United Arab Emirates, growth momentum is expected to continue on the back of stronger oil output and significant progress towards vaccination. Malawi and Tanzania are also expected to record positive growth as vaccination against COVID-19 progresses and tourism activity recovers. For Tanzania, growth may be boosted by the approval of an IMF Rapid Credit Facility; upbeat commodity prices, particularly for gold; and the Government's 5-Year Development Plan, which is expected to spur capital spending, industrialisation, and employment. Real GDP growth for Singapore and Hong Kong is projected to moderate in view of the anticipated external headwinds, particularly related to the slowdown in China. Nonetheless, growth could turn out higher than expected on account of the continued easing of COVID-19 restrictions globally amid improvements in global demand. These two factors will be fundamentally crucial in driving tourism and manufacturing activity.

Crude oil prices are projected to continue rising and 10 average about US$102.00 per barrel in June 2022. Steady demand underpinned by increased vaccination, envisaged return to normalcy in air and sea travel aswell as the impact of the Russia-Ukraine conflict underpin the projected increase in oil prices. However, the anticipated increase in global petroleum production predominantly driven by easing OPEC+supply cuts, and stronger output by the United States of America pose a risk to the outlook.

Agricultural commodity prices are also expected to rise in the medium-term on account of high energy and fertilizer prices, increased shipping costs, and strong global demand. This is in addition to the effects of extreme weather conditions persistent La Niña conditions in Argentina, Brazil, and the southern parts of the United States of America. Nevertheless, prices could decline as supply stabilises.

In contrast, copper prices are projected to increase to an average of US$10,183 per metric tonnes in June 2022 . The shift towards green energy technologies in line with the global drive to reduce carbon emissions and the impact of the Russia- Ukraine conflict underlie the projection.

Overall, the risks to the commodity price outlook include the resurgence in COVID-19 infections and possible further strengthening of the US dollar.

Source: January-June 2022 Monetary Policy Statement

COMMUNITY SCHOOLS EMPOWERED WITH CHILD BODY SAFETY BOOKS

By Zambanker Reporter

The Bank of Zambia through its community involvement activities has acquired 250 copies of the Khwima's set of children's body safety books for onward distribution to selected community schools in the country.

The Khwima Books enables the identification and dissemination of ongoing and new practices concerning the protection of children from sexual abuse.

Book 1-Khwima's ABC on Body Safety introduces the child, both boys and girls to body parts. They help them understand body boundaries and their right to privacy as a tool of empowerment. Book 2-Khwima's Body Safety Crusades, alerts the child about situations, traditions and places that a child should be cautious about. This includes the home environment, village set up, schools, hospitals and religious settings. The books are relevant not only in Zambia, but regionally because they speak to common traditions and community arrangements.

Speaking when she received the books, Deputy Governor Administration - Ms Rekha Chifuwe Mhango said sexual abuse and exploitation of children is a violation of human rights and a health problem with significant consequences for health and development. She added that the crusade against child sexual based violence and any other form of GBV is therefore welcome and requires a comprehensive, multidisciplinary approach. She said the initiative taken by judge Bubile Lungu - Shonga to publish Khwima Books is thus a big step towards stopping child sexual abuse.

"Congratulations and thank you for publishing this book. Parents, guardians and all care givers need to teach children how to keep their bodies safe because abused children have poor health, neglect school work, grow up becoming depressed and even suicidal and sometimes turn violent and become abusers themselves as they grow older." she said.

Meanwhile, author, Judge Lungu-Shonga explained during the handover ceremony that the team at Khwiwa's Body Books is committed to creating greater awareness among schools, professionals, parents and the general public so that all forms of child sexual abuse are widely recognised as a social and health problem and given due attention.

Judge Shonga urged parents and guardians to be watchful and do everything necessary to protect their children from sexual predators.

She said there is often the belief that danger only comes from outside or the unknown, but many girls and boys experience violence, including sexual abuse, by people they most trust. She explained that these relationships are usually based on "trust", "authority" or "influence.

Offenders can be their parents or guardians, members of the extended family, caretakers, including teachers and other professionals in schools, childcare professionals, sports coaches or other professionals working in sports facilities, religious workers, healthcare professionals, adults in charge of extra- curricular activities, tutors and other persons with which the children have close relations, including their peers.

"We therefore need to raise awareness among children and adults of sexual abuse committed against children in the circle of trust, as one of the most common forms of sexual abuse against children as well as discuss sub-issues and specifics under the general topic," she said.

Judge Shonga said efforts are being made to translate the Khwima into 7 local languages officially spoken in schools across the country so that children in rural areas are equally empowered with body safety skills and not left behind. She said she also looks forward to a time when the books can be made available on various online media platforms for easy access.

The books are available in Bookworld outlets at Manda Hill, Cairo, Kulima Tower, Crossroads, Cosmopolitan, Pinnacle, Arcades and East Park.

ECA AND PARTNERS SUPPORT INTERBANK MARKET DEVELOPMENT IN ZAMBIA

The Economic Commission for Africa (ECA), in collaboration with Bank of Zambia (BoZ), and Stichting Frontclear Technical Assistance Programme (Stichting FTAP), a foundation for money market development initiatives and partner of ECA, organised a 2- day workshop to kick-off the Tradeclear Feasibility Study in Zambia. The workshop took place 16-17, May 2022 and was followed by two days of market interviews.

Money markets in many African countries face the challenge of segmentation and are underdeveloped. Tradeclear is an Umbrella Guarantee Facility that would mitigate the counter-party credit risk in interbank transactions and improve market participation, depth, and liquidity. It is designed to resolve market segmentation and build trusted credit lines. By doing so, funding and risks are better distributed in the financial system, improving monetary policy transmission, and contributing to the overall resilience of the economy.
It is against this backdrop that ECA launched the technical assistance project on Tradeclear Feasibility study for Zambia, in collaboration with Frontclear. The workshop was an opportunity to introduce the concept and structures of Tradeclear to over 40 participating stakeholders and to begin data and information gathering.

Mr Jacob Mkandawire, Assistant - Director - Domestic Market Operations in the Financial Markets Department at the BoZ, who opened the workshop on behalf of the Director, Mr Isaac Muhanga, welcomed the support from ECA and Frontclear on the feasibility study that could help develop and deepen the money market in Zambia.

Mr Sheng Zhao, Economic Affairs Officer, ECA, introduced ECA's role and efforts to help member States develop their domestic financial markets. Mr Zhao gave an overview of the technical assistance project on Tradeclear Feasibility study in Zambia. A team from Frontclear, including the CEO, Mr Philip Buyskes, and Senior Vice President, Ms Ingrid Hagen, delivered presentations on Tradeclear, its concepts, structures, mechanisms, benefits, and needed documentation and system setup for implementation. Peer country experience was also shared in the workshop. Representatives from the central bank, commercial banks and legal firms, took part in the workshop and provided valuable input and market feedback.

The Feasibility study has officially begun and is expected to be completed by the close of 2022 after desk research, additional interviews and a review workshop.

The Feasibility study focuses on four articulated themes. These are Legal and regulatory framework, including tax and accounting matters; system infrastructure such as settlement; banking knowledge and skills; and market demand.

Source: Economic Commission for Africa

BOZ GOES SOLAR

By Lombe Mulanda

The Bank of Zambia has expanded its environmental operations efforts to include the installation of solar panels at both Head and Regional office. The main reason for having a mix of energy resources is to ensure that power sources can meet the changing demands placed upon them. Currently, the national hydro power system has had to cope with a wide range of threats, old and new including climate change and global carbon regulation, increasing pressures on natural resources, rising expectations about corporate environmental performance, innovations in energy technologies and business models. These trends have changed the context in which businesses operate and opened them up to new risks and new paths to value creation.

In 2015, the Zambia Electricity Supply Company instituted deliberate disconnection of electrical power in parts of the country due to low water levels at their main hydro power stations at Kariba and Kafue Gorge. Arising from the risks associated with the country wide rationing of power and the need to provide alternative and reliable backup power, the Bank developed an action plan with several broad areas of focus to address these risks apart from using diesel power generators.

The implementation of this project aligns with the Bank's Green Policy Initiatives which came into effect in 2019.

On his first quarter visit to the Regional Office, the Governor, Dr Denny Kalyalya took time to view progress made on the Mini - Solar Plant project. Assistant Manager Maintenance, Mr Geoffrey Mukupa, was explained to Governor and his team the long term benefits and timeline of completion of the power plants. Mr Mukupa said renewables, and new-energy technologies broadly, will help the Bank position itself advantageously in advance of future regulations, especially as it regards carbon emissions.

"Another benefit of clean technologies is the ability to reduce business continuity risk. The Bank will be able to maintain operations when the grid goes down," he said.

He stated that solar energy generates electricity and heat in a manner which is entirely sustainable and free. Solar energy does not produce air pollution or greenhouse gases. The main environmental impact of solar energy is the use of land and potential loss of habitat in the case of large solar energy farms.

The Governor was accompanied by the Deputy Governor - Operations, Dr Francis Chipimo, the Deputy Governor- Administration Ms Rekha C. Mhango as well as Directors from ICT, Economics, Financial Markets and Procurement and Maintenance Services.

The author is Protocol Officer in the Bank Secretariat Department

NEWS FROM AROUND THE WORLD

Commodities to Stay Elevated on Ukraine War, World Bank Says

Food and energy price surges worsened by the Ukraine war could last through the end of 2024 due to disruptions in trade and production, the World Bank Group said on Tuesday 26th April 2022.

Increase in energy prices, which has reached the largest since the 1973 oil crisis, is expected to pass 50% in 2022 before easing in 2023 and 2024, the multilateral group said in its Commodity Markets Outlook. Prices for agriculture and metals are projected to increase almost 20% in 2022 before moderating at elevated levels in the following years.

"Overall, this amounts to the largest commodity shock we've experienced since the 1970s,"Indermit Gill, the World Bank's vice president for Equitable Growth, Finance, and Institutions, said in a statement. "As was the case then, the shock is being aggravated by a surge in restrictions in trade of food, fuel and fertilizers."

-World Bank

Kenya raises interest rate for first time in seven years

Kenya's central bank unexpectedly raised its key interest rate for the first time in almost seven years to anchor inflation expectations as concerns about commodity prices build.

The monetary policy committee Increased the rate by 50 basis points to 7.5%, Governor Patrick Njoroge said in an emailed statement on Monday 30th May 2022. That's the first increase since July 2015. None of the five economists in a Bloomberg survey predicted the move.

The decision was taken because of "elevated risks to the inflation outlook due to increased global commodity prices and supply chain disruptions", Njoroge said.

Three surveys conducted ahead of the MPC meeting showed respondents remained concerned about rising inflation, the impact of the war in Ukraine on commodity prices, supply chain disruptions, and increased political activity, the Governor said- Bloomberg.

Price dips in bit-coin and ethereum may offer investors a chance to get into cryptocurrencies

Top cryptocurrencies are continuing their rough start to the year, falling alongside stocks.

Bitcoin slumped more than 6% on 9th May 2022, falling below $33,000, according to Coin Metrics. The digital coin is now more than 50% from its all-time high near $69,000 in November and has shed more than 30% year to date.

At the same time, ether fell more than 7% to about $2,300. It's now down more than 35% from the start of the year.

While the losses can be distressing to investors, they also offer a chance for people interested in buying cryptocurrencies to review their financial plan and get into the volatile asset class if it makes sense for them, said Tyrone Ross, CEO of Onramp Invest, a crypto-asset platform for financial advisors and firms.

Source- CNBC

SA fintech startup Franc raises $522k seed extension round, announces B2B offering

South African investment app Franc has raised ZAR8 million (US$522,000) in a seed extension round and announced a B2B offering that enables quick and easy adoption of savings and investment products by partner businesses.

Launched in 2017 by Sebastian Patel and Thomas Brennan, who were frustrated by the complexity and high barrier to entry of existing investment offerings, and concerned by the poor rate of investment among South Africans, Franc allows users to make Investments via a mobile app.

The startup saw 400 per cent growth in 2021 and has now announced its B2B offering – Franc Business. The new product will enable companies to offer quality investment products to their own customers using Franc's technology and license.

The announcement follows a recent seed extension raise of ZAR8 million (US$522,000), which included investment from pan-Africa-focused venture capital firm 4DX Ventures. The capital injection will in part fund the B2B initiative, which is aimed at businesses who want to entrench customer loyalty and their value proposition with a "plug and play" investment and savings offering

-Disrupt Africa

INFLATION DYNAMICS IN ZAMBIA

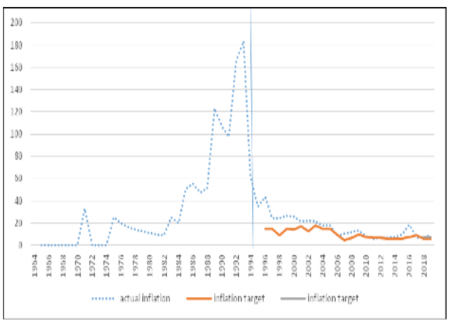
By Jonathan Chipili PHD

Inflation was relatively stable prior to 1974 except for a spike in 1971. However, inflationary pressures intensified from 1975 and reached 9.1% by 1982. Inflation peaked at 183.3% in 1993. The acceleration in inflation over the 1982-1993 period was mostly because of the impact of large fiscal deficit financing through central bank borrowing and the pass-through from the significant depreciation of the Kwacha against the US dollar following the initial floatation of the Kwacha via an auction system between 1985 and 1987.

Inflation fell sharply in 1994 to 61.9% but remained relatively high. This followed the implementation of economic reforms to restore macroeconomic stability, during which an aggressive dis-inflationary stance was prioritised after a prolonged period of stagflation. The reforms included trade and foreign exchange liberalisation, price de-regulation, and tighter financial management. In addition, the Government implemented a cash budget system complimented by tight monetary policy measures to restrain excessive monetary expansion (Bank of Zambia, 1994).

Inflation moderated after 1994, declining to below 20% in 2005 and later fell to single digits (8.2%) in 2006 after more than three decades. However, in October 2015, inflation rose sharply to 14.5% and peaked at 22.9% in February 2016. This followed a sharp depreciation of the Kwacha against the US dollar occasioned by lower copper prices attributed to the slowdown in China, uncertainty over the performance of the mining sector (with Glencore scaling down its operations at Mopani), stronger US dollar, deteriorating current account balance, widening fiscal deficit, sovereign rating downgrade and the impact of electricity shortages on economic activity (Bank of Zambia, 2015).

Actual inflation and target (annual % change): 1964-2019



Source: Zambia Statistics Agency, Bank of Zambia, and author computations

However, inflation decelerated to below 10% by the end of 2016 as base effects dissipated. Inflationary pressures re-emerged towards the end of the second quarter of 2019 leading to inflation exceeding the target range of 6-8% by the end of the year. The Government introduced a target range of 6-8% in 2018 as a precursor to inflation targeting.

A notable observation about the dynamics in inflation over the sample period is that it broadly trended above the target. In this regard, a deeper Understanding of the underlying drivers of inflation will allow the authorities to design appropriate policy response to align and contain inflation within the set target.

Broadly, inflation in Zambia tends to closely track food inflation. Excess supply of maize due to a favourable agricultural season contributed to the decline in inflation in 2006. Further evidence of the importance of positive agricultural supply shocks was observed in 2006, 2010 and 2017 when inflation slowed down largely on account of a maize bumper harvest.

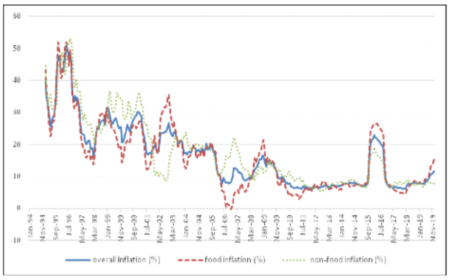
Conversely, periods of drought (that is 1995, 1998, 2001, 2003, 2005, 2013, 2015, 2016 and 2018) are associated with high inflation. Thus, the dependence of agricultural production on rainfall and the substantially large weight of food in the CPI basket makes inflation susceptible to variations in weather conditions. A large body of evidence on the dependence on weather conditions and its effect on inflation exists for several sub-Saharan African countries (Diouf, 2007).

This underscores the significance of supply shocks on overall (headline) inflation. Agriculture output in Zambia is dominated by crop production of which maize has the largest share more than 60%. By and large, agricultural policies have been largely skewed towards the promotion of maize production as the major staple crop. Subsidies are extensively used to support production and manage the maize price. The focus on maize self-sufficiency through various Government support programmes (input subsidies and marketing services) has led to the promotion of maize as a major agricultural crop in the smallholder sector. Maize is predominantly produced by smallholders across the country who depend exclusively on rainfall. As a result, maize output fluctuates significantly from year to year due to changes in rainfall patterns. Any shock to rainfall patterns significantly impacts the supply of maize and in turn its price.

Due to the dependency on rainfall, maize is grown between December and April (lean period – low supply and high demand). During this period, maize prices are relatively high and only decline in the second and third quarters (harvest period) and are usually at their lowest in the latter quarter. The gradual fall in maize prices from the end of the first quarter, preceding the onset of the marketing period, largely reflects Government intervention through the sale of cheaper maize grain from strategic reserves as well as reduced demand for maize grain and its products as other food items become available. This dampens the price of the staple food through substitution. The variations in maize prices are reflected in food inflation due to the relatively high weight of maize grain and its products in the CPI basket. The total weight of maize as a single product is 64.984, representing 11.8% and 6.5% in the food CPI and overall CPI, respectively.

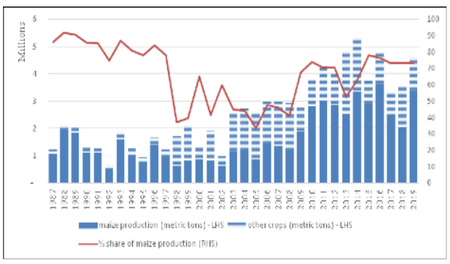
Maize prices are influenced by the Government through agencies created by an Act of Parliament. These agencies(previously crop marketing boards) administer national food reserves. Food reserves serve as a buffer stock to cushion maize price variability and provide liquidity in the maize market. Trade in maize is regulated by the Government through the issuance of export and import licenses. Under this arrangement, the prevailing maize price may not necessarily reflect supply shortages in the food sector as the Government may import maize and sell at below market price to keep the price of mealie meal low. Maize prices are also set above the market to support producers but subsidise millers by selling maize grain at lower prices to manage final consumer mealie meal Prices.

Actual inflation and target (annual % change): 1964-2019



Source: Bank of Zambia and author computations

Crop production and share of maize: 1987-2019



Source: Ministry of Agriculture and Author Computations

The significance of external shocks transmitted through the exchange rate and energy (oil) prices on inflation was notable during 2008-2009 and post-2011 periods.

The influence of the global financial crisis of 2008/2009 is reflected in higher inflation in 2008 and 2009 through the exchange rate channel as copper prices fell markedly. The pass-through from the depreciation of the Kwacha to CPI inflation in Zambia ranges between 0.41 and 0.49 (Zgambo, 2015). Aron et al. (2014) provides a comprehensive review and evidence on the pass-through from the exchange rate to domestic CPI in developing and emerging market economies that include Zambia. It is noteworthy that periods of sustained and occasional sharp depreciation of the Kwacha against the US dollar (1995-96, 1997-98, 2000, 2008/09, and 2015) are associated with rising inflation. Conversely, the fall in inflation, notably in December 2005 and May 2006 as well as between September 2016 and February 2017, is associated with the appreciation of the Kwacha.

There are traces of the predicted positive relationship between money supply and inflation with lags in some periods. For instance, inflation generally rose when money supply grew steadily from mid-1998 and reached the peak at end- 2000. The exception was 1999 when inflation trended down. However, the declining trend in inflation from mid-1996 until early 1998 and between 2010 and 2011 was not associated with relatively strong money growth.

Conclusion and policy recommendations

The empirical results have revealed that the long-run sources of overall inflation are determined in the external sector market where the exchange rate and world non-food prices drive domestic prices. In the short-run, overall inflation is influenced by movements in the exchange rate, adjustments in energy (diesel) prices, imported inflation (from South Africa), and supply constraints (changes in maize prices). In addition, overall inflation exhibits persistence and seasonality. Further, a diminished role of money supply in inflation dynamics over the sample period is established. This contrasts evidence from previous studies that identified money supply as one of the key determinants of inflation.

The empirical results highlight the role for the authorities to manage demand- side factors reflecting a combination of both demand and cost-push factors.

Specifically, the empirical results have reconfirmed the dominant role of the exchange rate in accounting for swings in overall inflation and its sub-components. This underscores the need for the authorities to undertake policy actions to dampen excessive depreciation of the Kwacha. In addition, the significance of imported inflation from South Africa calls for policies to expand and diversify the manufacturing base to limit the current high dependence on South Africa for imports of final consumer and capital goods. The data from January to April 2018 show that the share of food imports from South Africa in total food imports is about 50%. Thus, any shock to food production and/or prices in South Africa will be immediately transmitted to Zambia.

The role of supply shocks evident in the impact of maize prices on inflation calls for significant reforms in the agriculture sector to boost productivity using modern techniques such as irrigation to reduce dependence on rain fed practices. In addition, better use of fertilizer, improved seed, and access to credit especially among poor rural households will contribute to boosting productivity. Further, investment in the road infrastructure, especially feeder roads in rural areas,and improved storage facilities to mitigate distributional and overhead costs will moderate agricultural product prices and ultimately stabilise inflation.

The author is Director Economics Department

IMF EXTENDED CREDIT FACILITY FOR ZAMBIA: WHAT ARE THE CONDITIONALITIES?

By Francis Z Mbao PHD

The Extended Credit Facility (ECF) from the International Monetary Fund (IMF) has been secured. This has invoked mixed feelings with some people labeling the deal to be a bad one because of the conditionalities. Other commentators are arguing that the plan is imposed on the country by the IMF (also called the Fund). The purpose of this article is therefore to highlight the conditionalities associated with the ECF programme the Zambian Authorities have secured. These conditionalities are referred to as quantitative and structural benchmarks. They may differ from one country to the other as they are a function of the depth of the macroeconomic and financial imbalances and the risks associated with a particular country.

One cannot do justice to the topic of conditionalities or performance benchmarks without addressing the concern of the programme being imposed on the country. When a country is applying for an IMF programme, it has to present a case on the state of its economy (of course how bad and precarious the situation is at the time of an application) and its aspirations (where things ought to be). This is articulated in a document called the Memorandum of Economic and Financial Policies (MEFP). In Zambia's case, this document clearly demonstrates that the economy was stressed, and it indicates what needs to be done to recover it and rebuild the nation's economic fortunes. In the process leading to the formal application for a Fund supported economic programme, the authorities' technical staff (largely from the ministry of finance and the central bank) are engaged in technical discussions with Fund staff in a transparent and participatory manner. The aim is to create a common understanding of the extent of the problem at hand, agree on adjustments needed to deliver macroeconomic stability, achieve sustained economic growth and to ultimately meet the authorities' aspiration of reducing human misery – poverty.

The technical discussions are focused on diagnostic analytics and forecasts under baseline scenarios (to get an understanding where the economy is headed to if no action is taken) and alternative scenarios (to get a sense of what sets of adjustment are needed) that can help achieve the aspirations of the authorities. Risks to each scenario are identified and measures to mitigate them are outlined. When technical parties are satisfied with what needs to be done (given the state of the economy) to deliver on the aspirations (with a full understanding of the possible risks and their mitigants) a Technical Memorandum of Understanding (TMU) is agreed upon. The TMU spells out the benchmarks underpinning the programme, which essentially are necessary measures to move the economy from the current state condition (which of course is undesirable) to the state condition that is consistent with the aspirations (the desired state condition of an economy). With the MEFP and the TMU mutually agreed upon as well as the authorities undertaking some prior actions (i.e. the undertakings aimed at removing risks to the credibility of a Fund supported economic programme), a staff level agreement is reached, which paves way for a successful application for an economic programme supported by the IMF. Given the aspirations outlined in the MEFP by the authorities and endorsed by the Fund staff through a mutually agreed TMU, the ECF is therefore in support of the home-grown policies that aim to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth like the case for Zambia.

Restoring macroeconomic stability in Zambia is non-trivial and the ECF programme has brought relief and calm to both the money and foreign exchange markets. There is a broad understanding (among practicing macroeconomists and financial markets traders who regularly monitor the data during their course of duty) that the Zambian economy had come under severe stress and at the edge of imploding without the ECF programme.

A look at the fiscal account, for example, and examining the primary fiscal balance, which is the difference between revenue and expenditure (excluding interest payment on debt), showed a widening deficit over time. This was an indication that the fiscal position (Government's financial situation) was worsening, and something needed to be done, including achieving a primary surplus, to service debt without causing underfunding to other equally important expenditure items such as public protection, education, health, and social cash transfer.

Running a huge fiscal deficit of the magnitude recorded by Zambia (ranging between 6 and 14 percent of GDP) led to over borrowing both internally and externally with the attendant debt distress the country is grappling with now. This is because the deficit needed to be financed and debt was the only option available. In some cases, expenditure could not be paid for, and the Government incurred arrears in that regard, leading to further increase in debt. It is not a surprise that a slowdown in economic growth coincided with the period when domestic debt was rising rapidly as private sector credit growth collapsed owing to rising Government borrowing coupled with non-payment for goods and services supplied by the private sector to Government.

Foreign debt service on the other hand was draining liquidity from the system as the dollar sold to Government by the Bank of Zambia effectively drained the equivalent Kwacha value from the economy (that equivalent value of the Kwacha was permanently being sterilised with each foreign debt service undertaken). Interest rates in such an environment had to rise as a consequence. The exchange rate also had to depreciate considering heightened foreign debt service. Clearly, adjustment was needed to restore the macroeconomic stability, and the ECF programme is non-trivial in this regard.

As foreign debt service was exerting a toll on foreign reserves, this threatened the country's balance of payment (BoP) position. Even though the country's BoP's current account was recording a surplus (thanks to high copper prices and subdued imports due to a depreciated exchange rate) in the periods after 2019 (preceded by four consecutive years of current account deficit), projections were showing a narrowing in that surplus on account of two factors being a moderation in copper prices (which has now materialised) and a surge in imports owing to the lifting of COVID-19 restrictions. In addition, the surplus in the current account was expected to be moderated by the persistent deficit in the BoP's primary income account largely due to interest payments on foreign debt and dividends paid by entities involved in copper exports. Projections were pointing to the widening in this account. Further, the slowdown in foreign direct investment in the later years (leading to the ECF programme) as well as the dry up in foreign portfolio inflows (although showed a huge surge in the months of May-September 2021) means the financial account of the BoP is largely in deficit. Projections show a widening in this deficit primarily due to the pending repayment of the Eurobonds.

In view of large Government borrowings, the country's net international investment position has deteriorated markedly, and adjustments are inevitable to bring this position to levels consistent with peer countries. In view of the developments in the BoP accounts, the country's BoP was headed for a crisis, and something needed to be done to avert that crisis (I do not even want to imagine how disruptive this crisis was going to be).

Developments in the monetary accounts were also worrying. I earlier highlighted the problem of slowdown in growth in private sector credit due to the Government's crowding out effect. At some point (2016-2017), the contribution of private sector credit growth to total credit growth was negative. While there was some recovery in 2018 – 2020, this was nonetheless characterised by a very low contribution to total credit growth (which was dominated by lending to Government). In 2021, credit to the private sector contracted with the last quarter of the year recording negative growth. You cannot grow an economy meaningfully and broadly with such developments in private sector credit.

Other worries with developments in the monetary accounts emanated from the slower than desired growth in broad money prior to 2020. You need a certain level of growth in money supply to support economic growth. The subdued growth in broad money partly reflected the impact of foreign debt service on Kwacha liquidity through the permanent sterilisation effect stated earlier. It also reflected the impact of muted private sector credit growth. However, in the year 2020 broad money growth improved and could be on account of two factors, possibly three. The impact of the depreciation which caused an increase in the net foreign assets of the banking system as well as the impact of the targeted medium term refinancing facility (TMRTF), the monetary authorities' response to mitigate the adverse impact of COVID-19 on lives and livelihoods. The third factor is possibly the scale down in foreign debt service since October 2020 that limited the sterilisation of the Kwacha. However, in 2021 low growth in broad money returned on account of the decline in foreign assets (particularly foreign currency deposits) and the appreciation of the Kwacha (there by lowering the value of the net foreign assets) as well as contraction in domestic credit.

Adverse developments in the fiscal, BoP, and monetary accounts highlighted above manifested themselves in slow economic growth, an undesirable outcome for the real sector (also referred to as the real economy). The Zambian real economy has been characterised by declining aggregate demand that has manifested in negative output gap during the period of heightened fiscal imbalances. The output gap is the difference between realised output and potential output. The latter is the level of production the country can achieve if its installed productive capacity is fully utilised. Clearly, the developments in these macroeconomic accounts were increasingly becoming a source of

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[1] The editor took advantage of the late delivery of the June edition of the Zambanker to the Press and sneaked in this article following Zambia's application for the IMF's ECF Programme being approved by the Fund's Executive Board on August 31, 2022.

concern to the country's growth prospects. Thus, the clinching of the IMF's ECF Programme has brought a renewed sense of optimism regarding the country's economic outlook.

The background above is necessary for one to appreciate the conditionalities, let me now turn your attention to the subject matter of this article. Like stated earlier, there are two broad conditionalities being the quantitative and structural benchmarks.

Quantitative benchmarks, just as the name suggests, are numerical targets on specific macroeconomic variables that should be realised during the ECF programme. Some targets define the lowest possible numerical value (the floor) to be attained during the programme while others relate to the highest realisation that the variable can get to (the ceiling). Some benchmarks are point targets. There is one variable whose realisations is expected to fall within some bounds during the life of the economic programme. This implies that a realisation outside the prescribed range, just like if it is above the ceiling or below the floor, will constitute a violation of the agreed benchmark. This may attract some sanctions with the worst outcome being the suspension or cancellation of the economic programme and immediate repayment of the ECF funds disbursed up to that point (this can create some mess in the economy and therefore, no one would want such to happen).

The quantitative benchmarks are four categories. These are the Quantitative Performance Criteria (made up of three); the Continuous Performance Criteria (consisting of two); the Monetary Policy Consultation (only one to be observed); and the Indicative Targets (totaling five). There are only two quantitative benchmarks related to the Bank of Zambia, an indication that most of the issues are related to the fiscals (the elephant in the room). With regard to the structural benchmarks, there is a total of eleven focusing on fiscal operations, debt management, electricity tariffs management, governance and financial stability. Only one structural benchmark is directly related to the Bank of Zambia. Missing a structural benchmark is not punitive as the case may be with missing the quantitative counterpart. However, authorities are expected to provide a rational explanation on the factors that caused the miss and the measures put in place to ensure the attainment of the benchmark going forward.

i). The Quantitative Performance Criteria consists of the following:

- Floor on the Central Government's primary balance (cash basis).

The primary fiscal balance is total revenue less total expenditure that excludes net interest payments. Under this measure, the primary balance is expected to be in surplus by end-March 2023. The surplus should be maintained up to the end of the programme with specific targets for specified periods being June and December of each year. This implies that net expenditure should not go below the targets for the two test months (June and December). The primary purpose of this quantitative benchmark is to bring the fiscals to a sustainable level. From the background information given above,you will agree that the major source of imbalances in the fiscal, BoP and monetary accounts(with an adverse spill over to the real economy manifested in form of a persistent negative output gap) is the fiscal deficit.

This quantitative benchmark is expected to be supported by structural benchmarks related to revenue enhancement and expenditure rationalisation. The revenue enhancement structural benchmark includes the elimination of implicit subsidies on fuel in form of suspended taxes (value added tax (VAT) and Excise duty) on the commodity. Fuel subsidies were one of the major factors that contributed to the huge fiscal deficit the country has been running.

The explicit subsidies on fuel were eliminated with a prior action of restoring the practice of adjusting the price of petroleum prices in line with the cost-plus pricing model, with the pricing cycle reduced from 60 to 30 days. The VAT and Excise duty on fuel that were suspended in 2020 will have to be restored by end September 2022 and thereby contribute to enhancing revenue. The other structural benchmark needed to support the quantitative benchmark under discussion is one that requires Government to adopt an action plan to boost revenue collections through changes in tax policy and improvements in revenue administration. Government is expected to adopt this action plan by end-October 2022.

With regard to expenditure rationalisation, this is more focused on transparency in expenditure execution. Essentially this has to deal with the risk of wasteful expenditure or leakage of resources through normal operations or project/programme implementations by spending agencies. It also has to prevent the accumulation of new arrears, which in essence curtails a rise in expenditure and by implication favourably impacting the primary balance. There is a structural benchmark related to this which Government has to meet by end-June 2023. It requires Government to ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the integrated financial management information system (IFMIS).

One of the thorny issues related to fiscal deficit identified during technical discussions leading to the staff level agreement was costs related to the farmers input support programme (FISP). To ensure that FISP does not unfavourably affect the primary balance, a structural benchmark aimed

Picture Credit: People's Dispatch

at making FISP cost effective is in place. This requires Government to publish, by end-December 2022, the guidelines on the implementation of the new comprehensive agricultural support program that has to ensure a full migration of FISP to an electronic agr- input system.

- Ceiling on new central bank credit to the Central Government.

This benchmark is a point quantitative target and its numerical value is zero. The implication is that there should be no Bank of Zambia lending to Government during the course of the ECF Programme. This requirement buttresses the point that Government expenditure should be financed by revenue and not debt. Since debt kicks in when expenditure is higher than revenue and given that we are in the era of fiscal consolidation to reduce the unsustainable fiscal deficit, making a recourse to the central bank for budget financing undermines the virtue of fiscal consolidation.

- Floor on the net official international reserves(NIR) of the Bank of Zambia (millions of US dollars).

The NIR is determined as gross international reserves less encumbered reserves and less short-term liabilities of BoZ. This essentially connotes the amount of reserves exclusively belonging to the central Bank (free reserves). Given the fall in reserves owing to the external debt service and considering the current high external debt stock that Zambia will eventually pay one day, there is need for BoZ to increase the stock of its free reserves to avert a BoP crisis. A BoP crisis is something to avoid because it has the potential of causing a currency crisis. The later can lead to a financial crisis and eventually a huge disruption in the real economy.

ii). The Continuous Performance Criteria

The criteria relate to external debt accumulation with two specific quantitative benchmarks being a Ceiling on new external debt arrears by Central Government, the Bank of Zambia, and ZESCO as well as a Ceiling on the contracting or guaranteeing of new non-concessional external debt by Central Government, the Bank of Zambia, and ZESCO. Zambia's public debt is currently unsustainable and there is no point in worsening the situation. Government sought for the ECF Programme to help deal with the problem of debt. In this regard, the target for the two quantitative benchmarks is zero under the ECF programme.

iii). Monetary Policy Consultation

This is a quantitative benchmark for three months average annual inflation. it outlines the path for the disinflation process. It has a mid-point target and two sets of bounds around it. The immediate set of bounds around it are the inner upper bound and the lower inner bound. Nesting the inner bounds are the upper outer bound and the lower outer bound. The December 2022 inflation mid-point target is 13.1 percent bounded by 15.1 and 8.5 percent as the inner upper and inner lower bounds, respectively. The outer bounds are 17.1 percent (upper) and 6.3 percent (lower). The June 2023 limits are 14.4and 6.0 percent for the outer bounds with 12.4 and 8.0 percent being the inner bounds around the mid-point of 10.4 percent. What these targets imply is that by end-December 2022, average annual realised inflation should be within the 6.3 and 17.1 percent range. Even if it is within the 15.1 and 17.1 percent range, this is still acceptable as it reflects the disinflation effort. Average inflation out-turn being in the infinitesimal neighbourhood of the 13.1 percent (the mid-point) is desirable. However, if the average realised inflation falls in the range of 6.3 and 8.5 percent it is a better outcome. By this reasoning, average inflation out-turn falling within the 6.0 to 8.0 percent range (in line with the BoZ inflation target range) is more favourable. Nonetheless, failure to deliver average realised inflation within this favourable range will not attract the attention requiring the authorities writing an exoneration report to the IMF Executive Board if the average out-turn is in the range of 8.0 percent to 14.4 (the desirable range).

At the time inflation targets were agreed on with the Fund during the technical discussions and the eventual development of the TMU, inflation was high, reaching a five year high in the first quarter of 2021 at a quarterly average of 22.2 percent year on year.

And given weaker economic growth that was being projected as the economy was emerging out of the COVID-19 induced recession, it was important that monetary policy was not as aggressive in dealing with high inflation obtaining in 2021 and the early part of 2022 (period of intense discussions with the Fund). The seemingly accommodative monetary policy depicted under the Monetary Consultation clause was necessary in supporting economic recovery in the initial period of the ECF Programme.

iv). Indicative Targets

The indicative targets are early warning signals. They essentially help to track progress (or lack of) on the performance of the above listed quantitative benchmarks. Failure to meet this set of targets will not result in the country being sanctioned. However, if the indicative target is missed it is an indication that more actions are needed from the authorities to ensure that the representative quantitative benchmark is not missed on the expected test date. The five Indicative Targets are:

i. Floor on the fiscal revenues of central government excluding grants and mining revenues,adjusted by the backlog of VAT refunds.

ii. Ceiling on the present value of new external borrowing (millions of US dollars).

iii. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars).

iv. Floor on social spending by the central government.

v. Floor on the net clearance of arrears on expenditure and tax refunds.

Item (iv) is important especially that if a country is undertaking fiscal consolidation there is a likely tendency of reducing transfers for social cause. To ensure that under the ECF Programme funding towards alleviation of poverty is not reduced, there is a set minimum amount of funding towards the social sector that includes social cash transfer.

In conclusion, my submission is that the conditionalities set for the ECF Programme Zambia has signed to are meant to facilitate fiscal consolidation and there by achieve fiscal sustainability. This is in addition to ensuring that the country does not lose sight of its obligation towards poverty alleviation even as it pursues the objective of restoring macroeconomic stability. When the fiscals are in a precarious position, many things in the economy can go horribly wrong and poverty is likely to rise. The other virtue about these conditionalities is that they are meant to help with addressing the debt distress by curtailing the authorities' appetite to contract expensive debt whilst the country's debt carrying capacity is grossly impaired. The conditionalities are equally meant to help the country prevent a BoP crisis by ensuring that its debt service and amortisation does not adversely affect the stock of its international reserves. Reserve accumulation has to take effect in this regard and the goodwill that comes with a programme such as budget support and increased exports as well a possible rise in non-official foreign inflows can augment dollar liquidity in the economy and thereby help build reserves.

Picture Credit: The Business Telegraph

It should be noted that benchmarks or conditionalities are not only meant to help safeguard the credibility of the economic programme in delivering the desired outcomes but also protect the resources advanced to the country by the Fund. These resources belong to the IMF member countries. The ECF lending is not collateral based. It should therefore be viewed like some structured finance (offered by commercial lenders) where a lender provides a loan without demanding for collateral but protects her own interest and those of the borrower by creating covenants in the loan agreement that will mitigate the identified risks. The benchmarks (conditions) are the covenants in this regard. The only difference between the ECF and a typical structured finance facility is that the ECF facility is highly concessional (you do not lend to a family member at exorbitant rates).

The author is Senior Researcher in the Economics Department. The views expressed in this article are entirely his.

MONETARY POlICY WORD SEARCH

Z	Y	B	N	P	C	F	V	Y	G	S	T	A	X	E	S	O	A	Z	C	L	K	M	X
L	T	W	B	D	C	B	B	S	D	O	O	O	W	U	M	R	Y	I	G	Y	N	F	C
K	Z	N	Y	R	F	J	P	F	M	R	W	I	S	E	I	R	U	Z	K	C	N	N	F
P	E	S	N	C	E	L	J	X	L	X	S	D	G	E	N	Z	Z	T	Z	O	M	N	I
0	Z	P	O	G	D	T	D	S	K	R	T	D	O	B	I	B	M	M	H	N	F	D	Z
X	A	E	X	S	E	I	O	S	B	S	Z	J	V	V	M	L	K	B	U	T	U	U	V
H	M	N	X	M	R	N	W	K	S	J	S	S	E	X	U	T	H	H	J	R	F	S	B
B	F	D	K	O	A	F	S	D	J	B	Y	R	R	U	M	C	F	K	W	A	S	F	R
O	I	I	S	N	L	L	C	F	Z	Y	B	M	N	Z	W	I	X	G	A	C	D	W	H
U	S	N	K	E	R	A	Z	C	H	A	E	T	M	H	A	Y	T	C	X	T	Z	I	J
Q	C	G	D	Y	E	T	G	E	R	A	M	D	E	I	G	X	W	D	U	I	M	L	P
R	A	Q	I	S	S	I	I	S	N	O	I	G	N	N	E	X	J	U	M	O	M	P	I
A	L	S	S	U	E	O	M	V	T	A	V	H	T	V	T	R	K	P	A	N	D	W	Y
F	P	M	C	P	R	N	S	R	R	G	B	N	G	L	W	D	K	M	D	A	P	O	O
W	O	V	O	P	V	G	R	Z	Z	Z	U	Q	R	U	J	N	G	U	Q	R	J	Q	W
H	L	H	U	L	E	R	B	O	C	D	Z	S	V	F	I	W	L	Y	E	Y	F	G	U
E	I	Q	N	Y	M	O	N	E	T	A	R	Y	P	O	L	I	C	Y	P	P	J	C	Z
R	C	G	T	X	B	F	O	J	H	A	X	F	A	V	X	I	Y	E	L	O	N	D	S
G	Y	A	R	G	K	Y	A	P	Q	C	U	V	P	P	N	V	S	J	U	L	N	L	E
U	V	H	A	O	B	A	H	W	C	B	N	X	M	F	T	V	O	E	J	I	Y	D	W
J	H	I	T	P	Z	N	I	Y	U	L	L	C	Q	F	C	D	U	L	B	C	V	Q	T
P	Z	U	E	W	S	H	Z	B	W	X	E	S	G	H	E	F	M	V	O	I	E	Z	E
F	T	A	S	B	W	A	I	X	X	C	K	K	Z	Y	T	R	M	L	E	E	T	N	H
D	U	S	S	W	C	X	I	N	B	R	H	C	U	M	D	D	A	Z	Q	S	J	S	I

CONTRACTIONARY POLICIES	MINIMUM WAGE	MONETARY POLICY
GOVERNMENT	SPENDING	MONEY SUPPLY
MR WISE	TAXES	FEDERAL RESERVE
INFLATION	FISCAL POLICY	DISCOUNT RATE

ISO 20022
BIG BANG MIGRATION

By Namukulo Mwauluka

On 17th of July 2023, the Zambia Interbank Payment, and Settlement System (ZIPSS) will migrate from the SWIFT Message Type (MT) standard to the new ISO 20022 message standard. This transition will take place overnight in what is aptly referred to as a big bang approach. This means that MT Messages will be used for domestic payment instructions up to Friday, 14th of July 2023 and then on the next business day, Monday, 17th July 2023, all payment instructions will have to comply with the ISO 20022 messaging standard. This is a critical migration as it affects one of the systemically important financial market infrastructures which processes the bulk of the payment instructions in Zambia. The success of this migration is therefore in the best interests of not only the ZIPSS participants but the entire financial sector.

What is the ZIPSS

The ZIPSS is the Real-Time Gross Settlement (RTGS) System in Zambia. It is an electronic payment system in which processing of transactions for settlement takes place continuously on a transaction-by-transaction basis in real time. Participants on this system are mainly commercial banks which provide their clients with real-time funds transfer services. The ZIPSS is therefore a core financial market infrastructure that supports the Zambian economy.

Why are we migrating

This migration is part of the global transition to the ISO 20022 standard. ISO 20022 has been adopted by market infrastructures around the globe including the US Federal Reserve, Bank of England, and the European Central Bank. This is because it is better able to meet the needs of a modern payment system. The outgoing MT message standard was adopted by the Society for Worldwide Interbank Financial Telecommunications (SWIFT) in 1977 and not only is it an old standard but it is limited in terms of the amount of information that it can carry.

In contrast, the newer ISO 20022 standard is implemented using the versatile eXtensible Markup Language (XML) format and can carry much more granular information about each payment instruction. It therefore has many benefits including:

1. Ability to carry greater information about each payment transaction – This will benefit regulators, compliance officers and risk managers as it will make it easier to conduct sanction screening, financial crime investigations, and Anti-Money Laundering (AML) activities.
2. Increased speed of transactions – Payment transactions are expected to be processed much faster as payments which would have been flagged by a sanctions filter for further investigations will be automatically processed without delay because all the required information will be available.
3. More efficient and automated operations – The standardised approach to message formats means that financial institutions can also standardise and automate operational processes and procedures.
4. Better cash and liquidity risk management – The increased information on each transition means that there can be better understanding of inflows and outflows. This is great for balance of payments monitoring.
5. Better Data Analytics – Embedded transaction data means there will be more information for data analytics, trend analysis and forecasting.

How is BoZ implementing ISO 20022

The Bank's 2020 to 2023 Strategic Plan has as one of its objectives the development and strengthening of financial market infrastructures and oversight. This objective encompasses the adoption the ISO 20022 standard as well as the upgrades of the RTGS

and Centralised Securities Depository (CSD). The Bank has established projects to implement these initiatives. These projects include the SWIFT upgrade, ISO20022 migration,

RTGS and CSD Upgrades, and the core banking system upgrade. For better coordination, these projects are managed from the Project Management Office under a single programme called the Market Infrastructure Resilience Programme. The Bank has developed, in collaboration with SWIFT, a migration strategy which provides milestones specific to the Zambian market.

Key ISO 20022 migration dates

Here are some key dates for the Zambia ISO20022 migration which begun in 2020.

- Meetings with Industry Stakeholders begun – Q1 2020.
- Peer learning engagements with the Central Banks of Kenya and Kosovo – Q3 2020.
- SWIFT engaged to provide consultancy for the migration – Q3 2021.
- SWIFT ISO 20022 Technical and Business Training delivered to industry stakeholders – Q1 2022.
- ISO 20022 messaging schema for Zambia delivered by SWIFT– July 2022.
- Development of ISO 20022 message guidelines for Zambia – Q3 2022.
- SO 20022 message schema available on SWIFT My Standards Readiness Portal – Q3 2022.
- Beginning of co-existence period for MT and ISO 20022 messages on the SWIFT Network – November 2022.
- Core Banking and other back-office systems of RTGS participants to be ISO 20022 complaint – December 2022.
- Zambia testing of the new RTGS, CSD and ISO 20022 messages – January 2023 to June 2023.
- Go-live for the new RTGS, CSD and ISO 20022 messages – 17th July 2023.

How can we ensure success of this Migration

It is essential that all the participants in the RTGS and the Zambia SWIFT community are fully engaged in this migration for it to be successful. Stakeholders will need to be ready for each stage of the migration as provided under the key migration dates. To ensure that all key stakeholders are moving at the same pace, the Bank has established a technical working group which includes commercial banks, the Zambia Electronic Clearing House and the Ministry of Finance.

Another key success factor will be comprehensive testing of the new RTGS, CSD and ISO 20022 messages. Key stakeholders are expected to begin testing within Q3 of 2022 and this will go on until June 2023.

Lastly change management activities which include information sharing, training and reinforcement will be key to a successful migration. The Bank in collaboration with SWIFT has held several road shows to provide information on the migration. Formal training for technical and business teams was provided in Q1 and Q3 of 2022. The Bank will also continue to engage key stakeholders to reinforce the required changes.

How success will look like

A successful migration will be one that causes the least disruption to the Zambian financial sector. Once implemented, it is expected that the new standard will facilitate the next generation of payment schemes, including instant payments, 24/7 Online transactions, and open banking over Application Programming Interfaces (APIs) . This is an exciting development that will usher the Zambian consumer further into the digital age!

The Author is Programme Manager of the Market Infrastructure Resilience Programme

[3] https://www.boz.zm/FinScope-2020-Survey-Report.pdf
[2] https://www.swift.com/news-events/webinars/iso-20022-migration-everything-you-need-know
[3] https://www.redbridgedta.com/us/market-intelligence/swift-mx-migration/#:~:text=In%20 1977%2C%20the%20first%20electronic,old%20MT%20standard%20remains%20predominant
[4] https://www.finextra.com/blogposting/20879/why-we-should-be-utilising-the-benefits-of-iso-20022

UNDERSTANDING FINTECH PART 3

Mr Kennedy Mukuka

Introduction

This article is the last in the series understanding fintech. It will take a global approach by focusing on some of the leading fintech services or products as well as the fintech companies revolutionising finance and commerce. In addition to the Bank of Zambia, credit is also given to sources such as Bloomberg, Forbes, Statista, Centre for Finance, Technology and Entrepreneurship (CFTE) and Africa Fintech Network for the statistics used in this article.

A Global perspective

According to the digital assets report, fintech companies in the United States of America (USA) received heightened funding during 2021 until November when publicly traded fintech companies fell 50 percent. As a result, funding for fintech companies in the first quarter of 2022 was down 27 percent to US$13.3 billion compared to the same period in 2021. In Africa Fintech funding for startups attracted over US$1 billion in 2021, reaching the highest level since 2015. It is anticipated that funding will rise above this level by the end of 2022. Likewise, Asia recorded increased fintech funding from US$14.7 billion in 2020 to US$27.5 billion in 2021. Europe also showed strong fintech funding as most investors regained confidence after the Covid-19 pandemic.

The question begs the type of services and products attracting venture capital deals in fintech companies. This can be deduced from the leading services offered by the most successful fintech companies. The most leading fintech services are paytech, open banking, regtech, challenger bank, cryptocurrency, blockchain, infrastructure, wealthtech, insurtech, BNPL, SaaSand accounting. Terminologies explained in parts 1 and 2 of the article will not be repeated except for the new terms namely paytech, open banking, challenger bank, infrastructure, wealthtech, BNPL, SaaS, Regtech, and accounting.

- Paytech is any payment or transfer of value that involves technology such as the use of debit or credit cards, bank transfers and mobile payments.
- Open banking also known as open bank data refers to technology that allows secure interoperability in the banking industry such that third-party payment service providers can access banking transactions and other data from Financial Service Providers (FSPs) for purposes of providing technology, a service, or an App to the FSP's customers. The technology uses Application Programming Interfaces (APIs) to share financial data and services with third parties.
- Challenger bank is a small retail bank that competes directly with an established bank. Usually, a challenger bank will specialise in areas underserved by the established banks. These are digital only banks that provide financial services via computer and mobile Apps but have a physical location. Part 1 of the article introduced neo banks which differ from challenger banks in that neo banks lack the presence of a physical location and all their businesses done exclusively online.
- Infrastructure describes fintech companies offering fundamental hardware, software, and/ or services to FSPs for their core business to function. An example of an infrastructure based fintech is Ripple that enables banks to transfer funds in any currency in real time.
- Wealthtech refers to technology that covers any digital solution designed to facilitate the process of wealth management which involves advisory services to clients, usually the affluent, to enhance their financial situation. Wealthtech tools include investment tools designed to plan investments, manage portfolios, trading platforms where traders trade in real time irrespective of background and qualification like Robbinhood, social trading platform where traders can exchange their cases and opinions, compliance tools that automate regulatory compliance (reg-tech), robo advisors that offer automated planning services with little to no human supervision, digital wallets which analyse and manage income sources and spending as well as algorithmic trading which is a method of executing orders or performing trades based on a predefined set of instructions at a high speed. Other services include digital payments, insurtech, tax planning, succession planning, family governance and wealth structuring.
- BNPL stands for Buy Now Pay Later and is also known as a point-of-sale instalment loan. This facility is an interest free short-term financing option that allows a customer to buy goods or services and pay later without the use of traditional credit providers. At checkout the customer has the option to choose BNP Land is usually required to pay an upfront deposit and the balance is paid in a predetermined number of installments. The installment can be paid by bank transfer, or deductions made through debit/ credit card and automatically through bank account or credit card.

- SaaSor Software as a Service is where a company does not buy the software but accesses the software online via subscription while accounting refers to fintech companies specialised in financial software such as accounting programs, personal finances, credit monitoring, etc.
- Reg-tech involves management of regulatory processes within the financial industry. The main functions include monitoring, reporting and compliance. Reg-tech includes companies that help businesses comply with regulations in a less expensive manner and more efficiently.

The largest fintech companies in the world as at the end of 2021 included the two USA based Visa and Master-card and the Chinese based Ant Financial with market capitalisation of US$478 billion, US$368 billion, and US$312 billion respectively. Visa and Master-card are listed companies specialised in pay-tech while Ant Financial is a private company specialised in open banking. Other fintech companies making the top five included Tencent, a listed company from China and Intuit a listed company in USA specialised in accounting.

Fintech in Africa

Africa has solid footing in the fintech race as it is considered to have the fastest expanding payment and banking market in the world after Latin America. In 2021, about 576 fintech companies had headquarters in Africa up from 491 in 2019 and 301in 2017. The expansion is fuelled by the expanding middle class and a sizeable unbanked and underbanked population in Africa. The five leading African countries in terms of fintech in 2021 where Kenya, South Africa, Nigeria, Seychelles and Rwanda. Some of the largest African fintech companies include:

- Opay – A company founded in Lagos Nigeria and provides a gateway for financial transactions using e-wallet. Services include mobile top up, loans, logistics, food, and grocery deliveries. Opay has a market capitalisation of about US$170 million.
- Yoco – A South Africa based company which processes card payment and is the preferred digital payment network for over small and micro businesses throughout South Africa.
- Flutterwave – Founded in Lagos Nigeria, this fintech runs an API that enables consumers to process credit cards and other payment methods on the African continent. The company processes payments in US dollar, Euro, British Pound, Chinese Yuan, and Nigerian Naira which are necessitated by partnerships with world pay, Visa, and Alipay.
- Yellow Card Financial – A pan-African cryptocurrency exchange established in 2016 with headquarters in Atlanta USA. Yellow card can be used to transfer money, make payments, and safeguard the value of assets from ongoing depreciation of currencies in several African countries.
- Zoona – A Canadian company that targets small and medium businesses in the African markets. Bulk payment comprises their largest product offering.

Fintech in Zambia

The largest fintech segment in Zambia is digital payments and comprises mobile payment transactions, ATM and PoS related transactions. The value of transactions recorded through the National Financial Switch (NFS) was K17 billion in 2021 representing 25 million transactions. Other than digital payments which include mobile and PoS payments, digital commerce, and remittances, fintech companies in Zambia have also been seen operating in online crowdfunding (comprising equity and reward-based crowdfunding), digital investments (comprising robo advisors and neobrokers), marketplace lending (comprises peer to peer platforms for businesses and personal loans), neobanking, cryptocurrencies and Non-Fungible Token (NFT). An Nft is a cryptographic record on a blockchain with unique identification codes and metadata that is associated to a digital or physical asset. The record on the blockchain defines guaranteed ownership allowing for NFTs to be sold and traded.

Conclusion

In conclusion, most fintech analysts agree that the developments in the fintech market indicate that fintech is still in its early stages because the future impact of cloud computing. IoT, AI, and blockchain remain unpredictable. Technological advancements have seen a quantum leap in the recent past calling for the private sector to adapt to remain competitive and relevant in the market and for regulators to develop regulatory frameworks that manage new risks introduced in the market and the economy.

As regulators around the world are still grappling with technologies centered around fintech, particularly cryptos and blockchain, there is a brewing hype around the metaverse technology which is a network of simulated digital environments focusing on social connection of users. It uses persistent virtual worlds, blockchain, and augmented reality to create spaces for interaction online or offer immersive experiences to users. The metaverse is introducing new forms of financing and investments outside the regulatory oversight such as metaverse games, NFTs,crypto, real estate and stocks. It is highly likely that metaverse technology will cause yet more disruptions in the financial sector and of interest is seeing the effect on fintech. In the meantime, fintech remains key in advancing financial inclusion amongst the underserved and unserved adults around the world.

The author is Manager Financial Sector Development in the Non-Bank Financial Institutions Supervision Department

RISK MANAGEMENT AND THE RUSSIA-UKRAINE CONFLICT

By Darius Chilombo

The Russia-Ukraine Conflict hit the world immediately after the COVID -19 pandemic, this prompted risk managers and their firms to reset into the crisis mode once again. The whole set of emerging risks exacerbated by the conflict and the mitigants has been the theme for all risk managers. The conflict has sent the price of crude oil, wheat, trade, growth and inflation soaring and p persistent COVID-19 pandemic-related supply chain woes, threatening a further increase in borrowing costs countries with significant exposures to Russia and Ukraine.

The Bank of Zambia (BoZ) has been alive to the upside-risks imposed by the on-going Russia-Ukraine conflict in relation to its impact on the domestic economy and the BoZ's achievement of inflation target range of 6-8 percent by end-2023.

[1] *MPC Statement May, 2022.*

1.0 Actions taken by supervisory bodies in other jurisdictions

According to the Global Association of Risk Managers (GARP), European Central Bank (ECB) approached lending institutions under its supervision before the outbreak of the war to analyse inter -alia:

- Exposure to Russia-Ukraine war, requested for information on exposures;
- Non-Performing loans (NPLs) and provisions;
- SWIFT transactions;
- Indirect exposures; and Frozen accounts (due to sanctions imposed on Russia).

1.1 Level of preparedness

According to a survey (perspective from risk managers) done by GARP to ascertain the level of preparedness to the conflict, It was revealed that there was a general lack of preparedness amongst firms with moderate to significant exposure to Russia and Ukraine as shown in the chat below.

1.2 Risk Management

Risk Managers in several financial institutions have actively been working on developing mitigants for emerging risks (focus areas being, finance/profitability, Cyber/IT, Business Continuity, Compliance, etc.) rising from the conflict, the following has been the key risk areas for risk managers :

- Governance- most banks are holding daily crisis committees at the highest level, and especially affected banks have dedicated war rooms and crisis support teams.
- Risk appetite and limits, banks with significant exposure to Ukraine, Russia and Belarus actively working on the limits, thresholds, and actions to be taken. Also, most banks downgrading the Russian Federation's credit ratings to pre-default levels.
- Risk identification-concerning, the identification of exposures, banks are reviewing them thoroughly across portfolios – not only direct exposures,but also indirect and

contingent exposures,connected clients, collaterals, deposits, etc.

- Credit risk measurement- specific stress testing scenarios are being produced, such as impacts on GDP due to gas supplies dropping, nationalisation of Russian subsidiaries, further sanctions, etc. Preliminary impacts on profit and loss, capital.
- Compliance - banks reviewing blacklists on a daily basis, and the Know your customer (KYC) and transaction monitoring procedures have been intensified, with stricter rules and dedicated teams or task forces and other related compliance risks regards to sanctions.
- Operational Risk- Cyber-attacks, IT and business continuity in financial institutions are now under maximum alert since the outbreak of the war and pandemic.

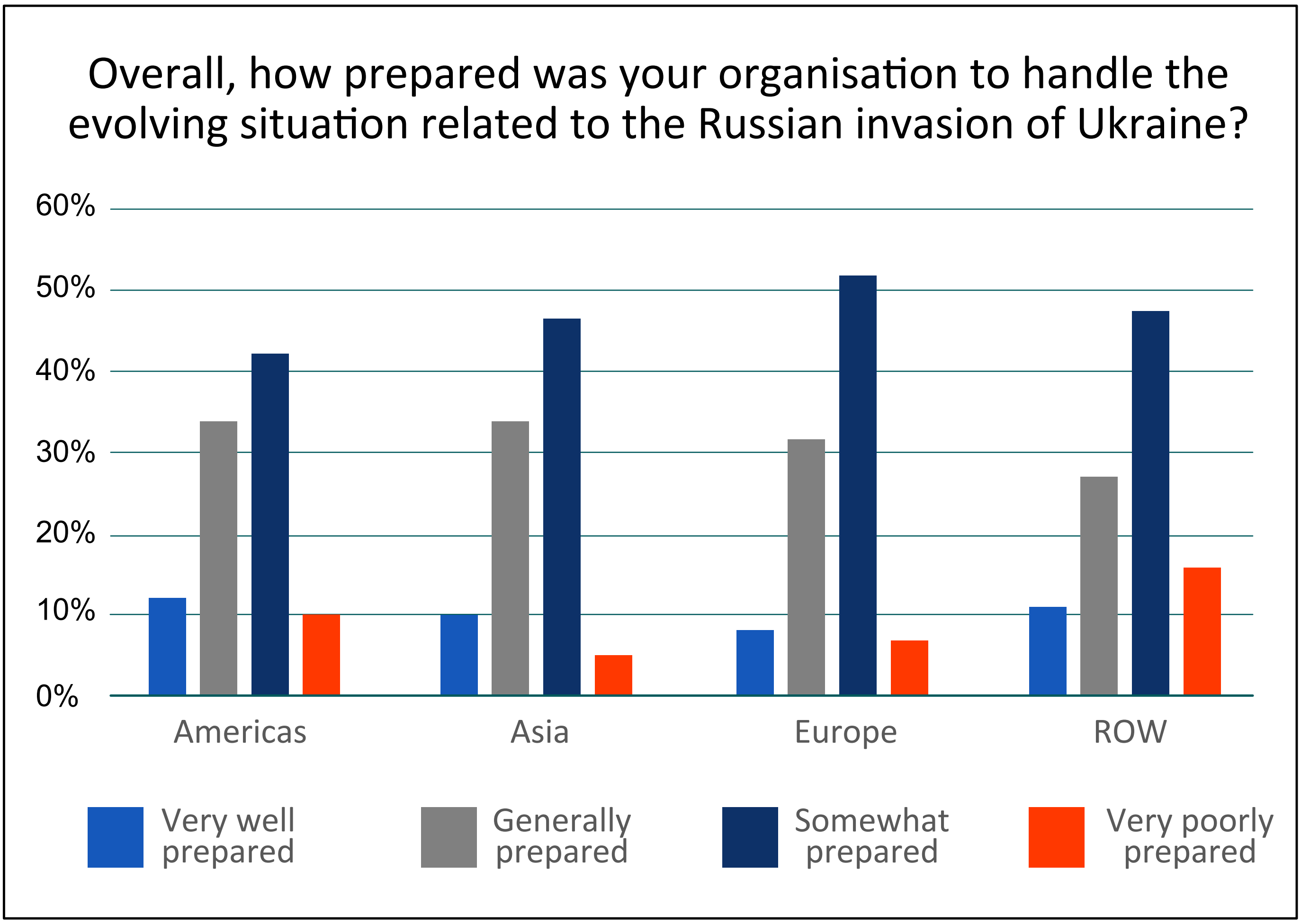
1.3 Bringing it home

The impact of the Russia-Ukraine conflict has been vivid through elevated energy and global food prices which have also contributed to the rising inflation across the globe. The BoZ has been closely monitoring the conflict and its impact in the banking sector. For instance, in the Financial Stability Unit in the Bank Supervision Department, the Unit conducts the stress test (top down) to assess the resilience of the banking sector with the hypothetical scenario being the Russia and Ukraine conflict and the possible impact on the Zambian economy and consequently the financial system.

2.0 Parting thoughts

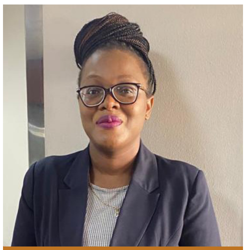
Uncertainty is inevitable in any environment hence the need to follow good tenets of good Risk Management to prepare for the unexpected. Forward looking risk management tools like a robust scenario analysis and stress testing are key to build a more resilient financial sector.

The author is Principal Examiner in the Bank Supervision Department



[2] *Global Risk Managers association, Russia-Ukraine Conflict,2022.*
[3] *European Central bank, Banking Supervision, 2022*

THE RISK MANAGEMENT PROCESS



By Chilombo M. Kapembwa

Effective risk management in central banks is imperative for managing a wide variety of increasing risks. Risks can hold significant consequences if not well managed. Like in all large organisations that significantly affect economies, risks taken in central banking activities need to be analysed in a holistic manner, considering the interaction of different portfolios and operations. For that purpose, a comprehensive risk monitoring and reporting framework is required, which can provide the decision makers with appropriate risk management input. In the case of the Bank of Zambia (Bank), the Risk Management Framework and Policy has set high governance standards in the management of risks.

Risk Governance and the three lines of defence

Risk governance is the subset of corporate governance decisions and actions that ensure effective risk management, including organisational structures, policies, processes and decision-making within the area of risk. Governance guides the course of the organisation, its external and internal relationships, and the rules, processes and practices needed to achieve its purpose.

Management structures translate governance direction into the strategy and associated objectives required to achieve desired levels of sustainable performance and long-term viability. Risk management should be a part of, and not separate from the organisational purpose, governance, leadership and commitment, strategy, objectives and operations as stated in the Bank's Risk Management Framework and Policy. It is important for the Bank to have robust governance arrangements which include a clear organisational structure with well defined, transparent and consistent lines of responsibility. It is also important for the Bank to have effective processes to identify, manage, monitor and report the risks it is or might be exposed to. While risk governance is the responsibility of the Board and Senior Management, all employees have a responsibility of knowing risks that can arise in their areas of operations and the ways in which these risks can be managed.

The Bank has structured its risk management framework in line with international best practices by ensuring that it aligns its risk structure to that recommended by ISO 31000 (Risk Management). This can be explained by the illustration in the diagram below.

First line of defence

The first line of defence acts as the risk owner and is responsible for identifying, managing and monitoring risks in their area of responsibility. Risk owners are responsible for finding primary and alternate methods of mitigating risks. Further, risk owners must take actions to implement the necessary measures that have been identified.

In the Bank, the first line of defence are the business units that perform daily operational activities. The business units are expected to promote a conducive control environment through implementation of risk management policies. Business units are expected to be fully aware of the risk factors that should be considered in every decision and action. Further, business units are expected to execute effective internal controls in all areas of their operations.

Second line of defence

The second line of defence is responsible for coordinating risk management activities in the Bank. This includes the development of risk related policies and procedures, as well as the implementation and monitoring of the Bank's overall risk management. This line monitors and ensures that all business units are conducting risk assessments that are in line with their operations.

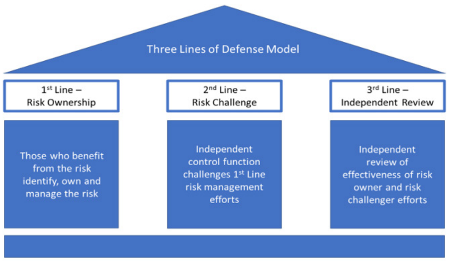
Third line of defence

The third line of defence provides objective assurance to the board and incorporates the principles of the "three lines of defence" model based on the Institute of Internal Auditors.

Is Risk Management at the Bank: just fulfilment of a fixture?

It is said that good risk management fosters vigilance in times of calm and instils discipline in times of crisis. Risk management may be misunderstood by many as fulfilment of fixtures especially when an organisation has not been faced with a crisis. However, it is very important to conduct continuous effective risk assessment to manage ongoing risks and ensure adequate preparedness in the event of a crisis.

Efficient response to a crisis can only occur when we prepare adequately as a Bank. This can be achieved when risks are managed in every part of the Bank's structure. Everyone in the Bank has a responsibility where risk management is concerned. Remember,every member of staff has a role to play in successful risk management.



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NOT ALL CLASSROOMS HAVE FOUR WALLS

By Silvia Siwale

It is said that not all classrooms have walls and travel is one of the best ways to learn about architecture, culture, economics, geography etc. Travel not only teaches us about ourselves and each other, but also broadens our horizons and forces us to refocus on what really matters. However, there's a lot to think about when planning a trip: from getting a visa, to figuring out transportation, to booking accommodation and getting local currency; it can be down right stressful.

Choosing where you want to go sets a defined goal to work towards. It's easier to get behind "I am going to the lower Zambezi in the summer" than "I'm going to Southern Africa." Not only will your trip become more concrete for you, but it also makes planning easier because you know what to work towards. There are many destinations and opportunities that one can explore when they plan travel but rising inflation in the destination of choice can have a negative impact on their travel budget. If one is planning a trip to a destination where inflation is rising fast, it's almost certain they will pay more for goods and services. This is because in an inflationary environment, rising prices inevitably reduce the purchasing power of consumers.

Whether traveling alone or with others, living like a local is my favorite thing to do. I eat from the local restaurants, catch public transport, hit the back streets and get deliberately lost as I roam around. I did however get a shock of my life when I revisited a particular destination in 2019. The high prices and depreciating currency put a tight squeeze on my budget. Roughly every day, prices would double. One day, I stopped by a local coffee shop and to my surprise, the price of the same beverage had increased by the time the next customer was being served! When I privately asked what had changed, I was told that it had been rumoured that prices of flour and coffee could rise the following day and so the business had to hedge against the expected price increases by passing it onto customers. The locals were also finding it increasingly difficult to make ends meet. They were making tough budgeting decisions because the mix of soaring inflation and a currency that lost its value created a cost of living crisis in that country.

I grew keen interest in the happenings in my once upon a time favorite destination and followed the news closely on my return home. The cost of living crisis fueled numerous strikes by Government employees-most of whom went on strike to demand higher pay. With expectations of higher inflation now firmly entrenched, the public lost trust in their monetary authority and become accustomed to skyrocketing inflation. These real life experiences made me appreciate, in practical terms, the need for low and stable inflation.

Although drastic hyperinflation is rare, in general, inflation can become worrisome long before a few billion notes turn into pocket money. Too much inflation causes mass unemployment and depressed wages, which throws cold water on any and all economic growth. Too little inflation, however, can have the same effect. When inflation is very low, it means demand for goods and services is low, which means the economy is constricting and heading toward recession.

A little inflation is healthy, but too much:

- Stops economic expansion
- Depresses wages
- Causes unemployment
- Indicates recession
- Forces Governments and central banks to take drastic and risky actions like printing money, manipulating interest rates and artificially inflating wages

In Zambia, inflation has been a top of the agenda discussion item for a while now, but it is mostly treated from a macroeconomic perspective. However, inflation basically hurts people's purchasing power and there can be huge differences with regards to its impact on individuals. In order to rein in inflation, the BoZ tightens monetary policy by increasing interest rates – a decision which could hamper growth moving forward.

Key Take Aways

- Inflation means the value of money will fall and purchase relatively fewer goods than previously.
- Inflation will hurt those who keep cash savings and workers with fixed wages.
- Inflation will benefit those with large debts who, with rising prices, find it easier to pay back their debts
- Inflation lowers the values of pensions, savings, and Treasury notes. Inflation is usually a bad thing for retirees. Pensioners spend a higher proportion of their income on essential items and as these will cost more in the future, their pension savings will buy relatively less. Hence the importance of anticipation by saving more during the active working life to compensate for the potential loss in purchasing power even if at that time interest rates might be low.
- Assets such as real estate and collectibles usually keep up with inflation.
- Variable interest rates on loans increase during inflation.

Will inflation help or harm you?

Some people will benefit; others will be hurt but can cope, and some will struggle altogether. Inflation does not have an equal impact on everyone. Whether you should be worried about it or not depends on which of these categories you fall in.

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PERSONALITY PROFILE -MUMBI MWILA

In this edition, we feature Director-Human Resources (HR) Department, Ms. Mumbi Kandeke Mwila.

Zambanker: Briefly describe yourself

MKM: My name is Mumbi Kandeke Mwila (Mrs). I come from a family of 6, and I am the 3rd born and oldest girl. My father died when I was 8 years old, so I was raised by my mother whom I consider to be a very strong woman and whose value system has had a great impact in my life. I have four brothers and one sister. My mother, brothers and sister are a part of the great support system in my life.

I am a passionate person, wholehearted in how I carry out my assignments. A greater purpose in what I do is very important to me. I love reading, cooking, travelling, meeting different cultures and learning new things. I have been married for 18 years to a friend, with whom I have two beautiful daughters. My husband and daughters have been a larger part of my support system and challenge me to achieve even higher things.

I hold a Bachelor of Science with Education from the University of Zambia, a Master of Business Administration and I am a fellow with the Zambia Institute of Human Resources Management. I am a certified International Business Leader (CIBL). I completed a General Management Programme with Harvard Business School and I am a Harvard Alumni.

Zambanker: How does the HR function feed into the overall Mission of the Bank?

MKM: The overall purpose of Human Resource Management is to ensure that the Bank achieves success through its employees. By way of strategic partnerships and collaboration, the Human Resources Department recruits, develops and retains a high performing and diverse workforce and fosters a healthy, safe, and productive work environment in order to maximise individual and organisational potential and position. We thus support an engaged, fair and respectful work culture which recognises and rewards the contributions and value of all employees and complies with employment policies, best practices and laws.

Zambanker: What is your vision for the HR department?

MKM: To provide leadership in shaping an equitable and inclusive culture that drives diversity, excellence, and innovation by supporting talent, engagement, and the employee work experience.

Zambanker: What is your role in assisting other departments improve their people practices and adhering to policies?

MKM: My role is multifaceted and includes providing data and information of what is happening to bring about an understanding of the value of a focus on people such as employee engagement surveys, HR management reports and highlighting key issues; formulating policies on how to manage people; facilitating training interventions for leaders and people managers to improve that capability, and setting an example as a people leader as well as coaching where necessary.

Zambanker: Is there a specific culture you want to create and/or build upon in the Bank? If so why?

MKM: Based on my relatively short stay in the Bank and considering the fact that there is a lot to learn and understand, we need increased decision making at the lower levels by creating a culture and environment where everyone can bring in their A Game. You will appreciate that the Bank of Zambia is an institution with great talent and highly capable people, so harnessing all the resources will be for the greater good of the institution. A quicker turn around on various matters would also be achieved with a culture of teamwork. We need to work on greater accountability, where we aim to see closure to issues and not consider a matter closed just because we passed it on to another person.

Zambanker: How do you stay current and ensure compliance with employment laws?

MKM: I read as many books as I can to keep myself updated and to challenge my thinking. I am currently reading a book by Charles Duhigg titled: Smarter Faster Better and I just finished his first book titled ' The power of Habit'. I also subscribe to news publications such as the Economist magazine, which I was individually subscribing to even before I joined the Bank! I also build networks with people in different places of influence to verify and learn what is happening particularly with upcoming statutes. This has meant being part of various professional information sharing platforms. In addition, I work with networks I have built internationally to keep abreast of global trends.

Zambanker: What is your biggest challenge?

MKM: The biggest challenge we are facing in HR is the significant amount of time we spend on administrative functions that need to be automated or done differently so that we can focus on more strategic functions and contribute even more towards the Bank meeting its mission.

Zambanker: How do you stay motivated in this role?

MKM: The truth is I love my work. I pretty much always have. Choosing a career I love has made it easier for me to stay motivated through the tough times. New challenges therefore keep me motivated. I always focus on winning and that helps me to stay on track. Being an example to my children also keeps me motivated as I can't ask of them what I am not willing or ready to do.

Zambanker: Any special recognitions/ past achievements?

MKM: One of my key highlight achievements was receiving an award and recognition for the Best Business Strategy presentation when I was undergoing the General Management Programme at Harvard Business School. It was an exciting and validating experience for me.

I have been invited to speak at different forums specifically on topics such as positioning yourself for success in your career. I have also been invited to facilitate trainings in different parts of the World such as Ethiopia and Dubai with special focus on Strategic Human Resource Management, Change management, aligning HR strategy to Business strategy. I was recently invited to speak at a Reg Tech conference on increasing women participation in Regulatory Technology, as a penalist.

I sit as Board member on the Zambia Public Procurement Authority Board and I chair the Finance and Administration Committee of the Board. Apart from the BoZ appointed Board membership, I also sit on the World Vision Zambia Board and I chair the People and Culture Board Committee. More recently I was invited to be a committee member of the Human Resource Committee of the University of Zambia Board.

Zambanker: What do you love the most about being an HR practitioner?

MKM: I love the opportunity to make people's working lives better-even in a small way!

Zambanker: What are some of the highlights of your illustrious career?

MKM: My career started off by working for a Christian organisation after University and I could say it is one of my first key career highlights because it built important foundational principles that have continued to guide me.

My next highlight was taking on an assignment in Sierra Leone, where I learnt that people are people everywhere, all driven by similar motivations such as purpose, a challenge, recognition (both financially and recognition of effort and contribution), making an impact, improving their lives, doing better than where they are coming from in terms of living standard.

Airtel taught me that the human resources department is important for business success. In the world of for-profit organisations, it means a highly profitable organisation. I learnt that Job security is not in the type of contract you get, it is in the continued success of an organisation and in you being employable.

My time at Zanaco was exhilarating. It was great to be part of a team that formed a strategy together, dreamt together, built great relationships of laughter and a few arguments and disagreements along the way. Being in an environment where we were able to align the HR capabilities and deliver results for the organisation was immensely rewarding! I saw measures like revenue, profitability, employee engagement, customer satisfaction matrices grow and I know that HR contributed significantly to that growth.

Zambanker: If you were a tree, what kind of tree would you be and why?"

MKM: A baobab Tree! Known to reach up to 100 feet tall with a circumference to match, these trees are enormous, providing shelter, food, and water for various life forms. I liken myself to a baobab tree because I have a big heart and I am accommodating of people regardless of where they come from. As a Baobab tree can exist for many years even going up to a 2,000 years,I hope to impact people's lives positively in the long term.

Your last words for the Zambanker reader?

MKM: A purpose driven life is very important. In your current role, it will be key to identify purpose and ensure that what you do is in line with it.

When what is in it for you is clear, you will be motivated.

THE UGLY FAN

By Zelipa Mitti

When I was growing up, we only had one fan in our house. Out of a family of seven people living in five bedrooms, we somehow ended up with just one. It was big, ugly and cumbersome to carry. No one moved it around or kept it in any shared living spaces because it was a real eyesore. One year, in the middle of winter, I took the ugly fan and stashed it in a corner of my room. I claimed ownership of it and no one asked me why. They were probably relieved that they didn't have to look at it anymore.
So why did I move the ugly fan to my room in the middle of winter? Because summer was coming. I will explain.

I'm the type of person who likes winter because no matter how cold it gets, I can always layer up to get warm. At home, I can wrap myself up in blankets, I can wear more socks, or I can drink endless cups of tea to keep the cold out. At work, I can easily add a thick coat to my outfit, or wear layers underneath my clothes. In general, I find it easier to dress professionally in winter. Now summer on the other hand is my least favourite season. The long, claustrophobic and sticky days,the blistering direct beams of sunlight, the dry and dusty air, and don't get me started on the mosquitoes. Getting a good night's sleep in summer is a struggle. But worst of all, summer is difficult because no matter how hot it gets, you still have to wear appropriate clothing even if it makes you feel uncomfortable.

Now back to the story of the ugly fan. Summer came around that year and while everyone else was struggling with the heat, I was happy in my room with the fan on high, keeping me sane and dry. I did my homework with the fan on. I had all my meals while sitting in front of the fan, and I even fell asleep with it running. I barely left my room. This is a funny story from my childhood, but when I think about it now, it is also a life lesson that teaches how one can prepare for opportunities even before they come. It's a lesson about how one can be content in the season that they are in while they prepare and gather the things that they will need for the next season.

Sometimes the best things in life happen when you least expect it because the best opportunities can be brief and fleeting. Take traffic lights for example. The standard order or sequence of traffic lights is red - green - amber. We know red means stop, and we know green means go. Amber means the lights are about to change to red and it is a warning for the driver to slow down and prepare to stop. Amber comes before red, and not before green. There is no warning for the driver to prepare to go. In the same sense, opportunities do not stick around waiting for us to be prepared. This does not mean we should give up wanting the things that we want, it means we should practice contentment in the interim as we prepare for what comes next. How do we practise contentment? We focus on the benefits of the season that we are in (such as easier outfits for work in winter) while we plan for the next season (by claiming the ugly fan).

Staying ready means intentionally and consistently working on yourself and improving your skills. In practice, it's about being hands- on with the ugly tasks that no one wants, but that will give you even the slightest advantage in the long run. It also means using your time wisely not only in actions, but also with your thoughts because the cost of wasting time is very high. What do you spend time thinking about? How much time have you spent doubting yourself? How much of your time have you spent focusing on things that you have no control over? Identify those thoughts that take up your time and increase your mental load and shift them to things that truly add value to your life.

You may not be able to speed up to the next season of your life, but you can take ownership of your time in the current season. You can read more. Take an online course. Teach yourself a new skill that may come in handy one day. Maybe it's a lifestyle change, or a habit you need to implement, or a step outside your comfort zone to try something new that's going to bring you closer to the season you are preparing for. However you choose to do it, stay ready.

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2022
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LABOUR DAY CELEBRATIONS


BENEFITS OF

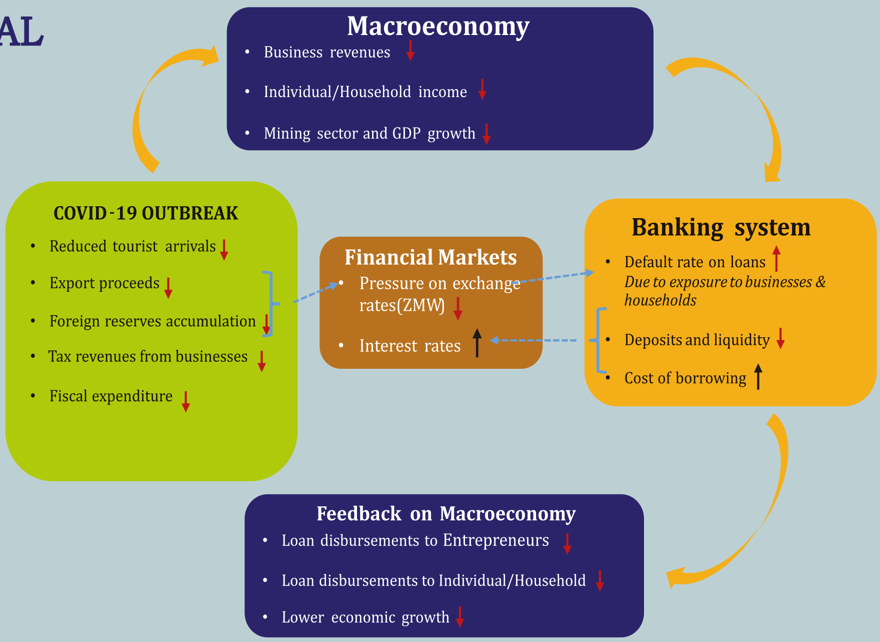

STABLE INFLATION:
DOES IT MATTER
FOR VALUE
ADDITION
AND
SUSTAINABL
GROWTH?

WHAT DO WE MEAN BY FINANCIAL SYSTEMS STABILITY?

Financial system comprise financial institutions, markets and the payment systems. Its core tasks include intermediation, maturity, transformation, transfer of risks, and transfer of funds.

Financial stability is when the financial system is resilient to adverse disturbances (shocks) and is able to smoothly conduct its core tasks.

HOW CAN FINANCIAL INSTABILITY AFFECT YOU?



HOW DOES BoZ ACHIEVE AND MAINTAIN FINANCIAL SYSTEM STABILITY?

Micro-prudential supervision	Macro-prudential supervision
↓	↓
Managing Individual banks' risks	Managing systemwide risks (systematic risk)

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