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FINANCIAL SECTOR ASSESSMENT PROGRAM

November 2017

FINANCIAL SYSTEM STABILITY ASSESSMENT

The Financial System Stability Assessment for Zambia was prepared by a staff team of the IMF for the Executive Board's consideration on October 6, 2017. This report is based on the work of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission to Zambia during July 11–August 3, 2016. The FSAP findings were discussed with the authorities during the Article IV Consultation mission in March 2017. It is based on the information available at the time it was completed on September 25, 2017.

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FINANCIAL SYSTEM STABILITY ASSESSMENT

September 25, 2017

Approved By
James Morsink and Michael Atingi-Ego

Prepared By
Monetary and Capital Markets Department

This report is based on the work of the Financial Sector Assessment Program (FSAP) mission that visited Zambia during July 11–August 3, 2016. The FSAP findings were discussed with the authorities during the Article IV Consultation mission in March 2017. The stress tests were updated during a mission in May 2017. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

- The FSAP team comprised: Paul Mathieu (IMF mission chief) and Uzma Khalil (WB mission chief); John Kiff (IMF deputy mission chief), Susan George, Ivan Guerra, Tito da Silva Filho (all IMF); Michael Deasy, Vern McKinley (IMF experts); Valeria Garcia, Nadeem Karmali, Tanya Konidaris, Marco Nicoli, Fiona Stewart (all WB); and William Paterson and Janine Thornton (WB experts). The FSAP team greatly appreciates the excellent cooperation it received from the authorities.

- The mission met with Dr. Denny H. Kalyalya, Governor of the Bank of Zambia (BoZ); Chief Executive Officer Securities and Exchange Commission (SEC); Registrar Pensions and Insurance Authority (PIA); BoZ deputy governors; the heads of banking, capital markets, insurance, and pension supervision; and other high-level officials, including in the Ministry of Finance (MoF). The mission also met with representatives of financial institutions, law firms, accounting and auditing firms, and professional bodies.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

- This report was prepared by Paul Mathieu and John Kiff, with contributions from the FSAP team.

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Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automated Teller Machine
BADEX	Bond and Derivative Exchange
BFSA	Banking and Financial Services Act
BoZ	Bank of Zambia
CAR	Capital Adequacy Ratio
CSD	Central Securities Depository
CPMI	Committee on Payments and Market Infrastructures
DB	Defined Benefit
DBZ	Development Bank of Zambia
DC	Defined Contribution
DIS	Deposit Protection Scheme
ELA	Emergency Liquidity Assistance
FATF	Financial Action Task Force
FIA	Financial Institutions Act
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program
FSC	Financial Stability Committee
FSDP	Financial Sector Development Plan
FSSA	Financial System Stability Assessment
FX	Foreign Exchange
GDP	Gross Domestic Product
IADI	International Association of Deposit Insurers
IAFSC	Interagency Financial Stability Committee
KYC	Know Your Customer
LASF	Local Authority Superannuation Fund
LOLR	Lender of Last Resort
LTV	Loan-to-Value (Ratio)
LuSE	Lusaka Securities Exchange
MFI	Microfinance Institution
MoF	Ministry of Finance
MTN	Medium-Term Notes Program
NAPSA	National Pension Scheme Authority
NATSAVE	National Savings and Credit Bank
NBFI	Nonbank Financial Institution
NPL	Nonperforming Loan
NPS	National Payments System
OLF	Overnight Lending Facility
OMOs	Open Market Operations
PFMI	Principles for Financial Market Infrastructures
PIA	Pension and Insurance Authority

PSPF	Public Service Pension Fund
PSU	Payment Systems Unit
RAM	Risk Assessment Matrix
RBS	Risk-Based Supervision
RR	Statutory Reserve Requirements
RRP	Recovery and Resolution Plan
SEC	Securities and Exchange Commission
SIFI	Systematically Important Financial Institution
SME	Small- and Medium-Sized Enterprise
SRR	Special Resolution Regime
ZAMACE	Zambia Commodity Exchange
ZECH	Zambia Electronic Clearing House
ZBA	Zambia Bankers Association
ZIPSS	Zambia Interbank Payment and Settlement System
ZMW	Zambian kwacha
ZSIC	Zambia State Insurance Company

EXECUTIVE SUMMARY

Nonperforming loans (NPLs) have risen and private sector credit growth has turned negative, due to the severe pressures of 2015–16. The pressures included slower economic growth, sharply lower copper prices, electricity shortages, very tight monetary policy, and mounting fiscal arrears and severe fiscal funding pressures (Figure 1). These pressures have eased considerably in recent months. Monetary policy had contributed to the financial stress by very tight liquidity and use of administrative measures that shifted costs and risks to the banking system. Most of the administrative monetary measures were unwound in November 2016 and monetary policy has been considerably eased since March 2017. Recent good rainfall has eased electricity shortages and a bumper crop harvest is expected. Fiscal funding pressures have only been partly addressed.

Looking ahead, the financial system faces considerable risks, owing to high dependence on copper exports, rising public debt and funding pressures, and an uncertain monetary policy regime. A sharper-than-expected global slowdown may lead to copper price declines and additional pressures on government finance and the exchange rate. A lack of fiscal adjustment may worsen government payments arrears, further impacting asset quality. Portfolio capital inflows have recovered following the elections and expectations of a major fiscal adjustment. An outdated legal and regulatory framework has become an increasing handicap to the financial sector.

Stress tests suggest that banks are resilient to credit and liquidity stress. In the scenario stress tests, where NPL ratios increased to about 24 percent, total capital adequacy ratios only fell to about 16 percent. However, the tests show that foreign-owned banks—which comprise some 80 percent of banking sector assets—place significant liquidity abroad (largely with their parent banks), which leaves them vulnerable to liquidity concentration risks. A 10 percent 5-day aggregate deposit outflow undermined the liquidity of 11 banks (79 percent of banking system assets), if funds placed with foreign banks are not immediately available due to home country ring fencing or bail-in rules.

Financial supervision is not fully effective due to an increasingly out-of-date legal and regulatory framework, data limitations, and a severely under-resourced supervisor. Staffing shortages at the Bank of Zambia (BoZ) have led to large gaps in timely onsite inspections at banks and deposit-taking nonbanks. These issues are now being addressed. Offsite supervision requires greater analytical content to inform risk assessment and guide onsite inspections. Further, there is insufficiently broad monitoring of concentration risk, especially as regards country and transfer risks of liquidity placed abroad by banks. The BoZ's role as overseer of the national payment system should also be strengthened by allocating adequate resources and ensuring its independence from other functions.

The crisis preparedness framework is not up to the challenges of a period of high risk. Stretched BoZ supervisory resources, weaknesses in the crisis management framework, and a lack of deposit insurance and resolution funding mechanisms have contributed to an overuse of forbearance. Financial institutions usually remain on "watch lists" for extended periods of time, without perceptible corrective actions undertaken. Supervisors of weaker institutions often avoid recommending possession and eventual liquidation. Nevertheless, in mid-2016, three small nonbank deposit-taking institutions were placed into liquidation by the BoZ, and in late 2016 a small bank was intervened. The recent passage of an upgraded Banking and Financial Services Act (BFSA), with enhanced provisions for crisis management, is welcome. It is important that the regulations under the new Act be quickly put in place.

Troubled banks have also accessed the emergency liquidity assistance (ELA) instruments, with weak limitations and safeguards on its use. The Bank of Zambia Act provides for open-ended ELA without any Ministry of Finance (MoF) indemnification of any resulting BoZ losses, suggesting that the BoZ may not be able to handle a crisis situation that may arise. An upgraded draft BoZ Act is under preparation, as is a deposit insurance Act.

For the insurance sector, the Pension and Insurance Authority (PIA) is hampered by a legal and regulatory structure that does not meet international standards and does not grant sufficient powers for it to intervene proportionately. The Insurance Act does not require any risk-based calculations of insurers' solvency levels, and the draft Insurance Bill would not allow such provisions to be implemented.

In terms of financial market infrastructure, the BoZ is leading the modernization of the National Payment System, but additional efforts are needed to meet international standards and good practice. Zambia has made strides in improving its credit information system, but the quality of information in the credit bureau could be improved by better monitoring by the BoZ and finalizing the Credit Reporting Bill. While Zambia has a relatively well-developed legal and judicial system, the insolvency framework is outdated. Reform is needed to insolvency legislation to incorporate best practices, such as modern corporate restructuring and robust regulation of insolvency practitioners. Registries of security interests should be made more efficient and further modernized.

Access to finance has worsened for small- and medium-sized enterprises (SMEs) in Zambia in recent years. The limited provision of SME finance, including state-owned nonbank financial institutions (NBFIs) and capital markets, have left SMEs significantly underserved. Challenges include high levels of informality and collateral requirements, and poor bank lending tools. This has been exacerbated by recently very high real interest rates and crowding out of private credit markets by government debt.

Table 1 provides a summary of the key recommendations.

Table 1. Zambia FSAP Key Recommendations

Recommendations and Authority Responsible for Implementation	Time[1]
Bank Supervision and Regulation	
Upgrade the BoZ and banking Acts to grant BoZ operational independence, provide for Basel II–III standards, sole BoZ licensing powers, setting down broad supervisory principles and leaving the details for regulations.	I
Complete onsite inspections of all banks and nonbanks, and conduct an asset quality review that focuses on the loan classification process.	I
Introduce a regular cycle of onsite inspections on a risk basis, informed by offsite analysis.	NT
Implement a centralized, structured, relational database for banking supervision and stress testing.	I
Urgently increase staff resources, in number and expertise, in an orderly and manageable fashion.	I
Introduce a consolidated supervision regime and BoZ implement the new risk-based approach to onsite supervision.	NT
Introduce proactive information sharing by BoZ with home supervisors of Zambian banks and ensure that BoZ is involved in resolution plans of parents of Zambian banks.	NT
Issue risk management directives incorporating concentration and cross-border exposure limits.	NT
Strengthen the Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) legal framework and terrorist financing offense, in line with the Financial Action Task Force (FATF) standards.	NT
Crisis Preparedness and Management	
Stipulate exceptional nature of ELA in regulatory texts and establish adequate statutory safeguards to prevent the BoZ from providing solvency support.	I
Include purchase and assumption, bridge bank, and bail-in resolution provisions in new BFSA.	I
Refine Draft Deposit Protection Scheme (DIS) Bill in line with IADI norms.	I
Introduce DIS law only once the preconditions for deposit protection are fully in place, as per IADI norms.	NT
Capital Markets, Pensions, and Insurance	
Review Insurance Bill to allow enforcement of risk-based solvency criteria and market-conduct supervision before submission to Parliament.	I
Pass Securities Bill to allow SEC to conduct effective supervision and enforcement.	I
Rollout uniform compliance-based supervision by SEC, ahead of implementing risk-based supervision.	I
Upgrade SEC systems and staff resources	I
Insolvency and Creditor/Debtor Rights	
Reform insolvency legislation (Companies Act and Insolvency Bill) to incorporate best practices, such as modern corporate restructuring and robust regulation of insolvency practitioners.	I
Payment System, Credit Information, and Consumer Protection	
Finalize Credit Reporting Bill and ensure compliance with BoZ directive to report to credit bureau.	I
Assign adequate resources to payment systems oversight function and ensure its independence from other BoZ functions.	NT

[1] "I (immediate)" is within one year; "NT (near-term)" is one–three years; "MT (medium-term)" is three–five years.

MACROFINANCIAL SETTING

A. Macro Environment

1. **Economic growth fell in 2015–16, reflecting poor rainfall, low copper prices, electricity shortages, and tight monetary policy in order to stabilize a plummeting Zambian kwacha**. Unremunerated reserve requirements were increased to 18 percent in April 2015, and the policy interest rate was raised to 15.5 percent in late 2015 as inflation spiked. In April 2016, the BoZ further tightened banking system liquidity through forced sales of foreign exchange (FX) to banks and restricting access to the overnight lending facility (OLF). This stabilized the kwacha, but drove the interbank interest rate above 28 percent and froze the interbank FX market and the demand for government paper fell. Banks also raised lending rates sharply and widened interest margins. Interbank rates have since come back down, and in mid-November 2016, the BoZ reinstated daily OLF access and a weekly constitution period for statutory reserve requirements. In early March 2017, the BoZ initiated a significant easing of the very tight monetary policy.

2. **The banking sector has been under considerable stress.** NPLs have risen sharply on the lingering impact of slower economic activity, sharp kwacha depreciation in 2015, high lending rates since mid-2015, and rising government arrears (Figures 2 and 3). As of mid-2017, NPL ratios had risen to over 12 percent, and are highest in the hospitality sector (73 percent), real estate and construction (38 percent) and agriculture (20 percent)—all sectors with high electricity needs that were affected by power shortages in 2016 due to the prolonged drought. The large exchange rate depreciation has also impacted the private sector's ability to service its foreign currency debt. The reported deterioration of asset quality appears modest under the circumstances and may not yet fully capture the momentum of earlier high financial pressures. The sector is also strongly linked to the deterioration of the government's fiscal position via the impact of its arrears on borrowers' ability to pay loans. Three smaller nonbank financial institutions went into insolvency and were seized by the BoZ in May, and a small bank in December 2016.

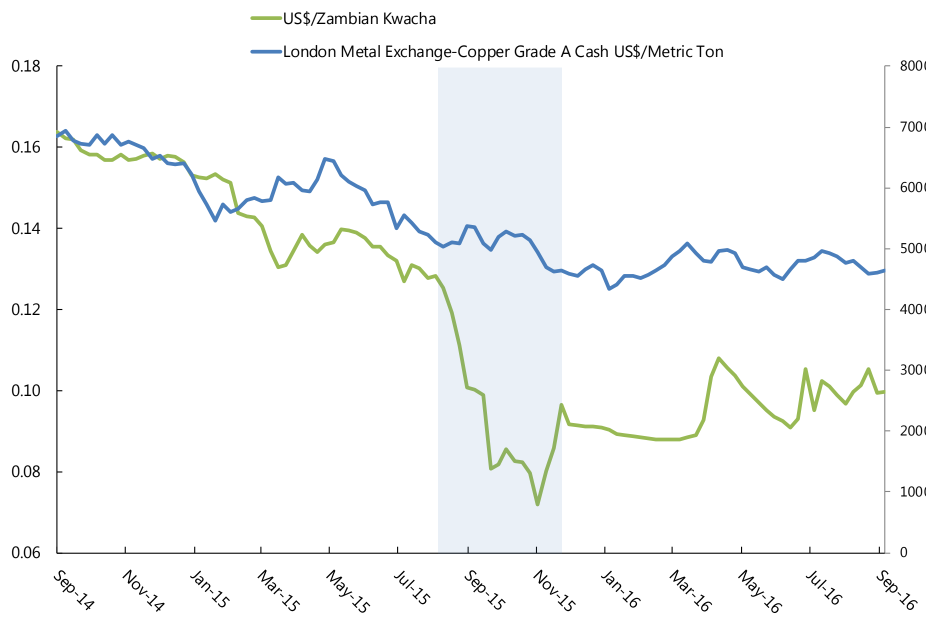
3. **The loss of correspondent banking operations appears limited as foreign banks account for some three-quarters of the banking system**. Banks have maintained their presence in Zambia throughout the near crisis period, but have de-risked their operations and built cash balances abroad.

4. **The implementation of 2008 FSAP recommendations has been quite limited, especially regarding the legal framework** (Table 2). Although the 2008 FSAP found that the banking system was well capitalized and liquid, bank risk management systems were found lacking. Also, retail lending standards were found to be weak and exposure to foreign banks was seen as a potential risk. Since 2008, the legal and regulatory framework has become an increasing handicap to appropriate supervision of the financial sector. The lack of progress appears to primarily reflect a loss of capacity to carry the legal revisions through government (Ministries of Finance and Justice). The BoZ has felt compelled to resort to parallel reporting requirements (e.g., on Basel II norms). These problems are now being addressed with the passage in April of the upgraded BFSA.

Figure 1. The Role of the Price of Copper

Zambian Kwacha versus Copper Price

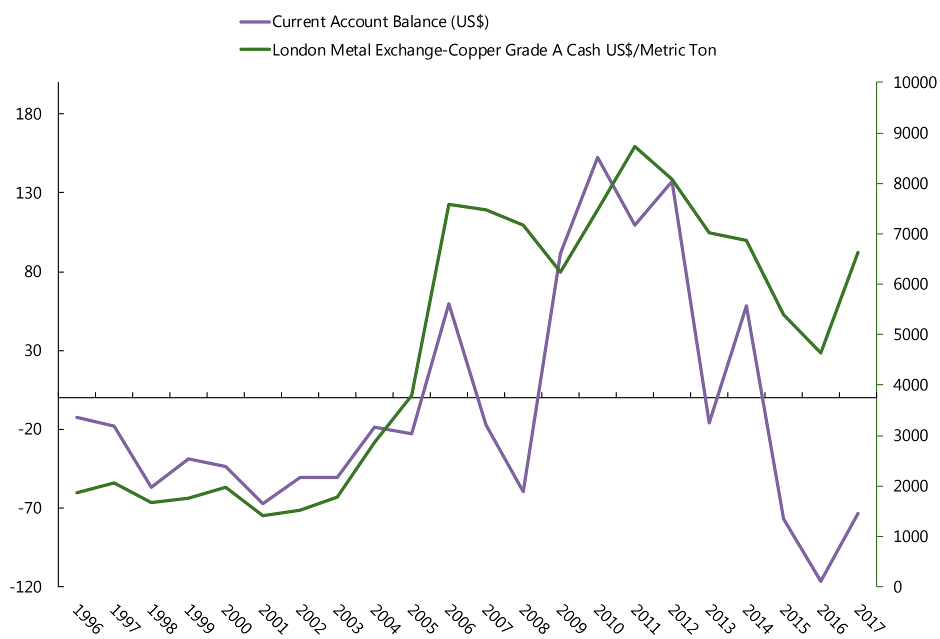
The exchange rate delinked from copper prices for several months in mid-2015 under fiscal and monetary policy impulses that led to a period of financial instability and stress.



Source: Datastream.

Copper Price versus Current Account Balance

The current account is dominated by copper earnings.



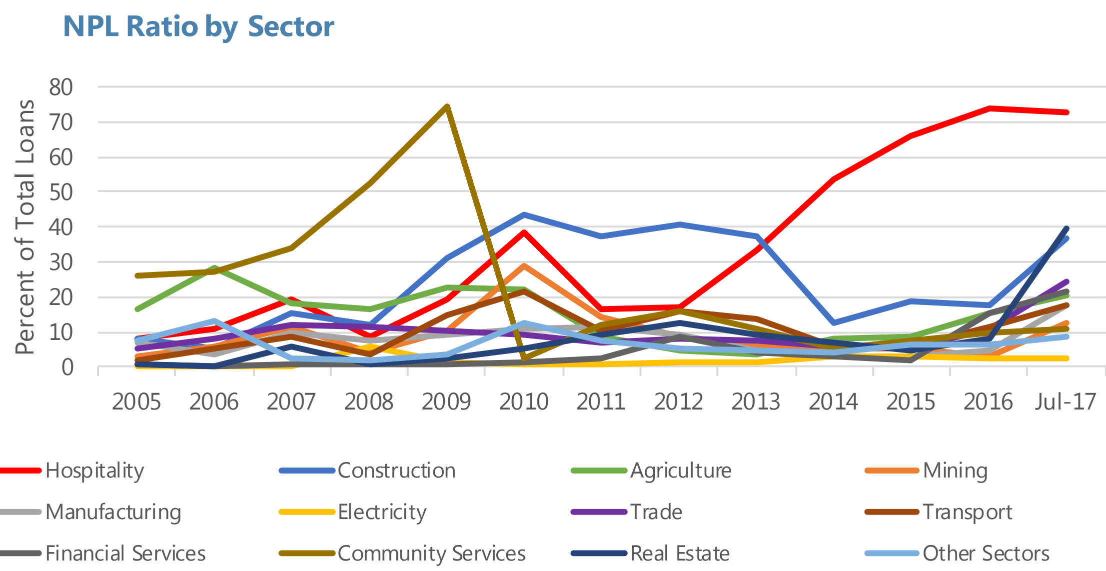
Source: Datastream.

Table 2. Zambia: Progress on 2008 FSSA

Recommendation	Status of Implementation
Step up monitoring of banks' risk management practices, lending standards, and funding via frequent stress testing; address emergency risks.	BoZ has drafted a stress testing framework and guidelines for banks; awaiting Supervisory Policy Committee (SPC) approval. However, data collection, validation, and processing is limited by technology constraints, overwhelming analytical capacity.
Develop financial services crisis preparedness plan and enhance Lendor-of-last-Resort (LOLR) mechanisms.	Crisis management and resolution framework drafted and due for completion Q4 2016 LOLR policy revised and approved by the Board in 2010; draft revised LOLR policy circulated August 2015, undergoing further review due for completion Q4 2016.
Execute MOUs with supervisory authorities of parent banks of foreign-owned institutions to share information on risks and to handle crisis management issues.	MOUs with the Bank of Nigeria, Kenyan Central Bank, Reserve Bank of Malawi, China Banking Regulatory Commission. Bank of Namibia, and Reserve Bank of India in progress.
Amend BoZ Act and BFSA to better ensure the independence of the BoZ, particularly in respect of guaranteeing the tenure of the Governor.	Constitution amended to enshrine the BoZ's functional independence. Draft amendments to BoZ Act to address Governor's tenure security.
Further improve liquidity forecasting and set an earlier cut-off for government transactions.	Forecasting framework has been improved but issue of government transactions cut-off still outstanding.
Reduce open market operations (OMOs) to once per day and concentrate on fewer maturities, and introduce an overnight standing facility that accepts all government securities.	OMOs are at the discretion of the BoZ. Overnight Lending Facility accepting government securities and term deposits introduced in 2012, but access restricted in November 2015 to once a week per participant. Rediscounting window available but have to have held securities for 75 percent of their life, and punitive penalties.
Establish plan for developing secondary market in government bonds.	Consultation in 2010; some activities have been undertaken, but secondary market activity is low, and consultation to be restarted.
Improve credit information framework by enacting law for credit reference services.	Credit Reporting Bill drafted and submitted to the Ministry of Justice in 2014.
Reform insolvency and creditor rights legal framework to address court delays, inefficient collateral registration, and high costs of enforcement procedures.	Movable Property (Security Interest) Act, providing for a unified collateral registry, enacted in Q2 2016. The Insolvency Bill drafted in 2012 is still pending, now with the Ministry of Justice.
Encourage banks to introduce basic accounts as entry points for currently unbanked.	In 2011, a Practice Note was issued for 'relaxed Know your Customer (KYC) guidelines.' The market uptake overall has been limited—with the exception of some banks—also partly due to the lack of a firm, tiered KYC policy.
Specify mandate of Development Bank of Zambia (DBZ) as a second-tier provider of selected financial services.	Not implemented. In fact, DBZ is primarily undertaking direct retail lending to SMEs.
Privatize NSCB (National Savings and Credit Bank of Zambia) in a similar way to ZANACO (Zambia National Commercial Bank).	NSCB has been designated as the government driver for enhancing rural finance and is not being considered for privatization.
Strengthen the institutional infrastructure for capital markets by implementing internationally accepted standards for governance and financial reporting.	Securities and Exchange Commission (SEC) and Lusaka Securities Exchange (LuSE) working toward applying internationally accepted standards for governance and financial reporting.
Issue pension scheme regulations, including investment guidelines.	Pensions Scheme (Investment Guidelines Regulations issued 2011, (Statutory Instrument No. 141).
Strengthen autonomy of the PIA and its supervisory capacity.	PIA funding has been independent, via levies imposed on industry, since 2007. Training and capacity building for staff ongoing.
Introduce risk-based solvency criteria for the insurance industry.	Not yet introduced. Draft Insurance Law needs to be revised to allow for risk-based solvency regime to be implemented
Elaborate a medium-term financing plan for financing closed pension schemes and for increasing the NAPSA funding level.	Pension reforms, including on public sector pension fund funding levels, in draft National Social Security Bill. Plans need to be further elaborated and discussed with stakeholders.
Ensure the operational reliability of the RTGS system to facilitate the timely completion of daily processing.	Second generation RTGS implemented in 2014 but further Disaster Recovery (DR) work is still underway.
Upgrade business continuity arrangements.	Business continuity plans (BCPs) are in place and tested on a quarterly basis.
Establish a BoZ payment systems oversight function.	Established, but staffing levels need to be enhanced and organizational structure revised.
Establish linkages to integrate RTGS and depository systems and also achieve straight-through processing for payment transactions.	RTGS integrated with BoZ Central Securities Depository (CSD), but not with LuSE CSD. STP (straight-through processing) enabled but not yet fully achieved by all participants.

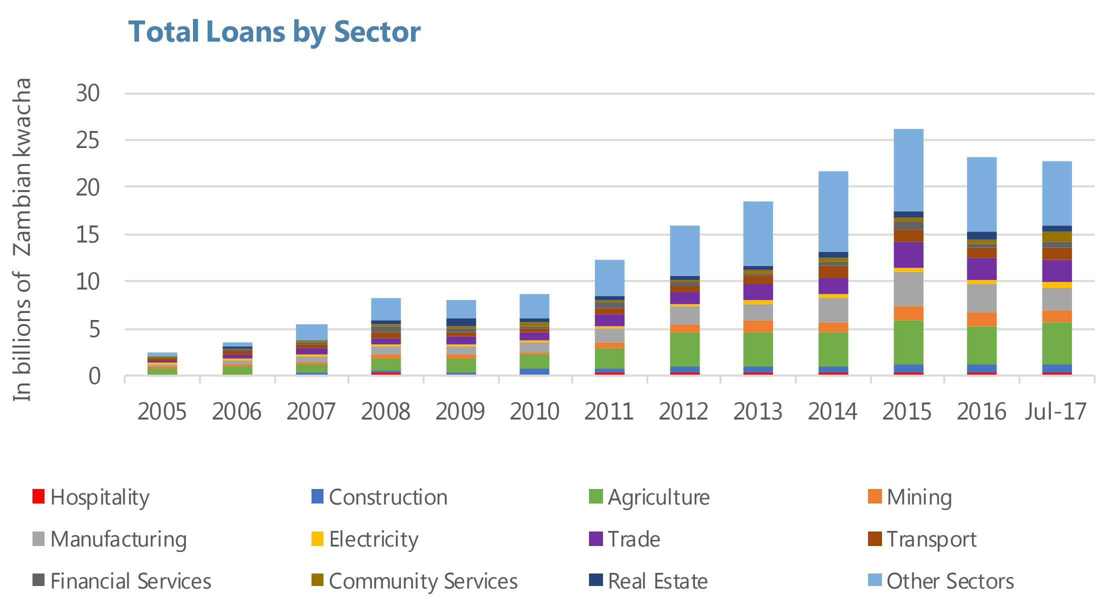
Figure 2. Zambia: Nonperforming Loans

NPLs are highest in hospitality, construction, and agriculture.



Source: BoZ.

Loans to the agriculture sector are 18 percent of the banking system portfolio.



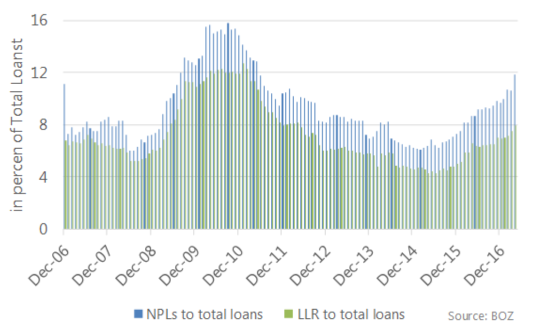
Source: BoZ.

Figure 3. Zambia: Asset Quality and Profitability, April 2017

Asset Quality

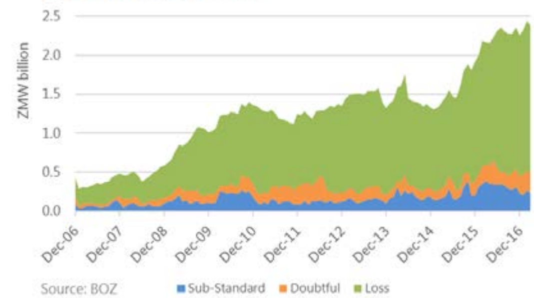
The NPL ratio has risen sharply, and appears to have peaked, at about 12 percent by mid-2017.

NPLs and Coverage



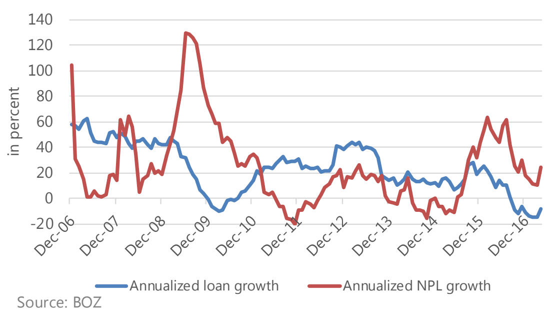
Or by ZMW 0.5 billion since end-2015.

Nonperforming Loans



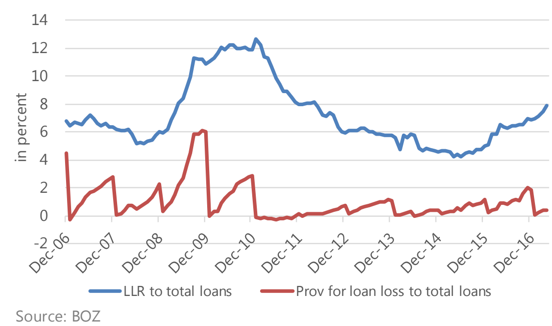
Strong loan growth smooths ratios but NPL growth has accelerated, as last seen during the Global Financial Crisis.

Annualized Loan and NPL Growth



Loan loss reserves (LLR) might not be enough credit risk buffer if provisions are held back.

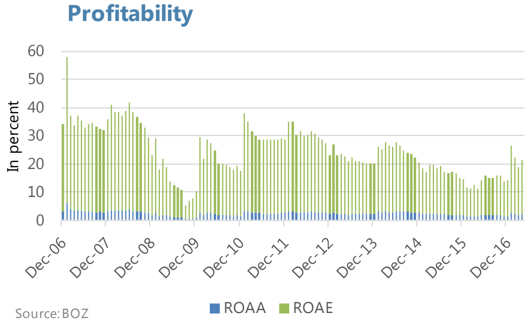
LLR Stock and Provisions Flow



Profitability

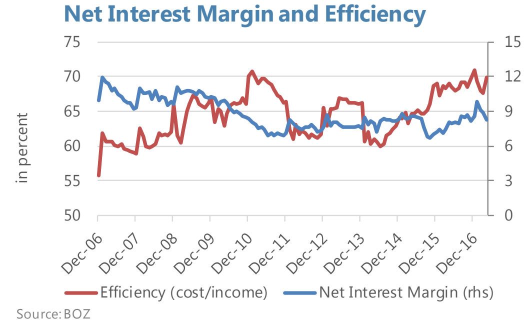
Profitability is high but declining.

Profitability



High Net Interest Margin is being hit by increased costs.

Net Interest Margin and Efficiency



B. Financial Sector Structure

5. Zambia's financial system is relatively underdeveloped and bank dominated (Table 3). Banks account for about 67 percent of total financial sector assets, with majority foreign-owned banks, all of which are subsidiaries of their parent banks, accounting for about 83 percent of total bank assets. The nonbank financial institution (NBFI) sector is dominated by pension funds, of which the government-run National Pension Scheme Authority (NAPSA) accounts for about three-quarters. Microfinance institutions (MFIs) comprise 8 percent of total nonbank financial sector assets, and insurance companies 12 percent. Other NBFIs include building societies, leasing companies, development finance institutions, and FX bureaus.

6. The BoZ-regulated NBFIs sector is small but plays a growing role. At end-2016, the sector comprised 34 microfinance institutions (MFIs); 8 leasing companies; 73 FX bureaus; 4 building societies; a development bank (Development Bank of Zambia); a Savings and Credit Institution (National Savings and Credit Bank); and a credit reference bureau. Unlike in many other Sub-Saharan African countries, financial cooperatives are not common in Zambia. Although growing rapidly, MFIs represent a small proportion of financial sector assets and are primarily focused on payroll lending. In 2014, the BoZ raised the minimum primary capital requirements so that, by end-2016, deposit-taking MFIs are required to have ZMW 2.5 million. The adoption of mobile money has been tepid, despite Zambia's sparse rural population, due to insufficient investment by mobile network operators, inadequate product design, lack of a low-income remote area strategy, low levels of consumer education, and a poor telecommunication and electricity network.

7. The pension sector in Zambia covers only about 7 percent of the labor force. The National Pension Scheme—managed by the National Pension Scheme Authority (NAPSA)—covers all private sector employees and public sector workers who joined the labor force after 2000. The NAPSA is a young scheme with a positive cash flow and is generating a surplus. Almost all occupational pension schemes are defined contribution in nature. The mandatory NAPSA and public sector schemes are all defined-benefit schemes. There are no individual pension savings product and no coverage for the vast majority of informal sector workers. Pension schemes represent the main domestic institutional investor base, but a large share of their assets is held in short-term instruments and in real estate. In 2015, their assets under management amounted to 9 percent of GDP. The NAPSA manages about 65 percent of the sector's assets, of which about two-thirds are currently invested in government securities and fixed deposits.

Table 3. Zambia: Financial Sector Structure (End-December 2016)

	Assets (In millions of kwacha)	Percent of Total Assets	Foreign Ownership (In percent)
Banks	**64,679**	**66.7**	
Stanbic	*10,489*		*100*
Barclays	*8,627*		*100*
Stanchart	*8,111*		*90*
Zanaco [1]	*7,798*		*46*
Bank of China	*6,058*		*100*
First National	*5,415*		*100*
BancABC	*3,223*		*100*
Finance Bank	*3,298*		*100*
Indo Zambia [1]	*2,956*		*60*
Citibank	*2,282*		*100*
Ecobank	*1,574*		*100*
Investrust	*1,284*		*0*
Cavmont	*1,037*		*96*
First Alliance	*657*		*49*
Access	*577*		*100*
First Capital	*532*		*49*
UBA Zambia	*548*		*100*
AB Bank	*213*		*100*
Pension Funds	**22,590**	**23.3**	-
Insurers:	**3,906**	**4.0**	-
Life	*2,491*		-
Non-Life	*1,415*		-
Microfinance	**2,703**	**2.8**	-
Building Societies	**1,034**	**1.1**	-
DBZ [2]	**961**	**1.0**	-
NATSAVE	**583**	**0.6**	-
Other [3]	**558**	**0.5**	-
Total	**96,964**	**100.0**	

Source: BoZ.
[1] Significant government minority stake.
[2] Development Bank of Zambia.
[3] Leasing companies and FX bureaus.

8. **The insurance industry is small but growing, with some small firms facing solvency issues.** The insurance industry increased from 11 licensed companies in 2008 to 33 in 2015, largely due to international and regional firms entering the market; of these, 22 are general and 11 long-term insurance (which is mostly group and individual life including the fast-growing funeral and credit insurance segments), though the latter has slowed as interest rates have increased.[1] However,

[1] The 1997 Insurance Act was amended in 2005 separating life and non-life insurance.

insurance sector assets remain very low at approximately 1 percent of GDP. Market share is concentrated, with four main companies dominating the general market with a combined share of 70 percent, and the largest life insurer controlling more than one-third of the market. As of December 2014, the PIA registered four general insurers as falling below the 10 percent excess-solvency margin required in the Insurance Act. Profitability in the sector is very low. The state insurer, ZSIC, has been on the supervisory watch list for seven years. Bancassurance and other innovative channels (such as via mobile phone access) have yet to take off.

FINANCIAL STABILITY

A. Overview of Risks and Vulnerabilities

9. Zambia faces a number of significant external and domestic risks that, in combination with vulnerabilities, have the potential to undermine financial stability (Risk Assessment Matrix Table 9). The largest external risk factor is the world price of copper. Important domestic-source risks include the crowding out of private credit markets by fiscal funding needs, large budget payments arrears, electricity shortages, and very high real interest rates. In 2015–16, monetary policy had shifted a significant burden to the financial sector (through high and unremunerated statutory reserve requirements (RRs)) and heightened liquidity management risks through the use of administrative measures. Financial supervision is not fully effective due to the increasingly out-of-date legal and regulatory framework coupled with severe resourcing constraints, the latter resulting in large gaps in timely onsite inspections. NPLs have been rising rapidly and banks may be under-provisioning for credit losses. Also, foreign-owned banks, which comprise some 80 percent of total banking sector assets, place significant liquidity abroad—presumably with their parent banks—that leave them vulnerable to liquidity squeezes. These pressures have eased significantly in 2017, but NPLs continued to rise through mid-2017 on their lingering impact.

B. Banks Generally Resilient to Credit Stress but Vulnerable to Liquidity Stress

10. Stress tests to assess the resilience of Zambian banks to credit and liquidity risks were performed. The BoZ does not conduct regular stress testing; its oversight would benefit from developing such capacity. Solvency and liquidity stress tests were based on two macroeconomic scenarios: top-down using December 2016 data and bottom-up using June 2016 data.[2]

- A severe V-shaped drop in electricity DP growth equivalent to 5 percent in 2017 but rebounding to zero and 5 percent in 2018 and 2019, respectively, possibly associated with an electricity crisis in a country that frequently experiences power shortages.

[2] The stress tests were updated by a mission in May 2017, based on end-December 2016 data.

- A protracted U-shaped recession with overall GDP growth equivalent to -3 percent in 2017 and - 2 percent in 2018, but recovering to 0 percent in 2019, possibly associated with a long slump in copper prices.

A mild and a severe liquidity test was also conducted as well as a test for operational risk.

11. Due to concerns that banks may be under-recognizing credit losses, the level of NPLs in the baseline were increased by 20 percent.[3] This adjustment resulted in regulatory capital for the banking sector falling from 26.2 to 24.8 percent, but above the regulatory minimum of 10 percent. Given doubts about actual level of NPLs and the backlog of bank examinations, an asset quality review could usefully focus on the actual loan classification process.

Solvency Risk

12. Thanks to high loan-loss reserve and capital buffers, the system appears to be generally resilient to credit stress (Table 4).[4] In the GDP and power shock scenarios, while NPL ratios shoot up from 9.7 percent to 23.5 and 23.9 percent, respectively, capital adequacy ratios (CARs) drop to 16.2 and 16.6 percent, respectively, still above the regulatory minimum. This is explained by high initial CARs, loan-loss reserves and low loan balances with respect to the total balance sheet.

13. The system's resiliency to credit shocks was tested by three extreme sensitivity tests. First, aggregate NPLs were increased to 30 percent, and secondly, the five largest exposures for each bank were assumed to become nonperforming and provisioned at 30 percent. Thirdly, to reflect potentially heavy exposures of foreign-owned banks to their parents, 50 percent provisioning was applied to their foreign claims. Under these extreme sensitivity tests, four banks have CARs below the regulatory minimum of 10 percent, one bank becomes insolvent, and the average CAR for the system falls below the minimum under the third shock of the loss of foreign claims (these losses were further explored under the liquidity stress tests). One bank also becomes undercapitalized when its five largest exposures underperform.

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[3] The 20 percent NPL reclassification increase adjustment is based on the experience of BoZ examiners.

[4] As of December 2016, total loans amount to 36.0 percent of total system assets and the current NPL ratio was 9.7 percent of gross loans. Loan-loss reserves were high, at about 71.5 percent of NPLs and loan growth had reversed to -11.1 percent. The solvency of the system was 26.2 percent of total capital adequacy and 23.4 percent of Tier 1 ratio.

Table 4. Zambia: Summary of Solvency Stress Tests—All Banks

	Banks Included in Test	Number of banks with CAR under 10 %	Number of banks with CAR under 0 %	Percent of Banking System Assets with CAR under 10 %	Percent of Banking System Assets with CAR under 0 %	CAR (Banking System Average	Total Losses/2016 Net Income in %
Baseline	18	0	0	0	0	26.2	…
		Solvency risk					
		Scenarios [1]					
GDP shock	18	4	1	16	16	16.2	231.1
Electricity shock	18	3	1	16	16	16.6	219.7
		Sensitivities					
Stocks							
Underprovisioning	18	1	1	2	2	24.8	61.6
Loan migration:							
NPLs increase by 30% and provisioned at 30%	18	0	0	0	0	26.2	20.7
NPLs increase by 30% and provisioned at 100%	18	1	0	2	0	25.1	69.0
NPLs increase by 100% and provisioned at 30%	18	1	0	2	0	25.1	69.0
NPLs increase by 100% and provisioned at 100%	18	2	1	16	2	21.2	230.1
5 largest exposures become NPLs	18	1	0	13	0	21.0	222.8
50% Provisioning of non-resident claims	18	4	1	55	13	9.3	632.5
		Idiosyncratic risk					
Loss/fraud: 10% of pre-impairment income	18	0	0	0	0	24.4	80.8
Pandemic: 30% of operational expenses	18	0	0	0	0	25.3	40.4

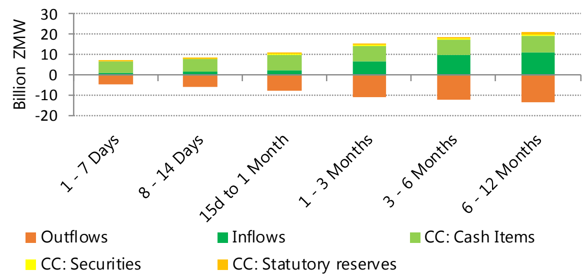
Source: IMF staff calculations.

[1] Three-year losses.

Liquidity Risk

14. A cash flow-based liquidity stress test was performed using bank-level data on the temporal structure of cash flows generated by different liabilities and assets (Figure 4). These were mapped to scenarios of run-off rates for liabilities, and roll-off rates for assets and haircuts for counterbalancing capacity (CC) such as securities and statutory reserves, for time horizons ranging from one day to five years (see stress test technical note for detailed scenario assumptions and results).

Figure 4. Cash Inflows and Outflows, and use of Counterbalancing Capacity in Stress Scenario



Source: IMF staff calculations.

15. The results show that banks have adequate buffers to meet the cash outflows in the simulated scenario, with no banks experiencing cash shortfalls. The buffers are composed of cash items matching one month of outflows with inflows from maturing assets picking up the slack thereafter

16. The cash flows-based stress-test results, however, hinge on the availability of balances with financial institutions abroad. Thus, further reverse liquidity stress tests were implemented to test for the lack of this liquidity component. These tests assumed two scenarios of sustained five-day outflows of aggregate deposits in a system that lacks a deposit insurance scheme (Tables 5 and 6). The outflows were assumed to be funded by a fire sale of liquid assets. These reverse stress tests also appear to confirm that the system is resilient to mild but not to severe liquidity stress: In "mild" scenario, deposit outflows were assumed to be 5 percent per day over five days. In the "severe" stress scenario, deposit outflows were increased to 10 percent per day. In both scenarios, under the current BoZ liquidity definition, all banks remained liquid with positive net cash inflows from liquid and, to a lesser extent, from non-liquid assets.

17. However, the results worsen dramatically if the availability of banks' balances with foreign financial institutions is not assumed. Particularly for foreign-owned banks, such balances are likely held by their parent companies and potentially large. Should these balances not be immediately available, due to implementation of ring-fencing or bail-in rules at home countries, the definition of liquid assets should be narrower. Hence, a further liquidity stress test was carried out on a "core" liquidity definition that excludes balances at foreign financial institutions (last columns of Tables 5 and 6). Under this narrower definition, in the severe scenario, two banks (9 percent of banking system assets) were illiquid after day four, and five banks (56 percent of banking system assets) were illiquid after the fifth day.

Table 5. Zambia: Summary of Liquidity Stress Tests—All Banks

All banks	**Liquidity (BOZ Liquidity definition)**		**Core Liquidity (Loss of balances at financial institutions abroad)**	
Scenario	Mild	Severe	Mild	Severe
Size of daily withdrawals	5	10	5	10
	Number of Illiquid Banks			
Iliquid banks after 1st day	0	0	0	0
Iliquid banks after 2nd day	0	0	0	1
Iliquid banks after 3rd day	0	0	0	1
Iliquid banks after 4th day	0	0	1	2
Iliquid banks after 5th day	0	0	1	5
Total banks tested	18	18	18	18

Source: IMF staff calculations.

Table 6. Zambia: Summary of Liquidity Stress Tests—Percent of Banking System Assets

All banks	**Liquidity (BOZ Liquidity definition)**		**Core Liquidity (Loss of balances at financial institutions abroad)**	
Scenario	Mild	Severe	Mild	Severe
Size of daily withdrawals	5	10	5	10
	Percent of Banking System Assets			
Iliquid banks after 1st day	0	0	0	0
Iliquid banks after 2nd day	0	0	0	8
Iliquid banks after 3rd day	0	0	0	8
Iliquid banks after 4th day	0	0	8	9
Iliquid banks after 5th day	0	0	8	56
Total banks tested	100	100	100	100

Source: IMF staff calculations.

Idiosyncratic Risk

18. Banks did not appear particularly vulnerable to idiosyncratic risk. These scenarios took the form of an event affecting 10 percent of pre-impairment income and another one affecting 30 percent of operational expenses. The write-off costs were of about 2 percentage points of CAR and less than a year's worth of net income.

Bottom-Up

19. The bottom-up stress tests confirm the top-down solvency and liquidity stress tests results. A bottom-up exercise was conducted with the participation of local banks. Banks were supplied with stress parameters that were used on their own financial statements and aggregate definitions. More textured results were obtained from the more detailed data (for example, the breakdown of deposits into local and foreign currency). The sample of responding banks (15) was sufficient to cover 84 percent of the banking system by assets. In terms of results, there was little impact on solvency but, again, liquidity was impacted in the severe scenario. As in the top-down stress tests, the bottom-up stress tests point to a failure of a parent as the biggest risk faced by the banks, given that claims on their parent can be as much as 70 percent for some. The large impact of provisioning these "claims," which are also part of banks' liquidity buffers, further underlines the need for bringing this liquidity onto the banks' onshore buffers.

Data Collection and Management Issues

20. All of these results should be treated with caution because, although BoZ reporting requirements are comprehensive, the data is not collected and managed in line with best practice. There is no centralized database so data end up fragmented and deposited in disparate, unstructured spreadsheets. This results in possibly incomplete and unreliable datasets that often require re-submission and correction. A centralized, structured, relational database for banking supervision should be implemented in order to conduct timely analysis. This would also free-up resources for bank analysts to fulfill their examinations duties. Also, it is essential that the BoZ compile information on the breakdown of assets and liabilities data in foreign and local currency by bank and on the stratification of deposits in the liquidity reports. This will result in more textured liquidity stress tests and facilitate the analysis needed for the configuration of a deposit protection scheme.

FINANCIAL SUPERVISION AND REGULATION

21. Zambia has fallen increasingly behind international regulatory and accounting standards and good practices. This state of affairs is holding back market development, stronger regulatory oversight and imposing compliance costs and additional risks on the sector. In early 2017, significant progress was being made in amending key pieces of financial sector legislation. The mission has provided recommendations on improving a number of these draft laws and meeting operational preconditions in line with best practice. There are nine laws in total that urgently need upgrading, two of which (the BFSA and the Securities Act) have recently been passed by Parliament.[5] Continued legislative efforts are recommended, as well as attention to quickly getting supporting regulations in place.

[5] The seven remaining laws requiring upgrade include the Bank of Zambia Act, Deposit Insurance, Insolvency Bill (Justice), National Social Security Bill (Cabinet), Insurance Bill (Finance), Land Act (Justice), and Credit Reporting Bill (Finance).

A. Banking Supervision and Regulation

22. A focused review of the banking system oversight in Zambia was conducted to assess its effectiveness (Appendix I). The main emphasis was on issues related to governance, powers and resources, licensing, home-host relationships, capital adequacy, risk management, concentration risk and large exposure limits, transactions with related parties, and financial reporting and external audit. The BoZ's supervisory perimeter includes all deposit-taking financial institutions, including a number of MFIs. The key conclusions of the review are:

- The BoZ's ability to supervise in an effective manner is severely constrained by staff shortages. Some banks have not been inspected for several years, and only five banks have been inspected since March 2015 under a new risk-based approach to supervision.[6]

- The legal framework is cumbersome with some detailed regulations set out in primary legislation and statutory instruments, requiring Parliamentary approval of new laws and amendments to existing ones.[7]

- The BoZ Act contains provisions that could impact on the independence of the BoZ. It is understood that these provisions will be deleted from the new version of the BoZ Act following the new Constitution, which contains a provision conferring independence on the BoZ.

- Country and transfer risk are currently outside the purview of the BoZ. There are diversification limits on FX placements (irrespective if within Zambia or abroad) but the existence of significant placements abroad can be a source of concern, and the BoZ should issue risk management directives incorporating concentration and cross-border exposure limits.

- There is no provision for the exercise of consolidated supervision, although it is expected to be addressed in forthcoming legislation, and there is very little interaction between home and host authorities regarding subsidiaries of foreign banks operating in Zambia.

- Lower minimum capital requirements for locally owned banks (than for foreign-owned ones) appears to be subject to arbitrage and gaming.

- There is no framework for identifying systemically important banks.

[6] However, since this review was completed, the BoZ has made rapid progress on hiring new staff and completing onsite inspections.

[7] However, the new BFSA sets down broad supervisory principles allowing the detail to be implemented via enforceable instruments issued by the BoZ.

B. Pension and Insurance Supervision and Regulation

23. The Pensions and Insurance Authority (PIA) is responsible for the regulation and supervision of private, voluntary, and occupational pension schemes, and insurance companies. The PIA does not supervise the NAPSA or the public-sector pension schemes.

24. The PIA registers and inspects the pension funds it covers regularly, receiving detailed quarterly reports and publishing aggregated annual data on the sector.[8] A basic risk-based supervisory approach has been developed—and could be further refined—with risk scoring for each entity which drives the level of supervisory intervention. Also, a full regulatory framework, providing further guidance to supervised entities (including governance and risk management guidelines) needs to be put in place. The PIA has intervened to impose administrative fines on schemes, to remove trustees and to closedown schemes. However, with the few remaining DB pension schemes currently underfunded, minimum funding levels and recovery periods should be developed and imposed.

25. Though currently reasonably well resourced, the PIA will be stretched should the extensive reforms to the pension sector outlined in the draft National Social Security Bill be enacted. The PIA would take on responsibility for supervising all pension plans, including the NAPSA, Public Service Pension Fund (PSPF), and Local Authority Superannuation Fund (LASF), all of which are proposed to be merged and run under the National Social Security Agency. In addition, if membership of occupational pension funds were to become mandatory, as proposed, the number of individuals these schemes would have to cover could rise from 100,000 to over 700,000. This would mean a significant increase in scale and scope for the PIA's operations. Given the PIA's increased role in overseeing the new system, potential changes to the PIA Board that have been suggested should be reviewed so as not to undercut the agency's independence.

26. For the insurance sector, the PIA is hampered by a legal and regulatory structure that does not meet international standards and does not grant sufficient powers for it to intervene proportionately. The Insurance Act does not require any risk-based calculations of insurers' solvency levels and the draft Insurance Bill does not envisage such provisions. In addition, the PIA has not been granted the right to impose administrative penalties on insurance companies and intermediaries. Its main power is the ability to remove an insurer's license and ultimately to liquidate the company, which prevents the agency from acting proportionately. As with the pension sector, the PIA itself does not have the power to instigate prosecutions, and must rely on the Director for Public Prosecutions, which can be a cumbersome process. The PIA's insurance oversight capacity is stretched, as the number of firms has grown considerably in recent years. The PIA also lacks the necessary actuarial skills to oversee firms. A few general insurance companies are technically insolvent—the Zambia State Insurance Company (ZSIC) has been insolvent for a number of years. There is urgency to develop a plan to resolve the institutions in question. In addition, oversight capacity to implement modern solvency requirements needs to be enhanced.

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[8] Available via PIA Annual Report and website—www.pia.org.zm.

C. Capital Markets

27. The Securities and Exchange Commission (SEC) is the capital markets regulator. While a new management team has made significant improvements of supervision and enforcement, it faces a number of legacy issues that include an outdated Securities Act, which particularly constrains its enforcement ability, an unstructured and uneven approach to supervision, and outdated information technology and reporting systems. A new Securities Act is pending submission to Parliament, which proposes a broad and comprehensive set of regulatory reforms for the capital markets. The SEC is in process of implementing risk-based supervision according to international standards; but gaps remain in the uniform and standardized reporting and collection of data from regulated entities and the enforcement of compliance-based supervision, particularly given staffing constraints. Efforts should be put into the development of standard reporting templates and facilitating ease of reporting for regulated entities (who themselves face capacity constraints). Once compliance-based reporting is uniformly enforced, the SEC will be in a position to begin the risk scoring of entities. A more varied and flexible regime of fines and penalties is needed as is an appropriate upgrading of information technology systems.

D. Macroprudential Policy

28. The financial stability function in the BoZ remains nascent. Although the Financial Stability Unit (FSU) was set up in 2012, staff turnover and a lack of strategic leadership has held the function back and there are no current measures in place. An interagency financial stability structure that includes the BoZ, MoF, PIA, and SEC (discussed in further detail below) is being set up. The regular interactions of this committee, led by the BoZ, would allow for a useful exchange of information that would facilitate timely decisions and actions on troubled institutions across the financial sector.

29. A sound microprudential framework would be the foundation needed for effective macroprudential policy. As discussed above, this requires strengthening supervisory and monitoring capacities, consistently enforcing regulations, filling supervisory information gaps, and building the BoZ's statistical and analytical capacity. Plus, data should be collected on corporate and household balance sheets, as well as real estate prices.

30. To increase financial system resiliency, simple macroprudential policy approaches are preferred to active policy calibration approaches. In particular, the combination of limited data, volatile conditions, and weak supervisory capacity suggests that a rules-based approach to macroprudential policy—rather than a time-varying one—would be preferred, as the latter would require accurate positioning in the cycle.

31. As in other lower-income countries, Zambia is vulnerable to commodity price volatility, in part due to a lack of economic diversification. In the long run, structural reforms could promote diversification; but, meanwhile, the application of risk mitigation techniques and imposition of higher capital requirements (or buffers) and/or loan concentration limits should be considered to make the financial system more resilient to commodity price shocks.

E. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

32. Zambia is making good progress in strengthening its AML/CFT framework. The 2007 assessment of the AML/CFT framework highlighted significant shortcomings and rated Zambia non-compliant with the majority of the Financial Action Task Force (FATF) Recommendations. Amendments to the Prohibition and Prevention of Money Laundering Act, the issuance of the Anti-Terrorism Act, and the Financial Intelligence Centre (FIC) Act have addressed some of the identified deficiencies. In 2015, the FIC noted that suspicions of tax evasion and corruption were among the most frequent motives for the filing of suspicions transaction reports.[9] In an effort to mitigate these risks, it issued a Guidance Note for AML/CFT procedures for dealing with politically exposed persons, including enhanced due diligence measures. In the implementation of the current standard (the FATF 2012 recommendations), the authorities are in the process of assessing Zambia's money laundering and terrorist financing (ML/TF) risks in a more comprehensive way ahead of the country's next AML/CFT assessment (currently scheduled to take place in June 2018).

33. Efforts to implement the current standard and mitigate the main ML/TF risks should intensify. The authorities should continue their efforts to bring the AML/CFT legal framework, and the TF offense in particular, in line with the FATF standard. They are also encouraged to finalize the national risk assessment and take all necessary measures to address the main risks identified.

CRISIS PREPAREDNESS AND MANAGEMENT, RESOLUTION, AND SAFETY NETS

34. The crisis management framework is out of date and not fully functioning in a period of high risks. Proposals to develop an interagency committee to coordinate a consistent supervisory and prompt resolution framework needs to be urgently implemented.

35. The BoZ has proposed the creation of the Interagency Financial Stability Committee (IAFSC), which would be a platform for coordination between the BoZ, MoF, PIA, and SEC on crisis preparedness and management. The IAFSC would be comprised of the principals on financial policy matters, including: three members from the MoF; a representative of the Joint Secretariat on Financial Stability that will be formed by the MoF and BoZ; the Governor of the BoZ; the Registrar for the PIA; and the Chief Executive Officer of the SEC. A prominent role for the MoF on the IAFSC is justified given its backstopping responsibilities and its legal powers over the financial sector. The MoF is undergoing a reorganization to better address the demands to participate in its responsibilities in the banking and financial services sector. The IAFSC will address both

[9] Zambia Financial Intelligence Centre, Trends Report 2015. Available via the Internet: http://www.fic.gov.zm/79-fic-news/96-trends-report-2015.

macroprudential policy and crisis management, but ultimately consideration should be given to separate organizational frameworks.[10]

36. High dollarization imposes limits to, and complications on, crisis policy responses. In the event of a bank run, providing liquidity assistance in local currency is likely to result in further exchange depreciation and will be less effective in restoring depositor confidence than in an environment of more moderate dollarization. Similar considerations apply in relation to the payment of depositors under a deposit insurance scheme.

A. Emergency Liquidity Assistance (ELA)

37. The BoZ has extended ELA to four individual institutions, none of which could be described as sound. In these cases, a broad-based program was not announced for ELA, but institutions on the BoZ 'watch list' that were experiencing liquidity strain applied for and received ELA. The four recipient institutions had been assessed the very lowest of the BoZ's supervisory ratings.

38. ELA should involve the rarely invoked power of a central bank to provide liquidity to financial institutions during times of panic. ELA should be provided only in cases of systemic risk, and the central bank should pre-commit to lend freely, albeit at a penalty rate. The BoZ should establish adequate statutory safeguards to restrict ELA; the current practice blurs the distinction between ELA and solvency support. There should be a wide base of eligible borrowers for ELA, drawing funds secured by adequate collateral. There should be restrictions placed on the borrower's banking activities accompanied by intensified supervision, a time-bound repayment plan, and a procedure purposely managed by the central bank to avoid undue reliance on the funding source.

B. Deposit Protection

39. Zambia does not have a deposit insurance scheme (DIS). A draft deposit protection law has been under preparation since the late 1990s. The draft is under review at the BoZ. Essential elements of a protection plan, such as the development of a coverage level, a target ratio for the DIS, the introduction of a "depositor preference principle" to minimize the losses of depositors, and a source of borrowing, as well as other issues, need to be addressed.[11] Also, the preconditions for the introduction of a DIS are not yet met, as evidenced by the backlog of full-scope onsite examinations, and forbearance of a number of weak institutions.[12] The authorities should take the time necessary for sufficient preparation and analysis of plan parameters—including the coverage

[10] IMF, "Staff Guidance Note on Macroprudential Policy," November 6, 2014, p. 38–39.

[11] Hoelscher, et al., "The Design and Implementation of Deposit Insurance Systems," IMF Occasional Paper No. 251, 2006.

[12] The International Association of Deposit Insurers in its core principles for a deposit protection system provides an indicator of whether a financial and supervisory system meets a threshold level of preparedness to follow through with deposit protection. Key conditions include that a stable macroeconomic and financial environment and an effective resolution regime are in place.

level, fee structure, funding backstopping, governance arrangements, as well as backstop funding and disbursement procedures—before submission of the Act to Parliament. [13]

C. Resolution Options and Planning

40. The BFSA should embody a Special Resolution Regime (SRR) for banks and systemic nonbanks whereby the full range of administrative resolution powers would be granted to the BoZ. The powers granted to the BoZ would allow it to override shareholder and creditor rights and to liquidate an institution without appeals at milestones such as the appointment of the possessor or liquidation or the development of a liquidation schedule. A narrow appeal right would be available to stakeholders based on an "arbitrary and capricious" standard to ensure adequate safeguards for creditors and shareholders. Further elements of an SRR should include clear triggers for resolution tools based upon non-viability and the scope of the regime would include all deposit-taking institutions and systemic nonbanks, and there should be safeguards to the rights of creditors to assure they are "no worse off" than in liquidation.

41. The previous BFSA did not explicitly embody best practice resolution tools, such as a purchase and assumption, bridge bank, and bail in. The old BFSA granted the possession manager the power to initiate a restructuring or reorganization and the BoZ has interpreted this to include the power to undertake a purchase and assumption, which it has approved on one occasion. However, the transaction was never consummated.

42. There is no framework in place for cross-border resolution and limited home-host cooperation, notwithstanding the dominant market share of foreign banks. The BoZ's Handbook for Crisis Management and Resolution does not address cross-border resolution. A plan should be developed with regional and other supervisors to transition supervisory colleges into resolution colleges to facilitate cross-border resolution. A regional dialogue should be initiated to discuss cost and legal enforcement of cross-border resolution. Additionally, the BoZ should take a more proactive approach regarding information sharing and request details on resolution plans from prominent home supervisors such as the Bank of England and the South African Reserve Bank, regarding their Zambian subsidiaries.

43. The draft BFSA the staff reviewed was an improvement upon the previous version, but some concerns remain. Resolution powers in the Bill did not embody an SRR; key resolution tools such as purchase and assumption and bridge bank are only available in cases of solvent institutions and the provisions do not provide sufficient details and limitations on their use. The Bill also did does not provide for recovery and resolution planning consistent with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions.[14] The draft BFSA also did not grant powers to the authorities that are necessary to remove impediments to resolvability. Improvements are also needed to the infrastructure for domestic and cross-border information

[13] An MCM TA mission was fielded in July 2017 to assist the BoZ with preparations for a DIS.

[14] http://www.fsb.org/what-we-do/policy-development/effective-resolution-regimes-and-policies/key-attributes-of-effective-resolution-regimes-for-financial-institutions.

sharing and cooperation to give effect to foreign resolution actions and broaden the proposed agreements beyond counterpart supervisory authorities. The BFSA Bill was passed by parliament and signed in mid-2017, but awaits enactment to coincide with the adoption of upgrades to other financial sector laws, including a new BoZ Act, and elaboration of the BFSA regulations. In general, the BFSA improves the framework for the corporate governance of financial services providers and strengthens the BoZ's power to issue secondary instruments. However, it does not address the weaknesses on market access, ownership changes, prudential requirements, auditing, consolidated supervision, enforcement and early intervention, and resolution. Also, a number of new provisions in the BFSA appear to be problematic.[15]

44. The BoZ also intends to develop resolution plans for institutions that would be designated as systemically important. This method will be implemented after the full range of stress testing has been applied to systematically important financial institutions (SIFIs). Recovery and Resolution Plans (RRPs) have evolved as a key component for addressing SIFIs. In particular, the FSB's Key Attributes establish a comprehensive framework for RRPs to guide the recovery of a distressed institution or to facilitate an orderly resolution while minimizing official financial support.[16]

FINANCIAL MARKET INFRASTRUCTURE

A. Payments Systems

45. The BoZ, in collaboration with the banking industry and other key stakeholders, has been leading efforts to modernize the national payments system (NPS) in Zambia with the aim of achieving safety and efficiency, and ultimately contributing to financial stability. Several important steps have been taken, including: the establishment of the Payment Systems Unit (PSU) in the BoZ; the upgrade of the Zambia Interbank Payment and Settlement System (ZIPSS); the set-up of the Zambia Electronic Clearing House (ZECH); and, more recently, the introduction of a Central Securities Depository (CSD) that is integrated in the ZIPSS. Notwithstanding these notable developments, additional efforts are still required to fully meet international standards and good practices.

46. The BoZ does not have adequate resources to discharge its oversight function over the NPS and the legal and regulatory framework continues to have significant gaps. While the BoZ Act provides the legal basis for the BoZ oversight powers, the recently established PSU only has two staff dedicated to this function and the same unit also operates the ZIPSS. The BoZ should, as a matter of priority, assign adequate resources to the payment systems oversight function and ensure

[15] Key among these are (i) prior notice requirements that may delay supervisory/resolution actions, potentially posing risks to financial stability; (ii) unclear provisions relating to the disposal of bank shares acquired without BoZ approval; and (iii) an aggregate large-exposure limit that could unduly constrict bank lending.

[16] Key Attribute 11 and Annex III.

its independence from other functions. Also, the self-assessment of the ZIPSS against the Committee on Payments and Market Infrastructures–International Organization of Securities Commissions (CPMI–IOSCO) "Principles of Financial Market Infrastructures" should be completed and measures taken to achieve full observance.[17] The NPS Act does not cover electronic payment instruments and the current Securities Act does not address securities depository services, dematerialization and immobilization, and clearing and settlement issues. These gaps should be filled at the earliest, and the reform of the NPS Act should be prioritized.

B. Credit Information Systems

47. Zambia has made strides in improving its credit information system. Since 2008, banks and some nonbanks have been required to provide information to the credit bureau (TransUnion) and consult it when making loans. Data from other institutions such as utilities will also eventually be captured. However, the bureau's coverage is still less than 10 percent of the population. Also, the quality of credit bureau information could be improved by better BoZ monitoring of private banks' data uploads. In addition, there is a lack of clarity on data sources and whether credit providers can share positive information. The bureau operations are not adequately protected by law, something the draft Credit Reporting Bill attempts to address.[18]

C. Insolvency and Creditor/Debtor Rights

48. Secured transactions and the collateral registry system could be further strengthened to facilitate access to credit for small businesses by reducing credit risk and lending costs. While the current Land Registry is largely accurate in recording immovable title, the process for registering security interests is still manual and searching the registry is often cumbersome as the computerized registry contains little detailed information about the security interest. However, a new Collateral Registry and Regulations are being developed following the 2016 enactment of the Movable Property (Security Interest) Act. Meanwhile the Land Registry should be strengthened by setting time service standards and digitizing documentation and putting information online.

49. Zambia's insolvency framework is in need of significant reform. The most significant deficiency relates to the absence of a workable procedure for the reorganization of financially troubled businesses. Also, the regulatory framework for insolvency practitioners is weak and does not ensure the integrity of insolvency professionals. A new Insolvency Bill is awaiting final review by the Ministry of Justice appears to address to some extent some of the deficiencies. Once the Bill is enacted, extensive capacity building will be required to enable effective implementation. Insolvency practitioner regulatory competencies should also be introduced and an insolvency regulator set up to monitor their activities to ensure they Act with integrity, impartiality, and independence. The efficiency of resolving commercial disputes remains somewhat unpredictable, with substantial litigation delays and fails to preserve remaining asset value for creditors. The unpredictability of

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[17] http://www.bis.org/cpmi/info_pfmi.htm.

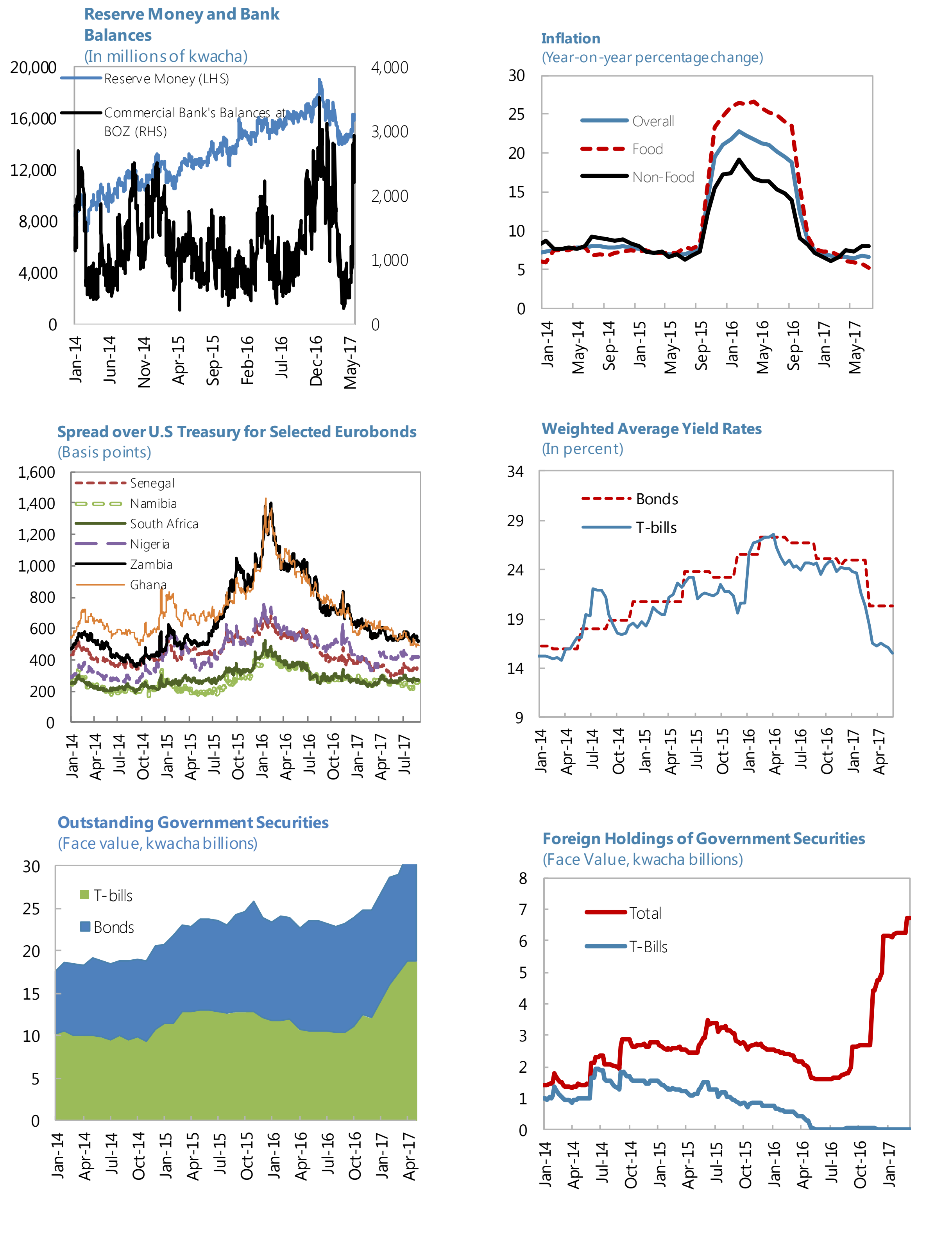
[18] The World Bank Group's Credit Reporting team has submitted comments on the draft Bill to the government of Zambia.

proceedings as well as the willingness of the courts to tolerate extensive delaying tactics are a major deterrent to the use of the court system in Zambia. Commercial Court judges should be provided with sufficient training and litigation completion time standards should be set.

FINANCIAL INCLUSION

50. Access to finance has worsened for SMEs in Zambia, although individual financial inclusion has expanded over the past five years, with account ownership increasing by 14 percentage points. Only 8 percent of SMEs had a line of credit in 2013, compared to the sub-Saharan average of 17 percent. SME access to finance challenges include high levels of informality and collateral requirements, and poor bank-lending tools. This has been exacerbated by the stress from recent very high real interest rates and the crowding out of private credit markets by government debt. A joint private/public effort is required to stimulate the SME sector in the medium term, including by: rationalizing government support programs; training banks in “down-scaling;” and aiding SMEs in preparing bankable business plans. Efforts to develop and implement a national financial inclusion strategy should be prioritized.

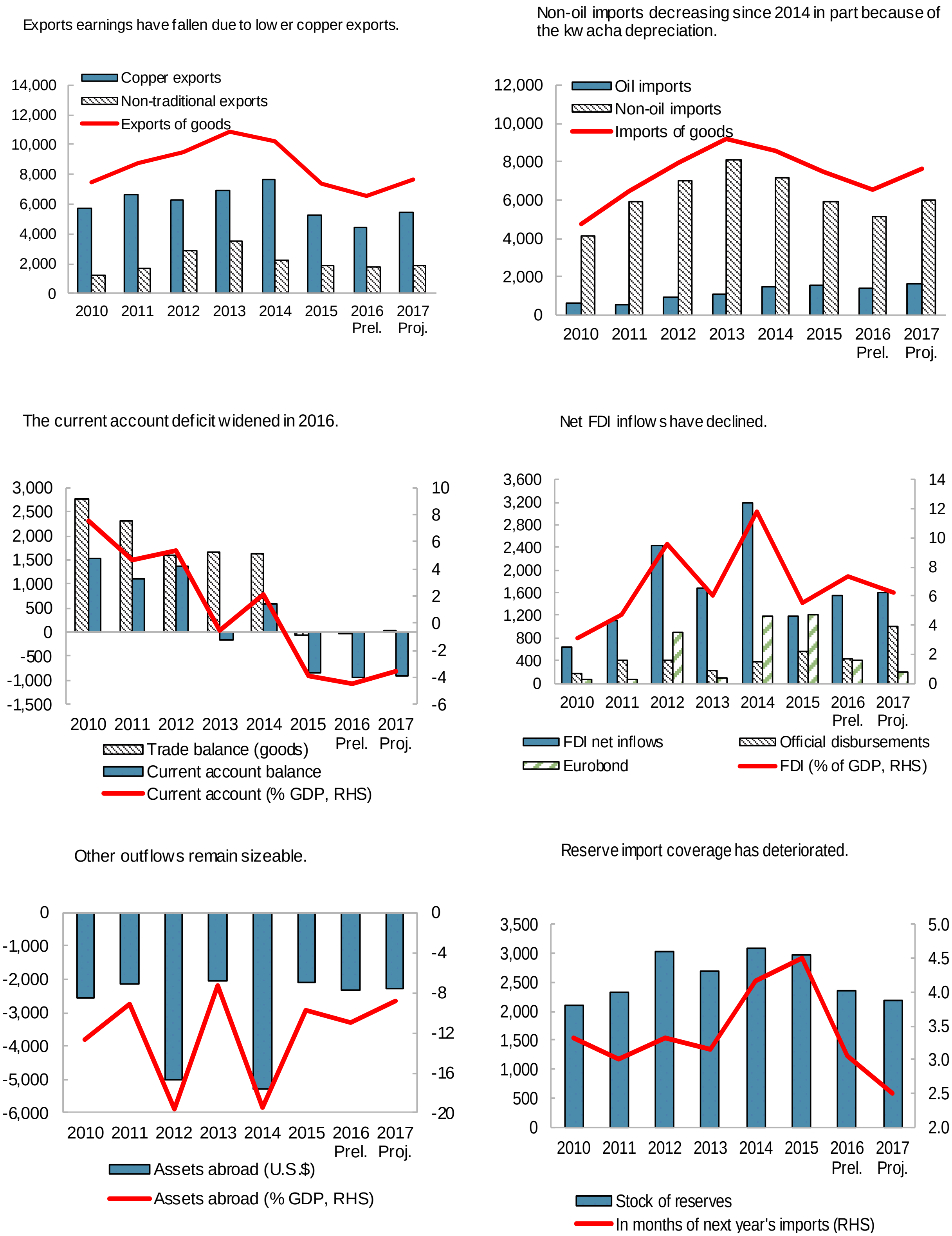
Figure 5. Zambia: Economic and Financial Indicators



Source: Bank of Zambia, *Statistics Fortnightly;* and Bloomberg.

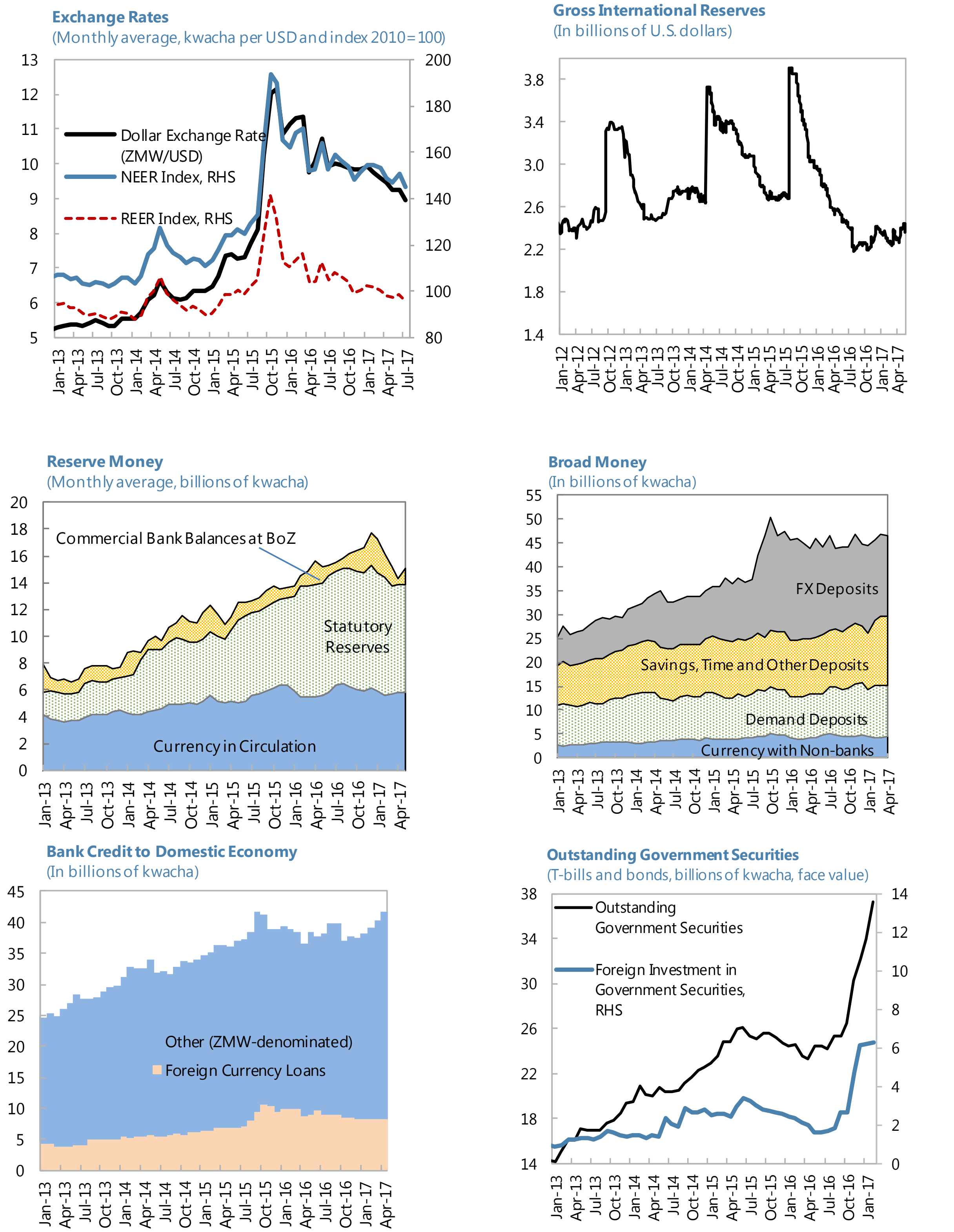
Figure 6. Zambia: External Sector

(In millions of US dollars)



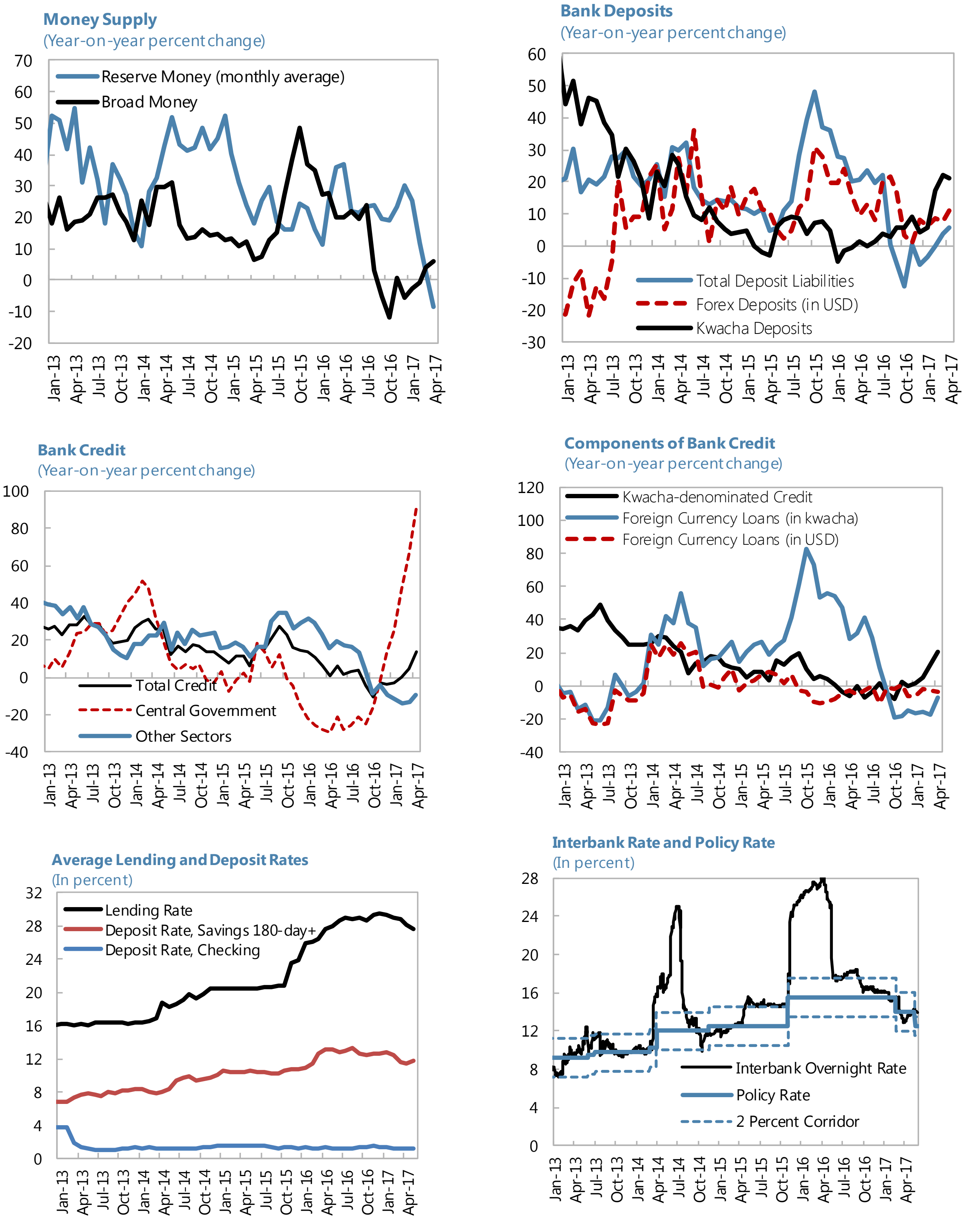
Sources: Bank of Zambia; and IMF staff forecasts.

Figure 7. Zambia: Financial Sector



Source: Bank of Zambia, *Statistics Fortnightly*.

Figure 7. Zambia: Financial Sector (concluded)



Source: Bank of Zambia, *Statistics Fortnightly*.

Table 7. Zambia: Financial Soundness Indicators

(In percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
					Dec					Mar	June	July
Capital adequacy												
Regulatory capital to risk-weighted assets	18.6	22.3	22.1	19.2	21.3	26.8	26.97	21.2	26.2	26.3	27.1	27.8
Tier 1 regulatory capital to risk-weighted assets	15.7	18.9	19.1	16.8	19.4	24.5	24.64	19.2	23.4	24.0	24.8	25.5
Capital to total assets	9.9	11.2	10.4	10.2	12.0	14.8	15.05	12.2	13.5	12.5	12.7	13.1
Asset quality												
Past due advances (NPL) to total advances	7.2	12.6	14.8	10.4	8.1	7.0	6.1	7.3	9.7	10.6	12.4	12.1
Loan loss provisions to nonperforming loans	104.6	86.6	80.3	76.7	73.5	83.2	76.48	70.5	71.5	70.7	62.0	62.9
Bad debt provisions to advances	6.1	10.9	11.9	8.0	6.0	4.8	3.87	4.6	5.6	6.2	6.6	6.7
Loan concentration [1]												
Households	30.1	30.9	32.2	30.8	34.3	34.5	36.0	30.2	28.7	29.1	28.6	27.9
Government and parastatals	1.9	3.1	4.6	4.7	3.9	2.1	4.3	3.0	4.8	4.8	5.4	6.0
Agriculture	16	19.0	17.6	17.7	22.6	20.2	16.6	17.3	17.0	18.1	19.5	19.9
Mining	5	4.0	3.2	4.2	5.7	6.6	5.0	6.4	6.3	6.5	6.4	5.8
Manufacturing	11	12.0	12.7	12.2	11.3	9.5	11.5	13.5	12.8	11.8	10.7	10.8
Construction	4	3.0	5.8	4.2	3.7	3.5	3.4	3.4	3.9	3.7	3.8	3.6
Services	9	8.0	7.0	7.1	3.9	4.1	2.5	2.7	1.8	2.4	2.3	2.9
Others	55	52.0	54.0	54.5	48.9	56.1	61.0	55.3	58.2	57.6	57.3	57.1
Earnings and profitability												
Return on average assets (cumulative)	3.6	2.1	2.9	3.7	3.9	3.4	3.71	2.8	2.5	2.7	2.6	2.8
Return on equity (cumulative)	20.8	9.4	12.1	25.5	20.8	18.2	17.33	13.1	12.3	13.7	12.7	13.6
Gross interest income to total gross income	66.6	65.1	58.6	59.3	61.3	64.5	66.35	67.1	68.6	72.3	70.0	69.8
Gross noninterest income to total gross income	33.4	34.9	41.4	40.7	38.7	35.5	33.65	32.9	31.4	27.7	30.0	30.2
Net spread		6.1	-0.5		5.7	5.2	4.66	2.8	5.5	8.5	5.5	5.6
Net interest margin				8.1	8.4	8.3	8.46	8.2	8.7	9.2	9.2	9.2
Liquidity [2]												
Liquid assets to total assets	35.5	38.0	43.8	40.3	36.0	38.9	35.8	34.8	39.1	43.6	44.5	44.3
Liquid assets to total deposits	49.9	52.6	58.5	53.3	49.0	52.8	49.84	47.9	54.2	59.0	59.9	59.7
Advances to deposits ratio	66.3	60.1	53.1	57.1	66.0	61.4	62	56.4	50.0	46.4	46.6	47.3
Exposure to foreign currency												
Foreign currency loans to total gross loans	42.1	36.4	32.8	39.1	28.7	26.5	29.0	36.9	35.7	37.1	35.6	34.9
Foreign currency liabilities to total liabilities	35.8	38.0	39.6	39.0	22.9	23.4	32.1	48.9	45.0	45.5	44.0	40.5
Net open position in foreign exchange to capital	6.9	2.5	4.1	5.5	2.8	3.6	1.6	4.7	0.8	3.8	2.5	2.6
Exposure to household debt												
Household debt to GDP	4.3	3.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Bank of Zambia.

[1] Components do not add up to 100 because loans to households, government, and parastatals are included in loans classified by economic sectors.

[2] Liquid assets were redefined to include all treasury bills in October 2009.

Table 8. Zambia: Selected Economic Indicators 2014–2017

	2014	2015	2016 Prel.	2017 Proj.
(Percentage change, unless otherwise indicated)				
National account and prices				
GDP growth at constant prices	4.7	2.9	3.4	4.0
Mining	-2.3	0.2	7.0	7.0
Non-mining	5.6	3.2	3.0	3.6
GDP deflator	5.4	6.7	14.3	7.9
GDP at market prices (in millions of kwacha)	167,052	183,381	216,826	243,284
GDP at market prices (U.S. dollars)	27,151	21,243	21,012	25,576
Consumer prices				
Consumer prices (average)	7.8	10.1	17.9	6.8
Consumer prices (end of period)	7.9	21.1	7.5	5.8
External sector				
Terms of trade (deterioration -)	-2.4	-4.0	-1.9	6.8
Average exchange rate (kwacha per U.S. dollar)	6.2	8.6	10.3	9.5
(percentage change; depreciation +)	14.0	40.3	19.5	-7.8
Real exchange rate (depreciation +)	9.2	30.0	-3.9	…
Money and credit				
Domestic credit to the private sector	26.4	29.3	-9.4	13.0
Reserve money (monthly average of daily data)	7.9	21.1	7.5	5.8
Reserve money (end of period)	31.1	22.2	12.8	5.9
Broad Money (M3)	12.6	35.2	-5.7	14.0
(Percent of GDP, unless otherwise indicated)				
National accounts				
Gross investment	33.6	42.1	41.7	41.9
Government	4.8	6.0	3.8	5.3
Private	28.7	36.1	38.0	36.6
National savings	35.7	38.2	37.3	38.3
External current account balance	2.1	-3.9	-4.4	-3.6
Central government budget				
Revenue	18.9	18.8	18.2	17.3
Taxes	15.5	14.4	12.9	13.8
Grants	0.8	0.2	0.2	0.7
Other revenue	2.7	4.2	5.0	2.8
Expenditure	24.3	27.6	23.8	25.3
Expense	19.0	21.0	20.1	20.0
Net acquisition of nonfinancial assets	5.3	6.6	3.8	5.3
Net lending/borrowing	-5.7	-9.3	-5.8	-8.0
Excluding grants	-6.5	-9.5	-6.0	-8.7

Sources: Zambian authorities; and IMF staff estimates and projections.

Table 9. Zambia: Risk Assessment Matrix

Sources of Risks	Likelihood	Expected Impact
1. Domestic Risks		
Delayed fiscal adjustment and continued fiscal pressures will complicate monetary policy, and may drive further macrofinancial instability	High	**High.** Given huge funding needs and political pressures, further accumulation of domestic arrears, payment delays will weaken further economic activity, increasing NPLs. Also, there is no possibility of fiscal backstopping in the event of a systemic crisis. In addition, failure to rollover maturing domestic debt and growing fiscal imbalances could overburden monetary policy, prompt inflation and currency depreciation pressures, with an impact on the cost of funding and indirectly on loan repayments (indirect credit risk).
Continuing electricity shortages	Medium	**High.** Failure to increase generation capacity will have significant impact on economic activity, corporate profitability and lead to a deterioration in asset quality and a rise in NPLs.
Loss of investors' confidence and growing risk aversion	High	**Medium to High**. Policy uncertainty and rising pressure on domestic financing may complicate monetary policy challenges, further crowd out of credit to the private sector. Growing loss of investor confidence—as evidenced by Moody's downgrade, growing dollarization, and further declines in foreigners' holdings of government securities—may further pressure external reserves and liquidity in the financial system.
2. External Risks		
Weaker than expected global growth	Low/ Medium	**High.** Additional fall in copper prices due to weak global demand will lead to: reserves losses or exchange depreciation; increases in mining sector's vulnerabilities and lead to considerable job losses; and further impact banks NPLs and profitability.

Table 10. Zambia: Stress Testing Matrix (STeM) for the Banking Sector[1]		
	Assumptions	
Domain	**Bottom-Up by Banks**	**Top-Down by FSAP Team**
Institutions included	15 responding banks	17 banks, banks with zero NPLs were excluded
Market share	84 percent of banking sector assets	88.2 percent of banking sector assets
Data source	End-March 2016 banks own data	End-March 2016 supervisory data
Scope of consolidation	Solo basis	
Solvency Risk		
Methodology	Banks' internal models	Balance sheet model NPLs=f (copper prices, Total GDP) NPLs=f (copper prices, Electricity GDP)
Satellite models for macrofinancial linkages?	N/A	Total loans=f (copper prices, Total GDP) Total loans=f (copper prices, Electricity GDP)
Stress test horizon	Immediate hit	Immediate hit and three-year's earnings
Scenario analysis	N/A	Baseline: GDP growth rate +4% in 2017, +4.5% in 2018, and +5% in 2019
		Shock 1: V-shaped – Electricity GDP growth rate -5% in 2017, +0% in 2018, and +5% in 2019 (power crisis)
		Shock 2: U-shaped—GDP growth rate -3% in 2017, -2% in 2018, and +0% in 2019 (protracted copper price rut)
Sensitivity analysis	Failure of a parent institution	Under-provisioning
	Shock to salary-backed loans	Percent of performing loans migrate
	Provisioning against largest exposures	Percent of NPLs fully provisioned
		Provisioning of large exposures
		Provisioning of non-resident claims
Risks assessed	Credit losses	
Behavioral adjustments	N/A	
Liquidity Risk		
Methodology	Deposit types (demand, savings, time)	
Risks	Funding liquidity shock	
Buffers	Liquid asset disposal for core and non-core liquidity definitions	
Test horizon	5 days	
Outflow scenarios	30% of deposits	5% and 10% of deposits
	100% of government accounts	
Reporting format	Number of banks with negative net cashflows and percent of banking system assets	
Operational Risk		
Methodology		Basel I Standard
Scenario analysis		Operational loss/fraud: 15% of pre-impairment income capital charge over previous three years
		Pandemic: 30% increase in operational expenses

[1]The mission examined the review files from BoZ onsite inspections for four banks. The mission, conservatively, used the lowest adjustment factor found in those reviews.

Appendix I. Summary of Key Findings of the Focused Review of Banking Supervision[1]

1. A focused review of the banking system oversight in Zambia was conducted to assess its effectiveness. The main emphasis was on issues related to governance, powers and resources, licensing, home-host relationships, capital adequacy, risk management, concentration risk and large exposure limits, transactions with related parties, and financial reporting and external audit. The BoZ's supervisory perimeter includes all deposit-taking financial institutions, including a number of MFIs.

2. Banking supervision suffers from an outdated legislative framework. Current legislation applies Basel I standards, while most of the foreign banks that operate in Zambia already apply Basel II/III imposed by their parents. Problems include: no legal obligation requiring the BoZ to be directly involved in the assessment of a licensing application; an absence of some essential definitions (e.g., major/significant shareholder and beneficial owner); both the Registrar for banks and financial institutions and the BoZ may revoke a license under different sections of the Banking and Financial Services Act (BFSA), potentially leading to confusion and misunderstanding; and the MoF is to be consulted on all licensing applications. The legal framework is cumbersome with some detailed regulations set out in primary legislation and statutory instruments, requiring Parliamentary approval for amendments.[2]

3. The BoZ Act contains certain provisions that impact on its independence. These include provisions that allow: (i) the MoF to convey to the Governor government policies that may affect the conduct of the BoZ; and (ii) the President and Minister to dismiss summarily the BoZ Governor, Deputy Governors, and Directors. It is understood that these offending provisions will be deleted from the draft update of the Bank of Zambia Act following the passing of the New Constitution, which contains a provision conferring independence on the BoZ.

4. The BoZ's ability to supervise in an effective manner is severely constrained by chronic staff shortages in the Banking Supervision Department. The supervision department has at times worked with less than half the complement of staff that the BoZ has determined is the minimum needed to perform its responsibilities (Appendix Table 1). As a result, it has been upwards of four to five years since some of the banks have been examined and with each passing year the supervision department gets further and further behind based on this level of resources and the required full-scope examinations.[3]

[1] These views reflect the FSAP mission's assessment in July 2016. It is understood that a number of these concerns have been addressed through the passage of the BFSA in April 2017. It will be important that the implementing regulations be introduced as quickly as possible.

[2] However, the new BFSA passed in April 2017 sets down broad supervisory principles, allowing the detail to be implemented via enforceable instruments issued by the BoZ.

[3] However, since the review took place, the BoZ has made rapid progress on its onsite inspections, and are hiring up substantially.

Appendix Table 1. Zambia: Bank Supervision Staffing Levels over Time

Year	Actual Staff	Approved Positions	Gap
2012	24	37	<13>
2013	27	37	<10>
2014	21	46	<25>
2015	27	46	<19>

Source: BoZ, Annual Reports 2014, 2015.

5. **The BoZ has yet to articulate a plan to address the backlog of full-scope examinations**. The BoZ's recruitment efforts, have involved the onboarding of six to seven new supervisory staff each year. One possible solution to the backlog problem would be for the BoZ to look to temporary contract staff with experience in the finance industry. Given the resource constraints, the mission sees the immediate need to consolidate as many resources as possible from around the Bank to complete as many on-sites as possible. When supervision resources are stretched, there may be merit in slowing new entry to the banking system.

6. **Analysis of the banks' prudential reports is limited and, there has been no recent review of the relevance of the information received**. The BoZ has no formal methodology for bank peer-review analysis and no framework for identifying systemically important banks. The offsite prudential reporting regime should be reviewed in terms of technological capabilities, analysis undertaken and the relevance of the information currently received.

7. **There is excessive use of forbearance in exercising corrective measures**. The BoZ should refrain from exercising forbearance regarding corrective actions and exempting banks from publishing statutory financial statements. BoZ enforcement powers should be strengthened by amending the legal/regulatory framework to explicitly empower the BoZ to require increase in capital requirements of individual banks based on their risk profile, and impose administrative fines.

8. **Capital requirements should be strengthened. Capital adequacy requirements are broadly in line with Basel I, although the market risk amendment has not been implemented**. However, foreign exchange (FX) risk, which is the most relevant market risk for Zambian banks, has been subject to regulatory limits. Regulation also allows for a couple of deviations regarding instruments that can be accepted as Tier 1 and Tier 2 capital, although those have not been used so far.

9. **The BoZ has been working on implementing Basel II since 2013, adopting a simplified approach for Pillar 1, in addition to the Pillar 2 and Pillar 3 components**. Regulations have been drafted but are yet to be issued. A Basel II parallel run was initiated in early 2014 but challenges remain, particularly regarding Pillar 2 and Pillar 3. Regulations require banks which show serious weaknesses in asset quality, risk diversification, liquidity or earnings to maintain capital levels in

excess of the minimum. However, the BoZ lacks the power to impose specific capital charges and/or limits on all material risk exposures. Basel II and III should be implemented, tailored to Zambian circumstances, including introducing prudential liquidity, ratios in line with Basel III.

10. Banks' risk management culture and processes have been evolving, but there is significant scope for improvement. Risk management guidelines have been in place since 2008, which provide a good foundation regarding expectations on banks' risk management function and processes. However, several banks still have a compliance approach, and risk management practices remain an early work in process. New risk management guidelines have been drafted, but they should be issued as directives to ensure enforcement powers. Banks are required to carry out credit risk stress tests but that has not been systematically enforced.

11. Oversight of certain risks should be enhanced, given the current environment in Zambia and banks' balance sheet structures. Interest rate risk in the banking book, liquidity risk, country and transfer risk, as well as concentration risk and large exposures merit closer attention from the BoZ. Also, country and transfer risk are currently outside the purview of the BoZ. There are per-counterparty FX-exposure concentration limits, but the BoZ should issue risk management directives incorporating concentration and cross-border exposure limits. There are large exposure limits but the BoZ systematically grants exceptions. In addition, information on liquidity gaps is not segregated by currency.

12. There is no provision for the exercise of consolidated supervision in current legislation. A consolidated supervision regime should be introduced and the BoZ should continue to implement the new risk-based approach to onsite supervision, but not at the expense on full onsite coverage for all banks. A formal peer analysis of banks should be developed along with a macroprudential framework and a methodology for identifying systemically important banks.

13. There is very little interaction between home and host authorities regarding subsidiaries of foreign banks operating in Zambia. The BoZ should be more proactive in information sharing with home supervisors of Zambian banks, and it should ensure that it is involved in resolution plans of parents of Zambian banks. In addition, a more proactive relationship should be cultivated with external auditors. There is little contact between the BoZ and external auditors, despite the legislation imposing some onerous requirements on external auditors.

Appendix II. Financial Policy Advice in Recent Article IV Reports

Year	Advice	Authorities' Response
2012	Improve the coverage and effectiveness of the credit reference bureaus, and streamline procedures for collateral enforcement to ensure collateral enforcement. Extend access to financial services, including payment services and saving facilities, to those without bank accounts. Review the legal and regulatory framework to allow for the development of innovative products and institutions tailored to the needs of the informal sector.	The credit reference bureau has been expanded, bank branches have been expanded in rural areas, and credit culture has improved. The authorities are also planning to introduce a unified collateral registry system, agency banking guidelines, and steps to improve land titling.
2013 and 2015	Remove the lending rate ceilings introduced in 2012/2013.	Removed in November 2015.