

Denny H Kalyalya: Keynote address - conference and meeting of the Community of African Banking Supervisors (CABS)

Keynote address by Dr Denny H Kalyalya, Governor of the Bank of Zambia, at the conference and meeting of the Community of African Banking Supervisors (CABS), Lusaka, 29 April 2024.

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The Executive Secretary of the Association of African Central Banks (AACB),

Dr Djoulassi Kokou Oloufada,

Mr. Vasily Pozdyshev, Senior Advisor, Financial Stability Institute of the Bank for International Settlements,

Representatives of the Association of African Central Banks,

Representatives and resource persons from the International Monetary Fund,

the World Bank, Bank of England, Bank for International Settlements,

African Development Bank, Making Finance Work for Africa, the Currency Exchange Fund (TCX),

Distinguished Speakers and Delegates,

Ladies and Gentlemen,

Good morning.

It is an honour and privilege to officiate at the 2024 Conference and Meeting of the Community of African Banking Supervisors (CABS). Let me start by welcoming you to Lusaka, Zambia and to the Mulungushi International Conference Center.

The Mulungushi International Conference Centre, where we are holding these meetings today, has some historical significance not only to Zambia but to the concept of Pan Africanism. It was at this conference centre that the Summit of the Organisation of African Unity (OAU) formulated the mandate that translated the transformation of the OAU into the African Union (AU) in July 2001.

Aside from rekindling the genesis of the AU, this conference centre also hosted a few historical events including the third Summit of the Non-Aligned Nations in 1970. This is the organisation that spearheaded the independence of most the countries in the Southern Africa. And from the entertainment world, in the 70s, the centre hosted the late famous ambassador of soul music, James Brown, perhaps most of you were young then or not yet born and could not remember the legendary musician, James Brown.

Back to the Agenda, I wish to note that the CABS conference and meeting are being held at a very challenging time. Barely recovering from the impact of the COVID-19

pandemic, the global economy is faced with a myriad of challenging vulnerabilities and risks that have potential to destabilize the African region. You will agree with me that Africa is a living example of occurrences of climate change events and nature-related exposures.

Just last year, in 2023, the Southern region grappled with extreme floods which were evident in Malawi and Mozambique due to the cyclone Freddie, a similar event happened in North Africa, in Morocco, Libya and surrounding areas. In 2024, the Southern African region is in the middle of a worst drought in years, with elevated temperatures.

The extreme weather events have a devastating impact on our region, affecting especially agricultural productivity (which threatens food security and livelihoods); infrastructure, and electricity generation for those countries that are dependent on hydro.

The other matter of concern is the on-going geopolitical conflicts in the Middle East including the on-going Russia-Ukraine war which pose threats to the stability of commodity markets.

Ladies and Gentlemen. These events are real and have devastating impact on our economies. Persistent high inflation and low growth occasioned by these events filters through the financial system, and call for effective regulations, and supervision at both micro and macro level to preserve stability.

It is, therefore, gratifying that the conference has incorporated these issues on the agenda. Discussions on how to resolve these issues should begin now so that we start developing concrete solutions.

Ladies and Gentlemen, as you deliberate over the next two days, and plan for AACB conference later this year, I wish to implore you to be candid for us to develop solutions to the challenges that bestow our continent.

The specific topic of interest which I note included in the agenda, is the financial stability risks related to sovereign-bank nexus. This has become evident and a subject of concern especially among Emerging and Developing countries.

While the rise in the sovereign-bank nexus began earlier in the decade, it surged during the COVID-19 pandemic as economic activity declined and governments increased fiscal support to non-financial firms and households to cushion the impact of the crisis.

To lower the potency of the sovereign-bank nexus, there have been debates on the policy considerations. This includes, among others, suggestions to maintain larger capital buffers and better prudential frameworks to strengthen banks and reduce both the probability and severity of stress. Prudential policies like adjustments to risk weights and exposure limits that restrict excessive sovereign debt holdings by banks have also been noted to limit the exposure. However, all these views require consensus.

Chairperson, ladies, and gentlemen

It is good to note that you have dedicated some time to these discussions, and I note that we have colleagues from the IMF and World Bank Group leading the discussions.

Ladies and gentlemen, considerations of bank resolution and crisis management and a review of key lessons drawn from the banking turmoil in the United States and Europe of March 2023 are also matters that deserve discussion.

This is relevant to all of us as supervisors, as the question is not whether there will be bank crisis in our respective jurisdictions, but when there is a bank crisis, are we ready and do we have the right tools to deal with the crisis that may ensue, especially in this digital age.

Just this month, here in Zambia, the Bank of Zambia as the regulatory and resolution authority took possession of one of the local banks due to insolvency. It is a test rehearsal of the inaugural crisis simulation exercise that we conducted in May 2023. And there are a number of lessons to be learnt especially as it relates to coordination of regulators and the fiscal authorities. It has also demonstrated that the need to have the right playbook to contain the risks that may arise from a failed institution is critical.

Ladies and gentlemen, I have also taken note of the second day's agenda which will review and plan the work activities under the three CABS Working Groups namely: Cross-Border Banking Supervision; Crisis Management and Banking Resolution; and Basel Regulations. This work is critical as it forms part of the preparatory work for the 46th Annual Meetings of the Association of African Central Banks (AACB) scheduled for July 28 – August 2, 2024, in Tripoli, Libya.

Ladies and gentlemen, I believe that the work being done under CABS is laying the foundation for something greater. The continent needs to move towards attainment of having consistent prudential regulations and supervisory frameworks.

I am cognizant of the various work that we are doing under different regional blocks that support harmonization of regulatory and supervisory frameworks, but we need to start moving towards harmonization across the continent.

If we do not achieve harmonization, this will mean that regional and Pan-African banking groups that operate across nations have to deal with divergent regulatory and supervision regimes such as Basel standards, Anti-Money Laundering and Know Your Customer rules.

Ladies and Gentlemen, in conclusion, it is my hope that CABS will continue working hard in supporting the undertakings of the AACB Governors and keep following up on its resolutions towards effective implementation of the objectives of the continent.

The Bank of Zambia is exceedingly privileged to host this event. Some of you may have participated in the annual conference that Zambia hosted in Livingstone last year in August and still have fresh memories. Lusaka is quite cosmopolitan with most of tourist sites which may be of interest, within reachable distances. Livingstone is just about 45

minutes flight from Lusaka. There are also a number of shopping facilities and dining areas within walkable distance of the conference center. Please, spare sometime and sample the Zambian hospitality.

I thank you for your kind attention and wish you fruitful engagements.