



GENERAL MANAGER'S OFFICE

BANK OF ZAMBIA
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C B Circular No. 1/94

TO : ALL COMMERCIAL BANKS AND BUREAUX DE CHANGE

Dear Sirs

FOREIGN EXCHANGE CONTROL LIBERALISATION

As Commercial Banks are aware, the Minister of Finance in his Budget Address to the National Assembly announced the suspension of the Exchange Control Act with effect from January 28, 1994.

The effect of this measure is to permit full convertibility of the Kwacha and completely free current account and capital account transactions. There are, however, a few areas which will continue to be regulated by the Bank of Zambia as set out in the Bank of Zambia (Foreign Currency) Regulations, 1994 Statutory Instrument No. 44 dated 4th March 1994. These residual powers will ensure an orderly transition to the new environment and promote stability in the financial markets.

The specific areas in which the Bank of Zambia will retain powers to regulate are:

- regulating the foreign exchange activities of commercial banks. This provision will shortly be replaced by a similar power under the forthcoming Banking and Financial Services Act. Operations of foreign currency accounts will be supervised under this provision.
- supervising the establishment and operation of bureaux de change. The Statutory Instrument No. 44 has been issued with regulations similar to those existing until 28 January 1994.


- requiring ZCCM to sell part or all of its foreign exchange earnings to the Bank of Zambia. The power to require surrender of foreign exchange earnings reflects the current lack of depth in the local foreign exchange market, and our recognition of ZCCM's potentially dominant position. As a deeper foreign exchange market develops, and non-traditional exports become increasingly significant, these restrictions will be phased out.

- maintaining the requirement of prior approval of the Bank of Zambia for principal and/or interest payments on foreign currency borrowing incurred prior to 28 January, 1994. Debt incurred after 28 January 1994, may be serviced without restriction, although new loan agreements entered into must be lodged with the Bank of Zambia for statistical purposes.

All other capital remittances by Zambian citizens, residents, and Zambian registered companies are now permissible and may be effected without requiring prior approval of the Bank of Zambia. The DGL system will, however, continue to operate as at present.

Commercial Banks should seek to ensure that prospective purchasers of foreign exchange are not violating any guidelines issued from time to time by the Bank of Zambia to guide foreign exchange market operations. In particular commercial banks should sight relevant documentation to validate requests for foreign exchange to meet current account transactions, and in respect of travel allowances. Commercial Banks shall also submit any returns relating to foreign exchange transactions as prescribed by the Bank of Zambia.

Yours faithfully



G B MBULO
GENERAL MANAGER