



BANK OF ZAMBIA
OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

March 28, 2002

CB Circular No. 04/2002

To : ALL COMMERCIAL BANKS

CONVERSION OF COMMERCIAL BANKS' FOREIGN CURRENCY STATUTORY RESERVE BALANCE FROM KWACHA INTO FOREIGN CURRENCY

In line with the measures announced by the Honourable Minister of Finance and National Planning in this year's budget to reduce the cost of commercial bank credit particularly to the agriculture sector, the Bank of Zambia shall **convert 100 percent of the foreign-currency statutory reserve balances held by commercial banks from kwacha into foreign currency.**

To minimize the liquidity impact of this policy change on the money market and to enable commercial banks make necessary adjustments, the conversion will be done in four equal tranches. The first conversion will be effected on **8 April 2002 based on the Wednesday 3 April 2002 foreign deposit liability position.** Compliance with the statutory reserve requirement on the outstanding foreign currency deposit liability between quarters will be reserved in kwacha as before.

The implication of this policy change is that, in order to comply with the statutory reserve requirement on foreign currency deposit liability, commercial banks shall maintain two separate statutory reserve accounts over the conversion period, one in actual foreign currency and the other in kwacha as before.

In order to facilitate the smooth operations of the foreign currency statutory reserve accounts the following conditions shall apply:

1. All transactions shall be concluded in United States dollars.
2. The standard foreign exchange settlement conversion of 2 (two) working days shall apply when commercial banks are making adjustments to their foreign currency statutory reserve accounts.

3. Mode of settlement: All transactions shall be settled by way of Telegraphic Transfer. The Bank of Zambia shall not allow settlement by cheques or drafts. The details of the Bank of Zambia account on which all transactions relating to statutory reserves denominated in foreign currency (United States Dollar-USD) shall be conducted are as follows:

Beneficiary Bank: CitiBank
111 Wall Street
New York, N.Y. 10043
USA

SWIFT Code: CITIUS33

Favour: Bank of Zambia

Account: 36999653

4. Each party shall bear own transmission costs.
5. Upon completion of the conversion, penalties on foreign currency statutory reserve account shortfalls shall be levied in kwacha equivalent at the prevailing Bank of Zambia mid-exchange rate.

Kindly note that transactions relating to statutory reserve balances held in foreign currency will be handled by our Finance Department while those involving kwacha will be effected by Banking, Currency and Payment System Department as before. Commercial banks that do not have statutory reserve accounts denominated in foreign currency should contact Finance Department for modalities regarding the opening of these accounts.

Find attached a modified "Commercial Banks' Weekly Return of Selected Assets and Liabilities" and an Explanatory Note which illustrates the computation of the statutory reserve ratio on the foreign currency deposit liability during the conversion period.

Kindly also note that the modalities regarding the conversion of foreign-currency statutory reserve balances from kwacha into foreign currency shall be subject to review whenever deemed necessary.

For further clarifications, kindly contact Director - Financial Markets Department, telephone No. 225008 and facsimile 221189.


Dr Abraham Mwenda
Deputy Governor - Operation

COMMERCIAL BANKS' WEEKLY RETURN OF SELECTED ASSETS AND LIABILITIES
K'million

Name of Commercial Bank
Position as on Wednesday

| (i): SELECTED ASSETS AND LIABILITIES | April 2 2002 Weeks 1, 2, 3 etc | July 2002 Weeks 1, 2, 3 etc | Interventing Period Weeks 1, 2, 3 etc | Oct 2002 Weeks 1, 2, 3 etc | Interventing Period Weeks 1, 2, 3 etc | Jan 2003 |
|--|-----------------------------------|--------------------------------|--|-------------------------------|--|----------|
| 1. Core Liquid assets (a) Zambia Notes and Coins (b) Current account Balances at BOZ (c) Treasury Bill Holdings (d) Term Deposits | 62,648.3 | 60,500.0 | 63,500.0 | 61,000.0 | 60,250.0 | 68,000.0 |
| 2. Kwacha Statutory Account Balances at BOZ | | | | | | |
| 3. Liabilities to the Public (3a+3b) (a) Deposit Liabilities to the Public (b) Bills Payable (c) Foreign Currency Deposit Liabilities to the Public(US\$'000) | | | | | | |
| 4. Government Deposits | | | | | | |
| 5. Loans and Advances outstanding (Of which loans in million of US \$) | | | | | | |
| 6. Core Liquid Assets Ratio | | | | | | |
| 7. Minimum required liquid assets(35% of 3a+3b) | | | | | | |
| 8. Excess/shortfall in liquid assets | | | | | | |
| 9. Statutory Reserve Ratio | | | | | | |
| 10. Minimum Kwacha Statutory Reserves (15% of 3a) | | | | | | |
| 11. Kwacha excess/shortfall in statutory reserves (2-10) | | | | | | |
| 12. Minimum F.C. Statutory Reserves (15 % of 3c) in US\$ | 9,397.2 | 9,075.0 | 9,525.0 | 9,150.0 | 9,037.5 | 9,800.0 |
| 12a. Statutory Reserves (25 % of 12) to be reserved in US\$ | 2,349.3 | 2,268.8 | 2,381.3 | 2,287.5 | 2,259.4 | 2,450.0 |
| 12b. Statutory Reserves to be reserved in kwacha | 7,047.9 | 6,806.2 | 7,143.7 | 6,862.5 | 6,778.1 | 7,350.0 |
| 13. Foreign Currency Statutory Reserve Balance in Kwacha | | | | | | |
| 14. Minimum F.C. Statutory Reserves (12b) in Kwacha. (at BOZ mid rate) | | | | | | |
| 15. Excess/shortfall in F.C. Statutory Reserves (13 - 14) | | | | | | |

Example for BANK "A"

EXPLANATORY NOTES FOR THE ATTACHED RETURN

Suppose Bank A has a deposit liability of USD 62,648.3 thousand as at Wednesday 27 March 2002.

- The minimum statutory reserve requirement on USD 62,648.3 thousand is USD 9,397.2 thousand, (Item 12). That is, 15 percent of USD62,648.3 thousand
- 25 percent of USD 9,397.2 thousand which is equal to USD2,349.3, (Item 12a) thousand shall be converted into US dollar statutory reserves in four equal tranches starting 8 April 2002.
- USD2,349.3 thousand shall be held constant and subtracted from the full minimum statutory reserve requirement (Item 12) between quarters. The remainder (item 12b) of the statutory reserve requirements will be reserved in kwacha.

The quarterly conversion profile of the statutory reserve balances held in kwacha into foreign currency as illustrated in the modified return over the conversion period is as follows

| | | Foreign Currency Balance |
|-------------------------|---|---------------------------------|
| 1 st quarter | = | USD 2,349.3 thousand |
| 2 nd quarter | = | USD 4,698.6 thousand |
| 3 rd quarter | = | USD 7,047.9 thousand |
| 4 th quarter | = | USD 9,397.2 thousand |

Note that all commercial banks will be expected to comply in foreign currency at the end of the conversion period January 2003. In the modified return attached herewith (Item 12b), this would mean that any excess or shortfall on commercial banks' statutory reserve account will have to be complied with in US dollars.