Tel. (260 1) 228888 / 228903 - 20

Fax: (260 1) 237070

BANK OF ZAMBIA
P.O. Box 30080,
LUSAKA 10101

January 23, 2001

CB Circular No. 08/2001

To: All Commercial Banks and Financial Institutions

Dear Sirs,

NEW MEASURES ON FOREIGN EXCHANGE TRANSACTIONS

Further to the announcement of January 18, 2001 by the Minister of Finance and Economic Development on the above subject, we wish to formally inform you of the new measures that have a direct bearing on your operations (copy of the Minister's press statement is attached). To assist you in your operations, the Bank of Zambia has today issued two circulars on **Foreign Exchange Risk Exposures** and **Foreign Exchange Placements and Deposits**. Appropriate statutory instruments and guidelines for the other areas will also follow shortly. Meanwhile, you are all urged to make necessary adjustments to your operational procedures and inform your customers of the same. The new measures are as follows.

GENERAL MEASURES

1. All exports to be receipted locally and at least 75% of this amount should be deposited with local banks immediately upon receipt but in any case not exceeding 180 days from date of exporting. To this end, with immediate effect declaration of the commercial bank processing the exports on the existing Customs and Excise Declaration (CED) form is mandatory.

ZRA has already effected this change to the CED form. Exporters will therefore be approaching banks for facilitation. Bank of Zambia will be following up with collection of this information on a regular basis through submission of regular returns.

2. Remittances, other than dividends, by business entities to be made against invoices consistent with bills of entry collected by ZRA.

Business entities wishing to make remittances will be required to furnish banks with invoices or supporting documentation. This procedure is principally for statistical purposes. The role of banks is merely to facilitate this process by

ensuring that customers' remittance papers are in order and not to approve or disapprove remittances.

3. All external payments above US $5,000 to be channeled through commercial banks.

Business entities and members of the public wishing to make external payments in excess of US $5,000 will be required to channel such payments through banks. Again, banks will be expected to play a facilitative role only.

4. Holding of foreign currency deposits shall continue, but foreign currency demand deposits will be limited to 25% of the total foreign currency deposits to allow active intermediation by the banks.

5. Only foreign exchange dealers authorized by Bank of Zambia will be allowed to price in foreign currency, receive, buy or sell foreign exchange.

6. Authorised foreign exchange dealers to:

   - allow margins, between buying and selling rates, of no more than 2%, inclusive of commissions and other charges; and
   - display their current trading rates and only transact at these rates.

7. All domestic transactions to be charged and settled in Kwacha, except for licensed tourist enterprises authorized by Bank of Zambia.

8. In line with the concerns raised by the business community at State House, Government will review all pieces of enabling legislation with a view to strengthening them.

2.2 PRUDENTIAL MEASURES

1. Foreign exchange open positions for commercial banks to be reduced from 25% to 15% of paid up capital.

2. Foreign exchange holdings by commercial banks with related parties, single counter-parties and unrelated counter-parties to be streamlined to ensure that not more than 5% of such holdings are held in off-shore centers.

3. The procedure for processing applications for bureaus has been made more rigorous so that only reputable persons are involved in this business.

   - Applicants for licenses to operate bureaux must demonstrate possession of capital of no less than US $10,000 before a license can be issued. In addition, a non-refundable application fee of US$1,000 and an annual license renewal fee of US $2,000 will be required. For existing bureaus, a grace period of 3 months has been given for them to raise their minimum capital to [illegible], US$10,000

- Customer identification to be intensified. All bureaus will be required to adopt some elements of "Know Your Customer" guidelines issued by the Bank of Zambia.

- To ensure that bureaus remain moneychangers, their transactions will be limited to those transactions befitting money shops. To achieve this, bureau transactions will be spot.

4. Unsound and unsafe practices by banks and bureaus will attract stiff money and other penalties.

Finally, non-observance of above regulations and provisions in the relevant Act(s) will attract stiff money and other penalties.

Yours faithfully,

Abraham Mwenda (Dr)
DEPUTY GOVERNOR – OPERATIONS

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT STATEMENT ON

GOVERNMENT MEASURES TO STABILIZE THE FOREIGN EXCHANGE MARKET

18 January 2001

1.0 INTRODUCTION

Government believes that in general, the economic programme has progressed well. However, during the course of last year, a worrying trend begun to emerge in the economy with regard to the conduct of the private sector towards foreign exchange transactions. The Government has observed, among other things, that:

a. Exporters are externalizing their proceeds and leaving very little within the Zambian economy.

b. Banks have exhibited notable reluctance to intervene in the foreign exchange market despite having foreign currency deposit holdings of over US $200 million.

c. Major exporters are auctioning foreign currency instead of off-loading it through established channels and outlets.

d. Far too many business transactions are being carried out in foreign currency.

e. Many business entities and individuals are soliciting and accepting payments in foreign currency, which they later sell at speculative exchange rates.

f. A large number of business establishments are denominating prices of their goods and services in US Dollars and converting these into Kwacha at speculative exchange rates.

g. A number of business establishments are carrying out large cash transactions in foreign currency, apparently, with a view to externalizing foreign exchange from the domestic economy.

h. There has been a tendency among our people to use Bureaux de Change for externalizing foreign exchange and for other unsound practices.

When suspending exchange controls, Government's intention was and still is to eliminate unnecessary barriers for private business and our people to be able to mobilize resources and undertake investment in the domestic economy so as to promote growth and reduce poverty. The tendencies outlined above are evidence that unhealthy speculation and abuse of liberalized environment are violating the intentions of Government.

2.0 MEASURES

Before going into the measures, I wish to express Government's sincere appreciation of the healthy dialogue that is emerging between the business community and the

Government, as exhibited at the second State House meeting of January 17, 2001 ("**State House Consensus**") on this subject. It is Government intention to continue this type of dialogue, which is aimed at strengthening Government policy for the benefit of our people. The measures I am about to announce, take into account the suggestions and sentiments expressed at State House and are principally aimed at bringing some immediate relief to the pressure on the Kwacha. For these measures to work Government counts on the business community's expressed commitment to cooperate with Government in this very important matter for our country.

Government reaffirms that these measures are consistent with the current policy of no exchange controls. However, Government is determined to ensure that the Monetary Authority corrects evident market failures.

2.1 GENERAL MEASURES

1. All exports to be receipted locally and at least 75% of this amount should be deposited with local banks immediately upon receipt but in any case not exceeding 180 days from date of exporting. To this end, with immediate effect declaration of the commercial bank processing the exports on the existing Customs and Excise Declaration (CED) form is mandatory.

2. Ministry of Commerce, Trade and Industry to urgently set up a post-privatisation national monitoring committee to follow up on an on-going basis implementation of development agreements.

3. Remittances, other than dividends, by business entities to be made against invoices consistent with bills of entry collected by ZRA.

4. All external payments above US $5,000 to be channeled through commercial banks.

5. Holding of foreign currency deposits shall continue, but foreign currency demand deposits will be limited to 25% of the total foreign currency deposits to allow active intermediation by the banks.

6. Only foreign exchange dealers authorized by Bank of Zambia will be allowed to price in foreign currency, receive, buy or sell foreign exchange.

7. Authorised foreign exchange dealers to:

   - allow margins, between buying and selling rates, of no more than 2%, inclusive of commissions and other charges; and
   - display their current trading rates and only transact at these rates.

8. All domestic transactions to be charged and settled in Kwacha, except for licensed tourist enterprises authorized by Bank of Zambia.