



## 5.0 BANKING, CURRENCY AND PAYMENT SYSTEMS



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**Overview**

In 2007, the Bank of Zambia successfully continued to monitor account operations of commercial banks to ensure that all transactions were covered by adequate liquidity and that sufficient funds were available to meet all clearing obligations. In the area of currency, the Bank continued determining geographical requirements of banknotes and implementing the Clean Note Policy. Among the key developments in 2007, was the coming into effect of the National Payment Systems Act 2007 on June 15. Further, the Zambia Revenue Authority Tax Payment Stream was introduced in April 2007, allowing tax payments to be made using ZIPSS and therefore enhancing Government's efficiency in collecting tax revenue as payments made to tax accounts are received in real time.

**5.1 Banking**

In 2007, the Bank of Zambia continued to monitor account operations of commercial banks to ensure that all transactions were covered by adequate liquidity and that sufficient funds were available to meet all clearing obligations. In this regard, all commercial banks maintained the required clearing collateral levels. In addition, the Bank continued to act as banker to the Government by facilitating banking services for efficient revenue collections and transfers of funds to commercial banks.

*Management of Project Loans*

*Zambia Agriculture Marketing and Processing Infrastructure Project*

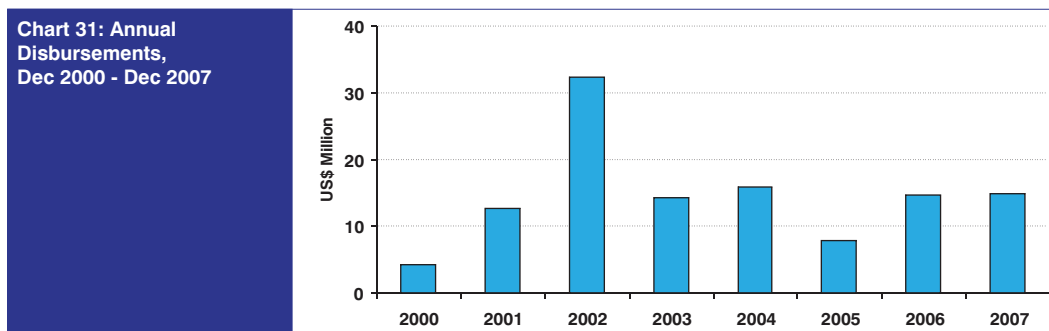
In 2007, the Bank continued to receive principal repayments and interest from Participating Commercial Banks (PCBs) on Zambia Agriculture Marketing and Processing Infrastructure Project (ZAMPIP) outstanding loans. As at 31<sup>st</sup> December 2007, principal repayments and interest earned, amounted to US \$246,932 and US \$27,718 respectively, leaving the amount outstanding from PCBs at US \$356,602.0. The total funds available on the ZAMPIP US dollar revolving fund account as at 31<sup>st</sup> December 2007 stood at US \$670,319.0.

*The Multi-Purpose Credit Facility*

The Multi-Purpose Credit Facility (MCF), under the Enterprise Development Project (EDP), remained competitive in the provision of term-finance to the private sector through Participating Financial Intermediaries (PFIs).

In 2007, loans amounting to US \$14.88 million were approved and disbursed under the MCF to sixteen (16) final borrowers compared to US \$14.73 million disbursed to 30 borrowers in 2006, representing an increase of 1% in value terms.

Cumulatively, the number of successful applications as at 31 December 2007, stood at 332, with a total value of US \$112.93 million since the project started in 2000 (see Chart 31).

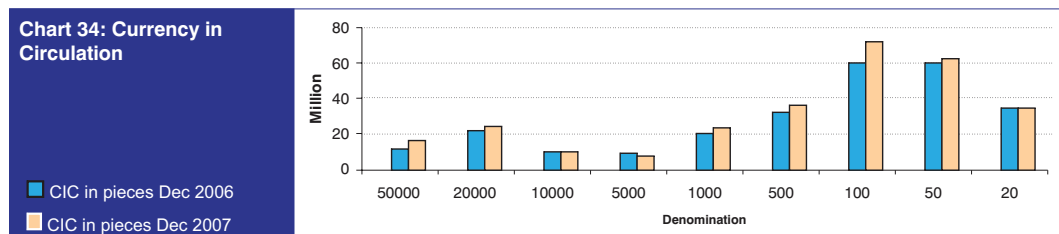
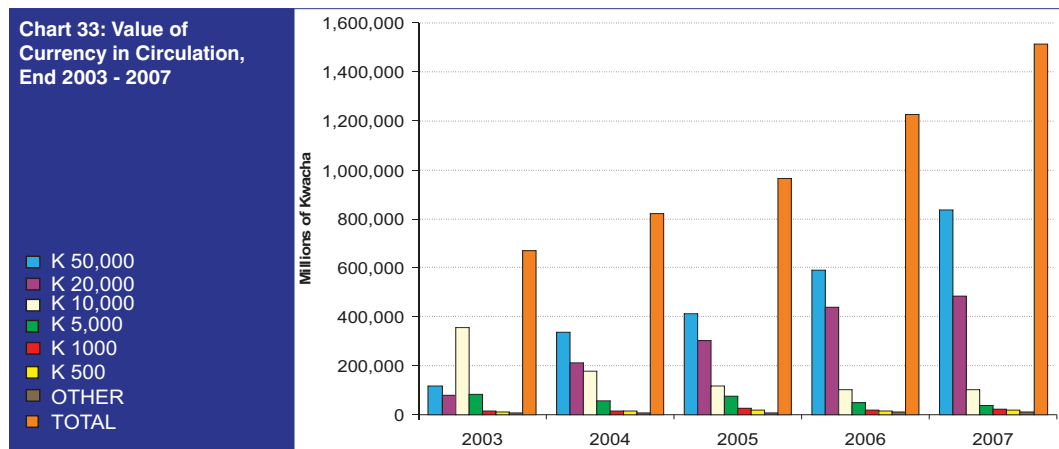
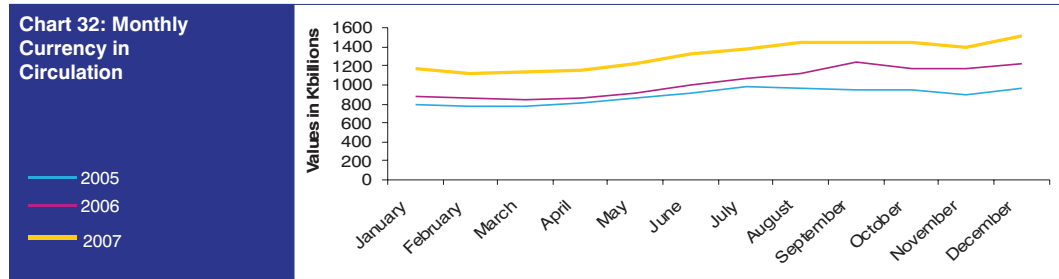


**5.2 Currency**

In the area of currency, the Bank of Zambia continued determining geographical requirements of banknotes and implementing the Clean Note Policy. In this regard, the main activities undertaken included forecasting and supply of banknotes, withdrawing and replacing unfit banknotes, determining banknote requirements and undertaking country-wide currency awareness and sensitisation campaigns.

***Currency in Circulation***

Currency in circulation (CIC) increased by 24% to K1,515.0 billion at end-December 2007 from K1,226.0 billion at end-December 2006 on account of continued expansion of economic activities in various sectors of the economy. In this regard, the Bank of Zambia opened a sub-chest in Solwezi to meet the increasing demand for currency in the area, attributed to expansion in mining and related economic activities (see Charts 32, 33 and 34).



***Withdrawal and Replacement of Unfit Banknotes***

Consistent with the Clean Note Policy, a total of 69.0 million pieces of unfit banknotes valued at K497.0 billion banknotes were withdrawn from circulation during the year. Of the banknotes withdrawn, 30.8 million pieces with a value of K23.9 billion were unfit polymer banknotes. In addition, a total of 58,990 pieces of mutilated banknotes with a value of K141.2 million were withdrawn.

During the same period, the Bank issued a total of 115.3 million pieces of new banknotes. Most of these banknotes were low value (K50, K100, K500 and K1000) and accounted for 61% of the total banknotes issued (see Table 35).

**Table 35: Value and Pieces of New Banknotes, 2006 and 2007**

Denomination	2006		2007	
	Values	Pieces	Values	Pieces
K 50,000	54,300,000,000	5,086,000	98,600,000,000	9,972,000
K 20,000	64,280,000,000	8,214,000	61,800,000,000	13,090,000
K 10,000	85,590,000,000	8,559,000	32,720,000,000	13,272,000
K 5,000	48,450,000,000	9,690,000	41,715,000,000	8,343,000
K 1,000	13,175,000,000	13,175,000	16,858,000,000	16,858,000
K 500	5,711,000,000	11,422,000	7,773,000,000	15,546,000
K 100	2,015,700,000	20,157,000	2,652,800,000	26,528,000
K 50	456,100,000	9,122,000	582,650,000	11,653,000
K 20	28,620,000	1,431,000	-	-
<b>TOTAL</b>	<b>574,006,420,000</b>	<b>86,856,000</b>	<b>962,701,450,000</b>	<b>115,262,000</b>

Source: Bank of Zambia

#### *Destruction of Unfit Banknotes*

In 2007 a total of 71.2 million pieces of unfit banknotes, with a face value of K556.1 billion, were destroyed compared with 38.3 million pieces, valued at K181.3 billion in 2006. The destruction of the unfit banknotes was mostly through briquetting.

#### *Currency Awareness and Sensitisation Campaigns*

In order to enlighten the public on proper handling and storage of polymer and paper notes, the Bank of Zambia undertook currency awareness and sensitisation campaigns in 28 cities and towns. The campaigns were aimed at reducing incidences of willful mutilation, soiling and defacing of Zambian banknotes so as to contribute towards the realisation of the objectives of the Clean Note Policy. The campaign further aimed at ensuring that members of the general public and other stakeholders were both sensitised and enlightened on the identification of the main recognition and security features on the banknotes in order to guard against counterfeits.

### 5.3 Payment Systems

#### *National Payment Systems Act*

The National Payment Systems Act 2007 came into effect on June 15, 2007. The Act provides a statutory basis for Bank of Zambia to manage, administer, operate, regulate and supervise payment, clearing and settlement systems. The Act also empowers the Bank of Zambia to develop and implement payment system policy so as to promote efficiency, stability and safety of the Zambian financial system.

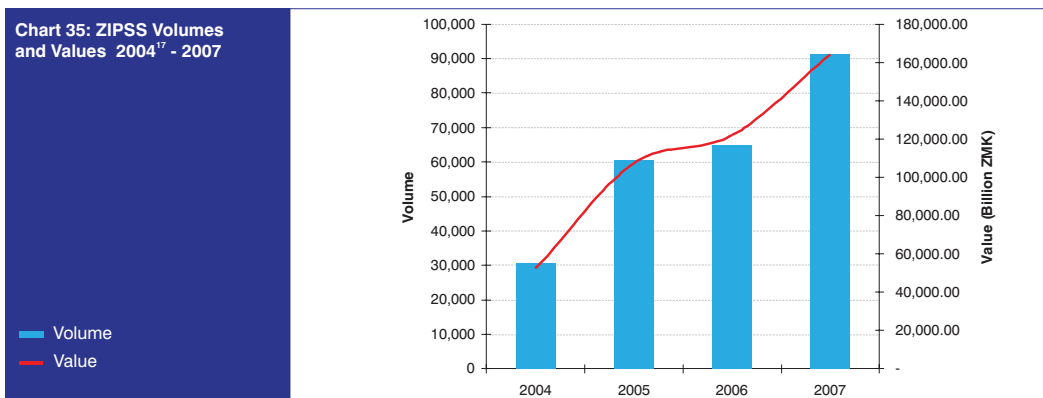
#### *Item Value Limits on Payment Streams*

In April 2007, the Bank of Zambia, in conjunction with the Bankers Association of Zambia, introduced Item Value Limits (IVL) on the payment streams cleared through the Zambia Electronic Clearing House and Direct Debit and Credit Clearing (DDACC) payment streams. This initiative is aimed at increasing the efficiency of payments.

Under the IVL, the public can now channel payments of high value through the Real Time Gross Settlement (RTGS) system, allowing consumers real time access to their funds. Under this arrangement, all payments above K100 million are settled through the RTGS, while amounts below this threshold are paid by cheque, DDACC or any other electronic payment mechanism.

#### *Zambia Interbank Payment and Settlement System*

The Zambia Interbank Payment and Settlement System (ZIPSS) continued to operate satisfactorily with all commercial banks participating. The volume of transactions processed in 2007 increased by 41% to 91,462 transactions compared to 65,066 in 2006. The value of transactions similarly increased by 35% to K164,295 billion in 2007 compared to K121,953 billion in 2006 (see Chart 35).



The increase in the volume and value of transactions under the ZIPSS was mainly attributed to the introduction of the Zambia Revenue Authority Tax Payment Stream, IVL on Physical Interbank Clearing (PIC) and DDACC payments.

#### *Zambia Revenue Authority Tax Payment Stream*

The introduction of the Zambia Revenue Authority Tax Payment Stream in April 2007 allowed tax payments to be made using ZIPSS. Under this arrangement, tax payers issue payment instructions to commercial banks to transfer funds through ZIPSS to the appropriate ZRA Tax Accounts at Bank of Zambia. The mechanism has enhanced Government's efficiency in collecting tax revenue as payments made to tax accounts are received in real time.

#### *Physical Interbank Clearing System*

In 2007, the volume of cheques processed through the Physical Inter-bank Clearing (PIC) system increased by 9% to 2.5 million from 2.3 million in 2006. Accordingly, the value of the cheques processed increased by 5% to K29,719 billion from K28,269 billion (see Table 36). The increase in both volume and value of cheques processed was attributed to increased economic activity.

**Table 36: Physical Inter-Bank Clearing - Volumes & Values, 2005 - 2006**

Month	Volumes				Values (K'billion)			
	2005	2006	2007	% Change (2006 to 2007)	2005	2006	2007	% Change (2006 to 2007)
Jan	171,061	186,399	206,242	11%	1,967	2,730	2,766	1%
Feb	176,048	174,012	187,580	8%	1,846	1,890	2,288	21%
Mar	181,308	197,805	203,588	3%	1,925	2,169	2,648	22%
Apr	187,446	168,603	193,629	15%	2,163	1,992	2,521	27%
May	189,185	197,208	213,672	8%	2,216	2,164	2,576	19%
Jun	196,870	198,018	204,793	3%	2,365	2,143	2,546	19%
Jul	181,561	186,036	211,029	13%	2,332	2,218	2,823	27%
Aug	202,159	203,501	217,821	7%	2,431	2,521	2,741	9%
Sep	197,424	185,071	202,495	9%	2,395	2,548	2,446	-4%
Oct	181,973	203,213	227,790	12%	2,318	2,754	2,224	-19%
Nov	190,130	202,921	218,272	8%	2,392	2,603	2,125	-18%
Dec	185,000	187,480	202,279	8%	2,413	2,536	2,015	-21%
<b>Total</b>	<b>2,240,165</b>	<b>2,290,267</b>	<b>2,489,190</b>	<b>9%</b>	<b>26,763</b>	<b>28,268</b>	<b>29,719</b>	<b>5%</b>
<b>Monthly Average</b>	<b>186,680</b>	<b>190,856</b>	<b>207,433</b>	<b>9%</b>	<b>2,230</b>	<b>2,356</b>	<b>2,477</b>	<b>5%</b>

Source: Zambia Electronic Clearing House Limited

#### *Direct Debit and Credit Clearing System*

The volume of transactions processed through DDACC increased by 27% to 895,637 in 2007 from 703,951 in 2006. Consistent with this, the value of transactions processed increased by 53% to K3,670 billion from K2,395 billion. The increase in the volume and value of transactions was attributed to the continued preference of the DDACC stream for the payment of small value transactions (see Table 37).

<sup>17</sup>2004 ZIPSS figures are from June 21<sup>st</sup>, 2004 only.

**Table 37: Direct Debit and Credit Clearing Volumes, and Values, 2005 - 2007**

Month	Volumes				Values (K'billion)			
	2005	2006	2007	% Change (2006 to 2007)	2005	2006	2007	% Change (2006 to 2007)
Jan	38,541	54,118	63,150	17%	180	174	262	51%
Feb	43,449	51,912	57,061	10%	173	156	222	42%
Mar	41,177	56,713	68,793	21%	186	175	246	41%
Apr	41,032	48,115	68,715	43%	180	158	270	71%
May	51,998	62,421	71,446	14%	165	181	297	64%
Jun	46,857	54,499	64,965	19%	183	176	294	67%
Jul	38,528	51,846	82,784	60%	179	185	326	76%
Aug	51,483	69,766	76,622	10%	226	229	395	72%
Sep	47,265	49,776	53,993	8%	192	209	281	34%
Oct	44,974	67,831	92,768	37%	172	219	429	96%
Nov	52,274	61,783	89,236	44%	210	256	308	20%
Dec	66,539	75,171	106,104	41%	209	277	340	23%
<b>Total</b>	<b>564,117</b>	<b>703,951</b>	<b>895,637</b>	<b>27%</b>	<b>2,255</b>	<b>2,395</b>	<b>3,670</b>	<b>53%</b>
<b>Monthly</b>								
<b>Average</b>	<b>47,010</b>	<b>58,663</b>	<b>74,636</b>	<b>27%</b>	<b>188</b>	<b>200</b>	<b>306</b>	<b>53%</b>

Source: Zambia Electronic Clearing House Limited

*Unpaid Cheques*

During the year, the volume of unpaid cheques decreased by 33% to 17,270 (with a value of K173 billion) from 25,739 (with a value of K402 billion) in 2006 (see Table 38). The reduction in the level of unpaid cheques was a result of the Bank's continued efforts in enforcing the provisions of the Bank of Zambia CB Circular No. 23/2003 on unpaid cheques and the enactment of the National Payment Systems Act 2007. Under the Act, it is an offence, with severe sanctions on conviction including imprisonment.

**Table 38: Unpaid Cheques Volumes and Values, 2005 - 2007**

Month	Volumes				Values (K'billion)			
	2005	2006	2007	% Change (2006 to 2007)	2005	2006	2007	% Change (2006 to 2007)
Jan	1,827	2,506	1837	-27%	19	161	14	-19%
Feb	1,841	2,452	1409	-43%	9	28	12	-57%
Mar	1,878	2,744	1614	-41%	13	24	14	-42%
Apr	1,527	2,368	1286	-46%	12	20	9	-55%
May	1,812	2,037	1528	-25%	579	13	19	-46%
Jun	1,829	1,981	1281	-35%	18	21	14	-33%
Jul	2,241	1,833	1519	-17%	19	37	15	-59%
Aug	1,971	2,379	1,305	-45%	31	27	11	-59%
Sep	2,632	1,751	1,390	-21%	20	12	12	0%
Oct	1,914	2,075	1,285	-38%	13	23	25	9%
Nov	2,278	2,020	1,489	-26%	14	20	15	-25%
Dec	2,018	1,593	1,327	-17%	13	15	13	-13%
<b>Total</b>	<b>23,768</b>	<b>25,739</b>	<b>17,270</b>	<b>-33%</b>	<b>760</b>	<b>401</b>	<b>173</b>	<b>-13%</b>
<b>Monthly</b>								
<b>Average</b>	<b>1,981</b>	<b>2,145</b>	<b>1,439</b>	<b>-33%</b>	<b>63</b>	<b>33</b>	<b>14</b>	<b>-57%</b>

Source: Zambia Electronic Clearing House Limited