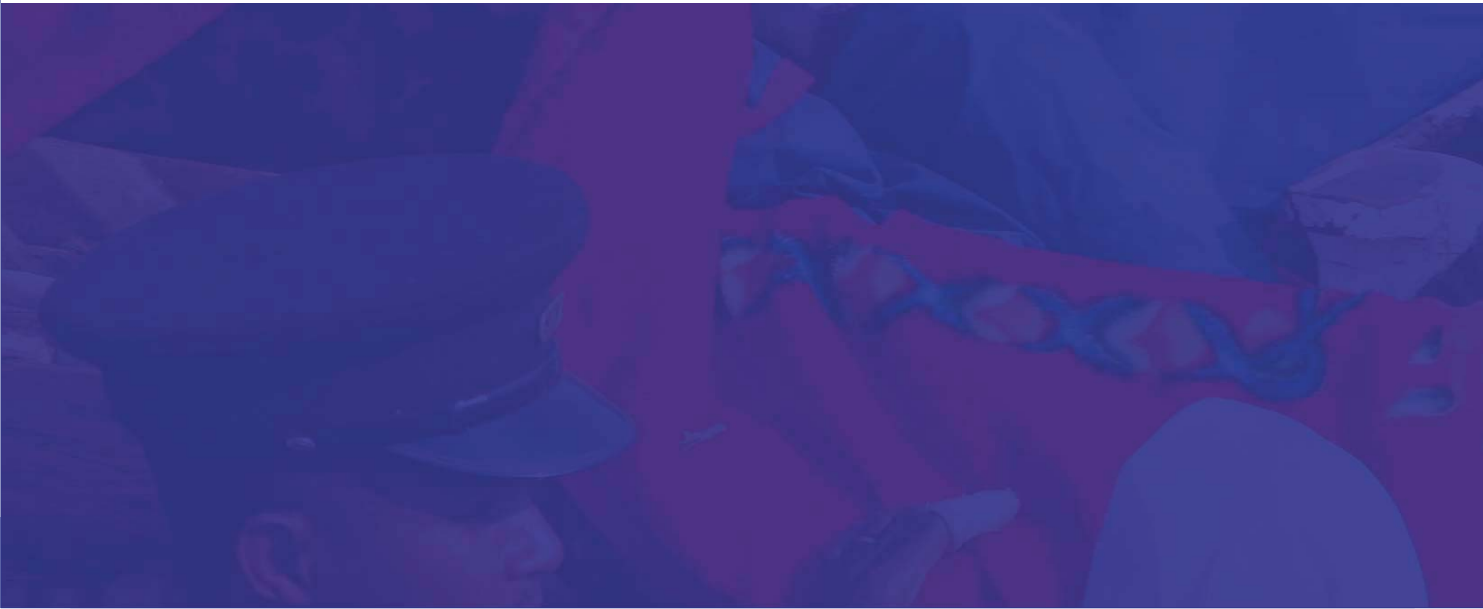




5.0 BANKING, CURRENCY AND PAYMENT SYSTEMS



**5.0 BANKING, CURRENCY AND PAYMENT SYSTEMS**

**Overview**

In 2008, banking, currency and payment systems operations were satisfactory. The performance of commercial banks in general was satisfactory, despite some commercial banks having failed to maintain sufficient funds on their settlement accounts to meet their clearing obligations on time. In the area of currency and payments systems, the Bank continued to implement the Clean Note Policy and the National Payment Systems Act.

**5.1 BANKING**

**Operations of Commercial Banks Current Accounts**

The Bank 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. The performance of commercial banks in general was satisfactory, despite some commercial banks having failed to maintain sufficient funds on their settlement accounts to meet their clearing obligations on time. Overall, all commercial banks that accessed the intra-day credit facility were able to repay the funds by close of business. In addition, the Bank continued to perform its role as banker to the Government by providing banking services for revenue collections and facilitated funding of Government operations.

**Management of Project Loans**

**Zambia Agriculture Marketing and Processing Infrastructure Project (ZAMPIP)**

During 2008, the Bank continued to receive principal repayments and interest from Participating Commercial Banks (PCBs) on the Zambia Agriculture Marketing and Processing Infrastructure Project (ZAMPIP) outstanding loans. As at 31st December 2008, principal repayments and interest earned amounted to US \$256,602 and US \$11,197.40, respectively, bringing the total funds available on the ZAMPIP US Dollar revolving fund account to US \$938,118.69. The loan amount outstanding from PCBs on the ZAMPIP facility at 31st December 2008 was US \$100,000.00.

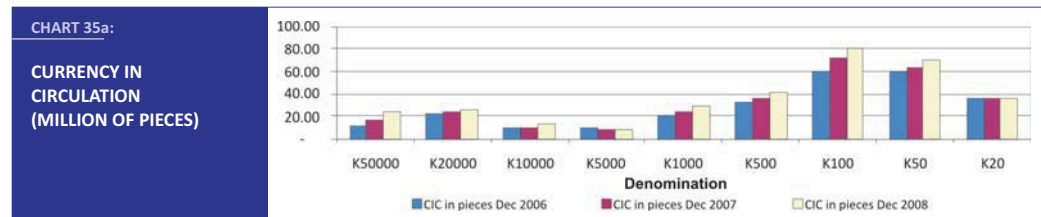
**Multi-Purpose Credit Facility**

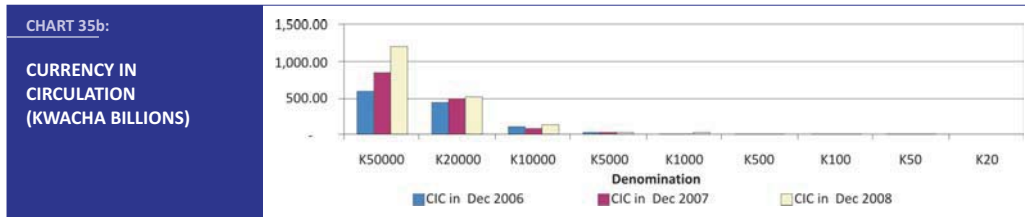
During the year under review, principal and interest collections under the Multi-Purpose Credit Facility continued. As at 31 December 2008, total principal and interest collections amounted to US \$24,012,968.45 and US \$2,996,722.13, respectively. However, during 2008, there were no loans extended as disbursements were suspended in November 2007 to facilitate a restructuring exercise meant to enhance service delivery of the Apex Unit (established to manage the Facility).

**5.2 CURRENCY**

**Currency in Circulation**

As at end-December 2008, currency in circulation (CIC) increased by 28% to K1,934 billion (327.3 million pieces) from K1,515 billion (289.2 million pieces) as at end of the previous year. This was higher than the growth of 24% in 2007 (see Charts 35a and 35b). The increase was particularly high during the crop marketing season, especially over the period June to October 2008 and due to an unanticipated increase in Government expenditure. Other reasons for increased demand for currency, especially the high value banknotes, was the rise in consumer price inflation that was higher than was projected.

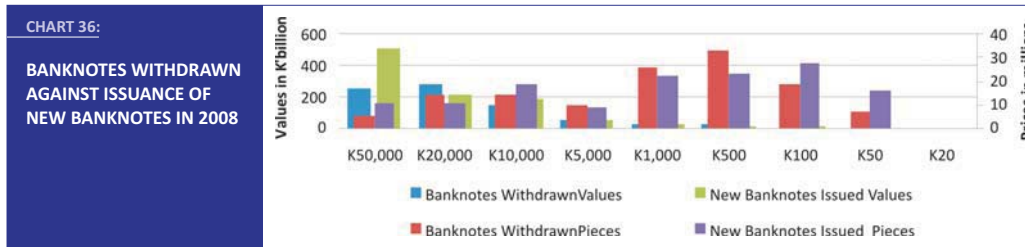




**Withdrawal of Unfit Banknotes from Circulation**

In continued pursuit of the Bank of Zambia's Clean Note Policy, a total of 80.9 million pieces, valued at K617.2 billion, of unfit banknotes were withdrawn from circulation during the period under review compared with 69.0 million pieces, with a value of K497.0 billion, in 2007 (see Chart 37). Of the total unfit banknotes withdrawn, 30.8 million pieces, with a value of K23.9 billion, were unfit polymer banknotes. In addition, a total of 52,004 pieces of mutilated banknotes, valued at K141.2 million, were exchanged for clean banknotes by members of the public compared with 59,020 mutilated banknotes, valued at K141.2 million, in 2007. Of this total, 51,369 mutilated banknotes, with a value of K 166.5 million, were paid out at full face value, while 635 mutilated banknotes valued at K14.2 million were paid out at half face value.

During the same period, the Bank put into circulation a total of 135.7 million pieces of new banknotes, with a value of K994.5 billion. Most of these new banknotes, in terms of pieces, were low value banknotes from K1000 - K20 denomination, which accounted for 61.4% of the total new banknotes issued by the Bank of Zambia for the period January to December 2008. The high value notes (K50,000 and K20,000) and middle value notes (K10,000 and K5,000) accounted for 15.6% and 20.1%, respectively (see Chart 36).



**Destruction of Unfit Banknotes**

During the year under review, a total of 113.3 million pieces, with a face value of K613.1 billion, unfit banknotes were destroyed, mostly through briquetting exercises compared with a total of 75.3 million pieces, valued at K556.1 billion, in the previous year.

**5.3 PAYMENT SYSTEMS**

**National Switch Project**

During the year under review, payment system stakeholders resolved to set-up a National Switch in fulfilment of one of the strategies under the National Payment Systems Vision and Strategy 2007-2011. The switch will provide a gateway that links consumers and merchants by means of e-payment products regardless of the bank they hold an account with.

**Linking of Lusaka Stock Exchange to ZIPSS/RTGS**

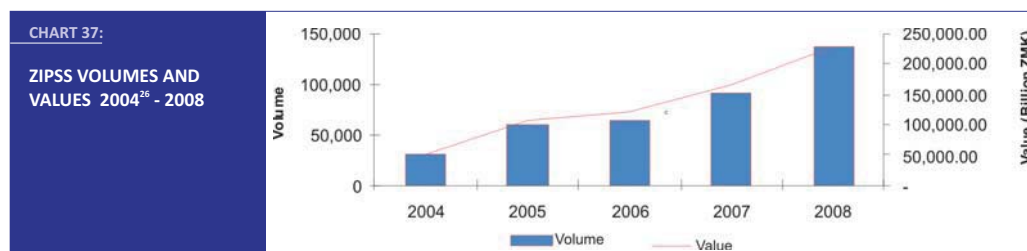
During the period under review, a memorandum of understanding to link the Lusaka Stock Exchange to the Zambian Interbank Payment and Settlement System/Real Time Gross Settlement System (ZIPSS/RTGS) was agreed and signed off by all capital market stakeholders.

**Implementation of the National Payment Systems Act**

In 2008, the Bank of Zambia designated 14 Payment System Businesses to offer payment services, 14 commercial banks to participate on DDACC, RTGS and Cheque systems and 3 payment systems, namely ZECHL, RTGS and E-Switch. This was in accordance with the provisions of the National Payment Systems Act No. 1 of 2007 (NPSA).

### Zambian Interbank Payment and Settlement System (ZIPSS)

During the year under review, ZIPSS operated satisfactorily with 13 out of the 14 commercial banks participating actively. The volume of transactions processed increased by 49.5% to 136,720 transactions in 2008 from 91,462 in 2007. Similarly, the value of transactions increased by 39.2% to K228,613 billion in 2008 from K164,295 billion in 2007 (see Chart 37).



The increase in volume and value of transactions follows the full implementation of the Item Value Limits (IVL) after Government's adoption of the initiative. In addition, the unanticipated increase in Government expenditure related to the Presidential by-election partly explained the increased value of transactions in the RTGS.

### Physical Interbank Clearing System

In 2008, the volume of cheques processed through the Physical Inter-bank Clearing (PIC) system increased by 4% to 2,593,070 cheques in 2008 from 2,489,190 in 2007 while the value of cheques processed decreased by 25% to K20,236 billion in 2008 from K29,719 billion in 2007 (see Table 43). The decrease in the value of transactions is attributed to the full implementation of IVL during the year.

Table 43: Physical Inter-bank Clearing Volumes and Values, 2006 - 2008

Month	Volumes				Values (K'-billion)			
	2006	2007	2008	% Change (2007 to 2008)	2006	2007	2008	% Change (2007 to 2008)
Jan	186,399	206,242	217,724	6%	2,730	2,766	1,957	-29%
Feb	174,012	187,580	205,654	-9%	1,890	2,288	1,639	-28%
Mar	197,805	203,588	196,717	-3%	2,169	2,648	1,619	-39%
Apr	168,603	193,629	223,182	15%	1,992	2,521	1,808	-29%
May	197,208	213,672	213,313	-0.16%	2,164	2,576	1,742	-23%
Jun	198,018	204,793	218,511	6.7%	2,143	2,546	1,812	-29%
Jul	186,036	211,029	226,817	7.5%	2,218	2,823	1,958	-31%
Aug	203,501	217,821	208,618	-4%	2,521	2,741	1,873	-32%
Sep	185,071	202,495	227,699	12.4%	2,548	2,446	2,010	-18%
Oct	203,213	227,790	219,944	-3%	2,754	2,224	1,977	-11%
Nov	202,921	218,272	207,407	-5%	2,603	2,125	1,841	-13%
Dec	187,480	202,279	227,484	12.4%	2,536	2,015	2,102	4%
<b>Total</b>	<b>2,290,267</b>	<b>2,489,190</b>	<b>2,593,070</b>	<b>4%</b>	<b>28,268</b>	<b>29,719</b>	<b>22,337</b>	<b>-25%</b>
<b>Monthly Average</b>	<b>190,856</b>	<b>207,433</b>	<b>216,089</b>	<b>4%</b>	<b>2,356</b>	<b>2,477</b>	<b>1861</b>	<b>-25%</b>

Source: Zambia Electronic Clearing House Limited

### Direct Debit and Credit Clearing System

During the year under review, the volume of transactions processed through the DDACC payment stream increased by 35% to 1,267,990 in 2008 from 895,637 in 2007 while the value decreased by 3% to K3, 562 billion in 2008 from K3, 677 billion in 2007, respectively (see Table 44). The increase in the volume of transactions can be attributed to customers' increased preference for electronic payment methods resulting from awareness campaigns embarked on by the commercial banks and the Bank of Zambia. The decrease in the value of transactions is attributed to the implementation of IVL during the year.

Table 44: Direct Debit and Credit Clearing Volumes, and Values, 2006 - 2008

Month	Volumes				Values (K'billion)			
	2006	2007	2008	% Change (2007 to 2008)	2006	2007	2008	% Change (2007 to 2008)
Jan	54,118	63,150	76,801	21%	174	262	275	5%
Feb	51,912	57,061	95,011	66%	156	206	254	23%
Mar	56,713	68,793	83,681	21%	175	246	264	7%
Apr	48,115	68,715	105,091	52%	158	270	299	11%
May	62,421	71,446	97,402	36%	181	297	308	4%
Jun	54,499	64,965	104,482	60%	176	294	296	0.6%
Jul	51,846	82,784	116,467	41%	185	326	330	1.2%
Aug	69,766	76,622	102,001	33%	229	395	318	-19%
Sep	49,776	53,993	116,832	116%	209	281	331	17%
Oct	67,831	92,768	112,623	21%	219	429	323	-25%
Nov	61,783	89,236	97,813	10%	256	308	131	-68%
Dec	75,171	106,104	159,786	51%	277	339	433	27%
<b>Total</b>	<b>703,951</b>	<b>895,637</b>	<b>1,267,990</b>	<b>42%</b>	<b>2,395</b>	<b>3,677</b>	<b>3,562</b>	<b>-3%</b>
<b>Monthly Average</b>	<b>58,663</b>	<b>74,636</b>	<b>105,666</b>	<b>42%</b>	<b>200</b>	<b>306</b>	<b>297</b>	<b>-3%</b>

Source: Zambia Electronic Clearing House Limited

#### Unpaid Cheques

The volume of cheques written against insufficient funds and returned unpaid decreased by 5% to 16,447 in 2008 from 17,270 cheques in 2007. Similarly, the value of unpaid cheques decreased by 6% to K127 billion in 2008 from K173 billion in 2007 (see Table 45). The reduction in the level of unpaid cheques was a result of the Bank's continued efforts in enforcing compliance to requirements to issue cheques against sufficient funds under the National Payment Systems Act.

Table 45: Unpaid Cheques Volumes and Values, 2006 - 2008

Quarter	Volumes				Values (K'billion)			
	2006	2007	2008	% Change (2007 to 2008)	2006	2007	2008	% Change (2007 to 2008)
Q1	7,702	4,860	3,700	-24%	213	40	26	-35%
Q2	6,386	4,095	3,564	-13%	54	42	23	-46%
Q3	5,963	4,214	4,102	-3%	76	38	28	-27%
Q4	5,688	4,101	5,081	24%	58	53	50	-6%
<b>TOTAL</b>	<b>25,739</b>	<b>17,270</b>	<b>16,447</b>	<b>-5%</b>	<b>401</b>	<b>173</b>	<b>127</b>	<b>-27%</b>

Source: Zambia Electronic Clearing House Limited