



BANK OF ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

May 17, 2005

CB Circular No. 04/2005

To : All Commercial Banks

DIRECTIVE ON LOW VALUE BANKNOTES (i.e K1,000 AND BELOW)

As you may be aware, the Bank of Zambia has in the last two months, increased the allocation of low value banknotes, in particular, the K500 and K100 banknotes to commercial banks. Most notably, the Bank recently put into circulation an upgraded version of the polymer banknotes and embarked on a nation-wide distribution process of these banknotes. This measure was aimed at improving the overall supply of "fit" low value banknotes in the economy. In this regard, the fitness standard that was signed off by the Bankers Association of Zambia and the Bank of Zambia in November 2004 constitutes the principal reference document for the fitness standard for banknotes.

Recently, the Bank of Zambia has observed, with concern, several instances when some commercial banks have been depositing fit low value banknotes at the Central Bank despite the high demand for these banknotes in the economy. Additionally, some commercial banks have continued to make no distinction between "fit" and "unfit" banknotes when making their cash deposits at the Central Bank contrary to the existing guidelines against this practice. It should be noted that the Bank of Zambia is keen to ensure that the process of replacing "unfit" banknotes with "fit" notes is not hampered by the premature removal of fit notes from the market.

In order to address these concerns, it has become necessary to institute some measures that should encourage commercial banks to release these low value fit banknotes in the market pursuant to the Bank's Clean Note Policy. Thus, beginning June 2005 the following measures shall apply:

1. The Bank will strictly be monitoring commercial banks who deposit fit low value notes, with the Central Bank, in order to discourage this practice;
2. Commercial banks will be required to issue fit banknotes to their customers and members of the general public in accordance with the Banknote Quality Standards guideline attached hereto; and

3. Deposits of banknotes made in denominations of K5,000 and above will be accepted as per current practice. However, commercial banks are reminded that they will be required to sort all their deposits between "fit" and "unfit" banknotes per existing guidelines. The charge for not separating banknotes (regardless of their category) between "fit and "unfit" remains at K500,000 per trunk.

These measures are aimed at improving the supply of fit low value banknotes, in the economy as a whole. Commercial banks are therefore advised not to put up any countermeasures that may restrict or discourage customers from making deposits or withdrawals in these or any other denominations as a result of this directive.

Meanwhile, the Bank of Zambia will be closely monitoring the quality of banknotes issued in the economy through market surveys and, depending on market indications, the Bank may take additional measures to ensure that the spirit of this directive is adhered to.



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DEPUTY GOVERNOR – OPERATIONS

Attach/

Cc: Governor
Chairperson, Bankers Association of Zambia
Director - Banking Currency and Payment Systems