



BANK OF ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

August 19, 2004

CB Circular No: 05 /2004

To : All Commercial Banks

SHORTFALLS ON STATUTORY RESERVE AND CORE LIQUID ASSET RATIOS

Kindly refer to **CB Circular No. SCH/CB/11/2000**, dated 18th December 2000.

Since December 18, 2000, the Bank of Zambia has been disaggregating commercial banks' shortfalls on the minimum requirements on both statutory reserves and core liquid assets ratios into two parts on which two different penalty rates have been applied.

The first part of the shortfall related to 5.0 percent of the minimum requirement a commercial bank is supposed to hold as statutory reserves or core liquid assets for the compliance period. This portion of the shortfall has been subjected to the Bank of Zambia Penalty Rate.

The second part of the shortfall related to the difference between each day's actual shortfall and the amount equal to 5.0 percent of the minimum requirement (i.e., the first part above). The applicable penalty to this portion has been the composite Treasury bill weighted average yield rate plus 100.0 percentage points.

Effective immediately the Bank has made modifications to both the way the shortfall is calculated and the applicable penalty rate. Henceforth the Bank of Zambia will instead only take respective **net shortfall positions** (i.e. the net combined position of shortfalls and surpluses to the extent that this is negative) during the compliance period on both Kwacha and foreign currency statutory reserves as well as on the core liquid asset requirements. The applicable penalty rate on the resultant amounts will be the Bank of Zambia Penalty Rate.

This measure is expected to effectively reduce the penalty and positively affect commercial banks' overall cost structure, which should enable commercial banks to pass on this benefit to their customers.

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DEPUTY GOVERNOR - OPERATIONS

Cc: Governor