



BANK OF ZAMBIA
OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

March 28, 2012

CB Circular No: 05/2012

To: All Commercial Banks

INTRODUCTION OF A BANK OF ZAMBIA POLICY RATE

The Bank of Zambia (BOZ) wishes to announce the introduction of a BOZ Policy Rate (henceforth, BOZ Rate), with effect from 2nd April, 2012.

Over the past few years, BOZ has been working with commercial banks, through the Bankers Association of Zambia (BAZ), to design a transparent framework for determining interest rates in Zambia. Transparency in the interest rate setting behavior among commercial banks is very important as it implies openness, effective communication and accountability.

BAZ in a letter addressed to BOZ, dated March 14, 2012 recommended that:

“The Central Bank should consider setting up a transparent policy lending rate which should be reviewed from time to time by the Monetary Policy Committee. This will provide a link to align the base rates to the policy rate. The policy rate is a resilient rate which captures the total strength of the economy and liquidity cost”.

In line with this recommendation, the BOZ has reviewed its monetary policy framework and has therefore introduced the BOZ Rate as the key interest rate to signal its monetary policy stance.

The Bank of Zambia will set the BOZ Rate and will regulate the supply of liquidity such that the overnight interbank rate moves in line with the BOZ Rate on a monthly average basis. For this purpose, the BOZ is establishing a corridor that will define the band within which the overnight interbank rate will be allowed to fluctuate. The band will initially be plus or minus 200 basis points of the BOZ Rate.

In this regard, commercial banks shall be required to submit to Financial Markets Department information related to their interbank transactions at a frequency of three times during a trading day: 9:30, 12:30 and 15:30 hours.

Accordingly, with effect from 2nd April, 2012 all commercial banks are expected to realign their base lending rates to the BOZ Rate. The actual lending rate, therefore, shall be BOZ Rate plus a margin. The margin will be set by commercial banks on the basis of their risk premium assessments.

.....2/-

To preserve the role of the lender of last resort, BOZ will continue to provide a collateralised Overnight Lending Facility (OLF) to banks. Under this new framework, the OLF rate shall initially be set at 250 basis points above the BOZ Rate.

To announce changes to the BOZ Rate, BOZ will be issuing a monthly communiqué. The first communiqué shall be issued on Thursday, March 29, 2012.

Commercial banks are hereby advised that BOZ will continue to work with them on building an effective money market yield curve as a cornerstone for efficient functioning of the markets.

Commercial banks may contact the Director, Financial Markets Department, for any clarification related to this circular.



Bwalya K. E. Ng'andu (Dr)
DEPUTY GOVERNOR – OPERATIONS