



OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

November 1, 2011

CB Circular No : 06/2011

To : All Commercial Banks

MEASURES TO SUPPORT THE REDUCTION IN COMMERCIAL BANKS' LENDING RATES

Following the widespread concerns expressed about the high levels of base lending rates in the commercial banks, and consequential adverse effects on the affordability of growth-enhancing credit by a number of productive sectors, the Bank of Zambia wishes to announce the following measures aimed at streamlining the cost of funding for commercial banks with the view to making it possible for them to effect meaningful reductions to their base lending rates;

i) Reduction in statutory reserve ratio:

The statutory reserves ratio on both kwacha and foreign currency deposits have been reduced by 3 percentage from 8% to 5%. With this reduction, it is estimated that a total of K700 billion will be released. Given that this liquidity will now be available for on-lending to the various sectors of the Zambia economy, the cost of holding this liquidity as unremunerated deposits at the Bank of Zambia will substantially be reduced. This benefit is expected to be reflected in lower lending rates.

ii) Reduction in Core Liquid Assets ratio:

The Core Liquid Assets ratio has been reduced by 3 percentage points from 9% to 6%. With this reduction, the cost of holding these assets will similarly be reduced.

iii) Reduction in Overnight Lending Facility (OLF) margin:

The OLF margin applied on the Facility has been reduced from 4 percentage points reduced to 2 percentage points above the interbank rate.

iv) Collateral Cover on the OLF:

The hair-cut margins applied on the value of Government bonds pledged as collateral for OLF funds have been changed as follows:

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Instrument	Remaining Days to Maturity	Hair-Cut Over Market Value	
		Current	New
Treasury bills	Greater than 7 days	5%	5%
OMO Term Deposits/Repos	Greater than 7 days	5%	5%
Government Bonds	Greater than 7 days but less than or equal to one year	5%	5%
	Greater than one year but less than or equal to three years	7%	5%
	Greater than three years but less than or equal to five years	10%	5%
	Greater than five years	15%	10%

These measures will take effect immediately. In the meantime, the Bank of Zambia is working towards establishing a framework for the introduction of a policy rate which will be the market benchmark for determining interest rates.

The Bank of Zambia will continue monitoring developments in the economy and stand ready to effect any necessary policy changes.

Yours sincerely



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