



**BANK Of ZAMBIA**  
**OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS**

13 May 2002

**CB Circular No. 11 /2002**

**TO : ALL COMMERCIAL BANKS**

**CONVERSION OF COMMERCIAL BANKS' FOREIGN CURRENCY  
STATUTORY RESERVE BALANCE FROM KWACHA INTO FOREIGN CURRENCY**

The Bank of Zambia issued CB Circular No. 04/2002 on 28 March 2002 in an effort to lower the cost of commercial banks' funds (and hence the commercial banks' lending rates) and increase the volume of funds available for lending. This followed complaints from commercial banks that the cost of credit in Zambia is high, influenced, largely by the imposition of the non-remunerated statutory reserve ratio on both kwacha and foreign currency deposit liabilities, compounded further by the requirement that commercial banks reserve the foreign currency component in kwacha. This requirement, it was argued, was a cost to the commercial banks and reduced the amount of kwacha available for lending.

In view of this, the Bank of Zambia decided to convert 100 percent of the foreign currency statutory reserve balances held by commercial banks from kwacha into foreign currency in four equal tranches. The first conversion was effected on 8 April 2002. As a result of this, about K36 billion was released into the banking system.

Commercial banks indicated that if the Bank of Zambia converted the foreign currency statutory reserve balances held in kwacha into foreign currency, the cost of funds would reduce considerably and be reflected in lower lending rates. However, the Bank of Zambia has not seen a reduction in lending rates which can be attributed to the conversion of 25 percent foreign currency statutory reserve balances in April 2002.

The Bank of Zambia therefore expects commercial banks to honour their promise and reduce lending rates as the exercise to convert the remaining 75 percent of the foreign currency statutory reserve balances held by commercial banks from kwacha into foreign currency continues.

**Dr Abraham Mwenda**  
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