BANK OF ZAMBIA PRUDENTIAL RELIEF MEASURES IN VIEW OF COVID-19

Given the unprecedented nature of the COVID-19 pandemic, it may be disruptive in both the short and long-term and the negative impact may vary significantly across sectors and individual businesses. In view of this, the Bank of Zambia has introduced the following prudential measures as a way of supporting the financial sector during this period of stress:

1. Regulatory Capital

Further to CB Circular No.11/2017, wherein the Bank of Zambia provided a 3-year transitional period from 2018 to 2020 for Financial Service Providers (FSPs) to amortise the ‘Day 1 Impact’ of the implementation of the International Financial Reporting Standard 9 (IFRS 9) for capital adequacy purposes, on a straight line basis under the static approach, the Bank of Zambia hereby extends this relief for a further two years up to December 31, 2022.

This means that in the computation of regulatory capital, FSPs will not only include the ‘IFRS 9 Day 1 Impact’, but also any increases in provisions on account of the COVID-19 pandemic. In this regard, the increase in provisions on account of the COVID-19 pandemic should be added to the unamortised portion of the ‘IFRS 9 Day 1 Impact’ and the total should be amortised over the period, April 1, 2020 to December 31, 2022.

This measure is intended for prudential purposes only and is not meant to supplant accounting requirements for expected credit losses under IFRS 9.

2. Partial use of Capital Instruments that do not qualify as Common Equity Tier 1 and Tier 2 Capital

Non-bank financial institutions (NBFIs) will be allowed to partially use capital instruments that do not qualify as common equity Tier 1 and Tier 2 Capital for purposes of computing regulatory capital. In this regard, NBFIs will be required to apply to the Bank for this specific relief. No dividend distributions or variations to remunerations shall be made while the capital relief is in force.
3. **Restructuring of Existing Credit Facilities**

FSPs may renegotiate terms for credit facilities to counterparties that may be adversely impacted by the COVID-19 pandemic by offering modifications to loan agreements. For example, grant moratorium on principal, interest and/or tenor extensions from April 1, 2020 up to an initial period of one year in the ordinary course of business, or for a longer period under specific liquidity support facilities that the Bank of Zambia may introduce. Such renegotiated facilities shall be treated as current and no adverse classification and provisions for loan losses will be required. Banks shall issue revised amortisation schedules to affected customers to reflect the renegotiated terms. In addition, renegotiated facilities shall not be reported to the Credit Reference Bureau as delinquent. In this regard, for the purposes of tracking such restructured facilities and to ensure transparency, banks shall report to the Bank of Zambia in a format to be prescribed.

4. **Collateral Transition Arrangements**

With regard to the restrictions on the use of collateral in the computation of the loan loss allowances, following the revocation of Statutory Instrument No. 142 of 1996 through Statutory Instrument No. 31 of 2020, the Banking and Financial Services (Classification and Provisioning of Loans) Directives, 2020, have taken effect. The Bank of Zambia is however temporarily suspending the transitional arrangements under Directive 32. This notwithstanding, a FSP shall ensure that any collateral used in the computation of the loan loss allowances is legally perfected, and for real estate collateral, the appraisal values are no more than three (3) years old.

5. **Liquidity Support**

The Bank of Zambia has introduced the Targeted Medium-Term Refinancing Facility, with an initial amount of K10 billion that will be reviewed as conditions warrant. This is intended to offer liquidity support to eligible FSPs for onward support to various players in identified sectors of the economy, which will otherwise struggle to recover from the economic impact of the COVID-19 pandemic.

The aim is to strengthen and enhance resilience of the financial sector and to promote private sector led growth. Accessibility to the Facility will not be open-ended, but subject to terms and conditions as shall be prescribed by the Bank of Zambia.

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The Bank of Zambia stands ready to provide the support necessary to forestall impairment of the financial system and to support the survival and resilience of the private sector, which remains the key driver of sustained economic recovery and growth. The Bank will continue to monitor the situation and take any additional measures it deems appropriate to safeguard financial system stability.

Be advised accordingly.

Francis Chipimo (PhD)
DEPUTY GOVERNOR – OPERATIONS

cc Governor