



Bank of Zambia

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

BOZ/EXEC/DGO/fmd/bp

February 1, 2023

CB Circular No : 02/2023

To : All Heads of Commercial Banks

ADJUSTMENT TO THE KWACHA AND FOREIGN CURRENCY STATUTORY RESERVE RATIO

Reference is made to CB Circular No. 14/2019 dated December 9, 2019.

The Bank of Zambia wishes to advise all commercial banks that with effect from Monday, February 13, 2023, the minimum statutory reserve ratio on both local and foreign currency deposits, including Government deposits and vostro accounts deposits, will be increased by 2.5 percentage points to 11.5 percent from the current 9.0 percent. The revised statutory reserve ratio of 11.5 percent will be based on the Weekly Return of Selected Assets and Liabilities as of Wednesday, February 8, 2023.

This measure is aimed at (i) addressing the increased volatility in the exchange rate which intensified in December 2022 and has persisted in 2023; and (ii) safeguarding stability of the foreign exchange market. The exchange rate has come under sustained depreciation pressure despite the Bank of Zambia support to the market through sales of foreign exchange proceeds, mostly from mining companies. The market has been characterized by weak foreign exchange supply amidst strong demand by market players for various purposes, including critical imports of fuel, medicines, and agricultural inputs.

The trend, if left unaddressed, has the potential to undermine the emerging stable macroeconomic environment. The Bank is mindful of the attendant risks to this action but deems the overarching potential benefits of stabilizing the foreign exchange market at this point, outweigh the perceived adverse risks to the economy.

The Bank of Zambia will continue to closely monitor developments in the macroeconomic environment and in particular, financial markets and take appropriate action as and when the need arises in line with the Bank's objectives of price and financial stability. At any rate, the Bank will review the measure by June 2023.

A handwritten signature in black ink, appearing to read 'Francis Chipimo'.

Francis Chipimo (PhD)
DEPUTY GOVERNOR – OPERATIONS

cc Governor
Deputy Governor – Administration
Director – Bank Supervision
Director – Financial Markets
Director – Economics