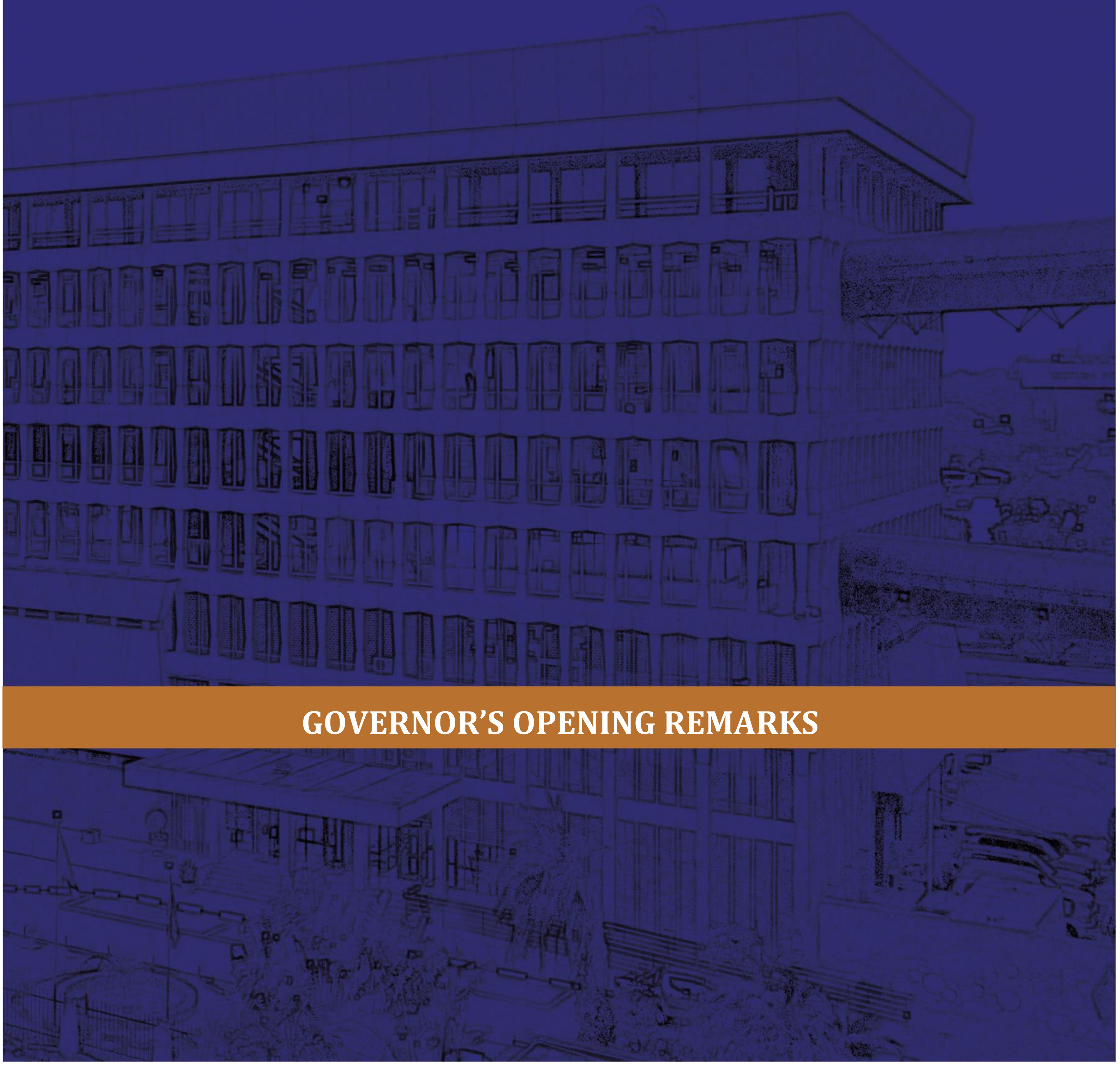
Bank *of* Zambia



GOVERNOR’S OPENING REMARKS

It is my pleasure to welcome you to the final round of consultative meetings on the Currency Regulations, formally known as the Bank of Zambia Currency Directives of 2025. These new regulations are the latest in a comprehensive series of reforms, following significant milestones, such as, the Electronic Balance of Payments system introduced in 2019, the Export Proceeds Tracking Framework established in January 2024, the Foreign Exchange Market Guidelines of May 2024, and the June 2024 revised Interbank Foreign Exchange Market Rules. Alongside this, the Bank is working on other mechanisms bolstering the resilience of our foreign exchange market, including enriching our holdings of international reserves and introducing hedging instruments, like Non-Deliverable Forwards within our Open Market Operations.

Ladies and Gentlemen, all these initiatives are undertaken in furtherance of the provisions of the Bank of Zambia Act, 2022, with respect to nurturing a robust and efficient domestic foreign exchange market that strengthens the effectiveness of monetary policy. In particular, the currency regulations under discussion are designed to reinforce the status of the Kwacha as the sole legal tender for all domestic transactions within the Republic of Zambia.

It is worth noting that over time, the use of foreign currencies in local transactions—commonly referred to as dollarisation—has become increasingly prevalent. Such extensive reliance on foreign currencies carries significant risks for our economy:

- In a dollarised environment, the importance and value of the Kwacha is diminished thus eroding its roles as unit of measure, medium of exchange, and a store of value.
- Dollarisation constrains the ability and capacity of monetary authorities to regulate and implement effective monetary and exchange rate policies, while amplifying the adverse effects of external economic shocks.
- This practice threatens financial stability, heightening the exposure for banks to currency risk through mismatches in their balance sheets and making it increasingly challenging for unhedged or unprotected borrowers to service their debts as the Kwacha weakens.

It is for these reasons that the Bank of Zambia Act (2022) stipulates that the local currency, the Kwacha and Ngwee, is the sole legal tender for domestic transactions in the Republic.

Distinguished Guests, you will recall that our consultative journey commenced in June 2024 in Lusaka with a multi-sectoral engagement organised by the Public Private

Dialogue Forum. Subsequently, with the help of ZACCI we extended these consultations to Chipata, Livingstone, and here in Ndola a year today right in this very venue. These engagements were intended to serve two main objectives: (1) to articulate the rationale and background behind the proposed currency regulations, and (2) to offer a meaningful platform for stakeholders to voice their concerns and contribute suggestions regarding these measures. We are happy to report that these consultations did indeed bring valuable feedback from you, our stakeholders, drawn from various sectors, notably agriculture, tourism, mining, real estate, manufacturing, insurance, and oil marketing companies.

The main issues stakeholders presented to the Bank included the following:

- The proposed Currency Regulations were an indirect way of introducing exchange controls.
- The timing of the introduction of the Currency Regulations was inappropriate as the macroeconomic environment was unfavourable due to high inflation, low liquidity, and high interest rates. Further, the country was experiencing drought and electricity rationing, among other challenges.
- There would be increased exchange rate risk post-implementation of the regulations. Commercial banks would be required to provide affordable hedging solutions at that point, which may not be possible due to the prevailing high Kwacha interest rates.
- The regulations would cause disruptions in the supply chains.
- Lessons learned from the implementation of SI No. 33 and its revocation need to be applied as the new regulations are being developed.
- If there is an insistence to implement the regulations, it should be done in a phased manner to mitigate economic shocks and provide businesses with adequate time to adapt their operations and strategies.
- Consideration should be given to quoting in foreign currency, but payment or settlement should be in local currency.
- The criteria used to include activities on the exemption list needed to be clear. This needed to be principle-based as opposed to rule-based.

Ladies and Gentlemen, we listened to all of your concerns. In doing so we had to balance them with the needs of the macroeconomy and support a well-functioning and stable foreign exchange market as well as low and stable inflation. In this context, the Currency Regulations will be implemented in a phased and simplified manner. This involves not only maintaining the confidence of investors and businesses but also addressing the immediate challenges that business entities may face as they adapt to the changing currency landscape.

The exemptions specified in the Schedule are therefore designed to promote stability in the foreign exchange market and acknowledge the need for certain transactions to be conducted in foreign currency to avoid disruptions to the economy that could arise if these transactions are suddenly made to be compliant with the new Currency Regulations. As we do with all regulations, we will constantly review performance and assess any challenges that may arise in their implementation.

Esteemed Guests, the Bank has in a nutshell updated the Currency Regulations. The revised version will be presented in the meeting today. Your support, commitment, pragmatic, and thoughtful participation as we work together towards a more stable and resilient financial future for Zambia are deeply appreciated.

THANK YOU FOR YOUR ATTENTION. GOD BLESS.