Bank of Zambia

GOVERNOR’S OPENING REMARKS

I warmly welcome you all to this final consultative meeting on the Bank of Zambia Currency Directives of 2025. Since the announcement of these upcoming directives in February 2024 we have made significant progress on this matter. As you may recall our very first in person engagement with you, the stakeholders, was in June 2024 in Lusaka at Mulungushi International Conference Centre (MICC) organised by the Public-Private Dialogue Forum (PPDF). Several other meetings have since been held with representatives from various sectors of the economy, including those conducted in this very auditorium, as well as others in Chipata, Livingstone, and Ndola, under the auspices of the Zambia Chamber of Commerce and Industry and PPDF. In August of this year, we initiated the final round of in person consultations, which included a meeting under the PPDF platform in Ndola and multiple discussions with commercial banks and deposit taking financial institutions. Following the announcement by the Minister of Finance and National Planning in his 2026 Budget Speech that these directives will be effected by the end of 2025, this matter has been one of the discussion points in the Post-Budget symposia and discussions here in Lusaka and Kitwe and other fora. Today's meeting marks the conclusion of these consultative efforts.

Ladies and Gentlemen, I would like to emphasise that these directives are not being considered in isolation, rather, they are part of a comprehensive set of reforms the Bank has undertaken. These reforms comprise the Electronic Balance of Payments (e-BoP) monitoring system, introduced in 2019; the Export Proceeds Tracking Framework (EPTF), launched in January 2024; the Foreign Exchange Market Guidelines issued in May 2024; and the revised Interbank Foreign Exchange Market Rules, effected from June 2024. Currently, the Bank is also focused on introducing non-deliverable forwards in the foreign exchange market, aimed at broadening the range of hedging tools available and enabling market participants to manage exchange rate risks more effectively.

The initiatives highlighted above are aimed at fostering a strong and efficient domestic foreign exchange market that enhances the efficacy of monetary policy. In particular, the currency directives under discussion, which flow out of the Bank of Zambia Act, 2022, are designed to reinforce the Kwacha and Ngwee as the sole legal tender for all domestic transactions across the Republic of Zambia. The use of the Kwacha in domestic transactions is vital, as previously articulated. It supports the effective implementation of monetary and exchange rate policies, safeguards the economy against external shocks, and promotes overall financial stability.

Distinguished Guests, our consultative meetings have been underpinned by two primary objectives: first, to explain the rationale and background of the proposed currency directives; and second, to provide a constructive platform for stakeholders to share their concerns and offer suggestions on how they can be best implemented. We are pleased to report that these consultations have yielded valuable feedback from a diverse range of you, the stakeholders, across various sectors, including agriculture, tourism, mining, real estate, manufacturing, insurance, and oil marketing.

The stakeholders have raised several significant concerns regarding the proposed Currency Directives, which are outlined below:

- There is a perception that the proposed Currency Directives serve as an indirect mechanism for introducing exchange controls.

- The timing of the introduction of these directives has been deemed inappropriate, given the adverse macroeconomic conditions characterised by high inflation, low liquidity, and high interest rates. In addition, the country is contending with challenges such as drought and electricity rationing.

- Stakeholders expressed concerns about the potential for increased exchange rate risk following the implementation of the directives. Commercial banks may face difficulties in providing affordable hedging solutions under the current high Kwacha interest rates.

- There are concerns that the directives could disrupt the supply chains.

- It is crucial to draw the lessons learned during the implementation and subsequent revocation of SI No. 33 to inform the development of the new directives.

- If there is a determination to proceed with the implementation of the directives, a phased approach is advisable. This would help mitigate potential economic shocks and provide businesses with sufficient time to adapt their operations and strategies.

- Consideration should be given to allowing transactions to be quoted in foreign currency, while ensuring that payments and settlements are conducted in local currency. The criteria for including activities on the exemption list must be clearly defined, leaning towards a principle-based framework rather than a rule-based.

- The implementation of these currency directives may adversely impact foreign currency lending, as banks typically align their foreign currency loans with corresponding receivables. The new directives could lead to a mismatch in this regard.

- Clarification of the roles of commercial banks in relation to the implementation of the currency directives is necessary to ensure compliance.

We have carefully listened to all concerns, and as a result, the current version of the Currency Directives has undergone significant changes from our initial proposals. However, I must say that we also had to balance several factors, including the needs of the macroeconomy, the maintenance of a well-functioning and stable foreign exchange market, and our inflation objectives. In this regard, the Currency Directives will be introduced in a simplified manner. This approach is intended not only to uphold investor and business confidence but also to enable enterprises manage the short-term adjustments required by the changing currency environment.

Esteemed Guests, in alignment with this approach, the considered position under these directives is that all settlements for domestic transactions must be conducted in Kwacha, except in cases where exemptions are applicable. Nonetheless, quoting and invoicing may be performed in currencies other than the domestic currency. In transactions involving the Government as a party, all quoting, invoicing, and settlement must be executed exclusively in Kwacha. Exemptions have been established for specific economic activities to mitigate potential economic disruptions.

We recognise that clarity is essential for ensuring adherence to these directives. For this reason, the directives will be accompanied by explanatory notes. During today's session, we will present the most recent version of the currency directives, and we warmly welcome your comments and insights. We look forward to a constructive and engaging discussion.

THANK YOU FOR YOUR ATTENTION. GOD BLESS.