



## PRESS STATEMENT

### BANK OF ZAMBIA RAISES STATUTORY RESERVE RATIOS

The Bank of Zambia has increased the Statutory Reserve Ratios (SRR) applicable on commercial banks' Kwacha and foreign currency deposit liabilities. Effective 23<sup>rd</sup> December 2019, commercial banks will be required to hold 9 percent of their deposit liabilities as statutory reserves with the Bank of Zambia from the current level of 5 percent. In addition, banks will be required to maintain the statutory reserve requirements on a daily basis as opposed to the current weekly compliance basis. The latter measure is with immediate effect.

The change in the statutory reserve requirements has been necessitated by the threats to inflation that recent developments in the foreign exchange market pose. In particular, this development imposes significant costs to the economy and the public at large through its adverse impact on inflation, which, if left unchecked, will eventually erode citizens' incomes and welfare. This is more so for individuals who have fixed incomes and have no means or mechanisms of hedging themselves against these shocks.

The exchange rate has in recent periods depreciated due to increased demand for foreign exchange related mainly to financing requirements for fertiliser, petroleum, and electricity imports. Ordinarily, movements in the exchange rate should fundamentally reflect supply and demand factors. However, a consistent movement in a single direction, particularly towards continuous depreciation, tends to trigger defensive mechanisms among businesses and others with the capacity to hedge themselves.

The just announced measures, together with the raising of the Policy Rate to 11.5 percent and the rate for the Overnight Lending Facility (OLF) to 28 percent last month, are aimed at restoring and fostering stability of the foreign exchange market. This is imperative for the Bank to achieve its inflation objective and support macroeconomic stability in general. To ensure that macroeconomic stability is attained, we wish to appeal to all stakeholders, public and private alike, to perform their respective duties to the fullest extent possible. For the Bank, it shall continue to monitor developments in the macroeconomic environment and stands ready to take any other action as it deems appropriate.

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