

**PRESS STATEMENT BY THE HONOURABLE MINISTER OF FINANCE
AND NATIONAL PLANNING FOLLOWING CABINET'S APPROVAL TO
RAISE THE CAPITAL REQUIREMENT OF COMMERCIAL BANKS AND
REBASE THE ZAMBIAN KWACHA – 23 JANUARY, 2012**

THE SECRETARY TO THE TREASURY;
THE GOVERNOR OF THE BANK OF ZAMBIA;
THE DEPUTY GOVERNORS
SENIOR GOVERNMENT OFFICIALS
MEMBERS OF THE PRESS,
LADIES AND GENTLEMEN

CONSEQUENT TO THE RECOMMENDATIONS OF THE BANK OF ZAMBIA BOARD, CABINET MET THIS MORNING TO CONSIDER TWO IMPORTANT ISSUES THAT HAVE A BEARING ON THE DEVELOPMENT OF OUR ECONOMY AND OUR OVERALL DEVELOPMENT AGENDA. THESE ARE: THE CAPITALISATION OF THE BANKING SECTOR; AND THE REBASING OF THE ZAMBIAN KWACHA.

WITH REGARD TO THE RECAPITALISATION OF THE BANKING SECTOR, CABINET AGREED THIS MORNING THAT IN LINE WITH SECTION 83 OF THE BANKING AND FINANCIAL SERVICES ACT, THE BANK OF ZAMBIA SHALL REVISE THE MINIMUM CAPITAL FOR COMMERCIAL BANKS IN ORDER TO:

- 1) PROVIDE FOR THE TIERING OF THE MINIMUM CAPITAL REQUIREMENTS FOR LOCAL AND FOREIGN BANKS OPERATING IN ZAMBIA; AND
- 2) INCREASE THE MINIMUM CAPITAL REQUIREMENT FROM THE CURRENT K12 BILLION TO K104 BILLION FOR LOCAL COMMERCIAL BANKS AND K520 BILLION FOR FOREIGN COMMERCIAL BANKS.

THE MEASURE TO RAISE MINIMUM CAPITAL REQUIREMENT FOR BANKS IS INTENDED TO MOBILISE ADDITIONAL RESOURCES TO ENABLE BANKS PARTICIPATE MORE EFFECTIVELY IN GROWING THE ECONOMY BY INCREASING CREDIT AVAILABLE TO THE PRIVATE SECTOR. FURTHER, THE INCREASE IN THE MINIMUM CAPITAL REQUIREMENT WILL MAKE THE BANKS MORE RESILIENT TO ECONOMIC SHOCKS.

LADIES AND GENTLEMEN, CABINET ALSO APPROVED THE REBASING OF THE ZAMBIAN KWACHA BY DIVIDING THE CURRENT NOTES BY 1000. THIS WILL CONSEQUENTLY RESULT IN THE REMOVAL OF THREE ZERO'S FROM THE DENOMINATIONS OF THE K1000 KWACHA NOTES AND ABOVE. FOR EXAMPLE, K1,000 WILL BE K1, K5,000 WILL BECOME K5, K10,000 WILL BECOME K10; K20,000 WILL BECOME K20; AND K50,000 WILL BECOME K50. IN ADDITION THE BANK OF

ZAMBIA WILL ALSO REINTRODUCE COINS FOR LOWER VALUE DENOMINATIONS.

A REBASED ZAMBIAN KWACHA WILL ADDRESS THE COSTS ASSOCIATED WITH AN ACCUMULATED LOSS IN THE VALUE OF THE KWACHA EXPERIENCED DURING EPISODES OF HIGH INFLATION THAT UNDERMINED THE KWACHA'S BASIC FUNCTION AS A STORE OF VALUE, MEDIUM OF EXCHANGE AND STANDARD OF VALUE. IN THE ACCOUNTING SPHERE, RE-DENOMINATION OF THE KWACHA WILL REDUCE TIME TAKEN TO INPUT FINANCIAL DATA AND TIME SPENT BY MANAGEMENT TO REVIEW IT. IT WILL ALSO REDUCE THE COST OFTEN INCURRED IN CUSTOMISING STANDARD ACCOUNTING PACKAGES THAT ARE PURCHASED BY BUSINESSES. AS YOU ARE AWARE, MOST OF THE CURRENT ACCOUNTING PACKAGES ARE DEVELOPED IN JURISDICTIONS WHERE VALUES, AT MAXIMUM, TEND TO BE IN MILLIONS. THE PRESENT SITUATION IN ZAMBIA, WHERE SOME ORGANISATIONS, ESPECIALLY BANKS, RECORD VALUES OF TRILLIONS OF KWACHA AND HENCE REQUIRE FURTHER CUSTOMISATION OF SUCH PACKAGES TO WIDEN DATA FIELDS. THEREFORE, REBASING THE KWACHA WILL BE OF GREAT VALUE TO BUSINESSES AND WILL REDUCE INPUTTING ERRORS.

THIS IS FURTHER EXPECTED TO REDUCE TRANSACTION COSTS FOR BUSINESSES AND THE GENERAL PUBLIC, AND WILL TONE DOWN ON INFLATIONARY SPIRALS.

I THANK YOU FOR YOUR ATTENTION.