

ZAMBIA

Zambia lies entirely within the torrid zone of southern Africa and has no outlet to the sea. Area: 746,254 km². Population (June 1969 estimate): 4,208,000. Formerly the British Protectorate of Northern Rhodesia, it became independent on 24 October 1964 and is a member of the Commonwealth. Zambia is one of the world's largest copper producers, and mining exports keep its balance of trade in ample surplus.

ORIGINS OF THE CENTRAL BANK

The structure and functions of the Bank of Zambia are typical of several central banks in the African countries of the sterling area which were set up with the advice of Bank of England officials.

The origins of the Bank of Zambia go back to the Southern Rhodesia Currency Board which was established in 1938 and transformed in 1954 into the Central African Currency Board, in which capacity it issued the central-African currency common to Northern Rhodesia, Southern Rhodesia and Malawi, then Nyasaland. However, the Currency Board's function was the purely mechanical one of issuing local money against sterling received or deposited in London.

Much the same can be said of the tasks which the law assigned to the Bank of Rhodesia and Nyasaland, which replaced the Currency

Board in March 1956. But in the eight years of its operations, that bank's functions were gradually enlarged, so that, when the monetary union of the three central African countries broke up and the assets and activities of the bank were distributed among three new central banks (the Bank of Northern Rhodesia, the Reserve Bank of Malawi and the Reserve Bank of Rhodesia), each of them in fact inherited typical central bank functions.

The Bank of Northern Rhodesia was set up on 7 August 1964, but on 24 October of the same year, when Zambia became independent, assumed the name of Bank of Zambia.

The Bank entered into operation step by step. To enable it to start issuing the Zambia pound, all the Treasury accounts were transferred to it on 31 October 1964, while the commercial banks continued until 1 March 1965 to keep their accounts, including the clearing accounts, with the Bank of Rhodesia and Nyasaland. On that date the compulsory reserves of the commercial banks and of the Lusaka branch of the Merchant Bank of Central Africa were transferred to the Bank of Zambia, and the local clearing house began to work on the same day.

The national currency was the Zambian pound which, at equal parity against sterling, was introduced to replace the Rhodesia and Nyasaland pound. Zambia chose to remain in the sterling area, but kept part of its reserves in gold and other convertible currencies.

In 1968 the currency was decimalized and a new currency unit introduced, the kwacha (equal to ten of the old shillings), divided into 100 ngwees. In terms of U. S. dollars, the rate of the kwacha was fixed at 1.40. The kwacha did not change its par value when sterling was devalued in 1967, and remains at 1.24414 grams of fine gold.

ORGANIZATION OF THE CENTRAL BANK

The Bank of Zambia is a "statutable corporation" whose entire capital of 2 million kwachas belongs to the state. Not less than 25 per cent of each year's profits have to be allocated to the reserve fund, until the latter matches the Bank's capital; subsequently, and until the reserve fund is three times the authorized capital, at least one eighth of annual profits must be allocated to it.

The Bank's Board of Directors consists of the Governor, the Deputy Governor and seven members. The Governor and Deputy Governor are appointed by decree of the President of the Republic for a term of five years, and are eligible for reappointment. The seven directors are appointed by ordinance of the Minister of Finance; one of them is a non-voting Treasury representative. The Minister of Finance may give directives for the conduct of the Bank's affairs, after consulting the Governor.

The Board of Directors has the duty to formulate such provisions on monetary and credit policy as it judges to be conducive to the achievement of the general purposes outlined by the government. The Board is also responsible for enforcing compliance with its decisions.

The Bank furthermore has a general manager who assists the Governor in the management of the Bank's affairs and is in charge of putting the Board's decisions into effect, and finally a board of auditors, who examine the accuracy of the accounts.

FUNCTIONS OF THE CENTRAL BANK

The Bank of Zambia's statutory functions are those typical of central banks: money creation and control of its circulation, credit control, cash operations on behalf of the government, exchange control and management of the gold reserves.

As was mentioned before, the Bank of Rhodesia and Nyasaland, when first set up, inherited from the Central African Currency Board exclusively the functions of a bank of issue. Its statute differed considerably from those of the central banks set up in other African countries around the same time, especially in so far as it assigned to the Central Bank no functions connected with the formulation, implementation and control of monetary and credit policy. It was only later that the Bank was given these functions, together with the Treasury accounts.

The Bank of Zambia now is a Central Bank in the full meaning of the word. It acts as the bankers' banker, and has no other direct dealings with the public than those connected with receipts and payments on behalf of the government.

By ordinance of the President of the Republic, the Bank of Zambia has the exclusive right to issue legal tender in the country, and is enjoined to maintain the internal and external value of Zambia's money. To this end, it has to keep an external reserve of gold and sterling assets (or other foreign assets convertible into gold or sterling) amounting to not less than 50 per cent of the Bank's total demand liabilities (money in circulation and current account balances) as of 25 June 1965, plus 25 per cent of subsequent increases.

THE CENTRAL BANK'S RELATIONS WITH THE STATE

In Zambia the relations between the government and the Central Bank are very close. The Bank acts as the government's banker and financial adviser, handles all its cash transactions, issues government securities and manages the public debt. It may make loans or advances to the government up to 20 per cent of the

estimated budget revenue for the current year, and these are repayable within three months from the end of the financial year.

A matter of major importance in the relations between government and the Central Bank in Zambia is the issue of Treasury Bills. The amount of the weekly tender issues varies with the Treasury's cash requirements. The Central Bank is authorized to issue Treasury Bills up to a total outstanding amount of 50 million kwachas, and indeed to issue more if it can place them outside the market.

The Bank of Zambia also issues special government securities called development bonds. These are registered certificates bearing variable rates of interest, and are meant to attract small savings. The most that any one person may subscribe is 1,000 kwachas. The bonds are repayable on demand at any time after six months from the date of issue, and the rate of interest is so graded over time as to offer an inducement to hold the bonds to maturity (the 1967 issue is for five years, at the end of which its yield is 7.4 per cent). These bonds are sold mostly by the Post Office Savings Bank.

Powers of exchange regulation and control are vested in the Minister of Finance, but have been delegated to the Central Bank. The latter is also responsible for managing the gold reserve, the bulk of which is kept in London banks in the form of interest-bearing deposits of gold or foreign exchange.

MONETARY AND CREDIT POLICY

The Central Bank is required to control the monetary circulation and the credit market, and to this end has wide powers vis-à-vis the commercial banks. It may set, and vary as it thinks fit, the minimum level of liquid assets and compulsory reserves

which banks must hold against their deposits. It may introduce an additional reserve requirement in a specified proportion to increments in total credit outstanding. It may set a ceiling for the total amount of credit any commercial bank may extend to a particular economic sector.

On 1 March 1965, the minimum liquid-assets ratio of commercial banks was fixed at 25 per cent of private clients' deposits, and the reserve ratio at 8 per cent of demand deposits and 3 per cent of time deposits. For accepting houses, the same reserve ratio was fixed, but the minimum liquid-assets ratio required was only 20 per cent. Other financial institutions were asked only to maintain a liquid-assets ratio of 15 per cent.

In the course of 1968, the Central Bank adopted a number of measures to stem inflationary pressures. It raised the discount rate, accepted for rediscount only commercial bills for amounts above 10,000 kwachas (which brought about a sharp decline in bill discounting by banks), and adopted a policy of selective control of bank credit. The idea of the latter was to make sure that credit expansion followed the pattern of priorities in the national development plan and in any event did not assume such proportions as to threaten the stability of the purchasing power of money.

In its efforts to control the money supply, the Bank of Zambia has relied heavily on open market operations. By varying the amounts of government securities offered for sale to the public, of those placed outside the market and of those repurchased, the Bank succeeded in skimming off liquidity from the market and thus reducing inflationary pressures.

An interesting point is that in Zambia trade in securities is so active that the government was led to set up a special committee for drawing up a bill for the establishment of a stock exchange.

THE BANKING SYSTEM

The banking system of Zambia consists of five commercial banks (Barclays Bank D.C.O., National and Grindlays Bank Ltd., the Commercial Bank of Zambia Ltd., the Standard Bank Ltd. and, since 1970, the National Commercial Bank) and of a number of financial institutes including an accepting house (the Merchant Bank of Zambia Ltd.), three building societies, two institutes financing hire-purchase sales, two private development companies, the Credit Organization of Zambia, the Industrial Development Corporation and the Post Office Savings Bank.

Four of the commercial banks are foreign-owned, and three of them have their head office abroad, only the Commercial Bank of Zambia being incorporated in Zambia. The fifth commercial bank, called National Commercial Bank, was set up in 1970 with capital entirely subscribed by the Bank of Zambia.

At the end of 1970, the principles of a bank reform to be carried out in 1971 were announced. Only two commercial banks are henceforth to be authorized to operate in Zambia, and the government is to have a 51 per cent holding in each. One of the two, Barclays Bank of Zambia, is to be formed by the merger of Barclays D.C.O., which is to have a 49 per cent stake in the new bank, with the National Commercial Bank; the other will be the Standard Bank, which is to keep its name but cede to the state 51 per cent of its equity. These two banks are to take over the assets and liabilities of the Commercial Bank of Zambia and of the National and Grindlays Bank, on terms yet to be established.

Among the country's other financial institutes, the Merchant Bank of Zambia Ltd. is an accepting house set up in 1966. It has played a major part in the development of the country's financial institutions, both by offering facilities for short-term deposits and by accepting and discounting commercial bills.

The three building societies draw on their capital and clients' deposits to finance credit to the private sector, mainly in the form of mortgage credits and secured loans. Their activities are governed by the Building Societies Act of 1968, which brings them within the compass of the country's monetary policy by giving the Governor of the Central Bank powers to fix the liquidity ratio which building societies are required to maintain.

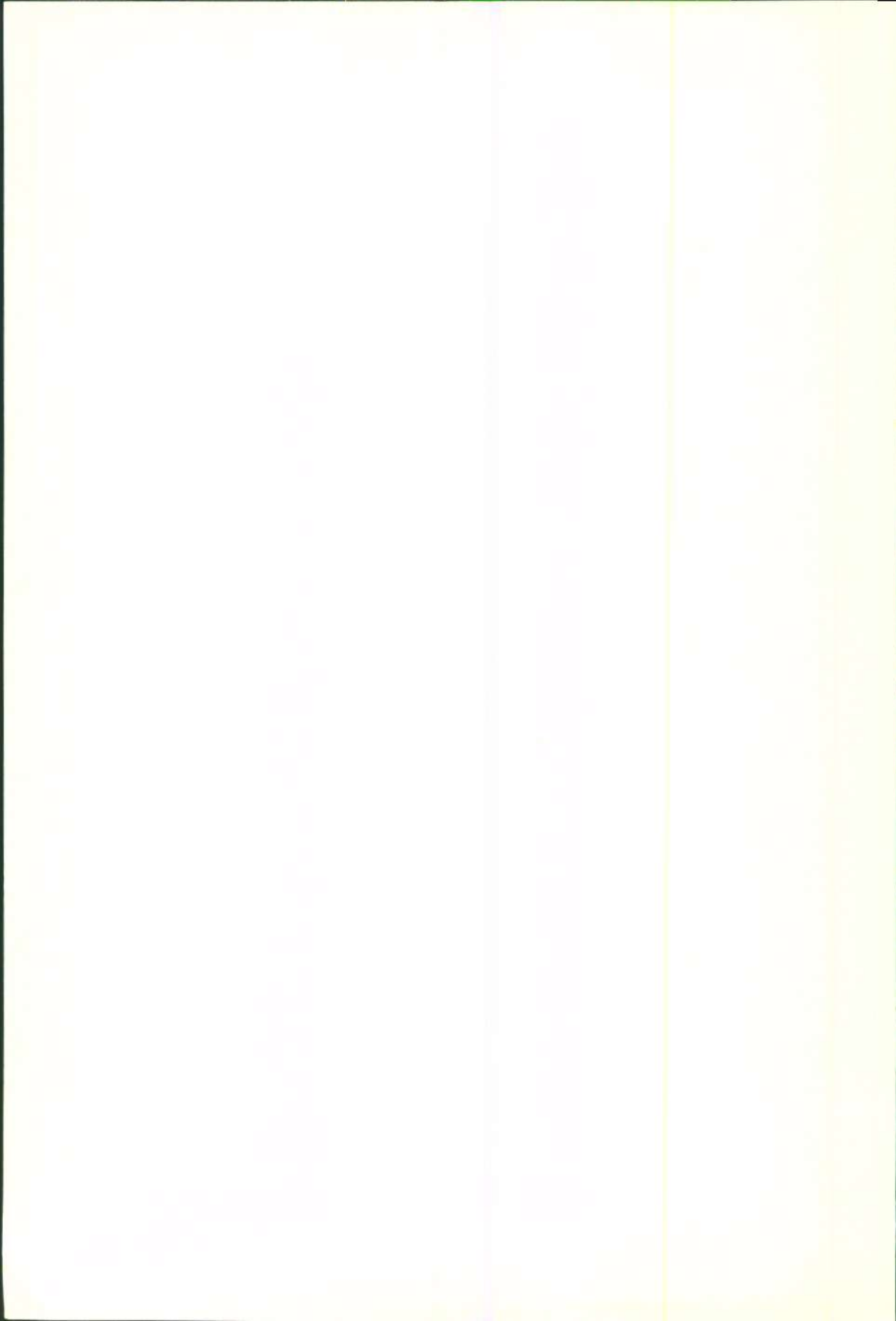
The two hire-purchase finance houses concern themselves mostly with sales of motor cars, office equipment, industrial machinery, etc.

The two private development companies provide medium-term loans for industrial and agricultural development projects.

The Post Office Savings Bank solicits savings especially in the interior of the country, and its funds are used to finance projects forming part of the economic development plan. However, its deposits account for only a very small proportion of the total savings attracted by the banking system as a whole.

The Credit Organization of Zambia extends seasonal, medium- and long-term credit to farmers. After the promulgation of the Credit Organization of Zambia Act in 1967, the old Land Bank was taken over by the new organization, which extended its activities to include commercial credit as well. It finances its credits with loans from the government, which also subsidizes the Organization's administrative expenditure.

Much of the expansion of industrial investment that took place in Zambia during recent years is attributable to the Industrial Development Corporation of Zambia, through which the government encourages industrialization. It provides venture capital on behalf of the state to industrial companies, and makes medium- and long-term loans to firms in industry and trade.



LIST OF ABBREVIATIONS

A

A.D.F. - *Agricultural Development Fund* (Lesotho)

B

B.A.M.E.S. - *Banque Malgache d'Escompte et de Crédit* (Madagascar)

B.C.C.B.R.U. - *Banque Centrale du Congo Belge et du Ruanda Urundi* (Burundi)

B.C.E.A.E.C. - *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun* (Cameroon)

B.C.E.A.O. - *Banque Centrale des Etats de l'Afrique de l'Ouest*

B.D.D. - *Banque Dahoméenne de Développement* (Dahomey)

B.D.R.N. - *Banque de Développement de la République du Niger* (Niger)

B.E.I.T. - *Banque d'Escompte et de Crédit à l'Industrie en Tunisie* (Tunisia)

B.E.R.B. - *Banque d'Emission du Ruanda et du Burundi* (Burundi)

B.I.A.N. - *Banque Industrielle d'Afrique du Nord* (Tunisia)

B.I.A.O. - *Banque Internationale pour l'Afrique Occidentale* (Upper Volta)

B.I.C.I.C.I. - *Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire* (Ivory Coast)

B.I.C.I.S. - *Banque Internationale pour le Commerce et l'Industrie du Sénégal* (Senegal)

B.I.D.I. - *Banque Ivoirienne de Développement Industriel* (Ivory Coast)

B.M.C.E. - *Banque Marocaine du Commerce Extérieur* (Morocco)

B.M.D. - *Banque Mauritanienne de Développement* (Mauritania)

B.N.C.I. - *Banque Nationale pour le Commerce et l'Industrie* (Cameroon)

B.N.C.I.A. - *Banque Nationale pour le Commerce et l'Industrie en Afrique* (Tunisia)

B.N.D.A. - *Banque Nationale de Développement Agricole* (Ivory Coast)

B.N.D.E. - *Banque Nationale pour le Développement économique* (Morocco)

B.N.D.H.V. - *Banque nationale de développement de la Haute-Volta* (Upper Volta)

B.N.D.S. - *Banque Nationale de Développement du Sénégal* (Senegal)

B.N.M. - *Banque Nationale Malgasy* (Madagascar)

B.N.P. - *Banque Nationale de Paris*

B.T.D. - *Banque Togolaise de Développement* (Togo)

C

C.A.A. - *Caisse Autonome d'Amortissement* (Ivory Coast)

C.C.I. - *Crédit de la Côte d'Ivoire* (Ivory Coast)

C.E.A.M.P. - *Centrale d'Équipement Agricole et de Modernisation du Paysannat* (Madagascar)

C.F.A. - *Communauté Financière Africaine*

C.N. - *Crédit du Niger* (Niger)

C.N.C.A. - *Caisse Nationale de Crédit Agricole* (Niger) (Togo)

C.N.E.P. - *Comptoir National d'Escompte de Paris* (Tunisia)

C.P.C.L. - *Caisse de Prêts aux Collectivités locales* (Niger)

F

FAO - *Food and Agriculture Organization of the United Nations.*

F.M.C.U.L. - *Former's Marketing Cooperative Union of Lesotho* (Lesotho)

I

IN.DE.CO. - *Industrial Development Corporation of Zambia* (Zambia)

S

S.A.F.C.A. - *Société Africaine de Crédit Automobile* (Ivory Coast)

S.C.A.E.R. - *Service du Crédit Agricole et de l'Équipement Rural* (Mali)

S.D.B. - *Société Dahoméenne de Banque* (Dahomey)

S.F.O.M. - *Société Financière pour les Pays d'Outremer* (Senegal)

S.G.B.C.I. - *Société Générale de Banques en Côte d'Ivoire* (Ivory Coast)

S.G.B.S. - *Société Générale de Banques au Sénégal* (Senegal)

S.I.F. - *Société Ivoirienne de Financement* (Ivory Coast)

S.M.B. - *Société Mauritanienne de Banque* (Mauritania)

S.N.I. - *Société Nationale d'Investissement* (Cameroon) (Tunisia)

SO.CO.FI.DE. - *Société Congolaise de Financement du Développement* (Congo Kinshasa)

SO.C.C.A. - *Société Camerounaise de Crédit Automobile* (Cameroon)

SO.DA.C.A. - *Société Dahoméenne de Crédit Automobile* (Dahomey)

SO.GE.C.A. - *Société Générale de Crédit Automobile* (Senegal)

SO.FI.GES. - *Société Financière de Gestion* (Tunisia)

SO.NA.FI. - *Société Nationale de Financement* (Ivory Coast)

S.T.B. - *Société Tunisienne de Banque* (Tunisia)

S.TO.C.A. - *Société Togolaise de Crédit Automobile* (Togo)

U

U.B.C.I. - *Union Bancaire pour le Commerce et l'Industrie* (Tunisia)

U.FI.TEC. - *Union Financière et Technique de Tunisie* (Tunisia)

U.I.B. - *Union Internationale de Banques*

U.M.O.A. - *Union Monétaire Ouest Africaine*

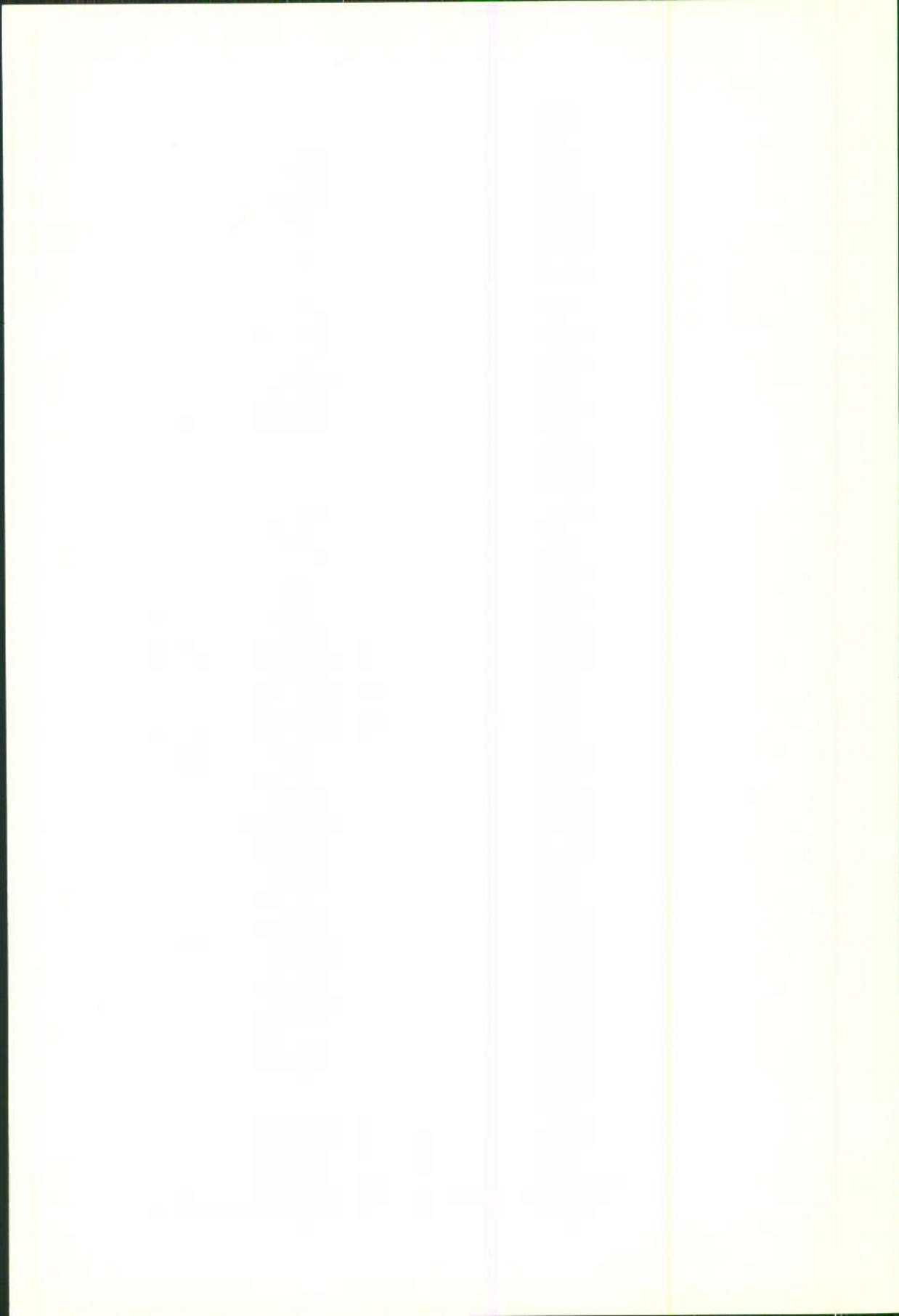
U.N.C.C. - *Union Nigérienne de Crédit et de Coopération* (Niger)

U.S.B. - *Union Sénégalaise de Banque pour le Commerce et l'Industrie* (Senegal)

U.T.B. - *Union Togolaise de Banque* (Togo)

W

W.C.D.A. - *West Cameroon Development Agency* (Cameroon)



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