

CSDs: BoZ (Zambia), LuSE CSD (Zambia)

Date: 18 Mar 2009

SMI Markets: Zambia

CMIRR Markets: Zambia

Directive Prohibiting the Extension of Credits to Non-Residents

The Bank of Zambia issued a directive prohibiting the extension of loans/credits and provision of other sources of Kwacha (ZMK) funding to non-residents, effective 2 March 2009. The directive affects the following services and products:

- Provision of Zambian Kwacha (ZMK) loans to non-residents for any maturity period of less than a year.
- Provision of intraday overdrafts.
- Placing ZMK in the form of deposits or other similar means in non-resident institutions for periods of less than a year. Where options are embedded in such deposits, such options may be exercised within a period of not less than one year.
- Investing in ZMK-denominated assets issued by non-residents except for those assets with a residual maturity of at least one year at time of investment.
- FX derivative transactions, including but not limited to swaps and forward transactions, in which one of the currencies is the Kwacha, unless proof of underlying economic activity is shown.
- Transfer of Kwacha to non-residents without any underlying economic activities in Zambia.
- Transfer of Kwacha from residents to non-residents, except for settlement on non-resident accounts with local financial institutions related to domestic economic activities.

An official circular on this matter is expected to be issued by the Bank of Zambia.

CSD Risk Impact

BoZ (Zambia)

CSD Rating: BBB

CSD Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = B

Flash Impact = On Watch

The prohibition of extension of credits to foreign investors will generally have a negative impact on liquidity risk as sources of funds will be limited in case of cash shortfalls to complete settlement. However, it is not clear whether or not the extension of credits to foreign investors for securities settlement is exempt from the prohibition. Pending the clarification on the issue and the release of the official announcement from the Bank of Zambia, the impact on liquidity risk is set "On-Watch".

LuSE CSD (Zambia)

CSD Rating: A-

CSD Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = On Watch

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Market Information Impact

Infrastructure Risk Ratings Impact

Zambia

Market Rating: BBB

Market Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = B

Flash Impact = On Watch

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