GOVERNMENT TO MONITOR BALANCE OF PAYMENTS
PMRC’s vision is “Unlocking Zambia’s Potential”. We recognize that it is only discussion and debate on social and economic policy issues critical to poverty reduction that ultimately leads to policy reform to support a robust and thriving economy. PMRC’s mission is Unlocking Zambia’s Potential by:

- Producing high quality, relevant and timely policy analysis, policy monitoring, and reform proposals
- Promoting and encouraging an informed public debate on critical social and economic policy issues.
On 25th June 2013, government issued Statutory Instrument No. 55 of 2013. The regulation is cited as The Bank of Zambia (Monitoring of Balance of Payments) Regulations, 2013 and was enacted on 1st July 2013. Balance of Payments (BOP) is; a record of all transactions made between one particular country and all other countries during a specified period of time. It compares the dollar difference of the amount of exports and imports, including all remittances. Positive BOP indicates that more money is coming into the economy than flowing out and vice versa. The figure below is a break down of what it consists.
The goal of the Act is to enable the Bank of Zambia, to monitor balance of payment transactions and regulate charges in the financial sector. The SI 55 of 2013 is aimed to:

- Provide for an efficient foreign exchange system;
- Ensure transparency and accountability into revenues accumulated by Balance of Payments;
- Facilitate for beneficial circulation of funds acquired by all players in the economy;
- Provide clear sanctions and penalties for non-complying;

The Statutory Instrument consists of 17 Regulations that are outlined as follows.

REGULATIONS

1. Title and commencement
2. Interpretation
3. Application
4. Monitored transactions
5. Electronic reporting system
6. Foreign currency accounts for exporters and foreign investors
7. Export declaration
8. Notification of remittances above prescribed thresholds
9. Notification of imports and exports transactions
10. Mode of payment of certain imports and exports
11. Payments to foreign bank accounts
12. External private debt
13. Record of loan agreements
14. Returns
15. Applicability to anti-money laundering measures
16. General offence and penalty

Regulations 3 and 4 are specifications of the application, which consists of the specific entities or individuals in various situations to which these regulations apply. The primary institutions are financial service providers licensed under the Banking and Financial Services Act for exporter of goods or services exceeding twenty thousand United States Dollars (US$20,000) or the equivalent in foreign currency. The SI describes how the Bank of Zambia will monitor all outflows. Bank of Zambia will monitor, the value of any imported goods or service including management services and investments made in the forms of debt securities outside Zambia by persons residents. dividends, royalties, management fees, technical fees, commissions, consultancy fees and imports exceeding US$100,000 or its equivalent in other foreign currency will be monitored.

Regulation 5 establishes an electronic reporting system for the purpose of enforcing regulations. The system links all Government agencies or institutions responsible for the collection of revenue and import and export formalities. The regulations direct all importers, exporters or foreign investors to open and maintain foreign currency dominated accounts with a financial service provider. All foreign investors who acquire incentives under the Zambia Development Agency Act, 2006 will be required to deposit their pledge capital in the above-mentioned account.

Regulations 4 to 15 outline requirements for exporters to make declarations and notifications of transactions of import or export proceeds. Specific modes of payments are recommended for certain specified thresholds. All payments above US$5,000 to be paid through financial service providers, any export transactions on credit, above the value of US$200,000 must be by use of a letter of credit. All documentation needed for these payments must be submitted to the financial provider as evidence. These include tax clearance certificates, evidence of payments issued by Zambia revenue authority (ZRA) and audited accounts certified by a registered accountant (Zambia Institute of Chartered Accountants).

Regulations also include requirements, in reference to external private debt and returns such as loan agreements. The regulations outline the specifications of what will be monitored in these debt instruments. In terms of external private debt, all persons obtaining any foreign exchange loan from a non-resident must report the borrowing to the Bank of Zambia. They must disclose the rate of interest, details of the repayment schedule and the tenure of the loan.
BOZ will maintain an electronic depository of loan agreements, with assigned identification numbers. These regulations do not apply to loans for a period of less than thirty days. At the request of the Bank of Zambia financial service providers are expected to submit reports of returns at different intervals.

Notifications of receipt of export proceeds must be done within 120 days from the date of receipt of the proceeds. Regulation 10 outlines a procedure and mode of payment required for imports and exports of the value of or in excess of US$ 5,000 or its equivalent in any other currency. This includes the use letters of credit in cases of exports on credit of the value of US$ 200,000 or its equivalent in any other currency. The use of electronic money transfer is required for all transactions above the threshold of US$5,000.

The regulations 16 and 17 outline the need for stakeholders to cooperate with government to ensure monitoring is effective. Institutions must not assume that they are exempt from other legislative obligations under the Financial Intelligence Center Act, 2010, the Prohibition and Prevention of Money Laundering Act, 2001 and any other written laws relating to money laundering and proceeds of crime.

The SI also states penalties accruing to offenders. These are; a fine not exceeding 100,000 penalty units or imprisonment for a period not exceeding ten years. In the case of a corporate body or an unincorporated body, every director or manager who commits an offence under the regulations is liable unless the director or manager proves to the court that the act was done without knowledge, or convinces the court that reasonable steps were taken to prevent the offence.

**What does it mean for Zambia?**

As PMRC we believe that the issuance of Statutory Instrument No. 55 of 2013 is both timely and relevant to support sustained economic growth.

The benefits of this regulation are;

1. Increased accountability and transparency: The monitoring of Balance of Payments will enhance reporting, thus discouraging unlawful transactions. Tax evasion and money laundering will also be curbed by this legislation.

2. Increased market liquidity (cash): Will have positive implications on lending rates and subsequent increased number of loan transactions. The legislation will enable all revenues accrued from economic activities, influenced by imports and exports of materials to be accounted for. This, as well as increased liquidity will lead to actualization of tangible economic growth. This domino effect is illustrated in the figure below.

**Benefits of the SI**

![Figure 2](image)

1. Accountability and transparency
2. Reduced interest rates
3. Employment creation
4. Harmonisation of government entities
5. Enhanced national planning

**Source:- Policy Monitoring and Research Centre, 2013**

3. Reduced interest rates of financial institutions: The reduction of interest rates in financial institutions is a probable result of increased market liquidity. The potential effect of Zambia being a more credit driven economy, if managed well in the long term; will result in improved Gross Domestic Product (GDP) due to more economic activities.

4. Employment creation: Reduced interest rates will encourage more entrepreneurs to start up businesses and existing businesses to expand, thus contributing to employment creation.

5. Effective monitoring and audit of non-complying corporate bodies: Monitoring of the financial system and obtaining accurate data is fundamental to the growth and development of Zambia. Timely information on financial inflows and outflows by sector are imperative in overall economic performance monitoring.

6. Ministerial harmonization and coordination of government revenue-oriented institutions: The regulations will also bring about collaborated efforts in data collection and analysis.

7. Enhanced national planning and policy formulation: Timely and accurate information of the financial sector will support enhanced national planning and drive sound policy formulation and implementation.
8. Impact to trade and foreign policy: Understanding import and export dynamics will enable informed trade policy planning. Based on the information gathered about countries, and trade relations, the result will facilitate for improved focus areas of foreign policy improvements.

9. Influence on country bilateral relations: Monitoring Balance of Payments may influence bilateral relations by the information collected in terms of trade of goods and services. E.g. China and Zambia have had good bilateral relations this can be enhanced further with detailed information on what specific sectors are benefiting from the relations.

Other countries with similar legislative measures are Chile and Brazil.

Financial regulation is expected to affect the behavior of the macro economy of Brazil through two channels:

(i) Domestic financial regulation, particularly of a practical nature, may affect the volume and distribution of credit and of hedging instruments among borrowers;

(ii) Capital flows regulation may heavily influence the ways and terms of local borrowers access to external and domestic credit.¹

There is similarity of intention between expected outcomes of financial regulation in Brazil and Chile and what the Zambian government plans to achieve.

Chile’s regulations on Balance of Payments have similar aspects on import and export declarations. This led to the government obtaining coverage to include all transactions between residents and nonresidents and led to better reflection of market prices.²

The International Monetary Fund (IMF) recommended inclusive customs declarations that facilitate for measures of goods imported and exported and to incorporate specific transactions carried out under financial leasing arrangements. This was meant to supplement the data collected from resident transport companies and non-resident companies by ensuring all values are measured including freight and insurance values.³

The Euro crisis is a good example of the need to monitor Balance of Payments. Deutsche Bank Research highlighted that, “Below the surface the euro area’s public debt and banking crisis lies a balance of payments crisis caused by a misalignment of internal real exchange rate”⁴

Although this specifically addresses the entire Euro region, it underscores the importance of monitoring Balance of Payments and ensuring that reporting guides national planning and policy formulation.

Knowing the exact dynamics of Balance of Payments is vital to understanding how monitoring will strengthen financial markets.

India and China are countries that have benefited from monitoring Balance of Payments.

Monitoring Balance of Payments also led to adequate planning for improved economic performance. Although this did not necessarily stop multinational companies from repatriating profits, records of transactions were used to plan and attract direct investment from foreigners and empower citizens further.⁵

Generally, developing countries are expected to experience deficits in Balance of Payments. This is because they require imported machinery, technology capital equipment and skills in order to successfully launch industrialization programs.

Changes in monetary policy that coincided with liberalization of the economy led to a remarkable turn around in India’s Balance of Payments.

¹ Fernando J. Cardim de Carvalho Francisco Eduardo Pires de Souza, 2011
² Central Bank of Chile. (2011). Chilean Balance of Payments, Ministry of Finance, Chile
⁵ The Economist (2012). BoP until you drop. For the first time since 1998 more money leaves China than enters it.
PMRC therefore believes that the enactment of the Statutory Instrument No. 55 of 2013 by the Zambian government is both timely and of great importance. It is the duty of government to monitor Balance of Payments to have an accurate trade and transfer record of Zambia with other countries in a given period. The information is critical as it affects trade deficits or surpluses, which have obvious implications on a country’s credit rating.

In conclusion, this SI will bring about transparency and accountability and ensure that the government has accurate information on the total revenue by the setting up of the electronic reporting system to capture all the necessary data.

REFERENCES

Central Bank of Chile. (2011). Chilean Balance of Payments, Ministry of Finance, Chile


The Economist (2012). BoP until you drop. For the first time since 1998 more money leaves China than enters it


The change from a foreign currency constrained regime to a more transparent financial market led to the improved Balance of Payments. The figure below shows 4 years of stability of Balance of Payments in the years in which the monetary policy was adjusted to fit the liberalized economy.⁶

Correlation of monitoring and improved Balance of Payments performance

Table I

![India's Overall BoP 1999-2004](image)

Source:- Reserve Bank of India, 2005

Despite the benefits mentioned above, financial institutions are bound to face challenges of adjusting procedures to the regulations; these challenges are;

1. Extra costs in terms of human resources and changes in the electronic system (regulation 5). For the Government, at least in the short run this will prove to be very costly as significant resource are required to set up the electronic monitoring system to capture all information in the stated regulations.

2. Efficiency by the Bank of Zambia to manage the electronic system created. This concern is due to the vast number of economic activities. Bank of Zambia must ensure they have the capacity to be efficient despite the enormous task.

3. It is imperative that government is cautious to ensure the SI does not reverse the gains of previous financial sector reforms and those of the private sector reform programs.

Unlocking Zambia's Potential

Correspondence on this Policy Analysis can be sent to:
info@pmrczambia.net

Policy Monitoring and Research Centre (PMRC) Plot No. 32 Sable Road | Corner Bishop and Sable Road | Kabulonga, Lusaka Zambia |
Private Bag KL 10, Lusaka, Zambia | Tel: +260 979 015 660 | info@pmrczambia.net

More info please visit the following: