



The K10 Billion Stimulus Package

FREQUENTLY ASKED QUESTIONS

The Zambian economy has been facing significant macroeconomic challenges as reflected in low growth, high fiscal deficits, rising inflation and debt service obligations as well as low international reserves. The outbreak of COVID-19 pandemic has worsened the situation as it is already having an adverse impact on the economy through the closure of businesses and restrictions on important trade routes as countries fight the spread of the pandemic.

Without compensating policy action, the decline in economic activity and the drop in incomes for businesses and households will also impact the financial sector through rising non-performing loans and this may compromise financial system stability.

The Bank of Zambia has therefore introduced a Targeted Medium-Term Refinancing Facility to enable Financial Service Providers (FSPs) to support businesses and households that are being impacted by COVID-19.

Following the introduction of this facility, a number of questions have been asked seeking clarification on how this facility will be implemented.

1. What is this facility?

The Targeted Medium-Term Refinancing Facility (TMTRF) is a facility which allows Financial Service Providers (FSPs) (commercial banks and non-bank financial institutions) under the supervision of the Bank, to access funds from the Bank of Zambia for on-lending to businesses and households.

The TMTRF will prioritize key sectors identified in the 7th National Development Plan, notably, agriculture, manufacturing, tourism and energy. Sixty (60) percent of the funds will go to these sectors while forty (40) percent will be reserved for ALL other sectors and households.

2. Is the facility free?

The facility is not free. The Bank of Zambia (BoZ) is lending funds to Financial Service Providers (FSPs) who, when they borrow from BoZ, are obliged to on-lend to businesses and households.

3. How much money is available under the facility?

The facility has an initial amount of K10 billion and tenors of five (5) years for targeted sectors (agriculture, manufacturing, tourism and energy) and three (3) years for other sectors including households.

FSPs will access this facility from BoZ at 12.5%. This interest rate is arrived at by taking the current Monetary Policy Rate (MPR) of 11.5% and adding 1 percentage point. Further, FSPs will have a one-year grace period (moratorium) for both principal and interest payments on the facility. This facility became available for access by FSPs on April 15, 2020.

4. How can Businesses and Households access this facility?

Businesses and individuals can access the Facility through their FSPs. Businesses and households interested in accessing this facility must therefore do so through their FSPs.

5. Which Businesses and Households can access this facility?

Everyone is entitled to the fund on the facility through their respective FSP. However, priority is to support sectors that will propel economic recovery and stimulate private sector led growth. Sectors identified in the 7NDP as priority are agriculture, manufacturing, energy and tourism and these will receive 60% of the fund on the facility. The rest of the sectors shall access the remaining 40%.

6. Which FSPs are eligible to borrow from BoZ under this facility?

FSPs that are licensed and supervised by BoZ are eligible to participate. The FSPs must meet minimum criteria which are set out in the Terms and Conditions (T's & C's). These are available on the BoZ website (www.boz.zm).

7. At what rate will the funds be available?

FSPs will determine the interest rates at which the funds will be on-lent to their clients. However, FSPs are obliged to pass on the benefits of lower interest rates, fixed interest rates and the possibility of a payment holiday to their clients. BoZ will check on the benefits being passed on prior to the disbursement of funds. Further, BoZ has provided additional incentives to FSPs which lend to their clients at no more than 5 percentage points above the cost of funds from BoZ. If FSPs borrow the funds at 12.5% from BoZ and lend to clients at no more than 17.5%, then they have access to more funds from the facility.

8. Will BoZ fine a FSP that breaches the terms and conditions set out?

The Bank has put in place mechanisms to ensure adherence to the set terms and conditions. Firstly, access to the funds on the Facility by any FSP is subject to the terms and conditions as provided for under section 2.4. All FSP are subject to regular reporting to the Bank and this is in addition to the Bank's continuous surveillance through on-site and off-site inspections. Failure to report appropriately shall result in sanctions as guided under section 14 and the imposition of such sanctions is without prejudice to the Bank's use of its regulatory powers as provided for in the Bank of Zambia Act and Banking and Financial Services Act.

9. How will BoZ ensure benefits on the facility trickle down to intended beneficiaries?

It is one of the requirements stipulated under the terms and conditions of the Facility that FSPs should demonstrate how the benefits obtained on the Facility are passed on to their clients. The Bank will regularly monitor performance and any FSPs that fail to comply will be subject to mandatory repayment as provided for under section 13. With regard to interest rates, the Bank has provided incentives for FSPs that offer lower interest rates to their clients.

10. Will SMEs be discriminated or prevented from accessing the facility?

There are FSPs that specifically service SMEs that are eligible to participate in the Facility. SMEs can therefore benefit from the facility particularly through the FSPs that already serve small and micro enterprises. However, because these funds are a loan, SMEs need to fulfil some minimum criteria required by FSPs.

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