Bank Of Zambia

Bank of Zambia analysis shows that banks generally determine lending rates based on cost of funds, economic and market conditions and political risks. Factors vary among banks according to their impact on the cost of funds and the bottom line. Decisions made in setting and adjusting base lending rates are largely decided qualitatively. Factors contributing to high rates include default risk, information asymmetries, operational inefficiencies and the need for high returns on shareholders equity. The interbank rate is not a significant factor. The report identifies conditions for an effective interest rate targeting framework, and makes recommendations covering efficiency, consistent use of macroeconomic factors in determining lending rates, development of formal frameworks for the interest rate decision making process, and more competition among banks.