

ZAMBIA TO INTRODUCE NEW BANKNOTES: A Bold and Necessary Monetary Policy Move

infographic

ADAPTED BY



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INTRODUCTION



Significant Monetary Policy Shift: The Bank of Zambia (BoZ) has announced the introduction of new banknotes, including higher denominations of K200 and K500. This move goes beyond a simple currency update—it's a strategic effort to streamline transactions and fortify the Kwacha's role in the economy.



Response to Economic Realities: Zambia's financial landscape has evolved with rising transaction values and a need for currency efficiency. The current highest denomination, K100, accounts for over 70% of total currency in circulation—well above the global benchmark of 60%.



International Best Practices: Currency systems worldwide undergo periodic reviews to incorporate enhanced security features and align denominations with real-world transaction needs. Introducing higher-value notes helps Zambia keep pace with these best practices and ensures that the Kwacha remains user-friendly, secure, and adaptable.



Economic Resilience & Stability: The introduction of higher-value banknotes reflects a broader commitment to strengthen monetary stability. By proactively modernizing the currency, Zambia aims to bolster confidence among investors, local businesses, and the general public, even in the face of external shocks such as drought and market fluctuations.

RATIONALE FOR THE NEW BANKNOTES

1. Enhanced Currency Security:

Advanced Security Features: Incorporation of sophisticated measures (e.g., **holograms, tactile features, watermarks**) to deter counterfeiting and fraud.



Holograms



Tactile features



Watermarks

Public Confidence: When people trust the authenticity of their currency, it underpins economic transactions and fosters a stable financial environment.

2. Restructuring the Currency Family:

Addressing K100 Dominance: The K100 note has exceeded recommended circulation levels, driving the need for additional high-value denominations (K200, K500).



K100 (old) note



K200 new note



K500 new note

Balanced Denominations: A wider range of denominations allows for more flexible and efficient cash-based transactions.

Redefining Note-Coin Boundary:

High-Value Coins: Introducing new coins to handle smaller, everyday transactions, reducing the overuse of lower-denomination notes.

Durability & Cost Savings: Coins are more durable, meaning fewer replacements and lower production costs in the long run.

Promoting Transaction Efficiency:

Reduced Bulk in Payments: Fewer banknotes are needed for larger purchases, making day-to-day commerce quicker and more convenient.

Lower Handling Costs: Businesses and financial institutions spend less time counting and processing physical cash, cutting operational expenses.

LESSONS FROM OTHER COUNTRIES THAT INTRODUCED HIGH VALUE BANK NOTES

Nigeria



Nigeria introduced the **500 naira note in 2001 and the 1000 naira note in 2005**, to reduce cash handling costs and facilitate for large transactions in order to streamline high-value transactions. At that time the Nigerian economy was cash dependent.

However, a lack of digital infrastructure at the time meant cash dependency remained high.

Key lesson: High-value banknotes should be introduced alongside efforts to boost digital payment systems to prevent excessive reliance on cash.

European Union



The EU introduced **€500 note** to facilitate for convenience in high value transactions but was later phased out due to concerns over its use in money laundering and illicit activities.

Key Lesson: Authorities must balance the benefits of high-value banknotes with risks such as financial crimes and hoarding.

Kenya



Kenya introduced new higher-denomination banknotes in 2019 as part of a broader effort to combat corruption, curb counterfeiting, and modernize its currency. The most notable change was the introduction of a new **KSh 1,000 note, along with redesigned KSh 50, KSh 100, KSh 200, and KSh 500 denominations.**

The currency was redesigned to comply with the 2010 Constitution, which required that banknotes should not bear the image of any individual. Instead, the new notes featured advanced security features to prevent counterfeiting.

Introducing new high-denomination notes did not trigger inflation because the Central Bank of Kenya (CBK) controlled the money supply effectively and ran extensive public education campaigns to ensure a smooth transition.

Key lessons:

Public Awareness: Education campaigns are critical for smooth adoption.

Monetary Policy Discipline: Tight control of the money supply prevents inflationary effects.

HOW ZAMBIA CAN ENSURE A SMOOTH TRANSITION

Robust Public Awareness Campaigns:



Clear Communication: Explain new security features, usage, and the difference between higher denominations and inflation drivers.



Engage Local Communities: Radio programs, social media, and in-person workshops to reach remote areas.

Infrastructure Upgrades:



ATM & System Adaptations: Align hardware and software to accommodate and dispense larger notes.



Retail & Banking Staff Training: Ensure quick, accurate recognition and handling of new denominations.

Promote Digital Payments:



Mobile Money Integration: Encourage electronic transfers and reduce excessive physical cash handling.



Public-Private Partnerships: Collaborate with fintech providers to expand digital platforms.

Prudent Monetary Policy:



Controlled Money Supply: Align currency issuance with economic indicators to avoid inflationary pressure.



Sectoral Growth: Bolster production in key industries such as mining, agriculture and manufacturing to sustain productivity and absorb new money circulation.



CONCLUSION

Forward-Thinking Policy: By modernizing the currency and enhancing transaction efficiency, Zambia is proactively shaping a more stable and adaptable financial sector.

Inclusive, Collaborative Approach: Partnerships with banks, mobile money services, and community educators will ensure seamless integration and dispel misconceptions.

Strengthening the Kwacha: A well-managed introduction of the K200 and K500 notes can reinforce the Kwacha's resilience, support business growth, and maintain long-term economic health—ultimately keeping Zambia on the path to financial progress and stability.