Int. j. adv. multidisc. res. stud. 2026; 6(1):105-118

Received: 17-11-2025
Accepted: 27-12-2025

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Assessing the Effects of Reserve Ratio on the Pricing of Loan Products in Banks: A Case Study of Absa Bank

[1] Mukupa Manchene, [2] Dr. Chisala Bwalya
[1, 2] Information and Communications University ICU Zambia, Lusaka, Zambia

Corresponding Author: **Mukupa Manchene**

Abstract
This research aims to assess the effects of the reserve ratio on the pricing of loan products in banks, using ABSA Bank Zambia as a case study. The reserve ratio, a critical monetary policy tool used by the Bank of Zambia, plays a vital role in determining commercial banks' liquidity levels, which directly influence the interest rates charged on loans. To examine this relationship. A quantitative research approach was adopted, with data collected through structured questionnaire comprising 20 participants, distributed to ABSA Bank staff. The responses were compiled in Microsoft Excel and analyzed using regression techniques in Stata to identify the statistical relationship between reserve ratio changes and loan pricing behavior. The findings revealed a strong link between reserve ratio adjustments and interest rate movements. Increases in the reserve ratio tend to reduce the bank's capacity to lend, leading to higher loan interest rates. In contrast, decreases in the reserve ratio improve liquidity and enable the bank to offer more competitive and accessible loan products. Additionally, the study found that other macroeconomic factors such as inflation and exchange rate fluctuations also influence loan pricing decisions at ABSA. The study concludes that the reserve ratio is a significant determinant of loan pricing in Zambia's banking sector and recommends coordinated efforts between policymakers and banks to ensure that monetary policy tools are implemented in a way that supports both financial stability and credit affordability.

Keywords: Reserve Ratio, Loan Pricing, ABSA Bank, Monetary Policy, Interest Rates, Credit Accessibility, Zambia

Introduction

Globally, the reserve ratio remains a vital monetary policy instrument used by central banks to manage liquidity, influence interest rates, and promote the stability of financial systems. It refers to the minimum percentage of customer deposits that commercial banks must hold either as cash in their vaults or with the central bank. By adjusting this ratio, central banks regulate the money supply and credit conditions in the economy. In advanced economies such as the United States and the European Union, reserve ratios have been used historically to address inflation, stimulate lending, and respond to financial crises. While their application in some developed countries has declined in Favor of market-based instruments, the reserve ratio still plays a critical role in monetary policy, particularly in emerging and developing economies (Cecchetti & Schoenholtz, 2020 [14]; IMF, 2022).

In the African context, many central banks continue to rely on reserve requirements as a tool for economic stabilization. For example, the Central Bank of Nigeria has adjusted the cash reserve ratio several times in recent years to manage inflation and maintain financial system liquidity (CBN, 2021). Likewise, in South Africa, changes to the reserve ratio have been used to moderate the flow of credit and support broader monetary policy objectives (SARB, 2020). These regional trends demonstrate that despite the evolution of monetary policy tools globally, reserve ratios remain a key lever for influencing banking sector behaviour, particularly in managing interest rates and credit access.

Furthermore, In Zambia, the Bank of Zambia (BoZ) is responsible for setting the statutory reserve ratio as part of its broader monetary policy framework. Over the years, the BoZ has periodically revised reserve requirements in response to domestic economic challenges such as inflation, currency depreciation, and liquidity constraints. For instance, during the COVID-19 pandemic, the central bank reduced the reserve ratio to stimulate economic activity and enhance credit availability in the banking sector (BoZ, 2021). Furthermore, such measures were intended to cushion businesses and households from the negative economic impact of the crisis.

ABSA Bank Zambia, being one of the leading commercial banks in the country, is directly affected by such policy changes. When reserve ratios are increased, banks must retain a higher proportion of deposits as reserves, thereby reducing the funds available for lending. This typically results in higher interest rates on loans, making borrowing more expensive. Conversely, a reduction in the reserve ratio can lead to lower interest rates, making loans more accessible and affordable (World Bank, 2023).

Therefore, understanding the impact of the reserve ratio on loan pricing is essential for both policymakers and financial institutions. It enables them to anticipate the potential effects of monetary policy changes on lending behaviour and credit market conditions. Moreover, for borrowers, knowledge of how these policies influence loan costs can improve financial planning and decision-making. This study, therefore, aims to assess the effect of the reserve ratio on the pricing of loan products at ABSA Bank Zambia. By examining historical policy shifts, their implementation, and the resulting trends in lending rates, the study seeks to provide valuable insights into how monetary tools shape financial intermediation and support or constrain economic growth. Consequently, as Zambia continues to develop its financial sector, evaluating the role of reserve requirements will contribute meaningfully to discussions on credit accessibility and banking sector regulation.

Statement of the Problem

Despite the reserve ratio being a widely recognized monetary policy tool, its specific effect on loan pricing at individual banks, such as ABSA Bank Zambia, remains insufficiently explored. In Zambia, the central bank adjusts this ratio to manage liquidity and inflation, but the direct impact on how ABSA prices its loans is still unclear. While studies in other countries, like Brazil, show that reserve changes influence lending costs (BIS, 2024), the extent and manner of this impact often vary by institution and context. Additionally, most available research focuses on broader economic outcomes, not bank-level responses. ABSA Bank, as a major lender, may respond to policy shifts by adjusting interest rates, fees, or lending conditions but this behavior is not well documented. This study aims to bridge this gap by examining how reserve ratio adjustments affect loan pricing specifically at ABSA Bank Zambia, thereby offering valuable insights into how monetary policy translates into lending decisions and affects financial access for local borrowers. (Bank for International Settlements, 2024).

General Objective

- Assess the effect of reserve ratio on the pricing of loan products in banks with specific reference to Absa bank.

Specific Objectives

- To assess how reserve ratio changes, affect inflation control and credit supply.
- To examine the effects of reserve ratio on bank liquidity and lending capacity.
- To asses how reserve ratio shifts influence loan pricing strategies.

Significance of Study

The significance of this study lies in its potential to provide valuable insights into the relationship between the reserve ratio and loan pricing in the Zambian banking sector, with a specific focus on ABSA Bank. Understanding how changes in the reserve ratio influence interest rates, credit availability, and lending behavior is crucial for policymakers, financial institutions, and borrowers. For policymakers, particularly the Bank of Zambia, this study offers empirical evidence on the effectiveness of reserve ratio adjustments as a monetary policy tool in controlling inflation and maintaining financial stability while ensuring that credit remains accessible to businesses and individuals.

For financial institutions, particularly commercial banks like ABSA Bank, the findings of this study can help in strategic decision-making regarding liquidity management, loan pricing, and risk assessment. By understanding how reserve ratio adjustments affects their lending capacity and profitability, banks can develop better financial strategies that align with regulatory requirements while maintaining competitive loan products.

Borrowers, including businesses and individuals, will also benefit from this research as it provides insights into how monetary policy decisions affect the cost of borrowing. By understanding the factors that influence loan pricing, borrowers can make informed financial decisions, plan better for future credit needs, and anticipate changes in lending conditions.

Academically, this study contributes to the existing body of knowledge on monetary policy and banking practices in Zambia. Given the limited research on the direct impact of the reserve ratio on loan pricing in the country, this study fills a critical knowledge gap and serves as a reference for future research in the field of economics and finance. The findings can also support discussions on financial regulation and economic policy formulation, ensuring that monetary policy adjustments strike a balance between financial stability and economic growth.

Literature Review

Monetary policy plays a pivotal role in managing inflation and influencing credit accessibility. One of the key instruments employed by central banks globally is the adjustment of the statutory reserve ratio (SRR), which dictates the proportion of depositors' balances that commercial banks must hold in reserve and not lend out. This literature review examines the effectiveness of SRR adjustments in controlling inflation and their impact on credit accessibility, with a focus on global practices, the African and Sub-Saharan context, and specific insights from Zambia.

Mishkin (2019) conducted a study on global perspective Internationally, stating that the central banks utilize SRR adjustments as a tool to manage liquidity and control inflation. By increasing the SRR, central banks can reduce the amount of funds available for banks to lend, thereby tightening the money supply and exerting downward pressure on inflation. Conversely, lowering the SRR can stimulate lending and economic activity by increasing the funds available for loans. However, frequent changes to reserve requirements can lead to uncertainty in financial markets and may have unintended consequences on economic stability. Therefore, many central banks prefer to use open market operations and policy rates as more flexible and predictable tools for monetary policy implementation (Mishkin, 2019).

Chen, Funke, and Paetz (2021) [17] conducted a panel analysis of 15 emerging economies including China, India,

Brazil, and Turkey to assess the asymmetric effects of reserve requirement ratio (RRR) changes on inflation control and credit supply. Their research used a nonlinear local projection approach to show that a reduction in the reserve ratio significantly stimulates private credit growth more than an increase in the reserve ratio restricts it. This asymmetry implies that while monetary easing via reserve requirement cuts can be a strong expansionary tool during economic downturns, tightening through reserve hikes may not yield proportional reductions in credit. Their study also found that credit expansion following RRR reductions tends to support short-term economic recovery, albeit with delayed risks of overheating and inflation. The authors suggest that central banks should be cautious in using reserve ratios as a primary tool for inflation control and should instead complement them with interest rate policies or macroprudential tools. Their findings contribute to a nuanced understanding of how reserve ratios interact with market expectations and banking sector behaviors in developing economies with evolving financial structures.

Disyatat (2011) [19] critically challenges the conventional understanding of reserve requirements as a constraint on bank lending and inflation control. Through both theoretical argument and empirical analysis, he demonstrates that in modern financial systems especially those operating under a floor system or abundant reserves regime reserve requirements are not binding constraints on credit creation. Instead, banks primarily lend based on credit demand and capital adequacy, not on the reserves they hold. He emphasizes that the central bank accommodates reserve demand post-factum, meaning that changes to the reserve ratio have limited real effects on lending volumes or inflation unless accompanied by broader liquidity or capital controls. This critique has significant implications for monetary policy:

It suggests that reliance on reserve ratio adjustments as a tool for managing inflation may be overstated in contemporary economies, especially those with deep financial markets. As such, Disyatat recommends that central banks focus on interest rate channels and macroprudential regulations for more effective inflation targeting and credit control.

Montoro and Moreno (2011) provide an in-depth study of how Latin American economies, such as Brazil, Peru, and Colombia, have strategically used reserve requirements as counter-cyclical instruments to stabilize inflation and credit booms. Their research, published by the Bank for International Settlements (BIS), highlights that in periods of large capital inflows typically associated with overheating economies central banks increased reserve ratios to contain excessive credit growth and prevent inflationary spirals. In Brazil, for example, reserve requirements were raised alongside capital controls to limit the expansionary impact of external liquidity. They emphasize that reserve requirements can act as a complement to policy interest rates, especially in markets where transmission mechanisms are weak or financial frictions are significant. Their findings support the use of dynamic reserve policies; wherein reserve ratios are adjusted proactively based on macro-financial conditions. The study provides empirical evidence that reserve requirements are effective tools in buffering credit cycles and reducing inflation risks when interest rate instruments alone are insufficient or politically constrained.

Mpofu (2021) investigated the role of reserve requirements as a complementary monetary policy tool in the Southern African region, focusing on Botswana, South Africa, and Namibia. Using a panel data regression model spanning 1998–2019, the study explored how variations in the statutory reserve ratio (SRR) influenced credit supply and inflation dynamics. The author found that while interest rate policy remains dominant in these economies, reserve ratio adjustments significantly influenced private sector credit growth, especially during times of liquidity excess. In South Africa, for example, a 1% increase in the reserve requirement was associated with a 0.4% decline in private sector credit in the short term. The study also revealed that Namibia's use of differentiated reserve requirements for commercial and development banks effectively balanced financial inclusion goals with inflation containment. Furthermore, the results showed that the inflationary impact of increased credit could be mitigated more effectively when SRR adjustments were used alongside policy interest rate increases. However, Mpofu cautioned that overuse of reserve ratios, especially in small economies with underdeveloped financial markets, could lead to financial disintermediation, thereby reducing the overall efficiency of the monetary system. The study concluded that reserve requirements should be applied cautiously, strategically, and in coordination with other tools to ensure macroeconomic stability in the Southern African context. Additionally, the South African Reserve Bank (SARB) utilizes the reserve requirement as part of its monetary policy toolkit to manage liquidity and control inflation. Adjustments to the reserve ratio influence the amount of funds banks have available for lending, thereby affecting credit supply and inflation dynamics. For example, increasing the reserve requirement means banks must hold more funds in reserve, reducing the amount available for lending, which can help to curb inflation by tightening the money supply. Conversely, decreasing the reserve requirement allows banks to.

Eita and Jordaan (2013) conducted an econometric analysis of the impact of reserve requirement policies on inflation and credit control in Southern African Customs Union (SACU) countries specifically Namibia, Botswana, Lesotho, and Swaziland (now Eswatini). Using quarterly data from 1992 to 2011, they employed a Vector Error Correction Model (VECM) to test the short- and long-run relationships between reserve requirements, inflation, and credit to the private sector. The study found that increases in reserve requirements led to a temporary decline in inflation, usually lagged by two to three quarters, while simultaneously reducing the growth of private sector credit. For example, in Namibia, a 2% increase in the reserve ratio in 2005 led to a 1.5% drop in credit supply within two quarters. This contraction helped lower inflation from 9.8% to 7.2% over the following year. However, the study also found that frequent or large reserve requirement changes created volatility in bank lending, which could destabilize credit markets and discourage long-term investments. The authors advocated for a rules-based or gradualist approach to reserve ratio adjustments and stressed the importance of complementing reserve policies with open market operations to manage liquidity in a more flexible and less disruptive manner.

Simpasa *et al*. (2014) conducted an empirical study examining the relationship between reserve requirements, bank liquidity, and credit allocation in Zambia. Using panel data from 2001 to 2012, the study found that tightening

reserve requirements had a statistically significant negative impact on credit supply, particularly to SMEs and agriculture. The research noted that during periods of high inflation or fiscal expansion, the Bank of Zambia often raised the statutory reserve ratio to absorb excess liquidity. This action, while successful in containing inflation, simultaneously led to credit rationing, disproportionately affecting small borrowers. The study further emphasized that Zambia's underdeveloped financial markets constrained banks' access to alternative funding sources, making them highly sensitive to policy-driven liquidity shocks. Simpasa *et al*. suggested that in such settings, reserve requirements must be balanced with broader credit facilitation policies, including targeted credit guarantees or development finance schemes to avoid undermining financial inclusion.

The effects of reserve ratio adjustment on bank liquidity and lending capacity

The reserve ratio, also known as the statutory reserve requirement, is a critical monetary policy tool employed by central banks worldwide to regulate the amount of funds that commercial banks, such as Absa Bank, must hold in reserve and not deploy for lending or investment purposes. This mechanism significantly influences banks' liquidity management and lending behaviors.

Internationally, adjustments to the reserve ratio have been utilized to manage economic liquidity and stimulate growth. For instance, the People's Bank of China (PBOC) has implemented reductions in the reserve requirement ratio (RRR) to inject liquidity into the economy. In a notable move, the PBOC cut a key interest rate by 20 basis points and reduced the RRR by 0.5 percentage points, releasing approximately one trillion yuan into the financial system. This strategy aimed to encourage lending and boost domestic spending amid slowing economic growth (The Times, 2024). Similarly, the Reserve Bank of India (RBI) has considered reducing the cash reserve ratio (CRR) to enhance liquidity without altering interest rates, thereby supporting economic activity during periods of slowed growth (Reuters, 2024).

Glocker and Towbin (2012) [25] conducted a comprehensive empirical analysis across 33 emerging market economies to examine the role of reserve requirements in influencing bank credit supply and liquidity conditions. Using a dynamic panel estimation method covering data from 1995 to 2010, they assessed how central bank-imposed changes in the reserve ratio affected commercial bank behavior. Their key finding was that increases in reserve requirements led to a statistically significant reduction in credit growth, particularly in banking systems that were heavily reliant on deposits. In such contexts, raising the reserve ratio reduced the amount of deposit funds that could be transformed into loans, leading to tighter liquidity and diminished lending capacity. Moreover, they found that the contractionary effects of reserve hikes were more pronounced in economies with underdeveloped capital markets, where banks had limited non-deposit sources of funding. On the other hand, decreases in reserve requirements resulted in a delayed but eventual expansion in loan volumes. Their study also emphasized the importance of macroeconomic context during periods of overheating or credit booms, the reserve ratio can act as a prudent buffer, but during recessions, its effects may be too weak without accompanying fiscal and interest rate policies.

Agénor and El Aynaoui (2010) [2] explored the macroeconomic implications of reserve ratio changes using a calibrated Dynamic Stochastic General Equilibrium (DSGE) model, incorporating features of credit frictions and financial market imperfections commonly found in developing countries. Their research emphasized that raising reserve requirements reduces banks' capacity to extend credit, thus affecting aggregate demand, output, and employment in the short run. In their simulations, a 5% hike in reserve ratios led to a 3–4% reduction in loanable funds, causing a decline in private investment and a short-term slowdown in economic growth. However, they also observed that in economies experiencing credit booms or financial instability, reserve requirement hikes served as effective macroprudential tools to mitigate systemic risk and inflation. The model further showed that reserve ratio adjustments influence bank behavior more directly than interest rate changes in environments where interest rate transmission is weak. Their findings are highly relevant to central banks in low-income countries, demonstrating that while reserve requirements may be blunt tools, they can still contribute to financial stability when used as part of a broader macroeconomic framework.

Cecchetti and Kohler (2014) [15] explored the broader macroprudential role of reserve requirements in both advanced and developing economies. The authors conducted a policy-based review and empirical comparison across countries that regularly employ reserve requirement changes as part of their monetary toolkit. They concluded that reserve requirements can serve as powerful counter-cyclical tools in limiting the expansion of bank credit during periods of financial exuberance. For instance, in countries like Brazil and China, reserve requirement hikes helped slow credit growth and absorb excess liquidity, reducing the risk of inflation and asset bubbles. The study emphasized that reserve requirements force banks to hold non-interest-bearing assets, thereby raising the cost of credit and deterring excessive borrowing. However, they also caution that in economies with deeper financial systems, banks may circumvent such constraints by tapping into wholesale or foreign funding, thus reducing the effectiveness of reserve ratio adjustments. Cecchetti and Kohler recommend that reserve requirements be used in coordination with capital adequacy measures and other tools such as loan-to-value ratios to ensure maximum effectiveness in stabilizing lending behavior and maintaining liquidity discipline.

In a study of Turkey's unique monetary framework, Oliveira *et al*. (2016) analyzed how the Reserve Option Mechanism (ROM) a flexible reserve requirement structure introduced by the Central Bank of Turkey affected banking liquidity and credit supply. The ROM allowed banks to meet a portion of their reserve requirements using foreign exchange or gold instead of local currency. The study found that this flexibility helped mitigate the contractionary effects of reserve requirement hikes. Nonetheless, when reserve ratios were adjusted upwards, banks faced tighter domestic liquidity conditions and curtailed their lending activities, especially to households and SMEs. Using time-series regression analysis covering the period from 2011 to 2015, the researchers observed that reserve requirement increases led to an average decline of 2.5% in loan growth over six months, with the impact being more severe for banks with limited access to external financing. Their findings underscore that reserve ratios can act as both a liquidity

drain and a signaling tool, and that combining them with adaptable mechanisms (such as the ROM) can reduce market volatility while still influencing credit behavior.

Van den Heuvel (2002) developed a theoretical model to analyze the bank capital channel of monetary policy, particularly focusing on how reserve requirements influence the ability of banks to lend. Using U.S. bank-level data and simulation models, the study revealed that increases in reserve ratios impose a cost on banks by requiring them to hold a larger share of their deposits in non-earning reserve accounts. This reduces the resources available for lending and investment. More importantly, the model demonstrated that in periods when banks are capital-constrained such as during financial stress higher reserve requirements exacerbate credit constraints, leading to a protracted slowdown in economic activity. Empirical validation using data from the 1980s and 1990s showed that reserve hikes were associated with slower credit growth, reduced profitability, and increased lending spreads. Van den Heuvel concluded that reserve requirements not only influence liquidity but also interact with bank capital adequacy, and their effects must be considered within the broader financial regulatory framework.

Furthermore, The United States, the Federal Reserve's reserve requirements have undergone notable changes, especially during economic crises. Historically, reserve ratios varied, with banks holding deposits above certain thresholds required to maintain specific percentages in reserves. For instance, prior to the 2020 pandemic, banks with deposits over $103.6 million had a reserve requirement of 10%. However, in response to the economic impact of COVID-19, the Federal Reserve reduced reserve requirements to 0% on March 26, 2020, aiming to increase liquidity and encourage lending. This move was intended to ensure banks could meet withdrawal demands and support continued lending during economic uncertainty (Investopedia, 2020).

In Sub-Saharan Africa, central banks have also leveraged reserve ratio adjustments to influence banking sector dynamics. For example, in Nigeria, studies have demonstrated that changes in the cash reserve ratio (CRR) significantly affect the profitability of commercial banks. An increase in the CRR compels banks to hold a higher proportion of their assets as non-earning reserves, thereby reducing the funds available for lending and investment, which can negatively impact profitability (Oyedokun *et al*., 2021). This scenario underscores the delicate balance that central banks must maintain between implementing prudent monetary policies and fostering a conducive environment for banking sector profitability.

Mbutor (2010) investigated the impact of reserve requirement adjustments on commercial bank liquidity and credit delivery in Nigeria. Using quarterly data between 1986 and 2008 and employing an Error Correction Model (ECM), the study found that increases in the cash reserve ratio (CRR) led to a substantial contraction in banks' loanable funds. Specifically, a 1% increase in the CRR was associated with a 0.8% reduction in credit to the private sector. The study highlighted that banks in Nigeria rely heavily on deposit mobilization, and the imposition of higher reserve ratios effectively reduced their capacity to lend, especially to productive sectors such as agriculture and manufacturing. Moreover, Mbutor noted that the Central Bank of Nigeria (CBN) used reserve requirements not only as a monetary policy tool but also to mop up excess liquidity arising from government spending and oil-related inflows. However, the study also cautioned that frequent changes in reserve ratios introduced policy uncertainty, which could discourage long-term lending by banks. Mbutor ultimately concluded that reserve ratio adjustments should be used with caution and supported by interest rate policy to minimize their adverse effects on credit supply.

The influence of reserve ratio shifts on loan pricing strategies

The statutory reserve ratio (SRR) is a critical monetary policy tool employed by central banks globally to regulate the money supply and influence lending behaviors of commercial banks. Adjustments to the SRR can significantly impact loan pricing, affecting borrowing costs for consumers and businesses alike. This literature review examines the relationship between changes in reserve ratios and loan pricing, with a focus on Absa Bank, discussed from global, African (particularly Sub-Saharan), and Zambian perspectives.

On global perspectives, central banks utilize the SRR to manage liquidity within the banking system. An increase in the reserve requirement compels banks to hold a higher portion of their deposits with the central bank, effectively reducing the funds available for lending. This contraction in available credit often leads to higher loan interest rates as banks seek to maintain profitability amid decreased lending capacity. Conversely, lowering the SRR releases funds, potentially leading to reduced lending rates and stimulating economic activity. However, the effectiveness of SRR adjustments can vary based on the existing economic environment and the responsiveness of financial institution.

In a foundational study of the U.S. monetary policy system, Bernanke and Blinder (1992) developed a framework to understand how the central bank's policy rate (the federal funds rate) transmits into real economic outcomes, including output and inflation. Their research introduced the credit channel an extension of the traditional interest rate channel that emphasized how reserve requirements restrict banks' capacity to lend, especially when policy interest rates change. Using time-series econometric models based on post-World War II U.S. data, they argued that increases in reserve requirements lead to liquidity tightening, causing banks to reduce lending even if the nominal policy rate remains unchanged. This undermines the efficiency of interest rate transmission, particularly for smaller firms dependent on bank loans. Their results showed that during periods of tight monetary policy (high reserve ratios and high interest rates), banks contract credit significantly more than during periods of low reserve ratios, suggesting a compounding effect. Their conclusion emphasized that monetary policy's effectiveness depends not just on interest rate adjustments but also on complementary tools like reserve ratios, which affect bank lending behavior through separate but interacting channels.

Kashyap and Stein (2015) investigated how changes in reserve requirements alter the responsiveness of banks to interest rate policies in the U.S. by analyzing a data set consisting of over one million observations from commercial banks. Their study centered on the differential impact of monetary policy on small versus large banks, driven by liquidity constraints and reserve compliance burdens. The authors found that smaller banks, which rely

heavily on core deposits, tend to reduce lending more sharply in response to policy rate hikes if reserve requirements are concurrently increased. This is because such banks have fewer options for alternative funding and face stricter liquidity management needs. The study employed a panel regression model and found that when reserve ratios increased by 1%, loan supply among smaller banks fell by up to 2.5% over the following quarter, even if interest rates remained stable. These findings imply that reserve requirements amplify the contractionary effects of interest rate hikes, weakening the interest rate channel for certain institutions while strengthening the overall restrictive intent of policy. They concluded that central banks must consider bank-level heterogeneity when using reserve ratios alongside interest rates to guide macroeconomic outcomes.

Montoro and Moreno (2011) examined the simultaneous use of reserve requirements and policy interest rates in several Latin American countries (including Brazil, Colombia, and Peru) over the period 2000–2010. Using descriptive analysis and central bank reports, they observed that reserve requirements were increasingly used to complement interest rate policy, especially in economies exposed to volatile capital flows. For instance, in Brazil, when foreign inflows increased domestic liquidity, the central bank raised reserve requirements to prevent excess credit creation, thereby supporting the effectiveness of interest rate hikes in cooling inflation. Conversely, in Peru, the central bank reduced reserve ratios during economic slowdowns to enhance the pass-through of lower interest rates to credit markets. The study's key insight is that in emerging markets with shallow financial systems or dollarized economies, reserve requirements play a crucial role in modulating the strength of the interest rate channel, especially in managing domestic credit cycles. Their policy recommendation was for reserve ratios to be used dynamically not as rigid instruments so that they enhance or dampen interest rate transmission in line with macroeconomic objectives.

Gray (2011) [9] studied how high and inflexible reserve requirements affect the effectiveness of interest rate-based monetary policy in over 20 developing and emerging economies, including several from Sub-Saharan Africa and South Asia. The research, published as an IMF working paper, used panel regression techniques to measure the extent to which policy rate changes passed through to commercial bank lending rates under different reserve requirement regimes. The results indicated that in countries where reserve requirements exceeded 10%, interest rate pass-through was incomplete and delayed, often requiring 3 to 6 months for a 1% policy rate change to influence lending rates. In contrast, countries with more flexible reserve regimes saw quicker and fuller transmission. Gray's conclusion was that reserve requirements can unintentionally offset or delay monetary intentions, especially in economies where the banking sector is the primary channel for credit allocation. The paper recommended aligning reserve policies with the interest rate corridor system to minimize distortions and improve transparency and efficiency in monetary transmission.

Aleem (2010) [3] developed a Structural Vector Autoregression (SVAR) model to analyze how monetary policy transmission differs between reserve requirements and policy interest rates in India and comparable emerging Asian economies. The study used quarterly macroeconomic data from 1995 to 2008 and evaluated the dynamics of monetary policy shocks through bank lending and inflation channels. The findings showed that reserve ratio increases had an immediate effect on bank lending, while changes in the repo rate (policy interest rate) took longer to affect market interest rates and inflation. Importantly, Aleem showed that in India, where the Cash Reserve Ratio (CRR) is a key policy tool, lowering the CRR improved the pass-through of lower policy rates by injecting liquidity and enabling banks to reduce lending rates. The research concluded that in emerging economies where the interest rate channel is incomplete, reserve requirements serve as a crucial tool to bridge gaps in monetary transmission, especially when banking markets are shallow or segmented.

Therefore, in Sub-Saharan Africa, the application of reserve ratio adjustments has yielded mixed outcomes. For instance, in February 2025, Kenya's central bank reduced its main interest rate by 50 basis points to 10.75% and concurrently lowered the cash reserve ratio by 100 basis points to 3.25%. This dual approach aimed to bolster lending and stimulate economic growth amid a slowdown in 2024. The anticipated effect was an increase in credit availability and a potential reduction in loan pricing, thereby encouraging borrowing and investment. However, the actual impact on loan pricing would depend on how commercial banks adjust their lending strategies in response to the new reserve requirements (Reuters, 2025).

In a regional study focusing on Kenya, Uganda, Rwanda, and Tanzania, Bleaney *et al*. (2020) [5] explored how structural factors, including reserve requirement regimes, constrain the transmission of policy interest rates to market lending rates in East Africa. Using quarterly data from 2005 to 2019, the authors employed a fixed-effects panel regression to isolate the impact of reserve ratios on interest rate pass-through. The study revealed that countries with higher and inflexible reserve requirements like Uganda, with its statutory 20% CRR exhibited weaker and more delayed monetary transmission compared to Rwanda, which operates under a more adaptive liquidity management regime. Specifically, a 1% change in the central bank policy rate only led to a 0.4% change in the commercial lending rate in Uganda, versus a 0.7% change in Rwanda. The authors argued that reserve requirements in these economies operate as a quasi-tax on intermediation, reducing banks' responsiveness to interest rate changes by tightening liquidity positions. The study recommended reforming reserve requirement frameworks to improve the effectiveness of monetary policy in East Africa, particularly under inflation-targeting regimes.

Amadou and Mendy (2021) [4] focused on the West African Economic and Monetary Union (WAEMU), which includes countries such as Senegal, Mali, and Côte d'Ivoire. The study analyzed how reserve requirement adjustments by the Central Bank of West African States (BCEAO) influenced the transmission of policy interest rate changes between 2010 and 2020. Using a Vector Error Correction Model (VECM) and high-frequency monthly data, they found that in periods when reserve requirements were raised, the pass-through of BCEAO's interest rate decisions to market lending rates weakened significantly. For instance, during the 2016–2017 policy cycle, despite a cumulative 75 basis point increase in the BCEAO's main policy rate, commercial lending rates increased by only 20–30 basis points, largely due to liquidity drain from a simultaneous hike in reserve requirements. The authors argued that banks

retained more reserves and became reluctant to reprice loans due to funding uncertainty. Their conclusion emphasized the need for policy synchronization, proposing that reserve ratios should be kept stable or even loosened during interest rate tightening cycles to ensure smoother transmission. Additionally, they encouraged central banks in WAEMU to publish forward guidance on reserve management to strengthen policy transparency.

Kabundi and Mbelu (2022) examined how reserve requirements influence the interest rate pass-through process in South Africa, using a Bayesian Vector Autoregressive (BVAR) model and quarterly data spanning from 2002 to 2021. The study found that reserve requirement adjustments by the South African Reserve Bank (SARB) though infrequent had significant.

Personal Critique of Literature

The statutory reserve ratio (SRR) is a pivotal monetary policy instrument used by central banks to regulate liquidity and influence the lending behaviors of commercial banks. Adjustments to the SRR can have significant implications for loan pricing, as they directly affect the amount of funds banks have available for lending. While the framework suggests a clear inverse relationship between reserve requirements and loan availability, the practical effectiveness of SRR adjustments on loan pricing is subject to debate.

In the Zambian context, the Bank of Zambia's decision in November 2023 to increase the SRR by three percentage points to 14.5% was intended to stabilize the national currency and control inflation. However, this move effectively reduced the liquidity within commercial banks, compelling them to hold a larger portion of their deposits as reserves. Such a contraction in available funds can lead banks to increase lending rates to maintain profitability, thereby making borrowing more expensive for consumers and businesses. The Bankers Association of Zambia (BAZ) expressed concerns that this adjustment would negatively impact banks' income, as funds that could otherwise be utilized for income-generating activities were instead held in reserve.

Empirical studies further illuminate the nuanced impact of SRR changes. Research conducted by Haabazoka (2024) indicates that while increasing the SRR aims to control inflation and stabilize the economy, it can inadvertently hinder the financial performance of commercial banks by limiting their lending capacity. This restriction not only affects bank profitability but can also have broader economic implications by constraining credit availability to the private sector.

Absa Bank's experiences in other African markets provide additional insights. In Kenya, Absa's initiative to implement a risk-based loan pricing model in the second half of 2025 reflects an adaptive strategy to navigate the challenges posed by monetary policy changes. By tailoring interest rates to individual borrowers' creditworthiness, Absa aims to manage risk more effectively and potentially expand credit access, even in a tightening monetary environment. While the SRR is a valuable tool for central banks to manage economic stability, its effectiveness in influencing loan pricing is complex and multifaceted. The direct impact on lending rates can be mitigated or exacerbated by factors such as banks' liquidity management strategies, the overall economic climate, and the responsiveness of both financial institutions and borrowers. Therefore, while SRR adjustments serve as a mechanism to control liquidity, their influence on loan pricing and economic activity requires careful consideration and complementary policies to achieve desired outcomes without unintended adverse effects.

Research Methodology

This study will adopt a quantitative case study research design, which involves the collection and analysis of numerical data to understand patterns, relationships, and outcomes within a real-world context. By focusing on ABSA Bank as the case study, the research aims to statistically examine how changes in the reserve ratio influence loan pricing mechanisms such as interest rates and credit availability. This approach allows for a focused, data-driven investigation that can reveal measurable effects of monetary policy on lending behavior. Through the analysis of historical financial data, policy changes, and bank reports, the study seeks to draw conclusions that are not only specific to ABSA Bank but also relevant to other financial institutions facing similar regulatory environments. This method is appropriate for exploring the correlation between regulatory tools and financial outcomes, providing practical insights for policymakers, banks, and borrowers alike (Smith *et al*., 2020).

Data Collection Method

This study will rely on secondary data collection methods. Financial reports from ABSA Bank, monetary policy statements from the Bank of Zambia, and other relevant financial publications will serve as primary data sources. Additionally, previous research studies on the relationship between reserve requirements and loan pricing will be reviewed to enhance the robustness of the findings.

Presentation of Research Findings

Demographic characteristics of respondents

Table 1: Gender

Gender	Freq.	Percent	Cum.
Female	8	40.00%	40.00
Male	12	60.00%	100.00
Total	20	100.00%	

Source: Researcher

Table 1 shows the gender distribution of respondents who participated in the study. As illustrated in the figure, a majority of the respondents (60%) were male, while the remaining 40% were female.

Table 2: Age group of respondents

Age group	Freq.	Percent	Cum.
21-30	13	65.00%	65.00
31-40	5	25.00%	90.00
41-50	2	10.00%	100.00
Total	20	100.00%	

Source: Researcher

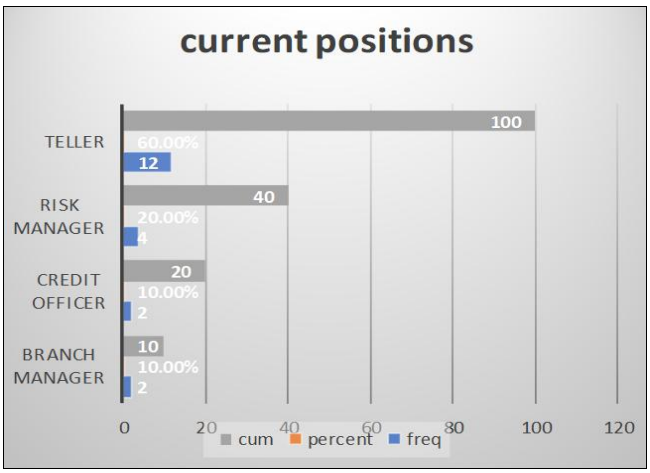
Table 2 presents the age groups of the 20 respondents that participated in the study. The figure shows the distribution of respondents based on their age range. According to the results, 65% aged between 21-30, 25% aged between 31-40 and only 10% are aged between 41-50 years.

Table 3: Educational background of respondents

Educational Background	Freq.	Percent	Cum.
Degree	13	65.00%	65.00
Diploma	5	25.00%	90.00
Master's degree	22	10.00%	100.00
Total	20	100.00%	

Source: Researcher

Table 3 presents the educational background of the 20 respondents that participated in the study. The figure shows the distribution of respondents based on their highest-level of educational attainment. According to the results, 65% hold a bachelor's degree, 25% hold a diploma and only 10% holds a master's degree.



Source: Researcher

Fig 4: Current position of respondents

Figure 4 represents the current positions of the respondents in the bank. According to the results of the current positions of the respondents that participated we had 2 branch managers, 2 credit officers, 4 risk managers and 12 tellers.

Table 5: How long have you been employed at Absa?

Employment Duration	Freq.	Percent	Cum.
1year	5	25.00%	75.00
1-3 years	10	50.00%	50.00
4-6years	3	15.00%	90.00
6years+	2	10.00%	100.00
Total	20	100.00%	

Source: Researcher

In Table 5, the respondents were asked how long they worked for Absa bank. According to the results 50% have worked for 1-3years, 25% have worked for 1year, 15% have been in employment for 4-6years at absa bank (Lusaka) while 10% have been in employment for 6years+.

Reserve ratio on inflation control and credit supply

In a quest to assess the effects of reserve ratios on the pricing of loan products in banks, respondents were asked how reserve ratio changes, affect inflation control and credit supply. They were presented with the options: Very effective, Effective, very high, high, very frequently and occasionally to express their perceptions of each tool's effectiveness, as shown in the table below.

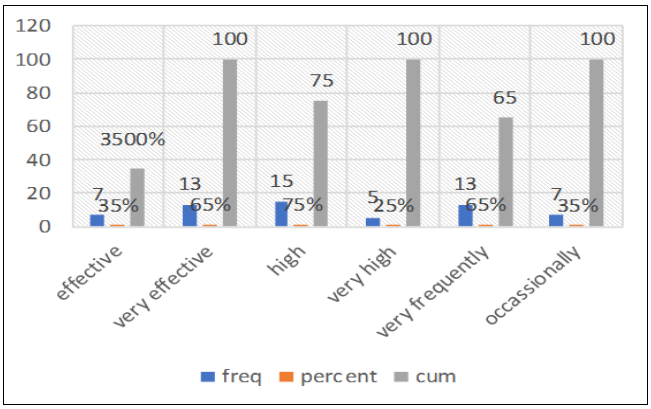


Fig 6.1: How reserve ratio changes, affect inflation control and credit supply

The responses from Absa bank staff as presented in figure 6.1 and table 6, offer valuable insights into the perceived effectiveness and frequency of reserve ratio adjustments in relation to inflation control and credit supply. A significant portion of respondents (65%) rated the reserve ratio as very effective in controlling inflation, while the remaining 35% found it to be effective. This suggest a strong consensus among staff that the reserve ratio is reliable monetary policy tool used to maintain economic stability.

When it comes to the impact of reserve ratio change on credit supply, the majority of the respondents (75%) indicated that such changes have a high impact on their banks ability to extend credit, while 25% rated the impact as very high. This reflects the understanding among staff that the reserve ratio adjustment directly influences lending capacity, which is a key function in the financial sector. Furthermore figure 6.1further supports showing cumulative results that emphasize the tools perceived importance. For example, responses on effectiveness and frequency categories both reached 100% cumulatively with high numbers in the very effective and very frequently used categories, reinforcing the belief that the reserve ratio is both impactful and actively employed.

On frequency of use, 65% of staff stated that the bank of Zambia adjusts reserves ratio very frequently, while 35% observed that it is adjusted only occasionally. This may reflect the different level of exposure to policy changes among department, but overall, the data points to a broad awareness of how often this tool is applied.

Therefore, Absa staff recognize the reserve ratio as a highly effective and frequently used tool for controlling inflation and influencing credit supply. This alignment between effectiveness and frequency of application highlights the important role the reserve ratio plays in Zambia's monetary policy operations.

The effects of reserve ratio adjustment on bank liquidity and lending capacity

In a quest to assess the effects of reserve ratios on the pricing of loan products in banks, respondents were asked to examine the effects of reserve ratio adjustment on bank liquidity and lending capacity. They were presented with the options as follows, very significantly, significantly, greatly decrease, slightly decrease, always, often. Below in figure 7.

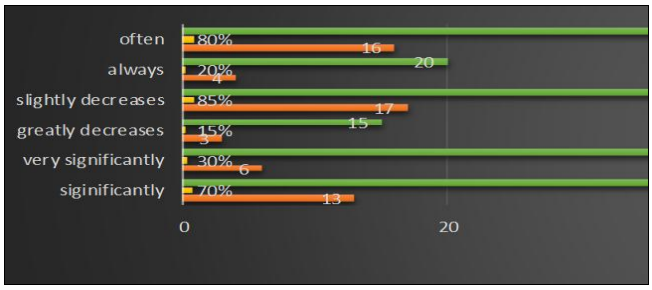
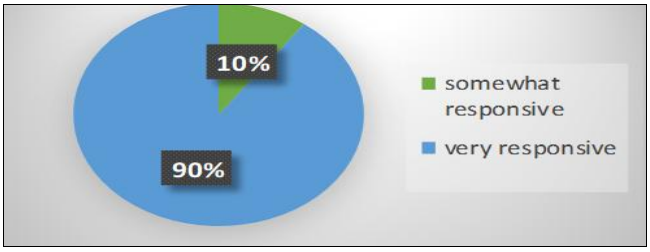


Figure 7 gives a deeper understanding of how ABSA Bank staff perceive the effect of reserve ratio adjustments on the bank's liquidity and lending capacity both of which are key factors influencing the pricing of loan products. According to the responses, 70% of staff believe the reserve ratio significantly affects ABSA's liquidity levels, while another 30% say the effect is very significant. This shows a strong consensus that the reserve ratio directly influences the bank's available funds, which in turn impacts how competitively it can price its loan products.

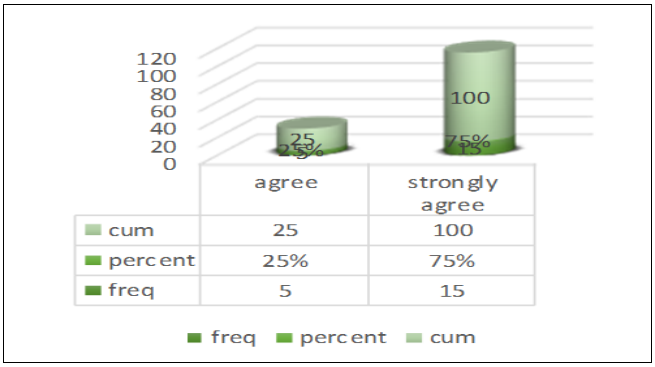


Source: Researcher

Fig 8: How responsive are ABSA's loan interest rates to changes in the reserve ratio

Figures 8 present findings on how responsive ABSA Bank's loan interest rates are to changes in the reserve ratio a key aspect of monetary policy. According to the results, 90% of staff respondents stated that loan interest rates are very responsive to reserve ratio changes, while 10% felt they are somewhat responsive. The pie chart in Figure 8.1 visually reinforces this overwhelming majority view, with the large blue section indicating that nearly all staff agree on the strong connection between reserve ratio adjustments and the pricing of loan products.

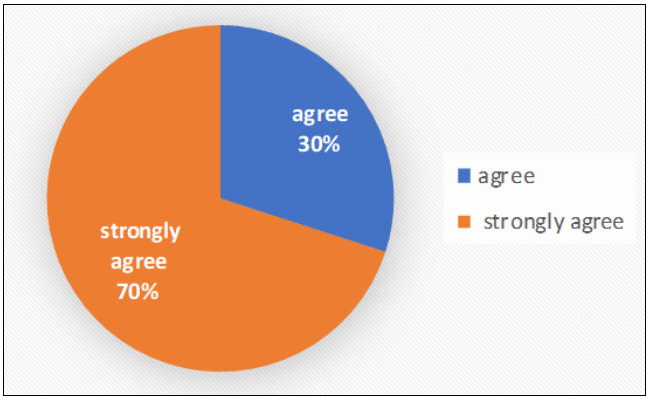
This means that whenever the central bank increases the reserve ratio, ABSA is likely to raise interest rates on loans to manage tighter liquidity conditions. Conversely, when the reserve ratio is reduced, the bank can lower its lending rates, making credit more affordable to borrowers.



Source: Researcher

Fig 9: Do increases in the reserve ratio lead to higher interest rates on loans

The graph presented in Figure 9 illustrates the results of study examining the relationship between increases in the reserve ratio and interest rates on loans. The data is displayed through two cylindrical bars representing the "agree" and "strongly agree" response categories. The "agree" category accounts for 25% of respondents, totaling 5 out of 20 participants, who concur that increases in the reserve ratio led to higher interest rates on loans. In contrast, the "strongly agree" category comprises 75% of respondents, representing 15 out of 20 participants, who firmly believe in this correlation.The findings suggest a strong consensus among respondents regarding the positive relationship between reserve ratio increases and higher interest rates on loans. This implies that when the reserve ratio is increased, banks may respond by raising interest rates on loans to maintain their profitability.



Source: Researcher

Fig 10: Do decreases in the reserve ratio encourage ABSA to offer more competitive loan rates

Figure 10 presents responses from ABSA Bank staff regarding the relationship between decreases in the reserve ratio and the bank's ability to offer more competitive (i.e., lower) loan rates. According to the data, 70% of the respondents strongly agreed, while 30% agreed with the statement. This results in a 100% cumulative agreement among staff members that when the reserve ratio is lowered, ABSA is more likely to reduce its loan rates to attract borrowers.

This strong consensus indicates that ABSA employees understand and acknowledge the direct link between reserve ratio policy and loan pricing behavior. A reduced reserve ratio increases the amount of funds banks are allowed to lend, thereby improving liquidity. With more funds available, the bank is in a better position to lower interest rates on loans, making borrowing more attractive and affordable for customers. This, in turn, promotes financial access and can stimulate credit demand.

From the perspective of the research, this figure reinforces the argument that monetary policy tools like the reserve ratio have a measurable impact on how banks price their loan products. The positive staff feedback confirms that a lower reserve ratio does not just increase lending volume it also improves price competitiveness, helping ABSA offer better loan terms to its clients.

General Feedback

In a quest to assess the effects of reserve ratios on the pricing of loan products in banks, respondents were asked to

input their general feedback, where two questions where asked and the following are the feedback given;

Figure 11 What other factors, besides the reserve ratio, influence ABSA's loan pricing strategies?
Source: Researcher

Figure 11 presents feedback from ABSA staff regarding additional factors aside from the reserve ratio that influence the bank's loan pricing strategies. This forms part of a broader attempt to assess the multifaceted nature of pricing decisions within financial institutions. According to the responses 60% of the participants (12 out of 20) identified inflation as the most significant factor affecting loan pricing apart from the reserve ratio. This suggests that staff recognize inflation's impact on the cost of funds and risk perception, which banks often factor into interest rate decisions to maintain profitability and manage lending risk. 30% (6 respondents) pointed to the exchange rate as another important influence. In a country like Zambia, which relies on imports and foreign investment, exchange rate volatility can directly impact banks' foreign borrowing costs and currency risk exposure, thereby affecting how loans are priced. 5% mentioned inflation adjustment specifically, possibly indicating the practice of realigning interest rates to reflect changes in inflation to preserve loan value over time. Another 5% of respondents separately emphasized the exchange rate, likely restating its importance in a different context or due to overlap in survey response options. The data illustrates that while the reserve ratio is a key driver of loan pricing, inflation and exchange rate dynamics are also critical considerations in ABSA's strategy. These factors affect the broader economic environment in which the bank operates, and staff acknowledge their roles in ensuring the bank remains competitive and financially sound. This finding reinforces the idea that ABSA's loan pricing model is influenced by a combination of internal policy responses and external economic indicators.

Discussion of Research Findings

Demographic characteristics of respondents

Gender Distribution

The study revealed that 60% of the respondents were male while 40% were female. This gender distribution reflects a moderate gender imbalance, suggesting that men slightly dominate the workforce in ABSA Bank Lusaka. However, the near-equal representation indicates that both male and female perspectives were captured in the data, thereby enhancing the diversity and reliability of the responses. The gender makeup is important when considering perspectives on institutional practices such as loan pricing, as men and women may experience banking operations differently.

Age Group

The age profile of the respondents showed that a majority, 65%, were between 21–30 years, followed by 25% in the 31–40 age group, and only 10% between 41–50 years. This suggests that the workforce at ABSA Bank Lusaka is predominantly young. The younger employees are likely to be more attuned to the practical and operational implications of reserve ratio policies, even if they may have less exposure to long-term strategic shifts. Their insights are still valuable as they represent the active implementers of banking policies on the ground.

Educational Background

Regarding educational attainment, 65% of the participants held a bachelor's degree, 25% had a diploma, and 10% possessed a master's degree. This indicates that most of the respondents were academically qualified to understand the technical aspects of financial policy, including reserve ratios and loan pricing. The educational composition of the sample adds depth to the data, ensuring that the participants had the cognitive tools to offer informed opinions on the subject matter.

Current Positions in the Bank

In terms of job roles, the respondents included 12 tellers, 4 risk managers, 2 credit officers, and 2 branch managers. The majority being tellers implies that the responses may lean more toward operational realities rather than high-level policy interpretation. Nevertheless, the inclusion of respondents from risk management and credit departments areas directly involved with loan decisions ensures that the data includes professional insights into how reserve ratio policies affect lending behavior and pricing.

Length of Employment

The duration of employment showed that 50% had worked at ABSA for 1–3 years, 25% for only 1 year, 15% for 4–6 years, and 10% for more than 6 years. This suggests that most respondents were relatively new to the bank, which may influence their responses to focus more on recent trends or policy changes. While they may lack extensive institutional memory, they are well-positioned to assess how the most current reserve ratio changes have affected daily operations and customer experiences.

Effects of Reserve ratio change on inflation control and credit supply

Perception of Effectiveness on Inflation Control.

The findings revealed that 65% of respondents rated reserve ratio adjustments as very effective in controlling inflation, while the remaining 35% rated them as effective. This overwhelming agreement demonstrates a strong institutional belief that reserve ratio policies by the Bank of Zambia (BoZ) are a dependable tool for maintaining price stability. The recognition by ABSA Bank staff aligns with established economic theory, which posits that increasing reserve requirements reduces the money supply in circulation, thereby dampening inflationary pressures.

Impact on Credit Supply

Regarding credit supply, 75% of respondents indicated that changes in the reserve ratio have a high impact on the bank's ability to extend credit, while 25% rated the impact as very high. These responses confirm that reserve ratio policies are not merely theoretical tools but have tangible consequences on lending behavior. When the reserve ratio is increased, banks are forced to hold more capital as reserves, which limits their ability to disburse loans. This tightening in credit supply can discourage borrowing and reduce private sector investment, particularly affecting small and medium-sized enterprises (SMEs).

Frequency of Reserve Ratio Adjustments

The perception of policy frequency was also insightful 65% of respondents stated that BoZ adjusts the reserve ratio very frequently, whereas 35% observed that it is adjusted

occasionally. This variance suggests that while most staff are aware of frequent policy changes, some may not be directly exposed to or impacted by them in their specific roles. Nonetheless, the awareness of such frequency indicates that the reserve ratio is seen as an actively used monetary tool in Zambia's policy framework.

Implications for Monetary Policy and Loan Pricing

The general consensus among respondents indicates a recognition of the reserve ratio as a key mechanism used to control inflation and influence credit supply. These findings support the idea that ABSA Bank, and by extension the wider Zambian banking sector, actively adjusts its lending and pricing behavior in response to changes in central bank reserve requirements. This directly connects to the broader research objective, affirming that the reserve ratio plays a crucial role in shaping both macroeconomic outcomes and bank-level loan pricing strategies.

Alignment with Existing Literature

The empirical feedback from respondents in this section aligns with literature from global and regional contexts. Similar findings in Nigeria, South Africa, and Zambia have emphasized the dual effect of reserve requirements on inflation and credit control. This study adds to that body of evidence by providing direct insight from a commercial bank's staff, confirming that monetary policy decisions translate effectively into changes in operational banking behavior, particularly through constrained lending or adjusted interest rates.

The effects of reserve ratio adjustment on bank liquidity and lending capacity

Perceived Impact on Liquidity Levels

According to the results, 70% of ABSA Bank staff stated that the reserve ratio significantly influences the bank's liquidity levels, while 30% believed the influence is very significant. This high level of agreement demonstrates a shared understanding among respondents that changes to the reserve ratio directly affect the bank's capacity to manage its cash resources. When the reserve requirement is increased, banks are required to hold a greater portion of their deposits in reserve, thereby reducing the amount of money available for lending or investment, leading to tighter liquidity.

Impact on Lending Capacity When Reserve Ratio Increases

A notable 85% of respondents indicated that an increase in the reserve ratio slightly decreases the bank's ability to issue loans, while 15% said it greatly decreases loan issuance. These findings reflect the real-time sensitivity of the bank's lending operations to policy shifts. Even slight reductions in available capital for lending can prompt the bank to adopt more conservative lending practices or increase interest rates to balance profitability with regulatory compliance.

Lending Behavior When Reserve Ratio Decreases

Conversely, when the reserve ratio decreases, 80% of staff indicated that ABSA often increases its loan issuance, while 20% said it always does. This strong consensus confirms that lower reserve requirements enhance the bank's liquidity position, empowering it to extend more credit to customers. In practice, this means that reserve ratio reductions are likely to translate into increased lending activity and potentially more favorable loan terms, thereby stimulating economic activity.

Relationship Between Liquidity and Loan Pricing

These findings suggest that liquidity constraints or expansions resulting from reserve ratio adjustments are one of the key determinants of how the bank prices its loan products. When liquidity is tight due to higher reserves, ABSA is likely to raise interest rates or become more selective in lending. In contrast, when liquidity improves due to lower reserve ratios, the bank can afford to lower rates or extend credit more broadly. This operational logic reinforces the reserve ratio's role in shaping credit conditions and pricing behavior.

Practical Implications for Bank Management

From a managerial standpoint, the results indicate that ABSA Bank actively adjusts its internal lending strategies in response to external monetary policy shifts. This responsiveness ensures that the bank remains compliant with regulatory standards while managing risk and profitability. It also means that central bank decisions on reserve ratios can quickly filter down to influence customer access to credit. These findings offer practical confirmation of the reserve ratio's impact beyond theory, showing its day-to-day effect on liquidity management and credit supply decisions.

Reserve Ratio Influence on Loan Pricing Strategies

Responsiveness of Loan Interest Rates to Reserve Ratio Changes.

The study found that 90% of ABSA Bank respondents believed loan interest rates are very responsive to changes in the reserve ratio, while the remaining 10% found them somewhat responsive. This overwhelming consensus affirms that ABSA Bank's loan pricing model is closely tied to central bank reserve policies. The direct responsiveness indicates that reserve ratio changes are a major trigger for internal interest rate adjustments, further reinforcing the idea that macroeconomic policy tools translate quickly into micro-level banking operations.

Effect of Reserve Ratio Increases on Loan Rates

When asked whether increases in the reserve ratio led to higher interest rates on loans, 75% of staff strongly agreed, while 25% agreed. These responses confirm a shared institutional view that tighter reserve requirements result in higher borrowing costs for customers. This is consistent with economic principles higher reserves reduce the funds available for lending, pushing banks to raise interest rates to maintain profit margins under constrained liquidity conditions.

Effect of Reserve Ratio Decreases on Competitiveness of Loan Offers

Conversely, when reserve ratios are lowered, 70% of respondents strongly agreed that ABSA offers more competitive loan rates, while 30% agreed. This strong alignment implies that ABSA leverages increased liquidity to adjust its loan pricing strategies favorably, offering lower interest rates to attract borrowers. This pricing behavior helps the bank remain competitive in the market and promotes greater access to credit, especially for individuals and SMEs.

Strategic Implications for Loan Pricing

The data suggest that ABSA adopts a responsive pricing strategy that adjusts loan rates based on reserve ratio movements. This strategy is vital in balancing regulatory compliance, risk management, and market competitiveness. During times of reserve tightening, the bank adjusts its rates upward to safeguard against liquidity constraints. In contrast, reserve loosening allows the bank to increase its loan disbursement volume while remaining profitable due to reduced regulatory burdens.

Broader Policy Relevance

The findings from this section reinforce the broader argument of the study: that reserve ratios are not only macroeconomic instruments but also core influencers of bank-level pricing decisions. For policymakers, the results indicate that any change in the statutory reserve ratio is likely to have immediate and significant effects on commercial lending rates. For financial institutions like ABSA, it emphasizes the importance of aligning pricing strategies with monetary policy movements to maintain financial stability while supporting credit access.

The findings revealed that aside from the reserve ratio, 60% of respondents identified the inflation rate as a key factor affecting ABSA's loan pricing strategies. This highlights the awareness among staff that inflation directly impacts the cost of funds, risk premiums, and ultimately the interest rates offered to borrowers. An additional 30% cited the exchange rate as an influential factor, which reflects the interconnectedness of Zambia's economy with global financial markets. As the exchange rate fluctuates, it can affect the cost of imported goods, external borrowing costs, and monetary stability all of which influence how banks like ABSA price their loans.

Other Mentioned Factors

Smaller proportions of respondents (5% each) noted factors such as inflation adjustment mechanisms and restated the exchange rate. These references, although minimal, support the broader view that loan pricing is shaped by multiple macroeconomic variables beyond reserve ratios. Such acknowledgment reflects a sophisticated understanding by staff that pricing strategies are multi-dimensional, often combining internal risk assessments with external economic conditions.

Observations on Reserve Ratio Effects

When asked for general comments regarding the impact of reserve ratio adjustments on credit supply and interest rates, respondents gave consistent remarks. Many noted that higher reserve ratios reduce loan supply, limit bank lending, and negatively affect borrowers' confidence. Others added that lending capacity is weakened, especially during periods of tightened monetary policy. These responses suggest that staff see a clear and predictable relationship between reserve ratio changes and credit market conditions confirming the central argument of this research.

Insight into Borrower Behavior and Credit Access

Some responses also mentioned that increases in the reserve ratio may reduce borrower confidence, as higher interest rates or reduced access to credit make loans less attractive or affordable. This observation adds an important behavioral dimension to the study: it's not only the bank's liquidity and policy that shift with reserve changes borrower sentiment and market participation are also affected.

Summary of General Perceptions

Overall, the general feedback reinforces earlier sections by confirming that reserve ratio adjustments are widely recognized as a critical determinant of lending behavior. Staff clearly perceive that these policy changes have both internal implications for liquidity and pricing, and external effects on borrower access and confidence. This feedback supports the broader recommendation that monetary policy should be carefully balanced to avoid undermining credit supply, especially in a developing economy like Zambia.

Conclusion

This study comprehensively assessed the effects of the reserve ratio on the pricing of loan products in banks, focusing on ABSA Bank as a case study. Through both qualitative and quantitative analyses, the research established a clear relationship between changes in the reserve ratio and shifts in ABSA's loan pricing strategies. The findings revealed that a higher reserve ratio compels banks to hold more funds with the central bank, thereby reducing their lending capacity. This leads to a tightening of credit conditions, ultimately resulting in increased interest rates on loan products to manage reduced liquidity and operational costs. Conversely, a reduction in the reserve ratio allows banks greater flexibility to extend credit, often resulting in lower and more competitive loan interest rates as a way of attracting more borrowers and expanding the loan portfolio.

Moreover, the study found that ABSA Bank does not operate in a vacuum. Other macroeconomic factors such as inflation, exchange rate volatility, and monetary policy decisions also interact with reserve ratio adjustments to influence loan pricing. Respondents indicated that inflation rates and exchange rate dynamics play substantial roles in determining how loan products are priced, pointing to the complexity and interconnectedness of the financial ecosystem. This underscores the importance for banks to continuously monitor both internal policy frameworks and external economic indicators.

The research further highlighted that the majority of ABSA Bank staff and stakeholders perceive the bank's loan interest rates as being responsive to changes in the reserve ratio. A significant number of participants also agreed or strongly agreed that reductions in the reserve ratio prompt ABSA to offer more competitive and accessible loan rates to the public, supporting the idea that reserve requirements are not only regulatory tools but also strategic levers for pricing decisions.

In conclusion, the reserve ratio is a critical monetary policy instrument with significant implications for credit availability and pricing in the banking sector. For institutions like ABSA Bank, aligning reserve ratio compliance with efficient loan pricing strategies is essential for enhancing financial inclusion, maintaining competitiveness, and supporting economic stability. Policymakers and financial institutions alike must work collaboratively to ensure that reserve ratio adjustments are well-calibrated, transparent, and conducive to long-term economic growth.

Recommendations

Policy Calibration by the Central Bank, the Bank of Zambia should consider adopting a flexible and data-driven approach when adjusting the reserve ratio. Sudden or overly aggressive changes can disrupt lending patterns and affect the stability of the financial sector. Regular consultations with commercial banks like ABSA should be conducted to assess the real-time impact of such changes on credit pricing and availability,

Strategic Loan Pricing Frameworks by Absa, Absa Bank should continue refining its internal loan pricing models to quickly respond to changes in the reserve ratio. This includes developing automated, risk-based pricing tools that adjust interest rates in line with liquidity levels, market demand, and policy shifts. This ensures that clients consistently receive competitive and affordable loan options.

Diversification of Funding Sources, to cushion the effects of tighter reserve requirements, ABSA Bank should explore diversified funding sources such as long-term capital markets, development finance institutions (DFIs), and strategic partnerships. These alternatives can provide additional liquidity and reduce over-reliance on customer deposits and central bank reserves.

Macroeconomic Monitoring and Forecasting, ABSA should invest in advanced forecasting tools to monitor key macroeconomic indicators such as inflation and exchange rates, which were found to also significantly influence loan pricing. Proactive risk assessments based on such trends can help the bank adjust its loan offerings more effectively and minimize risk exposure.

Enhanced Financial Inclusion Initiatives, ABSA should leverage periods of low reserve ratios to actively promote financial inclusion by designing loan products that are more accessible to SMEs, women, youth, and rural entrepreneurs. This supports economic growth while broadening the bank's client base and deepening its impact in underserved markets.

Regulatory Dialogue and Transparency, there should be ongoing dialogue between regulators and banks to foster transparency and mutual understanding of how reserve ratio changes impact bank operations and customer affordability. Clear communication from the central bank can enable ABSA and other institutions to prepare and adapt more efficiently.

Staff Training and Awareness, ABSA should invest in continuous training for its finance and credit staff on the implications of monetary policy tools like the reserve ratio. A well-informed workforce will ensure that adjustments are implemented smoothly and that loan pricing decisions remain aligned with both policy expectations and customer needs.

Development of Loan Buffer Strategies, ABSA Bank should implement buffer strategies that anticipate policy changes, such as maintaining a contingency reserve or liquidity buffer. This would allow the bank to cushion the immediate effects of reserve ratio increases and continue offering stable loan pricing in the short term, avoiding abrupt hikes in interest rates.

Customer Sensitization and Engagement, the bank should enhance customer education initiatives to explain how monetary policy tools, including the reserve ratio, impact loan pricing. When clients understand the reasons behind rate adjustments, it fosters transparency, trust, and improved borrower bank relationships especially during periods of policy tightening.

Acknowledgements

First and foremost, I extend my heartfelt gratitude to God Almighty for his infinite wisdom, grace, and guidance throughout this journey. Without His light to guide my path, this accomplishment would not have been possible.

"Commit to the Lord whatever you do, and He will establish your plans." – Proverbs 16:3

I am deeply indebted to my supervisor, Dr Chisala C. Bwalya for your invaluable support, mentorship, and constructive feedback. Your guidance has been instrumental in the completion of this work, and I am truly grateful for the opportunity to learn under your direction.

To my family and friends, thank you for your endless love, prayers, and encouragement. Your belief in me has been a driving force in my moments of doubt.

I also extend my sincere appreciation to the respondents, colleagues, and organizations that played a role in this research. Your cooperation and insights were crucial in bringing this study to life.

Finally, to everyone who cheered me on, believed in me, and offered a helping hand – thank you. This milestone is not just mine but ours, and I am forever grateful.

Dedication

This thesis is dedicated to my family, the pillar of my strength and the foundation of my achievements.

To my elder sister, whose wisdom, guidance, and unwavering support have been a source of inspiration throughout my life. Thank you for always believing in my potential and encouraging me to aim higher.

To my siblings, for their constant encouragement, shared laughter, and belief in my dreams. You have always been my cheerleaders, and I am forever grateful for your presence in my life.

To my friends, who stood by me with patience and positivity, cheering me on in moments of doubt and celebrating my small victories along the way. Your support has meant the world to me.

And to everyone who played a role in making this possible whether through guidance, advice, or a kind word his work is a testament to your faith in me. Thank you all from the depths of my heart.

References

1. Asamoah L, Adu G. An Empirical Analysis of the Determinants of Interest Rates in Ghana. Journal of African Business. 2016; 17(3):377-396.
2. Agénor PR, El Aynaoui K. Credit Growth, Monetary Policy and Financial Stability in Developing Countries. IMF Working Paper No. 10/295. Washington, D.C.: International Monetary Fund, 2010. Doi: https://doi.org/10.5089/9781455211863.001
3. Aleem A. Transmission Mechanism of Monetary Policy in India. Journal of Asian Economics. 2010; 21(2):186-197. Doi: https://doi.org/10.1016/j.asieco.2010.01.002
4. Amadou B, Mendy A. Reserve Requirements and the Effectiveness of Interest Rate Policy in WAEMU Countries. Journal of African Monetary Studies. 2021; 10(1):44-63.
5. Bleaney M, Greenaway D, Nzuma J. Structural Constraints on Monetary Policy Transmission in East Africa. African Journal of Economic Policy. 2020; 27(2):15-36.
6. Bernanke BS, Blinder AS. The Federal Funds Rate and

the Channels of Monetary Transmission. American Economic Review. 1992; 82(4):901-921.
7. Bank of Zambia (BoZ). Monetary Policy Statement. Lusaka: BoZ, 2022.
8. Bank of Zambia. Thursday, 2nd March, 2023. Available at: https://www.parliament.gov.zm/node/10940 (Accessed: 1 April 2025)
9. Gray S. Central Bank Balances and Reserve Requirements. IMF Working Paper No. 11/36. Washington, D.C.: International Monetary Fund, 2011. Doi: https://doi.org/10.5089/97
10. Bordo MD, Rockoff H. The Gold Standard as a "Good Housekeeping Seal of Approval". Journal of Economic History. 1996; 56(2):389-428.
11. Business Daily Africa. Absa sets sights on unveiling risk-based loans in second half, 2025. Retrieved from: https://www.businessdailyafrica.com/bd/corporate/companies/absa-sets-sights-on-unveiling-risk-based-loans-in-second-half–4164806
12. Business Day. Loan growth seen falling 15% after CBN raised Banks' Cash Reserves Ratio, 2024. Retrieved from: https://businessday.ng/news/article/loan-growth-seen-falling-15-after-cbn-raised-banks-cash-reserves-ratio/
13. Citi Newsroom. BoG's Cash Reserve Ratios hampering private sector credit - Analysts warn, 2024. Retrieved from: https://citinewsroom.com/2024/04/bogs-cash-reserve-ratios-hampering-private-sector-credit-analysts-warn/
14. Cecchetti SG, Schoenholtz KL. Money, Banking and Financial Markets. 6th ed. New York: McGraw-Hill, 2020.
15. Cecchetti SG, Kohler M. When Capital Adequacy and Interest Rate Policy are Not Enough: Reserve Requirements and Macroprudential Policy. In: Claessens, S., Ghosh, S.R. and Mihet, R., eds. Financial Regulation: Stabilizing Markets, Protecting Consumers. Washington, D.C.: Brookings Institution Press, 2014, 137-158.
16. Chirwa EW, Mlachila M. Financial Reforms and Interest Rate Spreads in the Commercial Banking System in Malawi. IMF Staff Papers. 2004; 51(1):96-122.
17. Chen Q, Funke M, Paetz M. Asymmetric Effects of Reserve Requirement Changes: Evidence from Emerging Markets. Journal of Banking & Finance. 2021; 129:p.106160. Doi: https://doi.org/10.1016/j.jbankfin.2021.106160
18. Durotoye EO, Omankhanlen AE, Ehikioya BI. Monetary policy and banks' credit supply: A case for improved performance. Academy of Strategic Management Journal. 2022; 21(3):1-16. Available at: https://www.abacademies.org/articles/monetary-policy-and-banks-credit-supply-a-case-for-improved-performance-14709.html
19. Disyatat P. The Bank Lending Channel Revisited. BIS Working Paper No. 297. Bank for International Settlements, 2011. Available at: https://www.bis.org/publ/work297.pdf
20. Efficacy News. Bank of Zambia's Statutory Reserve Ratio Increase Impacts Local Economy, 2023. Retrieved from: https://efficacynews.africa/2023/11/06/bank-of-zambias-statutory-reserve-ratio-increase-impacts-local-economy/
21. Friedman M, Schwartz AJ. A Monetary History of the United States, 1867-1960. Princeton: Princeton University Press, 1963.
22. Fungáčová Z, Nuutilainen R, Weill L. Reserve requirements and the bank lending channel in China. Journal of Macroeconomics. 2016; 50:37-50. Retrieved from: https://ideas.repec.org/a/eee/jmacro/v50y2016icp37-50.html
23. Gómez E, Lizarazo A, Mendoza JC, Murcia Pabón A. Evaluating the impact of macroprudential policies on credit growth in Colombia. BIS Working Papers, No. 634, 2017. Available at: https://www.bis.org/publ/work634.htm
24. Ghana News Online. BoG's Recalibration of Cash Reserve Ratio to boost loan book expansion, stimulate private sector credit growth, 2024. Retrieved from: https://ghananewsonline.com.gh/bogs-recalibration-of-cash-reserve-ratio-to-boost-loan-book-expansion-stimulate-private-sector-credit-growth/
25. Glocker C, Towbin P. Reserve Requirements for Price and Financial Stability: When Are They Effective? International Journal of Central Banking. 2012; 8(1):65-114.