Bank *of* Zambia

FREQUENTLY ASKED QUESTIONS

ZAMBIA'S CREDIT RATING UPGRADE

REGISTERED OFFICES

Head Office
Bank of Zambia, Bank Square, Cairo Road
P. O. Box 30080, Lusaka, 10101, Zambia
Tel: (+260) 211 399300
E-mail: info@boz.zm
Website: www.boz.zm

Regional Office
Bank of Zambia, Buteko Avenue
P. O. Box 71511, Ndola, Zambia
Tel: (+260) 212 399600
E-mail: info@boz.zm
Website: www.boz.zm

INTRODUCTION

International credit rating agencies, Fitch and Standard & Poor's, recently upgraded Zambia's sovereign credit rating following progress in debt restructuring and improved economic management. This upgrade signals that Zambia is now less risky and better able to meet its debt obligations.

These upgrades represent the most significant improvement in Zambia's credit standing since the onset of its debt crisis. They also demonstrate renewed and strengthening international confidence in the country's macroeconomic reforms, fiscal discipline, and overall economic trajectory.

---

1. What is credit rating and what motivates a country to be rated?

Credit rating is an independent assessment of a borrower's ability to repay a debt. It determines the likelihood that the borrower will pay back a loan without defaulting. The grading by Credit rating Agencies thus provides independent assurance to lenders on a borrower's ability to repay any debt that is contracted. The grading also results in a fair pricing of that debt. If a country is graded as strong by an Independent Credit Rating Agency, lenders will be willing to lend to that country at a fair cost. If a country is graded as weak, then that country may face challenges to access international funding and if they do access it, the cost will be relatively high.

When grading a country, Credit Rating Agencies look at several factors including, macroeconomic stability (economic growth, low and stable inflation and financial system stability) and Governments past and prospective ability to manage its finances. Credit Rating Agencies use consistent and objective criteria to assess countries and financial institutions and then proceed to grade them on a scale which indicates the borrower's financial strength and ability to pay their debt.

For any lender to advance credit to a country, business or individual, they require reasonable assurance of the borrower's ability to repay. A borrower's ability to repay is determined by their financial capacity (their historic, current, and projected income and expenditure as well as the value of their financial and physical assets). A lender will typically conduct their own appraisal of a borrower and decide whether to lend them money and the price (interest rate) at which that money will be lent. In addition, a lender may also rely on an external independent expert's appraisal.

Countries that desire to borrow in international markets are typically required to be rated by (usually two) reputable Credit Rating Agencies to assess their financial performance and capacity to repay debt and then grade them on the Credit Rating Agencies' scale.

Countries and financial institutions wishing to access international financing prefer to be graded positively by Credit Rating Agencies. Countries graded strongly aim to retain their strong grading and improve it, while countries graded weak aim to be upgraded because this has a direct impact on the cost of credit.

A country's willingness to subject itself to credit rating also indicates its desire for transparency in the management of its affairs. This is because credit rating impacts investor confidence. A positive rating and an upgrade to a stronger grade demonstrates improvement in the economic management of a country, while a downgrade reflects the opposite and can weaken the local currency, fuel inflation and affect global perceptions of a country's governance and financial discipline.

2. What does a credit rating upgrade mean?

A credit rating upgrade indicates an improvement in a borrower's financial health suggesting a lower default risk. An upgrade means that a country which was previously considered as a high risk for borrowers is now considered less risky and more likely to meet its obligations.

A credit rating upgrade means that the key indicators that Credit Rating Agencies use to assess a country's financial health and future prospects have improved. It also demonstrates that the country's economic growth is on a positive trajectory and economic management is assessed to be better.

3. When did credit rating for Zambia start and who conducted it?

Zambia requested and obtained its first sovereign credit rating in 2011 from Fitch, and Standard and Poor's, both assigning Zambia a grading of B Plus with a stable outlook. B Plus is considered a positive grade and reflected Zambia's strong Gross Domestic Product (GDP) growth, low debt levels and macroeconomic stability. This rating allowed the country to access funding from the Eurobond Markets amounting to US$3 billion between 2012 and 2015.

Both Fitch and Standard and Poor's started downgrading Zambia between 2015 and 2018 citing rapid accumulation of external debt, high fiscal deficits, rising arrears to suppliers and contractors and pressure on foreign exchange reserves. In 2020, Zambia defaulted on its external commercial debt. Consequently, the two rating agencies downgraded Zambia to Selective Default and Restricted Default.

4. Why was Zambia's credit rating upgraded?

Zambia's credit rating was upgraded primarily because of the significant progress on debt restructuring and management of the economy. The rating agencies took special note of the improved fiscal discipline (Government maintaining its expenditure as planned), increase in copper production, and sustained economic growth as well as declining inflation. All these factors, when put together, translate into enhanced macroeconomic stability, that enables the country to have increased resources available to meet current and future obligations. The default in 2020 was a sign that Zambia's debt was unsustainable and needed to be restructured to put the economy back on a sustainable path. Debt restructuring involved the Government negotiating with lenders or creditors to change the terms of existing loans. In so doing, making the debt more manageable by extending the repayment period, lowering the repayment amounts where possible, and pausing payments for a while in order to avoid further default.

5. How significant is this upgrade?

This upgrade is very significant because it marks a major shift for Zambia since its default in 2020 when the country could not meet its debt obligations. The credit upgrade shows a renewed positive view on the country's economic standing. It is therefore a clear confirmation that progress has indeed been made on debt restructuring, there is strengthened economic management, and the country is back on a path to sustainable debt.

6. How does the upgrade impact international confidence in Zambia?

The upgrades by these premier or highly reputable rating agencies show increasing trust that Zambia's economic reforms are on the right track to sustainable debt, of higher growth, low and stable inflation, a more stable exchange rate, and improved long-term investments by the private sector for sustainable economic growth as well as the ability to meet future financial obligations. Low and stable inflation as well as stable exchange rate will not only make planning easier but also preserve the purchasing power of people's incomes.

7. How can we sustain investor confidence?

Zambia should maintain fiscal discipline, develop and implement policies that support macroeconomic stability and higher growth. Zambia should also continue to prioritise transparency and accountability through regular communication of how the economy is performing in key areas such as revenue mobilisation, expenditure management, including borrowing levels and plans. With respect to the latter, continued oversight by Parliament is essential.

8. Will the upgrade reduce interest rates or make borrowing cheaper?

Yes, more so in the medium to long term as the momentum of the positive changes take fuller effect. With continued improvement in fiscal management, reflected in low fiscal deficits, the interest rates for buyers of Government bonds and Treasury Bills will decline thereby causing a downward influence on interest rates charged by banks and financial institutions. Similarly, low and stable inflation will exert its own downward pressure on interest rates.

9. Will foreign investment increase and how will that create more jobs?

Given the improved confidence, foreign direct investment is likely to increase. This may lead to the creation of new businesses, expansion of existing ones, and ultimately more employment opportunities.

10. Is this upgrade permanent, or could we be downgraded again?

Our expectation is that this is just the beginning of upgrades for the country. This rests on Zambia continuing to enjoy transparency, accountability, and sound economic management. This means, among other things, maintaining fiscal discipline, keeping debt at manageable levels, as well as implementing good macroeconomic policies. If economic conditions deteriorate, reforms stall or risks increase, Zambia could be downgraded. Therefore, maintaining strong macroeconomic management and meeting financial obligations is key to preserving and improving the rating.

11. How do the upgrades affect Government borrowing and public service?

The upgrades make borrowing cheaper and easier, allowing resources to be used for economic development, improved social services (education and health) and increased infrastructure development. Further, by opening up international capital markets, the upgrades could help reduce Government's reliance on the domestic debt market for financing. This would in turn lead to more funding being made available to local businesses and further support a strong and stable economy. As already evidenced, the credit rating upgrade will lead to increased investment in Government Securities that will bring down domestic borrowing costs for Government.

The reduction in interest rates for Government bonds and Treasury Bills will have a downward influence on interest rates charged by banks and financial institutions.

12. What does the upgrade mean for an ordinary Zambian? Will it make life easier for them?

The upgrade has set off a signal that Zambia is on the way to becoming a credit worthy client. In other words, it is emerging as a more attractive place than before for investment, for both local and international financial institutions. With the debt restructured, the amount of debt service is going down, giving the Government more space to fund investment projects and social spending. The Government will be able to allocate more resources towards education, health and other social services benefiting ordinary Zambian citizens. The improved economic environment, which the upgrades attest to, is already stimulating economic activities which will in due course lead to job creation and improved incomes of people.

Lower and stable inflation means that the purchasing power of incomes will be protected and in due course the cost of doing business will come down.

13. What was the role of Bank of Zambia in the debt restructuring exercise?

The Bank of Zambia contributed to the debt restructuring exercise by taking part in the negotiations and agreements with creditors. It has to be remembered that the Mission of the Bank of Zambia is to achieve and maintain price and financial system stability to foster sustainable and inclusive economic development. In pursuit of this mission, the Bank has several functions including that of economic advisor to the Government, fiscal agent (i.e. undertakes the issuance of Government securities (Bonds and Treasury Bills) on behalf the Government), custodian and manager of the country's foreign exchange reserves, implementor of the exchange rate policy of the Republic as well as a banker to the Government. In its role as the manager of the country's reserves, the Bank accumulated foreign exchange reserves to a record US$5.2 billion. The growth in the foreign exchange reserves contributes to Zambia's financial strength and assures creditors that the country has the capacity to meet its foreign obligations and imports of critical commodities, such as, fuel, health equipment and medicines, and agriculture inputs. Further, the progress the Bank made towards its mandate of maintaining price and financial system stability contributed to macroeconomic stability and the upgrade as well as on the debt restructuring exercise.

14. What are foreign currency reserves?

Foreign exchange reserves are assets held by the Bank of Zambia in foreign currencies, bonds, and other securities to meet its foreign obligations (debt service) and imports of critical commodities, such as, fuel, health equipment and medicines, and agriculture inputs. The more reserves a country has, the higher the confidence businesses, individuals, and investors in a country's economy have. Higher reserves holdings also has positive influence on the country's currency, the Kwacha in our case.

15. How do foreign currency reserves impact credit rating?

Foreign currency reserves are critical in a country's credit rating process. As stated above, they are a key indicator of Zambia's ability to repay its debt. Countries with substantial foreign currency reserves are perceived as creditworthy. They provide confidence to investors that a country is able to meet its financial obligations.

16. What is Zambia's foreign currency reserve?

As at end September 2025, Zambia's foreign currency reserves stood at $5.2 billion from $4.7 billion recorded at end of June 2025. The increase can be attributed to the successful debt restructuring, good financial planning and economic reforms supported by the International Monetary Fund (IMF).

17. How does the credit rating upgrade impact Monetary Policy implementation?

The improved view on Zambia is likely to attract more foreign direct investment and investments in domestic financial assets, including Government securities. This increased foreign investment is expected to increase the supply of foreign exchange into the country, helping to stabilise the exchange rate and, in turn, contribute to the reduction in inflation. Further, the credit rating upgrade means that Zambia is less likely to default on its obligations, therefore, it is expected that investors will not demand higher interest rates (on account of the lower risk) on their investments in domestic assets such as Government securities. This is expected to lower yield rates for these securities, leading to reduced borrowing costs for the private sector, allowing monetary policy actions to be transmitted more effectively.

18. What decisions did Bank of Zambia make to contribute to this status?

The Bank continued to implement prudent monetary and financial policies to achieve and maintain price stability. In the recent past, it implemented a tight monetary policy to bring down rising inflation. This involved raising both the Monetary Policy Rate and statutory reserve ratio. The measures were aimed at reducing persistently high demand pressures in the foreign exchange market which were fueling higher inflation. These measures were also aimed at anchoring the public's expectations of future price increases. Furthermore, the Bank implemented reforms in the foreign exchange market to improve transparency and efficiency, thereby supporting a stable exchange rate and ultimately reducing inflation. These reforms involved the issuance of foreign exchange market guidelines in May 2024 and the revised Interbank Foreign Exchange Market (IFEM) rules in June 2024.

All these reforms contributed to macroeconomic stability and low and stable inflation, both key factors used by Credit Rating Agencies in the assessment of a country's financial health.

19. To what extent did the debt restructuring play a role in the upgrades?

The debt restructuring exercise played a major role in the upgrades. Restructuring reduced default risks, restored relations with creditors, clarified future payments, and lowered debt costs thereby contributing to Zambia's debt sustainability outlook. These were the key reasons cited by the Rating Agencies for upgrading Zambia's credit profile.

20. Over what period will impacts become tangible?

The immediate impact of the upgrade is already visible. Some investors who believed that Zambia's credit rating would be upgraded have already started investing in Zambia. This is reflected in the recently observed downward trend in yields on Government securities, already contributing to reduced debt costs and a more sustainable debt position. While increased investments in domestic financial assets is expected to pick up in 2026, benefits from increased foreign direct investment, such as job creation, may take longer to materialise.

21. Are there risks that could reverse these upgrades?

Yes, there are risks that could reverse the upgrades. These include higher than planned Government expenditure, a stall in fiscal reforms, new unsustainable debt, policy reversals, political instability or external shocks such as low copper prices, low foreign currency reserves, and weaker economic growth.

www.boz.zm