



Monetary Policy Report

February 2026



Bank of Zambia

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

Preface

In line with Article 213(2) (b) of the Constitution of Zambia (Amendment) Act, 2016, the Bank of Zambia determines monetary policy. The nine-member Monetary Policy Committee (MPC) formulates monetary policy to achieve and maintain price stability in line with section 27(2) of the Bank of Zambia Act, 2022. The Committee meets every second month of the quarter in February, May, August and November to decide on the monetary policy stance. In doing so, the Committee reviews macroeconomic developments in the previous quarter and prospects for inflation over the forecast horizon currently eight quarters ahead. This information is published in the Monetary Policy Report (MPR) to strengthen transparency and accountability of the MPC.

The stance of monetary policy is reflected in changes to the Policy Rate introduced in April 2012. This is guided by inflation outcomes, forecasts from inflation models and identified risks, including those associated with growth and financial stability. The MPC relies on a forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the policy stance. The Policy Rate aims to provide a credible and stable anchor to financial market participants in setting their own interest rates as well as guides the Bank in its implementation of monetary policy. The Bank may use non-price (quantitative) monetary policy instruments, such as, the statutory reserve ratio in its conduct of monetary policy.

The Bank influences the overnight interbank rate (operating target) which in turn impacts on inflation through changes in market interest rates transmitted via the expectations, exchange rate and/or credit channels. To effectively manage the overnight interbank rate, the Bank conducts open market operations to either supply or withdraw liquidity from the banking system to keep the overnight interbank rate within the corridor of +/- 1 percentage points around the Policy Rate. There are, however, exceptional circumstances where the interbank rate may be allowed to drift outside the Policy Rate Corridor.

The monetary policy decision is publicly announced in the Monetary Policy Committee Statement issued via a press release a day after each quarterly MPC meeting. The MPR is published soon after the MPC Meeting. This is intended to provide detailed information used by the MPC in arriving at a Policy Rate decision.

This *Monetary Policy Report* (MPR) is published pursuant to Section 29(2) of the Bank of Zambia Act, 2022.

The MPR was approved by the Monetary Policy Committee (MPC) on February 10, 2026 and contains information available as of February 10, 2026.

Composition of the Monetary Policy Committee constituted pursuant to Section 28(1) of the Bank of Zambia Act, 2022:

1. Governor – Chairperson (Dr Denny H. Kalyalya);
2. Deputy Governor responsible for operations/Vice Chairperson (Dr Francis Chipimo);
3. Deputy Governor responsible for administration (Mrs Rekha C. Mhango);
4. Bank of Zambia senior management staff responsible for research (Dr Jonathan M. Chipili);
5. Bank of Zambia senior management staff responsible for monetary policy operations (Dr Emmanuel Mulenga Pamu);
6. Bank of Zambia senior management staff responsible for financial stability (Mr Goodson Kataya);
7. External Member appointed by the Bank of Zambia Board (Professor Munacinga C. Simatele); and
8. External Member appointed by the Bank of Zambia Board (Mr Alex Chakufyali).

TABLE OF CONTENTS

| | |
|--|------------|
| PREFACE | III |
| EXECUTIVE SUMMARY | 6 |
| 1. MACROECONOMIC OUTLOOK | 7 |
| 1.1 EXTERNAL SECTOR OUTLOOK..... | 7 |
| 1.2 PROSPECTS FOR DOMESTIC ECONOMIC GROWTH..... | 9 |
| 1.3 FISCAL OUTLOOK..... | 12 |
| 1.4 INFLATION OUTLOOK: FIRST QUARTER 2026 – FOURTH QUARTER 2027..... | 13 |
| 1.5 MPC DECISION | 17 |
| 2. CURRENT ECONOMIC DEVELOPMENTS | 19 |
| 2.1 EXTERNAL SECTOR..... | 19 |
| 2.2 GLOBAL FINANCIAL CONDITIONS | 23 |
| 2.3 DOMESTIC FINANCIAL CONDITIONS | 26 |
| 2.4 DOMESTIC ECONOMIC ACTIVITY..... | 38 |
| 2.5 BUDGET PERFORMANCE | 40 |
| 2.6 DOMESTIC PRICES | 40 |
| APPENDIX | 48 |

Executive Summary

Inflation continued to decelerate in the fourth quarter of 2025. Overall inflation declined to 11.2 percent in December 2025 from 12.3 percent in September 2025. In January 2026, inflation fell sharply to 9.4 percent. The decline in inflation was largely driven by the continued impact of the maize bumper harvest from the 2024/25 farming season and the appreciation of the Kwacha against major currencies.

The current projection shows that inflation will fall into the 6-8 percent target band at a faster pace than was forecast in November 2025. Further, it is expected to be within the band by the second quarter of 2026 and move to the lower bound by the second quarter of 2027. On average, inflation is forecast to be 6.9 percent in 2026 compared to 7.6 percent projected in November 2025. It is expected to ease further to 6.3 percent in 2027. The more positive outlook largely reflects the impact of the lagged effects of the recent appreciation of the exchange rate and expected favourable agricultural output.

Preliminary estimates by the Bank of Zambia point to a further expansion in real GDP in the fourth quarter of 2025 on account of higher growth in cement production and uptick in tourist arrivals. Private sector business conditions remained positive during the quarter, largely underpinned by the rise in employment, inventories, and new orders. Labour market conditions were deemed to have improved due to a steady increase in new orders and output in the agriculture sector. Growth prospects over the 2026-28 period are still positive, with real GDP growth expected to exceed 5.0 percent per annum.

Domestic financial conditions continued to be relatively tight in the fourth quarter on account of the sustained appreciation of the exchange rate, increase in the savings rate and Treasury bill yield rates, as well as the slowdown in private sector credit and money supply growth. However, the cut in the Policy Rate in November 2025, reduction in the overnight interbank rate, bond yield rates and lending rates, as well as further gain in equity prices moderated the tightness in financial conditions.

The *current account* balance is projected to shift to a surplus in 2026 and further widen on the back of expected stronger net exports linked to buoyant copper prices and expanding output.

A declining trend in fiscal deficits is expected over the medium-term owing to continued fiscal consolidation.

In view of the foregoing and the need to maintain an appropriate monetary policy stance, the Monetary Policy Committee decided to reduce the Monetary Policy Rate by 75 basis points to 13.5 percent.

1. Macroeconomic Outlook

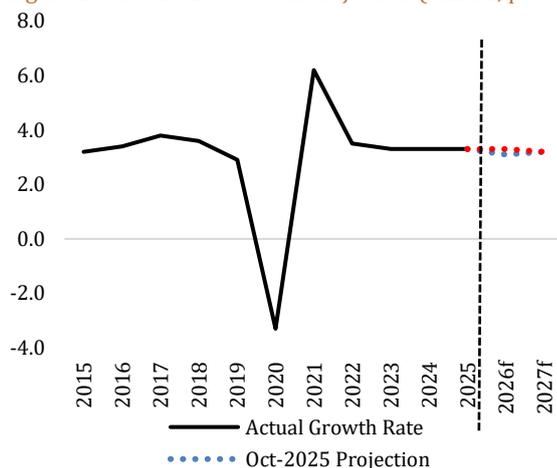
- Global growth brighter.
- A positive current account projected.
- Domestic real GDP growth remains favourable.
- Cash fiscal deficit to continue declining.
- Inflation outlook highly favourable.

1.1 External Sector Outlook

... global growth prospects still bright

The global economy is projected to grow slightly higher in 2026 by 0.2 percentage points to 3.3 percent than reported in November 2025¹ (Figure 1). Growth is, however, expected to moderate to 3.2 percent in 2027.

Figure 1: Global GDP Growth Projection (annual, percent)



Source: IMF WEO, January 2026; Bank of Zambia Compilations

The upward revision to the global growth outlook mainly reflects sustained strong investment in artificial intelligence infrastructure alongside higher growth

¹IMF *World Economic Outlook* (WEO) Update, January 2026

²The IMF has raised the 2026 growth forecast for the US by 0.3 percentage points to 2.4 percent, supported by a surge in investment in AI, tax cuts, and lower interest rates. Similarly, the growth forecast for China for 2026 has been revised upward to 4.5 percent in response to the trade deal with the US that has reduced tariffs on its exports coupled with accommodative fiscal and monetary policies expected to bolster domestic demand and investment. Under the trade agreement, the US

projection for the US and China². More accommodative global financial conditions—driven by interest rate cuts by central banks in major economies and moderating inflation—provide additional support to the upward revision of global growth.

The risks to the growth outlook are still skewed to the downside. A resurgence of geopolitical and trade tensions could reignite uncertainty, disrupt supply-chains, and push up commodity prices, ultimately amplify inflationary pressures and weigh on global growth. In addition, high public debt in many countries may constrain fiscal space, exert upward pressure on long-term interest rates, and tighten broader financial conditions. Further, global growth could be lower-than-projected if investment in AI declines or anticipated productivity gains and profitability from AI fail to materialise. The stickiness in core inflation—particularly for services—could lead central banks to maintain tighter financial conditions for longer thereby restrain demand and slow global growth.

... growth prospects in major trading partner economies to strengthen

lowered the fentanyl-related tariff on Chinese imports to 10 percent from 20 percent while maintaining other tariffs in place until November 2026. In turn, China agreed to remove export controls on rare earths, suspend retaliatory tariffs on US agricultural products and resume large-scale purchases of soybeans and other agricultural commodities: <https://www.whitehouse.gov/fact-sheets/2025/11/fact-sheet-president-donald-j-trump-strikes-deal-on-economic-and-trade-relations-with-china/>

Economic activity in Zambia’s major trading partner countries is expected to expand further over the forecast horizon as reflected in a higher Export-Weighted GDP (GDP-9) Index³ than reported in November last year (Table 1 and Figure 2). The positive outlook largely reflects the recent upward revision to growth projections for China and South Africa by the IMF⁴ (Table 2).

Table 1: Changes in GDP-9 Index and Country Contribution, 2023 – 2026⁵

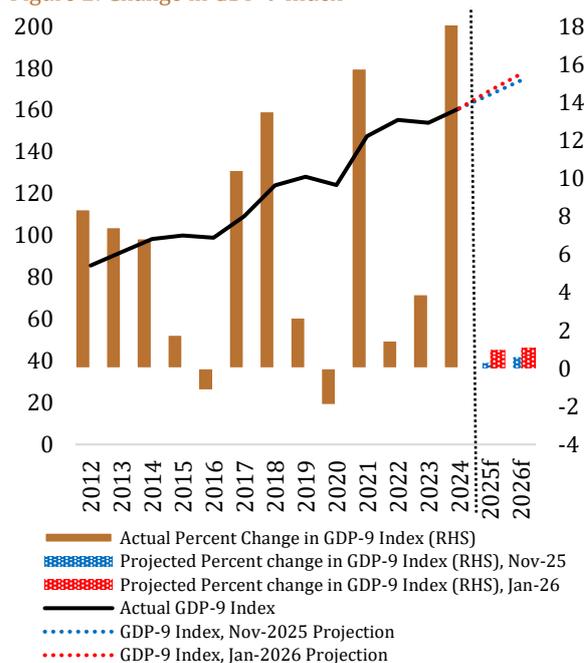
| | Weight | 2023 | 2024p | 2025f | 2026f |
|--|--------|-------|-------|-------|-------|
| GDP-9 Index (percent change) – Nov 2025 | | 2.15 | 1.67 | 4.25 | 4.10 |
| GDP-9 Index (percent change) –Jan 2026 | | -0.91 | 4.45 | 4.26 | 4.31 |
| Country Contributions to the Change in GDP-9 Index | | | | | |
| China | 0.49 | -0.40 | 1.97 | 1.89 | 1.92 |
| DRC | 0.30 | -0.22 | 1.10 | 1.06 | 1.02 |
| South Africa | 0.12 | -0.13 | 0.64 | 0.61 | 0.68 |
| Singapore | 0.00 | -0.06 | 0.26 | 0.24 | 0.24 |
| UK | 0.07 | -0.04 | 0.20 | 0.19 | 0.19 |
| UAE | 0.00 | -0.02 | 0.09 | 0.08 | 0.08 |
| Tanzania | 0.00 | -0.01 | 0.02 | 0.07 | 0.07 |
| Malawi | 0.02 | -0.02 | 0.07 | 0.07 | 0.07 |
| Hong Kong | 0.00 | -0.01 | 0.04 | 0.04 | 0.04 |

Source: Bank of Zambia Staff Calculations

DRC = Democratic Republic of the Congo, UK = United Kingdom, UAE = United Arab Emirates

p = preliminary, f = forecast

Figure 2: Change in GDP-9 Index



Source: Bank of Zambia

Table 2: Trading Partner Countries’ Growth Rates (percent), 2023-2026

| | Weight | 2023 | 2024 | 2025 | 2026 |
|--------------|--------|------|------|------|------|
| China | 0.5 | 5.4 | 5.0 | 5.0 | 4.5 |
| DRC | 0.3 | 8.5 | 6.5 | 5.3 | 5.3 |
| South Africa | 0.1 | 0.8 | 0.5 | 1.3 | 1.4 |
| Singapore | 0.0 | 1.8 | 4.4 | 2.2 | 1.8 |
| UK | 0.1 | 0.4 | 1.1 | 1.4 | 1.3 |
| UAE | 0.0 | 4.3 | 4.0 | 4.8 | 5.0 |
| Tanzania | 0.0 | 5.2 | 5.5 | 6.0 | 6.3 |
| Malawi | 0.0 | 1.9 | 1.8 | 2.4 | 2.7 |
| Hong Kong | 0.0 | 3.2 | 2.5 | 2.4 | 2.1 |

Source: IMF WEO, January 2026 and Bank of Zambia Compilations.

The real GDP growth forecast for China has been raised by 0.3 percentage points to 4.5 percent for 2026. This is underpinned by strong exports, reduced effective US tariffs on Chinese goods, and continued rollout of enhanced policy support that include expansionary fiscal and monetary policies to boost domestic demand, investment, and stabilise the property sector⁶.

³The GDP-9 Index is used to assess external demand conditions in Zambia’s key trading partner countries. It is computed as a Fisher Ideal Index and constructed based on nine countries: China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi and Tanzania.

⁴The IMF marginally raised the growth forecast for South Africa for 2026 to 1.4 percent from 1.2 percent in October.

⁵The GDP figures in the November 2025 Monetary Policy Report have been revised using the January 2026 IMF WEO data.

⁶Under its 15th Five-Year Plan, China has prioritised boosting consumption as a key growth driver, reorienting the economy from an investment and export-driven model toward one led by domestic consumption and services.

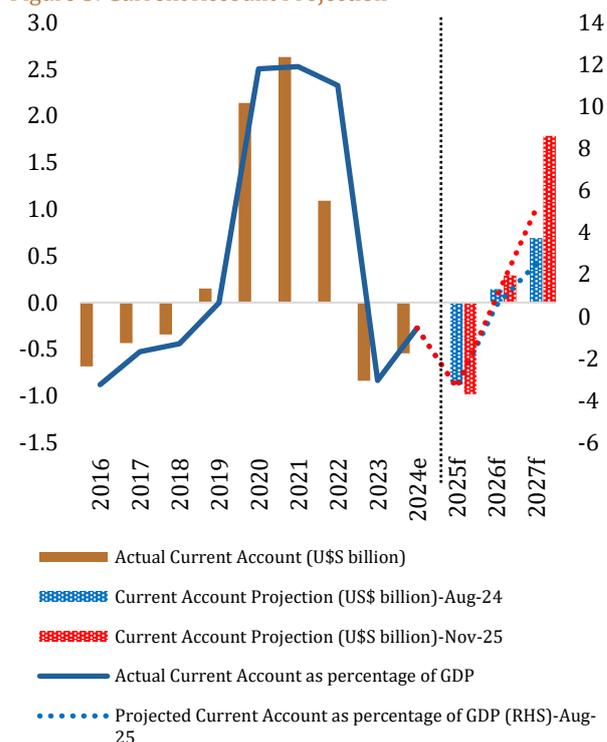
A more reliable electricity supply, recovery in agricultural output, strong export earnings supported by elevated gold and platinum prices, implementation of structural reforms⁷, and more accommodative financial conditions due to a low inflation environment has necessitated the upward revision of the growth forecast for South Africa. The other considerations are improved business confidence following the country's removal from the Financial Action Task Force grey list and the sovereign credit rating upgrade by S&P Global.

The balance of risks to the growth outlook remains tilted to the downside as reported in November 2025. Key among these is possible escalation in US–China trade tension, weaker-than-expected growth in China, trade policy uncertainty, and climate change.

... current account prospects better

A *current account* surplus of USD0.3 billion is projected for 2026 and widen to USD1.8 billion in 2027 (Figure 3). This is premised on anticipated higher copper export earnings as prices remain elevated and production expands further (refer to subsections 1.2 and 1.4 for more details).

Figure 3: Current Account Projection



Source: Bank of Zambia

1.2 Prospects for Domestic Economic Growth

... favourable

Consistent with the lower-than-expected outturn of real GDP growth in the third quarter⁸ and relatively tight monetary conditions, the Bank estimates the growth rate for 2025 at 4.5 percent and marginally downgrades the projection for 2026 to 5.2 percent (Table 3 and Figure 4). The projection for 2027 is 5.1 percent.

⁷The Government of South Africa is advancing structural reforms in energy, transport (ports and rail freight logistics), and infrastructure under Operation Vulindlela to increase private sector participation. The reforms are expected to catalyse investment, improve operational efficiency, and

support stronger medium-term growth. <https://www.treasury.gov.za/Q2%20operation%20Vulindlela%20Progress%20Report.pdf>

⁸Real GDP growth outturn of 3.6 percent reported by ZamStats compared to the Bank's projection of 5.0 percent in November 2025.

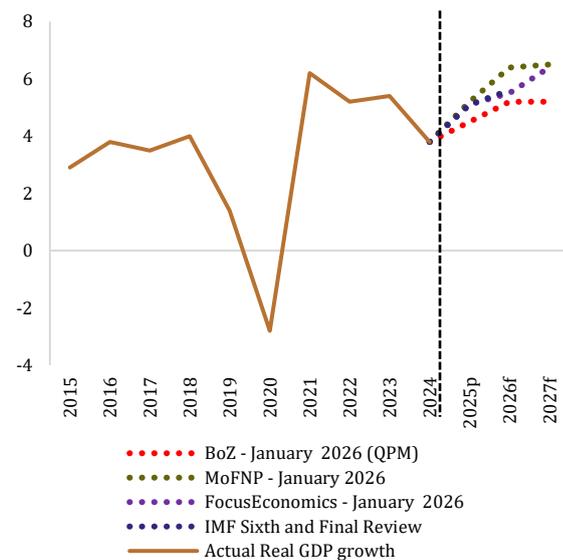
Table 3: Annual Real GDP Growth Projections (percent)

| | 2024 | 2025p | 2026f | 2027f |
|---|------|-------|-------|-------|
| Bank of Zambia QPM | | | | |
| BoZ January 2026 | 3.8 | 4.5 | 5.2 | 5.1 |
| BoZ November 2025 | 3.8 | 5.5 | 5.6 | n/a |
| Ministry of Finance and National Planning | | | | |
| MoFNP January 2026 | 3.8 | 5.2 | 6.4 | 6.5 |
| MoFNP October 2025 | 3.8 | 5.2 | 5.8 | 6.0 |
| International Monetary Fund | | | | |
| IMF Sixth and Final ECF Review | 3.8 | 5.2 | 5.8 | 6.0 |
| IMF WEO October 2025 | 3.8 | 5.8 | 6.4 | 6.4 |
| FocusEconomics | | | | |
| FocusEconomics February 2026 | 3.8 | 5.0 | 5.5 | 5.3 |
| FocusEconomics October 2025 | 3.8 | 5.3 | 5.6 | 4.9 |

Source: Bank of Zambia, Ministry of Finance and National Planning, IMF WEO, Focus Economics.

Note: p=preliminary estimate, f=forecast, n/a=not reported in November 2025.

Figure 4: Annual Real GDP Growth (percent)

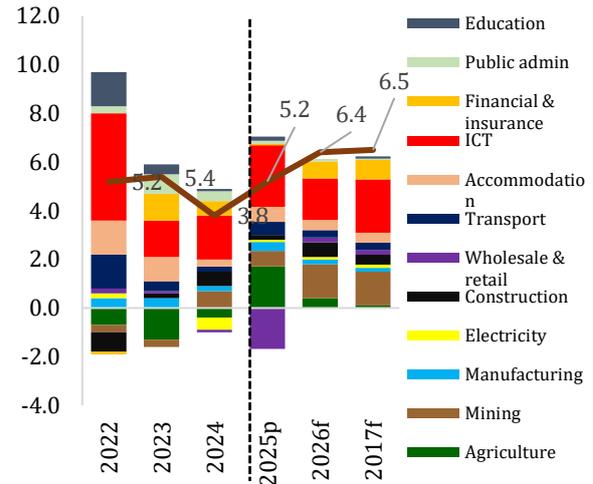


Source: Zambia Statistics Agency, Bank of Zambia (BoZ), Ministry of Finance and National Planning (MoFNP), IMF, Focus Economics.

Note: p=preliminary, f=forecast.

The Ministry of Finance and National Planning (MoFNP) has maintained real GDP growth for 2025 at 5.2 percent but raised the 2026 and 2027 projections to 6.4 percent and 6.5 percent, respectively (Table 3, Figure 4, Figure 5, Figure 6, Figure 7 and Figure 8). On the other hand, the International Monetary Fund (IMF) has maintained growth projections for both 2025 and 2026 but downgraded the 2027 by 0.4 percentage points to 6.0 percent (Table 3).

Figure 5: Sectoral Contribution to Real GDP Growth (percentage points)



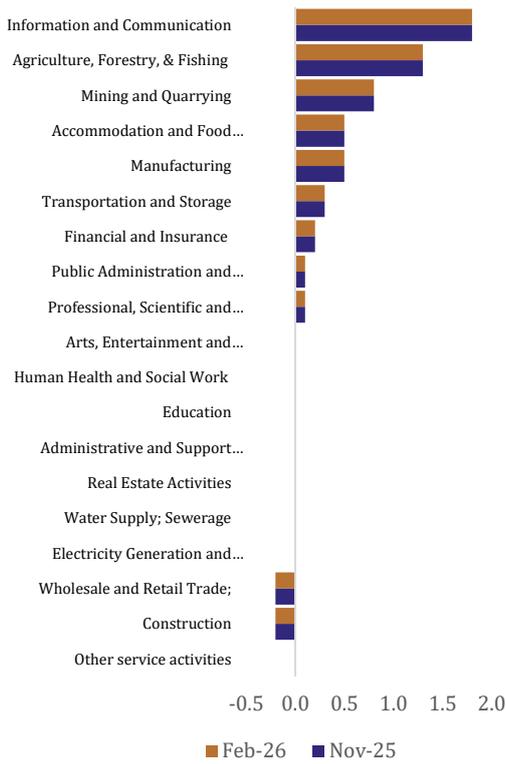
Source: Ministry of Finance and National Planning, Zambia Statistics Agency

Note: p=preliminary, f=forecast.

FocusEconomics has reduced growth projections for 2025 and 2026 to 5.0 percent and 5.5 percent from 5.3 percent and 5.6 percent, respectively (Table 3 and Figure 4). The downgrade is attributed to elevated inflation and persistent power cuts.

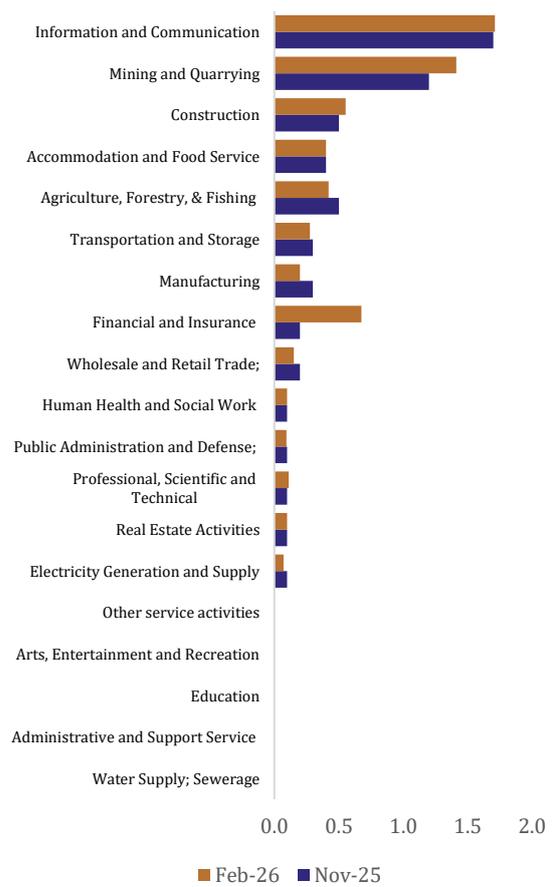
The anticipated improvement in mining, financial and insurance, construction, information and communication, transport and storage, as well as wholesale and retail trade sectors influenced the upgrade of the growth forecast for 2026 by MoFNP (Figure 5, Figure 7 and Figure 8).

Figure 6: Sectoral Contribution to GDP Growth 2025 (percentage points)



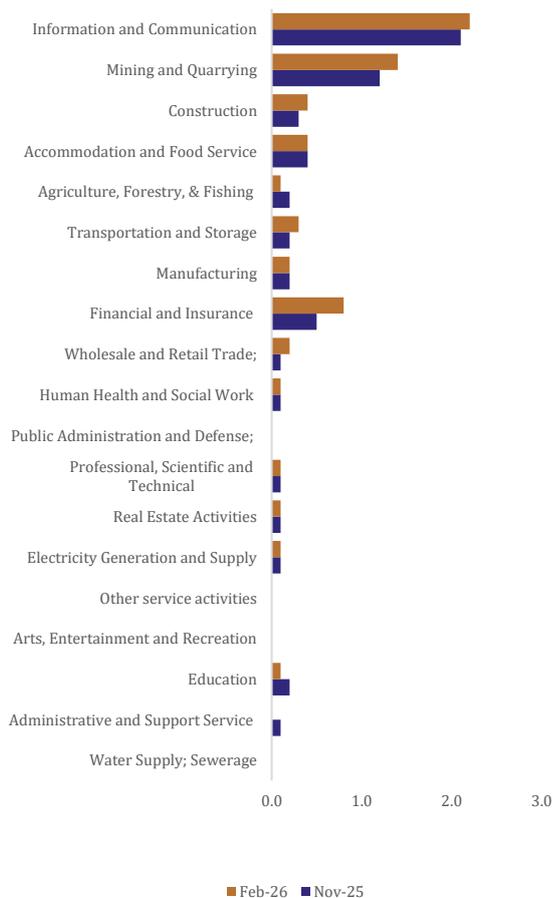
Source: Ministry of Finance and National Planning, Bank of Zambia Staff Computations

Figure 7: Sectoral Contribution to GDP Growth 2026 (percentage points)



Source: Ministry of Finance and National Planning, Bank of Zambia Staff Computations

Figure 8: Sectoral Contribution to GDP Growth 2027 (percentage points)



Source: Ministry of Finance and National Planning, Bank of Zambia Staff Computations

The risks to the growth outlook mostly relate to copper price volatility and climate change.

Lower-than-projected copper prices: Weaker-than-expected global growth, particularly in major copper consuming economies (China), could reduce demand for copper. Heightened geopolitical tensions and increased global trade uncertainty may disrupt trade flows, increase commodity price volatility, and dampen investment as firms delay spending decisions. These factors could dampen copper prices and ultimately lower domestic GDP outturn than projected through reduced mining sector earnings.

Recurrence of droughts: Climate-related shocks, particularly droughts associated with El Niño conditions, have become more frequent. The recent one was among the most intense on record, signalling heightened vulnerability to future climate shocks. A recurrence of droughts could constrain agricultural output and hydro-electricity generation, disrupt industrial production, raise food and energy costs, and ultimately dampen overall domestic economic growth. While the Zambia Meteorological Department provides rainfall forecasts up to one year ahead, and typically in the months preceding the onset of the rainy season, the GDP outlook generated by the Bank extends up to two years. In view of this, drought risks cannot be ruled out over the forecast horizon.

1.3 Fiscal Outlook

... remains bright

A declining trend in fiscal deficits is still projected over the medium-term on expected continuity of fiscal consolidation.

The **2026 Fiscal Risk Statement** provides detailed analysis of fiscal risks that are still relevant to the current outlook. The key risks relate to climate change, commodity price shocks, debt and guarantees of state-owned enterprises, and contingent liabilities associated with Public-Private Partnerships.

1.4 Inflation Outlook: First Quarter 2026 – Fourth Quarter 2027

... *highly favourable*

The current inflation forecast path is projected to lie below the November 2025 projection for most of the forecast horizon (Figure 9). This optimistic outlook is premised on favourable weather conditions relatively more supportive external sector conditions, reflected in higher copper prices, and continued macroeconomic stability.

However, this lower trajectory is not uniform across the horizon. In the first quarter of 2026, inflation is projected to be higher than the November 2025 projection (8.3 percent compared to 8.0 percent) mainly because of statistical factors and updated conditioning assumptions. More specifically, in the fourth quarter of 2025, inflation came in higher than projected. Price pressures stemming from seasonal shortages of firewood, fish, and charcoal, together with elevated demand for international air travel, caused inflation to edge up by 0.3 percentage points to 11.2 percent in December 2025 (Table 4). This outturn has in turn contributed to a higher forecast for the first quarter of 2026.

Table 4: Monthly Average Inflation Rate (percent)

| | Aug 2025 | Sep 2025 | Oct 2025 | Nov 2025 | Dec 2025 | Jan 2026 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Overall Inflation | 12.6 | 12.3 | 11.9 | 10.9 | 11.2 | 9.4 |
| Food Inflation | 14.9 | 14.6 | 14.1 | 13.9 | 12.9 | 10.9 |
| Non-Food Inflation | 9.3 | 9.0 | 8.7 | 6.6 | 8.7 | 7.3 |

Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Thereafter, inflation is expected to fall into the 6-8 percent target band at a faster pace than was forecast in November 2025. It is expected to be within the band by the second quarter of 2026 and move to the lower bound by the fourth quarter of 2026 (Table 9).

On an annual basis, inflation is now projected to average 6.9 percent in 2026, 0.7 percentage points lower than the November 2025 forecast, and 6.3 percent in 2027 (Table 10).

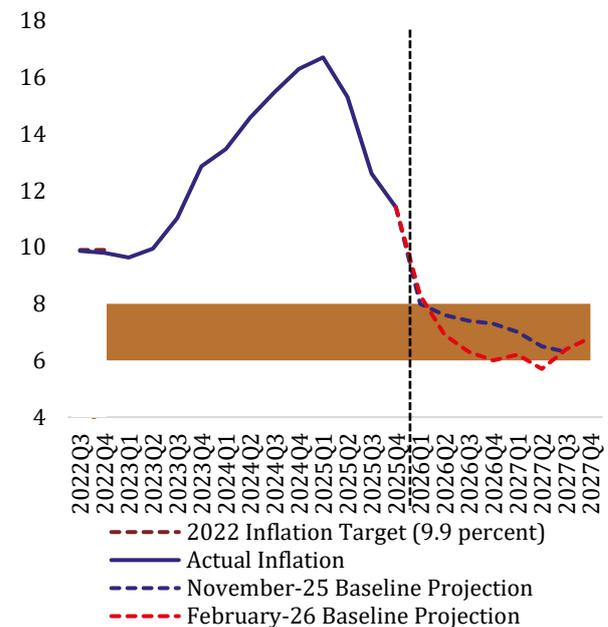
Table 5: Baseline Inflation Projection, Annual Average (percent)

| | 2026 | 2027 |
|---------------------|------|-------------------------|
| Feb-26 Baseline | 6.9 | 6.3 |
| Nov-25 Baseline | 7.6 | 6.6 (Three quarters) |
| Nov-25 MPC Forecast | 7.6 | 6.6 (Three quarters) |

Source: Bank of Zambia Staff Forecasts

The current inflation outlook is largely explained by the lagged impact of the recent appreciation of the exchange rate, improved external conditions reflected in higher copper prices amid declining crude oil prices, and expected low imported inflation (Table 6, Figure 9, Figure 10 and Figure 11).

Figure 9: Inflation Profiles (percent)



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

Table 6: Key Assumptions Underlying Baseline Inflation Projection (Mostly Exogenous)

| External Sector Assumptions | | |
|--|-------------------------|-------------------------|
| Variable | 2026f | 2027f |
| Average inflation-US (percent) | 2.7 (3.0) | 2.3 (3.0) |
| Federal funds rate (percent) | 3.4 (3.6) | 3.1 (3.4) |
| Average inflation - South Africa (percent) | 3.6 (3.4) | 3.2 (3.6) |
| Producer price index-South Africa | 180.07 (174.07) | 185.87 (180.33) |
| Average copper price/ton (USD) | 12,332.50 (9,614.81) | 12,607.00 (9,879.72) |
| Average crude oil price/barrel (USD) | 60.51 (68.68) | 65.12 (64.34) |
| World food price index | 108.8 (108.8) | 108.5 (108.5) |
| Domestic Sector Assumptions | | |
| Monetary Policy Rate (percent)-Zambia | 14.25 (14.5) | 14.25 (14.5) |
| Treasury bill rate - Zambia (percent) | 12.00 (11.50) | 12.00 (11.50) |
| Reserve money growth (percent) | 3.71 (0.57) | 0.37 (-0.58) |
| Fiscal deficit | 2.1 (1.20) | 1.6 (0.82) |
| Maize grain price-Zambia (K/50Kg) | 237.5 (250.00) | 237.5 (250.00) |
| Diesel price-Zambia (K/litre) | 24.50 (26.47) | 24.50 (26.47) |

Source: IMF, World Bank, Bloomberg, FocusEconomics Consensus, Reuters, Congressional Budget Office, US Federal Reserve, South African Reserve Bank, Bank of Zambia

Note: the numbers in parenthesis () represent projections in the previous forecasting period.

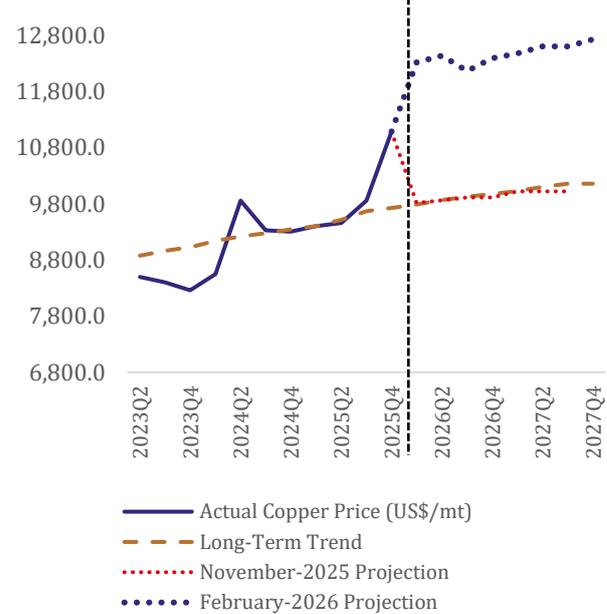
*Refer to reserve money computation in Table 8.

**Computed as a ratio of expenditure (excluding amortisation) over revenue. A value in excess of 1 implies a deficit.

f = forecast

Market experts indicate that the expected rise in copper prices reflects ongoing investments in power transmission infrastructure, electrification, renewable energy, artificial intelligence, and data centres, including defence-related infrastructure (Figure 10). Elevated copper prices, together with increased domestic production, are expected to result in stronger export earnings and thus foreign exchange inflows.

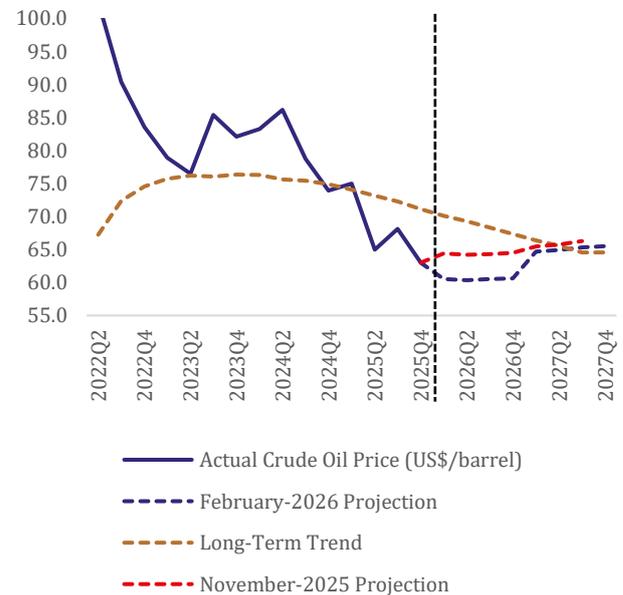
Figure 10: Copper Prices (USD/metric tonne)



Source: Bank of Zambia Staff Computations

The crude oil price profile is relatively lower than the November 2025 forecast. This reflects expectations of improved global supply conditions (Table 6 and Figure 11).

Figure 11: Crude Oil Prices (USD/barrel)



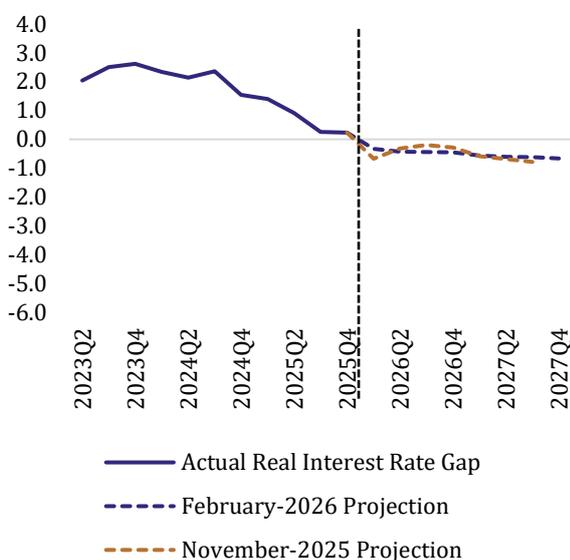
Source: Bank of Zambia Staff Computations

Increased output by both OPEC+ and non-OPEC producers, alongside efficiency gains in shale production, is expected to maintain ample supply over the medium-term. Low crude oil prices are favourable to the inflation outlook as they reduce fuel import

costs and ease transportation and distribution expenses across the economy. This is expected to dampen pressure on domestic fuel prices and limit second round effects on inflation.

External monetary conditions, proxied by the US monetary policy stance, are also expected to be marginally loose and contribute to the projected inflation path (Figure 12). The Federal Reserve is expected to cut interest rates further in 2026.

Figure 12: Real Foreign Interest Rate Gap⁹



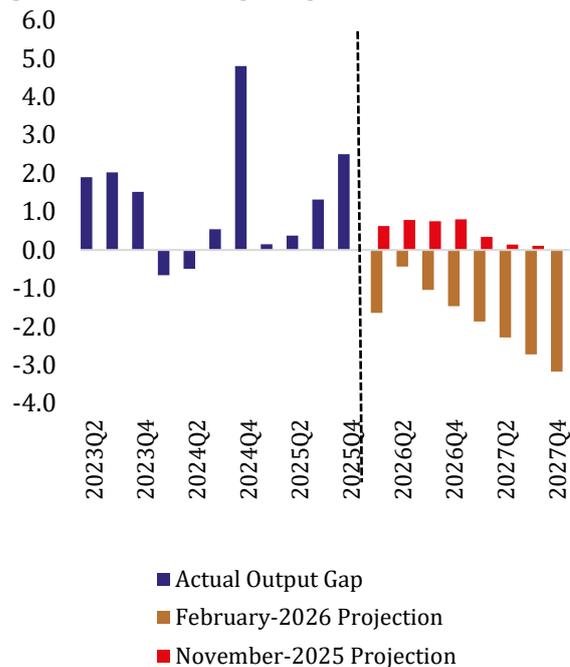
Source: Bank of Zambia Staff Computations

Further, a favourable inflation outlook for South Africa is expected to contribute to lower inflation in 2027 (Table 6).

Inflationary pressures are also likely to be contained by weak domestic consumer demand given the negative output gap over the forecast horizon (Figure 13).

⁹This is the difference between the prevailing foreign interest rate and long-run equilibrium real interest rate. In the QPM, foreign real interest rates are important for determining the risk premium. A rising foreign real interest rate gap signifies increases in the risk premium, which implies a depreciation in the nominal exchange rate. Like the foreign output gap, the foreign real interest rate gap is also exogenously determined and taken as given in the model.

Figure 13: Domestic Output Gap¹⁰



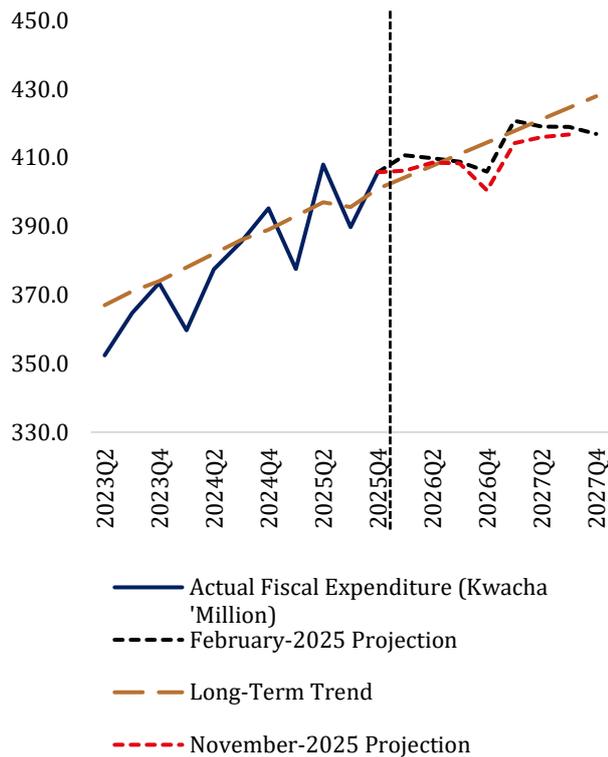
Source: Bank of Zambia Staff Computations

The negative output gap largely reflects lingering modest economic growth inertia and the impact of relatively tighter monetary conditions than projected in November 2025.

Drawing on the 2026 National Budget Speech and the 2026–2028 Medium-Term Budget Plan, real fiscal spending is projected to broadly remain below its long-run trend over the forecast period (Figure 14). This fiscal stance is expected to exert a dampening effect on aggregate demand and contribute to easing underlying inflationary pressures.

¹⁰The domestic output gap is the deviation of aggregate demand from its potential. Negative output gap implies slack in demand while positive output gap implies excess demand. The output gap is endogenously determined by expectations, monetary conditions, foreign demand, terms of trade and fiscal policy.

Figure 14: Real Fiscal Expenditures



Source: Bank of Zambia Staff Computations

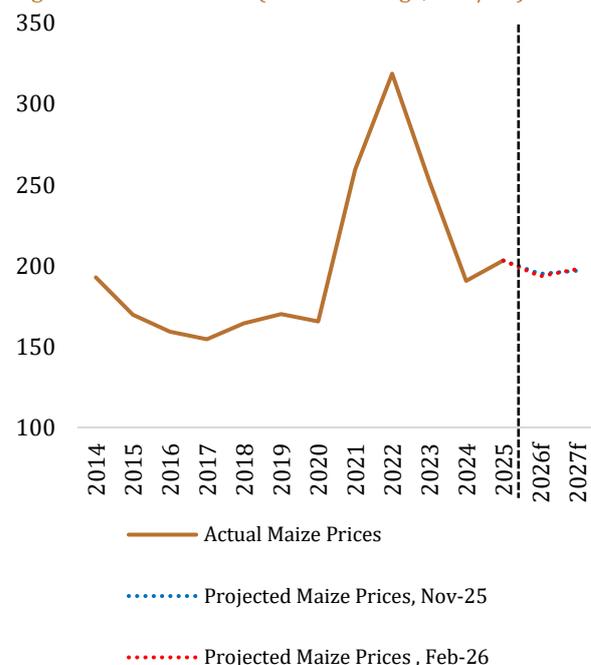
Subdued growth in reserve money over the medium-term is also expected to render support to inflation. The growth in reserve money could slowdown in 2026 on account of lower Government spending and disbursements under the Stability and Resilience Facility (Table 6). This is consistent with the gradual easing of inflationary pressures over the period ahead.

Assessment of Key Risks

The risks to the inflation outlook remain broadly aligned with those identified in the November 2025 Monetary Policy Report. However, recent developments in the domestic and external environment have altered the characterisation of these risks.

Downside risk: Lower food price pressures from favourable rainfall supporting maize production. Over the medium-term, food price pressures could moderate significantly if rainfall conditions remain broadly favourable across major maize producing regions. The current normal-to-above-normal rainfall forecast could support crop development and lead to a higher maize output. This is likely to improve supply conditions and result in lower prices than assumed in the baseline. In addition, maize prices in the international market are projected to edge down, particularly in 2026, on anticipated impact of record global output¹¹ and elevated carryover stocks (Figure 15).

Figure 15: Maize Prices (annual average, USD/mt)



Source: World Bank Pink Sheet Bank of Zambia Compilation

Given the weight of maize in the CPI food basket, a decline in maize prices, both internationally and domestically, would transmit to food inflation and increase the likelihood of headline inflation turning out

¹¹<https://www.country-guide.ca/daily/igc-raises-2025-26-world-grains-forecast-to-record-2-5-billion-tons/>

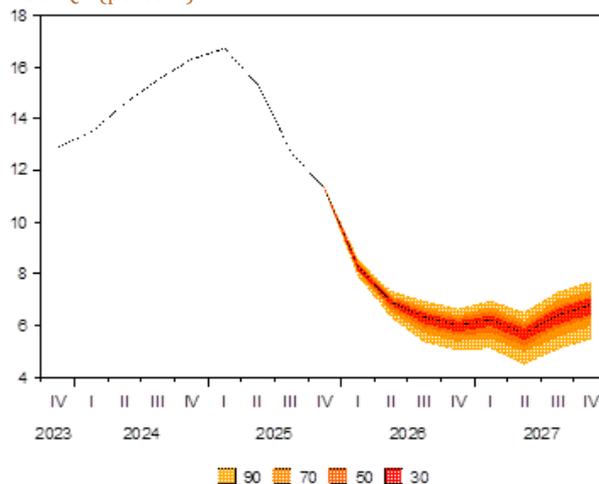
below the baseline, particularly during the harvest and immediate post-harvest period.

Downside risk: Lower marginal cost of production on account of improved electricity supply. Developments in the energy sector continue to point to a strengthening electricity supply outlook over the medium-term. This is supported by planned increases in solar and thermal generation capacity alongside a recovery in hydro-electricity generation under current normal-to-above-normal rainfall conditions. This increases the likelihood of electricity availability improving more strongly than envisaged over the forecast horizon, and lowering the marginal cost of production, particularly in energy-intensive sectors. As a result, firms’ reliance on costly alternative power sources may reduce and cost-push pressures eased across domestic supply-chains. Consequently, inflation outcomes could turn out lower than projected in the baseline.

Upside risk: Higher imported inflation stemming from elevated global crude oil prices amid heightened geopolitical tensions. While crude oil prices have been declining, there remains a possibility that prices could exceed baseline assumptions in response to heightened geopolitical tensions. As such, geopolitical developments continue to present a material source of uncertainty for the oil price outlook. These developments could disrupt crude oil exports or increase risks around key shipping routes, prompt a reassessment of global supply conditions and lead to higher risk premia in crude oil markets.

On balance, the risks to the current outlook are judged to remain tilted to the downside. This suggests a better chance of inflation outcomes falling below the baseline (Figure 16 and Table 7).

Figure 16: Inflation – Actual and Projected: 2023Q4 – 2027Q4 (percent)



Source: Bank of Zambia Staff Computations and Zambia Statistics Agency

Table 7: Range of Possible Inflation Outcomes and Associated Probabilities

| Range of Possible Inflation Outcomes (percent) | Probability (percent) |
|--|-----------------------|
| 5.46 – 8.38 | 30 |
| 5.22 – 8.38 | 50 |
| 4.98 – 8.46 | 70 |
| 4.50 – 8.54 | 90 |

Source: Bank of Zambia Staff Computations

1.5 MPC Decision

At its February 9-10, 2026 Meeting, the Monetary Policy Committee decided to reduce the Monetary Policy Rate by 75 basis points to 13.5 percent. In arriving at this decision, the Committee took into account the further decline in inflation in the fourth quarter of 2025, the projected faster fall of inflation into the 6-8 percent target band than was forecast in November 2025, and the need to maintain an appropriate monetary policy stance.

The Committee noted that inflation had decelerated in the fourth quarter of 2025, with overall inflation declining to 11.2 percent in December 2025 from 12.3 percent in September 2025. In January 2026, inflation fell sharply to 9.4 percent. The decline in inflation was largely driven by the continued impact of the maize bumper harvest from the 2024/25 farming season and the appreciation of the Kwacha against major currencies.

Inflation was projected to fall into the 6-8 percent target band at a faster pace than was forecast in November 2025. Further, it was expected to be within the band by the second quarter of 2026 and move to the lower bound by the second quarter of 2027. On average, inflation was forecast to be 6.9 percent in 2026 compared to 7.6 percent projected in November 2025. It was expected to ease further to 6.3 percent in 2027. The more positive outlook largely reflected the impact of the lagged effects of the recent appreciation of the exchange rate and expected favourable agricultural output.

The risks to the inflation outlook remained tilted to the downside. These included favourable weather conditions, supportive external sector conditions reflected in higher copper prices and continued macroeconomic stability.

2. Current Economic Developments

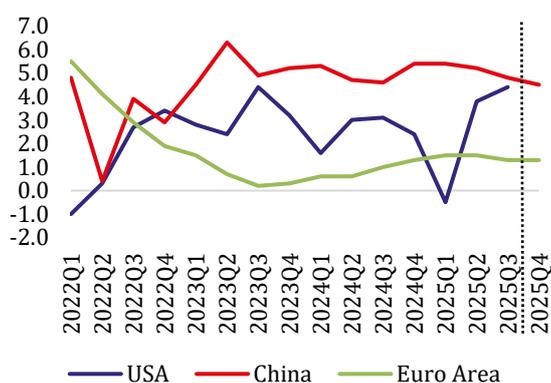
- Growth picks up in the euro area but moderates in China.
- Global financial conditions ease further.
- Domestic financial conditions remain relatively tight.
- Higher cement production and increase in tourist arrivals point to expansion in real GDP growth.
- Fiscal deficit lower-than-planned owing to lower external financing.
- Inflation continues to decelerate.

2.1 External Sector

... growth picks up in euro area but eases further in China

In the fourth quarter of 2025, real GDP growth was higher than expected in the euro area but moderated further in China (Figure 17).

Figure 17: Real GDP Growth (year-on-year, percent)



Source: Federal Reserve Bank of St. Louis, National Bureau of Statistics, Eurostat and Bank of Zambia Staff Compilations

The euro area economy expanded by 1.3 percent, beating market expectations of 1.2 percent and defying earlier recession concerns amplified by US trade tariffs and broader policy uncertainty. Robust consumer spending and investment—supported by subdued inflation¹², lower interest rates, and declining unemployment helped sustain domestic demand. A recovery in Germany, the region’s largest economy, underpinned by increased government spending mostly on infrastructure and defence, contributed to the positive growth outturn.

¹²<https://tradingeconomics.com/euro-area/inflation-cpi/news/518046>

¹³<https://www.atlanticcouncil.org/blogs/econographics/sinographs/chinas-property-slump-deepens-and->

Growth in China slowed to a three-year low of 4.5 percent from 4.8 percent in the previous quarter, underscoring a broad-based weakening in domestic economic conditions. The deceleration was mainly driven by persistently subdued domestic demand, reflecting the combined effects of a deepening property sector crisis¹³, elevated local government debt levels, and entrenched deflationary pressures¹⁴. These factors continued to restrain household spending, dampen investment, and weighed on overall economic momentum.

... economic activity in key trading partner countries moderates further

Economic activity in Zambia’s major trading partner countries eased further in the last quarter of 2025 as the year-on-year growth rate in the GDP-9 Index declined to 1.60 percent from 2.82 percent in the third quarter (Table 8 and Figure 18). This was mainly driven by slower growth in China, Democratic Republic of the Congo (DRC), and South Africa.

[threatens-more-than-the-housing-sector/](https://www.bnpparibas-am.com/en/front-of-mind/weekly-market-update-chinas-persistent-deflation-constrains-market-broadening/)

¹⁴<https://www.bnpparibas-am.com/en/front-of-mind/weekly-market-update-chinas-persistent-deflation-constrains-market-broadening/>

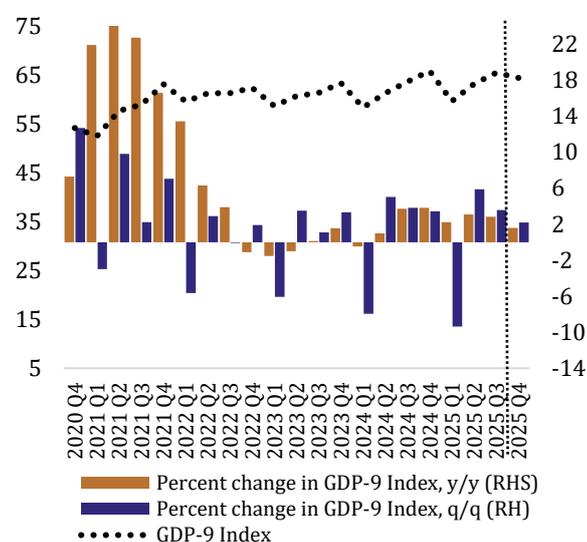
Table 8: Preliminary year-on-year Change in GDP-9 Index and Country Contribution, 2024Q4-2025Q4¹⁵

| | Weight | 2024 Q4 | 2024 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 |
|------------------------------------|--------|---------|---------|---------|---------|---------|
| GDP-9 Index (percent Change) | | 3.84 | 2.22 | 3.08 | 2.82 | 1.60 |
| Contribution to GDP-9 Index Change | | | | | | |
| China | 0.5 | 1.70 | 0.98 | 1.36 | 1.24 | 0.69 |
| DRC | 0.3 | 0.95 | 0.55 | 0.75 | 0.69 | 0.38 |
| South Africa | 0.1 | 0.55 | 0.32 | 0.45 | 0.41 | 0.24 |
| UK | 0.1 | 0.17 | 0.10 | 0.14 | 0.13 | 0.07 |
| Singapore | 0.0 | 0.22 | 0.13 | 0.19 | 0.17 | 0.11 |
| UAE | 0.0 | 0.08 | 0.04 | 0.06 | 0.06 | 0.04 |
| Tanzania | 0.0 | 0.06 | 0.04 | 0.05 | 0.05 | 0.03 |
| Malawi | 0.0 | 0.06 | 0.04 | 0.05 | 0.05 | 0.03 |
| Hong Kong | 0.0 | 0.04 | 0.02 | 0.03 | 0.03 | 0.02 |

Source: Bank of Zambia Staff Calculations

DRC=Democratic Republic of Congo, UAE= United Arab Emirates, UK=United Kingdom

Figure 18: GDP-9 Index



Source: Bank of Zambia Compilations

Economic activity in the DRC slowed mainly due to the impact of the US aid cut, and suspension of cobalt exports.

Accounting for the moderation in economic activity in South Africa was mainly the contraction in the manufacturing sector, suspension of aid by the US, high unemployment, and weaker export demand due to higher US tariffs. Reduced mining

¹⁵The data reported in the November 2025 Monetary Policy Report have been revised to reflect recently released GDP numbers and growth rates released by the IMF in the January 2026 WEO.

¹⁶<https://www.businessday.co.za/companies/2026-01-20-mining-output-declines-for-first-time-in-nine-months/>

¹⁷<https://www.mining.com/web/how-tight-supply-ai->

output¹⁶ caused by logistical constraints also weighed on economic activity.

... copper prices surge while crude oil prices ease

Copper prices strengthened in the last quarter of 2025, rising by 12.7 percent to USD11,110.45 per metric tonne (Figure 19).

Figure 19: Average Copper Prices (USD/metric tonne)



Source: Reuters, World Bank Pink Sheet and Bank of Zambia Staff Compilations

The sharp rise in copper prices was mostly underpinned by tight global supply conditions¹⁷ on account of severe production disruptions at major mines¹⁸ and the ramping up of shipments to the US ahead of potential higher import tariffs. The rally was also bolstered by robust demand tied to the global energy transition, construction of artificial intelligence infrastructure, global electrification and modernisation of power grids in developed countries, as well as the production of electric vehicles. Copper prices also benefited from a broadly weaker US dollar and optimistic demand prospects from China following the announcement of strong

[demand-propelled-copper-price-towards-12000/](https://www.mining.com/web/demand-propelled-copper-price-towards-12000/)

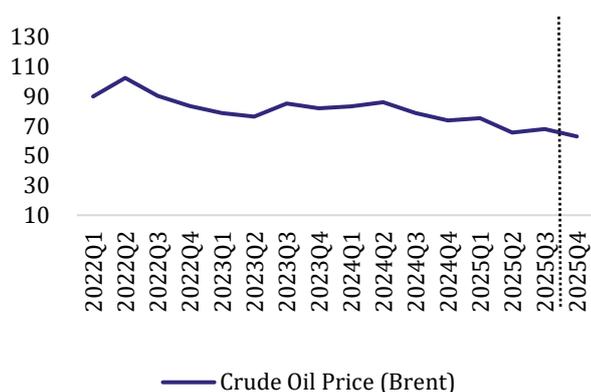
¹⁸The cumulative effect of major production disruptions at Grasberg (Indonesia), Kamoakamo (DRC), and El Teniente (Chile) raised concerns over supply:

<https://agmetminer.com/2025/10/06/copper-market-deficit-grasberg/>

policy measures to support economic growth¹⁹.

In contrast, crude oil prices declined by 7.4 percent to USD63.08 per barrel, reversing the gains recorded in the previous quarter despite rising geopolitical tensions (Figure 20).

Figure 20: Average Crude Oil Prices (USD/barrel)



Source: Reuters, World Bank Pink Sheet and Bank of Zambia Staff Compilations

The moderation in crude oil prices was largely attributed to persistent concerns about global oversupply reflected in a significant build-up in inventories²⁰ from non-OPEC producers led by the US²¹ and the gradual unwinding of production cuts by OPEC+²². This was compounded by slowing global demand growth especially in China and Europe due to accelerated adoption of electric and hybrid vehicles as well as ongoing improvements in energy efficiency²³.

¹⁹<https://jingdaily.com/posts/china-politburo-prioritizes-boosting-domestic-demand-in-2026>

²⁰<https://www.iea.org/reports/oil-market-report-december-2025>

²¹<https://www.bnnbloomberg.ca/business/2025/12/31/us-oil-production-hit-record-high-in-oct-eia-says/>

²²<https://oilprice.com/Latest-Energy-News/World-News/EIA-Oversupply-And->

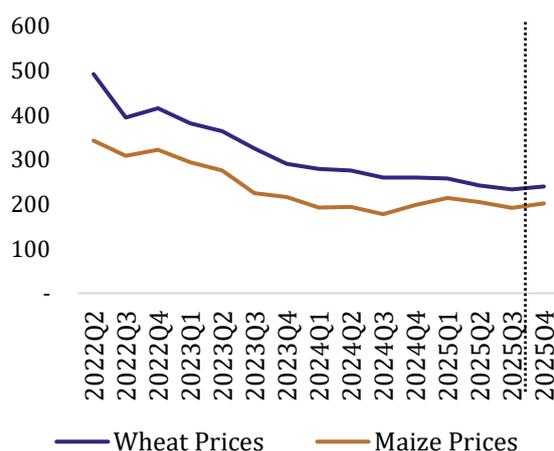
²³<https://www.iea.org/commentaries/as-oil-market-surplus-keeps-rising-something-s-got-to-give>

²⁴Maize and wheat prices rose on improved market sentiment after China suspended a 15 percent tariff on

... fall in maize and wheat prices reverses

Maize and wheat prices rose by 2.8 percent and 5.4 percent to USD239.81 and USD201.95 per metric tonne in the fourth quarter of 2025, respectively, reversing losses recorded in the previous quarter (Figure 21).

Figure 21: Average Maize and Wheat Prices (USD/mt)



Source: World Bank Pink Sheet Data and Bank of Zambia Staff Compilations

Easing US–China trade tensions²⁴, a broadly weaker US dollar, robust global export demand, and adverse weather in key producing countries accounted for the rise in maize and wheat prices. Heightened risk of supply disruptions stemming from renewed Russia–Ukraine tensions in the Black Sea region also supported prices²⁵.

... current account deficit widens

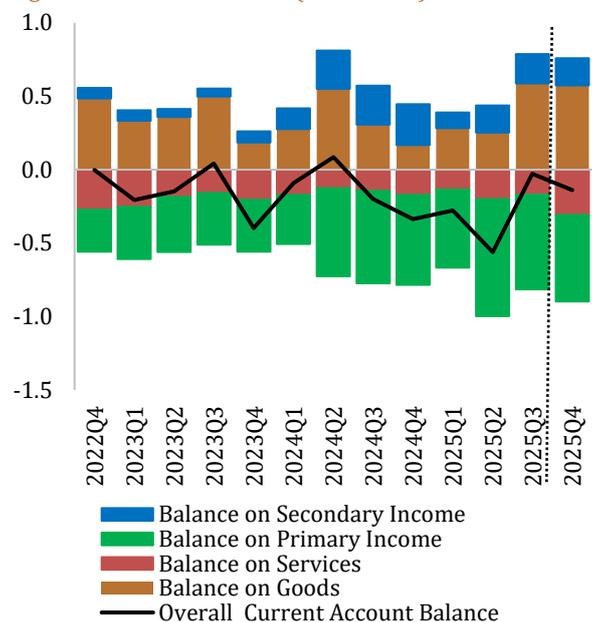
According to preliminary data, the *current account* deficit expanded in the fourth quarter to USD140.0 million (2.0 percent of GDP) from

US corn and wheat under an October 2025 trade deal, restoring export competitiveness:<https://millermagazine.com/blog/new-uschina-deal-boosts-soy-lifts-global-grain-sentiment-6466>

²⁵Russian strikes on Odesa and Pivdennyi ports, coupled with the termination of the Black Sea grain deal, disrupted Ukrainian shipments and threatened exports through this key agricultural corridor:<https://sg.finance.yahoo.com/news/wheat-trades-near-one-week-224453953.htm>

USD28.5 million (0.4 percent of GDP) in the third quarter (Figure 22).

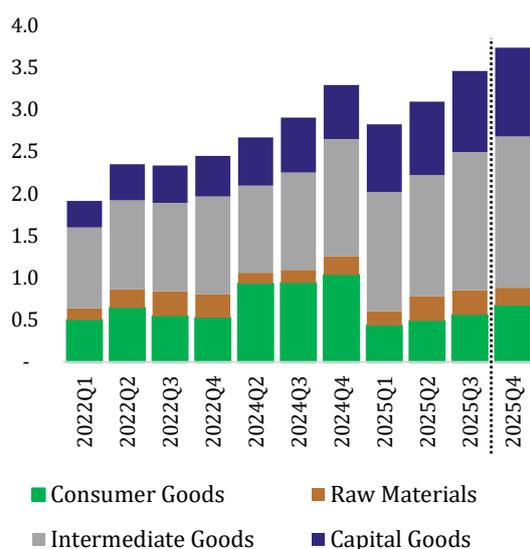
Figure 22: Current Account (USD billion)



Source: Bank of Zambia

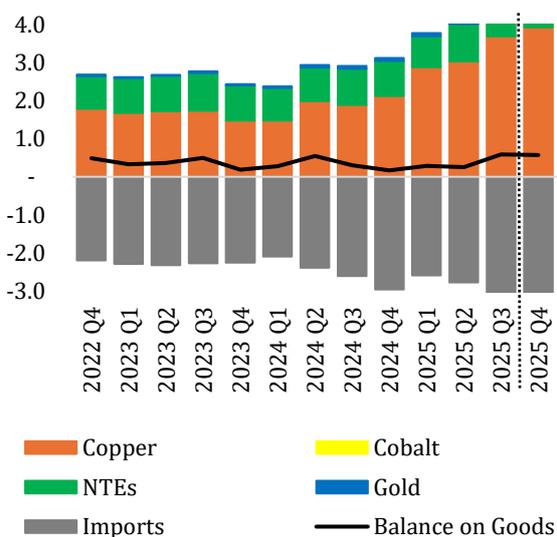
Net imports, decline in tourism receipts, and the increase in transportation costs led to the deterioration in the *current account* deficit. Imports increased by 8.0 percent to USD3.4 billion. The bulk of the imports was intermediate goods with notable increase in consumer goods (Figure 23). Exports increased by 6.4 percent to USD3.9 billion, supported by copper earnings (Figure 24). Average realised copper prices increased to USD10,085.5 per metric tonne from USD9,681.6 per metric tonne in the third quarter while export volumes rose to 208,618.2 metric tonnes from 203,977.8 metric tonnes. However, non-traditional exports declined by 13.0 percent to USD1.2 billion on account of lower earnings from gemstones, electricity, maize and electrical cables (Figure 24).

Figure 23: Composition of Imports (USD billion)



Source: Bank of Zambia

Figure 24: Composition of Trade Balance (USD billion)



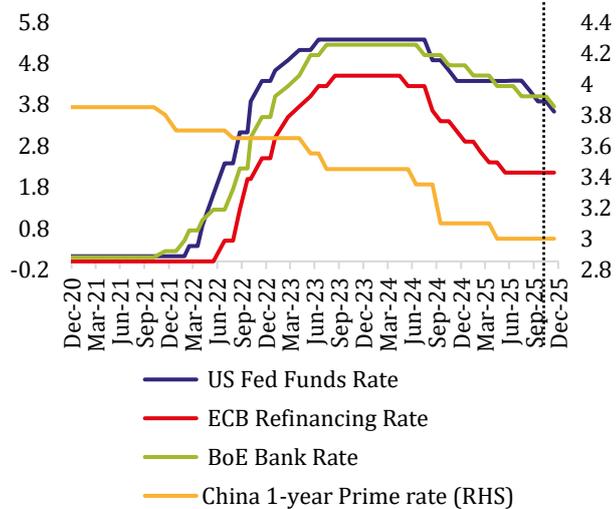
Source: Bank of Zambia

2.2 Global Financial Conditions

... remain relatively loose

Global financial conditions are judged to have eased further in the fourth quarter of 2025. In part, this reflects the cut in the federal funds rate twice by a cumulative 50-basis point to a range of 3.50–3.75 percent (Figure 25). Thus, monetary policy remained accommodative despite uncertainty stemming from the US Government shutdown and geopolitical tensions. The Bank of England (BoE) also lowered the Bank Rate by 25 basis points to 3.75 percent in December²⁶ (Figure 25). Further, both the European Central Bank (ECB)²⁷ and People’s Bank of China (PBoC)²⁸ maintained a loose monetary stance as policy rates were kept at 2.15 percent and 3.0 percent, respectively (Figure 25).

Figure 25: Central Bank Policy Rates in Selected Economies



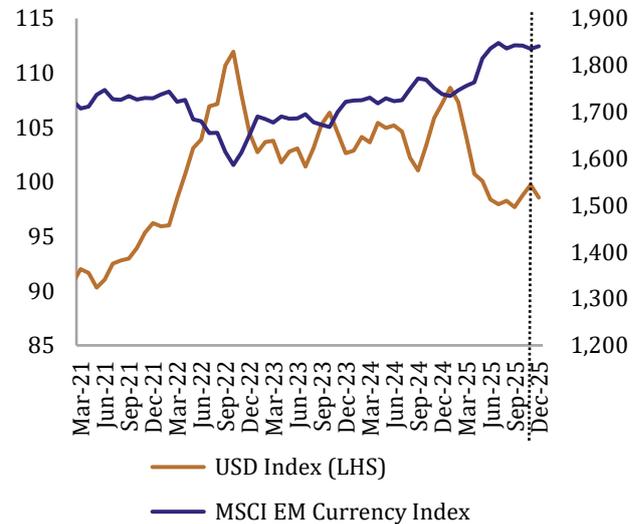
Source: Reuters

The US Dollar Index recorded a modest gain of 0.9 percent in the quarter despite the cut in the federal funds rate (Figure 26). This performance reflects a stronger US dollar earlier in the quarter as uncertainty regarding

the US Government shutdown dominated the market. Weakness in the euro and Japanese yen also supported the US dollar.

Despite some divergence, emerging market currencies were broadly stable. This is reflected in a steady movement in the MSCI Emerging Markets Currency Index during the quarter (Figure 26). The Ghanaian cedi, Nigerian naira, Russian rouble, and South African rand appreciated while the Argentine peso, Brazilian real, Indian rupee and Turkish lira depreciated (Figure 27).

Figure 26: US Dollar and MSCI Emerging Market Currency Indices (monthly averages)



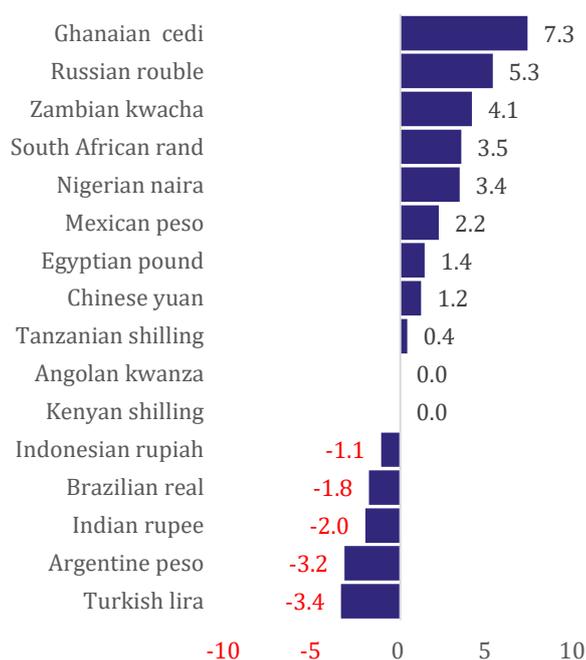
Source: Reuters and Bank of Zambia Compilations

²⁶ The rate cut, the first in five meetings, was prompted by a sharp drop in inflation and projection of economic stagnation. The BoE also signalled a slower pace in future rate cuts due to higher inflation than the target, the highest among advanced economies.

²⁷ The ECB kept the policy interest rate unchanged as inflation remained on target amidst expectations of weaker growth.

²⁸ The reference policy rate is the 1-year prime rate.

Figure 27: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar*



*Negative numbers indicate a depreciation while positive numbers show an appreciation against the US dollar.

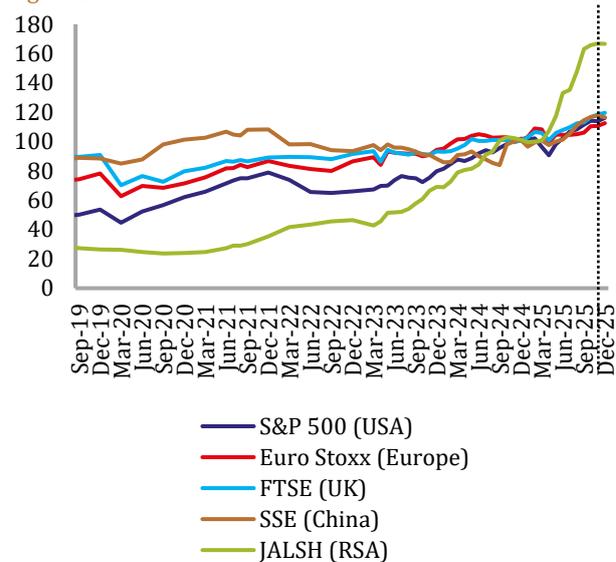
Source: Reuters and Bank of Zambia Compilations

Investor appetite for riskier assets remained strong, supported in part by eased financial conditions. Stock prices continued to rally and equity indices touched new record highs in advanced economy markets²⁹. The S&P 500, FTSE 100, and Euro Stoxx 50 Indices all rallied by 4.2 percent (Figure 28). Similarly, stock prices in emerging markets rose with the Shanghai Composite Index in China (SSE) and the Johannesburg All-Share Index in South Africa (JALSH) increasing by 1.7 percent³⁰ and 2.1 percent³¹, respectively (Figure 28).

²⁹The rally in share prices was also underpinned by better-than-expected third quarter corporate earnings, broad-based growth in advanced economies, and easing trade tensions.

³⁰Share prices were boosted by the trade agreement with the US as well as growing optimism surrounding technology shares, particularly with increased corporate investment in artificial intelligence. This

Figure 28: Selected Stock Market Indices



Source: Reuters and Bank of Zambia Compilations

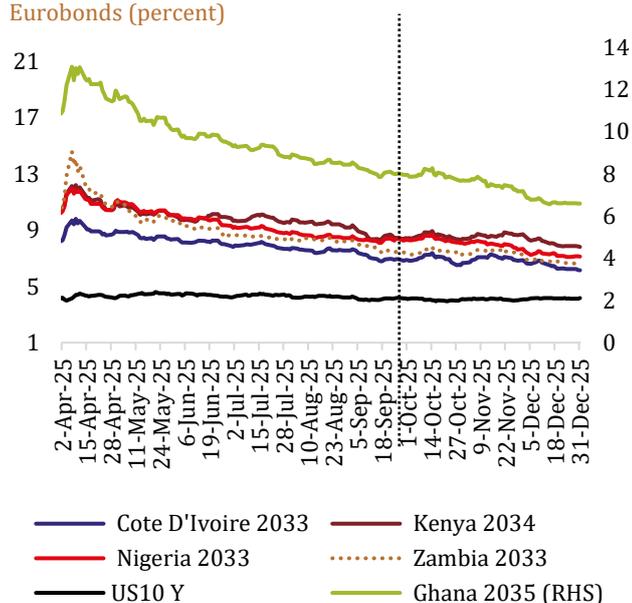
Improved global financial conditions, upgrades to sovereign credit ratings³² and positive domestic economic outlook stimulated demand for Eurobond issuance by Sub-Saharan Africa (SSA) countries. As a result, yield rates for selected countries declined further: Côte d'Ivoire, Ghana, Kenya, Nigeria, and Zambia yield rates fell by 62, 103, 141, 51, and 92 basis points to 6.48 percent, 7.29 percent, 6.72 percent, 8.13 percent, and 6.80 percent, respectively (Figure 29).

positive outlook attracted a significant inflow of foreign capital.

³¹The 25-basis points cut in the repo rate by the SARB to 6.75 percent pushed up the prime lending rate to 10.25 percent, thus supportive of this performance.

³²Credit ratings for Ghana and Zambia were upgraded and the credit outlook for Nigeria was revised to positive.

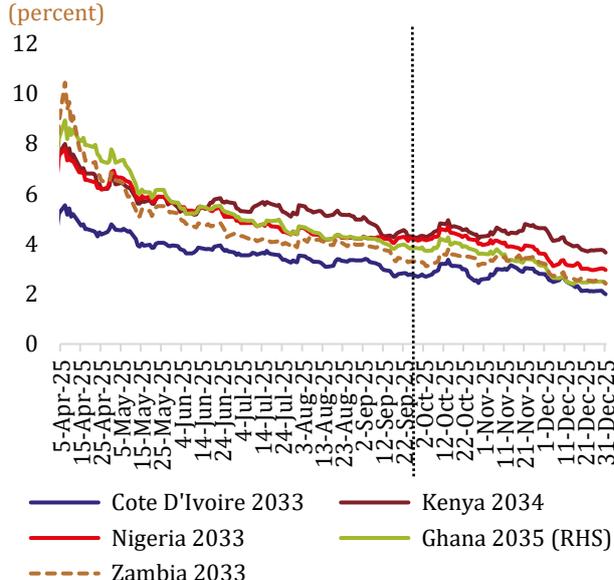
Figure 29: Yield Rates for Selected Sub-Sahara Africa Eurobonds (percent)



Source: Reuters and Bank of Zambia Compilations

This further narrowed their respective spreads over the US 10-year Treasury bond. In December, Eurobond yield spreads for Côte d'Ivoire, Ghana, Kenya, Nigeria, and Zambia were respectively lower by 64, 53, 105, 143, and 94 basis points (Figure 30).

Figure 30: Yield Spreads Over the US 10-Year Bond Yield Rate (percent)



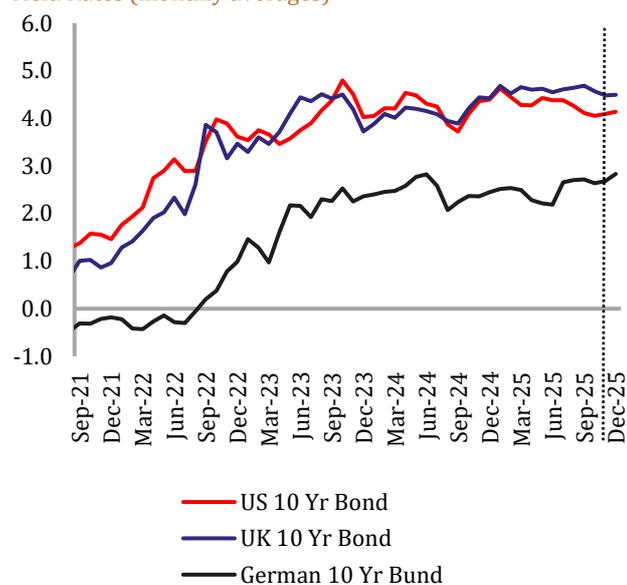
Source: Reuters and Bank of Zambia Compilations

The easing of monetary policy in the US did not appear to have a bearing on the movement in Government bond yield rates. The yield rate for the 10-year bond rose by two basis points to 4.14 percent on concerns about increasing debt and rising inflation expectations. Similarly, the return on the 10-year German Government bond rose by 12 basis points to 2.83 percent as higher Government spending to fund infrastructure persisted³³. On the other hand, accommodative policy and expectations of future rate cuts by the Bank of England had a stronger impact on the UK bond market. Consequently, the 10-year Government bond yield rate fell by 19 basis points to 4.49 percent³⁴(Figure 31).

³³In addition, the economy returned to growth after two years of contraction, reducing demand for risk-free assets.

³⁴Inflation in the UK fell to 3.2 percent in November from 3.8 percent in September mainly due to an unexpected fall in food prices.

Figure 31: US, UK, and Germany 10-Year Benchmark Bond Yield Rates (monthly averages)



Source: Reuters and Bank of Zambia Compilations

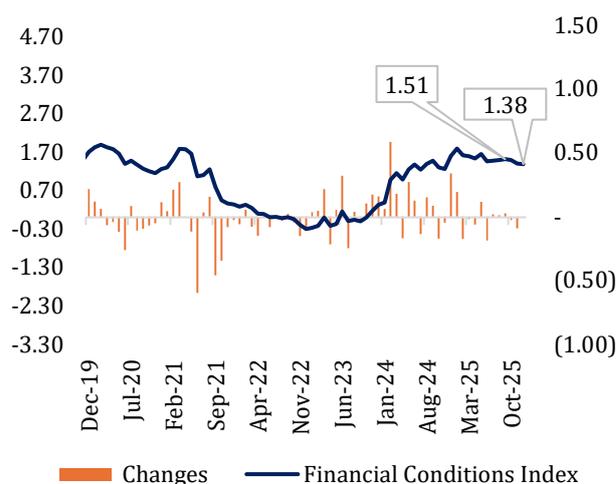
2.3 Domestic Financial Conditions

... still tight

Domestic financial conditions remained relatively tight in the fourth quarter as the exchange rate appreciated further, the savings rate and Treasury bill yield rates increased, and private sector credit and money supply growth slowed down (Figure 32)³⁵. However, the cut in the Policy Rate, reduction in the interbank rate, bond yield rates and the lending rate, as well as further gain in equity prices moderated the tightness in financial conditions.

³⁵The Financial Conditions Index measures the tightness and/or looseness of domestic financial conditions. It comprises the monetary policy rate, interbank rate, commercial banks' lending and deposit rates, exchange rate, stock or equity prices,

Figure 32: Domestic Financial Conditions Index



Source: Bank of Zambia

Exchange Rate

The Kwacha appreciated for the third consecutive quarter. It gained by a further 4.1 percent against the US dollar to K22.80 in the last quarter of 2025 (Table 9 and Figure 33).

Table 9: Kwacha/US Dollar Exchange Rate

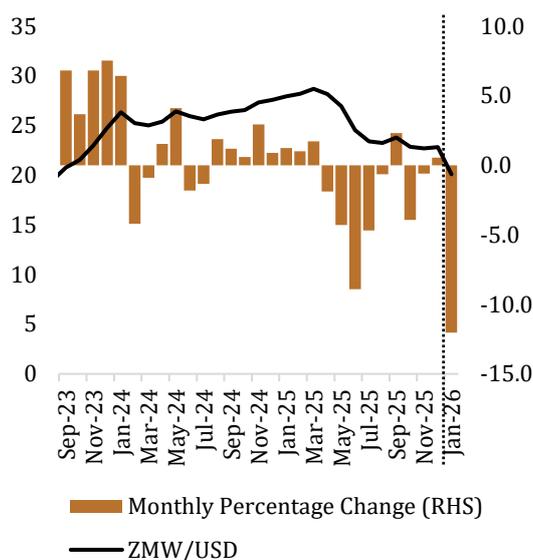
| | 2024 | 2025 | 2025 | 2025 | 2025 |
|----------------|-------|-------|-------|-------|-------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Average | | | | | |
| Level | 27.58 | 28.70 | 24.55 | 23.78 | 22.80 |
| Percent Change | 4.5 | 4.1 | -14.4 | -3.1 | -4.1 |
| End-Period | | | | | |
| Level | 27.88 | 28.21 | 23.81 | 23.87 | 22.14 |
| Percent Change | 5.3 | 1.2 | -15.6 | 0.3 | -7.2 |

Source: Bank of Zambia Staff Computations

Note: Positive percentage changes denote a depreciation while negative changes mean an appreciation

Government securities yield rates, as well as growth in money supply and credit to the private sector. A positive (negative) value of the Index indicates tighter (looser) financial conditions.

Figure 33: Nominal Kwacha/US Dollar Exchange Rate



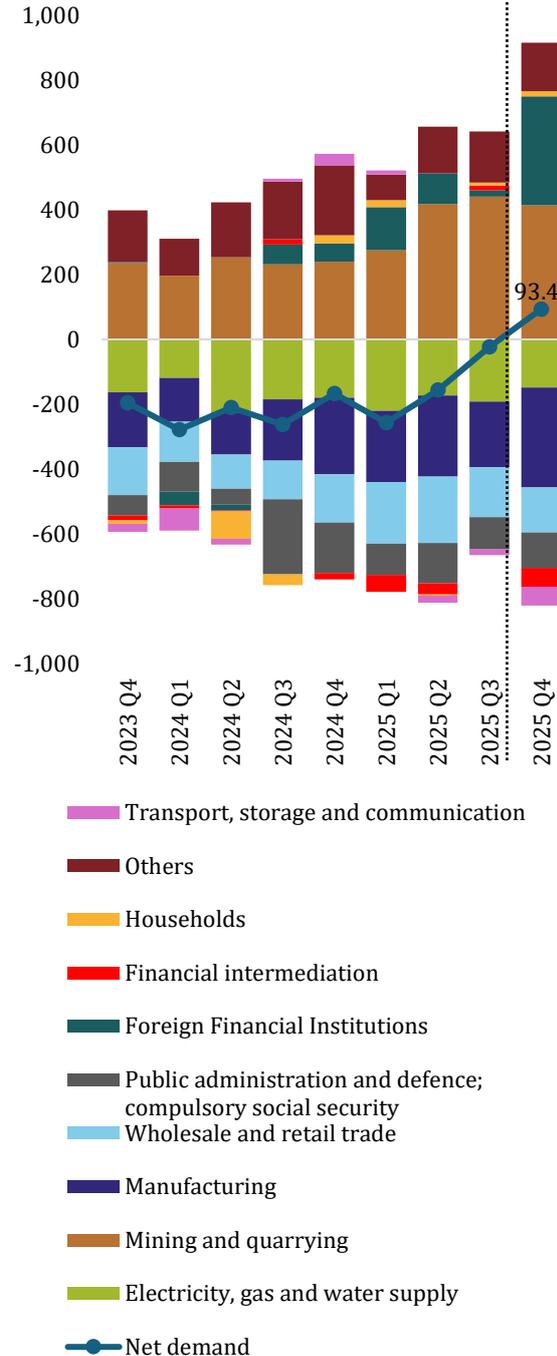
Source: Bank of Zambia

The pick-up in foreign exchange supply and improved market sentiments supported the stronger appreciation of the Kwacha in the fourth quarter. The improvement in market sentiments was underpinned by several factors: sovereign credit rating upgrade by S&P Global Ratings and Fitch Ratings³⁶ out of default status, surge in copper prices to historic highs (refer to Section 2.1), and **Staff-Level Agreement** reached on December 18 between the Government and the IMF on the Sixth and Final Review of the Extended Credit Facility arrangement.

A net supply of USD93.4 million was recorded in the fourth quarter against net demand of USD23.6 million in the third quarter (Figure 34). The improvement in supply was mostly driven by foreign financial institutions that provided a net of USD335.6 million to the market compared to USD19.6 million in the preceding quarter (Figure 34).

³⁶In November, **S&P Global Ratings** and **Fitch Ratings** upgraded Zambia's sovereign credit ratings to CCC+ and B- from Selective Default (SD) and Restricted Default, respectively. This signified a formal exit from

Figure 34: Sectoral Net Sales (-)/Purchases (+) of Foreign Exchange (USD million)



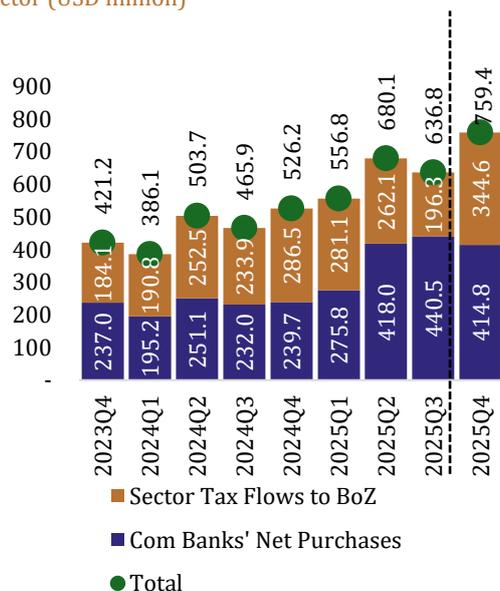
Source: Bank of Zambia

*Others include bureaux, community and social service activities, construction, education, extraterritorial organizations and bodies, health and social work, hotels and restaurants, real estate, renting and business activities, and other business activities sectors.

default status largely on account of the significant progress made on the external debt restructuring process.

Despite a slight reduction, the mining sector still sold over USD400 million directly to the market (Figure 35). Moreover, their tax payments nearly doubled to USD344.6 million (Figure 35). This pushed up total foreign exchange supply by the mining sector in the fourth quarter to USD759.4 million from USD636.8 million in the third quarter.

Figure 35: Net Foreign Exchange Inflows from the Mining Sector (USD million)

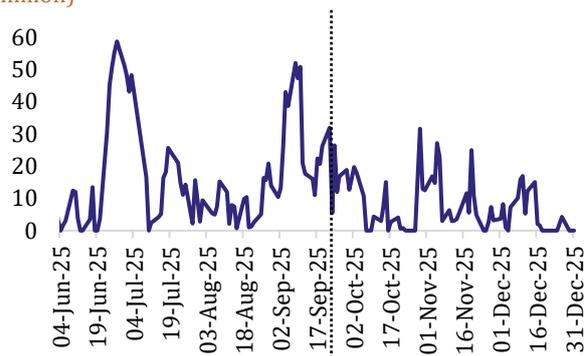


Source: Bank of Zambia

In the fourth quarter, net demand for foreign exchange increased by USD155.6 million to USD822.1 million (Figure 34). The manufacturing sector accounted for most of the demand (USD308.1 million compared to USD203.1 million in the third quarter). Other sectors with notable demand were electricity, gas and water supply (USD148.9 million) as well as wholesale and retail trade (USD139.3 million).

Due to improved supply, outstanding demand was steadily eliminated by the end of December from a peak of USD31.5 million in early November (Figure 36). In addition, the interbank foreign exchange market remained active as USD151.6 million was traded compared to USD190.5 million previously (Figure 37).

Figure 36: Outstanding Demand for Foreign Exchange (USD million)



Source: Bank of Zambia

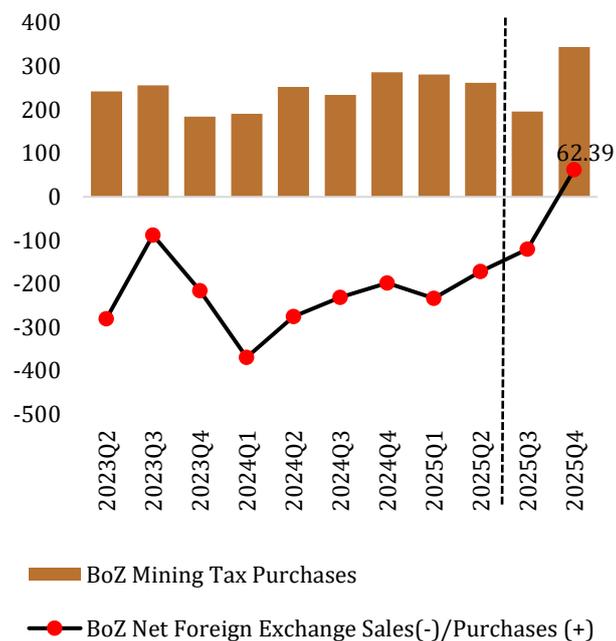
Figure 37: Turnover in the Interbank Foreign Exchange Market (USD million)



Source: Bank of Zambia

Until December 10, the Bank supported the market and sold USD107.0 million, complemented by contractionary open market operations (Figure 43 to moderate volatility in the exchange rate. However, following strong inflows of foreign exchange and the subsequent sharp appreciation of the exchange rate, the Bank purchased USD62.0 million to moderate volatility and accumulate international reserves. In addition, the Bank bought USD107.4 million from commercial banks through the Bond/Foreign Exchange Sales Programme. Overall, the Bank was a net buyer of USD62.4 million in the quarter after being a net seller in the past (Figure 38).

Figure 38: Bank of Zambia Mining Tax Purchases and Net Sales of Foreign Exchange to the Market (USD million)

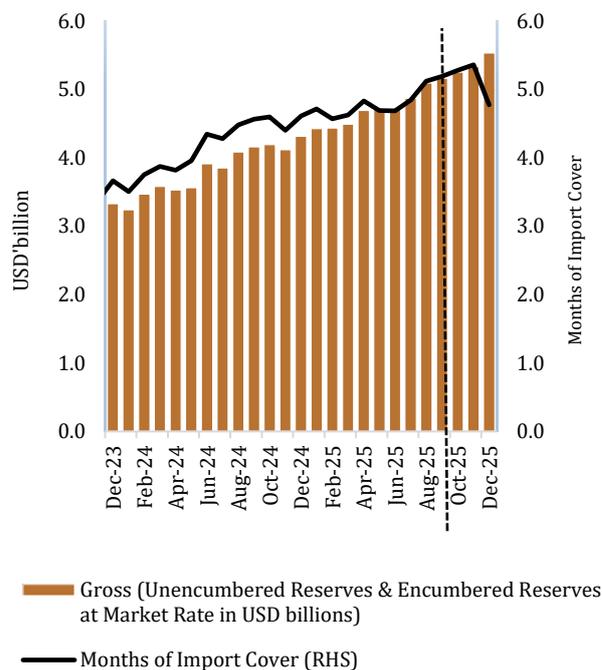


Source: Bank of Zambia

Consequently, gross international reserves (GIR) increased by USD372.1 million to USD5.5 billion (equivalent to 4.8 months of import cover³⁷) at end-December 2025 (Figure 39). Additional sources of reserve growth were World Bank project receipts (USD137.9 million), net statutory reserve deposits (USD55.0 million), interest earnings on reserves (USD25.0 million), and domestic gold purchases (USD23.3 million).

³⁷Despite an increase in GIR, the import cover reduced due to the upward revision of the import value to

Figure 39: Gross International Reserves, Dec 2023-Dec 2025



Source: Bank of Zambia

Interest Rates

The overnight interbank rate declined to 14.26 percent in December from 14.49 percent in September. This is attributed to the MPC cut in the Policy Rate in November by 25 basis points to 14.25 percent and ample liquidity in the money market (Figure 40 and Figure 41).

Money market liquidity was boosted by net Government spending (K7.0 billion), maturing Government securities and coupon payments (K5.7 billion), accumulation of international reserves by the Bank (K1.0 billion), and disbursements under the Stability and Resilience Facility of K0.7 billion (Table 10). As a result of these influences, the aggregate current account balance of commercial banks held at the central bank ended the quarter at K7.3 billion from K2.9 billion at end-September (Table 10 and Figure 42). Contractionary open market operations

USD13.9 billion from USD11.9 billion after accounting for services.

(K1.0 billion) with overnight and 7-day tenors were conducted during the first half of December to moderate volatility in the exchange rate (Table 10 and Figure 43).

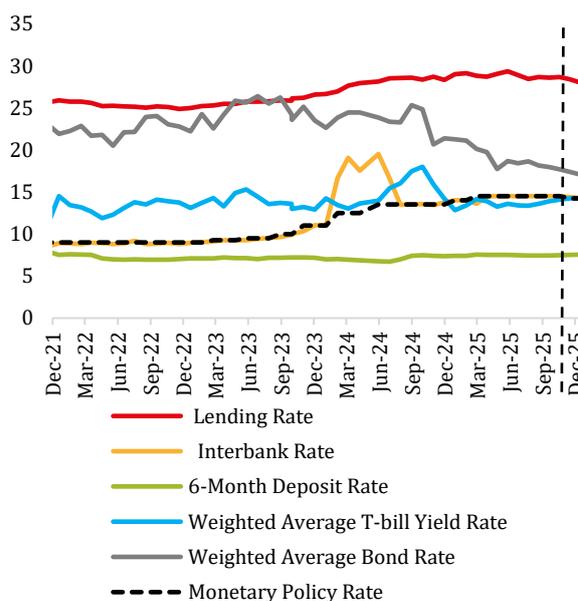
As liquidity improved, most banks accessed short-term funding from the interbank market to meet settlement obligations. Thus, the turnover in the interbank market rose to K65.6 billion from K36.7 billion in the preceding quarter (Figure 47). Consequently, banks borrowed less (K6.2 billion) from the overnight interbank foreign exchange swap market than in the third quarter (K16.1 billion). Similarly, commercial banks' reliance on the Overnight Lending Facility (OLF) substantially reduced to K44.5 billion from K86.7 billion.

The commercial banks' nominal lending rate³⁸ maintained a steady declining trend in the fourth quarter, moving down to 28.0 percent in December from 28.6 percent in September, in part due to the marginal cut in the Policy Rate (Figure 40 and Figure 41). The nominal weighted average Government bond yield rate declined further by 0.9 percentage points to 17.0 percent, broadly reflecting strong demand across all tenors. Particularly, demand was high for 5-, 7-, 10- and 15-year bonds, all of which recorded over 100 percent subscription rates.

In contrast, the nominal savings rate³⁹ increased marginally to 7.6 percent from 7.4 percent (Figure 40). The nominal weighted average Treasury bill yield rate maintained an upward trend, rising to 14.3 percent in December from 13.9 percent in September (Figure 40 and Figure 41). This was largely explained by subdued demand across all tenors except for the 273-day Treasury bill.

The moderation in inflation to 11.2 percent in December from 12.3 percent in September contributed to the sustained real positive Policy Rate, interbank rate, bond yield rate and lending rate (Figure 45). Nonetheless, the real return on savings remained subdued (Figure 45). The continued rise in real Policy Rate points to relatively tight monetary conditions.

Figure 40: Average Nominal Interest Rates (percent)

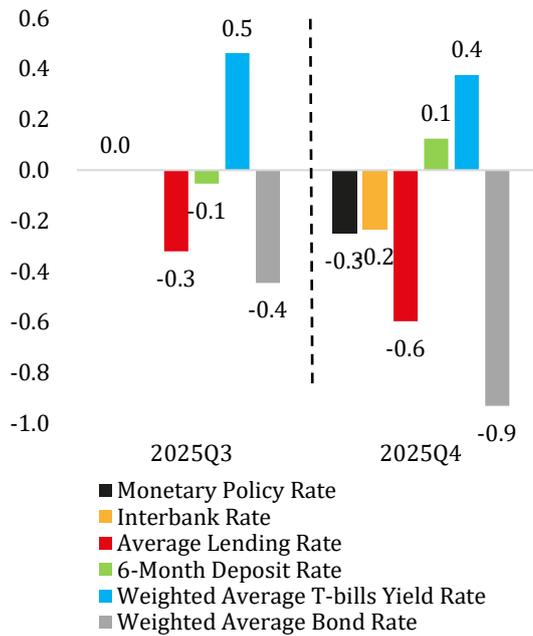


Source: Bank of Zambia

³⁸Lending rates for Kwacha loans ranged from 15.3 percent to 34.3 percent while those for US dollar denominated loans were between 6.5 percent and 13.0 percent.

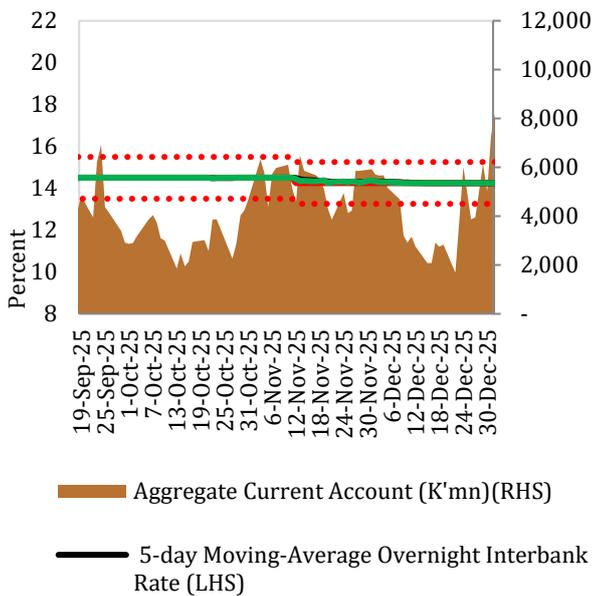
³⁹Kwacha deposit rates ranged from 1.0 percent to 20.0 percent while the US dollar deposit rates were between 0.1 percent and 6.0 percent.

Figure 41: Quarterly Change in Nominal Interest Rates (percent)



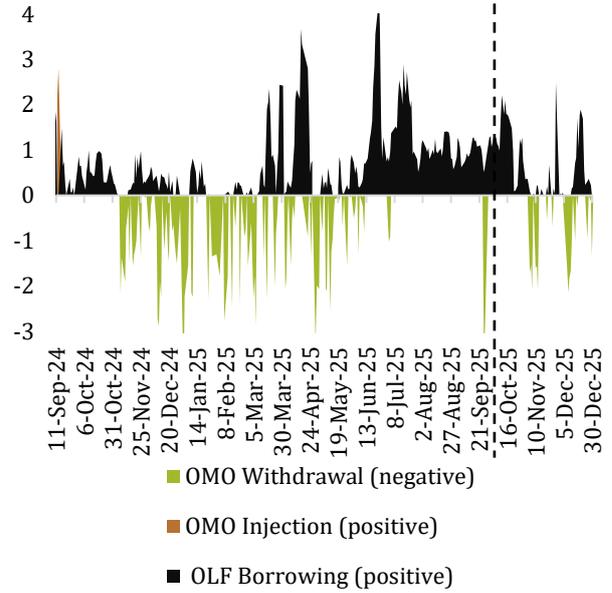
Source: Bank of Zambia

Figure 42: Excess Reserves (Liquidity Levels), Policy Rate and Overnight Interbank Rate



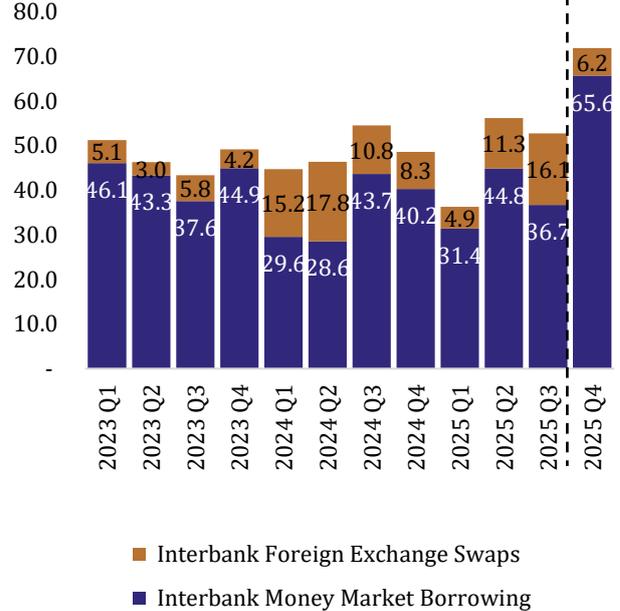
Source: Bank of Zambia

Figure 43: Daily Average Open Market Operations and Overnight Lending Facility (K' billion)



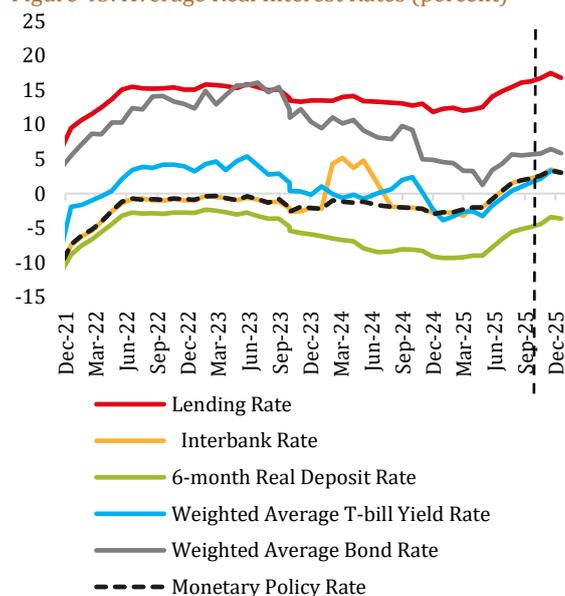
Source: Bank of Zambia

Figure 44: Interbank Money Market Turnover and Foreign Exchange Swaps (K' billion)



Source: Bank of Zambia

Figure 45: Average Real Interest Rates (percent)



Source: Bank of Zambia

Table 10: Liquidity Influences (K' billion)

| | 2025Q3 | 2025Q4 |
|----------------------------------|--------|--------|
| Opening Balance | 2.7 | 2.9 |
| Net Govt Spending | 4.1 | 7.0 |
| Net BoZ FX Intervention | (3.0) | 1.0 |
| Change in Currency | (1.0) | (1.1) |
| Change in SR Deposits | (2.1) | (2.5) |
| OLF | (2.0) | (2.5) |
| Net Govt Securities Transactions | 5.1 | 5.7 |
| Open Market Operations | (0.1) | (1.0) |
| TMTRF ⁴⁰ | 0.0 | (0.8) |
| SRF ⁴¹ | 0.6 | 0.7 |
| Miscellaneous | (1.4) | (2.2) |
| Closing Balance | 2.9 | 7.3 |

Source: Bank of Zambia

FX=foreign exchange; CIC=currency in circulation; SR=statutory reserves; OLF=Overnight Lending Facility; TMTRF= Targeted Medium-Term Refinancing Facility; SRF=Stability and Resilience Facility.

Credit and Money Supply

The expansion in overall domestic credit⁴² reduced to 14.4 percent in December from 17.4 percent in September but remained

⁴⁰The 3–5-year K10 billion TMTRF was established in April 2020 to provide funds to eligible financial service providers to strengthen and enhance financial sector resilience as well as support economic recovery during the COVID-19 pandemic.

⁴¹The Facility was launched by the Bank in December 2024 to safeguard financial stability and enhance the resilience of the financial sector in the wake of the 2023/24 drought. Under this Facility, the Bank provides funds to eligible financial service providers

above the long-term trend (Table 11, Figure 46 and Figure 47). However, adjusted for the exchange rate movement, credit growth increased to 22.1 percent from 20.9 percent and stayed above trend⁴³ (Table 11 and Figure 48).

Table 11: Credit Growth Rate (percent)

| | Sep | Dec |
|--|------|------|
| Overall Credit | 17.4 | 14.4 |
| Overall Credit Exchange Rate Adjusted | 20.9 | 22.1 |
| Private Sector Credit | 21.4 | 15.7 |
| Private Sector Credit Exchange Rate Adjusted | 26.3 | 26.7 |
| Kwacha Denominated Credit | 21.6 | 21.0 |
| Foreign Currency Denominated Credit | 33.9 | 35.5 |
| Public Sector Credit (Government) | 15.3 | 13.4 |

Source: Zambia Staff Computations

The moderation in credit growth largely reflects repayment on Kwacha loans by firms in the wholesale, construction, and agriculture sectors (Figure 49, Figure 50 and Figure 51). Consequently, private sector credit growth was 15.7 percent in December, down from 21.4 percent in September, and remained below its long-term trend (Table 11, Figure 52 and Figure 53). Thus, the contribution of private sector credit to overall credit growth reduced to 7.2 percent from 9.5 percent (Figure 46). However, adjusted for appreciation of the exchange rate, it grew marginally to 26.7 percent and remained above trend (Table 11, Figure 52 and Figure 54).

for onward lending to viable businesses in the agricultural sector and those negatively impacted by the electricity shortages precipitated by the drought.

⁴²Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign currency.

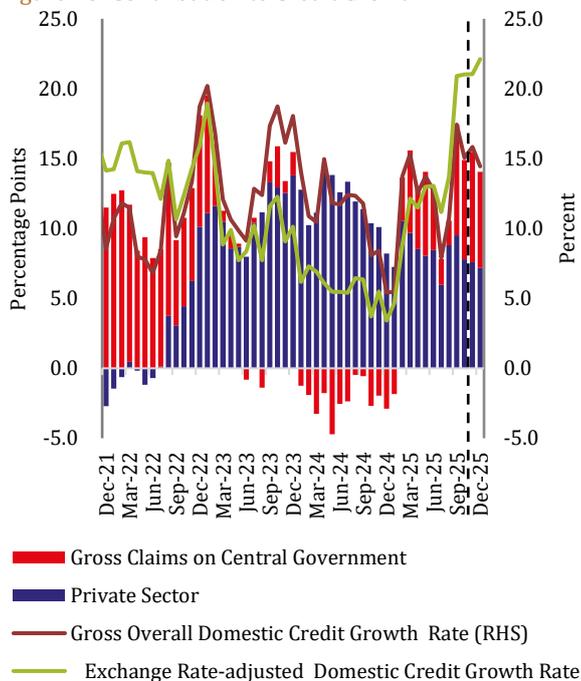
⁴³Credit gap is the difference between exchange rate-adjusted domestic credit and its long-term trend.

Lending in foreign currency maintained an upward trend, further widening the positive credit gap (Table 11 and Figure 55). Growth was observed in the mining, transport, and financial services sectors (Figure 56 and Figure 57).

As shown in Table 11, lending to the public sector also moderated, but at a slower pace, mostly due to reduced accumulation of Government securities and valuation effects following the appreciation of the exchange rate. In addition, repayment of foreign currency loans under the Liability Management Operation undertaken by Government in the third quarter to clear fuel arrears contributed to this outturn.

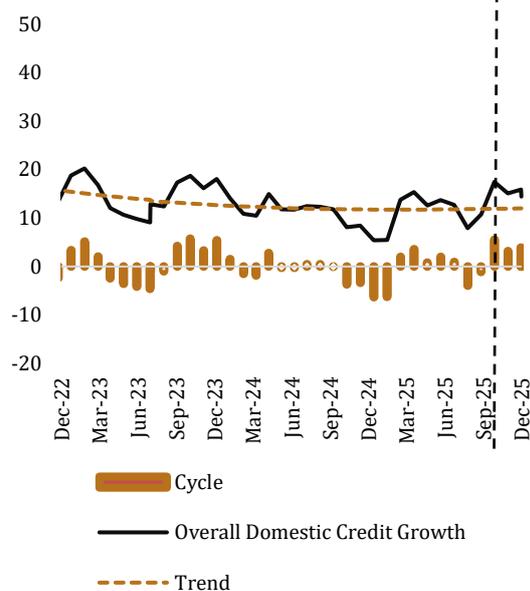
According to the *February 2026 Credit Conditions Survey*, commercial banks expect high demand for credit to be maintained in the near-term on account of favourable macroeconomic conditions and an accommodative monetary policy stance.

Figure 46: Contribution to Credit Growth



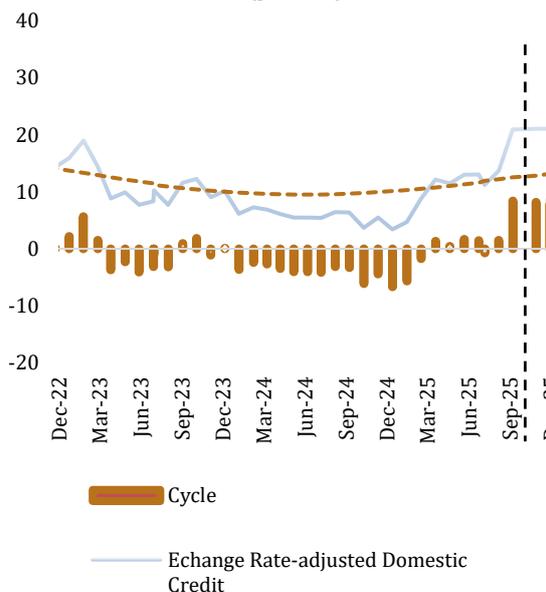
Source: Bank of Zambia

Figure 47: Trend in Overall Domestic Credit Growth (percent)



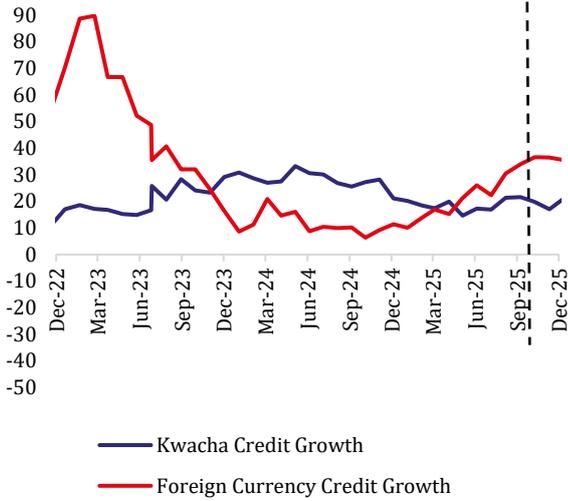
Source: Bank of Zambia

Figure 48: Trend in Exchange Rate-Adjusted Overall Domestic Credit Growth (percent)



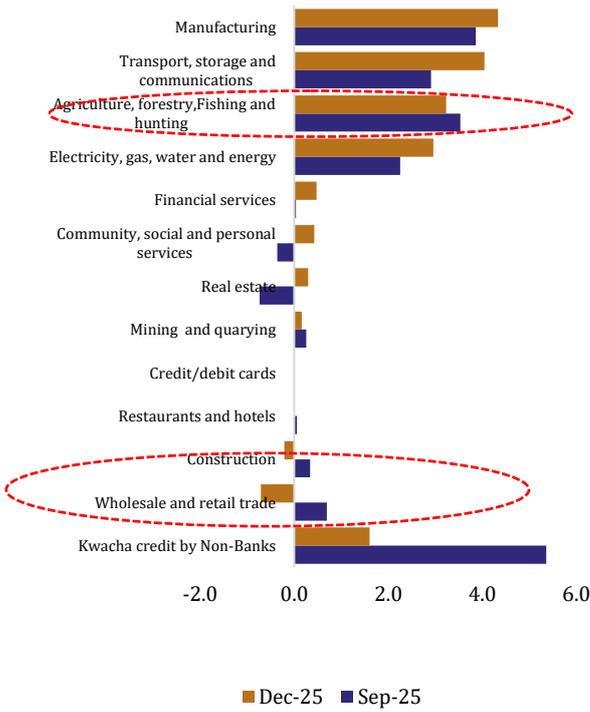
Source: Bank of Zambia

Figure 49: Private Sector Credit Growth by Currency (percent)



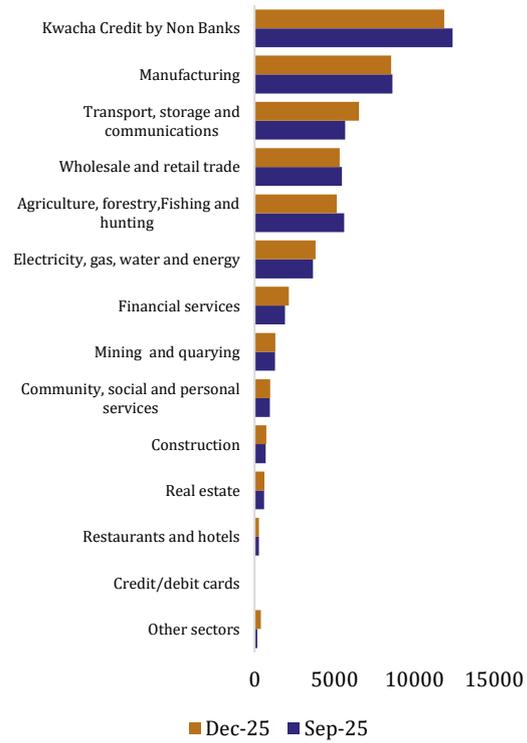
Source: Bank of Zambia

Figure 50: Sectoral Contribution to Annual Percent Change in Kwacha Denominated Private Sector Credit



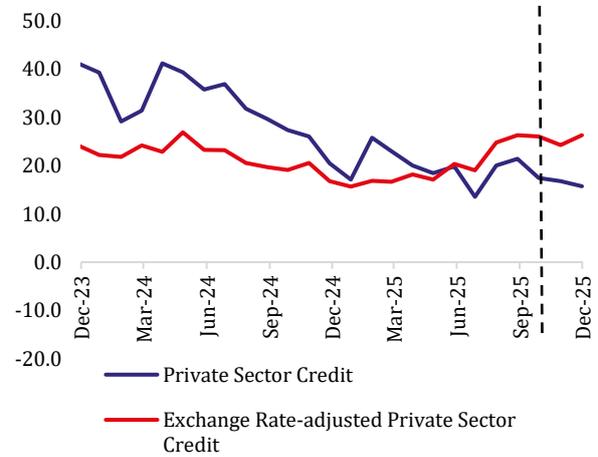
Source: Bank of Zambia

Figure 51: Stock Distribution of Private Sector Kwacha Denominated Credit (K'billion)



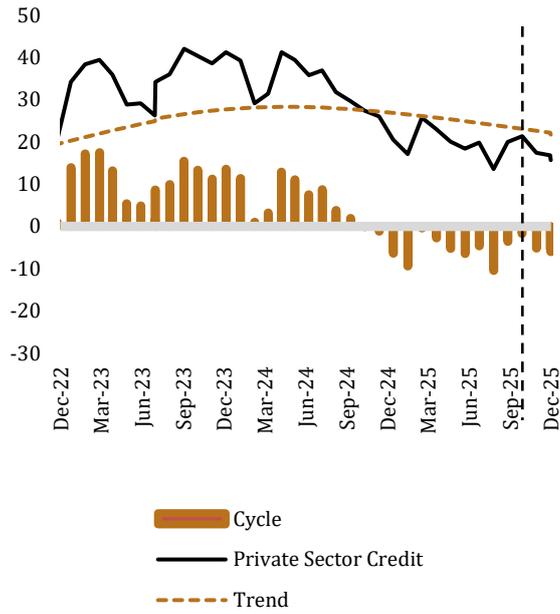
Source: Bank of Zambia

Figure 52: Private Sector Credit Growth (percent)



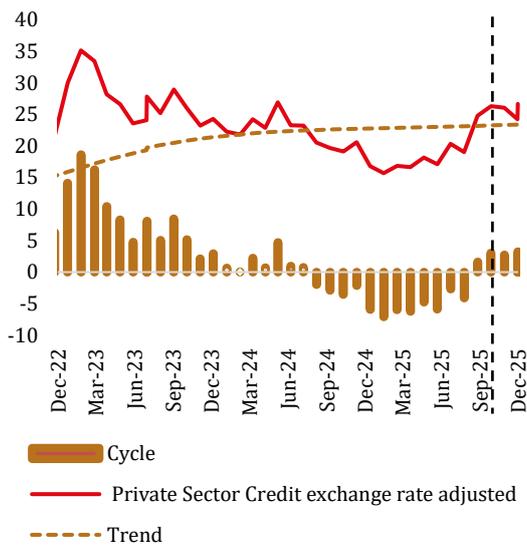
Source: Bank of Zambia

Figure 53: Trend in Private Sector Credit Growth (percent)



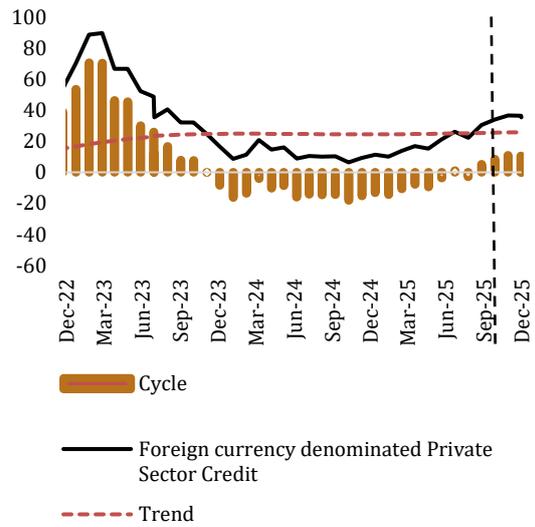
Source: Bank of Zambia

Figure 54: Trend in Exchange Rate-Adjusted Private Sector Credit Growth (percent)



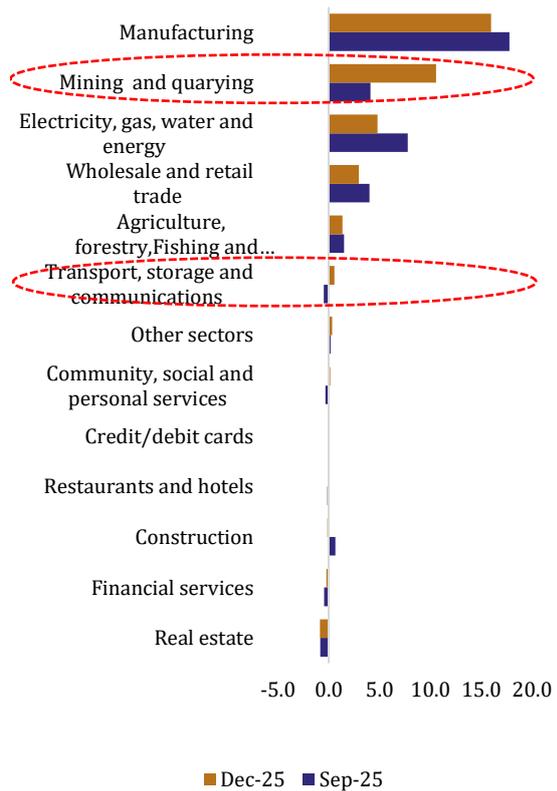
Source: Bank of Zambia

Figure 55: Trend in Foreign currency Denominated Private Sector Credit Growth Rate (year-on-year, percent)



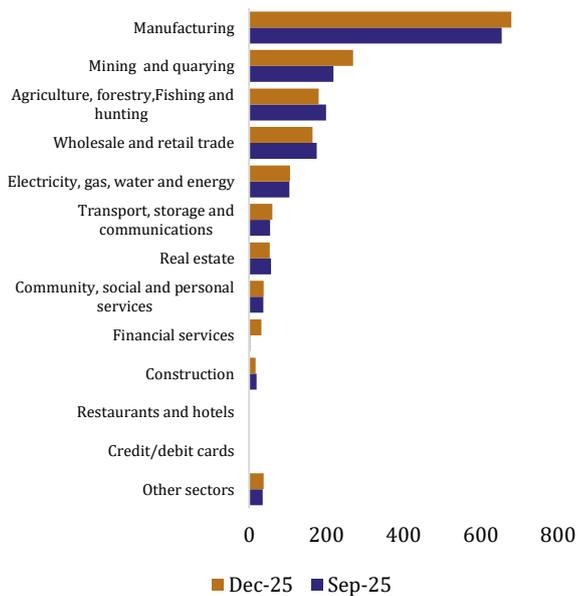
Source: Bank of Zambia

Figure 56: Sectoral Contribution to Annual Percent Change in Foreign Currency Denominated Private Sector Credit



Source: Bank of Zambia

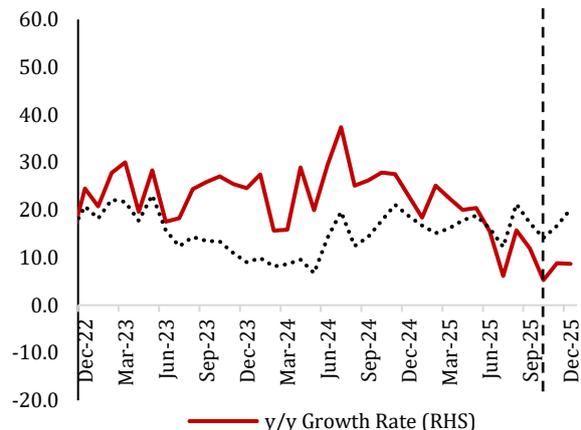
Figure 57: Stock Distribution of Foreign Currency Denominated Private Sector Credit (US\$, million)



Source: Bank of Zambia

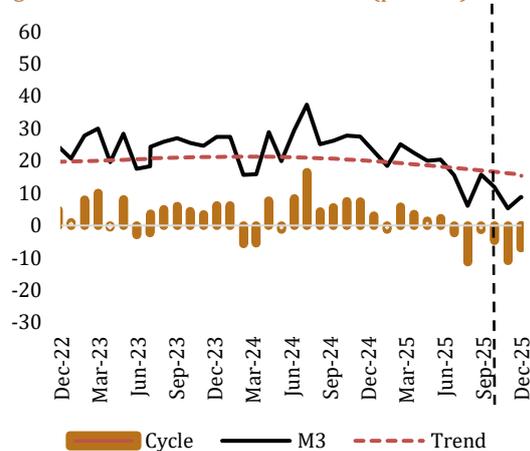
Money supply growth (M3)⁴⁴ moderated further to 8.7 percent in December from 11.9 percent in September and remained below the trend (Figure 58 and Figure 59). This was largely attributed to valuation effects following the appreciation of the exchange rate and moderate growth in Kwacha denominated private sector credit due to loan repayments. However, adjusted for exchange rate appreciation, M3 rose to 20.1 percent from 17.3 percent and remained above trend (Figure 60). This was attributed to the growth in foreign currency denominated private sector credit.

Figure 58: Money Supply Growth Rate (year-on-year, percent)



Source: Bank of Zambia

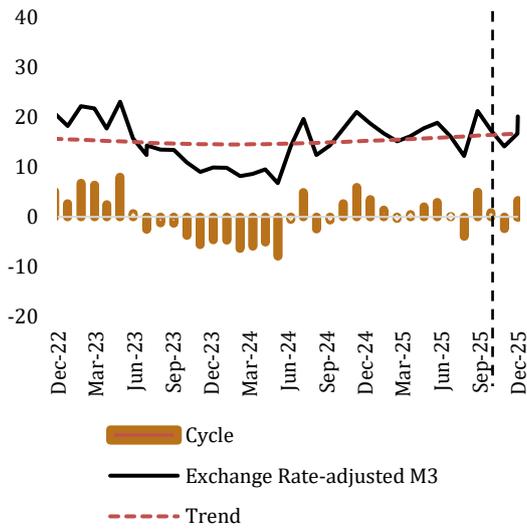
Figure 59: Trend in M3 Growth Rate (percent)



Source: Bank of Zambia

⁴⁴ M3 stock was K223.1 billion at end-December 2025.

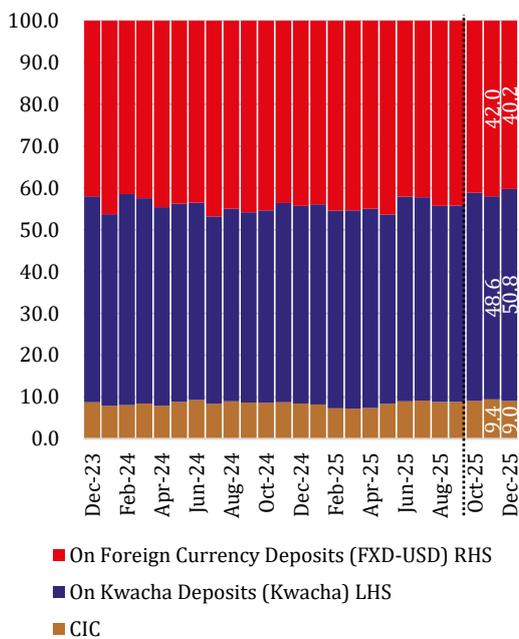
Figure 60: Trend in Exchange Rate-Adjusted M3 Growth Rate (percent)



Source: Bank of Zambia

The share of Kwacha deposits and currency held by the non-bank public in money supply rose to 50.8 percent and 9.0 percent from 47.0 percent and 8.8 percent, respectively (Figure 61). In contrast, the share of foreign currency deposits fell to 40.2 percent from 44.2 percent.

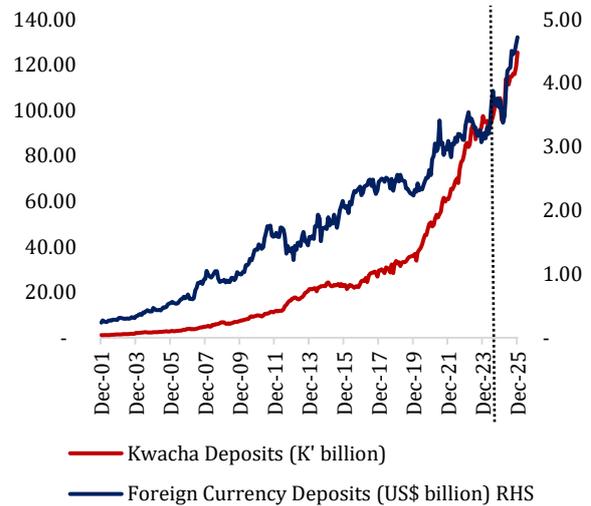
Figure 61: Share of Broad Money Components in M3 (percent)



Source: Bank of Zambia

Kwacha deposit and foreign currency liabilities increased further to K125.5 billion and USD4.7 billion at end-December from K116.2 billion and USD4.5 billion at end-September, respectively (Figure 62).

Figure 62: Commercial Bank Deposit Liabilities

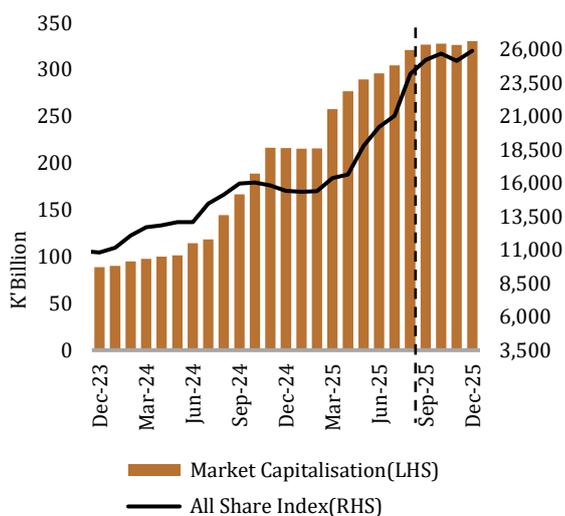


Source: Bank of Zambia

Equity Market

The LuSE All-Share Index maintained an upward trend in the fourth quarter, rising by 2.7 percent (Figure 63). As a result, market capitalisation expanded to K330.5 billion in December from K326.8 billion in September. Improved economic outlook and investor confidence reflected in increased demand by non-resident investors contributed to this strong performance.

Figure 63: Lusaka All-Share Index and Market Capitalisation



Source: Reuters and Bank of Zambia Compilations

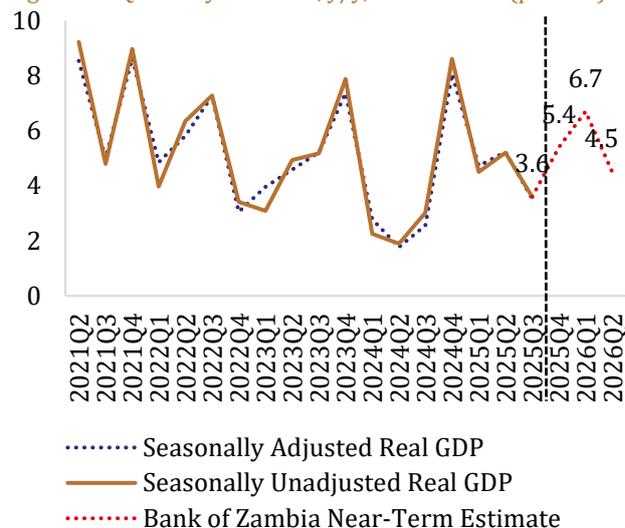
2.4 Domestic Economic Activity

... expands

As shown in Figure 64, preliminary Bank estimates indicate a 5.4 percent expansion in real GDP in the fourth quarter of 2025 compared to the 3.6 percent⁴⁵ outturn in the third quarter reported by the Zambia Statistics Agency. This was primarily driven by the increase in cement production (28.4 percent, y/y) and uptick in tourist arrivals (7.4 percent, y/y).

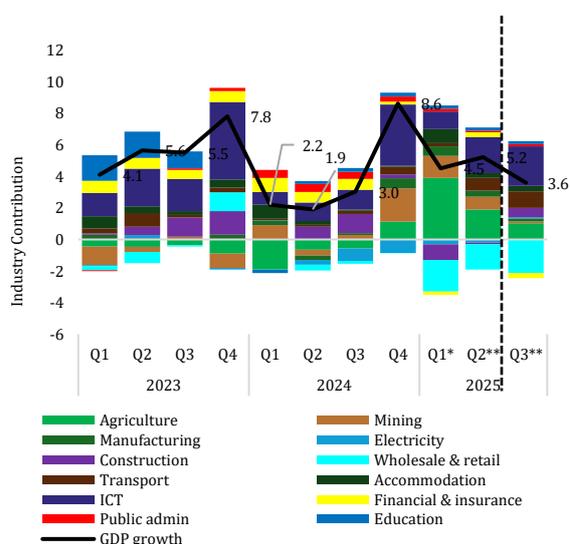
⁴⁵In the third quarter, GDP growth was mainly underpinned by positive contribution by ICT, agriculture, transport and storage, and construction sectors (Figure 65).

Figure 64: Quarterly Real GDP, y/y, Growth Rate (percent)



Source: Bank of Zambia

Figure 65: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)



Source: Zambia Statistics Agency and Bank of Zambia

* = revised ** = preliminary

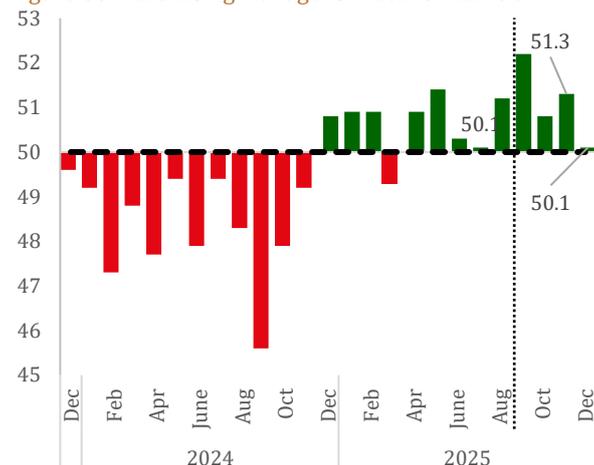
Note: Other includes public administration and defense, administrative and support service, transportation and storage, and education sectors.

Cement production was mostly driven by the rise in domestic demand for infrastructure projects, such as, rehabilitation of rail lines, construction of roads and civil works in several energy projects. The sustained increase in international meetings and

conferences explain the growth in tourist arrivals.

Private sector business conditions are reported to have remained positive in the fourth quarter as reflected in the *Stanbic Bank Zambia*⁴⁶ (PMI) average reading of 50.7 (Figure 66).

Figure 66: Purchasing Manager's Index for Zambia



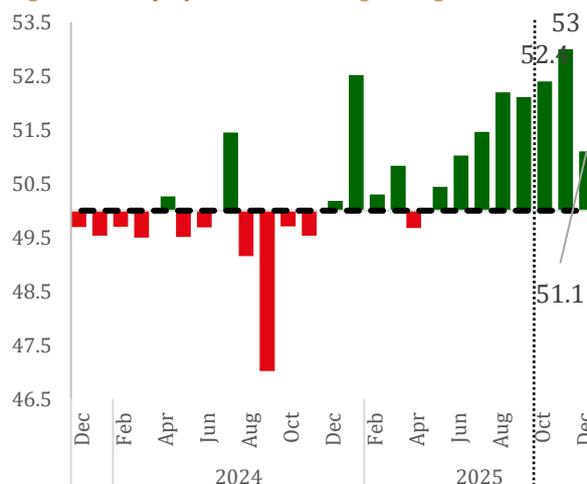
Source: Stanbic Zambia and Bank of Zambia Compilation

Favourable business conditions were largely underpinned by the rise in employment, inventories, and new orders.

Labour market conditions improved with Employment PMI averaging 52.2 from 51.9 in the third quarter. This was primarily due to a steady increase in new orders and output in the agriculture sector. Broadly, the pace of job creation surged to its highest level in November 2025 since January 2018, but softened in December 2025, marking the weakest growth rate since June 2025 (Figure 67).

⁴⁶The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: new orders, output, employment, suppliers' delivery times and stocks of purchases. A reading below 50 means business conditions

Figure 67: Employment Purchasing Managers' Index



Source: Stanbic Zambia and Bank of Zambia Compilation

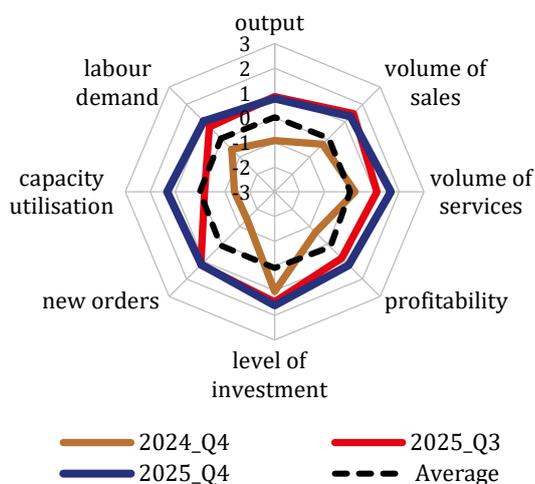
Inventories increased due to firm optimism and improved suppliers' delivery times. New orders expanded in the first two months but declined in December on account of improved marketing activities and demand conditions.

The observed positive economic activity in the quarter is broadly in line with the views expressed by respondents to the Bank's *survey*⁴⁷ conducted in November 2025 (Figure 68). This was premised on anticipated favourable exchange rate performance and improvement in electricity supply. Consequently, the outcome from the *February 2026 survey* has revealed improvement in new orders, labour demand, volumes of services, capacity utilisation, profitability, and investment (Figure 68).

deteriorated and above 50 reading means an improvement while 50 means no change in the business environment.

⁴⁷November 2025 Quarterly Survey of Business Opinions and Expectations

Figure 68: Business Opinion Response Patterns⁴⁸



Source: Bank of Zambia

2.5 Budget Performance

... constrained by external financing

Preliminary data indicate a lower-than-expected fiscal deficit in the fourth quarter of 2025. This largely reflects lower external financing.

2.6 Domestic Prices

... continue on declining trend

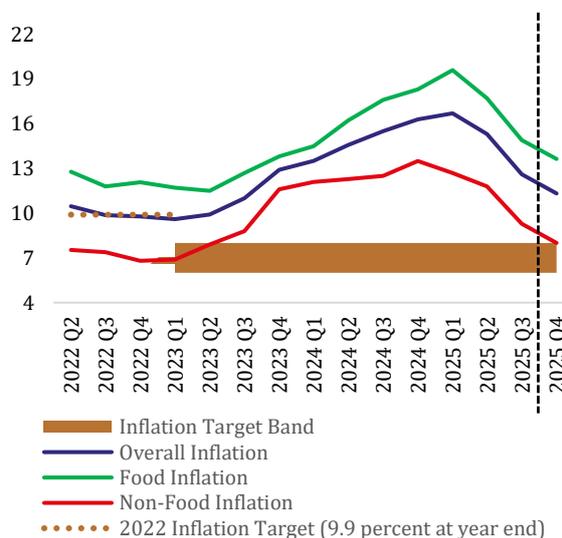
Inflation continued to decelerate in the fourth quarter but at a slower pace than in the previous quarter. Average overall inflation declined to 11.3 percent from 12.6 percent, representing a 1.3 percentage points drop relative to the 2.7 percentage points recorded in the third quarter (Table 12 and Figure 69).

Table 12: Inflation Rate (percent)

| | 2024 Q4 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 |
|--------------------|---------|---------|---------|---------|---------|
| Average | | | | | |
| Overall Inflation | 16.3 | 16.7 | 15.3 | 12.6 | 11.3 |
| Food Inflation | 18.3 | 19.6 | 17.7 | 14.9 | 13.6 |
| Non-Food Inflation | 13.5 | 12.7 | 11.8 | 9.3 | 8.0 |
| End-Period | | | | | |
| Overall Inflation | 16.7 | 16.5 | 14.1 | 12.3 | 11.2 |
| Food Inflation | 18.6 | 18.9 | 16.7 | 14.6 | 12.9 |
| Non-Food Inflation | 14.2 | 13.2 | 10.3 | 9.0 | 8.7 |

Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 69: Trends in Quarterly Inflation (year-on-year percent)



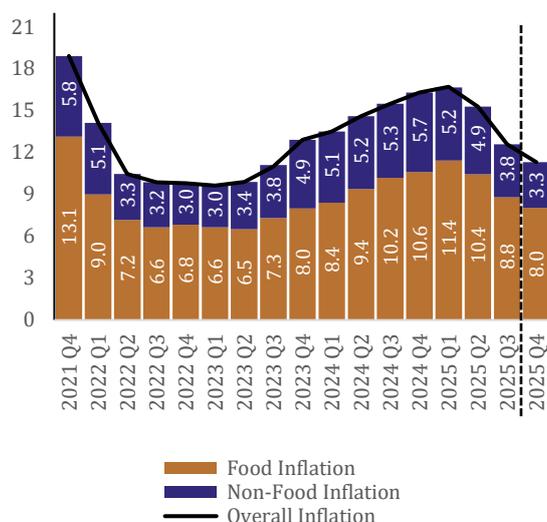
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Non-food inflation reached the upper bound of the 6-8 percent target band while food inflation remained elevated (Table 12 and Figure 69). The contribution of both components to overall inflation moderated (Figure 70).

⁴⁸Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than

the historical average and a value outside the black line signifies an improvement over the historical average.

Figure 70: Contribution to Overall Inflation by Food and Non-Food Inflation (percentage points)

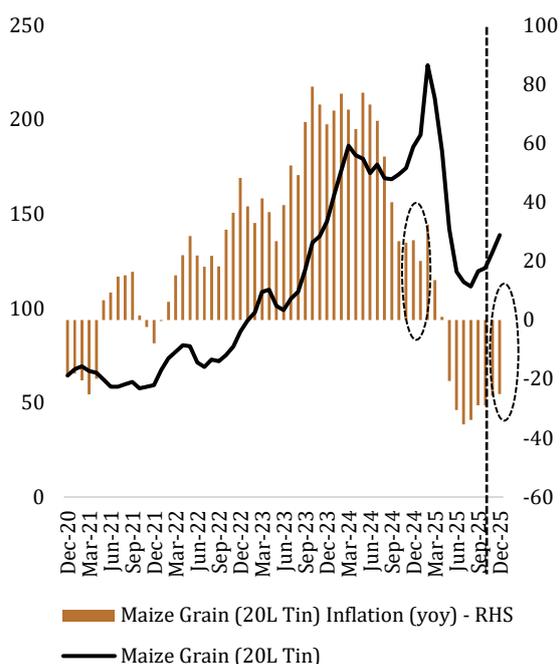


Source: Zambia Statistics Agency, Bank of Zambia Computations

Base effects in maize grain and its products as well as the appreciation of the exchange rate were the key factors that pushed inflation down.

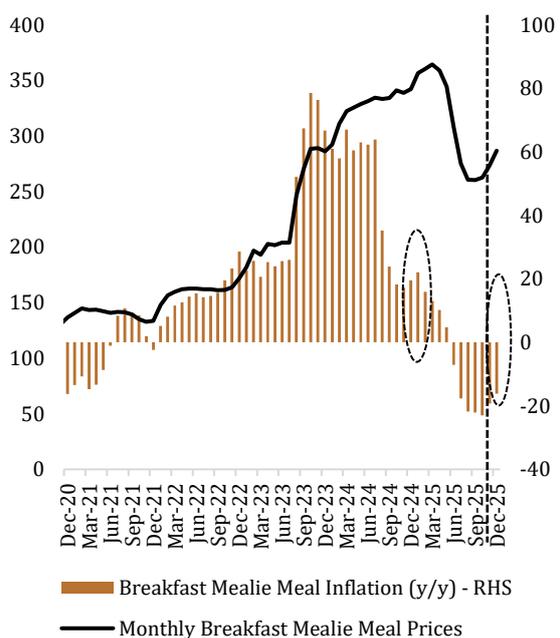
Rising maize grain and maize meal (breakfast and roller) prices, driven by seasonal scarcity during the lean period, were still lower than the corresponding period in 2024 (Figure 71, Figure 72 and Figure 73). As a result of base effects in these products (Figure 74), the contribution of the *bread and cereals* sub-group to food inflation reduced to almost zero (Figure 75).

Figure 71: Average Domestic Maize Grain Price (20Litre Tin)



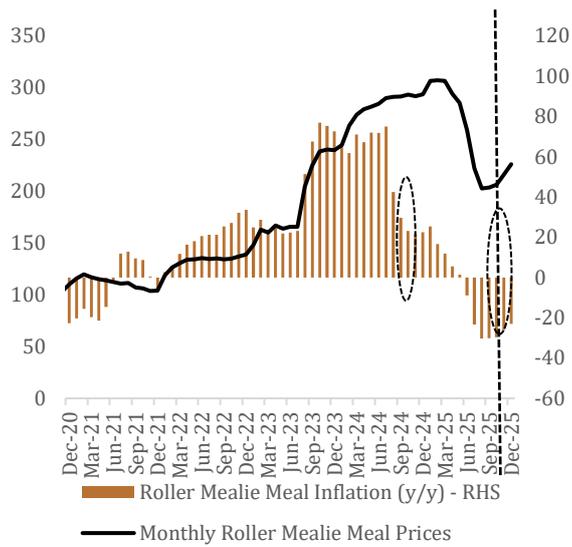
Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 72: Average Breakfast Mealie Meal Price (K/25kg)



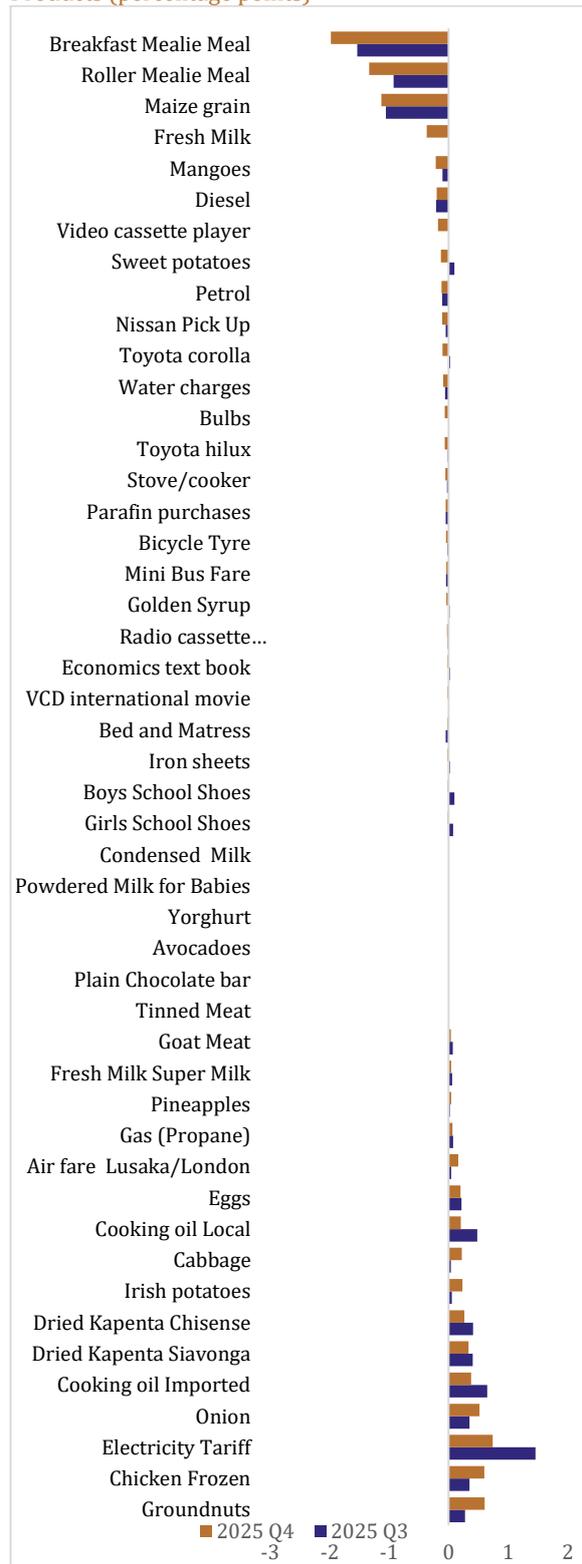
Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 73: Average Roller Mealie Meal Price (K/25kg)



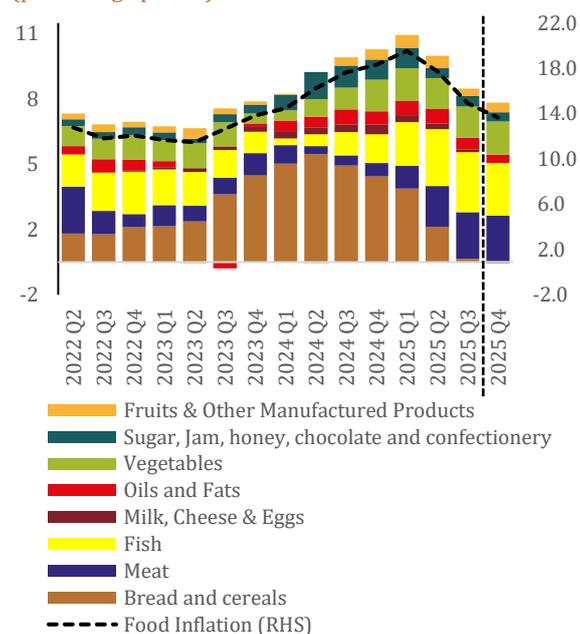
Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 74: Contribution to Overall Inflation by CPI Basket Products (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations

Figure 75: Contribution to Food Inflation by Sub-Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations

The appreciation of the Kwacha contributed to the reduction in the cost of key inputs used in the production of fresh milk (Figure 74). This led to a lower contribution of the *milk, cheese & eggs* sub-group to food inflation (Figure 75). Further, the appreciated exchange rate and festive seasonal promotions reduced the prices of imported and locally produced cooking oil (Figure 74). Consequently, the contribution of the *oils and fats* sub-group to food inflation declined (Figure 75).

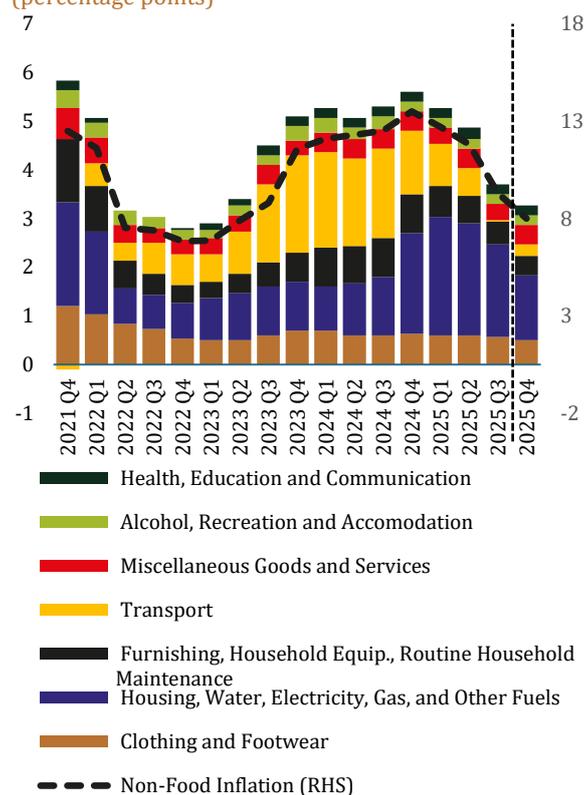
The slight reduction in the contribution of the *sugar (jam, honey, ...)* and *fish* sub-groups to food inflation was mostly occasioned by price promotions for golden syrup and clearance of old stock of dried kapenta (Figure 74 and Figure 75). Seasonal supply of mangoes also contributed to the decline in food inflation despite a higher contribution of the *fruits & other manufactured products* sub-group to food inflation (Figure 74 and Figure 75).

Nonetheless, low seasonal supply generated price pressures on groundnuts, onions, irish potatoes, cabbage, and pineapples (Figure 74) leading to a slight increase in the contribution of the *fruits (& other manufactured products)* and *vegetable* sub-groups to food inflation (Figure 75).

Non-food inflation was largely influenced by the sustained appreciation of the Kwacha that lowered prices of motor vehicles, school shoes, and cookers (Figure 74). This impacted the contribution of *clothing and footwear*, as well as *furnishing, household equipment and routine household maintenance* sub-groups to non-food inflation, with the exception of the *transport* sub-group (Figure 76).

Further, the downward adjustment in electricity tariffs for residential consumers and reduction in roofing sheet prices due to promotions led to a significant reduction in the contribution of the *housing, water, electricity, gas, and other fuels* sub-group to non-food inflation (Figure 76). However, seasonal demand for international travel pushed up air fares (Figure 74) resulting in a higher contribution of the *transport* sub-group to non-food inflation.

Figure 76: Contribution to Non-Food Inflation by Sub- Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations

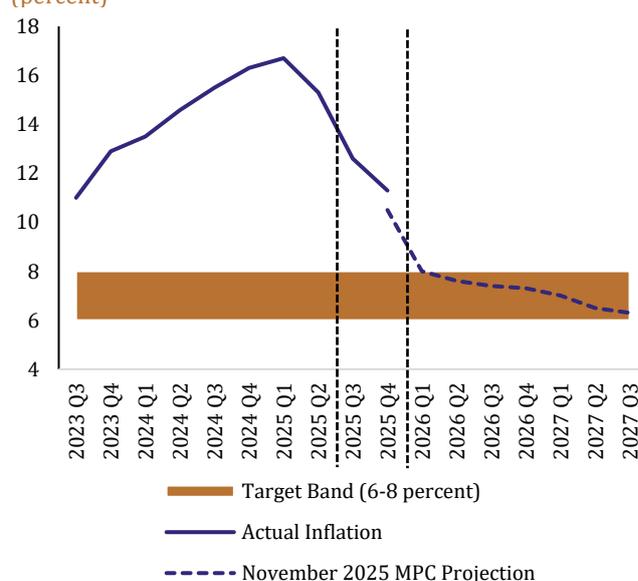
The inflation outturn of 11.3 percent exceeded the baseline and MPC projections by 0.8 percentage points (Table 13 and Figure 77).

Table 13: Assumptions underlying Inflation Projection in the Third Quarter of 2025

| | 2025 Q4 Assumed Value | 2025 Q4 Actual Value |
|--|-----------------------|----------------------|
| Average inflation-USA (percent) | 3.2 | 2.7 |
| Fed funds rate (percent) | 3.6 | 3.95 |
| Average inflation-South Africa (percent) | 4.0 | 3.6 |
| Average copper price/ton (US\$) | 9,687.35 | 11,110.45 |
| Average crude oil price/barrel (US\$) | 65.7 | 63.1 |
| Reserve money growth (percent) | 2.19 | 20.10 |
| Fiscal deficit (ratio of expenditure to revenue) | 1.20 | 1.21 |
| World food price index | 107.7 | 107.9 |
| BoZ monetary policy rate (percent) | 14.5 | 14.25 |
| Inflation projection | | |
| Baseline | 10.5 | |
| MPC | 10.5 | |
| November 2025 QSBOE expectations | 12.5 | |
| SoEE | 11.9 | |
| Inflation outturn (percent) | | 11.3 |
| Inflation estimate using actual values (percent) | | 10.1 |
| Exchange rate outturn | | 22.84 |

Source: Bank of Zambia Compilations, Reuters, South African Reserve Bank, World Bank Pink Sheet and Survey of Professional Forecasters

Figure 77: Actual and Projected Annual Overall Inflation (percent)



Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

The anticipated inflation of 12.5 percent and 11.9 percent by respondents to the *November 2025 Bank of Zambia Quarterly Survey of Business Opinions* and *Survey of Economic Expectations*, respectively was higher than the outcome (Table 14). Survey respondents expected inflation to continue to be impacted by the high cost of production occasioned by persistent electricity load management and

seasonal consumer demand during the festive season.

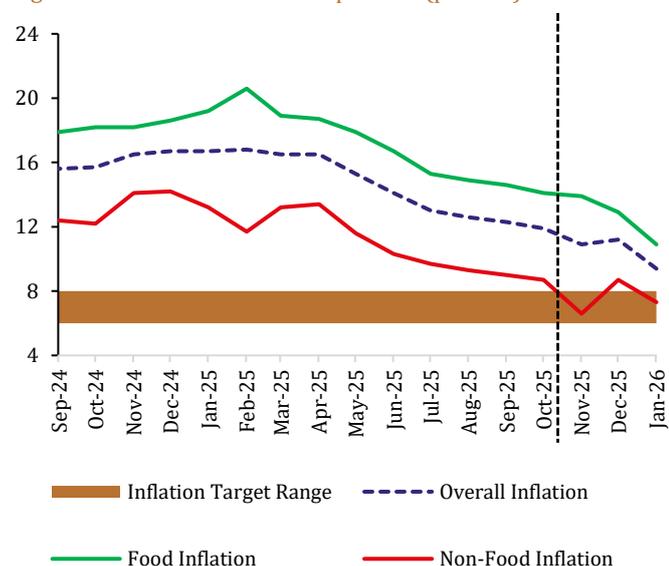
Table 14: Actual versus Inflation Projections⁴⁹

| | Actual Inflation | Baseline Projection | MPC Projection | QSBOE | SOEE | MPC Forecast Error | Baseline Forecast Error |
|---------|------------------|---------------------|----------------|-------|------|--------------------|-------------------------|
| 2022 Q2 | 10.5 | 11.4 | 11.6 | | | -1.1 | -0.9 |
| 2022 Q3 | 9.9 | 11.8 | 11.6 | | | -1.7 | -1.9 |
| 2022 Q4 | 9.8 | 10.5 | 10.6 | | | -0.8 | -0.7 |
| 2023 Q1 | 9.6 | 9.2 | 9.2 | | | 0.4 | 0.4 |
| 2023 Q2 | 9.9 | 9.0 | 11.6 | 10.6 | | -1.7 | 0.9 |
| 2023 Q3 | 11.0 | 10.3 | 10.3 | 10.7 | | 0.7 | 1.3 |
| 2023 Q4 | 12.9 | 13.1 | 13.1 | 12.4 | | -0.2 | -0.2 |
| 2024 Q1 | 13.5 | 13.2 | 13.2 | 13.8 | | 0.2 | 0.3 |
| 2024 Q2 | 14.6 | 13.8 | 14.7 | 14.9 | | -0.1 | 0.8 |
| 2024 Q3 | 15.5 | 15.5 | 15.8 | 15.5 | 15.7 | -0.3 | 0.0 |
| 2024 Q4 | 16.3 | 15.9 | 16.4 | 16.5 | 16.2 | -0.1 | 0.4 |
| 2025 Q1 | 16.7 | 16.7 | 16.5 | 17.3 | 16.3 | 0.2 | 0.0 |
| 2025 Q2 | 15.3 | 15.2 | 15.0 | 16.9 | 16.2 | 0.3 | 0.1 |
| 2025 Q3 | 12.6 | 12.0 | 12.0 | 14.7 | 13.9 | 0.6 | 0.6 |
| 2025 Q4 | 11.3 | 10.5 | 10.5 | 12.5 | 11.9 | 0.8 | 0.8 |

Source: Bank of Zambia Computations

In January 2026, inflation fell sharply to 9.4 percent from 11.2 percent recorded in December 2025 (Figure 78 and Table 15). While both food and non-food inflation contributed to the decline, the fall in the former was more pronounced as it dropped to 10.9 percent from 12.9 percent. Non-food inflation fell to 7.3 percent from 8.7 percent (Table 14).

Figure 78: Inflation and its Components (percent)



Source: Zambia Statistics Agency, Bank of Zambia Computations

Table 15: Monthly Inflation Rate (percent)

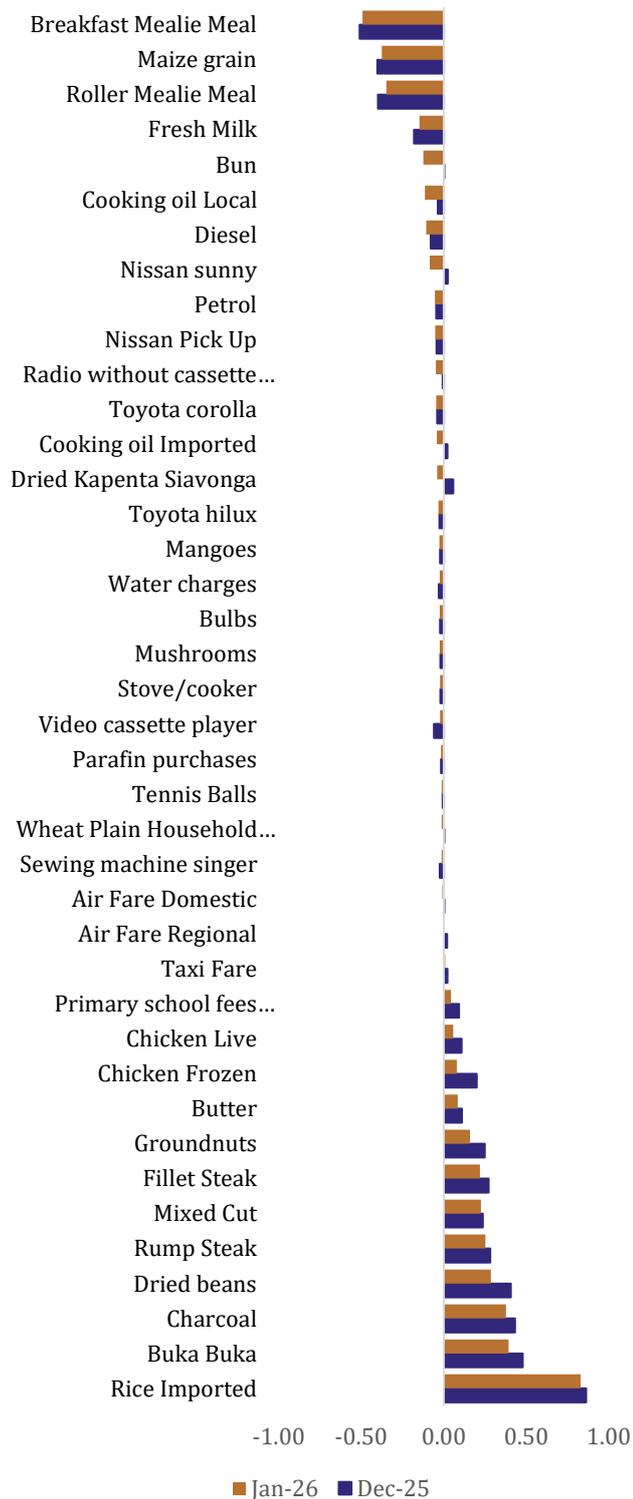
| | Sep 2025 | Oct 2025 | Nov 2025 | Dec 2025 | Jan 2026 |
|--------------------|----------|----------|----------|----------|----------|
| Overall Inflation | 12.3 | 11.9 | 10.9 | 11.2 | 9.4 |
| Food Inflation | 14.6 | 14.1 | 13.9 | 12.9 | 10.9 |
| Non-Food Inflation | 9.0 | 8.7 | 6.6 | 8.7 | 7.3 |

Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The easing of maize-related price pressures, reflected in the continued negative contribution of maize and its products to overall inflation was the main driver of the reduction in food inflation (Figure 79 and Figure 80). In turn, the contribution of the *bread and cereals* sub-group to food inflation reduced significantly (Figure 80). Further, reductions in prices of imported rice as well as buns and plain wheat on account of post-harvest supply reinforced the decline within this sub-group.

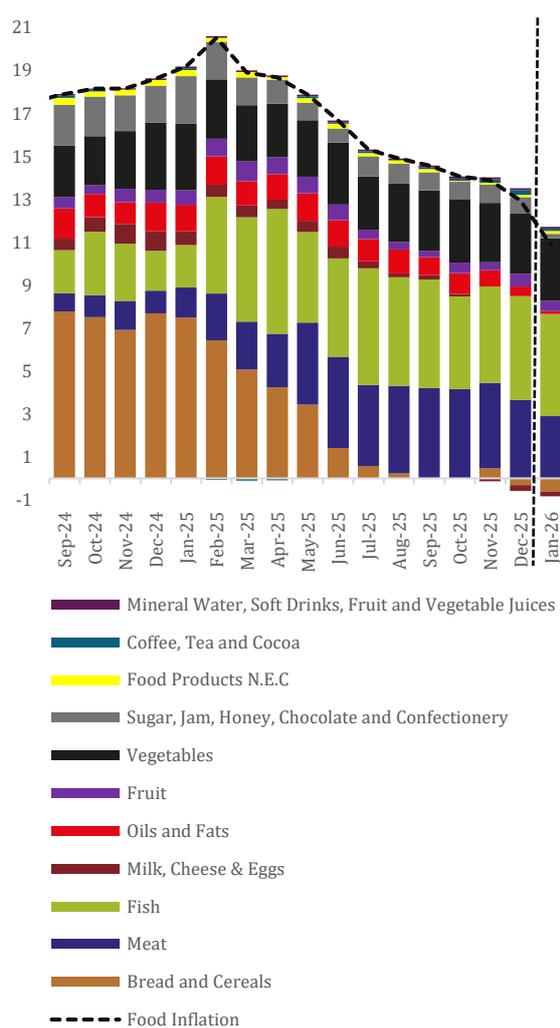
⁴⁹Data collection for QSBOE and SoEE commenced in 2023Q2 and 2024Q3, respectively.

Figure 79: Contribution to Overall Inflation by Products (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations.

Figure 80: Contribution to Food Inflation by Sub-Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations

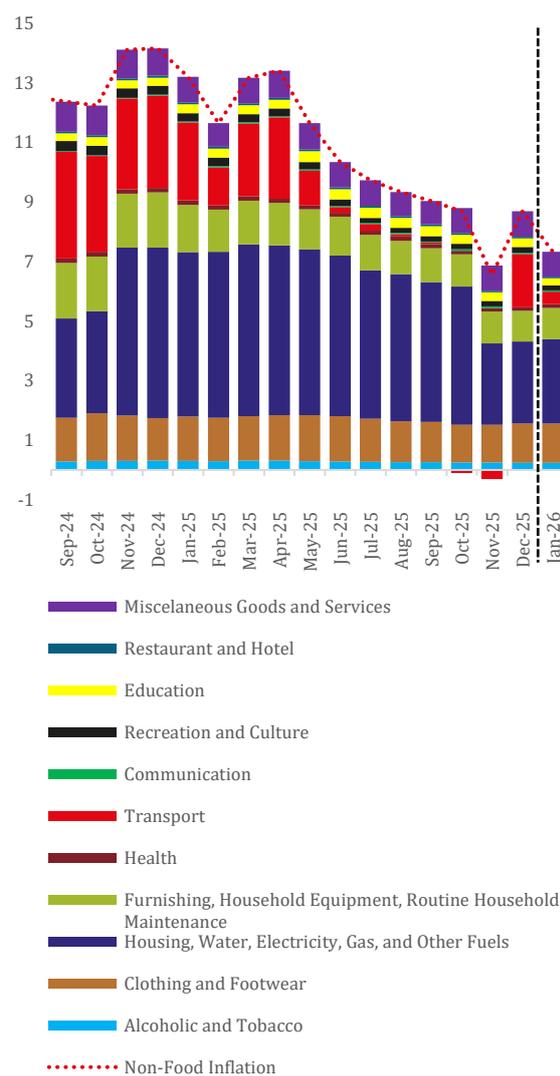
In addition, the appreciation of the Kwacha contributed to lower prices of inputs used in the production of fresh milk leading to sustained negative contribution of the *milk, cheese and eggs* sub-group to overall inflation (Figure 79 and Figure 80). The appreciated exchange rate also lowered the price of cooking oil resulting in a decline in the contribution of the *oils and fats* sub-group to food inflation. Extended promotions for sugar from the festive season led to the decline in the *sugar, jam, honey, chocolate and confectionery* sub-group.

Improved supply moderated prices of mangoes and groundnuts resulting in the

reduced contribution of the *fruits* sub-group (Figure 79 and Figure 80). Similarly, easing demand for meat and fish products helped moderate the prices of these commodities as illustrated in Figure 80. Consequently, the contribution of *meat* and *fish* sub-groups to overall inflation declined (Figure 80).

Non-food inflation was primarily influenced by developments in the *transport* sub-group. The reduction in diesel and kerosene prices, lower prices of imported motor vehicles following the appreciation of the exchange rate, as well as demand-driven reductions in regional and local air fares contributed to this decline (Figure 79 and Figure 81). Further, the smaller increase in private primary school fees relative to the corresponding period in 2025 contributed to the decline in non-food inflation. This resulted in a modest reduction in the contribution of the *education* sub-group to non-food inflation. In addition, the appreciation of the exchange rate helped lower the prices of several imported items, such as, light bulbs, stoves/cookers, cassette players, and sewing machines.

Figure 81: Contribution to Non-Food Inflation by Sub-Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Computations

Appendix

Monetary and Foreign Exchange Measures since April 2012

| Measure | Date Implemented | Rationale |
|--|-------------------|--|
| Policy Rate introduced and set at 9.0 percent | April 2, 2012 | Mechanism for signalling monetary policy stance as transition to inflation targeting |
| Policy Rate raised to 9.25 percent | October 31, 2012 | To contain inflationary pressures |
| Policy Rate raised to 9.50 percent | May 31, 2013 | To contain inflationary pressures |
| Policy Rate raised to 9.75 percent | June 28, 2013 | To contain inflationary pressures |
| Statutory reserve ratio raised to 14.0 percent from 8.0 percent | February 24, 2014 | To address excess liquidity in the money market and its impact on inflation |
| Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate | March 19, 2014 | To address excess liquidity in the money market and its impact on inflation |
| Access to OLF window restricted to once a week | | |
| Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US\$0.5m-US\$1m from US\$1m | March 28, 2014 | To moderate exchange rate volatility and bring orderliness in the interbank market |
| Interbank bid/ask spread increased to a maximum of K0.02 from K0.01 | | To enhance price discovery |
| Policy Rate raised to 10.25 percent | February 28, 2014 | To contain inflationary pressures |
| Policy Rate raised to 12.0 percent | March 28, 2014 | To contain inflationary pressures |
| Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves | May 30, 2014 | |
| Daily compliance on statutory reserve ratio re-introduced | | |
| OLF rate set at 10.0 percentage points above the Policy Rate | | |
| Policy Rate raised to 12.5 percent | November 19, 2014 | To contain inflationary pressures |
| Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed | December 10, 2014 | |
| Statutory reserve ratio raised to 18.0 percent from 14.0 percent | March 20, 2015 | |
| OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points | | |
| BoZ to discretionary trade any amount beyond marketable threshold on two-way quote | October 5, 2015 | To improve order, stability, and transparency in the foreign exchange market |
| BoZ to publish individual commercial banks' exchange rates on Reuters platform | | |
| Commercial banks to update board exchange rates three times a day as prescribed | | |
| Policy Rate raised to 15.5 percent | November 3, 2015 | To contain inflationary pressures |
| Interest rate caps removed, and consumer protection measures introduced | November 4, 2015 | To allow for better functioning of the credit market |
| OLF rate set at 1,000 basis points above the Policy Rate | November 10, 2015 | To contain inflationary pressures |
| Access to OLF Window restricted to once a week | November 18, 2015 | To contain inflationary pressures |
| Roll-over of intra-day loan into an overnight loan discontinued | | |

| Measure | Date Implemented | Rationale |
|--|-------------------|---|
| Interbank bid/ask spread increased to a maximum of K0.05 from K0.02 | May 19, 2016 | To improve price discovery |
| Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012) | February 22, 2017 | Fall in inflation; support economic growth |
| Statutory reserve ratio reduced to 15.0 percent from 18.0 percent | February 22, 2017 | Reduce the cost of funds and promote credit growth |
| OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously | February 22, 2017 | Reduce the cost of funds and promote credit growth |
| Policy Rate reduced to 12.5 percent from 14.0 percent | May 17, 2017 | Fall in inflation; support economic growth |
| Statutory reserve ratio reduced to 12.5 percent from 15.5 percent | May 17, 2017 | Reduce the cost of funds and promote credit growth |
| Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points | May 17, 2017 | To improve clarity of the policy stance and enhance effectiveness of monetary policy. |
| Policy Rate reduced to 11.0 percent from 12.5 percent | August 10, 2017 | Fall in inflation; support economic growth |
| Statutory reserve ratio reduced to 9.5 percent from 12.5 percent | August 10, 2017 | Reduce the cost of funds and promote credit growth |
| Policy Rate reduced to 10.25 percent from 11.0 percent | November 22, 2017 | Fall in inflation; support economic growth |
| Statutory reserve ratio reduced to 8.0 percent from 9.5 percent | November 22, 2017 | Reduce the cost of funds and promote credit growth |
| Policy Rate reduced to 9.75 percent from 10.25 percent | February 20, 2018 | Fall in inflation; support economic growth, financial system stability |
| Statutory reserve ratio reduced to 5.0 percent from 8.0 percent | February 20, 2018 | Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy |
| Policy Rate raised to 10.25 percent from 9.75 percent | May 22, 2019 | Rise in inflationary pressures and heightened upside risks |
| OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points | May 22, 2019 | Reduce volatility in the foreign exchange market contributing to inflationary pressures |
| OLF rate set at 1,650 basis points above the Policy rate from 775 basis points | November 14, 2019 | Reduce volatility in the foreign exchange market contributing to inflationary pressures |
| Policy Rate raised to 11.5 percent from 10.25 percent | November 20, 2019 | Rise in inflationary pressures and heightened upside risks |
| Statutory reserve ratio raised to 9.0 percent from 5.0 percent | December 23, 2019 | Reduce volatility in the foreign exchange market |
| Policy Rate cut to 9.25 percent from 11.5 percent | May 20, 2020 | To mitigate the adverse effects of COVID-19 on economic activity. |
| Additional standards of professional and ethical conduct for market players to enhance market discipline introduced. | May 2020 | To enhance market discipline |
| Mining companies required to pay non-mineral royalty obligations directly in US dollars. | May 2020 | To shore up international reserves. |
| Policy Rate cut to 8.0 percent from 9.25 percent | August 19, 2020 | To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity. |
| Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates. | November 6, 2020 | To stabilise the foreign exchange market. |
| Policy Rate raised to 8.5 percent from 8.0 percent | February 17, 2021 | To counter inflationary pressures and anchor inflation expectations. |

| Measure | Date Implemented | Rationale |
|---|-------------------|---|
| Policy Rate raised to 9.0 percent from 8.5 percent | November 24, 2021 | To steer inflation to single digits in 2022 and within the target range by mid-2023. |
| Statutory reserve ratio raised to 11.5 percent from 9.0 percent | February 8, 2023 | To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market |
| Policy Rate raised to 9.25 percent from 9.0 percent | February 15, 2023 | To steer inflation to within the target range by end-2023. |
| Policy Rate raised to 9.50 percent from 9.25 percent | May 17, 2023 | To steer inflation back into the target range of 6-8 percent |
| Policy Rate raised to 10.0 percent from 9.50 percent | August 23, 2023 | To steer inflation back into the target range of 6-8 percent |
| Statutory reserve ratio raised to 14.5 percent from 11.5 percent | November 13, 2023 | To relieve persistent foreign exchange market pressure with a view to rein in inflation. |
| Statutory reserve ratio raised to 17.0 percent from 14.5 percent | November 21, 2023 | Necessitated by persistent exchange rate pressures which were contributing to higher inflation. |
| Policy Rate raised to 11.0 percent from 10.0 percent | November 22, 2023 | To steer inflation back into the target range of 6-8 percent |
| Statutory reserve ratio raised to 26.0 percent from 17.0 percent | February 2, 2024 | Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation. |
| Policy Rate raised to 12.5 percent from 11.0 percent | February 14, 2024 | To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations. |
| Policy Rate raised to 13.5 percent from 12.5 percent | May 15, 2024 | To augment earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange rate channel and addressing rising inflation expectations. |
| Bank of Zambia Foreign Exchange Market Guidelines | May 24, 2024 | To enhance transparency, efficiency and effectiveness of domestic foreign exchange market in Zambia. |
| Government Securities as an Additional Asset Class for Minimum Reserve Requirements | June 5, 2024 | To moderate the cost of intermediation and provide flexibility to reserve requirement compliance. |
| Amendment to the Interbank Foreign Exchange Market Rules | June 11, 2024 | To improve transparency and strengthen the operations of the domestic foreign exchange market. |
| Policy Rate maintained at 13.5 percent | August 14, 2024 | The Committee judged that the monetary policy stance was appropriate despite actual and projected inflation remaining above the 6-8 percent target. |
| Policy Rate raised to 14.0 percent from 13.5 percent | November 13, 2024 | To steer inflation back towards the 6-8 percent target band and anchoring inflation expectations. |
| Policy Rate raised to 14.5 percent from 14.0 percent | February 12, 2025 | To steer inflation back to the 6-8 percent target band and help anchor inflation expectations. |
| Policy Rate maintained at 14.5 percent | May 23, 2025 | Maintaining the current stance of monetary policy was deemed appropriate considering the |

| Measure | Date Implemented | Rationale |
|--|-------------------|---|
| | | decline in inflation to 16.5 percent in April from 16.8 percent in February, the balance of risks that was still tilted to the downside, and the stability of the financial system. |
| Policy Rate maintained at 14.5 percent | August 13, 2025 | The decision to maintaining the Policy Rate was judged appropriate as inflation remained well above the 6-8 percent target band despite projected declining and falling within the 6-8 percent target band in the first quarter of 2026; decision to also allow for the consolidation of the gains made on inflation. |
| Policy Rate reduced to 14.25 percent | November 12, 2025 | Inflation continued to fall and projections indicated a faster deceleration towards the lower bound of the 6-8 percent target band over the forecast horizon, and the risks to the inflation outlook were judged to be supportive of lower inflation. |
| Policy Rate Reduced to 13.5 Percent | February 11, 2026 | Faster fall in inflation and the need to need to maintain an appropriate monetary policy stance. |



Bank of Zambia