Financial Stability Report

April 2025

Bank *of* Zambia

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This Financial Stability Report (FSR) is published pursuant to section 34 (2) of the Bank of Zambia Act, 2022. The report highlights key vulnerabilities and risks that may result in systemic risk concerns and thereby compromise financial stability. It also highlights macroprudential policy tool(s) that may be deployed to mitigate risks to the financial system.

The FSR was approved by the Financial Stability Committee ("FSC" or "Committee") in April 2025 and contains information available as at the time of approval.

As prescribed under section 32 (1) of the Act, members of the FSC are as follows:

1. Governor – Chairperson (Dr. Denny H. Kalyalya)
2. Deputy Governor responsible for financial stability – Vice Chairperson (Dr. Francis Chipimo)
3. Deputy Governor responsible for administration (Ms. 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 legal matters (Ms. Namwandi Ndhlovu)
6. Bank of Zambia senior management staff responsible for financial stability (Mr. Goodson Kataya)
7. Representative of the Securities and Exchange Commission (Mr. Philip K. Chitalu)
8. Representative of the Pensions and Insurance Authority (Ms. Namakau M. Ntini)

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Preface

Pursuant to section 5(1) of the Bank of Zambia Act, 2022, the Bank of Zambia formulates and implements monetary and supervisory policies to achieve and maintain price and financial stability. For the financial stability mandate, the Bank monitors the build-up of systemic risk wherein various indictors associated with components of the financial system are analysed individually and as a group. The Bank monitors and analyses developments in the macroeconomic environment, financial markets, institutions and market infrastructure.

Specifically, the FSC meets twice a year, in April and October, to review systemic risk developments over the past six months and decide on appropriate macroprudential policy measures. The decision-making process starts with the assessment of whether the buildup in systemic risk is sufficient to warrant action. Thereafter, an assessment of the macroprudential tool(s) that should be activated to mitigate the risk are identified. The activation of a macroprudential tool involves determination of the type of instrument used, its timing (when) and its calibration (level). If an instrument is already active, a decision must be made whether to increase, maintain or decrease its level. While the FSC has several policy instruments at its disposal, the countercyclical capital buffer (CCyB) is its key instrument for macroprudential policy.

Glossary of Key Terms

Unless or otherwise stated, in this report,

Financial stability shall mean that the financial system, comprising financial intermediaries, markets, and market infrastructure, is resilient to adverse shocks and can smoothly conduct its core tasks of intermediation of financing, transmission of payments, pricing of instruments and redistribution of risks appropriately to effectively contribute to sustained economic growth.

Systemic risk shall refer to the possibility that distress or failure of individual financial institutions, markets, infrastructure or instruments triggers severe instability or collapse of the entire system with adverse consequences on the real economy.

A vulnerability shall be described as a weakness or pre-existing condition which, if it interacts with a realized risk, would amplify the financial system stress.

Resilience shall refer to the capacity of financial institutions, markets or payments systems to absorb shocks and prevent them from amplifying and causing distress.

Macroprudential shall mean the use of prudential tools to limit systemic risks by strengthening the resilience of the financial system and decreasing the build-up of vulnerabilities, thereby ensuring a sustainable contribution of the financial sector to economic growth.

1. Overview of the Financial Stability Assessment

Systemic risk is assessed to have subsided since the release of the *October 2024 Financial Stability Report* (Table 1 and Chart 1). This was primarily on the back of a moderation in financial markets stress and subsiding macroeconomic risks. In spite of a moderation in risks to financial stability, there remain vulnerabilities residing in the financial system including the electricity supply deficit, low financial intermediation, an elevated share of foreign-currency denominated loans and maturity mismatches. The key risk to the financial system is the policy uncertainty and an escalation in the global trade war (and the associated risks of higher inflation and higher exchange rate volatility).

Table 1: Financial Stability Heatmap*

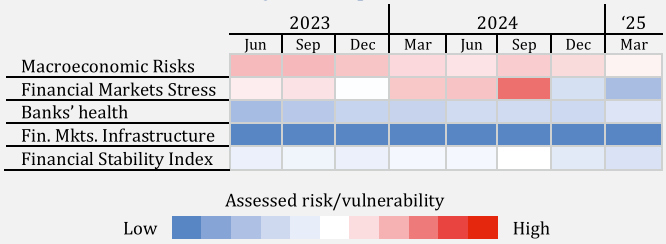
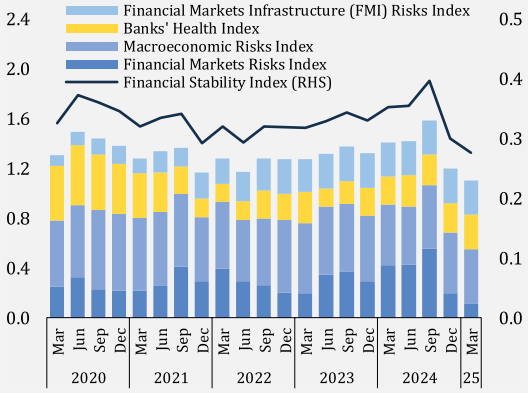


Chart 1: Financial Stability Index**



Note: * The Appendix provides details on how to interpret the heatmap. ** The Financial Stability Index , Chart 1, depicts the evolution of systemic risk in the financial system. An increase in the index implies increasing systemic risk while a decrease represents a decline. It also shows the evolution of risk in the main segments of the financial system and their contribution to the overall financial stability index.

Since the release of the *October 2024 Financial Stability Report*, macroeconomic risks have subsided following a moderation in growth risk due to a higher-than-projected growth in economic activity. Inflation risk marginally declined as the inflation trajectory peaked. Sovereign risk has also subsided on the back of falling public debt and narrowing fiscal deficit. However, private sector credit growth has been slower than GDP growth, with the level of financial intermediation remaining low. While the external sectors' buffers have remained robust, they could come under pressure in light of the escalating global trade war.

Financial markets stress is assessed to have eased following higher asset valuations (falling yields) and reduced volatility across the markets. This was despite the BoZ raising its policy rate by a cumulative 100 basis points since October 2024. The average spread of the overnight interbank market rate narrowed and volatility subsided after money market liquidity eased. Exchange rate variations were subdued by a moderation in demand.

Generally, financial markets infrastructure remained resilient and continued to facilitate the transfer and settlement of funds between counterparties. However, the risk of cyber-attacks persists in the medium term, as the financial system's reliance on technology grows.

The banking sector has remained adequately capitalised and resilient to shocks. The share of banks' non-performing loans (NPLs) has marginally contracted reflecting reduced credit risk. However, two key imbalances remain on banks' balance sheets. Firstly, the quality of their credit portfolio has been somewhat impaired by an increase in the proportion of foreign-currency-denominated loans. Secondly, vulnerability to interest rate risk has risen slightly in the wake of the widening liquidity gap or maturity mismatch.

While insurance corporations' revenue grew amid a recovery in economic activity, their lingering low profitability raises financial stability concerns, especially in the context of rising risks facing the insurers. Pension funds have continued contending with an elevated share of contribution arrears on their balance sheets, which raises liquidity risk. Additionally, higher inflation and an escalation in the global trade war pose threats to their profitability.

The FSC decided to maintain the **countercyclical capital buffer** at **0.0 percent**. This is on the basis that commercial banks' capital remains well above the regulatory requirement, underpinning their resilience to unexpected losses, and credit-to-GDP gap is below the Basel III recommended threshold, implying that the current growth in private credit is not excessive. Additionally, bank's NPL ratio has remained low implying low credit risk.

2. Systemic Risk Analysis

Macroeconomic Risks

Since the release of the October 2024 Financial Stability Report, macroeconomic risks have subsided following a moderation in growth risk due to a higher-than-projected improvement in economic activity. Inflation risk marginally declined as the inflation trajectory peaked. Sovereign risk has also subsided on the back of falling public debt and narrowing fiscal deficit. However, private sector credit growth has been slower than GDP growth, with the level of financial intermediation remaining low. While the external sectors' buffers have remained robust, they could come under pressure in light of the escalating global trade war.

Emerging Global Trade War Dents Prospects for Global Growth and Finance

Prospects for global economic activity and finance have been clouded by the emerging global trade war since the release of the *October 2024 Financial Stability Report*. The protectionist policies championed by the new US administration will not only further disrupt international trade and cooperation, but tighten global financial conditions. Reciprocal tariffs announced by the US administration on 2 April 2025, where a weighted average levy of 24 percent has been charged on all imports into America, would trigger a response from America's trading partners in addition to retaliatory tariffs already imposed by major trading partners, including China, Canada, and the European Union (EU). Besides heightening the global trade war which would strain growth, the radical US trade policy shift could also induce a turnaround in the inflation trajectory as costs of goods and services rise. Major central banks may respond by reversing the current less restrictive monetary policy regimes to rein in price pressures. The ensuing strengthening of the US dollar could constrict capital flows to emerging markets and developing economies, and lead to the depreciation of exchange rates. Global asset prices related to equity and bonds, which materially fell in response to the announcement (Chart 3 and Chart 4), are expected to remain subdued as investors fret about the potentially slower global demand and tighter financial conditions.

Table 2: Macroeconomic Risks Heatmap

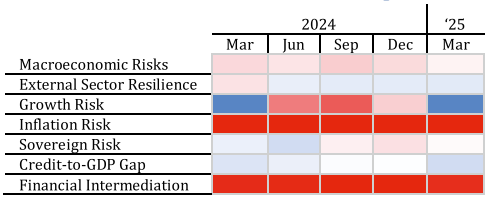


Chart 2: Macroeconomic Risks Index

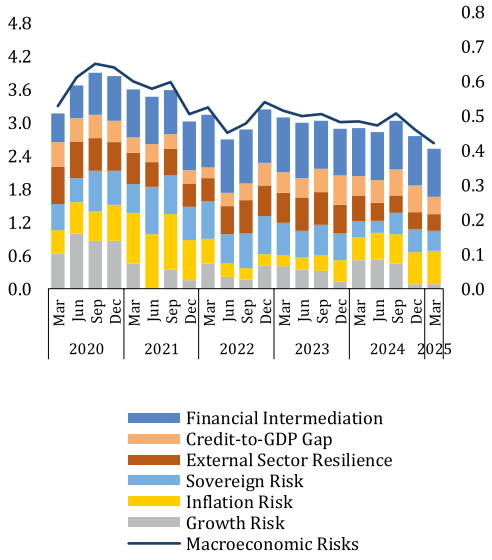
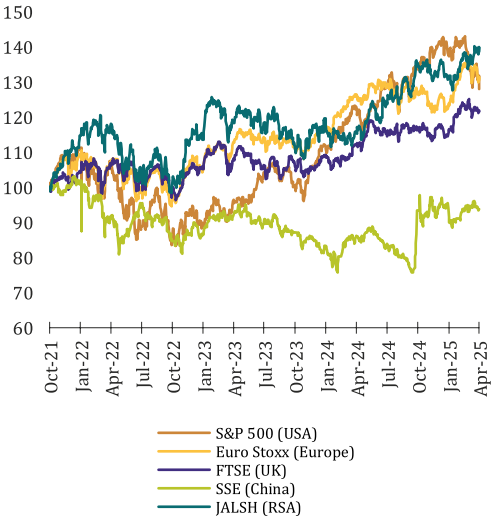
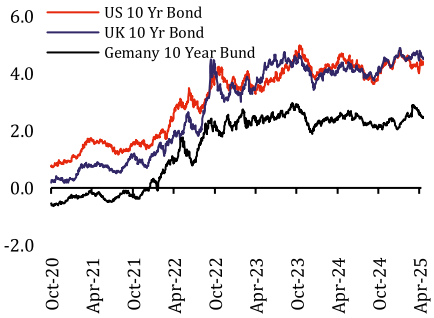


Chart 3: Selected Stock Market Indices



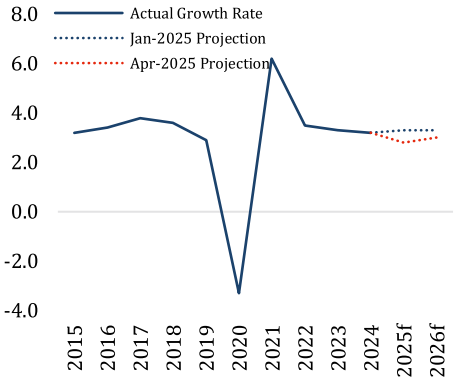
Source: Reuters and Bank of Zambia Compilations

Chart 4: US, UK, and German Average 10-Year Benchmark Bond Yield Rates



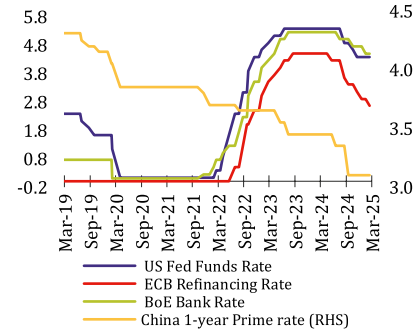
Source: Reuters and Bank of Zambia Compilations

Chart 5: Global GDP Growth (percent)



Source: IMF April 2025 World Economic Outlook (WEO) and Bank of Zambia Compilations

Chart 6: Selected Central Bank Policy Rates (Percent)



Source: Reuters and Bank of Zambia

Table 3: External Sector Resilience Heatmap

	2024				'25
	Mar	Jun	Sep	Dec	Mar
External Sector					
Current a/c bal-GDP					
Price of copper					
Reserves adequacy					
NRIGS					

Note: NRIGS stands for non-resident investments in Government securities and GIR for gross international reserves.

In the April 2025 *World Economic Outlook (WEO)*,the International Monetary Fund (IMF) reference forecast suggests that the global economy would expand by 2.8 percent in 2025 and 3 percent in 2026, 0.5 and 0.3 percentage points lower than the projections in the January 2025 WEO Update (Chart 5). Advanced economies are expected to grow at 1.4 percent in 2025, with the pace of growth in US economic activity expected to be 0.9 percentage points lower at 1.8 percent amid the policy uncertainty, escalating trade war and weaker demand. Euro area economic activity is projected to slow to 0.8 percent in 2025 due to "rising uncertainty and tariffs", but would later recover to 1.2 percent in 2026 on the back of expansionary fiscal policy in Germany and stronger consumption fueled by an increase in real wages. In emerging markets and developing economies, growth is projected to decrease to 3.7 percent in 2025 and 3.9 percent in 2026, with China's economy projected to grow at a slower pace of 4.0 percent, compared with 4.6 percent as per January 2025 WEO Update forecast. While major central banks like the Federal Reserve and the European Central Bank are expected to continue pursuing a less restrictive monetary policy stance in 2025 (Chart 6), they could pause cutting rates, or even make upward adjustments to their policy rates, should inflationary pressures fueled by tariff hikes prove to be more persistent than transitory.

Escalating Global Trade War Could Test External Sector Resilience

Zambia's external sector resilience has remained somewhat strong since the *October 2024 Financial Stability Report.* Reserves adequacy, which measures the country's capacity to absorb external shocks, remained robust at 4.6 months of import cover (Table 3 and Chart 7). Copper prices were buoyant during the review period and rose above the US$10,000 mark in March 2025 after traders preemptively bought the industrial metal in anticipation of higher prices due to tariff hikes (Chart 8).

However, the robust external sector buffers could come under pressure from the growing risks in light of a drastic shift in the US trade policy. The full implementation of reciprocal tariffs announced by the US administration and the rollback of development assistance programs would further test the country's external sector resilience. Directly, the impact of the imposition of a 17 percent levy on Zambia's exports to the US would be benign as the value of its exports to the US is minimal (Chart 8). Indirectly, the impact could be larger: Copper prices have already retreated drastically on fears that the trade war would lead to lackluster global demand for the industrial metal

(Chart 9) and further devaluations of the metal would dampen export proceeds. This, coupled with constrained capital inflows could exacerbate the already limited foreign currency liquidity and lead to the depreciation of the exchange rate. Additionally, the reduction in the flow of foreign aid could strain fiscal funding. Therefore, the global trade war raises the risk of worsening balance of payments challenges, further exchange rate depreciation, higher inflation, wider budget deficit and higher unemployment. Threats to the country's external sector resilience could dissipate should inflationary pressures, potentially triggered by the escalation of the trade war, prove to be transitory. Global financial conditions could moderate if major central banks continue with the less restrictive monetary policy stance. Lower US dollar interest rates and a depreciated US dollar could reduce the risk of capital outflows from the economy and ease pressure on the exchange rate. As discussed in the *October 2024 Financial Stability Report*, stability in the exchange rate could lead to reduced inflationary pressures and consequently lower interest rates and credit risk on financial institutions' balance sheets. Increased capital inflows would also further boost reserves adequacy and the capital account, thereby reinforcing the economy's ability to absorb external shocks.

Growth and Inflation Risks Moderate

Since the *October 2024 Financial Stability Report,* growth and inflation risks have moderated against a backdrop of electricity shortages (Table 4 and Chart 10). Preliminary economic growth figures indicate that the value of goods and services produced surged to 8.6 percent in the twelve months to December 2024 (Chart 11), with the annual growth rate for 2024 estimated at 4 percent primarily due to robust growth in the information and technology sector, coupled with the recovery of the mining sector (Chart 12).

This pace of growth outperformed the Bank of Zambia (BoZ) projection of 2.2 percent, and the Finance Ministry's forecast of 1.2 percent in January 2025. The latest consumer price index (CPI) reading indicates that growth in consumer prices slowed to 16.5 percent in March 2025, from 16.7 percent previously (Chart 13), demonstrating easing inflationary pressures following a reduction in food prices.

In the near- to medium-term, growth and inflation risks to financial stability are expected to reduce further on the back of higher precipitation levels in 2024/2025 rainy season, and a pickup in mining output (Chart 14). Improved rainfall would not only spur a strong recovery

Chart 7: International Reserves Adequacy

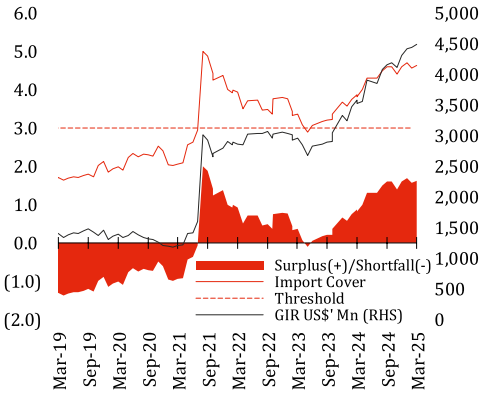


Chart 8: Exports and Trade Balance of Selected Trading Partners (US$ Billion)

Source: United Nations Commodity Trade Statistics

Chart 9: Copper prices (US$/ton)

Table 4: Growth and Inflation Risks Heatmap

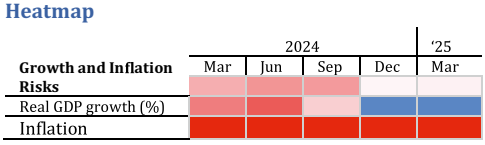
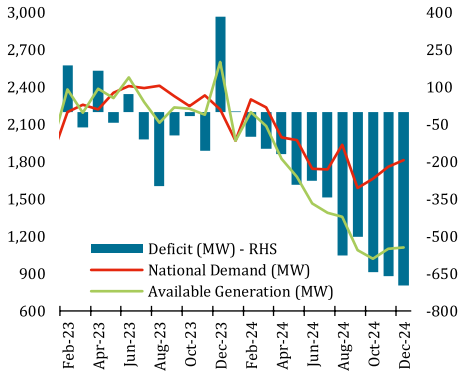
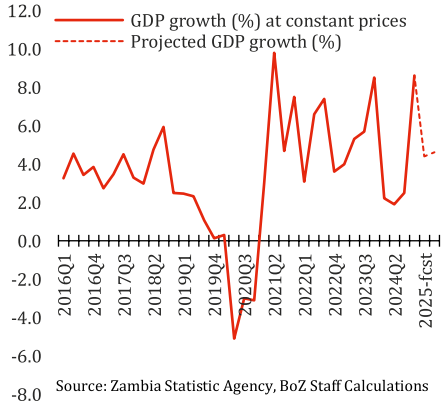


Chart 10: Power generation, demand and deficit in megawatts (MW), 2023-2024



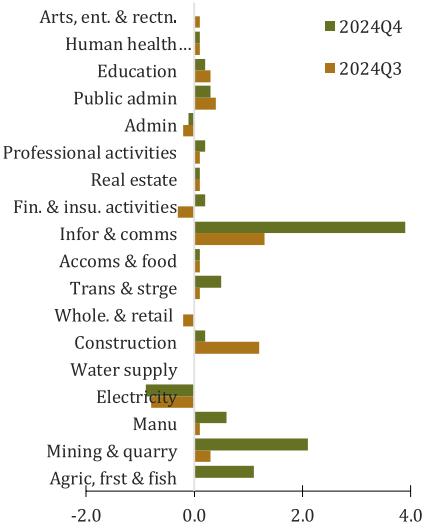
Source: Zambia Electricity Supply Corporation Limited, BoZ Staff Calculations

Chart 11: Real GDP Growth (%)



Source: Zambia Statistic Agency, BoZ Staff Calculations

Chart 12: Sectoral Contribution to Growth



Source: Zambia Statistics Agency, BoZ Staff Calculations

of the agriculture sector and suppress food-related inflationary pressures further but also help compress the electricity deficit and mitigate the risk of extended loadshedding periods. The latter would reduce business and financial risks for private sector players. Additionally, to help address risks to financial stability arising from the food and energy shocks, the BoZ introduced the Stability and Resilience Facility (SRF), on 31 December 2024 to stimulate credit flow to agro-businesses and other businesses affected by the drought or water and electricity shortages. These developments would culminate into lower credit risk for lenders and perhaps boost their appetite to raise the flow of funds to businesses and help sustain momentum in overall output growth.

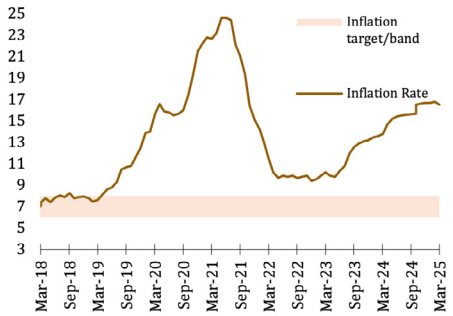
Sovereign Risk Expected to Decline Further

Financial stability risks related to the sovereign have continued to decline as the fiscal gap narrows (Table 5). The fiscal deficit is estimated to have narrowed to 4.2 percent of GDP in 2024, lower than the revised target of 6.4 percent, and is expected to remain on the downward trajectory in the near and medium term as Government continues to tighten expenditure and strengthen revenue mobilization (Chart 15 and Chart 16). As discussed in the *February 2024 Monetary Policy Report*, fiscal adjustment measures, including the removal of inefficient subsidies, as well as the implementation of administrative and policy measures to bolster fiscal revenue generation amid the expected growth in economic activity in key sectors would help narrow the fiscal gap.

However, there remains fiscal risks in the near-term. Prominent among them is the risk associated with the cut in US foreign aid flow which could strain fiscal funding and widen the deficit. US foreign aid plays a critical role in supporting social welfare, especially in complementing Government's efforts in the provision of healthcare and education. To plug the fiscal funding gap the withdrawal of aid would create, the Treasury would have to turn to the domestic markets. This would mean that the odds of the budget deficit narrowing to the projected levels of 3.1 percent of GDP in 2025 and 2.4 percent in 2026 could diminish. More importantly, yields on Government securities would rebound, thereby raising interest costs and shrinking funds available for discretionary spending.

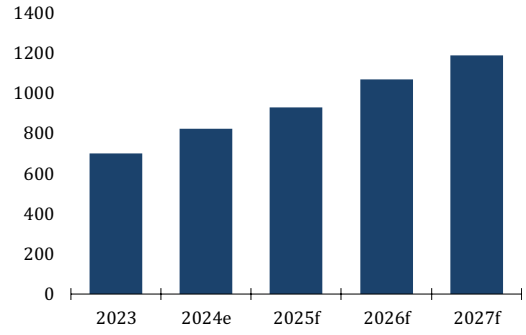
Further, should Government increase its reliance on Government securities to plug the fiscal gap, interest rates would rise. Commercial banks' exposure to the Government would also rise. In other words, the sovereign-bank nexus, which relates to the interconnectedness that exists between Government and banks in terms of the latter's exposure to the former (loans and securities) and Government's deposits in banks, could strengthen and raise systemic risk concerns(Chart

Chart 13: Annual Inflation (%)



Source:Zambia Statistics Agency,BoZ Staff Calculations

Chart 14: Copper Actual Production and Projections('000 Metric Tons)

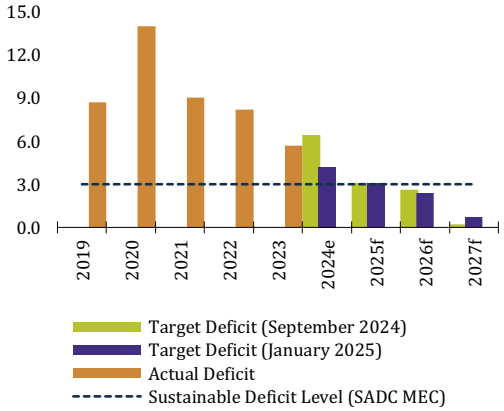


Source: Ministry of Mines and Mineral Development. Ministry of Finance and National Planing, BoZ Staff compilations

Table 5: Sovereign Risk Heatmap

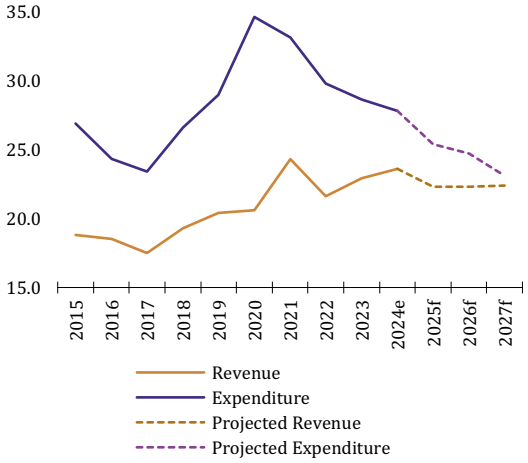
	2024				'25
	Mar	Jun	Sep	Dec	Mar
Sovereign Risk					
Public debt-to-GDP					
Fiscal deficit					

Chart 15: Fiscal Deficit – Cash Basis (percent of GDP)



Source: Ministry of Finance and National Planing, BoZ Staff compilations

Chart 16: Revenue and Expenditure (percent of GDP)



Source: Ministry of Finance and National Planing, BoZ Staff compilations

Chart 17: Sovereign-Bank Interlinkages, by Banks Exposure to Govt (K'Billion)

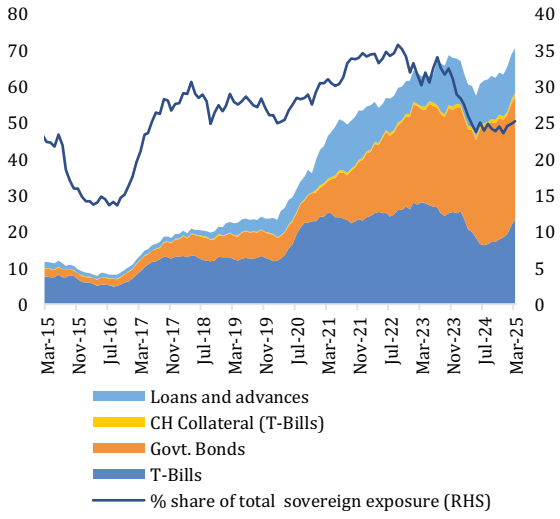


Chart 18: Private Credit (K'billion)

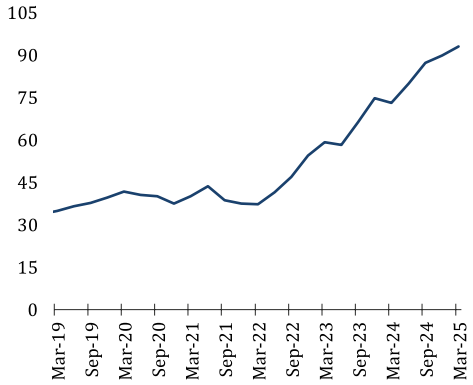


Chart 19: Private Credit to GDP Gap (PPts)

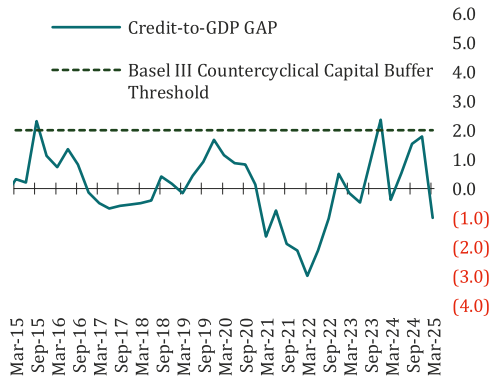


Chart 20: Private Credit to GDP (%)

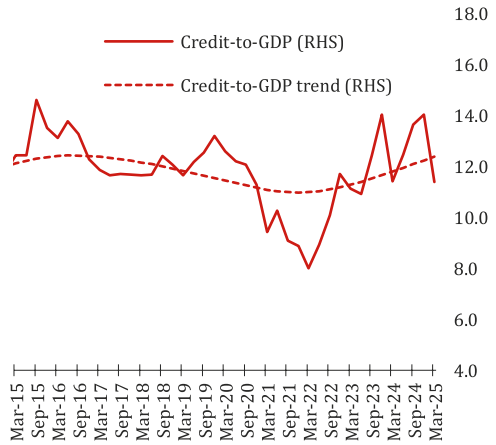


Chart 21: Financial Intermediation

17). The potential re-deepening of sovereign-bank nexus could raise the risk of contagion as the Government's failure to meet its obligations to banks could lead to liquidity shortages, material losses and insolvency. It would also reinforce the crowding out of private sector investments and consumption

Private Credit Growth Slows and Financial Intermediation Stagnates

Since the *October 2024 Financial Stability Report*, growth in private credit has slowed despite the broadly low share of non-performing loans (NPLs) on lenders' balance sheets (See section on *The Share of Banks' Non-performing Loans Contracts While the Proportion of Foreign Currency Loans Marginally Impair the Quality of their Credit Portfolio).* Private credit, which is total credit flow to the real sector that excludes loans and advances to Government, grew at 6.5 percent in the six months to March 2025 compared with 19.4 percent between March and September 2024 (Chart 18).

With this level of credit growth, the credit-to-GDP gap has contracted to -1.0 percent (Chart 19). Although the pace of credit growth is indicative of muted risks associated with credit expansion, it demonstrates that private credit is growing below its potential relative to economic growth (Chart 20). The ratio of private credit to GDP has shrunk by 2.2 percentage points to 11.4 percent (Chart 20). Underlying the narrowing credit base is a longstanding imbalance in the financial landscape relating to low financial intermediation. Financial intermediation, which is measured by commercial banks' share of total loans relative to their customers' total deposits (the loan-to-deposit ratio) has stagnated at a level just below the 40 percent mark (Chart 21). It shows that the pace at which banks create money is low because they only lend out less than half the funds they receive in deposits. Low financial intermediation suggests that the availability of credit is limited, due to factors like elevated risk aversion or tightening of lending standards by banks.

With constrained access to credit by borrowers' – especially small and medium enterprises (SMEs) – investments and the economy's ability to sustain growth are curtailed. Limited banking sector maturity transformation denies businesses and households the much needed liquidity and could in turn raise default risk for lenders. The financial system would not be able to smoothly deliver its core function of intermediating funds and promoting sustained growth of the economy.

Growth in Non-Financial Corporates Debt Steady

Indebtedness [1] of non-financial corporations (NFCs)[2] has remained steady amid lackluster economic activity, high price pressures and elevated interest rates. Their debt steadily grew by 7 percent to K65.2 billion. At this level, lenders' claims on businesses only account for 8.0 percent of GDP, compared with 9.5 percent six months ago (Chart 23). The debt to GDP ratio is used to determine debt sustainability of businesses. Therefore, at 8.0 percent, corporations' vulnerability to disturbances, which may constrain their repayment capacity, is fairly low. As alluded to in the *Private Credit Growth Slows and Financial Intermediation Stagnates* section, it also demonstrates that their access to credit is growing below its potential relative to the growth in economic activity.

Available data relating to NFCs listed on the Lusaka Securities Exchange (LuSE) suggests their profits as well as capitalisation grew in the twelve months to December 2024 (Chart 24 and Chart 25). Increasing profitability and solvency also highlights listed NFCs ability to withstand shocks and repay their debt.

Nonetheless, the results of the *March 2025 Systemic Risk Survey (SRS)* suggest that NFCs are wary of risks in the macroeconomic environment whose materialization could, directly or indirectly, undermine their profitability and solvency. NFC's chief executive officers and chief financial officers polled indicated that climate risks and higher consumer prices would have the greatest impact on financial stability, with the former being perceived as the most difficult to manage (see *Box A*). This is not surprising considering the heavy toll the electricity shortages have had on their business operations.

Households Debt Grows Modestly Amid Emerging Fragilities

Household debt has grown modestly by 4.9 percent to K32.8 billion (Chart 26) since the *October 2024 Financial Stability Report*. This was on the back of a 5.9 percent growth in salary-backed loans. Financial intermediaries' household credit portfolio is still heavily skewed towards low-risk salary-backed loans (92 percent share) largely because of the low risk associated with them. Although financial institutions' claims on individual borrowers rose, households' relative indebtedness has contracted. The household debt relative to GDP has fallen to 3.4 percent from 4.1 percent previously (Chart 27). This implies that credit expansion to households grew at a pace lower than the growth in economic activity.

Chart 22: Non-Financial Corporates and Businesses' Indebtedness (K'billion)

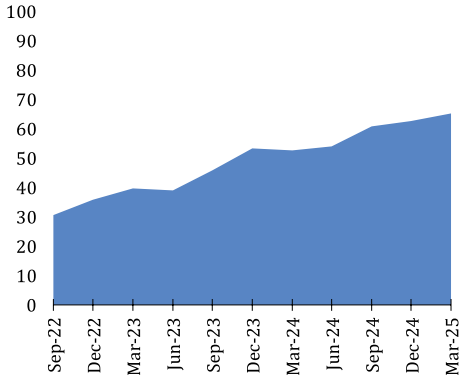


Chart 23:N FC's Indebtedness to GDP (%)

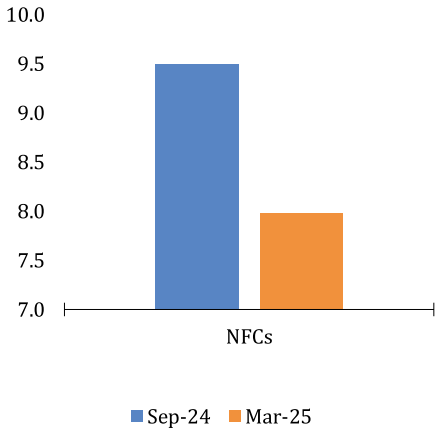


Chart 24: Listed Companies Equity (K' Billion)

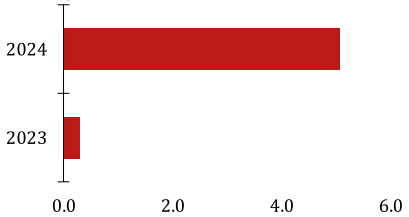
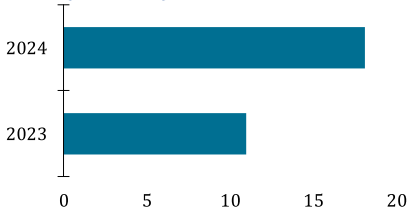


Chart 25: Listed Companies Annual Net Profit (K' Billion)



[1] Banks loans and advances to non-financial corporates.

[2] Businesses that produce and sell goods and non-financial services, excluding those primarily engaged in financial activities.

Chart 26: Household Exposure to Banks and NBFIs (K' billion)

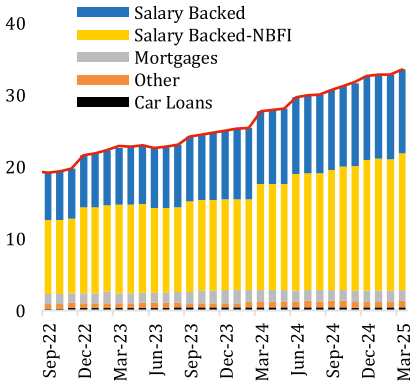


Chart 27: Household's Indebtedness to GDP (%)

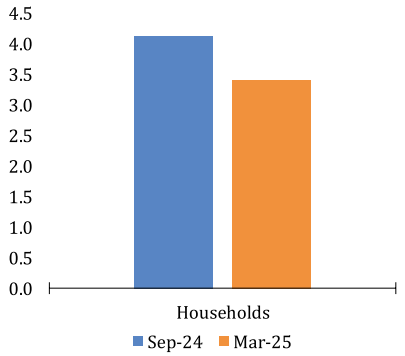


Chart 28: Household Digital Credit Disbursements (K'billion)

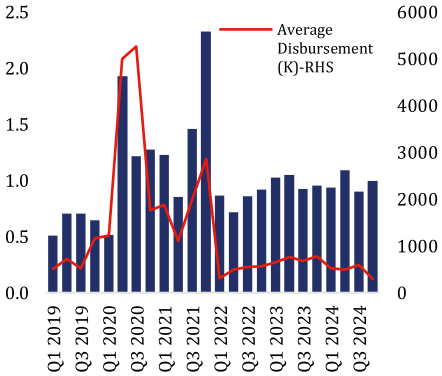
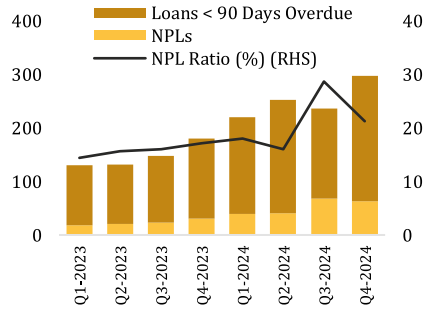


Chart 29: Non-performing Digital Loans (K'million)



The disbursements of digital credit, which are low value loans extended by financial intermediaries to primarily low-income households via mobile money platforms, picked up by 10.9 percent in the fourth quarter of 2024 (Chart 28) as new products were launched. However, the value of the average disbursement declined further, falling below the K300.0 mark, largely reflecting the low- to micro- values of disbursements from the new product class. Consumers usually access digital credit to bridge short-term cashflow gaps and cover bills, including telecommunication services and utilities like water and electricity. This model of credit delivery has the potential to advance financial intermediation and inclusion as low-value credit can be extended on a larger scale.

The above notwithstanding, the high rate of delinquencies may constrain the growth of this product class. For instance for some financial intermediaries supervised by the Bank of Zambia, the aggregate digital NPLs ratio stood at 21.2 percent in the fourth quarter of 2024 (Chart 29). These were associated with insufficient KYC details on customer accounts which hinders follow-ups of overdue repayments. Secondly, system integration challenges affected automatic collections on customer accounts for some institutions. If these challenges persist, digital credit may be constrained, decreasing the flow of credit to households, thus exacerbating the existing low levels of financial intermediation.

Financial Markets Stress

Financial markets stress is assessed to have eased following higher asset valuations (falling yields) and reduced volatility across the markets. This was despite the BoZ raising its policy rate by a cumulative 100 basis points since October 2024. The overnight interbank market rate' s average spreads narrowed and volatility subsided after money market liquidity eased. Exchange rate variations were subdued by a moderation in demand.

Asset Valuations Rise; Treasury Bills and Bond Prices Rise On Easing Liquidity Conditions

Asset prices related to equity and Government securities have broadly risen while volatility moderated. Valuations of local currency Government securities rose (yields declined) amid easing liquidity conditions. This was despite the BoZ raising its policy rate by a cumulative 100 basis points since the *October 2024 Financial Stability Report* (Chart 32). Market liquidity, as measured by banks' aggregate current account balance, doubled between September and December, reaching a peak of K9.5 billion at end-December 2024, and averaged about K4.3 billion in the first quarter of 2025.

Equity prices rose with the Lusaka Securities Exchange All-Share Index (LASI) closing above the 17,000 mark after net gains in retail trade, manufacturing and mobile telecommunications stocks (Chart 33). The stock market thus proved resilient despite the challenging business environment characterized by elevated inflation, exchange rate depreciation and the drought which resulted in extended electricity load management.

Market Volatility Moderates

Although the monetary policy tightening pushed the overnight interbank rate higher, it's volatility declined and spreads generally narrowed during the review period (Table 7, Chart 34, Chart 35 and Chart 36). However, it is worth noting that the ample liquidity conditions led some banks to lend at rates below the policy rate leading to the surge observed in average volatility during the month of March. This brief spike in volatility partly reflects the limited depth in the money markets as it resulted from transactions between a few banks.

Equity price volatility declined markedly, falling below the historical average following a moderate rise in stock valuations alluded to earlier (Chart 37).

Chart 30: Digital Loan Classification Q4-2024 (K'million)

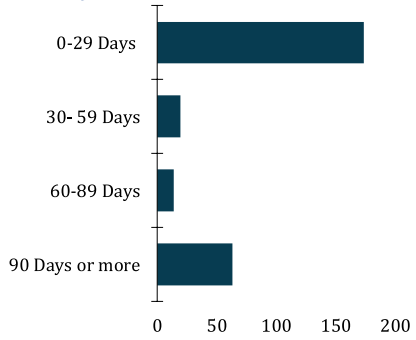


Table 6 : Financial Markets Stress Heatmap

Financial Markets Stress	2024 Mar	Jun	Sep	Dec	'25 Mar
Interest rates					
Fx Rate Volatility					
Equity Volatility					

Chart 31: Financial Markets Stress Index

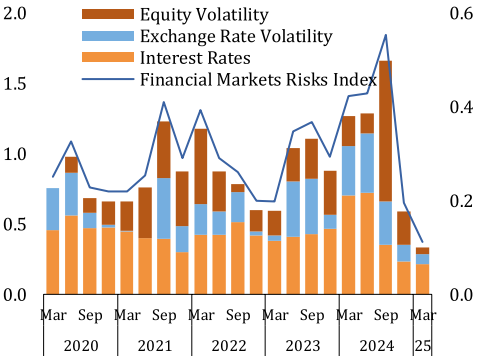


Chart 32: Composite Government Securities yields (%)

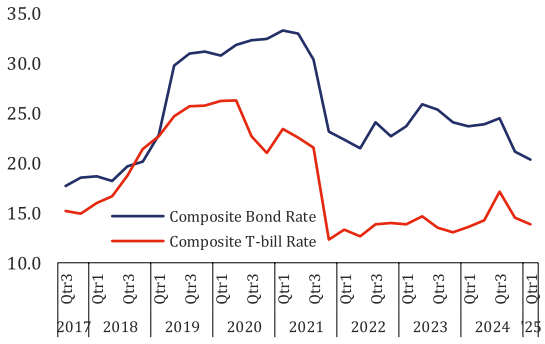


Chart 33: LuSE All-Share Index

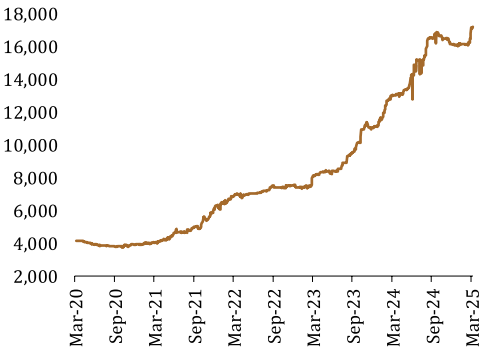


Table 7: Interest rates Heatmap

	2024				'25
	Mar	Jun	Sep	Dec	Mar
Interest Rates					
T-bill composite yield					
G-bonds composite yield					
Av. spread on E/bonds yields					
IB Interest rates spreads					
IB interest rate volatility					
T-bill composite yield					

Chart 34: Overnight Interbank Rate (%)

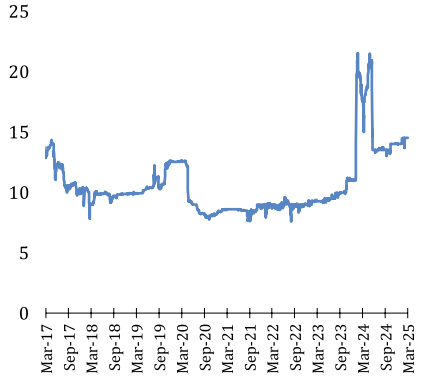


Chart 35: Interbank rate 21-Day volatility (%)

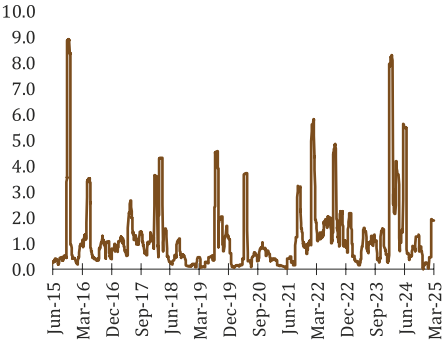
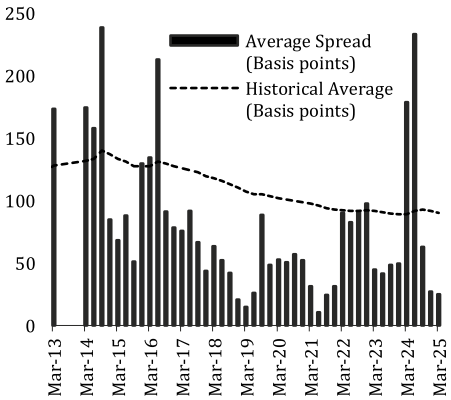


Chart 36: Interbank Interest Rate Spread



Kwacha Exchange Rate Volatility Eases

Exchange rate volatility has eased following higher market interventions and moderation in demand for foreign currency (Chart 38). Additionally, the increase in the negotiable threshold from US$1.0 million to US$ 5.0 million effected on 6 March 2026 helped hold variations in the exchange rate steady.

In the near-term, volatility in the exchange rate could heighten if the global trade war escalates following the introduction of tariffs on US imports. Anticipated retaliatory tariffs could weigh on global growth and raise prices in advanced economies. Slower growth in the economies of Zambia's major trading partners may dampen demand for commodity exports and constrain foreign exchange inflows from the mining sector, exacerbating demand-supply mismatches in the foreign exchange market. The uncertainties around US trade policies could also trigger a flight to safety, as investors pull out of emerging markets resulting in increased capital outflows. This would lead to a more rapid depreciation of the exchange rate.

Underdevelopment of the Equity Market Has Continued to Limit Access to Capital

While prospects for the equity market appear positive on the back of expected recovery in economic activity, the market is still underdeveloped and hampers its ability to efficiently facilitate access to long-term capital. As of March 2025, market capitalisation stood at K257.86 billion (US$ 9.13 billion) representing about 46.3 percent of GDP. The market is characterised by a few listed firms with Shoprite Holdings accounting for 67.4 market capitalisation. Trading turnover is also modest relative to the total shares in issue. Trading activity averaged below 100 million shares per month over the past year (Chart 39), against the 7.9 billion shares on the LuSE central shares depository. Low levels of liquidity could induce price volatility as stock prices may be influenced by relatively few trades.

These structural imbalances may discourage investor participation and hinder the growth of the equity markets. In an environment. where financial intermediation by banks is already low, the limited development of capital markets further restricts opportunities to raise capital which may constrain economic growth

Financial Market Infrastructure

The financial markets infrastructure remained resilient and continued to facilitate the transfer and settlement of funds between counterparties, despite a major operational disruption on 16 January. However, the risk of cyber-attacks persists in the medium term, as the financial system is highly reliant on technology.

Payments Systems Remain Resilient Despite Major Disruption

In the six months to March 2025, the financial markets infrastructure comprising payments and securities settlement systems supported the safe and efficient functioning of the financial system (Table 8). On average, the Zambia Interbank Payment and Settlement System (ZIPSS) processed about 5,500 transactions per day which remained below the daily capacity of 60,000 in transaction volumes. However, critical market infrastructure faced operational challenges as power outages disrupted information, communications and technology (ICT) infrastructure supporting the ZIPSS and central securities depository (CSD) on 16 January 2024.

The Bank will continue to review the overall effectiveness of appropriate response strategies to disruptive events through Business Continuity Management (BCM) simulation exercises. Further, the Bank is working toward designing and building data centers to Uptime Tier III Standards. These enhancements are expected to improve the reliability of systems which support critical financial market infrastructure (see *Box B*).

During the review period, the Bank extended the operating hours of the ZIPSS and CSD. The extension is aimed at supporting a 24/7 digital economy, aligning with the global settlement window. While the extension may not directly introduce new risks or vulnerabilities to the payments systems, a longer service window does increase the timeframe during which risks could materialize and be propagated. Increased operating hours provide greater opportunities for cyber incidents related to social engineering, insider threats as well as distributed denial of service (DDoS) attacks which could inhibit customer initiation of transactions (see *May 2024 Financial Stability Report*). Further, the

Chart 37: Equity Volatility (%)

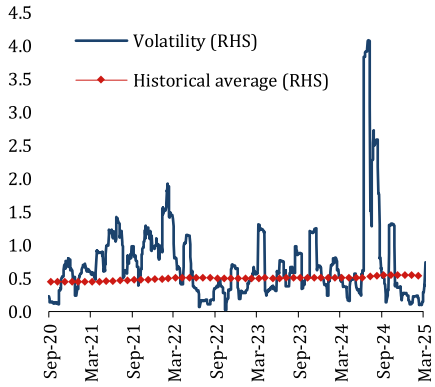


Chart 38: Daily 21-Day Forex volatility (%)

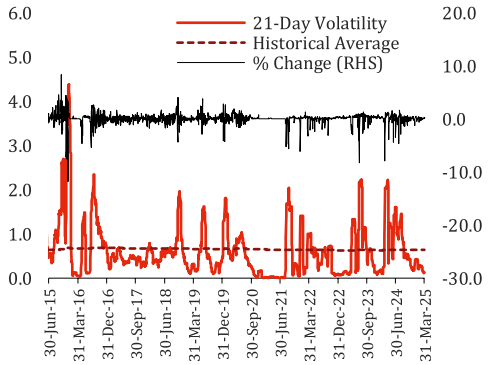
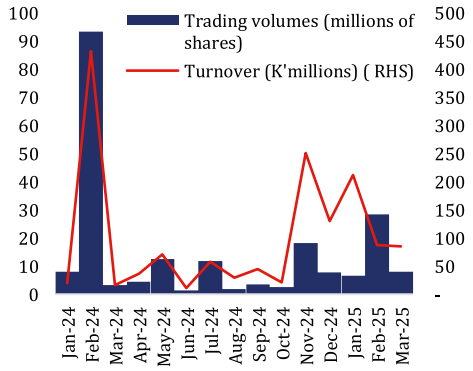


Chart 39: Trading Turnover on LuSE Equities



Source: Lusaka Securities Exchange, BoZ

Table 8: Financial Markets Infrastructure Heatmap

	2024				'25
	Mar	Jun	Sep	Dec	Mar
FMI Index					
Relative Use					
HHI-Turnover					

Table 9: Banks' Health Heatmap

	2024				'25
	Mar	Jun	Se	De	Mar
Banks' Health					
Capital Adqcy					
Asset Quality					
Earnings					
Liquidity					
Market risk					

Chart 40: Capital Adequacy Ratio (%)

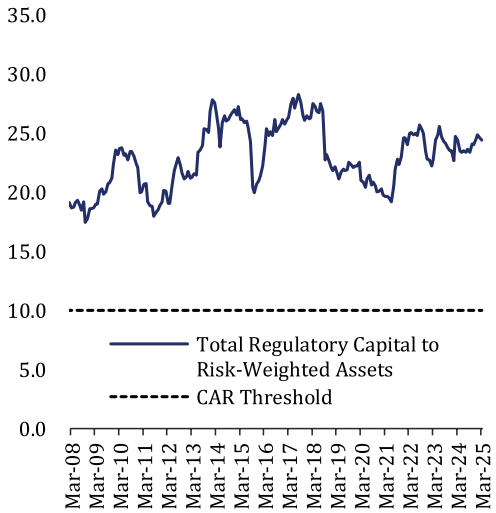


Chart 41:Banks's Capital Structure (K'billion)

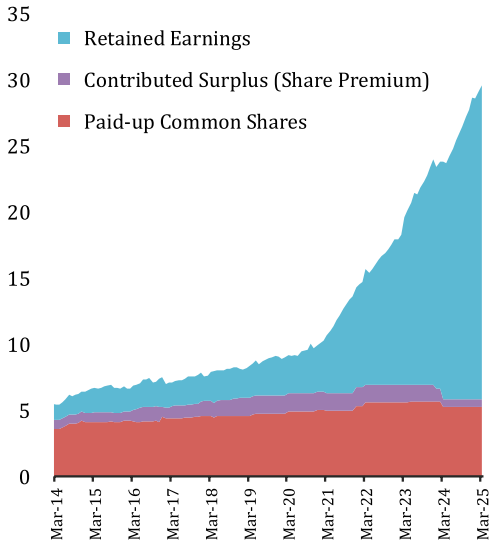
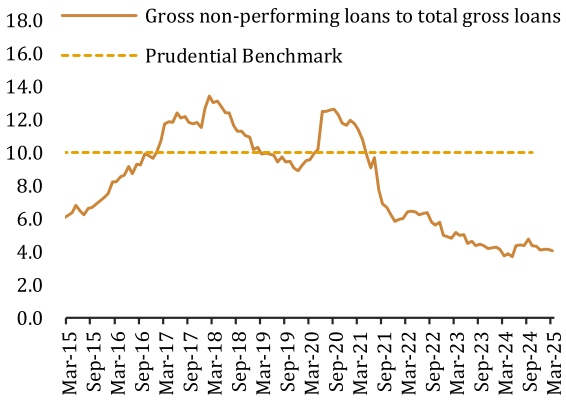


Chart 42: Non-performing Loans Ratio (%)



extended time period allows more time for payments related to fraud, money laundering or terrorist financing to be processed. As the Bank moves toward the operation of the systems on a 24/7 basis, regular assessments will be carried out in collaboration with industry stakeholders to mitigate risks to financial stability.

Banks Health

The banking sector has remained adequately capitalised and resilient to shocks (Table 9). The share of banks' NPLs has marginally contracted reflecting reduced credit risk. However, two key imbalances remain on their balance sheets. Firstly, the quality of their credit portfolio has been somewhat impaired by an increase in the proportion of foreign-currency-denominated loans. Secondly, vulnerability to interest rate risk has risen slightly in the wake of the widening liquidity gap or maturity mismatch.

Banks Remain Adequately Capitalised and Resilient to Shocks

The banking sector has remained adequately capitalised and resilient to shocks since the *October 2024 Financial Stability Report.* Banks aggregate capital adequacy ratio, measured by their holdings of capital relative to risk-weighted assets on their balance sheets, was posted at 22.9 percent which is way above the regulatory threshold of 10 percent (Chart 40). As the primary participants in the financial sector, their holdings of strong capital buffers not only reflect their ability to absorb unexpected losses but also demonstrate their ability to help sustain the stability and resilience of the financial system.

It is worth noting that the accumulation of capital buffers over the years is reflective of banks' growing risk aversion. A number of factors including sluggish economic activity and falling valuations of local currency sovereign securities explain their subdued risk appetite. As pointed out in the *October 2024 Financial Stability Report*, increased placements in Governments and the ensuing higher returns facilitated the accumulation of retained earnings in their capital structure (Chart 41).

The Share of Banks' Non-performing Loans Contracts While the Proportion of Foreign-Currency-Denominated Loans Marginally Impair the Quality of their Credit Portfolio

The share of banks' NPLs, which are loans where a borrower has not met contracted repayments of the principal and interest for more than 90 days, has marginally contracted following a modest growth in total loans. The NPLs ratio slid to 4.1 percent from 4.7 percent in September 2024, indicating that the credit risk inherent in the banking system has reduced (Chart 42). It is noteworthy that the NPLs ratio has been on the downward trajectory post-Covid and has remained significantly below the prudential threshold of 10 percent. Ideally, this should give lenders the thrust to extend more loans and generate more value for their shareholders.

However, the quality of banks credit portfolio has somewhat been impaired by an increase in the proportion of foreign-currency-denominated loans (Table 10). Since the *October 2024 Financial Stability Report,* the stock of foreign currency-denominated loans and advances rose 6.7 percentage points to 47.3 percent (Chart 43). Several factors could have possibly led to the increase in foreign currency lending over the years. Demand side factors include high differentials (margin) between the interest rates charged on local- currency-denominated and foreign-currency-denominated loans (especially pre-Covid), and expectations of further exchange rate depreciation and high local currency interest rates. On the supply side, these include banks' inherent desire to match the growing stock of foreign- currency-denominated deposits (Chart 44) with loans, and the dominance of foreign-owned banks (Chart 45) who have strong linkages with parent banks with robust foreign currency funding and liquidity.

A sector analysis of banks' loans shows that the distribution of foreign currency credit is lopsided, with the manufacturing sector accounting for about 40.0 percent of their foreign currency loans (Chart 45). Mining-related and agro-based borrowers constitute 12.7 and 12.4 percent, respectively. Banks' claims on real estate debtors account for about 10 percent, and 4 percent each on the electricity and gas, and transportation borrowers.

In terms of foreign currency NPLs, the agriculture sector holds the highest share at 22.5 percent followed by manufacturing sector at 20.3 percent (Chart 46). Wholesale and retail trade as well as transportation based borrowers account for 19.4 and 10.0 percent, respectively.

Table 10: Asset Quality Heatmap

	2024				'25
	Mar	Jun	Sep	Dec	Mar
Asset Quality					
% share NPLs					
% Share Fccy loans					
Sectoral distribution of loans					

Chart 43: Foreign Currency-Denominated Loans to Total Loans (%)

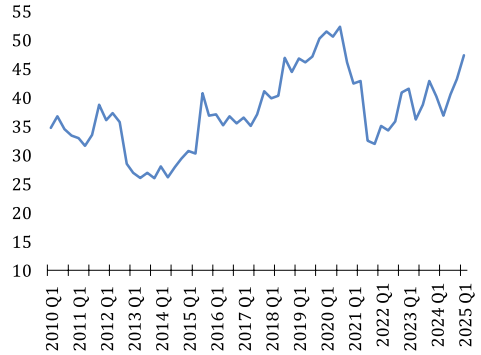


Chart 44: Foreign-currency-denominated deposits (US$ Billion)

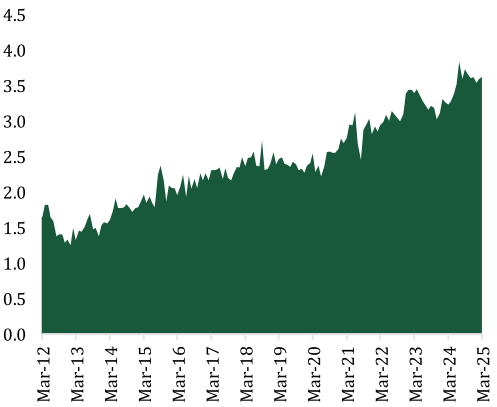
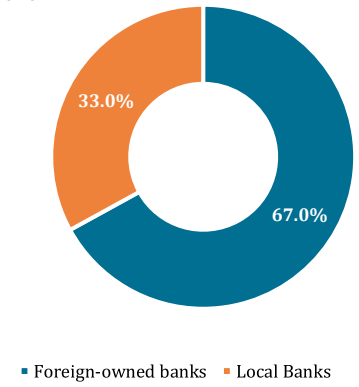


Chart 45: Share of Foreign-Owned Banks (%)



[3] Financial markets offer instruments to hedge against this risk, but hedging is costly and firms often remain unhedged.

Chart 46: Sectoral Distribution of Foreign Currency Loans (US$ Million)

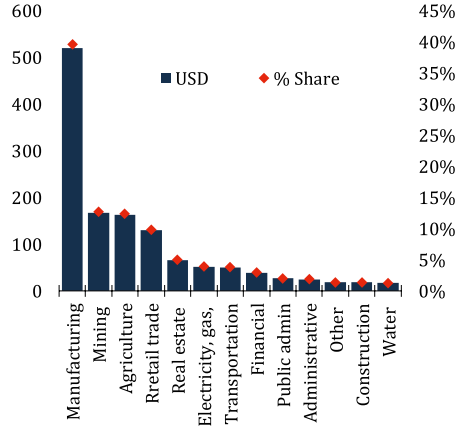


Chart 47: Net Open Foreign Exchange Position to Total Regulatory Capital (%)

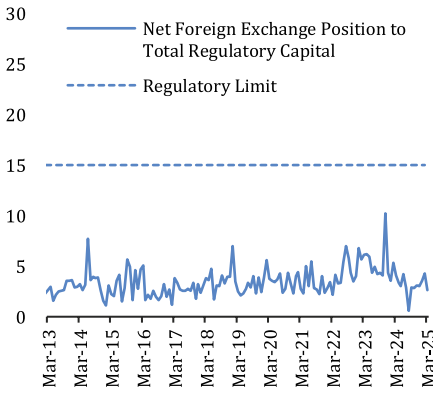
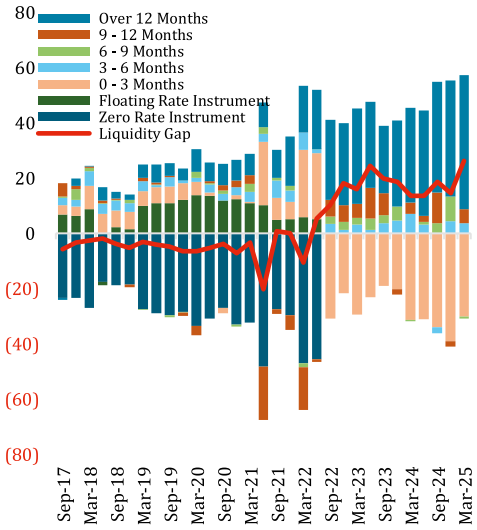


Chart 48: Maturity Mismatches (K'Billion)



Increased lending in foreign currency or the dollarisation of credit, exposes banks to two types of risks: exchange rate and interest rate. While the banking sector's sensitivity or vulnerability to exchange rate variations is minimal in the context of low net open foreign exchange positions, which have stayed well below the regulatory limit (Chart 47), an exchange rate depreciation raises the default risk for foreign currency debtors. The credit risk would be higher from businesses that have unhedged[3] local-currency-denominated cash receipts and receivables than those with a natural hedge like exporters. Although some non-exporting borrowers hedge by invoicing their products and services in foreign currency, banks still indirectly face exchange rate risk that can emanate from significant currency mismatches on such borrowers' balance sheets. In terms of interest rate risk, the risk of default would rise should foreign currency interest rates increase after major central banks resume monetary policy tightening to tame inflationary pressures that could be caused by upwards adjustments in global tariffs. Therefore, the performance of banks' foreign currency credit portfolio could deteriorate and degrade capital buffers.

Banks' Sensitivity to Interest Rate Risk Rises as the Liquidity Gap Widens Further

The banking sector's vulnerability to interest rate risk has risen slightly in the wake of the widening liquidity gap or maturity mismatch, drifting further away from the levels observed six months ago (Chart 48). Banks' overall positive gap , which refers to a condition where banks' have a surplus of interest-sensitive assets over their interest-sensitive liabilities, widened after the growth of assets in the bucket of over 12 months outstripped that of liabilities over the same maturity.

Logically, banks have continued recording a negative liquidity gap[4] on the shortest dated maturity bucket considering the dominance of demand deposits (Chart 49). Banks rely on short-term deposits to fund longer-term assts, otherwise known as maturity transformation. For the first time since March 2024, banks are also holding more liabilities than assets in the 6 – 9 months bucket. In addition to the Over 12 months bucket, they have positive liquidity gaps in the 3 – 6 and 9 – 12 buckets.

In the context of the BoZ's tight monetary regime and elevated cost of borrowing, banking sector interest income has risen (Chart 50) and so have their profits and ultimately their solvency (See *Banks Remain Adequately Capitalised and Resilient to Shocks* section). This is because with a positive liquidity gap, lenders tend to benefit from

[4] A positive gap occurs when banks have a surplus of interest-sensitive assets over their interest-sensitive liabilities, whereas a negative gap occurs when interest-sensitive liabilities exceed interest-rate sensitive assets

higher interest rates as their surplus interest sensitive assets reprice faster than their interest sensitive liabilities. Conversely, lower interest rates conditions could lead to lower interest income. Therefore, should the disinflation observed in March gain momentum, and the Bank adopts a less restrictive monetary policy stance, large maturity mismatches and positive gap would render banks susceptible to interest rate risk.

Non-Bank Financial Institutions (NBFIs)

While insurance corporations' revenue grew amid a recovery in economic activity, their lingering low profitability raises financial stability concerns, especially in the context of rising risks facing the insurers. Pension funds have continued contending with an elevated share of contribution arrears on their balance sheets, which raises liquidity risk. Additionally, higher inflation and an escalation in the global trade war pose threats to their profitability.

Insurance Corporations Low Profitability Lingers As Risks Mount

Revenue for insurance corporations, both life and non-life, have increased since the *October 2024 Financial Stability Report*. Gross written premiums and net earned premiums rose at an annual rate of 24.9 percent to K9.5 billion, and 29.4 percent to K5.8 billion, respectively (Chart 51 and Chart 52).

The combined ratio for life insurance corporations reduced to 117 percent from about 140 percent, whereas that for non-life insurance corporations decreased to 111.3 percent from 114.2 percent (Chart 53). Although the average combined ratio declined, it demonstrates that insurance firms continued to make underwriting losses and this raises financial stability concerns as it has remained above 100 percent. Calculated as the sum of net incurred losses and underwriting expenses divided by net earned premiums, the combined ratio measures profitability of an insurance company's underwriting. A ratio less than 100 percent indicates profitable underwriting while a ratio of above 100 percent indicates loss underwriting. Loss underwriting could be attributed to several factors, including outlier loss years, unpredictable changes in pricing factors or underpricing.

Looking ahead, there are three key risks facing insurance corporations. First, they face solvency risk. As highlighted in the *October 2024 Financial Stability Report*, the new

Chart 49: Banks' Deposit Structure

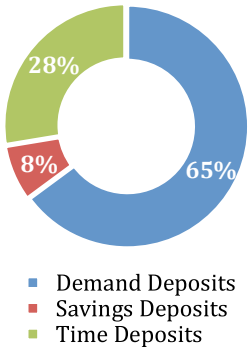


Chart 50: Banks' Annual Interest Income (K'billion)

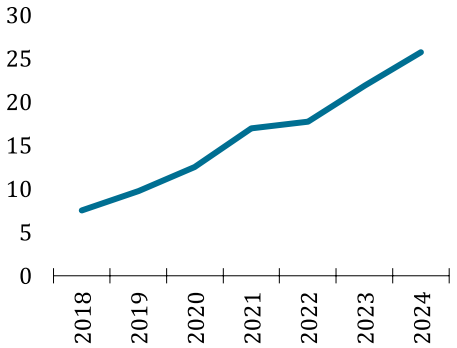
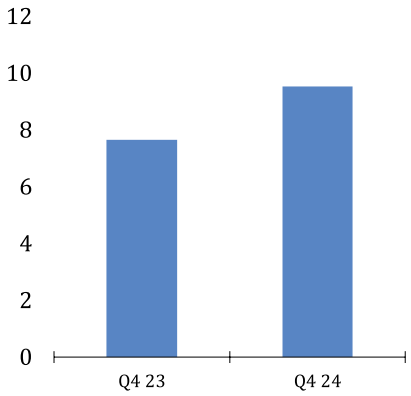
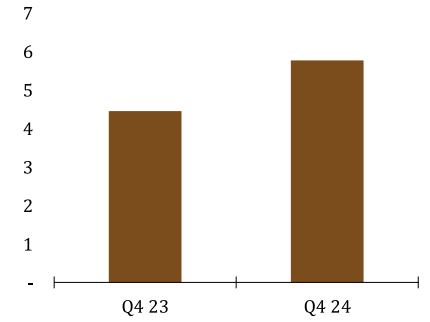


Chart 51: Insurance Corporations Gross Written Premiums (K'billion)



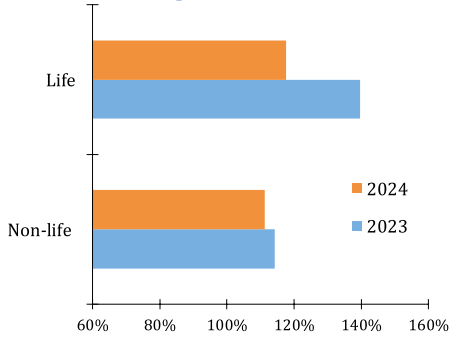
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 52: Insurance Corporations Net Earned Premiums (K'billion)



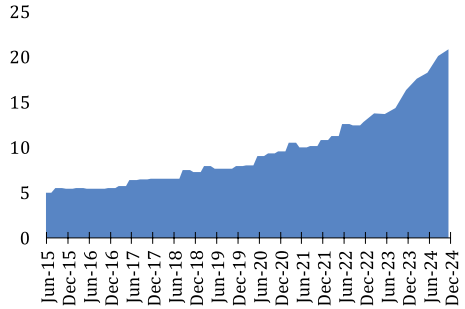
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 53: Combined Ratiosf or Life and N on-life Insurance Corporations



Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 54: Private Pension Industry Net Assets (K'billion)



Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

capital adequacy requirements stipulated in the Insurance Act, 2021 and the Insurance (General) Regulations, 2022, may see the resilience of the industry weaken as several insurance companies could fall short of meeting the required capital adequacy by the end of the transition period on 31 December 2025. The new legislation requires insurers to achieve a capital adequacy ratio (CAR) of 150 percent or better to be allowed to continue trading, which only a few of the insurance firms met as of 31 December 2023, the first year of the transition period [5]. Second, delays in the remittance of premiums by insurance brokers adds to the solvency risk seeing that the new capital adequacy framework disqualifies receivables collected by brokers that are over 14 days. Insurance brokers are required to remit premiums to insurance corporations within 14 days of collection. Third, the continued appetite to underwrite performance bonds and guarantees further adds to the risk of solvency as these instruments attract high capital charges, which is 15 percent of the sum guaranteed.

Pension Funds' Profitability Declines; Contribution Arrears Remain High and Risks Mount

Pension funds' net assets grew modestly between September and December 2024. Their net assets posted a 3.6 percent gain to K20.9 billion (Chart 54) following increases in interest income on Government bonds, dividends income from equity and change in the fair value of investments (local equity capital gains). In contrast, their profitability, proxied by the net return on average net assets and real return, came under pressure from a material decline in unrealized investment income and elevated inflation. The pension funds' net return on average net assets shrunk to 20.3 percent from 31.9 percent previously, and the real return was compressed to 3.1 percent to some extent due to higher inflationary pressures (Chart 55 and Chart 56).

Pension funds' total contributions [6] posted a modest increase of 3.9 percent to K642.3 million on account of the increase in transfers from other funds and special deficit funding of defined benefit schemes (Chart 57). The stock of contribution arrears as well as their share of total contributions fell slightly during the review period (Chart

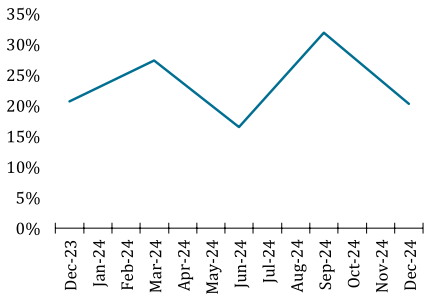
[5] The capital adequacy requirement (CAR) for insurance companies is the ratio of available capital to the minimum capital requirement. Available capital includes paid-up capital, share premium, retained profits, cash and cash equivalent, general reserves, subordinated debt and revaluation reserves for properties. The minimum capital requirement for non-life and reinsurance companies includes risk-factored total balance sheet assets, investments in allowable investment, reserves, preceding year gross claims and net earned premiums, reinsurance value ceded to reinsurers and total guarantee policies.

[6] Total contributions are a function of member and employer contributions, voluntary contributions, transfer in and any deficit funding.

57). Although it retreated, the ratio of contribution arrears to total contributions is still elevated at 82.1 percent. If sustained at such high levels, the existence of contribution arrears would constrain pension funds liquidity to invest as well as meet benefits payment. Therefore, an elevated level of contribution arrears raises liquidity risk as well as default risk in terms of failure to meet their obligations as they fall due.

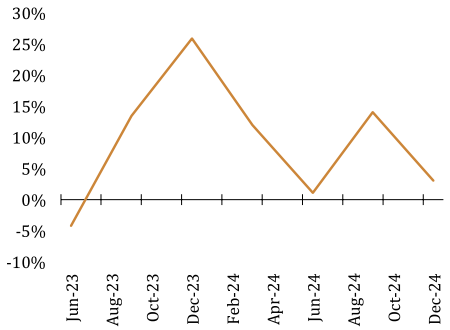
In the near-term, pension funds face mounting risks regarding the fallout from the escalating global trade war which has thus far caused a selloff of global equity and raised fears of stagflation. With an offshore placements exposure equivalent to 9.2 percent of their total investment portfolio or K2.1 billion (Chart 58), pension funds face growing risks that could negatively impact their balance sheets especially if the exchange rate gains fall short of offsetting capital losses emanating from the devaluation of global assets.

Chart 55: Net Return on Average Net Assets (%)



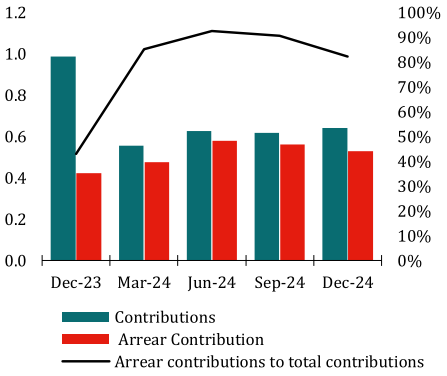
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 56: Real Return (%)



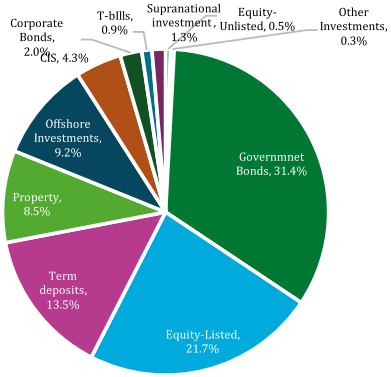
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 57: Total Contributions and Arrear Contribution (K' billion)



Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 58: Pension Funds Investment Split



Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

3. Policy

Systemic risk is assessed to have declined since the *October 2024 Financial Stability Report*. This was on the back of macroeconomic risks subsiding, and largely a moderation in financial markets stress in terms of easing of liquidity conditions and muted volatility in interest rate, exchange rate and equity prices.

The banking sector remains well capitalized and resilient to unexpected losses. Credit risk associated with its loan portfolio is assessed to be low considering the lower share of non-performing loans on their balance sheets. Notwithstanding, vulnerabilities remain including increased proportion of foreign currency denominated loans and widening maturity mismatches.

The escalating trade war and the rollback of foreign aid would pose risks to the financial system and economy going forward. These include lower capital inflows, excessive exchange rate depreciation, wider fiscal deficits and higher inflation.

Economic growth has rebounded and is expected to gain momentum in the near to medium term on the back of the projected increase in electricity generation, agriculture production and mining output. However, growth in credit flow to the private sector has slowed, with the private credit-to GDP gap recorded at -1.0 percentage points, well below the Basel III Countercyclical Buffer (CCyB) recommended threshold of 2 percentage points. This implies that risks associated with this level of growth are not material and a threat to financial stability. Further, private sector credit is deemed to be growing below its potential and not consistent with growth in economic activity.

Considering the foregoing, the FSC decided to maintain the Countercyclical Capital Buffer (CCyB) at 0.00 percent.

Box A: Market Players Expect Risks to Financial Stability to Rise in the Near-term

The results of the March 2025 Systemic Risk Survey (SRS) have revealed that market players still expect the overall systemic risk to increase over the next 12 months (Figure 1). Conversely, they anticipate risks to financial stability to recede over the 2-5 year horizon (Figure 2). Respondents polled have cited improving economic conditions, underpinned by the continued recovery of mining production and moderation in risks emanating from the agriculture and energy sectors, as the primary reason for the anticipated reduction in systemic risk over the medium term.

Risk managers polled are of the view that overall systemic risks has increased since the release of the *October 2024 Financial Stability Report.* This is according to 53 percent of respondents against 38 percent and 9 percent who viewed systemic risk to have decreased and remain unchanged, respectively.

Market players' perception of the top three vulnerabilities residing in the financial system has not changed since the *October 2024 Financial Report*. They still view heavy reliance on hydro power, undiversified economic system, and funding and liquidity mismatches as key vulnerabilities in the domestic financial system and economy. These fragilities are structural and its not surprising that the country's heavy reliance of hydro power is viewed as the largest vulnerability considering the current electricity shortages.

Respondents polled cite higher consumer prices, climate risk and cyber-attacks as the top three risks to financial stability. This is unchanged from their view 6 months ago. They also cited climate risk relating to drought and floods as the greatest threat to financial stability in terms of potential impact. A sector-by-sector analysis reveals that commercial banks perceive cyber-attacks, higher inflation and climate risk as risks likely to have the greatest impact on financial stability, with cyber-attacks, and inflation being the most difficult to manage. Insurance corporations and Pension funds are of the view that higher inflation, lower domestic growth and climate risk will have the greatest impact, with inflation being the most challenging to manage. Microfinancial institutions indicated higher inflation, liquidity risk, and lower domestic growth as the most material risks, while non-financial corporations (NFCs) cite climate risk and higher consumer prices.

Figure 1: Expected near-term changes in systemic risk

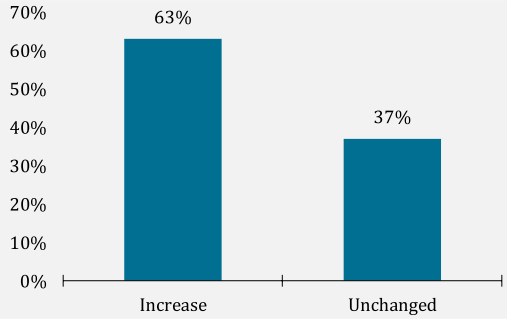
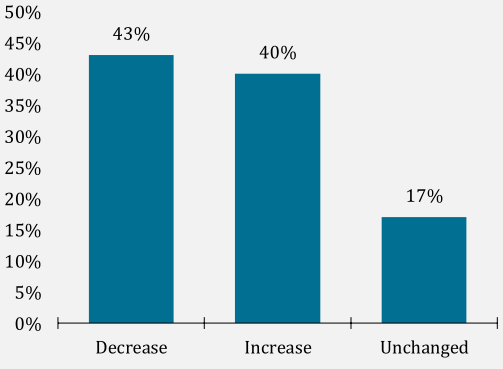


Figure 2: Expected medium-term changes in systemic risk



Box B: Operational Resilience: Macroprudential perspective

Traditionally, the focus of macroprudential policy is on how best to manage financial risks to achieve financial stability. However, operational risk is increasingly becoming important to the maintenance and preservation of financial stability. The premise should be to have an all-encompassing financial system stability assessment framework that incorporates not only financial risks analysis but also operational resilience. The aim is to develop a system that has the ability to facilitate availability of vital services in a manner that absorbs rather than amplifies shocks. This is at the core of operational resilience which means the ability of individual firms, financial market infrastructures (FMIs) and the wider financial system to prevent, adapt and respond to, as well as recover and learn from, operational disruptions. Emergence of new threats, technological change, and changes in the delivery of services in the financial system has made the operational risk landscape evolve at a rapid pace which if not adequately attended to could cause system-wide instability. Idiosyncratic incidences like challenges related to IT upgrades at individual institutions or system outages emphasizes the growing need for operational resilience. Secondly, overreliance on critical third parties (CTP) non-financial firms to support the delivery of financial services (such as cloud service providers) also highlights the need to pay particular attention to this growing exposure. The concern is that while the use of CTP services promotes efficiency, they also create new interconnections which have become more central to certain operations, making their resilience more important.

At the macroprudential policy level, operational resilience aims to leverage on firm-level policies - micro prudential policy – to build system-wide resilience by identifying and addressing vulnerabilities that exist both at the individual and system-wide level. Vulnerabilities can also arise from the structure of the financial system itself and by the collective behaviour of its participants, resulting in high interconnectedness, complexity, opaqueness, concentration, correlation, and dependability on common data sources. While operational incidents should ordinarily be mitigated quickly with limited impact on the whole system, the presence of certain vulnerabilities could lead to disruption that impacts overall financial stability.

The actual transmission across the financial system can occur through operational contagion, financial contagion, and loss of confidence. Operational contagion occurs when an initial operational disruption is propagated further to cause disruptions across the financial system or the real economy leaving economic agents unable to transact. Financial contagion on the other hand occurs when operational disruption leads to financial disruption, including the flow of liquidity, to support transactions. Operational disruption can lead to a loss of confidence if the incident causes a firm's or FMI's counterparties or customers to revise their view of the riskiness of the institution or the institution's ability to manage its risks and the risks to its business model or across the financial system.

Developing an all-encompassing financial stability assessment framework to enhance the approach to operational resilience is a necessary requirement for financial stability. The Bank will incorporate future operational changes and innovations so as to preserve the forward-looking macroprudential framework. At the minimum:

1. Develop an assessment framework to identify potential system-wide gaps: Identify gaps which are currently not adequately covered by firm-level or micro prudential policies. This should include the implementation of policies that supports operational resilience, as well as those which play an important role in supporting the continued provision of vital services. It should also include monitoring new

system-wide gaps or risks that could arise as the financial system continues.

2. Developing a framework to conduct cyber stress testing to assess the financial system's ability to absorb and restore functioning following a significant operational incident and consider stress testing for other possible operational disruptions. Cyber stress testing will support the FSC's work to further its analysis of sources of system-wide disruption and macro vulnerabilities.
3. Developing and implementing the CTP regime to raise the resilience of the services they provide to firms and FMIs. This may include rules, operational risk and resilience requirements, information-gathering and testing requirements, and incident notification requirements for CTPs. Improving the resilience of material services provided by designated CTPs through the setting of resilience standards will help to reduce systemic risks.
4. Exploring ways to continue to build system-wide resilience to operational disruption, including considering whether to set impact tolerances for vital services.
5. Enhance the collaborative approach between regulators and financial sector participants. A collaborative approach will contribute to enhancing system-wide operational resilience, including by seeking to tackle some of the macro vulnerabilities identified, which helps to ensure the industry works together effectively to respond to an operational incident.

The Bank in its 2024-2027 strategic plan provides for strengthening cyber security resilience and fraud mitigation in the financial sector. Specifically, the Bank will establish the financial sector cyber incident response team (FINCIRT) as well as a security operations Centre for the Bank. The regulators will regularly work with the financial sector to run a range of exercises to assess and test the Zambian financial sector's resilience to major operational disruption, which helps to develop an understanding of risks to the sector

Appendix

Heatmap at a Glance

A heatmap is a two-dimensional representation of data in which values are represented by colours. It shows a visual summary of various vulnerabilities and risk indicators whilst providing an easy interpretation of the historical evolution and movement of systemic risk metrics. Ideally, a Heatmap displays the evolution of distress in the financial system based on prescribed risk categories. It is not designed to predict the timing or severity of a financial crisis but to identify underlying vulnerabilities that could potentially lead to a crisis. It helps signal the potential threats to financial stability. In terms of interpretation, the 'blue' colour indicates low risk or vulnerability, 'red' is representative of high risk or vulnerability and 'white' represents medium risk or vulnerability.

While the colours are assigned to fixed scales in the case of those indicators with pre-determined trigger points, they are assigned to relative values where the percentile system is used. This means that the evolution of colours is dynamic, and can therefore, change with the addition of more observations to the distribution.

Table 11: Full Heatmap