



FINANCIAL STABILITY STATEMENT

This Statement is issued pursuant to Section 34(1) of the Bank of Zambia Act, 2022.

The Financial Stability Committee (FSC), at its last Meeting, held in May 2024, assessed risks to financial stability over the period September 2023 to March 2024 to be moderate. Global macrofinancial conditions were broadly stable as headline inflation in advanced economies continued to trend downwards and the resilience of the external sector improved, following increases in copper prices and reserves adequacy. The payment systems infrastructure was also deemed resilient and continued to efficiently facilitate the transfer and settlement of funds between counterparties with minimal disruptions. Notwithstanding the failure of a local commercial bank in April, the banking sector¹ continues to be resilient, supported by adequate capital and liquidity buffers. Further, the outcome of stress tests undertaken to assess the potential severe impact of the El Niño-induced drought also revealed that the banking sector would remain resilient despite weakening intermediation, increased credit risk, and reduced profitability.

However, the Committee noted the persistent imbalances in the banking sector, mostly relating to low intermediation, elevated exposure to government, dollarisation of loans and deposits, concentration of credit, and maturity mismatches. These vulnerabilities require close monitoring to minimise potential disruptions to the financial system.

The Committee observed that the attendant risks to the current drought related to significantly lower agriculture output and deficiency in electricity supply. This has adversely affected the growth projection for this year and suggests a deterioration in the *current account* balance. Although the fiscal sector outlook has brightened as external debt restructuring draws to a close, actions being taken to mitigate the impact of the drought that include humanitarian food relief and importation of significant amounts of maize grain (staple food) and electricity would inevitably widen the fiscal deficit. It was also judged that risks associated with financial markets broadly increased, following tighter liquidity conditions in the money market and increased volatility in the exchange rate. Money market liquidity conditions tightened after the Bank of Zambia raised its Policy Rate and statutory reserve ratio in February to rein in mounting inflationary pressures. Other risks include an escalation in geopolitical tensions and cyber-attacks as the digitalization of financial services and dependence of the financial sector on technology intensifies.

In view of the above, the FSC set the **Countercyclical Capital Buffer (CCyB)² at zero percent**. In arriving at this decision, it was judged that commercial banks would remain adequately capitalised and resilient to unexpected losses even during a period of stress, and the credit-to-GDP gap is below the Basel III threshold.

The next FSC Statement will be issued in October 2024.


Denny H. Kalyalya (Dr)

GOVERNOR AND CHAIRPERSON OF THE FINANCIAL STABILITY COMMITTEE

¹ The assessment of the health of financial institutions is primarily focused on banks as they currently dominate the Zambian financial system, accounting for over 60 percent share of the total industry assets.

² While the FSC has a number of policy instruments at its disposal, the countercyclical capital buffer (CCyB) is the key instrument for macroprudential policy.