Bank of Zambia

FINANCIAL STABILITY STATEMENT

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

The Financial Stability Committee ("FSC" or "Committee"), at its meeting held in October 2025, assessed risks to financial stability to have subsided further since the release of the *April 2025 Financial Stability Report*. Positive developments in the macroeconomic environment as well as the observed easing of stress in the financial markets continue to moderate the risk to financial stability.

Systemic risks associated with economic growth and inflation reduced further as the domestic economy has continued to expand in 2025, supported by increased output in multiple sectors, including information and communications, agriculture, transportation, and mining. Inflation has been on a downward trend after peaking in February 2025, driven largely by appreciation of the local currency against major currencies, particularly the United States dollar, and declining costs of food and petroleum products. The resilience of the external sector, on account of favourable copper prices and adequate international reserves, has also been catalytic. In the financial markets, stress eased further primarily due to higher equity valuations amid strong earnings across industries. Favourable valuations of longer dated government and corporate bonds in view of easing inflationary pressures and the expected decline in sovereign risk were other factors that contributed to improved conditions in the financial markets.

The Banking sector has continued to be well capitalised with sufficient buffers to cushion against unexpected losses, even under severe conditions. The 2025 stress test results reaffirmed that the sector will be adequately capitalised even under extreme adverse scenarios. The newly introduced *capital rules*, including the requirement to hold common equity tier one (CET 1), are expected to further enhance the resilience of the banking sector. Credit risk associated with banks' loan portfolios has also continued to trend downward, with NPLs standing at 3.8 percent. However, the sector continues to contend with fragilities relating to the high share of foreign currency credit and funding, as well as maturity mismatches.

Non-bank financial institutions have broadly continued posting positive growth. While pension funds liquidity conditions have improved following a reduction in contribution arrears, insurance corporations are facing low profitability and solvency risks, and microfinance institutions are grappling with rising credit risk due to the concentration of loans to civil servants. The payment and settlement systems continue to support the efficient functioning of the financial system. However, pockets of operational incidents, including cyber-attacks, suggest operational risk remains an area requiring close monitoring.

The above notwithstanding, the Committee remain cognizant of the fragilities in and threats to the financial system and economy, which could undermine financial stability. The electricity supply deficit, low financial intermediation, dollarisation of loans and deposits as well as maturity mismatches remain key vulnerabilities and imbalances, while cyberattacks, heightened global economic policy uncertainty, and an escalation in geopolitics are key risks to financial stability.

The banking sector has remained well capitalised with buffers above the regulatory requirement. Credit risk is also low as reflected in the non-performing loans ratio being significantly below the prudential threshold. In addition, account was taken that the recent economic gains are yet to be entrenched and private credit was growing below its potential. Furthermore, the newly introduced *capital rules* were expected to contribute to the resilience of the system. In view of the foregoing, the FSC decided to maintain the countercyclical capital buffer (CCyB) at 0.0 percent.

The next FSC Statement will be issued in April 2026.

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GOVERNOR AND CHAIRMAN OF THE FINANCIAL STABILITY COMMITTEE