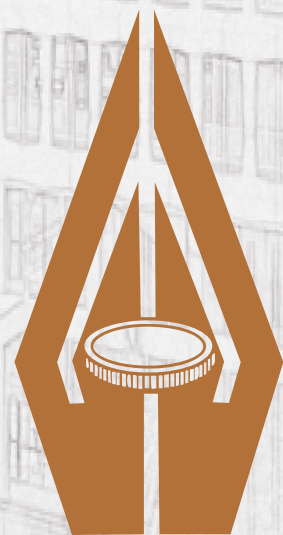


Financial Stability Report

April 2026



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 2026 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. Jean M.C. Kamanga)
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 indicators 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, which would be applied to the banking sector considering their primacy in the financial system.

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.

Macprudential 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.

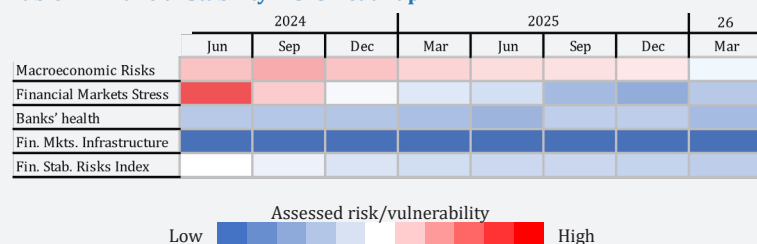
1. Overview of the Financial Stability Assessment

The FSC assessed near-term risks to financial stability to have increased, largely reflecting the escalation in geopolitical tensions that fueled the oil shock. Additional financial stability risks could emanate from heightening global economic policy uncertainty and breaching of cyber defences as the financial system remains an attractive target for cyber criminals. Risk managers' perception of risks in the near-term are broadly consistent with the FSC's assessments (see *Box A*). The FSC also noted vulnerabilities in the financial system, including high loan and deposit concentrations, elevated dollarisation, and the re-deepening of the sovereign–bank nexus being the most material. If left unaddressed, these vulnerabilities could amplify shocks to the financial system should the identified risks materialise.

The above outlook notwithstanding, financial stability risks decreased on easing macroeconomic risks and strengthening banking sector health since the [October 2025 Financial Stability Report](#) (Table 1 and Chart 1). Easing macroeconomic risks were supported by further easing in inflationary pressures and a stronger international reserve position, which reinforced external sector resilience. These positive developments helped offset threats arising from lower economic growth and muted financial intermediation amid relatively sluggish private sector credit flows. Banks have continued upholding adequate buffers of high-quality capital, reflecting their ability to absorb unexpected losses in the event of adverse shocks. Credit risk indicators improved further, with the non-performing loans ratio continuing to trend downward, reinforcing banking sector's soundness.

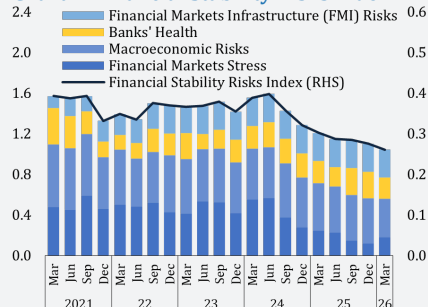
Financial markets stress rose slightly as the rapid appreciation of the exchange rate gave rise to heightened exchange rate volatility. Nonetheless, stress levels remained low as higher currency risk was partly moderated by easing interest rate conditions. Short-term interest rates tracked reductions in the central bank policy rate and longer-dated local currency government securities yields decreased on improved liquidity. Equities continued to record gains, though at a softer pace. However, market uncertainty could heighten should investors take a wait and see stance ahead of the general elections in August.

Table 1: Financial Stability Risks Heatmap*



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

Chart 1: Financial Stability Risks Index**

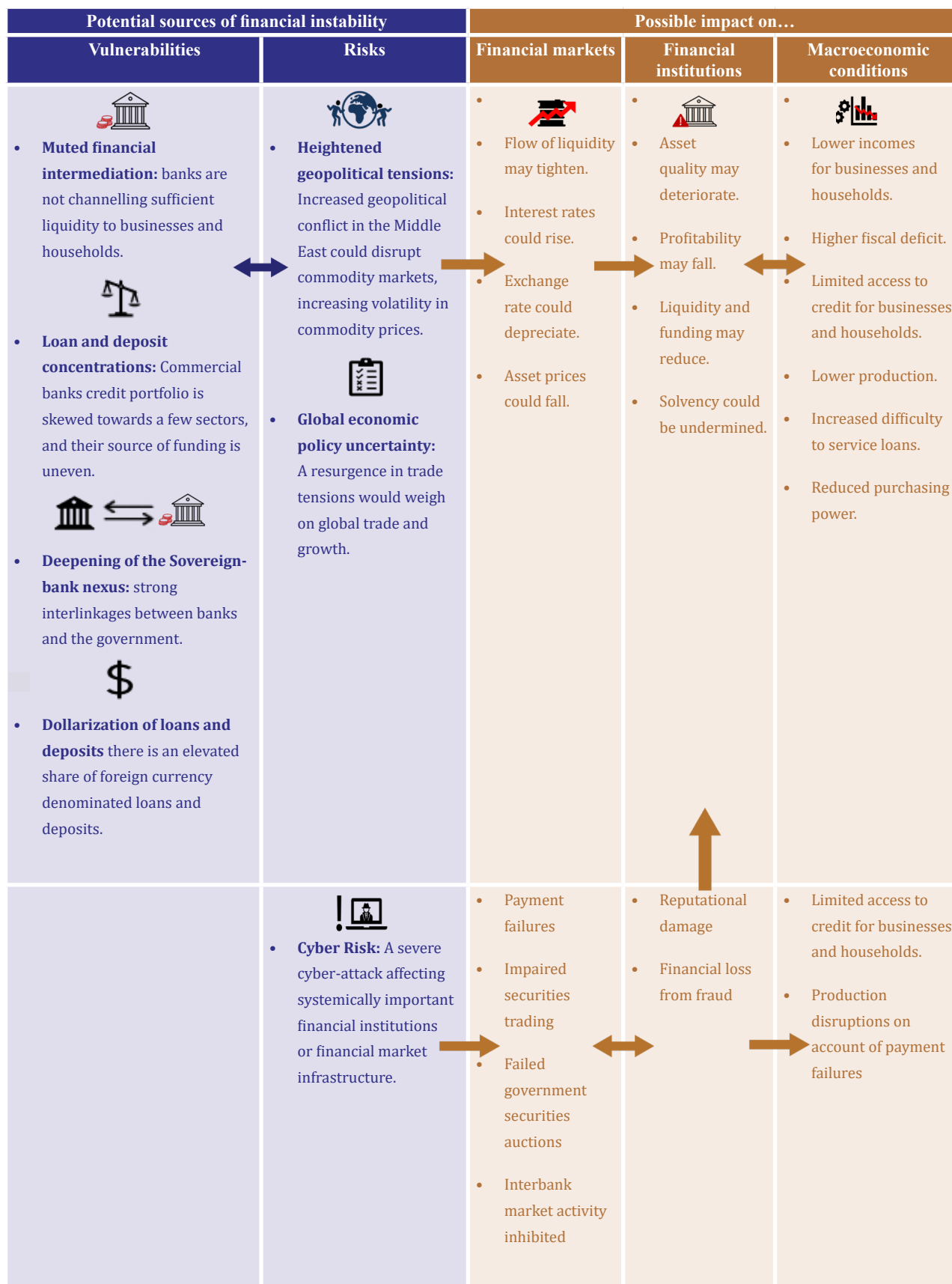


The Committee notes risks and imbalances in the households sub-sector and non-bank financial institutions (NBFIs). Public workers' default risk remains elevated owing in part to their over-indebtedness. While NBFIs have broadly remained financially sound, microfinance institutions are contending with loan concentrations whilst insurers and private pension funds are exposed

to geopolitical shocks and market risk thereof, considering the structure of their balance sheets.

Taking into consideration banks' adequate buffers of high-quality capital and continued downtrend in the NPLs ratio, the relatively muted private sector credit flows and sluggish economic growth, the FSC decided to leave the countercyclical capital buffer (CCyB) unchanged at 0.0 percent. In its judgement, tightening macroprudential requirements at this juncture could further constrain credit extension and compound the nascent sluggish economic growth. To contain identified vulnerabilities, the FSC has recommended the intensification of supervisory efforts. To curb public workers loan delinquencies, enforcement of debt service ratio requirements must be strengthened and lenders' underwriting standards improved among other measures.

2. Illustrative Summary of the Financial Stability Assessment



3. Systemic Risk Assessment

Table 2: Macroeconomic Risks Heatmap

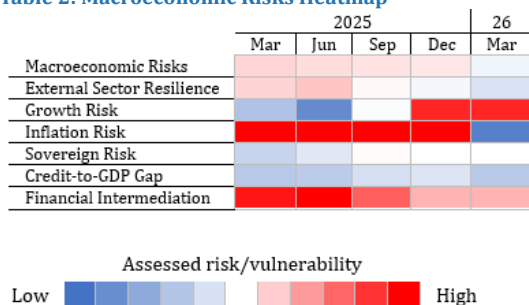


Chart 2: Macroeconomic Risks Index

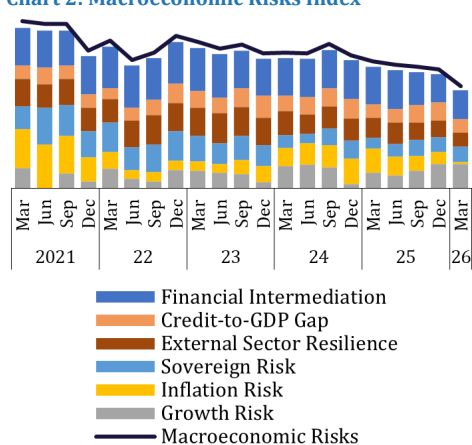
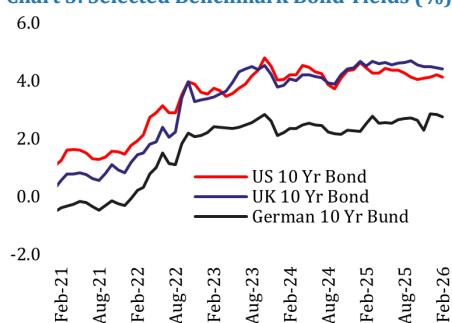
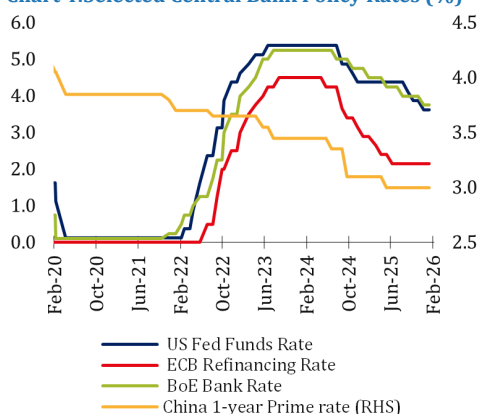


Chart 3: Selected Benchmark Bond Yields (%)



Source: Reuters and BoZ Staff Calculations

Chart 4: Selected Central Bank Policy Rates (%)



Source: Reuters and BoZ Staff Calculations

Macroeconomic Risks

Financial stability risks related to changes in macroeconomic conditions are assessed to have reduced, largely reflecting lower inflation and a stronger international reserves position which reinforced external sector resilience (Table 2 and Chart 2). These positive developments helped offset threats arising from lower economic growth and muted financial intermediation. Sovereign risk has remained moderate in view of tapering fiscal imbalances. Looking ahead, external sector buffers could be tested by the mounting geopolitical risk, which could amplify macroeconomic risks through higher energy and food prices, declining net export earnings, re-emergence of fiscal fragilities and tepid growth.

Global Growth Strengthens on Eased Trade Strains, but Heightened Geopolitical and Technology Sector-Related Risks Temper Optimism

Since the [October 2025 Financial Stability Report](#), global economic growth has strengthened on easing global trade tensions. Trade tensions have eased following the truce between the United States (US) and China which reduced bilateral tariffs until November 2026. This was further supported by a US Supreme court ruling against the sweeping tariffs imposed by the US against several countries in April 2025. Further, global financial conditions were supportive of growth despite the broad-based increase in sovereign bond yields (Chart 3). The Federal Reserve (Fed) and the Bank of England (BoE) delivered interest rate cuts while the European Central Bank (ECB) and the People's Bank of China (PBOC) held rates unchanged (Chart 4). Stocks in selected markets continued to rally, largely driven by optimism around artificial intelligence (AI) investments and expectations of further interest rate cuts by major central banks ([Chart 5](#)). The US dollar Index swung between gains and losses but was, on a net basis, weaker than it was in October 2025 ([Chart 6](#)). Thus, the easing of trade tensions and looser financial conditions engendered a resilient global economy, with the 2025 global growth coming in at 3.4 percent ([Chart 7](#))- see the International Monetary Fund's (IMF) April 2026 *World Economic Outlook (WEO)*. According to the IMF, this was "0.6 percentage point stronger than expected."

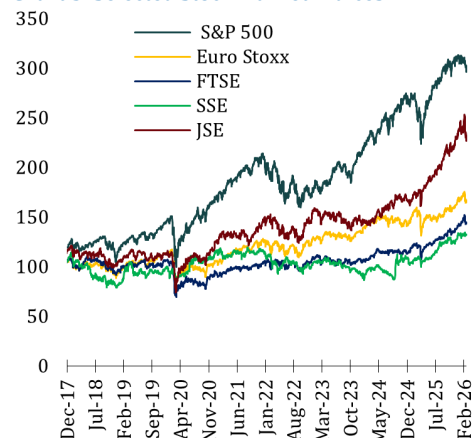
Based on the IMF’s reference forecast, which primarily assumes that the Middle East conflict “will have limited duration, intensity, and scope,” global growth is projected to decelerate to 3.1 percent in 2026 and 3.2 in 2027 (see Chart 7 and the April 2026 *WEO*). The modest downward revision is underpinned by the expected momentum in high-technology sectors and fading effects of tariff uncertainty that could partially offset the effects of the oil shock. Advanced economies are projected to grow at 1.8 percent in 2026 and 1.7 percent in 2027 (April 2026 *WEO*). The US economy is projected to expand by 2.3 in 2026 reflecting moderation in the impact of higher trade barriers as well as supportive fiscal and monetary policy. The euro area is forecast to grow at 1.1 percent in 2026, 0.2 percentage point lower than the January 2026 *WEO Update*. This revision reflects the negative effects of higher energy prices driven by the recent oil shock and lingering effects of Russia’s invasion of Ukraine. Growth is projected to fall to 3.9 percent in emerging market and developing economies, indicating the expected larger net impact on these economies than the advanced ones.

The balance of risks to the outlook for global growth remains tilted to the downside, with the primary downside risk being the mounting geopolitical risk. The escalation in geopolitical tensions, particularly in the Middle East, could raise commodity prices and drag growth lower (see the “*External Sector Buffers Strengthen, but Oil Price and Supply Shocks Intensify Downside Risks*” section). Further, risks could stem from a possible correction in the valuation of AI stocks and a slowdown in the momentum of the AI-driven investment boom. Moreover, elevated public debt levels in major economies continue to present fiscal vulnerabilities which may be more pronounced and trigger tighter financial conditions.

External Sector Buffers Strengthen, but Oil Price and Supply Shocks Intensify Downside Risks

External sector buffers have continued to strengthen on the back of stronger international reserves adequacy and buoyant copper prices (Table 3). Reserves adequacy rose to a historic high of 5.4 months of current import cover (Chart 8) after primarily higher net purchases of foreign exchange. Copper prices soared to a peak of US\$13,322.0 per ton mark in February 2026 (Chart 9), driven by tighter supply amid production disruptions at major mines. Further, the ongoing optimism around

Chart 5: Selected Stock Market Indices



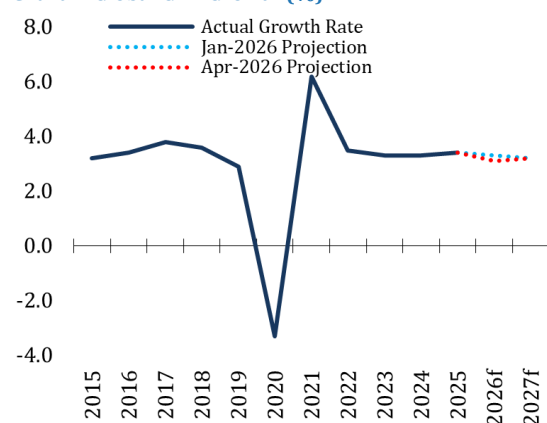
Source: Reuters and BoZ Staff Calculations

Chart 6: US Dollar Index



Source: Reuters and BoZ Staff Calculations

Chart 7: Global GDP Growth (%)



Source: IMF April 2026 World Economic Outlook (WEO) and BoZ Staff Calculations

Table 3: External Sector Resilience Heatmap

	2025				26
	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.

Chart 8: International Reserves Adequacy

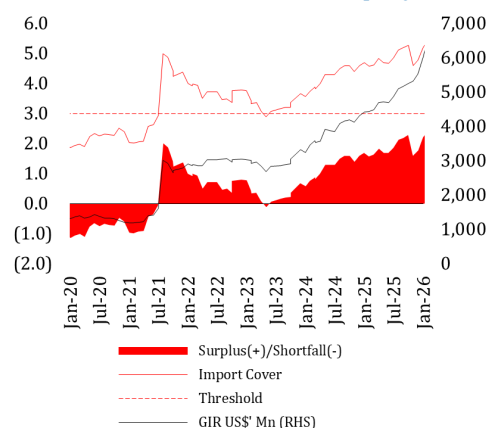
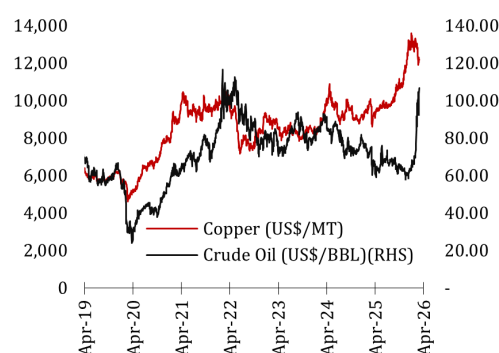
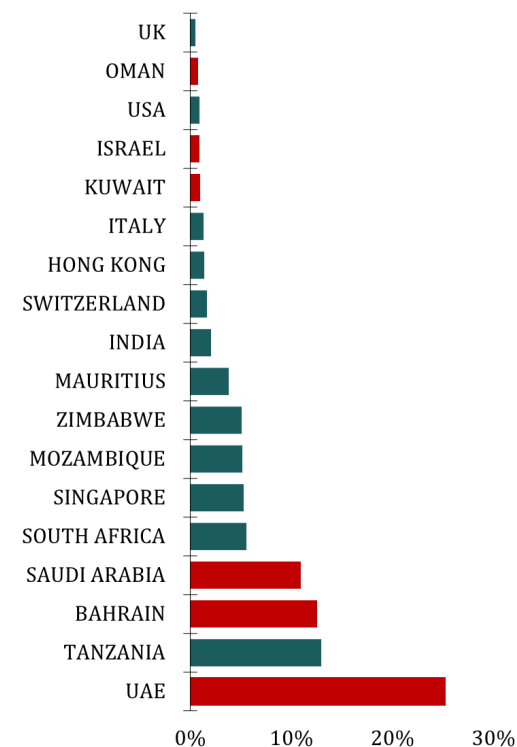


Chart 9: Copper prices (US\$/ton)



Source: Reuters and BoZ Staff Calculations

Chart 10: Sources of Oil Imports as at 31 Dec 2025 (Percentage share)



Source: ZSA, BoZ Staff Calculations

Note: Some countries highlighted above re-export oil sourced from major producers to Zambia

AI investments brightened the outlook of demand for copper which is heavily used in the construction of data centers that power AI.

Looking ahead, however, downside risks to the strength of the external sector could intensify. Tensions in the Middle East have escalated and now pose a more pronounced and imminent risk to the strength of the external sector. Following the onset of the conflict, the Strait of Hormuz, a key shipping route in the Middle East critical for the movement of a fifth of global oil supply, was closed thereby pushing crude oil prices to highs of US\$100 per barrel and augmenting the reversal in the downward trend observed for most of 2025 (Chart 9). Should there be deviations from the IMF's reference forecast and if assumptions of "larger and more persistent increases" in oil prices under the adverse or severe scenarios hold (see the April 2026 *WEO*), the economy could be adversely impacted in three ways. First, the extent of Zambia's sensitivity to the changing oil price and supply dynamics is manifested in its heavy dependence on the Middle East for crude oil imports. Over half of the domestic oil supply is imported directly from the region (Chart 10). Hence, if the conflict is protracted, disruptions to trade could be severer than expected in October 2025. This could trigger a sustained surge in energy prices and reverse the current disinflationary trends. Second, the price of copper, Zambia's staple export and foreign exchange earner, tumbled from the peak recorded in February on fears that higher energy costs could drag global demand. Hence, larger and more persistent increases in oil prices could weigh on copper prices. Third, inflationary pressures could also be fueled by higher food prices due to second round effects of fuel pump prices on food as well as increases in the cost of fertiliser, whose main input, urea, is a by-product in the refinery of primarily oil and gas products. Zambia also depends on fertilizer imports from the Middle East to the extent that it sourced 23 percent of total fertilizer imports from the region in 2025 (Chart 11). With global fertiliser prices typically tracking oil and gas prices with a lag, there is a risk of near-term upward price adjustments and possibly constrained agriculture production – especially if expectations of Zambia's lower net imports of the commodity in the near-term are not met. Therefore, larger and protracted energy shocks could have a knock-on effect on macroeconomic and financial stability as higher energy and food prices could reignite inflationary

pressures and cause an exchange rate depreciation.

Additionally, larger and more persistent oil price increases could also have negative spillovers to global finance. Global financial conditions could tighten as market players increasingly price in the growing geopolitical risk. In the face of rapidly rising geopolitical tensions and the possibility of spillover effects on emerging and frontier economies, a possible flight-to-safety among investors could re-emerge and support the US dollar. The US currency could also draw support from shifting monetary policy expectations, with markets now pricing in interest rate increases. This would destabilise the foreign exchange market, weaken the local currency and trigger a surge in price pressures.

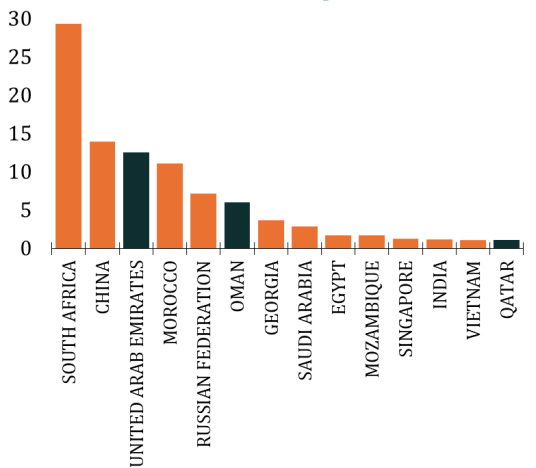
Disinflation Gains Momentum, Economic Growth Slumps Despite Dissipating Electricity Shortages

Risks stemming from domestic economic growth and inflation have diverged (Table 4) since the [October 2025 Financial Stability Report](#). While inflation decelerated sharply to an 8-year low of 7.1 percent in March and reverted to the 6 – 8 percent target band for the first time in 7 years (Chart 12), annual economic growth slowed to 1.6 percent in the fourth quarter of 2025, down from 3.6 percent recorded in the third quarter (Chart 13). The drop in consumer prices mostly reflected the passthrough from improved food supply and the appreciation of the exchange rate whereas contractions in the information and communication technology as well as wholesale and retail trade sectors account for the slowdown in growth ([Chart 14](#)).

With disinflation notably entrenched and growth slowing down, there have been divergences in growth and inflation risks to financial stability. On the one hand, muted growth could translate to growing risks to lenders as borrowers’ capacity to repay loans could be constrained. On the other hand, lower inflation promotes the stability of the financial system to the extent that it helps constrain interest rates and preserves the general purchasing power. The residual risk of these two opposing factors to financial system stability would be dependent on which one dominates.

Notably, electricity shortages, a prominent vulnerability in the financial system and economy since the drought in 2024, have dissipated. Hours of electricity load management have declined sharply following a notable improvement in supply largely from increased net

Chart 11: Sources of Fertiliser Imports as of 2025

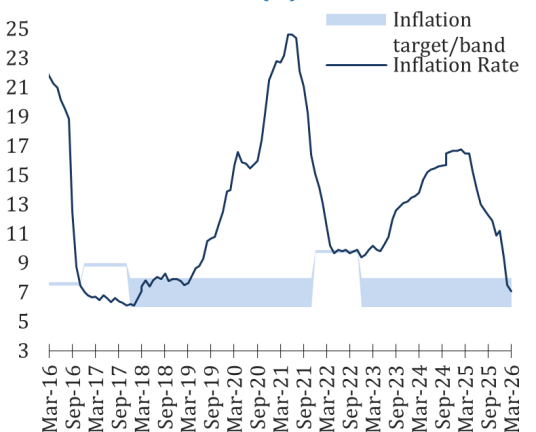


Source: ZSA,BoZ Staff Calculations

Table 4: Growth and Inflation Risks Heatmap

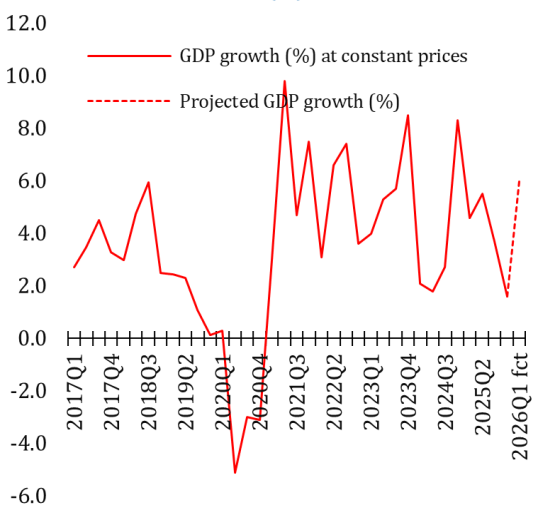
	2025					26
	Mar	Jun	Sep	Dec	Mar	
GDP growth risk						
Inflation risk						

Chart 12: Annual Inflation (%)



Source: ZSA,BoZ Staff Calculations

Chart 13: Real GDP Growth (%)



Source: ZSA, Ministry of Finance and National Planning, BoZ Staff Calculations

Chart 14: Sectoral Contribution to Growth

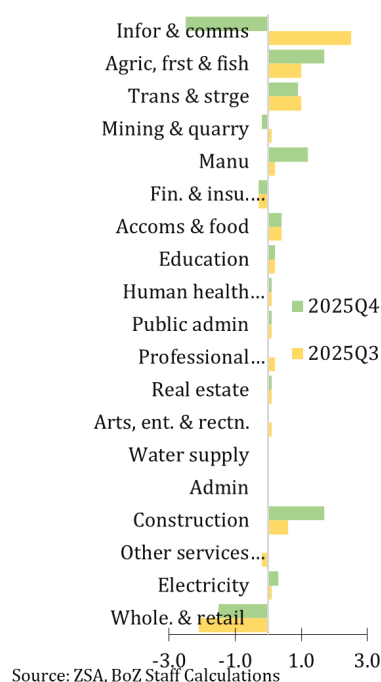


Chart 15: Power generation, demand and deficit in megawatts (MW)

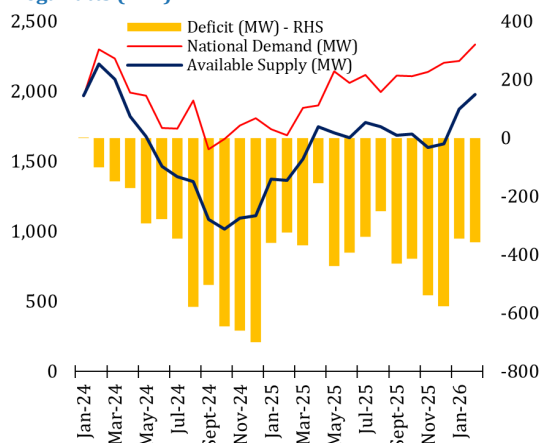
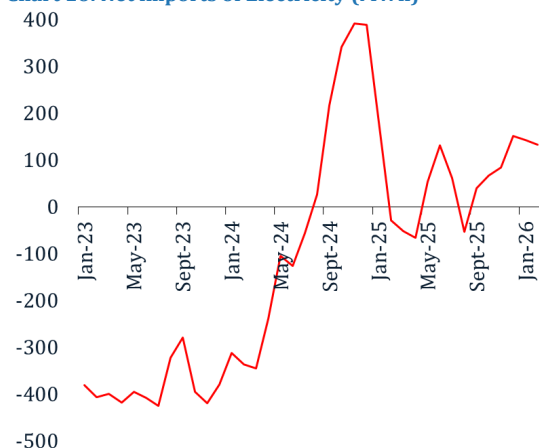


Chart 16: Net imports of Electricity (MWh)



imports of electricity (Charts 15 and 16). According to the February [2026 Monetary Policy Report](#), the stability in electricity supply is expected to be sustained in 2026 on the back of “improved water levels at major reservoirs and additional generation from solar and thermal projects.” This could help support recovery in economic activity and subdue operational and financial risks to businesses.

With the continued conflict in the Middle East and the disruption in oil supply thereof, near-term prospects for both growth and inflation are increasingly uncertain. Growth projections by the Ministry of Finance and National Planning (MoFNP) have been revised upwards to 6.4 in 2026 from 5.8 percent. Expansion of economic activity in several sectors including agriculture, finance and insurance, electricity, and education account for the upward adjustments to growth forecasts. Inflation, likewise, is expected to remain in the target band in 2026 through to 2027, mostly reflecting the lagged impact of a stronger Kwacha, favorable agricultural output and low crude oil prices (see the February [2026 Monetary Policy Report](#)). But in the event of a larger oil shock and its ripple effects on commerce in terms of raising inflation expectations, stifling trade and limiting economic activity, downside risks to economic growth could be higher in the short-term. Adverse shifts in the balance of payments increased currency risk, spiking inflationary pressures and lingering anemic economic growth could have negative effects on financial stability.

Fiscal Imbalances Moderate, Outlook Susceptible to Several Risks Including a Larger Oil Shock

Fiscal imbalances have broadly moderated and kept the sovereign risk to financial stability muted ([Table 5](#)). Preliminary estimates indicate a lower-than-targeted fiscal deficit in the fourth quarter of 2025. As assessed in the February [2026 Monetary Policy Report](#), “a declining trend in fiscal deficits ([Chart 17](#)) is still projected over the medium-term on expected continuity of fiscal consolidation.” This, coupled with anticipated lower interest payments on external debt in the aftermath of the debt restructuring process, is expected to keep sovereign risk subdued. However, this outlook remains susceptible to several risks. These include¹:

- The spillovers from the crude oil shock in terms of

¹ See the Ministry of Finance and National Planning 2026 Fiscal Risk Statement for details on some or all these risks.

straining government revenues through forgone taxes² and reduced economic activity.

- b. Both domestic and external public debt portfolios are exposed to refinancing risks. External debt remains sensitive to currency risks, as an exchange depreciation could push up external debt interest payments. The domestic portfolio is vulnerable to rollover risk, especially within the realm of the expected lumpy government securities' maturities in 2026 (Chart 18).
- c. Fiscal expenditure surprises related to state owned enterprises liabilities due to price controls, underpriced services, and social obligations.

A wider fiscal gap could compel the central government to increase its reliance on domestic markets to satisfy its funding needs. Not only could this reverse the current trajectory in local currency interest rates (and borrowing costs) but also intensify the sovereign-bank nexus which has steadily grown since the [October 2025 Financial Stability Report](#) (see the [“Sovereign-bank Nexus Re-emerges”](#) section).

Aggregate Financial Intermediation Marginally Rises, Relative Flow of Funds to the Private Sector Falls

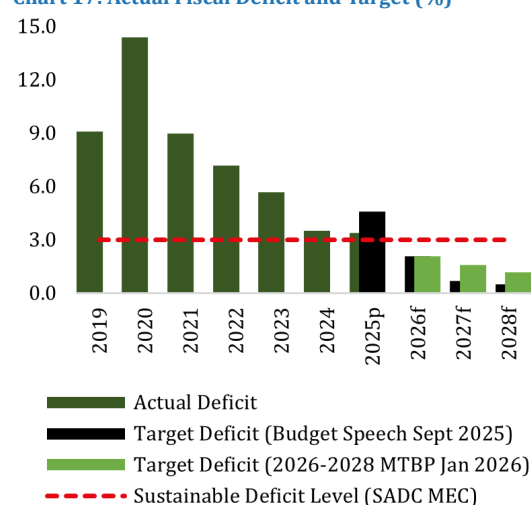
Aggregate financial intermediation was little changed and the relative flow of funds to the private sector has somewhat stagnated since the [October 2025 Financial Stability Report](#). Banks' aggregate loans to deposit ratio (LDR), a widely used proxy for financial intermediation, posted a marginal growth of 0.8 percentage points to 46.6 percent after commercial banks deposits contracted at a faster pace (2.7 percent) than the rate of contraction in total credit (0.8 percent)- see Chart 19 and [Chart 20](#). The contraction in banks' balance sheets was as a result of the appreciation of the exchange rate. However, without adjusting for exchange rate movements, foreign currency denominated loans experienced growth ([Chart 21](#)).

It is concerning that financial intermediation has remained subdued below historical standards (Chart 19) and continues to manifest itself as one of the financial sector's primary imbalances or vulnerabilities.

Table 5: Sovereign Risk Heatmap

	2025				26
	Mar	Jun	Sep	Dec	Mar
Sovereign Risk					
Public debt-to-GDP					
Fiscal deficit					

Chart 17: Actual Fiscal Deficit and Target (%)



Source: Ministry of Finance and National Planning, BoZ Staff Calculations

Chart 18: Realised and Projected Government Securities (K'billion)

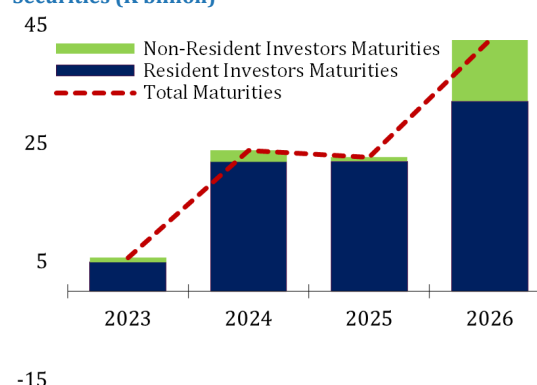


Chart 19: Banks' Financial Intermediation (%)



² According to the Zambia Daily Mail, the Finance Minister indicated that Zambia would forgo “US\$200 million in revenues through tax relief measures” designed to provide cushion against higher oil prices

Chart 20: Banks Total Gross Loans and Total Deposits (K'billion)

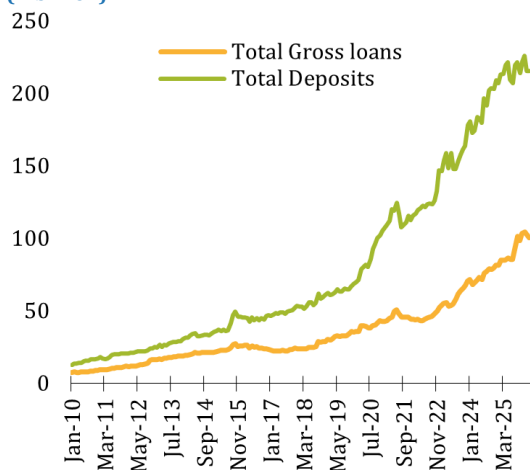


Chart 21: Local Ccy Loans (K'billion) and Foreign Ccy Loans (US\$ 'billion - RHS)

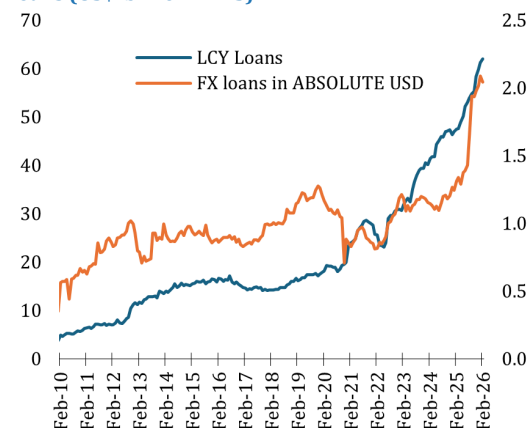
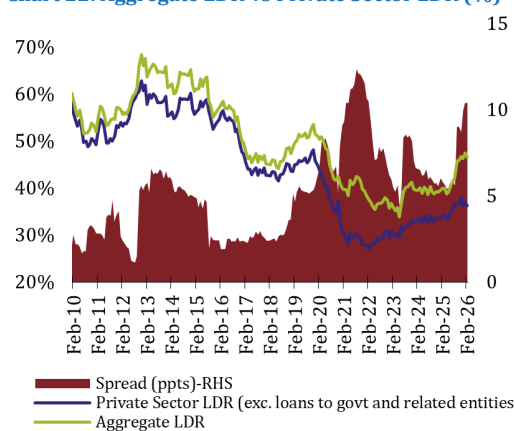


Chart 22: Aggregate LDR Vs Private Sector LDR (%)



Empirical evidence shows that the current historical average of 50 percent is also the threshold of banks' intermediation's optimality with regard to its positive influence on growth, inflation and credit risk³. By way of context, banks ought to allocate at least half of the funds they mobilise – no less than 50 ngwee for every kwacha they receive in customer deposits – for financial intermediation to have a meaningful impact in terms of boosting and sustaining economic growth, containing price pressures and limiting credit risk. Therefore, sub-50 percent LDR levels could be detrimental to the preservation of financial stability.

This is especially concerning when analysed within the context of the underlying private sector LDR, which has marginally slid by a 0.5 percentage point to 36.2 percent (Chart 22). The recent evolution in the LDR has revealed that spreads between aggregate and private sector LDRs have significantly widened (Chart 22) since the [October 2025 Financial Stability Report](#). While they are narrower than the peak witnessed on 30 June 2021, the decompression of the spreads demonstrates that credit flow to the private sector has been relatively lower than that which has been allocated to the public sector. This raises financial stability concerns to the extent that lower credit flow to the private sector could constrain businesses' ability to sustain and expand production as well as limit household consumption. The combined effect of these two factors could weigh on aggregate demand and income, thereby worsening the feedback loop to financial institutions in the form of funding and default risks.

The widening of spreads between aggregate and private sector LDRs is also associated with the re-emergence of the sovereign-bank nexus – banks' exposure to government, in terms of their total investments in government securities and loans to the central government and related parties (see the ["Sovereign-bank Nexus Re-emerges"](#) section).

Non-financial Corporates Debt Level Tapers

The indebtedness of non-financial corporates (NFCs),

³ An unpublished study by Fungyina (2025) finds, inter alia, a positive relationship between financial intermediation and growth, and negative relationships between financial intermediation, and credit risk as well as inflation in Zambia. The study identifies optimal LDR thresholds that influence economic growth, inflation and credit risk, with an LDR average range of 50.0 and 66.0 percent leading to a 0.4 to 0.5 percentage points growth in GDP; -0.1 to -0.8 change in inflation; and a 0.1 to 0.4 drop in NPL ratio.

which are businesses that produce and sell goods and non-financial services, fell largely due to the influence of the appreciation in the exchange rate. Banks' claims on non-financial businesses contracted by 6.4 percent between September and February 2026 (Chart 23) after the local currency strengthened against the US dollar. With the tapering of NFCs liabilities to lenders and projected expansion in GDP, their debt relative to GDP slid to 9.3 percent compared with 10.5 percent in September 2025 (Chart 24). The debt to GDP ratio is used to determine debt sustainability of businesses. Therefore, with the ratio below a tenth of GDP, businesses' indebtedness is significantly low with respect to economic activity.

Notwithstanding the muted indebtedness to financial institutions, NFCs operations are sensitive to heightened geopolitical and macroeconomic risks. Results of the March [2026 Systemic Risk Survey \(SRS\)](#) suggest that NFCs perceive the escalation of geopolitical tensions to likely have the greatest impact on financial stability, followed by global economic uncertainty and exchange rate volatility (see [Box A](#)). Among these, the escalation of geopolitical tensions was cited as the most challenging to manage. These results are not surprising considering the far reaching consequences of the conflict-induced oil price and supply shock. Ineffective management of this risk could culminate in mounting operational costs and liquidity constraints for NFCs.

Household Debt: Digital and Public Workers Non-performing Loans Remain High

The stock of personal loans to households grew slightly due to increased disbursements of salary-backed loans (Chart 25). However, household indebtedness, as measured by financial institutions claims on households (personal loans) relative to GDP, has remained muted. The ratio of household debt to GDP remains below 5 percent (Chart 26). While this could be regarded insignificant in terms of posing contagion risk given lenders low exposure to the sector, it is also insufficient to spur significant growth in consumption and ultimately growth. Sustained economic growth is key to containing credit risk.

In addition to the households longstanding structural imbalance (limited access to credit), heightened risk of default relating to digital and public workers loans underlie the sector.

Chart 23: NFC Debt (K' billion)

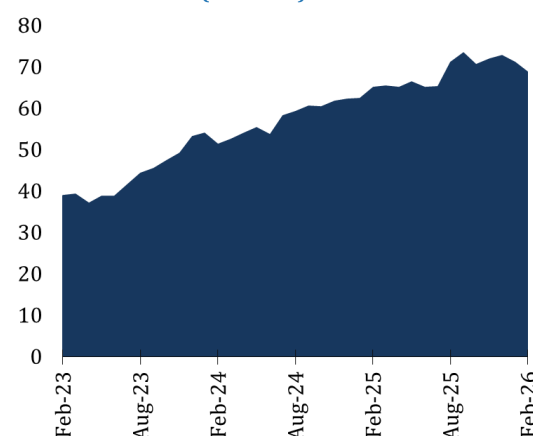


Chart 24 NFC's Indebtedness to GDP

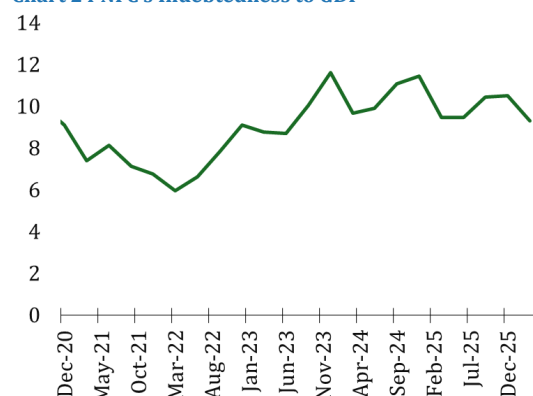


Chart 25: Household Loans (K' billion)

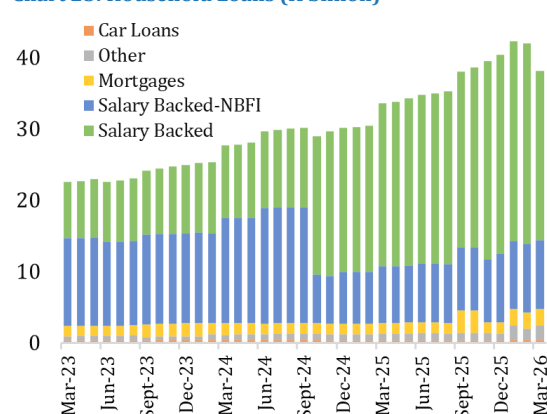


Chart 26: Households' Debt to GDP (K' billion)

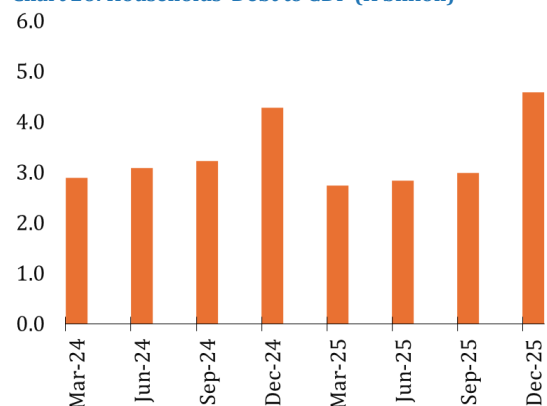
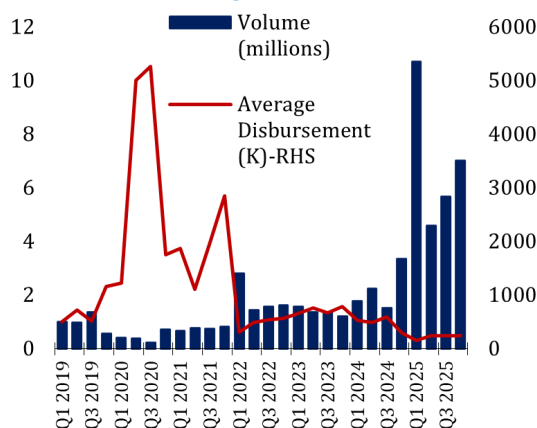
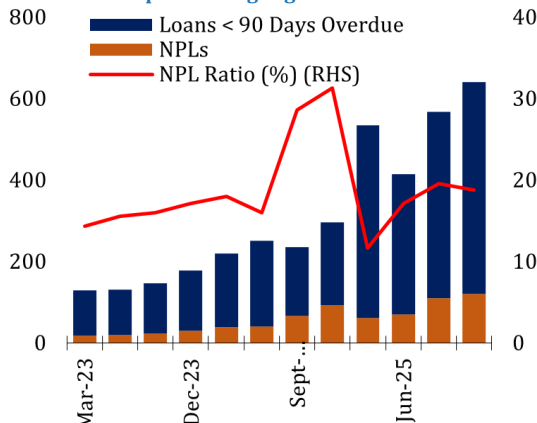


Chart 27: Household Digital Credit Disbursements



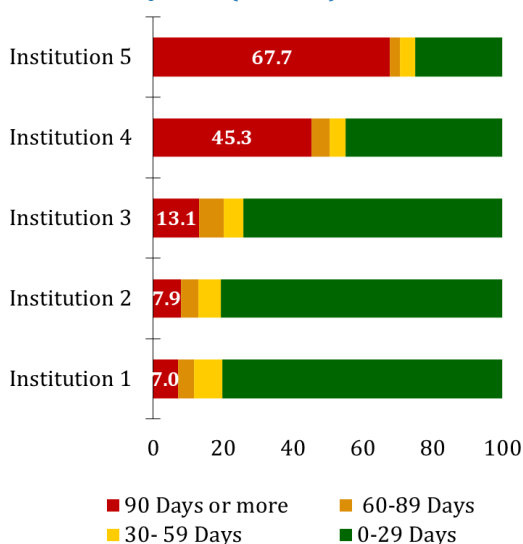
Digital credit disbursements grew in the fourth quarter of 2025 (Chart 27) following heightened promotional interventions for loans issued through most mobile money service providers. The average disbursed amount was steady just below K250. While households' access to digital loans has relatively grown over the period, non-performing digital credit⁴ has grown and remains lofty at 18.8 percent of their digital loan book (Chart 28). The increase in NPLs was largely driven by system challenges at some institutions, which disrupted automatic collections on customer accounts. Other underwriting financial institutions had NPLs exceeding 50 percent of their digital credit portfolio (Chart 29), reflecting legacy weaknesses in the quality and completeness of customer data which have hindered effective recoveries. Not only does this raise the risk of credit losses for households' creditors but also the risk of reversing the gains of using digital credit as a tool to advance financial inclusion. In this regard, strengthening KYC processes, risk-management practices as well as supporting ICT systems is essential to prevent new disbursements from crystallising into future impairments.

Chart 28: Non-performing Digital Loans Ratio



Public workers' risk of default is equally high despite the fact that virtually all their debt is salary-backed. The share of public workers' loan delinquencies with microfinance institutions was little changed at 16.2 percent, well above the prudential threshold of 10.0 percent (Chart 30). The elevated share of public workers loan delinquencies has primarily been driven by failure by some civil servants to provide cover for loan repayment amounts exceeding the maximum debt service ratios due to over-indebtedness. Breaches occur as some civil servants circumvent borrowing thresholds by borrowing simultaneously from multiple lenders.

Chart 29: Institution-by-institution Digital Loan Classification Q4-2025 (K'million)



⁴ Digital credit portfolio for institutions supervised by the Bank of Zambia.

Financial Markets

Financial markets stress rose slightly as the rapid appreciation of the exchange rate gave rise to heightened exchange rate volatility (Table 6). Nonetheless, stress levels remained low as higher currency risk was partly moderated by easing interest rate conditions. Short-term interest rates tracked reductions in the central bank policy rate and longer-dated local currency government securities yields decreased on improved liquidity. Equities continued to record gains, though at a softer pace. The oil shock poses risks to markets in the near-term as renewed risk aversion and higher risk premiums could raise currency volatility and interest rate risk. Further, market uncertainty could heighten as investors take a wait and see stance ahead of the general elections in August.

Interest Rates Broadly Decline

Since the [October 2025 Financial Stability Report](#), interest rates conditions have eased as yields on sovereign securities broadly declined and volatility in money market interest rates remained modest (Table 7 and Chart 32 and Chart 33). The overnight interbank rate declined following the cumulative 100 basis point cut in the policy rate. Yields on local currency government securities fell as demand strengthened on account of increased participation by non-resident investors ⁵ ([Chart 34](#)). The decline in yields across maturities shifted the yield curve further downward ([Chart 35](#)), indicating market expectations of lower interest rates amid declining inflation.

In contrast, yields on Zambia's 2033 Eurobond edged up as risk-off sentiment increased following the escalation of the conflict in the Middle East, largely reversing the steady decline in yields observed up to February 2026 ([Chart 36](#)). Prices on the Eurobond had previously benefited from lower risk premiums, supported by positive market developments including the upgrade in sovereign credit ratings in November 2025. The near-term outlook for interest rate conditions could be shaped by the evolution and duration of the conflict. A prolonged disruption to oil shipments from the Middle East would sustain oil prices at elevated levels and amplify imported inflation, reducing prospects for continued monetary easing. Interest rates

⁵ The Government bonds auction held on Friday 13 February 2026 recorded a subscription rate of 507.9 percent. K21.3 billion was received in bids at face value, with non-resident investors accounting for 62.3 percent of total bids received.

Chart 30: Public Workers Non-performing Loans

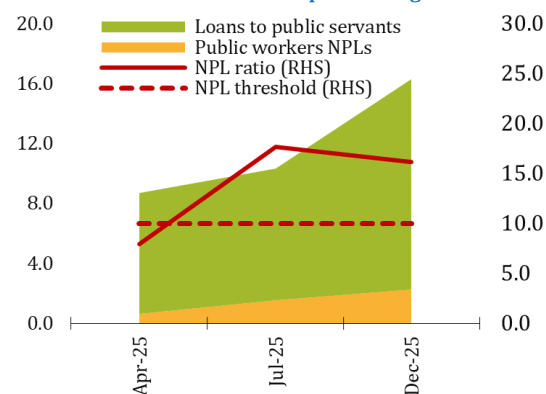


Table 6 : Financial Markets Stress Heatmap

Financial Markets Stress	2025				26
	Mar	Jun	Sep	Dec	Mar
Interest rates					
Fx Rate Volatility					
Equity Mkt Strength					

Chart 31: Financial Markets Index

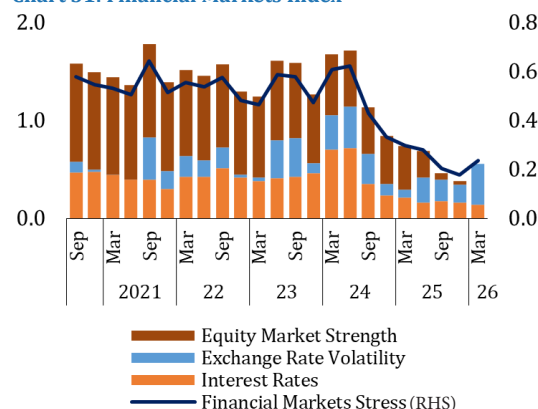


Table 7: Interest rates Heatmap

Interest Rates	2025				26
	Mar	Jun	Sep	Dec	Mar
T-bill composite yield					
G-bonds composite yield					
Av. spread on E/bonds yields					
IB interest rates spreads					
IB interest rate volatility					

Chart 32: Overnight Interbank Rate (%)

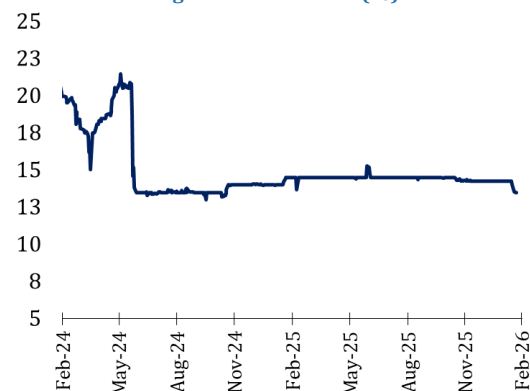


Chart 33: Interbank rate 21-Day volatility (%)

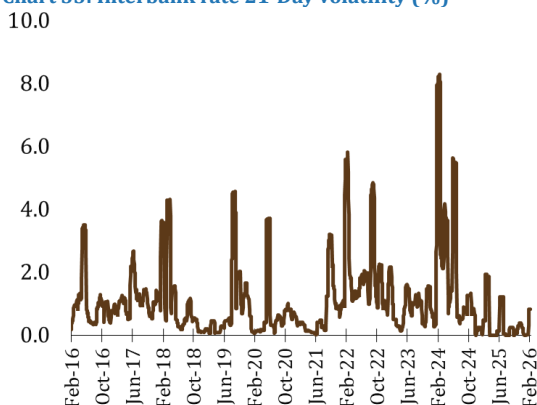


Chart 34: Composite Government Securities yields(%)

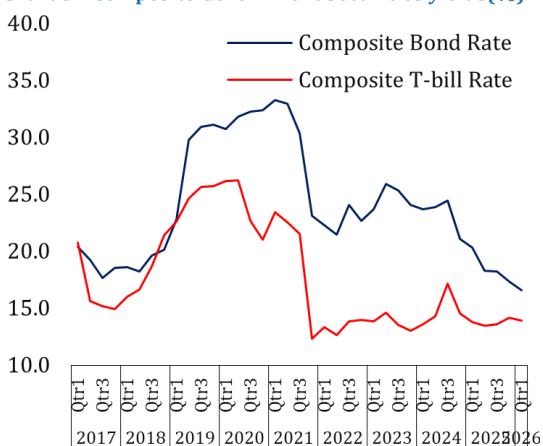
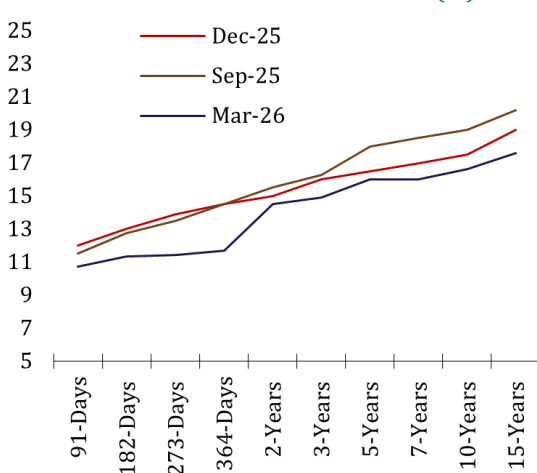


Chart 35: Government Securities Yield Curve(%)



could also come under pressure from higher market uncertainty as investors take a wait and see stance ahead of the general elections in August.

Exchange Rate Volatility Heightens

Exchange rate volatility rose above the historical benchmark as the Kwacha experienced episodes of rapid appreciation ([Chart 37](#)). Significant inflows of foreign exchange from offshore players ([Chart 38](#)) seeking to invest in government bonds largely drove the pronounced strengthening of the domestic currency, which amplified volatility. A sudden appreciation intensifies competitive pressures on domestic industries as imported goods become cheaper for local consumers. This dynamic was reflected in the *February 2026 Stanbic Bank Zambia PMI Report*, where the decline in business conditions “stemmed from renewed contractions in output and new orders as firms struggled to stay competitive against cheaper imported items amid an appreciation of the Kwacha against the US dollar.” It is therefore unsurprising that respondents to the [March 2026 Systemic Risk Survey](#) cited exchange rate volatility as one of the key risks likely to have a material impact on business operations and financial stability (see [Box A](#)).

Premiums on foreign exchange forward contracts also narrowed, indicating lower hedging costs ([Chart 39](#)). The compression in premiums was consistent with the easing of domestic interest rate conditions, which reduced interest rate differentials, as well as improved liquidity in the foreign exchange market.

The emergence of the conflict-induced oil price shock is a material source of risk to exchange rate stability. A protracted conflict in the Middle East could result in increased demand for foreign exchange to meet costlier oil imports. At the same time, heightened geopolitical uncertainty would reinforce risk-off sentiment across global financial markets, potentially triggering safe haven flows. This could be compounded by higher foreign interest rates should major central banks tighten monetary policy in response to the associated price pressures. Furthermore, currency risk could rise should investors, especially non-residents, take a wait and see stance ahead of the presidential elections in August. Exchange rate volatility is therefore expected to remain elevated, should these risks materialise. Higher volatility could raise credit risk for lenders with high concentrations of foreign currency denominated loans.

Corporate Bonds Valuations Rise Modestly

Local currency floating-rate corporate bond valuations have increased as yields have generally declined, largely tracking government securities yields to which their spreads are anchored ([Chart 40](#)). Lower yields eased financing conditions for corporates as interest expenses on floating-rate obligations reduced, possibly supporting liquidity and profitability positions. However, local currency note issuance remains limited, with only four instruments outstanding, three of which are from NBFIs. New issuances were also modest as only K10 million was added.

Conditions for foreign-currency issuers were broadly unchanged as all outstanding instruments continued to carry fixed rates and therefore exhibited no variations in yields ([Chart 41](#)). While exchange rate fluctuations continue to pose currency-mismatch risks for these issuers, the exposure is largely mitigated by corresponding foreign currency receivables. Foreign-currency notes continue to account for most of the stock of outstanding corporate bonds, although their value in Kwacha terms has declined following the appreciation of the local currency. The corporate bond market has yet to achieve the depth required to effectively complement banks in providing long term financing, at a time when banks' financial intermediation is limited. A deeper corporate bond market would help channel stable capital to productive sectors and strengthen real economic growth.

Equities Rally Softens

Equities continued to register gains, albeit at a softer pace than during the six months leading up to October 2025 ([Chart 42](#)). Only a few stocks posted gains, with manufacturing, banking, and agriculture-processing stocks driving performance ([Chart 43](#)). That said, the equities market was resilient, supported by ongoing macroeconomic stability, sustained investor confidence, and increased retail participation.

The equities market continues to contend with underlying structural constraint relating to market illiquidity. Trading turnover remains muted, with shares trading amounting to less than 1 percent of the total shares registered on the LuSE Central Shares Depository in the five months to February 2026 ([Chart 44](#)). Market illiquidity is evident in relatively wide bid-ask spreads.

Chart 36: Zambia 2033 Eurobond Yields (%)



Chart 37: Daily 21-Day Forex volatility (%)

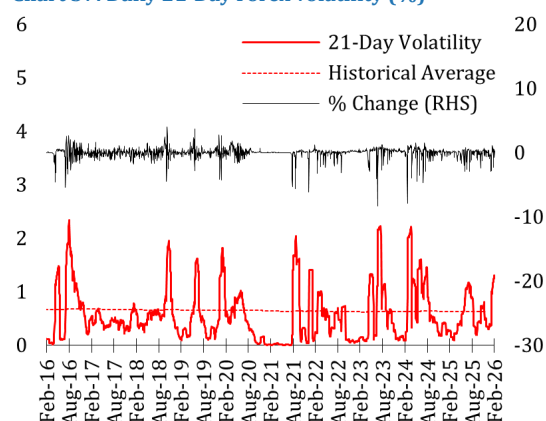


Chart 38: Net Supply of Foreign Exchange (US\$' billion)

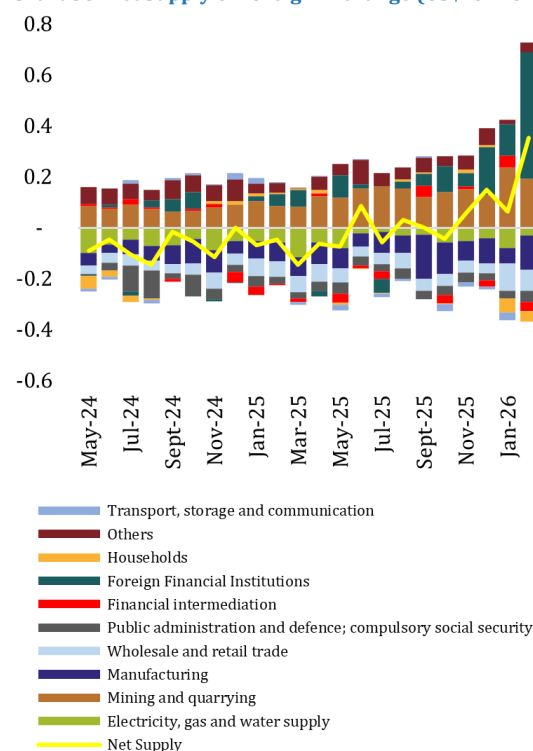
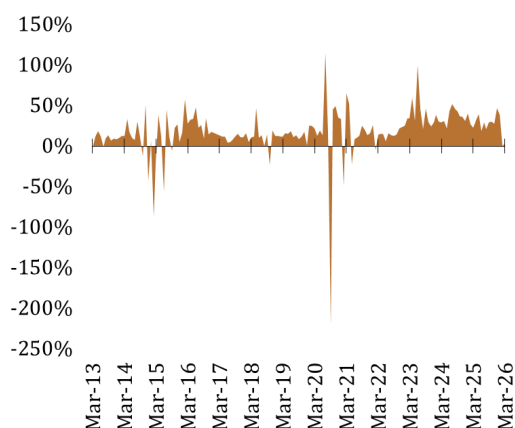
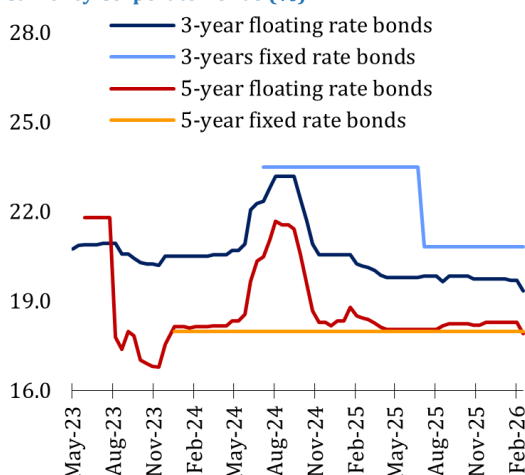


Chart 39: Forward Premiums and Discounts for USD/ZMW Transactions



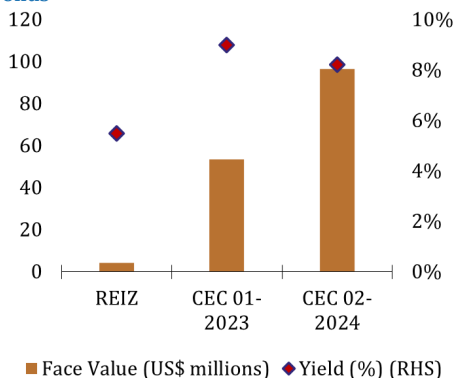
Note: The forward premium/(discount) is computed the percentage difference between the forward rate and the spot rate. It indicates whether the forward rate is above (premium) or below (discount) the current spot exchange rate. To ensure comparability across different maturities, the premiums/discounts are annualised.

Chart 40: Average Yields on Outstanding Local Currency Corporate Bonds (%)



Source: Lusaka Securities Exchange, BoZ Staff Calculations

Chart 41: Outstanding Foreign Currency Corporate Bonds



Source: Lusaka Securities Exchange, BoZ Staff Calculations

While equities spreads have broadly narrowed ([Chart 45](#)), they remain elevated – averaging about 7 percent during the review period– compared with some peer frontier markets.

Liquidity constraints imply that institutional investors transacting in equities could face elevated costs when entering or exiting positions as large orders would impact prices and widen spreads. In the event of a pronounced risk off episode, limited market depth could amplify price adjustments. With foreign investors dominating holdings of domestic equities ([Chart 46](#)), the market is exposed to the heightened geopolitical risk which could potentially trigger a flight to safety, thereby eroding the value of assets held by resident investors and possibly transmitting stress to other segments of the financial system (see [Box B](#)). For example, pension funds, which hold just under a third of their assets in listed equities (see the [“Private Pension Industry’s Asset Base Expands Amid Muted Liquidity Risk, but Market Risk is on the Rise”](#) section), could incur losses should such a downturn materialize. The risk of lower asset valuations could also materialise if foreign investors sit on the fence ahead of the presidential elections in August.

Financial Market Infrastructure

The financial market infrastructure continued to operate reliably, with no major operational incidents recorded over the review period. However, the risk of cyber defence breaches remain elevated as the financial system remains an attractive target for cyber criminals. Direct losses from fraud also surged as some process control weaknesses were exploited.

Operational Resilience of Payment Systems Sustained

Financial market infrastructure (FMI), comprising the payment and settlement systems, have continued to support the overall stability of the financial system. Risks associated with operational disruptions to systemically important payment systems were contained during the review period. System availability of the Zambia Interbank Payment and Settlement System (ZIPSS) picked up ([Chart 47](#)). No major outages were recorded as prompt incident management contained instances of downtime. Operational reliability is a key requirement for systemic FMIs as a prolonged failure could disrupt critical payments and transactions, undermine confidence in the financial system, and compromise

overall financial stability.

Cyber and Fraud Risks Remain Elevated

The financial system continues to be an attractive target for cyber criminals and fraud actors. One institution experienced a cyber extortion attack after vulnerabilities in third-party systems were compromised. Such incidents revealed the growing sophistication of supply-chain and vendor-targeted attacks in the financial sector. A major cyber incident could disrupt operations of seemingly systemically important financial institutions or infrastructure, with the potential to permeate the rest of the financial system. In this regard, financial sector participants must continuously strengthen their resilience to withstand evolving cyber threats.

Losses from incidents of fraud also surged as weaknesses in process controls were exploited ([Chart 48](#)). Failures in system-process controls and staff-related lapses affected some banks and payment service providers. One payment service provider experienced a system configuration error

which led to anomalous credits on agent accounts. Such incidents could test existing safeguards—such as one-to-one trust account requirements for e-money issuers as well as collateral arrangements with sponsor banks. Given the prevalence of fraud, this risk cannot be discounted for the wider financial system as it may have implications for settlement exposures.

Banks

Banks have continued upholding adequate buffers of high-quality capital, reflecting their ability to withstand shocks and absorb unexpected losses during economic downturns. (Table 8 and Chart 49). Credit risk has continued to trend downward, adding to their robust financial soundness. However, they continue contending with risk concentrations, including the dollarisation of loans and deposits, the resurgence of the sovereign-bank nexus and the uneven distribution of loans and funding sources.

Banks Sustain Strong Levels of High-quality Capital Buffers

Commercial banks have continued upholding adequate buffers of high-quality capital. Bank-wide total regulatory capital was little changed at 23.6 percent of the risk-weighted assets (RWA). This is 13.6 percentage

Chart 42: Lusaka Securities Exchange All Share Index (LASI)

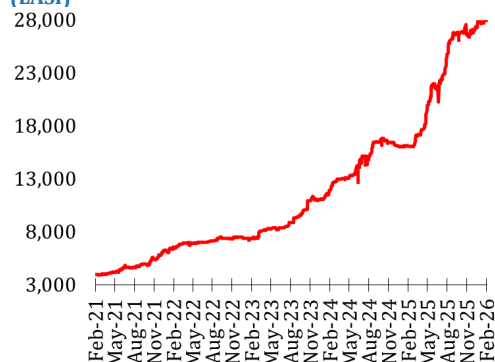
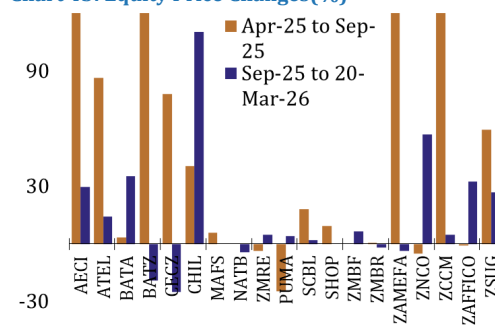
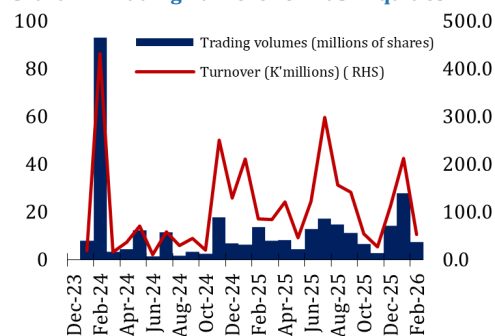


Chart 43: Equity Price Changes(%)



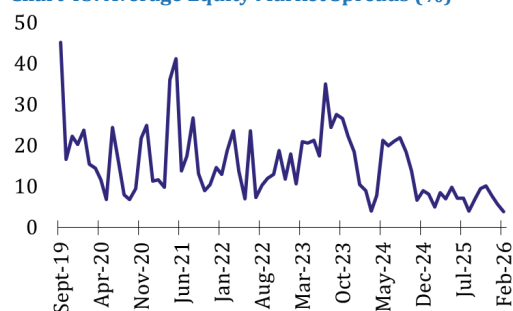
Source: Lusaka Securities Exchange, BoZ Staff Calculations

Chart 44: Trading Turnover on LuSE Equities



Source: Lusaka Securities Exchange, BoZ Staff

Chart 45: Average Equity Market Spreads (%)*



Source: Lusaka Securities Exchange, BoZ Calculations

* The average spread is calculated relative to the mid-price for each stock that records both bid and offer quotations on a given trading day, where both bids and offers are available. Stocks with only bids or offers on a particular trading day are excluded from the calculation. The resulting daily spreads are averaged to produce the monthly series.

Chart 46: Equity Holdings by Investor Type (Q2-2025)

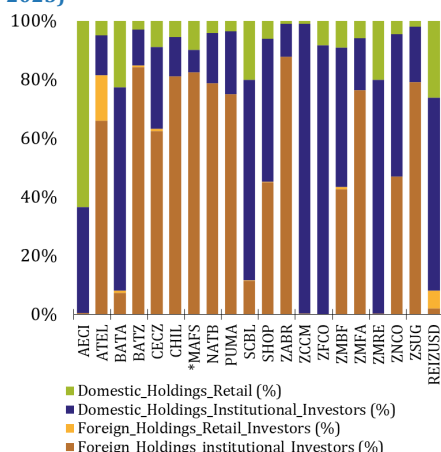


Chart 47: ZIPSS Availability (%)

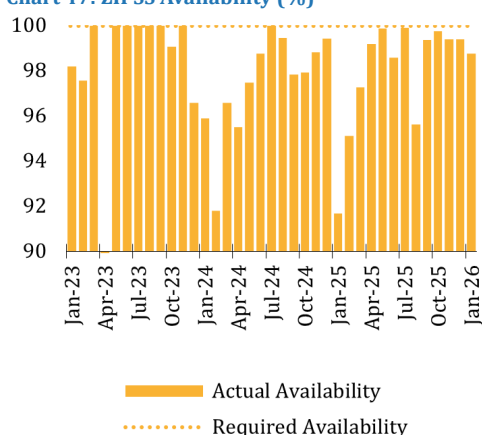


Chart 48: Reported Non-Card and Mobile Money Fraud Incidents

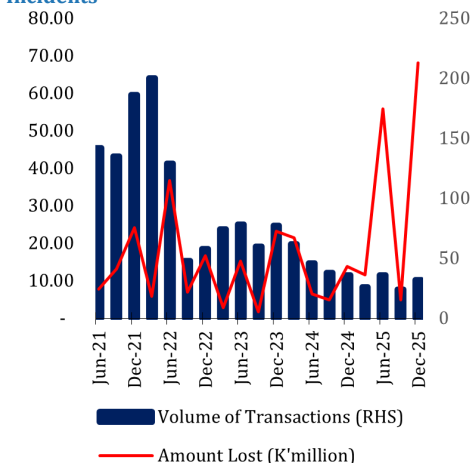


Table 8: Banks' Health Heatmap

Banks' Health	2025				26
	Mar	Jun	Sep	Dec	Mar
Capital Adqcy					
Asset Quality					
Earnings					
Liquidity					
Market risk					

points above the regulatory requirement ([Chart 50](#)). Banks have also maintained high levels of common equity tier one (CET 1) capital, the highest quality regulatory capital which comprises mostly common shares, retained earnings and share premium, since the [October 2025 Financial Stability Report](#). Buoyed by the expansion in retained earnings, CET 1 grew by 2.7 percentage points to 23.3 percent ([Chart 51](#)), 17.3 percentage points above the regulatory requirement.

The existence of strong capital levels on banks' balance sheets, especially CET1, reflects their ability to withstand shocks and absorb unexpected losses during economic downturns. For example, the results of the October 2025 macro stress tests which subjected banks to a severe global economic downturn caused by an escalation in geopolitical tensions have shown that banks would broadly be able to cushion shocks without breaching regulatory capital thresholds (see [October 2025 Financial Stability Report](#)). This enables them to continue performing key functions like facilitating payments and lending to the real sector. Strong capital levels also signal financial soundness and assurance of their capacity to remain solvent and protect depositors and creditors during events of stress. Therefore, they represent banks capacity to support the stability of the entire financial system in view of the predominant role they play (see [Box C](#)).

Share of Non-performing Loans Dwindles, Risk Concentrations Remain

Banks' portfolio of NPLs continued on the downward trajectory since October 2025, indicating declining default risk amid ameliorating macroeconomic economic conditions. The NPLs ratio ⁶ – one of the primary indicators of banks health in terms of asset quality – slid 0.8 percentage points to a multi-decade low of 2.7 percent, ([Chart 52](#)). Additional evidence of banks' muted risk of credit losses lies in the strong loan loss provisioning levels, which soared to 117.3 percent, compared with 99.2 percent in October 2025 ([Chart 53](#)). This is well above the prudential threshold of 80 percent and points to the banking sector ability to cushion itself against losses triggered by loan defaults. However, financial stability concerns related to risk concentrations relating to banks credit portfolio linger, including the

⁶ The NPLs ratio reflects the proportion of bank credit where borrowers have not met contracted repayments of the principal and interest for more than 90 days.

uneven sectoral distribution of credit and the high share of foreign currency-denominated credit.

Commercial banks' claims on the real sector remain concentrated, with the balance of aggregate credit tilting to a few sectors including manufacturing, the public and energy sectors. Banks total claims on these three sectors are equivalent to 48.1 percent of their total credit portfolio ([Chart 54](#)). In as much as the manufacturing and energy sectors are key to spearheading private-sector led growth, high common exposures are perilous to banks as they raise the risk of significant credit losses should they be negatively impacted by a material shock. For example, higher oil prices could adversely affect industrial production and distort operations considering their heavy reliance on fuel. This would culminate in higher production and liquidity challenges, which would in turn filter through to the lenders in the form of mounting credit risk.

Even though banks' relative foreign currency credit has reduced since the [October 2025 Financial Stability Report](#), it remains elevated and indirectly exposes them to credit risk through the exchange rate channel. In the six months to March, foreign currency-denominated exposures fell 7.5 percentage points to 38.3 percent of banks' total assets after the exchange rate appreciated ([Chart 55](#)). While about 88.0 percent of banks' foreign currency denominated exposures are hedged, there remain concerns about the unhedged portion ([Chart 56](#)). Equally, banks foreign currency debtors lacking end-to-end hedged current assets are also exposed to exchange rate variations. By way of context, an exchange rate depreciation, potentially influenced by a severe oil price shock and higher US dollar interest rates, could make it difficult for some borrowers to service their foreign currency debt, and if protracted could induce a rebound in loan delinquencies and raise banks provisioning and impairments.

Aside from indirectly raising credit risk within the context of exchange rate movements, there are also longstanding structural concerns with regards the negative influence the dollarization of credit has on the BoZ's monetary policy framework. It undermines the efficacy of monetary policy transmission as market dynamics of dollar denominated credit barely respond to the Bank's policy rate adjustments.

Chart 49: Banks' Health Index

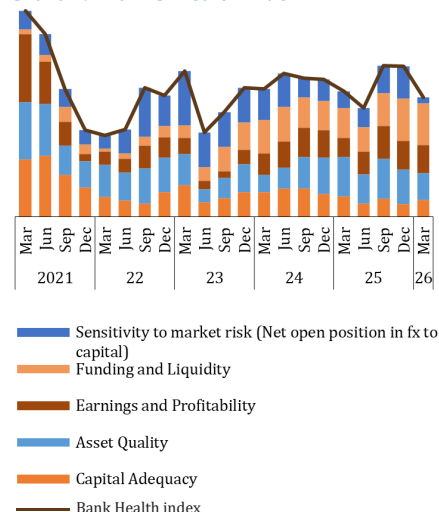


Chart 50: Capital Adequacy Ratio

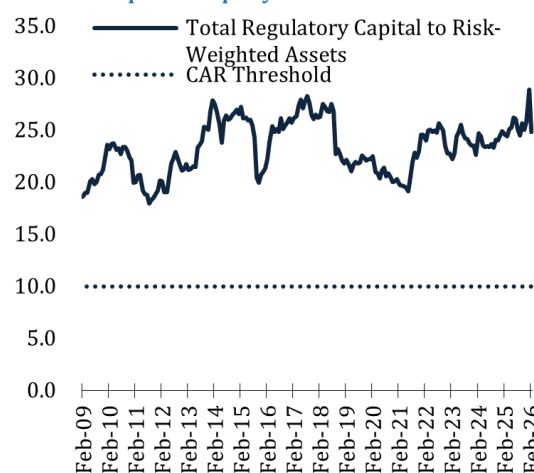


Chart 51: CET 1 (%) and Components (K'-billion)

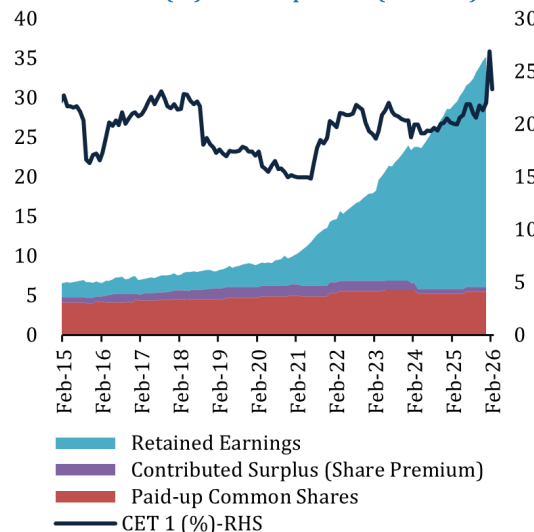


Chart 52: NPL Ratio(%)



Chart 53: Loan Loss Provisioning

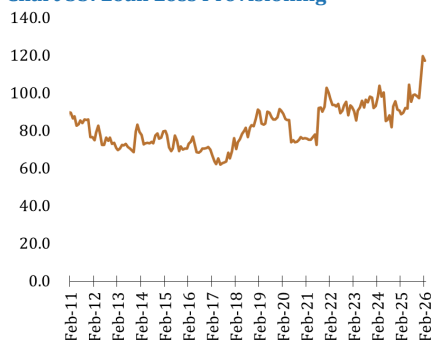


Chart 54: Selected Sectors Share of Loans (%)

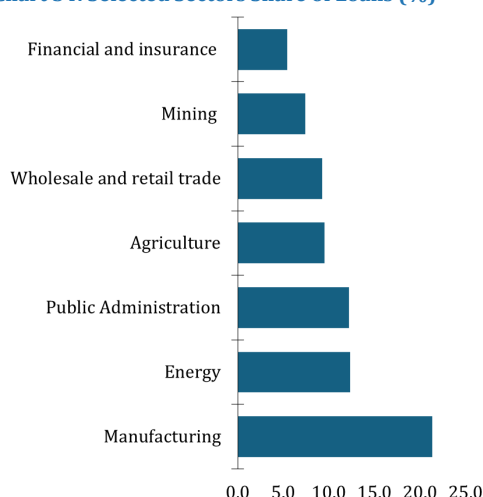
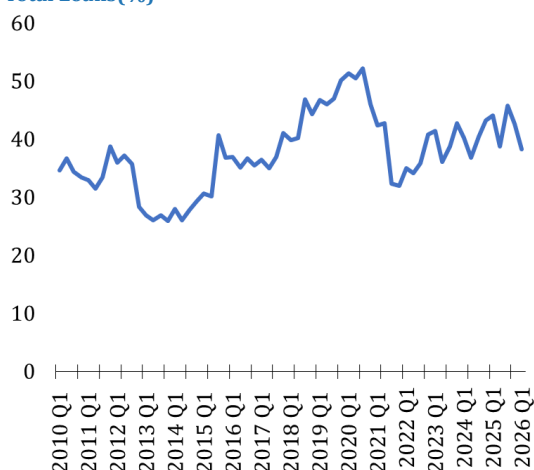


Chart 55: Foreign Currency-Denominated Loans to Total Loans(%)



The Sovereign-bank Nexus Re-emergs

The sovereign-bank nexus – interlinkages that exist between government and banks in relation to banks' exposure to government through loans and securities or government's exposure to banks through deposits – has re-emerged. Since October 2025, banks' sovereign exposure has grown by 3.1 percent to just over a quarter of total assets after credit flow to government rose sharply ([Chart 57](#)). Their exposure to government securities has been broadly steady in the aftermath of the episode (2020-2023) of rapid expansion. This rapid expansion was spurred by several factors, including the flight-to-safety amid the Covid pandemic and the search for yields given the lofty interest rates and credit risk at the time.

It is noteworthy that the increase in banks' exposure to government came as a result of the latter's policy actions to refinance fuel arrears to stimulate economic growth. While this is a positive move and banks' interconnectedness with government is not as profound as during the episode in question given the ongoing fiscal consolidation efforts, it's resurgence is raising financial stability concerns. For example, an unlikely material sovereign funding and liquidity shock triggered by materialization of fiscal risks could potentially culminate in credit and market losses due to settlement failure and depressed fair values of their securities portfolio.

Maturity Mismatches Taper Against the Backdrop of Growing Market Risk, Deposit-based Risk Concentrations Linger

Banks' maturity mismatches, the difference between interest rate sensitive assets and liabilities, have broadly tapered against the backdrop of growing market risk. Lenders broadly maintained net assets across both short and longer-dated maturities, with the gap narrowing to K30.9 billion ([Chart 58](#)). The gap narrowed after a significant increase in banks' net liabilities in short-dated maturity of 0– 3 months.

The narrowing of the positive liquidity gap translates to banks' reducing vulnerability to market and liquidity risk. With a positive liquidity gap, banks could benefit from widening interest rate margins should the BoZ abandon the current accommodative monetary policy regime and raise interest rates to curb inflationary

pressures that may be induced by a severe oil price shock. A narrower gap also reduces their exposure to liquidity risk in terms of boosting their capacity to meet short-term obligations.

Despite these developments, banks' balance sheets are still beset with liabilities-based risk concentrations. Their deposits remain concentrated to a few institutional depositors ([Chart 59](#)) and about 40 percent of their customer deposits are denominated in foreign currency ([Chart 60](#) and [Chart 61](#)). While a sudden significant withdrawal by some institutional investors could cause liquidity challenges in some segments of the banking sector, currency mismatches (net open positions) expose them to exchange rate movements.

As pointed out in the [October 2025 Financial Stability Report](#), the BoZ is looking to enhance its macroprudential policy toolkit by introducing regulations that would strengthen banks' resilience to liquidity risk in this regard. These include establishing the Liquidity Coverage Ratio (LCR), which would require banks to maintain an adequate stock of High-Quality Liquid Assets (HQLA) sufficient to cover net cash outflows over a 30-day stress period.

Non-Bank Financial Institutions (NBFIs)

Non-bank financial institutions have continued to be broadly sound, registering positive growth in assets and capital. However, microfinance institutions are grappling with loan concentration, insurance corporations are contending with structural constraints and pension funds face growing market risk associated with an escalation in geopolitical tensions.

Microfinance Institutions Have Adequate Capital Buffers, but Concentration Risk Remain

Microfinance institutions have continued maintaining adequate capital buffers but there remain concerns around the quality of their credit portfolio. Microfinance lenders have continued maintaining capital equivalent to 42.2 percent of risk-weighted assets largely due to strong retained earnings. Deposit-taking (DT) microfinance corporations' capital adequacy was posted at 42.8 percent and that of non-deposit-taking lenders at 41.0 percent.

Notwithstanding their healthy capital standings, there remain asset quality concerns as their balance sheets remain skewed toward public workers' loans. Loans

Chart 56: Allowance for loan losses to gross NPLs

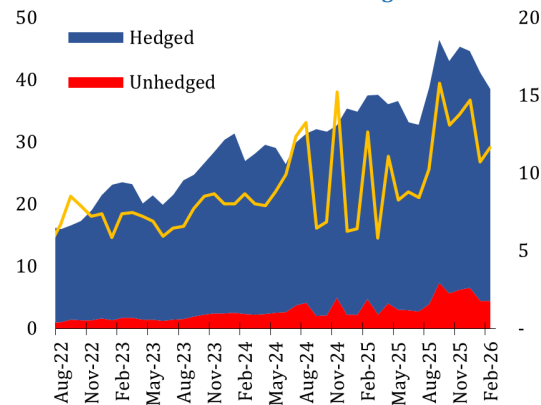


Chart 57: Foreign Currency-Denominated Loans to Total Loans(%)

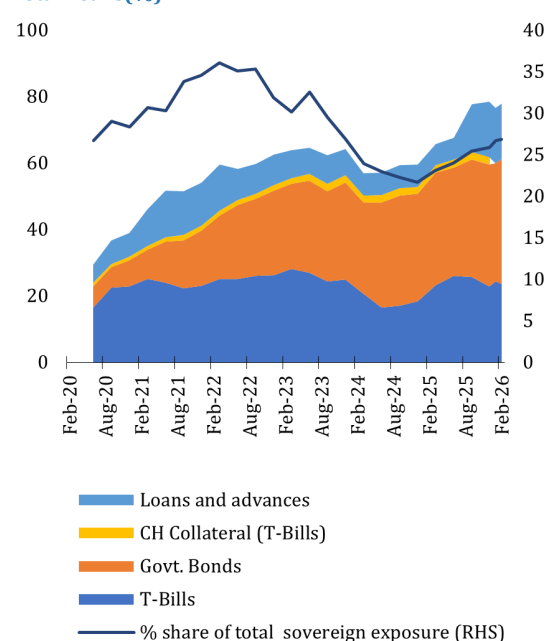


Chart 58: Maturity Mismatches (K' billions)

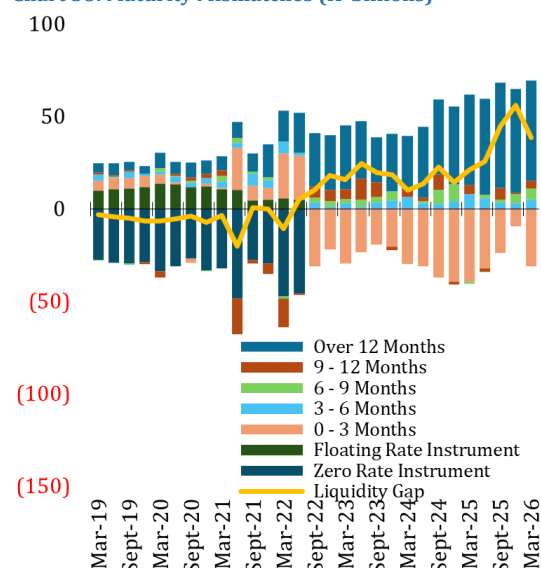


Chart 59: Share of Top Twenty Depositors (%)

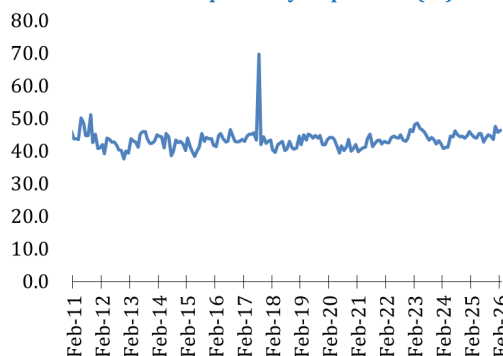


Chart 60: Share of Foreign Currency Denominated Deposits

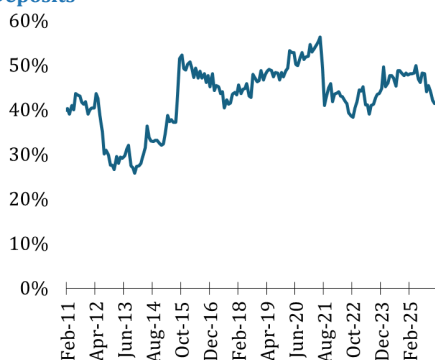


Chart 61: Foreign Currency Denominated Deposits (US\$ billion)

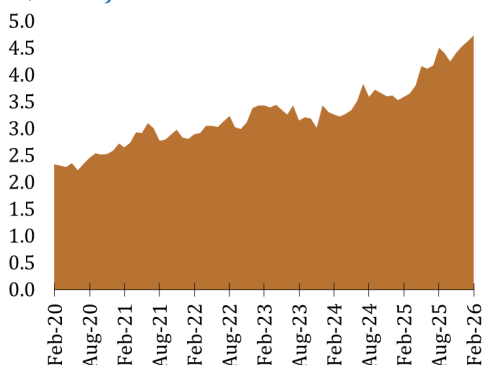
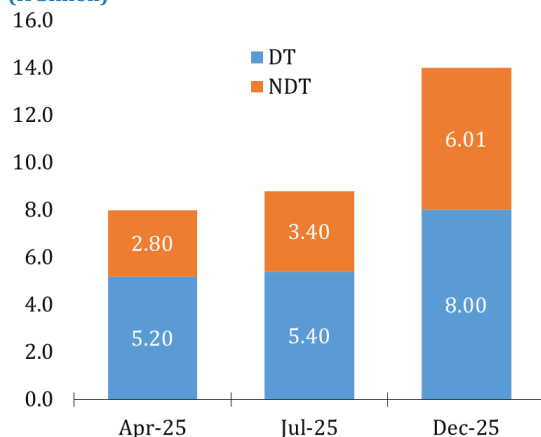


Chart 62: Exposure to Government Employees (K'billion)



to public workers have grown and now account for 45.6 percent of total assets (Chart 62 and [Chart 63](#)). The concentration of credit to government employees does not only highlight microfinance institutions' lack of diversification but also the potential for material losses should unlikely events such as government failure to remit repayments or increased public workers job losses unfold. Hence, these elevated common exposures pose a threat to the health of NBFIs.

Another vulnerability raising concerns is elevated stock of the public workers NPLs (see the [“Household Debt: Digital and Public Workers Non-performing Loans Remain High”](#) section). At sub-sector level, deposit taking financial institutions are still seemingly contending with higher credit associated with public workers loans than non-deposit-taking financial institutions as the share of loan delinquencies is higher on their balance sheets ([Chart 64](#)).

As pointed out in the [“Household Debt: Digital and Public Workers Non-performing Loans Remain High”](#) section, the high stock of NPLs has primarily been driven by failure by some civil servants to provide cover for the loan repayment amounts exceeding the maximum debt service ratios due to over-indebtedness. The breaches occur as some civil servants borrow simultaneously from multiple lenders with the aim of circumventing the borrowing threshold amid poor underwriting practices among some lenders.

Some public workers are highly indebted and do not meet the required debt service ratios. This growing imbalance of non-performing loans has also been compounded by poor lending conditions and underwriting practices by some lenders. Even though most non-bank financial institutions could be deemed non-systemic, and they largely underwrite salary-backed loans, the fact that their credit portfolio is highly concentrated and faces growing credit risk raises financial stability concerns. In an unlikely scenario that the Government fails to remit civil servants repayments, microfinance institutions could have liquidity challenges and capital shortages. Moreover, the interconnectedness that exists between non-bank financial institutions and banks suggests the former's liquidity challenges could be amplified as it filters through to banks.

Insurers' Post Growth but Profitability Mixed Amid Downside Risks and Structural Constraints

Insurance companies registered growth over the three months to December 2025, but their profitability was mixed. With their asset's posting growth (Chart 65) and liabilities contracting (Chart 66), insurers' net assets soared to K3.2 billion (Chart 67). Similarly, their revenues continued posting growth following increased appetite for insurance cover, including life and health insurance policies. Insurers' aggregate annual gross written premiums (GWP) was little changed at K10.5 billion (Chart 68), annual net premiums rose to about K6.7 billion (Chart 69).

But it is worth noting that there are divergences in sub-sector profitability metrics. While non-life insurers (general) recorded profitable underwriting as their aggregate combined ratio fell below 100 percent, life insurers (long-term) continued recording underwriting losses with their combined ratio remaining above the threshold (Chart 70). A combined ratio measures profitability of an insurance company's underwriting. A ratio less than 100 percent indicates profitable underwriting while a ratio of above the threshold indicates loss underwriting. The improvement for non-life insurance companies came as result of them covering lower claims and commission expenses than in the previous period, whereas the deterioration in life-insurers ratio was caused by higher claims. As pointed out at the [October 2025 Financial Stability Report](#), it is concerning that life insurers have continued to make underwriting losses as the combined ratio has remained above 100 percent. Underwriting losses are indicative of insurers struggle to cover expenses related to underwritten premiums, including operating and claims expenses. They could also signal mispricing of risk, which could possibly push them to invest in riskier assets to maximise earnings.

Even though insurers have registered positive growth, the industry continues to operate in an environment beset with various structural constraints. These include low penetration, slow adoption of digital technologies to reduce costs, high administration costs, high claims costs, and liquidity challenges. Prominent among these is the low penetration, which is the ratio of total insurance premiums written in a given year to GDP. It has remained muted due to factors like low awareness and understanding (limited financial literacy), lack of

Chart 63: Share of Public Service Workers Loans

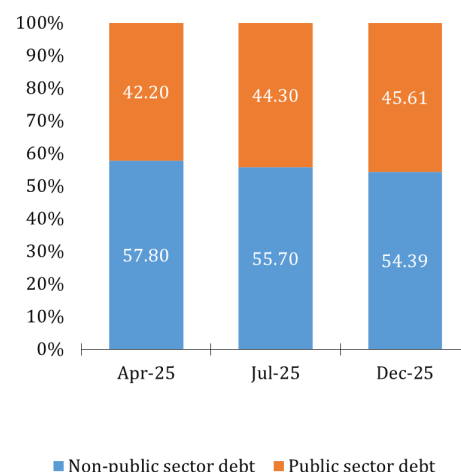


Chart 64: Sub-sector Public Sector Workers NPL Ratios

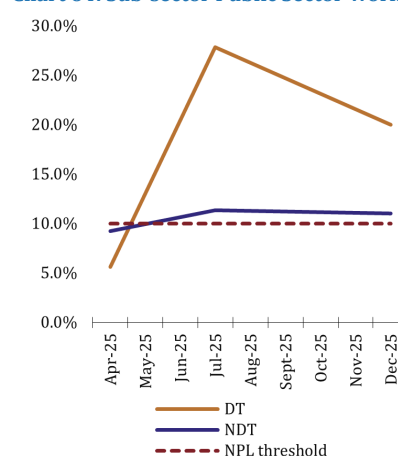
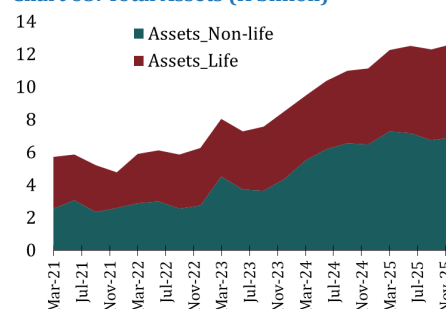
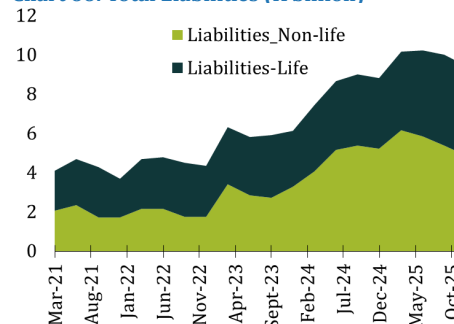


Chart 65: Total Assets (K'billion)

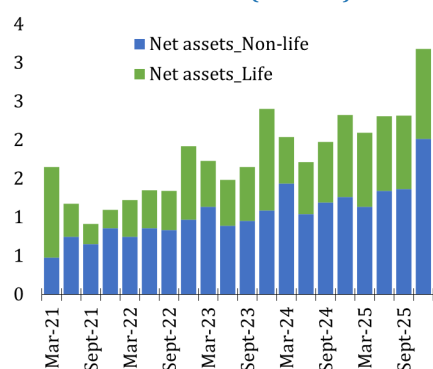


Source: Pensions and Insurance Authority (PIA),
BoZ Staff Calculations

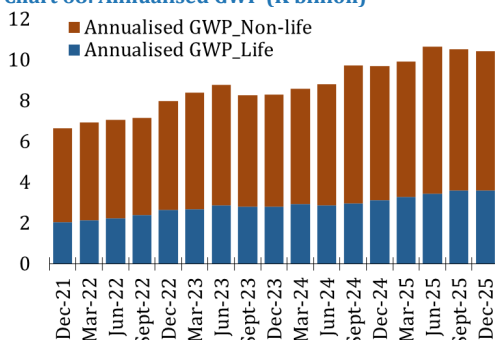
Chart 66: Total Liabilities (K'billion)



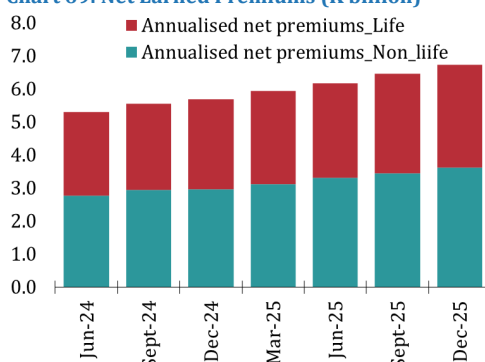
Source: Pensions and Insurance Authority (PIA),
BoZ Staff Calculations

Chart 67: Total Net Assets (K'billion)

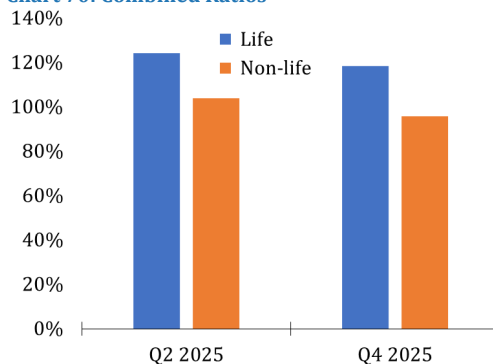
Source: Pensions and Insurance Authority (PIA),
BoZ Staff Calculations

Chart 68: Annualised GWP (K'billion)

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

Chart 69: Net Earned Premiums (K'billion)

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

Chart 70: Combined Ratios

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

innovative and affordable products for low-income households and high poverty levels.

Similar to other financial intermediaries, the outlook for insurance businesses is clouded by uncertainties in the macroeconomic environment induced by the escalation in geopolitical tensions. Higher inflation and lower growth would compound structural constraints insurers are already grappling with. Another downside risks the insurance industry could continue facing relates to solvency risk within the context of the new insurance laws and regulations, although this has waned since the [October 2025 Financial Stability Report](#). Preliminary assessments by authorities suggest that progress has been made in terms of a sizeable proportion of the industry meeting the new solvency requirement.

Private Pension Industry's Asset Base Expands Amid Muted Liquidity Risk, but Market Risk is on the Rise

The private pension industry's asset base expanded in the three months to December 2025, bolstered by higher valuations of its portfolio of fixed-income assets and equity as well as an increase in its holdings of term deposits. Total assets grew after fair value gains of 9.0 percent on government bonds and 3.4 percent on equities, as well as an 18.1 percent jump in term deposits. Subsequently, the industry's net assets rose by 5.0 percent to K26.8 billion ([Chart 71](#)). Private pension funds have continued facing muted liquidity risk amidst their robust aggregate liquidity standing. The industry aggregate funding ratio (the value of its total assets relative to its total liabilities) has remained well above 100 percent, and its liquidity mismatches or net cashflow (the difference between contributions and benefit payouts) has have remained positive, with the gap widening over the period. Further evidence of pension funds robust liquidity lies in the recent evolution in contribution arrears which continued sliding down ([Chart 72](#)). The status of these metrics is indicative of industry's high capacity to meet its current and future payment obligations when they are due, and to source funds. Therefore, it demonstrates its high capacity to absorb liquidity shocks.

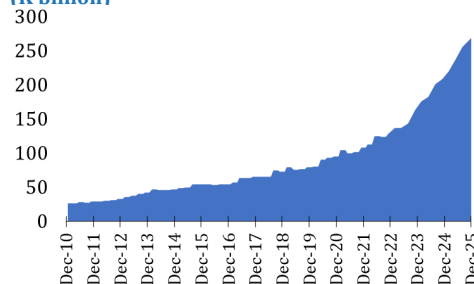
However, pension funds' profitability came under pressure from variations in the exchange rate. The appreciation of the exchange rate over the fourth quarter of 2025 had a knock-on effect on their total income through their offshore placements. Further

to the expansion in net assets and reduction in total income, the net return on average net assets dropped 7.4 percentage points to 14.5 percent, and the real return fell sharply to 3.0 percent from 17.1 percent (Chart 73).

Looking ahead, the industry's health could come under more intense pressure from market risk – specifically duration⁷ and interest rate risks – indirectly fuelled the oil price shock. A protracted conflict in the Middle East could push oil prices higher as the supply of the commodity gets constricted, with adverse effects on domestic energy and food prices, the exchange rate and growth. Central banks' response to rein in the ensuing price pressures could induce a turnaround in the trajectory of interest rates. This could include the Federal Reserve and the Bank of Zambia, whose response to higher inflation would push both hard and local currency interest rates higher. While their asset allocation remains somewhat diversified (Chart 74), pension funds balance sheets are exposed and sensitive to market risk to the extent that they are concentrated in government bonds, equity and offshore markets. Higher interest rates could lead to fair value losses and deflate the valuation of the government bond holdings, which account for a third of their investment portfolio. Even though higher interest rates could push government bond yields higher, higher inflation could compress their real returns in the absence of inflation-linked bonds. Elevated interest could also raise the cost of borrowing, constrain the flow of credit, and weigh on growth and stock market activity. This could in turn reduce income generated from their equity investments, the second largest asset class. Lastly, pension funds could incur losses on their offshore investments should foreign asset prices take a hit from the oil price shock.

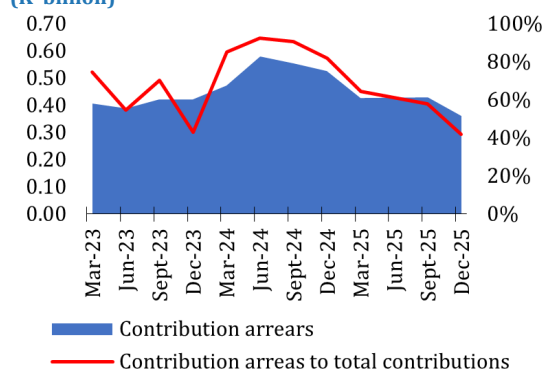
Another risk that pension funds could be exposed to could be that relating to the sovereign funding. This is within the realm of the hefty government bond maturities in the short term (see the [“Fiscal Imbalances Moderate, Outlook Susceptible to Several Risks Including a Larger Oil Shock”](#) section). Their exposure to government through their investments in government securities creates the pension funds-sovereign nexus. Therefore, in an unlikely event that government fails to make good on the maturities in question, pension funds could suffer losses.

Chart 71: Private Pension Industry Net Assets (K'billion)



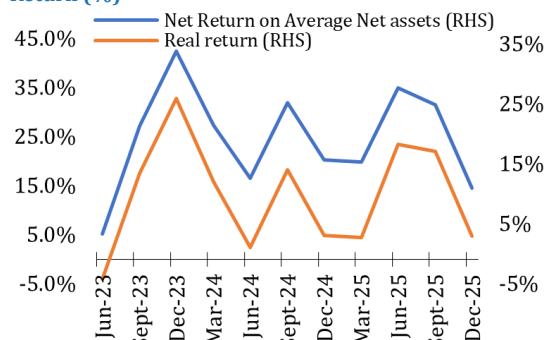
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 72: Total Contributions and Arrear Contribution (K' billion)



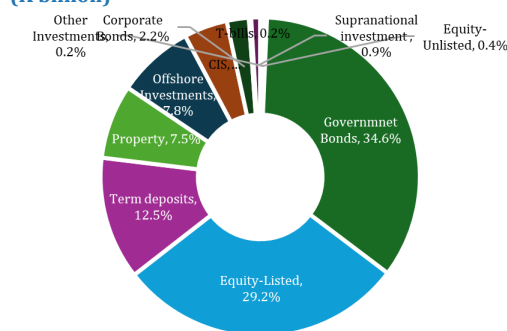
Source: Pensions and Insurance Authority (PIA), BoZ Staff Calculations

Chart 73: Net Return on Average Net Assets and Real Return (%)



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

Chart 74: Private Pension Industry Net Assets (K'billion)



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

⁷ Duration risk refers to the sensitivity of a bond's price to changes in interest rates, measured in years.

4. Policy

Macprudential Policy

The near-term risks to financial stability have increased given, inter-alia, an escalation in geopolitical tensions that recently fuelled an oil shock. Notwithstanding this, risks have reduced since the [October 2025 Financial Stability Report](#), largely reflecting easing macroeconomic risks and strengthening banking sector health. Easing macroeconomic risks were supported by disinflationary trends and a stronger international reserve position, which reinforced external sector resilience. These positive developments helped offset threats arising from slumping economic growth and muted financial intermediation amid relatively sluggish private sector credit flows. Banks have continued upholding adequate buffers of high-quality capital, reflecting their ability to absorb unexpected losses in the event of adverse shocks. Credit risk indicators improved further, with the non-performing loan ratio continuing to trend downward, reinforcing banking sector soundness.

Considering these developments, the FSC resolved to maintain the Countercyclical Capital Buffer (CCyB) at 0.00 percent. The decision reflects the assessment that while banks remain adequately capitalised, tightening macroprudential requirements at this juncture could further constrain credit extension and compound the nascent sluggish economic growth. The Committee remains vigilant and stands ready to recalibrate the macroprudential policy stance should threats to financial stability intensify.

Other Banking Sector Policies

While the banking sector continues to exhibit resilience, the Committee noted that structural systemic risks persist, including high loan and deposit concentration, elevated dollarisation, and the re-deepening of the sovereign–bank nexus. These vulnerabilities may amplify stress under adverse macrofinancial conditions if left unaddressed.

Accordingly, the Committee encourages banks to:

- Progressively rebalance lending towards the private sector, to mitigate crowding out effects and support sustainable economic growth.
- Seek to increase credit flow to underserved sectors to reduce concentration.
- Enhance stress testing models for liquidity shocks and exchange rate shocks and sudden capital flow reversals to periodically test the resilience of their balance sheets in view of deposit concentrations and financial dollarisation, respectively.

Other Financial Policies

Public Workers Over-indebtedness and Elevated Non-performing loans

The Committee noted the elevated non-performing loans associated with public workers, which remain significantly above the prudential threshold of 10 percent. The trend reflects borrower over-indebtedness, frequent breaches of prescribed debt service ratio limits, and weak underwriting standards and poor lending practices among some financial institutions. Although many NBFIs remain non-systemic, their highly concentrated exposure to public workers, in combination with growing asset quality pressures, raises financial stability concerns. Interlinkages between NBFIs and banks

further heighten the risk of contagion through liquidity and funding channels.

The Committee therefore recommends:

- Lenders strengthen the enforcement of debt service ratio and affordability requirements applicable to payroll based lending;
- Requiring lenders to improve underwriting standards and borrower level credit assessments, alongside enhanced provisioning where asset quality has deteriorated;

- Promoting financial literacy initiatives, in collaboration with relevant stakeholders, to improve borrower understanding of debt obligations and the risks associated with over-indebtedness;
- Encouraging employers to enforce internal disciplinary and recovery measures for delinquent staff, consistent with applicable laws and employment frameworks;
- Intensifying engagement with employers and payroll administrators to strengthen coordination, improve deduction and remittance processes, and restore recovery effectiveness.

Risks to Insurance Companies and Private Pension Funds

The Committee noted the increasing exposure of insurers and private pension funds to mounting geopolitical risk and market risk thereof, which could materialise through asset price losses and liquidity pressures, especially in illiquid market conditions. The Committee therefore recommends that pension funds and insurers undertake regular stress tests and scenario analyses, incorporating market illiquidity, exchange rate and geopolitical shocks. In addition, authorities should closely monitor liquidity adequacy, profitability and concentration risks.

Box A: Risk Managers' Near-term Systemic Risk Expectations Have Shifted to the Upside

The results of the March [2026 Systemic Risk Survey](#) have shown that risk managers expect systemic risk to increase over near and medium-term (Figure A1 and Figure A2). Respondents polled have expressed concerns about the growing geopolitical and cybersecurity risks among other threats.

Further, risk managers perceive systemic risk to have escalated since the [October 2025 Financial Stability Report](#) (Figure A3). This is according to 53 percent of respondents, compared with 30 percent in the September 2025 survey. The share of respondents who felt that systemic risk had decreased fell slightly to 22 percent, from 27 percent previously. Meanwhile, 25 percent reported that systemic risk had remained unchanged, a notable decline from the 48 percent recorded in September 2025.

Respondent's perception of the top three vulnerabilities residing in the financial system has shifted significantly, with the concentration of deposits and low financial intermediation adding to their long-held view of funding and liquidity mismatches. With the exception of the latter, these are consistent with some of the Bank of Zambia's assessed vulnerabilities.

Respondents polled have identified cyber-attacks, an escalation of geopolitical tensions and exchange rate volatility as the top three risks to have the greatest impact on financial stability. They also cited geopolitical risk as the most challenging to manage, reflecting heightened global uncertainty and the difficulty of mitigating externally driven shocks. Cyber-attacks were the second-most challenging, underscoring increasing vulnerabilities related to digital operations and cybersecurity capacity.

A sector-by-sector assessment shows that

banks, pension funds and non-financial corporates perceive rising geopolitical risk to be among the top three risks to influence financial stability, and the most challenging to manage. Insurance companies and fund managers considered the exchange rate volatility to be the most challenging, while microfinance institutions cited cyber-attacks.

It's not surprising that geopolitical, currency and cybersecurity risks feature prominently among the responses. It reflects growing uncertainty and fear about the potential adverse impact the materialization of these risks could have on the operations of businesses and financial intermediaries and the overall financial system stability. These insights underscore the need for proactive monitoring to safeguard financial stability in the period ahead.

Figure A1: Expected near-term changes in systemic risk



Figure A2: Expected medium-term changes in systemic risk

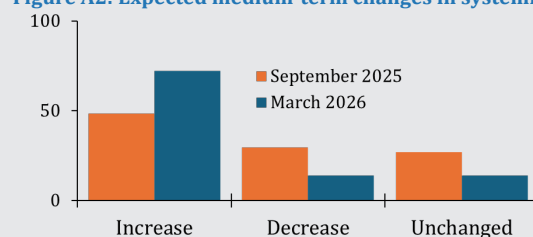
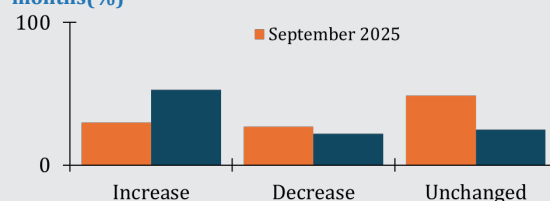


Figure A3: Systemic risk assessment over the past six months(%)



Box B: Interconnectedness in the Zambian Financial System

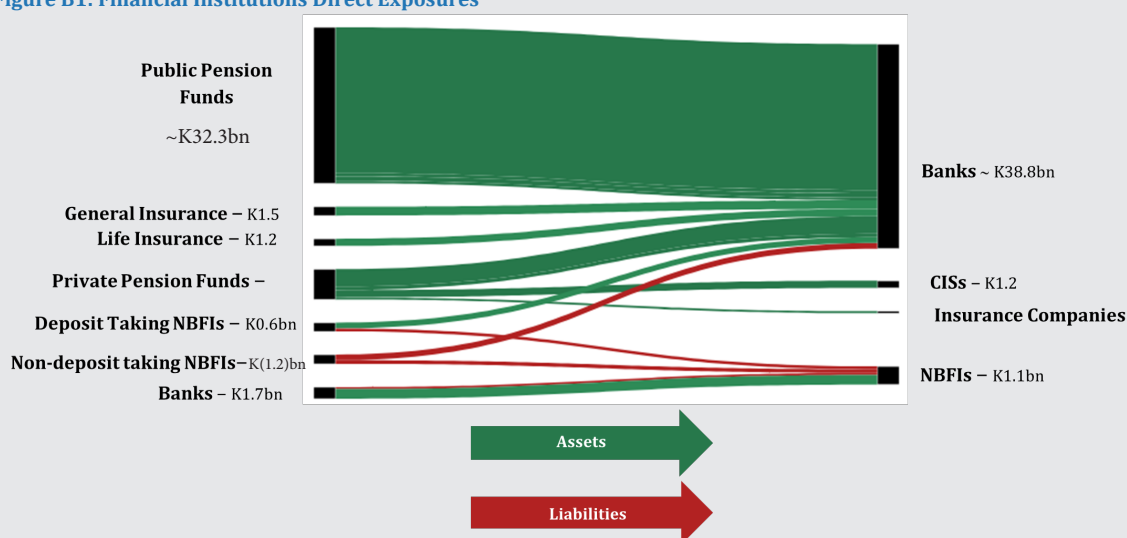
Financial institutions in Zambia serve diverse purposes and are subject to varying regulatory regimes. These institutions are interlinked through direct balance sheet exposures as well as indirect exposures to common assets and markets. The linkages support the key functions of the financial system including financial intermediation, risk management and supporting economic growth. However, the interlinkages also provide a channel through which imbalances in one segment can be spread to the rest of the financial system. In this regard, quantifying the extent of interconnectedness among financial institutions is critical to identifying channels

through which contagion may spread in the event of distress to any part of the financial system.

Direct Linkages Among Financial Institutions

Banks are interconnected with virtually all other financial institutions in the domestic financial system mainly through the deposit channel and to a lesser extent, lending to other financial institutions. As depicted in Figure B1, the most significant linkages exist between banks and pension funds. Banks hold deposits from public and private pension funds amounted to over K35 billion, accounting

Figure B1: Financial Institutions Direct Exposures



Note: The thickness of interlinkages reflects the relative financial value between institutions, with thicker lines indicating higher values.

for about 16 percent of total deposits as at end December 2025⁸. Deposits from other NBFIs (insurance companies, microfinance institutions, etc.) account for about 2 percent of total deposits. This relationship provides a potential transmission channel linking developments in non-bank financial intermediaries to banks. In pension funds, where the deposit linkage is strongest, risks

⁸ For some banks, public pension deposits account for nearly a quarter of their deposit base.

could arise through reallocation of deposits between banks, possibly in search of higher interest rates, or divestments away from institutions perceived to be carrying more risk. A more extreme scenario could involve an industrywide portfolio rebalancing away from deposits in search of higher-yielding financial assets, or in the unlikely event of statutory or regulatory reductions in investment limits on deposit holdings in individual financial institutions. This would have implications for

banks' liquidity management, as a withdrawal of pension deposits could heighten funding pressures. If multiple banks simultaneously face funding shortages, this could disrupt interbank lending, payments settlement and potentially compromise financial stability.

There are other direct interlinkages, though these are modest relative to the size of financial institutions. These include equity holdings in financial institutions⁹, corporate bonds¹⁰, funds under management as well as insurance assets. Public and private pension funds are primarily responsible for these interlinkages, highlighting their role in the financial sector. As the financial sector deepens and a broader range of financial sector assets becomes available, these interlinkages are likely to grow as a channel through which risk may be propagated.

Indirect Linkages

Indirect interlinkages within the financial system arise from exposures to common assets and markets or sectors. In addition, institutions share technologies or receive support from common service providers which may expose them to related cyber risks. Using balance sheet and supervisory data as at end-December 2025, a network modelling indirect interconnectedness was constructed for financial institutions in Zambia (Figure B2).

Indirect linkages among financial institutions arise primarily through government exposures as all institutional sectors hold government securities (treasury bills and bonds) or have loans to government and its related entities. Pension funds have the highest relative exposures, as government exposures account for over 40 percent of total public and private pension assets. For commercial banks and insurance companies, government exposures

account for 25.9 and 24.7 percent of total assets, respectively, whereas CIS' investments in government securities account for 19.2 percent of assets under management. The financial system's exposure to government securities thereby directly links fiscal health to overall health of financial institutions and ultimately, financial stability. Risks to financial stability could arise from distress in public finances leading to sovereign debt restructuring of domestic debt or outright default.

Financial institutions are also linked to private corporations through investments in equities and debt (loans and corporate bonds). Pension funds and banks relative exposures through equities and loans account for over 20 percent of their respective asset bases. CISs and insurance companies have more modest holdings. These interlinkages could be a channel through which contagion from the private sector could spread to financial institutions as may be the case during a significant downturn in equities or if adverse business conditions prevail.

Zambian financial institutions also hold offshore assets and liabilities. Commercial banks and MFIs maintain balances with and on behalf of financial institutions abroad. Further, CIS and pension funds' portfolios include offshore investments. These exposures suggest that broader global developments could affect domestic institutions, albeit to a limited degree given their limited share of assets in financial institutions.

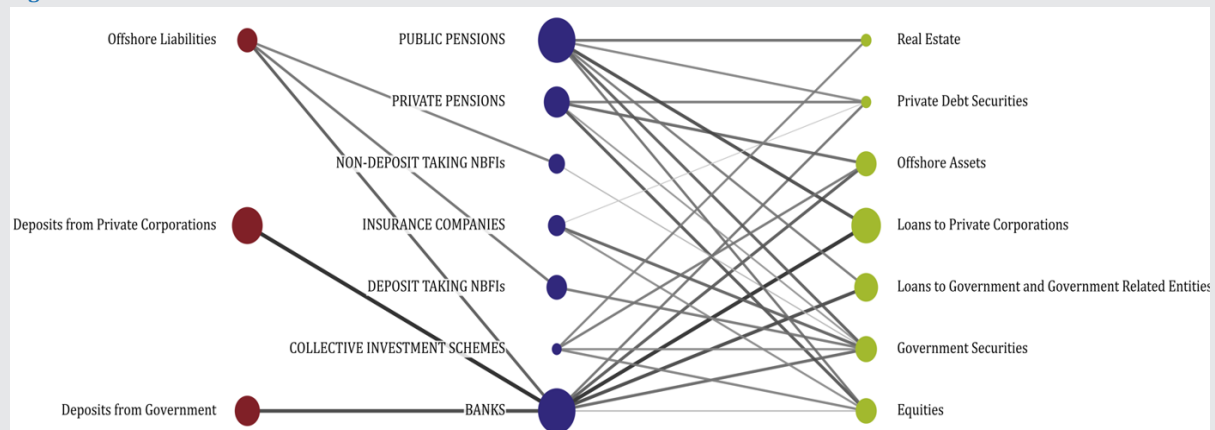
Interconnectedness and Macroprudential Policy

Considering the interlinkages in the financial system, the FSC, which comprises membership from all of the financial system regulatory authorities, meets regularly to undertake coordinated surveillance and assessment of the buildup of systemic risk. This allows for the Committee to mitigate systemic risk

⁹ The equity holdings relate to NAPSA's 64.27 percent stake in Zambia Industrial Commercial Bank (ZICB).

¹⁰ These relate to corporate bonds issued by Bayport, IZWE loans and Zambian Home Loans held by pension funds and insurance companies.

Figure B2: Indirect Interconnectedness



Note:

1. Assets are positioned on the right, institutions in the center, and liabilities on the left.
2. Node size for financial institutions reflects size of total assets, scaled for visibility
3. Node size of assets and liabilities reflects the total value held by all institutions, scaled for visibility
4. Edge size reflects size of asset/liability class relative to total assets
5. Precise data on value of corporate bond holdings (private debt securities) per institution was unavailable at the time of preparation of the report. Linkages shown are notional amounts based on confirmed existence of investments in corporate bonds for respective financial institutions.
6. Deposits from Government comprise Central Government, Local Government, Parastatals and statutory bodies

within the financial system whilst focusing on interlinkages within the system and with the broader economy. Therefore, the coordination between authorities seeks to prevent stress

that may originate in one segment of the financial system from permeating other segments and the broader economy.

Box C: Structure of the Zambian Financial Intermediaries

The Zambian financial system is comprised of various institutions. For the purpose of this report, the focus will be on key players, including commercial banks, microfinance institutions, pension funds, insurance companies, collective investment schemes and other non-bank financial intermediaries.

Total assets held by financial institutions exceeded K490.5 billion as of December 2025, or 68.5 percent of GDP (Table C1 and Figure C1). Of this, commercial banks dominated, accounting for 60.9 percent of total financial sector assets and 41.8 percent of GDP. Banks play a key role in formal financial intermediation, transferring funds from depositors to borrowers, facilitating payments and offering risk management products and services such as derivatives and bancassurance. Non-bank financial institutions (NBFIs), including microfinance institutions, offer credit products, including small ticket or micro-loans to largely low to medium income households, mortgages and financial leases. These may be financed by deposits, debt or equity. They hold 5.8 percent of the sectors assets.

Public and private pension funds collectively account for 30.0 percent of financial sector assets and 20.6 percent of GDP. Of this, public pension funds hold 24.4 percent of total sectoral assets and 16.7 percent of GDP. These intermediaries invest member contributions in various instruments to finance retirement income as well as death and disability benefits. Insurance companies (life and non-life) business model is based on offering risk management products and services. They facilitate the transfer and pooling of risk in exchange for premiums from policy holders. By investing premiums in various financial market instruments, insurance companies serve as financial intermediaries. They account for only 2.5 percent of total financial sector assets and 1.7 percent of GDP. Insurers face

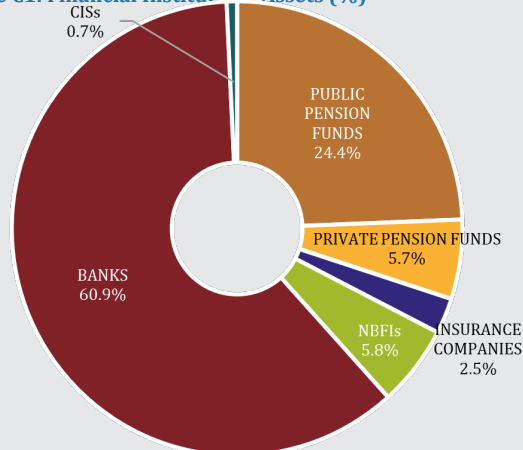
low penetration, which has been persistently muted due to several factors, including limited awareness and understanding. Collective investment schemes (CISs) are an emerging investment vehicle in the Zambian financial system, with assets under management accounting for about 0.7 percent of total financial sector assets. Collective investment schemes pool investor funds to create a diversified asset portfolio which includes real estate, equities and bonds among others. Investors thus diversify risk exposures and benefit from professional fund management.

Financial institutions in Zambia serve diverse

Table C1: Financial Institutions Total Assets and Assets-to-GDP

Institution	Total assets (K 'millions)	Total assets to GDP
Banks	302,936.89	41.80%
Public Pension Funds	121,133.24	16.70%
NBFIs	28,612.94	3.90%
Private Pension Funds	28,125.36	3.90%
Insurance Companies	12,624.80	1.70%
CISs	3,720.79	0.50%
Total	497,154.02	68.51%

Figure C1: Financial Institutions Assets (%)



Note

1. Insurance companies include both general and life
2. CISs – Collective investment schemes. We consider the value of assets under management.
3. NBFIs comprise deposit and non-deposit taking institutions offering financial services as defined under the Banking and Financial Services Act (2017) and supervised by the Bank of Zambia,
4. Pensions include both public and private pension funds.

Appendix A

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 9: Full Heatmap

