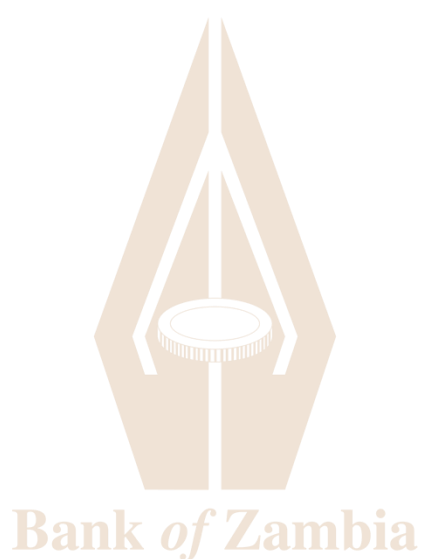




Monetary Policy Report

May 2026



REGISTERED OFFICES

Head Office

Bank of Zambia, Bank Square, Cairo Road,
P.O. Box 30080,
Lusaka, 10101,
Zambia
Tel: (+260) 211 399300
E-mail: info@boz.zm
Website: www.boz.zm

Regional Office

Bank of Zambia, Buteko Avenue,
P.O. Box 71511,
Ndola,
Zambia
Tel: (+260) 212 399600
E-mail: info@boz.zm
Website: www.boz.zm

Preface

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

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

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

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

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

The MPR was approved by the Monetary Policy Committee (MPC) on May 12, 2026 and contains information available as of May 12, 2026.

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

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

Table of Contents

Preface.....	iii
Executive Summary	6
1. Macroeconomic Outlook	7
1.1 External Sector Outlook.....	7
1.2 Prospects for Domestic Economic Growth.....	9
1.3 Fiscal Outlook	11
1.4 Inflation Outlook: Second Quarter 2026 – First Quarter 2028	12
1.5 Monetary Policy Decision	17
2. Current Economic Developments	18
2.1 External Sector	18
2.2 Global Financial Conditions	22
2.3 Domestic Financial Conditions	25
2.4 Domestic Economic Activity	37
2.5 Budget Performance	41
2.6 Domestic Inflation	42
APPENDIX	47

Executive Summary

Inflation declined sharply to 7.1 percent in March 2026 from 11.2 percent in December 2025 and eased further to 6.8 percent in April, well within the 6-8 percent target band. In the first quarter of 2026, inflation averaged 8.0 percent compared to 11.3 percent in the last quarter of 2025. This marked disinflation was mainly driven by the continued base effects from maize grain and related products as well as the sharp appreciation of the exchange rate.

Over the forecast horizon, inflation is projected to remain within the target band. In 2026, it is expected to average 6.8 percent compared to 6.9 percent in the February forecast. In 2027, inflation is forecast to moderate further to 6.1 percent relative to 6.7 percent, reported previously, before edging up to 6.6 percent in the first quarter of 2028. Key drivers are the recent exchange rate appreciation and anticipated lower maize prices due to an expected favourable harvest in the 2025/26 crop marketing season.

Preliminary estimates point to a strong rebound in real GDP growth in the first quarter of 2026, largely underpinned by the recovery in copper production. In addition, private sector business conditions are reported to have remained favourable, reflected in the growth in new orders, output, and inventories. However, labour market conditions weakened due to rising labour costs associated with salary adjustments and the seasonal slowdown in agricultural activity following the end of the planting season. Growth prospects over the 2026-28 period have moderated due to a lower outturn in 2025 and possible adverse impact of the current Middle East conflict.

The tightness in domestic financial conditions exhibited some easing following the reduction in the Policy Rate, interbank rate, yield rates on Government securities, and gain in equity prices. However, the sharp appreciation of the exchange rate, uptick in lending rates, and slower growth in credit and money supply had a tightening effect on financial conditions.

The *current account* balance shifted to a surplus on improved net exports and lower payment for transportation services. A positive outlook is still projected over the 2026-28 period on strengthened copper prices and expanding output.

A declining trend in fiscal deficits is still projected over the medium-term on expected continuity of fiscal consolidation despite a spike in 2026 due to the need to accommodate the Middle East conflict and new financing needs.

Overall, the Monetary Policy Committee decided to reduce the Monetary Policy Rate by 25 basis points to 13.25 percent. In arriving at this decision, the Committee took into account the expected favourable maize harvest during the current crop marketing season and the observed relative stability in the exchange rate of the Kwacha/US\$. Although these factors were strongly supportive of a lower inflation path, anchored within the 6-8 percent target band, the Committee judged that the upside risks and uncertainty associated with the Middle East conflict warranted a cautious adjustment to the Policy Rate that maintains an appropriate stance of monetary policy.

1. Macroeconomic Outlook

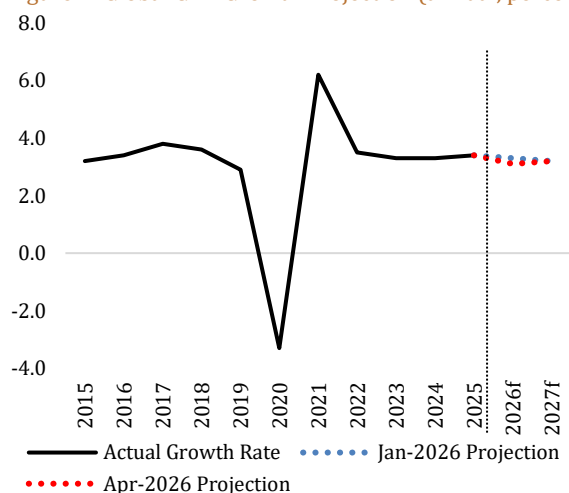
- Middle East conflict adversely affects global and domestic growth prospects and also widens fiscal deficit
- Inflation still favourable amid shift in risks
- Current account prospects still favourable on elevated copper prices and expanding production

1.1 External Sector Outlook

... global growth downgraded

The escalation of geopolitical tensions in the Middle East on February 28 when the US and Israel attacked Iran (Middle East conflict) has amplified uncertainty and necessitated the downgrade of global growth for 2026 to 3.1 percent from the 3.3 percent reported in January (Figure 1). However, the 2027 growth forecast of 3.2 percent has been maintained.

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



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

The conflict has adversely impacted supply chains due to the prolonged closure of the Strait of Hormuz¹ leading to a sharp rise in energy prices. This has fuelled global

inflationary pressures and is constraining global economic activity through disruptions to trade, transportation, and tourism².

As highlighted in the **February 2026 Monetary Policy Report**, the balance of risks to the growth outlook remains skewed to the downside, with escalating conflict in the Middle East remaining a key threat. Further escalation of the war and prolonged closure of the Strait of Hormuz could keep global energy prices and inflation elevated. This may sustain tight global financial conditions with adverse ramifications on growth.

Other downside risks include extreme weather conditions, trade policy uncertainty³, and elevated public debt that may constrain fiscal space especially in low-income countries.

... growth in major trading partners to moderate

Growth prospects for the trading partners of Zambia have not been spared by the conflict in the Middle East. This is reflected in a slower growth of the Export-Weighted GDP (GDP-9) Index⁴ over the 2026-27 period to 1.67 percent and 3.55 percent, respectively from 4.25 percent and 4.31 percent reported in February (Table 1 and Figure 2).

¹The US-Israeli strikes on Iran, Iran's closure of the Strait of Hormuz, as well as retaliatory strikes on oil refineries and other energy infrastructure in neighbouring countries have driven oil and gas prices sharply higher around the world. Elevated energy costs are expected to weigh on consumer and business spending.

²<https://openknowledge.fao.org/handle/20.500.14283/cd8875en>.

³<https://www.federalregister.gov/documents/2026>

</03/17/2026-05214/initiation-of-section-301-investigations-acts-policies-and-practices-of-certain-economies-relating>.

⁴The GDP-9 Index is used to assess external demand conditions in the key trading partner of Zambia. It is computed as a Fisher Ideal Index and constructed based on nine countries: China, DRC, Singapore, South Africa, United Arab Emirates, United Kingdom, Hong Kong, Malawi, and Tanzania.

The growth downgrade is more pronounced for China, South Africa, and the United Kingdom due to their relatively higher weights (Table 2)⁵.

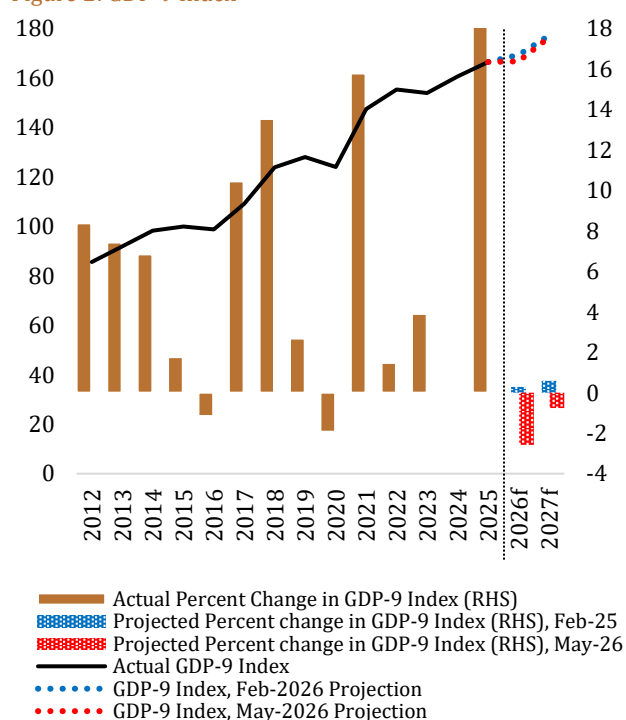
Table 1: GDP-9 Index and Country Contribution, 2024 – 2027⁶

	Weight	2024	2025p	2026f	2027f
GDP-9 Index (percent change) – Feb 2026		-0.91	4.45	4.25	4.31
GDP-9 Index (percent change) – May 2026		-0.18	2.14	1.67	3.55
Country Contribution to the Change in GDP-9 Index					
China	0.49	0.11	1.10	0.60	1.57
DRC	0.30	0.15	0.69	0.27	0.88
South Africa	0.12	-0.10	0.25	0.30	0.51
Singapore	0.00	-0.24	-0.06	0.26	0.20
United Kingdom	0.07	0.06	0.16	0.02	0.16
UAE	0.00	-0.08	-0.02	0.09	0.07
Tanzania	0.00	0.01	0.04	0.02	0.06
Malawi	0.02	-0.07	-0.02	0.07	0.06
Hong Kong	0.00	-0.03	0.00	0.04	0.04

Source: Bank of Zambia Staff Calculations

DRC = Democratic Republic of the Congo, UAE = United Arab Emirates
p = preliminary, f = forecast

Figure 2: GDP-9 Index



Source: Bank of Zambia

Table 2: Trading Partner Countries' Growth (percent), 2024-2027

	Weight	2024	2025	2026	2027
China	0.5	5.0	5.0	4.4	4.0
DRC	0.3	6.1	5.7	5.9	5.4
South Africa	0.1	0.5	1.1	1.0	1.3
United Kingdom	0.1	1.1	1.3	0.8	1.3
Singapore	0.0	5.3	5.0	3.5	2.7
UAE	0.0	4.0	5.8	3.1	5.3
Tanzania	0.0	5.5	5.9	5.9	6.1
Malawi	0.0	1.7	2.1	2.2	2.4
Hong Kong	0.0	2.6	3.5	2.4	2.4

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

Additional factors likely to weigh on growth in China are prolonged downturn in the property market, weaker domestic demand, shrinking labour force, and subdued underlying productivity growth.

The balance of risks to the growth outlook remains tilted to the downside. Heightened uncertainty surrounding the Middle East conflict, particularly the prolonged closure of the Strait of Hormuz, remains the key risk. Sustained disruption could significantly tighten global energy and fertiliser supply. This could drive oil and gas prices higher and weigh on energy-intensive sectors, ultimately constrain overall output. Uncertainty surrounding US trade policy and the potential escalation of trade tensions with key partners, particularly China, and climate-related shocks continue to feature as potential risks with a bearing on future growth in trading partner countries.

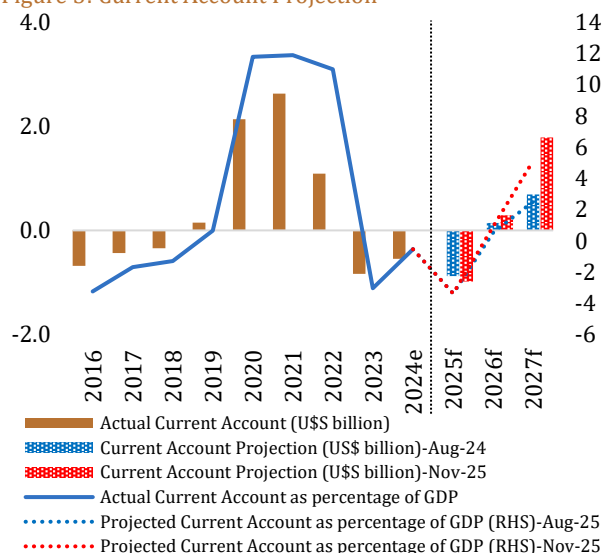
... current account prospects better

A *current account* surplus of USD1.6 billion is projected for 2026 and expected to expand further to USD1.8 billion in 2027 (Figure 3). This is premised on anticipated higher copper export earnings as prices remain elevated and production expands further (refer to subsections 1.2 and 1.4 for more details).

⁵The IMF lowered the 2026 growth forecast for China to 4.4 percent from 4.5 percent, South Africa to 1.0 percent from 1.4 percent, and the UK to 0.8 percent from the 1.3 percent projected in January.

⁶The GDP growth figures used in the May 2026 Monetary Policy Report have been revised using the April 2025 IMF WEO data.

Figure 3: Current Account Projection



Source: Bank of Zambia

1.2 Prospects for Domestic Economic Growth

... weaken amid heightened geopolitical risks

The Bank has downgraded growth projections for 2026 and 2027 to 4.8 percent each from 5.2 percent and 5.1 percent, respectively (Table 3 and Figure 4)⁷. This takes into account the lower-than-expected outturn in the fourth quarter of 2025 and likely impact of the conflict in the Middle East on domestic economic activity,

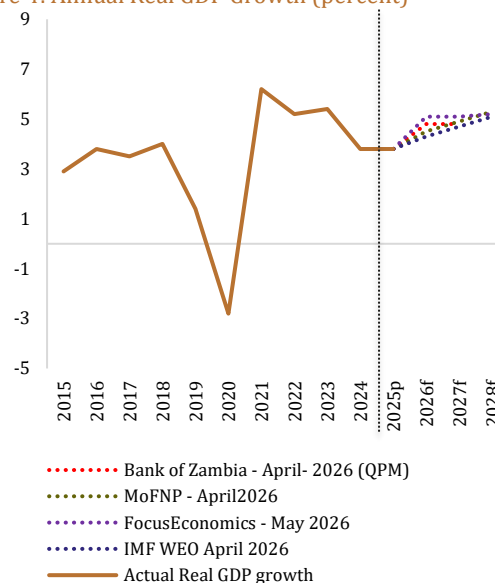
Table 3: Annual Real GDP Growth Projections (percent)

	2025p	2026f	2027f	2028f
Bank of Zambia QPM				
BoZ April 2026	3.8	4.8	4.8	n/a
BoZ January 2026	3.8	5.2	5.1	n/a
Ministry of Finance and National Planning (MoFNP)				
MoFNP April 2026	3.8	4.5	4.9	5.3
MoFNP January 2025	3.8	6.4	6.5	n/a
International Monetary Fund (IMF)				
IMF WEO April 2026	3.8	4.3	4.7	5.1
IMF WEO October 2025	3.8	5.8	6.4	n/a
FocusEconomics				
FocusEconomics April 2026	3.8	5.1	5.1	5.2
FocusEconomics February 2026	3.8	5.5	5.3	n/a

Source: Bank of Zambia, MoFNP, IMF WEO, Focus Economics.

Note: p=preliminary estimate, f=forecast, n/a=not reported in February 2026, WEO=World Economic Outlook

Figure 4: Annual Real GDP Growth (percent)



Source: Zambia Statistics Agency, Bank of Zambia, MoFNP, IMF, Focus Economics.

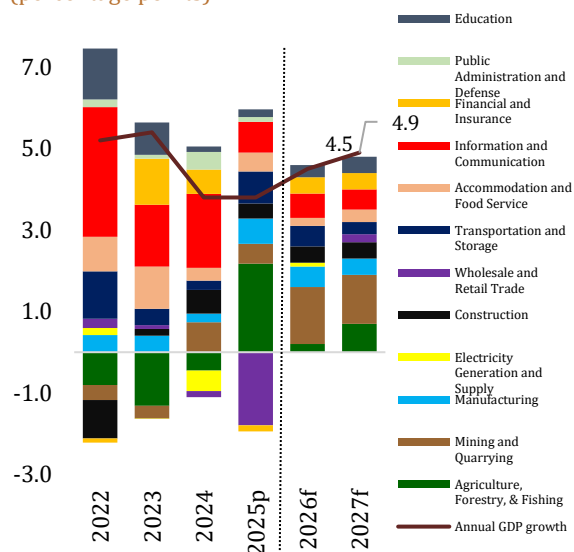
Note: p=preliminary, f=forecast.

Similarly, the International Monetary Fund (IMF) and the Ministry of Finance and National Planning (MoFNP) have lowered real GDP growth forecasts for 2026 and 2027 to below 5.0 percent from over 6.0 percent (Table 3, Figure 4, Figure 5, Figure 6 and Figure 7). Despite the downgrade, projections by FocusEconomics remain above 5.0 percent (Table 3 and Figure 4). FocusEconomics attributes the growth outlook downgrade for Sub-Saharan Africa, including Zambia, to risks associated with extreme weather conditions and prolonged Middle East conflict.

⁷Real GDP grew at 1.6 percent compared to the

Bank's projection of 5.4 percent in February.

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

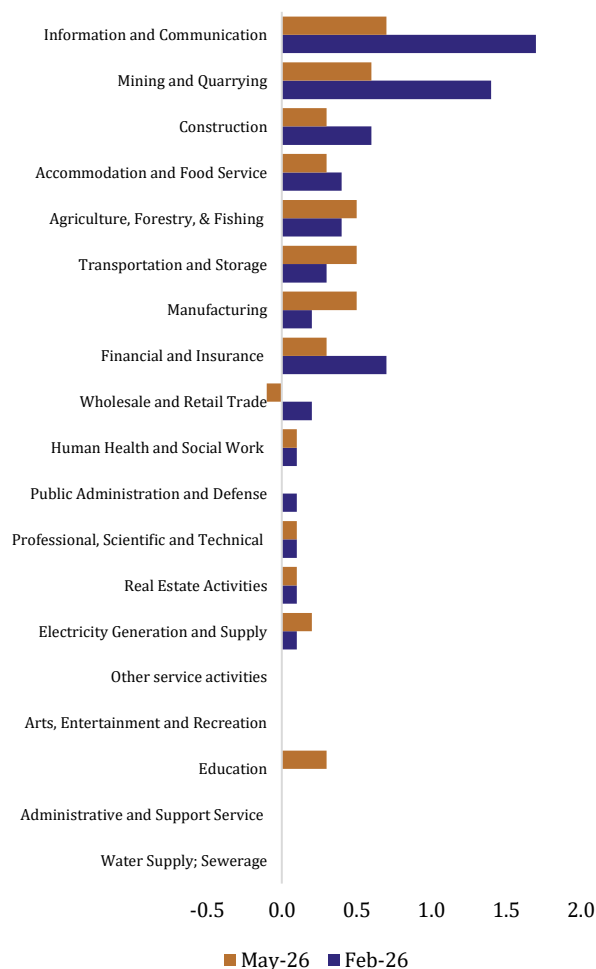


Source: Ministry of Finance and National Planning, Zambia Statistics Agency

Note: p=preliminary, f=forecast.

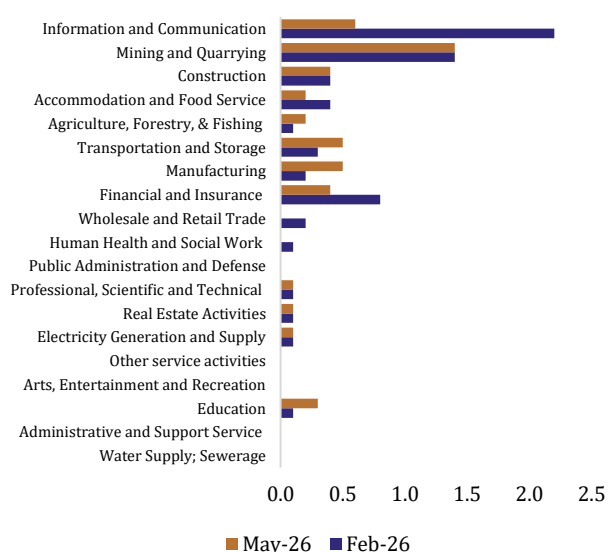
Revisions by the IMF and MoFNP are informed by adjustments to the information, communication and technology (ICT); mining and quarrying; financial and insurance; construction; accommodation and food services; public administration and defence; as well as wholesale and retail trade sectors in 2026 (Figure 6 and Figure 7). Sectoral forecasts for ICT, accommodation and food services, as well as financial and insurance are also lowered for 2027.

Figure 6: Sectoral Contribution to GDP Growth, 2026 (percentage points)



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

Figure 7: Sectoral Contribution to GDP Growth, 2027 (percentage points)



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

The downside risks to the growth outlook are now amplified.

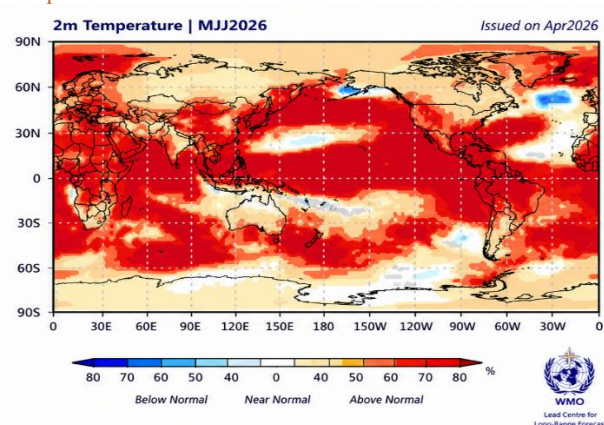
Prolonged Middle East Conflict: This could impact domestic growth through higher-than-anticipated fuel pump prices, increasing operating costs in key sectors, such as, transport, agriculture, mining, and manufacturing. In the transport sector, this would raise freight costs and reduce sectoral activity. In agriculture, increases in fuel pump prices raise the cost of transporting both farming inputs (mostly fertilisers) and produce. The increase in input costs could result in lower input use and impact yields. Mining and manufacturing would be affected through higher energy and haulage costs that could constrain capacity utilisation and production.

Further, global growth could be weaker-than-projected due to the impact of the conflict. The IMF has cut the 2026 global growth forecast by 0.2 percentage points to 3.1 percent. The downward revision assumes that the conflict would be resolved quickly and energy prices normalise in the second half of 2026. Lower global prospects have the potential to dampen mining sector growth through compressed export

earnings, including tax revenue and foreign exchange inflows.

Recurrence of droughts: A shift toward El Niño conditions appears likely. This is based on current global climate monitors and the **World Meteorological Organization** that indicates elevated probability of below-normal rainfall. The outlook shows above-normal temperatures across most regions, including Zambia, with darker red areas shown in Figure 8 indicating a higher likelihood of elevated temperatures.

Figure 8: Probabilistic Forecasts of Surface Air Temperature



Source: World Meteorological Organisation

Despite being in the initial stages, it may signal an increased risk of below-average rainfall during the 2026/27 farming season. This amplifies existing vulnerabilities with respect to agricultural output, hydroelectric power generation, and in turn overall economic activity.

1.3 Fiscal Outlook

... adversely impacted by the Middle East conflict

The fiscal deficit for 2026 is projected to widen to 3.5 percent of GDP from 2.1 percent of GDP mainly due to the impact of the Middle East conflict while forecasts for 2027 and 2028 are unchanged at 1.6 percent of GDP and 1.2 percent of GDP, respectively.

The **2026 Fiscal Risk Statement** provides detailed analysis of fiscal risks that are still relevant to the current outlook. Key risks encompass climate change, commodity price shocks, debt and guarantees of state-owned enterprises, and contingent liabilities associated with public-private partnerships. The escalation of tensions in the Middle East has heightened the risk to the fiscal outlook.

1.4 Inflation Outlook: Second Quarter 2026 – First Quarter 2028

... still favourable amid shift in risks

The inflation projection for the next eight quarters (2026Q2–2028Q1) is much lower than the February forecast. This suggests that inflation is likely to remain well anchored in the 6-8 percent target band.

On an annual basis, inflation is projected to average 6.8 percent in 2026, 0.1 percentage points lower than the February forecast (Table 4). The 2027 forecast is also revised downwards to 6.1 percent from the projection of 6.3 percent. However, inflation is expected to edge up to 6.6 percent in the first quarter of 2028.

Table 4: Inflation Projection, Annual Average (percent)

	2026	2027	2028
May-26	6.8	6.1	6.6*
Feb-26	6.9	6.3	n/a

Source: Bank of Zambia Staff Forecasts

*Projection for 2028Q1; n/a = not applicable

A more favourable starting position following a faster-than-projected decline in inflation in the first quarter of 2026 (8.0 percent outturn versus 8.3 percent projection)⁸ and improvement in some conditioning assumptions are the key factors underlying the current lower inflation projection. A lower profile for maize grain price than assumed in the previous forecasting cycle is supportive of

the current inflation outlook (Table 5). This is based on the adequate carryover maize stocks from the 2024/25 farming season and a better output in 2026 on account of favourable rainfall during the 2025/26 farming season. The Crop Forecasting Survey indicates an output of about 4.9 million metric tonnes of maize compared with the outturn of 3.87 metric tonnes in 2025. In view of this, the expectation is that prices of maize grain and related products will moderate and favourably impact inflation.

Table 5: Key Assumptions Underlying Inflation Projection

External Sector Assumptions			
Variable	2026f	2027f	2028f1
Average inflation-US	2.7 (2.7)	2.4 (2.3)	2.2
Federal funds rate	3.4 (3.4)	3.1 (3.1)	3.1
Average inflation - South Africa	3.7 (3.6)	3.3 (3.2)	3.0
Producer price index-South Africa	181.13 (180.07)	185.38 (185.87)	187.06
Average copper price/ton (USD)	13,069.32 (12,332.50)	13,262.47 (12,607.00)	13,438.08
Average crude oil price/barrel (USD)	84.75 (60.51)	75.73 (65.12)	72.76
World food price index	108.5 (108.5)	109.3 (109.3)	109.3
Domestic Sector Assumptions			
Variable	2026f	2027f	2028f1
Monetary Policy Rate Zambia	13.5 (14.25)	13.5 (14.25)	13.5 (14.25)
Treasury bill rate - Zambia	10.85 (12.00)	10.85 (12.00)	10.85 (12.00)
Reserve money growth*	14.00 (3.71)	0.6 (0.9)	0.6
Fiscal deficit**	1.09 (1.09)	1.07 (1.07)	1.05
Maize grain price-Zambia (K/50Kg)	340.00 (380.00)	340.00 (380.00)	340.00 (380.00)
Diesel price-Zambia (K/litre)	33.99 (24.50)	33.99 (24.50)	33.99

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

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

*Refer to reserve money computation in Table 8.

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

f = forecast

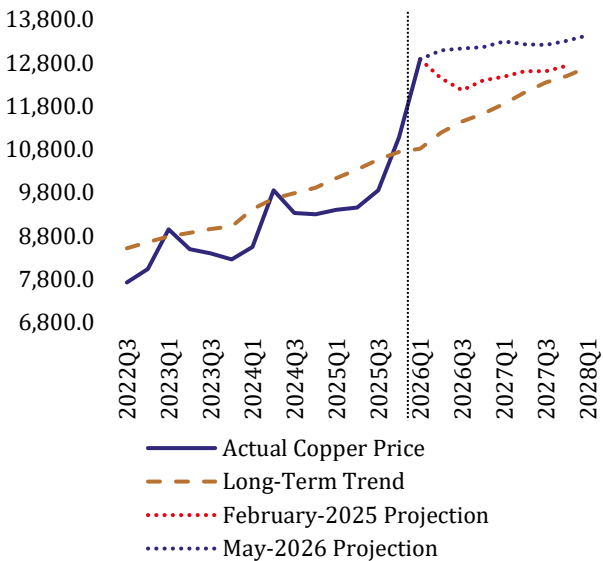
f1 = first quarter forecast

Copper prices are significantly higher than the February path and projected to remain well above the long-term trend throughout the forecast horizon (Figure 9). Underlying

⁸ Details are in section 2.6 (Domestic Prices).

the buoyance in copper prices is mainly persistent supply constraints and sustained demand.

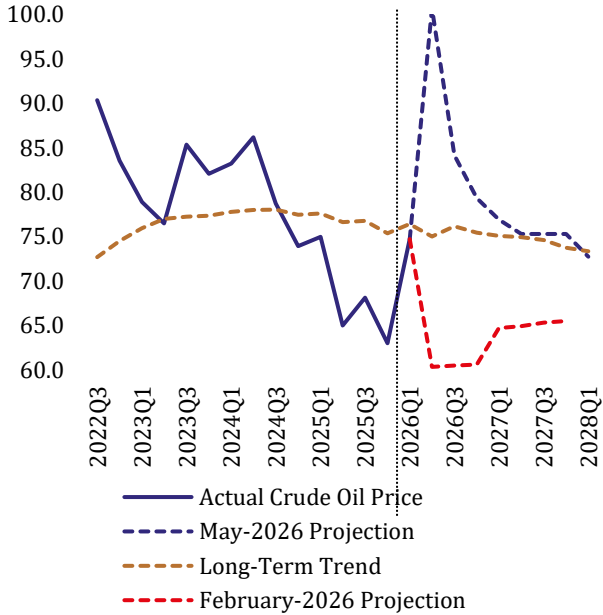
Figure 9: Copper Prices (USD/metric tonne)



Source: Bank of Zambia Staff Computations

Meanwhile, crude oil prices increased markedly in March following the escalation of geopolitical tensions in the Middle East on February 28 (Figure 10). This prompted all commodity market experts to revise their forecasts significantly upwards.

Figure 10: Crude Oil Prices (USD/barrel)

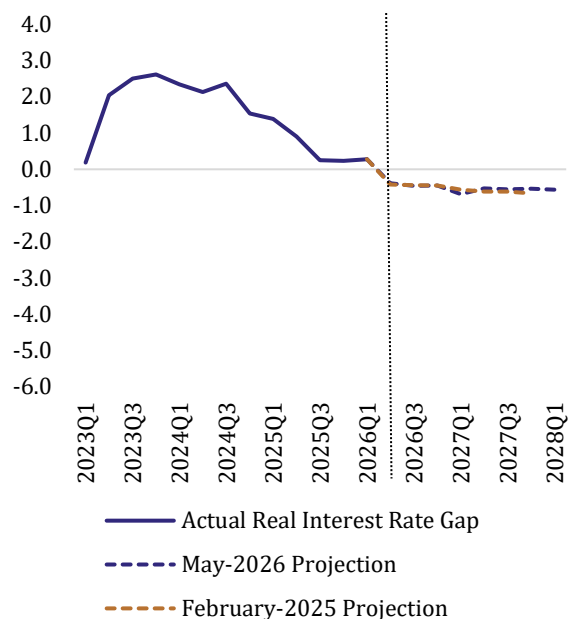


Source: Bank of Zambia Staff Computations

While inflation is projected to be low and stable over the medium-term, the current adverse oil price shock may moderate the expected inflation gains. The rise in crude oil prices have raised the fuel import bill and could inevitably offset the gains from increased foreign exchange earnings from relatively higher copper prices. In addition, higher fuel import costs are likely to amplify second round effects on inflation as transportation and distributional expenses across the economy rise.

While the US Federal Reserve is taking a cautious approach due to the uncertainty surrounding the Middle East conflict, market expectations indicate gradual policy easing later in the year contingent on moderation in inflation and stabilisation in global conditions (Figure 11). This reinforces a broadly accommodative external environment over the forecast horizon and ultimately supportive of the lower domestic inflation forecast.

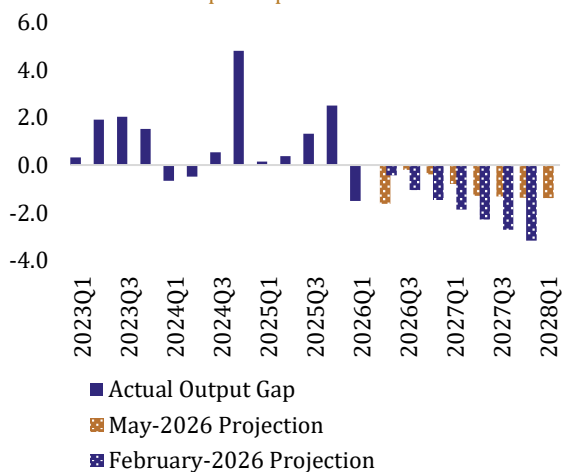
Figure 11: Real Foreign Interest Rate Gap⁹



Source: Bank of Zambia Staff Computations

Domestic aggregate demand is expected to remain subdued and contribute to lower inflation over the next eight quarters (Figure 12).

Figure 12: Domestic Output Gap¹⁰



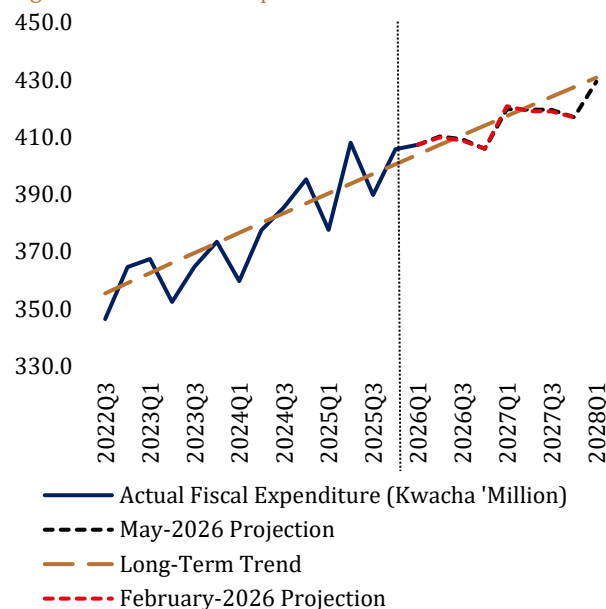
Source: Bank of Zambia Staff Computations

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

The negative output gap largely reflects relatively tighter monetary conditions especially in 2026 than the February Projection (Figure 13).

Fiscal consolidation is also contributing to the projected negative output gap. As indicated earlier (refer to section 1.3), over the medium-term, a relatively restrained fiscal stance is expected to dampen aggregate demand and contribute to easing underlying inflationary pressures. Based on the 2026 National Budget Speech and the 2026–2028 Medium-Term Budget Plan, real fiscal spending is projected to remain broadly below its long-run trend over the forecast horizon.

Figure 13: Real Fiscal Expenditure



Source: Bank of Zambia Staff Computations

The expected improvement in the terms of trade in the first five quarters will support output growth but are unlikely to be

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

sufficient to fully close the negative output gap over the forecast horizon.

The favourable inflation outlook is also supported by the anticipated moderation in reserve money growth in 2026 to 14.0 percent and further to 0.6 percent in 2027 and 2028 on account of lower Government spending and disbursement under the Stability and Resilience Facility¹¹ (Table 5). Finally, while the inflation outlook for South Africa has been revised slightly upward, it remains on a downward trend. This is expected to contribute to lower domestic inflation, particularly in 2027 and early 2028.

Assessment of Key Risks

The risks to the inflation outlook mostly relate to developments in the external environment.

Upside Risks

Higher imported inflation stemming from elevated global crude oil prices amid heightened geopolitical tensions.

The inflation outlook assumes a gradual easing in global crude oil prices from current elevated levels. However, there is a high likelihood that geopolitical tensions in the Middle East could keep prices above the assumed path, particularly in the second quarter of 2026 and beyond, if the tension persists. Delays in fully reopening the Strait of Hormuz and limited progress in negotiations between the US and Iran to end the war continue to pose risks to global crude oil supply.

Higher crude oil prices would increase fuel import costs and likely result in more upward adjustments to domestic fuel pump prices. This would raise transportation and distributional costs and inevitably exert pressure across a wide range of goods and

services. Constrained global supply could limit access to fuel imports, even where procurement efforts are in place, which could give rise to intermittent domestic shortages.

As these cost pressures persist, the likelihood of second round effects could increase as firms adjust prices in response to higher input costs and inflation expectations become more responsive to sustained energy price shocks. Should this risk materialise, inflation could deviate upward from the current path. In such a scenario, inflation may move towards the upper bound of the 6–8 percent target band, and if geopolitical tensions persist and oil prices settle at extreme highs, could exceed the upper bound of the target band.

Reversal of favourable food price dynamics due to El Niño conditions.

The projection assumes relatively lower maize prices over the forecast horizon based on expectations of improved supply conditions following favourable rainfall during the 2025/26 agricultural season and carryover stocks from the last farming season. However, there is a high likelihood that El Niño conditions could emerge from mid-2026. According to the World Meteorological Organisation (WMO), climate models indicate a strong probability of El Niño conditions developing between May and July 2026 with possible intensification thereafter.

The anticipated onset of El Niño conditions coincides with the start of the 2026/27 agricultural season, which typically begins in November. Reduced rainfall during this period could lower maize yield and weaken domestic supply conditions. This would place upward pressure on maize prices, particularly from the fourth quarter of 2026 into 2027. Given the relatively high weight of maize in the consumer price index (CPI)

¹¹Projected reserve money growth in 2026 is higher than in February but remains significantly below the

20.1 percent estimated for 2025.

basket as a single product, the increase in maize prices could transmit directly into food inflation and in turn raise headline inflation.

In addition, below-normal rainfall could reduce water inflows into water reservoirs and constrain hydroelectric power generation. Lower electricity supply could increase reliance on alternative energy sources, such as, thermal generation and imports, which are typically more costly. This would raise production costs for firms, particularly in energy-intensive sectors, such as, mining, manufacturing, and agriculture. Higher energy and transportation costs would be passed on to consumers and lead to broader cost-push pressures across the economy.

If these pressures persist, second round effects could emerge as firms adjust prices in response to higher input costs and inflation expectations become more responsive to sustained food and energy price increases. With this, inflation could deviate upward from the projected path and possibly exceed the upper bound of the 6–8 percent target band over the medium-term.

Inflationary pressures from the reversal of temporary fuel tax relief measures.

The temporary zero-rating of value added tax (VAT) and suspension of excise duty on petroleum products in the second quarter of 2026 is expected to moderate inflationary pressures in the near-term. Nonetheless, these measures may be reversed and result in the full pass-through of higher global oil prices to domestic fuel pump prices. This would increase transportation and distributional costs across the economy and raise the marginal cost of production for firms, especially in energy-intensive sectors. Firms are likely to pass on these higher costs to consumers. In view of this, inflation could turn out higher than projected.

Increased inflationary pressures arising from higher cost of fertilisers due to the

conflict in the Middle East. Global fertiliser prices are expected to remain elevated as disruptions to energy supply and shipping through the Strait of Hormuz affect supply conditions. Fertiliser production is highly energy-intensive and relies on natural gas as both a fuel and a key raw material (feedstock). This implies that increases in global energy prices are expected to be transmitted into fertiliser prices. Higher fertiliser prices on the international market may increase input costs for agricultural production and exert upward pressure on food inflation. However, the domestic impact could be partly moderated by local fertiliser production and the availability of key inputs used in fertiliser manufacturing. This notwithstanding, continued reliance on imported inputs and urea fertiliser implies that some pass-through from elevated global prices could still occur domestically.

Downside Risks

Lower marginal cost of production on account of improved electricity supply.

Developments in the energy sector point to a strengthening electricity supply outlook over the medium-term. This is supported by planned increases in solar and thermal generation capacity from various projects currently underway.

These supply-side developments increase the likelihood of electricity availability improving more strongly than envisaged over the forecast horizon. This would lower the marginal cost of production, particularly in energy-intensive sectors, reduce reliance on costly alternative power sources, and ease cost-push pressures across domestic supply chains.

Lower food inflationary pressures on account of improved maize supply conditions.

There is a high likelihood that food inflationary pressures could turn out lower than projected due to strong maize supply conditions. Favourable rainfall during the 2025/26 farming season has

resulted in another bumper harvest of about 4.9 million metric tonnes of maize. This is supported by the current elevated stock levels.

Overall, the balance of risks to the inflation outlook is now assessed to be tilted to the upside. It essentially captures the uncertainty-weighting factor that assigns a higher probability to upside outcomes. Specifically, there is a greater likelihood of inflation exceeding the projection due to a further rise in oil prices and occurrence of a drought (Figure 14 and Table 6).

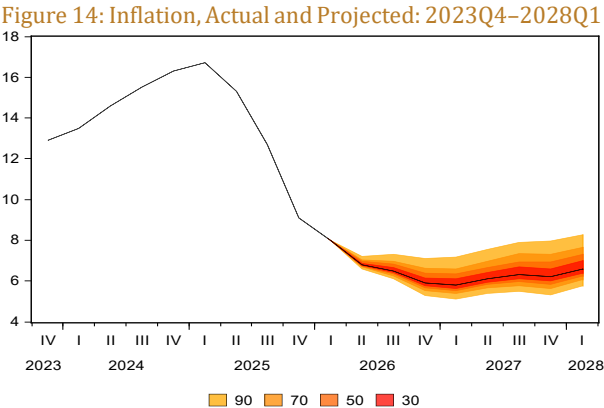


Table 6: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
5.64 – 7.00	30
5.52 – 7.32	50
5.40 – 7.64	70
5.12 – 8.28	90

Source: Bank of Zambia Staff Computations

1.5 Monetary Policy Decision

At its Meeting held on May 11-12, 2026, the Monetary Policy Committee (MPC) **decided to reduce the Monetary Policy Rate by 25 basis points to 13.25 percent**. In arriving at this decision, the Committee took into account the expected favourable maize harvest during the 2025/26 crop marketing season and the observed relative stability in the exchange rate of the Kwacha against the US dollar.

Although these factors were strongly supportive of a lower inflation path, anchored within the 6-8 percent target band, the Committee judged that the upside risks and uncertainty associated with the Middle East conflict warranted a cautious adjustment to the Policy Rate that maintained an appropriate stance of monetary policy.

Inflation declined sharply to 7.1 percent in March 2026 from 11.2 percent in December 2025 and eased further to 6.8 percent in April, well within the 6-8 percent target band. In the first quarter of 2026, inflation averaged 8.0 percent compared to 11.3 percent in the last quarter of 2025. This marked disinflation was mainly driven by the continued base effects from maize grain and related products as well as the sharp appreciation of the exchange rate.

Over the forecast horizon, inflation was projected to remain within the target band. In 2026, it was expected to average 6.8 percent compared to 6.9 percent in the February forecast. In 2027, inflation was forecast to moderate further to 6.1 percent relative to 6.7 percent, reported previously, before edging up to 6.6 percent in the first quarter of 2028. Key drivers were the recent exchange rate appreciation and anticipated lower maize prices due to an expected favourable harvest in the 2025/26 crop marketing season.

The protraction of the Middle East conflict, which had already resulted in higher global crude oil prices, and, in turn, a rise in domestic fuel pump prices, presented a significant upside risk to the inflation outlook. The fuel prices could have actually been higher than they were had it not been for the tax relief that the Government provided, notably the suspension of excise duty and zero-rating of value added tax on petroleum products for three months. Besides the geopolitical risk, the possible El Niño event from mid-2026 posed an additional upside risk to inflation.

2. Current Economic Developments

- Growth picks up in the US and China but falls in euro area
- Global financial conditions volatile as Middle East Conflict escalates
- Domestic financial conditions easing on reduction in interest rates and gain in equity prices
- Recovery in copper production drives real GDP growth.
- Fiscal deficit higher than planned due to clearance of arrears
- Inflation declines sharply and falls into target band

2.1 External Sector

... growth performance in major economies mixed

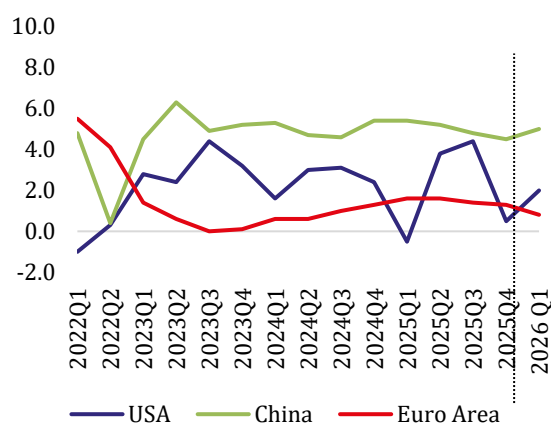
In the US, real GDP growth rebounded to 2.0 percent in the first quarter of 2026 from 0.5 percent in the last quarter of 2025 (Figure 15). This growth is attributed to resilient consumer spending, largely on services, sustained strong business investment in AI technologies and related infrastructure (data centres), rebound in Government spending following the end of the record Federal Government shutdown in late 2025, and exports¹².

For China, real GDP growth increased to 5.0 percent from 4.5 percent despite mounting external uncertainties (Figure 15). Growth was primarily driven by the gradual recovery in domestic demand, surge in exports, and continued expansion in industrial production, particularly in high-tech manufacturing. In addition, higher fixed asset investment, mainly in infrastructure, supported economic activity.

In contrast, growth in the euro area fell to 0.8 percent from 1.3 percent, marking the weakest pace of expansion since the second quarter of 2022 (Figure 15). The slowdown was largely driven by the surge in energy costs, particularly oil and gas, occasioned by

the conflict in the Middle East given heavy reliance of the region on energy imports shipped through the Strait of Hormuz. This induced inflationary pressures, heightened uncertainty, and dampened both consumer and business spending¹³, including business confidence. Growth was also affected by reduced exports, reflecting weak external demand stemming from the ongoing US tariffs.

Figure 15: Real GDP Growth (year-on-year, percent) in Selected Advanced Economies



Source: The US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat, and Bank of Zambia Staff Compilations

¹²<https://www.bea.gov/>

¹³The Middle East conflict has dampened private consumption, primarily through eroded purchasing power, heightened uncertainty, and a weakening labour market outlook, including softer employment conditions. At the same time, inflation has exceeded the

ECB's 2.0 percent target while consumer sentiment has deteriorated. The conflict is expected to continue weighing on euro area growth in the near-term, particularly in energy-intensive sectors.

... economic activity in key trading partner countries strengthen

Economic activity in key trading partner countries of Zambia strengthened in the first quarter of 2026. This is reflected in the year-on-year GDP-9 Index increase of 5.31 percent compared to 3.92 percent in the last quarter of 2025 (Table 7 and Figure 16). The improvement was mostly driven by stronger growth in China, DRC, South Africa, and Singapore.

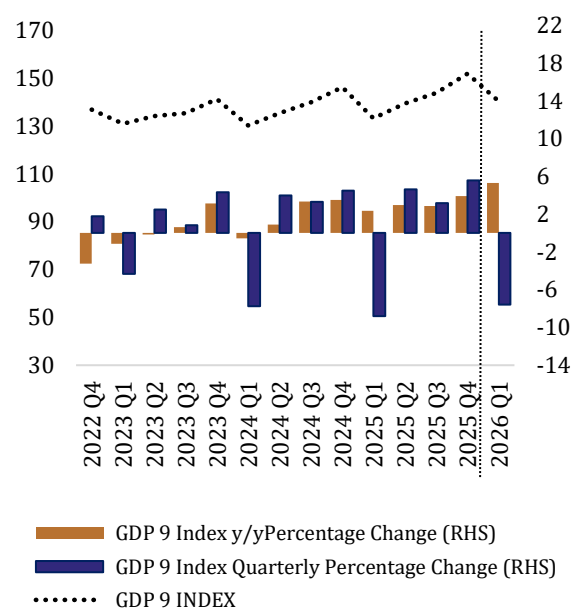
Table 7: Preliminary year-on-year Change in GDP-9 Index and Country Contribution, 2025Q1-2026Q1¹⁴

	Weight	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
GDP-9 Index (percent Change)		2.35	2.98	2.85	3.92	5.31
Contribution to GDP-9 Index Change						
China	0.5	1.04	1.32	1.26	1.73	2.35
DRC	0.3	0.58	0.74	0.71	0.97	1.31
South Africa	0.1	0.34	0.43	0.41	0.57	0.76
UK	0.1	0.11	0.14	0.13	0.18	0.24
Singapore	0.0	0.14	0.17	0.16	0.23	0.31
UAE	0.0	0.05	0.06	0.06	0.08	0.10
Tanzania	0.0	0.04	0.05	0.05	0.06	0.09
Malawi	0.0	0.04	0.05	0.05	0.07	0.09
Hong Kong	0.0	0.02	0.03	0.03	0.04	0.05

Source: Bank of Zambia Staff Calculations

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

Figure 16: GDP-9 Index



Source: Bank of Zambia Compilations

In DRC, economic activity was driven by strong mining sector performance, particularly copper, gold and cobalt exports earnings, supported by record-high global prices and rising demand linked to the green energy transition. Stronger export receipts boosted foreign exchange inflows, leading to the appreciation of the Congolese franc. This contributed to lower inflation and the decision by the Banque Centrale du Congo to reduce the policy interest rate by 150 basis points to 13.5 percent on April 9¹⁵.

Growth in South Africa was largely underpinned by stable electricity supply and improved consumer spending as real disposable incomes rose with the fall in inflation, including enhancement of employee compensation¹⁶. Economic activity was further supported by strong export earnings from gold and platinum on account of higher-than-expected global prices.

¹⁴Real GDP data and growth rates were revised

¹⁵<https://bankable.africa/en/news/1401-2251-drc-central-bank-cuts-rates-again-in-a-test-of-confidence-for-congolese-franc#>

¹⁶The higher-than-expected increase in the minimum

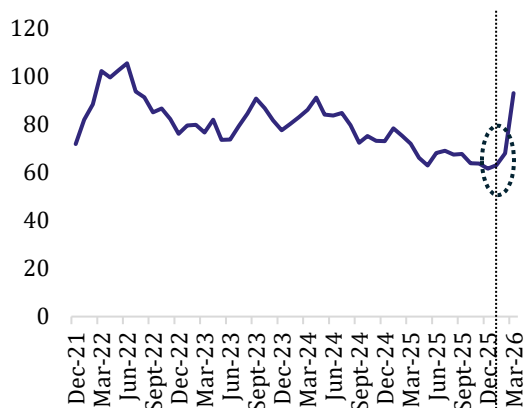
wage announced on February 4 is expected to boost household purchasing power: <https://www.labour.gov.za/minister-of-employment-and-labour-meth-increases-the-statutory-national-minimum-wage-to-r30-23-per-hour>

In Singapore, growth was influenced by sustained demand for AI-related electronics, including semi-conductors and precision engineering, alongside broad-based expansion in the services sector, particularly in information and communications, finance and insurance, and wholesale trade. Growth in the construction sector also contributed to the overall positive economic performance.

... crude oil prices surge, maize and wheat prices increase sustained

The Middle East conflict has exerted significant upward pressure on global commodity markets. The impact is more pronounced in the crude oil market where prices have risen sharply. Between February 28 and March 31, crude oil prices increased by 36.9 percent to USD93.10 per barrel (Figure 17). For the first quarter as a whole, prices increased by 51.0 percent.

Figure 17: Monthly Average Crude Oil Prices (USD/barrel)



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

Market conditions have been exacerbated by the prolonged closure of the Strait of Hormuz by Iran in retaliation to attacks by the US and Israel. As a result, major oil producers have

been compelled to scale back crude oil production, refining operations, and export capacity¹⁷.

The conflict has also caused extensive damage to critical energy infrastructure across the Middle East. This has been compounded by ongoing drone strikes by Ukraine on Russian energy facilities and collectively heightened concerns over tight global oil supply conditions¹⁸.

The surge in energy prices, particularly diesel and natural gas, has been transmitted directly into agricultural markets through higher input costs especially for fertilisers and transportation¹⁹. These developments have raised expectations that reduced fertiliser application will subsequently lead to lower global crop yields. At the same time, fertiliser export restrictions imposed by China and Russia further tightened global supply and contributed to the rise in maize and wheat prices by 3.5 percent and 8.9 percent to USD208.92 per metric tonne and USD261.12 per metric tonne, respectively by end-March (Figure 18). Maize prices received additional support from increased demand for ethanol production notably in Brazil, India, and the US on soaring oil prices and efforts to safeguard energy security²⁰.

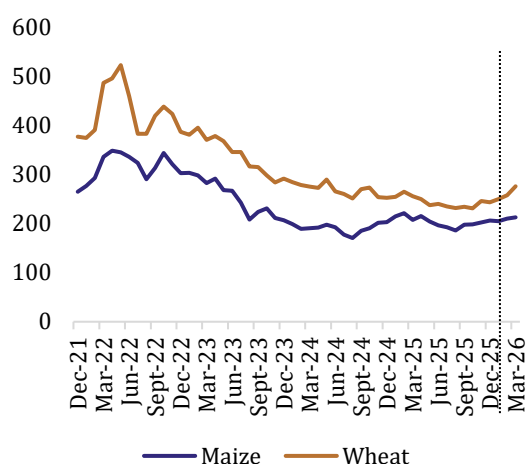
¹⁷Middle East oil exports declined by at least 60 percent following the closure of the Strait of Hormuz:<https://www.bnnbloomberg.ca/business/2026/03/16/middle-east-oil-exports-drop-at-least-60-as-strait-of-hormuz-stays-mostly-closed-data-shows/>

¹⁸<https://www.bbc.com/news/articles/c9qdwpmwzwp0>

¹⁹<https://reliefweb.int/report/world/fao-food-price-index-rises-march-near-east-conflict-raises-energy-costs-enzh>

²⁰<https://www.fao.org/newsroom/detail/fao-food-price-index-rises-in-march-as-near-east-conflict-raises-energy-costs/en>

Figure 18: Monthly Average Maize and Wheat Prices (USD/mt)



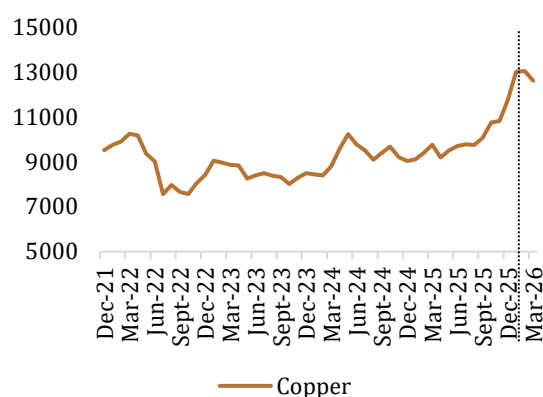
Source: World Bank Pink Sheet Data and Bank of Zambia Staff Compilations

... copper prices remain elevated despite some moderation

The increase in copper prices moderated in March, easing to USD12,604.84 per metric tonne from a record high of USD13,015.43 at the beginning of 2025 (Figure 19)²¹. This was mainly attributed to the escalation of the conflict in the Middle East and further concerns of weakening global economic growth that weighed on industrial demand and in turn copper prices.

²¹Nonetheless, copper prices remained elevated due to sustained demand related to clean energy transition, rapid growth in the electric vehicle industry, increased investment in artificial intelligence data centres, and expanding power grid infrastructure in advanced economies: <https://www.spglobal.com/energy/en/news-research/latest-news/metals/010826-copper-supply-gap-to-widen-24-by-2040-as-electrification-accelerates-study>

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



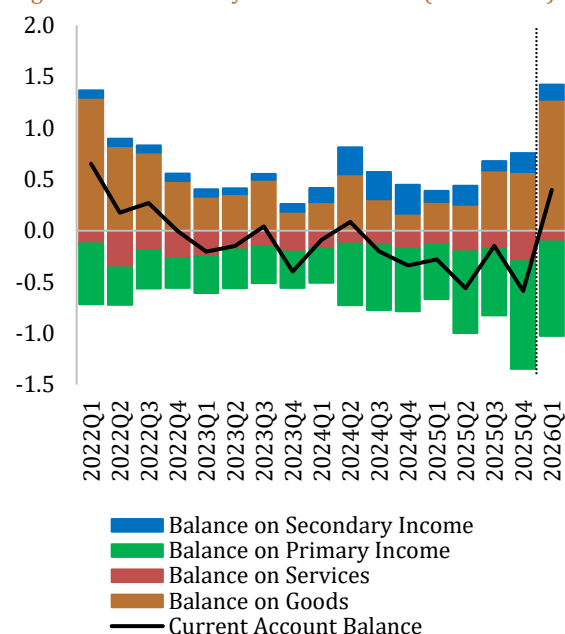
Source: Reuters, World Bank Pink Sheet and Bank of Zambia Staff Compilations

Concerns that the conflict could weaken global economic growth and strengthen the US dollar weighed on industrial demand and in turn copper prices.

... current account balance shifts to a surplus

Preliminary data point to a shift in the *current account* balance to a surplus of USD0.4 billion (1.3 percent of GDP) in the first quarter of 2026 from a deficit of USD0.6 billion (1.3 percent of GDP) in the fourth quarter of 2025 (Figure 20). The improvement was largely driven by net exports and lower payment for transportation services (Figure 20).

Figure 20: Preliminary Current Account (USD billion)

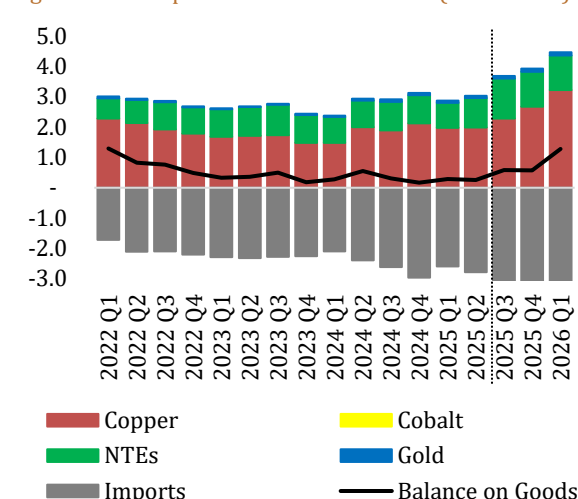


Source: Bank of Zambia

Exports grew by 13.8 percent to USD4.5 billion on account of higher copper receipts (USD3.2 billion), underpinned by soaring prices despite a reduction in export volumes²² (Figure 21). In contrast, imports reduced by 4.7 percent to USD3.2 billion, largely reflecting a decline in consumer goods, mostly petroleum products (Figure 22).

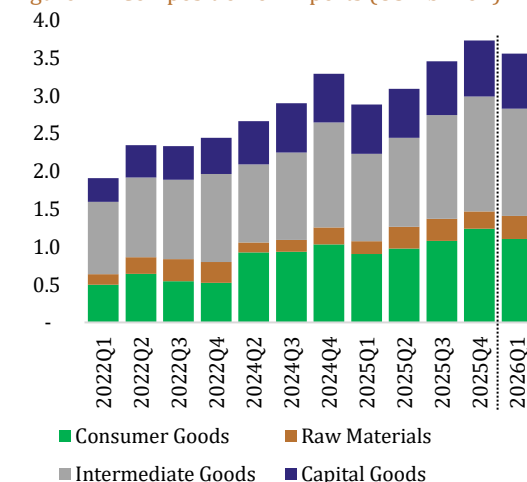
The deficit on the *primary income* account narrowed slightly to USD920.85 million from USD1,048.06 million.

Figure 21: Composition of Trade Balance (USD billion)



Source: Bank of Zambia

Figure 22: Composition of Imports (USD billion)



Source: Bank of Zambia

2.2 Global Financial Conditions

... volatile as Middle East conflict escalates

Volatility in global financial markets increased substantially in the first quarter of 2026 with the onset of the Middle East conflict that induced investor uncertainty and expectations of higher inflation as well as monetary policy tightening. As a result, yield rates on bonds and equity prices rose sharply, spreads on Sub-Saharan African (SSA) Eurobonds widened, and the US dollar strengthened on the back of heightened

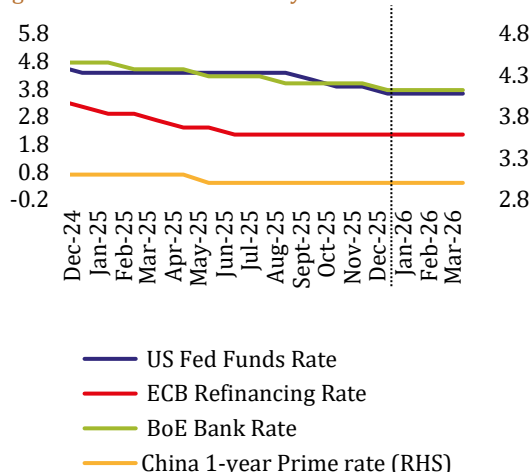
²²Realised copper prices increased sharply to USD13,161.95 per metric tonne from USD11,185.02 per metric tonne while export volumes declined to

225,148.4 metric tonnes from 232,597.67 metric tonnes.

investor risk aversion, which weighed on emerging and frontier market currencies.

While central banks noted a shift in inflation risk to the upside, an accommodative monetary policy stance was maintained as more information was gathered to fully determine the intensity and duration of the conflict. For instance, on January 28, the Federal Reserve Bank left the target federal funds rate at the range of 3.50 - 3.75 percent (Figure 23)²³. Similarly, the Bank of England (BoE)²⁴, European Central Bank (ECB)²⁵, and the People's Bank of China (PBoC)²⁶ maintained benchmark rates at 3.75 percent, 2.0 percent and 3.0 percent, respectively.

Figure 23: Central Bank Policy Rates in Selected Economies



Source: Reuters and Staff Compilations

Following a period of relative stability, benchmark yield rates in advanced economies surged amid heightened expectations of higher inflation. This pushed yield rates on the 10-year bond in the US, UK and Germany higher to 4.3 percent, 5.0 percent and 3.0 percent at end-March 2026 from 4.2 percent,

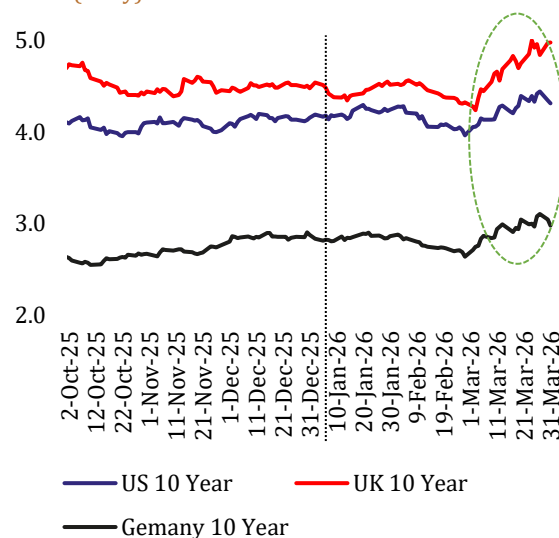
²³Inflation projection by the Fed was slightly raised due to emerging uncertainty surrounding inflation.

²⁴In its decision, the BoE stated that the conflict in the Middle East had disrupted transportation and supply of energy, driving up prices, such as, household fuel, utility prices, and company costs. The MPC noted that it was too early to assess the impact of the war on inflation.

²⁵At its March 19 Meeting, the ECB stated that the war

4.5 percent and 2.9 percent at end-December 2025, respectively (Figure 24).

Figure 24: US, UK and German 10-Year Benchmark Bond Yield Rates (Daily)



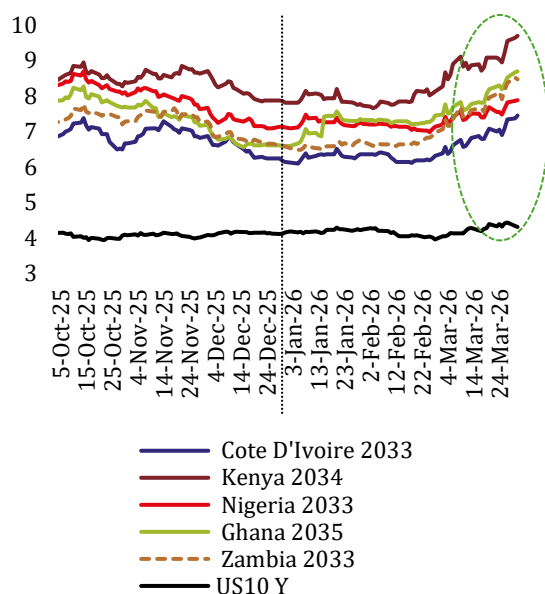
Source: Reuters and Staff Compilations

Negative investor sentiment towards riskier assets was evident in the sharp increase in yield rates on Eurobonds issued by SSA countries as well as widening spreads over the US 10-year Treasury yield rate. Ghana, Zambia, Kenya, Côte d'Ivoire, and Nigeria saw Eurobond yield rates rise by 124, 92, 83, 36 and 22 basis points to 6.8 percent, 9.0 percent, 7.5 percent, 8.0 percent and 7.7 percent, respectively (Figure 25).

in the Middle East made the outlook significantly more uncertain and noted upside risks on near-term inflation through energy prices as well as downside risks to growth.

²⁶At its first meeting of 2026, the PBoC noted that the shifting external environment was putting pressure on growth and emphasised the need to maintain an appropriately accommodative monetary policy stance.

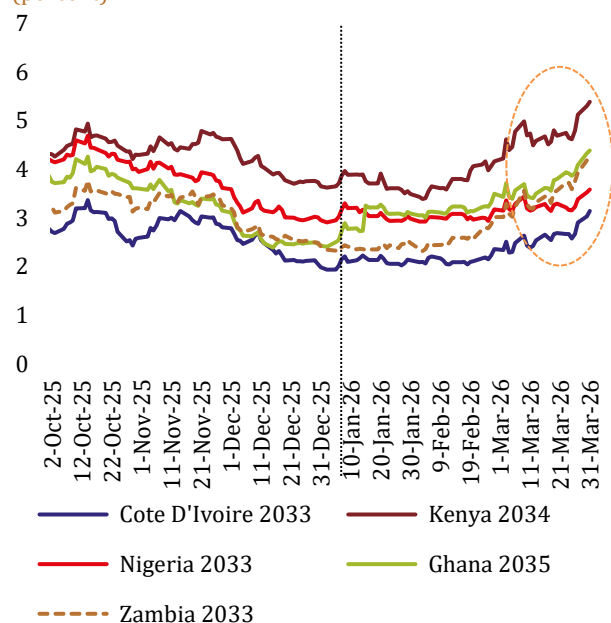
Figure 25: Yield Rates for Selected Sub-Sahara Africa Eurobonds (percent)



Source: Reuters and Staff Compilations

Correspondingly, yield spreads for Nigeria, Zambia, Ghana, Côte d'Ivoire and Kenya were higher by 114, 81, 73, 25 and 11 basis points, respectively (Figure 26).

Figure 26: Yield Spreads Over the US 10-Year Bond Yield Rate (percent)

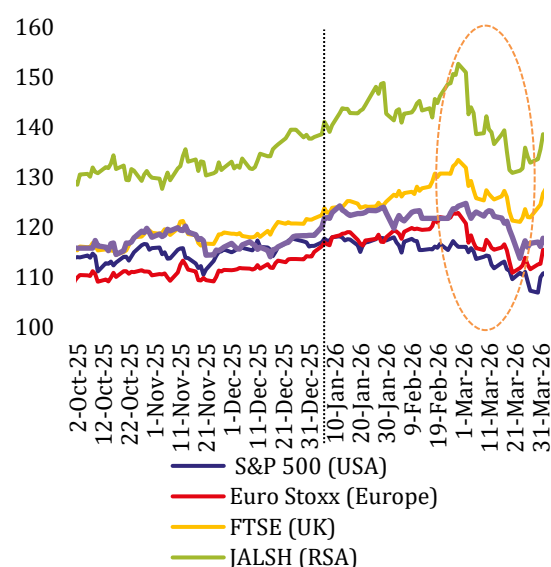


Source: Reuters and Staff Compilations

Growing concerns about the adverse impact of the war on economic growth and corporate earnings broke the upward momentum that

had characterised equity markets. In the US, the S&P 500 Index declined the most by 5.3 percent (Figure 27). The Shanghai Composite, Johannesburg All-Share and Euro Stoxx 50 indices fell by 1.9 percent, 1.5 percent and 1.3 percent, respectively. The FTSE 100 Index was the only exception that rose by 2.5 percent as earlier gains counteracted the drop in prices during the post-conflict period.

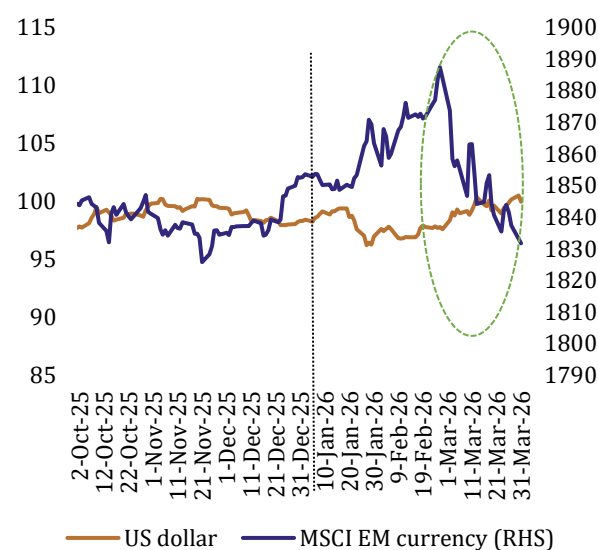
Figure 27: Selected Stock Market Indices (Daily)



Source: Reuters and Staff Compilations

Emerging market currencies started the year strongly until the end of February when rising risk aversion dampened investor demand for riskier assets. The shift triggered increased volatility and led to the weakening of these currencies against the US dollar. The MSCI Emerging Markets Currency Index declined by 1.1 percent while the US Dollar Index gained 1.7 percent (Figure 28).

Figure 28: US Dollar and MSCI Emerging Market Currency Indices (Daily)



Source: Reuters and Staff Compilations

Notably, the Zambian Kwacha²⁷, Brazilian real²⁸, and Argentinian peso²⁹ appreciated against the US dollar while the Egyptian pound³⁰, Tanzanian shilling³¹, Ghanaian cedi³², and Indian rupee³³ weakened (Figure 29).

²⁷The Zambian Kwacha appreciated mainly on account of improved foreign currency liquidity.

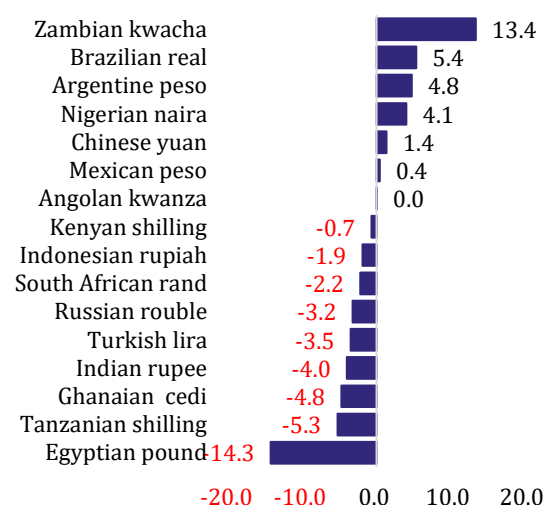
²⁸The appreciation of the Brazilian real was driven by a combination of high domestic interest rates and oil prices given Brazil's status as an alternative energy exporter.

²⁹The appreciation of the Argentinian peso was supported by robust trade inflows, substantial external financing, and renewed investor confidence stemming from greater political stability.

³⁰The Egyptian pound weakened on account of a widening balance of payments deficit, high external debt service payments, and regional geopolitical tensions.

³¹The Tanzanian shilling weakened against the US dollar due to high import bills for fuel and machinery and a strong US dollar post the conflict.

Figure 29: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar (Daily)



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

Source: Reuters and Staff Compilations

2.3 Domestic Financial Conditions

... easing

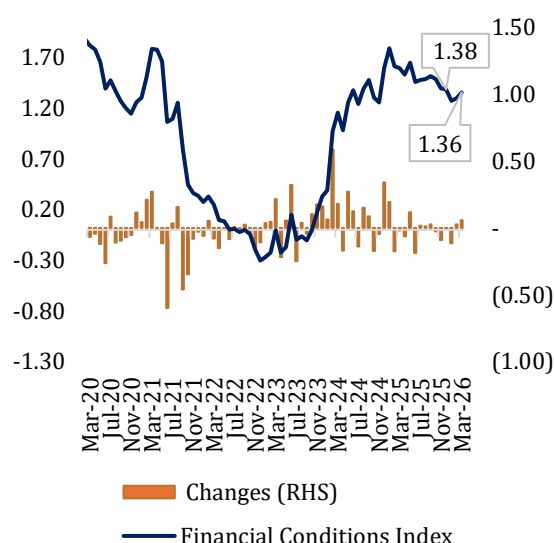
The reduction in interest rates (interbank rate, Policy Rate and yield rates on Government securities) and the gain in equity prices somewhat eased the tightness in domestic financial conditions (Figure 30)³⁴. However, the sharp appreciation of the exchange rate, uptick in lending rates, and slower growth in credit and money supply had a tightening effect on financial conditions.

³²The Ghanaian cedi weakened against the US dollar due to heightened seasonal demand for foreign currency, rising global oil prices, and tight foreign exchange supply.

³³The Indian rupee was weighed on by the Middle East conflict, higher crude oil prices, and a stronger US dollar.

³⁴The **Financial Conditions Index** measures the tightness and/or looseness of domestic financial conditions. It comprises the monetary policy rate, interbank rate, commercial banks' lending and deposit rates, exchange rate, stock or equity prices, Government securities yield rates, as well as growth in money supply and credit to the private sector. A positive (negative) value of the Index indicates tighter (looser) financial conditions.

Figure 30: Domestic Financial Conditions Index

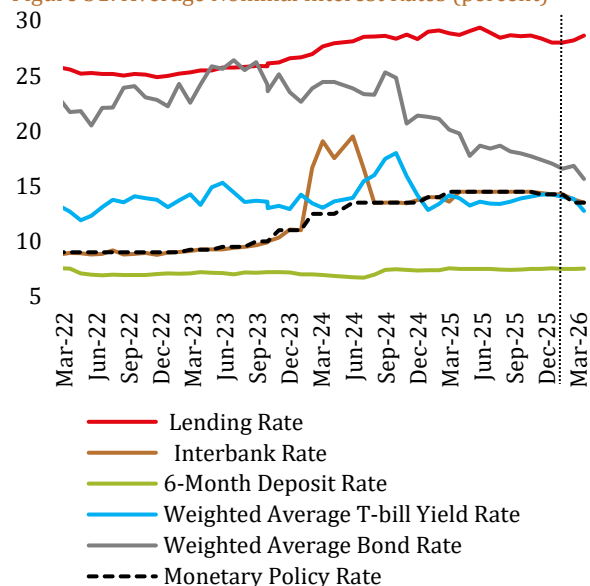


Source: Bank of Zambia

Interest Rates

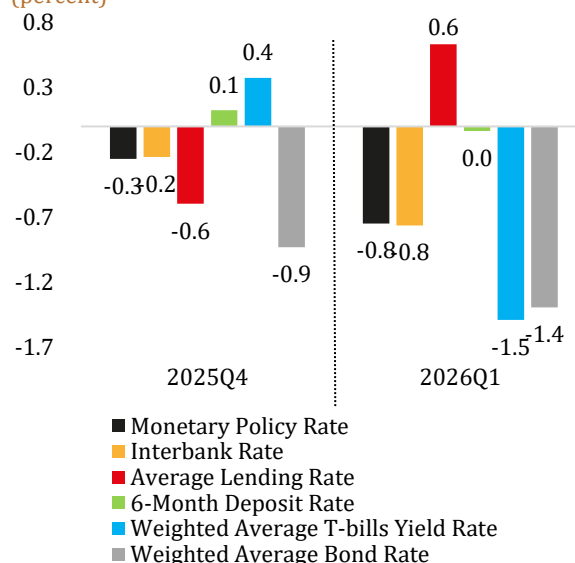
Except for lending and savings rates, the rest of the interest rates maintained a declining trend in the first quarter (Figure 31 and Figure 32).

Figure 31: Average Nominal Interest Rates (percent)



Source: Bank of Zambia

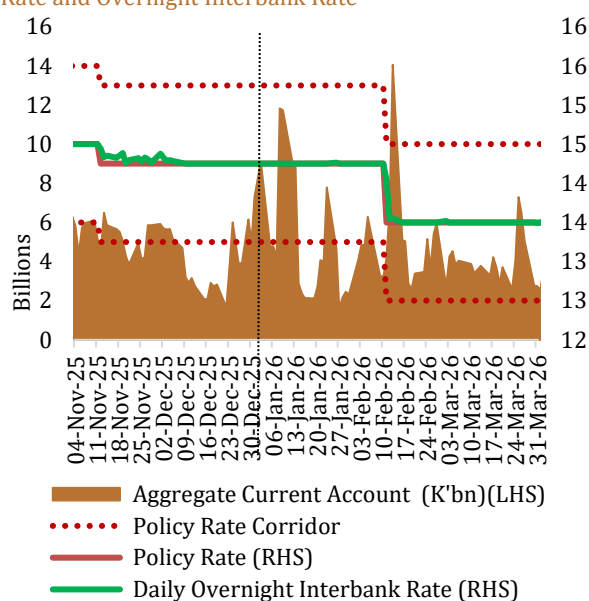
Figure 32: Quarterly Change in Nominal Interest Rates (percent)



Source: Bank of Zambia

The overnight interbank rate reduced to 13.50 percent in March 2026 from 14.26 percent in December 2025. This was in line with the cut in the Monetary Policy Rate (MPR) by 75 basis points to 13.5 percent in February. The interbank rate was maintained in the MPR Corridor in the quarter through contractionary open market operations conducted for 7- and 14-day tenors to absorb high liquidity in the money market for relatively longer periods (Figure 33). These operations were preemptive to moderate volatility in the exchange rate as market sentiments weakened when geopolitical tensions in the Middle East escalated on February 28 when the US and Israel attacked Iran.

Figure 33: Excess Reserves (Liquidity Level), Monetary Policy Rate and Overnight Interbank Rate



Source: Bank of Zambia

Liquidity in the money market built up from Government spending, the Bank's accumulation of foreign exchange reserves, and the reduction in currency in demand (Table 8).

Table 8: Liquidity Influences (K' billion)

	2025Q4	2026Q1
Opening Balance	2.9	7.3
Net Govt Spending	7.0	7.7
Net BoZ FX Intervention	1.0	4.3
Change in Currency	(1.1)	1.5
Change in SR Deposits	(2.5)	(1.7)
OLF	(2.5)	(0.1)
Net Govt Securities Transactions	5.7	(10.4)
Open Market Operations	(1.0)	(3.6)
TMTRF	(0.8)	(0.7)
SRF	0.7	(0.0)
Miscellaneous	(2.2)	(1.7)
Closing Balance	7.3	2.6

Source: Bank of Zambia

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

But, as liquidity was withdrawn through OMOs and the settlement of Government securities auctions, commercial banks funded their short positions mostly from the interbank market. As a result, turnover in the market increased to K67.6 billion from K65.6 billion in the last quarter of 2025 (Figure 34). An additional K6.5 billion was obtained from the overnight interbank foreign exchange

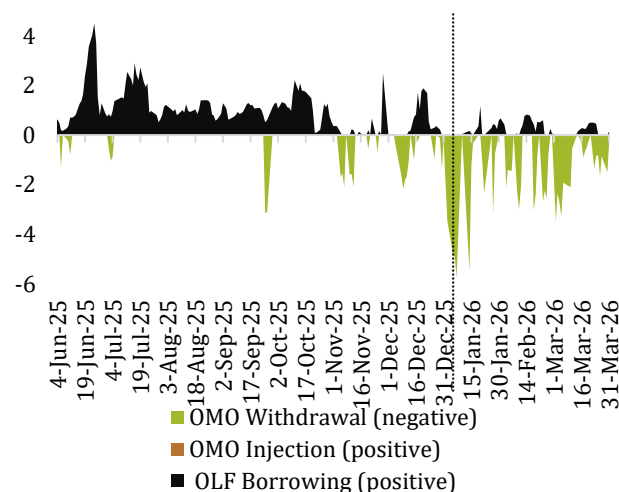
swap market. This drastically reduced commercial banks reliance on central bank liquidity through the Overnight Lending Facility (OLF) to K14.5 billion from K44.5 billion (Figure 35).

Figure 34: Interbank Money Market Borrowing and Foreign Exchange Swaps (K' billion)



Source: Bank of Zambia

Figure 35: Daily Average Open Market Operations and Overnight Lending Facility (K' billion)



Source: Bank of Zambia

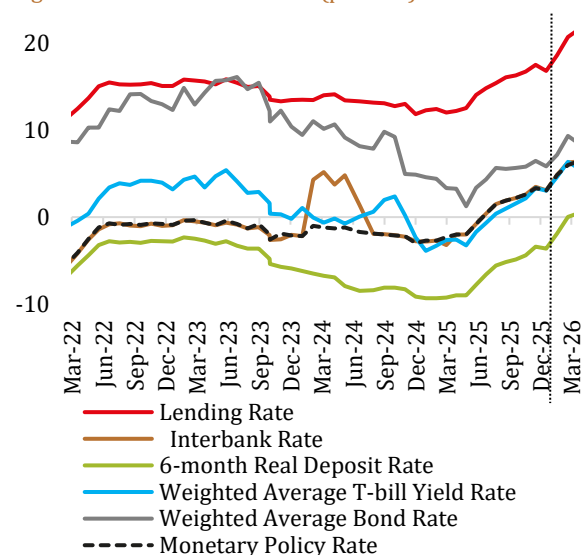
Yield rates on Treasury bills and Government bonds fell by 1.5 and 1.4 percentage points to 12.8 percent and 15.6 percent, respectively. This was mainly on account of sustained demand, supported by favourable liquidity conditions in the money market and the raising of the cap on non-resident investor participation in the primary market for

Government securities to 23.0 percent from 5.0 percent in January³⁵.

The commercial banks' nominal lending rate³⁶ moved up marginally to 28.6 percent from 28.0 percent while the 6-month deposit rate was broadly stable at 7.5 percent.

Real interest rates remained positive in the first quarter as inflation eased further to 7.1 percent in March 2026 from 11.2 percent in December 2025 (Figure 36). Notably, the real savings rate turned positive in February after a prolonged period of negative returns.

Figure 36: Real Interest Rates (percent)

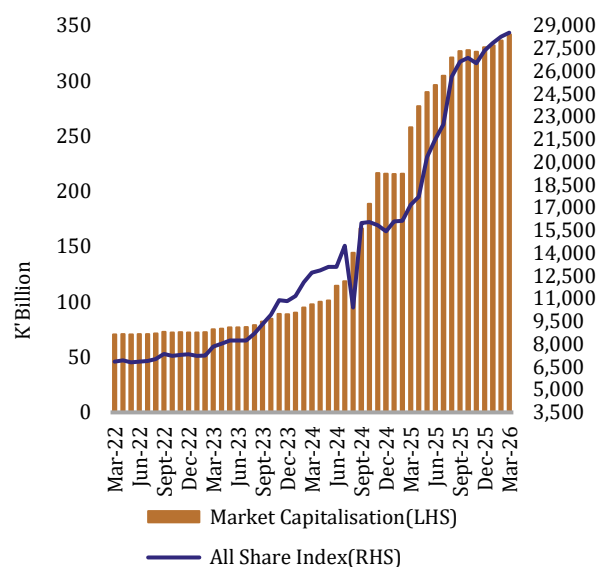


Source: Bank of Zambia

Equity Market

The LuSE All-Share Index continued to rise, moving up by 4.7 percent to 28,529.22 in March (Figure 37). Consequently, market capitalisation increased to K341.9 billion from K330.5 billion. The sustained expansion is largely attributed to the prevailing favourable macroeconomic environment.

Figure 37: Lusaka All-Share Index and Market Capitalisation



Source: Reuters and Bank of Zambia Compilations

Exchange Rate

The Kwacha appreciated sharply in the first quarter of 2026 against the US dollar on the back of strong inflows from the mining sector and foreign financial institutions (FFIs). It gained by 14.8 percent compared to 4.1 percent in the last quarter of 2025 (Table 9 and Figure 38). The appreciating trend continued in April as the Kwacha gained by 0.8 percent (Figure 38).

Table 9: Kwacha/US Dollar Exchange Rate

	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
Average					
Level	28.70	24.55	23.78	22.80	19.43
Percent Change	4.1	-14.4	-3.1	-4.1	-14.8
End-Period					
Level	28.21	23.81	23.87	22.14	19.12
Percent Change	1.2	-15.6	0.3	-7.2	-13.6

Source: Bank of Zambia Staff Computations

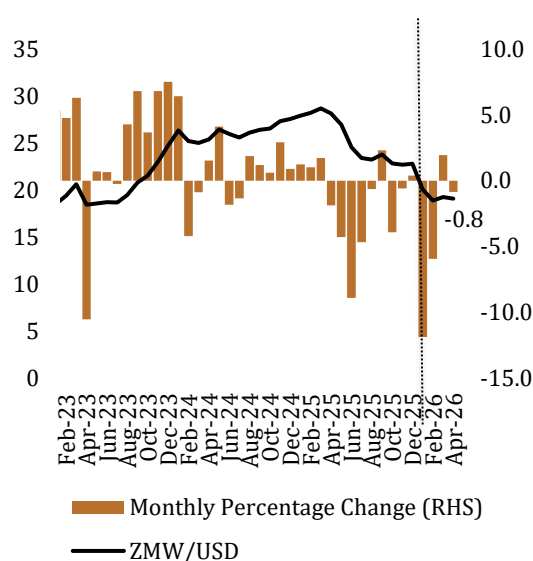
Note: Positive percentage change denotes a depreciation while negative changes mean an appreciation

³⁵The cap was raised to reduce refinancing/rollover risk of approximately USD1.16 billion falling due in 2026.

[https://www.boz.zm/sites/default/files/migrated/financialability/circulars/banks/2026/CBCircularNo.2of2026 Upward Adjustment to the Limitation](https://www.boz.zm/sites/default/files/migrated/financialability/circulars/banks/2026/CBCircularNo.2of2026%20Upward%20Adjustment%20to%20the%20Limitation)

³⁶Lending rates for Kwacha loans ranged from 6.0 percent to 36.8 percent while those for US dollar denominated loans were between 5.6 percent and 17.0 percent.

Figure 38: Nominal Kwacha/US Dollar Exchange Rate

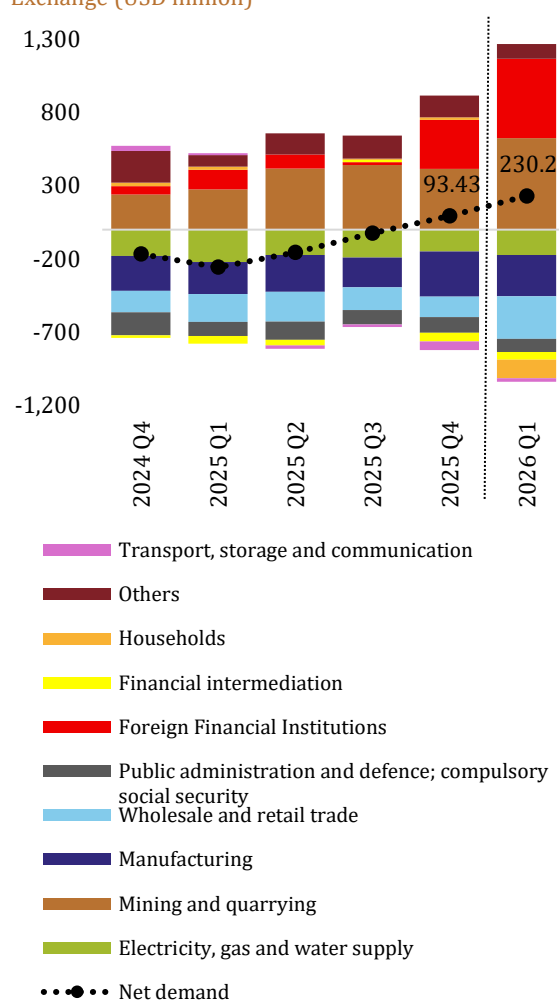


Source: Bank of Zambia

Mining companies continued to anchor supply of foreign exchange in the market. They sold a net of USD626.0 million, 51.0 percent more than the previous quarter, mainly supported by rising copper prices (Figure 39). In addition, they remitted USD289.7 million through tax payments to the Bank (Figure 40). Together, liquidity supply by mining companies came to USD915.7 million, up from USD759.4 million in the previous quarter.

FFIs contributed USD542.3 million to the market compared to USD335.6 million in the previous quarter (Figure 38). The upward adjustment of the limit on participation of non-resident investors in the primary market for Government securities to 23.0 percent from 5.0 percent on January 19 had strong influence on the substantial flows from FFIs.

Figure 39: Sectoral Net Sales (-)/Purchases (+) of Foreign Exchange (USD million)

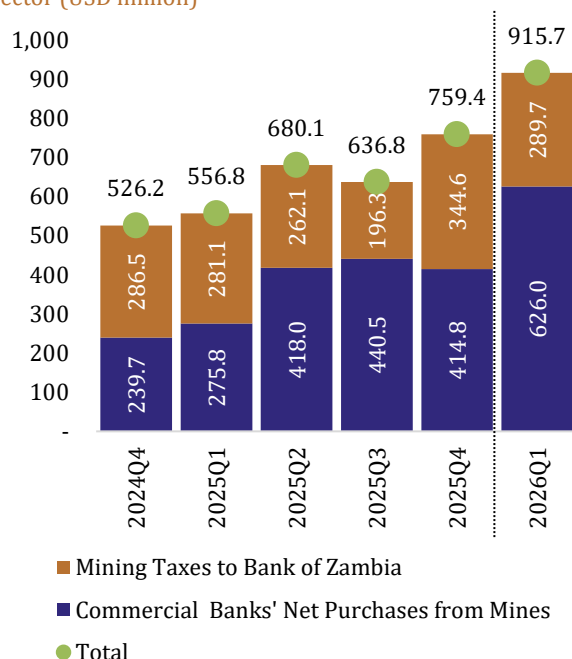


Source: Bank of Zambia

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

Demand by wholesale and retail trade (USD291.9 million), electricity, gas and water supply (USD173.0 million), as well as households (USD126.4 million) picked up in the first quarter (Figure 39). However, this demand was offset by inflows from the mining sector and FFIs, resulting in further increase in net supply to USD230.2 million relative to USD93.4 million in the previous quarter (Figure 39).

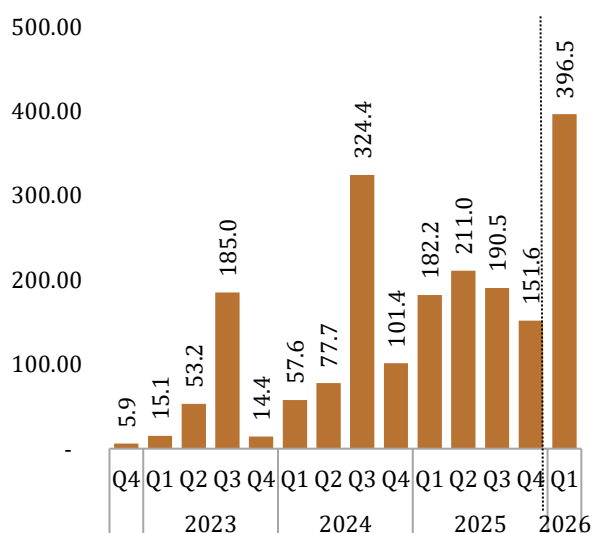
Figure 40: Net Foreign Exchange Inflows from the Mining Sector (USD million)



Source: Bank of Zambia

Due to improved liquidity, turnover in the interbank market rebounded to USD396.5 million from USD151.6 million in the previous quarter (Figure 41).

Figure 41: Turnover in the Interbank Foreign Exchange Market (USD million)

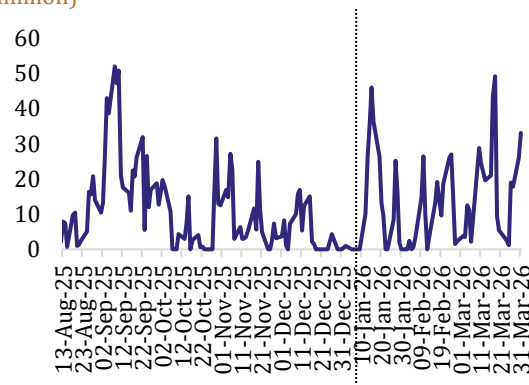


Source: Bank of Zambia

Following the escalation of the conflict in the Middle East on February 28, a build-up in demand for foreign exchange, particularly by

agriculture and energy sectors, emerged. This led to outstanding orders peaking at USD49.2 million by mid-March (Figure 42) and induced volatility in the exchange rate.

Figure 42: Outstanding Demand for Foreign Exchange (USD million)



Source: Bank of Zambia

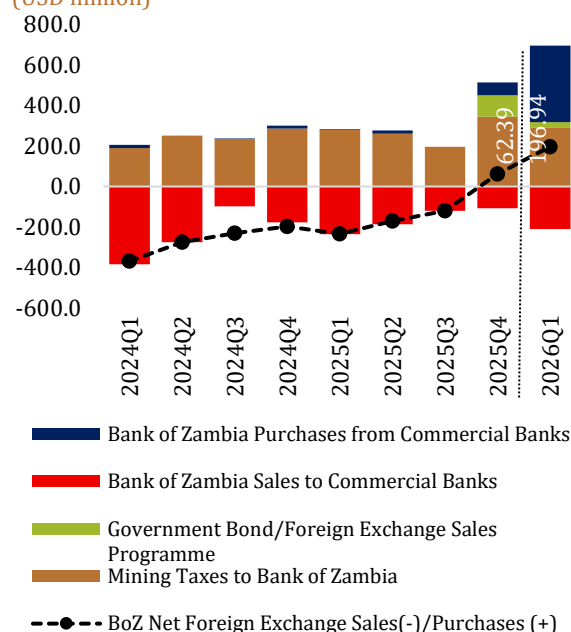
To moderate volatility, the Bank complemented pre-emptive contractionary open market operations with net sales of USD210.0 million to the market.

Overall, the Bank continued to be a net buyer of foreign exchange from the market as favourable liquidity conditions strengthened in the first quarter (Figure 43). Total purchases amounted to USD695.8 million: USD289.7 million in mining taxes; USD378.0 million from commercial banks, mostly from Government securities proceeds; and USD28.1 million through the Government Bond/Foreign Exchange Sales Programme³⁷.

³⁷The Bank sold Government bonds worth USD28

million (face value) to Stanbic Bank on February 12.

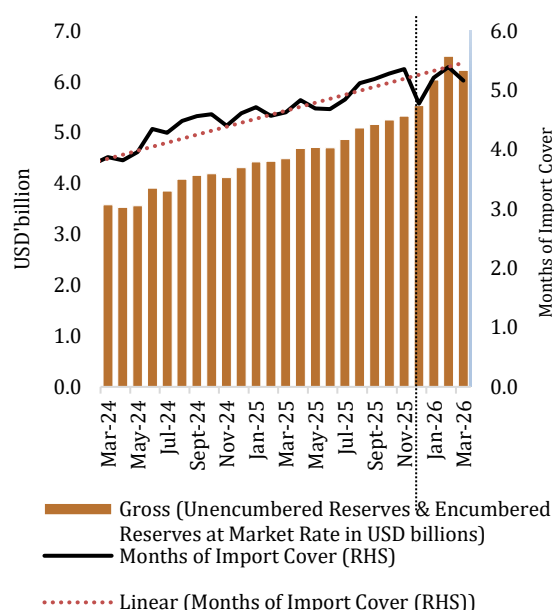
Figure 43: Bank of Zambia Foreign Exchange Transaction (USD million)



Source: Bank of Zambia

These purchases contributed to the sharp increase in gross international reserves to a historic high of USD6.5 billion in February (Figure 44). Additional inflows came from the IMF last disbursement under the 38-month Extended Credit Facility (USD192.2 million), World Bank Group (USD59.0 million), and non-tax receipts (USD43.0 million). However, reserves ended the quarter lower at USD6.2 billion (equivalent to 5.2 months of import cover), but USD700.0 million higher than the December 2025 stock of USD5.5 billion (equivalent to 4.8 months of import cover).

Figure 44: Gross International Reserves, Mar 2024-Mar 2026



Source: Bank of Zambia

Credit and Money supply

Domestic credit³⁸ growth decelerated sharply to 7.5 percent in March 2026 from 14.4 percent in December 2025 and fell below the long-term trend (Table 10, Figure 45 and Figure 46). Adjusted for exchange rate appreciation, credit moderated more slowly to 18.8 percent from 22.1 percent, leading to a further narrowing of the positive credit gap³⁹ (Table 10 and Figure 47).

³⁸Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign

currency.

³⁹Credit gap is the difference between exchange rate adjusted domestic credit and its long-term trend.

Table 10: Credit Growth Rate (percent)

	Dec 2025	Mar 2026
Overall Credit	14.4	7.5
Private Sector Credit (in Kwacha)	15.7	8.1
Kwacha Denominated Credit	21.0	20.8
Foreign Currency Denominated Credit (Kwacha equivalent)	7.5	-10.5
Foreign Currency Denominated Credit (in US dollar)	35.5	31.4
Private Sector Credit Exchange Rate Adjusted	26.7	25.1
Public Sector Credit	13.4	6.6
Government securities by ODCs	12.8	7.8
Loans by ODCs	463.5	408.2
Overall Credit Exchange Rate Adjusted	22.1	18.8

Source: Zambia Staff Computations

Note: ODCs=other depository corporations (exclude central bank)

The reduction in overall credit reflected valuation effects following the appreciation of the exchange rate (Table 10). Consequently, growth in private sector credit moderated further to 8.1 percent from 15.7 percent and remained below the long-term trend (Figure 49 and Figure 49). Its contribution to overall credit growth also reduced to 3.7 percentage points from 7.2 percentage points (Figure 45). Adjusted for the exchange rate appreciation, private sector credit growth declined marginally to 25.1 percent from 26.7 percent and remained above its long-term trend (Table 10 and Figure 50).

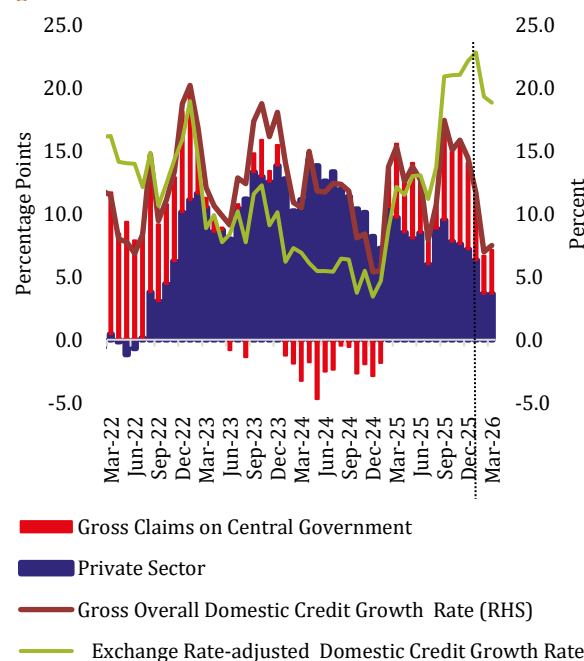
Foreign currency denominated credit growth reduced to 31.4 percent from 35.5 percent but remained above its long-term trend (Figure 51, Figure 52, Figure 53 and Figure 54). The moderation was attributed to lower lending to the manufacturing, mining, and agriculture sectors reflected in less utilisation of the overdraft facilities. In contrast, growth in Kwacha denominated credit remained stable at 20.8 percent and broadly aligned with its long-term trend (Table 10 and Figure 55). This was underpinned by sustained lending to the transport and electricity sectors (Figure 56 and Figure 57)

⁴⁰ The drop in the contribution was mostly attributed to the Liquidity Management Operation conducted in

Lending to the public sector slowed down substantially to 6.6 percent from 13.4 percent. This was largely due to the drop in the contribution of loans and advances to the public sector on account of the appreciation of the exchange rate (Table 10)⁴⁰.

According to the *May 2026 Credit Conditions Survey*, commercial banks expect demand for household loans, working capital, and long-term financing to remain strong in the second quarter. The optimistic outlook is based on the reported need by households to cushion the elevated cost-of-living and high operating costs for SMEs and large corporations linked to anticipated fuel pump price hikes occasioned by current geopolitical tensions in the Middle East. Further, the need to sustain operations following improved electricity supply as well as procurement of raw materials and machinery to support the implementation of the *Local Content Law* will contribute to high credit demand in the second quarter.

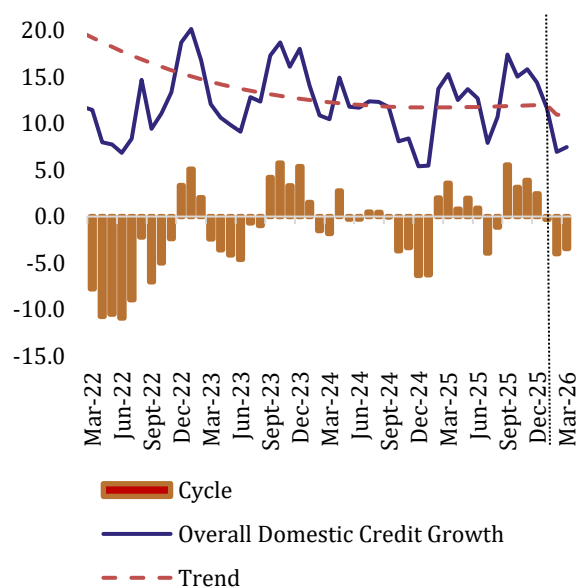
Figure 45: Contribution to Credit Growth



Source: Bank of Zambia

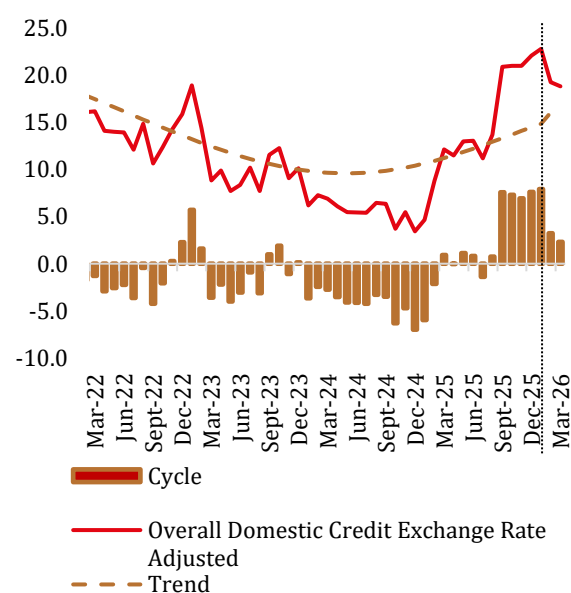
the third quarter of 2025.

Figure 46: Trend in Overall Domestic Credit Growth (percent)



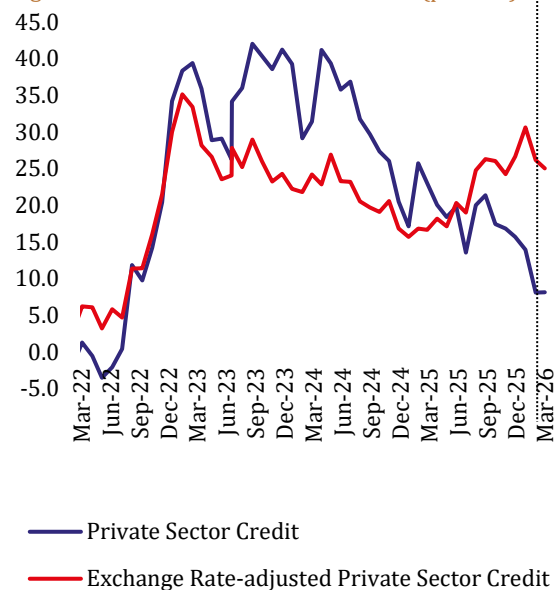
Source: Bank of Zambia

Figure 47: Trend in Exchange Rate-Adjusted Overall Domestic Credit Growth (percent)



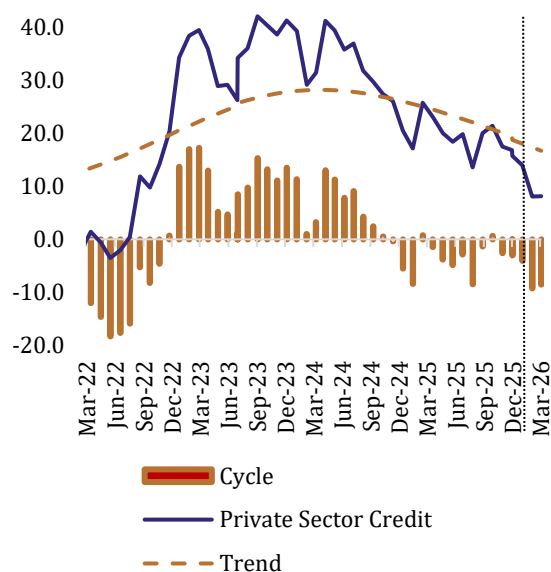
Source: Bank of Zambia

Figure 48: Private Sector Credit Growth (percent)



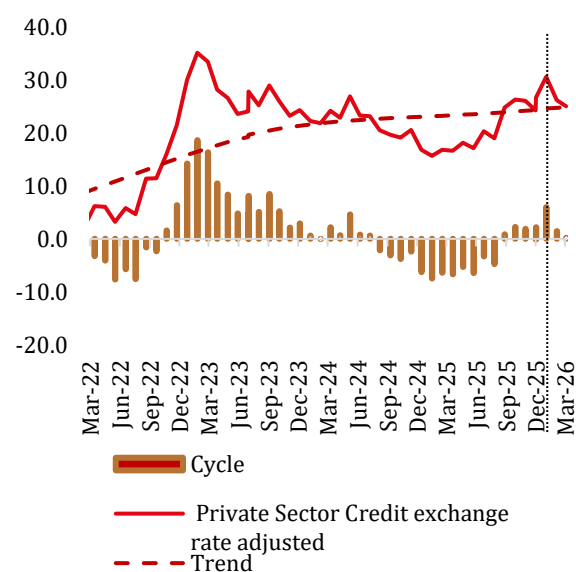
Source: Bank of Zambia

Figure 49: Trend in Private Sector Credit Growth (percent)



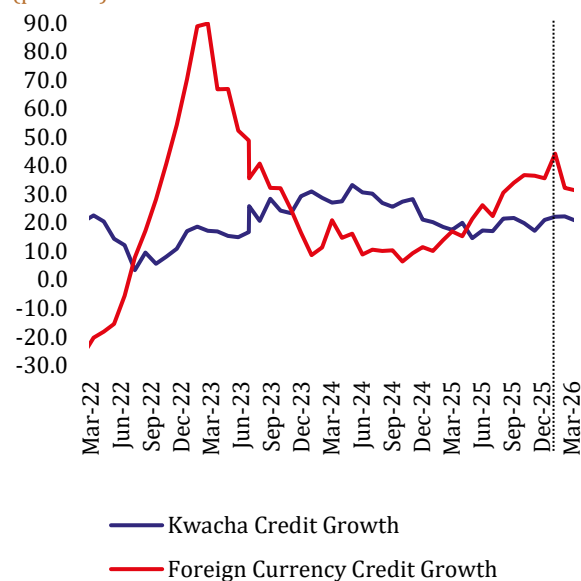
Source: Bank of Zambia

Figure 50: Trend in Exchange Rate Adjusted Private Sector Credit Growth (percent)



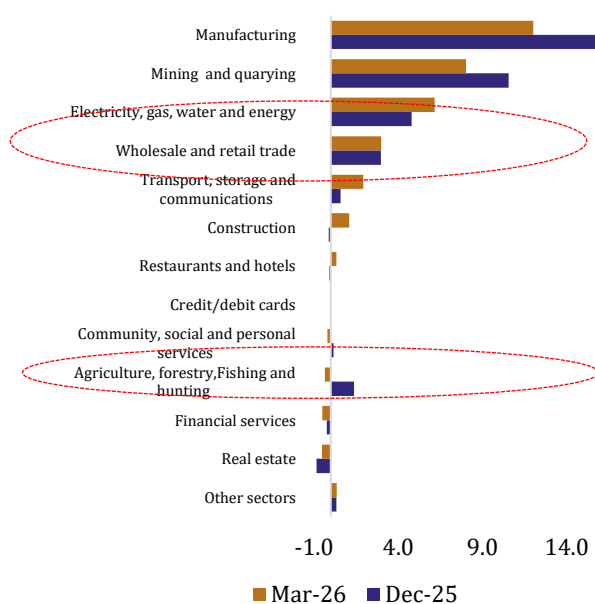
Source: Bank of Zambia

Figure 51: Private Sector Credit Growth by Currency (percent)



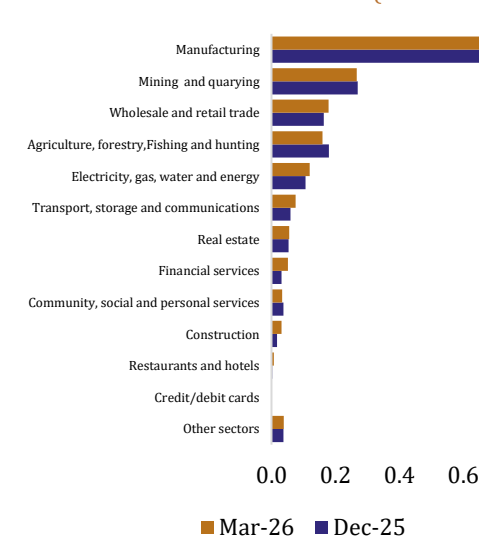
Source: Bank of Zambia

Figure 52: Sectoral Contribution to Annual Percent Change in Foreign Currency Denominated Private Sector Credit



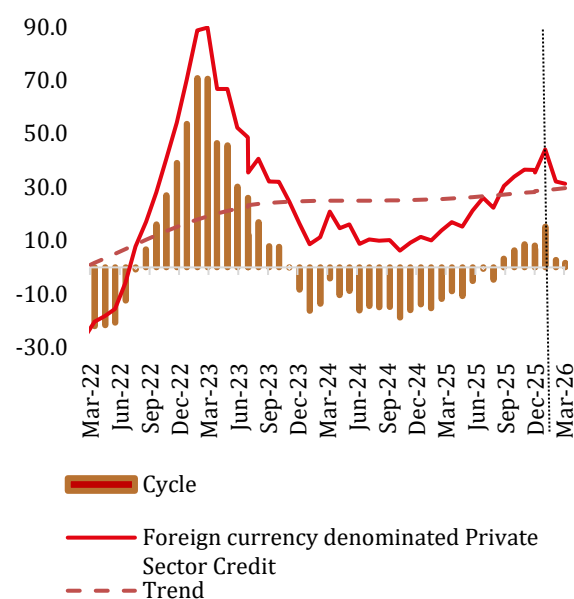
Source: Bank of Zambia

Figure 53: Stock Distribution of Foreign Currency Denominated Private Sector Credit (USD billion)



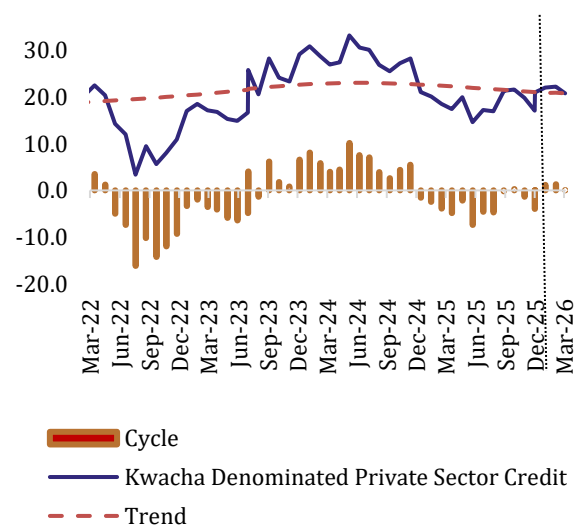
Source: Bank of Zambia

Figure 54: Trend in Foreign currency Denominated Private Sector Credit Growth Rate (year-on-year, percent)



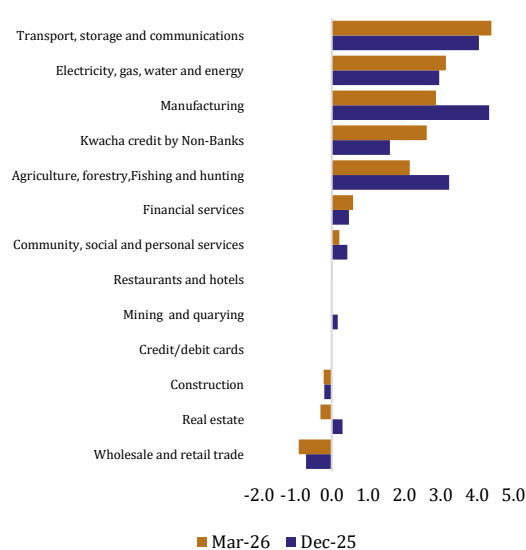
Source: Bank of Zambia

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



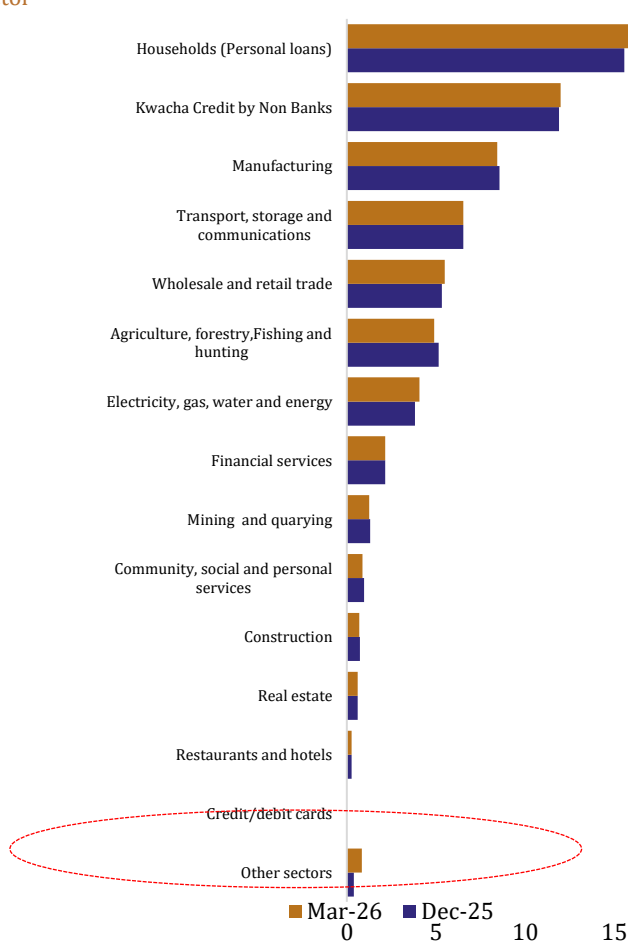
Source: Bank of Zambia

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



Source: Bank of Zambia

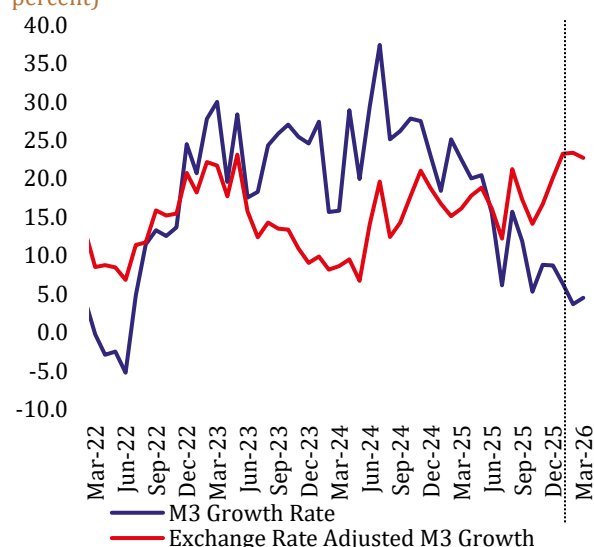
Figure 57: Stock Distribution of Private Sector Kwacha Denominated Credit (K'billion)



Source: Bank of Zambia

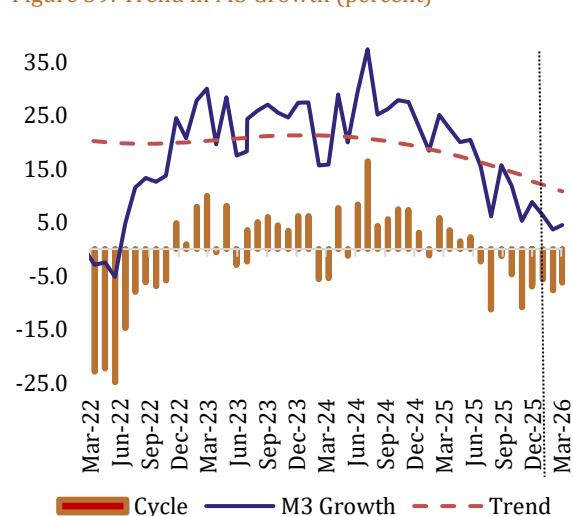
The growth in money supply (M3)⁴¹ continued to decline in the first quarter, falling to 4.5 percent in March 2026 from 8.7 percent in December 2025 and remained below the long-term trend (Figure 58 and Figure 59). The slowdown is attributed to the valuation effects following the sharp appreciation of the exchange rate. However, adjusted for exchange rate appreciation, M3 expanded further to 22.7 percent from 20.1 percent and remained above its long-term trend (Figure 60).

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



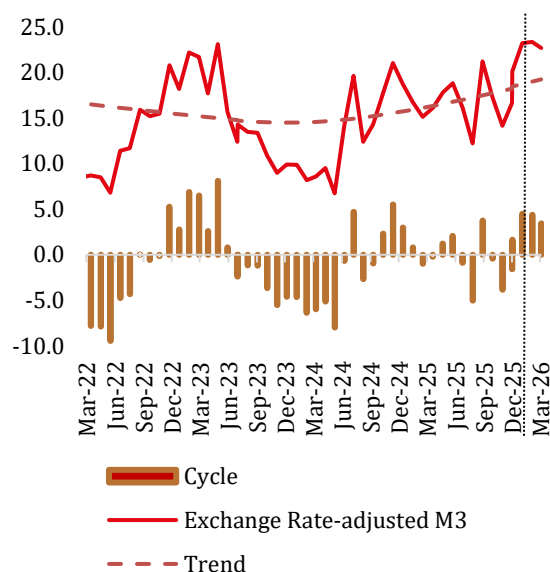
Source: Bank of Zambia

Figure 59: Trend in M3 Growth (percent)



Source: Bank of Zambia

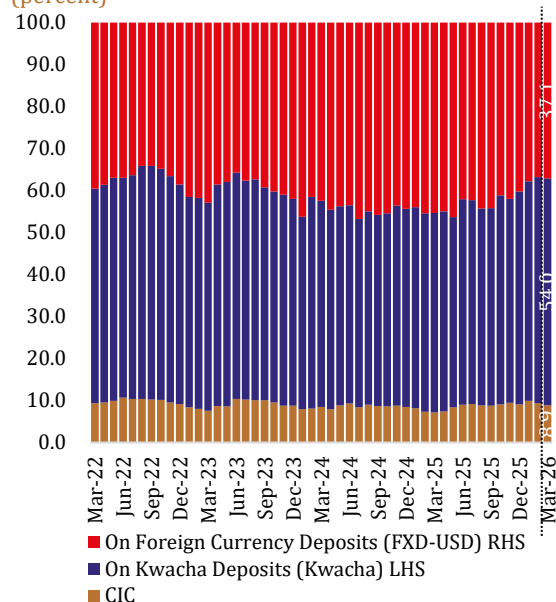
Figure 60: Trend in Exchange Rate-Adjusted M3 Growth (percent)



Source: Bank of Zambia

The share of Kwacha deposits in money supply increased to 54.0 percent from 50.8 percent (Figure 61). However, the appreciation of the exchange rate reduced the share of the foreign currency deposits to 37.1 percent from 40.2 percent. The share of currency in circulation was broadly stable at 8.9 percent.

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



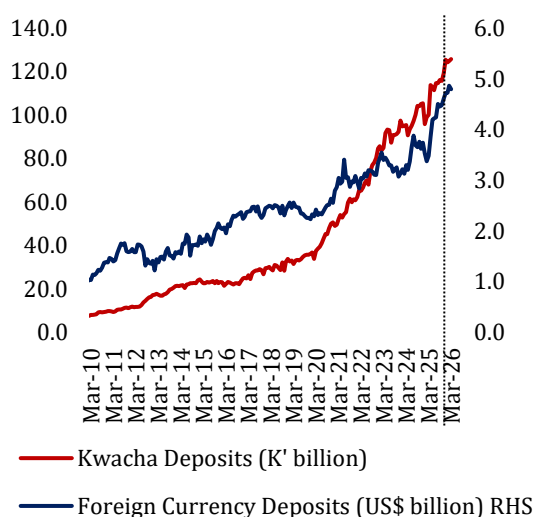
Source: Bank of Zambia

⁴¹M3 stock reduced to K213.8 billion at end-March

2026 from K223.1 billion at end-December 2025.

Kwacha and foreign currency deposit liabilities at commercial banks marginally increased to K125.8 billion and USD4.8 billion at end-March 2026 from K125.5 billion and USD4.7 billion at end-December 2025, respectively (Figure 62).

Figure 62: Commercial Bank Deposit Liabilities



Source: Bank of Zambia

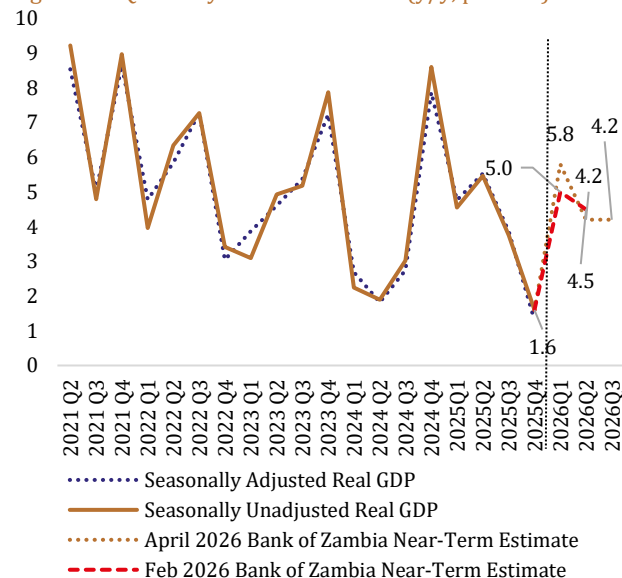
2.4 Domestic Economic Activity

... rebounds

The Bank estimates a strong rebound in real GDP in the first quarter of 2026 to 5.8 percent from the 1.6 percent outturn in the fourth quarter of 2025 reported by ZamStats (Figure 63 and Figure 64)⁴². This robust growth is largely based on the recovery in copper production (Figure 65).

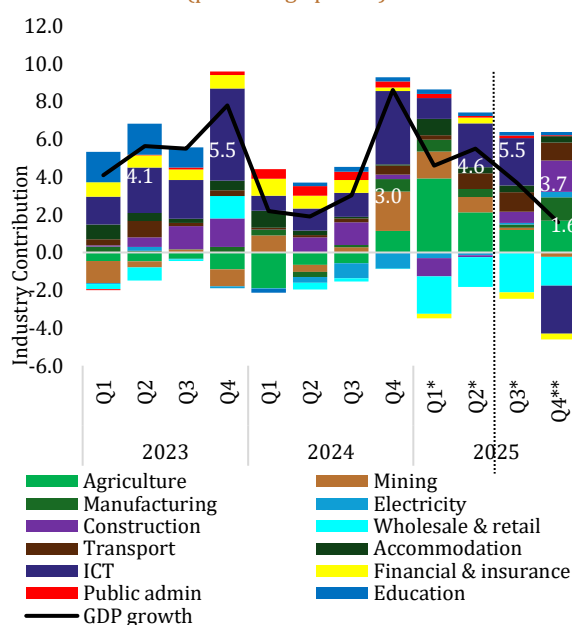
⁴²The slowdown in growth in the fourth quarter of 2025 was mainly due to a combination of supply-side and demand-side constraints across key sectors (Figure 64). The contraction in the ICT sector reflects slower growth in voice, data, and streaming services, partly due to operational challenges and moderate demand. The wholesale and retail trade sector was negatively affected by reduced client purchasing power based on the decline in new orders reported in the

Figure 63: Quarterly Real GDP Growth (y/y, percent)



Source: Bank of Zambia

Figure 64: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)



Source: Zambia Statistics Agency and Bank of Zambia

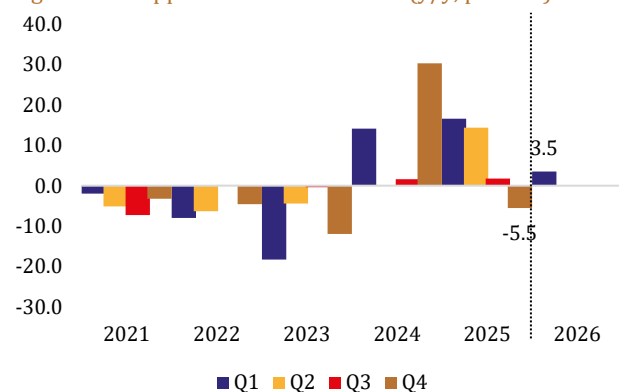
* = revised ** = preliminary

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

December 2025 Purchasing Managers' Index (PMI). Meanwhile, the negative contribution of financial and insurance activities was largely driven by valuation effects following the appreciation of the exchange rate while elevated operating costs—stemming from higher insurance claims expenses, partly exacerbated by increased fraudulent claims—further weighed on the performance of the sector.

Copper output grew by 3.5 percent in the first quarter of 2026 against a contraction of 5.5 percent in the last quarter of 2025.

Figure 65: Copper Production Growth (y/y, percent)

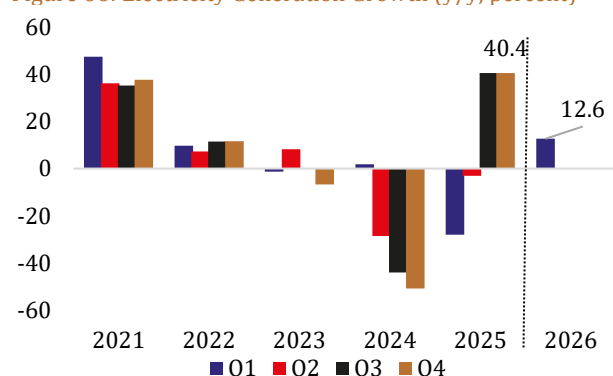


Source: Ministry of Mines and Minerals Development, Bank of Zambia Compilations

Performance in other sectors included in the computation of real GDP estimate was mixed. Electricity generation, cement production as well as financial and insurance sector moderated while tourist arrivals, real retail sales, and manufacturing contracted.

Electricity generation eased substantially to 12.6 percent from 40.4 percent in the fourth quarter of 2025 (Figure 66). The slowdown was due to reduced generation at major power stations and from alternative sources.

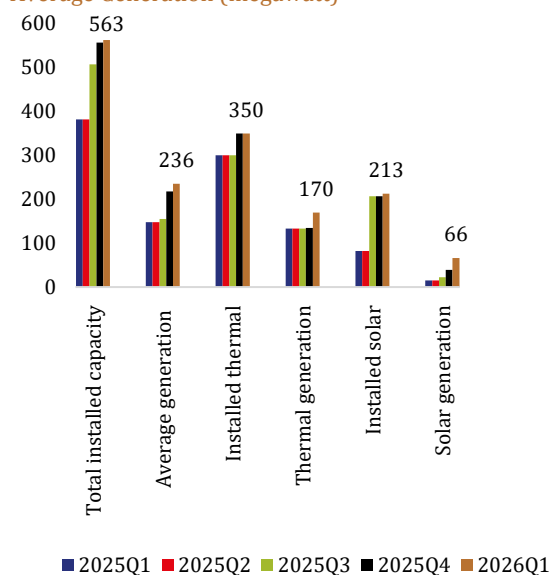
Figure 66: Electricity Generation Growth (y/y, percent)



Source: ZESCO, Bank of Zambia Compilations

Average generation from alternative sources of energy slowed down to 8.0 percent (q/q) from 40.0 percent (q/q) (Figure 67).

Figure 67: Thermal and Solar Energy Installed Capacity vs Average Generation (megawatt)

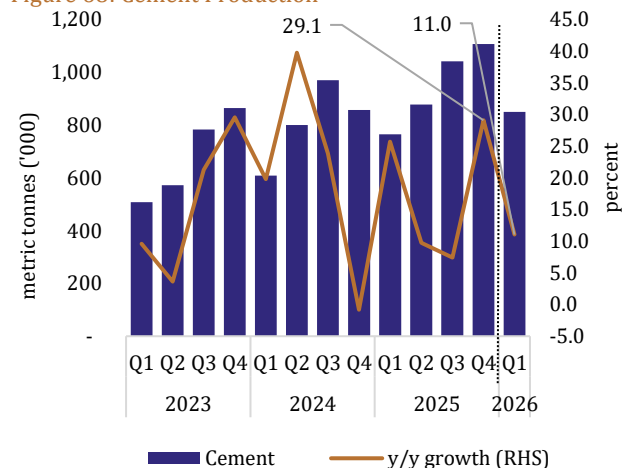


Source: ZESCO, Bank of Zambia Compilations

Notwithstanding the moderation in electricity generation, power availability on the national grid improved due to higher imports by Independent Power Traders (IPT).

Cement production grew by 11.0 percent compared to 29.1 percent in the fourth quarter of 2025 (Figure 68). The slowdown was partly due to weaker demand as construction activity eased during the rainy season.

Figure 68: Cement Production

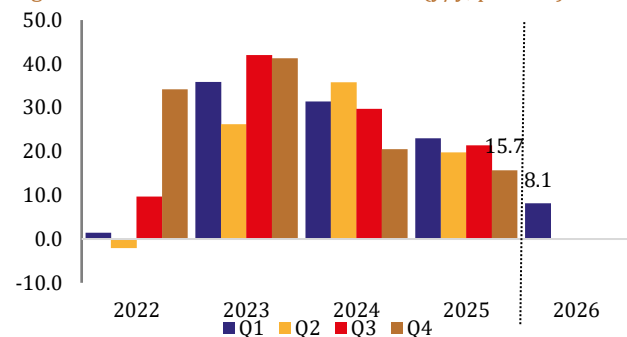


Source: Ministry of Mines and Mineral Development

Growth in the financial and insurance sector moderated further to 8.1 percent from 15.7

percent in the preceding quarter (Figure 69). This largely reflects valuation effects following the sharp appreciation of the exchange rate.

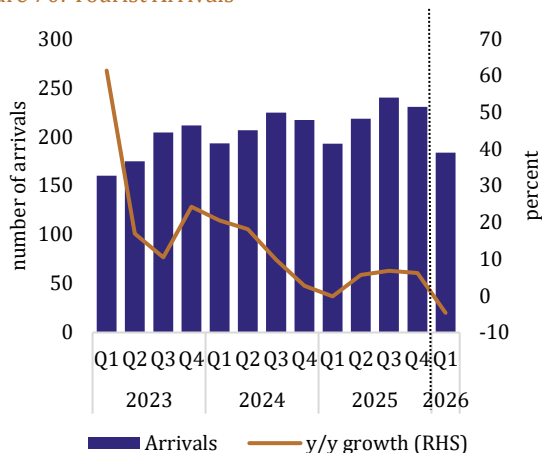
Figure 69: Private Sector Credit Growth (y/y, percent)



Source: Bank of Zambia

Growth in tourist arrivals contracted by 4.7 percent compared to a growth of 6.2 percent in the last quarter of 2025 (Figure 70). This was primarily due to reduced international travel amid air travel disruptions linked to the conflict in the Middle East.

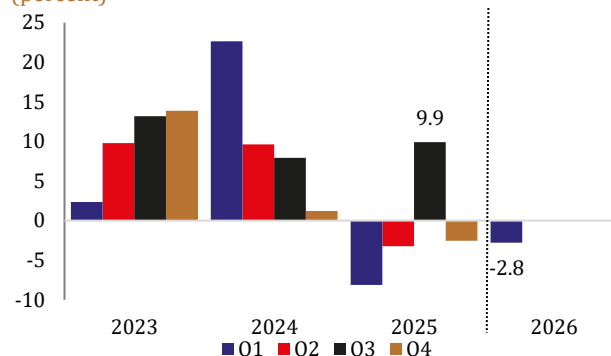
Figure 70: Tourist Arrivals



Source: Zambia Airports Corporation

Similarly, the wholesale and retail trade sector contracted further by 2.8 percent compared to 2.5 percent the previous quarter (Figure 71).

Figure 71: Real Retail Sales, year-on-year, Growth Rate (percent)



Source: Bank of Zambia

Cheaper imports also weighed on manufacturing. This is reflected in the decline in the fabricated and basic metals sub-sector (Table 11).

Table 11: Manufactured Products

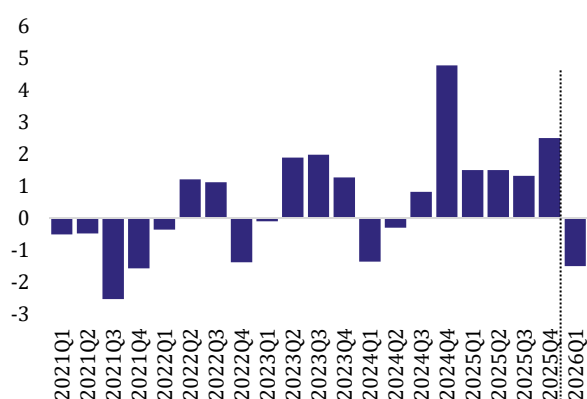
Table 11: Manufactured Products					Percent Change	
	2025 Q1	2025 Q4	2026 Q1	q/q	y/y	
Processed milk (hectolitres)	5085753.0	6885270.0	5625595.9	-18.3	10.6	
Clear beer (hectolitres)	618413.3	701819.0	607032.0	-13.5	-1.8	
Chemicals, Rubber and Plastics (metric tonnes)	242.9	365.6	320.6	-12.3	32.0	
Leather (kilograms)	226466.0	155769.0	172076.0	10.5	-24.0	
Fabricated and Basic Metal Products (metric tonnes)	4768.6	4883.1	2782.6	-43.0	-41.6	
Wood and Wood Products (cubic metres)	9517.7	10165.8	10166.2	0.0	6.8	
Paper and Paper Products (metric tonnes)	77.0	77.0	0.0	n/a	n/a	
Textile and Clothing (metric tonnes)	56.7	56.8	0.0	n/a	n/a	

Source: Bank of Zambia

Note: n/a indicates that data for the referenced quarter are not yet available.

Overall, the output gap for the first quarter is estimated to be negative (Figure 72). This suggests some degree of economic slack largely on account of relatively tighter monetary conditions and lower real fiscal expenditure.

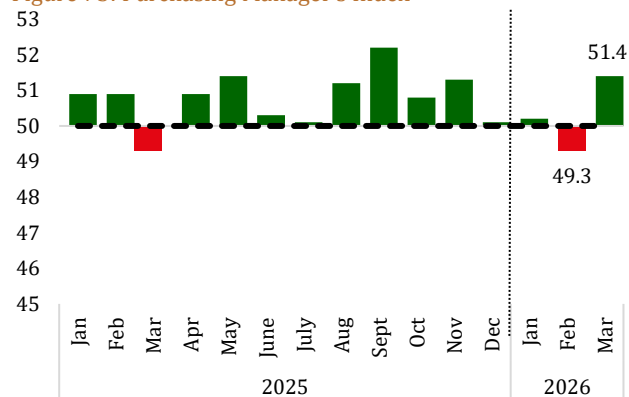
Figure 72: Domestic Output Gap



Source: Bank of Zambia Computations

The average reading of 50.3 of the *Stanbic Zambia*⁴³ (PMI) suggests that private sector business conditions remained favourable in the first quarter of 2026 (Figure 73).

Figure 73: Purchasing Manager's Index



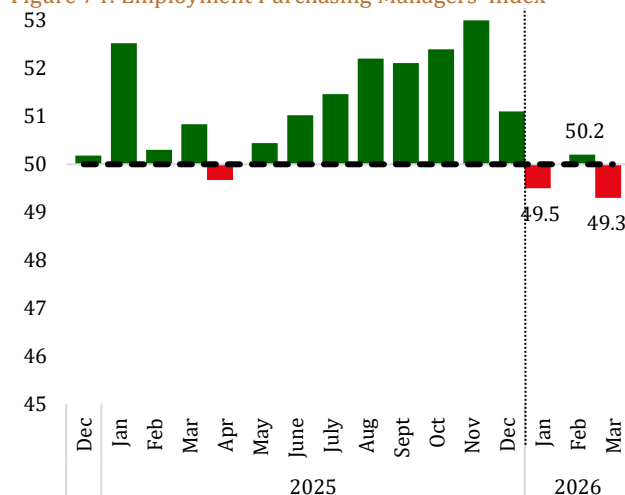
Source: Stanbic Bank Zambia and Bank of Zambia Compilations

Positive business conditions were largely driven by growth in new orders, output, and inventories. New orders and output increased on account of a stable exchange rate, improved electricity supply, and stronger demand following successful advertising campaigns. In anticipation of the upturn in consumer demand, firms purchased more input, leading to a rise in inventories. In contrast, labour market conditions weakened as the average Employment PMI of 49.7 was

⁴³The PMI is a composite indicator produced by Stanbic Bank Zambia to provide an overall view of activity in the economy. It is calculated as a weighted average of five sub-components: new orders, output,

below the 50-mark benchmark (Figure 74). The key driver was rising labour costs associated with salary adjustment at the beginning of the year, which prompted firms to reduce staffing levels as a cost saving measure. In addition, the seasonal slowdown in agricultural activity following the end of the planting season weighed on labour demand.

Figure 74: Employment Purchasing Managers' Index

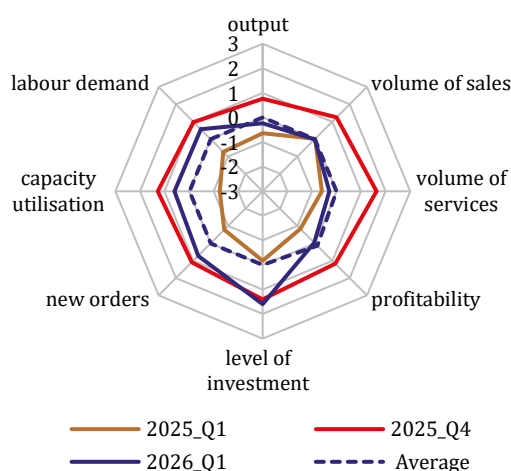


Source: Stanbic Bank Zambia and Bank of Zambia Compilations

Consistent with the PMI, businesses that participated in the Bank's *survey* in April 2026 reported improved economic conditions (Figure 75). This was mainly based on improved electricity supply, decline inflation, and stability in the exchange rate that lowered production costs. As a result, firms recorded increases in output, investment, new orders, capacity utilisation, service volumes, labour demand, and profitability.

employment, suppliers' delivery times and stocks of purchases. A reading below 50 means business conditions deteriorated and above 50 reading means an improvement while 50 means no change in the business environment.

Figure 75: Business Opinion Response Patterns⁴⁴



Source: Bank of Zambia

2.5 Budget Performance

... influenced by clearance of arrears

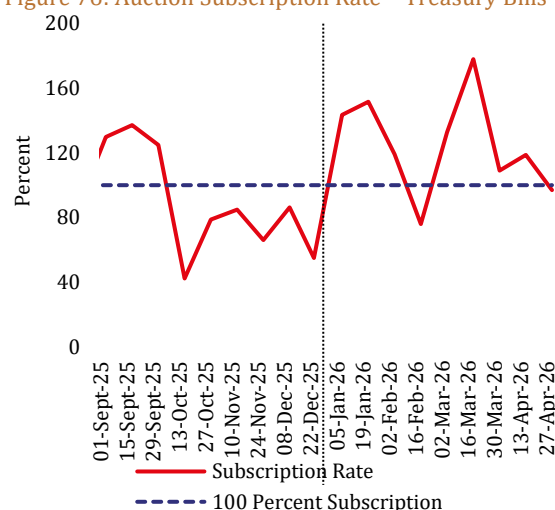
Preliminary data indicate a wider deficit than expected in the first quarter of 2026. This is mainly attributed to the higher-than-planned spending on the clearance of domestic arrears. The bulk of this expenditure was met from funds raised from the domestic market through the issuance of Treasury bills (T-bills) and Government bonds (bonds).

Demand for both T-bills and bonds picked up strongly in the first quarter (Figure 76). On average, demand for T-bills and bonds exceeded offers by 33.4 percent and 175.3 percent, respectively. Underlying this robust demand, particularly for bonds, was substantial subscription by non-resident investors. This was after a cap of 5.0 percent placed on their participation in the primary market on June 21, 2023 was raised to 23.0 percent of the planned annual issuance of Government bonds on January 19, 2026. The new limit was expected to support a sustainable debt profile and provide guidance

⁴⁴ Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than

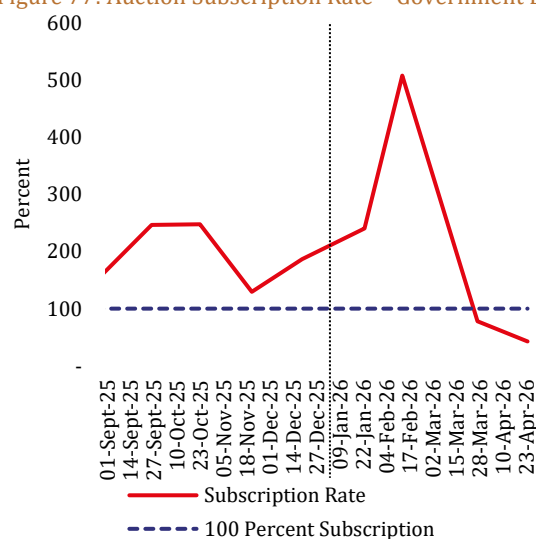
for debt management strategy. Ample liquidity in the money market also supported demand, especially by commercial banks. However, in March, demand for bonds fell sharply due to the absence of non-residents after they had almost reached the permissible limit.

Figure 76: Auction Subscription Rate – Treasury Bills



Source: Bank of Zambia

Figure 77: Auction Subscription Rate – Government Bonds



Source: Bank of Zambia

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

2.6 Domestic Inflation

... declines sharply

Overall inflation fell sharply to 7.1 percent in March 2026 from 11.2 percent in December 2025, a quarter earlier than anticipated into the target band of 6-8 percent (Table 13, Figure 78 and Figure 79). Non-food inflation marginally breached the lower bound of the target range (Figure 78). The average inflation outcome of 8.0 percent for the quarter was consistent with the MPC projection of 8.3 percent (Table 12 and Figure 79). Inflation declined further in April to 6.8 percent (Figure 78).

Table 12: Inflation (percent)

	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1
Average					
Overall Inflation	16.7	15.3	12.6	11.3	8.0
Food Inflation	19.6	17.7	14.9	13.6	9.0
Non-Food Inflation	12.7	11.8	9.3	8.0	6.6
End-Period					
Overall Inflation	16.5	14.1	12.3	11.2	7.1
Food Inflation	18.9	16.7	14.6	12.9	7.8
Non-Food Inflation	13.2	10.3	9.0	8.7	5.9

Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

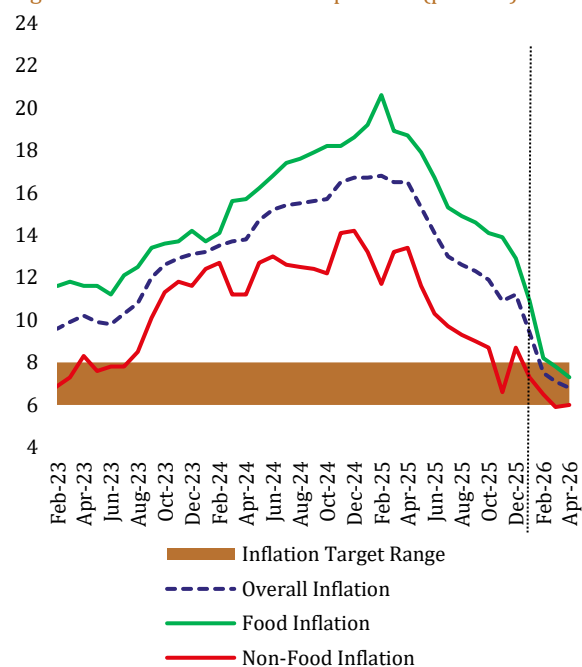
Table 13: Assumptions underlying Inflation Projection in the First Quarter of 2026

	2026 Q1 Assumed Value	2026 Q1 Actual Value
Average inflation-USA (percent)	2.8	2.7
Fed funds rate (percent)	3.4	3.6
Average inflation-South Africa (percent)	3.8	3.2
Average copper price/ton (US\$)	12,323.00	12,885.19
Average crude oil price/barrel (US\$)	60.6	74.7
Reserve money growth (percent)	26.07	27.33
Fiscal deficit (ratio of expenditure to revenue)	1.20	1.19
World food price index	129.80	112.75
BoZ monetary policy rate (percent)	14.25	13.5
Inflation projection		
MPC	8.3	
November 2025 QSBOE expectations	10.8	
SoEE	10.2	
Inflation outturn (percent)		8.0
Inflation estimate using actual values (percent)		8.7
Exchange rate projection (K/US\$)		
Baseline	21.54	
MPC	19.86	
Exchange rate outturn		19.42
Exchange rate estimate using actual values		21.72

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

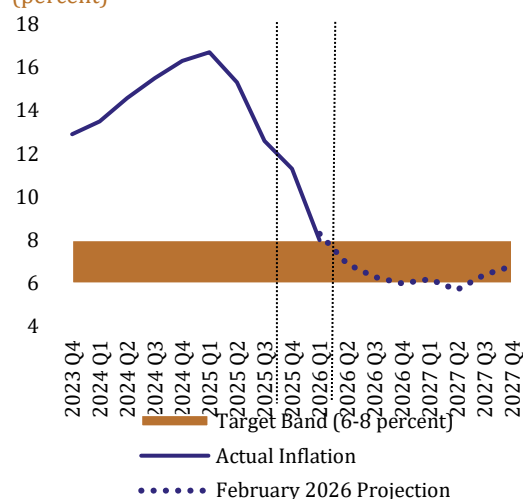
Note: QSBOE is Quarterly Survey of Business Opinions and Expectations and SoEE is Survey of Economic Experts

Figure 78: Inflation and its Components (percent)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 79: Actual and Projected Annual Overall Inflation (percent)



Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

Sustained base effects in the prices of maize grain and its products, sharp appreciation of the Kwacha against major currencies, and further reduction in fuel pump prices were key to the faster disinflation.

Maize grain prices rose further in January (Figure 78). As a result, the year-on-year change in maize grain prices remained negative and so did breakfast and roller meal prices (Figure 81 and Figure 82). Thus, maize grain, breakfast, and roller meal continued to exert downward pressure on overall inflation (Figure 83).

The sharp appreciation of the Kwacha against the US dollar by 14.9 percent impacted a range of products in the CPI basket that had a notable influence on overall inflation: bun, cooking oil, fresh milk, motor vehicles (Nissan Sunny, Nissan pickup, Toyota Corolla and Toyota Hilux), chitenge material, radio, wheat, and sewing machine (Figure 83)

The reduction in fuel pump prices led to lower taxi fares and in turn contributed to the fall in inflation (Figure 83).

Reinforcing the reduction in inflation was improved electricity supply that contributed to lower processing and refrigeration costs of meat products, such as, pork chops, chicken, and bacon resulting in reduced prices (Figure 83). In addition, increased seasonal supply of rape and mushrooms, alongside higher tomato supply on expectation of higher prices, drove vegetable prices down. Improved supply also moderated the price of groundnuts (Figure 83).

Other factors that contributed to the deceleration in inflation were extended festive season promotion of golden syrup, reduction in the price of paraffin, and lower water charges⁴⁵.

Food inflation was dominated by movements in maize grain, breakfast and roller meal prices, leading to the widening of the negative contribution of the *bread and cereals* sub-group (Figure 84). Other sub-groups in the food category that reduced were *oils and fats*; *milk, cheese and eggs*; *meat*; *vegetables*; *fruits*; as well as *sugar, jam, honey, chocolate and confectionery* (Figure 84).

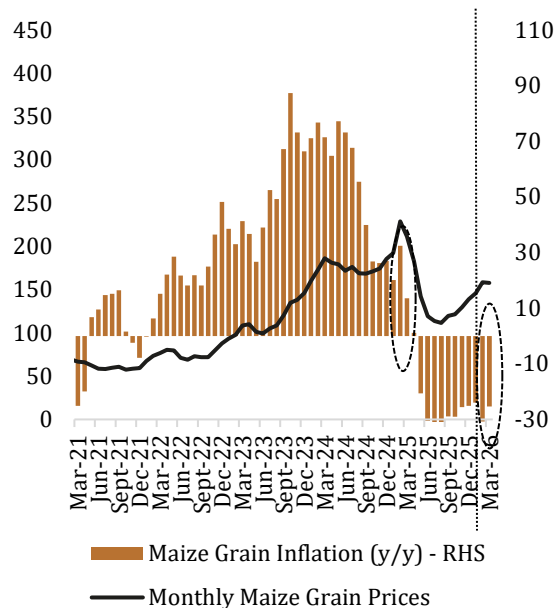
Non-food inflation was strongly impacted by developments in the *transport and housing, water, electricity, gas, and other fuels* sub-groups (Figure 85).

Consequently, the contribution of food inflation to overall inflation reduced by 5.4 percentage points from 8.0 percentage points while that of non-food inflation fell to 2.6 percentage points from 3.3 percentage points (Figure 86).

⁴⁵This followed the zero-rating of value-added tax on piped water effective January 1, 2026 to benefit households and reduce operating costs for utility

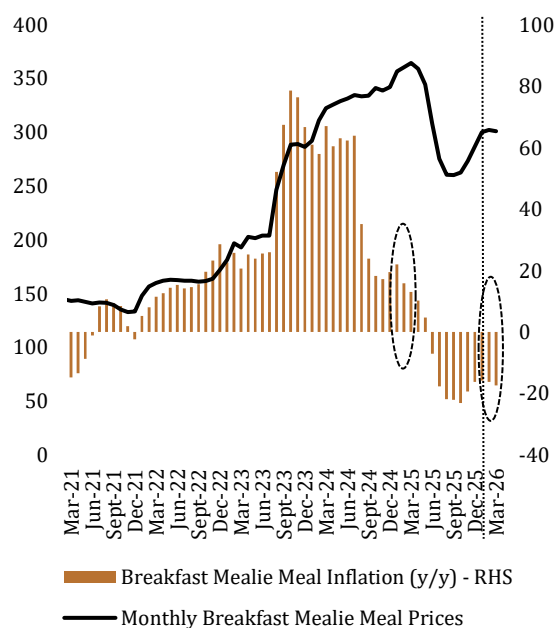
companies.

Figure 80: Average Domestic Maize Grain Price (20Litre Tin)



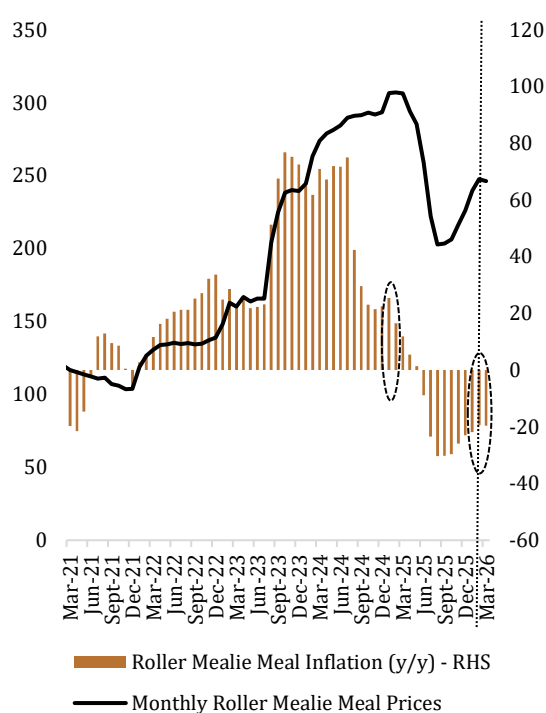
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 81: Average Breakfast Mealie Meal Price (K/25kg)



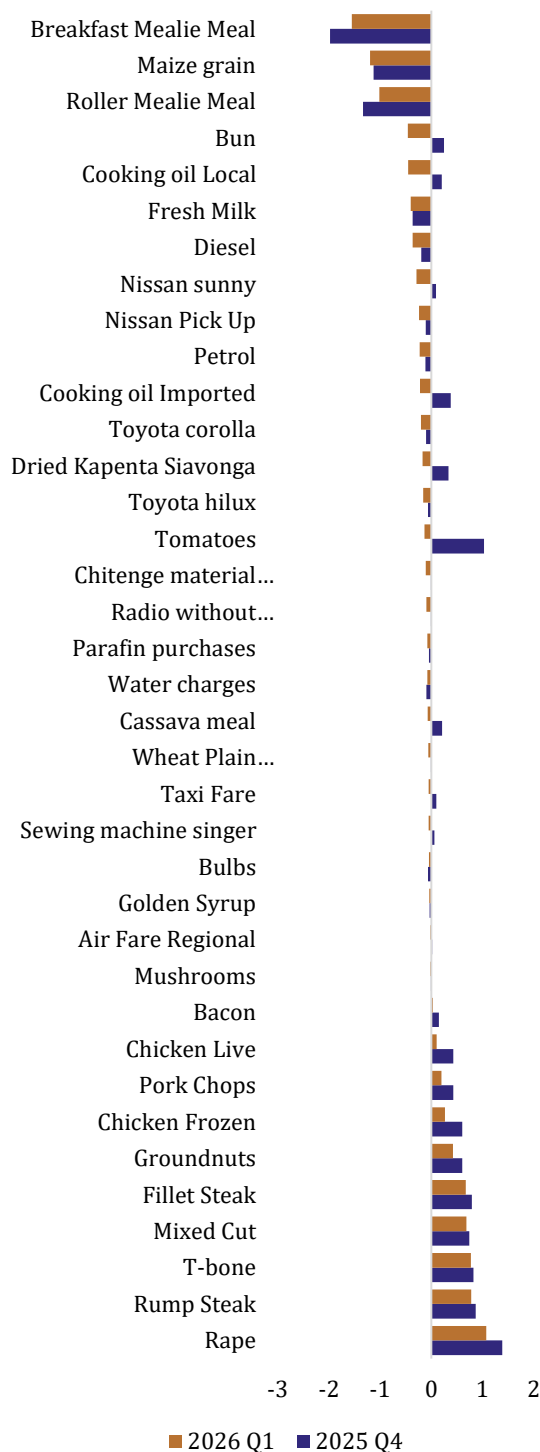
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 82: Average Roller Mealie Meal Price (K/25kg)



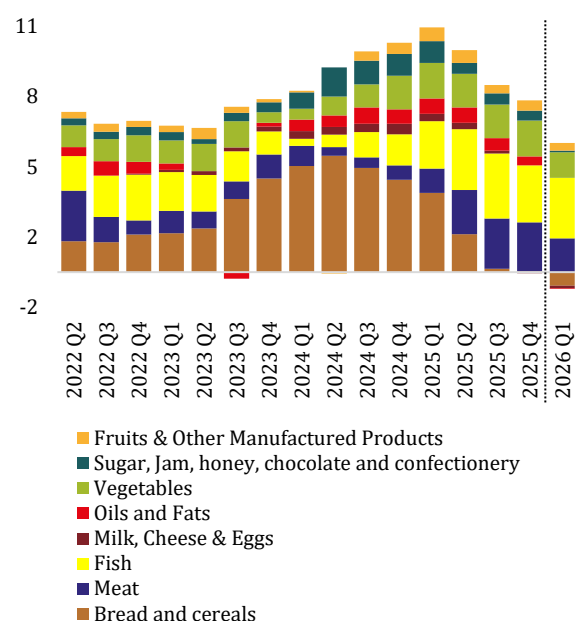
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 83: Contribution to Overall Inflation by CPI Basket Products (percentage points)



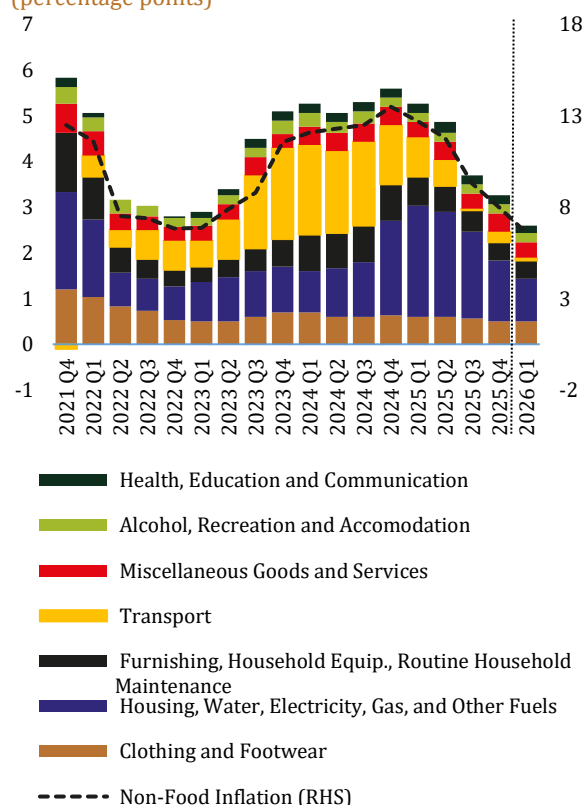
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 84: Contribution to Food Inflation by Sub-Group (percentage points)



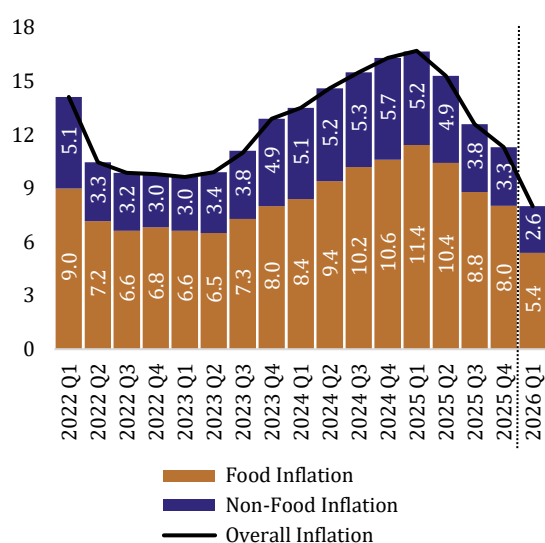
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 85: Contribution to Non-Food Inflation by Sub- Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 86: Contribution to Overall Inflation by Food and Non-Food Inflation (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Expectations by businesses and economic experts reported in the *February 2026 Bank of Zambia Quarterly Survey of Business Opinions (QSBOE)* and *Survey of Economic Expectations (SoEE)* of inflation rising to 10.8 percent and 10.2 percent, respectively were pessimistic relative to the outturn of 8.0 percent (Table 14). The survey respondents cited the anticipated impact of previously observed intermittent fuel shortages that disrupted supply chains, ongoing geopolitical tensions, elevated domestic and external debt obligations, and persistent inflation inertia as the main factors underpinning their view of higher inflation.

Table 14: Actual versus Inflation Projections⁴⁶

	Actual Inflation	Baseline Projection	MPC Projection	QSBOE	SoEE
2022 Q3	9.9	11.8	11.6		
2022 Q4	9.8	10.5	10.6		
2023 Q1	9.6	9.2	9.2		
2023 Q2	9.9	9.0	11.6	10.6	
2023 Q3	11.0	10.3	10.3	10.7	
2023 Q4	12.9	13.1	13.1	12.4	
2024 Q1	13.5	13.2	13.2	13.8	
2024 Q2	14.6	13.8	14.7	14.9	
2024 Q3	15.5	15.5	15.8	15.5	15.7
2024 Q4	16.3	15.9	16.4	16.5	16.2
2025 Q1	16.7	16.7	16.5	17.3	16.3
2025 Q2	15.3	15.2	15.0	16.9	16.2
2025 Q3	12.6	12.0	12.0	14.7	13.9
2025 Q4	11.3	10.5	10.5	12.5	11.9
2026 Q1	8.0	8.8	8.3	10.8	10.2

Source: Bank of Zambia Staff Computations

⁴⁶Data collection for QSBOE and SoEE commenced in

2023Q2 and 2024Q3, respectively.

Appendix

Monetary and Foreign Exchange Measures since April 2012

Measure	Date Implemented	Rationale
Policy Rate introduced and set at 9.0 percent	April 2, 2012	Mechanism for signalling monetary policy stance as transition to inflation targeting
Policy Rate raised to 9.25 percent	October 31, 2012	To contain inflationary pressures
Policy Rate raised to 9.50 percent	May 31, 2013	To contain inflationary pressures
Policy Rate raised to 9.75 percent	June 28, 2013	To contain inflationary pressures
Statutory reserve ratio raised to 14.0 percent from 8.0 percent	February 24, 2014	To address excess liquidity in the money market and its impact on inflation
Overnight Lending Facility (OLF) rate set at 600 basis points above the Policy Rate	March 19, 2014	To address excess liquidity in the money market and its impact on inflation
Access to OLF window restricted to once a week		
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US\$0.5m-US\$1m from US\$1m	March 28, 2014	To moderate exchange rate volatility and bring orderliness in the interbank market
Interbank bid/ask spread increased to a maximum of K0.02 from K0.01		To enhance price discovery
Policy Rate raised to 10.25 percent	February 28, 2014	To contain inflationary pressures
Policy Rate raised to 12.0 percent	March 28, 2014	To contain inflationary pressures
Inclusion of Government deposits and vostro account deposits in the computation of statutory reserves	May 30, 2014	
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate		
Policy Rate raised to 12.5 percent	November 19, 2014	To contain inflationary pressures
Once a week access to the OLF Window suspended and intraday loan to lapse into overnight loan allowed	December 10, 2014	
Statutory reserve ratio raised to 18.0 percent from 14.0 percent	March 20, 2015	
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points		
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote	October 5, 2015	To improve order, stability, and transparency in the foreign exchange market
BoZ to publish individual commercial banks' exchange rates on Reuters platform		
Commercial banks to update board exchange rates three times a day as prescribed		
Policy Rate raised to 15.5 percent	November 3, 2015	To contain inflationary pressures
Interest rate caps removed, and consumer protection measures introduced	November 4, 2015	To allow for better functioning of the credit market
OLF rate set at 1,000 basis points above the Policy Rate	November 10, 2015	To contain inflationary pressures
Access to OLF Window restricted to once a week	November 18, 2015	To contain inflationary pressures
Roll-over of intra-day loan into an overnight loan discontinued		
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery

Measure	Date Implemented	Rationale
Policy Rate reduced to 14.0 percent from 15.5 percent (first reduction since April 2012)	February 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 15.0 percent from 18.0 percent	February 22, 2017	Reduce the cost of funds and promote credit growth
OLF rate set at 600 basis points above the Policy Rate from 1,000 basis points previously	February 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 12.5 percent from 14.0 percent	May 17, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 12.5 percent from 15.5 percent	May 17, 2017	Reduce the cost of funds and promote credit growth
Narrowed the Policy Rate corridor to +/- 1 percentage point from +/- 2 percentage points	May 17, 2017	To improve clarity of the policy stance and enhance effectiveness of monetary policy.
Policy Rate reduced to 11.0 percent from 12.5 percent	August 10, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 9.5 percent from 12.5 percent	August 10, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 10.25 percent from 11.0 percent	November 22, 2017	Fall in inflation; support economic growth
Statutory reserve ratio reduced to 8.0 percent from 9.5 percent	November 22, 2017	Reduce the cost of funds and promote credit growth
Policy Rate reduced to 9.75 percent from 10.25 percent	February 20, 2018	Fall in inflation; support economic growth, financial system stability
Statutory reserve ratio reduced to 5.0 percent from 8.0 percent	February 20, 2018	Fall in inflation and to provide a firm basis for the Policy Rate as the key signal of monetary policy
Policy Rate raised to 10.25 percent from 9.75 percent	May 22, 2019	Rise in inflationary pressures and heightened upside risks
OLF rate adjusted to 775 basis points above the Policy Rate from 600 basis points	May 22, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
OLF rate set at 1,650 basis points above the Policy rate from 775 basis points	November 14, 2019	Reduce volatility in the foreign exchange market contributing to inflationary pressures
Policy Rate raised to 11.5 percent from 10.25 percent	November 20, 2019	Rise in inflationary pressures and heightened upside risks
Statutory reserve ratio raised to 9.0 percent from 5.0 percent	December 23, 2019	Reduce volatility in the foreign exchange market
Policy Rate cut to 9.25 percent from 11.5 percent	May 20, 2020	To mitigate the adverse effects of COVID-19 on economic activity.
Additional standards of professional and ethical conduct for market players to enhance market discipline introduced.	May 2020	To enhance market discipline
Mining companies required to pay non-mineral royalty obligations directly in US dollars.	May 2020	To shore up international reserves.
Policy Rate cut to 8.0 percent from 9.25 percent	August 19, 2020	To safeguard the stability of the financial sector and mitigate the adverse effects of COVID-19 on economic activity.
Pricing rules governing the IFEM amended requiring Authorised Dealers to transact at prevailing market rates.	November 6, 2020	To stabilise the foreign exchange market.
Policy Rate raised to 8.5 percent from 8.0 percent	February 17, 2021	To counter inflationary pressures and anchor inflation expectations.
Policy Rate raised to 9.0 percent from 8.5 percent	November 24, 2021	To steer inflation to single digits in 2022 and within the target range by mid-2023.

Measure	Date Implemented	Rationale
Statutory reserve ratio raised to 11.5 percent from 9.0 percent	February 8, 2023	To address volatility in the foreign exchange market and safeguard stability of the foreign exchange market
Policy Rate raised to 9.25 percent from 9.0 percent	February 15, 2023	To steer inflation to within the target range by end-2023.
Policy Rate raised to 9.50 percent from 9.25 percent	May 17, 2023	To steer inflation back into the target range of 6-8 percent
Policy Rate raised to 10.0 percent from 9.50 percent	August 23, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 14.5 percent from 11.5 percent	November 13, 2023	To relieve persistent foreign exchange market pressure with a view to rein in inflation.
Statutory reserve ratio raised to 17.0 percent from 14.5 percent	November 21, 2023	Necessitated by persistent exchange rate pressures which were contributing to higher inflation.
Policy Rate raised to 11.0 percent from 10.0 percent	November 22, 2023	To steer inflation back into the target range of 6-8 percent
Statutory reserve ratio raised to 26.0 percent from 17.0 percent	February 2, 2024	Necessitated by persistently high demand pressures in the foreign exchange market contributing to higher inflation.
Policy Rate raised to 12.5 percent from 11.0 percent	February 14, 2024	To steer inflation back into the target range of 6-8 percent and help anchor inflation expectations.
Policy Rate raised to 13.5 percent from 12.5 percent	May 15, 2024	To augment earlier actions aimed at containing persistent inflationary pressures, acting mostly through the exchange rate channel and addressing rising inflation expectations.
Bank of Zambia Foreign Exchange Market Guidelines	May 24, 2024	To enhance transparency, efficiency and effectiveness of domestic foreign exchange market in Zambia.
Government Securities as an Additional Asset Class for Minimum Reserve Requirements	June 5, 2024	To moderate the cost of intermediation and provide flexibility to reserve requirement compliance.
Amendment to the Interbank Foreign Exchange Market Rules	June 11, 2024	To improve transparency and strengthen the operations of the domestic foreign exchange market.
Policy Rate maintained at 13.5 percent	August 14, 2024	The Committee judged that the monetary policy stance was appropriate despite actual and projected inflation remaining above the 6-8 percent target.
Policy Rate raised to 14.0 percent from 13.5 percent	November 13, 2024	To steer inflation back towards the 6-8 percent target band and anchoring inflation expectations.
Policy Rate raised to 14.5 percent from 14.0 percent	February 12, 2025	To steer inflation back to the 6-8 percent target band and help anchor inflation expectations.
Policy Rate maintained at 14.5 percent	May 23, 2025	Maintaining the current stance of monetary policy was deemed appropriate considering the decline in inflation to 16.5 percent in April from 16.8 percent in February, the

Measure	Date Implemented	Rationale
		balance of risks that was still tilted to the downside, and the stability of the financial system.
Policy Rate maintained at 14.5 percent	August 13, 2025	The decision to maintaining the Policy Rate was judged appropriate as inflation remained well above the 6-8 percent target band despite projected declining and falling within the 6-8 percent target band in the first quarter of 2026; decision to also allow for the consolidation of the gains made on inflation.
Policy Rate reduced to 14.25 percent	November 12, 2025	Inflation continued to fall and projections indicated a faster deceleration towards the lower bound of the 6-8 percent target band over the forecast horizon, and the risks to the inflation outlook were judged to be supportive of lower inflation.
Policy Rate Reduced to 13.5 Percent	February 11, 2026	Faster fall in inflation and the need to need to maintain an appropriate monetary policy stance.
Policy Rate Reduced to 13.25 Percent	May 13, 2026	Inflation had sharply decline and was projected to remain within the 6-8 percent target band. In addition, it was judged that the upside risks and uncertainty associated with the Middle East conflict warranted a cautious adjustment to the Policy Rate that maintains an appropriate stance of monetary policy

