Monetary Policy Report

August 2026

Bank *of* Zambia

Bank *of* Zambia

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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 September 30, 2026 and contains information available as of September 24, 2026.

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

1. The Governor, who is also the Chairperson
2. Deputy Governor responsible for monetary policy, who also serves as Vice Chairperson
3. Deputy Governor responsible for administration
4. One person appointed by the Minister responsible for finance
5. Two persons appointed by the Board
6. Three members of staff of the Bank in senior management appointed by the Governor. The appointed staff members are those responsible for research or economic policy, monetary policy operations, and financial stability.

TABLE OF CONTENTS

Preface		vi
Executive Summary		vii
1.	Macroeconomic Outlook	1
1.1	External Sector Outlook	1
1.2	Prospects For Domestic Economic Growth	3
1.3	Fiscal Outlook	6
1.4	Inflation Outlook	6
1.5	Monetary Policy Decision	10
2.	Current Economic Developments	12
2.1	External Sector	12
2.2	Global Financial Conditions	15
2.3	Domestic Financial Conditions	18
2.4	Domestic Economic Activity	29
2.5	Budget Performance	32
2.6	Domestic Inflation	33
Appendix		38

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 in the second month of each quarter (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 policy interest rate (Policy Rate), which was introduced in April 2012. Changes in the Policy Rate are guided by inflation outcomes, forecasts, 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 14 calendar days after each MPC Meeting. This is intended to provide detailed information used by the MPC in arriving at the Policy Rate decision.

Executive Summary

Inflation has continued to decline, falling to 6.5 percent in June from 7.1 percent in March. It fell further to 6.1 percent in September, well within the 6-8 percent target band. On a quarterly basis, inflation averaged 6.6 percent and 6.3 percent in the second and third quarters, respectively, down from 8.0 percent in the first quarter. This was driven, mainly, by lower maize grain prices and the continued appreciation of the Kwacha against major currencies, supported by the sustained tight monetary policy stance and fiscal consolidation. Lower maize prices have benefitted from a record maize harvest of 4.9 million metric tonnes during the 2025/26 farming season. The appreciation of the Kwacha was, largely, driven by higher export earnings, mainly from the mining sector, reinforced by improved foreign exchange liquidity arising from the Currency Directives issued in December 2025.

The current projection indicates that inflation will remain close to the lower bound of the 6-8 percent target band over the forecast horizon[1]. In 2026, inflation is projected to average 6.7 percent, lower than the 6.8 percent projected in May. In 2027, inflation is forecast to moderate to 6.0 percent compared to 6.1 percent projected previously, before edging up to 6.3 percent in the first half of 2028. This favourable outlook largely reflects anticipated stable maize grain prices and the lagged impact of the exchange rate appreciation.

Preliminary estimates suggest that real GDP growth slowed slightly in the second quarter on account of contractions in financial and insurance activities; professional, scientific, and technical activities; as well as arts, entertainment, and recreation sector. Medium-term growth prospects remain positive amid confirmed El Niño conditions and protracted Middle East conflict.

Domestic financial conditions were less restrictive in the second quarter than in the previous period. This was attributed to a generally declining trend in interest rates as well as expansion in credit and money supply.

The current account surplus widened in the second quarter on account of strong growth in net exports, lower reinvested earnings by foreign-owned companies, and higher remittances. A positive outlook is projected over the 2026-28 period on the back of expected continued strong growth in net exports as major mining companies scale up production.

Preliminary data point to a lower fiscal deficit in the second quarter on account of expenditure management in view of relatively weak revenue collections. Despite a downward revision to revenue amid relatively stable expenditure, a declining trend in fiscal deficits is still projected over the medium-term on expected continuity of fiscal consolidation.

In view of the foregoing, the **Monetary Policy Committee decided to lower the Policy Rate by 250 basis points to 10.75 percent**. The decision also reflected the need to align the monetary policy stance with the improved inflation outlook and was supportive of the lower cost of finance for the broader economy, and ultimately economic growth.

[1] The forecast horizon covers the next eight quarters i.e. 2026Q3 to 2028Q2.


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1. Macroeconomic Outlook

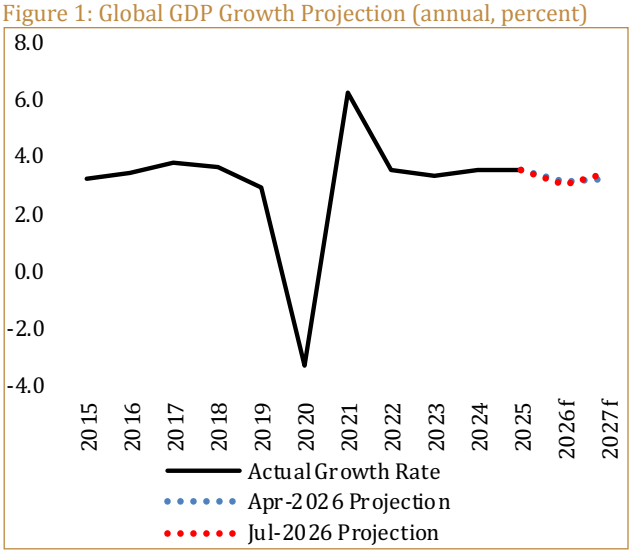
- *Middle East conflict to continue weighing on global growth prospects*
- *Current account outlook still positive on projected elevated copper prices and expanding production*
- *Inflation to remain within target band despite headwinds*

1.1 External Sector Outlook

... Middle East conflict still influencing global growth prospects

In July, the IMF downgraded the 2026 global real GDP growth projection for the second consecutive time, to 3.0 percent from 3.1 percent in April[2]. This modest revision reflects easing concerns about the effects of the Middle East conflict on economic activity through energy prices that have largely been contained, especially after the US and Iran signed a Memorandum of Understanding on June 17[3] (Figure 1). Growth is still expected to rebound in 2027, now to 3.4 percent, 0.2 percentage points above the April projection, supported by continued investment in artificial intelligence (AI).

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



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

The risks to global growth are still tilted to the downside. A collapse of the US–Iran MoU could again disrupt shipping through the Strait of Hormuz, strain supply chains, raise commodity prices, and intensify energy security concerns. The associated inflationary pressures could keep monetary policy restrictive for longer as some central banks have begun to raise policy interest rates. This will lead to tighter global financial conditions, increase debt servicing costs, dampen investment and consumption, and ultimately slow global growth. A potential correction in AI-related investment could further amplify these risks, particularly given the growing reliance on debt to finance data centres and related infrastructure.

... growth prospects for major trading partners to improve

Despite a weaker global growth outlook, growth prospects for Zambia's major trading partner countries have improved relative to the May forecast, mostly reflecting favourable country-specific developments, particularly in China, South Africa, and the UK (Table 1). Consequently, the Export-Weighted GDP (GDP-9) Index for the 2026–2027 forecast period has shifted upward slightly (Table 2 and Figure 2)[4].

Table 1: Trading Partner Countries' Growth (percent)

	Weight	2024	2025	2026	2027
China	0.39	5.0	5.0	4.6	4.1
DRC	0.19	6.1	5.7	5.9	5.4
South Africa	0.17	0.5	1.1	1.1	1.3
United Kingdom	0.02	1.0	1.4	1.0	1.3
Singapore	0.13	5.3	5.0	3.5	2.7
UAE	0.04	4.0	5.8	3.1	5.3
Tanzania	0.01	5.5	5.9	5.9	6.1
Malawi	0.04	1.7	2.1	2.2	2.4
Hong Kong	0.00	2.6	3.5	2.4	2.4

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

[2] https://www.imf.org/-/media/files/publications/weo/2026/update/july/english/text.pdf

[3] On June 17, the US and Iran signed a 14-point Memorandum of Understanding (MoU) intended to end hostilities and ease tensions. The MoU provided for the reopening of the Strait of Hormuz, a pathway to lifting US sanctions on Iran, and establishment of a USD300 billion reconstruction fund. It also reaffirmed Iran's commitment not to develop nuclear weapons and set a 60-day window for talks on its nuclear programme, including the handling of its enriched uranium stockpile. The agreement improved prospects for renewed oil flows, eased global energy supply concerns, and helped push crude oil prices back towards pre-conflict levels: https://edition.cnn.com/2026/06/17/politics/us-iran-memo-annotated-intl-vis

[4] In July, the IMF raised the 2026 growth forecasts for China, UK, and South Africa by 0.2 percentage points, 0.2 percentage points, and 0.1 percentage points to 4.6 percent, 1.0 percent, and 1.1 percent, respectively.

Table 2: GDP-9 Index and Country Contribution[5]

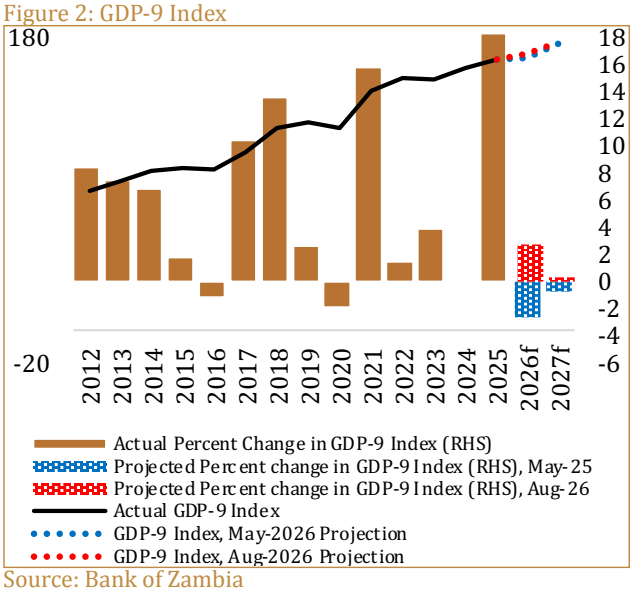
	Weight	2024	2025p	2026f	2027f
GDP-9 Index (percent change) – May 2026		-0.18	2.14	1.67	3.55
GDP-9 Index (percent change) – Aug 2026		4.07	0.18	4.46	3.89
Country Contribution to the Change in GDP-9 Index					
China	0.39	1.82	0.09	2.00	1.73
DRC	0.19	1.02	0.05	1.13	0.97
South Africa	0.17	0.58	0.02	0.63	0.56
Singapore	0.13	0.21	0.00	0.23	0.21
United Kingdom	0.02	0.19	0.01	0.21	0.18
UAE	0.04	0.07	0.00	0.08	0.07
Tanzania	0.01	0.07	0.00	0.07	0.06
Malawi	0.04	0.06	0.00	0.07	0.06
Hong Kong	0.00	0.04	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

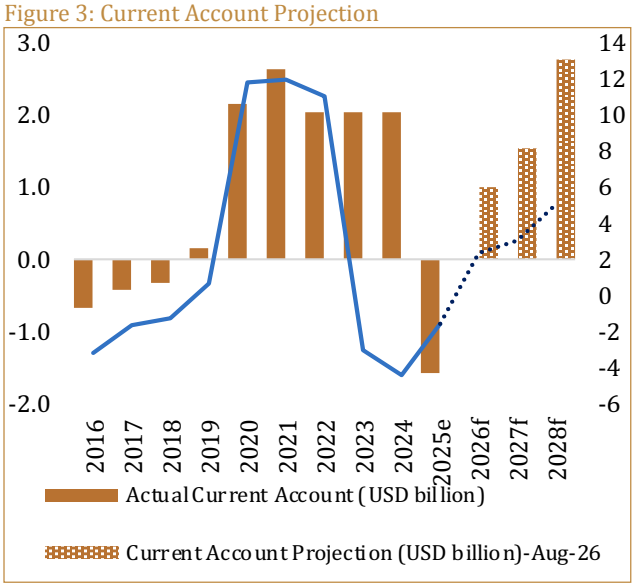
The higher growth prospects for China are largely influenced by the stronger-than-expected growth outturn of 5.0 percent in the first quarter[6]. For South Africa, improved electricity supply and the gradual improvement in the domestic operating environment in view of structural reforms aimed at easing constraints in electricity generation as well as transport and water infrastructure have been key considerations in the recent favourable growth projection. The removal of the country from the Financial Action Task Force grey list and sovereign credit rating upgrade by S&P Global Ratings have improved business confidence and provided further support to growth. In the case of the UK, the key drivers of the upward revision to the growth projection have been strong growth in the services sector, resilient domestic demand, government spending, and household consumption[7].

The risks to the growth outlook remain stacked to the downside mostly due to a possible renewed conflict in the Middle East and further escalation that could keep the Strait of Hormuz closed. In addition, the anticipated El Niño weather conditions could adversely affect agricultural production and electricity generation, potentially pushing up food inflation and reducing power output.

... current account balance to shift to a surplus

The *current account* balance is projected to shift to a surplus of USD1.0 billion (equivalent to 2.3 percent of GDP) in 2026 from a deficit of USD1.6 billion (equivalent to 5.4 percent of GDP). The surplus is expected to widen to USD1.5 billion in 2027 and further to USD2.8 billion in 2028 (Figure 3).

Figure 3: Current Account Projection



Source: Bank of Zambia

This positive outlook is underpinned by the expected strong growth in net exports based on projected higher export volumes as major copper mining companies scale up production, coinciding with elevated prices (see Sections 1.2 and 1.4 for further details).

[5] The GDP growth figures used in the May 2026 Monetary Policy Report have been revised using the July 2026 IMF WEO data and the revised weights for the GDP-9 Index.

[6] This was driven by the front-loading of public infrastructure investment as well as robust output in high-tech manufacturing and exports especially in green energy technologies and AI.

[7] Domestic demand and government spending in the UK has broadly remained resilient, supported by strong wage growth, elevated public sector pay, and social security spending: https://brusselsmorning.com/uk-consumer-spending/99572/

1.2 Prospects for Domestic Economic Growth

... shrouded by El Niño risks

The Bank is now optimistic about the growth projection for 2026 and 2027 relative to April following a stronger-than-anticipated real GDP growth outturn of 5.4 percent in 2025 (Table 3 and Figure 4).

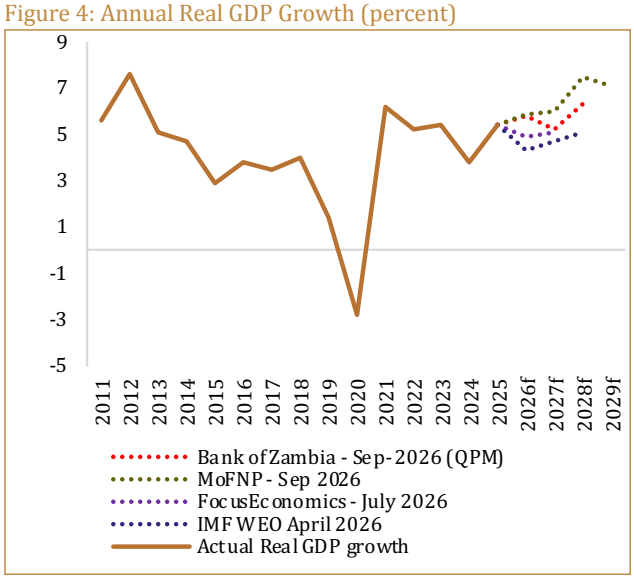
Table 3: Annual Real GDP Growth Projection (percent)

	2025	2026f	2027f	2028f
Bank of Zambia QPM				
BoZ September 2026	5.4	6.0	5.2	6.3
BoZ April 2026	5.4	4.8	4.8	n/a
Ministry of Finance and National Planning (MoFNP)				
MoFNP September 2026	5.4	5.9	6.0	7.5
MoFNP April 2026	5.4	4.5	4.9	5.3
International Monetary Fund (IMF)				
IMF WEO April 2026	5.4	4.3	4.7	5.1
IMF WEO October 2025	5.4	5.8	6.4	n/a
FocusEconomics				
FocusEconomics July 2026	5.4	4.9	5.1	n/a
FocusEconomics April 2026	5.4	5.1	5.1	5.2

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

Note: p=preliminary estimate, f=forecast, n/a=not available or not reported, WEO=World Economic Outlook

Figure 4: Annual Real GDP Growth (percent)



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

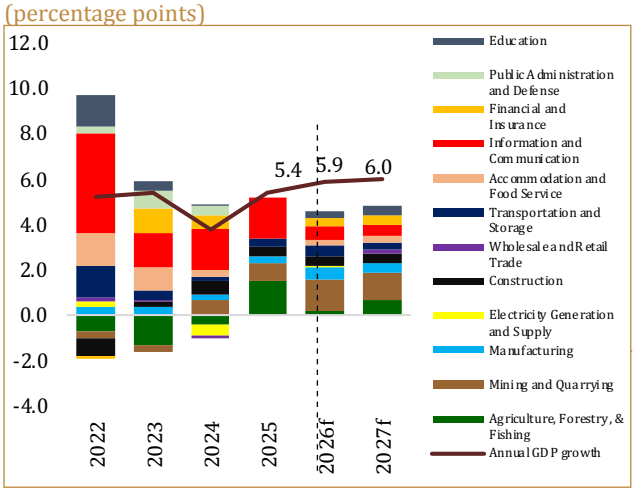
Note: p=preliminary, f=forecast

Real GDP growth for 2026 is now projected at 6.0 percent compared to 4.8 percent reported in April. The key drivers are agriculture, electricity, and mining. The recent maize bumper harvest[8] is expected to bolster agricultural output while electricity generation is improving due to higher usable water levels at major reservoirs than in 2025[9]. Mining sector performance is also expected to support growth through higher copper production and elevated prices.

For 2027, real GDP growth is projected at 5.2 percent, up from 4.8 percent in April. The upward revision is based on expected sustained growth in the mining sector as well as stronger growth in the financial and insurance services sector.

The Ministry of Finance and National Planning (MoFNP) has also upgraded real GDP growth forecasts for 2026 and 2027 to 5.9 percent and 6.0 percent from 4.5 percent and 4.9 percent projected in April, respectively (Table 3 and Figure 4). This largely reflects expectations of stronger performance of the information and communication (ICT), wholesale and retail trade, as well as mining sectors (Figure 5, Figure 6 and Figure 7).

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

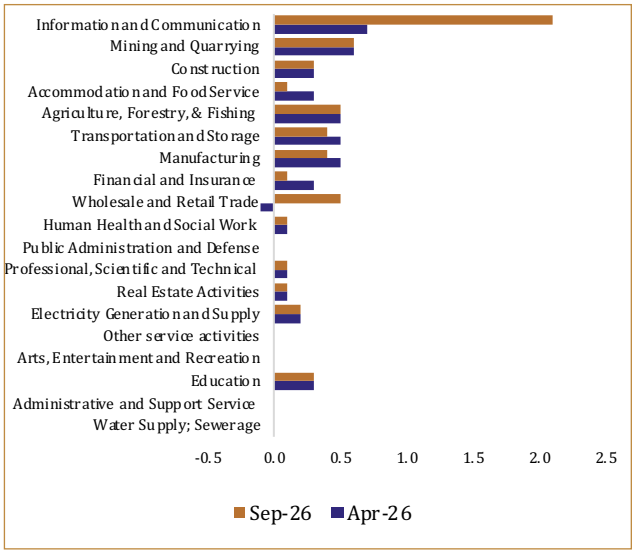


Source: Ministry of Finance and National Planning, Bank of Zambia Computations

[8] The 2025/26 Crop Forecasting Survey (CFS) indicates a maize harvest of 4.9 million metric tonnes.

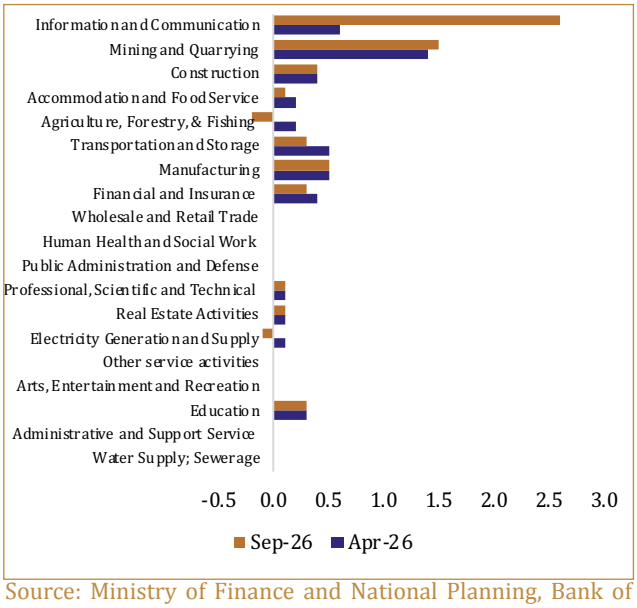
[9] Refer to section 2.4 for more details.

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

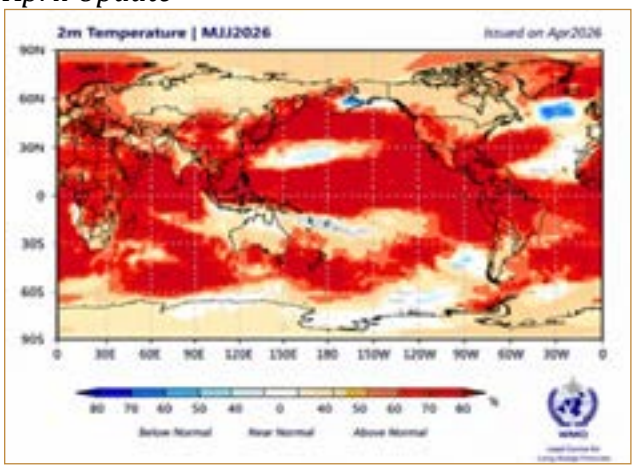
FocusEconomics is still pessimistic about the 2026 growth prospects, with the recent projection downgraded further to 4.9 percent from 5.1 percent in July (5.5 percent in February) as shown in Table 3 and Figure 4. The projection is mainly influenced by longer-than-usual maintenance shutdowns at some copper mines and smelters, which is expected to weigh on mining sector activity. The expiry of fuel tax relief in September and the renewed risk of the Middle East conflict are cited as additional factors for the lower growth projection. However, the 2027 growth projection has been maintained at 5.1 percent.

The downside risks to the growth outlook remain elevated and include:

Re-emergence of drought conditions: The risk of El Niño conditions has evolved from an emerging possibility reported in April to an unfolding reality. In the July Report [10], the World Meteorological Organisation indicated that El Niño conditions had progressed (darker shade) with a 90 percent probability of above-normal temperatures globally, including in Zambia (Figure 8).

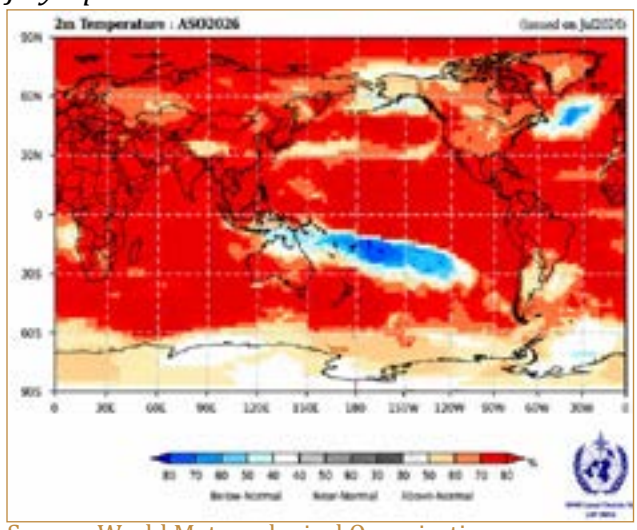
Figure 8: Probabilistic Forecasts of Surface Air Temperature: July and April

April Update



Source: World Meteorological Organisation

July Update



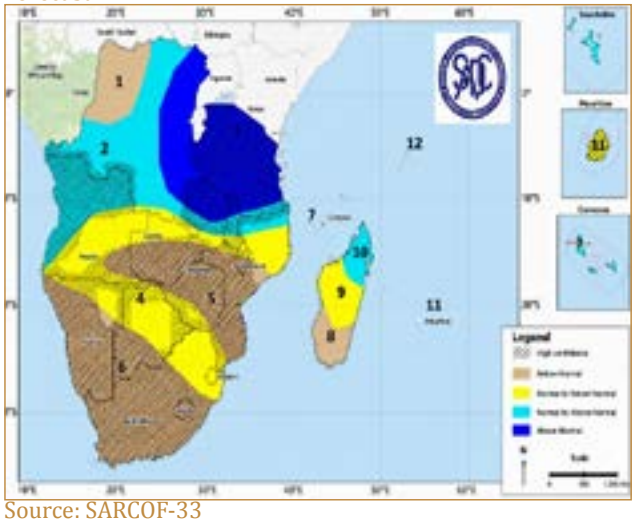
Source: World Meteorological Organisation

The Thirty-Third Southern African Regional Climate Outlook Forum (SARCOF-33)[11] consensus forecast has projected below-normal rainfall across most of the SADC region during the November 2026–March 2027 period (Figure 9 and Figure 10). For Zambia, SARCOF-33 expects below-normal rainfall for nearly the entire country.

[10] https://wmo.int/resources/publication-series/global-seasonal-climate-update/gscu-aso2026

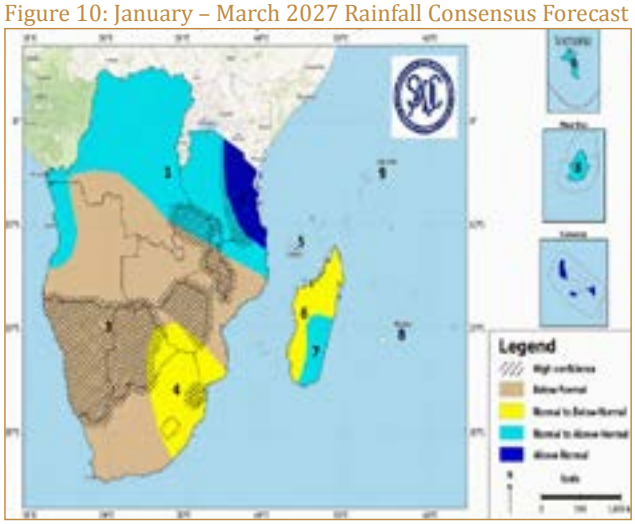
[11] https://www.sadc.int/sites/default/files/2026-08/EN_FINAL%20SARCOF-33%20STATEMENT-final-28Aug1600hrs.pdf

Figure 9: November 2026 – January 2027 Rainfall Consensus Forecast



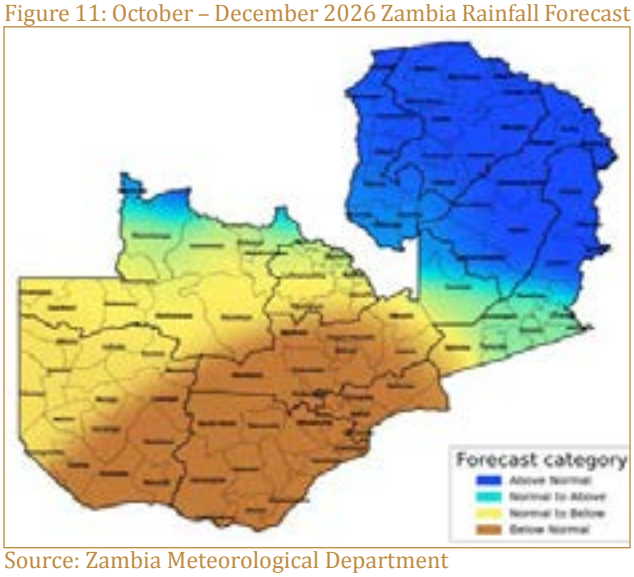
Source: SARCOF-33

Figure 10: January – March 2027 Rainfall Consensus Forecast



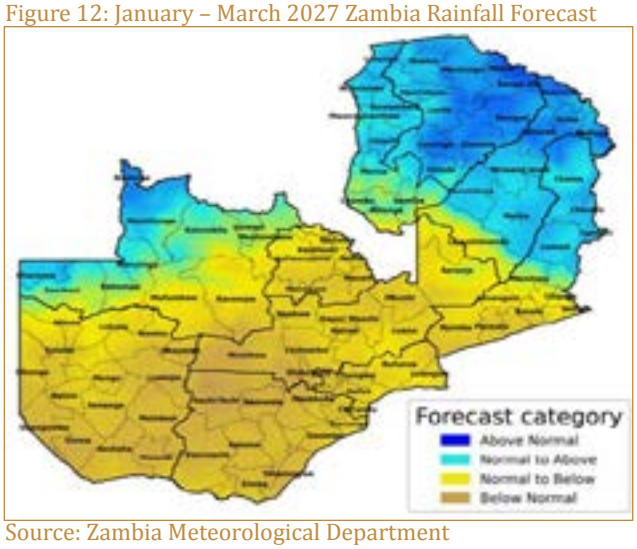
Source: SARCOF-33

Figure 11: October – December 2026 Zambia Rainfall Forecast



Source: Zambia Meteorological Department

Figure 12: January – March 2027 Zambia Rainfall Forecast



Source: Zambia Meteorological Department

On September 11, the Zambia Meteorological Department released the **2026/27 Season Rainfall Forecast** that reinforced earlier detection of El Niño conditions for Zambia by SARCOF-33 (Figure 11 and Figure 12). Much of the country is expected to receive below normal rainfall at the onset of the season, with conditions expected to remain below normal to normal thereafter, particularly in the Southern, Central, and Western provinces, including parts of the Eastern region.

El Niño conditions threaten agricultural production and hydropower generation with the latter having wider implications on overall economic activity.

Re-escalation of the Middle East conflict: The mid-June 2026 US-Iran Memorandum of Understanding has not fully held, triggering renewed hostilities and attacks on oil infrastructure and strategic shipping routes in July. A prolonged conflict and geopolitical tensions generally could keep global oil prices elevated leading to higher-than-assumed domestic fuel pump prices[12]. This could weaken domestic growth through higher operating costs across sectors.

Weaker-than-expected global growth: In July, the IMF further downgraded the 2026 global growth forecast by 0.1 percentage points to 3.0 percent following a 0.2 percentage point initial cut in April. Renewed conflict leading to persistently high energy prices could place additional pressure on global economic activity, weakening demand for key commodities, including for copper. The resulting decline in copper exports would weigh on mining sector growth and ultimately overall domestic economic activity.

[12] https://www.reuters.com/world/middle-east/saudi-strikes-target-yemens-hodeidah-says-houthi-run-al-masirah-tv-2026-07-24/

1.3 Fiscal Outlook

... deficit wider than previously reported

The fiscal deficit is projected to remain at 3.5 percent of GDP in 2026. However, the projections for 2027 and 2028 have been revised upward to 2.9 percent and 2.0 percent, respectively, before narrowing to 1.4 percent in 2029. The higher deficits reflect lower anticipated revenue while expenditure remains broadly unchanged. Nevertheless, the fiscal deficit is expected to maintain a declining trend over the medium term.

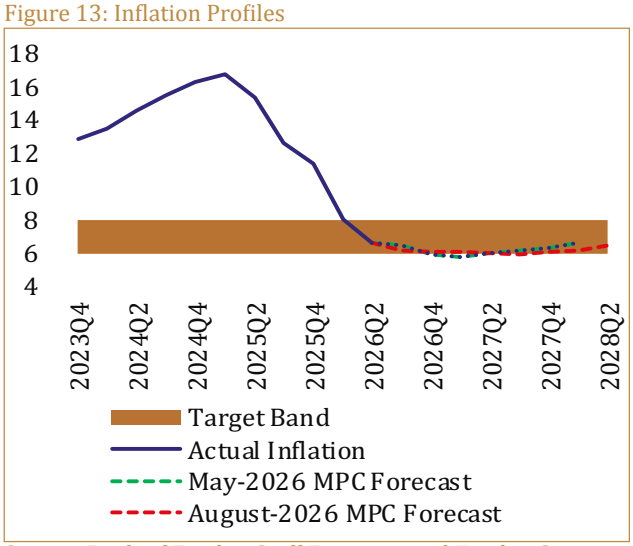
A comprehensive assessment of fiscal risks is provided in the **2026 Fiscal Risk Statement**. The key risks pertain to climate change, commodity price shocks, debt and guarantees of state-owned enterprises, and contingent liabilities associated with Public-Private Partnerships. The fiscal deficit for 2026 may exceed the projection given the need for Government to frontload maize purchases to bolster strategic reserves amid a looming El Niño threat to food security.

1.4 Inflation Outlook

... broadly stable amid headwinds

Inflation is projected to decline further and remain close to the lower bound of the target band over the forecast horizon spanning 2026Q3 to 2028Q2 (Figure 12). The inflation forecast for 2026 has marginally reduced by 0.1 percentage points to 6.7 percent (Table 4). Similarly, the projection for 2027 is 6.0 percent, down from 6.1 percent. In the first half of 2028, inflation is projected to rise gradually and average 6.3 percent.

Figure 13: Inflation Profiles



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

Table 4: Inflation Projection, Annual Average

	2026	2027	2028
August-2026	6.7	6.0	6.3*
May-2026	6.8	6.1	n/a

Source: Bank of Zambia Staff Forecasts

**Projection for first half of 2028; n/a = not applicable*

The expected persistent disinflation is influenced by a number of factors. Firstly, since the May MPC Meeting, inflation developments have been favourable. More specifically, inflation averaged 6.6 percent in the second quarter, 0.2 percentage points below the May projection. It closed the quarter at 6.5 percent and declined further to 6.1 percent in September. This provides a lower starting third quarter average outturn of 6.3 percent in the current inflation forecast and contributes to the more favourable outlook.

Secondly, a lower maize grain price is assumed in line with prevailing excess supply market conditions (Table 5). The impact of excess supply is already reflected in easing food inflation and expected to persist over the forecast horizon.

Table 5: Key Assumptions Underlying Baseline Inflation Projection

External Sector Assumptions			
Variable	2026f	2027f	2028h1
Average inflation -US	3.7 (2.7)	2.3 (2.4)	2.1
Federal funds rate	3.9 (3.4)	4.1 (3.1)	3.4
Average inflation - South Africa	4.4 (3.7)	3.7 (3.3)	3.0
Producer price index - South Africa	181.44 (181.13)	188.13 (185.38)	192.99
Average copper price/ tonne (USD)	13,697.54 (13,069.32)	14,375.00 (13,262.47)	14,500.00
Average crude oil price/ barrel (USD)	86.53 (84.75)	83.14 (75.73)	72.10
World food price index	117.0 (108.5)	117.6 (109.3)	117.6
Domestic Sector Assumptions			
Variable	2026f	2027f	2028h1
Monetary Policy Rate	13.25 (13.50)	13.25 (13.50)	13.25
Treasury bill rate - Zambia	10.50 (10.85)	10.50 (10.85)	10.50
Reserve money growth*	14.70 (14.00)	0.96 (0.64)	0.95
Fiscal deficit**	1.16 (1.09)	1.13 (1.07)	1.09
Maize grain price (K/50Kg)	240.00 (340.00)	240.00 (340.00)	240.00
Diesel price (K/litre)	26.86	26.86	26.86

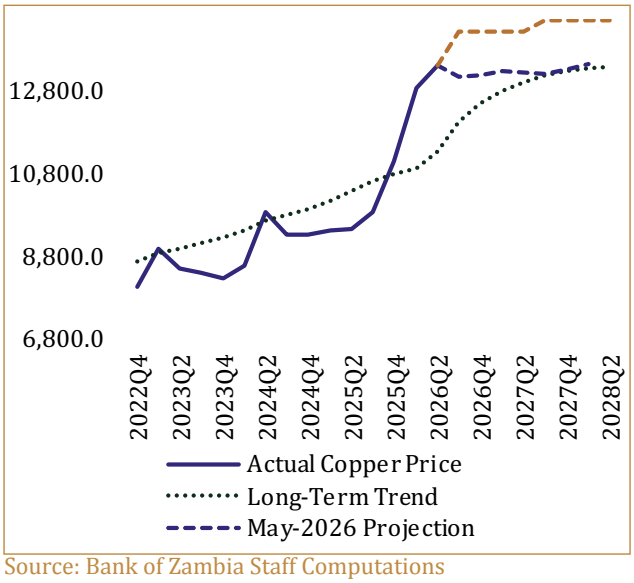
Source: IMF, World Bank, Bloomberg, FocusEconomics Consensus, London Stock Exchange Group (LSEG), Congressional Budget Office, US Federal Reserve, South African Reserve Bank, Bank of Zambia

Note: Numbers in parenthesis ( ) represent projections in the previous forecasting period.
*Refer to reserve money computation in Table 12.
**Computed as a ratio of expenditure (excluding amortisation) over revenue. A value in excess of 1 implies a deficit.
f = forecast
h1 = first half of the year

Thirdly, inflation is expected to benefit from the impact of the lagged appreciation of the exchange rate, driven by favourable terms of trade on account of sustained relatively higher copper prices.

Copper prices are expected to remain elevated and above their long-term trend over the forecast horizon compared to the May Report (Table 5 and Figure 14). The positive outlook reflects the continued imbalance between constrained global supply and resilient demand.

Figure 14: Copper Prices (USD/metric tonne)



Source: Bank of Zambia Staff Computations

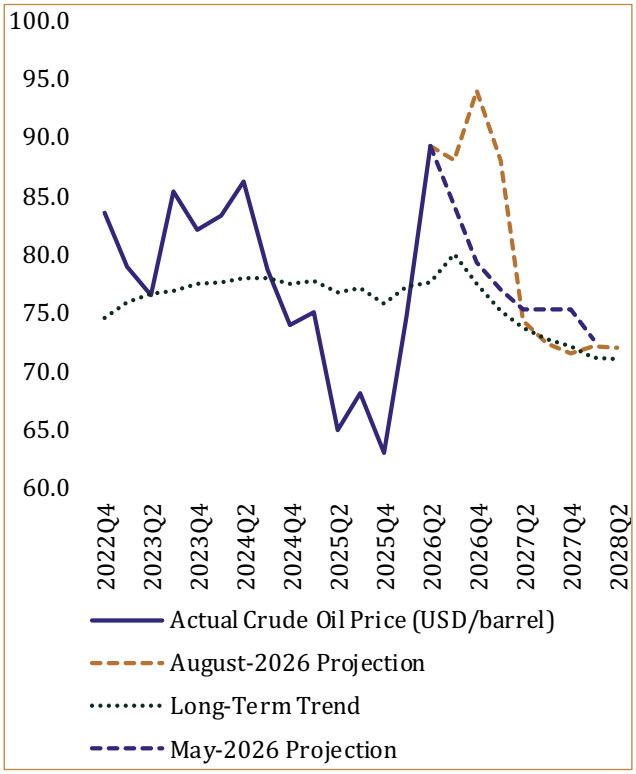
In addition, the conflict in the Middle East has tightened global sulphur supplies, prompting China to restrict sulphuric acid exports to safeguard its domestic market. This is expected to constrain copper production in Chile, which relies heavily on imported sulphuric acid for leaching operations. These constraints are expected to keep global copper supply tight over the forecast horizon[13].

On the other hand, global demand is expected to remain robust. Continued investment in electricity grids, renewable energy, electric vehicles, AI infrastructure, and data centres are expected to sustain demand for copper. Copper continues to play a critical role in electrification and digital technologies. Further, rising defence spending in advanced economies amid heightened geopolitical tensions is expected to provide additional support for copper demand through increased production of military equipment and associated infrastructure.

Inflation is also expected to benefit from the anticipated moderation in crude oil prices. While crude oil prices have remained elevated, reaching USD101.23 per barrel on September 21, market expectations point to a downward trend over the forecast horizon, with the decline becoming more pronounced towards the tail end of the forecast period as prices move closer to their long-term trend (Table 5 and Figure 15). This should help ease imported cost pressures and support the positive inflation outlook

[13] https://www.mining.com/web/copper-king-chile-faces-acid-supply-crunch-as-china-exports-dry-up/

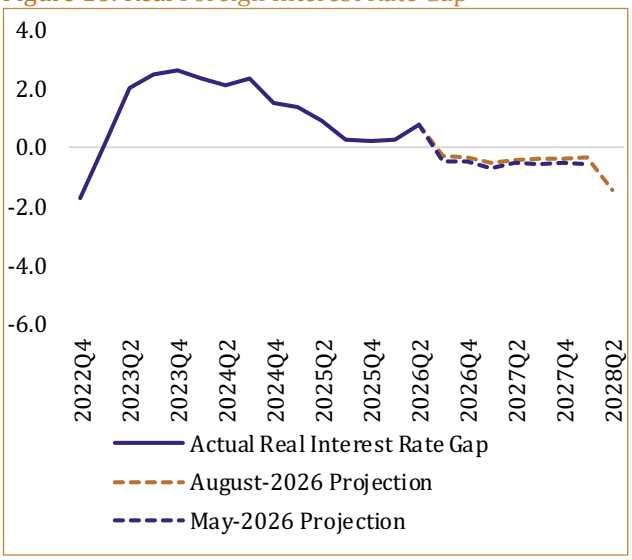
Figure 15: Crude Oil Prices (USD/barrel)



Source: Bank of Zambia Staff Computations

Fourthly, external monetary conditions are projected to be less restrictive towards the end of the forecast horizon. This is based on expectations that the Federal Reserve will gradually ease the policy stance as inflationary pressures in the US moderate (Table 5 and Figure 16). This is expected to help contain inflation through the exchange rate and expectations channels.

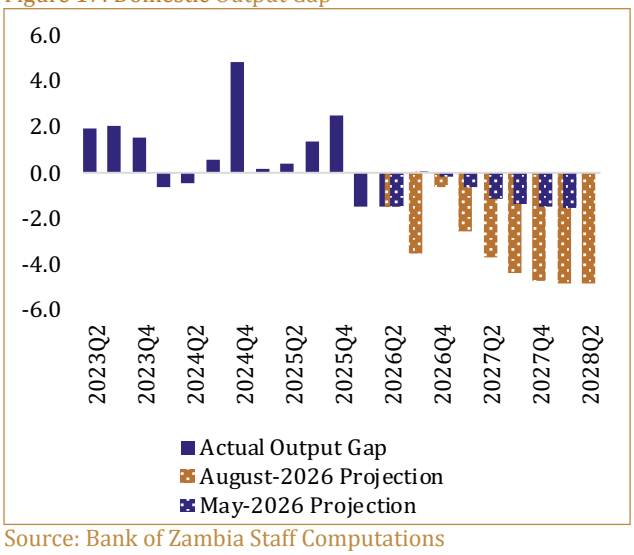
Figure 16: Real Foreign Interest Rate Gap[14]



Source: Bank of Zambia Staff Computations

Finally, domestic aggregate demand is expected to remain subdued and in turn constrain the rise in consumer prices (Figure 17). The tighter monetary conditions are attributed to an appreciated real exchange rate and positive real interest rate gap .

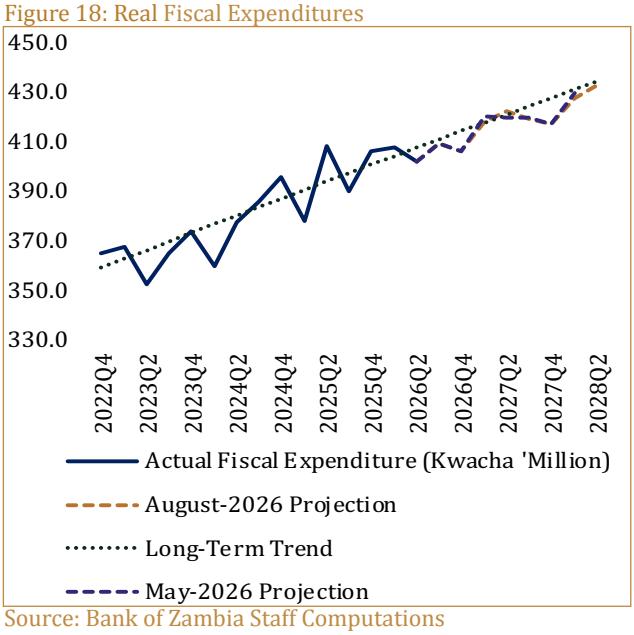
Figure 17: Domestic Output Gap[15]



Source: Bank of Zambia Staff Computations

The medium-term fiscal stance is expected to remain relatively restrained, moderating aggregate demand and contributing to lower underlying inflationary pressures (Figure 18). Consistent with the 2026 National Budget and the 2026–2028 Medium-Term Budget Plan, real Government expenditure is projected to remain broadly below its historical trend throughout the forecast horizon.

Figure 18: Real Fiscal Expenditures



Source: Bank of Zambia Staff Computations

[14] This 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.

[15] The 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.

Assessment of Key Risks

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

Upside Risks

Higher food inflation and supply-side cost pressures relating to anticipated adverse weather conditions associated with the anticipated El Niño conditions. The baseline assumes a relatively lower maize grain price path over the forecast horizon. This is based on improved domestic maize supply following a bumper maize harvest recorded during the 2025/26 agricultural season and adequate carryover stocks from the previous season. However, as noted in the **May 2026 Monetary Policy Report**, maize prices could turn out higher than assumed if the anticipated El Niño conditions result in below-normal rainfall during the 2026/27 agricultural season. The latest **Southern Africa Regional Climate Outlook Forum (SARCOF-33)** indicates that El Niño conditions are already established in the tropical Pacific and are expected to strengthen further, with most models pointing to a strong to very strong event and peak intensity around October–December 2026. The outlook suggests increased chances of below-normal rainfall over southern Zambia during October–December 2026 and over the bulk of Zambia during January–March 2027 (refer to section 1.2 for more details). El Niño events typically last between 9 and 12 months. These conditions are associated with disruptions to rainfall patterns, including a higher likelihood of below-normal rainfall[16,17,18]. This is reinforced by the **2026/27 Season Rainfall Forecast** released by the Zambia Meteorological Department on September 11.

Lower rainfall during the 2026/27 agricultural season could reduce maize production and weaken domestic supply conditions notwithstanding the current excess supply. This would place upward pressure on maize prices, particularly during the lean period. Adverse weather conditions across neighbouring countries could also reduce regional maize production. This would lower maize availability within the region and increase competition for available supplies, thus reigniting inflationary pressures. Given the relatively high weight of maize grain and maize products in the consumer price index (CPI), higher maize prices would transmit directly into food inflation and in turn raise headline inflation.

In addition, below-normal rainfall could reduce hydroelectric power generation and increase reliance on more expensive alternative energy sources. Higher energy costs could increase production costs across the economy, with firms passing these costs onto consumers. If sustained, these pressures could generate second-round effects and push inflation above the baseline path.

Higher inflation due to elevated global crude oil prices stemming from the protracted conflict in the Middle East. The projection incorporates a gradual moderation in global crude oil prices over the forecast horizon. However, there is a high probability that the conflict between the United States and Iran could persist longer than previously anticipated. Recent efforts to de-escalate the conflict have failed to produce a lasting 'ceasefire agreement'. Moreover, uncertainty surrounding the future operation of the Strait of Hormuz, including proposals to impose transit tolls on commercial vessels, could prolong disruptions to global oil supply and maritime trade.

According to the World Trade Organisation (WTO), commercial vessel traffic and cargo through the Strait of Hormuz remain well below normal while outbound crude oil shipments continue to track below historical averages. War-risk insurance premiums and tanker freight rates also remain significantly above pre-conflict levels[19]. These disruptions have been absorbed by lower global oil demand, increased production outside the Gulf region, and drawdowns in commercial and strategic oil inventories[20]. However, the buffers are unlikely to provide the same level of support if disruptions persist. Crude oil prices could, therefore, exceed the level assumed in the baseline, particularly in the short-term—third and fourth quarters of 2026 and the first quarter of 2027.

Higher food inflation due to elevated global fertiliser prices on possible prolonged conflict in the Middle East. While global fertiliser prices had begun to moderate before the most recent escalation in tensions in the Middle East, renewed military strikes have increased upside risks to the fertiliser price outlook. As discussed earlier, considerable uncertainty surrounds the timing of the full resumption of normal navigation through the Strait of Hormuz as well as the extent and pace of recovery in shipping activity, insurance arrangements, and operator confidence.
According to the WTO, outbound fertiliser shipments through the Strait remain well below historical levels, with the 7-day moving average continuing to track below the corresponding period in the previous year. If disruptions persist, global fertiliser supply could tighten further and reverse the recent decline in urea prices, particularly during the second half of 2026.

[16] https://www.sadc.int/latest-news/sadc-outlook-favours-drier-conditions-across-much-southern-africa-during-202627-rainy
[17] https://wmo.int/media/news/wmo-likelihood-increases-of-el-nino and https://www.reuters.com/sustainability/climate-energy/el-nino-set-return-early-may-impacting-global-weather-patterns-un-weather-agency-2026-04-24/
[18] https://agricultureinzambia.com/high-drought-risk-forecasted-in-the-2026-2027-farming-season/
[19] https://datalab.wto.org/Strait-of-Hormuz-Trade-Tracker
[20] https://www.iea.org/reports/global-critical-minerals-outlook-2026/executive-summary

Higher fertiliser prices on the international market may increase agricultural production costs and ultimately 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. Notwithstanding this, continued reliance on imported urea fertiliser implies that some pass-through from elevated global prices could still occur domestically. This could increase imported food inflation and result in inflation evolving above the baseline path over the forecast horizon.

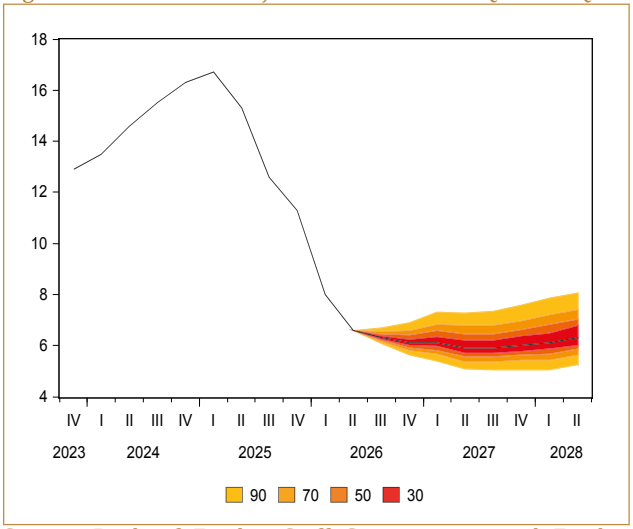
Tighter global financial conditions. The baseline assumes a gradual improvement in global financial conditions proxied by the decline in the US federal funds rate in the first half of 2028 (Table 4). However, there is a moderate likelihood that the pace of monetary policy easing could be slower than assumed if US inflation remains persistent or geopolitical tensions keep global energy prices elevated. Central banks in advanced economies could consequently maintain restrictive policy rates for longer. Higher global interest rates would increase the attractiveness of US dollar denominated assets and support a stronger US dollar.

Lower inflation supported by relatively higher copper prices. There is a high possibility that copper prices could turn out significantly higher than assumed in the baseline. Market expectations point to continued support from tightening global supply conditions and strong demand for copper in electricity grids, renewable energy, electric vehicles, AI infrastructure, and data centres.

On the supply side, production growth could remain constrained by operational disruptions at major mines, declining ore grades, and limited investment in new capacity. The global copper market is also expected to move into deficit from 2027, with the shortfall widening thereafter as demand continues to outpace supply. Should these conditions materialise, copper prices could remain above the levels incorporated in the baseline forecast.

Overall, the balance of risks to the inflation outlook remains tilted to the upside. This reflects the uncertainty-weighting factor that assigns a higher probability to upside outcomes (Figure 19 and Table 12).

Figure 19: Actual and Projected Inflation: 2023Q4–2028Q2



Source: Bank of Zambia Staff Computations and Zambia Statistics Agency

Table 6: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
5.42 – 6.85	30
5.12 – 7.21	50
4.70 – 7.70	70
3.92 – 8.49	90

Source: Bank of Zambia Staff Computations

1.5 Monetary Policy Decision

At its Meeting held on September 28-29, 2026, the Monetary Policy Committee (MPC) **decided to reduce the Monetary Policy Rate by 250 basis points to 10.75 percent**. In arriving at this decision, the Committee took into account the inflation outcome and inflation projection that was lower than previously indicated, as well as the identified upside risks to the latter. The decision also reflected the need to align the monetary policy stance with the improved inflation outlook and was supportive of the national growth agenda.

Inflation continued to decline, falling to 6.5 percent in June from 7.1 percent in March. It fell further to 6.1 percent in September, well within the 6-8 percent target band. On a quarterly basis, inflation averaged 6.6 percent and 6.3 percent in the second and third quarters, respectively, down from 8.0 percent in the first quarter. This was driven, mainly, by lower maize grain prices and the continued appreciation of the Kwacha against major currencies, supported by the sustained tight monetary policy stance and fiscal consolidation. Lower maize prices benefitted from a record maize harvest of 4.9 million metric tonnes during the 2025/26 farming season. The appreciation of the Kwacha was, largely, driven by higher export earnings, mainly from the mining sector, reinforced by improved foreign exchange

liquidity arising from the Currency Directives issued in December 2025.

The projection indicated that inflation would remain close to the lower bound of the 6-8 percent target band over the forecast horizon[21]. In 2026, inflation was projected to average 6.7 percent, lower than the 6.8 percent projected in May. In 2027, inflation was forecast to moderate to 6.0 percent compared to 6.1 percent projected previously, before edging up to 6.3 percent in the first half of 2028. This favourable outlook largely reflected anticipated stable maize grain prices and the lagged impact of the exchange rate appreciation.

While the inflation outlook was favourable, upside risks remained. The expected super El Niño conditions going forward threatened agricultural production and electricity generation and could push both food and energy prices up. In addition, the protracted conflict in the Middle East and geopolitical tensions generally could drive global crude oil prices higher, potentially increasing domestic petroleum pump prices. Further, the tightening of global financial conditions, on account of rising inflation, could reduce capital flows and exert pressure on the exchange rate in emerging and developing economies.

[21] The forecast horizon covers the next eight quarters i.e. 2026Q3 to 2028Q2

2. Current Economic Developments

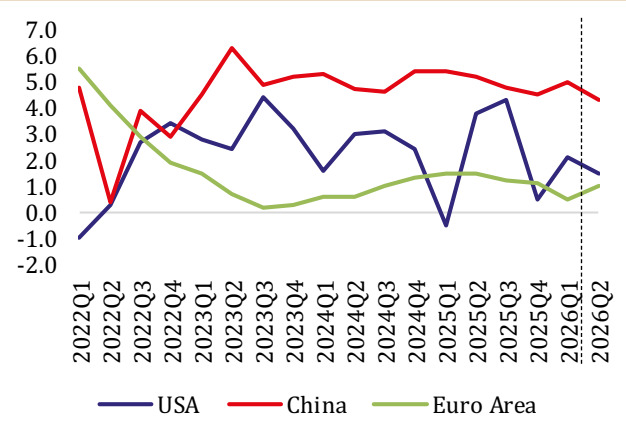
- *Growth picks up in the euro area but moderates in the US and China*
- *Global financial conditions less volatile as tension in the Middle East eases somewhat*
- *Domestic financial conditions less restrictive as interest rates decline and credit and money supply expand*
- *Real GDP growth moderates on contractions in financial and insurance activities; professional, scientific, and technical activities; as well as well arts, entertainment, and recreation sector*
- *Fiscal deficit lower than planned on account of expenditure management in view of relatively weak revenue collections*
- *Inflation stays in the 6-8 percent target band*

2.1 External Sector

... growth performance in major economies still mixed

In the second quarter, real GDP growth strengthened in the euro area but moderated in the US and China (Figure 20).

Figure 20: Real GDP Growth (y/y, 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

The rebound in real GDP growth in the euro area to 1.0 percent from 0.5 percent in the first quarter was attributed to sustained supportive business investment, particularly in AI, rollout of fiscal stimulus in Germany[22], and resilient consumer spending despite persistent energy cost pressures associated with the conflict in the Middle East[23]. A surge in imports to support investment in AI infrastructure, reduced federal government spending, and the decline in inventories largely accounted for the slowdown in economic growth in the US to 1.5 percent from 2.1 percent in the first quarter. In China, the moderation in real GDP growth to 4.3 percent from 5.0 percent in the first quarter was largely driven by weak domestic demand, persistent crisis in the property market[24], and the decline in fixed asset investment[25], which partially offset support from strong industrial production and exports.

... economic activity in key trading partner countries moderates

The GDP-9 Index declined to 3.58 percent in the second quarter from 4.60 percent in the preceding quarter (Table 7 and Figure 21). Country-specific factors, particularly in China, Democratic Republic of the Congo (DRC), Singapore, and South Africa, had a profound influence on the movement in the index (Table 7).

Table 7: Preliminary y/y Change in GDP-9 Index and Country Contribution[26]

	Weight	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
GDP-9 Index (percent Change)		2.47	2.43	3.31	4.60	3.58
Contribution to GDP-9 Index Change						
China	0.39	0.87	0.86	1.17	1.63	1.27
DRC	0.19	0.figure	0.52	0.71	0.98	0.77
South Africa	0.17	0.32	0.31	0.43	0.60	0.46
UK	0.02	0.03	0.03	0.05	0.07	0.05
Singapore	0.13	0.37	0.36	0.49	0.67	0.53
UAE	0.04	0.17	0.16	0.22	0.30	0.24
Tanzania	0.01	0.07	0.06	0.09	0.12	0.09
Malawi	0.04	0.08	0.08	0.10	0.15	0.11
Hong Kong	0.00	0.04	0.04	0.05	0.07	0.05

Source: Bank of Zambia Staff Calculations

UK=United Kingdom, UAE= United Arab Emirates

[22] Germany introduced fiscal stimulus measures focusing mainly on infrastructure and defence to support growth and cushion the impact of higher energy prices due to the conflict in the Middle East:https://money.usnews.com/investing/news/articles/2026-06-12/german-government-spending-only-thing-preventing-gdp-fall-bundesbank-says

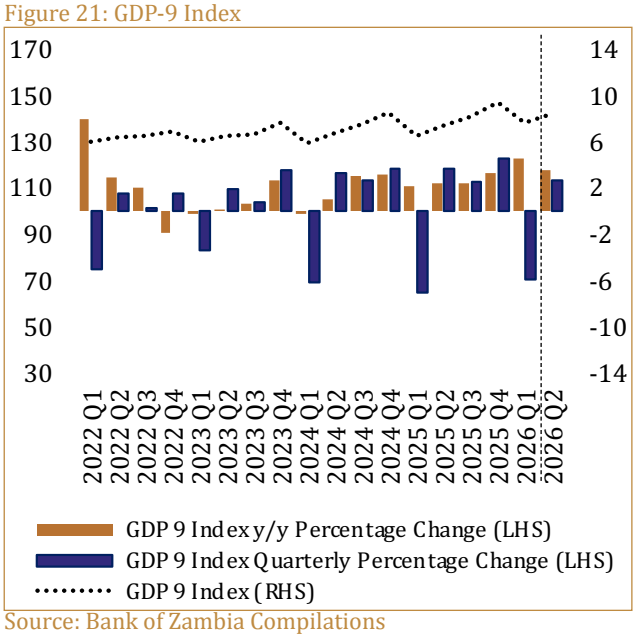
[23] Growth was broad-based, with Germany, France, and Italy each growing by 0.2 percent during the quarter. Spain outperformed the bloc at 0.7 percent while the Netherlands grew by 0.4 percent:https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-30072026-ap

[24] The prolonged property market crisis has significantly reduced household wealth, weakened consumer confidence, and constrained job creation tied to construction and the property sector.

[25] Fixed asset investment, mainly in infrastructure development projects, declined by 5.7 percent in the first half of 2026:https://english.www.gov.cn/archive/statistics/202605/18/content_WS6a0ab343c6d00ca5f9a0b08b.html

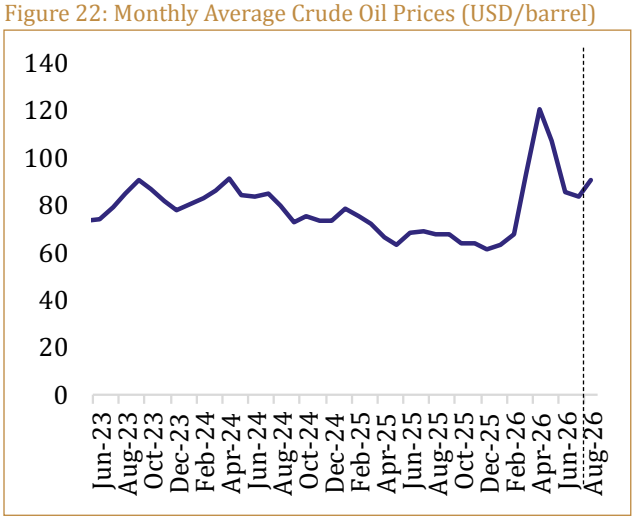
[26] Real GDP data and growth rates were revised in the July IMF WEO.

Figure 21: GDP-9 Index



Source: Bank of Zambia Compilations

Figure 22: Monthly Average Crude Oil Prices (USD/barrel)



Source: LSEG, World Bank Pink Sheet and Bank of Zambia staff compilations

In China, the factors discussed earlier continued to weigh on growth momentum in the second quarter. For the DRC, growth was adversely impacted by US aid cut, protracted conflict in the mineral-rich eastern region, and the Ebola outbreak that led to the closure of some borders. In Singapore, slower expansion in services and construction, together with weaker wholesale and retail trade, constrained economic activity. For South Africa, economic activity remained constrained by sluggish manufacturing growth and municipal dysfunction, which continued to disrupt essential services, such as, electricity, water, and infrastructure[27].

... surge in crude oil prices reverses

The sharp increase in crude oil prices observed in the first quarter following the onset of the conflict in the Middle East has partially reversed. By end-June, prices had declined to USD85.40 per barrel from a peak of USD120.40 per barrel in April (Figure 22). However, crude oil prices have recently rebounded, rising to USD95.24 per barrel by September 21, triggered by renewed tensions between the US and Iran. These developments have raised concerns about prolonged disruptions to global oil supplies from the Middle Eastern.

The fall in prices in the second quarter was mainly driven by a temporary US-Iran ceasefire that eased geopolitical tensions in the Middle East and allowed shipping through the Strait of Hormuz to resume. Daily vessel traffic rose from about 35 in late May to around 105 in June, easing supply concerns. In addition, the release of strategic petroleum reserves by major economies, weaker crude oil demand by China[28], and record high production levels by non-OPEC producers, particularly the US, exerted further downward pressure on oil prices.

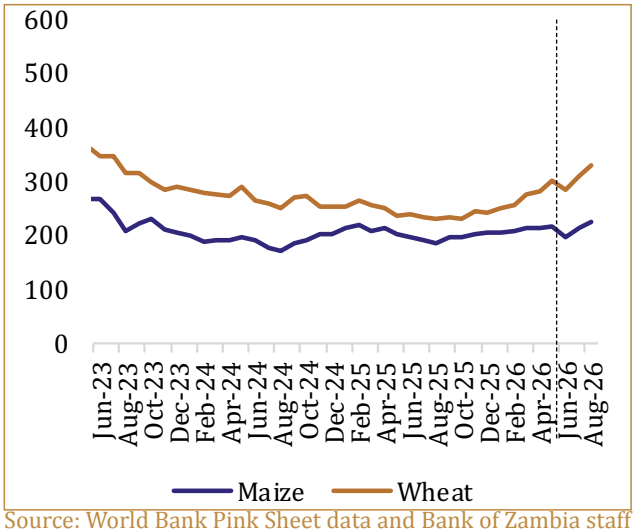
... maize and wheat price increases moderate

Lower global energy prices following the easing of geopolitical tensions in the Middle East and subsequent reopening of the Strait of Hormuz contributed to the moderation in maize and wheat prices. By end-June, maize and wheat prices had fallen by 7.3 percent and 6.3 percent to USD197.10 per metric tonne and USD286.00 per metric tonne, respectively (Figure 23). This eased concerns about the supply of key production inputs, including fertilisers, and reduced transportation costs. A stronger US dollar, ample global supplies, particularly from the Northern Hemisphere, and strong competition from Black Sea exporters also weighed on prices.

[27] https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Economics_Unit/Research/Africa-Insights/MPC_Lesotho_July%202026.pdf

[28] https://oilprice.com/Latest-Energy-News/World-News/ING-Oil-Prices-Have-Overshot-To-The-Downside.html

Figure 23: Monthly Average Maize and Wheat Prices (USD/mt)



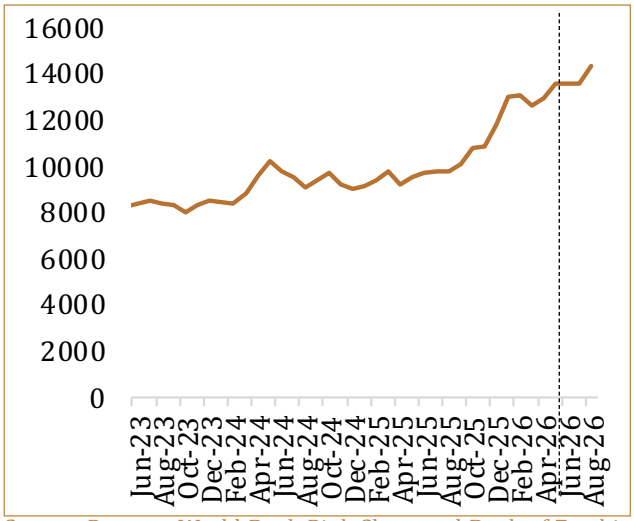
Source: World Bank Pink Sheet data and Bank of Zambia staff compilations

However, maize and wheat prices rebounded in July and rose further to USD224.00 and USD330.00 per metric tonne in August, respectively (Figure 23). The increase reflects tighter global grain supplies amid adverse weather conditions, strong import demand, logistical disruptions, and reduced exports from the Russian Federation and Ukraine.

... copper prices still on the rise

In contrast, copper prices have maintained an upward trend, rising by 7.5 percent in the second quarter to USD13,552.00 per metric tonne in June (Figure 24). By September 21, copper had reached a record high of USD14,524.50 per metric tonne.

Figure 24: Monthly Average Copper Prices (USD/metric tonne)



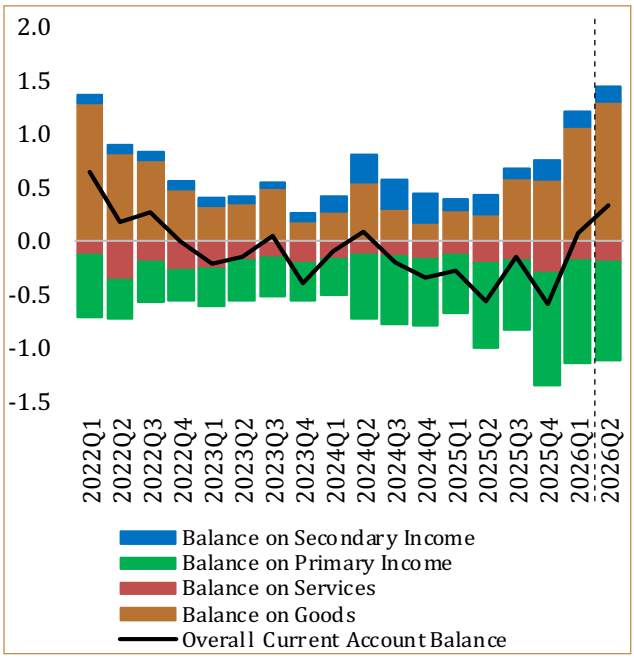
Source: Reuters, World Bank Pink Sheet and Bank of Zambia staff compilations

Prices have largely been driven by the frontloading of exports to the US ahead of the anticipated higher import tariffs, which boosted near-term demand and tightened supply in other markets[29]. They have further been supported by strong demand led by key growth sectors, including AI data centre construction, electric vehicle production, and renewable energy. Continued global electrification and increased investment in electricity grid infrastructure across major economies have also sustained copper consumption and supported prices. In addition, supply disruptions in major producing countries, particularly in Chile and the DRC, together with the temporary closure of a smelter in Indonesia, added more pressure in August[30].

... current account surplus widens

According to preliminary data, the *current account* surplus widened to USD0.3 billion (3.2 percent of GDP) in the second quarter from USD0.1 billion (0.8 percent of GDP) in the preceding quarter (Figure 25). The key drivers were strong growth in net exports, lower reinvested earnings by foreign-owned companies, and higher remittances.

Figure 25: Preliminary Current Account (USD billion)



Source: Bank of Zambia

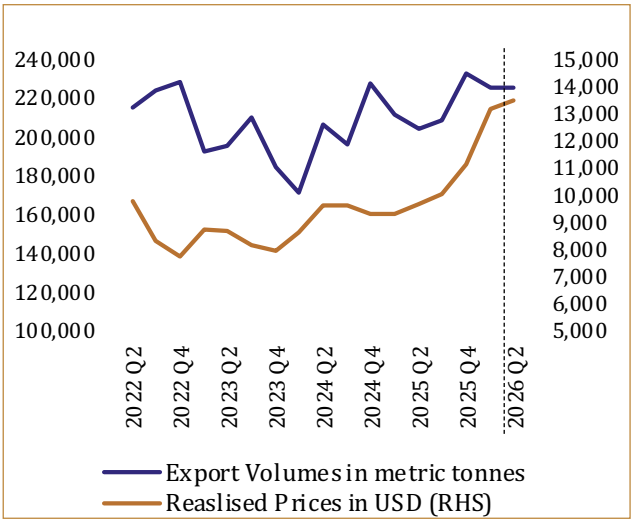
Net export earnings increased to USD1.3 billion from USD1.1 billion in the first quarter, largely driven by buoyant copper prices and higher export volumes alongside continued growth in non-traditional exports (NTEs). Total exports increased by 10.4 percent to USD4.7 billion, mainly supported by higher copper export earnings and stronger NTEs. Copper export earnings rose by 3.7 percent to USD3.1 billion on

[29] https://www.focus-economics.com/commodities/base-metals/copper/

[30] Behind the price surge, which cannot be attributed to demand factors alone, were supply-side disruptions. In Chile, world's largest copper producer, mining operations were disrupted by adverse weather conditions and a mine collapse in July and August. In addition, aging mines and declining ore grades continue to constrain copper output.

account of higher export volumes and realised prices (Figure 26). NTEs earnings grew by 35.1 percent to USD1.3 billion, largely driven by increased exports of nickel ores and concentrates as FQM continues to ramp up production after fully operationalising the Enterprise Nickel Mine in Kalumbila.

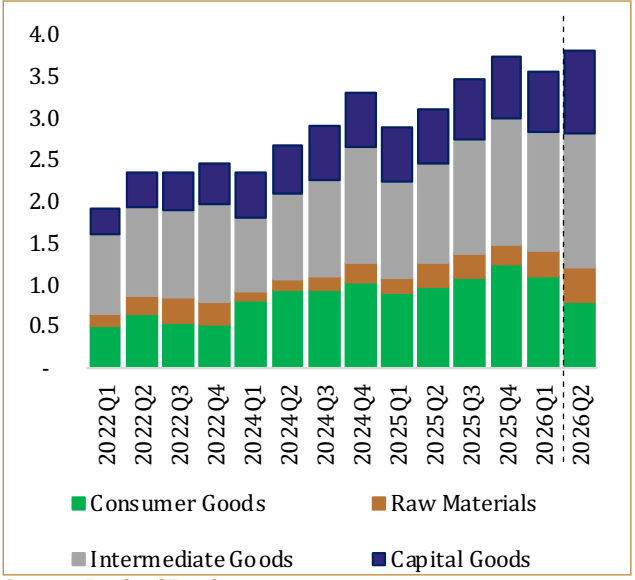
Figure 26: Copper export volumes and realised prices



Source: Bank of Zambia

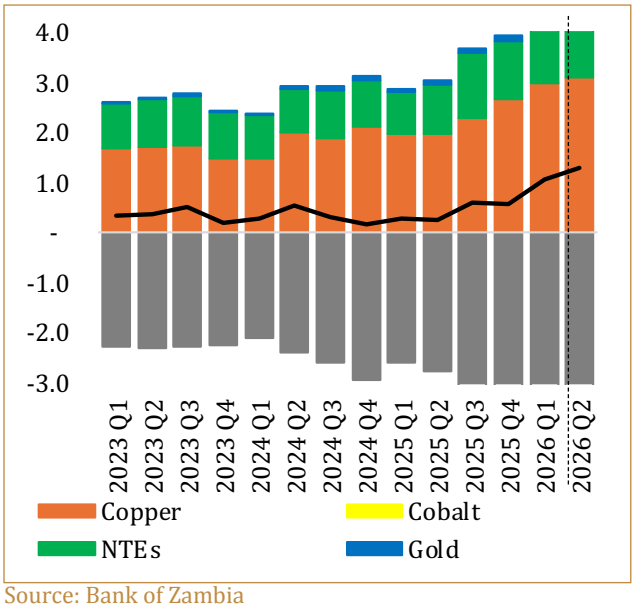
Total imports grew by 6.8 percent to USD3.4 billion. This was driven by intermediate and capital goods, particularly chemicals, industrial boilers and equipment, electrical machinery, motor vehicles, plastic and rubber products, as well as ores and slags, partly attributed to the continued appreciation of the exchange rate and a general pick-up in economic activity (Figure 27)

Figure 27: Composition of Imports (USD billion)



Source: Bank of Zambia

Figure 28: Composition of Trade Balance (USD billion)



Source: Bank of Zambia

The *secondary income* surplus increased by 2.3 percent to USD0.1 billion due to increased remittances by Zambians in the diaspora, mostly in the US, UK, Australia, and South Africa. Remittances were USD107.4 million, 9.3 percent higher than the previous quarter. The *primary income* deficit narrowed by 3.1 percent to USD0.9 billion following the decline in retained earnings by foreign-owned companies.

2.2 Global Financial Conditions

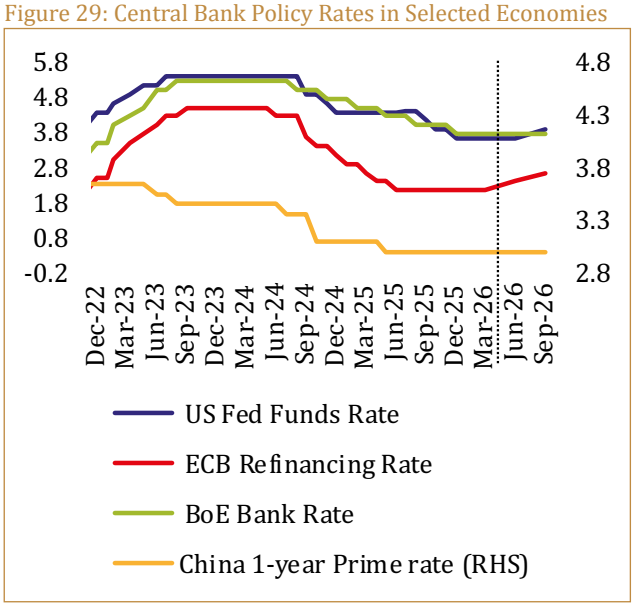
... less volatile

Global financial markets were less volatile in the second quarter as geopolitical tensions in the Middle East eased somewhat following the signing of the MoU between the US and Iran on June 17 (refer to section 1.1). However, concerns about energy price-induced inflationary pressures persisted. Against this backdrop, the Bank of England, People's Bank of China, and Federal Reserve (Fed) cautiously kept benchmark policy rates unchanged in the second quarter (Figure29). Nonetheless, the Fed signalled a higher likelihood of monetary policy tightening, a development that has materialised in the third quarter[31]. In contrast, the European Central Bank tightened policy in June by raising the main refinancing rate by 25 basis points to 2.40 percent in response to renewed inflationary pressures and upside risks to the inflation outlook. This was followed by another 25-basis point hike in September. The Bank of England and People's Bank of China have maintained benchmark policy rates at their respective September meetings.

[31] In response to persistent inflationary pressures, induced by crude oil prices, the Fed has raised the target range for the federal funds rate by 25 basis points to a range of 3.75 percent - 4.0 percent, marking the first hike since 2023.

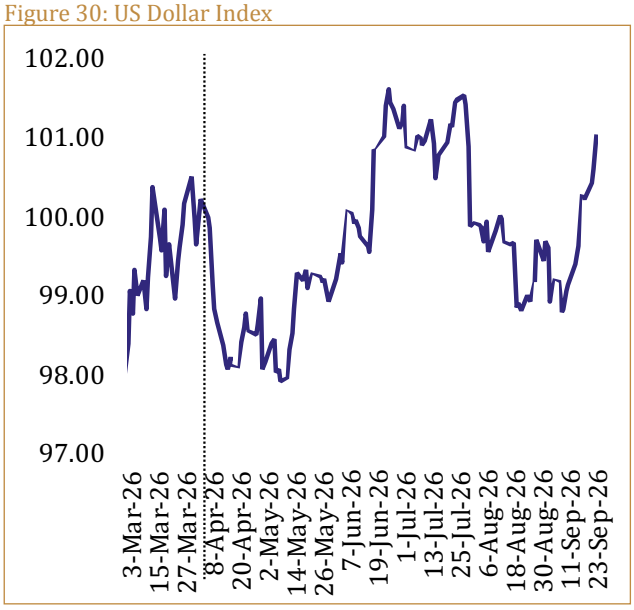
The policy signal by the Fed contributed to the broad appreciation of the US dollar, reflected in a 2.3 percent rise in the US Dollar Index to 101.2 in June (Figure 30). As of September 23, the index was at 101.0.

Figure 29: Central Bank Policy Rates in Selected Economies



Source: LSEG Workspace and Staff Compilations

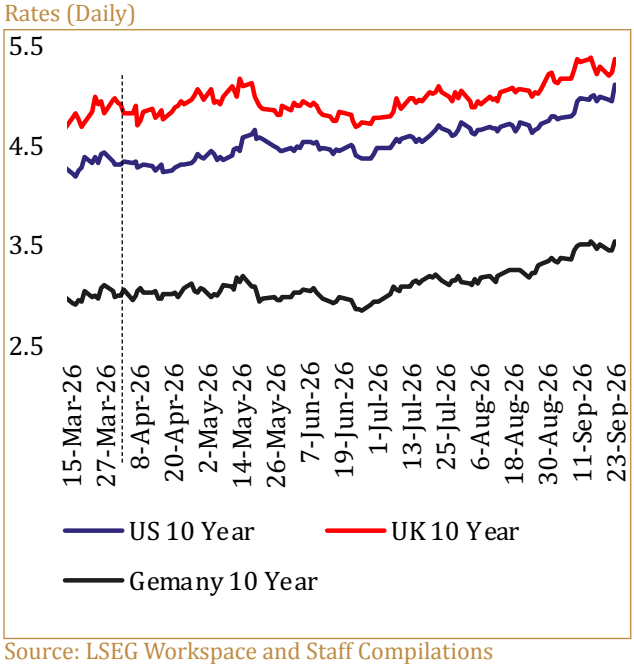
Figure 30: US Dollar Index



Source: LSEG Workspace and Staff Compilations

Benchmark bond yield rates in advanced economies remained elevated in the second quarter, reflecting persistent inflation concerns and expectations of further monetary policy tightening. The yield on the US 10-year bond rose to 4.4 percent in June from 4.3 percent in March (Figure 31). Although yields on 10-year benchmark bonds in the UK and Germany declined, they remained above pre-Middle East conflict levels. In June, yields on the UK and German 10-year government bonds stood at 4.8 percent and 2.9 percent, respectively compared with 5.0 percent and 3.0 percent in March. As inflationary risks materialised, culminating in policy tightening and stronger expectations of higher interest rates, yield rates have risen further in the third quarter.

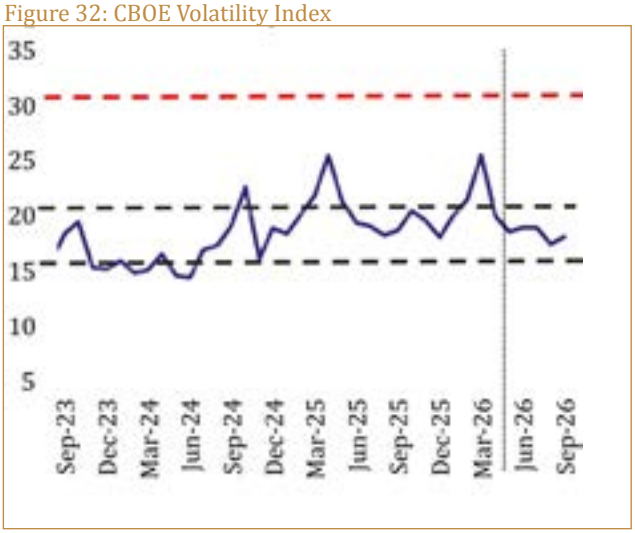
Figure 31: US, UK and German 10-Year Benchmark Bond Yield Rates (Daily)



Source: LSEG Workspace and Staff Compilations

Prices of riskier assets recovered in the second quarter as risk aversion eased following the signing of the MoU between the US and Iran. This was reflected in the decline in the Chicago Board Options Exchange (CBOE) Volatility Index (measure of risk aversion) to 19.6 in June from 25.6 in March (Figure 32). Improved investor confidence supported the decline in Sub-Saharan African Eurobonds, higher equity prices, and broad appreciation of emerging market currencies.

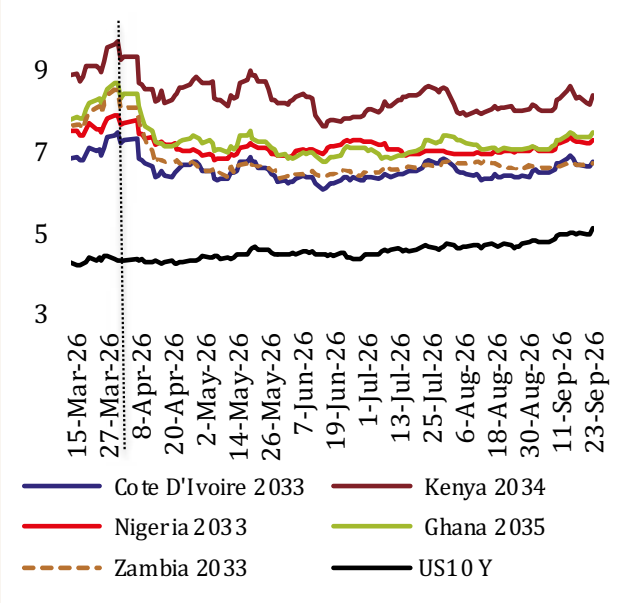
Figure 32: CBOE Volatility Index



Source: LSEG Workspace and Staff Compilations

Eurobond yields for Zambia, Ghana, Kenya, Côte d'Ivoire, and Nigeria fell by 129, 103, 98, 57, and 43 basis points to 6.4 percent, 6.9 percent, 8.0 percent, 6.3 percent, and 7.1 percent, respectively (Figure 32).

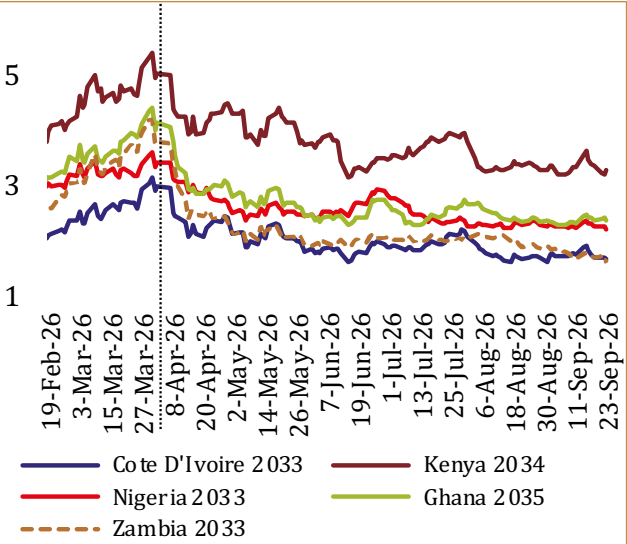
Figure 33: Yield Rates for Selected Sub-Sahara Africa Eurobonds (percent)



Source: LSEG Workspace and Staff Compilations

Correspondingly, sovereign yield spreads over the US 10-year Treasury yield narrowed for Zambia, Ghana, Kenya, Côte d'Ivoire, and Nigeria by 151, 125, 120, 78, and 65 basis points, respectively (Figure 34).

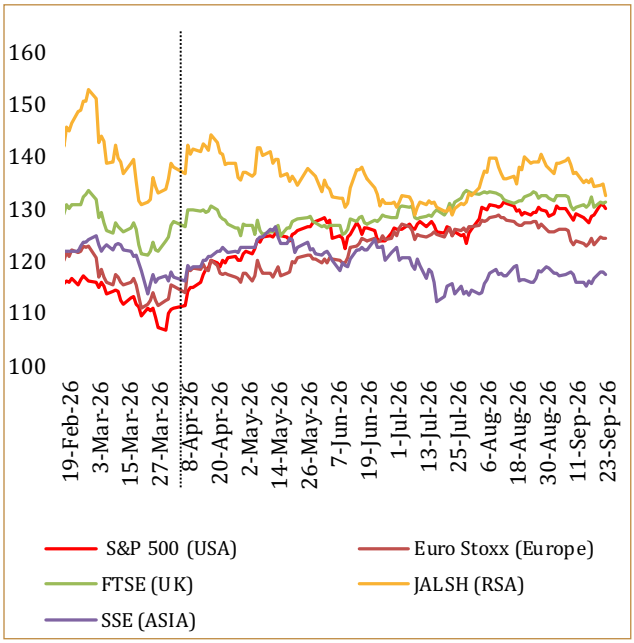
Figure 34: Yield Spreads Over the US 10-Year Bond Yield Rate (percent)



Source: LSEG Workspace and Staff Compilations

Equity markets strengthened in the second quarter, supported by improved sentiment and higher valuations, particularly in technology stocks exposed to advances in AI. The S&P 500, Euro Stoxx 50, Shanghai Composite, and FTSE 100 indices rose by 14.9 percent, 11.5 percent, 5.2 percent, and 3.2 percent, respectively (Figure 35). In contrast, the Johannesburg All-Share Index fell by 3.3 percent as steep declines in gold and platinum prices weighed on mining sector shares[32].

Figure 35: Selected Stock Market Indices (Daily)

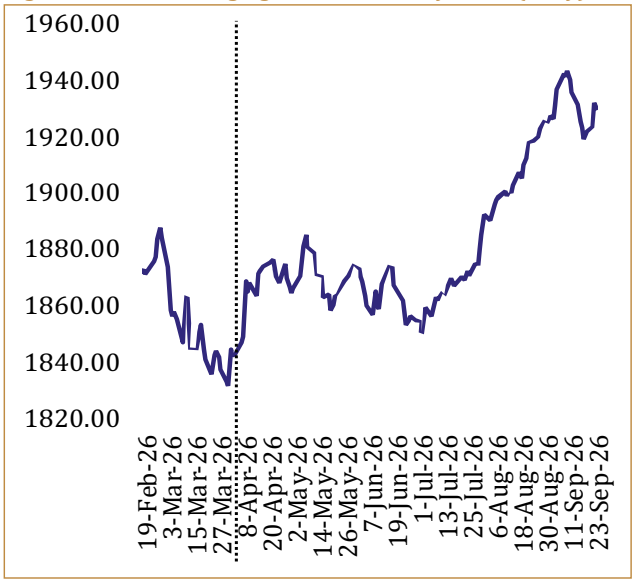


Source: LSEG Workspace

Broadly, emerging market currencies strengthened as risk sentiment improved, with the MSCI Emerging Markets Currency Index rising by 1.3 percent in June (Figure 36). However, a stronger US dollar following a rate hike by the Fed in September weighed on the index. Among the selected currencies, the Egyptian pound[33], Argentine peso[34], and Zambian Kwacha[35] gained against the US dollar but the Indonesian rupiah[36], Turkish lira[37], and Ghanaian cedi[38] depreciated in the second quarter (Figure 37).

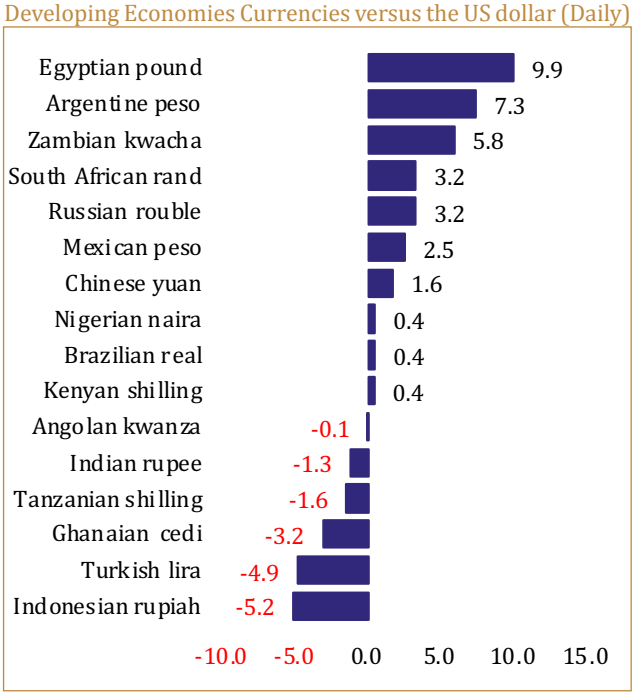
[32] Gold and platinum prices sharply fell in the second quarter by 14.2 percent and 20.9 percent, respectively.
[33] The Egyptian pound was supported by a combination of improved investor confidence, strong foreign exchange inflows from remittances and tourism as well as easing geopolitical tensions.
[34] The Argentine peso gained on the back of improved macroeconomic fundamentals, ongoing economic reforms, and stronger investor confidence, supported by expectations of continued external financing and a return to international capital markets.
[35] The Zambian Kwacha appreciated mainly on account of steady supply of foreign exchange.
[36] The Indonesian rupiah depreciated amid heightened geopolitical tensions, rising oil prices, and a stronger US dollar driven by expectations of prolonged monetary tightening in advanced economies.
[37] The Turkish lira weakened due to a combination of higher energy prices, geopolitical tensions, persistent inflation, and concerns about policy credibility, which weighed on investor sentiment.
[38] The Ghanaian cedi weakened on account of stronger demand for foreign exchange and external shocks that outweighed foreign exchange inflows.

Figure 36: MSCI Emerging Market Currency Index (Daily)



Source: LSEG Workspace and Staff Compilations

Figure 37: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar (Daily)



Source: LSEG Workspace and Staff Compilations

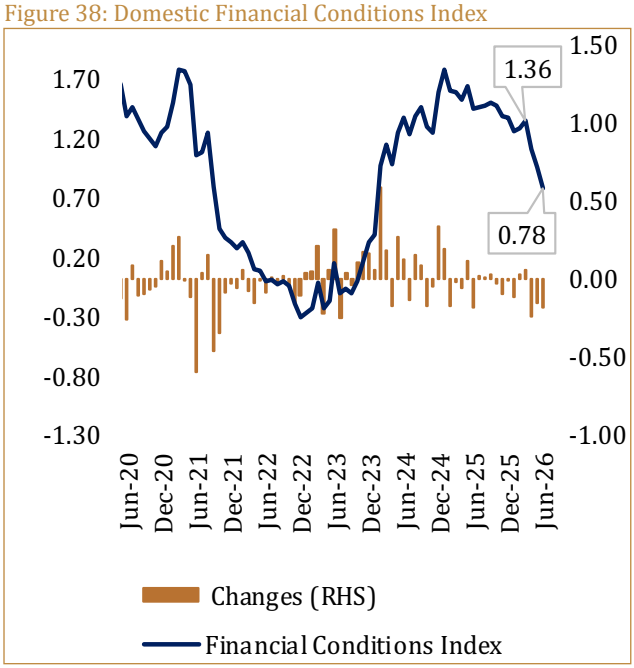
*Negative numbers indicate a depreciation while positive numbers show an appreciation against the US dollar.

2.3 Domestic Financial Conditions

... less restrictive

Domestic financial conditions were less restrictive in the second quarter than in the previous period (Figure 38)[39]. This is attributed to a generally declining trend in **interest rates** (Policy Rate, interbank rate, lending rates, and Treasury bill yield rate) as well as the expansion in **credit** and **money supply**. However, higher Government bond yields, **exchange rate** appreciation, and lower **equity prices** continued to have a tightening effect.

Figure 38: Domestic Financial Conditions Index



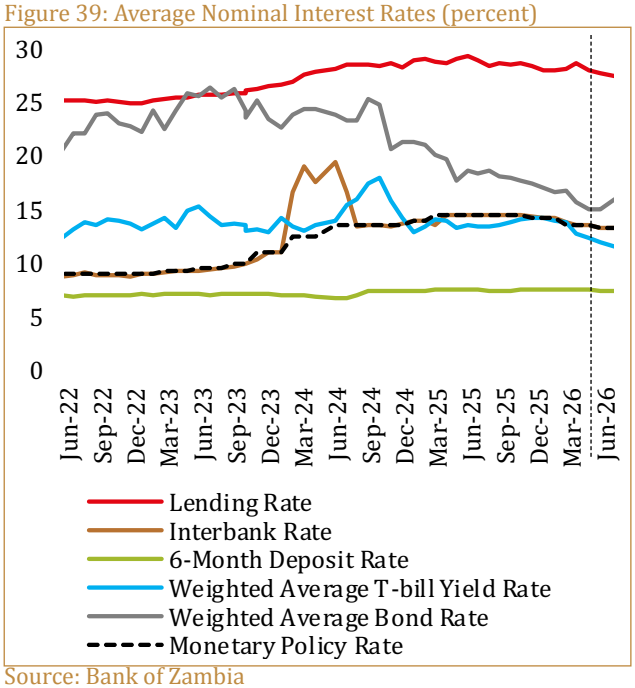
Source: Bank of Zambia

[39] The 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.

Interest rates

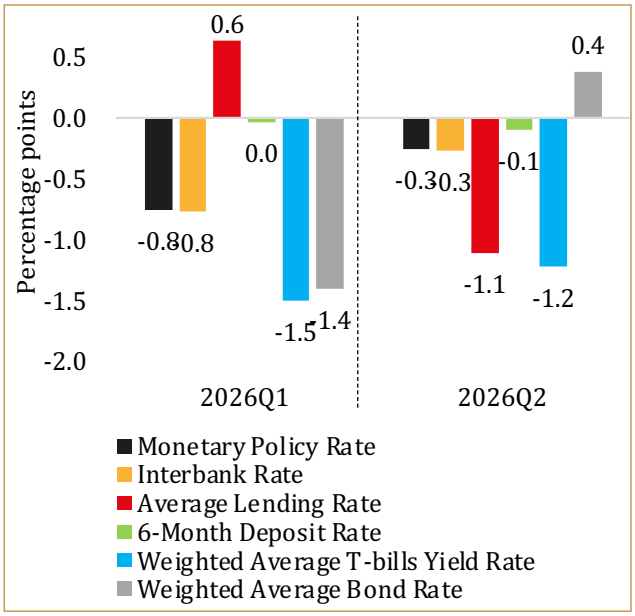
Interest rates generally maintained a gradual declining trend in the second quarter (Figure 39 and Figure 40).

Figure 39: Average Nominal Interest Rates (percent)



Source: Bank of Zambia

Figure 40: Quarterly Percentage Change in Nominal Interest Rates

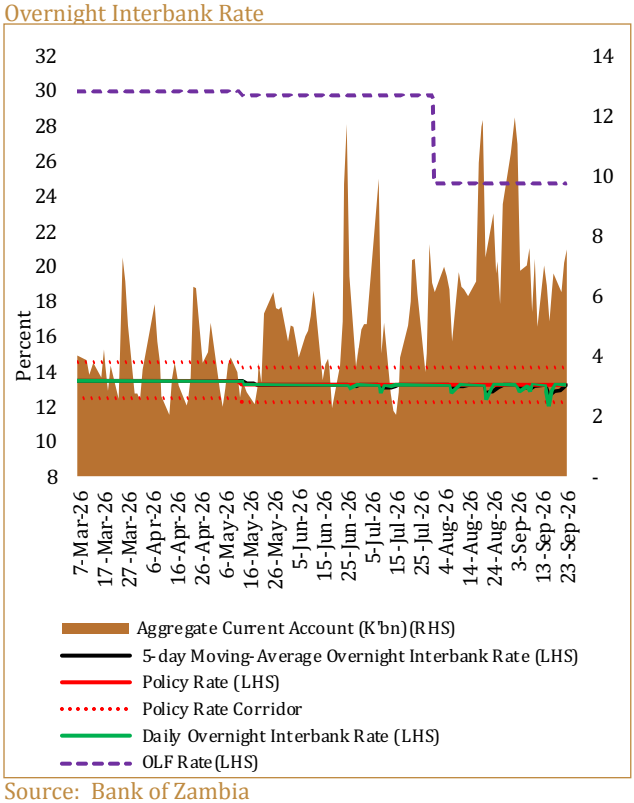


Source: Bank of Zambia

The overnight interbank rate declined to 13.24 percent in June from 13.50 percent in March, reflecting the easing of the policy stance following a 25-basis-point reduction in the Policy Rate in May to 13.25 percent. The declining trend has been sustained in the third quarter due to increased liquidity supply, especially after the statutory reserve ratio (SRR) on Kwacha deposit liabilities was reduced by 500 basis points on August 3[40]. As at September 24, the interbank rate was 13.2 percent.

Although the interbank rate has remained broadly anchored to the Policy Rate, the build-up in money market liquidity has occasionally exerted downward pressure and pushed it towards the lower bound of the corridor (Figure 41). To keep the interbank rate aligned to the Policy Rate, contractionary open market operations have been consistently implemented to absorb excess reserves. This intensified following the reduction in the SRR. The contractionary operations are also aimed at moderating demand for foreign exchange, evident in June when supply reduced (Figure 62a). Liquidity was withdrawn through overnight, 7-, and 14-day tenors, with June recording the largest monthly average of commercial banks' holdings in OMO deposits during the quarter.

Figure 41: Excess Reserves (Liquidity Level), Policy Rate and Overnight Interbank Rate



Source: Bank of Zambia

[40] Effective 3 August, the Kwacha statutory reserve ratio was reduced to 21.0 percent from 26.0 percent, lowered the Overnight Lending Facility margin by 5 percentage points, and re-introduced a weekly reserve compliance requirement. The statutory reserve ratio for foreign currency deposit liabilities was maintained at 26.0 percent. These measures were in response to eased inflationary pressures and improved foreign exchange market stability.

The main sources excess liquidity in the in the second quarter were maturing Government securities and Government spending, which together injected a net of K10.7 billion into the banking system. As a result, commercial banks' aggregate current account balance closed higher in June at K4.3 billion than the K2.6 billion recorded in March (Table 8). Liquidity levels rose further after the reduction in the SRR, reaching a high of K10.7 billion at end-August but moderated to K7.6 billion by September 23.

Table 8: Liquidity Influences (K' billion)

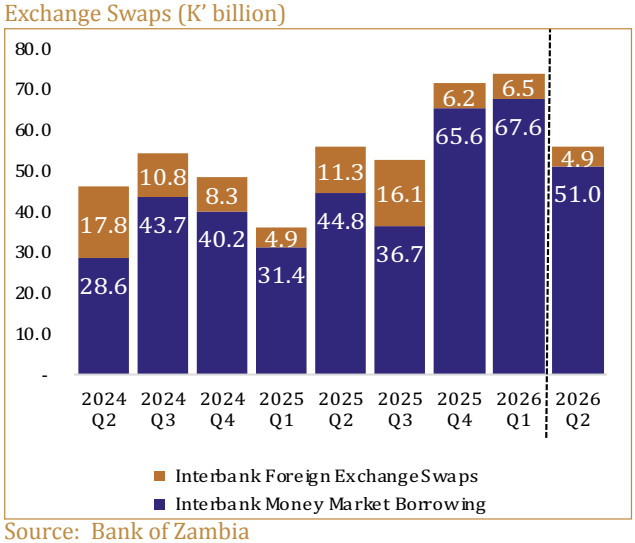
	2026Q1	2026Q2
Opening Balance	7.3	2.6
Net Govt Spending	7.7	4.9
Net BoZ FX Intervention	4.3	(1.9)
Change in Currency	1.5	(3.1)
Change in SR Deposits	(1.7)	(2.7)
OLF	(0.1)	(0.1)
Net Govt Securities Transactions	(10.4)	5.8
Open Market Operations	(3.6)	(1.5)
TMTRF	(0.7)	(0.5)
SRF	(0.0)	0.0
Miscellaneous	(1.7)	0.8
Closing Balance	2.6	4.3

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.

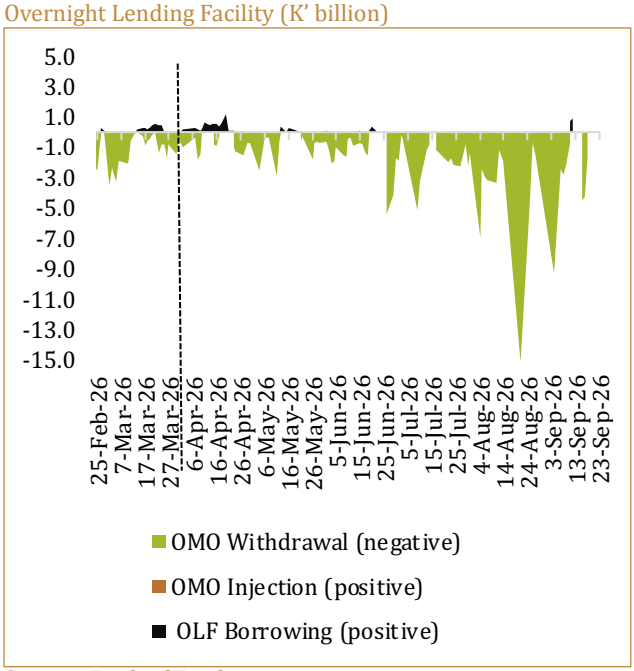
Higher liquidity and improved distribution of reserves eased short-term funding pressures for commercial banks in the second quarter. About K51.7 billion (lowest level since the third quarter of 2025) was borrowed from the overnight interbank market compared with K67.6 billion in the first quarter (Figure 42). Similarly, funding through foreign exchange swaps and from the Overnight Lending Facility (OLF) declined to K4.9 billion and K7.4 billion from K6.5 billion and K14.5 billion, respectively (Figure 42 and Figure 43).

Figure 42: Interbank Money Market Borrowing and Foreign Exchange Swaps (K' billion)



Source: Bank of Zambia

Figure 43: Daily Average Open Market Operations and Overnight Lending Facility (K' billion)



Source: Bank of Zambia

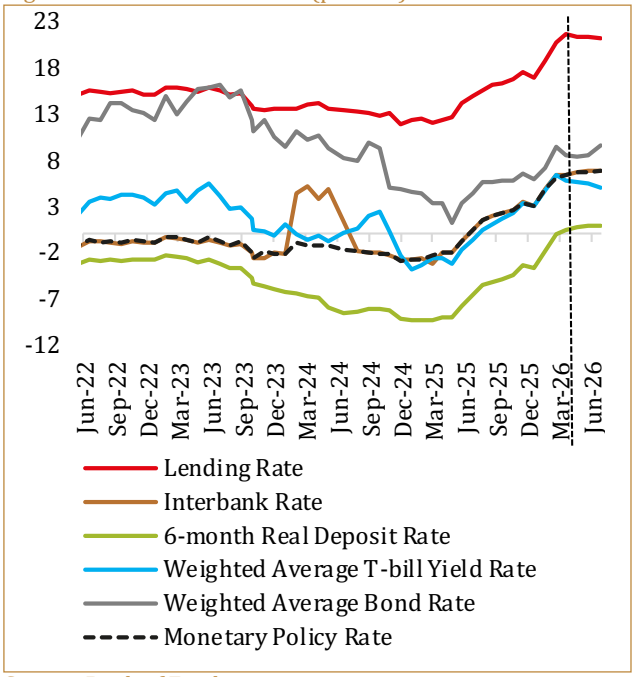
Commercial banks' nominal lending rate[41] declined to 27.5 percent in June from 28.6 percent in March, in part due to the pass-through from the reduction in the Policy Rate and improved liquidity conditions in the banking system (Figure 39). Similarly, the 6-month deposit rate fell marginally by 10 basis points to 7.4 percent (Figure 39).

[41] Effective 3 August, the Kwacha statutory reserve ratio was reduced to 21.0 percent from 26.0 percent, lowered the Overnight Lending Facility margin by 5 percentage points, and re-introduced a weekly reserve compliance

The composite Treasury bill yield rate declined further by 1.3 percentage points to 11.5 percent mainly due to sustained investor demand and favourable liquidity conditions in the money market (Figure 39 and Figure 40). This was evidenced by a strong subscription rate of 113.6 percent. However, as shown in figures 39 and 40, the yield rate on Government bonds increased marginally by 0.4 percentage points to 16.0 percent on account of subdued demand for long-term instruments, reflected in the undersubscribed auction rate of 61.7 percent.

As inflation declined further to 6.5 percent in June from 7.1 percent in March, real interest rates remained positive throughout the second quarter (Figure 44).

Figure 44: Real Interest Rates (percent)



Source: Bank of Zambia

Credit and Money supply

The Bank of Zambia loan of K9.6 billion to Government to facilitate the execution of the external debt **Liability Management Operation (LMO)**[42] significantly boosted domestic credit growth in the second quarter. Credit expanded by 14.4 percent in June compared to 7.5 percent in March, rising above its long-term trend (Table 16, Figure 45 and Figure 46). Excluding the LMO, credit growth still increased, albeit moderately, by 2.0 percentage points to 9.5 percent, reflecting a rebound in private sector lending and increased holdings of Government securities by banks (Table 9). Adjusting for exchange rate appreciation, domestic credit growth rose by 3.6 percentage points to 22.4 percent (Table 9). This widened the positive credit gap mainly because of the LMO (Figure 47).

Table 9: Credit Growth Rate

	March	June
Overall Credit	7.5	14.4
Overall Credit excl Loan by BoZ	7.5	9.5
Private Sector Credit (in Kwacha)	8.1	12.9
Kwacha Denominated Credit	20.8	15.3
Foreign Currency Denominated Credit (Kwacha equivalent)	-10.5	8.5
Foreign Currency Denominated Credit (in US Dollar)	31.4	43.1
Private Sector Credit Exchange Rate Adjusted	25.1	25.2
Public Sector Credit	6.6	16.0
Government Securities by ODCs	7.8	8.8
Loans by ODCs	408.2	388.9
Loans by BoZ	-25.4	66.4
Overall Credit Exchange Rate Adjusted	18.8	22.4

Source: Zambia Staff Computations

Note: ODCs=other depository corporations (exclude central bank); BoZ=Bank of Zambia

The LMO substantially pushed up public sector credit growth to 16.0 percent in June from 6.6 percent in March (Table 9). Consequently, its contribution to overall credit increased to 8.2 percentage points from 3.5 percentage points (Figure 45).

Over the same period, private sector credit expanded by 12.9 percent compared with 8.1 percent in the previous quarter due to increased foreign currency lending (Figure 48). This brought private sector credit back to its long-term trend (Figure 49). Thus, the contribution of the private sector to overall credit growth rose to 5.9 percentage points from 3.7 percentage points (Figure 45). However, the exchange rate adjusted private sector credit growth remained broadly unchanged at 25.2 percent in line with its long-term trend (Table 16 and Figure 50).

Lending in foreign currency grew by 43.1 percent in June compared to 31.4 percent in March and remained above its long-term trend (Figure 51 and Figure 52). Much of the lending was to the electricity, transport, manufacturing, mining, and real estate sectors (Figure 53). Credit was mostly used for working capital requirements. As shown in figure 68, the manufacturing sector accounted for the largest share of foreign currency loans (34.3 percent). This was followed by mining (13.4 percent) and electricity (12.2 percent) sectors.

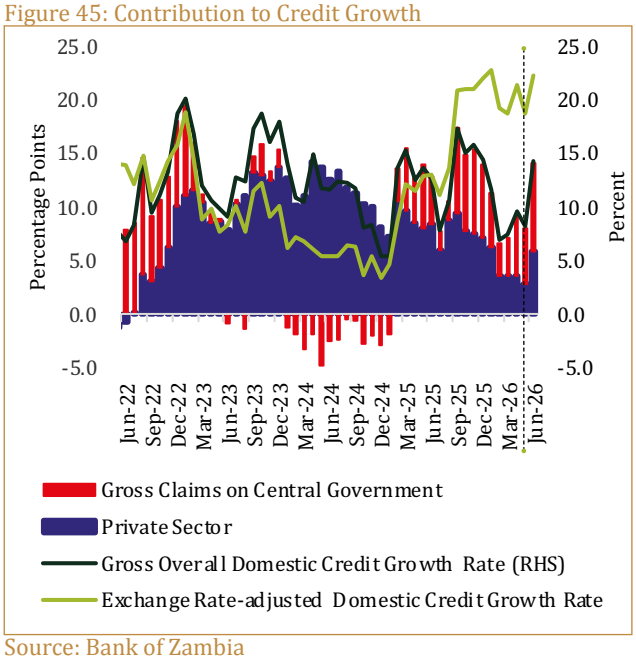
In the case of lending in Kwacha, growth moderated to 15.3 percent in June from 20.8 percent in March and remained below its long-term trend (Figure 51 and Figure 52). The slowdown was primarily attributable

[42] More details on this transaction are in section 2.5.

to loan repayment alongside a shift in borrowing preferences towards foreign currency loans by firms seeking to align financing with the currency of their cashflows and benefit from relatively lower borrowing costs (Figure 55 and Figure 56).

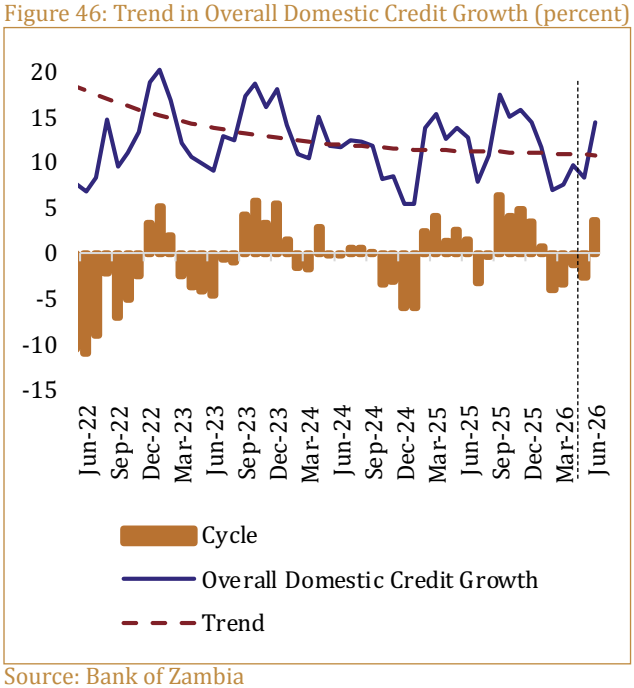
Commercial banks expect demand for household loans, working capital, and long-term financing to remain elevated in the third quarter (**August 2026 Credit Conditions Survey**). Household loan demand is expected to be supported by increased scheme-based lending and growth in payroll lending as well as the continued need by households to cushion the elevated cost-of-living. For SMEs and large corporates, high operating costs, linked to geopolitical tensions in the Middle East, are expected to increase the loan uptake. Most banks expect lower borrowing costs on account of the anticipated monetary policy easing and pick-up in economic activity amid favourable macroeconomic conditions. In addition, investment requirements and sustained business financing needs for expansion and capital expenditure projects, particularly in the manufacturing and mining sectors as well as among firms implementing the **Local Content Law**, are expected to support demand for long-term financing.

Figure 45: Contribution to Credit Growth



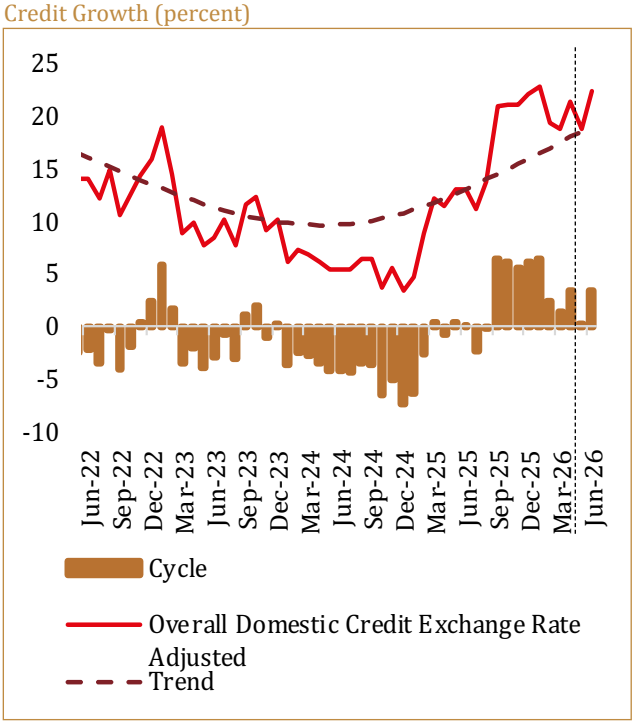
Source: Bank of Zambia

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



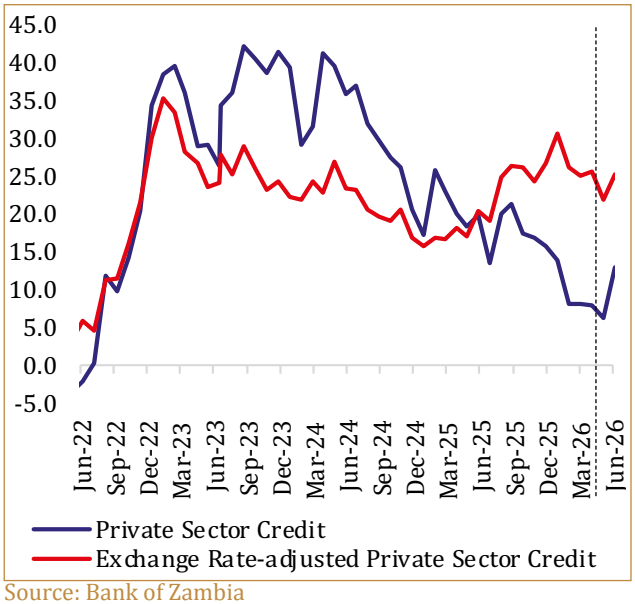
Source: Bank of Zambia

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



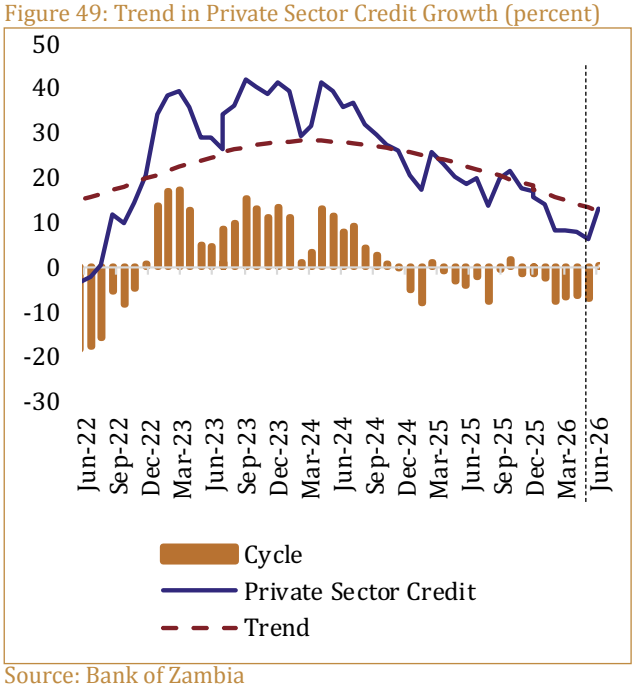
Source: Bank of Zambia

Figure 48: Private Sector Credit Growth (percent)



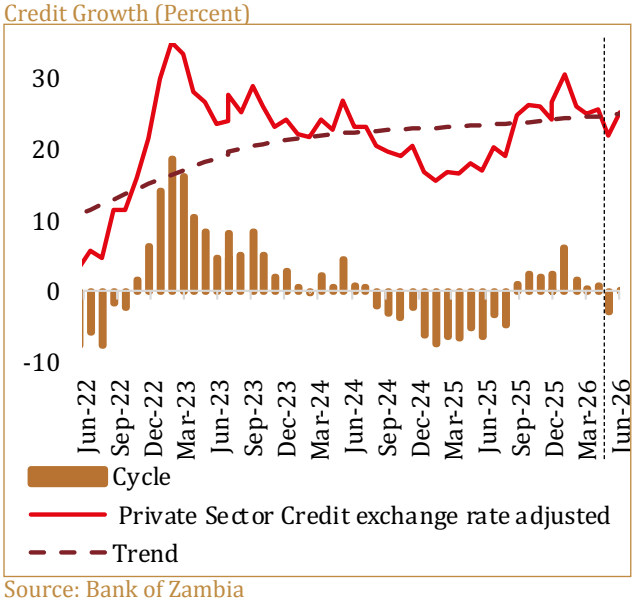
Source: Bank of Zambia

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



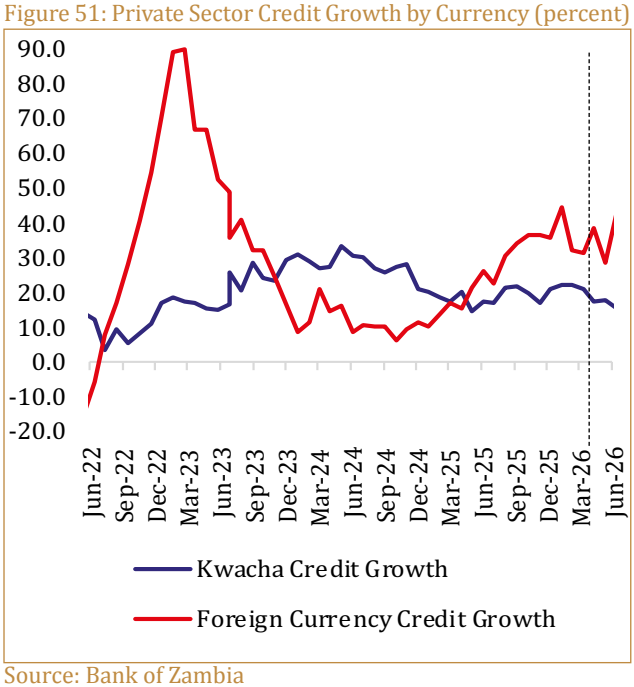
Source: Bank of Zambia

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



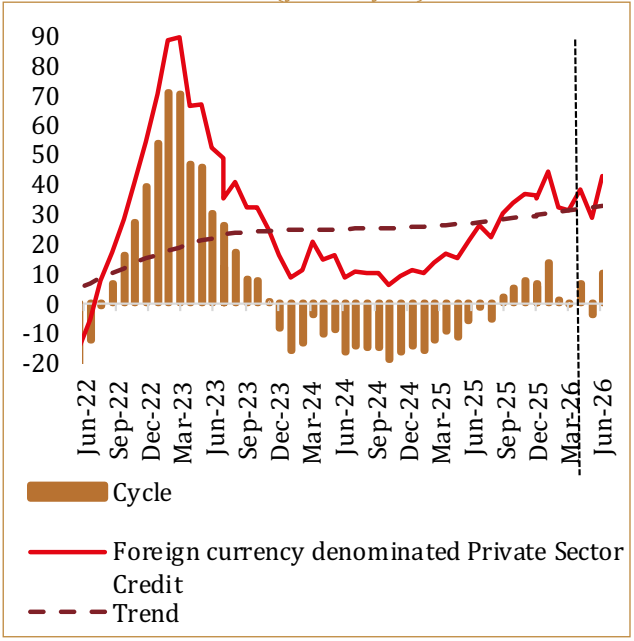
Source: Bank of Zambia

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



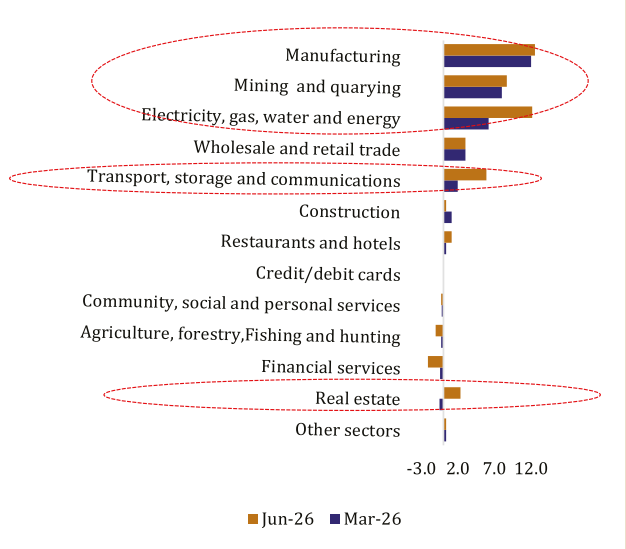
Source: Bank of Zambia

Figure 52: Trend in Foreign currency Denominated Private Sector Credit Growth Rate (year-on-year)



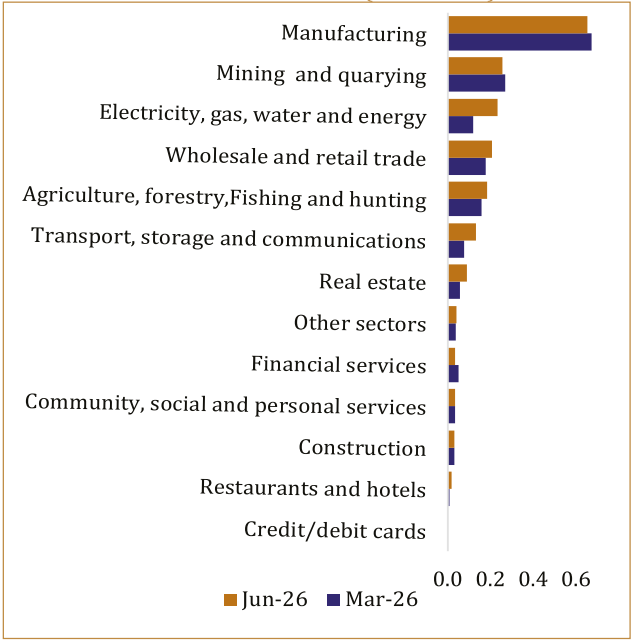
Source: Bank of Zambia

Figure 53: Sectoral Contribution to Annual Percent Change in Foreign Currency Denominated Private Sector Credit



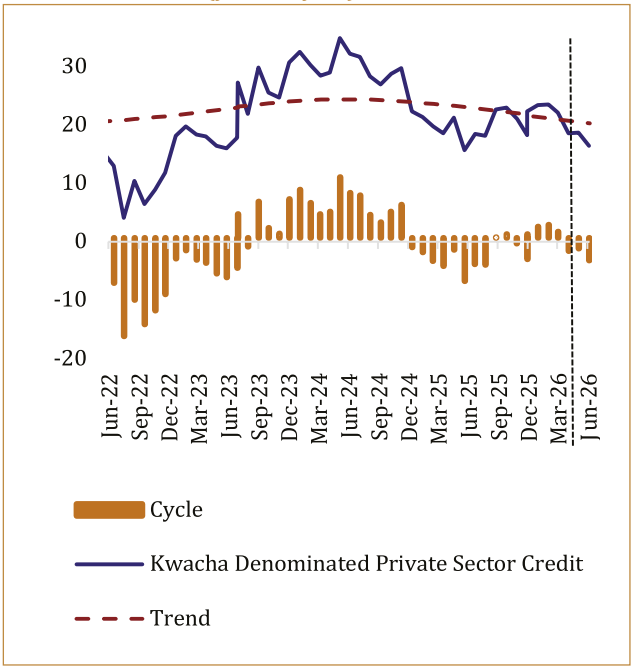
Source: Bank of Zambia

Figure 54: Stock Distribution of Foreign Currency Denominated Private Sector Credit (USD billion)



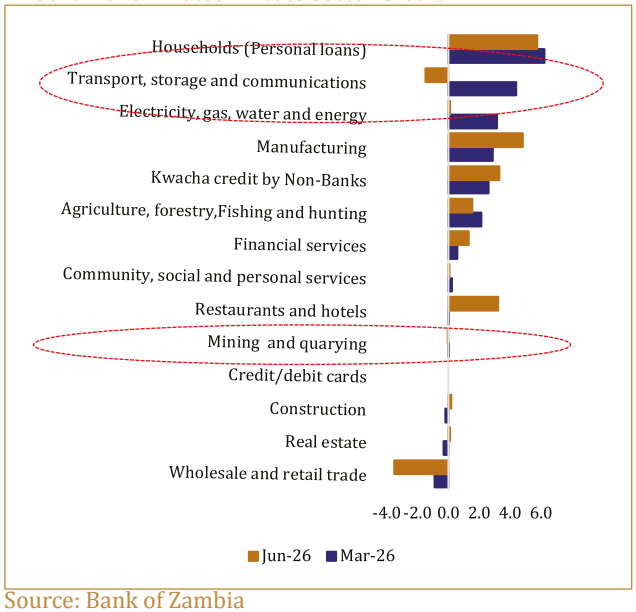
Source: Bank of Zambia

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



Source: Bank of Zambia

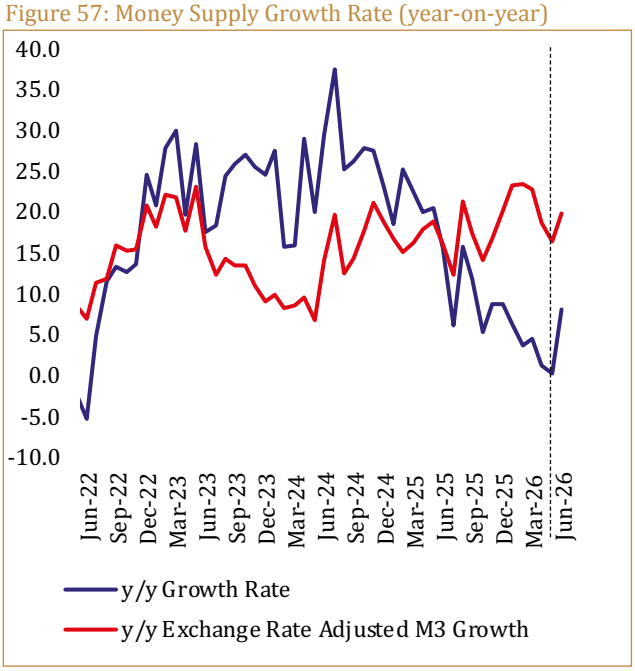
Figure 56: Sectoral Contribution to Annual Percent Change in Kwacha Denominated Private Sector Credit



Source: Bank of Zambia

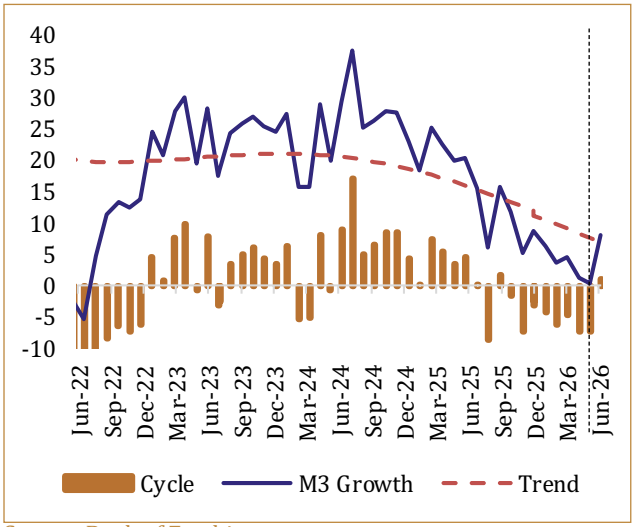
The sharp rebound in broad money supply (M3)[43] growth to 8.1 percent in June from 4.5 percent in March was mostly driven by private sector credit (Figure 57). Consequently, M3 reverted to its long-term trend (Figure 58). However, adjusted for the appreciation of the exchange rate, M3 growth slowed down to 19.8 percent from 22.7 percent (Figure 59).

Figure 57: Money Supply Growth Rate (year-on-year)



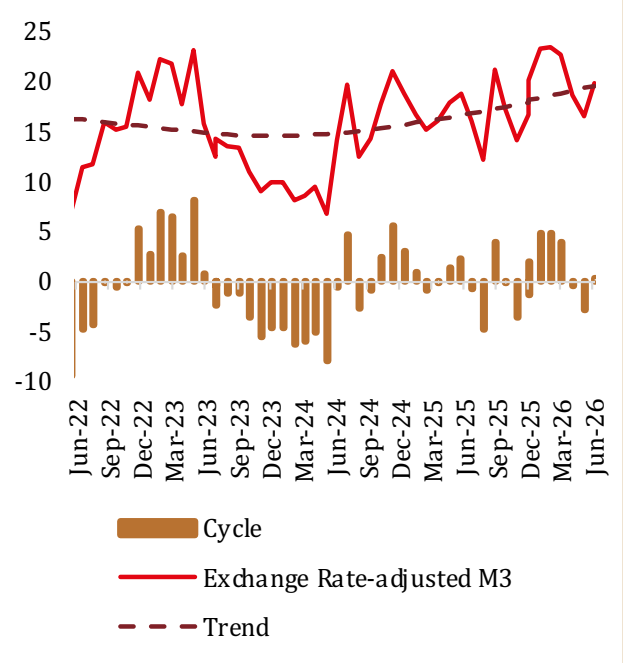
Source: Bank of Zambia

Figure 58: Trend in M3 Growth (percent)



Source: Bank of Zambia

Figure 59: Trend in Exchange Rate-Adjusted M3 Growth (percent)

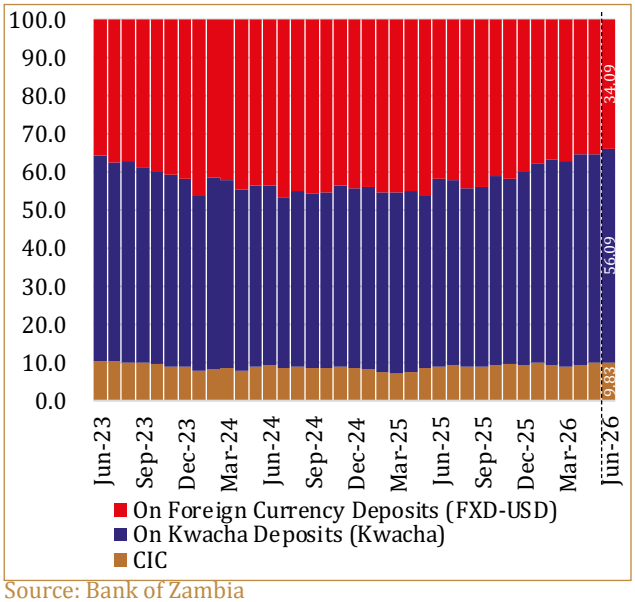


Source: Bank of Zambia

The composition of M3 continued to shift towards local currency deposits, with the share of Kwacha denominated deposits rising to 56.1 percent in June from 54.0 percent in March (Figure 60). The share of currency in circulation also increased to 9.8 percent from 8.9 percent. In contrast, the share of foreign currency deposits declined to 34.1 percent from 37.1 percent due to the appreciation of the exchange rate.

[43] M3 stock increased to K220.1 billion at end-June from K213.8 billion at end-March.

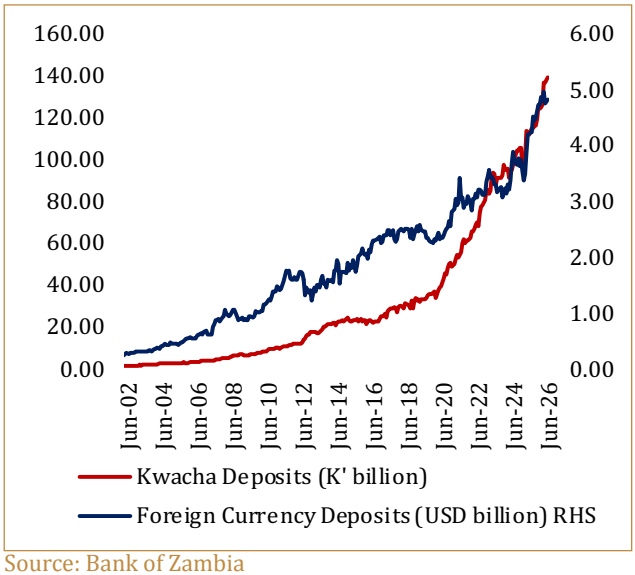
Figure 60: Share of Broad Money Components in M3 (percent)



Source: Bank of Zambia

Kwacha deposit liabilities at commercial banks increased to K138.9 billion at end-June from K125.8 billion at end-March while foreign currency deposit liabilities remained broadly unchanged at USD4.8 billion (Figure 61).

Figure 61: Commercial Bank Deposit Liabilities



Source: Bank of Zambia

Exchange Rate

The Kwacha continued to appreciate against the US dollar in the second quarter, albeit at a slower pace than in the first quarter. It gained by 8.3 percent compared to 14.8 percent in the previous quarter (Table 10 and Figure 62a). However, the Kwacha has depreciated by 5.6 percent in almost 13 weeks in the third quarter (Figure 62a). The recent depreciation has largely been driven by increased demand mostly for imports of petroleum products.

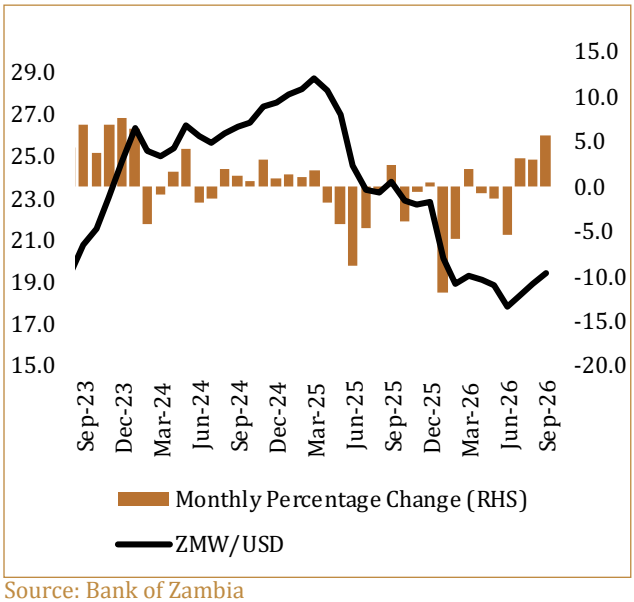
Table10: Kwacha/US Dollar Exchange Rate

	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Average Level	24.55	23.78	22.80	19.43	17.81
Percent Change	-14.4	-3.1	-4.1	-14.8	-8.3
End-Period Level	23.81	23.87	22.14	19.12	18.08
Percent Change	-15.6	0.3	-7.2	-13.6	-5.5

Source: Bank of Zambia Staff Computations

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

Figure 62a: Nominal Kwacha/US Dollar Exchange Rate

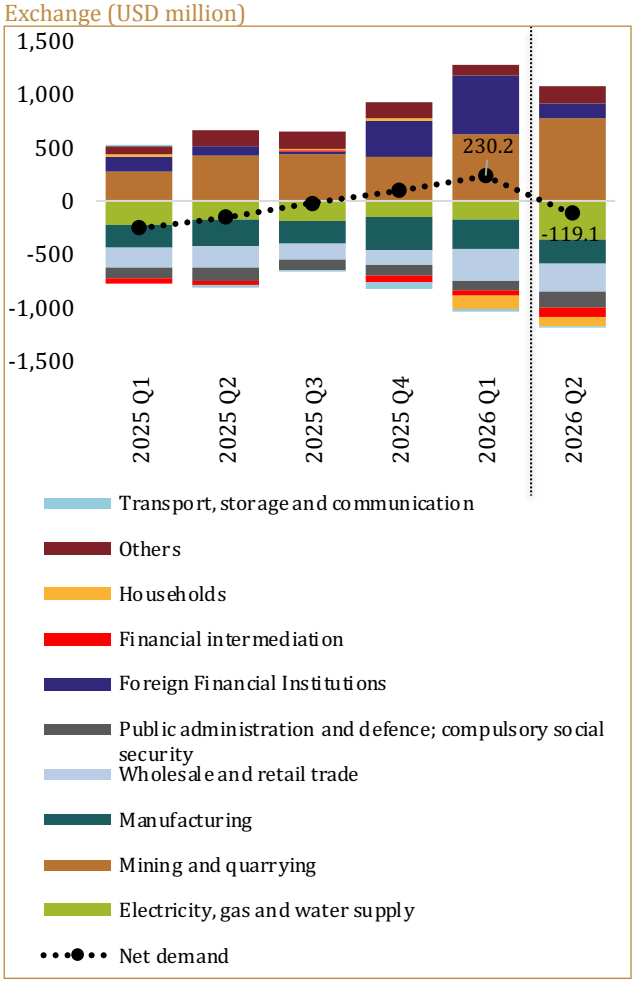


Source: Bank of Zambia

Note: Deprecation for September is month-to-date

The moderation in exchange rate appreciation in the second quarter was largely attributed to reduced supply of foreign exchange amid stronger demand (Figure 62b). Supply reduced by 15.9 percent while demand rose by 14.3 percent. Market liquidity reduced as inflows from foreign financial institutions (FFIs) declined sharply following the near fulfilment of the allotment to non-residents in the primary market for Government securities.

Figure 62b: Sectoral Net Sales (-)/Purchases (+) of Foreign Exchange (USD million)

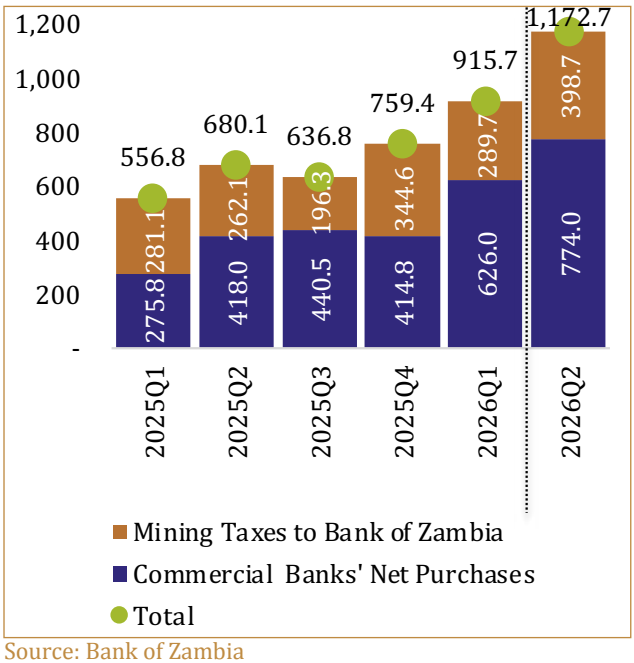


Source: Bank of Zambia

*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.

FFIs sold USD132.1 million, down from USD542.3 million in the previous quarter (Figure 86b). In contrast, foreign exchange sales by mining companies to commercial banks increased to USD774.0 million from USD626.0 million and tax remittances to the Bank rose to USD398.7 million from USD289.7 million. This brought total mining sector inflows to USD1.2 billion from USD0.9 billion in the previous quarter, supported by elevated copper prices (Figure 63).

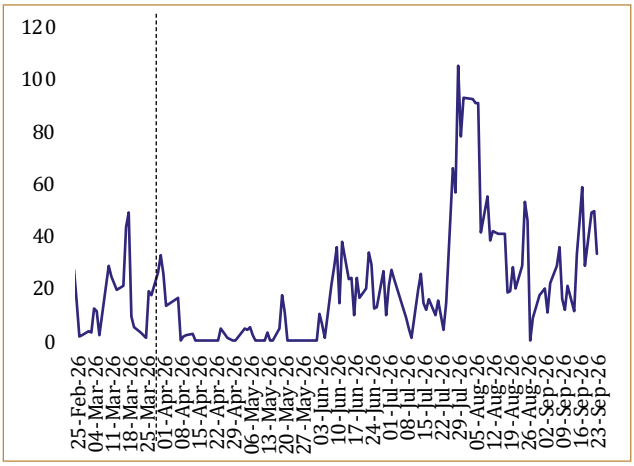
Figure 63: Net Foreign Exchange Inflows from the Mining Sector (USD million)



Source: Bank of Zambia

Reduced foreign exchange supply led to the build-up in outstanding demand orders, which peaked at USD29.4 million in June (Figure 64). Outstanding demand has substantially increased in the third quarter, with a daily average of USD34.0 million relative to USD9.0 million in the preceding quarter.

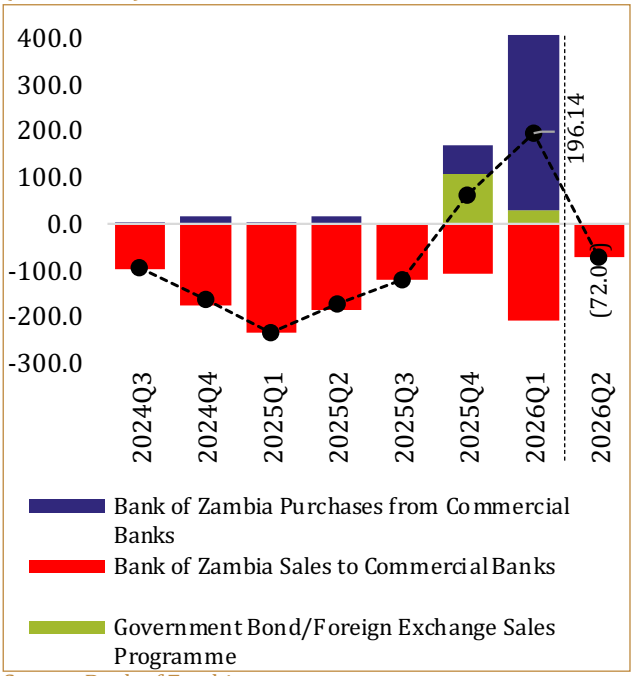
Figure 64: Outstanding Demand for Foreign Exchange (USD million)



Source: Bank of Zambia

To ease liquidity pressures and contain volatility in the exchange rate, the Bank supported the market with a net of USD72.0 million in the second quarter (Figure 65). This contrasts with net purchases of USD196.4 million in the previous quarter.

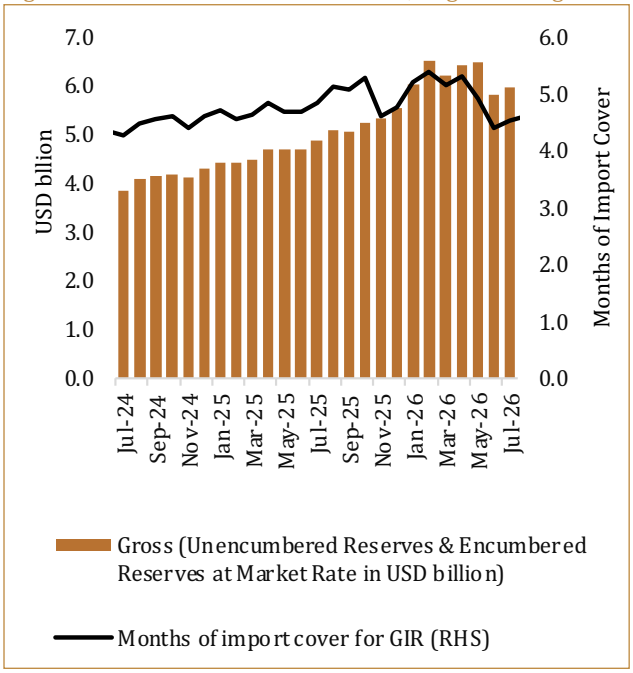
Figure 65: Bank of Zambia Foreign Exchange Transactions (USD million)



Source: Bank of Zambia

Market support, drawdown on reserves of USD514.8 million to facilitate the LMO, and external debt service (USD453.4 million) contributed to the decline in gross international reserves (GIR) by USD422.1 million to USD5.8 billion at end-June (equivalent to 4.4 months of import cover) as shown in figure 66. Other outflows comprised Government current uses (USD29.4 million) and net statutory reserve transfers (USD21.6 million). However, reserves picked up in July to about USD6.0 billion (equivalent to 4.5 months of import cover) as shown in figure 66. The key drivers were mining taxes (USD202.9 million), project inflows (USD38.2 million), Government non-tax receipts (USD20.6 million), monetary gold purchases (USD8.8 million), and interest on reserves (USD4.2 million).

Figure 66: Gross International Reserves, Aug 2024-Aug 2026



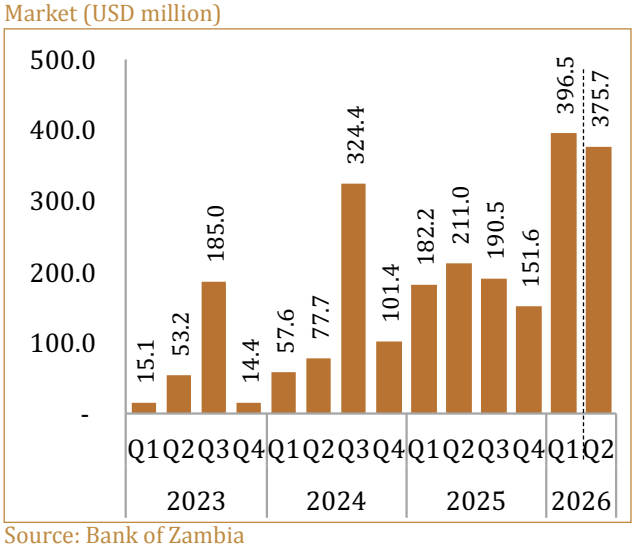
Source: Bank of Zambia

On the demand side, foreign exchange requirements increased mainly due to higher financing needs for petroleum product imports by oil marketing companies (OMCs). Consequently, purchases by the electricity, gas and water supply sector rose to USD363.9 million from USD173.0 million in the previous quarter (Figure 62b). Other key sectors with increased demand were wholesale and retail trade (USD264.4 million), manufacturing (USD225.5 million), and public (USD142.5 million).

As a result, the market shifted to net demand of USD119.1 million from net supply of USD230.2 million in the previous quarter (Figure 62b). This outturn reflected the extent to which stronger import-related demand and reduced FFI inflows more than offset increased mining sector supply.

Overall, interbank foreign exchange market activity broadly reflected prevailing reduced supply conditions. The turnover declined to USD375.7 million from USD396.5 million (Figure 67).

Figure 67: Turnover in the Interbank Foreign Exchange Market (USD million)

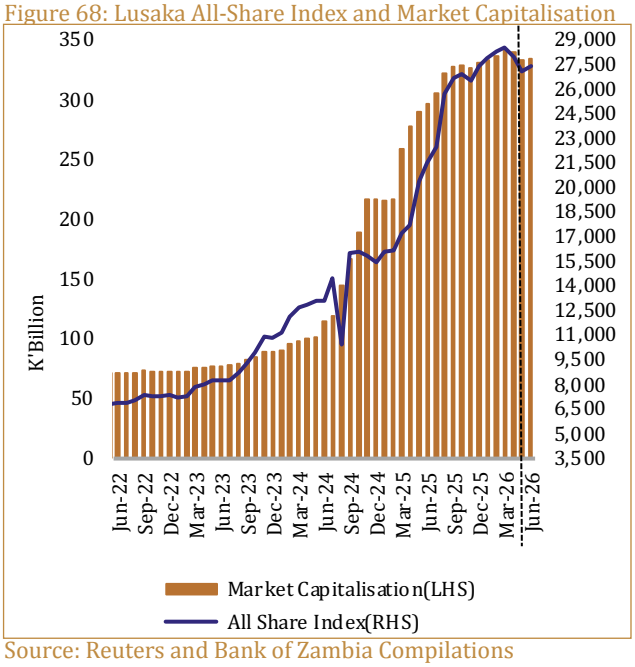


Source: Bank of Zambia

Equity Market

In the equity market, the LuSE All-Share Index fell to 27,327.61 in June from 28,529.22 in March, reflecting declines in some **share prices** (Figure 68).

Figure 68: Lusaka All-Share Index and Market Capitalisation



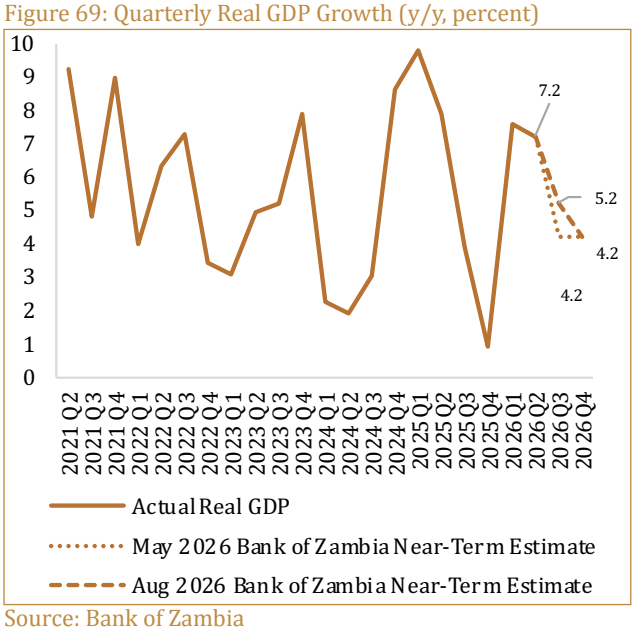
Source: Reuters and Bank of Zambia Compilations

2.4 Domestic Economic Activity

... moderates

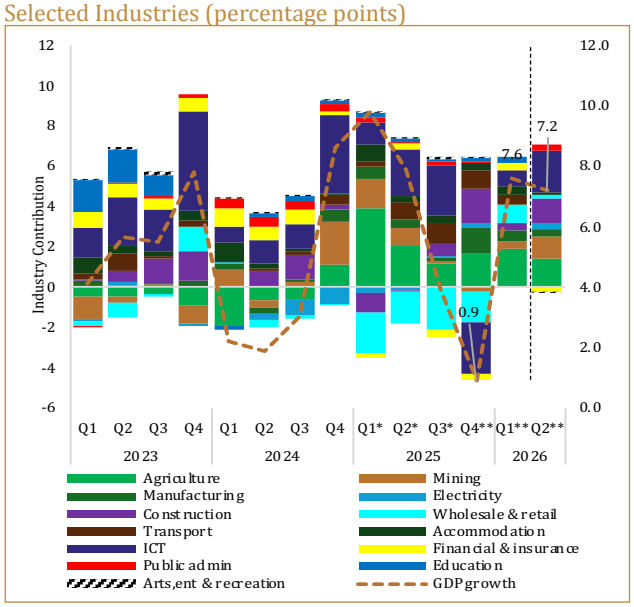
Real GDP growth moderated slightly in the second quarter to 7.2 percent from 7.6 percent in the first quarter[44] (Figures 68 and 70)[45]. Accounting for this moderation are contractions in financial and insurance activities; professional, scientific, and technical activities; as well as well arts, entertainment, and recreation sectors.

Figure 69: Quarterly Real GDP Growth (y/y, percent)



Source: Bank of Zambia

Figure 70: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)



Source: Zambia Statistics Agency and Compilations by Bank of Zambia

* = revised ** = preliminary

Note: Other sectors include education and public administration and defence, as well as administrative and support service activities.

[44] This compares favourably with the Bank's estimate of 7.0 percent growth for the second quarter.

[45] The first quarter recorded a strong rebound in economic growth, driven by expansions across multiple sectors (Figure 70). The agriculture, forestry and fishing sector was the largest contributor to growth, largely owing to a record harvest of 4.9 million metric tonnes of maize. This was followed by the wholesale and retail trade sector and information and communication (ICT) sector. Growth in the ICT sector was underpinned by continued investment in digital infrastructure, including the nationwide rollout of 4G and 5G networks, and the expansion of telecommunications towers. Expanded network coverage and enhanced service quality, facilitated by a more stable electricity supply, also strengthened sector performance. Improved electricity availability also boosted production and business operations in the manufacturing sector. Meanwhile, the wholesale and retail trade sector benefited from declining inflation, which supported consumer spending and trading activity. Other notable contributors to growth were transportation and storage, as well as mining and quarrying sectors.

The contraction in the financial and insurance services is attributed to valuation effects on foreign currency denominated loans and advances as well as offshore investments held by pension funds due to continued appreciation of the exchange rate. This resulted in a negative contribution of the sector by 0.2 percentage points to real GDP growth.

The underperformance of the arts, entertainment, and recreation was mainly due to the reduction in tourist arrivals .

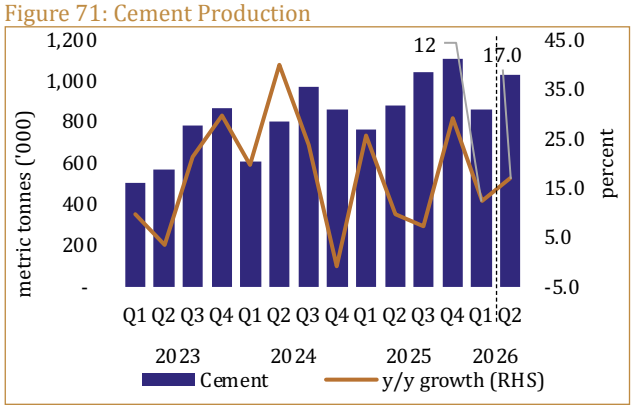
Partially offsetting the weaker performance registered in the aforementioned sectors was expansion in ICT, agriculture, construction, mining, manufacturing, and electricity supply sectors.

Strong performance in the ICT sector, which contributed approximately 2.1 percentage points to growth, was underpinned by increased mobile penetration, growth in active mobile network subscriptions, and higher broadband utilisation.

The record maize bumper harvest of 4.9 million metric tonnes largely explains the positive performance of the agriculture, forestry, and fishing sector. The sector contributed about 1.4 percentage points to overall growth.

Contributing 1.2 percentage points to overall growth, the construction sector benefited from improved electricity supply and continued implementation of major infrastructure projects[46]. Consistent with this performance, cement production growth picked up to 17.0 percent in the second quarter from 12.4 percent in the first quarter (Figure 71).

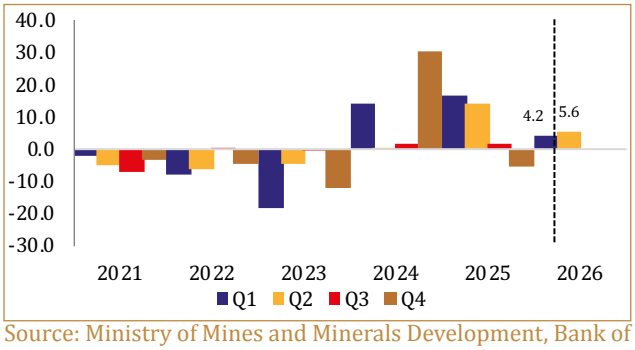
Figure 71: Cement Production



Source: Ministry of Mines and Mineral Development

Copper output growth increased to 5.6 percent in the second quarter from 4.2 percent in the first quarter (Figure 77 and Table 17). As a result, mining contributed 1.1 percentage points to overall growth. This was primarily driven by sustained output gains, high ore grade, as well as the resumption of operations at a major mine.

Figure 72: Copper Production Growth, (y/y, percent)



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

Although performance varied across manufacturing sub-sectors, positive outturns outweighed negative ones resulting in the sector contributing 0.4 percentage points to overall growth.

Strong growth was recorded in the leather (91.5 percent) sub-sector followed by the textile and clothing (5.3 percent) sub-sectors as well as milk and dairy products (1.6 percent) sub-sectors (Table 11). Leather production was supported by improved electricity supply and increased export orders. The pickup in textile and clothing activity reflected the resumption of operations at a major textiles plant. The milk and dairy products sub-sector also benefited from improved electricity supply. In addition, dairy processing was supported by increased milk supply, underpinned by enhanced pasture conditions and greater feed availability following favourable rainfall in the previous season.

[46] Some of the current infrastructure projects are the Lusaka-Ndola Road upgrade to dual carriageway: https://diggers.news/local/2026/06/22/lusaka-ndola-dual-carriageway-roadworks-reach-78/
Leopards Hill Solar Project: https://www.moe.gov.zm/?p=5758
Construction of the Luansobe-Machiya Road and Mpongwe-Machiya-Ngabwe Road: https://rda.org.zm/blog/mpongwe-machiya-road-project
Construction of telecommunication towers in Moomba, Mulobezi, Chinsali: https://www.parliament.gov.zm/node/13023

Table 11: Manufactured Products

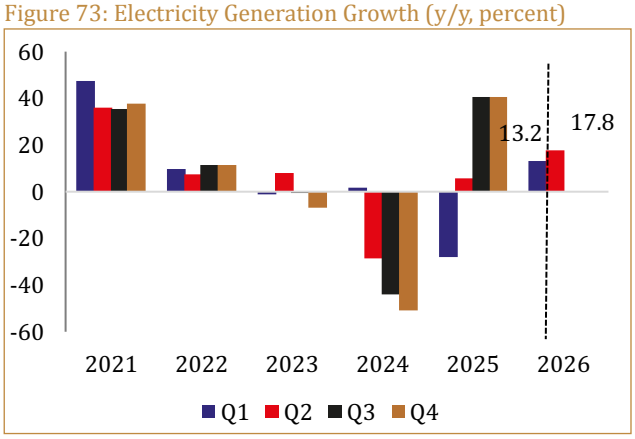
		2026 Q1	2026 Q2	Percent	Change
				q/q	y/y
Leather (kilograms)	126,694	172,076	242,633	41.0	91.5
Processed milk (hectolitres)	6,465,563	5,745,196	6,566,418	14.3	1.6
Textile and Clothing (metric tonnes)	56.8	55.63	59.8	7.4	5.3
Fabricated and Basic Metal Products (metric tonnes)	4,664	2,783	3,501	25.8	-24.9
Chemicals, Rubber and Plastics (metric tonnes)	522	794	415	-47.7	-20.6
Wood and Wood Products (cubic metres)	10,502	10,166	10,083	-0.8	-4.0
Clear beer (hectolitres)	759,384	663,555	742,235	11.9	-2.3
Paper and Paper Products (metric tonnes)	0	0	0	n/a	n/a

Source: Bank of Zambia

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

Electricity generation grew by 17.8 percent in the second quarter compared to 13.2 percent in the first quarter (Figure 73). Thus, the sector contributed about 0.3 percentage points to overall growth. Higher generation at key power stations largely underpin this robust growth.

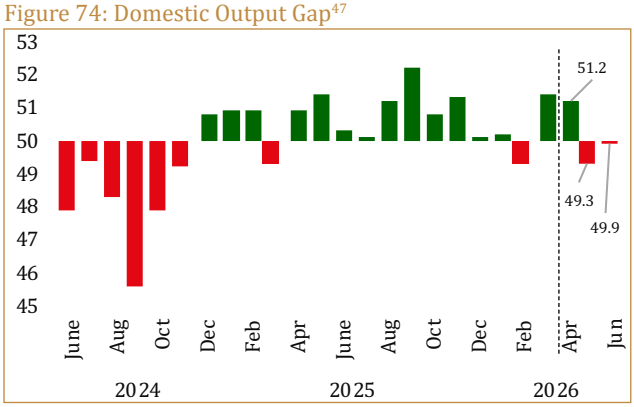
Figure 73: Electricity Generation Growth (y/y, percent)



Source: ZESCO, Bank of Zambia Compilations

Overall, the output gap widened further in the second quarter (Figure 74). This largely reflected constrained potential output on account of relatively tight monetary conditions and lower real fiscal expenditures.

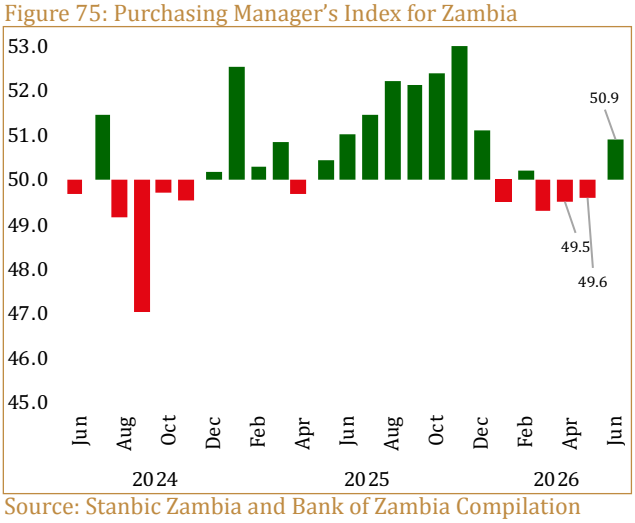
Figure 74: Domestic Output Gap[47]



Source: Bank of Zambia Computations

Private sector business conditions are assessed to have remained resilient in the second quarter based on the average ***Stanbic Bank Zambia (PMI)***[48] reading of 50.1 (Figure 75).

Figure 75: Purchasing Manager's Index for Zambia



Source: Stanbic Zambia and Bank of Zambia Compilation

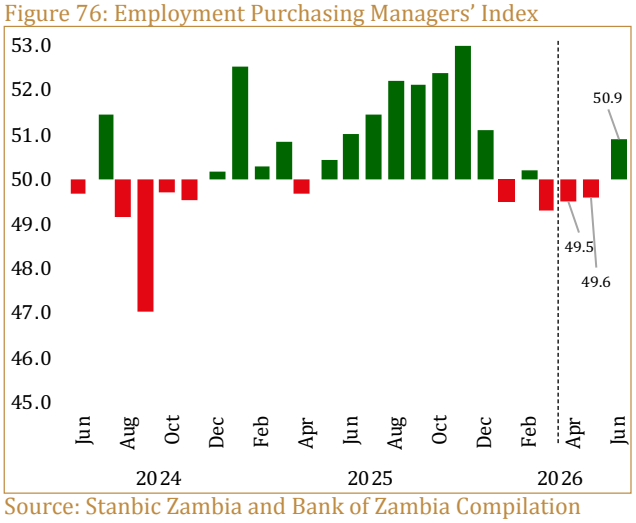
This was largely driven by firms' optimism about future business activity, which encouraged input purchases and inventory accumulation in anticipation of stronger demand. Stock building was facilitated by shorter supplier delivery times, suggesting improved vendor performance and increased competition among suppliers.

Amid expectations of improved business activity, labour market conditions stabilised, with the Employment PMI averaging 50.0 compared to 49.7 in the first quarter (Figure 76). Hiring resumed towards the end of the quarter as firms sought to clear work backlogs in the mining, agriculture, services, and construction sectors.

[47] The output gap is estimated using a statistical method that separates long-term growth from short-term fluctuations. While a negative gap may suggest the economy is performing below its usual trend, it does not necessarily imply a severe downturn. It could simply indicate a temporary slowdown or adjustment phase. These estimates should, therefore, be viewed as general indicators and not precise signals.

[48] The 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, 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.

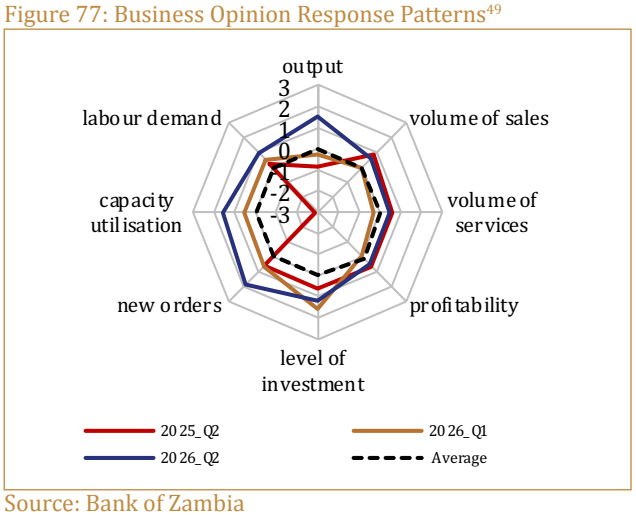
Figure 76: Employment Purchasing Managers' Index



Source: Stanbic Zambia and Bank of Zambia Compilation

The **August 2026 Quarterly Survey of Business Opinions and Expectations** also points to favourable business conditions during the second quarter (Figure 77). Firms attributed this to the decline in inflation, sustained exchange rate stability, and reliable electricity supply. Consequently, output, new orders, labour demand, and capacity utilisation increased on both y/y and q/q basis, and remained above their historical averages.

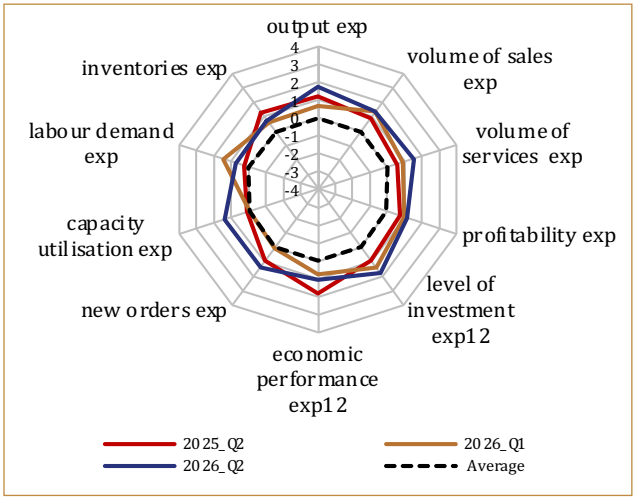
Figure 77: Business Opinion Response Patterns[49]



Source: Bank of Zambia

Firms remain optimistic about business activity in the third quarter, with output, sales, service activity, profitability, investment, new orders, and capacity utilisation expected to remain above historical averages (Figure 78). This is largely based on their expectations of the continued appreciation of the exchange rate and the anticipated impact of the 2025/26 bumper maize harvest on agro-processing and related sectors. However, labour demand is expected to ease relative to the previous survey, attributed to the seasonal moderation in agricultural activity after the end of the harvest period.

Figure78: Business Expectations Response Patterns



Source: Bank of Zambia

While business sentiment remains favourable, the Bank's near-term growth assessment points to the moderation in economic activity in the third quarter. Real GDP growth is projected to slow down further to 5.2 percent from 7.2 percent outturn in the second quarter (Figure 70)[50]. The weaker outlook is primarily based on anticipated slower growth in the mining, construction, and electricity sectors. Mining output is likely to be constrained by longer-than-usual maintenance shutdowns at some copper mines and smelters[51]. The probable moderation in the electricity and construction sectors could partly reflect base effects following strong growth recorded in the corresponding quarter of 2025.

2.5 Budget Performance

... impacted by weak revenue collections

According to preliminary data, a lower fiscal deficit was recorded for the second quarter than planned on account of expenditure management in view of relatively weak revenue collections. Nevertheless, it is important to note that the deficit was not impacted by the **liability management operation** conducted on June 15 involving the repurchase of the USD1.365 billion Fixed Rate Step-Up Amortising Notes (Eurobond) due in 2053[52].

[49] Survey indicators are standardised net balances with mean = 0 and standard deviation = 1. A value within the black circle entails weaker economic conditions than the historical average and a value outside the black line signifies an improvement over the historical average.

[50] Nonetheless, this is a slightly stronger outlook than the 4.2 percent projected in May (Figure 88).

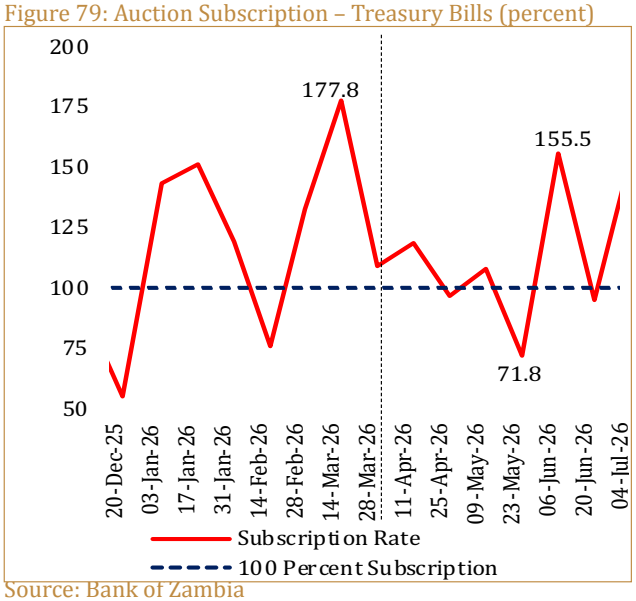
[51] Check section 1.2 footnote 3 for details.
https://www.reuters.com/world/africa/zambias-copper-smelters-plan-extended-shutdowns-squeezing-output-chemical-2026-04-20/
https://diggers.news/business/2026/06/03/kcm-shuts-down-nchanga-smelter-for-maintenance/

[52] This was part of the restructured external debt estimated at USD13.5 billion which included USD2.26 billion official bilateral debt, USD3.89 billion owed to Eurobond holders, and USD3.4 billion to other private creditors. Thus, buying back the Bond has generated savings on debt servicing costs.

The primary Government securities auctions remained an important source of financing the budget. Demand for Treasury bills (T-bills) remained relatively strong, exceeding offers by 7.8 percent, on average (Figure 79), but was subdued for Government bonds (bonds) as the average subscription rate was 61.8 percent in the two auctions held during the quarter (Figure 80).

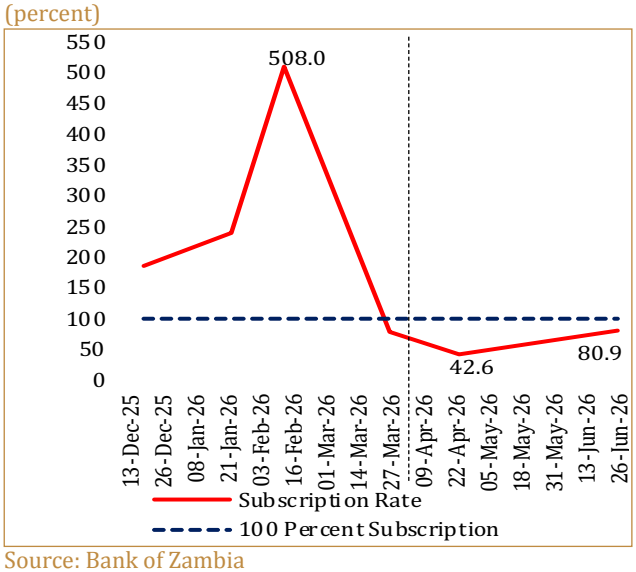
Demand for Treasury bills was mainly influenced by favourable liquidity conditions in the money market, hence the continued uptake by commercial banks. For bonds, demand was affected by the absence of nonresident investors in the primary market after having nearly exhausted their allocation in the previous quarter. The shift in bond auction frequency to **two auctions per quarter** from once per month could have also affected their participation.

Figure 79: Auction Subscription – Treasury Bills (percent)



Source: Bank of Zambia

Figure 80: Auction Subscription – Government Bonds (percent)



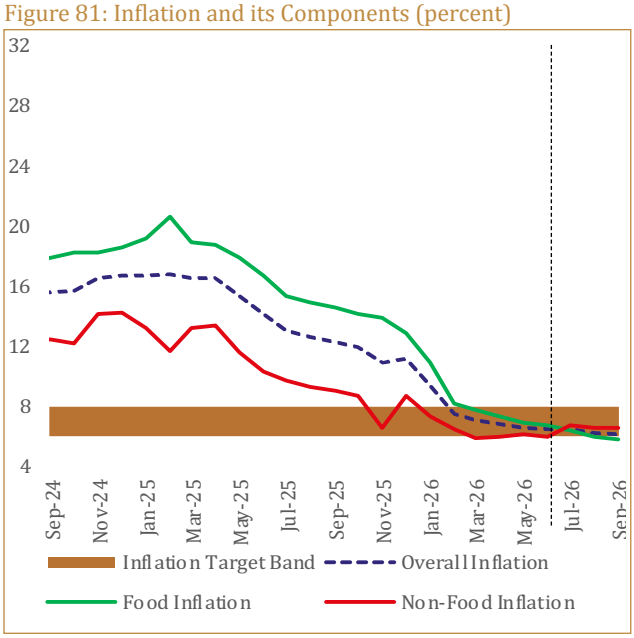
Source: Bank of Zambia

2.6 Domestic Inflation

... well within target band

Disinflation continued in the second quarter and has extended into the current quarter, overall inflation now firmly within the 6-8 percent target. Food inflation has breached the lower bound of the target band while non-food inflation hovers around 6.0 percent (Figure 81). The sustained decline in inflation has been driven primarily by lower maize grain prices and the continued appreciation of the exchange rate.

Figure 81: Inflation and its Components (percent)



Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

Overall inflation declined to 6.5 percent in June from 7.1 percent in March. It declined further to 6.1 percent in September. Over the same period, food inflation fell to 6.7 percent from 7.8 percent and currently stands at 5.8 percent. Non-food inflation has remained relatively stable, ending the second quarter at 6.0 percent before rising and stabilising around 6.6 percent in September. On average, overall inflation was 6.6 percent in the second quarter, broadly in line with the May baseline and MPC projection of 6.8 percent (Table 12, Table 13, and Figure 82).

Table 12: Inflation (percent)

	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Average					
Overall Inflation	15.3	12.6	11.3	8.0	6.6
Food Inflation	17.7	14.9	13.6	9.0	7.0
Non-Food Inflation	11.8	9.3	8.0	6.6	6.0
End-Period					
Overall Inflation	14.1	12.3	11.2	7.1	6.5
Food Inflation	16.7	14.6	12.9	7.8	6.7
Non-Food Inflation	10.3	9.0	8.7	5.9	6.0

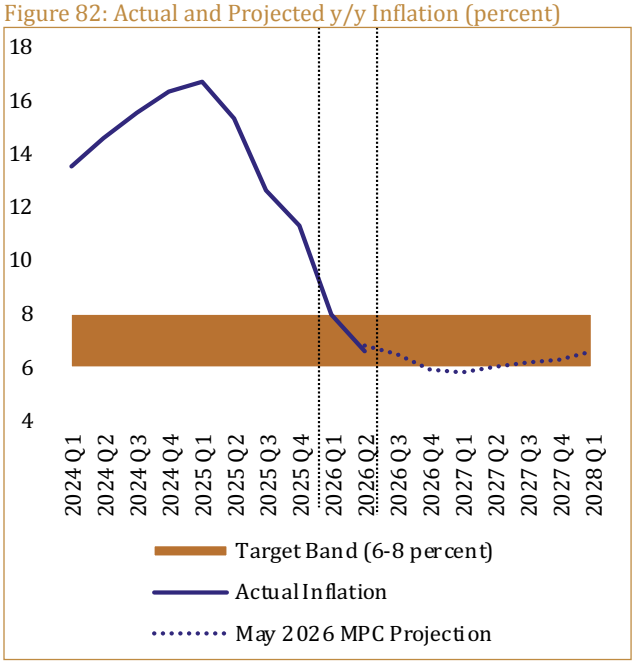
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

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

	2026 Q2	2026 Q2
	Assumed Value	Actual Value
Average inflation-USA (percent)	2.7	4.0
Fed funds rate (percent)	3.4	3.6
Average inflation-South Africa (percent)	4.0	4.3
Average copper price/ton (US$)	13,091.69	13,404.98
Average crude oil price/barrel (US$)	100.07	89.28
Reserve money growth (percent)	2.9	7.28
Fiscal deficit (ratio of expenditure to revenue)	1.09	1.12
World food price index	108.50	118.93
BoZ monetary policy rate (percent)	13.50	13.25
Inflation projection		
Baseline	6.8	
MPC	6.8	
May 2026 QSBOE expectations	7.6	
May 2026 SoEE	7.7	
Inflation outturn (percent)		6.6
Inflation estimate using actual values (percent)		6.5

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

Figure 82: Actual and Projected y/y Inflation (percent)



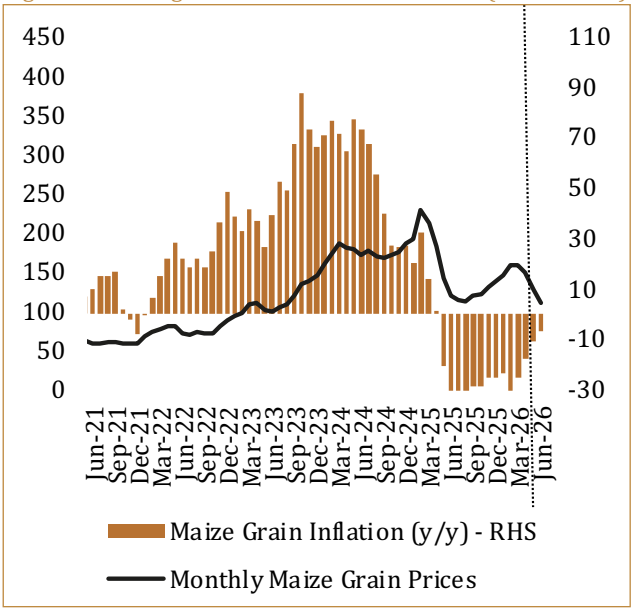
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Ample carryover maize grain stocks from the 2024/25 agricultural season, together with the current harvest, have significantly improved market supply conditions and kept inflation down by moderating prices of maize meal and other maize-based products.

Maize grain prices declined sharply to K110.80 per 20 litre tin in June from K157.80 in March (Figure 83). In turn, the price of breakfast and roller meal fell, maintaining the negative contribution to overall inflation (Figure 84, Figure 85 and Figure 86). In addition to improved maize grain supply, the increased availability of seasonal food alternatives[53] reduced demand for maize and its related products, further moderating food inflation and contributing to the broader slowdown in domestic price pressures.

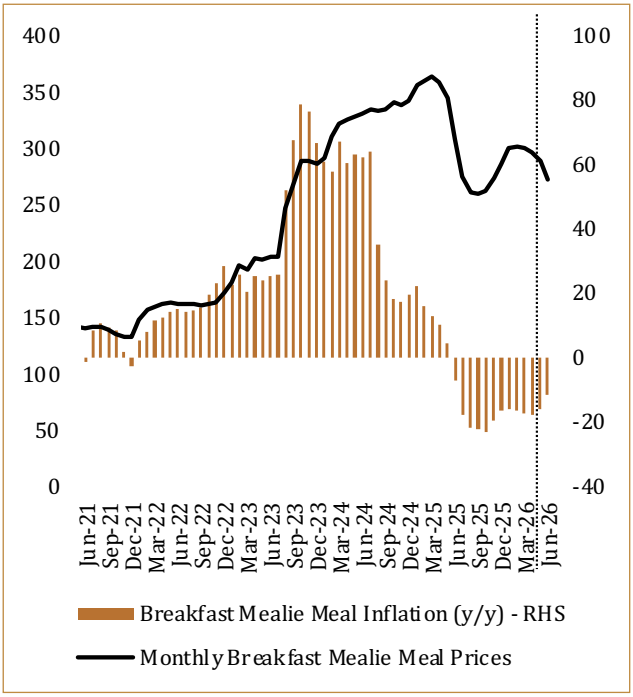
[53] The harvest of seasonal foods, such as, sweet potatoes, groundnuts, fresh maize, millet, and sorghum diversified consumption and exerted downward pressure on maize meal prices.

Figure 83: Average Domestic Maize Grain Price (20-Litre Tin)



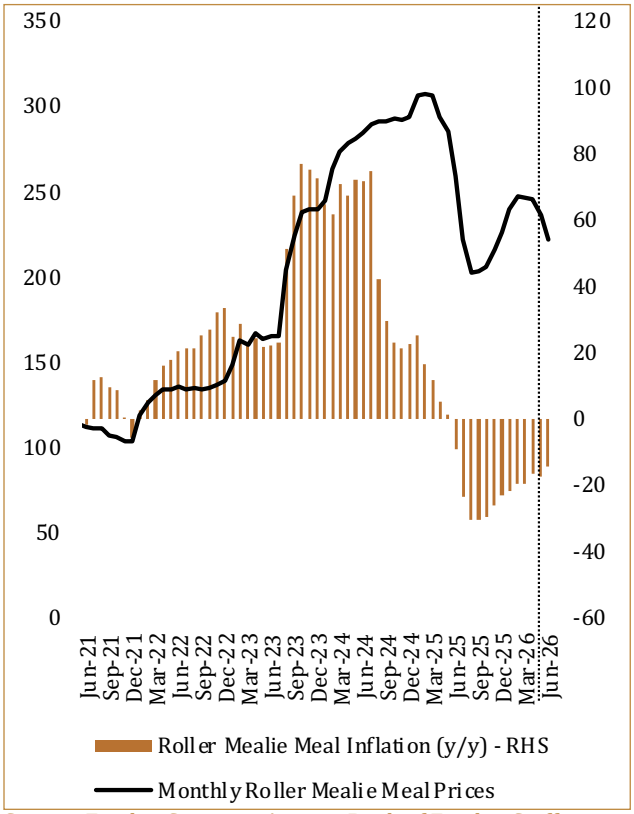
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 84: Average Breakfast Mealie Meal Price (K/25kg)



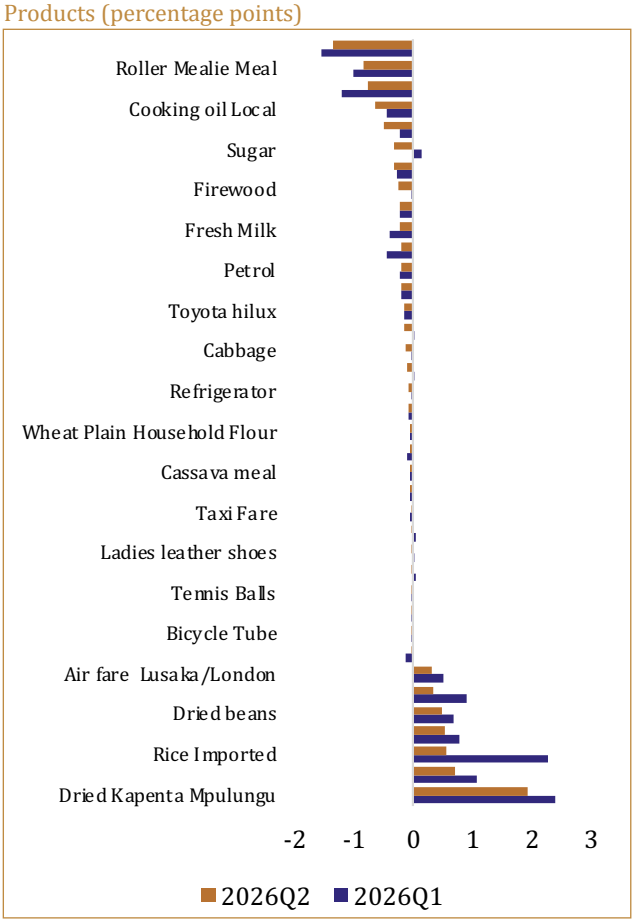
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 85: Average Roller Mealie Meal Price (K/25kg)



Source: Zambia Statistics Agency, Bank of Zambia Staff

Figure 86: Contribution to Overall Inflation by CPI Basket Products (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The appreciation of the exchange rate eased prices of a range of imported consumer goods, including cooking oil, motor vehicles (Nissan Sunny, Nissan Pick Up, Toyota Corolla, and Toyota Hilux), baby suit, rice, butter, refrigerators, chitenge material, and sewing machines (Figure 86). The appreciated exchange rate also reduced input costs for selected domestically produced goods, notably cooking oil, sugar, fresh milk, and buns, thus helping to contain price pressures (Figure 86).

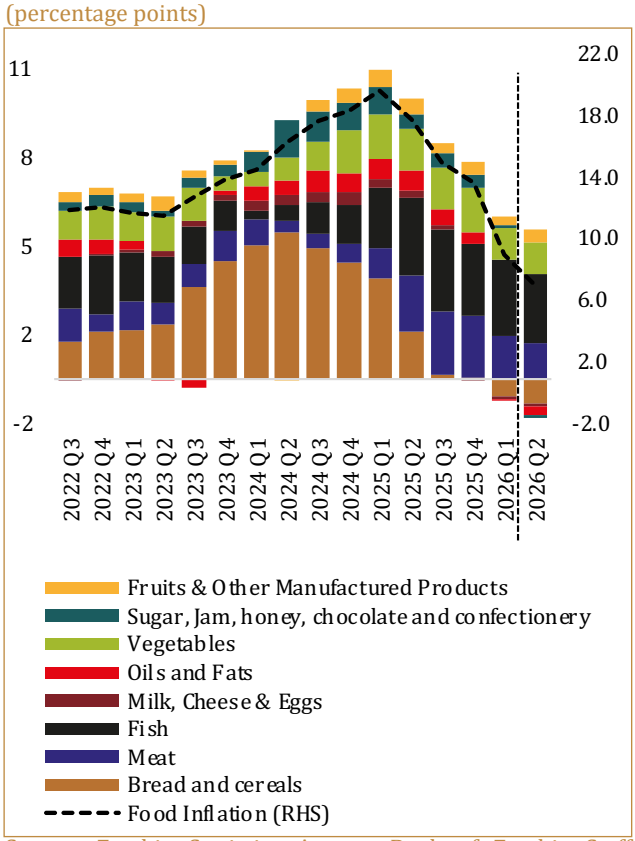
Other notable developments that supported the deceleration in inflation during the second quarter were declines in the prices of firewood, eggs, and several seasonal food items (Figure 86).

The contribution of firewood to disinflation mainly reflected favourable base effects. Meanwhile, reduced poultry feed costs, driven by lower maize grain prices, contributed to the decline in egg prices. Improved seasonal supply of cabbage, wheat, cassava, millet, sorghum, dried beans, kapenta, and rape further eased inflationary pressures.

The moderation in food inflation is evident in the persistent negative contribution of the **bread and cereals** sub-group (Figure 87). Other sub-groups exerting downward pressure on food inflation include **oils and fats**, **milk, cheese and eggs** as well as **sugar, jam, honey, chocolate and confectionery** (Figure 87). Within the non-food category, the **transport** sub-group continued to dampen inflation, largely reflecting lower airfares associated with the appreciation of the exchange rate (Figure 88).

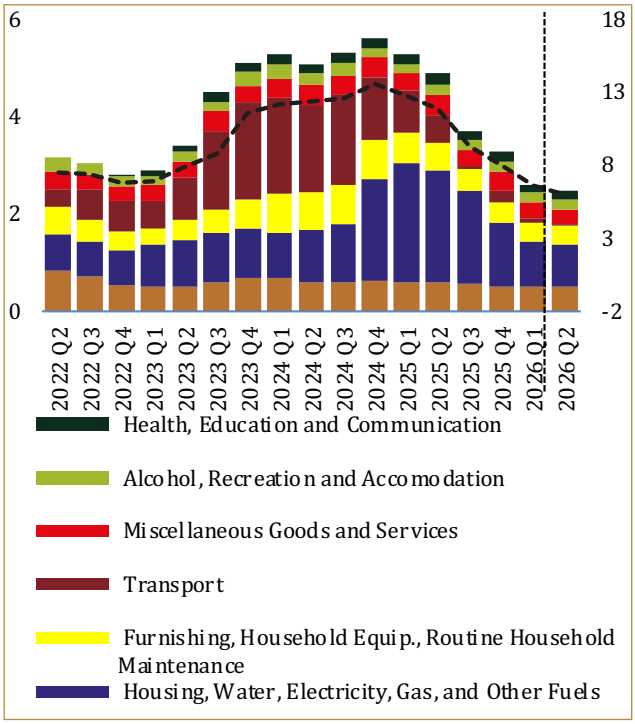
As a result, the contribution of food inflation to overall inflation declined to 4.2 percentage points in June from 5.4 percentage points in March (Figure 89). The contribution of non-food inflation also eased, albeit marginally, to 2.4 percentage points from 2.6 percentage points over the same period.

Figure 87: Contribution to Food Inflation by Sub-Group (percentage points)



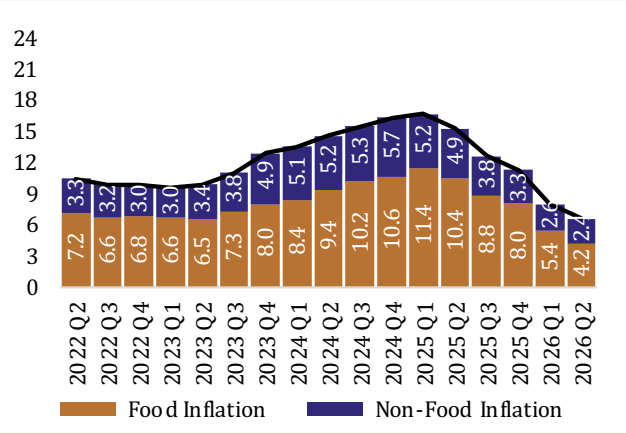
Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 88: Contribution to Non-Food Inflation by Sub- Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 89: Contribution to Overall Inflation by Food and Non-Food Inflation (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The inflation outturn during the second quarter was below what was anticipated by respondents to the Bank of Zambia survey-based expectations. Businesses and economic experts, captured in the ***May 2026 Quarterly Survey of Business Opinions and Expectations*** and **the *Survey of Economic Expectations***, projected inflation to be 7.6 percent and 7.7 percent, respectively (Table 14). The higher expectations were largely based on concerns about persistent geopolitical uncertainties and the potential inflationary effects of more Government spending ahead of the August General Elections. However, the stronger-than-expected disinflationary impact of the decline in maize grain prices and appreciation of the exchange rate more than offset these risks, bringing inflation down during the quarter.

Table 14: Actual and Projected Inflation [54]

	Actual Inflation	Baseline Projection	MPC Projection	QSBOE	SOEE
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
2026 Q2	6.6	6.8	6.8	7.6	7.7

Source: Bank of Zambia Staff Computations

[54] Data 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.
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

Measure	Date Implemented	Rationale
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 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.

Measure	Date Implemented	Rationale
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 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
Statutory reserve ratio on Kwacha deposits reduced to 21.0 percent from 26.0 percent	August 3, 2026	Necessitated by eased inflationary pressures and stability in the foreign exchange market.
Compliance with statutory reserve requirement moved to weekly from daily		
OLF margin reduced by 5.0 percentage points to 11.5 percentage points		
Policy Rate reduced to 10.75 percent	September 30, 2026	In view of the lower inflation outcome, projection that inflation would remain within the target band over the forecast horizon, and the need to align the monetary policy stance with the improved inflation outlook.