ZAMBIA COUNTRY RISK ANALYSIS: UPDATE 27.08.2026

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MACRO-ENVIRONMENTAL ANALYSIS

COUNTRY RISK ANALYSIS FOR ZAMBIA.

Political System

Zambia has been a stable democracy since gaining independence from British colonial rule in 1964. The country's government is divided into three branches: the executive, legislative, and judicial. With a multi-party system and a liberalised economy, Zambia's President serves as both head of state and government, elected by popular vote for a five-year term, limited to two terms. Hakainde Hichilema currently holds the presidency, having been elected in August 2021 and re-elected in August 2026. Geographically, Zambia is a landlocked country in Southern Africa, rich in natural resources and sparsely populated. It shares borders with eight neighbouring countries, including Angola, Botswana, the Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania, and Zimbabwe. Zambia is an active member of regional organisations, such as the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The country's official currency is the Zambian Kwacha (ZMW), and its capital city is Lusaka.

Legal Framework

The Constitution is the foundation of Zambia's legal system, serving as the supreme law from which all other laws and regulations are derived. While the country generally upholds the rule of law, there are areas for improvement. Court proceedings can be slow, and some high-profile individuals have been known to disregard the law. To address these concerns, Zambia has initiated judicial reforms, including the establishment of a financial crimes court in 2022 and efforts to strengthen law enforcement.

Zambia Demographics

Zambia has one of the world's youngest populations, with a median age that's notably low. The country's population is approximately 21.91 million, with a significant portion residing in rural areas, although rapid urbanisation is underway. Zambia's population growth rate stands at 2.8% per year. Life expectancy is relatively short, at around 67years (World Bank, 2024). However, world data suggest that there is dip in a literacy rate from 86% in 2020 to 78% among adults as of 2024. This highlights that low skills and capacity contribute to limited labour productivity.

Physical Environment

Zambia's tropical savannah environment has historically been stable, but in recent years, the country has faced natural disasters like droughts, floods, and pest invasions, as well as disease outbreaks affecting both humans and animals. These events have had severe impacts on the environment and economy. On the global stage, Zambia is an active member of international organisations, including the UN, World Bank, IMF, and African Union. The country has also signed key agreements on issues like anti-money laundering, counter-terrorism financing, human trafficking, and climate change, and works to adhere to these protocols.

Macroeconomic Developments and Outlook

Zambia's macroeconomic landscape in 2025-26 is one of gradual recovery after the severe drought of 2024, the worst since independence. The drought sharply curtailed agricultural output, collapsed hydroelectric generation, and pushed inflation well above the target band. Despite these headwinds, the economy showed more resilience than initially expected. The 2026 budget emphasises fiscal consolidation, targeting a deficit of 2.1% of GDP – the lowest in over a decade. This compares with a revised 2025 deficit of about 4.6%, which rose after drought-related spending and a supplementary budget.

Looking ahead, macroeconomic fundamentals are expected to strengthen, with sustained growth and moderated inflation.

GDP Growth:

According to more recent Bank of Zambia and international institution data, Zambia’s economy grew approximately 3.8% in 2024 and by approximately 3.8% in 2025, based on preliminary/revised BOZ estimates. Growth for 2026 is now forecast in the 4.3–4.8% range (Bank of Zambia May 2026 Monetary Policy Report: 4.8%; IMF World Economic Outlook updates approximately 4.3%), down from earlier higher projections of 5.8%. Drivers remain mining, agricultural recovery, and ICT, but energy constraints and global risks have moderated the outlook.

In 2024, copper prices rose from USD 8,490 to USD 9,142 per metric tonne (in 2023). However, copper prices breached USD 10,000 per tonne in Q4 2025, which is a significant boost to Zambia's export receipts and fiscal revenue. Copper has continued to rally sharply, hitting record highs near USD 14,500/tonne on the LME in August 2026, driven by AI/data-centre power-grid demand and tight global warehouse stocks -- a further boost to Zambia's export earnings.

Main contributors to growth

- **Mining and quarrying**: Copper alone contributes around 15% of GDP and over 70% of exports, underscoring its role as the country’s principal source of foreign-currency earnings. Actual 2025 copper production reached approximately 890,346 tonnes (up about 8% from 2024’s approximately 825,000 tonnes), falling short of the 1 million tonne target, The long-term goal of 3 million by 2031 remains. Higher copper prices magnify the value of this growth.

- **Agriculture**: After the 2023/24 drought, the 2024/25 farming season produced a record bumper maize harvest of 3.7 million tonnes. This both lowered food prices (helping disinflation) and supported rural incomes.
- **Information and Communication Technology (ICT):** As per the Bank of Zambia's February 2026 Monetary Policy Report, ICT is consistently one of the largest contributors to GDP growth, reflecting fast-growing mobile money, fibre rollout, and digital services.
- **Construction**: The 28.4% surge in cement production in Q4 2025 reflects strong activity in road and rail rehabilitation, energy projects, and civil works.
- **Tourism and accommodation**: International arrivals have doubled from 1.1 million in 2022 to 2.2 million in 2024. Zambia is leveraging the Victoria Falls to attract more tourists

Inflation Outturn

Zambia's inflation rate has remained in double digits for an extended period. On the positive front, as per BoZ data, Headline inflation declined to 11.2% in December 2025 from 12.3% in September 2025 and 16.7% at the end of 2024. In January 2026, inflation fell sharply to 9.4%. The decline in inflation was largely driven by the continued impact of the maize bumper harvest from the 2024/25 farming season and the appreciation of the Kwacha against major currencies. Inflation has continued to ease thereafter, entering the BoZ's 6–8% target range ahead of schedule and reaching 6.2% in August 2026, its lowest level since February 2018.

The BoZ's revised baseline inflation forecast now shows inflation reaching the 6-8% target band by Q2 2026, averaging 6.9% for the full year 2026 and 6.3% in 2027. This is a more optimistic path compared to the November 2025 projections (7.6% for 2026 and 6.6% for 2027). This improvement is supported by: (i) bumper maize harvest of 3.7-3.8 million metric tonnes from the 2024/25 season; (ii) continued Kwacha appreciation; (iii) lower global energy prices; and (iv) the lagged effects of tight monetary policy.

Interest Rates

In response to rising inflation, the BoZ aggressively tightened monetary policy throughout 2024. The Monetary Policy Rate (MPR) was raised by a cumulative 300 basis points to 14% during 2024 (from 11% in Feb-24 to 14% in Nov-24, which further increased to 14.25% in Feb-25). In a historic and aggressive move, the BoZ also raised the Statutory Reserve Ratio (SRR) by 900 basis points to 26%. At its Feb-26 meeting, the Monetary Policy Committee decided to reduce the Monetary Policy Rate by 75 basis points to 13.5%, marking the beginning of an easing cycle. The MPC cut the rate further by 25 basis points, to

13.25% at its May 2026 meeting -- a third consecutive cut -- with the next review scheduled for 30 September 2026.

Commercial bank lending rates on local currency-denominated loans remain high in Zambia, ranging between 25% and 30% from September 2021 to June 2025. This makes credit expensive for businesses and consumers, negatively impacting economic activity and GDP growth. The commercial banks' nominal lending rate maintained a steady declining trend in the fourth quarter, moving down to 28.0% in December 2025 from 28.6% in September 2025, in part due to the marginal cut in the Policy Rate.

Exchange Rate Depreciation and Volatility

The Zambian currency (ZMW), the Kwacha, is subject to wild swings against major convertible currencies, namely, the USD, the Swiss Franc, the South African Rand and the Euro. Currency depreciation is a major source of inflation in Zambia as the country is import-dependent. Between July 2023 and February 2025, the ZMW steadily depreciated against the US dollar, with a turning point observed in March 2025. From the second quarter of 2025, the ZMW appreciated by 14.4%, followed by a further 3.1% in the third quarter, and 4.1% in the fourth quarter. This is primarily supported by increased foreign exchange inflows from the mining sector. The Kwacha's appreciation has continued into 2026, strengthening by roughly 18% against the US dollar year-to-date by July 2026 and trading below K19/USD -- making it one of the world's best-performing currencies this year. However, the Systemic Risk Survey (September 2025) identifies exchange rate volatility as one of the top three risks cited by financial institutions, particularly insurance companies and pension funds.

Trade Performance

Zambia ran a current-account deficit in 2025. The deficit widened to US$140.0 million (2.0% of GDP) in Q4 2025 from US$28.5 million (0.4% of GDP) in Q3 2025. However, Zambia's outlook for the current account is positive from 2026, as the current account balance is projected to shift to a surplus in 2026 and further widen on the back of expected stronger net exports linked to buoyant copper prices and expanding output. A current account surplus of USD 0.3 billion is projected for 2026, widening to USD 1.8 billion in 2027. This estimation is based on anticipated higher copper export earnings as prices remain elevated and production expands further.

According to the Bank of Zambia's Direction of Trade Report for Q4 2025, total export earnings reached US$3.85 billion, a 25.4% increase year-on-year. Copper and articles thereof made up US$2.62 billion (about 68% of exports), driven by higher production volumes and elevated prices. Non-traditional exports (NTEs) reached US$1.14 billion, led by sulphur, beverages, and tobacco.

Top export destinations (Q4 2025):

Country	Q4 2025 (US$ mn)	Key product
Canada	1,140.5	Refined copper
Switzerland	627.3	Copper
DRC	486.7	Beverages, sulphur
Singapore	471.3	Copper
China	426.0	Copper, tobacco
UAE	134.0	Tobacco
South Africa	101.4	NTEs

Table 1

Total imports rose 13.5% y/y to US$3.7 billion in Q4 2025. The main drivers were vehicles, chemicals, electrical machinery, and fertilisers. The top five sources accounted for 61.6% of total imports.

Top import sources (Q4 2025)

Country	Q4 2025 (US$ mn)
South Africa	902.0
China	713.9
UAE	329.3
Japan	190.2
India	164.7
Tanzania	118.0
DRC	104.2

Table 2

Fiscal Performance

The fiscal deficit has narrowed significantly from 9.0% of GDP in 2021 to a projected 3.1% in 2025 and 2.1% in 2026, reflecting improved fiscal discipline and debt management. The upward adjustment reflects the need to clear fuel arrears and meet higher external debt service obligations following the conclusion of several bilateral agreements under the G20 Common Framework for Debt Relief. The IMF (May 2026) confirms the 2025 primary fiscal surplus came in at 3.1% of GDP, but notes that fiscal pressures have since intensified in 2026 -- the primary surplus is now projected at only 1.1% of GDP (versus 3.8% projected at the Sixth ECF Review), reflecting fuel-tax relief, agricultural subsidy overruns of about 1.3% of GDP, pre-election spending, a civil-service wage adjustment and Food Reserve Agency overruns.

The 2026 National Budget totals K253.1 billion (27.4% of GDP), with 81.6% financed through domestic revenue, with tax revenue contributing 65.5% and non-tax revenue 16.8% (EY Zambia Budget Analysis). Key expenditure allocations include:

- Education: K33.0 billion
- Health: K26.2 billion

- Economic affairs: K58.6 billion
- Domestic debt interest: K52.0 billion
- External debt obligations: K21.7 billion
- Social protection programs: K15.7 billion

International Reserves

Zambia's international reserves position continued to improve. Gross international reserves increased to USD 5.5 billion at the end of December 2025 (equivalent to 4.8 months of import cover), up from USD 4.7 billion (4.7 months of import cover) as of June 2025. The accumulation of reserves was primarily driven by the World Bank project receipts (USD 137.9 million), net statutory reserve deposits (USD 55.0 million), interest earnings on reserves (USD 25.0 million), and domestic gold purchases. Reserves have since risen further, to USD 6.4 billion (equivalent to 4.4 months of prospective imports) as of May 2026, per IMF assessment.

Zambia's Debt Position

Public debt peaked at over 133% of GDP in 2023 — an unsustainable level. Following the completion of debt restructuring under the G20 Common Framework (including bilateral agreements with China and other creditors) and the Eurobond restructuring in July 2024, the debt burden has begun to ease.

Debt is estimated to fall to approximately 100.1% of GDP by the end of 2025 (83.5% by 2026), which is still high, but a meaningful reduction. Approximately 94% of Zambia's external debt has been covered under restructuring agreements. However, debt distress remains in sight for Zambia. The debt service to revenue ratio is currently at 21.4 % in 2025 against 14%, which is the target, mainly on account of PDI accrued in 2023 and 2024, as well as the fuel liability management operation. Accordingly, to resolve the breach, Zambia needs about USD 3.1 billion in new revenue measures to meet the DSA programme parameters.

IMF ECF Programme

Zambia is currently on an IMF Extended Credit Facility (ECF) programme. IMF recently completed the sixth review of this programme, The completion of this review allows for an immediate disbursement of SDR 138.9 million (about US$190 million), bringing Zambia's total disbursement under the ECF-supported program to SDR 1,271.66 million (about US$1.7 billion). The program seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, enhance public governance, and foster inclusive growth. The IMF assessed the Zambian Government's performance under the programme as satisfactory.

Financial Sector Performance and Stability

Zambia's banking sector is well-capitalised and broadly healthy. According to the Bank of Zambia's October 2025 Financial Stability Report, the sector-wide capital adequacy ratio (CAR) stood at 25.0% — well above the 10% prudential minimum. Common Equity Tier-1 (CET1) capital is at 20.0%, and the leverage ratio is 10.9%.

Indicator	Latest reading	Prudential threshold
Capital Adequacy Ratio (CAR)	25.00%	≥ 10%
Common Equity Tier-1 (CET1)	20.00%	≥ 6% (new rule)
Leverage Ratio	10.90%	≥ 6% (new rule)
Non-Performing Loans (NPL) ratio	3.80%	≤ 10%
Loan-loss provisioning coverage	99.10%	≥ 80%
Loan-to-deposit ratio	41.50%	Not applicable

Table 3

Through Statutory Instrument 62 of 2025, the Bank of Zambia issued new Banking and Financial Services (Capital Adequacy) Rules that align Zambia's framework with Basel II and III. From 31 December 2025, banks must hold:

- CET1 capital of at least 6% of risk-weighted assets
- Primary capital ratio of at least 8% (commercial banks), 10% for financial institutions
- Total regulatory capital of at least 10% (15% for microfinance institutions)
- Capital Conservation Buffer (CCB) of 3% in CET1
- Countercyclical Capital Buffer (CCyB) currently at 0% (can move 0–2.5%)
- Leverage ratio of 6%

These reforms are positive for long-term resilience. However, the microfinance institutions face rising credit risk as NPLs on public-service worker loans rose 142% to K1.6 billion, with an NPL ratio of 17.7% on this exposure. The insurance industry is experiencing solvency stress, with combined ratios above 100% (especially in life insurance at 124.3%). Pension funds, by contrast, are doing well, with net assets up 8.3% to K23.8 billion and net return on assets at 35% in mid-2025.

Sovereign Credit Ratings

The November 2025 ratings actions are the most important development for Zambia's market access in five years. Within just eight days, two of the three major rating agencies pulled the country out of default. These matters, as many global funds are barred from holding instruments rated as default or selective default. Moving to CCC+ and B− re-opens the door for these investors to hold Zambia's Eurobonds and (over time) its local-currency debt.

Agency	Old rating	New rating	Date	Outlook
S&P Global	SD (Selective Default)	CCC+ / C	08/06/2026	Stable
Fitch Ratings	RD (Restricted Default)	B–	28/11/2025	Stable
Moody's	Caa2	Affirmed	10/04/2026	Positive

Table 4

S&P Global Ratings affirmed Zambia's CCC+/C rating and stable outlook on 8 June 2026 -- no change to the rating level shown above.

Conclusion

2025–2026 is an economic transition year for Zambia, moving from crisis to consolidation, from debt default to restructuring completion, from drought-induced contraction to agricultural recovery.

Zambia's outlook is positive but requires several things to go right. Like a stable and reform-focused political environment as national elections are coming in 2026, continued IMF support, copper prices remaining above US$10,000/tonne, normal rainfall, and inflation moving into the 6–8% target band.

Zambia is reliant on crude oil imports from the Middle East, with about 38% of petroleum products imported directly from the region in 2024. Therefore, the country is exposed to developments in the region that affect the supply and pricing of crude oil — a critical input to many key sectors. The recent geopolitical tensions in the Middle East have disrupted the transit of cargo through critical shipping routes. The escalation of tensions in the region has at times resulted in surges in the price of crude oil as traders price in geopolitical risk.

However, social risks are also significant, with high poverty, inequality, and unemployment. The country's healthcare and education systems are underdeveloped, limiting access to basic services. Overall, Zambia poses a moderate risk. To move forward, Zambia needs to implement sound policies, practice prudent fiscal management, and collaborate closely with key stakeholders. By doing so, the country can work towards economic stability and development.

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