



ZAMBIA COUNTRY RISK ANALYSIS: UPDATE 08.12.2025



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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. 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 19.6 million, with a significant portion residing in rural areas, although rapid urbanisation is underway. Zambia's population growth rate stands at 2.7% per year. Life expectancy is relatively short, at around 64.96 years (World Bank, 2025). However, the country has made progress in education, with a literacy rate of 88% among adults as of 2020. Despite this, the IMF 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 economy has shown resilience, supported by mining, agriculture, and ICT, with inflation gradually easing and the currency stabilising. Fiscal and external balances are improving, while the financial sector remains stable and profitable. Looking ahead, macroeconomic fundamentals are expected to strengthen, with sustained growth and moderated inflation.

GDP Growth

According to the World Bank, GDP grew by 4.5% year-on-year in the first quarter of 2025, up from 2.2% in the same period of 2024, supported by strong performance in agriculture, mining, and services despite persistent power shortages. Agriculture achieved a significant milestone, with a maize harvest of 3.8m metric tons, positioning the country as a net maize exporter. Economic growth is projected to strengthen further to 5.8% in 2025, driven by increased mining activity, a rebound in agricultural output, and robust performance in the information and communication technology sector. Over the medium term, GDP is expected to grow by 6.4% in 2026 and 6.5% in 2027, underpinned by the same key growth drivers.

Inflation Outturn

Zambia's inflation rate has remained in double digits for an extended period. On the positive front, as per RoZ data, the inflation fell to 11.9% in October 2025 from a peak of 16.7% in December 2024, moving closer to the authorities' target band of 6–8%. The disinflation trend is largely attributable to lower food prices following a bumper maize harvest of 3.7 million metric tonnes, the appreciation of the Kwacha against major currencies, reduced fuel prices, and the continued impact of a tight monetary policy stance. Going forward, inflation is expected to ease more rapidly than previously projected, averaging 7.6% in 2026 and declining further to 6.6% in the first three quarters of 2027.

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. In October, the currency strengthened an additional 3.9%, primarily supported by increased foreign exchange inflows from the mining sector.

Trade Performance

Between Q3 2024 and Q2 2025, Zambia's current account remained consistently in deficit, before turning to a surplus of USD 30m (0.4% of GDP) in Q3 2025, compared with a deficit of USD 500m (7.8% of GDP) in Q2. The surplus was driven by stronger export growth relative to imports and a reduction in reinvested earnings. Exports rose by 22.1% to USD 3.7bn, supported by higher copper earnings and growth in non-traditional exports, including maize, burley tobacco, electrical cables, cement and lime, and gemstones. Imports increased by 11.8% to USD 3.1bn, reflecting sustained demand for intermediate and capital goods particularly industrial boilers and equipment, electrical machinery, and motor vehicles partly facilitated by the appreciation of the ZMW.

Fiscal Performance

The Zambian National budget has run fiscal deficits for decades on account of low revenue performance. The budget deficit for 2024 stands at 3.5% of GDP and is projected at 4.6 % of GDP for 2025 (Budget Speech 2026), revised from the earlier forecast of 3.1%. 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. Further, for FY26 Zambia projects a reduction in the fiscal deficit to 2.1% of GDP.

International Reserves

Zambia's international reserves position continued to improve. Gross international reserves increased to USD 5.2bn at end-September 2025 (equivalent to 5.2 months of import cover) up from USD 4.7bn (4.7 months of import cover) as of June 2025. The accumulation of reserves was primarily driven by the disbursement of USD 191.1 million under the IMF Extended Credit Facility (ECF) arrangement, project-related receipts, net statutory reserve deposits, purchases by the Bank of Zambia, and interest earnings on reserves. . International reserves are key for a country to absorb economic shocks and sustain macroeconomic stability.

Interest Rates

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. In the medium term, lending rates are expected to remain elevated, premised on the tight monetary policy stance of the monetary authority to curb rising inflationary pressures in the country. However, the Bank of Zambia responded

with multiple rate hikes; by early 2025, the policy rate had reached 14.5%, before being cut to 14.25% in November 2025 as inflation started to ease.

Zambia's Debt Position

Till FY23, Zambia's public debt remained high at over 133% of GDP. In June 2023, Zambia reached preliminary agreements with its official creditors, including China, to restructure its debt. Due to this restructuring, Zambia's public debt is expected to fall from 133% of GDP in 2023 to 90.7% in 2025, with agreements covering about 94% of Zambia's external debt being restructured. After restructuring Zambia's bonds in July 2024, investor confidence has soured, as shown by Zambia's bond performance. However, debt distress remains in sight for Zambia. The debt service to revenue ratio is currently at 24.2% 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 3.1bn 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 fifth review of this programme, which allowed for the immediate disbursement of SDR 139.88 million (about US\$184 million), bringing Zambia's total disbursement under the ECF-supported program to SDR 1132.74 million (about US\$1.55 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 demonstrates solid performance, with adequate liquidity, profitability, asset quality and capitalization, with a relatively low non-performing loans ratio of 3.8% as at end-August 2025, well below the prudential benchmark of 10%. Similarly, the non-bank financial sector also remains relatively stable. However, financial system stability faces increasing risks due to reduced economic activity from drought, low financial intermediation, sovereign-bank nexus, concentration of loans and deposits, dollarisation of loans, maturity mismatches, inflation, geopolitical tensions and exchange rate volatility. Despite these challenges, the banking sector remains resilient. Nonetheless, Zambia's financial system is still underdeveloped, as indicated by the World Bank's Financial Development Index (FDI) (World Bank, 2025).

Conclusion

Zambia's political landscape is relatively stable, but economic risks are elevated due to high debt, fiscal deficits, and drought impacts. 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. However, the government has demonstrated commitment to economic recovery and addressing shocks, supported by the IMF's Extended Credit Facility (ECF) program. Also, S&P Global Ratings and Fitch Ratings have upgraded to CCC+ and B-, which validates the economic progress. 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.