Bank of Zambia

FINANCIAL STABILITY STATEMENT

(This Statement is issued pursuant to Section 34(1) of the Bank of Zambia Act, 2022)

The Financial Stability Committee (FSC), at its Meeting held in April 2025, assessed risks to financial stability to have reduced since the release of the ***October 2024 Financial Stability Report***. Moderation in the financial markets stress and improvements in the macroeconomic environment were the two main drivers. However, the Committee still has concerns about the lingering vulnerabilities that could compromise financial stability. These include: the continued deficit in electricity supply; low financial intermediation; elevated share in total loans of foreign-currency-denominated loans; and maturity mismatches. The FSC is also monitoring developments relating to the escalation in the global trade war, which has generated extreme uncertainty that could potentially have adverse effects on financial stability.

Financial markets risk is assessed to have eased as asset valuations rose and volatility across the markets reduced. Yields on Government securities fell as liquidity conditions improved and with a pick-up in economic activity, equity prices rose. The improvement in liquidity conditions was also reflected in reduced volatility in the money market. Similarly, volatility in the exchange rate subsided due to smoothening operations by the central bank amidst some eased demand.

Macroeconomic risks moderated as economic activity turned out to be stronger than expected and the sovereign risk declined. In addition, the risk associated with private sector credit growth reduced, with the credit-to-GDP gap contracting further and remaining below the Basel III recommended threshold of 2.0 percentage points. However, financial stability could be compromised if private sector credit growth, and the associated financial intermediation, remain low. Furthermore, the resilience of the financial system could be undermined by the escalating global trade war.

The banking sector has continued to be adequately capitalised and resilient to shocks. However, the Committee is concerned about two key imbalances on the banks' balance sheets. Firstly, the quality of the credit portfolio has been reduced by the increase in the proportion of foreign currency-denominated loans. Secondly, vulnerability to interest rate risk has risen slightly in the wake of widening maturity mismatches.

The Committee has further noted imbalances in the non-bank financial institutions sector. While insurance corporations' revenue grew amid a recovery in economic activity, low profitability lingers. Pension funds have continued contending with an elevated share of contribution arrears on their balance sheets, which raises liquidity risk. In view of the capital position for the banks remaining well above the regulatory requirement, underpinning their resilience to unexpected losses, and the credit-to-GDP gap being below the Basel III recommended threshold, implying that there is still scope for further growth in private credit, the Committee decided to maintain the countercyclical capital buffer (CCyB) at 0.0 percent.

The next FSC Statement will be issued in October 2025.

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GOVERNOR AND CHAIRMAN OF THE FINANCIAL STABILITY COMMITTEE