Monetary Policy Report

May **2025**

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 May 22, 2025 and contains information available as of May 22, 2025.

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

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

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Preface

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

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

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

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

Executive Summary

The impact of the drought appears to be moderating, especially on inflation and growth, although its effect on hydropower generation may last longer.

Inflation slowed down to 16.5 percent in March 2025 from 16.7 percent in December 2024, having peaked at 16.8 percent in February. The increase in food inflation by 0.3 percentage points to 18.9 percent was offset by the reduction in non-food inflation of 1.0 percentage point to 13.2 percent. The moderation in air fares as well as prices of motor vehicles and detergents were the main factors contributing to the decrease in non-food inflation.

The forecast over the next eight quarters[1] shows that inflation will decline faster towards the 6-8 percent target band than projected in February. Inflation is now anticipated to average 13.8 percent in 2025 compared to 14.6 percent. In 2026, it is projected to decline to 8.8 percent and fall further to 7.5 percent in the first quarter of 2027, which is within the target band. The projection is based on the expected decline in market prices of maize grain and crude oil. The bumper maize harvest forecast of 3.6 million metric tonnes for the 2024/25 farming season compared to the drought-induced production of 1.5 million metric tonnes in the 2023/24 farming season is expected to drive domestic prices of maize grain and its products lower. The anticipated increase in the supply of crude oil and weak overall global demand[2] also point to a reduction in prices. Moreover, these factors constitute downside risks and could drive inflation even lower than currently projected. Despite this positive outlook, the Committee was mindful of the evolving global economic landscape and the extreme uncertainty it has created on global macroeconomic stability.

Real GDP is estimated to have expanded further in the first quarter of this year, driven by the sustained positive performance of the mining and transport sectors as well as the rebound in construction. However, electricity generation contracted, albeit at a slower rate, despite improved rainfall. Growth prospects remain positive despite downgrading the 2025 projection to just below 6.0 percent to take account of the moderation in the transport and tourism sectors.

Credit growth rebounded in the first quarter of 2025, driven by a notable increase in commercial banks' lending to Government on broadly high liquidity levels. However, money supply growth slowed down as the year-on-year growth in private sector credit adjusted for the exchange rate depreciation continued to decline.

The *current account* tuned positive in the first quarter due to the reduction in imports of intermediate goods, mostly electricity, lower reinvested earnings by foreign-owned entities, and reduced expenditure on transportation attributed to passenger travel. A moderation in the surplus is projected over the 2025-26 period on account of the pick-up in capital and intermediate goods, notably for the mining sector.

Preliminary data point to a lower fiscal deficit in the first quarter on account of subdued external financing disbursements that impacted capital projects. The fiscal deficit for 2025 has been revised upward mostly to accommodate the liquidation of fuel arrears and past due interest on external debt. However, the medium-term trend remains downward.

In view of foregoing, the Monetary Policy Committee decided to maintain the Monetary Policy Rate at 14.5 percent. Maintaining the current stance of monetary policy was deemed appropriate considering the recent 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.

[1]Forecast horizon is from the second quarter of 2025 to the first quarter of 2027.
[2]IMF, World Economic Outlook, April (2025).


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1. Macroeconomic Outlook

- *Global growth downgraded due to shift in global trade policy induced by implementation of import tariffs by the US.*
- *Copper and crude oil prices to decline on anticipated reduction in demand in view of the recent downgrade of global growth.*
- *Current account surplus to moderate as capital and intermediate goods, notably for the mining sector, pick up.*
- *Domestic real GDP growth prospects still positive despite downward revision.*
- *Cash fiscal deficit to remain on downward path over the medium-term despite upward revision to the 2025 target.*
- *Inflation outlook brighter on expected lower food and fuel prices.*

1.1 External Sector Outlook

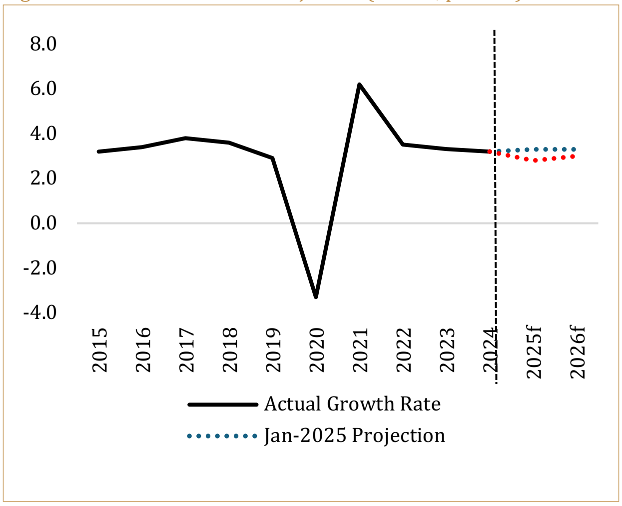
... broadly dampened

The outlook for global growth, including for major trading partners of Zambia and that of commodity prices, has been impacted by the implementation of higher universal tariffs by the US[3] on February 1, subsequent retaliation by other countries, particularly China, and the consequent extreme uncertainty generated.

The shift in global trade policy could intensify tensions and lead to higher inflation through increased import costs. Financial conditions may also tighten and significantly disrupt global supply-chains. Further, both consumer and business confidence could deteriorate, dampen productivity, diminish long-term growth prospects, and reduce demand for commodities.

As a result, in April, the IMF downgraded global growth projection for 2025 and 2026 by 0.5 percentage points and 0.3 percentage points to 2.8 percent and 3.0 percent, respectively[4] (Figure 1). This projection could also be impacted by more prevalent changes in climatic conditions.

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



Source: IMF WEO, April 2025; Bank of Zambia Compilations

The Export-Weighted GDP (GDP-9) Index for 2025–2026 period has also shifted downwards, compared to the marginal expansion projected in February (Tables 1-2 and Figure 2)[5].

[3]On February 1, President Trump issued an Executive Order imposing tariffs on imports from Canada, China and Mexico. The Order set a 10.0 percent tariff on all goods from China and 25.0 percent on imports from Canada and Mexico effective February 4. In response, China quickly announced plans to impose retaliatory tariffs of up to 15.0 percent on key US agricultural products effective March 10. Following this, President Trump announced reciprocal tariffs effective April 2 with a universal tariff of 10.0 percent on goods from all countries: https://www.pbs.org/newshour/economy/a-timeline-of-trumps-tariff-actions-so-far

[4]IMF World Economic Outlook (WEO), April 2025. However, global growth could be better than envisaged given the recent agreement between the US and China to drastically roll back tariffs on goods for an initial 90-day period: https://edition.cnn.com/2025/05/12/business/us-china-trade-deal-announcement-intl-hnk

[5]This largely points to the broad-based dampening impact of the change in global trade policy on Zambia's major trading partner economies.

Table 1: Changes in GDP-9 Index and Country Contributions, 2023 – 266

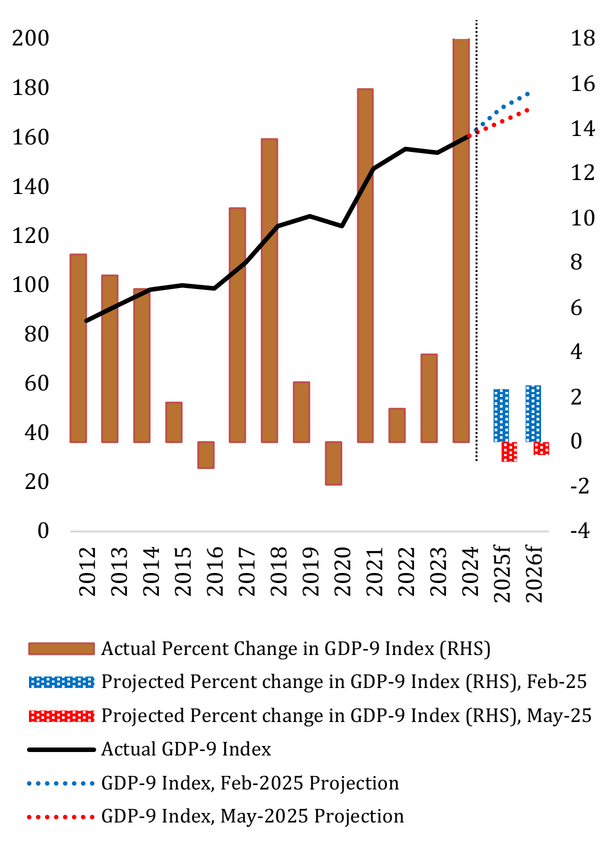
	Weight	2023	2024p	2025f	2026f
GDP-9 Index (percent change) – Feb 2025		3.81	2.06	4.92	4.14
GDP-9 Index (percent change) –May 2025		2.14	1.67	4.02	3.55
Country Contributions to the Change in GDP-9 Index					
China	0.49	1.10	0.60	1.80	1.57
DRC	0.30	0.69	0.27	1.02	0.88
South Africa	0.12	0.25	0.30	0.57	0.51
Singapore	0.00	-0.06	0.26	0.21	0.20
UK	0.07	0.16	0.02	0.19	0.16
UAE	0.00	-0.02	0.09	0.07	0.07
Tanzania	0.00	0.04	0.02	0.07	0.06
Malawi	0.02	-0.02	0.07	0.06	0.06
Hong Kong	0.00	-0.00	0.04	0.04	0.04

Source: Bank of Zambia Staff Calculations

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

p = preliminary, f = forecast

Figure 2: GDP-9 Index



Source: Bank of Zambia

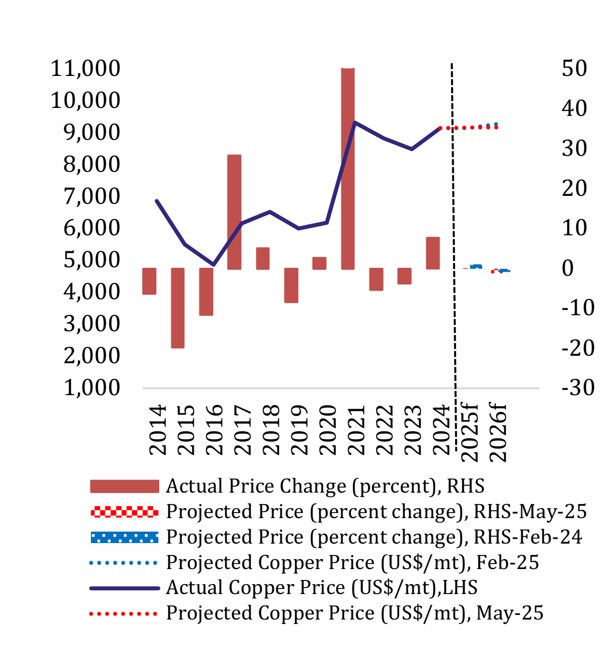
Table 2: Trading Partners' Growth Rates (percent), 2022-2025

	Weight	2023	2024	2025	2026
China	0.5	5.4	5.0	4.0	4.0
DRC	0.3	8.5	6.5	4.7	5.2
South Africa	0.1	0.7	0.6	1.0	1.3
Singapore	0.0	1.8	4.4	2.0	1.9
UK	0.1	0.4	1.1	1.1	1.4
UAE	0.0	3.6	3.8	4.0	5.0
Tanzania	0.0	5.1	5.4	6.0	6.3
Malawi	0.0	1.9	1.8	3.5	4.3
Hong Kong	0.0	3.2	2.5	1.5	1.9

Source: IMF WEO, April update 2025 and Bank of Zambia Compilations

Copper prices are projected to be 0.1 percentage points in 2025 and 1.2 percentage points in 2026 lower than forecast in February (Figure 3).

Figure 3: Copper Prices (annual average)

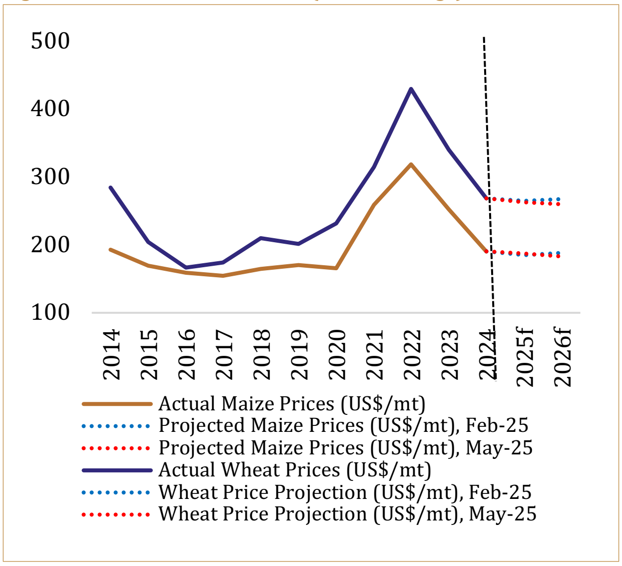


Source: IMF, World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilation

Maize prices on the international market are forecast to edge down to US$187.00 per metric tonne in 2025 from US$185.00 per metric tonne reported in February and further to US$183.00 per metric tonne in 2026 (Figure 4). In 2025, wheat prices are projected to decline to US$263.00 per metric tonne compared to the February forecast of US$265.00 per metric tonne. In 2026, the price will drop to US$260.00 per metric tonne compared to a 3.0 percent rise reported in February (Figure 4).

[6]The data reported in the **November 2024 Monetary Policy Report** has been revised to reflect recently released GDP numbers.

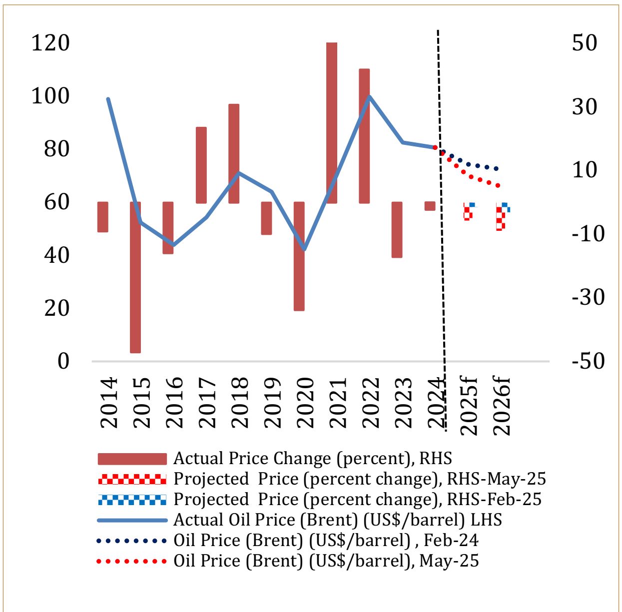
Figure 4: Maize and Wheat Prices (annual average)



Source: World Bank Pink Sheet and Commodity Markets Outlook April 2025, and Bank of Zambia Compilation

The decline in crude oil prices is more pronounced, dropping by 5.7 percentage points and 8.9 percentage points in 2025 and 2026, respectively relative to the February forecast (Figure 5). The fall is amplified by rising fears of market oversupply after OPEC+ agreed to further expedite output increase beginning May[7].

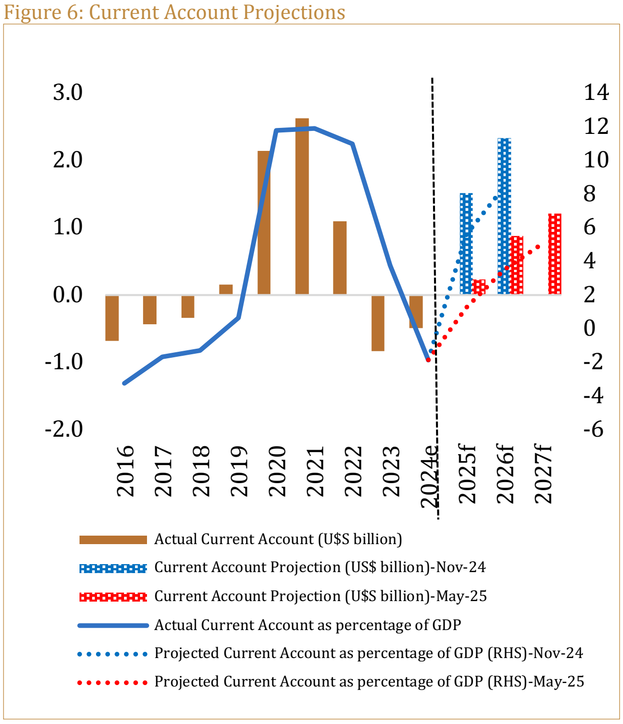
Figure 5: Crude oil Prices (annual average)



Source: World Bank, Bloomberg, Reuters Futures and Bank of Zambia Compilation

However, the changes to the *current account* projection are not directly related to the shift in global trade policy. A lower *current account* surplus is projected for 2025 and 2026 than reported in November 2024 mostly on account of the pick-up in capital and intermediate goods, notably for the mining sector[8] (Figure 6). However, a rebound in the *current account* surplus is projected for 2027 on expected robust growth in net exports as copper output expands and non-traditional exports stabilise (refer to section 1.4 for details).

Figure 6: Current Account Projections



Source: Bank of Zambia

1.2 Prospects for Domestic Economic Growth

... still positive

The Bank has raised the real GDP forecast for 2025 and 2026 to 5.6 percent and 5.2 percent from 4.4 percent and 4.6 percent, respectively to take account of the higher-than-anticipated growth outturn in 2024 (Table 3 and Figure 7). Despite the initial estimate showing a slowdown in real GDP in 2024 to 4.0 percent from 5.4 percent in 2023, due to the severe impact of the drought, the outturn is significantly higher than the 1.2 percent revised projection. This points to the resilience of the economy to the drought shock, which mostly affected the agriculture sector and hydropower generation. Growth was supported by sustained positive contributions by ICT, financial and insurance, and construction sectors as well as the recovery in copper production. FocusEconomics has also revised the growth forecast for 2025 to 5.0 percent from 4.8 percent but lowered it for 2026 by 0.1 percentage points to 4.8 percent (Table 3 and Figure 7). A favourable weather pattern, expected to ease the drought-induced energy and food shortages as well as boost private spending, accounts for the change to the FocusEconomics projection.

[7]OPEC+ agreed to accelerate the output increase beginning May by 411, 000 barrels per day (bpd), almost three times more than the initial plan of 135,000 bpd: https://oilprice.com/Latest-Energy-News/World-News/OPEC-Plans-Faster-Rollback-of-Output-Cuts.html

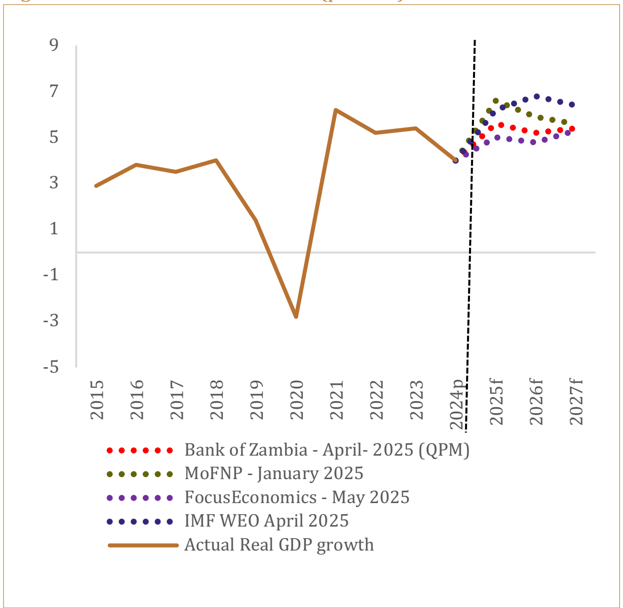
[8]In 2025, imports related to the mining sector are expected to rise significantly, led by industrial boilers and equipment (US$331.3 million), ores slags (US$165.3 million), paper and paper products (US$$57.2 million), and electrical machinery and equipment (US$38.0 million).

Table 3: Annual Real GDP Growth Projections (percent)

	2023	2024p	2025f	2026f
Bank of Zambia QPM				
BoZ April 2025	5.4	4.0	5.6	5.2
BoZ January 2025	5.4	2.2	4.4	4.6
Ministry of Finance and National Planning (MoFNP)				
MoFNP January 2025	5.4	4.0	6.6	5.9
International Monetary Fund (IMF)				
IMF Mission October 2024	5.4	4.0	6.2	6.6
IMF WEO April 2025	5.4	4.0	6.2	6.8
IMF WEO October 2024	5.4	2.3	6.6	5.9
FocusEconomics				
FocusEconomics May 2025	5.4	4.0	5.0	4.8
FocusEconomics Feb 2025	5.4	1.7	4.8	4.9

Source: Bank of Zambia, Ministry of Finance and National Planning, IMF WEO, Focus Economics.
Note: p=preliminary estimate, f=forecast.

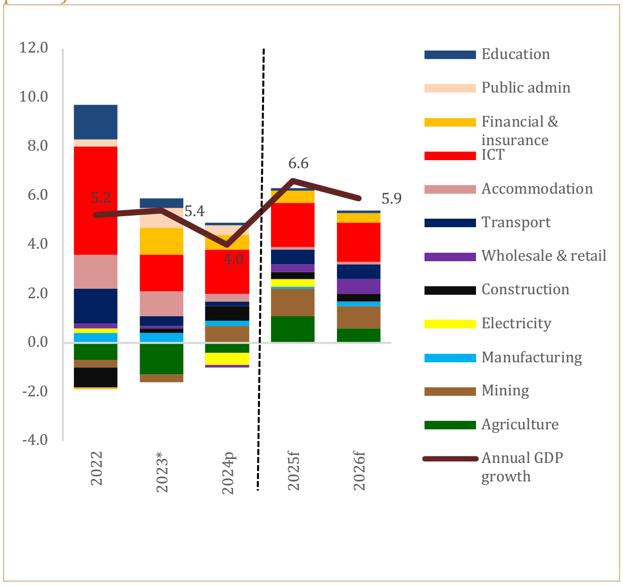
Figure 7: Annual Real GDP Growth (percent)



Source: Zambia Statistics Agency, Bank of Zambia (BoZ), Ministry of Finance and National Planning (MoFNP), IMF, Focus Economics.
Note: p=preliminary, f=forecast.

Real GDP projections by both the Ministry of Finance and National Planning (MoFNP) and International Monetary Fund (IMF) have remained broadly unchanged (Table 3, Figure 7 and Figure 8).

Figure 8: Sectoral Contribution to Real GDP Growth (percentage points)



Source: Ministry of Finance and National Planning, Zambia Statistics Agency
Note: p=preliminary, f=forecast.

Over the medium-term, growth will continue to be supported by ICT, mining, financial and insurance, construction as well as agriculture sectors.

The balance of risks to the growth outlook remains tilted to the downside. The downside risks are primarily external, arising from the changing global economic environment. As presented in the *February 2025 Monetary Policy Report*, the recent escalation of trade tensions and elevated policy uncertainty are expected to weigh on global economic activity, potentially weakening foreign demand and in turn constrain domestic demand. In particular, the imposition of trade tariffs and other barriers—especially those targeting China, the largest importer of key commodities—could reduce demand for exports, such as, copper and adversely impact export earnings. In addition, the recent suspension, and in some cases withdrawal of aid to developing countries by the United States and general scaling back of official development assistance, could tighten fiscal space and limit public investments. This poses risks to sectors like construction, heavily reliant on government spending. Climate change remains a significant threat, particularly to rainfed agriculture and hydropower generation, as previously highlighted.

On the upside, with improved rainfall during the 2024/25 farming season, it is envisaged that agricultural output could be higher-than-expected with positive spillovers to sectors, such as, manufacturing, transportation, wholesale and retail trade, and administrative and support services. Moreover, the successful implementation of the planned solar energy projects could improve power supply and raise productivity across the economy.

1.3 Fiscal Outlook

... positive amid uncertainty

Relative to the February MPC Report, a higher fiscal deficit is now projected mostly to accommodate the liquidation of fuel arrears and past due interest on external debt. The deficit is still expected to maintain a downward trend over the next two years.

The major risk that has emerged since the February 2025 MPC Meeting relates to the escalation of trade tensions between the US and its trading partners, especially China. This could adversely affect growth in some major economies and dampen demand for commodities, such as, copper. The resulting fall in copper prices, if significantly lower than assumed for revenue projection, could have adverse implications on the fiscal position. Meanwhile, the uncertain outcome of the proposed changes to the US foreign policy on official development assistance to low-income countries presents a risk that Government may incur additional costs to cover the deficit in critical sectors, such as, health and education.

The risks to the fiscal outlook presented in the ***2024 Fiscal Risk Statement*** remain relevant.

1.4 Inflation Outlook: Second Quarter 2025 – First Quarter 2027

... brighter

The current projection[9] under a no policy change (passive) scenario points to a faster decline in inflation towards the 6-8 percent target band than was envisaged in February. This reflects a significant improvement in domestic conditions and broadly favourable external initial conditions despite heightened risks arising from uncertainty from the shift in global trade policies and escalating geopolitical tensions.

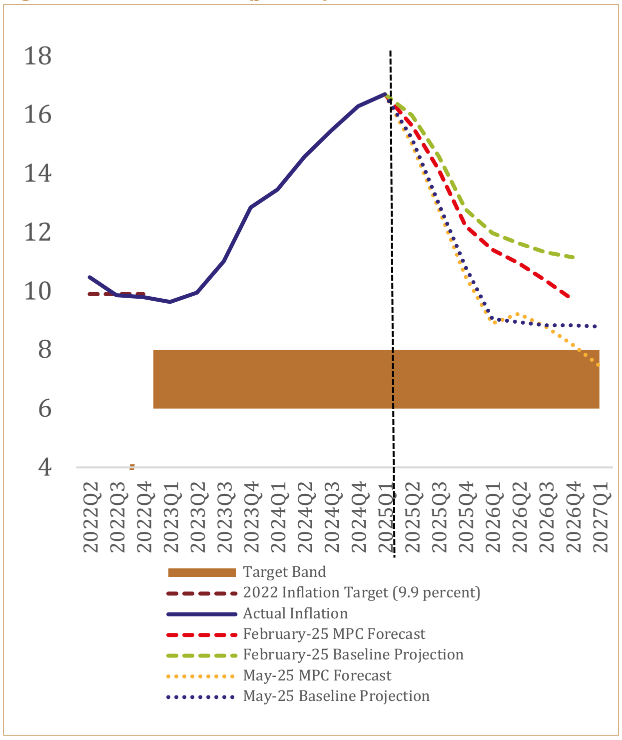
Inflation is projected to average 13.9 percent in 2025, 1.1 percentage points and 0.7 percentage points lower than the February baseline and MPC forecast, respectively (Table 4 and Figure 9). In the May baseline, it is forecast to decline to 8.9 percent in 2026 and further to 8.8 percent in the first quarter of 2027. Lower food and energy prices are largely expected to drive inflation down.

Table 4: Inflation Projection (average percent)

	2025	2026	2027Q1
May-25 Baseline	13.9	8.9	8.8
May-25 MPC Forecast	13.8	8.8	7.5
Feb-25 Baseline	15.0	11.5	n/a
Feb-25 MPC Forecast	14.6	10.6	n/a

Source: Bank of Zambia Staff Forecasts

Figure 9: Inflation Profiles (percent)



Source: Bank of Zambia Staff Forecasts and Zambia Statistics Agency

The key assumptions made in generating the current baseline inflation projection for the period 2025Q2 to 2027Q1 (forecast horizon) are presented in Table 5.

[9]In determining the future path of inflation, an assessment of domestic and international conditions is conducted. The assessment of these conditions and methodology used to generate the inflation outlook were outlined in the *February 2024 Monetary Policy Report.*

Table 5: Key Assumptions Underlying Inflation Projection (Mostly Exogenous)

Variables	2025f	2026f	2027Q1f
Averageinflation-USA (percent)	2.4 (2.2)	2.3 (2.1)	2.0 (n/a)
Federal funds rate (percent)	3.9 (3.9)	3.4 (3.4)	3.1 (n/a)
Treasury bill rate-USA (percent)	4.1 (3.8)	3.6 (3.4)	3.1 (n/a)
Treasury bill rate - Zambia (percent)	11.00 (11.49)	11.00 (11.49)	11.00 (n/a)
Average inflation - South Africa (percent)	3.6 (4.0)	4.5 (4.6)	4.6 (n/a)
Producer price index-South Africa	176.2 (177.9)	184.1 (186.1)	186.8 (n/a)
Average copper price/ton (US$)	9,163.45 (9,155.75)	9,157.26 (9,271.88)	9,140.49 (n/a)
Average crude oil Price/ barrel (US$)	70.12 (74.37)	66.06 (72.49)	66.54 (n/a)
Reserve money growth (percent)*	1.95 (3.9)	-1.54 (-6.6)	-1.05 (n/a)
Fiscal deficit**	1.19 (1.13)	1.19 (1.12)	1.11 (n/a)
BoZ Policy Rate (percent)	14.5 (14.0)	14.5 (14.0)	14.5 (n/a)
World food price index	107.7 (110.2)	106.8 (109.8)	106.8 (n/a)
Maize grain price-Zambia (K/50Kg)	380.00 (442.50)	380.00 (410.00)	380.00 (n/a)
Diesel price-Zambia (K/ litre)	27.38 (32.54)	27.38 (32.54)	27.38 (n/a)

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

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

*Refer to reserve money computation in Table 3.

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

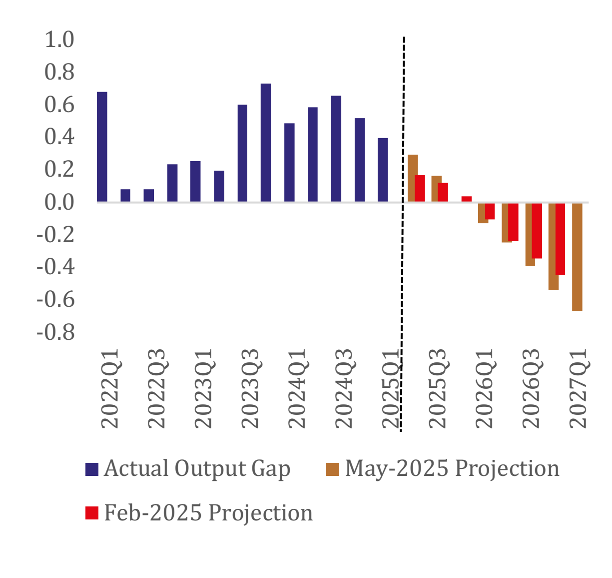
f = forecast

Like the February forecast, the 15.0 percent and 10.0 percent electricity tariff increase in the second quarter of 2025 and 2026, respectively, approved by the ERB in 2023 under the Multi-Year Tariff Plan, are incorporated in the baseline projection.

External Conditions

Preliminary estimates indicate that global demand, proxied by the US output gap, deteriorated in the first quarter of 2025 (Figure 10). This is attributed to the continued reduction in consumer and business spending as well as negative economic sentiments exacerbated by heightened uncertainty amid the shift in global trade policies. Over the medium-term, the US economy is projected to slow down further and possibly operate below its potential in 2026, hence the negative output gap. The pessimistic growth prospects are largely on account of expectations of sustained decline in consumer spending and high uncertainty associated with rising trade tensions between the US and its trading partners, especially China.

Figure 10: Global (US) Output Gap[10]

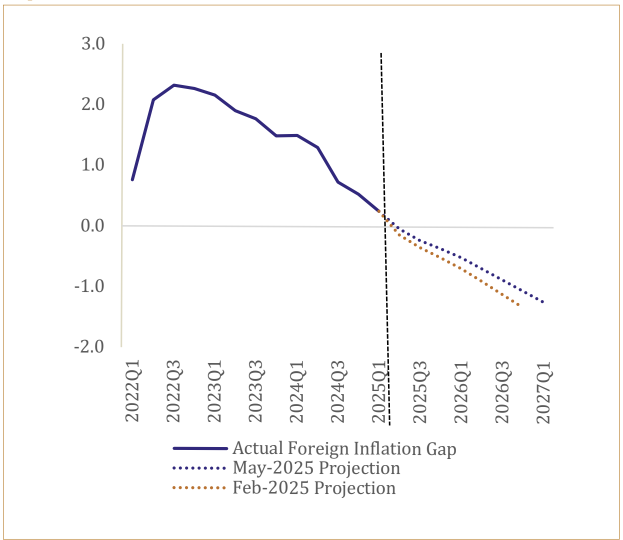


Source: Bank of Zambia Staff Computations

Foreign inflation, proxied by changes in US personal consumption expenditures (PCE), remained sticky, at 2.5 percent, in the first two months of the year. The stalled progress toward the 2.0 percent Federal Reserve target is due to elevated prices of food and services, particularly housing costs. The inflation projection over the 2025-2026 period has been revised slightly upward, suggesting that it will take longer to reach the medium-term target than forecast at the beginning of the year (Table 5 and Figure 11). The revision takes into account increased uncertainty about the impact of the US tariffs as well as fiscal, immigration and deregulation policies on the economy.

[10]The global or foreign output gap is the difference between observed and potential US GDP. A negative foreign output gap implies slack in demand while a positive gap reflects excess demand.

Figure 11: Foreign (US Personal Consumption Expenditure) Inflation Gap[11]



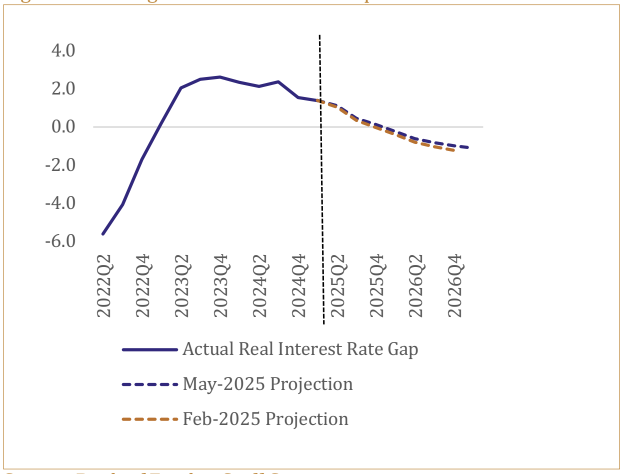
Source: Bank of Zambia staff computations

In South Africa, inflation rose to 3.2 percent in February 2025 from 3.0 percent in December 2024 but remained below the mid-point of the 3-6 percent target band. Higher prices of services and food occasioned by elevated costs of unprocessed food, fruits, nuts and vegetables explain this outturn. The medium-term outlook has improved with inflation now forecast to be lower than reported in February (Table 5). Expectations of lower energy costs (fuel prices and reduction in electricity tariffs announced by the National Energy Regulator of South Africa in February) underpin this projection.

In the first quarter of 2025, actions by central banks in major economies were mixed, with some cutting interest rates while others kept rates steady, reflecting a stall in monetary policy easing. The European Central Bank and Bank of Canada lowered interest rates further by 50 basis points each as significant progress in the disinflation process was made. On the other hand, the Federal Reserve, Bank of England (BoE) and the People's Bank of China (PBoC) left benchmark interest rates unchanged. The Federal Reserve and BoE cited uncertainty regarding new US polices and higher-than-expected inflation in some cases as factors guiding the cautious approach taken during the quarter. Stronger-than-anticipated growth outturn in China and the belief that earlier stimulus measures implemented were sufficient, contributed to the decision made by the PBoC to hold rates. As indicated in the ***February 2025 Monetary Policy Report***, monetary policy easing by most central banks is expected to slow down over the medium-term term due to sticky core inflation and heightened risk of inflationary pressures amid rising uncertainty associated with the impact of US tariffs on respective economies (Figure 12).

[11]Foreign inflation gap is the difference between observed and target US inflation. A negative foreign inflation gap implies inflation falling below the target while a positive gap reflects higher actual inflation than the target.

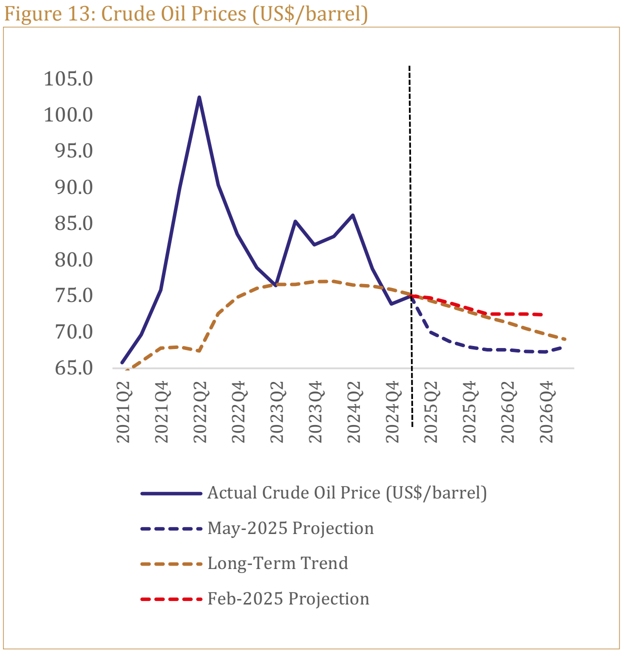
Figure 12: Foreign Real Interest Rate Gap[12]



Source: Bank of Zambia Staff Computations

Crude oil prices ticked up in the first quarter of 2025 due to the effects of intensified US sanctions[13] on Russian oil production and exports at the beginning of the year (Figure 13). In addition, strong import demand by China, increased heating demand driven by colder-than-expected weather conditions in the US and Europe, as well as escalating geopolitical tensions in the Middle East contributed to higher prices. Over the forecast horizon, crude oil prices are forecast to significantly decline and fall below the long-term trend (Table 5 and Figure 13). Higher supply by both OPEC+ and non-OPEC+ members as well as weak global growth prospects are expected to result in lower crude oil prices (refer to section 1.1 for more details).

Figure 13: Crude Oil Prices (US$/barrel)



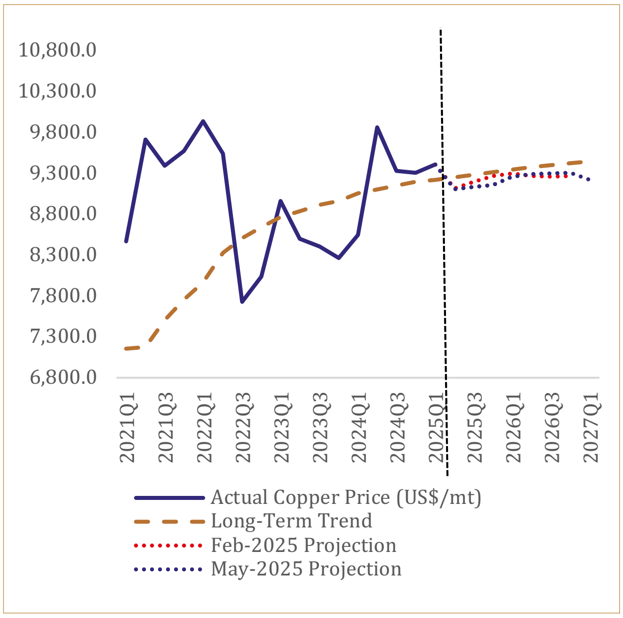
Source: Bank of Zambia Staff Computations

[12]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.

[13]https://2021-2025.state.gov/office-of-the-spokesperson/releases/2025/01/sweeping-sanctions-on-russias-energy-sector

Copper prices marginally increased in the first quarter on boosted investor sentiments over China's economy following pledges of further stimulus by the authorities (Figure 14). A weaker US dollar, reduction in inventories at London Metals Exchange warehouses and concerns that US tariffs could constrain supply also contributed to the slight rise in copper prices. Relative to the February projection, copper prices are slightly lower and with a declining trend (Table 5 and Figure 14). This is based on the expected slowdown in global economic momentum due to rising trade protectionism and geopolitical tensions, which are likely to hurt demand for the metal, particularly in the short to medium-term. The transition to green energy is, however, anticipated to boost copper prices in the long-term (refer to section 1.1 for more details).

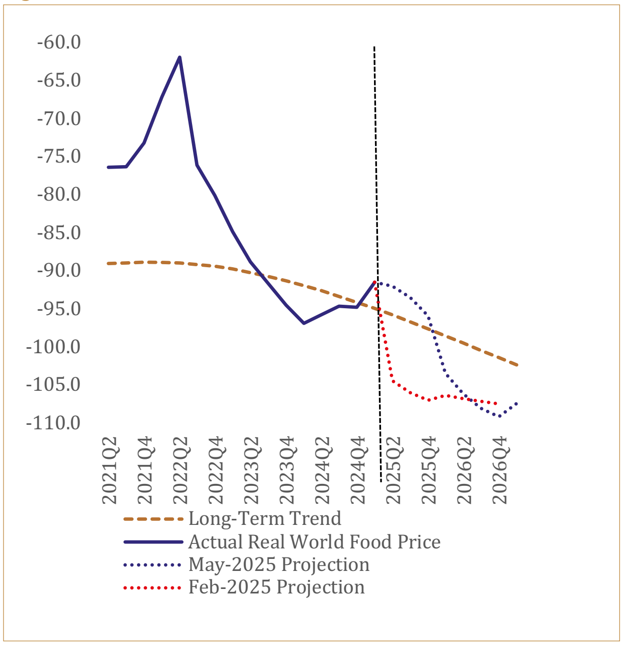
Figure 14: Copper Prices (US$/metric tonne)



Source: Bank of Zambia Staff Computations

In the first quarter of 2025, world food prices[14] rose largely due to the increase in demand for dairy products (cheese and milk) amid seasonal tight supply in Oceania and lower production in Europe (Figure 15). The outlook for world food prices has been revised upward but still with a declining trend. The revision is informed by the recent increase in prices for most food products as uncertainty in most economies escalates. However, food prices remain below the peak levels seen in 2022 at the onset of the Russia-Ukraine war.

Figure 15: Real World Food Prices

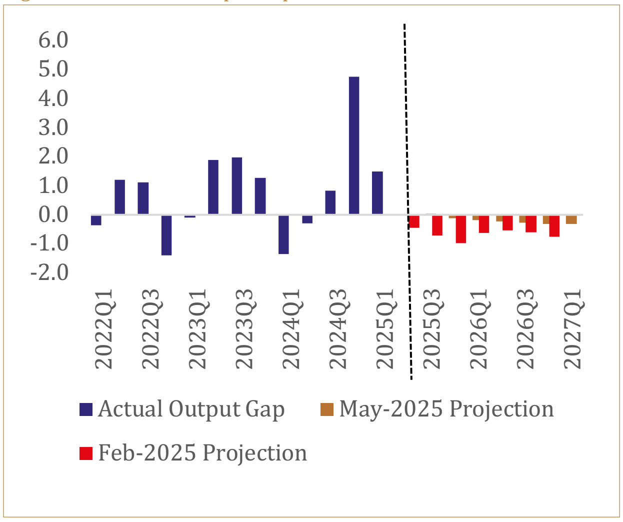


Source: Bank of Zambia Staff Computations

Domestic Conditions

The domestic output gap is estimated to be positive in the first quarter of 2025 mainly due to the lagged effect of the higher-than-expected GDP growth rate[15] recorded in the last quarter of 2024 (Figure 16). The positive output gap is projected to significantly moderate and remain broadly around zero for the rest of 2025 before turning negative. Anticipated easing of external demand, lower real fiscal expenditures and relatively tight monetary conditions underpin this projection.

Figure 16: Domestic Output Gap16



Source: Bank of Zambia Staff Computations

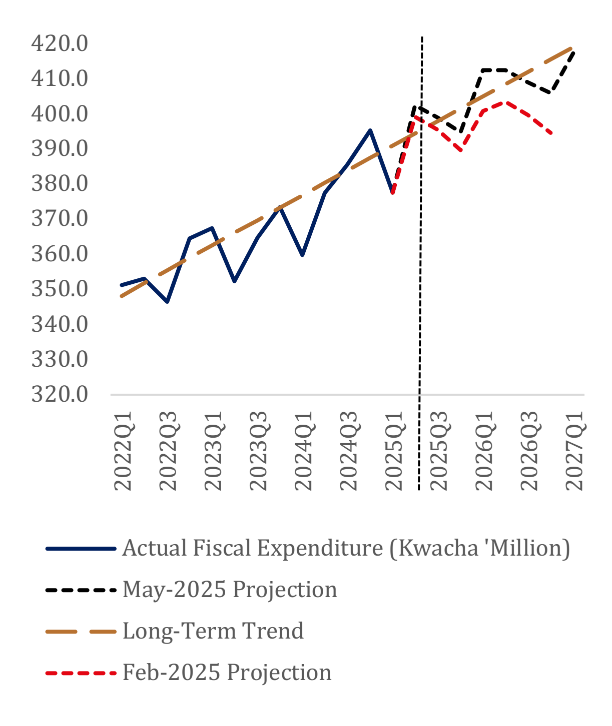
[14]World food prices are measured by the FAO Food Price Index, a weighted average of five commodity sub-indices, with the weight of the cereals sub-index being the second largest (https://www.fao.org/fileadmin/templates/worldfood/Reports_and_docs/FO-Expanded-SF.pdf). This is relevant to our inflation forecast as the CPI basket is dominated by cereals (mostly maize) as a single product.

[15]Preliminary estimates, as reported by the Zambia Statistics Agency, indicate that GDP growth was 8.6 percent in 2024Q4 compared to a nowcast of 2.0 percent while that for 2024Q3 was revised to 3.0 percent from an initial estimate of 2.5 percent.

[16]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.

The projected path for fiscal deficit over the medium-term remains broadly the same as indicated in February 2025 (Table 5). Based on the ***2025 National Budget Speech*** and ***2025-2027 Medium-Term Expenditure Plan***, real fiscal expenditures are forecast to remain close to the long-term trend for most part of the forecast horizon (Figure 17).

Figure 17: Real Fiscal Expenditure



Source: Bank of Zambia Staff Computations

Loose monetary conditions[17] moderated in the first quarter owing to the slower pace of depreciation of the exchange rate[18].

Reserve money is projected to grow by about 2.0 percent in 2025 due to net Government spending and disbursements from the Stability and Resilience Facility (Table 5). However, in 2026 and 2027, reserve money is projected to contract by 1.54 percent and 4.20 percent, respectively. This is due to net Government securities sales.

The price of maize grain is projected to decline to K380 per 50kg bag compared to the February 2025 forecasts of K475 and K410 (Table 5). This price is held constant in each quarter for the entire forecast period. The bumper maize harvest forecast of 3.6 million metric tonnes for the 2024/25 farming season largely informs this forecast.

Assessment of Risks to the Inflation Outlook

The identified risks to the current inflation baseline projection are broadly the same as those indicated in the ***February 2025 Monetary Policy Report*** with the inclusion of new information to some risks in view of the changed global economic landscape.

a) Weaker global growth prospects due to escalating trade tensions and prolonged trade policy uncertainty. The recent intensification of trade tensions between the United States and its trading partners, particularly China, in the form of renewed tariffs and restrictions, presents a downside risk to global growth and could have adverse implications for domestic inflation.

First, dimmed global growth prospects could hurt demand for commodities, such as, copper, with adverse implications on export earnings and subsequently a faster exchange rate depreciation than the baseline projection. This could push inflation higher.

Second, the imposition of tariffs could have inflationary consequences for most economies, including Zambia, through higher import prices and supply-chain disruptions. In the case of advanced economies where services prices and core inflation remain sticky, this would imply further delays in interest rate cuts, keeping global financial conditions relatively tight. Consequently, currencies in emerging markets and developing economies (EMDEs) could weaken through capital outflows and lead to heightened inflationary pressures.

Third, tariffs on technologies, critical metals and highly tradable agricultural items could lead to price shifts given their price inelastic nature due to concentrated production, difficulties in substitution and essential roles in manufacturing[19]. This could have spillovers to EMDEs, most of which are highly import dependent.

Finally, prolonged uncertainty due to trade tensions could lead to heightened volatility in financial markets with repercussions for the Kwacha exchange rate;

b) Improved domestic and regional food supply due to the expected increase in agricultural output. Given the bumper maize harvest forecast of 3.6 million metric tonnes for the 2024/25 farming season compared to the drought-induced production of 1.5 million metric tonnes in the 2023/24 farming season, maize grain prices could be lower than assumed in the baseline. In addition, relatively optimistic prospects[20] for regional maize output could significantly contribute to easing inflationary pressures; and

c) Stabilisation of electricity supply. The coming on board of alternative energy projects, such as, the Chisamba and Kanona Solar PV will improve electricity supply. In addition, if the 1,000MW target of solar power is achieved by the end of this year, the

[17] Real monetary conditions are measured by the monetary conditions index computed as a weighted average of real interst rate and real exchange rate gaps based on the calibrations of the QPM. Positive values imply tight monetary conditions—constrain aggregate demand—while negative values imply loose monetary conditions—boost aggregate demand.

[18] Quarter-on-quarter, the Kwacha depreciated by 4.0 percent in 2025Q1 compared to 4.4 percent in 2024Q4.

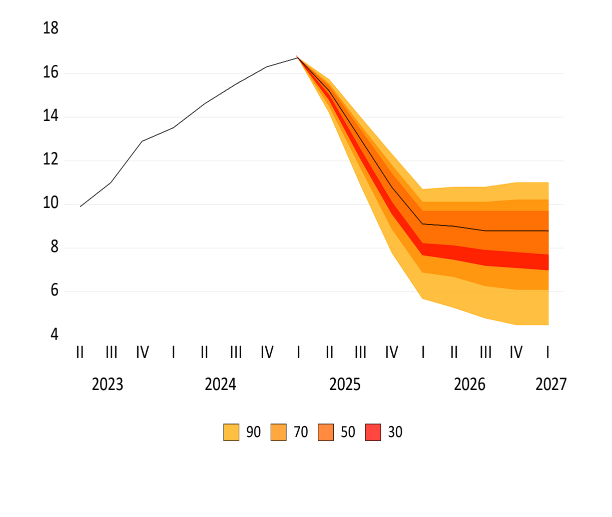
[19] World Economic Outlook, April 2025

[20] Food and Agriculture Organisation Triannual Global Report on Crop Prospects and Food Situation, March 2025.

current electricity supply constraint will considerably reduce production costs and lead to the moderation in inflation.

Overall, downside risks to the inflation outlook appear dominant. This is reflected in the fan chart in Figure 18 and Table 6. Thus, the likelihood of the inflation outturn declining below the baseline forecast is higher than that of exceeding it.

Figure 18: Inflation – Actual and Projected: 2023 Q2 – 2027 Q1 (percent)



Source: Bank of Zambia and Zambia Statistics Agency

Table 6: Range of Possible Inflation Outcomes and Associated Probabilities

Range of Possible Inflation Outcomes (percent)	Probability (percent)
7.7 – 14.8	30
7.0 – 15.4	50
6.1 – 15.5	70
4.5 – 15.7	90

Source: Bank of Zambia

1.5 Monetary Policy Decision

At its May 21-22, 2025 Meeting, the Monetary Policy Committee **decided to maintain the Monetary Policy Rate at 14.5 percent**. Maintaining the current stance of monetary policy was deemed appropriate considering the recent decline in inflation to 16.5 percent in April from 16.8 percent in February, the balance of risks was still tilted to the downside, and the stability of the financial system.

Inflation slowed down to 16.5 percent in March 2025 from 16.7 percent in December 2024, having peaked at 16.8 percent in February. The increase in food inflation by 0.3 percentage points to 18.9 percent was offset by the reduction in non-food inflation of 1.0 percentage point to 13.2 percent.

The forecast over the next eight quarters shows that inflation will decline faster towards the 6-8 percent target band than projected in February. Inflation is now anticipated to average 13.8 percent in 2025 compared to14.6 percent. In 2026, it is projected to decline to 8.8 percent and fall further to 7.5 percent in the first quarter of 2027, which is within the target band. The projection is based on the expected decline in market prices of maize grain and crude oil. The bumper maize harvest forecast of 3.6 million metric tonnes for the 2024/25 farming season is expected to drive prices of maize grain and its products lower. The anticipated increase in the supply of crude oil and weak overall global demand[21] also point to a reduction in prices. Moreover, these factors constitute downside risks and could drive inflation even lower than currently projected.

[21]IMF, World Economic Outlook April (2025)

2. Current Economic Developments

- *Recent changes to the global economic landscape impact growth and financial markets.*
- *Current account turns positive on reduced imports of intermediate goods, lower reinvested earnings and reduced transportation costs.*
- *Domestic credit growth rebounds on strong demand for Government securities.*
- *Sustained positive performance of the mining and transport sectors and rebound in construction support growth.*
- *Budget fiscal deficit less than target on lower expenditure on capital projects and public sector operations.*
- *Inflation slows down as air fares as well as prices of motor vehicles and detergents moderate.*

2.1 External Sector

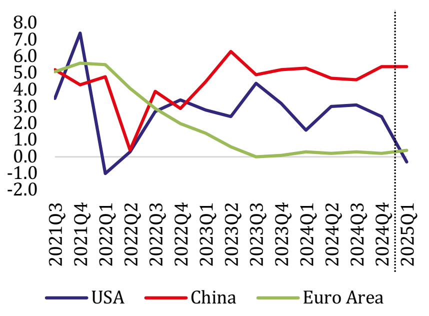
… changing global economic landscape impacts growth

Real GDP growth for China expanded by 5.4 percent in the first quarter of 2025, exceeding the 5.1 percent projection, benefiting from the surge in exports in anticipation of higher US tariffs (Figure 19). The positive effects from the recent stimulus measures implemented by the Government to boost both consumption and investment also supported growth.

Similarly, robust exports due to strong US demand ahead of the implementation of higher tariffs contributed to the 0.4 percent growth in the euro area[22] in the first quarter. Increases in private consumption, due to the rise in real disposable income as inflation declined, also aided growth.

In contrast, the surge in imports to avoid potential steep tariffs led to the 0.3 percent contraction in US real GDP in the first quarter (Figure 19). This was compounded by the slowdown in both consumer and government spending as the new administration cut funding and shutdown some programmes (i.e. USAID) leading to some layoffs.

Figure 19: Real GDP Growth (year-on-year, percent)



Source: Federal Reserve Bank of St. Louis, National Bureau of Statistics & Eurostat, and Bank of Zambia Staff Compilations

[22]Spain was the strongest performer with growth of 0.6 percent followed by Italy with 0.3 percent. However, Germany and France—region's two largest economies—continued to lag, recording growth rates of just 0.2 percent and 0.1 percent, respectively.

… economic activity in major trading countries slowdown

Preliminary data point to a slowdown in economic activity in Zambia's major trading partner economies in the first quarter of 2025. This is reflected in the marked reduction in the GDP-9 Index (Table 7 and Figure 20).

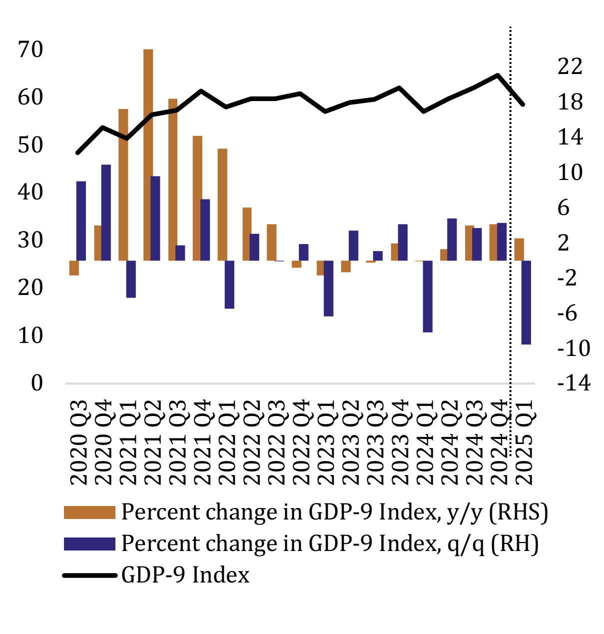
Table 7: Preliminary year-on-year Changes in GDP-9 Index and Country Contributions, 2022-2423

	Weight	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1
GDP-9 Index (percent Change)		-0.03	1.29	3.97	4.17	2.57
		Contribution to the GDP-9 Index Change				
China	0.5	0.01	0.58	1.75	1.84	1.14
DRC	0.3	0.01	0.33	0.98	1.03	0.64
South Africa	0.1	-0.01	0.18	0.57	0.60	0.37
UK	0.1	0.01	0.06	0.18	0.19	0.12
Singapore	0.0	-0.02	0.07	0.23	0.24	0.15
UAE	0.0	-0.01	0.02	0.08	0.08	0.05
Tanzania	0.0	0.00	0.02	0.06	0.07	0.04
Malawi	0.0	-0.01	0.02	0.07	0.07	0.04
Hong Kong	0.0	0.00	0.01	0.04	0.04	0.03

Source: Bank of Zambia Staff Calculations
DRC=The Democratic Republic of the Congo, S/Africa=Republic of South Africa, UAE= United Arab Emirates

[23]The data reported in the February 2025 Monetary Policy Report have been revised to reflect recently released GDP numbers and growth rates released by the IMF.

Figure 20: GDP-9 Index



Source: Bank of Zambia Compilation

The slowdown was mostly attributed to reduced economic activity in the Democratic Republic of the Congo (DRC), South Africa and the United Kingdom (Table 7).

Escalating conflict in the eastern region of the DRC affected mining operations, displaced people and damaged infrastructure, and ultimately contributed to reduced economic activity.

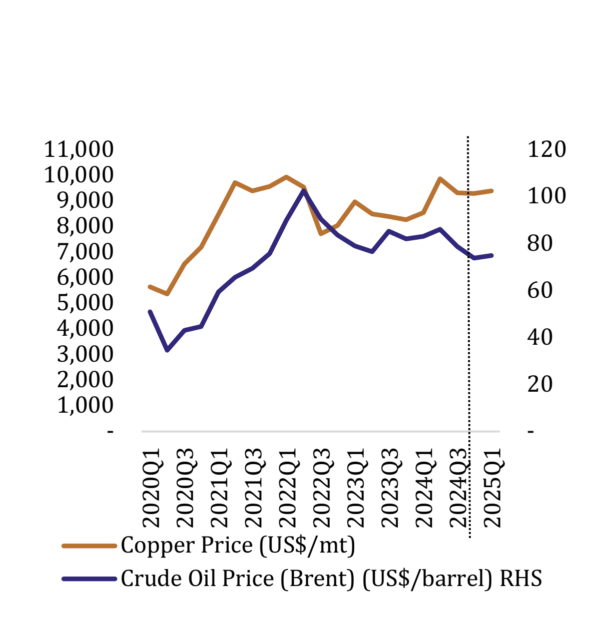
In South Africa, economic activity was impacted by a severe water crisis, contraction in manufacturing, slower growth in mining, withdrawal of US foreign aid and persistent structural constraints. Investor sentiments were also dampened by delays in the presentation of the national budget owing to the disagreement within the Government of National Unity over the proposed VAT increase.

In the case of the UK, growth was impacted by higher borrowing costs, subdued consumer spending and elevated inflation driven by rising energy prices.

... copper and crude oil prices pick up while global maize price increase persists

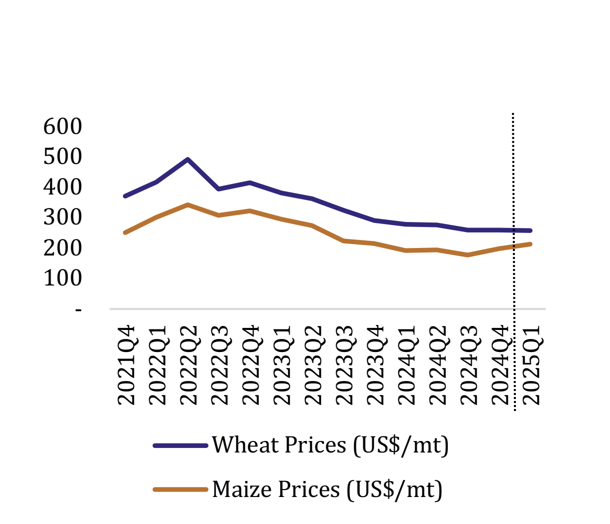
The declining trend in both copper and crude oil prices reversed in the first quarter of 2025 while maize prices maintained an upward trend (Figure 21 and Figure 22).

Figure 21: Average Copper and Crude Oil Prices



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

Figure 22: Average Maize and Wheat Prices



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

Copper prices increased by 1.1 percent to US$9,406.03 per metric tonne while crude oil prices rose by 1.4 percent to US$75.01 per barrel. Maize prices edged up by 8.2 percent to US$214.24 per metric tonne.

The increase in copper prices was mostly due to stronger-than-expected demand by the US as traders frontloaded orders in anticipation of higher tariffs on copper imports and China also provided additional stimulus measures to boost domestic demand and stabilise the real estate sector. Reduced output by Chile, coupled with a tight global supply of copper concentrates and sustained demand to produce electric vehicles (EVs) and renewable energy technologies, contributed to the rise in copper prices.

Strong import demand by China and concerns about tightening global supply due to renewed US sanctions on Iran, Russia and Venezuela pushed up crude oil prices. In addition, increased heating demand driven by colder-than-expected weather conditions in the US and Europe, along with escalating geopolitical tensions in the Middle East and attacks on Russian energy infrastructure by Ukraine, supported crude oil prices.

The sustained rise in maize prices was on account of strong export demand and tight seasonal supply induced by adverse weather conditions in major producing countries that led to lower yields.

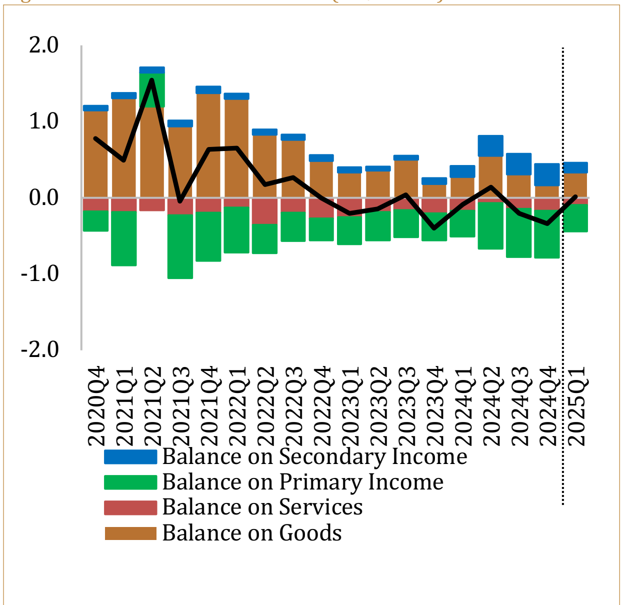
... downtrend in wheat prices persists

Wheat prices declined further by 0.6 percent to US$258.02 per metric tonne, mostly reflecting expectations of easing supply disruptions in the Black Sea region and reduced global demand—particularly by China, which significantly scaled back its dependence on US agricultural products, such as, wheat amid growing trade tensions.

... current account balance turns positive

Preliminary data indicate a *current account* surplus of US$0.01 billion (0.2 percent of GDP), offsetting the US$0.34 billion deficit (4.8 percent of GDP) registered in the last quarter of 2024 (Figure 23).

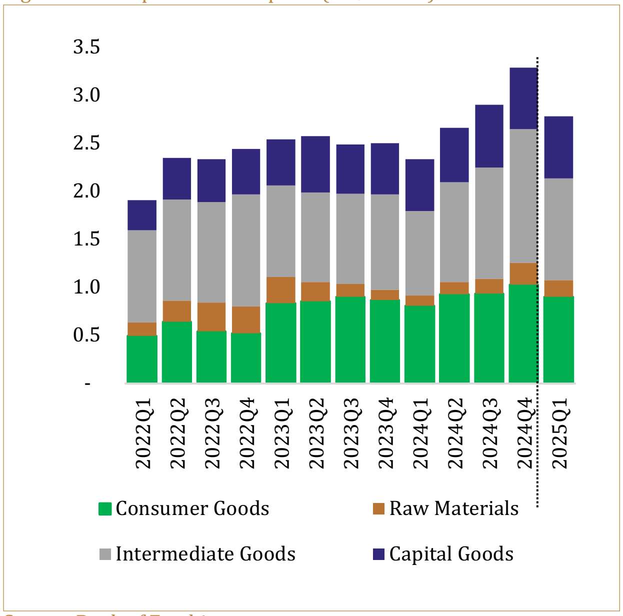
Figure 23: Current Account Balance (US$ billion)



Source: Bank of Zambia

Underlying the improvement in the *current account* were lower reinvested earnings by foreign-owned entities owing to higher operating costs incurred by utilising alternative energy sources to mitigate the adverse impact of electricity shortages that has adversely impacted their profitability, reduction in imports of intermediate goods, mostly electricity (Figure 24) and reduced expenditure on transportation attributed to passenger travel.

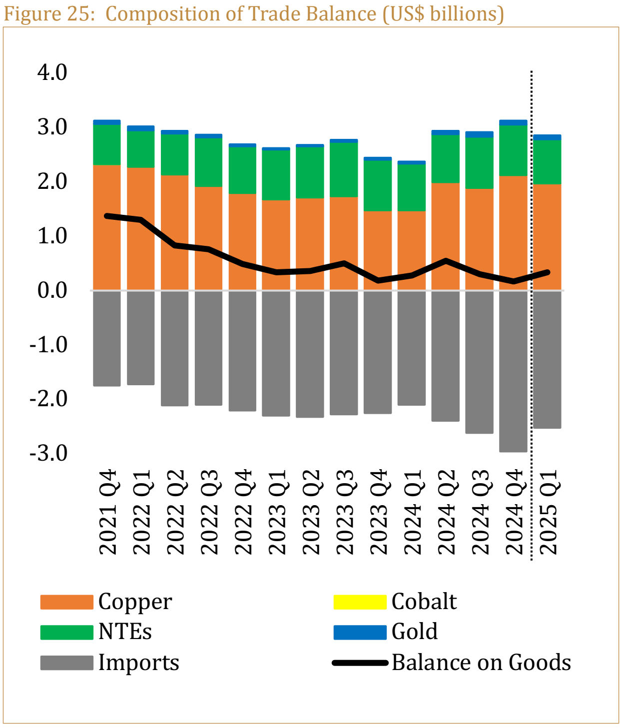
Figure 24: Composition of Imports (US$ billion)



Source: Bank of Zambia

Imports edged down by 14.9 percent to US$2.5 billion (Figure 25). Export earnings also declined but by 8.8 percent to US$2.9 billion largely due to the drop in copper export volumes and slight reduction in realised prices (Figure 25). Non-traditional exports (NTEs) also fell by 11.5 percent to US$0.8 million, reflecting the lingering impact of the drought that mainly affected agriculture-based products.

Figure 25: Composition of Trade Balance (US$ billions)



Source: Bank of Zambia

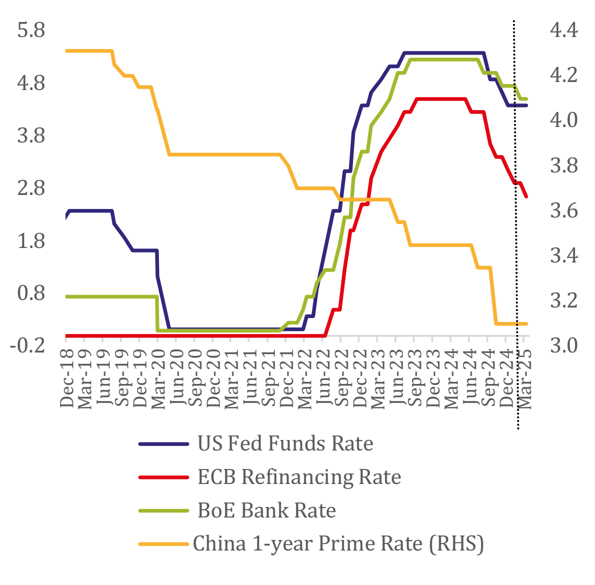
2.2 Global Financial Conditions

... generally loose as uncertainty on the inflation path grew

Since the last MPC meeting, global financial markets have been engulfed by uncertainty on future growth and inflation as the US Government imposed tariffs on Canada, China and Mexico in February and made pronouncements of widespread trade restrictions. As details of these measures remained unclear, the outlook for inflation was unpredictable, hence central bank policy actions continued to be driven by their respective domestic inflation developments. With inflation continuing to fall in advanced economies, central banks remained accommodative in the first quarter of 2025.

The Federal Reserve kept the federal funds rate unchanged at 4.25 - 4.50 percent at its meetings in January and March. This followed four consecutive interest rate cuts in 2024. In contrast, the European Central Bank (ECB) and the Bank of England (BoE) reduced interest rates further in the first quarter of 2025 (Figure 26). The ECB lowered the main refinancing rate by 25 basis points in both January and March to 2.65 percent while the BoE cut the Bank rate to 4.50 percent in February from 4.75 percent in December. The two central banks cited entrenched disinflation as price pressures eased.bThe People's Bank of China (PBoC) kept its focus on supporting economic growth and containing disinflation by maintaining the prime lending rate at 3.10 percent. Monetary policy in China has been on an easing cycle since the outbreak of the coronavirus in December 2019 and the property sector crisis that followed in 2021.

Figure 26: Central Bank Policy Rates in Selected Economies

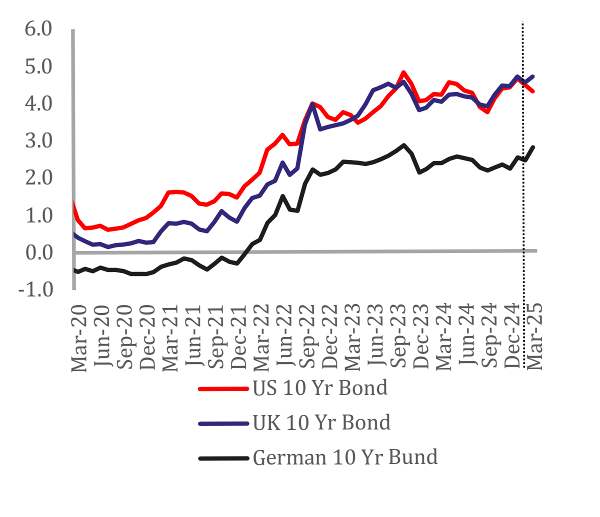


Source: Reuters and Bank of Zambia Compilations

...yield rates on bonds mixed

The imposition of tariffs triggered negative sentiments as growth prospects in the US weakened, resulting in strong appetite for safe-haven assets, including US Treasury bonds. Strong demand and higher prices for US Treasury bonds led to the 11-basis point reduction in the US 10-year yield rate to 4.28 percent (Figure 27). In the UK and Germany, domestic factors relating to planned expenditures to boost defence capabilities and improve infrastructure dominated and stoked expectations that debt of European governments would rise. As a result, yield rates on 10-year German and UK government bonds rose by 57 basis points and 25 basis points to 2.78 percent and 4.67 percent, respectively.

Figure 27: US, UK, and Germany 10-Year Benchmark Bond Yield Rates (monthly averages)

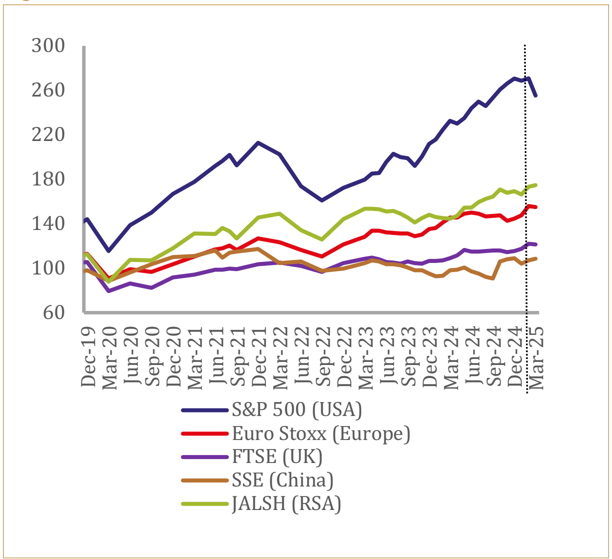


Source: Reuters and Bank of Zambia Compilations

... equity market performance diverges

Equity prices in the US generally fell on fears that escalation in the trade war and federal budget cuts would slow economic growth. In addition, competition from Chinese firms on artificial intelligence adversely impacted US technology companies. Consequently, the S&P 500 Index declined by 5.7 percent (Figure 28). Planned fiscal stimulus and monetary easing buoyed share prices in the UK and Euro area with the FTSE 100 and Euro Stoxx 50 indices rising 5.3 percent and 7.3 percent, respectively (Figure 28).

Figure 28: Selected Stock Market Indices

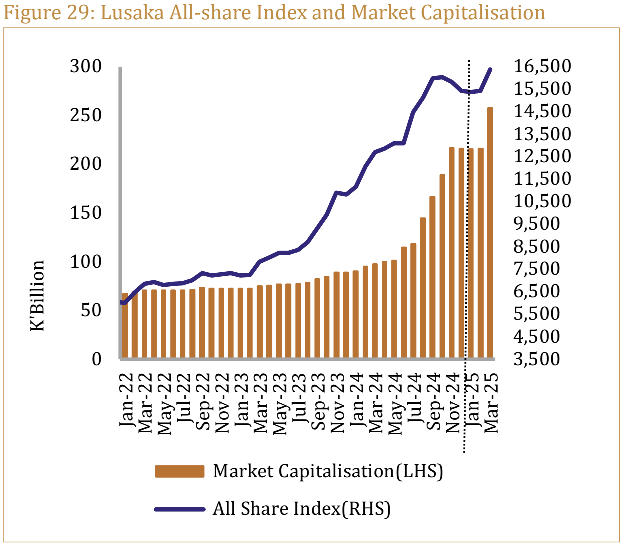


Source: Reuters and Bank of Zambia Compilations

In emerging markets, equity prices underperformed owing to heightened risk aversion. Hence, the MSCI Emerging Market Equity Index decreased by 1.2 percent. Notably, China's Shanghai Composite Index recorded a loss of 0.4 percent as investors were concerned about the impact of US tariffs on growth. On the other hand, the Johannesburg All-share Index gained 3.1 percent on account of interest rate cuts by the South African Reserve Bank and rise in commodity prices, particularly gold.

In Zambia, the Lusaka All-Share Index (LASI) rebounded, rising by 6.6 percent, offsetting the loss of 3.3 percent recorded in the previous quarter (Figure 29). Market capitalisation soared by 19.6 percent to K257.9 million. The shares that contributed to this increase were those for companies in the manufacturing, tourism, banking, mining and energy sectors, which mostly reported profits for the past financial year underpinned by strong revenue growth and prudent financial management.

Figure 29: Lusaka All-share Index and Market Capitalisation

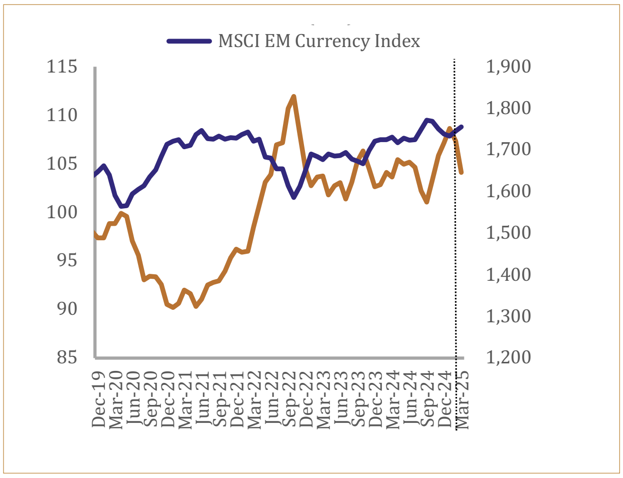


Source: Reuters and Bank of Zambia Compilations

... US dollar weakens

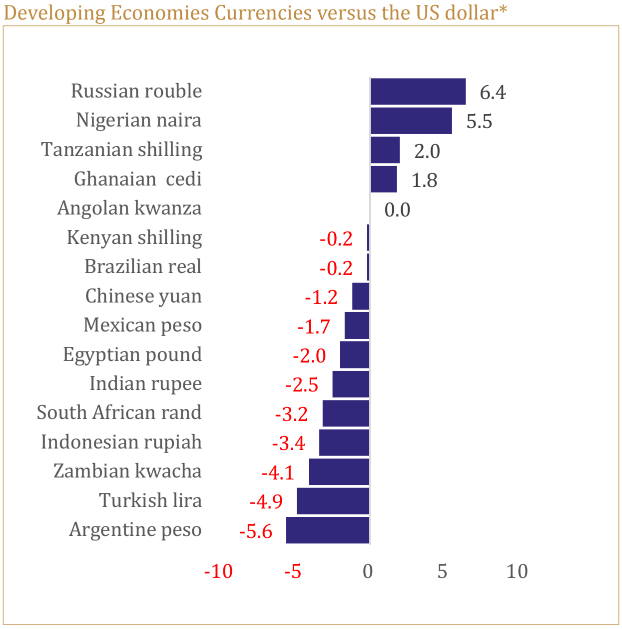
During the quarter, the US dollar broadly depreciated as reflected in a 2.9 percent drop in the US dollar Index (Figure 30). This is attributed to investor search for alternative safe-haven assets on the back of fears of a US economic slowdown and prospects of higher inflation due to increased tariffs. Emerging market currencies benefitted in general from a weaker US dollar with the MSCI Emerging Markets Currency Index gaining 1.0 percent. However, idiosyncratic factors played a significant role in the performance of selected currencies against the US dollar. For instance, the Russian rouble, Nigerian naira and Tanzanian shilling appreciated against the US dollar (Figure 31).

Figure 30 : US Dollar and MSCI Emerging Market Currency Indices (monthly averages)



Source: Reuters and Bank of Zambia Compilations

Figure 31: Performance of Selected Emerging Market and Developing Economies Currencies versus the US dollar*



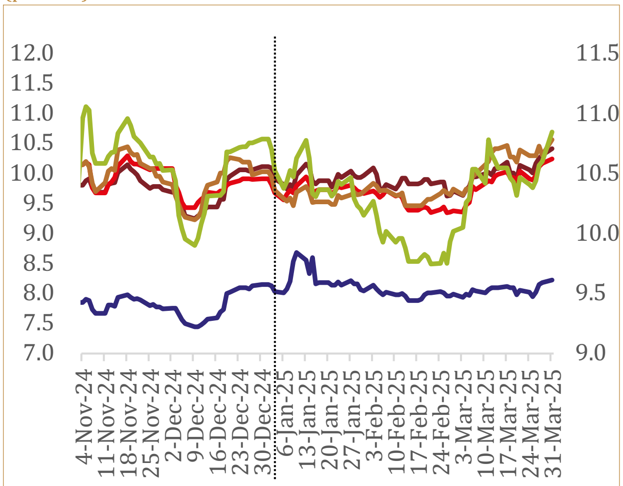
Source: Reuters and Bank of Zambia Compilations

*Negative numbers indicate a depreciation while positive numbers are appreciations against the US dollar.

... SSA Eurobond yield rates increase

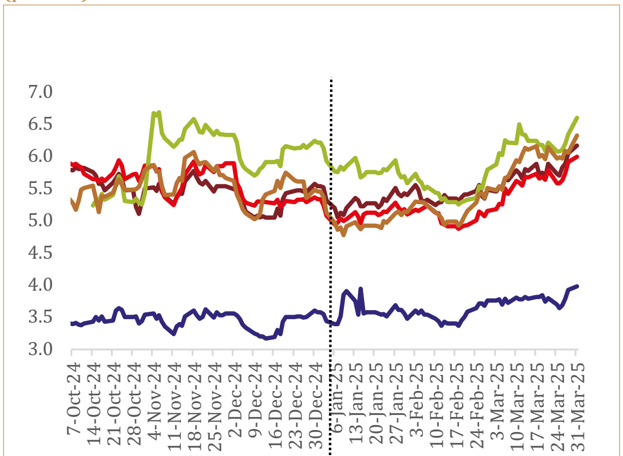
The uncertainty by aggressive US tariffs triggered significant market anxiety, which resulted in increased investor risk aversion. This induced flight to safe-haven assets and drove yield rates for Eurobonds issued by Sub-Saharan Africa (SSA) countries higher. Yield rates for Eurobonds issued by Côte d'Ivoire, Ghana, Kenya, Nigeria, and Zambia rose by 26, 7, 33, 13, and 39 basis points to 8.10 percent, 10.29 percent 9.93 percent, 9.71 percent, and 9.83 percent, respectively (Figure 32). The rise in SSA yields, coupled with the decline in the yield rates on the US 10-year Treasury bond, widened yield spreads (Figure 33).

Figure 32: Yield Rates for Selected Sub-Sahara Africa Eurobonds (percent)



Source: Reuters and Bank of Zambia Compilations

Figure 33: Yield Spreads Over the US 10-Year Bond Yield Rate (percent)



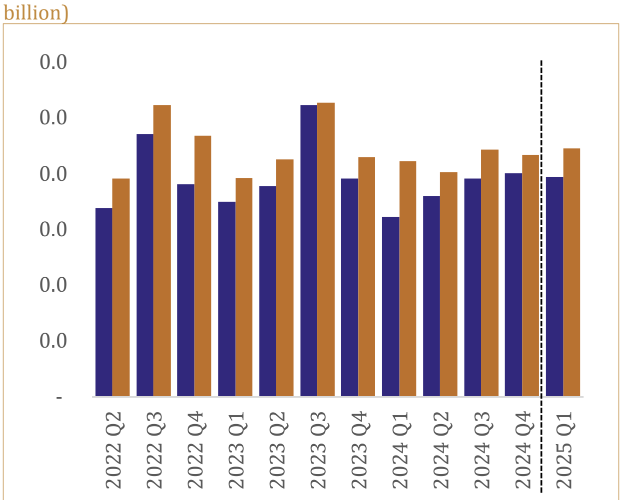
Source: Reuters and Bank of Zambia Compilations

2.3 Domestic Financial Conditions

... foreign exchange trading increases further

The volume of foreign exchange transactions continued to steadily increase during the first quarter of 2025, reflecting sustained growth across several sectors. Market turnover rose further by 0.5 percent, continuing an increasing trend that has been observed since the first quarter of 2024. From the last quarter, sales rose by 2.6 percent to US$2.2 billion while purchases moderately declined by 1.7 percent to US$2.0 billion, resulting in net sales of US$0.2 billion (Figure 34).

Figure 34: Commercial Banks' Foreign Exchange Transactions (US$' billion)

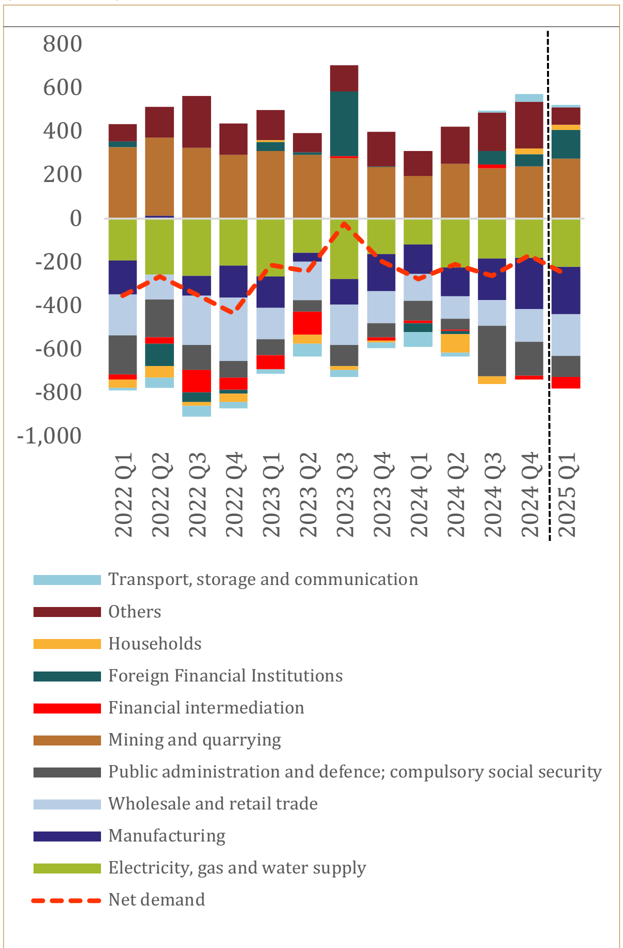


Source: Bank of Zambia

*All spot purchases and sales of respective foreign currencies against the Kwacha are converted into the local currency (i.e. Kwacha) using exchange rates at which they were executed and then back into US dollar using the monthly average Kwacha/US dollar exchange rate.

Looking into these developments, it was observed that commercial banks continued to face relatively stronger demand from several sectors but primarily from the electricity, gas and water supply sector where US$220.2 million was sold on a net basis, 22.1 percent more than the US$180.3 million sold in the previous quarter (Figure 35). These trades reflected increased payment requirements for petroleum products by a number of oil marketing companies. Further, stronger demand was observed from firms within the manufacturing as well as wholesale and retail sectors, with banks' net sales recorded at US$220.0 million and US$190.7 million compared to US$236.7 million and US$148.0 million, respectively in the previous quarter. These reflected payments for imports of production inputs and finished consumer goods.

Figure 35: Sectoral Net Sales (+)/Purchases (-) of Foreign Exchange (US$ million)



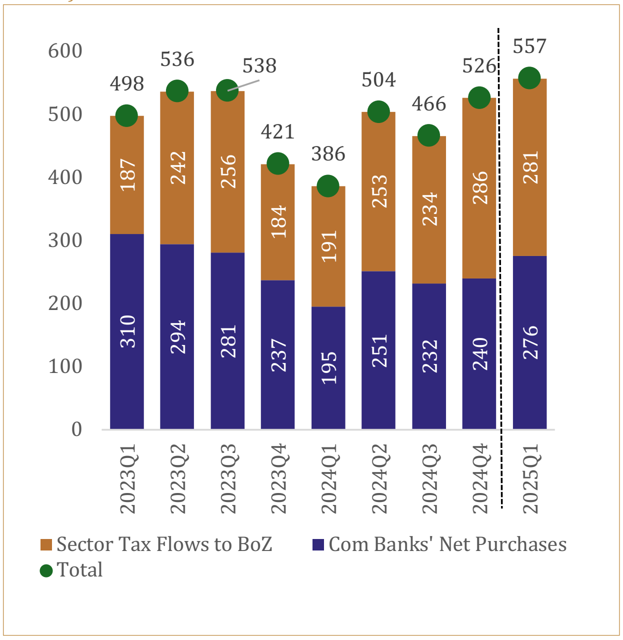
Source: Bank of Zambia

*Others include the sectors: 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.

On the supply side, commercial banks reported lower net foreign exchange purchases from a combination of several sectors other than the mining and quarrying, and foreign financial sectors (Figure 35).

With regard to the mining sector, it is worth noting the steady improvement in foreign currency supply as higher copper production and relatively high prices are reportedly upbeat and necessitating increased local currency needs. In this regard, sales by the sector in the market increased further by 5.8 percent to US$556.8 million (Figure 36).

Figure 36: Net Foreign Exchange Inflows from the Mining Sector (US$ million)



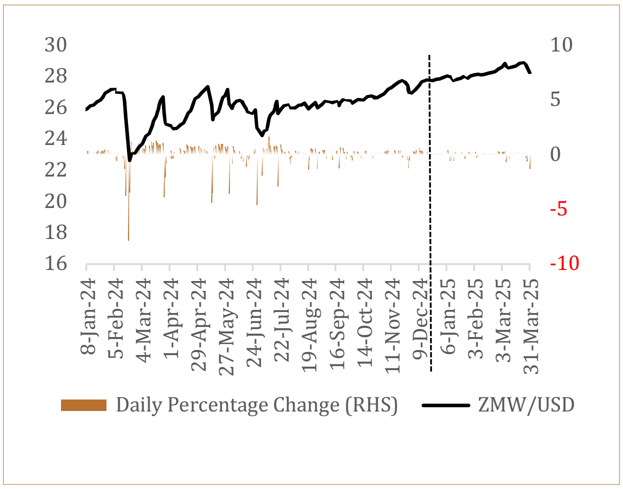
Source: Bank of Zambia

Similarly, the foreign financial sector sold a net of US$132.8 million to commercial banks compared to US$56.8 million in the previous quarter (Figure 36). These transactions reflected, among other trades, financial portfolio investments into Kwacha-denominated assets, particularly Government bonds.

... Kwacha depreciation slows down

In the face of these market imbalances, the Kwacha continued to depreciate, though moderately compared to the previous quarter. The Kwacha weakened by 4.0 percent compared with 4.5 percent recorded in the fourth quarter of 2024 (Figure 37).

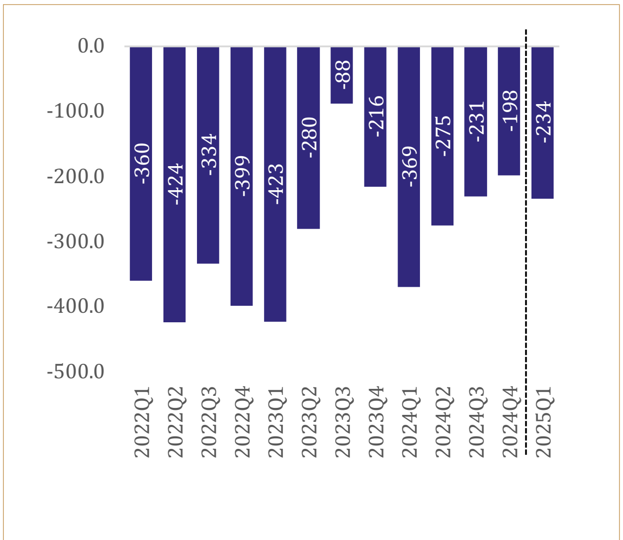
Figure 37 : Nominal Kwacha/US Dollar Exchange Rate



Source: Bank of Zambia

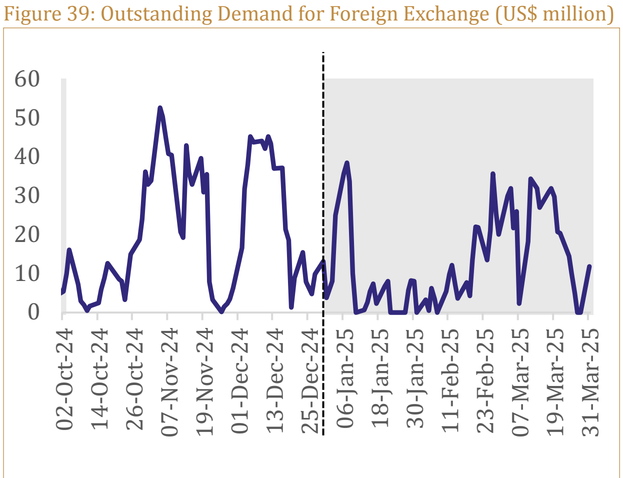
Apart from transaction-based movements, the performance of the Kwacha was also influenced by market sentiment dynamics. The enhanced market support by the Bank of Zambia, revisions to the Foreign Exchange Market Guidelines as well as broad-based weakening of the US dollar in the international markets during the quarter supported positive sentiment. With regard to the Bank's operations, a total of US$233.5 million was sold to the market (Figure 38). In addition, contractionary open market operations were conducted to support the foreign exchange market as pointed out in Section 2.3. These operations were aimed at relieving the market of excessive adverse pressures that emerged from time to time. Effectively, these pressures were pronounced and expressed as clients' unfulfilled foreign exchange purchase orders at commercial banks (Figure 39).

Figure 38: Bank of Zambia Net Sales of Foreign Exchange to the Market (US$ million)



Source: Bank of Zambia

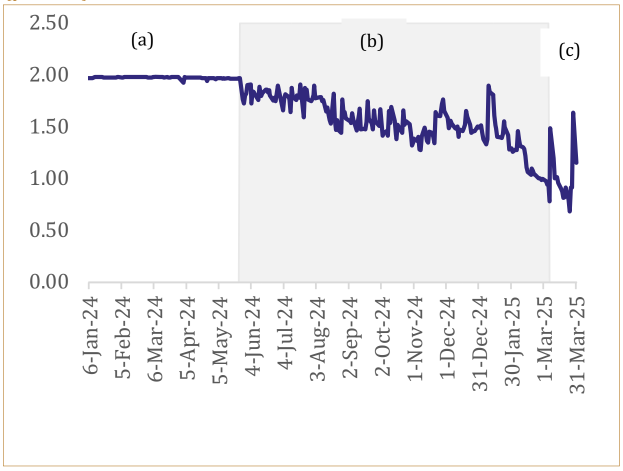
Figure 39: Outstanding Demand for Foreign Exchange (US$ million)



Source: Bank of Zambia

To improve the operations of the foreign exchange market, the Bank revised the Foreign Exchange Market Guidelines by adjusting upwards the negotiable threshold between commercial banks and their clients. This revision assisted in improving competition in pricing resulting in a general compression of the bid-ask spread on commercial banks' board rates (Figure 40).

Figure 40: Commercial Banks' Daily Average Board Rate Spread (percent)

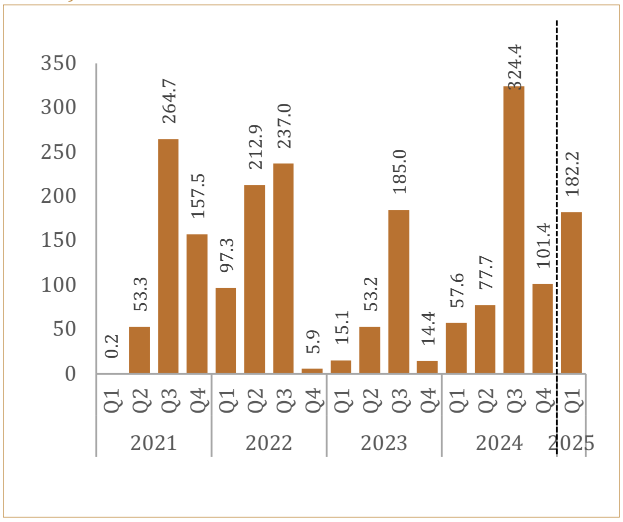


Source: Bank of Zambia

*(a)=period prior to the implementation of the Foreign Exchange Market Guidelines; (b) = period after the implementation of the Foreign Exchange Market Guidelines (May 24, 2024 – March 5, 2025); (c)= period after the revision of the Foreign Exchange Market Guidelines (March 6 - 31, 2025).

The increasing foreign exchange trading activities between commercial banks and their clients in turn supported the interbank foreign exchange market leading to a considerable increase in turnover to US$182.2 million from US$101.4 million (Figure 41). However, trading still remained sporadic and tended to coincide with relatively large inflows from mining firms and foreign financial institutions.

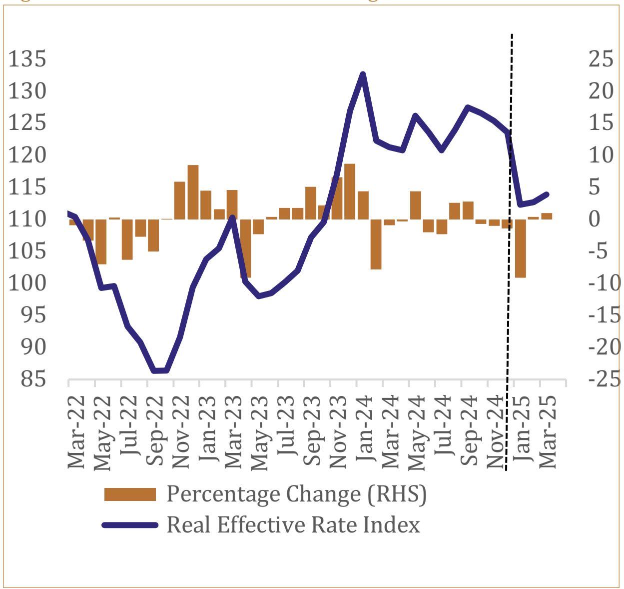
Figure 41: Turnover in Interbank Foreign Exchange Market (US$ million)



Source: Bank of Zambia

The real exchange rate gained further by 7.9 percent in the first quarter due to persistently higher domestic inflation (Figure 42).

Figure 42: Kwacha Real Effective Exchange Rate

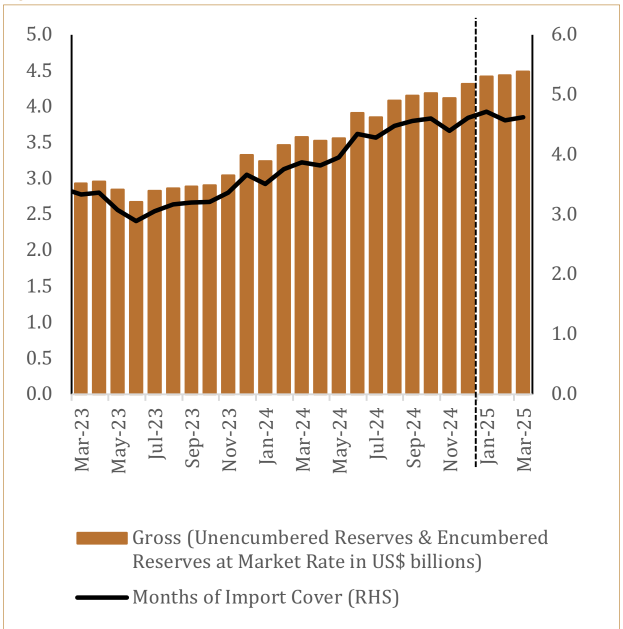


Source: Bank of Zambia

... foreign reserves rise further

About US$200 million was added to international reserves in the first quarter of 2025. This was mostly from net Bank of Zambia purchases (US$51.1 million)[24], non-tax Government receipts (US$44.7 million), project receipts (US$38.0 million), interest earned on reserves (US$20.0 million), and monetary gold purchases (US$8.5 million). Thus, the stock of gross reserves moved up to US$4.5 billion at end-March 2025, equivalent to 4.6 months of import cover (Figure 43).

Figure 43: Gross International Reserves, December 2022-December 2024

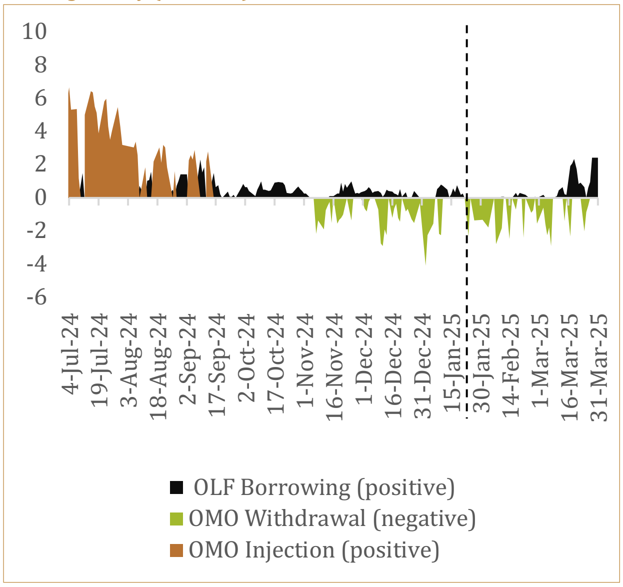


Source: Bank of Zambia

... liquidity management focused on exchange rate pressures

Following the build-up in liquidity in the last quarter of 2024[25], and the persistent depreciation of the exchange rate into the first quarter of 2025, liquidity management operations in the period under review were focused on constraining the banking system cash. This was aimed at moderating the adverse effects of excess liquidity on demand for foreign exchange. On a net basis, the BoZ foreign exchange operations in the market absorbed K6.3 billion (Table 8). These operations were complemented by open market operations (OMOs) to the tune of K3.7 billion net withdrawal. OMOs were consistently conducted to withdraw funds on overnight, 7- and 14- day tenures (Figure 44).

Figure 44: Daily Average Open Market Operations and Overnight Lending Facility (K' billion)



Source: Bank of Zambia

As shown in Table 13, the other factors that absorbed liquidity were net sales of Government securities (K1.7 billion), reflecting increased demand and banks' deposits into the statutory reserve accounts (K1.4 million). The lower liquidity levels sustained demand for loans at the Overnight Lending Facility (OLF) Window. Thus, the amount of overnight borrowing from the Facility accumulated to K27.2 billion compared to K28.2 billion in the previous quarter (Figure 44).

The combined effect of these factors pushed commercial banks' aggregate current account balance lower to K2.8 billion at end-March 2025 from K9.5 billion at end-December 2024 (Table 8).

[24]This is a net of US$281.1 million taxes paid directly by mining companies plus US$2.0 million Bank purchases from commercial banks less US$232.0 million sales by the Bank to commercial banks.

[25]Net Government spending increased in the last quarter of 2024 to support livelihoods and communities adversely affected by drought as well as meet end-year obligations that largely included expenditure on agricultural inputs under the Farmer Input Support Programme.

Table 8: Liquidity Influences (K' billion)

	2024Q4	2025Q1
Opening Balance	4.8	9.5
Net Govt Spending	13.5	4.8
Net BoZ FX Intervention	(7.3)	(6.3)
Change in Currency	(2.3)	1.5
Change in SR Deposits	(0.6)	(1.4)
OLF	(0.6)	1.0
Net Govt Securities Transactions	2.3	(1.7)
Open Market Operations	1.5	(3.7)
TMTRF	(0.7)	(0.1)
Miscellaneous	(1.1)	(1.9)
Closing Balance	9.5	2.8

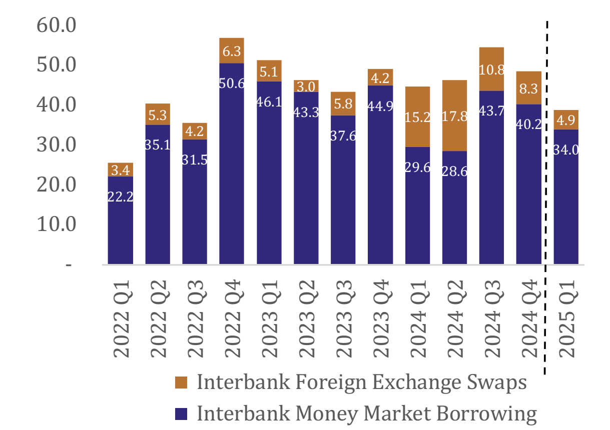
Source: Bank of Zambia

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

With regard to the direct instruments of monetary policy, out of a total of 62 working days in the first quarter of 2025, non-compliance to both the core liquid assets ratio (CLAR) and statutory reserve ratios (SRRs) by at least one bank was recorded on 7 days, translating into a compliance rate of 88.7 percent[26].

The decline in liquidity levels was also reflected in relatively lower volumes of interbank loans—a total of K34.0 billion was borrowed, down from K40.2 billion previously (Figure 45). Similarly, funding from the overnight interbank foreign exchange swap market dropped to K4.9 billion from K8.3 billion (Figure 45). However, the Kwacha interbank interest rate was maintained close to the Policy Rate as it averaged 14.3 percent in the quarter (Figure 46).

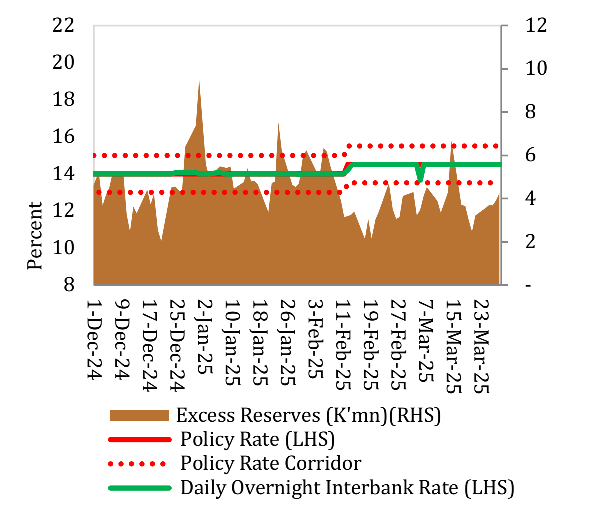
Figure 45: Interbank Money Market Borrowing and Foreign Exchange Swaps (K' billion)



Source: Bank of Zambia

[26]Out of the 14 banks, three recorded a few incidents of shortfalls on the CLAR while only one fell short on the Kwacha and foreign currency SRRs.

Figure 46: Excess Reserves (Liquidity Levels), Policy Rate and Overnight Interbank Rate



Source: Bank of Zambia

Commercial banks borrowed more from foreign financial institutions using foreign exchange swaps as non-residents built up Kwacha balances from Government securities redemptions and coupon payments as well as proceeds from sales of foreign exchange. Funding from this source increased notably to a 5-quarter high of K37.8 billion.

... interest rate movements remain mixed

Consistent with the further tightening of monetary policy in February, the overnight interbank rate rose to 14.5 percent from 14.0 percent in the previous quarter (Figure 46 and Figure 47).

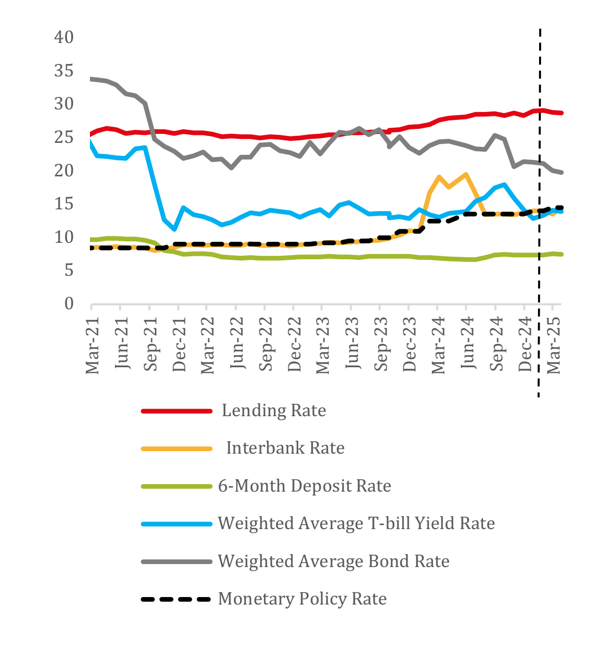
The 6-month savings rate continued on a gradual rising path and moved up to 7.5 percent from 7.4 percent (Figure 47 and Figure 48). However, the real return on savings remained negative (Figure 49).

The weighted yield rate on Treasury bills shifted upward by 1.1 percentage points to 13.9 percent (Figure 47), partly attributed to a further hike in the MPR in February. This narrowed the real negative interest rate gap (Figure 49).

The Government bond yield rate continued on a declining trend, albeit at a reduced rate (Figure 47 and Figure 48). It went down by 1.5 percentage points to 19.8 percent as strong demand for bonds, in excess of over 200 percent, was sustained.

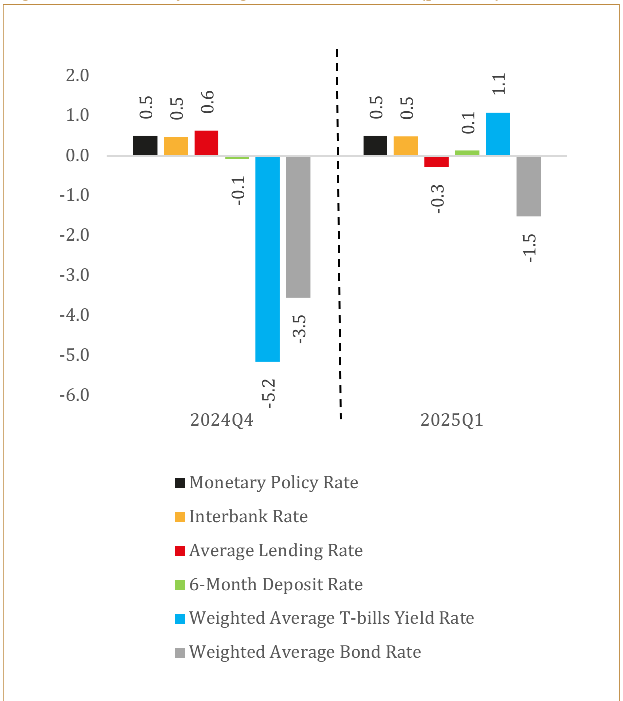
The rising trend in the lending rate reversed, marginally declining by 0.3 percentage points to 28.7 percent, somewhat reflecting the effect of temporary promotion of credit products (Figure 47 and Figure 48). The borrowing cost, however, remains relatively high in real terms to impact excess demand in the economy (Figure 49).

Figure 47: Average Nominal Interest Rates (percent)



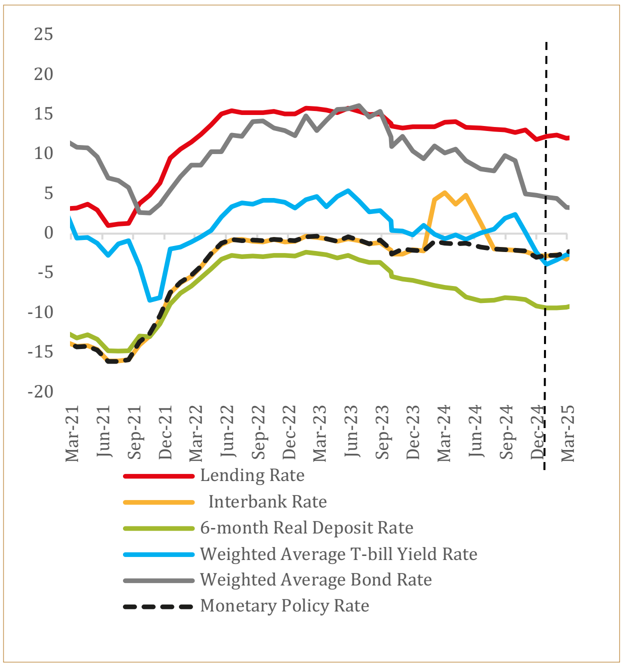
Source: Bank of Zambia

Figure 48: Quarterly Change in Interest Rates (percent)



Source: Bank of Zambia

Figure 49: Real Interest Rates (percent)



Source: Bank of Zambia

... domestic credit growth picks up

Domestic credit[27] growth rebounded in March 2025, growing by 15.3 percent compared to 5.4 percent in December 2024 (Table 9, Figure 50). This resulted in the credit gap[28] turning positive (Figure 51 and Figure 52).

Table 9: Credit Growth Rate (percent)

	Dec-24	Mar-25
Overall Credit	5.4	15.3
Overall Credit Exchange Rate Adjusted	3.4	12.1
Private Sector Credit	20.5	23.0
Private Sector Credit Exchange Rate Adjusted	16.8	16.6
Kwacha Denominated Credit	20.1	17.4
Foreign Currency Denominated Credit	10.1	16.9
Public Sector Credit (Government)	-2.9	5.9

Source: Zambia Staff Computations

Strong demand for Government securities by commercial banks and more lending in foreign currency supported this robust outcome. Lending to the public sector (Government) recovered and its contribution to overall credit turned positive (Table 9 and Figure 50). As shown in figure 53, the acceleration in foreign currency denominated credit was mostly due to sustained lending to the manufacturing sector, mining, agriculture as well as wholesale and retail trade sectors (Figure 54 and Figure 55). Consequently, the negative credit gap was almost eliminated (Figure 53).

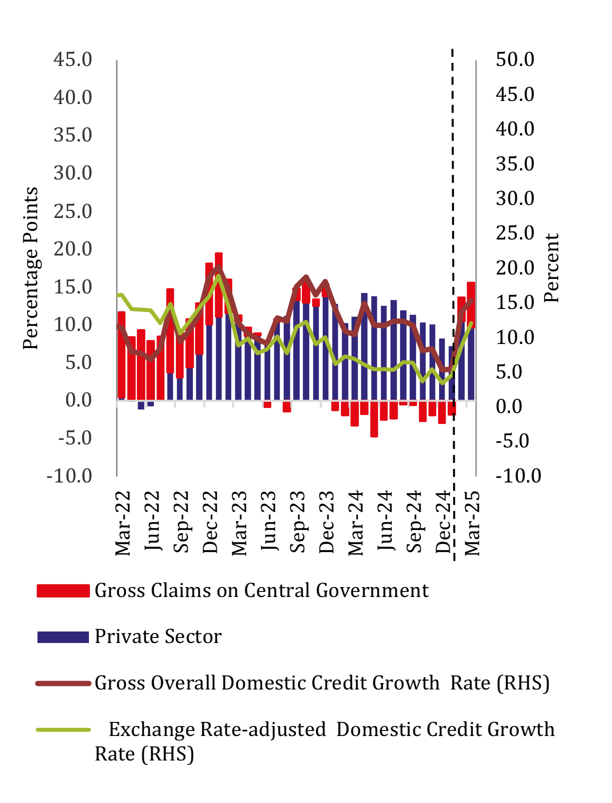
[27]Domestic credit refers to aggregate lending by the Bank of Zambia, commercial banks and other depository corporations in both Kwacha and foreign currency.
[28]Credit gap is the difference between the overall domestic credit and its long-term trend.

However, Kwacha denominated credit growth continued on a downward trend and the negative gap widened (Figure 56). This was mostly due to reduced lending to the restaurant and hotel as well as transport sectors on account of sustained electricity load management and depreciation of the exchange rate, respectively (Figure 57 and Figure 58).

The combined change in lending in Kwacha and foreign currency led to a further expansion in private sector credit by 23.0 percent in March 2025 from 20.5 percent in December 2024 but remained below the trend (Table 9, Figure 59, Figure 60 and Figure 61). However, adjusted for the exchange rate depreciation, the trend in private sector credit was downward.

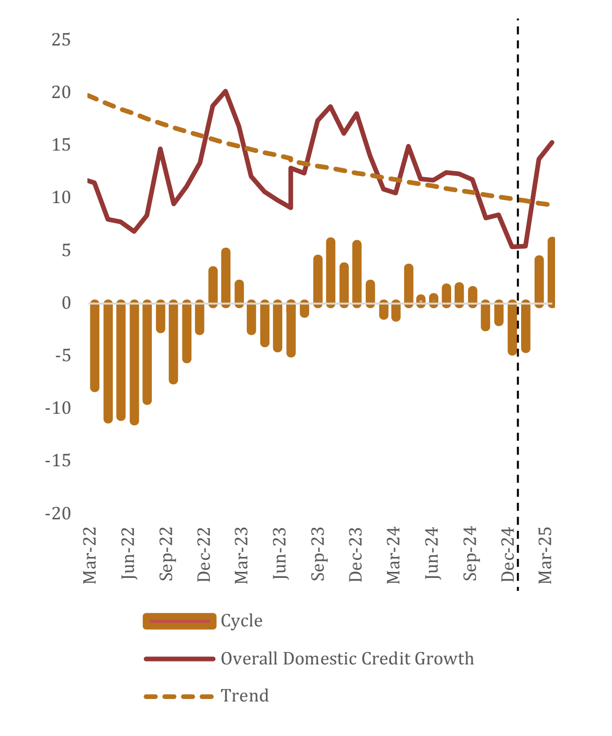
According to the ***May 2025 Credit Conditions Survey***, commercial banks remain optimistic about sustained demand for credit by the private sector. This is to cushion the impact of the rising cost of living and also to mitigate the lingering effects of electricity load shedding on productivity.

Figure 50 : Contribution to Credit Growth



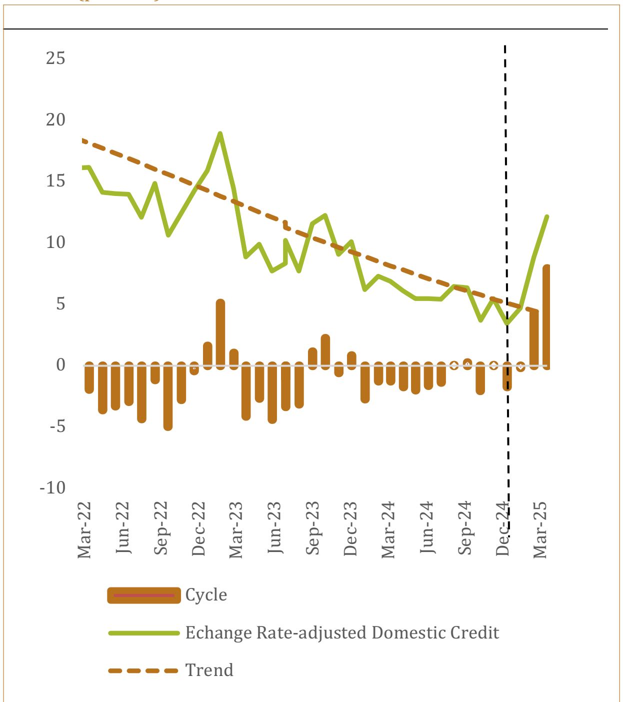
Source: Bank of Zambia

Figure 51 : Trend in Overall Domestic Credit Growth (percent)



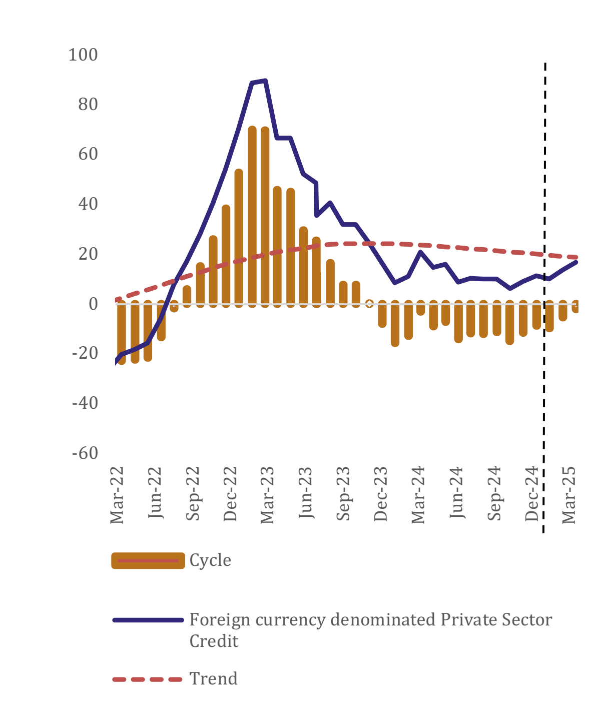
Source: Bank of Zambia

Figure 52: Trend in Exchange Rate-Adjusted Overall Domestic Credit Growth (percent)



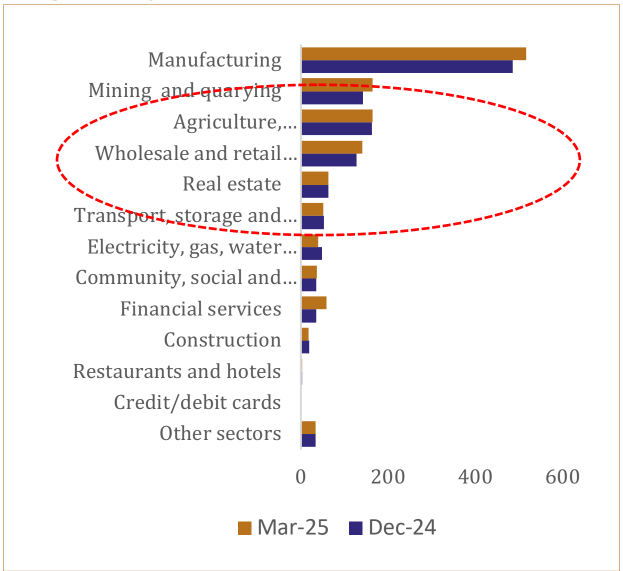
Source: Bank of Zambia

Figure 53.: Trend in Foreign Currency Denominated Private Sector Growth Rate (percent)



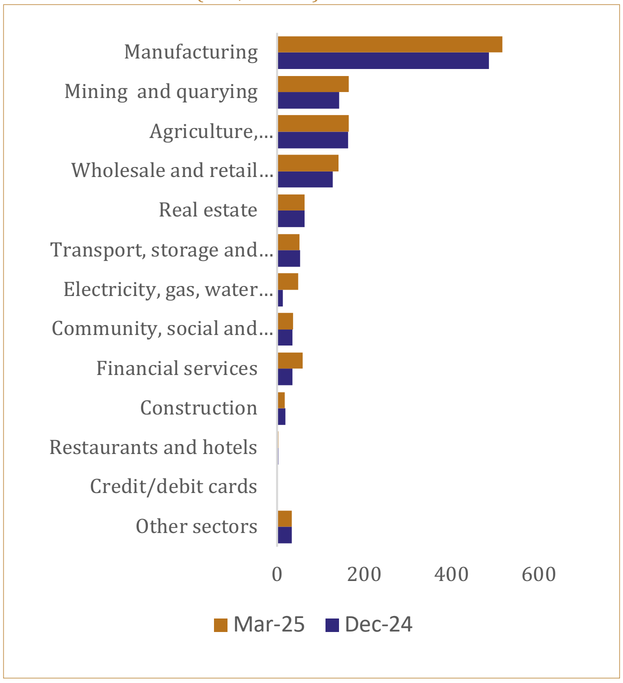
Source: Bank of Zambia

Figure 54: Sectoral Contribution to Annual Percent Change in Foreign Currency Denominated Private Sector Credit



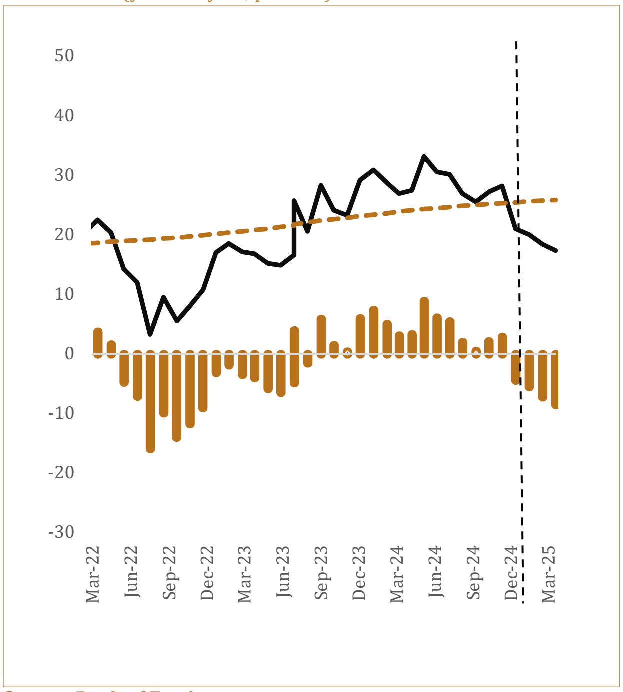
Source: Bank of Zambia

Figure 55: Stock Distribution of Foreign Currency Denominated Private Sector Credit (US$, million)



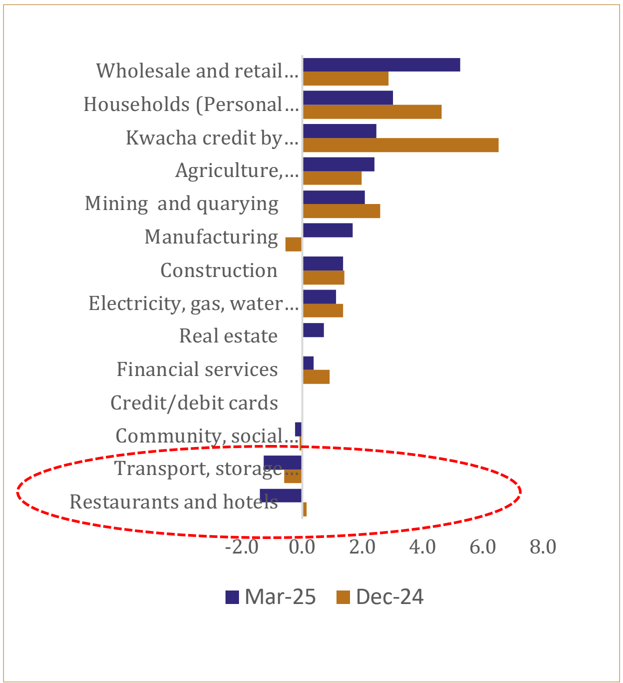
Source: Bank of Zambia

Figure 56: Trend in Kwacha Denominated Private Sector Credit Growth Rate (year-on-year, percent)



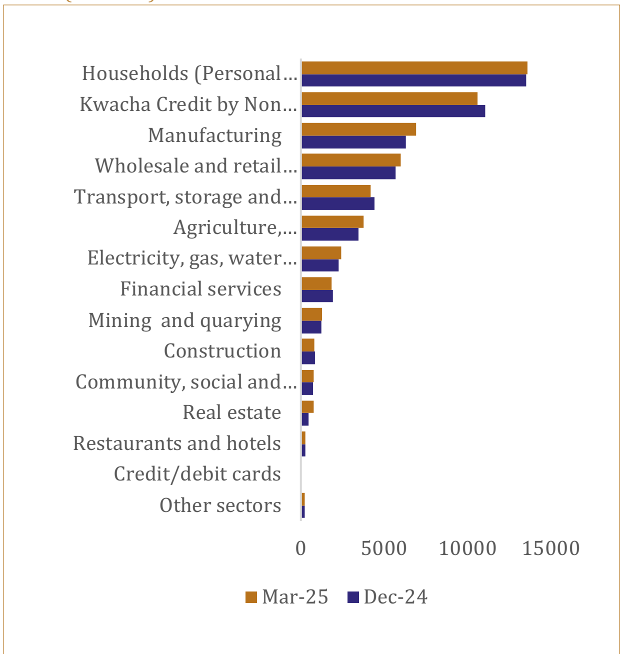
Source: Bank of Zambia

Figure 57: Sectoral Contribution to Annual Percent Change in Kwacha Denominated Private Sector Credit



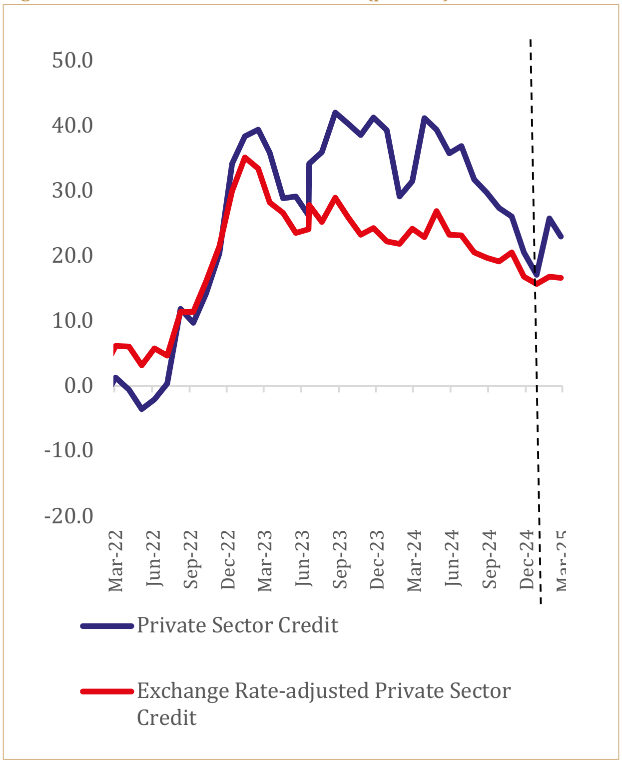
Source: Bank of Zambia

Figure 58: Stock Distribution of Private Sector Kwacha Denominated Credit (K'billion)



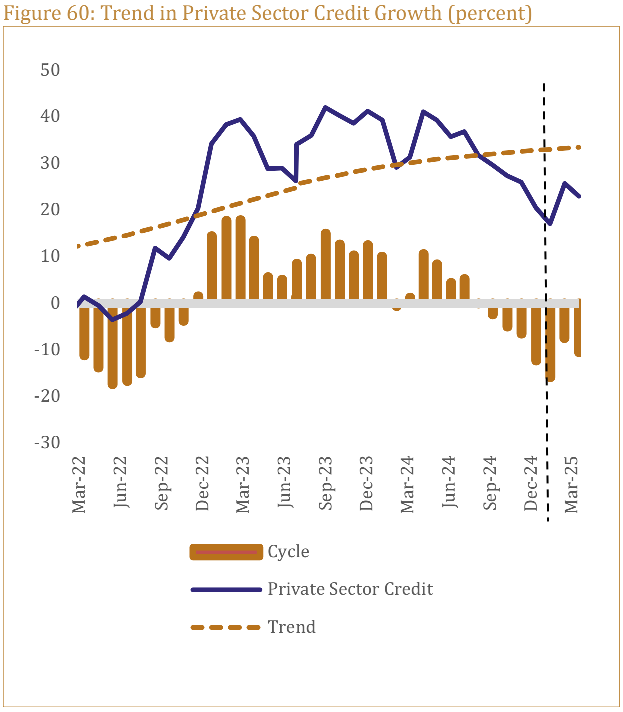
Source: Bank of Zambia

Figure 59: Private Sector Credit Growth (percent)



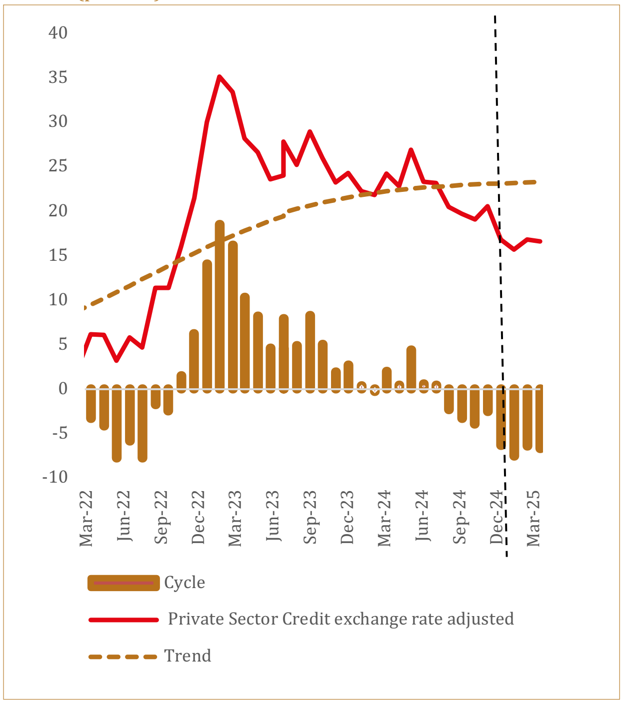
Source: Bank of Zambia

Figure 60: Trend in Private Sector Credit Growth (percent)



Source: Bank of Zambia

Figure 61: Trend in Exchange Rate-Adjusted Private Sector Credit Growth (percent)

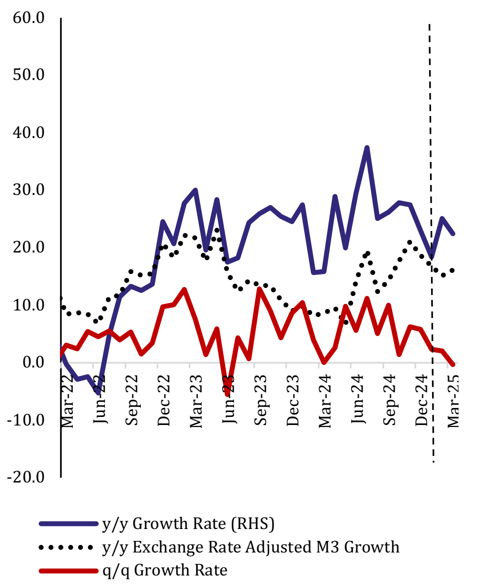


Source: Bank of Zambia

... money supply growth slows down

Money supply growth (M3)[29] remained volatile in the first quarter. M3 slowed down to 22.5 percent in March 2025 from 23.0 percent in December 2024 and remained below trend (Figure 62 and Figure 63). However, adjusted for exchange rate movements, M3 remained above trend, at 16.1 percent, in March 2025, down from 18.7 percent in December 2024 (Figure 64). Broadly, the slowdown in private sector credit net of exchange rate depreciation accounts for the observed decline in M3.

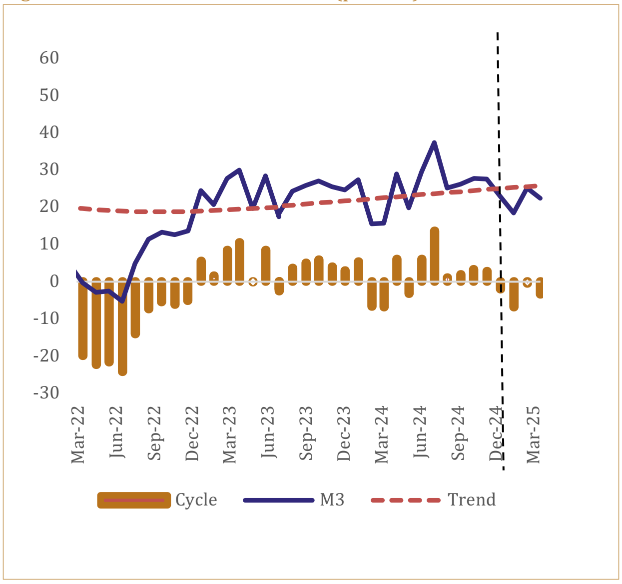
Figure 62: Money Supply Growth Rate (year-on-year, percent)



Source: Bank of Zambia

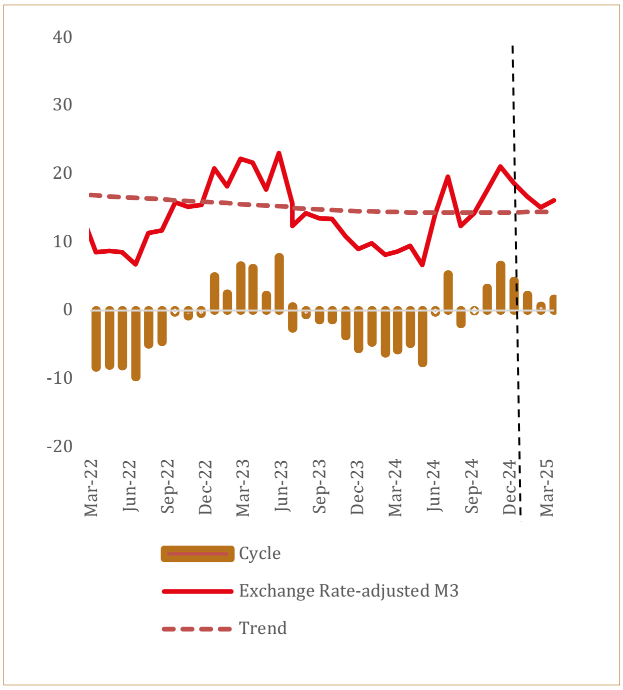
[29]M3 stock was K204.5 billion at end-March 2025.

Figure 63: Trend in M3 Growth Rate (percent)



Source: Bank of Zambia

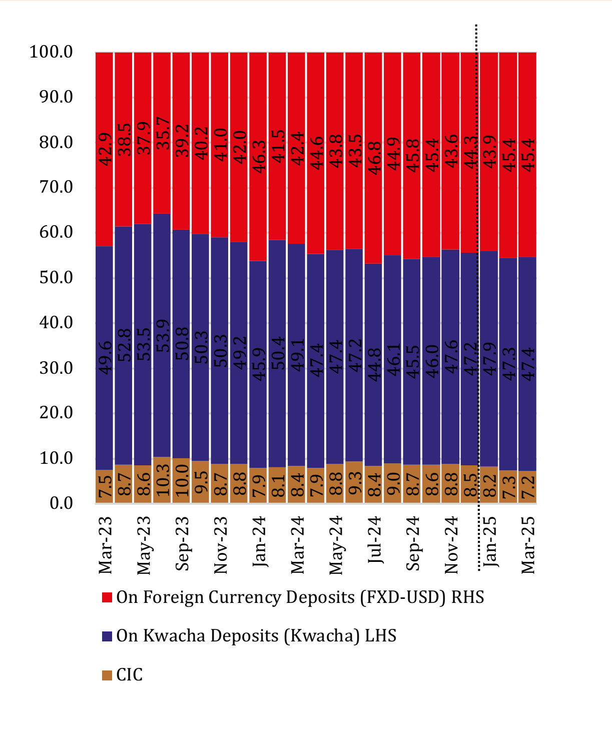
Figure 64: Trend in Exchange Rate-Adjusted M3 Growth Rate (percent)



Source: Bank of Zambia

The share of Kwacha and foreign currency deposits in money supply rose to 47.4 percent and 45.4 percent from 47.2 percent and 44.3 percent, respectively (Figure 65). In contrast, the currency held by the non-bank public fell to 7.2 percent from 8.5 percent.

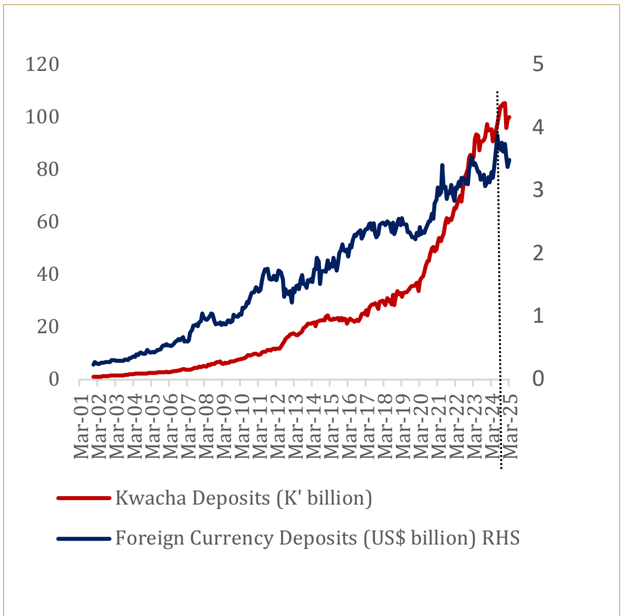
Figure 65: Share of Broad Money Components in M3 (percent)



Source: Bank of Zambia

Kwacha deposit and foreign currency liabilities declined to K100.2 billion and US$3.5 billion at end-March 2025 from K105.4 billion and US$3.7 billion at end-December 2024 (Figure 66).

Figure 66: Commercial Bank Deposit Liabilities



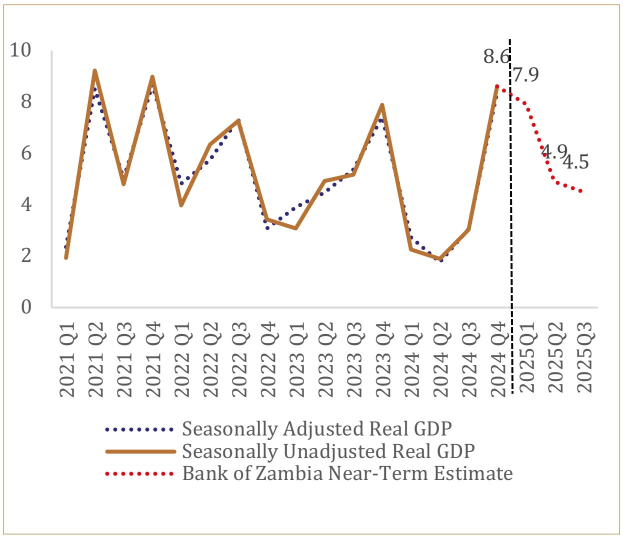
Source: Bank of Zambia

2.4 Domestic Economic Activity

... remains positive

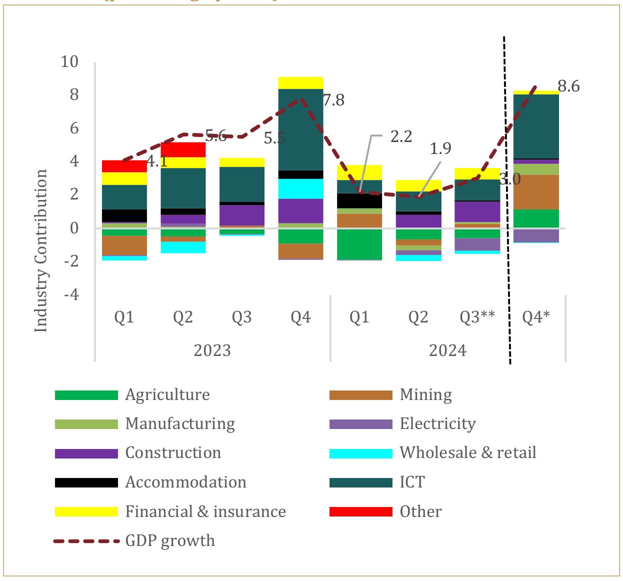
Real GDP continued to expand in the first quarter of 2025, growing by 7.9 percent (BoZ near-term estimate) from 8.6 percent in the last quarter of 2024 (Figure 67 and Figure 68). Sustained positive performance by the mining and transport sectors and the rebound in construction supported growth.

Figure 67: Quarterly Real GDP, y/y, Growth Rate (percent)



Source: Bank of Zambia

Figure 68: Quarterly Real GDP Growth and Contribution by Selected Industries (percentage points)



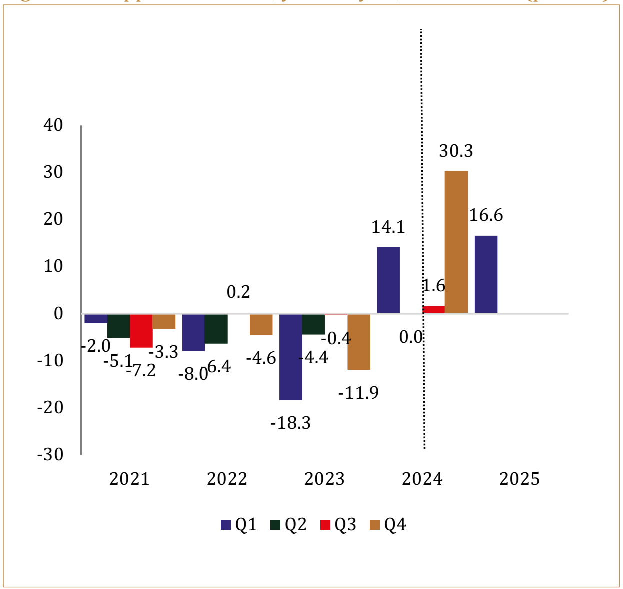
Source: Zambia Statistics Agency and Bank of Zambia

* = revised ** = preliminary

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

The positive performance of the mining sector continues to be driven by copper production, which expanded by 16.6 percent to 192,180 metric tonnes in the first quarter (Figure 69). This was largely driven by higher production due to improved ore quality and resumption of operations at some major mines in 2024.

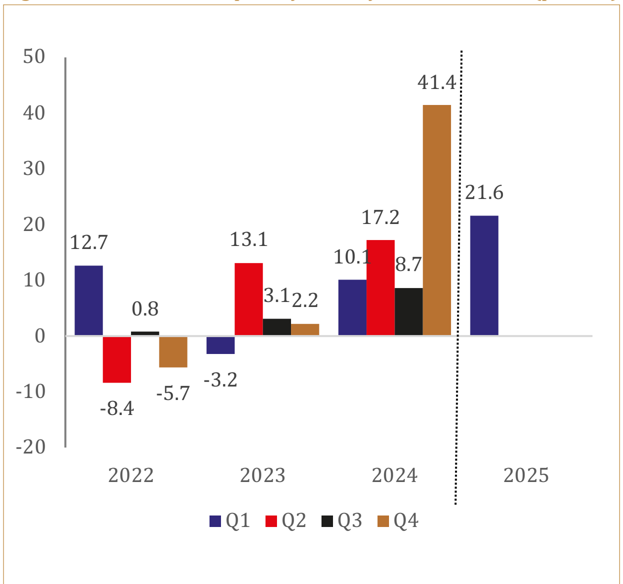
Figure 69: Copper Production, year-on-year, Growth Rate (percent)



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

Diesel consumption—proxy for the transport sector—grew further by 21.6 percent to 381.0 million litres in the first quarter (Figure 70). This was mainly due to sustained demand, increased mining activity and continued reliance on alternative energy sources as electricity shortages persist.

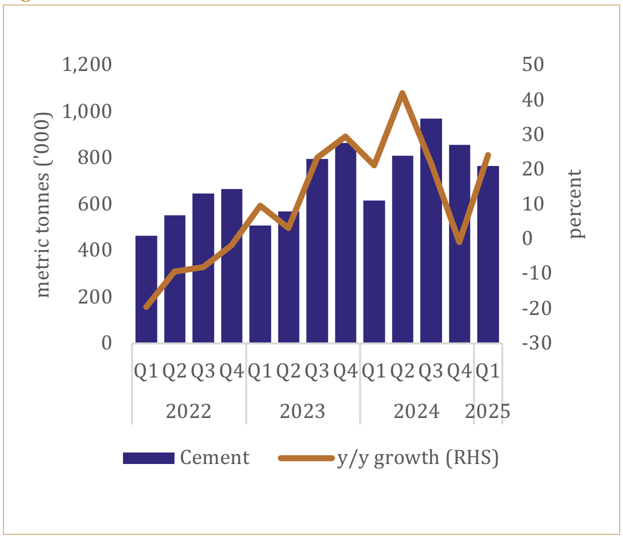
Figure 70: Diesel Consumption, year-on-year, Growth Rate (percent)



Source: Energy Regulation Board, Bank of Zambia Compilations

The construction sector registered a rebound in the first quarter as cement production (the proxy) expanded by 24.2 percent after contracting by 0.8 percent in the last quarter of 2024 (Figure 71). This reflects strong demand on the back of ongoing road and infrastructure projects.

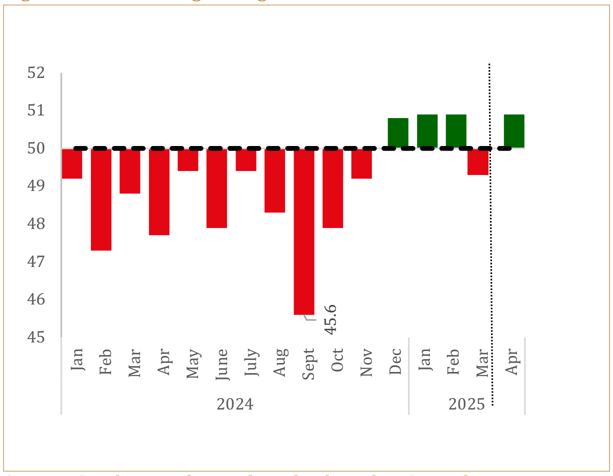
Figure 71: Cement Production



Source: Bank of Zambia

The *Stanbic Bank Zambia*[30] *PMI™* revealed improvements in business conditions for the private sector in the first quarter. The PMI averaged 50.4 compared to 49.3 in the closing quarter of 2024[31] (Figure 72). Increases in both new orders and output were the key drivers. New orders rose in response to the pick-up in demand while output was supported by relatively more stable power supply.

Figure 72: Purchasing Manager's Index for Zambia



Source: Stanbic Zambia and Bank of Zambia Compilation

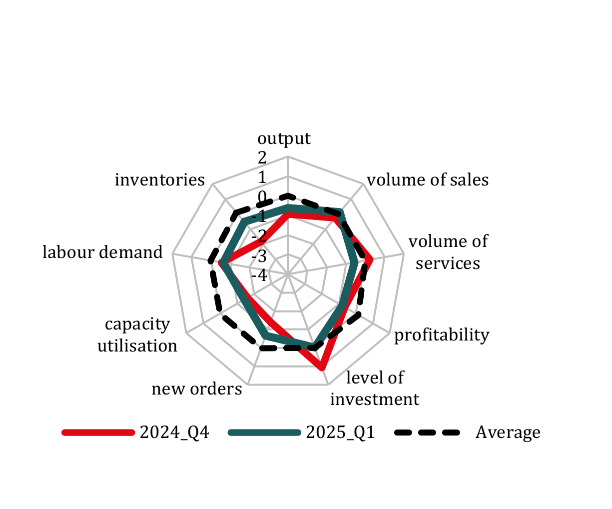
In contrast, respondents to the *May 2025 Quarterly Survey of Business Opinion and Expectations* indicate that economic activity remained weak in the first quarter of 2025. Respondents continued to cite the impact of a weaker Kwacha, ongoing power shortages, weak demand and persistent inflation as key challenges for their businesses. Consequently,

[30]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.

[31]The Stanbic Bank Zambia PMI returned to contraction in March (49.3), after three consecutive months of expansion, due to weak demand reflected in declines of output and new orders.

they reported declines in labour demand, investment, profitability and services volume (Figure 73).

Figure 73: Business Opinion Response Patterns32



Source: Bank of Zambia

2.5 Budget Performance

... deficit lower than target

The preliminary cash fiscal deficit for the first quarter of 2025 was less than the target mostly due to lower-than-planned spending on capital projects and public sector operations.

2.6 Domestic Prices

... rise moderately

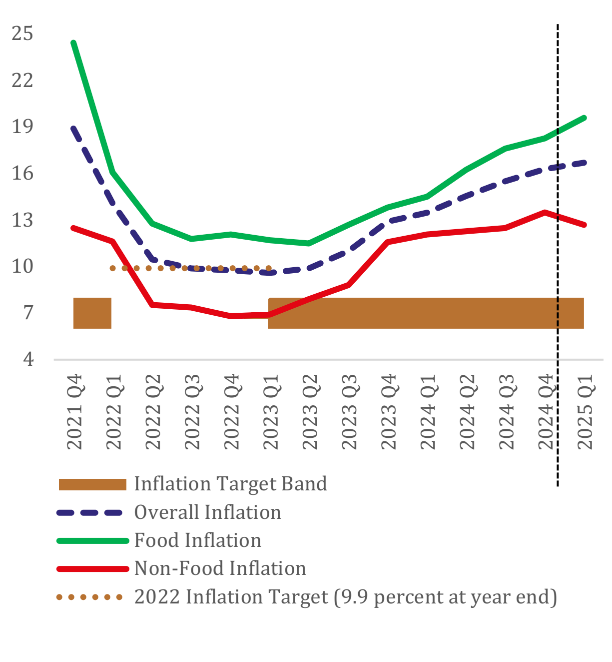
Overall inflation slowed down in the first quarter of 2025, moving up by 0.4 percentage points compared to 0.8 percentage points in the last quarter of 2024. On average, it rose to 16.7 percent from 16.3 percent (Table 10 and Figure 74). The slowdown reflects the reduction in non-food inflation to 12.7 percent from 13.5 percent while food inflation increased further to 19.6 percent from 18.3 percent (Table 10 and Figure 74).

Table 10: Inflation Rate (percent)

	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1
Average					
Overall Inflation	13.5	14.6	15.5	16.3	16.7
Food Inflation	14.5	16.2	17.6	18.3	19.6
Non-Food Inflation	12.1	12.3	12.5	13.5	12.7
End-Period					
Overall Inflation	13.7	15.2	15.6	16.7	16.5
Food Inflation	15.6	16.8	17.9	18.6	18.9
Non-Food Inflation	11.2	13.0	12.4	14.2	13.2

Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Figure 74: Trend in Quarterly Inflation (year-on-year percent)

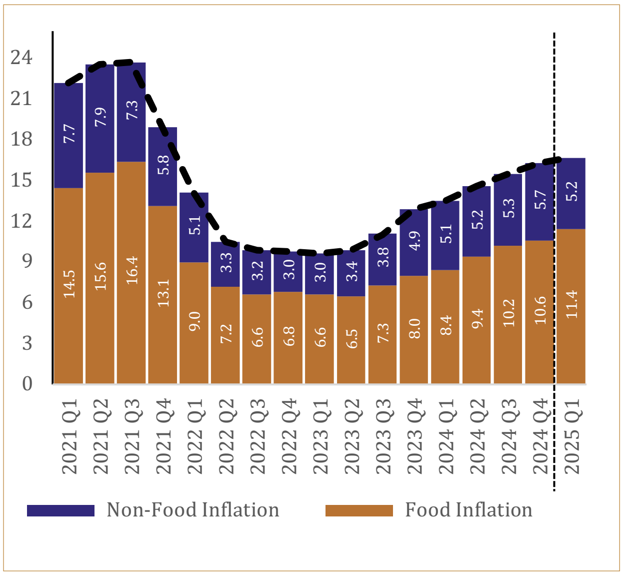


Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

As a result, the contribution by non-food inflation to overall inflation reduced to 5.2 percentage points from 5.7 percentage points but that of food inflation increased to 11.4 percentage points from 10.6 percentage points (Figure 75).

32 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.

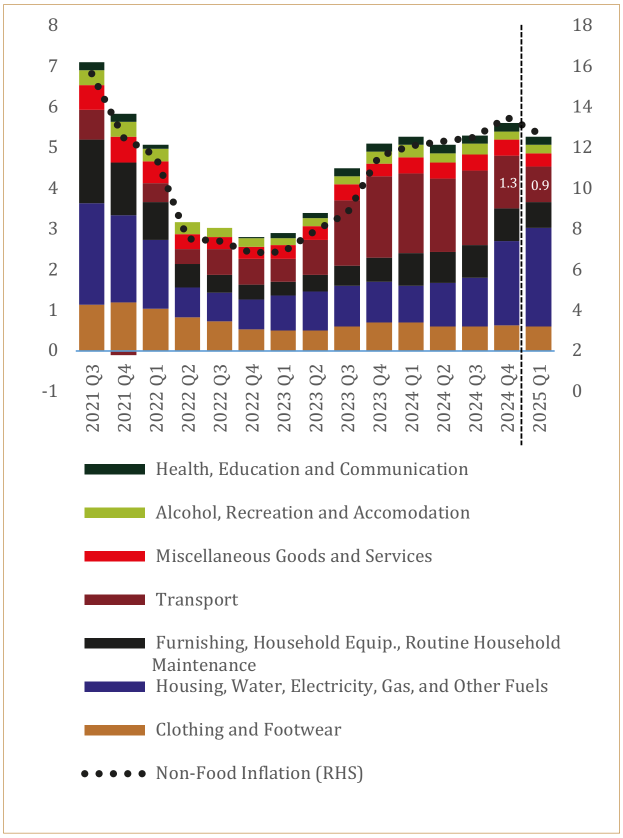
Figure 75: Contribution to Overall Inflation by Food and Non-Food Inflation (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The slowdown in non-food inflation was mostly occasioned by the moderation in airfares[33], as well as prices of motor vehicles and detergents which lowered the contribution of the transport sub-group to 0.9 percentage points from 1.3 percentage points (Figure 76).

Figure 76: Contribution to Non-Food Inflation by Sub- Group (percentage points)

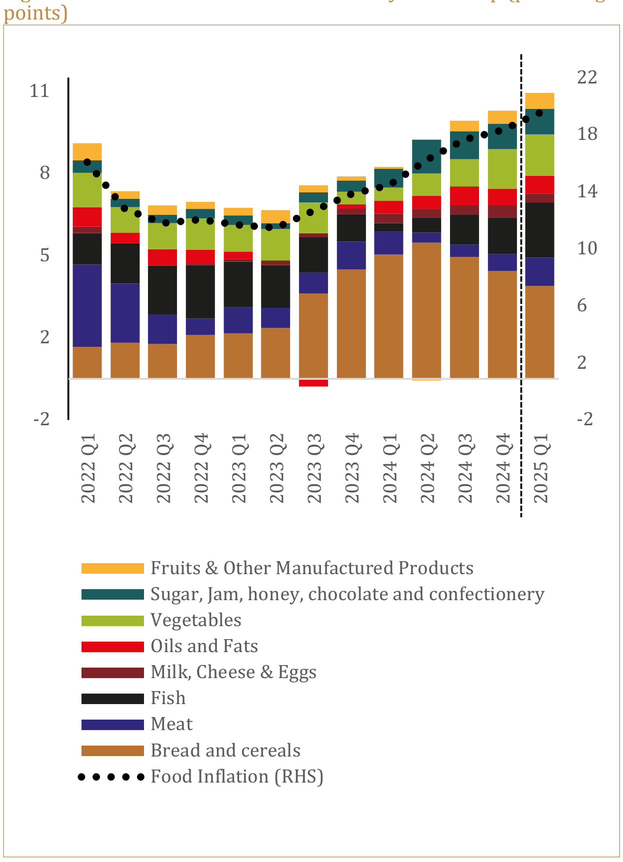


Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

33 Airlines often respond by adjusting pricing to stimulate demand during this period.

Much of the increase in food inflation was due to the seasonal low supply of fish and vegetables as well as higher production costs of meat products (Figure 77). These factors outweighed the declining influence from the bread and cereal sub-group—mostly maize grain and its products. The depreciation of the exchange rate added to the increase in food inflation through higher prices of imported sugar and rice.

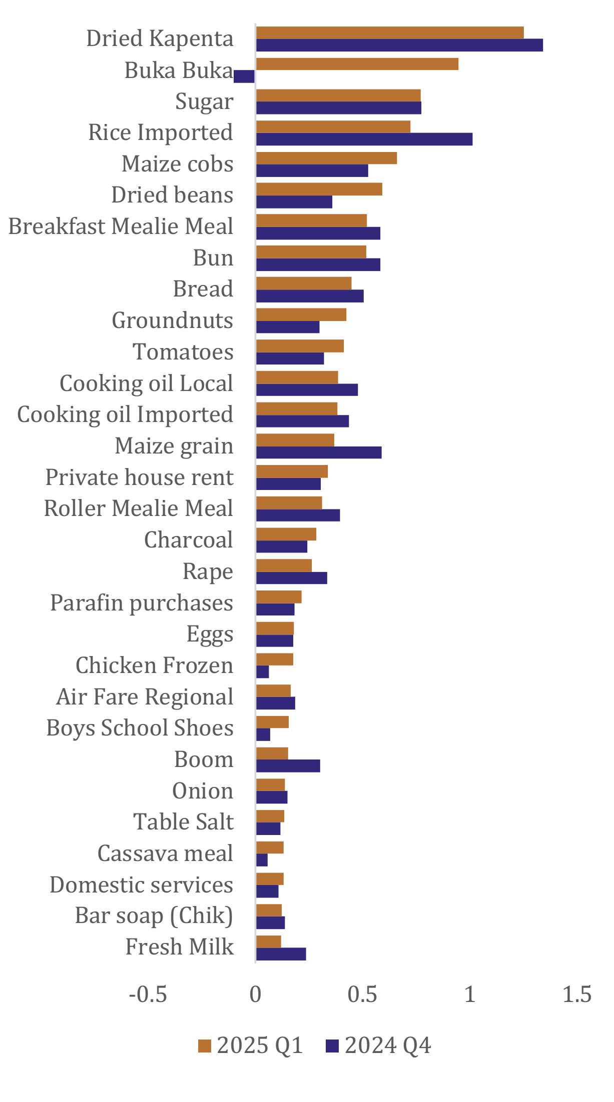
Figure 77: Contribution to Food Inflation by Sub-Group (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

The notable products with substantial influence on food inflation were dried kapenta, buka buka, sugar, imported rice, maize cobs and dried beans (Figure 78).

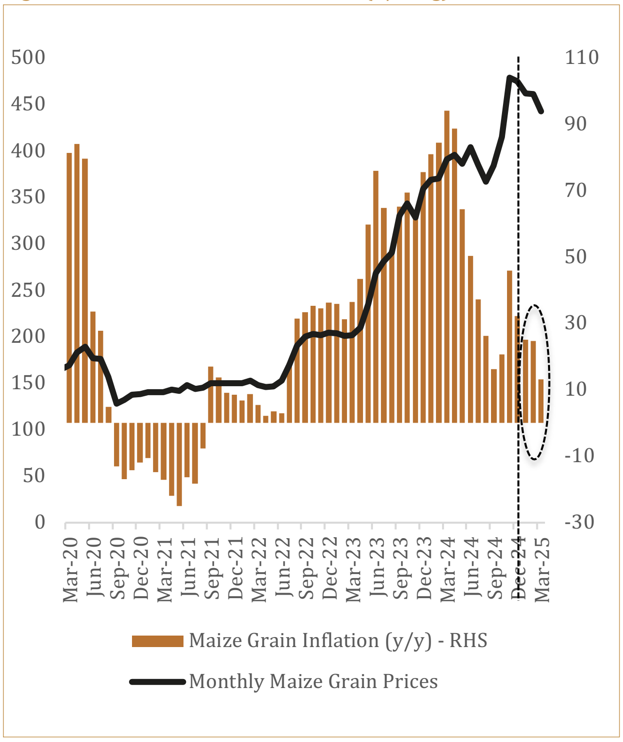
Figure 78: Contributors to Overall Inflation by Product between 2025 Q1 and 2024 Q4 (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Maize grain prices fell sharply, year-on-year, in March 2025 to 13.1 percent from 32.3 percent in December 2024 (Figure 79). This is attributed to improved supply following the commencement of early maize harvest coupled with expectations of a better harvest on the back of a favourable rainy season. This prompted some farmers to clear maize stocks from the 2023/24 farming season.

Figure 79: Domestic Maize Grain Prices (K/50kg)



Source: Bank of Zambia Computation

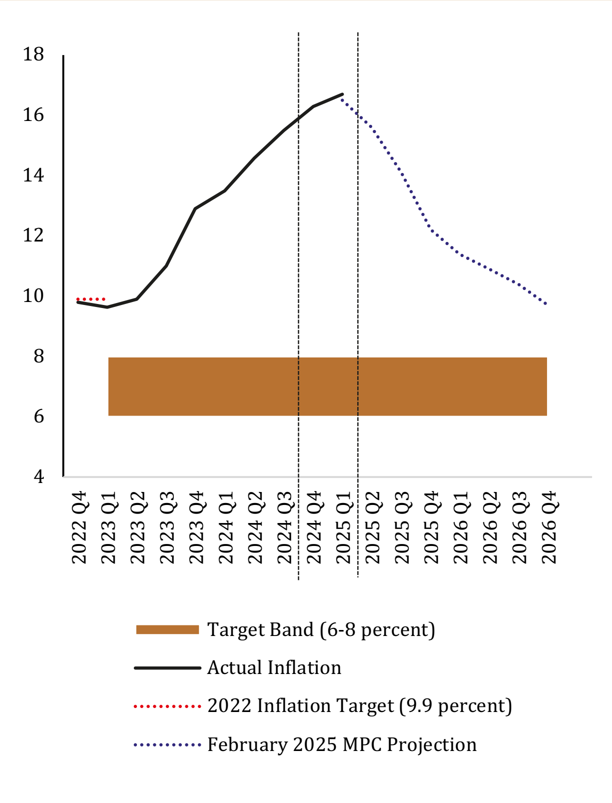
The inflation outturn of 16.7 percent was in line with both the baseline and MPC projections (Table 11 and Figure 80).

Table 11: Assumptions underlying Inflation Projection in 2025Q1

	2025 Q1	2025 Q1
	Assumed Value	Actual Value
Average inflation-USA (percent)	2.2	2.7
Fed funds rate (percent)	3.9	4.3
Average inflation-South Africa (percent)	3.5	3.1
Average copper price/ton (US$)	9,043.50	9,406.03
Average crude oil price/barrel (US$)	75.36	75.01
Reserve money growth (percent)	1.0	-4.0
Fiscal deficit (ratio of expenditure to revenue)	1.13	1.07
World food price index	110.2	114.0
BoZ monetary policy rate (percent)	14.0	14.5
Inflation projection		
Baseline	16.7	
MPC	16.5	
February 2025 QSBOE expectations	17.3	
SoEE	16.3	
Inflation outturn (percent)		16.7
Exchange rate outturn		28.27
Exchange rate estimate using actual values		29.10

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

Figure 80: Actual and Projected Annual Overall Inflation (percent)



Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

With respect to inflation expectations, respondents to the *February 2025 Bank of Zambia Quarterly Survey of Business Opinions and Expectations* were pessimistic (17.3 percent), mostly on account of the anticipated weaker exchange rate, inflation inertia and higher fuel prices (Table 12). However, the economic forecasters' expectation of 16.3 percent was close to the outturn.

Table 12: Actual versus Inflation Projections[34]

	Actual Inflation	Baseline Projection	MPC Projection	QSBOE	SOEE	MPC Forecast Error	Baseline Forecast Error
2022 Q1	14.1	14.8	17.7			-3.6	-0.7
2022 Q2	10.5	11.4	11.6			-1.1	-0.9
2022 Q3	9.9	11.8	11.6			-1.7	-1.9
2022 Q4	9.8	10.5	10.6			-0.8	-0.7
2023 Q1	9.6	9.2	9.2			0.4	0.4
2023 Q2	9.9	9.0	11.6	10.6		-1.7	0.9
2023 Q3	11.0	10.3	10.3	10.7		0.7	1.3
2023 Q4	12.9	13.1	13.1	12.4		-0.2	-0.2
2024 Q1	13.5	13.2	13.2	13.8		0.2	0.3
2024 Q2	14.6	13.8	14.7	14.9		-0.1	0.8
2024 Q3	15.5	15.5	15.8	15.5	15.7	-0.3	0.0
2024 Q4	16.3	15.9	16.4	16.5	16.2	-0.1	0.4
2025 Q1	16.7	16.7	16.5	17.3	16.3	0.2	0.0

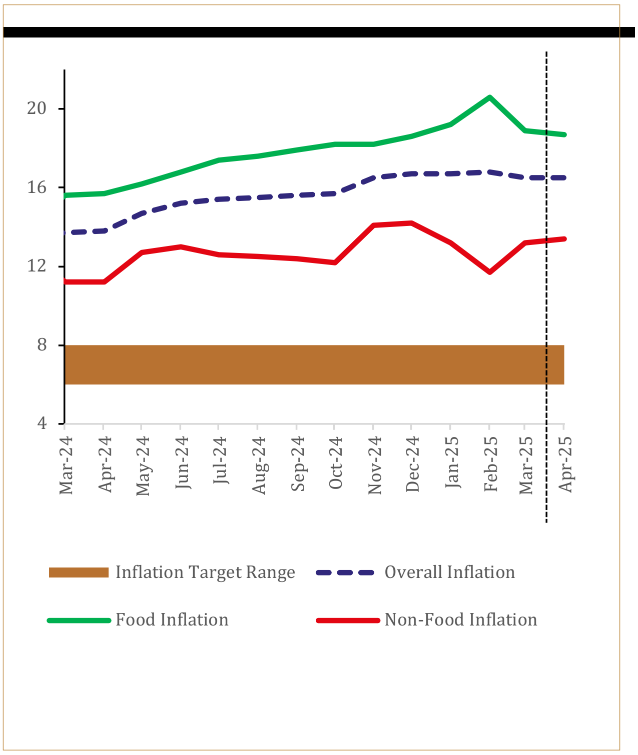
Source: Bank of Zambia Staff Computations

... inflation holds steady in April

The rise in non-food inflation was offset by the fall in food inflation, leaving overall inflation unchanged at 16.5 percent in April (Figure 81 and Table 13).

[34]Data collection for QSBOE and SoEE commenced in 2023Q2 and 2024Q3, respective.

Figure 81: Inflation and its Components (percent)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

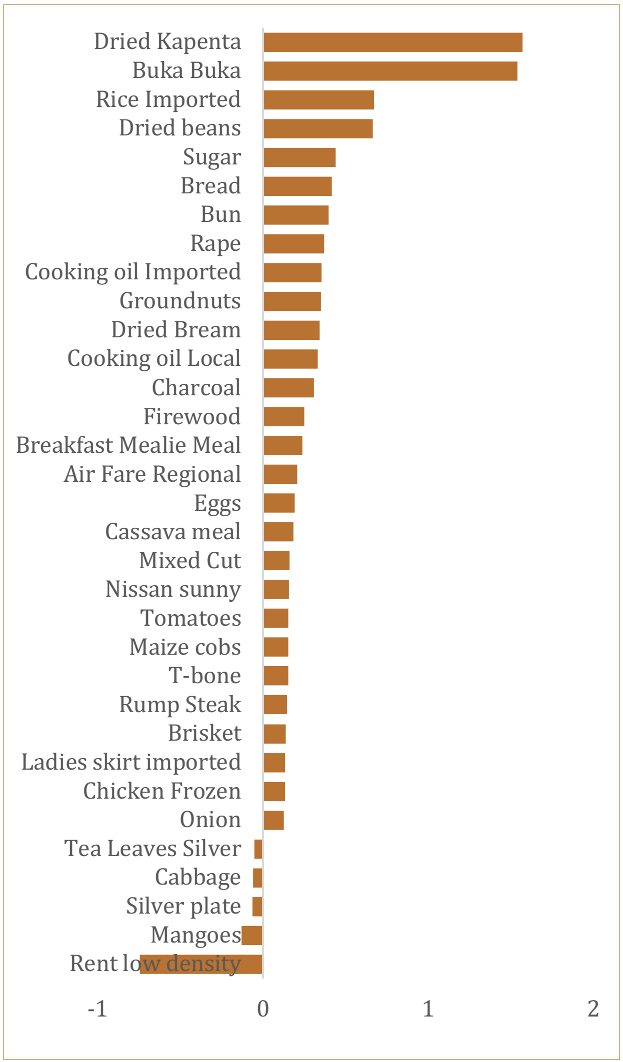
Table 13: Monthly Inflation Rate (percent)

	Dec 2024	Jan 2025	Feb 2025	Mar 2025	Apr 2025
Overall Inflation	16.7	16.7	16.8	16.5	16.5
Food Inflation	18.6	19.2	20.6	18.9	18.7
Non-Food Inflation	14.2	13.2	11.7	13.2	13.4

Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

Non-food inflation was mostly driven by seasonal low supply of solid fuels (charcoal and firewood) and the depreciation of the exchange rate, which pushed up prices of air fares and motor vehicles (Nissan Sunny) – (Figure 82). Food inflation was dampened by increased seasonal supply of mangoes and cabbage (Figure 82).

Figure 82: Contribution to Overall Inflation by Product in April (percentage points)



Source: Zambia Statistics Agency, Bank of Zambia Staff Computations

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		
Access to OLF window restricted to once a week	March 19, 2014	To address excess liquidity in the money market and its impact on inflation
Marketable amount for two-way quote in the Interbank Foreign Exchange Market (IFEM) revised to US$0.5m-US$1m from US$1m		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	March 28, 2014	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		
Daily compliance on statutory reserve ratio re-introduced		
OLF rate set at 10.0 percentage points above the Policy Rate	May 30, 2014	
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		
OLF rate set at 6 percentage points above the Policy Rate from 9.5 percentage points	March 20, 2015	

Measure	Date Implemented	Rationale
BoZ to discretionary trade any amount beyond marketable threshold on two-way quote		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	October 5, 2015	
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		
Roll-over of intra-day loan into an overnight loan discontinued	November 18, 2015	To contain inflationary pressures
Interbank bid/ask spread increased to a maximum of K0.05 from K0.02	May 19, 2016	To improve price discovery
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

Measure	Date Implemented	Rationale
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
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.

Measure	Date Implemented	Rationale
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 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 15, 2024	The Committee judged that the monetary policy stance was appropriate despite actual and projected inflation remaining above the 6-8 percent target band.
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.
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

Measure	Date Implemented	Rationale
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

Measure	Date Implemented	Rationale
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
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.

Measure	Date Implemented	Rationale
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
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.

Measure	Date Implemented	Rationale
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.