Systemic Risk Survey

March 2025

Bank *of* Zambia

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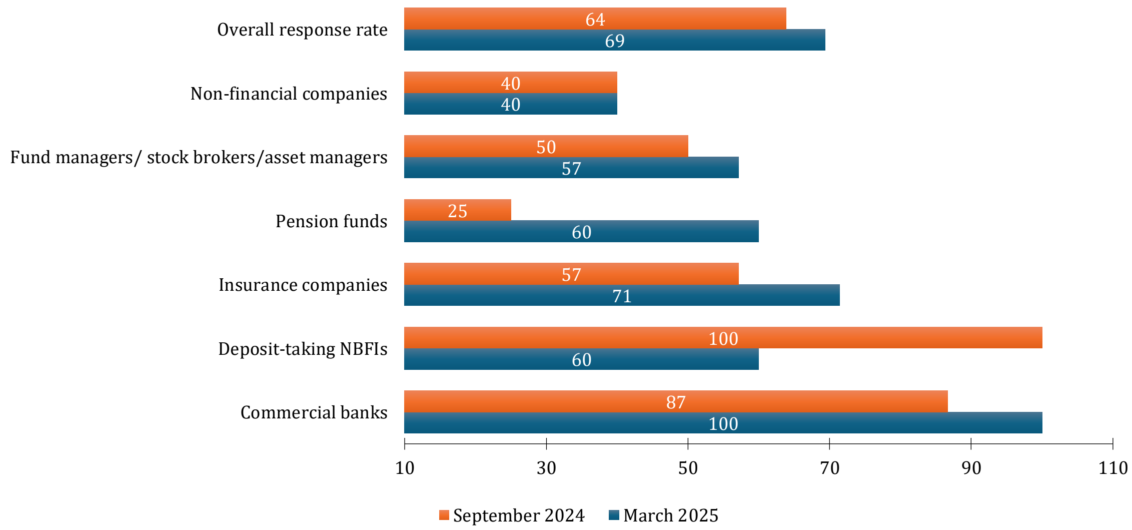
1.0 Introduction

The Bank of Zambia (BoZ) conducts the Systemic Risk Survey (SRS) to reinforce its ongoing systemic risk surveillance and assessment. The survey is intended to help gain insights into financial sector participant's perception of the buildup of vulnerabilities and risks to financial stability in the near term. Respondents to survey comprise senior management executives responsible for risk or treasury management at commercial banks, microfinance institutions, building societies, insurance companies, pension funds, asset managers and non-financial corporates.

This report presents the results of the survey conducted in March 2025. Thirty-four (34) firms participated in the survey, representing a response rate of 69 percent. This was an improvement from 64 percent response rate in September 2024 (Figure 1). The highest response rate was from commercial banks at 100 percent while the lowest response rate was recorded at 40 percent from non-financial corporates.

Figure 1: Survey response rate (%)



2.0 Key Results

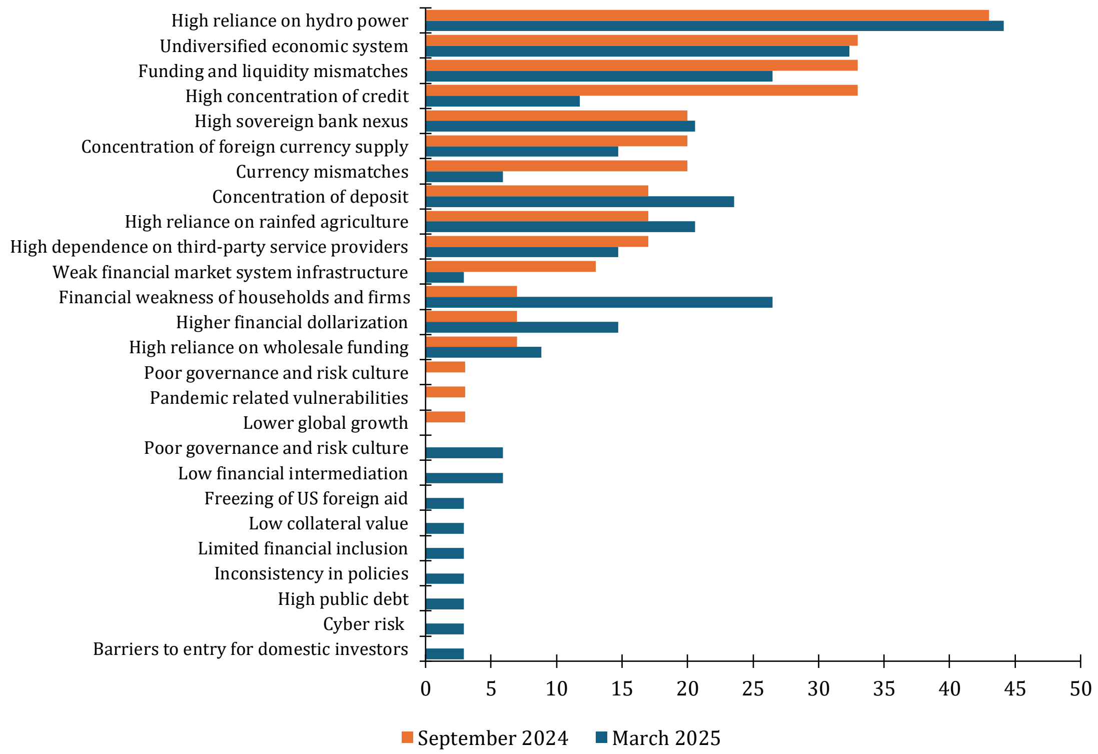
The survey consisted of six (6) questions which were divided into sub-headings below:

2.1 Key vulnerabilities in the domestic financial system

What do you consider to be the three (3) key vulnerabilities in the domestic financial system?

Market players' perception of the top three (3) vulnerabilities residing in the financial system has not changed since September 2024. They still consider heavy reliance on hydro power, undiversified economic system as well as funding and liquidity mismatches as key vulnerabilities in the domestic financial system and economy (Figure 2). These fragilities are structural and it is therefore not surprising that the country's heavy reliance on hydro power is viewed as the most critical vulnerability considering the current electricity challenges.

Figure 2: Key vulnerabilities in the domestic financial system (%)



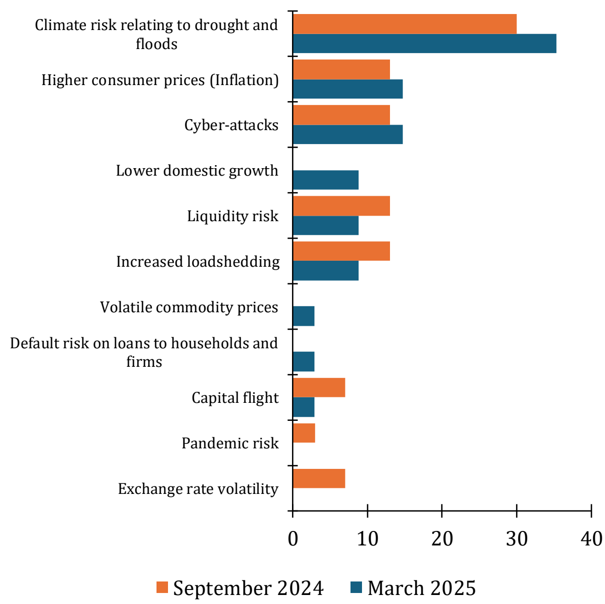
2.2 Top risks to financial stability in the near-term

In your view, what are the top three (3) risks to financial stability in the near-term?

Respondents polled cite higher consumer prices, climate risk and cyber-attacks as the top three (3) risks to financial stability (Figure 3). This remains unchanged from their viewpoint six (6) months ago. They also identified climate risk relating to drought and floods as the greatest threat to financial stability in terms of potential impact (Figure 4).

Figure 3: Most cited risks (%)

Figure 4: Highly ranked risk threatening financial stability (%)



A sector-by-sector analysis (Table 1) shows that non-financial companies consider climate risk and higher inflation to be high-impact risks whilst pension funds cite higher inflation, climate risk as well as lower domestic growth. Commercial banks have indicated that cyber-attacks, higher inflation and climate risk are likely to have the greatest impact on financial stability while insurance firms mostly point to higher inflation, lower domestic growth and climate risk. Further, microfinance institutions indicated that higher inflation, liquidity risk and lower domestic growth are expected to have the highest impact while fund and asset managers cite climate risk and increased loadshedding.

Table 1: Perceived risks likely to have greatest impact on financial stability by firm (%)

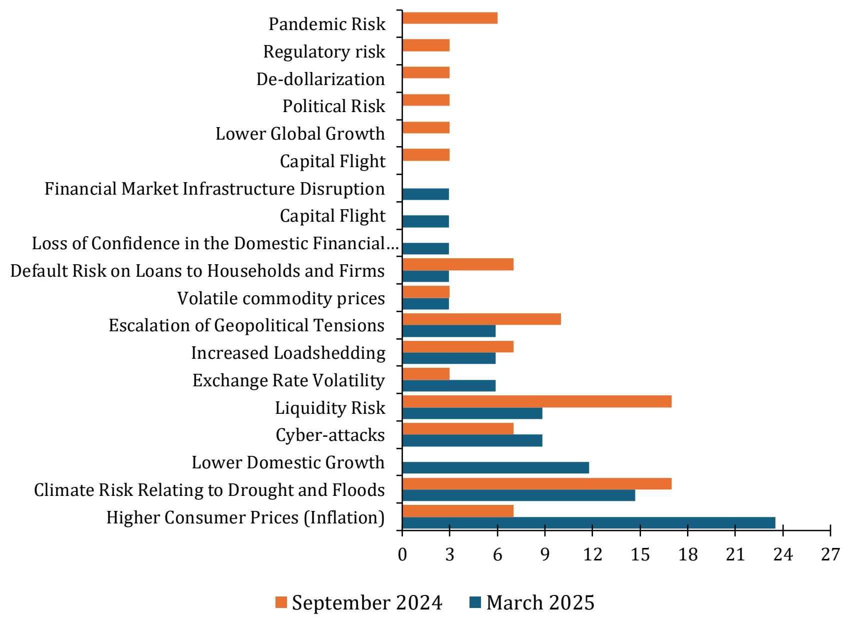
	Banks	Microfinance institutions	Insurance companies	Non-financial companies	Fund and asset managers/dealers	Pension funds
Capital flight	-	-	-	-	25	-
Climate risk relating to drought and floods	**47**	33	**40**	**75**	**50**	**67**
Cyber-attacks	**67**	33	20	25	-	-
Default risk on loans to households and firms	7	33	20	-	-	-
Escalation of geopolitical tensions	20	-	20	25	-	-
Exchange rate volatility	7	-	20	-	25	-
Financial market infrastructure disruption	7	-	-	-	-	-
Food insecurity	-	-	-	25	25	-
Higher consumer prices (inflation)	**53**	**67**	**60**	**50**	-	**100**
Further debt restructuring delays	-	-	-	-	25	-
Increased loadshedding	20	-	20	25	**50**	33
Liquidity risk	27	**67**	20	25	25	33
Loss of confidence in the domestic financial sector regulation due to uncertainty and unpredictability	7	-	20	25	-	-
Lower domestic growth	27	**67**	**40**	-	-	**67**
Lower global growth	-	-	-	-	25	-
Political risk	13	-	20	-	-	-
Sovereign-bank nexus	-	-	-	-	25	-
Volatile commodity prices	-	-	-	25	25	-

2.3 Risks firms would find the most difficult to manage

Which risk mentioned under section 2.2, if realised, would your firm find the most difficult to manage?

Respondents cited higher consumer prices (inflation) and climate risk relating to drought and floods to be the most challenging to manage should they materialise, compared with liquidity and climate risks in the September 2024 survey (Figure 5). Commercial banks, microfinance institutions, insurance firms, pension funds, and asset managers all perceive increasing consumer prices to be the most difficult to manage, whereas non-financial companies cited climate risk (Table 2).

Figure 5: Risks most challenging to manage as a firm (%)



Source: Bank of Zambia systemic risk survey and staff computations

Table 2: Risks most difficult to manage by sector classification (%)

	Banks	Microfinance institutions	Insurance companies	Non-financial companies	Fund and asset managers/dealers	Pension funds
Higher consumer prices (inflation)	20	33	**40**	-	25	**67**
Climate risk relating to drought and floods	7	-	20	**75**	-	-
Increased loadshedding	-	-	-	25	25	-
Cyber-attacks	20	-	-	-	-	-
Exchange rate volatility	-	-	-	-	25	33
Loss of confidence in the domestic financial sector regulation due to uncertainty and unpredictability	7	-	-	-	-	-
Capital flight	-	-	-	-	25	-
Escalation of geopolitical tensions	13	-	-	-	-	-
Financial market infrastructure disruption	7	-	-	-	-	-
Lower domestic growth	13	33	20	-	-	-
Liquidity risk	7	33	20	-	-	-
Default risk on loans to households and firms	7	-	-	-	-	-

2.4 Overall systemic risk assessment in the near- and medium-term

How do you assess the overall systemic risk in the near- and medium term?

In the near-term, 59% of respondents indicated that systemic risk would increase (compared to 63% in the September 2024 survey) while the rest of the respondents cited that it would remain unchanged (Figure 6). In the medium-term, 35% of the survey respondents expect systemic risk to decrease (down from 40% in September 2024) while 32% (compared to 43% in September 2024) expect it to increase. 32% of respondents indicated that systemic risk would remain unchanged in the medium-term (Figure 7).

Overall, respondents point to the moderation of risks and vulnerabilities in the energy and agriculture sectors as a result of the increased rainfall during the 2024/2025 farming season. This, together with a rebound in mining production, is likely to underpin the improvement in economic activity.

Figure 6: Expected near-term changes in systemic risk

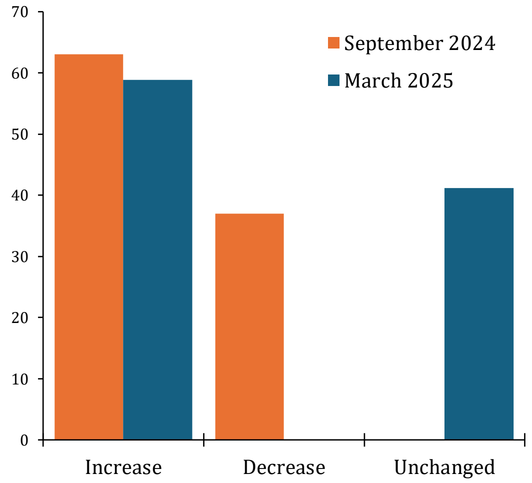
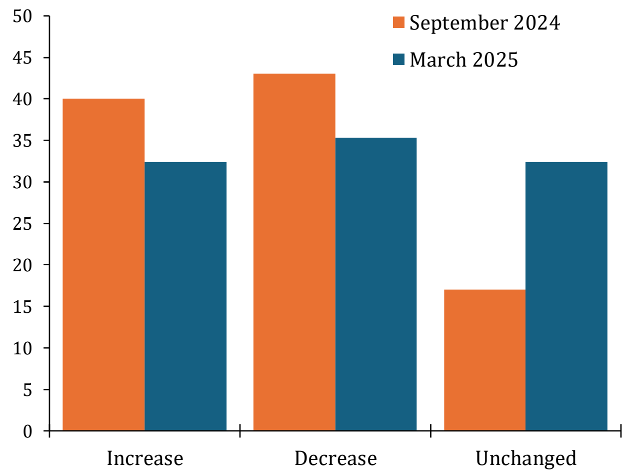


Figure 7: Expected medium-term changes in systemic risk

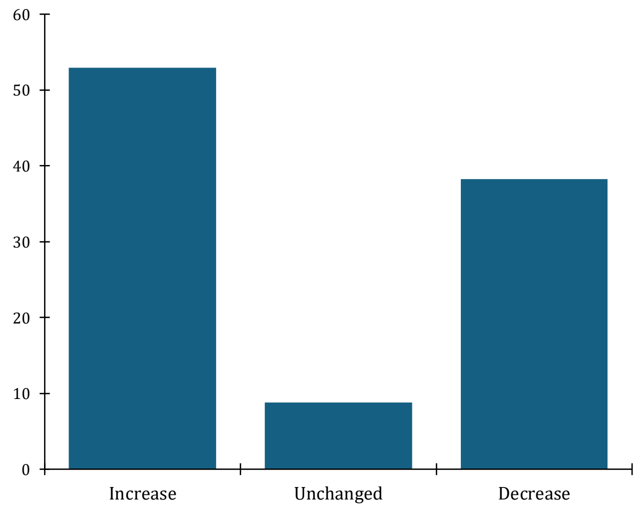


2.5 Systemic risk assessment over the past six months

How has this assessment of changed compared with your assessment six months ago?

Respondents were asked how they assessed systemic risk compared with their assessment six (6) months ago. 53% of respondents stated that in the near-term systemic risk has increased, 38% indicated that it has decreased and 9% indicated that it has remained unchanged (Figure 8).

Figure 8: Systemic risk assessment since September 2024 (%)



Source: Bank of Zambia systemic risk survey and staff computations

3.0 Conclusion

The results of the March 2025 Systemic Risk Survey have revealed that market players still expect the overall systemic risk to increase over the next 12 months. Conversely, they anticipate risks to financial stability would recede over the 2–5 year horizon. Respondents polled have cited improving economic conditions, underpinned by the continued recovery in mining production and moderation in risks emanating from the agriculture and energy sectors, as the primary factors for the anticipated reduction in systemic risk over the medium term.