

## Zambia Country Risk Analysis

### Political Landscape

**Zambia gained its independence in 1964 from British Colonial rule and became a Republic under the leadership of first President David Kenneth Kaunda.** The country operates with three arms of Government, namely the executive, legislature, and judiciary.

Zambia is a large, landlocked, resource-rich sparsely populated country in the centre of Southern Africa covering about 752,618 square kilometers. It shares its border with eight countries namely Angola, Botswana, the Democratic Republic of Congo, Malawi, Mozambique, Namibia, Tanzania, and Zimbabwe which act as its regional market for goods and services. It is a member of the Africa regional groupings namely SADC and COMESA. It has a tropical climate with a rainy season that runs from October/November to March/April.

The official local currency is the Zambian Kwacha (ZMW), and the capital city is Lusaka which is the main hub for commercial activities and home to critical government institutions, including ministries, diplomatic missions and international organizations.

The nation is considered a stable country with successful democratic elections held every five years as per the constitution. From independence, the country was a one-party state until the year 1991 when it became a multi-party state with a private sector-driven liberalized economy. The President who is both head of state and head of government is elected through a direct vote by citizens. He is elected for a five-year term and can serve up to a maximum of two terms, according to the Zambian constitution.

Zambia's democracy is evident by the nine Presidential elections and four different political parties that have so far ruled the country. These are the United National Independence Party (UNIP 1964-1991), Movement for Multiparty Democracy (MMD 1996-2011), Patriotic Front (PF2011-2021), and currently the United Party for National Development (UPND). The current President Hakainde Hichilema of the UPND was elected in August 2021, after defeating then-incumbent President Edgar Lungu of the Patriotic Front. The next presidential elections in Zambia will be held on August 12, 2026.

Isolated cases of violence, strikes, protests and demonstrations are observable, especially by opposition political parties, civil society organizations, public university staff and students, marketers and some civil servants. As at the date of this report, contentious issues centre

around freedom of speech, high cost of living, cyber security bill, muted ethnic/ tribal polarization, corruption, and the Public Order Act.

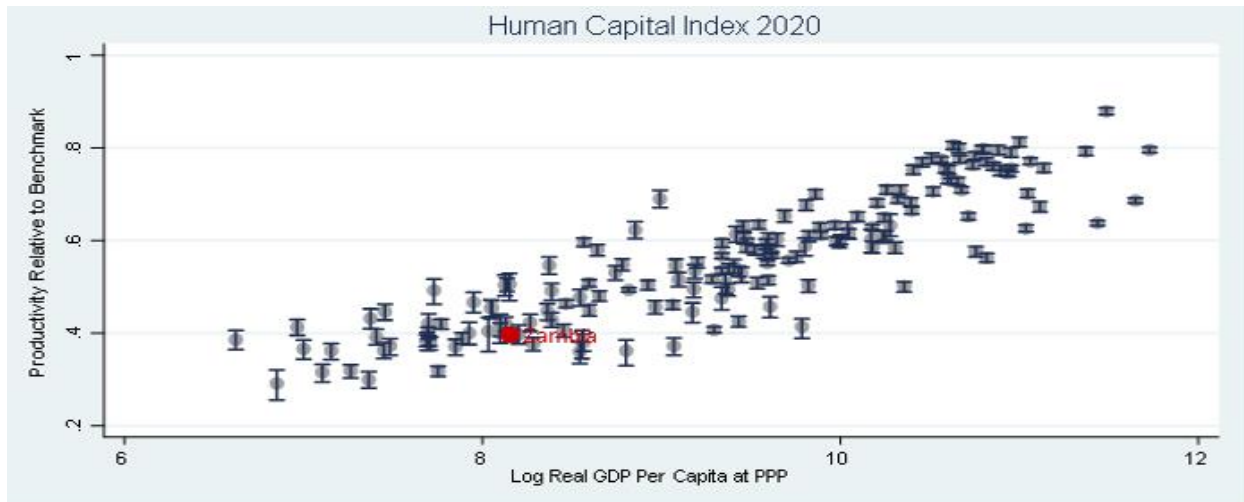
## Legal Environment

The constitution is the supreme law of the country from which all other laws and regulations are derived. Generally, there is observance of the rule of law in Zambia. Notable however is that court cases sometimes can take a long time before disposal and cases of politically exposed people (PEPS) acting without regard for the law. Judicial reforms have been initiated to address such concerns such as the establishment of the financial crimes court in 2022 and enhancing law enforcement.

## Demographic Landscape

Official data and statistics from the country's statistical agency Zambia Statistical Agency (ZAMSTATS) indicate that Zambia is experiencing a large demographic shift and is one of the world's youngest countries by median age. Its population, much of it rural with rapid urbanisation, is estimated at about 19.6 million with a growth rate of 2.7% per year, reflecting the relatively high fertility rate. As the large youth population attains reproductive age, the population is anticipated to double in the next 25 years, resulting in additional pressure on the demand for jobs, health care, and other social services while also potentially offering a growing market for goods and services.

Currently, literacy rate stands high at 88% of the adult population at end of 2020. The IMF noted that there is within-firm labour productivity challenges reflecting low skills and capacity—including low technology adoption—among both firms and workers in Zambia. The Human Capital Index data suggests that the productivity of workers in Zambia is 60% of their full potential due to education and health gaps, (*International Monetary Fund, 2023*), (*World bank, 2020*).



## Natural and Operating Environment

The country has enjoyed a stable tropical savannah environment for decades. Lately, however, there have been natural calamities such as droughts, floods, army worm invasions and break outs of diseases (both for humans and animals) that have brought devastating impacts on both the environment and the economy. To address these as well as human driven vices such as pollution and poaching, the government is focused on environmental protection and conservation through various interventions such as the establishment of institutions such as the Zambia Environmental Management Authority (ZEMA), Zambia Wildlife Authority, Water Resources Management Authority, the Disaster Management and Mitigation Unit (DMMU) among others.

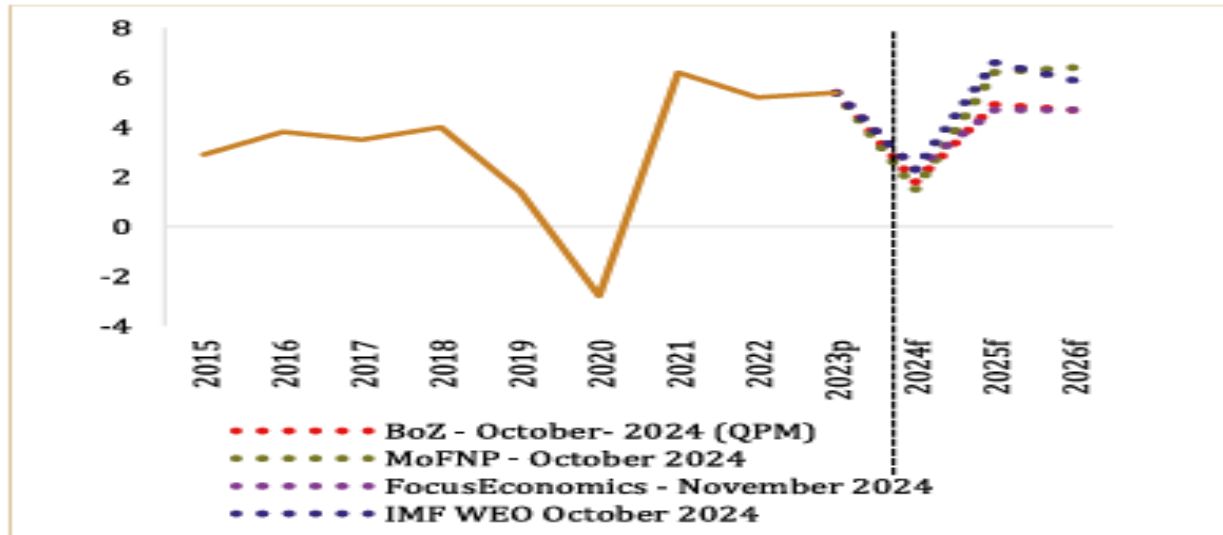
Zambia is also a member of various international organizations including the UN system, World bank, IMF, AU among others. It has also signed important international agreements such as relating to combating money laundering, financing terrorism, combating proliferation, human trafficking and climate change. Zambia adheres religiously to these protocols.

## Macroeconomic Developments and Outlook

Currently, macroeconomic conditions in Zambia stand worse than before due to the larger- than- envisaged impact of a severe drought exacerbated by El Niño, impacting 9.8 million people across 84 districts (*World Bank 2024*). The drought has led to increased hours of electricity load management and in turn adversely impacted economic activity and broadly weakened demand in the economy.

## GDP Growth

As Zambia's economy was still rebounding from the COVID-19 recession, the drought in 2024 has slowed real GDP growth. The annual GDP growth for 2024 has been revised downwards to 1.2% from the earlier 2.3% reflecting contractions in the agriculture and energy sectors, and subdued performance in administrative and support services, despite some gains in mining.



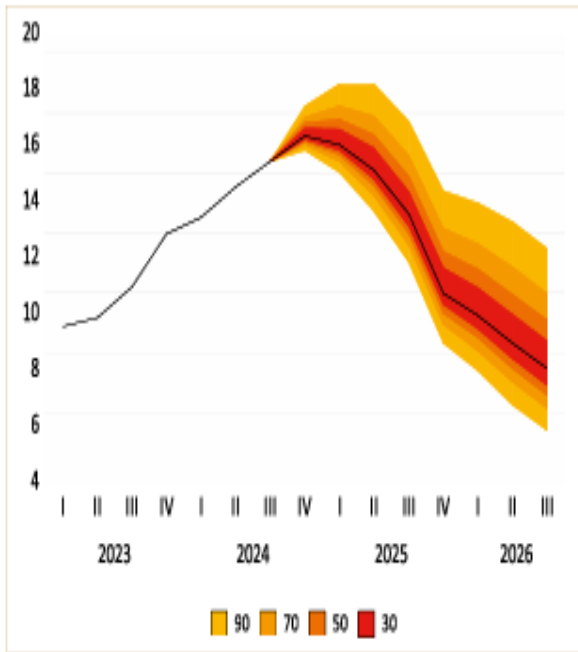
Source: Zambia Statistics Agency, Bank of Zambia (BoZ), Ministry of Finance and National Planning (MoFNP), IMF, FocusEconomics.  
Note: p=preliminary, f=forecast.

Growth prospects for the 2025-2027 period however remain optimistic. GDP growth is projected at 6.6% in 2025, 5.9% in 2026 and 5.6% in 2027, (BoZ, National Symposium on the 2025 National Budget, 2025). This optimistic outlook assumes increased mining production, effective implementation of reforms, restoration of debt sustainability, and normalization of rainfall patterns. By the end of June 2024, Zambia had received mining investment pledges exceeding \$7 billion for new and expansion projects, which are expected to boost inflows and services related to mining, supporting future exports and FX earnings (*World bank, 2024*).

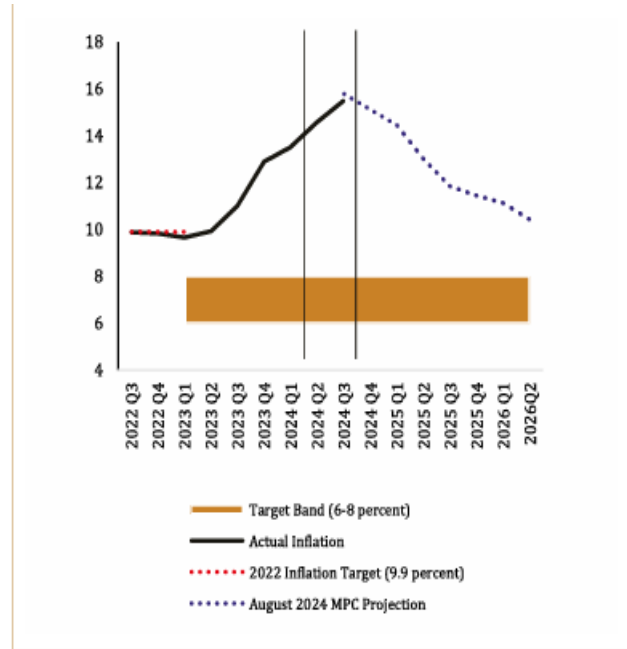
### Inflation Outlook

The Bank of Zambia (BoZ) which is the monetary authority of the country has adopted an inflation targeting framework stance. The target range for annual inflation is between 6% and 8%. For 2024, annual inflation stood at 16.7% well above the target range and is projected at 13.9% in 2025 and 10.8% by end June 2026 (*Bank of Zambia, 2025*). The major factors attributed to the high inflation were higher maize and fuel prices, increase in electricity tariffs and the exchange rate depreciation. The outlook on inflation is that domestic conditions remain broadly unfavourable because of the impact of the drought on the energy sector, particularly on

electricity generation. Absent any policy action, inflation is expected to remain elevated and above the 6-8% target band with a 90% chance to reach as high as 18.2% by end 2026, (BoZ, Monetary Policy Statement for November, 2024)



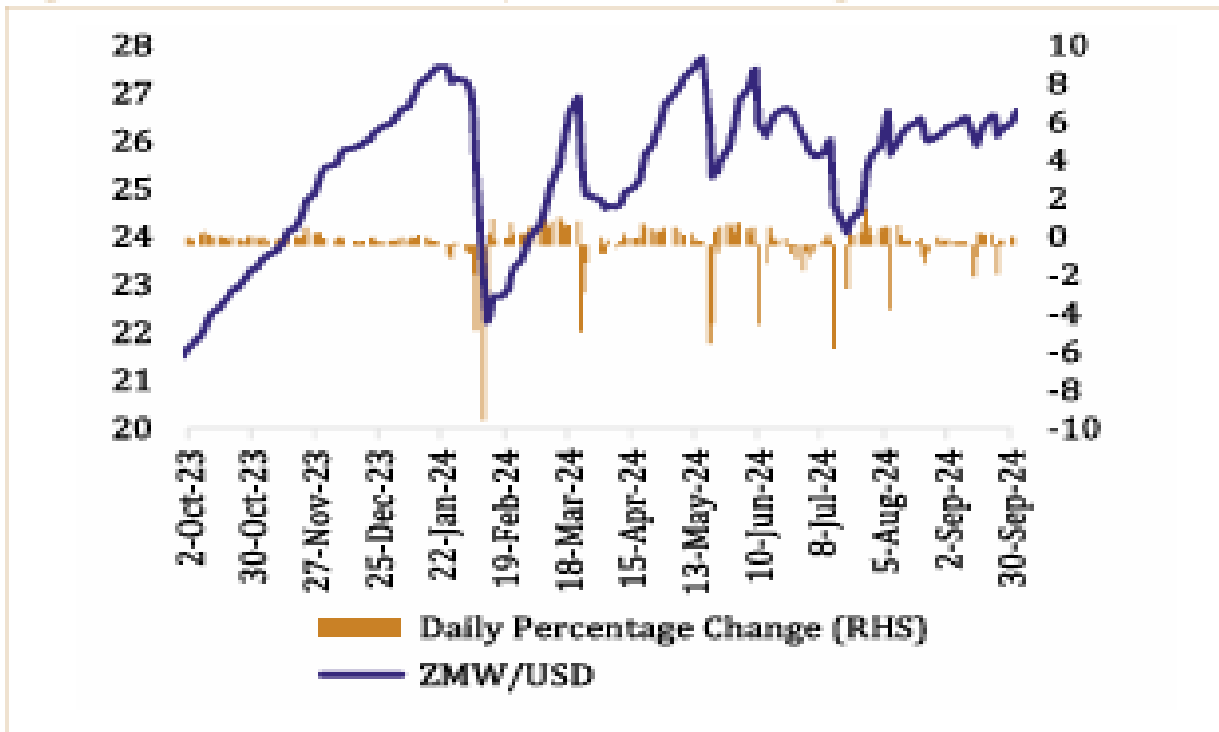
Source: Bank of Zambia and Zambia Statistics Agency



Source: Bank of Zambia Staff Forecast and Zambia Statistics Agency

### Exchange Rate Depreciation and Volatility

The Zambian currency (ZMW), the Kwacha is subject to wild swings against major convertible currencies namely, the US\$, the Swiss Franc, the South African Rand and the Euro. This volatility makes planning difficult for businesses and households.

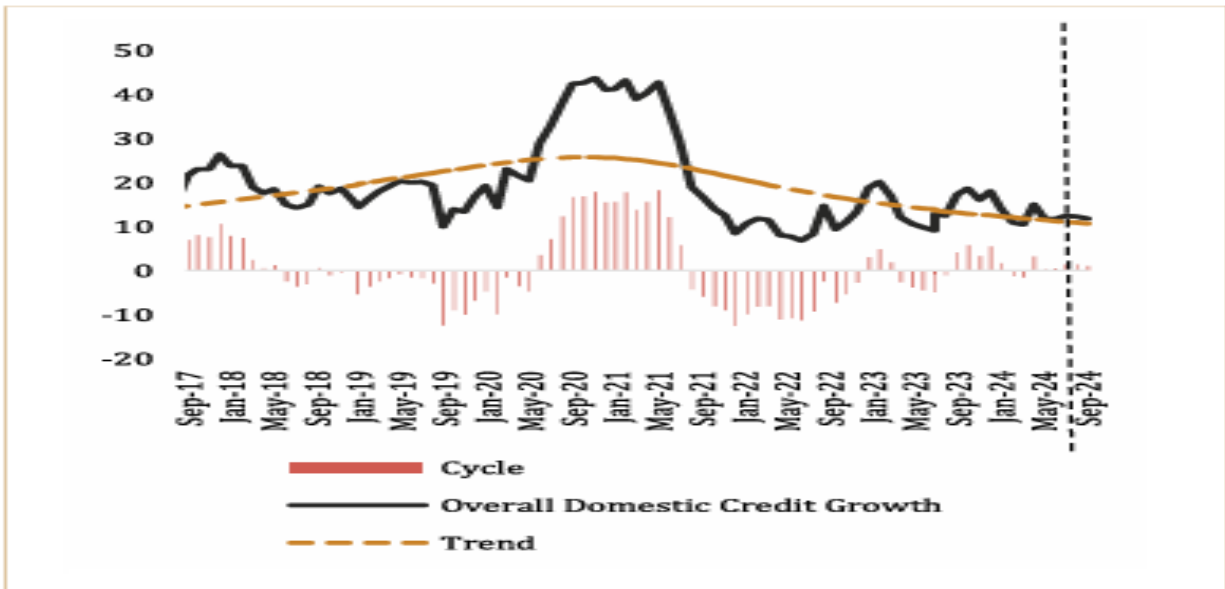


Source: Bank of Zambia

In the recent past, the ZMW is also subject to depreciation against the major convertible currencies. For instance, ZMK depreciated by about 7.74% in 2024 and by about 42.4% in 2023 against the US\$. Nominally, ZMW depreciated by 6.0% in Q3/24 compared to 4.9% in Q2/24 against a basket of currencies of the major trading partners, (BoZ, National Symposium on the 2025 National Budget, 2025). Currency depreciation is a major source of inflation in Zambia as the country is import dependent.

**Credit Growth**

Lending to the private sector is generally low and slowed down in 2024 due to reduced economic activity because of drought. This impacted growth in money supply, slowing to 22.0% of GDP in Q3/24 from 29.5% of GDP in Q2/24. According to world bank data, domestic credit to the private sector stands at a mere 11% of GDP as at end June 2024 (*World Bank, 2024*).



Source: Bank of Zambia

### Trade Performance

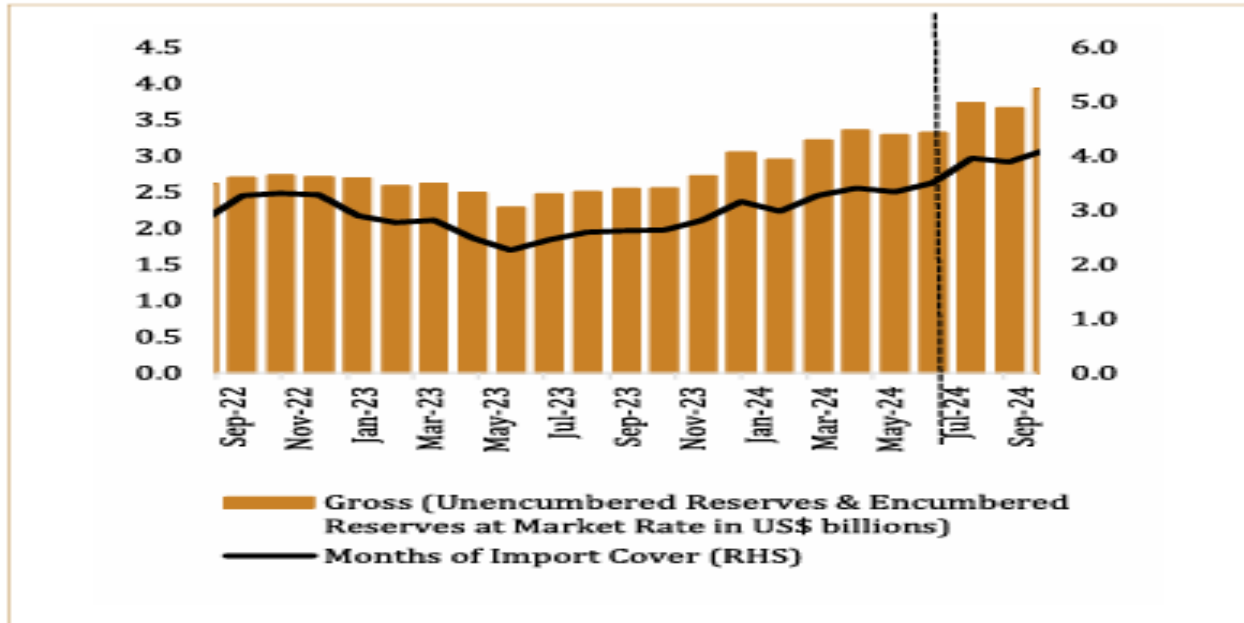
After narrowing and slipping into deficit in 2023, the current account recovered into surplus in Q2 in 2024 thanks to increased grants from cooperating partners, remittances, and reduction in imports. The current account surplus expanded to US\$0.19 billion (2.7% of GDP) by end Q3/24 from US\$0.04 billion (0.6% of GDP) in Q2/24. (BoZ,2025)

The projection for 2025 and 2026 is more optimistic. The surplus is projected to expand to US\$1.5 billion (5.6% of GDP) in 2025 and widen further to US\$2.3 billion (8.4 % of GDP) in 2026. This is based on the projected faster growth in exports relative to imports on account of the anticipated rebound in mining production leading to higher copper export volumes.

### Fiscal Performance

The Zambian national budget has run fiscal deficits for decades on account of low revenue performance. Preliminary estimates indicate that the budget deficit for 2024 stands at 2.7% of GDP and is projected at 3.1% of GDP for 2025, (MoFNP, 2025). Risks to the medium-term fiscal outlook remain tilted to the upside based on lower copper prices associated with weaker global demand, adverse effects of geopolitical tensions on energy and food prices, depreciation of the exchange rate, and constrained production and hydropower generation occasioned by weather-related shocks.

## International Reserves



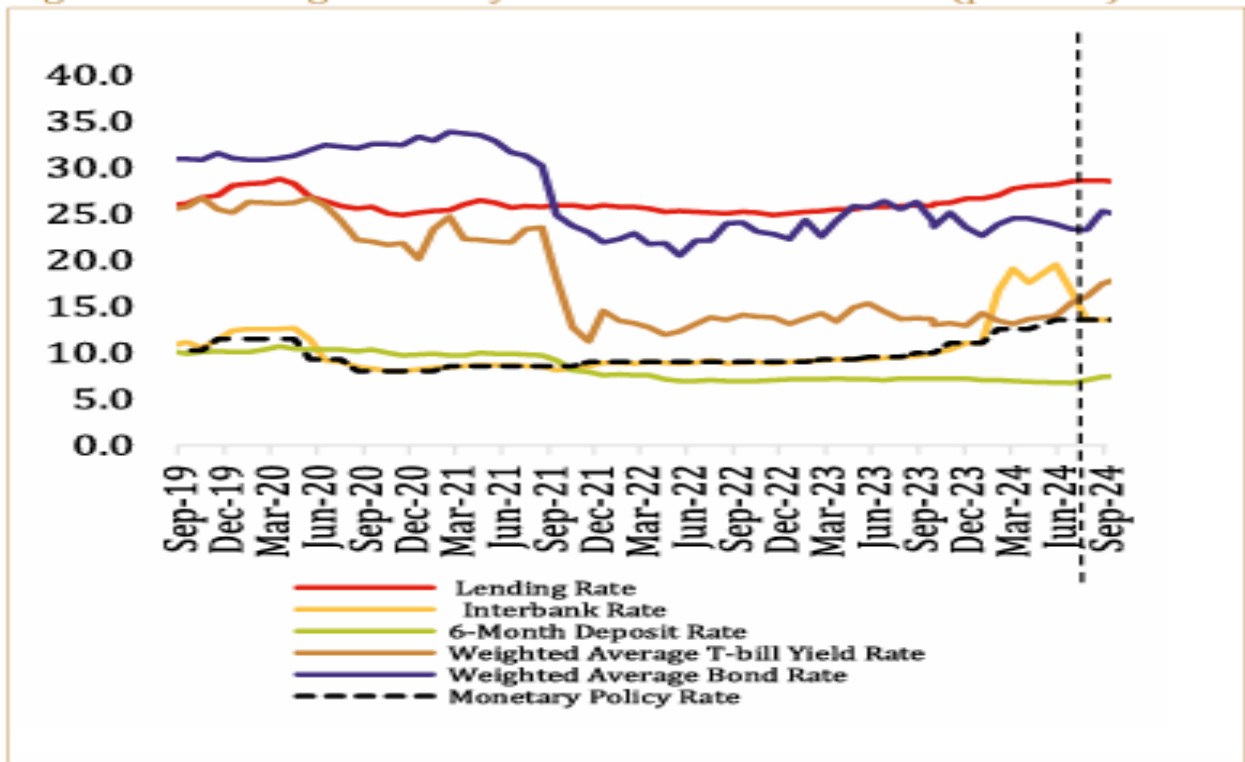
Source: Bank of Zambia

Gross official international reserves remained sufficient at \$4.15 bn by the end of September 2024, covering more than 4.6 months of projected imports (\$3.91bn at the end of June 2024)(*MoFNP,2025*), largely because of project disbursements from the World Bank and revenues from mining taxes characterizing improved net capital inflows and FX deposits. Additionally, the central bank's gold purchases/holdings totaled \$ 217.2m as at Q3,24 since it began purchasing gold locally in December 2020 (*BoZ, 2024*).

## Interest Rates

Interest rates remain high (in double digits) in Zambia. The commercial banks' average nominal lending rate on locally denominated loans stood at 28.4% at the end of September 2024 with some loans having rates as high as 42% (*BoZ,2025*).





Source: Bank of Zambia

In the medium term, lending rates are expected to remain elevated premised on the anticipated tight monetary policy stance to curb rising inflationary pressures in the country.

### Zambia’s Debt Position

Zambia’s public debt remains high at over 127% of GDP in 2023(*IMF,2023*). As at the date of this report, Zambia’s debt stock stood at \$26.67 billion, (*MoFNP, 2025*). Zambia became the first African country to default on its foreign debt in November 2020. In June 2023, the Ministry of Finance and National Planning reached preliminary agreements with its official creditors, including China to restructure its debt. As of 22<sup>nd</sup> January 2025, Zambia had agreed to restructure 90% of its debt stock with its creditors.

## EXTERNAL DEBT RESTRUCTURING STATUS



- Zambia has made significant progress with its debt restructuring, having achieved 90 percent Agreement in Principal with its creditors.

Creditor Category	Total Debt to be Restructured	Debt on Which Agreement/AIP Reached	Debt Still to be Restructured
OCC	US \$ 6.30 billion	US \$ 6.3 billion	-
Eurobond Holders	US \$ 3.84 billion	US \$ 3.84 billion	-
Other Private Creditors	US \$ 3.20 billion	US \$ 1.87 billion	US \$ 1.33 billion
Total	US \$ 13.34 billion	US \$ 12.00 billion	US \$ 1.33 billion
<b>% of Total Debt to be Restructured</b>	<b>100%</b>	<b>90%</b>	<b>10%</b>

Zambia's public debt is assessed as sustainable, but the country remains at high risk of overall and external debt distress based on a full post-restructuring macro-framework.

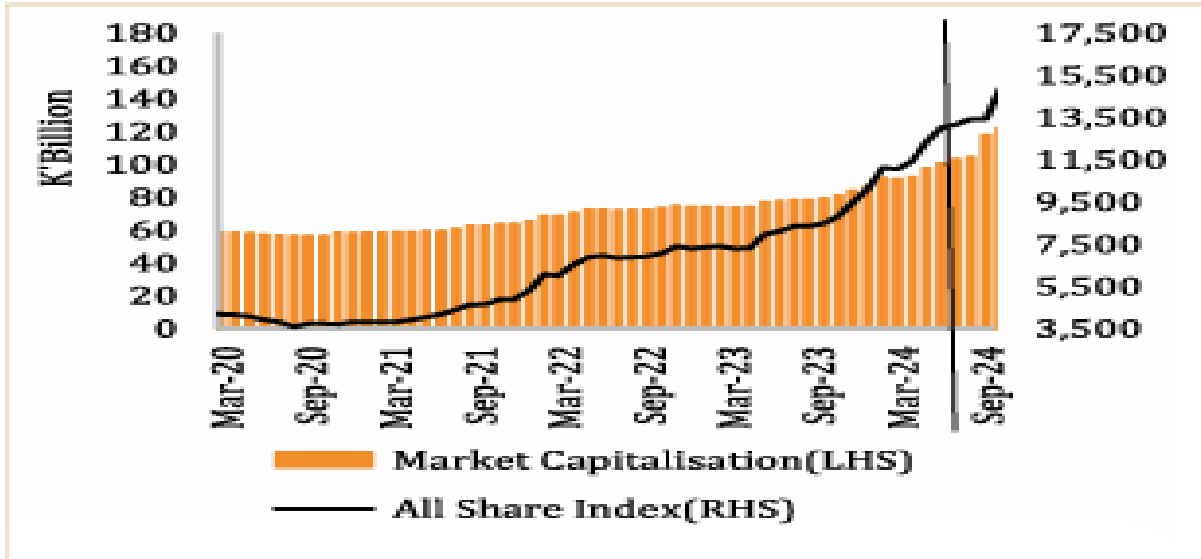
### IMF ECF Programme

Zambia is currently on an IMF Extended Credit Facility (ECF) programme. On December 16, 2024, the IMF completed the fourth review of Zambia's 38-month ECF Arrangement and Financing Assurances review which allowed for disbursement of SDR 139.88 million (about US\$184 million), bringing Zambia's total disbursement under the ECF-supported program to SDR 992.86 million (about US\$1.3 billion). The program seeks to entrench macroeconomic stability, attain debt and fiscal sustainability, enhance public governance, and foster inclusive growth.

The IMF assessed the Zambian Government performance under the programme as broadly satisfactory despite difficult domestic and international challenges, (*IMF, 2024*).

### Capital Market Activity

The capital market in Zambia lacks breadth and depth with capital market activity largely driven by trade and investment in Government bonds whose tenure ranges from 2 years up to 15 years. There is one stock exchange, the Lusaka Share Exchange (LuSE). LuSE is characterized by low liquidity and small market capitalization which stood at K167 billion as at the end of November 2024 with only 21 companies being listed.



Source: Reuters and Bank of Zambia Compilations

### Financial Sector Performance and Stability

Zambia’s banking sector remained robust, showing adequate liquidity, profitability, and capitalization. The sector was adequately capitalised with primary and total regulatory capital adequacy ratios remaining above the minimum regulatory requirements of 5% and 10%, respectively (*BoZ, 2024*). Asset quality was also satisfactory.

Risks to financial system stability in Zambia are on an upward trend. The increase in risks was on account of reduced economic activities arising from drought induced electricity supply shortages. Other sources of risks were low financial intermediation, sovereign-bank nexus, concentration of banks’ loans and deposits, dollarization of loans, as well as maturity mismatches. Further, inflation, higher geopolitical tensions, and higher exchange rate volatility represented other sources of financial instability. The credit to GDP ratio was also below the 2% minimum recommended under Basle III standards.

Despite the elevated risks, the banking sector remained resilient. To further cement the quest for financial stability, the BoZ has established a Stability and Resilience (SRF) Fund amounting to K5 billion to help businesses that have been adversely impacted by economic headwinds have access to financing. In addition, the BoZ intends to establish a deposit protection fund before the end of 2025 to safeguard depositors’ funds and enhance financial system stability. Noteworthy is that the financial system in Zambia remains underdeveloped when measured using the Financial Development Index (FDI) compiled by the World Bank. The FDI remains were below the world median but above the median for the region (*World Bank, 2025*).

### ICRA Country Risk Assessment

Zambia faces country risks that can impact investment, business, and economic growth. The country's political landscape is generally stable. Economic risks have risen lately, driven by a high debt burden, fiscal deficits, a decline in copper prices and adverse effects of the drought. Social risks are also a concern, with elevated levels of poverty, inequality, and unemployment. The country's healthcare and education systems are underdeveloped, and there are significant challenges in terms of access to basic services.

To mitigate these risks, Zambia needs to implement policies that promote economic diversification, improve governance, and invest in human development.

Investors and businesses operating in Zambia should be aware of these risks and take steps to mitigate them. This includes conducting thorough risk assessments, developing contingency plans, and engaging with local stakeholders to better understand the operating environment. With careful planning and risk management, investors and businesses can navigate these challenges and capitalize on opportunities in the country.

Based on the above discourse, ICRA believes that Zambia poses a moderate risk. The government has shown commitment to economic recovery and in dealing with shocks which is further evidenced by the IMF ECF programme that the Government has in place.

### End of Report

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