



THE CIVIL SOCIETY FOR POVERTY REDUCTION (CSPR) STATEMENT ON THE EASING OF THE MONETARY POLICY RATE BY 25 BASIS POINTS BY THE BANK OF ZAMBIA

The Civil Society for Poverty Reduction (CSPR) takes particular interest in the decision made by the Bank of Zambia through the Monetary Policy Committee (MPC) to reduce the Monetary Policy Rate (MPR) by 25 basis points or 0.25 percent to 13.25 percent at its May 11–12, 2026 meeting, as announced by BoZ Governor Dr. Denny Kalyalya on 13 May 2026. This decision carries significant implications for household disposable incomes, private sector investment, access to credit, and Zambia's overall economic growth trajectory.

The Monetary Policy Rate remains one of the most important tools the Bank of Zambia uses in influencing inflation and maintaining stability. Following sustained inflationary pressures caused by drought-induced food shortages, exchange rate depreciation, elevated fuel prices, and global commodity shocks, the Bank of Zambia adopted a tight monetary policy stance beginning 2022. The MPR gradually increased from 9.25 percent in September 2022 to 14.5 percent by January 2025. Annual **inflation declined from 11.9 percent in October 2025 to 6.8 percent in April 2026**, bringing inflation back within the Government's medium-term target range of 6–8 percent. Food inflation slowed to 7.3 percent in April 2026 from 7.8 percent in March, while overall monthly inflation stood at 0.7 percent.

The improvement in inflation outcomes has been supported not only by tight monetary policy, but also by favourable domestic and external developments, including relative stability of the Kwacha, improved mining export receipts, and experience of bumper harvest and expectations of another bumper maize harvest in the 2025/2026 agricultural season. Further, Zambia's macroeconomic position has strengthened considerably. According to the International Monetary Fund, gross international reserves increased to approximately US\$6.4 billion in 2026, equivalent to 4.4 months of import cover, while the country recorded a primary fiscal surplus of 3.1 percent of GDP in 2025.

However, CSPR notes with concern that despite the contribution of monetary policy toward inflation reduction, inflation in Zambia remains heavily influenced by supply-side

factors that are often beyond the direct control of monetary policy¹. These include exchange rate volatility, **transport and logistics costs**, **climate-related food supply** disruptions, and **imported inflation** arising from Zambia's dependence on imported fuel and commodities. The impact of monetary policy via MPR has been limited in Zambia with studies showing that a 1% increase in MPR reduces demand by 0.022% ²

CSPR recognises that the Monetary Policy Committee's decision to reduce the MPR by 25 basis points to 13.25 percent signals cautious monetary policy easing following improved inflation performance and relatively stable macroeconomic conditions. The decision reflects growing confidence by the Central Bank that inflationary pressures are moderating and that economic recovery now requires more supportive financial conditions. It is therefore important to note that the reduction in Monetary Policy Rate presents the following implications:

Lending Rates and Access to Credit

The reduction in the MPR is expected to gradually lower the cost of borrowing across the economy. Commercial banks may begin adjusting lending rates downward, thereby improving access to credit for businesses and households and lower borrowing costs could stimulate investment in productive sectors such as agriculture, manufacturing, tourism, mining supply chains, and trade, while also supporting household consumption and job creation though the drop in interest rates is not expected to be significant enough to drive meaningful change to disposable incomes for most households who have already borrowed as interest rates in Zambia still remain among the highest in the Southern region.

CSPR further remains concerned that **the transmission mechanism between the Monetary policy rate and actual commercial lending rates remains minimal**. Despite previous reductions and adjustments in monetary policy, commercial banks have historically maintained high lending rates due to elevated operational costs, high perceived credit risks, and concerns surrounding non-performing loans. This has continued to limit access to affordable credit, particularly for Small and Medium Enterprises (SMEs), smallholder farmers, youth-led enterprises, and businesses operating within the informal sector. In many instances, lending rates in the commercial banking sector have remained above 25 percent, making productive borrowing unaffordable for many citizens and businesses.

¹ Inflation Dynamic in Zambia by Jonathan.M. Chipili

² Aggregate Demand and Monetary Policy Transmission Mechanism in Zambia
By Mataa Wakumelo 2024

From a poverty reduction perspective, CSPR emphasises that the effectiveness of monetary policy must not only be assessed based on inflation outcomes, but also on its impact on livelihoods, employment creation, household purchasing power, and productive sector growth.

CSPR's analysis identifies **two possible outcomes** arising from the 2.5% monetary policy easing:

1. Positive Growth and Recovery

If commercial banks respond positively by lowering lending rates (reduction estimated around 0.25%) and expanding credit to productive sectors, the reduction in the MPR could stimulate some minimal level economic activity, increase private sector investment, support SME growth, and improve employment opportunities.

With sustained decline in the lending rates; supported by complementing fiscal policy, the country has the potential for improved agricultural production, declining food inflation, and relative exchange rate stability which could further strengthen household purchasing power and support inclusive economic recovery.

2. Limited Transmission and Inflation Risk

However, if commercial banks fail to reduce lending rates, the impact of the policy adjustment may remain limited. In addition, rising global fuel prices linked to geopolitical tensions in the Middle East could reverse recent gains in inflation reduction. Further, weak private sector confidence, electricity supply constraints, and limited productive investment may reduce the overall growth impact of monetary policy easing.

CSPR is further concerned by Government's increasing reliance on domestic borrowing to finance the national budget. While domestic borrowing may provide short-term fiscal relief, excessive Government participation in the domestic financial market risks crowding out private sector access to credit as commercial banks and institutional investors often prefer investing in Government securities such as Treasury Bills and Government Bonds because they are considered low-risk investments with attractive returns compared to lending to private businesses. This development risks undermining the intended benefits of the recent reduction in the MPR.

To ensure that the recent monetary policy easing translates into inclusive economic benefits and sustainable poverty reduction outcomes, CSPR recommends the following:

1. There should be strengthened coordination between monetary and fiscal policy to ensure that inflation management measures support economic growth and social protection objectives.
2. The Government should reduce excessive domestic borrowing as seen in the national budget 2026 and the recently published Supplementary budget (where K7.5billion additional net domestic borrowing was approved) and prioritize fiscal discipline in order to avoid crowding out private sector access to credit.³
3. The Bank of Zambia should reconsider the statutory reserve ratio which has remained elevated at 26% since 2022 and intensify oversight of the financial sector to encourage commercial banks to improve policy transmission and reduce lending rates in response to reductions in the MPR.
4. Government should accelerate investments in energy infrastructure and agricultural productivity in order to address supply-side inflation drivers that monetary policy alone cannot resolve.

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³ 2026 Annual borrowing Plan Amendment