Brief on the 2026 Annual Borrowing Plan Amendment

Parliamentary Budget Office

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1. Introduction

The 2026 Annual Borrowing Plan Amendment was submitted following the presentation of the Supplementary Estimates of Expenditure No. 1 of 2026 by the Minister of Finance and National Planning. The Amendment was made pursuant to Section 9 of the Public Debt Management Act No. 15 of 2022, which provides for the review of the Annual Borrowing Plan where necessary. Approval of the Amendment would therefore amount to approval of additional borrowing to be contracted during the 2026 financial year.

The Amendment was being considered at a time when the country's macroeconomic and debt repayment position has improved. Zambia has reached debt restructuring agreements covering 94 per cent of external debt, while fully executed restructuring agreements stand at 60 per cent. This progress, together with implementation of the IMF-supported programme, has contributed to renewed market confidence and sovereign credit rating upgrades by Fitch and Standard & Poor's, which removed Zambia from default status[1]. However, these gains remain dependent on continued fiscal discipline.

The Plan also follows recent reforms in the Government securities market. These include the introduction of benchmark bonds, which are specific maturities designated by the Bank of Zambia to serve as reference points for pricing and to enhance liquidity in the Government securities market. In addition, the auction frequency for Government bonds has been revised from once a month to twice per quarter[2].

This Brief, therefore, analyses the Plan and its implications for debt sustainability, fiscal consolidation and the risk profile of the public debt portfolio.

2. Borrowing Requirements

The Amendment seeks approval for additional borrowing comprising K7.5 billion in Net Domestic Financing and a new external loan amounting to UA186.1 million, equivalent to US$252.43 million, from the African Development Bank for the Multinational Lobito Corridor Project. The Amendment further indicates that US$15.0 million from the Lobito facility is expected to be disbursed in 2026, while US$95.0 million under the IMF Extended Credit Facility, which was expected in 2025, will now be utilised to finance the 2026 Budget.

[1] In late 2025, Fitch raised Zambia's long-term sovereign rating to B- (stable) from 'Restricted Default' (RD) and S&P upgraded Zambia's long and short-term foreign-currency credit rating to CCC+/C from SD (selective default) with a stable outlook.

[2] https://www.boz.zm/news-detail/7ff5500b-757e-41c0-a1d5-8e152b00dfa4

The originally approved 2026 Annual Borrowing Plan provided for K21.6 billion in Net Domestic Financing and K12.9 billion in external financing from already contracted loans. The Amendment increases Net Domestic Financing by K7.5 billion, bringing the revised maximum limit to K29.12 billion. Gross Domestic Financing also rises from K106.0 billion to K108.6 billion, of which K29.1 billion is now expected to finance the 2026 Budget deficit, while the balance will refinance domestic maturities falling due during the year.

The Amendment also proposes the contraction of a new external loan from the African Development Bank for the Lobito Corridor Project. The loan has an indicative minimum maturity of 10 years, a minimum grace period of 5 years, and a fixed interest rate between 0 and 2.5 per cent per annum. The Amendment projects total external loan drawdowns of US$559.01 million in 2026, comprising US$15.0 million from the Lobito loan, US$95.0 million from the IMF ECF, and US$449.01 million from existing project loans.

Table 1: Summary of Borrowing Requirements

Item	Original 2026 ABP	2026 ABP Amendment	Variance (%)
Net Domestic Borrowing	K21.6 billion	K29.12 billion	34.8%
Gross Domestic Borrowing	K106.0 billion	K108.6 billion	2.5%
New External Borrowing	Nil	US$252.43 million	

Source: PBO construction using 2026 Annual Borrowing Plan Amendment

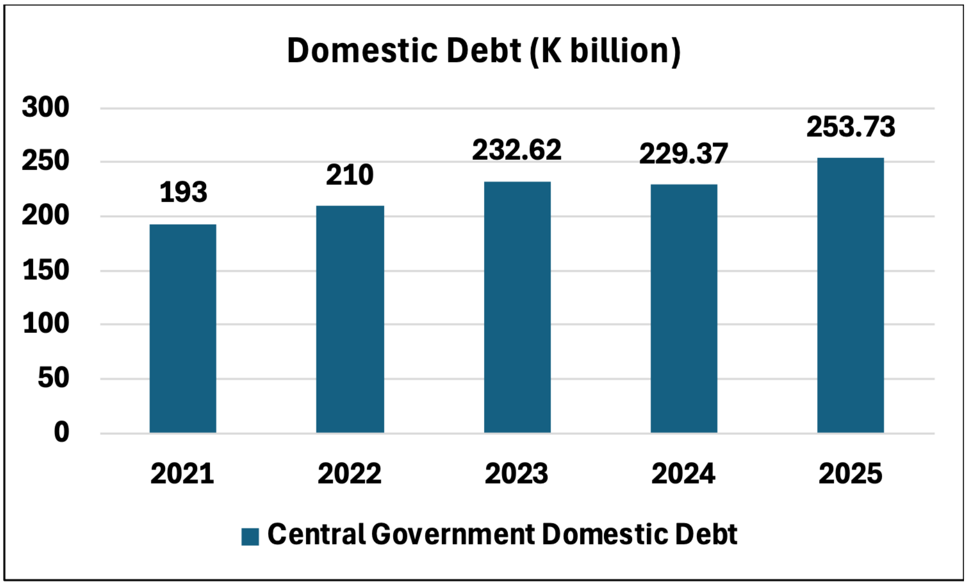
3. Public Debt Stock

Zambia's debt stock remains high despite the improvement in the debt-to-GDP ratio. Between 2021 and end-2025, nominal Public and Publicly Guaranteed debt increased by 7.3 per cent from US$27.61 billion to US$29.63 billion, while the **debt-to-GDP ratio declined from 124.33 per cent to 91.52 per cent over the same period.** The decline in the debt-to-GDP ratio was attributed to stronger economic growth, appreciation of the Kwacha, and the improved macroeconomic environment. However, it remains significantly above the 65 per cent limit prescribed in the Public Debt Management Act No. 15 of 2022.

a) Domestic Debt Stock

Domestic debt stock increased from K193.00 billion in 2021 to K253.73 billion in 2025, representing an increase of K60.73 billion, or approximately 31.5 per cent. The additional K7.5 billion in domestic borrowing would therefore add to an already rising domestic debt stock.

Figure 1: Stock of domestic debt (2021-2025)

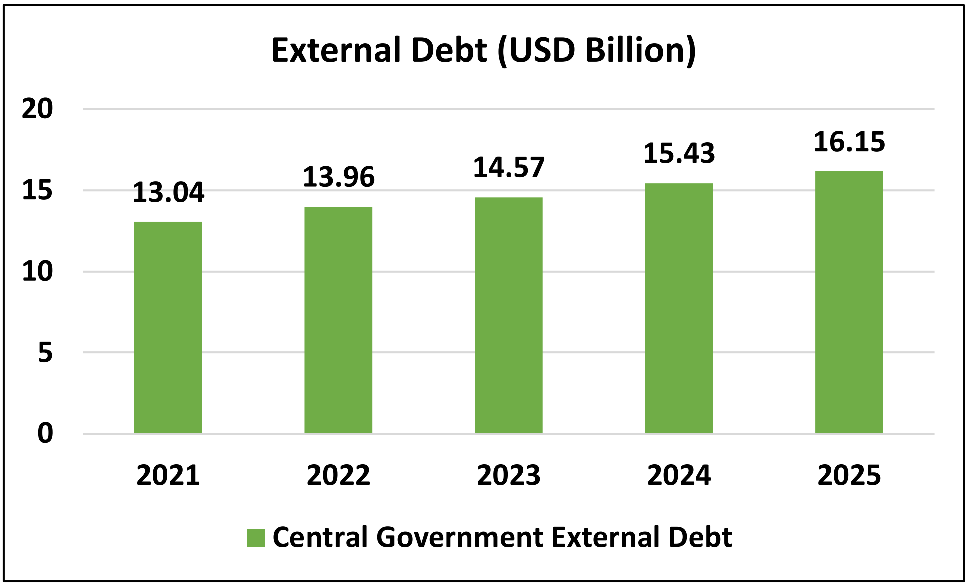


Source: PBO construction using MoFNP Debt Statistical Bulletins

b) External Debt Stock

Over the same period, Central Government external debt increased from US$13.04 billion to US$16.15 billion, representing an increase of US$3.11 billion, or approximately 23.8 per cent.

Figure 2: Stock of external debt (2021-2025)



Source: PBO construction using MoFNP Debt Statistical Bulletins

4. Alignment with the 2025–2027 Medium-Term Debt Management Strategy

The 2025-2027 Medium-Term Debt Management Strategy (MTDS) aims to meet Government financing needs at the lowest possible cost while maintaining a prudent level of risk. It identifies three core objectives: minimising the cost of financing, progressively mitigating refinancing and exchange rate risks, and promoting the development of domestic financial markets. The MTDS further provides that the Government will continue to issue Treasury bills and Government bonds domestically, while accessing only concessional financing from the external market to finance budget deficits over the medium term.

The MTDS provides for concessional external financing over the strategy period. The proposed AfDB loan is non-concessional for debt sustainability purposes. The World Bank and IMF define a concessional loan as one with a grant element of at least 35 per cent. The grant element is the difference between a loan's face value and the present value of future debt-service payments, expressed as a percentage of the loan's face value[3].

Using the indicative terms in the Amendment, namely a loan amount of US$252.43 million, an assumed maximum interest rate of 2.5 per cent per annum, a maturity of 10 years, and a grace period of 5 years, the estimated grant element is approximately 16 per cent. This is significantly below the 35 per cent concessional threshold. The economic and fiscal returns from the Lobito Corridor Project should therefore justify the departure from the concessional borrowing.

5. Performance of the Domestic Securities Market

January and February 2026 bond auctions showed strong demand, with bids significantly exceeding the amount offered. However, demand weakened in the March and April bond auctions, especially for longer-dated instruments. The April 2026 auction was particularly weak, with a subscription rate of only 43.0 per cent.

Table 2: Performance of Government bond auctions in 2026

Auction Date	Amount Offered (K bn)	Total Bids (K bn)	Amount Allotted (K bn)	Subscription Rate
23-Jan-26	4.2	10.09	9.3	240.0%
20-Feb-26	4.2	21.34	9.88	508.0%
19-Mar-26	4.2	3.26	3.12	78.0%
24-Apr-26	6.3	2.69	1.28	43.0%

Source: PBO construction using 2026 Bank of Zambia Auction Results

[3] https://ida.worldbank.org/en/financing/debt/grant-element-calculations

The trend shows a sharp deterioration in market absorption capacity between February and April 2026. Therefore, successfully raising the additional K7.5 billion in domestic financing will depend on careful issuance management. If demand remains subdued, the Government might face a trade-off between accepting higher yields on longer-dated bonds or increasing reliance on short-term Treasury bills. Either outcome would dilute the MTDS objectives of lowering cost and risk.

6. Debt Sustainability Outlook

The 2026 Debt Sustainability Analysis[4] classifies Zambia's debt-carrying capacity as weak. It further indicates that Zambia remained at high risk of debt distress, although external debt indicators are projected to improve following debt restructuring. Therefore, while the external position has improved, the overall debt burden remains high and calls for prudent public debt management to avoid eroding the gains achieved in restoring debt sustainability.

7. Fiscal Consolidation

Fiscal consolidation under the recently concluded IMF-supported Extended Credit Facility programme significantly improved Zambia's fiscal position, and public debt management going forward must safeguard these gains.

In the 2026 Budget, Net Domestic Borrowing was projected at K21.6 billion, or 2.3 per cent of GDP, while external borrowing was projected at K12.9 billion, or 1.4 per cent of GDP. The revised Net Domestic Financing of K29.12 billion implies that domestic borrowing rises to approximately 3.1 per cent of GDP. This represents an increase of about 0.8 per centage points of GDP above the Budget target and weakens fiscal consolidation efforts.

The primary balance may also come under pressure. In simple terms, the primary balance shows whether Government can pay for its normal programmes and operations using its revenues, before taking interest payments on debt into account.

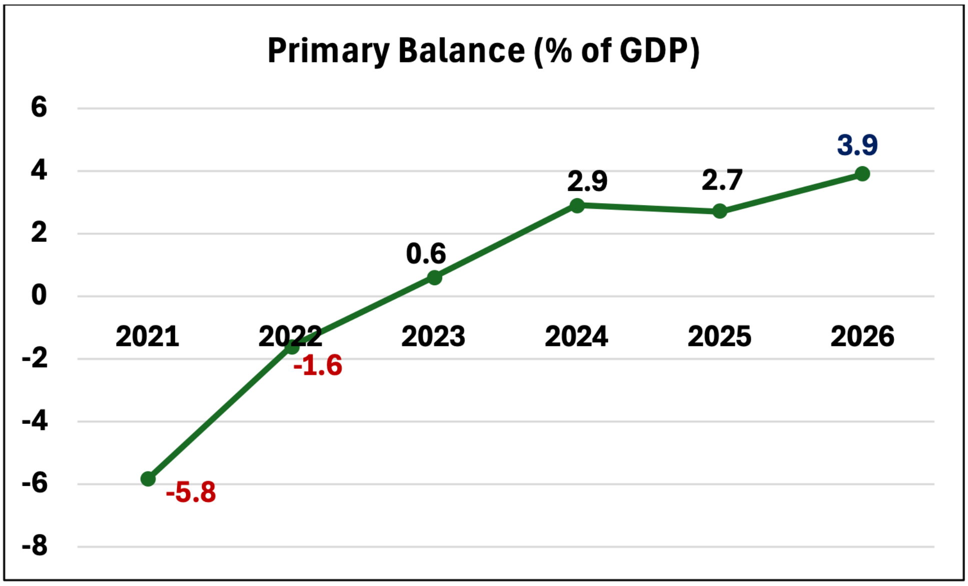
In 2025, Government recorded a primary surplus of 2.7 per cent of GDP, meaning revenues were higher than non-interest spending. The 2026 Debt Sustainability Analysis projects this surplus to improve to 3.93 per cent of GDP in 2026. However, this position could weaken if Government

[4] Ministry of Finance and National Planning. (2026). 2026 Debt Sustainability Analysis Report.

increases borrowing to finance additional spending, especially where part of that spending is recurrent, such as wages.

If Zambia moved into a primary deficit, it would mean that the Government was borrowing not only to pay interest on debt, but also to finance ordinary spending. This would make it harder to stabilise public debt.

Figure 3: Primary Balance as a per centage of GDP



PBO construction using 2026 Debt Sustainability Analysis data

8. Debt Portfolio Risk Analysis

The proposed additional borrowing carries refinancing, interest rate and foreign exchange risks. These risks should be assessed against the current risk profile of the public debt portfolio.

a) Refinancing (Rollover) Risk

The Amendment increases refinancing risk through the domestic borrowing component. The domestic borrowing would be raised at market rates and might increase rollover risk if issued in short tenors. This is particularly important because the Average Time to Maturity of the Central Government debt portfolio was 8.78 years at end-2025, below the MTDS target of 10.1 years, and a significant portion of debt was falling due in 2026. Additional short-tenor issuance would increase future refinancing pressure.

b) Interest Rate Risk

The external loan is long-term and has a fixed interest rate, which reduces interest rate risk relative to variable interest rate loans that change with market conditions. However, the domestic borrowing will be issued at market rates in an environment where yields for longer-dated instruments are under pressure due to weaker demand, as evidenced by the March and April 2026 auction results. This increases Government's exposure to higher borrowing costs.

c) Foreign Exchange Risk

The share of foreign-currency debt fell from 67.1 per cent in 2024 to 60.3 per cent in 2025, indicating a moderate reduction in exchange rate risk. However, the foreign-currency share remains high, leaving the portfolio exposed to exchange rate movements. The proposed external loan increases foreign currency liabilities and would raise debt-servicing obligations in Kwacha terms if the exchange rate depreciates.

9. Conclusion

The 2026 Annual Borrowing Plan Amendment supports a strategically important project but introduces fiscal and debt-management risks. The 2026 Plan provides financing towards the Lobito Corridor Project, which is aligned with Zambia's broader development priorities relating to economic transformation, trade facilitation, transport connectivity, mining expansion and regional integration.

The main concern is that the loan is non-concessional and is therefore inconsistent with the MTDS objective of limiting external borrowing to concessional loans only. The additional domestic borrowing also weakens fiscal consolidation. It increases domestic borrowing above the original target and places pressure on the primary balance.

Therefore, while the Amendment responds to legitimate financing needs, its implementation should be closely managed to ensure that it does not undermine recent gains in debt sustainability.