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2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA

In the context of the 2023 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 13, 2023 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 13, 2023, following discussions that ended on April 5, 2023, with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Zambia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the 2023 Article IV Consultation with Zambia and Completes the First Review Under the Extended Credit Facility Arrangement

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the 38-month Extended Credit Facility (ECF) with Zambia, providing the country with access to SDR 139.88 million (about US$ 189 million).

- Zambia's performance under the program remains strong. All quantitative performance criteria for the first review and nine structural benchmarks have been met, with only marginal delays in the remaining two.

- The authorities have taken bold steps to restore fiscal sustainability, raise social spending, and strengthen economic governance. This ambitious reform agenda aims to reverse the impact of past economic mismanagement and shocks, such as COVID-19, and raise growth, create jobs, and reduce poverty.

Washington, DC – July 13, 2023: The Executive Board of the International Monetary Fund (IMF) completed today the First review of the 38-month Extended Credit Facility Arrangement and the 2023 Article IV Consultation[1] with Zambia. The completion of the first ECF review allows for an immediate disbursement of SDR 139.88 million (about US$ 189 million), bringing Zambia's total disbursements under the arrangement to about US$ 374 million.

Zambia's ECF Arrangement is for a total of SDR 978.2 million (100 percent of quota) or about US$1.3 billion at the time of program approval on August 31, 2022 (see Press Release 22/297). It seeks to support Zambia's homegrown economic reform plan that seeks to restore macroeconomic stability and foster higher, more resilient, and more inclusive growth.

On June 22, 2023, the Zambian authorities reached an agreement with the Official Creditor Committee (OCC) on a debt treatment that is in line with Fund program parameters. This agreement puts Zambia on the path to debt sustainability, provided the financing assurances necessary for the Executive Board review to be completed, and also clears the way for the authorities to focus on the growth-enhancing reforms that will create jobs and prosperity for Zambia.

Zambia's reform efforts since the inception of the ECF have been commendable. All quantitative performance criteria and nine of eleven structural benchmarks for the first review have been met. The target date for submission of a revised Public-Private Partnership Bill has been reset to end-July to allow stakeholder feedback to be incorporated, and the target date

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

for implementation of the IFMIS commitment control module has been reset to end-August to allow sufficient time for validation. Decisive steps have been taken to cut inefficient public spending and create space for increased social spending and investment in human capital—including freeing the resources to provide free education for all and to hire 41,000 additional health and education workers. Public procurement regulations are being implemented to

ensure value-for-money and increased transparency of public spending. And steps are being taken to improve the business environment and attract much-needed private investment to Zambia.

The Executive Board also concluded the 2023 Article IV consultation with Zambia.

Having weathered a number of external shocks over the past couple of years, the Zambian economy is beginning to strengthen, and its post-COVID GDP-rebound is expected to continue. Despite some projected moderation in 2023, growth is expected to accelerate in 2024 and settle at around 5 percent over the medium term. Nonetheless, with poverty and inequality amongst the highest in the world and Zambia's high exposure to climate shocks, significant challenges remain. To create a more conducive environment for private sector development and attract much needed private investment, strengthening economic governance and addressing corruption vulnerabilities should remain a central aspect of the government's reforms, including implementing the recommendations of the IMF's Diagnostic Report on Governance and Corruption, published in December 2022. Sustained efforts are also essential to maintain fiscal credibility while also creating sufficient space for social, development, and climate spending.

Following the Executive Board discussion on Zambia, Ms. Kristalina Georgieva, Managing Director, issued the following statement:

"The authorities have made commendable efforts over the past two years to stabilize the economy, despite the continuation of significant external shocks. Going forward, it will be important to sustain their commitment to the strong policies needed to safeguard macroeconomic stability, restore debt sustainability, and promote durable and inclusive growth.

"Performance under the ECF-supported program has been robust, including a significant fiscal adjustment in 2022 and measures to restore ZESCO's financial viability. Going forward, further fiscal adjustment focused on revenue mobilization and supported by continued fiscal reforms, including in PFM, revenue administration, and debt management, will be essential. The increased level of social spending should be sustained to protect the most vulnerable, and further efforts are needed to mitigate fiscal risks, including strengthening the framework for Public-Private Partnerships.

"Zambia's agreement with the Official Creditor Committee (OCC) under the G20 Common Framework on a debt treatment consistent with program parameters is very welcome. Swift finalization and signature of the Memorandum of Understanding with the OCC will be important. Timely implementation of this agreement, together with agreements with private creditors on comparable terms, should restore Zambia's debt sustainability over the medium term.

“The Bank of Zambia should remain alert to inflationary pressures and continue reforms to preserve financial stability and enhance inclusion, even as the financial sector landscape evolves.

“Strengthening economic governance and addressing corruption vulnerabilities should remain a central aspect of reform, and the authorities’ commitment to implementing the recommendations of the IMF's Diagnostic Report on Governance and Corruption, including to enhance transparency and robust implementation of public procurement regulations, is commendable. These reforms, combined with the authorities' climate-smart growth policy, will provide a more conducive environment for private sector investment and growth.”

Table 1. Zambia: Selected Economic Indicators, 2019–26

	2019	2020	2021	2022	2023	2024	2025	2026
					Projections			
National accounts and prices								
GDP growth at constant prices	1.4	-2.8	4.6	4.7	3.6	4.3	4.5	4.7
Agriculture	7.7	17.2	6.9	-2.2	-0.2	3.8	4.1	4.2
Mining	-5.1	8.0	-6.3	-4.4	4.9	9.0	8.7	7.4
Non-mining, non-agricultural	1.8	-5.6	5.9	6.5	3.7	3.8	4.0	4.4
GDP deflator	7.6	13.7	27.6	8.6	12.1	9.9	7.3	6.9
GDP at market prices (millions of kwacha)	300,449	332,223	443,362	504,477	585,449	671,332	752,580	841,746
Consumer prices								
Consumer prices (average)	9.2	15.7	22.0	11.0	10.6	9.6	7.5	7.0
Consumer prices (end of period)	11.7	19.2	16.4	9.9	11.4	7.9	7.0	7.0
External sector								
Terms of trade (deterioration -)	-6.4	13.9	22.1	-6.8	5.8	-0.2	-0.5	-0.7
Average exchange rate (kwacha per U.S. dollar)	12.9	18.3	20.0	17.0	...	...	...	...
(percentage change; depreciation +)	23.3	42.3	9.1	-15.3	...	...	...	...
End-of-period exchange rate (kwacha per U.S. dollar)	14.1	21.2	16.7	18.1	...	...	...	...
Current account balance	0.4	10.6	9.7	3.6	4.7	7.3	8.6	8.6
Gross international reserves (months of prospective imports)	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0
Money and credit								
Reserve money (end of period)	25.8	57.0	8.5	12.0	17.2	12.5	11.0	11.8
Broad money (M3)	12.5	46.4	3.7	24.5	17.2	12.5	11.0	11.8
Credit to the private sector (percent of GDP)	12.5	12.3	8.5	10.0	15.2	16.7	18.1	21.1
National accounts								
Gross investment	39.3	32.3	28.5	31.9	31.6	31.8	31.8	32.3
Government	9.4	7.8	3.9	3.3	3.1	3.2	3.2	3.7
Private	29.8	24.5	24.5	28.5	28.5	28.5	28.5	28.5
National savings	39.7	42.9	38.1	35.5	36.4	39.1	40.3	40.9
Central government budget								
Revenue	20.	20.3	22.3	20.0	21.2	22.0	22.1	21.8
Taxes	16.1	15.7	16.0	15.8	17.5	17.8	17.9	17.9
Grants	0.3	0.5	0.6	0.4	0.4	0.7	0.6	0.4
Other revenue	4.0	4.1	5.7	3.8	3.4	3.5	3.5	3.5
Expenditure	29.8	34.1	30.4	27.6	26.2	26.3	25.4	26.0
Expense	20.4	26.3	26.5	24.3	23.1	23.1	22.2	22.1
Net acquisition of nonfinancial assets	9.4	7.8	3.9	3.3	3.1	3.2	3.2	4.0
Net lending/borrowing (cash basis)	-9.4	-13.8	-8.1	-7.7	-5.0	-4.4	-3.3	-4.3
Net lending/borrowing (commitment basis)	-13.9	-17.4	-13.9	-5.3	-3.2	-2.7	-1.8	-3.0
Primary balance (commitment basis)[1]	-6.9	-10.1	-5.8	0.8	2.0	2.9	3.3	2.4
Primary balance excluding mining revenues (commitment basis)[1]	-9.4	-13.3	-11.4	-3.7	-2.2	-1.5	-1.2	-2.1
Public debt								
Total public debt (gross, end-period)[2,3]	103.3	150.3	112.1	110.9	110.2	100.8	94.1	88.5
External[4]	62.1	95.8	57.8	58.8	69.6	65.9	62.9	59.2
Domestic	41.2	54.5	54.4	52.1	40.6	34.9	31.3	29.3

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] Adjusted for the accumulation/clearance of VAT refund claims and expenditure arrears.

[2] Nonresident holdings of local currency debt are included under domestic debt here, unlike in the DSA, which is conducted on a residency basis.

[3] Including arrears.

[4] Public and publicly guaranteed external debt.

ZAMBIA

June 30, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Zambia has made commendable progress over the last two years in implementing its reform agenda to stabilize the economy, lay the foundation for inclusive growth, and create jobs against the backdrop of significant external shocks. The authorities reached an agreement with official creditors on June 22 on a debt restructuring consistent with program parameters. The restoration of fiscal and debt sustainability, together with reforms to boost private and human capital investment, and strengthen governance and anti-corruption, support a positive medium-term economic outlook. Nonetheless, with poverty and inequality amongst the highest in the world and climate vulnerabilities high, significant challenges remain. Sustained efforts are essential to maintain fiscal credibility while also creating sufficient space for social, development, and climate spending.

Program status. In August 2022, the IMF's Executive Board approved a 38-month arrangement under the Extended Credit Facility (ECF) in an amount equivalent to 100 percent of quota (SDR 978.20 million) and a first disbursement of SDR 139.88 million. The arrangement supports Zambia's efforts to restore sustainability through fiscal adjustment and debt restructuring; create fiscal space for social spending; and strengthen governance and reduce corruption vulnerabilities, including by improving public financial management. On completion of the first review, Zambia would have access to an additional SDR 139.88 million (about $[188] million).

Program performance. Program performance has been strong despite a challenging domestic and global environment. All quantitative performance criteria (QPCs) for the first review were met. All nine structural benchmarks (SBs) due by end-March 2023 have been met, but the two SBs due by end-June 2023 have been reset—one to end-July and one to end-August.

Risks to the program. Risks remain elevated and titled to the downside in the medium-term. Weather-related shocks and weaker copper revenues, including due to shortfalls in production, remain the dominant source of risk. There is flexibility under the program to mitigate ongoing challenges while still meeting program objectives.

Approved By
Costas Christou (AFR) and Jarkko Turunen (SPR)

The mission team consisted of A. Holland (head), S. Meleshchuk, J. Ree and L. Spahia (all AFR), S. Mirzayev (SPR), S. Saab (MCM), C. Feher (FAD) and P. Sharma (Resident Representative) with assistance from Jorge Guzman and Camille Bravo (all AFR). Discussions were held in Lusaka during March 22-April 5, 2023. The team met with Minister of Finance and National Planning Situmbeko Musokotwane, Governor Denny Kalyalya, Secretary to the Cabinet Patrick Kangwa, Secretary to the Treasury Felix Nkulukusa, Deputy Governor Francis Chipimo, and other senior government officials. Ms. Motsumi (OED) and Mr. Schuler (World Bank) also joined most of the discussions. Staff also had productive discussions with the representatives of the private sector, civil society organizations, labor unions and development partners.

CONTENTS

TABLES

ANNEXES

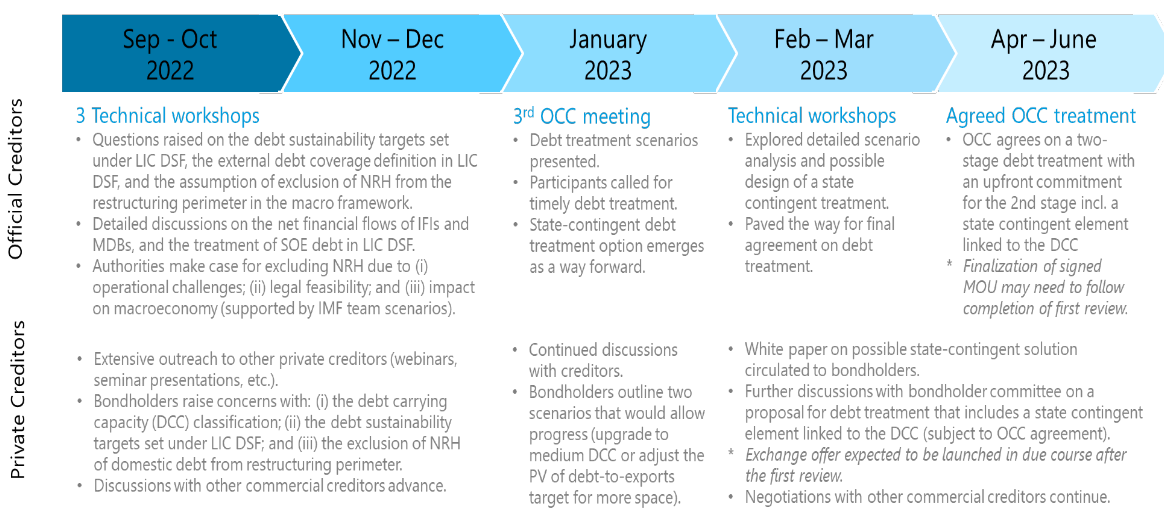
APPENDIX

CONTEXT

1. The authorities' economic reform agenda is bearing fruit. The economy is beginning to stabilize following years of fiscal profligacy, weak growth, and economic mismanagement, all compounded by the impact of COVID-19 and spillovers from Russia's invasion of Ukraine. After almost two years of President Hichilema's administration, growth rebounded, inflation declined, and the kwacha strengthened as the government secured the Fund-supported program. The authorities' economic strategy, embodied in the ECF-supported program, is grounded in the Eighth National Development Plan (adopted in August 2022), and seeks to create jobs and growth by restoring fiscal and debt sustainability, attracting private investment, and investing in human capital.

2. Zambia reached an agreement with the Official Creditor Committee (OCC) under the G20 Common Framework on June 22 on a debt treatment consistent with program parameters. This agreement reflected extensive discussions amongst official creditors on the appropriate parameters of the debt treatment, with the OCC meeting seven times and organizing several technical workshops (Text Figure 1). These discussions covered several important issues, including clarification on the key program parameters and debt sustainability targets; the contribution of multilateral development banks (MDBs) to the restructuring effort through the provision of significant, concessional positive net financing flows; the exclusion on non-resident holders (NRH) of domestically-issued debt from the proposed debt treatment; and the inclusion of state-owned enterprise (SOE) debt related to financially viable projects. The OCC reached an agreement on all of these issues for Zambia, taking into account its specific circumstances, but official creditors recognized that these issues deserve further discussion in other cases, as well as a more systematic approach through exchanges in relevant fora.

Text Figure 1. Timeline of the Restructuring Process



3. Zambia's current economic trajectory stands in sharp contrast to the 2019 Article IV. At that time, a forced fiscal adjustment was underway and medium-term growth prospects were about 1.5 percent (compared with current projections of 5.0 percent).

4. The traction of Fund policy advice—as elaborated in the 2019 Article IV consultation—is also strong (Annex I). Specifically, the recommended fiscal consolidation is being implemented; reforms in anti-corruption, public financial management, public investment, debt management and transparency are advancing; fuel subsidies have been removed, and electricity tariffs are being adjusted; and the mandate and independence of the Bank of Zambia (BoZ) has strengthened with the enactment of the new BoZ Act.

Zambia: Poverty and Inequality in Sub-Saharan Africa
(National Poverty Line and Gini Coefficient)

Source: World Bank World Development Indicators

5. Nevertheless, significant challenges remain. Inflation remains high; the kwacha is very sensitive to shifts in sentiment; growth remains vulnerable to climate shocks; and poverty, inequality, and malnutrition rates remain amongst the highest in the world.

RECENT ECONOMIC DEVELOPMENTS

6. Greater macroeconomic stability, boosted by the ECF arrangement, led to robust growth in 2022. Despite contractions in construction, mining, and agriculture due to weather-related disruptions and reflecting the impact of past delays in investment, GDP growth registered 4.7 percent in 2022, the highest level since 2014. Growth was boosted by a rapid expansion in transportation and ICT, as well as in the education sector due to the hiring of new teachers (as part of the authorities' emphasis on human capital investment).

7. The post-election currency appreciation helped reduce inflation to 9.4 percent (y-o-y) in January 2023 (a 41-month low) from 24 percent in mid-2021. Since then, the rate has risen to 9.9 percent (May 2023) due to the currency depreciation since September 2022. Food inflation, which contributes more than half to the headline rate also has been stable around 12 percent (y-o-y) since 2022 H2. In response to emerging inflationary pressures, the BoZ has shifted to a tightening monetary policy bias, increasing both the monetary policy rate and reserve requirements.[1]

8. External pressures re-emerged in the latter part of 2022, though have moderated since April. A decline in copper prices and copper production contributed to a contraction in copper exports and a narrowing of the current account surplus in 2022. The exit of non-resident holders from the domestic debt market led to a sharp decline in the financial account, despite stronger net FDI flows. Gross reserves increased reflecting the accumulation of further external debt arrears ($2.2

[1] The BoZ increased the statutory reserve ratio for both domestic and foreign currency deposits by 250 basis points to 11.5 percent on February 1, 2023. The monetary policy rate was increased by 25 basis points following each of the February and May MPC meetings and is now 9.5 percent.

billion) and $950 million of new disbursements from the IMF and World Bank (WB), though import-cover marginally declined given recovery-induced higher imports. Demand for foreign exchange arising from portfolio outflows, as well as from fuel and fertilizer importers, drove a 35 percent depreciation in the exchange rate over September 2022 – March 2023 (Figure 4). In April, the exchange rate appreciated as foreign exchange liquidity was supported by corporates buying local currency to meet tax obligations, and due to positive sentiment around prospects for a successful debt restructuring.

9. The targeted improvement in the fiscal position is on track. Lower spending underpinned the 6.5 percentage point improvement in the primary balance (commitment basis) in 2022, bringing it to a surplus of 0.8 percent of GDP. Despite a shortfall in mining revenues, overall tax revenue was in line with program targets thanks to stronger performance in the non-mining sector. Relative to the program, significantly lower spending on agricultural subsidies, and goods and services released resources for additional spending on social protection, which doubled to 1.5 percent of GDP compared to their 2020 level, and public investment. Improvements in personal income tax (PIT), corporate income tax (CIT) and VAT collection and spending controls secured in 2022 should prove durable going forward. The 2022 deficit was equally financed by the domestic market (1/3), ongoing project-financing together with additional IMF and WB resources (1/3), and use of half the 2021 SDR allocation (1/3).

10. Outstanding public and publicly guaranteed (PPG) external debt stood at $20.9 billion at end-2022, an increase of $930 million from a year earlier. Zambia continued to build arrears, with interest and principal arrears of $4.2 billion at end-2022 due on claims within the restructuring perimeter—$1.4 billion due to official bilateral creditors, $1.3 billion to Eurobond holders, $1.5 billion to other private external creditors, an additional $1.7 billion of arrears due to external suppliers (ZESCO (the power utility) external IPP arrears, and fuel and contractor arrears); and $2.3 million of interest and principal arrears to other IFIs. The outstanding stock of domestically-issued government securities was 210 billion kwacha at end-2022 (44 percent of GDP), up from 193 billion at end-2021, of which 47 billion kwacha (22 percent of the stock)) was held by non-resident investors (down from 59 billion kwacha (29 percent of the stock)). The withdrawal of non-residents from the market has continued into 2023, with their holdings dropping further to 46 billion kwacha by end-April (though still 22 percent of the stock).

11. Funding pressures have continued. Uncertainty around the debt restructuring process has led to a sharp drop in investor demand for domestic government securities, including due to the exit of NRH. Average auction-cover dropped to 64 percent in 2022 and further to 45 percent January-April, from 95 percent in 2021.[2] Demand for Treasury bills has also declined, with average auction-cover at 91 percent in 2022 and 79 percent in January-April 2023, down from 100 percent in 2021. In parallel, yields increased by around 200 basis points on average across the curve in 2022, with short-term yields rising further by about another 40 basis points on average in January-April.

[2] Defined as the amount allocated on a cash basis relative to the offer amount.

12. Despite a robust rebound in 2022, bank-lending to the private sector remains relatively subdued, short-term, and concentrated in few key sectors. Private sector credit grew by 35 percent in 2022, outpacing credit growth to the public sector, with the manufacturing, mining and agriculture sectors the biggest beneficiaries. Nevertheless, the loan-to-deposit ratio dropped from a peak of 56 to 39 percent in 2022, as a combination of attractive rates on government securities and high real lending rates led to a relative drop in banking intermediation, and continuing the general public sector crowding-out of credit to the private sector.

13. Overall, the financial system appears to have emerged from the pandemic with higher capital buffers with few signs of systemic vulnerabilities (SIP). The banking sector remained highly profitable in 2022 with an average return-on-assets of 5.0 percent, boosted by a shift from a reliance on intermediation interest income towards more investment income from government securities. Average capitalization stood around 23 percent at end-2022, and asset quality appears improved, with net NPLs at less than 0.4 percent of loans, supported by an average NPL coverage ratio of around 93 percent. The improvement in asset quality has been underpinned by the sustained write-off of bad loans from banks' balance sheets, as well as reclassification of certain facilities. Banks continue to maintain ample liquidity buffers on their balance sheets and have recently scaled back their deposits with their foreign parent companies in favor of boosting own balances and balances at the BoZ. However, public sector exposure and increasing FX market imbalances represent pockets of potential vulnerability that have intensified as of late 2022, while unwinding of the COVID-era regulatory forbearance measures may lead to an increase in NPLs.

PROGRAM PERFORMANCE

14. Program performance has been strong. Despite a challenging global environment and multiple domestic shocks, all quantitative performance criteria (QPCs) and all but one indicative target (IT) for end-September and end-December 2022 were met (MEFP Table 1). The IT on the floor of fiscal revenues excluding grants and mining revenues and adjusted by the backlog of VAT refunds was narrowly missed as new VAT refund claims outstripped the pace of refunds, including due to a pickup in auditing efforts (para 26). Consequently, on a net basis, despite an accelerated pace of refunds, the stock of VAT refund arrears in 2022 increased by 1.8 billion kwacha. Preliminary data for end-March suggest that the ITs on the primary balance and on net international reserves have both been missed due to some frontloading of fiscal expenditures, weaker mining revenues, and external pressures. The authorities remain committed to taking the necessary actions to ensure end-year targets are met, even in the event mining revenues continue to disappoint.

15. All nine structural benchmarks (SB) due by end-March 2023 have also been met. . The SB on the implementation of commitment controls through IFMIS has been delayed to August 2023 from the initial target date of June 2023. Commitment control systems have been rolled out in 59 spending units, including all ministry-level spending units, to ensure that fiscal resources can only be committed if commitments are registered in IFMIS, and resources are available to meet financial obligations. Periodic reviews will be conducted to verify that all factual spending is recorded in IFMIS. The first review (based on end-June data) is due end-August 2023 (revised SB, see MEFP Table 3). The SB on submitting a revised PPP Act to Parliament has also been delayed to July 2023 to allow time for Cabinet scrutiny.

MACROECNOMIC OUTLOOK AND RISKS

16. The outlook has improved marginally since the time of the program request in 2022. The post-COVID GDP-rebound is expected to continue, though with some moderation in 2023, with growth starting to accelerate in 2024 and settling at around 5.0 percent over the medium term. Better medium-term growth prospects, an improved current account, and reserves build-up are underpinned by the expected comprehensive debt restructuring, and credible policies to reduce the fiscal deficit and improve the business environment. Due to exchange rate and base effects,[3] inflation is expected to peak around end-2023 (though at a lower level than 2021)—and then to moderate and return to the mid-point of the BoZ's 6-8 percent target range by 2025.

17. Significant downside risks remain (Annex II). Weather-related shocks (such as the floods of February 2023) and weaker copper revenues, including due to production shortfalls, remain the dominant source of risk. Globally, an abrupt slowdown in China would reduce copper prices, while an escalation of Russia's war in Ukraine would increase fertilizer and food prices, increasing inflation and spending on agricultural inputs. Delays around completing the debt restructuring with private creditors could lead to a further exit of non-resident investors, triggering new exchange rate pressures and raising the cost of government financing. On the upside, higher copper prices, a speedier rehabilitation and development of the Mopani (MCM) or Konkola (KCM) copper mines,[4] and faster completion of the debt restructuring could accelerate private sector investment and growth.

Authorities' Views

18. The authorities broadly agreed with staff on the outlook and risks. They see strong potential for an extended growth episode once the impact of reforms under the ECF-supported program build traction and self-reinforcing positive dynamics emerge.

[3] Given the pass-through of recent exchange rate depreciation and the structural increases in fuel and electricity prices as subsidies have been removed.

[4] Both mines require new capital investment to realize their potential. The authorities are close to identifying a new strategic partner for MCM, but the development of KCM remains subject to legal challenges related to its forced provisional liquidation in 2019.

POLICY DISCUSSIONS

19. With the ECF-supported program focused on macroeconomic stabilization and restoring debt sustainability, Article IV (AIV) discussions centered around policies for inclusive and resilient growth. Discussions covered (i) short-term policy recommendations and program structural benchmarks for the next 12-months; and (ii) policies to lay the foundation for achieving an inclusive recovery in a fiscally constrained environment. Program anchors remain and will be complemented by the following AIV themes: (i) rebuilding fiscal resilience; (ii) fostering private sector led growth (SIP); and (iii) maintaining monetary stability, while strengthening banking sector stability and its contribution to growth (SIP).

A. Rebuilding Fiscal Resilience

20. Fiscal performance is expected to continue improving in 2023. Although the pace of fiscal expenditures in 2023 Q1 was more front-loaded than initially anticipated, the primary surplus (commitment basis) is expected to improve (see Table 2b), driven mostly by a revenue-based consolidation. Non-mining revenue performance is expected to be strong, reflecting the reinstatement of VAT and excise on fuel (October 2022, SB), a recovery in economic activity, and higher copper prices than at the time of the budget approval, while expenditures are expected to remain contained.

21. Zambia's medium-term fiscal challenge is to restore debt sustainability and rebuild buffers. The primary balance (commitment basis)—the program's fiscal anchor—is expected to improve from a deficit of 5.8 percent of GDP in 2021 to a surplus of 3.3 percent in 2025. This substantial fiscal consolidation effort, together with the debt restructuring, would help restore fiscal sustainability, while protecting priority spending. The authorities' 2023 Budget and 2023-2025 Medium-Term Budget Framework (MTBF) are aligned with program targets, and the proposed consolidation path.

22. The authorities have embarked on a revenue mobilization plan that aims to increase the revenue intake from a combination of policy and tax administration measures. The plan, adopted in September 2022 (SB), includes policy measures that aim to yield up to 3.2 percent of GDP over 2022-2025 (including reinstating VAT and excise on fuel from October 2022).

23. The 2023 switch to a marginal mineral royalty tax (MRT) should smooth the impact of changing prices on fiscal revenues and make them more stable.[5] Past instability in the mineral tax regime hindered investment and, despite increasing the tax burden, did not lead to higher revenue yields. The authorities are confident that the new regime, which, in line with IMF technical assistance (TA) recommendations, provides greater predictability and reduces the distortive impact

[5] The MRT was changed from a flat rate tax, ranging from 5.5 to 10 percent depending on copper prices, to a marginal rate, ranging from 4 to 10 percent.

of the tax regime on the mining sector, will bring much needed investment to scale-up production and boost growth.

24. In parallel, some reforms to PIT were introduced in 2023 to provide some relief to low and middle-income households. These reforms raised the exemption threshold to partly account for inflation, reduced the lowest marginal rate from 25 to 20 percent, and widened the income bands subject to the marginal rates of 20 and 30 percent. These changes are in line with IMF TA recommendations.

25. To mitigate the revenue impact of these changes, a range of other tax policy measures have been adopted. These include: i) an increase in the property transfer tax to 7.5 from 5 percent; ii) an increase in the carbon emission tax by 10 percent; iii) an increase in the excise duty on cigarettes; and iv) an introduction of excise taxes for plastic products. Other proposed measures to be considered in 2024-25 include the harmonization of the multiple CIT rates across various sectors, and the authorities will also review the effectiveness of fiscal incentives offered to companies operating in special economic zones.

26. In parallel, the Zambia Revenue Authority (ZRA) is implementing a series of reforms to modernize the agency, reduce the tax compliance gap, and improve service delivery. These reforms will enhance revenue collection while also contributing to an improved business environment. Key ongoing initiatives include:

- **Establishing a Large Taxpayer Office (LTO, new SB).** The ZRA collects 80 percent of its revenue from a small pool of large taxpayers (constituting 0.3 percent of the total registered taxpayers). Efforts to improve capacity and tailor services to this group of taxpayers are ongoing, with a large taxpayer unit for direct taxes already established and a mirror unit for indirect taxes being established in 2023. In line with best practices, the two units will be merged into the new LTO to streamline processes, improve service delivery, and allow for specialization.

- **Reducing the VAT gap.** To improve tax compliance and the assessment of the tax base, the authorities are implementing a fiscalization project that aims to introduce an electronic invoicing system (app-based) for VAT-registered taxpayers.

- **Clearing VAT-refund arrears (proposed modified IT).** To clear the stock of accumulated VAT-refund arrears, the authorities increased monthly VAT-refunds by 50 percent on average compared to the previous five years, using both cash payments and offsets. In parallel, the authorities also stepped-up the pace of VAT-refund audits, adding to the flow of verified refund requests. Consequently, the flow of newly verified refund requests has outstripped the pace of refunds. The pace of new refund requests will accelerate further with the planned switch to risk-based audits. Hence, to measure progress on the timely payment of VAT refunds, a modified IT on the clearance of VAT-refund arrears is proposed, to distinguish between clearance of the legacy stock and dealing with the current flow of refund claims.

- **Reducing tax debt.** At the end of 2022, the stock of tax debt (including penalties and interest) stood at almost 100 billion kwacha (19.8 percent of GDP, of which 12.8 percent of GDP is tax arrears). Almost 60 percent of this debt is owed by mining companies, while about half is older than five years, reducing its probability of collection. As part of efforts to step-up debt collection, the authorities launched a tax amnesty from October 2022, waiving interest and penalties; this was extended to end-June 2023 (from March 2023). As of end-March, the amnesty had yielded 2.6 billion kwacha. In parallel, the authorities are establishing a debt management module to automate processes and make sure that government suppliers are current on their tax liabilities before invoices are paid. The ZRA will also implement write-off procedures for debt established as uncollectable.

- **Enhancing analytical capacities and service delivery.** Other measures being taken to reduce the compliance gap include establishing real-time data interfaces with other government agencies, such as MoFNP (IFMIS), the business registration agency, the Ministry of Lands, the vehicle registration agency (RTSA), and the BoZ to identify data-reporting anomalies. This will be expanded to more agencies in 2024. Specialized units will also be set up to deal with specific taxpayer segments (beyond the LTO), while to reduce compliance customer costs and time, multiple services will be offered through a single window.

- **Capacity development.** To implement these ambitious plans, the authorities are receiving support from various cooperating partners. In addition to continuing support on data integrity issues, Fund TA will focus on strengthening VAT-systems, improving audit capacity and moving toward risk-based compliance management, as well as tax debt management.

Text Table 1. Zambia: Composition of Fiscal Adjustment

(Percent of GDP, 2021–25)

	2021	2022	2023	2024	2025	Cumulative Program Period (2022-25)	Cumulative (2021-25)
Improvement in primary balance (cash basis)	**5.8**	**0.5**	**1.7**	**1.1**	**0.6**	**3.9**	**9.7**
Improvement in primary balance (commitment basis)	**4.4**	**6.5**	**1.2**	**1.0**	**0.4**	**9.1**	**13.5**
Improvement in primary balance excluding large one-off revenues (commitment basis)	**3.7**	**7.7**	**1.4**	**1.0**	**0.4**	**10.5**	**14.2**
Revenue increases (cash basis)	2.0	-2.4	1.2	0.8	0.2	-0.2	1.8
Direct taxes	0.7	0.0	0.4	0.2	0.1	0.7	1.4
Indirect taxes	-0.3	-0.3	1.3	0.2	0.0	1.2	0.8
Other revenue, including mineral royalties and external grants	1.7	-2.1	-0.5	0.4	0.0	-2.1	-0.4
Of which: Mineral royalties	1.2	-0.7	-0.5	0.1	0.0	-1.0	0.2
Revenue increases (commitment basis)[1]	2.1	-2.3	2.0	0.7	0.1	0.6	2.6
Revenue increases excluding large one-offs (commitment basis)	1.4	-1.1	2.3	0.7	0.1	2.0	3.4
Of which: Mining revenues	2.5	-1.2	-0.3	0.3	0.1	-1.1	1.3
Revenue increases excluding mining revenues and large one-offs (commitment basis)	-1.0	0.1	2.5	0.5	0.0	3.1	2.1
Reduction in primary spending (cash basis)	3.8	2.9	0.5	0.4	0.4	4.1	7.9
Current primary spending	0.0	2.3	0.3	0.5	0.4	3.4	3.4
Compensation of employees	0.9	-0.3	-0.5	0.1	0.1	-0.6	0.3
Goods and services	-0.3	0.8	-0.6	0.0	0.1	0.3	0.0
Subsidies	0.0	3.4	0.1	0.3	0.3	4.1	4.1
Of which: Agricultural (FISP and FRA)	0.9	1.0	-0.1	0.3	0.3	1.5	2.4
Of which: Energy (fuel and electricity)	-0.9	2.0	0.1	0.0	0.0	2.2	1.3
Social protection	-0.5	-0.2	0.1	0.1	-0.1	-0.2	-0.7
Other	-0.2	-1.4	1.2	0.1	0.1	-0.1	-0.3
Capital spending	3.8	0.6	0.2	-0.1	0.0	0.7	4.6
Domestic	-0.6	0.0	0.8	-0.4	-0.4	-0.1	-0.7
Foreign	4.4	0.6	-0.5	0.3	0.4	0.9	5.3
Increase in net clearance of expenditure arrears	-1.5	6.0	-1.3	-0.1	-0.1	4.4	2.9

[1] This line adjusts for accumulation/clearance of arrears on VAT refund claims.

Sources: Zambian authorities; and IMF staff estimates and projections.

27. Health and education spending is expected to increase further and is essential to reduce poverty. Reversing the chronically low budget execution rates observed prior to 2022, the budget execution of social spending[6] was 110 percent in 2022. This increase has underpinned the introduction of free education for all, complementing the government's programs to support girls' continuing education; the hiring of 41,000 additional health and education workers; and an expansion of social protection programs. The government is prioritizing the allocation of newly hired teachers and health professionals to poorly serviced rural areas. Despite the undeniable benefits, the free education policy has led to an influx of learners where infrastructure, availability of teachers, and learning outcomes were already under pressure.

28. Social protection spending has doubled in the past two years to 1.4 percent of GDP in 2023, but demand remains strong. The flagship social cash transfer program's number of recipients more than doubled over the past two years, to around 1 million households and benefits were increased to partially compensate the impact of inflation given past years´ nominally fixed levels. The authorities intend to expand the program´s coverage further and double benefits in 2023, and, with assistance from the World Bank (WB), improve the program´s targeting mechanisms.

29. The two public sector occupational pension schemes have agreed a plan to eliminate benefit arrears, underpinned by the government's clearance of its contribution arrears. The Public Sector Pension Fund received a transfer of 2 billion kwacha, ensuring it is now current on its obligations, while an annual transfer of 300 million kwacha for the next three years has been agreed to resolve the arrears of the Local Authorities Pension Fund. The government has also cleared its contribution arrears to the National Pension Scheme (NPS) and, in an effort to reduce the scheme's net liabilities, decided to liquidate the NPS' predecessor scheme, cashing out its remaining members. The legal amendment permitting early withdrawal of 20 percent of past contributions, while undesirable from a pension policy perspective, is being introduced in a manner that ensures that NPS' net liabilities don't increase.

30. The implementation of new electricity tariffs in line with the recently adopted multi-year framework (SB) will strengthen ZESCO's operating position, minimizing the need for future fiscal transfers. The Energy Regulation Board (ERB) approved on April 21, 2023 a phased increase in tariffs (for customers not under a negotiated Power Purchasing Agreement (PPA)) that will deliver cost-reflective tariffs over the medium term, and broadly consistent with ZESCO's application.[7] In addition, clear triggers have been defined to guide future automatic changes to ensure ZESCO's viability is protected from changes in exogenous factors, such as international oil prices or exchange rate movements.

[6] As defined in the TMU.

[7] ZESCO's application proposed an increase in average electricity tariffs of 37 percent in nominal kwacha terms in 2023, with average annual increases of 12 percent for 2024-27. The proposal targeted most of the adjustment on large power users, a more targeted lifeline tariff and the introduction of a social tariff (e.g., for public hospitals and schools).

31. Structural fiscal reforms and institutional strengthening are central to underpin the fiscal strategy. Key reforms are:

- **Enhancing budget credibility by further improving spending controls.** Building on progress made on rolling out IFMIS (SB) the government intends to introduce IFMIS at all branch offices of four ministries, including health and education operating large institutional networks, by the end of 2023. Further expansion is only expected from 2025 onwards, with activities for 2024 focused on consolidating gains and addressing any emerging technical issues.

- **Enhancing PFM capacities at the local authority level to prepare them for devolution.** Provinces, districts, and municipalities struggle with technological and human capacity issues. As the government increases funding for the Constituency Development Fund (which is managed by local authorities) it needs to improve PFM system and capacities at the local level in parallel.

- **Improving the efficiency of cash management and expanding the use of the treasury single account (TSA).** The current lack of claw-back mechanisms, paper-based reporting, and manual consolidation of account balances prior to reporting to line ministries compromises the efficiency of cash management. The authorities intend to rationalize the number of bank accounts (new SB) to reduce the costs, risks and improve transparency around accounts held by the local authorities and lower-level spending units in commercial banks (SB).

- **Improving public investment management (PIM) and the framework for public-private partnerships (PPPs) to ensure transparency, efficiency, and value-for-money.** The authorities adopted in early 2023 a new set of PIM guidelines which constitute important building blocks towards improved processes. To ensure their effectiveness and implementation, these should be complemented with more specific methodological guidance for project appraisal and cost-benefit analyses, including sector-specific examples and guidance on climate-aware investment planning. The government intends to continue using PPPs for infrastructure development. FAD provided advice on the draft PPP Bill so that it reflects best practice and ensures transparent project selection through the PIM process; enforces public procurement standards; enables the transparent assessment of unsolicited proposals; and requires future costs and fiscal risks to be properly accounted and reported (SB).

- **Embedding fiscal risk monitoring in the budget process.** To address the non-standardized assessment and fragmented reporting of fiscal risks, the government—aided by FAD TA—completed its first Fiscal Risk Statement (FRS) in February 2023. The report will be published, and the government is discussing with stakeholders how best to incorporate it into the standard budget cycle and documents. The government also intends to gradually expand the scope of the FRS to include SOEs, public financial corporations, PPPs, and other such arrangements and entities outside central government – for instance, public pension schemes - that generate fiscal risks (SB).

- **Improving debt management and transparency.** The new Public Debt Management Act was enacted in September 2022 and the quarterly public debt bulletin, providing granular debt information, is being published in a timely manner (SBs), with the latest end-2022 edition published in March 2023. Extensive TA from the Fund and others is supporting the implementation of the new law, including training on the DSA; the formulation and implementation of a debt management strategy; and the reform of the organizational set-up in line with best practices (i.e., to transition to a front-middle-back-office setup).

Authorities' Views

32. The authorities have confirmed their commitment to restoring fiscal sustainability and budget credibility. They agree that this commitment has been clearly demonstrated by the substantial fiscal consolidation in 2022. They confirmed their commitment to staying within the budget envelope in 2023, while prioritizing social spending, education, and health sectors, as well as investment in communities through the Constituency Development Fund. They are confident that their planned revenue mobilization efforts, combined with TA to enhance capacities in the areas of VAT, risk-based tax audits, and data analytics, will reduce leakages and provide the needed fiscal space to support policy priorities.

B. Fostering Private Sector Led Growth

33. Zambia has significant potential for climate-smart and inclusive growth. To underpin this vision, the authorities are developing a Green Growth Strategy, that will capture key commitments under COP[8] and be aligned with the 8th National Development Plan. They are also preparing a Climate Bill to provide the supporting legal framework.

- The newly established Comprehensive Agricultural Support Program (CASP) and National Adaptation Plan will provide the foundation for developing climate-smart agriculture, with a focus on (1) carbon reduction, e.g. through agro-forestry farming incentivized by carbon credits, and productivity enhancement supports to curb net carbon-inducing farm land uses, and (2) climate resilience—e.g. biodiversification, moisture retention, and irrigation (SIP).

- The Green Growth Strategy will be premised on greater private sector participation in the renewable sector, which is currently impeded by ZESCO's financial weaknesses.[9] Consistent implementation of the ongoing tariff reform and unlocking alternative modalities of IPP financing (e.g., based on direct power purchase agreements) are key to resolving the deadlock.

- The upcoming Climate Bill will provide, among others, for a climate change fund that will serve as the central conduit for national climate financing, including from cross-border carbon credit

[8] The Conference of the Parties to the UN Framework Convention on Climate Change.

[9] Currently ZESCO is the sole off-taker of energy produced but has accumulated large arrears to these IPPs. This increases the credit risks associated with new IPP investment.

flows, and funding from cooperating partners. A framework for domestic carbon-trading is also being developed and will complement the newly issued regulations for "green" bonds.

34. Enhanced dialogue with the private sector, including through the newly established Public-Private Dialogue Forum, is helping identify key obstacles to private sector development. Along with challenges in the VAT-refund process and tax compliance, key challenges include concerns about key infrastructure (roads) and energy (Box 1), excessive bureaucracy (licensing, mandatory memberships), and education and skills (SIP). Business enabling reforms are being pushed forward through the passage of the Investment Act of 2022, ongoing efforts to simplify licensing and registration (MEFP ¶92), consolidation of regulations and levies across the government, and moving licensing procedures online.

Box 1. Developing Zambia's Energy Sector

Zambia's reliance on hydro power makes it vulnerable to weather shocks and climate-change induced volatility in rainfall. Hydropower accounts for over 80 percent of the 3,318 MW of installed electricity generation capacity in Zambia. Generation from hydropower is currently about 40 percent of the estimated hydro potential of 6,000 MW. This overreliance has subjected the country to the risk that insufficient rains in southern regions constrain power generation.

Over the last decade, constrained supply has led to many episodes of acute electricity shortages. Significant loadshedding of between eight-twelve hours a day was experienced by all sectors in the first 6 weeks of 2023, increasing costs for business due to reliance on expensive and polluting fossil fuel back-up generators and constraining growth in the mining and manufacturing sectors. Most consumers resort to biomass for their energy needs (accounting for over 70 percent of all energy consumed and one of the highest globally), negatively affecting the environment (accounting for the clearing of 300,000 hectares of trees per year).

Within the electricity subsector, ZESCO is the dominant player. About 78 percent of the installed generation capacity is under the control of ZESCO, which is also responsible for transmission and distribution of electricity. Private sector Independent Power Producers (IPPs) and mini-grid operators are also important. ZESCO's financial troubles, which have led to arrears to IPPs, limiting its ability to purchase power from them, and constraining its investment capacity, have compounded electricity shortages in the country.

An Integrated Resource Plan (IRP) has been developed to provide a comprehensive demand assessment and optimal supply response over a 30-year planning horizon. It mainstreams climate and environmental impact assessments, gender and social inclusion through enhanced electricity access, and incorporates implications of major technological developments and policy initiatives (e.g., smart grids, distributed generation, clean cooking, electric vehicles, energy storage).

Total electricity demand is expected to increase by 130 percent (+ 6,800MW/48,000 GWh per annum) by 2050. This projection incorporates government policy to attain full electrification, raise agricultural and industrial growth, and achieve mining production of 3 million tonnes of copper per annum. Power exports are also assumed to gradually increase in line with regional goals. To mitigate climate change risks, 50 percent of additional generation capacity will be from solar and wind and 35 percent from run-of-river hydro, mostly in the northern region.

Box 1. Developing Zambia's Energy Sector (concluded)

The diversification drive of the generated energy supply mix is costed at about US$7 billion. Further investments are needed in transmission (US$2.3 billion) and distribution ($1.4 billion), most of which is required upfront. Participation of the private sector is expected to improve due to the 2019 Electricity Act which facilitates open access to the power network, the recently approved multi-year cost-reflective tariff framework, and other steps to repair ZESCO's financial viability. Nevertheless, significant concessional support will continue to be needed to meet financing needs.

35. Achieving the vision of more inclusive and resilient growth will require significant investment and financing. Rising business confidence is yielding significant interest from investors, including in the mining sector, which is further bolstered by the reform to the mineral royalty regime.[10] Addressing key governance weaknesses and corruption vulnerabilities will support this trend. The government is committed to implementing the recommendations of the Governance Diagnostic (Box 2). The Cabinet Office will oversee the implementation process, producing bi-annual monitoring reports (MEFP Section B), capacity development support has been requested from the Fund and cooperating partners, and work is already underway. SMEs will benefit from new initiatives such as the $26.5 million WB-supported Off-Grid Loan Facility to support private sector renewable energy projects, especially to help electrify rural villages. Access to bank credit should improve as the government's demand for domestic financing eases, while other initiatives, including the new regulations for "green" bonds, could facilitate capital market financing. It will be critical that the authorities secure grant or concessional financing for critical infrastructure investment to preserve debt sustainability.

Authorities' Views

36. The authorities highlighted Zambia's large potential for private sector-led growth once the debt restructuring is resolved. Growth is expected, among others, to be driven by private investment in mining, manufacturing, agricultural, and green sectors given the reform agenda of the government to create a conducive business environment. Fundamental shifts in government policy, including on private investment, and the commitment to tackle governance weaknesses is energizing both traditional and new investors.

C. Securing Monetary and External Stability

37. The BoZ has appropriately tightened the monetary policy stance. To ensure inflation reaches the monetary policy band, it will need to remain vigilant to emerging pressures, including continued or new external pressures where exchange rate flexibility should remain the first response. While continued fiscal consolidation will help reduce inflationary pressures, additional monetary tightening would be warranted if external pressures continue (¶8). The authorities are also working

[10] The changes eliminate the "cliff effects" of the previous regime and provide for a smoother increase in the effective tax rate as prices increase. It also implies a reduction in the average royalty rate, bringing Zambia's tax regime more into line with other countries.

to enhance their monetary policy framework with the support of Fund TA, including their forecasting and analysis system.

Box 2. Summary of Governance Diagnostic and Recommendations

President Hichilema requested the IMF's collaboration in preparing a governance diagnostic (GD) in November 2021 and the report was published on December 30, 2022. To support the government's own anti-corruption reform agenda, and guided by the 2018 Framework on Enhanced Fund Engagement on Governance, the GD assesses the severity of corruption, and identifies governance weakness and corruption vulnerability in the areas of specific state functions of (i) fiscal governance; (ii) rule of law (contract enforcement and protection of property rights); (iii) market regulations; (iv) central bank governance and operation; (v) financial sector oversight; (vi) AML/CFT; and (vii) anti-corruption frameworks. The report also identifies near-term reform steps and structural policy measures necessary for sustainable governance and anti-corruption reforms.

The GD revealed a range of weaknesses and vulnerabilities across state functions. These weaknesses and vulnerabilities highlight several themes, including weak transparency and accountability mechanisms in public service, weak legal frameworks for key institutions, and lack of coordination and clarity in the roles and responsibilities in key governance and anti-corruption functions. Those with particular macroeconomic impact are present in:

public financial management, especially in relation to planning and monitoring of large investment projects,

- transparency in public procurement, including adequate monitoring of Politically Exposed Persons (PEPs),
- granting and managing contracts in the mining sector,
- autonomy of the central bank[1]
- effective financial sector oversight, especially in relation to banks with government ownership,
- beneficial ownership transparency, and
- land management.

The GD provided a comprehensive set of time-bound, sequenced reform recommendations that require continued strong political will. To facilitate the reform planning process, the GD identified priority recommendations that focus on the first round of reforms in the key state functions.

Priority recommendations (listed below) are expected to serve as the catalyst for a transition to stronger governance and more effective, sustainable anti-corruption reforms.

Priority recommendations

- Adopt a legal framework that guarantees public access to information.
- Introduce necessary measures to ensure that top anti-corruption and AML officials such as Director General of the Anti-Corruption Commission, Director General of Drug Enforcement. Commission, Director General of Financial Intelligence Center, Director of Public Prosecution are selected and appointed through transparent, merit-based and participatory processes.[2]

[1] The new Bank of Zambia Act addresses the principal concerns identified in the GD related to the autonomy of the BoZ.
[2] Although potential candidates have been identified, the appointment of the Board of the FIC remains outstanding; this is holding up the appointment of the Director is also outstanding.

Box 2. Summary of Governance Diagnostic and Recommendations (concluded)

Priority recommendations

- Prepare, with participation of civil society, academia and legal profession, a comprehensive reform strategy to strengthen the independence, professionalism and efficiency of the judiciary and prosecution authorities.
- Operationalize beneficial ownership register of the Patent and Copyright Registration Agency, including ensuring the availability of accurate, complete and up-to-date beneficial ownership information and imposing effective sanctions on entities for non-compliance.
- Prepare a time-bound action plan and roll-out of E-Government Procurement.
- Mandate regular preparation and external publication of tax expenditure reports on measures expected to result in significant foregone revenue.
- Increase internal audits in VAT refund process and customs warehouse management, as well as in other processes where IT systems are not fully integrated or are unstable
- Strengthen the Ministry of Mines and Minerals Development's capacity to properly scrutinize license and transfer applications, and monitor the associated commitments on safety and environment, work programs, and production
- Bring the Public Audit Act of 2016 and the State Audit Commission Act of 2016 into force by issuing the statutory instrument by Ministry of Finance and National Planning
- Develop and reinforce supervisory processes for banks and other financial institutions with Government ownership to address specific risks and challenges associated with these special entities.

38. **Zambia's external position is broadly in line with the level implied by fundamentals and desirable policies** (Annex ESA). This position will be further supported by the reforms and policy adjustment envisaged in the program and which should ensure the level of gross FX reserves reach their target of five months of prospective imports (in line with the assessment of reserves adequacy).[11]

Authorities' Views

39. **The Bank of Zambia reiterated its commitment to price stability.** Monetary policy decisions will continue to be guided by the inflation forecast, outcomes, and identified risks to financial stability and the growth outlook. The BoZ's response to exchange rate pressures will be primarily guided by the impact on inflation, with due consideration given to financial stability, while

[11] For a general description of the IMF reserve adequacy assessment methodology, see Assessing Reserve Adequacy, IMF Policy Paper, February 2011, and Guidance Note on the Assessment of Reserve Adequacy and Related Considerations, June 2016.

remaining consistent with its exchange rate policy.[12] The authorities broadly agreed with staff assessment of Zambia's external position.

D. Financial Stability for Growth

40. Maintaining a sound and adequately capitalized banking system, while monitoring and addressing banking sector vulnerabilities, are crucial elements to safeguard financial stability. The banking sector review conducted by the BoZ in 2022 (SB) did not reveal any major asset quality concerns, but pockets of credit concentration risk have amplified over time. With the government's access to external financing severely constrained, the domestic sovereign-bank nexus has strengthened, with public sector exposure accounting for more than 32 percent of bank assets on average, and almost 50 percent in some systemic institutions.

41. The authorities should continue implementing their reform strategy aimed at strengthening the banking sector to help support the economic recovery. A micro-prudential stress-testing framework for assessing the resilience of financial institutions has been developed, and the BoZ has initiated a supervisory technology project to improve the analytical capabilities of its staff, timeliness of analysis, and data integrity by December 2023. As part of efforts to strengthen safety nets, the BoZ is implementing a Deposit Protection Scheme, supported by a dedicated unit established in June 2022, to complement the already-established crisis management and resolution framework, and as provided for in the new BoZ Act. The BoZ has applied a risk-based approach in unwinding most temporary COVID-19 prudential measures. However, a few forbearance measures, like the collateral transition arrangements, were extended to end-2023 to avoid adverse cliff-effects on the banking sector. Other recent reforms include the creation of an inter-agency Financial Stability Committee (FSC) to monitor and manage systemic risk from a broader macro-prudential perspective while focusing on the inter-linkages with the broader economy.

42. Credit and access policies should be geared towards shoring-up the banking sector's role as a key driver for more-inclusive private sector growth. The ongoing fiscal consolidation will help reduce crowding-out and create more space to increase credit to the private sector (SIP). Financial inclusion policies and reforms should focus on bringing capital from the informal sector into the formal sector, where the multiplier effect can enhance its use. To that effect, the authorities will introduce an SME Credit Guarantee Scheme, and are harnessing the latest fintech and mobile money technology as part of its ongoing "Go Cashless" campaign. More fundamentally, the newly released 2022 Capital Markets Master Plan proposes a medium-term sequenced reform plan on the regulatory environment, bond and equities markets, and financial literacy, with the aim of exploring space for new forms of private financing, like equity, venture capital, and bond financing.

[12] The primary objective of exchange rate policy remains maintaining a flexible system while mitigating excessive volatility.

Authorities' Views

43. The authorities assign a high priority to financial sector stability and inclusion policies. They are committed to continue monitoring pockets of existing and intensifying systemic vulnerabilities, and acknowledge vulnerabilities around credit concentration and, more fundamentally, the current limitations around the role of the banking sector in driving private sector-led growth. They also anticipate that, with the resolution of the debt restructuring, yields on government securities should adjust downwards, which would spur further credit to the private sector. Meanwhile, they plan to continue boosting their supervisory capacity as further policies and initiatives to improve access to the financial sector are implemented.

E. Capacity Building and Statistics

44. The Fund's capacity development (CD) strategy for Zambia is anchored on the key objectives of the ECF (Annex VI), focusing on revenue mobilization and structural fiscal reforms, governance, and economic statistics. The delivery of CD is strongly supported by experts based at AFRITAC South, and closely coordinated with key partners.

45. The IMF's Statistics Department has worked closely with the BoZ to address existing data gaps in the BoP statistics, particularly those related to the mining sector (Box A4.1.). The engagement, that started in February 2022, included site visits to the largest mining companies and the analysis encompassed multiple data sources, including the e-BOP system, the Private Capital Flows survey, financial statements, and customs data. In additional, new flow-of-funds questionnaires were used to gather data from selected mining companies. This TA engagement has identified a range of recommended adjustments to current and financial accounts that would more accurately reflect the mining sector's cross-border transactions; implementation of these recommendations is being considered by the authorities.

46. Data provision is broadly adequate for surveillance, despite some shortcomings. Despite COVID-19 and other disruptions, work has progressed on rebasing GDP, which is now expected to be completed in 2025, and data gaps in balance of payment statistics are being closed both supported by active CD programs.

PROGRAM FINANCING AND MODALITIES

47. Adequate financing assurances are in place. The program is fully financed, with firm commitments of financing in place for the next 12 months and good prospects of adequate financing for the remainder of the program. IDA disbursements of new financing in 2023 are expected at $389 million, with about $75 million in the form of grants, with a further $257 million in 2024, of which about $100 million would be in the form of grants.[13] Disbursements from the African Development Bank for 2024-25 are expected to be at about $300 million. SDR 70 million out of the

[13] Zambia is expected to become eligible for grants from July 1, 2023

SDR 139.88 million to be disbursed under the First Review will be on-lent to the budget. Over the program period, about 72 percent (or $7.65 billion) of the residual BOP financing gap is expected to be covered by the debt restructuring (see text Table 2). This is consistent with the objective of bringing gross international reserves to a level of five months of prospective imports.

Text Table 2. Zambia: Proposed Program Financing
($ Million)

	2022	2023	2024	2025	**Total**
Financing Gap	**3,063**	**2,282**	**3,054**	**2,282**	**10,680**
Official financing	**737**	**765**	**783**	**744**	**3,029**
IMF ECF	187	376	376	376	1,315
World Bank [1/]	550	389	257	218	1,414
AfDB	-	-	150	150	300
Financing from external debt restructuring [2/]	**2,326**	**1,517**	**2,271**	**1,072**	**7,651**

Source: IMF staff estimates and projections.

1/ Includes new financing from the World Bank that will support budget implementation, including grants.

2/ In 2022, the arrears accummulated on restructurable debt covered the financing gap. The pre-restructuring baseline includes a working assumption that the debt arrears would be cleared over 5 years. This was not applied here to the arrears accumulated in 2022 on restructurable debt to avoid double counting.

48. **The authorities' agreement with official creditors represented by the OCC is in line with the financing assurances provided in June 2022.** The agreement entails a fully quantified two-stage approach that includes a state contingent treatment with a trigger linked to Zambia's debt carrying capacity (DCC). The agreed debt treatment is consistent with program parameters and the objective of restoring Zambia's debt sustainability over the medium term (see DSA). As the OCC has provided financing assurances that are adequately representative and includes representatives of Paris Club creditors, arrears to other official bilateral creditors can be deemed away under the Lending into Official Arrears (LIOA) Policy.

49. **Prompt Fund support is considered essential for the successful implementation of Zambia's adjustment program**. In line with the Fund's Lending into Arrears (LIA) policy, the authorities are making a good faith effort to reach a restructuring agreement with external private creditors on comparable terms and consistent with program parameters. There have been several rounds of discussions with Eurobond holders, and relevant non-confidential information has been shared with other private creditors through presentations, webinars, and the regular publication of the debt statistics bulletin.

50. **There are sufficient assurances regarding the debt restructuring to restore debt sustainability, over the medium term.** Work on codifying the agreement with the OCC in an MOU is advancing and there are good prospects it will be finalized in the coming weeks. The authorities

are also likely to reach agreements on comparable terms with other external creditors by the time of the second review. Once the MOU is implemented and comparable restructuring agreements reached with other creditors, Zambia's debt would be sustainable on a forward-looking basis, with a moderate risk of debt distress (DSA, Text Figure 3). Nevertheless, in the absence of those elements and as Zambia is in arrears to creditors, Zambia formally remains in debt distress (see DSA, Text Figure 1). Staff judges financing assurances are in place for the unresolved arrears to both official and private creditors, given the agreed OCC treatment and the good faith efforts to reach agreements with all creditors on comparable terms.

51. Zambia reported $2.3 million of interest and principal arrears to IFIs as at end-2022, of which $0.25 million were technical arrears that were cleared by end-March 2023. Arrears of $2.1 million due to the Nordic Development Fund (NDF) remain outstanding. The NDF is not a global IFI, nor is it part of the global financial safety net; however, it did participate in the Heavily Indebted Poor Countries Initiative and has previously been excluded from the scope of previous restructurings by the Paris Club. The OCC's decision on whether these claims will be within the scope of the restructuring perimeter will be finalized in the MOU. Based on available information, staff assess that there is a credible plan in place to clear these arrears.

52. Capacity to repay the Fund remains adequate but subject to risks (Table 8). The stock of debt to the Fund as a share of GDP (based on existing and prospective drawings) remains at elevated levels, peaking in 2025 at 4 percent of GDP. Debt service obligations to the Fund reaches a peak of 1.2 percent of exports and 2.8 percent of reserves in 2031. This assessment is subject to risks, most significantly from delays in the residual debt restructuring process, which are mitigated by the program design.

53. The authorities have requested changes to the definitions of two ITs:

- **Arrears clearance.** Splitting into two the IT on the net clearance of arrears between expenditure and tax (VAT-refund) arrears to better capture the different dynamics in each category. The IT on net clearance of expenditure arrears will be assessed by calculating the net flow as the difference between the arrears clearance minus any new accumulation of arrears in the current fiscal year. Any changes in the valuation of the pre-existing stock due to ongoing audits, interest or penalties accrued, or exchange rate valuation will not affect the target. The separate IT on the clearance of VAT-refund arrears will target a level of VAT refunds consistent with clearing the legacy stock (as measured at the end of the previous year) by end-2027, and will incentivize the authorities to aim to remain current on the flow of new refund claims. Similarly, the new IT on the clearance of VAT refunds will be adjusted for any newly-validated claims for the previous year resulting from ongoing audits.

- **Floor on revenues.** Dropping the adjustment for the VAT backlog to the IT on the floor on revenues as progress on the clearance of VAT refunds will be captured separately.

54. New structural and quantitative conditionality, and ITs, for September 2023-June 2024 have been agreed with staff (MEFP Table 1, 3). In addition to the continuous SB and the carry-forward of the SB on implementation of commitment controls through the IFMIS, eight new SBs are proposed on establishing a unified LTO, strengthening fiscal risk monitoring and reporting, improving cash management, reforming the debt management office, submitting the Access to Information Bill to Parliament, publishing procurement contracts for FISP, implementing the planned migration of FISP to the e-voucher, and publishing the inaugural financial stability report.

55. The BoZ is progressing with implementation of the recommendations of the 2022 safeguards assessment. Legislative reforms to strengthen the central bank's mandate, autonomy, and governance arrangements have been enacted in line with staff's advice, and the BoZ signed a MoU with the Government clarifying their respective roles and responsibilities for servicing the associated financial obligations to the Fund). Continued efforts are required to ensure further progress, including on the interpretation of the statutory limit on credit to government to ascertain its legal compliance; strengthening oversight bodies; and reinforcing controls over the reporting process for program monetary data.

STAFF APPRAISAL

56. Zambia has begun the difficult process of correcting deep macro-economic imbalances to ultimately raise inclusive growth, create jobs, and reduce poverty. The authorities have taken bold steps to restore fiscal sustainability, raise social spending, and strengthen economic governance. This ambitious reform agenda aims to reverse the impact of past economic mismanagement and shocks, such as COVID-19, that exacerbated socio-economic challenges and resulted in a public debt crisis.

57. Program performance has been strong against a challenging global environment. All quantitative performance criteria for end-September and end-December 2022 were met and nine out of eleven structural benchmarks were met on time. All but one of the indicative targets for the test dates were also met.

58. Fiscal performance was in line with the budget in 2022, a marked turnaround from past years, thus helping rebuild budget credibility. Public expenditure was kept within budget limits. Importantly, social spending was increased as set out in the budget, reversing past trends of chronically low budget execution. Overall, revenue growth has been in line with the program despite an underperformance from the mining sector due to production challenges and lower copper prices. Overperformance in non-mining revenues, personal income tax and VAT should prove durable given underlying revenue-reform efforts. Going forward, most of the fiscal adjustment should be driven by the authorities' revenue mobilization efforts. Substantive reforms are underway, with support from Fund capacity development, to modernize the ZRA, reduce the tax compliance gap, and improve the service delivery for taxpayers, also contributing to an improved business environment.

59. Strengthening economic governance and addressing corruption vulnerabilities should remain a central aspect of the government's reforms. Policies are being implemented to ensure value-for-money by following public procurement regulations, increasing transparency, and strengthening the fight against corruption in line with the recommendations of the IMF's Diagnostic Report on Governance and Corruption, published in December 2022. These reforms will also contribute towards a more conducive environment for private sector development and attract much needed private investment.

60. Zambia's external position is in line with the level implied by fundamentals and desirable policies. Planned reforms to restore fiscal and debt sustainability, together with the debt restructuring will sustain the external position and help reserves reach their target level of five months of prospective imports.

61. The Bank of Zambia should remain alert to inflationary pressures and continue reforms to preserve financial stability. Monetary policy has appropriately moved to a tightening bias given rising inflationary pressures, primarily driven by exchange rate movements. Looking ahead, in the event of heightened exchange market pressures, for example, through the further exit of non-resident holders of domestic debt, exchange rate flexibility should remain the first response, though taking account of the pass-through to inflation and financial stability. While the banking sector has remained resilient, continued vigilance is warranted. Credit and financial inclusion policies will be key to strengthening the financial sector's role in supporting private sector growth.

62. Reforms to raise private sector growth and create jobs are key to sustaining the economic recovery, particularly as significant downside risks remain. Weather-related shocks, shortfalls in copper production, and copper prices remain the dominant source of risk. The government is strongly committed to boosting private sector growth and attracting investment into Zambia, particularly to promote a green recovery. Proactive steps are being taken to identify specific policy reforms to strengthen the business environment and implement changes through a collaborative and transparent process with relevant stakeholders. Given the tight fiscal position, private sector investment will be key for Zambia.

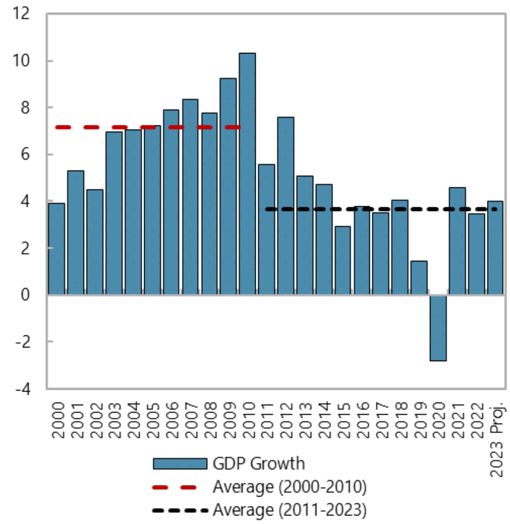
63. Further bolstering statistical capacity would help enhance policy design, as well as the accuracy and timeliness of data provision. TA recommendations should be followed-up consistently and supported by the appropriate prioritization in resource allocation.

64. Staff supports the completion of the first review under the ECF arrangement based on Zambia's overall strong performance and commitments under the program. Staff also supports the completion of the financing assurances review. The next Article IV consultation will be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangement.

Figure 1. Zambia: Recent Development

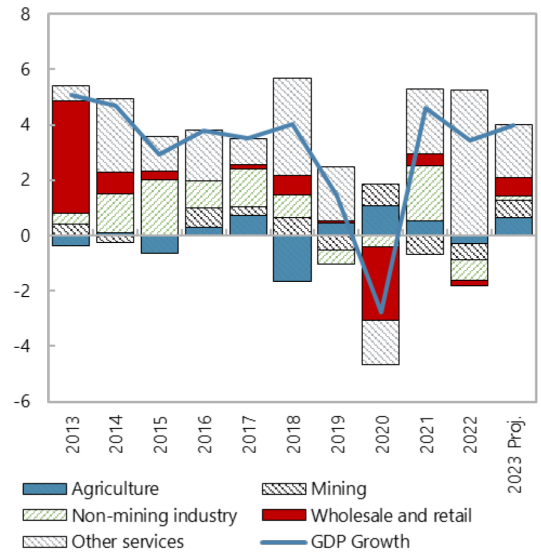
Growth is expected to accelerate in 2023

Real GDP Growth, 2000-23
(Percent)



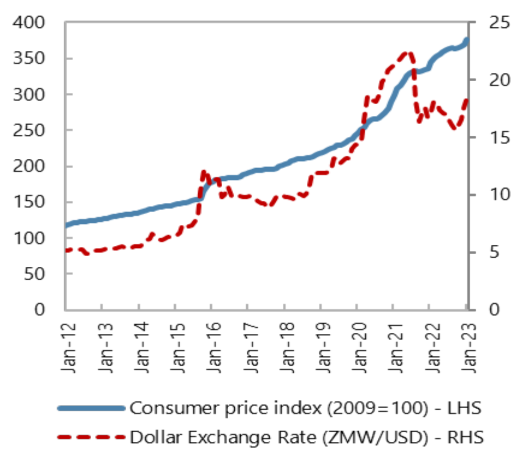
...drive by a recovery in mining and agriculture, and continued expansion of the services sectors

Sectoral contributions to GDP growth, 2013-23
(Percent)



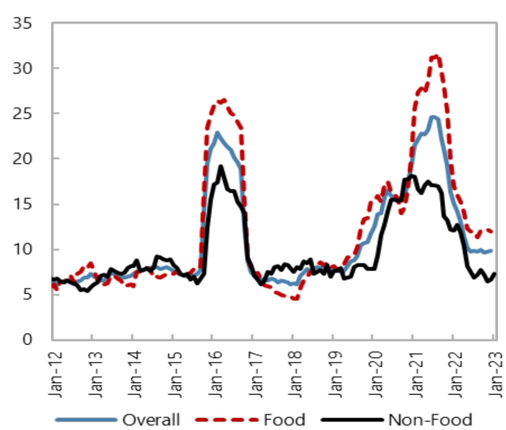
Kwacha depreciated at the end of 2022, reversing a year-long appreciation trend.

Consumer Price Index and Exchange Rate



Inflation declined rapidly from the 25 percent peak in to single digits at the end of 2022

Inflation

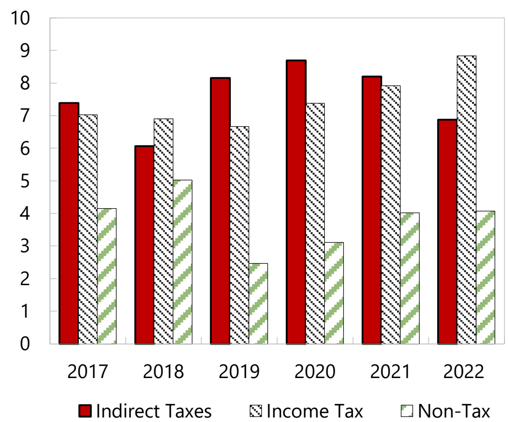


Sources: Zamstats, Ministry of Finance, Bank of Zambia and IMF staff forecasts.

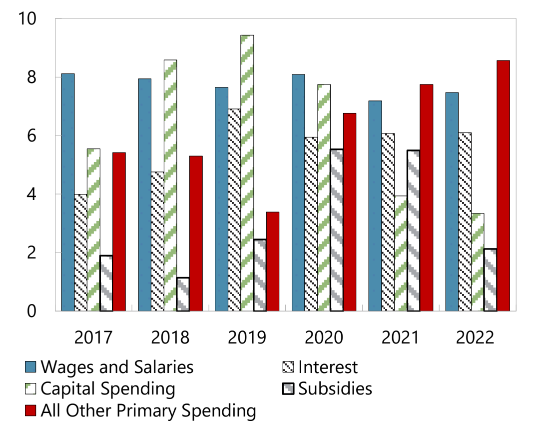
Figure 2. Zambia: Fiscal Developments, 2016–22

(Percent of GDP, unless otherwise specified)

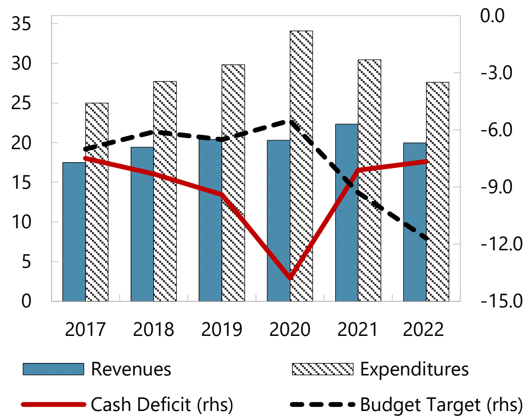
A decline in indirect taxes (due to lower mining revenue) was partly compensated by a recovery in income taxes…



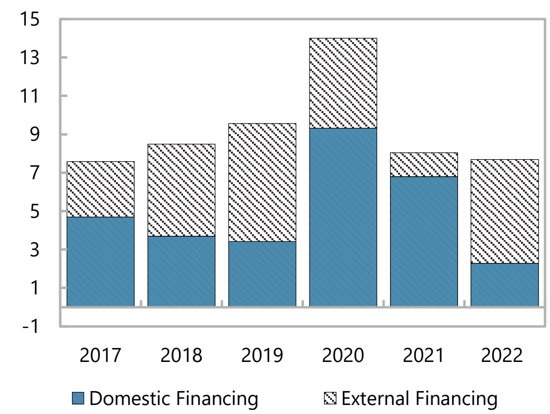
…Expenditure declined as wasteful fuel subsidies were eliminated and inefficient investment was pared back



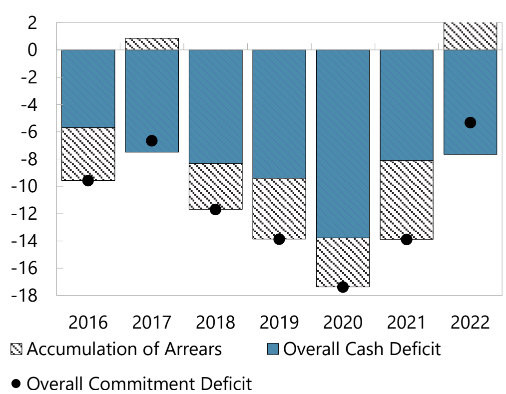
The overall cash balance improved compared to revised budget targets



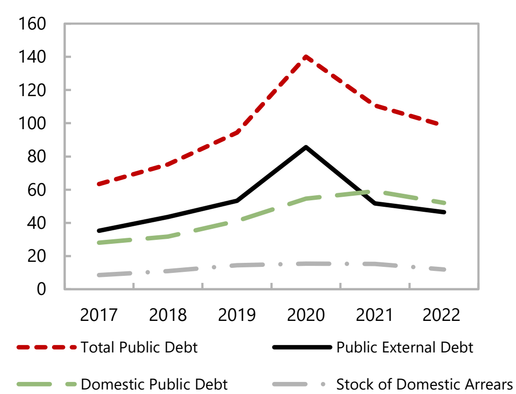
…the deficit was financed mostly by external sources, with the SDR allocation accounting for 1/3 of those



The authorities started clearing arrears, with the overall commitment balance improving markedly



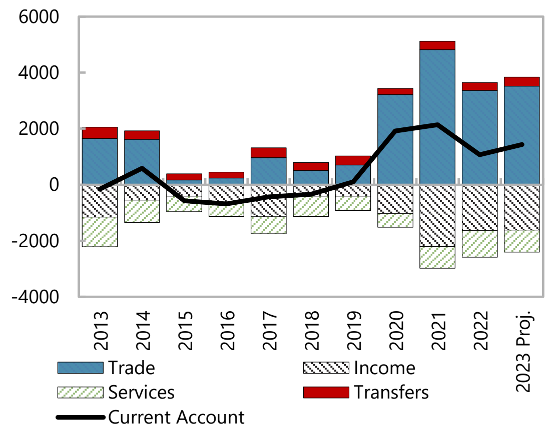
…with public debt starting to come down



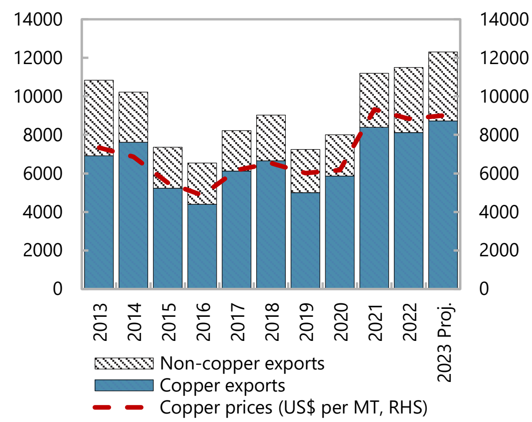
Note: Public debt covers central government and is divided into domestic and external on a currency basis.
Source: Zambia Ministry of Finance and National Planning, IMF Staff projections.

Figure 3. Zambia: External Sector
(Millions of USD, unless otherwise specified)

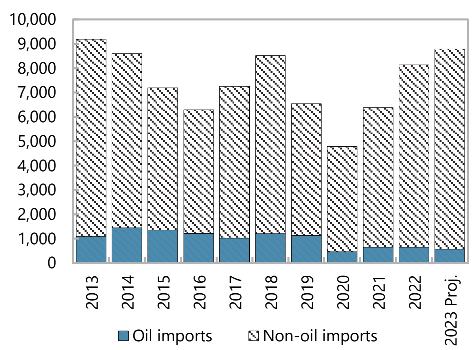
Current account surplus narrowed in 2022…



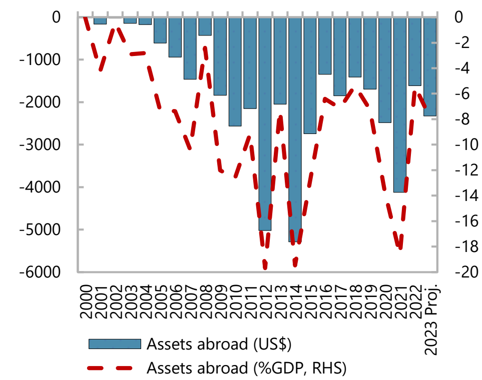
…reflecting a drop in copper prices and lower copper production



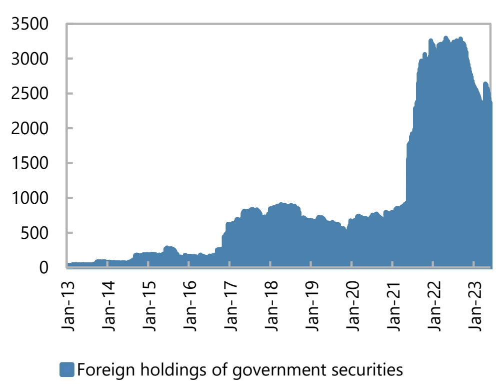
…as well as import recovery



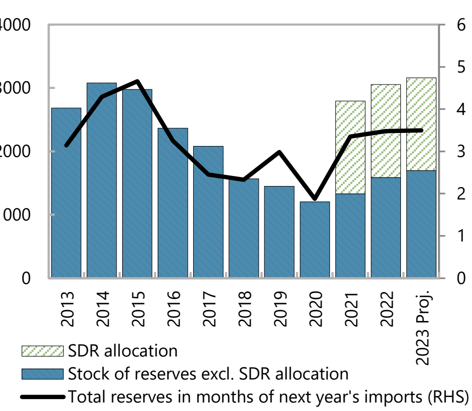
Despite sizeable outflows that proxy for copper receipts held abroad



…and the reversal of portfolio flows…

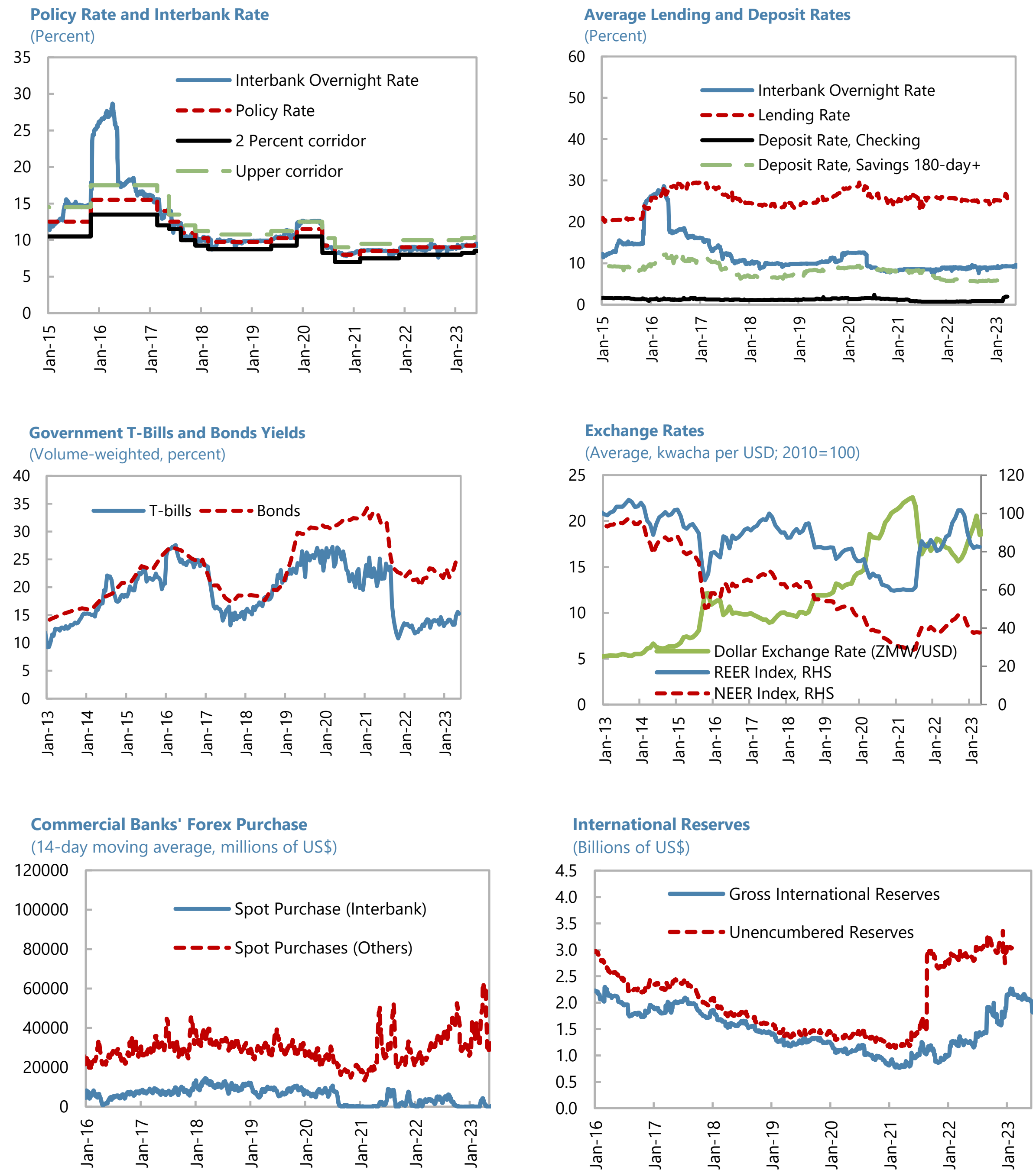


….the level of reserves increased in 2022



Sources: Bank of Zambia and IMF staff projections.

Figure 4. Zambia: Monetary and Financial Developments



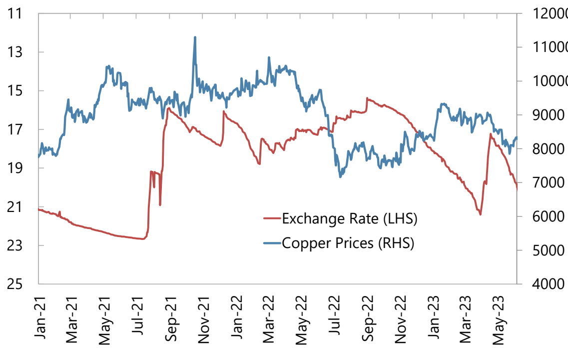
Sources: Bank of Zambia and IMF staff projections.

Figure 4. Zambia: Monetary and Financial Developments (continued)

The exchange rate has depreciated since September 2022 despite the rebound in copper prices

Exchange Rate and Copper Prices

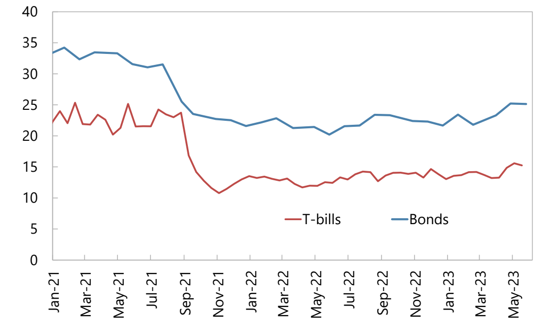
(Kwacha per U.S. dollar, U.S. dollar per ton)



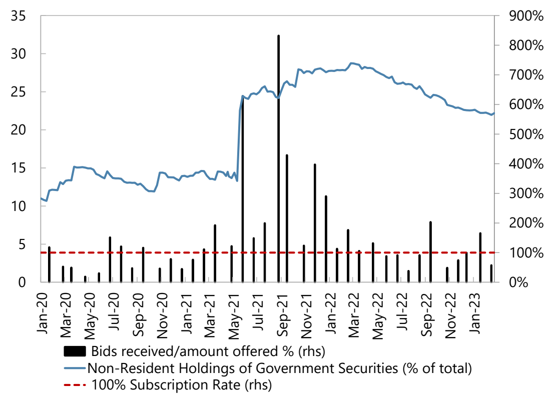
Financing conditions are beginning to tighten due to reduced participation of non-resident holders.

Weighted Average Yield Rates

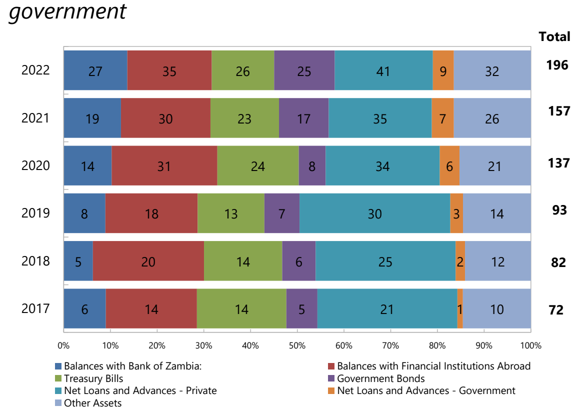
(In Percent)



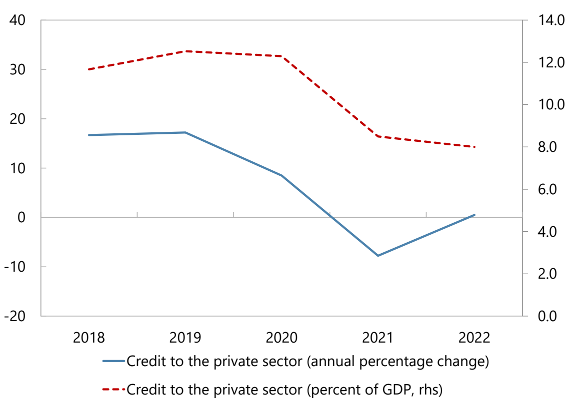
…with non-residents' share in government debt declining



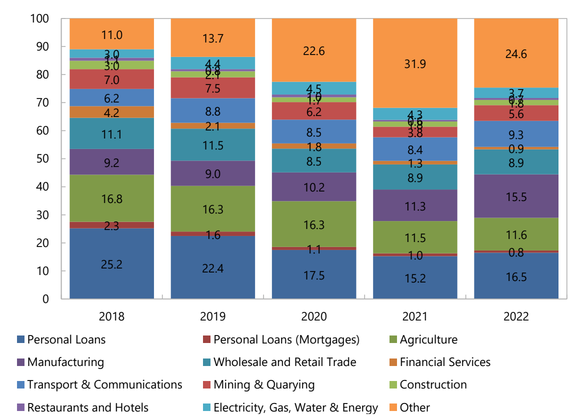
Domestic banks have increased their exposure to the government



Bank credit to the private sector has been weak, albeit tentatively recovering

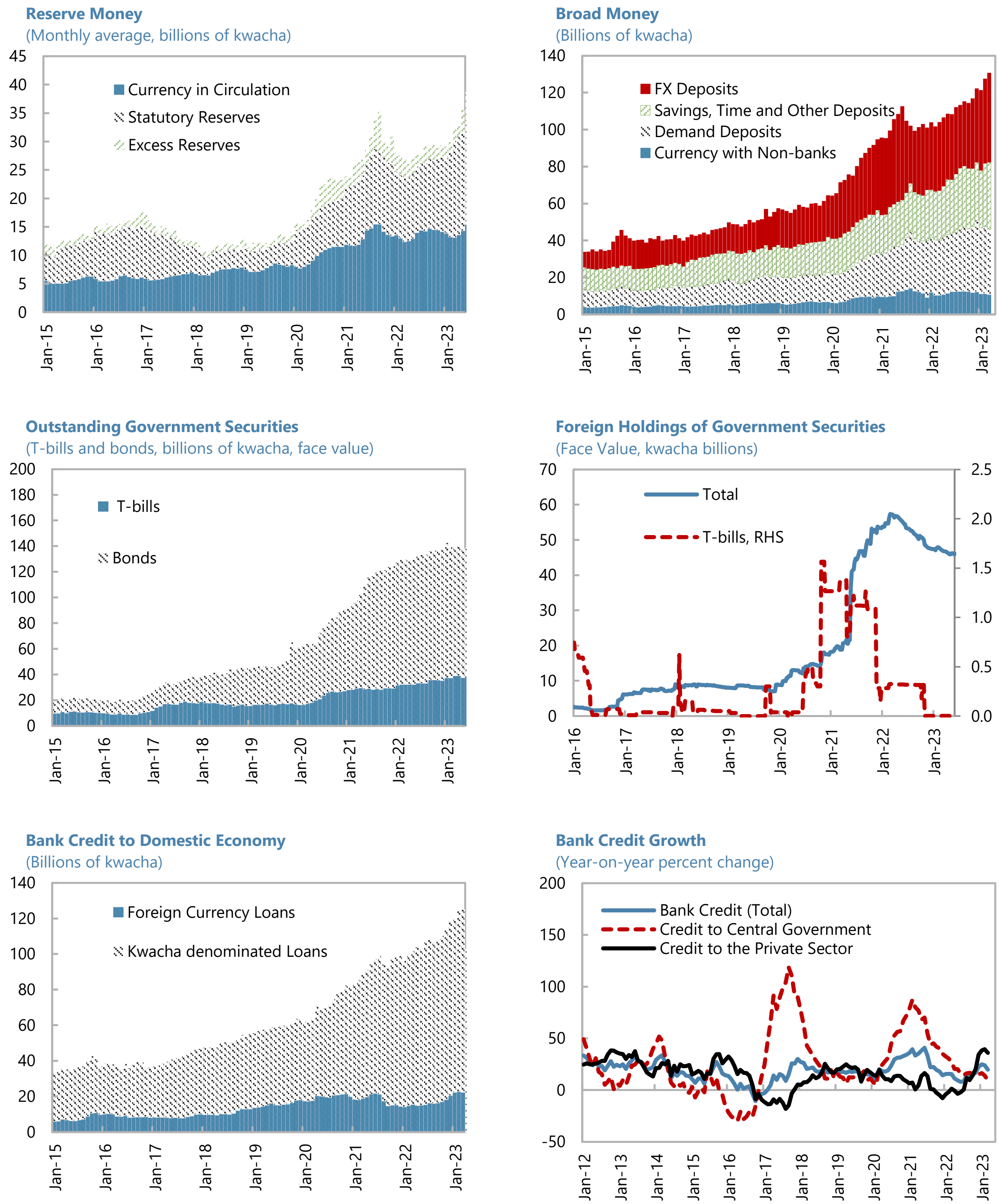


…and banks have scaled-back exposure to riskier personal loans in favor of the manufacturing sector



Sources: Bank of Zambia and IMF staff projections.

Figure 4. Zambia: Monetary and Financial Developments (concluded)



Sources: Bank of Zambia and IMF staff projections.

Table 1. Zambia: Selected Economic Indicators, 2018–28
(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
National accounts and prices											
GDP growth at constant prices	4.0	1.4	-2.8	4.6	4.7	3.6	4.3	4.5	4.7	5.0	5.1
Agriculture	-21.2	7.7	17.2	6.9	-2.2	-0.2	3.8	4.1	4.2	4.0	4.0
Mining	6.3	-5.1	8.0	-6.3	-4.4	4.9	9.0	8.7	7.4	7.1	5.0
Non-mining, non-agricultural	6.1	1.8	-5.6	5.9	6.5	3.7	3.8	4.0	4.4	4.8	5.3
GDP deflator	7.4	7.6	13.7	27.6	8.6	12.1	9.9	7.3	6.9	6.5	6.5
GDP at market prices (millions of kwacha)	275,175	300,449	332,223	443,362	504,477	585,449	671,332	752,580	841,746	941,300	1,054,120
Consumer prices											
Consumer prices (average)	7.5	9.2	15.7	22.0	11.0	10.6	9.6	7.5	7.0	7.0	7.0
Consumer prices (end of period)	7.9	11.7	19.2	16.4	9.9	11.4	7.9	7.0	7.0	7.0	7.0
External sector											
Terms of trade (deterioration -)	-2.0	-6.4	13.9	22.1	-6.8	5.8	-0.2	-0.5	-0.7	-0.8	-0.5
Average exchange rate (kwacha per U.S. dollar)	10.5	12.9	18.3	20.0	17.0	...	...	...	...	...	...
(percentage change; depreciation +)	9.9	23.3	42.3	9.1	-15.3	...	...	...	...	...	...
End-of-period exchange rate (kwacha per U.S. dollar)	11.9	14.1	21.2	16.7	18.1	...	...	...	...	...	...
Current account balance	-1.3	0.4	10.6	9.7	3.6	4.7	7.3	8.6	8.6	8.7	8.4
Gross international reserves (months of prospective imports)	2.3	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0	5.0	5.0
Money and credit											
Reserve money (end of period)	-0.6	25.8	57.0	8.5	12.0	17.2	12.5	11.0	11.8	11.9	12.0
Broad money (M3)	16.5	12.5	46.4	3.7	24.5	17.2	12.5	11.0	11.8	11.9	12.0
Credit to the private sector (percent of GDP)	11.7	12.5	12.3	8.5	10.0	15.2	16.7	18.1	21.1	21.8	23.6
National accounts											
Gross investment	38.6	39.3	32.3	28.5	31.9	31.6	31.8	31.8	32.3	32.6	32.6
Government	8.6	9.4	7.8	3.9	3.3	3.1	3.2	3.2	3.7	4.0	4.0
Private	30.1	29.8	24.5	24.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5
National savings	37.3	39.7	42.9	38.1	35.5	36.4	39.1	40.3	40.9	41.3	41.0
Central government budget											
Revenue	19.4	20.4	20.3	22.3	20.0	21.2	22.0	22.1	21.8	21.9	22.2
Taxes	16.1	16.1	15.7	16.0	15.8	17.5	17.8	17.9	17.9	18.1	18.4
Grants	0.2	0.3	0.5	0.6	0.4	0.4	0.7	0.6	0.4	0.3	0.3
Other revenue	3.1	4.0	4.1	5.7	3.8	3.4	3.5	3.5	3.5	3.5	3.6
Expenditure	27.7	29.8	34.1	30.4	27.6	26.2	26.3	25.4	26.0	24.0	23.5
Expense	19.1	20.4	26.3	26.5	24.3	23.1	23.1	22.2	22.1	20.0	19.5
Net acquisition of nonfinancial assets	8.6	9.4	7.8	3.9	3.3	3.1	3.2	3.2	4.0	4.0	4.0
Net lending/borrowing (cash basis)	-8.3	-9.4	-13.8	-8.1	-7.7	-5.0	-4.4	-3.3	-4.3	-2.1	-1.3
Net lending/borrowing (commitment basis)	-11.7	-13.9	-17.4	-13.9	-5.3	-3.2	-2.7	-1.8	-3.0	-1.5	-0.9
Primary balance (commitment basis)[1]	-6.9	-6.9	-10.1	-5.8	0.8	2.0	2.9	3.3	2.4	2.6	2.6
Primary balance excluding mining revenues (commitment basis)[1]	-9.2	-9.4	-13.3	-11.4	-3.7	-2.2	-1.5	-1.2	-2.1	-1.9	-2.0
Public debt											
Total public debt (gross, end-period)[2,3]	77.8	103.3	150.3	112.1	110.9	110.2	100.8	94.1	88.5	83.1	77.6
External[4]	48.1	62.1	95.8	57.8	58.8	69.6	65.9	62.9	59.2	56.5	54.1
Domestic	29.7	41.2	54.5	54.4	52.1	40.6	34.9	31.3	29.3	26.6	23.5

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] Adjusted for the accumulation/clearance of VAT refund claims and expenditure arrears.

[2] Nonresident holdings of local currency debt are included under domestic debt here, unlike in the DSA, which is conducted on a residency basis.

[3] Including arrears.

[4] Public and publicly guaranteed external debt.

Table 2a. Zambia: Fiscal Operations of the Central Government, 2018–28

(Millions of Kwacha)

	2018	2019	2020	2021	2022		2023			2024		2025		2026	2027	2028
					Prog.		Prog.	Budget	Proj.	Prog.	Proj.	Prog.	Proj.			
Revenue	53,450	61,331	67,437	98,945	101,231	100,684	119,221	113,349	124,000	135,396	147,391	152,151	166,421	183,270	206,040	234,442
Revenue excluding grants	52,802	60,492	65,722	96,463	99,556	98,702	117,417	111,643	121,840	133,468	143,027	150,088	161,605	179,903	203,216	231,280
Revenue excluding grants adjusted by the backlog of VAT refunds	49,227	58,977	64,163	94,547	101,629	96,861	119,491	n.a.	124,282	135,542	145,469	152,161	164,046	182,345	205,658	231,280
Tax	44,240	48,412	52,182	71,151	78,971	79,492	94,160	93,767	102,190	107,142	119,521	120,816	134,932	150,617	170,210	193,757
Taxes on incomes	14,333	16,243	19,831	22,815	25,974	26,890	29,223	29,231	32,525	33,144	37,297	36,201	41,811	46,764	52,295	58,563
Taxes on profits	5,973	7,537	9,513	19,242	21,805	21,020	21,589	21,196	25,501	24,563	30,316	28,207	35,018	39,179	43,885	50,019
Mining	2,451	3,231	5,300	12,702	14,503	11,958	13,945	12,850	14,963	16,024	18,232	18,275	20,795	23,271	25,876	29,852
Non-mining	3,522	4,305	4,213	6,540	7,302	9,062	7,644	8,346	10,538	8,539	12,084	9,933	14,223	15,908	18,009	20,168
Value-added tax	17,352	16,835	14,639	19,516	19,650	20,816	29,038	29,420	29,901	33,531	35,581	38,029	39,877	44,612	51,084	59,783
Excise taxes	3,438	3,990	4,661	4,327	5,222	5,190	6,926	6,930	7,252	7,857	8,508	9,452	9,683	10,644	12,233	13,427
Taxes on international trade	3,144	3,808	3,538	5,250	6,319	5,577	7,384	6,989	7,010	8,047	7,820	8,928	8,543	9,417	10,713	11,965
Other revenue, including mineral royalties[1]	8,563	12,080	13,540	25,312	20,585	19,210	23,257	17,876	19,650	26,326	23,506	29,272	26,672	29,286	33,005	37,523
Of which: Mineral royalties	3,937	4,269	5,241	12,268	12,187	10,445	13,776	8,986	9,424	16,235	11,480	18,007	13,091	14,646	16,233	18,741
Grants	647	839	1,715	2,481	1,675	1,981	1,804	1,705	2,160	1,927	4,364	2,063	4,817	3,367	2,824	3,162
Expenditure	76,313	89,595	113,227	134,929	145,800	139,315	157,320	154,221	159,062	172,927	178,438	184,657	192,166	220,105	227,077	247,121
Expense	52,684	61,268	87,478	117,477	131,466	122,446	141,524	137,662	140,913	155,079	156,955	164,284	168,083	186,714	189,425	204,604
Compensation of employees	21,856	22,982	26,881	31,881	37,715	37,699	46,419	46,341	46,538	53,365	52,813	57,180	58,745	62,857	67,257	75,563
Use of goods and services	7,944	4,460	10,330	15,094	15,828	13,084	17,403	15,468	18,738	19,503	21,748	22,433	23,706	28,232	31,426	35,372
Interest	13,103	20,762	19,762	26,910	36,036	30,797	37,960	35,663	36,120	41,524	39,827	41,688	39,947	46,297	39,154	36,373
Domestic	7,529	11,755	14,525	24,929	27,992	30,057	30,217	30,530	26,678	34,400	31,391	35,347	32,743	40,137	33,877	32,447
Foreign	5,574	9,006	5,237	1,980	8,044	739	7,743	5,133	9,442	7,124	8,435	6,340	7,204	6,161	5,277	3,926
Subsidies	3,136	7,342	18,368	24,345	17,827	10,715	13,530	11,381	12,081	12,188	11,911	10,522	10,733	11,445	11,887	12,951
Of which: Agricultural (FISP and FRA)	3,136	5,907	11,748	11,845	12,615	8,526	11,986	9,719	10,242	10,546	9,882	8,778	8,587	9,181	9,496	10,422
Of which: Energy (fuel and electricity)[4]	0	1,434	5,099	10,610	4,841	1,840	1,135	980	1,430	1,185	1,560	1,234	1,620	1,676	1,734	1,793
Intergovernmental transfers	5,631	5,279	7,487	8,799	13,038	15,382	13,849	15,345	15,023	14,944	17,299	16,550	19,392	21,433	23,973	26,851
Social protection	1,015	306	2,468	5,538	6,313	7,424	7,577	7,620	8,096	8,735	8,849	10,441	11,041	12,342	14,329	16,047
Other	0	137	2,183	4,911	4,708	7,346	4,786	5,844	4,317	4,820	4,510	5,470	4,519	4,108	1,399	1,447
Net acquisition of nonfinancial assets	23,629	28,327	25,749	17,451	14,334	16,870	15,796	16,559	18,149	17,848	21,483	20,373	24,083	33,391	37,652	42,517
Of which: Domestically-financed	5,275	3,153	4,901	9,296	7,555	10,828	9,556	9,650	8,100	10,449	12,245	14,615	16,654	27,464	29,376	24,074
Of which: Foreign-financed	18,354	25,174	20,848	8,155	6,779	6,041	6,240	6,909	10,049	7,399	9,238	5,758	7,429	5,927	8,276	18,442
Net lending/borrowing (overall balance, cash basis)	-22,863	-28,264	-45,789	-35,984	-44,569	-38,632	-38,099	-40,872	-35,062	-37,531	-31,048	-32,507	-25,745	-36,835	-21,037	-12,679
Primary balance (cash basis)	-9,761	-7,502	-26,027	-9,074	-8,533	-7,835	-139	-5,209	1,058	3,993	8,779	9,181	14,202	9,462	18,116	23,694
Expenditure arrears (- payments)	5,729	11,721	6,008	14,525	-9,583	-13,642	-9,743	n.a.	-8,039	-9,840	-8,406	-9,935	-8,498	-8,161	-3,734	-3,862
Backlog of VAT refunds (flow)[3]	3,575	1,515	1,558	1,916	-2,074	1,841	-2,074	n.a.	-2,442	-2,074	-2,442	-2,074	-2,442	-2,442	-2,442	0
Arrears on external interest (flow)	0	127	4,327	9,120	0	0	0	n.a.	0	0	0	0	0	0	0	0
Overall balance, (commitment basis)[2]	-32,167	-41,627	-57,682	-61,546	-32,912	-26,831	-26,282	n.a.	-24,582	-25,617	-20,199	-20,499	-14,806	-26,232	-14,862	-8,817
Primary balance (commitment basis)[2]	-19,064	-20,738	-33,594	-25,516	3,124	3,966	11,678	n.a.	11,538	15,907	19,627	21,189	25,141	20,065	24,292	27,556
Financing	22,863	28,264	45,789	35,984	44,569	38,632	38,099	40,872	35,062	37,531	31,048	32,507	25,745	36,835	21,037	12,679
Net acquisition of financial assets (+ drawdown, - accumulation)	2,281	-153	-816	-2,674	0	-4,874	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	21,059	28,867	47,315	38,307	-4,606	6,438	2,417	11,340	-4,230	-16,640	-28,121	-8,481	-19,238	-5,352	-21,718	4,261
Domestic	7,879	10,424	31,747	32,789	11,121	12,968	12,792	20,809	7,911	15,140	7,587	20,411	12,978	37,031	19,674	5,086
Foreign	13,179	18,443	15,568	5,518	-15,727	-6,530	-10,376	-9,469	-12,141	-31,781	-35,708	-28,892	-32,216	-42,383	-41,392	-826
Exceptional financing	0	0	0	0	49,175	37,233	35,682	29,533	39,293	54,172	59,169	40,988	44,984	42,187	42,756	8,418
Statistical discrepancy	-476	-450	-709	351	0	-165	0	0	0	0	0	0	0	0	0	0
Memorandum items:																
Primary expenditure (cash basis)	63,210	68,833	93,464	108,019	109,764	108,519	119,360	118,557	122,942	131,403	138,612	142,969	152,219	173,808	187,923	210,748
Primary expenditure (commitment basis)	68,939	80,554	99,472	122,544	100,181	94,876	109,617	n.a.	114,903	121,563	130,205	133,035	143,722	165,647	184,190	206,886
Net domestic financing	5,598	10,577	32,563	35,463	11,121	17,842	12,792	15,576	7,911	15,140	7,587	20,411	12,978	37,031	19,674	5,086
Primary balance excluding mining revenues (commitment basis)[2]	-25,452	-28,239	-44,134	-50,486	-23,566	-18,438	-16,044	n.a.	-12,849	-16,353	-10,085	-15,092	-8,745	-17,851	-17,817	-21,036
Backlog of VAT refunds (stock)	5,378	6,893	8,451	10,368	8,294	12,209	6,221	n.a.	9,767	4,147	7,325	2,074	4,884	2,442	0	0
Stock of expenditure arrears	24,777	36,498	42,506	57,031	49,559	47,659	40,651	n.a.	44,202	31,529	37,008	22,199	29,394	22,024	18,983	15,707

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] The large increase in 2021 is partly due to a dividend paid by the Bank of Zambia to the budget.

[2] Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

[3] Backlog of VAT refund data for 2022 are as of December 29th

[4] From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

Table 2b. Zambia: Fiscal Operations of the Central Government, 2018–28

(Percent of GDP)

	2018	2019	2020	2021	2022	2022	2023	2023	2023	2024	2024	2025	2025	2026	2027	2028
					Prog.		Prog.	Budget	Proj.	Prog.	Proj.	Prog.	Proj.			
Revenue	19.4	20.4	20.3	22.3	21.4	20.0	22.3	21.3	21.2	22.7	22.0	22.8	22.1	21.8	21.9	22.2
Revenue excluding grants	19.2	20.1	19.8	21.8	21.0	19.6	21.9	20.9	20.8	22.3	21.3	22.5	21.5	21.4	21.6	21.9
Revenue excluding grants adjusted by the backlog of VAT refunds	17.9	19.6	19.3	21.3	21.4	19.2	22.3	n.a.	21.2	22.7	21.7	22.8	21.8	21.7	21.8	21.9
Tax	16.1	16.1	15.7	16.0	16.7	15.8	17.6	17.6	17.5	17.9	17.8	18.1	17.9	17.9	18.1	18.4
Taxes on incomes	5.2	5.4	6.0	5.1	5.5	5.3	5.5	5.5	5.6	5.5	5.6	5.4	5.6	5.6	5.6	5.6
Taxes on profits	2.2	2.5	2.9	4.3	4.6	4.2	4.0	4.0	4.4	4.1	4.5	4.2	4.7	4.7	4.7	4.7
Mining	0.9	1.1	1.6	2.9	3.1	2.4	2.6	2.4	2.6	2.7	2.7	2.7	2.8	2.8	2.7	2.8
Non-mining	1.3	1.4	1.3	1.5	1.5	1.8	1.4	1.6	1.8	1.4	1.8	1.5	1.9	1.9	1.9	1.9
Value-added tax	6.3	5.6	4.4	4.4	4.1	4.1	5.4	5.5	5.1	5.6	5.3	5.7	5.3	5.3	5.4	5.7
Excise taxes	1.2	1.3	1.4	1.0	1.1	1.0	1.3	1.3	1.2	1.3	1.3	1.4	1.3	1.3	1.3	1.3
Taxes on international trade	1.1	1.3	1.1	1.2	1.3	1.1	1.4	1.3	1.2	1.3	1.2	1.3	1.1	1.1	1.1	1.1
Other revenue, including mineral royalties[1]	3.1	4.0	4.1	5.7	4.3	3.8	4.3	3.4	3.4	4.4	3.5	4.4	3.5	3.5	3.5	3.6
Of which: Mineral royalties	1.4	1.4	1.6	2.8	2.6	2.1	2.6	1.7	1.6	2.7	1.7	2.7	1.7	1.7	1.7	1.8
Grants	0.2	0.3	0.5	0.6	0.4	0.4	0.3	0.3	0.4	0.3	0.7	0.3	0.6	0.4	0.3	0.3
Expenditure	27.7	29.8	34.1	30.4	30.8	27.6	29.4	28.9	27.2	28.9	26.6	27.7	25.5	26.1	24.1	23.4
Expense	19.1	20.4	26.3	26.5	27.7	24.3	26.5	25.8	24.1	25.9	23.4	24.6	22.3	22.2	20.1	19.4
Compensation of employees	7.9	7.6	8.1	7.2	8.0	7.5	8.7	8.7	7.9	8.9	7.9	8.6	7.8	7.5	7.1	7.2
Use of goods and services	2.9	1.5	3.1	3.4	3.3	2.6	3.3	2.9	3.2	3.3	3.2	3.4	3.1	3.4	3.3	3.4
Interest	4.8	6.9	5.9	6.1	7.6	6.1	7.1	6.7	6.2	6.9	5.9	6.2	5.3	5.5	4.2	3.5
Domestic	2.7	3.9	4.4	5.6	5.9	6.0	5.6	5.7	4.6	5.8	4.7	5.3	4.4	4.8	3.6	3.1
Foreign	2.0	3.0	1.6	0.4	1.7	0.1	1.4	1.0	1.6	1.2	1.3	1.0	1.0	0.7	0.6	0.4
Subsidies	1.1	2.4	5.5	5.5	3.8	2.1	2.5	2.1	2.1	2.0	1.8	1.6	1.4	1.4	1.3	1.2
Of which: Agricultural (FISP and FRA)	1.1	2.0	3.5	2.7	2.7	1.7	2.2	1.8	1.7	1.8	1.5	1.3	1.1	1.1	1.0	1.0
Of which: Energy (fuel and electricity)[4]	0.0	0.5	1.5	2.4	1.0	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Intergovernmental transfers	2.0	1.8	2.3	2.0	2.8	3.0	2.6	2.9	2.6	2.5	2.6	2.5	2.6	2.5	2.5	2.5
Social protection	0.4	0.1	0.7	1.2	1.3	1.5	1.4	1.4	1.4	1.5	1.3	1.6	1.5	1.5	1.5	1.5
Other	0.0	0.0	0.7	1.1	1.0	1.5	0.9	1.1	0.7	0.8	0.7	0.8	0.6	0.5	0.1	0.1
Net acquisition of nonfinancial assets	8.6	9.4	7.8	3.9	3.0	3.3	3.0	3.1	3.1	3.0	3.2	3.1	3.2	4.0	4.0	4.0
Of which: Domestically-financed	1.9	1.0	1.5	2.1	1.6	2.1	1.8	1.8	1.4	1.7	1.8	2.2	2.2	…	…	…
Of which: Foreign-financed	6.7	8.4	6.3	1.8	1.4	1.2	1.2	1.3	1.7	1.2	1.4	0.9	1.0	…	…	…
Net lending/borrowing (overall balance, cash basis)	-8.3	-9.4	-13.8	-8.1	-9.4	-7.7	-7.1	-7.7	-6.0	-6.3	-4.6	-4.9	-3.4	-4.4	-2.2	-1.2
Primary balance (cash basis)	-3.5	-2.5	-7.8	-2.0	-1.8	-1.6	0.0	-1.0	0.2	0.7	1.3	1.4	1.9	1.1	1.9	2.2
Expenditure arrears (- payments)	2.1	3.9	1.8	3.3	-2.0	-2.7	-1.8	n.a.	-1.4	-1.6	-1.3	-1.5	-1.1	-1.0	-0.4	-0.4
Backlog of VAT refunds (flow)[3]	1.3	0.5	0.5	0.4	-0.4	0.4	-0.4	n.a.	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	0.0
Arrears on external interest (flow)	0.0	0.0	1.3	2.1	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, (commitment basis)[2]	-11.7	-13.9	-17.4	-13.9	-6.9	-5.3	-4.9	n.a.	-4.2	-4.3	-3.0	-3.1	-2.0	-3.1	-1.6	-0.8
Primary balance (commitment basis)[2]	-6.9	-6.9	-10.1	-5.8	0.7	0.8	2.2	n.a.	2.0	2.7	2.9	3.2	3.3	2.4	2.6	2.6
Financing	8.3	9.4	13.8	8.1	9.4	7.7	7.1	8.2	6.0	6.3	4.6	4.9	3.4	4.4	2.2	1.2
Net acquisition of financial assets (+ drawdown, - accumulation)	0.8	-0.1	-0.2	-0.6	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.8	0.1	0.2	0.6	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	7.7	9.6	14.2	8.6	-1.0	1.3	0.5	2.1	-0.7	-2.8	-4.2	-1.3	-2.6	-0.6	-2.3	0.4
Domestic	2.9	3.5	9.6	7.4	2.3	2.6	2.4	3.9	1.4	2.5	1.1	3.1	1.7	4.4	2.1	0.5
Foreign	4.8	6.1	4.7	1.2	-3.3	-1.3	-1.9	-1.8	-2.1	-5.3	-5.3	-4.3	-4.3	-5.0	-4.4	-0.1
Exceptional financing	0.0	0.0	0.0	0.0	10.4	7.4	6.7	6.1	6.7	9.1	8.8	6.1	6.0	5.0	4.5	0.8
Statistical discrepancy	-0.2	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
Primary expenditure (cash basis)	23.0	22.9	28.1	24.4	23.2	21.5	22.3	22.2	21.0	22.0	20.6	21.4	20.2	20.6	20.0	20.0
Primary expenditure (commitment basis)	25.1	26.8	29.9	27.6	21.1	18.8	20.5	n.a.	19.6	20.3	19.4	19.9	19.1	19.7	19.6	19.6
Net domestic financing	2.0	3.5	9.8	8.0	2.3	3.5	2.4	2.9	1.4	2.5	1.1	3.1	1.7	4.4	2.1	0.5
Primary balance excluding mining revenues (commitment basis)[2]	-9.2	-9.4	-13.3	-11.4	-5.0	-3.7	-3.0	n.a.	-2.2	-2.7	-1.5	-2.3	-1.2	-2.1	-1.9	-2.0
Backlog of VAT refunds (stock)	2.0	2.3	2.5	2.3	1.8	2.4	1.2	n.a.	1.7	0.7	1.1	0.3	0.6	0.3	0.0	0.0
Stock of expenditure arrears	9.0	12.1	12.8	12.9	10.5	9.4	7.6	n.a.	7.6	5.3	5.5	3.3	3.9	2.6	2.0	1.5
Nominal GDP (millions of kwacha)	275,175	300,449	332,223	443,362	473,917	504,477	535,028	533,346	585,449	597,667	671,332	667,213	752,580	841,746	941,300	1,054,120

Sources: Zambian authorities; and IMF staff estimates and projections.

[1] The large increase in 2021 is partly due to a dividend paid by the Bank of Zambia to the budget.

[2] Adjusted for the accumulation/clearance of arrears on VAT refund claims and expenditure arrears.

[3] Backlog of VAT refund data for 2022 are as of December 29th

[4] From 2022 onwards this represents clearance of arrears for fuel. There are no direct transfers to electricity sector

Table 3. Zambia: Monetary Accounts, 2018–28
(Millions of Kwacha, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections						
Monetary survey											
Net foreign assets	24,810	24,248	38,980	37,624	50,562	87,090	86,706	93,268	84,047	92,651	98,811
Net domestic assets	38,187	46,652	64,848	70,002	83,437	69,889	89,845	102,617	134,874	152,258	175,495
Domestic claims	62,219	73,134	102,655	103,414	71,944	105,973	129,862	155,637	201,435	231,708	277,623
Net claims on central government	28,998	34,461	60,446	64,641	19,460	15,757	16,242	17,994	21,855	24,778	27,185
Claims on other sectors	33,222	38,673	42,209	38,773	52,484	90,216	113,621	137,643	179,580	206,930	250,439
Claims on other financial corporations	549	221	168	189	521	273	363	363	363	363	363
Claims on state and local government	67	83	51	41	41	77	105	111	111	111	111
Claims on public non-financial corporations	489	725	1,148	871	1,358	1,126	1,126	1,126	1,126	1,126	1,126
Claims on private sector	32,117	37,644	40,842	37,672	50,563	88,740	112,027	136,043	177,980	205,330	248,839
Other items net	-24,032	-26,482	-37,806	-33,412	11,493	-27,719	-29,235	-32,418	-37,509	-40,449	-46,783
Broad money (M3)	62,997	70,900	103,829	107,626	133,998	156,979	176,551	195,885	218,921	244,909	274,306
Monetary authorities											
Net foreign assets	10,256	11,197	10,921	12,127	15,472	58,435	66,474	83,588	103,977	128,909	152,493
Asset	18,827	20,641	26,230	47,101	55,945	67,947	85,040	111,729	133,084	159,015	183,632
Liabilities	-8,571	-9,444	-15,309	-34,974	-40,472	-9,511	-18,566	-28,141	-29,107	-30,105	-31,138
Net domestic assets	3,299	5,854	15,856	16,939	-10,244	-20,283	-23,565	-35,981	-50,772	-69,387	-85,827
Net domestic claims	13,327	17,047	33,862	28,710	-19,121	-3,639	-6,089	-16,757	-29,615	-47,184	-62,292
Net claims on other depository corporations	30	271	5,383	6,984	2,441	25,781	23,105	12,078	-1,572	-19,242	-34,449
Net claims on central government	13,204	16,678	28,389	21,631	-21,671	-29,561	-29,400	-29,040	-28,248	-28,148	-28,048
Claims on other sectors	94	98	90	95	110	141	206	206	206	206	206
Other items (net)	-10,028	-11,193	-18,007	-11,771	8,877	-16,644	-17,476	-19,224	-21,157	-22,203	-23,535
Reserve money	13,555	17,051	26,777	29,066	32,567	38,152	42,909	47,607	53,206	59,522	66,666
Currency outside banks and cash in vaults	8,292	8,622	12,389	13,550	14,740	22,819	31,009	33,221	39,152	45,984	49,905
Other depository corporation reserves	5,207	8,361	14,304	15,426	17,732	6,837	971	-6,378	-15,176	-25,659	-38,803
Liabilities to other sectors	56	68	84	90	95	130	146	162	178	196	219
Memorandum items:											
Reserve money (end-of-period, annual percentage change	-0.6	25.8	57.0	8.5	12.0	17.2	12.5	11.0	11.8	11.9	12.0
Broad money (M3) (annual percentage change)	16.5	12.5	46.4	3.7	24.5	17.2	12.5	11.0	11.8	11.9	12.0
Credit to the private sector (annual percentage change)	16.7	17.2	8.5	-7.8	34.2	75.5	26.2	21.4	30.8	15.4	21.2
Velocity (nominal GDP/M3)	4.4	4.2	3.2	4.1	3.8	3.7	3.8	3.8	3.8	3.8	3.8
Money multiplier (M3/reserve money)	4.6	4.2	3.9	3.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Credit to the private sector (percent of GDP)	11.7	12.5	12.3	8.5	10.0	15.2	16.7	18.1	21.1	21.8	23.6
Gross foreign exchange reserves of the Bank of Zambia (millions of U.S. dollars)	1,569	1,450	1,203	2,796	3,054	3,163	4,014	5,109	5,598	6,048	6,535
Exchange rate (kwacha per U.S. dollar, end period)	11.9	14.1	21.2	16.7	18.1	…	…	…	…	…	…
Nominal GDP (million kwacha)	275,175	300,449	332,223	443,362	504,477	585,449	671,332	752,580	841,746	941,300	1,054,120

Sources: Zambian authorities; and IMF staff estimates and projections.

Table 4a. Zambia: Balance of Payments, 2018–28
(Millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections						
Current account	-341	101	1,922	2,138	1,071	1,113	2,192	2,823	3,059	3,375	3,607
Trade balance	514	704	3,216	4,816	3,369	3,519	4,621	5,358	5,886	6,064	6,506
Exports, f.o.b.	9,029	7,246	8,003	11,202	11,505	12,304	13,615	14,832	15,991	17,166	18,497
Of which: Copper	6,658	4,995	5,868	8,396	8,129	8,729	9,746	10,699	11,573	12,439	13,468
Imports, f.o.b	-8,515	-6,542	-4,787	-6,386	-8,136	-8,785	-8,994	-9,474	-10,105	-11,103	-11,991
Services (net)	-724	-522	-494	-779	-943	-795	-836	-953	-1,030	-1,114	-1,246
Income (net)	-407	-403	-1,021	-2,201	-1,639	-1,897	-1,894	-1,907	-2,147	-1,954	-2,063
Of which: Interest on public debt	-567	-627	-635	-736	-906	-836	-738	-649	-784	-483	-469
Current transfers (net)	276	322	221	301	285	286	300	324	350	379	410
Capital and financial account	123	-145	-3,058	-3,548	-3,124	-3,751	-4,859	-4,475	-4,727	-5,027	-3,474
Capital account	66	97	80	77	76	68	64	62	61	59	58
Project grants	66	97	80	77	76	68	64	62	61	59	58
Financial account	57	-242	-3,138	-3,625	-3,200	-3,819	-4,924	-4,537	-4,788	-5,086	-3,532
Foreign direct investment (net)	363	164	181	9	338	631	875	1,244	1,645	1,779	1,926
Portfolio investment (net)	-238	-53	194	1,002	-332	-103	-122	-129	-24	26	-25
Financial derivatives (net)	32	84	-10	-26	-31	52	104	212	230	248	269
Other investments (net)	-100	-437	-3,503	-4,609	-3,176	-4,399	-5,780	-5,865	-6,638	-7,139	-5,701
Public sector (net)	1,740	1,416	-2	-1,346	-947	-1,766	-2,798	-2,185	-2,291	-1,931	-272
Disbursements	2,189	2,073	1,424	571	988	493	346	243	237	324	722
Amortization due	-449	-657	-1,426	-1,917	-1,935	-2,258	-3,144	-2,428	-2,528	-2,255	-994
Monetary Authority (SDR Allocation)	0	0	0	1,328	0	0	0	0	0	0	0
Commercial banks (net)	-130	295	-413	-205	-411	20	54	165	198	237	285
Other sectors	-1,709	-2,148	-3,088	-4,387	-1,817	-2,653	-3,036	-3,845	-4,545	-5,445	-5,714
Errors and omissions	-226	-92	-419	787	-201	0	0	0	0	0	0
Overall balance	-444	-136	-1,555	-623	-2,255	-2,638	-2,668	-1,652	-1,668	-1,651	133
Financing	444	136	1,555	623	2,255	2,638	2,668	1,652	1,668	1,651	-133
Central bank net reserves (- increase)	444	75	233	-1,607	-71	267	-475	-719	-489	-450	-544
Of which: Change in gross reserves	506	119	248	-1,604	-258	-109	-851	-1,095	-489	-450	-487
Of which: Use of Fund resources	-61	-44	-15	-3	187	376	376	376	0	0	-57
New MDB financing					0	389	407	368	341	323	73
Exceptional financing (accumulation of arrears)	0	61	1,322	2,230	2,326	1,982	2,736	2,002	1,816	1,779	339
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Current account (percent of GDP)	-1.3	0.4	10.6	9.7	3.6	3.8	7.1	8.4	8.4	8.6	8.5
Total official grants (percent of GDP)	0.3	0.4	0.4	0.3	0.3	0.3	0.5	0.5	0.4	0.3	0.3
Exports of goods and services (millions of US$ do	9,983	8,258	8,558	11,728	12,437	13,267	14,628	15,874	17,118	18,385	19,776
Change in copper export volume (percent)	2.8	-18.5	14.4	-5.2	6.7	6.6	6.5	6.5	6.5	6.5	6.5
Copper export price (U.S. dollars per tonne)	6,530	6,010	6,175	9,317	8,829	9,013	8,985	8,926	8,866	8,815	8,815
Crude oil price	69	61	42	69	96	81	77	73	70	67	65
Gross international reserves (millions of U.S. dollar	1,569	1,450	1,203	2,796	3,054	3,163	4,014	5,109	5,598	6,048	6,535
In months of prospective imports	2.3	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0	5.0	5.0
GDP (millions of U.S. dollars)	26,312	23,309	18,111	22,148	29,742	29,536	31,042	33,500	36,227	39,167	42,407

Sources: Zambian authorities; and IMF staff estimates and projections.

Table 4b. Zambia: Balance of Payments, 2018–28
(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections						
Current account	-1.3	0.4	10.6	9.7	3.6	3.8	7.1	8.4	8.4	8.6	8.5
Trade balance	2.0	3.0	17.8	21.7	11.3	11.9	14.9	16.0	16.2	15.5	15.3
Exports, f.o.b.	34.3	31.1	44.2	50.6	38.7	41.7	43.9	44.3	44.1	43.8	43.6
Of which: Copper	25.3	21.4	32.4	37.9	27.3	29.6	31.4	31.9	31.9	31.8	31.8
Imports, f.o.b	-32.4	-28.1	-26.4	-28.8	-27.4	-29.7	-29.0	-28.3	-27.9	-28.3	-28.3
Services (net)	-2.8	-2.2	-2.7	-3.5	-3.2	-2.7	-2.7	-2.8	-2.8	-2.8	-2.9
Income (net)	-1.5	-1.7	-5.6	-9.9	-5.5	-6.4	-6.1	-5.7	-5.9	-5.0	-4.9
Of which: Interest on public debt	-2.2	-2.7	-3.5	-3.3	-3.0	-2.8	-2.4	-1.9	-2.2	-1.2	-1.1
Current transfers (net)	1.0	1.4	1.2	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital and financial account	0.5	-0.6	-16.9	-16.0	-10.5	-12.7	-15.7	-13.4	-13.0	-12.8	-8.2
Capital account	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Project grants	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Financial account	0.2	-1.0	-17.3	-16.4	-10.8	-12.9	-15.9	-13.5	-13.2	-13.0	-8.3
Foreign direct investment (net)	1.4	0.7	1.0	0.0	1.1	2.1	2.8	3.7	4.5	4.5	4.5
Portfolio investment (net)	-0.9	-0.2	1.1	4.5	-1.1	-0.3	-0.4	-0.4	-0.1	0.1	-0.1
Financial derivatives (net)	0.1	0.4	-0.1	-0.1	-0.1	0.2	0.3	0.6	0.6	0.6	0.6
Other investments (net)	-0.4	-1.9	-19.3	-20.8	-10.7	-14.9	-18.6	-17.5	-18.3	-18.2	-13.4
Public sector (net)	6.6	6.1	0.0	-6.1	-3.2	-6.0	-9.0	-6.5	-6.3	-4.9	-0.6
Disbursements	8.3	8.9	7.9	2.6	3.3	1.7	1.1	0.7	0.7	0.8	1.7
Amortization due	-1.7	-2.8	-7.9	-8.7	-6.5	-7.6	-10.1	-7.2	-7.0	-5.8	-2.3
Monetary Authority (SDR Allocation)	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks (net)	-0.5	1.3	-2.3	-0.9	-1.4	0.1	0.2	0.5	0.5	0.6	0.7
Other sectors	-6.5	-9.2	-17.1	-19.8	-6.1	-9.0	-9.8	-11.5	-12.5	-13.9	-13.5
Errors and omissions	-0.9	-0.4	-2.3	3.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.7	-0.6	-8.6	-2.8	-7.6	-8.9	-8.6	-4.9	-4.6	-4.2	0.3
Financing	1.7	0.6	8.6	2.8	7.6	8.9	8.6	4.9	4.6	4.2	-0.3
Central bank net reserves (- increase)	1.7	0.3	1.3	-7.3	-0.2	0.9	-1.5	-2.1	-1.3	-1.2	-1.3
Of which: Change in gross reserves	1.9	0.5	1.4	-7.2	-0.9	-0.4	-2.7	-3.3	-1.3	-1.2	-1.1
Of which: Use of Fund resources	-0.2	-0.2	-0.1	0.0	0.6	1.3	1.2	1.1	0.0	0.0	-0.1
New MDB financing	0.0	0.0	0.0	0.0	0.0	1.3	1.3	1.1	0.9	0.8	0.2
Exceptional financing (accumulation of arrears)	0.0	0.3	7.3	10.1	7.8	6.7	8.8	6.0	5.0	4.5	0.8
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account (percent of GDP)	-1.3	0.4	10.6	9.7	3.6	3.8	7.1	8.4	8.4	8.6	8.5
Total official grants (percent of GDP)	0.3	0.4	0.4	0.3	0.3	0.3	0.5	0.5	0.4	0.3	0.3
Exports of goods and services (millions of US$ dol	9,983	8,258	8,558	11,728	12,437	13,267	14,628	15,874	17,118	18,385	19,776
Change in copper export volume (percent)	2.8	-18.5	14.4	-5.2	6.7	6.6	6.5	6.5	6.5	6.5	6.5
Copper export price (U.S. dollars per tonne)	6,530	6,010	6,175	9,317	8,829	9,013	8,985	8,926	8,866	8,815	8,815
Crude oil price	69	61	42	69	96	81	77	73	70	67	65
Gross international reserves (millions of U.S. dollar	1,569	1,450	1,203	2,796	3,054	3,163	4,014	5,109	5,598	6,048	6,535
In months of prospective imports	2.3	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0	5.0	5.0
GDP (millions of U.S. dollars)	26,312	23,309	18,111	22,148	29,742	29,536	31,042	33,500	36,227	39,167	42,407

Sources: Zambian authorities; and IMF staff estimates and projections.

Table 5. Zambia: Financial Soundness Indicators, 2018–22

(Percent, unless otherwise indicated)

	2018	2019	2020	2021	2022			
					Mar	Jun	Sep	Dec
Capital adequacy								
Regulatory capital to risk-weighted assets	22.1	22.2	20.1	24.7	25.0	25.0	25.3	22.8
Tier 1 regulatory capital to risk-weighted assets	20.1	20.1	17.8	23.3	23.8	23.9	24.4	21.9
Capital to total assets	12.3	12.2	8.4	10.9	11.0	11.2	11.4	10.6
Asset quality								
Past due advances (NPL) to total advances	11.0	8.9	11.6	5.8	6.4	6.2	5.8	5.0
Loan loss provisions to nonperforming loans	86.4	91.6	75.9	102.8	93.8	94.5	93.5	93.4
Bad debt provisions to advances	9.5	8.2	8.8	6.0	6.0	5.9	4.9	4.4
Loan concentration								
Of Which								
Households	29.0	25.6	20.4	18.8	19.8	17.9	19.1	18.3
Government and parastatals	7.5	11.0	20.0	30.1	28.1	18.4	19.5	17.6
Sectoral Breakdown								
Agriculture	16.8	16.3	16.3	10.7	11.0	9.5	9.2	9.5
Mining	7.1	7.5	6.2	4.0	4.7	5.6	6.2	7.2
Manufacturing	9.2	9.0	1.7	1.3	11.1	12.9	18.4	18.3
Construction	3.0	2.1	1.7	1.3	1.5	1.2	1.0	1.3
Services	4.2	2.1	1.9	1.3	0.9	0.8	1.3	1.6
Others	59.8	63.0	72.1	72.5	70.9	33.7	25.1	26.2
Earnings and profitability								
Return on average assets	3.0	3.3	2.1	5.2	5.1	2.4	3.6	5.0
Return on equity	14.7	16.2	12.9	35.1	32.8	14.6	21.7	29.9
Gross interest income to total gross income	67.9	72.7	72.6	71.9	76.4	74.4	72.7	72.9
Gross noninterest income to total gross income	32.1	27.3	27.4	28.1	23.6	25.6	27.3	27.1
Net interest margin	9.1	9.3	9.4	9.9	10.1	4.9	7.4	9.4
Liquidity								
Liquid assets to total assets	47.0	42.2	48.6	46.6	46.8	50.2	49.8	50.7
Liquid assets to total deposits	57.0	51.5	57.4	56.3	56.9	68.5	68.0	67.6
Advances to deposits ratio	47.3	51.5	41.0	39.4	37.1	36.5	37.3	35.7
Exposure to foreign currency								
Foreign currency loans to total gross loans	44.5	50.3	47.1	33.7	39.8	34.3	35.9	40.9
Foreign currency liabilities to total liabilities	46.6	47.4	52.2	41.9	44.1	42.0	38.6	41.7
Net open position in foreign exchange to capital	1.7	1.3	1.1	0.2	0.1	0.7	2.5	5.6

Source: Bank of Zambia

Table 6. Zambia: External Financing Needs and Sources, 2018–28
(In millions of U.S. dollars unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
I. Total requirement	**2,083**	**1,887**	**2,594**	**4,953**	**3,377**	**3,613**	**4,436**	**3,899**	**3,698**	**3,843**	**2,607**
Current Account Deficit, excluding Official Transfers	341	-101	-1,922	-2,138	-1,071	-1,004	-1,990	-2,609	-2,914	-3,258	-3,480
Public Sector Debt Amortization	449	657	1,426	1,917	1,935	2,258	3,144	2,428	2,528	2,255	994
Gross Reserves Accumulation, incl SDR allocation	-506	-119	-248	1,604	258	109	851	1,095	489	450	487
Repayments to the Fund	0	44	15	3	0	0	0	0	0	0	57
Other Capital Flows 1/	1,798	1,406	3,322	3,567	2,255	2,250	2,430	2,985	3,595	4,395	4,549
II. Total sources	**2,082**	**1,826**	**1,272**	**2,724**	**314**	**866**	**917**	**1,152**	**1,541**	**1,741**	**2,196**
Official Transfers (Current and Capital)	66	97	80	77	76	177	266	277	206	177	185
BoZ Liabilities, incl. SDR allocation	0	0	0	1,328	0	0	0	0	0	0	0
Foreign Direct Investment, net	363	164	181	9	338	631	875	1,244	1,645	1,779	1,926
Private Sector Loans, net	-298	-454	-608	-263	-206	-331	-448	-483	-522	-565	-612
Loan Disbursements to Public Sector	2,189	2,073	1,424	571	438	493	346	243	237	324	722
Portfolio Investment, net	-238	-53	194	1,002	-332	-103	-122	-129	-24	26	-25
III. Financing gap (I-II)	**0**	**61**	**1,322**	**2,230**	**3,063**	**2,747**	**3,519**	**2,747**	**2,156**	**2,102**	**412**
IV. Expected sources of financing	**0**	**61**	**1,322**	**2,230**	**3,063**	**2,747**	**3,519**	**2,747**	**2,156**	**2,102**	**412**
New AfDB/WB financing	0	0	0	0	550	389	407	368	341	323	73
WB					550	389	257	218	141	73	73
AfDB					0	0	150	150	200	250	0
Exceptional Financing (Accumulation of arrears)	0	61	1,322	2,230	2,326	1,982	2,736	2,002	1,816	1,779	339
IMF ECF Arrangement				0	187	376	376	376	0	0	0
Memo Item											
Gross International Reserves (GIR), total	1,569	1,450	1,203	2,796	3,054	3,163	4,014	5,109	5,598	6,048	6,535
o/w unencumbered reserves	1,392	1,248	812	1,000	2,150	2,531	3,661	4,738	5,209	5,640	6,106
Financing Gap (percent of GDP)	0	0	7	10	10	9	11	8	6	5	1
In months of perspective imports	2.3	3.0	1.9	3.4	3.5	3.5	4.2	5.0	5.0	5.0	5.0
o/w unencumbered reserves	2.1	2.6	1.3	1.2	2.4	2.8	3.8	4.6	4.7	4.7	4.7

1/ Includes financial derivatives (net), errors and omissions, and other sectors from Table 4a.

Sources: Zambian authorities; and IMF staff estimates and projections.

Table 7. Zambia: Schedule of Reviews and Disbursements[1]

Availability Date	Millions of SDR	In Percent of Quota	Conditions
August 31, 2022	139.88	14.3	Board approval of arrangement
April 1, 2023	139.88	14.3	Observance of end-December 2022 and continuous performance criteria and completion of first review
October 1, 2023	139.88	14.3	Observance of end-June 2023 and continuous performance criteria and completion of second review
April 1, 2024	139.88	14.3	Observance of end-December 2023 and continuous performance criteria and completion of third review
October 1, 2024	139.88	14.3	Observance of end-June 2024 and continuous performance criteria and completion of fourth review
April 1, 2025	139.88	14.3	Observance of end-December 2024 and continuous performance criteria and completion of fifth review
October 1, 2025	138.92	14.2	Observance of end-June 2025 and continuous performance criteria and completion of sixth review
Total	**978.20**	**100.0**	

[1] Zambia's IMF quota is SDR 978.2 million.

Source: IMF Country Report No. 22/292

Table 8. Zambia: Indicators of Capacity to Repay the Fund, 2023–33

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Fund obligations based on existing credit (millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	28.0	28.0	28.0	28.0	28.0	0.0
Charges and interest	3.9	7.9	7.8	7.9	7.9	7.9	7.8	7.9	7.9	7.9	7.8
Fund obligations based on existing and prospective credit (millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	28.0	97.9	153.9	195.6	195.6	167.7
Charges and interest	3.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Total obligations based on existing and prospective credit											
Millions of SDRs	3.9	7.9	7.9	7.9	7.9	35.9	105.8	161.7	203.5	203.5	175.5
Millions of U.S. dollars	5.3	10.5	10.5	10.6	10.6	48.3	142.7	218.1	274.4	274.5	236.7
Percent of exports of goods and services	0.0	0.1	0.1	0.1	0.1	0.2	0.7	1.0	1.1	1.0	0.8
Percent of debt service	0.2	0.3	0.3	0.3	0.4	3.4	9.8	14.7	13.0	19.9	23.4
Percent of quota	0.4	0.8	0.8	0.8	0.8	3.7	10.8	16.5	20.8	20.8	17.9
Percent of gross international reserves	0.2	0.3	0.2	0.2	0.2	0.7	2.0	2.9	3.4	2.5	1.7
percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.4
Outstanding Fund credit based on existing and prospective credit											
Millions of SDRs	419.6	699.4	978.2	978.2	978.2	936.2	838.3	684.5	488.8	293.2	139.5
Millions of U.S. dollars	559.2	933.4	1312.2	1316.1	1322.1	1265.3	1133.0	925.0	660.6	396.2	188.5
Percent of exports of goods and services	4.2	6.4	8.3	7.7	7.2	6.4	5.3	4.0	2.7	1.5	0.7
Percent of debt service	18.1	23.8	41.2	38.6	48.2	88.8	77.7	62.5	31.2	28.7	18.7
Percent of quota	42.9	71.5	100.0	100.0	100.0	95.7	85.7	70.0	50.0	30.0	14.3
Percent of gross international reserves	17.7	23.3	25.7	23.5	21.9	19.4	16.0	12.2	8.1	3.6	1.4
percent of GDP	1.9	3.0	3.9	3.6	3.4	3.0	2.5	1.9	1.2	0.7	0.3
Net use of Fund credit (millions of SDRs)	279.8	279.8	278.8	0.0	0.0	-42.0	-97.9	-153.9	-195.6	-195.6	-153.7
Memorandum items:											
Exports of goods and services (millions of U.S. dollars)	13,267	14,628	15,874	17,118	18,385	19,776	21,282	22,850	24,571	26,364	28,304
External Debt service (millions of U.S. dollars)[1]	3,094	3,930	3,182	3,406	2,745	1,425	1,458	1,480	2,117	1,379	1,011
Gross international reserves (millions of U.S. dollars)	3,163	4,014	5,109	5,598	6,048	6,535	7,060	7,590	8,158	11,018	13,759
Quota (millions of SDRs)	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2	978.2
Nominal GDP (millions of U.S. dollars)	29,536	31,042	33,500	36,227	39,167	42,407	45,922	49,678	53,691	57,984	62,649

[1]Total debt service includes IMF repayments.
Sources: IMF staff estimates and projections.

Annex I. Key Recommendations of the 2019 Article IV Consultation

Fiscal Policy	
Recommendations	**Status**
Fiscal adjustment. Implement an orderly adjustment anchored on frontloaded revenue mobilization, a moratorium on new external non-concessional borrowing and guarantees, and scaled-back capital spending.	*Ongoing*. Staff's updated recommendations on fiscal adjustment are being implemented as part of 2022 ECF program. Large, frontloaded, and sustained fiscal consolidation through expenditure (including capital spending) adjustment and revenue raising is reflected in 2023 budget and MTFF—which are underpinned by a strategy for clearing budgetary arrears (published), an action plan to boost revenue mobilization (adopted), and reinstatement of VAT and excise taxes on fuel (completed). A zero limit is being implemented on non-concessional external borrowing.
PFM. Strengthen budget execution and commitment control to halt arrears both within and outside IFMIS system.	*Implemented.* In the IFMIS, a Commitment Control Module (CCM) was developed to link commitments to budget, and became operational, while budget releases (now done on a quarterly basis) was separated from (monthly) cash release. All MPSAs will be required to make all financial commitments in the IFMIS by end-June 2023.
Debt management. Strengthening monitoring and management of debt including by launching a quarterly debt bulletin and stocktaking contracted but undisbursed debt (combined with prioritization).	*Implemented.* Quarterly debt statistics bulleting is being published on an ongoing basis, and a ceiling (indicative target) is implemented on disbursement of contracted but undisbursed external debt underpinned by continual stocktaking and prioritization exercise.
Public investment management. Enhance the project selection, appraisal process, and oversight, including by establish a dedicated unit to monitor and mitigate risks related to implementation of large capital expenditure projects.	*Implemented*. In line with the government's Public Investment Management Strategy, a public investment board was established and is responsible for project scrutinization: including through project appraisal and cost effectiveness review. Public Investment Planning Department (PIPD) oversees planning, and management of public investment projects.

Monetary and Financial Sector Policies	
Recommendations	**Status**
Monetary policy stance. Tighten if inflation pressures emerge in line with BoZ's forward looking framework and support reserve accumulation. Enhance monetary policy effectiveness by combining it with large and upfront fiscal consolidation.	*Ongoing*. Staff's updated recommendations are being implemented as part of the 2022 ECF program, including through QPC on NIR and a monetary policy consultation clause. Inflation has come down to single digits and is close to the upper policy band.
Monetary Policy Framework. Grant BoZ formal operational independence to pursue price stability as its primary mandate by amending the BoZ Act.	*Implemented.* New Bank of Zambia Act, which is in line with staff recommendation, has been enacted.
Bank supervision. Strengthen banking supervision capacity, including by strengthening risk-based prioritization of onsite inspections, and crisis preparedness.	*Implemented*. BoZ has revised templates and conducted a pilot of enhanced returns with a view to enhancing off-site analysis and developed a problem bank framework, to ensure consistent and effective early intervention to weak institutions.
Energy Sector	
Recommendation	**Status**
Complete the cost-of-service study and advance tariff reforms.	*Implemented*. As part of ECF program commitments, a cost-of service study was completed and published, and a multi-year tariff framework was adopted and published.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Further delays in residual debt restructuring negotiations.	**M**	**L.** Exchange rate pressures could intensify while domestic yields may increase, in part reflecting further exit of non-resident holders of domestic debt. Continued accumulation of external arrears could bring increasingly larger uncertainly on restoring debt sustainability and undermine the growth outlook.	Further expedite fiscal adjustment and identify extra sources of fiscal financing (e.g., expedited use of SDR, additional IFI financing). Further expedite PIM reform and growth enhancing structural reforms to boost confidence and encourage more FDI. Further strengthen financial sector surveillance along with contingency planning.
Social discontent. Supply shocks, high inflation (including due to electricity tariff increases), and spillovers from crises in other countries worsen inequality, trigger social unrest, and gives rise to financing pressures and slows growth.	**L**	**M.** Social unrest could weaken political impetus for economic adjustment and reform and dent investor confidence causing capital flight, growth slowdown, and higher inflation.	Take measures to strengthen governance and anti-corruption frameworks. Implement orderly fiscal adjustment, notably by increasing domestic revenue and reducing capital expenditures. Boost spending on social assistance. Maintain exchange rate flexibility to cushion balance of payments stress while keeping monetary policy focused on the inflation response.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Extreme climate events. Extreme climate events damages key infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing medium-term growth.	**M**	**H.** Adverse impact on the agriculture sector and on the poor, through higher food prices, reduced maize exports, higher spending on social safety nets and on subsidies for agricultural inputs, negative impact on hydropower generation and open-pit mining, downward pressures on growth.	Provide effective support to vulnerable populations. Diversify food crops away from maize to crop varieties that are better aligned to shortened rainy seasons. Consider medium-term strategies, such as building reservoir dams, to help regulate water flow. Maintain exchange rate flexibility to cushion balance of payments stress while keeping monetary policy focused on the inflation response.
Financial instability caused by a rise in non-performing loans.	**L**	**M.** Deteriorating bank balance sheets could lead to a contraction in credit to the private sector and dampen economic activity.	Closely monitor the buildup of vulnerabilities on financial sector balance sheets and implement swift and decisive prudential corrective actions if required. Strengthen contingency planning.
External Risks			
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, markets fragmentation.	**H**	**H.** Slow global activity and low and volatile copper price causes a growth shock to Zambia's economy while exacerbating balance of payment and fiscal gaps.	Further expedite fiscal adjustment and identify extra sources of fiscal financing, while using exchange rate adjustment to cushion balance of payment shocks. Accelerate reforms enhancing export competitiveness. Diversify the economy to build resilience against external shocks.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	H	**M.** Spillover through supply chains or commodity price could negatively affect growth, inflation, and balance of payment and financial system vulnerability.	Maintain exchange rate flexibility to cushion balance of payment stress while keep focusing monetary policy on inflation response. Closely monitor the buildup of vulnerabilities on financial sector balance sheets and implement swift and decisive prudential corrective actions if required. Accelerate reforms enhancing export competitiveness. Diversify the economy to build resilience against external shocks. Enhance regional integration, including through existing SADC and AfCFTA protocols.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	H	**L.** A disruption in global supply chains may weaken global demand for Zambia's upstream exports and increase the costs of imports of intermediate goods.	Enhance export competitiveness and diversification through structural reforms. Diversify import supply chains. Enhance regional integration, including through existing SADC and AfCFTA protocols.

Annex III. External Sector Assessment

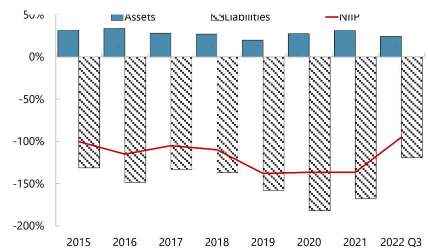
Overall Assessment: *The external position of Zambia in 2022 was broadly in line with the level implied by fundamentals and desirable policies. This is driven by the positive effects of fiscal consolidation on current account. The weak external stock position and the level of reserves being less than adequate implies that the current account norm for Zambia should remain positive.*

Potential Policy Responses: *The authorities should continue to implement policies in line with the ECF-supported program and aimed at improving fiscal balance. Those include structural reforms to enhance governance, boost growth, attract FDI, and diversify exports. The authorities should continue accumulating foreign reserves in line with the ECF-program target, and monitor the risks associated with volatile portfolio flows.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Zambia's net international position (NIIP) improved slightly in the first half of 2022 after having deteriorated sharply since 2015. Zambia's net position stood at -129 percent of GDP in June 2022. The assets stood at 35 percent of GDP and mostly comprised deposits held abroad by resident mining companies and Bank of Zambia reserve assets, while foreign liabilities constituted -164 percent of GDP with government debt (-68 percent of GDP) and FDI (-67 percent of GDP) being the main components.

Annex III. Figure 1. International Assets and Liabilities



Sources: BoZ, IMF Staff calculations

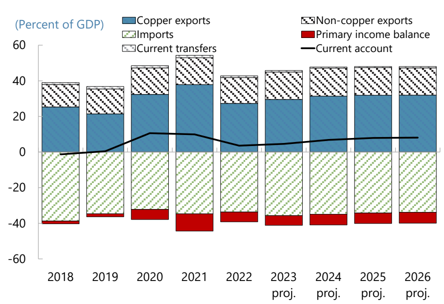
Assessment. Despite the improvement in 2022, Zambia's NIIP poses a large risk to external sustainability and points to a need for substantial adjustment. Fiscal efforts envisaged under the ECF program as well as debt relief secured under the G20 Common Framework should sharply reduce foreign liabilities, increase foreign reserves, and stabilize the NIIP at a much lower level of -55 to -60 percent of GDP over the medium run – commensurate with the median value among low-income countries as of 2021.

June 2022 (% GDP)	NIIP: -129	Gross Assets: 35	Debt Assets: 2	Gross Liab.: 164	Debt Liab.: 115

Current Account

Background. The 2022 current account surplus deteriorated sharply to 3.6 percent of GDP, down from 9.9 percent in 2021 and below the 4.9 percent average over 2018-2021. This drop was mostly driven by declining copper exports on account of much lower global prices and production disruptions in Zambia. With copper prices assumed to rebound to 2021 levels in the medium run, higher copper production and lower post-restructuring public interest payments, the current account surplus is expected to widen to 6.7 percent of GDP on average in 2023-25.

Annex III. Figure 2. Components of Current Account



Sources: BoZ, IMF staff calculations

Current Account

Assessment. The EBA-lite methodology estimates a current account norm for Zambia of -8.7 percent of GDP, or 11.5 percent of GDP below the cyclically adjusted level (Annex III. Table 1.). As discussed in the 2022 ECF Request Staff Report, the existing disconnect between current account trends, accumulation of foreign reserves, and overall international assets and liabilities position distorts the assessment of external position that is based on the current account alone. Considering the need to bring NIIP to the target of -58 percent of GDP, the norm must be adjusted upwards by 11.2 percent of GDP, yielding a current account gap of 0.3 percent of GDP. As a result, the external position is assessed to be in line with the level implied by fundamentals and desirable policies.

Annex III. Table 1. Zambia: Model Estimates for 2022 (In Percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**3.6**	
Cyclical contributions (from model) (-)	1.0	
COVID-19 adjustors (-) 2/	-0.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**2.8**	
CA Norm (from model) 3/	**-8.7**	
Adjustments to the norm (-)	11.2	
Adjusted CA Norm	**2.5**	
CA Gap	**0.3**	**3.5**
o/w Relative policy gap	3.2	
Elasticity	-0.3	
REER Gap (in percent)	**-1.1**	**-12.3**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (-0.2 percent of GDP). 35 percent of the shock to tourism is assumed
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Zambia's average REER strengthened by 30 percent in 2022. The real kwacha appreciation started in 2021 and mirrored the nominal appreciation that was driven by high copper prices and large portfolio inflows into the domestic debt market. A drop in copper prices over the second half of 2022 and a reversal of portfolio flows has led to a reversal in this trend, and the real exchange rate ended 2022 10 percent depreciated relative to the 2022 average.

Assessment. The estimates from the REER model in the EBA-lite methodology imply a REER gap of -12.3 percent and a corresponding current account gap of 3.5 percent, suggesting that the external position is stronger than the level implied by fundamentals. However, this result contradicts the fact that Zambia's external stock position remains weak and the level of foreign reserves less than adequate. Consistent with the 2022 ECF Request Staff Report, staff continues to assign more weight in the overall assessment to stock indicators.

Capital and Financial Accounts: Flows and Policy Measures

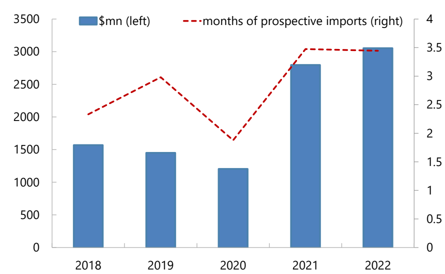
Background. Transactions underlying Zambia financial and capital account resulted in large outflows in 2020-2022 (-11.6 percent of GDP in 2022 and -14.6 points of GDP on average over the period). These outflows were driven by large outflows in the non-financial sector (mainly mining companies)[1] as well as public sector scheduled loan repayments.[2] These outflows were partially offset by new disbursements of public debt over 2018-2020, as well as large inflows into domestic debt market and the SDR allocation in 2021. Net FDI inflows exceeded $500mn in 2022, a two-fold increase over the 2018-21 average. Portfolio inflows reversed in 2022 as non-resident investors exited the domestic debt market due to the uncertainty surrounding the unresolved debt-restructuring.

Assessment. The exit of non-resident investors from the domestic debt market has posed a significant risk to the stability of local currency, and reserves accumulation. The authorities should continue pursuing policies aligned with the ECF-supported program to improve business sentiment and attract foreign direct and portfolio investments, and to capitalize on the conclusion of debt restructuring negotiations with the official creditors.

FX Intervention and Reserves Level

Background. Despite the existing pressures from low copper prices and high portfolio outflows, Bank of Zambia gross reserves increased to $3.05bn ($250mn up from 2021). The level of reserves in dollar terms is now more than twice as high as the 2018-2020 average due to the $1.4bn one-off SDR allocation in 2021. Bank of Zambia maintains a managed float.

Annex III. Figure 3. Gross Reserves



Sources: BoZ, IMF Staff calculations

Assessment. The level of reserves accumulated by the Bank of Zambia is assessed to be below the adequate level. A cost-benefit analysis of holding reserves (based on the framework credit-constrained economies) suggests an optimal level of 5-5½ months of prospective imports.[3] The authorities should achieve this level of reserves by continuing to implement the planned fiscal adjustment, aided by the combination of debt restructuring and IFI disbursements.

[1] See Box Annex IV. Box 1. in Annex IV (BOP TA) for the discussion of composition of other flows in the BoP based on the findings of the IMF technical assistance missions.
[2] Since Zambia government defaulted on most of its external obligations in 2020, amortization that was due on external debt in 2020-2022 is recorded above the line in the BoP statistics and is partially matched by almost $2 billion in exceptional financing (in the form of accumulation of arrears) below the line.
[3] For details, refer to the IMF "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations"

Annex IV. Capacity Development Strategy

- **The Fund's capacity development (CD) strategy for Zambia is anchored on the key objectives of the ECF-supported program** (Annex III Table 1). The delivery of CD is strongly supported by experts based at AFRITAC South, and closely coordinated with key partners—for instance with GIZ and USAID on their support for the revenue mobilization action plan. Looking ahead, Fund support for the implementation of the recommendations of the Diagnostic Report on Governance and Corruption is expected to be complemented by support from other partners. The traction of CD recommendations has strengthened, and the conclusion of the debt restructuring negotiations will allow a re-focusing of the authorities' efforts in key areas.

- Notable activities that are ongoing or recently concluded include:

  - **PFM and revenue mobilization:** Public expenditure and accountability framework (PEFA) assessment (joint with the EC, ongoing); Tax administration diagnostic assessment tool (TADAT) (to underpin revenue mobilization action plan, ***SB***); advice on IFMIS changes (to enhance commitment controls, ***SB***).

  - **Legal framework**: Advice on the amendments to the BoZ Act (***program prior action***) and new Public Debt Management Act (***SB***).

  - **Public debt management**: Training on debt sustainability analysis and MTDS (to help the authorities meet the requirements of the new PDM Act).

  - **Governance**: Recently published governance diagnostic and action plan (***SB***).

  - **Pensions**: Recent CD mission (January 2023) to propose measures to improve the financial sustainability of public pension schemes and reduce medium-term fiscal risks.

  - **Statistics**: Intensive engagement on BOP statistics (box).

Annex IV. Table 1. Zambia: Priority CD Areas

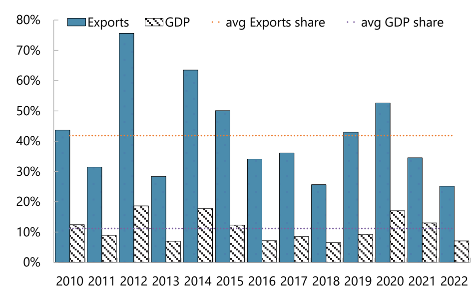
Priorities	Objectives
Tax policy and revenue administration	Enhance domestic revenue mobilization as part of fiscal consolidation. Focus on simplification, broadening the tax base, and strengthening compliance.
PFM	Improve the budget preparation process. Strengthen budget execution and controls to avoid payment arrears. Strengthen the identification and management of fiscal risks, including those related to SOEs, PPPs, and local governments. Improve public investment management to ensure better

Annex IV. Table 1. Zambia: Priority CD Areas (concluded)	
Priorities	**Objectives**
	better alignment of public investment projects with national priorities.
Public debt management	Strengthen the formulation, implementation, and monitoring of a debt management strategy.
Financial supervision and crisis management framework	Deepen the BoZ's capacity to identify and manage risks in the financial sector. Ensure the adequacy of the legal and regulatory framework for crisis management.
Monetary policy implementation & operations	Strengthen monetary policy implementation to facilitate transition towards a more modern inflation-targeting framework. Promote a well-functioning FX market.
Economic statistics	Improve BOP statistics and complete the rebasing of GDP.

Annex IV. Box 1. Enhancing Zambia's BOP Statistics

1. Zambia's BOP has historically been characterized by large leakages in the form of sizable private sector assets held abroad. These outflows averaged about one third of copper exports over the last 5 years and have been as high as about 20 percent of GDP in 2012 and 2014 (Figure 1). These outflows have largely offset the significant FDI inflows of the early 2010s and contributed to the gradual depletion of reserves before the 2021 SDR allocation.

Annex IV. Figure 1. Share of "Other Sectors" in Copper Exports and GDP



Sources: BoZ, IMF staff calculations

2. Since February 2022, a joint African Department (AFR)-Statistics Department (STA) engagement with the Bank of Zambia (BoZ) has been undertaken to assess the nature of these outflows (Table 1). The first mission examined existing mining sector statistics across various sources. A second mission supported the authorities in the preparation of a "*flow of funds*" (FoF) analysis of the largest mining companies.

3. The missions confirmed that a substantial share of mining export revenues is held offshore, contributing to the challenges in monitoring cross-border flows. The mission estimated that 50 to 90 percent of copper exports in 2020-21 were not repatriated. Understanding how these proceeds were used is key to completing the assessment of the possible data gaps.

4. A third engagement included site visits to seven of the biggest mining companies and concluded the in-depth analysis of mining sector transactions. The mission and BoZ staff prepared revised estimates of the 2020-22 balance of payments that more accurately reflected the sector's cross-border flows. The proposed adjustments to services imports and interest payments would result in a reduction of the current account balance of about $700mn per year.

Annex IV. Box 1. Enhancing Zambia's BOP Statistics (concluded)

BoZ staff also prepared adjustments to the financial account based on the e-BOP data.[1] The financial account revisions reflect the removal of current adjustments to other flows, as well as revised FDI flows, and trade credits. The mission recommended to use the methodology developed to estimate imports of services using e-BOP data on a recurring basis, and to initiate the flow-of-funds exercise for major companies in the manufacturing sector.

	Mission 1 (remote)	Mission 2 (in-person)	Remote engagement	Mission 3 (in-person)
Timeline	February 2022	April 2022	Ongoing	May 2023
Activities	Examined existing data sources: e-BOP, PCF, financials, customs	Assisted BoZ with completion of Mission 1 tasks, Preparation of a "flow of funds" analysis	Assisting BoZ with the flow of funds exercise	Site visits to mining companies
Results	50-80 percent of exports non repatriated; imports likely understated by 20 percent.			Improved PCF reporting by mines; advise BoZ on appropriate BoP recording.

[1] The analysis of the eBOP transactions also suggests that outflows other than the accumulation of foreign assets by mining companies are not comprehensively captured in the balance of payments data.

Appendix I. Letter of Intent

June 30, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
United States of America

Dear Ms. Georgieva,

1. In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from August 8, 2022, we confirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Credit Facility (ECF). We also describe progress and further policy steps toward meeting these objectives.

2. Notwithstanding a more difficult global environment, we will continue to implement the needed policies to safeguard macroeconomic stability, restore and maintain debt sustainability and tackling Zambia's economic and social challenges. Our consistent policy management enabled us to meet all end-December 2022 quantitative performance criteria (QPCs), including the floor on central government's primary balance, the floor on the net official international reserves, and the ceiling on new central bank credit to the central government. All but one of the indicative targets for September and December 2022 were also met, and all nine structural benchmarks due by end-March 2023 have been met. In addition, we have also made good progress on the remaining structural benchmarks due by end-June 2023, but we will need a little more time to complete them. With your support, we have also reached an agreement on a debt treatment with official creditors under the G20 Common Framework on terms consistent with program parameters and debt sustainability and are in "good faith" negotiations with other creditors on a comparable treatment basis.

3. We remain committed to ensuring the appropriate use, monitoring, and reporting of the 2021 General SDR Allocation. Furthermore, we reaffirm our commitment to upholding the obligations of Article VIII of the Fund's Articles of Agreement. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request.

4. Based on the strength of the policies outlined in this letter and MEFP and considering our performance under the program, and mindful of the challenging economic environment, we request completion of the first review, completion of the financing assurances review, and a disbursement in the amount of SDR 139.88 million. The program will continue to be monitored through semi-annual reviews, quantitative performance criteria, indicative

targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

5. We remain confident that our policies contained in the attached MEFP are adequate to achieve the economic, financial, and social objectives and targets of the program and, if needed, we will take additional measures that may be needed to attain these objectives. We will consult with Fund staff on the adoption of such measures in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. Underscoring our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP the TMU, as well as the related staff report and debt sustainability analysis, after the review has been approved by the IMF's Executive Board.

Yours sincerely,

/s/

Situmbeko Musokotwane, MP
Minister of Finance and National Planning
Republic of Zambia

/s/

Denny H. Kalyalya
Governor, Bank of Zambia
Republic of Zambia

Attachments:
I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

June 30, 2023

I. CONTEXT

1. **Since the approval of the Extended Credit Facility (ECF) arrangement in August 2022, the global environment has become increasing challenging.** Tightening global financial conditions are adding to uncertainties for global growth prospects. As a result, global growth is estimated at a lowest level since 2021 according to the IMF WEO January 2023 update. This has adverse consequences on the domestic economy.

2. **Recognizing the material impact of the changing global environment on the domestic economy, policies over the remainder of the ECF-supported programme will continue to place emphasis on securing social safety nets and safeguarding emerging macroeconomic stability.** Debt restructuring remains crucially at the apex of Government priorities which the Government is pursuing with the multilateral institutions and other Cooperating Partners.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

GROWTH

3. **Economic activity continued to expand post COVID-19 pandemic despite an increasing challenging global environment.** In 2022, real GDP growth is estimated to have been 4.7 percent. The key drivers of growth were the education, ICT, and transport sectors. Growth was subdued in agriculture (due to delayed onset of rains), mining (low grade ores and relatively lower copper prices) and construction (slowdown in infrastructure projects).

BUDGET PERFORMANCE IN 2022

4. **Revenue performance was broadly in line with budget and program targets.** Total revenue and grants amounted to K100.7 billion (21.6 percent of GDP) in line with the target. Revenue excluding grants amounted to K98.7 billion (21.2 percent of GDP), slightly below the budget target of K98.9 billion. Income tax collections over-performed thanks to improved compliance under PAYE and payment of tax arrears (under the 6-month window to clear tax obligations without penalties or interest), as well as upward revision of provisional returns and advance payments of CIT for mining and non-mining firms. The over-performance in income taxes more than offset the under-performance in indirect taxes, VAT and customs and excise duties. The lower than budgeted outturn in these taxes was largely on account of the concessions on fuel imports, originally introduced in January 2021, that remained in place until September 2022, slightly longer than initially expected.

5. **Government spending was tilted towards priority areas and was lower than budgeted.** Total expenditure, including amortization was 18.4 percent below the target of K173.0 billion at K141.1 billion, largely due to lower spending on payment of external debt interest. The lower outturn enabled higher

releases towards financing of Government operations including procurement of drugs and medical supplies. Transfers and subsidies amounted to K24.4 billion or 2.2 percent above the budget target of K20.0 billion largely due to additional spending to support the efforts of Zambia Revenue Authority to improve tax administration. Releases towards social benefits at K6.0 billion were 23.9 percent above the target of K4.8 billion.

6. **Releases towards non-financial assets amounted to K17.8 billion or 14.1 percent above the budget target of K15.6 billion, due to higher release for roads and capital projects.** Releases towards financial assets and liabilities amounted to K9.5 billion, 73.0 percent above the budget target of K5.5 billion owing to higher releases for dismantling of domestic arrears.

7. **Use of the SDR Allocation.** In August, 2021 Zambia received Special Drawing Rights equivalent to $1.4 billion from the International Monetary Fund. The government used about 50 percent of the proceeds to finance the 2022 Budget, mostly for social sector spending including the social cash transfer programme and pension arrears clearance. The balance of 50 percent was kept as a buffer against financing shocks in the domestic market. As the buffer was not needed, 25 percent of the residual is intended to be used in 2023 to help finance the Budget, mostly for the social sectors including social protection programmes.

PUBLIC DEBT

8. **The stock of public and publicly guaranteed external debt (excluding interest arrears, fuel arrears and guarantees on ZESCO payables) amounted to US $15.5 billion as at end-December 2022 from US $14.7 billion at end 2021.** The 2022 public and publicly guaranteed external debt comprises US $13.96 billion as central government, US $1.45 billion as guaranteed external debt and US $0.09 billion as non-guaranteed debt.

9. **Central Government external debt[1] increased marginally.** The stock increased to US $13.96 billion as at end December 2022[2] from US $13.04 billion as at end-December 2021. The increase was attributed to new disbursements from multilateral creditors who have not been affected by the debt service standstill. The proportion of commercial debt out of the total central Government external debt at end December 2022 was 42.4 percent, while multilaterals (including plurilaterals)[3] and bilateral creditors accounted for 29.3 and 28.3 percent, respectively.

10. **The stock of publicly guaranteed debt was US $1.45 billion[4] as at end December 2022 from US $1.53 billion at end 2021.** The reduction was mainly attributed to principal repayments by ZESCO. The bulk of the guaranteed debt relates to the state-owned power utility company ZESCO (93 percent), including the Kafue Gorge Lower power project.

[1] The definition of external debt and creditor classification reflect the concepts used in the government's quarterly debt statistics bulletin.

[2] This amount excludes interest arrears and other debt related charges.

[3] Plurilateral institutions include concessional lenders, such as BADEA, EIB, OFID, and NDF. and commercial lenders, such as Afrieximbank and ESA TDB.

[4] Excluding guarantees on ZESCO's outstanding payables (mainly PPA arrears).

11. To ensure fair, transparent and equitable treatment of all its creditors, the Government in October 2020 communicated suspension of debt service to all its non-multilateral external creditors. This was with the exception of very few bilateral and/or commercial creditors financing nearly completed priority projects, which were deemed of critical social and/or economic significance. In terms of external debt service, a total of $130.77 million was paid in 2022, while $232.58 million was paid in 2021.

12. Cancellation and rescoping of external debt financed projects: In 2020, Government undertook an exercise to cancel and scale down some loan financed projects by US $5 billion to reduce the stock of contracted but undisbursed loans. This exercise resulted into cancellation and re-scoping of loans amounting to US $1.1 billion and US $280 million, respectively. An additional $2.1 billion worth of contracted but undisbursed loans were cancelled in 2022. As at end-December 2022, the stock of contracted but undisbursed external debt stood at US $5.16 billion. The halting of disbursements by non-multilateral creditors following accumulation of payment arrears, has resulted in unpaid IPCs of around $582.22million[5] as at end December 2022. Having concluded the engagements with the contractors on the cancellation, rescoping and postponement of projects works, Government in 2022 published the list of loan financed projects whose implementation would continue.

13. The domestic debt stock (Government securities) increased as external financing remained constrained. The stock of Government securities was K210.0 billion at end-2022, an increase of 9.0 percent from K192.9 billion as at end-December 2021.

ARREARS

14. Zambia has accrued significant public external debt arrears. The total Public external debt arrears amounted to $5.1 billion as at end-December 2022 comprising of $4.06 billion as external debt arrears, $123.09 million as government Guaranteed loans, $582.22 million as central Government contractor arrears, $195.29 million as contractor arrears (SOEs) and $139.45 million as IPP import arrears. The external debt arrears increased to $4.06 billion from $2.2 billion as at end 2021 due to the finalization of accounts on selected projects and accumulation of arrears following the inability of Government to meet fully its debt obligations to all creditors which led to Government implementing the debt service standstill.

15. With regard to domestic arrears, these declined and amounted to K77.9 billion from K79.9 billion at end 2021. Significant reductions were recorded in Personnel Emoluments, other RDCs, FISP, FRA, pensions and capital projects. Notable increases in arrears were recorded for fuel, electricity and VAT, mostly due to stock revaluations following the ongoing audit process. The audit is expected to be concluded by end-April 2023.

[5] This is a preliminary position from most of the projects reviewed so far as the actual figure is expected to be higher than $582.22 million after reviewing all the projects' final accounts.

MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

16. Inflationary pressures receded significantly in 2022. Inflation trended downwards and reached a single digit of 9.7 percent in June—the first time since August 2019—from 16.4 percent in December 2021. Overall inflation averaged 11.1 percent in 2022, down from 22.1 percent in 2021. Both food and non-food inflation declined to 11.9 percent and 7.3 percent in December 2022 from 19.9 percent and 12.1 percent in December 2021, respectively. The appreciation of the Kwacha against the US dollar, dissipation of shocks to prices of some CPI basket items, as well as improved supply of some food items mitigated inflationary pressure. Consequently, and in support of growth and addressing vulnerabilities in the financial sector, the Bank of Zambia maintained the Monetary Policy Rate at 9.0 percent throughout the year. Since the beginning of 2023, the inflation outlook has deteriorated with the kwacha's previous appreciation reversing and electricity tariff increase firming up. In view of this, the Bank of Zambia Monetary Policy Committee in February 2023 raised the Monetary Policy Rate by 25 basis points to 9.25 percent, and by another 25 basis points to 9.5 percent in May 2023, as it foresaw inflation remaining above the 6-8 percent target band over the 2023-24 period in the absence of policy actions.

17. The overall financial performance and condition of the banking sector was satisfactory as at end-December 2022. This was largely on the back of favourable capital adequacy, asset quality, earnings performance and liquidity conditions. Asset quality also improved on account of bad loan restructurings and write-offs. The banking sector recorded higher profits driven by interest income from investments in Government securities.

18. The overall performance and condition of the non-bank financial institutions sector was also rated satisfactory as at end-December 2022. The rating was due to satisfactory earnings performance, regulatory capital, liquidity management and sensitivity to market risk. However, asset quality was rated fair. The ratio of regulatory capital to total risk-weighted assets increased at end-December 2022 to 37.7 percent from 36.8 percent recorded in December 2021 and was above the prudential minimum of 10.0 percent. The asset quality improved to 13.7 percent from 17.2 percent in 2021.

19. Domestic credit growth rose sharply from a low base and after years of decline. Total domestic credit growth more than doubled to 18.7 percent in 2022 compared to 8.6 percent in 2021. The recovery in credit to the private sector largely accounted for this robust outturn. Credit to the private sector grew by 34.2 percent in 2022 against a contraction of 7.8 percent in 2021 mostly explained by a significant increase in foreign currency denominated lending.

20. Commercial bank's lending rates marginally declined to 25.0 percent in 2022 from 25.9 percent in 2021 in part due to a decrease in Treasury bill yield rates.

21. The Kwacha faced depreciation pressure against the US dollar in the fourth quarter of 2022 following an earlier appreciation as elevated demand for foreign exchange and declining supply characterized the market. Demand mostly for the importation of agricultural inputs and petroleum products increased while supply of foreign exchange moderated in response to declining copper production and prices, and portfolio flows. The gains in the earlier part of the year were offset and the

Kwacha depreciated against the US dollar by 8.4 percent to K18.07 in 2022. Protracted debt restructuring discussions and sustained excess demand for foreign exchange have continued to weigh on the performance of the Kwacha in 2023. As of March 31, 2023, the Kwacha depreciated by 17.1 percent against the US dollar to K21.25 per US dollar on a year-to-date basis.

EXTERNAL SECTOR PERFORMANCE

22. The balance of payments position deteriorated in 2022 as a deficit of US$1.3 billion (4.8 percent of GDP) was recorded compared to a surplus of US$1.5 billion in 2021. The current account surplus narrowed to US$1.11 billion (3.6 percent of GDP) in 2022 from US$2.14 billion (9.7 percent of GDP) in 2021 as net merchandise exports declined and the services account deficit widened. Higher expenditures on transportation, attributed to passenger travel, mostly underpin the expansion in the services account deficit. In addition, a significant widening in the financial account deficit was recorded, reflecting the agreed recognition of principal repayments due on Government debt as contracted.

23. Gross international reserves increased to US$3.0 billion at end-2022 from US$2.8 billion at end-2021. This was largely attributed to project receipts (US$771.7 million), Government receipts (US$237.0 million) and the first tranche disbursement under the IMF Extended Credit Facility arrangement. Notable outflow included net Bank of Zambia foreign exchange sales for market support (US$1.5 billion) and Government uses (US$546.7 million).

III. MEDIUM TERM OUTLOOK AND RISKS

24. Medium term growth prospects are positive, but subject to significant downside risks. The baseline scenario assumes growth at 3.6 percent on the basis of a recovery in agriculture, and continued strong growth in ICT and transport. Inflation is projected to trend upwards in anticipation of an upward adjustment in electricity tariffs by the second quarter of the year and depreciation of the exchange rate. The current account surplus will expand, supported by a recovery in copper production and prices, and much relatively lower imports due to depreciation of the Kwacha.

25. The medium-term outlook is subject to several risks, some of which have a high adverse impact if they materialize. These include (i) a slowdown in global growth which could adversely affect commodity prices (ii) the increasing frequency of climate change events which could affect key sectors such as agriculture and energy (iii) reform fatigue by the Zambian people arising from necessary but socially disruptive reform measures such as adjustment of electricity tariffs.

IV. PROGRAMME PERFORMANCE

26. Performance under the ECF has been in line with program commitments. All end-December 2022 quantitative performance criteria (QPCs), and continuous performance criteria were met. Monetary policy consultation (targets) were met, and all but one of the indicative targets were met. Regarding structural benchmarks (SBs), all end-September, October and end-December 2022 benchmarks have been met, and we expect to meet two end-June 2023 benchmark with some marginal delays.

27. All quantitative performance criteria for end-September and end-December 2022 were met. The primary fiscal deficit through end-December 2022 was K7.5 billion (1.4 percent of GDP), about a K1 billion below the target. The outturn was driven by positive revenue performance and expenditure rationalization, except for priority programmes such as social safety nets which were above target. Adherence was also made with regard to no borrowing by the Government from the Bank of Zambia, while net official international reserves amounted to US $2,267 million, against the target of US $2,225 million.

28. All continuous performance criteria were met. No new external debt arrears by the central Government, Bank of Zambia and ZESCO were accrued, and Government did not guarantee any new concessional debt.

29. Monetary policy targets were within the set limits. The quarterly average rate of CPI inflation[6] fell within the upper and lower outer bands for end-December 2022.

30. All but one of the indicative targets for end-September and end-December 2022 were met. Fiscal revenues of central government excluding grants and mining revenues, adjusted by the backlog of VAT refund, amounted to K74.5 billion, against a target of K74.9 billion, narrowly missing the target. This was largely due to an in increase in the backlog of VAT. Social spending by the central government amounted to K39.4 billion, which was K3.4 billion above target. The target of K11.7 billion as the floor on the net clearance of arrears on expenditure, tax refunds, and domestic debt service by central government was achieved. The ceiling on the present value of new external borrowing (millions of US dollars) of 75 was met as no new concessional external borrowing was done. Disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars) amounted to US $128.3 million, which was below the ceiling of US $205 million.

31. The implementation of structural benchmarks (SBs) remains on track. Government reinstated VAT and excise taxes on fuel, adjusting fuel prices accordingly, while Parliament enacted the Public Debt Management Bill No. 15 of 2022 aimed at enhancing transparency in debt management, including providing for National Assembly oversight in loan contraction (SB, end-September, 2022). An Action Plan to boost revenue collections through changes in tax policy and improvements in revenue administration was adopted by Cabinet (SB, end-October, 2022). The guidelines to implement the new comprehensive agricultural support program and ensure a full migration of FISP to an electronic agricultural input system were published, and Cabinet endorsed and published a multi-year tariff framework and a related action plan to ensure cost-reflective and sustainable electricity tariffs, regulations for periodic tariff reviews, and medium-term policies for targeted tariff subsidies (SB end-December, 2022). The other two end-December 2022 benchmarks, namely, prepare, with IMF staff's support, and publish a comprehensive governance diagnostic, including specific recommendations and a time-bound action plan for implementing them, and The Bank of Zambia has undertaken a comprehensive review of the health of the banking sector, including to assess the impact of the COVID-19 pandemic on bank balance sheets were

[6] Calculated as the average of the 3-monthly year-on-year inflation rates within a quarter

also done on time. The two end-June 2023 benchmarks are expected to be met with some marginal delays.

V. POLICIES FOR 2023 AND THE MEDIUM TERM

32. The goal of Government's economic policies in the medium term is to entrench macroeconomic stability and growth, attain debt and fiscal sustainability, and improve the livelihoods of the Zambian people, especially the vulnerable. These objectives rest on the four Pillars in the Eighth National Development Plan.

FISCAL POLICY AND REFORMS

33. Government remains committed to a multi-year fiscal consolidation path. The overriding objective is to improve the primary balance on cash basis to 1.5 percent of GDP in 2025 from a deficit of 1.6 percent of GDP in 2022. On commitment basis, the target is to improve the primary balance to a surplus of 3.1 percent of GDP by 2025 from a surplus of 0.8 percent of GDP in 2022. Government undertakes to adhere to these overriding fiscal objectives. It commits to therefore take appropriate revenue, expenditure, and contingency measures to ensure their attainment so as to enhance the credibility of the budget. The White Paper for the 2023-25 Medium Term Budget Plan and the 2023 Annual Budget is aligned with these objectives.

34. On the revenue front, the objective is to develop a robust resource space and increase domestic revenue mobilization to about 22 percent of GDP by 2025 from 21.6 percent of GDP in 2022 to progressively narrow the fiscal gap to sustainable levels. This objective will be achieved by strengthening tax policies and leveraging technology to enhance tax administration and improve tax compliance.

35. Tax Policy. In September 2022, Government amalgamated all the tax policy and administration measures into a comprehensive and holistic strategy and action plan aimed at durably boosting revenues. The approved plan included harmonizing Company income tax rates across all sectors to improve fairness, standard rating VAT on Diesel and Petrol, reinstating excise duty on petrol and diesel (both implemented at end-September 2022) and increasing the carbon emission tax by 10 percent (included in Budget 2023), among other measures. Arising from these measures, VAT collections are projected to rise by an additional 1.3 percent of GDP by 2025 compared with the 2023 level. Income taxes are projected to rise marginally by 0.1 percentage points. Customs and excise duties are projected to decline by 0.3 percent of GDP over the period.

36. Tax Administration. To augment domestic resource mobilization, modernization of Zambia Revenue Authority operations will continue over the medium term. Further to the strategy contained in the August 2022 Memorandum, measures earmarked for the medium term will include: establishment of a dedicated Large Taxpayer Office (by streamlining Large and Specialized Taxpayer Office in Direct Taxes; and creating similar office in Indirect Taxes and Excise Division) which was completed by end-March of 2023 and the eventual merger of the mirror LSTOs by January 2024; enhancing trade facilitation on a risk based approach especially for large importers and exporters to minimise interventions; increasing the staff allocation to the Operating Divisions with strong Regional Offices to complement Government's decentralization policy; enhancing analytics of internal and third-party data sources and interfacing ZRA with systems for Ministry of Lands and IFMIS by the fourth quarter of 2023; full fiscalisation of VAT through implementation of a software based Electronic Invoicing System by January 2024; and establishment and full operationalization of a dedicated Small and Medium sized mines Unit by May 2023. The ZRA tax system will also be stabilised by addressing challenges identified on Taxonline II and completing Phase II of the Taxonline Issues Resolution Project. We will also step-up efforts to collect tax debt. The gains from both tax administration and policy measures are expected to yield 1.01 percent of GDP over the period 2023-2025.

37. Non-Tax Revenue. Non-tax revenues are projected to decline by 0.8 percentage points mostly associated with the revenue loss under mineral royalty tax (MRT). The MRT was made tax deductible in 2022 in computation of cooperate income tax for mining companies. Better yields from MRT are expected in the long-term with projected higher copper production

38. Expenditure rationalisation. On the expenditure side, interventions will be aimed at enhancing economic growth and development, bridging the rural urban gap through fiscal decentralisation, while protecting social spending. In addition, public expenditure will remain transparent and accountable so as to curb wasteful expenditures and channel resources to programmes and projects that have a direct impact on the lives of the Zambian people. Total expenditure is projected to come down by 2.3 percent of GDP by 2025 compared to the 2022 level. This is largely on account of the reduction on expenses related to subsidies to 1.5 percent of GDP in 2025 from 2.1 percent in 2022.

39. Government originally committed to create fiscal space for greater social sector spending by limiting expenditure on the Farmer Input Support Programme (FISP) through migration to the more cost-effective e-Voucher system from the 2022/2023 farming season. However, due to tight supply conditions and high prevailing prices on the international market, migration to a broader and more efficient system has been done for the 2023/2024 farming season. Expenditure on FISP will therefore decline to 0.9 percent of GDP in 2025 from 1.5 percent of GDP in 2022.

40. Capital expenditure is projected to remain flat averaging 3.1 percent of GDP over the 2023-2025 period, mostly financed from domestic resources. The focus will be on completing the construction of key economic roads and infrastructure in the health, education and water and sanitation sectors. Should more disbursements from development partners become available, we will reduce domestic financing accordingly to ensure we remain within the overall spending envelope in the medium-term fiscal framework. There is scope for more capital expenditure during the period from pledged World Bank grants.

41. In parallel to enhancing revenue mobilization and expenditure rationalization, efforts are underway to improve the efficiency and transparency of public spending. The Public Procurement Act No. 8 of 2020 will be amended to reduce red-tape and limitations in oversight to enhance the efficiency and benefits accruing to citizens from public procurement. The National Planning and Budgeting Act No. 1 of 2020 will also be amended to include provisions that strengthen integration of the development planning and the budgeting process such as the requirement for MPSAs to develop objectives, outputs and indicators that are in line with the national development plans. The review of these Acts is important for service delivery by Government using the Constituency Development Fund (CDF) at constituency and district levels. The Constituency Development Act No. 11 of 2018 will also undergo review in order to align it to the expanded scope of the CDF and for delegation of approval processes from Central Government.

42. The Public-Private Partnership Act is also under review, in consultation with Fund staff and will be submitted to Parliament by end-July 2023 (structural benchmark, SB). The objective of the review is to strengthen the management of fiscal risks related to PPPs. This will be done by establishing a clear and comprehensive definition of PPP projects, providing the Minister of Finance and National Planning the mandate to approve or reject PPP projects based on potential fiscal implications, and requiring public disclosure of key risks and fiscal implications of proposed PPP projects and awarded PPP contracts.

43. Government in August 2022 published a strategy for clearance of expenditure and VAT Arrears. Despite significant releases to dismantle the arrears beginning in 2022 and projected to be made over the next 9 years, the stock of arrears only marginally declined in 2022. This was in part due to late presentation and ongoing audits of invoices for earlier periods for fuel and build up in VAT arrears as refunds were not sufficient to clear current claims and legacy VAT refund arrears.

44. Commitment control system. To improve the PFM systems, a Commitment Control Module was developed in the Integrated Financial Management Information System (IFMIS) that links procurement commitments to the approved budget, which became effective in July 2022. The Treasury is currently undertaking a verification, reconciliation and loading of the outstanding amounts with the actual documentation supporting the liability. The government will also ensure that at least 59 ministries, provinces and agencies register purchase orders and other financial commitments in the IFMIS by end-August 2023 (SB). The government also intends to roll out IFMIS to all spending units under the purview of the ministries of health, education, agriculture, and livestock and fisheries by end-2023. Regarding road sector arrears, the Ministry of Finance and National Planning, working with the Road Development Agency and the National Road Fund Agency boards, will explore how the commitment could be captured in the IFMIS from 2025.

45. To enhance the commitment control system as well as expand the scope and capture of arrears, Government sought technical assistance from the IMF. The recommendations from the technical assistance are currently being implemented. The recommendations relate to key areas such as payroll processes and controls, arrears management and clearance, and strengthening the Treasury Single Account.

46. Enforcement of the Public Finance Management Act and regulations, which contain stringent punitive measures to non-adherence will continue to be another key deterrent in preventing the accumulation of arrears. In this regard the Secretary to the Treasury will ensure strict adherence to the Act coupled with the enhanced fight against corruption.

47. Budget Execution and Financial Reports. To enhance fiscal transparency, the Government will continue with the publication of Quarterly Economic Reviews, which also contain information on Budget performance. The financial report will continue to be published on an annual basis. The scope for the Budget Execution Report will be expanded to include performance on broad revenue and expenditure categories including social spending and its quality will be improved. Government will migrate to the International Public Sector Accounting Standards (IPSAS) Accrual Accounting Basis in 2024 based on the approved roadmap.

FISP REFORMS

48. The Farmer Input Support Programme is the flagship input delivery programme for more than one million small scale farmers. To make the programme more cost effective and promote crop diversification, Cabinet in December 2022 approved the Action Plan for the full migration of the Farmer Input Support Programme to an electronic input support system (including private sector participation in inputs distribution and the farmers' choice to select inputs) from direct input supply beginning from the 2023/2024 farming season. The migration path is envisaged as follows:

- 2023/2024 farming season: Implement migration from Direct Input Supply to e-voucher system in at least 33 districts in line with the migration criteria and principles outlined in the published Action Plan (including private sector participation in inputs distribution and the farmers' choice to select inputs) by end-September, 2023 (Structural benchmark, SB). Government will employ a hybrid system for the top 10 grain producing districts by procuring the inputs which farmers will redeem using the electronic payment system;

- 2024/2025 farming season: an additional 31 districts, to bring the total to 73 districts will be migrated to the electronic agricultural input support system; and 2025/2026 farming season: the last 42 districts will be brought on the electronic agricultural input support system. This will result in 100 percent coverage of all the beneficiaries in the 116 districts.

49. In order to enhance transparency relating to FISP, Government published the list of suppliers of inputs for the 2021/2022 and 2022/2023 farming seasons on the Ministry of Agriculture website and will continue doing so for subsequent procurements. The information for the 2022/2023 farming season includes the name of the suppliers, products, quantity to be supplied, and contract amount. This is in line with the requirements under the Public Procurement Act No.8 of 2020. Going forward, we will continue to publish information on suppliers awarded contracts under the FISP programme, including on beneficial ownership, within 3 months of contract award. Further, an audit of the programme by an independent firm of auditors is expected to be finalized by end April 2023. The findings will help to improve controls and ensure value for money.

50. For the 2023/2024 farming season, procurement of inputs will be done using two methods, namely: open international bidding for Urea fertilizer; and direct bidding for compound D fertiliser. Both procurement methods are allowed under the Zambia Public Procurement Authority Act. The open bidding will help Government receive competitive prices for Urea fertiliser, which is not manufactured locally. Government has decided to offer direct bidding for the supply of compound D fertiliser to local manufacturers. Nitrogen Chemicals of Zambia will be contracted to supply 43,292.70 metric tonnes while United Capital Fertiliser Limited will supply 77, 087.55 metric tonnes of compound D fertiliser.

51. FISP reforms are part of a wider agricultural sector reform through the Comprehensive Agriculture Transformation Programme (CATP) as outlined in the section on achieving higher and more inclusive growth.

ENERGY SECTOR REFORMS

52. Arrears accumulation on fuel continues to be a challenge despite moving to cost reflective pricing in December 2021. Fuel arrears amounted to US $721.3 million at end November 2022 from a verified stock of US $597 million at end 2021. The increase is attributable to late payment penalties on legacy debt as Government policy is for cost reflective pricing on a monthly price adjustment cycle dependent on movements in the international oil price and the Kwacha-dollar exchange rate. In parallel, to verify the validity of the claims included in the stock of arrears an independent audit is ongoing to reconcile claims by suppliers and the records at the Ministry of Energy. The audit will be concluded by end June 2023.

53. Reforms are underway to use the TAZAMA pipeline to transport low Sulphur diesel to reduce domestic pump prices. The TAZAMA pipeline has been converted from a crude oil carrier into a finished product pipeline which is expected to reduce the cost of transportation of diesel by 60 percent. Government has developed a new framework which will guide the use of TAZAMA pipeline for the importation of low Sulphur diesel in a transparent, fair and equitable manner. The framework will provide rights of access to OMCs wishing to utilize the pipeline for the bulk transportation of LSG which will be uplifted at the Ndola fuel terminal by OMCs. The OMCs who will use the pipeline for the bulk supply will be selected through a competitive bidding process and shall be prequalified through a public tender. Once approved, the list of OMCs shall constitute registered suppliers of LSG for one year, from which suppliers shall be selected through quarterly competitive bidding. Government will by end-June 2023 issue a Statutory Instrument for a new pricing mechanism that takes into account transportation of LSG through the pipeline and by road.

54. The various financial and operational challenges facing the power utility company, ZESCO were outlined by the government in the August 2022 memorandum. Since then, ZESCO's total outstanding debt as at end December 2022 amounted to US $3.9 billion, comprising US $1.94 billion in payables (including US $1.75 billion for power purchases) and US $1.96 billion in both domestic and external loans[7]. The stock of on-lending facilities owed to the Central Government amounted to US $595.18 million, US $421.62 million to commercial lenders and US $944.42 million as Government guaranteed loans. The company accrued substantial arrears due to the impact of drought on its generation capacity, higher purchase price of power from IPPs relative to the tariff, high overhead costs and non-cost reflective tariffs.

[7] As at end 2021, ZESCO had accumulated arrears on debt service amounting to $91.3 million.

55. To ameliorate the situation, the ZESCO has been implementing a 10-year turnaround strategy to improve its debt position, enhance revenue and reduce CAPEX and OPEX. The strategy guides the application that ZESCO made in January 2023 to the Energy Regulation Board for an upward adjustment in electricity tariffs in various domestic customer categories. The application was made in line with the findings in the cost-of-service study for ZESCO to adjust tariffs upward to ensure its continued viability. In the application, ZESCO applied for an average retail adjustment of 37 percent in 2023, 9 percent in 2024 and 15 percent in 2025. For 2026 and 2027, the tariff application is for a 10 percent and 14 percent adjustment, respectively. The approval of the proposed tariff adjustment) would enable ZESCO to achieve a net profit margin of 5.2 percent in 2023, 4.3 percent in 2024, 7.3 percent in 2025, 8 percent in 2026 and 13.1 percent in 2027. Public hearings were conducted on 9th March 2023 and the tariff schedule is expected to be approved by ERB by end-April 2023.

56. To address the debt position, ZESCO intends to eventually convert the legacy IPP debt to long term debt through securing a long tenured loan facility (at concessional terms) as well as to converting on-lent loans to equity in close consultation with the Ministry of Finance and National Planning. ZESCO also continued to service its non-guaranteed external debt in 2022. The Non-guaranteed debt stock reduced by 48 percent to US$ 91 million as at 31 December 2022 from US$ 174 million at the close of 2021. To mitigate a further rise, and ensure that the company does not buy high and sell low, ZESCO negotiated downwards tariffs with Mamba Collieries to 9.06 cents per kWh from 13 cents per kWh and to 5.33 cents KW per hour from an average of 8.66 cents per kWh with Itezhi-Tezhi Power Cooperation.

SOCIAL PROTECTION

57. To ensure protection of the poor and vulnerable, Government will continue to scale up and enhance social protection programmes with improved targeting and selection mechanisms through the provision of regular and predictable cash transfers. Specific actions to be undertaken in 2023 include:

- Scaling up the number of beneficiaries on Social Cash Transfer Programme to 1,097,657 households in 2023 from 1,027,000 households in 2022;
- Increasing the transfer value per household in 2023 to K400 bimonthly month from K200. For households with a severely disabled member, the transfer value will be increased to K800 bimonthly month from K400;
- Increasing the number of beneficiaries under the Food Security Pack Programme[8] to 273,000 households in 2023 from 241,000 in 2022;

[8] The **Food Security Pack (FSP) is an agricultural** – based Social Protection programme that provides agriculture inputs and accompanying services to poor and vulnerable farming household.

- Continued implementation and scaling up of the public welfare assistance scheme[9];and women empowerment programme[10]; and

- Government cleared all outstanding arrears for public service workers and pension schemes in 2022. The focus in 2023 is to pay retiring public service workers within three months of retirement. The three months is the average time taken to process the package.

58. Pension Reform. The Pension system will be reformed to make it financially sustainable and provide social security to retirees. Government secured Technical Assistance in early 2023. The findings and recommendations from the TA once finalized will help inform the reform process going forward. Government will make appropriate consultations including with trade unions and the World Bank, as it undertakes the pension reforms.

PUBLIC INVESTMENT MANAGEMENT STRATEGY

59. In line with the Public Investment Management Strategy, the multisectoral independent technical committee will scrutinize investment proposals prior to inclusion in the budget. All projects will be required to undergo project appraisal, including cost effectiveness reviews. This will inform costs to be included in the budget and inform prioritization criteria. Further, MPAs will be required to develop projects whose objectives, outputs and indicators are in line with National Development Plans, Sectoral plans, Provincial, District Development Plans and Cabinet directives. Projects that are not aligned with the aforementioned requirements will not receive necessary approvals for project development and implementation. To this end, the Public Investment Management Guidelines have been formulated to align them to the National Planning and Budgeting Act and an appraisal Manual developed. The guidelines and manual have been published on the Ministry of Finance and National Planning website. The 2023 Public Investment Plan has also been published.

60. While capital projects will be budgeted within the approved budget ceilings by MPAs, comprehensive criteria will be developed on the selection and prioritisation of projects to be included in the Budget. At implementation stage, and following a successful appraisal process, the Public Investment Planning Department (PIPD) in the Ministry of Finance and National Planning will oversee capital budget commitments and execution. All capital projects will be outlined in the Public Investment Plan for the country and a database of the projects will be maintained by the PIPD. A Master Plan for the road sector will also be developed.

[9] **The Public Welfare Assistance Scheme (PWAS)** supports the most vulnerable in society to fulfil their basic needs particularly health, education, food and shelter. It is aimed at mitigating social economic shocks and other negative effects such as, poverty and the HIV and AIDS pandemic.

[10] The **Women Empowerment Programme** offers women technical, financial and material empowerment to promote their participation in economic and social development.

A. RESTORING DEBT SUSTAINABILITY AND IMPROVING DEBT MANAGEMENT AND TRANSPARENCY

61. Zambia's public debt is unsustainable, using both solvency and liquidity thresholds. To address this, Government is implementing various measures targeting both external and domestic debt which are discussed hereunder.

62. Government will implement the following external debt measures:

i. **Non-contracting of non-concessional debt** (continuous performance criterion, see Table 3): Cabinet in December 2019 directed that Government halts contraction of non-concessional public external debt. In keeping with this directive, no commercial facilities have been executed since 2020. Government will continue the implementation of this measure until public debt sustainability is restored. Further, Government is reviewing the contraction of concessional debt mostly from Multilateral creditors to manage the pace of external debt accumulation (indicative target on the present value of new external concessional borrowing);

ii. **Asset Liability Management exercise:** Government has been working with financial and legal advisors since July 2020 to carry out an Asset Liability Management exercise which will culminate into restructuring of the country's debt in order to restore debt sustainability. Zambia is utilizing the G20 Common Framework for debt treatments beyond the DSSI, as it provides traction in the debt restructuring effort. The country made the application to the Common Framework in January 2021 and the Official Creditor Committee (OCC) started considering the debt restructuring exercise for Zambia on 16th June 2022. Following a series of in-depth discussions, an agreement on a debt treatment was reached with the OCC on June 22, 2023 and work on reflecting that in a Memorandum of Understanding (MOU) is advancing. In view of the liquidity challenges, coupled with the need to ensure inter-creditor equity, Government has continued to implement a debt service standstill for all external creditors with the exception of multilaterals and a few creditors financing priority projects of high economic and social importance. Government has continued engaging private creditors (including Eurobond holders) on a non-disclosure basis to discuss the modalities of delivering debt relief on the basis of the DSA parameters. Bilateral agreements will be signed with the respective creditors following conclusion of the talks.

iii. **Achievement of higher economic growth.** This will improve the country's revenue mobilisation and debt carrying capacity.

63. To enhance external debt management and transparency, Government will develop a Medium-Term Debt Management Strategy in 2023. In addition, Government will continue preparing Annual Borrowing Plans and on a regular basis undertake debt data validation and reconciliation activities through engagements with its creditors in a transparent and highly collaborative process. Government will also continue to publish on a quarterly basis, a Debt Statistical Bulletin to cover external and domestic debt including loans contracted, new disbursements, information on guaranteed loans and any liabilities arising out of public private partnerships (structural benchmarks, SB). The coverage of the bulletin also includes non-guaranteed State-Owned Enterprises (SOEs) debt, among others.

64. Revision of the Loans and Guarantees Legislation: To enhance transparency in debt management, including loan contraction and provide a framework for evaluation, issuance and monitoring of public guarantees, the Government repealed and replaced the Loans and Guarantees (Authorisation) Act with the Public Debt Management Act No. 15 of 2022. The new Act has enhanced Parliamentary oversight on loan contraction and addresses the weaknesses in the previous Act such as the definition of public debt, reporting requirements and adherence to international best practice in public debt management. The regulations of the Act will ensure strong oversight, recording and monitoring of all contracted debt and guarantees.

65. The Act also mandates the establishment of a Debt Management Office (DMO). Cabinet office will by end-December 2023 approve a new organizational structure for the DMO that aligns its mandate and structure with the Public Debt Management Act and best practice in readiness for operationalization in 2024.

66. Regarding domestic debt sustainability, Government will ensure that the issuance of Government securities will be exclusively from the market, i.e. issuance of treasury bills and bonds through the auction. In addition, the issuance programme will focus on longer dated instruments taking into account market conditions and costs, in order to reduce refinancing risk. The target is to attain a debt stock ratio of treasury bills to Government bonds of 40 percent to 60 percent over the medium term i.e. treasury bills will be limited to 40 percent of the domestic debt stock.

67. Government commenced talks with official creditors on 16th June, 2022. The request made to the official creditors is anchored on overcoming current debt challenges without jeopardizing the country's ability to rebound and fund its future development. Discussions with creditors are grounded on the following considerations: (i) A comprehensive debt treatment, encompassing both Government and SOEs debt, whether guaranteed or not, to achieve the objective of "moderate" risk rating of debt distress over the medium term; (ii) The exclusion of non-resident holdings of T-bills and bonds (classified by the IMF as external debt) as inclusion of these instruments within the perimeter would be a threat to financial stability, would raise multiple issues from practical, legal and fairness considerations (if limited to non-resident holders), and would trigger massive foreign exchange outflows and jeopardize the Government's ability to finance the budget; and (iii) The exclusion of short-term payables i.e. non-financial claims mostly due to suppliers of petroleum products and contractors; however appropriate repayment terms will be sought, recognizing the country's difficulties.

B. GOVERNANCE AND THE FIGHT AGAINST CORRUPTION

68. Fighting Corruption. The Zambian Government has a zero tolerance for corruption. To this effect, disciplinary action has been taken against erring officers in the Government. Focus of the Government is also not only on the past, but also present corruption. To augment the fight against corruption, allocations and releases for law enforcement wings have been increased.

69. To demonstrate the commitment of the Government to the fight against corruption and to enhance Governance, His Excellency Mr. Hakainde Hichilema, President of Zambia, requested for an IMF Governance Diagnostic Assessment. The assessment was competed in December 2022, and priority recommendations made to the Government. Government has committed to adopt by end-October 2023 a legal framework that guarantees public access to information by submitting the draft Access to Information Bill to Parliament (structural benchmark, SB), in line with the priority recommendations. Other priority recommendations include:

- Introduce necessary measures to ensure that top anti-corruption and AML officials such as Director General of the Anti Corruption Commission, Director General of the Drug Economic Commission, the Director General of the Financial Intelligence Center and the Director of Public Prosecutions are selected and appointed through transparent, merit-based and participatory processes;

- Prepare, with participation of civil society, academia and legal profession, a comprehensive reform strategy to strengthen the independence, professionalism and efficiency of the judiciary and prosecution authorities to be undertaken by end-December 2023;

- Mandate the use of the IFMIS system for all transactions currently able to be undertaken through the system. Government is already undertaking this measure with the roll-out of the IFMIS as outlined in the fiscal policy and reforms section;

- Mandate regular preparation and external publication of tax expenditure reports on measures expected to result in significant foregone revenue. Implementation of the recommendation is already underway as the Government prepares and publishes regular updates on revenue and expenditure performance as well as explanations for deviations;

- Increase internal audits in VAT refund process and customs warehouse management, as well as in other processes where IT systems are not fully integrated or are unstable. The recommendation is acceptable by the Government and will be undertaken on an on-going basis;

- Strengthen the MMMD's capacity to properly scrutinize license and transfer applications, and monitor the associated commitments on safety and environment, work programs, and production by end-December 2023;

- Operationalize PACRA's beneficial ownership register, including ensuring the availability of accurate, complete and up-to-date beneficial ownership information and imposing effective sanctions on entities for non-compliance by end-June 2024;

- Bring the Public Audit Act of 2016 and the State Audit Commission Act of 2016 into force by issuing the statutory instrument by the Ministry of Finance and National Planning. Note that implementation of this recommendation will require a Constitutional amendment as the autonomy of the Auditor General is enshrined therein, while bringing the State Audit Commission Act into force would result in the creation of a Board to provide oversight of the Auditor General's office;

- Prepare a time-bound action plan and roll-out E-Government Procurement by end-September 2023; and

- Develop and reinforce supervisory processes for banks and other financial institutions with Government ownership to address specific risks and challenges associated with these special entities by end-December 2023.

70. Steps have been taken to implement some of the recommendations. The Access to Information Bill has undergone public consultations, and the remaining aspects towards its presentation are internal Government approvals. Similarly, external consultations have been completed for a new Anti-Corruption Policy. The policy once finalized will launched with its implementation plan.

71. Government will request technical assistance from the International Monetary Fund as it undertakes implementation of the recommendations in the Zambia Diagnostic Report on Governance and Corruption. Government will also leverage the support of other Cooperating Partners. Cabinet Office will provide oversight on the implementation process and produce bi-annual reports.

72. Fiscal risks. In light of slowing growth, tighter fiscal conditions, and growing debt burden, Government will closely monitor fiscal risks. To this end, Government is developing a fiscal risk management framework aimed at identifying and quantifying fiscal risks from expenditure pressures and revenue shocks as well as other contingent liabilities as well as strategies to mitigate those risks. A first fiscal risk statement has been prepared for the 2023 Budget and medium term and is undergoing a review process. The scope of the Fiscal Risk Report will by end-June 2024 (structural Benchmark, SB) be expanded to include key risks stemming from SOEs, Local Authorities, public pension schemes, PPPs and other obligations as well as the potential consequences of climate change. Standard methodologies will be applied to quantifying risks in a forward-looking manner.

73. SOEs. Government has been implementing various measures aimed at strengthening fiscal control and governance of State-Owned Enterprises (SOEs). These include enactment of the Public Finance Management Act No. 1 of 2018 and development of an SOE Policy. The Act gives the Treasury mandate to develop the code of governance guidelines and a supervisory and performance monitoring framework for SOEs. Additionally, it requires SOEs to submit to the Treasury annual financial statements for analysis of performance. Further, Ministry of Finance and National Planning will be preparing periodic reports with an in-depth analysis on the health of SOEs. Where an SOE's performance is poor, the Act empowers the Treasury to take appropriate action. Government has also drafted an SOE Policy that is envisaged to strengthen governance of these institutions. Cabinet approval of the Policy will be done by end-September 2023.

74. Improved Cash Management. The government will formulate an action plan by end-March 2024 (Structural Benchmark, SB) to substantially reduce cash balances and the number of accounts held by local authorities and lower-level government entities in commercial banks. The strategy will aim to expand reliance on the Treasury Single Account, to regularly receive account balance information from commercial banks and to introduce a system of regularly clawing back floats not needed for meeting short-term financial obligations.

75. Further, the Industrial Development Corporation (IDC) has continued to put in place controls to ring-fence the Treasury from the operations of SOEs under its portfolio. Measures instituted include limiting the contracting of debt financing by only permitting commitments for areas where a business case exists, and where debt is serviceable from incremental cash flows to be derived from the debt. In addition, IDC will roll out the Group Treasury Management Policy which provides a framework for prudent treasury management, efficient capital allocation and best practice reporting.

C. ENHANCING MONETARY POLICY

76. The Bank of Zambia will continue to rely on the forward-looking monetary policy framework anchored on the Policy Rate as a key signal for the monetary policy stance. Decisions on the policy rate will continue to be guided by inflation forecasts, outcomes, and identified risks that include those associated with financial stability and economic growth. The Bank will make effective use of open market operations, as well as enhance competition, transparency, and protection of consumers in financial markets. Overall, monetary policy will focus on bringing inflation back to the 6-8 percent target range over the medium-term.

77. Bank will continue to pursue measures aimed at deepening the secondary market for Government securities. These measures include developing and implementing simplified registration of accounts and investing in Government securities. This is expected to contribute to wider participation by different categories of investors, particularly households. In this regard, the full rollout of the Bloomberg E-Bond platform for secondary trading which was envisaged by the end of the first quarter of 2022 has been extended to the third quarter of 2023. This is necessary in order to include the two local custodians into the E-Bond system to facilitate technical improvements to their respective systems. Effective implementation of the platform is expected to contribute to greater transparency in pricing and therefore improve secondary market liquidity for participants. In general, the broadening of investor participation, that results in improved price discovery, is expected to strengthen the interest rate channel of monetary policy transmission.

78. The Bank is committed to introduce, on a pilot basis initially, a Credit Guarantee Fund (CGF) which will leverage private sector participation to support the provision of affordable credit to MSMEs. Prior to the COVID-19 Pandemic, MSMEs already faced high information costs and credit risks (both real and perceived). This was exacerbated by the pandemic, with MSMEs bearing the burden of adjustment and were not the predominant beneficiaries under the TMTRF. The pilot will consider the need to encourage environmentally sustainable growth. In January 2021, the Bank of Zambia Board approved K5 billion as additional support following the establishment of the TMTRF. It is anticipated that out of this amount, K3 billion will be allocated to support the establishment of the CGF. The Bank of Zambia is working with the private sector through a Memorandum of Understanding (MoU) on the design and implementation of the CGF.

79. Following the enactment of the BoZ Act No.5 of 2022, but yet to be operationalized, the Bank will establish Monetary Policy and Financial Stability Committees by the third quarter of 2023. Inaugural Monetary Policy and Financial Stability Reports are expected to be published in the third quarter of 2023 and second quarter of 2024, respectively.

80. The primary objective of the exchange rate policy is to maintain a flexible system whilst mitigating excessive volatility, which can undermine the achievement of the Bank's inflation objective. The Bank of Zambia is also committed to building international reserves to provide a level of confidence to the market that the country can meet its current and future external obligations. In this vein, the Bank of Zambia will continue to strengthen the monitoring of foreign exchange flows and, help build up foreign exchange reserves, mining companies will continue to pay all tax obligations directly in U.S. dollars and through the Bank. The Bank will in addition continue with the gold purchase programme with a revised target of at least 659.4 kg of refined gold for 2023. Further, the Bank will review foreign exchange market rules and policies by end-2023, with a view to normalizing policies as market pressures continue to abate. The review will focus particularly in areas that support efficiency in price discovery, transparency in trading, and promotion of a well-functioning market.

D. SAFEGUARDING FINANCIAL STABILITY

81. To improve its surveillance capacity of the banking sector, given the challenging macroeconomic environment, which was worsened by the COVID-19 Pandemic, the Bank of Zambia has developed a Problem Bank Framework. The framework was approved by the Board in May 2022. It provides clear and consistent criteria for designating an institution as a problem institution and clearly defines the supervisory actions to be taken when dealing with weak institutions, both pre-emptive and after a problem has crystalized. The framework also aims to minimize the risk of economic and financial contagion and their potential fiscal risks. The Bank has further embarked on enhancing off-site analysis to better align it to the risk-based supervision framework. As part of this process, prudential returns templates were revised and are used to collect more granular data.

82. As part of its 2020-2023 Strategic Plan, the Bank of Zambia is working to strengthen micro-prudential regulation and supervision. In this regard, as of November 2022, a Micro-Prudential Stress Testing Framework was developed and implemented. The Framework is being used to assess the resilience of individual financial institutions under severe, but plausible stress events. Further, the Bank has initiated a Supervisory Technology Project to improve the analytical capabilities of staff and timeliness of analysis as well as data integrity. The Project is expected to be completed by December 2023. To enhance cyber resilience, Cyber and Information Risk Management Guidelines were developed and issued in April 2023.

83. Over and above the asset quality thematic examination conducted in 2022, the Bank is committed to undertaking a thorough review of the banking sector regulations by end-2024. This will create an enabling environment that will foster the role of the financial sector in supporting the economy post COVID-19. The need to review banking regulations has arisen due to the passage of time since the last update of the BFSA in in 2017. The review is aimed at updating the legal and regulatory framework to make it more responsive to the current developments in the sector. The review will also address gaps identified in the thematic examination of 2022. In addition, the exercise is expected to consider specific roles played by various types of institutions in the sector with the aim of developing appropriate regulations to suit each institution type. The review will also encompass measures to strengthen coordination and cooperation with other regulators such as the Pension and Insurance Authority (PIA) and Securities and Exchange Commission (SEC).

84. As part of the safety net arrangements, the Bank of Zambia will implement a Deposit Protection Scheme by end-September 2023. A dedicated unit will initially be established within the Bank Supervision Department with a view to establishing a fully-fledged separate department once it is ready to operate independently. In 2018, the Bank of Zambia developed appropriate directives to operationalize the Scheme. In the same year, a crisis management and resolution framework was established and will be fully operational once the governance arrangements have been finalized as provided for in the new Bank of Zambia Act.

85. The Bank of Zambia is also working to enhance its macro-prudential surveillance framework. A macro-prudential toolkit aimed at mitigating the buildup in excessive credit growth and leverage, maturity mismatches and market illiquidity, exposure concentration, and moral hazard, due to misaligned incentives was developed in April 2022. The identified macro-prudential tools will be operationalized within the 2020-23 strategic planning cycle. Further, regulations and guidelines for the use of countercyclical capital buffers and loan-to-value ratio as well as buffers to manage domestic systemically important banks will be developed in 2023. The conduct of macro stress tests to ascertain the resilience of the system will continue.

86. The Bank of Zambia is committed to establishing and resourcing a dedicated AML/CFT/CPF[11] supervision unit by Q3 2023, to address the deficiencies identified in the 2019 ESAAMLG[12] Mutual Evaluation, 2022 Enhanced Follow-Up Report, and Zambia's 2016 National Risk Assessment. In the interim, risk-based AML/CFT focused on-site examinations are being conducted. The establishment of the dedicated AML/CFT/CPF unit will support the BoZ's risk-based approach to AML/CFT/CPF supervision and the effective application of sanctions, in particular for identified high-risk entities and customers including politically exposed persons.

E. ACHIEVING HIGHER AND MORE INCLUSIVE GROWTH

87. The goal of the Government's economic policies is to raise living standards, and reduce poverty and inequality by creating conditions for strong and inclusive growth. These objectives rest on economic transformation and job creation through implementation of interventions to enhance production and productivity in the agriculture, tourism, mining, manufacturing, energy and transport sectors. Improving the investment climate will also be crucial in promoting productivity in these sectors. Government is digitizing the provision of public services to ease interaction with the private sector which will ultimately improve private sector productivity.

88. Government working has established the Public Private Dialogue Forum (PPDF) to unlock private sector potential by streamlining Government systems and processes. The overarching objective of the PPDF forum is to create a better business enabling environment thereby harnessing trade

[11] Anti-Money Laundering/Countering the Financing of Terrorism/Countering the Financing of Proliferation of weapons of mass destruction.

[12] Eastern and Southern Africa Anti-Money Laundering Group.

and investment opportunities for the private sector locally, regionally and international markets. The PPDF is overseen by a steering committee chaired by the Republican President.

89. In agriculture, to make it more effective, Government will develop the Comprehensive Agriculture Transformation Programme (CATP). The scope of the programme will be expanded over and above the provision of subsidised inputs to farmers through the electronic agro-input system to include extension service support, access to finance, support to value addition, storage and logistics to stimulate growth in selected crop value chains such as maize, soya beans wheat and cassava. The formulation of CATP is expected to be finalized in the second quarter of 2023. Government is also developing the National Crop Diversification Strategy to enhance production and productivity of a diverse range of agricultural commodities and products.

90. To expand land under cultivation and increase production, Government will continue with the development of farm blocks. Government intends to develop farm blocks in all ten provinces of the country over the long term. In the medium term, Government has secured financing from cooperating partners for the development of Nansanga farm block in Central Province, Luswishi in Copperbelt Province and Luena in Luapula province.

91. Tourism. In the Tourism sector, Government will develop other parts of the country by establishing the necessary infrastructure and regulatory framework that will make them attractive for the private sector to establish hotels, lodges and other tourism facilities. Strategic investments will be made in the Northern Tourism Circuit to fully exploit the tourism potential in the region. Government in the 2023 Budget provided incentives such as suspension of customs duty on imports of selected fixtures and fittings, capital equipment, machinery, and safari game viewing vehicles, for non-locally produced items until end-December 2025 to promote investment in the sector. This incentive will only apply on items that are not locally produced. VISA requirements were also waived for a number of countries.

92. Manufacturing. With enhanced support, manufacturing can contribute more to economic transformation and job creation. Government will support value addition to products from the agriculture, forestry and mining sectors. Government will reinvigorate the programme of Multi-Facility Economic Zones (MFEZs) and industrial parks. To ensure the success of the MFEZs, Government working with cooperating partners will undertake an assessment of the MFEZs so as to draw lessons from past implementation and programme design going forward including the effectiveness of incentives provided versus revenue foregone. To reduce the cost of doing business, Government will rationalize the number of licenses and permits required to operate a business. Further, Government will take advantage of market opportunities presented by neighboring countries such as the Democratic Republic of Congo (DRC) as well regional and continent-wide initiatives such as the Tripartite Free Trade Agreement and the Africa Common Free Trade Area (AfCFTA).

93. Energy. Energy is a critical catalyst in restoring growth and achieving economic diversification. The power deficit facing the region provides an opportunity for the country to earn foreign exchange through the sector. More investments are all required as the country’s economy expands. In line with the Integrated Resource Plan which envisages a deficit of 8,000 MW by 2030 in electricity generation to achieve universal access to clean, reliable and affordable energy, Government will create an enabling environment to attract investment from the private sector and cooperating partners, including climate finance, in expansion of generation, transmission and distribution infrastructure.

94. Mining. Government targets to reach production of 3 million metric tonnes in the next nine years. This requires that greenfield projects be initiated through exploitation activities. Government will also ensure resolution of challenges at brownfield projects, such as Konkola Copper Mine and Mopani. Private mining companies will be engaged to enhance their operations such as the S3 expansion project at Kalumbila mine.

95. Enhancing resilience to climate shocks. Climate change remains a significant threat to any country's sustainable development as the experience from the 2021/2022 rainy season demonstrated not only in Zambia but with some of our neighbouring countries. Zambia will therefore remain an active participant in various fora such as the COP to push for an urgent global response to the climate change. In this regard, Government is developing the Climate Change Bill to address some of the impacts of climate change. The Bill will contain provisions for the establishment of the Climate Change Fund which will support national climate change mitigation, adaptation programmes and projects, research and other climate change related developments. The Bill will also contain provisions that will ensure that funds are integrated into the national budget. Identification of projects will be undertaken in line with the Public Investment Management guidelines.

96. Human Development. Investment in human capital is critical to stimulating growth and improving livelihood. To achieve this, Government recruited 30,496 teachers and 11,276 health personnel in 2022. In 2023 and the medium term, government will employ a total of 15,500 frontline personnel and 35,000 personnel between 2024 and 2025.

97. In the 2023 Budget, Government will continue to take additional resources closer to the people through the Constituency Development Fund. These resources will be used for implementation of community-based projects, empowerment funds for youth and women as well as bursaries for secondary and skills training. Of the total of K4.4 billion allocated for the CDF in the 2023 National Budget, 60.1 percent of the resources will be for community-based projects, 20.1 percent for empowerment programmes and 19.8 percent for secondary schools and skills training bursaries. Sector Ministries will continue to provide policy direction and expert advice in the implementation of CDF financed activities. Further, the procurement process and awarding of contracts will be in line with provisions and regulations as provided in the Public Procurement Act No. 8 of 2020.

98. Girls and Women Empowerment. Government remains committed to girls and women empowerment. In this regard, the Girls' Education and Women's Empowerment and Livelihood (GEWEL) Project will continue to be implemented. The project will help keep more than 43,000 girls in school, while more than 129,000 women will be empowered. The GEWEL project will be complimented by financing for women empowerment programmes under the CDF.

99. Financial inclusion. Government's commitment to enhancing financial inclusion was articulated in the National Financial Inclusion Strategy (2017- 2022). Following the end of the strategy, Government, in consultation with Bank of Zambia and other stakeholders are reviewing the successes, failures and challenges in implementation of the strategy whose overriding goal was to increase overall financial inclusion (both formal and informal) from 59 to 80 percent. During the implementation period of the strategy, financial inclusion increased from 59.3 percent in 2015 to 69.4 percent in 2020. Among others, the target of 80 percent financial inclusion was not met due to lack of financial infrastructure in rural areas such as access points. The successor strategy is expected to be finalized by end-December, 2023.

IV. ECONOMIC STATISTICS

100. Government will continue strengthening data collection and estimation of key national economic statistics such as GDP and employment. The focus will be on, developing cost effective instruments and methods for the collection of data such as enhancement of online data collection. This is in line with the Second-Generation Strategy for the Development of Statistics (NSDS2). The strategy is sector inclusive and is one of the tools for the development of statistical systems in all sectors of the economy. Over the long term, all Ministries, Provinces and Agencies (MPAs) will be required to establish functional Statistics Units as well as Management Information Systems, with the view to strengthen sector capacities to produce statistics from administrative records.

101. The Census of Population and Housing was undertaken in August 2022 to provide statistics on Zambia's population and housing stock. To update the national accounts, the Zambia Statistics Agency will rebase the national accounts to 2022, from the current estimates which use 2010 as the base year, by end 2025. Further, the Ministry of Finance and National Planning will continue with the timely publication of fiscal and debt statistics on its website.
The Bank of Zambia will also continue with the publication of monetary and financial statistics.

102. The Bank of Zambia will strengthen the electronic Balance of Payments (e-BoP) monitoring system by extending its coverage to all BoP transactions and enhancing collaboration with other Government regulatory agencies. In this regard, the Bank of Zambia, in collaboration with Zambia Revenue Authority, is exploring an Export Proceeds Tracking Framework (Framework) that will require all export proceeds to be captured in the e-BoP System. There will be no restrictions on the use of foreign exchange outside existing restrictions relating to AML/CFT/CPF obligations. Full operationalization of the Framework is planned for September 2023. Following the implementation of the Framework, the Bank of Zambia and Zambia Revenue Authority technical teams will be sharing information regularly in line with the MoU.

103. Gaps related to unidentified other flows were identified in the compilation of balance of payments statistics; these are largely attributed to the accumulation of foreign assets by the private sector as well as underreported imports. Initial flow of funds accounts have been completed for selected mining companies with assistance from the IMF TA mission. A questionnaire was administered to the mining companies prior to physical visits by the TA mission team and Bank and Zambia Statistics Agency (ZamStats) staff by the end second of the quarter 2023.

104. To support these improvements, a technical team comprising the Bank of Zambia and ZRA has been established to facilitate information sharing and analysis. A detailed action plan to implement the recommendations will be developed and implemented by end-December 2023. The Bank of Zambia, Zambia Revenue Authority and the Ministry of Finance and National Planning will engage the corporate sector to improve the quality of its reporting as these measures are formulated and implemented.

V. PROGRAM MONITORING AND PHASING

105. Our programme is fully funded over the medium term. We have obtained financing assurances from our external partners—including firm commitments for the next 12 months and good prospects for the duration of the programme—to complement the financing provided by the restructuring of external debt. Over the medium term, we will continue to work with our partners to ensure we receive financing that will fully cover the financing gap for the remainder of the programme.

106. Progress in the implementation of the policies under this programme will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks in the attached Tables 1 and 2. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The second semi-annual review will be based on data and performance criteria at end-June 2023 and is expected to take place on or after October 1, 2023. The third review will be based on end-December 2023 test dates and should be completed on or after April 1, 2024. The fourth review will be based on end-June 2024 test dates and should be completed on or after October 1, 2024. The fifth review will be based on end-December 2024 test dates and should be completed on or after April 1, 2025. The sixth review will be based on end-June 2025 test dates and should be completed on or after October 1, 2025

107. We will strengthen internal monitoring mechanisms to ensure strong programme implementation. The Ministry of Finance and National Planning will establish a Technical Committee that will be monitoring the programme and will be submitting monthly programme reports to the Minister.

108. We intend to use half of the IMF financing as budget support and the other half as a buffer to boost Zambia's international reserve position. In line with IMF safeguards policies, we signed in January 2023 a Memorandum of Understanding between the Government and the Bank of Zambia clarifying our respective roles and responsibilities for servicing the associated financial obligations to the Fund.

Table 1. Zambia: Quantitative Performance Criteria and Indicative Targets, 2022–2024

(Millions of Kwacha; cumulative from the beginning of each year; except where otherwise indicated)[1]

	September 2022		December 2022			March 2023		June 2023		September 2023		December 2023		March 2024		June 2024	
	Prog.	Act.	Prog.	Act.	Status	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
I. Quantitative Performance Criteria[2]																	
1. Floor on the central government's primary balance (cash basis)	-5,296	899	-8,533	-7,835	Met	1,644	-4,820	1,866		-4,500		1,058		1,119		2,461	
2. Ceiling on new central bank credit to the central government[3]	0	0	0	0	Met	0	0	0		0		0		0		0	
3. Floor on the net official international reserves of the Bank of Zambia (millions of US dollars)	2,169	2,243	2,225	2,267	Met	2,244	1,993	2,403		1,793		1,952		2,029		2,217	
II. Continuous Performance Criteria																	
4. Ceiling on new external debt arrears by central government, the Bank of Zambia, and ZESCO (millions of US dollars)[4]	0	0	0	0	Met	0	0	0		0		0		0		0	
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by central government, the Bank of Zambia, and ZESCO (millions of US dollars)[5]	0	0	0	0	Met	0	0	0		0		0		0		0	
III. Monetary Policy Consultation																	
6. Average CPI inflation[6]																	
Upper outer band	17.3		17.1			15.9		14.4		13.4		13.8		12.9		12.4	
Upper inner band	15.3		15.1			13.9		12.4		12.4		12.8		11.9		10.9	
Mid-point	13.3	9.8	13.1	9.8		11.9	9.6	10.4		11.4		11.8		10.9		9.4	
Lower inner band	9.3		8.5			8.2		8.0		8.9		9.2		8.5		7.9	
Lower outer band	7.2		6.3			6.0		6.0		6.9		7.2		6.5		6.0	
IV. Indicative Targets																	
7. Floor on the fiscal revenues of central government excluding grants and mining revenues, adjusted by the backlog of VAT refunds	55,421	55,269	74,939	74,458	Not Met	20,731	22,388	44,099									
7a. Floor on the fiscal revenue of central government excluding grants and mining revenue[8]										67,880		90,188		24,627		49,601	
8. Ceiling on the present value of new external borrowing (millions of US dollars)[6]	75.0	0.0	75.0	0	Met	0.00	0.00	0		75		75		0		0	
9. Ceiling on the disbursement of contracted but undisbursed external debt to central government and ZESCO (millions of US dollars)[7]	205.0	102.4	205.0	128.3	Met	200.00	27.80	200		225		225		100		100	
10. Floor on social spending by the central government	26,560	30,143	36,022	39,366	Met	8,551	n.a.	18,103		29,250		39,670		9,359		20,361	
11. Floor on the net clearance of arrears on expenditure and tax refunds	8,743	8,794	11,657	13,642	Met	2,954	n.a.	5,908									
11a. Floor on the net clearance of expenditure arrears[9]										6,029		8,039		1,800		3,800	
12. Floor on the net clearance of arrears of tax refunds[9]										1,631		2,442		610		1,221	
V. Memorandum Items																	
13. Expected budget grant disbursements (millions of US dollars)										0		75		50		100	
14. Expected public sector disbursements into the Treasury Single Account at the Bank of Zambia (millions of US dollars)	274		547			71		141		208		278		93		186	

Sources: Zambian authorities; and Fund staff estimates and projections.

[1] All definitions and adjustors are available in the Technical Memorandum of Understanding (TMU).

[2] Indicative targets for March and September.

[3] Without prejudice to the relevant provisions in the BoZ Act.

[4] Cumulative from the date of program approval.

[5] The ceiling is defined on a currency basis and will exclude non-resident holdings of local currency debt.

[6] Excludes borrowing from the IMF, IDA, and the AfDB.

[7] Excludes disbursements from IDA and AfDB.

[8] From June 2023, the indicative target on the floor of revenue will drop the adjustment for VAT backlog, since this is a separate IT.

[9] From June 2023, the indicative targets on the clearance of arrears are split into separate ITs on expenditure arrears and tax refund arrears to better capture progress in each category.

Table 2. Zambia: Current Structural Benchmarks		
Measure	**Target Date**	**Status**
A. Fiscal measures		
1. Reinstate VAT and excise taxes on fuel, adjusting fuel prices accordingly.	End-September 2022	Met
2. Publish the guidelines to implement the new comprehensive agricultural support program and ensure a full migration of FISP to an electronic agro-input system.	End-December 2022	Met
3. Adopt an action plan to boost revenue collections through changes in tax policy and improvements in revenue administration.	End-October 2022	Met
B. Public debt management and transparency		
4. Publish a quarterly debt statistics bulletin.	Quarterly (on an ongoing basis)	Met
5. Publish summary information on the financing agreements for all newly contracted external loans by the general government, including new loan contracts guaranteed or new guarantees on existing loan contracts.	Quarterly (on an ongoing basis)	Met
6. Enact a revised Loans and Guarantees Authorization Act.	End-September 2022	Met
C. Public financial management		
7. Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.	End-June 2023	Not met, reset to end-August 2023
8. In consultation with Fund staff, submit to Parliament an amended PPP Act.	End-June 2023	Not met, reset to end-July 2023
D. Public enterprises		
9. Cabinet to endorse and publish a multi-year tariff framework and a related action plan to ensure cost-reflective and sustainable electricity tariffs, regulations for periodic tariff reviews, and medium-term policies for targeted tariff subsidies.	End-December 2022	Met

Table 2. Zambia: Current Structural Benchmarks (concluded)		
Measure	**Target Date**	**Status**
E. Governance		
10. Prepare, with IMF staff's support, and publish a comprehensive governance diagnostic, including specific recommendations and a time-bound action plan for implementing them.	End-December 2022	Met
F. Financial stability		
11. Undertake a comprehensive review of the health of the banking sector, including to assess the impact of the COVID-19 pandemic on bank balance sheets.	End-December 2022	Met

Table 3. Zambia: Structural Benchmarks for the Next 12 Months

	Measure	Timetable/ Status	Macroeconomic Rationale	Monitoring / Verification
	Current Structural Benchmarks			
1	**PFM** – Ensure that at least 59 ministries, provinces, and spending agencies (MPSAs) register all purchase orders and other financial commitments in the IFMIS.	End-August 2023	Strengthen fiscal governance, reduce corruption risks, and prevent the accumulation of arrears.	This SB will be met when all of the following conditions have been met: (i) MoFNP has regulations in place that require all commitments where government has a legal obligation to make expenditures at a future date (including contracts signed or purchase orders issued) to be entered into the IFMIS at the time when those commitments are made; (ii) the commitment module in the IFMIS is functional at 59 MPSAs or more; and (iii) those MPSAs are using the system to systematically enter all commitments as they are made. MoFNP will verify (iii) above through quarterly reviews, whereby total commitments, expenditures, and arrears will be compared to those registered in IFMIS. The first submitted review will cover the second quarter of 2023.
2	**PFM -** In consultation with Fund staff, submit to Parliament an amended PPP Act.	End July 2023		The amended act (as submitted) should strengthen the framework for managing the fiscal risks related to PPPs, including by establishing a clear and comprehensive definition of PPP projects, providing the Minister of Finance and National Planning with the mandate to approve or reject PPP projects based on potential fiscal implications, and requiring public disclosure of key risks and fiscal implications of proposed PPP projects and awarded PPP contracts.

Table 3. Zambia: Structural Benchmarks for the Next 12 Months (continued)

	Measure	Timetable/ Status	Macroeconomic Rationale	Monitoring / Verification
3	**Debt transparency** – Publish a quarterly debt statistics bulletin, including key information on new loans and guarantees.	Quarterly (ongoing)	Improve debt management and transparency.	Bulletin published on the MoFNP website with a two months lag from the reporting period.
	Proposed New Structural Benchmarks			
4	**Revenue mobilization** – Establish a unified Large Taxpayer Office (LTO) that will deal with all large taxpayers	End March-2024	Large taxpayers, constituting 0.3 percent of the total taxpayer population contribute to 80 percent of total revenue. Having a dedicated LTO is in line with tax administration best practices and will help improve taxpayer services and boost revenues.	The SB will be met when the LTO is formally established (through ZRA Board approval), its role, responsibilities and structure are defined, and the unit is staffed and operational.
5	**Fiscal risks** – Expand the scope of the Fiscal Risk Report (FRR) to include key risks stemming from SOEs, local authorities, public pension schemes, PPPs and other obligations as well as the potential consequences of climate change. Establish standard methodologies and assumptions applied to quantifying risks. Assess risks in a forward-looking manner.	End-June 2024	Quantify and mitigate fiscal risks related contingent liabilities.	Prepare and submit to IMF staff an expanded FRR by end-June 2024 (prior to publishing it no later than end-September 2024).

Table 3. Zambia: Structural Benchmarks for the Next 12 Months (continued)				
Measure		Timetable/ Status	Macroeconomic Rationale	Monitoring / Verification
6	**Cash management** – Prepare an action plan to rationalize banking arrangements of local authorities, province- and district-level government entities, to discuss options for eventual inclusion in TSA, and to reduce account balances at commercial banks.	End-March 2024	Reduce financing costs and improve the efficiency and oversight of the use of public resources	Action plan approved by the Secretary to the Treasury and submitted to IMF.
7	**Debt management** – Approve a new organizational structure for the debt management office.	End-December 2023	Strengthen debt management	Cabinet Office to approve the new structure that should align its mandate and structure with best practice and the new Public Debt Management Act.
8	**Governance and anti-corruption** – Submit draft Access to Information Bill to Parliament.	End-October 2023	Strengthen oversight on the use of public resources / Reduce corruption vulnerabilities by strengthening transparency and accountability in the public sector	The submitted bill should include proactive transparency requirements for government agencies and provisions for a designated agency responsible for overseeing the implementation of the law
9	**FISP contracts** – Publish summary information on all procurement contracts related to the annual Farmer Input Support Program (FISP) or its successor.	Ongoing – within 3 months of contract award	To ensure ongoing transparency on FISP given ongoing direct procurement of some inputs	Publish the specified information on procurement contracts on the Ministry of Agriculture Website within 3 months of contract award. The published information should include the types and quantities of inputs, the names of the companies awarded, their beneficial owners, the contract amounts, and procurement method (open bidding or direct bidding).

Table 3. Zambia: Structural Benchmarks for the Next 12 Months (concluded)				
10	**Migration to e-voucher system** – Implement migration from Direct Input Supply to e-voucher system in at least 33 districts in line with the migration criteria and principles outlined in the published Action Plan (including private sector participation in inputs distribution and the farmers' choice to select inputs).	Q3 2023	Ensure sustainability of the fiscal consolidation	Publish the list of at least 33 districts (with at least 300,000 beneficiaries) that migrated to e-voucher system in the 2023-24 farming season on the Ministry of Agriculture website by September 2023.
11	**Financial stability** – Produce and publish the inaugural annual financial stability report	End-June 2024	Support financial stability	Report is published online.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program, and reflects the understandings between the Zambian authorities and the IMF.** The TMU also defines the associated reporting requirements.

2. **The exchange rates for the purposes of the program are specified in Table 1 below.**

Table 1. Zambia: Program Exchange Rates
(Rates as of May 31, 2022)

Currency	Zambian Kwacha per currency unit	Currency units per US Dollar
US Dollar	17.28	1.00
GB Pound	21.71	0.80
Euro	18.46	0.94
Rand	1.10	15.67
SDR	23.32	0.74

Source: Bank of Zambia.

3. **For the purposes of the program, the central government of Zambia corresponds to the budgetary central government encompassing the activities of the national executive, legislative, and judiciary branches covered by the national budget.** Specifically, it includes Parliament, the Office of the President, the national judiciary, all ministries, departments, agencies, constitutional commissions, and independent offices. See Annex Table 1.

4. **The fiscal year starts on January 1 and ends on December 31.**

Quantitative Performance Criteria

A. Floor on the Central Government's Primary Balance (Cash Basis)

Definition

5. **The floor on the primary balance of the central government will be measured from the financing side ("below the line") at current exchange rates and on a cash basis.** Data on net domestic financing (NDF) will be reconciled between the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BoZ). The primary fiscal balance is calculated as the difference between government primary revenue and primary expenditure. Government primary revenue includes all tax and non-tax receipts, including external grants but excluding all interest revenue. Primary expenditure consists of current plus capital expenditure, excluding all interest payments.

Reporting

6. **Data will be provided to the Fund, using current exchange rates, with a lag of no more**

than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

Adjustor

7. If the amount of general budget support grants expected to be disbursed within the fiscal year falls short of the programmed amount, the floor on the primary balance will be adjusted downward by the amount of the shortfall. The kwacha value will be calculated at the program exchange rate. General budget support grants exclude grants linked to externally-financed capital projects or those earmarked to fund particular activities and programs.

B. Ceiling on New Central Bank Credit to the Central Government

Definition

8. New central bank credit to the central government is defined as the change in the total stock of outstanding loans and advances by the BoZ to the central government. It excludes:

- purchases by the BoZ of debt securities issued by the Government in the open market for purposes of implementing monetary and financial stability policies;
- on-lending of IMF credit; and
- interest accrued on the stock of outstanding loans and advances by the BoZ to the Government, its institutions, agencies, statutory bodies, and local authorities.

Reporting

9. The data for new central bank credit to the central government will be reconciled with the monthly monetary survey and submitted within 25 business days of the end of the month.

10. Data submissions should include a breakdown of outstanding loans and advances, as well as outstanding amounts of other central bank claims on the government, including debt securities and on-lending of IMF credit.

C. Floor on the Net Official International Reserves of the Bank of Zambia

Definition

11. The net official international reserves (NIR) of the BoZ will be calculated as the difference between its gross international reserves and official reserve liabilities.

12. Gross international reserves consist of:

- monetary gold;
- foreign currency;

- unencumbered foreign-currency deposits at non-resident banks;
- foreign securities and deposits; and
- SDR holdings and Zambia's reserve position with the IMF.

13. Gross international reserves exclude:

- non-convertible currencies, except for operational balances in Rand with the South African Reserve Bank;
- any encumbered reserve assets including but not limited to reserve assets pledged, swapped (maturing in less than one year), or used as collateral or guarantee for third-party external liabilities;
- reserve requirements on other depository corporations' foreign currency deposits;
- any foreign assets not readily available to or not controlled by the BoZ; and
- any foreign currency claims on Zambian residents.

14. Official reserve liabilities are defined as short-term (one year or less in original maturity) liabilities of the BoZ to non-residents, plus any outstanding use of IMF credit, and swap arrangements (maturing in less than one year) with residents and non-residents. Short-term liabilities exclude liabilities with an asset counterpart that is encumbered (excluded from the asset side as well).

15. All values not in U.S. dollars are to be converted to U.S. dollars using the program exchange rates defined in paragraph 2 above.

Reporting

16. Daily data on net international reserves, including their components, will be reported by the BoZ on a weekly basis, within 15 business days from the end of each week.

Adjustor

17. If the amount of public sector disbursements expected to be channeled through the Treasury Single Account (TSA) at the BoZ falls short of the programmed amount (e.g., due to disbursement delays or delays in the transfer of the associated funds from GRZ accounts to BoZ gross international reserves), the NIR target will be adjusted downward by the amount of the shortfall.

Continuous Performance Criteria

D. Ceiling on New External Debt Arrears by Central Government, the Bank of Zambia, and ZESCO

Definition

18. The performance criterion on the non-accumulation of new external debt arrears is defined as a cumulative flow in gross terms starting from the date of program approval (August 31, 2022), and applies on a continuous basis. External debt arrears are defined here as debt service (principal and interest) that is overdue (taking into account any contractually agreed grace periods) on external debt contracted or guaranteed by the central government, the BoZ, and ZESCO with non-residents. This performance criterion does not cover arrears on debt subject to renegotiation or restructuring.

19. External debt is defined on a residency basis. The term "debt" has the meaning set forth in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current (i.e., not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Reporting

20. Arrears will be monitored continuously by the MoFNP, including for ZESCO, and the BoZ.

The MoFNP will immediately report to the IMF staff any new accumulation of external arrears; otherwise, data will be compiled jointly by the two institutions, and will be reported by the MoFNP on a quarterly basis, within 30 days from the end of each quarter.

E. Ceiling on the Contracting or Guaranteeing of New Non-Concessional External Debt by Central Government, the Bank of Zambia, and ZESCO

Definition

21. For the purpose of the ceiling, the newly contracted or guaranteed external debt by the central government, the BoZ and ZESCO with non-residents is concessional if it includes a grant element of no less than 35 percent. The grant element is the difference between the net present value (NPV) of debt and its nominal value and is expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due. The discount rate used for this purpose is 5 percent. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such that both components constitute an integrated financing package with a combined grant element equal to at least 35 percent. External debt is defined as in paragraph 18 above.

22. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the three-month U.S. Secured Overnight Financing Rate (SOFR) is 2.38 percent and will remain fixed for the duration of the program. The spread of three-month Euro EURIBOR over three-month USD SOFR is -150 basis points. The spread of three-month JPY Tokyo Interbank Offered Rate (TIBOR} over three-month USD SOFR is -250 basis points. The spread of three-month U.K. Sterling Overnight Index Average (SONIA) over three-month USD SOFR is -50 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over three-month USD SOFR is -50 basis points.[1] Where the variable rate is linked to a benchmark interest rate other than the three-month U.S. SOFR, a spread reflecting the difference between the benchmark rate and the three-month U.S. SOFR (rounded to the nearest 50 basis points) will be added. Given the ongoing transition away from LIBOR, once operationally feasible, this TMU can be updated to reflect the benchmark replacement for JPY LIBOR, the Tokyo Overnight Average Rate (TONAR)).

23. This minimum grant element applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed for which value has not been received.

24. New non-concessional external debt is defined as any form of new debt other than concessional debt as defined in paragraph 20 above, contracted or guaranteed by the central

[1] The program reference rate and spreads are based on the "average projected rate" for the three-month U.S. SOFR over the following 10 years from the most recent April 2022 World Economic Outlook (WEO).

government, BoZ, and ZESCO with non-residents.

25. **For the purpose of this performance criteria, the ceiling on contracting or guaranteeing of new non-concessional external debt by the central government, BoZ, and ZESCO excludes**: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; iv) short-term trade credits for imports, incurred since the beginning of the calendar year; and v) central bank debt issuance for the purposes of monetary policy or reserves management and foreign exchange swaps for the purposes of monetary policy or reserves management.

26. **For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met in accordance with the terms of the contract and as provided in the national legislation**. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

Reporting

27. **For the purposes of this PC, which will be monitored continuously, the MoFNP will immediately report to the IMF staff details of any new external loans contracted or guarantees issued.** Otherwise, detailed data on all new external debt (concessional and non-concessional) contracted or guaranteed by the central government, BoZ, and ZESCO will be provided by the MoFNP on a monthly basis, within 30 days from the end of each month. The information will include (i) amounts contracted or guaranteed; (ii) currencies; and (iii) terms and conditions, including interest rates, maturities, grace periods, payments per year, commissions and fees, and collaterals.

Monetary Policy Consultation Clause

28. **The consultation bands apply to the average rate of inflation in consumer prices as measured by the overall consumer price index (CPI) published by ZamStats.** If the observed quarterly average rate of CPI inflation (calculated as the average of the 3 monthly year-on-year inflation rates within a quarter) falls outside the outer bands for June and December test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. If the observed quarterly average rate of CPI inflation falls outside the inner bands for each test date, the authorities will conduct discussions with Fund staff.

Indicative Targets

F. Floor on the Fiscal Revenues of the Central Government Excluding Grants and Mining Revenues

Definition

29. The fiscal revenues of the central government include all tax and non-tax receipts, but exclude external grants as well as revenues from corporate income tax on the mining sector and the mineral royalty tax.

Reporting

30. Data on fiscal revenues (cash basis) will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

G. Ceiling on the Present Value of New External Borrowing

Definition

31. This indicative target is a ceiling and applies to the present value of all new external debt contracted or guaranteed by the central government, the BoZ and ZESCO, including commitments contracted or guaranteed for which no value has been received. External debt is defined as in paragraphs 18 above. The present value (PV) of new external debt is calculated by discounting the future stream of payments of debt service (principal and interest) due on this debt on the basis of a discount rate of 5 percent and taking account of all aspects of the debt agreement including the maturity, grace period, payment schedule, upfront commissions, and management fees. In the case of loans for which the grant element is zero or less than zero, the PV is set at an amount equal to the nominal value of the debt.

32. For the purpose of this indicative target, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind).

33. For the purposes of this indicative target, the ceiling excludes: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by non-residents; (iii) debt contracted from IMF, World Bank and AfDB; (iv) short-term trade credits for imports, incurred since the beginning of the calendar year.; and (v) central bank debt issuance and foreign exchange swaps for the purposes of monetary policy or reserves management.

Reporting

34. The authorities will inform the IMF staff of any planned external borrowing and the

conditions on such borrowing before the loans are either contracted or guaranteed by the government and will consult with staff on any potential debt management operations.

H. Ceiling on the Disbursement of Contracted but Undisbursed External Debt to Central Government and ZESCO

Definition

35. This ceiling applies to the disbursement of contracted but undisbursed external debt to the central government and ZESCO, and of contracted but undisbursed government-guaranteed external debt to ZESCO. The ceiling is set based on data shared by the authorities with staff on projected disbursements of contracted but undisbursed external debt between 2022 and 2025, after taking into account the authorities' estimates for the cancelation and rescoping of contracted but undisbursed external loans and applies to this list. External debt is defined as in paragraph 18 above. Disbursements from IDA and AfDB will be excluded from this ceiling.

Reporting

36. Detailed data on disbursements of contracted but undisbursed external loans of the central government and contracted but undisbursed external loans of ZESCO (government-guaranteed or not) will be provided on a quarterly basis, within 30 days from the end of each quarter, including amounts, currencies, creditors, and project names.

I. Floor on Social Spending by the Central Government

Definition

37. Social spending is defined as central government expenditure on the Social Cash Transfer, Food Security Pack, Empowerment Fund (Women and Youth), the Public Welfare Assistance Scheme, Water and Sanitation, budget transfers to the Public Service Pensions Fund, the Health Sector, and the Education Sector. It is computed on a cash basis.

Reporting

38. Data will be provided to the IMF staff, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

J. Floor on the Net Clearance of Expenditure Arrears and Floor on Net Clearance of Tax Refund Arrears by Central Government

Definition

39. Arrears on (i) expenditure and (ii) tax refunds are defined as:

(i) Expenditure Arrears

- **For wages, salaries, and pension contributions:** any payments outstanding after the agreed date for payment of staff and for payroll deductions to third parties.
- **For goods & services and capital spending (including contractor payments):** an arrear arises when the bill has been received and delivery verified, but payment has not been made within the normal period per standard GRZ policy (30 days), or as stated in the supplier's contract.
- **For utilities:** if unpaid for 30 days or more after receipt of invoice.
- **For subscriptions and leases:** amounts outstanding after the due date.

For the purposes of assessing the indicative target, changes in the stock of expenditure arrears due to ongoing audits, accumulation of penalties or interest, and exchange rate valuation effects will not affect the assessment. The target will be considered as met, when agreed stock at the end of the previous fiscal year is reduced in an amount equal or larger than the agreed pace of rundown of arrears.

(ii) Tax (VAT) Refund Arrears

- **For VAT refunds:** overdue if unpaid one month after the claims were validated and approved for payment.

For the purposes of assessing the indicative target, the impact of newly validated claims for the previous year will be neutralized. This means that the target will be assessed as met if the gross clearance of VAT refunds is equal to (or more than) the sum of new claims submitted for the current year plus the agreed pace of rundown of the previous year's arrears.[2]

Reporting

40. Information regarding central government arrears on expenditure and tax refunds will be compiled through quarterly audits of the accounts of the ZRA and spending ministries and agencies, conducted by the Internal Audit Department of the MoFNP. The audits will be completed, and data submitted within 90 days from the end of each quarter. For expenditure arrears, arrears denominated in foreign currency will be reported in the original currency of denomination.

41. For VAT refund arrears, the MoFNP will report separately clearance of the stock of audited VAT refunds accumulated up to the end of the previous fiscal year, as well as accumulation and clearance of newly approved VAT refund claims in the current fiscal year.

Monitoring and Reporting Requirements

42. To facilitate the monitoring of the program, the information listed in Annex Table 2 below

[2] The indicative target is set on the validated stock of VAT refund arrears of the previous fiscal year and assumes no new accumulation of arrears in the current fiscal year.

will be reported to the IMF staff within the timeframe indicated. These data will be provided electronically by email to AFRZMB@IMF.ORG.

Annex Table 1. Zambia: Administrative Units Comprising the Budgetary Central Government

Office of the President – State House
Office of the Vice President
National Assembly
Electoral Commission of Zambia
Civil Service Commission
Office of the Auditor General
Cabinet Office – Office of the President
Teaching Service Commission – Office of the President
Zambia Police Service Commission
Zambia Police Service
Office of the Public Protector
Ministry of Mines and Mineral Development
Ministry of Home Affairs and Internal Security
Drug Enforcement Commission
Ministry of Foreign Affairs and International Cooperation
Judiciary
Disaster Management and Mitigation Unit
Local Government Service Commission
Ministry of Information and Media
Public Service Management Division
Ministry of Local Government and Rural Development
Zambia Correctional Services
Ministry of Justice
Ministry of Commerce, Trade and Industry
Human Rights Commission
Ministry of Small and Medium Enterprise Development
Zambia Correctional Service Commission
Ministry of Finance and National Planning
Smart Zambia Institute
Ministry of Labor and Social Security
Ministry of Water Development and Sanitation
Ministry of Green Economy and Environment
Ministry of Infrastructure, Housing and Urban Development
Ministry of Energy
Ministry of Technology and Science
Ministry of Tourism
Ministry of Youth, Sport and Arts
Ministry of Defense
Zambia Security Intelligence Services – Office of the President
Ministry of Education
Ministry of Lands and Natural Resources
Ministry of Fisheries and Livestock
Anti-Corruption Commission
Muchinga Province
Ministry of Agriculture
Lusaka Province
Copperbelt Province
Central Province
Northern Province
Western Province
Eastern Province
Luapula Province
North-Western Province
Southern Province

Annex Table 2. Zambia: Reporting Requirements

Data Description	Data Freq.	Reporting Agency	Reporting Freq.	Reporting Date
Monetary and financial sector				
1. Reserve money and its components (NDA and NFA) at current and program exchange rates	D	BoZ	W	T15
2. Excess reserves	D	BoZ	M	T15
3. Overnight interbank rates	D	BoZ	W	T15
4. Treasury bill and BoZ bill auction results	W	BoZ	W	T15
5. Interest rates	M	BoZ	M	T15
6. Holdings of government and BoZ securities by maturity and type of investors (local commercial banks, non-banks, and foreigners)	M	BoZ	M	T15
7. Monetary survey (incl. the BoZ and ODC surveys)	M	BoZ	M	T15
8. Financial soundness indicators by bank	M	BoZ	M	T15
External sector				
9. Exchange rates	D	BoZ	W	T15
10. Gross international reserves and foreign exchange purchases and sales	D	BoZ	W	T15
11. BoZ FX cash flow	M	BoZ	M	T15
12. FX backlog	W	BoZ	M	T15
Fiscal				
13. Net domestic financing	D	BoZ	W	T7
14. Fiscal table including revenue, expenditure, and financing	M	MoFNP	M	T30
15. Social spending	Q	MoFNP	Q	T30
16. Stocks of arrears on expenditure, tax refunds, and domestic debt service	Q	MoFNP	Q	T90
17. Stock of VAT arrears divided by stock of arrears as of end-year plus new approved VAT refund claims and payments in the current fiscal year.	Q	MoFNP	Q	T90
Real sector				
17. Consumer price index and monthly statistical bulletin	M	ZamStats	M	T15T90
18. National accounts	Q	ZamStats	BA	
				T30
External debt				
19. New external loans contracted or guaranteed by the central government, BoZ, and ZESCO, or any other agency on their behalf, with detailed information on the amounts, currencies, terms, conditions, and purposes.	Q	MoFNP	Q	T30
20. Disbursements of contracted but undisbursed external loans to the central government and contracted but undisbursed external loans to ZESCO (government-guaranteed or not)	M	MoFNP	Q	
				T90
Program monitoring				
21. Report on program performance	Q	MoFNP	Q	

D = Daily, W = Weekly, M = Monthly, Q = Quarterly, BA = Bi-annual, A = Annual; TX = X days after the date of the last observation

INTERNATIONAL MONETARY FUND

ZAMBIA

June 30, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2023)

Membership Status: Joined: September 23, 1965; Article VIII
General Resources Account:

	SDR Million	Percent Quota
Quota	978.20	100.0
Fund holdings of currency	978.20	100.0
Reserve position in Fund	0.02	0.0

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,406.70	100.0
Holdings	1,203.32	85.54

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF arrangements	139.88	14.30

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	08/31/2022	10/30/2025	978.20	139.88
ECF [1]	06/04/2008	06/29/2011	220.10	220.10
ECF [1]	06/16/2004	09/30/2007	220.10	220.10

Projected Payments to the Fund[2]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	0	0	0	0	0
Charges/interest	3.94	7.87	7.86	7.86	7.86
Total	3.94	7.87	7.86	7.86	7.86

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding form more than three months, the amount of such arrears will be shown in this section. Figures in this section are as of June 1, 2023.

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	Dec. 2000
Assistance committed (1999 NPV terms)[3]	
By all creditors (US$ million)	2,499.20
Of which: Fund assistance (US$ million)	602.00
(SDR equivalent in millions)	468.80
Completion point date	April 2005
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to Zambia	468.80
Interim assistance	351.60
Completion point balance	117.20
Additional disbursements of interest income[4]	39.47
Total Disbursement	508.27

Implementation of MDRI Assistance

I. Total debt relief (SDR million)[5]		402.59
Of which:	MDRI	398.47
	HIPC	4.12

II. Debt relief by facility (SDR million)

Delivery date	GRA	PRGT	Total
January 2006	n/a	402.59	402.59

[3] Net present value (NPV) terms at the decision point under the enhanced framework.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for assistance. The debt relief covers all debt owed to the Fund as of end-2004 that is outstanding at the time the member qualifies for the relief.

Safeguard Assessments

An updated safeguards assessments of the Bank of Zambia (BoZ) was completed in September 2022 and found that its safeguards framework required strengthening in several areas. Comprehensive legislative reforms were necessary to reinforce the central bank's mandate and autonomy and underpin governance practices. Transparency and accountability mechanisms need to be enhanced through stronger oversight and audit quality procedures. Outstanding credit to government raises financial autonomy concerns and an interpretation of the statutory limit is needed to ascertain its legal compliance. In addition, the BoZ and the government needed to agree and formalize their respective roles and responsibilities related to the 2021 general SDR allocation in a manner that safeguards the BoZ's autonomy. Furthermore, the process for compilation of program monetary data should be reinforced, including through further assurance by the central bank's internal audit function. Transparency and accountability mechanisms need to be enhanced through stronger oversight and audit quality procedures. The process for compilation of program monetary data should be reinforced.

Legislative reforms to strengthen the central bank's mandate, autonomy, and governance arrangements have been enacted in line with staff's advice, and the BoZ signed a Memorandum of Understanding with the Government clarifying respective roles and responsibilities for servicing the associated financial obligations to the Fund.

Exchange Rate Arrangement

The currency of Zambia is the kwacha. While the de jure exchange rate arrangement is described as floating by the authorities, the de facto exchange rate arrangement is classified as a crawl-like arrangement. The kwacha exchange rate determined in the interbank market. The buying rate of the BoZ is a simple average of the primary dealers' low bid rates, and the BoZ's selling rate is the simple average of the primary dealers' high offer rates. On April 19, 2002, Zambia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

Zambia continues to maintain an exchange restriction, which is subject to Fund approval under Article VIII, arising from limitations imposed by the government on access to foreign exchange for the making of payments and transfers for current international transactions, which is evidenced by the existence of external payments arrears accumulated prior to October 4, 1985.

Article IV Consultations

Zambia is on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangement. The Executive Board concluded the last Article IV consultation on July 24, 2019.

FSAP Participation and ROSC

Zambia has participated in the financial sector assessment program (FSAP); an FSAP mission from the Fund and the World Bank conducted a comprehensive external assessment of the financial system on April 30–May 15, 2002, and July 15–26, 2002. A follow-up FSAP mission was conducted by the Fund and the World Bank in November 2008. More recently, another joint World Bank-Fund FSAP mission was conducted on July 11-August 3, 2016 to assess the stability of the financial system. On June 8-16, 2017, a mission from the Fund was conducted to update the stress tests of the 2016 FSAP. This was followed by a Fund TA mission in 2019 that assisted the BoZ in enhancing the coverage of the existing stress testing framework by incorporating liquidity stress testing.

The fiscal transparency module of a Report on Observance of Standards and Codes (ROSC) assessing compliance with the IMF's Code of Good Practices on Fiscal Transparency—Declaration of Principles was issued to the Executive Board on October 31, 2001. A ROSC data module was issued to the Executive Board on January 18, 2005.

Technical Assistance Missions

Department	Dates	Purpose
FAD	Nov 2022	Public financial management
	Sept 2022	Tax administration
	Aug 2022	Public financial management
	July 2022	Public financial management
	Nov 2021	Tax administration
	Oct 2021	Public financial management
	Aug 2021	Tax administration
	July 2021	Tax policy
	Feb 2021	Tax administration
	Dec 2020	Tax administration
	Jul 2020	Tax administration
	Jul 2020	Tax administration
	Jun 2020	Public financial management
	Jul 2019	Public financial management
	Apr 2019	Public financial management
	Apr 2016	Customs administration
MCM	May 2023	Monetary policy framework
	Apr-May 2023	Cyber Risk Supervision
	Dec 2022	FX intervention methodology
	Nov-Dec 2022	Cyber Risk Supervision
	Nov 2022	FX operations
	Oct 2022	Basel II/III implementation
	Sept 2022	Monetary policy operation
	Sept 2019	FPAS
	Jul-Aug 2019	Debt management
	May 2019	Debt management
	April 2019	Stress testing
STA	May 2023	External sector statistics
	Oct 2022	Price statistics
	May 2022	External sector statistics
	Apr 2022	External sector statistics
	Mar 2022	National accounts
	Feb 2022	External sector statistics
	Feb 2022	Price statistics
	Nov 2021	Government finance statistics
	Aug 2021	National accounts

Department	Dates	Purpose
STA	Jun 2021	Price statistics
	May 2021	External sector statistics
	Mar 2021	National accounts
	Oct 2020	External sector statistics
	Sept 2020	National accounts
	Jun 2020	Price statistics
	Feb 2020	National accounts
	Nov 2019	Government finance statistics
	Nov 2019	National accounts
LEG	Feb 2023	Governance
	Apr-May 2022	Governance
	Jan 2022	Governance

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank:

https://www.worldbank.org/en/country/zambia

African Development Bank

https://www.afdb.org/en/countries/southern-africa/zambia

STATISTICAL ISSUES

As of April 30, 2023

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Issues with source data and compilation affect most datasets but are particularly problematic in fiscal reporting.
National accounts: The Central Statistics Office (CSO) estimates GDP for the current year from benchmark year 2010 and a combination of survey and administrative data. The authorities now compile GDP estimates using value added (VAT) and business income tax data from the Zambian Revenue Authority (ZRA). In October 2016, the CSO started publishing quarterly GDP estimates using quarterly source data, including fiscal records from the ZRA. The priority area is to develop a new GDP benchmark within the next three years. AFRITAC South is providing technical assistance over the ongoing GDP rebasing process as well as on the compilation of GDP using the expenditure approach.
Price statistics: The classification system used for compilation of the CPI closely follows the Classification of Individual Consumption by Purpose. The current weights are based on expenditure data reported by households in 2002. There is urgent need for a household expenditure survey to update the CPI weights. An ongoing AFRITAC South project on the compilation of the producer price index (PPI) is expected to enhance the measurement of volume changes of GDP and its components.
Government finance statistics (GFS): The institutional coverage of GFS data is limited to budgetary central government. These data include intergovernmental transfers of about 2 percent of GDP to extra-budgetary, social security, and local government units—the economic nature of these expenses are not known and all sources of own revenue of these entities are excluded from the fiscal data. The authorities report monthly budget releases data to the IMF's African Department for operational use in a timely manner, but the data are often subject to substantial revisions. The reconciliation of data on fiscal outturn in fiscal reports and government's accounts in monetary statistics requires significant improvement. IMF's Statistics Department has been providing capacity development support through the Data for Decision (D4D) fund; the most recent technical assistance mission took place remotely in December 2021.
Monetary statistics: The Bank of Zambia (BOZ) reports monetary data to STA for the central bank and other depository corporations on a timely basis. Data for Other Financial Corporations are reported with long delays. Monetary statistics are reported using the standardized report forms, which accord with the concepts and definitions of the IMF's *Monetary and Financial Statistics Manual (MFSM)*. BOZ also reports data on some basic series and indicators of IMF's Financial Access Survey including mobile money and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches 100,000 adults and ATMs per 100,000 adults).

I. Assessment of Data Adequacy for Surveillance
Financial sector surveillance: BoZ reports 13 core FSIs and 6 additional FSIs for deposit takers on a regular and timely basis which are disseminated on the IMF's FSI website.
Balance of payments statistics: The data adequacy has gradually improved in recent years. The BoZ compiles balance of payments (BOP) and international investment position (IIP) statistics according to the Sixth edition of Balance of Payments and International Investment Position Manual (BPM6). BOP and IIP data are compiled quarterly although the publication time lag is higher than 120 days of the reference quarter. The BoZ has started conducting new services surveys in compliance with BPM6 which have contributed to the significant revision in the services series as well as the fob valuation of exports and imports of goods. The coverage of the quarterly investment survey (relating to financial account and primary income) should be improved as well is its incorporation in the BOP statistics.
External and domestic debt statistics: Data provision is broadly adequate for surveillance purposes. Recent efforts, facilitated by technical assistance, have led to an improvement in the consolidation of the debt databases, both in terms of external and domestic debt. Further work is underway in these areas.
II. Data Standards and Quality
Zambia has participated in the General Data Dissemination System (GDDS) since November 2002, and in June 2016 it implemented the e-GDDS recommendations and disseminated a National Summary Data Page (NSDP), publishing 14 of the 15 e-GDDS data categories and remaining in Baseline 2 of the e-GDDS. Since June 2016, updating of the NSDP has not been consistent. A Data ROSC Assessment was published in February 2005.

Zambia: Table of Common Indicators Required for Surveillance

As of April 30, 2023

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange rates	Apr 30, 2023	Apr 30, 2023	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Apr 30, 2023	May 2023	D	W	M
Reserve/base money	March 2023	May 2023	M	M	M
Broad money	March 2023	May 2023	M	M	M
Central bank balance sheet	March 2023	May 2023	M	M	M
Consolidated balance sheet of the banking system	March 2023	May 2023	M	M	M
Interest rates[2]	Apr 30, 2023	May 2023	W	W	M
Consumer Price Index	Apr 2023	Apr 2023	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	N/A	N/A			
Revenue, expenditure, balance and composition of financing[3]— central government	Feb 2023	Apr 2023	M	M	M
Stocks of central government and central government–guaranteed debt[5]	Q4 2022	Mar 2023	Q	Q	Q
External current account balance	Q4 2022	Mar 2023	Q	Q	Q
Exports and imports of goods and services	Q4 2022	Mar 2023	M	M	M
GDP/GNP	Q4 2022	Mar 2023	Q	Q	M
Gross external debt	Q4 2022	Mar 2023	A	A	A
International investment position [6]	Q3 2022	Mar 2023	Q	Q	Q

[1]Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. The publication of the new IIP series started in April 2019. According to the Bank of Zambia, the series will be updated on a quarterly basis.

[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A); irregular (I); or not available (NA).

INTERNATIONAL MONETARY FUND

ZAMBIA

June 30, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou (AFR) and Jarkko Turunen (IMF) and Asad Alam and Manuela Francisco (IDA)

The Debt Sustainability Analysis (DSA) was prepared jointly by the staffs of the International Monetary Fund and the International Development Association, in consultation with the authorities.

Zambia: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgment	*No*

Zambia remains in debt distress. The accumulation of external arrears continued in 2022 and reached 11 ½ percent of GDP. Despite significant fiscal adjustment, in the absence of a signed agreement on a deep debt restructuring, Zambia is in overall and external debt distress, and public debt remains unsustainable. Under the baseline, all four external debt burden indicators would breach their indicative thresholds by large margins through the medium term.[1] *The authorities have reached an agreement with official bilateral creditors on a debt treatment under the G20 Common Framework and are in ongoing discussions towards signing an MOU. They also have a credible restructuring strategy in place to treat commercial creditors on comparable terms. Under an alternative scenario, where the treatment agreed with the official bilateral creditors is applied to the baseline, and commercial claims are treated on comparable terms, debt would be assessed to be sustainable.*

[1] Zambia's debt-carrying capacity is currently rated as weak based on the composite indicator (CI). The composite indicator is calculated using data from the April 2023 WEO and the latest available 2021 CPIA.

PUBLIC DEBT COVERAGE

1. **The coverage of Zambia's public and publicly guaranteed (PPG) debt for the purpose of the DSA includes the following:** i) central government domestic and external debt, including $1.5 billion of arrears to external suppliers (fuel and contractors) and central government guaranteed external debt; ii) the nonguaranteed external debt of Zambia Electricity Supply Company (ZESCO), the fiscally important state-owned utility;[2] and iii) the domestic and external arrears of the same enterprise. Central bank external debt (including outstanding Fund credit), together with the debt of social security funds guaranteed by the central government,[3] are also included in the coverage.

2. **The DSA incorporates non-guaranteed SOE debt in the baseline.** In accordance with the LIC-DSF Guidance Note, given the significant fiscal risks posed by ZESCO, its non-guaranteed external debt ($93 million at end-2022)[4] and outstanding payables to domestic ($1.33 billion at end-2022) and external ($139 million at end-2022) independent power producers (IPPs), are included in the DSA perimeter. The authorities are taking steps to restore ZESCOs' financial viability over the medium term. As progress is made, the inclusion of its non-guaranteed debt in the DSA debt perimeter will be reassessed. The authorities reported no other outstanding non-guaranteed external debt of nonfinancial SOEs that staff consider to pose a contingent fiscal risk warranting inclusion in the DSA. Local governments in Zambia currently do not have the capacity to borrow without the central government's guarantee. The authorities confirmed that no extrabudgetary funds with outstanding debt currently exist.

3. **The 2021 General SDR allocation has been incorporated into the DSA in line with the staff guidance note.[5]** The authorities are using the SDR allocation (approved by the IMF in August 2021) to finance the budget over 2022-24;[6] in line with their plans, they used 50 percent of the allocation, and plan to use 25 percent in each of 2023 and 2024.

4. **The DSA is conducted on a residency basis. In line with the LIC-DSF Guidance Note, while recognizing the underlying measurement challenges, nonresident holdings of domestic-currency debt (as recorded by the authorities) are treated as external debt for the purpose of this DSA.** The stock of such holdings at end-2021 was about 54.1 billion kwacha or $3.2 billion (28 percent of outstanding domestic-currency government securities), equivalent to 12.8 percent of GDP. End-December 2022 data

[2] The government guaranteed debt of ZESCO and other SOEs has always been included in the DSA and is now also part of the authorities' officially published debt metric. ZESCO's contingent risks to the sovereign relate to its persistent and large cash deficits. See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, 2018, https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

[3] As of end-December 2022, this debt consists solely of an outstanding government guaranteed external loan to the Public Service Pension Fund of $52.7 million.

[4] ZESCO generated sufficient revenues in 2022 to continue servicing its nonguaranteed external debt.

[5] See Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations, August 2021, https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/08/19/Guidance-Note-for-Fund-Staff-on-the-Treatment-and-Use-of-SDR-Allocations-464319.

[6] Equivalent to about $1.3 billion

indicates this stock had declined to 47.4 billion kwacha or about $2.6 billion (23 percent of outstanding domestic-currency government securities).

Text Table 1. Zambia: Public Debt Coverage and Magnitude of Contingent Liability Tailored Stress Test

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	**The country's coverage of public debt**	The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	12.0	ZCCM-IH purchase of Mopani from Glencore.
4	PPP	35	percent of PPP stock	1.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			18.4	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt

BACKGROUND ON DEBT

5. **In the 2022 DSA,[7] Zambia's debt was assessed as in debt distress.** This followed a default on their sovereign Eurobonds in 2020 and the accumulation of arrears to both official bilateral and other commercial external creditors. By end-2022, interest and principal arrears on external debt reached $4.2 billion, or 15 percent of GDP. Note the accumulation of arrears in 2022 only relates to claims in the debt restructuring perimeter. To help address their debt sustainability challenge, the authorities requested a debt treatment under the G20 Common Framework (CF) in January 2021.

6. **Following the staff-level agreement on a new ECF-supported program with the IMF in December 2021, the Official Creditor Committee (OCC) under the CF was formed in June 2022.** The OCC delivered the necessary financing assurances to support the program request in July 2022. This was followed by a series of technical workshops with OCC creditors and a further five meetings of the OCC. In parallel, the authorities engaged in good faith negotiations with its Eurobond holders, facilitated by the bondholder committee that was established in July 2020, and other external private creditors.

7. **Zambia's external PPG debt increased to $20.9 billion in 2022.[8]** This reflected close to $1.17 billion in new foreign-currency denominated external debt disbursements to the central government—principally by the IMF and World Bank—and an increase in interest arrears on foreign currency-denominated external PPG debt of about $397 million in 2022. The stock of expenditure arrears due to

[7] Zambia: Request for an Arrangement Under the Extended Credit Facility-Press Release; Staff Report; Staff Supplement; Staff Statement; and Statement by the Executive Director for Zambia (imf.org). The 38-month ECF-arrangement was approved on August 31, 2022.

[8] The creditor composition of external debt (see text Table 1) has been adjusted to reflect the representation of official creditors in the OCC that some claims backed by an official export-credit agency should be classified as commercial claims. Given this re-classification, commercial creditors share in total external debt has increased from 4½ percent to 9¾ percent in this DSA update.

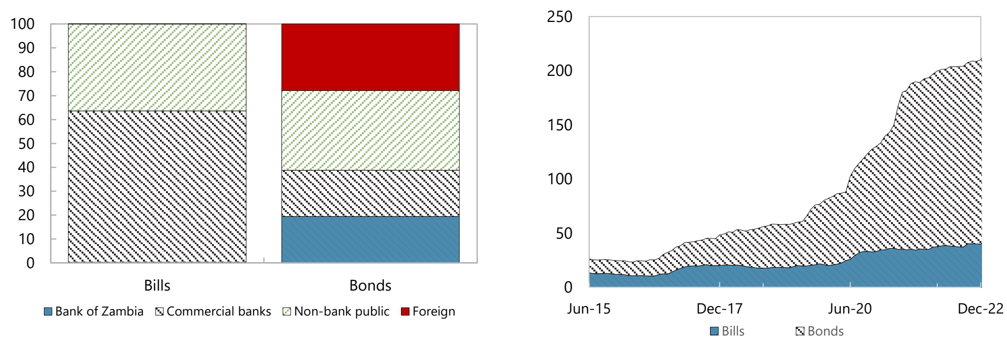
non-resident suppliers (fuel and contractors), together with the stock of ZESCO's arrears to external IPPs was broadly unchanged at $1.7 billion at end-December 2022. However, the stock of non-resident holdings of domestic-currency debt declined significantly to $2.6 billion by end-2022. In parallel, while further interest arrears (of $62 million) also accumulated on government guaranteed external debt, ZESCO's non-guaranteed external debt declined by $42.5 million as it generated sufficient revenues in 2022 to continue servicing it. As a result, external PPG debt ended the year about $896 million higher (see text Table 1). In parallel, the outstanding stock of domestically-issued government securities stood at 210 billion kwacha at end-2022 (or 44 percent of GDP), up from 193 billion a year ago. With domestic budget arrears declining, and ZESCO domestic IPP arrears remaining flat, total PPG debt ended 2022 at $33.4 billion (or 119.6 percent of GDP).

Text Figure 1. Profile of Central Government Domestically Issued Securities

(end-December 2022)

Composition of Holders
(Percent)

Stock Composition
(Billions of Kwacha)



Sources: Zambia authorities and IMF staff estimates.

8. Zambia remains shut out from international capital markets and funding pressures in the domestic debt market have risen. After a period of elevated spreads that averaged 6,400 since the beginning of 2023, spreads on Zambia's Eurobonds dropped to 2,332 as of June 23, 2023, following the announcement of an agreement with the OCC on a debt treatment. However, this remains, amongst the highest in EM and frontier markets. Reflecting a combination of tighter global financial conditions and uncertainty around the debt restructuring process, non-resident investors withdrew from the domestic debt market in 2022—they did not reinvest proceeds of maturing holdings, engaged in some secondary market sales, and did not provide new inflows of funds to the market. As a consequence, the share of non-resident holders of domestic debt stood at 23 percent as at end-2022, down from a peak of around 29 percent earlier in the year (see Text Figure 1). The lack of these flows led to a drop in demand at bond auctions and domestic yields began to trend upwards, after a period of rapid decline post-SLA announcement. Financing risks remain elevated consistent with the DSF market-financing module, although the signal of this module is currently less relevant given Zambia is currently shut-out from international markets (Figure 5).

Text Table 2. Zambia: Public and Publicly Guaranteed Debt Stock—Creditor Composition and Contracted Debt Service[1] (as of end-2022)

	Debt stock (end of period) [2] 2022			Debt service [3]			
				2023	2024	2023	2024
	(In US$)	(Percent total debt)	(Percent GDP) [10]	(In US$)		(Percent GDP)	
Total	33,365	100.0	119.6	5,474	6,453	18.4	21.7
External foreign-currency debt	18,340	55.0	65.7	2,458	3,335	8.3	11.2
Multilateral creditors[4]	3,568	10.7	12.8	140	149	0.5	0.5
IMF	186	0.6	0.7				
World Bank	2,078	6.2	7.4				
ADB/AfDB/IADB	886	2.7	3.2				
Other Multilaterals	418	1.3	1.5				
o/w EIB	195	0.6	0.7				
o/w IFAD	136	0.4	0.5				
Bilateral creditors[5]	6,327	19.0	22.7	1,058	1,031	3.6	3.5
Paris Club	1,477	4.4	5.3	302	291	1.0	1.0
o/w: Israel	473	1.4	1.7				
o/w: UK	238	0.7	0.9				
Non-Paris Club	4,850	14.5	17.4	756	740	2.5	2.5
o/w: China	4,174	12.5	15.0				
o/w: India	331	1.0	1.2				
Eurobonds	3,517	10.5	12.6	451	1,408	1.5	4.7
Commercial creditors	3,235	9.7	11.6	809	746	2.7	2.5
Fuel arrears	721	2.2	2.6	n/a	n/a	n/a	n/a
Arrears to external contractors	832	2.5	3.0	n/a	n/a	n/a	n/a
ZESCO external IPP arrears	139	0.4	0.5	n/a	n/a	n/a	n/a
Domestic-currency debt	15,025	45.0	53.9	3,016	3,118	10.1	10.5
Held by residents, total	8,993	27.0	32.2	2,572	3,375	8.6	11.3
Held by non-residents, total	2,621	7.9	9.4	445	320	1.5	1.1
T-Bills	2,211	6.6	7.9	2,017	2,017	6.8	6.8
Bonds	9,403	28.2	33.7	999	1,101	3.4	3.7
Loans	-	-	-				
Domestic budget arrears and ZESCO domestic IPP arrears	3,412	10.2	12.2				
Memo items:							
Collateralized debt[6]	2,428	7.3	6.8				
o/w: Related							
o/w: Unrelated							
Contingent liabilities	n/a	n/a	n/a				
o/w: Public guarantees							
o/w: Other explicit contingent liabilities[7]							
SOE guaranteed external debt[8]	1,517	4.5	4.2				
SOE non-guaranteed external debt (ZESCO)[8]	93	0.3	0.3				
Total external PPG debt[9]	20,961	62.8	58.7				
Nominal GDP	29,742						

1/ Based on end-December 2022 data from the authorities (before the application of the debt treatment) and IMF staff estimates. It includes arrears on principal and interest. It does not include any penalty fees or interest on the arrears.
2/ Includes direct debt to central government, SOE guaranteed debt and non-guaranteed debt of ZESCO
3/ Contracted debt service; creditor classification according to the OCC representation.
4/ "Multilateral creditors" are simply institutions with more than one sovereign as a shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
5/ Includes loans to central government and loans backed by guarantee from an official export-credit agencies, except Sinosure backed commercial claims.
6/ Based on latest available data, as of end-December 2022, there was around $2.5 billion of disbursed external foreign-currency debt (inlcuding non-guaranteed debt of ZESCO) with some form of security or escrow arrangement that could be considered as collateralized debt, including debt with a government guarantee or third-party (exporter) guarantee as security. Almost all this debt is in arrears and, where the security or escrow provides for a claim on funds in a specific account, the authorities have reported zero balances in those accounts. The exception is the non-guaranteed external debt of ZESCO which is collateralized with receivables and which is being serviced. Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations
7/ Based on information received, there are no such contingent liabilities. Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).
8/ Reflected in external foreign-currency public debt in this table.
9/ Total PPG external debt comprises total external foreign-currency debt, domestic-currency debt held by non-residents, fuel arrears, arrears to external contractors, and ZESCO non-guaranteed external debt and arrears.
10/ The debt-to-GDP ratios are calculated from the value in national currency by converting outstanding debt in US dollars at eop exchange rate, and nominal GDP at average period exchange rate.

Sources: Zambian authorities and IMF staff calculations.

MACROECONOMIC ASSUMPTIONS

The macroeconomic framework underpinning this DSA is consistent with the baseline in the First Review of the ECF program. Key changes from the previous DSA include a slight upward revision to *real GDP growth, a slightly stronger current account balance on average, and a modestly weaker exchange rate.*

9. Recent developments. Greater macroeconomic stability, boosted by the anticipation of the ECF-arrangement and World Bank supported programs, led to robust growth in 2022. Despite supply-chain and weather-related disruptions in the mining sector real GDP is estimated to have grown by 4.7 percent. Fiscal performance was strong with a 6.2 percentage point improvement in the primary balance (on a commitment basis), leading to surplus of 0.9 percent of GDP. In parallel, the primary balance on a cash basis improved by 0.5 percentage points of GDP to a deficit of 1.6 percent of GDP. This reflected in large part the removal of fuel subsidies and a reduction in the cost of the agricultural subsidy program. Electricity tariffs have also been increased to bring them more into line with cost-reflective levels. While external pressures re-emerged in the last quarter of 2022, they have subsided with news of the agreement on a debt treatment with the OCC, leading to a moderate appreciation in the exchange rate. Progress in public financial management, including to avoid the accumulation of new expenditure arrears, and debt management, with enhanced transparency on debt statistics and the enactment of the 2022 Public Debt Management Act, - The mandate and independence of the Bank of Zambia (BoZ) has also been strengthened through the 2022 Bank of Zambia Act.

10. Growth. Growth assumptions for 2022-27 have been revised slightly upward from the previous DSA, including to reflect the robust performance of 2022. Reflecting the perceived improvement in the business environment, Zambia Development Authority (ZDA) reported a significant increase in interest in direct investment opportunities in 2022. The authorities are close to finding a new strategic partner for Mopani Copper Mines, and hope to resolve the situation with Konkola Copper Mines in the near future, both of which would boost copper and cobalt production significantly. SMEs will benefit from new initiatives such as the World Bank-supported Off-Grid Loan Facility to support private sector renewable energy projects, especially to help electrify rural villages. Growth is expected to average around 4.7 percent over 2023-32, a slight improvement from the previous DSA. Structural, fiscal, and institutional reforms are projected to build the foundation for sustained growth over the longer run that is driven by a competitive private sector. For example, removal of market distortions should bring financial sustainability to the energy sector (electricity and petroleum) and, the removal of agricultural export bans should support a more productive agriculture sector. Business license simplification will reduce the costs that new firms face when entering markets. The reorienting of expenditure away from inefficient subsidies and toward investments in education, health, and social protection will help build human capital. Decentralization of public services to the communities is anticipated to increase the efficiency of spending and aid reforms to increase budget credibility and fight corruption

11. Inflation. Inflation projections remain broadly unchanged from the previous DSA. At the end of 2022, inflation dropped to 9.9 percent from the 24.6 percent peak in August 2021, despite the impact of the reintroduction of VAT and excise on fuel and the exchange rate depreciation in the final quarter of the year. The significant fiscal consolidation over 2022, the confidence impact of the new ECF program and the appreciation of the kwacha over the first nine months of 2022 helped stabilize inflation below 10 percent from May 2022. The Bank of Zambia tightened monetary conditions—increasing both the monetary policy rate and reserve requirements on deposits—in response to emerging inflationary pressures in the beginning of 2023, helping keep inflation capped at 10 percent Over the medium term, inflation is projected to stabilize around the mid-point of the Bank of Zambia target band, broadly unchanged from the previous DSA.

12. External. The outlook for the external position remains broadly unchanged from the previous DSA, with a significant improvement expected over the program period. The current account deteriorated by $1.1bn in 2022 on account of a significant decline in the trade balance. Export growth was lower than projected in the ECF-request on account of low copper prices in 2022H2 and weaker copper production. Economic recovery, high fuel and energy prices did lead to an increase in imports by $1.8bn, though $800mn less than projections in the ECF-request. The abrupt exit of non-resident holders from the domestic debt market led to a sharp decline in the financial account, despite an improvement in net FDI flows to $338mn, though still $737mn short of the projected level in the ECF-request. Despite these pressures, the Bank of Zambia was able to increase the level of gross reserves. Preliminary 2023 data show a 15 percent increase in trade flows through April over 2022 levels. The external position is projected to improve relative to historic levels following the debt restructuring and the continued implementation of policies under the program that will reduce the deficit, improve business confidence, and attract further foreign direct investment. For instance, ongoing efforts to streamline business licenses, strengthen the legal framework for public-private partnerships, and address key governance weaknesses and corruption vulnerabilities.[9] The current account balance is expected to register an average of 7.9 percent surplus for the period 2023-2032, a slight improvement from the previous DSA. The improved current and financial accounts are expected to support the build-up of FX reserves to the targeted five months of prospective imports by the end of the program.

13. Fiscal. Fiscal performance is expected to continue improving under the program. Building on the success in delivering a sharp consolidation in 2022, and to continue helping place public debt on a declining path, the primary balance (commitment basis) is targeted to further improve to a surplus of 3.3 percent of GDP by 2025 (an additional 2.5 percentage point adjustment) underpinned by further efforts to improve spending efficiency and by the authorities' medium-term revenue mobilization plan. Revenues (excluding grants and adjusted for arrears on VAT refunds) are projected to increase to 21.8 percent of GDP by 2025, compared to their 2019 (pre-COVID) level of 19.6 percent of GDP. This includes the impact of eliminating tax expenditures (implicit subsidies) on fuel worth about 1.2 percentage points of GDP, together with other measures to broaden the tax base and strengthen compliance. Overall, this is projected to translate into a further adjustment of 3.4 percentage points in the primary balance (cash basis). After the end of the program, the authorities are expected to maintain prudent fiscal policies.

14. Financing. Financing assumptions are guided by the debt conditionality under the program. Looking ahead, domestic borrowing will remain a key source of financing for Zambia, though concessional borrowing—primarily from the IMF, World Bank and African Development Bank—will comprise an important part of the financing mix (Text Figure 2). External financing during 2022-25 will come from the disbursements of $1.5 billion on contracted but undisbursed priority project loans, $1.4 billion of new

[9] As outlined in the government-endorsed IMF Diagnostic Report on Governance and Corruption – Zambia, January 2023.

financing from the World Bank (including grants), $1.3bn financing from the IMF, and $300 million from the African Development Bank.[10] Under the program, Zambia will not undertake any non-concessional borrowing unless an exception is granted in line with the IMF's Debt Limits Policy or World Bank Sustainable Development Finance Policy. Access to international markets is assumed to be lost through the medium term, and non-residents participation in the domestic debt market is expected to remain limited, including due to the authorities' efforts to limit their participation in new issues over the program period in order to protect external debt sustainability.

Text Table 3. Zambia: Macro and Debt Assumptions

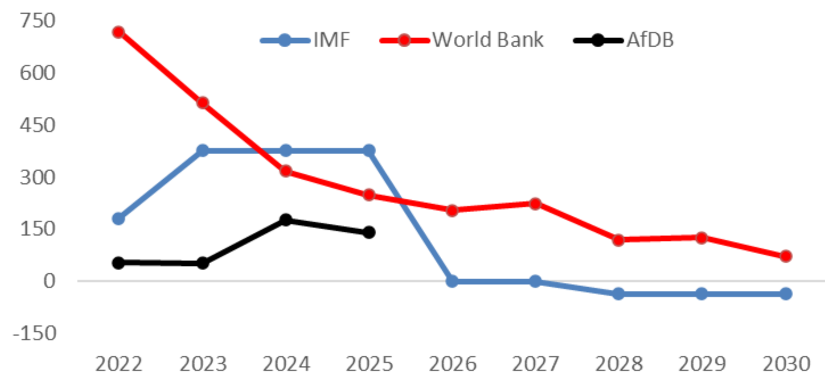
	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percentage change)							
Real GDP growth								
Program DSA	-2.8	3.6	3.0	3.9	4.1	4.5	4.7	5.0
Current DSA	-2.8	4.6	4.7	3.6	4.3	4.5	4.7	5.0
Inflation								
Program DSA	15.7	20.5	13.0	9.6	7.7	7.2	7.0	7.0
Current DSA	15.7	20.5	11.0	10.6	9.6	7.5	7.0	7.0
GDP deflator								
Program DSA	13.7	23.4	8.4	8.7	7.3	6.8	6.8	6.8
Current DSA	13.7	27.6	8.6	12.1	9.9	7.3	6.9	6.5
	(Percent of GDP)							
Primary deficit (on commitment basis)								
Program DSA	10.1	6.0	-0.7	-2.2	-2.7	-3.2	-3.2	-3.2
Current DSA	10.1	5.8	-0.8	-2.0	-2.9	-3.3	-2.4	-2.6
Non-interest current account balance								
Program DSA	16.8	11.3	5.2	4.4	6.4	6.8	6.9	8.9
Current DSA	15.0	13.3	3.5	7.5	9.7	10.8	10.8	11.1
Net FDI inflows								
Program DSA	-1.1	0.0	4.0	4.0	4.9	5.0	5.1	5.1
Current DSA	1.0	0.7	1.7	2.1	2.8	3.7	4.5	4.5
	(Percent)							
Avg. nominal interest rate on external debt								
Program DSA	4.2	3.0	4.3	4.3	4.3	4.4	4.5	4.5
Current DSA	5.8	4.8	3.0	3.7	3.7	3.9	3.9	4.0
	(Millions of dollars)							
Project loan disbursements (incl. guarantees)								
Program DSA	1424	522	468	445	363	265	200	377
Current DSA	1424	522	396	505	363	279	237	324

Source: IMF staff projections.

[10] New financing from the World Bank refers to new operations approved since the staff-level agreement (SLA) was reached with Fund staff in December 2021 on the Extended Credit Facility. Beyond the IDA20 replenishment cycle (July 2022 through June 2025), IDA financing figures are based on assumptions. Actual financing will depend on IDA replenishment volumes, country performance, and other operational factors. Delivery of DPFs will be dependent on an agreement with the government on a strong program of policy and institutional reforms, and adequacy of the macroeconomic policy framework.

Text Figure 2. Net Financing from IFIs, 2022–30 1/

($ millions)



1/ This figure only reflects financing flows on which there are explicit financing assurances. There are good prospects that AfDB net flows will continue beyond the end of the IMF-supported program.
Sources: IMF and World Bank staff estimates.

15. The restructuring strategy is presented as an alternative scenario of the DSA, as discussions with private sector creditors are still ongoing. Official creditors represented by the G20 Common Framework OCC have reached an agreement on a debt treatment for Zambia that is in line with the financing assurances provided in June 2022. This agreement entails a fully quantified two-stage approach subject to a review clause to be evaluated at the end of the program period. The elements of the review will be agreed with the authorities during the drafting of the MoU. Conditioned on the review, a state-contingent treatment will be triggered linked to Zambia's debt carrying capacity (DCC). In the base case that is consistent with Zambia remaining assessed as having a weak DCC, official creditors will significantly lengthen the maturity of their claims and reduce their interest costs consistent with the parameters of the ECF-arrangement. If the assessment of Zambia's economic performance and policy making warrants an upgrade to a medium DCC, the upside treatment will be triggered and there will be some acceleration of principal payments and higher interest payments to official creditors. This treatment will remain anchored in the LIC-DSF and meet the corresponding DSA thresholds at medium DCC, i.e., the PV of external debt-to-exports at "substantial space to absorb shocks" threshold at 108 percent by 2027 and maintain the external debt service-to-revenue ratio at or below the 18 percent threshold over 2026-31.

16. Private creditors are expected to deliver a treatment on comparable terms with the OCC. In line with the provisions of the G20 Common Framework, comparable treatment will be assessed taking into account the change in debt service, the NPV loss, and the change in the duration of the claims.[11]

17. At the operational level, debt sustainability will also be supported by the debt conditionality under the IMF program, which stipulates a zero ceiling on new non-concessional external borrowing

[11] As described in the Common Framework term sheet adopted by the G20 and endorsed by the Paris Club in November 2020.

during the program period, as well as a ceiling on the PV of new concessional external borrowing. The IT on the present value of new external borrowing is set in line with the expected borrowing plan for 2022-23 agreed at program approval, with the envisaged new borrowing from IFIs to be signed in the second half of 2023 rather than in 2022 (see Text Table 4). In 2024, no new external borrowing is expected to be contracted, except for World Bank and AfDB financing, and issuances on the domestic market.[12]

18. Downside risks to the outlook. Uncertainties around the outlook for copper prices and production is a key source of risk.[13] Rainfall variability also remains a key risk to Zambia's sustainable growth, affecting critical sectors like agriculture, electricity and mining, and also likely to aggravate external vulnerabilities, although the authorities' reform agenda aims to mitigate these risks over time. The materialization of these risks would increase debt vulnerabilities.

19. Upside risks. These stem mainly from a faster global and domestic growth, a speedy resolution of the remaining aspects of the debt restructuring, greater confidence effects, including from stronger and broader reform momentum, and higher copper production and prices.

20. Realism tools suggest that baseline scenario projections are reasonable. The DSA realism tools (Figure 3, 4) highlight the large size of the programmed fiscal adjustment relative to outcomes in other LIC programs, and the likelihood of a diminished growth contribution from public investment over the forecast period. However, the risk that the adjustment proves infeasible is mitigated by the demonstrated track record of the authorities to take needed measures.

Text Table 4. Zambia: Summary Table of Projected Borrowing Program[1]

January 1, 2023 to December 31, 2023

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)		PV of new debt in 2023 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Concessional debt, of which	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI debt	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
By Creditor Type	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
IFI	175.0	100	71.9	100	71.9	100
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**175.0**	**100**	**71.9**	**100**	**71.9**	**100**
Infrastructure	175.0	100	71.9	100	71.9	100
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	

1/ In line with the TMU definition of the debt ceilings, it does not include new financing from IMF, World Bank, AfDB and projected issuances of local-currency debt to non-residents

Source: IMF staff calculations based on authorities' reported data.

[12] The accumulation of new external debt through the issuance of new debt in the domestic market will be constrained by the authorities' decision to limit the participation of non-residents in primary auctions to five percent of issuance.

[13] The baseline is based on futures market prices, which suggest prices will remain at recent elevated levels, and are consistent with the assumptions under underpinning the April 2023 IMF World Economic Outlook.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

21. Zambia's debt-carrying capacity under the Composite Indicator (CI) rating is assessed as weak, unchanged from the previous DSA.[14] The latest CI score of 2.59 remains below the cut-off for medium debt-carrying capacity of 2.69,[15] so the assessment of debt sustainability is based on the thresholds for a weak debt-carrying capacity country.

Text Table 5. Zambia: Composite Indicator and Thresholds

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.59	Weak 2.38	Weak 2.59

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public de	
total public	35

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.145	1.21	47%
Real growth rate (in percent)	2.719	3.311	0.09	3%
Import coverage of reserves (in percent)	4.052	30.879	1.25	48%
Import coverage of reserves^2 (in percent)	-3.990	9.535	-0.38	-15%
Remittances (in percent)	2.022	1.604	0.03	1%
World economic growth (in percent)	13.520	2.856	0.39	15%
CI Score			2.59	100%
CI rating			Weak	

New framework	Cut-off values	
Weak	CI <	2.69
Medium	2.69 ≤ CI ≤	3.05
Strong	CI >	3.05

22. The DSA includes stress tests that follow standardized and tailored settings. The standardized stress tests indicate breaches of all debt thresholds for an extended period (Table 3 & 4 and Figures 1 & 2). Zambia has a significant reliance on commodity exports that triggers the commodity price shock, but the natural disasters shock does not apply. Given significant Eurobond issuance in the past, the market financing tool applies. The contingent liabilities shock is calibrated to Zambia, with an additional 10 percent of GDP added to the standard SOE shock to account for risks stemming from the debt of SOEs, as well as potential contingent risks arising from the 2020 acquisition of the Mopani mine by ZCCM-IH, a majority

[14] The composite indicator is calculated using data from the April 2023 WEO and 2021 CPIA (the latest available).

[15] The import coverage of reserves projections, which have an important contribution to the CI score (see text table) may be overestimated due to data quality and possible misclassification of items that should be recorded more accurately as imports rather than elsewhere in the financial account (e.g., in the case of multinational companies, intragroup provision of services). The ongoing technical assistance with the authorities is expected to address this weakness in the balance of payments statistics over the program period.

state-own investment holding company.[16] The rest of the components under the contingency liability shock are kept at their default settings.

EXTERNAL DSA ASSESSMENT

23. Under the baseline, all four external debt burden indicators breach their respective thresholds (Figure 1). The debt service-to-revenue ratio soars to a peak of 60 percent in 2024 given the large amount of debt service falling due and the relatively low revenue base, and remains well above the 14 percent threshold until 2033 (averaging about 34 percent in 2023-32). Similarly, the debt service-to-exports ratio peaks at around 27 percent in 2024 and only falls to the threshold of 10 percent in 2029 and breaches again in 2031 (averaging about 16 percent over 2023-32). On the stock side, the PV of PPG external debt-to-GDP averages about 55 percent from 20232-32, falling below the prudent threshold of 30 percent only in 2039,[17] while the PV of PPG external debt-to-exports indicator also breaches the 140 percent threshold in 2023 (averaging about 118 ½ percent over 2023-32).

24. The thresholds for all four external debt indicators are breached by large margins under stress tests. The standardized exports shock is the most extreme for all external debt indicators, except the debt service to revenues ratio for which the one-time depreciation shock is the most extreme. Under the standardized exports shock, the PV of PPG external debt-to-exports ratio peaks at 308 percent in 2025 and remains well above the threshold throughout the medium and long term. Under the one-time depreciation shock, the debt service-to-revenues ratio peaks at 76 percent in 2024 and remains well above the threshold throughout the entire projection period. The market financing tool also points to significant vulnerabilities debt vulnerabilities in Zambia, although the relevance of this signal is reduced given Zambia is currently shut-out from international markets.

PUBLIC DSA ASSESSMENT

25. Under the baseline, the benchmark for the PV of total PPG debt-to-GDP is breached throughout the medium and long term (Figure 2). After peaking at 112 percent in 2022, the ratio remains elevated (at an average of about 78 percent from 2023-32), before finally falling below the threshold in 2036. The most extreme shock for this indicator is also the standardized exports shock, which peaks at 116 percent in 2025. Similarly, the combined contingent liabilities shock, which accounts for risks from SOE debt, PPPs and the financial sector, peaks at 115 percent in 2024 and remains above the threshold throughout the long-term forecast horizon.

[16] Sensitivity analysis conducted by staff at the time of Staff Level Agreement in December 2021 showed that the Mopani mine would be financially viable even if copper prices fell to $7,070 per metric tonne and copper output only reached 86,000 metric tonnes. In that scenario, it would take ZCCM-IH until 2040 to repay the debt due to Glencore. However, the net cash flow would remain marginally positive after royalties and capex. Note the authorities have been actively seeking a strategic investor for Mopani that would reduce any residual risks significantly.

[17] Note the measurement of this indicator is complicated by the fact that the authorities are currently working on rebasing GDP; however, this work is not expected to be concluded until end-2025 at the earliest.

RISK RATING AND VULNERABILITIES

26. Zambia remains in debt distress, and debt is deemed unsustainable in the absence of a debt treatment in line with program parameters. This DSA update is based on the macroeconomic framework underpinning the first review, which entails significant fiscal adjustment and incorporates the expected new financing of around $3.0 billion from the IMF, World Bank (including grants), and the African Development Bank together over 2022-25.[18] Nevertheless, large financing gaps will remain over this period and would need to be filled through a debt restructuring operation in line with program parameters.

27. In the alternative restructuring scenario that takes into account the treatment agreed with the OCC, Zambia would remain in debt distress due to arrears to private creditors. However, taking into account the authorities' continuing good faith negotiations with private creditors on a treatment on comparable terms, Zambia's debt would be assessed as sustainable on forward-looking basis. Under the restructuring scenario that incorporates the delivery of the state-contingent debt relief agreed within the framework of the G20 Common Framework, two alternative baselines might materialize depending on the evaluation of Zambia's DCC at the end of the program period:

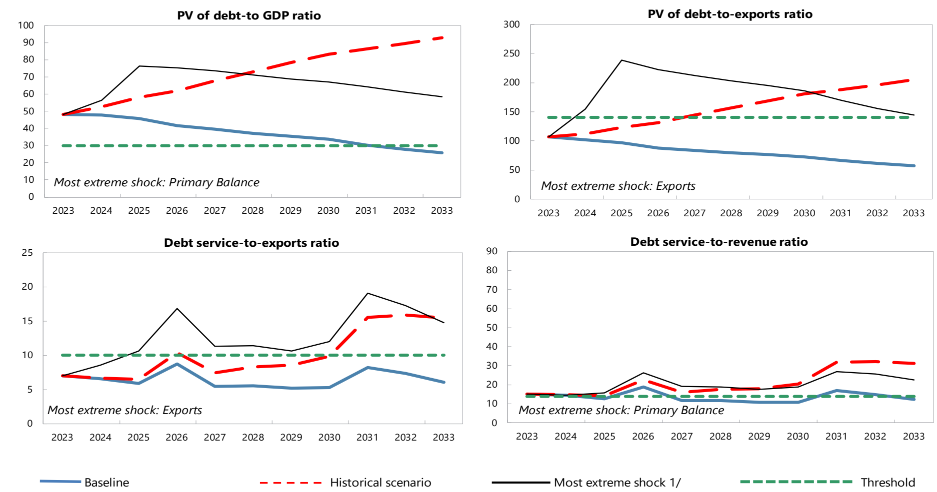
- Under the scenario where Zambia remains assessed as weak DCC, the base case treatment will prevail (Text Figure 3). Under this alternative baseline, the PV of external debt-to-exports falls steadily below the "substantial space to absorb shocks" threshold of 84 percent by 2027, while the debt service-to-revenue ratio drops below the 14 percent threshold by 2025 and remains at 14 percent on average over 2026-31. Therefore the targets under the IMF-supported program are met, and Zambia's debt would be assessed as sustainable with a moderate risk of debt distress over the medium term, despite the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio that averages about 39 percent from 2023-32, and only falls below the threshold of 30 percent in 2032. In parallel, the external debt service-to-exports indicator would remain well below its threshold, averaging 6½ percent over 2026-31.

- Under a scenario where the Zambia's economic performance and policy-making improves such that Zambia's debt-carrying capacity is upgraded to medium, the upside treatment will be triggered. Under this alternative baseline, risks to Zambia's deb sustainability are mitigated by the steady decline of the PV of external debt-to-exports that falls below the "substantial space to absorb shocks" threshold of 108 percent by 2027, while the external debt service-to-revenue ratio remains at 18 percent on average over 2026-31. Again, this mitigates the protracted and large breach of the threshold by the PV of PPG external debt-to-GDP ratio indicator, which averages about 45 percent from 2023-32, and only falls below the threshold of 40 percent in 2030. In parallel, the external debt service-to-exports indicator remains well below its threshold, averaging 8½ percent over 2026-31. Again, all external debt burden indicators do decline to

[18] Total financing from the World Bank amounts to about $2.1 billion over 2022-25. New financing from new operations that were approved after the SLA and which contribute to reducing the BoP financing gap amounts to $1.4 billion out of which about $278 million will be provided in grants.

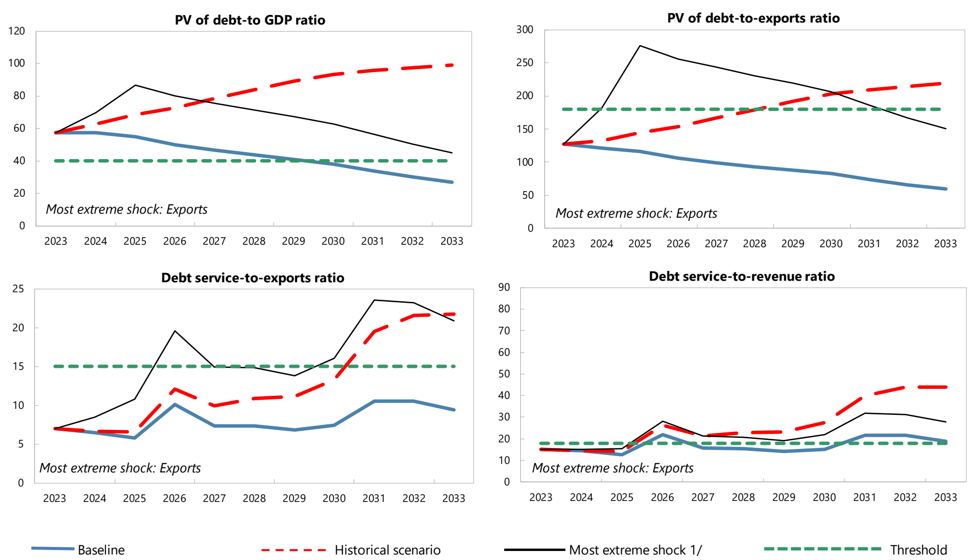
levels consistent with Zambia reaching a moderate risk of external debt distress over the medium term (see Text Figure 4).

Text Figure 3. Alternative Baseline, Base Case Treatment – Indicators of PPG External Debt, 2023–2033[1/]



1/ Includes the agreed OSI, and a treatment of private claims that is consistent with comparability of treatment.
Sources: IMF staff projections based on the main elements of the agreed OCC treatment.

Text Figure 4. Alternative Baseline, Upside Case Treatment–Indicators of PPG External Debt, 2023-2033[1/]



1/ Includes the agreed OSI, and a treatment of private claims that is consistent with comparability of treatment.
Sources: IMF staff projections based on the main elements of the agreed OCC treatment.

28. Risks to the debt outlook are significant. This DSA is predicated on the Zambian authorities' commitment under their program to undertake credible steps to restore medium-term debt sustainability, including to restore macroeconomic stability and achieve higher economic growth. Delays or slippages in fiscal policy adjustment, or external shocks that impact the macroeconomic framework, could significantly impact the debt trajectory. These risks are mitigated by the authorities' track record of implementing robust policy reforms since coming to power in August 2021.

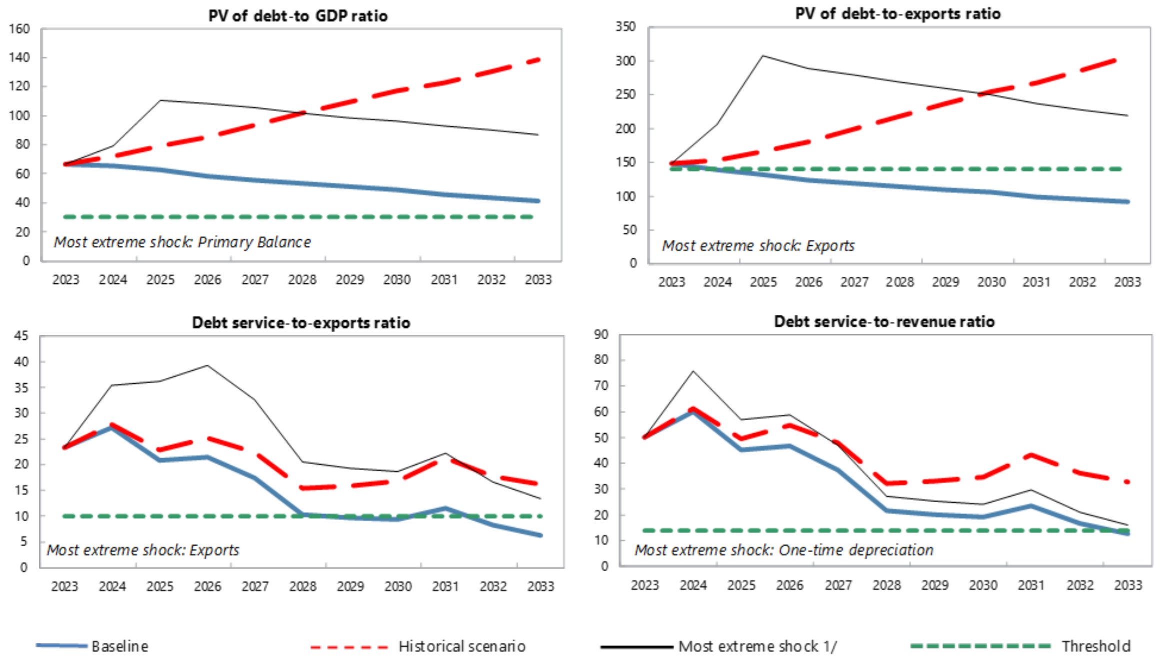
29. Other reforms to support debt sustainability following the debt restructuring are also underway or in the pipeline and will further mitigate risks. To strengthen the institutional framework, the authorities adopted a new Public Debt Management Act in August 2022.[19] This provides greater oversight on the contracting of debt. This will be supported by ongoing efforts to strengthen public financial management more broadly and to strengthen debt transparency, as well as plans to modernize and strengthen capacity of the debt management unit.

AUTHORITIES' VIEWS

30. The authorities shared staff's assessment of their debt sustainability and emphasized their commitment to restore debt sustainability by seeking a restructuring of their external debt. The authorities highlighted that an agreement has been reached with the OCC on a debt treatment consistent with the parameters of the IMF-supported program, and work on signing the MOU is advancing. The authorities also emphasized their commitment to reach restructuring agreements with other external creditors on comparable terms and consistent with IMF-program parameters. The authorities agreed that once these agreements are implemented debt sustainability would be restored.

[19] The adoption of the Public Debt Management Act was supported under the IMF program and IDA's Sustainable Debt Financing Policy.

Figure 1. Zambia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–33



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price 2/	No	No
Market financing	No	No

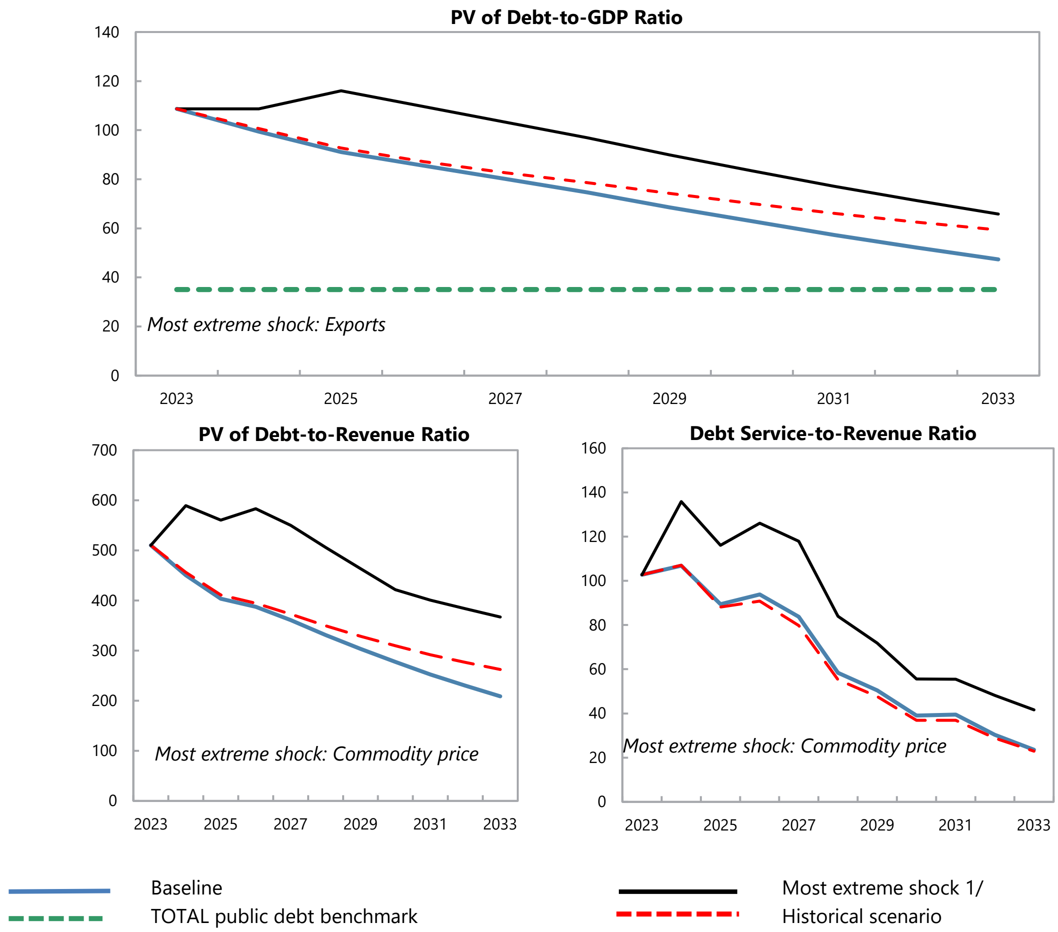
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.7%	3.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	13	13

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Zambia: Indicators of Public Debt Under Alternative Scenarios, 2023–33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	63%	63%
Domestic medium and long-term	15%	15%
Domestic short-term	22%	22%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.7%	3.7%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	13	13
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.2%	5.2%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	5	5
Domestic short-term debt		
Avg. real interest rate	1.5%	1.5%

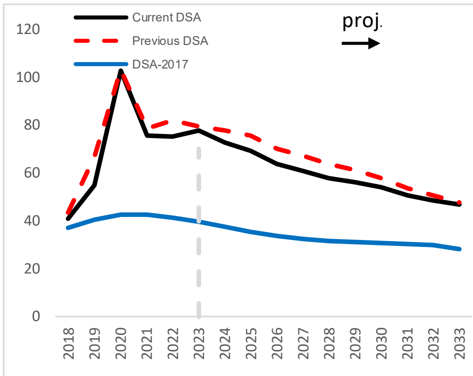
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

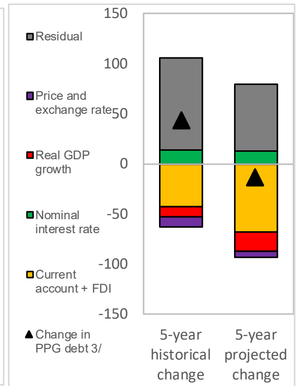
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Zambia: Drivers of Debt Dynamics – Baseline Scenario

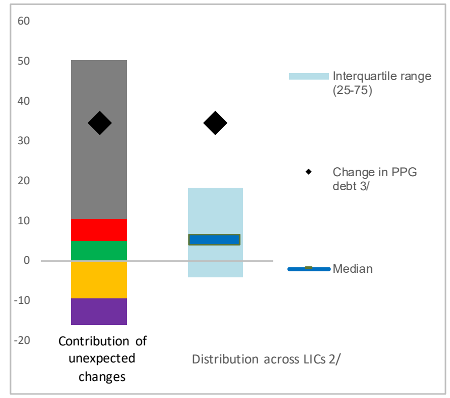
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

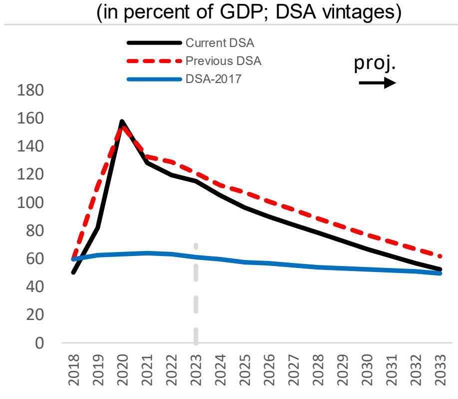


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

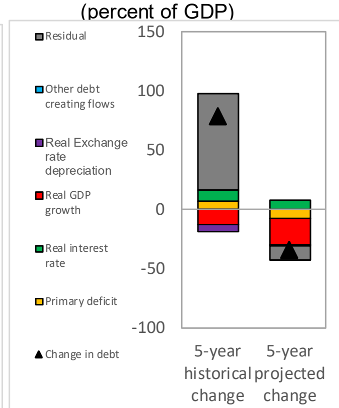


Public debt

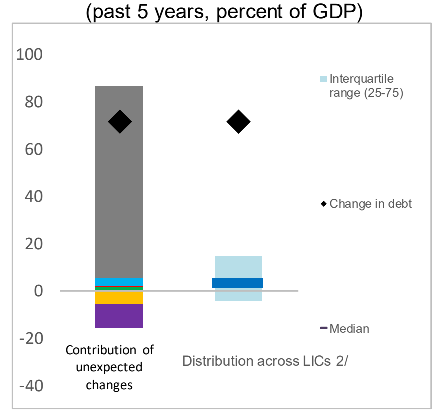
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



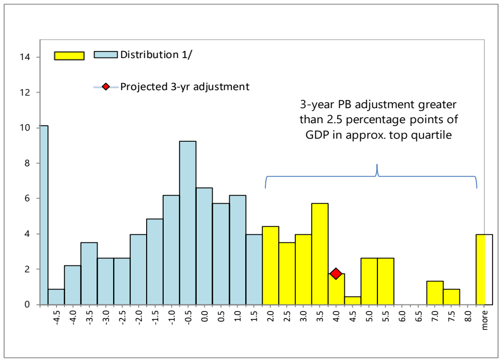
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

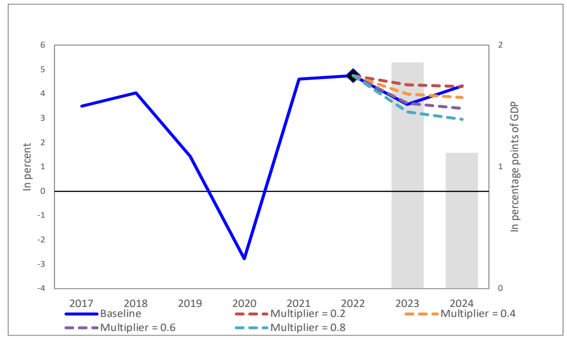
Figure 4. Zambia: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



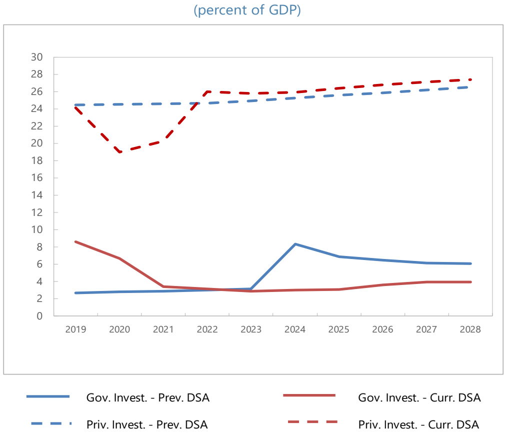
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

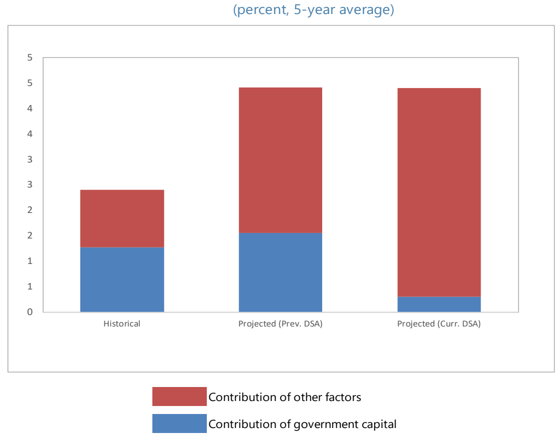
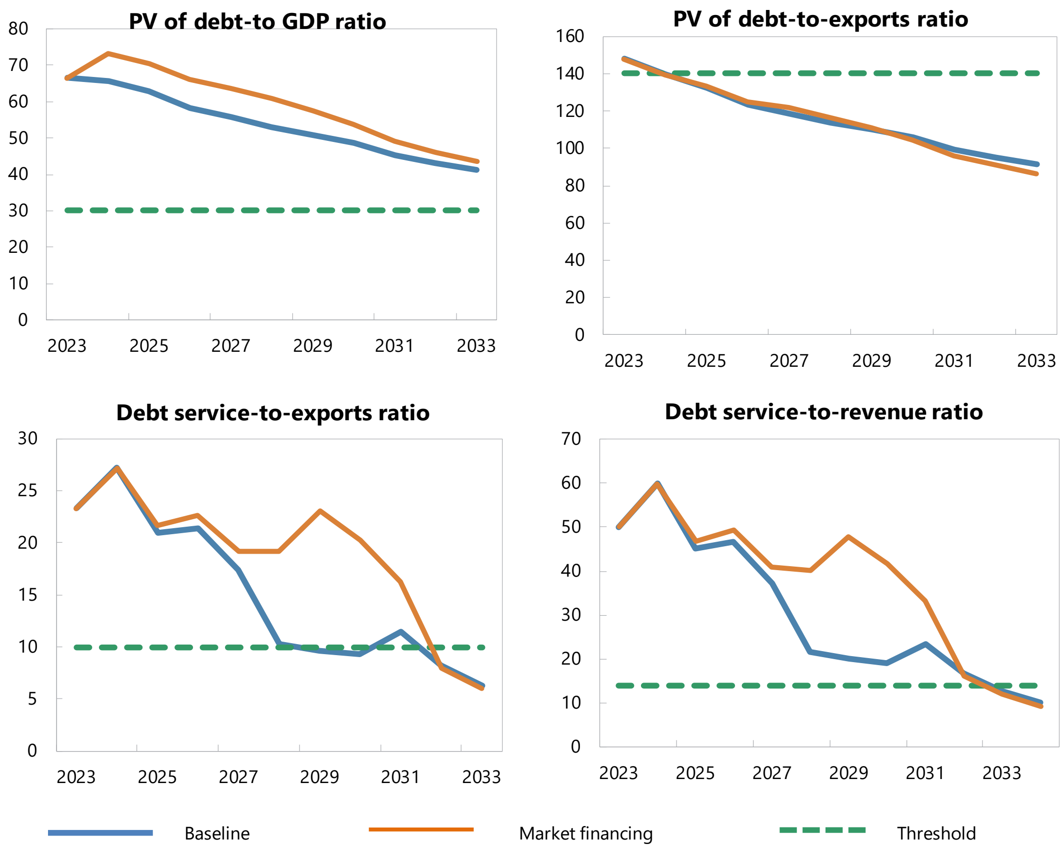


Figure 5. Zambia: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	22	5000
Breach of benchmark	Yes	Yes
Potential heightened liquidity needs	High	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



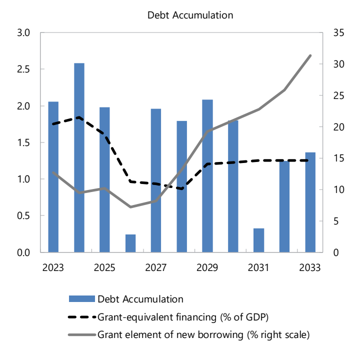
Sources: Country authorities; and staff estimates and projections.

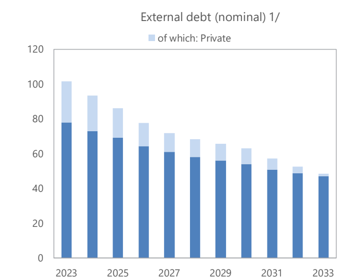
Table 1. Zambia: External Debt Sustainability Framework, Baseline Scenario, 2020–38

(In Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2038	Historical	Projections
External debt (nominal) 1/	150.2	112.3	100.6	101.4	93.3	86.1	77.6	71.6	68.1	48.5	48.3	78.7	71.4
of which: public and publicly guaranteed (PPG)	103.0	75.8	75.1	77.7	72.8	69.2	64.0	61.1	58.1	47.0	37.1	47.5	60.0
Change in external debt	57.0	-37.9	-11.7	0.8	-8.1	-7.2	-8.5	-6.0	-3.5	-4.1	0.2		
Identified net debt-creating flows	14.3	-38.4	-32.2	-10.6	-14.1	-15.8	-16.6	-16.9	-16.5	-15.0	-13.2	-8.1	-15.3
Non-interest current account deficit	-15.0	-13.5	-6.1	-7.5	-9.7	-10.8	-10.8	-11.1	-10.8	-9.8	-8.6	-3.3	-10.1
Deficit in balance of goods and services	-15.0	-18.2	-8.2	-9.2	-12.2	-13.2	-13.4	-12.6	-12.4	-11.6	-10.1	-3.7	-12.0
Exports	47.3	53.0	41.8	44.9	47.1	47.4	47.3	46.9	46.6	45.2	38.1		
Imports	32.2	34.7	33.7	35.7	34.9	34.2	33.8	34.3	34.2	33.6	28.0		
Net current transfers (negative = inflow)	-1.2	-1.4	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-0.8	-1.2	-1.0
of which: official	0.0	0.0	0.0	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1		
Other current account flows (negative = net inflow)	1.3	6.1	3.0	2.8	3.4	3.3	3.6	2.5	2.6	2.8	2.3	1.5	2.9
Net FDI (negative = inflow)	-1.0	-0.7	-1.7	-2.1	-2.8	-3.7	-4.5	-4.5	-4.5	-4.5	-3.9	-3.6	-4.1
Endogenous debt dynamics 2/	30.3	-24.2	-24.3	-1.0	-1.6	-1.3	-1.2	-1.3	-1.1	-0.7	-0.8		
Contribution from nominal interest rate	4.3	3.6	2.5	2.6	2.6	2.6	2.5	2.3	2.3	1.7	1.4		
Contribution from real GDP growth	3.3	-5.6	-4.0	-3.6	-4.2	-3.9	-3.7	-3.6	-3.4	-2.4	-2.2		
Contribution from price and exchange rate changes	22.6	-22.1	-22.9	...	...	...	...	...	...	...	...		
Residual 3/	42.7	0.5	20.5	11.4	6.1	8.6	8.1	10.9	13.0	10.9	13.4	17.0	10.5
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	64.0	66.5	65.7	62.7	58.2	55.7	53.1	41.2	31.1		
PV of PPG external debt-to-exports ratio	...	...	152.9	148.0	139.4	132.4	123.2	118.6	113.8	91.3	81.6		
PPG debt service-to-exports ratio	26.9	24.4	10.6	23.3	27.2	20.9	21.4	17.4	10.3	6.3	4.6		
PPG debt service-to-revenue ratio	64.2	59.4	22.7	50.0	59.9	45.2	46.6	37.3	21.6	12.8	7.9		
Gross external financing need (Million of U.S. dollars)	17.7	143.6	-357.7	946.9	914.9	-668.0	-946.0	-1938.1	-3404.4	-5667.1	-11250.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.8	4.6	4.7	3.6	4.3	4.5	4.7	5.0	5.1	4.9	4.9	3.2	4.7
GDP deflator in US dollar terms (change in percent)	-20.1	16.9	28.2	-4.1	0.8	3.3	3.3	3.0	3.0	3.0	3.2	-0.2	2.2
Effective interest rate (percent) 4/	3.6	2.9	3.0	2.6	2.7	3.0	3.1	3.3	3.5	3.5	3.2	2.3	3.2
Growth of exports of G&S (US dollar terms, in percent)	3.6	37.0	6.1	6.7	10.3	8.5	7.8	7.4	7.6	7.4	0.3	3.2	7.8
Growth of imports of G&S (US dollar terms, in percent)	-42.7	31.8	30.2	5.3	2.8	5.8	6.9	9.6	8.0	7.4	0.0	5.8	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	12.7	9.5	10.2	7.2	8.2	13.1	31.3	44.0	...	16.4
Government revenues (excluding grants, in percent of GDP)	19.8	21.8	19.6	20.9	21.4	21.9	21.7	21.9	22.2	22.4	22.2	18.9	22.0
Aid flows (in Million of US dollars) 5/	394.2	262.5	226.4	463.0	616.2	572.7	518.0	626.9	561.2	1201.0	1284.0		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.8	1.8	1.6	1.0	0.9	0.9	1.3	0.9	...	1.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	15.5	13.9	15.9	11.7	11.6	18.8	37.5	53.6	...	21.3
Nominal GDP (Million of US dollars)	18,111	22,148	29,742	29,536	31,042	33,500	36,227	39,167	42,407	62,649	92,810		
Nominal dollar GDP growth	-22.3	22.3	34.3	-0.7	5.1	7.9	8.1	8.1	8.3	8.0	8.3	3.2	7.0
Memorandum items:													
PV of external debt 7/	...	...	89.4	90.1	86.2	79.6	71.8	66.2	63.0	42.8	42.4		
In percent of exports	...	...	213.8	200.6	182.8	168.0	152.0	141.0	135.2	94.7	111.1		
Total external debt service-to-exports ratio	34.0	28.0	15.8	28.6	32.9	26.5	26.9	22.9	15.7	11.7	0.9		
PV of PPG external debt (in Million of US dollars)			19020.8	19631.8	20394.6	21009.7	21090.3	21800.0	22502.2	25834.8	28890.5		
(PVt-PVt-1)/GDPt-1 (in percent)				2.1	2.6	2.0	0.2	2.0	1.8	1.4	0.6		
Non-interest current account deficit that stabilizes debt ratio	-72.0	24.4	5.6	-8.3	-1.6	-3.6	-2.3	-5.1	-7.3	-5.7	-8.8		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

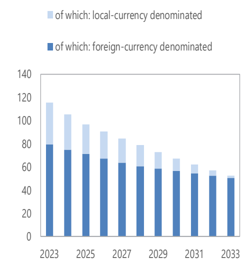
Table 2. Zambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–38

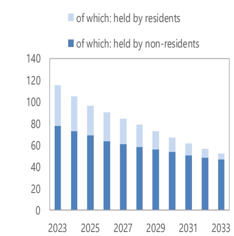
(In Percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2038	Historical	Projections
Public sector debt 1/	157.9	128.1	119.6	115.4	105.1	96.5	90.4	84.6	78.8	72.8	67.3	61.9	57.0	52.4	33.4	68.8	80.2
of which: external debt	103.0	75.8	75.1	77.7	72.8	69.2	64.0	61.1	58.1	56.1	54.0	50.7	48.7	47.0	37.1	47.5	60.0
Change in public sector debt	87.7	-29.7	-8.5	-4.2	-10.3	-8.7	-6.1	-5.8	-5.8	-6.0	-5.5	-5.4	-4.9	-4.6	-3.4		
Identified debt-creating flows	28.0	-45.7	-2.3	-1.6	-6.9	-5.4	-4.1	-4.7	-4.9	-5.0	-4.7	-4.6	-4.3	-4.3	-3.5	-0.2	-4.6
Primary deficit (cash basis)	3.6	2.0	1.6	-0.3	-1.4	-2.3	-1.5	-2.2	-2.5	-2.6	-2.5	-2.4	-2.2	-2.3	-1.6	1.4	-2.0
Revenue and grants	20.3	22.3	20.0	21.2	22.0	22.1	21.8	21.9	22.2	22.3	22.4	22.5	22.5	22.5	22.4	19.3	22.1
of which: grants	0.5	0.6	0.4	0.4	0.7	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	28.1	24.4	21.5	21.0	20.6	20.2	20.6	20.0	20.0	20.0	20.2	20.3	20.4	20.4	20.9	21.1	20.3
Automatic debt dynamics	24.4	-47.7	-3.8	-1.3	-5.5	-3.0	-2.6	-2.4	-2.4	-2.4	-2.3	-2.2	-2.1	-2.1	-1.8		
Contribution from interest rate/growth differential	5.5	-12.1	-5.1	-5.4	-3.1	-1.9	-1.8	-1.9	-1.8	-1.9	-1.8	-1.7	-1.6	-1.6	-1.4		
of which: contribution from average real interest rate	3.4	-5.2	0.7	-1.3	1.7	2.6	2.5	2.4	2.3	2.0	1.7	1.5	1.2	1.0	0.3		
of which: contribution from real GDP growth	2.0	-6.9	-5.8	-4.1	-4.8	-4.5	-4.3	-4.3	-4.1	-3.9	-3.5	-3.2	-2.9	-2.6	-1.7		
Contribution from real exchange rate depreciation	19.0	-35.6	1.3	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	59.6	15.9	-6.3	1.5	-5.8	-4.4	-2.8	-1.7	-1.5	-1.5	-1.3	-1.3	-1.0	-0.7	-0.3	10.8	-1.9
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	...	...	112.7	108.7	99.4	91.0	85.6	80.1	74.6	68.5	62.9	57.3	52.2	47.4	27.9		
PV of public debt-to-revenue and grants ratio	...	...	564.4	510.2	450.3	403.5	387.2	361.1	331.2	303.4	277.5	252.4	230.1	208.7	123.9		
Debt service-to-revenue and grants ratio 3/	110.8	100.2	89.3	102.8	106.9	89.4	93.8	83.8	58.3	50.4	39.0	39.5	30.4	23.5	4.2		
Gross financing need 4/	30.3	24.4	19.4	21.1	21.7	17.4	18.8	16.0	10.2	8.5	6.1	6.3	4.4	3.1	-0.7		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	-2.8	4.6	4.7	3.6	4.3	4.5	4.7	5.0	5.1	5.1	5.0	4.9	4.9	4.9	4.9	3.2	4.7
Average nominal interest rate on external debt (in percent)	5.8	4.8	3.0	3.7	3.7	3.9	3.9	4.0	4.2	4.1	4.1	4.0	3.8	3.8	3.3	4.1	3.9
Average real interest rate on domestic debt (in percent)	5.2	-13.6	0.4	-4.8	1.3	4.7	5.4	5.5	5.4	4.9	4.7	4.7	4.5	4.7	2.4	3.2	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	33.3	-37.1	2.1	...	...	...	...	...	...	...	...	...	...	...	...	7.1	...
Inflation rate (GDP deflator, in percent)	13.7	27.6	8.6	12.1	9.9	7.3	6.9	6.5	6.5	6.5	6.5	6.5	6.5	6.6	6.7	11.0	7.4
Growth of real primary spending (deflated by GDP deflator, in percent)	30.0	-9.4	-7.5	1.1	2.6	2.3	6.8	1.5	5.3	5.3	6.0	5.4	5.7	4.7	5.2	7.0	4.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-84.1	31.8	10.1	3.9	8.9	6.3	4.6	3.6	3.3	3.4	3.1	3.0	2.7	2.3	1.7	-14.1	4.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Zambia: Sensitivity Analysis for Key Indicators and Publicly Guaranteed External Debt, 2023–33

(In Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	66	66	63	58	56	53	51	49	45	43	41
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	66	72	78	84	92	100	108	115	121	129	137
A2. Alternative Scenario : Contingent Liabilities + FX debt	66	81	80	75	73	70	68	66	63	60	58
B. Bound Tests											
B1. Real GDP growth	66	69	70	65	62	59	57	54	51	48	46
B2. Primary balance	66	68	72	68	66	63	61	59	56	54	51
B3. Exports	66	79	97	91	87	83	80	76	72	69	66
B4. Other flows 3/	66	69	69	64	61	58	56	54	50	48	46
B5. Depreciation	66	81	79	73	70	67	64	61	57	54	52
B6. Combination of B1-B5	66	77	79	74	72	69	66	64	60	58	55
C. Tailored Tests											
C1. Combined contingent liabilities	66	76	75	71	68	66	63	62	59	56	54
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	66	78	86	83	83	81	80	78	74	72	70
C4. Market Financing	66	73	70	66	64	61	57	54	49	46	44
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	148	139	132	123	119	114	110	106	99	95	91
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	148	152	166	179	197	214	233	250	265	283	303
A2. Alternative Scenario : Contingent Liabilities + FX debt	148	171	168	160	155	150	146	143	137	132	128
B. Bound Tests											
B1. Real GDP growth	148	139	132	123	119	114	110	106	99	95	91
B2. Primary balance	148	145	153	145	140	136	132	128	122	118	114
B3. Exports	148	207	308	289	279	268	259	250	237	228	219
B4. Other flows 3/	148	146	145	136	130	125	121	117	110	105	101
B5. Depreciation	148	137	132	123	118	114	110	106	99	95	91
B6. Combination of B1-B5	148	181	152	194	188	182	177	171	162	156	151
C. Tailored Tests											
C1. Combined contingent liabilities	148	161	158	150	146	141	137	135	128	124	120
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	148	214	224	208	199	189	179	176	169	165	162
C4. Market Financing	148	139	133	125	122	117	111	104	96	91	87
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	23	27	21	21	17	10	10	9	11	8	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	23	28	23	25	22	15	16	17	21	18	16
A2. Alternative Scenario : Contingent Liabilities + FX debt	23	27	22	23	19	12	11	11	13	10	8
B. Bound Tests											
B1. Real GDP growth	23	27	21	21	17	10	10	9	11	8	6
B2. Primary balance	23	27	21	22	19	11	11	10	13	9	7
B3. Exports	23	35	36	39	33	21	19	19	22	17	13
B4. Other flows 3/	23	27	21	22	18	11	10	10	12	9	7
B5. Depreciation	23	27	21	21	17	10	10	9	11	8	6
B6. Combination of B1-B5	23	32	30	32	26	16	15	15	18	13	11
C. Tailored Tests											
C1. Combined contingent liabilities	23	27	22	22	19	11	11	10	13	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	23	36	28	29	24	15	13	13	16	12	10
C4. Market Financing	23	27	22	23	19	19	23	20	16	8	6
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	50	60	45	47	37	22	20	19	23	17	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	50	61	49	55	48	32	33	34	43	36	32
A2. Alternative Scenario : Contingent Liabilities + FX debt	50	60	48	50	41	25	23	22	27	20	16
B. Bound Tests	50	60	48	50	41	25	23	22	27	20	16
B1. Real GDP growth	50	63	51	52	42	24	22	21	26	19	14
B2. Primary balance	50	60	46	49	40	24	22	21	26	19	15
B3. Exports	50	63	52	57	46	29	27	25	30	22	18
B4. Other flows 3/	50	60	46	48	38	23	21	20	24	18	14
B5. Depreciation	50	76	57	59	47	27	25	24	30	21	16
B6. Combination of B1-B5	50	63	53	56	45	28	26	25	29	22	17
C. Tailored Tests											
C1. Combined contingent liabilities	50	60	47	49	40	24	22	21	26	19	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	50	76	61	67	52	31	28	26	31	23	19
C4. Market Financing	50	60	47	49	41	40	48	42	33	16	12
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Zambia: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33

(In Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
						PV of Debt-to-GDP Ratio					
Baseline	**109**	**99**	**91**	**86**	**80**	**75**	**69**	**63**	**57**	**52**	**47**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**109**	**101**	**93**	**87**	**83**	**79**	**74**	**70**	**66**	**63**	**59**
B. Bound Tests											
B1. Real GDP growth	**109**	**105**	**103**	**99**	**95**	**91**	**86**	**82**	**78**	**74**	**71**
B2. Primary balance	**109**	**102**	**101**	**95**	**89**	**84**	**77**	**72**	**66**	**61**	**56**
B3. Exports	**109**	**109**	**116**	**110**	**103**	**97**	**90**	**83**	**77**	**71**	**66**
B4. Other flows 3/	**109**	**103**	**97**	**91**	**86**	**80**	**74**	**68**	**62**	**57**	**52**
B5. Depreciation	**109**	**113**	**102**	**95**	**88**	**81**	**74**	**68**	**61**	**56**	**50**
B6. Combination of B1-B5	**109**	**99**	**97**	**91**	**86**	**81**	**75**	**70**	**65**	**60**	**56**
C. Tailored Tests											
C1. Combined contingent liabilities	**109**	**115**	**105**	**99**	**93**	**87**	**81**	**75**	**69**	**64**	**59**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**109**	**107**	**104**	**106**	**106**	**104**	**100**	**96**	**91**	**87**	**83**
C4. Market Financing	**109**	**99**	**91**	**86**	**82**	**76**	**69**	**62**	**56**	**50**	**45**
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
						PV of Debt-to-Revenue Ratio					
Baseline	510	450	404	387	361	331	303	277	252	230	209
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	510	456	411	395	373	349	329	310	292	276	262
B. Bound Tests											
B1. Real GDP growth	510	474	455	446	427	403	382	362	343	328	313
B2. Primary balance	510	462	448	430	402	371	342	316	290	268	246
B3. Exports	510	492	514	496	465	430	398	368	340	314	290
B4. Other flows 3/	510	465	431	414	387	355	327	300	274	251	229
B5. Depreciation	510	513	453	428	395	361	329	299	271	246	222
B6. Combination of B1-B5	510	451	429	414	389	360	333	309	285	264	245
C. Tailored Tests											
C1. Combined contingent liabilities	510	520	465	447	419	387	358	331	304	282	260
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	510	589	561	583	550	506	464	422	401	384	367
C4. Market Financing	510	450	405	391	368	337	306	274	246	222	199
						Debt Service-to-Revenue Ratio					
Baseline	103	107	89	94	84	58	50	39	40	30	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	103	107	88	91	80	55	48	37	37	29	23
B. Bound Tests											
B1. Real GDP growth	103	113	101	109	99	71	63	51	53	44	37
B2. Primary balance	103	107	95	103	90	63	55	45	46	36	28
B3. Exports	103	107	91	98	88	63	54	43	43	34	27
B4. Other flows 3/	103	107	90	95	85	59	51	40	40	31	24
B5. Depreciation	103	109	99	106	94	65	56	45	48	37	29
B6. Combination of B1-B5	103	105	92	103	90	64	56	44	46	37	29
C. Tailored Tests											
C1. Combined contingent liabilities	103	107	110	103	90	64	56	51	47	36	29
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	103	136	116	126	118	84	72	56	55	48	42
C4. Market Financing	103	107	91	96	87	77	78	61	49	30	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Nakunyada, Executive Director for Zambia and Ms. Motsumi, Senior Advisor to the Executive Director

The Zambian authorities are grateful to the official creditors for providing debt restructuring consistent with the ECF program parameters, including adequate financing assurances. Specifically, they thank the governments of China and France for co-chairing the Official Creditor Committee (OCC), as well as the government of South Africa for its critical role as vice chair. The authorities appreciate the tireless efforts by the IMF Managing Director, Madame Kristalina Georgieva, and her instrumental role in spearheading the establishment of the Global Sovereign Debt Roundtable (GSDR). They also thank the G20 community for the continuous support for Zambia's debt restructuring efforts. Building on the strong reform commitment and performance under the ECF arrangement, the agreement with OCC on the debt restructuring will help unlock resources to bolster the authorities' efforts to entrench macroeconomic stability as enunciated in the Eighth National Development Plan (8NDP).

Introduction

1. Our Zambian authorities thank the Fund staff for the constructive engagement during the March 2023 mission on the combined Article IV Consultation and first review under the Extended Credit Facility (ECF) arrangement. They broadly concur with the thrust of the staff's appraisal and policy recommendations.

2. The Zambian economy is experiencing positive growth performance underpinned by the successful implementation of reforms under the ECF arrangement, which has also delivered greater macroeconomic stability. While the lingering effects of the pandemic are waning, headwinds from climate shocks, spillovers from the war in Ukraine, and volatile copper prices continue to challenge growth prospects. Moreover, uncertainty from the protracted debt restructuring negotiations, precipitated portfolio outflows and exerted large currency swings. Despite the challenging circumstances compounded by protracted debt relief negotiations and delayed program disbursements, the authorities have persevered with adjustment efforts under the ECF arrangement to help realize the key objectives of the Eighth National Development Plan (8NDP). Under the 8NDP, the authorities' medium-term policy efforts remain focused on entrenching macroeconomic stability and growth, strengthening governance, attaining fiscal and debt sustainability, while uplifting living standards.

Program Performance

3. All quantitative performance criteria (QPC) for end-September and end-December 2022 were met. The outturn for the primary fiscal deficit was on target, benefiting from a positive revenue performance and expenditure rationalization that prioritized the bolstering of social safety nets. The indicative targets (IT), including on social spending by the central government, net clearance of arrears on expenditure, tax refunds, and domestic debt service by central government were met. Nevertheless, the IT on fiscal revenues of central government, excluding grants, and mining revenues, was narrowly missed. That said, all nine end March 2023 structural benchmarks (SBs) were met, with two benchmarks rescheduled. The SB on the submission of the revised Public-Private Partnership (PPP) Act to Cabinet has been delayed to end-July 2023 to allow sufficient scrutiny by Parliament, while the SB on implementation of commitment controls on Integrated Financial Management Information Systems (IFMIS) has been reset to end-August 2023.

4. In view of the strong program performance and commitment to robust economic and financial policies, our authorities seek Executive Directors' support to conclude the 2023 Article IV Consultation and complete the first review under the ECF arrangement.

Recent Macroeconomic Developments and Outlook

5. Economic growth performance has remained robust at 4.6 and 4.7 percent in 2021 and 2022, respectively. This marked the highest output since 2014, that benefitted from impressive performance in the transportation, information and communication technology, and education sectors. Nonetheless, real GDP growth is projected to moderate slightly to 3.6 percent in 2023 on account of softening commodity prices and projected contraction in the agricultural sector owing to the late onset of the rains. Going forward, growth is projected at 4.3 percent and 4.5 percent in 2024 and 2025, respectively. Growth prospects, however, remain challenged by downside risks from the impact of adverse climate events on agricultural and power production, as well as volatile international copper prices.

6. Inflation decelerated from 15.0 percent in January 2022 to 9.9 percent in December 2022, supported by the appreciation of the Kwacha, and the decline in food and non-food inflation. Inflation is, however, projected to increase to an average of 10.6 percent in 2023 on account of the depreciation of the local unit, before moderating to 8.6 percent in 2024. The decline in copper prices undermined current account performance in 2022, while the deficit on the financial account widened on the back of capital flow reversals. Gross reserves, however, remained static at 3.5 months of import cover in 2021 and 2022, reflecting the moderating effects of IMF and World Bank disbursements.

Fiscal Policy and Debt Management

7. The authorities remain committed to budget discipline underpinned by strong multi-year fiscal consolidation efforts based on enhanced domestic revenue mobilization and expenditure rationalization measures. Consequently, the primary balance (on a commitment basis) improved from a deficit of 5.8 percent of GDP in 2021 to a surplus of 0.8 percent of GDP in 2022. Fiscal consolidation will continue in 2023 culminating in a projected primary balance surplus of 3.1 percent of GDP in 2025.

8. The authorities have improved revenue mobilization through strengthening tax compliance and administrative capabilities, as well as enhanced trade facilitation. Their revenue mobilization plan through policy and tax administration measures, included (i) switching to marginal mineral royalty tax to smoothen the impact of price changes on fiscal revenues, (ii) raising the exemption threshold for personal income tax to provide inflation related relief to low and middle-income households, and (iii) increasing property transfer tax and carbon emission tax to offset tax relief measures elsewhere. Reforms were also implemented to enhance the capacity of the Zambia Revenue Authority (ZRA). The reforms specifically include: (i) establishing a large taxpayer office to improve services to large taxpayers; (ii) introduction of electronic invoicing system to reduce the VAT gap; (iii) clearing VAT-refund arrears through increasing monthly VAT- refunds by 50 percent and stepping-up the pace of VAT refund audit; and (iv) interfacing government systems to enhance analytical capacity and service delivery. On improving trade facilitation, the authorities plan to (i) fully operationalize the Border Management and Trade Facilitation Act; (ii) streamline the number of regulatory agencies at various borders; (iii) create a single electronic window for regulatory functions; and (iv) implement the electronic cargo tracking system to curtail transit fraud.

9. To contain public expenditures, the authorities will continue adherence to priority projects, eliminating wasteful subsidies and improving procurement procedures, while supporting social programs and women empowerment. The authorities intend to scale up the number of beneficiaries on the Social Cash Transfer program by at least 70 000 households in 2023 and increase the number of beneficiaries under food security Programme by at least 30 000 households. The Girls' Education and Women's Empowerment and Livelihood (GEWEL) Project that will keep 43 000 girls in school and 129 000 women empowered, will continue to be implemented. The implementation of the public welfare assistance scheme and women empowerment programme remains on track. Reduced spending on agricultural subsidies and other goods and services has allowed for doubling of spending on social transfers, increased public investment, and subsidies to support ZRA's reforms.

10. Further, the authorities are developing policies to strengthen the governance of State-Owned Enterprises (SOEs). In this vein, the Energy Regulation Board approved the phased increase in electricity tariffs to improve the efficiency of ZESCO and gradually minimize fiscal transfers to the entity. At the same time, the authorities have injected fiscal transfers, and settled arrears on the public sector pension schemes' obligations. Additionally, they cleared arrears on their contribution to the National Pension Scheme to reduce the scheme's net obligations. Notable progress has also been made on key fiscal reforms including enhancing budget credibility; public financial management at local authority level; efficiency of cash management; public investment management and transparency on PPP framework; and embedding fiscal risk monitoring in the budget process.

11. Considering Zambia's debt which is assessed as unsustainable, the restructuring of the country's debt ranks high on the country's agenda to place public debt on a sustainable footing. Against this background, the authorities consider the recent debt restructuring under the G20 Common Framework, as an important milestone in creating borrowing space and enable Fund support under the ECF program. Further, the authorities have implemented measures to improve the debt carrying capacity and halt reliance on non-concessional public external debt. Specifically, they developed the Medium-Term Debt Strategy in early 2023, which entails enhancing debt management through continued preparation of Annual Borrowing Plans and regular debt data validation and reconciliation with creditors. In addition, the authorities will mainly issue longer-dated government securities to spread the debt service burden.

12. Regarding debt transparency, the authorities replaced the Loan and Guarantee Act with a Public Debt Management Act 15 of 2022 to improve oversight of Parliament on loan contracting. Considering the criticality of prudent debt management the authorities have, (i) enacted the Public Debt Management Act No. 15 to enhance public debt management, transparency and accountability, and Parliamentary oversight on public debt contraction, (ii) developed a Public Financial Management Strategy for the period 2023-2026 to improve internal controls in the payroll system; and improve the coverage and timeliness. The Act also mandated the establishment of the Debt Management Office (DMO) to align its mandate and structure with best practice and the new law. The new organizational structure for the DMO will be approved by the end of 2023.

13. The authorities are confident that the ECF arrangement and the recent agreement on debt restructuring will alleviate the debt burden and allow for creation of necessary fiscal space to invest in productive projects and boost domestic growth. As internal measures continue to shape the debt trajectory, the agreement with the OCC has presented an important opportunity to create fiscal space through: (i) the

generation of US$5.8 billion in debt service savings, which can unlock the resources that can be utilized for developmental programs; (ii) unlocking extra funds from cooperating partners like the IMF and the World Bank, resulting in the much needed positive cash inflows for the country; (iii) creation of a pathway to restore debt sustainability in the medium-term, thereby leading to an improved macroeconomic environment; and (iv) promoting a renewed interest for Zambia's focus on economic transformation. Importantly, the authorities have already begun negotiating the outstanding debt arrangements, on comparable terms, with the private sector.

Monetary Policy and Financial Sector

14. The authorities have tightened monetary conditions to bring down inflation, alongside congruent fiscal consolidation efforts to curtail aggregate demand. Consequently, inflation has been placed on a firm downward path at a time when global inflation has remained elevated. Going forward, monetary policy decisions will remain data-dependent considering risks to the outlook in the context of the forward-looking monetary policy framework. The Bank of Zambia (BOZ) stands ready to take appropriate actions to curb inflation and to preserve the credibility of the central bank through anchoring of inflation expectations. They also remain committed to deepening of the secondary market for government securities and rebuilding of external reserve buffers while allowing the interplay of market forces in the foreign exchange market to absorb external shocks.

15. The financial sector has remained resilient to shocks, benefitting from ample liquidity and capital buffers, improved asset quality, and higher earnings performance. The authorities are considering establishing an SME Credit Guarantee Fund for lending to the private sector and moderate the sovereign-bank nexus. They are also harnessing latest fintech and mobile money technology to promote financial inclusion. Concurrently, the authorities have strengthened the financial safety nets through implementation of the new Deposit Protection Scheme, alongside crisis management and resolution frameworks. To safeguard financial stability, the central bank developed a micro-prudential stress-testing framework and will soon operationalize the Financial Stability Committee, in line with the Bank of Zambia Act of 2022, to better monitor and manage systemic risks from a broader macro-prudential perspective.

Structural Reforms

16. The authorities attach great prominence to structural reforms designed to strengthen governance practices and intensify the fight against corruption to create an enabling business environment that supports accelerated and inclusive growth. To this end, in collaboration with the IMF, the Governance Diagnostic report, identifying governance weakness and corruption vulnerability alongside appropriate recommendations, was published in December 2022. Relatedly, the authorities have increased funding to law enforcement agencies and oversight institutions.

17. To support accelerated growth, promote the economic diversification agenda and bolster resilience to shocks, the authorities consider energy self-sufficiency as critical. In this vein, they have undertaken reforms to reduce the cost of energy, including by withdrawing from the importation and supply of petroleum products and converting TAZAMA pipeline from a crude oil carrier into a finished product pipeline, with pricing through an issued Statutory Instrument. Presently, electricity generation has surplus capacity augmented by power generated at the Kafue Gorge Lower Hydro Power Station and other substations. In parallel, financial planning to conclude the in-country circuits for the Zambia-

Tanzania-Kenya interconnector, including exporting excess powered generated, is currently underway.

18. The authorities delivered tangible reforms in developing human capital to stimulate growth and improve livelihoods. To this end, they introduced free education up to grade 12 and provided bursaries and grants to vulnerable students. In addition, over 30 000 new teachers have been employed and deployed mostly to the rural areas alongside increased investment in ICT infrastructure to deliver education in an innovative way. Additionally, more than 11 000 new health personnel were recruited alongside increased investment in health facilities, and supply of medical supplies and drugs.

19. In support of cost-effective farming and promoting crop diversification for small scale farmers, Cabinet approved, with effect from the 2023/2024 agricultural season, the plan for full migration of the Farmer Input Support Programme (FISP) from direct input supply to an electronic input support system. To promote transparency, a list of suppliers of inputs for the 2021/2022 and 2022/2023 farming seasons has been published on the Ministry of Agriculture's website, effective 2023/2024. Further open international bidding for Urea fertilizer; and direct bidding for compound D fertilizer supply will be used as key procurement methods.

20. Given that climate change poses a threat to sustainable development, the authorities have considered strengthening climate mitigation and adaptation. Specific focus has been placed on project investment, active participation in relevant fora, and establishing guidelines for green bond trading. The authorities are also developing a Climate Change Bill to address the impact of climate change. Furthermore, they initiated the process to enhance coverage of early warning systems to facilitate preparedness and prompt response to adverse weather events. In view of these challenges, the authorities consider support under the Resilience and Sustainable Trust (RST), as important to anchor their efforts to build climate resilience.

Conclusion

21. The authorities remain committed to steadfast efforts to further entrench macroeconomic stability, improve fiscal and debt sustainability, and implement comprehensive economic and governance reforms. They undertake to conclude the outstanding debt arrangements with the private sector and call for continued support from creditors. The authorities look forward to Executive Directors support in completion of the first ECF Review and conclusion of the Article IV Consultation.